HONDURAS

1. General trends

The Honduran economy grew by 4.8% in 2017 (versus 3.8% in 2016), with its expansion being driven mainly by a greater inflow of remittances and higher exports. The contributions of private consumption and investment to that performance amounted to 3.5 and 1.4 percentage points, respectively. The growth of private consumption was, in large part, buoyed by a significant upswing in remittances (11.9%) during the year. At 2.7% of GDP, the central government's deficit was in line with the provisions of the Fiscal Responsibility Act. The current account closed with a deficit of 1.7% of GDP, which was a full percentage point lower than the figure for 2016, thanks to stronger remittances and an increase in the value of exports. The 4.7% year-on-year rise in consumer prices (compared to 3.3% for 2016) was mainly attributable to higher goods and fuel prices and was within the central bank's targeted range (4%, plus or minus 1 percentage point). The national open unemployment rate stood at 6.7% for 2017, which was somewhat lower than the figure for 2016 (7.4%).

Honduras held presidential elections on 26 November 2017, but the results were contested and, as a result, it was not until 17 December that the Supreme Electoral Court declared that Juan Orlando Hernández Alvarado had won and would assume office for the 2018–2022 term.

ECLAC estimates put the 2018 growth rate for the Honduran economy at 3.9%, which is lower than the 2017 figure. This slowdown is thought to be associated with the rise in international fuel prices and a smaller increase in inflows of remittances. The slowdown in the growth of remittances is being brought about by a decline in uncertainty with regard to the actions being taken by the United States Government to address the inflow of migrants to that country and by an easing of the unemployment rate among the Latin American population in that country. Against this backdrop, the GDP of Honduras is being driven by: (i) steadily rising levels of economic activity in the United States, which is the country's main trading partner; (ii) higher levels of public expenditure; and (iii) export growth. Construction, financial intermediation, communications, agriculture and commerce are expected to drive the economy's growth. The non-financial public-sector deficit is expected to continue to shrink, falling to around 1.2% of GDP, which is line with the Fiscal Responsibility Act, the 2018-2021 Medium-Term Macroeconomic Fiscal Framework and the fiscal adjustment programme agreed upon with the International Monetary Fund (IMF). The current account deficit is projected at about –1.7% of GDP owing to a moderate upturn in imports and to the flow of remittances.

2. Economic policy

Economic policy in 2017 was focused on achieving the government's macroeconomic objectives, which were defined in conjunction with the negotiation of a stand-by arrangement and a stand-by credit facility arrangement with the International Monetary fund (IMF) in 2014.

(a) Fiscal policy

Over the course of the four-year IMF arrangements, the government has managed to steadily reduce the central government's fiscal deficit, which slid from 4.3% of GDP in 2014 to 2.7% in 2017. In addition, for the first time in 18 years, the country made the switch from a primary deficit (–0.1% of GDP in 2016) to a primary surplus (0.02% of GDP).

In 2017, total revenues climbed at a real annual rate of 6.7% and represented a 20.4% share of GDP. Tax revenues rose by an annual rate of 4.9% in real terms, amounting to 17.9% of GDP, while non-tax income jumped by 46.7% and accounted for 1.3% of GDP. A wider tax base and stricter enforcement were reflected in higher levels of receipts despite the absence of any changes in the country's tax laws. Income tax receipts climbed by 13.1% in nominal terms while revenues from the general sales tax rose by 7.4% in nominal terms. Among the sources of non-tax revenues, notable increases were seen in royalties, charges and fees (border fees, vehicle registration charges, etc.).

Total expenditure was up by a real annual rate of 6.4% in 2017. Current expenditure increased by 4.7% in real terms, while capital expenditure rose by 12.4%. Total spending accounted for 23.2% of GDP, just below the 24% ceiling set in the IMF stand-by arrangement. In an effort to control public spending, the authorities have carefully monitored the budget expenditures of the national electric power company (Empresa Nacional de Energía Eléctrica (ENEE)) and the Honduran telecommunications company (Empresa Hondureña de Telecomunicaciones (HONDUTEL)), both of which are State-owned. Debt servicing and current transfers continued to account for a hefty portion of current spending (15.5% and 26.2%, respectively).

The total external debt balance came to US$ 8.6 billion as of December 2017 (37.7% of GDP), for a nominal increase of 14.7% over its end-2016 balance. The domestic debt of the non-financial public sector, on the other hand, edged up by just 1.5% over its 2016 level and represented 12.1% of GDP.

The central government's tax revenues for 2018 are expected to climb by 19.6% of GDP, but the general government is expected to run a deficit of 3.2% of GDP. The expansion of this deficit is associated with lower revenues from customs duties (as the customs union enters into force along with the tariff rollbacks provided for under trade agreements) and the introduction of new tax exemptions.

(b) Monetary and exchange-rate policy

Honduran monetary policy continues to be centred around an explicit inflation targeting system. The monetary policy rate has been held at 5.5% per annum since 20 June 2016, while the nominal domestic-currency lending rate slipped from 19.74% in the first quarter to 18.4% in the fourth quarter; the deposit rate rose from 4.58% to 4.73% during the same period. Meanwhile, the real interest rate on loans fell from 15.43% to 13.47% and the real deposit rate descended from 0.81% to 0.36%. Interest rate spreads held steady at an annual average of 13.9%. Average foreign-currency loan and deposit rates stood at 8.37% and 2.10%, respectively.

The depreciation of the lempira remained within the range estimated by the central bank, which allows for exchange-rate fluctuations within a 7% floating band straddling the rate registered at the start of the year. As of the end of 2017, the exchange rate was 23.59 lempiras to the dollar, for a nominal year-on-year depreciation of 0.36% (0.4% in real terms). As at 31 December 2017, the net international reserves of the Central Bank of Honduras stood at US$ 4.786 billion, or 21.02% of GDP, which is the equivalent of 5.5 months' worth of imports and represents an increase of 23.1% over the year-end figure for 2016.

Total lending to the private sector by formal-sector financial intermediaries amounted to 316.812 billion lempiras as of 31 December 2017, which was 8.8% higher in nominal terms than the total at the close of 2016. The flow of fresh credit from the financial system to the private sector totalled 241.634 billion lempiras in 2017, up by 7.2% over the 2016 level. A breakdown of the total by receiving sector shows that credit for commerce was up by 10.98%, credit to manufacturing by 8.93% and mortgages by 32.77%, but lending to the agricultural sector fell by 12.82%. An estimated 50.4% of credit to the private sector went to households and non-profit institutions, with the other 49.6% going to businesses.

A nominal year-on-year increase in the amount of cash and demand deposits in the economy of 15.7% was registered in 2017. Since this sizeable expansion of the money supply was coupled with strong aggregate demand, it did not generate inflationary pressures, however. Term deposits in lempiras climbed by 13.5%, while foreign-currency term deposits rose by 8.2%.

The monetary policy rate held steady in the first quarter of 2018, and the balance of credit to the private sector for 2018 as a whole is expected to rise by around 10% over its 2017 level. The official exchange rate as of 8 May 2018 was 23.70 lempiras to the dollar. The central bank is seeking to strengthen the inter-bank foreign exchange market in 2018 and, to that end, has issued new regulations governing transactions in the formal currency market that allow exchange houses to sell up to 20% of their foreign currency holdings. Before the issuance of these regulations, they were permitted to sell no more than 10% of their stock of foreign currency. The new regulations also state that 80% of all newly acquired foreign currency must be transferred to the central bank on the working day following its purchase. It is hoped that these new measures will help to dampen outbreaks of financial volatility, lessen the need for the central bank to intervene in the market in order to keep the lempira within its exchange-rate band and improve the country’s international reserve position.

(c) Other policies

On 10 March 2017, the free trade agreement with the Republic of Korea was initialled following the completion of the legal review of the text, and on 21 February 2018, it was signed.

In 2017, the customs union formed by Guatemala and Honduras entered into effect, and negotiations for El Salvador’s full entry into that union were expected to be concluded by June 2018.

Recent statements made by the President of the United States, Donald Trump, concerning the possibility of that country’s entry into the Trans-Pacific Strategic Economic Partnership Agreement have led to a resurgence in fears within the textile sector that it may soon face greater competition, since the tariff rules and rules of origin provided for in that agreement would bolster the Asian countries’ competitive position. Even without the benefit of a trade agreement with the United States, Viet Nam already had a 10.1% share of the United States’ world imports of wearing apparel and textiles in 2016, whereas Honduras’ share was just 2.4%.

3. The main variables

(a) The external sector

Honduran goods exports in 2017 totalled US$ 8.643 billion, which was a 9.3% increase over the 2016 level. Upswings in both export prices and export volumes of coffee –which remains the country’s principal export product– contributed to this result. Overall, export volumes were also spurred by the growth in external sales of palm oil (29.5%), shrimp (24.6%) and bananas (2.7%), which together constitute the country’s export base. The United States remains the top destination for exports (34.4%), followed by neighbouring Central American countries (19.4%).

Imports of goods climbed by 8.7% over the 2016 level to total US$ 9.684 billion in 2017. Some of the main factors behind this surge in the value of imports were escalating prices for fuel (1.2%), industrial raw materials (2.3%) and household consumer products (2.9%). The bulk of imports continued to come from the United States (40.3%), while the Central American countries were Honduras' next-biggest supplier (25.9%). Raw materials and intermediate goods accounted for 49.2% of total imports, followed by consumer goods (32.9%) and capital goods (15.2%). An increase of 19% for the year was seen in imports of fuels and lubricants, whose total worth came to US$ 1.387 billion. In value terms, imports of capital goods climbed by 12.0% and consumer goods imports were up by 2.4%.

The trade balance for goods and services closed out the year with a deficit of US$ 3.238 billion (14.1% of GDP), which was three-tenths of a percentage point less than in 2016. Family remittances grew by 11.9% and were equivalent to 18.9% of GDP. The reduction in the deficit on the trade balance for goods, combined with heftier inflows of remittances, helped to narrow the current account deficit to 1.7% of GDP. The terms of trade for goods and services edged up by 0.04% in 2017, which was the second consecutive year-on-year increase in this variable.

The capital account posted a surplus of US$ 180.5 million, up 39% from 2016. Foreign direct investment (FDI) flows totalled US$ 1.186 billion, which was 4.1% more than in 2016. Finance, insurance and business services took in the largest share of FDI (28.4%), followed by the maquila industry (21.3%) and manufacturing (17.2%). The largest source of FDI in 2016 was Panama (20%), followed by the United States (17.1%).

Total exports of final goods amounted to US$ 850 million as at the end of February 2018, 4.1% higher than the level seen a year earlier. The strongest export growth figures were reported by the farm sector (17.3%), agribusiness (33.1%) and the mining industry (37.4%). Total imports of final goods rose by 9.2% from the previous year's level to US$ 1.583 billion. Meanwhile, rising international oil prices drove up the value of fuel imports by 10.6% during the study period.

(b) Economic activity

The annual rate of GDP growth in 2017 was 4.8%. A breakdown of expenditure into its various components shows that 3.5 percentage points of its growth was accounted for by private consumption, 1.4 percentage points by investment and 3.1 percentage points by export activity; Imports exerted a dampening effect equivalent to -3.5 percentage points. Private consumption gained momentum thanks to soaring remittances that boosted national disposable income. The steep upswing in remittances was, in part, attributable to lower unemployment among the Hispanic population in the United States and the uncertainty surrounding some of the immigration policies of the United States Government prompted by such measures as the termination of the Temporary Protected Status Programme for Honduran citizens. Gross fixed investment also gained momentum as its various components expanded. Infrastructure projects -- such as the Lenca Corridor Project, the overpasses being built in the Central District and San Pedro Sula, and private (especially residential) construction – were one of the components that played an especially prominent role. Gross fixed investment showed a year-on-year increase of 37.7% in the public sector and of 3.1% in the private sector. The deficit in net exports widened by 3.84% relative to the 2016 figure.

The sectors displaying the strongest growth were mining (10.9%), agriculture (10.7%), construction (7.8%) and finance (7.6%). The mining sector benefited from higher gold prices, which spurred gold production and exports. The farm sector was helped by a plentiful coffee harvest (the volume of output was up by 31.3%) and high international coffee prices. Private projects gave a boost to the construction industry, as residential construction was up by 11.4% and commercial building activity picked up by 16.3%. Lastly, the financial sector’s expansion was driven by higher public-sector deposits (12.5%) and lending (9.9%).

The monthly index of economic activity (IMAE) in February 2018 showed a year-on-year increase of 3.0%. Promising trends were also to be observed in mining (7.9%), transport and storage (6.7%), financial intermediation (5.8%) and construction (5.5%).

(c) Prices, wages and employment

The domestic prices of goods and services rose during the last three months of 2017, and the general price index was 4.7% higher in December 2017 than it had been in December 2016. It is thought that price increases were supply-driven, in view of earlier events and those associated with the elections held on 26 November 2017, the depreciation of the exchange rate and the growth of aggregate demand. Precautionary supply measures and takeovers of a number of roadways pushed prices upward. In the external sector, international oil prices rose, on average, to US$ 52.64 per barrel, which was 21.1% higher than the 2016 figure. The fact that core inflation – an indicator that excludes short-term fluctuations resulting from supply shocks – amounted to 4.03% was attributable to stronger aggregate demand as reflected in private household consumption.

The minimum monthly wage in 2017 averaged 8,448.40 lempiras, for an average increase in real terms of 5.1% over the average minimum wage in 2016. At 6.7% for 2017, the national unemployment rate was 0.7 percentage points below the 2016 rate. The unemployment rates for 2017 in Tegucigalpa and San Pedro Sula – the country’s two largest cities – stood at 9.8% and 7.3%, respectively.

The year-on-year inflation rate amounted to 4.2% in April 2018, while underlying year-on-year inflation also came to 4.2% during that same month. The minimum monthly wage has been set at 8,911 lempiras.

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	-2.4	3.7	3.8	4.1	2.8	3.1	3.8	3.8	4.8
Per capita gross domestic product	-4.3	1.8	2.0	2.3	1.1	1.4	2.2	2.2	3.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-1.9	1.8	6.5	10.7	3.4	2.8	2.6	4.6	10.7
Mining and quarrying	-0.9	-4.0	-10.6	-3.2	-6.8	-8.3	-1.0	3.4	10.9
Manufacturing	-8.1	4.5	4.4	1.8	3.4	3.0	3.9	2.9	4.0
Electricity, gas and water	4.3	-0.2	3.6	2.9	-2.5	1.6	8.8	3.7	3.6
Construction	-13.3	-2.4	4.4	2.4	-2.5	-9.6	2.3	6.4	7.8
Wholesale and retail commerce, restaurants and hotels	-10.5	3.4	4.2	3.8	2.1	2.1	3.1	3.3	3.4
Transport, storage and communications	8.8	7.4	6.6	5.9	4.7	4.4	4.2	3.7	3.9
Financial institutions, insurance, real estate and business services	0.1	5.7	6.2	5.1	4.1	6.8	7.9	7.1	6.1
Community, social and personal services	6.1	3.2	0.6	2.6	3.2	1.5	1.6	1.8	2.4
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.2	2.8	2.8	4.0	3.7	1.7	3.6	4.3	4.3
Government consumption	6.9	-1.0	-1.0	2.3	3.2	-2.6	2.1	5.1	1.9
Private consumption	0.1	3.6	3.6	4.3	3.8	2.6	3.9	4.2	4.7
Gross capital formation	-44.2	12.0	24.1	-2.7	-11.4	9.4	22.4	-4.0	6.3
Exports (goods and services)	-15.9	15.7	8.4	9.8	-1.3	3.4	2.9	0.4	5.6
Imports (goods and services)	-26.2	15.2	12.7	6.3	-4.1	3.4	8.5	-1.0	5.3
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	20.6	21.9	26.0	24.6	21.8	22.2	25.1	23.3	23.8
National saving	16.8	17.6	18.1	15.8	12.1	15.1	20.4	20.5	22.1
External saving	3.8	4.3	7.9	8.7	9.6	7.1	4.8	2.8	1.7
Balance of payments	**Millions of dollars**								
Current account balance	-557	-682	-1 409	-1 581	-1 763	-1 372	-978	-587	-380
Goods balance	-2 545	-2 643	-3 149	-3 012	-3 147	-2 968	-2 949	-2 619	-2 649
Exports, f.o.b.	4 827	6 264	7 977	8 359	7 805	8 117	8 226	7 940	8 675
Imports, f.o.b.	7 372	8 907	11 126	11 371	10 953	11 085	11 175	10 559	11 324
Services trade balance	-18	-193	-423	-591	-668	-437	-445	-463	-589
Income balance	-632	-727	-974	-1 266	-1 353	-1 606	-1 426	-1 508	-1 635
Net current transfers	2 638	2 882	3 138	3 288	3 405	3 638	3 842	4 003	4 493
Capital and financial balance d/	83	1 248	1 489	1 290	2 235	1 816	1 269	637	1 264
Net foreign direct investment	505	971	1 012	851	992	1 315	952	900	1 013
Other capital movements	-422	278	476	439	1 244	501	317	-263	252
Overall balance	-474	567	80	-291	473	444	290	50	885
Variation in reserve assets e/	354	-592	-86	283	-485	-459	-303	-66	-884
Other financing	120	25	6	8	12	15	13	16	-1
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	87.1	86.1	85.4	83.8	84.8	82.8	82.6	84.1	86.0
Terms of trade for goods (index: 2010=100)	97.3	100.0	108.4	94.6	88.6	90.4	84.5	87.4	84.8
Net resource transfer (millions of dollars)	-429	546	521	32	894	225	-145	-854	-372
Total gross external debt (millions of dollars)	3 365	3 785	4 208	4 861	6 709	7 184	7 456	7 499	8 600
Employment	**Average annual rates**								
Labour force participation rate g/	53.1	53.6	51.9	50.8	53.7	56.0	58.3	57.5	59.0
Open unemployment rate h/	4.9	6.4	6.8	5.6	6.0	7.5	8.8	9.0	8.2
Visible underemployment rate g/	4.3	7.4	10.4	10.5	11.7	12.5	14.1	11.5	11.8

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	3.0	6.5	5.6	5.4	4.9	5.8	2.4	3.3	4.7
Variation in nominal exchange rate									
(annual average)	0.0	0.0	0.0	2.2	4.1	2.0	6.6	4.5	2.9
Variation in minimum real wage	70.4	-4.5	-0.2	0.4	0.4	-1.1	2.1	2.7	-0.6
Nominal deposit rate i/	7.2	5.5	4.7	5.1	6.6	6.4	5.8	5.1	4.7
Nominal lending rate j/	19.4	18.9	18.6	18.4	20.1	20.6	20.7	19.3	19.3
Central government	**Percentajes of GDP**								
Total revenue	17.1	16.9	17.0	16.7	17.0	18.5	19.8	20.2	20.7
Tax revenue	14.2	14.4	14.8	14.7	15.1	16.5	17.9	18.5	18.6
Total expenditure	23.1	21.5	21.6	22.7	24.9	22.9	22.9	23.0	23.4
Current expenditure	18.6	17.9	16.9	17.9	19.8	17.7	18.2	17.9	18.0
Interest k/	0.7	1.0	1.3	1.7	2.1	2.3	2.5	2.4	2.6
Capital expenditure	5.1	3.7	4.6	4.6	5.2	5.1	4.7	5.1	5.4
Primary balance	-5.3	-3.7	-3.2	-4.3	-5.8	-2.1	-0.6	-0.3	-0.2
Overall balance	-6.0	-4.7	-4.6	-6.0	-7.9	-4.3	-3.1	-2.8	-2.8
Central government public debt	23.9	30.4	32.5	34.4	43.1	44.4	44.6	45.5	47.7
Domestic	8.3	13.3	15.0	14.8	15.5	16.8	17.6	17.8	18.1
External	15.7	17.1	17.5	19.6	27.7	27.6	27.0	27.7	29.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	35.9	33.6	35.6	38.5	38.4	38.5	37.0	38.2	36.8
To the public sector	1.5	2.1	4.1	4.1	2.1	2.4	1.1	2.6	0.5
To the private sector	51.1	48.2	47.5	51.5	54.9	55.2	54.9	56.7	56.5
Others	-16.7	-16.7	-16.0	-17.0	-18.6	-19.2	-19.2	-21.1	-20.2
Monetary base	10.3	10.7	10.2	10.0	10.5	11.0	10.7	13.1	12.6
Money (M1)	11.8	12.5	12.3	10.6	10.7	11.0	11.3	11.7	12.4
M2	37.1	38.7	39.0	37.8	39.2	39.3	39.2	41.1	43.3
Foreign-currency deposits	13.7	12.6	12.5	13.3	13.9	15.2	13.7	14.7	14.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Based on figures in local currency at constant 2000 prices.
c/ Based on values calculated in national currency and expressed in current dollars.
d/ Includes errors and omissions.
e/ A minus sign (-) indicates an increase in reserve assets.
f/ Annual average, weighted by the value of goods exports and imports.
g/ Nationwide total.
h/ Urban total.
i/ Weighted average rate of deposit rates.
j/ Weighted average of lending rates.
k/ Central bank data include accrued interest on the public debt.

Table 2

HONDURAS: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	3 943	4 137	3 995	3 981	4 692	4 677	4 711	4 821	4 987	5 108
Real effective exchange rate (index: 2005=100) b/	83.1	84.0	84.3	84.8	85.5	85.6	86.3	86.6	86.0	85.4
Consumer prices										
(12-month percentage variation)	2.5	2.4	2.9	3.3	3.9	3.7	3.7	4.7	4.4	4.2
Average nominal exchange rate										
(lempiras per dollar)	22.6	22.6	22.9	23.2	23.6	23.5	23.4	23.5	23.6	23.8
Nominal interest rates (average annualized percentages)										
Deposit rate c/	5.3	5.2	5.1	5.0	4.6	4.7	4.7	4.7	4.7	4.7 d/
Lending rate e/	19.8	19.5	19.1	18.9	19.7	19.6	19.3	18.4	18.1	18.0 d/
Interbank rate	6.7	6.4	6.3	6.4	6.5	6.2	6.2	6.4	6.1	6.2
Monetary policy rates	6.3	5.7	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Domestic credit (variation from same										
quarter of preceding year)	4.5	4.8	6.5	7.9	4.4	8.4	8.3	5.9	13.3	10.6
Non-performing loans as										
a percentage of total credit	1.0	1.1	1.1	0.9	1.1	1.0	1.0	1.0	1.0	0.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Preliminary figures.
b/ Quarterly average, weighted by the value of goods exports and imports.
c/ Weighted average rate of deposit rates.
d/ Figures as of April.
e/ Weighted average of lending rates.