Honduras

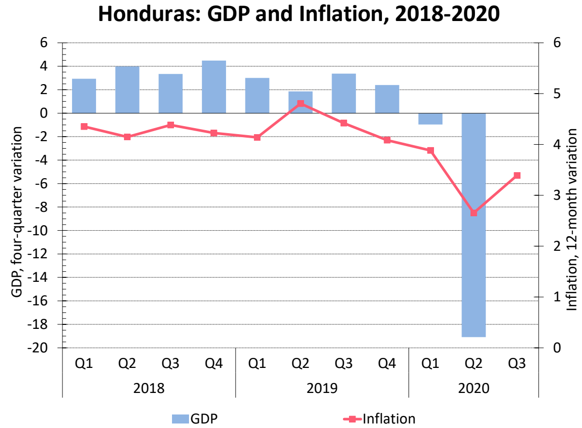
In the context of a health and economic crisis caused by the coronavirus (COVID-19) pandemic and aggravated by the strong negative effects of storms Eta and Iota, ECLAC estimates an 8.0% decline in Honduran GDP for 2020, compared with growth of 2.7% in 2019. The contraction of the economy is explained by a sharp decline in private consumption, a drop in public and private investment and collapsing external demand. The central government will close the year with a deficit of about 6.6% of GDP (as against 2.5% in 2019), due to lower tax revenues and increased current spending aimed at mitigating the impact of the health emergency. The current account will be in deficit by 2.0% of GDP (as compared to 1.4% in 2019) as a result of exports contracting by more than imports. Year-on-year inflation will be about 3.0% at year's end (as against 4.1% in 2019) because of weak demand. The unemployment rate will exceed the 5.7% observed in 2019.

The Government of Honduras has implemented a set of economic policy measures to lessen the effects of the health crisis. The Production Sector and Workers' Assistance Act provides for tax deferrals and special deductions for micro and small enterprises, as well as temporary employment and income support mechanisms. To meet financing needs, Congress authorized borrowing of up to US$ 2.5 billion during fiscal years 2020 and 2021, with non-financial public sector debt capped at 55% of GDP. A decree was also issued ordering the reduction and reallocation of the non-financial public sector budget with a view to strengthening actions to prevent contagion and control the pandemic. Public spending measures to deal with the pandemic will represent about 2.2% of GDP.

Total central government revenues declined by 21.7% in real terms in the first eight months of the year compared with the same period in 2019 as a result of lower tax revenues (down by 25.8%), despite an increase in non-tax revenues (4.7%). The reasons for the fall in tax revenues included an extension of the income tax declaration and payment deadline for the 2019 fiscal year until 31 August, an 8.5% discount for taxpayers who paid on 30 April and an extension of the deadlines for payments on account for the 2020 fiscal year. Total central government expenditure from January to August 2020 was down by 5.0% year-on-year in real terms, which is explained by a sharp reduction in capital expenditure (26.8% in real terms), despite a 1.0% increase in current expenditure.

In August 2020, non-financial public sector debt was equivalent to 54% of GDP, an increase of 8 percentage points of GDP from December 2019. Domestic debt accounted for 32% of the total and external debt for the remaining 68%. The latter was up by 16.7% in nominal dollar terms from December 2019, owing to the utilization of a net US$ 1.288 billion: the US$ 600 million sovereign bond, acquired at a historically low rate, to manage the liabilities of the national electricity company, the Empresa Nacional de Energía Eléctrica (ENEE); US$ 666.8 million for budget support; US$ 100 million for the guarantee funds set up to revive companies affected by the

Honduras: GDP and Inflation, 2018-2020



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

pandemic; and US$ 102.6 million for government projects and programmes, with 58.6% of the funding coming from multilateral lending agencies: US$ 376.2 million from the International Monetary Fund (IMF), US$ 233.3 million from the Inter-American Development Bank (IDB), US$ 126.5 million from the World Bank's International Development Association (IDA), US$ 122.5 million from the Central American Bank for Economic Integration (CABEI) and US$ 2.4 million from the International Fund for Agricultural Development (IFAD).

Honduras: main economic indicators, 2018-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	3.7	2.7	-8.0
Per capita gross domestic product	2.0	1.0	-9.5
Consumer prices	4.2	4.1	3.4 [b]
Money (M1)	7.4	8.6	21.5 [c]
Real effective exchange rate [d]	-0.3	-1.6	-2.8 [b]
Terms of trade	-6.3	0.0	8.3
	Annual average percentage		
Open urban unemployment rate	5.7	5.7	...
Central government			
Overall balance / GDP	-2.1	-2.5	...
Nominal deposit rate [e]	4.7	4.9	4.8 [b]
Nominal lending rate [f]	17.8	17.3	17.1 [b]
	Millions of dollars		
Exports of goods and services	9 843	9 898	4 014 [g]
	14 521	14 237	5 545 [g]
Current account balance	-1 379	-346	340 [g]
Capital and financial balance [h]	1 425	1 335	837 [g]
Overall balance	46	988	1 177 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Figures as of August.
d/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.
e/ Weighted average of deposit rates.
f/ Weighted average of some lending rates.
g/ Cumulative figures to the second quarter of 2020.
h/ Includes errors and omissions.

By November 2020, the central bank had adjusted its monetary policy rate downwards on four occasions: by 25 basis points to 5.25% on 10 February, to 4.5% on 24 March, to 3.75% on 3 August and to 3.0% on 27 November. However, the expansionary measures taken by the central bank have not yet been reflected in the rest of the financial system. The real annualized lending rate in the third quarter was 13.26% (as compared with 12.26% in the same quarter of 2019), while the deposit rate was 1.42% (as compared with 0.45% in 2019). Furthermore, despite the implementation of guarantee funds and the relaxation of regulatory measures to boost liquidity, growth in lending and discount volumes between January and August was moderate (4.6%, as compared to 10.2% in the same period of 2019). Lending to industry, commerce and services was most dynamic.

The average nominal exchange rate was 24.74 lempiras to the dollar in the third quarter of 2020, which represents a very slight nominal appreciation of 0.3% compared with the last quarter of 2019. The net international reserves balance was US$ 7.76 billion in September, 51% more than in the same month of 2019, an increase that is explained by greater net currency purchases, increased net disbursements and receipt of the sovereign bond.

Goods exports contracted by 18% year-on-year in the first eight months of 2020. In monetary terms, coffee shipments fell by 4.3%, owing to a 19% decline in the volume traded compared to the same period the previous year. In the first half of the year, exports from the goods processing (maquila) industry fell by 40.9% because of lower demand for wearing apparel from the United States. Imports fell by 17.9% year-on-year; purchases of consumer goods fell by 10.8%, those of raw materials and intermediate goods by 19.4% and those of capital goods by 29.5%.

In the first half of the year, net foreign direct investment (FDI) flows totalled US$ 296.5 million, 19.6% more than in the first half of 2019. The increase in FDI was due to the recovery of maquila companies' accounts receivable with their subsidiaries abroad, mainly in the United States. The behaviour of inward FDI varied over the year: most of it came in the first quarter, with the flow decreasing sharply in the second quarter. The flow of remittances contracted by 4.2% in the first half of the year because of a sharp fall of 19% between March and May, which was mitigated by increases of more than 10% in January, February and June.

GDP contracted by 9.9% in the first half of 2020. On the supply side, the activities most affected were manufacturing (-20.3%), commerce, hotels and restaurants (-17.1% overall) and transport services (-23.2%). In contrast, electricity and water distribution services grew by 10.9%, while activity in the communications sector increased by 3.9% and education, social and health services by 1.5%.

Year-on-year inflation stood at 3.7% in October, within the central bank's target range of between 3% and 5%. The goods and services whose prices rose most were health care (10.6%), education (9.4%), furniture and household goods (6.9%), alcoholic beverages and tobacco (6.6%) and transport (5.8%); the average increase for everything else was 2.2%.

The minimum monthly wage in 2020 ranged from 6,762.70 to 12,248.49 lempiras. Within that range, the minimum wage depended on the number of employees in a company and the production sector concerned. In nominal terms, the minimum monthly wage increased by 5.0% at companies with between 1 and 50 employees, by 6.75% at companies with between 51 and 150 employees, and by 7.0% at companies with 151 or more employees.

ECLAC estimates GDP growth of 5.5% for 2021. Economic revival in the country and recovery in its main trading partner, the United States, will be partially offset by the severe effects storms Eta and Iota have had on the country's production system. In this situation, pressure on the central government deficit can be expected to drive it up to over 4%. Inflation is estimated at about 4% and the current account deficit at some 3.5% of GDP.