Honduras

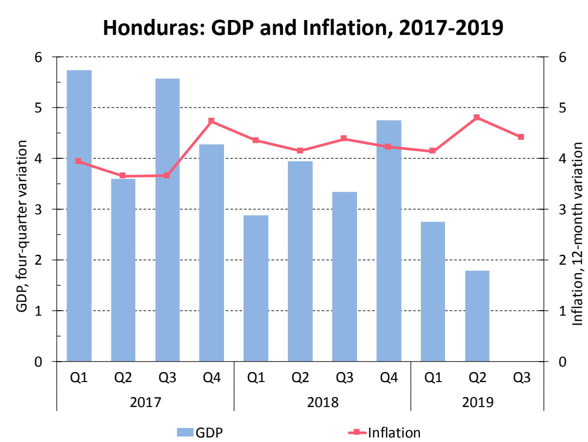
ECLAC is estimating 2.9% growth in the Honduran economy in 2019, compared to the previous year's 3.7%. This slowdown reflects a reduction in public investment, a lower value of merchandise exports —particularly coffee— and a contraction in agricultural output. The current account is expected to post a deficit of 3.8% of GDP (compared to 5.3% in 2018), owing to an increase in family remittance flows and lower imports. The central government will close the year with a deficit of 2.4% of GDP (compared to 2.1% in 2018), since the contraction in total expenditure, in a framework of public spending containment, will be offset by a steeper reduction in revenues. By the year's end, inflation is expected to be 4.5% year-on-year (4.22% in 2018), owing to higher electricity rates.

In the first eight months of the year, total central government revenues decreased by 6.0% in real terms compared to the year-earlier period, with tax revenues down by 2.9% in real terms and non-tax revenues 22.5% lower. The reduction in the former is partly associated with the elimination of a tax on gross corporate income in 2018, such that, in fiscal 2019, firms with gross income of more than 300 million lempiras per year no longer pay the additional 1.5% income tax rate. In April 2019, electricity rates were adjusted, with the aim of easing fiscal pressure on the public finances. Total central government expenditures from January to August 2019 increased by 1.2% in real terms year-on-year, owing to higher capital expenditures, which have grown by 6.5% in real terms relative to their year-earlier level.

In the second quarter of 2019, central government debt represented 47.2% of GDP (0.2% higher than for the year earlier period); external debt accounted for 28.3% of GDP and domestic debt represented the remaining 18.9%. Domestic debt was up by 3.1% over the December 2018 figure. Servicing the debt absorbed 15.6% of total central government income, compared to 17.2% in 2018. As of June 2019, the central government's external public debt stood at US$ 6.956 billion, with US$ 355 million being paid in debt service.

The central bank kept its monetary policy rate unchanged at 5.75% in the first 11 months of the year. As of September, the real interest rate on loans in the financial system was 12.3% (compared to 12.9% in 2018), while the rate paid on deposits was 0.4% (1.0% in 2018). This decrease in real lending interest rates and the disincentive to save provided by low deposit rates have had a positive impact on credit expansion. In July 2019, national currency loans and discounts from the banking system to the private sector were up by an average of 7.9% in real terms year-on-year (10.9% in the same period of 2018).

The average nominal exchange rate in the third quarter of 2019 was 24.64 lempiras per dollar, representing a nominal depreciation of 1.4%. Net international reserves stood at US$ 5.071 billion as of 19 October 2019, up by 9.9% on the year-earlier level, covering five months of imports.



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

On 1 October 2019, the Free Trade Agreement between the Republic of Korea and the Central American Republics entered into force. This provides immediate relief for Honduran products such as melon, shrimp, sea cucumber and lobster, green and other vegetables, sugar, textiles and automobile harnesses sold on the Korean market.

Honduras: main economic indicators, 2017-2019

	2017	2018	2019 [a]
		Annual growth rate	
Gross domestic product	4.8	3.7	2.9
Per capita gross domestic product	3.3	2.4	1.6
Consumer prices	4.7	4.2	4.1 [b]
Money (M1)	18.2	6.9	6.2 [c]
Real effective exchange rate [d]	1.7	-0.3	-2.0 [e]
Terms of trade [f]	-3.1	-6.5	-1.8
		Annual average percentage	
Open urban unemployment rate	6.7	5.7	5.7
Central government			
Overall balance / GDP	-2.7	-2.1	-2.0
Nominal deposit rate [g]	4.7	4.7	4.8 [c]
Nominal lending rate [h]	19.3	17.8	17.3 [c]
		Millions of dollars	
Exports of goods and services	9 964	9 992	9 916
	13 240	14 335	14 304
Current account balance	-44	-1 263	-820
Capital and financial balance [i]	928	1 309	1 028
Overall balance	885	46	208

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of October.
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/ Figures as of September.
f/ Economic Development Division, calculations for Preliminary Overview 2019.
g/ Weighted average of deposit rates.
h/ Weighted average of some lending rates.
i/ Includes errors and omissions.

In the first eight months of 2019, the value of total merchandise exports was down by 2.8% year-on-year in real terms, while imports were 3.7% lower. The value of coffee and banana shipments contracted by 15.9% and 11.0% year-on-year, respectively, owing to lower international prices and smaller local production volumes. The drought that persisted throughout the year undermined agricultural production. In addition, imports of consumer goods contracted by 5.5% in the first eight months of the year (3.2% in 2018), while imports of capital goods fell by 5.4% (9.9% in 2018) and raw materials and intermediate goods slipped by 1.8% (11.7% in 2018) during the same period. Net flows of foreign direct investment (FDI) totalled US$ 250 million in the first half of 2019, 39.3% less than in the year-earlier period. The fiscal policy of the United States has adversely affected FDI, since many foreign firms have taken the opportunity to repatriate their capital. The merchandise terms of trade for 2019 will be 3.1% lower than in 2018.

Quarterly GDP grew by 2.3% year-on-year in the first half of 2019. On the supply side, there were strong performances by community, social and personal services (up 3.4%); financial intermediation services (8.0%); and housing and real estate and business activities (3.3%). On the demand side, growth was driven by consumption (up 2.9%).

As of October 2019, year-on-year inflation stood at 4.4%, which was within the central bank’s target range of 3.0%–5.0%. The categories posting the largest price increases were housing, water, electricity, gas and other fuels (6.8%), private education services (6.4%) and private health services (5.5%).

The minimum monthly wage in 2019 ranges from 6,440.66 lempiras to 11,549.39 lempiras, depending on the size of the firm and the production sector in which it operates. For 2019, a wage increase was established by firm size, which has been in effect since 1 January. Firms with 1 to 50 employees raised their monthly minimum wage by 4.77%; those with between 51 and 100 employees increased it by 6.4%, and those with 151 or more increased the minimum wage by 7.0%.

For 2020, ECLAC projects GDP growth of 2.9% owing to a slower expansion of Honduras’ main trading partner, the United States, with a consequent effect on family remittance flows, trade and investment. Exports of the main product, coffee, will be affected by weather conditions and smaller local production volumes, although the international price of coffee is expected to rise between late 2019 and early 2020 owing to a cut in coffee production in Brazil. The deficit of the non-financial public sector, as well as that of central administration, as a percentage of GDP, will narrow in observance of the Fiscal Responsibility Law. The current account deficit is expected to be around 4.0% of GDP, reflecting a slowdown in imports, an increase in family remittances and a reduction in the value of exports. Inflation is expected to end the year at around 4.0%, within the central bank's target range, in a context of weak demand pressure.