

## Honduras

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the Honduran economy will grow by 4.2% in 2022, following the previous year's 12.5% expansion. The slowdown reflects the fading of the statistical effect of a low baseline caused by the contraction in 2020, and the slower pace of growth among the country's main trading partners, particularly the United States. However, the economy was boosted by the consolidation of the vaccination process and the biosecurity protocols that were put in place, together with the partial recovery of employment and private consumption growth, the latter being fuelled mainly by stronger remittance flows.

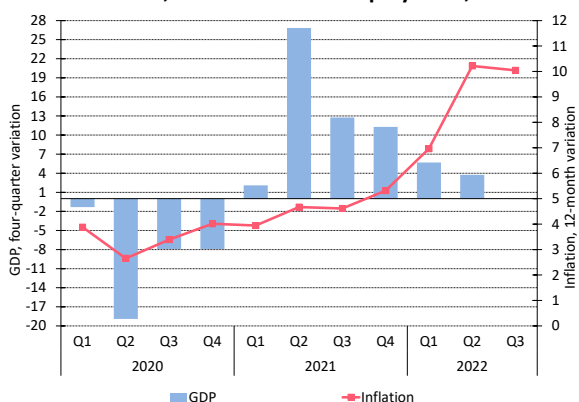
In 2022, the non-financial public sector will post a fiscal deficit of around 3% of GDP (compared to 3.7% in 2021), owing to higher levels of social spending and public investment targeting infrastructure construction and rehabilitation, school repairs and investment in the health system. Fuel and energy subsidies add to these expenditures.

The current account deficit is set to end 2022 at 4.5% of GDP (compared to a deficit of 4.3% in 2021). An increase in the value of imports, owing to higher international prices of raw materials and food products, will be partially offset by the growth of exports and remittances. The year-on-year increase in the consumer price index (December to December) is projected to be around 10.3% (compared to 5.3% in 2021), driven by higher import prices. The unemployment rate is expected to be about 8.6%.

In 2022, the incoming government declared a state of fiscal and financial emergency in the public sector; and the Ministry of Finance was authorized to contract loans for up to US\$ 2 billion. The exception clause of the Fiscal Responsibility Law was applied to raise the non-financial public sector deficit ceiling from 1% to 4.9% for 2022 and 4.4% for 2023; and the income and expenditure budget for 2022 was amended to provide extra fiscal space for social and public investment programmes. In addition to these measures, subsidies were approved for energy and for the price of gasoline.

As of August 2022, central government current income was growing at a real annual rate of 6.6%, driven by higher tax revenues (up 7.4% in real terms year-on-year), mainly from income tax and sales tax. Total expenditure was 14.3% lower in real terms than a year earlier, with expenditures on goods and services and capital transfers contracting at real annual rates of 30% and 54%,

Honduras: GDP, Inflation and Unemployment, 2020-2022



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

respectively. This trend could be reversed by year-end if pending infrastructure projects and public programmes go ahead.

In September 2022, total public debt stood at US\$ 14.964 billion (equivalent to 51.1% of GDP), with the external component amounting to US\$ 8.945 billion (31.6% of GDP). The latter was 3.3% lower than in December 2021, owing to a favourable exchange rate movement that reduced the balance by US\$ 171.8 million, together with net amortization of US\$ 132.8 million. Domestic debt totalled US\$ 6.019 billion (19.5% of GDP).

In the first ten months of 2022, the monetary policy interest rate was held at 3%. To reduce inflationary pressures, the Central Bank of Honduras gradually withdrew excess liquidity from the financial system through open market operations. In the third quarter of the year, the nominal interest rate on loans was 14.35% (equivalent to a real rate of 3.55%), and the nominal deposit rate was 2.47% (-7.21% real). As of October, financial system credit was growing at a nominal annual rate of 18.1% (+7.3% a year earlier), as a result of increased financing needs, funding to execute projects and an increase in inventories. The sectors displaying the strongest credit growth were private consumption (+25%), real estate (+23%), commerce (+16.5%), services (+15.2%) and manufacturing (+11.1%).

The nominal exchange rate in October 2022 averaged 24.79 lempiras per dollar, which represents a depreciation of 1.6% relative to its December 2021 level. The central bank continued with the process of modernizing the exchange rate policy, with changes being made to the calculation of the reference rate, the foreign exchange commissions mechanism and the rules for intervention in the foreign exchange market. In October, net international reserves totalled US\$ 8,217 billion (equivalent to 5.9 months of imports); this was 5.3% less than in December 2021 owing to the across-the-board rise in prices of imported inputs.

Goods exports totalled US\$ 4,450 billion between January and August, 25.2% more than in the same period of 2021. Exports of coffee, palm oil and bananas rose year-on-year by 19.2%, 58.3% and 120.6%, respectively, boosted by higher international prices. Imports totalled US\$ 10,108 billion, 21.5% more than in August 2021, owing to the increase in domestic demand and the higher value of imports of industrial supplies, fuels, lubricants, food products and beverages. A trade deficit of US\$ 5,658 billion was recorded in August—18.7% larger than a year earlier.

#### Honduras: main economic indicators, 2020-2022

	2020	2021	2022 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	-9.0	12.5	4.2
Per capita gross domestic product	-10.4	10.8	2.6
Consumer prices	4.0	5.3	10.2 <sup>b</sup>
Money (M1)	24.5	22.1	15.3 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-3.5	-2.6	0.1 <sup>b</sup>
Terms of trade	4.0	-1.8	-9.0
	<b>Annual average percentage</b>		
Open urban unemployment rate	10.9	8.6	...
Central government			
Overall balance / GDP	-7.0	-5.0	...
Nominal deposit rate <sup>e</sup>	4.7	3.3	2.5 <sup>f</sup>
Nominal lending rate <sup>g</sup>	17.0	16.0	14.8 <sup>f</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	16 072	21 285	27 233
Imports of goods and services	22 290	32 657	42 876
Current account balance	158	98	151
Capital and financial balance <sup>h</sup>	-22	-330	...
Overall balance	136	-232	...

**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 September.

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/ Figures as of August.

g/ Weighted average of some lending rates.

h/ Includes errors and omissions.

Trade in goods for processing (maquila) posted a surplus of US\$ 926.5 million in the first half of the year, as a result of increased exports of textile products to the United States. In contrast, service trade produced a deficit of US\$ 947.4 million, with higher outflows in respect of transportation services, owing to increased merchandise imports.

In late June 2022, net foreign direct investment (FDI) flows totalled US\$ 302.7 million, 29.2% less than in the first half of 2021. An FDI inflow of US\$ 370 million, destined mainly for the commerce and hotel and restaurant sectors, was offset by the withdrawal of US\$ 67.4 million by textile and manufacturing firms.

In the first half of 2022, GDP expanded at an annualized rate of 4.7%, as most activities returned to their pre-pandemic levels. The strongest growing sectors were financial intermediation (+12.9%), manufacturing (+7.8%) and commerce (+7.3%). On the expenditure side, final consumption expanded by 5.2% relative to the first half of 2021, while exports and investment increased by 5.8% and 7.8%, respectively. Between January and August, the monthly index of economic activity (IMAE), in its original series, displayed an average year-on-year increase of 5.6%, driven by hotel and restaurant activities (+32.2%), transportation (+15.6%) and finance and insurance (+14.6%).

Year-on-year inflation stood at 10.2% in October 2022, about half of which is explained by external factors according to the central bank. The steepest year-on-year price increases occurred in food and non-alcoholic beverages (+16.9%), and in transportation, furniture and household items, hotel and restaurant services (+10.6% on average).

Unemployment is expected to be less than in 2021 (8.6%), thanks to the economic recovery across the board. In April 2022, the nominal minimum monthly wage was set between 7,408.09 and 14,347.45 lempiras; and the nominal average minimum daily wage was fixed at 380.4 lempiras, 7.65% higher than in 2021. Nonetheless, this is a 0.62% reduction in real terms, owing to the uptick in inflation.

For 2023, ECLAC is projecting the Honduran economy to expand by 2.7%, reflecting lower growth prospects among its main trading partners and a weaker flow of remittances. The fiscal deficit is likely to be over 4% of GDP, owing to increased public spending on infrastructure. The current account deficit will be around 2.8%, owing to slacker import growth, especially because of lower fuel prices. Inflation will be around 5.6%, as price hikes in food products, raw materials and fuels are expected to be more subdued; but it will still be outside the central bank target range of 4%  $\pm$ 1 percentage point.