Honduras

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates GDP growth in Honduras at 3.3% in 2023, underpinned by consumption on the back of wage adjustments made during the year, stronger remittance flows, private lending growth and greater public investment. However, growth will be lower than in 2022 (4.0%), amid weaker external demand.

The central government fiscal deficit will be around 4% of GDP in 2023 (1.3% in 2022), owing to higher levels of social spending and public investment directed towards electricity and road infrastructure building and upgrading. The current account deficit will close 2023 at around 3.7% of GDP (6.5% in 2022), reflecting a contraction in imports, especially of goods for processing (maquila). Inflation will be between 5.0% and 6.0% (9.8% in 2022), as a result of falling international prices for fuels, raw materials and agricultural inputs, as well as a slowdown in domestic demand. The unemployment rate will be around 8% (8.9% in 2022).

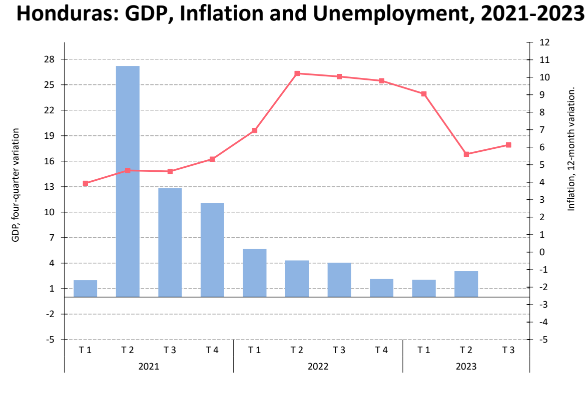
As of August 2023, central government current revenue showed a real year-on-year increase of 1.3%. Tax revenues posted a real contraction of 0.5% year on year, owing to a fall in direct taxes (-10.1%). Expenditure registered a real year-on-year rise of 15.2%, owing to real-term year-on-year increases of 9.1% and 80.6%, respectively, in current and capital expenditures.

As of the third quarter of 2023, the total public debt balance stood at US$ 15.979 billion (46.5% of GDP, 5.3 percentage points less than in December 2022). Domestic debt was US$ 6.645 billion (19.3% of GDP), 2.3% lower than in December 2022. External debt amounted to US$ 9.334 billion (27.2% of GDP), which was 2.1% below the figure for December 2022. International loans received between January and June 2023 came to US$ 150.4 million and have gone to budget support and the execution of public investment projects, especially the project to rehabilitate the Cañaveral-Río Lindo hydroelectric complex.

In March 2023, the government brought a tax justice bill before the National Congress, which seeks to add the principle of progressivity to the tax system and do away with the possibility of tax debt forgiveness. At the time of writing, the proposal had yet to be approved.

The monetary policy interest rate remained at 3.0% in the first 11 months of 2023. The Central Bank of Honduras (BCH) continued to withdraw surplus liquidity through open market operations. In the third quarter, the average nominal exchange rate rose by 0.2% (1.1% in real terms) compared to the fourth quarter of 2022, to stand at 24.72 lempiras per dollar. BCH also resumed auctions as a foreign-exchange allocation mechanism in the currency market. In that same quarter, the lending rate of interest was 14.42% (8.29% in real terms compared to 3.77% in the last quarter of 2022) and the deposit rate stood at 3.28% (-2.25% in real terms compared to -6.85 in the last quarter of 2022).

Honduras: GDP, Inflation and Unemployment, 2021-2023



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

As of July 2023, credit to the private sector was up by 19.7% year on year (17.5% in the prior-year period), driven by the government's credit support measures. The strongest expansion occurred in consumer, property and business lending (25.6%, 22.1% and 20.0%, respectively). In October 2023, net international reserves amounted to US$ 7.595 billion, 10% less than in December 2022. The downturn is attributable to the direct sale of foreign exchange to import fuel and meet debt service payments.

In March, the Government of Honduras established diplomatic relations with China. At the time of writing, the two countries had signed 22 agreements aimed at strengthening trade, political and cultural relations, and furthering cooperation and support in scientific, technological and communications development.

Honduras: main economic indicators, 2021-2023

	2021	2022	2023 [a]
	Annual growth rate		
Gross domestic product	12,5	4,0	3,3
Per capita gross domestic produc	10,8	2,5	...
Consumer prices	5,3	9,8	6,1 [b]
Money (M1)	22,1	16,9	11,1 [c]
Real effective exchange rate [d]	-2,4	0,4	-3,6 [b]
Terms of trade	-1,6	0,7	0,4
	Annual average percentage		
Open urban unemployment rate	8,6	8,2	...
Central government			
Overall balance / GDP	0,0	-1,3	...
Nominal deposit rate [e]	3,3	2,5	3,0 [f]
Nominal lending rate [g]	16,0	14,6	14,4 [b]
	Millions of dollars		
Exports of goods and services	11 100	13 375	6 664
Imports of goods and services	17 907	21 948	10 289
Current account balance	-1 528	-2 083	-341
Capital and financial balance [h]	1 986	1 956	-187
Overall balance	459	-127	-528

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 July.
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.

Goods exports totalled US$ 8.086 billion between January and August, 5.8% less than in the prior-year period. Maquila exports were down by 11% and, despite higher trade volumes, coffee exports contracted by 0.6 owing to a drop of 16.7% in the international price. Imports stood at US$ 12.968 billion, 7.4% less down on the year-earlier period. Imports of goods for processing (maquila) and oil and fuels decreased by 29.2% and 5.9%, respectively. In the first eight months of the year, the goods trade balance was negative by US$ 4.883 billion (9.9% less than in the same period in 2022). In the first half-year, trade in services showed a deficit of US$ 1.077 billion (9.3% less than in the same half of 2022).

Flows of foreign direct investment (FDI) came to US$ 400.3 million in the first half of 2023, 19% below the figure reported a year earlier, mainly owing to debt payments by fuel-importing companies. The largest FDI inflow occurred in the financial, electricity and gas, and manufacturing sectors. As of June 2023, the flow of remittances stood at US$ 4.396 billion dollars, 7.3% more than in the same month of 2022.

GDP grew at year-on-year rate of 2.6% in the first half-year, with the strongest growth in construction (14.3%), financial intermediation (9.4%), transportation and storage (6.0%), and commerce and communications (both 4.8%). By contrast, manufacturing industry activity fell by 5.0%. On the spending side, an increase in final consumption (3.9% compared to the first half of 2022) was offset by a decrease in exports (7.8%) and total investment (public and private) (22.7%), reflecting drawdown of private inventories. Between January and August, the monthly economic activity index (IMAE), in its original series, showed an average interannual variation of 5.5%, driven by financial intermediation activities (21.6%) and hotels and restaurants (13.4%).

Year-on-year inflation stood at 5.8% in October 2023, a third of which the central bank attributed to external factors. The steepest price rises occurred in food and non-alcoholic beverages, education, hotels and restaurants.

In March 2023, the national open unemployment rate was 7.4%, representing 281,984 people. By gender, the unemployment rate was 5.3% for men and 10.7% for women. In February 2023, the government published the new monthly minimum wage table, set at between 8,134 and 15,754 lempiras per month. The nominal wage adjustment was 9.8% for all companies (3.6% in real terms).

ECLAC projects GDP growth of 3.5% for Honduras GDP in 2024. Although consumption and public and private investment are expected to perform well, the economy will feel the effects of economic slowdown in the country's main trading partners. The fiscal deficit will exceed 4% of GDP, as public investment and social spending are stepped up. The current account deficit will be around 3.0% and inflation is expected to be within the central bank's target range (4%, with a 1-percentage-point tolerance band in each direction).