

## HONDURAS

### 1. General trends

The real gross domestic product (GDP) of Honduras grew by 3.6% in 2023, driven by increases in wages, remittances, private credit and public investment, this last associated with projects to boost social, industrial and infrastructure investment. Growth was lower than in 2022 (4.1%), however, mainly because of lower external demand for textile products, especially from the United States, the country's main trading partner.

The central government fiscal deficit was 3.6% of GDP, 2.3 percentage points higher than in 2022. Despite higher tax revenues due to buoyant economic activity, expenditure increased because of expansionary fiscal policies, including higher wages and salaries, current and capital transfers to counter inflation and support vulnerable sectors, and public investment. The balance-of-payments current account recorded a deficit equivalent to 3.9% of GDP (6.6% in 2022), an improvement driven by a contraction in the oil bill and in imports, especially of goods for processing (maquila), combined with larger family remittance inflows and higher exports. Inflation ended the year at 5.2% (9.8% in 2022) owing to reductions in international fuel, raw material and agricultural input prices and a slowdown in domestic demand. However, the annual change in the price index was still above the central bank's target range (4.0%, with latitude of one percentage point either way). The annual average national open unemployment rate was 6.4% in June 2023, compared with 8.7% in September 2022.

The Economic Commission for Latin America and the Caribbean (ECLAC) estimates that the real GDP of Honduras will grow by about 3.8% in 2024, with the expansion being driven by buoyant consumption and private investment, thanks to greater remittance inflows and access to credit, together with increased exports and higher public spending. The central government fiscal deficit is projected at about 3.8% of GDP for 2024, while the current account deficit should close the year at about 4.1% of GDP. The year-on-year change in the consumer price index is expected to be about 4% by end-2024, being positively influenced by the dissipation of external inflationary pressures and a moderation in the rates of growth of international fuel, commodity and agricultural input prices. In a context of economic recovery, the unemployment rate is expected to be around 6%.

### 2. Economic policy

#### (a) Fiscal policy

The current revenues of the central government posted a real annual increase of 1.2% in 2023. Tax revenues rose by 1.3%, while non-tax revenues contracted by 1.8%. The growth of the former, which accounted for 90% of the total, was driven by higher income and sales tax receipts, mainly because of increased economic activity.

Total central government expenditure increased by 12.7% in real terms. Capital outlays were up by 72.5% as a result of increased implementation of public investment programmes and projects in the areas of road infrastructure, hospitals, education and energy, with the most important ones in this last sector being the Electricity Loss Reduction Programme, the National Electricity Transmission Programme, the Strengthening of the Patuca III Electricity Complex project and the Photovoltaic Farm project. Current

expenditure rose by 2.4%, driven by increases in all items but particularly remuneration and interest payments. The momentum of public spending reflected the expansionary nature of fiscal policy in 2023.

The total public debt stock in December 2023 was equivalent to 45.0% of GDP, a decline of 5.2 percentage points from 2022. This reduction, the most significant in 12 years, was achieved by paying down the equivalent of US\$ 2.089 billion of the total debt, including amortization of the sovereign bond issued with a 7.5% coupon in March 2023. Domestic debt accounted for 19.8 percentage points of the total and external debt for the remaining 27.2 percentage points. External debt totalled US\$ 9.372 billion, of which US\$ 1.461 billion was new debt contracted with multilateral lending agencies: US\$ 766.7 million with the Central American Bank for Economic Integration, US\$ 477 million with the Inter-American Development Bank, US\$ 117.5 million with the International Monetary Fund and US\$ 100 million with the International Development Association of the World Bank. Of the new resources, 88% will be used for the implementation of programmes and projects.

Central government current revenues increased by 5.6% year-on-year in real terms up to February 2024, with tax receipts rising by 7.7%. Total expenditure increased by 15.5%, with growth in both capital and current outlays (32.1% and 14.1%, respectively). The stock of public sector external debt decreased by 2% in March 2024 relative to December 2023, owing to the net amortization of US\$ 161.8 million.

#### **(b) Monetary policy and exchange-rate policy**

The monetary policy rate was kept unchanged at 3.0% throughout 2023 with the aim of bolstering short-term liquidity by boosting the credit channel. At the same time, the Central Bank of Honduras gradually withdrew excess liquidity from the financial system through open market operations. These actions came on top of fiscal measures in the form of fuel and electricity price subsidies, production incentives and price freezes, all aimed at reducing inflationary pressures.

The annual lending rate was 14.7% (8.9% in real terms) in the fourth quarter of 2023, as compared with 14.7% (3.8% in real terms) in the same quarter of 2022. The deposit rate was 3.5% (-1.7% in real terms), as compared with 2.6% (-6.8% in real terms) in 2022. Credit (in domestic and foreign currency) to the private sector grew at an annual rate of 18.8% in 2023 (19.9% in 2022), driven by government credit support measures and particularly by resources from the Central Bank of Honduras and Banco Hondureño para la Producción y la Vivienda (BCH-BANHPROVI) Investment Fund, targeted especially at middle-class and low-income homebuyers. Local currency loans, mainly for consumption and real estate, increased by 21.7% year-on-year (67.8%). Foreign currency credit grew at a year-on-year rate of 8.1%, driven by increased demand from the services and food and beverage sectors.

The average nominal exchange rate was 24.8 lempiras per dollar in the fourth quarter of 2023, which represented a nominal depreciation of 0.04% from the last quarter of 2022, translating into an appreciation of 1.96% in real terms. Exchange-rate policy in 2023 was geared towards containing inflationary pressures by various means. In particular, the foreign exchange auction mechanism was revived, administrative measures were applied to reduce precautionary or speculative demand, and foreign exchange was sold to cover exchange agents' shortfalls and customer demand for amounts of less than US\$ 10,000. Direct selling of foreign exchange to fuel importers was also implemented. The net international reserves balance at the end of the year was US\$ 7.556 billion, equivalent to five months' imports, which was US\$ 865.6 million less than in December 2022. The decline was explained by increased private spending in the face of higher prices for imported goods and services and by debt service payments.

The monetary policy rate was kept unchanged at 3% in the first half of 2024. The average monthly nominal exchange rate had depreciated by 0.2% in May relative to December 2023, to 24.81 lempiras per dollar. In the first quarter of 2023, the lending rate was 15.15% (9.93% in real terms) and the deposit rate was 3.79% (-0.92% in real terms). Credit increased at a year-on-year rate of 16.7% up to May 2024, compared to 19.0% in the same period of 2023. However, this rate will be boosted by financing for production activities supported by the BCH-BANHPROVI Investment Fund. Up to May 2024, net international reserves totalled US\$ 7.05 billion, 6.6% less than in December 2023.

### **(c) Other policies**

In March 2023, the government submitted a tax justice bill to the National Congress. This legislation adds the principle of progressivity to the tax system and rules out forgiveness of tax debts. The reform bill pursues various objectives: to incorporate a worldwide income principle (taxing all income whether originating in Honduras or abroad and whether from work, capital or both); to eliminate banking secrecy for tax and customs purposes; to repeal the benefits contained in 10 tax exemption regimes, including those in the Free Zones Act; and to create the Development Incentives Regime and the Free Zones Regime for new investments. The bill provides for the following measures to achieve these ends: (i) the Tax Justice Act; (ii) the Constitutional Reform of Tax Justice; (iii) ratification of the Convention on Mutual Administrative Assistance in Tax Matters; and (iv) the Final Beneficiary Act. The bill was still being reviewed by the legislature at the time this note went to press.

After the government established diplomatic relations with China in March 2023, the two countries signed 22 agreements aimed at strengthening commercial, political and cultural relations and encouraging cooperation and support in the fields of scientific, technological and communications development.

## **3. The main variables**

### **(a) The external sector**

Goods exports totalled US\$ 11.214 billion in 2023, a 7.6% decline on the previous year, reflecting mainly a 12% drop in maquila exports as a result of lower demand for textile products from the United States. Coffee exports also fell by 0.9% in value, affected by a 16.6% decline in international prices, which contrasted with an 18.9% increase in the volume traded compared to 2022. Services exports totalled US\$ 1.319 billion, up by 18.5% from the cumulative value in 2022. Revenues from transport increased by 13.4%, those from travel by 54.7% and those from other services by 31.8%.

Goods imports totalled US\$ 19.327 billion in 2023, down by 6.6% from 2022. This reduction was mainly due to a fall in imports for maquila production (26.7%) and lower purchases of industrial inputs (14.1%) and fuels (5.2%). Imports of food and beverages and consumer goods grew by 7.1% and 4.4%, respectively. Services imports totalled US\$ 3.438 billion, representing a contraction of 4.8% that was attributable to a 17.6% decline in purchases of transport services.

Foreign direct investment (FDI) flows totalled US\$ 1.076 billion in 2023, up 17% from 2022. The economic activities with the largest FDI inflows were finance and insurance and the maquila sector, owing to profit reinvestment.

Family remittances totalled US\$ 8.946 billion in 2023, US\$ 481 million more than in 2022, and represented 25.9% of GDP. The growth was due mainly to the economic momentum of the United States and lower unemployment rates in that country.

Cumulative exports of goods up to March 2024 totalled US\$ 2.729 billion, 5.6% less than in the same period of 2023. Maquila industry exports declined by 1.3% amid weaker international demand. Likewise, the value of coffee exports contracted by 13.0%, reflecting both a lower price and a lower volume of shipments.

Imports totalled US\$ 4.561 billion in the first quarter of 2024, 3.4% down on the same period in 2023. The largest declines were in imports of industrial inputs (12.3%), capital goods (15.1%) and textile-related processing (maquila) goods (5.7%).

### **(b) Economic activity**

As part of the measures aimed at strengthening the productive sector, the government facilitated access to financing and made transfers to producer households (the technological bonus and the coffee bonus), while fuel and energy price subsidies were also implemented. The strongest growth was in the third and fourth quarters of the year, when GDP expanded at average year-on-year rates of 4.1% and 3.9%, respectively.

Most economic activities recorded positive growth rates in 2023, with particularly strong performances for construction (16.9%), financial intermediation services (13.1%), transport (7.6%), communications (5.3%) and commerce (4.8%). The only activity to contract was manufacturing (5.6%), affected mainly by a decline in food processing for domestic and external consumption and a reduction in the manufacture of textiles and automobile harnesses.

In a context of improved economic conditions and higher disposable income resulting from employment growth and significant remittance inflows, private consumption increased by 4.3% in 2023, while government consumption grew by 6%, owing to spending on health and education. In contrast, gross capital formation declined by 14.8% as inventories were run down.

The monthly index of economic activity grew at an average year-on-year rate of 4.6% between January and March 2024, an increase on the 2.3% for the same period in 2023. The financial intermediation and construction sectors grew by 15.3% and 12.8%, respectively, followed by commerce (4.2%), communications (5.6%), electricity (5.9%) and hotels and restaurants (6.3%). In contrast, the agricultural and manufacturing sectors contracted by averages of 2.7% and 3.1%, respectively.

### **(c) Prices, wages and employment**

Amid reduced supply chain pressures and lower international fuel and food prices, year-on-year inflation in December 2023 was 5.2%. The items recording the largest increases were education (8.1%), health (7.2%), food and non-alcoholic beverages (7.1%) and hotels and restaurants (6.9%). Transport (1.7%) and accommodation, water, electricity, gas and other fuels (2.8%) experienced the smallest increases owing to the subsidy policies implemented by the government.

The national open unemployment rate was 6.4% in 2023, equivalent to 250,668 people. Unemployment was highest among the population under 25 years of age (39.3%). The male unemployment rate was 5.0%, while the female rate was 8.8%. Of the total employed population in 2023 (3,639,092 people), about 2 million were wage earners working in the private sector. The new monthly minimum wage table was published in February 2023, setting minimums of between 8,134 and 15,754 lempiras per month. The nominal wage increase was 9.8% for all companies (3.6% in real terms).

Year-on-year inflation to April 2024 was 4.8%. Inflation is expected to converge on the central bank's target range as external supply shocks weaken and commodity and fuel prices and transport costs

decline. At the time of writing, there was no official information on the national open unemployment rate for the first few months of 2024.

In April 2024, the new monthly minimum wage table was published, setting minimums of between 8,581.45 and 16,856.25 lempiras per month. This meant wage increases of 5.5% (0.6% in real terms) in companies with up to 50 workers, 6.5% (1.6% in real terms) in companies with between 51 and 150 employees and 7% (2.1% in real terms) in companies with more than 151 workers. ECLAC estimates that the real GDP of Honduras will grow by 3.6% in 2025.