Honduras

With external and domestic demand both flagging and with investment inflows sluggish, the Honduran economy is expected to grow by approximately 3.5% in 2012 (down slightly from 3.6% in 2011). The central government deficit will close at practically the same level as in 2011 (4.6% of GDP). Year-on-year inflation at the end of December will stand at around 6%, in line with the target of the Central Bank of Honduras of 5.5-7.5% and slightly above the level recorded 12 months earlier (5.6%). Since the fiscal problem remained unsolved, no new agreement could be reached with the International Monetary Fund (IMF) in 2012.

The Major National Agreement, designed to solve the country's problems, was signed in February 2012; however, lack of consensus concerning how best to boost public finances continues to hamper growth and will make it difficult to cope with social demands. In 2012, two important fiscal reforms were also agreed on: the Population Security Act and the Measure to Combat Income Tax Evasion Act.

GDP growth is expected to stand at around 3.5% in 2012 and to continue at a similar rate in 2013. Barring any significant deterioration in the global economy during the year, the inflation rate will be much the same as in 2012.

The central government deficit is predicted to close the year at the equivalent of 4.6% of GDP in 2012. Revenue grew more slowly than predicted, partly because the proceeds from the population security tax were lower than expected and because legal challenges have delayed the application of the Measures to Combat Income Tax Evasion Act. In July 2012, central government revenue was 8.0% higher than in July 2011. At the same time, net central government expenditures had shot up by 20.4% over the July 2011 figure. In June 2012, the central government deficit was already the equivalent of 5.3% of GDP (compared with the year-earlier figure of 3.9%). In response to budgetary constraints, an emergency fiscal and financial decree was passed in August 2012 prohibiting the hiring of any new employees in the public sector and announcing a 1.2 billion lempira cut-back (equivalent to 0.3% of GDP) in public expenditure for 2012. In turn, the government implemented a series of measures to improve the operations of the Inland Revenue department. Contrary to expectations, the tax burden/GDP ratio may show little improvement over the rate of approximately 15% observed at the close of 2011.

At the end of the third quarter 2012, the total public debt of Honduras was equivalent to 34% of GDP, 1 percentage point higher than at the end of 2011. Domestic debt accounts for 43% of this figure. Payments of interest and commission on domestic debt represent 61% of the total domestic debt servicing.

The Central Bank of Honduras applied a tighter monetary policy in 2012. In January, the monetary policy rate went up by 6% and, in May, by 7%. In the absence of inflationary pressures and with economic growth predicted to be the same as in 2011, no further changes are expected in the next few months.

Credit to the private sector continued to grow faster than in 2011 and in November was 15.8% above the balance recorded a year earlier, compared with a 10.3% rise between December 2010 and December 2011. Notwithstanding the increases in the monetary policy rate, the real lending rate was maintained at around 13% from January to November.

The central bank has maintained the exchange rate band system and has continued to make foreign exchange available through regular auctions. The lempira depreciated slightly after August 2011, with the cumulative nominal variation amounting to 4.9% at the end of October 2012 In June the real effective exchange-rate index recorded a year-on-year variation of 1.3%.

As regards trade policy, Honduras was one of the signatories of the association agreement, including tariff elimination, which was concluded between the European Union and the Central American countries. The agreement now awaits ratification.

The monthly index of economic activity (IMAE) showed a year-on-year variation of 4.8% in August 2012 (down from 5.7% at the same date in 2011), indicating a continuation of the slowdown since the beginning of the year. In comparison with the year-on-year results to August 2012, most economic sectors, in particular manufacturing and postal and telecommunications services, recorded slower growth.

Year-on-year inflation at October 2012 stood at 5.7%, a lower rate than that observed in October 2011 (5.9%). The categories that contributed most to inflation were food and non-alcoholic beverages, transport, and housing, water, electricity, gas and other fuels. For December 2012, year-on-year inflation is expected to stand at 6%.

In January 2012, the minimum wage was adjusted by between 5.6% and 7.5%, depending on the size and nature of the company; this helped to make up in part for the loss of purchasing power in 2011.

Despite the weak economic indicators in the United States, merchandise exports expanded strongly in the first eight months of the year (15.6%) compared with the same period of 2011. The most buoyant exports in value terms were crude palm oil (+71.3%), banana (+15.9), coffee (+4.5%), gold (+14.5%) and textiles (+76.6%). During this period imports expanded moderately (4,4%). Remittances to Honduras moved up by 2.8% compared with the same period in 2011 and totalled US$ 2.381 billion. By the end of 2012, the amount is expected to climb to US$ 3 billion, thus accounting for the same share (15%) of GDP.

HONDURAS: MAIN ECONOMIC INDICATORS

	2010	2011	2012 [a]
	Annual growth rates		
Gross domestic product	2.8	3.6	3.5
Per capita gross domestic product	0.7	1.6	1.5
Consumer prices	6.5	5.6	5.7 [b]
Money (M1)	5.2	17.7	4.7 [c]
Real effective exchange rate [d]	-1.3	-1.0	-1.9 [e]
Terms of trade			
	Annual average percentages		
Open urban unemployment rate	6.4	6.8	...
Central government overall balance / GDP	-4.8	-2.9	-2.9
Monetary police rate	4.5	4.8	6.6 [f]
Nominal lending rate [g]	18.9	18.6	18.3 [f]
	Millions of dollars		
Exports of goods and services	7 087	8 823	8 624
Imports of goods and services	10 076	12 455	12 479
Current account balance	-836	-1 498	-1 623
Capital and financial balance [h]	1 404	1 562	1 668
Overall balance	569	64	44

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] January-October average.
[g] Weighted average of the system lending rates.
[h] Includes errors and omissions.

Thus, the current account deficit is predicted to match the target of the Central Bank of Honduras, at 8.8% of GDP.

In the first three quarters, on average, foreign direct investment flows diminished slightly (by US$ 8.3 million) compared with the same period of the preceding year. This performance is the result of a significant fall in flows to the manufacturing industry, which was not fully offset by the increase in flows to the services sector (US$ 164.9 million). The United States and Mexico continue to be the leading investors in Honduras.

International reserves stood at US$ 2.4 billion at 1 November 2012 -US$ 76 million less than twelve months earlier ¬or less than three months' import cover. Remittances, which usually soar in December, are forecast to close the year at approximately US$ 2.6 billion.