

HONDURAS

Key conditions and challenges

Table 1	2023
Population, million	10.6
GDP, current US\$ billion	31.9
GDP per capita, current US\$	3013.4
International poverty rate (\$2.15) ^a	12.7
Lower middle-income poverty rate (\$3.65) ^a	26.4
Upper middle-income poverty rate (\$6.85) ^a	49.5
Gini index ^a	48.2
School enrollment, primary (% gross) ^b	83.8
Life expectancy at birth, years ^b	70.1
Total GHG emissions (mtCO2e)	29.0

Source: WDI, Macro Poverty Outlook, and official data.
 a/ Most recent value (2019), 2017 PPPs.
 b/ Most recent WDI value (2021).

Growth has been moderate and dependent on remittances and external demand. It decelerated to 3.5 percent in 2023 and is expected to decrease slightly to 3.4 percent in 2024 due to slower US growth. Stable macroeconomic conditions have not led to more or better jobs, which combined with natural disasters, food insecurity, and crime, has led to persistent migration. Poverty remains above pre-pandemic levels, despite lower inflation.

Honduras grew on average 3.7 percent per year in 2010-19, largely driven by remittance-fueled households' consumption. Growth was underpinned by prudent macroeconomic policies, including adherence to the Fiscal Responsibility Law (FRL), a stable exchange rate, adequate foreign reserves, and a robust financial sector. However, the country's productive capacity has not expanded. As a result, the creation of formal jobs has been weak, which alongside widespread crime and violence fuels migration. Agriculture and light manufacturing, particularly the textile maquila, are key sources of employment and exports, mainly to the US.

Honduras is one of the poorest and most unequal countries in Latin America and the Caribbean (LAC) and grapples with increasing food insecurity, which rose from 40.9 percent in 2018 to 56.1 percent in 2021. Human development indicators are concerning. A child born in Honduras in 2020 is projected to achieve only 48 percent of the labor market productivity they could attain if they received high-quality education and healthcare. Significant gender disparities and informality levels in the labor market hamper poverty reduction efforts. Additionally, Honduras is extremely susceptible to the impacts of climate change, with

poverty and risk often concentrated in the same geographic areas.

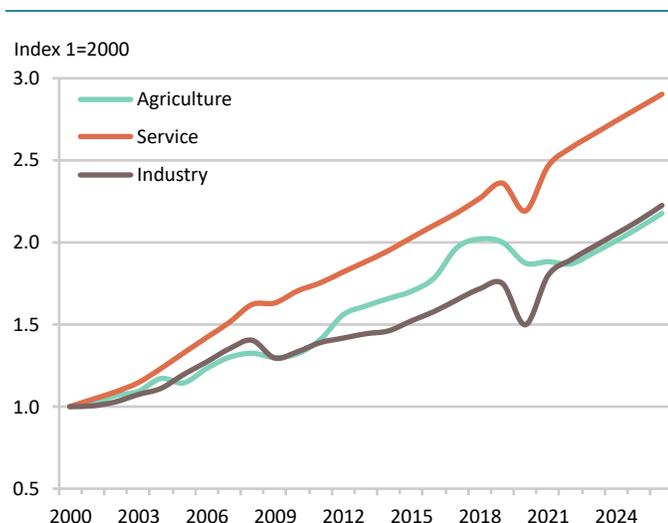
Recent developments

Real GDP growth decelerated to an estimated 3.5 percent in 2023, down from 4.0 percent in 2022, influenced by a decrease in US textile demand which drove a 7.2 percent contraction in manufacturing. The economy was partially buoyed by steady remittances and sustained credit growth, which supported household consumption and investment, helping offset the export decline.

Inflation eased to 6.7 percent by in 2023, after peaking at 9.1 percent in 2022, reflecting lower international prices and responding to central bank liquidity absorption measures, comprising open market operations and increases in reserve requirements and the overnight rate, which pushed up market interest rates. The replacement of the interbank foreign exchange (FX) market with a central bank auction system in April 2023 led to some FX scarcity and uncertainty regarding its future availability, although dollars remain available in the economy, bolstered by strong remittances.

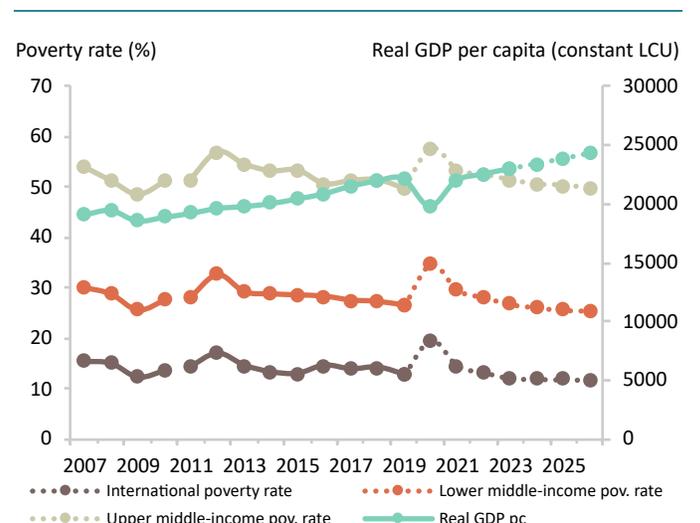
Unemployment fell to 6.4 percent in June 2023 -from 8.6 percent in 2021- but remained above pre-pandemic levels. Labor market gender disparities persist, with women's unemployment nearly doubling men's, while female labor force participation (40 percent in 2023) is about half the male rate. In 2023, poverty

FIGURE 1 Honduras / Real GDP by sector, index 2000=1



Source: World Bank staff calculations based on Honduras Central Bank data.

FIGURE 2 Honduras / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

(US\$6.85 line) is estimated to have reached 51.3 percent, declining from 2022 but still above pre-pandemic levels, and inequality (Gini index) is estimated to have been 47.3.

Despite the drop in exports, driven by lower volumes in textiles and lower international prices for coffee and palm oil, the trade deficit decreased by 9.2 percent y-o-y by Q3-2023 due to reduced imports of industrial inputs and lower energy prices. Remittances grew strongly, by 5.8 percent y-o-y in November 2023, helping to narrow the current account deficit (CAD) from 6.6 percent of GDP in 2022 to an estimated 4 percent in 2023, primarily financed by multilateral debt and foreign direct investment (FDI). By the end of 2023, foreign reserves stood at US\$7,555.9 million, around 5 months of non-maquila imports.

The fiscal deficit is estimated to have widened to 1.3 percent of GDP in 2023, as the execution of public investments improved in the second semester, particularly in energy, roads, and productive projects. Public debt decreased to 45.1 percent of GDP by June 2023, down from 46.2 percent in June 2022, due to net capital repayments.

Outlook

Growth is projected to slow to 3.4 percent in 2024 and 3.3 percent in 2025, with a subdued US economy delaying the recovery of manufacturing exports and dampening remittances, leading to a deceleration of households' consumption growth. Lower food inflation, growing external demand for agricultural products, and strong public investment will provide some counterbalance. Growth is expected to gradually increase thereafter, supported by improving global conditions and dynamic public and private investment.

Poverty is expected to decline to 50.5 percent in 2024 and 50.3 percent in 2025, thanks to a robust agricultural sector and low inflation, with inequality projected to reach 47.3 and 47.1 respectively (Gini index). Poverty is forecasted to decrease further in 2026 (49.6 percent), approaching pre-pandemic levels, primarily due to recovering exports and remittances.

Inflation is expected to fall within the central bank's target range (4±1 percent) in 2024, in line with declining international prices, despite potential renewed energy inflation, and stay subdued in the medium

term. The fiscal deficit is projected to expand to 2.5 percent of GDP in 2024 as budget execution continues to improve and narrow gradually over the medium term towards the FRL's 1 percent target, supported by broadening of the tax base and enhanced efficiency of revenue collection and public spending. The CAD is projected to remain stable in 2024 and mildly deteriorate in 2025, gradually narrowing thereafter as export demand and remittances strengthen. However, pressures on international reserves are likely to persist, as net FDI and other medium and long-term capital inflows are not expected to improve significantly in the short term.

Significant downside risks exist. Lack of improvement in FX management could trigger further loss of reserves. Persistent weakness in textile exports and short-term transition costs of the Honduras-China Free Trade Agreement could exacerbate the CAD, also reducing international reserves. Inflationary pressures could re-emerge from escalating geopolitical conflict. Slower-than-anticipated fiscal consolidation and adverse climate events could increase financing needs. Capacity constraints and legislative gridlock could impede social and structural reforms, negatively affecting investment, growth, and poverty reduction.

TABLE 2 Honduras / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	12.5	4.0	3.5	3.4	3.3	3.4
Private consumption	15.4	6.1	3.8	3.8	3.7	3.9
Government consumption	8.5	0.8	1.4	1.2	1.1	1.2
Gross fixed capital investment	34.7	5.6	5.3	4.2	4.0	4.2
Exports, goods and services	22.5	6.9	3.9	4.0	4.0	4.2
Imports, goods and services	35.5	9.8	3.9	4.0	3.9	4.2
Real GDP growth, at constant factor prices	12.5	4.0	3.5	3.4	3.3	3.4
Agriculture	0.4	-0.7	3.6	3.9	4.0	4.1
Industry	20.1	5.3	4.2	4.0	4.0	4.2
Services	12.5	4.5	3.2	3.1	2.9	2.9
Inflation (consumer price index)	4.5	9.1	6.7	4.6	4.1	4.2
Current account balance (% of GDP)	-5.4	-6.6	-4.0	-4.0	-4.1	-3.9
Net foreign direct investment inflow (% of GDP)	1.8	2.3	1.8	1.8	1.8	1.9
Fiscal balance (% of GDP)^a	-3.7	-0.2	-1.3	-2.5	-1.8	-1.0
Revenues (% of GDP)	30.0	29.6	30.1	30.0	30.1	30.4
Debt (% of GDP)^a	51.6	52.3	52.9	53.2	52.4	51.5
Primary balance (% of GDP)^a	-2.8	0.4	-0.6	-1.8	-1.2	-0.4
International poverty rate (\$2.15 in 2017 PPP)^{b,c}	14.5	13.3	12.2	12.0	11.9	11.8
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{b,c}	29.6	28.2	26.8	26.2	25.7	25.6
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{b,c}	53.3	52.4	51.3	50.5	50.3	49.6
GHG emissions growth (mtCO₂e)	4.3	-0.1	0.5	1.3	1.4	1.6
Energy related GHG emissions (% of total)	33.4	31.7	30.5	30.1	29.8	29.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Fiscal data refers to non-financial public sector.

b/ Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.

c/ Projections using microsimulation methodology.