HONDURAS

Table 1	2021
Population, million	10.1
GDP, current US$ billion	28.4
GDP per capita, current US$	2822.8
International poverty rate ($1.9)[a]	14.8
Lower middle-income poverty rate ($3.2)[a]	29.0
Upper middle-income poverty rate ($5.5)[a]	49.0
Gini index[a]	48.2
School enrollment, primary (% gross)[b]	90.2
Life expectancy at birth, years[b]	75.3
Total GHG Emissions (mtCO2e)	27.2

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2011 PPPs.
b/ Most recent WDI value (2019).

Honduras's real GDP reached its pre-crisis level in 2021, led by remittance-fueled private consumption, post-hurricane reconstruction, and robust export demand. Poverty and inequality are estimated to have declined in 2021 but remain above pre-crisis levels. GDP growth is expected to moderate in the medium term amid tempering of global demand, unwinding of pandemic support, and completion of reconstruction activities. Adverse effects of the prolonged pandemic on livelihoods and human capital accumulation pose risks to future poverty reduction.

Key conditions and challenges

Honduras's export-oriented growth model has been insufficient to boost growth and incomes. The country's exposure to external shocks and natural hazards, combined with high crime rates and a weak institutional and business environment, undermine its competitiveness. Real GDP growth averaged 3.1 percent over the past decade, mainly driven by remittance-fueled private consumption. Yet, in 2019, almost half the population lived on less than US$5.50 per day, making Honduras one of the poorest countries in the Latin America and Caribbean region. Prudent macroeconomic management anchored in the Fiscal Responsibility Law (FRL), a crawling peg exchange with ample foreign reserves, and a sound financial sector supported macro stability in the run-up to the crisis.

The impacts of the pandemic and hurricanes Eta and Iota exacerbated existing economic and social challenges. Real GDP contracted by 9 percent, and poverty (US$5.50 line) is estimated to have increased by 6.4 percentage points in 2020 to 55.4 percent. The country's relatively low public debt and deficit coupled with good access to concessional financing allowed for a countercyclical response, in line with the FRL's escape clause, to cushion the impacts of the multiple shocks. Yet, emergency programs had a relatively small mitigating impact. Despite a steep increase, public debt remained sustainable, and the debt service remained relatively low. However, contingent liability risks remain high, including those related to the state electricity company (ENEE) and exogenous shocks.

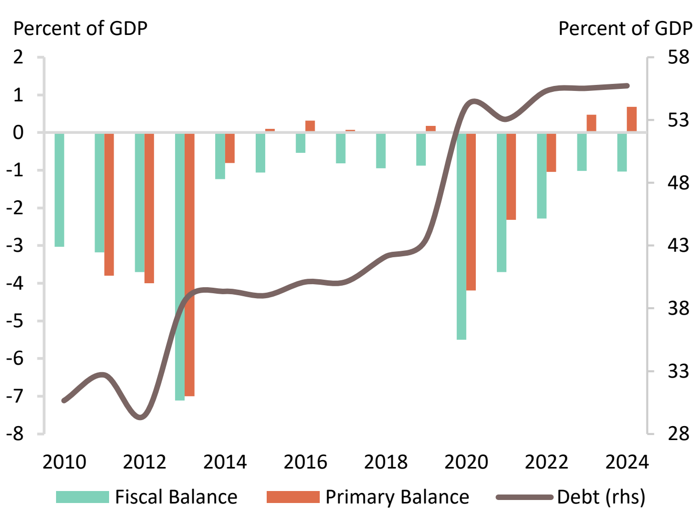
Vaccination helped slow the spread of COVID-19 by end-2021 (at 47 percent of the population in March 2022). Yet, high hesitancy rates among the elderly and less educated expose the country to new waves.

A key challenge is maintaining the reform momentum amid political fragmentation and policy uncertainty, while mitigating the social impacts of recent shocks. Better targeting and execution of support programs; strengthening resilience to climate risks; and improving the business environment, governance and institutions remain critical to boost economic opportunities for a largely poor and vulnerable population.

Recent developments

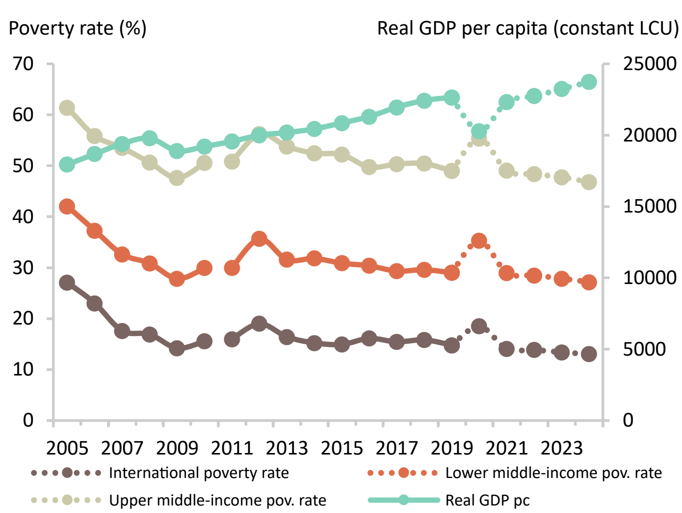
Real GDP is estimated to have grown 11.9 percent y.o.y in 2021, rebounding to pre-crisis level. This expansion was broad-based and driven by private consumption and investment associated with remittances and reconstruction activities. Growth in remittances, representing 24.3 percent of GDP, accelerated by 19.6 percent y.o.y in 2021. Yet, as of mid-2021, about 41 percent of households reported incomes below the pre-pandemic level as about 1 in 3 workers in Honduras lost their pre-pandemic jobs. Job stoppages affected women disproportionately, especially mothers of 0–5-year-old children,

FIGURE 1 Honduras / Fiscal balance and debt



Sources: Central Bank of Honduras and World Bank staff estimates.

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



Source: World Bank. Notes: see Table 2.

the elderly (age 65+), and the less-educated. Although food security improved in 2021, Honduras still has the lowest rates in Central America.

Poverty (US$5.50 line) is estimated to have declined in 2021 to 49.1 percent, still above the pre-crisis level. In 2021, the middle class (US$13-$70 per day in 2011 PPP) recovered to its pre-crisis level of 17.9 percent, after a 3.6 percentage point fall at the onset of the pandemic in 2020.

The government continues with expansionary policy as reconstruction and health needs are significant. In keeping with the FRL's escape clause, the Non-Financial Public Sector (NFPS) deficit is estimated to have reached 3.7 percent of GDP in 2021, bringing total NFPS debt to 53.1 percent of GDP (compared to 54.1 percent in 2020). The government authorized new borrowing for up to US$2 bn in 2022-23 and withdrew US$335 m in IMF's Special Drawing Rights.

After registering a historical surplus of 2.9 percent of GDP in 2020, the current account is estimated to have reversed to a deficit in 2021 on the back of recovering imports. The external position remains strong, supported by remittances and external financing. Foreign reserves stood at 30.6 percent of 2021 GDP at end-2021, supporting exchange rate stability. While being contained by a relatively stable exchange rate, inflation accelerated to 6.4 percent y.o.y in February 2022 – above the Central Bank's (BCH) target band (4 percent ± 1 percent) – amid higher food and energy prices and strong domestic demand. Higher food and gasoline prices pose a risk to poverty reduction as they account for a higher share of household income at the bottom of the distribution. Moreover, high energy costs could affect light manufacturing (maquilas), which employs 12 percent of workers with an income under the poverty line. The BCH maintained the key policy rate at 3 percent in early 2022.

Outlook

Real GDP is expected to moderate to an average annual rate of 3.5 percent slowly converging to its potential as global demand tempers and crisis support is phased out. Remittances will continue to fuel domestic consumption, albeit at a slower rate amid stabilization in U.S. growth and higher commodity prices amid the conflict in Ukraine. Agriculture is expected to recover but will remain vulnerable to the U.S. import demand and climate shocks. A wider current account deficit associated with higher import values is expected to be financed primarily by FDI inflows. Finally, the poverty rate (USD 5.5 Line) is expected to decline to 47.8 percent by 2023 as labor markets recover.

Honduras is expected to continue receiving external financial support while returning to the FRL target of 1 percent NFPS deficit in 2023. The required fiscal tightening is challenging and is expected to be supported by the gradual unwinding of pandemic support, budget reallocations, and revenue growth aided by the economic recovery and revenue mobilization measures. The compliance with FRL will enable public debt to stabilize over the medium term.

Monetary tightening is likely in the near term as inflation accelerates amid increasing energy and food prices and anticipated monetary policy tightening in the U.S.

A weak legislative position within the ruling party could slow progress on fiscal, social, and structural reforms, and along with budget execution issues, weaken growth and raise risks of social unrest. Prolonged unemployment and high inflation could heighten food insecurity, particularly for informal low-income households that lack insurance and savings, and could have lingering effects on human capital and livelihoods.

TABLE 2 Honduras / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	2.7	-9.0	11.9	3.1	3.6	3.7
Private Consumption	4.7	-6.4	6.1	3.3	3.4	3.2
Government Consumption	1.7	2.9	9.3	-2.9	-3.5	1.8
Gross Fixed Capital Investment	-5.2	-23.8	27.3	5.3	4.8	3.8
Exports, Goods and Services	2.4	-20.3	18.1	6.3	5.4	4.9
Imports, Goods and Services	-2.4	-18.5	13.7	5.5	3.7	3.6
Real GDP growth, at constant factor prices	2.7	-9.0	11.9	3.1	3.6	3.7
Agriculture	-1.0	-6.3	0.3	5.3	4.1	3.1
Industry	1.8	-14.3	19.0	2.2	4.7	4.8
Services	4.0	-7.2	11.9	2.9	3.0	3.4
Inflation (Consumer Price Index)	4.4	3.5	4.5	5.5	5.0	4.0
Current Account Balance (% of GDP)	-2.7	2.9	-3.1	-3.5	-3.9	-4.0
Net Foreign Direct Investment (% of GDP)	2.0	1.5	2.3	2.8	3.1	2.9
Fiscal Balance (% of GDP)[a]	-0.9	-5.5	-3.7	-2.3	-1.0	-1.0
Debt (% of GDP)[a]	43.5	54.1	53.1	55.3	55.5	55.7
Primary Balance (% of GDP)[a]	0.2	-4.2	-2.3	-1.0	0.5	0.7
International poverty rate ($1.9 in 2011 PPP)[b,c]	14.8	18.5	14.1	13.9	13.4	13.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	29.0	35.3	29.0	28.5	27.9	27.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	49.0	55.4	49.1	48.4	47.8	46.8
GHG emissions growth (mtCO2e)	-1.0	-6.6	4.7	2.6	2.4	1.6
Energy related GHG emissions (% of total)	35.8	33.0	34.5	34.6	35.9	36.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Fiscal data refers to non-financial public sector.
b/ Calculations based on SEDLAC harmonization, using 2019-EPHPM. Actual data: 2019. Nowcast: 2020-2021. Forecasts are from 2022 to 2024.
c/ Projection using neutral distribution (2019) with pass-through = 0.87 based on GDP per capita in constant LCU.