HONDURAS

Table 1	2020
Population, million	9.9
GDP, current US$ billion	23.2
GDP per capita, current US$	2340.1
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]	91.5
Life expectancy at birth, years[b]	75.1

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Honduras's economy is expected to contract by a record 9 percent in 2020 due to the double impact of the COVID-19 pandemic and hurricanes Eta and Iota. This led to high levels of food insecurity and increases in poverty and inequality as vulnerable households lost income. A rebound is expected in 2021, supported by a countercyclical macroeconomic policy and the restoration of trade and investment. However, a slower recovery is possible if the health crisis endures.

Key conditions and challenges

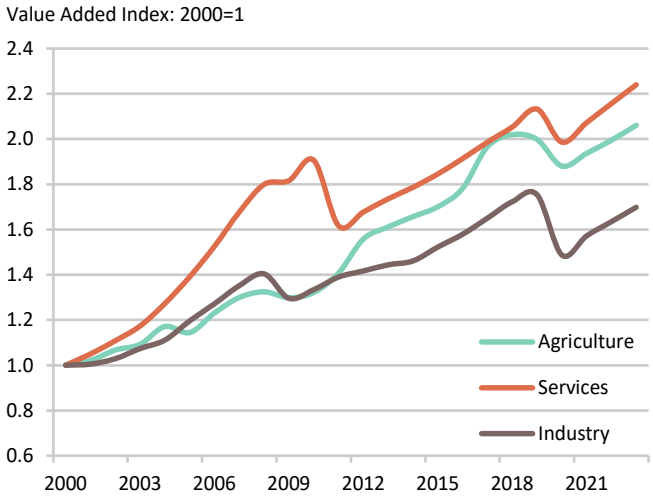
Honduras's export-oriented growth model and poverty reduction strategy have been insufficient to boost growth and incomes. The country's sensitivity to external shocks, natural hazards, fiscal instability, crime, combined with weak institutional and business environments have inhibited economic competitiveness. Real GDP growth averaged 3.1 percent over the past decade aided by remittance-fueled private consumption, while the country remained one of the poorest in the Western Hemisphere: almost half the population (4.8 million people) lived on less than US$5.50 per day in 2019. Meanwhile, a prudent macroeconomic framework supported the Honduran economy in recent years. A crawling peg exchange rate regime with ample foreign reserves (about 20 percent of GDP) aided price and exchange rate stability. Accommodative monetary policy supported economic activity. A low ratio of nonperforming loans and adequate capitalization of the banking sector helped contain financial sector risks. Fiscal policy anchored in the Fiscal Responsibility Law (FRL) – targeting the non-financial public sector (NFPS) deficit at 1 percent of GDP in 2019 and limiting spending growth – helped restore fiscal sustainability. Commitment to fiscal prudence helped control fiscal accounts despite the deteriorating financial position of the state electricity company (ENEE), the main source of fiscal risks for Honduras.

The COVID-19 pandemic and impacts of hurricanes Eta and Iota exacerbated existing economic and social challenges, threatening the health and welfare of the population. Output contracted across all sectors, causing widespread unemployment. Both hurricanes affected about 3.9 million people (38 percent of the population), while social and economic costs are expected at US$1.8 billion (7.2 percent of 2019 GDP) amid damages to infrastructure, land, and crops. Large asset losses, especially amongst the poorest, lower human capital formation due to school closures and lower nutrition, combined with small and insufficient social assistance programs could make it difficult for vulnerable households to rebound from the negative shock.

Recent developments

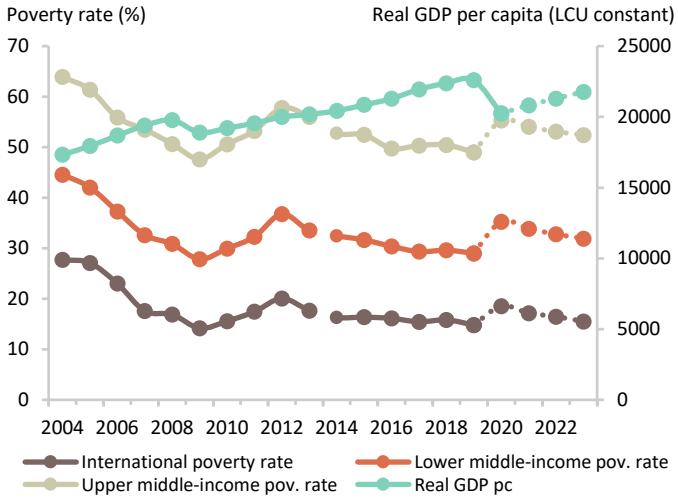
Real GDP is expected to have contracted by 9 percent in 2020 (y/y) due to a sharp fall in trade, investment and consumption amid the global recession, extended lockdown, and damages caused by the hurricanes. Based on World Bank phone surveys, nearly 68 percent of households reported income losses, and more than one-third of households reported food insecurity due to lack of resources in mid-2020. A projected 12.5 percent of people lost employment in 2020, primarily women and low skilled workers in industry and services sectors. Poverty is projected to have increased from 49 to 55.4 percent in 2020 under the US$5.50 line, an increase of more

FIGURE 1 Honduras / Real value added index, 2000=1



Sources: Central Bank of Honduras, The World Bank.

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



Source: World Bank. Notes: see Table 2.

than 700 thousand people. Growth in remittances, that represent 22 percent of GDP and 30 percent of household income for the poorest remittance-receiving households, decelerated to 3.8 percent (y/y) in 2020 from 13 percent (y/y) in 2019, only partially compensating for the income loss. The government enacted targeted policies to cushion the impacts on economic activity and livelihoods, authorizing new borrowing of US$2.5 billion (10 percent of GDP) for 2020-2021. The country's relatively low public debt and deficit levels coupled with good access to concessional financing allowed for the counter-cyclical response amid the activation of the FRL's escape clause.

Weaker domestic demand, lower commodity prices, freezes in prices and a relatively stable exchange rate reduced consumer price inflation, despite higher food prices in the aftermath of hurricanes. Annual inflation decelerated to 3.5 percent (y/y) in 2020 – near the lower limit of the Central Bank's (BCH) target band (4% ± 1 %). As a result, the BCH cut the key policy rate by 250 basis points to 3 percent in 2020.

Despite historically low oil prices, the current account deficit is expected to have widened as depressed exports outweighed import compression amid decelerated economic activity. Nevertheless, the external position remains relatively strong, supported by external financing received. External public debt increased by 5.5 percentage points of GDP in 2020 (from 30.7 percent by end-2019), including a sovereign bond placement (US$600 mil) and multilateral loans (US$1,552.7 mil).

Outlook

Real GDP is expected to reach its pre-pandemic level by 2023 amid the reactivation of domestic economic activity and recovering investment and external demand. A strong pick-up in manufacturing and services is expected, while the recovery in the agriculture sector could be subdued amid severe damages to crops and land. Poverty rates are estimated to begin decreasing in 2021, with poverty under the US$5.50 line reaching 52.5 percent by 2023.

The authorities project a NFPS deficit of 5.6 and 4 percent of GDP in 2020 and 2021. The government is committed to fiscal prudence and aims to return to the 1 percent NFPS deficit ceiling in 2022 while protecting priority spending. The required consolidation is challenging; however, the fiscal position is expected to be supported by a one-off revenue increase from tax-deferrals in 2020, revenue mobilization measures, budget reallocations and strict spending control. Inflation is expected to stay within the target range, while the BCH is expected to maintain accommodative monetary policy in the near term to increase access to credit and boost domestic demand.

A slower global recovery amid the prolonged pandemic and new COVID-19 waves coupled with uncertainty on the effective vaccine rollout could prompt the renewal of containment measures and weaken Honduras's pace of recovery. Further, if growth in remittances stalls, more near-poor households could fall below the poverty line. Prolonged unemployment, particularly for informal low-income households that lack insurance and savings, pose risks to poverty reduction. This would cause additional pressures on public finances and challenge fiscal sustainability. Policymaking could be stalled by possible social unrest amid the general elections in 2021.

The anticipated recovery requires continuous efforts to limit the human and economic impacts of the pandemic and hurricanes. More targeted and faster disbursing economic and social support is needed amid limited fiscal space. Additionally, strengthening resilience to climate risks could improve sustainability (macroeconomic, fiscal, social and environment), while increasing internet connectivity and digitalization would allow to capitalize on the digital economy opportunities, boost productivity, competitiveness, and create jobs.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	3.7	2.7	-9.0	4.5	3.9	3.8
Private Consumption	4.7	4.1	-7.8	4.7	4.3	3.6
Government Consumption	1.9	0.6	3.0	2.2	-2.7	1.0
Gross Fixed Capital Investment	5.7	-5.9	-11.1	7.9	8.1	4.3
Exports, Goods and Services	0.7	2.3	-15.5	6.5	5.8	4.0
Imports, Goods and Services	2.2	-2.8	-11.5	7.0	5.9	3.3
Real GDP growth, at constant factor prices	3.5	2.5	-9.0	4.5	3.9	3.8
Agriculture	2.7	-1.0	-5.9	3.0	3.0	3.3
Industry	4.4	1.8	-15.2	5.7	4.0	3.9
Services	3.4	3.9	-6.8	4.3	4.1	3.9
Inflation (Consumer Price Index)	4.3	4.4	3.5	4.0	4.1	4.0
Current Account Balance (% of GDP)	-5.4	-0.7	-1.2	-1.5	-1.7	-2.3
Net Foreign Direct Investment (% of GDP)	3.8	2.0	0.9	1.9	3.5	3.8
Fiscal Balance (% of GDP)[a]	-0.9	-0.9	-5.6	-4.0	-1.0	-1.0
Debt (% of GDP)[a]	42.2	43.1	53.9	55.6	55.1	54.5
Primary Balance (% of GDP)[a]	0.0	-0.2	-4.5	-2.7	0.3	0.4
International poverty rate ($1.9 in 2011 PPP)[b,c]	15.8	14.8	18.5	17.1	16.5	15.5
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	29.6	29.0	35.3	33.9	32.8	31.9
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	50.4	49.0	55.4	54.1	53.1	52.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
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. Forecast are from 2021to 2023.

(c) Projections using microsimulation methodology.