

# HONDURAS

**Table 1** **2022**

Population, million	10.4
GDP, current US\$ billion	30.7
GDP per capita, current US\$	2942.6
International poverty rate (\$2.15) <sup>a</sup>	12.7
Lower middle-income poverty rate (\$3.65) <sup>a</sup>	26.4
Upper middle-income poverty rate (\$6.85) <sup>a</sup>	49.5
Gini index <sup>a</sup>	48.2
School enrollment, primary (% gross) <sup>b</sup>	96.5
Life expectancy at birth, years <sup>b</sup>	71.5
Total GHG emissions (mtCO <sub>2</sub> e)	29.3

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Most recent value (2019), 2017 PPPs.  
 b/ WDI for School enrollment (2012); Life expectancy (2020).

*Honduras's economy expanded robustly in 2022, supported by remittance-fueled private consumption and private investment. GDP growth is expected to moderate in the near term amid a tempering of global demand and persistent inflationary pressures. Poverty and inequality are expected to continue their downward trend, albeit at a slower pace. Progress is limited by high inflation and slow labor market recovery with employment remaining below pre-pandemic levels.*

## Key conditions and challenges

Honduras is one of the poorest and most unequal countries in Latin America and the Caribbean. In 2019, one in two people lived in poverty (US\$6.85 per day, 2017 PPP), concentrated in rural areas.

Annual real GDP growth averaged 3.1 percent from 2010-2019, driven by remittance-fueled private consumption. The country benefited from prudent macroeconomic management anchored in the Fiscal Responsibility Law (FRL), a crawling peg with ample foreign reserves, and a sound financial sector. However, Honduras lacks productive capacity, and its exports have been insufficient to boost incomes and growth, particularly in rural areas. Exports are highly concentrated in agricultural commodities and low-value manufactured goods, destined for the U.S. Several factors undermine competitiveness, including high exposure to external shocks and natural hazards, low levels of climate-related resilience, elevated crime, and institutional and business environment challenges.

The impacts of the pandemic and hurricanes Eta and Iota in 2020 exacerbated existing economic and social challenges. Real GDP contracted by 9 percent y-o-y, and poverty (US\$6.85 line) increased by 8.2 pp to 57.7 percent in 2020. The country's countercyclical response cushioned the impacts of these multiple shocks; however, social assistance programs had a relatively small mitigating impact due

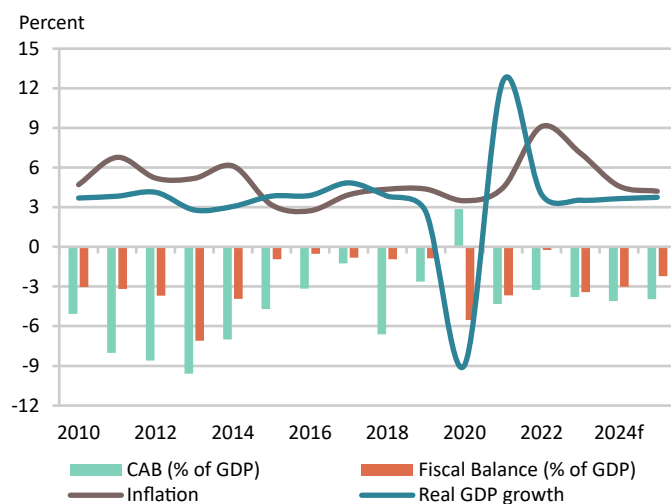
to their low coverage. Public debt increased steeply from 43.5 percent in 2019 to 55.8 percent in 2021, mainly composed of multilateral financing, given the country's high-risk premium. A high food insecurity rate (34.8 percent) and low school attendance persisted in 2021, limiting human capital accumulation.

## Recent developments

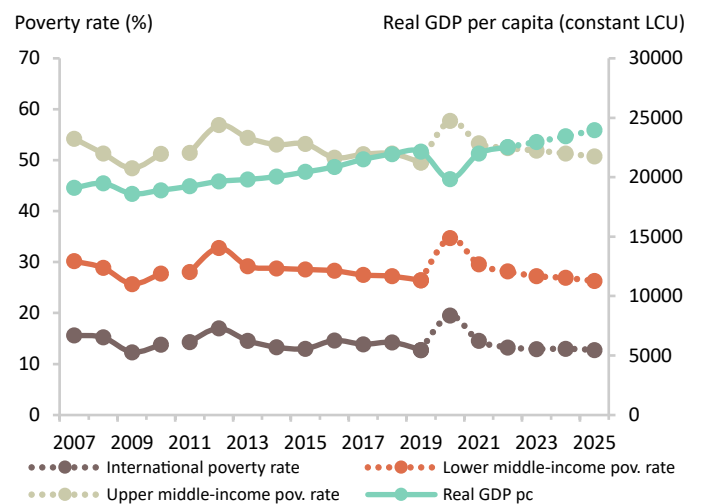
Despite global headwinds and impacts from hurricane Julia (1.2 percent of 2021 GDP), annual real GDP is estimated to have expanded by 4 percent in 2022, driven by private consumption and private investment. On the supply side, the growth was driven by maquila and services; the contribution of labor-intensive agriculture remained subdued due to climate shock impacts.

Strong domestic demand, pandemic-related global supply-chain disruptions, and a commodity price spike following Russia's invasion of Ukraine caused high inflation. Average inflation accelerated to 9.1 percent in 2022 – the highest since 2008 and nearly double the upper bound of the Central Bank's (BCH) target band ( $4 \pm 1$  percent). Yet, the BCH maintained the key policy rate at 3 percent in the context of shallow capital markets weakening monetary transmission, while speeding up liquidity absorption through open market operations.

Higher prices and unemployment threaten food security and poverty reduction. Unemployment (8.9 percent in 2022) was still above its pre-pandemic level (5.7 percent),

**FIGURE 1 Honduras / Real GDP growth, inflation, current account balance (CAB), and NFPS fiscal balance**


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.

particularly for women as the unemployment gender gap widened from 3.9 percent in 2019 to 6.7 percent in 2022. Poverty (US\$6.85 line) is estimated to remain above pre-crisis levels, at 52.4 percent in 2022. While remittances, representing 28.1 percent of GDP and about 30 percent of household income for the bottom 40 percent of households receiving remittances, grew by 20 percent in 2022, they did not compensate for deteriorated labor market outcomes and inflationary pressures from the war in Ukraine.

The government announced an expansionary budget, including sizable reconstruction and investment spending, an increase in energy and fuel subsidies, and financial assistance to the agriculture sector. In early 2022, it authorized new borrowing for up to US\$2 bn in 2022-23, withdrew US\$335 m in IMF Special Drawing Rights, and incorporated US\$1 billion (3.3 percent of GDP) in monetary financing into the 2022-2023 budget, setting out a non-financial public sector (NFPS) deficit of 4.9 percent of GDP in 2022. However, a small deficit of 0.24 percent of GDP was registered due to slow budget execution coupled with strong corporate income tax performance. The external position remained strong, supported by remittances and external

financing. Foreign reserves stood at 28 percent of GDP by end-2022, covering 6 months of non-maquila imports and supporting exchange rate stability. Despite unfavorable terms of trade, the current account deficit is expected to narrow to 3.3 percent of GDP in 2022 (from 4.3 percent in 2021) on the back of strong remittances, mainly financed by multilateral debt and foreign direct investment.

## Outlook

Real GDP growth is projected to decelerate to 3.5 percent in 2023, given lower growth among trading partners and persistent inflationary pressures. Weaker export demand coupled with elevated import prices are likely to widen the current account deficit in 2023; robust import demand will maintain the current account deficit over the medium term. Gradual disinflation is projected over the medium term as global inflation subsides; however, inflationary pressures could persist if the policy rate is maintained, and the government implements its spending plan. Slower growth and persistent inflation will likely curb progress in poverty

and inequality reduction in the medium term. Poverty (US\$6.85 line) is expected to decrease slightly to 51.9 percent in 2023, and 51.3 percent by 2024. Growth is projected to rise modestly by 2025, fueled by remittances, investment, and export demand.

The 2023 budget foresees a significant increase in spending as the execution of ongoing and new investment projects accelerate, which could weaken public finances and increase Honduras's financing needs. A wider NFPS deficit relative to 2022 is projected over the medium term, bound by the FRL's escape clause ceilings: 4.4 percent in 2023, 3.9 percent in 2024, and 3.4 percent in 2025. The government plans a gradual fiscal adjustment to return to the FRL target of 1 percent of NFPS deficit; however, the timeline is uncertain. The adjustment is planned to be supported by revenue mobilization measures, improving the efficiency of public spending, and budget reallocations. However, challenging legislative position of the ruling party could affect the progress on fiscal, social, and structural reforms. Along with budget execution issues, this could depress private investment, weaken growth, and cause a deterioration in the labor market and living standards of the population.

**TABLE 2 Honduras / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
<b>Real GDP growth, at constant market prices</b>	-9.0	12.5	4.0	3.5	3.6	3.7
Private Consumption	-6.2	15.1	5.0	3.2	3.7	3.9
Government Consumption	2.9	8.5	1.7	0.5	0.1	0.4
Gross Fixed Capital Investment	-23.8	33.3	2.8	6.9	4.1	4.0
Exports, Goods and Services	-20.8	21.5	5.0	4.2	5.1	5.2
Imports, Goods and Services	-18.5	33.0	5.2	3.9	4.1	4.3
<b>Real GDP growth, at constant factor prices</b>	-9.0	12.5	4.0	3.5	3.6	3.7
Agriculture	-6.3	0.4	1.7	2.1	2.2	2.3
Industry	-14.3	20.1	5.3	4.8	4.9	5.0
Services	-7.2	12.5	3.9	3.3	3.4	3.5
<b>Inflation (Consumer Price Index)</b>	3.5	4.5	9.1	7.1	4.6	4.2
<b>Current Account Balance (% of GDP)</b>	2.9	-4.3	-3.3	-3.8	-4.1	-4.0
<b>Net Foreign Direct Investment Inflow (% of GDP)</b>	1.6	1.2	1.0	1.2	1.4	1.4
<b>Fiscal Balance (% of GDP)<sup>a</sup></b>	-5.5	-3.7	-0.2	-3.4	-3.0	-2.2
<b>Revenues (% of GDP)</b>	28.2	30.0	30.5	30.0	30.6	31.1
<b>Debt (% of GDP)<sup>a</sup></b>	54.1	55.8	51.0	51.7	52.1	50.6
<b>Primary Balance (% of GDP)<sup>a</sup></b>	-4.3	-2.8	0.8	-2.7	-2.3	-1.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>b,c</sup></b>	19.5	14.5	13.3	12.9	13.0	12.7
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>b,c</sup></b>	34.7	29.6	28.2	27.3	26.9	26.3
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>b,c</sup></b>	57.7	53.3	52.4	51.9	51.3	50.7
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-5.1	8.1	1.6	0.2	1.4	1.7
<b>Energy related GHG emissions (% of total)</b>	33.8	36.3	36.3	35.5	35.4	35.5

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: 2020-2022. Forecasts are from 2023 to 2025.

c/ Projections using microsimulation methodology.