

Honduras: Brief Profile March 2009

Domestic Economy

- Real GDP growth of Honduras slowed down to an estimated 4.0% in 2008 as compared to 6.3% in the previous year, primarily as a result of moderation in consumer spending and investment.
- In absolute terms, nominal GDP stood at US\$ 14.3 bn in 2008, while per capita income was US\$ 1,959 in the same year.
- The consumer price inflation increased sharply to an estimated 11.4% in 2008 from 6.9% reported in the previous year, mainly due to higher global oil and food prices prevailed during the first half of 2008.
- The highest contribution to the GDP came from the services sector, which accounted for 54.9% of the GDP in 2007. Industrial sector accounted for 31.2% followed by agriculture with a contribution of 13.9%.

Trade and Current Account Balance

- Exports from Honduras stood at US\$ 6.2 bn in 2008 recording a robust growth of 10.7% over US\$ 5.6 bn in 2007, aided by firm commodity prices and strong external demand during the first half of 2008.
- The main items in Honduras' exports basket in 2007 were coffee (US\$ 516.5 mn), bananas (US\$ 289.6 mn), seafood (US\$ 240.8 mn) and gold (US\$ 55.5 mn).
- Honduras' total imports in 2008 increased to an estimated US\$ 10.0 bn showing a growth of 16.3% growth over US\$ 8.6 bn recorded in 2007. Increased import spending was led by higher spending on construction materials and also higher international commodity prices.

- Manufactures and industrial raw materials form the largest import items of Honduras, with total imports of US\$ 2.7 bn in 2007. Other major imports in 2007 were machinery and transport equipment (US\$ 1.8 bn), minerals and fuels (US\$ 1.3 bn), food and animal products (US\$ 1.1 bn)
- Trade deficit of Honduras widened to US\$ 3.8 bn in 2008 as against US\$ 3.0 bn in 2007, reflecting increased imports of consumer goods, fuel and construction materials.
- The main destinations of Honduras' exports in 2007 were the US (35.7% of the total exports), El Salvador (9.1%), Guatemala (8.6%), and Germany (8.5%).
- The main sources of the country's imports in 2007 were the US (38.6% of the total imports), Guatemala (9.3%), El Salvador (5.8%) and Costa Rica (4.8%).
- The current account deficit widened from US\$ 1.2 bn in 2007 to US\$ 2.0 mn in 2008, equivalent to 14.0% of GDP. This was due to increase in merchandise imports coupled with higher international prices.

Exchange Rate, Foreign Exchange Reserves and External Debt

- Honduras' currency is Lempira (La). The Banco Central de Honduras (BCH) has pegged the lempira at US\$ 1: La 18.9 since mid-2005 as a means of anchoring inflation.
- The foreign exchange reserves decreased to US\$ 2,468 mn in 2008 from US\$ 2,546 mn in 2007, mainly on account of sharp rise in merchandise imports. Reserves reflected an import cover of 3 months in 2008.
- The total external debt in 2008 stood at an estimated US\$ 3.6 bn, higher than US\$ 3.2 bn in 2007.

Country Ratings

- *Euromoney*, in its September 2008 risk ranking of 186 countries, placed Honduras at 92, which is a gain of two places compared to its previous ranking in March 2008. India was placed 56 in the same ranking.
- *Institutional Investor*, ranked Honduras 104th in its September 2008 ranking of 177 countries, which is same as its previous ranking in March 2008. India was placed at 54 in the same ranking.
- *Export Credit Guarantee Corporation of India Ltd.*, which ranks countries in seven categories (A1, A2, B1, B2, C1, C2, and D) in ascending order of risk, has placed Honduras in Group C1 in December 2008 under countries in 'Restricted Cover – Group I' for which revolving limits are approved normally valid for a year.

Bilateral Trade Relations with India

- India's exports to Honduras have decreased from US\$ 113.1 mn in 2006-07 to US\$ 95.2 mn in 2007-08, mainly due to increase in exports of natural silk yarn madeups, and gems & jewelery.
- India's imports from Honduras rose to US\$ 2.1 mn in 2007-08 from that of US\$ 1.7 mn recorded in the previous year, primarily as a result of higher import of metaliferrous ores and metal scrap.
- India's trade surplus with Honduras, thus, decreased to US\$ 93.1 mn in 2007-08 compared to US\$ 111.4 mn in the previous year.
- The main items of exports to Honduras in 2007-08 were natural silk yarn madeups (US\$ 29.9 mn), gems & jewelery (US\$ 13.2 mn), primary and semi-finished iron & steel (US\$ 8.2 mn), rubber-manufactured products (US\$ 7.3 mn) and dyes intermediates and coal tar chemicals (US\$ 5.4 mn),

- Metaliferrous ores and metal scrap (US\$ 1.7 mn), non-electrical machinery (US\$ 0.2 mn), professional instruments, optical goods etc. (US\$ 0.12) and electronic goods (US\$ 0.09 mn).

Macroeconomic Outlook

- After slowing to 4% in 2008, real GDP growth of Honduras is expected to fall further to 1.3% in 2009. However, economy is expected to recover to 2% in 2010, as consumer spending and investment pick up gradually on the back of an improvement in the economies of the US and Honduras's neighbours.
- Consumer price inflation is expected to fall to 8.5% by end-2009 and 8% by end-2010, supported by falling food and energy prices.
- With the external and fiscal accounts deteriorating markedly, lempira is expected to depreciate gradually to La 19.84: US\$ 1 in 2009 and further to La 23.31: US\$ 1 in 2010.
- In 2009, the current-account deficit is expected to narrow sharply, owing largely to a fall in the trade deficit, as import spending declines at a greater rate than export earnings. An easing of the services deficit, as falls in freight costs exceed the reduction in receipts from tourism, will also help the deficit to narrow.

Honduras
Economic Structure

Economic Indicators	2004	2005	2006	2007	2008^b
GDP (US\$ bn)	8.9	9.8	10.8	12.3	14.3
GDP at market prices (La bn)	161.5	183.7	204.7	232.8	270.1
Real GDP growth (%)	6.2	6.1	6.3	6.3	4.0
Consumer price inflation (av; %)	8.1	8.8	5.6	6.9	11.4
Population (mn)	6.7	6.8	7.0	7.1	7.3
Exports fob (US\$ mn)	4,534	5,048	5,195	5,594	6,203
Imports fob (US\$ mn)	5,827	6,545	7,317	8,556	10,017
Current account balance (US\$ mn)	-678	-290	-509	-1,225	-1,963
Total international reserves (US\$ mn)	1,980	2,339	2,642	2,546	2,468
Total external debt (US\$ bn)	6.0	5.2	4.1	3.2	3.6
Exchange rate (av.) La: US\$ The local currency is lempira.	18.21	18.83	18.9	18.90	18.90

Source: EIU Country Report; ^b Estimates