HONDURAS

Table 1	2023
Population, million	10.6
GDP, current US$ billion	34.2
GDP per capita, current US$	3231.1
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]	70.7
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 (2022).

Real GDP grew 3.6 percent in 2023, driven by robust remittance-fueled consumption and strong private investment. Growth is expected to slow down slightly to 3.5 percent in 2024, hindered by a deceleration in US growth and lower agricultural exports. Despite moderate growth and lower inflation, a slow labor market recovery has hindered improvements in poverty and inequality. Reforms to bolster job creation and productivity will be key to sustaining long-term growth.

Key conditions and challenges

Honduras, a lower middle-income country, grew in average 3.7 percent between 2010-2019, driven by remittance-fueled households' consumption and supported by prudent macroeconomic management underpinned by the Fiscal Responsibility Law, a stable exchange rate with sufficient foreign reserves, and a sound financial sector. Nevertheless, production capacity is limited, with agriculture and light manufacturing, mainly textiles, serving as main sources of employment and exports, primarily destined to the US. Weak institutions, a challenging business environment, and high crime deter investment and tourism, hindering growth and fueling migration.

Honduras remains one of the poorest and most unequal countries in the region, with over half of the population living in poverty (US$6.85/day, upper middle-income country poverty line, 2017 PPP). Poverty stagnation is partly explained by the weak creation of quality jobs and by declines in agricultural incomes. Non-monetary poverty is also concerning. Food insecurity is high, at 56.1 percent. A child born in Honduras in 2020 is expected to reach just 48 percent of their potential earnings with complete education and healthcare. Stark gender and geographic disparities persist. Honduras is highly vulnerable to the impacts of climate change, with poverty and climate risks often overlapping geographically.

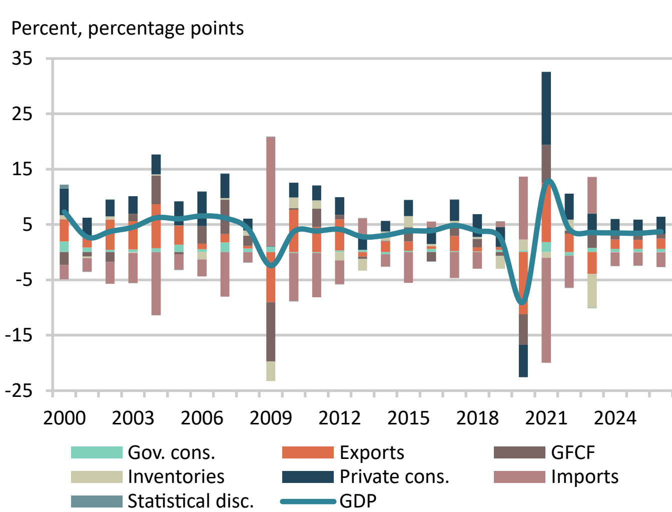
Recent developments

In 2023, real GDP growth slowed to 3.6 percent from 4.1 percent in 2022, driven by a reduced demand for textiles that led to a 7.2 percent contraction in manufacturing. Sustained credit growth and steady remittances supported household consumption and investment during 2023. In 2024Q1, the economy grew 3.3 percent y-o-y, primarily driven by remittance-fueled consumption. A robust services sector helped offset declines in agriculture and manufacturing.

Headline inflation stood at 5 percent in August 2024, 0.7 percentage points lower than the previous year and within the central bank's tolerance range. The decrease was driven by declining international food and fuel prices and supported by government liquidity absorption measures. To continue managing inflation and to bolster the external position, the central bank raised the Monetary Policy Rate to 4 percent on August 16, 2024, after maintaining it at 3 percent since November 2020.

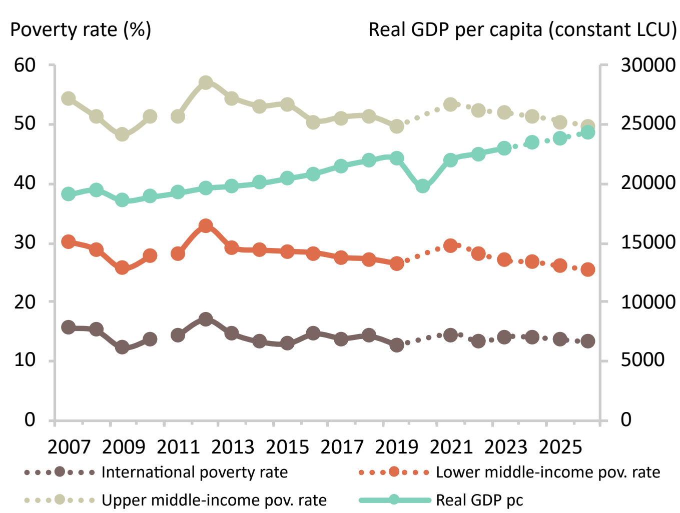
Official poverty numbers for 2023 estimate that 64 percent of households were poor, a decline from 73.6 percent in 2021 (no official estimate for 2022). While poverty under the US$6.85/day line slightly decreased from 2022, poverty under the US$ S2.15 line increased and remains high. Inequality (Gini index) reached 47.8, which is lower than pre-pandemic levels. Unemployment declined from 8.9 percent in 2022 to 6.4 percent in 2023 but remains above the 2019 level.

FIGURE 1 Honduras / Real GDP growth and contributions to real GDP growth



Source: World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

A narrowing trade deficit and robust remittances (5.7 percent growth y-o-y) reduced the current account deficit (CAD) from 6.7 percent of GDP in 2022 to 4.1 percent in 2023. It was mainly financed by multilateral loans and foreign direct investment (FDI), which rose 17 percent driven by reinvestment of profits. In 2024Q1, the merchandise trade deficit widened following declines in key exports like coffee, bananas, and shrimp, while the services trade deficit narrowed as a result of lower transportation and travel costs. Substantial remittance inflows, at 23.5 percent of GDP, partially offset the negative overall result. The CAD widened to -4.1 percent, from -3.8 percent in 2023Q1. International reserves fell from 5 months of non-maquila imports by end-2023 to around 4.4 months by end-August 2024, affected by a net repayment of public debt and rigidities in monetary and FX frameworks.

The fiscal deficit widened to 1.3 percent of GDP in 2023 from 0.2 percent in 2022 due to higher execution of public investments in infrastructure (75.1 percent by year-end). The public debt decreased to 49.6 percent of GDP by end-2023, due to net capital repayments. The IMF program approved in September 2023, supporting reforms to create fiscal space for priority investments while anchoring macroeconomic stability, had a review mission announced on September 10, 2024, scheduled for October.

Outlook

GDP growth is projected to slow to 3.5 percent in 2024 and 3.4 percent in 2025, due to a global slowdown and reduced yield on key crops hindering exports. Remittances are expected to be less dynamic, slowing households' consumption despite expected lower food inflation. Growth should gradually strengthen thereafter, supported by dynamic investment, improved budget execution, and deeper financial markets.

Inflation is expected to stay within the central bank's 4±1 percent target in 2024 due to declining international prices and tighter monetary policy, remaining subdued in the medium term. The fiscal deficit is projected to widen to 1.5 percent in 2024 and 1.6 percent in 2025 with improving execution, before narrowing to 1 percent supported by broadening of the tax base and enhanced collection and spending efficiency. The CAD is expected to widen to 4.8 percent in the near term, narrowing thereafter as exports and remittances strengthen. Pressures on international reserves will likely persist due to growing FX market uncertainty, which could deter FDI.

Driven by these forces, poverty is expected to decline to 50.5 percent in 2025 and inequality is projected to remain at the same level over the medium run. Weak structural labor market conditions, especially for women, will continue to slow progress on both indicators.

Downside risks include persistent weakness in exports, short-term transition costs of the Honduras-China FTA, and risks to key agricultural commodities following the full implementation of the EU Zero Deforestation Regulation in January 2025. Delays to improvements in FX management could lead to further reserve losses. Financing needs could rise due to slower fiscal consolidation or adverse weather events. As presidential elections near, legislative gridlock could halt social and structural reforms, hindering investment, growth, and poverty reduction.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	12.6	4.1	3.6	3.5	3.4	3.7
Private consumption	16.8	5.7	4.3	3.6	3.5	3.8
Government consumption	12.6	-4.1	6.0	4.4	4.3	4.6
Gross fixed capital investment	41.5	2.6	12.9	3.3	3.2	3.8
Exports, goods and services	23.2	6.6	-7.5	3.7	3.6	3.9
Imports, goods and services	32.6	8.5	-9.3	3.9	3.7	4.1
Real GDP growth, at constant factor prices	12.6	4.1	3.6	3.5	3.4	3.7
Agriculture	-1.6	0.3	4.0	2.9	3.0	3.6
Industry	19.7	7.0	-2.0	2.9	3.7	4.1
Services	13.3	3.8	6.1	3.8	3.4	3.6
Inflation (consumer price index)	4.5	9.1	6.7	4.6	4.1	4.2
Current account balance (% of GDP)	-5.5	-6.7	-4.1	-4.8	-4.8	-4.2
Net foreign direct investment inflow (% of GDP)	2.6	2.9	3.1	2.9	2.9	3.1
Fiscal balance (% of GDP)[a]	-3.7	-0.2	-1.3	-1.5	-1.6	-1.0
Revenues (% of GDP)	30.4	29.9	29.4	29.4	29.3	29.6
Debt (% of GDP)[a]	61.3	53.6	49.6	45.4	45.4	45.0
Primary balance (% of GDP)[a]	-2.4	1.2	0.2	-0.1	-0.1	0.5
International poverty rate ($2.15 in 2017 PPP)[b,c]	14.5	13.3	14.1	14.0	13.6	13.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[b,c]	29.6	28.2	27.0	26.8	26.1	25.5
Upper middle-income poverty rate ($6.85 in 2017 PPP)[b,c]	53.3	52.4	51.9	51.3	50.5	49.5
GHG emissions growth (mtCO2e)	4.3	-0.1	0.6	1.3	1.5	1.7
Energy related GHG emissions (% of total)	33.4	31.7	30.6	30.2	29.9	29.7

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 for 2021-2022 and 2023-EPHPM for 2024-2026. Actual data: 2023 (preliminary). Nowcast: 2021-2022. Forecasts are from 2024 to 2026.
c/ Projections using microsimulation methodology.