

Improving fiscal and external positions

General Information



GDP	USD19.4bn (World ranking 110, World Bank 2014)
Population	8.26mn (World ranking 95, World Bank 2014)
Form of state	Democratic Constitutional Republic
Head of government	Juan Orlando Hernandez
Next elections	2017, presidential and legislative



Strengths

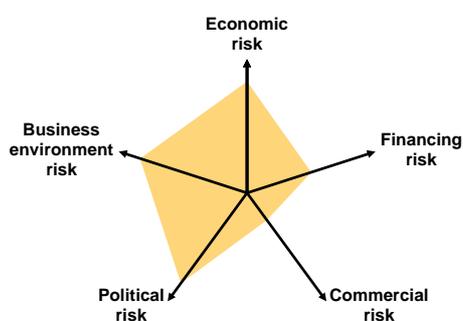
- Sound financial sector
- Free trade agreement with the U.S. and Canada
- Relatively low public debt, due to external debt reduction under the 'Heavily Indebted Poor Countries' (HIPC) and 'Multilateral Debt Relief' (MRD) initiatives in 2004-2007
- Currently under an IMF's Standby Credit Facility (SCF)

Weaknesses

- High dependence on U.S. economy (through exports, investment and remittances)
- Vulnerable to commodity price changes
- Highest murder rate in the world and widespread poverty
- Increasing dollarization of loans
- High current account and fiscal deficits
- Exposure to natural disasters
- Weak business environment, with rule of law and a high level of corruption being particular issues

Country Rating

C2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports	
United States	50%	1	47%	United States	
Germany	8%	2	8%	China	
El Salvador	5%	3	7%	Guatemala	
Guatemala	4%	4	6%	El Salvador	
Mexico	4%	5	6%	Mexico	

By product (% of total)

Exports		Rank		Imports	
Apparel & clothes	22%	1	19%	Petroleum products	
Coffee, tea, cocoa, spices	20%	2	9%	Textile yarn	
Electrical machinery	8%	3	5%	Road vehicles	
Vegetables and fruits	6%	4	4%	Cereals	
Vegetable oils and fats	5%	5	4%	Electrical machinery	

Source: ITC, Chelem

Economic Overview

Fiscal and external positions are improving

Economic growth is set to remain solid in coming years, benefiting from low oil prices, the recovery in the U.S. (remittances, exports) and increased FDI inflows as business confidence is improving. We expect real GDP to expand by +3.5% on average per year over 2015-2017.

Accompanied by the IMF, the government is enhancing fiscal and external positions. Inflation is contained, supported by the decline in fuel prices. The fiscal deficit was significantly narrowed to -4.3% of GDP in 2014 from -7.6% in 2013, notably through an increase by 3pps in the VAT rate to 15%, higher taxes on fuels and the removal of some tax exemptions. Current expenditure was also reduced, notably through the control of the wage bill. A new legislation for the electricity sector and a pension reform have been approved in combination with measures to strengthen tax administration. However, broadening the tax base proves difficult with approximately 70% of workers employed in the informal sector.

The current account is now on a downward trend. The monetary authorities abandoned in 2011 the fixed exchange rate regime and introduced controlled flexibility which allows the lempira to fluctuate against the USD within a range of +/-5%. FX reserves have increased significantly, and cover now above 4 months of imports, vs 3 months in 2013. These are important financial buffers since the country is highly vulnerable to external shocks notably emanating from (i) the U.S. cycle (exports, investment and remittances); (ii) developments in agriculture prices, and notably coffee (6th world producer and 30% of employment), and (iii) changes in oil prices (15% of imports).

Although improving, business environment remains problematic

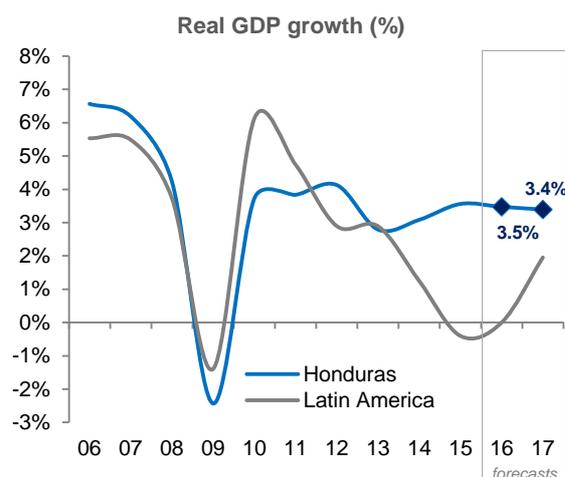
The business environment remains problematic. According to the *Doing business 2015* survey of the World Bank, Honduras ranks 104th out of 189 countries. Although it performs particularly well with regard to getting credit and trading across borders, important shortcomings remain in enforcing contracts, protecting investors and resolving insolvency. The rule of law and control of corruption are also problematic. Criminality remains one of Honduras' major issues although the government seems committed to fight it. With powerful drug gangs, Honduras has the highest murder rate in the world (90.4 homicides per 100,000 people). According to the World Bank, the cost of violent crime is close to 10% of GDP per year.

Key economic forecasts

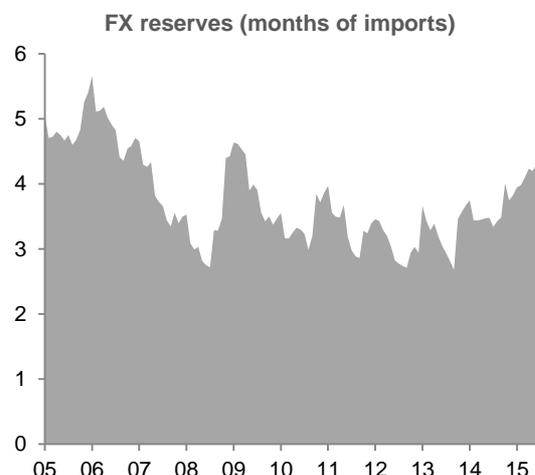
	2014	2015f	2016f	2017f
GDP growth (% change)	3.1	3.6	3.5	3.4
Inflation (% , yearly average)	6.1	3.4	4.5	5.1
Fiscal balance* (% of GDP)	-4.3	-2.7	-2.2	-2.1
Public debt* (% of GDP)	45.7	48.7	50.7	51.2
Current account (% of GDP)	-7.4	-6.7	-6.6	-6.2
External debt (% of GDP)	38.7	42.4	45.8	48.8

*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF-WEO, IHS, Euler Hermes



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