

# Country Insight Snapshot

## Honduras

May 2018





## OVERVIEW

**OVERALL COUNTRY RISK RATING: DB5d**

**High risk** : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

**R**

**Rating Outlook:** Stable

## CORE OUTLOOK

- + Honduras is well endowed with agricultural land, forest and marine resources.
- There are very few skilled workers in technological fields.
- Grinding poverty has contributed to extensive criminal activity.
- Low labour productivity will harm the manufacturing sector.

## KEY DEVELOPMENT

Despite strong public investment and relatively robust exports, economic growth will remain moderate as political uncertainty lingers and external conditions worsen.

### CREDIT ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

**R**

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

**R**

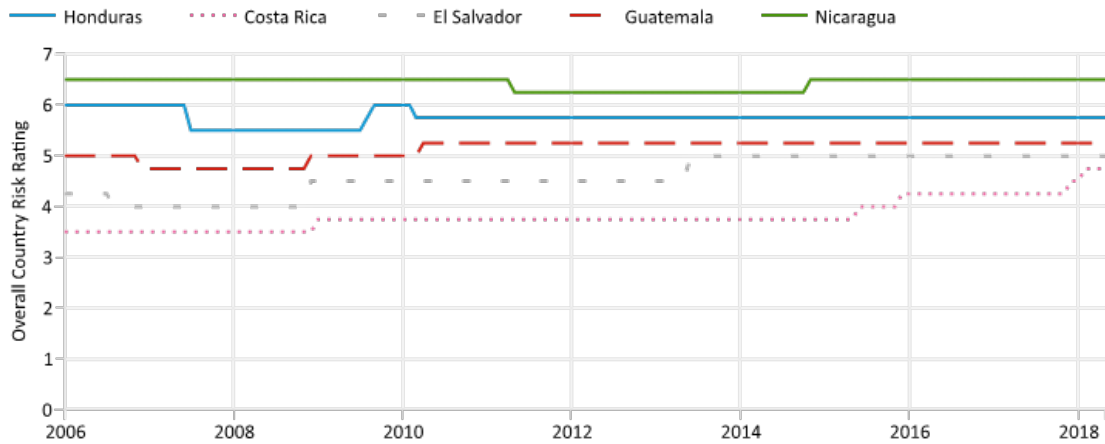
**Trend:** Deteriorating

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

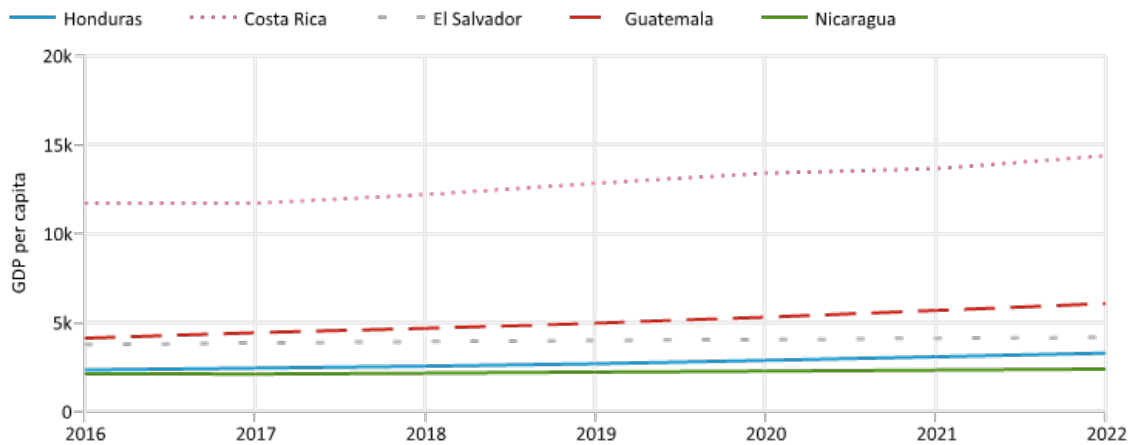
### Rating History and Comparison



Source : Dun & Bradstreet

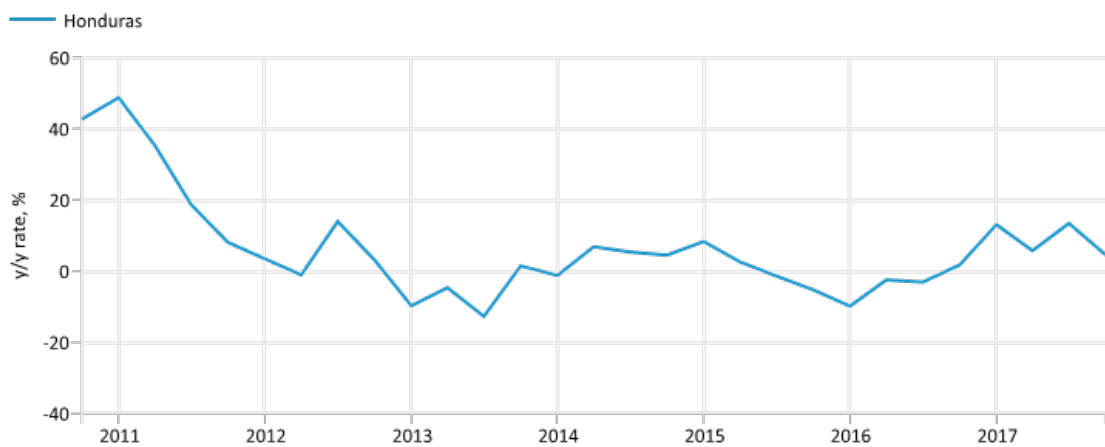
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Export Growth (Quarterly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-4.7	-2.7	-1.7	-3.8	-3.7	-3.8	-3.9	-3.9
FX reserves (yr-end, USDbn)	3.7	3.8	4.7	4.9	5.1	5.3	5.5	5.7
Govt balance, % GDP	-0.8	-0.4	-0.8	-0.7	-0.8	-0.7	-0.8	-0.9
Inflation, annual avge %	3.2	2.7	3.9	4.2	4.3	4.4	4.5	4.4
Real GDP Growth, %	3.8	3.8	4.8	3.6	3.8	3.7	3.6	3.7

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Honduras' commercial climate remains generally poor on account of high levels of corruption, as well as a weak legal and regulatory environment. Moreover, crime continues to adversely affect business. Much of Honduran business activity is conducted in the country's large informal sector, while the political elite and US multinational entities firmly dominate the country's formal business sector. Positively, there are tentative signs that the banking sector is becoming more attuned to the needs of investors. Overall, firms face considerable barriers when doing business. We recommend the use of CLC terms when trading with counterparties in the country, given the payments performance of companies operating in Honduras.

## TRADE TERMS AND TRANSFER SITUATION

### **Minimum Terms: LC**

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### **Recommended Terms: CLC**

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### **Usual Terms: 30-90 days**

*Normal period of credit associated with transactions with companies in the stated country.*

### **Local Delays: 0-1 month**

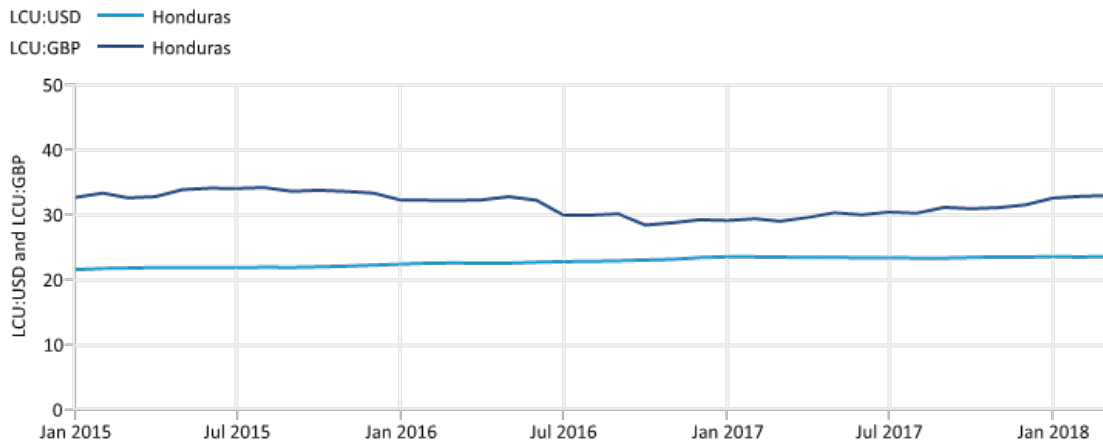
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### **FX/Bank Delays: 0-2 months**

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



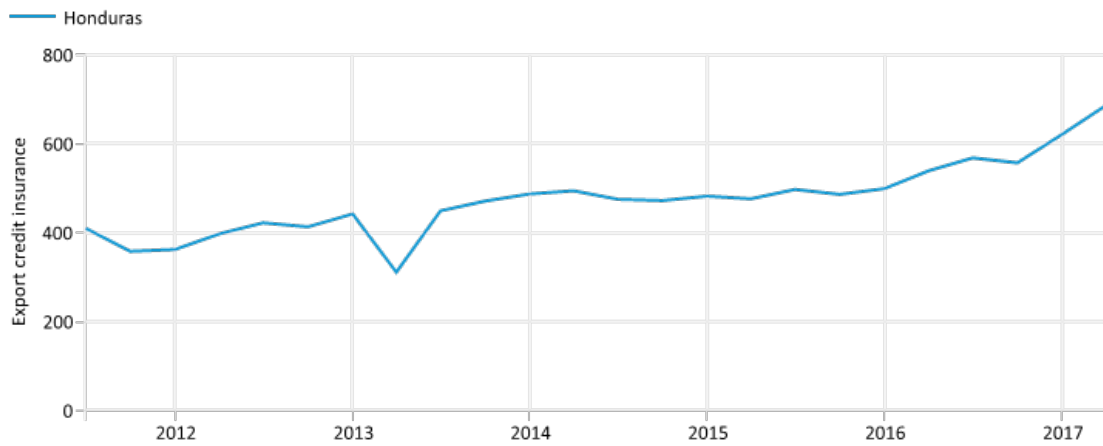
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Honduran lempira*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### *Economic growth to remain moderate*

Recently released data indicate that the Honduran economy has yet to regain the momentum lost during the profound political crisis that ensued after the disputed November 2017 presidential election. The monthly index of economic activity posted annual growth of 3.0% in February (down from 3.6% in January and 5.1% in the same period in 2017) as a drop in agriculture and manufacturing - as well as a decline in certain services - offset gains in most other sectors. Despite strong public investment and relatively robust exports (thanks to continued growth in the US and development of the productive system), economic growth is not expected to pick up significantly in the remainder of the year due to lingering political uncertainty and worsening external conditions. In particular, a fall in international coffee prices, combined with supply-side shocks in the banana and palm oil industries (caused by adverse weather conditions) will weigh on the country's key agricultural export sector.

At the same time, private consumption is likely to be affected by the higher inflation accompanying the upward trend of oil prices and the regular depreciation of the lempira, as well as by the possible termination of the Temporary Protected Status for Hondurans in the US. Meanwhile, the withdrawal of Salvador Nasralla (presidential candidate of the Opposition Alliance against the Dictatorship) from the post-electoral crisis talks, along with the prospect of renewed unrest, will further undermine investor confidence that was badly shaken by last year's contested vote, with negative implications for the country's economic outlook.

### Business Regulatory Environment

#### *Anti-corruption efforts suffer another setback*

Honduras has suffered another setback in its fight against corruption, in the form of the recent decision by the constitutional chamber of the Supreme Court to accept an appeal against the constitutionality of the Mission for Support against Corruption and Impunity in Honduras (MACCIH). The move, which has the potential to terminate the commission altogether, is the latest in a series of actions intended to severely hamper its capabilities and follows upheaval at its ranks caused by the resignation of its head, Juan Jiménez Mayor, and other officials. The decision also comes amid doubts regarding the commitment by the National Party government to anti-graft efforts.

In a bid to demonstrate his willingness to fight corruption and impunity and quell outcry, President Juan Orlando Hernandez, who himself has faced bribery allegations, chose to veto a controversial bill that was approved by Congress and which would ban the government from seizing the assets of anyone accused of embezzling state funds. However, concerns about official malfeasance persist. Crucially, the future of anti-graft efforts in the country hinges not only on MACCIH's fate but also on the election of a new Attorney General in August, an office that has been generally co-opted by political and economic elites historically involved with corruption networks and organised crime.



## COUNTRY PROFILE AND STATISTICS

### Overview

Honduras, located in Central America, borders El Salvador, Guatemala and Nicaragua. The country is one of the poorest in Latin America, with high income inequality and unemployment. The country's narrow export profile (notably reliant on coffee and bananas) leaves it vulnerable to natural disasters and changes in commodity prices. However, the Dominican Republic-Central America Free-Trade Agreement with the US (its largest trade partner) should support an expansion in trade and investment. International remittances, mostly from emigres to the US, are a key source of FX.

The political environment is turbulent and political institutions are weak, as demonstrated by the June 2009 military coup. Honduras has long-standing problems with highly-organised criminal gangs, which terrorise the wider public, and, in particular, the political class (as a deterrent to any tougher measures to combat their operations).

### Key Facts

Key Fact	Detail
Head of state	President Juan Orlando HERNANDEZ
Capital	Tegucigalpa
Timezone	GMT -06-00
Main language	Spanish
Population (millions)	9.3
GDP (USD billions)	22.8
GDP per capita (USD)	2,463
Life expectancy (years)	73.3
Literacy (% of adult pop.)	89.0
Surface area (sq km)	112,090

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2013	2014	2015	2016	2017
Real GDP growth (%)	2.8	3.1	3.8	3.8	4.8
Nominal GDP in USDbn	18	20	21	21	23
Nominal GDP in local currency (bn)	377	415	460	494	540
GDP per Capita in USD	2,136	2,239	2,337	2,359	2,463
Population (year-end, m)	8.7	8.8	9.0	9.1	9.3
Exchange rate (yr avge, USD-LCU)	20.4	21.0	22.0	23.0	23.7
Current Account in USDbn	-1.8	-1.4	-1.0	-0.6	-0.4
Current Account (% of GDP)	-9.5	-7.0	-4.7	-2.7	-1.7
FX reserves (year-end, USDbn)	3.0	3.4	3.7	3.8	4.7
Import Cover (months)	2.8	3.2	3.5	3.7	4.2
Inflation (annual avge, %)	5.2	6.1	3.2	2.7	3.9
Govt Balance (% GDP)	-5.7	-2.9	-0.8	-0.4	-0.8

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	3.6	3.8	3.7	3.6	3.7
Nominal GDP in USDbn	24	26	28	31	33
Nominal GDP in local currency (bn)	582	629	680	735	794
GDP per Capita in USD	2,574	2,710	2,899	3,102	3,310
Population (year-end, m)	9.4	9.6	9.7	9.9	10.0
Exchange rate (yr avge, USD-LCU)	24.0	24.3	24.1	24.0	24.0
Current Account in USDbn	-0.9	-1.0	-1.1	-1.2	-1.3
Current Account (% of GDP)	-3.8	-3.7	-3.8	-3.9	-3.9
FX reserves (year-end, USDbn)	4.9	5.1	5.3	5.5	5.7
Import Cover (months)	4.1	4.1	4.1	4.1	4.1
Inflation (annual avge, %)	4.2	4.3	4.4	4.5	4.4
Govt Balance (% GDP)	-0.7	-0.8	-0.7	-0.8	-0.9

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Honduras	Costa Rica	El Salvador	Guatemala	Nicaragua
Income per Capita (USD)	2,574	12,219	3,954	4,702	2,181
Country Population (m)	9.4	5.0	6.4	17.2	6.3
Internet users (% of population)	30.0	66.0	29.0	34.5	24.6
Real GDP Growth (% p.a., 2018 - 2027)	2.8 - 6.6	3.4 - 6.0	1.9 - 5.3	2.0 - 5.5	2.1 - 5.1

Source : Various sources/Dun & Bradstreet





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