

HONDURAS

During recent years, Honduras has registered the second highest economic growth rates in Central America, only behind Panama and well above the average in Latin America and the Caribbean. However, the country faces high levels of poverty and inequality.



Honduras possesses multiple strengths and the potential for faster growth and higher shared prosperity, due to its strategic location, a growing industrial base, ongoing efforts to diversify its exports, and a young and growing population.

Real GDP in Honduras grew at an average annual rate of 3.1 percent over the past decade. The country also implemented prudent macroeconomic policies during recent years, anchored in the Fiscal Responsibility Law, and posted the second highest economic growth rates in Central America, only behind Panama. The country's GDP growth reached 3.7 percent in 2018 and 2.7 percent in 2019, above the average in Central America and well above the average in Latin America and the Caribbean (LAC).

However, the COVID-19 pandemic, coupled with two Category 4 hurricanes —Eta and Iota— in 2020, led to a sharp GDP decline of 9 percent, while income and employment sank, with about 400,000 people losing their jobs during that year. Honduras remains one of the poorest and most unequal countries in the Western Hemisphere. Prior to the twin shocks of 2020, 25.2 percent of the Honduran population lived in extreme poverty and almost half (4.4 million people) lived in poverty, based on the official poverty lines. Poverty had shown little decline since 2014, while extreme poverty increased in rural areas since 2014 and in urban areas since 2017. Rural inequality also rose sharply from a Gini index of 0.431 in 2014 to 0.486 in 2019. Overall, Honduras had in 2019 the fourth-highest level of income inequality (Gini index of 0.482) in the LAC region.

Poverty and inequality levels are likely to remain higher than pre-crisis levels and other development challenges persist for Honduras. Human development outcomes in the country are among the lowest in LAC. A child born in Honduras today will be 48 percent as productive when she grows up as she could be if she enjoyed complete education and full health. Improving governance and the quality of institutions remains at the

core and will require addressing issues of state capture and impunity. Further progress is needed in strengthening the independence of the judiciary and regulatory agencies, enhancing the capacity for citizens to hold public and elected officials accountable, improving transparency, and strengthening capacities for digital and open government, among others. Strengthening violence prevention and law enforcement also remains critical for reducing levels of crime and violence.

The country's economy rebounded to a 12.5 percent growth in 2021 and is expected to grow a 3.5 percent in 2022 and 3.1 percent in 2023. A new government took office in early 2022 and will have the opportunity to chart a course consistent with the recovery and reconstruction needs of the country and to address the critical constraints to growth. Continued focus on boosting growth and competitiveness, fostering inclusion by improving access to quality basic services and jobs, and promoting resilience in the face of climate change will improve social outcomes and foster more economic opportunities among the country's most vulnerable. Institutional reforms on key issues such as improving the sustainability of the electricity sector, as well as governance and the business climate, can also contribute to further developing a framework for inclusive growth in Honduras.