6. Economy

6.1 Overview of Economy

Honduras is primarily a land of small farmers (68% of population is rural); upper classes are still oriented toward traditional professions: church, political life, military, so that until the early 1970's, most entrepreneurial efforts occurred as a result of foreign investment in banana plantations, mining, banking, and forestry. The limited domestic enterprise was concentrated in farming and stockraising, while the commercial sector was dominated by first and second generation immigrants. The lack of a transport infrastructure and the isolation of Tegucigalpa from the foreign investment enclave on the north coast (San Pedro Sula-centered) presumably assisted foreign dominance of the economy. A per capita GNP of US $480 (1978) is one of the lowest in the Western Hemisphere Hemisphere. Sector contributions to GDP (1978) were as follows: agriculture 32%, industry 26% (of which manufacturing accounted for 17%), service 42%.

The limited natural resource base includes the agricultural lands of the north coast and interior river valleys, extensive unexploited pine forests, and small deposits of silver, lead, zinc, and low grade iron ore. Fossil fuel supplies are now being explored; natural gas, oil, and low grade coal deposits appear to exist but commercial viability has not yet been established.

Manufacturing is characterized by small-scale firms, intermediate technological levels, and limited processing capabilities. Major products are food products, beverages, textiles and clothing, lumber and paper products; production of capital goods and heavy intermediate goods are minimal.

A number of factors combined in late 60's and early 70's to slow economic growth. In 1969, a war with El Salvador and damage from Hurricane Francelia caused a sharp drop in GDP and a rise in inflationary pressures, aggravated by the country's withdrawal from the Central American Common Market. Stagnation in private investment and exports also reflected uncertainties in the private sector regarding socio-economic reforms then enacted. In 1974, the situation further deteriorated as prices for petroleum products and other imported goods rose, major export prices dropped, and Hurricane Fifi severely damaged the northern economic center and banana plantations. 1975 brought world recession and a prolonged drought (resulting in diminished grain harvest).

6.2 Recent Trends and Future Prospects

The Honduran economy made a strong recovery during 1976-78 (GDP growth averaged 7.4%) as public and private investment increased, banana production recovered, and world coffee prices soared (doubling in both 1976 and 1977). Larger export volumes of both coffee and bananas and increased public expenditures sustained the growth rate at 6.5% in 1979, despite falling coffee prices. However, a sharp drop in GDP growth to about 2% in 1980, reflected reduced capital formation (believed due to uncertainty caused by political unrest in Central America), weaker export performance, and a continued rise in imports. Inflation, moderate in recent years, accelerated sharply in 1979 to 19% and remained at about 14% in 1980.

Slower economic growth has been forecast for 1980-83 (World Bank predicted an average 5.6% yearly growth) due primarily to slower expansion of the main exports. Banana production has recovered to its pre-hurricane level and coffee reached a cyclical peak in 1979/80 harvest. Future growth depends on the expansion of other exports, particularly timber, but also beef, sugar, fruit and vegetables, and tourist promotion, as well as on retaining the confidence of the private sector and foreign lenders.

The emphasis of the GOH investment program for 1980-83 is on infrastructure (especially power and transport), export diversification (mainly toward forestry products), agricultural development to increase rural productivity and advance agrarian reform, and social welfare (especially health).

6.3 GNP/GDP

GNP at 1978 market prices (preliminary): $1,650 million, $480 per capita. GNP per capita (real) growth rates for 1970-77: 0.0%.

Source: World Bank Atlas, 1979. GNP at market prices rounded to US$ tens of millions. GNP per capita to nearest US $10.

GDP (1978)

National Accounts (1) (Millions of US$ at 1975 Prices)		Growth Rate 1977-1979
Gross Domestic Product	1,334.5	7.2
Gains from Terms of Trade	53.6	
Gross Domestic Income	1,388.1	3.7
Imports	607.0	8.4
Exports Volume	480.8	17.2
Exports TT. Adjusted	534.3	6.9
Resource Gap TT. Adjusted	72.6	
Total Consumption	1,128.8	4.6
Investment	331.9	4.1
National Savings	211.5	-4.9
Domestic Savings	259.2	-0.5
GDP at Current US$	1,819.0	18.4

6.4 Balance of Payments

Despite significant export growth in recent years (27% per year in dollar terms during 1976-78 and 20% in 1979), the balance of payments has shown large current account deficits as the level of imports has also risen (20% during 1976-78 and 18% in 1979), fueled by higher import prices and the expansion of economic activity. The current account deficit increased from US $154 million in 1978 to about US $183 million in 1979 (World Bank). International reserves have remained roughly at the equivalent of two months of imports of goods and factor services.

Heavy import requirements to carry out the public investment program, combined with expected slower export growth, will place a strain on future balance of payments. The current account deficit is expected to increase to about US $329 million by 1983, necessitating large capital inflows to finance it. The debt service ratio, 8.6% at the end of 1978, could increase to about 13% in 1986 and 15% in 1982, even if external borrowing continues to be on concessional terms.

6.5 Imports

Imports have grown at an average rate of 18.5% in recent years and were expected to have a dollar value of $1 billion in 1980. The percentage share of merchandise imports in 1977 was as follows: food (9), fuels (12), other primary commodities (2), machinery and transport equipment (31), other manufactures (46). Though the quantity of fuel imports rose only slightly between 1977 and 1980, the cost jumped from $71 million to a projected $176 million. The import value of food and edible oils rose from $49 to $80 million over the same period.

6.6 Exports

Primary commodities constitute the majority of exports (90% in 1977). Coffee and bananas are the leading products (each 27% of total in 1979), while beef, wood, and minerals each account for another 5-10% of exports. The value of agricultural and forestry exports doubled between 1975 and 1978; growth was projected to be less but still significant (39%) over 1979-80. The total value of exports was expected to reach $870 million in 1980.

The U.S. is the leading trade partner for both imports and exports, though imports from Japan and exports to the Federal Republic of Germany are also significant. In 1979 only 6.5% of exports and 10.8% of imports were with other Central American countries. Main markets for timber exports are in the Caribbean, Europe, and Central America.