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HONDURAS: THE IMPACT OF COVID-19 AND PRELIMINARY POLICY IMPLICATIONS

Interim report

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BACKGROUND

Due to the global pandemic generated by the COVID-19 the government of Honduras declared “state of emergency” in February (“Estado de Emergencia en el Territorio Nacional a través del Decreto Ejecutivo Número PCM- 005-2020, 10 de febrero 2020). The country suffered the first confirmed COVID-19 case on March 12th, 2020. The first death was registered on March 26th.

This short note covers the following topics until the time of this report. First, it shows the evolution of the pandemic, using different indicators. Second, it summarizes the main policy responses and costs and financing implied. Third, it shows some actual impacts with available data. Fourth, the modeling framework for the simulations is briefly presented. Fifth, it simulates different scenarios for the evolution of the Honduras’ economy until year 2022. A final section discusses some preliminary policy considerations.

Subsequent reports will update the information of this document and sharpen the policy conclusions.

EVOLUTION OF THE PANDEMIC

In Honduras, since the beginning of the pandemic and until October 15th there have been 84,852 confirmed cases of COVID-19 with 2,522 deaths.

Chart 1 shows the daily evolution of cases (top panel) and of deaths (lower panel) (note the difference in scale of the right axis).

CHART 1. DAILY EVOLUTION OF CASES AND DEATHS RELATED TO COVID-19

Source: WHO, 2020 <https://covid19.who.int/region/amro/country/hn>

Chart 2 shows the same variables but with the daily values accumulated.

CHART 2. CUMULATIVE VALUE OF CASES AND DEATH RELATED TO COVID-19

Source: WHO, 2020 <https://covid19.who.int/region/amro/country/hn>

The evolution of cases and deaths shows different recurring waves, which suggests that the pandemics has not reached a peak. The uneven development of the cases may be related to the back and forth in policy initiatives and measures taken by the government as discussed later.

Chart 3 uses two indicators, death per 100,000 population and the percentage of fatality to cases, to compare the conditions in Honduras to the world and Latin America and the Caribbean (LAC).

CHART 3. DEATHS PER 100,000 POPULATION AND PERCENTAGE OF CASE-FATALITY

Source: Johns Hopkins University <https://coronavirus.jhu.edu/data/mortality>

Considering the indicator of deaths per 100,000 population, Honduras is above the world average and median, and above the LAC median, but below the average (which is driven by high values in a smaller number of countries, particularly Peru, Bolivia, Chile, Ecuador, and Brazil). Regarding the rate of fatalities per cases, the country appears above the comparators, but it is in line with the average in LAC (3.1% against 3% in Honduras).

POLICY RESPONSES

As in other countries, the Government of Honduras (GoH) took a series of measures. Here they are organized in four groups:

1. The general legal and organizational framework to confront the pandemics
2. Policies and interventions that address the health emergency
3. Policies and interventions that sustain incomes and demand through social safety nets

4. Policies and interventions that operate on the supply side, focusing on production and employment

They are briefly discussed in what follows.

General legal framework and governance

A basic requisite to confront the pandemic is to have a general legal framework for the needed policies and interventions to be defined, and a coordinating mechanism for decision making and implementation.

State of Emergency

As noted, the government declared the “state of emergency” relatively early on February 10th, 2020. It was pretty wide in the coverage, suspending work, in the Public and Private Sector; prohibiting “events of all types and numbers of people are prohibited;” suspending the operation of public transport; suspending as well face-to-face religious celebrations; prohibiting the operation of businesses including shopping centers; and closing “all air, land and sea borders in the national territory.”

But at the same time there was a large list of exceptions, allowing people to circulate for “a) Acquisition of food, pharmaceuticals and basic necessities; b) Assistance to health centers, services and establishments; c) Displacement to the workplace to carry out their work, professional or business provision to the industries authorized in this same Decree; d) Return to the place of habitual residence; e) Health personnel who assist or care for the elderly, minors, dependents, people with disabilities or especially vulnerable people; f) Travel to financial, cooperative and insurance entities; and g) The circulation of private vehicles on the roads of public use will be allowed to carry out the activities referred to in the previous section or for fueling.” Public officials could also circulate if they worked for health institutions, police, the judiciary, “and the personnel duly authorized by the Secretary of State in the Office of Health and other Senior Officials of the Institutions of the Centralized and Decentralized.”

There was also a long list of exceptions related to trade and industry (which included health activities, but also “pharmaceutical industry, pharmacies, drug stores and companies dedicated to the production of disinfectants and hygiene products; Public transportation for health reasons and that contracted by companies within these exceptions to mobilize their workers; Gas stations; Markets, supermarkets, small markets, grocery stores and grocery stores. Restaurants with self-service who will be able to provide service only through the window Kitchen of restaurants that have home delivery and companies that are dedicated to home delivery, Hotels for accommodation and food to your guests' room; Security and security companies; Banks and credit unions; Agri-food industry including food and beverage distribution centers; Agricultural industry, agricultural harvesting work and agrochemical companies; Industry dedicated to the production of energy; Telecommunications, internet providers and the media including

radio, television, newspapers and cable companies; The air, sea and land cargo industry for import, export, supplies and ports; and all those activities carried out through information and communication technologies (ICTs).”

After the first cases on March 12th, the government stepped up the closures, suspending schools and education activities; suspending all governmental and non-governmental public events and shows; work was suspended in the Public and Private sectors; events of all types and numbers of people were prohibited; all sports, cultural and social activities were canceled; the operation of public transport was prohibited; face-to-face religious celebrations were suspended; all businesses including shopping centers were closed; air, land and sea borders are closed throughout the national territory. A curfew was instituted. And on March 21 the “state of emergency” was extended until December 31, 2020.

Central coordination

Honduras has an emergency management system, called Sistema Nacional de Gestión de Riesgo (SINAGER), which seems to have operated as a coordinating mechanism within the public sector.

On May 16, the Council of Ministers approved the Decree PCM-045-2020 that established a multisectoral body integrated by the private sector, civil society, churches, academia, maquiladoras, farmers, and the Government, with the task of advising SINAGER on the process of opening and reactivating the economy.

Policy responses related to health aspects

Obviously, when confronting a pandemic, health-related policies are central. They can be separated into three main categories: a) those designed to prevent or reduce contagions; b) those designed to track and isolate existing cases; and c) those designed to treat the sick.

Policies to prevent or reduce contagions

As noted, the government of Honduras implemented a series of measures that basically closed the economy on March, with some essential services still allowed to operate (see above), and access to retail grocery stores was restricted to certain hours and depending on the day and the last digits of the document of identification.

Since April and May the government started a process of re-opening some other activities including hardware stores, maquila activities, restaurants with delivery services, construction (depending on the priority of projects), and some government services. But some of these authorizations were reversed during June, due to increases in cases.

On May 23, it was promulgated the Law of Mandatory Use of Masks and Application of Biosafety Protocols (Legislative decree 58-2020), which established the obligation of using masks in public places public, in private gatherings with more than 5 people, when traveling in public transport or using elevators, as well as in those places where they carry out their work. Companies had to implement the biosafety protocols defined by the government.

Honduras started to reopen on early June 8 according to a plan that divided the country into three regions, which need not to be contiguous, based on the number of confirmed cases and population sizes in the municipalities included in each region. The region with municipalities with the fewest cases were supposed to implement a three-phase reopening (with 60 percent of workers returning to their jobs), while the region with most cases had implement five phases (starting with 20 percent workers returning).

The country started Phase 1 on late July (except some municipalities that remained in Phase 0 due to high rates of incidence of COVID-19), but there have been returns to previous phases, depending on the evolution of the pandemic, which as noted in a previous section, continues to move in waves without appearing to have peaked. The two main cities (Tegucigalpa and San Pedro de Sula) are the ones with most restrictions.

As of this writing, the conditions related to this group of policies seem to be as follows:

- *The national curfew was extended until mid-September.

- *Telework has been authorized in public and private institutions.

- *Continues the obligation of wearing masks in public and to follow biosafety regulations in all public and private sector activities, as mentioned before. An Inter-institutional Commission was created in May to verify and guarantee compliance with the corresponding biosafety protocols, and in the event of non-compliance, the commission may order the immediate closure of the company for the period of the national health emergency.

- *Transit still faces some restrictions based on identification cards, and with hours limited from 6 a.m. and 8 p.m, when curfew begins. But these restrictions seem to be loosening.

- *On June started a four-phase reopening plan of airports. Following the different phases, domestic flights resumed on August 10 and international flights on August 17, with new entry/exit sanitary requirements.

- *Schools and universities remain closed, with no date for reopening (as of this writing). There are some educational activities that are taking place virtually (but access to internet is limited in the country).

*Since March, the Secretaría de Agricultura y Ganadería (SAG) started to distribute permissions to farmers to ensure that they can deliver their production and get agricultural inputs during the period of curfew.

*Some informal markets in Tegucigalpa and Comayagüela were closed.

*Authorized businesses can open Monday through Friday. Shopping and essential activities are allowed from 6:00 a.m. to 8:00 p.m. according to the last digit of an individual's national identity card or passport number for non-Honduran citizens. From 7:00 to 9:00 a.m., supermarkets, pharmacies, and banks must serve only customers over 60, pregnant women and the disabled

*Sectors previously authorized to operate under Phase I, including non-essential businesses, were later closed in some cities.

A summary of conditions prevailing in different sectors can be seen in Table 1 (that will be updated periodically).

TABLE 1. Government restrictions and effects

Sector	Government restrictions	Direct effects
Agriculture	Social distancing and PPE	Minimal
Mining & crude oil	Closed initially, then reopened gradually, with social distancing, and PPE	High but declining
Manufacturing	Closed initially, then reopened gradually, with social distancing, and PPE	High but declining
Utilities	Regulated functioning, with social distancing, and PPE	Some
Construction	Closed initially, then reopened gradually, with social distancing, and PPE	High but declining
Wholesale & retail trade services	Special hours, social distancing, and PPE	Medium
Transportation, storage & cargo	Restricted initially, then allowed to restart gradually, with social distancing, and PPE	High but declining
Hotels & food services	Closed initially, except for take-out food, then reopened gradually, with social distancing, and PPE.	High
Banking, finance & insurance	Special hours, social distancing, and PPE	Medium
Professional & business services	Social distancing and PPE, with telework	Minimal to medium
Public admin & law enforcement	Closed initially for non-essential workers, then reopened gradually, with social distancing, and PPE. Law enforcement and	Medium to high

	essential workers excluded from re- strictions	
Education ser- vices	Schools and education centers closed	High
Health services	Social distancing and PPE	Minimal
Sports & entertain- ment	Sports & entertainment activities banned	High
Other services	Religious & other large gatherings banned initially, then gradually allowed	High but de- clining

Source: authors

The impact on mobility (and therefore on economic activity) of these restrictions can be seen in Chart 4.

CHART 4. CHANGES IN MOBILITY (PERCENTAGE FROM BASELINE)

Source: Google COVID-19 Community Mobility Reports <https://www.google.com/covid19/mobility>.

The data tracks mobility trends for six categories of activities “Retail and recreation” (places like restaurants, cafes, shopping centers, theme parks, museums, libraries, and movie theaters); “Grocery and pharmacy” (places like grocery markets, food warehouses, farmers markets, specialty food shops, drug stores, and pharmacies); “Parks” (places like national parks, public beaches, marinas, dog parks, plazas, and public gardens); “Transit stations” (places like public transport hubs such as subway, bus, and train stations); “Workplaces” (mobility trends for places of work); and “Residential” (mobility trends for

places of residence) (see details in <https://support.google.com/covid19-mobility/answer/9825414?hl=en>).

Chart 4 calculates the average for the month of data provided in the database, starting with February 2020 and ending with the last data reported at the time of writing this report. It is clear that in February, when no measures of containment were in place, there were no visible changes with respect to the baseline mobility. However, in March there is a strong decline in mobility that has been reversed somewhat since then, but still not reaching normal levels. Mobility related to the residences increased, given that other forms of mobility were restricted. The average for September, shown in Chart 4, are still -31.3% below baseline values for “Retail and recreation,” -20.7% for “Grocery and pharmacy,” -11.7% for “Parks,” -57.5% for “Transit stations,” and -37.5% for “Workplaces.”

Policies designed to track and isolate existing cases

Policies about testing are usually classified into four levels: a) No testing policy; b) Only to those who (a) have symptoms and also (b) meet specific criteria (e.g. key workers, admitted to hospital, came into contact with a known case, returned from overseas); c) Testing of anyone showing COVID-19 symptoms; d) Open public testing (e.g. “drive through” testing available to asymptomatic people). Honduras is in the b) category (Hale, Webster, Petherick, Phillips, and Kira (2020)).

Honduras is classified as country with limited contact tracing (in between no tracing and comprehensive tracing) (<https://ourworldindata.org/grapher/covid-contact-tracing>)

Policies designed to treat the sick.

Since the beginning of the pandemic the government has taken a series of measures to strengthen health services.

*Importation of test kits, phlegm extractors, ventilators, and alcohol-based gel.

*Investments and expenditures aimed at reinforcing health personnel, medical supplies and construction and equipment of care centers, hospitals, triage centers and mobile hospitals.

*Set up of health information dissemination. Transparency portal with COVID-19 information and a Citizen's Accountability module corresponding to 317,101 gel units in 4oz presentation and 18,286 units in a gallon presentation.

*Delivery of masks to affected zones

*Application in the Hospital Gabriela Alvarado of the “MAIZ” treatment (an experimental combination of microdacyn, azithromycin, ivermectin, and zinc).

*The requirement of formal university degrees for health personnel to be hired by the government was somewhat loosened (requiring a certification previous to the formal degree).

Policy responses related to safety nets

These are basically policies and interventions oriented to sustaining incomes and crucial expenditures of vulnerable populations, separate from the productive activities discussed in the following section.

The main program seems to be the distribution of food aid and health-related supplies to elderly population living in nursing homes, vulnerable families, and zones affected with outbreaks, mainly through the public program “Honduras Solidaria” (the latter covers an estimated 3.2 million individuals, with distribution taking place every two weeks).¹

Another program supported families with children part of the School Feeding program, which started to receive in-kind food transfers, by the Secretaría de Desarrollo e Inclusión Social (Sedis) and the Secretaría de Educación.

Other programs included: a) utility bill support, with CONATEL and Telecommunications Operations guarantee the continuity of all services for all Hondurans during the state of emergency; and b) expansion of financing for the “El Sueño de Ser Dueño,” a housing program that was expected to generate direct and indirect jobs

The government also enacted during March a freezing of prices of basic products and personal and household hygiene products “to guarantee that abuses are not committed against the population.” Later it instituted maximum prices for 30 products of the basic food basket.

Policy responses related to production and employment

Here the focus is on policies and initiatives oriented to maintaining production and employment, which sustain the supply side of the economy. But, to the extent that those productive activities generate incomes, they also contribute to strengthen the demand side of the economy.

Credit and banking facilities and regulations

Some of the measures implemented were the following, mainly through BANHPROVI (a public bank, that operates as a “first and second floor” institution) which was authorized “to take measures to guarantee financing to facilitate access to the productive sectors and to promote risk management and/or

¹ Based on Ugo Gentilini (WB), Mohamed Almenfi (WB), Pamela Dale (UNICEF), John Blomquist (WB), Harish Natarajan (WB), Guillermo Galicia (WB), Robert Palacios (WB), and Vyjayanti Desai (WB). Based on Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures. “Living paper” version 10 (May 22, 2020)

refinancing and readjustment of debts to natural or legal persons who are debtors of the financial system belonging to them”:

*As part of that broad mandate BANHPROVI implemented the following initiatives:

-provided different levels of guarantees to cover potential losses on new loans to SMEs and other companies (valued at 1.1 percent of GDP) (IMF, Policy Tracker). Funding comes from CABEL, the Central American public regional bank (IMF, Policy Tracker).

-BANHPROVI also allocated liquidity for about 0.9 percent of GDP to finance loans to SME and other sectors affected by the pandemic (IMF, Policy Tracker). Funding comes from CABEL, the Central American public regional bank. (IMF, Policy Tracker).

-BANHPROVI also announced a 3-month moratorium on service of its bank loans (which covered about 5 percent of total bank credit to the private sector) (IMF, Policy Tracker).

-BANHPROVI made available to banks 200 million lempiras to reactivate the construction industry

*The government also decreed different schemes of temporary debt service relief to companies and individuals with incomes affected by the pandemic, which financial institutions must comply with. These debt service relief must be extended without penalties or impact on credit classification

*There were expanded credit options through Crédito Solidario and the Entrepreneurship Service (SENPRENDE) to serve 5,000 entrepreneurs.

* The government announced financial support for private companies. HNL \$3,000 million would be available to lend for small companies of less than 10 workers to allow employers to provide salary payments during this emergency period.

Monetary policy

In 2020 the Central Bank of Honduras cut the policy rate in February 10 by 25 basis points to 5.25%; after the first deaths and with the beginning of the lockdown, it cut it a further 75 basis points to 4.5% on March 24; and on August 3, a further cut of 75 bps, to 3.75%. It also expanded liquidity through different mechanisms by about 3.5 percent of GDP (IMF, Policy Tracker).

Employment.

There were several measures to support employment and wages. Some of those included:

*Through the “Ley De Auxilio Al Sector Productivo y a Los Trabajadores Ante Los Efectos de la Pandemia Provocada por el Covid-19 – Decreto 33-2020” it was instituted a “Solidarity contribution for the temporary maintenance of jobs and income for workers during the validity of the national emergency.”

The purpose of the Law is that during a process of suspension of employment contracts before the Secretary of State in the Offices of Labor and Social Security due to the national health emergency of the COVID-19 pandemic (coronavirus), job stability is guaranteed , as well as the granting of a solidarity contribution, which ensures the survival of the workers and which, for the purposes of this Law, does not constitute salary. The main objective has been to maintain jobs and the sustainability of companies, "in order to mitigate any measure that leads to the definitive termination of employment contracts and closure of companies during the validity of the national health emergency." Workers who are subject to a suspension of contracts due to force majeure derived from the National Health Emergency, may receive a temporary solidarity contribution, which may be financed in the following way:

A) For workers who are affiliated with the Private Contribution Scheme ("Régimen de Aportaciones Privadas"), with the contributions made for this purpose by the State, the Private Sector and the Private Contribution Scheme (RAP). B) For workers who work in companies covered by the Free Zone Regime (Maquila), with contributions made by the State and the Private Sector for this purpose.

For workers who are affiliated to the Private Contribution Regime (RAP), the company will make a contribution in the amount of L.2,000.00, and the rest, until reaching a total of L.6,000.00, will be covered with contributions from the RAP and the State. For workers who work in companies affiliated with the Honduran Association of Maquiladoras (AHM), the company will make a contribution in the amount of L.2,500.00, and the rest will be covered by the public sector, until reaching a total of L.6,000.00.

*Employers may grant on account of vacations, the days that workers do not show up to work in their ordinary day due to the State of National Health Emergency.

Agriculture.

The sector has received special attention.

*Early on it was declared that the food-producing sector and the food agribusiness were a national priority. The "Food Security and Sovereignty Assurance Program" was created under the Secretary of State in the Agriculture and Livestock Offices (SAG) with the purpose of achieving an "orderly" system of national food production, with registration and traceability of the farms and the categorization of national and foreign producers.

*BANHPROVI made available lines of credit to banks, cooperatives, micro finance companies and rural savings banks, so that they could process the applications for "Agro credit 8.7"

*There was a special allocation of 200 million lempiras to provide technical assistance to producers of the Dry Corridor

*A Productive Solidarity Bonus was granted to 190,000 small producers planting of beans, corn, rice, vegetables, fruits, and other products.

*A registry of ejidal, fiscal and national lands was created under the Secretary of State in the Offices of Agriculture and Livestock to monitor the effective use of the land and ensure the land was available to national producers for food production.

- A single permit was established for the operation during the pandemic of agricultural production projects, food collection and distribution centers and economic agents in the food supply chain.

- The Honduran Institute of Land Transport was directed to authorize all pending resolutions and permits for transportation of food products within 10 business days.

- The obstruction of public roads that impede the passage of workers from the agro-industry and the food supply chain was prohibited.

*The National Congress approved a decree authorizing the National Development Bank Agrícola (BANADESA) to grant to farmers whose farms were auctioned since 2005, the first purchase option to that land. The producers would also receive credit under favorable conditions to reactivate their productive units

Tax changes

The government of Honduras implemented a variety of tax changes to support firms and households affected by the pandemic.

Basically the “Law of Assistance to the Productive Sector and Workers Faced with the Effects of the Pandemic Caused by Covid-19 (Decree 33-2020) determined the extension of terms and additional relief in terms of tax obligations. The law was approved on March. An extension was granted to taxpayers categorized as small and medium taxpayers and to natural persons and independent professionals for the presentation and payment of a variety of taxes from 2019 (the Income Tax, Solidarity Contribution and Net Assets Tax Return; the presentation and payment of the declarations of the Contribution of the Social Sector of the Economy; Specific Single Income Tax on Lease or Rental of Homes or Apartment Buildings; Special Contribution on Operating Surpluses obtained by Private Universities, Schools and Institutes of Preschool, Primary and Middle Education; and to the Social Contribution of the Cooperative Sector). The extensions varied by taxes and by the dates due, but many were moved to June and then some extended further to August, October and December, depending when they were due in 2020.

For taxpayers who will keep their employee payroll respecting the payment of wages and rights, an additional 10% will be recognized as a deductible expense for the 2020 fiscal period

Other measures include a) small and medium taxpayers who submitted a declaration and payment by April 30, 2020 would get a discount of 8.5%; and b) some procedural lenience to those that were not in compliance or missed deadlines; c) taxpayers who do not operate within the months decreed as a state of emergency are granted an extension of the deadlines for filing and paying the VAT return

Finally, the Legislative Decree Number 85-2020 established facilities for the payment of Municipal Taxes, authorizing the municipalities to grant discounts (up to 10%) for prompt payment of the taxes on goods and on real estate of the year 2020, and some postponement for the dates of payments under certain conditions.

Other measures

There were other measures aimed at simplifying administrative procedures such as the implementation of electronic commerce mechanisms and electronic signature authorization to import raw materials and supplies in free zones; the recognition of the electronic signature and certificates of foreigners; and the celebration of contracts and commercial business through virtual mechanisms during the quarantine.

Trade

There was a temporary export ban on certain dried leguminous vegetables, including specifically red beans, but it was discontinued early on.

COSTS AND FINANCING

The different measures mentioned above are estimated to increase the fiscal deficit of the Non-Financial Public Sector to 4% of GDP in 2020, when the 2019 deficit was 1% (IMF, Policy tracker).

The additional spending related to the pandemic is estimated in 2.1% of the GDP, allocated as shown in Table 2.

TABLE 2. ADDITIONAL SPENDING RELATED TO THE PANDEMIC

	As % GDP
Emergency healthcare expenditures	0.9
Temporary unemployment benefits to formal workers	0.6
Food aid to poor families	0.2
Cash transfers to informal workers	0.4
Total	2.1

Source: IMF, Policy tracker.

It is estimated that there will be a decline of taxes as result of the economic recession (1.5% of GDP), plus the reductions approved by Congress (corporate income tax for about 0.5% of GDP; temporary

VAT exemptions for medical supplies for about 0.1% of GDP; and the one-off income tax credit (10 per cent of salary expenses) for companies maintaining pre-crisis employment levels) (IMF, Policy tracker).

Part of these additional fiscal costs are supposed to be covered by reassigning nonpriority spending. But other will be financed by additional borrowing. Congress approved additional public borrowing in the amount of 2,500 million dollars in 2020-21 (or about 10% of GDP) (IMF, Policy tracker), allowing the government to raise its debt to GDP ratio to 55%.

Congress also approved a decree authorizing expedited purchasing procedures for emergency expenditures related to the crisis (IMF, Policy tracker).

The Central Bank of Honduras also increased liquidity through different measures (plus reducing the interest rates as discussed before) to help finance the additional lending mentioned in previous sections).

INTERNATIONAL CONDITIONS AND SHORT-TERM IMPACTS

Before the pandemic the economy of Honduras was growing above the average for Central America and for LAC as a whole: about 2% annual growth in GDP per capita, with inflation (measured by the consumer price index) of about 4% annually. The country has multiple strengths, such as a strategic location, a growing industrial base, an open economy with a diversification of exports, and a young and growing population. On the other hand, it faces high levels of poverty: 50.9% of the population at 5.5 USD PPP/capita/day (compared to about 24% for LAC); it is highly unequal with a GINI of 52.1; suffers from high levels of violence (more than 41 homicides per 100,000 inhabitants in 2017), and is very exposed to adverse natural events and climate change (World Bank, 2020 <https://www.worldbank.org/en/country/honduras/overview>). Honduras is also very dependent on remittances, with emigration pushed by inequality, climate shocks and violence.

The pandemic has impacted very negatively on an already difficult situation. The economy is expected to contract in 2020 by close to 6% (according to the latest figures of the World Bank) when at the beginning of the pandemic the estimates were far lower.

Chart 5 shows the evolution of the Honduras' economy since 2010, including the period from January to July 2020. The columns indicate the level of the index of economic activity, while the line shows the monthly rate of change compared to the equivalent month a year before (i.e. is the annual rate of change).

CHART 5. INDEX OF ECONOMIC ACTIVITY (JANUARY 2010-JULY 2020)

Source: Authors with data from Banco Central de Honduras

It is very clear the large decline in economic activity that started in March and reached the lowest point in April. There has been a slow recovery since then, but still with the level of activity well below the previous months, also reflected in strongly negative growth rates for May (about -22%) and still around -12% in July (as mentioned they are the annual rates, because the point of comparison is the same month the year before).

Chart 6 shows the same index of economic activity but disaggregated by productive sectors. The numbers shown are the rates of growth for the period of January to July 2020 (the latest data as of this writing), compared to the same month of the previous year.

CHART 6. INDEX OF ECONOMIC ACTIVITY BY SECTOR (JANUARY-JULY 2020)

Source: Authors with data from Banco Central de Honduras.

All sectors, except Telecommunications (which in fact increased its activity due to the pandemic), have declined in 2020 compared to the equivalent month the year before. Also, Agriculture has been very little affected as of this writing. As expected, due to the nature of the policy responses to the pandemic (quarantines and lockdowns, mainly in face-to-face activities), the declines have been particularly deep in Hotels and Restaurants (more than -80% in April and still at -70% in July). The other sectors that were badly hit have been Construction (-70% in April and still somewhat more than -20% in July); Mining (about -55% in April, and still around -20% in July); Transportation (-30% in April and still around that value in July); and Other Services (around -30% in April and -32% in May and still at -23% in July).

Chart 7 shows the annual rate of inflation for the consumer price index (CPI), by month, compared to the equivalent month of the previous year.

CHART 7. INFLATION (ANNUAL CHANGE)

Source: authors with data from Banco Central of Honduras.

The recession has forced a clear deceleration in overall consumer prices: inflation that were around 4% in annualized terms, dropped to around 2.5% in May-June.

However, some sectors show acceleration of inflation as shown in Chart 8, for Food and Non-Alcoholic Beverages, Alcoholic Beverages and Tobacco, and Health Products.

CHART 8: INFLATION BY SECTORS

Source: authors with data from Banco Central de Honduras.

It is clear that although overall inflation is declining (and some sector such as Clothing and Shoes, Lodging, Water, Electricity and Gas, and Transportation are dropping more than the rest; not shown) those basic items shown in Chart 8 need to be monitored more closely.

SIMULATIONS AND METHODOLOGIES²

The simulations start with year 2020 and extend to 2021 and 2022. There are three global reference scenarios and they are compared to the counterfactual of no Covid-19. Those three potential scenarios are related to the speed of recovery represented by different shapes of the upturn. A first scenario is **V-shaped**. It assumes quick control of the outbreak, financial stimulus for investors, central bank support and continued demand from national, regional and international markets. The second global scenario is **U-shaped**. It includes financial stimulus and central bank support, but the control of the outbreak is slower and/or the recovery of demand from national, regional and international markets also is sluggish. The third global scenario is **W-shaped**, with a slow recovery of demand that stays below pre-outbreak levels, followed by countries prioritizing national/regional markets over international markets, which would force a change in investment strategies and reallocation of capital across countries/regions. This scenario could also happen with a second outbreak of the virus.

The implications of the economic slowdown for poverty and food insecurity depend on the assumptions made about the duration of the pandemic and the transmission mechanisms.

The analysis was done focusing on a COVID-19 scenario for 2020 and under a range of assumptions of short-term impacts of the pandemic for the next two years. The factors underlying the socio-economic effects of COVID-19, such as health impacts, and the mitigation strategies the countries impose, including social distancing measures, restrictions on labor mobility and on international transport, define the design of the scenarios. Then using IFPRI's MIRAGRODEP model, this paper analyzes the impact of the pandemic on economic growth, incomes, employment, consumption, prices, trade, and poverty.

The direction of causality in the model is shown in Chart 9.

² This section is based on David Laborde, Will Martin, and Rob Vos (2020) Estimating the Poverty Impact of COVID-19. The MIRAGRODEP and POVANA frameworks. MIRAGRODEP TECHNICAL NOTE. 06/09/2020. https://www.researchgate.net/publication/342068871_Estimating_the_Poverty_Impact_of_COVID-19_The_MIRAGRODEP_and_POVANA_frameworks_1

CHART 9. MODELING FRAMEWORK

Source: Laborde, Martin, and Vos, 2020.

The methodology builds on David Laborde, Will Martin, and Rob Vos (2020) but differs in the epidemiological assumptions, which are based on the scenarios run by the London School of Hygiene and Tropical Medicine (LSHTM) (Pearson, Van Zandvoort, Jarvis, Davies, Thompson, Checchi, Jit, and Eggo, 2020).

RESULTS

The results are presented for the optimistic and pessimistic scenario. The intermediate scenario stays in between at the end of 2022.

Chart 10 shows the evolution of total GDP from 2019, comparing the baseline against the two polar scenarios.

CHART 10. GDP levels

Source: authors based on MIRAGRODEP

The year 2020 is the same in both scenarios (because it has played out almost completely), with an estimated decline of about 5.4% from 2019 (-5.4%).

Another way to think about the result is to compare it against the baseline without COVID-19 for the same year 2020, which shows a decline of about 8% (that is -8%). For 2021, the optimistic scenario considers a stronger rebound (+6.2%) while the pessimistic scenario suggests a stagnant economy with growth of only +0.5% (which, adjusting for population growth of more than 1.6% annually, indicates that in the pessimistic scenario GDP per capita would also decline in 2021). In the optimistic scenario total GDP would be barely above the 2019 level by 2021 and only clearly above that level in 2022, while in the pessimistic scenario total GDP in 2022 is about the same as in 2019.

In both scenarios, total GDP in 2022 would still be below what would have been the baseline growth without COVID-19, signaling a medium-term negative effect of the pandemic on GDP and GDP per capita.

Chart 11 presents annual growth rates for the three main sectors of the economy: agri-food, industry and services.

CHART 11. Sectoral GDP (Annual changes %)

Source: authors based on MIRAGRODEP.

Industry and services are expected to decline strongly in 2020 (-11.6% and -6.6% respectively). Services decline less in part because it includes the public sector, which in Honduras is relatively large compared to Guatemala, for example. But then both sectors rebound in 2021, strongly in the optimistic scenario, in which both sectors would be about 4% above the 2019 levels. In the pessimistic scenario however, by 2022 industry is still about at the same level of 2019, while services would be just 1.3% above.

The agricultural sector, on the other hand, is estimated to grow somewhat in 2020, but then decline in 2021 in the pessimistic scenario or show almost not growth in the optimistic one for the same year. But in both scenarios the sector recovers in 2022. By that year agri-food production would be about 4.8% above 2019 in the pessimistic scenario and almost 7% in the optimistic one. The delayed effect of the pandemic on agri-food production in 2021 suggests the need to closely monitor developments in that sector.

Chart 12 disaggregates the agri-food sector in three main components: crops, livestock and processed food.

CHART 12. Agri food growth rates

Source: authors based on MIRAGRODEP.

Crops, livestock and processed food grow in 2020, but all decline in 2021 (as noted in the previous Chart). They recover in 2022. All three subsectors would have recovered by 2022 above the 2019 levels: in the pessimistic scenario crops would be about 5.5% the 2019 level, livestock 3.6% and processed food 3.9%. In the optimistic scenario crops would be almost 8% above the 2019 level and the other two sectors would be close to 6% above 2019 levels. This can be compared with a population increase of about 5% by 2022 compared to 2019.

It should be noted that these are comparisons against 2019; if the comparison were made against the baseline then the three sectors would be between 6% and 7.5% below the baseline in 2022 (pessimistic scenario) and between 4.6% and 6% also below the counterfactual of no COVID-19 in 2022.

Chart 13 shows changes in consumption of food. They are measured against the baseline without COVID-19.

CHART 13. Food consumption

Source: authors based on MIRAGRODEP

Consumption declines in 2020 for dairy, meat and fruits, vegetables and pules (FVP); they also decline but less in the case of rice, other grains, and processed food, but increase with respect to the baseline for sugar and vegetable oils. This implies a shift towards consumption of less healthy diets. In 2021 all products decline compared to the baseline in the pessimistic scenario, but sugar increases somewhat in the optimistic one (also in 2022). The declines in food consumption are smaller in the optimistic scenario. In both scenarios, consumption of food in general, remains below the counterfactual.

Chart 14 shows the estimated evolution of poverty and Table 3 presents the changes in the number of poor and the related percentages of prevalence of poverty.

CHART 14. Extreme poverty

Source: authors based on MIRAGRODEP

TABLE 3. NUMBER OF POOR AND PREVALENCE RATE

Extreme Poverty	Number of People Change with respect to No COVID		Prevalence Rate (%)	
	U Shape	V Shape	U Shape	V Shape
2020	0.43	0.43	21.1	21.1
2021	0.12	0.02	17.9	16.8
2022	0.07	0.02	17.3	16.7

Source: authors based on MIRAGRODEP

Extreme poverty (measured at USD/PPP 1.9/person/day) is estimated to increase somewhat more than 400,000 persons in 2020, from the about 1.6 million that were calculated to be extreme poor in 2019. The subsequent reduction in the number of poor people depends on the speed and shape of the recovery. In the optimistic scenario the additional number of poor have been reduced to 20000 in 2021 and continue at that level in 2022, which means than even in the optimistic scenario poverty will be above 2019 levels by 2022. The pessimistic scenario estimates that the number of additional extreme poor reaches about 120,000 people above 2019 levels in 2021, but declines to 70,000 in 2022, with an even longer lasting effect on poverty. Poverty prevalence will increase from about 16.5% in 2019 to 21.% in 2020, and would still be above the pre COVID-19 levels in 2022.

SOME PRELIMINARY POLICY CONSIDERATIONS

Health issues

The simulations by LSHTM estimated the number of deaths under different scenarios after 6, 9, and 12 months, starting with a seeding of 50 cases in early April. In the unmitigated scenario (no measures of any type) the estimated deaths by September would have reached about 22,000 (using the lower bound of the 95% estimates of LSHTM for Honduras). At the time of this writing the reported number of deaths was about 2,500. The comparison of the actual case with the simulations of what may have happened in the unmitigated case may be inaccurate because a) the model may overestimate the number of deaths in that case; or b) that the number of true deaths is higher than officially recorded. Still, using those estimated it seems that the number of deaths avoided by the measures taken would have been around 20,000, and about half of that would have been for people below 60 years old.

The impact of the pandemic is estimated to continue in 2021 and 2022, affecting GDP, poverty and food security.

Social protection

Social safety nets will have to be maintained and expanded. Before the pandemic, Honduras had the second to lowest levels of expenditures on social assistance programs in Latin America and the Caribbean (less than 0.5% of GDP in the last data available in 2018) (see Chart 15).

CHART 15. Social protection as percentage of GDP

Source: ASPIRE database, World Bank.

Chart 16 shows the division of social assistance across different programs.

CHART 16. Public spending on social assistance programs

Source: ASPIRE Database, World Bank.

The main programs are conditional cash transfers, a broad category of “other social assistance” and food in-kind.

Chart 17 shows the distribution of the CCT program across quintiles.

The first indicator is the incidence of beneficiaries and refers to how the total transfers are distributed in persons per quintile. That is, of all those who receive conditional transfers, how many people are in each quintile (they have to add 100% for all quintiles). The benefit incidence refers to how the value of the total transfers is distributed by quintile. That is, of all the amount of money that was distributed in subsidies, what value was received by each quintile (which also have to add 100% for all quintiles). Data for Honduras is compared to the average for Central America and Mexico (CAM) and for Latin America and the Caribbean. The data correspond to the last years in the database (usually 2015-2016, but for Honduras it is 2014).

CHART 17. Incidence in beneficiaries and benefits

Source: Authors with data from ASPIRE.

Compared to CAM and LAC, Honduras has fewer beneficiaries in, and a lower value of benefits for, the two poorest quintiles (and especially the poorest), while there are a higher percentage of beneficiaries in rich quintiles, and therefore these groups receive more benefits than the average for the region and the subregion.

Therefore, the information shown in Charts 15 to 17 indicates that Honduras does not spend a high percentage of GDP compared to other countries in the region, and secondly, that the distribution of benefits among the different income quintiles indicates that the poorest groups receive relatively fewer resources than in other comparable countries. (and, on the other hand, higher-income sectors receive comparatively more funds in Honduras).

This suggests two types of adjustments: a) better targeting with the same levels of spending; and b) an increase in the level of spending.

The first is obvious if the objective is to help the poor, when now part of the money is leaking to higher income groups.

Regarding the second aspect, the additional expenditure on social protection were estimated in 0.2% of the GDP (food aid to poor families) and 0.4% (cash transfers to informal workers). If maintained, that value would still place Honduras among the LAC countries with lower levels of expenditures (see Chart 15).

A third aspect to consider is the reconceptualization of the operation of CCTs to adapt them to rural conditions. It has been argued that in many of the countries, social assistance programs in rural areas have simply been a mechanical extension of the urban social protection system, in which those in formal employment receive benefits within contributory systems and the poor and those with informal jobs are served with non-contributory schemes, to try to remedy ex post labor problems and income distribution (see for example, FAO, 2016).

This discussion is leading to consider the development of specific models of social protection that consider the specific characteristics of the peasantry, small producers, and informal workers in rural areas (see, for example, Natalia Winder 2018; Ana Paula de la O Campos et al. , 2018; FAO, 2016, 2017 and 2018).

Honduras could analyze the adequacy of conditional cash transfer programs in rural areas, expanding the focus to productive and technological support that can contribute to improving the economic and environmental sustainability of the families involved. It seems relevant the analysis and creation of an instrument for the rural area that can combine the social, productive, and environmental dimensions, with a percentage of cash transfers related to poverty levels; another to cover the additional cost of implementing sustainable adaptation and mitigation technologies; and another for environmental, forest, biodiversity, and ecosystem protection/restoration services. This instrument could include other forms of productive, organizational and commercial support for poor producers.

Additionally, the emergence of the “new poor” from the current pandemic should also lead to expansion and reconfiguration to the urban programs.

Nutrition problems

Lower incomes or no incomes (and perhaps increases in prices in the domestic prices of some foods due to supply disruptions and devaluations) are in general leading to declines in food purchases in general and to some shifting of purchases towards cheaper and less nutritive products (buying more

starchy and calorie-intensive products and less of those rich in proteins, vitamins and minerals) (Headey and Ruel, 2020). These problems are also highlighted in the simulations presented here. Diets need to be monitored at a more granular level and evaluate their long-term effects on human health.

The combination of lower quality and quantity of diet, along with limitations in nutritional and health services, problems with water and sanitation, and population density in low-income urban areas, would weaken individual immune systems increasing the vulnerability and chances of dangerous contagion among the poor and vulnerable (Headey and Ruel, 2020).

Food value chains

The simulations suggest that the worse part for the agricultural may be in 2021. Food value chains will have to be under monitoring to avoid disruptions, particularly in the case of staples such as beans and corn.

Honduras also needs to invest more in R&D in agriculture: the country is the third to last country in LAC with just 0.17% of the agricultural GDP (average for LAC 0.71%) and the seventh to last with 13.2 full time employed researchers by 100,000 farmers (average for LAC 71.3 FTE/100,000 farmers). The additional investment is necessary not only to improve productivity and to adapt and mitigate climate change, but also, as the pandemic has dramatically demonstrated, to make food value chains resilient to health shocks.

Macroeconomic policies for the pandemic

Public debt, which was below 43% of the GDP in 2019, is estimated to increase to about 51% by 2023 (IMF, 2020), indicating that Honduras has some fiscal space if there is the political decision to address the social problems that pre-existed the pandemic and have been greatly exacerbated by it. Fiscal, monetary, and exchange rate policies will have to be managed in a consistent manner to ensure a sustainable macroeconomic path going forward (Díaz-Bonilla, 2020).

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