Two shocks and an unpaid bill

Oil prices and El Niño are weighing on Honduras' economy.

NOVEMBER 4, 2026

Summary

Honduras is facing two major external shocks to its economy: high oil prices and one of the worst droughts in 35 years, caused by El Niño. Both are already affecting prices, power generation costs, and public finances—and, as of August, agricultural production. The question now is: who will pay the mounting costs?

Two shocks at once, with risks through 2027. The benchmark oil price for Honduras rose more than 50% between July and September, and its volatility makes planning difficult for households, firms, and the government. At the same time, the drought hit crops hard because of a lack of rain over the country's agricultural area in May, right at the start of the planting season, when rainfall was 45% below average. Today, nearly half the population lives in municipalities under alert, and below-normal rainfall is forecast through mid-2027.

Prices rise, driven by fuel and food. Cumulative inflation reached 5.3% as of September, higher than the full-year figures for both 2024 and 2025. For now, price increases are concentrated in transport and food, driven in part by diesel, which rose 69% in Tegucigalpa between March and September. Although inflation has not yet spread to all prices, the increases are hitting vulnerable households hardest in a country where more than 1.8 million people face severe food insecurity.

Generating electricity costs more, but power bills do not yet reflect it. With less water in reservoirs, hydroelectric generation fell 30% between June and September, and more than half of the country's electricity came from plants burning bunker fuel and diesel—just as oil was at its most expensive. That largely explains why generation cost 52% more than projected between June and August. Passing that cost on to electricity bills would mean a 21% rate increase.

Public finances absorb part of the blow, with little room to maneuver. So far in 2026, the state has spent 66% more on fuel and transport subsidies than in 2025. And the six-month freeze on electricity rates could leave up to US$213 million in unpaid costs, with no clarity on who will cover them. As of October 12, the Empresa Nacional de Energía Eléctrica (ENEE) has already borrowed almost twice what was budgeted for the entire year. The 2027 draft budget also leaves little room to maneuver. Fuel subsidies would receive less than was spent between January and September 2026, and public debt service would consume one of every five lempiras.

Output does not yet reflect the full impact of the shocks, but there are warning signs. The economy was already losing momentum. Gross Domestic Product (GDP) grew 2.7% in the second quarter of 2026, down from 3.9% a year earlier, with growth concentrated in the financial sector, while manufacturing contracted and formal employment stalled. For now, consumption and remittances are sustaining economic activity. But the shock could hit production

through two channels: by directly reducing agricultural output and weakening household consumption. In August, agricultural output was already 9.2% lower than in 2025, and the greatest impact is expected between late 2026 and early 2027. And if rising prices curb household spending, private consumption—the main engine of demand in the economy—could weaken.

In the country's external accounts, oil drives up the cost of imports. The oil bill is also putting pressure on the external balance (the difference between dollars entering the country and those leaving). Through August, imports grew 8.6%, and for every 10 additional dollars spent on imports, six went to fuel. This helped push the trade deficit up 22% compared to 2025. Even so, there are counterweights. Exports outside the maquila (export-processing) sector continue to grow, this time with a greater share coming from products other than coffee, and remittances are rising despite a less favorable migration environment.

December will begin to provide answers. The blow to production will depend largely on El Niño, which continues to strengthen and could reach peak intensity by the end of the year, and on how interest rates respond. If the US Federal Reserve raises its rate in December, or if food and transport prices stay high for longer, pressure would mount on the Honduran Central Bank to raise the Monetary Policy Rate (MPR) again, potentially slowing the recent momentum in commercial credit, which had been expanding at a solid pace. Meanwhile, the passage of the 2027 budget and the resolution of the electricity tariff freeze will determine how much of the shock the government and the ENEE must absorb. Those decisions will help shape the final cost of these shocks for Honduras.

Oil price volatility clouds the economic outlook for Honduras

Honduras now faces a tougher external environment. In the third quarter of 2026, fuel prices rose sharply again, leaving the country among the most exposed economies, since it imports all the oil it consumes. Other economies have managed to offset the blow through investment and trade linked to artificial intelligence (AI)[1]. Honduras, by contrast, has remained on the sidelines of that boom[2].

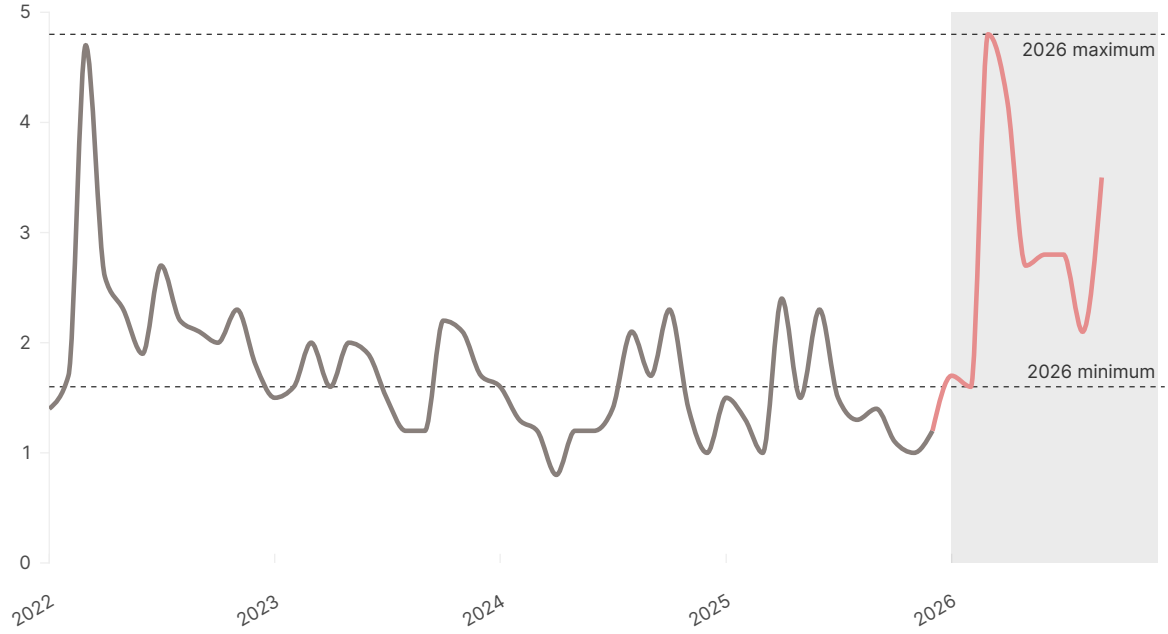
The price of the oil that serves as a benchmark for Honduras, the West Texas Intermediate (WTI), jumped from US$70 per barrel in early July 2026 to $107 on September 15, following the escalation of conflict around Hormuz and Bab el-Mandeb straits; it closed the month near $96 as negotiations reopened between the United States and Iran.

Yet in 2026, the challenge is not just the price of oil, but its day-to-day volatility. Between 2022 and 2025, that daily swing ranged from 1% to 2.5% month after month. In 2026, it has not fallen below 1.6%, peaking at 4.8% in March and reaching 3.5% in September (Figure 1). In other words, in March the price swung by an average of nearly 5% from one day to the next. For Honduras, this volatility hits producers, consumers, and public finances alike, complicating planning and budgeting. New uncertainties compound the issue, including the possibility that the White House might restrict diesel exports[3].

FIGURE 1

In 2026, oil prices fluctuated more than in any of the last four years

Monthly average of daily changes in the WTI price, January 2022–September 2026 (%)



Source: U.S. Energy Information Administration • For each business day, we calculate how much the price changed from the previous day, whether it rose or fell. Each point on the line is the average of those changes in the month: 4.8% means that in March 2026 the price moved, on average, 4.8% per day.

In response to global conditions, several central banks have tightened policy to curb inflation. In September, the US Federal Reserve (Fed) raised its benchmark rate[4], and other central banks followed suit[5]. At the same time, long-term borrowing costs rose for several sovereign issuers[6]. For Honduras, this means more expensive external financing and upward pressure on domestic interest rates. If Honduran rates lose their appeal relative to international returns, capital is likely to leave the country in search of higher yields.

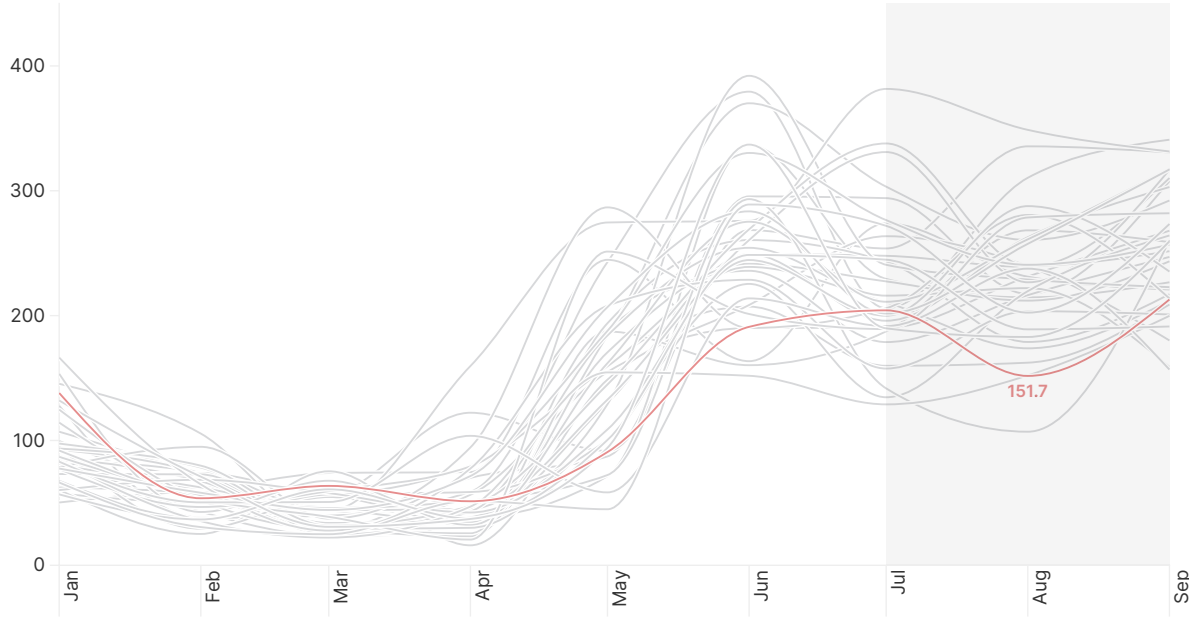
A historic El Niño drought begins to hit crops

Alongside oil pressures, Honduras now faces a very different shock. El Niño, which we highlighted in the previous Radar and which brings reduced rainfall to Honduras[7], left the country with one of its driest July–September periods since 1991 (Figure 2). This August was the second driest since 1991, surpassed only by the 2015 drought. Over these three months, rainfall was 20% below the historical average since 1991 (CHIRPS)[8]. In response, the contingency agency, the Comisión Permanente de Contingencias (COPECO), maintained alerts across at least 233 municipalities in early October, covering nearly 80% of the national territory and roughly 5.6 million people—almost half the population.

FIGURE 2

August 2026 was the second driest since 1991

Monthly rainfall in Honduras, January to September, 1991 - 2026 (millimeters of rainfall)
1991-2025, one year per line — 2026



Source: CHIRPS v3 (Climate Hazards Center, University of California, Santa Barbara) • CHIRPS estimates monthly rainfall on a grid of cells of about 5 km. To obtain a national figure, we average all cells within the borders of Honduras (following GADM 4.1).

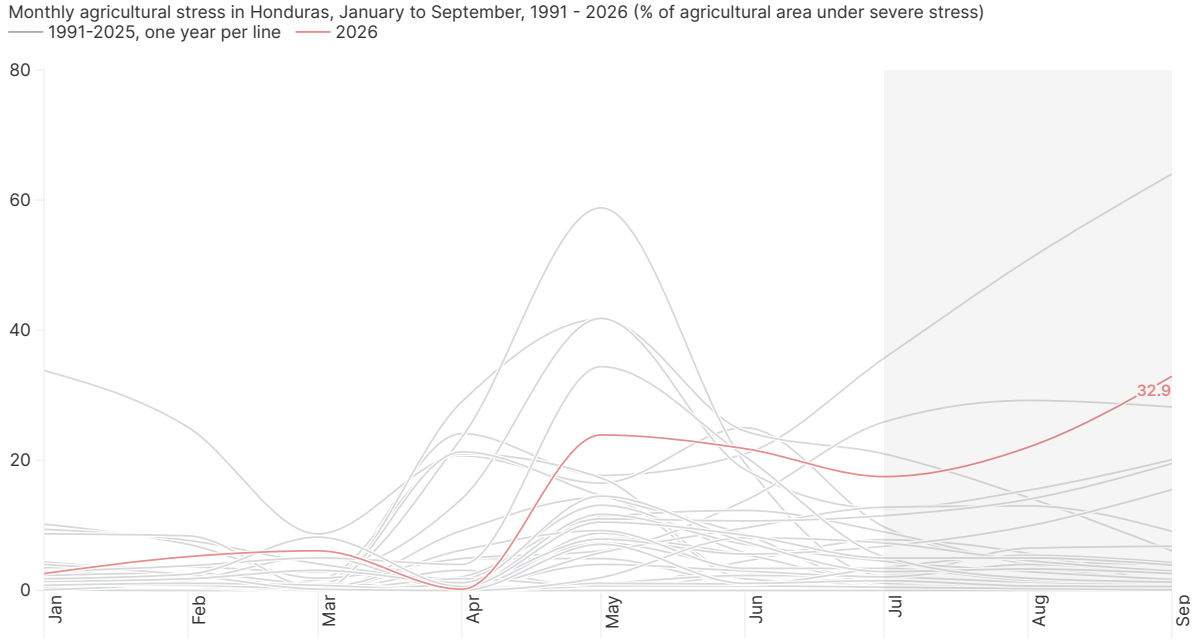
Although other years saw lower overall rainfall, the 2026 drought is hurting crops more than any dry spell in the last 35 years, because the rains failed precisely when they were needed most. At the start of planting in May, rainfall was 45% below the historical average across the country's crop area[9]. During the *canícula* (the customary mid-year rainfall lull in July and August), the deficit reached 39% in Choluteca and 31% in Ocotepeque and Lempira. By late September, nearly a third of the country's cultivated area showed water stress[10]—the highest level recorded for that date since 1991 (Figure 3).

This already historic drought could worsen further. According to the US climate agency (NOAA), there is more than an 80% chance that El Niño will break the 1982–83 record between October and December[11]. In Honduras, the national weather service, the Centro de Estudios Atmosféricos, Oceanográficos y Sísmicos (CENAOS), forecasts below-normal rainfall through mid-2027, which would overlap with the start of the *Primera* season—the year's first planting cycle, running from May to October. The economic toll is only beginning to ripple outward, particularly through food prices and electricity generation, as detailed below.

FIGURE 3

September's agricultural stress was the highest in 35 years

Monthly agricultural stress in Honduras, January to September, 1991 - 2026 (% of agricultural area under severe stress)



Source: FAO GIEWS, Agricultural Stress Index System (ASIS) • Severe stress: agricultural area where the Vegetation Health Index (VHI), observed by satellite and averaged since the start of the Primera season, falls below 35%. FAO publishes the index every ten days by department; the monthly value is the average of those three readings, and the national figure weights each department by its cropland area. Sendas calculations.

Oil and drought are pushing up domestic prices

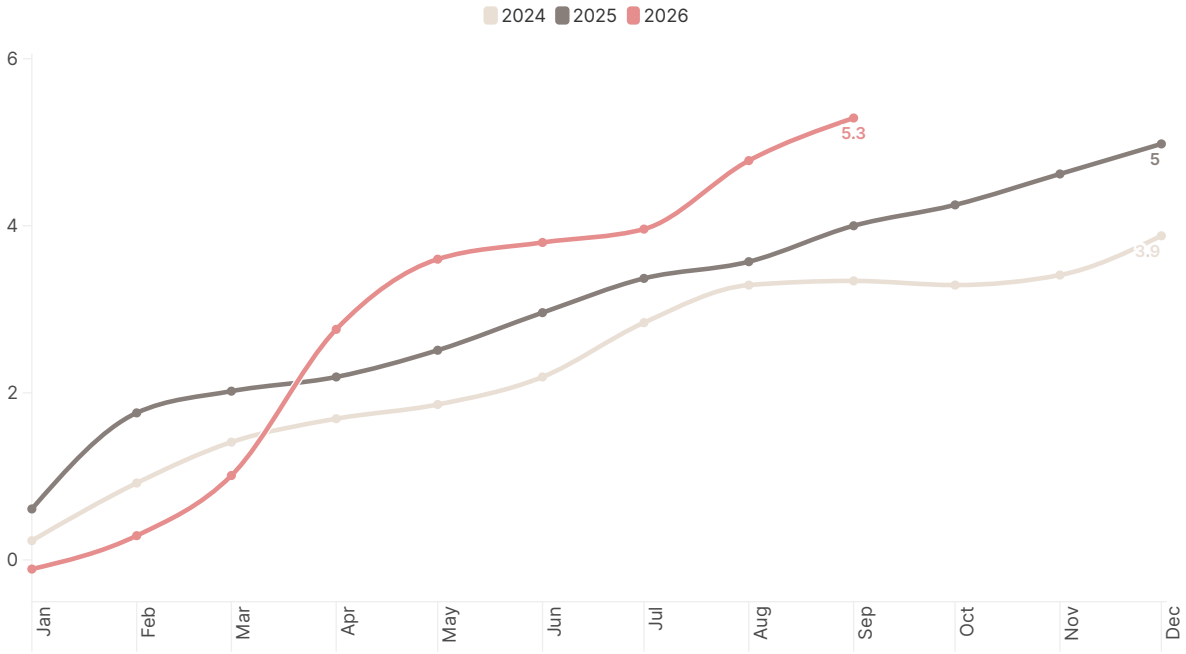
Between January and September 2026, cumulative inflation[12] reached 5.3%—more than in all of 2024 or 2025. The shift in trajectory began in March, with the rise in fuel prices, and has strengthened in subsequent months. Since then, inflation has remained above the levels of the previous two years (Figure 4). In September, prices rose 6.3% compared to the same month in 2025. Inflation has now been above the BCH's 5% tolerance ceiling for six consecutive months[13], and the year is projected to close at 6.7%[14].

This surge in prices stems largely from external shocks. In September, transport and food accounted for three-quarters of the monthly price increase (0.3 and 0.1 percentage points, respectively) (Figure 5). Transport costs reflect higher fuel prices; food costs increasingly reflect the impact of El Niño. Excluding fuel, basic foodstuffs, and utility tariffs, other prices rose just 2.4% over the year[15]. In other words, price pressures have not yet fully spilled over into the broader economy, but second-round effects are likely to emerge.

FIGURE 4

In nine months, inflation has already exceeded that of all of 2024 and 2025

Cumulative inflation relative to December of the previous year, 2024-2026 (%)

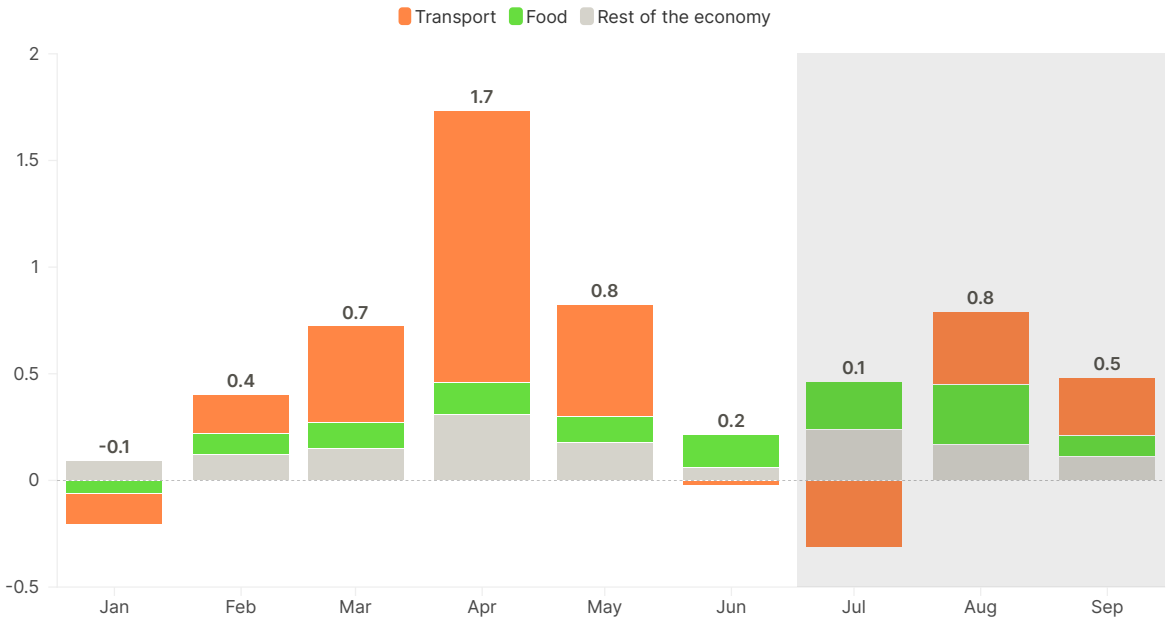


Source: Banco Central de Honduras. • Each point is the change in the consumer price index relative to December of the previous year; the slope between two months is the monthly inflation.

FIGURE 5

Transport and food explained three quarters of September inflation

Contribution of food, transport and the rest of the basket to the monthly change in the CPI, January to September 2026 (percentage points)



Source: Banco Central de Honduras. • The label above each column is monthly inflation. Food corresponds to the Food and non-alcoholic beverages division; the rest includes housing and electricity, restaurants, health, education and the other divisions. In April and July, the electricity tariff adjustment explains much of the rest (0.19 and 0.17 points).

Because it powers freight transport, diesel transmits price hikes rapidly through the economy, filtering into freight rates, food costs, and retail prices[16]. Between March and September, diesel prices in Tegucigalpa rose 69% (Table 1). To cushion the blow, the government expanded its price-absorption subsidies, raising coverage from 50% to 65% and eventually to 70% of each increase, and suspended the tax on diesel[17]. These measures have softened the price shock, but at a cost to public finances, as examined below.

TABLE 1

All fuels rose between 41% and 69% since the closure of Hormuz, except LPG

Retail price in Tegucigalpa, March and September 2026 (lempiras per gallon and percentage change)

Fuel	March 2	September 28	Change
Super gasoline	106.5	153.2	44%
Regular gasoline	96.1	135.3	41%
Diesel	90.6	153.5	69%
Kerosene	82.8	138.4	67%
LPG (25 lb cylinder)	238.1	249.6	5%

Source: Secretaría de Energía (SEN). • LPG = Liquefied Petroleum Gas

Meanwhile, food prices are rising against a backdrop of severe drought, creating acute risks for agricultural production. With El Niño expected to strengthen in the coming months, the shock threatens a country where more than 1.8 million people face severe food insecurity and half of rural households live in extreme poverty[18]. When families must spend a larger share of their income on food, they cut back on everything else—dragging down private consumption, the primary engine of Honduran economic growth.

Finally, in September, the BCH raised its monetary policy rate (MPR), the benchmark rate that anchors the cost of domestic credit, for the first time in nearly two years, from 5.75% to 6.00%. The primary goal was not to reverse price increases that have already occurred, but to prevent inflation from gaining further momentum[19]. First, the BCH aims to preserve a prudent spread between the Fed's policy rate and the MPR to avoid depreciation pressures on the lempira, which would drive up import costs and accelerate inflation. Second, the move seeks to contain second-round effects—preventing higher fuel and food prices from bleeding into broader domestic prices. The immediate consequence will likely be higher borrowing costs, at a time when lending has been one of the fastest-growing indicators this year.

The financial sector and consumption sustain an economy that is losing steam

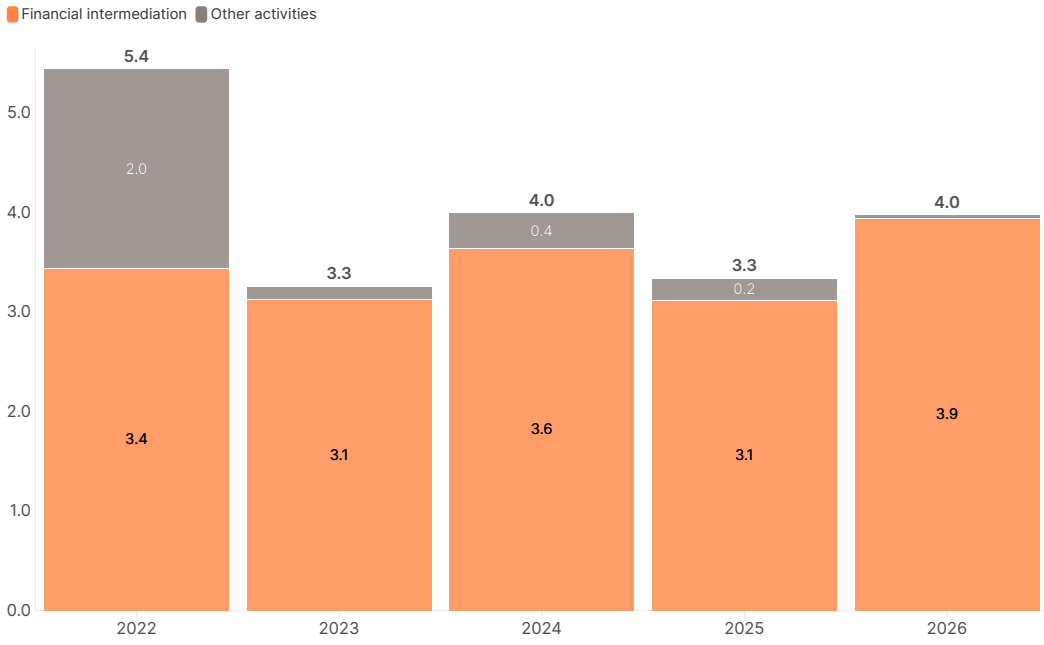
The Honduran economy is slowing, according to the two main output measures. Through August 2026, economic activity, as measured by the Monthly Economic Activity Index (IMAE), grew by 3.8%, just below the 3.9% recorded over the same period in 2025[20]. The slowdown is more pronounced in gross domestic product (GDP), which grew 2.7% in the second quarter compared to 3.9% in the second quarter of 2025[21].

The financial sector continues to drive most of the growth, while manufacturing keeps losing steam. Through August 2026, financial intermediation (the activity of banks and other institutions that take deposits and lend money) accounted for more than 90% of IMAE growth[22] (Figure 6), while manufacturing and other services subtracted from growth[23]. **As previous editions of the Radar highlighted, manufacturing remains weak.** GDP figures show manufacturing value added fell 2.3% in the second quarter of 2026. A rebound in the sector is critical, as it is the country's third-largest source of employment[24], employing 12% of the workforce.

FIGURE 6

Financial intermediation sustains growth in the Monthly Economic Activity Index

Contribution to the cumulative January–August change in the Monthly Economic Activity Index, original series (percentage points). Above each bar, the total change (%)



Source: Banco Central de Honduras. • Cumulative change January–August of each year relative to the same period of the previous year. Contribution = weight of the branch × year-on-year change in the sum of its index in January–August / sum of the total index in January–August of the previous year; weights from the 2000 base published by the BCH. Other activities = the other ten branches of the index, including other services, where FISIM is subtracted and net taxes are added. Due to rounding, the parts may not add up to the total.

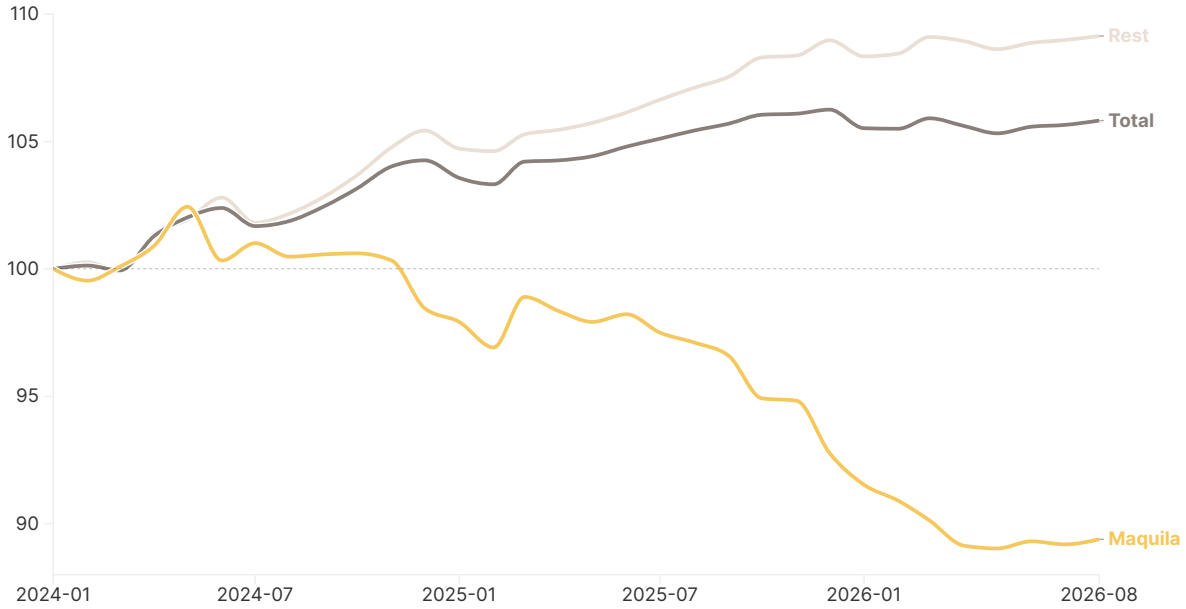
The latest formal employment figures reinforce this assessment. Formal job creation, measured by the number of workers contributing to the Instituto Hondureño de Seguridad Social (IHSS), has slowed sharply. In August 2026, formal employment rose by just 3,111 workers

year-on-year (+0.4%), compared with an increase of 28,212 (+3.5%) in August 2025. **Manufacturing, particularly the maquila sector, has taken the hardest hit, with formal employment shrinking 7.9% over the same period** (Figure 7).

FIGURE 7

Formal employment stalled and the maquila has accumulated two years of decline

Employed persons contributing to social security, January 2024 to August 2026 (index, January 2024 = 100)



Source: Sendas calculations based on information obtained from the Instituto Hondureño de Seguridad Social (IHSS). • Microdata on employed persons by employer and economic activity (social security contributions). Maquila = activity codes 150 (maquila) and 156 (maquila under the ZOLI regime). Rest = total minus maquila.

The impact of the El Niño phenomenon and the drought on production is beginning to show in agriculture. In August 2026, agricultural production fell 9.2% compared to the same month in 2025. Although we do not yet have more detailed data, preliminary assessments report losses near 30% in maize from the *Primera* cycle and drops of 35% to 40% in milk production. The Instituto Hondureño del Café (IHCAFE) also projects that the drought could reduce coffee production by more than one million quintals compared with what the country would have produced under favorable conditions. And the largest impact has not yet been seen. During the previous El Niño episode, the effect arrived with a lag, when agricultural production continued to grow during 2023 and fell in 2024. If that pattern repeats, the highest cost to production would arrive between the fourth quarter of 2026 and the first quarter of 2027.

The second shock, rising oil prices, could squeeze household spending in the months ahead. Thus far, private consumption has propped up the economy: it grew 4.4% year-on-year in the second quarter, contributing 3.6 percentage points to GDP growth of 2.7% in the quarter. The critical vulnerability is investment, the driver of future productive capacity. It contracted by 1.2% in the second quarter as a modest 1.3% gain in private investment failed to offset a 17.7% collapse in public investment. If higher consumer prices curb household spending, domestic demand will be left with virtually no support.

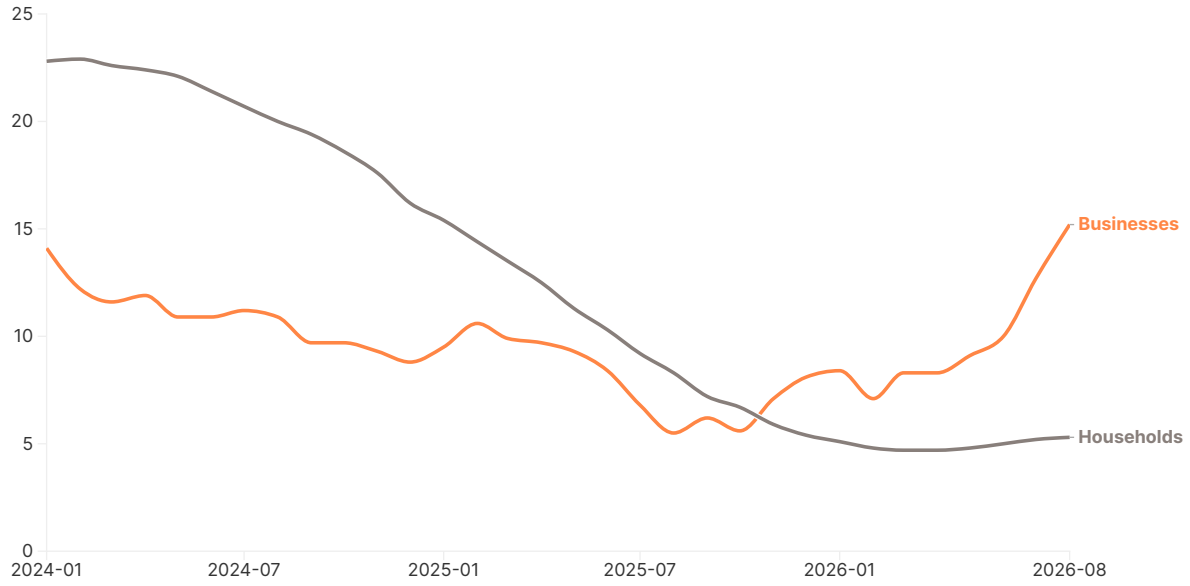
Business lending accelerates, but rate hikes could stall it

As previously discussed, financial intermediation continues to anchor much of the growth in Honduras. And unlike productive sectors, financial activity is gaining momentum. Financial system credit to households grew 5.3% year-on-year through August 2026, while lending to firms surged 15.2%. Two years ago the pattern was reversed: in August 2024, household credit was expanding at 20.0% and business credit at 10.9% (Figure 8). This shift is equally visible in new loan disbursements, which reached 362.426 billion lempiras between January and July 2026—up 20.1% year-on-year, compared to just 2.4% growth over the same period in 2025. Agriculture led the turnaround: new lending to the sector swung from a 0.3% contraction in 2025 to 83.6% growth in 2026, followed by services (62.2%) and real estate (36.8%), three segments where borrowers are predominantly corporate.

FIGURE 8

Credit to businesses takes over from credit to households

Financial system credit to the private sector, January 2024 to August 2026, year-on-year change in the outstanding balance (%)



Source: Banco Central de Honduras. • Households includes non-profit institutions serving households. Balances in lempiras and dollars. Data for 2025 and 2026 are preliminary.

Credit expanded in part because bank lending became cheaper. The average interest rate on new lempira loans fell from 15.9% in July 2025 to 12.1% in July 2026, while rates on agricultural loans fell from 17.1% to 11.5%—the sharpest decline across any economic sector. Borrowing became cheaper largely because bank funding costs fell: the deposit rate dropped from 9.8% to 6.9%[25]. This reflects a shift in deposit composition. While total deposits expanded 12.5%, growth was concentrated in demand accounts that pay minimal interest, and higher-yielding term deposits declined. As a result, the interest rate spread[26] widened from 6.6 to 7.1 percentage points.

This lending cycle could stall in the fourth quarter following the recent MPR hike. The BCH estimates that for every 100-basis-point increase in the policy rate, lending rates rise 0.71 percentage points in the short term and by up to 1.4 points over 16 months. Indeed, average lending rates have already ticked up to 12.25% in August and 12.29% in September. For now, am-

ple bank liquidity is cushioning the impact: available lempira funds[27] are up 28.8% year-on-year, though that is down from a 52% expansion in June. If buoyant business credit finances productive investment, it could help offset external headwinds. With interest rates heading higher, however, that momentum is set to cool toward late 2026.

The latest available data show that the drought has not yet translated into higher non-performing loans (NPLs), which continue to fall. The bank NPL ratio declined from 2.6% to 2.3% between August 2025 and August 2026, and the agricultural delinquency rate dropped from 4.0% to 3.7% as of June. Warning signs, however, are mounting. The banking system's portfolio at risk rose 12.8% between June 2025 and June 2026, and agricultural lending is the only segment exhibiting "increasing" risk. By June 2026, restructured agricultural loans were 29.4% higher than a year earlier. In September, **the Comisión Nacional de Bancos y Seguros (CNBS) approved relief for borrowers in the 75 municipalities under a state of emergency, allowing loan restructuring requests through February 28, 2027, and freezing risk ratings at their August 31 level to prevent** automatic downgrades. This should help buffer producers as cash flows deteriorate.

> *The country needs financial deepening to translate into production: commercial credit is expanding at 15.2% while overall investment contracts and formal employment inches up by just 0.4%.*

Drought drives up power generation costs, but electricity bills are on hold

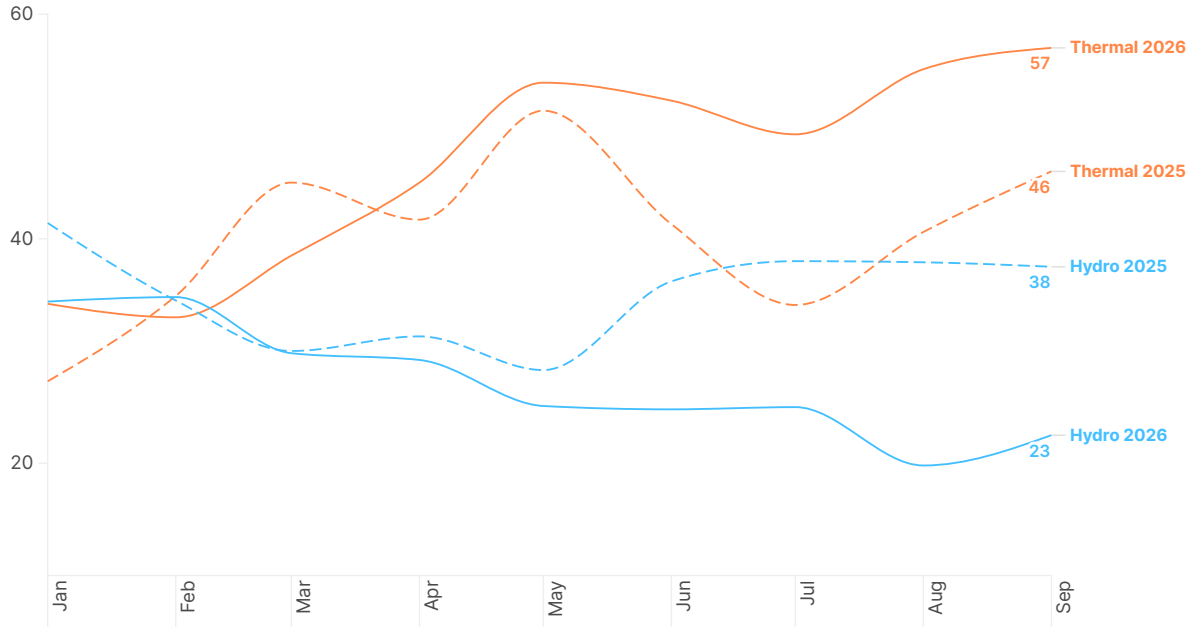
The drought has also strained the power grid. Lower reservoir levels cut hydroelectric generation by 30% between June and September, forcing the country to generate more than half its electricity from bunker- and diesel-fired plants[28] just as oil prices peaked (Figure 9). This explains why electricity generation cost 52% more than projected between June and August 2026. The pressure is equally clear in the spot market for uncontracted electricity, which averaged $250/MWh between June and September—more than double its level during the same period in 2025.

So far, these higher generation costs have not shown up on electricity bills. Had they been passed through, average electricity rates would have had to increase by 21% in the fourth quarter (Figure 10)**.** The Comisión Reguladora de Energía Eléctrica (CREE) had already deferred collection on $124 million in generation costs, and **the Ley de Justicia Energética, in effect since September, froze electricity tariffs for six months,** renewable for another six. If costs remain at current levels, the freeze would add another $213 million in deferred liabilities. **These costs, however, do not simply vanish.** The $124 million works like a purchase on credit: consumers will eventually have to repay it through future electricity bills, carrying an interest rate of 2.5% per quarter. As for the additional $213 million, the law does not specify who will foot the bill. It could be consumers, through future tariff hikes; the government, with no dedicated funds identified; or the ENEE, which would have to take on more debt and further strain public finances.

FIGURE 9

The drought increased dependence on fuels to generate electricity

Share of thermal and hydroelectric generation in national production, January to September 2025 and 2026 (%)

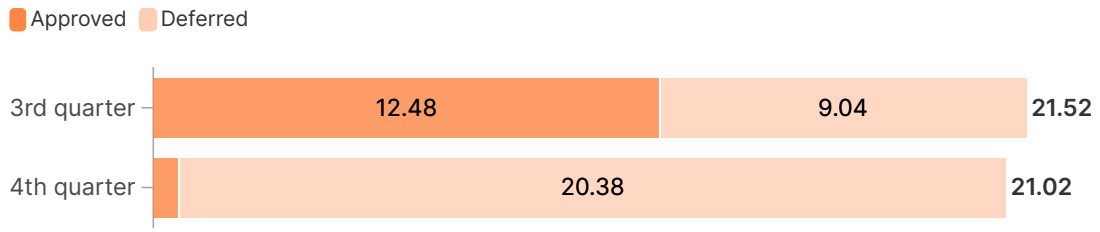


Source: Centro Nacional de Despacho. • The share is calculated over national production; it does not include energy imported from the Regional Electricity Market.

FIGURE 10

The tariff did not rise: almost all of the increase that was due was postponed

Approved and deferred increase in the average tariff, third and fourth quarters of 2026 (percentage points)



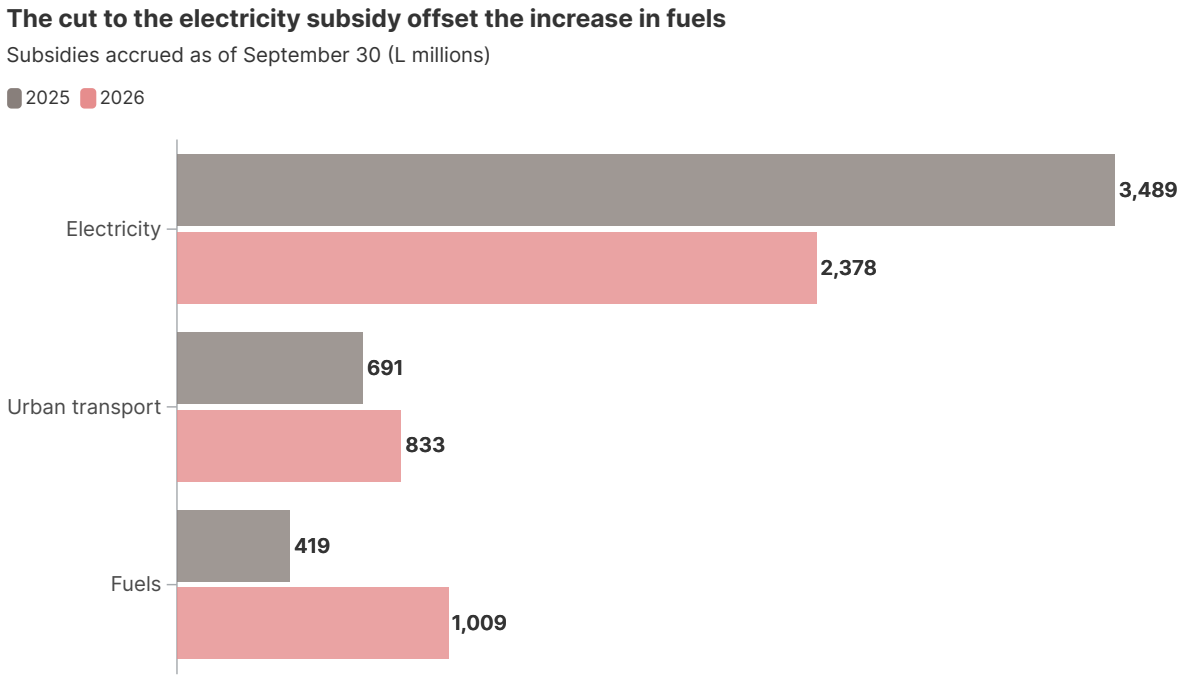
Source: CREE, reports on the third and fourth adjustments of 2026. • The approved increase of 0.64 pp is not being charged because of the tariff freeze.

The government absorbs part of the oil shock, leaving little room in the 2027 budget

Households are paying part of the oil shock out of pocket, while the government is absorbing the rest through subsidies. Through the end of September, spending on fuel and urban transit subsidies was 66% higher than in the same period of 2025. **This surge was partly offset by better targeting of the electricity subsidy:** narrowing eligibility to a smaller group of households cut spending by 32% (Figure 11). Across all three programs, subsidy spending was

down 8% compared to 2025[29]. Thus far, the administration has accommodated these costs through internal reallocations without increasing the overall budget. As of September, the modified budget showed no net expansion over the approved budget[30].

FIGURE 11



Source: Secretaría de Finanzas • Expenditure execution as of September 30, 2025 and 2026.

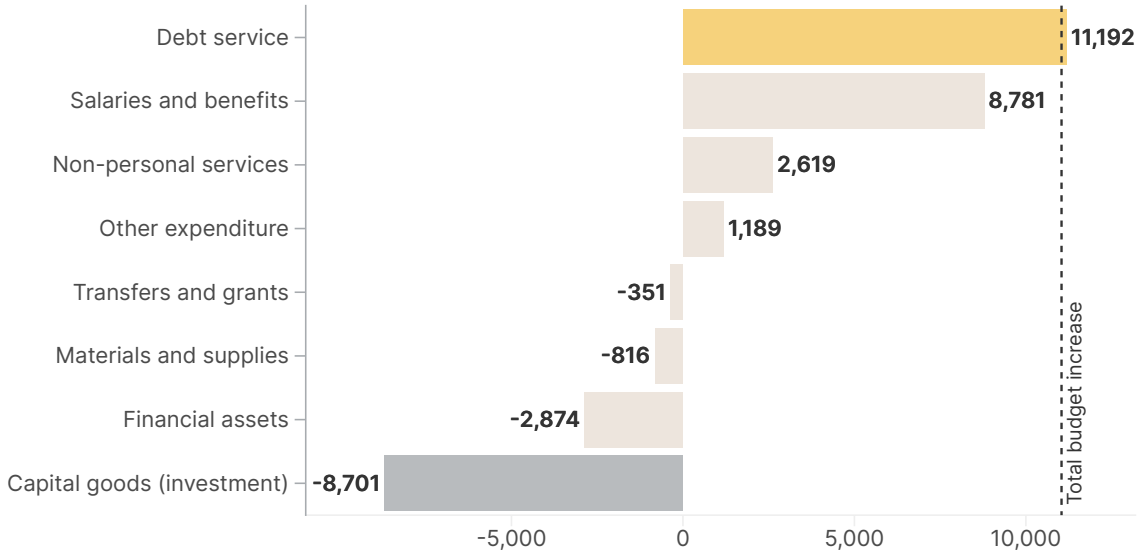
The proposed 2027 budget rises by just 2.5%, even as state obligations mount. Debt service payments are set to rise 14%, driven largely by a $700 million sovereign bond maturing in January 2027. Debt service will consume one of every five lempiras in the budget—nearly matching the combined allocations for the ministries of Education, Health, and Infrastructure. Meanwhile, public payroll spending increases 8%, with half that rise going to Education under the agreement with teachers concluded in 2026. Capital expenditures, by contrast, are slashed by 28% (Figure 12).

The government argues that this adjustment focuses investment on projects with greater implementation capacity and development impact, particularly in highways and healthcare[31]. Even so, the budget leaves virtually no fiscal space to absorb new shocks. For all of 2027, the draft budget allocates 716 million lempiras to fuel subsidies—well below the 1.009 billion lempiras already spent through September this year—while establishing a climate emergency fund with an initial allocation of just 50 million lempiras[32].

FIGURE 12

Debt service absorbs the entire increase in the 2027 budget

Change between the budget approved in 2026 and the 2027 proposal, by expenditure group (L millions)



Source: Secretaría de Finanzas. • Figures for the entire public sector. Capital goods includes spending on physical assets (works, machinery, equipment).

The ENEE remains the primary fiscal risk. Drought and costlier fuel have inflated utility expenses: through September, the ENEE spent 13% more on power purchases than over the same period in 2025. Under this financial strain, the state utility has borrowed nearly 13 billion lempiras from domestic commercial banks, almost twice its budgeted borrowing for all of 2026[33]. With electricity tariffs frozen, these mounting costs threaten to erode the ENEE's financial standing and jeopardize compliance with the statutory fiscal deficit ceiling established under the Law[34].

In the external sector, the oil shock drives up import costs

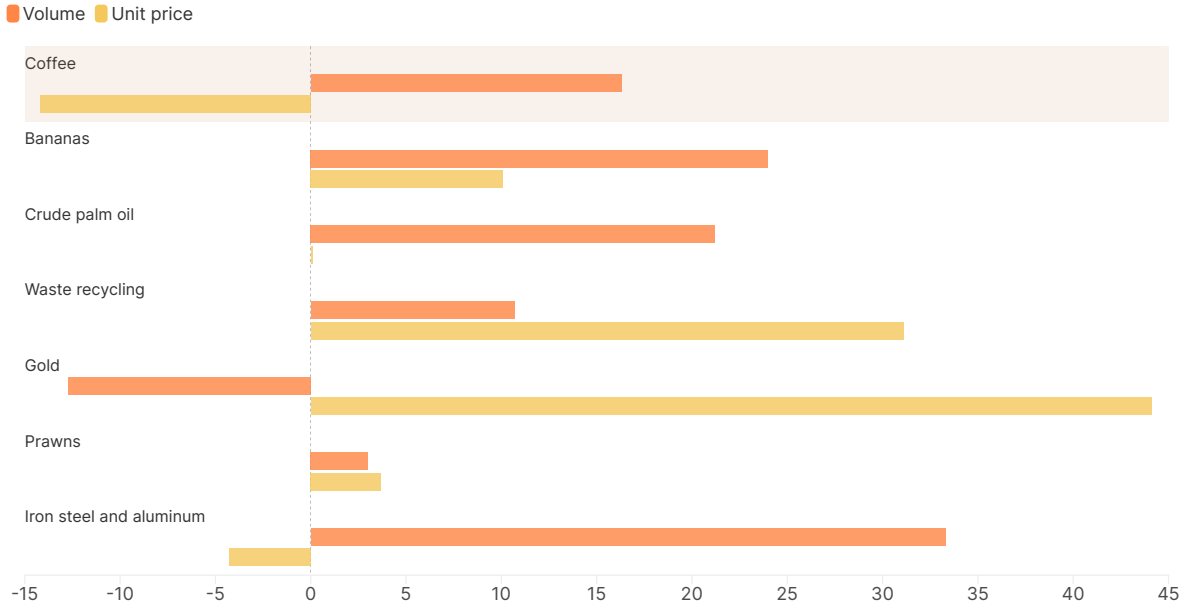
Exports of general merchandise[35] (excluding the maquila sector) reached $5.433 billion between January and August—up 8.9% compared to the same period in 2025. This expansion was less reliant on coffee than in past cycles: while coffee export volumes rose 16.3%, prices fell 14.2%, leaving total coffee export earnings essentially flat. Growth instead came from smaller export products, including bananas, palm oil, recycled materials, metals, and shrimp. The drivers varied across commodities: some saw both price and volume increases, while in others, a rise in one offset a fall in the other (Figure 13). **The maquila sector, by contrast, contracted 9.6% over the same period[36].**

Imports grew 8.6% through August, driven by fuel. For every 10 additional dollars spent on imports, six went to refined petroleum products, whose bill swelled by $743 million year-on-year[37](Figure 14). **This surge pushed the trade deficit to $6.009 billion—a 22% widening compared to the same period in 2025.** Over the past five years, only the 2022 price shock produced a steeper deterioration in the trade balance[38].

FIGURE 13

As of August 2026, coffee sells more bags at a lower price; another part of the basket rises in price and volume

Change in cumulative general merchandise exports through August 2026 relative to 2025 (%)

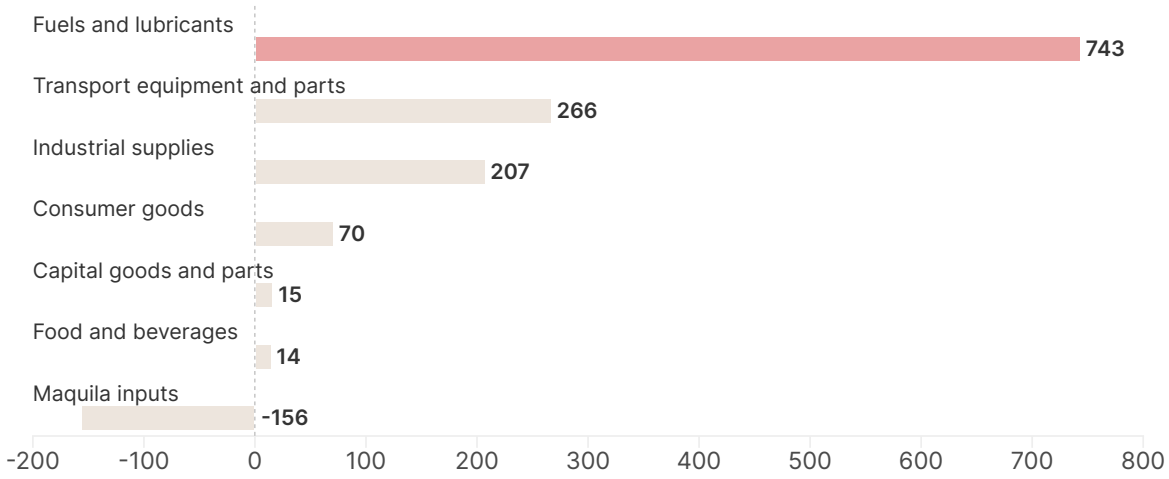


Source: Banco Central de Honduras. • Volume: 46 kg bags (coffee), 40 lb boxes (bananas), troy ounces (gold) and kilos (rest). Unit price: FOB value divided by exported volume, as published by the BCH. The seven products shown account for 65% of general merchandise exports, and coffee alone for 38%.

FIGURE 14

Of every 10 additional dollars of imports, six were fuels

Change in imports between January and August 2026 relative to the same period of 2025 (USD millions)



Source: Banco Central de Honduras. • Total imports grew by USD 1,163 million (8.6%). This chart does not include the category "Goods not elsewhere specified", which accounted for 0.1% of imports in August 2026.

At the same time, more foreign direct investment (FDI) entered the country, although its composition calls for nuance. Through June, FDI inflows reached $676 million—up 67% from 2025—concentrated mainly in commerce and financial intermediation. Most of this

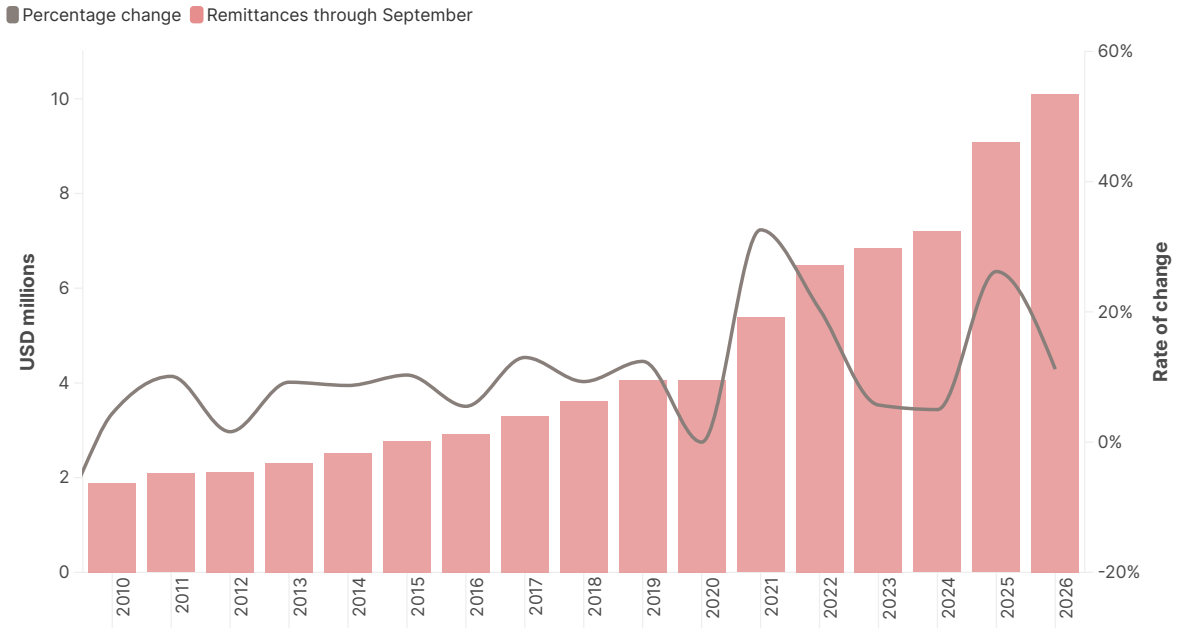
came from foreign companies already established in Honduras, which reinvested earnings or borrowed from parent companies. Fresh equity capital totaled just $15 million[39].

Remittance inflows round out the external picture, sustaining double-digit growth. Remittances reached $10.099 billion through September—up 11.2% over the same period in 2025 (Figure 15). While that pace is less than half the expansion seen a year ago, flows have proven resilient despite a hardening immigration climate in the United States, which included the termination of TPS in September[40]. Thus far, the end of TPS has not visibly dampened remittance volumes.

FIGURE 15

Remittances: USD 10 billion through September, with growth of 11.2% relative to 2025

Cumulative remittances from January to September of each year (USD billions) and year-on-year change (%)



Source: Banco Central de Honduras.

As a result, the current account swings back into deficit following 2025's surplus. The BCH projects the deficit at between 0% and 1% of GDP, while the International Monetary Fund (IMF) forecasts 2.0%. The lempira also faces a more demanding environment shaped by higher oil prices and rising global interest rates. Even so, international reserves stood at $11.538 billion at the end of September—sufficient to cover 6.6 months of imports. Supported by that buffer, the BCH is preparing a gradual return to the interbank foreign exchange market[41]. Last year's twin tailwinds, high coffee prices and record remittances, have softened, leaving higher oil import costs to weigh more heavily on the external accounts.

Looking ahead to the coming months

The oil and drought shocks are already testing the economy. The government absorbed part of the blow through subsidies and frozen electricity tariffs, but the remainder has merely been postponed. The open question is the eventual cost. Honduras maintains its credit ratings from

Moody's and S&P, and its sovereign bond spread (measured by J.P. Morgan's EMBI) remains well below historical norms. Even so, market borrowing is more expensive today because 10-year US Treasury yields—the global pricing benchmark for sovereign debt—have reached their highest level since 2007.

On November 1, the Government and the IMF reached a staff-level agreement on the sixth and final review of the program launched in 2023. This progress strengthens fiscal credibility and paves the way for negotiating a new program for 2027–2030 (a support facility Honduras could draw on if needed). Looking ahead, the same statement identifies two imperatives: reducing ENEE's burden on public finances and advancing the transformation of the energy sector.

Key developments to watch as the year draws to a close:

- **El Niño's peak intensity (October to December).** During the last episode, the damage to agriculture materialized with a one-year lag. A repeat would push up food prices and thermal generation costs, and could increase arrears on agricultural loans.
- **The US midterm elections.** Remittances currently cushion the impact of higher oil imports on the current account. Following the termination of TPS and with a 1% tax on cash-funded remittances, the incoming Congress will shape whether US immigration policy hardens further.
- **The Federal Reserve meeting (December 8–9).** On October 28, the Fed left its policy rate unchanged, though two voting members favored a hike. A rate hike in December would increase pressure on the BCH to raise its MPR again, directly raising borrowing costs for commercial credit—the sole segment of the economy currently accelerating.
- **Congressional approval of the 2027 budget (mid-December).** The draft budget earmarks less for fuel subsidies than the amount already spent through September, and offers no solution for funding the electricity tariff freeze that expires on March 29.
- **The Millennium Challenge Corporation selection decision (December).** Honduras is among 91 candidate countries eligible for investment compacts from the US agency in 2027, though candidacy does not guarantee selection. A new compact would provide non-reimbursable investment grants, just as the proposed 2027 national budget cuts capital spending by nearly one-third.

> *To share comments, questions, or suggestions regarding this analysis, please contact us at econ@sendas.org.*

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Notes

1. *World Economic Outlook (WEO)* from the International Monetary Fund (IMF), October 2026.

2. As an economy characterized as a net fuel importer, its dependence spans not only transportation but also electricity generation. Furthermore, its AI adoption rate is 14.5% among people aged 15 to 64 — lower than most of its Central American neighbors, with the exception of Nicaragua (11.8%) (Microsoft, 2026).
3. At the close of 2025, the United States was the source of 79.1% of the country's fuel imports.
4. To 3.75%–4.00%. Meanwhile, September inflation data remain above expectations and above the 2% reference average.
5. Such as the European Central Bank (ECB) and the Bank of Japan (Global Rates, 2026).
6. Between June and early September, 10-year yields rose 31 basis points in the United States, 34 in Germany, 27 in Japan, and 24 in the United Kingdom (Bank for International Settlements [BIS], 2026).
7. El Niño is the warm phase of El Niño–Southern Oscillation (ENSO), a natural climate fluctuation in which the surface of the equatorial Pacific warms and alters the associated atmospheric circulation (ECLAC). The US National Oceanic and Atmospheric Administration (NOAA) declares an episode when the RONI index, which measures how much warmer the equatorial Pacific is than the rest of the tropics, exceeds +0.5 °C. It declared one in June 2026 (NOAA CPC). In Central America, El Niño typically reduces rainfall on the Pacific slope and makes the July and August rainfall pause, known as the *canícula*, drier (Bonilla, 2014; Maldonado et al., 2016).
8. CHIRPS v3 (Climate Hazards Center, University of California, Santa Barbara) estimates rainfall by combining satellites and stations. In Honduras, between July and September 2026 rainfall reached 569 mm, compared to an average of 708 mm in 1991–2026.
9. FAO estimates rainfall by satellite over the crop area of each department and compares it with its long-term average (FAO GIEWS ASIS). The national figure is a weighted average by crop area (estimates by the authors). Comparisons across years begin in 2005 because the series shows a break around that year. Between April and September, rainfall deviated from the average by +10% in 2009, –24% in 2015, and –1% in 2023.
10. The Agricultural Stress Index (ASI) from FAO estimates the percentage of cultivated area with a high probability of water stress. It is constructed with a vegetation health index, based on vegetation condition and land surface temperature observed by satellite, averaged from the start of the season; the area where that index falls below 35% is considered under stress. It is an early warning indicator: it signals risk of damage, not quantified production losses. Because the index averages from the beginning of the season, late rains do not reverse the stress accumulated in previous months (FAO GIEWS ASIS).
11. NOAA considers an episode "historic" with a three-month RONI equal to or greater than +2.5 °C, a level that no episode has reached since 1950. In its October 8 discussion, it assigned probabilities of 54% (September–November), 83% (October–December), and 70% (November–January) to surpassing it (NOAA CPC). Previous RONI peaks are 2.40 °C (1982–83), 2.28 °C (1997–98), and 2.25 °C (2015–16) (NOAA CPC).
12. Calculated using the Consumer Price Index (CPI).
13. The medium-term tolerance band set by BCH is ±1 percentage point (pp) around the 4% target; that is, a floor of 3% and a ceiling of 5% with respect to the year-on-year change in the Consumer Price Index (CPI).
14. This projection corresponds to year-on-year inflation to December 2026 estimated by the IMF in the October publication of the WEO of the current year.
15. This figure refers to core inflation, which excludes goods and services with highly volatile or seasonal prices or those set by administrative decree (BCH, 2026). These include fuels, utilities, and staple foods such as eggs, beans, and dairy products.
16. In 2024, transport absorbed 83% of the diesel consumed in Honduras, and diesel met 43% of the sector's energy demand. Heavy trucks, tractor-trailers, and dump trucks account for 29% of the diesel fleet, and buses and minibuses 8%. Diesel consumption in the agricultural sector grew 48% that year (SEN, 2024).
17. As of October 26, the Secretaría de Energía (SEN) reports an accumulated increase of L 35.3 for diesel, which means its price for the last week of October should be around L 188.8.
18. Defined as monthly per capita income below L 2,106.7, based on the cost of a basic basket of 30 food items (INE, 2026).
19. Unlike Honduras, Guatemala, Nicaragua, and Costa Rica did not raise their policy rates in September. All three had cut rates earlier in 2026 and entered this new shock with lower inflation or monetary conditions that gave them room to hold off on tightening.
20. Refers to the cumulative change in the Monthly Economic Activity Index trend-cycle series, which removes seasonal and irregular components from the original series to capture underlying economic activity.
21. We use seasonally adjusted GDP, stripping out recurring seasonal swings (harvests, holiday sales, statutory vacations) to allow direct quarter-on-quarter comparisons.
22. It is important to note that this figure corresponds to the growth rate of the original IMAE series (the only series for which a breakdown by economic activity is published), which differs from the 3.8% reported in the first paragraph, where we use the trend-cycle series.

23. Other services includes Real Estate and Business Activities, Public Administration and Defense, Education, Health Services, Community Service Activities, Financial Intermediation Services Indirectly Measured (FISIM), and Net Taxes on Products and Imports.
24. Manufacturing is the third-largest activity by employed persons in Honduras.
25. With year-on-year inflation running at around 6.3%, the real return on deposits is significantly lower.
26. Sendas has published two analyses examining the expansion of financial intermediation in Honduras (part one and part two).
27. Available funds corresponds to the sum of excess reserve requirements and mandatory investments, voluntary investments (government bonds, BCH bills, and the BCH investment facility), and domestic cash in vaults.
28. Cumulatively between June and September 2026, hydroelectric generation fell to 993 GWh from 1,414 GWh a year earlier, while thermal generation rose from 1,529 to 2,304 GWh.
29. This is in addition to an estimated 369 million lempiras in revenue forgone from suspending the diesel tax.
30. As of September 30, 2026, the modified budget for the Central Administration stood at 263.586 billion lempiras — just 0.08% below the approved amount (SEFIN).
31. The Public Investment Program is cut by 15.6% (to 40.683 billion lempiras), with its portfolio pared back from 79 to 46 projects.
32. The fund can be expanded through budget reallocations and international aid, with unused balances rolling over for future emergencies. This backstop is critical given that natural disasters create major unforeseen fiscal demands: Finanzas estimates contingent liabilities from such events at $1.835 billion in potential fiscal obligations.
33. Domestic private sector borrowing: 12.979 billion lempiras as of October 12, compared to 6.965 billion lempiras budgeted.
34. The Fiscal Responsibility Law (LRF) establishes a Non-Financial Public Sector (NFPS) fiscal deficit ceiling (Central Administration plus public enterprises) of 1% of GDP. For 2027, however, budget provisions authorize a ceiling of up to 2.4% of GDP.
35. General merchandise encompasses all exported goods other than inputs and finished goods from the maquila sector, including coffee, bananas, shrimp, palm oil, and precious metals.
36. Driven primarily by a 10.2% contraction in textiles, though automotive wiring harnesses also fell 7.7%.
37. The increase is largely a price effect, as volume growth was much more modest: -0.8% for premium gasoline, 6.9% for regular gasoline, 5.7% for kerosene, and 3.9% for diesel.
38. The comparison refers to the year-on-year change in the cumulative trade deficit through August. In recent years, it increased 41.7% in 2022, fell 11.4% in 2023, increased 13.6% in 2024, and decreased 9.4% in 2025.
39. FDI has three components: reinvested earnings that subsidiaries do not repatriate, equity capital contributions, and intercompany loans between parent companies and subsidiaries. In the second quarter they were: $290 million, $15 million, and $163 million, respectively.
40. On September 3, the United States denied the extension and grace period requested by the Honduran government. Between January and September, Honduras recorded 36,658 returned migrants — 85% of the total recorded in all of 2025 — nine out of ten from the United States. Official statistics do not indicate how many held TPS.
41. The interbank foreign exchange market allows banks and other agents to buy and sell dollars directly to each other, instead of relying exclusively on BCH auctions.