

BEST'S COUNTRY RISK REPORT

Honduras CRT-5

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Honduras, a CRT-5 country, has high levels of economic, and political risk and a very high level of financial system risk. Although economic projections of GDP growth over the medium term are just below 4%, Honduras' inequality rate remains the highest in the region, which inhibits growth. Other risks include its dependence on a vulnerable agricultural sector and the US economy, as well as widespread crime.
- The map depicts the countries in Central America, South America, and the Caribbean that A.M. Best evaluates. The majority of the region is classified as CRT-3, 4, and 5.



- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017

Nominal GDP	USD bn	22.98
Population	mil	8.3
GDP Per Capita	USD	2,766
Real GDP Growth	%	4.8
Inflation Rate	%	3.9

United Nations Estimates

Literacy Rate	%	89.0
Urbanization	%	55.9
Dependency Ratio	%	59.8
Life Expectancy	Years	71.2
Median Age	Years	23.0

Insurance Statistics

Insurance Regulator	The National Banking and Insurance Commission	
Premiums Written (Life)	USD mil	136
Premiums Written (Non-Life)	USD mil	305
Premiums Growth (2016 - 2017)	%	5.2

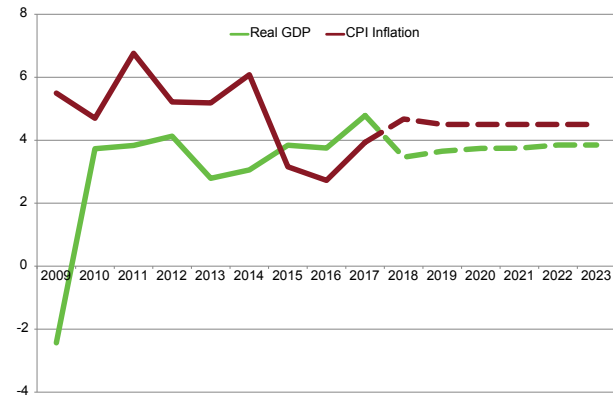
Regional Comparison

	Country Risk Tier
Honduras	CRT-5
Costa Rica	CRT-4
El Salvador	CRT-4
Guatemala	CRT-4
Nicaragua	CRT-5
Panama	CRT-4

Source: IMF, UN, Swiss Re, Axco and A.M. Best



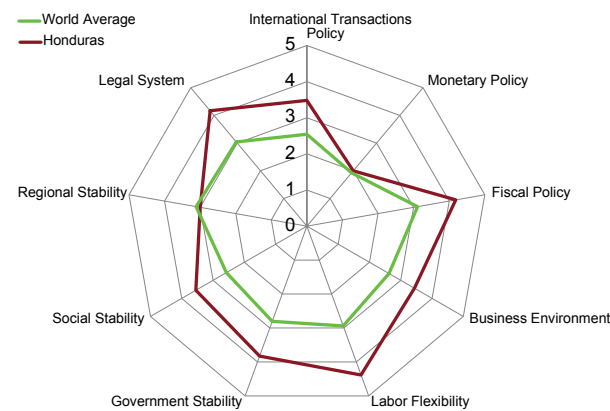
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

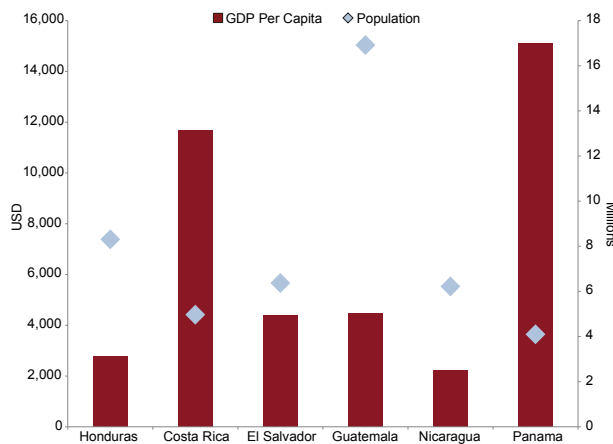
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Honduras is the second poorest country in Central America, with its per capita income ranking 169 out of 228 countries and regions in the world, according to the CIA. More than half its population lives in poverty and income distribution is highly unequal.
- The economy depends heavily on remittance inflows, which exposes it to economic fluctuations in the US. Strong growth in the US, as well as rising domestic demand, have supported growth. Future immigration policy changes and normalization of US monetary policy will pose risks to Honduras.
- The agriculture sector dominates the economy. Bananas and coffee are its leading exports, but Honduras has worked to diversify the export base recently.
- Key infrastructure is lacking, and violent crime rates are high, at times disrupting the business environment.

Political Risk: High

- President Juan Orlando Hernández of the National Party (PN) was recently re-elected to a second term. His policy priorities include improving employment, streamlining business operations, and the provision for increased production and improved housing.
- The quality of the judiciary remains relatively poor. Legal institutions are not independent from political activities and judicial processes are inefficient. Corruption is significant across state institutions. Contract enforcement is poor.
- Allegations about Hernández's manipulation of the ballot during the recent election has provoked protests and opposition across the country, increasing political instability. The levels of violence involved in the protests have also been escalating.
- Overall security levels are undermined by one of the highest crime rates in the world, although homicides have declined in recent years.
- Underemployment is high, and the quality of education needs improvement. The IMF has recommended stronger efforts towards enhancing the transparency and efficiency of government expenditure.

Financial System Risk: Very High

- The National Banking and Insurance Commission is responsible for supervision of the insurance sector.
- Credit increased significantly in 2017. The exchange regime has been modernized, and the IMF has recommended modernization of monetary policies as well. Banks capital ratios are deemed adequate.
- The financial sector is underdeveloped and lacks depth. However, the government has been working closely with the IMF in an effort to improve financial sector stability.