2000 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

HONDURAS

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP (US$) 2/	5,135.0	5,346.0	5,704.0
Real GDP Growth (pct)	3.0	-1.9	4.0-5.0
GDP by Sector:			
Agriculture	1,624.0	1,482.0	1,587.0
Manufacturing	967.0	992.0	1,025.0
Services	485.0	491.0	508.0
Government	299.0	305.0	318.0
Per Capita GDP (US$/population)	940	940	969
Labor Force (000s)	2,040.8	2,128.5	2,220.5
Unemployment Rate (pct)	3.9	3.7	N/A
Money and Prices:			
(annual percentage growth)			
Money Supply (M2)	18.4	20.6	20.1
Consumer Price Inflation	15.7	10.9	10-12
Exchange Rate (LP/US$ annual average)			
Official	13.54	14.56	15.19
Parallel	13.41	14.42	14.97
Balance of Payments and Trade:			
Total Exports FOB	1,656.7	1,303.9	1,539.0
Exports to U.S. 3/	623.3	457.4	500.0
Total Imports CIF	2,337.6	2,558.0	2,867.0
Imports from U.S. 3/	1,165.8	1,193.3	1300.0
Trade Balance	-680.9	-1,254.1	-1,328.0
Balance with U.S. 3/	-542.5	-735.9	-800.0
External Public Debt	4,403.8	4,728.0	4,083 (Jul)
Fiscal Deficit/GDP (pct)	1.5	3.7	7.0
Current Account Deficit/GDP (pct)	0.8	3.2	9.0
Debt Service Payments/GDP (pct)	17.3	14.1	N/A
Gold and Foreign Exchange Reserves	659.8	1,001.3	968.3
Aid from U.S. 4/	44.3	103.4	100.0
Aid from Other Countries	N/A	243.8	N/A

1/ 2000 figures are projections based on data available in October.

2/ GDP at factor cost.

3/ Honduran trade data do not include transactions with the large maquila sector, which is accounted for as a value-added service. U.S. government data for trade with Honduras is significantly higher: U.S. exports to Honduras were $2.3 million in 1998 and $2.4 million in 1999. U.S. imports from Honduras were $2.5 million in 1998 and $2.7 million in 1999.

4/ Includes USAID disaster relief and reconstruction assistance expenditures in response to Hurricane Mitch.

1. General Policy Framework

Honduras, already one of the poorest countries in the hemisphere, with low per capita income and relatively low health and education indicators, continues to suffer from the devastation caused by late October 1998's Hurricane Mitch. Massive international assistance, led by the United States at over $550 million for 1999-2001, provided emergency relief and is helping Honduras rebuild. Many of the homeless have already received new houses in an effort led by churches and NGOs. Epidemics were averted, basic services restored, and temporary repairs made. The overall pace of reconstruction has been slower than many would have hoped due to the Honduran government's limited capacity to actively implement projects, the sometimes delayed arrival of international aid, and the need to ensure that assistance is not misused.

Honduras has received significant debt relief in the aftermath of Hurricane Mitch, including the deferral of all bilateral debt service payments between November 1998 and December 2001 by the Paris Club, including the United States. In July 2000 Honduras reached its decision point under the Highly Indebted Poor Countries (HIPC) Initiative, qualifying the country for interim debt relief.

Honduras continues to maintain macroeconomic stability. After an inflationary spike at the end of 1998, inflation fell to 10.9 percent in 1999, though it has crept up in 2000 and will likely climb further in 2001 due to union-led wage increase demands. The currency (lempira) has only moderately devalued. A widened balance of payments deficit, worsened by the Mitch-induced recession with decreased exports (from crop damage and low world prices in coffee and bananas) and increased imports (for reconstruction), is being covered by international aid, reinsurance payments, and increased family remittances. International reserves have risen.

Since 1990, succeeding governments have embarked on economic reform programs, dismantling price controls, lowering import tariffs, removing nontariff barriers to trade, adopting a free market exchange rate regime, removing interest rate controls, and passing legislation favorable to foreign investment. In an IMF agreement signed in March 1999, Honduras committed to privatize management of the airports, the telephone company, and electricity distribution. Airport management was turned over to a U.S.-led consortium in October 2000, though the telephone company bid failed the same month as the government's minimum price was not met, and a bill authorizing privatization of electricity distribution continues to languish in Congress. Congress passed laws in late 1998 to encourage foreign investment in tourism, mining, and agriculture, though their potential has yet to be realized. The biggest success story of all has been the growth of the maquila (assembly for export) industry (with significant U.S.

investment), from virtually zero in 1989 to over 200 plants in 1999 generating over $500 million in foreign exchange and employing 120,000 workers. Implementation of the Caribbean Basin Trade Partnership Act in October 2000, which provides enhanced benefits to Honduras and other countries of the region, is expected to further boost investment and employment in the sector. Nonetheless, overall growth in foreign investment is hampered by a politicized judiciary subject to influence, a deficient education system, insecure property titles, non-transparent bidding procedures, and cumbersome bureaucratic requirements.

Honduras became a founding member of the World Trade Organization (WTO) in 1995 and participates in international trade negotiations, including those related to the establishment of the Free Trade Area of the Americas. A Bilateral Investment Treaty (BIT) was signed in 1995 and ratified by the Honduran Congress and the U.S. Senate. The United States and Honduras are finalizing the text of a bilateral Intellectual Property Rights Agreement, a draft of which was initialed in March 1999. The Honduran Congress passed legislation in December 1999 to comply with the WTO's TRIPS agreement.

2. Exchange Rate Policy

The Central Bank uses an auction system to regulate the allocation of foreign exchange. Dollar purchases, in which foreigners may participate, are conducted at 5 to 7 percent above or below the base price established every 5 days. During recent auctions, the Central Bank has been adjudicating an average of $8 million daily. Foreign exchange demand in 1999 was 99.2 percent covered.

The Foreign Exchange Repatriation Law passed in September 1990 requires all Honduran exporters, except those operating in free-trade zones and export processing zones, to repatriate 100 percent of their export earnings through the commercial banking system. Until recently, commercial banks were allowed to use 70 percent of export earnings to meet their clients' foreign exchange needs. The other 30 percent had to be sold to the Central Bank at the prevailing inter-bank rate of exchange. Presently, commercial banks are required to sell 100 percent of these repatriated earnings to the Central Bank (except for exporters operating in free trade zones and export processing zones as well as remittances), which in turn auctions up to 60 percent in the open market.

3. Structural Policies

Trade Policy: In an effort to increase trade and maintain competitiveness with its Central American neighbors, the duty assessed by the Honduran government ranges between 1 and 17 percent for most items. However, sensitive items such as automobiles are assessed a higher rate, up to a 35 percent ceiling. Honduras is a member of the Central American Common Market, which includes Costa Rica, El Salvador, Nicaragua and Guatemala. In 1995 Honduras and other Central American Common Market (CACM) members agreed to work toward the full implementation of a common external tariff (CET) ranging between zero and 15 percent for most products, but allowing each country to determine the timing of the changes. With the exception of certain items, there are no duties for products traded among CACM members; however, Nicaragua imposed a 35 percent tariff on Honduran imports in December 1999 over a maritime boundary dispute. Tariffs on certain raw materials and inputs produced outside the Central American region and tariffs on capital goods have been reduced to one percent. Extra-regional tariffs for intermediate goods were reduced from 15 percent to 10 percent, while tariffs on finished goods will be reduced from 20 percent to 15 percent by 2000. On August 29, 2000 Honduras, along with Nicaragua, joined the customs union formed by Guatemala and El Salvador in 1996.

Members of the Northern CACM Triangle (Honduras, Guatemala and El Salvador) finalized the negotiation of a free trade agreement with Mexico in June 2000. Although not yet signed, Honduras has completed over 90 percent of negotiations for a free trade agreement with the Dominican Republic. Honduras and the rest of Central America are also negotiating free trade agreements with Chile, Panama, the Andean Community and Taiwan.

Pricing Policy: Medicines are the only products under a formal price control regime. The government also reviews the price of gasoline, diesel, and liquid propane gas, as well as the rates for public transportation and public utilities. In addition, it also keeps an informal control over prices of certain staple products, such as milk and sugar, by pressuring producers and retailers to keep prices as low as possible. Products imported into Honduras are usually priced on the CIF value, import duties, in-country transportation costs, and distribution margins.

Tax Policies: The corporate tax rate decreased from 30 percent in 1998 to 25 percent in 1999. The local sales tax was increased from 7 percent to 12 percent in 1998 for most products. Products exempted from this tax include staple foods, milk, juice, purified water, fuels, medicines, agrochemicals, household cleaning products, books, magazines and educational materials, agricultural machinery and tools, handicrafts, and capital goods such as trucks, cranes, tractors, and computers. Alcohol, cigarettes and tobacco products are assessed a 15 percent tax. The elimination of a one percent tax applied on the FOB value of all articles exported was implemented in 2000. Export taxes on bananas have been reduced in stages from 50 to 4 cents a box in 2000. Special export taxes on seafood, sugar and live cattle were eliminated in 2000. Tourism services have been subject to a four percent tax since 1998.

4. Debt Management Policies

At the end of 1999, Honduras' total external debt stock was $4.3 billion. Honduras signed an Enhanced Structural Adjustment Facility (ESAF, now Poverty Reduction and Growth Facility [PRGF]) Agreement with the IMF in March 1999. In April 1999 the Paris Club granted a three-year rescheduling on Naples terms (67 percent reduction of eligible debt). Combined with the debt service deferral, this reduced the originally scheduled debt service for 1999 from $396 million to $348 million. Honduras also received special assistance from bilateral donors, mainly through the Central American Emergency Trust Fund (CAETF), which reduced its debt service payments to multilateral creditors. Honduras received pledges of donor support at the May 1999 Consultative Group Meeting in Stockholm of $2.7 billion. In exchange, Honduras pledged to maintain responsible monetary policies, strengthen oversight of the financial sector, control the public wage bill, overhaul the national pension system, and accelerate the privatization of the telephone company and the electric company's distribution system. In July 2000 the IMF and the World Bank Boards approved Honduras' decision point under the Heavily

Indebted Poor Countries (HIPC) Initiative. Honduras is eligible for interim debt relief and will qualify for $556 million in debt relief in present value terms or $900 million in nominal terms at its completion point.

5. Aid

As a result of the devastation caused by Hurricane Mitch, Honduras has been receiving an unprecedented amount of foreign assistance. At the May 1999 Stockholm consultative meeting, donors pledged $2.7 billion. The United States has provided the single largest amount of aid to Honduras. According to U.S. Embassy calculations, the United States has obligated $555 million from October 1999 through December 2001. $55 million of this amount was spent on immediate emergency relief and the rest in reconstruction assistance. U.S. government agencies involved in assistance to Honduras include USAID (overall coordinator), DOD, USDA, USDOC, DOT, USGS, HUD, OPIC, and Ex-Im Bank. Other countries have provided significant aid as well, including Japan, Sweden, Spain, Italy, Canada, and Germany. The Inter-American Development Bank, the World Bank, the International Monetary Fund, the United Nations Development Program, and other international organizations have been actively involved in reconstruction, as have numerous non-governmental organizations.

6. Significant Barriers to U.S. Exporters

Import Policy: The government forbids the import of certain items that compete with domestic industries. These vary over time, but at present include cement, sugar and rice from southeastern Asia, and beef from South America. Import restrictions are also imposed on firearms and ammunitions, toxic chemicals, pornographic material and narcotics. Other import restrictions are applied to chicken meat and cosmetics. Import restrictions are mainly based on phytosanitary, public health, public morals, and national security factors.

Services Barriers: In certain services industries (e.g., local transportation, insurance, radio and TV stations, and distributorships), majority control must be in the hands of Honduran nationals. Special government authorization must be obtained to invest in the tourism, hotel and banking service sectors. Foreigners may not hold a seat in Honduras' two stock exchanges or provide direct brokerage services in these exchanges. Honduran professional bodies heavily regulate the licensing of foreigners to practice law, medicine, engineering, accounting, and other professions.

Labeling and Registration of Processed Foods: Honduran law requires that all processed food products be labeled in Spanish, contain expiration dates, and be registered with the Ministry of Public Health. The law is usually not enforced for U.S. products in recognition of U.S. health inspection procedures.

Investment Barriers: The Honduran Constitution requires that all foreign investments complement, but not substitute for, national investment. Although there is a clear preference on the part of the government for new foreign investment in export industries, there are no officially mandated requirements that foreign investors must satisfy as a condition for investing in Honduras. The 1992 Investment Law guarantees national treatment to foreign private firms in Honduras, with only a few exceptions. In certain types of industries, majority Honduran ownership is required. Foreign companies that wish to own land based on the Agrarian Reform Law, engage in commercial fishing, local transportation, and forestry, or are representatives, agents, or distributors for foreign companies or seek to operate radio and television stations, must partner with Honduran nationals. There are also limits on the amount of land a single corporation may own. Small-scale commercial and industrial activities with an investment no greater than Lempiras 150,000 ($11,000) excluding land, buildings and vehicles) are reserved exclusively for Honduran nationals.

The Honduran Constitution prohibits the foreign ownership of land within 40 kilometers of land borders and shorelines. A proposed constitutional amendment to modify the prohibition was dropped in 1999 due to opposition by ethnic groups living along the Caribbean Coast. In all investments, at least 90 percent of a company's labor force must be Honduran, and at least 80 percent of the payroll must be paid to Hondurans. Inadequate land titling procedures have led to numerous investment disputes involving U.S.-citizen landowners. The U.S. Embassy has worked extensively to assist these citizens, most of whose cases are being litigated in Honduran courts.

On July 1, 1995 Honduras and the United States signed the Bilateral Investment Treaty (BIT) at the Hemispheric Trade Ministerial in Denver, Colorado. This treaty has been ratified by the Honduran Congress and approved by the U.S. Senate in October 2000.

Government Procurement Practices: Foreign firms are legally given the same treatment as national firms for public bids. In practice, however, U.S. firms complain about the mismanagement and lack of transparency of government bid processes. To participate in public tenders, foreign firms are required to act through a local agent. By law, local agency firms must be at least 51 percent Honduran-owned, unless the procurement is classified as a national emergency.

Under the State Contracting Law, all public works contracts over Lempiras 200,000 ($13,000) must be offered through public competitive bidding. The government publishes tenders in Honduras' major newspapers. All contracts over Lempiras 2,250,000 ($150,000) with government ministries must be reviewed by the Attorney General's Office. Government purchases and project acquisitions are generally exempted from import duties.

Customs Procedures: Customs administrative procedures are burdensome. There are extensive documentary requirements and other red tape involving the payment of numerous import duties, customs surcharges, selective consumption taxes, and warehouse levies. Honduras agreed in November 1999 to implement eight Free Trade Area of the Americas customs related business facilitation measures. In February 2000 Honduras implemented the World Trade Organization Customs Valuation Agreement, which relates to the invoice value (the price actually paid for the goods). As of April 1998, the administrative customs service tax was eliminated for most products.

7. Export Subsidies Policies

Almost all export subsidies have been eliminated. The Temporary Import Law (RIT) allows exporters to introduce raw materials, parts, and capital equipment into Honduras exempt from surcharges and customs duties if the product is to be incorporated into a product which is exported outside Central America. Export Processing Zones (ZIPS) are exempt from paying import duties and other charges on goods and capital equipment. In addition, the production and sale of goods within the ZIPS are exempt from state and municipal taxes. Firms operating in ZIPS are exempt from income taxes for twenty years, and municipal taxes for ten years. Foreigners exporting to Honduras are required by law to sell through an agent or distributor only when selling to the government.

8. Protection of U.S. Intellectual Property

Honduras complied with the World Trade Organization's Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement's required January 1, 2000 deadline. In December 1999 the Honduran Congress passed two new laws related to intellectual property to correct deficiencies in previous legislation concerning copyrights, patents, and trademarks. The new Copyright Law adds more than 20 different criminal offenses related to copyright infringement and establishes fines and suspension of services that can be levied against offenders. The new Law of Industrial Property, which covers both trademarks and patents, includes modifications on patent protection for pharmaceuticals, extending the term from seventeen to twenty years to meet international standards. The term for cancellation of a trademark for lack of use has been extended from one year to three years. Bills protecting integrated circuits and genetic plant modifications are still pending before the Honduran Congress.

To be protected under Honduran law, patents and trademarks must be registered with the Ministry of Industries and Trade. The life of a patent ranges from 10 to 20 years, depending on the importance of the invention. Trademarks are valid for up to 10 years from the registration date. Well-known trademarks are protected under the Pan American Convention (1927), to which Honduras is a party.

Despite the reforms, enforcement of IPR laws remains problematic due to insufficient resources. Although some progress have been made, there is still widespread piracy of many forms of copyrighted works, including books, sound and video recordings, compact discs, computer software and television programs. The illegitimate registration of well-known trademarks is still a problem as well. The United States and Honduras initialed a Bilateral IPR Agreement in March 1999. Signing of this agreement is still pending.

9. Worker Rights

a. *The Right of Association:* Union officials remain critical of what they perceive as inadequate enforcement of worker rights by the Ministry of Labor (MOL), particularly the right to form a union. In November 1995 the MOL signed a memorandum of understanding with the U.S. Trade Representative's Office to implement 11 recommendations for enforcement of the Honduran labor code and the resolution of disputes. The MOL has made positive changes implementing several of these recommendations, particularly as they relate to inspection and monitoring of maquilas (primarily, garment assembly plants). Through cooperation within the Tripartite Commission (unions, MOL, maquila association), the number of unannounced and repeat visits to maquila plants by inspectors from the MOL has increased, improving the MOL's effectiveness in enforcing worker rights and child labor laws.

b. *The Right to Organize and Bargain Collectively:* The law protects worker rights to organize and to bargain collectively; collective bargaining agreements are the norm for companies in which workers are organized. Three large peasant organizations are affiliated directly with the labor movement. Only about 14 percent of the work force is unionized, so the economic and political influence of organized labor has diminished in recent years. Although the labor code prohibits retribution by employers for trade union activity, it is a common occurrence. Employers actually dismiss relatively few workers for union activity once a union is recognized; such cases, however, serve to discourage workers elsewhere from attempting to organize. Workers in both unionized and non-unionized companies are under the protection of the labor code, which gives them the right to seek redress from the Ministry of Labor. Labor or civil courts can require employers to rehire employees fired for union activity, but such rulings are uncommon. Labor leaders criticize the Ministry for not enforcing the labor code, for taking too long to make decisions, and for being timid and indifferent to workers' needs. The Ministry has increased inspections and the training of its inspectors; it needs to do more, however, to improve observance of international labor standards.

c. *Prohibition of Forced or Compulsory Labor:* The constitution and the law prohibit forced or compulsory labor. Over the past year, there were no official reports of such practices in the area of child labor.

d. *Minimum Age for Employment of Children:* According to the government and human rights groups, an estimated 350,000 children work illegally. The constitution and the labor code prohibit the employment of minors under the age of sixteen, except that a child who is fifteen years of age is allowed to work with the permission of his parents and the Ministry of Labor. The Children's Code prohibits a child of fourteen years of age or less from working, even with parental permission, and establishes prison sentences of three to five years for individuals who allow children to work illegally. An employer who legally hires a fifteen-year-old must certify that the child has finished or is finishing his compulsory schooling. The Ministry of Labor grants a number of work permits to fifteen-year-olds each year. It is common, however, for younger children to obtain these documents or to purchase forged permits. The Ministry of Labor cannot effectively enforce child labor laws, except in the maquila sector, and violations of the labor code occur frequently in rural areas and in small companies. Many children work on small family farms, as street vendors, or in small workshops to supplement the family income. In September 1998 the government created the National Commission for the Gradual and Progressive Eradication of Child Labor.

e. *Acceptable Conditions of Work:* Daily pay rates vary by geographic zone and the sector of the economy; urban workers earn slightly more than workers in the countryside. The lowest minimum wage occurs in the non-export agricultural sector, where it ranges from $2.33 to $2.97 (35.00 to 44.50 lempiras) per day, depending on whether the employer has more than 15 employees.

The highest minimum wage is $3.89 (58.30 lempiras) per day in the export sector, though most workers typically earn more. All workers are entitled to an additional month's salary in June and December of each year. The constitution and the labor code stipulate that all workers must be paid a minimum wage, but the Ministry of Labor lacks the personnel and other resources for effective enforcement. The minimum wage is insufficient to provide a standard of living above the poverty line for a worker and his family. In October 2000 the private sector and two of Honduras' three national labor confederations negotiated a general monthly wage increase of $23 (350 lempiras) for workers earning up to $400 (6000 lempiras) per month. This increase will take effect upon its approval by the Honduran Congress.

f. *Rights in Sectors with U.S. Investment:* The worker rights enumerated above are respected more fully in sectors with sizable U.S. investment than in sectors of the economy lacking substantive U.S. participation. For example, in a number of U.S.-owned maquila plants, workers have shown little enthusiasm for unionizing, since they consider their treatment, salary, and working conditions to be as good as, or better than, those in unionized plants. In establishing new investments in Honduras, U.S. businesses in recent years consciously have constructed their plants to meet more stringent U.S. laws and regulations.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		(1)
Total Manufacturing		212
Food & Kindred Products	201	
Chemicals & Allied Products	2	
Primary & Fabricated Metals	(2)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	3	
Other Manufacturing	6	
Wholesale Trade		2
Banking		5
Finance/Insurance/Real Estate		4
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		56

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.