2001 Country Reports on Economic Policy and Trade Practices
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HONDURAS

Key Economic Indicators

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

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP (US$) 2/	5,346.0	5,704.0	5,903.6
Real GDP Growth (pct)	-1.9	4.7	3.5-4.0
GDP by Sector:			
Agriculture	1,482.0	1,587.0	1,621.0
Manufacturing	992.0	1,025.0	1,116.8
Services	491.0	508.0	694.6
Government	305.0	318.0	319.8
Per Capita GDP (US$/population)	891	920	922
Labor Force (000s)	2,128.5	2,220.5	2,334.6
Official Unemployment Rate (pct)	3.7	3.3	4.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.6	17.0	13.8
Consumer Price Inflation	10.9	10.1	9-10
Exchange Rate (LP/US$ annual average)			
Official	14.56	15.19	15.63
Parallel	14.42	14.97	15.52
Balance of Payments and Trade:			
Total Exports FOB	1,303.9	1,539.0	1,408.7
Exports to United States 3/	457.4	526.9	321.8
Total Imports CIF	2,558.0	2,867.0	2,802.7
Imports from United States 3/	1,193.3	1,328.5	714.6
Trade Balance	-1,254.1	-1,328.0	-1393.0
Balance with United States 3/	-735.9	-828.5	-392.8
External Public Debt	4,728.0	4,664.5	4,080.0
Fiscal Deficit/GDP (pct)	3.7	3.2	4.9
Current Account Deficit/GDP (pct)	3.2	4.1	5.6
Debt Service Payments/GDP (pct)	14.1	31.1	21.5
Gold and Foreign Exchange Reserves	1,001.3	1,022.5	1,047.5
Aid from United States 4/	555.7	42.7	45.1
Aid from Other Countries	165.2	212.4	159.9

1/ 2001 figures are projections based on data available in July.

2/ GDP at factor cost.
3/ Honduran trade data does not include transactions with the large maquila (apparel assembly plants) 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 $2.4 billion in 1999 and $2.6 billion in 2000. U.S. imports from Honduras were $2.7 billion in 1999 and $3.1 billion in 2000.
4/ Includes USAID disaster relief and reconstruction assistance expenditures in response to Hurricane Mitch.

1. General Policy Framework

Despite recovering from the devastation of Hurricane Mitch in October 1998, Honduras is still one of the poorest countries in the hemisphere with low per capita income and education indicators. Massive international assistance, led by the United States at approximately $644 million for 1998-2001, provided emergency relief and is helping Honduras rebuild. Many of the homeless have received new houses in an effort led by churches, NGOs and the Honduran government. In general, the reconstruction effort has been on schedule and largely successful.

Honduras 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. In July 2000, Honduras reached its decision point under the Highly Indebted Poor Countries (HIPC) Initiative, qualifying the country for interim debt relief. On October 5, 2001, the IMF approved a third year Poverty Reduction Growth Facility (PRGF) program which could make Honduras eligible for up to $220 million in debt relief through the end of 2002.

Honduras made progress toward macroeconomic stability. Inflation fell from 10.9 percent in 1999 to 10.1 percent in 2000 and is estimated to be 9 to 10 percent in 2001. A widening balance of payments deficit, initially worsened by the Mitch-induced recession with decreased exports (from crop damage and low world prices in coffee, bananas, and palm oil) and increased imports (for reconstruction), is being covered by international aid, reinsurance payments, and increased family remittances. Low world coffee prices during the 2000-2001 coffee harvest and a drought in June and July 2001 have further worsened Honduras' agriculture production capacity and, in addition to high international oil prices, ultimately the balance of payments deficit. In mid-2001, the Central Bank introduced dollar-denominated monetary absorption certificates as a way to stabilize inflation and the exchange rate and ordered that international reserves not drop below the 2000 level of $1.022 billion.

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 the three-year PRGF approved by the IMF in March 1999, Honduras committed to privatize management of the airports, the telephone company, and electricity distribution. Airport management was turned over to a United States-led consortium in October 2000, but the telephone company bid failed the same month and a bill authorizing privatization of electricity distribution continues to languish in Congress. In 2001, talk of opening the telecom market by bidding out the Band B cellular service has been met with resistance in the Congress. In addition, Honduras has also failed to privatize its electrical distribution sector for the past 22 months because of continued opposition within the Honduran Congress. As of November 2001, Congress has approved only 53 of 152 articles of law that would allow for privatization. Waiver requests were recently approved by the IMF, IDB, and World Bank for non-performance in this area. The sector remains highly inefficient and a drain on the Government of Honduras' budget. Congress passed laws in late 1998 to encourage foreign investment in the tourism, mining, and agriculture sectors, though their potential has yet to be realized. The biggest success story of all has been the growth of the apparel (assembly) industry, with significant U.S. investment, from virtually zero in 1989 to over 200 plants in 2000 generating almost $550 million in foreign exchange and employing over 125,000 workers by December 2000. Implementation of the Caribbean Basin Trade Partnership Act in October 2000, which provides enhanced benefits to Honduras and other countries of the region, was expected to further boost investment and employment in the sector. However, a slowdown in the U.S. economy is blamed for over 20 maquila closings in 2001 and an estimated net job loss of 10,000 workers. 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, cumbersome bureaucratic requirements, and generally perceived lack of private sector confidence in the government and the economy.

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 U.S.-Honduras Bilateral Investment Treaty (BIT) entered into force in July 2001. 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 partially 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 accepted in a band seven percent above or seven percent below the base price established every five days. The base price moves according to relative inflation and price indices of Honduras' main commercial trading partners. During recent auctions, the Central Bank has been adjudicating an average of $8 million daily.

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 maintain competitiveness with its Central American neighbors, import tariffs were lowered and now range between 1 and 17 percent for most items. However, sensitive items such as automobiles are assessed additional nontariff charges that can equal 35 percent. 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 still current tariff on Honduran imports in December 1999 as a result of an ongoing 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 have been reduced to 10 percent, while tariffs on finished goods have been reduced to 15 percent. On August 29, 2000, Honduras, along with Nicaragua, joined the customs union formed by Guatemala and El Salvador in 1996. In order to facilitate customs' processing, El Salvador and Guatemala established Satellite Customs' Offices at the Honduran port of Puerto Cortes and the El Amatillo border crossing between Honduras and El Salvador.

After nine years of negotiations, a free trade agreement between the members of the Northern CACM Triangle (Honduras, Guatemala and El Salvador) and Mexico took effect on June 1, 2001. A free trade agreement with the Dominican Republic and an agreement strengthening trade relations with Colombia were approved by the Honduran National Congress in October 2001. Honduran trade officials are close to finishing negotiations with Chile. In addition, Honduras has showed interest in a free trade agreement with Canada 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, the Government of Honduras also maintains informal control over prices of cement and 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 income tax rate decreased from 30 percent in 1998 to 25 percent in 1999. The 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. A one percent tax applied on the FOB value of all export articles was eliminated 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 2000, Honduras' total external debt stock was $4.08 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 July 2000, the IMF and the World Bank Boards approved Honduras' decision point under the Heavily Indebted Poor Countries (HIPC) Initiative. In October 2001, the IMF approved Honduras' third-year PRGF, and along with the World Bank, the Poverty Reduction Strategy Paper, which makes Honduras eligible for interim debt relief and qualify for $556 million in debt relief in present value terms or $900 million in nominal terms at its completion point in December 2002. Some key conditions of the new PRGF include controlling public sector wages, submitting legislation to reform the civil service, and financial legislation to limit the personal liability of bank regulators and halting the real appreciation of its currency.

5. 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, 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. 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, insurance 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. There are restrictions limiting the number of foreign nationals working for a company. In certain types of industries, majority Honduran ownership is required. Roasting of coffee (traditionally Honduras' second foreign exchange earner) is tightly controlled by four or five firms. 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 12, 2001, a Bilateral Investment Treaty between the United States and Honduras went into force. The Treaty provides for equal protection under the law for U.S. investors in Honduras and permits expropriation only in accordance with international law standards and accompanied by adequate compensation. U.S. investors in Honduras also have the right to submit an investment dispute to binding international arbitration.

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 Office of the State's Legal Advisor. 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 establishes rules for the determination of the customs value.

6. 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 who export to the government are required by law to sell through an agent or distributor.

7. Protection of U.S. Intellectual Property

Honduras largely 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 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 and computer software. 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.

8. 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. 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 family farms, as street vendors, or in workshops to supplement the family income. In September 1998, the government created the National Commission for the Gradual and Progressive Eradication of Child Labor. In June 2001, the National Congress ratified Convention 182 of the International Labor Organization prohibiting the Worst Forms 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 $2.25 to $3.19 (35.00 to 49.50 lempiras) per day, depending on whether the employer has more than 15 employees. The highest minimum wage is $4.08 (63.30 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. 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. Some U.S.-owned apparel-assembly plants have implemented the Worldwide Responsible Apparel Production, an industry code of conduct.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		192
Food & Kindred Products	208	
Chemicals & Allied Products	2	
Primary & Fabricated Metals	-1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	-26	
Other Manufacturing	8	

Wholesale Trade	3
Banking	(D)
Finance/Insurance/Real Estate	9
Services	0
Other Industries	-119
TOTAL ALL INDUSTRIES	115

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.