

# A GENERAL ECONOMIC PROFILE OF HONDURAS -2008-

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Embassy of Honduras

Washington D.C.

## CONTENT OF A GENERAL ECONOMIC PROFILE OF HONDURAS -2008-

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# General Information

<b>Population</b>	7.7 million
<b>Capital</b>	Tegucigalpa
<b>Currency</b>	Lempira
<b>Currency Exchange Rate</b>	L. 18.89/ USD (April 09)
<b>Language</b>	Spanish
<b>Government</b>	Democratic, Constitutional Republic
<b>Airports</b>	4 international airports
<b>Maritime Ports</b>	4
<b>Distance from US</b>	By air, 2 hrs. By sea, 2-4 days

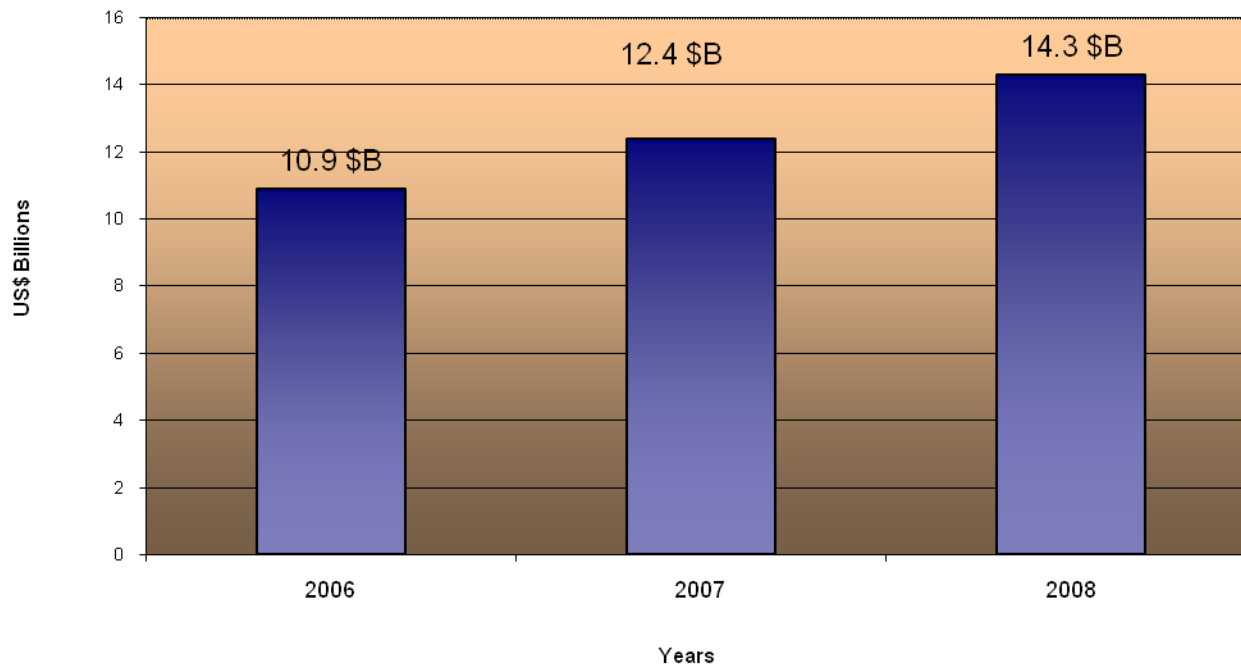
# Honduran Fast Facts

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- 1<sup>st</sup> largest exporter of tilapia to the USA.
- 2<sup>nd</sup> largest cigar exporter to the USA.
- 1<sup>st</sup> in apparel exports to the USA market from the Caribbean and Central America.
- 3<sup>rd</sup> largest supplier of automotive electrical harnesses for the North American market.
- Bay Islands is considered the 2nd largest coral reef in the world

# Economy: Evolution of GDP

GDP Evolution



**Economic Growth**

**2006: 6.6 %**

**2007: 6.3 %**

**2008: 4.0 %**

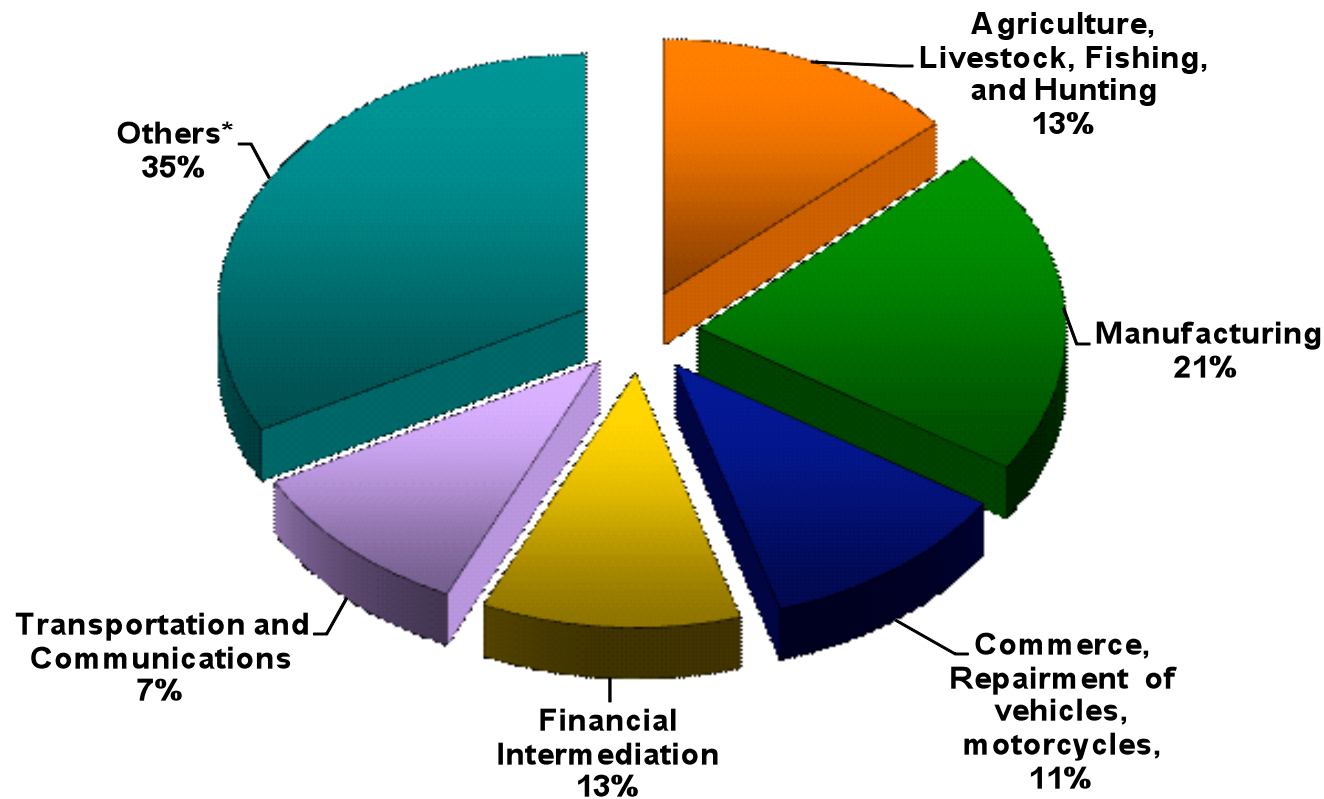
**GDP per capita**

**2006: \$ 1,482**

**2007: \$ 1,647**

**2008: \$ 1,858**

# Economy: GDP by Activity 2008



**GDP 2008 : US \$14,319 millions**

**GDP Per capita: US \$1,853 US dollars.**

Source: BCH

Tourism is an important sector in the economy of Honduras, for more information visit:  
[www.letsgehonduras.com](http://www.letsgehonduras.com)

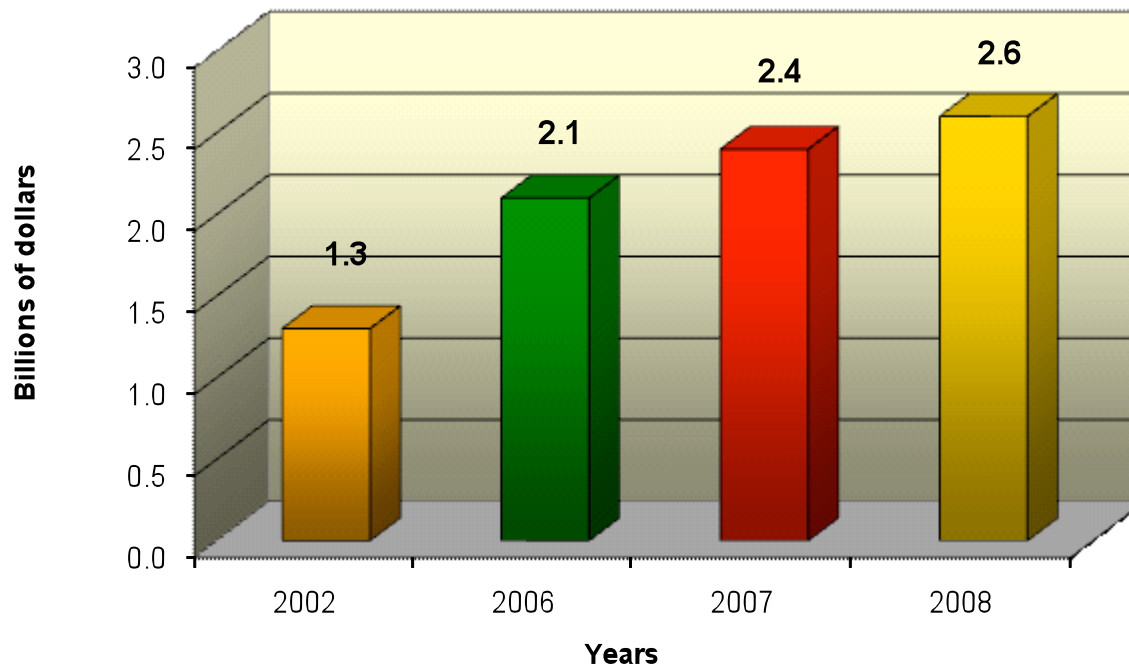
Others
Community, Social and Personal Services
Housing Property
Construction
Public Administration and Defense
Electricity, Gas and Water Distribution
Construction
Mining
Restaurants and Hotels
Real estate activities
Teaching services
Health and Social Services

# Macro Indicators

Category	2008												
Inflation Rate	10.8%												
National Asset Official Reserves	US \$ 2,690.0 Million Dollars (3.7 months of private sector debt and cash points)												
Interest Rate	<table border="1"> <thead> <tr> <th colspan="2">Foreign International Reserves (US Dollar)</th> <th colspan="2">Domestic Currency (Lempiras)</th> </tr> </thead> <tbody> <tr> <td>Lending</td> <td>11.0%</td> <td>Lending</td> <td>18.5%</td> </tr> <tr> <td>Deposit</td> <td>5.0% (3 months)</td> <td>Deposit</td> <td>13.1% (3 months)</td> </tr> </tbody> </table>	Foreign International Reserves (US Dollar)		Domestic Currency (Lempiras)		Lending	11.0%	Lending	18.5%	Deposit	5.0% (3 months)	Deposit	13.1% (3 months)
Foreign International Reserves (US Dollar)		Domestic Currency (Lempiras)											
Lending	11.0%	Lending	18.5%										
Deposit	5.0% (3 months)	Deposit	13.1% (3 months)										
Trade Balance	-4,647.3 US \$ Million Dollar (-13.8% of GDP)												

# Commerce: Growth of Exports (Goods)

**\* Exports Growth US\$ BILLIONS  
(FOB)**



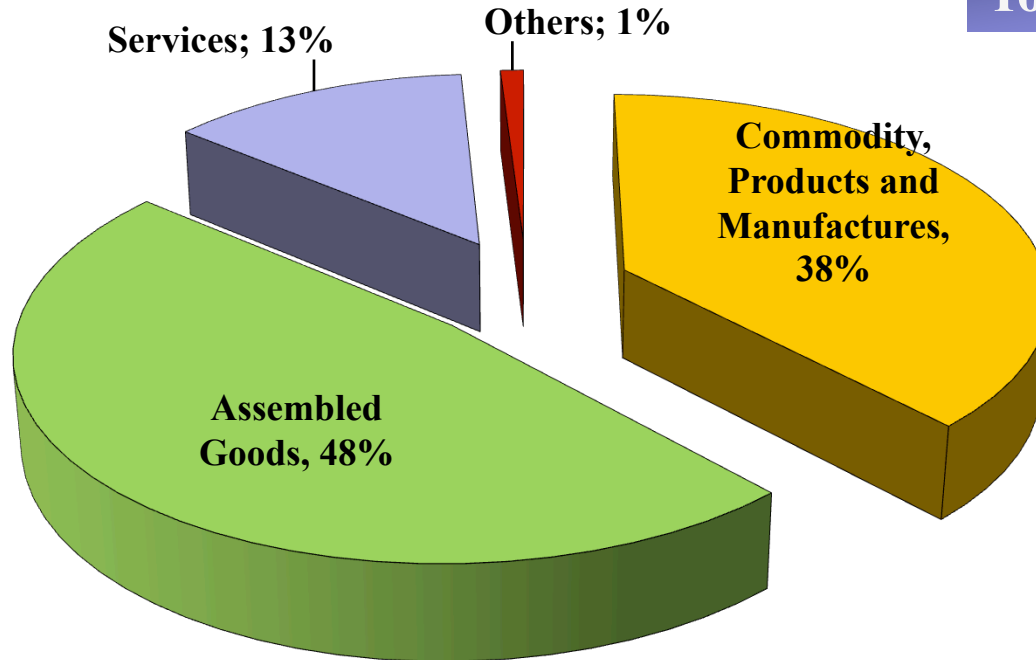
**% Growth**

**2007/2006: 14.8%**  
**2008/2007: 10.2 %**

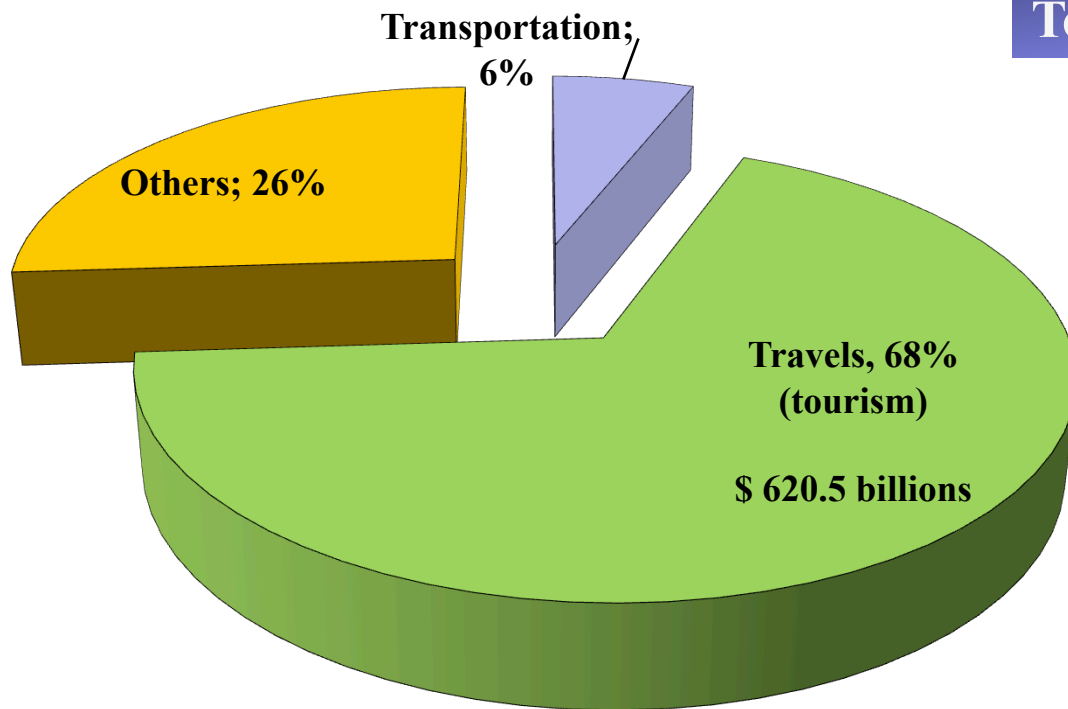
Source: BCH  
\* Apparel Not Included

# Commerce: Exports by Sector 2008

Total: USD 6.9 Billion

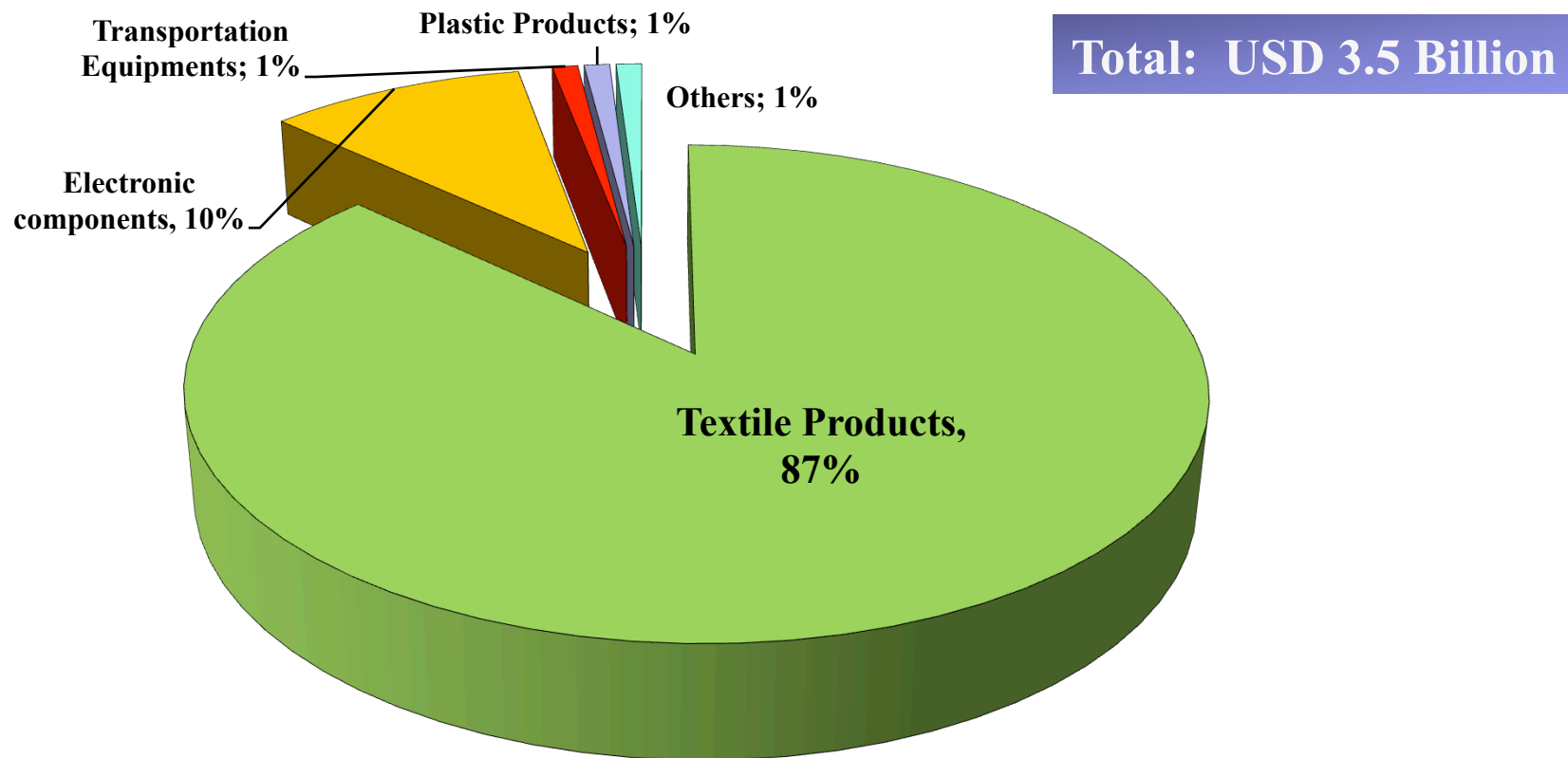


# Commerce: Services Exports Breakdown 2008



**Total: USD 909.8 Million**

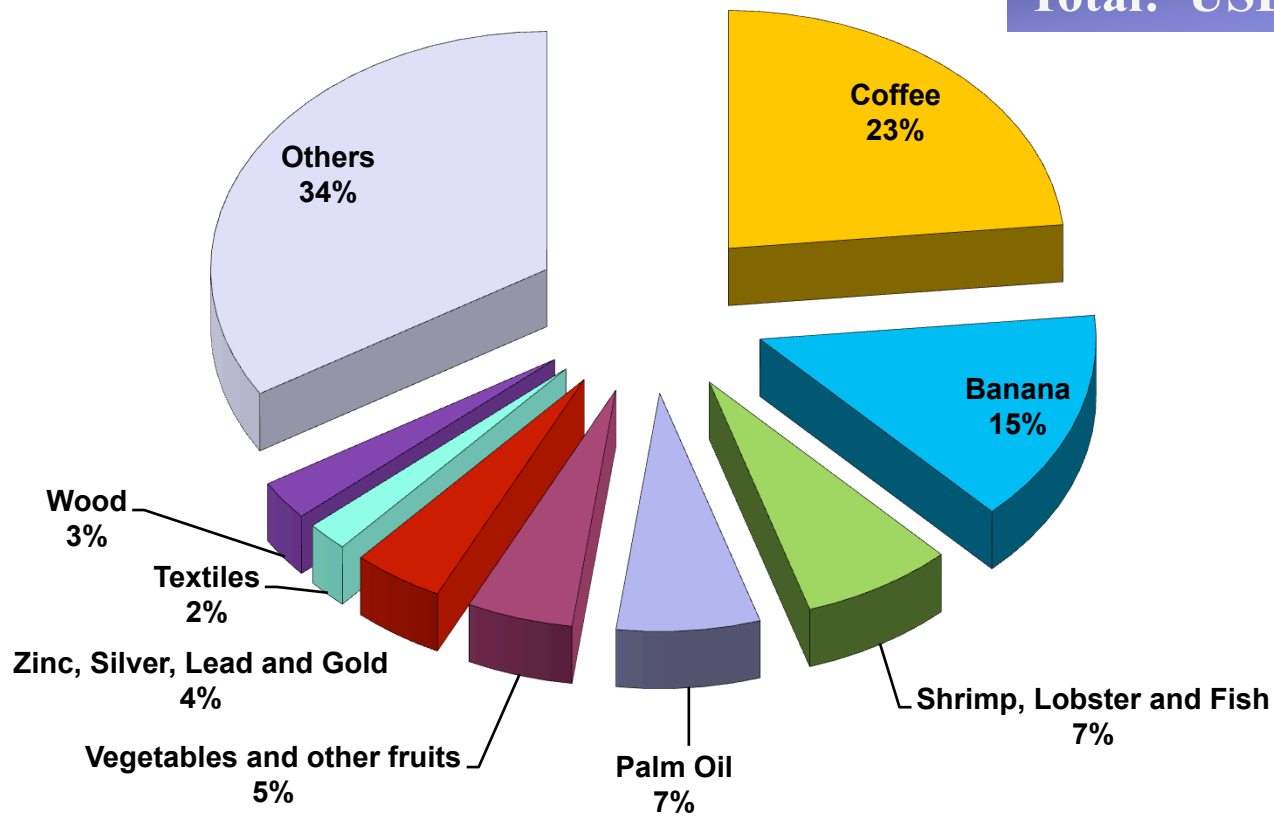
# Commerce: Exports Breakdown of Assembled Products



# Commerce: Exports Products Breakdown

## Main Products

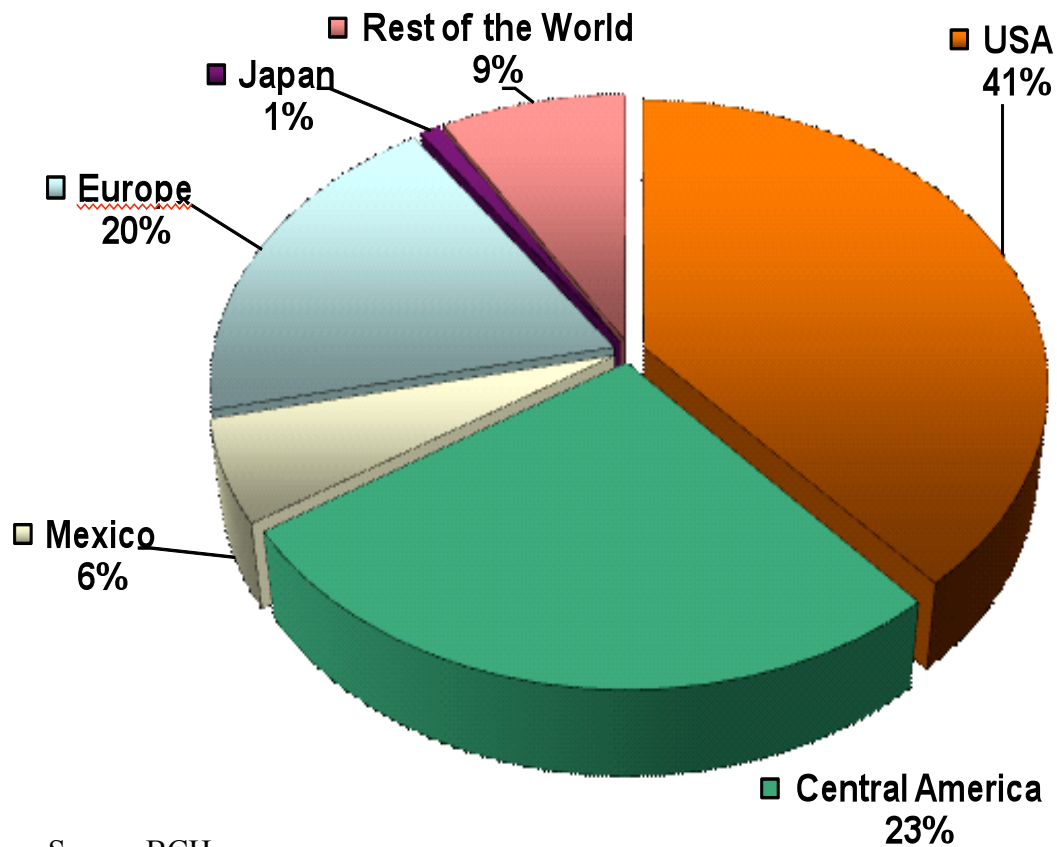
Total: USD 2.6 Billion



<b>Others*</b> 34%
Tobacco
Soaps and detergents
Sugar
Others traditional and non traditional

# Commerce: Exports by Destination

Exports by Country (2008) USD Millions  
(Commodity-FOB)



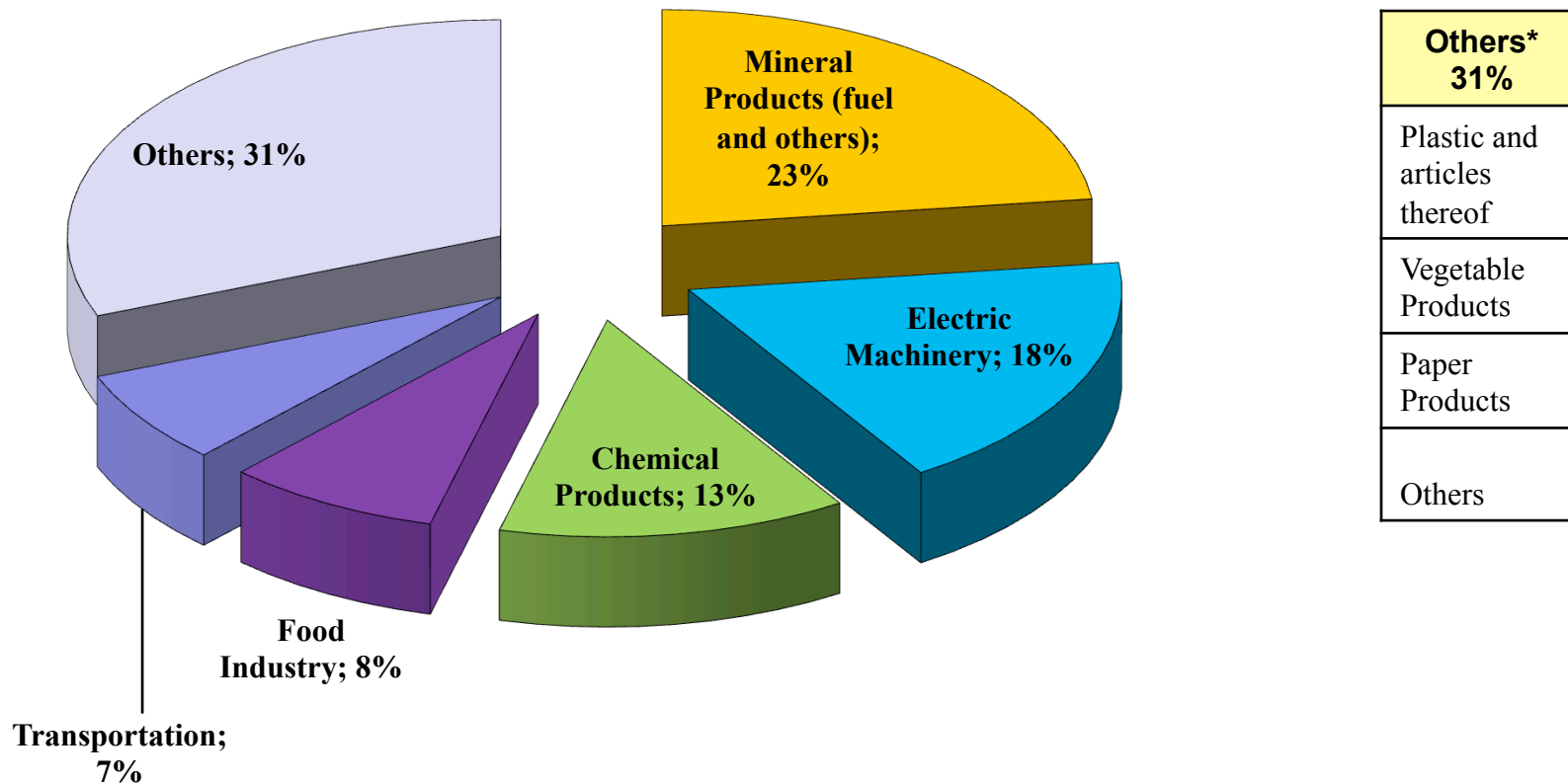
Country	2008
USA	1,077.4
Central America	618.9
Mexico	162.3
Europe	530.2
Japan	26.8
Rest of the World	235.4
<b>Total</b>	<b>2,650.9</b>

Source: BCH

# Commerce: Imports by Product

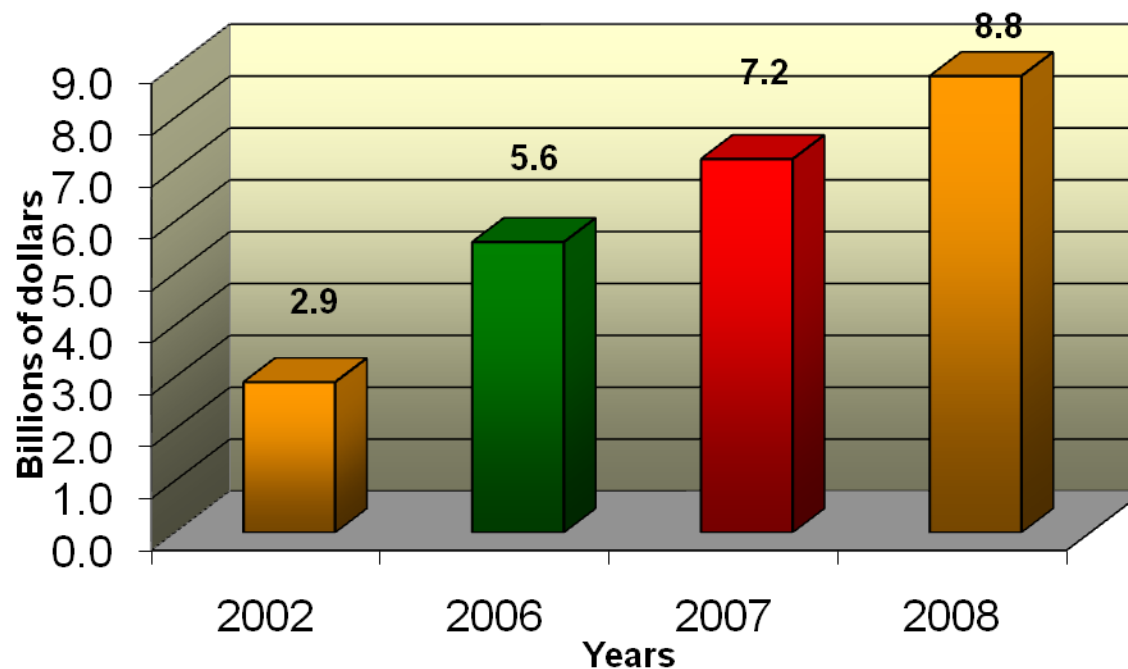
## Main Products

**Total: USD 8.8 Billion**



# Commerce: Imports Growth

Import Growth US\$ BILLION (CIF)



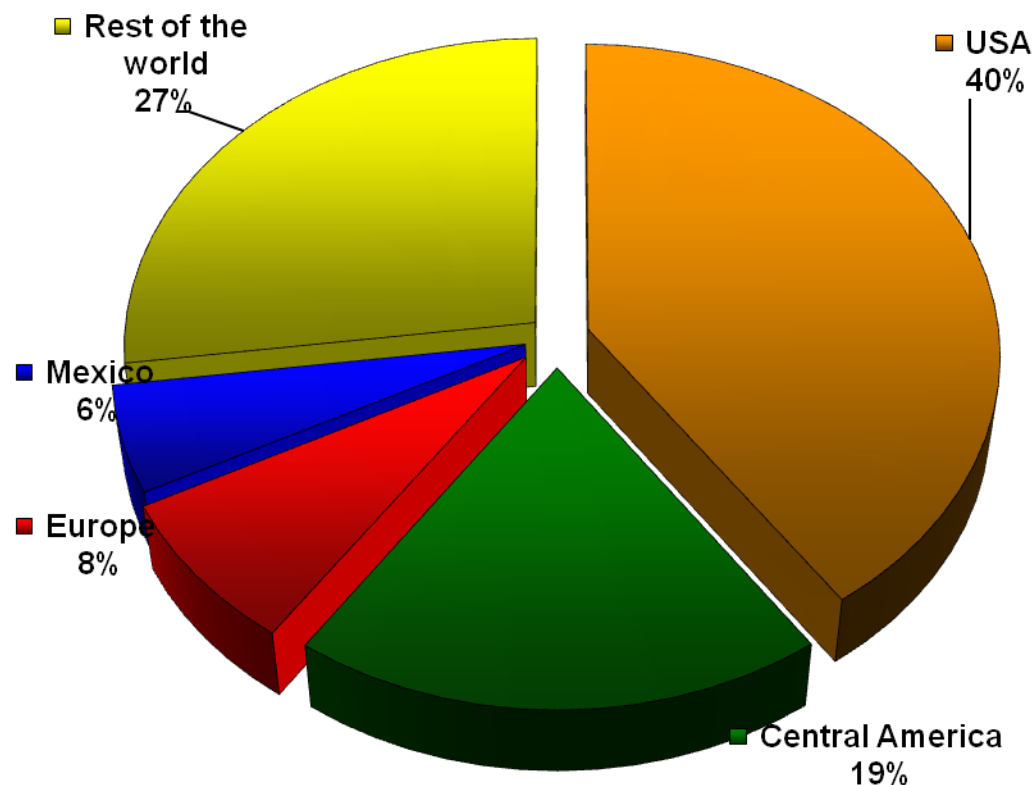
**% Growth**

2007/2006: 28 %  
2008/2007: 22.1%

Source: BCH

# Commerce: Imports by Country

## Imports by Country (2008) USD Millions (Commodity-CIF)



Country	2007
USA	3,560.6
Central America	1,705.5
Europe	688.3
Mexico	486.9
Rest of World	2,380.2
<b>Total</b>	<b>8,821.8</b>

Source: BCH

# Honduras Free Trade Agreements in Force

- Free Trade Agreement CAFTA-RD: In force since April 1, 2006. ( Honduras, Guatemala, El Salvador, Costa Rica, Nicaragua and Dominican Republic with USA).
- Free Trade Agreement with Mexico: Since June 1, 2001 ( Honduras, Guatemala and El Salvador ).
- Free Trade Agreement Central America and Dominican Republic: December 19, 2001.
- Free Trade Agreement between El Salvador, Honduras And China (Taiwan). July 7, 2008.
- Free Trade Agreement between Central America and Chile. July 19, 2008.
- Free Trade Agreement C.A. with Panama. February, 2009



# Perspectives

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## Honduras

- Association agreement between the European Union and Central America.
- Free Trade Agreement C.A. 4 with Canada.
- Free Trade Agreement with Colombia.



# Perspectives

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## Honduras

- PPP (Puebla – Panama Plan) also known as Mesoamerican Integration and Development Project, or Project Mesoamerica.

This is an effort to improve the economy from southern Mexico to Panama focusing in infrastructure environmental and ethnic variables to promote social and economic development. Initiated in 2001

- World Trade Organization (WTO) – DOHA Round  
Honduras member since 1994.

# Business under CAFTA-DR

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## Background and General Information

- CA-DR is the 4<sup>th</sup> largest export market for U.S. goods in the Western Hemisphere after Canada, Mexico and Brazil and the 13<sup>th</sup> largest export market for U.S. goods, more than Russia, Spain or Hong Kong.
- CA is a 47 million consumer market.
- CA exports 31% of its total goods and services to the USA, and imports 36%. (Doesn't include Dominican Republic)

# Business under CAFTA-DR

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- CAFTA-DR allows members to prepare and compete in international markets with international standards
- Promotes the strengthening of legal framework, including foreign investment regulation and dispute settlement mechanisms.
- Establishes standards in environment and respect to labor rights.
- Provides opportunities for the small and medium sized companies and a framework for training and capacity building .

# Business under CAFTA-DR

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## **Business Opportunities**

- Market access in products: capital goods, building products, transportation, electronics, footwear, leather goods, lumber, paper, among others.
- Services: financial services such as banking & insurance, franchising, entertainment, environmental, construction, advertising services
- Light Assembly: Honduras is the Third largest supplier of automotive electrical harnesses for the North American Market. Duty free access is made permanent by CAFTA DR.

# Business under CAFTA-DR

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## *Customs Administrative Procedures*

- CAFTA provides better transparency in the import/export process by the public availability of all documents, regulations and procedures from all participating countries
- Elimination of consular documents for commercial purposes
- Updated technology used in customs
- Greater accountability : provides resources for companies to review the due process and decisions taken in the import/export process

# Commerce Links

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## TEXT OF THE CAFTA-DR

Spanish Version

[www.sic.gob.hn/drcafta/index.htm](http://www.sic.gob.hn/drcafta/index.htm)

English Version

[http://www.ustr.gov/Trade\\_Agreements/Regional/CAFTA/Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Regional/CAFTA/Section_Index.html)

# Foreign Investment

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**Total 2008**

**USD 929.3 million**

**Apparel**

→ **USD 219.6 million (23.6%)**

Source: BCH

**Other Activities**

→ **USD 709.7 million (76.4%)**

Source: BCH

# Foreign Direct Investment (FDI): By Country of Origin

2007 FDI by country non-apparel  
Total USD \$709.7 million

2007	\$Million	%
<b>USA</b>	<b>378.5</b>	<b>53</b>
<b>Europe</b>	<b>159.1</b>	<b>22</b>
<b>Central America and Panama</b>	<b>61.7</b>	<b>9</b>
<b>Other countries</b>	<b>110.4</b>	<b>16</b>
<b>Total</b>	<b>709.7</b>	<b>100</b>

## Brands with Presence in HONDURAS

- Sara Lee Knit Corporation
- Osh Kosh B'Gosh
- Fruit of the Loom
- Maidenform
- Vanity Fair
- Hanes
- Jockey
- Gildan Activewear



Source: AHM

# Why Invest in Honduras?

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- Excellent location between markets
- Skilled labor force
- Good relationship between labor unions, workers, private sector and government.
- Natural Resources
- Export Incentives
- Investment Law ensuring national treatment
- More than 25 years of socio-political stability.
- Multilateral and regional trade and investment agreements.

Source: FIDE, Ministry of Industry and Trade

# Why Invest in Honduras?

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- Solid Infrastructure: 4 International Airports, 4 Ports.
- Competitive property rental and real estate.
- Diverse climate and high fertile land with potential for low-irrigation agriculture.
- Free zone status incentives
- Vocational training through organizations such as INFOP, PROCINCO, IPC.

Source: FIDE, Ministry of Industry and Trade

# INFOP

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## Vocational Training

- Instituto Nacional de Formación Profesional (INFOP): National Vocational Training Institute.
- Set up in 1972, is the most important organization dealing with the non- formal education sector.
- It aims to direct vocational training policies that are designed to stimulate the country's economic and social development in all branches of economic activity.
- It provides Honduran workers with the skills they need to cope with the demands of modern society.
- The INFOP trains young people from the ages of 15 to 23 in over 50 specialty areas of industry, agriculture and the tertiary sector.
- It is mainly financed by subsidies from the central government, the funds of private enterprises and international loans, and is therefore completely free.

# PROCINCO

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## Vocational Training

- **Programa de Capacitación Integral para la Competitividad de la Industria de la Confeccion (PROCINCO):** It's a program designed to satisfy the necessities of qualification, advising and services related in the Productive Areas, Security and Occupational Health of the Assembly Industry.
- This is an initiative of the Honduran Textile and Apparel Manufacturer's Association (AHM), developed since 2001.
- This program has trained over 70,000 workers in the Honduran Apparel industry

# IPC

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## Vocational Training

- **Instituto Politécnico Centroamericano (IPC):** The Central American Polytechnical Institute, is an educational nonprofit institution.
- Trains technicians for the manufacturing and textile industry in a global market through international affiliations and highly qualified instructors.

# PORT OF CORTES



**PUERTO CORTES IS THE MAIN GATEWAY FOR CONTAINERS FROM OTHER CENTRAL AMERICAN COUNTRIES TO USA PORTS :**

- **24 HOUR SERVICE ALL YEAR ROUND**
- **48-72 HOURS BY SHIP TO USA S.E.**
- **4 CARIBBEAN AND 1 PACIFIC SEAPORTS**

- ***CERTIFICATION VALIDATED BY THE IMO AND US COAST GUARD***
- ***USA CUSTOM OFFICE IN PORT OF CORTES (CSI: Container Security Initiative)***
- ***1st Port of Latin America considered as Megaport after Brazil and Argentina.***
- ***Secure Freight Initiative testing in Puerto Cortes, Honduras, started on April 2/2007. It is one of the three pilot SFI ports in the world.***

# Container Security Initiative

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- This is an initiative from the Department of Homeland Security (DHS), where selected foreign countries host a US customs at their port.
- Honduras's Puerto Cortés was invited to participate in this initiative.
- In March 2006, Puerto Cortés became the 44<sup>th</sup> CSI approved port and the 3<sup>rd</sup> in Latin America.

## SFI – Security Freight Initiative

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- Secure Freight Initiative testing in Puerto Cortes, Honduras, started on April 2/2007.
- Secure Freight provides carriers of maritime containerized cargo with greater confidence in the security of the shipment they are transporting, and it will increase the likelihood for shippers and terminal operators that the flow of commerce will be both uninterrupted and secure.
- The Secure Freight Initiative builds upon a risk-based approach to securing the international supply chain by leveraging programs like the NNSA's Megaports Initiative, which works with foreign governments to install specialized radiation detection equipment in order to detect, and interdict illicit shipments of nuclear and other radioactive materials



**Vessels Frequency  
per Shipping Co.:**  
**Three times/week**

**Logistics**

## Cooperation for Development

### Honduras Millenium Challenge Corporation(MCC)

- Signed 6/13/2005
- Entry Into Force 9/29/2005

The five-year, \$215.0 million compact's two main objectives are:

- 1) Increase the productivity and business skills of farmers and,
- 2) Reduce transportation costs between targeted production centers and national, regional and global markets

Source: MCC HONDURAS

# MCC

## Farmer Training and Development (EDA)

- EDA began operations in August 2006 and is expected to operate through May 2011.
- EDA's primary objective is to sustainably increase the profitability of 8,255 men- and women-owned agribusinesses, thereby increasing overall rural incomes and employment opportunities.
- Identify existing market demand for commercial crops that Program Farmers can supply.
- Develop business plans that enable Program Farmers to meet such demand.

# MCC

## Farmer Training and Development (EDA)

- Help Program Farmers obtain credit to finance their business plans.
- Provide agronomic and business assistance to Program Farmers, including training in complying with sanitary and phytosanitary standards, for a period of up to three years to help them to successfully execute their business plans.
- Ensure that Program Farmers employ environmentally sustainable agricultural practices.
- Certify that no crops supported by the Rural Development Project will substantially displace U.S. production.

# MCC

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## Transportation Projects

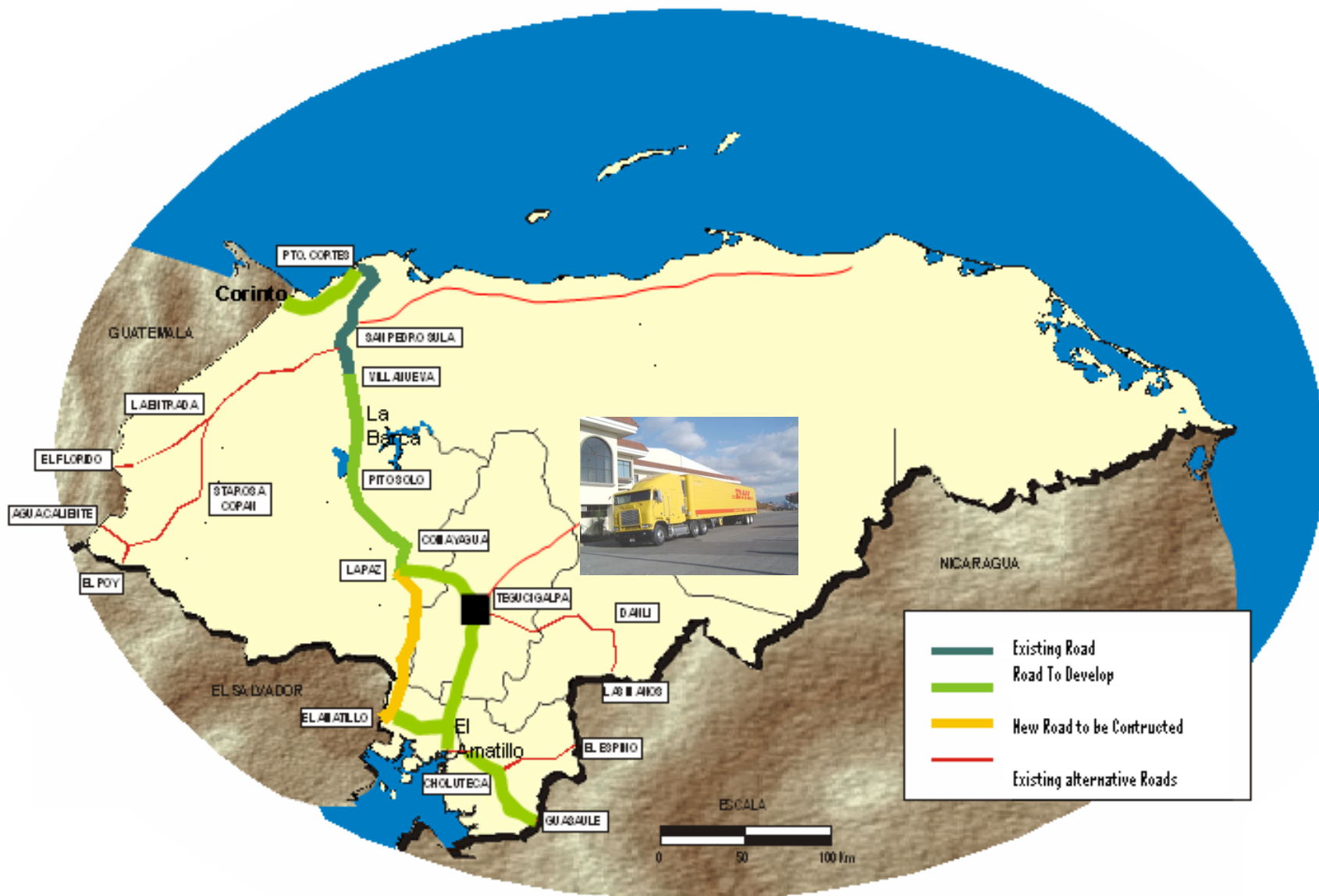
- Highway CA-5: Its main objective is to reduce transportation costs between targeted production centers and national, regional and global markets.

### Others:

- Secondary Roads
- Vehicle Weight Control
- Transportation Project Management

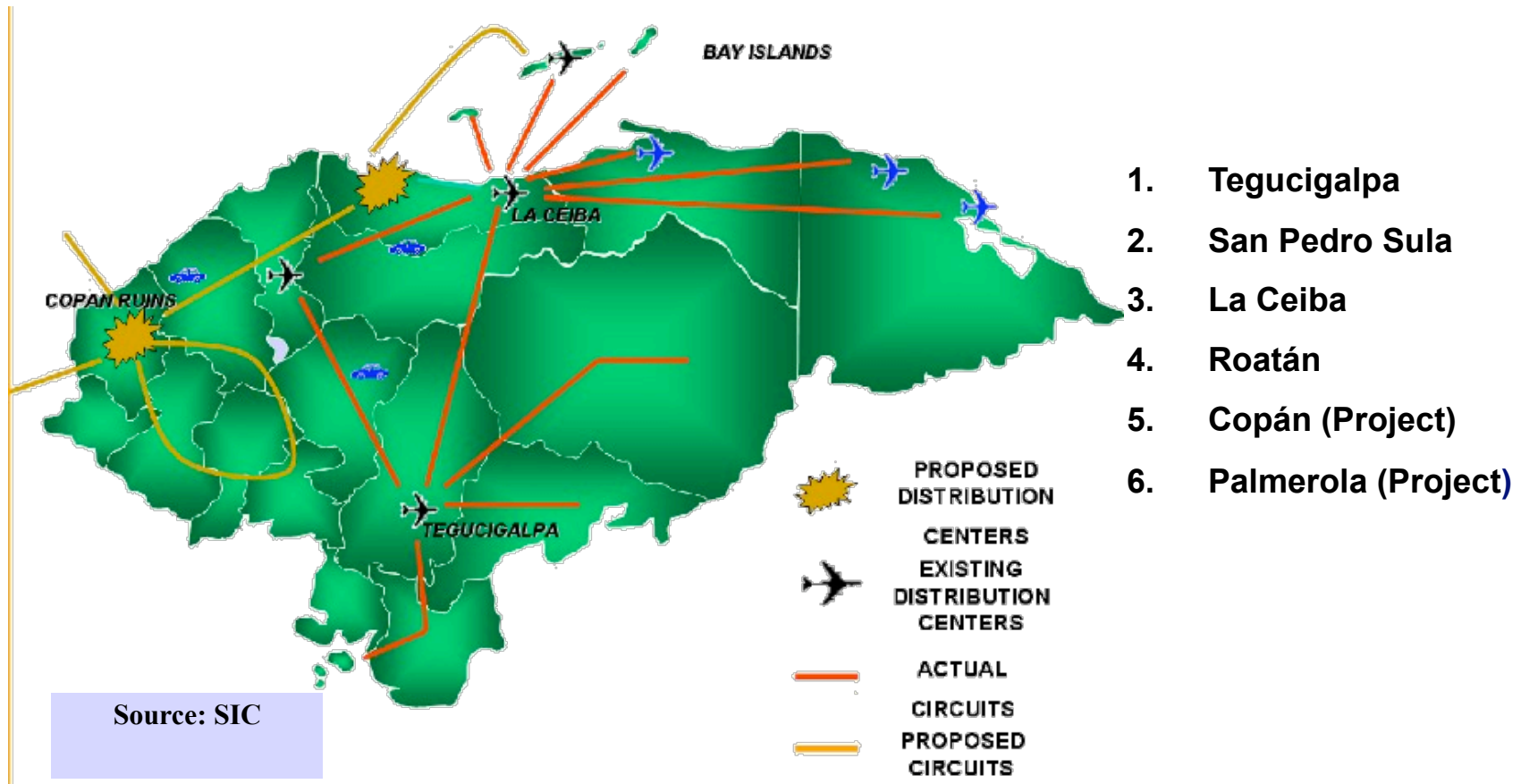
Source: MCC HONDURAS

# Interoceanic Logistic Corridor



# INFRASTRUCTURE

4 International Airports and 2 under construction



# INFRASTRUCTURE

## Industrial Parks Development

### HONDURAN TEXTILE AND APPAREL ASSOCIATION MEMBERS COMPANIES

SECTOR	TOTAL
Apparel Assembly	100
Textile	15
Socks	6
Harnesses	7
Services	90
Sponsors	4
Industrial Parks	17
<b>TOTAL COMPANIES</b>	<b>236</b>

- Locations: San Pedro Sula, Choloma, Danlí, La Lima, Progreso, Tegucigalpa, Comayagua, La Ceiba and Puerto Cortés, Santa Barbara, Villanueva y Choluteca.



# Investment Legal Framework and Incentives

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## Laws for Exporters and Investors

### Investment Law

→ Seeks to improve Honduras' ability to compete in world markets. It provides a transparent legal framework for investment, grants national treatment to foreign investment, reduces government controls and intervention. Special approval must be obtained to operate under the Temporary Import Law.

### Temporary Import Law

→ Applicable to companies operating outside the Export Processing Zones. Qualifying companies can import duty free all equipment and materials required to manufacture their goods.

# Investment Legal Framework and Incentives

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## Laws for Exporters and Investors

### Environmental Law

→ Encourages agricultural, cattle, forest and industrial activities toward practices that are compatible with the conservation and sound and sustainable use of natural resources and the protection of environment as a whole

### Law of Administrative Simplification

→ The general purpose of this Law is to establish a framework to render the government's administrative procedures more straightforward and consistent, in order to guarantee that all government agencies fulfill their duties in compliance with strict standards of economy and promptness and in the spirit of service.

# Investment Legal Framework and Incentives

## Laws for Exporters and Investors

INCENTIVES	FREE TRADE ZONE (FTZ)	EXPORT PROCESSING ZONE (EPZ)	TEMPORARY IMPORT LAW
IMPORT DUTIES ON RAW MATERIALS, COMPONENTS	100 % EXEMPTION	100 % EXEMPTION	100 % EXEMPTION
EXPORT TAXES	100 % EXEMPTION	100 % EXEMPTION	100 % EXEMPTION
LOCAL SALES AND EXCISE TAXES	100 % EXEMPTION	100 % EXEMPTION	100 % EXEMPTION ONLY IF IMPORTED
TAXES ON NET ASSETS	100 % EXEMPTION	100 % EXEMPTION	100 % EXEMPTION
TAXES ON PROFITS	100 % EXEMPTION	100 % EXEMPTION	100 % EXEMPTION
CAPITAL REPATRIATION	100 % EXEMPTION	100 % EXEMPTION	100 % EXEMPTION
TAXES ON PROFIT REPATRIATION	100 % EXEMPTION	100 % EXEMPTION	SUBJECT TO PAY
CURRENCY CONVERSION	UNRESTRICTED	UNRESTRICTED	SUBJECT TO CENTRAL BANK
CUSTOMS	CLEARED ON SITE	CLEARED ON SITE	CLEARED ON SITE
SALES TO LOCAL MARKET	5% OF TOTAL PRODUCTION PAYING CUSTOMS DUTIES	ONLY PAYING CUSTOMS DUTIES AUTHORIZED BY THE SECRETARY OF INDUSTRY AND COMMERCE	ONLY PAYING CUSTOMS DUTIES AUTHORIZED BY THE SECRETARY OF INDUSTRY AND COMMERCE
ELIGIBILITY REQUIREMENTS	INDUSTRIAL & COMMERCIAL COMPANIES CAN BE ESTABLISHED	INDUSTRIAL & SUPPORTING CO'S CAN BE ESTABLISHED	INDUSTRIAL & COMMERCIAL COMPANIES CAN BE ESTABLISHED
PARK OWNERSHIP	PUBLIC / PRIVATE	PRIVATE	PRIVATE

Fuente: AHM

# Investment Legal Framework and Incentives

## Tourism Incentives

Incentives	EIT/TEI	TEMP	TES	TEC	EST	TTE*
Lodging	X	X	X	X	X	X
Food & Beverages	X	X	X	X		
Air, water and land transportation	X	X	X	X		
Art and Handcraft	X	X	X	X		
Recreation Centers	X	X	X	X		
Tourism agencies, cultural events and shows	X	X	X	X		
Conventions	X	X	X	X		
Car rentals	X	X	X	X		
Educational, cultural and tourism institutions	X	X	X	X		

\*For hotels over 1,000 rooms

EIT	Exempt on Income Tax
TEI	Tax Exempt on Import taxes for goods and services
TES/TEC	Tax Exempt on Shows and Cultural Presentations
TEPM	Tax exempt on Promotional material for New Projects
EST	Sales Tax Exemption
TTE	Tourism Tax Exemption

Source: IHT

# Free Zone Benefits

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- Free Trade Zone (FTZ): The entire country has been designated as a FTZ by law.
- Companies can be located anywhere in Honduras.
- Currency conversion without restrictions.
- No import or export duties on all machinery, raw materials and components needed for operating the plant.
- Quick dispatch of incoming and outgoing shipments in less than one day with minimal paperwork

# Free Zone Benefits

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- 100% foreign property ownership.
- Tax exemption on sales, corporate taxes and profits.
- 100% repatriation of income and capital at any time.

Source: FIDE

# Tourism Incentive Law

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The law grants permanent income tax exemption for new tourism projects as soon as operations begin. The law exempts projects from taxes and other duties related to importing the following:

- Goods and equipment required for the construction and initiation of project operations.
- All printed material for the promotion and advertising of the country's tourism projects.
- Materials needed to replace deteriorated goods and equipment for a period of 10 years, with prior approval.
- New motor vehicles, such as buses, pick-up and panel trucks, other trucks, and those acquired by auto leasing and car rental companies

# Investment Areas

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- Assembly
- Agribusiness
- Tourism
- Biofuels

Source: FIDE

ARCHAEOLOGY

CULTURE

BEACH

DIVING

NATURE

COLONIAL



**HONDURAS**



- Bay Islands, 2nd largest coral reef in the world.
- Copán Ruins holds ancient Mayan art treasures.  
Declared as World Heritage Site by UNESCO in 1980
- La Mosquitia is the home of the largest tract of virgin and unexplored tropical rainforest in North America.
- 7 Ethnic groups

# Links to Other Institutions and Information Sources

For updated macroeconomic data the Honduran Central Bank is the official government agency generating these indicators

## Government of Honduras

1) Ministry of Industry and Trade

[www.sic.gob.hn](http://www.sic.gob.hn)

2) Ministry of Agriculture

[www.sag.gob.hn](http://www.sag.gob.hn)

3) Ministry of Finance

[www.sefin.gob.hn](http://www.sefin.gob.hn)

4) Tourism Institute

[www.iht.hn](http://www.iht.hn)

5) Honduran Central Bank

[www.bch.hn](http://www.bch.hn)

FIDE  
Honduran Investment  
Promotion  
Agency.  
[www.hondurasinfo.hn](http://www.hondurasinfo.hn)

## Private Sector

1) COHEP Honduras

[www.cohep.com](http://www.cohep.com)

2) ANDI

[www.andi.hn](http://www.andi.hn)

3) Honduran Manufacturer Association  
(AHM)

[www.ahm-honduras.com](http://www.ahm-honduras.com)

4) Honduran Agro export Federation  
(FPX)

[www.fpxhn.net](http://www.fpxhn.net)

5) FIDE

Honduran Investment Promotion  
Agency.

[www.hondurasinfo.hn](http://www.hondurasinfo.hn)

# HONDURAS

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**Embassy of Honduras in Washington D.C.**

**Investment Promotion & Trade**

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