SUMMARY

1. The Honduran economy suffered from the global financial crisis and the slump in external demand and in the price of its main exports, in particular coffee and bananas. Although it has recovered since, its average annual GDP growth rate of 2.5% between 2009 and 2014 has not been sufficient to improve living conditions or reduce poverty. In fact, GDP per capita remained practically at a standstill during that period, reaching US$2,236 in 2014, one of the lowest in Latin America. For 2015, the estimated GDP growth rate is 3.5%. Although the economic outlook is positive, Honduras is faced with the highest level of economic inequality in Latin America and is vulnerable to external shocks. The country's economic structure has not changed substantially since the last review in 2010, although the GDP share of the manufacturing industry, including the maquila industry, has declined slightly. The agricultural sector continues to play a major role as a source of employment.

2. During the review period, Honduras generally kept its inflation rate within the fluctuation band established by the Central Bank. The average annual inflation rate in 2010-2014 was 5.6%, while for the third quarter of 2015 the rate was 3.2%. This was thanks to a cautious monetary policy coupled with lower prices for oil and other raw materials. Honduras applies a crawling band exchange rate system, the rate being determined daily in auctions. The real effective exchange rate depreciated between 2010 and 2015.

3. In 2013, Honduras introduced a tax reform aimed at reducing the fiscal deficit and boosting tax revenue. This involved eliminating a number of exemptions and duty free arrangements and reducing certain expenditures. In spite of this, the central government deficit remained high during the review period, fluctuating between 4.4% and 7.9% of GDP. The 2014-2017 Reform Programme seeks to restore fiscal discipline and put the public debt onto a sustainable path. The current account of the balance of payments continued to post a large deficit during the review period. Although it fell from 9.5% of GDP in 2013 to 7.4% in 2014 as a result of fiscal consolidation, improved terms of trade and a marked increase in remittances, it remained well above the 4.3% recorded in 2010. The Honduran economy continues to depend heavily on family remittances from abroad, which accounted for 17.2% of GDP in 2014 and played a key role in sustaining domestic demand.

4. The Honduran economy is largely dependent on international trade. The ratio of trade (exports and imports) to GDP increased during the review period from 99.6% in 2010 to 103% in 2014. In spite of policies aimed at promoting exports and diversifying markets for Honduran products, neither the composition of Honduran exports nor the markets have varied substantially since 2010. Honduras continues to be an exporter of agricultural products and clothing manufactured under the maquila regime. Its main agricultural exports remain coffee (20.6% of the total), bananas (11.2%), palm oil (7.6%), and shrimp and lobster (7.1%). From 2010 to 2014 exports, excluding the maquila industry, grew at an annual average rate of 9.6%, while the rate for maquila exports was 3.8%. Hondura's main export market continues to be the United States - as has been the case since the entry into force of CAFTA-DR - followed by Central America (especially El Salvador, Guatemala and Nicaragua) thanks to the strengthening of the CACM, and the European Union, in particular Germany.

5. As with exports, the composition of imports remained stable between 2010 and 2014, and they grew at an annual average rate of 8.9%. Imports consist mainly of manufactures, in particular machinery and equipment and mineral products. As in the case of exports, the United States is also the main source of Honduras' imports, followed by the countries of the region, in particular Guatemala and El Salvador.

6. During the review period, Honduras introduced reforms to increase the transparency of the civil service. As part of the process, it implemented a system for evaluating government bodies, and some State Secretariats were regrouped while others were created. In the trade sphere, as of 2013 the State Secretariat for Economic Development (PROHONDURAS) replaced the State Secretariat for Trade and Industry, and is now responsible for formulating and implementing Honduras' trade policy. At the same time, efforts were made to enhance citizen participation in public management and in the legislative process by allowing citizens to file complaints regarding poor performance of a public duty, and since 2011, they have been able to submit draft laws.

7. Honduras also introduced a number of amendments to the Constitution during the review period, notably the amendment providing for the creation of Employment and Economic Development Zones (ZEDE). These are considered to be extraterritorial fiscal and customs zones, and may develop their own internal policies and regulations, including fiscal and monetary policies. The ZEDE would apparently replace the Free Zones and other fiscal regimes currently available in Honduras. At the same time, Honduras enacted and amended other trade-related laws during the review period, including the Law on Fiscal Consolidation, the new Investment Law, the new Law on the Protection of Plant Varieties and the Law on the Energy Sector. These and other reforms were introduced to modernize the legislative system. However, there have been a number of obstacles and delays in implementing some laws, for example the new Energy Sector Law.

8. Honduran trade policy is largely determined by the commitments made in the framework of the Central American Common Market (CACM), and more recently by those arising from the CAFTA-DR negotiations. The main objectives include: boosting Honduras' share in international trade; increasing its export supply; and forging strategic alliances with trading partners in order to promote innovation and production chains.

9. Although trade agreements are important in determining the country's trade policy and trade flows, Honduras is particularly keen to participate in the multilateral trading system, which it considers to be fundamental to the small and vulnerable economies. Under the Doha Development Agenda (DDA), Honduras has advocated the implementation of special and differential treatment provisions along with other flexibilities that help to protect the most sensitive sectors of developing economies. Under the DDA, it has also supported the elimination of agricultural distortions.

10. Honduras participates in a number of regional trade agreements (RTAs). Together with the other members of the CACM Honduras signed an agreement with the European Union in 2010, and also signed a bilateral agreement with Canada. During the period under review, the Central American integration process was further deepened. In 2011, CACM members signed a second Protocol to the Treaty on Investment and Trade in Services (TICS), and Honduras signed an agreement with Guatemala creating a customs union that is currently being implemented. Moreover, the Central American countries and Mexico renegotiated and consolidated three old agreements into one. Together with the other Members of the CACM, Honduras is currently negotiating an agreement with the Republic of Korea as well as a Partial-Scope Economic Complementarity Agreement with Ecuador.

11. During the period under review, Honduras enacted the Investment Promotion and Protection Law, which repealed the 1992 Investment Law, and introduced new guarantees for investors, such as stability contracts and property protection regimes. Certain requirements were also eliminated, such as prior authorization for investment in Honduras. The main limits on investment relate to the State's reserving the exclusive right to operate certain basic industries and public services for reasons of public order or public interest. No new restrictions or prohibitions were imposed on foreign investors during the review period. Honduras maintains special regimes to promote both domestic and foreign investment. Most of these programmes apply across the board, though some of the incentives target specific sectors, especially the promotion and development of clean energy and tourism. To simplify investment formalities, Honduras is setting up a single window for investment, and has streamlined and digitalized a number of formalities.

12. Honduras has a relatively open trade regime, as evidenced by the high foreign trade to GDP ratio. While there have been no major changes to the regime since 2010, a number of measures have been introduced to facilitate trade. Honduras has streamlined its customs procedures by introducing a variety of electronic systems, particularly for exports. However, the single window has yet to be fully implemented. Honduras has notified the WTO of its Category A commitments under the Agreement on Trade Facilitation (TFA) and has begun the formalities for ratifying the TFA.

13. The average applied MFN tariff rate in 2015 was 5.9%, virtually the same as the rate recorded in the last Honduran review (6% in 2010). However, the revenue collected from customs duties represented only 1.5% of goods imports, reflecting the fact that 48.1% of MFN tariff lines have a zero tariff, and that Honduras has preferential agreements with its main trading partners. Applied tariffs vary from 0 to 164%, the most common rate being 0%. Agricultural products (WTO definition) were subject to an average tariff of 10.7% (11.1% in 2010) while the average rate for non-agricultural products was 5.1% (the same as in 2010). The highest tariff rate

continues to be applied to imports of certain poultry meat, followed by cigarettes at 55%. Honduras has bound its entire tariff in the WTO. About 85% of its tariff universe is bound at 35%, with less than 1% bound at higher levels and the rest at levels below 35%. As in 2010, the Secretariat identified seven tariff lines whose applied rate exceeds the bound rate.

14. Honduras has a price band system for imports of yellow maize, grain sorghum, maize flour and other worked grains. The authorities pointed out that in practice, the mechanism was not used during the period under review, and that the applied tariff for these products was 15%. In August 2015 the system was modified and the price bands were no longer used for imports of white maize: the applied tariff for white maize was raised from 15% under the price band to 50%, the bound rate.

15. Honduras makes little use of non-tariff barriers. Certain imports are prohibited in order to protect public health, morals, animal and plant health, the environment and national security, and in order to comply with international commitments. For the same reasons, both automatic and non-automatic import licensing have been maintained. The licensing regime, which applies to all imports regardless of their origin, has not changed substantially since 2010, and is not designed to restrict the volume or value of imports. The list of goods requiring import licences is the same as in 2010.

16. Honduras did not impose any anti-dumping or countervailing duties during the period under review. However, it did impose a safeguard measure in February 2015 to tackle "disruption" in the domestic market for iron and steel products. As a result, the tariffs on certain iron and steel products increased to 35%. This measure was not notified to the WTO.

17. The development of technical standards and regulations and sanitary and phytosanitary measures is governed by the principles of consensus and transparency, and generally follows international standards. During the review period, Honduras also set up new institutions for the development of these measures in order to enhance cooperation and the transparency. In view of the importance of the agricultural sector for the country, Honduras has maintained strict sanitary controls which apply both to domestic production and to imports. Non-automatic licences are required to import plant and animal products and byproducts as well as inputs for agricultural or veterinary use. Honduras also reserves the right to ban the import or transit of goods from countries deemed to be affected by epidemics that could impact animal or plant health in the country.

18. Honduras has notified the WTO of a number of programmes under which it continues to grant tariff and tax concessions, namely the Temporary Import Procedure, the Free Zones and the Industrial Export Processing Zones (ZIP). These schemes were already running in 2010, and the ZIP scheme is no longer operating. The aim of the concessions granted through these programmes is to promote exports, attract investment and create jobs. In addition to these general programmes, Honduras also operates a number of sectoral programmes: the Agricultural Export Zones regime which, although suspended, continues to grant retroactive benefits, and two programmes for the promotion of tourism. Under the fiscal reform of 2013, some of the tax benefits that had been granted under the various programmes were eliminated. However, since the reform was not retroactive, those who received benefits prior to the reform continued to receive them. One of the more significant changes in trade policy since the last Review was the introduction, in 2013, of a new incentive scheme, the Employment and Economic Development Zones (ZEDE), although no ZEDE is in operation to date. Honduras does not currently have any official programmes to finance or insure its exports.

19. The regulatory framework for government procurement underwent a number of changes during the review period. A new electronic government procurement system was introduced in 2014 to streamline procedures and foster transparency and economies. Honduras continues to maintain measures to encourage Honduran companies and professionals to participate in government procurement procedures.

20. The main change in the legal framework for the protection of intellectual property rights has been the enactment of a Law on the Protection of New Varieties of Plants. There have been no major changes to the provisions on other industrial property rights and copyright and related rights. Honduras is continuing its efforts to improve compliance with intellectual property rights

both at the border and within the country. To that end, it has revised the legal framework in order to impose more severe penalties, and has organized campaigns to promote awareness among civil society and to train government officials.

21. Agriculture in Honduras is relatively concentrated: coffee and bananas accounted for more than 40% of agricultural production in 2014. Other leading products are vegetables and fruit, palm oil and livestock products. Agriculture continues to be a major source of foreign exchange: in 2014, agriculture accounted for 33.8% of foreign exchange generated by merchandise exports. In recent years, the objective of Honduran agricultural policy has been to increase productivity and promote exports without neglecting production for the domestic markets, with a view to ensuring food security. The authorities have tried to reduce the distortions in the domestic market by introducing a price stabilization mechanism and measures to improve food safety. To promote agricultural exports, Honduras has continued to adopt a strategy aimed at opening up new or niche markets. Tariff protection in the agricultural sector continues to be greater than in the manufacturing sector. The price band system has also been maintained, as well as the "absorption agreements" under which certain grains can be imported at preferential rates if the processers purchase a specific percentage of the domestic production of those grains.

22. State involvement in the services and public services sector continues to be significant, particularly in the electricity, telecommunications and maritime transport subsectors. However, a number of measures have been taken to increase private sector participation. In 2013, for the first time, a concession was granted for the operation, expansion and modernization of the country's biggest port (Puerto Cortes). A new General Law on the Electricity Industry abolishing the State's exclusive transmission rights and liberalizing the electricity market was enacted in 2014. At the same time, in order to promote tourism, foreigners were allowed to carry out projects throughout the country, including in the areas reserved for the exclusive use of Hondurans. In the other services subsectors, market access conditions are similar to what they were in 2010. For example, cabotage services are still reserved for national operators in the case of both air transport and maritime transport.