
SUMMARY

1. During the first part of the review period, the Honduran economy saw rapid growth. Honduran GDP grew at an average annual rate of 3.8% between 2016 and 2019, which means that per capita income rose. Growth was spurred mainly by private consumption expenditure, which in turn was driven up in large part by remittances from abroad, an important source of financing for consumption. In 2020, the Honduran economy was hit very hard by the economic effects of the COVID-19 pandemic, with GDP contracting by 9%. All the components of aggregate demand contracted, but gross capital formation recorded the largest decline. All productive sectors were similarly affected. However, macroeconomic conditions improved rapidly in 2021 and 2022. Real GDP expanded by 12.5% in 2021 and by 4.0% in 2022. With the exception of agriculture and fishing, and mining and quarrying, all sectors recorded growth in 2022, particularly hotels and restaurants; financial intermediation; manufacturing; and construction.

2. The agricultural sector (including fishing) remains relatively important for the Honduran economy, accounting for 12.6% of GDP in 2022 and is a major employer. The sector's share of GDP varied during the review period, mainly due to the impact of natural phenomena and the pandemic. Continuing the trend observed in the previous review period, the GDP share of the manufacturing sector, including the *maquila* industry, declined in this review period, from 17.1% in 2016 to 16.0% in 2022. Services accounted for 51.3% of GDP in 2022; those that contributed the most to GDP were trade, hotels and restaurants, financial intermediation and real estate services.

3. For most of the period under review, fiscal policy was geared towards fiscal consolidation, reducing spending and increasing revenue. The Fiscal Responsibility Law (LRF) of 2016 established targets for reducing the deficit and achieving fiscal consolidation. Limits were set for the increase in nominal current expenditure and in public debt. The targets set out in the LRF for the non-financial public sector (NFPS) deficit could not be met. The central government deficit widened in 2020 to 7% of GDP as a result of higher public spending on support programmes to address the effects of the pandemic, as well as the shortfall in revenue collection caused by the slowdown in economic activity. In this regard, the National Congress agreed to suspend compliance with the targets set out in the LRF for two years; instead, it authorized an annual ceiling for the NFPS deficit of 5.4% of GDP in 2021, between 2.3% and 2.9% in 2022 and no more than 1.0% in 2023. Public finances improved with uptick in economic growth, as evidenced by the reduction in the central government deficit of 1.3% of GDP in 2022.

4. Between 2016 and 2019, the aim of monetary policy was to keep inflation low and stable and maintain an adequate level of international reserves, by ensuring that levels of liquidity in the financial system would guarantee price stability. During the period under review, inflation generally remained within the established tolerance range, with the exception of 2022, when price levels were affected by the higher international price for raw materials, mainly energy and food, causing inflation to accelerate, reaching 9.1%. The Central Bank of Honduras (BCH) implements the exchange rate policy through the exchange rate banding system, using a margin of 1% above or below the centre of the exchange rate band.

5. The current account of the balance of payments continued to post large deficits during the review period, with the exception of 2020. The deficit peaked at USD 1,582 million in 2018, equivalent to 6.6% of GDP. In 2020, as a result of the pandemic, imports contracted considerably, leading to a current account surplus of USD 666 million, equivalent to 2.8% of GDP. However, when economic activity recovered in 2021 and 2022, imports of goods and services increased substantially, again leading to a deficit, which reached USD 1,487 million in 2021 and USD 1,080 million in 2022, accounting for 5.3% and 3.4% of GDP respectively.

6. Honduras' overall exports in 2022 (including *maquila*) totalled USD 12,135 million, compared to USD 7,926 million in 2016, an increase of 53%. The main export products were textiles and textile articles (40.5% of the total), coffee (11.7% of the total), machinery and appliances, electrical equipment and parts thereof (9.7%) and bananas and other fruits (6.5%). Honduras's c.i.f. imports totalled USD 19,544 million in 2022, compared to USD 12,407 million in 2016, an increase of 57.5%. In 2022, imports consisted primarily of manufactured products, particularly textile fibres (19.9% of the total), fuels (15.2%), machinery and equipment (13.5%) and chemicals (11.4%). The main market for Honduran exports continues to be the United States, which absorbed 50.6% of the total in 2022, down from the 57.0% recorded in 2016. It is followed by the European Union (11.4%), Nicaragua (8.7%), El Salvador (8.5%) and Guatemala (5.5%). The United States is also the main

source of imports, corresponding to 36.9% of total imports in 2022 (42.4% in 2016), followed by China (11.5%), Guatemala (9.4%) and El Salvador (7.7%).

7. The Honduran services balance shows a structural deficit, which increased substantially during the review period (from USD 578.3 million in 2016 to USD 2,121.6 million in 2022). This increase was largely attributable to the impact of the COVID-19 pandemic, which significantly reduced travel sector credit, which usually records a surplus, while all other sectors were in deficit. The sectors posting the largest deficit are transport, particularly maritime transport, royalties and insurance.

8. The main objective of Honduran trade policy is to integrate into world trade by consolidating and diversifying the range of products and markets. To promote exports, Honduras continues to use special regimes, in particular free trade zones and taking advantage of preferential market access. Despite these policies, Honduras's trade remains highly concentrated in a few products (coffee and textiles) and just one market. Honduras faces a number of challenges that affect the competitiveness of its exports and the resilience of its economy.

9. Honduras is an original Member of the WTO and accords at least most-favoured nation (MFN) treatment to all its trading partners. For Honduras, as a small and vulnerable economy, the multilateral system based on clear and stable rules is essential to advancing growth and well-being. In WTO negotiations, Honduras is part of two groups that promote flexibilities in agricultural trade in line with development needs. Honduras is of the view that the new trade-related topics are key, and therefore participates in joint initiatives to promote e-commerce, the integration of MSMEs into trade, investment facilitation for development, as well as in structured discussions and working groups to promote environmental sustainability and women's participation in trade. Honduras is not party to the plurilateral agreements, nor is it an observer to the respective committees. Since 2016 Honduras has not made use of the dispute settlement mechanism, although it has been a third party in a number of cases.

10. Honduras's strategy for trade openness and integration into value chains also includes participation in preferential agreements, mainly in the region, such as the Central American Common Market (CACM) and CAFTA-DR. Since 2016, in the framework of CACM, Honduras has made progress in the gradual and progressive process of deep integration with Guatemala, with a view to creating a customs union. During the review period, trade agreements that Honduras negotiated with Peru, the Republic of Korea and the United Kingdom entered into force. Most of Honduras' trade is conducted under preferential agreements.

11. Honduras pursues an investment regime relatively open to private investment, including foreign investment, although some activities are still reserved to the State, on the grounds of public order or social interest; for certain activities, mainly services, caps on foreign direct investment (FDI) are still imposed. On the other hand, despite a sector or activity being liberalized, the State still has natural monopolies (this is the case for electricity transmission and distribution). Foreign-owned stakes in small-scale industry and trade are also governed by reciprocity. In sectors where foreign capital investment is permitted, Honduras guarantees national treatment. Honduras does not impose preconditions on foreign investment nor restrictions on the repatriation of capital or profits; these are subject to the Honduran tax regime. Sectoral and horizontal incentives are provided to attract investment. With regard to incentive programmes, the Employment and Economic Development Zones (ZEDE) regime was abolished in 2020.

12. There have been no major changes to the customs legal framework of Honduras since 2016. At the institutional level, the Customs Administration of Honduras (AAH) replaced the Customs Revenue Directorate in 2020, becoming the new customs authority. Meanwhile, since the previous Review in 2016, Honduras has implemented trade facilitation procedures, in accordance with its commitments arising from the WTO Trade Facilitation Agreement; to date, Honduras has implemented 70.6% of its commitments. The measures introduced include the adoption of a single customs declaration at the Central American level; the implementation of the authorized economic operator programme; the creation of a digital portal providing information on customs procedures for imports and exports, by product and market; and the implementation of a paperless customs pilot project. Honduras mainly uses the transaction method to set the value of imports. Between 2021 and 2022, to mitigate the impact of the increase in maritime transport costs, "one-off" reduction of 75% in the freight cost used to calculate the customs value was authorized. Price guides are still used to determine the value of certain goods, particularly used vehicles.

13. In 2022, Honduras' tariff contained 7,531 lines at the HS 2022 10-digit level (6,974 lines at the HS 2012 10-digit level). In most cases, Honduras applies *ad valorem* tariffs. Honduras' tariff structure has not changed substantially. The average MFN applied rate was kept at 5.9%. The protection given to agricultural products (WTO definition) remains higher than that given to non-agricultural products (WTO definition); the gap between the average applied tariff applied to agricultural products (10.7% in 2015 and 10.8% in 2022) and to non-agricultural products (5.1% in 2015 and 2022) remained practically unchanged. Of Honduras's tariff lines, 48.1% had a rate of 0% in both 2015 and 2022. The price band system, which affects six tariff lines, is still in force in, although, according to the authorities, it is not used. Honduras did not negotiate tariff quotas within the framework of the WTO; however, it did negotiate preferential tariff quotas under certain regional agreements. Honduras mainly uses quotas negotiated under the CAFTA-DR. For certain agricultural products, shortage quotas may also be triggered should domestic supply fall short.

14. Honduras uses non-tariff measures to protect human health, public safety and the environment. In certain cases, however, these measures may be used to protect domestic production and food security. During the review period, a seasonal ban was imposed on imports of onions to protect domestic production, while a ban on exports of red beans, lifted in 2020, was introduced to guarantee food security. Foreign trade in certain products, including onions and red beans, was regulated through import and export licences and other types of permits. Honduras has not used any trade defence measures since 2016. There are no state trading enterprises in Honduras. Honduras applies the same taxes and levies to both imports and domestic production; however, the so-called eco-tax is levied only on imports of used vehicles. Exports of green coffee (HS 0901.11.30.00) and certain minerals remain subject to a levy used to finance support measures. Exporters are required to deposit and sell foreign currency within a specified period; this requirement does not apply to exporters operating under the free zone (ZOLI) regime.

15. Honduras has notified two subsidy programmes to the WTO: the Temporary Import Regime (RIT) and the ZOLI regime, from which a considerable number of exporting companies benefit. In 2020, substantial changes were made to the ZOLI regime with a view to improving it and providing greater certainty for users and investors; Honduras has also streamlined the procedure for setting up companies in free zones, facilitated the entry of goods and increased the period of validity for related tax benefits.

16. During the review period, there were no significant changes regarding the formulation, application and objectives of technical regulations and sanitary and phytosanitary measures. These regulations and measures are based on international guidelines, standards and recommendations. Since 2016, Honduras has submitted to the WTO 13 regular notifications concerning technical regulations and 12 on sanitary and phytosanitary measures. There have been no emergency notifications. A specific trade concern was raised against Honduras regarding sanitary and phytosanitary measures.

17. The Honduran competition regime has not undergone any substantial changes since 2016. The Commission for the Defence and Promotion of Competition is, in principle, the governing authority, although sectoral laws may grant regulatory bodies the same powers as those held by the Commission. This is the case in the telecommunications sector. Between 2020 and 2021, Honduras regulated the sales price of several goods, including ethyl alcohol and mats, owing to the pandemic and the hurricanes that had ravaged the country. At present, only fuel and electricity prices are regulated.

18. Regarding government procurement, the main development during the review period was the creation of the position of certified public buyer (CPC) to enhance procedural efficiency and transparency. Since 2018, each procuring entity has been required to have a CPC, yet this is not always the case in practice. Furthermore, annual procurement plans are not published systematically and procurement cannot be conducted via the digital platform. Honduras continues to apply preferences in favour of Honduran suppliers. Honduras is not party to the WTO Agreement on Government Procurement and does not participate as an observer in the Committee.

19. In terms of intellectual property, the most significant development was the 2018 repeal of the Law on the Protection of New Varieties of Plants of 2012. Certificates granted under this Law are, however, still valid. Marks are the type of industrial property protection most widely used by residents; the use of patents is rare, although initiatives have been introduced to foster a culture of

innovation. Honduras has successfully strengthened its intellectual property regime in some areas, although there is room for improvement as regards protecting rights in the digital sphere.

20. While the agricultural sector has retained its relative importance for the Honduran economy, its share of GDP fell during the 2016-21 period, before recovering in 2022. During the review period, the sector experienced erratic growth due to adverse weather events and a lack of dynamism owing to a shortage of funding and, therefore, investment. Other factors to negatively impact the sector include migration and an ageing rural population. Honduras has several domestic support programmes that seek to benefit producers with limited resources by providing inputs, access to capital and technical assistance, thereby contributing to the economic recovery and food security of small farmers. Agricultural production is still relatively concentrated: products such as coffee and bananas exceeded 40% of total agricultural output (in 2021). High-quality Honduran coffee and organic coffee surpassed bananas as the main agricultural export products. However, aside from traditional agricultural products, Honduras is also promoting the cultivation of non-traditional products. During the 2016-21 period, the share of agricultural products (as defined by the WTO) in total exports averaged over 30%. Honduras notified the WTO that it did not subsidize any agricultural exports between 2016 and 2020. Honduras provides preferential credit and has guarantee funds to support loans to the agricultural sector.

21. In 2022, Honduras launched an energy reform to increase state involvement in the sector. The National Electricity Company (ENEE) - a state enterprise - and several private operators participate in this market. In principle, private operators were able to participate in all activities until 2022, when the ENEE became the only entity entitled to market electricity. The ENEE also has a natural monopoly on transmission and distribution. As a result, private operators only participate in the generation market, which they dominate. The energy reform also covers the renegotiation of ENEE agreements concluded with generators, which could lead to uncertainty and affect future decisions to invest in the generation sector at what is a particularly critical time for the diversification of the country's energy matrix, as the security of the electricity supply relies on hydroelectric plants, a source that has been affected by climate change.

22. The telecommunications market has seen no substantial changes during the review period. HONDUTEL, the state operator, continues to hold significant market power in terms of fixed services, while the mobile service market remains dominated by two operators. Honduras has attempted to narrow the digital divide, and since 2016 the broadband penetration rate has increased. In 2022, however, 18% of the country's population still had no Internet access, and 28% of those with access did not make use of it.

23. The main development in the transport services sector since 2016 has been the opening of Palmerola International Airport, a new airport which, unlike the old one, can handle larger aircraft. It is therefore hoped that, as well as serving the capital city and facilitating air connectivity, the new airport will, in the future, promote tourism by allowing for more passenger arrivals and being closer to areas with tourism potential. Since 2016, the country has also attracted new airlines, including some low-cost operators, even though the level of air connectivity remains low. Puerto Cortés is Honduras' main port and one of the most important ports in Central America. For this reason, it was chosen for the implementation of a paperless customs pilot project, which has optimized clearance times and brought about environmental benefits thanks to the reduced use of paper.

24. The tourism sector's share of GDP is still modest; however, the sectors' synergies with the rest of the economy make it a priority sector for promoting economic development, particularly in areas away from the main production hubs. The sector is also a key source of foreign exchange and, as such, the largest component in service exports. Honduras has therefore reaffirmed its commitment to the sector by providing incentives, supporting financing and implementing marketing programmes, all with a view to reviving tourism following the health and climate crises. Nevertheless, the sector faces serious challenges that could affect recovery, such as a lack of air connectivity, a low level of diversification in terms of tourism offerings, and the country's image and its vulnerability to climate change.