OFFERING CIRCULAR

U.S.$500,000,000

The Republic of Honduras

7.50% Notes due 2024

The Republic of Honduras (the "Republic") is offering U.S.$500,000,000 aggregate principal amount of its 7.50% Notes due 2024 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on March 15 and September 15 of each year commencing on September 15, 2013. The Notes will mature on March 15, 2024. Principal will be repaid in three nominally equal installments on March 15, 2022, March 15, 2023 and at maturity.

The Notes will contain provisions, commonly known as "collective action clauses", regarding acceleration and voting on future amendments, modifications and waivers. Under these provisions, which are described in the sections entitled "Terms and Conditions of the Notes — Events of Default" and "— Collective Action Securities, Modifications, Amendments and Waivers", the Republic may amend (i) the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate amount of the outstanding Notes or (ii) the payment provisions of multiple series of debt securities issued under the Fiscal Agency Agreement with the consent of (a) the holders of 75% of the aggregate principal amount outstanding of all affected series and (b) the holders of 66 2/3% of the aggregate principal amount outstanding of each affected series.

Except as described herein, payments on the Notes will be made without deduction for or on account of withholding taxes imposed by the Republic.

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. This Offering Circular constitutes a prospectus for the purpose of the Luxembourg Law dated July 10, 2005 on prospectuses for securities, as amended.

Investment in the Notes involves Risk. See "Risk Factors" beginning on page 8 regarding certain risk factors you should consider before investing in the Notes.

Issue price: 100.00%
plus accrued interest, if any, from March 15, 2013

The Notes have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"). The Notes may not be offered or sold within the United States or to U.S. persons except to qualified institutional buyers (each a "qualified institutional buyer") in reliance on the exemption from registration provided by Rule 144A ("Rule 144A") under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. You are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act.

Delivery of the Notes in book-entry form will be made on or about March 15, 2013 through a common depositary for Euroclear Bank S.A./N.V., or Euroclear, and Clearstream Banking, *société anonyme*, Luxembourg, or Clearstream.

Sole Book-Running Manager

Deutsche Bank Securities

The date of this Offering Circular is March 12, 2013

Honduras

CARIBBEAN SEA
BELIZE
GOLF OF HONDURAS
Islas de la Bahia
Roatán
HONDURAS
GUATEMALA
Trujillo
Atlántida
La Ceiba
Colon
Cortes
San Pedro Sula
Yoro
Yoro
Santa Bárbara
Gracias a Dios
Puerto Lempira
Olancho
Copán
Santa Rosa de Copan
Santa Bárbara
Comayagua
Juticalpa
Comayagua
Gracias
Francisco Morazán
Ocotepeque
Intibucá
La Esperanza
Nueva Ocotepeque
Lempira
La Paz
El Paraíso
La Paz
Tegucigalpa
Yuscarán
EL SALVADOR
NICARAGUA
Valle
Nacaome
Choluteca
Choluteca
GOLF OF FONSECA
PACIFIC OCEAN

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE REPUBLIC AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND THE RISKS INVOLVED.

You should rely only on the information contained in this document or to which we have referred you. We have not, and the Sole Book-Running Manager have not, authorized anyone to provide you with information that is different from the information contained in this document. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

This Offering Circular may only be used for the purposes for which it has been published.

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The Notes will be direct, general unsubordinated, unsecured and unconditional obligations of the Republic. The Notes will, at all times, rank *pari passu,* without any preference among themselves, with all other unsecured and unsubordinated obligations of the Republic, present or future, constituting Public External Indebtedness (as defined herein) of the Republic.

The Notes will be issued in registered form only. Notes sold in offshore transactions in reliance on Regulation S will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Regulation S Global Note") deposited on behalf of the Sole Book-Running Manager for the Notes represented thereby with The Bank of New Mellon, London Branch, or the "common depositary", and registered in the name of The Bank of New York Depository (Nominees) Limited, or the "nominee", of the common depositary for the account of Euroclear or Clearstream. Notes sold in the United States to qualified institutional buyers as defined in, and in reliance on, Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons (the "Rule 144A Global Note" and, together with the Regulation S Global Note, the "Global Notes") deposited on behalf of the Sole Book-Running Manager for the Notes represented thereby with common depositary and registered in the name of nominee of the common depositary for the account of Euroclear or Clearstream. Except as described herein, definitive Notes will not be issued in exchange for beneficial interests in the Global Notes. See "Terms and Conditions of the Notes— Form, Denomination and Title". For restrictions on transfer applicable to the Notes, see "Plan of Distribution" and "Transfer Restrictions."

The Republic has taken reasonable care to ensure that the information contained in this Offering Circular is true and correct in all material respects and not misleading as of the date hereof, and that, to the best of the knowledge and belief of the Republic, there has been no omission of information which, in the context of the issue of the Notes, would make this document as a whole or any such information misleading in any material respect. The Republic accepts responsibility accordingly.

This Offering Circular does not constitute an offer by, or an invitation by or on behalf of, the Republic or the Sole Book-Running Manager to subscribe to or purchase any of the Notes. Each recipient of this Offering Circular shall be deemed to have made its own investigation and appraisal of the financial condition of the Republic. The distribution of this Offering Circular or any part of it and the offering, possession, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Sole Book-Running Manager to inform themselves about and to observe any such restrictions. See "Plan of Distribution" and "Transfer Restrictions" for a description of further restrictions on the offer, sale and delivery of Notes and on distribution of this Offering Circular and other offering material relating to the Notes.

Each person purchasing Notes pursuant to Rule 144A will be deemed to:

- represent that it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it or such account is a qualified institutional buyer (as defined in Rule 144A); and
- acknowledge that the Notes have not been and will not be registered under the Securities Act or any State securities laws and may not be reofferred, resold, pledged or otherwise transferred except as described under "Transfer Restrictions."

Each purchaser of Notes sold outside the United States in reliance on Regulation S will be deemed to have represented that it is not purchasing Notes with a view to distribution thereof in the United States. Each person purchasing Notes pursuant to Rule 144A also acknowledges that:

- it has been afforded an opportunity to request from the Republic and to review, and it has received, all additional information considered by it to be necessary to verify the accuracy of the information herein;
- it has not relied on the Sole Book-Running Manager or any person affiliated with the Sole Book-Running Manager in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision; and
- no person has been authorized to give any information or to make any representation concerning the Republic or the Notes other than those contained in this Offering Circular and, if given or made, such information or representation should not be relied upon as having been authorized by the Republic or the Sole Book-Running Manager.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE PERSON(S) (IF ANY) ACTING AS THE STABILIZING MANAGER(S) (THE "STABILIZING MANAGER(S)") (OR PERSONS ACTING ON THEIR BEHALF) MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER(S) (OR PERSONS ACTING ON THEIR BEHALF) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN 30 DAYS AFTER THE DATE ON WHICH THE ISSUER RECEIVED THE PROCEEDS OF THE ISSUE, OR NO LATER THAN 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE RELEVANT SECURITIES, WHICHEVER IS THE EARLIER.

NOTICE TO INVESTORS IN THE EUROPEAN ECONOMIC AREA

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Offering Circular may only do so in circumstances in which no obligation arises for the Republic or the Sole Book-Running Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, in each case, in relation to such offer. Neither the Republic nor the Sole Book-Running Manager have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for the Republic or the Sole Book-Running Manager to publish a prospectus for such offer. The expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

This document is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Financial Promotion Order"), (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are outside the United Kingdom, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

DEFINED TERMS AND CONVENTIONS

All references to the "Republic" and "Honduras" are to the Republic of Honduras.

References to "Central America" and "Central American countries" are to Honduras, Costa Rica, Guatemala, El Salvador and Nicaragua.

The central government of Honduras ("Central Government") consists of the Secretaries of State and decentralized institutions, such as the Honduran tax administration agency (*Dirección Ejecutiva de Ingresos*, or "DEI") and the Honduran Social Security Institute ("IHSS"). The combined public sector in Honduras consists of the Central Government, local governments (municipalities), non-financial state-owned enterprises, other non-financial decentralized institutions, pension funds and other financial public sector institutions, such as the Central Bank of Honduras (*Banco Central de Honduras,* or "Central Bank").

References to "GDP" are to gross domestic product, which measures the total value added of final products and services produced in a country in a specific year. Nominal GDP measures the total value added of final production in current prices. Real GDP measures the total value added of final production in constant prices of a particular year, which allows for comparisons of historical GDP that exclude the effects of inflation. In this Offering Circular, real GDP figures are based on constant 2000 prices, the year used by the Central Bank for purposes of maintaining real GDP statistics. GDP growth rates and growth rates for the various sectors of the Honduran economy are based on real figures, unless otherwise indicated. Figures expressed as a percentage of GDP use nominal GDP as the base number, unless otherwise indicated.

References to "FOB" are to exports free on board and to "CIF" are to imports including cost, insurance and freight charges.

References to "net international reserves" are to foreign currency reserves. The term "current account surplus (deficit)" as applied to the balance of payments includes foreign aid, unless otherwise specified.

PRESENTATION OF FINANCIAL AND ECONOMIC INFORMATION

The fiscal year of the government commences on January 1 and ends on December 31 of each year.

Certain financial and economic information presented in this Offering Circular may be subject to routine revision and possible adjustment. In particular, some information and data for 2010, 2011 and 2012 are preliminary and are subject to revision or adjustment as additional or amended information may become available. We have identified such information and data as "preliminary" or "estimated" in this Offering Circular. Certain GDP figures, for example, have been identified as estimated because year-end information is available for some sectors of the economy while other sectors require an estimation based on partial data. Some GDP figures have been identified as preliminary because year-end information is available for all sectors of the economy but are still subject to final revision. Estimated figures are published during the first quarter following the end of a reference year. Preliminary figures are available nine to 12 months after the reference year. Final revised figures are published two years after the reference year.

The Republic believes that this revision process is substantially similar to the practices of other nations. The Republic does not currently expect that any such revisions or adjustments will be material, although the Republic cannot provide any assurances may be given that material changes will not be made or that the information provided is complete.

Certain statistical information reported herein has been derived from official publications of, and information supplied by, among others, the Central Bank, the Ministry of Finance ("*Secretaría de Finanzas*" or "SEFIN"), and the National Commission of Banks and Insurance Companies (*Comisión Nacional de Bancos y Seguros*, or "CNBS"). Certain other information in this Offering Circular is derived from information made publicly available by the United Nations.

Certain amounts included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Unless otherwise specified or the context requires, references to "U.S. dollars", "$" and "U.S.$" are to United States dollars and references to "lempiras" and "L." are to Honduran lempiras, the national currency of the Republic.

FORWARD-LOOKING STATEMENTS

This Offering Circular contains certain forward-looking statements (as such term is defined in the Securities Act) concerning the Republic. These statements are based upon beliefs of certain government officials and others as well as a number of assumptions and estimates which are inherently subject to significant uncertainties, many of which are beyond the control of the Republic. Future events may differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are principally contained in the sections “Summary”, “The Republic of Honduras”, “The Honduran Economy”, “Foreign Trade and Balance of Payments”, “Monetary System”, “Public Sector Finances” and “Public Sector Debt.” In addition, in those and other portions of this Offering Circular, the words “anticipates”, “believes”, “contemplates”, “estimates”, “expects”, “plans”, “intends”, “projections” and similar expressions, as they relate to the Republic, are intended to identify forward-looking statements. Such statements reflect the current views of the Republic with respect to future events and are subject to certain risks, uncertainties and assumptions. The Republic undertakes no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, there can be no assurances that the events described or implied in the forward-looking statements contained in this Offering Circular will in fact occur.

ENFORCEMENT OF CIVIL LIABILITIES

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize in the United States or elsewhere upon judgments against the Republic. To the fullest extent permitted by applicable law, the Republic will irrevocably submit to the non-exclusive jurisdiction of any New York State or U.S. federal court sitting in The City of New York, and any appellate court thereof, in any suit, action or proceeding arising out of or relating to the Notes or the Republic's failure or alleged failure to perform any obligations under the Notes (a "Related Proceeding," which term shall exclude claims or causes of action arising under the federal securities laws of the United States or any state securities laws), and the Republic will irrevocably agree that all claims in respect of any such Related Proceeding may be heard and determined in such New York State or U.S. federal court. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any related proceeding and any objection to any Related Proceeding whether on the grounds of venue, residence or domicile. The Republic will agree that a final judgment in any Related Proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. However, a judgment obtained in the United States against the Republic, where the Republic was not duly served or was not afforded the right to defend itself in court, may not be enforceable in the Republic.

To the extent that the Republic or any of its revenues, assets or properties, has or may acquire any immunity (sovereign or otherwise) from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its revenues, assets or properties the Republic has, to the fullest extent permitted under the U.S. Foreign Sovereign Immunities Act of 1976, as amended (the "Immunities Act"), irrevocably waived such immunity in respect of any action or proceeding arising out of, or related to, the offering and sale of the Notes or the Republic's failure, or alleged failure, to perform any obligations under the Notes. This waiver covers the Republic's sovereign immunity and immunity from prejudgment attachment, post-judgment attachment and attachment in aid of execution; provided, however, that under the Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment, and that under the laws of the Republic, the revenues, assets or properties of the Republic are exempt from attachment or other form of execution before or after judgment. See "Terms and Conditions of the Notes—Submission to Jurisdiction."

Notwithstanding the preceding paragraph, the Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under the U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic with respect to such actions, it would not be possible to obtain a judgment in such an action brought in a U.S. court against the Republic unless such court were to determine that the Republic is not entitled under the Immunities Act to sovereign immunity with respect to such action. Further, even if a U.S. judgment could be obtained in any such action under the Immunities Act, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment. Execution upon property of the Republic located in the United States to enforce a U.S. judgment may not be possible except under the limited circumstances specified in the Immunities Act.

EXCHANGE RATE INFORMATION

On July 21, 2011 the Central Bank approved a crawling band exchange rate regime, by which the exchange rate between the lempira and other foreign currencies is permitted to fluctuate, with the rate determined daily in foreign exchange auctions. This change was made only after an initial agreement with the International Monetary Fund ("IMF") had been reached for an Extended Fund Facility, a lending facility aimed at overcoming Honduran balance of payments challenges that stem from structural problems, such as increasing imports for consumption as well as the appreciation of the lempira. The transition to the new free-floating foreign exchange regime did not result in a significant deterioration of the exchange rate.

This Offering Circular translates certain Honduran lempira amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise indicated, such lempira amounts have been translated at the rate of L.19.9623 per U.S.$1.00, which corresponds to the market rate calculated on December 31, 2012. Currency conversions contained in this Offering Circular should not be construed as representations that *lempiras* have been, could have been or could be converted into U.S. dollars at the indicated or any other rate of exchange. See "Foreign Trade and Balance of Payments — Foreign Exchange."

SUMMARY

The following summary does not purport to be complete and is qualified in its entirety by, and is subject to, the detailed information appearing elsewhere in this Offering Circular.

The Republic of Honduras

Honduras is Central America's second most populated country, with an estimated population in 2012 of 8.4 million people, and second largest in size, with an area of 112,492 square kilometers. Honduras is bordered on the north by the Caribbean Sea, on the south by the Pacific Ocean at the Gulf of Fonseca, on the west by the Republic of Guatemala, on the southwest by the Republic of El Salvador and on the southeast by the Republic of Nicaragua. Honduras is a representative democracy, organized as a republic, with governmental power divided in three independent and complementary branches (executive, legislative and judicial). In November 2009, Porfirio Lobo from the National Party was elected President of the Republic. According to preliminary figures, Honduras had a nominal gross domestic product ("GDP") of approximately L.358.7 billion (U.S.$18.4 billion) in 2012.

Economic Performance

From 2007 to 2011, Honduras has generally exhibited a positive growth trend. Honduras' real GDP increased by 6.2% in 2007 and by 4.2% in 2008. Primarily due to the effects of the economic slowdown in the global economy, the Honduran economy contracted by 2.4% in 2009. In 2010 and 2011, however, the economy grew by 3.7% in each year. Honduras' real GDP increased at an average annual rate of 3.1% from 2007 to 2011. Based on initial estimates, real GDP grew by 3.3% in 2012.

Honduras' capital and financial account registered a surplus of U.S.$1,283.7 million in 2007, U.S.$1,503.3 million in 2008, U.S.$187.4 million in 2009, U.S.$1,548.5 million in 2010, U.S.$1,249.1 million in 2011, and U.S.$ 1,570.9 million in 2012 while its current account registered deficits of U.S.$1,116.1 million in 2007, U.S.$2,127.9 million in 2008, U.S.$557.4 million in 2009, U.S.$835.6 million in 2010, U.S.$1,498.1 million in 2011 and U.S.$1,744.4 million in 2012. The Central Bank's net international reserves grew every year except in 2009 because of the global economic crisis that commenced in 2008 (the "Global Economic Crisis"). Net international reserves were U.S.$2,514.3 million in 2007, U.S.$2,460.0 million in 2008, U.S.$2,116.3 million in 2009, U.S.$2,719.3 million in 2010, U.S.$2,820.7 million in 2011 and U.S.$ 2,570.9 million in 2012. Net international reserves represented the equivalent of approximately 3.4 months of imports in 2007, 4.7 months of imports in 2008, 3.4 months of imports in 2009, 3.8 months of imports in 2010, 3.7 months of imports in 2011 and 3.1 months of imports in 2012.

Exports increased from U.S.$5,783.6 million in 2007 to U.S.$7,931.1 million in 2012. From 2007 to 2012, textiles, coffee, and bananas, considered Honduras' traditional exports, accounted for an average of 43.6%, 12.9% and 5.7% of total exports, respectively. Non-traditional exports, including African palm oil, have been increasing in recent years. From 2007 to 2012, non-traditional exports accounted for an average of 25.6% of total exports. Honduras' foreign trade depends largely on the United States, Central American and European Union economies, given that in 2012 approximately 89.0% of its exports went to these areas. In 2012, approximately 55.0% of Honduras' exports were sent to the United States, 16.9% to Central America and 17.1% to the European Union. In 2012, approximately 51.2% of Honduras' imports came from the United States, 18.1% from Central America and 5.0% from Europe.

Remittances are an important source of foreign exchange for Honduras, averaging 17.7% of GDP annually from 2007 to 2012. Despite the contraction of the U.S. and certain European economies that caused a decrease in remittances in 2009, remittances grew at an average 2.6% from 2007 through 2012. Preliminary data for 2012 indicate an annual increase in remittances of 3.4%, slightly higher than the average increase recorded between 2007 and 2012.

From 2007 to 2012, the inflation rate in Honduras was 6.7% on average, reaching its highest point in 2008 at 10.8%, due to increased prices of food and oil that year. In 2009, the inflation rate reached 3.0%, due mainly to the effects of the Global Economic Crisis, the internal political turmoil related to the removal of President Zelaya, and reduced oil prices in the international market. In 2010, the inflation rate increased to 6.5% due to the reduced supply of food related to extreme weather events, as well as increased commodity prices in the international market. In 2011, the inflation rate was 5.6%, as a result of active monetary policy measures implemented by the Central Bank, despite inflationary pressures caused by external factors and the speculative demand for foreign exchange observed after reactivating the crawling band exchange rate regime. In 2012, the inflation rate was 5.4% reflecting a relatively small decrease from the previous year.

In July 2011, the Central Bank changed the fixed exchange regime established in 2005 to a crawling band regime, under which the exchange rate is permitted to fluctuate, with the rate determined daily in foreign exchange auctions. After the change to the crawling band regime, the lempira, depreciated by 0.8% during the remainder of 2011 and by 4.8% in 2012.

Banking system indicators have improved in recent years. Nonperforming loans in the financial system fell from 4.7% in December 2009, to 3.7% in 2010 and further to 2.9% in 2011. Deposits in the financial system increased from U.S.$6,391.1 million at December 31, 2007 to U.S.$8,621.8 million at December 31, 2011.

From 2007 to 2012, the Central Government recorded fiscal deficits of 4.4% of GDP on average. In 2007, the deficit of the Central Government was 2.9% of GDP, or approximately U.S.$360.4 million, and in 2008 it decreased to 2.4%, or U.S.$337.9 million. In 2009, the fiscal balance of the Central Government deteriorated, when it reached a deficit of 6.0% of GDP, or approximately U.S.$881.8 million due to the effects of the Global Economic Crisis and the internal political crisis stemming from the removal of former President Zelaya Rosales. In 2010 and 2011, the fiscal balance of the Central Government improved as it registered a deficit of 4.7% of GDP, or approximately U.S.$739.4 million, and of 4.6% of GDP, or approximately U.S.$808.7 million, respectively. However, in 2012 certain events negatively impacted the government's financial balance, including a Supreme Court decision that declared unconstitutional certain tax reforms. See "Public Sector Finances — Revenues." Despite Central Government's efforts to offset the effects of these events, the deficit of the Central Government registered 6.0% in 2012, or U.S.$1,111.4 million.

Tax revenues reached U.S.$2,025.4 million, or 16.4% of GDP, in 2007 and U.S.$2,240.2 million, or 16.1% of GDP, in 2008, but decreased in 2009 to 14.2% of GDP, or U.S.$2,065.9 million, mainly as a result of the slowdown in the economy from the Global Economic Crisis. In 2010, tax revenues were U.S.$2,284.9 million, or 14.4% of GDP and in 2011, tax revenues were U.S.$2,618.0 million, or 14.8% of GDP. In 2012, tax revenues were U.S.$2,690.9 million, or 14.6% of GDP.

In 2007, the Central Government's current expenditures were $2,233.6 million, or 18.1% of GDP. In 2008, the Central Government's current expenditures decreased to 17.5% of GDP, or U.S.$2,433.6 million, but increased to 18.6% of GDP in 2009, or U.S.$2,717.7 million, primarily due to increased salaries and the economic contraction experienced during the year. In 2010 and 2011, the Central Government's current expenditures decreased to 17.9% of GDP, or U.S.$2,840.3 million, and 17.0% of GDP, or U.S.$3,000.3 million, respectively. In 2012, the Central Government's expenditures were U.S.$3,323.9 million, or 18.1% of GDP.

Honduras' public external debt at December 31, 2012 was U.S.$3,665.7 million, with 75.8% of such debt owed to multilateral creditors, 19.2% of such debt owed to bilateral creditors and 5.0% to banks, bondholders and suppliers. Internal public debt is generally incurred through sovereign bonds placed in the domestic market and, to a lesser extent, loans from the national banking system. Total public debt reached U.S.$2,379.5 million in 2007 (19.2% of GDP), U.S.$3,043.2 million in 2008 (21.9% of GDP), U.S.$3,708.5 million in 2009 (25.4% of GDP), U.S.$4,833.1 million in 2010 (30.5% in 2010), U.S.$5,766.8 million in 2011 (32.6% of GDP), and U.S.$6,396.9 million (34.8% of GDP) in 2012 reflecting the need to fund the budget deficits. Despite the increase in public debt over the last years, the total public debt to GDP ratio is relatively low compared to other countries in Central America. As of December 31, 2012, the Republic's long-term debt accounted for approximately 83% of the Republic's total external debt and such debt has an average life of 14.4 years.

Government Projects and Reforms

Building on renewed political stability, the government has begun to implement a number of measures designed to promote economic growth, increase investment and employment, improve fiscal sustainability and advance social development. These measures are being taken within the context of Honduras' major economic policy objectives as provided in its National Plan 2010-2022: (i) poverty reduction, investment and equal opportunity; (ii) productive infrastructure as an engine for economic activity; and (iii) macroeconomic stability as basis of internal savings.

Infrastructure Investments Program

Honduras' infrastructure investments program focuses on major investments in strategic infrastructure such as roads, power plants and ports. A number of projects are being developed under public-private partnerships managed by the *Comisión para la Promoción de Alianzas Público-Privadas* ("COALIANZA"), a government agency created in 2010 to facilitate and manage investment projects under public-private initiatives.

- *Transportation projects.* COALIANZA is managing the concession for the maintenance of the "Logistics Corridor", a highway that connects northern and southern Honduras and further interconnects with El Salvador's highways. Once completed, the highway will directly connect Puerto Cortés in Honduras, on the Caribbean Sea, and Puerto La Unión in El Salvador, on the Pacific Ocean, and it will be possible to drive from one port to the other in less than nine hours. The concession was awarded on March 29, 2012 to Concesionaria Vial Honduras, S.A. de C.V. for 20 years for an initial investment of U.S.$90.6 million. As of March 2012, the government's investment in the project is estimated to be U.S.$289.1 million. In addition, COALIANZA awarded to Consortium Autopistas del Atlantico S.A. de C.V., a consortium established by Grodco, a Colombian consortium, and Prodecon, a Honduran company, a concession for the construction and maintenance of the "Tourist Corridor," a four lane, 122.6 kilometer highway that leads from San Pedro Sula to El Progreso and La Barca to Tela in northern Honduras, a tourist beach area. Investment in the project is estimated at U.S.$135.0 million.

- *Power projects*. The government is currently undertaking several projects aimed at diversifying power generation. Through these projects, the Republic aims to develop renewable power sources, such as hydroelectric and wind power, and reducing Honduras' reliance on costly power generation using bunker fuel. The government has entered into an agreement with Sino Hydro Co., a Chinese hydropower engineering and construction company, for the construction of Patuca III, a dam used to generate hydroelectric power. The project is divided in two phases. The estimated cost of the first phase is U.S.$153.0 million, of which Sino Hydro Co. is expected to invest U.S.$58 million. Construction of the first phase started in 2011 and approximately U.S.$50.0 million has been invested in the project as of the date of this Offering Circular. The first phase of Patuca III is expected to be completed in February 2014. The estimated cost of the second phase is U.S.$368.0 million, which may vary subject to the completion of final designs. Once completed, Patuca III will have a capacity of 100MW and is expected to generate 326 GWh per year. The government has also undertaken the El Tablón, the Los Llanitos and the Jicatuyo projects for the construction of dams and hydroelectric power plants. The estimated cost of the El Tablón project is U.S.$154.1 million. Construction is expected to take four years, starting in January 2014. Once completed, El Tablón is expected to have a capacity of 20MW and is expected to generate 96.3 GWh per year. The cost of the Los Llanitos project is expected to be either U.S.$470 million or U.S.$520 million, depending on the final generation capacity of the project, which will be either 100 MW or 120 MW. The estimated cost of the Jicatuyo project is U.S.$1.1 billion. Once completed, Jicatuyo is expected to have a generation capacity of 300 MW. Construction for the Los Llanitos and Jicatuyo projects has not yet begun. The National Electric Company (*Empresa Nacional de Energia Electrica*, "ENEE"), with the support of government guarantees, has entered into a number of power purchase agreements and build-operate-transfer agreements for the development of clean energy projects, such as the San Marcos wind project, a wind farm project located in San Marcos de Colón, in southern Honduras, that is expected to generate 49.5 MW, and the Mesoamerica wind project, for the expansion of the facilities to produce an additional 100 MW. See "The Honduran Economy — Public Infrastructure Investments — Power Projects — Clean Energy Projects Under Power Purchase Agreements."

- *Port project*. COALIANZA awarded to International Container Terminal Services, Inc. (ICTSI), a Philippine corporation, a 30 year concession for the operation of Puerto Cortés. Puerto Cortés is the main port of Honduras and accounts for approximately 90% of Honduras' commercial activity. Located on the Caribbean Sea, in northern Honduras, Puerto Cortés has six piers, 1,157.0 meters of mooring quays, 18,000 m^2 of indoor storage and 296,000 m^2 of open storage. The scope of the concession includes the upgrade, maintenance and operation of current infrastructure, as well as the construction, maintenance, and financing of a new terminal for containers and general cargo. The total investment is estimated at U.S.$760 million (U.S.$135 million by the government and U.S.$625 million by the private investor/operator). The goal is to convert Puerto Cortés into the leading port in the region, to reduce loading and unloading time by 50%, increase storage capacity by one million TEU's (currently 800,000 TEU's) and generate 1,000 new jobs.

Tax reform and fiscal control

The government continues to take measures intended to strengthen tax administration, improve tax collections and control expenditures. In March 2010, the National Congress approved the Revenues Growth, Social Equality and Government Expenditures Control Act (*Ley de Fortalecimiento de los Ingresos, Equidad Social y Racionalización del Gasto Público*), aimed at controlling and restricting tax exemptions and evasion measures, and public expenditures control. In April 2010, the National Congress approved the Fiscal Emergency Law (*Ley de Emergencia Fiscal y Financiera*), which seeks to improve revenue streams and rationalize expenditures in order to increase government income. In June 2011, the National Congress approved the Population Security Law (*Ley de Seguridad Poblacional*), imposing a special tax on financial transactions in local or foreign currencies that is aimed at financing the government's expenditures on security for the general population. In addition, the Reform of the Income Tax law (*Ley del Impuesto sobre la Renta*) was passed in September 2012, which increased the income tax from 10% to 25% for foreign residents' income derived from certain sources, including mining, trademark and patent royalties.

In October 2010, the National Congress passed laws that de-linked changes in the minimum wage from wages of public employees and as a result, the minimum wage increase was not used as a reference for automatic and direct wage increases for public employees. Further salary increases have been negotiated on the basis that they should not exceed the expected inflation for the applicable year. This measure resulted in a reduction of government salaries as a percentage of GDP from 10.9% in 2009 to 9.7% in 2012. In particular, teachers, who had received significant increases in the years prior to 2010, received no salary increases in 2010 and 2011. In addition, in 2010 electricity subsidies to households were limited to customers that used 150 kw/h or less per month, reducing coverage from the 500 kw/h per household that was in effect until 2009. This resulted in a reduction of L.154 million, or U.S.$8.2 million, and L.115.6 million, or U.S.$6.1 million, on government expenditures for 2010 and 2011, respectively.

Government expenditures on goods and services decreased by 10% in 2010 in nominal terms, from U.S.$435.8 million to U.S.$392.1 million as a result of expenditure control measures approved in 2010, including reduced expenditures in office supplies and other government consumption. Government expenditures on goods and services decreased from 3.0% of GDP in 2009 to 2.5% of GDP in 2010 and further to 2.4% of GDP in 2011. During 2012, further expenditure controls were implemented, including budget cuts in an aggregate amount of L.1,200 million, or U.S.$65.5 million, and restrictions for budget incorporations of expenditures financed with foreign credit. In addition, in 2012 monthly gross salaries of public employees above L.50,000.00 were reduced by 11% for three months, which resulted in reduced expenditures for the government of L.39.4 million. In addition, all travel related to training programs for public employees was restricted from September to December 2012 to further limit the government's expenditures.

Social programs

In the area of social development, the government took specific actions to improve the standard of living of the population living in conditions of poverty and extreme poverty. The Lobo administration has implemented the "Bono 10,000" program, which provides cash transfers to extremely poor families in exchange for meeting a series of requirements, such as sending their children to school and having them vaccinated regularly. Since its inception in 2010, 401,236 families have benefited from the Bono 10,000 program. The Lobo administration also implemented the Productive Solidarity Bond (*Bono de Solidaridad Productiva*), a compensation mechanism for the effects of the Dominican Republic, Central America Free Trade Agreement ("CAFTA-DR") on small scale producers, that has benefitted 164,000 families. It is intended to promote technological changes and efficiency in the production of grains. In addition, in August 2010, the National Congress passed the Law of Supplementary Income (*Ley de Ingresos Complementarios en Zonas Rurales y Urbano Marginales*), which uses funds from the national budget and foreign aid to develop employment generation programs for unskilled labor in rural and marginal urban areas. The Law of Supplementary Income has benefited a total of 19,770 people as of December 31, 2012.

Selected Economic Indicators

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011	2012
	(U.S.$ or L. millions, except percentages and where noted)					
The Economy						
Nominal GDP (L. millions)[(1)]	233,567.2	262,416.9	275,632.2	299,286.0	334,395.5	358,725.3
Nominal GDP (U.S.$ millions)[(1)(2)]	12,361.2	13,888.0	14,587.4	15,839.3	17,669.4	18,379.2
Real GDP growth[(1)(3)]	6.2%	4.2%	(2.4)%	3.7%	3.7%	3.3%
Annual inflation	6.9%	11.4%	5.5%	4.7%	6.8%	5.2%
Open Unemployment	3.1%	3.0%	3.1%	3.9%	4.3%	3.6%
Balance of Payments						
Exports[(4)(5)]	6,564.3	7,110.1	5,772.6	7,086.6	8,822.8	9,004.6
Imports[(4)(5)]	9,956.5	11,690.9	8,335.7	10,075.9	12,454.7	12,671.0
Goods and services balance[(4)(5)]	(3,392.2)	(4,580.8)	(2,563.2)	(2,989.3)	(3,632.0)	(3,666.4)
Current account surplus (deficit)[(4)(5)]	(1,116.1)	(2,127.9)	(557.4)	(835.6)	(1,498.1)	(1,744.4)
As % of GDP[(1)]	(9.0)%	(15.3)%	(3.8)%	(5.3)%	(8.5)%	(9.5)%
Net international reserves	2,514.3	2,460.0	2,116.3	2,719.3	2,820.7	2,570.9
Combined Public Sector						
Total revenues (U.S.$ millions)[(2)]	3,122.9	3,672.8	3,553.9	3,825.1	4,093.2	4,151.1
Total expenditures (U.S.$ millions)[(2)]	3,316.5	3,908.4	4,215.1	4,274.2	4,585.7	4,925.2
Primary balance surplus (deficit)[(2)]	(270.8)	(373.7)	(786.6)	(536.6)	(534.8)	(779.1)
As % of GDP[(1)]	(2.2)%	(2.7)%	(5.4)%	(3.4)%	(3.0)%	(4.2)%
Overall balance surplus (deficit)	(193.6)	(235.6)	(661.2)	(449.1)	(492.4)	(774.1)
As % of GDP[(1)]	(1.6)%	(1.7)%	(4.5)%	(2.8)%	(2.8)%	(4.2)%
Public Sector Debt						
Total public debt	2,379.5	3,043.2	3,708.5	4,833.1	5,766.8	6,396.9
Internal debt[(2)(6)]	352.0	684.3	1,224.8	1,985.7	2,543.8	2,731.2
External debt[(7)]	2,027.5	2,358.9	2,483.8	2,847.4	3,223.0	3,665.7
Total public debt (% of GDP)[(1)]	19.2	21.9	25.4	30.5	32.6	34.8
Public internal debt (% of GDP)[(1)(6)]	2.8	4.9	8.4	12.5	14.4	14.9
Public external debt (%of GDP)[(1)(7)]	16.4	17.0	17.0	18.0	18.2	19.9
External debt service (% of exports)[(1)]	4.0	1.0	2.0	1.0	1.0	1.0

(1) Preliminary figures for 2010 and 2011. Estimated figures for 2012.
(2) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates, which correspond to the annual average sale price for U.S.$1.00 for each year: 2007 - L.18.8951; 2008 - L.18.8951; 2009 - L.18.8951; 2010 - L.18.8951; 2011 - 18.9169; and 2012 - L.19.5020.
(3) Percentage change from previous year.
(4) Goods and services at FOB prices.
(5) Preliminary figures for 2011 and 2012.
(6) Central Government debt, excluding other public sector internal debt such as central bank bills, quasi-fiscal debt, municipalities and other decentralized institutions. Includes refinancing for 2009 and 2010, swaps and capitalized interest and debt for 2011 and 2012.
(7) External debt of the combined public sector (including the Central Bank and decentralized institutions).

Source: SEFIN & Central Bank

THE OFFERING

Issuer	The Republic of Honduras.
Issue Amount	U.S.$500,000,000 aggregate principal amount.
Issue Price	100% of the principal amount of the Notes, plus accrued interest, if any, from March 15, 2013.
Issue Date	March 15, 2013.
Maturity Date	March 15, 2024.
Payments of Principal	Principal will be repaid in three nominally equal installments on March 15, 2022, March 15, 2023 and at maturity.
Interest	The Notes will bear interest from March 15, 2013 at the rate of 7.50% per annum payable semi-annually in arrears on March 15 and September 15 of each year, commencing on September 15, 2013.
Withholding Tax; Additional Amounts	Principal of and interest on the Notes are payable by the Republic without withholding or deduction for or on account of taxes imposed by Honduras to the extent described herein. In the event that the Republic is required by law to deduct or withhold taxes, duties, assessments or governmental charges, the Republic will pay additional amounts as necessary to enable holders of Notes to receive such amounts after such deduction or withholding as they would have received absent such deduction or withholding, subject to certain exceptions. See "Terms and Conditions of the Notes—Additional Amounts."
Status	The Notes will constitute general, direct, unconditional, unsubordinated and unsecured Indebtedness (as described herein) of the Republic and will rank *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Republic, present or future, constituting Public External Indebtedness (as defined below) of the Republic. The Republic has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the Notes.
Negative Pledge and Certain Covenants	The Terms and Conditions of the Notes contain certain covenants and restrictions on the creation or subsistence of any Lien (as defined herein) securing Public External Indebtedness, with certain exceptions. See "Terms and Conditions of the Notes—Covenants—Negative Pledge."
Use of Proceeds	The net proceeds from the issuance and sale of the Notes, after deduction of the commissions payable by the Republic to the Sole Book-Running Manager and the net expenses payable by the Republic, will be approximately U.S.$494,200,000. The proceeds from the issuance and sale of the Notes will be used by the Republic for general budgetary purposes, including payment of *deuda flotante*. See "Public Sector Finances — Fiscal Accounts — Deuda Flotante" for more information.
Collective Action Clauses	The Notes will contain provisions, commonly known as "collective action clauses", regarding acceleration and voting on future amendments, modifications and waivers. Under these provisions, which are described in the sections entitled "Terms and Conditions of the Notes—Events of Default" and "—Collective Action Securities, Modifications, Amendments and Waivers ", the Republic may amend (i) the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate principal amount of the outstanding Notes or (ii) the payment

	provisions of multiple series of debt securities issued under the Fiscal Agency Agreement with the consent of (a) the holders of 75% of the aggregate principal amount outstanding of all affected series and (b) the holders of 66 2/3% of the aggregate principal amount outstanding of each affected series.
Form of Notes	The Notes will be issued in the form of global notes without coupons. The Notes will be issued in book-entry form through a common depositary for Euroclear and Clearstream. Beneficial interests in Notes held in book-entry form will not be entitled to receive physical delivery of certificated Notes, except in certain limited circumstances. For a description of certain factors relating to clearance and settlement, see "Book-Entry Settlement and Clearance."
Denominations	Each Note will be issued in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Further Issues	The Republic may from time to time, without the consent of the holders of the Notes, create and issue further Notes having the same terms and conditions as the Notes in all respects, except for the issue date, the issue price and first payment of interest thereon. Additional Notes issued in this manner will be consolidated with and will form a single issue with the Notes; *provided* that, if any additional Notes subsequently issued are not fungible for U.S. federal income tax purposes with any Notes previously issued, such additional Notes shall trade separately from such previously issued Notes under a separate ISIN and Common code number but shall otherwise be treated as a single class with all other previously issued Notes.
Listing	Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market.
Governing Law	The Notes shall be governed by, and construed in accordance with, the laws of the State of New York, United States of America, except that all matters concerning authorization and execution by the Republic will be governed by the laws of the Republic.
Transfer Restrictions	The Notes have not been registered under the Securities Act. As a result, the Notes are subject to limitations on transferability and resale. For more information, see "Transfer Restrictions."
Fiscal Agent	The Bank of New York Mellon
Principal Paying Agent and Transfer Agent	The Bank of New York Mellon, London Branch
Registrar and Luxembourg Paying Agent	The Bank of New York Mellon (Luxembourg) S.A.
Common Depositary	The Bank of New York Mellon, London Branch

RISK FACTORS

This section describes certain risks associated with investing in the Notes. You should consult your financial and legal advisors about the risk of investing in the Notes. Honduras disclaims any responsibility for advising you on these matters.

Risk Factors Relating to the Notes

An active trading market may not develop for the Notes, which may hinder your ability to liquidate your investment.

Honduras has been advised by the Sole Book-Running Manager that it intends to make a market in the Notes but is not obligated to do so and may discontinue market making at any time without notice. The Notes will be a new issue of securities with no established trading market. Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. No assurance, however, can be given as to the liquidity of the trading market for the Notes. The price at which the Notes will trade in the secondary market is uncertain. In addition, the liquidity of the trading market in the Notes, and the market price quoted for the Notes, may be adversely affected by changes in the overall market for fixed income securities and by changes in our financial performance or prospects. As a result, we cannot assure you that an active trading market will develop or be sustained for the Notes. If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all.

The Notes will contain provisions that permit Honduras to amend the payment terms without the consent of all holders.

The Notes will contain provisions, commonly known as "collective action clauses", regarding acceleration and voting on future amendments, modifications and waivers that differ from those applicable to certain of the Republic of Honduras' outstanding Public External Indebtedness (as defined herein). Under these provisions, which are described in the sections entitled "Terms and Conditions of the Notes — Events of Default" and "— Collective Action Securities, Modifications, Amendments and Waivers", the Republic of Honduras may amend (i) the payment provisions of the Notes and certain other terms with the consent of the holders of 75% of the aggregate principal amount of the outstanding Notes or (ii) the payment provisions of multiple series of debt securities issued under the Fiscal Agency Agreement with the consent of (a) the holders of 75% of the aggregate principal amount outstanding of all affected series and (b) the holders of 66 2/3% of the aggregate principal amount outstanding of each affected series.

The ability of holders to transfer Notes in the United States and certain other jurisdictions will be limited.

The Notes issued pursuant to this offer will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the Notes may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions with respect to the Notes.

Honduras intends to take the position that the pari passu clause in the terms and conditions of the Notes does not obligate it to pay Public External Indebtedness on a ratable basis.

The terms and conditions of the Notes confirms that the Notes shall rank *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Republic constituting Public External Indebtedness. A contractual provision similar, but not identical, to such clause has been the subject of ongoing litigation in U.S. federal courts in a case captioned NML Capital, Ltd. v. Republic of Argentina. The plaintiffs in that case have argued that the *pari passu* provision in the defaulted Argentine bonds they are holding requires Argentina, if and when it makes a payment under certain of its other debt instruments, to make a pro rata payment on the bonds held by the plaintiffs. This interpretation of the provision is being contested by the defendant, the Republic of Argentina, and by various other interested parties including the United States Government.

To ensure clarity on the point, Honduras intends to take the position that the *pari passu* clause in the terms and conditions of the Notes does not obligate it to pay Public External Indebtedness on a ratable basis.

Risk Factors Relating to Honduras

Honduras is a foreign sovereign state and accordingly it may be difficult to obtain or enforce judgments against it.

Honduras is a foreign sovereign state. As a result, it may be difficult or impossible for investors to obtain or enforce judgments against Honduras, whether in an investor's own jurisdiction or elsewhere. However, a judgment obtained in the United States against the Republic, where the Republic was not duly served or where the Republic was not afforded the right to defend itself in court, may be unenforceable in Honduras. See "Enforcement of Civil Liabilities."

Political and social developments in Honduras could have a material adverse effect on the Honduran economy and on Honduras' ability to make payments on its outstanding public debt, including the Notes.

Honduras has, from time to time, experienced social and political turmoil, including riots, nationwide protests, coup d'états, strikes and street demonstrations, which have undermined Honduras' policy predictability and economic stability. Future government policies to preempt or respond to social unrest could include, among other things, expropriation, nationalization, suspension of the enforcement of creditors' rights and new taxation policies.

These policies, as well as related negative changes in the political environment in Honduras, could destabilize and adversely affect the Honduran economy and Honduras' ability to make payments on its outstanding public debt, including the Notes.

A decline in international prices for commodities or Honduran products could have a material adverse effect on the Honduran economy and Honduras' ability to make payments on its outstanding public debt, including the Notes.

The structure of the Honduran economy is dependent on revenues from the export of coffee, bananas and African palm oil, among other commodities. See "The Honduran Economy — Principal Sectors of the Economy — Agriculture, Stockbreeding, Hunting, Forestry and Fishing" and "Foreign Trade and Balance of Payments — Composition of Foreign Trade — Exports."

Honduras can make no assurances that revenues from such commodities will not experience fluctuations as a result of changes in the international markets. A decline in international commodity prices could adversely affect the Honduran economy, fiscal accounts and international reserves. Additionally, Honduras' production capacity could decrease due to plant disease or producers' ability or failure to make the necessary capital expenditures into this sector. These circumstances could have a material adverse effect on Honduras' ability to make payments on its outstanding public debt, including the Notes.

Future political support for current economic policies, including servicing of Honduras' outstanding public debt, cannot be assured.

The next general elections are scheduled to be held on November 24, 2013. Future changes in government could lead to a shift in government economic policies that could affect the proportion of Honduras' budget devoted to public debt payments, or have other adverse effects on Honduras' ability to meet its outstanding public debt obligations in the future, including its obligations under the Notes.

We may be unable to obtain financing on satisfactory terms in the future, which could have a material adverse effect on our ability to make payments on our outstanding public debt, including the Notes.

Our future tax revenue and fiscal results may be insufficient to meet our debt service obligations and we may have to rely in part on additional financing from domestic and international capital markets in order to meet future debt service obligations. In the future, we may not be able or willing to access international or domestic capital markets, and our ability to service our outstanding public debt, including the Notes, could be adversely affected.

A significant decrease in remittances from Hondurans living abroad could have a material adverse effect on our ability to make payments on our outstanding public debt, including the Notes.

Remittances from Hondurans living abroad, which are primarily in U.S. dollars, are one of the Republic's most important sources of foreign currency. See "Foreign Trade and Balance of Payments—Balance of Payments." A significant decrease in remittances could lead to a depreciation of the lempira and adversely affect our ability to make payments on our outstanding public debt, including the Notes.

Any significant real depreciation of the lempira against the U.S. dollar or other major currencies could have a material adverse effect on Honduras' ability to make payments on its outstanding public debt, including the Notes.

Any significant real change in the value of the lempira or the currency of Honduras' trading partners against the U.S. dollar or other major currencies might adversely affect the Honduran economy and financial condition, which could have a negative effect on Honduras' ability to make payments on its outstanding public debt, including the Notes.

Any revision to our official financial or economic data resulting from any subsequent review of such data by the Central Bank or other government entities could have a material adverse effect on the final results for that period.

Certain financial and economic information presented in this Offering Circular may be subject to routine revision and subsequently be materially adjusted or revised to reflect new or more accurate data as a result of the periodic review of our official financial and economic statistics. Such revisions could reveal that our economic and financial conditions as of any particular date are materially different from those described in this Offering Circular. We can offer no assurance that such adjustments or revisions will not have a material adverse effect on the interests of our creditors, including any purchasers of the Notes.

Certain economic risks are inherent in any investment in an emerging market country such as Honduras.

Investing in an emerging market country such as Honduras carries economic risks. These risks include many different factors that may affect Honduras' economic results, including the following:

- interest rates in the United States and financial markets outside Honduras;
- changes in economic or tax policies in Honduras;
- the imposition of trade barriers by Honduras' trade partners;
- general economic and business conditions in Honduras and the global economy;
- the ability of Honduras to effect key economic reforms;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial assistance to Honduras.

Any of these factors, as well as volatility in the markets for securities similar to the Notes, may adversely affect the liquidity of, and trading markets for, the Notes. See "Forward-Looking Statements" in this Offering Circular.

Honduras' economy remains vulnerable to external shocks, including the Global Economic Crisis, the recent financial crisis in Europe and those that could be caused by future significant economic difficulties of its major regional trading partners or by more general "contagion" effects, which could have a material adverse effect on Honduras' economic growth and its ability to service its public debt, including the Notes.

Emerging-market investment generally poses a greater degree of risk than investment in more mature market economies because the economies in the developing world are more susceptible to destabilization resulting from domestic and international developments.

A significant decline in the economic growth of any of Honduras' major trading partners could adversely affect Honduras' economic growth. In particular, a decline in economic growth in the United States could affect our exports and the level of remittances received in Honduras, which in turn can affect Honduras' balance of payments and domestic demand. In addition, because international investors' reactions to the events occurring in one emerging market country sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, Honduras could be adversely affected by negative economic or financial developments in other emerging market countries.

There can be no assurance that any crises such as those described above or similar events will not negatively affect investor confidence in emerging markets or the economies of the principal countries in Latin America, including Honduras. In addition, there can be no assurance that these events will not adversely affect Honduras' economy, its ability to raise capital in the external debt markets in the future or its ability to service its public debt, including the Notes.

The ratings of Honduras may be lowered or withdrawn.

On February 26, 2013, Moody's Investors Service ("Moody's") changed Honduras' outlook to negative from stable and affirmed the B2 local and foreign currency government bond ratings. On February 27, 2013, Standard & Poor's Ratings Services ("S&P") revised its outlook on the long-term ratings on Honduras to negative from stable. At the same time, S&P affirmed its 'B+/B' sovereign credit ratings on Honduras.

Ratings address the creditworthiness of Honduras and the likelihood of timely payment of Honduras' long-term government bonds. Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

The Republic has recently been made aware that is has been deemed the successor-in-interest to the judgment debtor in respect of a U.S.$205 million judgment. Although the case has been appealed, the judgment creditor could commence enforcement of the judgment at any time, including seeking to attach or restrain assets of Honduras in the United States or otherwise require the Republic to pay some or all of the judgment in the future.

The Republic was recently made aware that it has been deemed the successor-in-interest to the judgment debtor in a long standing case involving the state-owned agency *Corporacion Forestal y Industrial de Olancho, S.A.* ("CORFINO"). For additional information regarding the case, see "General Information." The plaintiffs in the CORFINO case have the right to commence enforcement on a judgment for approximately U.S.$205 million and although it is on appeal, the judgment creditors could commence enforcement or require the Republic to pay some or all of the amount of the judgment in the future.

USE OF PROCEEDS

The net proceeds from the issuance and sale of the Notes, after deduction of the commissions payable by the Republic to the Sole Book-Running Manager and the net expenses payable by the Republic, will be approximately U.S.$494,200,000. The proceeds from the issuance and sale of the Notes will be used by the Republic for general budgetary purposes, including payments of *deuda flotante*. See "Public Sector Finance — Fiscal Accounts — Deuda Flotante" for more information.

THE REPUBLIC OF HONDURAS

Territory, Population and Society

Honduras is Central America's second most populated country, with an estimated population in 2012 of 8.4 million people, and second largest in size, with an area of 112,492 square kilometers. Honduras is bordered on the north by the Caribbean Sea, on the south by the Pacific Ocean at the Gulf of Fonseca, on the west by the Republic of Guatemala, on the southwest by the Republic of El Salvador and on the southeast by the Republic of Nicaragua.

The Honduran territory consists mainly of mountains, however, there are narrow plains along the coasts, a large undeveloped lowland jungle in the northeast in La Mosquitia region, and a heavily populated lowland Sula valley in the northwest. In La Mosquitia region lies the Río Plátano Biosphere Reserve, a lowland rainforest. This reserve was added to the UNESCO World Heritage Sites List in 1982.

By virtue of its geographical location, Honduras experiences two seasons, rainy and dry. The temperature in Honduras is relatively stable, as it fluctuates throughout both seasons not more than approximately 5°C (9°F). The temperature in different regions, as is the case for other tropical countries, is entirely dependent on each region's elevation above sea level. Average temperatures reach 32°C (90°F) in certain regions and 20°C (68°F) in others.

Although severe storms have occurred at any time of the year, the rainy season runs from May to November in the interior and from September to January along the north coast and Bay Islands. Heavy rains have caused flooding in the lowlands and mudslides in the mountains and, although relatively uncommon, Honduras has suffered directly from hurricanes, such as hurricanes Fifi in 1974 and Mitch in 1998. Hurricane season runs from August to November.

In recent history, Honduras has suffered three major tropical cyclones. Hurricane Fifi caused severe damage while skimming the northern coast of Honduras in September 1974. In 1998, Hurricane Mitch caused massive and widespread destruction, destroying approximately 70% of the crops and an estimated 80% of the Honduran transportation infrastructure, including nearly all bridges and secondary roads. Across the country, 33,000 houses were destroyed, an additional 55,000 damaged, approximately 5,675 people killed and 12,272 injured. Total losses related to Hurricane Mitch are estimated at U.S.$3.8 billion. In October 2008, Tropical Depression No.16 hit northern Honduras and brought heavy and constant rains. The weather system caused flooding and mudslides in several areas across Central America, affecting northern Honduras in the departments of Atlantida, Olancho, Colón, Yoro, Cortés and Copán. The government estimates approximately U.S.$150 million of total losses, approximately 290,000 people affected, with thousands of families evacuated from their homes, and severe damage to housing and transportation infrastructure.

The Honduran population is 90% Mestizo, which is a mixture of European and American Indian, 7% Amerindian, 2% Afro-Honduran, and 1% Anglo-American. In 2011, approximately 45.9% of the population resided in urban areas and 54.1% resided in rural areas. The capital city is Tegucigalpa, which is located in the Central District within the department of Francisco Morazán. The Central District had a population of approximately 1.2 million in 2012. San Pedro Sula is the commercial and industrial center of the country.

The government projects that the average annual population growth rate for the Republic will be 1.9% annually from 2013 to 2015. Most of the population is Roman Catholic.

Approximately 1.2 million Hondurans are believed to be living in the United States, while approximately 300,000 are located in Spain, Canada and Italy, among other countries. The net migration rate, expressed as number of migrants per 1,000 people has declined steadily in Honduras over the last 10 years, from 2.07 in 2002 to 1.22 in 2012. Remittances to family members in Honduras from Hondurans living abroad represent a significant contribution to the Republic's economy, and 81.4% of households in Honduras receives remittances from Hondurans living abroad. In 2012, remittances from Hondurans living abroad represented 15.7% of the Republic's GDP.

Approximately 83.6% of the population of the country is literate. Although the Political Constitution of the Republic of Honduras of 1982 (the "Constitution"), as modified, states that the government must provide free primary education for every child between the ages of seven and 14, statistical information shows that the coverage of the public education system remains poor. Only 43% of children enrolled in public schools complete primary education. Of all children entering first grade, only 30% go on to secondary school, and 8% continue to universities.

In September 1992, the International Court of Justice resolved a border dispute between Honduras and El Salvador and awarded most of the disputed territories to Honduras. The border demarcation process, in which both parties were involved in accordance with the decision of the International Court of Justice, was completed in 2008. Currently, the governments of Honduras and El Salvador are in the final stages of approving definitive maps of each country.

The World Bank classifies Honduras as a lower-middle income country with a per capita income of U.S.$1,980 in 2011, facing significant poverty and development challenges, which are exacerbated by its high vulnerability to natural disasters. As of December 31, 2012, 71.1% of Honduras' population lived in poverty, and 50.9% lived in extreme poverty, based on income measures. After the Global Economic Crisis, Honduras has experienced a moderate recovery, attributable to public investments, increased exports, and higher remittances. Real GDP growth was 3.7% in 2010 and 2011. Based on estimated figures, the government expects Honduras' real GDP growth to remain positive in 2012, increasing approximately 3.3% in real terms.

The following table sets forth information on per capita gross national income, average life expectancy, adult literacy rates and education enrollment ratio in certain Central American countries and the United States.

Selected Comparative Social Statistics

	Honduras	El Salvador	Nicaragua	Guatemala	Costa Rica	United States
Per Capita GNI(1)	$3,443	$5,925	$2,430	$4,167	$10,497	$43,017
Average life expectancy(2)	73.1	72.2	74.0	71.2	79.3	78.5
Adult literacy rate(3)	83.6%	84.1%	78.0%	74.5%	96.1%	N.A.
Mean years of schooling(4)	6.5	7.5	5.8	4.1	8.3	12.4
Expected years of schooling(4)	11.4	12.1	10.8	10.6	11.7	16.0

(1) Gross National Income in constant 2005 dollars as reported in the United Nations Human Development Report 2011. Based on 2011 figures, adjusted for purchasing power parity.
(2) In years, at 2011.
(3) Percentage of persons 15 years and older. Data from the most recent year available during the 2005-2010 period.
(4) 2011 data or the most recent year available.
Source: *Human Development Report 2011, United Nations.*

Historical Background

Prior to the 16th century, various indigenous tribes occupied the area that is now Honduras, most notably the Mayas. Much of the country was conquered in the early 16th century by Spain which introduced Spanish, the now predominant language. Honduras became independent from Spain in 1821 and was for a time part of the Mexican Empire. Since 1838 it has been an independent republic. Comayagua was the capital of Honduras until 1880, when it was transferred to Tegucigalpa.

Honduras suffered continuous civil turmoil and foreign interventions throughout the nineteenth century, which brought relative economic and social stagnation. The country remained mostly rural and by 1914 the population had grown to 562,000 from 350,000 in the early 1850s.

Liberal policies favoring international trade and investment began in the 1870s, which brought foreign investment, first in shipping, especially tropical fruit (most notably bananas) from the north coast, and later in railway infrastructure related to the banana trade. As a result, thousands of workers came to the north coast to work in the banana plantations and the other industries that grew up around the export industry. The banana exporting companies built an effectively separate economy in northern Honduras, controlling infrastructure and creating self-sufficient, tax exempt sectors that contributed relatively little to economic growth. In addition to drawing many Central American workers to the north, the fruit companies also encouraged immigration of workers from the English-speaking Caribbean, notably Jamaica and Belize, who introduced an African descended, English speaking and largely protestant population into the country, though many left after changes in immigration law in 1939.

Constitutional crises in the 1940s led to reforms in the 1950s. As a result of one of such reforms, workers were given permission to organize, which led to a general strike in 1954 that paralyzed the northern part of the country for more than two months. In October 1955, a provisional military *junta* was installed. The *junta* remained in power until 1957, when it organized constituent assembly elections and the newly elected Constitutional Assembly appointed Ramón Villeda as President for a 6-year term.

The Villeda administration obtained funds from the IMF to stabilize the Republic's currency and from the World Bank for infrastructure investments. Among other efforts to improve and modernize Honduras, the Villeda administration introduced a new labor code, established a social security system, and began a program of agrarian reform. These reforms produced increasing opposition among certain sectors of Honduran society, which resulted in a new military coup in October 1963, that prevented elections and ousted Villeda.

From 1963, the military command of the armed forces established a military government that lasted until 1981. A constituent assembly was popularly elected in April 1980, and the first democratic and general elections were held in November 1981. In 1982, a new constitution was approved, which remains the current constitution, and Roberto Suazo assumed power.

During the Suazo administration there was a significant expansion of the role of the United States in Honduras, both as policy adviser and as a source of military and economic aid as the U.S. government tried to stop the advances of what it considered to be pro-Soviet forces in Central America.

On January 27, 1998, Carlos Roberto Flores took office as Honduras' fifth democratically elected President since free elections were restored in 1981. Flores established IMF programs of reform and modernization of the government and economy, with emphasis on fiscal health and improving international competitiveness. President Flores was succeeded by Ricardo Maduro Joest who was elected on November 25, 2001, in open elections supervised by international observers and regarded as free, fair and peaceful.

Jose Manuel Zelaya Rosales of the Liberal Party of Honduras won the presidential elections held on November 27, 2005. On June 28, 2009, the Honduran Supreme Court ordered the removal of President Zelaya after his decision to conduct a referendum that, if approved, would have allowed him to convene a national constituent assembly and eventually replace the Constitution. The National Congress appointed Roberto Micheletti as interim President the following day, and he remained in office until elections were held in November 2009. As a result of these political developments, Honduras was suspended from the Organization of American States. Honduras was reinstated in the Organization of American States in June 2011.

Porfirio Lobo from the National Party won the November 2009 elections. His party took 71 of the 128 seats in the National Congress. International observers, including the National Democratic Institute and the European Union, deemed the elections as free and fair. The newly elected government promptly undertook a series of actions aimed at easing political tensions. Some of the most important steps included: (i) appointing a government of national reconciliation that included political rivals; (ii) establishing a Truth and Reconciliation Commission that became operational on May 4, 2010; (iii) working with the National Congress on several Constitutional reforms; (iv) restoring diplomatic relations with partner countries; and (v) promptly reengaging the international community and development partners. See "The Honduran Economy — Economic and Social Policies."

Form of Government

Honduras is a representative democracy, organized as a republic, with government power divided in three independent and complementary branches. The executive branch, composed of the president and the cabinet secretaries; the legislative branch, composed of the National Congress; and the judicial branch, which includes the Supreme Court of Justice, the Courts of Appeals, the courts of first instance (*Juzgados de Letras*) and Justices of the Peace. The president and members of the National Congress are elected in open national elections held every four years. The Constitution bars the president from being reelected. The next general elections are scheduled to be held on November 24, 2013.

The power of the executive branch is vested in the President of Honduras and in 16 cabinet secretaries. The president appoints all cabinet secretaries and may remove them at will. Each cabinet secretary is head of a government agency, called *Secretaría*, responsible for different sectors, such as defense, agriculture, finance, commerce and industry, and tourism. In addition, other autonomous and semiautonomous government agencies form part of the executive branch. These agencies may be "public institutes", which provide social or public services not usually provided by the private sector; government owned corporations, which are fully owned by the government and often have independent budgets and sources of funds; or mixed enterprises, which bring together public and private resources, with the state owning at least a 51% share of them. Decentralized agencies include the National Autonomous University of Honduras; the Central Bank; the National Agrarian Institute; the Honduran Coffee Institute (*Instituto Hondureño del Café*, or "IHCafe"); IHSS; and ENEE.

The National Congress is made up of a single house of 128 publicly elected congressmen, who serve for four year terms. Among other powers, the National Congress of Honduras has the power to enact legislation, ratify treaties, approve the annual budget and appoint the Attorney General and General Comptroller. Proposed legislation may be submitted to the National Congress by any of the members of congress, the president through its cabinet secretaries, and the Supreme Court or the Supreme Elections Tribunal (*Tribunal Supremo Electoral* or "TSE") for issues pertaining to each tribunal's scope of responsibility. The president has veto power over legislation, which may be overridden by a two-thirds vote of the National Congress. All laws must be promulgated by the executive branch by publication in the official newspaper of Honduras, called *La Gaceta*.

The current composition of the National Congress according to political party is as follows:

Political Party	Seats
National Party of Honduras (*Partido Nacional de Honduras*)	71
Liberal Party of Honduras (*Partido Liberal de Honduras*)	45
Democratic Christian Party of Honduras (*Partido Demócrata Cristiano de Honduras*)	5
Socialist-Democratic Innovation and Unity Party (*Partido Social Demócrata Innovación y Unidad*)	3
Democratic Unification Party (*Partido Unificación Demócrata*)	4

Source: TSE

In the general elections to be held in November 2013, all political parties currently holding seats in the National Congress are expected to participate. In addition, the following political parties, all of which were recognized and registered during 2012 are expected to participate as well:

- Refoundation and Freedom Party (*Partido Libertad y Refundación*);
- Anti-Corruption Party of Honduras (*Partido Anticorrupción de Honduras*);
- Broad Front Party Political Electoral in Resistance (*Partido Frente Amplio Político Electoral en Resistencia*); and
- Honduran Patriotic Alliance Party (*Partido Alianza Patriótica Hondureña*).

The Supreme Court of the judicial branch is composed of 15 justices appointed by the National Congress for seven year terms, each of who may be reelected. Among other powers, the Supreme Court appoints and removes judges and justices of lower courts, decides on the constitutionality of laws, and tries high-ranking government officials when the National Congress has declared there are grounds for impeachment. The Supreme Court has four chambers: constitutional, civil, criminal, and labor.

Honduras is divided into 18 departments and 298 municipalities. One governor is appointed for each department by the President of Honduras. Each municipality elects a mayor for four-year terms in open elections held simultaneously with presidential elections. Local governments have their own income sources, mostly municipal taxes and fees, as well as government transfers to supplement their budgets, supporting poverty reduction programs. Pursuant to Decree 143-2009, transfers to municipalities from the Central Government must be at least 7% of the Central Government's fiscal income in 2010, at least 8% in 2011, at least 9% in 2012, at least 10% in 2013 and no more than 11% of fiscal income in 2014 and the following years. From 2007 to 2011, transfers from the Central Government to local governments remained relatively stable averaging approximately 1.3% of GDP. Depending on the size of each municipality, Central Government transfers represent a different proportion of the municipality's total income. Central Government transfers represented 8% of Tegucigalpa's total income and 11% of San Pedro Sula's total income for 2012.

Memberships in International Organizations

The foreign policy of Honduras, based on national priorities and interests, promotes international associations in different areas with the purpose of developing and maintaining good relationships with other countries and strengthening peace and cooperation mechanisms among nations.

Honduras maintains diplomatic relations with 116 countries. Ten of these diplomatic relationships were established in the last three years. Recently, Honduras has expanded its international presence by forming part of the Community of Latin American and Caribbean States (CELAC) and the Forum for Latin America-Caribbean and East Asia (FEALAC).

Honduras is an active member of the following international organizations: United Nations; Organization of American States (OAS); Central American Integration System (SICA); Dialogue and Consultation Mechanism of Tuxtla (Mesoamerica Project); Association of Caribbean States (ACS); International Court of Justice (ICJ); International Labor Organization; United Nations Organization for Food and Agriculture; United Nations Educational, Scientific and Cultural; World Health Organization; World Intellectual Property Organization; World Trade Organization; International Monetary Fund; World Bank Group; United Nations Development Program; Inter-American Development Bank ("IADB"); Organization of American States; Central American Integration System; Central American Court of Justice; Central American Bank for Economic Integration; and the American Commission for the Fight against Terrorism (CICTE).

In addition, Honduras participates in other regional initiatives. One of these initiatives is the CAFTA-DR signed in August 2004, that eliminates 80% of tariffs assessed on goods exported to the United States from Honduras, with the remaining 20% to be eliminated on a schedule that varies from five to 20 years. Pursuant to the CAFTA-DR all tariffs assessed on industrial goods will be eliminated on a 10-year schedule, starting in March 2006. The agreement was ratified by the U.S. Congress in the summer of 2005 and by the National Congress in March 2005.

Relations with the IMF

The government has entered into several agreements with the IMF, including contingency, monitoring and structural adjustment agreements.

In 2008, the IMF made available to the government 38.8 million Special Drawing Rights ("SDR") (approximately U.S.$63.5 million) to be disbursed over a 12 month period, endorsing the government's economic program, aimed at strengthening macroeconomic stability and sustainable economic growth. The program was based on strengthening and reorienting Honduras' fiscal position, controlling inflation, reinforcing external stability and revitalizing the energy sector.

In 2010, the government began to implement significant reforms and developed an economic program for 2010 and 2011, with the goal of reducing macroeconomic imbalances and strengthening public sector finances. In October 2010, the IMF approved financing under a Stand-By Agreement ("SBA") and a Stand-By Credit Facility ("SCF") for an 18-month program for Honduras for 100% of its quota in the IMF, equal to SDR 129.5 million (approximately U.S.$201.8 million), to support Honduras' economic program and efforts towards poverty reduction and economic growth. The government considered the arrangements as precautionary and the program expired in March 2012 without the government drawing any of the resources available. The target deficit under the SBA of the combined public sector was achieved, but the deficit of the Central Government was higher than expected. During this period, the deficit in Honduras was driven by expenditures and not by lack of financing sources, and thus, drawing on the facility would not have had any impact on the completion of the fiscal deficit target. In addition, the mission observed that the monetary targets under the program (net international reserves and Central Bank domestic assets) were not met.

The indicative fiscal deficit target under the SBA was not met mainly due to unforeseen Central Government expenditures related to the impact of heavy rains in the country, increased security expenditures and higher oil prices, which translated into increased energy subsidies. In addition, the government's investments in initial works for the hydroelectric plant Patuca III and other investments financed with external funds resulted in a 4.6% GDP fiscal deficit, which was above the 3.5% goal established in the SBA. See "The Honduran Economy — Public Infrastructure Investments."

THE HONDURAN ECONOMY

History and Background

Honduran military leaders' support for U.S. policies in Central America in the 1980s had strong repercussions on Honduras' economy in the form of increased U.S. financial support. Honduran defense spending rose throughout the 1980s until it consumed 20% to 30% of the national budget. U.S. assistance to Honduras in 1980 was less than U.S.$4.0 million. It increased to U.S.$48.3 million in 1983. By 1985 total economic and military aid rose to more than U.S.$200 million as Honduras became the tenth largest recipient of U.S. aid.

The Honduran economy became increasingly dependent on foreign assistance, and this dependence was enhanced by a significant region-wide economic decline during the 1980s. Private investment plummeted in 1980, and capital flight from Honduras for that year was U.S.$500 million. Coffee prices fell on the international market in the mid-1980s and remained low throughout the decade. In 1993, average annual per capita income remained low at about U.S.$580, and 75% of the population was under the poverty line, by internationally defined standards.

In the early 1990s, stronger civilian governments contributed to better overall economic conditions, although the country was burdened by substantial foreign debt, diminished natural resources, and one of the fastest growing and urbanizing populations in the world. In addition, the withdrawal of a significant portion of U.S. economic assistance required that the government focus on finding additional funding sources, without becoming solely dependent on traditional agricultural exports. Honduras began to attract foreign investors and privatized certain national industries during the 1990's.

Economic and Social Policies

2038 Country Vision and National Plan

On November 25, 2009, all presidential and congressional candidates, along with the incumbent members of the government and the National Congress signed a political agreement with the purpose of establishing a framework for a planned development process in Honduras, to be implemented in the succeeding seven governments, or 28 years, starting with the government and National Congress that was to be elected four days later on November 29, 2009.

The 2038 Country Vision (*Visión de País 2038*) was established as a comprehensive planning instrument with four main goals, which would serve as guidelines for governmental action for the subsequent administrations, without regard to their political affiliation. Each of the goals included in the 2038 Country Vision includes different strategic objectives.

The following are the four main goals included in the 2038 Country's Vision and their respective strategic objectives.

- An educated, unimpoverished and healthy Honduran population with consolidated social welfare systems.

  Strategic objectives:

  - eliminate extreme poverty in Honduras;
  - reduce households living in poverty to less than 15% of the population;
  - increase the average length of schooling to ninth grade;
  - 95% health system coverage for prescription medicines supplied directly by public hospitals and healthcare centers; and
  - cover 90% of salaried workers and 50% of non-salaried workers in the Republic's pension and retirement system.

- A free democratic country.

  Strategic objectives:

  - hold seven transparent and democratic elections beginning in 2009;

- reduce criminality levels to below international averages published by the United Nations Office on Drugs and Crime;
    - reduce social conflicts;
    - reduce the index of illegal occupation of land to less than 5%; and
    - improve border protection.

- A country that is productive and creates employment opportunities, using its resources in a sustainable way and reducing its environmental footprint.

  Strategic objectives:

    - reduce the open unemployment rate to 2% and the invisible underemployment rate to 5%;
    - increase the ratio of exports to GDP to 75%;
    - increase the participation of renewable energy in Honduras' generation matrix to 80%;
    - provide irrigation systems to 400,000 hectares, corresponding to 100% of land required for Honduran food security;
    - increase the national capacity of damming and utilization of water resources for productive goals from 5% to 25%;
    - establish an environmental restoration process for 1,000,000 hectares of forest to be used in the international carbon credit market; and
    - improve Honduras' vulnerability to climate change.

- A modern, transparent, accountable, efficient and competitive Honduras.

  Strategic objectives:

    - improve Honduras' Global Competitiveness index to 5.5;
    - decentralize at least 40% of public investments;
    - incorporate 90% of public employees to a civil service regime that recognizes competencies, capacities and performance;
    - implement the use of electronic channels for the main public services provided to citizens; and
    - reach a corruption control level between 90 and 100 pursuant to the World Bank's worldwide governance indicator.

In December 2010, the National Congress passed Decree 286-2009, which includes the 2038 Country Vision outlined above. In addition, Decree 286-2009 created the National Planning Process (*Proceso Nacional de Planeación*), which, among other things, established certain governmental agencies responsible for national and regional planning, such as the National Planning Council (*Consejo del Plan de la Nación*) and Regional Planning Councils (*Consejos de Desarrollo Regional*).

Decree 286-2009 also approved the National Plan 2010-2022, which develops the goals and strategic objectives included in the 2038 Country Vision. The National Plan 2010-2022 establishes action guidelines to advance the main goals and strategic objectives of the 2038 Country Vision. In addition, the National Plan 2010-2022 establishes indicators to evaluate progress in each of the action guidelines.

The following are the action guidelines included in the National Plan 2010-2022:

- sustainable development of the population;

- democracy, citizenship and governability;
- poverty reduction, asset generation and equal opportunities;
- culture and education as means of social transformation;
- health as the basis for an improvement in the quality of life of the Honduran population;
- public security as a condition for development;
- regional development, natural resources and environment;
- productive infrastructure to stimulate economic activity;
- macroeconomic stability as basis of internal savings;
- improve the Honduran competiveness, country image and productive sectors; and
- adaptation and mitigation of climate change.

Public Infrastructure Investments

One of the government's major economic policy objectives is the establishment of productive infrastructure as an engine for economic activity. To that end, Honduras' infrastructure investments program is spread among various sectors, focused on projects that are likely to provide long-term economic growth and development under the National Plan 2010-2022, with major investments concentrated in roads, power plants and ports infrastructure. A number of projects are being developed under public-private partnerships managed by COALIANZA. See "Foreign Trade and Balance of Payments — Investment Promotion and Protection Laws — Law on the Promotion of Public-Private Partnerships." Other projects, however, are being undertaken without participation of private partners, particularly in the transportation and energy sectors, complementing and supplementing investments by the government in other sectors. In addition, certain clean energy projects are being developed under power purchase agreements for wind or hydroelectric power, financed by private investors.

Transportation

Logistics Corridor

COALIANZA is managing the concession for the maintenance of the Logistics Corridor. Once completed, the highway will directly connect Puerto Cortés in Honduras, on the Caribbean Sea, and Puerto La Unión in El Salvador, on the Pacific Ocean and it will be possible to drive from one port to the other in less than nine hours. The concession was awarded on March 29, 2012 to Concesionaria Vial Honduras, S.A. de C.V. for 20 years for an initial investment of U.S.$90.6 million. All sections of the Logistics Corridor will be included in the maintenance concession.

A relatively small section of the Logistics Corridor is still under construction. This section is being built and paid for directly by the government. The government's direct investment in this section is estimated to be U.S.$289.1 million. This section of the highway runs from Goascoran to Villa de San Antonio, representing approximately 100 km (62.1 miles) out of the total highway extension of 394 km (244.8 miles). The government's direct investment is expected to reduce the toll rate that the concessionaire will be allowed to charge for the use of the Logistics Corridor.

Puerto Cortés

Puerto Cortés is the main port of Honduras and accounts for approximately 90% of Honduras' commercial activity. Located on the Caribbean Sea, in northern Honduras, Puerto Cortés has six piers, 1,157.0 meters of mooring quays, 18,000 m^2 of indoor storage and 296,000 m^2 of open storage. Its geographical position has given the port a leading position on a regional level. It is the only Central American and one of three Latin American ports that is CSI (Container Security Initiative) certified, and thus all containers exported from Puerto Cortés that are destined for any U.S. seaport are checked by U.S. Customs officials in Honduras, thereby facilitating entry into the United States.

Increased domestic commercial activity, as well as commercial activity from neighboring countries that use the facilities, in particular El Salvador and Nicaragua, have heightened the need to expand and modernize the port. Discussions of the project began in 2008 and most recently became part of COALIANZA's project portfolio.

In February 2013, COALIANZA awarded a concession agreement for the containers terminal to International Container Terminal Services, Inc. (ICTSI), a Philippine corporation. The concession is for 30 years with an expected investment of approximately U.S.$760.0 million. The project is expected to generate 1,000 direct jobs. The scope of the concession includes the upgrade, maintenance and operation of current infrastructure, as well as the construction, maintenance, and financing of a new terminal for containers and general cargo. The new terminals will have an area of approximately 50 hectares with 1,100 meters of berthing docks for containers and over 400 meters for general cargo. Once the first terminal is completed, the storage capacity of the terminal is expected to be expanded from the current 800,000 TEUs to 1,800,000 TEUs annually.

Out of the total investment in the container terminal, U.S.$135.0 million would be financed by the government with funds from the IADB and the remainder of U.S.$625.0 million would be invested by the concessionaire.

In addition, COALIANZA is preparing a similar concession process for the bulk terminal, for 30 years with an estimated cost of U.S.$50.0 million for the concessionaire. COALIANZA expects to award the concession in open bidding processes by the end of 2013.

Other Transportation Projects

The government plans to undertake the rehabilitation of Route 15, a road that connects the cities of Tegucigalpa and Catacamas, in particular the section between Sansone-Guanabano. This project is being undertaken by the Ministry of Public Works, Transport and Housing. The anticipated cost of the rehabilitation project is U.S.$18.0 million and is expected be financed with funds from a credit facility from the Central American Bank of Economic Integration ("CABEI"). As of the date of this Offering Circular, CABEI is analyzing the loan request.

In addition, in December 2012, COALIANZA awarded to Consortium Autopistas del Atlantico S.A. de C.V., a consortium established by by Grodco, a Colombian consortium, and Prodecon, a Honduran company, a concession for the construction and maintenance of the Tourist Corridor, a four lane, 122.6 kilometer highway that leads from San Pedro Sula to El Progreso and La Barca to Tela in northern Honduras, a tourist beach area. The investment cost is estimated at U.S.$135.0 million. Construction is expected to begin in August 2013.

Power Projects

Pursuant to the strategic objective of the 2038 Country Vision of increasing the participation of renewable energy in Honduras' generation matrix to 80%, the government is currently undertaking the following projects, aimed at developing renewable power sources, such as hydroelectric and wind power.

Although most of the power projects are being developed through power purchase agreements, in which a private investor builds and operates the project on a for-profit basis, certain large scale strategic projects are being implemented directly by the government.

Direct Investments by the Government

Hydroelectric Power Plant "Patuca III": Patuca III will be located in southeastern Honduras on the Patuca river. The project is planned in three stages. Each stage will lead up to the construction of a dam used to generate hydroelectric power.

The government has entered into an agreement with Sino Hydro Co., a Chinese hydropower engineering and construction company, for the development of the first phase of the project involving land purchase and the construction of the cofferdam, diversion tunnel, bridge access, portals and other complementary works for an approximate cost of U.S.$150 million. The first phase of construction started in 2011 and approximately U.S.$50.0 million has been invested in the project as of the date of this Offering Circular. Total investment in Patuca III will be U.S.$326 million, with government investment estimated to be U.S.$71 million. The first phase of Patuca III is expected to be completed in February 2014 and once completed will generate 326 GWh.

Clean Energy Projects Under Power Purchase Agreements

ENEE, has entered into a number of power purchase agreements and build-operate-transfer agreements for the development of clean energy projects that are guaranteed by the government.

Multi-Purpose Dam "El Tablón": The El Tablón project involves construction of a dam on the Chamelecón river, which will provide flood control for the river and will include a hydroelectric component. The estimated cost of the El Tablón project is U.S.$154.1 million. Construction is expected to take four years, starting in January 2014. Once completed, El Tablón is expected to have a generation capacity of 20 MW and is expected to generate 96.3 GWh per year. Complete funding sources and designs are yet to be identified.

Hydroelectric Projects of Los Llanitos and Jicatuyo: Hydroelectric projects Los Llanitos and Jicatuyo consist of the construction of dams located in the Ulúa river, located to the southwest of San Pedro Sula. Dams would be located 15 kilometers and 4 kilometers away from the city of Santa Barbara, for Los Llanitos and Jicatuyo, respectively. In January 2009, the National Congress authorized the development of the projects under build-operate-transfer schemes to be developed with funding from Brazil's National Economic and Social Development Bank (BNDES), CABEI and the Bolivarian Alliance for the Peoples of Our America (Alianza Bolivariana para los Pueblos de Nuestra América, or "ALBA").

Political developments related to President's Zelaya's removal prevented the execution of the agreements, and as of the date of this Offering Circular the project has not started construction. In 2012, the government assigned execution of this project to a new government agency which is working on updating data and costs. Construction of power generation facilities in both dams and initial operation by private partners is expected to have a duration of 31.5 years, with facilities expected to be operational in 4 years after construction begins.

The estimated cost of Los Llanitos is expected to be either U.S.$470 or U.S.$520 million, depending on the final generation capacity of the facilities that, depending on the final designs, will be either 100MW or 120MW, and is expected to generate 360GWh per year.

The estimated cost of Jicatuyo is expected to be U.S.$1.1 billion. Once completed, Jicatuyo is expected to have a generation capacity of 300 MW and to generate 930GWh per year.

San Marcos Wind Project. ENEE is currently finalizing a power purchase agreement with Vientos de Electrotecnia S.A., a Honduran company for the development of the San Marcos Wind Project, in San Marcos de Colón, in southern Honduras. The agreement will be for a term of 20 years, with an estimated annual energy purchase cost of U.S.$25.2 million. The agreement is expected to be submitted for approval by the National Congress before June 2013 and construction is expected to be completed during the first three months of 2014. Once completed, the San Marcos Wind Project will have a generation capacity of 49.5 MW.

Chinchayote Wind Project. ENEE is currently finalizing a power purchase agreement with Vientos de San Marcos S.A., a Honduran company, for the development of the Chinchayote Wind Project in San Marcos de Colón, in southern Honduras. The agreement will be for a term of 20 years, with an estimated annual energy purchase cost of U.S.$22.9 million. The agreement is expected to be submitted for approval by the National Congress before June 2013, and construction is expected to be completed during the first three months of 2014. Once completed, the Chinchayote Wind Project will have a generation capacity of 45 MW.

Mesoamerica Wind Project Expansion. The Mesoamerica Wind Project is located in the Cerro de Hula region near Tegucigalpa. The original project was built and administered by the Wind Energy Company of Honduras (Eehsa), and was the first wind energy project in Honduras. It currently has a generation capacity of approximately 100 MW. The expansion of this project is expected to produce an additional 24 MW with a total annual energy purchase cost of U.S.$10.0 million. ENEE is in the process of finalizing an addendum to the original contract with Eehsa, a subsidiary of Globeleq Mesoamerica Energy, an operating power company, owned by Actis Infrastructure. The agreement for the expansion of the Mesoamerica Wind Project is expected to be approved by the National Congress before June 2013, and construction is expected to be completed during the first three months of 2014.

Gross Domestic Product

From 2007 to 2012, the Honduran economy was driven primarily by private consumption and private investments and exports. Private sector consumption averaged 73.3% of real GDP in this period and private investment averaged 20.8% of real GDP.

From 2007 to 2012, Honduras' real annual GDP growth rate averaged 3.1% with the highest annual growth rate of 6.2% experienced in 2007. Honduras' real GDP increased by 4.2% in 2008. Primarily due to the effects of the economic slowdown in the global economy, the Honduran economy contracted by 2.4% in 2009. In 2010 and 2011, however, the economy grew by 3.7% in each year. Based on initial estimates, real GDP grew by 3.3% in 2012.

The 6.2% economic growth rate achieved in 2007 was primarily the result of increased exports, relatively low inflation and increased domestic consumption. During this period, increased employment and exchange rate stability contributed to increased economic activity. Economic contraction in 2009 resulted from weak external demand as a result of the Global Economic Crisis and the internal political unrest stemming from the removal of President Zelaya that year. During 2009, total fixed capital formation declined by 35.4% compared to 2008, resulting from a decrease of 38.6% in private sector investments.

Economic growth in 2010 and 2011 was the result of the recovery of consumption and investment, resulting from the renewal of international capital flows, as well as increased external demand that stemmed from the increased activity of foreign markets and trade partners, such as the United States, Europe, Central America and Mexico. The increased activity of foreign markets, in turn, lead to increased remittances from Honduran workers abroad and increased internal consumption, which at the same time resulted in stronger national employment. The stronger investment levels were associated with private construction, imports of capital goods and agro industrial expansion with increased exports.

Based on initial estimates, the Honduran economy grew by 3.3% in 2012.

The following table sets forth Honduras' real GDP by expenditure for the periods indicated.

Real GDP by Expenditure(1)

	For the Year Ended December 31,					
	2007	2008	2009	2010*	2011*	2012**
			(L. millions)			
Final Consumption	**132,346.3**	**136,604.4**	**138,288.6**	**142,182.5**	**145,360.7**	**150,060.4**
Private Sector	110,222.0	113,520.1	113,600.1	117,744.9	122,124.1	126,438.9
Public Sector	22,124.3	23,084.3	24,688.5	24,437.7	23,236.6	23,621.5
Fixed Capital Formation	**44,997.9**	**47,814.0**	**30,894.4**	**31,325.9**	**38,234.5**	**39,394.2**
Private Sector	39,342.9	41,243.0	25,311.0	26,504.1	32,154.6	34,628.0
Public Sector	5,655.0	6,571.0	5,583.4	4,821.8	6,080.0	4,766.2
Changes in stock	**1,747.2**	**3,093.1**	**(2,509.7)**	**467.5**	**4,803.7**	**248.2**
Goods and Services Exports	**88,854.0**	**89,617.9**	**75,371.4**	**87,192.7**	**92,553.7**	**95,149.4**
(-) Goods and Services Imports	116,437.8	119,210.0	87,965.9	101,340.7	115,191.1	113,638.5
GDP (at market prices)	**151,507.7**	**157,919.3**	**154,078.9**	**159,827.7**	**165,761.4**	**171,213.6**

(1) In constant 2000 lempiras.
* Preliminary
** Estimated
Source: Central Bank

The following table sets forth Honduras' real GDP growth by expenditure for the periods indicated.

Real GDP Growth by Expenditure(1)

	For the Year Ended December 31,					
	2007	2008	2009	2010*	2011*	2012**
	(percent change from previous year)					
Final Consumption	**7.1**	**3.2**	**1.2**	**2.8**	**2.2**	**3.2**
Private Sector	6.1	3.0	0.1	3.6	3.7	3.5
Public Sector	12.8	4.3	6.9	(1.0)	(4.9)	1.7
Fixed Capital Formation	**24.4**	**6.3**	**(35.4)**	**1.4**	**22.1**	**3.0**
Private Sector	26.7	4.8	(38.6)	4.7	21.3	7.7
Public Sector	10.1	16.2	(15.0)	(13.6)	26.1	(21.6)
Goods and Services Exports	**2.5**	**0.9**	**(15.9)**	**15.7**	**6.1**	**2.8**
(-) Goods and Services Imports	10.9	2.4	(26.2)	15.2	13.7	(1.3)
GDP (at market prices)	**6.2**	**4.2**	**(2.4)**	**3.7**	**3.7**	**3.3**

(1) In constant 2000 lempiras.
* Preliminary
** Estimated
Source: Central Bank

The following table sets forth Honduras' real GDP by sector for the periods indicated.

Real GDP by Economic Sector(1)

	For the Year Ended December 31,					
	2007	2008	2009	2010*	2011*	2012**
	(L. millions)					
Manufacturing	31,876.9	32,957.0	30,271.2	31,639.9	32,826.5	33,259.1
Agriculture, stockbreeding, hunting, forestry and fishing	19,915.4	20,299.1	19,903.7	20,256.7	21,423.6	23,166.8
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment	16,502.3	17,051.5	15,151.7	15,650.8	16,283.2	16,885.7
Education	7,270.4	7,655.4	8,187.8	8,265.2	8,240.5	8,388.6
Public Administration and Defense; Mandatory Affiliation Social Security Plan	8,252.5	8,551.7	9,023.5	9,369.0	9,284.0	9,386.2
Construction	6,096.3	6,527.3	5,660.2	5,525.7	5,758.5	5,896.7
Financial intermediation	18,725.3	20,887.2	20,801.9	22,518.5	22,904.2	24,141.0
Housing	6,803.4	6,946.4	7,017.6	7,151.6	7,287.5	7,426.0
Real estate and other business services	6,191.9	6,487.3	6,531.7	6,646.8	6,797.4	6,941.8
Communications	9,857.9	11,655.6	13,480.6	14,582.2	16,004.9	17,349.4
Social and health services	3,821.6	4,340.5	4,708.6	4,983.2	4,897.4	5,002.4
Transportation and storage	6,022.4	6,180.7	5,928.2	6,268.0	6,603.0	6,913.4
Hotels and restaurants	3,659.8	3,743.9	3,464.4	3,590.0	3,660.4	3,712.5
Community, social and personal services	3,667.0	3,875.5	3,982.0	4,119.3	4,051.6	4,112.3
Electricity and water distribution	3,853.3	4,018.2	4,192.2	4,183.6	4,328.4	4,436.6
Exploitation of mines and quarries	529.2	480.0	475.7	456.6	457.2	466.5
Minus: indirectly measured financial intermediation services	15,334.8	16,498.2	16,925.0	18,132.5	18,408.2	19,788.8
Gross added value at basic prices	**137,710.9**	**145,159.3**	**141,855.4**	**147,074.5**	**152,400.2**	**157,695.9**
Plus: net taxes of production and importation subsidies	13,796.8	12,759.6	12,223.5	12,753.2	13,361.2	13,517.7
GDP at market prices	**151,507.7**	**157,918.9**	**154,078.9**	**159,827.7**	**165,761.4**	**171,213.6**

(1) In constant 2000 lempiras.
* Preliminary
** Estimated
Source: Central Bank

The following table sets forth the Honduras' real GDP growth by sector for the periods indicated.

Real GDP Growth by Economic Sector[(1)]

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010***	**2011***	**2012****
	(percent change from previous year)					
Manufacturing	5.0	3.4	(8.2)	4.5	3.8	1.3
Agriculture, stockbreeding, hunting, forestry and fishing	5.5	1.9	(1.9)	1.8	5.8	8.1
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment	3.2	3.3	(11.1)	3.3	4.0	3.7
Education	5.5	5.3	7.0	0.9	(0.3)	1.8
Public Administration and Defense; Mandatory Affiliation Social Security Plan	3.5	3.6	5.5	3.8	(0.9)	1.1
Construction	6.6	7.1	(13.3)	(2.4)	4.2	2.4
Financial intermediation	22.6	11.5	(0.4)	8.3	1.7	5.4
Housing	5.1	2.1	1.0	1.9	1.9	1.9
Real estate and other business services	8.0	4.8	0.7	1.8	2.3	2.1
Communications	15.4	18.2	15.7	8.2	9.8	8.4
Social and health services	15.8	13.6	8.5	5.8	(1.7)	2.1
Transportation and storage	8.5	2.6	(4.1)	5.7	5.3	4.7
Hotels and restaurants	6.7	2.3	(7.5)	3.6	2.0	1.4
Community, social and personal services	7.2	5.7	2.7	3.4	(1.6)	1.5
Electricity and water distribution	21.8	4.3	4.3	(0.2)	3.5	2.5
Exploitation of mines and quarries	(13.0)	(9.3)	(0.9)	(4.0)	0.1	2.0
Minus: indirectly measured financial intermediation services	30.6	7.6	2.6	7.1	1.5	7.5
Gross added value at basic prices	**6.3**	**5.4**	**(2.3)**	**3.7**	**3.6**	**3.5**
Plus: net taxes of production and importation subsidies	5.1	(7.5)	(4.2)	4.3	4.8	1.2
GDP at market prices	**6.2**	**4.2**	**(2.4)**	**3.7**	**3.7**	**3.3**

(1) In constant 2000 lempiras.
* Preliminary Data
** Estimated
Source: Central Bank

The following table sets forth Honduras' nominal GDP by economic sector for the periods indicated.

Nominal GDP by Economic Sector

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010***	**2011***	**2012****
	(L. millions)					
Manufacturing	41,928.7	46,723.9	45,839.4	49,491.6	58,114.0	62,548.1
Agriculture, stockbreeding, hunting, forestry and fishing	27,820.3	31,884.1	29,837.3	34,690.9	45,428.4	46,427.3
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment	33,169.6	37,917.1	36,330.8	40,005.8	44,456.1	48,679.6
Education	16,302.1	18,927.8	22,069.0	23,011.9	24,477.1	26,212.6
Public Administration and Defense; Mandatory Affiliation Social Security Plan	14,372.8	16,364.6	18,893.2	20,942.8	20,663.0	21,881.8
Construction	13,925.5	16,432.2	17,147.6	17,912.0	19,715.0	21,278.0
Financial intermediation	13,880.7	16,800.5	17,218.1	18,130.5	19,714.3	21,863.8
Housing	12,716.6	13,817.8	15,105.5	16,335.6	17,793.1	19,073.9
Real estate and other business services	10,404.4	11,857.4	12,780.1	13,899.2	15,187.3	16,316.3
Communications	8,008.9	8,931.3	10,308.6	10,620.7	11,969.4	13,273.3
Social and health services	6,756.3	8,255.6	9,831.7	11,017.6	11,595.7	12,460.2
Transportation and storage	7,803.7	9,066.6	9,310.6	9,473.4	11,261.9	12,910.9
Hotels and restaurants	6,773.5	7,636.8	8,283.3	9,099.8	9,811.9	10,498.9
Community, social and personal services	6,080.0	6,929.6	8,182.0	8,936.1	9,403.1	10,040.1
Electricity and water distribution	2,469.1	2,904.4	6,393.6	6,243.4	5,055.4	5,837.4
Exploitation of mines and quarries	2,770.1	2,036.1	2,344.3	2,931.7	2,393.0	2,496.7
Minus: indirectly measured financial intermediation services	11,301.3	13,292.4	14,242.7	15,020.5	16,522.5	18,488.7
Gross added value at basic prices	**213,881.0**	**243,193.5**	**255,632.3**	**277,722.4**	**310,516.1**	**333,310.0**
Plus: Net taxes of production and importation subsidies	19,686.2	19,223.4	19,999.9	21,563.6	23,879.4	25,415.3
GDP at market prices	**233,567.2**	**262,416.9**	**275,632.2**	**299,286.0**	**334,395.5**	**358,725.3**

* Preliminary
** Estimated
Source: Central Bank

The following table sets forth each economic sector's contribution to nominal GDP expressed as a percentage of GDP.

Nominal GDP by Economic Sector

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010***	**2011***	**2012****
			(% of GDP)			
Manufacturing	18.0	17.8	16.6	16.5	17.4	17.4
Agriculture, stockbreeding, hunting, forestry and fishing	11.9	12.2	10.8	11.6	13.6	12.9
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment	14.2	14.4	13.2	13.4	13.3	13.6
Education	7.0	7.2	8.0	7.7	7.3	7.3
Public Administration and Defense; Mandatory Affiliation Social Security Plan	6.2	6.2	6.9	7.0	6.2	6.1
Construction	6.0	6.3	6.2	6.0	5.9	5.9
Financial intermediation	5.9	6.4	6.2	6.1	5.9	6.1
Housing	5.4	5.3	5.5	5.5	5.3	5.3
Real estate and other business services	4.5	4.5	4.6	4.6	4.5	4.5
Communications	3.4	3.4	3.7	3.5	3.6	3.7
Social and health services	2.9	3.1	3.6	3.7	3.5	3.5
Transportation and storage	3.3	3.5	3.4	3.2	3.4	3.6
Hotels and restaurants	2.9	2.9	3.0	3.0	2.9	2.9
Community, social and personal services	2.6	2.6	3.0	3.0	2.8	2.8
Electricity and water distribution	1.1	1.1	2.3	2.1	1.5	1.6
Exploitation of mines and quarries	1.2	0.8	0.9	1.0	0.7	0.7
Minus: indirectly measured financial intermediation services	4.8	5.1	5.2	5.0	4.9	5.2
Gross added value at basic prices	**91.6**	**92.7**	**92.7**	**92.8**	**92.9**	**92.9**
Plus: net taxes of production and importation subsidies	8.4	7.3	7.3	7.2	7.1	7.1
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary
** Estimated
Source: Central Bank

Principal Sectors of the Economy

In recent years, the Republic's principal economic sectors have been: (i) manufacturing; (ii) agriculture, stockbreeding, hunting, forestry and fishing; and (iii) commerce, automotive vehicle and motorcycle repair, personal and domestic equipment. The fastest growing sectors of the Honduran economy in 2011 were: communications; agriculture, stockbreeding, hunting, forestry and fishing and transportation and storage.

The manufacturing sector contributed an annual average of 17.3% to Honduras' nominal GDP from 2007 to 2012, mainly driven by the assembly of imported goods for export schemes (*maquila*). In 2011, the manufacturing sector contributed L.58,114.0 million (U.S.$3,070.7 million) to nominal GDP and accounted for 17.4% of nominal GDP, compared to L.41,928.7 million (U.S.$2,219.0 million), or 18.0% of nominal GDP, in 2007.

The agriculture, stockbreeding, hunting, forestry and fishing sector contributed an annual average of 12.2% to the Honduras' nominal GDP from 2007 to 2012. In 2011, the agriculture, stockbreeding, hunting, forestry and fishing sector contributed L.45,428.4 million (U.S.$2,400.4 million) to nominal GDP and represented 13.6% of Honduras' nominal GDP, compared to L.27,820.3 million (U.S.$1,472.3 million), or 11.9% of Honduras' nominal GDP, in 2007. The principal agricultural goods produced in Honduras are coffee, bananas, African palm oil and bovine cattle.

Although declining as a percentage of GDP, the commerce, automotive vehicle and motorcycle repair, personal and domestic equipment sector has been a significant contributor to the economic growth in Honduras in recent years. The sector contributed an annual average of 13.7% to Honduras' nominal GDP from 2007 to 2012. In 2011, the commerce, automotive vehicle and motorcycle repair, personal and domestic equipment sector contributed L.44,456.1 million (U.S.$2,349.1 million) to Honduras' nominal GDP and accounted for 13.3% of Honduras' nominal GDP, compared to L.33,169.6 million (U.S.$1,755.5 million), or 14.2% of Honduras' nominal GDP in 2007.

In 2012, the Honduran economy grew by an estimated 3.3% in real GDP terms compared to 2011. Economic activities that were the most significant contributors to the annual growth rate of GDP included (i) communications; (ii) agriculture; (iii) stockbreeding, hunting, forestry and fishing; (iv) financial intermediation; (v) commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; (vi) transportation and storage; (vii) construction; and (viii) manufacturing.

Manufacturing

Manufacturing is the largest sector of the Honduran economy. In 2011, it accounted for L.58,114.0 million (U.S.$3,070.7 million) of nominal GDP and contributed an average of 17.3% to Honduras' nominal GDP from 2007 to 2012. Manufacturing is dominated by the manufacture of textiles, leather and footwear in Free Trade Zones under schemes of assembly of imported goods for export (*maquila*). In addition, other important manufacturing activities include the production, processing and preservation of meat and fish, the production of food products such as vegetables and animal oils and fats, beverages, sugar and coffee products and the production of tobacco. From 2007 and 2012, the sector recorded average annual growth of 1.6%.

The following table sets forth production in U.S. dollars of Honduras' principal manufacturing activities for the periods indicated.

Principal Manufacturing Activities

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010***	**2011***	**2012****
			(L. millions)(1)			
Food products, beverages and tobacco	11,858.8	11,955.1	12,442.2	12,964.4	13,850.0	14,585.6
Production, processing and preservation of meat and fish	2,677.3	2,736.7	3,008.4	3,112.2	3,418.0	3,619.3
Grain mill products and prepared animal feeds	813.2	871.1	852.0	896.5	919.3	942.8
Other food products	5,174.7	5,127.7	5,163.5	5,509.8	5,890.1	6,314.2
Beverages	2,521.6	2,651.2	2,908.2	2,944.9	3,077.6	3,144.3
Tobacco products	671.9	568.3	510.1	501.0	544.9	565.1
Textiles, leather and footwear	11,981.8	13,367.2	11,240.4	11,532.3	11,328.0	10,782.6
Wood and wood products	483.2	392.3	323.5	320.2	329.1	335.7
Paper and paper products, printed matter and related articles	1,139.9	1,068.9	903.8	955.1	931.2	950.6
Chemicals and chemical products, derived from petroleum, rubber and plastics products	1,501.3	1,435.9	1,616.1	1,671.1	1,722.9	1,758.3
Glass and glass products and other non-metallic products	1,441.4	1,417.7	1,266.0	1,169.6	1,299.5	1,300.4
Basic metals	288.0	224.4	244.4	177.4	211.1	216.3
Metal products, machinery and equipment	2,444.0	2,352.0	1,622.3	2,248.7	2,537.4	2,699.4
Furniture(2)	535.2	453.0	348.6	334.6	339.6	343.4
Other manufacturing	203.4	290.5	263.2	266.6	277.5	286.8
Total	**31,876.9**	**32,957.0**	**30,270.7**	**31,639.9**	**32,826.5**	**33,259.1**

(1) Using 2000 as the base year for constant volume and price in lempiras.
(2) Includes the manufacture of all types of furniture, except of stone, concrete and ceramic, which are accounted for in "Other Manufacturing."
* Preliminary
** Estimated
Source: Central Bank

The following table sets forth the percentage of annual growth of Honduras' principal manufacturing activities for the periods indicated.

Growth of Principal Manufacturing Activities(1)

	For the Year Ended December 31,				
	2008	**2009**	**2010***	**2011***	**2012****
	(percent change, based on constant 2000 prices)				
Food products, beverages and tobacco	0.8	4.1	4.2	6.8	5.3
Production, processing and preservation of meat and fish	2.2	9.9	3.5	9.8	5.9
Grain mill products and prepared animal feeds	7.1	(2.2)	5.2	2.5	2.6
Other food products	(0.9)	0.7	6.7	6.9	7.2
Beverages	5.1	9.7	1.3	4.5	2.2
Tobacco products	(15.4)	(10.2)	(1.8)	8.8	3.7
Textiles, leather and footwear	11.6	(15.9)	2.6	(1.8)	(4.8)
Wood and wood products	(18.8)	(17.5)	(1.0)	2.8	2.0
Paper and paper products, printed matter and related articles	(6.2)	(15.4)	5.7	(2.5)	2.1
Chemicals and chemical products, derived from petroleum, rubber and plastics products	(4.4)	12.6	3.4	3.1	2.1
Glass and glass products and other non-metallic products	(1.6)	(10.7)	(7.6)	11.1	0.1
Basic metals	(22.1)	8.9	(27.4)	19.0	2.5
Metal products, machinery and equipment	(3.8)	(31.0)	38.6	12.8	6.4
Furniture(2)	(15.4)	(23.1)	(4.0)	1.5	1.1
Other manufacturing	42.8	(9.4)	1.3	4.1	3.3
Total	**3.4**	**(8.2)**	**4.5**	**3.8**	**1.3**

(1) Using 2000 as the base year for constant volume and price.
(2) Includes the manufacture of all type of furniture, except of stone, concrete and ceramic, which are accounted for in "other manufacturing."
* Preliminary
** Estimated
Source: Central Bank

The manufacturing sector grew by 3.4% in 2008 compared to 2007, primarily as a result of an increase in yarn and textile production as a result of increased international demand for these products, in particular from the United States. In 2009, however, the manufacturing sector contracted by 8.1% compared to 2008 due to the deterioration in global and domestic economic conditions related to the Global Economic Crisis and the closing of certain manufacturing companies.

In 2010, the manufacturing sector grew by 4.5% compared to 2009, due to (i) increased external demand for clothing, mainly from the United States, that led to increased demand for fabrics, textiles and footwear, and (ii) governmental actions, in particular those related to international relations and trade, including the restoration of diplomatic relations with countries that had suspended relations due to the political turmoil related to the removal of president Zelaya. In 2010, the production of textiles, leather and footwear increased by 2.6% compared to 2009 due to increased international demand, mainly from the United States.

In 2011, the manufacturing sector grew by 3.8% compared to 2010, mainly due to the increase in production of food products, beverages and tobacco and increased activity in the cement industry. Manufacturing production of textiles, leather and footwear declined by 1.8% in 2011 compared to 2010, reflecting lower demand for textile, leather and footwear goods from the United States and other major trade partners. In 2012, the manufacturing sector grew by an estimated 1.3% compared to 2011, due to the increase in production of food, beverages and tobacco, which was offset by a decrease in textile production.

Textile production has been contracting in recent years due to reduced demand from the United States, which is the result of measures, such as those related to the American Recovery and Reinvestment Act of 2009, implemented by the U.S. government encouraging the development of U.S. based manufacturing and the promotion of consumption of U.S. domestically produced goods. These measures have resulted in reduced clothing imports to the United States from China, Indonesia, Mexico, Honduras and Pakistan, among others.

Goods for Processing (maquila)

Assembly of imported goods for re-export, or the "goods for processing" industry, is an important contributor to the manufacturing industry. In 2011, the goods for processing (*maquila*) industry contributed 33.3% to the total manufacturing activity in the sector and represented 5.8% of nominal GDP. From 2007 and 2011, goods for processing represented an average of 35.5% of total manufacturing activity and 4.9% of Honduras' nominal GDP.

The performance of the goods for processing industry is directly related to the economic cycles in the United States. In the period between 2010 to 2011, approximately 84.0% of textiles, car dashboards and related electrical parts produced by the goods for processing industry were exported to the U.S. market. This sector showed growth in 2007 and 2008 of 9.8% and 4.4%, respectively. In 2009, it contracted by 24.8% mainly as a result of decreased demand due to the Global Economic Crisis. In 2010 and 2011, production in the goods for processing industry increased by 24.6% and 15.9%, respectively. The goods for processing industry experienced decreased volumes and prices of exported goods to the United States in 2012 mainly as a result of the slow recovery of the U.S. economy when compared to 2010 and 2011.

Clothing, car dashboards and automotive parts are the largest contributors to the goods for processing industry. In 2011, clothing, car dashboards and automotive parts together accounted for approximately 92.7% of production; while services, energy generation and transportation of goods accounted for the remaining 7.3%.

In 2011, the goods for processing industry employed 120,118 people, or 8.1% of Honduras' wage earning population. In 2011, exports by the goods for processing industry accounted for 48.5% of total exports. Based on information reported by the U.S. Department of Commerce, in 2012 Honduras ranked first in textile imports to the United States from Central America, and eighth worldwide.

In 2011, there were 322 companies benefitting from the free trade zone laws, of which 136 produce textiles and apparel and nine companies manufacture car dashboards and related electrical parts.

Textiles is one of the most important areas in the manufacturing sector, representing 33.3% of total manufacturing activity in 2011. Textile production for the *maquila* industry increased by 14.2% in 2007. As a result of the start of the Global Economic Crisis, textile production for the *maquila* industry grew by only 6.1% in 2008, when compared to 2007. Textile production for the *maquila* industry decreased by 22.3% in 2009 compared to 2008 due to a reduction in textile exports of approximately 26.6% in 2009 compared to 2008, resulting from lower demand from the United States, due to the effects of the Global Economic Crisis. In 2010, textile production for the *maquila* industry increased 27.6%, and in 2011 it grew by 13.3%, primarily due to the partial recovery of the U.S. economy and the corresponding increase in demand for textile products in the U.S. market.

Agriculture, Stockbreeding, Hunting, Forestry and Fishing

Coffee, bananas, tubers, fruit and vegetables, bovine cattle, African palm fruit and farmed shrimp are the agriculture, stockbreeding, hunting, forestry and fishing sector's main products. Between 2007 and 2012, the sector accounted for, on average, approximately 12.2% of Honduras' nominal GDP.

The agriculture, stockbreeding, hunting, forestry and fishing sector grew on average by 3.5% annually from 2007 to 2012. The sector grew by 5.5% in 2007 and by 1.9% in 2008 due to increased international demand for African palm oil, bananas and coffee. In 2009, the sector contracted by 1.9% due to reduced foreign and domestic demand for agricultural products.

In 2010, the sector started to recover, and grew by 1.8%. Such growth was attributable to the increased exports of traditional products, such as coffee and African palm oil. In 2011, driven by high international coffee prices and above average production levels, the sector grew by 5.8%. Based on initial estimates, the sector grew by 8.1% in 2012.

The following table sets forth the production of certain major agricultural, stockbreeding, hunting, forestry and fishing products for the periods indicated.

Agricultural, Stockbreeding, Hunting, Forestry and Fishing Products

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010***	**2011***	**2012****
			(L. millions) [(1)]			
Coffee	4,126.6	4,197.4	4,036.6	4,258.8	4,978.6	5,827.1
Tubers, fruit and vegetables	2,893.3	2,982.0	2,997.5	2,943.0	3,015.5	3,085.4
Bovine cattle	2,651.1	2,805.1	2,867.9	2,962.8	3,022.0	3,070.4
Fishing activities[(2)]	1,729.4	1,652.7	1,904.2	1,848.9	1,934.1	2,065.1
Bananas	1,850.9	1,903.9	1,695.3	1,722.4	1,784.4	1,989.6
African palm	861.8	952.7	891.4	945.0	1,058.4	1,281.7
Corn	1,312.9	1,272.4	1,241.6	1,240.1	1,231.5	1,249.9
Poultry farming	895.1	913.5	908.1	925.1	984.0	1,029.7
Beans	717.0	774.9	659.7	647.2	659.5	679.3
Forestry	773.2	712.1	645.8	616.7	618.4	630.1
Rice	75.5	69.9	77.1	81.1	81.8	84.3
Sorghum	141.2	148.0	117.8	111.1	104.8	103.9
Other animals farming[(3)]	185.7	205.6	189.7	178.6	182.4	187.1
Other crops and agricultural activities[(4)]	1,701.7	1,708.9	1,670.8	1,765.7	1,768.3	1,883.0
Total	**19,915.5**	**20,299.1**	**19,903.7**	**20,256.7**	**21,423.6**	**23,166.8**

* Preliminary
** Estimated
(1) Using 2000 as the base year for constant volume and price.
(2) Refers to the farming of fish and shrimp, as well as the capture of fish, shrimp, lobsters and other aquatic life.
(3) Includes pig breeding and other animals.
(4) Refers to tobacco crops, sugar cane, agricultural services, obtaining of products of live animals and other not accounted elsewhere.
Source: Central Bank

The following table sets forth the annual growth of certain major agricultural, stockbreeding, hunting, forestry and fishing products for the periods indicated.

Agricultural, Stockbreeding, Hunting, Forestry and Fishing Products

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012****
	(percent change from previous year)					
Coffee	12.8	1.7	(3.8)	5.5	16.9	17.0
Tubers, fruit and vegetables	6.5	3.1	0.5	(1.8)	2.5	2.3
Bovine cattle	2.3	5.8	2.2	3.3	2.0	1.6
Fishing activities(2)	(4.7)	(4.4)	15.2	(2.9)	4.6	6.8
Bananas	8.5	2.9	(11.0)	1.6	3.6	11.5
African palm	(0.3)	10.6	(6.4)	6.0	12.0	21.1
Corn	17.1	(3.1)	(2.4)	(0.1)	(0.7)	1.5
Poultry farming	8.1	2.1	(0.6)	1.9	6.4	4.6
Beans	6.3	8.1	(14.9)	(1.9)	1.9	3.0
Forestry	(2.5)	(7.9)	(9.3)	(4.5)	0.3	1.9
Rice	89.2	(7.4)	10.3	5.1	0.9	3.1
Sorghum	4.5	4.8	(20.4)	5.7	(5.7)	(0.8)
Other animals farming(3)	0.5	10.7	(7.7)	(5.8)	2.1	2.6
Other crops and agricultural activities(4)	(2.0)	0.4	(2.2)	6.3	(0.4)	6.5
Total	**5.5**	**1.9**	**(1.9)**	**1.8**	**5.8**	**8.1**

* Preliminary
** Estimated
(1) Using 2000 as the base year for constant volume and price.
(2) Refers to the farming of fish and shrimp, as well as the capture of fish, shrimp, lobsters and other aquatic life.
(3) Includes pig breeding and other animals.
(4) Refers to tobacco crops, sugar cane, agricultural services, obtaining of products of live animals and other not accounted elsewhere
Source : Central Bank

The agricultural, stockbreeding, hunting, forestry and fishing sector accounted for L.45,428.4 million (U.S.$2,400.4 million) in Honduras' nominal GDP in 2011 and accounted for an average of 12.2% of Honduras' nominal GDP from 2007 to 2012.

Coffee is the Republic's principal agricultural export and is an important source of employment in Honduras. Coffee exports typically represent more than double of that of any other agricultural product in any given year. The coffee industry generated an average of one million jobs during the harvests starting in 2007 to 2011. From 2007 to 2011, coffee accounted for an average of 39.3% of agricultural exports and 25.5% of total exports of goods. Currently, there are approximately 279,939 hectares devoted to the cultivation of coffee, representing approximately 10.0% of Honduras' arable land. The government anticipates that, in 2013, it will lose 25% of the area devoted to the cultivation of coffee as a result of the spread of roya, a fungal disease of coffee plants.

The Honduran Coffee Institute IHCafe, a government agency organized in 1970 to promote coffee production and exports, was privatized in 2000. In 2008, the National Congress forgave a government loan for L.653 million to IHCafe under the condition that such funds would be used to pay severance benefits related to the privatization of IHCafe and to fund the Financial Reactivation and Restructuring Program for Small, Medium and Large Producers (*Programa de. Reactivación y Readecuación Financiera del Pequeño Mediano y Grande Productor de Café*), an initiative directed to provide health, education and housing benefits to coffee producers and diversification of products. From 2006 to 2012 IHCafe has invested approximately L.277.0 million (U.S.$14.5 million) in different programs including financing for fertilizers, titling and irrigation and technical assistance. During this period, coffee yields increased from 5.0 quintals per hectare to 25 quintals per hectare. In addition, coffee growers have received technical assistance for pest control programs and the promotion of Honduran coffee in international exhibitions.

In 2012, the agriculture, stockbreeding, hunting, forestry and fishing sector production increased by 8.1%, mainly driven by growth in the volume of coffee production (17% more in 2011 than in 2010) and increased demand for bananas and farmed shrimp, partially offset by lower international coffee prices. Increased coffee production was the result of larger areas harvested and higher revenues, caused by the positive effect of fertilization programs.

Commerce, Automotive Vehicle and Motorcycle Repair, Personal and Domestic Equipment

The commerce, automotive vehicle and motorcycle repair, personal and domestic equipment sector accounted for L.44,456.1 million (U.S.$2,349.1 million) of Honduras' nominal GDP in 2011 and accounted for an average of 13.7% of Honduras' nominal GDP from 2007 to 2012.

The sector grew by 3.2% in 2007 and by 3.3% in 2008 in real terms. The sector contracted in real terms by 11.1% in 2009, primarily as a result of the decline of Honduran economy as a result of the effect of the Global Economic Crisis. The sector grew by 3.3% in 2010 and by 4.0% in 2011, mainly due to growth of agricultural activities and manufacturing, as well as foreign trade. In 2012, the commerce, automotive vehicle and motorcycle repair, personal and domestic equipment sector grew at an estimated rate of 3.7% due to increased domestic demand for food, textile products, domestic equipment, furniture, and radio, television and communications devices.

Education

The education sector consists of public and private education services. In 2011, public sector education services represented 67.6% of the sector's activity, while the private sector represented the remaining 32.4%. The sector is largely driven by teacher's salaries in schools and universities. From 2007 to 2012, education services accounted for an average of 7.4% of Honduras' nominal GDP.

From 2007 to 2012, the education services sector exhibited an average growth rate of 3.4%. The sector contributed L.24,477.1 million (U.S.$1,293.4 million) of Honduras' nominal GDP in 2011. From 2007 to 2010, the education services sector showed constant growth. It grew by 5.5% in 2007, 5.3% in 2008, 7.0% in 2009, and 0.9% in 2010 due mainly to an increase in wages as a result of collective agreements between teachers and the government, as well as an increase in employees in the education sector.

In 2011, the sector contracted by 0.3% compared to 2010 as a result of the government's efforts to control expenditures, including salaries of teachers in public sector schools and universities. In 2012, the education services sector grew by an estimated 1.8%, primarily as a result of increased wage and salary payments to teachers pursuant to collective agreements with the government.

Public Administration and Defense, Mandatory Affiliation Social Security Plan

From 2007 to 2012, the public administration and defense, mandatory affiliation social security plan sector exhibited an average growth rate of 2.8% primarily due to increased employment and salaries. During the same period, the sector accounted for an average of 6.4% of Honduras' nominal GDP.

In 2007 and 2008, the sector grew by 3.5% and 3.6%, respectively, compared to the previous year, primarily due to an increase in government employees in both years. In 2009, the sector grew by 5.5% due to government efforts to partially offset the effects of the Global Economic Crisis. In 2010 the public administration and defense; mandatory affiliation social security plan sector grew by 3.8% due to an increase in public employee wages.

In 2011, the public administration and defense; mandatory affiliation social security plan sector contracted by 0.9% as compared to the same period in 2010 due to controlled government expenditures, including public sector salaries. In 2012, the sector grew by an estimated 1.1% compared to 2011, due to hiring of new permanent government employees, related to the creation of an Internal Affairs Unit (*Unidad de Control Interno*) and additional temporary employees hired in connection with the primary elections process of November 2012.

Construction

The construction sector accounted for L.19,715.0 million (U.S.$1,041.7 million) of Honduras' nominal GDP in 2011 and accounted for an average of 6.1% of Honduras' nominal GDP from 2007 to 2012. Between 2007 and 2011, the sector grew at an average of 0.8% annually. In 2012, the construction sector grew by an estimated 2.4% compared to 2011, due to increased commercial and industrial construction.

From 2007 to 2012, private investment in the construction sector was directed mostly towards residential and commercial construction projects, including shopping malls, office buildings and tourism related facilities. During this period, the government made investments in the construction of highways, roads, bridges, tunnels, and other infrastructure related to the energy sector. These investments resulted in growth of the construction sector by 6.6% in 2007 and 7.1% in 2008. Construction was the sector most affected by the Global Economic Crisis, contracting by 13.3% in 2009 and by 2.4% in 2010, as a result of decreased foreign direct investment in local construction projects. In 2011, the sector started to recover, growing by 4.2% compared to 2010. Based on initial estimates, the sector grew by 2.4% in 2012.

Financial Intermediation

The financial intermediation sector accounted for L.19,714.3 million (U.S.$1,041.7 million) of Honduras' nominal GDP in 2011 and accounted for an average of 6.1% of Honduras' nominal GDP from 2007 to 2012.

From 2007 to 2008, the financial intermediation sector performed at an average annual growth rate higher than the economy as a whole, growing by 22.6% and 11.5%, respectively, due to growth in financial services such as credit card use and loans to the private sector. Primarily as a result of the Global Economic Crisis, the financial intermediation sector declined by 0.4% in 2009. In 2010, the financial intermediation sector experienced a recovery of 8.3% as the global economy recovered. In 2011, the sector grew by 1.7% compared to 2010.

In 2012, the financial intermediation sectors showed an estimated growth of 5.4%, mainly due to the behavior of interest rates, which have fueled an increase in the intermediation margin and the increase of insurance premiums.

Housing

The housing sector accounted for L.17,793.1 million (U.S.$940.2 million) of Honduras' nominal GDP for 2011 and accounted for an average of 5.4% of Honduras' nominal GDP from 2007 to 2012. From 2007 to 2012, the sector recorded an average growth rate of 2.3%. In 2012, the sector is estimated to have grown by 1.9% compared to 2011.

Communications

The communications sector consists of postal and courier services as well as communication services such as the transmission or reception of signs, signals, text, images, sounds or information by wire, radio, television or other systems. Private investments authorized by the government in November 2004, in particular for cell phone operators, have determined the sector's growth in recent years. The communications sector represented an average of 3.6% of Honduras' nominal GDP from 2007 to 2012 and grew at an annual average rate of 12.6% during the same period, as a result of significant private investments. The communications sector accounted for L.11,969.4 million (U.S.$632.5 million) of Honduras' nominal GDP for 2011.

The communication sector accounted for 3.6% of Honduras' nominal GDP in 2011 compared to 3.4% in 2007. For 2012, the communications sector grew by an estimated 8.4% compared to 2011.

The growth experienced in 2011 was primarily attributable to significant investments made by cell phone service operators and the diversification of the services they provide, such as cable television, satellite television and internet. Cell phone operators increased their revenues as a result of increases in users, average traffic per user and the expansion in geographic coverage. The number of internet users more than doubled from 2005 to 2008, from 250,000 to 570,000. The number of mobile subscribers increased from less than one million in 2004 to approximately 9.5 million in June 2012.

The government regulates the use of the electromagnetic spectrum for telecommunications, including the operation of frequencies through which radio stations, cable and television companies operate. Hondutel is the only authorized operator of landline services in Honduras. Twenty-two privately owned companies have entered into sub-operator arrangements with Hondutel to operate landlines in Honduras, interconnected to Hondutel's network, under concession agreements. Similarly, internet service providers have entered into sub-contractor arrangements with Hondutel. Under a franchise scheme, Tigo and Claro are authorized to provide cell phone and international long distance services, along with Hondutel. See "Public Sector Finances—Fiscal Accounts—Government — Owned Companies."

Social and Health Services

The social and health services sector accounted for L.11,595.7 million (U.S.$612.7 million) of Honduras' nominal GDP for 2011 and accounted for an average of 3.4% of nominal GDP from 2007 to 2012. This sector experienced a decrease in real terms, from 15.8% in 2007, to 13.6% in 2008, to 8.5% in 2009, to 5.8% in 2010, and contracted by 1.7% in 2011 due to the application of government expenditure controls. In 2012, the social and health services sector grew by an estimated 2.1%.

Transportation and Storage

The transportation and storage sector is concentrated in passenger and merchandise transportation by air, land and sea, and storage services. The sector grew at an average rate of 3.8% annually from 2007 to 2012. The transportation and storage sector accounted for L.11,261.9 million (U.S.$595.1 million) of Honduras' nominal GDP for 2011 and accounted for an average of 3.4% of Honduras' nominal GDP from 2007 to 2011. In 2012, the sector showed an estimated growth of 4.7%, driven mainly by the positive performance of agriculture and trade of goods for domestic consumption.

Honduras has approximately 13,399 kilometers (8,326 miles) of paved roads, including highways, primary and secondary roads. In addition, Honduras has six operating seaports: Puerto Cortés, Puerto Castilla, La Ceiba, Roatán and Tela on the Atlantic Ocean and San Lorenzo on the Gulf of Fonseca. Honduras has four international airports and 19 smaller domestic airports.

Puerto Cortés is the main port of Honduras. It is the deepest port in Central America, with an important regional footprint, mobilizing 8.0 million tons a year. Its location in a deep water natural harbor where tidal variation is negligible gives it an important competitive advantage over other regional ports. In addition, it is the only Central American and one of three Latin American ports that is Container Security Initiative certified, and thus all containers exported from Puerto Cortés that are destined for any U.S. seaport are checked by U.S. Customs officials in Honduras, thereby facilitating the entry into the United States. See "The Honduran Economy — Economic and Social Policies — Public Infrastructure Investments."

Hotels and Restaurants

From 2007 to 2012, the hotels and restaurants sector contributed an average of 2.9% to Honduras' nominal GDP, and grew at an average rate of 1.4% during the same period. The hotels and restaurants sector contributed U.S.$518.5 million to Honduras' nominal GDP in 2011.

Growth in this sector follows the patterns of tourism. In 2007 and 2008, the hotels and restaurants sector grew by 6.7% and 2.3%, respectively. During 2009, the hotels and restaurant sector contracted by 7.5% as the tourism industry was affected by increased oil prices related to the Global Economic Crisis that led to lower tourist volume and a decline in tourist expenditures. In 2010 and 2011, the hotels and restaurants sector grew by 3.6% and 2.0%, respectively, reflecting the recovery of tourism in Honduras. In 2012, the sector grew by an estimated 1.4%.

Community, Social and Personal Services

The community, social and personal services sector accounted for L.9,403.1 million (U.S.$496.9 million) of nominal GDP in 2011 and accounted for an average of 2.8% of nominal GDP from 2007 to 2012. From 2007 through 2012, the sector grew at an average of 3.5% per year. In 2012, this sector grew by an estimated 1.5% compared to 2011.

Electricity and Water Distribution

From 2007 to 2012, electricity and water distribution sector recorded an average annual growth rate of 6.0% and contributed an average of 1.6% to Honduras' nominal GDP during the same period. Based on initial estimates, the sector grew by 2.5% in 2012.

Supply of Electricity

The following table sets forth information on electricity production and growth rates for the years indicated.

Supply of Electricity

	For the Year Ended December 31,						
	2007	**2008**	**2009**	**2010**	**2011**	**2012***	**% of total**
			(power installed in MW)				
National Market Supply	1,568	1,593	1,607	1,610	1,715	1,681	100.0%
State Hydropower	464	464	464	464	464	464	27.6%
Small Hydroelectric	55	58	58	62	64	104	6.2%
MDMV - bunker	865	865	882	882	861	861	51.2%
MDAV y TG - Diesel	116	116	103	103	125	51	3.0%
Steam turbine - coal	0	8	8	8	9	9	0.5%
Thermal - Bagasse	68	82	92	91	92	92	5.5%
Wind Power					100	100	5.9%
Generation							
Public	589	589	589	589	591	515	30.6%
Private	979	1,004	1,017	1,021	1124	1,166	69.4%
Generation							
Renewable	587	604	613	618	722	769	45.7%
Conventional thermal	981	989	993	993	993	912	54.3%
Total Supply	**1,568**	**1,593**	**1,607**	**1,610**	**1,715**	**1,681**	**100.0%**
Annual growth rate	1.4%	1.6%	0.9%	0.2%	6.5%	(2.0)%	

* Excluding power plants being overhauled.
Source: ENEE

Electric power generation in Honduras is highly dependent on thermal generation based on imported oil products. In 2012, 54.3% of the total production of electricity was generated by thermoelectric plants, almost entirely with medium-speed motors that use fuel oils or bunker fuel, while the remaining 45.7% of total production was generated by hydroelectric plants.

Installed capacity remained stagnant from 2007 to 2010, with a net increase of 42 MW, equivalent to 2.6% of existing capacity, mainly as a result of the addition of small renewable energy plants that sell electricity to ENEE. However, the contribution of hydroelectric generation during the same period, however, increased from 38% to 42% because of the heavy rains.

Progress in Diversifying the Array of Electric Power Generation

In May 2007, the Law for the Promotion of Electric Power Generation with Renewable Resources (*Ley de Promoción de Energía Eléctrica con Recursos Renovables*) was passed, which stimulated the development of new small renewable energy projects. Beginning in 2010, Honduras made significant progress in diversifying its energy sources. In September 2011, the wind project Hill of Hula was finished with a capacity of 100 MW and will be expanded in 2013. In 2010 and 2011, ENEE signed 52 contracts for the purchase of energy from small- and medium-sized renewable energy projects with an installed capacity of approximately 700 MW.

During 2010 and 2011, the government also took steps to advance several mega-power projects, such as the Patuca III project and the Los Llanitos and Jicatuyo project. See "—Economic and Social Policies —Public Infrastructure Investments."

Electricity Demand

In 2011, the electricity coverage reached 81% of the population in Honduras. In 2011, the average residential consumption in Honduras was 150 kwh per month. The number of subscribers reached 1.33 million, 91% of which are residential. Approximately 520,000 subscribers, representing 43% of all residential subscribers, are fully subsidized.

From 2007 to 2012, electricity sales grew by 3.2% annually on average. Electricity sales decreased in 2009 by 2.6%, as a result of the impact of the Global Economic Crisis and the political crisis related to President Zelaya's removal. Such decrease was driven by a contraction of 8.0% on sales to industrial consumers, related to reduced exports to the United States, and a contraction of 13.3% on sales to high consumption users, due to increased fraud and theft of electricity. In 2010 and 2011, sales of electrical energy grew by 0.4% and 3.3%, respectively. In 2012, sales of electrical energy grew by 1.7%.

The following table sets forth information regarding electricity demand for the years indicated.

Electricity Demand

	For the Year Ended December 31,						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**% of total**
			(power installed in MW)				
Energy Sales							
Residential	2,063	2,130	2,146	2,147	2,159	2,156	40.6%
Commercial	1,182	1,269	1,262	1,268	1,293	1,327	25.0%
Industrial	625	614	565	551	588	598	11.3%
High consumption	660	775	672	706	789	828	15.6%
Public Lighting	125	124	125	125	125	125	2.4%
Official	249	258	266	257	268	274	5.2%
Total	**4,904**	**5,171**	**5,035**	**5,054**	**5,221**	**5,308**	
Annual growth rate	10.7%	5.4%	(2.6)%	0.4%	3.3%	1.7%	
Loss of Electricity	21%	21%	22%	25%	27%	29%	
Electricity coverage (%)	73%	76%	79%	81%	81%	81%	
Customers (thousands)	1,043	1,131	1,210	1,273	1,333	1,437	
Annual growth rate	9.6%	8.4%	7.0%	5.2%	4.7%	7.8%	

Source: ENEE

For more information on electricity losses and the government's rescue plan for ENEE, see "Public Sector Finances—State Owned Companies—ENEE."

Operation of the Energy Market

Honduras was a pioneer in Central America in the modernization of the energy sector. The 1994 Law of the Electric Power Subsector Framework (*Ley Marco del Sub-Sector Eléctrico*) established the basic principles of reform of the energy sector: separation of the functions of policy definition, regulation and delivery of service; promotion of private investment in generation; cost-based rates of supply with the possibility of cross-subsidies between pricing categories.

The Law of the Electric Power Subsector Framework establishes an energy market in which the electricity generators have the possibility to sell power directly to the distributors at a regulated rate (rate in bar), to large consumers (surcharge fee) or to ENEE, which has the obligation to buy energy at lower prices than the average rate or undertake a bidding process for the purchase of long-term energy. The National Energy Commission (*Comisión Nacional de Energía* of "CNE") is responsible for the regulation of the electric sector.

There are three types of electricity generators in Honduras:

- private independent producers;

- thermoelectric plants operated by private companies, which sell their production to ENEE through supply contracts or power purchase agreements; and,
- hydroelectric and thermal power plants operated and owned by ENEE.

Water distribution

Since the 1980's, water in Honduras has been supplied three times per week for a fixed number of hours each day in urban and rural areas. Water consumption in 2011 decreased by 2.4% compared to 2010, as a result of such programmed water rationing by National Autonomous Aqueduct and Sewage Service Company (*Servicio Autonomo Nacional de Acueductos y Alcantarillados*, or "SANAA").

The following table shows certain principal economic indicators of the water sector.

Principal Economic Indicators of the Water Sector

	For the Year Ended December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
			(thousands of MTS^3)		
Consumption	**102,896**	**104,086**	**102,901**	**99,151**	**97,488**
Economic sector					
Residential	78,290	78,587	77,842	75,447	74,723
Commercial	12,077	11,660	11,400	10,866	10,359
Industrial	2,257	2,556	2,028	1,813	1,678
Government	5,925	6,313	6,292	6,384	6,365
Others	4,347	4,970	5,339	4,641	4,363

Source: SANAA

Exploitation of mines and quarries

The exploitation of mines and quarries sector is concentrated in the production of metal ores such as silver, gold, lead and zinc and quarry products, such as sand, coarse sand and lime sulfate. The mining sector represents a relatively small part of the Honduran economy, accounting for 0.7% of nominal GDP in 2011. From 2007 and 2011, the mining sector decreased by an average of 5.4% annually, except for 2011 when it increased by 0.1%, mainly due to increased production of iron ore. In 2012, the sector was estimated to have grown by 2.0% as a result of increased demand from construction activity.

Government Participation in the Economy

There are nine state-owned companies in Honduras: ENEE, Honduran Telecommunications Company (*Empresa Hondureña de Telecomunicaciones,* or "Hondutel"), the SANAA, National Port Authority (*Empresa Nacional de Puertos, or* "ENP"), Honduran Postal Service (*Empresa Nacional de Correos*, or "Honducor"), Social Protection - Lottery (*Patronato Nacional de la Infancia,* or "PANI"), Agricultural Marketing Institute (*Instituto Hondureño de Mercadeo Agropecuario,* or "IHMA"), Basic Goods Supplier (*Suplidora Nacional de Productos Básicos,* or "Banasupro") and National Railroad Service (*Ferrocarril Nacional*). ENEE, Hondutel, ENP and SANAA are the largest companies, with assets representing 98% of total assets for all state owned companies.

In recent years, certain state-owned companies have required significant subsidies from the Central Government due to their operational losses, namely ENEE, Hondutel and SANAA. These subsidies have been substantial, and thus contributed to the Central Government's fiscal deficit. Subsidies for all state-owned companies amounted to 0.3% of nominal GDP in 2012, and are expected to be at the same level of nominal GDP for 2013. In addition, although not incurring in any losses, the financial condition of ENP has been deteriorating steadily for the last five years, and the company is expected to produce no surplus in 2013.

Participation of private companies in telecommunication services has played an important role in the financial condition of Hondutel. In recent years, Hondutel has entered into concession arrangements with private landline operators and with internet service providers. In addition, under franchise schemes, privately owned Tigo, a subsidiary of Milicom International Cellular S.A., and Claro, a subsidiary of América Móvil S.A.B. de C.V., were authorized in 2005 to provide cell phone and international long distance services, along with Hondutel. Hondutel's financial constraints have hindered its ability to make investments required to compete with private telecommunication companies, in particular cell phone providers, which have made significant investments in recent years, diversifying the services they provide, and increasing their market share. See " — Principal Sectors of the Economy — Communications."

The National Congress conditioned the approval of the 2013 budgets of state-owned companies in poor financial condition, such as ENEE, Hondutel, SANAA and ENP. The government is working on these plans, which include seeking private partners to fund the necessary capital investments in certain companies. See " Public Sector Finance — Fiscal accounts — State Owned Companies."

Employment and Wages

Representatives from the private, labor and public sectors compose the Commission on the Minimum Wage (*Comisión de Salario Mínimo*), which is responsible for setting the minimum wage by industry every year. When an agreement is not reached, the President must establish the minimum monthly wage, after considering different factors, following the procedure established under Honduran law.

During 2009, the government approved an increase in the minimum wage of 39.4% in nominal terms, corresponding to a real increase of 49.9% compared to 2008. The approval of the minimum salary for 2012 and 2013 was reached by the Commission on the Minimum Wage based on a mechanism that takes into account expected inflation, productivity, and company size and sectors.

The following table sets forth the minimum wage for the periods indicated.

Minimum Monthly Wage

	As of December 31,									
	2007		2008		2009		2010		2011	
	(L.)	*(%)*[(1)]	*(L.)*	*(%)*[(1)]	*(L.)*	*(%)*[(1)]	*(L.)*	*(%)*[(1)]	*(L.)*	*(%)*[(1)]
Nominal	3,024.9	9.6%	3,428.4	13.3%	4,777.5	39.4%	4,949.7	3.6%	5,524.8	11.6%
Real*	2,777.7	6.0%	3,094.2	11.4%	4,638.4	49.9%	4,647.6	0.2%	5,231.8	12.6%

Source: Labor Market Observatory (*Observatorio del Mercado Laboral*) based on statistics prepared by the Department of Salaries of the Ministry of Labor and Social Security (*Dirección General de Salarios de la Secretaria de Trabajo y Seguridad Social.*

* Calculation of Real Min. Salary using 2012 inflation rate published in the Central Bank's Monetary Program.

(1) Percentage change from previous year.

The following table sets forth employment statistics as of the periods indicated.

Employment and Labor

	As of December 31,				
	2007	2008	2009	2010	2011
	(percentage of total labor force)				
Participation rate	50.4	50.7	53.1	53.6	51.9
Employment rate	96.9	97.0	96.9	96.1	95.7
Open unemployment rate[(1)]	3.1	3.0	3.1	3.9	4.3
Invisible underemployment[(2)]	33.2	28.8	36	32.6	36.3
Visible underemployment	5.1	3.8	4.3	7.7	10.4

(1) Open unemployment refers to population at or above the minimum working age that is not employed and is actively seeking work.

(2) Invisible underemployment refers to employed population that earns less than the minimum salary.

Source: Labor Market Observatory based on statistics prepared by EPHPP and National Statistics Institute, or "INE" (*Instituto Nacional de Estadistica).*

The following table sets forth information on employment by economic sector (as percentage of total employment) as of the periods indicated.

Employment and Labor by Economic Sector

	As of December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
	(as percentage of total employment)				
Agriculture, forestry, hunting and fishing	35.3	34.0	37.1	37.5	36.3
Exploitation of mines	0.3	0.3	0.3	0.2	0.2
Manufacturing	14.9	14.7	13.1	12.6	13.3
Electricity, gas and water	0.4	0.4	0.4	0.5	0.5
Construction	6.3	6.8	6.6	5.2	5.5
Commerce, hotels and restaurants	21.6	21.1	22.1	22.8	22.6
Transportation, storage and communications	3.4	3.5	3.3	3.5	3.0
Financial institutions, insurance, real state	3.1	3.6	3.0	3.3	3.2
Community social and personal services	14.5	15.6	14.1	13.6	15.2
Other	0.2	0.0	0.1	0.7	0.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Labor Market Observatory based on statistics by INE.

Poverty

In 2001, 63.7% of households lived below the poverty line. In 2003, the government initiated its most significant initiative against poverty, and by 2007 poverty levels had decreased to 58.2% of households. In 2009, GDP contracted by 2.4% as a result of the Global Economic Crisis, while the recovery in 2010 and 2011 was moderate, a 0.6% and 1.5% year-over-year increase, respectively. In 2011, 61.9% of Honduran households were estimated to live below the poverty line and 41.6% lived in extreme poverty.

The Lobo administration has implemented several programs to fight poverty, including the implementation of the most important government social protection program: the “Bono 10,000” program. This program helps extremely impoverished families with cash transfers in exchange for meeting a series of requirements. As of December 31, 2012, 401,236 families have benefited from the Bono 10,000 program. The participants completion of the Bono 10,000 program’s requirements, which include children’s continuous school enrollment, and attendance to regular health controls, is supervised by several government agencies, including the Presidential Office, the Health Secretary, 1,434 Community School Committees (CEC) in villages and communities where beneficiaries of the program are located.

Other programs include the Productive Solidarity Bond (*Bono Solidario Productivo*), a mechanism designed to compensate small scale producers for the effects of the CAFTA-DR, that has benefitted 164,000 families. In particular, the program supports technological change and efficiency in the production of grains. In addition, proceeds from the application of the Law of Supplementary Income benefited 19,770 people in employment generation programs for unskilled labor in rural and marginal urban areas.

Poverty is measured using the "poverty line method" by which households are classified based on their ability to purchase certain goods and services, considered to be basic. Households considered in extreme poverty are those with per capita income lower than that required to purchase certain food items necessary to meet medium activity nutritional requirements. Households are classified as relatively poor if they meet the necessary per capita income to purchase such basic food items but they do not meet the per capita income required to purchase other basic items, including housing, education, health and transportation.

Percentage of Households in Poverty

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
	(as percentage)					
Extreme						
Urban	22.4	22.8	20.3	23.7	28.8	36.5
Rural	53.4	49.5	52.0	53.7	53.9	63.1
National	35.9	36.2	36.4	39.1	41.6	50.9
Relative						
Urban	33.0	32.4	32.5	30.5	29.7	31.1
Rural	13.0	13.6	12.5	11.7	11.3	11.1
National	24.3	22.9	22.3	20.9	20.3	20.2
Total						
Urban	55.4	55.2	52.8	54.3	58.5	67.6
Rural	66.4	63.1	64.4	65.4	65.2	74.2
National	60.2	59.2	58.8	60.0	61.9	71.1

Source: INE. XXXIV Multipurpose Permanent Survey of Households (*Encuesta Permanente de Hogares de Propósitos Múltiples)*, May 2007-2012

Social Security

The IHSS was created as a result of the North Coast Banana Companies strike that took place in July 1954. The IHSS was organized on July 3, 1959, as an autonomous government agency, separate and independent from the national treasury. It is responsible for guiding, directing, and managing social security services to Honduran workers.

All employers and workers in Honduras, foreign or national, must be affiliated with the IHSS. The IHSS provides coverage in three basic areas: maternity and healthcare; disability, retirement and death; and professional risks.

The retirement age in Honduras is 65 years. In addition, retirees must have made 180 monthly contributions to the social security system over a 15 year period. Pensions must not exceed 80% of the salary used as the contribution base. Disability pensions are awarded to workers that become disabled and have contributed to the social security system at least 36 months during a six year period prior to the disability. If the disability is the consequence of a work related accident, beneficiaries must have made at least eight monthly contributions to the social security system during the previous two years.

Upon death of a beneficiary, the surviving spouse and children under the age of 14 are entitled to receive the pension.

The following table shows the current required contributions to the social security system, separated by coverage area.

Contributions to Social Security

	Maternity and Healthcare System	Disability, Retirement and Death System	Professional Risk
		(percentage of salary)	
Employer	5.0	2.0	0.2
Worker	2.5	1.0	-
Government	0.5	0.5	-
Total	**8.0**	**3.5**	**0.2**

Source: IHSS

The following table sets forth the basic income and expenditures of the social security system by coverage area for the periods indicated.

Maternity and Healthcare

	For the Year Ended December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
			(L. millions except percentages)		
Income					
Contributions	2,295.1	2,357.5	2,681.4	2,718.5	3,396.4
Other Income	210.3	168.1	157.1	162.4	127.0
Total	2,505.4	2,525.6	2,838.5	2,880.9	3,523.3
Total Expenditures	2,396.9	2,905.5	3,170.2	3,062.0	3,561.5
Net Income (deficit)	**108.5**	**(380.0)**	**(331.7)**	**(181.1)**	**(38.1)**
Net Income (deficit) as % of GDP	**0.05%**	**(0.16)%**	**(0.13)%**	**(0.07)%**	**(0.01)%**

Source: IHSS

Disability, Retirement and Death

	For the Year Ended December 31,				
	2007	**2008**	**2009**	**2010**	**2011**
			(L. millions except percentages)		
Income					
Contributions	770.1	1,036.7	846.3	851.8	1,057.6
Other Income	518.4	710.6	797.1	845.6	836.1
Total	1,288.5	1,747.3	1,643.4	1,697.4	1,893.7
Total Expenditures	447.9	470.3	611.1	495.8	553.9
Net Income (deficit)	**840.6**	**1,277.1**	**1,032.2**	**1,201.6**	**1,339.7**
Net Income (deficit) as % of GDP	**0.39%**	**0.53%**	**0.40%**	**0.43%**	**0.43%**

Source: IHSS

From 2008 through 2011, the Maternity and Healthcare coverage area experienced net deficits, averaging 0.11% of nominal GDP during this period. In 2011, the board of directors of IHSS raised the cap for contributions to the social security system from a maximum contributing salary of L.4,800 to the current level of L.7,000. Increased contributions resulted in a lower net deficit for the Maternity and Healthcare coverage area, averaging of 0.01% of nominal GDP in 2011. The Disability, Retirement and Death coverage area has typically operated with a surplus, averaging 0.43% of GDP from 2007 to 2011. Any resulting surplus of the social security system is transferred by the IHSS to the government. Likewise, any deficit in the system is covered by the government.

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

In 2011, merchandise imports accounted for 62.2% of nominal GDP, mostly in the form of general goods (76.0% of total imports) and consumer goods (21.8% of total imports). Exports have grown at an average annual rate of 8.4% from 2007 to 2012. Exports experienced a sharp increase in 2010 and 2011, growing by 26.6% and 27.6% respectively, despite a sharp decrease in exports of 22.1% in 2009 when compared to the previous year due to lower international demand resulting from the Global Economic Crisis and internal political turmoil stemming from the removal of president Zelaya. The current account deficit increased from 9.0% of nominal GDP in 2007 to 9.5% of nominal GDP in 2012 due to the increase in imports of goods and services. The deficit of the goods and services balance decreased from 27.4% of nominal GDP during 2007 to 19.9% of nominal GDP during 2012.

Regional Integration and Free Trade

Honduras has benefited from increased access to international markets and liberalization of trade barriers with regional trade partners, mainly other Central American countries and the United States. In recent years, the Republic has entered into several trade agreements, focusing on its primary trading partners. These agreements include:

Central America Free Trade Agreement- DR

In August 2004, Honduras signed the CAFTA-DR with the other Central American nations, the United States and the Dominican Republic. CAFTA-DR is very important to the Honduran economy, given that the United States is its main commercial and investment partner. CAFTA-DR made permanent previously temporary benefits, giving predictability to participants in the economy. CAFTA-DR strengthened the position of Honduras relative to other countries, for investments both inside and outside the region.

Treaty of Central American Economic Integration

In December 1960, the governments of Guatemala, El Salvador, Honduras and Nicaragua signed a treaty that has as its primary objective to unify the economies of the four countries and promote the development of Central America in order to improve the living conditions of its citizens. The Central American Economic Integration Treaty provided the basis for future free trade movements experienced in Honduras and other Central American nations.

Free Trade Agreement between Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Mexico

The free trade agreement between Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Mexico was signed on November 22, 2011. It was approved by Decree No. 65-2012 issued on July 31, 2012, and became effective on January 1, 2013.

The objectives of this Agreement include to (i) encourage expansion and diversification of trade in goods and services; (ii) promote conditions of fair competition within the free zone trade; and (iii) eliminate trade barriers and facilitate the movement of goods and services, capital and people between the territories. This was an important milestone in Honduran international trade, as Mexico is one of its main trading partners.

Free Trade Agreement between the Dominican Republic and Central America

The free trade agreement between Central America and the Dominican Republic was signed on November 29, 1998. The treaty's main objectives are to stimulate the expansion and diversification of trade between the parties, eliminate trade barriers, and create favorable procedures to promote free trade and free competition.

Free Trade Agreement between Central America and Chile

In 2006, Honduras joined the treaty between Central America and Chile. The treaty was approved on January 10, 2007 and it became effective on July 19, 2008, immediately eliminating tariffs on 94% of Chilean products. All other tariffs will be gradually eliminated by 2017. In addition, Honduras and Chile signed a bilateral protocol, including provisions that govern trade between Honduras and Chile, and an agreement for the promotion and reciprocal protection of investments.

Tax Preferences Systems and Partial Scope Agreements

Honduras has entered into the following tax preferences agreements and partial scope agreements to promote trade:

- Central American General System of Preferences. Signed on June 29, 2012 with the United States, European Union, and Canada. This agreement provides tariff preferences and trade benefits to Honduras.
- Caribbean Basin Initiative (CBI). Signed in 1984, this agreement grants tariff preferences and trade benefits to many Central American countries, including Honduras.
- Honduras-Colombia. This partial agreement includes several tariff preferences and trade benefits for Honduras and a commitment that it provides the same tariff preferences and trade benefits to Colombia when conditions permit it.
- Honduras-Venezuela. This agreement is intended to grant tariff preferences and eliminate or reduce non-tariff barriers between these countries to strengthen trade and economic development.

Composition of Foreign Trade

Honduras maintains close commercial ties with the United States, its main trading partner. Between 2007 and 2012, 60.1% of exports on average were exported to the United States and 50.2% of imports on average were imported from the United States. Other main trading partners include the European Union and Central American countries.

During the Global Economic Crisis, despite the economic slowdown, foreign trade continued to be an important factor for the Honduran economy. In 2010, 2011 and 2012, the total value of imports and exports of goods was 94.8%, 106.4%, and 104.0% of Honduras' nominal GDP, respectively, reflecting the degree of openness of the economy to foreign trade.

Exports

The total amount of exports increased from U.S.$5,783.6 million in 2007 to U.S.$7,931.1 million in 2012. Textiles accounted for approximately 36.1% of total exports in 2012 and for an average of 43.6% from 2007 to 2012. In 2008, the total amount of exports reached U.S.$6,198.5 million, driven mainly by the export of textiles, coffee, bananas and African palm oil. During 2009, exports decreased to U.S.$4,826.8 million, or U.S.$1,371.7 million (22.1%) as a result of the Global Economic Crisis and internal political turmoil stemming from the removal of president Zelaya. Such decrease is mainly explained by the decrease in exports of textile products (26.6%), coffee (14.0%) and bananas (14.8%), in 2009 when compared to 2008. In 2010, the total amount of exports reached U.S.$6,111.0 million, representing a recovery of the Honduran manufacturing sector, driven by an increase of textiles (30.1%), coffee (36.0%) and other non-traditional exports, such as African palm oil (31.0%).

In 2011, total exports reached U.S.$7,799.8 million, a U.S.$1,688.8 million increase when compared to 2010. The increase was mainly attributable to:

- traditional products, such as coffee and bananas, that reached U.S.$1,988.7 million, or 25.5% of total exports, and non-traditional products, such as African palm oil and shrimp, which amounted to U.S.$1,920.2 million, or 24.6% of total exports; and
- goods for processing (textiles and electronic parts) that reached U.S.$3,779.5 million, and represented 48.5% of total exports.

In 2012, according to the preliminary data, the total amount of exports was U.S.$7,931.1 million, or 43.2% of Honduras' nominal GDP, showing a decrease from 44.1% of Honduras' nominal GDP in 2011. The growth of exports slowed in 2012 compared to 2011 mainly due to a decrease in coffee prices in international markets.

Exports related to manufacturing of goods for processing, including textiles, declined to U.S.$3,492.3 million in 2012, representing a decrease of 7.6% when compared to 2011. This was primarily due to a decrease in exports of textiles and apparel related to lower demand for such goods in the United States.

Between 2007 and 2012 Honduran exports of goods for processing represented on average 51.2% of total exports, or 21.4% of Honduras' nominal GDP.

General merchandise exports in 2012 was U.S.$4,310.9 million, an increase of U.S.$402.0 million , or 10.3%, compared to 2011, mainly due to higher exports of coffee, paper and cardboard products, banana and African palm oil , which together account for 52.6% of the increase.

In particular, coffee exports increased by U.S.$73.5 million in 2012, or 5.4%, when compared to 2011, as a result of higher export volumes, partially offset by a decrease in international prices of 21.2%. Exports of paper and paperboard products grew significantly in 2012 demonstrating growth of 69.9% when compared to 2011, continuing the positive growth trend set in 2011, at 23.0%. Banana exports increased by U.S.$44.6 million, or 11.2%, in 2012 when compared to 2011, driven both by an increase in sales volumes of 9.1%, and an increase in international price of bananas by 1.9%. The U.S. market remained as the main destination of this product. In addition, the export value of African palm oil increased by U.S.$32.0 million, or 11.8%, in 2012 when compared to 2011 as a result of growth in volume by 40.1% partially offset by a decrease in price of African Palm oil by 20.2%.

As of December 31, 2012, based on preliminary data, the Republic's largest trading partners are the United States, El Salvador, Nicaragua and Europe. The following table sets forth the geographic destination of the Republic's exports for the periods indicated.

Geographic Distribution of Exports

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
	(percentage of total exports)(1)					
America	88.8	87.2	84.5	84.4	79.9	78.9
North America	64.8	62.9	60.5	59.3	57.5	55.7
Canada	0.3	1.0	1.1	1.1	1.4	0.7
United States	64.6	61.8	59.5	58.3	56.1	55.0
Latin-America	23.9	24.3	24.0	25.0	22.4	23.2
Central America	19.4	19.4	20.4	21.1	18.0	16.9
Costa Rica	1.5	1.9	1.8	2.1	1.9	1.7
El Salvador	7.7	8.2	8.3	9.1	7.1	5.9
Guatemala	3.6	4.2	4.4	3.7	3.5	3.0
Nicaragua	6.6	5.1	5.8	6.1	5.5	6.3
Rest of Latin-America	4.5	5.0	3.6	3.9	4.4	6.3
Europe	9.6	9.1	11.8	11.3	14.6	17.1
Rest of World	1.6	3.7	3.7	4.4	5.5	4.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary.
(1) FOB prices
Sourcer: Central Bank

The following tables set forth the value (FOB) and composition of the Honduras' major exports as percentage of total exports for the periods indicated.

Merchandise Exports by Groups of Products

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
			(U.S.$ millions)(1)			
Textile products	2,757.8	2,909.7	2,134.4	2,777.5	3,197.2	2,861.20
Electrical parts	410.1	343.7	203.2	372.1	462.9	512.2
Transportation equipment	30.8	41.2	84.4	68.6	68.9	81.8
Other products and plastic	42.1	55.7	29.3	60.4	50.4	37
Total goods for processing	**3,240.8**	**3,350.2**	**2,451.3**	**3,278.7**	**3,779.5**	**3,492.30**
Traditional products						
Coffee	518.3	617.9	531.5	722.6	1,358.4	1,431.90
Banana	289.3	383.8	327.2	335.4	397.8	442.4
Mineral products	99.7	68.6	61.0	96.6	105.9	89.5
Other traditional products	118.4	118.7	89.9	123.5	126.6	138.1
Total traditional products	**1,025.7**	**1,188.9**	**1,009.6**	**1,278.2**	**1,988.7**	**2,102.00**
Total non-traditional products	1,435.6	1,594.6	1,286.3	1,456.6	1,920.2	2,208.90
Total other goods	81.5	64.9	79.7	97.5	111.4	127.9
Total exports	**5,783.6**	**6,198.5**	**4,826.8**	**6,111.0**	**7,799.8**	**7,931.1**

* Preliminary.
(1) FOB prices.
Source: Central Bank

Merchandise Exports by Groups of Products

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011*	2012*
	(percentage of total exports)(1)					
Textile products	47.7	46.9	44.2	45.5	41.0	36.1
Electrical parts	7.1	5.5	4.2	6.1	5.9	6.5
Transportation equipment	0.5	0.7	1.7	1.1	0.9	1.0
Other products and plastic	0.7	0.9	0.6	1.0	0.6	0.5
Total goods for processing	**56.0**	**54.0**	**50.8**	**53.7**	**48.5**	**44.0**
Traditional products						
Coffee	9.0	10.0	11.0	11.8	17.4	18.1
Banana	5.0	6.2	6.8	5.5	5.1	5.6
Mineral products	1.7	1.1	1.3	1.6	1.4	1.1
Other traditional products	2.0	1.9	1.9	2.0	1.6	1.7
Total traditional products	**17.7**	**19.2**	**20.9**	**20.9**	**25.5**	**26.5**
Total non-traditional products	24.8	25.7	26.6	23.8	24.6	27.9
Total other goods	1.4	1.0	1.7	1.6	1.4	1.6
Total exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary.
(1) FOB prices.
Source: Central Bank

Imports

Imports into the Republic mainly consist of consumer goods, raw materials and fuel. Between 2007 and 2011, imports increased from U.S.$9,461.6 million in 2007 to U.S.$11,967.7 million in 2012.

In 2007, general goods imports, including processed foods, medicines for human use, other pharmaceutical products, clothing, footwear and vehicles, registered U.S.$7,224.3 million, 28.0% of total imports, of which, capital goods accounted for U.S.$1,378.2 million, driven by purchases of telecommunications equipment, tractors, machinery and poultry equipment, power generators and industrial machinery.

In 2008, fuel prices increased by 36.9%, which resulted in a U.S.$635.3 million, or a 50.4%, increase in imports for such products. Similarly, in 2008 imports of raw materials, such as chemical products, plastic, paper and paperboard, together with electrical material, increased by 22.9%. In 2009, as a result of the Global Economic Crisis, international oil prices decreased by 35.6%, which resulted in a reduction of oil imports. In 2009, all imports suffered contractions, the most significant of which were fuel and lubricants (44.6%), capital goods (40.9%) and goods for processing (30.5%).

The Honduran economy experienced a partial recovery in 2010, which in turn generated larger volumes of imports, reaching U.S.$9,521.0 million, an increase of 21.8% when compared to 2009.

In 2011, total imports reached U.S.$11,758.3 million consisting of:

- U.S.$2,563.0 million of consumer goods (21.8% of total imports and a 13.4% increase when compared to 2010);
- U.S.$2,479.7 million of raw materials (21.1% of total imports and a 25.6% increase when compared to 2010);
- U.S.$2,103.9 million of fuel and lubricants (17.9% of total imports and a 41.4% increase when compared to 2010);
- U.S.$1,327.4 million of capital goods (11.3% of total imports and a 31.9% increase when compared to 2010);

- U.S.$2,742.1 million of goods for processing (23.3% of total imports and a 14.6% increase when compared to 2010); and

- U.S.$542.2 million of construction and other imports (4.6% of total imports and a 36.2% increase when compared to 2010).

In 2012, according to preliminary data, imports totaled U.S.$11,967.7 million, or 65.0% of Honduras' nominal GDP, an increase of 1.8%, or U.S.$209.4 million, when compared to 2011.

General merchandise imports continued to be the largest sector of Honduras' imports, accounting for 79.4% of total imports in 2012, compared to 76.7% in 2011, followed by goods for processing, which accounted for the remaining 20.6%, compared to 23.3% in 2011.

In 2012, imports of general merchandise (imports other than goods for processing) were U.S.$9,504.2 million, showing an annual growth of 5.4% compared to 2011, significantly below the 26.5% growth recorded in 2011. The largest volume of imported products in 2012 were consumer goods (U.S.$2,746.2 million), raw materials and intermediate goods (U.S.$2,582.8 million) and fuel (U.S.$2,310.4 million).

In 2012, imports of consumer goods increased by U.S.$183.2 million, or 7.2%, mainly as a result of an increase in imports of vehicles and motorcycles. Imports of raw materials and intermediate goods increased in 2012 by U.S.$103.1 million, or 4.2%, mainly as a result of increased imports of goods for the manufacturing industry.

Fuel imports increased by U.S.$204.6 million in 2012 when compared to 2011, which can be explained by a combination of increased international oil prices and greater volumes imported.

Imports of goods for processing decreased by U.S.$278.6 million, or 10.2%, in 2012, unlike the increase of U.S.$348.8 million, or 14.6% recorded in 2011. The decrease in imports of goods for processing in 2012 was primarily a result of a decrease in the purchase of textiles and apparel of U.S.$244.6 million and of basic metals of U.S.$29.1 million.

As of December 31, 2012, based on preliminary data, the Republic's largest sources of imports are the United States, El Salvador and Guatemala.

The following table sets forth the origin of Honduras' imports during the periods indicated.

Merchandise Imports by Country of Origin

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
			(percentage of total imports)[(1)]			
America	85.1	85.2	86.6	81.5	86.8	85.4
North America	50.7	49.2	46.2	51.1	55.4	51.6
Canada	0.4	0.8	0.5	0.6	0.3	0.4
United States	50.3	48.5	45.7	50.5	55.1	51.2
Latin-America	34.4	36.0	40.4	30.4	31.4	33.8
Central America	17.4	17.7	21.5	14.9	16.8	18.1
Costa Rica	3.5	3.2	4.0	3.0	3.1	3.3
El Salvador	5.3	5.9	6.9	4.9	5.6	6.4
Guatemala	7.0	7.2	8.9	6.5	7.5	7.6
Nicaragua	1.5	1.3	1.7	0.6	0.6	0.8
Rest of Latin-America	17.0	18.3	18.9	15.5	14.6	15.7
Europe	5.6	6.3	5.2	5.7	5.3	5.0
Rest of World	9.3	8.5	8.2	12.8	7.9	9.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(*) Preliminary.
(1) CIF prices.
Source: Central Bank

The following tables set forth the value (CIF) and composition of the Honduras' imports for the periods indicated.

Merchandise Imports by Type of Goods

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
			(U.S.$ millions)[(1)]			
Consumer goods:						
Durable	1,158.8	1,338.6	1,231.9	1,318.9	1,521.4	1,613.0
Semi-durable	966.1	1,032.0	831.1	941.6	1,041.6	1,133.2
Total consumer goods	**2,124.9**	**2,370.6**	**2,063.0**	**2,260.6**	**2,563.0**	**2,746.2**
Fuel, lubricants and energy	1,304.2	1,961.8	1,086.9	1,487.6	2,103.9	2,310.4
Raw materials and intermediate goods	1,978.3	2,431.1	1,811.0	1,974.7	2,479.7	2,582.8
Capital goods	1,378.3	1,541.1	910.2	1,006.7	1,327.4	1,311.0
Construction	246.1	305.4	219.7	231.2	297.6	303.7
Others	192.6	203.5	132.9	166.9	244.6	250.1
Goods for processing	2,237.2	2,293.1	1,592.6	2,393.3	2,742.1	2,463.5
Total imports	**9,461.6**	**11,106.6**	**7,816.3**	**9,521.0**	**11,758.3**	**11,967.7**

(*) Preliminary.
(1) CIF prices.
Source: Central Bank

Merchandise Imports by Type of Goods

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011*	2012*
	(percentage of total imports)(1)					
Consumer goods:						
Durable	12.2	12.1	15.8	13.9	12.9	13.5
Semi-durable	10.2	9.3	10.6	9.9	8.9	9.5
Total consumer goods	22.5	21.3	26.4	23.8	21.8	22.9
Fuel, lubricants and energy	13.8	17.7	13.9	15.6	17.9	19.3
Raw materials and intermediate goods	20.9	21.9	23.2	20.7	21.1	21.6
Capital goods	14.6	13.9	11.6	10.6	11.3	11.0
Construction	2.6	2.7	2.8	2.4	2.5	2.5
Others	2.0	1.8	1.7	1.8	2.1	2.1
Goods for processing	23.6	20.6	20.4	25.1	23.3	20.6
Total imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(*) Preliminary.
(1) CIF prices.
Source: Central Bank

Services Trade

Honduras' services trade is predominantly centered around the tourism sector. This sector constitutes one of the main sources for foreign currency in the Honduran economy. Other economic sectors, such as commerce, automotive vehicle and motorcycle repair, personal and domestic equipment, hotels and restaurants, construction, real estate and transportation and storage benefit from the tourism sector's activity. As a result of an increase in travelers to Honduras, income generated from tourism rose from U.S.$545.6 million in 2007 to U.S.$660.7 million in 2012, representing an average annual growth rate of 4.3% during this period.

In 2009, despite the effects of the Global Economic Crisis and the internal political unrest stemming from the removal of president Zelaya, only a slight decrease in the tourism sector and foreign exchange income was observed. In 2012, the balance of services registered a lower deficit when compared to 2011. The services trade sector revenues totaled U.S.$1,073.5 million in 2012 with tourism, communication services and transport revenues representing 61.5%, 20.8% and 8.4% of total revenues from the sector, respectively. In addition, expenditures related to the services trade sector totaled U.S.$1,491.8 million in 2012, an increase of U.S.$30.8 million from 2011, consisting mainly of transportation costs (54.6% of total) and outflows of Hondurans' travel expenditures made abroad (24.8%).

The following table sets forth the number of visitors to Honduras and the corresponding income generated from such visits, for the periods indicated:

Visitors to Honduras

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010***	**2011***	**2012***
			(thousands of visitors)			
Tourists(1)	831.4	899.3	869.8	862.5	871.5	906.3
Excursionist(2)	505.2	692.5	753.9	1,102.6	980.6	1,015.3
Cruisers	297.4	434.2	429.8	803.1	787.4	814.2
One day visitors	207.8	258.3	324.1	299.5	193.3	201.0
Total Visitors	**1,336.6**	**1,591.8**	**1,623.7**	**1,965.1**	**1,852.1**	**1,921.6**
FX Income (in U.S.$ millions)	545.6	619.0	615.9	625.5	636.7	660.7

* Preliminary
(1) Tourists correspond to all visitors who stay more than one night in the country.
(2) Excursionists comprise cruisers and one day visitors. Cruisers are tourists who arrive on cruise ships into the country. One day visitors are tourists who visit Honduras by land for a day.
Source: Central Bank with information from Honduran Tourism Institute (*Instituto Hondureño de Turismo*).

Balance of Payments

The balance of payments records the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is composed of:

- The current account, which includes:
  - net exports of goods and services (the difference in value of exports minus imports);
  - net financial and investment income; and
  - net transfers; and
- The capital and financial accounts, which comprise the difference between financial capital inflows and financial capital outflows.

The current account of the Republic's balance of payments for the past five years has been characterized by deficits, which were offset by capital and financial account surpluses. During this period, the current account deficit averaged 8.6% of Honduras' nominal GDP.

The current account deficits in 2007 and 2008 were due primarily to strong domestic demand for imported goods, driven in part by economic growth. The higher current account deficit in 2008 reflected the significant increase in oil and commodity prices experienced during the first half of the year. For 2009, the current account deficit decreased by 73.8%, when compared to 2008 due to the impact of the Global Economic Crisis and the slowdown of the domestic economy. For 2010, the current account deficit continued widening while the capital and financial account registered a U.S.$1,548.4 million surplus.

The following table sets forth the Republic's balance of payments for the periods indicated.

Balance of Payments

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
			(U.S.$ millions)			
Current account	**(1,116.1)**	**(2,127.9)**	**(557.4)**	**(835.6)**	**(1,498.1)**	**(1,744.4)**
Goods and services						
Balance of goods	**(3,104.1)**	**(4,254.6)**	**(2,545.0)**	**(2,796.0)**	**(3,194.0)**	**(3,248.1)**
Exports	**5,783.6**	**6,198.5**	**4,826.8**	**6,111.0**	**7,799.8**	**7,931.1**
General goods	2,461.4	2,783.4	2,295.8	2,734.8	3,908.9	4,310.9
Goods for processing	3,240.8	3,350.2	2,451.3	3,278.7	3,779.5	3,492.3
Other goods	81.5	64.9	79.7	97.5	111.4	127.9
Imports	**8,887.7**	**10,453.1**	**7,371.8**	**8,907.0**	**10,993.8**	**11,179.2**
General goods	6,706.5	8,207.9	5,845.2	6,605.7	8,355.9	8,808.2
Goods for processing	2,180.1	2,244.7	1,526.2	2,300.7	2,636.2	2,368.3
Other goods	1.2	0.6	0.5	0.6	1.6	2.6
Balance of services	**(288.1)**	**(326.2)**	**(18.2)**	**(193.3)**	**(438.0)**	**(418.3)**
Revenues	**780.7**	**911.6**	**945.8**	**975.6**	**1,023.0**	**1,073.5**
Transportation	49.9	54.3	61.3	56.9	79.6	89.7
Travel	545.6	619.0	615.9	625.5	636.7	660.7
Other services	185.3	238.3	268.6	293.1	306.7	323.1
Expenditures	**1,068.8**	**1,237.8**	**963.9**	**1,168.9**	**1,460.9**	**1,491.8**
Transportation	625.1	697.5	463.2	587.6	791.1	814.4
Travel	212.0	290.5	296.0	320.7	354.4	369.8
Other services	231.7	249.8	204.7	260.5	315.4	307.6
Balance of goods and services	**(3,392.2)**	**(4,580.8)**	**(2,563.2)**	**(2,989.3)**	**(3,632.0)**	**(3,666.4)**
Income						
Income balance	**(395.2)**	**(520.6)**	**(632.3)**	**(727.9)**	**(973.7)**	**(1,280.6)**
Revenues	**257.2**	**148.1**	**71.8**	**53.6**	**58.6**	**70.9**
Interests	224.3	134.2	62.3	44.8	45.6	55.5
Other income	32.9	13.9	9.5	8.7	13.0	15.4
Payments	**652.4**	**668.6**	**704.1**	**781.4**	**1,032.3**	**1,351.5**
Interests	115.0	97.7	75.3	73.5	89.6	94.7
Direct investment	534.9	534.0	601.7	680.6	909.7	1,218.1
Other income	2.5	37.0	27.2	27.3	33.0	38.7
Balance of goods, services and income	**(3,787.4)**	**(5,101.4)**	**(3,195.4)**	**(3,717.2)**	**(4,605.7)**	**(4,947.0)**
Balance of transfers	**2,671.3**	**2,973.4**	**2,638.0**	**2,881.7**	**3,107.6**	**3,202.6**
Remittances income	2,580.7	2,807.5	2,467.9	2,609.2	2,797.6	2,893.9
Capital account	**1,206.6**	**97.0**	**130.4**	**84.7**	**156.4**	**121.5**
Credit	1,206.6	97.0	130.4	84.7	156.4	121.5
Capital transfers	1,206.6	97.0	130.4	84.7	156.4	121.5
Debit	-	-	-	-	-	-

Balance of Payments (cont.)	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
			(U.S.$ millions)			
Financial account	77.1	1,406.3	57.0	1,463.8	1,092.7	1,449.4
Direct investment	926.1	1,007.3	505.3	970.6	996.7	1,052.2
Investment by Hondurans abroad	(1.5)	1.0	(3.6)	1.4	(17.7)	(6.4)
Foreign direct investment	927.5	1,006.4	508.8	969.2	1,014.4	1,058.5
Portfolio investment	(22.4)	(26.8)	37.1	(41.0)	86.1	35.5
Assets	**(22.4)**	**(26.8)**	**3.3**	**(18.9)**	**44.3**	**(4.9)**
Stock and other participation	0.6	(4.1)	0.4	2.4	(0.4)	(0.5)
Securities	(23.0)	(22.6)	2.9	(21.3)	44.7	(4.4)
Liabilities	**-**	**-**	**33.8**	**(22.1)**	**41.9**	**40.3**
Stock and other participation	-	-	33.8	(22.1)	41.9	40.3
Other investment	(826.6)	425.7	(485.4)	534.2	9.9	361.8
Assets	**(29.2)**	**17.1**	**149.7**	**65.8**	**(436.7)**	**104.8**
Commercial credit	9.7	2.9	(9.1)	(3.5)	(2.9)	(1.0)
Loans	(26.1)	41.0	(3.6)	22.7	0.8	(61.4)
Currency and deposits	(13.7)	(26.8)	172.9	53.7	(426.7)	167.2
Other assets	1.0	-	(10.5)	(7.1)	(8.0)	-
Liabilities	**(797.4)**	**408.6**	**(635.2)**	**468.3**	**446.6**	**257.0**
Commercial credit	24.2	20.3	25.2	(10.8)	18.3	(201.8)
Loans	(840.8)	365.0	(783.8)	491.5	410.1	435.8
Currency and deposits	16.9	22.0	(15.3)	(10.0)	25.2	23.1
Other liabilities	2.3	1.4	138.8	(2.4)	(7.0)	-
Net errors and omissions	**(353.8)**	**467.9**	**(103.7)**	**(144.2)**	**312.5**	**(193.1)**
Global balance	**(186.2)**	**(156.8)**	**(473.7)**	**568.6**	**63.5**	**(366.4)**
Reserves and related sectors	**186.2**	**156.8**	**473.7**	**(568.6)**	**(63.5)**	**366.4**
Central Bank reserve assets	108.6	77.6	353.6	(592.2)	(81.0)	369.6
Use of IMF credit	-	-	-	-	-	-
Extraordinary credit	77.6	79.2	120.1	23.6	17.5	(3.2)

Source: Central Bank
* Preliminary

Current Account

In 2007, the current account registered a deficit of U.S.$1,116.1 million, or 9.0% of Honduras' nominal GDP, as a result of the balance of goods and services, which registered a deficit of U.S.$3,392.2 million, or 30.6% of Honduras' nominal GDP, partially offset by the surplus in the balance of transfers. In 2007, imports at CIF prices of general goods accounted for U.S.$7,224.3 million, of which capital goods imports registered U.S.$1,378.2 million, due to the purchases of telecommunication equipment, tractors, poultry equipment and machinery, power generators and industrial machinery. In 2008, the current account registered a deficit of U.S.$2,127.9 million, or 15.3% of Honduras' nominal GDP, as a result of an increased deficit in the balance of goods and services, which registered U.S.$4,580.8 million, or 33.0% of Honduras' nominal GDP.

In 2009, the current account deficit decreased to U.S.$557.4 million, due to the effect of the Global Economic Crisis on trade, which caused a 22.1% contraction in exports, a 29.5% contraction in imports, and a 12.1% contraction in remittances. In 2010, the current account deficit increased to U.S.$835.6 million. In 2011, the increase in the current account deficit to U.S.$1,498.1 million was mainly due to increased demand for imports due to the increase of Honduras' main productive activities. In 2012, the current account deficit increased to U.S.$1,744.4 million, or 9.5% of Honduras' nominal GDP.

Remittances are one of Honduras' primary sources of foreign exchange income from the private sector. The majority of Honduran emigrants live in the United States. According to the latest available data from the U.S. Census Bureau and the U.S. Department of Homeland Security, around 963,000 Hondurans lived in the United States in 2010.

The amount of remittances between 2007 and 2012 represented a yearly average of 17.7% of GDP. In 2009, remittances income totaled U.S.$2,467.9 million, which represents a decrease of 12.1% when compared to 2008, as a result of a contraction of the U.S. and European economies, where these flows had originated. In 2010 and 2011, remittances income to Honduras increased 5.7% and 7.2%, respectively.

The following table sets forth remittances income and the percentage of nominal GDP such remittances income represents for the periods indicated:

Remittances Income

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
			(U.S.$ millions)			
Remittances income.......	2,580.7	2,807.5	2,467.9	2,609.2	2,797.6	2,893.9
% of GDP	20.9	20.2	16.9	16.4	15.8	15.7

* Preliminary
Source: Central Bank

Capital and Financial Account

Between 2007 and 2012, the capital account showed an average surplus of U.S.$299.4 million resulting from the transfer of capital allocated to the government in the form of debt relief and donations for infrastructure, as well as remittances destined to capital investments and the acquisition of fixed assets.

In 2011, the capital account totaled U.S.$156.4 million, compared to U.S.$84.7 million in 2010, of which U.S.$64.1 million was attributable to remittances destined to capital investments, U.S.$53.8 million to debt forgiveness and U.S.$38.5 million to financial assistance granted to the government for the implementation of infrastructure projects and capital grants.

In 2012, the capital account totaled U.S.$121.5 million, a U.S.$34.9 million decrease from 2011. This decrease is attributable to reduced transfers, mostly donations of capital goods, as well as a decrease in debt forgiveness by international agencies to the government.

From 2007 to 2012, Honduras attracted a significant inflow of foreign direct investment ("FDI"), registering a surplus in the financial account. FDI registered an average annual inflow of U.S.$909.7 million from 2007 to 2012, with 2012 registering the largest amount of investments, totaling U.S.$1,058.5 million, due to investments in the transportation and storage, manufacturing, goods for processing, and trade sectors, which represented 83.0% of total investments during that year. During 2009, due to the effects of the Global Economic Crisis, FDI decreased from U.S.$1,006.4 million to U.S.$508.8 million.

Foreign direct investment has shown a relatively steady trend in recent years. Honduras has undertaken significant efforts to create favorable conditions to establish an attractive investment climate. In May 2011, the Lobo administration launched the "Honduras is Open for Business" initiative, an international investor conference that brought investors from over 75 countries to learn more about investing opportunities in Honduras and to establish connections with local businesses.

From 2007 to 2012, the main sectors that attracted foreign direct investments were telecommunications, manufacturing, industry and commerce. Foreign direct investment in Honduras primarily comes from the United States, Mexico, and Canada. In addition, in recent years investments in the financial sector from Panama and the telecommunications sector from Luxembourg have been significant.

In 2012, the financial account registered capital inflows of U.S.$1,449.4 million, an increase of U.S.$356.8 million when compared to 2011, mainly due to an increase of U.S.$44.1 million in FDI inflows. Net FDI reached U.S.$1,052.2 million in 2012, or 5.8% of Honduras' nominal GDP, representing an increase from net FDI's inflow from U.S.$996.7 million registered in 2011.

In 2012, net capital inflows of portfolio investment were U.S.$35.5 million, a decrease of U.S.$50.7 million from U.S.$ 86.1 million registered in 2011. This was primarily a result of a decrease in foreign investment by the financial system.

In addition, other investments, including loans, currency and deposits, reflected net inflows of U.S.$361.8 million, registering a net asset inflow of U.S.$104.8 million, due primarily to decreased deposits abroad by the financial system. Liabilities generated net inflows of U.S.$257.0 million in 2012, U.S.$189.5 million less than net inflow of liabilities in 2011, which was driven by net disbursements to the government in the amount of U.S.$446.4 million in 2012.

The following tables set forth the amount of FDI and the composition of FDI as percentage of total FDI for the periods indicated:

Foreign Direct Investment by Sector

	For the Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011***	**2012***
			(U.S.$ millions)			
Transportation and storage	280.9	537.4	347.3	260.0	316.9	295.4
Manufacturing	164.4	129.3	68.1	126.8	243.4	262.1
Goods for processing	219.6	137.4	29.4	214.1	148.4	164.3
Services	142.6	140.6	52.2	136.1	90.5	100.4
Construction	9.1	27.4	11.1	(0.2)	5.0	5.1
Exploitation of mines and quarries	18.9	0.0	7.2	62.4	45.6	23.0
Agriculture and fishing	11.2	3.5	2.4	21.1	16.6	18.0
Electricity and water	9.3	16.5	5.1	12.6	44.8	33.3
Wholesale and retail trade	71.5	14.3	(14.0)	136.2	103.1	156.8
Total	**927.5**	**1,006.4**	**508.8**	**969.2**	**1,014.4**	**1,058.5**

* Preliminary
Source: Central Bank

Foreign Direct Investment by Sector

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011*	2012*
			(percentage of total FDI)			
Transportation and storage	30.3	53.4	68.3	26.8	31.2	27.9
Manufacturing	17.7	12.8	13.4	13.1	24.0	24.8
Goods for processing	23.7	13.7	5.8	22.1	14.6	15.5
Services	15.4	14.0	10.3	14.0	8.9	9.5
Construction	1.0	2.7	2.2	-	0.5	0.5
Exploitation of mines and quarries	2.0	0.0	1.4	6.4	4.5	2.2
Agriculture and fishing	1.2	0.3	0.5	2.2	1.6	1.7
Electricity and water	1.0	1.6	1.0	1.3	4.4	3.1
Wholesale and retail trade	7.7	1.4	(2.7)	14.1	10.2	14.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary
Source: Central Bank

The following tables set forth the amount of FDI and the composition of FDI as percentage of total FDI by country of origin for the periods indicated:

Foreign Direct Investment by Country of Origin

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011*	2012*
			(U.S.$ millions)			
United States	460.2	448.8	91.5	184.9	141.4	117.3
Luxembourg	-	-	170.5	132.5	149.2	128.5
Mexico	92.1	30.4	167.7	123.8	153.9	191.6
Canada	139.0	51.2	(39.2)	158.9	186.9	98.9
Ireland	-	273.5	21.0	22.2	21.5	-
Panama	22.1	-	0.9	14.1	15.9	137.8
England	102.9	72.4	(87.8)	109.1	84.6	88.1
Guatemala	15.4	44.4	13.8	60.7	43.7	50.2
Switzerland	13.9	(0.6)	22.6	24.9	68.1	87.9
Other	81.9	86.3	148.0	138.0	149.1	158.1
Total	**927.5**	**1,006.4**	**508.8**	**969.2**	**1,014.4**	**1,058.4**

* Preliminary
Source: Central Bank

Foreign Direct Investment by Country of Origin

	For the Year Ended December 31,					
	2007	2008	2009	2010	2011*	2012*
	(as percentage of total FDI)					
United States	49.6	44.6	18.0	19.1	13.9	11.1
Luxembourg	-	-	33.5	13.7	14.7	12.1
Mexico	9.9	3.0	33.0	12.8	15.2	18.1
Canada	15.0	5.1	(7.7)	16.4	18.4	9.3
Ireland	-	27.2	4.1	2.3	2.1	-
Panama	2.4	-	0.2	1.5	1.6	13.0
England	11.1	7.2	(17.3)	11.3	8.3	8.3
Guatemala	1.7	4.4	2.7	6.3	4.3	4.7
Switzerland	1.5	(0.1)	4.4	2.6	6.7	8.3
Other	8.8	8.6	29.1	14.2	14.7	14.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary
Source: Central Bank

Foreign Currency Reserves

While the level of Honduras' net international reserves decreased by U.S.$398.0 million between 2007 and 2009, Honduras registered an increase of U.S.$603.0 million in foreign international reserves in 2010 and U.S.$101.4 million in 2011. Such increase in 2010 and 2011 is explained primarily by the net purchases of foreign exchange, external disbursements and donations. From 2007 to 2012, net international reserves covered on average over 3.7 months of imports. During the same period, total net external assets of the financial system decreased from U.S.$2,587.4 million in 2007 to U.S.$2,413.2 million in 2012.

At December 31, 2012, the official reserve assets of the Central Bank totaled U.S.$2,778.0 million, consisting of investments in bond portfolios (39.5%), term deposits (37.9%), demand deposits (6.7%) and other investments (15.9%). The coverage of net international reserves was 3.1 months of imports.

Foreign assets of other deposit institutions reached U.S.$473.5 million in 2012, consisting mainly of demand deposits (82.1%), holdings in foreign currency (8.0%), term deposits (2.4%), and stocks and shares (2.7%).

The following table sets forth the net external assets of the financial system for the periods indicated:

Net External Assets of the Financial System

	As of December 31,					
	2007	2008	2009	2010	2011	2012
			(U.S.$ millions)(1)			
Central Bank of Honduras						
External assets	2,966.3	2,919.2	2,553.5	3,154.4	3,266.4	3,003.5
Official reserve assets	2,732.7	2,690.5	2,330.5	2,931.3	3,043.0	2,778.0
Other assets	233.6	228.6	222.9	223.1	223.4	225.5
External liabilities	415.0	427.2	386.9	383.1	392.8	367.2
Short term	218.4	230.5	214.2	211.9	222.4	207.1
Long term	196.6	196.7	172.7	171.2	170.5	160.1
Net international reserves	2,514.3	2,460.0	2,116.3	2,719.3	2,820.7	2,570.9
Net external assets	2,551.3	2,492.0	2,166.5	2,771.2	2,873.6	2,636.3
Official reserve assets (in months of imports)	3.4	4.7	3.4	3.8	3.7	3.1
Other deposit entities						
External assets	767.3	812.8	641.9	559.1	598.9	473.5
External liabilities	749.9	748.7	470.1	484.3	534.4	735.0
Net external assets	17.4	64.2	171.8	74.8	64.5	(261.5)
Other financial companies						
External assets	38.5	59.7	78.8	63.8	67.0	77.9
External liabilities	19.7	23.1	33.7	31.2	38.6	39.4
Net external assets	18.7	36.6	45.0	32.6	28.4	38.5
Financial system						
External assets	3,772.0	3,791.7	3,274.1	3,777.3	3,932.3	3,554.8
External liabilities	1,184.6	1,199.0	890.8	898.7	965.8	1,141.6
Net external assets	2,587.4	2,592.7	2,383.3	2,878.6	2,966.5	2,413.2

(1) Figures have been converted from lempiras to U.S. dollars using the following year-end exchange rates: 2007-2010 - L.18.8951 to U.S.$1.00; 2011 - L. 19.0484 to U.S.$1.00; 2012 –L.19.9623 to U.S.$1.00.
Source: Central Bank

Foreign Exchange

The lempira was pegged at L.2.00 to U.S.$1.00 from 1918 to 1990. In 1990, the government established the official exchange rate of the lempira for virtually all transactions at L.4.00 to U.S.$1.00. In 1992, the National Congress passed a law allowing the establishment of *casas de cambio* (exchange houses), which created the institutional framework for a free floating exchange rate system and by mid-1992 the exchange rate was fully liberalized. In June 1994, the Central Bank established a foreign exchange auction system by which all foreign exchange used by the financial system was auctioned daily by the Central Bank. The auction rate then became the legal exchange rate for foreign exchange transactions. This rate was revised at every auction, but was not permitted to rise by more than one percent every three weeks.

This system was in force until October 2005, when the Central Bank established a fixed exchange rate regime with an exchange rate of L.18.8951 to U.S.$1.00, based on the results observed for the net international reserves held by the Central Bank.

On July 21, 2011, the Central Bank modified the fixed exchange rate regime and established a crawling band regime, by which the exchange rate is permitted to fluctuate, with the rate determined daily in foreign exchange auctions. This change in policy was established by the Central Bank after considering the activity of Honduras' international trade market and its strong external position as shown by strengthening exports and increased remittances. The Central Bank adopted this policy change as a macro-prudential measure to protect the country's external position from the uncertainty and risks related to international economic conditions.

The Central Bank will maintain the current exchange rate band of +/- 7% with respect to an established base price, taking into account parameters to enhance the applicability of the current exchange rate scheme with regard to the prices offered for the purchase of foreign currency by the exchange rate agents. The offered prices of the exchange rate agents may not be greater than 0.075% over the weighted average of the prices of the awarded tenders in the electronic currency trading system managed by the Central Bank in the previous seven days.

The Central Bank calculates and follows the evolution of the lempira's effective real exchange rate with respect to the U.S. dollar as one method to evaluate the currency's external competitiveness level. The effective real exchange rate takes the inflation rate in Honduras into account as well as the inflation rate of Honduras' main trading partners, including the evolution of those trading partners' exchange rates with respect to the U.S. dollar.

In addition, the Central Bank observes and modifies, if necessary, the foreign currency holding limits assigned to the exchange rate agents in order to satisfy their clients' foreign currency requirements in a timely and efficient manner.

The following table shows the average and end-of-period lempira/U.S. dollar exchange rates and the real exchange rate index for the dates and periods indicated.

Foreign Exchange Rates

Year	**Average**	**End-of-period**	**Real Exchange Rate Index**
	(L. per U.S.$1.00)[(1)]		*(Base December 2009 = 100)*
2007	18.8951	18.8951	90.6
2008	18.8978	18.8951	98.4
2009	18.8951	18.8951	100.0
2010	18.8951	18.8951	103.8
2011			
January	18.8951	18.8951	103.7
February	18.8951	18.8951	103.3
March	18.8951	18.8951	102.5
April	18.8951	18.8951	102.3
May	18.8951	18.8951	102.7
June	18.8951	18.8951	103.3
July	18.8677	18.7744	104.0
August	18.8485	18.8856	104.2
September	18.9259	18.9614	104.2
October	18.9944	19.0239	103.9
November	18.9839	18.9715	104.4
December	19.0119	19.0484	104.7
2012			
January	19.0877	19.1234	104.7
February	19.1629	19.1989	104.5
March	19.2404	19.2782	104.1
April	19.3047	19.3362	104.5
May	19.3778	19.4161	104.6
June	19.4561	19.4926	104.7
July	19.5347	19.5731	104.7
August	19.6172	19.6577	104.5
September	19.6965	19.7317	104.0
October	19.7703	19.8057	103.7
November	19.8485	19.8876	103.7
December	19.9268	19.9623	103.4
2013			
January	20.0016	20.041	N.A.[(1)]

(1) Purchase exchange rate. 2008 fluctuations in the purchase exchange rate occurred due to the effectiveness of resolution No.168-5/2008 which provides that "…the auction shall be not more than three-quarters of zero point one percent (0.075%) of the average of the reference exchange rate resulting from auctions verified within seven (7) business days prior."
(2) Not available.
Source: Central Bank

Reserves Management

On September 5, 2006, the Central Bank entered into a Consulting and Investment Management Agreement with the World Bank, who took over the direct management of the reserves previously managed by the Central Bank, for an initial portfolio amount of U.S.$300.0 million. The creation of the portfolio managed by the World Bank began in January 2008 and in July of the same year, a parallel portfolio managed by the Central Bank was created.

Presently the international reserves investment portfolio managed by the World Bank consists of U.S. Treasury bonds, corporate bonds guaranteed by the government, sovereign and supranational government bonds, which complies with the provisions of the investment guidelines approved by the Central Bank.

Investment Promotion and Protection Laws

Attracting, promoting and protecting national and foreign investment is a primary objective of the government. In recent years, Honduras has created several public policies through new laws and regulations that are aimed at creating a favorable investment climate for international investors, by promoting and developing foreign investments and establishing facilitation and assistance bureaus for investors.

The following laws represent the most significant laws related to the promotion of foreign investments currently in effect in Honduras.

Free Zone Law

The government may establish Free Zones anywhere in Honduras, as long as the zone is supervised by the Executive Directorate of Revenues (*Dirección Ejectiva de Ingresos*, or "DEI"). Any company, national or foreign, may establish itself in a Free Zone as long as it engages in export activities. In 2012, there were 481 companies located in Free Zones, with over 80% located in the north coast of Honduras.

Companies located within these areas benefit from the following conditions:

- unrestricted currency conversion;
- duty-free import of all machinery, raw materials, supplies and anything required for thier plants' operations;
- clearing of incoming and outgoing shipments in less than a day with minimum documentation;
- 100% foreign ownership permitted;
- exemption from sales, corporate and income taxes; and
- unrestricted repatriation of profits and capital at any time.

Most foreign companies are located in these areas. Clothing, sporting goods, electronics, textiles, agribusiness and service exports (such as call centers and business process outsourcing), among others, are the typical businesses located in these zones.

Temporary Import Scheme

Companies operating outside Export Processing Zones may import equipment and materials needed for processing and producing their goods and re-export them tax free. These companies may be located anywhere in Honduras and they are not required to create any fixed number of new jobs. In addition, they are not required to pay income or municipal taxes. Currency conversion restrictions may be imposed by the Central Bank.

Tourism Incentives Law

New tourism projects may apply for a permanent income tax exemption under the Tourism Incentives Law. In addition, this law provides exemption from taxes and fees related to:

- import of new goods and equipment needed for the projects' construction and launching;

- import of printed material for the promotion and publicity of the project or of the country as a tourist destination;
- import of replacements for deteriorated goods and equipment for 10 years;
- import of new vehicles, such as buses, pick-up trucks, vans, trucks and other vehicles acquired by car rental companies; and
- import of new and used air and sea vessels to be used for air, sea or river transportation.

Law on the Promotion of Public-Private Partnerships

This law regulates the procurement processes for public-private participation in the implementation, development and management of public works and services. In 2010, under the authority of this law, COALIANZA was established. COALIANZA currently serves as the government agency responsible for managing all projects developed under public-private partnerships. See "The Honduran Economy — Economic and Social Policies — Public Infrastructure Investments."

Promotion and Protection of Investments Law

In an effort to promote, modernize and protect investments in Honduras, as well as to promote the creation of new jobs, Congress passed Decree 51 in 2011, which grants all investors, among other benefits, unlimited access to foreign exchange, protection of intellectual property rights and the right to repatriate 100% of any compensation for expropriation. In addition, foreign investors are granted equal treatment to national investors, market access without limitations, access to credit from the financial system and the right to establish branches, subsidiaries, representation or co-investments, among other benefits.

MONETARY SYSTEM

Monetary Authorities

The Central Bank and CNBS, are the two regulatory institutions of the Honduran financial system. They issue general rules that must be adhered to by financial institutions in order to maintain a healthy financial system with a normal operating payments system in accordance with international standards and best practices.

Central Bank

The Central Bank was established in 1950. The board of directors of the Central Bank is composed of five members, one of whom acts as President of the Central Bank and another as Vice-president. The members are appointed by the President of Honduras acting through the *Secretaría de Finanzas* for a four-year term and can be nominated for consecutive terms. Decree 53 of February 3, 1950, as amended (the "Central Bank Law"), provides absolute independence to its board of directors to perform its duties in compliance with applicable laws and regulations although its budget is developed together with the *Secretaría de Finanzas* which then is submitted to the National Congress for approval.

The Central Bank is an autonomous institution governed by a special organic law. Article 342 of the Constitution gives absolute autonomy to the Central Bank to issue currency and develop and implement monetary, credit and exchange rate policies. The Central Bank Law establishes that it shall ensure the maintenance of internal and external value of the national currency and the normal functioning of the system of payments. The board of directors of the Central Bank formulates, manages and issues the appropriate regulations implementing monetary, credit and exchange rate policies.

The Central Bank has implemented an active monetary policy to keep inflation at a low and steady level, as well as protect the external position of Honduras. Credit policy has also been used to regulate financial resources available in the economy. The Central Bank may provide credit to the government and its entities by purchasing securities in the secondary market. The Central Bank is barred from granting loans to the government except in cases of emergency or grave public calamity, or to cover seasonal variations in revenues and expenses. In addition, the Central Bank may grant loans to meet temporary shortages of liquidity to banks, savings and loan associations and finance companies, to ensure the stability of the financial and payment systems.

The functions and powers of the Central Bank are the following:

- determine and execute the monetary, credit, and exchange rate policy of Honduras;
- ensure the proper use of Honduras' international monetary reserves to maintain general economic stability;
- issue bills and coins of legal tender in Honduras' territory;
- negotiate foreign currencies in the national territory and through its board of directors, enable the institutions in the financial system to act as the Central Bank's agents;
- establish and regulate controls of capital movements in and out of Honduras, acting according to Honduras' international engagements;
- act as a lender of last resort to the institutions in the financial system, in order to solve temporary liquidity problems;
- grant loans to the government and its agencies by acquiring securities in the secondary market that can be negotiated with the public and with the institutions in the financial system;
- issue absorption certificates, in national or foreign currency, intended to be placed in banks and with the public for financial stabilization purposes;
- determine the way and proportion in which the institutions in the financial system will keep statutory reserves; and
- exercise the duties of banker, tax agent and economic-financial advisor to Honduras, its agencies, and official and semi-official agencies, and serve as representative before the IMF and any other official organizations mandated by the government.

Comisión Nacional de Bancos y Seguros

CNBS is a decentralized agency responsible for ensuring the stability and solvency of the financial system and other institutions supervised by it. CNBS maintains functional and budgetary independence from the government.

CNBS is responsible for:

- monitoring, supervising and controlling banking institutions, insurance companies, finance companies, savings and loan associations, and other savings and credit organizations and pension funds;
- issuing standards, including those of precautionary nature, to ensure the proper performance by the supervised institutions;
- verifying the correct formation, reorganization and liquidation of supervised institutions;
- developing criteria for the valuation of assets and liabilities and provisioning for risks to maintain liquidity and solvency of the supervised institutions; and
- implementing the sanctioning framework for infringements by supervised institutions, and processes of intervention, liquidation or closure of any institution.

Monetary Policy

Framework of Monetary Policy

The board of directors of the Central Bank creates, develops and executes the monetary, credit and foreign exchange policies of the country. The main instruments of monetary policy are open market operations and the monetary policy rate.

The Central Bank issues short term bills (*Letras del Banco Central de Honduras*) for open market operations. These short term bills can be issued for up to a year, with no interest coupons and at a discount to face value.

The monetary policy rate is the interest rate charged by the Central Bank to depository institutions on short-term loans. From August 2007 to July 2008, the Central Bank increased the monetary policy rate from 6.25% to 9.00% in response to persistent increases in inflation mainly due to the sharp rises in international prices of food and fuel. However, the crisis in the international financial markets and their effects in global economic growth worsened in the last quarter of 2008, generating a reversal in international prices of food and fuel. To mitigate the effects of the Global Financial Crisis, the Central Bank lowered the monetary policy rate in December 2008 by 125 basis points to 7.75%. During the first half of 2009, the Central Bank continued with its process of monetary policy easing, and further lowered the monetary policy rate in June 30, 2009 to 3.50%. The actions by the Central Bank were intended to decrease lending rates and reduce costs for interest payments on loans and improve access to credit granted by the banks in the financial system. The results, however, were not as expected. Instead, banks generated significant liquidity, that represented a risk for maintaining an adequate level of international reserves and the stability of the exchange rate. As a result of these developments, during July and August 2009, the Central Bank increased the monetary policy rate from 3.50% to 4.50%.

During 2010, the Central Bank continued to use open market operations as the main instrument to reduce the excess liquidity in the financial system generated beginning in 2008. From September 2011 to May 2012, the Central Bank increased the monetary policy rate on four occasions and set it at 7.00% in May 2012.

The main policy measures implemented during 2011 were: (i) the reactivation of the exchange rate band; (ii) the maintenance of a real positive monetary policy interest rate; (iii) the increase of investment instruments at different maturity dates; (iv) the reserve requirements in lempiras and US dollars were kept at the same levels as previous years (those established since August 2009). During 2012, the Central Bank implemented an active monetary policy to keep inflation at a low and steady level, as well as protect the external position of the country. As a result, during 2012 the liquidation dates of the open market operations were modified (t+2, t+1, t+0). For information about losses sustained by the Central Bank resulting from its implementation of monetary policy, see "Public Sector Debt—Internal Debt—Recapitalization of the Central Bank."

Financial Sector

There are currently 17 commercial banks, 12 insurance companies, 10 finance companies and nine brokerage houses operating in Honduras.

The following tables set forth further information regarding the number of regulated institutions as of the date of this Offering Circular:

Regulated Financial Institutions

Commercial banks	17
Insurance companies	12
Financial companies	10
Brokerage houses	9
Remittances companies	7
Exchange centers	6
Private development organizations	5
Public pension funds	5
Deposit houses	5
Credit card processors	4
Rating agencies	3
Wholesale banks	2
Representation offices	2
Private risk centrals	2
Credit card issuers	1
Private pension funds	1
Stock exchange	1
Total	**92**

Source: CNBS.

In addition, there are two state-owned financial institutions:

- The National Development Bank (*Banco Nacional de Desarrollo* - "BANADESA") was created in 1980. Its main objective is to channel financial resources for the development of agricultural, ranching, fishing, forestry and all other activities related to primary processing, including commercialization.
- The Honduran Production and Housing Bank (*Banco Hondureño para la Producción y la Vivienda* - "BANHPROVI") was created in 2005. It works as a wholesale bank and its main goal is to promote the development and growth of the productive sectors through short-, medium- and long- term financing, at market conditions, through banks and credit unions supervised by the CNBS. BANHPROVI focuses on private and social sectors, in particular manufacturing, commerce, services, housing and agricultural sectors and small companies.

From 2007 to 2011, the private sector received, on average, 97.7% of the total loans disbursed from the financial system, while the public sector received 2.3% of all disbursed loans. As of December 31, 2011, the main sectors that received such funding from the financial system were: real estate (32.0%), consumption (18.4%), wholesale and retail trade (15.5%), industry (11.9%), services (12.7%) and agriculture (5.7%).

The following table sets forth the amount of loans granted by the financial system by sector for the periods indicated.

Financial System Loans by Sector

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
	(*L. millions*)					
Agriculture	2,876.5	3,585.1	3,847.8	3,859.6	4,938.2	4,848.1
Forestry	12.8	28.4	26.5	38.8	49.3	35.4
Livestock	1,043.1	1,261.8	1,468.7	1,561.2	1,564.5	1,516.7
Poultry farming	440.7	563.4	463.3	521.1	545.0	591.4
Apiculture	4.5	10.7	4.5	4.1	3.8	3.2
Fishing	550.7	770.0	679.6	354.8	383.4	676.4
Mining	33.9	48.4	128.7	134.1	138.6	189.8
Industry	17,455.9	20,546.0	19,436.4	17,929.5	18,016.5	19,910.5
Export financing	2,653.5	2,216.4	2,867.1	3,696.9	3,443.0	3,446.2
Services	13,264.3	16,163.3	15,351.6	14,543.4	16,290.0	18,339.8
Transportation and communications	2,134.4	2,553.7	2,440.2	2,498.0	2,731.8	3,310.1
Real estate	28,828.4	39,911.6	42,543.9	45,362.7	48,712.8	53,175.6
Wholesale and retail trade	20,327.3	14,884.0	15,334.7	17,479.1	20,029.8	26,006.9
Consumption	19,250.1	21,723.8	20,666.8	22,585.7	27,987.6	36,482.6
Loans over policies	0.2	22.3	28.1	19.4	17.8	22.9
To national banks	398.4	189.1	262.3	328.0	297.1	312.3
To government	52.9	-	82.1	80.1	822.6	617.3
To municipalities	2,172.4	2,409.9	2,560.4	2,743.7	3,663.0	3,646.7
To decentralized agencies	143.5	129.8	116.3	137.3	198.9	1,559.2
Total	**111,643.5**	**127,017.7**	**128,309.0**	**133,877.5**	**149,833.7**	**174,691.3**

Source: CNBS.

In February 2008, the Central Bank implemented a differentiated reserve requirement in domestic currency, based on the financial institution's portfolios, with the purpose of maintaining adequate liquidity levels in the financial system, while encouraging financial institutions to give credit to productive activities rather than to consumption and trade. For financial institutions that had at least 80% of its portfolio destined to productive activities, the reserve requirement was 0%. In November 2008, the percentage requirement for productive activities was lowered from 80% to 60%. In August 2009, the differentiated reserve requirement based on the percentage of a financial institution's portfolio destined for productive activities was eliminated and the reserve requirement for domestic currency deposits for all financial institutions was lowered from 12.0% to 6.0%. The reserve requirement for foreign currency deposits has remained at 12.0% since it was established in 1997.

In May 2012, the board of directors of the Central Bank approved a modified structure of reserve requirements, including a provision that requires financial institutions to maintain at least 80.0% of their reserve requirement to be held at the Central Bank.

From 2009 to 2012, the mandatory investment rates in domestic and foreign currency increased from 9.0% to 12.0% and from 2.0 % to 10.0%, respectively.

The following table sets forth the financial system's reserve requirements in local currency for the periods indicated.

Financial System Reserve Requirements in Local Currency

Year	Month	Reserve Requirement (local currency)	Mandatory Investment
2007	Jun	12%	2%
	Jun	12%	4%
2008	Mar	12% and 10%(1)	6%
	Apr	12% and 9%(1)	7%
	May	12% and 8%(1)	8%
	Jun	12% and 7%(1)	9%
	Oct	12% and 5%(1)	9%
	Dec	12% and 0%(1)	9%
2009 to date	Jan	12% and 0%(1)	9%
	Aug	6%	12%

1. Differentiated reserve requirement in proportion to the loan portfolio for productive activities, excluding loans for consumption and trade, eliminated on August 15, 2009.
Source: Central Bank.

Commercial Banks

From 2007 to 2011, the total amount of assets in the financial system has been relatively steady with 97.7% of total assets held by commercial banks and 2.3% of total assets held by other financial entities. The following tables set out the total assets, loan portfolio non-performing loan portfolio and total deposits of the banking system and financial entities, for the periods indicated.

Total Assets

	As of December 31,				
	Commercial Banks		Financial Entities		Total
	(U.S.$ millions)	%(1)	*(U.S.$ millions)*	%(1)	*(U.S.$ millions)*
2007	10,140.8	98.1	200.4	1.9	10,341.2
2008	11,298.5	97.7	263.8	2.3	11,562.3
2009	11,657.9	97.7	269.7	2.3	11,927.6
2010	12,525.2	97.7	290.8	2.3	12,816.0
2011	14,225.9	97.7	335.0	2.3	14,560.9
2012	15,161.7	97.5	382.2	2.5	15,543.9

(1) Percentage of total assets.
Source: CNBS.

Loan Portfolio

	As of December 31,				
	Commercial Banks		Financial Entities		Total
	(U.S.$ millions)	%(1)	*(U.S.$ millions)*	%(1)	*(U.S.$ millions)*
2007	6,204.6	97.9	135.6	2.1	6,340.2
2008	6,982.9	97.5	180.2	2.5	7,163.1
2009	7,042.1	97.6	172.1	2.4	7,214.2
2010	7,306.0	97.4	191.6	2.6	7,497.6
2011	8,200.5	97.3	229.9	2.7	8,430.4
2012	9,070.4	97.2	260.5	2.8	9.330.9

(1) Percentage of total loans.
Source: CNBS.

Deposits

	As of December 31,				
	Commercial Banks		Financial Entities		Total
	(U.S.$ millions)	%(1)	*(U.S.$ millions)*	%(1)	*(U.S.$ millions)*
2007	6,311.7	98.8	79.4	1.2	6,391.1
2008	6,708.5	98.6	91.9	1.4	6,800.4
2009	6,957.5	98.4	111.6	1.6	7,069.1
2010	7,563.6	98.4	126.1	1.6	7,689.7
2011	8,485.7	98.4	136.1	1.6	8,621.8
2012	8,782.9	98.3	151.8	1.7	8,934.6

(1) Percentage of total deposits .
Source: CNBS.

From 2007 to 2011, on average, 97.5% of total loans were made by commercial banks and 2.5% of total loans were made by other financial entities and, on average, 98.5% of total deposits were held at commercial banks while 1.5% of total deposits were held by other financial entities.

The following table sets out the non-performing loan portfolio of the financial system as of December 31, 2012.

Non-performing Loan Portfolio of the Financial System

	As of December 31, 2012 (U.S.$ millions)						
	Current Loans	1-30 days	31-60 days	61- 90 days	91-180 days	More than 180 days	Total
Commercial banks	7,208.0	674.6	239.1	97.9	100.3	175.1	8,495.0
State-owned financial institutions	49.5	3.7	1.9	1.1	2.2	26.4	84.9
Insurance companies..........	23.5	0.3	0.7	3.2	0.2	1.4	29.2
Financial corporations	183.6	47.7	13.8	4.7	2.8	3.9	256.5
Representation offices	12.4	1.1	2.1	2.4	2.0	1.2	21.2
Wholesale banks................	0.9	0.1	0.2	0.2	0.3	4.5	6.2
Credit card issuers	68.0	3.0	1.7	1.2	2.1	0.0	76.0
Private development organizations......................	47.5	1.0	0.3	0.1	0.3	1.0	50.2

Source: CNBS

Commercial banks are under the supervision of the CNBS and are subject to periodic reporting requirements and mandatory audits. Commercial banks are required to maintain a certain percentage of their deposits as a reserve deposited at the Central Bank in the form of cash or securities issued by the Central Bank. See "— Financial Sector."

The following table sets forth the five largest banks in Honduras, based on their total assets.

Position of the Largest Commercial Banks

	As of December 31, 2012			
	Total Assets	**Loans**	**Deposits**	**Capital and Reserves**
		(L. millions)		
Bancatlan	51,396.4	33,597.4	32,413.4	4,191.2
Ficohsa	45,061.3	29,533.1	23,059.8	3,549.4
BAC Honduras	44,894.8	23,327.4	23,093.1	3,033.3
Occidente	40,865.1	21,884.2	30,024.2	2,896.4
Banpais	28,754.6	19,511.4	18,424.1	2,101.4

Source: CNBS

CNBS sets capital and loan loss reserve requirements for the banking system. The loan loss reserve requirements of CNBS are independent of the Central Bank's reserve requirement for monetary policy purposes. CNBS requires a capital adequacy ratio (CAR) minimum (capital / risk weighted assets) of 10%. The current CAR of the banking system is 14.5%, which exceeds the minimum requirement of CNBS. CNBS' loan loss reserve requirements are reviewed periodically and typically revised semi-annually.

The requirements for CAR which are effective as the date of this Offering Circular and as of June 2013, are as follows:

Capital Adequacy Ratio Requirements

	Loan Category									
	I		II		III		IV		V	
	Current	June 13	Current	June 13	Current	June 13	Current	June 13	Current	June 13
Commercial loans										
Large....................................	0.60	0.75	3.56	4.00	22.78	25.00	55.56	60.00	100.00	100.00
Small w/ mortgage.............	0.60	0.75	3.56	4.00	22.78	25.00	55.56	60.00	100.00	100.00
Small w/ other guarantee.....	0.78	1.00	3.56	4.00	22.78	25.00	60.00	60.00	100.00	100.00
Micro credit.........................	0.78	1.00	5.00	5.00	25.00	25.00	60.00	60.00	100.00	100.00
Consumer loans										
Credit card...........................	1.19	1.25	4.33	5.00	22.78	25.00	60.00	60.00	100.00	100.00
Other consumer>30 days	0.89	1.00	4.33	5.00	22.78	25.00	60.00	60.00	100.00	100.00
Other consumer <30 days ...	0.89	1.00	5.00	5.00	25.00	25.00	60.00	60.00	100.00	100.00
Housing...............................	0.58	0.75	3.56	4.00	15.00	15.00	50.00	50.00	70.00	70.00

Source: CNBS.

Interest Rates and Money Supply

The following table sets forth the average annual interest rates for the periods indicated.

Historical Average Interest Rates(1)

Year and Currency	As of December 31,							
	Loans				Deposits			
	Commercial Banks		Financial Entities		Commercial Banks		Financial Entities	
	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.
	(as percentage)							
2007								
National	43.8	7.8	39.5	16.4	6.5	1.6	7.1	4.9
Foreign	22.2	6.6	16.8	8.5	2.8	0.7	0.0	0.0
2008								
National	45.2	10.2	39.6	18.2	7.0	1.7	7.5	3.5
Foreign	23.6	8.2	16.8	8.5	2.6	0.6	2.0	2.0
2009								
National	46.3	11.6	39.3	13.0	6.4	1.4	7.0	3.2
Foreign	23.4	7.2	16.5	9.3	2.8	0.6	0.0	0.5
2010								
National	61.8	10.6	39.9	14.9	6.6	1.2	8.3	3.4
Foreign	24.1	6.1	18.0	0.0	2.0	0.6	0.8	0.0
2011								
National	66.7	7.3	38.9	15.5	6.1	1.0	7.0	3.5
Foreign	24.2	5.4	17.8	10.0	2.0	0.9	0.0	0.0
2012								
National	63.1	9.5	41.2	15.5	6.3	1.1	6.8	3.1
Foreign	32.3	6.5	17.8	10.0	2.0	0.5	0.0	0.0

(1) Interest rates are averages of historical interest rates at year end.
Source: CNBS.

The banking system's lending and deposit interest rates decreased during the first half of 2007, following a decrease in the Central Bank's monetary policy rate. When the monetary policy rate was raised in August 2007, both lending and deposit interest rates increased between November 2007 and November 2008. In December 2008, when the monetary policy rate was lowered, lending and deposit interest rates began to gradually decrease until mid-2009. Since July 2009, when the monetary policy rate began to gradually rise, market interest rate levels have been moderately escalating.

Liquidity and Credit Aggregates

The Central Bank is responsible for the calculation of monetary aggregates, including the money supply and monetary base. The most important components of the money supply are: M1, M2 and M3, which includes the follosing:

M1: paper money and coins held by the public plus transferable deposits;

M2: M1 plus other deposits and debt securities in local currency, and

M3: M2 plus deposits plus transferable deposits and debt securities in foreign currency.

The following table sets forth the annual growth rates in M1, M2 and M3 at the dates indicated.

Monetary Supply

	As of December 31,					
	2007	2008	2009	2010	2011	2012
			(in percentage)			
M1	15.3	2.0	5.0	15.4	9.4	(11.1)
M2	17.1	2.5	(0.2)	13.3	11.7	(0.4)
M3	16.7	4.9	0.6	9.8	11.2	2.1

Source: Central Bank.

Between 2007 and 2012, the M1, M2 and M3 recorded average annual growth rates of 6.0%, 7.3% and 7.5%, respectively. Money supply (M2 and M3) decreased in 2009 compared to 2008 primarily due to decreased placement of debt securities, caused in part by the uncertainty that developed from the internal political turmoil related to the removal of president Zelaya. In 2010, a recovery was observed in all three monetary aggregates after the effects of the Global Economic Crisis subsided, reflecting the confidence of economic agents to save and invest in securities of the Central Bank.

As of December 31, 2012, M1 and M2 recorded decreases of 11.1% and 0.4%, respectively, whereas M3 registered an increase of 2.1%. M1 performance resulted mainly from reduced bills and coins held by the public, as well as reduced demand deposits from companies and households.

In 2012, credit destined to the private sector registered a growth of 11.5% compared to 2011, due to an increase of 17.5% in credit denominated in foreign currency and an increase of 9.4% in credit denominated in local currency.

The following table sets forth the principal monetary indicators for credit and liquidity for the periods indicated.

Credit and Liquidity

			As of December 31,			
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
			(U.S.$ millions)			
Monetary Aggregates						
Bills and Coins in Circulation	630.1	627.5	686.5	777.2	850.4	822.9
M1	1,600.8	1,633.4	1,714.4	1,978.0	2,164.2	1,923.6
M2	5,286.6	5,418.2	5,408.8	6,126.4	6,844.2	6,819.6
M3	7,019.2	7,360.6	7,402.3	8,126.7	9,038.3	9,230.4
Credit by Sector						
Public Sector	260.4	317.7	544.0	616.0	971.7	1,078.2
Private Sector	6,384.2	7,130.5	7,338.4	7,532.0	8,315.1	9,475.1
Total Credit	**6,644.6**	**7,448.2**	**7,882.4**	**8,148.0**	**9,286.8**	10,553.3
Deposits						
National Currency	4,447.3	4,635.8	4,648.8	5,204.6	5,865.1	5,861.6
Foreign Currency	1,721.2	1,904.7	1,948.2	1,963.9	2,161.2	2,382.9
Total Deposits	**6,168.5**	**6,540.5**	**6,597.0**	**7,168.4**	**8,026.3**	**8,244.5**

Source: Central Bank.

Inflation

The inflation rate is measured by the Consumer Price Index ("CPI") with December 1999 as the base. The index is measured in seven regions, including the two largest cities in Honduras (Tegucigalpa and San Pedro Sula). The inflation index is an indicator that measures the changes in prices of a set of goods and services that consumers typically buy. The Central Bank is the institution responsible for measuring the CPI. A wholesale price index is calculated quarterly by the Central Bank, and is used as a deflator for some economic activities of GDP (trade and manufacturing sub-sectors, among others) but is not used to measure inflation. A producer price index is not measured or used by the Central Bank.

Honduras does not follow an inflation targeting framework. The Central Bank, however, establishes a two-year monetary program that includes inflation objectives that serve as a guideline for monetary policy.

The following table sets out the Central Bank's inflation objectives for the years indicated as provided in its monetary program.

Central Bank's Inflation Objectives

Year	Inflation Objective Range
2007	5.0 - 6.0
2008	9.0 ± 1
2009	4.5 ± 1
2010	6.0 ± 1
2011	8.0 ± 1
2012	6.5 ± 1

Source: Central Bank.

Between 2007 through 2011, inflation remained at moderate levels, except in 2008, when inflation reached of 10.8%. During 2009, inflation decreased until it reached 3.0% in December 2009, due mainly to the shortfall of domestic demand caused by the economic slowdown and lower oil prices in the international market.

The inflation rate remained at moderate levels in 2010, registering an annual inflation rate of 6.5%, primarily due to the reduced supply of some foods caused by climatic factors as well as by the increase in prices in the international market.

As result of active monetary policy measures implemented in 2011, the inflation rate decreased to 5.6% by the end of 2011, notwithstanding inflationary pressures caused by external factors and the speculative demand for foreign exchange presented after reactivating the foreign exchange rate band.

The following table sets forth the inflation rate in the Republic as measured by the CPI for the periods indicated.

Inflation Rate

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(percentage variation)					
Year-on-year	8.9	10.8	3.0	6.5	5.6	5.4
Average	6.9	11.4	5.5	4.7	6.8	5.2

Source: Central Bank.

During 2012, oil and gasoline prices remained, on average, below the price levels registered at the end of 2011. The same trend was observed for the prices of commodities such as coffee, bananas and African palm oil. The prices for wheat, white rice and corn, however, increased during 2012. For the year ended December 31, 2012, the inflation rate reached 5.4%. The Central Bank estimates that price increases and inflation rates will remain similar in 2013 to those experienced in 2012.

Capital Markets

The Honduran capital markets currently only deals in debt securities (bonds). The largest issuer of bonds in the capital markets is the public sector, accounting for 98% of total issuances.

The participants in the local capital markets are as follows:

- 1 stock exchange;
- 9 broker/dealer entities;
- 3 credit rating agencies;
- 1 investment fund;
- 17 banks as issuers, but only 9 have issued; and
- 5 public sector issuers;

Private banks are the primary private sector participants in the capital markets. Nine of the 17 authorized commercial banks in Honduras have issued corporate bonds in the local capital markets. As of December 31, 2012, there are no depositary institutions in the local capital markets and there is no derivatives market. There is one investment fund.

In 2009, securities transactions on the Honduran stock exchange decreased by 9.4%, mainly due to a decrease in interest rates in 2009. In 2010, securities transactions on the Honduran stock exchange increased mainly as a result of public debt issuances through open market operations. In 2011 and 2012, securities transactions in the Honduran capital market have been increasing at a slow pace when compared to 2010.

PUBLIC SECTOR FINANCES

Overview

Budget Process

The Budget of Revenues and Expenditures of Honduras (*Presupuesto de Ingresos y Egresos de la República*) is prepared in accordance with Article 29 of the General Law of Public Administration (*Ley General de Administración Pública*), Article 18 of the Organic Budget Law (*Ley Orgánica de Presupuesto)* and the National Plan 2010-2022. The General Directorate of Budget of the *Secretaría de Finanzas* is responsible for the preparation of the budget, which must be approved by the National Congress. The budget contains revenues and expenses defined for each of the state entities and may be modified by the National Congress. The draft budget must be presented to the National Congress no later than the second week of September in the year prior to the budget year. If the draft budget is not approved by the National Congress by the end of the then current fiscal year, then the previous year's budget spending levels remain in place.

Fiscal Policy

The public sector in Honduras consists of the Central Government, local governments (municipalities) and non-financial state-owned enterprises. The Central Government consists of the Secretaries of State, agencies affiliated to the Secretaries of State, such as DEI, decentralized institutions, such as public universities, public pension funds and the IHSS.

The government faced significant macroeconomic volatility during the post-Global Economic Crisis period from 2010 to 2012. As a result, the administration of President Lobo implemented a series of reforms that seek to improve tax collection, as well as execute fiscal policies that address both revenues and expenditures of the government. The reforms include the following:

- the Fiscal Emergency Law - improves revenue streams and cost control, through rationalization of expenditures and other measures to increase government income;
- the Population Security Law - imposes a special tax on financial transactions in any currency in order to finance the government's security initiatives for the general population and its properties;
- the Revenues Growth, Social Equality and Government Expenditures Control Act - aimed at income efficiency through controlling and limiting tax exemptions and implementing anti-evasion measures, as well as controlling public expenditures; and
- the Reform of the Income Tax - increases the income tax from 10% to 25% for foreign residents' income derived from certain sources, including mining royalties and use of brands and patents; and
- significant efforts to maintain the conditional cash transfer programs that have helped the most vulnerable sectors of society, such as the "Bono 10,000" program. See "The Honduran Economy — Poverty."

From 2007 to 2012, the Central Government recorded average fiscal deficits of 4.4% of Honduras' nominal GDP. In 2007, the deficit of the Central Government was 2.9% of Honduras' nominal GDP, or approximately U.S.$360.4 million, and in 2008 it decreased to 2.4% of Honduras' nominal GDP, or U.S.$337.9 million. In 2009, the fiscal balance of the Central Government deteriorated, when it reached a deficit of 6.0% of Honduras' nominal GDP, or approximately U.S.$881.8 million. The effects of the Global Economic Crisis, and the political crisis as a result of the removal of president Zelaya, had significant repercussions in terms of economic growth in Honduras, which led to a break in the flow of international financial cooperation and further increased the uncertainty of the internal macroeconomic conditions in Honduras. In 2010 and 2011, the fiscal balance of the Central Government improved as it registered a deficit of 4.7% of Honduras' nominal GDP, or approximately U.S.$739.4 million and 4.6% of Honduras' nominal GDP, or approximately U.S.$808.7 million, respectively.

In 2012, however, certain events negatively affected the governments financial balance. Some of the significant events include a decision adopted by the Supreme Court that declared unconstitutional certain tax reforms and the refund of sales tax to a major mobile company, DIGICEL, as a result of new interpretations related to the sales tax law. See " — Reveues," and " — 2012 Budget." Despite government efforts to offset the effects of these events by controlling expenditures and raising new revenues, the deficit of the Central Government registered 6.0% in 2012, or U.S.$1,111.4 million.

Fiscal Accounts

The following tables sets forth the fiscal accounts of the government for the periods indicated.

Fiscal Accounts

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
			(U.S.$ millions)[(1)]			
Central Government						
Total revenues	**2,365.5**	**2,767.8**	**2,487.8**	**2,672.4**	**3,009.2**	**3,089.7**
Current revenues	2,169.5	2,479.2	2,222.1	2,456.5	2,811.9	2,913.7
Tax revenues	2,025.4	2,240.2	2,065.9	2,284.9	2,618.0	2,690.9
Income tax	571.3	626.2	597.9	631.2	776.0	811.8
Sales tax	749.9	871.3	761.9	849.4	1,002.7	1,033.2
Road tax	295.2	294.8	319.2	332.8	326.5	352.2
Tax on imports	151.9	157.5	109.3	132.6	138.8	150.4
Other taxes	257.1	290.5	277.6	338.8	374.0	343.3
Capital income	-	-	-	-	-	-
Grants	195.9	288.5	265.7	215.8	192.0	176.0
Current expenditures	2,233.6	2,433.6	2,717.7	2,840.3	3,000.3	3,323.9
Consumer expenditures	1,503.2	1,661.6	2,020.3	2,080.8	2,125.3	2,284.3
Wages and salaries	1,137.3	1,297.2	1,584.5	1,688.7	1,699.2	1,784.9
Goods and services	365.8	364.4	435.8	392.1	426.1	499.5
Interest debt	82.5	85.3	106.3	153.1	238.9	314.5
Domestic	36.6	41.3	62.0	115.5	187.4	250.1
External	45.9	44.0	44.3	37.6	51.5	64.4
Total current transfers	648.0	686.6	591.1	606.5	636.0	725.1
Current account savings	**(64.1)**	**45.7**	**(495.6)**	**(383.8)**	**(188.4)**	**(410.3)**
Capital expenditures	507.8	681.6	748.6	592.0	817.8	853.3
Investment	231.2	336.4	403.8	262.5	293.9	275.0
Total capital expenditure transfers	276.6	345.2	344.8	329.5	523.8	578.3
Net loan concessions	(15.5)	(9.5)	(96.7)	(20.5)	(0.2)	23.8
Total net expenditures	**2,725.9**	**3,105.7**	**3,369.6**	**3,411.8**	**3,817.9**	**4,201.1**
Global net balance	**(360.4)**	**(337.9)**	**(881.8)**	**(739.4)**	**(808.7)**	**(1,111.4)**
Global net balance / GDP	**(2.9)%**	**(2.4)%**	**(6.0)%**	**(4.7)%**	**(4.6)%**	**(6.0)%**
Non financial public sector (NFPS)						
Global balance NFPS	**(195.8)**	**(197.8)**	**(619.5)**	**(414.3)**	**(443.4)**	**(685.7)**
Interest payments	100.1	99.0	99.7	138.3	187.4	249.4
External	46.4	44.4	44.7	38.3	52.1	73.4
Domestic	53.7	54.5	55.0	100.0	135.3	175.9
Primary balance NFPS	**(273.1)**	**(335.9)**	**(744.9)**	**(502.5)**	**(485.8)**	**(690.7)**
Primary balance / GDP (NFPS)	**(2.2)%**	**(2.4)%**	**(5.1)%**	**(3.2)%**	**(2.7)%**	**(3.8)%**
Global balance / GDP (NFPS)	**(1.6)%**	**(1.4)%**	**(4.2)%**	**(2.6)%**	**(2.5)%**	**(3.7)%**

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates, which correspond to the annual average sale price for U.S.$1.00 for each year: 2007 - L.18.8951; 2008 - L.18.8951; 2009 - L.18.8951; 2010 - L.18.8951; 2011 - 18.9169; and 2012 - L.19.5020.
Source: SEFIN

The following tables sets forth the fiscal accounts of the combined public sector for the periods indicated.

Combined Public Sector

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
			(U.S.$ millions)[1]			
Total revenues	**3,122.9**	**3,672.8**	**3,553.9**	**3,825.1**	**4,093.2**	**4,151.1**
Current revenues	2,878.0	3,353.2	3,258.5	3,576.9	3,856.4	3,939.3
Tax revenues	2,075.2	2,309.7	2,147.4	2,389.1	2,723.2	2,794.3
Non-tax revenues	553.6	713.8	701.7	779.9	856.7	911.7
Dividends and interest	177.4	237.1	225.1	226.5	229.8	254.3
Public enterprises balance	71.8	92.6	184.2	181.6	46.8	(63.0)
Current income	48.0	30.3	28.8	31.3	44.0	38.3
Grants	196.8	289.3	266.5	216.9	192.8	173.4
Total net expenditures	**3,316.5**	**3,908.4**	**4,215.1**	**4,274.2**	**4,585.7**	**4,925.2**
Current expenditure	2,542.8	2,968.9	3,381.3	3,479.6	3,668.1	3,974.0
Consumer expenditure	1,937.1	2,181.9	2,665.4	2,684.0	2,762.0	2,940.4
Wages and salaries	1,438.9	1,651.7	1,993.8	2,121.0	2,137.0	2,222.2
Good and services	498.1	530.2	671.6	563.0	625.0	718.2
Transfers	437.6	488.6	400.2	444.9	473.8	481.1
Quasi-fiscal deficit (Central Bank)[2]	(2.2)	37.8	41.7	34.1	49.0	88.4
Payments interest	100.1	99.0	99.7	138.3	187.4	249.4
External	46.4	44.4	44.7	38.3	52.1	73.4
Domestic	53.7	54.5	55.0	100.0	135.3	175.9
Others	70.1	161.7	174.3	178.3	195.9	214.7
Capital expenditures	686.6	833.5	850.8	860.4	1,039.1	1,073.7
Investment	623.9	719.6	746.9	751.5	789.3	695.7
Transfers	50.2	55.4	65.9	58.1	177.6	301.7
Other capital expenditures	12.4	58.6	38.0	50.8	72.1	76.3
Net loans	87.1	105.9	(17.0)	(65.8)	(121.5)	(122.5)
Global balance	**(193.6)**	**(235.6)**	**(661.2)**	**(449.1)**	**(492.4)**	**(774.1)**
Surplus (deficit) / GDP (CPS)	**(1.6)%**	**(1.7)%**	**(4.5)%**	**(2.8)%**	**(2.8)%**	**(4.2)%**
Primary balance (CPS)	**(270.8)**	**(373.7)**	**(786.6)**	**(536.6)**	**(534.8)**	**(779.1)**
Primary balance / GDP (CPS)	**(2.2)%**	**(2.7)%**	**(5.4)%**	**(3.4)%**	**(3.0)%**	**(4.2)%**

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates, which correspond to the annual average sale price for U.S.$1.00 for each year: 2007 - L.18.8951, 2008 - L.18.8951, 2009 - L.18.8951, 2010 - L.18.8951, 2011 - 18.9169, 2012 - L.19.5020.

(2) Central Bank operational losses and losses sustained from implementation of monetary policy. See "Public Sector Debt—Internal Debt—Recapitalization of the Central Bank."

Source: SEFIN

The combined public sector, which includes the Central Government and the quasi-fiscal results of the Central Bank, recorded deficits of U.S.$193.6 million in 2007 (1.6% of Honduras' nominal GDP), U.S.$235.6 million in 2008 (1.7% of Honduras' nominal GDP), U.S.$661.2 million in 2009 (4.5% of Honduras' nominal GDP), U.S.$449.1 million in 2010 (2.8% of Honduras' nominal GDP) and U.S.$492.4 million in 2011 (2.8% of Honduras' nominal GDP). The government registered a combined public sector deficit of 4.2% of Honduras' nominal GDP for 2012.

Although the combined public sector recorded historical deficits from 2007 to 2012, such deficits have been of lesser magnitude than those recorded by the Central Government, largely because of the positive performance by public enterprises and the surpluses from public pension funds. See "The Honduran Economy—Social Security," and "—Fiscal accounts—State Owned Companies."

Revenues

Tax revenues, the largest component of total revenues of the Central Government, reached U.S.$2.0 billion in 2007. Tax revenues increased 10.6% in 2008 to U.S.$2.2 billion, but decreased 7.8% in 2009 to U.S.$2.1 billion mainly as a result of the slowdown in the economy from the Global Economic Crisis. In 2010, tax revenues increased by 10.6% to U.S.$2.3 billion. In 2011, tax revenues were U.S.$2.6 billion, an increase of 14.6% compared to tax revenues in 2010. Such increase was principally the result of the Revenues Growth, Social Equality and Government Expenditures Control Act, such as the elimination of certain tax benefits. In 2012, tax revenues were U.S.$2.7 billion, an increase of 2.8% compared to tax revenues in 2011, as a result of tax reforms introduced during 2012, as described below, that were offset by reduced revenues related to a decision of the Supreme Court and interpretations on the sales tax laws.

Tax revenues represented 85.6% of total revenues in 2007, 80.9% of total revenues in 2008, 83.0% of total revenues in 2009, 85.5% of total revenues in 2010, 87.0% of total revenues in 2011 and 87.0 of total revenues in 2012. The largest components of Honduras' tax revenues are: (i) the sales tax, which represented an average of 37.7% of total tax revenues in the period from 2007 to 2012; (ii) the income tax, which accounted for 28.8% of total tax revenues over the same period; (iii) the fuel consumption tax (*Aporte para la atención a programas sociales y conservación del patrimonio vial*), which represented 14.0% of total tax revenues over the same period; and (iv) the customs tax, which represented 6.2% of total tax revenues from 2007 to 2012. The customs tax has been gradually reduced since 2011 due to the decrease in tariffs as a result of free trade agreements, such as CAFTA-DR. Sales tax, income tax, roads tax and customs tax combined represented 86.4% on average of total tax revenues from 2007 to 2012.

The Central Government collects taxes on personal and corporate income and a value-added tax on sales of tangible assets and services. The corporate income tax rate is at 25% while individual income tax rates vary from 0% to 25% depending on taxable income. The value added tax applies to most sales of tangible assets and services at a set rate of 12%. Special higher rates apply to sales of certain goods such as alcohol spirits and business class airplane tickets.

The most important tax reforms from 2007 to 2012 were:

- Decree No. 140-2008, which expands the base of the pay scale of personal income tax and the scope of medical expenses allowed as deductible expenses.
- Decree 17-2010, which seeks to strengthen revenues, social fairness and control public expenditures.
- DEI Agreement 215-2010, which designates all large taxpayers as retention agents for the sales tax on services such as freight, cleaning services, cleaning and fumigation, printing services, investigation and security services, and rental of commercial premises, machinery and equipment.
- Population Security Act Decree No.105-2011, as amended by Decree No.166-2011, which aims to strengthen public finances allocated toward the improvement of public security in Honduras by imposing special contributions from the financial sector, mobile telephony, mining sector, beverages sector, casinos and slots and cooperatives.
- Decree No. 113-2011 (Act of Revenue and Public Expenditure Efficiency), which aims to ensure revenue efficiency through the control and restriction of exemptions, anti-evasion measures, and control of public spending to raise funds that are intended to address social programs under the 2038 Country Vision and the National Plan 2010 - 2022.
- Decree No.42-2011 (Reform of Article 22 of the Law on Income Tax), which stated that natural persons and legal entities living in Honduras must pay 1% of gross revenues in the taxable period when the application of the rates mentioned in the Law on Income Tax might have otherwise required the payment of less than 1% of declared earnings

or resulted in the payment of no taxes, subject to certain exceptions. This Decree, however, was declared unconstitutional by the Supreme Court. See "—2012 Budget" below.

- Decree No.232-2011 (Law to Regulate Transfer Pricing), which regulates trade and financial transactions carried out between related parties.

- Decree No.260-2011 (Tax Amnesty), which grants amnesty for fines, surcharges and interest on all outstanding tax obligations accumulated through October 31, 2011 and authorizes the Attorney General's Office to arrange collection and sign agreements for tax cases or pending administrative proceedings to be dismissed.

- Decree No.51-2011 (Law for the Promotion and Protection of Investments), which aims to attract and protect foreign and domestic investments.

- Decree 129-2012 that extended the tax amnesty approved by Decree 260-2011.

- Decree No.96-2012 (Income Tax Anti-Evasion Law), that established a tax withholding mechanism for taxpayers not registered previously with DEI and for insolvent taxpayers.

Expenditures

In 2007, the Central Government's current expenditures were U.S.$2.2 billion, or 18.1% of nominal GDP. In 2008, the Central Government's current expenditures as a percentage of Honduras' nominal GDP decreased to 17.5% (U.S.$2.4 billion), primarily due to reduced current transfers to ENEE, which received L.2,349 million (U.S.$124.3 million) in 2007 but did not receive any transfers in 2008. In 2009, the Central Government's current expenditures as a percentage of Honduras' nominal GDP increased to 18.6% (U.S.$2.7 billion), primarily due to increased salaries and the economic contraction. In 2010, the Central Government's current expenditures as a percentage of Honduras' nominal GDP decreased to 17.9% (U.S.$2.8 billion), primarily due to reduced purchases of goods and services. In 2011, the Central Government's current expenditures amounted to U.S.$3.0 billion, or 17.9% of nominal GDP, lower than that recorded in 2010 despite an increase of U.S.$145.1 million in current expenditures in nominal terms. In 2012, the Central Government's current expenditures decreased further as a percentage of nominal GDP to 17.0%, or U.S.$3.3 billion.

Of the government's total expenditures, the largest components on average from 2007 to 2012 were: (i) wages (44.5% of total net expenditures), (ii) capital expenditures (20.3% of total net expenditures), (iii) current transfers (19.2% of total net expenditures) and (iv) goods and services (12.1% of total net expenditures).

From 2007 to 2012, the government made significant capital expenditures. In 2007, the government made U.S.$507.8 million, or 4.1% of Honduras' nominal GDP, in capital expenditures. In 2008, the government registered U.S.$681.6 million, or 4.9% of Honduras' nominal GDP, in capital expenditures. In 2009, the government registered U.S.$748.6 million, or 5.1% of Honduras' nominal GDP, in capital expenditures. In 2010, the government registered U.S.$592.0 million, or 3.7% of Honduras' nominal GDP, in capital expenditures. In 2011, the government registered U.S.$817.8 million, or 4.6% of Honduras' nominal GDP, in capital expenditures and in 2012 capital expenditures registered U.S.$853.3 million or 4.6% of Honduras' nominal GDP. Of total capital expenditures in 2012, U.S.$275.0 million were in direct investment in infrastructure and U.S.$578.3 million were in indirect investments through capital transfers. Infrastructure investment by the Central Government has focused mainly on the construction and maintenance of roads, construction and improvement of airports, public buildings and works for mitigation of natural hazards.

Honduras is particularly susceptible to hurricanes, flooding and earthquakes. In 2009, Honduras experienced an earthquake that caused at least 7 fatalities and more than 130 collapsed or damaged buildings across northern Honduras. Two important bridges and a number of levees and port terminals were also seriously damaged. The government spent U.S.$20.0 million in 2011 on reconstruction efforts.

In 2011, public sector companies made the following capital investments: Hondutel invested U.S.$3.6 million in its telephone service expansion; ENP invested U.S.$1.4 million in upgrading Honduras' electrical system at ports, rehabilitation of courtyards and entrances and other improvements; and ENEE invested U.S.$92.2 million in energy generation and distribution projects.

Major reforms have been made by the government to improve the efficiency and limit excess spending. Some of the reforms have been discussed above under " — Revenues." The other important reforms are as follows:

- Executive Decree PCM-27-2007, required the implementation of cost-control measures in revenue expenditures;

- Agreement No. 0696-2008, set out the regulation of travel and other travel expenses for officers and employees of the executive branch.

Starting in 2010, the government has taken significant additional steps to control public expenditures in several sectors, including civil servant wages. From 2006 through 2009, the government experienced an increased growth in salaries, 18.9% on average per year, primarily due to wage increases negotiated with the teachers' organizations. By 2009, government salaries represented 11.1% of GDP.

In October 2010, the National Congress passed a law temporarily de-linking wage increases for public employees from changes in the minimum wage. As a result, the minimum wage increase in 2011 was not used as a reference for the increase in public employees' compensations. Salary increases for public employees in the following years have been negotiated on the basis that they should not exceed the expected inflation for the applicable year. This measure resulted in a reduction of government salaries as a percentage of Honduras' nominal GDP from 11.1% in 2009 to 9.8% in 2011. In particular, teachers, who had received significant increases in the years prior to 2010, received no salary increases in 2010, 2011 and for the first six months of 2012. In addition, salary increases approved for the last six months of 2012 were capped to the year end inflation for 2011.

In addition, in 2010, electricity subsidies were reduced from 500 kw/h per customer to 150 kw/h or less electricity consumed per month. This change resulted in a reduction of L.153.8 million (U.S.$8.2 million) or 0.05% of Honduras' nominal GDP on government expenditures for the 2010 and of L. 115. 6 million (U.S.$6.1 million) or 0.03% of Honduras' nominal GDP in 2011.

Government consumption and expenditures on goods and services was reduced in 2010 by 10% as part of the Lobo administration's efforts to control government expenditures. This policy resulted in a reduction of L.826.6 million (U.S.$43.8 million) in these expenditures in 2010 in comparison to 2009. In 2011, increased government expenditures on goods and services were authorized, but capped at the expected inflation for that year.

In 2012, further government expenditure controls were implemented by the government, including budget cuts for an aggregate amount of L.1,200.0 million (U.S.$65.5 million), and restrictions for budget incorporations of expenditures financed with foreign credit. In addition, monthly gross salaries of public employees above L.50,000.00 (U.S.$2,646.2) were reduced for three months during 2011 by 11%, which represented reduced expenditures for the government for L.39.4 million (U.S.$2.0 million). All travel related to training programs for public employees was restricted from September to December 2012 to further limit the government's expenditures.

Deuda Flotante

The Organic Budget Law defines any accounts payable which remain outstanding after the close of the fiscal year as "*deuda flotante*." The expenditures related to those account payables are registered in the Central Government's accounting system and are considered as expended in the year incurred for accounting purposes, but the accounts payable are not included as part of public sector debt. *Deuda flotante* does not have a maturity date.

In 2007 and 2008, the amount of *deuda flotante* was L.4.2 billion (U.S.$223.6 million) and L.5.5 billion (U.S.$291.6 million), respectively. The amount of *deuda flotante* increased to L.12.9 billion ((U.S.$682.2 million) in 2009 as a result of the internal political unrest stemming from the removal of President Zelaya and the disruptions in Honduras' financing from the international community. Since then, the government has paid down the amount of *deuda flotante* to L.8.1 billion (U.S.$429.0 million) and L.5.5 billion (U.S.$291.1 million) in 2010 and 2011, respectively.

In 2012, as a result of the increase in the fiscal deficit and financing sources not maintaining pace with the increase in the fiscal deficit, the amount of *deuda flotante* increased to L.12.7 billion (U.S.$631.7 million) in 2012. In accordance with the government's aim to reduce the outstanding amount of *deuda flotante* to 1% of GDP as provided in its debt policy, as of February 8, 2013, the government has decreased the amount of *deuda flotante* to L.10.2 billion (U.S.$507.0 million).

The following table sets forth information regarding the composition of *deuda flotante* and the year the amount was incurred.

Deuda Flotante

	2008-2009	**2010**	**2011**	**2012**	**As of February 8, 2013**	**Total**
			(U.S.$ millions)			
Wages and salaries	0.1	0.1	0.1	46.7	0.8	47.9
Goods and services	6.3	0.6	5.5	102.0	0.7	115.1
Construction	0.1	0	0	43.9	—	44.1
Central Government transfers to other public sector entities	36.0	6.9	6.2	121.5	10.2	180.7
Employer contributions to *Instituto Nacic Previsión del Magisterio* (INPREMA or Institute for Teachers)	—	—	—	46.4	5.8	52.2
Tax refunds and others	—	1.5	—	—	4.3	5.8
Salary deductions for *Sistema Integrado de Administracion de Recursos Humanos* (Integrated System for the Human Resources Management, SIARH) and SIP	—	—	20.6	37.7	0.3	58.6
Outstanding checks	—	—	—	0.9	1.7	2.6
Total	**42.5**	**9.1**	**32.5**	**399.1**	**23.9**	**507.0**

Source: SEFIN

As of February 8, 2013, *deuda flotante* from outstanding salaries and wages amounted to U.S.$47.9 million, consisting mainly of supplementary payrolls (income earned annually by public employees in the education sector beyond their normal wages and salaries) sent to the *Secretaría de Finanzas* in December 2012 and the increase in employees at the Ministry of Education. The payment of such *deuda flotante* is subject to the completion of the census of teachers currently implemented by the Ministry of Education which provides an accurate record of the number of active teachers. *Deuda flotante* from goods and services, largely owed to pharmaceutical companies for medicine supply and medical surgical tools, amounted to U.S.$115.1 million. *Deuda flotante* from construction, primarily owed to construction companies for works provided in maintenance and construction of roads, amounted to U.S.$44.1 million. On February 11, 2013, the government and the construction companies owed agreed on a payment plan to settle the outstanding amount of *deuda flotante*. Certain amounts of *deuda flotante* have been subject to forensic audit, while some older amounts of *deuda flotante* have not been paid due to questions over validity of the claims.

State Owned Companies

There are nine state-owned companies in Honduras: ENEE, Hondutel, SANAA, ENP, Honducor, PANI, IHMA, Banasupro and National Railroad Service (*Ferrocarril Nacional*).

In January 2013, the National Congress approved the 2013 national budget, but excluded from its approval the budgets for six state-owned companies, namely ENEE, Hondutel, SANAA, ENP, IHMA and Banasupro pending the adoption of rescue plans for these companies. Subsidies from the government to these companies, in particular to ENEE, Hondutel, ENP and SANAA, with assets representing 98% of total assets for all state owned companies, have been substantial in recent years, and thus contributed significantly to the Central Government's fiscal deficit, as described below. Under Honduran law, these companies must continue to operate with their 2012 monthly pro-rated budget until their 2013 budgets are approved. As of March 11, 2013, the government expects that the budgets for ENEE, Hondutel, SANAA, ENP, IHMA and Banasupro will be presented to the National Congress on March 30, 2013.

ENEE

There are four main areas of concern for ENEE: (i) electricity losses due to fraud, theft of energy and metering problems, (ii) increases in the international prices of bunker fuel used for thermal generation, (iii) the high cost of power purchase agreements entered into by ENEE in the 1990s and (iv) electricity rates for residential consumers not covering the real cost of energy supply.

Although electricity losses decreased from 25% in 2006 to 21% recorded in 2007 and 2008 as a result of ENEE's measures to correct fraudulent connections by installing remote metering and implement review campaigns, electricity losses increased again from 2009 to 2011. Electricity losses increased to 25% in 2010 and then further to 27% in 2011. As of October 2012, electricity losses were at 29%.

Between 2009 and 2012, the cost of power generation from diesel engines nearly doubled from U.S.$92.4 to U.S.$180 per MWh as a result of increases in the international price of bunker fuel, which almost tripled from U.S.$36.5 per barrel to U.S.$100.4 per barrel. As a result, the proportion of income that ENEE devoted to cover the cost of buying energy increased from 64% to 79% in the period 2009 through 2011.

During this period, ENEE's financial results have deteriorated due to the combination of high and rising commercial electricity losses, continued increases in the international price of the bunker fuel and an increasing share in purchases of energy from private generators as a percentage of total generation.

In addition, financial results have been affected due to a new mechanism implemented by the government for transfers to ENEE. Starting in 2012, instead of cash transfers to ENEE, the Central Government is using a compensation mechanism that nets out the electricity subsidy paid by ENEE on behalf of the Central Government and the accounts payable for Central Government's consumption, with payments made by the Central Government on behalf of ENEE for its debt service.

The following table sets out the amount of transfers made by the Central Government to ENEE from 2007 to 2011 as a percentage of GDP.

Government Transfers to ENEE

As of December 31,					
2007	2008	2009	2010	2011	2012
		(percentage of nominal GDP)			
1.2%	0.2%	0.0%	0.0%	0.3%	0.1%

Source: SEFIN

The following table sets out ENEE's operating results, which includes government cash transfers as part of the company's income, except for 2012 as explained above.

ENEE Operating Results

As of December 31,					
2007	2008	2009	2010	2011	2012(1)
		(U.S.$ millions)			
(17.2)	(7.9)	168.7	126.2	2.2	(99.5)

(1) Due to the new mechanism of cash transfers established in 2012, results for this period are not comparable with prior periods.
Source: SEFIN

The government is currently producing a rescue plan for ENEE. The primary goals of the rescue plan are to:

- *Modify the tariff and subsidy structure*. Since 2009, the government has gradually worked to reduce electricity subsidies while trying to maintain subsidies only for the poorest segments of society. In 2010, electricity subsidies to households were limited to customers that used 150 kw/h or less per month, reducing coverage from the 500 kw/h per household that was in effect until 2009. Further modification of the subsidy and electricity rate structures are under review.

- *Reduce technical losses*. The government is evaluating measures that would work to reduce illegal connections, standardize networks, increase the installation of individual meters and carry out campaigns in the field for detection and correction of fraud.

- *Reduce transmission losses*. The government is undertaking an effort to expand transmission systems and improve substations, as well as modernize the national dispatch center. The IDB has provided U.S.$60 million for the project. The government of Mexico, through a concessional loan of U.S.$80 million, is also currently financing investment in electrical substations and transmission lines to support the transformation and transmission of electrical energy to Tegucigalpa and San Pedro.

- *Diversify the energy matrix*. More than 85% of ENEE's budget is allocated to the purchase of electricity from privately owned thermal generators under contracts which have proved expensive. The government plans on increasing renewable generation capacity by 1,100 MW, and consequently altering the generation matrix from 33% renewable energy and 67% conventional thermal energy in 2011 to 67% renewable energy and 33% conventional thermal energy by 2016. By transforming the energy matrix, the government aims to reduce and stabilize the overall cost of energy for Honduras from U.S.$0.18 per kWh to U.S.$0.13 per kWh by 2017, as a result of the combined effect of entering into new power purchase contracts with lower prices and the termination of power purchase contracts from more expensive thermal plants.

- *Improve management at ENEE*. In 2009, the World Bank provided funding for the "Project for the Improvement of the Efficiency of the Electric Sector" in the amount of U.S.$28 million, while the government provided matching funds of U.S.$12 million. The project focuses on strengthening and modernizing electricity distribution as an essential tool to permanently reduce losses, improve customer service and increase revenue by implementing new commercial management systems. The systems and resources are expected to be ready by the end of 2013.

- *Develop public private partnerships*. With the support of COALIANZA, the government is evaluating greater participation by the private sector in some segments of the electricity sector.

- *Participate in the Central American Regional Electricity Market*. The government plans to participate in the Central American regional energy market, which is expected start operations by mid-2013. Honduras, however, must first establish a wholesale market for local energy, with the possibility of sales to third parties for the local generators and energy trading in the regional energy market by ENEE and other entities in Honduras.

Hondutel

Since 2005, Hondutel has experienced an ongoing and increasing decline in its financial position. Hondutel has registered consecutive annual losses since 2009, primarily as a result of (i) market liberalization in 2005 when the telecommunications sector was opened up to the private sector; (ii) competition from voice over internet protocol ("VoIP") services; (iii) gray traffic of international calls; and (iv) overstaffing. Assets have decreased from L.8,379.5 million (U.S.$443.5 million) in 2010 to L.7,600.7 million (U.S.$402.3 million) in 2011 and liabilities have decreased from L.3,341.8 million (U.S.$176.8 million) in 2010 to L.3,096.9 (U.S.$163.9 million) in 2011. Net income decreased from L.2,773.0 million (U.S.$146.8 million) in 2010 to L.2,634.1 million (U.S.$139.4 million) in 2011.

Hondutel has lacked the capital to make the necessary investments to compete with its competitors. The telecommunications sector required significant investments as competitors in Honduras upgraded networks and were able to provide consumers advanced cell phone, digital or satellite television, broadband internet, and VoIP services. Hondutel's financial situation caused a reduction in its capacity to generate surpluses, and an inability to cover any capital expenditures.

Attempts to create strategic alliances with private companies or to privatize Hondutel failed to materialize. In 2012, the government authorized Hondutel's board of directors to form a mixed capital subsidiary for operating and managing mobile cell phone services. The subsidiary company operates under the name of Honduran Telephone Mobile Services S.A. ("Ehmovitel"). Presently, the government is preparing to conduct a tender offer of 51% of Ehmovitel's shares, in an effort to obtain a strategic partner that is expected to implement cutting edge technology, provide a competitive service and improve Hondutel's financial situation. The tender process is expected to take place before June 2013.

ENP

ENP is a decentralized government agency that was established on October 14, 1965. ENP is responsible for managing and exploiting seaport facilities, studying port needs, developing work plans, seeking external and domestic financing, coordinating port activities and any other activities necessary for managing and operating all maritime ports of Honduras. Currently, ENP operates the ports of Puerto Cortés, La Ceiba, Puerto Castilla and San Lorenzo.

Puerto Cortés is the main port of Honduras and accounts for most of Honduras' commercial activity. Currently, the government is seeking private investments in Puerto Cortés in order to update its facilities. See "The Honduran Economy — Economic and Social Policies — Public Infrastructure Investments."

Although port activity has generally risen in recent years, ENP's financial position has suffered as evidenced by reduced surpluses in 2009 (L.96.6 million) and 2010 (L.34.2 million) and losses for 2011 (L.29.2 million). Technical inefficiency, poor investment execution and ineffective management are some of the factors that have caused its deteriorating financial position. The government is evaluating different alternatives to improve its performance and financial condition.

SANAA

In 1961, the government created SANAA, a state-owned company responsible for the development and management of all Honduran water supply systems, including drinking water supply, sewage and pluvial systems. Decentralization of water systems started in 1995 with the transfer to the Municipality of Puerto Cortés of the local water and sanitation system. Municipalities that received their water supply systems may decide, as San Pedro Sula did in 2000, to grant concessions for the operation of their water system to a private operator.

In 2003, the Drinking Water and Sewage System Law (*Ley Marco del Sector Agua Potable y Saneamiento*) was passed, which modified SANAA's role from operator of water supply systems to technical advisor of the municipalities. In addition, the law required SANAA to transfer all drinking water supply systems to the municipalities by 2008. Of the 150 systems that SANAA operated before 2008, all but 32 have been transferred to local governments. Many of these are located in jurisdictions where the local governments do not have the institutional capacity to operate the system, and many operate at a loss.

In recent years SANAA has been operating at a loss, mainly due to a tariff structure that does not recover the costs of the services that it provides. This structure was last revised in 2010, and resulted in a net income of L.125,380 for SANAA for that year. Such revision was insufficient and in 2011 the company recorded a loss of L.127.3 million (U.S.$6.7 million). The government expects the deficit in 2012 to be approximately L.52.8 million (U.S.$2.7 million).

The government continues to assess options for eliminating or reducing losses and expects to continue the decentralization process and work with the municipalities on their administrative challenges.

2012 Budget

The 2012 budget was submitted to the National Congress on September 14, 2011 and approved on December 22, 2011.

Key assumptions for the 2012 budget include:

- real GDP growth estimated at about 4.0%; and
- inflation estimated at about 7.0%

For fiscal year 2012, the approved budget included an estimated amount of revenue of U.S.$3,174.5 million and estimated expenditures of U.S.$3,739.1 million. For the combined public sector, revenues were estimated at U.S.$4,131.6 million and expenditures were estimated at U.S.$4,591.6 million.

The main indicators included in the 2012 budget provided for:

- a Central Government fiscal deficit of 3.1% of Honduras' nominal GDP;
- a combined public sector deficit of 2.5% of Honduras' nominal GDP;
- Central Government salaries of 9.6% of Honduras' nominal GDP;

- combined public sector investments of 4.8% of Honduras' nominal GDP;
- capital investment by the Central Government of 3.8% of Honduras' nominal GDP; and
- tax revenues of 15.4% of Honduras' nominal GDP.

Certain events however have negatively affected the assumptions and indicators outlined in the 2012 budget. Some of the significant events include:

- the Supreme Court declared Decree 42-2011 approving the reforms to Article 22 of the Income Tax Law as unconstitutional because retroactive application of the law to income received by taxpayers before the law was approved would be a violation of the Constitution. The decision generated a loss of U.S.$88.3 million in budgeted revenues. See " — Revenues."
- adoption of Decree 68-2010, which interpreted Article 12 of the Sales Tax Act, expanding the right to refunds of all sales taxes paid by companies on purchases of productive fixed assets, not only to assets used in connection with the production of goods but also to assets used for the provision of services, which led to the refund of sales tax to a major mobile company, DIGICEL, totaling U.S.$54.0 million.
- other revenue sources offset the above mentioned shortfall registering a decrease in net income of U.S.$53.1 million.
- the government incurred additional expenses in the amount of U.S.$459.6 million as result of increased spending on public security and defense, increased coverage of the Bono 10,000 program, increased investment in infrastructure projects, increased spending on power generation, presidential primary elections and increased transfers to municipalities as required by Honduran law .

Decreased revenues related to the unconstitutionality of Decree 42-2011 and Digicel's refund were partially offset by (i) the passing of Decree 105-2011, the Population Security Act, which established certain temporary taxes on mobile phone operators, mining companies, casinos and certain financial transactions, that raised L.821.0 million in revenue in 2012; (ii) the approval and implementation of a tax amnesty (Decree 260-2011), from October through December 2011, which raised L.272.8 million (U.S.$13.66 million) in 2012; (iii) the extension of the tax amnesty approved by Decree 260-2011 (approved by Decree No. 129-2012) that raised L.87.4 million (U.S.$4.37 million); and the implementation of other administrative measures by DEI.

As a result, the government estimates that revenues for 2012 decreased by U.S.$53.1 million (net) and expenditures will increase by U.S.$459.6 million, and the projected deficit for 2012 will be a Central Government fiscal deficit of 6.0% of Honduras' nominal GDP and a combined public sector deficit of 4.2% of Honduras' nominal GDP.

2013 Budget

The 2013 budget was submitted to the National Congress on September 15, 2012 and approved on January 18, 2013.

Key assumptions for the 2013 budget include:

- real GDP growth estimated at about 3.6%; and
- inflation estimated at about 6.1%

For fiscal year 2013, the approved budget included an estimated amount of revenue of U.S.$3,291.3 million and estimated expenditures of U.S.$3,964.9 million. For the combined public sector, revenues were estimated at U.S.$4,569.4 million and expenditures were estimated at U.S.$5,057.9 million.

The main indicators included in the 2013 budget provided for:

- a Central Government fiscal deficit of 3.5% of Honduras' nominal GDP;
- a combined public sector deficit of 2.6% of Honduras' nominal GDP;
- Central Government salaries of 9.4% of Honduras' nominal GDP;

- combined public sector investments of 4.6% of Honduras' nominal GDP;
- capital investment by the Central Government of 3.3% of Honduras' nominal GDP; and
    - tax revenues of 15.8% of Honduras' nominal GDP.

PUBLIC SECTOR DEBT

General

External debt consists mainly of loans obtained from various organizations and institutions such as the World Bank and the IADB. Internal debt is generally incurred through sovereign bonds placed in the domestic market and, to a lesser extent, loans from the national banking system. The *Secretaría de Finanzas* is responsible for managing the financial resources of the government as well as the administration and management of the public debt of the Central Government. As of December 31, 2012, Honduran indebtedness consisted of: (i) U.S.$2.7 billion (43% of total indebtedness) internal debt, primarily denominated in lempiras and (ii) U.S.$3.6 billion (57% of total indebtedness) external debt all of which is denominated in foreign currency (excluding quasi-fiscal debt).

Prior to its incurrence, all public sector debt must be approved by the National Congress. Domestic bond issuances are included in the annual budget, up to a maximum authorized amount. Any further internal or international loans or other debt, including any multi-year contracts such as public private partnerships or guarantees of any third party debt, must be explicitly approved by the National Congress.

The following table sets out the composition of public sector debt, the amount of public sector debt as a percentage of Honduras' nominal GDP.

Public Sector Debt

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
	(U.S.$ millions, except percentages)					
Total public debt	**2,379.5**	**3,043.2**	**3,708.5**	**4,833.1**	**5,766.8**	**6,396.9**
Internal debt[(1)]	352.0	684.3	1,224.8	1,985.7	2,543.8	2,731.2
External debt[(2)]	2,027.5	2,358.9	2,483.8	2,847.4	3,223.0	3,665.7
Total Debt Service	579.9	149.9	707.7	716.1	702.5	556.4
Total public debt (as % of GDP)	19.2	21.9	25.4	30.5	32.6	34.8
Public internal debt[(1)] (as % of GDP)	2.8	4.9	8.4	12.5	14.4	14.9
Public external debt[(2)] (as % of GDP)	16.4	17.0	17.0	18.0	18.2	19.9
External debt service[(3)] (as % of exports)	4.0	1.0	2.0	1.0	1.0	1.0
Additional Information						
GDP	12,361.2	13,888.0	14,587.4	15,839.3	17,669.4	18,379.2
Exports	5,783.6	6,198.5	4,826.8	6,111.0	7,799.8	6,175.1

(1) Internal Debt: Central Government debt, excluding other public sector internal debt such as central bank bills, quasi-fiscal debt, municipalities and other decentralized institutions. Includes refinancing for 2009 and 2010, swaps and capitalized interest and debt for 2011 and 2012.
(2) External Debt of the combined public sector (including the Central Bank and decentralized institutions).
(3) External debt service includes commissions, interest and principal.

Source: SEFIN & Central Bank.

As of December 31, 2012, the average maturity of all the Central Government's debt was 9.8 years. While the majority of the Central Government's internal debt has maturities from 1 to 7 years and an average maturity of 3.8 years, the public sector external debt is mostly long term and has an average life of 14.4 years.

External Debt

Honduras' public external debt at December 31, 2011 was U.S.$3,223.0 million, consisting mainly of U.S.$ 2,363.9 million (73%) of indebtedness from multilateral creditors, U.S.$ 689.5 million (21%) of indebtedness from bilateral creditors and U.S.$ 169.6 million (6%) of indebtedness from commercial banks, bondholders and suppliers. Honduras' public external debt at December 31, 2012 totaled U.S.$3,665.7 million, consisting mainly of US.$2,777.6 million (76%) of indebtedness from multilateral creditors, U.S.$703.1 million (19%) of indebtedness from bilateral creditors and U.S.$184.9 million (5%) of indebtedness from commercial banks, bondholders and suppliers.

The largest multilateral creditors by volume of debt are the IADB, the World Bank and CABEI. The largest bilateral creditors are the Kingdom of Spain, the Bolivarian Republic of Venezuela and the Italian Republic. The largest private creditors are suppliers, mainly from Taiwan.

The following table sets forth the composition of Honduras' total public sector external debt for the periods indicated.

Public Sector External Debt

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
			(U.S.$ millions)			
Nonfinancial public sector	1,855.0	2,193.1	2,338.3	2,708.1	3,092.5	3,544.1
Central Government	1,803.6	2,135.8	2,284.9	2,655.2	3,044.9	3,500.4
Rest of Nonfinancial public sector	51.4	57.3	53.4	52.9	47.6	43.7
Financial public sector	0.0	1.8	6.0	8.0	7.8	8.0
Central bank	172.5	164.0	139.5	131.3	122.8	113.7
Total external debt	**2,027.5**	**2,358.9**	**2,483.8**	**2,847.4**	**3,223.0**	**3,665.7**

Source: SEFIN

The following table shows the composition of Honduras' public sector external debt by type of creditor for the periods indicated.

Public Sector External Debt by Type of Creditor

	As of December, 31					
	2007	2008	2009	2010	2011	2012
			(U.S.$ millions)			
Multilateral	1,301.2	1,454.8	1,541.6	1,917.1	2,363.9	2,777.6
Bilateral	603.4	775.3	766.0	755.5	689.5	703.1
Others Banks and Other Financial Institutions, Suppliers	122.9	128.9	176.2	174.8	169.6	184.9
Total external debt	2,027.5	2,358.9	2,483.8	2,847.4	3,223.0	3,665.7

Source: SEFIN

As of December 31, 2012, 75% of Honduras' total public external debt was on concessionary terms, which means that the debt portfolio has relatively low levels of financial expenses and low financial risk in terms of interest payments and commissions, while the remaining 25% was non-concessionary.

The major creditors in the Honduran public debt portfolio have shifted over the last decade from private creditors to multilateral agencies as result of debt relief programs that benefitted Honduras. As a result, currently Honduras has a low level of overall debt balances relative to its GDP, compared to other countries in Central America.

The following table shows the composition of Honduras' public external debt by the type of interest rate applicable to such debt for the periods indicated.

Public Sector External Debt by Type of Interest Rate

	As of December, 31					
	2007	2008	2009	2010	2011	2012
			(U.S.$ millions)			
Fixed interest rate	1,776.2	2,120.4	2,298.9	2,455.8	2,603.9	2,737.3
Floating interest rate	251.3	238.5	184.9	391.6	619.1	928.4
Total External debt	2,027.5	2,358.9	2,483.8	2,847.4	3,223.0	3,665.7

Source: SEFIN

As of December 31, 2012, approximately 66% of Honduras' total public external debt is denominated in U.S. dollars, approximately 26% is in Special Drawing Rights, approximately 6% is denominated in Euros and approximately 2% is denominated in other currencies.

The following table sets out by currency the percentage of Honduras' public external debt to its total public external indebtedness.

Public Sector External Debt by Currency

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
			(as a percentage of total)			
USD	54.8	57.4	56.8	59.0	61.0	66.0
SDR	26.2	24.8	25.9	26.0	26.0	26.0
EURO	11.1	11.3	11.6	11.0	10.0	6.0
Other	7.5	6.1	5.3	4.0	3.0	2.0

Source: SEFIN

The following table sets forth scheduled debt service of Honduras' total public sector external debt for the periods indicated.

Public Sector External Debt Service Maturity 2012-2021

	As of December 31,									
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
					(U.S. millions)					
Central Government	**293.4**	**282.2**	**302.1**	**308.9**	**312.8**	**312.9**	**308.0**	**300.6**	**289.8**	**292.9**
Principal	191.0	185.2	204.9	221.5	230.7	236.4	237.0	235.3	229.8	238.2
Interest	102.4	97	97.1	87.5	82.2	76.5	71.0	65.3	60.1	54.7
Rest of Public Sector	**32.6**	**30.5**	**23.3**	**16.6**	**12.6**	**10.1**	9.7	**32.7**	**65.6**	**8.5**
Principal	27.8	26.2	19.3	12.8	9.0	6.7	6.5	29.7	63.1	6.6
Interest	4.8	4.3	4.0	3.7	3.6	3.4	3.2	3.0	2.5	2.0
Total Debt Service	**326.0**	**312.7**	**325.3**	**325.5**	**325.4**	**322.9**	**317.7**	**333.3**	**355.4**	**301.4**

Source: SEFIN

Internal Debt

Honduras' Central Government internal debt as of December 31, 2012 totaled U.S.$2.7 billion consisting of bonds (99%), and guaranteed loans (1%). In addition, the Central Government is responsible for quasi-fiscal losses of the Central Bank in the amount of U.S.$985.0 million. Honduras' Central Government internal debt structure is 75.4% fixed rate and 24.6% floating rate.

By maturity, 24% of Central Government domestic debt, or U.S.$0.5 billion has a maturity of between 1 to5 years, 74% or U.S.$1.8 billion has a maturity of more than 5 years and 2%, or U.S.$0.04 billion has a maturity of less than one year.

The following table sets forth the composition public sector internal debt for the periods indicated.

Public Sector Internal Debt

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
	(U.S.$ millions)					
Central Government						
Bonds	325.0	659.7	1,202.5	1,965.7	2,494.3	2,698.9
Loans	27.0	24.6	22.3	20.0	49.5	32.3
Total Central Government	**352.0**	**684.3**	**1,224.8**	**1,985.7**	**2,543.8**	**2,731.2**
Non Financial Public Sector(1)	100.0	100.0	100.0	100.0	100.0	100.0
Central Bank	903.0	555.0	462.1	1,181.2	1,316.9	985.6
Total	**1,355.0**	**1,339.3**	**1,324.8**	**3,266.9**	**3,960.7**	**3,816.8**

(1) Bonds issued by ENEE guaranteed by the Central Government.
Source: SEFIN

The following table shows the composition of Honduras' Central Government internal debt by the type of interest rate applicable to such debt for the periods indicated.

Central Government Internal Debt by Type of Interest Rate

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(U.S$ millions)					
Fixed interest rate	281.7	624.9	978.7	1,520.6	1,840.4	2,060.0
Floating interest rate	70.3	59.4	246.0	465.2	703.4	671.3
Total internal debt	352.0	684.3	1,224.7	1,985.8	2,543.8	2,731.3

Source: SEFIN

The following table sets out by currency the percentage of Honduras' Central Government internal debt to its total public internal indebtedness.

Currency Percentage of Central Government Internal Debt

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
	(as a percentage of total)					
lempira	93	97	98	99	99	97
Other	7	3	2	1	1	3

Source: SEFIN

Internal Debt Service

The total amount incurred in respect of internal Central Government debt service in 2012 was U.S.$765.0 million, including refinancing and swaps, of which U.S.$191.8 million was for principal payments and U.S.$218.1 million was for payment of interest and fees.

The following table sets forth debt service of Honduras' Central Government internal debt service, or the periods indicated.

Central Government Internal Debt Service

	As of December 31,					
	2007	2008	2009	2010	2011	2012
			(U.S.$ millions)			
Principal	108.2	15.2	416.0	32.7	113.4	191.8
Interest	32.3	33.5	50.7	102.6	163.7	218.1
Commission	2.9	4.1	7.5	11.2	19.1	22.7
Subtotal Domestic Debt	**143.4**	**52.8**	**474.3**	**146.5**	**296.2**	**432.6**
Refinancing and Swap	0.0	0.0	375.1	463.8	273.1	327.9
Capitalized Interest	0.0	0.0	0.0	0.0	6.5	4.5
Total Domestic Debt	**143.4**	**52.8**	**849.4**	**610.3**	**575.8**	**765.0**

Source: SEFIN

Recapitalization of the Central Bank

The Central Bank Law provides that the *Secretaría de Finanzas* is responsible for recognizing losses sustained by the Central Bank resulting from its implementation of monetary policy. At December 31, 2007, the Central Bank had accumulated losses from the implementation of monetary and exchange rate policies of U.S.$589.4 million. In compliance with the Central Bank Law, the *Secretaría de Finanzas* covered such losses through the issuance of bonds to the Central Bank. Subsequently, however, the value of such bonds decreased and weakened the financial position of the Central Bank. In addition, the Central Bank incurred losses from 2008 through 2011 totaling U.S.$152.8 million as a result of operating losses of the Central Bank, generated by the payment of interest in open market operations, as part of its monetary policy, operational expenses and other operating costs.

In December 2012, the *Secretaría de Finanzas* and the Central Bank entered into a Recapitalization Agreement that aimed to reduce the Central Bank's losses commencing in 2013. The Recapitalization Agreement, however, is subject to approval by the National Congress which is expected to occur before June 2013. Under this agreement, the government will issue government bonds to the Central Bank commencing in May 2013 and for a period of 10 years thereafter in accordance with the following terms:

- In May 2013, the government will issue a bond with face value of U.S.153 million, a maturity of 5 years, an interest rate of 6% for the first year, which increases to 8% thereafter, payable semi-annually, to cover losses sustained from 2008 through 2011; and
- From May 2014 to May 2017, the *Secretaría de Finanzas* will swap the previously issued government bonds for bonds with a face value of U.S.$149.6 million, a maturity of 5 years, and an interest rate of 8%, payable semiannually.
- Interest payments by the government to the Central Bank on such government bonds are expected to cover the interest payments on instruments issued by the Central Bank with the same maturity. Thus, government payments are expected to cover the losses that would otherwise be incurred by the Central Bank from the implementation of monetary policy.

Debt Record

History of Debt Restructuring

Paris Club. The Republic has approached the Paris Club of creditors six times since 1990 to seek debt relief and a rescheduling of its external debt. The first debt rescheduling agreement was reached in September 1990 and granted debt relief with respect to U.S.$280 million of indebtedness to bilateral creditors. The amount covered by the first rescheduling agreement has been fully repaid. The second debt rescheduling agreement was signed in October 1992 and granted debt relief with respect to U.S.$180 million of indebtedness to bilateral creditors. As part of this rescheduling, the Republic received an extension of repayment of Official Development Assistance ("ODA") of 30 years, with a 12 year grace period, and an extension of repayment of non-ODA credits of 23 years, with a six year grace period, after cancelling 50% of such debt. The third rescheduling agreement was signed in March 1996. Approximately U.S.$112 million of debt owed to bilateral creditors was rescheduled and the Republic received an extension of repayment of ODA credits of 40 years, with a 16 year grace period, and an extension of repayment of non-ODA credits of 23 years, with a six year grace period, after cancelling 50% of such debt. The three rescheduling agreements were "flow" reschedulings which limited the rescheduling to the debt servicing (principal plus interest) falling due within a specified period (consolidation period) which usually coincides with a country's program with the IMF.

In the fourth rescheduling agreement signed in April 1999, the Republic received "stock" treatment, which takes into account the entire outstanding stock (principal plus accumulated arrears) and reprofiles it over an extended period of time. The total stock of bilateral debt eligible for rescheduling was estimated at U.S.$411 million, with maturities due from April 1, 1999 to March 31, 2002 (including the debt service payments in arrears as of March 31, 1999). Under the rescheduling agreement, the Republic received an extension of repayment of ODA credits of 40 years, with a 16 year grace period, and an extension of repayment of non-ODA credits of 23 years, with a six year grace period, after cancelling 67% of such debt.

The fifth rescheduling agreement was signed in April 2004 and covered approximately U.S.$361 million of indebtedness owed to bilateral creditors, of which U.S.$147 million was cancelled and U.S.$214 million was rescheduled. Under the rescheduling agreement, the Republic received an extension of repayment of ODA credits of 40 years, with a 16 year grace period, and an extension of repayment of non-ODA credits of 23 years, with a six year grace period, after cancelling 90% of such debt. The total stock of bilateral debt eligible under the agreement covered maturities falling due from January 1, 2004 to June 30, 2005 (including the debt service payments in arrears as of December 31, 2003). The sixth rescheduling agreement was signed in May 2005 and covered approximately U.S.$316 million of indebtedness owed to bilateral creditors, of which U.S.$206 million was cancelled and U.S.$110 million was rescheduled. The total stock of bilateral debt eligible under the agreement covered debt stock as of March 1, 2005 (including the debt service payments in arrears as of February 28, 2005).

HIPC Initiative. In 1996, the World Bank and the IMF launched the HIPC Initiative to provide debt relief to the world's poorest and most heavily indebted countries. In 1999, the World Bank and the IMF lowered the original initiative's debt-burden thresholds, which enabled a broader group of countries to qualify for larger volumes of debt relief. In July 2000, Honduras qualified for debt relief under the enhanced HIPC Initiative.

The first installment of multilateral debt relief under the enhanced HIPC Initiative was made in 2000, when CABEI granted a total of U.S.$97.6 million in debt relief. Subsequently, in 2005, the World Bank, the International Fund for Agricultural Development and the IDB agreed to grant a total of U.S.$259.5 million in debt relief to Honduras. In 2006, the IMF provided Honduras with U.S.$12.9 million in debt relief.

MDRI. In June 2005, the IMF, the International Development Association ("IDA") of the World Bank, and the African Development Fund ("AfDF") developed the Multilateral Debt Relief Initiative ("MDRI") that aims at cancelling 100% of the debt claims of such multilateral organizations for countries that have reached, or will eventually reach, the "completion point" (the stage at which a country becomes eligible for full and irrevocable debt relief under the enhanced HIPC Initiative). While the HIPC Initiative entailed coordinated action by multilateral organizations and governments to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries, the MDRI goes further by providing full debt relief to free up additional resources to help such countries reach the United Nations' Millennium Development Goals. Unlike the HIPC Initiative, the MDRI does not propose any parallel debt relief on the part of official bilateral or private creditors, or of multilateral institutions beyond the IMF, IDA, and the AfDF. In early 2007, the IADB also decided to provide similar debt relief to the five HIPCs in the Western Hemisphere.

Honduras reached its completion point under the enhanced HIPC Initiative and became eligible under the MDRI in April 2005. Multilateral institutions that have provided relief to Honduras under MDRI are: the IDA (granting debt relief of over U.S.$1 billion) and the IDB and IMF (totaling U.S.$1.5 billion in debt relief).

TERMS AND CONDITIONS OF THE NOTES

The 7.50% notes due on March 15, 2024 (the "Notes") will be issued under a fiscal agency agreement, to be dated as of March 12, 2013 (the "Fiscal Agency Agreement"), among the Republic, The Bank of New York Mellon, as fiscal agent (the "Fiscal Agent"), which expression shall include any successors thereto, in its capacity as such, The Bank of New York Mellon (Luxembourg) S.A., as registrar (the "Registrar") and Luxembourg paying agent (the "Luxembourg Paying Agent"), and The Bank of New York Mellon , London Branch as principal paying agent (the "Paying Agent") and transfer agent (the "Transfer Agent"). The term "Agents" shall include the Fiscal Agent, the Luxembourg Paying Agent, the Registrar, the Paying Agent and the Transfer Agent).

You can find the definition of capitalized terms in this section under "—Certain Definitions."

This section of this Offering Circular is intended to be an overview of the material provisions of the Notes and the Fiscal Agency Agreement. Because this section is only a summary, it does not contain all the information that may be important to you as a potential investor in the Notes. Therefore, you should refer to the Fiscal Agency Agreement for a complete description of the Republic's obligations and your rights as a holder of the Notes.

The holders of the Notes shall be entitled to the benefits of, be bound by, and be deemed to have notice of, all the provisions of the Fiscal Agency Agreement. Copies of the Fiscal Agency Agreement are on file and may be inspected at the Corporate Trust Office of the Fiscal Agent in the City of New York and at the offices of the paying agents appointed from time to time pursuant to the Fiscal Agency Agreement.

Principal, Maturity and Interest

The Notes will:

- be limited to an aggregate principal amount of U.S.$500,000,000 (except as otherwise provided under "—Replacement, Exchange and Transfer" and "—Further Issues" below);
- will mature on March 15, 2024;
- have principal be repaid in three nominally equal installments on March 15, 2022, March 15, 2023 and at maturity; and
- will bear interest from and including, March 15, 2013 to, but excluding March 15, 2024, at a rate of 7.50% per annum on the principal amount thereof, payable semi-annually in arrears on March 15 and on September 15 of each year, commencing on September 15, 2013. Interest on the Notes will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

Ranking

The Notes will constitute general, direct, unconditional, unsubordinated and unsecured Indebtedness (as defined below) of the Republic and will rank *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Republic, present or future, constituting Public External Indebtedness (as defined below) of the Republic. The Republic has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the Notes.

Form, Denomination and Title

The Notes will be issued in U.S. dollars, in fully registered form, in denominations of U.S.$200,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000.

The Notes, and transfer thereof, will be registered as provided in "—Replacement, Exchange and Transfer" below and in the Fiscal Agency Agreement.

The Notes will be represented by one or more registered Notes in global form as follows, but in limited circumstances may be represented by Notes in physical certificated form.

Notes sold to qualified institutional buyers in reliance on Rule 144A of the Securities Act of 1933, as amended (the "Securities Act") will be represented by a global Note; and

Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will be represented by a global Note.

A person in whose name a Note is registered will, to the fullest extent permitted by law, be treated at all times, by all persons and for all purposes as the absolute owner of such Note regardless of any notice of ownership, theft or loss or of any writing thereon.

Replacement, Exchange and Transfer

If any Note will become mutilated or defaced or be destroyed, lost or stolen, the Republic may issue and the Fiscal Agent will authenticate and deliver a new Note at the offices of the Registrar on such terms as the Republic and the Fiscal Agent may require, in exchange and substitution for the mutilated or defaced Note or in lieu of and in substitution for the destroyed, lost or stolen Note. In every case of mutilation, defacement, destruction, loss or theft, the applicant for a substitute Note must furnish the Republic and the Fiscal Agent such indemnity as the Republic and the Fiscal Agent may require and evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership of the Note. In every case of mutilation or defacement of a Note, the holder will surrender to the Fiscal Agent the mutilated or defaced Note. In addition, prior to the issuance of any substitute Note, the Republic may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation to such issuance and any other related expenses, including the fees and expenses of the Fiscal Agent. If any Note which has matured or is about to mature will become mutilated or defaced or be apparently destroyed, lost or stolen, the Republic may pay or authorize payment of such Note without issuing a substitute Note.

Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement, a Note or Notes may be exchanged for a Note or Notes of equal aggregate principal amount in such same or different authorized denominations as may be requested by the holder, by surrender of such Note or Notes at the office of the Registrar, or at the office of any transfer agent, together with a written request for the exchange.

Upon the terms and subject to the conditions set forth in the Fiscal Agency Agreement and the applicable restrictions on transfer of the Notes, a Note may be transferred in whole or in part in an authorized denomination by the holder or holders surrendering the Note for registration of transfer at the office of the Registrar or at the office of any transfer agent, duly endorsed by, or accompanied by a written instrument of transfer in lieu of endorsement in form satisfactory to the Republic and the Registrar or any such transfer agent, as the case may be, duly executed by, the holder or holders of such Note or its attorney-in-fact or attorneys-in-fact duly authorized in writing.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions will be borne by the Republic, except for the expenses of delivery other than by regular mail, if any, and except for, if the Republic requires it, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation to such exchange or registration of transfer.

Notwithstanding the foregoing, the Registrar, the transfer agent or the Fiscal Agent, as the case may be, will not be required to register the transfer or exchange of Notes for a period of 15 days preceding the due date for any payment of principal of or interest on the Notes.

Certain Covenants of the Republic

So long as any Note remains Outstanding, the Republic has agreed to certain covenants, including:

1. So long as any Note is Outstanding, the Republic will not create or allow any Lien to exist on the whole or any part of its present or future revenues, properties or assets to secure any present or future Public External Indebtedness of the Republic unless, at the same time or prior to the creation of the Lien, the Republic's obligations under the Notes are secured equally and ratably with such Public External Indebtedness. The Republic may, however, create or allow the following permitted Liens (each a "Permitted Lien"):

- any Lien upon property to secure Public External Indebtedness of the Republic incurred for the purpose of financing the acquisition of such property by the Republic and any renewal or extension of any such Lien which is limited to the original property covered by the Lien and which secures only the renewal or extension of the original secured financing;

- any Lien existing upon property to secure Public External Indebtedness of the Republic at the time of the acquisition of such property and any renewal or extension of any such Lien which is limited to the original asset covered by the Lien and which secures only the renewal or extension of the original secured obligation;

- any Lien in existence on the date of the Fiscal Agency Agreement, including any renewal or extension of such Lien which secures only the renewal or extension of the original secured financing;

- any Lien securing Public External Indebtedness incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project and any renewal or extension of any such Lien, provided that:

  i. the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness; and

  ii. the property over which such Lien is granted consists solely of such assets and revenues or claims that arise from the operation, failure to meet specifications, failure to complete, exploitation, sale or loss of, or damage to, such assets; and

- Liens in addition to those permitted by other Permitted Liens above, and any renewal or extension of such Liens, provided that the aggregate amount of Public External Indebtedness secured by all such additional Liens does not exceed U.S.$25,000,000 (or its equivalent in other currencies) at any time.

2. The Republic will (i) obtain and maintain in full force and effect all approvals, authorizations, permits, consents, exemptions and licenses and will take all other actions (including, without limitation, any notice to, or filing or registration with, any agency, department, ministry authority, statutory corporation or other body or juridical entity of the Republic or regulatory or administrative body of the Republic) which may be necessary for the issuance, continued validity and enforceability of the Notes and (ii) take all necessary and appropriate governmental and administrative action (including, without limitation, making all necessary budget appropriations) in order for the Republic to be able to make all payments required under the Notes.

3. The Republic shall maintain its membership in, and eligibility to use the general resources of, the International Monetary Fund, provided that: (i) no written notice requirement from holders of the Notes shall be required to remedy any breach of this covenant and (ii) the cure period for any breach of this covenant shall not exceed 60 calendar days.

4. The Republic will ensure that its obligations under the Notes will at all times constitute direct, general, unconditional, unsubordinated and unsecured Indebtedness of the Republic ranking at all times *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Republic, present or future, constituting Public External Indebtedness of the Republic.

5. The Republic will use its best efforts to list the Notes, and thereafter to maintain the listing of the Notes, on the Official List of the Luxembourg Stock Exchange.

Events of Default

Each of the following events is an event of default with respect to the Notes (each, an "Event of Default"):

(a) The Republic fails to pay for 20 continuous calendar days principal on any of the Notes when due;

(b) The Republic fails to pay for 30 continuous calendar days interest on any of the Notes when due;

(c) The Republic fails to perform any other obligation under the Notes for a period of 60 calendar days following written notice to the Republic with a copy to the Fiscal Agent by the holder of any Note requiring the breach to be remedied;

(d) The Republic fails to make any payment in an aggregate principal amount in excess of U.S.$25,000,000 (or its equivalent in other currencies) in respect of Public External Indebtedness when payable (whether upon maturity, acceleration or otherwise, as such time may be extended by any applicable grace period or waiver);

(e) A formal and official declaration by the Republic of a moratorium with respect to the payment of principal of or interest on Public External Indebtedness, which moratorium does not expressly exclude the Notes;

(f) The Republic fails to satisfy, discharge or contest in good faith, for a period of 120 consecutive calendar days, a final, unappealable judgment for the payment of money exceeding U.S.$25,000,000, or its equivalent in any other currency, in connection with any writ, execution, attachment or similar process that is levied against all or a substantial part of the Republic's assets;

(g) Denial, repudiation or contestation by the Republic of its obligations under the Notes or the Fiscal Agency Agreement; or

then, in any such event, the holders of at least 25% of the aggregate principal amount of the Notes Outstanding, may by written notice given to the Republic and the Fiscal Agent, declare the principal of and any accrued interest on the Notes held by such holders to be, and such principal and any interest shall thereupon become, immediately due and payable at their principal face amount plus interest accrued thereon to the date of payment, including any Additional Amounts, unless prior to receipt of such demand by the Republic all such defaults shall have been cured. Notes held by or on behalf of the Republic shall not be considered "Outstanding" for purposes of the preceding sentence. If any Event of Default described in clauses (a) through (g) above shall give rise to a declaration which shall be effective and such Event of Default is cured or waived following such declaration, then such declaration may be rescinded and annulled by the affirmative vote of the holders of 66 2/3% or more of the aggregate principal amount of the Notes Outstanding in accordance with the procedures set forth in the Fiscal Agency Agreement.

Collective Action Securities, Modifications, Amendments and Waivers

The Republic may at any time ask for written consents from or call a meeting of holders of the Notes at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the Notes to be made, given or taken by holders of Notes or to modify, amend or supplement these Terms and Conditions or the Fiscal Agency Agreement as hereinafter provided. Any such meeting shall be held at such time and at such place as the Republic shall determine and as shall be specified in a notice of such a meeting that shall be furnished to the holders of the Notes at least 30 calendar days and not more than 60 calendar days prior to the date fixed for the meeting. Such notice shall set forth in reasonable detail the action proposed to be taken as such meeting. In addition, the Fiscal Agent, after consultation with the Republic, may at any time and from time to time call a meeting of holders of the Notes for any such purpose, to be held at such time and at such place as the Fiscal Agent shall determine and as shall be specified in a notice of such meeting that shall be furnished to the holders of the Notes at least 30 calendar days and no more than 60 calendar days prior to the date fixed for the meeting. In case at any time the holders of at least 10% in aggregate principal amount of the Notes Outstanding shall have requested the Fiscal Agent to call a meeting of the holders of Notes for any such purpose, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting, to be held at such time and at such place as the Fiscal Agent shall determine, after consultation with the Republic, for such purposes, by giving notice thereof. Such notice shall be given at least 30 calendar days and not more than 60 calendar days prior to the meeting. Notice of every meeting of holders of the Notes shall set forth in reasonable detail the action proposed to be taken at the meeting.

To be entitled to vote at any meeting, a person shall be a holder of the Notes Outstanding or a person duly appointed by an instrument in writing as proxy for such a holder. The persons entitled to vote a majority in principal amount of the Notes Outstanding shall constitute a quorum, except for any meeting of holders held to discuss a Reserved Matter, as discussed below. In the absence of a quorum, within 30 minutes of the time appointed for any such meeting, the meeting will, if convened at the request of the holders, be dissolved. In any other case, the meeting may be adjourned, for a period of not less than 10 calendar days, as determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for a period of not less than 10 calendar days as determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. At the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25% in principal amount of the Notes Outstanding shall constitute the quorum for the taking of any action set forth in the notice of the original meeting. Notice of the reconvening of any adjourned meeting must be given not less than 5 calendar days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting will state expressly that, at the reconvening of any meeting adjourned for a lack of a quorum, the persons entitled to vote 25% in principal amount of the Notes Outstanding will constitute a quorum for the taking of any action set forth in the notice of the original meeting. Any meeting of holders of Notes at which a quorum is present may be adjourned from time to time by a vote of a majority in principal amount of the Notes Outstanding represented at the meeting, and the meeting may be held as so adjourned without further notice (except, so long as the Notes are listed on an exchange, as may be required under the regulations of that exchange). Modifications, amendments or waivers made at such a meeting will be binding on all current and future Noteholders.

The Fiscal Agent, after consultation with the Republic, may make such reasonable and customary regulations consistent herewith as it shall deem advisable for any meeting of holders of the Notes with respect to the proof of the appointment of proxies in respect of holders of Notes, the record date for determining the registered owners of Notes who are entitled to vote at such meeting (which date shall be designated by the Fiscal Agent and set forth in the notice calling such meeting hereinabove referred to and which shall be not less than 15 nor more than 60 days prior to such meeting; provided that nothing in this paragraph shall be construed to render ineffective any action taken by holders of the requisite principal amount of the Notes Outstanding on the date such action is taken, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

At any meeting of holders of the Notes duly called and held as specified above, upon the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of at least a majority in aggregate principal amount of the Notes then Outstanding represented at such meeting, or (ii) with the written consent of the holders of at least a majority in aggregate principal amount of the Notes then Outstanding, the Republic, the Fiscal Agent and the holders of the Notes may amend, modify, change or waive these Terms and Conditions of the Notes or the Fiscal Agency Agreement in any way, and the holders of such Notes may make, take or give any request, demand, authorization, direction, notice, consent, waiver (including waiver of future compliance or past default) or other action given or taken by holders of such Notes; provided, however, that no such action, amendment, modification, change or waiver, however effected, shall apply to the following:

(A) change the due date for the payment of the principal of, or any installment of interest on, the Notes;

(B) reduce the principal amount of the Notes, or the portion of such principal amount which is payable upon acceleration of the maturity of the Notes or the interest rate thereon;

(C) change the obligation of the Republic to pay Additional Amounts as provided in these Terms and Conditions of the Notes;

(D) change the currency in which any payment in respect of the Notes is payable or the place or places in which such payment is made;

(E) change the definition of "Outstanding" with respect to the Notes;

(F) change the governing law provision of the Notes;

(G) change the courts to the jurisdiction of which the Republic has submitted, the Republic's obligation to appoint and maintain an Agent for service of process in the Borough of Manhattan, The City of New York or the Republic's waiver of immunity in respect of actions or proceedings brought by any holder based upon the Notes;

(H) change the ranking of any of the Notes;

(I) in connection with an offer to acquire all or any portion of the Notes, amend any Event of Default under the Notes; or

(J) reduce the below percentages of the principal amount of Notes that is required to modify, amend or supplement the Fiscal Agency Agreement or these Terms and Conditions of the Notes or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given.

(A)-(J) of the preceding clause are referred to herein as "Reserved Matters."

The Republic and the Fiscal Agent may, upon agreement between themselves, without the affirmative vote or consent of any holder of the Notes, amend, modify or supplement the Fiscal Agency Agreement or the Notes for the purpose of:

1. adding to the covenants of the Republic for the benefit of the holders of the Notes, or
2. surrendering any right or power conferred upon the Republic, or
3. securing the Notes pursuant to the requirements of the Notes or otherwise,
4. curing, correcting or supplementing any ambiguous, inconsistent or defective provision contained herein or in the Notes, or
5. amending the Fiscal Agency Agreement or the Terms in any manner which will not adversely affect the rights or interests of any Noteholder in any material respect.

It shall not be necessary for the vote or consent of the holders of the Notes to approve the particular form of any proposed modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action, but it shall be sufficient if such vote or consent shall approve the substance thereof.

In agreeing to any modification, amendment or supplement to the Fiscal Agency Agreement or the Notes, the Fiscal Agent shall be entitled to receive, and shall be fully protected in relying upon, a certificate of an Authorized Official stating, and an opinion of counsel to the effect, that such amendment is authorized or permitted by this agreement.

At any meeting of holders held to discuss a Reserved Matter, the persons entitled to vote 66 2/3% of the aggregate principal amount of the Notes Outstanding shall constitute a quorum. A change to a Reserved Matter, including the payment terms of the Notes Outstanding, can be made without the consent of all of the holders of the Notes, as long as a supermajority of the holders (that is, the holders of at least 75% in aggregate principal amount of the Notes Outstanding, whether voting at a meeting or by written consent) agrees to the change.

If the Republic proposes any Reserved Matter modification: (i) to the Terms and Conditions of the Notes Outstanding, and at least one other series of debt securities issued by the Republic under a separate fiscal agency agreement, with terms substantially similar to the Notes ("Similar Notes"), or (ii) to the Fiscal Agency Agreement insofar as it affects the Notes Outstanding, and at least one series of Similar Notes, in either case as part of a single transaction, the Republic may elect to proceed pursuant to provisions of the Fiscal Agency Agreement providing that such modifications may be made, and future compliance therewith may be waived, for any affected series if made with the consent of the Republic and:

- the affirmative vote or written consent of the holders of not less than 75% in aggregate principal amount of the Notes Outstanding and the Similar Notes that would be affected by that Reserved Matter modification (each series, taken in aggregate), and
- the affirmative vote or written consent of the holders of not less than 66 2/3% in aggregate principal amount of the Notes Outstanding and Similar Notes (each series, taken individually).

Before seeking the consent of any holder of the Notes and Similar Notes, as applicable, to a Reserved Matter modification affecting the notes of that series, the Republic shall provide to the Fiscal Agent (for onward distribution to the holders of the Notes) the following information:

- a description of the economic or financial circumstances that, in the Republic's view, explain the request for the proposed modification;
- if the Republic shall at the time have entered into a standby, extended funds or similar program with the International Monetary Fund, a copy of that program (including any related technical memorandum); and
- a description of the Republic's proposed treatment of its other major creditor groups (including where appropriate, Paris Club creditors, other bilateral creditors and internal debtholders) in connection with the Republic's efforts to address the situation giving rise to the requested modification.

Prior to any vote on a Reserved Matter modification affecting the Notes and Similar Notes, as applicable, the Republic shall deliver to the Fiscal Agent a certificate signed by an Authorized Official specifying, for the Republic and each public sector instrumentality, the Notes and Similar Notes, as applicable, deemed to be not Outstanding as described above or, if no Notes and Similar Notes, as applicable, are owned or controlled by the Republic or any public sector instrumentality, a certificate signed by an Authorized Official to this effect.

If any Reserved Matter modification is sought in the context of a simultaneous offer to exchange the Notes for new debt instruments of the Republic or any other person, the Republic shall ensure that the relevant provisions of the Notes and Similar Notes, as applicable, and as amended by such modification, are no less favorable to the holders thereof than the provisions of the new instrument being offered in the exchange, or, if more than one debt instrument is so offered, no less favorable than the new debt instrument issued having the largest aggregate principal amount.

The Republic agrees that it will not issue new notes or reopen the Notes with the intention of placing the Notes with holders expected to support any modification proposed by the Republic (or that the Republic plans to propose) for approval pursuant to the modification provisions of the Fiscal Agency Agreement or these Terms and Conditions of the Notes.

Any instrument given by or on behalf of any holder of the Notes and Similar Notes, as applicable, in connection with any consent to or vote for any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action shall be irrevocable once given and shall be conclusive and binding on all subsequent holders of such notes issued directly or indirectly in exchange or substitution therefor or in lieu thereof. Any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action taken, made or given in accordance with this section "—Collective Action Securities, Modifications, Amendments and Waivers" shall be conclusive and binding on all holders of the Notes and Similar Notes, as applicable, whether or not they have given such consent or cast such vote or were present at any meeting, and whether or not notation of such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action is made upon such notes. Notice of any modification or amendment of, supplement to, or request, demand, authorization, direction, notice, consent, waiver or other action with respect to the Notes or the Fiscal Agency Agreement (other than for purposes of curing any ambiguity or of curing, correcting or supplementing any defective provision hereof or thereof) shall be given to such holder of the Notes affected thereby, in all cases as provided in these Terms and Conditions of the Notes.

Notes authenticated and delivered after the effectiveness of any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action may bear a notation in the form approved by the Fiscal Agent and the Republic as to any matter provided for in such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action. New Notes modified to conform, in the opinion of the Fiscal Agent and the Republic, to any such modification, amendment, supplement, request, demand, authorization, direction, notice, consent, waiver or other action taken, made or given in accordance with this section "—Collective Action Securities, Modifications, Amendments and Waivers" may be prepared by the Republic, authenticated by the Fiscal Agent and delivered in exchange for the Notes Outstanding.

Payments and Agents

The principal of the Notes (together with accrued interest) will be payable in U.S. dollars against surrender of such Notes at the office of the principal paying agent until such time as Fiscal Agent and the Republic notify otherwise, subject to applicable laws and regulations, by U.S. dollar check drawn on, or upon application of any holder of at least U.S.$1,000,000 principal amount of Notes by transfer to a U.S. dollar account in accordance with Euroclear, Clearstream, or the successor of either of them, in either case acting directly, or through a custodian, nominee or depository (the "Clearing Agency"). Payment of any installment of interest on a Note will be made only to the person in whose name such Note is registered at the close of business on the Regular Record Date (as defined below) immediately preceding the related "Scheduled Payment Date" (as defined on the face of the Notes). As used herein, "Regular Record Date" means, with respect to any Scheduled Payment Date, the 15th day prior to such Scheduled Payment Date (whether or not a business day). Payment of such interest will be made by a U.S. dollar check mailed to the holder at such holder's registered address or upon application of any holder of at least U.S.$1,000,000 principal amount of Notes to the Paying Agent not later than the relevant regular record date, by transfer of immediately available funds to a U.S. dollar account maintained by such holder in accordance with the Clearing Agency.

All moneys paid by or on behalf of the Republic to the Paying Agent or any other paying agent for the payments of the principal of or interest on any Note which remain unclaimed at the end of two years after such principal or interest will have become due and payable will be repaid to the Republic (including all interest accrued, if any, with respect to any such amounts), and the holder of such Note will thereafter look only to the Republic for payment. Upon such repayment, all liability of the Paying Agent and any other paying agent with respect to the Note will cease, without, however, limiting in any way the obligation of the Republic in respect of the amount so repaid, subject to the provisions of "—Prescription."

The Republic has agreed that, so long as any Note remains Outstanding, it will maintain: a paying agent in Luxembourg for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require; a paying agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other directive on the taxation of savings income implementing the conclusions of the ECOFIN meeting of 26 and 27 November 2000 or any law implementing or complying with or introduced in order to conform to such directive; a registrar having a specified office in Luxembourg; and a principal paying agent having a specified office in London, England and a transfer agent in Luxembourg (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require). The Republic has initially appointed The Bank of New York Mellon, as fiscal agent, The Bank of New York Mellon (Luxembourg) S.A., as registrar and Luxembourg paying agent and The Bank of New York Mellon, London branch, as paying agent and transfer agent. Subject to the foregoing, the Republic will have the right at any time to terminate any such appointment and to appoint any other Agents in such other places as it may deem appropriate upon notice in accordance with "—Notices" below and in accordance with the Fiscal Agency Agreement.

Payments in respect of the Notes will be made in such coin or currency of the United States of America that is the legal tender for the payment of public and private debts at the time of payment.

In any case when a Payment Date is not a business day at any place of payment, then the relevant payment need not be made on such date at such place, but may be made on the next succeeding day at such place which is a business day in the applicable jurisdiction, with the same force and effect as if made on the date for such payment, and no additional interest in respect of such Payment Date will accrue for the period from and after such Payment Date.

In acting under the Fiscal Agency Agreement and in connection with the Notes, each of the Agents is acting solely as agent of the Republic and does not assume any obligation toward or relationship of agency or trust for or with the owner or holder of any Note except that any funds held by any such Agent for payment of principal of or interest (or any Additional Amounts) on the Notes will be held in trust by it and applied as set forth in the Notes and the Fiscal Agency Agreement and will be segregated from other funds held by it. For a description of the duties and the immunities and rights of the Agents under the Fiscal Agency Agreement, reference is made to the Fiscal Agency Agreement, and the obligations of each of the Agents to the owners or holders of Notes are subject to such immunities and rights.

The Fiscal Agency Agreement contains provisions relating to the rights, obligations and duties of the Fiscal Agent, indemnification of the Fiscal Agent, release of the Fiscal Agent from responsibility for certain actions taken by it, and the replacement, in certain circumstances, of the Fiscal Agent by another qualified financial institution.

Redemption, Purchase and Cancellation

The Notes will not be redeemable prior to maturity at the option of the Republic or (except on acceleration following an Event of Default) the holders thereof. The Republic or any of its affiliates may at any time purchase the Notes at any price in the open market or otherwise. The Notes so purchased by the Republic may, at the Republic's discretion, be held, resold or surrendered to the Fiscal Agent for cancellation.

Additional Amounts

All payments by the Republic in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties, fines, penalties, assessments, or other governmental charges of whatever nature (or interest on any future taxes, duties, fines, penalties, assessments, or other governmental charges of whatever nature) imposed or levied by the Republic or any political subdivision or authority of the Republic having power to tax or any other jurisdiction through which payments on the Notes are made (each a "Relevant Jurisdiction") ("Taxes"), unless the Republic is compelled by law to deduct or withhold such Taxes. In such event, the Republic will pay such additional amounts ("Additional Amounts") as may be necessary to ensure that the net amounts receivable by the holders of the Notes after the withholding or deduction will equal the payment which would have been receivable in respect of the Notes in the absence of such withholding or deduction; make such withholding; and make payment of the amount so withheld to the appropriate governmental authority (and promptly forward to each holder of a Note an official receipt (or certified copy) or other documentation evidencing such payment). No such Additional Amounts will, however, be payable in respect of:

(i) any Note held by or on behalf of a holder who is liable for Taxes with respect to the Notes by reason of such holder having some connection with the Relevant Jurisdiction otherwise than merely by the holding of such Note or by the receipt of principal or interest in respect of the Note;

(ii) any Note held by or on behalf of a holder who is liable for Taxes with respect to the Notes by reason of such holder's failure to comply with any reasonable certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with the Relevant Jurisdiction or any political subdivision or taxing authority of such jurisdiction of such holder or the holder of any interest in such Note or rights in respect of the Note, if compliance is required by the Relevant Jurisdiction, or any political subdivision or taxing authority of such jurisdiction, as a precondition to exemption from such deduction or withholding; *provided*, *however*, that the limitations on the Republic's obligations to pay Additional Amounts set forth in this clause will not apply if such certification, identification, or other reporting requirement would be materially more onerous, in form, in procedure, or in substance of information disclosed by the relevant holders or beneficial owners than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administrative practice (such as U.S. Internal Revenue Service Forms W-8BEN, W-8ECI or W-9); or

(iii) any Note held by or on behalf of a holder who is liable for Taxes with respect to the Notes by reason of the failure of such holder to present such holder's Note for payment (where such presentation is required) within 30 calendar days after the date on which such payment of the Note became due and payable or is duly provided for and notice of the date on which payment is due is given to the holder, whichever occurs later.

Whenever the payment of the principal of, or interest on, or any amounts in respect of, a Note, are mentioned in any context, such mention will be deemed to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect of a Note, and express mention of the payment of Additional Amounts, if applicable, will not be construed as excluding Additional Amounts where such express mention is not made.

Currency Indemnity

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due under the Notes or a situation described above to the holder of a Note in one currency into another currency, the Republic and each holder will be deemed to have agreed that the exchange rate used will be that at which in accordance with normal banking procedures such holder could purchase the first currency with such other currency in the city which is the principal financial center of the country of issue of the first currency on the second business day preceding the day on which final judgment is given.

The obligation of the Republic in respect of any sum payable by it to the holder of a Note will, notwithstanding any judgment in a currency (the "Judgment Currency") other than that in which such sum is denominated in accordance with the applicable provisions of the Notes (the "Note Currency"), be discharged only to the extent that on the business day following receipt by such holder of the Note of any sum adjudged to be so due in the Judgment Currency, such holder of the Note may in accordance with normal banking procedures purchase the Note Currency with the Judgment Currency. If the amount of the Note Currency so purchased is less than the sum originally due to the holder of the Note in the Note Currency (determined in the manner set forth in the preceding paragraph), the Republic will agree, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of the Note against such loss, and if the amount of the Note Currency so purchased exceeds the sum originally due to the holder of the Note such holder will agree to remit to the Republic such excess, *provided* that such holder will have no obligation to remit any such excess as long as the Republic will have failed to pay such holder any obligations due and payable under the Note, in which case such excess may be applied to such obligations of the Republic under the Note in accordance with the terms of the Note.

Prescription

All claims against the Republic for payment of principal of or interest (including Additional Amounts, if any) on or in respect of the Notes will be prescribed unless made within five years from the date on which such payment first became due.

Notices

All notices to holders of Notes will be valid if (a) given in writing and mailed to the holders of Notes at their registered addresses and shall be deemed to have been given on the date of such mailing (the Clearing Agency will communicate such notices to their participants in accordance with their standard practices) and (b) (so long as the Notes are listed on the Luxembourg

Stock Exchange and the rules of such Exchange so require) published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or in such other publication or city or cities as specified in the Fiscal Agency Agreement, including on the website of the Luxembourg Stock Exchange at http://www.bourse.lu. Any such notice shall be deemed to have been given (x) on the date of mailing, in the case of mailed notice, and (y) on the date of such publication or, if published more than once, on the first date on which publication is made, in the case of published notice.

Further Issues

The Republic may from time to time, without the consent of the holders of the Notes, create and issue further notes having the same terms and conditions as the Notes in all respects, except for the issue date, the issue price and first interest payment of interest thereon. Additional Notes issued in this manner will be consolidated with and will form a single issue with the Notes; provided that, if any additional Notes subsequently issued are not fungible for U.S. federal income tax purposes with any Notes previously issued, such additional Notes shall trade separately from such previously issued Notes under a separate ISIN and common code number but shall otherwise be treated as a single class with all other previously issued Notes.

Governing Law; Submission to Jurisdiction and Enforceability

The Notes will be governed by, and interpreted in accordance with, the laws of the State of New York except that all matters concerning authorization and execution by the Republic will be governed by the laws of the Republic.

The Republic will irrevocably submit to the non-exclusive jurisdiction of any New York state or U.S. federal court sitting in The City of New York, and any appellate court from any such courts, in any suit, action or proceeding arising out of or relating to the offering and sale of the Notes, or the Republic's failure, or alleged failure, to perform any obligations under the Notes (a "related proceeding," which term will exclude claims or causes of action arising under the U.S. federal and state securities laws) and the Republic will irrevocably agree that all claims in respect of any related proceeding may be heard and determined in any such New York state or U.S. federal court. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any related proceeding, and any objection to any related proceeding, whether on the grounds of venue, residence or domicile. The Republic will agree that a final judgment in any related proceeding will be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

The Republic will appoint the person for the time being acting as, or discharging the function of, Consul General of the Republic of Honduras in The City of New York (currently with an office at 255 West 36 Street, First Level, New York, NY 10018) and agrees that for so long as any Note remains Outstanding the person from time to time so acting, or discharging such functions, will be deemed to have been appointed as the Republic's Agent for service of process (the "Process Agent") to receive on behalf of the Republic and its property service of copies of any writs, summons and complaint and any other process which may be served in any related proceeding in any New York state or U.S. federal court sitting in The City of New York. However, the Republic has not consented to service in respect of any action, suit or proceeding brought against it under U.S. federal or any state securities laws. The Republic will agree that such service may be made by U.S. registered mail or by delivering by hand a copy of such process to the Republic in care of the Process Agent at the address specified above for the Process Agent (and the Republic will agree that such service will be effective upon the receipt of such process at the office of the Process Agent), and the Republic will authorize and direct the Process Agent to accept on its behalf such service. The Republic will agree that failure of the Process Agent to give notice to the Republic, or failure of the Republic to receive notice, of such service of process will not affect in any way the validity of such service or any judgment based thereon. The Republic will agree that it will take any and all reasonable actions that may be necessary to continue the designation of the Process Agent in full force and effect, and to cause the Process Agent to continue to act as such. In addition, the Republic will agree that none of its agreements described in this paragraph or the preceding paragraph will affect the right of any party to serve legal process in any other manner permitted by law or affect the right of any party to bring any suit, action or proceeding against any other party or its property in the courts of other jurisdictions.

To the extent that the Republic or any of its revenues, assets or properties, has or from this date forward may acquire any immunity (sovereign or otherwise) from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its revenues, assets or properties, the Republic has, to the fullest extent permitted under the U.S. Foreign Sovereign Immunities Act of 1976, as amended, irrevocably waived such immunity in respect of any action or proceeding arising out of, or related to, the offering and sale of the Notes or the Republic's failure, or alleged failure, to perform any obligations under the Notes. This waiver covers the Republic's sovereign immunity and immunity from prejudgment attachment, post-judgment attachment and attachment in aid of execution; provided that, under the laws of the Republic, the revenues, assets, and property of the Republic are exempt from attachment or other form of execution, whether before or after judgment.

Certain Definitions

Set forth below is a summary of certain defined terms used herein and in the Fiscal Agency Agreement. Reference is made to the Fiscal Agency Agreement for a full definition of all such terms, as well as any other terms used herein for which no definition is provided.

"External" means, with reference to any Indebtedness, any Indebtedness that is issued under an instrument subject to, or under the laws of, a jurisdiction other than the Republic.

"Indebtedness" means a person's actual or contingent, present or future, payment or repayment obligations for borrowed money, together with such person's actual or contingent liabilities under guarantee or similar arrangements to secure the payment of any other party's obligations for borrowed money.

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement having the practical effect of constituting a security interest, whether in effect on the date of the Fiscal Agency Agreement or at any time thereafter, including, without limitation, any equivalent claim or interest created or arising under the laws of the Republic of Honduras.

"Outstanding" means any outstanding amount on any Note authenticated and delivered pursuant to the Fiscal Agency Agreement except for:

(a) Notes theretofore canceled by the Registrar or delivered to the Fiscal Agent, any paying agent or any transfer agent for cancellation or held by the Fiscal Agent for reissuance but not reissued by the Fiscal Agent; and

(b) Notes in lieu of or in substitution for which other Notes have been authenticated and delivered pursuant to the Fiscal Agency Agreement; provided, however, that in determining whether the holders of the requisite principal amount of Notes Outstanding are present at a meeting of holders of Notes for quorum purposes or have consented to or voted in favor of any request, demand, authorization, direction, notice, consent, waiver, amendment, modification or supplement hereunder, Notes owned or controlled, directly or indirectly, by the Republic or any public sector instrumentality of the Republic will be disregarded and deemed not to be Outstanding; except that in determining whether the Fiscal Agent shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver, amendment, modification or supplement, only Notes or other debt securities issued under the Fiscal Agency Agreement that an officer of the Fiscal Agent knows to be so owned shall be so disregarded. As used in this paragraph, "public sector instrumentality" means Banco Central de Honduras, any department, ministry or agency of the government of the Republic or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic or any of the foregoing, and "control" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

"Payment Date" means the business day immediately preceding each Scheduled Payment Date or the maturity date of the Notes.

"Public External Indebtedness" any External Indebtedness that is in the form of, or represented by, bonds, notes or other securities that are or may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system or over-the-counter or other securities market.

"Person" or "party" means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, including the Republic, whether or not having a separate legal personality.

PLAN OF DISTRIBUTION

Deutsche Bank Securities Inc. is acting as Sole Book-Running Manager of the offering. Subject to the terms and conditions stated in the purchase agreement dated the date of this Offering Circular (the "Purchase Agreement"), the Sole Book-Running Manager named below has agreed to purchase, and the Republic has agreed to sell to the Sole Book-Running Manager, the principal amount of the Notes set forth below opposite such Sole Book-Running Manager's name.

	Principal Amount
Deutsche Bank Securities Inc.	U.S.$500,000,000
Total:	**U.S.$500,000,000**

The Purchase Agreement provides that the obligations of the Sole Book-Running Manager to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Sole Book-Running Manager must purchase all the Notes if it purchases any of the Notes.

The Sole Book-Running Manager proposes to resell the Notes at the offering price set forth on the cover page of this Offering Circular within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice.

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Notes will constitute a new class of securities with no established trading market. The Republic cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. Application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes trade on the Euro MTF Market. However, the Republic cannot assure you that the application will be approved. The Sole Book-Running Manager has advised the Republic that it currently intends to make a market in the Notes. However, it is not obligated to do so and it may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, the Republic cannot assure you as to the liquidity of, or the trading market for, the Notes.

In connection with the offering, the Sole Book-Running Manager may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases:

- Short sales involve secondary market sales by the Sole Book-Running Manager of a greater number of Notes than they are required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the Sole Book-Running Manager for its own account, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The Sole Book-Running Manager may conduct these transactions in the over-the- counter market or otherwise. If the Sole Book-Running Manager commences any of these transactions, it may discontinue them at any time.

The Sole Book-Running Manager is a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Sole Book-Running Manager and its respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which it has received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which it may receive customary fees and reimbursement of expenses. In the ordinary course of its various business activities, the Sole Book-Running Manager and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the Republic's securities and instruments.

The Republic has agreed to indemnify the Sole Book-Running Manager against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Sole Book-Running Manager may be required to make because of any of those liabilities.

It is expected that delivery of the Notes will be made against payment therefor on or about the date specified on the cover page of this Offering Circular, which will be the third business day following the date of pricing of the Notes (this settlement cycle being referred to as "T+3").

Sales outside the United States

European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of Notes described in this Offering Circular may not be made to the public in that relevant member state other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Republic for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of securities shall require the Republic or the Sole Book-Running Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offers to the public contemplated in this Offering Circular will be deemed to have represented, warranted and agreed to and with the Republic and the Sole Book-Running Manager that:

(a) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and

(b) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Sole Book-Running Manager has been given to the offer or resale; or (ii) where Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above, the expression "an offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer of any Notes to be offered so as to enable an investor to decide to purchase any Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71 EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means 2010/73/EU.

The Republic has not authorized and does not authorize the making of any offer of Notes through any financial intermediary on its behalf, other than offers made by the Sole Book-Running Manager with a view to the final placement of the Notes as contemplated in this Offering Circular. Accordingly, no purchaser of the Notes, other than the Sole Book-Running Manager, is authorized to make any further offer of the Notes on behalf of the Republic.

United Kingdom

The Sole Book-Running Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act (the "FSMA")) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Chile

The offer of the Notes will begin on March 12, 2013 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendencia de Valores y Seguros de Chile*, or the "SVS"). The Notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the Notes are not subject to the supervision of the SVS. As unregistered securities, the Republic is not required to disclose public information about the Notes in Chile. The Notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

Peru

The Notes and the information contained in this Offering Circular have not been and will not be registered with or approved by the Securities and Exchange Commission of Peru (*Comisión Nacional Supervisora de Empresas y Valores*) or the Lima Stock Exchange. Accordingly, the Notes cannot be offered or sold in Peru, except if such offering is a private offering under the securities laws and regulations of Peru. The Peruvian securities market law establishes that any offering may qualify as private offering if it is directed exclusively to institutional investors.

Panama

The Notes have not been, and will not be, registered with the National Securities Commission of the Republic of Panama under Decree Law No. 1 of July 8, 1999, as reformed by Law 67 of 2011 (the "Panamanian Securities Law"). Accordingly, the Notes may not be offered or sold in Panama nor to persons domiciled in Panama, except in certain limited transactions exempt from the registration requirements of the Panamanian Securities Law. The Notes do not benefit from the tax incentives provided by the Panamanian Securities Law and are not subject to regulation or supervision by the Panamanian Superintendency of the Securities Market as long as the Notes are privately offered to no more than 25 persons domiciled in Panama and result in the sale to no more than 10 of such persons.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Cap. 289 of Singapore "SFA," and accordingly, the Sole Book-Running Manager may not offer nor sell the Notes pursuant to an offering nor make the Notes the subject of an invitation for subscription or purchase, nor will the Sole Book-Running Manager circulate or distribute this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Notes, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, Chapter 289 (b) to a relevant person (as defined in Section 275(2) of the SFA) or any person, pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Each holder of the Notes should note that any subsequent sale of the Notes acquired pursuant to an offer under this Offering Circular made under exemptions (a) or (b) above within a period of six months from the date of the initial acquisition is restricted to (i) institutional investors (as defined in Section 4A of the SFA), (ii) relevant persons as defined in Section 275(2) of the SFA, and (iii) persons pursuant to an offer referred to in Section 275(1A) of the SFA.

Where the Notes are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely: (i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within 6 months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275 of the SFA; (2) where no consideration is or will be given for the transfer; or (3) where the transfer is by operation of law.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

General

Notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act will initially be represented by the Rule 144A Global Note. Notes sold to non-U.S. persons outside the United States in reliance on Regulation S under the Securities Act will initially be represented by the Regulation S Global Note. The Global Notes will be deposited, on the closing date, with a common depositary and registered in the name of the nominee of the common depositary for the account of Euroclear and Clearstream.

Ownership of interests in the Rule 144A Global Note ("Rule 144A Book-Entry Interests") and ownership of interests in the Regulation S Global Note (the "Regulation S Book-Entry Interests" and, together with the Rule 144A Book-Entry Interests, the "Book-Entry Interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that hold interests through such participants. Euroclear and Clearstream will hold interests in the Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories. Except under the limited circumstances described below, Book- Entry Interests will not be issued in definitive form.

Book-Entry Interests will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants. The laws of some jurisdictions, including certain states of the United States, may require that certain purchasers of securities take physical delivery of those securities in definitive form. The foregoing limitations may impair your ability to own, transfer or pledge Book-Entry Interests. In addition, while the Notes are in global form, holders of Book-Entry Interests will not be considered the owners or "holders" of Notes for any purpose.

So long as the Notes are held in global form, Euroclear and/or Clearstream (or their respective nominees), as applicable, will be considered the sole holders of the Global Notes for all purposes under the Fiscal Agency Agreement. In addition, participants must rely on the procedures of Euroclear and Clearstream, and indirect participants must rely on the procedures of Euroclear and Clearstream and the participants through which they own Book-Entry Interests, to transfer their interests or to exercise any rights of holders of Notes under the Fiscal Agency Agreement. Neither Republic nor the Fiscal Agent will have any responsibility, or be liable, for any aspect of the records relating to the Book-Entry Interests.

Definitive Registered Notes

Under the terms of the Fiscal Agency Agreement, owners of the Book-Entry Interests will receive Definitive Registered Notes:

(1) if Euroclear or Clearstream notifies us that it is unwilling or unable to continue to act as depositary and a successor depositary is not appointed by the Republic within 120 days;

(2) if Euroclear or Clearstream so requests following an Event of Default under the Notes; or

(3) if the owner of a Book-Entry Interest requests such exchange in writing delivered through Euroclear or Clearstream following an Event of Default under the Notes.

Euroclear and Clearstream have advised the Republic that upon request by an owner of a Book-Entry Interest described in the immediately preceding clause (3), their current procedure is to request that the Republic issue or cause to be issued Notes in definitive registered form to all owners of Book-Entry Interests.

In such an event, the Registrar will issue Definitive Registered Notes, registered in the name or names and issued in any approved denominations, requested by or on behalf of Euroclear, Clearstream or the Republic, as applicable (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of Book-Entry Interests), and such Definitive Registered Notes will bear the restrictive legend as provided in the Fiscal Agency Agreement, unless that legend is not required by the Fiscal Agency Agreement or applicable law.

To the extent permitted by law, the Republic, the Fiscal Agent, the Paying Agent and the Registrar shall be entitled to treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Notes will be evidenced through registration from time to time at the registered office of the Registrar, and such registration is a means of evidencing title to the Notes. The Republic will not impose any fees or other charges in respect of the Notes; however, owners of the Book-Entry Interests may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear and Clearstream.

Payments on Global Notes

The Republic will make payments of any amounts owing in respect of the Global Notes (including principal, premium, if any, interest and additional amounts, if any) to the common depositary or its nominee for Euroclear and Clearstream. The common depositary will distribute such payments to participants in accordance with their customary procedures. The Republic will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and as described under "Terms and Conditions of the Notes —Additional Amounts." If any such deduction or withholding is required to be made, then, to the extent described under "Terms and Conditions of the Notes —Additional Amounts" above, the Republic will pay additional amounts as may be necessary in order for the net amounts received by any holder of the Global Notes or owner of Book-Entry Interests after such deduction or withholding will equal the net amounts that such holder or owner would have otherwise received in respect of such Global Note or Book-Entry Interest, as the case may be, absent such withholding or deduction. We expect that standing customer instructions and customary practices will govern payments by participants to owners of Book-Entry Interests held through such participants.

Under the terms of the Fiscal Agency Agreement, the Republic and the Fiscal Agency will treat the registered holders of the Global Notes (e.g., Euroclear or Clearstream (or their respective nominee)) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Republic, the Fiscal Ageny or any of its agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest or for maintaining, supervising or reviewing the records of Euroclear or Clearstream or any participant or indirect participant relating to, or payments made on account of, a Book-Entry Interest;

- Euroclear, Clearstream or any participant or indirect participant; or

- the records of the common depositary.

Currency of Payment for the Global Notes

The principal of, premium, if any, and interest on, and all other amounts payable in respect of, the Global Notes will be paid to holders of interests to such Notes through Euroclear or Clearstream in U.S. dollars.

Action by owners of Book-Entry Interests

Euroclear and Clearstream have advised the Republic that they will take any action permitted to be taken by a holder of Notes (including the presentation of Notes for exchange as described above) only at the direction of one or more participants to whose account the Book-Entry Interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes. However, if there is an Event of Default under the Notes, Euroclear and Clearstream, at the request of the holders of the Notes, reserve the right to exchange the Global Notes for definitive registered Notes in certificated form (the "Definitive Registered Notes"), and to distribute such Definitive Registered Notes to their participants.

Transfers

Transfers between participants in Euroclear or Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a holder of Notes requires physical delivery of Definitive Registered Notes for any reason, including to sell Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder of Notes must transfer its interests in the Global Notes in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the procedures set forth in the Fiscal Agency Agreement.

The Global Notes will bear a legend to the effect set forth under "Transfer Restrictions." Book-Entry Interests in the Global Notes will be subject to the restrictions on transfers and certification requirements discussed under "Transfer Restrictions."

Transfers of Rule 144A Book-Entry Interests to persons wishing to take delivery of Rule 144A Book-Entry Interests will at all times be subject to such transfer restrictions.

Rule 144A Book-Entry Interests may be transferred to a person who takes delivery in the form of a Regulation S Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 under the U.S. Securities Act or any other exemption (if available under the U.S. Securities Act).

Regulation S Book-Entry Interests may be transferred to a person who takes delivery in the form of a Rule 144A Book-Entry Interest only upon delivery by the transferor of a written certification (in the form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under "Transfer Restrictions" and in accordance with any applicable securities laws of any other jurisdiction.

In connection with transfers involving an exchange of a Regulation S Book-Entry Interest for a Rule 144A Book-Entry Interest, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note.

Definitive Registered Notes may be transferred and exchanged for Book-Entry Interests in a Global Note only as described under "—Definitive Registered Notes" and, if required, only if the transferor first delivers to the Fiscal Agent a written certificate (in the form provided in the Fiscal Agency Agreement) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "Transfer Restrictions."

Any Book-Entry Interest in one of the Global Notes that is transferred to a person who takes delivery in the form of a Book-Entry Interest in any other Global Note will, upon transfer, cease to be a Book-Entry Interest in the first mentioned Global Note and become a Book-Entry Interest in such other Global Note, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to Book-Entry Interests in such other Global Note for as long as it remains such a Book-Entry Interest.

Information Concerning Euroclear and Clearstream

All Book-Entry Interests will be subject to the operations and procedures of Euroclear and Clearstream, as applicable. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of the settlement system are controlled by the settlement system and may be changed at any time. Neither the Republic nor the Sole Book-Running Manager is responsible for those operations or procedures.

The Republic understands as follows with respect to Euroclear and Clearstream: Euroclear and Clearstream hold securities for participating organizations. They facilitate the clearance and settlement of securities transactions between their participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide various services to their participants, including the safekeeping, administration, clearance, settlement, lending and borrowing of internationally traded securities. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear and Clearstream participant, either directly or indirectly.

Because Euroclear and Clearstream can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the Euroclear and/or Clearstream system, or otherwise take actions in respect of such interest, may be limited by the lack of a definitive certificate for that interest. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the Euroclear or Clearstream systems will receive distributions attributable to the 144A Global Notes only through Euroclear or Clearstream participants.

Global Clearance and Settlement Under the Book-entry System

The Notes represented by the Global Notes are expected to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market. Transfers of interests in the Global Notes between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective system's rules and operating procedures.

Although Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in Euroclear or Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time.

None of the Republic, the Fiscal Agent or any Agent will have any responsibility for the performance by Euroclear, Clearstream or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Initial Settlement

Initial settlement for the Notes will be made in U.S. dollars. Book-Entry Interests owned through Euroclear or Clearstream accounts will follow the settlement procedures applicable to conventional bonds in registered form.

Book-Entry Interests will be credited to the securities custody accounts of Euroclear and Clearstream holders on the business day following the settlement date against payment for value on the settlement date.

Secondary Market Trading

The Book-Entry Interests will trade through participants of Euroclear and Clearstream and will settle in same day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any Book-Entry Interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

TRANSFER RESTRICTIONS

The Notes have not been registered and will not be registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction, and may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act and the securities laws of any other jurisdiction. Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 in reliance on Regulation S under the Securities Act.

Purchasers' Representations and Restrictions on Resale and Transfer

Each purchaser of Notes (other than the Sole Book-Running Manager in connection with the initial issuance and sale of Notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;

(2) it acknowledges that the Notes have not been registered under the Securities Act or with any securities regulatory authority of any U.S. state or any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) it understands and agrees that Notes offered in the United States to qualified institutional buyers will be represented by one or more Global Notes and that Notes offered outside the United States pursuant to Regulation S will also be represented by one or more Global Notes;

(4) it will not resell or otherwise transfer any of such Notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to another exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;

(5) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;

(6) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S) the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;

(7) it acknowledges that the fiscal agent, registrar or transfer agent for the Notes will not be required to accept for registration the transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;

(8) it acknowledges that we, the Sole Book-Running Manager and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the Sole Book-Running Manager; and

(9) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A Global Note, and which will be used to notify transferees of the foregoing restrictions on transfer:

> **"This note has not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees for the benefit of the issuer that this note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to the issuer, (2) so long as this note is eligible for resale pursuant to Rule 144A under the Securities Act ("Rule 144A"), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this note, represents and agrees that it shall notify any purchaser of this note from it of the resale restrictions referred to above.**
>
> **This legend may be removed solely at the discretion and at the direction of the issuer."**

The following is the form of restrictive legend which will appear on the face of the Regulation S Global Note and which will be used to notify transferees of the foregoing restrictions on transfer:

> **"This note has not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any U.S. state securities laws. The holder hereof, by purchasing this note, agrees that neither this note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration and in accordance with any applicable securities laws of any other applicable jurisdiction.**
>
> **This legend may be removed solely at the discretion and at the direction of the issuer."**

The resale restriction periods may be extended, in our discretion, in the event of one or more issuances of additional Notes, as described under "Terms and Conditions of the Notes." The above legends (including the restrictions on resale specified thereon) may be removed solely in our discretion and at our direction.

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in Global Notes and certificated Notes, see "Terms and Conditions of the Notes."

TAXATION

Honduras Taxation

The following is a general discussion of Honduran tax considerations. The discussion is based upon the tax laws of Honduras as in effect on the date of this Offering Circular, which are subject to change. Prospective investors should consult their own tax advisers with respect to Honduran tax consequences of the investment. This summary does not discuss the effects of any treaties that may be entered into by, or be effective with respect to, Honduras.

Under current Honduran law (Decree 183-2012), payments of principal and interest on the Notes to Holders who are not deemed to be Honduran residents are not subject to taxation in Honduras. Holding a Note will not by itself subject a Holder to any tax in Honduras. In addition, gains realized on the sale or other disposition of the Notes are not subject to income or withholding tax in Honduras provided the transaction takes place outside Honduras. Capital gain or any other applicable tax obtained for the purchase and sale of the Notes within Honduras will be subject to the treatment set up in the tax legislation. With respect to any natural or legal person that resides outside of Honduras, there are no Honduran transfer, inheritance, gift or succession taxes applicable to the Notes.

United States Federal Income Taxation

UNITED STATES TREASURY CIRCULAR 230 NOTICE

ANY U.S. FEDERAL TAXATION DISCUSSION IN THIS OFFERING CIRCULAR WAS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR PURPOSES OF AVOIDING U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. ANY SUCH TAX DISCUSSION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE NOTES TO BE ISSUED OR SOLD PURSUANT TO THIS OFFERING CIRCULAR. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

Generally

The following summary of certain material U.S. federal income tax consequences to original purchasers of the Notes of the purchase, ownership and disposition of the Notes is based upon existing U.S. federal income tax laws, which are subject to change, possibly with retroactive effect. No assurances can be given that any changes in these laws or authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this discussion, and there can be no assurance that the IRS will agree with all of such statements and conclusions.

This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances, such as investors whose functional currency is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, regulated investment companies, pension plans, tax-exempt organizations and investors holding Notes as a position in a "straddle", "conversion transaction", or "constructive sale" transaction). In addition, this summary does not discuss any non-U.S., state, or local tax considerations. This summary only applies to investors that hold Notes as "capital assets" (generally, property held for investment) within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the "Code").

For purposes of this summary, the term "U.S. Holder" means a beneficial owner of a Note who is an individual who is a citizen or resident of the United States, a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state of the United States or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source or a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons," as defined for U.S. federal income tax purposes, have the authority to control all substantial decisions of the trust or the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a United States person. If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the Notes, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and the activities of the partnership. As used herein, the term "non-U.S. Holder" means a beneficial owner of a Note that is not a U.S. Holder for U.S. federal income tax purposes.

Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant state, local, foreign or other tax laws.

U.S. Holders

Payments of Interest and Additional Amounts

We expect, and the remainder of this summary assumes, that the Notes will be issued at par or at a discount that is de minimis for U.S. federal income tax purposes. Accordingly, payments of interest on a Note generally will be taxable to a U.S. Holder as ordinary income at the time they are received or accrued, depending on the U.S. Holder's regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include any tax withheld from the interest payment as ordinary income, even though such holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the foreign tax credit rules, that interest generally will be classified as "passive category income" (or, in certain cases, as "general category income"), which may be relevant in computing the foreign tax credit allowable to a U.S. Holder under the U.S. federal income tax laws.

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement or other taxable disposition of a Note (including payments as a result of an acceleration) in an amount equal to the difference between the amount realized upon that sale, exchange, retirement or other taxable disposition (other than amounts representing accrued and unpaid interest not previously included in income, which will be taxed as such) and the U.S. Holder's adjusted tax basis in the Note. The amount realized is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement or other taxable disposition of a Note. A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. Holder's initial investment in the Note. Gain or loss generally will be capital, and will be long-term gain or loss if the Note is held for more than one year. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for foreign tax credit limitation purposes. Therefore, U.S. Holders may not be able to claim a credit for any Honduran tax imposed upon a disposition of a Note unless (subject to special limits) such holder has other income from foreign sources and certain other requirements are met.

Medicare Tax

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (i) the U.S. Holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year and (ii) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between U.S.$125,000 and U.S.$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally will include its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

Information with Respect to Foreign Financial Assets

Owners of "specified foreign financial assets" with an aggregate value in excess of $50,000 on the last day of the taxable year, or $75,000 at any time during the taxable year, generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

Non-U.S. Holders

Payments of Interest and Additional Amounts

Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally are not subject to U.S. federal income tax, including withholding tax, if paid to a "non-U.S. Holder", as defined above, unless the interest is effectively connected with such non-U.S. Holder's conduct of a trade or business within the United States (or, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by such non-U.S. Holder within the United States). In that case, the non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above. A non-U.S. Holder that is a corporation may, in certain circumstances, also be subject to an additional "branch profits tax" in respect of any such effectively connected interest income currently imposed at a 30% rate (or, if attributable to a permanent establishment maintained by such non-U.S. Holder within the United States, a lower rate under an applicable tax treaty).

Sale, Exchange, Retirement or Other Taxable Disposition of a Note

Subject to the discussion below of backup withholding, a non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a Note unless: (1) the gain is effectively connected with the conduct by such non-U.S. Holder of a trade or business within the United States (or, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States), or (2) such non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met. Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the non-U.S. Holder is a foreign corporation, such holder may also be subject to the branch profits tax as described above. Non-U.S. Holders described under (2) above generally will be subject to a flat 30% tax on the gain derived from the sale, exchange, retirement or other taxable disposition of Notes, which may be offset by certain U.S. capital losses (notwithstanding the fact that such holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under "—Payments of Interest and Additional Amounts."

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to payments of principal of and interest and any Additional Amounts on the Notes to non-corporate U.S. Holders if such payments are made within the United States or by or through a custodian or nominee that is a "U.S. Controlled Person," as defined below. Backup withholding will apply to such payments if a U.S. Holder fails to provide an accurate taxpayer identification number or, in the case of interest payments and the accrual of interest, fails to certify that it is not subject to backup withholding or is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns.

Non-U.S. Holders are generally exempt from these withholding and reporting requirements (assuming that the gain or income is otherwise exempt from U.S. federal income tax), but such non-U.S. Holders may be required to comply with certification and identification procedures in order to prove their exemption. If a non-U.S. Holder holds a Note through a foreign partnership, these certification procedures would generally be applied to such holder as a partner. The payment of proceeds of a sale or redemption of Notes effected at the U.S. office of a broker generally will be subject to the information reporting and backup withholding rules, unless such non-U.S. Holder establishes an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a U.S. Controlled Person, as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Holder (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term "U.S. Controlled Person" means:

- a "United States person;"
- a controlled foreign corporation for U.S. federal income tax purposes;
- a non-U.S. person 50% or more of whose gross income is derived for tax purposes from the conduct of a U.S. trade or business for a specified three-year period; or

- a non-U.S. partnership in which United States persons hold more than 50% of the income or capital interests or which is engaged in the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against the holder's U.S. federal income tax liability as long as the holder provides the required information to the IRS in a timely manner.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "Savings Directive"), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On September 15, 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Directive, which included the Commission's advice on the need for changes to the Savings Directive. On November 13, 2008 the European Commission published a more detailed proposal for amendments to the Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on April 24, 2009. If any of those proposed changes are made in relation to the Savings Directive, they may amend or broaden the scope of the requirements described above. Holders of Notes are advised to consult their independent professional advisers in relation to the implications of the proposed changes, once finally made.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by the Procuradora General de la República (the "*General Attorney of the Republic*"), by García & Bodán, Honduran counsel to the Republic, and by Arnold & Porter LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the Sole Book-Running Manager by López Rodezno y Asociados, Honduran counsel to the Sole Book-Running Manager, and by Shearman & Sterling LLP, U.S. counsel to the Sole Book-Running Manager. As to all matters of Honduran law, Arnold & Porter LLP will rely on the opinion of the General Attorney of the Republic and García & Bodán, and Shearman & Sterling LLP will rely upon the opinion of López Rodezno y Asociados.

GENERAL INFORMATION

1. The Global Notes will be accepted for clearance through Euroclear and Clearstream. The common codes for the Regulation S Global Note and the Rule 144A Global Note are 090565923 and 090565966, respectively, and the International Securities Identification Numbers for the Regulation S Global Note and the Rule 144A Global Note are XS0905659230 and XS0905659669, respectively.

2. The Republic has obtained all necessary consents, approvals and authorizations in the Republic of Honduras in connection with the issue and performance of the Notes. The issue of the Notes is authorized under Legislative Decree No. 183-2012 (as published in *La Gaceta* on December 4, 2012) and Legislative Decree No. 027-2013 (as published in *La Gaceta* on March 4, 2013) of the Republic's National Congress.

3. The Republic is currently involved in the following litigation and arbitration proceedings:

- On September 7, 2009, the Institutional Arbitration Center of the Honduran Bar Association issued a ruling against the Honduran Social Investment Fund (FHIS), ordering it to pay U.S.$51.5 million in favor of DRC, Inc. DRC, Inc. has filed a lawsuit in federal court in Washington, D.C. to execute the arbitration award against the Republic. The Republic has always fulfilled its obligations pursuant to international arbitral awards and intends to comply with any obligations imposed upon it by any future arbitral award.

- The Republic was recently made aware that it was substituted as the judgment debtor in a long standing case involving the state-owned agency CORFINO. On January 23, 2013, the United States District Court for the Southern District of New York (the "New York District Court") issued an order naming the Republic as successor-in-interest to CORFINO in respect of a judgment that had been issued by the United States District Court for the Southern District of Mississippi, Jackson Division, in February 2003 against CORFINO and other defendants, and permitting execution of the judgment against the Republic. As the Attorney General of the Republic (la Procuradora General de la República) had not been served with the hearing notice, the Republic was not represented before the New York District Court when the plaintiffs in this case requested that the Republic be named successor-in interest to CORFINO, and the Republic did not have the opportunity to contest the order. After being made aware of the order that had been issued, the Republic immediately filed a notice of appeal to the United States Court of Appeals for the Second Circuit. In addition, on March 1, 2013, the Republic requested a pre-motion conference with the New York District Court for purposes of seeking leave to file a Rule 60(b) motion to vacate or amend the order. The pre-motion conference has not yet been scheduled or held. The judgment, with accrued interest through January 20, 2010 is for U.S.$205,880,749.18.

4. On February 26, 2013, Moody's changed Honduras' outlook to negative from stable and affirmed the B2 local and foreign currency government bond ratings. On February 27, 2013, S&P revised its outlook on the long-term ratings on the Republic of Honduras to negative from stable. At the same time, Standard & Poor's affirmed its 'B+/B' sovereign credit ratings on Honduras.

Ratings are not a recommendation to purchase, hold or sell securities and may be changed, suspended or withdrawn at any time. The Republic's current ratings and the rating outlooks currently assigned to the Republic are dependent upon economic conditions and other factors affecting credit risk that are outside the control of the Republic. Any adverse change in the Republic's credit ratings could adversely affect the trading price for the Notes. Each rating should be evaluated independently of the others. Detailed explanations of the ratings may be obtained from the rating agencies.

5. Application has been made to list the Notes on the Luxembourg Stock Exchange and to have the Notes admitted to trading on the Euro MTF Market. So long as any of the Notes are listed on the Luxembourg Stock Exchange, the Republic will maintain a paying agent and transfer agent in Luxembourg.

6. Copies of the following documents may be obtained on any business day (Saturdays, Sundays and public holidays excepted) at the office of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

(a) the Fiscal Agency Agreement incorporating the forms of Global Notes and Definitive Registered Notes;

(b) copies of the Constitution of the Republic, and the Legislative Decrees of the Republic referred to in paragraph 2 above (in Spanish); and

(c) copies of the Republic's combined public sector fiscal accounts for the last calendar year (as and when available in English).

7. Other than as disclosed herein, there has been no material adverse change in the financial condition of the Republic which is material in the context of the issue of the Notes since December 31, 2011.

ISSUER

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The Republic of Honduras

U.S.$500,000,000
7.50% Notes due 2024

Deutsche Bank Securities

Offering Circular

March 12, 2013