OFFERING CIRCULAR

U.S.$700,000,000

The Republic of Honduras

6.250% Notes due 2027

The Republic of Honduras (the "Republic" or "Honduras") is offering U.S.$700,000,000 aggregate principal amount of its 6.250% Notes due 2027 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on January 19 and July 19 of each year, commencing on July 19, 2017. The Notes will mature on January 19, 2027.

The Notes will constitute direct, general, unconditional, unsubordinated and unsecured Indebtedness (as defined below) of the Republic and will rank equally, 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. It is understood that this provision will not be construed so as to require the Republic to make payments under any series of the Notes ratably with payments being made under any other Public External Indebtedness.

The Notes will be issued pursuant to an Indenture (as defined below) that contains provisions permitting future modifications to any term of the Notes without the approval of all the holders of the Notes. Under these provisions, the Republic may amend the payment provisions of any series of debt securities issued by the Republic and other reserve matters listed in the Indenture with the consent of the holders of: (1) more than 75% of the aggregate principal amount of the outstanding debt securities of a series affected by the proposed modification; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, whether or not the "uniformly applicable" requirements are met, more than 66⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the then aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually.

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 will be 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: 100.000%(1)

(1) Plus accrued interest, if any, from January 19, 2017.

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 will be made on or about January 19, 2017 only in book-entry form through the facilities of The Depository Trust Company ("DTC") and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"), against payment in New York, New York.

Joint Book-Running Managers

BofA Merrill Lynch **Citigroup**

The date of this Offering Circular is January 12, 2017.

Honduras

CARIBBEAN SEA
BELIZE
GOLF OF HONDURAS
Islas de la Bahía
Roatán
HONDURAS
GUATEMALA
Trujillo
Cortes
Atlántida
La Ceiba
Colon
San Pedro Sula
Yoro
Santa Bárbara
Yoro
Gracias a Dios
Puerto Lempira
Copán
Olancho
Santa Rosa de Copan
Santa Bárbara
Comayagua
Juticalpa
Gracias
Comayagua
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.

The Republic is responsible only for the information contained in this Offering Circular. The Republic has not, and the initial purchasers have not, authorized anyone to provide you with information that is different from the information contained in this Offering Circular. The Republic is offering to sell the Notes only in jurisdictions where offers and sales are permitted. The offer and sale of the Notes in certain jurisdictions is subject to restrictions described herein under "Plan of Distribution—Sales outside of the United States." The information contained in this Offering Circular, is accurate only as of the date in front of such documents, regardless of the time of delivery of such documents or any sales of Notes.

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

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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 Offering Circular 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 initial purchasers to subscribe to or purchase any of the Notes in a jurisdiction where such offer would be unlawful. 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 initial purchasers 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 initial purchasers or any person affiliated with the initial purchasers 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 initial purchasers.

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE PERSON(S) (IF ANY) NAMED 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 DURING THE STABILIZATION PERIOD AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION ACTION MAY NOT NECESSARILY OCCUR. 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 REPUBLIC RECEIVED THE PROCEEDS OF THE ISSUE, OR NO LATER THAN 60 DAYS AFTER THE DATE OF ALLOTMENT OF THE RELEVANT NOTES, WHICHEVER IS THE EARLIER. ANY STABILIZATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILIZING MANAGER(S) (OR PERSONS ACTING ON THEIR BEHALF) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES AND WILL BE UNDERTAKEN AT THE OFFICES OF THE STABILIZING MANAGER(S) (OR PERSONS ACTING ON THEIR BEHALF) AND ON THE EURO MTF MARKET OF THE LUXEMBOURG STOCK EXCHANGE.

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 Ministries, decentralized institutions, such as the Honduran tax administration agency (*Dirección Ejecutiva de Ingresos*, or "DEI") and the Honduran Social Security Institute ("*Instituto Hondureño de Seguridad Social,* "IHSS"), and the Central Administration. The central administration ("Central Administration") consists of the three branches of government and constitutionally created entities. 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 public sector financial institutions, such as the Central Bank of Honduras (*Banco Central de Honduras*, "Central Bank" or "CBH").

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 Central 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 2014, 2015 and 2016 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 *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 "Descriptions 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, U.S. dollar equivalents of *lempira* amounts as of a specified date are based on the exchange rate in effect for such date and U.S. dollar equivalents of *lempira* amounts for a specified period are based on the average daily exchange rates for such periods. 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."

The following table shows the average and end-of-period Lempira/U.S. dollar exchange rates and the real exchange rate index.

Foreign Exchange Rates

Year	Average	End-of-period	Real Exchange Rate Index
	(L. per U.S.$1.00)[1]		(Base December 2014 = 100)
2011	18.9166	19.0520	101.0
2012	19.5041	19.9623	98.9
2013	20.3565	20.5975	97.9
2014	20.9886	21.5124	100.0
2015	21.9467	22.3676	100.4
2016			
January	22.4548	22.5380	100.5
February	22.5875	22.6079	100.2
March	22.6261	22.6359	99.6
April	22.5902	22.5836	99.4
May	22.6080	22.6631	99.7
June	22.7417	22.7892	99.9
July	22.8394	22.8710	99.9
August	22.8890	22.8969	99.7
September	22.9656	23.0306	99.6
October	23.0815	23.1019	99.0
November	23.1805	23.3804	n.a.
December	23.4506	23.5029	n.a.

(1) Purchase exchange rate.
n.a. Not available
Source: Central Bank

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 2015 of 8.6 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. According to preliminary figures, Honduras had a nominal gross domestic product ("GDP") of approximately L.451.3 billion (U.S.$20.6 billion) in 2015. Honduras has experienced sustained economic growth over recent years with real GDP growth averaging 3.5% per annum from 2011 to 2015.

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 current President is Juan Orlando Hernandez, who was elected on November 24, 2013 with 37% of the popular vote.

The power of the executive branch is vested in the President of Honduras and in its 12 cabinet secretaries. The President appoints all cabinet secretaries and may remove them at will. Each cabinet secretary is the head of a government agency, called Secretarías, responsible for different sectors, such as defense, agriculture, finance, commerce and industry, and tourism.

The National Congress is made up of a single house of 128 publicly elected members who serve for four-year terms. The following table sets forth the current composition of the National Congress by political party:

Political Party	2016
	Number of Seats
National Party of Honduras (Partido Nacional de Honduras)	48
Refoundation and Freedom Party (Partido Libertad y Refundación)	37
Liberal Party of Honduras (Partido Liberal de Honduras)	27
Anti-Corruption Party of Honduras (Partido Anticorrupción de Honduras)	13
Democratic Christian Party of Honduras (Partido Demócrata Cristiano de Honduras)	1
Democratic Union (Unificacion Democratica)	1
Socialist-Democratic Innovation and Unity Party (Partido Social Demócrata Innovación y Unidad)	1

The Supreme Court is made up of 15 justices appointed by the National Congress for seven-year terms, each of whom may be reappointed.

Economic Performance

GDP

From 2011 to 2015, the Honduran economy experienced average real GDP growth of 3.5%, which was primarily driven by consumption, investments and exports. Private sector consumption averaged 73.8% of real GDP in this period and private investment represented 18.8%. Economic performance during this period was bolstered by the inflow of family remittances, which recorded an average annual increase of 7.0%.

In the first nine months of 2016, real GDP increased 3.9%, a 0.4% of GDP increase compared to the same period of 2015, driven mainly by an increase in the financial intermediation (8.7%), manufacturing (3.1%), agriculture, stockbreeding, hunting, forestry and fishing (3.2%), commerce, hotels and restaurants (3.5%), communications (3.3%) and electricity sectors (8.9%).

Inflation

From 2011 to 2015, the average annual inflation rate was 4.8%, a decrease compared to the average inflation rate between 2006 to 2010 of 6.9%. In 2015, the implementation of monetary policy, the historic decline in fuel prices and favorable conditions in the supply of food resulted in an inflation rate of 2.4%. Through the end of December 2016, inflation was 3.3%, compared to 2.4% for 2015. This increase was due mainly to increases in fuel, energy and clothing prices.

Foreign Exchange

On July 21, 2011, the Central Bank modified the fixed exchange rate regime and established a crawling band through which the exchange rate is permitted to fluctuate, based on daily foreign exchange auctions. Since July 2011, the CBH has maintained the exchange rate band of +/- 7.0% with respect to an established reference exchange rate for the daily foreign currency auctions. As of December 31, 2016, the reference exchange rate was at L.23.50 with a lower band limit of L.21.68 and an upper band limit of L.24.95.

Foreign Currency Reserves

The level of net international reserves (NIR) of the CBH in 2011 was U.S.$2,820.7 million. In 2012 it decreased by U.S.$249.8 million reaching U.S.$2,570.9 million. From 2013 to 2015 the level of NIR showed increases of U.S.$485.0 million, U.S.$460.6 million and U.S.$305.8 million, respectively, reaching balances of U.S.$3,055.9 million for 2013, U.S.$3,516.5 million for 2014 and U.S.$3,822.3 million for 2015. As of December 31, 2016, the balance of NIR increased to U.S.$3,887.6 million. As of December 31, 2016, official reserve assets stood at U.S.$4,171.8 million, equivalent to 4.6 months of imports of goods and services.

Balance of Payments and Foreign Trade

Exports increased at an average annual rate of 5.7% between 2011 and 2015. In 2015, exports decreased by 0.4% compared with 2014. During the first nine months of 2016, free on board (FOB) exports of goods decreased by 3.6% compared to the first nine months of 2015 and accounted for 38.5% of GDP. This decrease was mainly due to declines in prices of commodities, such as coffee, paper and cardboard, and mineral products.

CIF imports of goods from 2011 to 2015, as a percentage of nominal GDP, decreased from 67.2% in 2011 (U.S.$11,895.9 million) to 59.0% in 2015 (U.S.$12,117.0 million). This decrease as a percentage of nominal GDP was mainly due to modest increases in imports of goods coupled with the increase in nominal GDP during the 2011 to 2015 period. For the first nine months of 2016, imports of goods decreased by 5.9% over the same period in 2015 and represented 50.8% of GDP. The decrease in imports for the period was mainly due to a decrease in imports of commodities and intermediate products, such as fuel, lubricants and energy.

Remittances to Honduras represent a significant contribution to its economy. In 2015, remittances from Hondurans living abroad represented 17.8% of the nominal GDP. During the nine-month period ended September 30, 2016, remittances from Hondurans living abroad reached U.S.$2,942.5 million or 18.9% of GDP.

Monetary System

The Central Bank and the National Commission for Banking and Insurance (Comisión Nacional de Bancos y Seguros (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 and a payments system operating in accordance with international standards and best practices. As of September 30, 2016, the total loans in the financial system increased to U.S.$10,869.4 million, representing an increase of 5.9% or U.S.$601.4 million, compared to the same period in 2015.

Central Administration Revenues and Expenditures

Since 2014, the Central Administration has been implementing a policy of fiscal consolidation that has led to reductions in its fiscal deficit. In 2014, the Central Administration's fiscal deficit decreased to 4.4% of nominal GDP or U.S.$857.6 million compared to a fiscal deficit in 2013 of 7.9% of nominal GDP or U.S.$1,461.0 million. In 2014, total revenues amounted to U.S.$3,657.6 million and tax revenues increased to U.S.$3,180.4 million, compared to U.S.$3,149.8 million and U.S.$2,732.4, respectively, in 2013. In 2015, the Central Administration's fiscal deficit was further reduced to 3.0% of nominal GDP or U.S.$626.5 million. For the first nine months of 2016, the Central Administration's fiscal deficit was 0.9% of nominal GDP or U.S.$182.8 million.

Total revenues for the Central Administration for 2015 amounted to U.S.$4,019.6 million. Current revenues from tax collections, non-tax and operating income were U.S.$3,832.5 million. In 2015, tax revenues further increased to U.S.$3,539.2 million. For the first nine months of 2016, the Central Administration's total revenues were U.S.$3,250.4 million, compared to U.S.$2,956.6 million for the same period in 2015.

In 2015, current expenditures of the Central Administration were U.S.$3,691.4 million (18% of nominal GDP), compared to U.S.$3,502.1 million (17.9% of nominal GDP) in 2014. For the first nine months of 2016, the Central Administration's current expenditures were U.S.$2,721.5 million, compared to U.S.$2,512.9 million for the same period in 2015.

Public Sector Debt

As of September 30, 2016, the Central Administration total public debt increased to U.S.$9,308.9 million, of which U.S.$5,798.1 million was external debt and U.S.$3,510.8 million was internal debt.

As of September 30, 2016, the average maturity of all the Central Administration's public sector debt was 8.68 years. While the majority of the Central Administration's public sector internal debt has maturities between one and 10 years and an average maturity of 4.34 years, the Central Administration's public sector external debt is mostly long term and has an average life of 11.31 years.

As of September 30, 2016, 34% of Honduras' Central Administration's total debt was denominated in lempiras with the remaining 66% denominated in foreign currency.

As of September 30, 2016, 74% of the Central Administration's public sector debt was fixed rate and 26% was floating rate, the same proportion registered as of December 31, 2015.

2017 Elections

Primary elections are scheduled for Sunday, March 12, 2017. Primary elections are held to select candidates from within each party to run for office in the general elections. Parties may choose not to participate in primary elections as they may nominate candidates for the general elections by consensus. All three political parties participating in primary elections have registered their preliminary candidates. President Juan Orlando Hernandez accepted the nomination to be the National Party of Honduras' presidential candidate for the 2018-2022 period. The Liberal Party has six presidential candidates vying for the party's nomination in primary elections, while the Partido Libertad y Refundación has four candidates running in the primary elections, including former First Lady, Xiomara Castro de Zelaya. General elections are to be held the last Sunday of November 2017.

2017 Budget

On December 15, 2016, the National Congress, through Legislative Decree No. 171-2016, approved the budget for 2017 for the consolidated public sector. The 2017 budget projects revenues for the consolidated public sector in the amount of L.228,688.1 million, which represents an increase of L.22,366.6 million or 10.8%, compared to the 2016 budget. The Central Administration's revenues (which include financing) are estimated to be L.130,499.5 million, a 6.0% increase over the 2016 budget. The Central Administration's expenditures are expected to be L.130,499.5 million, an increase of 1.4% compared to the 2016 budget. The projected fiscal deficit for the Central Administration under the 2017 budget is 3.5% of GDP, a 0.3% increase compared to the 2016 budget. Expected financing needs for 2017 include L.12,259 million of external debt (excluding the amount of this offering) and L.19,473 million of internal debt.

Central Government Projects and Reforms

The National Economic Development Program Honduras 20/20 (*Programa Nacional de Desarrollo Económico Honduras 20/20*) is the largest platform for economic growth in Honduras. It was developed by the Central Government in collaboration with the private sector and McKinsey, a management consulting firm. The program, which will be implemented from 2016 to 2020, targets the creation of 600,000 new jobs in five years and the promotion of key sectors of the economy with investments of more than U.S.$12.6 billion. The program will be funded equally by the Central Government through the Commission for the Promotion of Public Private Partnership (*Comisión para la Promoción de la Alianza Público-Privada* (COALIANZA)) and the Honduran Foundation for Development Studies.

Infrastructure Investments Program

The construction of an efficient road system has become one of the most important pillars for economic and social development for Honduras both at a national and regional level. Investment in road infrastructure is expected to have significant benefits, including access to land for productive activities, economic diversification and expansion of basic public services. For the period from 2017 through 2020, the Government has projected investments in infrastructure for a total of U.S.$2,485.7 million. These include U.S.$1,377.1 million for the transportation sector and U.S.$391.6 million for energy projects. Together, investments in transportation and energy projects will represent 71.2% of the Government's total planned infrastructure investments.

The infrastructure projects that are being developed include:

- *The Logistic Corridor Project* is part of the Plan Puebla Panamá Mesoamerican Corridor, which is an initiative of highway integration with the purpose of reducing transportation costs through the construction, rehabilitation and improvement of several corridors passing through México, Belize, Guatemala, Honduras and El Salvador.

- *The Patuca III* is a project for the construction of a hydroelectric dam located in the south-east of Honduras in the Rio Patuca in Olancho.

- Puerto Cortés is the main port of Honduras and accounts for approximately 90% of Honduras' commercial activity.

Poverty

In 2012, the percentage of households living below the poverty line was 66.5%, while 46.0% of Hondurans lived in extreme poverty. As of June 30, 2016, the number of households living in poverty decreased to 60.9% and 38.4% lived in extreme poverty, a reduction of 5.6 percentage points and 7.6 percentage points, respectively, when compared to 2012.

The Juan Orlando Hernández administration continues implementing several Lobo Administration programs to fight poverty, including the implementation of the most important Central Government social protection program: the "Bono 10,000" program, now named "Bono Vida Mejor Program." This program helps extremely impoverished families with cash transfers in exchange for meeting a series of requirements. As of June 30, 2016, 325,317 families have benefited from the Bono Vida Mejor program. Central Government agencies, including the Presidential Office and the Health Secretary, supervise and ensure participants complete the Bono Vida Mejor requirements, which include children's continuous school enrollment and regular medical checkups.

Selected Economic Indicators

	For the year ended December 31,					For the first nine months ended September 30,	
	2011	2012	2013	2014	2015	2015	2016
The Economy							
Nominal GDP (L. millions)[1]	335,027.8	361,348.5	376,539.4	409,611.7	451,278.8	330,109.9	353,143.2
Nominal GDP (U.S.$ millions)[1][7]	17,702.8	18,513.7	18,498.3	19,506.2	20,554.6	15,134.4	15,597.4
Real GDP growth[1][3]	3.8%	4.10%	2.8%	3.1%	3.6%	3.4%	3.9%
Annual inflation	5.6%	5.4%	4.9%	5.8%	2.4%	-	3.3%[2]
Open Unemployment[8]	4.3%	3.6%	3.9%	5.3%	7.3%	n.a.	7.4%
Balance of Payments (U.S.$ millions)							
Exports[4]	9,000.0	9,415.2	8,818.4	9,159.1	9,144.9	7,074.5	6,888.9
Imports[4]	12,572.3	13,018.2	12,633.2	12,854.1	12,891.0	9,812.4	9,278.7
Goods and services balance[4]	(3,572.3)	(3,602.9)	(3,814.8)	(3,695.0)	(3,746.0)	(2,737.9)	(2,389.8)
Current account surplus (deficit)[4]	(1,408.7)	(1,580.7)	(1,762.5)	(1,444.2)	(1,291.4)	(958.1)	(544.2)
As % of GDP[1]	(8.0)%	(8.5)%	(9.5)%	(7.4)%	(6.3)%	(6.3)%	(3.5)%
Net international reserves	2,820.7	2,570.9	3,055.9	3,516.5	3,822.3	3,672.6	3,706.4
Combined Public Sector							
Total revenues (U.S.$ millions)[7]	5,263.5	5,444.8	5,634.8	6,169.3	6,503.7	4,720.8	5,234.9
Total expenditures (U.S.$ millions)[7]	5,707.0	6,131.3	6,950.2	6,925.3	6,726.7	4,470.9	5,130.4
Primary balance surplus (deficit)[7]	(485.8)	(708.6)	(1,219.6)	(622.6)	(1.1)	412.8	247.4
As % of GDP[1]	(2.7%)	(3.8)%	(6.6)%	(3.2)%	0.0%	2.0%	1.2%
Overall balance surplus (deficit)[7]	(443.5)	(686.5)	(1,315.5)	(756.0)	(223.0)	249.9	104.5
As % of GDP[1]	(2.5%)	(3.7)%	(7.1)%	(3.9)%	(1.1)%	1.2%	0.5%
Public Sector Debt							
Total public debt[7]	5,748.9	6,406.8	8,003.7	8,682.8	9,194.5	-	9,308.9
Internal debt[5][7]	2,652.7	2,857.3	2,947.5	3,259.4	3,461.8	-	3,510.8
External debt[6]	3,096.3	3,549.5	5,056.1	5,423.4	5,732.6	-	5,798.1
Total public debt (% of GDP)[1]	32.7	35.4	43.3	45.6	46.2	-	46.0
Public internal debt (% of GDP)[1][5]	15.1	15.8	15.9	17.1	17.4	-	17.3
Public external debt (%of GDP)[1][6]	17.6	19.6	27.3	28.5	28.8	-	28.6

(1) Revised figures for 2011.
(2) As of December 31.
(3) Percentage change from previous year.
(4) Goods and services at FOB prices.
(5) Internal Debt: Central Government debt, including non-market securities (e.g., recapitalization bonds of the Central Bank, *Corporación Nacional de Inversiones* bonds, El Zarzal bonds, agrarian debt, but excluding the Central Bank's zero coupon bonds for quasi-final debt).
(6) External Debt of the Central Government.
(7) Amounts in lempiras have been converted to U.S. dollars using the following average exchange rates for each of the periods indicated:
Year ended December 31, 2011: L.18.93 = U.S.$ 1.00
Year ended December 31, 2012: L.19.52 = U.S.$ 1.00
Year ended December 31, 2013: L.20.36 = U.S.$ 1.00
Year ended December 31, 2014: L.21.00 = U.S.$ 1.00
Year ended December 31, 2015: L.21.96 = U.S.$ 1.00
Nine months ended September 30, 2015: L.21.81 = U.S.$1.00
Nine months ended September 30, 2016: L.22.64 = U.S.$ 1.00
(8) As of May 31 of each year.
Source: SEFIN & Central Bank

The Offering

Issuer	The Republic of Honduras.
Issue Amount	U.S.$700,000,000 aggregate principal amount.
Issue Price	100.000% of the principal amount of the Notes, plus accrued interest, if any, from January 19, 2017.
Issue Date	January 19, 2017.
Maturity Date	January 19, 2027.
Interest	The Notes will bear interest from January 19, 2017 at the rate of 6.250% per annum payable semi-annually in arrears on January 19 and July 19 of each year, commencing on July 19, 2017.
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 "Description of the Notes—Additional Amounts."
Status	The Notes will constitute direct, general, unconditional, unsubordinated and unsecured Indebtedness (as defined below) of the Republic and will rank equally, 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. It is understood that this provision will not be construed so as to require the Republic to make payments under any series of the Notes ratably with payments being made under any other Public External Indebtedness.
Negative Pledge and Certain Covenants	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 "Description of the Notes—Covenants—Negative Pledge."
Use of Proceeds	The net proceeds from the issuance and sale of the Notes, after deducting estimated offering expenses and the initial purchasers' commissions and discounts, will be approximately U.S.$697.3 million. The proceeds from the issuance and sale of the Notes will be loaned to the National Electric Company (ENEE) for the repayment of accounts payable owed to suppliers of ENEE and to repay certain other indebtedness of ENEE.
Collective Action Clauses	The Notes will be issued pursuant to an indenture that contains provisions permitting future modifications to any term of the Notes without the approval of all the holders of the Notes. Under these provisions, the Republic may amend the payment provisions of any series of debt securities issued by the Republic and other reserve matters listed in the indenture with the consent of the holders of: (1) more than 75% of the aggregate principal amount of the outstanding debt securities of a series affected by the proposed modification; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of

	all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, whether or not the "uniformly applicable" requirements are met, more than 66⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the then aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually. See "Description of the Notes — Collective Action Securities, Modifications, Amendments and Waivers."
Form of Notes	The Notes will be issued in the form of global notes without coupons, registered in the name of a nominee of DTC, as depositary, for the accounts of its participants (including, direct and indirect participants, such as Euroclear and Clearstream). Notes in definitive certificated form will not be issued in exchange for the Global Notes except under 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.$150,000 and integral multiples of U.S.$1,000 in excess thereof.
Further Issues	From time to time, the Republic may, without the consent of holders of the Notes create and issue additional Notes with the same terms and conditions as the Notes (except the amount of the first interest payment, the issue date and the issue price), provided, however, that any additional Notes subsequently issued shall be fungible with the Notes for U.S. federal income tax purposes. Additional Notes issued in this manner will be consolidated with and will form a single series with the Notes.
Listing	Application will be 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 and the Indenture 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."
Trustee	The Bank of New York Mellon.
Principal Paying Agent, Transfer Agent and Registrar	The Bank of New York Mellon.
Luxembourg Paying Agent and Luxembourg Transfer Agent	The Bank of New York Mellon (Luxembourg) S.A.
Risk Factors	You should carefully consider all of the information in this Offering Circular. See "Risk Factors" in the Offering Circular for a description of the principal risks involved in making an investment in the Notes.

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 initial purchasers that they intend to make a market in the Notes but are 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 will be 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. However, no assurance 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 as well as 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 "Description of the Notes — Events of Default" and "— Collective Action Securities, Modifications, Amendments and Waivers," the Republic of Honduras may amend (1) the payment provisions of debt securities, including the Notes, with the consent of more than 75% of the aggregate principal amount of the outstanding debt securities of a series affected by the proposed modification; (2) with respect to two or more series of debt securities, if certain "uniformly applicable" requirements are met, more than 75% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate; or (3) with respect to two or more series of debt securities, whether or not the "uniformly applicable" requirements are met, more than 66⅔% of the aggregate principal amount of the outstanding debt securities of all series affected by the proposed modification, taken in the aggregate, and more than 50% of the then aggregate principal amount of the outstanding debt securities of each series affected by the proposed modification, taken individually except as described herein.

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.

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. Further, 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. Under the laws of the Republic, the revenues and property of the Republic in Honduras are exempt from attachment or other form of execution, whether before or after judgment. 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, silver and African palm oil, among other commodities and products. 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 and other products will not experience fluctuations as a result of changes in the international markets. A decline in international prices for such commodities or other products could adversely affect the Honduran economy, fiscal accounts and international reserves. Additionally, Honduras' production capacity could decrease due to plant disease or producers' inability or failure to make the necessary capital expenditures in 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.

Presidential elections will be held in November 2017. 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." In 2015, remittances from the United States to Honduras totaled U.S.$3,649.8 million or 17.8% of nominal GDP. During the six months ended June 30, 2016, remittances totaled U.S.$1,875.5 million or 18.1% of GDP. As part of United States President-Elect Trump's campaign platform, he announced his intention to implement policies that could potentially reduce the flow of remittances to Honduras, including deportation of undocumented immigrants living in the United States, including immigrants from Honduras, and a tax on outgoing remittances. The implementation of these or other similar policies could reduce the flow of remittances to Honduras. 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, Latin America or global markets;
- changes in capital markets in general that may affect policies or attitudes towards investing in Honduras;
- the ability of Honduras to effect key economic reforms;
- high levels of inflation or deflation;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy;
- the decisions of international financial institutions regarding the terms of their financial assistance to Honduras;
- changes in the value of the currency; and
- changes in oil and commodities prices.

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 has been vulnerable to external shocks, such as the Global Economic Crisis and the financial crisis in Europe, and remains vulnerable to those that could be caused by future significant economic difficulties of its major regional trading partners or by more general "contagion" effects.

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 May 24, 2016, Moody's Investors Service ("Moody's") upgraded Honduras' bond ratings to B2 from B3. Concurrently, it has upgraded the foreign currency and local currency issuer and senior unsecured ratings to B2 from B3. The outlook on the ratings remains positive.

On July 18, 2016, Standard & Poor's (S&P) revised its outlook on the Republic of Honduras to positive from stable and also affirmed its sovereign credit ratings for Honduras of B+ for long-term debt and B for short-term debt.

Ratings address the creditworthiness of Honduras and the likelihood of timely payment of Honduras' long-term 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 proceeds of the offering of the Notes will be loaned to ENEE.

The proceeds from the issuance and sale of the Notes will be loaned to ENEE for the repayment of accounts payable owed to suppliers of ENEE and to repay certain other indebtedness of ENEE. It is expected that ENEE and the Secretaría de Finanzas of the Republic will enter into an agreement pursuant to which ENEE will repay the Republic the amount of such loan, but there can be no guaranty that ENEE will be able to pay such loan.

Honduras may be adversely affected by weather systems, such as hurricanes and tropical systems.

In recent years, Honduras has been affected by major weather systems. 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 were damaged, approximately 5,675 people were killed and 12,272 people were 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 sustained rains. The weather system caused flooding and mudslides in several areas across Central America, affecting northern Honduras in the departments of Atlántida, Olancho, Colón, Yoro, Cortés and Copán. The Central Government estimates that approximately U.S.$150 million in losses were incurred and thousands of families were evacuated from their homes. Overall, around 290,000 people were affected by the storm, which caused severe damage to homes and transportation infrastructure. Honduras may suffer major weather systems in the future and the economic losses resulting from such systems may have an adverse effect on the Republic's ability to repay the Notes.

Failure to adequately address actual and perceived corruption may adversely affect Honduras.

Honduras ranked 112 out of 168 countries in the Corruption Perceptions Index of 2015 produced by Transparency International. The Government of Honduras has embarked on a program to implement anti-corruption reforms, including with the Organization of American States through its Support Mission Against Corruption in Honduras (MACCIH). If the Government's policies fail to address corruption effectively, such failure could lead to political instability, impair Honduras' international standing and adversely affect foreign investment in Honduras.

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 initial purchasers and the net expenses payable by the Republic, will be approximately U.S.$697.3 million. The proceeds from the issuance and sale of the Notes will be loaned to ENEE for the repayment of accounts payable owed to suppliers of ENEE and to repay certain other indebtedness of ENEE.

THE REPUBLIC OF HONDURAS

Territory, Population and Society

Honduras is Central America's second most populated country, with an estimated population of 8.6 million people in 2015 according to the Institute of National Statistics (INE), and second largest in land mass, 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 the heavily populated lowland Sula valley in the northwest. In La Mosquitia region lays 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 tropical storms can occur 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. Although relatively uncommon, Honduras has suffered directly from hurricanes, which have a greater propensity in the period from August to November.

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 2015, approximately 54% of the population resided in urban areas and 46% 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 2015. San Pedro Sula is the commercial and industrial center of the country.

The average annual population growth rate for the Republic was 1.7% during the 2014 to 2015 period. Most of the population is Roman Catholic.

Approximately 700,000 Hondurans are currently believed to be living in the United States, while approximately 86,000 are located in Spain, Canada and Italy, among other countries. Remittances to Honduras represent a significant contribution to its economy. In 2015, remittances from Hondurans living abroad represented 17.8% of the GDP. During the nine-month period ended September 30, 2016, remittances from Hondurans living abroad reached U.S.$2,942.5 million or 18.9% of GDP mainly due to a lower unemployment rate in the United States.

As of June 30, 2016, approximately 89.0% of the adult population in Honduras was literate. Although the Political Constitution of the Republic of Honduras of 1982 (the "Constitution"), as modified, states that the Central Government must provide free primary education for every child between the ages of seven and 14, statistical information indicates that pre-basic education coverage for 2015 was 76.8%, an increase of 3.8% compared to 2014. The coverage of basic education in 2015 was 76.8% representing an increase of 0.4% compared to 2014. General education coverage in 2015 increased to 0.4% compared to 2014.

The World Bank classifies Honduras as a lower-middle income country. According to the Human Development Report of the United Nations Development Program, the gross per-capita income of Honduras in 2014 was U.S.$3,938. The country faces significant challenges related to political reconciliation, implementing structural fiscal reforms to improve macroeconomic performance and strengthening crime and violence prevention. As of September 30, 2016, 60.9% of Honduran households lived in poverty and 38.4% lived in extreme poverty, based on income measures. After the global economic crisis that commenced in 2008 (the "Global Economic Crisis"), Honduras has experienced a moderate recovery, attributable mainly to public investments, increased exports and higher remittances. Real GDP growth was 2.8% in 2013, 3.1% 2014 and 3.6% in 2015. In the first nine months of 2016, real GDP grew 3.9% compared to the same period in 2015.

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 following table sets forth information on per capita gross national income, average life expectancy, adult literacy rates and education enrollment ratios in certain Central American countries and the United States, as reported by the United Nations Development Program.

Selected Comparative Social Statistics

	Honduras	El Salvador	Nicaragua	Guatemala	Costa Rica	United States
Per Capita GNI[(1)]	$3,938	$7,349	$4,457	$6,929	$13,413	$52,947
Average life expectancy[(2)]	73.1	73.0	74.9	71.8	79.4	79.1
Adult literacy rate[(3)]	85.4%	85.5%	78.0%	78.3%	97.4%	N.A.
Mean years of schooling[(4)]	5.5	6.5	6.0	5.6	8.4	12.9
Expected years of schooling[(4)]	11.1	12.3	11.5	10.7	13.9	16.5

(1) Gross National Income in constant 2005 dollars, based on 2014 figures, adjusted for purchasing power parity.
(2) In years, for 2014.
(3) Percentage of the population ages 15 and older who can, with understanding, both read and write a short simple statement on their everyday life.
(4) 2013 data or the most recent year available within the period 2005 to 2013.
Source: Human Development Report 2015, United Nations Development Programme.

Historical Background

Prior to the 16th century, various indigenous tribes occupied the territory 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 declared its independence 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 that favored international trade and investment were implemented in the 1870s, prompting foreign investment to focus on the export industry. Banana exporting companies built an independent economy. This marked the beginning of direct and total control by foreign investors of banana production and marketing. As a result, thousands of workers traveled to the north coast to work in the banana plantations and other industries located in northern Honduras. The fruit companies commandeered the infrastructure and created self-sufficient, tax exempt sectors that contributed relatively little to the economic growth of the rest of the country. In addition to drawing many Central American workers to the north, the fruit companies also encouraged immigration of workers from the English-speaking Caribbean, most notably Jamaica and Belize.

Constitutional crises in the 1940s led to reforms in the 1950s. As a result of one of such reforms, workers were given permission to unionize, 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 , replacing former United Fruit Company lawyer and then President, Juan Manuel Galvez. 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 six-year term.

The Villeda administration obtained funds from the International Monetary Fund ("IMF") to stabilize the Republic's currency and from the World Bank to foster infrastructure development. 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 another 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 elected by popular vote in April 1980, and the first democratic and general elections were held in November 1981. In 1982, a new constitution was approved, which remains in effect, 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 advisor 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 implemented IMF programs aimed at reforming and modernizing 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 that were 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, which drew widespread international condemnation. 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 presidential 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 involved: (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.

President Juan Orlando Hernandez won the presidential election of November 24, 2013 with 37% of the popular vote. Hernandez defeated Xiomara Castro of the Refoundation and Freedom Party (Partido Libertad y Refundación - LIBRE), who secured 29% of the popular vote, and Mauricio Villeda of the Liberal Party of Honduras (Partido Liberal de Honduras), who received 20% of the popular vote, as well as four other presidential candidates.

The following table sets forth the current composition of the National Congress by political party:

Political Party	**2016** ***Number of Seats***
National Party of Honduras (Partido Nacional de Honduras)	48
Refoundation and Freedom Party (Partido Libertad y Refundación)	37
Liberal Party of Honduras (Partido Liberal de Honduras)	27
Anti-Corruption Party of Honduras (Partido Anticorrupción de Honduras)	13
Democratic Christian Party of Honduras (Partido Demócrata Cristiano de Honduras)	1
Democratic Union (Unificacion Democratica)	1
Socialist-Democratic Innovation and Unity Party (Partido Social Demócrata Innovación y Unidad)	1

Source: Supreme Electroral Tribunal (*Tribunal Supremo Electoral*).

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 power of the executive branch is vested in the President of Honduras and in its 12 cabinet secretaries. The President appoints all cabinet secretaries and may remove them at will. Each cabinet secretary is the head of a government agency, called *Secretarías*, 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 institutions, 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 in 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* (IHCAFE)); the Honduran Social Security Institute (*Instituto Hondureño de Seguridad Social* (IHSS)); and the National Electricity Company (*Empresa Nacional de Energía Eléctrica* (ENEE)).

The National Congress is made up of a single house of 128 publicly elected members, who serve 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 or the President through his cabinet secretaries. The Supreme Court or the Supreme Electoral Tribunal (*Tribunal Supremo Electoral* (TSE)) may propose legislation 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 signed and promulgated by the executive branch and published in the official government newspaper of Honduras, called *La Gaceta*.

The Supreme Court is made up of 15 justices appointed by the National Congress for seven-year terms, each of whom may be reappointed. 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 that 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 and fund poverty reduction programs. Pursuant to Decree 143 of 2009, transfers to municipalities from the Central Government were required to 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% in 2014 and subsequent years. From 2013 to 2015, transfers from the Central Administration to local governments remained relatively stable, averaging approximately 1.3 % of GDP. Central Administration transfers varied depending on the size of the municipality. For example, Central Administration transfers represented 12% of Tegucigalpa's total income and 10% of San Pedro Sula's total income for 2015.

2017 Elections

Primary elections are scheduled for Sunday, March 12, 2017. Primary elections are held to select candidates from within each party to run for office in the general elections. Parties may choose not to participate in primary elections as they may nominate candidates for the general elections by consensus. All three political parties participating in primary elections have registered their preliminary candidates. President Juan Orlando Hernandez accepted the nomination to be the National Party of Honduras' presidential candidate for the 2018-2022 period. The Liberal Party has six presidential candidates vying for the party's nomination in primary elections, while the Partido Libertad y Refundación has four candidates running in the primary elections, including former First Lady, Xiomara Castro de Zelaya. General elections are to be held the last Sunday of November 2017.

Internal Security

Between 2006 and 2011 the murder rate in Honduras more than doubled from 42.3 per 100,000 in 2006 to 86.5 per 100,000 in 2011. This trend was also reflected in statistics relating to other types of crimes, such as robbery, extortion and drug trafficking, among others. Due to the implementation of an integral security strategy involving all three branches of government (executive, legislative, judicial and the Attorney General's office), homicide rates have fallen steadily from their 2011 peak, down to 60.0 per 100,000 in 2015 and subsequently to 57.0 for the first six months of 2016.

Historic Homicide Rate

Year	Number of Homicides
	(per 100,000 inhabitants)
2009	66.8
2010	77.5
2011	86.5
2012	85.5
2013	77.5
2014	69.9
2015	60.0
2016[(1)]	57.0

(1) For the first six months of 2016.
Source: Department of Statistics-Police Statistics System

Efforts to reduce crime have focused on the following five main areas:

- A new police management model, including a new legal framework, new organizational structure, implementation of the "Catracho" model of community policing, specialization of the police service, transformation of criminal investigation, human capacity development and improvements in infrastructure, logistics and technology;
- Improvements in the police education system, including income profile modification, total reform of the training curriculum, use of methodological guides and textbooks, pedagogical improvement, and new and modern facilities;
- An anticorruption policy, including an external control system, systematic application of confidence tests, a prevention system, dignification of the police career, establishment of a special commission for depuration and transformation of the national police force;
- A transparency and accountability policy, including IT compliance, other social actors organized groups, a presidential accountability program, an integrated management system, which is supported by advanced technology; and
- An emphasis on prevention and information, including police involvement in prevention programs, national and municipal observatories, and a citizen security network.

The Police Modernization Commission, made up of two governmental appointees and two representatives of civil society, created a certification process for all members of the police force as part of an anti-corruption effort that commenced in April 2016. As part of the certification process, members of the police force who are found to have participated in illegal activities by sufficient and credible evidence are terminated from the police force. The certification process began with the highest-ranking officers and will continue down the hierarchy of the police force.

Memberships in International Organizations

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

Honduras is a member of the following regional integration bodies: Central American Integration System (SICA); Ibero-American Conference; Community of Latin American and Caribbean Countries (CELAC); Association of Caribbean States (ACS); EU-CELAC Summit and the East-Asia-Latin American Cooperation (FEALAC) Forum. In addition, since 2013 Honduras has been as an Observer Country in the Alliance for the Pacific Forum and a special guest of the *Mercado Común del Sur* (MERCOSUR).

Honduras is an active member of the following international organizations: United Nations; Organization of American States (OAS); Dialogue and Consultation Mechanism of Tuxtla (Mesoamerica Project); 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; The Pan-American Health Organization (PAHO); the Inter-American Institute for Cooperation on Agriculture (IICA), World Bank Group; United Nations Development Program; Inter-American Development Bank (IADB); Central American Court of Justice; Central American Bank for Economic Integration; and the American Commission for the Fight against Terrorism (CICTE).

Honduras belongs to the Inter-American System and the Universal Human Rights System. Since 2016, Honduras has an Office for the High Commissioner of the United Nations for Human Rights. The Support Mission Against Corruption in Honduras (MACCIH) was established in April 2016 following the signing of the agreement at the OAS.

Honduras also participates in other regional initiatives. One of these initiatives is the Dominican Republic-Central America Free Trade Agreement ("DR-CAFTA") signed in August 2004. Under the agreement, 80% of tariffs on goods exported to the United States from Honduras have been eliminated, with the remaining 20% to be eliminated on a schedule that varies from five to 20 years. The agreement was ratified by the U.S. Congress in the summer of 2005 and by Honduras' National Congress in March 2005.

Relations with the IMF

On December 3, 2014, the IMF board approved a Stand-By Arrangement (SBA) for U.S.$113.2 million and a U.S.$75.4 million arrangement under the Stand-By Credit Facility (SCF) for Honduras. The arrangements support the Government's three-year economic program, which aims to maintain macroeconomic stability and improve conditions for sustainable economic growth and poverty reduction. Under these arrangements, the IMF Board made available a total of SDR 38.8 million (approximately U.S.$56.6 million), with the balance being made available in six tranches upon completion of semi-annual program reviews.

An IMF technical mission visited the country in February 2016 for the purpose of reviewing the SBA and SCF. In May 2016, the IMF mission conducted the 2016 Article IV consultation and the third review of the SBA and SCF. In October 2016, the IMF executive board completed its third and fourth reviews under the SBA and the SCF. The completion of the reviews enables Honduras to access resources in an increased total amount of SDR 121.8 million (approximately U.S.$168.2 million). Honduras has not drawn any amounts under the SBA or SCF to date.

The Central Government has promoted reforms aimed at helping create the conditions for sustained medium-term economic performance and poverty reduction. These reforms include the implementation of caps on expenditure and the prioritization of public investment, reforms to tax administration, a social protection framework and an overhaul of the electricity sector. In addition, the Central Government has embarked on a comprehensive reform of financial regulation, including extensive legal amendments and a significant strengthening of its capacity to deal with financial crises.

The IMF board issued a waiver for the 2015 performance criteria on the ceiling of the stock of net domestic assets (NDA) as the Central Government has corrected the deviation by meeting the June 2016 target. In addition, on the basis of corrective policy measures taken, the IMF board also granted a waiver of the June 2016 performance criteria on net lending by the public pension funds and on the arrears from the state electricity company (ENEE).

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. Honduras' defense spending rose throughout the 1980s until it represented between 20% and 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, particularly after the significant region-wide economic decline that took place during the 1980s. Private investment plummeted in 1980, and capital flight from Honduras for that year was U.S.$500 million. International coffee prices fell 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 below 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 addition, the withdrawal of a significant portion of U.S. economic aid prompted the government to diversify its sources of funding. Honduras began to attract foreign investors and privatized certain national industries during the 1990s.

According to "The Global Competitiveness Report 2016-2017" published by the World Economic Forum, Honduras achieved 3.98 points in the Competitiveness Index, ranking 88th (out of 140 countries) in terms of competitiveness. This score represented an improvement over the prior year in which Honduras scored 3.95 points.

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 to establish a framework for a planned development process in Honduras that is to be implemented in the succeeding seven governments, or 28 years, starting with the government and National Congress that was 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 Vision and their respective strategic objectives.

- An educated, prosperous 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
    - coverage of 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 crime 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 through Honduras, 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
  - reduce 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 into a civil service regime that recognizes competencies, capacities and performance;
  - implement the use of electronic channels for 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 approved 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 a basis for internal savings;
- improvement of Honduran competiveness, country image and productive sectors; and
- adaptation and mitigation of climate change.

Honduras 20/20

The National Economic Development Program Honduras 20/20 (*Programa Nacional de Desarrollo Económico Honduras 20/20*) is the largest platform for economic growth in Honduras, developed by the Central Government in collaboration with the private sector and McKinsey.

This program will be implemented from 2016 to 2020 and will be funded equally by the Central Government through the Commission for the Promotion of Public Private Partnership (*Comisión para la Promoción de la Alianza Público-Privada* (COALIANZA)) and the Honduran Foundation for Development Studies.

The overall goals for the program include:

- generating 600,000 jobs in five years; and
- promoting key economic sectors of the economy to generate investments of more than U.S.$12.6 billion.

The goals of the program by sector are as follows:

- Tourism:
    - creation of 255,000 additional jobs in the tourism sector during the execution of this program.
    - positioning as a leading sun and beach destination in Central America and the Caribbean with a unique combination of natural and cultural attractions.
    - generating exports of U.S.$850 million.
- Textiles:
    - creation of 200,000 new jobs by 2020 in the textile industry
    - positioning Honduras as a leader in exports and one of the largest exporters to the United States and Europe among Central American countries.
    - generating exports of U.S.$4,200 million.
- Intermediate manufacturing:
    - generating 95,000 new jobs during the execution of this program, through the development of a manufacturing cluster of auto parts and electrical equipment with the highest manufacturing growth on the continent.
    - generating exports of U.S.$2,830 million.
- Business support service:
    - generating 50,000 new jobs by 2020 through the development of service centers with bilingual young talent that can meet the latest trends in business processes and information technology.
    - generating exports of U.S.$1,450 million.

Public Infrastructure Investments

The construction of an efficient road system has become one of the most important pillars for economic and social development for Honduras both at a national and regional level. Investment in infrastructure is expected to have significant benefits, including access to land for productive activities and economic diversification, as well as facilitating the expansion of basic public services.

A number of infrastructure projects are being developed under public-private partnerships managed by COALIANZA. Through November 30, 2016, U.S.$1,109.2 million have been disbursed for infrastructure projects, including U.S.$836.7 million for highway projects and U.S.$272.5 million for the energy sector.

The Central Government has prioritized within its Public Investment Program the execution of infrastructure projects (roads, power generation and ports), as well as investments for the Vida Mejor Program, internal security and projects in the health and education sectors.

Main Highway Projects

The Logistics Corridor Project

The Logistics Corridor Project is part of the Plan Puebla Panamá Mesoamerican Corridor, which is an initiative of highway integration with the purpose of reducing transportation costs through the construction, rehabilitation and improvement of several corridors passing through México, Belize, Guatemala, Honduras and El Salvador. The Logistics Corridor will complement Honduras' port services and will speed up transportation of goods between the Atlantic and Pacific, contributing to the goal of converting the country into a major logistics center for the continent.

The Logistics Corridor extends for approximately 390 kilometers from Puerto Cortés to Goascorán, passing through Tegucigalpa. To date, 341.9 kilometers have been rehabilitated, paved and widened to four lanes. The project is budgeted at U.S.$986.6 million of which U.S.$724.2 million have been disbursed to date.

The Central Government has received funding for rehabilitation of the Logistics Corridor from international organizations, such as loans from the Inter-American Development Bank (IADB), the Central American Bank for Economic Integration (CABEI) and a grant from the Millennium Challenge Corporation (MCC).

Agricultural Corridor Project

The agricultural sector is one of the most important sectors in the Honduran economy. The Central Government has targeted improving infrastructure serving the agricultural sector in order to enhance the country's competitiveness and foster economic activity. Such efforts include paving and rehabilitating the Agricultural Corridor to improve connectivity from productive centers to consumers.

The Agricultural Corridor is located in the north-eastern part of the country and consists of a stretch of two-laned roads connecting Tegucigalpa and Catacamas. An intersection in Juticalpa runs to Puerto Castilla located in the northern coast of the country. The corridor extends for approximately 393.9 kilometers, of which 361.3 kilometers have been completed to date. The project is funded by the Central Government, the IADB and the OPEC Fund for International Development (OFID). The sections financed by IADB and OFID include programs for road maintenance of a 135 kilometer stretch between Gualaco and Corocito.

The cost for rehabilitating and paving the Agricultural Corridor is expected to be U.S.$196.7 million of which 81% (U.S.$157.3 million) has been disbursed between 2007 and 2016. The balance will be used to complete the sections of Rio Dulce-Limones (94.3% complete as of 2016) and El Carbon-Bonito Oriental (84% completed as of November 30, 2016). In November 2016, the Bonito Oriental-Corocito stretch was contracted for U.S.$6.9 million.

The Pacific Corridor

The Pacific Corridor is one of the most important road systems in terms of connectivity and competitiveness for the country. It has a length of 313 kilometers and crosses the country, connecting the borders of El Amatillo (in El Salvador) and Guasaule (in Nicaragua). The border crossings of El Amatillo and Guasaule at each end of the Pacific Corridor mobilize 10% of the country's exports and 13% of its imports. The Pacific Corridor also includes the international routes CA-1 (from the border with El Salvador to Choluteca) and CA-3 (from Choluteca to the border with Nicaragua). Approximately 95% of the land cargo of the sub region travels through the Pacific Corridor. The Pacific Corridor is considered a highly efficient road, measured by its impact in reducing shipping time, which is particularly important given its proximity to the borders with El Salvador and Nicaragua.

In December 2015, the Central Government entered into a loan with the IADB for U.S.$154.0 million and with CABEI for U.S.$ 86.7 million (for a total of U.S.$240.7 million) for the rehabilitation of the Pacific Corridor.

The Ministry of Infrastructure and Public Services (*Secretaría de Infraestructura y Servicios Públicos* (INSEP)) is leading the rehabilitation of Tegucigalpa-Jicaro Galan (87.5 km) stretch of the corridor and has satisfied the conditions for the first disbursement from CABEI. MCA/H-INVEST will perform the rehabilitation of three sections with funds from the IADB. These includes 40.96 kilometers in Section I extending from Jicaro Galan to El Amatillo (CA-1); 56.1 kilometers in Section II extending from Jicaro Galan to Choluteca (CA-1) and 40.62 kilometers in Section III extending from Choluteca to Guasaule. Sections I and II have been commenced, while the design for Section II is still under review.

The Western Corridor

The Western Corridor connects San Pedro Sula to Guatemala and El Salvador. It is part of the main road network of the country and is integrated into the International Network of Mesoamerican Highways.

The rehabilitation of the Western Corridor has the main objective of repairing the 116-kilometer road in the western part of the country. The project is divided into two sections: Section 1 extending from La Entrada Copan - Santa Rosa Copan, which is part of the CA-4 road and has a length of 43.0 kilometers; and Section 2 extending from La Entrada-Copan Ruinas-El Florido which is part of the CA-11 and has an estimated length of 73.0 kilometers. The project also includes the construction of three bridges with a combined length of 140 meters and the rehabilitation of 10 existing bridges with a combined length of 333 meters.

In June 2015, the Republic entered into credit agreements with the European Investment Bank (EIB) for U.S.$89.2 million and in October 2015 with CABEI for U.S.$55.5 million to finance the project. Donations from the Latin American Investment Facility (LAIF) were received to finance a Commission on Sustainable Support for Highway Projects in Honduras in the amount of U.S.$11.3 million. The Special Fund for Social Transformation of Central America (SFSTCA) and CABEI donated U.S.$6.8 million. Total funding for the project was of U.S.$162.8 million. The project is currently undergoing an international bidding process for the selection of the construction company, which is expected to be awarded in January 2017.

It is estimated that the project will benefit approximately 62,960 people, lower vehicle operating costs and travel times for users, optimize comfort and safety of transportation (cargo and passengers) and improve the quality of life in the areas surrounding the project.

Other Transportation Projects

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 meters of mooring quays, 18,000 m² of indoor storage and 296,000 m² of open storage. Its geographical location has given the port a leading position at a regional level. It is the only Central American and one of only three Latin American ports that is Container Security Initiative ("CSI") certified. Accordingly, containers carrying goods from Puerto Cortés to any U.S. seaport are checked by U.S. Customs officials in Honduras. This in turn speeds up entry into the United States.

Increased domestic commercial activity, as well as demand 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 the project became part of COALIANZA's project portfolio. The project will be conducted under a private-public partnership structure.

In February 2013, COALIANZA awarded a concession for the container terminal to International Container Terminal Services, Inc. (ICTSI), a Philippine corporation. The concession is for 30 years with an expected investment of U.S.$624 million.

The main objective of the concession is to bring Puerto Cortés to a competitive level, nationally and regionally, by constructing a state-of-the-art container terminal. The project will also update and implement operational and administrative procedures that will enable the terminal to operate according to international standards, cost-effectively and in compliance with the economic and service condition set forth in the concession agreement.

The main activities or services to be performed by ICTSI under the concession agreement include:

- designing, financing and constructing the terminal;
- operating the terminal;
- providing operational services to the terminal; and
- returning the terminal and related assets in accordance with the terms and conditions set forth in the concession agreement.

Public Buildings

Government Civic Center

The Government Civic Center will be the most modern Central Government complex in Honduras. With an investment of U.S.$200 million, it will house the offices of forty public institutions contributing to the improvement of the management and delivery of services to citizens.

The complex will comprise an area of about 31,000 m^2**.** Construction commence at the Civic Center José Cecilio del Valle, next to the Presidential Palace. The complex will have a total construction area of 198,000 m^2. The project includes a modern and avant-garde architecture with environmentally responsible design that reduces water consumption and is energy-efficient. Construction is expected to be completed in August 2018**.**

It is estimated that the Honduran Central Government currently spends about 1,000 million Lempiras annually in rent and building maintenance. These costs will be substantially reduced with the ambitious project that contributes to achieving the national goal of consolidating a modern, transparent, accountable, efficient and competitive state.

In addition to lowering rental expenses, administrative costs and other ancillary maintenance costs, such as remodeling, parking and security, among others, will be reduced. The project will also benefit the real estate market, generating value and surplus areas within the urban area of the capital. It is expected that the project will also help stimulate the construction industry and provide employment for more than 25,000 direct and indirect jobs.

Energy Projects

Hydroelectric Power Plant "Patuca III"

Patuca III is a project for the construction of a hydroelectric dam on the Rio Patuca in Olancho located in the south-eastern part of Honduras. The project calls for the construction of a dam with a height of 57 meters, a shot and a pressure pipe creating a fall of 42.2 meters and a reservoir area of 51 square kilometers. At the end of the pipe is a surface house where two Kaplan turbines will be installed. Construction of the project will reduce dependence on expensive thermal energy and further diversify the country's energy matrix. This project will serve a population of nearly one million people.

Construction of the project was awarded to a Chinese company, Sinohydro, which has completed approximately 40% of the work. Once completed, the project will have an estimated capacity of 104MW and is expected to generate 326 GWh per year. The project is expected to be completed in December 2017 and operations to commence on March 2018.

The project will be completed in several stages. The first stage, which was completed in 2013, involved the design and construction of the cofferdam, diversion tunnel, bridge access, land acquisition and other complementary works at a cost of approximately U.S.$153.0 million.

The second phase is currently being executed at an estimated cost of U.S.$554.4 million. It consists of the acquisition of generators, purchase and installation of two turbines, construction of the transmission line, installation of transformers, construction of the curtain and the reservoir, construction of the machine house, access roads, among others activities. The second phase is being financed with funds from ENEE (U.S.$205.6 million), as well as loans to the Central Government from Bancatlan (U.S.$14.8 million), Petrocaribe (U.S.$36.1 million) and the Industrial and Commerce Bank of China (U.S.$297.7 million). As of November 2016, U.S.$267.4 million had been disbursed.

Rehabilitation and Repowering Project Hydroelectric Complex Canaveral-Rio Lindo:

The Hydroelectric Complex Canaveral-Rio Lindo is located in San Francisco de Yojoa in the department of Cortes and is expected to have a total cost of $167.6 million. The project is being financed by a loan from the IADB (U.S.$23.0 million); a donation from the Japanese International Cooperation Agency (JICA) (U.S.$135.36 million); participation from ENEE (U.S.$8.82 million); and a Technical Assistance Grant from the IADB (U.S.$0.45 million).

Currently, contracts have been signed for the acquisition of equipment to strengthen the supervision of ENEE and for the maintenance of the Canaveral-Rio Lindo Hydroelectric Complex.

Gross Domestic Product

From 2011 to 2015, the Honduran economy was primarily driven by consumption, investments and exports. Private sector consumption averaged 73.8% of real GDP in this period and private investment represented 18.8%. Economic performance during this period was bolstered by the inflow of family remittances, which recorded an average annual variation of 7.0%.

Real GDP grew by 3.8%, 4.1%, and 2.8% in 2011, 2012 and 2013, respectively. Based on preliminary figures, real GDP grew by 3.1% in 2014 and 3.6% in 2015.

In 2011, the GDP increase was mainly driven by a greater demand for goods and services. The activities of the Honduran economy that showed higher growth were: communications (7.6%); transport and storage (4.4%); agriculture, stockbreeding, hunting, forestry and fishing (6.5%); manufacturing (4.4%); commerce, automotive vehicle and motorcycle repair, personal and household goods (4.3%); construction (4.4%); and financial intermediation (8.7%).

In 2012, the GDP increase was mainly driven by an increase in domestic demand growth. On the supply side, the sectors of the Honduran economy with the best performance were: communications (6.5%); agriculture, stockbreeding, hunting, forestry and fishing (10.7%); financial intermediation (6.7%); transport and storage (4.4%); commerce, automotive vehicle and motorcycle repair, personal and household goods (4.1%); and construction (2.4%).

In 2013, GDP growth decreased compared to 2012 mainly driven by a slowdown associated with a reduction in private investment and the lower demand for exports from the main trading partners, particularly the United States. On the supply side, the main economic activities that contributed to growth were: financial intermediation (5.3%); agriculture, stockbreeding, hunting, forestry and fishing (3.4%); communications (5.6%); manufacturing (3.4%); and commerce, automotive vehicle and motorcycle repair, personal and household goods (2.3%).

In 2014, GDP growth was mainly driven by increases in internal and external demand. On the production side, the positive performance was determined by the activities of financial intermediation (8.3%); communications (5.2%); agriculture, stockbreeding, hunting, forestry and fishing (2.7%); manufacturing (1.5%); and commerce, automotive vehicle and motorcycle repair, personal and household goods (2.0%).

In 2015, real GDP grew by 3.6% mainly driven by increases in financial intermediation (8.7%); manufacturing (3.1%); communications (4.8%); agriculture, stockbreeding, hunting, forestry and fishing (3.2%); commerce, repair of motor vehicles, motorcycles, personal and household goods (3.0%); and electricity and water distribution (7.3%).

In the first nine months of 2016, real GDP increased by 3.9%, a 0.4% increase compared to the same period of 2015. This increase in GDP growth was driven mainly by increases in the financial intermediation (7.9%); manufacturing (3.4%); agriculture, stockbreeding, hunting, forestry and fishing (4.2%); commerce, hotels and restaurants (3.1%); communications (3.3%); and electricity (8.9%) sectors.

The following table shows Honduras' real GDP, in constant Lempiras, by expenditure:

Real GDP by Expenditure

	For the year ended December 31,				
	2011	**2012**	**2013***	**2014****	**2015****
			(L. millions)[(1)]		
Final Consumption	**146,188**	**151,970**	**157,546**	**160,796**	**165,444**
Private Sector	121,984	127,199	131,991	135,513	139,751
Public Sector	24,203	24,771	25,555	25,283	25,693
Fixed Capital Formation	**36,614**	**37,978**	**37,251**	**36,713**	**41,407**
Private Sector	31,548	33,434	31,853	32,777	37,189
Public Sector	5,066	4,545	5,398	3,936	4,218
Changes in stock	**2,849**	**418**	**(3,249)**	**(397)**	**2,819**
Goods and Services Exports	**94,485**	**103,790**	**102,461**	**104,070**	**107,187**
(-) Goods and Services Imports	114,177	121,346	116,375	118,067	127,072
GDP (at market prices)	**165,958**	**172,810**	**177,634**	**183,115**	**189,786**

(1) In constant 2000 lempiras.
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The following table shows Honduras' real GDP growth, expressed as a percentage, by expenditure:

Real GDP Growth by Expenditure

	For the year ended December 31,				
	2011	**2012**	**2013***	**2014****	**2015****
	percentage change from previous year[(1)]				
Final Consumption	**2.8**	**4.0**	**3.7**	**2.1**	**2.9**
Private Sector	3.6	4.3	3.8	2.7	3.1
Public Sector	(1.0)	2.3	3.2	(1.1)	1.6
Fixed Capital Formation	**16.9**	**3.7**	**(1.9)**	**(1.4)**	**12.8**
Private Sector	19.0	6.0	(4.7)	2.9	13.5
Public Sector	5.1	(10.3)	18.8	(27.1)	7.1
Goods and Services Exports	**8.4**	**9.8**	**(1.3)**	**1.6**	**3.0**
(-) Goods and Services Imports	12.7	6.3	(4.1)	1.5	7.6
GDP (at market prices)	**3.8**	**4.1**	**2.8**	**3.1**	**3.6**

(1) In constant 2000 lempiras.
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The following table shows Honduras' quarterly real GDP, in constant Lempiras, by expenditure:

Real GDP by Expenditure

	Quarterly National Accounts						
	2015*				**2016***		
	I	**II**	**III**	**IV**	**I**	**II**	**III**
				(L. millions)[(1)]			
Final Consumption	**39,749**	**41,260**	**40,223**	**44,212**	**41,396**	**42,806**	**42,084**
Private Sector	33,713	34,923	33,816	37,299	35,294	36,298	35,295
Public Sector	6,036	6,336	6,407	6,913	6,102	6,508	6,788
Fixed Capital Formation	**11,673**	**8,588**	**11,751**	**12,214**	**10,156**	**8,213**	**12,886**
Goods and Services Exports	**27,075**	**28,760**	**26,320**	**25,033**	**27,283**	**29,382**	**26,430**
(-) Goods and Services Imports	31,481	32,025	32,160	31,406	29,964	31,813	33,703
GDP (at market prices)	**47,016**	**46,582**	**46,135**	**50,052**	**48,869**	**48,588**	**47,697**

(1) In constant 2000 lempiras.
* Preliminary
Note 1: Data referred to the original series.
Note 2: The sum of the parts is not necessarily equal to the total, due to approximations.
Source: Central Bank of Honduras.

The following table shows Honduras' quarterly real GDP growth, expressed as a percentage, by expenditure:

Real GDP Growth by Expenditure

	Quarterly National Accounts						
	2015*				2016*		
	I	II	III	IV	I	II	III
	percentage change accumulated from same period of previous year [1]						
Final Consumption	**2.2**	**2.5**	**2.6**	**2.9**	**4.1**	**3.9**	**4.2**
Private Sector	2.6	2.9	2.8	3.1	4.7	4.3	4.3
Public Sector	(0.5)	0.6	1.2	1.6	1.1	1.9	3.3
Fixed Capital Formation	**51.7**	**33.6**	**26.7**	**21.8**	**(13.0)**	**(9.3)**	**(2.4)**
Goods and Services Exports	**4.7**	**5.0**	**3.8**	**3.0**	**0.8**	**1.5**	**1.1**
(-) Goods and Services Imports	15.4	11.7	9.3	7.6	(4.8)	(2.7)	(0.2)
GDP (at market prices)	**4.0**	**3.4**	**3.4**	**3.6**	**3.9**	**4.1**	**3.9**

(1) In constant 2000 lempiras.
* Preliminary
Note 1: Data referred to the original series.
Note 2: The sum of the parts is not necessarily equal to the total, due to approximations.
Source: Central Bank of Honduras.

The following table shows Honduras' real GDP, in constant Lempiras, by economic activity:

Real GDP by Economic Activity

	For the year ended December 31,				
	2011	2012	2013*	2014**	2015**
			(L. millions)[1]		
Manufacturing	33,033	33,628	34,762	35,298	36,377
Commerce, automotive vehicle and motorcycle repair, personal and household goods	16,325	16,999	17,383	17,730	18,255
Agriculture, stockbreeding, hunting, forestry and fishing	21,570	23,875	24,696	25,367	26,189
Education	8,360	8,564	8,805	8,968	9,103
Public Administration and Defense; Mandatory Affiliation Social Security Plan	9,264	9,499	9,869	9,997	10,067
Financial intermediation	24,474	26,123	27,498	29,783	32,388
Construction	5,769	5,906	5,758	5,284	5,338
Housing	7,274	7,409	7,554	7,713	7,875
Real estate and other business services	6,812	7,007	7,165	7,321	7,545
Social and health services	5,065	5,229	5,373	5,438	5,547
Communications	15,683	16,696	17,633	18,549	19,444
Transportation and storage	6,545	6,836	7,010	7,155	7,414
Hotels and restaurants	3,726	3,811	3,872	3,953	4,052
Community, social and personal services	4,198	4,299	4,424	4,523	4,642
Electricity and water distribution	4,334	4,461	4,348	4,405	4,726
Exploitation of mines and quarries	408	395	368	349	337
Minus: indirectly measured financial intermediation services	20,263	21,718	22,669	24,552	26,787
Gross added value at basic prices	**152,579**	**159,017**	**163,850**	**167,280**	**172,511**
Plus: net taxes of production and importation subsidies	13,379	13,793	13,784	15,835	17,274
GDP at market prices	**165,958**	**172,810**	**177,634**	**183,115**	**189,786**

(1) In constant 2000 lempiras.
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The following table shows the Honduras' real GDP growth, expressed as percentage, by economic activity:

Real GDP Growth by Economic Activity

	For the year ended December 31,				
	2011	2012	2013*	2014**	2015**
	percentage change from previous year[1]				
Manufacturing	4.4	1.8	3.4	1.5	3.1
Commerce, automotive vehicle and motorcycle repair, personal and household goods	4.3	4.1	2.3	2.0	3.0
Agriculture, stockbreeding, hunting, forestry and fishing	6.5	10.7	3.4	2.7	3.2
Education	1.1	2.4	2.8	1.9	1.5
Public Administration and Defense; Mandatory Affiliation Social Security Plan	(1.1)	2.5	3.9	1.3	0.7
Financial intermediation	8.7	6.7	5.3	8.3	8.7
Construction	4.4	2.4	(2.5)	(8.2)	1.0
Housing	1.7	1.9	2.0	2.1	2.1
Real estate and other business services	2.5	2.9	2.3	2.2	3.1
Social and health services	1.6	3.2	2.8	1.2	2.0
Communications	7.6	6.5	5.6	5.2	4.8
Transportation and storage	4.4	4.4	2.5	2.1	3.6
Hotels and restaurants	3.8	2.3	1.6	2.1	2.5
Community, social and personal services	1.9	2.4	2.9	2.2	2.6
Electricity and water distribution	3.6	2.9	(2.5)	1.3	7.3
Exploitation of mines and quarries	(10.6)	(3.2)	(6.8)	(5.1)	(3.5)
Minus: indirectly measured financial intermediation services	11.7	7.2	4.4	8.3	9.1
Gross added value at basic prices	**3.7**	**4.2**	**3.0**	**2.1**	**3.1**
Plus: net taxes of production and importation subsidies	4.9	3.1	(0.1)	14.9	9.1
GDP at market prices	**3.8**	**4.1**	**2.8**	**3.1**	**3.6**

(1) In constant 2000 lempiras.
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The following table shows Honduras' real quarterly GDP, in constant Lempiras, by economic activities:

Real GDP by Economic Activity

	Quarterly National Accounts						
	2015*				2016*		
	I	II	III	IV	I	II	III
	(L. millions)[(1)]						
Manufacturing	9,233	9,141	9,088	8,915	9,448	9,569	9,377
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	5,525	5,456	5,489	5,836	5,688	5,616	5,679
Agriculture, stockbreeding, hunting, forestry and fishing	6,893	5,667	5,398	8,231	7,421	5,865	5,434
Education; Social and health services	3,485	3,725	3,786	3,654	3,539	3,809	3,880
Public Administration and Defense; Mandatory Affiliation Social Security Plan	2,476	2,518	2,511	2,562	2,495	2,545	2,533
Financial intermediation	7,623	7,819	8,162	8,784	8,340	8,393	8,745
Construction	1,204	1,334	1,345	1,455	1,245	1,418	1,415
Housing; Real estate and other business services	3,722	3,838	3,850	4,010	3,802	3,946	3,962
Communications	4,775	4,833	4,921	4,914	4,920	4,994	5,088
Transportation and storage	1,754	1,866	1,887	1,906	1,806	1,925	1,957
Community, social and personal services	1,094	1,159	1,181	1,208	1,121	1,190	1,203
Electricity and water distribution	1,175	1,117	1,269	1,164	1,310	1,304	1,264
Exploitation of mines and quarries	81	84	82	90	79	88	83
Minus: indirectly measured financial intermediation services	6,348	6,400	6,880	7,159	7,082	6,940	7,247
Gross added value at basic prices	**42,694**	**42,157**	**42,090**	**45,570**	**44,133**	**43,720**	**43,372**
Plus: net taxes of production and importation subsidies	4,323	4,425	4,045	4,482	4,736	4,868	4,324
GDP at market prices	**47,016**	**46,582**	**46,135**	**50,052**	**48,869**	**48,588**	**47,697**

(1) In constant 2000 lempiras.

* Preliminary

Note 1: Data referred to the original series.

Note 2: The sum of the parts is not necessarily equal to the total, due to approximations.

Source: Central Bank of Honduras.

The following table shows the Honduras' real quarterly GDP growth, expressed as a percentage, by economic activity:

Real GDP Growth by Economic Activity

	Quarterly National Accounts						
	2015*				2016*		
	I	II	III	IV	I	II	III
	percentage change accumulated from same period of last year[(1)]						
Manufacturing	4.2	3.5	3.5	3.1	2.3	3.5	3.4
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	2.5	2.6	2.8	2.9	3.0	2.9	3.1
Agriculture, stockbreeding, hunting, forestry and fishing	3.6	2.0	2.4	3.2	7.7	5.8	4.2
Education; Social and health services	1.5	2.2	1.8	1.7	1.6	1.9	2.1
Public Administration and Defense; Mandatory Affiliation Social Security Plan	0.3	0.6	0.7	0.7	0.8	0.9	0.9
Financial intermediation	10.5	9.1	9.2	8.7	9.4	8.4	7.9
Construction	(6.3)	(5.2)	(2.9)	1.0	3.4	4.9	5.0
Housing; Real estate and other business services	2.2	2.4	2.6	2.6	2.1	2.5	2.6
Communications	3.5	3.8	4.2	4.8	3.0	3.2	3.3
Transportation and storage	4.3	3.7	3.4	3.6	2.9	3.1	3.3
Community, social and personal services	3.4	2.8	2.8	2.6	2.5	2.6	2.3
Electricity and water distribution	4.7	5.4	7.3	7.3	11.4	14.0	8.9
Exploitation of mines and quarries	(5.4)	(7.6)	(6.9)	(3.5)	(2.6)	1.4	1.5
Minus: indirectly measured financial intermediation services	10.1	8.4	9.5	9.1	11.5	10.0	8.4
Gross added value at basic prices	**3.0**	**2.8**	**2.9**	**3.1**	**3.4**	**3.5**	**3.4**
Plus: net taxes of production and importation subsidies	14.9	9.8	9.1	9.1	9.6	9.8	8.9
GDP at market prices	**4.0**	**3.4**	**3.4**	**3.6**	**3.9**	**4.1**	**3.9**

(1) In constant 2000 lempiras.
* Preliminary
Note 1: Data referred to the original series.
Note 2: The sum of the parts is not necessarily equal to the total, due to approximations.
Source: Central Bank of Honduras.

The following table shows Honduras' nominal GDP by economic activity:

Nominal GDP by Economic Activity

	For the year ended December 31,				
	2011	2012	2013*	2014**	2015**
			(L. millions)		
Manufacturing	57,606	63,909	65,120	69,740	76,893
Commerce, automotive vehicle and motorcycle repair, personal and household goods	46,247	50,017	53,895	58,050	61,683
Agriculture, stockbreeding, hunting, forestry and fishing	47,640	49,022	45,904	51,978	56,513
Education	23,692	25,589	27,428	29,641	31,348
Public Administration and Defense; Mandatory Affiliation Social Security Plan	20,638	22,184	24,187	25,396	26,081
Financial intermediation	20,253	22,300	24,576	27,204	29,567
Construction	20,506	21,703	22,865	21,607	23,486
Housing	17,361	18,577	20,174	21,774	23,273
Real estate and other business services	15,247	16,565	17,867	19,445	20,826
Social and health services	11,474	12,679	13,914	14,945	15,731
Communications	10,527	11,579	12,362	13,328	14,978
Transportation and storage	10,127	11,287	12,372	14,233	18,640
Hotels and restaurants	9,874	10,821	11,776	12,764	13,522
Community, social and personal services	9,568	10,221	11,039	11,989	12,704
Electricity and water distribution	5,044	5,247	3,958	4,142	10,092
Exploitation of mines and quarries	3,329	3,502	3,733	3,900	3,209
Minus: indirectly measured financial intermediation services	17,745	19,595	21,191	23,655	25,677
Gross added value at basic prices	**311,388**	**335,604**	**349,980**	**376,481**	**412,869**
Plus: net taxes of production and importation subsidies	23,640	25,744	26,560	33,131	38,410
GDP at market prices	**335,028**	**361,349**	**376,539**	**409,612**	**451,279**

* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The following table shows each economic activity's contribution to nominal GDP expressed as a percentage of GDP:

Nominal GDP by Economic Activity

	For the year ended December 31,				
	2011	**2012**	**2013***	**2014****	**2015****
	percentage of total nominal GDP				
Manufacturing	17.2	17.7	17.3	17.0	17.0
Commerce, automotive vehicle and motorcycle repair, personal and household goods	13.8	13.8	14.3	14.2	13.7
Agriculture, stockbreeding, hunting, forestry and fishing	14.2	13.6	12.2	12.7	12.5
Education	7.1	7.1	7.3	7.2	6.9
Public Administration and Defense; Mandatory Affiliation Social Security Plan	6.2	6.1	6.4	6.2	5.8
Financial intermediation	6.0	6.2	6.5	6.6	6.6
Construction	6.1	6.0	6.1	5.3	5.2
Housing	5.2	5.1	5.4	5.3	5.2
Real estate and other business services	4.6	4.6	4.7	4.7	4.6
Social and health services	3.4	3.5	3.7	3.6	3.5
Communications	3.1	3.2	3.3	3.3	3.3
Transportation and storage	3.0	3.1	3.3	3.5	4.1
Hotels and restaurants	2.9	3.0	3.1	3.1	3.0
Community, social and personal services	2.9	2.8	2.9	2.9	2.8
Electricity and water distribution	1.5	1.5	1.1	1.0	2.2
Exploitation of mines and quarries	1.0	1.0	1.0	1.0	0.7
Minus: indirectly measured financial intermediation services	5.3	5.4	5.6	5.8	5.7
Gross added value at basic prices	**92.9**	**92.9**	**92.9**	**91.9**	**91.5**
Plus: net taxes of production and importation subsidies	7.1	7.1	7.1	8.1	8.5
GDP at market prices	**100**	**100**	**100**	**100**	**100**

* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total, due to approximations.
Source: Central Bank of Honduras.

The following table shows Honduras' nominal quarterly GDP by economic activity:

Nominal GDP by Economic Activity

	Quarterly National Accounts						
	2015*				2016*		
	I	II	III	IV	I	II	III
				(L. millions)			
Manufacturing	20,399	18,818	19,076	18,600	20,342	20,772	20,759
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	18,663	18,443	18,328	19,771	19,757	19,802	19,561
Agriculture, stockbreeding, hunting, forestry and fishing	16,773	11,709	11,357	16,673	15,941	12,825	11,964
Education; Social and health services	9,938	12,266	12,206	12,669	10,461	13,063	12,929
Public Administration and Defense; Mandatory Affiliation Social Security Plan	5,137	7,057	5,732	8,155	5,295	7,302	5,949
Financial intermediation	7,135	7,259	7,247	7,926	7,795	7,675	7,589
Construction	5,245	5,755	5,978	6,508	5,910	6,672	6,639
Housing; Real estate and other business services	10,485	10,920	11,095	11,599	11,082	11,565	11,737
Communications	3,672	3,701	3,766	3,839	3,888	3,946	4,028
Transportation and storage	4,678	4,615	4,041	5,306	5,032	5,101	4,740
Community, social and personal services	2,945	3,118	3,263	3,378	3,137	3,344	3,450
Electricity and water distribution	2,396	2,527	2,806	2,364	2,950	2,989	3,088
Exploitation of mines and quarries	923	778	735	773	698	807	787
Minus: indirectly measured financial intermediation services	6,166	6,157	6,488	6,867	6,820	6,692	6,632
Gross added value at basic prices	**102,222**	**100,810**	**99,143**	**110,694**	**105,467**	**109,173**	**106,588**
Plus: net taxes of production and importation subsidies	8,680	9,065	10,190	10,475	10,042	10,505	11,369
GDP at market prices	**110,902**	**109,875**	**109,333**	**121,169**	**115,509**	**119,678**	**117,956**

* Preliminary
Note 1: Data referred to the original series.
Note 2: The sum of the parts is not necessarily equal to the total, due to approximations.
Source: Central Bank of Honduras.

The following table shows each economic activity's contribution to nominal GDP expressed as a percentage of GDP:

Nominal GDP by Economic Activity

	Quarterly National Accounts						
	2015*				**2016***		
	I	**II**	**III**	**IV**	**I**	**II**	**III**
	percentage of total nominal GDP						
Manufacturing	18.4	17.1	17.4	15.4	17.6	17.4	17.6
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	16.8	16.8	16.8	16.3	17.1	16.5	16.6
Agriculture, stockbreeding, hunting, forestry and fishing	15.1	10.7	10.4	13.8	13.8	10.7	10.1
Education; Social and health services	9.0	11.2	11.2	10.5	9.1	10.9	11.0
Public Administration and Defense; Mandatory Affiliation Social Security Plan	4.6	6.4	5.2	6.7	4.6	6.1	5.0
Financial intermediation	6.4	6.6	6.6	6.5	6.7	6.4	6.4
Construction	4.7	5.2	5.5	5.4	5.1	5.6	5.6
Housing; Real estate and other business services	9.5	9.9	10.1	9.6	9.6	9.7	10.0
Communications	3.3	3.4	3.4	3.2	3.4	3.3	3.4
Transportation and storage	4.2	4.2	3.7	4.4	4.4	4.3	4.0
Community, social and personal services	2.7	2.8	3.0	2.8	2.7	2.8	2.9
Electricity and water distribution	2.2	2.3	2.6	2.0	2.6	2.5	2.6
Exploitation of mines and quarries	0.8	0.7	0.7	0.6	0.6	0.7	0.7
Minus: indirectly measured financial intermediation services	5.6	5.6	5.9	5.7	5.9	5.6	5.6
Gross added value at basic prices	**92.2**	**91.7**	**90.7**	**91.4**	**91.3**	**91.2**	**90.4**
Plus: net taxes of production and importation subsidies	7.8	8.3	9.3	8.6	8.7	8.8	9.6
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary
Note 1: .... Data referred to the original series.
Note 2: The sum of the parts is not necessarily equal to the total, due to approximations.
Source: Central Bank of Honduras.

Principal Sectors of the Economy

In the period between 2011 to 2015, in real terms, Honduras' main economic activities have been: (i) manufacturing; (ii) financial intermediation; (iii) agriculture, stockbreeding, hunting, forestry and fishing; (iv) communications; (v) commerce, repair of motor vehicles, motorcycles, personal and household goods; and (vi) defense and public administration. From 2011 to 2015, on average, real GDP grew by 3.5% and nominal GDP grew by 8.6%. This average growth rate was mainly due to increases in financial intermediation (7.5%); agriculture, stockbreeding, hunting, forestry and fishing (5.3%); communications (5.9%); manufacturing (2.8%); and commerce, repair of motor vehicles, motorcycles, personal and household goods (3.1%) sectors.

In 2015, real GDP grew by 3.6% mainly due to an increase in financial intermediation (8.7%); manufacturing (3.1%); communications (4.8%); agriculture, stockbreeding, hunting, forestry and fishing (3.2%); commerce, repair of motor vehicles, motorcycles, personal and household goods (3.0%); and electricity and water distribution (7.3%). For the first nine months of 2016, real GDP grew by 3.9% compared to the same period in 2015. This was mainly due to growth in the financial intermediation; manufacturing; agricultural, stockbreeding, hunting, forestry and fishing; commerce, hotels and restaurants; communications; and electricity sectors.

Manufacturing

From 2011 to 2015, the manufacturing sector grew at an average annual rate of 2.8%. This was mainly due to average annual increases in the production of food products, beverages, tobacco (4.6%), mainly by the production of other food products (5.3%); production, processing and preserving of meat and fish (6.1%); and production of beverages (4.0%).

These activities are mainly driven by higher external demand, as well as the improvement in international prices. Nonetheless, tobacco production has declined as a result of prevention campaigns to reduce consumption, given smoking's negative health effects .

The following table shows production of Honduras' main manufacturing activities:

Principal Manufacturing Activities

	For the year ended December 31,				
	2011	**2012**	**2013***	**2014****	**2015****
			(L. millions)[1]		
Food products, beverages and tobacco	13,903	14,973	15,364	15,758	16,206
Production, processing and preservation of meat and fish	*3,466*	*3,682*	*4,191*	*4,242*	*4,149*
Grain mill products and prepared animal feeds	*955*	*970*	*996*	*994*	*1,021*
Other food products	*5,837*	*6,576*	*6,544*	*6,790*	*7,105*
Beverages	*3,111*	*3,242*	*3,200*	*3,344*	*3,575*
Tobacco products	*534*	*503*	*432*	*388*	*356*
Textiles, leather and footwear	11,707	10,681	10,848	11,263	11,637
Wood and wood products	331	307	310	314	330
Paper and paper products, printed matter and related articles	857	897	901	896	856
Chemicals and chemical products, derived from petroleum, rubber and plastics products	1,789	1,975	2,123	2,115	2,160
Glass and glass products and other non-metallic products	1,286	1,258	1,235	1,180	1,359
Basic metals	212	236	251	237	240
Metal products, machinery and equipment	2,351	2,690	3,052	2,864	2,955
Furniture[2]	334	332	344	304	321
Other manufacturing	263	280	335	366	313
Total	**33,033**	**33,628**	**34,762**	**35,298**	**36,377**

(1) In constant 2000 Lempiras.
(2) Includes the manufacture of all types of furniture, except of stone, concrete and ceramic, which are accounted for in "Other Manufacturing."
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The following table shows the percentage of annual growth of Honduras' main manufacturing activities for the periods indicated.

Growth of Principal Manufacturing Activities

	For the year ended December 31,				
	2011	**2012**	**2013***	**2014****	**2015****
	percentage change from previous year[1]				
Food products, beverages and tobacco	7.2	7.7	2.6	2.6	2.8
Production, processing and preservation of meat and fish	11.4	6.2	13.8	1.2	(2.2)
Grain mill products and prepared animal feeds	6.5	1.6	2.7	(0.2)	2.8
Other food products	5.9	12.7	(0.5)	3.8	4.6
Beverages	5.6	4.2	(1.3)	4.5	6.9
Tobacco products	6.7	(5.9)	(14.2)	(10.1)	(8.1)
Textiles, leather and footwear	1.5	(8.8)	1.6	3.8	3.3
Wood and wood products	3.4	(7.2)	0.9	1.4	4.9
Paper and paper products, printed matter and related articles	(10.3)	4.8	0.4	(0.6)	(4.5)
Chemicals and chemical products, derived from petroleum, rubber and plastics products	7.1	10.4	7.5	(0.3)	2.1
Glass and glass products and other non-metallic products	9.9	(2.2)	(1.8)	(4.4)	15.2
Basic metals	19.6	11.0	6.7	(5.5)	0.9
Metal products, machinery and equipment	4.6	14.4	13.5	(6.1)	3.2
Furniture[2]	(0.3)	(0.4)	3.5	(11.7)	5.8
Other manufacturing	(1.2)	6.3	19.8	9.0	(14.4)
Total	**4.4**	**1.8**	**3.4**	**1.5**	**3.1**

(1) In constant Lempiras.
(2) Includes the manufacture of all types of furniture, except of stone, concrete and ceramic, which are accounted for in "Other Manufacturing."
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The manufacturing industry grew by 4.4% in 2011, mainly due to the increase in the net export of goods for transformation, and by the production of cement and dipstick. In 2012, the manufacturing industry grew 1.8%, mainly due to higher production of food, beverages and tobacco.

The manufacturing industry increased by 3.4% in 2013, due to a higher external demand of automotive harnesses, and the development and conservation of fishing products.

In 2014, the manufacturing industry increased by 1.5%, was mainly due to an increase in food, beverages and tobacco, especially the production of oils and fats and products derived from fishing and coffee processing.

According to preliminary results, in 2015 manufacturing grew by 3.1%. This increase in the growth rate was driven mainly by increased domestic and external demand for food products, led by the production and processing of coffee, oils and fats of vegetable origin and poultry, as well as glass, glass products and other non-metallic products. This growth was also due to increases in the production of alcoholic beverages, clothing and automotive harnesses, despite significant declines in tobacco production and other manufacturing.

During the first nine months of 2016, manufacturing activity increased by 3.4% compared to the first nine months of 2015, driven mainly by growth in the demand for food, beverages, tobacco products, clothing, textiles and fishery products.

Goods for Processing (maquila)

The goods for the processing (*maquila*) sector, which includes companies operating under the Free Zones regime, generally known as *maquiladoras*, remains one of the country's main economic activities and one of the most important sources of employment in Honduras. The main subsectors of the *maquila* sector include manufacturing of textiles (apparel), electrical parts (harnesses) and automotive parts. The performance of the *maquila* sector is directly related to the economic cycles in the United States.

From 2011 to 2015, the *maquila* sector accounted for 36.5% of total manufacturing activity, represented 6.3% of Honduras' nominal GDP and generated on average 124,019 direct jobs annually. According to the Central Bank of Honduras, the *maquila* sector grew 18.2% in 2015, compared to 14.8% in 2014. This compares to 4.2% growth in 2013, 2.8% in 2012 and 20.2% in 2011.

In 2015, apparel manufacturing employed 98,981 workers, or 75.2% of total *maquila* sector's workforce, creating 3,594 additional jobs compared to 2014. Meanwhile, manufacturing of automotive harnesses and auto parts generated approximately 15,371 jobs, an increase of 822 jobs as compared to 2014. This was mainly due to an increase in external demand. In the area of commerce, services provided to companies and other related activities recorded 17,272 employees, creating 1,548 new jobs in these sectors compared to 2014.

In 2015, 331 *maquila* enterprises were in operation, of which 26 were established that same year. Seven of the newly created enterprises were engaged in apparel manufacturing and eight in trade services. Additionally, 15 companies closed during 2015, mostly in textile production and trade. As for the origin of capital for the *maquila* enterprises in 2015, 41.1% was derived from the U.S., 35.6% from Honduras and the remaining 23.3% from Asian, European, Latin American investors, as well as mixed capital (domestic and foreign investors).

Commerce, Automotive Vehicle and Motorcycle Repair, Personal and Household Goods, Hotels and Restaurants

The commerce, automotive vehicle and motorcycle repair, personal and household goods, hotels and restaurants sector, includes sales, maintenance and repair of motor vehicles and motorcycles; wholesale and retail trade in food products, fuels, textile products, pharmaceuticals, household goods, building materials and hardware, among others.

For 2011 and 2012, this sector grew 4.3% and 4.1% respectively, mainly due to an increase in demand from the agricultural and manufacturing sectors, as well as foreign trade, especially imports of consumer goods. In 2013, growth decreased to 2.3% due to the lower volume of coffee exports and imports of consumer goods and domestically-traded capital. In 2014, manufacturing and agricultural activities decreased to 2.0%, mainly due to lower domestic demand. This sector represented, on average, 14.0% of Honduras' nominal GDP from 2011 to 2014.

In 2015, commerce, automotive vehicle and motorcycle repair, personal and household goods, hotels and restaurants sector represented 13.7% of nominal GDP in Honduras. According to preliminary results, in 2015, this sector grew 3.0% in real terms compared to 2014, principally because of the greater availability of domestic and imported goods, as well as an increase in household consumption.

During the first nine months of 2016, the commerce, automotive vehicle and motorcycle repair, personal and household goods, hotels and restaurants sector grew by 3.1% compared to the first nine months of 2015 due to increased demand for food products, radios, television and communications, goods for household consumption, pharmaceutical products and beverages.

Hotels and Restaurants

From 2011 to 2015, the hotels and restaurants sector grew by an average of 2.5%. In 2011, the hotels and restaurants sector increased by 3.8%, the highest increase during this period. This increase was stimulated by the increase in foreign tourist arrivals, according to the Honduran Institute of Tourism. The sector grew by 2.3% in 2012, 1.6% in 2013, 2.1% in in 2014 and 2.5% in 2015. The increases in each of these years was principally the result of increases in foreign and domestic travel to and within Honduras.

Agriculture, Stockbreeding, Hunting, Forestry and Fishing

The agriculture, stockbreeding, hunting, forestry and fishing sector includes coffee, African palm, banana, tubers, vegetables and fruits that account for 52.3% of the industry. The sector also includes basic grains and other crops (17.0%); stockbreeding, which is comprised by the breeding of cattle, pigs and poultry (18.2%), and forestry (2.8%). Lastly, fishing includes shrimp, tilapia and to a lesser extent the extraction of crustaceans and fish (9.7%).

In real terms, from 2011 to 2015 this sector increased 5.3% on average, mainly as a result of increases in sales of coffee, bananas, African palm, sugarcane, farmed shrimp, tilapia and fruits (melon and watermelon).

In 2011, agriculture, stockbreeding, hunting, forestry and fishing recorded a year-on-year increase of 6.5%, 4.7% higher than the previous year, justified by the intensification of the fertilization process of the farms and an increase in the coffee harvested area, which allowed Honduras to become the leading coffee exporter in Central America in that year. Furthermore, that year recorded an increase in exports of fishery products to the European and Mexican markets, driven by good prices in these markets.

In 2012, agriculture, stockbreeding, hunting, forestry and fishing grew by 10.7%, as a result of increased exports of coffee, bananas, African palm oil and cultivated shrimp.

In 2013, the GVA of agriculture, stockbreeding, hunting, forestry and fishing increased 3.4% due to the positive trend in sales of banana, tubers, vegetables, legumes, fruits, sugar cane and African palm, coupled with the increase in fishing activity. During this same year, coffee cultivation decreased due to the adverse effects of plant rust that affected the production on many coffee farms.

In 2014, this sector experienced an increase of 2.7% mainly due to increased production of tubers, vegetables, legumes, fruits, African palm, coffee, shrimp farming and fish breeding (tilapia). In contrast, banana production decreased as a result of the impact of adverse weather conditions and the Sigatoka plague, which caused problems in ripeness and fruit size.

According to preliminary data from 2015, this sector represented 12.5% of nominal GDP. Also in real terms, the sector recorded an increase of 3.2%, compared to an increase of 2.7% in 2014. This was mainly due to expansion of the cultivation of coffee, improved productivity and efficiency on farms, as well as the introduction of new grain varieties that are resistant to plagues and heat. Additionally, African palm and banana production increased in 2015 compared to 2014.

During the first nine months of 2016, this sector grew by 4.2% compared to the first nine months of 2015 mainly due to increases in coffee production, shrimp farming and production of poultry and eggs.

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,				
	2011	**2012**	**2013***	**2014****	**2015****
			(L. millions)[1]		
Coffee	4,931	6,141	5,976	6,043	6,602
Tubers, fruit and vegetables	3,092	3,096	3,207	3,352	3,478
Bovine cattle	3,039	3,088	3,157	3,241	3,315
Fishing activities[2]	1,999	2,310	2,552	2,665	2,316
Bananas	1,762	1,951	2,301	2,265	2,306
African palm	1,080	1,361	1,440	1,540	1,696
Corn	1,232	1,247	1,280	1,302	1,358
Poultry farming	984	1,033	1,031	1,079	1,182
Beans	666	688	709	722	760
Forestry	629	647	673	693	734
Rice	82	85	88	91	95
Sorghum	107	113	119	121	111
Other animals farming[3]	195	206	200	227	223
Other crops and agricultural activities[4	1,772	1,911	1,965	2,028	2,014
Total	**21,570**	**23,875**	**24,696**	**25,367**	**26,189**

(1) In constant Lempiras.
(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.
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

The following table shows 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,				
	2011	**2012**	**2013***	**2014****	**2015****
	(percent change from previous year)(1)				
Coffee	15.8	24.5	(2.7)	1.1	9.3
Tubers, fruit and vegetables	5.1	0.1	3.6	4.5	3.8
Bovine cattle	2.6	1.6	2.2	2.7	2.3
Fishing activities(2)	8.1	15.5	10.5	4.4	(13.1)
Bananas	2.3	10.7	17.9	(1.6)	1.8
African palm	14.3	26.1	5.8	6.9	10.2
Corn	(0.7)	1.2	2.6	1.7	4.3
Poultry farming	6.4	4.9	(0.2)	4.6	9.6
Beans	2.9	3.2	3.1	1.9	5.3
Forestry	2.0	2.9	4.0	2.9	6.0
Rice	1.2	3.1	3.8	3.9	4.3
Sorghum	(3.3)	5.2	5.3	1.7	(8.7)
Other animals farming(3)	9.4	5.4	(2.8)	13.5	(1.9)
Other crops and agricultural activities(4)	(0.2)	7.9	2.8	3.2	(0.7)
Total	**6.5**	**10.7**	**3.4**	**2.7**	**3.2**

(1) In constant Lempiras.
(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.
* Revised
** Preliminary
Note: The sum of the parts is not necessarily equal to the total due to approximations.
Source: Central Bank of Honduras.

Financial Intermediation

This sector is made up of monetary intermediation and other types of financial intermediation, including the Central Bank, commercial banks, financial corporations, other financial intermediaries and auxiliary financial intermediaries, both private and public. It also includes financing of insurance and pension plans, including private and public insurers, pension funds and insurance auxiliaries.

In real terms, from 2011 to 2014 the financial intermediation sector recorded an annual average growth rate of 7.3%, the highest of all activities during that period. This was principally the result of an increase in new loans to finance economic activities and domestic consumption through credit cards.

During 2011, Financial Intermediation services recorded a variation of 8.7%, an increase of 0.4% compared to the previous year. This was mainly due to an improvement in the national financial system given the greater economic activity. In 2012, the financial intermediation services presented an increase of 6.7%, mainly due to a higher demand for resources. In 2013, financial intermediation services increased by 5.3%, mainly due to a higher financial intermediation margin and an increase in premiums and contributions to insurance companies and pension funds.

During 2014, the financial intermediation services increased by 8.3%, due in part to higher interests received by loans granted in comparison to interests paid for deposits, the latter congruent with the decrease in the passive interest rate. On the other hand, the activity of insurance and pension funds decreased, explained by increase in the indemnities and expenses for pensions.

In 2015, the financial intermediation sector grew by 8.7%, in real terms, compared to 2014 due to higher income from loans, especially mortgages, trusts and consumption loans as well as increased fees received for disbursements, money orders and transfers.

During the first nine months of 2016, the financial intermediation sector grew by 7.9% compared to the same period in 2015. This growth was mainly due to an increase in loans and income from transaction fees.

Construction

This sector includes the construction of houses, office buildings, commercial premises, public buildings and others, as well as the construction of civil engineering projects, such as roads, streets, bridges, ports, railway lines and bypasses among others.

From 2011 to 2015, the construction sector showed an average contraction of 1.0%, in real terms. This decrease resulted from poor performance in private construction in 2013, due to lower demand for residential and commercial buildings. In 2014, the construction sector decreased by 8.2% due principally to a decrease in public spending.

In 2011 this sector grew by 4.4% (a drop of 2.4% compared to 2010), mainly due to the commercial building. During 2012, construction showed an increase of 2.4%, explained by the construction of commercial areas and housing complexes. In 2013, construction activity registered a decrease of 2.5%, given the reduction in the private sector construction projects. The construction sector contracted by 8.2% in 2014 associated with the lower number of buildings for commercial and residential use and public infrastructure projects.

In 2015, the construction sector increased by 1.0%, led by private and public construction of multiple residential and commercial buildings. This sector represented 5.2% of nominal GDP in 2015.

During the first nine months of 2016, the construction sector grew by 5.0% compared to the same period in 2015. This growth was mainly due to increases in private and public construction, and increased construction in the cities of Choloma, Villanueva and San Pedro Sula.

Communications

This activity covers postal and mail services; telecommunications including the transmission of sounds, images, data and other types of information by cable, broadcast and retransmission stations, and satellite.

In real terms, the communications sector represented an average increase of 5.9% of Honduras' GDP 2011 to 2015. The growth of this sector was driven mainly by investments made by mobile telephone companies aimed at implementing broadband technologies, diversifying the services offered and expanding coverage. Mobile telephone companies also implemented programs, such as technological expansion, including spectrum allocation for the operation of the 4G band.

In 2011, this sector showed a year-on-year variation of 7.6% driven by the growth in traffic of minutes in telephone calls, the expansion of geographical and service coverage, lower prices and diversity of mobile telephone offers. During 2012 and 2013, the communications sector showed a year-on-year variation of 6.5% and 5.6%, respectively, due to the continued expansion of this activity in the mobile, internet, postal services and cable television services. In 2014, this activity grew 5.2%, based on investments aimed at implementing new technologies, coupled with the start of number portability.

In 2015, the communications sector represented 3.3% of Honduras' nominal GDP. In real terms, communications activities grew by 4.8% compared to 2014 due principally to increases in demand for data transmission, internet and cable television services. According to the National Telecommunications Commission (*Comisión Nacional de Telecomunicaciones* (CONATEL)), as of December 31, 2015, there were 8.0 million registered users of mobile telephone service, up from 7.7 million users as of December 31, 2014. Internet service registered 1.6 million users in 2015, compared with 1.5 million in 2014.

During the first nine months of 2016 the communications sector increased by 3.3% compared to the same period in 2015. This growth was due to an increase in domestic demand for cellular, internet, data transmission, television and satellite services.

Transportation and Storage

The transportation and storage sector is concentrated in the transportation of passengers and merchandise by air, land and sea, as well as storage services and other complementary transport services. The sector represented an average of 3.4% of Honduras' nominal GDP between 2011 and 2015.

Transportation and storage services showed growth of 4.4% in 2011 and 2012, explained by the increase in transportation use in agricultural and industrial activities, as a result of higher exports and imports. During 2013, transportation and storage services grew by 2.5%, influenced by agricultural and manufacturing activities; partially offset by the reduction of imports, particularly of consumer and capital goods. In 2014, transport recorded increases of 2.1%, related to the growth observed in the flow of domestic and imported goods.

In 2015, the transportation and storage sector contributed 4.1% to Honduras' nominal GDP. In real terms, transportation and storage increased by 3.6% compared to 2014 principally as a result of increases in the transport of cargo, transportation of passengers and in occupancy of storage warehouses.

During the first nine months of 2016, the transportation and storage sector grew by 3.3% compared to the same period in 2015. This growth was mainly due to an increase in demand for land transport and storage services.

Honduras has approximately 15,882 kilometers (9,868 miles) of paved roads, including primary and secondary roads. In addition, Honduras has six operating ports: Puerto Cortés, Puerto Castilla, La Ceiba, Roatan and Tela in the Atlantic Ocean and San Lorenzo in the Gulf of Fonseca. Honduras has four international airports and 18 domestic airports.

Puerto Cortés is the main port of Honduras. It is the deepest port in Central America, with an important regional presence. In 2015, Puerto Cortés was extended from 215 meters to 417 meters, which allows berthing three ships simultaneously, allowing the transfer of 12,000 to 15,000 tons per day. In addition, Puerto Cortés has a modern weighing service and a storage capacity of 60,000 metric tons.

Electricity and Water Distribution

This sector includes the generation, transmission and distribution of electrical energy. Additionally, the activity includes the collection, purification and distribution of water.

From 2011 to 2015, the electricity and water sector increased by an average of 2.5% in real terms. During this period, generation of thermal and wind power increased, while hydroelectric power and biomass based power registered decreases. During this period, distribution of water decreased principally as a result of a decrease in supply of drinking water to residential, industrial and commercial users, mainly in the city of San Pedro Sula.

During 2011, generation of electric energy and water distribution grew by 3.6%, primarily due to the production of thermal energy. In 2012, generation of electricity was of 2.9% in 2012, due to the growth in the generation of thermal and wind energy, which combined to represent approximately 60.4% of the country's energy matrix.

The decrease of 2.5% in the generation of electric energy in 2013 was due to the by the reduction in the hydroelectric energy generation of the public sector. However, in 2014 this activity recorded a growth of 1.3% due to changes in the ENEE 2014-2015 generation program, in order to meet the long-term demand of this public enterprise.

In 2015, the constant GVA of the electricity and water distribution sector was 7.3%. Photovoltaic power accounted for 5.0% of total energy supply. Wind power generation and biomass energy also increased, representing 7.9% and 4.0% of total energy supply, respectively.

During the first nine months of 2016, the electricity and water supply sector grew by 8.9% compared to the same period in 2015. This growth was mainly due to an increase in construction of renewable energy facilities and recollection and distribution of water.

Electricity Demand

From 2011 to 2015, electricity consumption increased on average by 2.6% mainly due to increases in residential, commercial and industrial demand. The residential sector accounted for 40.4% of total energy demand and 91.1% of all consumers.

In 2015, electricity consumption increased by 4.7% compared to 2014 due mainly to growth in electricity coverage in the residential sector. The coverage of the residential sector increased to 74.0% of all households, up from 72.4% in 2014. The coverage rate in the country´s urban area is of 81.3%, while the percentage of electricity coverage in rural areas is 64.4%. According to data from the ENEE, as of August 31, 2016, the number of subscribers to the electric supply system was 1,684,114.

The following table shows information on electricity production and consumption for the specified periods.

Electricity Generation and Consumption

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014	2015*	2015*	2016*
				(kWh millions)			
Electricity Generation	**7,123**	**7,502**	**7,833**	**7,790**	**8,427**	**6,306**	**6,706**
Hydroelectric Public	2,469	2,399	2,275	1,884	1,622	1,253	1,047
Hydroelectric Private	347	387	466	705	706	500	680
Thermal	4,027	4,196	4,601	4,630	4,678	3,555	3,358
Biomass	165	182	180	174	340	265	551
Wind	117	338	312	397	665	529	397
Solar	0	0	0	0	417	204	673
Electricity Consumption	**7,123**	**7,502**	**7,833**	**7,790**	**8,427**	**6,306**	**6,706**
National	5,221	5,308	5,453	5,553	5,812	4,344	4,509
Residential	2,159	2,156	2,217	2,195	2,265	1,695	1,776
Commercial	1,293	1,327	1,378	1,401	1,493	1,116	1,187
Industrial	1,377	1,426	1,448	1,547	1,634	1,219	1,210
Public Lighting	125	125	126	126	125	93	94
Official	268	274	283	284	295	220	242
International Sales	1	1	8	4	-	-	-
Transmission and Distribution Losses	1,901	2,193	2,373	2,233	2,615	1,962	2,197

* Preliminary
Source: Empresa Nacional de Energía Eléctrica ENEE

The following table shows information on electricity production and consumption for the specified periods:

Electricity Generation and Consumption

	For the year ended December 31,					For the nine months ended September 30,	
	2011	**2012**	**2013**	**2014**	**2015***	**2015***	**2016***
	(as a percentage of total electricity generated / consumed)						
Electricity Generation	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Hydroelectric Public	34.7	32.0	29.0	24.2	19.2	19.9	15.6
Hydroelectric Private	4.9	5.2	5.9	9.0	8.4	7.9	10.1
Thermal	56.5	55.9	58.7	59.4	55.5	56.4	50.1
Biomass	2.3	2.4	2.3	2.2	4.0	4.2	8.2
Wind	1.6	4.5	4.0	5.1	7.9	8.4	5.9
Solar	0.0	0.0	0.0	0.0	5.0	3.2	10.0
Electricity Consumption	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
National	73.3	70.8	69.6	71.3	69.1	68.9	67.2
Residential	30.3	28.7	28.3	28.2	26.9	26.9	26.5
Commercial	18.2	17.7	17.6	18.0	17.7	17.7	17.7
Industrial	19.3	19.0	18.5	19.9	19.4	19.3	18.0
Public Lighting	1.7	1.7	1.6	1.6	1.5	1.5	1.4
Official	3.8	3.7	3.6	3.6	3.5	3.5	3.6
International Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transmission and Distribution Losses	26.7	29.2	30.4	28.7	30.9	31.1	32.8

* Preliminary
Source: Empresa Nacional de Energía Eléctrica ENEE
Data through September 2016, Empresa Nacional de Energía Eléctrica ENEE

Regulation

Honduras has been a pioneer among Central American countries in modernizing the energy sector. In 1994, the "Framework Law of the Electricity Subsector" established the basic principles of energy sector reform, including the separation of functions among policy, regulation and supply; promotion of private investment in energy generation; and rates based on supply costs with the possibility of cross-subsidization between price categories.

In 2014, the National Congress approved the "The General Law of the Electricity Industry" with the objective of regulating the generation, transmission, distribution and commercialization of electricity in the country. The General Law of the Electrical Industry was enacted, in part, to modernize the Framework Law of the Electricity Sector in light of the continued evolution of the electricity sector since its enactment in 1994.

Diversification of the Energy Matrix

The Central Government is undertaking a number of projects designed to restructure the country's energy matrix. In September 2011, a wind project located in Cerro de Hula, Francisco Morazán was initiated at a cost of U.S.$270 million. This was the first wind farm in Honduras and, in October 2011, it began generating 102 megawatts (MW) of clean energy, powering approximately 100,000 households. The wind farm is made up of 51 wind turbines and was authorized by the ENEE and built by *Energía Eólica de Honduras, Sociedad Anónima* (EEHSA).

Biomass energy has increased significantly in recent years, mainly due to an increase in the production of sugar cane and African palm. Several biomass power plants, including the Merendón and Caracol Knits, have joined the national grid (*Sistema Interconectado Nacional* (SIN)). As of August 2016, the generation capacity of existing biomass plants had reached 223.7 MW.

In May 2015, several solar power plants began operations in the southern part of the country. Some of these projects have been built by *Compañía Hondureña de Energía Solar* (COHESSA), Solar Power (SOPOSA) and the Central Aura Solar II, developed by the Mexican company Gauss Energía, in the department of Choluteca. As of August 2016, the generation capacity of existing solar plants had reached 388.0 MW.

Electricity Demand

	For the year ended December 31,						
	2010	2011	2012	2013	2014	2015	% of total 2015
				(Installed power in MW)			
Sales of Energy							
Residential	2,147	2,168	2,156	2,218	2,195	2,265	39.0%
Commercial	1,268	1,298	1,327	1,378	1,400	1,493	25.7%
Industrial	551	592	598	605	655	674	11.6%
High consumption	706	784	828	843	892	960	16.5%
Public lighting	125	125	125	125	126	125	2.2%
Official	257	268	274	283	284	295	5.1%
Total	**5,054**	**5,235**	**5,308**	**5,452**	**5,552**	**5,812**	**100%**
Growth rate annual	0.4%	3.3%	1.7%	2.7%	1.8%	4.7%	
Electricity Loss	25%	27%	29%	31%	32%	32%	
Electricity Coverage (%)	74%	74%	74%	74%	74%	74%	
Customers (thousands)	1,273	1,335	1,437	1,482	1,553	1,620	
Annual Growth rate	5.2%	4.7%	7.8%	3.1%	4.8%	4.3%	

Source: Statistical Bulletin April 2016 - Corporate Planning Division / ENEE

Water Distribution and Consumption

Since 1980, drinking water had been supplied by the state-owned company, *Servicio Autónomo Nacional de Acueductos y Alcantarillados* (SANAA). Since the late 1990s, the water supply has been privatized or transferred to municipal entities. In 2015, the water supply in cubic meters grew by 1.3% mainly in the residential sector, which represented 79.8% of total.

The following table shows water consumption by type of consumer:

Water Consumption

	For the year ended December 31,				
	2011	2012	2013	2014	2015
		(thousands of cubic meters)			
Economic sector					
Residential	74,724	78,755	78,332	78,084	79,295
Commercial	10,359	10,125	9,681	9,527	9,563
Industrial	1,677	1,398	1,484	1,385	1,633
Government	6,365	5,848	5,891	5,865	5,951
Others	4,363	3,329	3,448	3,322	2,969
Total	**97,489**	**99,455**	**98,836**	**98,182**	**99,411**

Source: SANAA, Aguas de San Pedro y Aguas de Puerto Cortés.

Exploitation of Mines and Quarries

The exploitation of mines and quarries sector involves extracting metallic minerals such as gold, silver, lead, zinc and more recently, iron oxide. These commodities are sold to the international market, mainly to the United States. All of the iron oxide is exported to China. Extraction includes sand, gravel and clay, among others, which are used as construction materials.

From 2011 to 2014, the exploitation of mines and quarries decreased at an average of 6.4%, in real terms, due to a decline in external demand and falling international prices for minerals. Additionally, the quality of the minerals being extracted deteriorated and the concentration of minerals in the deposits has decreased.

In 2011 and 2012 this sector reflected a drop of 10.6% and 3.2% respectively, mainly attributable to the negative result in metallic mining, due to the lower content of lead, zinc, silver and gold. In 2013, exploitation of mines and quarries activity decreased by 6.8%, due to the drop in demand for sand, stone and clay, in response to the performance of private construction; in contrast, the extraction of metallic minerals, especially gold and iron oxide, showed a positive performance. During 2014, this sector showed a negative variation of 5.1%, due to a decrease in the extraction of stone, sand and clay.

In 2015, the exploitation of mines and quarries sector decreased by 3.5% compared to 2014. This decrease principally resulted from the factors noted above and the suspension of iron oxide production.

During the first nine months of 2016, the exploitation of mines and quarries sector increased by 1.5% compared with the same period of time in 2015. This growth was mainly due to an increase in demand from the construction sector.

Other Services

This sector includes the real estate and other business services, related to the public administration and defense; social and health services (public and private) and community, social and personal services.

The education sector, which includes public and private education, increased on average 1.9%, in real terms, from 2011 to 2015. This average increase was due mainly to the collective agreements between the teachers' union and the Central Government, as well as an increase in the number of teachers resulting from the expansion in education throughout the country.

In 2011, other services increased by 1.1% in public administration, as a result of the measures adopted by the Republic, contained in the Law on Strengthening Revenues, Social Equity and Rationalization of Public Spending; which regulated public expenditures. In 2012 and 2013, other services increased by 2.5% and 2.8%, respectively. This was mainly due to greater control of expenditures and increases in tax collection and in education and health services. In 2014, the sector increased by 1.8% mainly due to the slowdown in public administration, education and health, with positive variations of 1.3%, 1.9% and 1.2%, respectively. This was mainly due to salary adjustments made in 2013 by the Central Government.

In 2015, the education sector increased by 1.5%, in real terms, compared to 2014. In nominal terms, the education sector represented 6.9% of GDP.

The real estate and business sector increased on average by 2.6%, in real terms, from 2011 to 2015. In 2015, this sector increased by 3.1%, in real terms, driven mainly by increased demand for these services by other economic activities (manufacturing, commerce, etc.) and households.

The social and health services sector recorded an average increase of 2.2%, in real terms, from 2011 to 2015. This average increase was mainly due to the expansion of Central Government health programs in several of the country's cities. The sector behaved similarly in 2015, recording a growth rate of 2.0%, in real terms. In nominal terms, the social and health services sector represented 3.5% of Honduras' GDP in 2015.

The public administration and defense sector increased on average by 1.5%, in real terms, from 2011 to 2015 mainly due to increased employment and payroll. In 2011, the sector decreased by 1.1%, in real terms, due to the implementation of austerity measures aimed at containing public spending, particularly payroll. In 2015, the sector grew by 0.7%, in real terms, mainly due to an increase in Central Government administrative services. The sector represented 5.8% of Honduras' GDP, in nominal terms, in 2015.

From 2011 to 2015, the community, social and personal services sector increased on average by 2.4%, in real terms. In 2015, this sector increased by 2.6%, in real terms. In nominal terms, the sector represented 2.8% of Honduras' GDP in 2015.

During the first nine months of 2016, these services showed positive performance, primarily education, health and social services; community, social and personal services; and homeownership and real estate; and business activities.

Central Government Participation in the Economy

There are nine state-owned companies in Honduras: ENEE, Hondutel, 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.

In recent years, plans have been implemented to rehabilitate public companies and reduce operational losses, coupled with an investment plan to improve the services provided. The Central Administration has eliminated subsidies and current transfers to all public companies, except for the Honduran Postal Service and SANAA. Central Government transfers amounted to 0.2% of nominal GDP in 2015 and are expected remain at the same level of nominal GDP in 2016. Capital transfers have remained part of the investment plan for the improvement and development of public enterprises.

Employment and Wages

In Honduras, the structure of minimum wages is established by economic activity and company size in accordance with Article 23 of the Minimum Wage Act. There are currently 42 different minimum wages.

Due to the lack of consensus among sectors, during the period 2005-2011 the minimum wage was set directly by the Executive Branch. In the last six months of 2011, the Central Government began efforts to enhance dialogue and reached a tripartite social pact by finding a mechanism setting the minimum wage that takes into account expected inflation, productivity and company size and sectors. This mechanism allowed the Minimum Wage Commission to agree on adjustments over several years. The current agreements cover the 2014-2016 period and in the case of companies benefiting from the Free Zones regime for the 2015-2018 period.

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

Minimum Monthly Wage

	2012		2013		2014		2015		2016	
	(lempiras)	(%)	*(lempiras)*	(%)	*(lempiras)*	(%)	*(lempiras)*	(%)	*(lempiras)*	(%)
Nominal	6,153.6	11.4	6,530.7	6.1	6,861.2	5.1	7,292.6	6.3	7,760.0	6.4
Real**	5,838.8	11.6	6,224.6	6.6	6,483.8	4.2	7124.7	9.9	7,538.3	5.8

Source: Department of Salaries of the Ministry of Labor and Social Security.
** Consumer Price Index (CPI), 1979-2016, Inflation in the year to December of each year according to decree, CPI calculated by the Central Bank of Honduras.

The average minimum wage has been adjusted annually by an average of 7.1% in nominal terms and 7.6% in real terms for the period between 2012 and 2016.

Open unemployment refers to unemployed people actively looking for a job, including those seeking a job for the first time. Visible underemployment refers to people working less than 44 hours a week and not earning the minimum wage. Invisible underemployment refers to people working more than 44 hours a week who do not earn the minimum wage.

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

Employment and Labor

	As of May 31,				
	2012	2013	2014	2015	2016
	(Percentage of the total economically active population)				
Participation rate	50.8	53.7	56	58.3	57.5
Employment rate	96.4	96.1	94.7	93.0	93.0
Open unemployment rate	3.6	3.9	5.3	7.3	7.4
Invisible underemployment	43.6	43.9	40.8	41.1	44.2
Visible underemployment	10.5	10.8	11.7	14.1	11.5

Source: Internal data, DGS, STSS, based on statistics by EPHPM, INE, May 2011-2016

Poverty

In 2012, the percentage of households living below the poverty line was 66.5%, while 46.0% of Hondurans lived in extreme poverty. As of June 30, 2015, the number of households living in poverty decreased to 63.8%. As of June 30, 2016, the rate was 60.9%, a reduction of 2.9% compared to 2015.

The Juan Orlando Hernández Administration continues implementing several Lobo Administration programs to fight poverty, including the most important Central Government social protection program: the "Bono 10,000" program, now named "Bono Vida Mejor Program". This program helps extremely impoverished families with cash transfers in exchange for meeting a series of requirements. As of June 30, 2016, 325,317 families have benefited from the Bono Vida Mejor program. The participants' completion of the Bono Vida Mejor requirements, which include continuous school enrollment and regular health checkups for children, is supervised by several Central Government agencies, including the Presidential Office and the Health Ministry.

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, which has benefited 44,000 families. In particular, the program supports technological change and efficiency in the production of grains. In addition, the program has delivered 10,711 tool kits for production to women.

The "Vida Mejor Program" improved 20, 875 houses and delivered 35,000 clean kitchens. In terms of nutrition, 1.2 million children received meals at school and 66,117 vulnerable people in extreme poverty were attended trough the solidarity food program.

Poverty is measured using the "poverty line" method which looks at the ability of a household to satisfy, through the purchase of goods and services, a set of food and non-food necessities. Food necessities are determined by the cost of the basic food basket and non-food necessities, also known as the expanded basket, which takes into account other expenses, such as housing, education, health and transportation. When household income falls below the cost of the food basket, such households are classified as being in extreme poverty. When household income exceeds the cost of the food basket, but is less than the expanded basket, such households are classified as being in relative poverty. The sum of households living in extreme and relative poverty equals the total number of households living in poverty.

Percentage of Households in Poverty

Category	As of December 31,			
	2013	**2014**	**2015**	**2016***
	(as percentage)			
Extreme				
Urban	29.0	29.8	**29.5**	**27.7**
Rural	55.6	51.8	**53.6**	**52.4**
National	**42.6**	**39.7**	**40.0**	**38.4**
Relative				
Urban	31.4	31.3	**33.5**	**31.7**
Rural	12.9	13.2	**11.2**	**10.5**
National	**21.9**	**23.1**	**23.8**	**22.5**
Total				
Urban	60.4	**61.0**	**63.0**	**59.4**
Rural	68.5	65.0	**64.8**	**62.9**
National	**64.5**	**62.8**	**63.8**	**60.9**

*As of June 30, 2016.

Social Security

The IHSS was created in July 1959 as a result of the North Coast Banana Companies strike that took place in July 1954. The IHSS operates as an autonomous Central Government agency, separate and independent from the general treasury of the Republic. 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 who 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.

Any resulting surplus in the social security system is transferred to the Central Government by the IHSS. Likewise, any shortfall in the system is regulated by the Central Government. In compliance with the Law of the Social Protection System, the Economic and Social Committee has gradually increased contribution rates from employers and workers for a period of ten years, starting on September 4, 2015 in accordance with the following contribution ceilings table:

Gradual Contribution Ceilings for Social Security System

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
						(in millions of Lempiras)				
Social Security System/Collective Capitalization Pillar (Disability Retirement and Death)	8,882.3	8,882.3	8,882.3	8,882.3	9,326.4	9,792.7	10,282.4	10,796.5	11,336.3	11,903.1
Healthcare System/Contributive Pillar	7,350.0	7,717.5	8,103.4	8,508.5	8,934.0	9,380.7	9,849.7	10,342.2	11,109.3	11,903.1

Source: IHSS Agreement No. STSS-390-2015

The following table shows the current required contributions to the social security system, by type of coverage, as a percentage of wages (subject to the contribution ceilings described above):

Contributions to Social Security
up to September 3, 2015

	Maternity and Healthcare System	Disability, Retirement and Death System	Professional Risk
Employer	5.0%	2.0%	0.2%
Worker	2.5%	1.0%	0.0%
Central Government	0.5%	0.5%	0.0%
Total	8.0%	3.5%	0.2%

Source: IHSS

Contributions to Social Security
from September 4, 2015 to August 2018

	Maternity and Healthcare System	Disability, Retirement and Death System	Professional Risk
Employer	6.5%	2.0%	0.2%
Worker	4.0%	1.0%	0.0%
Central Government	0.5%	0.5%	0.0%
Total	11.0%	3.5%	0.2%

Source: IHSS

Contributions to Social Security
from September 4, 2018 onwards

	Maternity and Healthcare System	Disability, Retirement and Death System	Professional Risk
Employer	5.0%	3.5%	0.2%
Worker	2.5%	2.5%	0.0%
Central Government	0.5%	0.5%	0.0%
Total	8.0%	6.5%	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,					For the nine months ended September 30,
	2011	2012	2013	2014	2015	2016
	(millions of Lempiras except percentages)					
Income						
Contributions	3,396.4	3,976.1	4,698.5	4,353.5	3,508.9	4,765.6
Other Income	127.0	199.0	190.9	192.9	47.5	40.7
Total Income	3,523.4	4,175.0	4,889.4	4,546.3	3,556.4	4,806.3
Total Expenditures	3,561.5	4,493.8	4,751.8	4,464.6	3,023.0	3,356.2
Net income	**-38.1**	**-318.8**	**137.6**	**81.7**	**533.3**	**1,450.1**
Net income as % of GDP	**0%**	**0%**	**0%**	**0%**	**0.1%**	**0.3%**

Source: IHSS

Disability, Retirement and Death

	For the year ended December 31,					For the nine months ended September 30,
	2011	2012	2013	2014	2015	2016
	(millions of Lempiras except percentages)					
Income						
Contributions	1,057.6	1,228.8	1,312.9	1,333.9	1,472.1	850.9
Other Income	836.1	1,088.1	1,411.0	1,571.9	1,548.6	789.5
Total Income	1,893.7	2,316.9	2,723.9	2,905.9	3,020.7	1,640.4
Total Expenditures	553.9	621.2	816.9	957.6	1,059.1	557.2
Net income	**1,339.8**	**1,695.7**	**1,907.0**	**1,948.3**	**1,961.5**	**1,083.2**
Net income as % of GDP	**0.4%**	**0.5%**	**0.5%**	**0.5%**	**0.4%**	**0.2%**

Source: IHSS

From 2011 through the first nine months of 2016, the maternity and healthcare system experienced no perceivable increase or decrease as a percentage of nominal GDP. The system had been experiencing negative balances from 2008 up to 2012. In 2011, the board of directors of IHSS raised the cap for contributions to the social security system, which resulted in the reduction of deficits. The disability, retirement and death sector has usually worked with a surplus, averaging 0.4% of GDP from 2011 to through the first nine months of 2016.

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

In 2015, imports of goods including general merchandise (GM) and goods for processing (GP), accounted for 54.0% of nominal GDP. Total cost, insurance and freight (CIF) imports, including consumer goods, accounted for 24.3% of total imports; commodities and intermediate goods accounted for 25.2% of total imports; fuels, lubricants and electricity accounted for 11.2% of total imports; and GP accounted for 22.2% of total imports. The remaining 17.1% of nominal GDP consisted of capital goods, construction materials and others.

Exports have increased at an average annual rate of 7.2% between 2011 and 2014. In 2015, exports decreased by 0.4% compared with 2014. The current account deficit decreased from 8.0% of GDP in 2011 to 6.3% in 2015. This was mainly due to greater exports of agro-industrial products, such as coffee, African palm oil, textiles and automotive harnesses, as well as the receipt of remittances. These inflows were partially offset by an increase in imports of GM (excluding fuels, lubricants and electricity) and outflows of income from foreign direct investment (FDI). The deficit of goods and services decreased from 20.2% of nominal GDP in 2011 to 18.9% of nominal GDP in 2014. In 2015, the balance of goods and services accounted for 18.2% of nominal GDP.

During the first nine months of 2016, free on board (FOB) exports of goods decreased by 3.6% compared to the first nine months of 2015 and accounted for 38.5% of GDP mainly due to a decrease in prices of commodities, such as coffee, paper and cardboard, and mineral products. In addition, imports of goods decreased by 5.9% over the same period, representing 50.8% of GDP; mainly due to a decrease in imports of raw materials and intermediate goods, fuel, lubricants and energy.

Composition of Foreign Trade

Honduras maintains close commercial ties with the United States, its main trading partner. Between 2011 and 2015, on average 53.9% of exports were destined for the United States, 13.2% for the European Union and 20.0% for Central America. During that same period, 42.5% of total imports came from the United States

In the first six months of 2016, exports to the United States accounted for 55.8% of total exports and imports to the United States represented 41.1% of total imports.

Exports

Exports of Goods

For the period from 2011 to 2015, the total value of exports increased from U.S.$7,977.0 million to U.S.$8,040.7 million. In 2011, the total amount of exports was driven mainly by exports of coffee, palm oil, bananas and farmed shrimp. In 2012, exports increased by U.S.$382.3 million to U.S.$8,359.3 million, mainly due to higher export volumes of coffee.

In 2013, the total amount of exports decreased by U.S.$553.8 million to U.S.$7,805.5 million. This decrease was driven mainly by the decline in the value of coffee sales resulting from lower international prices and lower export volumes caused by "*Roya*", a fungus named *hemileia vastatrix* that causes coffee leaf rust. The overall decrease in exports was partially offset by an increase in GP exports due mainly to growth in exports of electrical parts and automotive harnesses resulting from increased demand from the U.S. auto industry.

In 2014, total exports increased by U.S.$266.7 million to U.S.$8,072.2 million. This increase was due mainly to coffee, which registered exports of U.S.$838.5 million, and increased by 11.8%, compared to 2013. Moreover, products such as African palm oil and farmed shrimp recorded U.S.$309.6 million and U.S.$243.6 million, respectively, with an increase of 8.1%, for both, compared to 2013. GP exports (mainly textiles and electronic components) totaled U.S.$3,979.8 million, due to an increase in exports of textiles (5.1%) stemming from higher demand in the U.S. market.

In 2015, total exports decreased to U.S.$8,040.7 million, compared to U.S.$8,072.2 in 2014. This was mainly due to a decrease in international prices of major commodities, such as coffee, palm oil, shrimp and silver. Exports of goods in 2015 represented 39.1% of nominal GDP, compared to 41.4% of nominal GDP in 2014. GP accounted for 50.8% of total exports in 2015, compared to 49.4% in 2014. Exports of GM accounted for 48.8% of total exports in 2015, compared to 50.4% in 2014. Manufacturing exports of GDP in 2015 increased 2.6% over the previous year to a total of U.S.$4,086.7 million. This increase was due mainly to an increase in textile products exports, which was driven by greater demand from the United States market. The export of electrical parts and automotive harnesses to the United States also grew by 1.2% in 2015.

During the first nine months of 2016, exports of GM (FOB) reached a total of U.S.$2,889.5 million, representing a decrease of U.S.$131.0 million or 4.3% compared to the first nine months of 2015. This was due to the decline in exports of products, such as coffee, paper and cardboard, iron, minerals, tilapia filet, vegetables and fruits. In the first nine months of 2016, exports to the United States accounted for 56.7% and imports 41.3%. GP exports for the first nine months of 2016 totaled U.S.$3,016.4 million, a decrease of U.S.$86.3 million compared to the same period of 2015. This decline was due mainly to a reduction in exports of textiles and automotive harnesses to the United States.

The following table shows the geographical distribution of exports:

Geographic Distribution of Exports of Goods[1]

	For the year ended December 31,					For the nine months ended September 30,	
	2011	**2012**	**2013**	**2014***	**2015***	**2015***	**2016***
				(percentage of total exports)[1]			
America	81.4	79.7	84.9	83.9	85.0	83.9	84.1
North America	53.8	53.4	57.6	57.2	59.5	58.3	59.1
Canada	2.3	2.0	2.7	2.0	2.8	2.7	2.4
United States	51.5	51.4	54.9	55.2	56.7	55.6	56.7
Latin-America	27.6	26.2	27.2	26.8	25.4	25.7	25.0
Central America	21.8	20.0	20.7	19.4	18.0	17.8	18.9
Costa Rica	1.9	1.9	1.7	1.5	1.2	1.2	1.4
El Salvador	7.4	6.9	7.5	7.1	7.4	7.3	7.9
Guatemala	3.6	3.5	3.8	3.5	3.2	3.2	3.3
Nicaragua	8.9	7.7	7.7	7.3	6.2	6.1	6.3
Rest of Latin-America	5.8	6.2	6.5	7.4	7.4	7.9	6.1
Europe	14.3	16.5	10.7	12.0	12.5	13.5	13.6
Rest of World	4.3	3.8	4.4	4.1	2.5	2.5	2.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

The following tables show the value (FOB) and the composition of Honduras' main exports as a percentage of total exports:

Goods Exports by Groups of Products[(1)]

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015	2016*
			(U.S.$ millions)[(1)]				
Goods for processing							
Textiles	3,411.1	3,278.6	3,103.9	3,263.7	3,350.1	2,537.4	2,475.2
Electrical parts	466.4	550.0	686.1	621.0	628.5	484.8	451.8
Transportation equipment	69.1	79.4	61.3	53.5	59.2	43.3	48.5
Other goods for processing	52.6	31.4	38.2	41.6	48.9	37.3	40.9
Total goods for processing	**3,999.2**	**3,939.4**	**3,889.5**	**3,979.8**	**4,086.7**	**3,102.7**	**3,016.4**
General merchandise							
Traditional Products							
Coffee	1,358.4	1,402.4	749.8	838.5	986.0	916.6	773.9
Banana	397.8	448.9	490.1	456.0	505.0	352.2	358.6
Mineral products[(2)]	105.9	63.4	70.3	79.5	48.0	36.2	29.1
Other traditional products[(3)]	123.3	141.1	154.3	168.4	166.5	130.8	130.5
Total traditional products	**1,985.4**	**2,055.8**	**1,464.5**	**1,542.4**	**1,705.5**	**1,435.8**	**1,292.1**
Non-traditional Products							
Palm oil	270.1	319.2	286.4	309.6	242.5	157.7	216.3
Cantaloupes, watermelons and pineapples	74.9	72.0	78.6	85.6	82.6	55.2	51.7
Paper and cardboard	63.7	85.3	94.1	106.9	112.5	91.2	54.6
Gold	93.4	106.4	98.5	112.1	96.9	75.4	68.8
Cultured shrimp	157.8	176.0	225.3	243.6	177.9	112.5	140.5
Other non-traditional products[(4)]	1,314.5	1,587.0	1,639.3	1,669.4	1,503.6	1,168.1	1,134.2
Total non-traditional goods	**1,974.4**	**2,345.9**	**2,422.2**	**2,527.2**	**2,216.0**	**1,660.1**	**1,666.2**
Total other goods	**18.0**	**18.2**	**29.3**	**22.8**	**32.5**	**24.6**	**24.6**
Total exports	**7,977.0**	**8,359.3**	**7,805.5**	**8,072.2**	**8,040.7**	**6,223.2**	**5,999.3**

(1) FOB prices.
(2) Includes silver, lead and zinc.
(3) Includes wood, sugar, wild caught shrimp, lobster and tobacco.
(4) Includes tilapia, vegetables, wooden manufactures, soaps and other products.
* Preliminary.
Source: Central Bank of Honduras

Goods Exports by Groups of Products[1]

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
	(percentage of total exports)[1]						
Goods for processing							
Textiles	42.8	38.7	39.8	40.5	41.8	40.8	41.3
Electrical parts	5.8	6.6	8.8	7.7	7.8	7.8	7.5
Transportation equipment	0.9	1.0	0.8	0.7	0.7	0.7	0.8
Other goods for processing	0.7	0.4	0.5	0.5	0.6	0.6	0.7
Total goods for processing	**50.1**	**46.7**	**49.9**	**49.4**	**50.9**	**49.9**	**50.3**
General merchandise							
Traditional Products							
Coffee	17.0	17.0	9.6	10.4	12.3	14.7	12.9
Banana	5.0	5.3	6.3	5.6	6.3	5.7	6.0
Mineral products[2]	1.3	1.1	0.9	1.0	0.6	0.6	0.5
Other traditional products[3]	1.6	1.7	2.0	2.1	2.1	2.1	2.2
Total traditional products	**25.0**	**25.1**	**18.8**	**19.1**	**21.3**	**23.1**	**21.5**
Non-traditional Products							
Palm oil	3.4	3.7	3.7	3.8	3.0	2.5	3.6
Cantaloupes, watermelons and pineapples	0.9	0.9	1.0	1.1	1.0	0.9	0.9
Paper and cardboard	0.8	1.8	1.2	1.3	1.4	1.5	0.9
Gold	1.2	1.3	1.3	1.4	1.2	1.2	1.1
Cultured shrimp	2.0	2.0	2.9	3.0	2.2	1.8	2.3
Other non-traditional products[4]	16.4	18.3	21.0	20.7	18.8	18.8	18.9
Total non-traditional goods	**24.7**	**28.0**	**31.1**	**31.3**	**27.6**	**26.7**	**27.8**
Total other goods	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.4**	**0.4**
Total exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(1) FOB prices.
(2) Includes silver, lead and zinc.
(3) Includes wood, sugar, wild caught shrimp, lobster and tobacco.
(4) Includes tilapia, vegetables, wooden manufactures, soaps and other products.
* Preliminary.
Source: Central Bank of Honduras

Services Trade

Honduras' services trade is predominantly focused in the tourism sector. This sector is one of the main sources of foreign currency inflows for the Honduran economy. Revenue from this sector totaled U.S.$636.7 million in 2011 and U.S.$629.5 million in 2014. This was mainly due to an influx of travelers into the country. In 2015, this inflow totaled U.S.$650.4 million.

In 2011, the deficit for the balance of services trade increased to U.S.$423.3 million. In 2012, the deficit of the balance of services increased by U.S.$167.9 million. The services trade sector revenues totaled U.S.$1,055.9 million in 2012, mainly from tourism services, representing 64.3% of total services revenues. In addition, expenditures related to the services trade sector totaled U.S.$1,647.1 million in 2012, an increase of U.S.$200.9 million in comparison to 2011, consisting mainly of Honduras' travel expenditures made abroad and of transportation costs outflows.

In 2013, the deficit for the balance of services trade increased to U.S.$667.7 million, in which revenues totaled U.S.$1,012.9 million, with travel and transportation services revenues representing 60.0% and 10.1% of total revenues, respectively. For that same year, expenditures related to services trade totaled U.S.$1,680.6 million, an increase of U.S.$33.5 million in comparison to 2012, due mainly to an increase in other services (communications, insurance, government and others).

In 2014, the Honduran economy's exported services increased to U.S.$1,086.9 million, reflecting an annual increase of 7.3% due to growth in the areas of financial services and other services, which include business services and communications. For that same year, expenditures related to imports of services were valued at U.S.$1,784.4 million, up by 6.2% compared to 2013, a trend associated with higher payments on transportation services, travel, insurance, royalties and license fees, business, communications, and financial services.

In 2015, exports of services totaled U.S.$1,104.2 million, an increase of 1.6% compared to 2014. As a percentage of nominal GDP, exports of services decreased to 5.4% from 5.6% in the previous year. Imports, passenger transportation and merchandise transport services provided by foreign companies totaled U.S.$998.3 million in 2015. These outflows accounted for 55.6% of the total value of services imported from abroad, which recorded a 4.5% increase compared to 2014. This was mainly due to a decrease of GM imports and a decline in GP imports.

During the first nine months of 2016, inflows from travel (tourism) totaled U.S.$511.7 million or 57.5% of total exports of services, an increase of U.S.$1.7 million compared to the same period of 2015. Exports of "other services," principally communications, business, government and computer and information services, totaled U.S.$306.6 million (34.5% of total exports of services). Imports of services during the first nine months of 2016 included transportation charges in the amount of U.S.$658.5 million (48.4% of total imports of services), a decrease of U.S.$103.1 million compared to the same period of the previous year.

The following table shows the number of travelers to Honduras and the income they generated:

Travelers to Honduras

	For the year ended December 31,			
	2011	2012	2013	2014*
	(thousands of persons)			
Travel (Tourist)[1]	872	895	863	868
Same-day travelers [2]	980	1,009	994	1,214
Cruisers	787	655	708	943
Same-day visitors	193	354	286	271
Total Visitors	**1,852**	**1,904**	**1,857**	**2,082**
FX Income (in U.S.$ millions)	636.7	679.0	608.2	629.5

(1) Tourists correspond to all visitors who stay at least one night in the country.
(2) Same-day travelers or excursionists, that is, those who stay less than 24 hours and do not remain overnight, including tourists who arrive by cruise ships.
* Preliminary
Source: Honduran Tourism Institute (*Instituto Hondureño de Turismo*).

Imports

CIF imports of goods from 2011 to 2015, as a percentage of nominal GDP, decreased from 67.2% in 2011 (U.S.$11,895.9 million) to 59.0% in 2015 (U.S.$12,117.0 million). This was mainly due to lower growth in imports of goods compared to an increase in nominal GDP in 2014-2015. Moreover, it is relevant to note that in the same period there was a decline in imports of fuel.

During 2015, imports from North America represented 35.5%, 33.8% from Latin America, 8.4% from Europe, and 22.3% from the rest of the world.

In 2011, imports CIF of GM increased to U.S.$9,016.2 million, up by U.S.$1,888.5 million from 2010. This was mainly attributed to the increase in international prices of petroleum products and the positive performance presented by the Honduran economic activity that demanded more commodities, intermediate goods and capital goods.

CIF imports of GM for 2012 increased to U.S.$9,394.6 million, by U.S.$378.4 million (4.2%) compared to 2011. This was mainly due to an increase in foreign purchases of GM, such as consumer goods, raw materials and intermediate products and fuels. On the other hand, CIF imports of GP fell by U.S.$23.9 million.

In 2013, CIF imports of GM totaled U.S.$9,152.3 million distributed as follows: U.S.$2,630.4 million of consumer goods (22.2% of total imports and a decrease of 3.7% compared to 2012); U.S.$2,515.9 million of commodities (21.3% of total imports and decrease of 2.4% compared to 2012); U.S.$2,264.3 million of fuels and lubricants and energy (19.1% of total imports and an increase of 1.0% compared to 2012). The imported value of capital goods was U.S.$1,213.3 million, a 6.7% decrease compared to 2012. In 2013, imports of GP were U.S.$2,674.4 million, decreasing by U.S.$181.4 million compared to 2012. This was mainly due to a decrease in the importation of textile materials and related manufactures.

In 2014, CIF imports of GM totaled U.S.$9,310.8 million, CIF imports of consumer goods were U.S.$2,658.3 million, CIF imports of commodities and intermediate products were U.S.$2,631.5 million, CIF imports of capital goods were U.S.$1,378.9 million and CIF imports of construction materials were U.S.$327.6 million. These imports collectively accounted for 75.1% of total GM. CIF imports of fuels, lubricants and energy were down in 2014 by U.S.$179.5 million and CIF imports of various goods decreased by U.S.$18.9 million, compared to the prior year. Additionally, CIF imports of GP were U.S.$2,738.4 million, U.S.$64.0 million more than in 2013 (U.S.$2,674.4 million), mainly due to the rise in demand for raw materials for the manufacture of clothing.

In 2015, CIF imports of goods totaled U.S.$12,117 million, accounting for 59.0% of nominal GDP. CIF imports of GM totaled U.S.$9,424.3 million, an increase of U.S.$113.5 million or 1.2% compared to 2014. This was mainly due to increases in purchases of commodities and intermediate products of U.S.$417.8 million, consumer goods of U.S.$295.1 million, capital goods of U.S.$74.9 million and construction materials of U.S.$67.8 million. In addition, imports of fuels, lubricants and electricity decreased U.S.$728.7 million and imports of miscellaneous goods decreased U.S.$13.5 million, in each case compared to 2014. In 2015, CIF imports of GP decreased to U.S.$2,692.7 million, a decrease of U.S.$45.7 million compared to 2014. This was mainly due to the fall in international prices of commodities.

For the first nine months of 2016, CIF imports of GM totaled U.S.$6,580.4 million, a decrease of U.S.$555.8 million compared to the same period of 2015. This decrease was mainly due to declines in imports of commodities and intermediate products in the amount of U.S.$344.9 million; fuels, lubricants and electricity in the amount of U.S.$209.1 million; capital goods in the amount of U.S.$138.6 million; and construction materials in the amount of U.S.$21.6 million, in each case compared to the same period of 2015. Imports of consumption goods increased by U.S.$136.7 million and imports of miscellaneous goods increased by U.S.$21.7 million, in each case compared to the same period of 2015. During the first nine months of 2016, CIF imports of GP totaled U.S.$2,012.7 million, a decrease of U.S.$49.1 million compared to the first nine months of 2015. This decrease was mainly due to a decrease in the demand of commodities for manufactured goods, including yarn, fabrics, synthetic fabrics and cables.

The following table sets forth GM imports by country of origin:

Goods Imports by Country of Origin[(1)]

	For the year ended December 31,					For the nine months ended September 30,	
	2011	**2012**	**2013**	**2014***	**2015***	**2015***	**2016***
	(percentage of total imports)[(1)]						
America	84.7	83.5	83.6	78.4	69.3	72.4	72.3
North America	47.1	44.4	43.8	43.7	35.5	42.5	41.7
Canada	0.4	0.4	0.4	0.4	0.4	0.3	0.4
United States	46.7	44.0	43.4	43.3	35.1	42.2	41.3
Latin-America	37.6	39.1	39.8	34.7	33.8	29.9	30.6
Central America	19.0	19.6	19.8	19.3	18.9	18.3	18.2
Costa Rica	4.0	4.1	9.0	9.4	3.4	2.7	2.7
El Salvador	5.4	5.9	5.7	5.1	5.1	6.8	7.0
Guatemala	8.9	8.6	3.9	3.5	9.2	7.4	7.1
Nicaragua	0.7	1.0	1.2	1.2	1.2	1.5	1.4
Rest of Latin-America	18.6	19.5	20.0	15.5	14.9	11.6	12.4
Europe	6.3	5.6	6.0	7.6	8.4	7.2	7.3
Rest of World	9.0	10.9	10.4	14.0	22.3	20.4	20.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

The following tables set forth the value (CIF) and the composition of imported goods for the periods indicated:

Goods Imports by Type of Goods[(1)]

	For the year ended December 31,					For the Nine Months Ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
	(U.S.$ millions)[(1)]						
Consumer goods:							
Durable	1,521.4	1,619.3	1,585.7	1,563.9	1,704.4	1,250.1	1,308.5
Semi-durable	1,041.6	1,112.1	1,044.7	1,094.4	1,248.9	867.6	945.9
Total consumer goods	**2,563.0**	**2,731.4**	**2,630.4**	**2,658.3**	**2,953.4**	**2,117.7**	**2,254.4**
Fuel, lubricants and energy	2,103.9	2,242.2	2,264.3	2,084.8	1,356.1	1,081.2	872.1
Raw materials and intermediate goods	2,479.7	2,578.1	2,515.9	2,631.5	3,049.3	2,350.5	2,005.6
Capital goods	1,327.4	1,299.9	1,213.3	1,378.9	1,453.8	1,105.4	966.7
Construction materials	297.6	296.2	279.7	327.6	395.4	322.9	301.4
Others	244.6	246.7	248.7	229.8	216.3	158.5	180.1
Goods for processing	2,879.7	2,855.8	2,674.4	2,738.4	2,692.7	2,061.8	2,012.7
Total imports	**11,895.9**	**12,250.3**	**11,826.7**	**12,049.3**	**12,117.0**	**9,198.1**	**8,593.1**

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

Goods Imports by Type of Goods[(1)]

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
	(percentage of total imports)[(1)]						
Consumer goods:							
Durable	12.7	13.3	13.4	13.0	14.0	13.6	15.2
Semi-durable	8.8	9.1	8.8	9.1	10.3	9.4	11.0
Total consumer goods	**21.5**	**22.4**	**22.2**	**22.1**	**24.3**	**23.0**	**26.2**
Fuel, lubricants and energy	17.7	18.3	19.1	17.3	11.2	11.8	10.1
Raw materials and intermediate goods	20.8	21.0	21.3	21.8	25.2	25.6	23.3
Capital goods	11.2	10.6	10.3	11.5	12.0	12.0	11.2
Construction materials	2.5	2.4	2.4	2.7	3.3	3.5	3.5
Others	2.1	2.0	2.1	1.9	1.8	1.7	2.1
Goods for processing	24.2	23.3	22.6	22.7	22.2	22.4	23.4
Total imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

Goods Imports by Type of Goods[1]

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
	(percentage of total imports)[1]						
Consumer goods:							
Durable	12.7	13.3	13.4	13.0	14.0	13.6	15.2
Semi-durable	8.8	9.1	8.8	9.1	10.3	9.4	11.0
Total consumer goods	**21.5**	**22.4**	**22.2**	**22.1**	**24.3**	**23.0**	**26.2**
Fuel, lubricants and energy	17.7	18.3	19.1	17.3	11.2	11.8	10.1
Raw materials and intermediate goods	20.8	21.0	21.3	21.8	25.2	25.6	23.3
Capital goods	11.2	10.6	10.3	11.5	12.0	12.0	11.2
Construction materials	2.5	2.4	2.4	2.7	3.3	3.5	3.5
Others	2.1	2.0	2.1	1.9	1.8	1.7	2.1
Goods for processing	24.2	23.3	22.6	22.7	22.2	22.4	23.4
Total imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

Free Trade Agreements

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 (i) encouraging expansion and diversification of trade in goods and services; (ii) promoting conditions of fair competition within the free zone trade; and (iii) eliminating trade barriers and facilitating 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.

Balance of Payments

Current Account

The current account deficit from 2011 and 2015 averaged U.S.$1,497.5 million or 7.9% of nominal GDP. The deficit during this period was mainly due to increases in GM imports, partially offset by a decrease in fuel imports in 2014 and 2015.

The current account deficit for 2011 increased to U.S.$1,408.7 million (8.0% of nominal GDP), an increase of U.S.$727.2 million compared to that of 2010 (4.3% of nominal GDP in 2010). This was the result of the combination of deficits of U.S.$3,572.3 million in goods and services, U.S.$974.0 million in income and because of a surplus of U.S.$3,137.7 million in current transfers.

In 2012, the current account deficit of the balance of payments was increased to U.S.$1,580.7 million (8.5% of nominal GDP), a result of imbalances of U.S.$3,602.9 million in goods and services and U.S.$1,265.5 million for income, partly offset by the surplus of U.S.$3,287.7 million in the balance of current transfers. In 2013, the current account deficit increased to U.S.$1,762.5 million, an increase of U.S.$181.8 million in comparison to the previous year and represented 9.5% of nominal GDP, due to the decrease of 6.6% in exports of goods and 3.7% in imports; a higher deficit in the balance of services and income by 12.9% and 6.9%, respectively, partially offset by an increase in remittances of 6.6%.

During 2014 the current account deficit decreased to U.S.$1,444.2 million (7.4% of nominal GDP), as a result of an increase in export of goods, mainly due to higher exports of coffee and other products, as well as an increase in current transfers (mainly remittances); revenues were offset by higher imports and outflows of income (particularly distributed earnings) of foreign investments in the country. In 2015, the current account deficit decreased to U.S.$1,291.4 million, a decrease of U.S.$152.8 million compared to the previous year, mainly due to increased export of GP, particularly textiles and electrical appliances (automotive harnesses) and by inflows of current transfers (mainly remittances). Despite the decrease in the level of export of GM, this behavior was partially offset by an increase in imports of GM (excluding fuels, lubricants and electricity) and outflows of income from FDI.

Remittances from 2011 through 2015 averaged 16.6% of nominal GDP. In 2012, remittances totaled U.S.$2,891.8 million, increasing 3.4% compared to 2011. This was due to the favorable performance of the U.S. economy and the decline in the unemployment rate for Latin American migrants in that country from 11.0 % in 2011 to 9.6% in 2012. For 2013, remittances increased by 6.6%

compared to 2012; meanwhile 2014 showed an increase of 8.8% compared to the previous year. In 2015, remittances totaled U.S.$3,649.8 million (17.8% of nominal GDP), representing an increase of 8.8% over 2014. The increase in remittances was associated with declining unemployment in the United States', particularly the reduction in the Latino/Hispanic unemployment rate.

During the first nine months of 2016, the current account deficit decreased to U.S.$544.3 million (3.5% of nominal GDP), a decrease of U.S.$413.9 million compared to the first nine months of 2015. This decrease was mainly due to a decline in imports of goods and a decrease in international prices of imported commodities, particularly fuels.

During the first nine months of 2016, transfers increased to U.S.$2,958.5 million, mostly from remittances inflows of U.S.$2,849.0 million (96.3% of total transfers) with a year on year growth of 4.9% compared to the same period in 2015.

The following table shows the inflows of remittances as a percentage of nominal GDP:

Remittances Income

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
				(U.S.$ millions)			
Remittances Current Account	2,797.6	2,891.8	3,082.7	3,353.2	3,649.8	2,716.8	2,849.0
Remittances Capital Account	64.1	66.2	104.5	112.2	120.4	89.7	93.5
Total Remittances**	2,861.7	2,958.0	3,187.2	3,465.5	3,770.2	2,806.5	2,942.5
% of nominal GDP	16.2%	16.0%	17.2%	17.8%	18.3%	18.5%	18.9%

* Preliminary.
** Includes both remittances in current and capital accounts.
Source: Central Bank

Capital and Financial Account

From 2011 to 2014, the capital account recorded a U.S.$136.1 million surplus. In 2014, the capital account surplus totaled U.S.$144.6 million, an increase of U.S.$12.1 million compared to 2013. This was mainly due to an increase in family remittances for fixed capital investment, which totaled U.S.$112.2 million and donations transferred to the government that accounted for U.S.$32.4 million, which were mainly made up of donations of capital goods such as ambulatory medical equipment, transportation equipment and construction of hospitals, bridges and schools.

In 2011, official donations totaled U.S.$102.1 million. In 2012, these inflows recorded a decrease of 65.7%, which implied a reduction of U.S.$67.1 million. In 2013, an inflow of U.S.$26.9 million was registered, U.S.$8.1 million less than the previous year, and by 2014 the Republic received donations of U.S.$32.4 million with a 20.3% increase compared to 2013.

In 2015, the capital account surplus totaled U.S.$141.2 million, a decrease of U.S.$3.4 million compared to 2014. This decrease was due to a decrease of U.S.$11.6 million in transfers to the Republic.

During the first nine months of 2016, the capital account was U.S.$99.8 million, a decrease of U.S.$3.9 million compared to the first nine months of 2015. This was due to a decrease in transfers to the Republic.

From 2011 to 2015, Honduras received an annual average of U.S.$1,069.2 million in FDI.

In 2011, inward FDI totaled U.S.$1,014.4 million, an increase of 4.7% over the previous year. For 2012, inward FDI recorded an increase in capital received of U.S.$44.1 million and a growth of 4.3%, mainly due to reinvested earnings. In 2013, this growth was 0.1%, registering a flow of U.S.$1,059.7 million, similar to that of 2013. In 2014, this category reflected an increase of 8.0%, or U.S.$84.4 million, reaching U.S.$1,144.1 million.

In 2015, FDI inflows totaled U.S.$1,203.5 million. The principal sectors to which the FDI was directed included services (U.S.$384.4 million or 31.9% of total); transport, storage and communications (U.S.$231.8 million or 19.3%); manufacturing industries (U.S.$199.7 million or 16.6%); goods for processing (U.S.$194.8 million or 16.2%); and trade (U.S.$123.2 million or 10.2%). FDI inflows during the first six months of 2016 totaled U.S.$652.6 million with an increase of U.S.$105.8 million compared to the same period in 2015 (U.S.$546.8 million).

The financial account received average annual inflows of U.S.$1,678.9 million from 2011 through 2014.

In 2011, the financial account was U.S.$1,143.2 million, a decrease of U.S.$320.1 million compared to 2010. At a component level, 88.5% of the amount was net foreign direct investment, 7.7% came from Portfolio Investment and 3.8% of the other investment; where the government's net disbursements stood at U.S.$429.6 million and were offset by increases in investments in private sector deposits. In 2012, the financial account received a net inflow of U.S.$1,426.0 million an increase of U.S.$282.8 million in comparison to 2011 this was mainly due to the net inflows of FDI and the increase in the inflow of assets and liabilities of the other investment, which totaled U.S.$574.0 million. In 2013, the financial account balance reached U.S.$2,495.2 million, an increase of U.S.$1,069.2 million compared to the previous year. This was mainly explained by portfolio investment and the placement of an aggregate principal amount of U.S.$1,000.0 million in sovereign bond issuance. In 2014, the financial account presented a net inflow of U.S.$1,651.3 million; comprised in 67.8% by net FDI and U.S.$29.7 million of the other investment (mainly government and financial sector debt).

In 2015, the financial account totaled U.S.$1,399.9 million, decreasing by U.S.$251.4 million compared to 2014. Net direct investment inflows were U.S.$1,112.8 million and net inflows from other investments were U.S.$296.4 million, while portfolio investments recorded net outflows of U.S.$9.3 million.

During the first nine months of 2016, the financial account totaled U.S.$490.4 million, a decrease of U.S.$230.1 million compared to the first nine months of 2015. By category, FDI generated net inflows of U.S.$735.2 million, and other investments and portfolio investments reported net outflows of U.S.$178.2 million and U.S.$66.6 million, respectively.

The following tables show the amount of foreign direct investment and its composition in percentages:

Foreign Direct Investment by Sector

	For the year ended December 31,					For the nine months ended September 30,	
	2011	**2012**	**2013**	**2014***	**2015***	**2015***	**2016***
				(U.S.$ millions)			
Transportation, storage and telecommunications	316.9	295.4	358.9	361.1	231.8	175.4	187.1
Manufacturing	243.4	262.1	152.1	168.0	199.7	114.2	187.2
Goods for processing	148.4	164.3	173.2	178.5	194.8	164.5	123.3
Services	90.5	100.4	97.2	199.0	384.4	252.5	270.8
Construction	5.0	5.1	15.8	1.7	1.8	0.0	1.7
Exploitation of mines and quarries	45.6	23.0	50.9	45.3	37.4	33.6	30.3
Agriculture, hunting, forestry and fishing	16.6	18.0	18.9	19.8	27.7	20.3	28.2
Electricity, gas and water supply	44.8	33.3	73.8	61.5	2.7	2.1	15.0
Wholesale and retail trade	103.1	156.8	118.9	109.2	123.2	77.8	81.1
Total	**1,014.4**	**1,058.5**	**1,059.7**	**1,144.1**	**1,203.5**	**840.4**	**924.7**

* Preliminary.
Source: Central Bank

Foreign Direct Investment by Sector

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
	(percentage of total FDI)						
Transportation, storage and telecommunications	31.2	27.9	33.9	31.6	19.3	20.9	20.2
Manufacturing	24.0	24.8	14.4	14.7	16.6	13.6	20.2
Goods for processing	14.6	15.5	16.3	15.6	16.2	19.6	13.3
Services	8.9	9.5	9.2	17.4	31.9	30.0	29.3
Construction	0.5	0.5	1.5	0.1	0.1	0.0	0.2
Exploitation of mines and quarries	4.5	2.2	4.8	4.0	3.1	4.0	3.3
Agriculture, hunting, forestry and fishing	1.6	1.7	1.8	1.7	2.3	2.4	3.1
Electricity, gas and water supply	4.4	3.2	7.0	5.4	0.2	0.2	1.6
Wholesale and retail trade	10.2	14.8	11.2	9.5	10.2	9.3	8.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary.
Source: Central Bank

The following tables show the composition of foreign direct investment by country of origin:

Foreign Direct Investment by Country of Origin

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
	(U.S.$ millions)						
United States	141.4	173.2	127.5	153.5	137.1	92.3	100.0
Luxembourg	149.2	124.4	150.2	147.3	92.4	69.6	82.5
Mexico	153.9	191.5	265.7	200.8	134.0	98.6	113.4
Canada	186.9	132.1	114.3	114.7	163.5	153.1	101.7
Ireland	21.5	-	-	-	-	0.0	0.0
Panama	15.9	21.7	63.3	109.0	194.6	106.2	97.0
England	84.6	93.5	97.3	33.5	125.2	104.3	87.9
Guatemala	43.7	51.5	37.1	73.2	64.8	46.3	82.5
Switzerland	68.1	85.7	2.6	30.7	15.6	0.6	47.4
Other	149.1	184.9	201.8	281.3	276.2	169.4	212.3
Total	**1,014.4**	**1,058.5**	**1,059.7**	**1,144.1**	**1,203.5**	**840.4**	**924.7**

* Preliminary.
Source: Central Bank

Foreign Direct Investment by Country of Origin

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
				(as percentage of total FDI)			
United States	13.9	16.4	12.0	13.4	11.4	11.0	10.8
Luxembourg	14.7	11.8	14.2	12.9	7.7	8.3	8.9
Mexico	15.2	18.1	25.1	17.6	11.1	11.7	12.3
Canada	18.4	12.5	10.8	10.0	13.6	18.2	11.0
Ireland	2.1	-	-	-	-	-	-
Panama	1.6	2.0	6.0	9.5	16.2	12.6	10.5
England	8.3	8.8	9.2	2.9	10.4	12.4	9.5
Guatemala	4.3	4.9	3.5	6.4	5.4	5.5	8.9
Switzerland	6.7	8.1	0.2	2.7	1.3	0.1	5.1
Other	14.7	17.5	19.0	24.6	23.0	20.2	23.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Revised.
** Preliminary.
Source: Central Bank

The following tables show the composition of foreign direct investment by country of origin:

Foreign Direct Investment by Sector

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014*	2015*	2015*	2016*
				(percentage of total FDI)			
Transportation, storage and telecommunications	31.2	27.9	33.9	31.6	19.3	20.9	20.2
Manufacturing	24.0	24.8	14.4	14.7	16.6	13.6	20.2
Goods for processing	14.6	15.5	16.3	15.6	16.2	19.6	13.3
Services	8.9	9.5	9.2	17.4	31.9	30.0	29.3
Construction	0.5	0.5	1.5	0.1	0.1	0.0	0.2
Exploitation of mines and quarries	4.5	2.2	4.8	4.0	3.1	4.0	3.3
Agriculture, hunting, forestry and fishing	1.6	1.7	1.8	1.7	2.3	2.4	3.1
Electricity, gas and water supply	4.4	3.2	7.0	5.4	0.2	0.2	1.6
Wholesale and retail trade	10.2	14.8	11.2	9.5	10.2	9.3	8.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary.
Source: Central Bank

The following tables show the composition of foreign direct investment by country of origin:

Foreign Direct Investment by Country of Origin

	For the year ended December 31,					For the nine months ended September 30,	
	2011	**2012**	**2013**	**2014***	**2015***	**2015***	**2016***
				(U.S.$ millions)			
United States	141.4	173.2	127.5	153.5	137.1	92.3	100.0
Luxembourg	149.2	124.4	150.2	147.3	92.4	69.6	82.5
Mexico	153.9	191.5	265.7	200.8	134.0	98.6	113.4
Canada	186.9	132.1	114.3	114.7	163.5	153.1	101.7
Ireland	21.5	-	-	-	-	0.0	0.0
Panama	15.9	21.7	63.3	109.0	194.6	106.2	97.0
England	84.6	93.5	97.3	33.5	125.2	104.3	87.9
Guatemala	43.7	51.5	37.1	73.2	64.8	46.3	82.5
Switzerland	68.1	85.7	2.6	30.7	15.6	0.6	47.4
Other	149.1	184.9	201.8	281.3	276.2	169.4	212.3
Total	**1,014.4**	**1,058.5**	**1,059.7**	**1,144.1**	**1,203.5**	**840.4**	**924.7**

* Preliminary.
Source: Central Bank

Foreign Direct Investment by Country of Origin

	For the year ended December 31,					For The Nine Months Ended September 30,	
	2011	**2012**	**2013**	**2014***	**2015***	**2015***	**2016***
				(as percentage of total FDI)			
United States	13.9	16.4	12.0	13.4	11.4	11.0	10.8
Luxembourg	14.7	11.8	14.2	12.9	7.7	8.3	8.9
Mexico	15.2	18.1	25.1	17.6	11.1	11.7	12.3
Canada	18.4	12.5	10.8	10.0	13.6	18.2	11.0
Ireland	2.1	-	-	-	-	-	-
Panama	1.6	2.0	6.0	9.5	16.2	12.6	10.5
England	8.3	8.8	9.2	2.9	10.4	12.4	9.5
Guatemala	4.3	4.9	3.5	6.4	5.4	5.5	8.9
Switzerland	6.7	8.1	0.2	2.7	1.3	0.1	5.1
Other	14.7	17.5	19.0	24.6	23.0	20.2	23.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

* Revised.
** Preliminary.
Source: Central Bank

The following table shows the balance of payments:

Balance of Payments

	For the year ended December 31,					For the nine months ended September 30,	
	2011	**2012**	**2013**	**2014***	**2015***	**2015***	**2016***
				(U.S.$ millions)			
Balance of Goods and Services	(3,572.3)	(3,602.9)	(3,814.8)	(3,695.0)	(3,746.0)	(2,737.9)	(2,389.8)
Exports	9,000.0	9,415.2	8,818.4	9,159.1	9,144.9	7,074.5	6,888.9
Goods	7,977.0	8,359.3	7,805.5	8,072.2	8,040.7	6,223.2	5,999.3
Services	1,023.0	1,055.9	1,012.9	1,086.9	1,104.2	851.2	889.5
Imports	12,572.3	13,018.2	12,633.2	12,854.1	12,891.0	9,812.4	9,278.7
Goods	11,126.1	11,371.1	10,952.6	11,069.7	11,097.0	8,416.6	7,918.3
Services	1,446.2	1,647.1	1,680.6	1,784.4	1,794.0	1,395.8	1,360.4
Income Balance	(974.0)	(1,265.5)	(1,353.0)	(1,321.5)	(1,380.2)	(1,059.2)	(1,112.9)
Revenues	58.6	62.1	48.2	46.7	59.0	46.6	50.4
Payments	1,032.7	1,327.6	1,401.2	1,368.2	1,439.3	1,105.8	1,163.3
Balance of Transfers	3,137.7	3,287.7	3,405.3	3,572.3	3,834.8	2,839.1	2,958.5
Public Sector	221.7	219.4	148.1	90.9	86.8	63.4	60.8
Private Sector(1)	2,916.0	3,068.3	3,257.2	3,481.4	3,748.0	2,775.7	2,897.7
Current Account Balance	(1,408.7)	(1,580.7)	(1,762.5)	(1,444.2)	(1,291.4)	(958.1)	(544.2)
Capital Account	166.2	101.2	132.5	144.6	141.2	103.7	99.8
Financial Account	1,143.2	1,426.0	2,495.2	1,651.3	1,399.9	720.5	490.4
Direct Investment	1,012.3	851.0	991.6	1,120.0	1,112.8	751.6	735.2
In Honduras	1,014.4	1,058.5	1,059.7	1,144.1	1,203.5	(88.9)	(189.5)
Abroad	(2.1)	(207.6)	(68.1)	(24.1)	(90.7)	840.4	924.7
Portfolio Investment	87.7	1.1	1,006.9	40.5	(9.3)	(22.3)	(66.5)
Other investments	43.2	574.0	496.7	490.8	296.4	(8.8)	(178.2)
Assets	(436.6)	217.2	(78.5)	38.1	(90.3)	(53.0)	0.2
Commercial credit	(2.9)	(31.3)	43.9	12.7	43.3	35.1	0.9
Loans	0.9	-2.7	(4.3)	(17.5)	(1.9)	(2.7)	(6.0)
Currency and deposits	(426.6)	259.5	(90.2)	53.2	(111.8)	(76.1)	(4.9)
Other assets	(8.0)	(8.3)	(27.9)	(10.2)	(19.9)	(9.3)	10.2
Liabilities	479.8	356.8	575.3	452.7	386.6	44.3	(178.4)
Commercial credit	18.3	(246.8)	(84.8)	(88.6)	25.8	(15.4)	(30.6)
Loans	443.4	588.3	664.7	547.6	376.3	67.0	(149.2)
Currency and deposits	25.2	21.5	3.4	9.8	(20.6)	(13.1)	5.8
Other assets	(7.0)	(6.3)	(8.0)	(16.2)	5.1	5.7	(4.4)
Net errors and omissions	179.2	(237.2)	(392.6)	107.6	43.3	280.4	(188.7)
Global Balance	79.9	(290.8)	472.5	459.3	292.9	146.5	(142.7)
Reserves and related sectors	(79.9)	290.8	(472.5)	(459.3)	(292.9)	(146.5)	142.7
Central Bank reserve assets	(86.0)	282.7	(484.7)	(458.7)	(303.0)	(151.9)	136.6
Use of IMF credit	-	-	-	-	-	-	-
Extraordinary credit	6.1	8.1	12.2	(0.6)	10.0	5.4	6.1

(1) Includes family remittances and other donations.
* Preliminary.
Source: Central Bank

Foreign Currency Reserves

The level of net international reserves (NIR) of the CBH in 2011 was U.S.$2,820.7 million. In 2012 it decreased by U.S.$249.8 million reaching U.S.$2,570.9 million. From 2013 to 2015 the level of NIR showed increases of U.S.$485.0 million, U.S.$460.6 million, U.S.$305.8 million, respectively, reaching balances of U.S.$3,055.9 million for 2013, U.S.$3,516.5 million for 2014 and U.S.$3,822.3 million for 2015. The increases from 2013 to 2015 were mainly due to net purchases of foreign exchange, external disbursements and donations. Between 2011 and 2015, the NIR were equivalent on average to 3.9 months of imports of goods and services according to the IMF methodology. The financial system's net foreign assets increased from U.S.$2,961.3 million in 2011 to U.S.$3,173.3 million in 2015.

The official reserve assets (ORA) of the CBH reached U.S.$3,991.5 million as of December 31, 2015 and were made up of fixed term deposits (47.3%), reserve requirements and mandatory investments in foreign currency of other depositary corporations (ODC) (21.1%), investment in securities (13.0%), transferable deposits (6.4%) and other investments (12.2%). Net international reserves increased to U.S.$3,822.3 million or 4.7 months of imports of goods and services at the end of 2015.

The net foreign assets (NFA) of the ODCs totaled U.S.$711.1 million in 2015, consisting of external assets of U.S.$472.5 million, of which 55.2% were demand deposits, 25.6% fixed term deposits, 7.4% holdings in foreign currency and 3.0% securities and stocks, among others, with external liabilities of U.S.$1,183.6 million.

As of September 30, 2016, the official reserve assets decreased to U.S.$4,001.0 million, equivalent to 4.4 months of imports of goods and services. As of September 30, 2016, the balance of the net international reserves were U.S.$3,706.4 million. Foreign exchange inflows came mainly from remittances and exports of goods and services. Outflows were mainly destined for trade and import of fuels.

As of September 30, 2016, net foreign assets of the ODCs were a net liability of U.S.$310.3 million compared to a net liability of U.S.$587.0 million at same date in 2015. This was mainly due to increases in external assets to U.S.$604.2 million (mostly deposits and fixed term deposits) and a decrease in external liabilities to U.S.$914.5 million. The decrease in external liabilities was mainly due to less private sector credit in foreign currency.

As of December 31, 2016, official reserve assets increased to U.S.$4,171.8 million, equivalent to 4.6 months of imports of goods and services. As of December 31, 2016, net international reserves were US$3,887.6 million, representing an increase of U.S.$65.3 million compared to December 31, 2015. Foreign exchange inflows were derived mainly from remittances and exports of goods and services. Outflows were mainly destined for trade and import of fuels.

Net External Assets of the Financial System

	As of December 31,					As of September 30,	
	2011	2012	2013	2014	2015	2015	2016
				(U.S.$ millions)[1]			
Central Bank of Honduras	2,873.5	2,636.3	3,162.3	3,524.1	3,869.1	3,695.2	3,748.8
External assets	3,266.4	3,003.5	3,516.5	3,858.1	4,186.9	4,024.7	4,197.9
Official reserve assets	3,043.0	2,778.0	3,255.0	3,697.9	3,991.5	3,847.3	4,001.0
Other assets	223.4	225.5	261.5	160.3	195.4	177.3	196.9
External liabilities	392.9	367.2	354.2	334.0	317.8	329.5	449.1
Short term	222.4	207.1	199.0	181.4	169.3	174.8	294.7
Long term	170.5	160.1	155.2	152.6	148.6	154.8	154.4
Net international reserves	2,820.7	2,570.9	3,055.9	3,516.5	3,822.3	3,672.6	3,706.4
Other deposit entities[2]	59.3	(273.1)	(498.9)	(550.6)	(711.1)	(587.0)	(310.3)
External assets	598.9	473.5	491.3	563.5	472.5	517.2	604.2
External liabilities	539.6	746.6	990.2	1,114.1	1,183.6	1,104.2	914.5
Other financial entities[3]	28.4	38.5	40.3	45.8	15.4	35.6	1.2
External assets	67.0	77.9	81.3	91.8	87.3	88.0	81.2
External liabilities	38.6	39.4	41.0	46.0	71.9	52.4	80.0
Financial system	2,961.3	2,401.5	2,703.6	3,019.4	3,173.4	3,143.8	3,439.7

(1) Prepared according to the IMF's Monetary and Financial Statistics Manual (2000).
(2) Includes commercial banks, development banks, savings and loans associations, financial corporations and savings and loan cooperatives.
(3) Includes insurance companies and Banhprovi.

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 exchange rate was fully liberalized. In June 1994, the Central Bank established a foreign exchange auction system by which all foreign exchange needed by the financial system was auctioned daily by the Central Bank. The auction rate that resulted then became the legal exchange rate for foreign exchange transactions.

This system remained in force until October 2005, when the Central Bank established a fixed exchange rate regime with an exchange rate of L.18.9 to U.S.$1.00, based on the results observed for the net international reserves held by the Central Bank. It is important to note that the currency allocation in the financial system continued to be carried out through the CBH auction.

On July 21, 2011, the Central Bank modified the fixed exchange rate regime and established a crawling band through which the exchange rate is permitted to fluctuate, with the rate determined daily in the foreign exchange auctions. This change in foreign exchange policy was established by the Central Bank taking into account its strong external position shown by strengthening exports and increased remittances. This policy decision was considered as a prudential measure to protect the country's external position from uncertainty and risks related to the international economic conditions.

As of July 2011, the CBH maintains the exchange rate band of +/- 7% with respect to an established base price for the foreign currency daily auction. The base price is used as a reference for the foreign currency bids placed by exchange rate agents. In addition, the prices offered by the exchange rate agents may not be greater than 1.0% of the average weighted base price of the previous seven days, through the electronic foreign currency trading system managed by the Central Bank.

The base price used in the electronic foreign currency trading system is calculated taking into account the difference between the domestic inflation rate and the weighted average inflation rate of Honduras' main trading partners, the change of the weighted average of the nominal exchange rate of those main trading partners and the level of the international reserves.

The CBH calculates and monitors changes in the Lempira's effective real exchange rate with respect to the U.S. dollar as a method of evaluating the theoretical external competitiveness level of the country's exports. The effective real exchange rate methodology takes the inflation rate in Honduras into account, as well as the inflation rate of Honduras' main trading partners. It also includes changes in the exchange rates, relative to the U.S. dollar, of the Lempira and the currencies of Honduras' trading partners.

The following table shows the average and end-of-period Lempira/U.S. dollar exchange rates and the real exchange rate index.

Foreign Exchange Rates

Year	**Average**	**End-of-period**	**Real Exchange Rate Index**
	(L. per U.S.$1.00)[(1)]		(Base December 2014 = 100)
2011	18.9166	19.0520	101.0
2012	19.5041	19.9623	98.9
2013	20.3565	20.5975	97.9
2014	20.9886	21.5124	100.0
2015	21.9467	22.3676	100.4
2016			
January	22.4548	22.5380	100.5
February	22.5875	22.6079	100.2
March	22.6261	22.6359	99.6
April	22.5902	22.5836	99.4
May	22.6080	22.6631	99.7
June	22.7417	22.7892	99.9
July	22.8394	22.8710	99.9
August	22.8890	22.8969	99.7
September	22.9656	23.0306	99.6
October	23.0815	23.1019	99.0
November	23.1805	23.3804	n.a.
December	23.4506	23.5029	n.a.

(1) Purchase exchange rate.
n.a. Not available
Source: 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 represent the most significant laws related to the promotion of foreign investments currently in effect in Honduras.

Free Zone Law

The Central Government may establish Free Zones anywhere in Honduras, as long as each zone is supervised by DEI. Any company, national or foreign, may establish itself in a Free Zone as long as it engages in export activities. In 2015, there were 774 companies located in Free Zones, with over 94% located on the northern coast of Honduras.

Companies located within these areas benefit from the following:

- unrestricted currency conversion;
- duty-free import of all machinery, raw materials, supplies and anything required for the operations;
- clearing of incoming and outgoing shipments in less than a day with minimal 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 (nonresidential areas created to promote use of local labor for export activities) may import equipment and materials needed for processing and producing their goods and for tax-free re-export. 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 project's 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

The Law on the Promotion of Public-Private Partnerships 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 created. COALIANZA currently serves as the Central Government agency responsible for supervising all projects developed under public-private partnerships.

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, the National Congress issued Decree 51 of 2011, which grants all investors 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 the National Commission for Banking and Insurance (*Comisión Nacional de Bancos y Seguros* (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. Its budget is developed with the *Secretaría de Finanzas* and the National Congress approves it.

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 domestic 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 Central Government and its entities by purchasing securities in the secondary market. The Central Bank is barred from granting loans to the Central 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 Central 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 short term debt securities, 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 Central 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, including the Securities Market. CNBS maintains functional and budgetary independence from the Central 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

In May 2013, through Decree No.91-2013 the CBH-Banhprovi Trust Fund was increased to 13 billion Lempiras. During the first six months of 2016, the allocation of resources through the national financial system with funds from the CBH-Banhprovi Trust Fund increased to L.23,993.0 million. The total amount includes L.13,793.0 million in loans granted with funds generated from recoveries of capital and interest. Since 2009 the implementation of the CBH-Banhprovi Trust Fund, the loans granted have been used to finance housing and real estate (73.5% of total loans), production (17.7% of total loans) and microcredits (8.8% of total loans).

In 2015, the CBH decreased the Monetary Policy Rate (MPR) by 25 basis points on three separate occasions, from 7.00% to 6.25%. It had remained unchanged since May 14, 2012. These changes were due to domestic and international economic performance in 2015, expectations and macroeconomic outlook, as well as lower inflationary pressures due to core inflation´s downward trend. This measure allowed the gradual adjustment toward lower interest rates for CBH's securities, maintaining consistent levels with a monetary policy stance that allowed price stability and, in turn, enabled continued expansion of domestic economic activity.

On July 31, 2015, the interest rate band for Standing Credit Facilities (FPC) and Investment (FPI) was amended by Resolution No.333-7/2015 issued by the Central Bank, which established that the interest rate for FPC would be equivalent to the MPR and 1.0 basis point and the interest rate for FPI would be the MPR minus 5.25 basis points. This promoted the use of "daily auctions" given the larger yield that these would have in comparison to the FPI.

The board of directors of the Central Bank through Resolution No.389-9/2015 on September 10, 2015 amended the securities trading complementary regulations, where the MPR was redefined as the bid-ask price for the national financial system's institutions liquidity auctions, as well as the bid-offer price, which is used as a reference for interbank transactions.

In July 2015, the investment rules for the domestic financial system were adapted to the conditions prevailing in international markets, so that the minimum qualifications and exposure limits were reviewed for instruments and foreign financial institutions (institutions with good credit rating) in which national depository institutions can make investments with funds from foreign currency deposit accounts.

During the first half of 2016, the CBH Board reduced the MPR on two occasions, setting the MPR at 5.50% as of June 20, 2016. These measures were taken as a result of the evolution of national inflation and the outlook for international prices of fuel and commodities, which continued to be low, indicating moderate inflationary pressures.

In addition, on February 17, 2016 the CBH issued Resolution No.56-2/2016 approving the 2016-2017 Monetary Programs, which contained guidelines and measures for the country's monetary, credit and exchange rate policy. The monetary policies are to be implemented in the following two years. As set forth by the CBH, domestic financial institutions must maintain reserves of 12.0% of total deposits.

In May 2016, the CBH modified reserve requirements and mandatory investments, setting reserve requirements at 7.0% for local currency and 12.0% for foreign currency. The requirement for mandatory investments was set at 10.0% for both local and foreign currencies. In addition, for foreign currency, national financial institutions must maintain an additional 2.0% on liquid investments in foreign financial institutions with good credit ratings in accordance with the Foreign Currency Deposit Accounts' Management Regulation.

Financial System Reserve Requirements in Local Currency

Year	Month	Reserve Requirement (local currency)	Reserve Requirement (foreign currency)	Mandatory Investment (local currency)	Mandatory Investment (foreign currency)	Investments in Foreign Banks (foreign currency)
2016	July 21	7%	12%	10%	10%	2%
2016	October 27	12%	12%	5%	12%	0%

Source: Central Bank.

In September 2016, the CBH board amended the reserve requirements and mandatory investments for local currency, setting them at 12.0% and 5.0%, respectively. For resources collected from the public in foreign currency, the reserve requirement will be 12.0%. The reserve requirement for mandatory investments will also be 12.0%. As of October 27, 2016, the additional reserve requirement in liquid investments maintained in foreign financial institutions was reduced to 0.0%.

In November 2016, the board of directors of the CBH through Resolution No.460-11/2016 modified the requirements regarding mandatory investments in local currency. The new resolution eliminated investments in Government bonds as a permitted investment and requires that such investments be made in ENEE bonds and CBH two-year bonds.

Financial Sector

As of September 30, 2016, there were 15 commercial banks, 12 insurance companies, 10 finance companies and seven brokerage houses operating in Honduras.

The following tables set forth further information regarding the number of regulated institutions as of September 30, 2016:

Regulated Financial Institutions

Commercial banks	15
Insurance companies	12
Financial companies	10
Brokerage houses	7
Remittances companies	5
Private development organizations	5
Public pension funds	5
General Deposit Warehouses	5
Foreign exchange offices	4
Credit card processors	4
Rating agencies	4
Private pension funds	3
Government Banks	2
Wholesale banks	1
Private risk centrals	2
Representation offices	1
Stock exchange	1
Manager Mutual Guarantee Fund	1
Total	87

Source: CNBS

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.

The Honduran financial system has focused its loans on five major economic activities. As of September 30, 2016, 85.6% of the loans granted by the financial system in Honduras were distributed as follows: real estate (24.1%), consumption (21.8%), services (15.4%), trade (14.1%) and industry (10.2%).

The following table sets forth the amount of loans outstanding by the financial system by sector as of the dates indicated.

Financial System Loans by Sector

	As of December 31,					As of September 30,	
	2011	2012	2013	2014	2015	2015	2016
	(U.S.$ thousands)[1]						
Agriculture	270,642.7	251,945.4	283,862.9	353,821.5	440,126.0	419,305.7	624,378.5
Forestry	4,274.6	3,510.9	3,586.1	3,966.6	3,948.1	3,882.4	5,581.4
Livestock	85,832.3	78,335.2	77,880.6	69,330.0	94,315.0	91,171.9	100,859.3
Poultry Farming	28,610.2	29,633.4	44,342.9	37,914.5	33,991.9	31,929.1	35,057.2
Agriculture	198.1	161.7	119.2	186.4	281.2	164.6	138.1
Fishing	23,463.6	37,120.9	43,993.6	47,859.7	61,932.7	64,427.4	59,098.1
Mining	7,278.7	9,509.9	24,507.9	14,806.9	10,872.4	16,853.1	18,790.5
Industry	949,634.8	1,001,465.8	1,096,675.6	1,089,602.1	1,133,644.6	1,141,477.0	1,111,032.7
Export Financing	180,747.8	172,671.9	177,170.8	215,302.4	342,278.2	165,664.2	136,791.9
Services	855,192.3	918,919.5	1,101,230.0	1,397,091.0	1,622,574.2	1,487,170.3	1,669,027.3
Transportation and Commission	143,413.2	165,852.6	165,293.5	217,798.7	225,539.8	209,981.6	261,464.9
Real estate	2,557,308.6	2,664,375.2	2,682,439.0	2,676,147.8	2,533,503.9	2,648,901.6	2,619,446.8
Wholesale and retail trade	1,053,125.7	1,304,152.3	1,385,374.0	1,452,377.6	1,443,016.9	1,437,054.4	1,530,359.0
Consumption	1,469,288.1	1,827,968.5	2,086,566.2	2,107,553.2	2,222,350.1	2,300,771.0	2,371,048.7
Loans over policies	933.8	1,146.5	597.1	734.7	798.6	711.4	312.2
To National Banks	15,595.4	15,649.5	4,184.2	49,765.3	3,090.2	6,117.9	8,888.5
To Central Government	43,182.6	30,932.2	23,982.5	27,731.9	38,440.0	38,168.8	23,071.1
To municipalities	192,298.0	182,720.9	146,879.6	156,123.0	140,717.8	134,622.9	167,406.8
To decentralized agencies	10,441.2	78,125.2	51,485.3	53,240.4	62,155.5	69,637.8	126,680.2
TOTAL	**7,891,461.7**	**8,774,197.6**	**9,400,171.0**	**9,971,353.8**	**10,413,580.2**	**10,268,013.3**	**10,869,433.3**

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2011: L.19.05 = U.S.$ 1.00
December 31, 2012: L.19.96 = U.S.$ 1.00
December 31, 2013: L.20.59 = U.S.$ 1.00
December 31, 2014: L.21.51 = U.S.$ 1.00
December 31, 2015: L.22.37 = U.S.$ 1.00
September 30, 2015: L.21.98 = U.S.$1.00
September 30, 2016: L.23.03 = U.S.$ 1.00

Source: CNBS

On September 14, 2016, the CNBS adopted Resolution GE No. 734/14-09-2016, which established a fixed minimum capital of L.400 million for banks, L.100 million for savings and loan associations, L.70 million for financial institutions, and L.70 million for all other types of entities duly qualified as financial institutions by the CNBS.

In 2015, the National Congress approved the Law Against Money Laundering (*Ley Contra el Lavado de Activos*). The law increases Government oversight of financial transactions.

In 2013, the National Congress approved several laws which reformed the financial system regulation, such as the Optional Program for Debt Consolidation of the Honduran Workers Act (*Ley del Programa Opcional Para la Consolidación de Deudas del Trabajador. Hondureño*) and Decree 33/2013 which amended the Credit Cards Act (*Ley de Tarjetas de Crédito*).

The amendments introduced to the Credit Cards Act includes requiring credit card issuers to assume operational risks related to credit card fraud and a prohibition for charging credit card fees not previously accepted by customers. Other changes introduced by the Credit Cards Act include amendments to the calculation of interest rates, which prevent creditors from charging cardholders compound interest. In addition, this law requires credit card issuers to: (i) allow customers to apply for credit card debt refinancing on better financial terms; (ii) educate customers on the responsibilities assumed in connection with the issuance and use of credit cards; and (iii) improve transaction security at automatic teller machines.

The Optional Program for Debt Consolidation of the Honduran Workers Act includes provisions that enable private pension funds to make loans to their affiliates, as long as the proceeds are used for the repayment of existing debt of the affiliate with other financial institutions or consolidation of credit card debt. In addition, this law establishes that such loans may be secured with the debtor's pension funds savings, among other guarantees. Pension funds are required to deposit 30% of the interest paid for such financing services in a special account that borrowers may use for their pension benefits.

Financial Institutions

The following table sets out total assets, loan portfolio and total deposits of the banking system and other financial institutions, as presented in their balance sheets, as of the dates indicated.

	As of December 31,					As of September 30,
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
	(U.S.$ millions)[(1)]					
Assets						
Commercial Banks	14,225.9	15,165.0	16,587.5	18,304.0	19,321.6	19,776.6
Other Financial Institutions	361.2	404.2	409.7	416.0	442.3	478.2
Total	**14,587.2**	**15,569.2**	**16,997.2**	**18,720.0**	**19,763.9**	**20,254.8**
Loans						
Commercial Banks	7,640.3	8,497.8	9,133.4	9,691.9	10,119.9	10,544.6
Other Financial Institutions	252.2	277.8	268.1	280.8	294.1	325.1
Total	**7,892.5**	**8,775.5**	**9,401.5**	**9,972.7**	**10,414.0**	**10,869.7**
Deposits						
Commercial Banks	8,446.0	8,711.1	9,354.6	10,160.2	10,623.5	11,067.1
Other Financial Institutions	135.8	151.7	168.7	163.9	170.8	189.7
Total	**8,581.8**	**8,862.8**	**9,523.3**	**10,324.1**	**10,794.3**	**11,256.8**

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2011: L.19.05 = U.S.$ 1.00
December 31, 2012: L.19.96 = U.S.$ 1.00
December 31, 2013: L.20.59 = U.S.$ 1.00
December 31, 2014: L.21.51 = U.S.$ 1.00
December 31, 2015: L.22.37 = U.S.$ 1.00
September 30, 2016: L.23.03 = U.S.$ 1.00
Source: CNBS.

The following table sets out the non-performing loan portfolio of the financial system as of September 30, 2016.

Non-Performing Loans of the Financial System

	0 days	1-30 days	31-60 days	61-90 days	91-180 days	more than 180 days	Total
				(U.S.$ millions)[1]			
Commercial banks	9,071.1	614.4	219.7	126.0	109.4	200.7	10,341.5
State-owned financial institutions	84.8	18.7	10.0	7.7	8.2	33.6	163.2
Insurance Companies	14.9	2.6	0.1	0.2	0.2	0.3	18.3
Financial corporations	221.9	48.1	23.6	6.8	3.8	7.2	311.4
Pension funds	690.6	19.4	3.9	3.1	3.3	12.8	733.1
Wholesale banks	3.7	0.0	0.2	1.0	3.5	5.4	13.8
Private pension funds	60.7	2.6	0.5	0.7	0.1	0.00	64.6
Private development organizations	75.3	1.6	0.3	0.1	0.3	1.5	79.1
Total	10,223.1	707.4	258.3	145.7	128.8	261.6	11,724.8

(1) Amounts in lempiras have been converted to U.S. dollars using the exchange rate for September 30, 2016 of L.23.03 = U.S.$ 1.00.
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.

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

	As of September 30, 2016			
Banks	**Total Assets**	**Loans**	**Deposits**	**Capital and Reserves**
		(U.S.$ millions)[1]		
FICOHSA	3,908.3	2,411.8	1.987.0	281.1
ATLANTIDA	3,370.0	2,141.5	2,232.9	252.6
OCCIDENTE	2,965.3	1,160.1	1,811.9	210.8
BACHONDURAS	2,745.4	1,498.1	1,483.9	208.3
BANPAIS	1,930.0	1,328.5	1,107.0	128.4

(1) Amounts in lempiras have been converted to U.S. dollars using the exchange rate for September 30, 2016 of L.23.03 = U.S.$ 1.00.
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 13.8%, which exceeds the minimum requirement established by the Central Bank**.**

CNBS' loan loss reserve requirements are reviewed periodically and typically revised semi-annually.

The requirements for the CAR as of September 30, 2016 are as follows:

Capital Adequacy Ratio Requirements

	Loan Category					
	I-A	I-B	II	III	IV	V
Commercial Loans						
Large						
With mortgages on real estate	0.50	0.75	4.00	25.00	60.00	100.00
Other guarantees	0.50	0.75	4.00	25.00	60.00	100.00
Deposits with pledged in the same facility, or warranty against mutual guarantees issued by institutions first order	-	-	-	25.00	60.00	100.00
Small						
Mortgage loans, mutual guarantee and / or warranty on deposits in the same institution pledged	0.50	0.75	4.00	25.00	60.00	100.00
Credits and other guarantees..	0.50	1.00	4.00	25.00	60.00	100.00
Small business loans receivable warranties with pledged deposits in the same facility warranties reciprocal or against guarantees issued by institutions first order...	-	-	-	25.00	60.00	100.00
Micro Credit						
Credits and other guarantees..	1.00	5.00		25.00	60.00	100.00
Guarantees pledged deposits with credit in the same facility warranties Reciprocal or against guarantees issued by institutions first order	-	-		25.00	60.00	100.00
Agricultural						
With mortgages on real estate	-	-		15.00	60.00	100.00
Other guarantees	-	-		25.00	60.00	100.00
Deposits with pledged in the same facility, or warranty against mutual guarantees issued by institutions first order	-	-		15.00	60.00	100.00
Consumer loans						
Credit card..	1.25	5.00		25.00	60.00	100.00
Other consumer > 30 days	1.00	5.00		25.00	60.00	100.00
Credits for education with mutual guarantee	-	-		25.00	60.00	100.00
Other consumer < 30 days	1.00	5.00		25.00	60.00	100.00
Housing						
Only with mortgage guarantee	0.75	3.00		20.00	50.00	70.00
More housing mortgage security deposits pledged in the same facility, reciprocal warranties and / or warranties first order issued by other financial institution	-	3.00		20.00	50.00	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]

	Loans				Deposits			
	Commercial Banks		Financial Entities		Commercial Banks		Financial Entities	
	Max.	Min.	Max.	Min.	Max.	Min.	Max.	Min.
	(as percentage for the period)							
2011								
Domestic	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	-	-
2012								
Domestic	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	-	-
2013*								
Domestic	50.5	10.3	39.6	14.6	6.8	0.8	6.5	2.7
Foreign	32.4	7.3	14.0	9.3	2.3	0.4	-	-
2014								
Domestic	49.1	9.7	39.8	14.8	6.9	0.5	6.6	2.8
Foreign	29.2	7.3	15.0	9.0	2.4	0.3	-	-
2015								
Domestic	51.4	8.5	40.8	14.0	6.9	0.5	5.8	2.6
Foreign	35.6	4.8	14.0	9.1	2.4	0.3	-	-
September 2016								
Domestic	52.2	8.1	41.2	14.2	6.1	0.5	6.6	1.7
Foreign	32.8	5.3	15.0	9.0	1.8	0.3	-	-

(1) Interest rates are averages of historical interest rates at year-end.
* Starting on September 2013, interest rates applied by Banco Azteca de Honduras, S.A., are not included.
Source: CNBS

Liquidity and Credit Aggregates

The monetary aggregates calculated by the CBH include the money supply and the monetary base. The most important components of the money supply are M1, M2 and M3, and are defined as follows:

M1- paper money and coins held by the public plus transferable deposits;
M2- M1 plus other deposits and debt securities in local currency,
M3- M2 plus deposits plus transferable deposits and debt securities in foreign currency.

The year-on-year growth rates in M1, M2 and M3 can be seen in the following table:

Monetary Supply

	As of December 31,					As of September 30,	
	2011	2012	2013	2014	2015	2015	2016
	(in percentages)						
M1	9.4	(11.1)	1.3	8.6	10.3	15.3	8.7
M2	12.1	(0.4)	4.7	5.9	6.5	10.0	5.7
M3	11.5	2.1	4.9	8.3	3.7	9.1	5.6

Source: Central Bank.

From 2011 and 2014, M1, M2 and M3 showed an average year-on-year growth of 2.1%, 5.6% and 6.7%, respectively, mainly in saving and term deposits both in local and foreign currency, influenced by domestic economic growth.

For 2011, all monetary aggregates show increases (M1 9.4%, M2 12.1% and M3 11.5%) mainly derived from the growth of bills in circulation and deposits in domestic currency. In 2012, M1 and M2 decreased by 1.1% and 0.4%, respectively, influenced by the reduction of transferable deposits; M3 grew by 2.1%. In 2013, monetary aggregates report an improvement due to an increase of deposits in local currency, resulting in growth rates for M1, M2 and M3 of 1.3%, 4.7% and 4.9%, respectively.

This tendency continued in 2014, with M1, M2 and M3 increasing at a rate of 8.6%, 5.9% and 8.3%, respectively, mainly due to an increase of deposits in both local and foreign currency.

As of December 31, 2015, M1, M2 and M3 increased by 10.3%, 6.5% and 3.7%, respectively. The increase in M1 was mainly due to the result of higher transferable deposits held by the public. Furthermore, the growth in M2 was due mainly to an increase in remittances. The increase in M3 was the result of the expansion of M2, as well as due to the growth in savings and foreign currency deposits.

As of September 30, 2016, M1 showed an increase of 8.7%, compared to the same period in 2015. This was mainly due to an increased amount of cash in circulation. As of September 30, 2016 M3 reached a balance of U.S.$11,226.1 million, reflecting an increase of 5.6% or U.S.$594.4 million compared to the same period in 2015. This was mainly due to an increase in deposits and securities of households, nonprofit institutions and private companies.

Deposits in financial institutions from 2011-2014 increased an average of 7.2% mainly due to increases in deposits of foreign and domestic currencies. Foreign currency deposits increased mainly due to an increase in deposits from thermal energy generating companies. As of December 31, 2015, deposits increased by 3.7% compared to 2015. This was mostly due to, the increase of local currency deposits by 7.4%.

As of September 30, 2016, M1 showed an increase of 8.7%, compared to the same period in 2015. This was mainly due to an increased amount of cash in circulation. As of September 30, 2016 M3 reached a balance of U.S.$11,226.1 million, reflecting an increase of 5.6% or U.S.$594.4 million compared to the same period in 2015. This was mainly due to an increase in deposits and securities of households, nonprofit institutions and private companies.

Credit increased from U.S.$9,451.5 million in 2011 to U.S.$12,259.3 million in 2014. This was mainly due to the increase of private sector credit. In 2015, private sector credit increased by 6.2%, mainly due to an increase in loans in local currency, increased economic activity and lower lending rates. Loans in foreign currency declined due in part to the decrease in the discrepancy between lending rates in local and foreign currency.

As of September 30, 2016, credit in the financial system increased to U.S.$13,246.8 million, representing an increase of 4.5% or U.S.$572.4 million, compared to the same period in 2015. This was mainly due to growth in loans to the private sector of 5.8% or U.S.$649.7 million.

The main credit and liquidity indicators are shown in the following table:

	Credit and Liquidity						
	As of December 31,					As of September 30,	
	2011	2012	2013	2014	2015	2015	2016
	(U.S.$ millions)[1]						
Monetary Aggregates							
Bills and Coins in Circulation	850.4	822.9	828.4	890.2	964.6	747.3	824.4
M1	2,164.2	1,923.6	1,947.8	2,116.1	2,334.7	1,974.6	2,146.7
M2	6,865.3	6,837.9	7,159.5	7,579.5	8,071.3	7,765.1	8,207.5
M3	9,060.0	9,248.6	9,704.6	10,513.1	10,899.6	10,631.7	11,226.1
Credit by Sector							
Public Sector	1,009.6	1,129.4	1,311.7	1,528.6	1,551.1	1,542.0	1,464.8
Private Sector	8,441.9	9,403.4	10,125.3	10,730.7	11,400.0	11,132.4	11,782.1
Total Credit	**9,451.5**	**10,532.8**	**11,437.0**	**12,259.3**	**12,951.1**	**12,674.4**	**13,246.8**
Deposits							
National Currency	5,886.2	5,880.0	6,176.0	6,510.7	6,990.6	6,838.5	7,236.2
Foreign Currency	2,161.5	2,382.8	2,535.4	2,928.0	2,799.1	2,860.9	3,002.6
Total Deposits	**8,047.7**	**8,262.8**	**8,711.4**	**9,438.7**	**9,789.7**	**9,699.4**	**10,238.8**

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2011: L.19.04 = U.S.$1.00
December 31, 2012: L.19.96 = U.S.$1.00
December 31, 2013: L.20.60 = U.S.$1.00
December 31, 2014: L.21.51 = U.S.$1.00
December 31, 2015: L.22.37 = U.S.$1.00
September 30, 2015: L.21.98 = U.S.$1.00
September 30, 2016: L.23.03 = U.S.$1.00
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.

Central Bank's Inflation Objectives

Year	Inflation Objective Range
2011	8.00 ± 1
2012	6.50 ± 1
2013	5.50 ± 1
2014	6.50 ± 1
2015	4.75 ± 1
2016	4.50 ± 1

Source: Central Bank.

From 2011 to 2015, the average inflation rate was 4.8%, a decrease compared to the average inflation rate between 2006 to 2010 of 6.9%. This was mainly due to monetary policy efforts, as well a decrease in inflationary pressures on food, housing and personal products.

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.

In 2012, oil 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 was 5.4%.

In 2013, the inflation rate continued its declining pace registering an annual rate of 4.9%; however, factors such as the rising price of fuel and energy in the domestic market contributed to the inflation rate.

In 2014, the increase of food prices due to speculation factors and the rise of the domestic energy and clothing prices influenced the increase of inflation up to 5.8%, which remained below the mean value of the inflation objective for this year.

In 2015, the implementation of monetary policy, the historic decline in fuel prices and favorable conditions in the supply of food resulted in an inflation rate of 2.4% at the end of the year**.**

In 2016, inflation was 3.3%, compared to 2.4% for 2015, due mainly to increases in fuel, energy and clothing prices.

The following table shows the inflation rate measured by the CPI.

Inflation Rate

	For the year ended December 31,					
	2011	2012	2013	2014	2015	2016
			(percentage variation)			
Year-on-year	5.6	5.4	4.9	5.8	2.4	3.3
Average	6.8	5.2	5.2	6.1	3.2	2.7

Source: Central Bank.

Capital Markets

The Honduran capital markets currently only deals in debt securities. The largest issuer of bonds in the capital markets is the public sector, accounting for 99% of total issuances.

The participants in the local capital markets are as follows:

- 1 stock exchange;
- 7 broker/dealer entities;

- 4 credit rating agencies;
- 1 investment fund;
- 15 banks as issuers, but only 6 have current issues; and
- 5 public sector issuers;

Private banks are the primary private sector participants in the capital markets. Six of the 15 authorized commercial banks in Honduras have issued corporate bonds in the local capital markets. As of June 30, 2016, there are no depository institutions in the local capital markets and there is no derivatives market. There is one investment fund.

During the period from 2011 through 2015, the total of securities transactions in Honduras increased from U.S.$5,665.27 million in 2011 to U.S.$8,779.94 million in 2015. Securities transactions made through the stock exchange decreased in 2012 by 58.7% compared to 2011, because of bank liquidity, given that the banks are almost the only participants in bond issuances.

Transactions In Millions of Dollars(1)

Year(2)	Public	Private	Total
2011	5,335.9	107.7	5,443.6
2012	4,751.4	44.5	4,795.7
2013	6,633.9	69.4	6,703.3
2014	6,100.70	59.1	6,159.8
2015	8,365.4	71.0	8,382.9
2016(3)	21,591.6	4,625.7	21,730.3

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2011: L.19.05 = U.S.$ 1.00
December 31, 2012: L.19.96 = U.S.$ 1.00
December 31, 2013: L.20.59 = U.S.$ 1.00
December 31, 2014: L.21.51 = U.S.$ 1.00
December 31, 2015: L.22.37 = U.S.$ 1.00
September 30, 2016: L.23.03 = U.S.$ 1.00
(2) As of December 31 of each year, except as otherwise indicated.
(3) As of September 30, 2016.
Source: CNBS.

As of September 30, 2016 the total securities transactions increased by 364% compared to September 30, 2015 because of an increase in both public and private transactions.

PUBLIC SECTOR FINANCES

Overview

In 2015, the public sector deficit was 1.1% of nominal GDP. In 2014, 2013, 2012 and 2011, the public sector deficit was 3.9%, 7.1%, 3.7% and 2.5% of nominal GDP respectively. The non-financial public sector deficit decreased from 3.9% of GDP in 2014 to 1.1% in 2015. This was mainly due to a decrease of personnel expenses and purchases of goods and services. As of September 2016, the public sector showed a surplus of 0.8% of nominal GDP, a decrease of 0.4% compared to the same period in 2015 (surplus of 1.2% of nominal GDP).

The non-financial public sector deficit decreased from 7.1% of GDP in 2013 to 3.9% in 2014 due to a decrease in the deficit of the Central Administration. This was mainly due to an increase in revenues of 19.7% in 2014 compared to 6.2% in 2013 and a decrease in ENEE's personnel costs.

The non-financial public sector deficit increased from 3.7% of GDP in 2012 to 7.1% in 2013 due to increase in Central Administration deficit to 7.9% of GDP from 6.0% of GDP in 2012. This was the result of decreased tax revenues and a decrease of coffee exports.

The non-financial public sector deficit increased from 2.5% of GDP in 2011 to 3.7 % in 2012 due principally to an increase in the Central Administration deficit to 6.0% of GDP, compared to 4.6% of GDP in 2011. The increase in the Central Government's deficit in 2012 was mainly due to decreases in income and sales taxes.

Budget Process

The National 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 drafting the budget. The budget is 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 non-financial public sector (NFPS) consists of the Central Government and non-financial state owned enterprises.

In 2013 the Lobo Administration implemented measures to contain expenditures and strengthen tax collection administration. The Central Government deficit increased to 7.9% of nominal GDP in 2013 or by U.S.$1,461.0 million, compared to 6.0% of nominal GDP in 2012. The increase in the Central Government deficit is a result of the following:

1) Lower tax revenues as a result of reduced economic activity: sales tax increase was lower than expected, registering only a U.S.$23.9 million increase in 2013 compared to 2012, this mainly due to a high rate of evasion and various exemptions. Import tax collection decreased by U.S.$13.8 million in 2013 compared to 2012 mainly due to reduced collection of taxes and a general reduction in tariffs.

2) Growth of expenditures: consumption increased by U.S.$156.2 million mainly due to the purchases of goods and services in the amount of U.S.$63.6 million for the 2013 electoral process. Interest payments increased by U.S.$121.8 million, 68.7% corresponding to domestic debt. Capital spending increased by U.S.$173.9 million due to an increase in public investment in infrastructure and increased capital transfers.

During the 2013-2015 period, the Central Government set as a goal the restoration of fiscal consolidation and containment of public debt growth. Public finances during this period implemented an adjustment of 4.9% of GDP to the balance of the Central Administration and 6.0% of GDP to the balance of the nonfinancial public sector. This was achieved by the implementation of a tax reform approved in December 2013. In addition to this, a standby agreement was reached with the IMF and a fiscal responsibility law was enacted in April 2016.

In 2014, the Central Administration fiscal deficit decreased to 4.4% of nominal GDP or U.S.$857.6 million compared to a fiscal deficit in 2013 of 7.9% of nominal GDP or U.S.$1,461.0 million. Tax revenues increased by U.S.$448.3 million in 2014 compared to 2013, mainly due to increased revenues from the tax reform.

In 2015, the Central Administration continued implementing its fiscal consolidation policy and further reduced the Central Administration's fiscal deficit by 1.4% of nominal GDP equivalent to U.S.$193.7 million, a decrease from U.S.$857.6 million (4.4% of nominal GDP) in 2014 to U.S.$626.5 million (3.0% of nominal GDP) in 2015. The NFPS deficit decreased from 3.9% of nominal GDP in 2014 to 1.1% of nominal GDP in 2015. The contraction in the fiscal deficit was mainly due to an increase in total revenues from 18.7% of nominal GDP in 2014 to 19.8% of nominal GDP in 2015 and a decrease in expenditures from 23.1% of nominal GDP in 2014 to 22.9% of nominal GDP in 2015. Tax revenues increased U.S.$497.6 million in 2015 compared to 2014.

During 2014 and 2015, the Central Administration deficit was financed as follows: 41.0% in 2014 and 37.6% in 2015 were financed through domestic financing sources; and 59.0% in 2014 and 62.4% in 2015 through external financing.

For the nine months ending on September 30, 2016, the Central Government continued implementing its policy to strengthen public finances by improving efficiency in revenue collection and cost containment as well as prioritizing expenditures. For the first nine months of 2016, the Central Government registered a U.S.$183.8 million deficit, equivalent to 0.9% of nominal GDP, compared to the same period in 2015, which registered a deficit of U.S.$117.1 million or 0.6% of GDP.

Total revenues for the 2015 fiscal year for the Central Government amounted to U.S.$8,488.2 million. Current revenues from tax collections, non-tax and operating income were U.S.$6,286.2 million. Capital revenues comprised of equity and donations reached U.S.$752.7 million. In addition, financial sources amounted to U.S.$1,449.3 million, comprised of U.S.$862.2 million from the placement of Central Government domestic securities and U.S.$587.1 million from external borrowing.

In 2015, total expenditures for the Central Government were U.S.$8,269.0 million, of which 69.4% were current expenditures (U.S.$5,742.3 million) for salaries and wages, collaterals, employer contributions, severance benefits of public sector employees and the purchase of goods and services for normal operation of public institutions, including the purchase of energy for resale by ENEE. Capital expenditures represented 13.1% of total expenditures or U.S.$1,083.3 million and consisted of construction of public works and purchases of equipment and land. Financial instruments represented 17.5% of total expenditures, or U.S.$1,443.4 million, and include contributions to financial trusts, principal amortization and investment in securities.

Fiscal Responsibility Law

The LRF was approved by Decree 25-2016 of April 7, 2016 and published in the Official Gazette on May 4, 2016. This law aims to institutionalize fiscal consolidation and is based on principles of accountability, transparency and stability consistent with international best practices.

The LRF contains three quantitative fiscal rules: a) limit on the deficit of the nonfinancial public sector (NFPS), b) restriction on the growth rate of current expenditures and c) limit on floating debt.

a) Establishes an annual deficit ceiling for the overall balance of the NFPS, equal to one percent (1.0%) of nominal GDP, to be applied gradually as follows:

    - May not be greater than 1.6% in 2016;
    - May not be greater than 1.5% in 2017;
    - May not be greater than 1.2% in 2018; and,
    - May not be greater than 1% for the year 2019 going forward.

b) The annual increase in nominal current expenditure of the Central Administration cannot exceed the annual average real growth of GDP of the last ten (10) years plus the projected average inflation for the following year; and

c) Any new floating debt at the end of the fiscal year, after the approval of the LRF, shall not, in any case, be higher than 0.5% of GDP.

These rules are fully consistent with the objectives and goals of the Central Government and in line with the IMF Program. The Medium Term Macro Fiscal Framework was created as a medium term tool, which projects income, expenditures and debt for the next four years. The LRF also defines the transition path to reach these objectives by 2019.

Fiscal Accounts

The following table sets forth the fiscal accounts of the Central Administration for the periods indicated.

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014	2015	2015	2016[1]
				(U.S.$ millions)[2]			
Central Administration							
Total revenues	**3,009.3**	**3,094.6**	**3,149.8**	**3,657.6**	**4,019.6**	**2,956.6**	**3,250.4**
Current revenues	2.812.0	2,916.6	3,008.7	3,504.5	3,832.5	2,848.0	3,149.9
Tax revenues	2,618.1	2,690.6	2,732.4	3,180.4	3,539.2	2,629.1	2,923.4
Income tax	776.0	811.8	884.2	956.2	1,064.1	806.1	936.7
Sales tax	1,002.7	1,033.1	1,013.8	1,321.4	1,470.5	1,086.4	1,189.8
Road tax	326.5	352.2	374.0	422.8	470.1	353.5	384.5
Tax on imports	138.8	150.4	130.2	141.7	161.3	113.3	123.1
Other taxes	374.0	343.2	330.1	338.4	373.2	269.7	289.8
Security Tax	1.0	42.1	54.3	88.0	99.8	78.4	78.3
Non tax revenues	192.9	183.9	222.0	236.2	193.6	140.5	148.2
Capital income	5.3	-	-	-	-	-	-
Grants	192.0	178.0	141.1	153.1	187.1	108.6	100.5
Total net expenditures	**3,818.0**	**4,197.8**	**4,610.9**	**4,515.2**	**4,646.1**	**3,073.8**	**3,433.1**
Current expenditures	3,041.3	3,391.0	3,664.0	3,502.1	3,691.4	2,512.9	2,721.5
Consumer expenditures	2,125.4	2,282.2	2,342.8	2,253.3	2,378.7	1,549.3	1,622.6
Wages and salaries	1,699.3	1,776.4	1,794.6	1,769.4	1,751.6	1,217.1	1,219.6
Goods and services	426.1	505.8	548.3	483.9	627.2	332.3	403.1
Interest debt	238.9	314.6	423.2	486.2	552.4	420.0	436.9
Domestic	187.4	250.1	323.4	309.6	362.8	289.1	293.5
External	51.5	64.5	99.8	176.6	189.5	130.9	143.4
Total current transfers	677.0	794.2	897.9	762.6	760.3	517.2	661.9
Current account savings	**(229.4)**	**(474.4)**	**(655.3)**	**2.4**	**141.2**	**335.2**	**428.4**
Capital expenditures	776.8	783.0	967.8	1,013.1	954.8	560.9	711.7
Investment	293.9	287.7	464.9	403.6	397.7	211.6	308.0
Total capital expenditure transfers	482.9	495.3	503.0	609.6	557.0	349.3	403.7
Net loan concessions	(0.2)	23.8	(21.0)	0.0	0.0	0.0	0.0
Global net balance	**(808.7)**	**(1,103.2)**	**(1,461.0)**	**(857.6)**	**(626.5)**	**(117.1)**	**(182.8)**
Global net balance/GDP	**(4.6)%**	**(6.0)%**	**(7.9)%**	**(4.4)%**	**(3.0)%**	**(0.6)%**	**(0.9)%**
Primary balance	**(569.8)**	**(788.6)**	**(1,037.8)**	**(371.4)**	**(74.1)**	**302.9**	**254.1**
Primary balance/GDP	**(3.2)%**	**(4.3)%**	**(5.6)%**	**(1.9)%**	**(0.4)%**	**1.5%**	**1.2%**

(1) Preliminary.
(2) Amounts in lempiras have been converted to U.S. dollars using the following average exchange rates for each of the periods indicated:
Year ended December 31, 2011: L.18.92 = U.S.$1.00
Year ended December 31, 2012: L.19.50 = U.S.$1.00
Year ended December 31, 2013: L.20.36 = U.S.$1.00
Year ended December 31, 2014: L.20.99 = U.S.$1.00
Year ended December 31, 2015: L.21.95 = U.S.$1.00
Nine months ended September 30, 2015: L.21.87 = U.S.$1.00
Nine months ended September 30, 2016: L.22.71 = U.S.$1.00

Source: DPMF- SEFIN

The following table sets forth the fiscal accounts of the non-financial public sector for the periods indicated.

Non-Financial Public Sector

	For the year ended December 31,					For the nine months ended September 30,	
	2011	2012	2013	2014	2015	2015[(1)]	2016[(1)]
				(U.S.$ millions)[(2)]			
Total revenues	**5,263.5**	**5,444.8**	**5,634.8**	**6,169.3**	**6,503.7**	**4,720.8**	**5,234.9**
Current revenues	5,026.7	5,228.0	5,426.0	5,976.3	6,292.2	4,584.1	5,125.2
Tax revenues	2,723.2	2,794.0	2,833.3	3,293.8	3,646.2	2,689.8	3,095.3
Non-tax revenues	268.0	258.8	291.3	307.5	256.0	177.2	208.0
Dividends and interest	229.8	254.4	284.2	322.7	262.3	199.9	306.0
Other taxes	1,804.6	1,878.7	1,963.0	1,964.3	2,027.9	1,448.7	1,437.7
Tax Security	1.0	42.1	54.3	88.0	99.8	78.4	78.3
Current income	44.0	38.1	66.9	39.2	24.3	17.9	8.9
Grants	192.8	178.7	141.8	153.8	187.1	108.9	100.8
Total net expenditures	**5,707.0**	**6,131.3**	**6,950.2**	**6,925.3**	**6,726.7**	**4,470.9**	**5,130.4**
Current expenditure	4,830.3	5,236.1	5,839.1	5,776.3	5,556.0	3,807.5	4,124.1
Consumer expenditure	3,932.2	4,214.0	4,585.6	4,363.5	4,148.5	2,819.0	2,990.7
Wages and salaries	2,376.7	2,451.7	2,629.6	2,507,0	2,447.7	1,709.9	1,770.1
Goods and services	1,555.5	1,762.4	1,956.0	1,856.5	1,700.8	1,109.1	1,230.5
Transfers	650.8	718.6	797.6	896.1	884.8	585.8	648.5
Payments interest	187.4	232.3	380.0	456.1	484.3	362.8	448.9
External	52.1	65.7	100.2	178.8	192.1	131.7	145.6
Domestic	135.3	166.7	29.8	277.2	292.1	231.1	303.3
Others	59.9	71,2	75,9	60.7	38.4	39.9	36.0
Capital expenditures	998.2	1,017.7	1,177.4	1,168.3	1,145.9	644.1	870.4
Investment	772.4	687.1	949.7	575.4	788.8	416.5	511.2
Transfers	136.7	219.7	158.2	360.3	342.4	191.1	271.7
Other capital expenditures	89.0	110.9	69.5	50.6	14.6	36.4	87.5
Net loans	(121.5)	(122.6)	(66.2)	(19.3)	24.8	19.4	135.9
Global balance	**(443.5)**	**(686.5)**	**(1,315.5)**	**(756.0)**	**(223.0)**	**249.9**	**104.5**
Surplus (deficit) / GDP[(2)]	**(2.5)%**	**(3.7)%**	**(7.1)%**	**(3.9)%**	**(1.1)%**	**1.2%**	**0.5%**
Primary balance (CPS)	**(485.8)**	**(708.6)**	**(1,219.6)**	**(622.6)**	**(1.1)**	**412.8**	**247.4**
Primary balance / GDP[(2)]	**(2.7)%**	**(3.8)%**	**(6.6)%**	**(3.2)%**	**0.0%**	**2.0%**	**1.2%**
GDP[(2)]	**17,669.4**	**18,379.2**	**18,497.2**	**19,515.9**	**20,562.5**	**20,630.5**	**21,138.7**

(1) Preliminary
(2) Amounts in lempiras have been converted to U.S. dollars using the following average exchange rates for each of the periods indicated:
Year ended December 31, 2011: L.18.92 = U.S.$1.00
Year ended December 31, 2012: L.19.50 = U.S.$1.00
Year ended December 31, 2013: L.20.36 = U.S.$1.00
Year ended December 31, 2014: L.20.99 = U.S.$1.00
Year ended December 31, 2015: L.21.95 = U.S.$1.00
Nine months ended September 30, 2015: L.21.87 = U.S.$1.00
Nine months ended September 30, 2016: L.22.71 = U.S.$1.00
Source: DPMF - SEFIN

Revenues

Tax revenues of the Central Administration are the main source of income for Honduras. Tax revenues accounted for 86.7% of the Central Administration's total revenues in 2013, 87.0% of its total revenues in 2014, 88.0% of its total revenues in 2015 and 90% of its total revenues during the first nine months of 2016.

In 2012, the Central Administration's tax revenues were U.S.$2,690.6 million, a slight increase over its tax revenues in 2011.

In 2013, tax revenues increased to U.S.$2,732.4 million, an increase of 1.6% compared to 2012. In 2014, tax revenues increased to U.S.$3,180.4 million, an increase of 16.4% compared to 2013. This was mainly due to the implementation of a law, which modified the list of exempt items of popular consumption in the Sales Tax Act.

In 2015, tax revenues increased to U.S.$3,539.2 million, an increase of 11.3% compared to 2014. This was mainly due to the results of the tax reform of 2013 and improved collections by the Executive Directorate of Revenue (DEI). Improved collections stemmed from the implementation of an electronic billing system, which in turn reduced tax evasion and increased efficiency.

During the first nine months of 2016, Central Administration tax revenues increased to U.S.$3,250.0 million, an increase of 9.9% compared to the first nine months of 2015. As of April 2016, the DEI was replaced by the *Servicio de Administracion de Rentas* which took on the responsibility of tax collection in the country,

The major components of tax revenues of Honduras are:

i. Sales tax, which represented an average of 35.0% of total tax revenues from 2013 to 2015;
ii. Income tax, which represented 26.9% of total revenue over the same period
iii. Fuel consumption tax (*Aporte para la Atención a Programas Sociales y Conservación del Patrimonio Vial*), which represented 11.7% of total revenues during the same period; and
iv. Customs tax (on imports), representing 4.0% of total revenues during the same period.

The customs tax has been gradually reduced since 2011 as a result of free trade agreements, such as the CAFTA-DR, among others. The sales tax, income tax, fuel consumption tax and customs tax accounted for 77.6% of total tax revenue, on average, for the period from 2013 to 2015. The Central Administration collects taxes on personal and corporate income and value added tax on sales of tangible goods and services. The corporate tax rate is 25.0% while individual tax rates vary from 0% to 25.0%, depending on taxable income. The value-added tax applies to most sales of tangible goods and services at a fixed rate of 15.0%. Special higher rates apply to the sale of certain goods such as alcohol spirits and business class airplane tickets.

The most important tax reforms in recent years are:

- Decree No.174-2013 which amended the Credit Unions Law (*Ley de Cooperativas*) to modify certain requirements, functions and duties.

- Decree No. 275-2013 which amended Article 4 of Decree No. 105-2011 and provided tax exemptions to savings and checking accounts belonging to natural persons and whose average daily balance is less than L.120,000.

- Decree No. 278-2013 which modified the following: 1) fuel tax (*Aporte para la Atención a Programas Sociales y Conservación del Patrimonio Vial*), 2) sales tax, which increased from 12.0% to 15.0%, with the 3.0% difference being used to fund the Trust for Solidarity and Social Protection for Reducing Extreme Poverty, among others.

- Decree No.281-2013 which amended Article 22 of Decree No.17-2010 (Revenue Growth, Social Equity and Government Expenditure Control Act) to modify taxes on slot machines and other electronic machines regulated in the Casino and Gambling Law.

- Decree No.290-2013 which interpreted the following: Article 2, Numeral 2, Article 17 and 18 of Decree No. 278-2013 or Law for Public Finance Organization, Control of Exonerations and Anti-evasion Measures; Article 15, Paragraph d) Sales Tax Act, contained in Decree No. 24 of December 20, 1963 and Article 22-A of the Income Tax Act contained in Decree 25 of 20 December 1963. Reforms Article 11-a of the Sales Tax Act, contained in Decree No. 24 of December 20, 1963.

- Decree No.318-2013 which created the Protection, Benefits and Regularization of Informal Activity Law.

- Decree No.02-2014 which abolished Article 17 of Decree No. 278-2013 of the Law for Public Finance Organization, Control of Exemptions and Anti Evasion Measures which in turn modified the list of exempt items of popular consumption in the Sales Tax Act.

- Decree No.04-2014 which approved Executive Agreement No. 005-2014 of the President of the Republic containing the revised list of essential items of popular consumption in accordance with the order of Legislative Decree No. 2-2014.

- Agreement No.058-2014 which reformed the Billing System, Other Fiscal Documents and Fiscal Registration of Printing Presses Regulation and modifies its scope, definitions, use of printers, amongst others.

- Decree No.74-2014 which interpreted that Article 5 of Legislative Decree No. 278-2013 Law for Public Finance Organization, Control of Exonerations and Anti-evasion Measures provides for the continued effectiveness of the tax exemption for natural persons over the age of 65 granted in accordance with Decree No. 194-2002.

- Agreement No.189-2014 which approved the Billing System, Other Fiscal Documents and Fiscal Registration of Printing Presses Regulation.

- Agreement No.462-2014 which approved Regulations of the Law for Public Finance Organization, Control of Exonerations and Anti Evasion Measures.

- Decree No. PCM-0023-2014 which authorized the DEI to acquire the services of a domestic or international suppliers to implement an electronic invoicing system for more efficient tax collections.

- Decree No. 20-2016 which broadened the exempt base from income tax and established progressive rates beginning in 2017 to which the Consumer Price Index (CPI) published by the Central Bank of Honduras (BCH) will be applied.

Expenditures

In 2015, total expenses increased to U.S.$4,646.1 million or 22.6% of nominal GDP, compared to U.S.$4,515.2 million or 23.2% of nominal GDP in 2014. In Lempiras, total expenditures increased by 7.6% in 2015 compared to 2014. This was mainly due to an increase in current Central Government spending, principally purchases of goods and services which increased by 35.5%, interest payments which increased by 18.8% and wages and salaries which increased by 3.5%. Capital spending decreased by 1.5% in 2015. Average capital expenditures increased by 15.3% for the period from 2011 to 2015. In 2014 capital expenditure increased by 8%, compared to 2013. In 2013 capital expenditures increased by 29%, 2012 in 4% and 37% in 2011. The increase in capital expenditures was mostly due to an increase in external loans for the use in the construction of roads.

In 2015, current expenditures of the Central Administration as a percentage of nominal GDP were 18.0% (U.S.$3,691.4 million), 17.9% (U.S.$3,502.1 million) in 2014 and 19.8% in 2013 (U.S.$3,664.0 million). Average annual growth of current expenditures for the period from 2013 to 2015 was 7.2%. This was mainly due to a control of wages and salaries, implementation of administrative measures to improve budgetary management of certain entities and a decrease in the purchase of goods and services, especially in 2014. In 2015, current expenditures increased by 10% as compared to 2014, decreased by 1.5% in 2014 as compared to 2013, increased by 13% in 2013 as compared to 2012, increased by 15% in 2012 as compared to 2011, and increased by 6% in 2011 as compared to 2010. The increase was mainly due to an increase in spending in security.

Total expenditures of the Central Government for the 2013-2015 period on average were as follows: (i) wages (38.6% of total net expenditure), (ii) capital expenditures (21.3% of total net expenditure), (iii) current transfers (17.6% of total net expenditure) and, (iv) goods and services (12.0% of total net expenditure). Compared to the 2008-2012 period, in 2013-2015 wages grew at a slower pace of 6.8% and goods and services grew at a higher rate of 5.1%. In 2015, total expenditure increased by 7.6% as compared to 2014, increased by 1% in 2014 as compared to 2013, increased by 14.6% as compared to 2012, and increased by 13.4% as compared to 2011. This was mainly due to an increase in spending in security and an increase in external loans for the use in the construction of roads. As a result of IMF negotiations and to prioritize and optimize capital spending, the Central Government approved in the 2013 Budget (Legislative Decree No. 223-2012) Article 120, provisions that froze wage increases for the public administration in 2013, the same was done in 2014 and 2015. Additionally, in 2014 through Executive Decree PCM-028-2014 a Reform Commission for the Centralized and Decentralized Public Administration was formed to issue guidelines and other legal provisions for the reduction of public expenditures.

As a result of the above measures, wage expenditures as a percentage of GDP decreased in 2015 compared to 2014 from 9.1% to 8.5%. However, an increase in nominal terms of expenditures on wages and salaries of approximately U.S.$60.0 million was observed from 2014 to 2015, which was mainly due to an increase in the police force and to higher employer contributions approved in the reform to the Law of the National Pension Fund for Public Employees of the Executive Branch (INJUPEMP).

In 2015, capital expenditures were U.S.$954.8 million or 4.6% of nominal GDP compared to U.S.$1,013.1 million or 5.2% of nominal GDP in 2014. This decrease was mainly due to the prioritization of public investment, which has significantly helped reduce the fiscal deficit and decreased public debt. During the first nine months of 2016, public private partnerships' new investments in infrastructure reached 2.3% of nominal GDP. Of the total capital expenditures in 2015, 58.3% were indirect investments through capital transfers. Investment in infrastructure by the Central Administration has focused primarily on the construction and maintenance of roads, construction and improvement of airports, public buildings and mitigation of natural hazards. In 2013, capital expenditures accounted for U.S.$967.8 million or 5.2% of nominal GDP. In 2011, capital expenditures accounted for U.S.$776.8 million or 4.4% of nominal GDP; in 2012 they were U.S.$783.0 million (4.2% of nominal GDP); in 2013 they were U.S.$967.8 (5.2% of GDP); in 2014 they were U.S.$1,013 (5.2% of GDP); and in 2015 they were U.S.$954 (4.6% of GDP). During the 2011-2015 period, fluctuations in annual growth rates were observed; however, as a percentage of GDP, capital expenditures remained within a range of 4.2% to 5.2% and an average of 4.7%.

Honduras' geographic location makes it vulnerable to hurricanes, floods and earthquakes. In recent years the Central Administration has incurred capital expenditures in reconstruction and restoration efforts.

Honduras has implemented several reforms aimed at improving efficiency and limiting waste:

- Decree No. 223-2012 froze salary increases for employees of the Central Administration for 2013 and was expanded to 2014 and 2015.
- Decree No. 133-2013 consigns 40% of the ECOTASA's annual revenues to the Forest Conservation Institute ICF) and 60% to the Central Administration.
- Decree No. 278-2013 Law for Public Finance Organization, Control of Exonerations and Anti-evasion Measures.
- Decree No. 357-2013 Law of the National Pension Fund for Public Employees of the Executive Branch (INJUPEMP).

Expenditures Control

Other controls on expenditure implemented by the Central Administration from 2011 to 2015 include the establishment of a credit reserve certificate in 2013, which is a figure that must be issued by all Central Administration entities before entering into new purchase agreements for goods or services. A reserve credit certificate must be issued through the Integrated Financial Management System (SIAFI), which is the online budget tracking system administered by the *Secretaría de Finanzas*. By issuing the credit reserve certificate, the Central Administration agency planning to formalize a purchase agreement demonstrates it has sufficient usable funds in its budget to meet the intended procurement and resources are reserved to be paid by the National Treasury. The Central Administration aims to ensure that public officials do not exceed their approved budgets. Additionally, a penalty of a 10-year ban from public service is imposed on all public officials who exceed expenses allowed in their Annual Budget Law approved by Congress.

In 2014, a monthly expenditures program was created as an instrument for all Central Administration institutions to provide accurate and timely information on the activities that each agency is planning. To complement this, a monthly payments allocation system was created that sets expenditure quotas for each institution, based on actual cash flows of the National Treasury, as a measure to prevent institutions from exceeding their approved budgets. These two mechanisms have had a significant effect in containing the growth of floating debt.

In 2016, the Central Administration implemented Decree No. 25-2016, the Fiscal Responsibility Law, which establishes, as one of its three fiscal rules, that the nominal annual increase on current expenditures of the Central Administration cannot be greater than the annual average of the ten-year real GDP growth plus the projected average inflation for the next year. This rule allows for more control on Central Government expenditures.

In 2013, Decree 266-2013 established the Law to Optimize Public Administration, Improve Public Services and Strengthen Transparency in the Central Government, and amended the Law of Public Administration. The law's objective is to provide more flexible mechanisms in centralized and decentralized public administration. This law allowed the *Secretaría de Finanzas* to develop a system to register and monitor civil servants (SIREP) giving more control over public salaries.

During the first nine months of 2016, total expenses compared to the same period in 2015, increased to 16.4% from 15.0% of nominal GDP**.** This is the result of an increase in current expenditures, which registered U.S.$2,721.5 million for the first nine months of 2016 compared to U.S.$2,512.9 million for the same period of 2015**.** The wages and salaries line decreased 0.3% of nominal GDP, interest payments as percentage of nominal GDP remained at 2.1%, goods and services increased by 0.3% of nominal GDP. During the first nine months of 2016, current expenditures increased to 13.0% of nominal GDP compared to 12.2% of nominal GDP for the same period in 2015. During the first nine months of 2016, capital expenditures increased to 3.4% of nominal GDP compared to 2.7% of nominal GDP for the same period in 2015. As of September 30, 2016, public employees received a combined salary increase of U.S.$35.4 million.

Floating Debt (Deuda Flotante)

The Organic Budget Law defines as floating debt (*deuda flotante*) as all accounts payable that remain outstanding after the close of the fiscal year. The expenditures related to those accounts are registered in the Central Government's accounting system and are considered spent in the year incurred for accounting purposes, but the accounts payable are not included as part of public sector debt.

As of December 31, 2014, *deuda flotante* totaled L.12,682 million (U.S.$604.3 million) of which 55% or L.6,939.7 million (U.S.$330.6 million) was owed to the private sector and 45% or L.5,743.1 (U.S.$273.6 million) was owed to the public sector. 62% of such *deuda flotante* was between 0 and 45 days past due and the remaining 38% was more than 45 days past due.

As of December 31, 2015, *deuda flotante* totaled L.13,176 million (U.S.$600.4 million), of which 36% or L.4,755.2 million (U.S.$216.7 million) was owed to the private sector and 64% or L.8,420.8 million (U.S.$383.7 million) was owed to the public sector. 68% of such *deuda flotante* was between 0 to 45 days past due and the remaining 32% was more than 45 days past due.

The *deuda flotante* as of September 30, 2016 was L.11,540.8 million (U.S.$508.3 million). 34% or L.3,874.1 million (U.S.$170.6 million) of such *deuda flotante* was owed to the private sector and 66% or L.7,666.7 million (U.S.$337.7 million) was owed to the public sector. Out of the, 39% of such *deuda flotante* is 45 days or less past due while the remaining 61% is more than 45 days past due.

The following table sets forth the composition of *deuda flotante* as of the dates indicated:

Deuda Flotante

	As of December 31,						As of September 30,		
	2014			2015			2016		
	(U.S.$ millions)[1]								
	0 - 45 days	More than 45 days	Total	0 - 45 days	More than 45 days*/	Total	0 - 45 days	More than 45 days	Total
Private Sector	196.5	134.1	330.6	169.1	47.5	216.7	82.9	87.7	170.6
Public Sector	180.2	93.5	273.6	240.8	142.9	383.7	113.0	224.7	337.7
Total	376.7	227.6	604.3	409.9	190.4	600.4	195.9	312.4	508.3

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2014: L.21.5 = U.S.$1.00
December 31, 2015: L.22.4 = U.S.$1.00
September 30, 2016: L.23.0 = U.S.$1.00
Fuente: DPMF-SEFIN

The Central Government, with the objective of reducing accounts payable at the end of year, established a fiscal rule in its Fiscal Responsibility Law, which sets a cap of 0.5% of nominal GDP for *deuda flotante* greater than 45 days.

State-Owned Companies

ENEE

The *Empresa Nacional de Energía Eléctrica* (ENEE), is Honduras's government-owned and operated electrical power company. It was created on February 20, 1957 and is responsible for the generation, transmission, distribution and sale of electrical energy in Honduras.

ENEE's power generation assets include hydroelectric plants Francisco Morazán (300MW), Río Lindo (80MW), Cañaveral (29MW), El Níspero (22.5MW), Santa María del Real (1.2MW), El Coyolar (1.7MW), and Nacaome (30MW). ENEE also has four thermoelectric plants: Santa Fe (5MW), EMCE I (26.6MW), La Puerta Hitachi (18MW), and La Puerta General Electric (15MW).

ENEE is developing a number of major projects, including the Bijao thermoelectric plant in the Cortés department; a natural gas-fired power plant in San Pedro Sula; the Los Llanitos and Jicatuyo hydropower plants, which are part of a 300MW multi-purpose hydropower complex; and the Patuca III hydropower plant, in the eastern department of Olancho.

The following table sets out ENEE's operating results for the periods indicated:

Selected Operating Results of ENEE

	Millions of L.				% of GDP			
	2013	2014	2015	2016[(1)]	2013	2014	2015	2016[(1)]
Total revenues	**20,454.5**	**21,885.4**	**21,754.5**	**15,505.7**	5.3%	5.3%	4.8%	3.2%
Sale of goods and services	20,035.0	21,286.4	20,753.8	14,940.3	5.2%	5.2%	4.6%	3.1%
Current transfers of the Administration	0.0	0.0	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Capital	320.5	599.0	411.7	105.6	0.1%	0.1%	0.1%	0.0%
Other income	99.0	0.0	589.0	459.8	0.0%	0.0%	0.1%	0.1%
Total Expenditures	26,359.3	27,306.8	23,147.6	16,486.9	7.1%	6.7%	5.1%	3.4%
Current Expenditures	25,919.7	26,284.2	21,247.8	14,792.0	6.7%	6.4%	4.7%	3.1%
Operational costs	24,778.6	24,653.1	20,023.3	13,286.9	6.4%	6.0%	4.4%	2.8%
d/c Power purchase	18,417.4	20,081.5	16,014.0	12,292.3	4.8%	4.9$	3.5%	2.6%
Other expenditures	261.0	1,631.1	1,125.1	1,125.1	0.1%	0.4$	0.2%	0.2%
Capital Expenditures	1,439.6	1,022.6	1,899.8	1,694.9	0.4%	0.2%	0.4%	0.4%
Global Balance	(6,904.8)	(5,421.4)	(1,393.1)	(981.3)	(1.8)%	(1.3)%	(0.3)%	(0.2)%

(1) For the nine months ended September 30, 2016.
Source: DPMF-SEFIN

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.

In recent years, the Government has undertaken a number of initiatives to improve ENEE's operating results and financial condition, including:

- reduction of employees from a workforce of 4,916 employees at the end of 2013 to 2,411 employees as of September 30, 2016 (a reduction of 2,505 employees or 50.9%);
- reduction of electricity losses, including measures designed 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;
- reprofiling of short-term domestic debt, including outstanding *deuda flotante* owed to suppliers;
- modification of the tariff rate and subsidy structure;
- advance purchases of Central Government securities and issuance of ENEE bonds by social security institutions to finance priority investments in generation and reduction of losses;
- planning for long-term concession (30 years) of transmission system;
- continued diversification of the energy matrix.

At the end of 2014, as part of its agreement with the IMF, the Government of Honduras initiated a financial assistance program for ENEE. In the medium term, the program aimed to reduce personnel costs, modify the current tariff structure, eliminate subsidies, reduce non-technical losses in the sector, and avoid the accumulation of new accounts payable (*deuda flotante*).

In 2014 and 2015, ENEE's operating results and financial position improved. ENEE's net global deficit was reduced from L.5,421.4 billion (1.3% of nominal GDP) in 2014 to L.1,393.1 billion (0.3% of nominal GDP) in 2015. For the nine months ended September 30, 2016, ENEE's net global deficit is L.981.3 billion (0.2% of nominal GDP).

The reduction in personnel costs has contributed to the reduction of the net global deficit since 2014. ENEE has reduced its personnel costs since 2014 by more than 0.25% of nominal GDP. In addition, since 2014 there have been no accumulations of *deuda flotante* in excess of 45 days past due.

The Government expects to maintain ENEE's net global deficit for 2016 at 0.2% of nominal GDP, continue to take corrective action to reduce further payment delays with energy suppliers and accelerate compliance with loss reduction targets.

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 Cortes of the local water and sanitation system.

Municipalities to which water supply systems were transferred 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.

The following table sets out SANAA's operating results for the periods indicated.

Selected Operating Results of SANAA

	Millions of L.				% of GDP			
	2013	**2014**	**2015**	**2016[(1)]**	**2013**	**2014**	**2015**	**2016[(1)]**
Total revenues	1,106.1	904.9	1,188.0	772.4	0.3%	0.2%	0.3%	0.2%
Sale of goods and services	621.5	630.7	869.0	602.4	0.2%	0.2%	0.2%	0.1%
Other income	484.5.0	274.2	319.0	170.0	0.1%	0.1%	0.1%	0.0%
Total Expenditures	1,058.6	1,206.2	1,111.0	858.9	0.3%	0.3%	0.2%	0.2%
Current Expenditures	914.7	1,085.0	992.7	739.3	0.2%	0.3%	0.2%	0.2%
Operational costs	914.4	1,079.1	983.0	735.0	0.2%	0.3%	0.2%	0.2%
Other expenditures	0.3	5.9	9.8	4.3	0.0%	0.0%	0.0%	0.0%
Capital Expenditures	143.9.	121.2	118.3	119.6	0.0%	0.0%	0.0%	0.0%
Global Balance	47.5	-301.3	77.0	-86.5	0.0%	-0.1%	0.0%	0.0%

(1) For the nine months ended September 30, 2016
Source: DPMF-SEFIN

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.

ENP

ENP is a decentralized government agency that was created on October 14, 1965. ENP is responsible for managing and operating all seaport facilities, studying port needs, developing work plans, seeking external and domestic financing, coordinating port activities and taking any other actions needed for the management and operation of all maritime ports in Honduras. Since its creation on March 1966, ENP operates the ports of Puerto Cortés, Puerto Castilla and San Lorenzo.

ENP through the implementation of the Honduran Maritime Ports Modernization Program established by the Central Government finalized the concessions of the General Cargo Container and Solid Bulk Terminals in Puerto Cortés. ENP reduced its participation in the management of containerized, general and bulk cargo and maintains the provision of maritime services to ships. Faced with this challenge, ENP designed a complementary program to reduce administrative and operational personnel costs in order to optimize the use of ENP resources.

The development of the modernization program entails reaching important strategic objectives in order to strengthen operational, financial and administrative capacity. The program will be developed with a management model focused on achieving results that contribute to consolidate the position and financial solvency of the ENP and improve corporate social responsibility.

The achievements to date are based on three fundamental pillars:

- **Administrative Level**: New Strategic Plan developed that redefines the mission of ENP in accordance to a public private partnership scheme, new corporate structure, improved collection mechanisms (prepayment), implementation of multi-year budget.

- **Operational Level**: Increased productivity and improved its financial performance as a result of increased traffic, cost reductions and improved efficiency.

- **At the Institutional Level**: support to Customs Agency for the construction of modern facilities and strengthening of the relationship with the U.S. Customs Office in Puerto Cortes and other stakeholders.

The following table sets forth ENP's surplus or loss before transfers to the public sector for the period indicated:

Surplus or Loss Before Transfers to Public Sector

Before (2) Concessions			After (2) Concessions*	
2011	**2012**	**2013**	**2014**	**2015**
L(29,171,708)	L.31,739,374	L.125,555,780	L.42,863,823	L.115,899,269

During the first nine months of 2016, the surplus before transfers to the public sector reached L.324,538,691, an increase of 113.8% compared to the same period in 2015. During the first nine months of 2016, ENP's capital increased to L.192.4 million, an increase of 17.4% compared to the same period in 2015. This increase was mainly due to the increase in earnings experienced during the first nine months of 2016.

The following table sets forth summary information from the profit and loss statement for ENP for the periods indicated:

Income, Expenses, Depreciation, Profit and Loss

	For the year ended December 31,					For the nine months ended September 30,	
	2011	**2012**	**2013**	**2014**	**2015**	**2015**	**2016**
				(U.S.$ millions)[1]			
Income	1,374.0	1,432.2	1,532.6	1,041.4	1,062.6	775.9	877.1
Expenditures	1,496.3	1,496.2	1,507.0	1,062.5	982.5	695.7	623.0
Depreciation	5.9	6.0	4.90	4.9	4.8	3.7	3.4
Profit/Loss	(128.2)	(70.0)	20.7	(25.9)	75.3	119.9	250.6

(1) Annual average exchange rate published by the Central Bank of Honduras.
Source: ENP Financial Statements 2011-2016

Hondutel

In 2005, HONDUTEL lost the monopoly to provide telecommunications services in Honduras, particularly for incoming international telephone services, which caused the deterioration of HONDUTEL's finances as evidenced by HONDUTEL´s financial statements for 2011 to 2015.

The Government continued to implement measures in 2013 to rehabilitate HONDUTEL by establishing an oversight board, whose mandate ended in 2014. During this period, HONDUTEL incurred operating losses, which were a direct result of uncompetitive services and high operating costs and expenses, specifically wages and salaries.

The following tables sets forth summary information from the profit and loss statement for HONDUTEL for the periods indicated.

Income, Expenses, Depreciation, Profit and Loss

	For the year ended December 31,					For the nine months ended September 30,
	2011	2012	2013	2014	2015[1]	2016[1]
			(U.S.$ millions)[2]			
Income	117.5	108.5	103.6	100.2	91.0	62.1
Expenditures	109.8	109.1	116.4	91.9	73.7	47.8
Depreciation	15.4	15.5	15.1	13.8	12.2	7.8
Profit/Loss	(7.3)	(24.8)	(36.7)	(11.3)	3.1	5.4

(1) Gross income.
(2) Annual average exchange rate published by the Central Bank of Honduras.
Source: HONDUTEL Financial Statements 2011-2016

These financial results led HONDUTEL to restructure its expense structure, the largest components being wages, salaries, fringe benefits and access charges. The National Congress through Decree No.137-2013 eliminated the asymmetric access charges and approved a symmetric rate of U.S.$0.015 per minute, applicable for calls initiated from of a mobile operator's network and terminated in fixed telephony network of HONDUTEL. This decree resulted in a significant decrease in access charges applicable to HONDUTEL.

HONDUTEL has also implemented strategies for reducing its current expenditures, such as voluntary retirement of personnel. A L.450 million loan was granted to HONDUTEL to enable it to execute this expenditure-reduction strategy. As a result, HONDUTEL has gradually reduced its wage expense and number of employees as follows:

Wages Expenditures and Number of Employees

	For the year ended December 31,					For the nine months ended September 30,
	2011	2012	2013	2014	2015	2016
Wages Expenditure	73.8	73.5	69.6	57.9	45.0	32.0
Number of Employees	4,166	4,170	4,025	2,727	2,718	2,684

Annual Average Sales Exchange rate published by the Central Bank of Honduras
Source: HONDUTEL Reports Budget Management

Senior management of the company decided to strengthen HONDUTEL's broadband services offering by reinvesting funds generated by HONDUTEL throughout 2015 and 2016. The investments carried out by HONDUTEL are consistent with telecommunications market demand.

The following table shows HONDUTEL's assets, liabilities, profit and loss for each of the periods indicated.

Financial Data (U.S.$ millions)

	For the year ended December 31,					For the nine months ended September 30,
	2011	2012	2013	2014	2015[(1)]	2016[(1)]
Total Assets	390.0	369.5	356.4	345.2	328.3	316.2
Total Liabilities	162.6	186.1	117.5	183.8	165.6	195.1
Profit/Loss	(7.3)	(24.8)	(36.7)	(11.3)	3.1	5.4

(1) Gross.
Annual Average Sale Exchange rate published by the Central Bank of Honduras
Source: HONDUTEL Financial Statement 2011-2016

2016 Budget

The 2016 budget increased to L.206,321.5 million, an increase of L.13,346.0 million to the 2015 budget. The budget was approved by the National Congress by Decree No. 168-2016 on December 18, 2015. The Central Administration was assigned a budget of L.123,275.6 million funded mainly by tax revenues (L.82,895.4 million), domestic borrowing (L.17,260.1 million) and external borrowing (L.13,601.9 million). The decentralized administration was assigned a budget of L.83,045.9 million, financed through its own resources, from services provided by social security institutions and financial and non-financial public enterprises. A lesser percentage comes from transfers from the Central Administration to public colleges and universities for their operating costs. Key economic assumptions included a nominal GDP of L.475.1 billion, a GDP growth of 3.2% and an inflation rate of 4.5%

2017 Budget

On December 15, 2016, the National Congress, through Legislative Decree No. 171-2016, approved the budget for 2017 for the consolidated public sector. The 2017 budget projects revenues for the consolidated public sector in the amount of L.228,688.1 million, which represents an increase of L.22,366.6 million or 10.8%, compared to the 2016 budget. The Central Administration's revenues (which include financing) are estimated to be L.130,499.5 million, a 6.0% increase over the 2016 budget. The Central Administration's expenditures are expected to be L.130,499.5 million, an increase of 1.4% compared to the 2016 budget. The projected fiscal deficit for the Central Administration under the 2017 budget is 3.5% of GDP, a 0.3% increase compared to the 2016 budget. Expected financing needs for 2017 include L.12,259 million of external debt (excluding the amount of this offering) and L.19,473 million of internal debt.

The 2017 budget is in accordance with the projected tax revenues and resources expected from the provision of services the Ministries and decentralized entities. Main expenditure allocations include debt service, public investments and others required for the execution of different programs.

In terms of administration level, the biggest variation is reflected in the decentralized administration (13.5%), explained by the increase in revenues and expenditures of social security institutions which project higher revenues from employer contributions. The Central Administration accounts for an increase of 1.5% due to the incorporation of resources generated by Ministries and decentralized institutions from services rendered.

The 2017 budget estimates income for the Central Administration in the amount of L.130,641.7 million, a 6.0% increase compared to the 2016 budget. This increase is expected to result from increased tax revenues, domestic financing and external funds. The increase is based on an assumption of economic growth for the year, as well as administrative actions to improve tax collection. Budget financing will be complemented by capital donations (3.1%) from international financing agencies and cooperating governments.

On the expenditure side, the Central Government is expected to spend L.130,641.7 million, of which 65.4% are current expenditures. The most significant expenditure allocation relates to wages and salaries in the amount of L.43,241.5 million, an increase of 2.6% or L.1,092.8 million, compared to the 2016 budget, resulting mainly from salary increases granted as of September 2016 to civil servants, higher contributions to social security, salary adjustments to doctors, nurses and others.

Debt service is estimated at L.13,954.4 million or 16.3% of current expenditures, current transfers amount to L.13,519.0, which include transfers to the municipalities, payment of debt of previous years and the transfers to UNAH (which are expected to increase by L.554.6 million according to the calculation of 6% of anticipated net income). Capital expenditures amount to L.19,281.9 million. Financial applications amount to L.25,954.0 million, of which L.16,758.0 million are principal payments and L.9,196.0 million are for financial assets (trusts).

PUBLIC SECTOR DEBT

General

External debt consists mainly of loans from multilateral banks like 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 Administration. As of December 31, 2015, Honduran indebtedness consisted of: (i) U.S.$3,461.86 million (37.7% of total indebtedness) domestic debt, primarily denominated in lempiras and (ii) U.S.$5,732.64 million (62.3% of total indebtedness) external debt all of which is denominated in foreign currency (excluding quasi-fiscal debt).

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 approved by the National Congress.

On March 15, 2013 and December 11, 2013, Honduras issued U.S.$500 million in 7.50% Notes due 2024 and 8.75 Notes due 2022, respectively. In both cases, the proceeds were used by the Republic for general budgetary purposes, including payments of *deuda flotante*.

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

Central Administration Public Sector Debt

	As of December 31,					As of September 30,
	2011	2012	2013	2014	2015	2016
	(U.S.$ millions, except percentages)[3]					
Internal debt[1]	2,652.7	2,857.3	2,947.5	3,259.5	3,461.9	3,510.8
External debt[2]	3,096.3	3,549.5	5,056.1	5,423.4	5,732.6	5,798.1
Total public sector debt	5,748.9	6,406.8	8,003.7	8,682.8	9,194.5	9,308.9
Total public debt (as % of GDP)	32.7%	35.4%	43.3%	45.6%	46.2%	46.0%
Public internal debt (as % of GDP)	15.1%	15.8%	15.9%	17.1%	17.4%	17.3%
Public external debt (as % of GDP)	17.6%	19.6%	27.3%	28.5%	28.8%	28.6%
GDP[4]	17,586.8	18,103.6	18,278.6	19,040.7	19,909.9	20,239.8

(1) Internal Debt: Central Government debt, including non-market securities (*e.g.*, recapitalization bonds of the central bank, *Corporación Nacional de Inversiones bonds, El Zarzal Bonds, agrarian debt, but excluding the zero coupon bonds of the Central Bank).*
(2) External Debt of the Central Government.
(3) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2011: L.19.1 = U.S.$1.00
December 31, 2012: L.20.0 = U.S.$1.00
December 31, 2013: L.20.6 = U.S.$1.00
December 31, 2014: L.21.5 = U.S.$1.00
December 31, 2015: L.22.4 = U.S.$1.00
September 30, 2016: L.23.0 = U.S.$1.00
(4) Based on nominal GDP as measured by SEFIN.
Source: SEFIN

As of September 30, 2016, the Central Administration total public debt increased to U.S.$9,308.94 million, of which U.S.$5,798.13 million is external debt and U.S.$3,510.81 million is internal debt.

As of September 30, 2016, the average maturity of all the Central Administration's public sector debt was 8.68 years. While the majority of the Central Administration's public sector internal debt has maturities between 1 and 10 years and an average maturity of 4.34 years, the Central Administration's public sector external debt is mostly long term and has an average life of 11.31 years.

As of September 30, 2016, 34% of Honduras' Central Administration total debt was denominated in lempiras with the remaining 66% denominated in foreign currency.

As of September 30, 2016, 74% of the Central Administration's public sector debt was fixed rate and 26% was floating rate, the same proportion registered on December of 2015.

The following table shows the composition of the Central Administration's public sector debt by the type of interest rate applicable to such debt as of the dates indicated.

Central Administration Public Sector Debt by Type of Interest Rate

	As of December 31,					As of September 30,
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
Fixed interest rate	81%	79%	78%	74%	74%	74%
Floating interest rate	19%	21%	22%	26%	26%	26%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

Source: SEFIN

External Debt

In 2014, the Central Administration's public external debt was U.S.$5,423.36 million, or 28.5% of nominal GDP. In 2015, the Central Administration's public external debt increased to U.S.$5,732.64 million, or 28.8% of nominal GDP, consisting of U.S.$3,765.85 million (65.7%) of indebtedness from multilateral institutions, U.S.$1,050 million (18.1%) of indebtedness from bondholders or other holders of debt securities, U.S.$604.84 million (10.3%) of indebtedness from bilateral creditors, and U.S.$311.95 million (5.3%) of indebtedness from commercial banks, other financial institutions and suppliers.

As of September 30, 2016, the Central Administration's public external debt increased to U.S.$5,798.13 million, or 28.6% of nominal GDP, consisting mainly of U.S.$3,844.40 million (66.3%) of indebtedness from multilateral institutions, U.S.$1,050 million (18.1%) of indebtedness from bondholder or other holders of debt securities, U.S.$596.12 million (10.3%) of indebtedness from bilateral creditors, and U.S.$307.61 million (5.3%) of indebtedness from commercial banks, other financial institutions and suppliers.

The following table shows the composition of the Central Administration's public sector external debt by type of creditor as of the dates indicated.

Central Administration's Public Sector External Debt by Type of Creditor

	As of December 31,					As of September 30,
	2011	2012	2013	2014	2015	2016
			(U.S.$ millions)			
Multilateral	2,365.5	2,783.1	3,211.6	3,521.0	3,765.9	3,844.4
Bilateral	580.7	598.5	597.3	544.2	604.8	596.1
Bondholders and other holders of debt securities	50.0	50.0	1,050.0	1,050.0	1,050.0	1,050.0
Commercial banks, other financial institutions and supplies	100.2	117.8	197.2	308.1	312.0	307.6
Total external debt	3,096.3	3,549.4	5,056.1	5,423.4	5,732.64	5,798.1

Source: SEFIN

The largest multilateral creditors by volume of debt were the IADB, the World Bank and CABEI. The largest bilateral creditors are Spain, Venezuela and Italy. The largest private creditors are suppliers, mainly from Taiwan. Additionally, on March 27, 2015, the Republic finalized a U.S.$132 million loan from the Japan International Cooperation Agency.

As of September 30, 2016, 58% of the Central Administration's total public external debt portfolio had relatively low levels of financial expenses and low financial risk in terms of interest payments and commissions, while the remaining 42% 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 a result of debt relief programs that have benefitted Honduras. Currently Honduras has a relatively low level of overall debt balance relative to its GDP, compared to other countries in Central America.

As of September 30, 2016, the Central Administration's public sector external debt structure was 78% in U.S. dollars, 16% in Special Drawing Rights, 5% in Euros and the remaining 1 % in other foreign currency.

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

Central Administration Public Sector External Debt by Currency

	For the year ended December 31,					For the nine months ended September 30,
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
			(as a percentage of total)			
USD	60.3%	66.0%	72.0%	75.1%	77.0%	78.0%
SDR	26.0%	26.0%	20.0%	18.0%	17.0%	16.0%
EURO	8.0%	6.0%	6.0%	6.0%	5.0%	5.0%
Other	3.0%	2.0%	2.0%	1.0%	1.0%	1.0%

Source: SEFIN

The following table sets forth scheduled debt service of the Central Administration total public sector external debt, as of September 30, 2016, for the periods indicated.

Central Administration Public Sector External Debt Service Maturity 2016-2035

(U.S.$ millions)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Principal	57.7	204.6	220.5	229.4	718.8	229.4	402.1	400.2	399.3	475.1	192.9	237.8	169.8	145.9	139.1	125.2	119.8	114.1	109.2	100.7
Interest	56.5	181.4	172.6	164.6	157.3	107.1	94.6	75.8	57.1	44.4	39.4	35.7	31.9	28.8	26.3	23.9	21.7	19.5	17.3	15.3
Total	114.2	386.0	393.1	394	876.1	336.5	496.7	476	456.4	519.5	232.3	273.5	201.8	174.7	165.4	149.1	141.5	133.5	126.4	116.0

Source: SEFIN

Internal Debt

As part of its regular financing activities, the Republic issues bonds in local currency in the local market through monthly auctions. These bonds have maturities of 3, 5, 7 and 10 years. In the past, the Republic has issued U.S. dollar-denominated bonds in the local market, although this practice has been discontinued since 2015. From time to time, the Republic also issues short-term instruments (with maturities less than one year) to meet immediate financing needs.

At September 30, 2016, the Central Administration's public internal debt increased to U.S.$3,510.81 million, including quasi-fiscal losses of the Central Bank for which the Central Administration is responsible and excluding the Central Bank's zero coupon bonds. At September 30, 2016, the average maturity of internal Central Administration's debt was 4.34 years.

From December 23 through December 30, 2016, the Republic issued in the aggregate L.4,587.0 million of its 45-day notes in the local market. The proceeds of these issuances were used to advance funds to ENEE for the purpose of paying accounts payable owed to its suppliers.

The following table sets forth the composition of the Central Administration public sector internal debt as of the dates indicated.

Central Administration Public Sector Internal Debt

	As of December 31,					As of September 30,
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
			(U.S.$ millions)[1]			
Standardized[2]	2,230.6	2,397.8	2,213.9	2,440.6	2,696.1	2,890.8
Standardized Denominated $[3]	15.0	98.3	428.1	439.7	468.4	350.5
Non-Standardized[4]	407.1	361.2	305.9	379.8	297.3	269.5
Total	**2,652.7**	**2,857.3**	**2,947.9**	**3,259.5**	**3,461.9**	**3,510.8**

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2011: L.19.1 = U.S.$1.00
December 31, 2012: L.20.0 = U.S.$1.00
December 31, 2013: L.20.6 = U.S.$1.00
December 31, 2014: L.21.5 = U.S.$1.00
December 31, 2015: L.22.4 = U.S.$1.00
September 30, 2016: L.23.0 = U.S.$1.00

(2) "Standardized" bonds are bonds issued in the local market that meet certain requirements established by the *Consejo Monetario Centroaméricano* under its *Programa de Armonización de los Mercados de Deuda Pública*, including bullet maturities, fixed interest rates and semiannual coupon payments.

(3) "Standardized Demoninated $" bonds are Standardized bonds issued in the local market which are indexed to the U.S. dollar.

(4) "Non-Standardized" bonds are all other instruments issued by the Republic in the local market.

Source: SEFIN

Internal Debt Refinancing Plan

In 2015, the *Secretaría de Finanzas* launched an Internal Debt Refinancing Plan, designed to mitigate rollover risk for 2016-2018 and help extend the average life of the Central Administration's internal debt. The Plan was executed through a series of voluntary swaps with holders in which approximately U.S.$366 million of 2016-18 maturities were exchanged for new bonds maturing on 2022 and 2024. Its execution in conjunction with the Annual Finance Plan extended internal debt average life from 3.32 years in 2014 to 4.29 years at the end of 2015.

Internal Debt Service

In 2015, the Central Administration's internal debt service decreased to U.S.$1,456.6 million compared to U.S.$1,487.4 million in 2014 due to a lower concentration of maturities resulting from debt management operations that the country has been executing in recent years. In the first nine months of 2016, internal debt service was U.S.$562.8 million.

The following table sets forth Central Administration internal debt service as of the dates indicated.

Central Administration Internal Debt Service*

	As of December 31,					As of September 30,
	2011	2012	2013	2014	2015	2016
			(U.S.$ millions)(1)			
Bonds	**576.9**	**744.1**	**905.8**	**1,485.7**	**1,455.0**	**536.1**
Principal	112.2	175.8	592.6	637.3	415.9	258.9
Interest and Fees	183.1	235.9	313.2	301.4	345.7	277.2
Refinancing and Swaps	275.0	327.9	0	547.1	698.4	0
Capitalized interest, flow	6.6	4.5	0	0	0	0
Loans	**2.9**	**21**	**18.1**	**1.7**	**1.6**	**26.7**
Principal	2.0	16.0	15.6	1.0	1.0	23.9
Interest and Fees	0.9	5	2.5	0.7	1.7	2.9
Total	**579.8**	**765.1**	**923.9**	**1,487.4**	**1,456.6**	**562.8**

* Includes quasi-fiscal debt of the Central Bank.
(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2011: L.19.1 = U.S.$1.00
December 31, 2012: L.20.0 = U.S.$1.00
December 31, 2013: L.20.6 = U.S.$1.00
December 31, 2014: L.21.5 = U.S.$1.00
December 31, 2015: L.22.4 = U.S.$1.00
September 30, 2016: L.23.0 = U.S.$1.00
Source: SEFIN

Recapitalization of the Central Bank

The *Secretaría de Finanzas* is responsible for recognizing losses sustained by the Central Bank resulting from its implementation of monetary policy. In 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 2012, the *Secretaría de Finanzas* and the Central Bank entered into a recapitalization agreement that aimed to reduce the Central Bank's losses as of 2014 with the first issuance of market rate securities in 2013. The recapitalization agreement was approved by the National Congress, through decree No.38/2014, of May 29, 2014. Under this agreement, the Central Government issued bonds to the Central Bank in 2014 and for a period of 10 years thereafter in accordance with the following terms:

- In 2014 and 2015 the Central Government issued bonds with face value of U.S.$142.6 million and U.S.$134.2 million with a maturity of 5 years, an interest rate of 6% for the first year, increasing to 8% thereafter, payable semi-annually, to cover non-recognized losses sustained from 2008 through 2011;
- From 2016 to May 2017, the *Secretaría de Finanzas* will swap remaining non-market Central Government bonds for new bonds with a face value of U.S.$130.2 million, a maturity of 5 years, and an interest rate of 8%, payable semiannually.

- Interest payments by the Central Government to the Central Bank on such Central Government bonds are expected to cover the interest payments on instruments issued by the Central Bank with the same maturity. Thus, Central 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

Honduras 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" rescheduling 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 profiles 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 IADB 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 IADB and IMF (totaling U.S.$1.5 billion in debt relief).

DESCRIPTION OF THE NOTES

This section of this Offering Circular is intended to be an overview of the material provisions of the Notes and the Indenture. 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. You are urged to read the Indenture for a complete description of the Republic's obligations and your rights as a holder of the Notes. Copies of the Indenture are available free of charge at the offices of the Trustee.

The Notes will be issued pursuant to a trust indenture between the Republic and The Bank of New York Mellon, as trustee (the "Trustee"), as principal paying agent (the "Principal Paying Agent"), as transfer agent ("Transfer Agent") and as registrar (the "Registrar"), and The Bank of New York Mellon (Luxembourg) S.A. as Luxembourg paying agent (the "Luxembourg Paying Agent" and together with the Principal Paying Agent the "Paying Agents"), and as Luxembourg transfer agent (the "Luxembourg Transfer Agent" and together with the Transfer Agent the "Transfer Agents"), to be dated as of January 19, 2017 (the "Indenture").

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

Principal, Maturity and Interest

The Notes will:

- initially be issued in an aggregate principal amount of U.S.$700,000,000;
- will mature on January 19, 2027;
- will bear interest from and including, January 19, 2017 to, but excluding January 19, 2027, at a rate of 6.250% per annum on the principal amount thereof, payable semi-annually in arrears on January 19 and on July 19 of each year, commencing on July 19, 2017. 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 direct, general, unconditional, unsubordinated and unsecured Indebtedness (as defined below) of the Republic and will rank equally, 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. It is understood that this provision will not be construed so as to require the Republic to make payments under any series of the Notes ratably with payments being made under any other Public External Indebtedness.

Form, Denomination and Title

The Notes will be issued in U.S. dollars, in fully registered form, in denominations of U.S.$150,000 or any amount in excess thereof, which is an integral multiple of U.S.$1,000. The Notes, and the transfer thereof, shall be registered as provided in the Indenture. As used herein, "holder," in relation to a Note, means the person in whose name a Note is registered. 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.

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

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 restricted permanent global Notes, each in registered form without interest coupons (the "Rule 144A Global Note") and will be deposited with the Registrar, as custodian for The Depository Trust Company ("DTC"), and registered in the name of a nominee of DTC.

Notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S under the Securities Act will be represented by a single, unrestricted, permanent global Note in registered form without interest coupons (the "Regulation S Global Note" and, together with the Rule 144A Global Note, the "Global Notes") and will be deposited with the Registrar, as custodian for DTC, and registered in the name of a nominee of DTC. Owners of beneficial interests in the Global Notes will not be entitled to receive individual definitive Notes in registered form (the "Definitive Notes" and, together with the Global Notes, the "Notes") unless (i) DTC notifies the Republic that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global

Notes or ceases to be a "clearing agency" registered under the U.S. Securities Exchange Act of 1934, as amended, or if at any time it is no longer eligible to act as such, and the Republic is unable to appoint a qualified successor within 90 days of receiving notice or becoming aware of such ineligibility on the part of DTC, (ii) the Republic, at its option, elects to terminate the book-entry system through DTC with respect to the Global Notes, or (iii) after the occurrence of an Event of Default (as defined below), holders of beneficial interests in the Global Notes representing not less than a majority of the aggregate principal amount of the Global Notes outstanding advise the Trustee, through DTC in writing, that the continuation of a book-entry system through DTC (or a successor thereof) with respect to the Global Notes is no longer in such holders' best interest, and the Trustee shall notify all holders of beneficial interests of the Global Notes through DTC of the availability of Definitive Notes.

The Notes will not be issued in bearer form. The rights in respect of each Note issued to DTC and registered in the name of its nominee will be those of the registered nominee. Accordingly, each person having a beneficial interest in such Note must rely on the procedures of the institutions having accounts with DTC to exercise any rights of such person. As long as Notes are held through DTC's book-entry settlement system, ownership of beneficial interests in such Note will (unless otherwise required by applicable law) be shown on, and transfers of such beneficial interests may be effected only through, records maintained by (i) DTC or its registered nominee or (ii) institutions having accounts with DTC (including, without limitation, Euroclear and Clearstream, Luxembourg). Beneficial interests in the Global Notes may be held in denominations of U.S.$150,000 and integral multiples of U.S.$1,000 in excess thereof.

Replacement, Exchange and Transfer

If any Note shall become mutilated or defaced or be destroyed, lost or stolen, the Trustee shall, subject to having received the prior approval of the Republic (such approval not to be unreasonably withheld), authenticate and deliver a new Note at the offices of the Registrar, on such terms as the Republic or the Registrar 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 destruction, loss or theft, the applicant for a substitute Note shall furnish to the Republic, the Trustee and the Registrar such indemnity as the Republic, the Trustee or the Registrar, as the case may be, may require and evidence to their satisfaction of the destruction, loss or theft of such Note, and of the ownership thereof. In every case of mutilation or defacement of a Note, the holder shall surrender to the Registrar the Note so mutilated or defaced. 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 thereto and any other expenses (including the fees and expenses of the Trustee or the Registrar) connected therewith. If any Note that has matured or is about to mature within 15 days shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Republic may pay or authorize payment of the same without issuing a substitute Note.

Upon the terms and subject to the conditions set forth in the Indenture, a Note or Notes may be exchanged for a Note or Notes of equal aggregate principal amount, but in such different authorized denominations as may be requested by the holder, by the surrender of such Note or Notes to the office of the Registrar, or to 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 Indenture, a Note may be transferred in whole or in part (in the principal amount of U.S.$150,000 or integral multiples of U.S.$1,000 in excess thereof) 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 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 thereof or such holder's or holders' 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, except for the expenses of delivery by other than regular mail (if any) and except, if the Republic shall so require, the payment of a sum sufficient to cover any tax or other governmental charge or insurance charges that may be imposed in relation thereto or, in connection with the provisions of the Indenture, the fees and expenses of the Registrar or Trustee, will be borne by the Republic.

The Registrar may decline 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 or register the transfer of or exchange any Notes previously called for redemption.

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 Indenture, 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 will rank equally, 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 (it being understood that this provision will not be construed so as to require the Republic to make payments under any series of the Notes ratably with payments being made under any other Public External Indebtedness).

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; provided that if at any time the Republic determines that it is unable to list or it can no longer reasonably comply with the requirements for listing the Notes on the Official List of the Luxembourg Stock Exchange or if the Republic, acting in good faith, considers that maintenance of such listing has become unduly onerous, the Republic may use its commercially reasonable efforts to obtain prior to the delisting of the Notes from the Official List of the Luxembourg Stock Exchange, and thereafter use its commercially reasonable efforts to maintain, a listing of such Notes on such other stock exchange or exchanges or securities markets as the Republic may decide. The Republic will at all times use its commercially reasonable efforts to procure that there will be furnished to any stock exchange on which the Notes are from time to time listed or quoted such information in relation to the Republic as such stock exchange may require in accordance with its normal requirements or in accordance with any arrangements for the time being made with any such 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 Trustee 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; or

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

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 Trustee, 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 at least 50% of the aggregate principal amount of the Notes outstanding in accordance with the procedures set forth in the Indenture. The Trustee shall not be deemed to have notice of any Default or Event of Default unless a responsible officer of the Trustee having direct responsibility for the administration of the Indenture and the Notes, has received written notice of such default at the corporate trust office of the Trustee, and such notice references the Notes and the Indenture and details the nature of the default.

Collective Action Securities, Modifications, Amendments and Waivers

Modifications may also be approved by holders of the Notes pursuant to written action with the consent of the requisite percentage of the Notes of the relevant series. The Republic will solicit the consent of the relevant holders to the modification not less than 10 and not more than 30 days before the expiration date for the receipt of such consents as specified by the Republic.

The holders of a series of the Notes may generally approve any proposal by the Republic to modify the Indenture or the terms of the Notes of that series with the affirmative vote (if approved at a meeting of the holders) or consent (if approved by written action) of holders of more than 50% of the outstanding principal amount of the Notes of that series.

However, in order to modify a reserved matter (as defined below), holders of any series of debt securities (including the Notes) must approve, by vote or consent through one of three modification methods (as further described below), any modification, amendment, supplement or waiver proposed by the Republic that would do any of the following (such subjects referred to herein as "reserve matters"):

- change the date on which any amount is payable;
- reduce the principal amount (other than in accordance with the express terms of the debt securities of that series and the Indenture);

- reduce the interest rate;
- change the method used to calculate any amount payable (other than in accordance with the express terms of the debt securities of that series and the Indenture);
- change the currency or place of payment of any amount payable;
- modify the Republic's obligation to make any payments (including any redemption price therefor);
- change the identity of the obligor;
- change the definition of "outstanding" with respect to any series of debt securities (including the Notes) or the percentage of affirmative votes or written consents, as the case may be, required to make a "reserve matter modification;"
- change the definition of "uniformly applicable" or "reserve matter modification;"
- authorize the Trustee, on behalf of all holders of the debt securities, to exchange or substitute all the debt securities for, or convert all the debt securities into, other obligations or securities of the Republic or any other person; or
- change the legal ranking, governing law, submission to jurisdiction or waiver of immunities provisions of the terms of such debt securities.

A change to a reserve matter, including the payment terms of any series of debt securities (including the Notes), can be made without your consent, as long as the change is approved, pursuant to one of the three following modification methods, by vote or consent by:

- where such proposed modification would affect a single series of debt securities, the holders of more than 75% of the aggregate principal amount of the outstanding debt securities of the series affected by the proposed modification;
- where such proposed modification would affect the outstanding debt securities of two or more series (defined in the Indenture as a "cross series modification"), the holders of more than 75% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, if certain "uniformly applicable" requirements are met (defined in the Indenture as "cross-series modification with single aggregated voting"); or
- where such proposed modification would affect the outstanding debt securities of two or more series, whether or not the "uniformly applicable" requirements are met, the holders of more than 66 2/3% of the aggregate principal amount of the then outstanding debt securities of all of the series affected by the proposed modification, taken in the aggregate, and the holders of more than 50% of the then aggregate principal amount of the outstanding debt securities of each series affected by the modification, taken individually.

"Uniformly applicable," as used herein, means a modification by which holders of debt securities of any series affected by that modification are invited to exchange, convert or substitute their debt securities on the same terms for (x) the same new instruments or other consideration or (y) new instruments or other consideration from an identical menu of instruments or other consideration. It is understood that a modification will not be considered to be uniformly applicable if each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification (or, where a menu of instruments or other consideration is offered, each exchanging, converting or substituting holder of debt securities of any series affected by that modification is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting or substituting holder of debt securities of any series affected by that modification electing the same option under such menu of instruments).

Any modification consented to or approved by the holders of debt securities pursuant to the above provisions will be conclusive and binding on all holders of the relevant series of debt securities or all holders of all series of debt securities affected by a cross-series modification, as the case may be, whether or not they have given such consent, and on all future holders of those debt securities whether or not notation of such modification is made upon the debt securities. Any instrument given by or on behalf of any holder of a debt security in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that debt security.

The Republic may select, in its discretion, any modification method for a reserve matter modification in accordance with the Indenture and to designate which series of debt securities will be included for approval in the aggregate of modifications affecting two or more series of debt securities. Any selection of a modification method or designation of series to be included will be final for the purpose of that vote or consent solicitation.

For so long as any series of debt securities issued under the fiscal agency agreements, dated as of March 12, 2013 and December 16, 2013 between the Republic, The Bank of New York Mellon, as fiscal agent, The Bank of New York Mellon (Luxembourg), S.A., as registrar and paying agent in Luxembourg, and The Bank of New York Mellon, London Branch, as principal paying agent and transfer agent (the "March FAA" and "December FAA," each, an "FAA") (the securities issued under the FAAs, "FAA Debt Securities") is outstanding, if the Republic certifies to the Trustee under the Indenture and to the fiscal agent or trustee under the relevant FAA that a cross-series modification is being sought simultaneously with a "FAA reserve matter modification," the FAA Debt Securities affected by such FAA reserve matter modification shall be treated as "series affected by that proposed modification" as that phrase is used in the Indenture; *provided*, that if the Republic seeks a cross-series modification with single aggregated voting, in determining whether such modification will be considered uniformly applicable, the holders of any series of FAA Debt Securities affected by the FAA reserve matter modification shall be deemed "holders of debt securities of all series affected by that modification," for the purpose of the uniformly applicable definition. It is the intention that in such circumstances, the votes of the holders of the affected FAA Debt Securities be counted for purposes of the voting thresholds specified in the Indenture for the applicable cross-series modification as though those FAA Debt Securities had been affected by that cross-series modification although the effectiveness of any modification, as it relates to the FAA Debt Securities, shall be governed exclusively by the terms and conditions of those FAA Debt Securities and by the applicable FAA; *provided, however*, that no such modification as to the debt securities will be effective unless such modification shall have also been adopted by the holders of the FAA Debt Securities pursuant to the amendment and modification provisions of such FAA Debt Securities.

"FAA reserve matter modification," as used herein, means any modification to a reserve matter affecting the terms and conditions of one or more series of FAA Debt Securities, pursuant to the applicable FAA.

Before soliciting any consent or vote of any holder of the debt securities (including the Notes) for any change to a reserve matter, the Republic will provide the following information to the Trustee for distribution to the holders of debt securities of any series that would be affected by the proposed modification:

- a description of the Republic's economic and financial circumstances that are in the Republic's opinion relevant to the request for the proposed modification, a description of the Republic's existing debts and description of its broad policy reform program and provisional macroeconomic outlook;

- if the Republic shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;

- a description of the Republic's proposed treatment of external debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and

- if the Republic is then seeking any reserve matter modification affecting any other series of debt securities, a description of that proposed modification.

For purposes of determining whether the required percentage of holders of the debt securities of a series has approved any amendment, modification or change to, or waiver of, the debt securities or the Indenture, or whether the required percentage of holders has delivered a notice of acceleration of the debt securities of that series, debt securities held by the Republic or any public sector instrumentality will be disregarded and deemed not to be outstanding and may not be counted in a vote or consent solicitation for or against a proposed modification, if on the record date for the proposed modification or other action or instruction under the Indenture, the debt security is held by the Republic or by a public sector instrumentality, except that (x) debt securities held by the Republic or any public sector instrumentality which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such debt securities and that the pledgee is not the Republic or a public sector instrumentality, and in case of a dispute concerning such right, the advice of counsel shall be full protection in respect of any decision made by the Trustee in accordance with such advice and any certificate, statement or opinion of counsel may be based, insofar as it relates to factual matters or information which is in the possession of the Trustee, upon the certificate, statement or opinion of or representations by the Trustee; and (y) in determining whether the Trustee will be protected in relying upon any such action or instructions hereunder, or any notice from holders, only debt securities with respect to which a responsible officer of the Trustee has received written notice that such debt securities are so owned or controlled will be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means Banco Central de Honduras, any department, ministry or agency of the government of the Republic or of any departmental, municipal or autonomous state entity or organization or any company, enterprise, corporation, trust, financial institution or other entity 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, by contract 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 that legal entity.

Certain Amendments Not Requiring Holder Consent.

The Republic and the Trustee may, without the vote or consent of any holder of Notes, modify the Indenture or the Notes for the purpose of:

- adding to the Republic's covenants for the benefit of the holders;
- surrendering any right or power conferred upon the Republic with respect to the Notes;
- securing the Notes;
- curing any ambiguity or curing, correcting or supplementing any defective provision in the Notes or the Indenture;
- amending the Notes or the Indenture in any manner which the Republic and the Trustee may determine and which does not materially adversely affect the interests of any holders of Notes; or
- correcting a manifest error of a formal, minor or technical nature.

Payments and Agents

Principal of, and interest on, the Notes will be payable by the Trustee to Noteholders. Payment of principal of the Notes (together with accrued interest) will only be made to the person in whose name such Note is registered (the "Noteholder") as of the close of business on the maturity date, following presentation and surrender of such Note at the office of any Paying Agent (as defined below), by U.S. dollar check drawn on, or by transfer to a U.S. dollar account maintained by the holder with, a bank located in New York City. Payment of interest on a Note will be made to the person in whose name such Note is registered at the close of business on the day (whether or not a Business Day) (the "Record Date") prior to the relevant due date for the payment of interest. Payment of such interest will be made directly to holders' DTC accounts or if notes are in physical form, upon application of the holder to the Registrar not later than the relevant Record Date, by transfer of immediately available funds to a U.S. dollar account maintained by the holder with a bank in New York City. If any day for payment of principal or interest in respect of any Note is not a Business Day, the holder shall not be entitled to payment, or to any interest or other sums, in respect of such postponed payment until the next Business Day following such day in such place.

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."

Holders of beneficial interests in the Notes will be paid in accordance with the procedures of the relevant clearing system and its direct participants, if applicable. Neither the Republic nor the Trustee shall have any responsibility or liability for any aspect of the records of, or payments made by, the relevant clearing system or its nominee or direct participants, or any failure on the part of the relevant clearing system or its direct participants in making payments to holders of the Notes from the funds they receive.

As used herein, "Business Day" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open, or not authorized to close, in New York City or the city of the Agent to which the Note is surrendered for payment.

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Indenture, and the Republic reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents; provided that while the Notes are outstanding it will maintain (i) a Registrar and (ii) a Paying Agent and a Transfer Agent having a specified office in Luxembourg so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require. Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders as described in the Indenture.

The Republic has appointed the Trustee to initially serve as its Registrar, Paying Agent and Transfer Agent for the Notes.

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.

Concerning the Trustee

The Indenture contains provisions relating to the obligations, rights, duties and protections of the Trustee, to the indemnification of the Trustee and the liability and responsibility, including limitations, for actions that the Trustee takes. The Trustee is entitled to enter into business transactions with the Republic or any of its affiliates without accounting for any profit resulting from such transactions.

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 Trustee 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) ("Taxes") 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"), 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 or by the enforcement of rights with respect to the Notes;

(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 (i) the Republic has not notified the holder in writing of such certification, identification, or other reporting requirement at least 30 days before the applicable payment date and (ii) 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-BEN-E, W8IMY, 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 (except to the extent that the holder thereof would have been entitled to such Additional Amounts on presenting a Note for payment on the last day of such 30 day period).

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, 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 become void unless made within five years from the date on which such payment first became due.

Notices

The Republic will mail notices to holders of certificated securities at their registered addresses as reflected in the books and records of the Trustee. The Trustee will consider any mailed notice to have been given five business days after it has been sent. The Trustee will give notices to the holders of a global security in accordance with the procedures and practices of the depositary and such notices shall be deemed given upon actual receipt thereof by the depositary.

The Republic will also publish notices to the holders, and all notices to holders of Notes will be valid if (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 Indenture, 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

From time to time, the Republic may, without the consent of holders of the Notes create and issue additional Notes with the same terms and conditions as the Notes (except the amount of the first interest payment, the issue date and the issue price), provided, however, that any additional Notes subsequently issued shall be fungible with the Notes for U.S. federal income tax purposes. Additional Notes issued in this manner will be consolidated with and will form a single series with the Notes.

Governing Law; Submission to Jurisdiction and Enforceability

The Indenture and 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 or the Indenture. 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 Indenture. Reference is made to the Indenture 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 Indenture or at any time thereafter, including, without limitation, any equivalent claim or interest created or arising under the laws of the Republic of Honduras.

"Public External Indebtedness" means 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.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Notes

The Notes will initially be issued in the form of registered Global Notes. Upon issuance, the Global Notes will be deposited with the Trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in the Global Notes will be limited to persons who have accounts with DTC (which we refer to in this offering circular as the "DTC participants") or persons who hold interests through DTC participants. The Republic expects that under procedures established by DTC:

- upon deposit of the Global Notes with DTC's custodian, DTC will credit portions of the principal amount of such Global Notes to the accounts of the DTC participants designated by the initial purchasers; and
- ownership of beneficial interests in the Global Notes will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Notes).

Investors may hold their interests in the Global Notes directly through Euroclear or Clearstream Banking, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Each of Euroclear and Clearstream Banking will appoint a DTC participant to act as its depositary for the interests in the Global Notes that are held within DTC for the account of each of these settlement systems on behalf of its respective participants.

Euroclear and Clearstream Banking will hold omnibus positions on behalf of their participants through customers' securities accounts for Euroclear and Clearstream Banking on the books of their respective depositaries, which in turn will hold positions in customers' securities accounts in the depositaries' names on the books of DTC.

Beneficial interests in the Global Notes may not be exchanged for Notes in certificated definitive form except in the limited circumstances described below.

The Global Notes and beneficial interests therein will be subject to restrictions on transfer as described under "Transfer Restrictions."

Exchanges Between the Global Notes

Beneficial interests in one Global Note may generally be exchanged for interests in another Global Note. The Trustee may require the transferor to provide certain written certifications in the form provided in the Indenture.

Any beneficial interest in a Global Note that is transferred to a person who takes delivery through another Global Note will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other Global Note.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC, Euroclear and Clearstream Banking. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Republic nor the initial purchaser is responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a "banking organization" within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a "clearing corporation" within the meaning of the Uniform Commercial Code; and
- a "clearing agency" registered under Section 17A of the U.S. Securities Exchange Act of 1934.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC's participants include securities brokers and dealers, including the initial purchaser; banks and trust companies; clearing corporations; and other organizations. Indirect access to DTC's system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC's nominee is the registered owner of a Global Note, that nominee will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the Indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated Notes; and
- will not be considered the owners or holders of the Notes under the Indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the Trustee under the Indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of Notes under the Indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest in the Notes).

Payments of principal and interest with respect to the Notes represented by a Global Note will be made by the Trustee to DTC's nominee as the registered holder of the Global Note. Neither the Republic nor the Trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream Banking will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and participants in Euroclear or Clearstream Banking, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream Banking. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream Banking account, an investor must send transfer instructions to Euroclear or Clearstream Banking, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream Banking, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant Global Notes in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream Banking participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream Banking.

Because of time zone differences, the securities account of a Euroclear or Clearstream Banking participant that purchases an interest in a Global Note from a DTC participant will be credited on the business day for Euroclear or Clearstream Banking immediately following the DTC settlement date. Cash received in Euroclear or Clearstream Banking from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Banking cash account as of the business day for Euroclear or Clearstream Banking following the DTC settlement date.

DTC, Euroclear and Clearstream Banking have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the Trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related Notes only if:

- DTC notifies the Republic at any time that it is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days;

- DTC ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days;

- holders of beneficial interests in the Notes representing not less than a majority of the aggregate principal amount of the Notes outstanding advise the Trustee, through the depositary, in writing, that the continuation of the book-entry system through the depositary (or a successor thereof) with respect to the Notes is no longer in such holders' best interests; or

- the Republic, at its option, determines to terminate the book-entry system through the depositary.

TRANSFER RESTRICTIONS

The Notes are subject to the following restrictions on transfer. By purchasing Notes, you will be deemed to have made the following acknowledgments, representations to and agreements with the Republic and the initial purchasers:

(1) You acknowledge that:

- the Notes have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and
- unless so registered, the Notes may not be offered, sold or otherwise transferred except under a transaction exempt from, or not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in, as applicable, paragraph (4) or (5) below.

(2) You represent that either:

- you are a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and are purchasing Notes for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the Notes to you in reliance upon Rule 144A; or
- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that neither the Republic nor the initial purchasers nor any person representing the Republic or the initial purchasers has made any representation to you with respect to the Republic or the offering of the Notes, other than the information contained in this Offering Circular. You agree that you have had access to such information concerning the Republic and the Notes as you have deemed necessary in connection with your decision to purchase Notes, including an opportunity to ask questions of and request information from the Republic.

(4) If you are purchasing Notes in reliance upon Rule 144A, you represent that you are purchasing Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the Notes pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance of the Notes will agree, that until the end of the resale restriction period (as defined below), the Notes may be offered, sold, pledged or otherwise transferred only:

(a) to the Republic or an affiliate of the Republic;

(b) under a registration statement that has been declared effective under the Securities Act;

(c) for so long as the Notes are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the offer, sale, pledge or other transfer is being made in reliance on Rule 144A; or

(d) through offers and sales that occur outside the United States of America within the meaning of Regulation S.

You also acknowledge that:

- each Note will bear a legend substantially to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY SECURITIES LAW OF ANY STATE IN THE UNITED STATES OF AMERICA, AND MAY NOT BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT AS PERMITTED BY THE FOLLOWING SENTENCES. THE

HOLDER HEREOF, BY ITS ACCEPTANCE OF THIS NOTE, REPRESENTS, ACKNOWLEDGES AND AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT (i) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) PURCHASING FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER WHOM THE SELLER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A; OR (ii) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAW OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. TERMS USED IN THIS PARAGRAPH HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

THIS LEGEND CAN ONLY BE REMOVED AT THE OPTION OF THE ISSUER.”

(5) If you are purchasing Notes in reliance upon Regulation S, you represent that you are purchasing Notes for your account, or for one or more investors accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Notes in violation of the Securities Act. You agree, on your behalf and on behalf of any investor account for which you are purchasing Notes, that each Regulation S Global Note will bear a legend substantially to the following effect:

“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.”

(6) You acknowledge that the Republic, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have been made by your purchase of Notes is no longer accurate, you will promptly notify the Republic and the initial purchasers. If you are purchasing any Notes as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

Because of the foregoing transfer restrictions, purchasers of Notes are advised to consult their respective legal advisors prior to making any offer, resale, pledge or other transfer of Notes.

TAXATION

Honduras Taxation

The following is a general discussion of Honduran tax considerations. The discussion is based upon the tax laws of Honduras 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 164-2016), 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 arising from the purchase and sale of the Notes within Honduras will be subject to the treatment established 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

The following describes the material U.S. federal income tax consequences of the receipt, ownership and disposition of a Note acquired pursuant to this offering. This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date of this prospectus supplement. All of these laws and authorities are subject to change at any time, perhaps 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. This summary does not cover any state, local, non-U.S. or other tax issues, nor does it cover issues under the U.S. federal estate or gift tax laws.

The Republic has not sought any ruling from the United States 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 deals only with holders that hold a Note as a capital asset as defined in the Code (generally, assets held for investment). This summary does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a particular holder in light of the holder's circumstances (for example, persons subject to the alternative minimum tax provisions of the Code). Also, this summary does not address tax considerations applicable to special classes of holders, such as:

- investors who do not purchase the Notes in the offering at the offering price;
- dealers in securities or currencies, certain securities traders, banks, regulated investment companies, real estate investment trusts, tax-exempt organizations and life insurance companies;
- persons that hold Notes as part of a hedging transaction or as a position in a straddle or conversion transaction;
- United States expatriates;
- partnerships or other entities or arrangements classified as partnerships for U.S. federal income tax purposes, or persons holding the Notes through partnerships or other pass-through entities; and
- U.S. Holders (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

If a partnership (including any entity or arrangement classified as a partnership for U.S. federal income tax purposes) is a beneficial owner of a Note, the tax treatment of a partner in that partnership generally will depend on the status of the partner and the activities of the partnership. Holders of Notes that are partnerships and partners in those partnerships should consult their own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes.

You should consult your own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes in light of your particular circumstances, as well as the effect of any relevant state, local, non-U.S. or other tax laws.

U.S. Holders

The following discussion applies to you if you are a U.S. Holder. As used herein, a "U.S. Holder" means a beneficial owner of a Note who or that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax without regard to 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 U.S. persons as defined in the Code (each a "U.S. Person") have the authority to control all substantial decisions of the trust, or that was in existence on August 20, 1996 and that has made a valid election under U.S. Treasury regulations to be treated as a domestic trust.

If you are not a U.S. Holder, this discussion does not apply to you and you should refer to "—Non-U.S. Holders" below.

Interest on a Note. 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 or accruals of stated interest on a Note generally will be taxable to you as ordinary income at the time they are accrued or actually or constructively received, depending on your method of accounting for tax purposes.

You must include any tax withheld from the interest payment as ordinary income even though you do not in fact receive it. You may be entitled to deduct or credit this tax, subject to applicable limits. Interest paid by the Republic on a Note will constitute income from sources outside the United States and, under the foreign tax credit rules, that interest will, depending on your circumstances, be "passive" or "general" category income for purposes of computing the foreign tax credit allowable to you under the U.S. federal income tax laws. You will also be required to include in income as interest any additional amounts paid with respect to withholding tax on the Notes, including withholding tax on payments of such additional amounts.

Disposition of a Note. You generally will recognize capital gain or loss on the sale, exchange, retirement, redemption or other taxable disposition of a Note equal to the difference between the amount realized on the sale, exchange, retirement, redemption or other taxable disposition of a Note (not including any amounts attributable to accrued but unpaid interest) and your tax basis in the Note. Your amount realized is the sum of cash plus the fair market value of any property received upon the sale, exchange, retirement, redemption or other taxable disposition of a Note (not including any amounts attributable to accrued but unpaid interest not previously included in income, which will be taxed as ordinary income). Your tax basis in a Note generally will equal its cost to you decreased (but not below zero) by any cash payments of principal, if any, that you have received with respect to the Notes. Such capital gain or loss will be long-term capital gain or loss if the Note was held for more than one year, and will be short-term capital gain or loss if you held the Note for one year or less. Under current law, net long-term capital gains of individuals and certain other non-corporate U.S. Holders generally will be taxed at lower rates than items of ordinary income. Your ability to offset capital losses against ordinary income is limited. Any gain or loss you recognize on the sale, exchange, retirement, redemption or other taxable disposition of a Note generally will be treated as income from sources within the United States or loss allocable to income from sources within the United States for foreign tax credit limitation purposes.

Medicare Tax. If you are 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, you will be subject to a 3.8% tax on the lesser of (i) your "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 your modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between U.S.$125,000 and U.S.$250,000, depending on the individual's circumstances). Your net investment income generally includes your interest income and your 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). If you are an individual, estate or trust, you should consult your own tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the Notes.

Information with Respect to Foreign Financial Assets. Owners of "specified foreign financial assets" with an aggregate value in excess of U.S.$50,000 on the last day of the taxable year, or U.S.$75,000 at any time during the taxable year may 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 held for investment and not held in accounts maintained by certain financial institutions: (i) stocks and securities issued by non-U.S. persons, (ii) financial instruments and contracts 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 you may be subject to this information reporting regime. Failure to file information reports may subject you to penalties. You should consult your own tax advisors regarding your obligation to file information reports with respect to the Notes.

Non-U.S. Holders

The following discussion applies to you if you are a beneficial owner of a Note and are not a U.S. Holder as defined above or a partnership for U.S. federal income tax purposes (“non-U.S. Holder”).

Interest on a Note. Subject to the discussion of backup withholding below, you generally will not be subject to U.S. federal income tax, including withholding tax, on payments of interest and any additional amounts on a Note unless the interest is effectively connected with your conduct of a trade or business within the United States (and, if an income tax treaty applies, the interest is attributable to a permanent establishment or fixed place of business maintained by you within the United States). In that case, you 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. If you are a corporation you 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 a lower rate under an applicable tax treaty).

Disposition of a Note. Subject to the discussion of backup withholding below, you generally will not be subject to U.S. federal income tax on any capital gain realized on the sale, exchange, retirement, redemption or other taxable disposition of a Note unless: (1) the gain is effectively connected with your conduct of a trade or business within the United States (and, if an income tax treaty applies, the gain is attributable to a permanent establishment or fixed base in the United States.); or (2) you are an individual who is present in the United States for a total of 183 days or more during the taxable year in which the gain is realized, and either: (i) the gain is attributable to an office or fixed place of business maintained by you in the United States; or (ii) you have a “tax home” in the United States.

If you are a non-U.S. Holder described under (1) above, you generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if you are a foreign corporation, you may also be subject to the branch profits tax as described above. If you are a non-U.S. Holder described under (2) above, you generally will be subject to a flat 30% tax on the gain derived from the sale, exchange, retirement, redemption or other taxable disposition of a Note, which may be offset by certain U.S. capital losses (notwithstanding the fact that you are not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on a Note generally will be treated in the same manner as payments of interest, as described above under “—Interest on a Note. “

Backup Withholding and Information Reporting. If you are a non-corporate U.S. Holder, information reporting requirements generally will apply to payments of principal and interest on a Note and payments of the proceeds from a sale or other disposition of a Note if such payments are made within the United States. Such payments will be considered made within the United States if transferred to an account maintained in the United States or mailed to a United States address, and the amount is paid by or through a custodian, nominee or other agent that is a U.S. Controlled Person, as defined below. Backup withholding will apply to such payments if you are a non-corporate U.S. Holder that (i) fails to provide an accurate taxpayer identification number, (ii) in the case of interest payments, fails to certify that you are not subject to backup withholding, or (iii) is notified by the IRS that you have failed to report all interest and dividends required to be shown on your U.S. federal income tax returns.

If you are a non-U.S. Holder, backup withholding and information reporting generally will not apply to payments of principal and interest on a Note, but you may be required to comply with certification and identification procedures or otherwise establish an exemption. The payment of proceeds of a sale or redemption of a Note effected at the U.S. office of a broker will generally will be subject to the information reporting and backup withholding rules. In addition, the information reporting rules will apply to payments of proceeds of a sale effected at a foreign office of a broker that is a U.S. Controlled Person, unless the broker has documentary evidence that you are not a U.S. Person (and has no actual knowledge or reason to know to the contrary) or you otherwise establish an exemption. The backup withholding rules will apply to such payments if the broker has actual knowledge that you are a U.S. Person.

A “U.S. Controlled Person” is:

- a U.S. 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 a U.S. trade or business for a specified three-year period; or
- a non-U.S. partnership in which U.S. Persons hold more than 50% of the income or capital interests or which is engaged in 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.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as initial purchasers of the offering and as the initial purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this Offering Circular, each initial purchaser named below has severally agreed to purchase, and the Republic has agreed to sell to that initial purchaser, the principal amount of the Notes set forth opposite such initial purchaser's name.

Initial Purchasers	Principal Amount of Notes
Citigroup Global Markets Inc.	U.S.$350,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	U.S.$350,000,000
Total	U.S.$700,000,000

The purchase agreement provides that the obligations of the initial purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the Notes if they purchase any of the Notes.

The initial purchasers propose 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."

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 will be 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 initial purchasers have advised the Republic that they currently intend to make a market in the Notes. However, they are not obligated to do so and they 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 initial purchasers 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 initial purchasers 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 initial purchasers for their 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 initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

The initial purchasers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The initial purchasers and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have 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 they may receive customary fees and reimbursement of expenses.

In addition, in the ordinary course of their various business activities, the initial purchasers and their 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 their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Republic or its affiliates. Certain of the initial purchasers or their affiliates that have a lending relationship with the Republic routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Republic's securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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

The Republic expects that delivery of the Notes will be made against payment for the Notes on or about January 19, 2017, which is the fourth business day following the date of this Offering Circular (this settlement cycle being referred to as "T+4"). Under Rule 15c6-1 of the SEC under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), trades in the secondary market generally are required to settle in three business days, unless the parties to that trade expressly agree otherwise. Accordingly, purchasers who wish to trade bonds on the date of this Offering Circular will be required, by virtue of the fact that the Notes initially will settle on T+4, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisor.

Sales outside the United States

European Economic Area

This Offering Circular has been prepared on the basis that any offer of Notes in any Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes.

The expression "Prospectus Directive" means Directive 2003/71/EC (as amended) and includes any relevant implementing measure in the Member State concerned.

United Kingdom

Each of the initial purchasers have represented and agreed that:

(a) 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 2000 (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

(b) 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.

This Offering Circular 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 Offering Circular 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 Offering Circular relates is available only to relevant persons and will be engaged in only with relevant persons.

Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding initial purchaser conflicts of interest in connection with this offering.

Chile

The offer of the Notes will begin on January 12, 2017 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.

La oferta de los valores comienza el 12 de Enero del 2017 y está acogida a la Norma de Carácter General número 336 de fecha 27 de junio de 2012 de la Superintendencia de Valores y Seguros de Chile (la"SVS"). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte de la Republica de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.

France

The Notes are being issued and sold outside the Republic of France and, in connection with their initial distribution, the Notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in the Republic of France, and this Offering Circular or any other offering material relating to the Notes have not been distributed and will not be distributed or caused to be distributed to the public in the Republic of France, and such offers, sales and distributions have been and will be made in the Republic of France only to qualified investors (investisseurs qualifiés) in accordance with Article L.411-2 of the Monetary and Financial Code and decrét no. 98 880 dated 1st October, 1998.

Hong Kong

This Offering Circular has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. The Notes will not be offered or sold in Hong Kong other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (winding up and Miscellaneous provisions) (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the Notes which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been issued or will be issued in Hong Kong or elsewhere other than with respect to securities which are or are intended to be disposed of only to persons outside of Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Notes offered in this Offering Circular have not been registered under the Securities and Exchange Law of Japan. The Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Netherlands

This Offering Circular has not been and will not be approved by the Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*) in accordance with Article 5:2 of the Dutch Act on Financial Supervision (*Wet op het financieel toezicht*). The Notes will only be offered in The Netherlands to qualified investors (*gekwalificeerde beleggers*) as defined in Article 1:1 of the Dutch Act on Financial Supervision.

Panama

The Notes have not been, and will not be, registered for public offering in Panama with the National Securities Commission of Panama under Decree-Law 1 of July 8, 1999, as reformed by Law 67 of 2011 (the "Panamanian Securities Act"). Accordingly, the Notes may not be offered or sold in Panama, except in certain limited transactions exempted from the registration requirements of the Panamanian Securities Act. The Notes do not benefit from tax incentives accorded by the Panamanian Securities Act, and are not subject to regulation or supervision by the National Securities Commission of Panama as long as the Notes are offered to no more than 25 persons domiciled in Panama and result in the sale to no more than 10 of such persons.

Peru

The Notes and the information contained in this Offering Circular are not being publicly marketed or offered in Peru and will not be distributed or caused to be distributed to the general public in Peru. Peruvian securities laws and regulations on public offerings will not be applicable to the offering of the Notes and therefore, the disclosure obligations set forth therein will not be applicable to the Republic or the sellers of the Notes before or after their acquisition by prospective investors. The Notes and the information contained in this Offering Circular have not been and will not be reviewed, confirmed, approved or in any way submitted to the Peruvian Superintendency of Capital Markets (*Superintendencia del Mercado de Valores*) or the SMV, nor to the Lima Stock Exchange (Bolsa de Valores de Lima) or BVL and the Notes have not been registered under the Securities Market Law (*Ley del Mercado de Valores*) or any other Peruvian regulations. Accordingly, the Notes cannot be offered or sold within Peruvian territory except to the extent any such offering or sale qualifies as a private offering under Peruvian regulations and complies with the provisions on private offerings set forth therein. The Notes may not be offered or sold in the Republic of Peru except in compliance with the securities law thereof.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offering may not be circulated or distributed, nor may the Notes be offered, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289) (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), 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.

Where the Notes are subscribed for under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) 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 (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, then securities, debentures and units of securities and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer; or (iii) by operation of law.

Switzerland

This Offering Circular does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, this Offering Circular may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the initial purchasers from time to time.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon on behalf of the Republic by the Procurador General de la República (the "*General Attorney of the Republic*"), by García & Bodán, Honduran counsel to the Republic, and by Arnold & Porter Kaye Scholer LLP, U.S. counsel to the Republic. The validity of the Notes will be passed upon on behalf of the initial purchasers by López Rodezno y Asociados, Honduran counsel to the initial purchasers, and by Shearman & Sterling LLP, U.S. counsel to the initial purchasers. As to all matters of Honduran law, Arnold & Porter Kaye Scholer 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 DTC. The common codes for the Regulation S Global Note and the Rule 144A Global Note are 155344342 and 155344334, respectively; the International Securities Identification Numbers (ISIN) for the Regulation S Global Note and the Rule 144A Global Note are USP5178RAC27 and US438180AH47, respectively; and the Committee on Uniform Security Identification Procedures (CUSIP) numbers for the Regulation S Global Note and the Rule 144A Global Note are P5178R AC2 and 438180 AH4, 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 168-2015 (as published in La Gaceta on December 18, 2015), Legislative Decree No. 164-2016 (as published in La Gaceta on December 3, 2016), and Legislative Decree No. 171-2016 (as published in La Gaceta on December 27, 2016) of the Republic's National Congress.

3. The Republic is currently involved in the following litigation and arbitration proceedings:

- On May 31, 2016, the trustees of the Gabourel Family Trust, et al. notified Honduras of the filing of an investment dispute claim under the rules of the United Nations Commission on International Trade Law (UNCITRAL) and Article IX of the Treaty between the U.S. Government and the government of the Republic of Honduras on Promotion and Reciprocal Protection of Investments. Claimants allege the illegal expropriation of their land for the construction of the Útila Airport. The amount of the claim under the notice of arbitration is U.S.$251.8 million. The Republic of Honduras filed a response on May 31, 2016. No further action has been taken by the claimants since the Republic filed its response.

- Certain individual plaintiffs filed a lawsuit against the Republic of Honduras and the Institute of Property in the local courts of Honduras. The plaintiffs demanded payment of L.976.7 million for damages resulting from the alleged expropriation of certain property. The trial court ruled in favor of the plaintiffs, awarding them damages in the amount of approximately L.58 million. The Republic has appealed the judgment of the trial court, which appeal is currently awaiting decision by the Court of Appeals of Administrative Litigation.

4. On May 24, 2016, Moody's Investors Service ("Moody's") upgraded Honduras' bond ratings to B2 from B3. Concurrently, Moody's has upgraded the foreign currency and local currency issuer and senior unsecured ratings to B2 from B3. The outlook on the ratings remains positive.

In May 2016, Standard & Poor's (S&P) upgraded Honduras' bond ratings to B+ Positive from B+ Stable.

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 will be 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 Indenture 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, 2015.

ISSUER

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U.S.$700,000,000

The Republic of Honduras
6.250% Notes due 2027

Joint Book-Running Managers

BofA Merrill Lynch **Citigroup**

Offering Circular

January 12, 2017