OFFERING CIRCULAR

U.S.$600,000,000

The Republic of Honduras
5.625% Notes due 2030

The Republic of Honduras (the "Republic" or "Honduras") is offering U.S.$600,000,000 aggregate principal amount of its 5.625% Notes due 2030 (the "Notes"). Interest on the Notes will be payable semi-annually in arrears on June 24 and December 24 of each year commencing on December 24, 2020. The Notes will mature on June 24, 2030. The Republic may redeem the Notes, in whole or in part, at any time or from time to time, on not less than 10 nor more than 60 days notice, prior to March 24, 2030 (three months prior to the maturity date of the Notes) by paying the greater of the outstanding principal amount of the Notes and a "make-whole" amount plus any additional amounts and accrued and unpaid interest on the principal amount of the Notes to be redeemed up to, but excluding, the redemption date. In addition, the Republic may redeem the Notes in whole or in part, at any time or from time to time on or after March 24, 2030 (three months prior to the maturity date of the Notes), at a redemption price equal to 100% of the principal amount of Notes to be redeemed, plus any additional amounts and accrued and unpaid interest on the principal amount of the Notes to be redeemed up to, but excluding, the redemption date. See "Description of the Notes—Optional Redemption."

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 Part IV of the Luxembourg law on prospectus securities dated July 16, 2019 on prospectuses for securities, as amended.

Investment in the Notes involves Risk. See "Risk Factors" beginning on page 10 regarding certain risk factors you should consider before investing in the Notes.

Issue price: 100%(1)

(1) Plus accrued interest, if any, from June 24, 2020.

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 June 24, 2020 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

Oppenheimer & Co. **Banco Atlántida S.A.**

The date of this Offering Circular is June 17, 2020.

Honduras

CARIBBEAN SEA
BELIZE
GOLF OF HONDURAS
Islas de la Bahia
Roatán
HONDURAS
GUATEMALA
Trujillo
Colon
Atlántida
La Ceiba
Cortes
San Pedro Sula
Yoro
Yoro
Santa Bárbara
Santa Bárbara
Copán
Santa Rosa de Copan
Gracias a Dios
Puerto Lempira
Olancho
Juticalpa
Comayagua
Comayagua
Francisco Morazán
Gracias
Ocotepeque
Nueva Ocotepeque
Intibucá
La Esperanza
Lempira
La Paz
La Paz
El Paraíso
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 on 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 reoffered, 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 (*Servicio de Administración de Rentas*, or "SAR") 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), the non-financial public sector ("NFPS") 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 2017 and 2018 are preliminary and 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 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 for Banking and Insurance (*Comision Nacional de Bancos y Seguros*) ("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 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.

In order to modernize the operational framework of the Central Bank's foreign exchange policy, it was deemed necessary to develop an interbank foreign exchange market. Resolution No. 521-12/2016 of December 28, 2016 was promulgated in order to stimulate the trading of currencies in the interbank market. Resolution N. 521-12/2016, which came into effect in February 2017, permitted foreign exchange agents to sell only 90.0% of their foreign currency purchases to the Central Bank, retaining the remaining 10% for interbank transactions. Prior to this, foreign exchange agents were required to sell 100.0% of their foreign currency purchases to the Central Bank. As of July 2019, the mandatory surrender rate has been further reduced to 60.0%.

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

	Average	**End of Period**	**Real Exchange Rate Index**
Year	(L. per U.S.$1.00)[1]		(Base December 2017 = 100)
2015	21.947	22.368	102.4
2016	23.451	23.503	100.9
2017	23.487	23.588	100.0
2018	23.901	24.339	101.1
2019	24.508	24.651	101.6
2020			
January	24.649	24.651	101.6
February	24.671	24.697	102.1
March	24.715	24.754	103.0
April	24.806	24.819	104.3
May	24.830	24.835	-

(1) Purchase exchange rate.
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 populous country, with an estimated population of 9.2 million in 2019, and the 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.615,051.5 million (U.S.$25.11 billion) in 2019. Honduras has experienced sustained economic growth in recent years with real GDP growth averaging 3.8% per annum from 2015 to 2019.

Honduras is a representative democracy, organized as a republic, with government power divided into 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 26, 2017 with 43% 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	**2020** *Number of Seats*
National Party of Honduras (Partido Nacional de Honduras)	61
Refoundation and Freedom Party (Partido Libertad y Refundación)	30
Liberal Party of Honduras (Partido Liberal de Honduras)	26
Anti-Corruption Party of Honduras (Partido Anticorrupción de Honduras)	1
Democratic Christian Party of Honduras (Partido Demócrata Cristiano de Honduras)	1
Democratic Union (Unificacion Democratica)	1
Honduran Patriotic Alliance Party (Partido Alianza Patriotica Hondurena)	4
Social-Democratic Innovation and Unity Party (Partido Social Demócrata Innovación y Unidad)	4

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 2015 to 2019, the Honduran economy experienced average annual real GDP growth of 3.8%, which was mainly driven by consumption, exports and public and private investment. During this period, private sector consumption represented 74.4% of real GDP and private investment represented 18.0% of real GDP, in each case on average. Economic performance during this period was bolstered by the inflow of family remittances, which recorded an average annual increase of 10.0%.

In 2019, real GDP grew 2.7%, compared to 2018, according to preliminary figures. This growth was mainly due to increases in exports and consumption. The sectors of the economy that contributed most significantly to this increase were financial intermediation, manufacturing, communications and other services.

The Central Government has preliminarily forecasted a contraction in GDP between 2.9% and 3.9% in 2020 as a result of the novel coronavirus ("COVID-19") outbreak and the lockdown of the economy to prevent the further spread of COVID-19. The IMF expects Honduras to fall into a recession in 2020 with GDP decreasing by 3.3%. The World Bank forecasts a 5.8% GDP contraction for Honduras in 2020.

Inflation

For 2015, 2016, 2017 and 2018 the annual inflation rate was 2.4%, 3.3%, 4.7% and 4.2% respectively. Inflationary pressures resulted from rises in the prices of industrial goods and perishable food products, fuels for residential and vehicle use in the national market, electricity supply for homes and drinking water. For 2019, annual inflation decreased to 4.1%. The decrease was mainly due to a decrease in prices of perishable food products, offset by higher prices for electricity and transportation.

As of March 31, 2020, the inflation rate was 3.88%, compared to 4.10% as of March 31, 2019. The decrease was mainly due to the drop in prices of fuels for vehicular and domestic use (as a result of the decrease in the price of crude oil internationally), partially offset by higher prices for perishable food products.

Foreign Exchange

On July 21, 2011, the Central Bank modified the fixed exchange rate regime and established a crawling band by 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.

In order to modernize the operational framework of the Central Bank's foreign exchange policy, it was deemed necessary to develop an interbank foreign exchange market. Resolution No. 521-12/2016 of December 28, 2016 was promulgated in order to stimulate the trading of currencies in the interbank market. Resolution N. 521-12/2016, which came into effect in February 2017, required foreign exchange agents to sell 90.0% of their foreign currency purchases to the Central Bank, retaining the remaining 10% for interbank transactions. Prior to this, foreign exchange agents were required to sell 100.0% of their foreign currency purchases to the Central Bank. As of July 2019, the mandatory surrender rate decreased to 60.0%.

The *Lempira* depreciated 3.18% against the U.S. dollar during 2018, standing at L.24.34 = U.S.$1.00 on December 31, 2018. As of December 31, 2019 the exchange rate stood at L.24.64 = U.S.$1.00. As of May 31, 2020, the exchange rate stood at L.24.84=U.S.$1.00.

Foreign Currency Reserves

Net international reserves (NIR) of the CBH in 2014, 2015, 2016, 2017 and 2018 increased by U.S.$460.6 million, U.S.$305.8 million, U.S.$65.3 million, U.S.$898.0 million and U.S.$67.5 million, respectively. NIR totaled U.S.$3,516.5 million in 2014, U.S.$3,822.3 million in 2015, U.S.$3,887.6 million in 2016, U.S.$4,785.6 million in 2017 and U.S.$4,853.1 million in 2018. As of December 31, 2018, official reserve assets totaled U.S.$5,146.9 million, equivalent to 5.3 months of imports of goods and services.

As of December 31, 2019, the NIR of the CBH totaled U.S.$5,808.9 million and official reserve assets totaled U.S.$6,101.8 million, equivalent to 5.3 months of imports of goods and services.

As of May 31, 2020, the NIR of the CBH stood at U.S.$6,353.3 million and official reserve assets totaled U.S.$6,643.8 million, equivalent to 7.3 months of imports of goods and services.

Foreign Trade and Balance of Payments

In 2019, imports of goods including general merchandise ("GM)" and goods for processing ("GP"), accounted for 47.4% of nominal GDP. Total cost, insurance and freight ("CIF") imports, including consumer goods, accounted for 24.7% of total imports; commodities and intermediate goods accounted for 23.5% of total imports; fuels, lubricants and electricity accounted for 12.4% of total imports; and GP accounted for 22.6% of total imports. The remaining 16.8% of nominal GDP consisted of capital goods, construction materials and others.

Exports increased at an average annual rate of 1.7% between 2015 and 2019. In 2019, exports of goods increased by U.S.$129.1 million or 1.5% to U.S.$8,714.9 million, compared to 2018. This was due to an increase in GP, offset by a decrease in GM.

The current account deficit decreased from 4.7% of GDP in 2015 to 0.7% in 2019. This was mainly due to greater exports of 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 increased from 16.2% of nominal GDP in 2015 to 16.6% of nominal GDP in 2019. In 2018, the balance of goods and services accounted for 19.1% of nominal GDP.

FOB imports of goods from 2015 to 2019, as a percentage of nominal GDP, decreased from 53.3% in 2014 (U.S.$11,175.2 million) to 47.4% in 2019 (U.S.$11,853.9 million). Even though FOB imports of goods increased in 2019, compared to 2015, the percentage of nominal GDP decreased because of the growth in GDP. In 2019, FOB imports of goods decreased by U.S.$396.2 million to U.S.$11,853.9 million, a drop of 3.2%, compared to 2018.

In 2019, FOB exports of goods increased by 1.5% compared to 2018, mainly due to an increase in textiles, especially clothing. In addition, imports of goods decreased by 3.2% over the same period, mainly due to a decrease in imports of capital goods, commodities and intermediate goods, consumer goods and fuels, lubricants and electrical energy.

During 2018, FOB exports of goods decreased by 0.8% compared to 2017 and accounted for 35.7% of GDP mainly due to exports of textiles and automotive harnesses. Imports of goods increased by 7.4% in 2018, compared to 2017, and accounted for 51.0% of GDP, mainly due to an increase in imports of fuel, lubricants and electricity, capital goods and raw materials and intermediate goods.

In 2015, the current account deficit decreased by U.S.$392.2 million, or 28.6%, to U.S.$979.9 million or 4.7% of GDP, compared to 2014. This was mainly due to an increase in GP exports and an increase in remittances. Remittances increased by U.S.$296.6 million, to U.S.$3,649.8 million, an 8.8% increase compared to 2014, and accounted for 18.0% of GDP.

In 2016, the current account deficit decreased by U.S.$412.8 million, or 42.1%, to U.S.$567.1 million, or 2.6%, of GDP, compared to 2015. This was mainly due to a decrease in imports of goods and an increase in remittances. Remittances increased by U.S.$197.5 million, to U.S.$3,847.3 million, a 5.4% increase compared to 2015, and accounted for 18.4% of GDP.

In 2017, the current account deficit decreased by U.S.$391.2 million, or 69.0%, to U.S.$175.9 million, or 0.8%, of GDP, compared to 2016. This was mainly due to an increase in remittances. Remittances increased by U.S.$458.0 million, or 11.9%, to U.S.$4,305.3 and accounted for 19.2% of GDP, compared to 2016.

In 2018, the current account deficit increased by U.S.$1,107.7 million, or 629.6%, to U.S.$1,283.6 million, or 5.3%, of GDP compared to 2017. This was mainly due to an increase in imports and offset by an increase in remittances. Remittances increased by U.S.$454.6 million, or 10.6%, to U.S.$4,759.9 million and accounted for 20.5% of GDP, compared to 2017.

In 2019, the current account deficit was U.S.$162.7 million, a decrease of U.S.$1,120.9 million, or 87.3%, compared to 2018. This was mainly due to a decrease in imports and an increase in remittances. Current account remittances increased by U.S.$624.6 million, or 13.1%, to U.S.$5,384.5 million, compared to 2018.

Remittances to Honduras continue to represent a significant contribution to its economy. Between 2015 and 2019, total remittances averaged 19.6% of GDP. During 2019, total remittances from Hondurans abroad reached U.S.$5,562.2 million, or 22.3%, of GDP. As of May 28, 2020, remittances decreased by 7.1% compared to the previous year due to the economic crisis caused by COVID-19 pandemic and the global economic shutdown.

Monetary System

The Central Bank and the CNBS, are the two regulatory institutions of the Honduran financial system. They issue mandatory general rules intended for financial institutions in order to ensure a stable financial system and international payments system. As of December 31, 2019, the total loans in the financial system stood at U.S.$18,665.1 million, representing an increase of 8.6%, or U.S.$1,477.7 million, compared to December 31, 2018.

Central Administration Revenues and Expenditures

During the 2015 to 2019 period, the Government implemented a policy of fiscal consolidation and stabilization of public debt of the NFPS. This policy is based on the framework established in the Fiscal Responsibility Law ("FRL") and is consistent with the Medium Term Macro-Fiscal Framework ("MTMF") and budget execution guidelines. For more information, see Public Sector Finances − Fiscal Policy."

In 2018, the Central Administration's fiscal deficit decreased by 0.6% to 2.1% of nominal GDP, compared to a fiscal deficit of 2.7% of nominal GDP in 2017. In 2019, the Central Administration's fiscal deficit was 2.5% of nominal GDP. During the first quarter of 2020, the Central Administration's fiscal deficit was 0.4% of GDP compared to a fiscal deficit of 0.5% of nominal GDP for the first quarter of 2019.

In 2018, the NFPS deficit increased to 0.9% of nominal GDP, compared to 0.8% of nominal GDP in 2017. The NFPS deficit for 2018 was 0.3% lower than the 1.2% goal established in the FRL. In 2019, the NFPS deficit was 0.9% of nominal GDP. In the first quarter of 2020, the NFPS deficit was 0.3% of nominal GDP, compared to a fiscal deficit of 0.1% of nominal GDP during the first quarter of 2019.

Total revenues for the Central Administration for 2018 amounted to U.S.$4,776.5 million, compared to U.S.$4,670.8 million for 2017. Current revenues from tax collections, non-tax and operating income were U.S.$4,593.8 million, compared to U.S.$4,508.7 million for 2017. For 2019, the Central Administration's total revenues were U.S.$4,785.8 million, compared to U.S.$4,776.5 million for the same period in 2018.

In 2018, current expenditures of the Central Administration decreased to U.S.$4,027.6 million, or 18% of nominal GDP, compared to U.S.$4,066.3 million, or 17.7% of nominal GDP, in 2017. In 2019, the Central Administration's current expenditures totaled U.S.$4,262.5 million, or 17.1% of nominal GDP. For the first quarter of 2020, current expenditures of the Central Administration totaled U.S.$895.1 million, or 3.6% of nominal GDP.

Public Sector Debt

As of December 31, 2019, the total public debt of the Central Administration was U.S.$12,149.0 million, of which U.S.$7,139.1 million was external debt and U.S.$4,829.9 million was internal debt. As of December 31, 2019, the average maturity of all public sector debt of the Central Administration was 8.70 years. Although the majority of the Central Administration's public sector internal debt has maturities between 1 and 10 years and an average maturity of 5.10 years, the Central Administration's public sector external debt is mostly long-term and has an average lifespan of 11.0 years. As of December 31, 2019, 39% of the total public sector debt of the Central Administration was denominated in lempiras and the remaining 61% was denominated in foreign currency. As of December 31, 2019, 70% of the Central Administration's public sector debt had fixed rates of interest and 30% had floating rates of interest.

As of March 31, 2020, the total public debt of the Central Administration was U.S.$12,354.2 million, of which U.S.$7,321.9 million was external debt and U.S.$5,032.2 million was internal debt. As of March 31, 2020, the average maturity of all public sector debt of the Central Administration was 8.70 years. The Central Administration's public sector internal debt has maturities between 1 and 10 years and an average maturity of 5.10 years. The Central Administration's public sector external debt is mostly long-term and has an average lifespan of 11.0 years. As of March 31, 2020, 73% of the Central Administration's public sector debt had fixed rates of interest and 27% had variable rates of interest.

2020 Budget

On December 12, 2019, the National Congress, through Legislative Decree No. 171-2019, approved the General Budget of Income and Expenditures of the Republic for Fiscal Year 2020, which was published in the Official Gazette No. 35,137, dated December 31, 2019.

Legislative Decree No. 171-2019, referred to in the previous paragraph, was amended by Legislative Decree No. 007-2020, dated February 11, 2020, and published in the Official Gazette No. 35,177, dated February 17, 2020. The amendment corrected certain drafting errors.

The Income and Expenditure Budget for the Public Sector in Fiscal Year 2020 amounts to L282,335.6 million, which represents an increase of L20,657.0 million (7.9%) compared to the approved budget for 2019.

The Central Administration's income (which includes financing) for 2020 was estimated at L155,483.2 million, an increase of 2.1% compared to the 2019 budget. On the expenditure side, it was estimated that the Central Administration would spend L155,483.2 million, including L49,880.9 million for debt service, and L39,865.0 million for transfers and donations, which include transfers to municipalities, transfers to the National Autonomous University of Honduras (*Universidad Nacional Autónoma de Honduras* ("UNAH"), transfers to the Supreme Court of Justice and transfers that finance the operation of some Decentralized Institutions.

The projected fiscal deficit for the Central Administration in the 2020 budget was 1.0% of nominal GDP. The expected financial needs for 2020 included L15,611.6 million of external debt and L20,038.5 million of internal debt.

Executive Decree No. PCM-020-2020, dated March 16, 2020, directed the Secretary of Finance to reduce the original budgetary amounts allocated for institutions within the NFPS (excluding the health, education, security and defense sectors) in order to make available 2% of the total Income and Expenditure Budget and to redirect the use of those funds towards the purchase of supplies and other expenses necessary to manage the COVID-19 pandemic.

Due to the extraordinary expenses required to manage the COVID-19 pandemic, the Republic will not be able to comply with the original proposed fiscal deficit for 2020 of 1% established in the Fiscal Responsibility Law (FRL). Therefore, through Legislative Decree No. 55-2020, published in the Official Gazette No. 35,259 dated May 21, 2020, the National Congress has suspended the application of the fiscal rules established in the FRL for a period of two years.

Central Government Projects and Reforms

The National Economic Development Program Honduras 20/20 (*Programa Nacional de Desarrollo Económico Honduras 20/20*) was 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 covered 2016 to 2020, targeted 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 was 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. Honduras 20/20 is no longer in operation.

In the last six years, in part due to the Honduras 20/20 program, 1.2 million jobs have been created, of which 815,797 jobs were created through government programs, and 410,836 jobs were created through incentives for the private sector.

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 projected investments in infrastructure for a total of U.S.$2,085.6 million. These include U.S.$1,187.6 million for the transportation sector and U.S.$298.9 million for energy projects. Together, investments in transportation and energy projects represent 71.3% of the Government's total planned infrastructure investments. See "The Honduran Economy – Public Infrastructure Investments".

Poverty

In 2014, the percentage of households living below the poverty line was 62.8%, while 39.7% of Hondurans lived in extreme poverty. In 2019, the percentage of households living in poverty decreased to 59.3% and 36.7% lived in extreme poverty, a reduction of 3.5% and 3.0%, respectively, compared to 2014.

In 2016, *Ciudad Mujer* was inaugurated which focuses on helping women reach economic autonomy, and address domestic violence, teenage pregnancy prevention and sexual health, among other things. Approximately 325,272 women have benefited to date from this important program.

The administration of President Hernández continues implementing programs to fight poverty, including the implementation of an important Central Government social protection program entitled the *Vida Mejor* program. This program includes cash transfers for extremely impoverished families conditioned on their participation in health and education programs. Additionally, 3,610 low-income housing units, 39,645 water filters, 65,500 toilets, 193,660 floors, 45,838 roofs and 184,449 eco-friendly stoves have been provided to participants, benefitting approximately 1.4 million families. Central Government agencies, including the Presidential Office and the Health Secretariat, supervise and ensure participants complete the *Bono Vida Mejor* requirements, which include children's continuous school enrollment and regular medical checkups.

As of December 2018, 2.5 million children had received school meals and 1.3 million families in extreme poverty had benefited from the "*Alimento Solidario*" program which aims to help with food security.

COVID-19

On March 10, 2020, the Government reported the first case of a patient infected with COVID-19 in Honduras. The patient had previously arrived from Spain. On March 15, 2020, the government implemented various protective measures, including a stay-at-home order, suspension of all non-essential activities, closure of schools and universities and shutting down the country's borders for all non-Honduran citizens.

On March 21, 2020, the CNBS issued resolution GES No 175/21-03-2020, through which a temporary financial relief measure was approved, urging financial institutions to grant in favor of their debtors a deferral of up to June 30, 2020 on the payment of their financial obligations. During the period of the deferral, payments of all principal, interest, and fees are suspended. Once the period of the deferral ends, debtors can request refinancing if deemed necessary. Debtors and financial institutions will have up to September 30, 2020 to agree on debt refinancing plans. Furthermore, financial system institutions in general were urged to establish updated plans to assure the continuity of their operations.

On April 3, 2020, the Government enacted Decree 33-2020 aimed at addressing the economic and financial emergency caused by the outbreak of COVID-19. The measures included (i) postponing the filing date of tax returns for small and medium size companies until June 30, 2020; (ii) granting an 8.5% discount on income tax payments to small and medium sized companies; (iii) granting an additional 10% discount on income tax payments for small and medium sized companies that retain employees through December 31, 2020; (iv) postponement of payment of sales taxes for the duration of the national emergency for those taxpayers whose businesses were unable to operate during the emergency; and (v) enabling the BCH and BANHPROVI to provide financing and refinancing support to businesses and individuals affected by the COVID-19 epidemic. Additionally, Decree 33-2020 authorizes SEFIN to procure U.S.$2.5 billion in additional financing through 2021. The decree also contains a food supply program which orders all national, fiscal and municipal lands to become available to guarantee food supply, urging local producers to increase food production. In addition, the decree aims to facilitate loans to farmers and food producers.

As of June 8, 2020, Honduras had reported 6,450 confirmed cases, 262 deaths and 740 patients having recovered from COVID-19.

Recent Developments

INVEST-H and ADASA Negotiations

As mentioned on page 135 of this Offering Circular, Inversión Estratégica de Honduras (“INVEST-H”), an agency of the Republic, and Autopistas del Atlántico, S.A. (“ADASA”) have been negotiating a revised payment schedule with respect to the termination of a concession for the construction, operation and maintenance of a toll road (Corredor Turístico). Since the date of the Preliminary Offering Circular, the parties have not yet reached agreement and ADASA has informed the Republic that it has instructed its lawyers to initiate an arbitration pursuant to the Concession Agreement claiming U.S.$215 million.

COVID-19 Diagnostic of President Hernández

On June 16, 2020, President Hernández announced that he is infected with the COVID-19 virus and is resting at home. Were the President to become temporarily unavailable to serve, article 242 of the Honduran Constitution provides that one of three Designates would replace him. Were the President to become permanently unavailable to serve, the Designate elected for that purpose by the National Congress would complete the term of the President.

Selected Economic Indicators

	For the year ended December 31,				
	2015	2016	2017	2018	2019
The Economy					
Nominal GDP (L. millions)[1]	460,405.2	495,921.9	543,403.0	574,243.0	615,051.5
Nominal GDP (U.S.$ millions)[1][6]	20,978.3	21,697.7	23,158.7	24,041.7	25,112.9
Real GDP growth[1][2]	3.8	3.9	4.8	3.7	2.7
Annual inflation	2.4%	3.3%	4.7%	4.2%	4.1%
Open Unemployment[2]	7.3	7.4	6.7	5.7	-
Balance of Payments (U.S.$ millions)					
Exports[3]	9,437.7	9,228.5	10,050.4	9,983.9	10,103.7
Imports[3]	12,831.8	12,290.7	13,466.4	14,565.7	14,259.3
Goods and services balance[3]	(3,394.1)	(3,062.2)	(3,416.0)	(4,581.8)	(4,155.6)
Current account surplus (deficit)[3]	(979.9)	(567.1)	(175.9)	(1,283.6)	(162.7)
As % of GDP[1]	(4.7)%	(2.6)%	(0.8)%	(5.3)%	(0.7)%
Net international reserves	3,822.3	3,887.6	4,785.6	4,853.1	5,808.9
Non-financial Public Sector					
Total revenues (U.S.$ millions)[6]	6,381.6	6,810.4	7,289.9	7,411.1	7,783.3
Total expenditures (U.S.$ millions)[6]	6,575.8	6,923.7	7,477.8	7,634.5	8,001.5
Primary balance surplus (deficit)[6]	23.6	66.3	16.7	4.9	39.5
As % of GDP[1]	0.1%	0.3%	0.1%	0.0%	0.2%
Overall balance surplus (deficit)[6]	(194.2)	(113.3)	(187.9)	(223.4)	(214.1)
As % of GDP[1]	(0.9)%	(0.5)%	(0.8)%	(0.9)%	(0.9)%
Public Sector Debt					
Total public debt[7]	9,123.41	9,702.03	10,924.60	11,474.70	12,149.00
Internal debt[4][7]	3,390.78	3,861.77	4,144.60	4,513.20	4,829.86
External debt[5]	5,732.63	5,840.26	6,780.00	6,961.50	7,329.14
Total public debt (% of GDP)[1]	44.4%	46.0%	47.5%	48.8%	49.0%
Public internal debt (% of GDP)[1][4]	16.5%	18.3%	18.0%	19.2%	19.5%
Public external debt (%of GDP)[1] [5]	27.9%	27.7%	29.5%	29.6%	29.5%

(1) Revised figures for 2016.

(2) Percentage change from previous year.

(3) Goods and services at FOB prices.

(4) 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).

(5) External Debt of the Central Government.

(6) Amounts in lempiras have been converted to U.S. dollars using the following:
2015: L. 21.954 = U.S.$ 1.00.
2016: L. 22.856= U.S.$ 1.00.
2017: L. 23.464= U.S.$ 1.00.
2018: L. 23.885 = U.S.$ 1.00.
2019: L. 23.634 = U.S.$ 1.00.

(7) Amounts in lempiras have been converted to U.S. dollars using the following:
2015: L. 22.368 = U.S.$ 1.00.
2016: L. 23.503 = U.S.$ 1.00.
2017: L. 23.588 = U.S.$ 1.00.
2018: L. 24.339 = U.S.$ 1.00.
2019: L. 23.635 = U.S.$ 1.00.

Source: SEFIN & Central Bank

The Offering

Issuer	The Republic of Honduras.
Issue Amount	U.S.$600,000,000 aggregate principal amount.
Issue Price	100% of the principal amount of the Notes, plus accrued interest, if any, from June 24, 2020.
Issue Date	June 24, 2020.
Maturity Date	June 24, 2030.
Interest	The Notes will bear interest from June 24, 2020 at the rate of 5.625% per annum payable semi-annually in arrears on June 24 and December 24 of each year, commencing on December 24, 2020.
Optional Redemption	The Republic may redeem the Notes, in whole or in part, at any time or from time to time, on not less than 10 nor more than 60 days' notice, prior to March 24, 2030 (three months prior to the maturity date of the Notes) by paying the greater of the outstanding principal amount of the Notes and a "make-whole" amount plus any additional amounts and accrued and unpaid interest on the principal amount of the Notes to be redeemed up to, but excluding, the redemption date. In addition, the Republic may redeem the Notes in whole or in part, at any time or from time to time on or after March 24, 2030 (three months prior to the maturity date of the Notes), at a redemption price equal to 100% of the principal amount of Notes to be redeemed, plus any additional amounts and accrued and unpaid interest on the principal amount of the Notes to be redeemed up to, but excluding, the redemption date. See "Description of the Notes—Optional Redemption."
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 defined below) 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 proceeds from the issuance and sale of the Notes will be used to address

liabilities of ENEE, including, without limitation, through refinancings, reprofilings, redemptions or prepayments of securities, loans or other obligations 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, Principal Paying Agent, Registrar and Transfer Agent	The Bank of New York Mellon.
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

The conviction of the brother of President Hernández may adversely affect Honduras and its ability to repay the Notes.

On October 18, 2019, a New York jury convicted Juan Antonio Hernández, the brother of President Hernández, on one count of cocaine importation conspiracy, one count of possession of machine guns and destructive devices, one count of conspiracy to possess machine guns and destructive devices and one count of making false statements. During the trial, witnesses asserted that Juan Antonio Hernández engaged in drug trafficking, bribery of Honduran law enforcement and government officials, possession of firearms in furtherance of drug trafficking activities and making false statements to U.S. law enforcement officials. His sentencing is currently scheduled for September 16, 2020. The pleadings filed by the U.S. Attorney in this matter, as well as testimony at trial, implicated several high ranking government officials of the Republic, including the President of Honduras, the Minister of Security, the Minister of Energy, several members of Congress, regional mayors and members of the Army, Navy and National Police in illegal conduct such as bribery of Honduran politicians, providing protection to drug traffickers in exchange for campaign donations and accepting campaign donations derived from drug proceeds. Prior to the intervention of ENEE, the Minister of Energy used to oversee ENEE's operations and was the senior-most authority on energy related matters. As described in the use of proceeds, the proceeds of this offering are intended for the use of ENEE. On April 30, 2020, Juan Carlos Bonilla, the former chief of the Honduran

National Police, was charged in New York federal court with conspiring to import cocaine into the United States and related weapons offenses involving the use and possession of machine guns and destructive devices. No U.S. criminal charges have been brought against President Hernández, or, except as disclosed in this Offering Circular, the other governmental officials mentioned in this paragraph, but there can be no assurance that criminal charges will not be brought against him or them in the future.

Following the verdict, protests and counter protests took place in Honduras' capital, Tegucigalpa, and elsewhere in the Country. Protestors demanded the resignation of President Hernández. If President Hernández or other government officials are indicted in the United States or elsewhere, or are removed from office or forced to resign, Honduras may experience political instability and impairment of its international standing, which could adversely affect your investment in the Notes.

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 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 and congressional elections will be held in November 2021. Changes in the 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 2018, total remittances to Honduras totaled U.S.$4,917.0 million or 20.5% of nominal GDP. During 2019, total remittances from Hondurans abroad reached U.S.$5,562.2 million, or 22.3%, of GDP. As of May 28, 2020, remittances decreased by 7.1% compared to the comparable period in the prior year due to the crisis caused by the COVID-19 pandemic and the global economic shutdown.

The current President of the United States, Donald J. Trump, has implemented 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 proposing a tax on outgoing remittances. The implementation of these or other similar policies could reduce the flow of remittances to Honduras. A World Bank report projected a 20% reduction in global remittances in 2020 due to the economic crisis caused by the COVID-19 pandemic and the global economic shutdown, a trend which will affect Honduras' remittances. 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 September 22, 2017, Moody’s Investors Service (“Moody’s”) upgraded Honduras’ long-term issuer rating and senior unsecured bond rating to B1 from B2. On the same date, Moody’s upgraded the foreign currency and local currency issuer ratings to B1 from B2. On June 12, 2019, Moody’s affirmed Honduras’ rating, maintaining a stable outlook.

On July 18, 2017, Standard & Poor’s (“S&P”) raised its long-term foreign and local currency sovereign credit ratings for Honduras to BB- from B+. The outlook is stable. At the same time, S&P affirmed its B short-term foreign and local currency sovereign credit ratings. On May 6, 2020, S&P affirmed its BB-/B long- and short-term sovereign credit ratings for Honduras.

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.

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

In prior 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 bringing 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 address actual and perceived corruption effectively may adversely affect Honduras.

Honduras ranked 132 out of 180 countries in the Corruption Perceptions Index of 2018 produced by Transparency International. The Government of Honduras has embarked on a program to implement institutionalized anti-corruption reforms aimed at increasing transparency, including with the Organization of American States through its Support Mission Against Corruption in Honduras ("MACCIH") and the Government's *Plan de Acción de Estado Abierto Honduras* 2018-2020 (the "Transparency Plan"). 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.

Cutbacks in U.S. aid to Honduras could impair important initiatives of the Honduran government.

The United States has provided foreign assistance to Honduras over the years to support a wide range of activities, including in the areas of counter-narcotics, anti-money laundering, anti-corruption, education, economic and legal reforms. Current assistance to Honduras is guided by the U.S. Strategy for Engagement in Central America, which is designed to promote economic prosperity, strengthen governance and improve security in the region. Congress has appropriated nearly U.S.$2.6 billion for this strategy since 2016, which funds are to be allocated to particular countries in the region by the U.S. State Department and USAID. In March 2019, the Trump administration announced that it would end foreign assistance to countries in the Northern Triangle, including Honduras, due to illegal immigration from the region into the United States. Since then, the U.S. State Department has announced that it will withhold or repurpose foreign assistance previously allocated to Honduras. On October 16, 2019, the U.S. Government agreed to provide U.S.$143 million in foreign aid to Honduras, Guatemala and El Salvador in connection with certain immigration agreements. Cutbacks in the United States' foreign assistance to Honduras could impair important initiatives undertaken by the government of Honduras in the areas of counter-narcotics, anti-money laundering, anti-corruption, education, economic and legal reforms, which could adversely affect your investment in the Notes.

The worldwide economic effects of the outbreak of COVID-19 could adversely affect Honduras' economy.

The outbreak of COVID-19 is currently having an indeterminable adverse impact on the world economy. COVID-19 was reportedly first detected in Wuhan, Hubei Province, China, and first reported to the World Health Organization ("WHO") country office in China on December 31, 2019. On January 30, 2020, the WHO declared COVID-19 a public health emergency of international concern and, on March 11, 2020, declared the outbreak a pandemic. COVID-19 has begun to have numerous worldwide effects on general commercial activity. Governments around the world, such as China, the European Union, the United Kingdom and the United States, among others, including many of our trading partners, have undertaken various public health measures to control the spread of COVID-19, including mandatory quarantines and travel restrictions, as well as economic measures to mitigate the impacts of such public health policies on their respective national economies.

On March 15, 2020, following the discovery of the first case of COVID-19 in Honduras, the Government implemented various protective measures aimed at preserving public health and reducing the negative impact of such measures on the economy. See "The Republic of Honduras—COVID-19" for further information on these measures. Additionally, the Government has implemented social distancing and stay-at-home orders, suspended all non-essential activities, closed schools and universities and shut down the country's borders for all non-Honduran citizens. Honduras cannot assure you that these measures will be sufficient in addressing the economic and public health crisis caused by COVID-19. As of June 8, 2020, Honduras had reported 6,450 confirmed cases, 262 deaths and 740 patients having recovered from COVID-19.

The measures implemented so far to contain the COVID-19 pandemic have resulted in a significant slowdown in economic activity that will adversely affect economic growth in 2020 and possibly 2021. The Central Government has preliminarily forecasted a contraction in GDP between 2.9% and 3.9% in 2020. The IMF has warned that Honduras' economic growth and external position will be affected by global spillovers, lower foreign demand and remittances, tighter external financial conditions and contraction in tourism. Further, the IMF expects Honduras to fall into a recession in 2020 with GDP decreasing by 3.3% as a result of the COVID-19 outbreak and lockdown. The World Bank forecasts a 5.8% GDP contraction for Honduras in 2020. A World Bank report also projected a 20% reduction in global remittances in 2020 due to the economic crisis caused by the COVID-19 pandemic and the economic shutdown, a trend which will affect Honduras' remittances.

The long-term effects to the global economy and the Honduran economy of epidemics and other public health crises, such as the ongoing COVID-19 pandemic, are difficult to assess or predict, and may include risks to citizens' health and safety, as well as reduced economic activity, which in turn could result in decreased revenue for the Republic and increased expenditures. If the economic and public health crisis caused by the COVID-19 outbreak continues unmitigated, the economic performance of the country may suffer, including by affecting commerce, transportation and foreign investment and thus may adversely affect Honduras' ability to service its debt, including the Notes.

The COVID-19 pandemic may also have the effect of heightening the other risks described herein, such as those relating to economic, social and political developments in Honduras and its credit ratings. Consequently, the current COVID-19 pandemic and its potential impact on the global economy may require the Republic to enact additional changes to existing regulations or implement more stringent regulations, which may further adversely impact the Republic's economy, the prices of, and the Republic's ability to make payments on, its outstanding securities or other indebtedness, including the Notes.

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.$ 592,850,000. The proceeds from the issuance and sale of the Notes will be used to address liabilities of ENEE, including, without limitation, through refinancings, reprofilings, redemptions or prepayments of securities, loans or other obligations of ENEE.

THE REPUBLIC OF HONDURAS

Territory, Population and Society

Honduras is Central America's second most populated country, with an estimated population of 9.2 million people in 2019 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* lies the *Río Plátano* Biosphere Reserve, a lowland rainforest. This reserve was added to the UNESCO World Heritage Sites List in 1982.

By virtue of its geographic 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 during 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 2015 to 2018 period. Most of the population is Roman Catholic.

Approximately 599,030 Hondurans are believed to be living in the United States. Remittances to Honduras represent a significant contribution to its economy. In 2018, remittances from Hondurans living abroad represented 20.5% of the GDP. During 2019, total remittances from Hondurans abroad reached U.S.$5,562.2 million, or 22.3%, of GDP.

As of December 31, 2018, approximately 87.1% 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, in 2018, basic education coverage for children between the age of seven and fourteen was 90%, representing an increase of 13.6 % compared to 2014 (76.4%). 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 2017 was U.S.$4,215.

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 December 31, 2018, 61.9% of Honduran households lived in poverty and 38.7% 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. A World Bank report projected a 20% reduction in global remittances in 2020 due to the economic crisis caused by the COVID-19 pandemic and the global economic shutdown, a trend which will affect Honduras' remittances.

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)	U.S.$4,215	U.S.$6,868	U.S.$5,157	U.S.$7,278	U.S.$14,636	U.S.$54,941
Average life expectancy(2)	73.8	73.8	75.7	73.7	80.0	79.5
Adult literacy rate(3)	89.0%	88.0%	N/A	81.3%	97.4%	N/A
Mean years of schooling(4)	6.5	6.9	6.7	6.5	8.8	13.4
Expected years of schooling(4)	10.2	12.6	12.1	10.8	15.4	16.5

(1) Gross National Income based on 2017 figures, adjusted for purchasing power parity.

(2) In years for 2017.

(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) 2017 data or the most recent year available.

Source: Human Development Report 2018, United Nations Development Program.

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 changed 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 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 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 to 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 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 with the international community and development partners. See ―The Honduran Economy - Economic and Social Policies.

President Juan Orlando Hernandez won the presidential election of November 26, 2017 with 43% of the popular vote. Hernandez defeated Salvador Nasralla, a candidate representing the alliance between two parties, Refoundation and Freedom Party (*Partido Libertad y Refundación - LIBRE*) and Social-Democratic Innovation and Unity Party (*Partido Social Demócrata Innovación y Unidad*), who secured 41.4% of the popular vote, and Luis Zelaya of the Liberal Party of Honduras (*Partido Liberal de Honduras*), who received 14.7% 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	**2020** *Number of Seats*
National Party of Honduras (*Partido Nacional de Honduras*)	61
Refoundation and Freedom Party (*Partido Libertad y Refundación*)	30
Liberal Party of Honduras (*Partido Liberal de Honduras*)	26
Anti-Corruption Party of Honduras (*Partido Anticorrupción de Honduras*)	1
Democratic Christian Party of Honduras (*Partido Demócrata Cristiano de Honduras*)	1
Democratic Union (*Unificacion Democratica*)	1
Honduran Patriotic Alliance Party (*Partido Alianza Patriotica Hondurena*)	4
Social-Democratic Innovation and Unity Party (*Partido Social Demócrata Innovación y Unidad*)	4

In order to combat corruption in political campaigns, the Government enacted the Law for Financing, Transparency and Control of Political Parties and Candidates (*Ley de Financiamiento, Transparencia y Fiscalización a Partidos Políticos y Candidatos*) (the "Campaign Finance Law") on January 18, 2017. The Campaign Finance Law was developed in consultation with the Supreme Electoral Tribunal and the MACCIH, as well as other organizations within and outside of the Government. The Campaign Finance Law established an independent agency, called the *Unidad a Financiamiento, Transparencia y Fiscalización de Partidos Políticos y Candidatos* (the "Campaign Finance Unit"), to implement the law, issue regulations and supervise persons and entities subject to the law.

The key features of the Campaign Finance Law and the regulations promulgated thereunder include:

- a prohibition on the use of public resources to finance campaigns;
- limits on the amount of funding that individuals and corporations may contribute to political campaigns and political parties;
- limits on the amount that candidates may spend on certain political campaigning activities;
- sanctions ranging from monetary penalties to disqualification from participating as a candidate in elections;
- requirement that all candidates open a bank account with a national bank and hold campaign funds in such account; and

- requirement that candidates report all campaign spending to the Campaign Finance Unit.

Since its inception, the Campaign Finance Unit has audited a number of candidates for elected office with the support of the Attorney General and the CNBS. These audits have assessed issues such as campaign spending, individual and corporate contributions, and compliance with banking and reporting requirements. As a result of these audits, candidates for elected office have been the subject of investigation, and approximately L.200 million has been identified as potentially running afoul of spending limits.

The next presidential and congressional elections are scheduled to take place in November 2021. In January 2019, the National Congress approved constitutional reforms aimed at modifying certain aspects of the electoral process. Elections will be supervised by two bodies, the Consejo Nacional Electoral (CNE) and the Tribunal de Justicia Electoral (TJE). The selection of officials for these bodies has also been approved by the National Congress. The National Registry of Persons is also being improved, including through enhanced identification, updating, refining and security of data that is collected in the registry. The legal framework for these new structures entered into full effect at the end of 2019.

Form of Government

Honduras is a representative democracy, organized as a republic, with government power divided into 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 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 TJE 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.

Electoral Reforms

On January 28, 2019, the Government enacted Decree No. 200-2018 ("Decree 200") which is aimed at strengthening democracy, reducing corruption and preventing money laundering. Several electoral reforms where approved through Decree 200, including replacing the *Tribunal Supremo Electoral* ("TSE") with the CNE and the TJE. The CNE is mandated to oversee the administrative, technical and logistical aspects of public elections. The TJE is mandated to run the jurisdictional or adversarial aspect of public elections including the review of claims against candidates. Both the CNE and the TJE are autonomous and independent entities. Additionally, the *Registro Nacional de Personas* ("RNP") was restructured in order to increase transparency and reduce corruption. The RNP is mandated to create national identity numbers and preserve Hondurans' biometric information.

The CNE is composed by three counselors and two alternates with five year terms subject to reelection. The TJE is composed of three judges and two alternates with five year periods subject to reelection. The RNP is administered by three commissioners and two alternates with five year terms subject to reelection.

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 integrated 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 44.2 per 100,000 in 2019.

Historic Homicide Rate

Year	Number of Homicides
	(per 100,000 inhabitants)
2009	66.8
2010	77.5
2011	86.5
2012	85.5
2013	79.0
2014	68
2015	60
2016	59.1
2017	43.6
2018	41.4
2019	44.2

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 and establishment of a special commission to purge and transform the national police force;

- A transparency and accountability policy, including IT compliance, a presidential accountability program and 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 continues 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 relations in different areas with the goal of developing and maintaining good relationships with other countries and strengthening peace and cooperation mechanisms among nations. Honduras maintains diplomatic relationships with 131 countries and has 33 diplomatic representations at the embassy level and five Permanent Mission in international organizations.

Honduras is a member of the following regional integration bodies: Central American Integration System; Ibero-American Conference; Community of Latin American and Caribbean Countries; Association of Caribbean States; EU-CELAC Summit and the East-Asia-Latin American Cooperation Forum. In addition, since 2013 Honduras has been 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; IMF; 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 supported the Government's three-year economic program, which aimed 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 enabled Honduras to access resources in an increased total amount of SDR 121.8 million (approximately U.S.$168.2 million).

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.

On July 1, 2019, the Executive Board of the IMF concluded its Article IV consultation with Honduras. Concurrently with the completion of the Article IV consultation, the IMF approved an SBA (the "2019 SBA") for SDR 149.9 million (approximately U.S.$207.5 million) and an SDR 74.94 million (approximately U.S.$103.8 million) arrangement under the SCF for Honduras for a combined SDR 224.82 million (approximately U.S.$311.3 million or 90% of Honduras' quota). These arrangements provide support for the Government's economic program and institutional reform agenda over the next two years. Securing the fiscal position while protecting investment and social spending is at the core of the Government's economic program. Adherence to the fiscal responsibility law is coupled with reforms to address structural challenges in the electricity sector and further revenue mobilization efforts, including through the revision of tax exemptions. These reforms are designed to reduce the infrastructure gap and increase social spending, while simultaneously ensuring fiscal sustainability.

As part of the Government's economic program, reforms in the energy sector aim at enhancing efficiency in the provision of electricity, boosting investment, and strengthening the financial position of the government-owned electricity company, ENEE. They will include changes in the institutional framework, measures to set electricity tariffs through an independent regulatory body, and governance and operational reforms in ENEE. The Government has provided subsidies to protect the most vulnerable from tariff adjustments. Priority has been given to enhancing governance and transparency, and to continue the fight against corruption. Government efforts will aim at improving the macroeconomic framework, increasing the quality of public spending, and strengthening the rule of law.

The Government economic program also includes measures to protect the poor and bolster gender equality. It comprises a set of high-impact interventions aimed at alleviating poverty, fostering investment in human capital, and supporting women in entrepreneurship and participation in labor markets, which are critical for long-term growth.

An IMF team visited Honduras from October 28 to November 8, 2019, to conduct the first review of the 2019 SBA. On November 8, 2019, the IMF and Honduras reached a staff-level agreement and concluded that Honduras had made significant progress in implementing its economic program, which seeks to foster inclusive growth through prudent macroeconomic policies and structural and governance reforms. Implementation of policies under the program will uphold macroeconomic performance. The Government continues to pursue macroeconomic policies anchored by the fiscal responsibility law. There have been advances in the initial phase of the electricity sector reform, which aims at strengthening the institutional framework in the sector. The strengthening of the electric regulator (*Comision Reguladora de Energia Electrica* ("CREE")), the creation of an independent system operator (*Operador del Sistema* ("ODS")), the efforts by the new management of the company and SEFIN to improve governance and transparency in ENEE, and the establishment of an electricity theft task force have the potential to reinforce the institutional framework for an open, competitive and transparent market in the electricity sector. Continued steadfast implementation of the reform plans in the sector remains a government objective. See "The Honduran Economy – The Main Sectors of the Economy – Electricity Sector – Electricity Sector Reform" for more details on the Republic's plan to reform the electricity sector.

On March 31, 2020, the IMF disbursed U.S.$143.0 million to Honduras to fight the COVID-19 pandemic. The IMF has highlighted that Honduras has implemented sound macroeconomic policies over the past few years as well as adequate monetary and macro-financial measures to mitigate the impact of COVID-19 on the economy. See "—COVID-19" below for a summary of these measures.

On May 7, 2020, the IMF and Honduras mutually agreed to increase the amount of funds under the SBA to U.S.$530 million. The IMF expects Honduras to fall into a recession in 2020 with GDP decreasing by 3.3% as a result of the COVID-19 outbreak and lockdown. The IMF expects an increase in fiscal and balance of payments financing needs.

Relations with the United States

Honduras and the United States are strategic partners and allies and have a close and constructive relationship. The two countries cooperate on a broad range of issues affecting the region, including counter-narcotics, transnational crime, law enforcement issues and migration issues.

For example, Honduras has hosted Joint Task Force Bravo, a U.S. military presence at Soto Cano Air Force Base, since 1983. This far-reaching joint effort includes operations to combat drug-trafficking and other transnational organized crime, and to provide disaster relief and humanitarian assistance. Honduras also engages in joint task forces with the U.S. Drug Enforcement Agency to carry out complex investigations into drug trafficking, money laundering and other transnational crime that have led to collaborative law enforcement action in both countries. The U.S. Department of Defense provides counter-narcotics assistance, principally through specialized training and equipment, with the full cooperation of the Government of Honduras. Cooperation between Honduras and United States has resulted in apprehension of numerous high-level drug traffickers, 24 of whom have been extradited to the United States to face justice on U.S. charges.

Honduras and the United States have strong migration ties. As of 2017, approximately 600,000 Hondurans reside in the United States. Since 2014, both governments have run joint public awareness programs designed to inform migrants of the dangers of unauthorized immigration and to correct misconceptions about U.S. immigration policy. The Honduran national police and Department of Homeland Security ("DHS") have also established two criminal investigative units to combat human trafficking. On September 27, 2019, Honduras and the United States signed two new agreements designed to (i) root out crime, target smuggling organizations, and improve Honduras' investigative capacity through bilateral efforts and law enforcement cooperation and (ii) share information regarding criminals attempting to illegally enter/exit their respective countries.

Honduras has also had strong commercial ties with the United States, particularly since the 1980s, when Honduras became one of the first beneficiaries of the Caribbean Basin Initiative, which allowed duty free importation of Honduran goods into the United States. Our economic ties with the United States have expanded since that time, especially after the signing of the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA).

On September 25, 2019, Acting Secretary of Homeland Security Kevin K. McAleenan signed an agreement with the Government of Honduras to expand bilateral initiatives to confront irregular migration through Central America. The agreement, published in the Official Gazette No. 35,199, dated March 13, 2020, will further enhance asylum and protection capacity in Honduras. Using best practices developed by the United States and the international community, the two countries will collaborate to increase protection options for vulnerable populations. DHS stated that both Honduras and the United States share a longstanding partnership, bolstered by close proximity, common principles, and shared democratic values that have led to years of partnership, from addressing historical migration flows to efforts to build a more stable and prosperous region.

Corruption and Drug Trafficking

On October 18, 2019, a New York jury convicted Juan Antonio Hernández, the brother of President Hernández, on one count of cocaine importation conspiracy, one count of possession of machine guns and destructive devices, one count of conspiracy to possess machine guns and destructive devices and one count of making false statements. During the trial, witnesses asserted that Juan Antonio Hernández engaged in drug trafficking, bribery of Honduran law enforcement and government officials, possession of firearms in furtherance of drug trafficking activities and making false statements to U.S. law enforcement officials. His sentencing is currently scheduled for September 16, 2020. The pleadings filed by the U.S. Attorney in this matter, as well as witnesses who testified at trial, made allegations which implicated several high ranking government officials of the Republic, including the President of Honduras, the Minister of Security, the Minister of Energy, several members of Congress, regional mayors and members of the Army, Navy and National Police in illegal conduct, such as bribery of Honduran politicians, providing protection to drug traffickers in exchange for campaign donations, accepting campaign donations derived from drug proceeds and murder. Prior to the intervention of ENEE, the Minister of Energy used to oversee ENEE's operations and was the senior-most authority on energy related matters. As described under "Use of Proceeds," the proceeds of the offering shall be used to refinance certain indebtedness of ENEE. On April 30, 2020, Juan Carlos Bonilla, the former chief of the Honduran National Police, was charged in New York federal court with conspiring to import cocaine into the United States and related weapons offenses involving the use and possession of machine guns and destructive devices.

President Hernández has denied any wrongdoing. No U.S. criminal charges have been brought against President Hernández or, except as otherwise disclosed in this Offering Circular, any of the other government officials mentioned in this paragraph, but there can be no assurance that criminal charges will not be brought against him or them in the future.

In the days following the verdict, protests and counter-protests erupted in Honduras' capital, Tegucigalpa, and elsewhere in the Country, demanding the resignation of President Hernández. If President Hernández or other government officials are indicted in the United States or elsewhere, or are removed from office or forced to resign, Honduras may experience political instability and impairment of its international standing.

COVID - 19

On March 10, 2020, the Government reported the first case of a patient infected with COVID-19 in Honduras. The patient had previously arrived from Spain. On March 15, 2020, the government implemented various protective measures, including a stay-at-home order, suspension of all non-essential activities, closure of schools and universities and shutting down the country's borders for all non-Honduran citizens.

On March 21, 2020, the CNBS issued resolution GES No 175/21-03-2020, through which a temporary financial relief measure was approved, urging financial institutions to grant in favor of their debtors a deferral of up to June 30, 2020 on the payment of their financial obligations. During the period of the deferral, payments of all principal, interest, and fees are suspended. Once the period of the deferral ends, debtors can request refinancing if deemed necessary. Debtors and financial institutions will have up to September 30, 2020 to agree on debt refinancing plans. Furthermore, financial system institutions in general were urged to establish updated plans to assure the continuity of their operations.

On April 3, 2020, the Government enacted Decree 33-2020 aimed at addressing the economic and financial emergency caused by the outbreak of COVID-19. The measures included (i) postponing the filing date of tax returns for small and medium size companies until June 30, 2020; (ii) granting an 8.5% discount on income tax payments to small and medium sized companies; (iii) granting an additional 10% discount on income tax payments for small and medium sized companies that retain employees through December 31, 2020; (iv) postponement of payment of sales taxes for the duration of the national emergency for those taxpayers whose businesses were unable to operate during the emergency; and (v) enabling the BCH and BANHPROVI to provide financing and refinancing support to businesses and individuals affected by the COVID-19 epidemic. Additionally, Decree 33-2020 authorizes SEFIN to procure U.S.$2.5 billion in additional financing through 2021. The decree also contains a food supply program which orders all national, fiscal and municipal lands to become available to guarantee food supply, urging local producers to increase food production. In addition, the decree aims to facilitate loans to farmers and food producers.

As of June 8, 2020, Honduras had reported 6,450 confirmed cases, 262 deaths and 740 patients having recovered from COVID-19.

As of May 19, 2020, a total of U.S.$1,047.3 million in COVID-19 financial assistance has been agreed to or is under negotiation with multilateral organizations, including the IMF, the World Bank, and the IADB, of which U.S.$262.0 million has been disbursed. This assistance is expected to be allocated as follows: 52% for promoting agricultural development, 17% for social protection and health care related to COVID-19, and 16% for budgetary support, and 15% for healthcare related to COVID-19. In addition, CABEI has granted non-reimbursable financing in the amount of U.S.$1.3 million for the purchase of supplies, equipment and test kits to manage the COVID-19 pandemic.

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 totaled 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. According to "The Global Competitiveness Report 2017-2018" published by the World Economic Forum, Honduras achieved 3.9 points in the Competitiveness Index, ranking 96th (out of 137 countries) in terms of competitiveness.

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 throughout 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 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 competitiveness, 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*) was 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 covered 2016 to 2020, targeted 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 was funded equally by the Central Government through COALIANZA and the Honduran Foundation for Development Studies. Honduras 20/20 is no longer in operation. In the last six years, in part due to the Honduras 20/20 program, 1.2 million jobs have been created, of which 815,797 jobs were created through government programs, and 410,836 jobs were created through incentives for the private sector.

Public Infrastructure Investments

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. The Central Government has also 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.

The Honduran Government has signed several contracts for public-private partnerships for public infrastructure projects. As of June 30, 2019, approximately U.S.$1,477.6 million has been contracted for projects in the infrastructure, energy, ports and airports sectors. As of December 31, 2019, U.S.$883.0 million have been executed.

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, 364 kilometers have been rehabilitated, paved and widened to four lanes. The project is budgeted at U.S.$971.1 million, of which U.S.$835.2 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").

The budget execution between 2014 and December 2019 for the corridor amounted to L6,957.3 million. Between the period of December 2018 and December 2019, there was a budget execution of L2,766.05 million.

Agricultural Corridor Project

The agricultural sector is one of the most important sectors in the Honduran economy. The Central Government is focused on improving infrastructure that serves 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-lane 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 396.1 kilometers, all of which have been completed as of October 2018. 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 was U.S.$192.3 million all of which was disbursed between 2007 and 2016. Between 2014 and September 2019, L2,025.34 of the budget for the corridor was executed.

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 6% 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, with CABEI for U.S.$89.5 million and with National Honduras Government funds for U.S.$8.67 million (for a total of U.S.$252.17 million), which funds were designated for the rehabilitation of the Pacific Corridor. As of March 31, 2020, L4,791.3 million have been disbursed and 312.7 kilometers have been rehabilitated, paved and widened to two lanes.

A portion of the IADB funds (U.S.$20.7 million) have been redirected to backup investments in the Eastern Corridor (CA-6 Neteapa-Danlí Section), which commenced in August 2019 (as described below).

Between the period of December 2018 and 2019 there was a budget execution of L2,040.98 million for rehabilitation of the Pacific Corridor.

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 focuses on repairing the 119.23-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 45.8 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 72.5 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 a credit agreement with the European Investment Bank (EIB) for U.S.$89.2 million, and in October 2015 the Republic entered into a credit agreement with CABEI for U.S.$55.5 million to finance the project. Donations from the Latin American Investment Facility (LAIF) in the amount of U.S.$10.3 million were received to finance a Commission on Sustainable Support for Highway Projects in Honduras. The Special Fund for Social Transformation of Central America (SFSTCA) and CABEI donated U.S.$6.8 million and, in addition, the National Government used pre-existing funds of U.S.$16.0 million. Total funding for the project totaled U.S.$178.4 million.

Between the period of December 2018 and 2019 there was a budget execution of L2,617.24 million. As of December 31, 2019, the project was 100% completed with a total distance of 119.23 km and a total budget of L3,324.4 million having been executed.

The Eastern Corridor

The Eastern Corridor connects Tegucigalpa, in the department of Francisco Morazan, with the border of "Las Manos" with the department of El Paraíso.

In August 2019, the execution of the renovation and improvement of the Neteapa-Danlí highway section, with a length of 34.92 kilometers, began, with an approved budget of U.S.$47.7 million, financed by IADB. As of March 31, 2020, a total of U.S.$7.1 million has been incurred in connection with this 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 port 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, which 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.$624.4 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; 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.$209 million, it will house the offices of forty public institutions contributing to the improvement of the management and delivery of services to citizens. As of May 31, 2020, U.S.$171.5 million of the contract had been invested, and 97.5% of the construction was complete. The completion of the construction has been delayed due to social distancing measures imposed by the Government.

Construction has commenced at the Civic Center José Cecilio del Valle, next to the Presidential Palace. The project features modern and avant-garde architecture with an environmentally responsible design that reduces water consumption and is energy-efficient.

It is estimated that the Honduran Central Government currently spends about L.1,000 million annually in rent and building maintenance. These costs will be substantially reduced upon the completion of this project, which contributes to 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 directly and indirectly create more than 2,500 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 43.5 meters and a reservoir area of 51 square kilometers. At the end of the pipe is a surface 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 dam will provide electricity for a population of nearly one million people.

Construction of the project was awarded to a Chinese company, Sinohydro. Once completed, the project will have an estimated capacity of 104MW and is expected to generate 326 GWh per year. As of May 2020, the project is 98% complete.

The project will be completed in several stages. The first stage, which was completed in 2013, involved land acquisition, the design and construction of the cofferdam, diversion tunnel, bridge access and other complementary works at a cost of approximately U.S.$169.9 million. The second stage is currently being executed at an estimated cost of U.S.$399.2 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 and access roads, among others activities. The second phase is being financed with funds from ENEE (U.S.$101.5 million), as well as loans to the Central Government from Banco Atlántida (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 December 31, 2019, U.S.$426.5 million had been disbursed for the implementation of both stages.

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 U.S.$168.1 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).

Approximately 96% of the construction work and testing of the improvements of the sub-electric stations have been completed with the disbursement of U.S.$19.6 million from IADB. As of March 31, 2020, a total of U.S.$21.73 million has been incurred in connection with this project.

Gross Domestic Product

During the 2015 to 2019 period, the performance of the Honduran economy was mainly driven by private sector consumption, exports, and public and private investment. During these five years, real GDP registered average annual growth of 3.8%, reaching a peak of 4.8% in 2017.

In 2015, real GDP grew by 3.8%, driven by private consumption, private investment, increased external demand and a deceleration in inflation, principally due to the drop in oil prices worldwide. The sectors of the economy that contributed most significantly to the performance of the economy in 2015 were financial intermediation, manufacturing, communications, agriculture, livestock, forestry and fishing, and electricity.

In 2016, real GDP increased by 3.9%, influenced by higher domestic private and public consumption, moderate inflation, and rising international prices of coffee. The increase in consumption was due principally to higher disposable incomes from the inflow of remittances.

Real GDP growth during the 2015 to 2019 period peaked at 4.8% in 2017. This increase was mainly due to the expansion of exports in goods (e.g., coffee, palm oil and shrimp) and services, coupled with an increase in gross fixed capital formation, mainly in public investment for construction, rehabilitation, paving and road expansion projects. Additionally, private consumption was enhanced by the significant inflow of family remittances.

In 2018, the economy grew by 3.7%, similar to the average annual growth rate for the 2014 to 2018 period. The deceleration in economic activity compared to 2017 represented a normalization of real GDP growth. This was caused by a drop in coffee exports (e.g., price and quantity) and a slight deceleration of incoming family remittances, along with the rise in the prices of oil and its derivative products.

In 2019, real GDP grew 2.7%, compared to 2018, according to preliminary figures. This growth was mainly due to increases in exports and consumption. The sectors of the economy that contributed most significantly to this increase were financial intermediation, manufacturing, communications and other services. A World Bank report projected a 20% reduction in global remittances in 2020 due to the economic crisis caused by the COVID-19 pandemic and the global economic shutdown, a trend which will affect Honduras' remittances. The Central Government has preliminarily forecasted a contraction in GDP between 2.9% and 3.9% in 2020. The IMF expects Honduras to fall into a recession in 2020 with GDP decreasing by 3.3% as a result of the COVID-19 outbreak and lockdown. The World Bank forecasts a 5.8% GDP contraction for Honduras in 2020.

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

Real GDP, Expenditure Approach
For the Year Ended December 31,

	2015	**2016**	**2017**	**2018***	**2019****
			(L. millions)(1)		
Final Consumption Expenditure	**166,066**	**172,810**	**179,835**	**187,522**	**194,330**
Private Sector	140,646	146,271	152,918	160,081	166,714
Public Sector	25,421	26,539	26,917	27,441	27,616
Gross Fixed Capital Formation	**42,098**	**38,998**	**43,355**	**45,841**	**43,115**
Private Sector	38,263	34,061	36,938	39,442	37,063
Public Sector	3,835	4,937	6,417	6,399	6,052
Changes in stock	**3,434**	**4,175**	**4,901**	**4,511**	**-523**

Goods and Services Exports	**108,973**	**109,939**	**116,593**	**117,450**	**120,159**
(-) Goods and Services Imports	130,475	128,425	137,623	140,609	136,669
GDP (at market prices)	**190,096**	**197,497**	**207,061**	**214,716**	**220,412**

(1) Chain index of volume and price with reference base 2000.
* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Real GDP Growth, Expenditure Approach

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018***	**2019****
	percentage change from previous year[1]				
Final Consumption Expenditure	**3.6**	**4.1**	**4.1**	**4.3**	**3.6**
Private Sector	3.9	4.0	4.5	4.7	4.1
Public Sector	2.1	4.4	1.4	1.9	0.6
Gross Fixed Capital Formation	**12.3**	**(7.4)**	**11.2**	**5.7**	**(5.9)**
Private Sector	15.2	(11.0)	8.4	6.8	(6.0)
Public Sector	(10.2)	28.7	30.0	(0.3)	(5.4)
Goods and Services Exports	**2.9**	**0.9**	**6.1**	**0.7**	**2.3**
(-) Goods and Services Imports	8.5	(1.6)	7.2	2.2	(2.8)
GDP (at market prices)	**3.8**	**3.9**	**4.8**	**3.7**	**2.7**

(1) Chain index of volume and price with reference base 2000.
* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Real GDP by Expenditure
Quarterly National Accounts

	2018**				**2019****			
	I	**II**	**III**	**IV**	**I**	**II**	**III**	**IV**
	(L. millions)[1]							
Final Consumption	**44,501**	**46,665**	**45,672**	**50,684**	**46,357**	**48,253**	**47,761**	**51,960**
Private Sector	38,207	40,008	38,853	43,013	39,952	41,461	40,716	44,585
Public Sector	6,294	6,657	6,820	7,671	6,405	6,791	7,045	7,375
Fixed Capital Formation	**10,735**	**10,515**	**12,904**	**16,198**	**11,513**	**6,581**	**10,365**	**14,133**
Goods and Services Exports	**30,052**	**30,789**	**30,509**	**26,101**	**29,393**	**31,651**	**31,846**	**27,269**
(-) Goods and Services Imports	32,099	35,617	37,022	35,871	32,494	33,157	36,165	34,854
GDP (at market prices)	**53,189**	**52,351**	**52,064**	**57,112**	**54,769**	**53,327**	**53,807**	**58,508**

(1) In constant 2000 lempiras.
** Preliminary
Note 1: Data referred to the original series.
Note 2: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Real GDP by Expenditure
Quarterly National Accounts

	2018*				**2019****			
	I	**II**	**III**	**IV**	**I**	**II**	**III**	**IV**
	percentage change accumulated from same period of last year [1]							
Final Consumption	**3.8**	**4.5**	**4.4**	**4.3**	**4.2**	**3.8**	**4.0**	**3.6**
Private Sector	4.4	5.0	4.9	4.7	4.6	4.1	4.3	4.1
Public Sector	0.0	1.1	1.6	1.9	1.8	1.9	2.4	0.6

Fixed Capital Formation	**(5.2)**	**9.6**	**2.9**	**4.3**	**7.2**	**(14.8)**	**(16.7)**	**(15.4)**
Goods and Services Exports	**1.8**	**0.0**	**0.4**	**0.7**	**(2.2)**	**0.3**	**1.7**	**2.3**
(-) Goods and Services Imports	0.2	3.4	1.9	2.2	1.2	(3.0)	(2.8)	(2.8)
GDP (at market prices)	**2.9**	**3.4**	**3.4**	**3.7**	**3.0**	**2.4**	**2.7**	**2.7**

(1) In constant 2000 lempiras.
** Preliminary
Note 1: Data referred to the original series.
Note 2: Totals might differ due approximations.
Source: Central Bank of Honduras.

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

Real GDP by Economic Activity

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018***	**2019****
	(L. millions)[1]				
Manufacturing	37,230	38,340	39,843	41,372	42,248
Wholesale, Retail Trade, Motor Vehicle Repairs, Household and Personal Goods	18,328	18,928	19,689	20,501	20,960
Agriculture, Hunting, Forestry and Fishing	26,059	27,303	30,129	30,946	30,623
Education	9,079	9,380	9,626	9,860	10,034
Public Administration, Defense, Social Security and Other Public Services	10,033	10,133	10,378	10,543	10,700
Financial Intermediation	33,021	35,078	37,066	39,372	42,792
Construction	5,329	5,659	6,139	6,563	6,536
Dwelling	7,864	8,027	8,188	8,359	8,574
Real Estate and Other Business Services	7,767	8,003	8,340	8,588	8,996
Health and Social Services	5,592	5,820	5,966	6,163	6,392
Communications	19,408	20,122	20,776	21,471	22,153
Transport, Storage	7,395	7,656	7,919	8,236	8,483
Hotels and Restaurants	4,047	4,170	4,249	4,496	4,745
Community, Social and Personal Services	4,664	4,804	4,981	5,100	5,380
Electricity and Water Distribution	4,806	5,119	5,313	5,612	5,731
Mining and Quarrying	334	353	402	429	431
Less: Financial Intermediation Services Indirectly Measured	27,340	28,581	29,705	31,597	33,826
Gross added value at basic prices	**173,616**	**180,313**	**189,298**	**196,012**	**200,954**
Plus: Taxes Less Subsidies on Production and Imports	16,481	17,184	17,763	18,704	19,458
GDP at market prices	**190,096**	**197,497**	**207,061**	**214,716**	**220,412**

(1) Chain index of volume and price with reference base 2000.
* Revised
** Preliminary
Note: Totals might vary due to approximations.
Source: Central Bank of Honduras.

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

Real GDP Growth by Economic Activity

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018***	**2019****
	percentage change from previous year[1]				
Manufacturing	3.9	3.0	3.9	3.8	2.1
Wholesale, Retail Trade, Motor Vehicle Repairs, Household and Personal Goods	3.2	3.3	4.0	3.9	2.2
Agriculture, Hunting, Forestry and Fishing	2.6	4.8	10.3	2.7	(1.0)
Education	1.5	3.3	2.6	2.2	1.8
Public Administration, Defense, Social Security and Other Public Services	0.5	1.0	2.4	2.0	1.5
Financial Intermediation	10.1	6.2	5.7	6.1	8.7
Construction	2.3	6.2	8.5	7.1	(0.4)
Dwelling	2.0	2.1	2.0	2.1	2.6
Real Estate and Other Business Services	5.4	3.0	4.2	3.9	4.7
Health and Social Services	2.6	4.1	2.5	3.3	3.7
Communications	4.7	3.7	3.3	3.6	3.2
Transport, Storage	3.0	3.5	3.4	3.8	3.0
Hotels and Restaurants	2.8	3.0	1.9	5.8	5.5
Community, Social and Personal Services	3.3	3.0	3.7	2.5	5.5
Electricity and Water Distribution	8.8	6.5	3.8	5.9	2.1
Mining and Quarrying	(1.0)	5.4	14.1	7.5	0.3
Less: Financial Intermediation Services Indirectly Measured	10.6	4.5	3.9	6.3	7.1
Gross added value at basic prices	**3.4**	**3.9**	**5.0**	**3.6**	**2.5**
Plus: Taxes Less Subsidies on Production and Imports	8.3	4.3	3.4	5.3	4.0
GDP at market prices	**3.8**	**3.9**	**4.8**	**3.7**	**2.7**

(1) Chain index of volume and price with reference base 2000.
* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Real GDP by Economic Activity

Quarterly National Accounts

	2018*				**2019****			
	I	**II**	**III**	**IV**	**I**	**II**	**III**	**IV**
				(L. millions)(1)				
Manufacturing	10,537	10,516	10,437	9,882	10,707	10,665	10,814	10,063
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	6,096	6,228	6,231	6,442	6,253	6,354	6,457	6,642
Agriculture, stockbreeding, hunting, forestry and fishing	8,359	6,382	6,187	10,019	8,512	6,236	6,035	9,840
Education; Social and health services	3,792	4,074	4,116	4,040	3,881	4,179	4,226	4,140
Public Administration and Defense; Mandatory Affiliation Social Security Plan	2,632	2,630	2,611	2,670	2,675	2,670	2,647	2,708
Financial intermediation	9,355	9,547	9,480	10,990	10,101	10,271	10,441	11,980
Construction	1,384	1,548	1,691	1,939	1,425	1,531	1,622	1,958
Housing; Real estate and other business services	4,102	4,206	4,285	4,354	4,287	4,348	4,453	4,482
Communications	5,182	5,330	5,480	5,479	5,377	5,457	5,658	5,661
Transportation and storage	1,958	2,064	2,131	2,084	2,048	2,097	2,204	2,135
Community, social and personal services	1,213	1,253	1,303	1,331	1,270	1,369	1,336	1,406
Electricity and water distribution	1,284	1,389	1,521	1,417	1,308	1,407	1,591	1,426
Exploitation of mines and quarries	88	106	108	128	89	105	105	131
Minus: indirectly measured financial intermediation services	7,610	7,753	7,890	8,345	8,150	8,261	8,433	8,982
Gross added value at basic prices	**48,372**	**47,520**	**47,690**	**52,430**	**49,781**	**48,427**	**49,155**	**53,591**
Plus: net taxes of production and importation subsidies	4,817	4,831	4,374	4,682	4,988	4,901	4,652	4,917
GDP at market prices	**53,189**	**52,351**	**52,064**	**57,112**	**54,769**	**53,327**	**53,807**	**58,508**

(1) In constant 2000 lempiras.

** Preliminary
Note 1: Data referred to the original series.
Note 2: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Real GDP by Economic Activity

Quarterly National Accounts

	2018*				**2019****			
	I	**II**	**III**	**IV**	**I**	**II**	**III**	**IV**
Manufacturing	2.5	3.1	3.1	3.8	1.6	1.5	2.2	2.1
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	4.6	4.9	4.5	4.4	2.6	2.3	2.7	2.8
Agriculture, stockbreeding, hunting, forestry and fishing	0.3	1.2	2.0	2.7	1.8	0.1	(0.7)	(1.0)
Education; Social and health services	3.2	3.0	2.9	2.8	2.3	2.5	2.5	2.5
Public Administration and Defense; Mandatory Affiliation Social Security Plan	1.8	1.6	1.8	1.6	1.6	1.6	1.5	1.5
Financial intermediation	7.0	7.3	6.5	6.2	8.0	7.8	8.6	8.7
Construction	5.1	5.1	6.4	6.9	3.0	0.8	(1.0)	(0.4)
Housing; Real estate and other business services	2.9	2.5	2.8	2.5	4.5	3.9	3.9	3.7
Communications	3.1	3.3	3.4	3.3	3.8	3.1	3.1	3.2
Transportation and storage	5.7	5.3	4.9	4.0	4.6	3.0	3.2	3.0
Community, social and personal services	1.2	2.3	2.6	2.4	4.7	7.0	5.5	5.5
Electricity and water distribution	3.8	5.7	5.1	5.6	1.8	1.5	2.7	2.1
Exploitation of mines and quarries	5.3	5.3	6.3	6.7	1.8	0.4	(0.6)	0.3
Minus: indirectly measured financial intermediation services	6.2	6.9	6.8	6.4	7.1	6.8	6.8	7.1
Gross added value at basic prices	**3.0**	**3.3**	**3.3**	**3.5**	**2.9**	**2.4**	**2.6**	**2.5**
Plus: net taxes of production and importation subsidies	2.6	4.7	4.4	5.3	3.5	2.5	3.7	4.0
GDP at market prices	**2.9**	**3.4**	**3.4**	**3.7**	**3.0**	**2.4**	**2.7**	**2.7**

(1) In constant 2000 lempiras.
** Preliminary
Note 1: Data referred to the original series.
Note 2: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Nominal GDP by Economic Activity

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018***	**2019****
	(L. millions)				
Manufacturing	80,769	85,035	93,067	96,623	100,502
Wholesale, Retail Trade, Motor Vehicle Repairs, Household and Personal Goods	64,143	67,814	74,171	79,966	84,300
Agriculture, Hunting, Forestry and Fishing	56,243	59,758	68,848	66,573	65,946
Education	31,185	33,202	35,017	37,133	40,329
Public Administration, Defense, Social Security and Other Public Services	26,192	27,691	29,273	31,431	33,908
Financial Intermediation	30,011	32,535	34,383	35,411	38,080
Construction	23,558	27,157	31,741	36,245	38,727
Dwelling	23,215	24,473	25,832	27,262	29,107
Real Estate and Other Business Services	21,416	22,746	24,913	26,799	29,245
Health and Social Services	15,164	16,030	16,874	17,861	19,204
Communications	15,236	16,374	17,501	19,016	20,263
Transport, Storage	17,814	19,678	19,902	20,097	23,436
Hotels and Restaurants	13,828	15,421	16,652	18,086	19,764
Community, Social and Personal Services	12,668	13,560	14,405	15,190	16,436
Electricity and Water Distribution	11,261	13,199	15,748	17,378	25,521
Mining and Quarrying	2,505	2,695	3,658	3,883	3,693
Less: Financial Intermediation Services Indirectly Measured	25,939	27,648	28,806	29,943	32,406
Gross added value at basic prices	**419,268**	**449,717**	**493,177**	**519,008**	**556,054**
Plus: Taxes Less Subsidies on Production and Imports	41,137	46,205	50,226	55,235	58,997
GDP at market prices	**460,405**	**495,922**	**543,403**	**574,243**	**615,051**

* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Nominal GDP by Economic Activity

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018***	**2019****
	percentage of total nominal GDP				
Manufacturing	17.5	17.1	17.0	16.8	16.3
Wholesale, Retail Trade, Motor Vehicle Repairs, Household and Personal Goods	13.9	13.7	13.5	13.8	13.7
Agriculture, Hunting, Forestry and Fishing	12.2	12.0	12.8	11.8	10.7
Education	6.8	6.7	6.5	6.6	6.6
Public Administration, Defense, Social Security and Other Public Services	5.7	5.6	5.5	5.5	5.5
Financial Intermediation	6.5	6.6	6.5	6.3	6.2
Construction	5.1	5.5	5.8	6.3	6.3
Dwelling	5.0	4.9	4.8	4.8	4.7
Real Estate and Other Business Services	4.7	4.6	4.5	4.6	4.8
Health and Social Services	3.3	3.2	3.1	3.1	3.1
Communications	3.3	3.3	3.2	3.2	3.3
Transport, Storage	3.9	4.0	3.7	3.5	3.8
Hotels and Restaurants	3.0	3.1	3.1	3.2	3.2
Community, Social and Personal Services	2.8	2.7	2.6	2.6	2.7
Electricity and Water Distribution	2.4	2.7	2.9	3.0	4.1
Mining and Quarrying	0.5	0.5	0.7	0.7	0.6
Less: Financial Intermediation Services Indirectly Measured	5.6	5.6	5.4	5.3	5.3
Gross added value at basic prices	**91.1**	**90.7**	**90.8**	**90.4**	**90.4**
Plus: Taxes Less Subsidies on Production and Imports	8.9	9.3	9.2	9.6	9.6
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Nominal GDP by Economic Activity

	Quarterly National Accounts							
	2018**				2019**			
	I	II	III	IV	I	II	III	IV
	(L. millions)							
Manufacturing	25,299	23,506	23,460	24,359	26,267	23,933	24,946	25,357
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	23,683	24,341	23,938	26,091	25,202	25,582	25,557	27,723
Agriculture, livestock, hunting, forestry and fishing	20,022	13,982	12,630	19,938	19,618	13,545	12,442	20,340
Education; Social and health services	11,521	14,426	14,195	14,852	12,455	15,443	15,625	16,010
Public Administration and Defense; Mandatory Affiliation Social Security Plan	6,853	9,037	6,768	8,774	7,409	9,696	7,462	9,340
Financial intermediation	8,910	8,604	8,288	9,609	9,616	8,908	9,175	10,381
Construction	7,594	8,501	9,418	10,733	8,533	9,196	9,448	11,550
Housing; Real estate and other business services	12,941	13,332	13,712	14,075	14,051	14,401	14,861	15,039
Communications	4,509	4,643	4,887	4,978	4,947	4,924	5,188	5,205
Transportation and storage	5,131	4,854	4,267	5,845	6,071	5,552	5,231	6,581
Community, social and personal services	3,595	3,701	3,901	3,992	3,847	4,119	4,124	4,346
Electricity and water distribution	4,362	4,278	4,674	4,064	5,465	7,354	7,207	5,495
Exploitation of mines and quarries	1,006	1,053	859	965	736	879	911	1,167
Minus: indirectly measured financial intermediation services	7,273	7,452	7,464	7,754	7,853	7,848	8,195	8,510
Gross added value at basic prices	**128,152**	**126,806**	**123,531**	**140,519**	**136,362**	**135,683**	**133,984**	**150,024**
Plus: net taxes of production and importation subsidies	12,849	13,517	14,247	14,622	13,783	13,829	15,635	15,750
GDP at market prices	**141,001**	**140,323**	**137,778**	**155,140**	**150,145**	**149,512**	**149,619**	**165,774**

*Revised
** Preliminary
Note 1: Data referred to the original series.
Note 2: Totals might vary due to rounding.
Source: Central Bank of Honduras.

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

Nominal GDP by Economic Activity

	Quarterly National Accounts							
	2018*				2019*			
	I	II	III	IV	I	II	III	IV
Manufacturing	17.9	16.8	17.0	15.7	17.5	16.0	16.7	15.3
Commerce, automotive vehicle and motorcycle repair, personal and domestic equipment; Hotels and restaurants	16.8	17.3	17.4	16.8	16.8	17.1	17.1	16.7
Agriculture, livestock, hunting, forestry and fishing	14.2	10.0	9.2	12.9	13.1	9.1	8.3	12.3
Education; Social and health services	8.2	10.3	10.3	9.6	8.3	10.3	10.4	9.7
Public Administration and Defense; Mandatory Affiliation Social Security Plan	4.9	6.4	4.9	5.7	4.9	6.5	5.0	5.6
Financial intermediation	6.3	6.1	6.0	6.2	6.4	6.0	6.1	6.3
Construction	5.4	6.1	6.8	6.9	5.7	6.2	6.3	7.0
Housing; Real estate and other business services	9.2	9.5	10.0	9.1	9.4	9.6	9.9	9.1
Communications	3.2	3.3	3.5	3.2	3.3	3.3	3.5	3.1
Transportation and storage	3.6	3.5	3.1	3.8	4.0	3.7	3.5	4.0
Community, social and personal services	2.5	2.6	2.8	2.6	2.6	2.8	2.8	2.6
Electricity and water distribution	3.1	3.0	3.4	2.6	3.6	4.9	4.8	3.3
Exploitation of mines and quarries	0.7	0.8	0.6	0.6	0.5	0.6	0.6	0.7
Minus: indirectly measured financial intermediation services	5.2	5.3	5.4	5.0	5.2	5.2	5.5	5.1
Gross added value at basic prices	**90.9**	**90.4**	**89.7**	**90.6**	**90.81**	**90.8**	**89.6**	**90.5**
Plus: net taxes of production and importation subsidies	9.1	9.6	10.3	9.4	9.2	9.2	10.4	9.5
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

*Revised

** Preliminary
Note 1: Data referred to the original series.
Note 2: Totals might vary due to rounding.
Source: Central Bank of Honduras.

The Main Sectors of the Economy

In the last five years, the main sectors of the Honduran economy have been: (i) financial intermediation, (ii) manufacturing, (iii) agriculture, livestock, forestry and fishing, (iv) communications and (v) trade, repair of motor vehicles, personal and household goods.

Manufacturing

From 2015 through 2019 the manufacturing industry grew by an average of 3.4%, driven mainly by increases in food products, beverages and tobacco (4.3% on average) and coffee processing (6.1% on average). Production, processing and preservation of meat and fish (2.8% on average) and beverage production (4.9% on average) also played a considerable role in the average annual growth during the period. These sectors were positively impacted by increases in external demand and international prices, with the exception of tobacco production which has decreased as a consequence of prevention campaigns designed to reduce consumption of tobacco products.

The following table shows the principal Honduran manufacturing activities, in constant Lempiras, for the periods indicated:

Main Manufacturing Activities

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018****	**2019****
	(L. millions)[1]				
Food Products, Beverages and Tobacco	16,302	17,271	18,596	19,233	19,500
Production, Processing and Preservation of Meat and Fish	4,130	4,457	4,842	4,837	4,870
Grain Mill Products and Prepared Animal Feeds	1,005	1,046	1,091	1,174	1,173
Other Food Products	7,262	7,705	8,478	8,846	8,926
Beverages	3,535	3,706	3,838	4,020	4,234
Tobacco Products	370	356	346	356	297
Textiles, Leather and Footwear	12,142	12,123	11,899	12,502	13,304
Wood and Wood Products	344	367	370	363	357
Paper and Paper Products, Editing and Printing Activities	978	968	1,104	1,054	982
Chemicals and Chemical Products, Petroleum Products, Rubber and Plastic Products	2,205	2,458	2,449	2,621	2,682
Glass, Glass Products and Other Non-Metallic Minerals	1,318	1,409	1,522	1,460	1,357
Basic Metals	232	159	305	329	289
Metal Products, Machinery and Equipment	3,028	2,823	2,743	2,904	2,848
Furniture[2]	333	342	355	366	376
Other Manufacturing	349	420	500	541	554
Total	**37,230**	**38,340**	**39,843**	**41,372**	**42,248**

(1) Using 2000 as the base year for constant volume and price in lempiras
(2) Includes manufacturing of all types of furniture, except for stone, concrete and ceramic, which are accounted for in "Other Manufacturing."
* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

The following table shows the percentage of annual growth of the principal Honduran manufacturing activities for the periods indicated:

Growth of Main Manufacturing Activities

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018****	**2019****
	percentage change from previous year[1]				
Food Products, Beverages and Tobacco	3.1	5.9	7.7	3.4	1.4
Production, Processing and Preservation of Meat and Fish	(2.9)	7.9	8.6	(0.1)	0.7
Grain Mill Products and Prepared Animal Feeds	1.4	4.1	4.3	7.5	(0.1)
Other Food Products	6.1	6.1	10.0	4.3	0.9
Beverages	6.0	4.8	3.6	4.7	5.3
Tobacco Products	(7.3)	(3.6)	(2.9)	2.8	(16.5)
Textiles, Leather and Footwear	4.6	(0.2)	(1.9)	5.1	6.4
Wood and Wood Products	9.8	6.5	0.8	(1.8)	(1.7)
Paper and Paper Products, Editing and Printing Activities	5.4	(1.1)	14.1	(4.6)	(6.8)
Chemicals and Chemical Products, Petroleum Products, Rubber and Plastic Products	1.5	11.5	(0.4)	7.0	2.4
Glass, Glass Products and Other Non-Metallic Minerals	12.9	6.9	8.1	(4.1)	(7.1)
Basic Metals	4.6	(31.2)	91.4	7.9	(12.2)

Growth of Main Manufacturing Activities

	For the Year Ended December 31,				
	2015	**2016**	**2017***	**2018****	**2019****
	percentage change from previous year[1]				
Metal Products, Machinery and Equipment	5.3	(6.7)	(2.8)	5.9	(1.9)
Furniture[2]	2.3	2.9	3.7	3.2	2.7
Other Manufacturing	(10.7)	20.4	19.1	8.1	2.5
Total	**3.9**	**3.0**	**3.9**	**3.8**	**2.1**

[1] Chain index of volume and price with reference base 2000.
[2] Includes manufacturing of all types of furniture, except for stone, concrete and ceramic, which are accounted for in "Other Manufacturing."
* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

In 2015, the manufacturing sector grew by 3.9% due to increases in the production of textiles and clothing, as well as food products, beverages and tobacco, manufacture of non-metallic minerals, wood and wood products, harnesses and electrical cables, and metal products.

In 2016, the manufacturing sector grew by 3.0%, compared to 2015, due to domestic demand for food products, concentrates, alcoholic and non-alcoholic beverages, chicken meat, oils and greases, preparation of shrimp, as well as concrete and cement products. The slowdown in growth in 2016 was due, in part, to decreases in the production of textiles, basic metals, metal products, machinery and equipment resulting from a reduction in demand from the U.S. market.

In 2017, the manufacturing sector grew by 3.9%, mainly due to the greater processing of agro-industrial products (e.g., coffee, shrimp, and oils and greases), alcoholic and non-alcoholic beverages. The manufacturing sector also experienced an increase in production of basic metallic products (iron smelting), coming from the recovery in the production of iron rod, as well as the manufacture of concrete and cement products.

In 2018, the manufacturing sector grew by 3.8%, owing mainly to the performance of the food, beverages and tobacco sector which experienced significant increases in the processing of meat and meat products, prepared animal feeds, coffee processing and production of beverages. The textile industry also returned to growth in 2018 after two years of contraction. These increases were partially offset by decreases in the processing and conservation of fish and fish products, which were adversely impacted by lower external demand for shrimp due to non-tariff measures on exports to certain markets.

In 2019, the manufacturing sector grew by 2.1%, mainly due to the increase in production in the textile industry and in the production of alcoholic and non-alcoholic beverages. Growth was lower than the previous year due to the drop in production, processing and preservation of meat and fish, oils and greases, coffee processing and production of non-metallic minerals.

Goods for Processing (Maquila)

The goods for processing industry, which includes companies under the commercial free zone regime, continues to be one of the main economic sectors in the country and one of the areas with the highest employment. The main subsectors of the *maquila* sector include manufacturing of textiles, leather and footwear, metal products, and machinery and equipment. The performance of the *maquila* sector is directly related to the economic cycles in the United States. Between 2014 and 2018, goods for processing represented an average of 37.7% of manufacturing activities and 6.5% of Honduras' nominal GDP.

The following table shows data of goods for processing (maquila) in nominal lempiras and percentages for the periods indicated:

Goods for Processing (maquila)

	For the Year Ended December 31,				
	2014	**2015**	**2016***	**2017****	**2018****
Gross added value (L. millions)	27,020	31,729	32,304	33,021	35,738
Percentage change from previous year[1]	19.5%	17.4%	1.8%	2.2%	8.2%
Percentage of total nominal GDP	6.5%	6.9%	6.5%	6.1%	6.4%
Percentage of total manufacturing activity	37.8%	39.3%	38.0%	35.7%	37.6%

* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

In 2017, the goods for the processing industry employed 132,198 people, equivalent to 3.2% of the country's economically active population. Most of the sector's employees work for garment manufacturing companies, which represent 98,252 people (or 74.3% of the total employees in the industry). Companies involved in harness manufacturing and automobile spare parts production employed 14,248 people (or 10.8% of the total employees in the industry), contributing 298 new jobs, due principally to the opening of two production plants.

In 2017, 337 companies in Honduras benefitted from commercial free zone laws, of which 122 were textile and garment manufacturing companies, 120 were engaged in commerce, 12 were engaged in the production of harnesses and motor vehicle spare parts, and 83 offered complementary services.

In 2018, the goods for the processing industry grew 8.2% as a result of increased external demand. Exports during 2018 totaled approximately U.S.$4,263.1 million, which allowed the industry to employ 139,641 people. Additionally, two more companies were added to free zone laws, totaling 339 companies for 2018.

Wholesale, Retail Trade, Motor Vehicle Repairs, Household and Personal Goods

The wholesale, retail trade, motor vehicle repairs, household and personal goods 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. Annual figures for this sector do not include hotels and restaurants, which are reported separately. Quarterly figures for this sector, however, include hotels and restaurants.

The wholesale, retail trade, motor vehicle repairs, household and personal goods sector represented, on average, 9.6% of the Honduras' real GDP between 2015 and 2019.

In 2015 and 2016, the wholesale, retail trade, motor vehicle repairs, household and personal goods sector grew 3.2% and 3.3%, respectively, mainly due to the growth in domestic supply and imports of agricultural and manufactured goods intended for commercialization in the domestic market. In 2017, the wholesale, retail trade, motor vehicle repairs, household and personal goods sector grew by 4.0%, due principally to the increase in domestic demand for food, textiles, furniture, household equipment, electronics and communication devices.

In 2018, the wholesale, retail trade, motor vehicle repairs, household and personal goods sector totaled L.20,500.5 million in constant Lempiras, representing an increase of 4.1% compared to the prior year, due in part to higher household income resulting from increased remittances received from abroad.

In 2019, the wholesale, retail trade, motor vehicle repairs, household and personal goods sector grew 2.2%,principally due to the commercialization of food products, beverages, agro-industrial machinery, equipment and electrical appliances, as well as an increase in restaurant service.

Agriculture, Livestock, Hunting, Forestry and Fishing

Coffee, bananas, tubers, vegetables, fruit and African palm crops make up the agriculture portion of the sector, which represents on average 55.0% of the total agriculture, livestock, hunting, forestry and fishing sector. The sector also includes basic grains and other crops (15.8%), bovine cattle, bird and other animal breeding (17.0%), fishing, which includes cultivation and extraction of shrimp, tilapia, and other crustaceans (9.5%), and forestry (2.7%). During the 2015-2019 period, the agriculture, livestock, forestry and fishing sector grew by an average of 3.9%.

In 2016, the agriculture, livestock, hunting, forestry and fishing sector's growth accelerated, achieving an increase of 4.8% (2.2% more than in 2015), driven mainly by positive weather conditions and agricultural practices that proved beneficial to the production of coffee, palm, pineapples and melons, among others. Shrimp farming also benefitted from the introduction of new strategies and technologies to prevent and reduce crustacean larvae's mortality rate.

In 2017, the agriculture, livestock, hunting, forestry and fishing sector continued to expand at an accelerated pace, registering growth of 10.3%, the highest observed in the past 5 years. This expansion was due mainly to a record coffee crop as a result of the introduction of coffee varieties with greater productive yield and resistance to pests and diseases. African palm cultivation expanded due to the continuous execution of proper farm management techniques, and the harvest from plantings from previous years. Fishing also reacted positively to actions taken in shrimp farming, which reduced the mortality rates of larvae in lagoons and improved climate, as well as the use of innovative methods during the production process.

Agricultural production grew by 2.7% in 2018, showing a slowdown in growth levels from 2017. This was a result of a slowdown in coffee and African palm cultivation and a slight contraction in banana production. The slowdown in the sector was offset by increases in tuber, vegetable and pineapple crop production and poultry farming.

In 2019, the agriculture, livestock, hunting, forestry and fishing sector dropped by 1.0%, due to losses in basic grain crops (corn and rice) caused by drought; a decrease in the price of coffee; decreased banana production due to social protests and drought; a decrease in African Palm production due to unfavorable weather conditions; and a decrease in fishing, mainly due to a reduction in shrimp farming as a result of high temperatures.

The following table shows the production of some of the main agricultural, livestock, forestry and fishery products:

Agriculture, Livestock, Hunting, Forestry and Fishing Products

	For the Year Ended December 31,				
	2015	**2016***	**2017***	**2018****	**2019****
	(L. millions)[1]				
Coffee Crops	6,581	7,006	8,680	8,822	8,662
Tubers, Fruit and Vegetables Crops	3,541	3,712	3,904	4,151	4,427
Bovine Cattle	3,174	3,255	3,341	3,438	3,521
Fishing Activities[2]	2,318	2,546	3,005	3,012	2,911
Banana Crops	2,306	2,216	2,127	2,121	2,031
African Palm Crops	1,684	1,782	2,050	2,119	2,000
Corn Crops	1,341	1,390	1,447	1,509	1,261
Poultry Farming	1,196	1,272	1,314	1,383	1,406
Bean Crops	760	797	833	872	907
Forestry	733	774	795	801	808
Rice Crops	95	99	104	106	100
Sorghum Crops	126	130	136	142	118
Other Animal Farming[3]	238	249	271	286	293
Other Crops and Agricultural Activities[4]	1,968	2,075	2,124	2,185	2,180
Total	**26,059**	**27,303**	**30,129**	**30,946**	**30,623**

[1] Chain index of volume and price with reference base 2000.
[2] Refers to fish and shrimp farming, as well as the catching of fish, shrimp, lobsters and other aquatic products at sea.
[3] Includes pig farming and other animal farming.
[4] Refers to tobacco crops, sugar cane, agricultural services, products obtained from live animal products and others not accounted for elsewhere.
* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

The following table shows the annual growth of the main agricultural, livestock, hunting, forestry and fishing products:

Agriculture, Livestock, Hunting, Forestry and Fishing Products

	For the Year Ended December 31,				
	2015	**2016***	**2017***	**2018****	**2019****
	(percentage change from previous year)[1]				
Coffee Crops	9.1	6.5	23.9	1.6	(1.8)
Tubers, Fruit and Vegetables Crops	4.8	4.8	5.2	6.3	6.6
Bovine Cattle	(1.9)	2.6	2.6	2.9	2.4
Fishing Activities[2]	(13.4)	9.9	18.0	0.3	(3.4)
Banana Crops	1.8	(3.9)	(4.0)	(0.2)	(4.2)
African Palm Crops	8.9	5.8	15.1	3.3	(5.6)
Corn Crops	3.0	3.7	4.1	4.3	(16.5)
Poultry Farming	8.6	6.3	3.4	5.2	1.6
Bean Crops	5.3	4.8	4.5	4.8	4.0
Forestry	5.8	5.7	2.6	0.8	0.8
Rice Crops	4.2	4.4	4.9	1.3	(5.2)
Sorghum Crops	4.1	3.7	4.1	4.3	(16.5)
Other Animal Farming[3]	0.4	4.5	8.9	5.6	2.5
Other Crops and Agricultural Activities[4]	(1.4)	5.5	2.3	2.9	(0.2)
Total	**2.6**	**4.8**	**10.3**	**2.7**	**(1.0)**

[1] Chain index of volume and price with reference base 2000.
[2] Refers to fish and shrimp farming, as well as the catching of fish, shrimp, lobsters and other aquatic products at sea.
[3] Includes pig farming and other animal farming.
[4] Refers to tobacco crops, sugar cane, agricultural services, products obtained from live animal products and others not accounted for elsewhere.
* Revised
** Preliminary
Note: Totals might vary due to rounding.
Source: Central Bank of Honduras.

Education

The education sector includes public and private education services. From 2015 to 2019, the education sector increased by an average of 2.3% in real terms. This growth trend was due mainly to increases in the number of registered schools and colleges nationwide and in the number of teachers employed in the sector.

The education sector increased by 1.5%, 3.3%, 2.6%, 2.4% and 1.8% in 2015, 2016, 2017, 2018 and 2019, respectively.

Public Administration, Defense, Social Security and Other Public Services

The public administration, defense, social security and other public services sector includes government administrative services, services for the community and administrative services for the mandatory social security scheme. From 2015 to 2019, the public administration, defense, social security and other public services sector increased by an average of 1.4% in real terms. This increase was principally due to increases in salaries and hiring of personnel by public sector entities according to budget availability.

The public administration, defense, social security and other public services sector increased by 0.5%, 1.0%, 2.4%, 1.6% and 1.5% in 2015, 2016, 2017, 2018 and 2019, respectively. During 2015-2019, the sector has maintained its growth, with particularly high growth in 2017, due to the greater hiring of personnel under the modality of contract by some state agencies with the purpose of carrying out the process of primary and general elections.

In 2019, the public administration, defense, social security and other public services sector grew by 1.5%, mainly due to salary and payroll increases.

Financial Intermediation

Financial intermediation services are composed of monetary intermediation and other types of financial intermediation, which include the Central Bank, commercial banks, financial corporations and other financial intermediaries, public and private. It also includes financing of insurance and pension plans, including private and public insurers, pension funds and insurance auxiliaries. During the 2015-2019 period, financial intermediation showed average growth of 7.4%, positioning itself as an important productive activity in the country and significant contributor to the growth of real GDP.

In 2015, the financial intermediation sector increased 10.1%, mainly due to higher revenues from expanded loan portfolios, most notably mortgages and those destined for consumption. There were also higher commissions received for disbursements, drafts and transfers.

In 2016, the growth trend in the financial intermediation sector continued with 6.2% growth, mainly due to loans to the manufacturing, agriculture, consumption and commerce sectors.

In 2017, the financial intermediation sector grew by 5.7% due to increased generation of interest income and commissions from expanded loan portfolios and a variety of banking services. The sector was positively influenced by the decrease in national and international interest rates and effective marketing strategies adopted by commercial banks to increase their coverage. In addition, insurance premiums increased due to an expansion in the placement of insurance policies.

In 2018, the financial intermediation sector grew 6.2%, mainly due to increased interest income received by financial institutions from the credit portfolio destined to trade, real estate, consumption and industry, as well as insurance premiums, member contributions and the investment income of pension funds.

In 2019, the financial intermediation sector grew 8.7% due principally to higher income received by financial institutions in the form of commissions and interests, primarily from loans to individual consumers, real estate, commerce and industry.

Construction

Construction includes the building of houses, offices, along with commercial, industrial and public buildings, among others. It also includes the construction of roads, bridges and streets, and other general construction services. From 2015 through 2019, construction increased, on average, by 4.7%.

In 2015, the construction sector began to recover after contracting in 2014, growing by 2.3%, mainly as the result of progress in the execution of public infrastructure works, highlighted by projects for the improvement and rehabilitation of the road network.

In 2016, the construction sector continued to show a positive trend, growing by 6.2%, mainly due to increased public road infrastructure works.

In 2017, the construction sector grew 8.5%, in comparison to 2016, due to greater public investments in road infrastructure and private construction, particularly in the residential sector. This was encouraged by the Housing for a Better Life Program (*Programa Vivienda para una Vida Mejor*).

In 2018, construction experienced grew by 6.9%, principally due to an increase in private construction (residential and commercial). Investment in public infrastructure projects decreased in 2018, given that some works were in their final stages.

In 2019, the construction sector decreased 0.4% due mainly to the conclusion of several public infrastructure projects. This decrease was partially offset by an increase of private construction in commercial, industrial, warehouse and residential housing projects.

Dwelling

From 2015 to 2019, the dwelling sector grew by an average of 2.1% in real terms. The dwelling sector increased by 2.0%, 2.1%, 2.0%, 2.1% and 2.6% in 2015, 2016, 2017, 2018 and 2019, respectively. These increases were mainly due to an increase in demand for housing.

Real Estate and Other Business Services

From 2015 to 2019, the real estate and other business services sector increased by an average of 4.1% in real terms. This growth trend was due to increased demand for these services, mainly in manufacturing, commerce and financial intermediation sectors, as well as in households. The real estate and other business services increased by 5.4%, 3.0%, 4.2%, 3.0% and 4.7% in 2015, 2016, 2017, 2018 and 2019, respectively. These increases were mainly due to an increase in demand for real property.

Health and Social Services

The health and social services sector includes hospital services (such as health services provided under the supervision of doctors), other human health services (such as ambulance services and those provided in residential health institutions), social services and "other" social and health services.

From 2015 to 2019, the health and social services sector increased by an average of 3.2% in real terms, due principally to the increased demand for these services resulting from population growth and the rising number of patients affected by tropical diseases such as dengue, Zika and Chikungunya. The health and social services sector increased by 2.6%, 4.1%, 2.5%, 3.3% and 3.7% in 2015, 2016, 2017, 2018 and 2019, respectively. These increases were mainly due to population growth and an increase in national health care coverage.

Communications

The communications sector is composed of postal and messaging services, as well as telecommunication services, such as mobile and fixed telephone services, internet and data transmission and cable television services. From 2015 through 2019, the communications sector recorded an average annual growth rate of 3.6%.

In 2015, the communications sector grew by 4.7%, mainly driven by investments made by cell phone companies in technological improvements to mobile services, such as 4G cellular service, high-speed data transfer and cable television, as well as expansion of geographical coverage.

In 2016 and 2017, the communications sector grew by 3.7% and 3.3%, respectively. This growth was driven mainly by the increased demand for mobile telephone, internet and cable television services.

In 2018, the communications sector grew by 3.3%, driven mainly by technological innovations and marketing strategies (e.g., promotional packages for mobile telephone, internet and cable and satellite television services) employed by companies competing in this sector, which stimulated demand for these services.

In 2019, the communications sector grew by 3.2%, mainly due to the diversification of services offered through technological innovations and marketing strategies.

Transportation and Storage

Transportation and storage, which includes the transportation of passengers and goods by land, sea and air, storage services, and complementary and support activities to transportation (port services, travel agencies, among others), grew at an average annual rate of 3.4% from 2015 through 2019.

From 2015 through 2019, the transportation and storage sector recorded annual increases of 3.0%, 3.5%, 3.4%, 4.0% and 3.0%, respectively. Performance in the sector during this period was mainly driven by an increase in the demand for transportation services for the transfer of imported and exported agricultural and manufactured products in the domestic market.

Hotels and Restaurants

From 2015 to 2019, the hotels and restaurants sector grew by an average annual rate of 3.8%, due to the changes in the flow of domestic and foreign tourists.

In 2015, the hotels and restaurants sector grew by 2.8%, due to the greater demand for these services.

In 2016 and 2017, the hotels and restaurants sector reported annual growth of 3.0% and 1.9%, respectively, due to the increase in demand for food and beverage services and hotel and accommodation activities.

In 2018, the hotels and restaurants sector expanded by 5.8%, mainly due to higher levels of revenue from lodging and lodging services and the supply of food and beverages, as well as an increase in domestic tourism.

In 2019, the hotels and restaurants sector, combined with the commerce, automotive vehicle and motorcycle repair, personal and domestic equipment sector, grew 5.5%. This increase was principally due to the commercialization of food products, beverages, agro-industrial machinery, equipment and electrical appliances, as well as an increase in restaurant service.

Community, Social and Personal Services

The community, social and personal services sector includes activities such as radio and television services, cultural services, sports and other recreational services, association services and other services.

From 2015 to 2019, the community, social and personal services sector increased by an average of 3.6% in real terms, due mainly to the increase in demand for and growth of radio, television and cinema services resulting in increased revenues from advertising and movie releases. The community, social and personal services sector increased by 3.3%, 3.0%, 3.7%, and 2.4% in 2015, 2016, 2017 and 2018, respectively.

In 2019, the community, social and personal services sector increased 5.5%. This increase was mainly due to increase in revenues from film, radio and television services due to the expected release of films.

Electricity and Water Distribution

The electricity and water distribution sector includes the generation, transmission and distribution of electrical energy, as well as the collection, purification and distribution of water.

From 2015 to 2019, the electricity and water sector increased by an average of 5.4%. The electricity and water distribution sector increased by 8.8%, 6.5%, 3.8%, 5.6% and 2.1% in 2015, 2016, 2017, 2018 and 2019, respectively. These increases were mainly due to increased revenue by ENEE.

In 2019, the electricity and water distribution sector increased by 2.1%.

Electricity Sector

The following table shows the current status of electricity production and growth rates for the years indicated:

Energy Production

	For the year ending 2019					March 31, 2020	
	2015	**2016**	**2017**	**2018**	**2019**		**% of total, 2020**
				(MW)			
Domestic Market	**2,253**	**2,439**	**2,571**	**2,682**	**2,695.1**	**2,576**	**100%**
Hydroelectric State Owned	464.4	432.7	432.7	432.7	432.7	432.7	17%
Hydroelectric Privately Owned	167.3	237.7	243.1	273.1	296.2	296.2	12%
MDMV - bunker y MDAV y TG – Diesel	872.1	875.1	875.1	882.1	859.1	739.6	29%
Carbon	36.8	99.8	99.8	114	105.0	105	4%
Biomass	172.2	209.7	209.7	209.7	221.3	221.3	9%
Solar	388	409	450.9	510.8	510.8	510.8	20%
Wind	152	175	225	225	235.0	235	9%
Geothermal	0	0	35	35	35.0	35	1%
Generation							

Public	529	497.3	497.3	497.3	447.5	462.5	18%
Private	1,724	1,942	2,074	2,185	2,247.6	2,113	82%
Generation							
Renewable	1,380.7	1,563.9	1,696.2	1,800.3	1,836.0	1,836.0	71%
Fossil Fuel Based	872.1	875.1	875.1	882.1	859.1	739.6	29%
Total Offer	**2,253**	**2,439**	**2,571**	**2,682**	**2,695.1**	2,576	100%
Annual Growth Rate	19.94%	8.27%	5.42%	4.32%	0.47%	(3.98)%	

Source: Corporate Planning Division/ENEE

The following table sets forth electricity demand for the periods indicated.

Electricity Demand

	For the year ended December 31,					For the period ended March 31,	
	2015	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
	(Installed power in MW)						
Sales of Energy							
Residential	2,264.7	2,353.0	2,472.2	2,470.1	2,594.3	580.6	597.3
Commercial	1,493.1	1,556.3	1,686.0	1,661.3	1,864.4	395.4	412.4
Industrial	673.9	702.0	768.8	784.1	1,475.4	200.8	346.6
High consumption	961.7	842.4	615.8	646.7	-	146.5	-
Public lighting	124.8	133.8	228.0	257.4	-	76.5	-
Official	296.0	320.0	405.5	370.7	421.3	85.5	88.4
International	2.3	16.1	24.5	8.4	5.8	1.8	0.0
Total	**5,816.5**	**5,923.7**	**6,200.9**	**6,198.7**	**6,361.2**	**1,487.0**	**1,444.7**
Annual Sales Growth Rate	4.60%	1.84%	4.68%	(0.03)%	2.62%	-	(2.85)%
Electricity Loss	32%	32%	30%	31%	32%	-	31%
Electricity Coverage (%)	73.96%	75.12%	77.21%	80.82%	81.93%	-	82.25%
Customers (thousands)	1,619	1,675	1,733	1,806	1,874	-	1,884
Annual Customer Growth Rate	4.27%	3.45%	3.43%	4.24%	3.74%	-	0.56%

Source: Corporate Planning Division / ENEE

Electricity Demand

Based on data from the 2019 Population and Housing Census, electricity coverage reached 83.11 % of the population. On average, the number of clients served by the electricity sector reached 1.9 million, of which 92% are categorized as residential.

Electricity sales, measured in kW hours, grew at an average annual rate of 2.6% from 2015 through 2019. During 2015, 2016, 2017 and 2019, electricity sales increased 4.6%, 1.8%, 4.7% and 2.6%, respectively. These increases were mainly driven by organic growth on demand. In 2018, electricity sales decreased slightly by 0.03% as a result of an increase in technical and non-technical losses.

During the first quarter of 2020, electricity demand decreased by 2.85% compared to the first quarter of 2019. This decrease was mainly due to a decrease in demand in industrial and commercial areas as a result of the economic slowdown caused by COVID-19.

The following table shows information on electricity production and consumption, in millions of kW hours, for the specified periods.

Electricity Generation and Consumption

	As of December 31,					As of March 31,
(kWh millions)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Electricity Generation	**8,562.30**	**8,750.01**	**8,807.62**	**9,035.11**	**9,396.33**	**2,093.32**
Hydroelectric Public	1,591.9	1,337.4	1,861.58	2,098.2	1,584.4	239.1
Hydroelectric Private	744.3	867.1	1,119.10	1,011.8	820.9	256.7
Thermal Public	42.5	18.6	21.68	29.9	37.8	5.7
Thermal Private	4,612.5	4,320.7	3,323.92	2,801.9	4,124.0	852.9
Biomass	324.4	543.5	597.73	513.9	456.5	96.8
Wind	664.6	582.9	536.65	929.0	818.3	260.2
Solar Private	419.4	884.6	923.74	992.2	1,115.5	298.3
Solar Public	0.0	0.0	0.0	0.0	0.0	7.8
Geothermal	0.0	0.0	89.27	297.1	295.9	75.9
Imported	162.62	195.25	333.95	361.18	143.04	-
Electricity Consumption	**8,562.30**	**8,750.01**	**8,807.62**	**9,035.11**	**9,396.33**	
National	**5,814.2**	**5,907.6**	**6,176.3**	**6,190.3**	**6,354.7**	
Residential	2,264.7	2,353.0	2,472.2	2,470.1	2,594.3	
Commercial	1,493.1	1,556.3	1,686.0	1,661.3	1,864.4	
Industrial	1,635.6	1,544.4	1,384.6	1,430.8	1,475.4	
Public Lighting	124.8	133.8	228.0	257.4	0.0	
Official	296.0	320.0	405.5	370.7	420.6	
International Sales	**2.3**	**16.1**	**24.5**	**8.4**	**-**	
Transmission and Distribution Losses	**2,745.8**	**2,826.3**	**2,606.8**	**2,836.4**	**3,041.7**	

The following table shows information on electricity production and consumption, as a percentage of total electricity generated or consumed, for the specified periods.

Electricity Generation and Consumption

(as a percentage of total electricity generated / consumed)	As of December 31,					As of March 31,
	2015	2016	2017	2018	2019	2020
Electricity Generation	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
Hydroelectric Public	18.6	15.3	21.1	23.2	16.9	11.4
Hydroelectric Private	8.7	9.9	12.7	11.2	8.7	12.3
Thermal Public	0.5	0.2	0.2	0.3	0.4	0.3
Thermal Private	53.9	49.4	37.7	31.0	43.9	40.7
Biomass	3.8	6.2	6.8	5.7	4.9	4.6
Wind	7.8	6.7	6.1	10.3	8.7	12.4
Solar Private	4.9	10.1	10.5	11.0	11.9	14.3
Solar Public	0.0	0.0	0.0	0.0	0.0	0.4
Geothermal	0.0	0.0	1.0	3.3	3.1	3.6
Imported	1.90	2.23	3.79	4.00	1.52	-
Electricity Consumption	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
National	***67.9***	***67.5***	***70.1***	***68.5***	***67.6***	***69.0***
Residential	26.4	26.9	28.1	27.3	27.6	28.5
Commercial	17.4	17.8	19.1	18.4	19.8	19.7
Industrial	19.1	17.7	15.7	15.8	15.7	16.6
Public Lighting	1.5	1.5	2.6	2.8	0.0	0.0
Official	3.5	3.7	4.6	4.1	4.5	4.2
International Sales	***0.0***	***0.2***	***0.3***	***0.1***	***0.0***	***0.0***
Transmission and Distribution Losses	***32.1***	***32.3***	***29.6***	***31.4***	***32.4***	***31.0***

Electricity Sector Regulation

In 2014, the National Congress approved the "General Law of the Electricity Industry" with the objective of regulating the generation, transmission, distribution and sale of electricity in the country. The General Law of the Electricity Industry was enacted, in part, to modernize the 1994 Framework Law of the Electricity Sector, which had opened energy generation to private sector companies. The law delegates the industry's policymaking responsibility to the Secretary of Energy (SEN) and provides for the creation of various agents and components in the market, such as a systems operator, a regulatory commission, a wholesale electricity market, a corporate restructuring of ENEE into three independent commercial companies managed by a parent company, and opening of the sector to private investment. See "—Electricity Sector Reform" for details on the implementation of these mandates.

Existing Electricity Generation

Historically, energy generation was largely based on fossil fuels, but as of 2018, 62.9% of energy was generated from renewable sources, while 37.1% was generated from fossil fuels. During the last five years, the country has incorporated a total of 1,182 MW of installed capacity of renewable energy plants. See "The Honduran Economy – Economic and Social Policies – Energy Projects" for a discussion of hydroelectric power projects in progress in Honduras.

Installed capacity, which totals over 2,576 megawatts (MW) as of March 31, 2020, has grown at an overall rate of 55% between 2010 and 2018. Installed capacity grew more than 20% in 2015 alone, due to installation of technology, mostly solar, capable of generating more than 440 MW. The total installed photovoltaic solar capacity amounted to 5,108 MW at the end of 2018, making up 19% of overall generation capacity.

As of March 31, 2020, ENEE owned 433 MW of hydroelectric and 65 MW of thermal generation assets, while the remaining 2,200 GW was owned by a diverse mix of private independent power producers (IPPs). Nearly all IPPs hold a power purchase agreement with ENEE as the purchaser. Several IPPs have been operating in Honduras since the mid-1990s, shortly after the government allowed private sector participation in the electricity industry. Such IPPs include Electricidad de Cortés (Elcosa), which received the first PPA in Honduras in 1994; Empresa de Mantenimiento, Construcción y Electricidad (EMCE), which belongs to the Honduran conglomerate Grupo Terra, Luz y Fuerza de San Lorenzo (Lufussa); and Inversiones y Representaciones Electromecánicas (IRESA). International companies have also entered the sector in recent years, mainly due to the opportunities for solar development. In 2018, Norwegian company Scatec Solar announced the commercial operation of a 35 MW solar facility, bringing their total owned capacity in Honduras to 95 MW. Other international companies operating in Honduras include the United States' SunEdison, Ormat, and SB Energy Holdings.

Recent grid expansion and added capacity has helped improve the lives of Hondurans, with overall access to electricity expanding from 68.9% of the population in 2005 to 87.6% in 2019. Rural access to electricity has also improved significantly, increasing from 42.3% in 2005 to 72.2% in 2019. Access to electricity in urban areas is currently estimated at 100%.

ENEE

Empresa Nacional de Energía Eléctrica ("ENEE") is a state-owned company that operates the country's electrical energy system. It was created on February 20, 1957, and is responsible for generation, transmission, distribution and sale of electricity in Honduras.

ENEE owns and operates the second largest hydroelectric power plant in Central America, the Francisco Morazan plant, also known as *El Cajón* with 300MW capacity. Other state-owned hydroelectric power plants are Rio 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 fossil fuel power plants: Santa Fe (5MW), Ceiba Termica (26.6MW), La Puerta Hitachi (18MW) and La Puerta (15MW).

ENEE is currently executing final investment and ancillary project documents necessary to complete the construction of another hydroelectric plant, Patuca III, which will be located in the Department of Olancho and will have a capacity of approximately 100MW. See "The Honduran Economy – Economic and Social Policies – Energy Projects" for more information on the funding and construction of the Patuca III hydroelectric power plant.

The following table presents the operating results of ENEE for the years 2015 through 2019 :

	Millions of L.						**% of GDP**					
	For the year ended December 31,					**As of March 31,**	**For the year ended December 31,**					**As of March 31,**
	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Total revenues	**21,754.49**	**21,236.13**	**24,715.59**	**26,265.01**	**31,227.0**	**7,406.00**	**4.73%**	**4.30%**	**4.58%**	**4.57%**	**5.11%**	**1.19%**
Sale of goods and services	20,753.82	20,199.60	24,090.10	25,008.04	29,906.00	7,085.60	4.51%	4.09%	4.46%	4.35%	4.90%	1.14%
Current transfers of the Administration	-	-		440.36		-	0.00%	0.00%	0.00%	0.08%	0.00%	0.00%
Capital	411.69	388.91	269.09	662.01	909.63	-	0.09%	0.08%	0.05%	0.12%	0.15%	0.00%
Other income	588.99	647.62	356.40	154.60	411.37	320.40	0.13%	0.13%	0.07%	0.03%	0.07%	0.05%
Total Expenditures	**22,997.20**	**22,917.92**	**27,947.17**	**32,953.54**	**35,042.85**	8,274.10	**4.99%**	**4.64%**	**5.18%**	**5.73%**	**5.74%**	**1.33%**
Current Expenditures	**21,097.40**	**20,874.52**	**25,809.25**	**30,445.04**	**34,390.51**	8,274.10	**4.58%**	**4.22%**	**4.78%**	**5.29%**	**5.63%**	**1.33%**
Operational costs	19,872.90	19,749.60	24,264.80	28,169.02	33,682.44	8,274.10	4.32%	4.00%	4.50%	4.90%	5.51%	1.33%
d/c Power purchase	16,164.38	16,854.20	19,060.34	22,431.25	24,241.93	5,516.70	3.51%	3.41%	3.53%	3.90%	3.97%	0.89%
Other expenditures	1,224.50	1,124.92	1,544.45	2,276.02	708.7	-	0.27%	0.23%	0.29%	0.40%	0.12%	0.00%
Capital Expenditures	**1,899.80**	**2,043.40**	**2,137.92**	**2,508.51**	**652.34**	-	**0.41%**	**0.41%**	**0.40%**	**0.44%**	**0.11%**	**0.00%**
Global Balance	**(1,242.71)**	**(1,681.79)**	**(3,231.59)**	**(6,688.54)**	**(3,815.85)**	**(868.10)**	**(0.27)%**	**(0.34)%**	**(0.60)%**	**(1.16)%**	**(0.62)%**	**(0.14)%**

Source: ENEE

Revenues from electricity sales were relatively stable in 2015 and 2016. In 2017 and 2018, revenues from electricity sales grew 16% and 6%, respectively. The growth in sales for 2017 was mainly due to an increase in the price of bunker fuel, which is passed through in the electricity rates charged to consumers. The increase in electricity sales in 2018 was due mainly to upward adjustments in electricity rates to reflect the costs of distribution and transmission of energy to customers. The cumulative growth in revenue (in *Lempiras*) from 2017 through 2019 was 26%. Revenues from electricity sales during the first quarter of 2020 were L.7,406.0 million. During the first quarter of 2020, revenue from energy sales increased by 2%. This increase was mainly due to an increase in electricity rates in April 2019.

ENEE has operated at a loss for several years. From 2015 through 2019, ENEE's annual net loss has been L.1,242.7 million, L.1,681.8 million, L.3,231.6 million, L.6,688.5 million and L.5,128.6 million, respectively. The net loss grew 107% from 2017 to 2018, principally due to increased costs resulting from the conversion of short-term debt to long-term debt, ENEE's inability to take administrative steps to permit certain costs to be passed through to customers in electricity rates, technical and non-technical energy losses and increases in the price of bunker fuel. For 2019, ENEE's net loss was L.5,128.55 million, which is a 23% decrease in comparison to 2018. This decrease is primarily due to an increase in the rates charged to customers. As of March 31, 2020, ENEE recorded a net loss of L.868.10 million.

For 2020, taking into account the COVID-19 pandemic, ENEE estimates a net loss of L.5,256.0 million.

ENEE's Debt

ENEE's total debt outstanding at December 31, 2019 was U.S.$2,531.2 million, equivalent to 9.5% of Honduras' estimated nominal GDP for 2019. ENEE's debt includes internal debt which is mainly held by domestic banks and the purpose of which is to pay for energy purchases. ENEE also has international debt, which consists principally of a loan that was incurred to develop the Patuca III hydroelectric dam. A third component of ENEE's debt consists of invoices owed to energy generators, for which a solution is being developed to refinance such invoices through long-term financing, including the issuance of the Notes. External and internal debt service for 2019 was U.S.$47.3 million and U.S.$118.1 million, respectively, which represent 3.7% and 9.3%, respectively, of ENEE's revenues for 2019. Approximately 81.6% of ENEE's total debt is represented by bonds and loans in the domestic and international markets. The remaining 18.4% is owed to energy sector suppliers. As of March 31, 2020 the total of ENEE's debt with energy suppliers registered in SIAFI was approximately U.S.$444.5 million (excluding interest) of which approximately U.S.$370.7 million were in arrears.

The following table sets forth ENEE's debt outstanding in U.S. dollars as of the dates indicated.

	As of December 31,				As of March 31,	
Description	**2018**	**%**	**2019**	**%**	**2020**	**%**
Internal Debt						
Bonds	**331.40**	**14.3%**	**417.21**	**16.5%**	**417.21**	**16.5%**
RPE* 2013	150.50	6.5%	150.50	5.9%	150.50	5.9%
RPE* 2014	130.15	5.6%	-	0.0%	-	0.0%
RPE* 2016	0.82	0.0%	0.82	0.0%	0.82	0.0%
RBCP** 2016	49.93	2.1%	49.33	1.9%	49.33	1.9%
VGE 2019	-		216.55	8.6%	216.55	8.6%
Central Government	**1,090.87**	**46.9%**	**1,181.02**	**46.7%**	**1,181.04**	**46.7%**
ERP	284.46	12.2%	284.50	11.2%	284.50	11.2%
Honduras-Spain Counter Value Fund	10.12	0.4%	10.10	0.4%	10.10	0.4%
IDB Subsidiary Agreements	70.22	3.0%	85.46	3.4%	85.46	3.4%
IDA Subsidiary Agreements	25.00	1.1%	25.00	1.0%	25.00	1.0%
JICA Subsidiary Agreements	1.07	0.0%	2.06	0.1%	2.08	0.1%
Sovereign Bond	700.00	30.1%	700.00	27.7%	700.00	27.7%
EXIMBANK-CHINA Subsidiary Agreements			73.90	2.9%	73.90	2.9%
Debt owed to energy suppliers	**429.56**	**18.5%**	**464.60**	**18.4%**	**444.48**	**17.6%**
***Floating debt	429.56	18.5%	464.60	18.4%	444.48	17.6%
Private sector - Honduran banks	**203.36**	**8.8%**	**207.54**	**8.2%**	**227.66**	**9.0%**
Total Internal Debt	**$2,055.19**	**88.5%**	**$2,270.37**	**89.7%**	**$2,270.38**	**89.7%**
External Debt						
Bilateral debt	**268.34**	**11.5%**	**260.81**	**10.3%**	**260.84**	**10.3%**
Club de Paris Loan	1.93	0.1%	1.91	0.1%	1.93	0.1%
ICBC	266.41	11.5%	258.91	10.2%	258.91	10.2%
Total External Debt	**268.34**	**11.5%**	**260.81**	**10.3%**	**260.84**	**10.3%**
Total Debt	**$2,323.53**	**100%**	**$2,531.18**	**100%**	**$2,531.22**	**100%**

* RPE = "Bonos Fideicomisos Recuperacion de Perdidas ENEE"
** RBCP = Refinanciamiento de Bonos Conversion de Pasivos
***Includes outstanding and current debt
Source: ENEE

Approximately 44.7% of ENEE’s total debt is held by the private sector and the remaining 55.3% is held by public sector creditors. Within the public sector, the main holders are decentralized organizations, such as social investment funds and nonfinancial entities (such as the Honduran Social Security and *Tasa de Seguridad*). The average life of ENEE’s debt held by the public sector is 7.75 years. Within the private sector, the main holders of ENEE’s debt are national banks, mainly Ficohsa and Banco Atlántida. The average life of ENEE’s debt held by the private sector is 6.0 years. Ficohsa and Banco Atlántida also currently manage trusts for ENEE, which were created to manage ENEE’s cash flow and in connection with the financing of projects focused on reducing transmission and distribution losses.

The following table sets forth ENEE’s debt service in U.S. dollars as of the dates indicated.

ENEE's Debt Service

Millions of U.S. Dollars

Description	As of December 31, 2018			December 31, 2019			March 31, 2020		
	Amortization	Interest	Commissions	Amortization	Interest	Commissions	Amortization	Interest	Commissions
Internal Debt									
Bonds	**-**	**25.09**	**3.29**	**128.58**	**24.84**	**3.12**	**-**	**2.40**	**0.34**
RPE* 2013	-	8.73	1.48	-	9.00	1.37	-	-	0.26
RPE* 2014	-	11.94	1.30	128.58	11.42	1.25	-	-	-
RPE* 2016	-	0.08	0.01	-	0.08	0.01	-	0.04	-
RBCP** 2016	-	4.34	0.50	-	4.37	0.49	-	2.37	0.08
Central government	**10.62**	**46.62**	**0.37**	**12.25**	**47.28**	**0.33**	**2.35**	**22.18**	**0.06**
Erp	9.27	2.39	0.13	8.40	2.20	0.12	1.92	0.33	0.06
Hond.-Spain Counter Value Fund	-	-	-	-	-	-	-	-	-
IDB Subsidiary Agreements	1.35	1.46	0.06	1.35	1.72	0.02	0.43	0.28	-
IDA Subsidiary Agreements	-	-	0.19	2.50	-	0.18	-	-	-
JICA Subsidiary Agreements	-	-	-	-	-	-	-	-	-
Sovereign Bond	-	42.76	-	-	43.36	-	-	21.57	-
Debt owed to energy suppliers									
Floating debt	-	-	-	-	-	-	-	-	-
Private sector - national banks	-	4.33	-	19.76	30.79	0.40	6.59	6.56	-
Total Internal Debt	**$10.62**	**$76.04**	**$3.66**	**$160.59**	**$102.91**	**$3.84**	**$8.94**	**$31.14**	**$0.40**
External Debt									
Bilateral debt	**0.05**	**15.94**	**0.34**	**14.76**	**17.29**	**0.23**	**-**		**-**
Club de Paris Loan	0.05	0.08	-	0.03	0.08	-	-		-
ICBC	-	15.86	0.34	14.76	17.21	0.23	-		-
Total External Debt	**0.05**	**15.94**	**0.34**	**14.76**	**17.29**	**0.23**	**-**		**-**
Total Debt Service	**$10.68**	**$91.99**	**$4.00**	**$175.35**	**$120.20**	**$4.07**	**$8.94**	**$31.14**	**$0.40**

* RPE = Bonos Fideicomiso Recuperacion de Perdidas ENEE
**RBCP = Refinanciamiento de Bonos Conversion de Pasivos
Note: Debt service to be executed in each period.
Source: ENEE

ENEE’s existing debt service burden has had and will continue to have a significant adverse impact on ENEE’s cash flow and results of operations. Certain of its project finance debt, which is managed through trust funds, includes payment priorities which limit the availability of ENEE’s cash flow for payments to energy suppliers and capital expenditures necessary to improve its transmission and distribution network, among other things. ENEE has three trusts, created by the Honduran Government in 2013 in conformity with article 29 of the General Law of the Electricity Industry. Each trust was created to manage ENEE’s cash flow in connection with the financing of projects focused on reducing transmission and distribution losses. The distribution trust, administered by Banco Fichosa, was created to hire a private operator to manage and control energy distribution and make investments to reduce energy losses. The transmission trust, administered by Banco Atlantida, was created to hire a private operator to invest in energy transmission and expand the grid. The Public Lighting trust, administered by Banco Lafise, was created to hire a private operator to manage and invest in public lighting and improve the efficiency of energy consumption. In addition, the interest rates and other financial terms applicable to ENEE’s existing debt further burden ENEE’s cash flow and financial results.

As a result, in addition to the operational improvements and regulatory reforms described above, the Government intends to implement a program to refinance ENEE's debt, with a view to converting short-term debt into long-term debt, improving the financial conditions of ENEE's debt and reducing the cash flow constraints imposed on ENEE under its existing debt instruments.

In the 2019 SBA with the IMF, Honduras agreed to commence structural reforms to ENEE. There have been advances in the initial phase of the electricity sector reform, which aims at strengthening the institutional framework in the sector. The strengthening of CREE, the creation of the ODS, the efforts by the new management of the company and SEFIN to improve governance and transparency in ENEE, and the establishment of an electricity theft task force have the potential to reinforce the institutional framework for an open, competitive and transparent market in the electricity sector. Continued steadfast implementation of the reform plans in the sector, as discussed in detail below, remains a government objective.

The IADB and SEFIN have announced the commencement of an external audit of ENEE's financial statements. The audit of ENEE's 2017 financial statements began at the end of 2019, but has experienced delays. After the completion of the audit of the 2017 financial statements, the audit of the 2018 and 2019 financial statements will be contracted to an appropriate party.

Operational Improvements

ENEE has identified the following four key areas which require improvement in the short-term:

- *Energy losses (technical and non-technical issues):* Technical losses derive from system failures, reading errors or the physical transfer of energy; non-technical losses represent unbilled consumption of energy as a result of unofficial connections to the distribution network, modifications or alterations of measuring devices by clients, or any other form of energy supply that does not result in billing because the energy has not been correctly measured or read. Many clients do not have meters and are charged fixed rates regardless of consumption.
- *Increases in international prices of fossil fuels used for thermal generation:* ENEE purchases fossil fuels, such as bunker fuel and diesel, to generate electricity in its thermal generation plants. ENEE reduced its dependence on thermal electricity generation from 56% of the total energy produced in 2014 to 31% in 2018. However, international prices of fossil fuels, which are an exogenous factor over which ENEE has no control, have significantly increased the cost of producing thermal energy during that time. As a result, despite significantly reducing the volume of fossil fuels it purchases, the overall cost of its fossil fuel purchases has not decreased commensurately.
- *High cost of power purchase agreements (PPAs):* In the 1990s, existing generation plants in Honduras' electricity system, mostly owned by ENEE, did not have sufficient supply to meet demand or demand growth. In order to increase energy generation, the sector required large investments. To achieve this growth in energy generation, the Government encouraged investment through the purchase of supply via PPAs guaranteed by the Central Government. These PPAs were often entered into on a long-term basis at prices that reflected generating costs applicable at the time the contracts were entered into. Through the years, advances in technology have lowered the cost of producing electricity. ENEE is a party to a number of such long-term PPAs, which have a negative impact on its financial position. While less expensive options exist in the market, a significant portion (72%) of the electricity that ENEE supplies to its customers is purchased at non-competitive prices set forth in its PPAs.
- *Rates below actual cost to supply electricity:* The rates that ENEE charges for the electricity it supplies to its consumers do not cover all costs associated with the generation, transmission, distribution and sale of that energy. From 2014 to date, the electricity sector in Honduras has been undergoing a number of changes, including changes to the rates that electricity companies may charge to their customers. Many of these changes emanate from the General Law of the Electricity Industry and regulations thereunder that allow electricity rates to be increased to compensate electricity companies more adequately for their costs. The changes to the rate structure, however, are being phased in over time and, consequently, electricity companies have not been able to pass through to customers all of their allowable costs.

Since 2016, the electricity rate structure has been reformed in an effort to eliminate, over time, all direct and cross subsidies. In order to mitigate the economic impact of the new rate structure on residential customers, the Honduran Government has implemented subsidies payable directly to such customers. Approximately 1.5 million residential customers (83.3% of total customers) are eligible to receive this temporary benefit. On January 3, 2020, the SEN announced that the subsidies to these consumers will be maintained until December 2020. These subsidies are expected to be phased out over time.

In order to address the issues described above, the Government has implemented a number of actions to improve operational and financial results for ENEE and the energy sector, including the following:

- The number of employees at ENEE was significantly reduced from 4,916 in 2013 to 2,160 as of June 30, 2019. This has resulted in a 50.9% reduction in payroll costs over that period.

- During 2016, 32% of total energy generated was lost due to technical and non-technical issues. A private company was hired to manage loss reduction, focusing on eliminating irregular connections, standardizing protocols in the distribution network, as well as increasing individual meter installation and promoting fraud detection campaigns. Under a trust managed by Banco Atlántida, pre-investment studies were completed. It is expected that the transmission network will require investments of approximately U.S.$83.0 million and maintenance of existing assets will require an additional investment of approximately U.S.$144.0 million.
- In 2017, a Government bond issuance was made in the international capital markets in the amount of U.S.$700 million in order to enable ENEE to refinance short-term domestic debt. The proceeds of the bond issuance were loaned to ENEE pursuant to a *Convenio de Préstamo Reasignado* that mirrors the terms of the bond issuance. ENEE, in turn, used the proceeds to repay or refinance local bank loans, local currency bonds, accounts payable and debts owed to energy producers. As of March 31, 2020, ENEE has approximately U.S.$2,531.2 million in outstanding debt.
- Significant progress has been made in updating ENEE's rate structure in order to capture operational and maintenance costs. In October 2018, electricity rates were increased by 18% and, in April 2019, a 10.89% increase was applied. These two adjustments have increased ENEEs revenues by approximately L.4,515.0 million since their implementation and reduced the existing gap between the cost of supplying energy and the rates ENEE charges its customers for that energy.
- The Government has encouraged the development of projects that generate clean energy and diversify the energy matrix toward renewable energy sources.
- The Government has continued to implement the provisions of the General Law of the Electric Industry, including the development of the domestic energy spot market which is expected to promote competitiveness, better prices, and meet demand in a more comprehensive, timely and transparent manner.

However, even with these measures, ENEE's cash flow is expected to continue to be negative, with the consequence that there may be no resources available for expansion, nor to guarantee the sustainability of the system.

The sustainability of the electricity sector in the long term requires a deeper reform, as provided by the General Law of the Electric Industry, which includes a tariff and subsidy review, allowing the participation of the private sector (expansion in generation, transmission and distribution), developing a new regulatory framework, and strengthening institutional capacity.

Electricity Sector Reform

Reforming the electricity sector remains a strategic priority for the Government. To that end, the Government has continued the implementation of the General Law of the Electricity Industry, which took effect in 2014.

Since mid-2018, the Government has also been in negotiations toward an agreement with the IMF to provide a financial assistance program for ENEE. As part of the 2019 SBA with the IMF, Honduras agreed, among other things, to certain fiscal targets, such as a floor on net lending of the nonfinancial public sector, a floor on net lending of ENEE, and a ceiling on the accumulation of arrears by ENEE; monetary targets, such as a floor on central government tax revenues, a floor on priority social spending, and a floor on the operating revenue-to-spending ratio of ENEE; and the implementation of structural reforms to ENEE and the electricity sector. The objectives of those reforms include reducing further accumulations of debt with energy generators, eliminating remaining subsidies, reducing technical and non-technical losses, updating the electricity rate structure and implementing the corporate restructuring of ENEE. Reforming the electricity sector and stabilizing ENEE's financial situation are central components of the IMF program and important for Honduras to meet its fiscal targets.

The following describes the actions the Republic has taken and plans to take to reform the electricity sector—

Strengthening Regulation through CREE. The *Comisión Reguladora de Energía Eléctrica* (CREE) was created as a body with functional and budgetary independence to regulate the electricity sector. CREE receives 0.25% of the billing from distribution companies and is also expected to receive a fee of 0.25% applied to electricity purchase transactions by qualified consumers (large consumers). In 2018 and 2019, the CREE issued a number of regulations establishing the operational framework for the sector. For example, with assistance from the World Bank, a new tariff structure was approved in June 2019 which defines the framework for electricity generation, distribution, transmission, and other costs of providing electricity services. CREE then worked on regulations to implement the tariff structure. On May 21, 2020, the National Congress approved a legislative decree aimed at strengthening CREE's supervisory role over the electricity sector.

CREE's governance structure has also been strengthened, including by appointing all commissioners, and tariffs continue to be updated on a quarterly basis based on technical considerations. Further, CREE will oversee a gradual process of opening the electricity market to other players and foster competition, so that, as the entity in charge of the sector, it can maintain efficiency in the electricity market.

Increasing Efficiency through a System Operator. A system operator and dispatch center (ODS) was created to manage the operation of the power grid and ensure the reliable delivery of electricity. The mandate of the ODS, a function previously performed by ENEE, involves the design of plans to expand generation and transmission based on sound projections of energy demand, the preparation of procedures for purchase of energy in spot markets, and the operation of the payment system in the wholesale market. The ODS is already working on these plans and regulations, which will allow open, competitive, and transparent auctions for new energy purchases.

*Improving ENEE's Operating Deficit***.** ENEE continues to record annual deficits. The transformation of the company, as well as the implementation of actions aimed at allowing the company to achieve financial stability, are still in process. Such actions include the implementation of a rate model that reflects the real cost of supply, as well as the incorporation of all costs in the rates such as the real cost of operation, distribution and sale. To address the high generation costs, misalignment between electricity rates and costs, high electricity losses, governance issues, and persistent operational inefficiencies, reforms of ENEE are focused on the following issues:

- Management: A new management team was appointed for ENEE, and the Secretary of Finance has established an intervention commission to audit its operations. The intervention commission has been working since January 2020 on the implementation of reforms to alleviate ENEE's financial difficulties.
- Audit: The hiring of international firms to conduct audits of ENEE's financial accounts and its processes will be finalized in 2020. An inter-institutional commission will value the company's assets and liabilities, which is critical for its unbundling.
- Unbundling: As mandated by the electricity framework law, the authorities are making progress to unbundle ENEE into three independent companies that will operate in generation, transmission, and distribution. The separation of the company will enhance the functioning of the electricity market and attract investment.
- Financial and generation issues: The authorities plan to negotiate refinancing agreements with ENEE's creditors to reduce financing costs. Additionally, in strict adherence to the legal framework, they will seek a more efficient electricity market through agreements with existing private generation companies.
- Electricity losses: A new task force was launched to reduce non-technical losses by conducting targeted field assessments of irregular connections, tampered or damaged meters, and unmetered consumers. The authorities are also securing the financing to upgrade the transmission grid.

Contract with Empresa Energia Honduras (EEH). As part of an earlier attempt to reduce technical and non-technical losses, Honduras launched an international tender for the administration of ENEE's energy distribution (including maintenance, metering, billing, collections and consumer assistance). EEH was the winner of this tender, submitting an indicative investment plan of approximately U.S.$358.0 million expected to be executed during the term of the contract. The plan included investments in macro measurement circuits, branch circuits and transformers, as well as installing smart meters for large users to allow measurement assurance and remote reading.

In 2016, the Government entered into an agreement with EEH in the form of public private partnership aimed at reducing technical and non-technical losses at ENEE. The principal activities that EEH undertook in the contract, which is administered through a trust arranged by Ficohsa, are metering, billing and collection; maintenance and operation of the distribution network; and reducing non-technical losses. Other relevant factors of the contract are: (i) a fixed monthly fee paid to EEH of U.S.$10.5 million; (ii) a success fee paid to EEH according to the loss reduction goals achieved; (iii) the obligation on the part of EEH to make investments for the distribution system to be subsequently reimbursed; monetary sanctions for not reaching annual goals, which are amounts deducted from EEH's monthly U.S.$10.5 million guarantee. EEH started its seven-year contract in August 2016, with the aim of reducing electricity losses by approximately 4% per year. EEH is currently in the fourth year of this contract. During the first two years of the contract, losses increased by 0.11%, and in the third year of service (which ENEE is currently in the process of closing) losses increased by approximately 2.32%. ENEE is currently evaluating the results that have been achieved to date and its rights and obligations under the contract with EEH.

PPA Renegotiation. To help control the deficit, ENEE has also planned a renegotiation of PPA contracts. This renegotiation was first contemplated in October 2018 by the Republic, ENEE, the Honduran Business Council, the Honduran Association of Electric Power Producers, EEH and the Honduran Association of Banking Institutions (AHIBA), in the *Acuerdo para la Reforma del Sector Eléctrico Hondureño,* or Agreement on the Reforms to the Honduran Electricity Sector.

ENEE currently has 84 PPA contracts, through which it purchases over 1,900 MW of electricity. ENEE plans to amend these contracts with the counter-parties and make contractual changes that are expected to result in savings in the cost of electricity purchased. For example, a major component of the PPA contract renegotiation will be the change in the rates that ENEE pays for the electricity supplied under these contracts. The electricity generators with whom ENEE has PPA contracts also sell electricity in the spot market. Using these market prices, as well as average global prices of energy, ENEE has built financial models to estimate the price ENEE should be paying for energy, depending on the type of generation. For example, all contracts relating to hydroelectric generation should be similar because the same technology is being used. Using these models, ENEE plans to renegotiate the PPA contracts and reduce the cost to ENEE of purchasing energy. The renegotiation of PPA contracts is projected to be completed by the end of 2020.

Consideration of Stakeholders. Finally, this comprehensive energy sector reform plan includes appropriate support for the poor. The Government aims to maintain communication with the public and has put in place specific programs to protect the poor, which include maintaining the electricity subsidy for those consuming less than 75kwh per month and introducing transitory budgetary transfers for low-consumption households after the tariff adjustment.

Water Distribution and Consumption

Beginning in 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 municipalities.

The following table shows water consumption by type of consumer for the periods indicated:

Water Consumption
For the year ended December 31,

	2015	**2016**	**2017**	**2018**	**2019**
			(thousands of cubic meters)		
Economic sector					
Residential	51,387,056	50,642,048	49,799,983	52,155,531	49,819,949.88
Commercial	7,781,939	7,537,212	8,140,620	7,256,633	7,157,744.00
Industrial	795,382	833,155	760,230	717,394	695,724.00
Government	4,788,904	6,477,523	5,497,708	4,745,276	4,602,405.00
Councils	7,704,737	7,726,311	8,211,460	8,468,695	8,082,004.00
Municipal	17,210	15,862	15,766	15,683	51,325.00
Total	**72,475,227**	**73,232,111**	**72,425,768**	**73,359,213**	**70,409,152.00**

Source: Fuente: SANAA –March 2020. *Sistema de Información Comercial – Incluye Regionales (División del Atlántico y División Norte)*

Mining and Quarrying

The mining and quarrying sector includes the production of metallic minerals, such as silver, gold, lead, zinc and iron oxide products, as well as quarrying activities, such as the extraction of sand, gravel and clay, among others. The mining and quarrying sector represents a relatively small part of the Honduran economy, equivalent to 0.2% of real GDP, on average, from 2015 through 2019.

In 2015, the mining and quarrying sector decreased by 1.0%, due to the decrease in extraction of silver, lead and zinc and lower demand for sand and gravel by the construction sector.

In the following years the mining and quarrying sector recovered. In 2016, the mining and quarrying sector experienced 5.4% growth, mainly attributable to the performance of quarries, due to increased private construction. In 2017 and 2018, the mining and quarrying sector registered increases of 14.1% and 6.7%, respectively, due principally to increases in the extraction of metallic minerals, such as zinc, silver and lead. In addition, quarries also experienced growth in those years, as the greater extraction of stone and sand were required for private construction.

In 2019, the mining and quarrying sector decreased by 0.3%, mainly due to a lower demand of cement for public infrastructure projects

Employment and Wages

In Honduras, the structure of minimum wages is established by economic sector 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 the sectors, during the period from 2005 to 2011, the minimum wage was fixed directly by the central administration. The National Congress enacted Decree No. 103 of 2016, the "Minimum Salary Law", providing for a mechanism that establishes the minimum wage, taking into account expected inflation and productivity. This mechanism has allowed the Minimum Wage Commission to agree on adjustments over several years. The current agreements cover the period from 2019 to 2020 for most companies, while the agreements for companies benefiting from the free zone regime cover the period from 2019 to 2023.

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

Minimum Monthly Wage

	2015		**2016**		**2017**		**2018**		**2019**	
	(*lempiras*)	(%)	(*lempiras*)	(%)	(*lempiras*)	(%)	(*lempiras*)	(%)	(*lempiras*)	(%)
Nominal	7,294.71	8.1	7,759.98	6.4	8,448.40	8.9	8,910.71	5.5	9,622.32	8.0
Real*	7,126.52	9.9	7,511.35	5.4	8,066.84	7.4	8,549.90	6.0	9,245.12	8.1

* 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.

Source: Ministry of Labor and Social Security

The average minimum wage has been adjusted annually by an average of 6.8% in nominal terms and 7.2% in real terms for the period between 2015 and 2018.

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

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

(Percentage of the total economically active population)

Employment and Labor

	As of May 31,			
	2015	**2016**	**2017**	**2018**
Participation rate	57.3	57.5	59.0	60.4
Employment rate	92.7	92.6	93.3	94.3
Open unemployment rate	7.3	7.4	6.7	5.7
Invisible underemployment	41.0	44.2	44.2	48.6
Visible underemployment	14.2	11.5	11.8	14.2

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

Poverty

In 2014, the percentage of households living below the poverty line was 62.8%, while 39.7% of Hondurans lived in extreme poverty. In 2019, the number of households living in poverty decreased to 59.3%, while extreme poverty fell to 36.7%. Poverty and extreme poverty are significantly higher in rural areas than in urban areas.

Until 2014, poverty was 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. Since 2015, a new method for measuring poverty, known as *Indice de Probreza Multidimensional* ("IPM-Honduras"), based on the Alkire-Foster methodology has been implemented. This is a measurement applied to the specific conditions of Honduras in different national priorities, called dimensions, among which are work, education, health and housing. This measurement is being implemented by the government, through an interdisciplinary national technical commission, organized by the *Secretaría de Coordinación General de Gobierno* ("SCGG"). The sum of households living in extreme and relative poverty equals the total number of households living in general poverty.

The table below indicates the percentage of households living in poverty for the years indicated:

Percentage of Households in Poverty

Category	2015	2016	2017	2018	2019
			As of December 31,		
			(in percentages)		
Extreme					
Urban	29.5	27.7	26.7	23.0	21.0
Rural	53.6	52.4	58.8	58.9	57.2
National	40.0	38.4	40.7	38.7	36.7
Relative					
Urban	33.5	31.7	33.7	32.3	31.4
Rural	11.2	10.5	10.5	11.4	11.1
National	23.8	22.5	23.6	23.1	22.6
General					
Urban	63.0	59.4	60.4	55.3	52.5
Rural	64.8	62.9	69.3	70.3	68.2
National	63.8	60.9	64.3	61.9	59.3

Source: *Instituto Nacional de Estadística* ("INE"). *Encuesta Permanente de Hogares de Propósitos Múltiples*, 2013 to 2019.

The administration of President Hernández continues implementing programs to fight poverty, including the implementation of an important Central Government social protection program entitled the *Vida Mejor* program. This program includes cash transfers for extremely impoverished families conditioned on their participation in health and education programs. Additionally, 3,610 low-income housing units, 39,645 water filters, 65,500 toilets, 193,660 floors, 45,838 roofs and 186,449 eco-friendly stoves have been provided to participants, benefitting approximately 1.4 million families. Central Government agencies, including the Presidential Office and the Health Ministry, supervise and ensure participants complete the *Bono Vida Mejor* requirements, which include children's continuous school enrollment and regular medical checkups.

In addition, the Hernández administration has implemented the *Especies Menores* program, which is aimed at providing food security for families with limited economic resources in areas of social vulnerability. Participating families are permitted to raise species of animals such as hens, pigs and goats. Approximately 2,835 families have participated in this program from 2016 to 2019.

Since 2017, the Central Government has implemented a public management model called *Ciudad Mujer*, the purpose of which is to contribute to the improvement of women's living conditions in Honduras in areas, such as economic autonomy, violence against women, prevention and care of teenage pregnancy, sexual and reproductive health and collective education. Services are offered through a network of competent public institutions, and approximately 577,179 women have benefitted from the program as of December 31, 2019.

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 for men and 60 years for women. 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

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,				
	2015	**2016**	**2017**	**2018**	**2019**
	(millions of Lempiras except percentages)				
Income					
Contributions	4,818.60	5,789.31	6,705.96	6,954.42	6,538.06
Other Income	401.52	127.38	232.61	434.37	565.71
Total Income	**5,220.12**	**5,916.69**	**6,938.57**	**7,388.79**	**7,103.77**
Total Expenditures	**4,837.39**	**5,507.85**	**5,654.73**	**6,400.00**	**6,532.11**
Net income	**382.73**	**408.85**	**1,283.84**	**988.79**	**571.66**

Source: IHSS

Disability, Retirement and Death

	For the year ended December 31,				
	2015	**2016**	**2017**	**2018**	**2019**
	(millions of Lempiras except percentages)				
Income					
Contributions	1,266.28	1,526.00	1,627.95	2,164.49	3,196.54
Other Income	1,194.22	1,640.63	1,794.86	2,669.76	2,477.02
Total Income	**2,460.50**	**3,166.63**	**3,422.80**	**4,834.25**	**5,673.56**
Total Expenditures	**1,147.35**	**1,159.02**	**1,575.42**	**1,746.65**	**1,966.01**
Net income	**1,13.15**	**2,007.61**	**1,847.38**	**3,087.60**	**3,707.55**
Net income as % of GDP	**0.44%**	**0.40%**	**0.34%**	**0.54%**	**0.60%**

Source: IHSS

Professional Risks

	For the year ended December 31,				
	2015	**2016**	**2017**	**2018**	**2019**
	(millions of Lempiras except percentages)				
Income					
Contributions	112.06	114.66	119.23	121.17	130.60
Other Income	2.41	6.66	14.13	106.24	23.78
Total Income	**114.47**	**121.31**	**133.36**	**227.38**	**154.37**
Total Expenditures	**118.32**	**123.53**	**144.26**	**223.51**	**153.0**
Net income	**(3.85)**	**(2.22)**	**(10.89)**	**3.88**	**1.38**
Net income as % of GDP	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**

Source: IHSS

FOREIGN TRADE AND BALANCE OF PAYMENTS

General

In 2019, imports of goods including GM and GP, accounted for 47.4% of nominal GDP. Total CIF imports, including consumer goods, accounted for 24.7% of total imports; commodities and intermediate goods accounted for 23.5% of total imports; fuels, lubricants and electricity accounted for 12.4% of total imports; and GP accounted for 22.6% of total imports. The remaining 16.8% of nominal GDP consisted of capital goods, construction materials and others.

Exports increased at an average annual rate of 1.7% between 2015 and 2019. In 2019, exports of goods increased by 1.5% compared with 2018. The current account deficit decreased from 4.7% of GDP in 2015 to 0.7% in 2019. This was mainly due to greater exports of 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 increased from 16.2% of nominal GDP in 2015 to 16.6% of nominal GDP in 2019.

In 2018, FOB exports of goods decreased by 0.8% compared to 2017 and accounted for 35.7% of GDP mainly due to the decrease in exports of coffee, African palm oil, and soaps. Imports of goods increased by 7.4% in 2018, compared to 2017, and accounted for 51.0% of GDP, mainly due to an increase in imports of fuel, lubricants and electricity, capital goods and raw materials and intermediate goods.

In 2019, FOB exports of goods increased by 1.5% compared to 2018, mainly due to the increase in the export of textiles. In addition, imports of goods decreased by 3.2% over the same period, mainly due to a decrease in imports of raw materials and intermediate goods and consumer goods.

Composition of Foreign Trade

Honduras maintains close commercial ties with the United States, its main trading partner. Between 2014 and 2019, on average 54.0% of exports were destined for the United States, 14.2% for the European Union and 19.9% for Central America. During that same period, 43.6% of total imports came from the United States, 6.6% from Europe and 19.6% from Central America.

In 2018, exports to the United States accounted for 51.2% of total exports, and imports to the United States represented 43.8% of total imports. In 2019, exports to the United States accounted for 53.8% of total exports, and imports from the United States represented 40.8% of total imports.

Exports

Exports of Goods

For the period from 2015 to 2019, the total value of exports increased from U.S.$8,226.0 million to U.S.$8,714.9 million.

In 2015, total exports increased by U.S.$108.9 million to U.S.$8,226.0 million, and accounted for 39.2% of nominal GDP. Exports of GP increased by U.S.$205.2, or 5.1%, to U.S.$4,234.2 million, compared to 2014, and accounted for 51.5% of total exports. This was mainly due to an increase of 6.3% in export of textile products. Increase in GP exports was offset by a 1.2% decrease in exports of electrical parts and automotive harnesses to the United States. Exports of GM decreased by U.S.$90.9 million, or 2.3%, to U.S.$3,862.3 and accounted for 47.0% of total exports. This was mainly due to an average decrease of 24.4% in the export of African palm oil and farmed shrimp. In 2015, exports to the United States increased by U.S.$172.6 million or 3.9%, compared to 2014 and accounted for 56.5% of total exports.

In 2016, total exports decreased by U.S.$266.5 million to U.S.$7,959.5 million and accounted for 36.8% of nominal GDP. Exports of GM decreased by U.S.$49.7 million, or 1.3%, to U.S.$3,812.6 million compared to 2015. This was mainly due to a decrease in exports of products, such as coffee, paper and cardboard, minerals and tilapia filet. Exports of GP decreased by U.S.$ 215.3, or 5.1%, to U.S.$4,018.9 million, compared to 2015. This was mainly due to a decrease in sales of textile products, mainly knitting and clothing. In 2016, exports to the United States decreased by U.S.$120.0, or 2.6%, compared to 2015, and accounted for 56.9% of total exports.

In 2017, total exports increased by U.S.$696.2 million, or 8.7%, to U.S.$8,655.7 million, compared to 2016, and accounted for 37.6% of nominal GDP. Exports of GM increased by U.S.$626.1 million, or 16.4%, to U.S.$ 4,438.7 million, compared to 2016. This was mainly due to an increase in exports of coffee, palm oil, shrimp and paper and cardboard. Exports of GP increased by U.S.$62.9 million, or 1.6%, to U.S.$4,081.8 million, compared to 2016. In 2017, exports to the United States decreased by U.S.$145.5 million, or 3.2%, compared to 2016 and accounted for 50.6% of total exports.

In 2018, total exports decreased by U.S.$70.0 million, or 0.8%, to U.S.$8,585.8 million, compared to 2017. This was mainly due to a decrease in total general merchandise, compensated to some extent by an increase in total GP. Exports of GM decreased by U.S.$251.3 million, or 5.7%, to U.S.$ 4,187.4 million, compared to 2017. This was mainly due to a decrease in exports of coffee, palm oil and soaps. Exports of GP increased by U.S.$195.4 million, or 4.8%, to U.S.$4,277.3 million, compared to 2017. This was mainly due to an increase in exports of textile products, electrical parts and automotive harnesses. In 2018, exports to the United States increased by U.S.$10.9 million, or 0.2%, compared to 2017 and accounted for 51.2% of total exports. In 2019, total exports totaled U.S.$8,714.9 million, increasing by U.S.$129.1 million, or 1.5%, compared to 2018. This was mainly due to an increase in total goods for processing, countered to some extent by a decrease in total general merchandise. Exports of GM accumulated a total of U.S.$4,077.7 million and decreased by U.S.$109.7 million, or 2.6%, compared to 2018.

The following table shows the geographical distrubution of exports:

Geographic Distribution of Exports of Goods [(1)]

	For the Indicated Period, As of December 31,				
	2015	**2016**	**2017[r]**	**2018[*]**	**2019[*]**
	(percentage of total exports)[(1)]				
America	85.3	84.4	78.7	81.2	83.3
North America	59.6	59.0	53.2	54.1	56.0
Canada	3.0	2.0	2.6	2.9	2.1
United States	56.5	56.9	50.6	51.2	53.8
Latin-America	25.7	25.4	25.5	27.1	27.3
Central America	18.3	19.2	20.3	21.1	21.4
Costa Rica	1.2	1.3	1.3	1.3	1.3
El Salvador	7.7	7.9	8.8	9.5	9.7
Guatemala	3.2	3.5	3.2	3.0	3.4
Nicaragua	6.1	6.5	7.0	7.4	6.9
Rest of Latin-America	7.4	6.2	5.2	6.0	5.9
Europe	12.3	13.4	18.6	15.7	13.4
Rest of World	2.4	2.3	2.7	3.1	3.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[(1)] FOB prices
[*]Preliminary
[R]Revised
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 Indicated Period, As of December 31,				
	2015	**2016**	**2017[*]**	**2018[*]**	**2019[*]**
	(U.S.$ millions)[(1)]				
Textiles products	3,496.0	3,312.4	3,361.4	3,520.5	3,780.8
Electrical parts and transport equipment	691.2	649.1	657.3	692.2	664.8
Other goods	47.0	57.4	63.1	64.6	76.8
Total goods for processing	**4,234.2**	**4,018.9**	**4,081.8**	**4,277.3**	**4,522.4**
Coffee	986.0	912.8	1,317.5	1,115.3	946.7
Banana	505.0	509.0	522.7	531.9	478.9
Palm Oil	242.7	329.5	415.8	331.0	322.4
Cultured Shrimp	177.9	216.2	240.6	228.8	229.8
Paper and Paperboard	112.5	72.1	94.6	92.4	77.9
Pure or Cigars	96.0	99.5	95.3	106.4	87.9
Plastics and Articles Thereof	86.8	87.1	102.9	106.1	105.4
Soaps	95.7	104.1	100.8	73.0	97.9
Vegetables	73.3	89.7	96.1	99.7	111.2
Other Products	1,486.4	1,392.6	1,452.4	1,502.7	1,619.4
Total General merchandise	**3,862.3**	**3,812.6**	**4,438.7**	**4,187.4**	**4,077.7**
Total other goods	**129.6**	**128.0**	**135.2**	**121.1**	**114.8**
Total exports	**8,226.0**	**7,959.5**	**8,655.7**	**8,585.8**	**8,714.9**

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

Goods Exports by Groups of Products (1)

	For the Indicated Period As of December 31,					
	2014	**2015**	**2016**	**2017***	**2018***	**2019***
	(percentage of total exports)(1)					
Textiles products	40.5	42.5	41.6	38.8	41.0	43.4
Electrical parts and transport equipment	8.6	8.4	8.2	7.6	8.1	7.6
Other goods	0.5	0.6	0.7	0.8	0.8	0.9
Total goods for processing	**49.6**	**51.5**	**50.5**	**47.2**	**49.8**	**51.9**
Coffee	10.3	12.0	11.5	15.2	13.0	10.9
Banana	5.6	6.1	6.4	6.0	6.2	5.5
Palm Oil	3.8	3.0	4.1	4.8	3.9	3.7
Cultured Shrimp	3.0	2.2	2.7	2.8	2.7	2.6
Paper and Paperboard	1.3	1.4	0.9	1.1	1.1	0.9
Pure or Cigars	1.1	1.2	1.3	1.1	1.2	1.0
Plastics and Articles Thereof	1.1	1.1	1.1	1.2	1.2	1.2
Soaps	1.1	1.2	1.3	1.2	0.9	1.1
Vegetables	0.9	0.9	1.1	1.1	1.2	1.3
Other Products	20.5	18.1	17.5	16.8	17.5	18.6
Total General merchandise	**48.7**	**47.0**	**47.9**	**51.3**	**48.8**	**46.8**
Total other goods	**1.7**	**1.6**	**1.6**	**1.6**	**1.4**	**1.3**
Total exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

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.$663.5 million in 2015 and U.S.$758.3 million in 2019. This was mainly due to an influx of travelers into the country. In 2019, this inflow totaled U.S.$758.3 million.

In 2015, exports of services increased by U.S.$3.2 million, or 0.3%, to U.S.$1,211.7 million, an increase of 0.3% compared to 2014. Imports of merchandise transportation services totaled U.S.$913.1 million and accounted for 55.1% of the total value of imports. Additionally, imports of services expanded by U.S.$11.6 million or 0.7% to U.S.$1,656.6 million, compared to 2014.

In 2016, inflows from travel (tourism) increased by U.S.$29.8 million to U.S.$693.3 million, compared to 2015, and accounted for 54.6% of total exports of services. Exports of "other services," principally communications, business, government and computer and information services, totaled U.S.$455.3 million (35.9% of total exports of services). Total exports of services increased by U.S.$57.3 million, or 4.7%, compared to 2015, totaling U.S.$1,269.0. Imports of other services during 2016 totaled U.S.$447.4 million (25.8% of total imports of services), an increase of U.S.$62.1 million compared to the same period of the previous year. Total imports of services rose by U.S.$75.2 million or 4.5% to U.S.$1,731.8 million, in comparison to 2015.

In 2017, exports of services increased by U.S.$125.7 million, or 9.9%, to U.S.$1,394.7 million, compared to 2016, mainly due to an increase in travel services (mainly personal travel), business services and computer and information services. Imports of services increased by U.S.$325.8 million, or 18.8%, to U.S.$2,057.6 million, compared to 2016, mainly due to an increase in the cost of transportation.

In 2018, inflows from travel (tourism) totaled U.S.$736.2 million, or 52.7%, of total exports of services, an increase of U.S.$21.4 million compared to 2017. Exports of "other services," principally communications, business, government and computer and information services, totaled U.S.$519.5 million (37.2% of total exports of services). Total exports of services grew by U.S.$3.5 million, or 0.2%, to U.S.$1,398.2 million, in comparison to the previous year. Imports of other services during 2018 totaled U.S.$708.2 million (30.6% of total imports of services), an increase of U.S.$35.5 million compared to the same period of the previous year. Accordingly, total imports of services rose by U.S.$258.0 million, or 12.5%, to U.S.$2,315.6 million, compared to 2017.

In 2019, inflows from travel (tourism) totaled U.S.$758.3 million, or 54.6%, of total exports of services, an increase of U.S.$22.1 million compared to 2018. Exports of "other services," principally business, communications, and government, totaled U.S.$486.0 million (35.0% of total exports of services). Total exports of services decreased by U.S.$9.4 million, or 0.7%, to U.S.$1,388.8, in comparison to 2018. Imports of services included transportation charges in the amount of U.S.$1,162.2 million (48.3% of total imports of services). Total imports of services increased by U.S.$89.9 million or 3.9% to U.S.$2,405.5 million, compared to the previous year.

The following table indicates the number of travelers to Honduras:

Travelers to Honduras
For the Indicated Period,

	As of December 31,				
	2015	**2016**	**2017**	**2018**	**2019***
	(thousands of persons)				
Tourists(1)	880	838	850	847	724
Excursionists(2)	1,212	1,390	1,294	1,477	1,587
Cruisers	918	1,053	1,104	1,289	1,392
One day visitors	295	338	190	188	195
Total Visitors	**2,093**	**2,228**	**2,144**	**2,323**	**2,311**
FX Income (in U.S.$ millions)	663.5	693.3	714.8	736.2	758.3

(1)Tourists correspond to all visitors who stay at least one night in the country.
(2) Excursionists are one day visitors to the country, including tourists who arrive on cruise ships into the country.
*Preliminary
Source: Honduran Tourism Institute (*Instituto Hondureño de Turismo*).

Imports

FOB imports of goods from 2015 to 2019, as a percentage of nominal GDP, decreased from 53.3% in 2015 (U.S.$11,175.2 million) to 47.4% in 2019 (U.S.$11,853.9 million). This was mainly due to the fact that the change in the indicator is not given by imports, but by the growth in GDP. Even though FOB imports of goods increased in 2019, compared to 2015, the percentage of nominal GDP decreased because of the decrease in GDP.

In 2015, FOB imports of goods increased by U.S.$90.5 million, or 0.8%, to U.S.$11,175.2 million, accounting for 53.3% of nominal GDP. CIF imports of GM increased by U.S.$126.0 million, or 1.4%, to U.S.$9,424.3, 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.$299.5 million, capital goods of U.S.$76.0 million and construction materials of U.S.$67.8 million. In addition, imports of fuels, lubricants and electricity decreased by U.S.$728.7 million and imports of miscellaneous goods decreased by U.S.$6.3 million, compared to 2014. In 2015, CIF imports of GP totaled U.S.$2,692.4 million, a decrease of U.S.$46.0 million compared to 2014.

In 2016, FOB imports of goods decreased by U.S.$616.3 million, or 5.5%, to U.S.$10,558.9 million, accounting for 48.8% of nominal GDP. CIF imports of GM decreased by U.S.$511.5 million, or 5.4%, to U.S.$8,912.8 million, compared to 2015. CIF imports of commodities and intermediate products decreased by U.S.$367.8 million. CIF imports of fuels, lubricants and electricity decreased by U.S.$185.1 million. CIF imports of capital goods decreased by U.S.$142.6 million. CIF imports of construction materials decreased by U.S.$6.1 million, compared to 2015. CIF imports of consumption goods increased by U.S.$163.2 million and imports of miscellaneous goods increased by U.S.$26.8 million, compared to 2015. In 2016, CIF imports of GP decreased by U.S.$124.9 million, or 4.6%, to U.S.$2,567.5 million, compared to 2015. This was mainly due to a decrease in the demand of commodities for manufactured goods, including yarn, fabrics, synthetic fabrics and cables.

In 2017, FOB imports of goods increased by U.S.$849.9 million, or 8.0%, to U.S.$11,408.8 million, accounting for 49.6% of nominal GDP. CIF imports of GM increased by U.S.$770.2 million, or 8.6%, to U.S.$9,683.0 million, compared to 2016. CIF imports of fuels, lubricants and electricity increased by U.S.$231.7 million. CIF imports of raw materials and intermediate products increased by U.S.$266.5 million. CIF imports of capital goods increased by U.S.$156.8 million. CIF imports of GP increased by U.S.$156.3 million, or 6.1%, to U.S.$ 2,723.8 million, compared to 2016, mainly due to the rise in demand for raw materials for the manufacture of clothing.

In 2018, FOB imports of goods increased by U.S.$841.3 million, or 7.4%, to U.S.$12,250.1 million, accounting for 51.0% of nominal GDP. CIF imports of GM increased by U.S.$830.0 million, or 8.6%, to U.S.$10,513.0 million, compared with 2017. CIF imports of raw materials and intermediate products increased by U.S.$358.8 million. CIF imports of fuels, lubricants and electricity increased by U.S.$264.3 million. CIF imports of capital goods increased by U.S.$149.2 million. CIF imports of GP increased by U.S.$200.4 million, or 7.4%, to U.S.$2,924.2 million, compared to 2017. This was mainly due to an increase in demand for raw materials for the manufacture of clothing and cables.

In 2019, FOB imports of goods decreased by U.S.$396.2 million, or 3.2%, to U.S.$11,853.9 million. CIF imports of GM decreased by U.S.$453.6 million, or 4.3%, to U.S.$10,059.4 million, compared with 2018. CIF imports of raw materials and intermediate products decreased by U.S.$250.8 million. CIF imports of capital goods decreased by U.S.$81.7 million. CIF imports of consumer goods decreased by U.S.$71.7 million. CIF imports of GP increased by U.S.$17.5 million, or 0.6%, to U.S.$2,941.7 million, compared to 2018. This was mainly due to an increase in demand for raw materials for the manufacture of clothing and cables.

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

Goods Imports by Country of Origin (1)

	As of December 31,				
	2015	**2016**	**2017r**	**2018***	**2019***
	(percentage of total imports)(1)				
America	73.5	74.8	77.1	75.5	73.4
North America	42.9	42.8	43.5	44.3	41.3
Canada	0.3	0.4	0.4	0.5	0.5
United States	42.6	42.4	43.1	43.8	40.8
Latin-America	30.6	32.0	33.7	31.3	32.2
Central America	18.5	19.0	21.2	19.0	20.4
Costa Rica	2.8	2.9	3.4	3.4	3.4
El Salvador	6.8	7.2	7.7	7.7	8.7
Guatemala	7.4	7.5	8.5	6.0	6.1
Nicaragua	1.5	1.3	1.7	1.9	2.2
Rest of Latin-America	12.1	13.1	12.4	12.3	11.8
Europe	6.9	6.7	6.2	6.5	6.9
Rest of World	19.6	18.5	16.7	17.9	19.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

From 2015 to 2019, imports from North America, Latin America, Central America and Europe totaled approximately 44.0%, 31.9%, 19.6%, and 6.6%; respectively. In 2019, imports from North America, Latin America, Central America and Europe represented 41.3%, 32.2%, 20.4% and 6.9% respectively.

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)

	As of December 31,				
	2015	**2016**	**2017r**	**2018***	**2019***
	(U.S.$ millions)(1)				
Durable	1,704.4	1,777.9	1,778.6	1,850.2	1,823.9
Semi-durable	1,248.9	1,338.7	1,411.9	1,436.3	1,390.9
Total consumer goods	**2,953.4**	**3,116.6**	**3,190.5**	**3,286.5**	**3,214.8**
Fuel, lubricants and energy	1,356.1	1,171.0	1,402.7	1,667.0	1,616.2
Raw materials and intermediate goods	3,049.3	2,681.5	2,948.0	3,306.9	3,056.1
Capital goods	1,453.8	1,311.2	1,468.0	1,617.2	1,535.4
Construction materials	395.4	389.3	418.0	376.1	399.5
Others	216.3	243.1	255.7	259.4	237.4
Goods for processing	2,692.4	2,567.5	2,723.8	2,924.2	2,941.7
Total imports	**12,116.7**	**11,480.2**	**12,406.8**	**13,437.1**	**13,001.1**

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

Goods Imports by Type of Goods [(1)]

	As of December 31				
	2015	2016	2017*	2018*	2019*
	(percentage of total imports)[(1)]				
Durable	14.1	15.5	14.3	13.8	14.0
Semi-durable	10.3	11.7	11.4	10.7	10.7
Total consumer goods	**24.4**	**27.1**	**25.7**	**24.5**	**24.7**
	0.0	0.0	0.0	0.0	
Fuel, lubricants and energy	11.2	10.2	11.3	12.4	12.4
Raw materials and intermediate goods	25.2	23.4	23.8	24.6	23.5
Capital goods	12.0	11.4	11.8	12.0	11.8
Construction materials	3.3	3.4	3.4	2.8	3.1
Others	1.8	2.1	2.1	1.9	1.8
Goods for processing	22.2	22.4	22.0	21.8	22.6
Total imports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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

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 DR-CAFTA with the other Central American nations, the United States and the Dominican Republic. DR-CAFTA is very important to the Honduran economy, given that the United States is its main commercial and investment partner. DR-CAFTA made permanent previously temporary benefits, giving predictability to participants in the economy. DR-CAFTA strengthened the position of Honduras relative to other countries, for investments both inside and outside the region. This agreement became effective on April 1, 2006.

Treaty of Central American Economic Integration

In December 1960, the governments of Guatemala, El Salvador, Honduras and Nicaragua signed a treaty with the primary objective of unifying the economies of the four countries and promoting 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. This agreement became effective on June 4, 1961. It was later modified by the Guatemala Protocol signed in October 29, 1993 and effective as of August 16, 1995.

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 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. This agreement became effective on December 19, 2001.

Free Trade Agreement between Central America and Chile

In 2006, Honduras joined the Free Trade Agreement 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 were 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.

Free Trade Agreement with Chinese Taipei (Taiwan)

The National Congress, through Decree No. 06-2008 of January 30, 2008, approved the Free Trade Agreement between Chinese Taipei (Taiwan), the Republic of El Salvador and the Republic of Honduras, signed in San Salvador, El Salvador on May 7, 2007. The Agreement entered into force on July 15, 2008.

The Treaty covers national treatment and access of goods to the market; rules of origin; customs procedures related to the rules of origin; safeguard measures; unfair trade practices; sanitary and phytosanitary measures; metrology standardization measures and authorization procedures; investment; cross-border trade in services and temporary entry of business people, among other topics.

Free Trade Agreement between the Republic of Colombia and the Republics of El Salvador, Guatemala and Honduras

The Free Trade Agreement between the Republic of Colombia and the Republics of El Salvador, Guatemala and Honduras was signed on August 9, 2007 in the city of Medellin, Colombia, and was approved by the National Congress of Honduras through Decree No. 188-2007 of January 10, 2008. It became effective as of March 26, 2010.

The agreement covers national treatment and access of goods to the market; rules of origin; customs procedures related to the origin of the goods; trade facilitation; safeguard measures; anti-dumping and countervailing measures; sanitary and phytosanitary measures; technical barriers of trade; public procurement; investment; cross-border trade in services; electronic commerce; temporary entry of business people and transparency. Trade with Colombia has not had much movement with this treaty, possibly due to logistical problems, although there is Colombian investment in Honduras in important sectors.

Association Agreement Central America – European Union

Negotiations of the framework for the Association Agreement between Central America and the European Union concluded in May 2010 in Madrid, Spain. The discussions covered trade of goods, services and the right of establishment, electronic commerce, intellectual property, public procurement, trade and competition, trade and sustainable development, and addresses issues leading to the economic integration of the region. The final Agreement incorporates the Republic of Panama.

The Agreement consolidated the benefits of the Generalized System of Preferences Plus (SGP Plus), which gives tariff preferences to products such as shrimp, pineapple, live plants, grapefruit, cigars, and melons, among others. The Agreement also establishes quotas for sensitive products in Central America and the European Union. The Agreement entered into force on August 1, 2013 and has been useful to Honduran exporters in products such as shrimp, pineapple, coffee, sweet potato, minerals, ornamental plants and melon.

Free Trade Agreement between the Republic of Korea and the Republics of Central America

The Free Trade Agreement between the Republic of Korea and the Republics of Central America was signed on February 21, 2018, in Seoul, South Korea. Honduras has already ratified the Treaty but Korea has not. It covers all the disciplines of any third generation agreement, the private sector has good expectations in its exports to Korea as it is regarded as a commercial window to Southwest Asia to expand exports. This agreement became effective on November 1, 2019.

Free Trade Agreement Honduras – Canada

Negotiations with Canada were initiated jointly with El Salvador, Guatemala, Honduras and Nicaragua. The process dates back to 1998 and after a frozen period in the negotiations, in 2010, Canada and Honduras agreed to establish a free trade zone to lower trade barriers and improve economic development, each removing a large percentage of tariffs on the other country's goods and services. In parallel, the two countries agreed comply with certain labor and environmental principles domestically. The agreement entered into force on October 1, 2014.

Free Trade Agreement Honduras – Peru

The Free Trade Agreement between Honduras and Peru was signed on May 29, 2015, and entered into force on January 1, 2017. The agreement regulates matters such as rules of origin, market access, commercial facilitation, intellectual property, investment, services, among others.

Tax Preferences Systems and Partial Scope Agreements

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

- Central American General System of Preferences. This agreement was signed on June 29, 2012 with the United States, the European Union, and Canada and provides tariff preferences and trade benefits to Honduras.
- Caribbean Basin Initiative (CBI). This agreement was signed in 1984 and 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.

Balance of Payments

Current Account

In 2015, the current account deficit decreased by U.S.$392.2 million, or 28.6%, to U.S.$979.9 million, or 4.7% of GDP, compared to 2014. This was mainly due to an increase in GP exports and an increase in remittances. Remittances increased by U.S.$296.6 million, or 8.8%, to U.S.$3,649.8 million and accounted for 18.0% of GDP, compared to 2014.

In 2016, the current account deficit decreased by U.S.$412.8 million, or 42.1%, to U.S.$567.1 million, or 2.6% of GDP, compared to 2015. This was mainly due to a decrease in imports of goods and an increase in remittances. Remittances increased by U.S.$197.5 million, or 5.4%, to U.S.$3,847.3 million and accounted for 18.3% of GDP, compared to 2015.

In 2017, the current account deficit decreased by U.S.$391.2 million, or 69.0%, to U.S.$175.9 million, or 0.8% of GDP, compared to 2016. This was mainly due to an increase in remittances. Remittances increased by U.S.$458.0 million, or 11.9%, to U.S.$4,305.3 and accounted for 19.2% of GDP, compared to 2016.

In 2018, the current account deficit increased by U.S.$1,107.7 million, or 629.6%, to U.S.$1,283.6 million, or 5.3% of GDP, compared to 2017. This was mainly due to an increase in imports and offset by an increase in remittances. Remittances increased by U.S.$454.6 million, or 10.6%, to U.S.$4,759.9 million and accounted for 20.5% of GDP, compared to 2017.

In 2019, the current account deficit was U.S.$162.7 million, a decrease of U.S.$1,120.9 million, or 87.3%, compared to 2018. This was mainly due to a decrease in imports and an increase in remittances. Current account remittances increased by U.S.$624.6 million, or 13.1%, to U.S.$5,384.5 million, compared to 2018. Total remittances accounted for 22.3% of GDP.

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

Remittances Income

	As of December 31,				
	2015	**2016**	**2017[r]**	**2018***	**2019***
			(U.S.$ millions)		
Remittances Current Account	3,649.8	3,847.3	4,305.3	4,759.9	5,384.5
Remittances Capital Account	120.4	127.0	142.1	157.1	177.7
Total Remittances**	3,770.2	3,974.3	4,447.4	4,917.0	5,562.2
% of nominal GDP	18.0%	18.3%	19.2%	20.5%	22.3%

* Preliminary
[r]Revised
** Includes both remittances in current and capital accounts.
Source: Central Bank

Capital and Financial Account

From 2015 to 2019, the capital account recorded an average of U.S.$161.5 million surplus.

In 2015, the capital account surplus decreased by U.S.$12.0 million, or 7.8%, to U.S.$142.0 million, compared to 2014.

In 2016, the capital account surplus decreased by U.S.$12.1 million, or 8.5%, to U.S.$129.9 million, compared to 2015.

In 2017 the capital account surplus increased by U.S.$50.6 million, or 38.9%, to U.S.$180.5 million, compared to 2016.

In 2018, the capital account surplus decreased by U.S.$12.3 million, or 6.8%, to U.S.$168.2 million, compared to 2017.

In 2019, the capital account surplus increased by U.S.$26.3 million, or 15.6%, to U.S.$194.5 million, compared to 2018, mainly due to an increase in remittances.

From 2015 to 2019, Honduras received an annual average of U.S.$1,065.9 million in FDI.

In 2015, the financial account decreased by U.S.$357.0 million, or 20.4%, to U.S.$1,392.6 million, compared to 2014. This was mainly due to a decrease in foreign investment flows.

In 2016, the financial account decreased by U.S.$400.0 million, or 28.7%, to U.S.$992.6 million, compared to 2015. This was mainly due to a decrease in disbursements of public and private sector loans.

In 2017, the financial account increased by U.S.$677.4 million, or 68.2%, to U.S.$1,670.0 million, compared to 2016. This was mainly due to the issuance of the Republic's 6.250% Global Bonds due 2027.

In 2018, the financial account decreased by U.S.$606.2 million, or 36.3%, to U.S.$1,063.8 million, compared to 2017. This was mainly due to a decrease in disbursements of public and private sector loans.

In 2019, the financial account increased by U.S.$334.5 million, or 31.4%, to U.S.$1,398.3 million, compared to 2018. This was mainly due to inflows caused by the withdrawal of foreign assets in currency and deposits, property of the private sector, countered by a decrease in inflows of FDI.

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

Foreign Direct Investment by Sector

	As of December 31,				
	2015	**2016**	**2017**[r]	**2018**[*]	**2019**[*]
	(U.S.$ millions)				
Transportation and storage	224.5	202.3	58.1	336.6	196.1
Manufacturing	189.7	221.8	35.5	63.1	(75.7)
Goods for processing	194.8	208.4	599.9	(100.5)	(34.6)
Services	391.7	419.7	118.9	298.8	261.3
Construction	1.8	20.3	102.0	5.8	(3.1)
Exploitation of mines and quarries	37.4	(64.8)	0.2	(5.6)	12.3
Agriculture and fishing	27.0	(29.2)	(67.2)	62.1	(3.8)
Electricity and water	2.7	4.3	171.0	242.6	138.5
Wholesale and retail trade	133.9	156.5	157.3	58.4	7.1
Total	**1,203.5**	**1,139.4**	**1,175.8**	**961.3**	**498.1**

[*] Preliminary
[r] Revised
Source: Central Bank

Foreign Direct Investment by Sector

	As of December 31,				
	2015	**2016**	**2017**[r]	**2018**[*]	**2019**[*]
	(percentage of total FDI)				
Transportation and storage	18.7	17.8	4.9	35.0	39.4
Manufacturing	15.8	19.5	3.0	6.6	(15.2)
Goods for processing	16.2	18.3	51.0	(10.5)	(6.9)
Services	32.5	36.8	10.1	31.1	52.5
Construction	0.1	1.8	8.7	0.6	(0.6)
Exploitation of mines and quarries	3.1	(5.7)	0.0	(0.6)	2.5
Agriculture and fishing	2.2	(2.6)	(5.7)	6.5	(0.8)
Electricity and water	0.2	0.4	14.5	25.2	27.8
Wholesale and retail trade	11.1	13.7	13.4	6.1	1.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[*] Preliminary
[r] Revised
Source: Central Bank

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

Foreign Direct Investment by Country of Origin

	As of December 31,				
	2015	**2016**	**2017r**	**2018***	**2019***
			(U.S.$ millions)		
United States	139.7	(3.6)	564.2	(15.4)	(42.5)
Luxembourg	92.4	107.8	(2.8)	247.4	10.2
Mexico	134.0	154.3	33.1	80.3	136.4
Canada	140.4	(12.5)	3.5	(1.9)	8.7
Panama	232.3	272.7	156.3	187.8	89.4
England	63.7	(0.1)	(20.0)	1.3	(0.4)
Guatemala	59.5	158.1	55.8	39.7	120.6
Switzerland	(3.7)	39.1	(13.4)	6.8	(3.4)
Other	345.2	423.6	399.2	415.2	179.2
Total	**1,203.5**	**1,139.4**	**1,175.8**	**961.3**	**498.1**

* Preliminary
r Revised
Source: Central Bank

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

Foreign Direct Investment by Country of Origin

	As of December 31,				
	2015	**2016**	**2017r**	**2018***	**2019***
			(as percentage of total FDI)		
United States	11.6	(0.3)	48.0	(1.6)	(8.5)
Luxembourg	7.7	9.5	(0.2)	25.7	2.0
Mexico	11.1	13.5	2.8	8.4	27.4
Canada	11.7	(1.1)	0.3	(0.2)	1.7
Panama	19.3	23.9	13.3	19.5	17.9
England	5.3	0.0	(1.7)	0.1	(0.1)
Guatemala	4.9	13.9	4.7	4.1	24.2
Switzerland	(0.3)	3.4	(1.1)	0.7	(0.7)
Other	28.7	37.2	34.0	43.2	36.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

* Preliminary
r Revised
Source: Central Bank

The following tables show the balance of payments:

Balance of Payments

	As of December 31,				
	2015	**2016**	**2017[r]**	**2018***	**2019***
	(U.S.$ millions)				
Balance of Goods and Services	(3,394.1)	(3,062.2)	(3,416.0)	(4,581.8)	(4,155.6)
Exports	9,437.7	9,228.5	10,050.4	9,983.9	10,103.7
Goods	8,226.0	7,959.5	8,655.7	8,585.8	8,714.9
Services	1,211.7	1,269.0	1,394.7	1,398.2	1,388.8
Imports	12,831.8	12,290.7	13,466.4	14,565.7	14,259.3
Goods	11,175.2	10,558.9	11,408.8	12,250.1	11,853.9
Services	1,656.6	1,731.8	2,057.6	2,315.6	2,405.5
Income Balance	(1,426.3)	(1,507.7)	(1,405.7)	(1,881.5)	(1,901.4)
Revenues	57.2	87.5	136.5	169.6	203.5
Payments	1,483.5	1,595.2	1,542.2	2,051.1	2,104.9
Balance of Transfers	3,840.5	4,002.7	4,645.7	5,179.7	5,894.3
Public Sector	101.5	60.4	60.1	66.1	105.0
Private Sector(1)	3,739.7	3,942.4	4,585.7	5,113.7	5,789.3
Current Account Balance	(979.9)	(567.1)	(175.9)	(1,283.6)	(162.7)
Capital Account	142.0	129.9	180.5	168.2	194.5
Financial Account	1,392.6	992.6	1,670.0	1,063.8	1,398.3
Direct Investment	951.6	900.1	1,035.0	895.2	499.4
In Honduras	1,203.5	1,139.4	1,175.8	961.3	498.1
Abroad	(251.9)	(239.3)	(140.8)	(66.1)	1.4
Portfolio Investment	(31.4)	(74.8)	725.7	(54.4)	80.5
Other investments	472.4	167.3	(90.8)	223.0	818.5
Assets	42.1	(103.0)	(393.5)	(199.9)	397.0
Commercial credit	48.7	12.2	(68.4)	(8.0)	(14.8)
Loans	(4.6)	(7.0)	(10.3)	(3.6)	11.6
Currency and deposits	43.2	(113.1)	(275.8)	(183.9)	380.6
Other assets	(45.2)	5.0	(39.0)	(4.4)	19.6
Liabilities	430.3	270.3	302.7	423.0	421.4
Commercial credit	25.8	60.5	(34.5)	(24.7)	42.4
Loans	661.2	190.0	289.1	443.7	345.4
Currency and deposits	(19.0)	26.8	34.4	7.1	32.2
Other assets	(237.7)	(7.0)	13.7	(3.1)	1.4
Net errors and omissions	(264.5)	(505.3)	(790.0)	97.2	(441.7)
Global Balance	290.2	50.0	884.5	45.5	988.4
Reserves and related sectors	(290.2)	(50.0)	(884.5)	(45.5)	(988.4)
Central Bank reserve assets	(303.0)	(66.1)	(883.8)	(49.7)	(992.8)
Use of IMF credit	0.0	0.0	0.0		
Extraordinary credit	12.8	16.1	(0.7)	4.2	4.4

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

Foreign Currency Reserves

In 2015, NIR of the CBH increased by U.S.$305.8 million, or 8.7%, to U.S.$3,822.3 million, compared to 2014. This was mainly due to fixed term deposits. The Official Reserve Assets (ORA) of the CBH totaled U.S.$3,991.5 million represented 4.9 months of imports of goods and services.

In 2016, NIR of the CBH increased by U.S.$65.3 million, or 1.7%, to U.S.$3,887.6 million, compared to 2015. This was mainly due to investments in securities in foreign central banks. The ORA of the CBH totaled U.S.$4,171.8 million and represented 4.7 months of imports of goods and services.

In 2017, NIR of the CBH increased by U.S.$898.0 million, or 23.1%, to U.S.$4,785.6 million, compared to 2016. This was mainly due to higher transferable and term deposits in foreign financial institutions and investments in securities in foreign central banks. The ORA of the CBH totaled U.S.$5,087.8 million and represented 5.3 months of imports of goods and services.

In 2018, NIR of the CBH increased by U.S.$67.5 million, or 1.4%, to U.S.$4,853.1 million, compared to 2017. This was mainly due to higher term deposits in foreign financial institutions and investments in securities in foreign central banks. The ORA of the CBH totaled U.S.$5,146.9 million, and were made up of fixed term deposits (39.0%), investment in securities (26.2%), reserve requirements and mandatory investments in foreign currency of regulated financial institutions ("ODC") (20.4%), transferable deposits (4.6%) and other investments (9.8%). The ORA represented 5.4 months of imports of goods and services.

As of December 31, 2019, NIR of the CBH increased by U.S.$955.8 million, or 19.7%, to U.S.$5,808.9 million, compared to 2018. This was mainly due to investment in securities in foreign central banks. The ORA of the CBH totaled U.S.$6,101.8 million and represented 7.5 months of imports of goods and services.

As of May 31, 2020, NIR of the CBH increased to U.S.$6,353.3 million. This was mainly due to investment in securities in foreign central banks. The ORA of the CBH totaled U.S.$6,643.8 million and represented 7.3 months of imports of goods and services.

Between 2015 and 2019, NIR were equivalent on average to 5.6 months of imports of goods and services according to the IMF methodology. This indicator increased from 4.9 months of imports of goods and services in 2015 to 7.5 months in 2019. The financial system's net foreign assets increased from U.S.$3,059.0 million in 2015 to U.S.$4,684.5 million in 2019.

The net foreign liabilities of ODCs totaled U.S.$1,010.9 million in 2018, consisting of external assets of U.S.$452.8 million, with external liabilities of U.S.$1,463.7 million.

As of December 31, 2019, ODCs recorded net foreign liabilities of U.S.$1,249.7 million, an increase by U.S.$238.8 million, or 23.6%, compared to the same period in 2018. This was mainly due to an increase in external liabilities U.S.$201.5 million and a decrease of external assets of U.S.$37.3 million.

As of March 31, 2020, the net foreign liabilities of ODCs totaled U.S.$1,145.8 million, an increase of U.S.$172.3 million, or 17.7%, compared to the same period in 2019. This was mainly due to an increase in external liabilities of U.S.$244.9 million.

The following table shows assets and liabilities of the CBH and other entities for the years presented:

Net External Assets of the Financial System

	As of December 31,					As of March 31,	
	2015	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
Central Bank of Honduras	3,900.5	3,967.4	4,866.8	4,941.4	5,924.7	4,941.8	6,058.4
External assets	4,186.9	4,368.5	5,286.8	5,346.6	6,303.7	5,326.0	6,577.6
Official reserve assets	3,991.5	4,171.8	5,087.8	5,146.9	6,101.8	5,124.2	6,375.7
Other assets	195.4	196.8	199.0	199.7	201.9	201.8	201.8
External liabilities	286.5	401.1	420.0	405.2	379.1	384.2	519.2
Short term	169.3	284.2	302.2	293.8	293.0	293.3	289.5
Long term	117.2	116.9	117.8	111.4	86.1	90.9	229.6
Net international reserves	3,822.3	3,887.6	4,785.6	4,853.1	5,808.9	4,830.9	6,086.2
Other deposit entities(2)	(849.6)	(627.1)	(692.9)	(1,010.9)	(1,249.7)	(973.5)	(1,145.8)
External assets	451.5	499.6	543.1	452.8	415.6	527.1	599.8
External liabilities	1,301.1	1,126.7	1,236.0	1,463.7	1,665.2	1,500.7	1,745.6
Other financial entities(3)	8.1	(13.8)	5.2	(5.0)	9.5	(18.3)	0.9
External assets	104.3	105.2	152.0	168.5	164.1	159.1	176.0
External liabilities	96.2	119.0	146.7	173.5	154.6	177.5	175.1
Financial system	3,059.0	3,326.5	4,179.2	3,925.6	4,684.5	3,949.9	4,913.5

(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 by 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 daily foreign currency 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. Currently, the exchange rate band for the public auction and the interbank markets transactions is +/- 1% with respect to the average of the base price in the seven previous daily auctions.

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.

In February 2017, regulations came into effect that allow foreign exchange agents to sell only 90.0% of their foreign currency purchases to the Central Bank, retaining the remaining 10% for interbank transactions. Prior to this, foreign exchange agents were required to sell 100.0% of their foreign currency purchases to the CBH. In July 2019, the mandatory rate was further reduced to 60.0%.

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 2017 = 100)
2015	21.947	22.368	102.4
2016	23.451	23.503	100.9
2017	23.487	23.588	100.0
2018	23.901	24.339	101.1
2019	24.508	24.651	101.6
2020			
January	24.649	24.651	101.6
February	24.671	24.697	102.1
March	24.715	24,754	103.0
April	24.806	24.819	104.3
May	24.830	24.835	-

[(1)] Purchase exchange rate.
Source: Central Bank

Free Zone Law

The Central Government may establish Free Zones anywhere in Honduras, as long as each zone is supervised by SAR. 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 zones. 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

Through the 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 No. 51 of 2011 and Regulation 22-DGTC-2014. The Decree grants all investors:

- unlimited access to foreign exchange;
- the right to open bank accounts and freely deposit and withdraw funds;
- protection of intellectual property rights and other property rights; and
- the right to repatriate 100% of any compensation for expropriation.

In addition, foreign investors are granted:

- equal treatment with national investors;
- market access without limitations;
- access to credit from the financial system; and
- the right to establish branches, subsidiaries, representations or co-investments, among other benefits.

In addition, Decree No. 51 provides for a conflict prevention regime for real estate investment projects, a guarantee scheme for the conclusion of investment projects, stable tax conditions for investment commitments over U.S.$2 million, dispute resolution through investment arbitration and tax benefits such as amortization of pre-operating expenses and accelerated depreciation.

U.S. International Development Finance Corporation

On June 1, 2018, the President and CEO of the Overseas Private Investment Corporation (now the U.S. International Development Finance Corporation, or "DFC") visited Honduras and reaffirmed the U.S. commitment to investment in the region. As of January 2020, DFC had over U.S.$235 million invested in Honduras.

U.S. Department of Treasury

On October 23, 2019, the U.S. Department of Treasury through the Office of Technical Assistance entered into terms of reference for a budget and financial accountability program. The program is intended to support the development of a strong financial sector and sound public financial management in Honduras. The main elements of the program intend to strengthen payment processes and cash flow management.

MONETARY SYSTEM

Monetary Authorities

The Central Bank and the 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 No. 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*) and bonds (*Bonos del Banco Central*) 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 bonds are issued for up to two years with semiannual interest coupons. The monetary policy rate ("MPR") is the interest rate charged by the Central Bank to depository institutions on short-term loans and serves as a reference rate for interbank transactions.

In 2009, the Central Bank and the Honduran Production and Housing Bank (*Banco Hondureño para la Producción y la Vivienda* or "BANHPROVI") established a trust fund, called the CBH-Banhprovi Trust Fund, to provide financing for housing, agricultural production and microcredits to small- and medium-sized businesses. In May 2013, through Decree No. 91-2013, the CBH-Banhprovi Trust Fund was increased to L13.0 billion.

In 2015, through Resolutions No. 289-7/2015, 117-3/2015, and 35-2/2015, the CBH decreased the MPR by 25 basis points on three separate occasions, from 7.00% to 6.25%. Before this, the MPR 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 investments (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 *plus* 100 basis points 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 institutional 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 the international markets, so that the minimum qualifications and exposure limits were reviewed for instruments and foreign financial institutions (institutions with good credit ratings) in which national depository institutions can make investments with funds from foreign currency deposit accounts.

During the first six months of 2016, through Resolution No. 225-6/2016, 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 were to be implemented in the following two years. As set forth by the CBH, domestic financial institutions were required to maintain reserves of 12.0% of total deposits.

In May 2016, through Resolution No. 190-5/2016, 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 were required to maintain an additional 2.0% in liquid investments in foreign financial institutions with good credit ratings in accordance with the Foreign Currency Deposit Accounts' Management Regulation.

In September 2016, through Resolution No. 363-9/2016, 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 was set at 12.0%. The reserve requirement for mandatory investments in foreign currency was also set at 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, through Resolution No. 460-11/2016, the board of directors of the CBH again modified the requirements regarding mandatory investments in local currency. The new resolution eliminated investments in Government bonds as a permitted investment and permitted that such investments be made in ENEE bonds, remunerated reserves in investment accounts at the CBH, or CBH two-year bonds.

In March 2018, through Resolution No.72-2/2018, the CBH established a 5.0% mandatory investment requirement for institutions in the financial system. These mandatory investments may take the form of remunerated reserve in investment accounts at the CBH, two-year bonds issued by the CBH, bonds issued by ENEE up to U.S$107,500,000 or accumulated net credits (total disbursements of new loans minus principal installments) granted between March 15, 2018 and March 15, 2020 by institutions in the financial system for the acquisition of land and the construction of housing on it and the construction of new urban or rural housing.

On January 17, 2019, through Resolution No. 19-1/2019, the Board of the CBH authorized the implementation of the "Electronic Money Table" (MED) as a liquidity negotiation mechanism for financial institutions. The objective of the MED is to energize the interbank market through interactive negotiation where participants can offer or demand liquidity without prior agreements.

In assessing the economic situation and the balance of risks, through Resolution No. 560-12/2019, the CBH decided to reduce its MPR by 25 basis points, placing it at 5.50% as of December 23, 2019, noting that, if the current macroeconomic conditions continue on their downward trend, the MPR could be further adjusted downward. During 2020, in order to support economic activity within the context of lower inflationary risks, the CBH decided, through Resolution No. 59-2/2020, to further reduce its MPR by 25 basis points, placing it at 5.25% as of February 10, 2020. On March 18, 2020, through Resolution No. 111-3/2020, the CBH, pursuing flexibility in financial conditions in order to allow access to credit for various sectors of the economy and seeking to mitigate a slowdown in economic activity caused by the COVID-19 pandemic, further reduced its MPR by 75 basis points, placing it at 4.50%.

Resolution No.148-4/2020, the CBH extended the maximum term of the repurchase window to 28 days, and the interest rate applied to these operations was reduced to FPC plus 50 basis points (previously FPC plus 75 basis points).

As part of a modernization of its monetary policy, through Resolution No. 60-2/2020, the CBH evaluated the current composition of the legal reserve and mandatory investments in local currency. As a result, the CBH decided to reduce by 2.0% the mandatory investments in local currency, decreasing the requirement from 5.0% to 3.0% as of February 13, 2020. Subsequently, through Resolution No. 132-4/2020 dated April 6, 2020, the CBH set the legal reserve and mandatory investments in local currency at 12.0% and 0%, respectively.

Financial System Reserve Requirements in Local Currency

Year	**Month**	**Reserve Requirement**		**Mandatory Investment**		**Investments in Foreign Banks**
		(local currency)	(foreign currency)	(local currency)	(foreign currency)	(foreign currency)
2020	February 13	12%	12%	3%	12%	0%

Given the increased internal and external uncertainty and volatility resulting from COVID-19 and its effects on the Honduran economy, the CBH has implemented a set of monetary policy measures designed to allow the normal functioning of the country's financial and payment system, provide liquidity to meet the needs of the households and companies, maintain the availability of credit to the country's economic sectors and, ultimately, help mitigate the impact derived from COVID-19. In this sense, together with the gradual reduction of the MPR, the Board of the CBH adopted the following measures:

1. a decrease in mandatory investments in local currency by 5.0 percentage points, placing them at 0.0%, in order to release resources of the financial system (approximately L8,600.0 million);

2. a temporary suspension of daily treasury auctions directed exclusively to financial institutions, with the objective of increasing short-term liquidity (approximately L10,000.0 million);

3. a temporary suspension of the CBH structural auctions during the second quarter of 2020, providing additional liquidity to the financial system (approximately L5,000.0 million);

4. authorized purchase of 2-year CBH bonds through an auction directed exclusively toward financial institutions, which may be used to satisfy mandatory investments in local currency; and

5. the establishment of a trust agreement with Banhprovi on May 21, 2020 into which the Board of the CBH approved an initial contribution of L2,500.0 million for the creation of the Guarantee Fund for the reactivation of micro-, small- and medium-sized companies affected by the COVID-19 pandemic.

Financial Sector

The following tables set forth the number of financial institutions regulated by the CNBS as of December 31, 2019:

Regulated Financial Institutions by the CNBS on March 31, 2020

Type of Institution	**Quantity**
Commercial Banks	15
Insurance Companies	13
Financial Companies	10
Brokerage houses	7
Private development organizations	5
Public pension funds	5
General Deposit Warehouses	4
Rating Agencies	4
Remittances Companies	3
Credit card processors	3
Private pension funds	4
Foreign Exchange offices	3
Private risk centrals	2
Representation offices	1
Stock exchange	1
Manager Mutual Guarantee Fund	1
Private Contribution regime	1
Non-banking Institutions that Provide Payment Services Using Electronic Money (INDEL)	1
Total	**83**

Source: CNBS statistics on December 31, 2019

Additionally, there are two state-owned financial institutions:

- The National Development Bank (*Banco Nacional de Desarrollo Agrícola* or 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.
- 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 the manufacturing, commerce, services, housing and agricultural sectors and small companies. In 2016, through Legislative Decree 358-2014, the BANHPROVI law was modified to allow it to carry out its own capital-raising operations and financial intermediation based on its own payment capacities, guarantees and risk rating, as otherwise authorized by the Law of the Financial System.

The following table shows the outstanding amount of loans provided by the financial system by sector as of the dates indicated, in millions of U.S. Dollars.

	As of December 31,					As of March 31,	
Destination	**2015**	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
Real estate	2,484.6	2,534.8	2,746.2	2,991.7	3,228.9	3,021.3	3,301.8
Consumption	2,152.4	2,351.5	2,466.3	2,694.0	3,068.9	2,726.6	3,055.7
Wholesale and retail trade	1,373.5	1,471.7	1,749.9	1,988.5	2,040.4	2,028.1	2,052.3
Services	1,594.5	1,662.9	1,846.7	1,889.3	1,958.5	1,883.5	1,956.8
Industry	1,121.5	1,092.2	1,209.0	1,412.8	1,454.1	1,450.2	1,477.2
Agriculture	408.2	578.3	654.5	728.5	771.0	793.7	769.7
To municipalities	140.7	166.7	252.5	300.5	344.8	316.8	369.2
Transportation and Commission	200.4	215.9	251.1	284.2	310.1	288.2	324.8
Export Financing	342.2	151.3	218.8	268.2	321.5	282.4	311.2
To decentralized agencies	62.2	110.6	34.7	160.9	166.7	53.4	221.5
Livestock	89.4	95.0	103.4	115.8	112.2	187.2	159.3
To National Banks	3.1	48.4	46.6	56.1	177.0	116.6	110.8
Fishing	60.1	55.5	61.6	89.9	97.6	92.5	95.8
Mining	10.8	20.3	27.5	69.9	91.3	75.7	92.8
To Central Government	38.4	24.5	57.7	63.4	73.0	61.9	68.5
Poultry Farming	33.7	37.4	49.1	62.9	68.0	72.0	68.5
Forestry	2.6	4.4	5.0	1.7	3.2	1.3	2.9
Loans over policies	0.8	0.4	0.4	0.6	0.2	0.2	0.3
Apiculture	0.3	0.2	0.2	0.2	0.3	0.3	0.1
TOTAL	**10,119.5**	**10,622.0**	**11,781.0**	**13,179.5**	**14,287.7**	**13,451.8**	**14,439.1**

Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:

December 31, 2014: L21.5124=US$1.00
December 31, 2015: L22.3676=US$1.00
December 31, 2016: L23.5029=US$1.00
December 31, 2017: L23.5879=US$1.00
December 31, 2018: L24.3388=US$1.00
December 31, 2019: L24.6350=US$1.00
March 29, 2019: L24.4316=US$1.00
March 31, 2020: L24.7540=US$1.00
Source: Data reported by the Regulated Institutions

Between 2014 and 2019 the private sector received, on average, 96.9% of the total disbursed loans from the financial system, while the public sector received, on average, 3.1% of all disbursed loans. As of March 31, 2020, the main sectors that received financing from the financial system were: real estate (23%), consumption (21%), commerce (14%), services (14%) industry (10%) and agricultural purposes (7%).

Financial System Regulation

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 Deuda del Trabajador Hondureño*) and Decree No. 33/2013 which amended the Credit Cards Act (*Ley de Tarjetas de Crédito*). 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. The amendments to the Credit Cards Act include 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.

In 2014, regulated financial institutions began the process of adopting International Financial Reporting Standard (IFRS) and certain other prudential standards. 2015 was a transition year and 2016 was an implementation year for the adoption of these new standards. As of June 30, 2016 all regulated financial institutions have adopted IFRS and the prudential standards.

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 December 2016, Decree No. 160-2016 modified the Financial System Law, updating the applicable legal framework for financial institutions to provide for new resolution mechanisms for institutions with administrative, financial and compliance deficiencies in accordance with international best practices.

In August 2017, Decree No. 57-2017 reformed the Credit Cards Law, establishing a maximum annual interest rate limit of 54%.

On December 3, 2018, the CNBS adopted resolution GES No.1035/03-12-2018, which establishes the minimum capital required from institutions in the financial system in the following manner: L.600.0 million for banks, L.120.0 million for savings and loan associations, L.85.0 million for financial companies and the same amount for any other regulated financial institution.

Combatting Money Laundering, Terrorist Financing and Corruption

Over the last several years, Honduras has implemented a number of measures designed to address money-laundering, terrorist financing and corruption risks. In June 2015, the Financial Action Task Force of Latin America (GAFILAT) carried out a site visit to Honduras to assess the country's compliance with its 40 recommendations concerning anti-money laundering and combatting the financing of terrorism. In October 2016, GAFILAT published its Mutual Evaluation Report of the Republic of Honduras (MAR) in which it set forth its findings concerning Honduras' level of compliance with the 40 recommendations and suggestions of further action to be taken by the Honduran government in this regard. Since the publication of the 2016 report, Honduras has furnished six progress reports to GAFILAT in which it describes such further actions that have taken by the Honduran government to combat money laundering, terrorist financing and corruption.

In July 2019, GAFILAT issued its sixth report on the implementation of the MAR. The report highlights the Government's efforts in implementing anti-money laundering initiatives as well as countering the financing of terrorism. The report includes the Government's implementation of actions aimed at exposing the infrastructure of criminal organizations, recovering unlawfully acquired assets and supporting broad and effective deterrence efforts against a wide range of criminal activities including the financing of narco-terrorism.

Honduras has enacted a number of laws and regulations designed to combat money laundering, terrorist financing and corruption. For example, the Special Law on Anti-Money Laundering (*Ley Especial Contra el Lavado de Activos*) and regulations issued thereunder provide for the supervision of financial institutions, as well as designated non-financial businesses and professions ("DNFBPs"), the imposition of sanctions on supervised entities, enhanced know your client requirements for supervised entities, enhanced due diligence requirements for electronic funds transfers and electronic reporting of suspicious transactions, among other things. The Law Regulating Designated Non-Financial Businesses and Professions (*Ley para la Regulación de Actividades y Profesiones no Financieras Designadas*) and regulations thereunder provide for the creation of a registry for DNFBPs, budgetary allocations for supervision of DNFBPs, anti-money laundering requirements applicable to DNFBPs, compliance personnel and compliance program requirements for DNFBPs, know your customer requirements for DNFBPs, and greater clarity regarding sanctions that may be imposed on DNFBPs.

The government has enacted the Law on Forfeiture of Assets of Illicit Origin (*Ley de Privación de Bienes de Orígen Ilícito*) and the Law on Financing, Transparency and Oversight for Political Parties and Candidates (*Ley de Financiamineto, Transparencia y Fiscalización de los Partidos Políticos y Candidatos*). The government has also developed a draft Organic Law of Superintendency of Corporations (*Ley Orgánica de la Superintendencia de Sociedades Mercantiles*), which would provide for regular financial reporting, identification of ultimate beneficial owners of corporations and a prohibition against the issuance of bearer shares.

The Honduran government has also implemented institutional improvements to combat money laundering, terrorist financing and corruption. Among those improvements are the following:

- *Comisíon Interinstitucional para la Prevención de Lavado de Activos y Financiamiento del Terrorismo* ("CIPLAFT"), agency created to oversee and coordinate anti-money laundering and anti-terrorist financing activities
- *Unidad de Inteligencia Financiera* ("UIF"), financial intelligence unit
- *Unidad de Registro, Monitoreo y Prevención del Lavado de Activos y Financiamiento del Terrorismo* ("URMOPRELAFT"), agency responsible for registration and supervision of DNFBPs
- *Oficina Administradora de Bienes Incautados* ("OABI"), agency responsible for safeguarding and administering forfeited assets
- *Unidad Fiscal Especial Contra la Impunidad de la Corrupción* ("UFECIC"), special unit of the *Ministerio Público* charged with investigating and prosecuting corruption matters

In addition, cooperation agreements have been signed among various government agencies which provide for information sharing and specialized training to combat money laundering, terrorist financing, corruption, extortion and drug-trafficking. The government has also provided budget increases for institutions to combat money laundering, terrorist financing, corruption, extortion and drug-trafficking, which in turn has enabled such institutions to hire additional personnel and provide specialized training to such personnel.

Financial Institutions

From 2014 up to 2019, assets retained by commercial banks have represented, on average, 92% of the total assets of the financial system, with the remaining 8%, on average, being held by other institutions, such as state-owned banks, private financial development companies and other financial companies.

During the same period, on average, 89% of the total loans granted by the financial system were extended by commercial banks, and the remaining 11%, on average, were extended by other financial institutions. On average, 98% of deposits were held by commercial banks and the remaining 2%, on average, were held by other financial institutions.

By the end of 2019, commercial banks held 94%, 93% and 98% of the assets, loans and deposits of the financial system, respectively.

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

	As of December 31,					As of March 31,	
	2015	2016	2017	2018	2019	2019	2020
	In millions of U.S. Dollars						
Assets							
Commercial Banks	19,321.6	20,155.9	22,124.4	23,804.5	25,679.2	23,793.3	26,260.4
Other financial institutions	1,990.7	2,272.9	2,319.7	1,456.0	1,544.3	1,471.6	1,524.8
Total	**21,312.3**	**22,428.8**	**24,444.1**	**25,260.5**	**27,223.5**	**25,264.9**	**27,785.2**
Loans							
Commercial Banks	10,119.9	10,761.2	11,781.7	13,180.4	14,288.2	13,452.1	14,439.7
Other financial institutions	1,552.0	1,633.3	1,658.1	1,001.6	1,080.4	1,013.7	1,081.4
Total	**11,672.0**	**12,394.5**	**13,439.9**	**14,181.9**	**15,368.6**	**14,465.8**	**15,521.1**
Deposits							
Commercial Banks	10,587.4	11,324.4	12,746.4	13,310.4	14,658.0	13,687.2	14,992.6
Other financial institutions	259.4	279.1	305.6	332.5	368.4	339.4	370.6
Total	**10,846.8**	**11,603.4**	**13,052.0**	**13,642.9**	**15,026.4**	**14,026.7**	**15,363.2**

*Other Financial Institutions include: Financial companies, State-owned financial Institutions and Private organizations of Financial development. In July 2018, one (1) Second floor bank changed to first floor as State Bank
Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:
December 31, 2014: L21.5124=U.S.$1.00
December 31, 2015: L22.3676=U.S.$1.00
December 31, 2016: L23.5029=U.S.$1.00
December 31, 2017: L23.5879=U.S.$1.00
December 31, 2018: L24.3388=U.S.$1.00
December 31, 2019: L24.6350=U.S.$1.00
March 29, 2019: L24.4316=US$1.00
March 31, 2020: L24.7540=US$1.00
Source: Data reported by the Regulated Institutions

The following table sets out non-performing loans in the financial system as of March 31, 2020:

Non-Performing Loans of the Financial System
Numbers in millions of U.S. Dollars as of March 31, 2020

Type of Institution	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	Total
Commercial Banks	13,506.1	1,066.9	358.8	153.9	128.8	86.9	145.2	15,446.8
Pension Funds	302.9	67.1	25.1	6.0	4.3	3.9	4.9	414.3
Financial Companies	19.3	1.7	0.2	0.6	0.2	0.2	0.2	22.4
State-owned Financial Institutions	949.6	28.9	13.0	4.5	4.9	5.5	16.4	1,022.7
Private organizations of financial development	135.4	1.6	2.2	1.9	1.6	3.2	3.6	149.5
Private pension funds	104.8	1.3	0.2	0.0	-	0.0	-	106.3
Second Floor banks	2.7	2.1	2.0	0.2	0.9	-	0.9	8.8
Insurance Companies	42.3	23.9	1.7	0.6	1.3	1.0	2.7	73.5
Representation offices	88.6	11.1	3.2	2.2	3.6	6.6	94.4	209.6
Total	**15,151.7**	**1,204.7**	**406.4**	**169.9**	**145.5**	**107.3**	**268.4**	**17,453.9**

Non-Performing Loans of the Financial System

Numbers in millions of U.S. Dollars as of March 31, 2020

Type of Institution	0 days	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days	Total

Amounts in lempiras have been converted to U.S. dollars using the following exchange rate on March 31, 2020 L24.7540=US$1.
Source: Data reported by regulated institutions

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

Position of the largest commercial banks

Numbers in millions of U.S. Dollars on March 31, 2020

Bank	Total assets	Loans	Deposits	Capital and Reserves
Ficohsa	5,315.3	2,731.0	2,373.5	393.1
Atlántida	4,632.6	2,843.4	3,085.8	367.3
Bac Credomatic	3,854.5	2,123.3	2,284.7	273.4
Occidente	3,928.3	1,750.3	2,411.3	302.0
Banpaís	2,597.5	1,655.7	1,586.6	239.5

Amounts in lempiras have been converted to U.S. dollars using the following exchange rate on March 31, 2020 L24.7540=U.S.$1.00
Source: Data reported by regulated commercial banks.

Reserves and Capital Adequacy Requirements

Commercial banks are under the supervision of the CNBS and are subject to periodic reporting requirements and mandatory audits. CNBS sets capital and loan loss reserve requirements for the banking system. 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 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) (capital / risk weighted assets) minimum of 10%. The current CAR of the banking system is 13.7%, which exceeds the minimum requirement established by the Central Bank.

In accordance with the international best practices established in Basel III, the CNBS has required institutions in the financial system to establish a capital conservation buffer of 2.5%, which began in 2018 and ends in 2022, at a rate of 0.25% semiannually. In addition, a leverage ratio of 4% has been established, as well as a liquidity coverage ratio which remain in effect until October 2020.

In order to facilitate access to financing for agricultural producers and traders, in 2015, loss reserve requirements for loans to borrowers in that sector were relaxed so long as the loans are performing. This policy remains in place as of the date of this offering memorandum.

The requirements for the CAR to date are as follows:

Capital Adequacy Ratio Requirements by Category

	Loan Category						
	I-A	I-B	II	III	IV	IV-B	V
COMMERCIAL							
Large commercial debtors							
Guarantee on deposits pledged in the same institution, reciprocal guarantee or against guarantees issued by financial institutions of the first order	0%	0%	0%	25%	60%		100%
Mortgage guarantee on real estate	0.5%	0.75%	4%	25%	60%		100%
Other guarantees	0.5%	0.75%	4%	25%	60%		100%
Small commercial debtors							
Mortgage guarantee on real estate	0.5%	0.75%	4%	25%	60%		100%
Guarantee on deposits pledged in the same institution, reciprocal guarantee or against guarantees issued by financial institutions of the first order	0%	0%	0%	25%	60%		100%

Capital Adequacy Ratio Requirements by Category

	Loan Category						
	I-A	I-B	II	III	IV	IV-B	V
Other guarantees	0.5%	1%	4%	25%	60%		100%
Microcredit							
Guarantee on deposits pledged in the same institution, reciprocal guarantee or against guarantees issued by financial institutions of the first order	0%		0%	25%	60%		100%
Other guarantees	1.0%		5%	25%	60%		100%
Agricultural							
Mortgage guarantee on real estate	0%		0%	15%	60%		100%
Guarantee on deposits pledged in the same institution, reciprocal guarantee or against guarantees issued by financial institutions of the first order	0%		0%	15%	60%		100%
Other guarantees	0%		0%	25%	60%		100%
Consumption							
Term less than 30 days	1.0%		5%	25%	60%		100%
Credits for education with reciprocal guarantees or mortgage guarantees	0%		0%	25%	60%		100%
Credit Cards	0.5%	1%	5.25%	25%	60%	80%	100%
Other guarantees	1.0%		5%	25%	60%		100%
Housing							
Mortgage guarantee on real estate	0%	0.75%	3%	20%	50%		70%
Guarantee on deposits pledged in the same institution, reciprocal guarantee or against guarantees issued by financial institutions of the first order	0%	0%	3%	20%	50%		70%

Interest Rates and Money Supply

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

Historical Average Interest Rates [1]
As of December 31

	Loans				Deposits			
	Commercial Banks		Financial Companies		Commercial Banks		Financial Companies	
	Max	Min	Max	Min	Max	Min	Max	Min
	(in percentages)							
2014								
Domestic	49.1	9.7	39.8	14.8	6.9	0.8	6.6	3.5
Foreign	29.2	7.3	15.0	9.0	2.4	0.4	-	-
2015								
Domestic	51.4	8.5	40.8	14.0	6.4	0.7	5.8	3.2
Foreign	35.6	4.7	14.0	9.1	2.4	0.4	-	-
2016								
Domestic	51.2	8.8	41.0	13.6	6.1	0.8	5.7	2.7
Foreign	30.7	5.7	12.5	10.0	1.8	0.3	-	-
2017								
Domestic	46.3	8.7	40.1	14.1	6.1	0.7	6.5	1.8
Foreign	32.3	6.1	9.5	9.2	1.8	0.1	-	-
2018								
Domestic	44.7	9.5	38.0	13.0	5.9	0.6	8.1	2.8
Foreign	33.3	5.1	11.0	8.3	1.9	0.2	-	-
2019								
Domestic	45.0	8.7	36.3	12.4	5.7	0.8	7.6	2.8
Foreign	36.9	5.0	15.0	7.7	1.6	0.2	-	-
2020[2]								
Domestic	44.9	7.8	35.6	13.7	5.9	0.6	7.9	2.8
Foreign	34.4	5.3	14.0	10.0	1.7	0.2	-	-

[1] Interest rates are averages of historical interest rates at year-end. [2] As of March 31, 2020.

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 March 31,	
	2015	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
				(in percentages)			
M1	10.5	5.6	14.7	2.8	14.7	1.1	13.1
M2	6.5	10.3	13.4	5.0	13.4	6.3	13.1
M3	3.7	10.2	12.4	4.1	10.3	6.7	10.2

Source: Central Bank.

From 2014 through 2017, M1, M2 and M3 showed an average year-on-year growth of U.S.$220.6 million, U.S.$737.9 million and U.S.$950.1 million or 9.8%, 9.1% and 8.7%, respectively. This growth trend was mainly due to increases in savings and term deposits both in local and foreign currency, influenced by domestic economic growth.

In 2015, M1, M2 and M3 increased by 10.5%, 6.5% and 3.7%, respectively, influenced by increases in deposits in domestic currency. In 2016, M1, M2 and M3 increased by 5.6%, 10.3% and 10.2%, respectively, mainly due to an increase in term deposits in local currency.

In 2017, M1, M2 and M3 increased by 14.7%, 13.4% and 12.4%, respectively, mainly due to an increase of deposits in both local and foreign currencies. In 2018, M1, M2 and M3 increased by 2.8%, 5.0% and 4.1%, respectively, registering a lower growth rate than in previous years. The increase in M3 was the result of the expansion of M2, as well as growth in savings and local currency deposits.

In 2019, M1 showed an increase of 14.7%, compared to 2018. M3 reached a balance of U.S.$15,496.0 million, reflecting an increase of 10.3% (or U.S.$1,444.7 million), compared to 2018. This was mainly due to an increase in deposits and securities held by households, nonprofit institutions and private companies.

As of March 31, 2020, M1, M2 and M3 increased by 13.1%, 13.1% and 10.2%, respectively, compared to March 31, 2019. This increase was influenced principally by increases in deposits in domestic currency by households, nonprofit institutions and private companies.

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

Credit and Liquidity

	As of December 31,					As of March 31,	
	2015	**2016**	**2017**	**2018**	**2019**	**2019**	**2020**
				(U.S.$ millions) [1/]			
Monetary Aggregates							
Bills and Coins in Circulation	967.2	1,025.8	1,210.2	1,214.3	1,356.4	1,106.0	1,344.6
M1	2,337.3	2,468.1	2,830.2	2,910.0	3,338.2	2,770.8	3,134.0
M2	8,082.0	8,915.7	10,110.9	10,617.0	12,036.0	10,664.8	12,064.0
M3	10,910.3	12,019.4	13,505.1	14,053.4	15,496.0	14,275.1	15,737.1
Credit by Sector							
Public Sector	1,573.1	1,953.6	1,975.7	2,338.7	2,717.4	2,400.6	2,893.2
Private Sector	11,237.3	12,158.0	13,277.1	14,834.9	16,159.9	15,104.9	16,155.5
Total Credit	**12,810.4**	**14,111.6**	**15,252.8**	**17,173.6**	**18,877.3**	**17,505.5**	**19,048.7**
Deposits							
National Currency	6,998.7	7,759.7	8,682.2	9,129.4	10,510.2	9,267.6	10,464.4
Foreign Currency	2,799.1	3,086.7	3,393.6	3,436.2	3,499.5	3,609.9	3,667.8
Total Deposits	**9,797.8**	**10,846.4**	**12,075.8**	**12,565.6**	**14,009.8**	**12,877.5**	**14,132.2**

(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.21.51 = U.S.$1.00
December 31, 2015: L.22.37 = U.S.$1.00

December 31, 2016: L.23.50 = U.S.$1.00
December 31, 2017: L.23.59 = U.S.$1.00
December 31, 2018: L.24.34 = U.S.$1.00
December 31, 2019: L.24.63 = U.S.$1.00

Source: Central Bank.

Deposits in financial institutions from 2014 through 2017 increased by an average of 8.5%, mainly due to increases in deposits of foreign and domestic currencies. In 2018, deposits increased by 4.1%, compared to 2017. This was mainly due to an increase in local currency deposits. In 2019, deposits in financial institutions increased by 11.5%, compared to 2018, mainly due to increases in deposits in local currency.

Credit increased from U.S.$12,810.4 million in 2015 to U.S.$18,665.1 million in 2019. This was mainly due to the increase of private sector credit. In 2019, private sector credit increased to U.S.$15,984.5 million, or 7.6%, mainly due to an increase in loans in local and foreign currency. In 2019, private sector credit increased to U.S.$16,159.9 million, or 8.9%, mainly due to an increase in loans in local and foreign currency. As of December 31, 2019, credit in the financial system increased to U.S.$18,877.3 million, representing an increase of 9.9% (or U.S.$1,703.7 million), compared to the same period in 2018. This was mainly due to growth in loans to the private sector of 8.9% (or U.S.$1,325.0 million).

As of March 31, 2020, credit in the financial system increased to U.S.$19,048.7 million, representing an increase of 8.8% or U.S.$1,543.2 million compared to March 31, 2019. This increase was mainly due to the increase of private sector credit. Private sector credit was U.S.$16,155.5 million, an increase of U.S.$1,050.6 million, or 7.0%, compared to the same period in 2018, mainly due to an increase in loans in local and foreign currency.

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 for purposes of calculating real 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
2014	6.50 ± 1
2015	4.75 ± 1
2016	4.50 ± 1
2017	4.00 ± 1
2018	4.00 ± 1
2019	4.00 ± 1
2020	4.00 ± 1

Source: Central Bank

The following table shows the inflation rate measured by the CPI for the periods indicated.

Inflation Rate

	For the year ended December 31,					March 31,
	2015	2016	2017	2018	2019	2020
	(percentage variation)					
Year-on-year	2.4	3.3	4.7	4.2	4.1	3.9
Average	3.2	2.7	3.9	4.3	4.4	4.4

Source: Central Bank.

In 2015, the inflation rate was 2.4%, mainly due to the implementation of monetary policy, the decline in fuel prices and favorable conditions in the supply of food.

In 2016, the inflation rate was 3.3%, mainly due to increases in fuel, energy and clothing prices.

In 2017, the inflation rate was 4.73%, staying within the target range established by the Central Bank for that year. Inflationary pressures came mainly from the rising prices of food, industrial and perishable goods, vehicular fuels in the domestic market, residential electricity and drinking water.

In 2018, the inflation rate was 4.22%, close to the midpoint of the tolerance range of 4.00% ± 1.0% established by the Central Bank for 2018 and 2019. The decrease compared to 2017 was mainly due to the normalization of the supply of perishable food products, despite higher prices for electricity and transportation rates for urban passengers.

In 2019, the inflation rate was 4.08%, mainly due to rising prices of energy, housing, food and non-alcoholic drinks, oil, clothing and footwear, furniture and home goods, and transportation.

As of March 31, 2020 was 3.88% compared to 4.10% as of March 31, 2019, mainly due to increasing prices of food and non-alcoholic drinks, furniture and home goods and some health-related services. This increase was partially offset by the decrease in prices of fuels for vehicular and domestic use, as a result of the reduction in the price of crude oil internationally.

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 all issuances.

The participants in the local capital markets are as follows:

- 1 securities exchange
- 7 broker/dealer entities
- 4 credit rating agencies
- 1 investment fund
- 15 commercial banks
- 3 public sector issuers

Commercial 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 December 31, 2019, there are no depository institutions in the local capital markets, there is only one investment fund, and there is no derivatives market. The securities deposit system of the Central Bank of Honduras (DV-BCH) provides depositary, custody and administration services for electronic, book-entry securities.

During the period from 2015 through 2019, the total value of securities transactions in Honduras increased from U.S.$8.6 billion to U.S.$9.8 billion. The securities transactions carried out through the securities exchange increased by 8.6% from 2014 to 2018. This increase was due principally to new issuances of debt securities by financial institutions seeking to finance their medium- and long-term projects in transactions that are exempt from the legal reserve requirements imposed by the Central Bank.

Securities Transactions in Honduras

Numbers in millions of U.S. Dollars on December 31

Year	Public	Private	Total
2015	8,546.0	73.0	8,619.0
2016	23,868.0	169.0	24,037.0
2017	27,512.0	107.0	27,619.0
2018	18,883.0	261.0	19,144.0
2019	9,600.7	237.7	9,838.4

Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:

December 31, 2014: L21.5124=U.S.$1.00
December 31, 2015: L22.3676=U.S.$1.00
December 31, 2016: L23.5029=U.S.$1.00
December 31, 2017: L23.5879=U.S.$1.00
December 31, 2018: L24.3388=U.S.$1.00
December 31, 2019: L24.6350=U.S.$1.00

Source: Information sent by the Central American Stock Exchange (Bolsa Centro Americana de Valores, S.A.) data for 2014 and 2015 corrected

PUBLIC SECTOR FINANCES

Fiscal Policy

The NFPS consists of the Central Government and non-financial state owned enterprises. During the 2014-2019 period, the Government has maintained a policy of fiscal consolidation and stabilization of the public debt of the NFPS, based on the FRL framework and consistent with the MTMF and budget execution rules. Fiscal consolidation during the 2014-2019 period was achieved as a result of a series of measures, including the December 2013 tax reform and the enactment of the FRL in 2016, which resulted in significant improvements in the overall balance of both the Central Government and the NFPS.

Fiscal consolidation was observed in 2015, evidenced by the reduction of the fiscal deficit from 4.3% in 2014 to 3.0% for the Central Administration, and from 3.9% in 2014 to 0.9% for the NFPS. These decreases were mainly due to increases in income and the containment in the growth of expenses.

In 2016, the approval of the FRL contributed significantly to the consolidation process and resulted in better fiscal indicators. The Central Administration deficit decreased to 2.7% in 2016 from 3.0% in 2015. The NFPS deficit decreased to 0.5% in 2016 from 0.9% in 2015, exceeding the FRL goal for 2016 of a deficit of 1.6%. These decreases in the Central Administration and NFPS deficits were driven mainly due to the increase in income and the containment of expenditure, in order to comply with the three Macro-Fiscal Rules established by the LRF**.**

In 2017, control of expenditures in accordance with the provisions of the FRL continued. These actions resulted in a Central Administration deficit of 2.7% of nominal GDP, lower than the 3.5% projection in the MTMFF for 2017-2020 period. The NFPS deficit for 2017 was 0.8% of nominal GDP, lower than the 1.5% limit established in article 3 of the FRL.

In 2018, favorable fiscal results continued, with the overall balance of the Central Administration registering a deficit of 2.1% of nominal GDP, compared to 2.7% for 2017. The NFPS registered a deficit of 0.9% of nominal GDP for 2018, lower than the 1.2% limit established in the FRL for 2018.

In 2019, the Central Administration's deficit was 2.5% of nominal GDP. The NFPS registered a deficit of 0.9% of nominal GDP during 2019. In the first three months of 2020, the Central Administration's fiscal deficit was 0.4% of nominal GDP and the NFPS surplus was 0.3% of nominal GDP.

The continued improvement of Honduras' public finances through fiscal consolidation has contributed to the macroeconomic stability of the country, as has the stabilization of growth of public debt. These improvements have resulted in our obtaining better financial conditions on new issuances of public debt and upgrades in our sovereign ratings by Standard & Poor´s and Moody´s Investor Service.

For the medium term, the Government will continue to focus on meeting the deficit goals established in the FRL both for the Central Administration and the NFPS, which we expect will help us achieve debt sustainability. In addition, we expect to continue making progress on developing a Medium Term Expenditure Framework (MGMP) and a results-based budget. We also expect to continue to strengthen our institutions, develop efficiencies in tax collection and improve the operational results of ENEE.

Due to the extraordinary expenses required to manage the COVID-19 pandemic, the Republic will not be able to meet the original proposed fiscal deficit for 2020 of 1% established in the FRL. Therefore, through Legislative Decree No. 55-2020, published in the Official Gazette No. 35,259, dated May 21, 2020, the National Congress has suspended the application of the fiscal rules established in the FRL for a period of two years.

Fiscal Responsibility Law

The FRL was approved by Decree No. 25-2016 of April 28, 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 FRL contains three quantitative fiscal rules (the "Macro-Fiscal Rules"): (a) limit the deficit of the nonfinancial public sector (NFPS), (b) restrict the growth rate of current expenditures and (c) limit floating debt (*deuda flotante*).

The FRL establishes an annual deficit ceiling for the NFPS to be applied as follows:

- 1.6% of nominal GDP in 2016;
- 1.5% of nominal GDP in 2017;
- 1.2% of nominal GDP in 2018; and,

- 1% of nominal GDP for 2019 and going forward.

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.

The aggregate amount of all new floating debt (*deuda flotante*) for any fiscal year shall not exceed 0.5% of GDP.

These rules are consistent with the objectives and goals of the Central Government. The MTMF was created as a medium term tool, which projects income, expenditures and debt for the next four years. The FRL also defines the transition path to reach these objectives by 2019.

In each year since approval of the FRL in 2016, the Central Government has met the three Macro-Fiscal Rules as set forth in the table below:

Compliance with Fiscal Macro Rules

Description	Goal 2017	Closure 2017	Goal 2018	Closure 2018	Goal 2019	Closure 2019	Observations
Rule 1 Non-Financial Public Sector Deficit (SPNF) (% of GDP)	1.5%	0.8%	1.2%	0.9%	1.0%	0.9%	Accomplished
Rule 2 Annual Growth Rate of Primary Current Expenditure to / from the AC (%)	8.1%	7.8%	7.5%	(0.2)%	7.2%	6.8%	Accomplished
Rule 3 New arrears of CA payments over 45 days (% of GDP)	0.5%	0.2%	0.5%	0.04%	0.5%	0.2%	Accomplished

a / Refers to Primary Current Expenditure as established by the LRF Regulation.
Source SEFIN.

The deficit of the SPNF as a percentage of GDP in the period between 2017 and 2019 has remained below what the FRL establishes, maintaining an adequate margin between the closing and the ceiling of each year, which has allowed for stabilizing the levels of public debt.

Regarding the increase in the primary current expenditure of the Central Administration, it is important to highlight that for the year 2018 it showed a 0.2% decrease compared to 2017, as part of the plan of containment of spending by the Government of Honduras. In 2019, the primary current expenditures of the Central Administration grew by 6.8%, remaining under the ceiling for the year.

Fiscal Accounts

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

Financial Account: Central Administration 2015 – 2020
(Millions of U.S.$)

Description	As of December 31,					As of March 31,	
	2015	2016	2017	2018	2019[a/]	2019[e/]	2020[f/]
TOTAL REVENUE	**3,944.4**	**4,228.8**	**4,670.8**	**4,776.5**	**4,785.8**	**982.7**	**1,018.9**
Current Income	**3,760.8**	**4,069.2**	**4,508.7**	**4,593.8**	**4,601.2**	**954.0**	**947.9**
Tax Income	3,570.5	3,870.4	4,206.7	4,357.9	4,361.5	883.3	877.5
d / c Security Rate	97.9	96.7	107.3	111.7	110.6	29.0	28.6
Non Tax Income	190.3	198.8	302.1	235.9	239.7	70.8	70.4
d / c Interest income received (ENEE)	*0.0*	*0.0*	*21.7*	*42.8*	*43.4*	*21.8*	*21.8*
APP revenue	**0.0**	**0.0**	**0.0**	**14.1**	**15.0**	**0.0**	**7.7**
Donations	**183.6**	**159.6**	**162.1**	**168.7**	**169.5**	**28.6**	**24.9**
Current expenditure	**3,621.9**	**3,749.8**	**4,066.3**	**4,027.6**	**4,262.5**	**840.2**	**895.1**
Consumption expenditure	**2,334.0**	**2,269.1**	**2,369.8**	**2,261.1**	**2,459.5**	**491.8**	**552.3**
Total Wages and Salaries	1,718.6	1,689.5	1,800.1	1,807.1	1,906.3	400.3	431.5
Wages and Salaries	1,531.4	1,506.3	1,599.6	1,598.6	1,687.3	354.3	376.8
Employer contributions	187.2	183.2	200.5	208.5	219.0	46.0	54.7
Goods and services	615.4	579.7	569.7	454.0	553.0	91.5	120.8
Debt Commissions	**40.4**	**46.4**	**49.9**	**53.9**	**51.6**	**13.9**	**11.3**
Internal	29.7	32.2	36.7	40.8	39.4	0.0	0.0
External	10.7	14.2	13.2	13.1	12.2	0.0	0.0
Interest Debt	**501.6**	**505.3**	**580.6**	**651.7**	**706.5**	**153.8**	**146.5**
Internal	326.3	321.1	364.7	411.2	457.7	94.0	87.0
External	175.3	184.2	215.9	240.5	248.8	59.8	59.4
Transfers	**746.0**	**929.0**	**1,066.0**	**1,060.9**	**1,045.1**	**180.7**	**185.0**
CURRENT ACCOUNT SAVINGS	**138.9**	**319.3**	**442.4**	**566.2**	**338.7**	**113.9**	**52.7**

Financial Account: Central Administration 2015 – 2020

(Millions of U.S.$)

Description	2015	2016	2017	2018	2019[a/]	2019[e/]	2020[f/]
	As of December 31,					As of March 31,	
Capital Expenditure	**936.8**	**1,057.3**	**1,230.7**	**1,252.8**	**1.140.5**	**261.5**	**226.1**
Investment	390.3	419.2	584.7	531.9	416.8	105.6	36.9
Transfers	546.6	638.1	646.0	720.9	723.7	155.9	189.2
TOTAL NET EXPENSES	**4,558.7**	**4,807.1**	**5,297.1**	**5,280.3**	**5,403.0**	**1,101.6**	**1,121.3**
	0.0	0.0	0.0	0.0	0.0		
GLOBAL BALANCE	**(614.4)**	**(578.4)**	**(626.3)**	**(503.8)**	**(617.2)**	**(119.0)**	**(102.4)**
NET FINANCING c /	**614.4**	**578.4**	**626.3**	**503.8**	**617.2**	**119.0**	**102.4**
NET EXTERNAL CREDIT	**383.6**	**152.5**	**839.0**	**212.1**			
Disbursements	507.5	318.9	1,095.7	444.3			
Amortization	(125.5)	(167.2)	(254.8)	(228.8)			
External Transfers	9.6	9.4	7.4	6.3			
Zero Coupon Bonus	(8.1)	(8.5)	(9.2)	(9.6)			
NET INTERNAL CREDIT	**230.7**	**425.8**	**(212.8)**	**291.7**			
Utilization	1,326.8	919.3	1,030.5	852.6			
Amortization	(1,109.3)	(436.8)	(873.5)	(448.0)			
Other Financing	116.2	(110.2)	(335.8)	150.2			
Accounts Payable Flow	(11.4)	(123.7)	(30.0)	(72.6)			
Deposit Flow	(91.6)	174.2	(3.9)	(190.5)			
Net Loan Concession	0.0	3.0	0.0	0.0			
Exchange Rate (end of period)	**22.4**	**23.5**	**23.6**	**24.3**			
Total Gross Expenditure [d /]	**5,793.5**	**5,411.2**	**6,425.3**	**5,957.2**			
Net Global Balance in relation to GDP	**(3.0)%**	**(2.7)%**	**(2.7)%**	**(2.1)%**	**(2.5)%**	**(0.5%)**	**(0.4%)**
Gross Global Balance in relation to GDP	**(9.0)%**	**(5.6)%**	**(7.6)%**	**(5.0)%**			

d/c = of which

n/a = not available

a/Includes Income from Security Rate.

b/Includes Income Received by interests of ENEE.

c/As part of the process of transition towards the registration and compilation of public finance statistics based on the MEFP (2014), the net granting of loans is considered a Financial Asset, so it is recorded “below the line” , that is to say in financing.

d/Includes Amortization

e/ Figures as of March 31, 2019

f/ Figures as of March 31, 2020

Source: /SEFIN

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

Financial Account of the Non-Financial Public Sector 2015-2020

(Millions of U.S.$)

Description	2015	2016	2017	2018	2019	2019[b/]	2020[/]
	As of December 31,					As of March 31,	
Income and Donations	**6,381.6**	**6,810.4**	**7,289.9**	**7,411.1**	**7,787.3**	**1,683.0**	**1,741.7**
Current Income	**6,174.2**	**6,630.5**	**7,128.8**	**7,219.3**	**7,616.1**	**1,650.0**	**1,716.6**
Tax revenue	3,925.1	4,348.1	4,656.6	4,708.0	4,845.5	981.0	1,001.9
Social Security Contributions	604.6	661.6	759.3	793.1	855.2	202.4	214.9
Sales of Goods and Services	1,198.7	1,115.4	1,260.8	1,227.3	1,448.6	326.2	331.0
Interest and Dividends	257.4	400.6	312.9	336.7	310.6	96.4	128.0
Current transfers	10.9	2.5	5.1	5.8	48.7	11.9	9.1
Others	177.5	102.3	134.1	148.3	107.5	32.0	31.8
Donations	**183.6**	**160.0**	**141.3**	**168.7**	**169.5**	**28.7**	**24.9**
Capital Income	**23.9**	**19.9**	**19.9**	**23.1**	**1.7**	**4.2**	**0.2**
Income	17.5	10.2	16.9	19.5	1.1	3.8	0.1
Capital Transfers	6.4	9.7	3.0	3.6	0.6	0.4	0.1
Expenses	**6,575.8**	**6,923.7**	**7,477.8**	**7,634.5**	**8,001.5**	**1,662.0**	**1,672.4**
Current expenses	**5,451.4**	**5,674.7**	**6,026.6**	**6,123.1**	**6,622.9**	**1,368.2**	**1,408.6**
Wages and salaries	2,401.7	2,383.9	2,566.9	2,653.6	2,818.3	586.5	605.7
Purchase of Goods and Services	1,668.8	1,713.5	1,914.2	1,936.2	2,175.4	448.5	459.0
Interest paid	475.1	580.1	517.5	565.1	564.3	136.4	142.6
Current transfers	868.2	946.0	987.4	918.1	999.5	188.8	184.6
Rest of the General Government	174.2	163.4	0.0	0.0	0.0	0.0	0.0
Private Sector and Financial Sector	666.5	757.1	949.0	905.4	962.2	184.0	182.5
Public Companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others (external sector and others)	27.5	25.5	38.4	12.8	37.4	4.8	2.1
Other Current Expenses	37.7	51.2	40.6	50.2	65.4	8.0	16.7
Current Account Savings	**722.7**	**955.8**	**1,102.2**	**1,096.2**	**993.2**	**281.8**	**308.0**
Capital Expenditure	**1,124.4**	**1,249.0**	**1,451.2**	**1,511.4**	**1,378.5**	**293.8**	**263.8**
Real Investment	774.0	710.1	1,046.9	1,049.9	955.9	182.7	177.4

Financial Account of the Non-Financial Public Sector 2015-2020

(Millions of U.S.$)

Description	2015	2016	2017	2018	2019	2019[b/]	2020[/]
	As of December 31,					As of March 31,	
Inventory Variation	13.1	(3.3)	(17.3)	(19.0)	(11.4)	4.5	(0.4)
Other Capital Expenditures	1.3	76.9	59.2	4.6	13.3	7.4	0.0
Capital Transfers	336.0	465.3	362.4	475.9	420.7	99.2	86.8
Net Global Balance (Deficit)	**(194.2)**	**(113.3)**	**(187.9)**	**(223.4)**	**(214.1)**	**21.0**	**69.3**
Financing	**194.2**	**113.3**	**187.9**	**223.4**	**214.1**	**(21.0)**	**(69.3)**
Exchange Rate (end of period)	**22.4**	**23.5**	**23.6**	**24.3**	**24.6**	**24.4**	**24.7**
Operating Balance of Public Companies	**107.6**	**97.0**	**52.6**	**109.1**	**(4.3)**	**(9.3)**	**20.2**
Operating Balance Public Companies (% GDP)	**0.5%**	**0.5%**	**0.2%**	**0.5%**	**0.0%**	**0.0%**	**0.1%**
Net Global Balance (% GDP)	**(0.9)%**	**(0.5)%**	**(0.8)%**	**(0.9)%**	**(0.9%)**	**0.1%**	**0.3%**

a/As part of the process of transition towards the registration and compilation of public finance statistics based on the MEFP (2014), the net granting of loans is considered a Financial Asset, so it is recorded "below the line" , that is to say in financing.

Note: Preliminary figures

b/ Figures as of March 2019.

c/ Figures as of March 2020.

Source: /SEFIN

Revenues

Tax revenues are the largest component of the total revenues of the Central Administration.

In 2015, tax revenues amounted to U.S.$3,570.5 million, an increase of 12.0% compared to the previous year, a continued effect of the fiscal reform of 2013.

In 2016, tax revenues increased 8.4% to U.S.$3,870.4 million. This increase was mainly due to the creation of the Revenue Administration Service (SAR) and the approval of the new Tax Code (Decree No. 170-2016).

In 2017, tax revenues reached U.S.$4,206.7 million, an increase of 8.7% compared to 2016, mainly due to the administrative measures taken by the new tax administration (SAR), solid economic growth of 4.8% and the regularization of tax collection and amnesties approved during 2017.

In 2018, tax revenues amounted to U.S.$4,357.9 million, an increase of 3.6% compared to 2017. This increase was due in part to the continued approval of tax amnesties that improve tax collection in the year in which they are applied.

In 2019, tax revenues amounted to U.S.$4,361.5 million, an increase of U.S.$3.6 million, or 0.1%, compared to 2018.

In the first three months of 2020, tax revenues amounted to U.S.$877.5 million, a decrease of U.S.$5.8 million, compared to tax revenue of U.S.$883.3 million in the first three months of 2019. This decrease was due to the depreciation of the Lempira. Accounted for in Lempiras, the tax revenues in the first three months of 2020 actually increased by L.114.8 million to L.21,686.4 million, compared to L.21,571.6 million for the same period in 2019.

The ratio of tax revenue to GDP, was 17.3% in 2015, 18.3% in 2016, 18.3% in 2017, 18.5% in 2018, and 17.5% in 2019.

Tax revenues accounted for 90.5% of the Central Administration's total revenues in 2015, 91.5% of its total revenues in 2016, 90.1% of its total revenues in 2017, 91.2% of its total revenues in 2018 and 91.1% of its total revenues in 2019 and 86.1% of its total revenues during the first three months of 2020.

The main components of the tax revenue of the Central Administration are:

i. Sales tax which represented an average of 39.9% of the tax revenue in the period from 2015 through 2019;

ii. Income tax, which represented an average of 30.5% of the total tax revenue during the same period,

iii. Fuel consumption tax (*Aporte para la Atención a Programas Sociales y Conservación del Patrimonio Vial)*, which represented an average of 12.8% of the tax revenue in the same period, and

iv. Customs tax, which represented an average of 4.3% of the total tax revenue from 2014 through 2019.

The customs tax has been gradually reduced due to the decrease in tariffs as a result of free trade agreements such as DR-CAFTA, among others, and the recent incorporation of Honduras into the Customs Union with Guatemala. The sales tax, income tax, fuel tax and custom taxes, all combined represented 87.4% on average of total tax revenues from 2015 through 2019.

The Central Administration collects taxes on personal and corporate income and value added tax on sales of goods and services. The corporate tax rate is 25% on net taxable income or 1.5% on gross income, whichever is higher, while individual income tax rates vary between 0% and 25%. The value added tax applicable to most sales of goods and services is at a fixed rate of 15%. Higher special tax rates apply to the sale of certain goods, such as liquors and executive class airplane tickets.

The most important fiscal reforms from 2015 to date have been the following:

- Decree No. 66-2015, which grants a term of 60 calendar days following its date of publication for taxpayers and withholding agents who have not complied or extemporaneously paid the Annual Declaration of Credits of Sales Tax, the Monthly Withholding Statement or that have not updated their fiscal domicile to meet their tax obligations without incurring interest, fees or surcharges.
- Decree No. 92-2015, which exempted credit unions from income tax, net asset tax and solidarity contribution in 2014, but kept them subject to the payment of a social contribution of fifteen percent (15%) over their gross surpluses for the year.
- Decree No. 9-2015, which exempted all government vehicles from taxes, levies, import taxes and the annual single registration fee.
- Agreement No. 027-2015, which approved rules under the Law of the Regulation of Transfer Pricing.
- Executive Decree No. PCM-084-2015, which created the Revenue Administration Service (SAR).
- Executive Decree No. PCM-083-2016, which created the Presidential Customs Commission (COPRISAO).
- Decree No. 31-2018, which reformed Article No. 22(a) of the Income Tax Law increasing the taxable bases for the calculation of 1.5% on gross income.
- Decree No. 20-2016, which established that the progressive rates for income tax of natural persons will be adjusted annually automatically starting on 2017 by applying the CPI for the previous year, as published by the Central Bank of Honduras.
- Decree No. 170-2016, which approved the new Tax Code.
- Decree No. 119-2016, which reformed Article No. 15 of the Sales Tax Law to exonerate agro-industrial production.
- Agreement No. 609-2017, which amended the Billing Regulation.
- Decree No. 100-2017, which exempted the national transportation security system from income tax and other taxes.
- Decree No. 7-2017, which amended Article No. 8 of the Sales Tax Law.
- Decree No. 32-2017, which amended Article No. 213 of the Tax Code to provide for tax regularization and amnesty until September 30, 2017.
- Decree No. 37-2017, which amended paragraph (d) of Article No. 15 of the Impuesto Sobre Ventas, or Sales Tax Law.
- Decree No. 68-2017, which established the Tourism Promotion Law which aims to provide certain incentives to the tourism sector for development.
- Decree No. 93-2017, which further extended tax regularization and amnesty until December 31, 2017.
- Decree No. 180-2018, which approved the General Budget of the Republic and extended tax amnesty until March 31, 2019.
- Decree No. 131-2018, which provides that certain entities functioning under the Law of the Social Sector of the Economy comply with their tax and customs obligations corresponding to fiscal periods 2014, 2015, 2016, 2017 and 2018 free of payment of fines, interest and surcharges within a period of four (4) months from the effective date of the Decree. The Decree also established a social contribution for entities in the social sector of the economy equal to fifteen percent (15%) of the net surpluses or net profits generated by such entities in the previous fiscal period.
- Decree No. 133-2018, which granted amnesty for the payment of fines for the entities that failed to timely submit a Report on Compliance with Environmental Measures.

- Decree No. 51-2018, which granted regularization and tax amnesty for 60 days from the date of its publication.

Expenditures

Current expenditure control has been a principal objective of the Central Administration's fiscal policy, particularly since the enactment of the FRL. Throughout the period from 2015 through 2019, current expenditures have remained stable at an average of 17.4% of nominal GDP in each of those years.

In 2015, current expenditures of the Central Administration increased by 6.0% to U.S.$3,621.9 million (or 17.6% of nominal GDP). This increase was principally due to an increase in expenditure for goods and services.

In 2016, current expenditures of the Central Administration increased 3.5% to U.S.$3,749.8 million (or 17.8% of nominal GDP). This increase was principally due to an increase in current transfers.

In 2017, current expenditures of the Central Administration increased 8.4% to U.S.$4,066.3 million (or 17.7% of nominal GDP). This increase was due mainly to an increase in wages and salaries, payment of debt interest and current transfers.

In 2018, current expenditures decreased slightly to U.S.$4,027.6 million (or 17.1% of nominal GDP), compared to 2017. This slight decrease was due mainly to an increase in the payment of debt interest and current transfers.

In 2019, current expenditures of the Central Administration were U.S.$4,262.5 million (17.1% of nominal GDP). This increase was due principally to an increase in wages and salaries and current transfers.

For the first quarter of 2020, current expenditures of the Central Administration increased to U.S.$895.1 million (3.6% of nominal GDP). This increase was due principally to an increase in wages and salaries and current transfers.

The largest components of Central Administration's total net expenses from 2014 through 2019 have been, on average, wages and salaries (35.8%), capital expenditures (22.2%), current transfers (18.8%), goods and services (10.9%).

In 2015, total net expenses of the Central Administration increased to U.S.$4,558.7 million (or 22.1% of nominal GDP) compared to 2014. This increase was mainly due to an increase in consumer spending.

In 2016, total net expenses of the Central Administration increased to U.S.$4,807.1 million (or 22.8% of nominal GDP) compared to 2015. This increase was mainly due to an increase in capital expenditure.

In 2017, total net expenses of the Central Administration increased to U.S.$5,297.1 million (or 23.0% of nominal GDP) compared to 2016. This increase was mainly due to an increase in capital expenditure both real investment and capital transfers.

In 2018, total net expenses of the Central Administration decreased slightly to U.S.$5,280.3 million (or 22.4% of nominal GDP) compared to 2017. This decrease was due mainly to healthy public finances by ensuring sustainable levels of public indebtedness, which reflected an improvement in the planning and execution of expenses.

In 2019, total net expenses of the Central Administration increased to U.S.$5,403.0 million (or 21.6% of nominal GDP) compared to 2018. This increase was principally due to an increase in consumption and capital expenditure.

For the first quarter of 2020, total net expenses of the Central Administration increased to U.S.$1,121.3 million (4.5% of nominal GDP). This increase was principally due to an increase in consumption expenditure, mainly in wages and salaries and goods and services.

In 2015, the Central Administration's capital expenditures totaled U.S.$936.8 million (4.6% of nominal GDP), a slight decrease from the prior year. Capital expenditures in 2015 were deployed to improve the hospital network, as well as to extend the Logistics Corridor and construct the Agricultural and Tourist Corridors.

In 2016 and 2017, the Central Administration's capital expenditures totaled U.S.$1,057.3 million and U.S.$1,230.7 million, respectively. These amounts were allocated to programs and projects, such as support for the Social Protection Network, the development of a Government Civic Center, construction of the Palmerola Airport, the creation of parks for the *Vida Mejor* and *Ciudad Mujer* programs and, as in previous years, investments in road and other infrastructure.

In 2018, the Central Administration's capital expenditures totaled U.S.$1,252.8 million (or 5.3% of nominal GDP), of which 42.5% and 57.5% of the total were allocated to direct investment and capital transfers (indirect investment), respectively.

In 2019, the Central Administration's capital expenditures totaled U.S.$1,140.5 million (or 4.6% of nominal GDP), of which 35.6% and 63.5% of the total were allocated to direct investment and capital transfers (indirect investment), respectively. As in prior periods, the capital expenditures were deployed for investments in various Government programs, as well as roads and other infrastructure projects.

During the first quarter of 2020, the capital expenditures of the Central Administration totaled U.S.$226.1 million (0.9% of nominal GDP). This amount represented a decrease compared to the first quarter of 2019, mainly as the result of a decrease in direct investment. During this period, 16.3% and 83.7% of the total were allocated to direct investment and capital transfers (indirect investment), respectively. Capital expenditures were allocated to investments in various government programs and other infrastructure projects.

Expenditures Control

Controls on expenditures implemented by the Central Administration include the establishment of a credit reserve certificate in 2013, which must be issued by all Central Administration entities before entering into new purchase agreements for goods or services. A credit reserve certificate must be issued through the Integrated Financial Management System (SIAFI), the online budget tracking system administered by the *Secretaría de Finanzas*. To obtain the credit reserve certificate, the Central Administration entity that proposes to enter into a purchase agreement must demonstrate that it has sufficient available funds in its budget to meet the intended procurement. This requirement is designed to ensure that public officials do not exceed their approved budgets. Additionally, a 10-year ban from public service is imposed on all public officials who exceed expenses in the Annual Budget Law approved by Congress.

In 2016, the Central Administration implemented Decree No. 25-2016, the FRL, 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 Administration expenditures.

In 2017, 2018 and 2019, the Central Administration's spending control was a product of the policy measures approved in 2013 and the LRF, consistent with the MMFMP and the execution of a result-based budget.

Floating Debt (Deuda Flotante)

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

During the period from 2010 through 2015, the Central Administration's floating debt grew 36.9% (or U.S.$158.7 million), reaching a total of U.S.$589.1 million in 2015. In order to place a limit on the incurrence of floating debt, the FRL established that the Central Administration's incurrence of new floating debt that is outstanding for more than 45 days cannot exceed 0.5% of nominal GDP for any given fiscal year. Since its approval in 2016, the Central Administration has complied with this limit. In 2016, 2017, 2018 and 2019, incurrences of floating debt outstanding for more than 45 days were 0.2%, 0.2%, 0.4% and 0.2% of nominal GDP, respectively. As a result, the Central Administration's floating debt has been reduced to U.S.$539.5 million, U.S.$516.0 million, U.S.$460.6 million and U.S.$355.8 million in 2016, 2017, 2018 and 2019, respectively.

The following table sets forth information regarding the Central Administration's floating debt for the periods indicated.

Floating Debt or Payment Arrears

(In millions of U.S.$)

Description	2015	2016	2017	2018	2019
Employer contributions [a/]	74.0	48.2	37.4	35.9	58.0
Goods and Services	12.8	28.0	23.6	13.3	9.8
Transfers	210.1	170.3	205.9	214.0	112.4
Private sector transfers	9.6	17.6	11.7	17.6	12.7
Deductions	31.4	44.6	46.9	47.3	51.3
Others	130.2	138.4	120.8	47.3	33.9
Sub Total	***468.0***	***447.2***	***446.3***	***375.3***	***278.1***
Previous managements	121.0	92.4	69.7	85.3	77.8
Late payments over 45 days		38.7	36.3	9.8	38.2
Total Floating Debt	***589.1***	***539.5***	***516.0***	***460.6***	***355.8***

a/ Includes: INPREMA, INJUPEMP, IPM, INPREUNAH Y IHSS

State-Owned Companies

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. The deadline for their delivery was extended in 2018. 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. As of 2019, only four systems have yet to be delivered, these being located in La Ceiba, El Progreso, Amapala and Tegucigalpa (Tegucigalpa also includes the Sanitary Sewer System).

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

Selected Operating Results of SANAA

	Millions of L.					% of nominal GDP				
	2015	**2016**	**2017**	**2018**	**2019**	**2015**	**2016**	**2017**	**2018**	**2019**
Total revenues	896.6	878.6	910.7	1,215.3	888.3	0.2%	0.2%	0.2%	0.2%	0.1%
Sale of goods and services	896.6	878.6	910.7	928.8	887.1	0.2%	0.2%	0.2%	0.2%	0.1%
Other income	0	0	0	286.5	1.2	0.0%	0.0%	0.0%	0.0%	0.0%
Total Expenditures	973.4	998.4	1,184.2	1,294.5	1,038.7	0.2%	0.2%	0.2%	0.2%	0.2%
Current Expenditures	973.4	998.4	1,184.2	1,294.5	1,038.7	0.2%	0.2%	0.2%	0.2%	0.2%
Operational costs	966.2	992.3	1,167.3	1,262.6	1,007.8	0.2%	0.2%	0.2%	0.2%	0.2%
Other expenditures	7.2	6.1	16.9	31.9	30.9	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Expenditures	-	-	-	-	-	-	-	-	-	-
Global Balance	(76.7)	(119.8)	(273.6)	(79.2)	(150.4)	(0.02)%	(0.02)%	(0.05)%	(0.01)%	(0.02)%

Source: SANAA

In 2017, SANAA operated at a loss of L.273.6 million (or 0.05% of nominal GDP). As a result, efficiency measures, such as service schedules and the integration of plants' operations, were implemented, which reduced the loss in 2018 by 71% to L.79.2 million (or 0.01% of nominal GDP). In 2019, SANAA operated at a loss of L.150.4 million (or 0.02% of nominal GDP). 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

The *Empresa Nacional Portuaria* ("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 in March 1966, ENP has operated the ports of Puerto Cortés, Puerto Castilla and San Lorenzo.

Through the implementation of the Honduran Maritime Ports Modernization Program established by the Central Government, ENP entered into 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 maintained the provision of maritime services to ships. In this connection, 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 ENP and improve corporate social responsibility.

The achievements to date are based on three fundamental pillars:

- **Administrative Level**: New strategic plan developed to redefine the mission of ENP in accordance with a public private partnership scheme, new corporate structure, improved collection mechanisms (prepayment) and implementation of multi-year budgets.

- **Operational Level**: Increased productivity and improved financial performance as a result of increased traffic, cost reductions and greater efficiency.
- •**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 profit and loss before transfers to the public sector for the period indicated:

Profit and Loss Before Transfers to Public Sector

Before (2) Concessions		After (2) Concessions						As of December 31,
2011	2012	2013	2014	2015	2016	2017	2018	2019
L(29,171,708)	L.31,739,374	L.125,555,780	L.52,863,823	L.115,899,269	L. 421,776,215	L. 422,096,762	L. 532,164,968	L. 484,689,843

Source: ENP Financial Statements 2014-2019

During the 2015 to 2019 period, ENP's profit before transfers to the public sector rose from L.115.9 million in 2015 to L.484.7 million in 2019, an increase of 318.2% over the four-year period. Based on preliminary figures, in 2019, ENP's earnings for the full year totaled L.484.7 million.

Similarly, 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,					As of March 31,	
	2015	2016	2017	2018	2019	2019	2020
	(U.S.$ millions)						
Revenues	48.08	52.01	49.62	54.61	54.41	15.6	14.2
Expenditures	44.46	37.55	36.20	37.29	40.12	3.8	10.0
Depreciation	0.22	0.20	0.17	0.16	0.18	0.04	0.03
Profit/Loss	3.41	14.25	13.24	17.16	14.10	11.8	4.1

Source: ENP

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 2014 to 2019.

In 2014, the senior management took measures to reduce the number of employees, such as voluntary severance agreements and work suspensions (which often resulted in cancelations of positions). These actions resulted in improvements in expenditures which enabled HONDUTEL to generate profit in 2015, 2016 and 2017. Despite these reductions in expenditures, HONDUTEL's revenues have decreased in each year during the 2015 to 2019 period. As a result, in 2019 HONDUTEL recorded a net loss of U.S.$12.4 million.

The following table shows HONDUTEL's profit and loss information for the periods indicted:

Income, Expenses, Depreciation, Profit and Loss (Millions U.S.$)

	2015	2016	2017	2018	2019
Revenues	91.03	83.34	71.03	62.76	56.09
Expenditures	73.69	65.34	61.55	62.73	60.35
Depreciation	12.18	10.20	7.74	7.54	7.22
Profit/Loss	3.12	4.39	0.80	(8.47)	(12.42)

Gross revenues
Annual average Exchange rate published by Central Bank of Honduras
Source: HONDUTEL Financial Statements 2019

Income, Expenses, Depreciation, Profit and Loss (Millions U.S.$) as of

	2019 First Quarter	2019 Second Quarter	2019 Third Quarter	2019 Fourth Quarter	2020 First Quarter
Revenues	15.13	29.19	42.95	56.09	12.11
Expenditures	14.62	28.58	42.21	60.35	12.47
Depreciation	1.84	3.66	5.45	7.22	1.71
Profit/Loss	(1.56)	(3.72)	(5.61)	(12.42)	(2.18)

Gross revenues
Annual average Exchange rate published by Central Bank of Honduras

Source: HONDUTEL Financial Statements 2019

The following tables shows HONDUTEL's wage expenditures and number of employees as of the dates indicated:

Wages Expenditures (US $ Millions) and Number of Employees

	2015	2016	2017	2018	2019	March 31, 2020
Wages Expenditures	44.99	42.31	39.81	41.41	37.33	9.44
Number of Employees	2,718	2,658	2,536	2,445	2,274	2,271

Annual average Exchange rate published by Central Bank of Honduras

Source: HONDUTEL Report Budget Management

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 for each of the state-owned 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.

2020 Budget

On December 12, 2019, the National Congress, through Legislative Decree No. 171-2019, approved the General Budget of Income and Expenditures of the Republic for Fiscal Year 2020, which was published in the Official Gazette No. 35,137, dated December 31, 2019.

Legislative Decree No. 171-2019, referred to in the previous paragraph, was amended by Legislative Decree No. 007-2020, dated February 11, 2020, and published in the Official Gazette No. 35,177, dated February 17, 2020, the amendment corrected certain drafting errors.

The Income and Expenditure Budget for the Public Sector in Fiscal Year 2020 amounts to L282,335.6 million, which represents an increase of L20,657.0 million (7.9%) compared to the approved budget for 2019.

The Central Administration's income (which includes financing) for 2020 was estimated at L155,483.2 million, an increase of 2.1% compared to the 2019 budget. On the expenditure side, it was estimated that the Central Administration would spend L155,483.2 million, including L49,880.9 million for debt service, and L39,865.0 million for transfers and donations, which include transfers to municipalities, transfers to UNAH, transfers to the Supreme Court of Justice and transfers that finance the operation of some Decentralized Institutions.

The projected fiscal deficit for the Central Administration in the 2020 budget was 1.0% of nominal GDP. The expected financial needs for 2020 included L15,611.6 million of external debt and L20,038.5 million of internal debt.

Executive Decree No. PCM-020-2020, dated March 16, 2020, directed the Secretary of Finance to reduce the original budgetary amounts allocated for institutions within the NFPS (excluding the health, education, security and defense sectors) in order to make available 2% of the total Income and Expenditure Budget and to redirect the use of those funds towards the purchase of supplies and other expenses necessary to manage the COVID-19 pandemic.

Due to the extraordinary expenses required to manage the COVID-19 pandemic, the Republic will not be able to meet the original proposed fiscal deficit for 2020 of 1% established in the Fiscal Responsibility Law (FRL). Therefore, through Legislative Decree No. 55-2020, published in the Official Gazette No. 35,259 dated May 21, 2020, the National Congress has suspended the application of the fiscal rules established in the FRL for a period of two years.

PUBLIC SECTOR DEBT

General

External debt consists mainly of loans from multilateral banks like the World Bank and the IADB and sovereign bonds issued in the international capital markets. 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.

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, the government of Honduras issued U.S.$500 million of its 7.50% Notes due 2024. On December 11, 2013, the government issued U.S.$500 million of its 8.75% Notes due 2020. On January 19, 2017, the government issued U.S.$700 million of its 6.25% Notes due 2027. The proceeds of these offerings were used by the Republic for general budgetary purposes, the payment of *deuda flotante* and making a loan to ENEE in the amount of U.S.$700.0 million.

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
Central Government Public Sector Debt

	As of December 31					
	2015	**2016**	**2017**	**2018**	**2019**	**March 31, 2020**
	(U.S.$ millions, except percentages)[(1)]					
Internal debt	3,390.78	3,861.77	4,144.60	4,513.20	4,829.86	5,032.2
External debt	5,732.63	5,840.26	6,780.00	6,961.50	7,319.14	7,321.9
Total public sector debt	9,123.41	9,702.03	10,924.60	11,474.70	12,149.00	12,354.15
Total public debt (as % of GDP)	44.3%	46.0%	47.5%	48.7%	49.0%	49.0%
Public internal debt (as % of GDP)	16.5%	18.3%	18.0%	19.2%	19.5%	20.0%
Public external debt (as % of GDP)	27.9%	27.7%	29.5%	29.6%	29.5%	29.0%
GDP	20,584	21,100	23,002	23,540	24,796	25,209

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:

December 31, 2015: L.22.368 = U.S.$1.00
December 31, 2016: L.23.503 = U.S.$1.00
December 31, 2017: L.23.588 = U.S.$1.00
December 31, 2018: L.24.339= U.S.$1.00
December 31, 2019: L.24.635= U.S.$1.00
Source: SEFIN

As of December 31, 2019, the total public debt of the Central Administration was U.S.$12,149.0 million, of which U.S.$7,319.1 million was external debt and U.S.$4,829.9 million was internal debt. As of December 31, 2019, the average maturity of all public sector debt of the Central Administration was 8.7 years. Although the majority of the Central Administration's public sector internal debt has maturities between 1 and 10 years and an average maturity of 5.10 years, the Central Administration's public sector external debt is mostly long-term and has an average lifespan of 11.0 years. As of December 31, 2019, 39% of the total public sector debt of the Central Administration was denominated in lempiras and the remaining 61% was denominated in foreign currency. As of December 31, 2019, 70% of the Central Administration's public sector debt had fixed rates of interest and 30% had floating rates of interest.

As of March 31, 2020 the total public debt of the Central Administration was U.S.$12,354.2 million, of which U.S.$7,321.9 million was external debt and US $5,032.2 million was internal debt. As of March 31, 2020, the average maturity of all public sector debt of the Central Administration was 8.70 years. The Central Administration's public sector internal debt has maturities between 1 and 10 years and an average maturity of 5.10 years. The Central Administration's public sector external debt is mostly long-term and has an average lifespan of 11.0 years. As of March 31, 2020, 73% of the Central Administration's public sector debt had fixed rates of interest and 27% had variable rates of interest.

The following table shows the composition of the public sector debt of the Central Administration by the type of interest rate applicable to such debt on the indicated dates:

Central Government Public Sector Debt by Type of Interest Rate

	As of December 31,					As of March 31,
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Fixed interest rate	74	74	72	71	70	73
Floating interest rate	26	26	28	29	30	27
	100	100	100	100	100	100

Source: SEFIN

External Debt

As of December 31, 2019, the outstanding balance of the external debt of the Central Administration of Honduras was U.S.$7,319.1 million, which represents 29.5% of nominal GDP. The external debt of the Central Administration consists of U.S.$4,469.9 million (or 61%) held by multilateral institutions, U.S.$1,700.0 million (or 23%) held by bondholders, U.S.$871.9 million (or 12%) held by bilateral creditors and U.S.$277.3 million (or 4%) held by commercial banks, other financial institutions and suppliers.

As of March 31, 2020, the outstanding balance of the external debt of the Central Administration of Honduras was U.S.$7,321.9 million, which represents 29.0% of nominal GDP. The external debt of the Central Administration consists of U.S.$4,495.7 million (or 61%) held by multilateral institutions, U.S.$1,700.0 million (or 23%) held by bondholders, U.S.$849.0 million (or 12%) held by bilateral creditors and U.S.$277.2 million (or 4%) held by 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 Government's Public Sector External Debt by Type of Creditor

	As of December 31,					As of March 31,
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
	(U.S.$ millions)					
Multilateral	3,765.85	3,881.74	4,147.80	4,369.50	4,469.88	4,495.75
Bilateral	604.84	592.04	618.8	598.7	871.94	849.05
Bondholders and other holders of debt securities	1,050.00	1,050.00	1,700.00	1,700.00	1,700.00	1,700.00
Commercial banks, other financial institutions and supplies	311.94	316.48	313.40	293.30	277.32	277.20
Total external debt	5,732.63	5,840.26	6,780.00	6,961.50	7,319.14	7,321.96

Source: SEFIN

As of December 31, 2019, the main multilateral creditors by volume of debt are the IDB, the World Bank and the CABEI. Sovereign bonds placed in the international capital markets represent 23% of the external debt portfolio. The largest bilateral creditors are China (Taiwan), Spain, Venezuela, Korea and Italy. 52% of the Central Government's bilateral loans are concessional loans on terms that are more favorable to Honduras in many respects than market terms, and the remaining 48% are non-concessional loans.

As of March 31, 2020, the main multilateral creditors by volume of debt are the IDB, the World Bank and the CABEI. The sovereign bonds placed in the international capital markets represent 23% of the external debt portfolio. The largest bilateral creditors are China (Taiwan), Spain, Venezuela, Korea and Italy. 52% of the Central Government's bilateral loans are concessional loans on terms that are more favorable to Honduras in many respects than market terms, and the remaining 48% are non-concessional loans.

Currently Honduras has a relatively low level of overall debt balance relative to its GDP, compared to other countries in Central America.

As of March 31, 2020, the Central Administration's public sector external debt was broken down by currency denomination as follows: 84% in U.S. dollars, 11% in Special Drawing Rights, 3% in Euros and the remaining 2% in other foreign currencies.

On April 10, 2020, the World Bank Executive Board approved a U.S.$119 million credit for Honduras under the disaster risk management development credit. The loan, which will mature in 30 years and incorporates a five year grace period, is aimed at providing the Government with immediate financial support to address the COVID-19 outbreak.

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

Central Government Public Sector External Debt by Currency

	As of December 31,					As of March 31,
	2015	2016	2017	2018	2019	2020
	(as a percentage of total)					
USD	77.0%	78.0%	81.0%	82.0%	84.0%	84.1%
SDR	17.0%	16.0%	14.0%	13.0%	11.0%	11.2%
EURO	5.0%	4.0%	4.0%	3.0%	3.0%	3.3%
Other	1.0%	2.0%	1.0%	2.0%	2.0%	1.4%
Total by Currency	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: SEFIN

The following table sets forth scheduled debt service of the Central Administration's total public sector external debt, for the periods indicated.

Central Government Public Sector External Debt Service Maturity 2020-2029

As of December 31, 2019

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(U.S.$ millions)									
Principal	685.72	208.14	437.24	447.22	456.56	535.81	252.03	954.05	231.24	203.67
Interest	206.86	153.38	200.44	178.30	156.05	139.62	130.93	101.80	73.04	66.33
Total Debt Service	**892.58**	**361.53**	**637.68**	**625.52**	**612.61**	**675.44**	**382.96**	**1,046.85**	**304.28**	**270.00**

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, 10 and 15 years. The Honduran government has also issued bonds denominated in U.S. dollars in the local market in an aggregate amount of U.S.$53.2 million. As of December 31, 2019, the balance of the internal debt of the Central Administration of Honduras was U.S.$4,829.9 million (equivalent to L.118,983.4 million) or 19.5% of nominal GDP. As of December 31, 2019, the average maturity of the debt of the internal Central Administration was 5.1 years. Throughout 2019, the Government of Honduras issued a total of L.21,819.4 million in 2019 budgetary bonds, which are bonds issued to finance the budget that has been approved by the National Congress. As of March 31, 2020, the balance of the internal debt of the Central Administration of Honduras was U.S.$5,032.22 million, or 20.0% of nominal GDP.

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 March 31,
	2015	**2016**	**2017**	**2018**	**2019**	**2020**
			(U.S.$ millions)[1]			
Standardized[2]	2,696.13	3,118.30	3,655.74	4,282.43	4,662.60	4,865.94
Standardized Denominated $[3]	457.44	339.98	290.00	58.27	45.74	45.74
Non-Standardized[4]	237.21	403.49	198.86	172.49	121.53	120.54
Total	**3,390.78**	**3,861.77**	**4,144.60**	**4,513.20**	**4,829.86**	**5,032.22**

(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
December 31, 2016: L.23.5 = U.S.$1.00
December 31, 2017: L.23.6 = U.S.$1.00
December 31, 2018: L.24.3= U.S.$1.00
December 31, 2019: L.24.6= U.S.$1.00
March 31, 2020: L.24.7= 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 the 2016 to 2018 period and extend the average life of the Central Administration's internal debt. The plan was executed through a series of voluntary exchanges with holders in which approximately U.S.$366 million of bonds maturing in the 2016 to 2018 period were exchanged for new bonds with maturities in 2022 and 2024 and the creation and placement of long-term instruments (10- and 15-year instruments at fixed rates of interest). These actions have resulted in improvements in Honduras' international credit ratings and, together with the Annual Financing Plan, extended the average life of the Republic's internal debt from 3.4 years in 2014 to 5.1 years at December 31, 2019.

Internal Debt Service

The internal debt service of the Central Administration decreased significantly in recent years due to a lower concentration of maturities resulting from debt management operations that the country has been executing in recent years. In 2019, the internal debt service was U.S.$1,116.3 million.

In the first quarter of 2020, the internal debt service of the Central Administration decreased significantly compared to prior years due to a lower concentration of maturities resulting from debt management operations that the country has been executing in recent years. During the first quarter of 2020, the internal debt service was US$ 308.5 million.

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

Central Administration Internal Debt Service

	2015	**2016**	**2017**	**2018**	**2019**	**March 31, 2020**
Bonds	**2,183.84**	**961.05**	**1,565.09**	**994.75**	**1,114.85**	**308.12**
Principal	1,127.33	446.45	875.25	457.01	516.33	216.42
Interest and Fees	352.56	354.04	401.63	446.69	492.60	91.70
Refinancing and Swaps	703.95	160.55	288.21	91.05	105.91	-
Capitalized Interest Flow	-	-	-	-	-	-
Loans	**1.67**	**1.83**	**13.17**	**15.54**	**1.44**	**0.37**
Principal	1.00	1.00	11.65	13.31	1.00	-
Interest and Fees	0.67	0.83	1.52	2.23	0.44	0.37
Total	**2,185.50**	**962.87**	**1,578.26**	**1,010.29**	**1,116.29**	**308.48**

(1) Amounts in lempiras have been converted to U.S. dollars using the following exchange rates for each of the dates indicated:

December 31, 2015: L.22.4 = U.S.$1.00
December 31, 2016: L.23.5 = U.S.$1.00
December 31, 2017: L.23.6 = U.S.$1.00
December 31, 2018: L.24.3= U.S.$1.00
December 31, 2019: L.24.6= U.S.$1.00
March 31, 2020: L.24.7= 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 operating losses from 2008 through 2011 totaling U.S.$152.8 million. These losses were generated by the payment of interest in open market operations as part of its monetary policy and operational expenses.

In 2012, the *Secretaría de Finanzas* and the Central Bank entered into a recapitalization agreement that aimed to reduce the Central Bank's losses through the issuance of securities by the Central Administration. The recapitalization agreement was approved by the National Congress through decree No. 38/2014 of May 29, 2014. Under this agreement, the Central Administration issues bonds to the Central Bank, commencing in 2014, for a period of 10 years on the following terms:

- In 2014, the Central Administration issued bonds with a face value of U.S.$142.6 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 incurred from 2008 through 2011;
- From 2015 through 2018, the Central Administration exchanged its outstanding non-market bonds held by the Central Bank 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 semi-annually;
- In 2018, bonds having the same characteristics described above were issued with a face value of U.S.$32.23 million to pay the Central Bank's non-recognized losses incurred from 2012 through 2013, as well as a portion of non-recognized losses from 2014.

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

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 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"), 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.$600,000,000;
- will mature on June 24, 2030;
- except as set forth under "—Optional Redemption," will not be redeemable before maturity and not be entitled to the benefit of any sinking fund; and
- will bear interest from and including, June 24, 2020 to, but excluding June 24, 2030, at a rate of 5.625% per annum on the principal amount thereof, payable semi-annually in arrears on June 24 and on December 24 of each year, commencing on December 24, 2020. 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 unrestricted, permanent global Notes 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 IMF, 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 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 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.

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:

- 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 S.A./N.V., Luxembourg Branch, as registrar and paying agent in Luxembourg, and The Bank of New York Mellon, 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

Except as set forth under "—Optional Redemption" below, 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.

Optional Redemption

General

The Republic may, at its option, redeem the Notes, in whole or in part, at any time or from time to time, on not less than 10 nor more than 60 days' notice, prior to March 24, 2030 (three months prior to the maturity date of the Notes, the "Par Call Date") at a redemption price calculated by the Republic equal to the greater of (1) 100% of the principal amount of such Notes and (2) the sum of the present values of the Remaining Payments, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points, plus, in each case, any additional amounts and accrued and unpaid interest on the principal amount of the Notes to be redeemed up to, but excluding, the redemption date.

"Remaining Payments" means the remaining payments of principal of and interest on the Notes that would be due after the related redemption date as if the Notes were redeemed on the Par Call Date. If the applicable redemption date is not an interest payment date with respect to the Notes, the amount of the next succeeding scheduled interest payment on the Notes will be reduced by the amount of interest accrued on the Notes to such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated (on a day-count basis) yield to maturity of the Comparable Treasury Issue. In determining the Treasury Rate, the price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) will be assumed to be equal to the Comparable Treasury Price for such redemption date.

"Comparable Treasury Issue" means the United States Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the Par Call Date of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of debt securities of a comparable maturity to the Par Call Date of the Notes to be redeemed.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Republic.

"Comparable Treasury Price" means (1) the arithmetic average of the Reference Treasury Dealer Quotations for such redemption date after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Republic obtains fewer than four Reference Treasury Dealer Quotations, the arithmetic average of all Reference Treasury Dealer Quotations for such redemption date.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the arithmetic average, as determined by the Republic, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Republic by such Reference Treasury Dealer at 3:30 p.m. (New York City time) on the third business day preceding such redemption date.

"Reference Treasury Dealer" means (1) two primary U.S. Government securities dealers in the United States (a "Primary Treasury Dealer") designated by Oppenheimer & Co. Inc. or Banco Atlántida, S.A. and (2) any other two Primary Treasury Dealers designated by the Republic.

In addition, the Republic may redeem the Notes, in whole or in part, at any time or from time to time on or after the Par Call Date at a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus any additional amounts and accrued and unpaid interest on the principal amount of the Notes to be redeemed up to, but excluding, the redemption date.

General Provisions Relating to Redemption

A notice of redemption will specify the redemption date for the Notes to be redeemed and may provide that it is subject to certain conditions that will be specified in the notice. If those conditions are not met, the redemption notice will be of no effect and we will not be obligated to redeem such bonds.

In the event that fewer than all of the Notes are to be redeemed at any time, selection of the Notes for redemption will be made in compliance with the applicable procedures of DTC.

Notice of any redemption will be mailed by first-class mail, postage prepaid, or delivered in accordance with the procedures of DTC, at least 10 but not more than 60 days before the redemption date to holders of the bonds to be redeemed at their respective registered addresses. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of such exchange so require, the Republic will also cause notices of redemption to be published as described under "—Notices." Notes, when called for redemption as specified herein, will become due on the date fixed for redemption. The Republic will pay the redemption price for the bonds to be redeemed together with any additional amounts and accrued and unpaid interest thereon to, but excluding, the redemption date. On and after the redemption date, interest will cease to accrue on such Notes as long as the Republic has deposited with the Trustee or a paying agent funds in satisfaction of the applicable redemption price pursuant to the Indenture.

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 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 ("Additional Amounts"); 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 (other than Honduras, where no such requirement exists) 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 (other than Honduras, where no such requirement exists), 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 or (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 other applicable or successor form); 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 advisors 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 (Decrees 128-2019, 171-2019 and 63-2020) 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

Generally

The following summary describes certain material U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes acquired pursuant to this offering. This summary is based on the provisions of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder by the U.S. Department of the Treasury (the "Treasury Regulations"), and rulings and decisions interpreting the Code, each as in effect as of the date of this Offering Circular. All of these authorities may be repealed, revoked or modified at any time, possibly with retroactive effect. No assurances can be given that any changes in these authorities will not affect the accuracy of the discussions set forth in this summary. The Republic has not sought any ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this summary, and there can be no assurance that the IRS or the courts will agree with all of such statements and conclusions.

This summary addresses only beneficial owners that hold a Note as a capital asset for U.S. federal income tax purposes (generally, property held for investment). This summary does not purport to discuss all aspects of U.S. federal income taxation that may be relevant to a particular investor in light of that investor's individual circumstances, such as investors whose functional currency for U.S. federal income tax purposes is not the U.S. dollar or certain types of investors subject to special tax rules (*e.g.*, financial institutions, insurance companies, dealers in securities or currencies, certain securities traders, banks, regulated investment companies, real estate investment trusts, persons subject to special tax accounting rules under Section 451(b) of the Code, partnerships or other entities or arrangements treated as partnerships for U.S. federal income tax purposes, persons holding the Notes through partnerships or other pass-through entities, pension plans, tax-exempt organizations and investors holding Notes as a position in a "straddle," "conversion transaction" or "constructive sale" transaction). In addition, this summary does not discuss the U.S. federal estate and gift tax, alternative minimum tax consequences or any non-U.S., U.S. state, or U.S. local tax considerations.

If a partnership (or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the Notes, the U.S. federal income tax treatment of a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Holders of Notes that are partnerships and partners in such partnerships should consult their own tax advisors regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes.

The Republic expects, 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.

This summary is for general informational purposes only. Prospective purchasers of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences of the purchase, ownership and disposition of Notes in light of their particular circumstances, as well as the effect of any relevant U.S. state, U.S. local, non-U.S. or other tax laws.

Deemed Taxable Exchange

A change made to the terms of the Notes pursuant to the "collective action clauses" may give rise to a deemed taxable exchange of the Notes for U.S. federal income tax purposes upon which gain or loss is realized if such change constitutes a "significant modification" (as defined in the Code) (a "Significant Modification"). Such gain or loss would generally be measured by the difference between the fair market value of the Note after the Significant Modification and the holder's tax basis in such Note before the Significant Modification. A modification of a Note that is not a Significant Modification does not create a deemed exchange for U.S. federal income tax purposes. Under applicable Treasury Regulations, the modification of a Note is a Significant Modification if, based on all of the facts and circumstances and taking into account all modifications of the Note collectively (other than modifications that are subject to special rules), the legal rights or obligations that are altered and the degree to which they are altered are "economically significant." The applicable Treasury Regulations also provide specific rules to determine whether certain modifications, such as a change in the timing of payments, are significant. See the discussion under "Description of the Notes— Collective Action Securities, Modifications, Amendments and Waivers" for more information about potential amendments of certain key terms of the Notes.

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:

- an individual who is a citizen or resident of the United States for U.S. federal income tax purposes;
- 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) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons," as defined for U.S. federal income tax purposes (a "U.S. Person"), have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and has in effect a valid election to be treated as a U.S. Person.

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.

Payments of Interest and Additional Amounts. Payments or accruals of stated interest on a Note generally will be taxable to a U.S. Holder as ordinary income at the time they are received or accrued, depending on the U.S. Holder's regular method of tax accounting. In addition to interest on a Note, a U.S. Holder will be required to include tax withheld, if any, from the interest payment as ordinary income, even though such U.S. Holder did not in fact receive it, and any Additional Amounts paid in respect of such tax withheld.

Interest (and any Additional Amounts) on the Notes will constitute income from sources outside the United States. Under the U.S. "foreign tax credit" rules, that interest generally will, depending on a U.S. Holder's circumstances, be classified as "passive" or another category of income, which may be relevant in computing the U.S. "foreign tax credit" allowable to a U.S. Holder under the U.S. federal income tax laws.

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of a Note. A U.S. Holder generally will recognize gain or loss upon the sale, exchange, retirement, redemption or other taxable disposition of a Note in an amount equal to the difference between the amount realized upon that sale, exchange, retirement, redemption or other taxable disposition (other than amounts representing accrued and unpaid interest not previously included in income, which will be taxed as such) and the U.S. Holder's adjusted tax basis in the Note. The "amount realized" is generally 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. A U.S. Holder's "adjusted tax basis" in a Note generally will equal the U.S. Holder's initial investment in the Note. Such gain or loss generally will be capital gain or loss, and will be long-term gain or loss if the Note was held for more than one year. Under current U.S. federal income tax law, net long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates than items of ordinary income. The ability of a U.S. Holder to offset capital losses against ordinary income is limited. Any capital gain or loss recognized on the sale, exchange, retirement, redemption or other taxable disposition of a Note generally will be treated as income or loss from sources within the United States for U.S. "foreign tax credit" limitation purposes.

Medicare Tax. A U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% Medicare tax on the lesser of (i) the U.S. Holder's "net investment income" (or, in the case of an estate or trust, the "undistributed net investment income") for the relevant taxable year and (ii) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals is between U.S.$125,000 and U.S.$250,000, depending on the individual's circumstances). A U.S. Holder's net investment income generally includes its interest income and its net gains from the disposition of a Note, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. Holders should consult their own tax advisors regarding the applicability of the Medicare tax to the income and gain in respect of their 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 generally will be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the U.S. Holder's circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by non-U.S. 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 U.S. Holders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Holders to penalties. U.S. Holders should consult their own tax advisors regarding their obligation to file information reports with respect to the Notes.

Non-U.S. Holders

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

Payments of Interest and Additional Amounts. Subject to the discussion below of backup withholding, payments of interest and any Additional Amounts on the Notes generally will not be subject to U.S. federal income tax, including withholding tax, if paid to a Non-U.S. Holder, unless the interest is "effectively connected" with such Non-U.S. Holder's conduct of a trade or business within the United States (and in addition, if such Non-U.S. Holder is claiming benefits under an applicable income tax treaty, the interest is attributable to a permanent establishment or fixed base (in each case, within the meaning of such treaty) maintained by such Non-U.S. Holder within the United States). In that case, the Non-U.S. Holder generally will be subject to U.S. federal income tax in respect of such interest in the same manner as a U.S. Holder, as described above (unless the interest is excluded under an applicable tax treaty). A Non-U.S. Holder that is classified as a corporation for U.S. federal income tax purposes may, in certain circumstances, also be subject to an additional U.S. "branch profits tax" in respect of any such "effectively connected" interest income.

Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of a Note. Subject to the discussion below of backup withholding, a Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, retirement, redemption or other taxable disposition of a Note unless: (1) the gain is "effectively connected" with the conduct by such Non-U.S. Holder of a trade or business within the United States (and in addition, if such Non-U.S. Holder is claiming benefits under an applicable income tax treaty, the gain is attributable to a permanent establishment or fixed base (in each case, within the meaning of such treaty) maintained by such Non-U.S. Holder in the United States), or (2) such Non-U.S. Holder is a nonresident alien individual, who is present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met.

Non-U.S. Holders who are described under (1) above generally will be subject to U.S. federal income tax on such gain in the same manner as a U.S. Holder and, if the Non-U.S. Holder is classified as a corporation for U.S. federal income tax purposes, such Non-U.S. Holder may also be subject to the U.S. "branch profits tax" as described above under "—Payments of Interest and Additional Amounts." Non-U.S. Holders described under (2) above generally will be subject to a 30% U.S. federal 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.-source capital losses (notwithstanding the fact that such Non- U.S. Holder is not considered a U.S. resident for U.S. federal income tax purposes). Any amount attributable to accrued but unpaid interest on the Notes generally will be treated in the same manner as payments of interest, as described above under "—Payments of Interest and Additional Amounts."

Backup Withholding and Information Reporting. If you are a U.S. Holder, and unless you prove that you are exempt, information reporting requirements generally will apply to payments of principal and interest and any Additional Amounts on the Notes made to you if such payments are made within the United States. Such payments will be considered made within the United States if they are 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 or nominee that is a "U.S. Controlled Person," as defined below. Backup withholding will apply to such payments if (i) you fail to provide an accurate taxpayer identification number, (ii) in the case of interest payments, you fail to certify that you are not subject to backup withholding, (iii) you are 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, or (iv) you fail to demonstrate your eligibility for an exemption.

If you are a Non-U.S. Holder, you generally are exempt from these backup withholding and information reporting requirements (assuming that the gain or income otherwise is exempt from U.S. federal income tax), but you may be required to comply with certification and identification procedures in order to prove your eligibility for exemption. The payment of proceeds of a sale or redemption of the Notes effected at the U.S. office of a broker generally will be subject to the information reporting and backup withholding rules, unless you establish an exemption. In addition, the information reporting rules will apply to payments of proceeds of a sale or redemption effected at a non-U.S. office of a broker that is a "U.S. Controlled Person," as defined below, unless the broker has documentary evidence that the holder or beneficial owner is not a U.S. Person (and has no actual knowledge or reason to know to the contrary) or the holder or beneficial owner otherwise establishes an exemption.

As used herein, the term "U.S. Controlled Person" means a broker that is, for U.S. federal income tax purposes:

- a U.S. Person;
- a "controlled foreign corporation";
- a non-U.S. person 50% or more of whose gross income is "effectively connected" with the conduct of 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 the conduct of a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of a Note generally will be allowed as a refund or a credit against such holder's U.S. federal income tax liability as long as such holders provides the required information to the IRS in a timely manner.

PLAN OF DISTRIBUTION

Oppenheimer & Co. Inc. and Banco Atlántida, S.A. 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
Oppenheimer & Co. Inc.	U.S.$550,000,000
Banco Atlántida, S.A.	U.S.$50,000,000
Total	U.S.$600,000,000

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 purchase agreement provides that the obligations of the initial purchasers to purchase the Notes is on a "best efforts" basis and, to the extent that any investor who has agreed to purchase Notes from the initial purchasers fails to make payment to the initial purchasers of the purchase price of such Notes, the initial purchasers have the right to rescind the purchase of such Notes from the Republic, whereupon such Notes will be returned to the Republic for cancellation, the Republic will refund the purchase price of such Notes to the initial purchasers and the aggregate amount of Notes issued on the date on which the Notes are to be delivered against payment therefor (the "Closing Date") will be accordingly reduced. On the Closing Date, the net proceeds from the sale of the Notes to the initial purchasers will be held in escrow by Oppenheimer Trust Company of Delaware, in an account in respect of which it will be acting as escrow agent, until the close of business on the Closing Date in order to ensure that funds are available to the Republic to make such refund of the purchase price in the event of any such rescission by the initial purchasers. Oppenheimer Trust Company of Delaware is an affiliate of Oppenheimer & Co. Inc.

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. Banco Atlántida is participating in the offering of the notes only outside of the United States in reliance upon Regulation S under the Securities Act. Banco Atlántida is not a U.S. registered broker-dealer, and will not effect any offers of any notes in the United States. 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 therefor on or about June 24, 2020, which will be the fifth business day following the date of pricing of the Notes (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 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 two business days unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade on the Notes prior to the second business day before the date of delivery of the Notes will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to the second business day before the date of delivery of the Notes should consult their own advisors.

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 of the European Economic Area ("EEA") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Member State of Notes which are the subject of this Offering Circular may only do so in circumstances in which no obligation arises for the Republic or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Republic nor the underwriters have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for the Republic or the underwriters to publish a prospectus for such offer.

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 FSMA 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 FSMA) 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 in the provinces of Canada 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 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the underwriters are not required to comply with the disclosure requirements of the NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Chile

The offer of the Notes will begin on June 17, 2020 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 17 de junio del 2020 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.

El Salvador

The Notes have not been, and will not be, registered for public offering in El Salvador, with the Public Exchange Registry of the Superintendence of the Financial System (Registro Público Bursátil de la Superintendencia del Sistema Financiero) and are not authorized and listed in the Salvadoran Stock Exchange, as required in the El Salvador's Stock Exchange Law (Ley del Mercado de Valores). The Notes may not be offered in El Salvador except in compliance with the requirements of El Salvador's Stock Exchange Law.

France

This Offering Circular has not been prepared in the context of a public offering of financial securities ("offre au public de titres financiers") in France within the meaning of Article L.411-1 of the *Code monétaire et financier* and Articles 211-1 et seq. of the General Regulation of the *autorité des marchés financiers*, and has therefore not been, and will not be, submitted to the *autorité des marchés financiers* for clearance procedure.

Neither this Offering Circular, nor any other material relating to the Notes, nor any information contained herein may be distributed or caused to be distributed to any other person or entity or used in connection with any offer, solicitation or advertising for subscription or sale of the Notes to the public in France. The Notes may only be offered, sold, distributed, transferred or resold and the Offering Circular, or any supplement or replacement or any material relating to the Notes, may be distributed or caused to be distributed, in France, only to (1) persons licensed to provide the investment service of portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour le compte de tiers*) or (2) qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in and in accordance with Articles L.411-2, D.411-1 to D.411-3, D.744-1, D.754-1 and D.764-1 of the *Code monétaire et financier* and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the *autorité des marchés financiers*, investors in France are informed that the Notes may only be issued, directly or indirectly, to the public in France in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the *Code monétaire et financier*.

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 (Winding up and Miscellaneous Provisions) Ordinance (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.

Jamaica

The Notes have not been, and are not being, publicly offered in Jamaica. This Offering Circular does not and is not intended to constitute a public offer of securities in Jamaica.

Pursuant to guidelines ("Guidelines") numbered SR-GUID-08/05-0016 published by the Financial Services Commission of Jamaica ("FSC"), securities may be offered in Jamaica by way of any exempt distribution. Exempt distributions are exempt from the requirement to register a prospectus or other offering document. The registration requirement under the provisions of the Securities Act of Jamaica in respect of a trade in a security, where the security is offered by way of an exempt distribution, is satisfied by compliance with the provisions of the Guidelines.

The following distributions are exempt distributions under the Guidelines:

- (i) Securities that are offered to Accredited Investors (as defined in the Guidelines);
- (ii) Securities with an acquisition cost to the purchaser of not less than Ten Million Jamaican Dollars paid in cash at the time of purchase;
- (iii) Securities offered by an issuer with an assigned rating of at least BBB+ (or equivalent rating) by a recognized rating agency, where the issuer is already a reporting issuer; and
- (iv) Securities that are issued by a private issuer to connected person as outlined in the Guidelines.

THE NOTES ARE SUBJECT TO TRANSFER RESTRICTIONS WHICH INTER ALIA RESTRICT TRANSFERS TO PERSONS WHO ARE WITHIN THE CATEGORIES OF (1) ACCREDITED INVESTORS; AND (2) MINIMUM PURCHASE EXEMPTIONS PURSUANT TO PARAGRAPHS 3.1 AND 3.2 OF THE GUIDELINES.

Japan

The Notes offered in this Offering Circular have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended, the “Financial Instruments and Exchange Law”) and each underwriter has agreed that it will not offer or sell any notes, directly or indirectly, in Japan or to, or for the account of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law, regulations and ministerial guidelines.

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 Financial Supervision Act (*Wet op het financieel toezicht*).

Panama

The Notes have not been, and will not be, registered for public offering in Panama with the Panamanian Superintendence of the Securities Market (*Superintendencia del Mercado de Valores*, previously 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 or to persons domiciled 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 Panamanian Superintendence of the Securities Market.

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 sold, 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 pursuant to Section 275(1), 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, in each case subject to compliance with the conditions set forth in 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 or will be given for the transfer; or (iii) where the transfer is by operation of law.

Singapore Securities and Futures Act Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the notes are “prescribed capital markets products” (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Switzerland

This Offering Circular is not intended to constitute an offer or solicitation to purchase or invest in the Notes. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Offering Circular nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither the Offering Circular nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

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 "*Attorney General 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 Attorney General of the Republic and García & Bodán, and Shearman & Sterling LLP will rely upon the opinion of López Rodezno y Asociados.

GENERAL INFORMATION

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 219430574 and 219430558, respectively, the International Securities Identification Numbers for the Regulation S Global Note and the Rule 144A Global Note are USP5178RAD00 and US438180AJ03, respectively, and the Committee on Uniform Security Identification Procedures numbers for the Regulation S Global Note and the Rule 144A Global Note are P5178R AD0 and 438180 AJ0, respectively.

1. 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: (i) Legislative Decree No. 128-2019 (as published in *La Gaceta* on November 15, 2019); (ii) Legislative Decree 171-219 (as published in *La Gaceta* on December 31, 2019); and (iii) Legislative Decree 63-2020 (as published in *La Gaceta* on June 1, 2020) of the Republic's National Congress.

2. The Republic is currently involved in the following litigation, arbitration proceedings and disputes:

- On October 30, 2018, Inversiones Continental Panamá, S.A. filed a request for arbitration proceedings with the International Centre for the Settlement of Investment Disputes (ICSID) pursuant to the DR-CAFTA. Claimant alleges the unlawful seizure and liquidation of Banco Continental, S.A. The amount of the claim in the notice of arbitration is U.S.$800 million. Claimant and the Republic have designated Guido Tawil and Lucinda Low, respectively, as party-appointed arbitrators. No further action has been taken by either party or the Tribunal since the Republic's appointment of an arbitrator on February 25, 2019.
- 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.$700 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. The final hearing will take place at the end of October 2019.
- On October 1, 2015, the Honduran Teacher's Professional Syndicate (SINPRODOH) commenced proceedings before the local courts of Honduras against the Republic's Secretariat of Education. The claim is for L.55,495.2 million in unpaid salary increases and accrued interest. The date for a preliminary hearing is yet to be scheduled.
- In 2012, the Government granted a concession to Autopistas del Atlántico, S.A. ("ADASA") for the construction, operation and maintenance of a toll road (Corredor Turístico). In 2019, INVEST-H, an agency of the Republic, and ADASA entered into an agreement pursuant to which the concession was terminated. The termination agreement had been approved by Honduras' National Congress in December 2018. Under the terms of the termination agreement, INVEST-H was required to make payments totaling U.S.$128.9 million to ADASA on an agreed schedule. INVEST-H has failed to make certain payments to ADASA (other than payments of ADASA's obligations to its lenders) under the agreed schedule. INVEST-H and ADASA have been negotiating a revised payment schedule. The parties have not reached agreement, and ADASA has informed the Republic that it has instructed its lawyers to initiate an arbitration pursuant to the Concession Agreement claiming U.S.$215 million.
- On November 24, 2011, 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.58.0 million. The decision was partially reformed by the Court of Appeals to award plaintiff L.194.9 million and later ratified by the Supreme Court. Enforcement of the decision is pending.

3. On September 22, 2017, Moody's Investors Service ("Moody's") upgraded Honduras' long-term issuer rating and senior unsecured bond rating from B2 to B1, with a stable outlook. On the same date, Moody's upgraded the foreign currency and local currency issuer ratings from B2 to B1. On June 12, 2019, Moody's affirmed Honduras' rating, maintaining a stable outlook.

On July 18, 2017, Standard & Poor's ("S&P") raised its long-term foreign and local currency sovereign credit ratings for Honduras to BB- from B+, with a stable outlook. At the same time, S&P affirmed its B short-term foreign and local currency sovereign credit ratings. On May 6, 2020, S&P affirmed its BB-/B long- and short-term sovereign credit ratings for Honduras.

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

4. 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 and the rules of such exchange so require, the Republic will maintain a paying agent and transfer agent in Luxembourg.

5. 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).

6. 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 May 1, 2020.

ISSUER

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U.S. $600,000,000

The Republic of Honduras
5.625% Notes due 2030

Joint Book-Running Managers

Oppenheimer & Co. **Banco Atlántida S.A.**

Offering Circular

June 17, 2020