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REVIEW AUTHORITY: Oscar Olson, Senior
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SUBJECT: HONDURAN ECONOMIC HIGHLIGHTS - JUNE 2001

REFS: A) TEGUCIGALPA 01823, B) TEGUCIGALPA 01863

TOPICS:

- BIT INSTRUMENTS OF RATIFICATION EXCHANGED
- A FLURRY OF FTA'S UNDER NEGOTIATION
- HONDURAS ASSUMES LEADERSHIP OF SICA
- AMBASSADOR CHANGES FOR BRAZIL AND EL SALVADOR
- NEW DEVELOPMENTS IN THE MAQUILA INDUSTRY
- RECENT CRIME WAVE LEADS TO CURFEW IN SAN PEDRO SULA
- REMITTANCES BIG BUSINESS FOR INTERMEDIARIES
- GOH DISBURSEMENT IN FACE OF COFFEE "CRISIS"
- FORCED LIQUIDATION OF BANK

-FUEL PRICES DROP, FINALLY
-TAX COLLECTION
-STRIKE OVER AT PUBLIC UNIVERSITY
-CALL FOR LAND ERUPTS INTO VIOLENCE

BIT INSTRUMENTS OF RATIFICATION EXCHANGED

1. ON JUNE 11, AMBASSADOR ALMAGUER AND HONDURAN FOREIGN MINISTER ROBERTO FLORES BERMUDEZ EXCHANGED INSTRUMENTS OF RATIFICATION OF UNCLASSIFIED

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THE BILATERAL INVESTMENT TREATY (BIT). INITIALLY SIGNED IN JUNE 1995 IN DENVER, THE BIT HAD GONE THROUGH HONDURAS' NECESSARY LEGISLATIVE PROCEDURE BY NOVEMBER 2000. THE U.S. SENATE GAVE ADVICE AND CONSENT TO RATIFICATION OF THE BIT IN OCTOBER 2000 AND PRESIDENT BUSH SIGNED THE U.S. INSTRUMENT OF RATIFICATION IN FEBRUARY 2001. THE BIT TOOK EFFECT ON JULY 12, THIRTY DAYS AFTER THE EXCHANGE. (NOTE: SEE REFTTEL A FOR DETAILS OF THE FOREIGN MINISTER'S COMMENTS. END NOTE.)

A FLURRY OF FTA'S UNDER NEGOTIATION

2. THE GOH HAS BEEN ACTIVE RECENTLY IN ATTEMPTS TO SECURE A NUMBER OF FREE TRADE AGREEMENTS (FTA'S) WITH WESTERN HEMISPHERE COUNTRIES. THE NATIONAL CONGRESS IS POISED TO RATIFY A FTA WITH THE DOMINICAN REPUBLIC. IN ADDITION, VICE MINISTER OF FOREIGN TRADE HERNAN ERAZO ANNOUNCED THAT NEGOTIATIONS ARE ONGOING WITH PANAMA, CANADA AND THE ANDEAN COUNTRIES.

3. AFTER YEARS OF NEGOTIATIONS, THE FTA BETWEEN HONDURAS AND MEXICO TOOK EFFECT ON JUNE 1. EL SALVADOR AND GUATEMALA APPROVED THE SAME AGREEMENT SOME MONTHS EARLIER. THE THREE CENTRAL AMERICAN COUNTRIES REPRESENT MEXICO'S PRINCIPAL MARKET IN LATIN AMERICA, RECEIVING OVER 27 PERCENT OF MEXICO'S EXPORTS TO THE REGION. SIMILARLY, MEXICO REPRESENTS THE THREE COUNTRIES' SECOND LARGEST EXPORT MARKET. IN ADDITION TO STRENGTHENING COMMERCIAL TIES IN THE REGION, MEXICO HOPES THAT THE FTA WILL HELP PAVE THE WAY FOR THE PLAN PUEBLA-PANAMA AND AN EVENTUAL COMMERCIAL CORRIDOR EXTENDING FROM SOUTHERN MEXICO TO PANAMA. THE HONDURAN PRIVATE SECTOR HAS VOICED DISPLEASURE WITH THE AGREEMENT, ARGUING THAT UNCLASSIFIED

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HONDURAN BUSINESS WILL NOT BE ABLE TO COMPETE WITH THEIR MEXICAN COUNTERPARTS.

4. ACCORDING TO STATISTICS FROM THE CENTRAL BANK OF HONDURAS, IN 2000, 46 PERCENT OF HONDURAN IMPORTS CAME FROM THE U.S. (USD 1.34 BILLION), 19 PERCENT FROM CENTRAL AMERICA (USD 554 MILLION), WHILE ONLY 7.8 PERCENT CAME FROM EUROPE (USD 224.7 MILLION). REGIONALLY, HONDURAS IMPORTED 8.2 PERCENT FROM GUATEMALA (USD

235.9 MILLION), 6.6 PERCENT FROM EL SALVADOR (USD 189.4 MILLION), AND 4.7 PERCENT FROM MEXICO (USD 135.3 MILLION). WITH REGARDS TO EXPORTS, IN 2000, 40 PERCENT OF HONDURAN EXPORTS WENT TO THE U.S. (USD 526.9 MILLION), 29 PERCENT TO EUROPE (USD 383.9 MILLION), AND 19.5 PERCENT TO CENTRAL AMERICA (USD 258.1 MILLION). STATISTICS FOR 2001 SHOW THAT HONDURAN EXPORTS TO CENTRAL AMERICA HAVE INCREASED BY USD 17.3 MILLION TO USD 105.8 MILLION FROM JANUARY TO MARCH COMPARED TO THE SAME PERIOD LAST YEAR. IN ORDER TO DIVERSIFY HONDURAS' TRADE WITH OTHER COUNTRIES, THE GOH IS ACTIVELY PURSUING FTA'S AND OTHER COMMERCIAL AGREEMENTS IN THE REGION AND BEYOND.

HONDURAS ASSUMES LEADERSHIP OF SICA

5. IN A FORMAL CEREMONY AT THE JUNE SUMMIT IN EL SALVADOR BETWEEN PRESIDENTS FROM CENTRAL AMERICA AND MEXICO, HONDURAN PRESIDENT

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CARLOS FLORES ASSUMED THE LEADERSHIP OF THE CENTRAL AMERICAN INTEGRATION SYSTEM (SICA). THE GOH OFFICIALLY TOOK CONTROL OF THE SICA ON JULY 1 AND WILL LEAD THE MULTILATERAL ORGANIZATION FOR SIX MONTHS, UNTIL THE END OF HIS ADMINISTRATION (LEADERSHIP ROTATES EVERY SIX MONTHS BETWEEN PRESIDENTS OF THE REGION.) IN CONVERSATIONS WITH GOH OFFICIALS, IT IS CLEAR THAT HONDURAS WOULD LIKE TO TAKE ADVANTAGE OF THE GOH LEADERSHIP TO BEGIN NEGOTIATIONS WITH THE U.S. FOR A REGIONAL FREE TRADE AGREEMENT.

AMBASSADOR CHANGES FOR BRAZIL AND EL SALVADOR

6. IN JUNE, RUBEN AMARAL, BRAZIL'S AMBASSADOR TO HONDURAS, FINISHED HIS TOUR. HE WILL BE BRAZIL'S AMBASSADOR TO YUGOSLAVIA. THE NEW SALVADORAN AMBASSADOR, SIGIFREDO OCHOA PEREZ, ARRIVED IN JUNE AND PRESENTED HIS CREDENTIALS TO PRESIDENT CARLOS FLORES. PREVIOUSLY, AMBASSADOR PEREZ HAS WORKED ON THE COMMISSION FOR THE CONSTRUCTION OF THE EL TIGRE DAM, A JOINT HONDURAN-SALVADORAN HYDROELECTRIC PROJECT.

NEW DEVELOPMENTS IN THE MAQUILA INDUSTRY

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7. IN THE WAKE OF THE MONTH-LONG KIDNAPPING OF A TAIWANESE MAQUILA (APPAREL ASSEMBLY PLANT) EXECUTIVE AND THE WORSENING CRIME SITUATION OVERALL IN HONDURAS, OFFICIALS FROM THE TAIWANESE EMBASSY AND THE TAIWANESE CHAMBER OF COMMERCE IN HONDURAS REMARKED THAT TAIWANESE MAQUILA INVESTORS ARE CONSIDERING TAKING THEIR INVESTMENTS TO NICARAGUA. THE KIDNAPPED WOMAN SUFFERED CIGARETTE BURNS AND ONE EAR HAD BEEN SEVERED. (COMMENT: THE RECENT KIDNAPPING IS INDICATIVE OF A WORRISOME TREND THAT KIDNAPPERS ARE EXPANDING THEIR TARGETS TO INCLUDE FOREIGNERS. END COMMENT)

8. THE HONDURAN MAQUILA ASSOCIATION (AHM) HOSTED A CONFERENCE IN SAN PEDRO SULA IN JUNE TO DISCUSS FINANCING ALTERNATIVES FOR THE OFTEN CASH-STRAPPED MAQUILA INDUSTRY. SPEAKERS INCLUDED AHM PRESIDENT AND MAQUILA OWNER JESUS CANAHUATI, CENTRAL BANK PRESIDENT VICTORIA ASFURA DE DIAZ AND A NUMBER OF U.S. BANKING REPRESENTATIVES. IN A PRESS CONFERENCE, CANAHUATI HIGHLIGHTED SOME MAQUILA INDUSTRY CONCERNS LIKE INCREASED SOCIAL SECURITY CONTRIBUTIONS, LACK OF FINANCING, HIGH INTEREST RATES, THE OVERVALUED LEMPIRA AND INCREASING CIVIC INSECURITY. IN A SEPARATE STUDY, AHM REPORTED THAT IN THE LAST COUPLE OF YEARS, THE MAQUILA INDUSTRY HAS DIVERSIFIED FROM SIMPLE CUT AND SEW OPERATIONS TO

INCLUDE FACTORIES THAT MAKE FABRIC, ZIPPERS AND OTHER CLOTHING PARTS. IN ADDITION, THERE HAS BEEN AN INCREASE IN OPERATIONS MAKING AUTO PARTS, ELECTRONIC COMPONENTS, SPORTS EQUIPMENT AND WOOD FURNITURE. BECAUSE OF THE DIVERSIFICATION AND POTENTIAL IMPACT ON THE HONDURAN ECONOMY, THE MINISTRY OF INDUSTRY AND COMMERCE AND THE UNITED NATIONS DEVELOPMENT PROGRAM HAVE CONTEMPLATED PROJECTS TO STIMULATE NEW GROWTH AREAS IN THE MAQUILA INDUSTRY.

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RECENT CRIME WAVE LEADS TO CURFEW IN SAN PEDRO SULA

9. DUE TO A CRIME WAVE IN SAN PEDRO SULA, HONDURAS' COMMERCIAL CENTER LOCATED ON THE NORTH COAST, MINISTER OF SECURITY GAUTAMA FONSECA AND MINISTER OF DEFENSE ENRIQUE FLORES VALERIANO ORDERED THE HONDURAN ARMY AND POLICE TO PATROL THE SAN PEDRO SULA METROPOLITAN AREA AND ENFORCE A CURFEW. PER THE CURFEW, FROM SUNDAY TO THURSDAY, BARS AND CLUBS WERE CLOSED AT 10 P.M., WHILE ON FRIDAY AND SATURDAY THEY CLOSED AT MIDNIGHT. THE CURFEW WAS RECENTLY LIFTED.

10. STATISTICS FROM A STUDY FUNDED BY THE UNITED NATIONS DEVELOPMENT PROGRAM SHOW THAT HONDURAS HOMICIDE RATE INCREASED BY 23 PERCENT FROM 1996 TO 2000, GIVING IT ONE OF THE HIGHEST HOMICIDE RATES IN LATIN AMERICA. IN 2000, STATISTICS SHOW 46.3 HOMICIDES FOR EVERY 100,000 HABITANTS IN HONDURAS. IN HONDURAS, THE NORTH COAST DEPARTMENT OF CORTES TOPS THE LIST WITH 107.4 HOMICIDES PER 100,000 PEOPLE. ONLY EL SALVADOR AND COLOMBIA HAVE HIGHER HOMICIDE RATES THAN HONDURAS (92.6 AND 79 HOMICIDES PER 100,000 RESIDENTS RESPECTIVELY).

REMITTANCES BIG BUSINESS FOR INTERMEDIARIES

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11. ACCORDING TO PROJECTIONS FROM THE CENTRAL BANK OF HONDURAS, ABOUT USD 600 MILLION IN REMITTANCES WILL BE SENT TO HONDURAS IN 2001, WITH 90 PERCENT ORIGINATING IN THE U.S COMPARED TO USD 410 MILLION IN 2000. REMITTANCES TO HONDURAS IN 2000 REPRESENTED SIX PERCENT OF THE GNP. MONEY TRANSFERS TO HONDURAS HAVE BECOME A LUCRATIVE BUSINESS FOR INTERMEDIARIES LIKE MONEY GRAM AND WESTERN UNION, WHO CHARGE UP TO 15 PERCENT FOR EVERY TRANSFER. SIMILARLY, SOME HONDURAN BANKS ARE BECOMING INVOLVED IN THE BUSINESS, CHARGING COMMISSIONS FOR EACH TRANSFER THAT CAN TAKE UP TO FIVE DAYS. BECAUSE REMITTANCES ARE SO IMPORTANT TO THE HONDURAN ECONOMY, MANY HONDURANS ARE REQUESTING THE GOH TO STEP IN AND OVERSEE THE MONEY TRANSFER BUSINESS.

GOH DISBURSEMENT IN FACE OF COFFEE "CRISIS"

12. EVEN THOUGH THE INTERNATIONAL PRICE OF COFFEE INCREASED BY USD ONE IN THE MONTH OF JUNE, PRICES ARE STILL DEPRESSED, CAUSING MANY IN THE HONDURAN COFFEE INDUSTRY TO CONTINUE CALLS FOR A GOVERNMENT BAILOUT. HOPING TO BOLSTER THE INTERNATIONAL PRICE OF COFFEE, COFFEE INDUSTRY REPRESENTATIVES FROM CENTRAL AMERICA, MEXICO AND COLOMBIA HELD A MID-JUNE MEETING AND DECIDED TO RETAIN
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FIVE PERCENT OF EACH COUNTRY'S LOW-QUALITY COFFEE FROM THE INTERNATIONAL MARKET. REGARDLESS OF A SHORT TERM TURN AROUND IN THE HONDURAN COFFEE MARKET, IN JULY, THE GOH DISBURSED ABOUT USD

EIGHT MILLION OF ALMOST USD 20 MILLION PROMISED TO HELP SMALL COFFEE PRODUCERS WEATHER THIS SEASON'S LOWER THAN EXPECTED REVENUES.

FORCED LIQUIDATION OF BANK

13. ON JUNE 13 THE NATIONAL BANKING AND INSURANCE COMMISSION TOOK MEASURES TO LIQUIDATE THE HONDURAN BANK OF CREDIT AND SERVICES (BANHCRESER). THE BANK'S ASSETS WERE AUCTIONED OFF A FEW DAYS LATER. FICOHSA ACQUIRED THE DEPOSITS WORTH ABOUT USD 55 MILLION, WHILE BANCO ATLANTIDA AND BANCO DE OCCIDENTE ACQUIRED HALF OF THE PROPERTY ASSETS WORTH OVER USD SEVEN MILLION WERE ACQUIRED BY BANCO ATLANTIDA AND BANCO DE OCCIDENTE. AFTER FAILING TO RAISE ENOUGH CAPITAL TO KEEP THE BANK AFLOAT IN ACCORDANCE WITH BASEL REGULATIONS ADOPTED LAST YEAR BY THE COMMISSION AND A SUBSEQUENT ABORTED ATTEMPT TO SELL THE BANK, THE COMMISSION DETERMINED THAT BANHCRESER'S VALUE HAD DETERIORATED TO THE POINT WHERE STATE INTERVENTION WAS NECESSARY. (COMMENT: WE HAVE HEARD THAT BANHCRESER OWNERS HAD SUBSTANTIAL FUNDS AVAILABLE IN U.S. BANK ACCOUNTS. END COMMENT.) GOVERNMENT OFFICIALS WERE QUICK TO POINT OUT THAT 100 PERCENT OF BANHCRESER'S DEPOSITS WERE GUARANTEED UNDER THE 1999 TEMPORARY LAW OF FINANCIAL STABILIZATION UNTIL SEPTEMBER 2002. BANHCRESER IS THE SECOND BANK TO COLLAPSE IN HONDURAS IN THE LAST TWO YEARS. NOW THERE ARE 21 BANKS OPERATING IN HONDURAS, WIDELY CONSIDERED TOO MANY FOR THE HONDURAN ECONOMY. (SEE REFTEL B)

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FUEL PRICES DROP, FINALLY

14. DUE TO THE FALL OF THE INTERNATIONAL PRICE OF OIL, THE GOH ANNOUNCED A LPS. 2.37 (ROE 15.46) REDUCTION IN THE LOCAL PRICE OF GASOLINE. THE PRICE FOR A GALLON OF SUPER UNLEADED GASOLINE FELL BY 2.37 LEMPIRAS WHILE THE PRICE OF REGULAR UNLEADED FELL BY 2.19 LEMPIRAS. THE PRICE OF FUEL HAD STEADILY INCREASED OVER THE LAST FEW MONTHS UNTIL THE RECENT DROP. (NOTE: ABOUT 15.4 LEMPIRAS PER USD. END NOTE.)

TAX COLLECTION

15. ACCORDING TO TAX AND CUSTOMS DIRECTOR JORGE YLLESCAS, FOR THE FIRST HALF OF 2001, THE PRIVATE SECTOR HAS FAILED TO PAY THE GOH OVER USD 25 MILLION IN SALES TAX COLLECTED FROM THE CONSUMER, NOTING THAT SOME INDIVIDUAL BUSINESSES HAVE RETAINED AS MUCH AS USD ONE MILLION. DESPITE LANGUAGE IN THE TAX CODE MAKING SALES TAX RETENTION A CRIME, MANY BUSINESSES STRIKE EXTRA-JUDICIAL DEALS WITH PROSECUTORS TO AVOID PROSECUTORS.

16. A PROPOSAL THAT WOULD HAVE ELIMINATED A TEN PERCENT TAX PAID

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BY BUSINESSES AT THE END OF THE YEAR OVER THEIR YEARLY PROFITS WAS
RECENTLY RETRACTED FROM THE NATIONAL CONGRESS. IT ALSO INCLUDED A
PROVISION THAT WOULD HAVE ELIMINATED THE 15 PERCENT TAX OWED BY
INVESTORS LIVING OUTSIDE OF HONDURAS.

STRIKE OVER AT PUBLIC UNIVERSITY

17. AFTER TWO MONTHS ON STRIKE, PROFESSORS FROM THE NATIONAL

AUTONOMOUS UNIVERSITY OF HONDURAS (UNAH) RETURNED TO THEIR CLASSES IN EARLY JUNE. THE STRIKE HAD LEFT SOME 65,000 STUDENTS ACROSS THE COUNTRY WITHOUT CLASSES. AT THE UNAH CAMPUS IN TEGUCIGALPA, IT IS ESTIMATED THAT HALF OF THE STUDENTS DESERTED THE UNIVERSITY, WITH 950 TRANSFERRING TO PRIVATE UNIVERSITIES. DUE TO THE PROLONGED STRIKE, THE ACADEMIC YEAR WILL BE LENGTHENED BY FIVE WEEKS, AND FOR MEDICAL AND ENGINEERING STUDENTS, CLASSES WILL BE HELD ON THE WEEKENDS TO MAKE UP FOR LOST TIME.

CALL FOR LAND ERUPTS INTO VIOLENCE

18. A GROUP OF PEASANT FARMERS TOOK THE ROAD AND BLOCKED TRAFFIC
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BETWEEN THE NORTH COAST TOWNS OF TRUJILLO AND TOCOA, DEPARTMENT OF COLON, AND DEMANDED THE GOH TO HAND OVER THE LAND FORMERLY KNOWN AS THE REGIONAL MILITARY TRAINING CENTER (CREM). (NOTE: THIS LAND WAS USED AS A AIRBASE AND TRAINING GROUND FOR U.S. BACKED CONTRAS IN THE 1980'S. END NOTE.) SIXTEEN PEOPLE WERE HURT WHEN POLICE MOVED IN TO OPEN THE ROAD. THE FARMERS CITE PRESIDENT CARLOS FLORES' UNFULFILLED PROMISE TO AWARD THEM THE LAND IN THE TAKE OVER. IN 1999, PRESIDENT FLORES GAVE PART OF THE CREM LAND TO THE FARMERS, BUT BECAUSE THE GOH HAS FAILED TO PAY IMPROVEMENTS TO PREVIOUS TENANTS, THE REST OF THE LAND HAS BEEN INACCESSIBLE TO THE FARMERS. (NOTE: THE EMBASSY IS ASSISTING AN AMCIT WITH A PROPERTY DISPUTE IN THE AREA. IN MARCH 2000, PEASANT FARMERS INVADED AMCIT'S PROPERTY AND CLAIMED IT UNDER THE AGRARIAN REFORM LAW. IT IS UNCLEAR IF THE AMCIT'S PROPERTY IS PART OF THE CREM LAND OR NOT. END NOTE)

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