Honduras’s economic freedom score is 60.2, making its economy the 93rd freest in the 2019 Index. Its overall score has decreased by 0.4 point, with declines in scores for trade freedom, judicial effectiveness, and government integrity exceeding a significant increase in fiscal health. Honduras is ranked 20th among 32 countries in the Americas region, and its overall score is just above the regional average but below the world average.

Although policymaking is hampered by legislative gridlock, the government continues to prioritize fiscal consolidation and implementation of structural reforms to improve tax collection and streamline public-sector institutions. These and other reforms are needed to spark more self-sustained economic growth. Although steps have been taken to open the domestic market and facilitate engagement in global commerce, the business environment still suffers from weak protection of property rights and political instability. Systemic corruption erodes the rule of law and public trust.

BACKGROUND: Honduras is Central America’s second-poorest country and has one of the world’s highest homicide rates. Gangs and transnational criminal networks prey on communities, often in collusion with authorities. The country’s location leaves it vulnerable to money laundering and narco-trafficking. Juan Orlando Hernández of the center-right National Party was reelected president in November 2017. Although credible allegations of fraud provoked a crisis in the weeks after the election, political stability eventually returned. Historically dependent on exports of bananas and coffee, Honduras has diversified its export base to include apparel and automobile wire harnessing, but the economy remains heavily dependent on U.S. trade and remittances.
Approximately 80 percent of the privately held land in Honduras is either untitled or improperly titled. Because the judicial system is weak and politicized, it often takes years to resolve title disputes. Rampant corruption and weak state institutions make it virtually impossible to combat threats posed by violent transnational gangs and organized criminal groups. Honduras has one of the world’s highest murder rates.

The top individual income and corporate tax rates are 25 percent (27.5 percent for corporations with an added social contribution tax). The overall tax burden equals 21.6 percent of total domestic income. Over the past three years, government spending has amounted to 27.0 percent of the country’s output (GDP), and budget deficits have averaged 0.4 percent of GDP. Public debt is equivalent to 43.9 percent of GDP.

The inefficient regulatory environment does not encourage dynamic entrepreneurship, and the cost of forming a business is burdensome. Labor regulations are outmoded, and a large proportion of the labor force works in the informal sector. The government maintains price controls for basic food items, fuel, water, telecommunications, and ports and often imposes temporary price controls on other basic goods.

The combined value of exports and imports is equal to 102.4 percent of GDP. The average applied tariff rate is 2.8 percent. Additional barriers impede imports of certain agricultural goods. The regulatory systems may act as barriers to foreign investment. The financial sector remains relatively stable and continues to expand. About 51 percent of adult Hondurans have access to an account with a formal banking institution.