

# Honduras

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## Review of the Honduran financial system

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When we refer to Honduras, an immediate thought is triggered in relation to the political crisis such country was subject to. This political struggle even came into the scene while the world was in the midst of the well known financial crisis. Therefore, it is relatively easy to imagine the situation of the financial market in Honduras for year 2009.

With the financial crisis having an impact in local investments, particularly related to exports of manufactured goods, the housing sector, sale of vehicles, etc., the agitation of the impending political crisis generated anxiety in the Country and stalled investments and expansion or creation of new projects.

General elections, by law, had to be carried out on November, 2009, and the president in office, Mr. José Manuel Zelaya, tried to carry out a project to reform the constitution, seemingly with the intent to be able to be re-elected, which is absolutely prohibited by the laws in Honduras.

Such project was qualified by the electoral authorities, the attorney general's office, the public ministry and the Honduran courts as illegal, causing a confrontation that ended with the dismissal of Zelaya from his office. The president of the Congress was sworn in as president of the country, in the order of substitution that the laws determine.

Such dismissal was considered by many countries as a coup d'état, and it generated a rupture or limitation in diplomatic and economic relations with many countries in the

world, including the main commercial partner of Honduras, the United States of America. The days and months that followed the June 2009 dismissal of Zelaya were very tense, with local protests in addition to the international isolation.

With such crisis followed by crisis, it is natural to understand that the financial market had a negative impact. Many people wanted to see the results of the November elections, and the reaction of local and international players regarding the transition to a new government in January 2010. These elections were held and carried out in a transparent and free manner, as they have now been recognised locally and abroad. Porfirio Lobo Sosa was elected by an extraordinary majority, and with his party also receiving majority votes in Congress, took office in January 2010.

Economic data and reports show that for such period (2009), the gross national product was contracted in 2.1%. The Government's deficit reached 4%, with an elevation of the internal debt to \$1.16 billion dollars approximately. Also, the income in foreign currency was reduced due to a lower amount of family money orders and direct foreign investments, among other similar factors. Exports were reduced in \$1.26 billion (19.5%). International prices for Honduran export goods fell in the markets, with negative impact.

On the banking system, deposits increased overall. Noticeably, the credit portfolio of the financial system grew only a 0.7%, in comparison with the 12.9% it had grown in 2008. A slight increase (0.4%) on loans in default was registered in comparison to 2008, but still the coverage of the system's portfolio was better for this year in comparison to 2008 due to an elevation in reserves to 12%. Interest rates showed an increase, both for deposits and loans.

From the legal standpoint, Honduras continues consolidating the banking regulations, and modernising legislations that are oriented to speed up legal processes, particularly related to collections, among others. A new procedural code is to be put into effect at the end of 2010 that is to substitute the rules in place since 1906. The idea is to modernise judicial processes, making them quicker and more efficient.

Also, a new law has been decreed and will also come into effect before the end of 2010 related to guarantees upon movable assets (Ley de Garantías Mobiliarias), introducing collection processes related to obligations guaranteed by movable assets that enable creditors to have faster and easier payments carried out by facilitating the possession of the assets set up as collateral. Credit card regulations are presumably being revised so as to limit potential abuses, and an office for assistance for the user of credits cards (and the banking system in general) was created and put into operation by the banking regulator.

The future is promising. Investments are being re initiated. The government has started a program for the generation of energy from renewable natural resources (at least new 250MW have been allocated in contracts). Infrastructure (mainly roads) is under construction with the idea of benefiting exports with better and faster roads.

The political crisis seems to be in remission. Investments in the banking system continue, including foreign investors. Such banking system, as assessed by the Central Bank and the banking regulator is solid, and it appears that it will have a better year than 2009.

## Financial and corporate

Recommended firms	
<b>Tier 1</b>	Arias & Muñoz Consortium - Centro América Abogados López Rodezno & Asociados
<b>Tier 2</b>	Aguilar Castillo Love García & Bodán Gutiérrez Falla & Asociados
<b>Tier 3</b>	Batres y Asociados Bufete Rosa y Asociados CF Danzilo & Asociados Lexincorp Medina Rosenthal & Fernández - Central Law Ortez Sequeira & Associates

The government of Honduras has been working hard to re-establish its legitimacy to the world community. After the June 2009 ousting of President Manuel Zelaya and an interim period governed by Roberto Micheletti, a previously-scheduled November election selected Porfirio Lobo as the country's new president.

Despite these efforts toward electing a new government, many nations were hesitant to accept the election's results as speculation continued over whether Zelaya had legally been removed from office. Reports of military suppression of opposition groups in the weeks leading up to the election have further marred the transfer of power.

In the wake of these events, the new Honduran president spent the first half of 2010 visiting all the nations of central and south America that would have him, including Colombia, Peru and the Dominican Republic. One less receptive body was the OAS, which demanded a truth commission be created to investigate the alleged coup as a requirement for re-entry. Still, with economic and political cooperation so important to the region, Honduran lawyers think it's unlikely the world community will have the stomach to risk political instability by rejecting the new government.

Whatever resistance Lobo may face abroad, commentators say the president will face a tougher challenge at home. Whether the government can re-establish political and economic ties abroad, it will still need to win over a large segment of the population that has grown more and more dissatisfied by the government's domestic agenda. On June 28 2010 - the anniversary of the Zelaya coup - groups of activists wearing red shirts blocked highways across the country in protest of the populist president's removal. The new admin-

istration first responded with a show of force but later backed down, displaying the political difficulties facing Lobo within his own borders.

The Honduran legal community says the economic freeze caused by the political turmoil was immediate: within days of Zelaya's removal, real-estate developments ground to a halt, foreign investors stepped aside from projects, loans for local businesses were cancelled, and even some power companies ceased operating. But by the middle of 2010 lawyers were reporting clients were beginning to return to their projects, and the first nods of approval from foreign governments are helping to cultivate an air of stability.

Like many other Central American nations, Honduras recently passed sweeping tax reforms, including the re-establishment of the dividend tax, a 10% increase to the income tax, and an amnesty period for delinquent taxpayers.

### Arias & Muñoz

The partners of Arias & Muñoz score credit from the competition for originating and perfecting the Central American regional firm structure, and clients now more than ever appreciate the ability to coordinate all five jurisdictions from one contact point. "Generally, we use Arias & Munoz for a couple things regionally - they can provide regional advice on a number of issues," says a client.

Locally, partner Dennis Matamoros Batson is known for his work with important international banking clients, although one criticism from peers is that he is rarely seen personally on deals.

Market feedback maintains partner Evangelina Lardizabal to be the most visible face of the firm locally. As one peer says, "I've seen her in some deals and seen some work she has done, and she's a very good corporate attorney."

Recently Lardizabal coordinated the local filings for the Avianca/Taca merger, handled regionally by Arias & Muñoz.

#### Leading lawyers

Evangelina Lardizabal  
Dennis Matamoros Batson

### Consortium - Centro América Abogados

While noting Consortium formed from the merger of already established firms throughout the five Central American countries, competitors agree the regional structure is a solid one. "Those offices work very well together - it's a model that does work," remarks one

rival. Peers say the local office is quite active in corporate and financial transactions as well as high-profile litigation and labour disputes.

Unlike any of their regional competitors, the Honduran partners boast a founder of Consortium in José Ramón Paz, whom peers note is the principle shareholder of the firm. Partner Armando Manzanares earns praise in both the corporate and arbitration legal communities for his professional demeanour. "I like working with him," one peer attorney says, explaining, "he's very discreet and it's easy to get negotiations with him."

At the end of 2009, Manzanares counselled Shell in the acquisition of its local operations by Grupo Terra. The Honduran fuel company also purchased the service station franchise in El Salvador, Nicaragua and Costa Rica, representing the lion's share of Shell's regional divestiture.

#### Leading lawyers

Oscar Armando Manzanares  
José Ramon Paz  
José Rafael Rivera Ferrari

### López Rodezno & Asociados

Offering a locally-focused, family firm to the dominant regional competition, López Rodezno maintains an established reputation in corporate and financial law in Honduras. "They have a very good international presence," notes on peer, explaining: "They do a lot of business with Central America and the US."

Market feedback holds the four-partner firm to be a traditional leader in banking and finance transactions. One rival particularly mentions partner Jorge López Loewenberg for his client list that includes Citibank, BAC Credomatic and Banco Industrial. "He draws from the same list as the regional counterparts and all the local ones as well."

In addition to financial matters, the firm gains notoriety through partner Carlos López Luna, whom rivals point out has advised state telecom monopoly Hondutel on the on-again, off-again privatisation process.

#### Leading lawyers

Jorge López Loewenberg  
Carlos López Luna  
Rene López Rodezno

### Aguilar Castillo Love

Rivals say the local Aguilar office is particularly known for work in Honduras' chaotic mining sector, and mention managing partner Enrique Rodríguez-Burchard as the reference in that market. One client praises Rodríguez for delivering a good legal service. "At the end

of the day he's quite reasonable and practical," says the corporate counsel, "and he satisfied our request in a timely fashion."

Among the firm's recent reportable work includes several corporate real-estate transactions, including representing *Proyectos y Servicios Inmobiliarios* and *Banco Ficohsa* in developing the *Parque Empresarial Periferico*, a 27-acre business complex south of Tegucigalpa's central district. The \$21 million project, which entered its first stage in 2009, represents an important continuation of commercial development in the nation's capital.

#### Leading lawyers

Enrique Rodríguez-Burchard

### García & Bodán

One of the most recent players on the regional field, competitors confirm García & Bodán is "seeing the advantages and benefits" of going multijurisdictional. Still, with offices in just three of Central America's five nations the firm continues to build its brand step-by-step into each market.

The local partners are noted as talented young attorneys with a fair mix of clients. "I have worked with them, and they are very good I think," notes one rival. Local managing partner Vanessa Oqueli recently participated in the first petition for licensing of a money transfer business, or *remesa*, under a new regulatory regime.

#### Leading lawyers

Jazna Vanessa Oqueli Juarez

### Gutiérrez Falla & Asociados

With banking and finance firms dominating the rankings in Honduras, one rival says of Gutiérrez Falla, "They are much more diversified."

Drawing lineage from the Cuban legal system, the nation's lawyers give credit to Fernando José Fiallos Gutiérrez for carrying the firm's reputation in corporate representations. "He is very good," remarks one peer.

The firm boasts a strong list international clients that includes technology companies Microsoft and Hewlett Packard, as well as multilateral lenders IFC and IDB.

#### Leading lawyers

Fernando José Fiallos Gutiérrez

### Other ranked firms

In a market increasingly dominated by regional firms with partnerships cobbled together or implanted from other jurisdictions, clients appreciate *Bufete Rosa y Asociados'* commit-

ment to the local market. "If you really want dedicated legal advice," one financial client says, "then lawyers like Leonidas Rosa are much better suited."

Recent financial work includes advice on several capitalisations for microfinance provider *Banco Procredit* in the second half of 2009, totalling more than \$4 million.

*Leading lawyers:* Leonidas Rosa Suazo

Competitors note *CF Danzilo & Asociados'* dominance on Honduras's Caribbean-side Bay Islands. "I know they have a lot of practice in Roatán - there's a lot of real estate there," says one peer. Partner Carlos Felipe Danzilo, the firm's namesake, earns credit as an "adept commercial lawyer" who is well known in the local market.

*Leading lawyers:* Carlos Felipe Danzilo

While the other lawyers of *Lexincorp* are building their brand from the ground up across Central America, Honduran partner Omar Claros already holds a reputation locally as a respected figure in the banking community. Recently, the firm participated in the sale of local telecom *Globalnet* to *Grupo Cablecolor*, owned by Honduran millionaire and political figure Jaime Rosenthal Oliva.

*Leading lawyers:* Omar Alexis Claros

With one foot in their local identity and one foot in their regional one, *Medina Rosenthal & Fernández - Central Law* is known locally for participating in important deals, but partner Yani Benjamín Rosenthal is most noted for his political involvement and family interest in media, finance and export conglomerate *Grupo Continental*.

Peers note the firm's main presence in Honduras' second city of San Pedro Sula. Representing local cement producer *Cenosa*, Rosenthal helped negotiate a \$70 million syndicated loan led by *Banco Industrial*, by which *Cenosa* was able to increase its productivity five-fold.

*Leading lawyers:* Yani Benjamin Rosenthal Hidalgo