SOVEREIGN CREDIT UPDATE

Central America — Sovereign / New USD Benchmark & Tender Offer

Republic of Honduras

New 10-Year USD Benchmark, Concurrent Tender Offer for the HONDUR 2027s

INITIATION VIEW

BUY ON NEW ISSUE (contingent on final terms) / reiterate **BUY** on the existing curve. Honduras returns to the market with a mandated 10-year USD benchmark and a concurrent tender for the 6.250% 2027s, launched from a materially stronger fiscal and IMF-program position than at its last print in November 2024. We see the new bond as a well-anchored, programmatic — not opportunistic — transaction, and view the tender as constructive liability management that removes a January 2027 maturity wall.

Issuer:	Republic of Honduras
Instrument (mandated):	New USD benchmark, 144A/Reg S senior unsecured
Tenor:	10-year (illustrative maturity 2036)
Bookrunners:	International bank syndicate (mandated)
Roadshow:	Virtual fixed-income investor meetings from Wed, July 15, 2026
Concurrent transaction:	Cash tender offer for the 6.250% Notes due 1/19/2027 (US$700mn outstanding); tender price 101.000%; expires July 21, 2026, 5pm NY time; conditioned on completion of the new notes offering
Sovereign ratings:	B1 (Moody's) / BB- (S&P, outlook revised to Stable from Negative, March 26, 2026)
IMF program:	EFF/ECF; 4th and 5th reviews completed by the Executive Board June 29, 2026 (~US$242mn disbursed; arrangements extended to Dec 31, 2026)
Khorlan target spread (new 10Y, illustrative):	~205-220bp over UST at launch (Khorlan estimate)
Recommendation:	BUY ON NEW ISSUE, contingent on final terms; BUY (reiterate) on HONDUR 5.625'30 and HONDUR 8.625'34

Executive Summary

Honduras has mandated an international bank syndicate to arrange a series of virtual fixed-income investor meetings beginning Wednesday, July 15, 2026, ahead of a possible USD-denominated 10-year 144A/Reg S senior unsecured benchmark, subject to market conditions. Concurrently, the sovereign has launched a cash tender offer for its 6.250% Notes due January 19, 2027 (US$700mn outstanding), at a fixed purchase price of 101.000%, expiring July 21, 2026, at 5pm New York time, and conditioned on completion of the new notes offering. This is Honduras' first market approach since it last sold US$700mn of 10-year notes in November 2024, and it arrives amid a broader 2026 emerging-market issuance wave — EM sovereigns and corporates have priced a record US$491.4bn of bonds year-to-date, per Bloomberg-compiled data.

We view the transaction as well-timed and credit-positive in structure. Honduras' fiscal position has strengthened markedly since the political transition to the Asfura administration: the Non-Financial Public Sector (NFPS) recorded an overall deficit of just 0.7% of GDP in 2025, well below the 1.5%-of-GDP program target, and 1Q26 execution — a cumulative fiscal surplus of 0.9% of GDP — has run comfortably ahead of a 1.0%-of-GDP full-year deficit budget. On June 29, 2026, the IMF Executive Board completed the Fourth and Fifth EFF/ECF Reviews, disbursed a further ~US$242mn, granted a waiver for the missed end-December 2025 performance criterion on electricity utility ENEE's arrears, and extended both arrangements to December 31, 2026, to complete the sixth and final review. That, together with S&P's March 26 revision of Honduras' outlook to Stable from Negative at BB-/B, reinforces the policy anchor underpinning this credit. The principal remaining structural challenge — and the one we expect to dominate the program's final phase — is the electricity sector, where ENEE arrears rose to about L18.7bn by end-April 2026 before a corrective financing plan, including real domestic bond issuance, began bringing them back down.

On value, we see the new 10-year point pricing at a modest, defensible concession to Honduras' own curve — in the ~205-220bp area over UST at launch on our estimate, equivalent to a yield in the region of 6.6-6.9% — with room to retrace 15-25bp tighter in secondary trading as the IMF program stays on track. We reiterate BUY on the existing HONDUR 5.625'30 and HONDUR 8.625'34, both of which continue to screen cheap to Honduras' improving fundamentals relative to the BB-/B+ peer set (Section 10).

Recommendation Summary

Category	Khorlan View
New 10Y — expected launch spread	~205-220bp over UST (Khorlan estimate; Section 10)
New 10Y — expected launch yield	~6.6%-6.9% (Khorlan estimate, vs. UST10Y ~4.60-4.62%)
New 10Y — 6-12mo secondary target	~15-25bp of tightening as IMF reviews and electricity reform stay on track
Tender offer — economics	101.000% fixed price vs. 100.39/100.70 current bid/ask on the 2027s — a modest cash premium justified by the very short (0.48yr) remaining duration
HONDUR 5.625'30 / HONDUR 8.625'34	Reiterate BUY — screen 10-30bp cheap to BB-/B+ medians on our comparable scorecard (Section 10)

Five Investment Highlights

- Fiscal over-performance, not just fiscal restraint: the NFPS overall deficit narrowed to 0.7% of GDP in 2025 from 1.0% in 2024 — well below the 1.5%-of-GDP program target — with a 1Q26 surplus of 0.9% of GDP against a full-year 1.0%-of-GDP deficit budget for 2026.
- IMF Board has already acted, not merely agreed in principle: on June 29, 2026, the Executive Board completed the 4th and 5th EFF/ECF reviews, disbursed ~US$242mn, granted a waiver on the missed ENEE-arrears criteria, and extended the arrangements to December 31, 2026 for the sixth and final review.
- Ratings direction has turned positive: S&P revised Honduras' outlook to Stable from Negative at BB-/B on March 26, 2026, citing reduced political uncertainty under the Asfura administration and greater confidence in the government's fiscal consolidation commitments.
- Electricity-sector reform is the swing factor: ENEE arrears rose to about L18.7bn by end-April 2026 (missing program targets), but a corrective plan — subsidy payments plus real domestic bond issuance at an ~11.7% cutoff yield — targets L9.8bn by end-June and L7.4bn by end-September 2026, alongside a draft Electricity System Law now before Congress — the single most important structural variable for this credit, in our view.
- Well-structured liability management: the concurrent tender for the 2027s — conditioned on the new issue pricing — pre-funds and removes a US$700mn maturity wall eight months out, in our view a sensible, opportunistic use of a favorable EM funding window rather than a sign of refinancing stress.

1. TRANSACTION OVERVIEW: NEW ISSUE MANDATE & TENDER OFFER

Honduras — rated B1/BB- by Moody's and S&P — has mandated an international bank syndicate to arrange a series of virtual fixed-income investor meetings starting Wednesday, July 15, 2026. A USD-denominated 10-year 144A/Reg S senior unsecured benchmark-sized bond may follow, subject to market conditions. Concurrently, Honduras has announced a cash tender offer targeting its 6.250% Notes due 2027, expiring Tuesday, July 21, 2026, at 5pm New York time. No final size, coupon, or spread has been confirmed for the new notes; the terms below reflect market convention and the mandate announcement, supplemented by Khorlan Capital analysis.

New Issue — Key Parameters

Parameter	Detail
Format	144A/Reg S USD senior unsecured benchmark
Tenor	10-year (illustrative maturity 2036)
Bookrunners	International bank syndicate (mandated)
Roadshow	Virtual investor meetings from July 15, 2026
Status	Mandate announced; pricing subject to market conditions
Use of proceeds (illustrative)	General budgetary purposes; partial funding of the concurrent tender offer for the 2027 notes

Tender Offer — Key Parameters

Parameter	Detail
Target securities	6.250% Notes due 1/19/2027
Outstanding amount	US$700,000,000 (as of July 14, 2026)
Identifiers	144A CUSIP 438180AH4 / ISIN US438180AH47; Reg S CUSIP P5178RAC2 / ISIN USP5178RAC27
Tender structure	Selective tender offer, fixed purchase price, Priority Allocation Codes
Fixed purchase price	101.000% of principal, plus accrued interest
Expiration	July 21, 2026, 5:00pm New York time
Conditionality	Offer conditioned on completion of the new notes offering; the Republic expects to fund a portion of the purchase price from new-notes proceeds

Source: Bloomberg LMGMT/BFW newswire, July 13-14, 2026; Khorlan Capital compilation. Final new-issue terms (coupon, size, spread) are not yet confirmed.

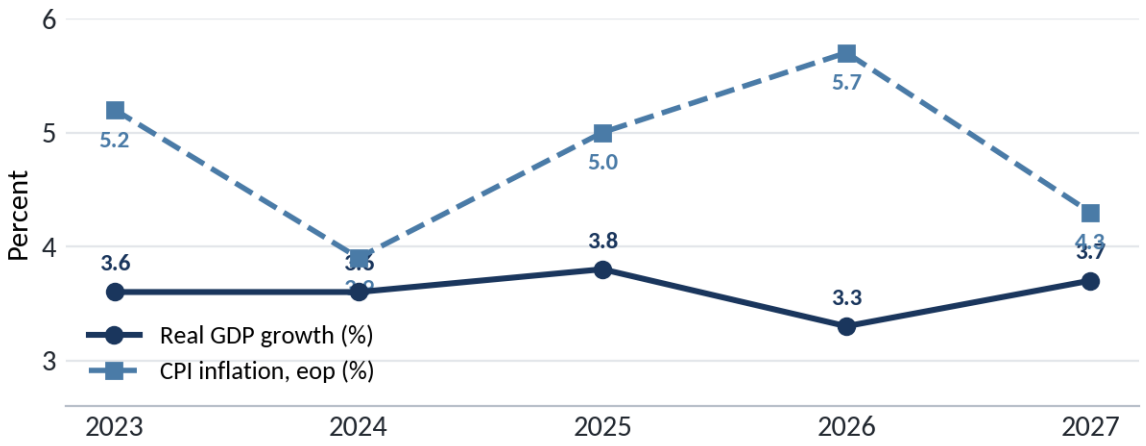
READING THE TRANSACTION

We read this as a textbook pre-refinancing exercise rather than a defensive liability-management trade. The 2027s are trading close to par (100.39/100.70) with only 0.48 years of duration left, so the 101.000% tender price is a modest, calibrated premium — sufficient to clear a high proportion of the US$700mn outstanding without materially cheapening the economics of the new deal. Funding the buyback with new 10-year proceeds converts a 2027 cash maturity into 2036 term debt at a moment when EM primary conditions are unusually favorable (a record US$491.4bn of EM issuance year-to-date, per Bloomberg-compiled data), and — in our view — signals management's intent to keep front-loading its financing calendar while the IMF anchor and rating trajectory remain constructive.

2. MACROECONOMIC BACKDROP

The Honduran economy has remained resilient. Real GDP growth came in at 3.8% in 2025, supported by record-high coffee prices and surging remittances, according to the IMF's June 12, 2026, Country Report on the Fourth and Fifth EFF/ECF Reviews. Growth is projected to slow to 3.3% in 2026 as higher global oil prices weigh on activity, before recovering to 3.7% in 2027 and converging toward the high-3% range by the turn of the decade. Inflation converged to the Central Bank's 4±1% target range in 2025 (5.0% eop) and fell as low as 3.5% y/y in February 2026 — the lowest print since 2020 — before the oil-price shock began feeding through to fuel and transport costs; the IMF now projects headline inflation to rise to 5.7% at end-2026 before easing back to 4.3% in 2027 and 4.0% thereafter.

Figure 1. Honduras: Real GDP Growth & CPI Inflation, 2023-2027



Source: IMF Country Report No. 26/160 (June 2026), Table 13.

Figure 1. Honduras: Real GDP growth and end-of-period CPI inflation, 2023-2027. Source: IMF Country Report No. 26/160 (June 2026), Table 13.

Summary Macro Table

Indicator	2023	2024	2025	2026	2027
Real GDP growth (%)	3.6	3.6	3.8	3.3	3.7
CPI inflation, eop (%)	5.2	3.9	5.0	5.7	4.3
GDP deflator (%)	6.0	4.7	8.0	2.0	5.3
Gross international reserves (US$mn)	7,841	8,401	10,690	12,279	12,587

Source: IMF Country Report No. 26/160, June 12, 2026 ("Fourth and Fifth Reviews Under the EFF and ECF Arrangements"), Table 13. 2026-2027 figures are IMF staff projections.

Two external shocks are now shaping the outlook, per the IMF's own risk framing: a global oil supply shock (lifting import costs and, directly, generation costs at the state electricity utility ENEE, given nearly half of Honduran electricity generation is thermal), and the possible emergence of a strong El Niño event. Historically, El Niño episodes bring drought and high temperatures to Honduras; the 2023-24 episode cut January-May rainfall by 15% year-on-year and intensified plant disease in key agricultural export crops, and the IMF estimates drought-related economic losses have averaged about 0.5 percentage points of GDP per episode in Honduras, a larger hit than in regional peers.

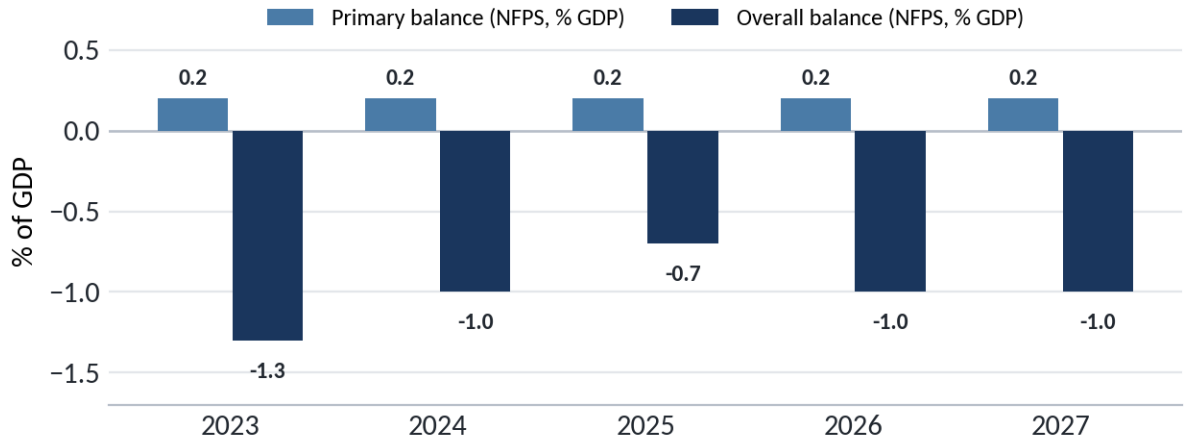
Remittances remain the key external growth and liquidity channel, and the current account swung to a 2.4%-of-GDP surplus in 2025 (from a 4.4% deficit in 2024) on buoyant remittances and improved terms of trade, before an expected reversion to deficit in 2026-27 as the oil shock and import demand normalize (Section 5).

3. FISCAL POSITION & NFPS PERFORMANCE

Honduras ended 2025 with a stronger-than-expected fiscal outcome, consolidating the continuity of the IMF-supported program through the political transition to the Asfura administration. The Non-Financial Public Sector (NFPS) — the broader consolidation perimeter used for IMF program monitoring, capturing the general government and non-financial state-owned enterprises including ENEE — recorded an overall deficit of 0.7% of GDP in 2025, well below the 1.5%-of-GDP program target, down from a 1.0%-of-GDP deficit in 2024. The NFPS primary balance has held close to breakeven throughout, at approximately 0.2% of GDP in each year from 2023 through 2026 on IMF projections, edging toward 0.3% by 2030-31 as the program's structural fiscal anchor.

The improvement in the headline deficit was driven by slower capital spending and lower-than-expected interest costs, which more than offset a slightly weaker tax performance and modestly higher current transfers. Budget execution remained prudent into 2026: the NFPS recorded a surplus of 0.9% of GDP in the first quarter, and the government's 2026 budget targets an NFPS deficit of 1.0% of GDP, in line with program conditionality, built on conservative revenue assumptions and tight current spending designed to absorb the oil-price shock while preserving capacity for priority and energy-related outlays.

Figure 2. Honduras: NFPS Fiscal Balance, 2023-2027



Source: IMF Country Report No. 26/160 (June 2026), Table 13.

Figure 2. Honduras: NFPS primary and overall fiscal balance, 2023-2027. Source: IMF Country Report No. 26/160 (June 2026), Table 13.

We adopt the IMF's own NFPS fiscal path as our working assumption for the remainder of this report, given it is the officially monitored program perimeter and the most current, primary-sourced fiscal data available (Table 13 of the June 12, 2026 Country Report). On this basis, Honduras has met or outperformed its fiscal conditionality at every test date to date under the current EFF/ECF arrangement (Section 4).

QUALITY OF THE ADJUSTMENT

The quality of this fiscal improvement matters as much as its magnitude. Spending restraint rather than a step-change in revenue mobilization has done the heavy lifting so far — the NFPS primary balance has hovered near breakeven for three straight years rather than building a meaningful cushion — which leaves Honduras with less of the structural, harder-to-reverse consolidation that rating committees typically reward most. That said, outperforming the 2025 deficit target by a full 0.8 percentage point of GDP, and running a 1Q26 surplus against a full-year deficit budget, is a credible signal to bondholders ahead of a new benchmark, and is consistent with the improving ratings trajectory discussed in Section 6.

4. IMF-SUPPORTED PROGRAM: EFF/ECF STATUS

On June 29, 2026, the IMF Executive Board completed the Fourth and Fifth Reviews under Honduras' Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements, enabling a disbursement of about US$242mn (SDR 178.4mn) and bringing cumulative disbursements under the program to approximately US$725mn (SDR 535.3mn) of the roughly US$847mn (SDR 624.5mn) total arrangement approved on September 21, 2023. The Board also approved a waiver for the non-observance of the end-December 2025 performance criterion on ENEE's stock of domestic arrears, on the basis of corrective actions, and approved a short extension of both arrangements — originally set to expire September 20, 2026 — to December 31, 2026, to allow time to complete the sixth and final reviews.

Program performance was broadly favorable: all quantitative performance criteria for end-June 2025 were met, and 13 of 14 QPCs were met at the June and December 2025 test dates, with the sole exception being the ENEE arrears criterion. Of the 17 structural benchmarks scheduled through end-April 2026, 11 were met or implemented with delay (seven of them since February 2026); one is proposed to be dropped, one was partially implemented with delay, and four are proposed to be reset to the sixth and final reviews. Deputy Managing Director Kenji Okamura, in his capacity as Acting Chair, credited continued prudent fiscal policies, an appropriate monetary and exchange policy mix, and accelerating structural reform implementation for the economy's resilience, while noting that “elevated and evolving external risks related to global energy prices and climate-related events” call for continued policy agility and engagement with the Fund.

Program Performance Snapshot

Category	Metric	Status
Fiscal	NFPS overall balance, 2025: 0.7% of GDP deficit vs. 1.5% program target	Met (outperformed)
Fiscal	NFPS Q1 2026 balance: 0.9% of GDP surplus vs. full-year 1.0% deficit target	On track
Monetary	International reserve QPCs (Jun-25, Dec-25)	Met by wide margins
Monetary	No new monetary financing to the public sector	Met
Structural	Social spending IT (Jun/Sep/Dec-25)	Met; missed Mar-26
Structural	Tax revenue and primary spending ITs, end-Dec-25	Missed marginally
Energy	ENEE arrears QPC (end-Dec-25) and electricity-loss ITs	Missed; waiver granted on arrears

Source: IMF Country Report No. 26/160, June 12, 2026.

Reform Agenda: The Electricity Sector Remains the Binding Constraint

ENEE's finances are, by the IMF's own account, the program's principal remaining vulnerability. Domestic arrears reached approximately L12.5bn at end-December 2025 (against a program target of L7.5bn) and continued rising through the election and transition period to about L18.7bn by end-April 2026, missing the end-March 2026 indicative target. The deterioration reflects a combination of structural weakness, an extension of the electricity bill-payment period from 15 to 28 days, severance costs tied to ENEE's distribution-unit restructuring, and — more recently — higher fuel costs given nearly half of Honduran generation is thermal.

The authorities' corrective plan, now underway, combines timely subsidy payments from the Ministry of Finance (SEFIN) with calibrated ENEE debt issuance in the domestic market. ENEE completed its first 2026 domestic auction on May 19 (L2.03bn placed against L2.28bn demand) and a second on May 26 (L1.48bn), for a combined L3.51bn across tranches maturing in 2031, 2033, and 2036 at a weighted-average cutoff yield of 11.74% — a useful real-world data point on ENEE's own domestic cost of funds. The plan targets arrears of L9.8bn by end-June 2026 (reset QPC) and L7.4bn by end-September 2026 (reset IT). On the operational side, the government submitted a draft decree reforming the Electricity System Law to Congress in June 2026, alongside a 10.49% tariff adjustment for 2026Q2, the phase-out of generalized subsidies, and a medium-term plan targeting an 11-percentage-point reduction in distribution losses over four years (with reset targets of 33.2% by end-June 2026 and 32.7% by end-September 2026).

On governance, Congress has approved the beneficial ownership law and AML/CFT legislative amendments have been submitted ahead of Honduras' upcoming FATF evaluation, with the beneficial ownership registry targeted to be fully operational by end-October 2026. Honduras also rejoined the World Bank's International Centre for Settlement of Investment Disputes (ICSID) in March 2026, a modest but real signal on the investment-climate and rule-of-law dimension of the program.

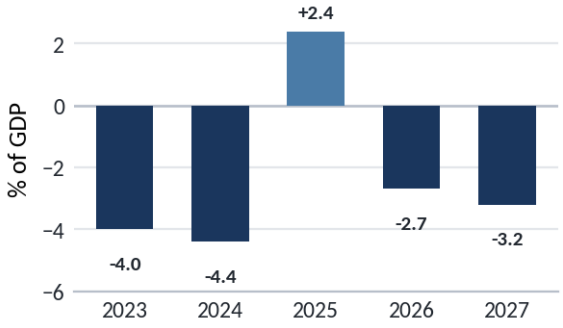
PROGRAM TAKE

This is a materially more current and more constructive picture than a staff-level agreement pending Board approval: the Board has already acted, the waiver is granted, and the program has been extended to year-end to finish the job. ENEE remains the one place where the numbers have genuinely deteriorated — arrears roughly 2.5x the original target — but the corrective financing plan (subsidy payments plus a real, priced domestic bond program at a observable ~11.7% cutoff) is concrete and already being executed, not merely promised. We would treat the sixth and final review, due before end-2026, and the pace of ENEE arrears reduction toward the reset L7.4bn end-September target, as the key near-term program catalysts for this credit.

5. EXTERNAL ACCOUNTS & DEBT SUSTAINABILITY

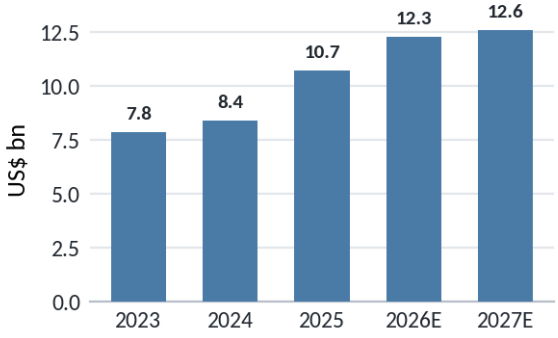
Honduras' current account swung to a surplus of 2.4% of GDP in 2025 — its strongest external print of the cycle, and a first since 2017 in EM Central America generally — before an expected reversion to a deficit of 2.7% of GDP in 2026 and 3.2% in 2027 as the oil shock lifts the import bill and the current account normalizes. Remittances and improved terms of trade were the principal 2025 drivers; gross international reserves rose to US$10.7bn by end-2025 (about 6 months of imports, 129% of the IMF's ARA metric) and had risen further to US$11.6bn by end-April 2026, per the IMF's external sector assessment.

Figure 3. Current Account Balance, 2023-2027



Source: IMF Rpt. 26/160 (Jun 2026), Table 13.

Figure 5. Gross Int'l Reserves, 2023-27E

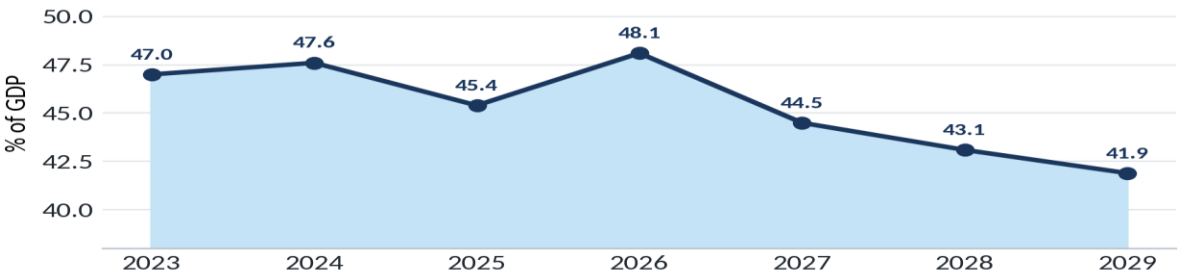


Source: IMF Rpt. 26/160 (Jun 2026), Table 13.

Figures 3-5. Honduras: Current account balance and gross international reserves, 2023-2027(E). Source: IMF Country Report No. 26/160 (June 2026), Table 13.

On solvency, NFPS debt stood at 45.4% of GDP at end-2025 — down from 47.6% in 2024 — reflecting prudent fiscal management and sizeable net debt repayments; the IMF projects a modest uptick to 48.1% in 2026 (reflecting the oil-shock-driven deficit widening) before resuming a steady decline toward 39.7% by 2031. The Fund's June 2026 joint IMF-World Bank Debt Sustainability Analysis rates Honduras' risk of external debt distress as Low and its overall risk of public debt distress as Moderate, unchanged from the November 2024 full DSA, with debt-carrying capacity assessed as Strong (composite indicator of 3.24, using the April 2026 WEO vintage and 2024 World Bank CPIA) — a materially stronger starting point than many single-B EM sovereign peers.

Figure 4. Honduras: NFPS Debt / GDP, 2023-2029



Source: IMF Country Report No. 26/160 (June 2026), Table 13.

Figure 4. Honduras: NFPS debt / GDP, 2023-2029. Source: IMF Country Report No. 26/160 (June 2026), Table 13.

The IMF's external sector assessment judged Honduras' 2025 external position as broadly in line with fundamentals: the net international investment position improved to -31.1% of GDP (from -39.5% in 2024), gross external debt stood at approximately US$22.7bn (57.3% of GDP, of which public external debt was 47.3% of the total stock — predominantly multilateral, at 69.9% of public external debt, versus 9.3% bilateral), and the real effective exchange rate depreciated, meaningfully reducing prior overvaluation. FX auction conditions have normalized, with the Central Bank's auction meeting 100% of demand routinely since July 2025.

Banking System: A Genuine Relative Strength

Unlike a number of EM sovereign credits currently in the market, Honduras' banking system is not a source of contingent fiscal risk. Per the IMF's June 2026 review, system-wide capital adequacy stood at 14.2% in 2026 Q1 — well above the 10% regulatory minimum — with non-performing loans low at 2.6%. The National Banking and Insurance Commission (CNBS) is updating its stress-testing framework for higher oil prices and advancing Basel-style prudential upgrades (capital conservation buffer, net stable funding ratio, IFRS-9 implementation), alongside new securities-market and insurance/reinsurance legislation. We view a sound banking system as an underappreciated credit strength for Honduras relative to peers where banking-sector stress is the dominant overhang (Section 10).

Interest payments remain a genuine relative strength: at roughly 2.6-2.7% of GDP (per Table 13), Honduras' debt-servicing burden compares favorably with several higher-rated regional peers. The principal near-term financing item is the US$700mn amortization of the HONDUR 6.25% 2027s — precisely the maturity targeted by the concurrent tender offer described in Section 1 and Section 9 — which we view as a well-managed, non-distressed refinancing need rather than a liquidity risk.

6. RATINGS & POLITICAL BACKDROP

Honduras is rated B1 by Moody's and BB- by S&P. On March 26, 2026, S&P revised its outlook on the sovereign to Stable from Negative, citing reduced political uncertainty under the Asfura administration and greater confidence in the incoming government's commitment to fiscal consolidation. This follows a political transition that had, through 2025, been the dominant source of pricing uncertainty for Honduran risk; with a new administration now in place and the IMF relationship continuing without the kind of renegotiation seen in some regional peer cases, we view the marginal political-risk story here as constructive rather than a swing factor for the new issue.

We would characterize the residual political risk to this credit as implementation risk rather than institutional or program risk: the electricity-sector reform now before Congress will need to navigate a legislative process, and priority social spending has structurally lagged program targets even in years of fiscal over-performance. Neither, in our assessment, rises to the level of the program-renegotiation or street-mobilization risk that has weighed on some other Latin American and South Asian sovereign credits this year.

RATINGS READ-THROUGH

A split B1/BB- rating with a stable outlook and an IMF program running ahead of its own targets is, in our view, a supportive — if unspectacular — backdrop for a new benchmark. We would not be surprised to see a Moody's action (affirmation or outlook revision) around the time of pricing, given the agency has historically moved in step with S&P on this credit with a modest lag; we flag this as a modest positive catalyst risk for secondary performance rather than a base-case assumption.

7. EXISTING HONDUR CURVE & RELATIVE VALUE

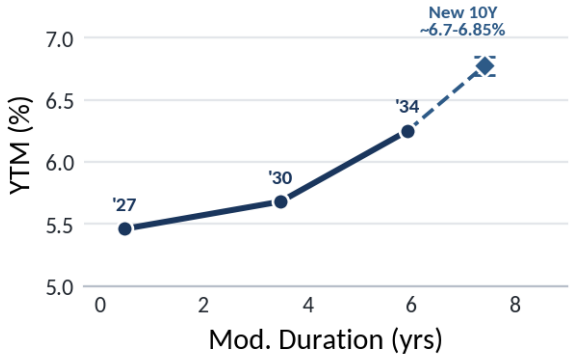
Honduras' existing USD curve comprises three benchmarks spanning the front end through the belly of the curve, last refreshed for the new mandate and tender announcement. The curve has been broadly stable through the run-up to the new issue, consistent with a market that appears to be pricing the new benchmark as a well-anchored, programmatic transaction rather than an opportunistic or distress-driven one (Section 1).

HONDUR Existing Curve — Market Levels

Bond	Bid	Ask	YTM (%)	G-Sprd (bp)	Z-Sprd (bp)	Duration	Moody's
HONDUR 6.250% 1/19/2027	100.39	100.70	5.46	121	120	0.48	B1
HONDUR 5.625% 6/24/2030	99.80	100.21	5.68	161	133	3.48	B1
HONDUR 8.625% 11/27/2034	115.29	115.55	6.25	210	171	5.92	B1

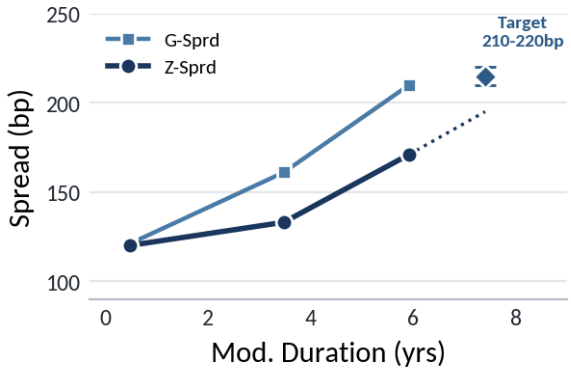
Source: Bloomberg, as of July 13-14, 2026. G-Spread and Z-Spread labels reflect Khorlan Capital's standard interpretation of the two spread conventions provided; underlying spread figures are as supplied and have not been independently recomputed.

Figure 6. Existing Curve & New 10Y



Source: Bloomberg; Khorlan Capital.

Figure 7. Spread Curve & New 10Y Target



Source: Bloomberg; Khorlan Capital.

Figures 6-7. Honduras: existing USD yield curve and G-Spread/Z-Spread curve, both with the modeled new 10Y point overlaid. Source: Bloomberg; Khorlan Capital estimates for the new point.

The curve is upward-sloping and reasonably well-behaved: the front-end HONDUR 2027 yields 5.46% at a 0.48-year duration, the belly HONDUR 2030 yields 5.68% at 3.48 years, and the long-end HONDUR 2034 yields 6.25% at 5.92 years. The steepening between the 2030 and 2034 points (roughly 15.6bp of Z-spread per year of duration) is the key input to our new-issue extrapolation in Section 8.

HONDUR 8.625% 2034 currently yields 6.25% at a 5.92-year duration — sitting above the similarly-dated Costa Rica, Guatemala, Dominican Republic and Trinidad curves (Ba1-Ba2, roughly 5.6-6.3% at comparable duration) and below the wider El Salvador and Bahamas curves, consistent with its B1/BB- rating (Section 8) — despite Honduras carrying materially lower debt-service and leverage ratios than several of those higher-rated names. We reiterate BUY on both HONDUR 5.625'30 and HONDUR 8.625'34 on this relative-value basis, independent of the new-issue decision.

8. NEW ISSUE PRICING METHODOLOGY

Unlike a debut sovereign, Honduras already has a real, tradable USD curve, so our fair-value framework for the new 10-year bond starts with the issuer's own curve rather than a purely comparable-based build. We combine (i) a curve-implied extrapolation from the existing HONDUR 2030/2034 points, (ii) a new-issue concession appropriate for a repeat, programmatic issuer running a liability-management exercise (materially smaller than the debut premium we would apply to a first-time issuer), and (iii) a sanity check against the BB-/B+ comparable set.

Step 1 — Curve-Implied Extrapolation

Using the Z-spread slope observed between the HONDUR 2030 (133bp, 3.48yr duration) and HONDUR 2034 (171bp, 5.92yr duration) points — approximately 15.6bp of spread per year of duration — and assuming a modified duration of roughly 7.4 years for a new 10-year (2036) bond, the curve-implied, no-concession fair value for the new bond is approximately 195bp over UST.

Step 2 — New-Issue Concession

Repeat EM sovereign issuers conducting liability-management-linked new issues typically price with a smaller concession than debut issuers, since investors already hold a reference curve and secondary trading history. We apply a concession of 15-25bp, versus the 25-40bp range we would apply to a true debut credit (see Khorlan Capital's Bangladesh sovereign initiation report, July 10, 2026, for a

worked debut example), reflecting Honduras' established curve, improving ratings trajectory, and the benign backdrop of record 2026 EM primary supply.

Step 3 — Spread Build & Launch Target

Stage	Spread
Curve-implied fair value (extrapolated from HONDUR 2030/2034)	~195bp
+ New-issue concession (repeat issuer, LM-linked)	+15-25bp
= Expected launch spread (base case, 10Y)	~210-220bp
- Expected secondary re-tightening (6-12mo, program on track)	-15-25bp
= Secondary target	~185-200bp

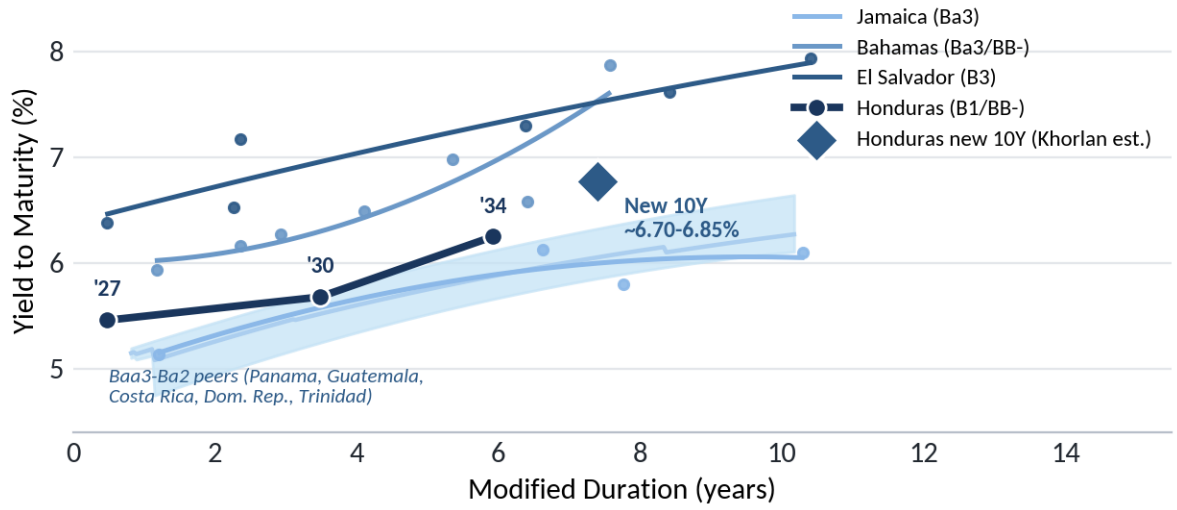
Source: Khorlan Capital estimates, derived from the existing HONDUR curve (Section 7). Illustrative only; actual pricing may differ materially.

Converting the launch-spread target into yield terms using a UST10Y context of approximately 4.60-4.62% (as of mid-July 2026) implies an all-in new-issue yield in the region of 6.6-6.9%, roughly 40-65bp back of the existing HONDUR 2034's 6.25% yield — a reasonable term-premium and new-issue concession for a bond roughly 1.5 years longer in duration.

Comparable Sovereign Curve Check

We cross-check our curve-based build against the actual, currently quoted USD curves of Honduras' closest regional peers — Panama, Guatemala, Costa Rica, the Dominican Republic, Trinidad and Tobago, Jamaica, the Bahamas, and El Salvador — plotted on a duration basis in Figure 8 below, using bid/ask, yield and duration data by bond as of July 2026. Honduras' own curve sits, as expected for a B1/BB- credit, above the Baa3/Ba1/Ba2 cluster (Panama, Guatemala, Costa Rica, the Dominican Republic, Trinidad) and below the wider, more volatile El Salvador (B3) curve, with the Bahamas (Ba3/BB-) curve crossing through both zones depending on tenor. Our new 10Y launch estimate of 6.6-6.9% sits just inside the Dominican Republic's long end and comfortably inside the El Salvador and Bahamas curves at comparable duration, which we view as an appropriately conservative starting point for a bond that will initially trade without the benefit of a full secondary history at that specific maturity point.

Figure 8. Central America & Caribbean: EM Sovereign USD Curves



Source: Bloomberg (bid/ask, YTM, duration by bond, July 2026). New 10Y point is a Khorlan Capital estimate, not an observed price.

Figure 8. Central America & Caribbean EM sovereign USD curves, by modified duration. Source: Bloomberg (bid/ask, YTM, duration by bond, July 2026). The Honduras new 10Y point is a Khorlan Capital estimate only, not an observed market price.

WHERE WE'D GET INVOLVED

We would treat pricing meaningfully inside 195bp (i.e., through our curve-implied fair value with no concession at all) as a reason to reduce conviction on the new bond specifically, while continuing to hold the existing curve; conversely, a launch print at the wide end of our 210-220bp range, or beyond, would in our view represent attractive relative value given Honduras' improving fiscal and program trajectory — particularly set against a Dominican Republic curve of similar rating tier that already trades inside our launch estimate at comparable duration.

9. TENDER OFFER ECONOMICS & LIABILITY MANAGEMENT RATIONALE

The concurrent tender offer targets the full US$700mn outstanding of the HONDUR 6.250% 2027s at a fixed purchase price of 101.000% of principal plus accrued interest. Against a current secondary market of 100.39/100.70, the tender price represents a premium of approximately 0.30-0.61 points to the prevailing bid/ask — a modest but sufficient incentive given the bond's very short remaining duration (0.48 years, or roughly six months to the January 19, 2027 maturity).

Premium Analysis

Metric	Value
Current bid / ask	100.39 / 100.70
Fixed tender price	101.000
Premium to bid	+0.61 points
Premium to ask	+0.30 points
Remaining duration at tender	~0.48 years
Outstanding amount targeted	US$700mn

Source: Bloomberg (secondary levels, July 13-14, 2026); Bloomberg LMGMT tender terms.

Because the bond is so close to maturity, the premium's economic cost to the Republic is small in absolute terms relative to the financing-certainty benefit it buys: tendering holders give up roughly six months of remaining coupon accrual and price pull-to-par in exchange for immediate liquidity at a modest premium, while the Republic removes refinancing risk on a maturity that, in any case, it would have needed to address via a cash payment, rollover, or reprofiling within the next two to three quarters.

We see three strategic rationales for the transaction. First, maturity-wall management: retiring some or all of the 2027s now, funded by the new 10-year proceeds, smooths Honduras' debt-service profile and removes a discrete, market-visible refinancing event from the 2027 calendar. Second, opportunistic market access: the tender is explicitly conditioned on completion of the new notes offering, meaning Honduras is using today's favorable EM funding backdrop — a record US$491.4bn of EM issuance year-to-date, per Bloomberg-compiled data — to pre-fund a liability it would otherwise have had to address later, and likely on less favorable terms if market conditions were to deteriorate. Third, signaling: a well-subscribed, well-priced combined transaction would reinforce the improving ratings and program narrative built up since the March 2026 S&P outlook revision.

NOT A DISTRESS SIGNAL

We would not read this tender as a sign of stress. A sovereign with a comfortably financed NFPS surplus, reserves well above its IMF floor, and an actively improving ratings trajectory does not need to buy back debt at a premium unless it judges the all-in economics of doing so — funded by a new, longer-dated print at a modest spread concession — to be attractive. On our estimates, that trade works: Honduras retires near-par, near-maturity debt at a small premium and replaces it with 10-year money priced only 40-65bp back of its own long-end curve.

10. RISKS

The table below combines country-specific items with the global and structural risks the IMF's own June 2026 Risk Assessment Matrix (RAM) flags as most relevant to Honduras, adapted for bond-investor relevance.

Risk	Likelihood	Impact	Transmission Channel
Global oil supply shock / commodity price volatility	High	High	Larger import bill and current account deficit, lower FX reserve accumulation, higher domestic inflation, higher ENEE generation costs
Strong El Niño event	Medium-High	High	Lower hydropower generation raising ENEE's costs, agricultural export losses (coffee, bananas, palm oil), drought-related GDP losses averaging ~0.5pp per episode historically
Geopolitical tensions / trade protectionism	High	High	Trade disruption, higher commodity prices, lower remittances, weaker growth
Disorderly global AI-driven market correction	High	High	Tighter global financial conditions, higher EM bond yields, capital outflows, weaker external demand
ENEE arrears / electricity-sector reform implementation slips further	Medium	Medium-High	Program conditionality slippage (further QPC/IT misses), quasi-fiscal cost, financing pressure on ENEE
Domestic implementation risk to the broader reform agenda	High	High	Needed structural reforms stall; competing fiscal, social and institutional priorities divert capacity
Social discontent (living costs, youth unemployment, inequality)	Medium	Medium	Disruption to activity, political polarization, slower reform implementation
New-issue market conditions deteriorate before pricing	Medium	Medium	Wider launch spread, weaker tender participation, execution risk on the linked transaction
Labor shortages / weaker remittances from tighter destination-country immigration policy	High	High	Reduced remittance inflows, weaker external balance, social pressure from returning migrants

Source: IMF Country Report No. 26/160 (June 2026), Annex I (Risk Assessment Matrix), adapted by Khorlan Capital for bond-investor relevance; Khorlan Capital assessment for transaction-specific items.

11. ESG SNAPSHOT

Honduras' ESG profile mirrors many of its Central American peers: meaningful climate and natural-disaster exposure on the environmental side, a mixed social picture with strong remittance-driven household resilience but structural poverty and inequality challenges, and a governance dimension now actively under IMF-conditioned reform. On climate specifically, the IMF's June 2026 review highlights that El Niño episodes bring drought and heat to Honduras — the 2023-24 episode cut January-May rainfall by 15% year-on-year and intensified plant disease in key export crops — with drought-related economic losses averaging about 0.5 percentage points of GDP per episode historically, a larger hit than in regional peers, and with a possibly strong event now unfolding in 2026.

Pillar	Khorlan Assessment	Key Data Point
Environmental	Elevated drought/El Niño and hurricane exposure typical of Central America; energy-sector reform has climate-adjacent generation-mix implications given ~50% thermal generation	Drought losses average ~0.5pp of GDP per El Niño episode (IMF)
Social	Remittance-supported household consumption; social spending execution has structurally lagged IMF program targets	Social spending IT: missed at end-March 2026 (Section 4)
Governance	Actively reforming under IMF conditionality; beneficial ownership law approved, AML/CFT amendments before Congress ahead of FATF evaluation; ICSID rejoined March 2026	Beneficial ownership registry targeted operational by end-October 2026

12. INVESTMENT RECOMMENDATION

RECOMMENDATION

BUY ON NEW ISSUE, contingent on final terms and pricing. We would view a launch spread inside our ~205-220bp estimate as fair-to-rich, and pricing at or beyond the wide end of that range as attractive relative value given Honduras' improving fiscal, program, and ratings trajectory. We separately reiterate BUY on the existing HONDUR 5.625'30 and HONDUR 8.625'34, which continue to screen cheap to the BB-/B+ peer median on a fundamentals-adjusted basis (Section 10).

Expected Performance / Outlook

- 6-month outlook: performance will likely be dominated by execution of the new issue and tender (pricing expected in the days following the July 15 roadshow, tender expiring July 21), and by the Board's approval of the combined 4th/5th EFF/ECF review.
- 12-month outlook: assuming continued program compliance and steady progress on the electricity-sector reform, we would expect 15-25bp of secondary spread compression on the new 10Y, and a modest further tightening bias on the existing curve as the improving ratings narrative (S&P Stable outlook, potential Moody's action) plays out.
- Catalysts: Board approval of the combined IMF review and associated disbursement; progress of the electricity-sector reform through Congress; any Moody's rating action; successful, well-subscribed pricing of the new 10-year benchmark.
- Downside risks: a stall in the electricity reform, a broader EM risk-off episode around pricing, or weaker-than-expected tender participation leaving a residual 2027 refinancing need (Section 10).

On balance, we view the new Honduras 10-year benchmark and concurrent tender offer as a well-timed, programmatic transaction from an issuer whose credit trajectory has clearly improved since its last market visit in November 2024 — fiscal over-performance against IMF targets, a Stable outlook from S&P, and a sensible liability-management exercise that removes a near-term maturity wall. Investors comfortable with the modest, well-flagged remaining implementation risk around the electricity sector should find the new 10-year attractive at or near the wide end of our estimated launch range, alongside continued value in the existing curve.

A. SUMMARY DASHBOARDS

Macro Dashboard

Indicator	2023	2024	2025	2026	2027
Real GDP growth (%)	3.6	3.6	3.8	3.3	3.7
Inflation, eop (%)	5.2	3.9	5.0	5.7	4.3
GDP deflator (%)	6.0	4.7	8.0	2.0	5.3
Private sector credit growth (%)	18.7	12.5	6.2	9.6	8.9

Source: IMF Country Report No. 26/160 (June 2026), Table 13.

Fiscal Dashboard (NFPS / Central Government)

Indicator	2023	2024	2025	2026	2027
Central gov. revenues (% GDP)	19.5	19.6	18.9	18.9	19.2
Central gov. expenditures (% GDP)	23.1	21.4	20.8	21.0	21.0
Central gov. primary balance (% GDP)	(0.5)	1.0	0.7	0.7	0.8
Central gov. overall balance (% GDP)	(3.6)	(1.8)	(1.9)	(2.1)	(1.8)
NFPS debt (% GDP)	47.0	47.6	45.4	48.1	44.5
NFPS overall balance (% GDP)	(1.3)	(1.0)	(0.7)	(1.0)	(1.0)
NFPS primary balance (% GDP)	0.2	0.2	0.2	0.2	0.2

Source: IMF Country Report No. 26/160 (June 2026), Table 13. NFPS and central government are different consolidation perimeters and are not additive.

External Sector Dashboard

Indicator	2023	2024	2025	2026	2027
Current account balance (% GDP)	(4.0)	(4.4)	2.4	(2.7)	(3.2)
Gross international reserves (US$mn)	7,841	8,401	10,690	12,279	12,587
External debt, total (% GDP)	58.2	58.7	56.0	58.9	55.8
Net international investment position (% GDP)	n/a	(39.5)	(31.1)	n/a	n/a

Source: IMF Country Report No. 26/160 (June 2026), Table 13 and Annex II (External Sector Assessment).

B. HONDUR CURVE & COMPARABLE DETAIL (REFERENCE)

HONDUR Curve (reproduced from Section 7)

Bond	Bid	Ask	YTM (%)	G-Sprd (bp)	Z-Sprd (bp)	Duration
HONDUR 6.250% 1/19/2027	100.39	100.70	5.46	121	120	0.48
HONDUR 5.625% 6/24/2030	99.80	100.21	5.68	161	133	3.48
HONDUR 8.625% 11/27/2034	115.29	115.55	6.25	210	171	5.92

Selected Central America & Caribbean Comparable Bonds

Bond	Rating (Moody's)	YTM (%)	Duration
PANAMA 7.5 2031	Baa3	5.18	3.71
PANAMA 6.875 2036	Baa3	5.79	6.72
GUATEM 6.05 2031	Ba1	5.56	4.09
GUATEM 8.125 2034	Ba1	5.86	6.02
COSTAR 6.125 2031	Ba2	5.43	3.11
COSTAR 6.55 2034	Ba2	5.63	5.28
DOMREP 5.75 2034	Ba2	6.11	5.97
DOMREP 6.95 2037	Ba2	6.32	7.26
TRITOB 5.95 2031	Ba2	5.82	3.77
TRITOB 6.4 2034	Ba2	6.11	6.06
JAMAN 8.5 2036	Ba3	6.13	6.62
BAHAMA 8.25 2036	Ba3/BB-	6.58	6.41
HONDUR 8.625 2034	B1	6.25	5.92
ELSALV 9.25 2030	B3	7.17	2.36
ELSALV 7.65 2035	B3	7.30	6.38

Source: Bloomberg (bid/ask, YTM, duration by bond, July 2026).

SOURCES

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- Central Bank of Honduras, Secretary of Finance / Ministry of Finance — fiscal and external-sector data.
- Bloomberg — reference market conventions and secondary bond pricing (bid/ask, YTM, spread, duration) for the existing HONDUR curve.
- Khorlan Capital SRL — proprietary analysis, spread-build methodology, and relative-value framework.

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