INTERNATIONAL MONETARY FUND

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HONDURAS

November 2017

FIFTH AND SIXTH REVIEWS UNDER THE STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HONDURAS

In the context of the Fifth and Sixth Reviews Under the Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 27, 2017, following discussions that ended on September 14, 2017, with the officials of Honduras on economic developments and policies underpinning the IMF arrangement under the Stand-By Credit Facility. Based on information available at the time of these discussions, the staff report was completed on October 12, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Honduras.

The document listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Honduras*

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 17/410
FOR IMMEDIATE RELEASE
October 27, 2017

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Fifth and Sixth Reviews Under SBA with Honduras

On October 26, 2016, the Executive Board of the International Monetary Fund (IMF) completed the combined fifth and sixth reviews of Honduras' performance under an economic program supported by a Stand-By Arrangement (SBA). On December 4, 2014, the Executive Board approved a program supported by a two-year Stand-By Credit Facility (SCF) and three-year Stand-By Arrangement (SBA) (see Press Release No. 14/545). The SCF expired in December 4, 2016.

The completion of the reviews enables the authorities to access resources in the total amount of about US$109.64 million (SDR 77.70 million). The authorities have expressed their intention to continue to treat the arrangement as precautionary.

Following the Executive Board's discussion of the reviews, Mr. Zhang, Acting Chair and Deputy Managing Director, said:

"The authorities' commitment to their reform agenda has remained strong during the program, which has successfully stabilized the economy, restored confidence, and paved the way for accelerating growth and reducing poverty. The program is on track and reforms are progressing as expected.

"The macroeconomic outlook is positive, requiring a continued effort to improve social indicators. The fiscal deficit is at historic low levels, international reserves are at historic highs, and inflation remains subdued. Unemployment remains a challenge to reduce and poverty affects more than half of the population. Tackling these problems will require significant efforts to improve the coverage of social programs and to ensure adequate fiscal revenues, including by rationalizing tax exemptions and strengthening tax enforcement.

"The authorities acknowledged the importance of modernizing the monetary policy framework for macroeconomic stability, and they have started the process to adopt inflation targeting. As part of this, they have introduced an interbank repo market and reduced the FX surrender requirements. They recognize the need to continue with this process by amending the central bank law to give a clear mandate to achieve low and stable inflation.

“Structural reforms are critical to promote private investment and create jobs. Continuing to pursue reforms in the electricity sector, improving the efficiency of public spending, reducing corruption, closing the infrastructure gap, and working together in alliance with the private sector are critical for a sustained economic expansion with marked poverty reduction.”

Table. Honduras: Selected Economic Indicators

					Prel.	Proj.	
	2012	2013	2014	2015	2016	2017	2018
	(Annual percentage change unless otherwise indicated)						
National income and prices							
GDP at constant prices	4.1	2.8	3.1	3.6	3.6	4.0	3.6
GDP deflator	3.6	1.4	6.8	6.4	3.7	5.9	3.8
Consumer prices (eop)	5.4	4.9	5.8	2.4	3.3	4.5	4.0
Exchange rate (eop, depreciation -)							
Lempiras per U.S. dollar 1/	20.0	20.7	21.6	22.4	23.5	23.5	...
Real effective rate 2/	-1.7	0.3	3.8	1.8	-2.2	-1.5	...
Money and credit							
Private sector credit	16.9	11.2	10.7	10.4	10.8	11.4	11.5
Broad money	6.6	8.4	13.2	8.4	13.1	9.6	8.5
Lending rate (eop, in percent)	16.7	16.9	15.9	14.0	14.3	14.2	...
Deposit rate (eop, in percent)	11.4	11.0	10.4	8.8	8.2	8.4	...
Nonfinancial public sector							
Primary balance (percent of GDP)	-4.5	-7.0	-3.4	0.1	0.3	-0.1	0.1
Overall balance (percent of GDP)	-4.4	-7.5	-3.9	-1.0	-0.5	-1.2	-1.2
Gross debt (percent of GDP)	32.4	41.0	41.3	41.2	42.5	43.0	44.1
Saving and investment							
Gross fixed capital formation (percent of GDP)	24.4	22.9	23.0	24.8	23.2	25.9	25.7
Gross national savings (percent of GDP)	15.8	13.4	16.0	19.3	19.4	21.8	21.4
External sector							
Gross international reserves (millions of dollars)	2,778	3,255	3,698	3,992	4,172	4,559	4,823
Gross international reserves (in months of imports) 3/	3.3	3.8	4.3	4.8	4.5	4.7	4.8
Change in net international reserves (increase -)	367	-546	-264	-307	128	-311	-251
Current account balance (percent of GDP)	-8.6	-9.6	-7.0	-5.5	-3.8	-4.1	-4.3
Exports f.o.b.	4.8	-6.6	4.0	0.9	-4.2	10.3	3.6
Imports f.o.b.	2.2	-3.7	1.2	0.1	-4.8	10.5	3.1

Sources: Central Bank of Honduras, Ministry of Finance, and IMF staff estimates and projections.
1/ 2017 data as of October 24, 2017.
2/ 2017 data as of June.
3/ Refers to the following year's imports of non-maquila and nonfactor services.

INTERNATIONAL MONETARY FUND

HONDURAS

October 12, 2017

FIFTH AND SIXTH REVIEWS UNDER THE STAND-BY ARRANGEMENT

EXECUTIVE SUMMARY

Fund-supported program. The Executive Board approved a blended 36-months Stand-by Arrangement (SBA) and 24-months Stand-by Credit Facility (SCF) arrangement on December 3, 2014 for the total access of SDR 129.5 million (51.84 percent of quota). The SCF expired on December 2016. None of the available purchases have been drawn.

Program status. All end-June 2017 and continuous performance criteria were met. Missed by a small margin was the indicative target on the National Electricity Company's (ENEE) operating revenue-to-spending ratio due to upfront fees paid to the losses-recovery concessionaire. On the structural front, notable reforms are: the adoption of a fiscal responsibility law (FRL) to anchor a sustainable medium-term fiscal position; the overhaul of the tax administration; the reduction in the heavily overstaffed payroll of the state electricity company (ENEE); the adoption of a decisive plan to modernize monetary and exchange rate policies to adopt inflation targeting; and the reform of the bank resolution framework that substantially strengthens the authorities' capacity for dealing with financial sector distress.

Purchase. The authorities have indicated they will not purchase the amount that would be made available upon completion of these reviews, in line with their intention to treat the SBA as precautionary.

Publication. The authorities have agreed to publication of the staff report.

Approved By:
Robert Rennhack (WHD) and Zuzana Murgasova (SPR)

Discussions were held in Tegucigalpa during May 22–June 2 and September 11-14, 2017. The mission comprised R. García Saltos (Head), J. Kapsoli, D. Plotnikov (all WHD), D. Cerdeiro (SPR), and M. Dehesa and J. Puig (former and current Resident Representatives).

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APPENDIX

INTRODUCTION AND SUMMARY

1. **Macroeconomic and financial policies have remained broadly on track** (Letter of Intent ¶2 and Tables B1-B2). All end-June 2017 performance criteria (PCs) and continuous performance criteria were met. The deficit targets of the Non-Financial Public Sector (NFPS) and the Central Government (CG) were met by large margins given strong tax revenue growth and strong economic activity. Monetary targets of the central bank were also met, reflecting the favorable external environment as well as the central bank's sterilization of liquidity resulting from the accumulation of reserves. While indicative targets on the CG wage bill and social expenditure were also met, the indicative target on the operating balance of the state-owned national electricity company (ENEE) was missed by a small margin, reflecting upfront fees paid to the loss reduction concessionaire. Some PCs for end-December 2016 were missed. To give the authorities margin to correct these policy slippages, the 5th and 6th reviews have been combined. The authorities have decided to establish their own targets for end-December 2017 to maintain policy credibility after the expiration of the Fund-supported program. The targets include the same variables included in the SBA.

Selected Performance Criteria, end-June 2017

	Target	Outturn
Ceilings (In millions of Lempiras; cumm. Flow)		
NFPS balance	-1,417	4,472
Central Government Balance	-5,417	-1,493
Floor (US$ millions, stock)		
Net International Reserves	2,869	3,259

Sources: Honduran authorities; and IMF staff estimates

2. **Progress on structural benchmarks (SBs) is broadly satisfactory.**

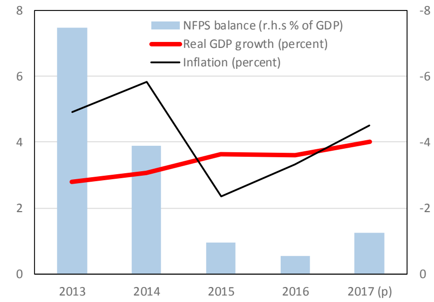
- *On fiscal reforms.* Implementation of the Fiscal Responsibility Law (FRL) is on track, and the new tax authority is operational. The management of trust funds under budget regulations was not met because all trust funds still operate outside the expenditure control chain. The tax procedural code enacted in January 2017 contains provisions that erode incentives for tax compliance; notably it repealed criminal sanctions for tax fraud, and authorities adopted ad hoc measures to avoid a reduction in tax collection.

- *On monetary and exchange rate policies.* The Central Bank of Honduras (BCH) approved the strategic plan to modernize monetary policy; issued regulations to enhance the functioning of the interbank money-market and the FX market; and reduced by 10 percent the FX surrender requirements. The submission of a new BCH Law, however, was postponed to allow for full ownership of the new authorities following the November elections.

- *On financial sector.* A new bank resolution framework law was enacted, and the financial supervisor issued regulations to limit the risk exposure stemming from the provision of consumer loans from public pension funds to their affiliates. These regulations, however, still allow for a large share of the pension portfolio to be invested in direct consumer loans.

3. **After three and half years of sustained reforms, Honduras made significant progress in safeguarding macro-financial stability.** Fiscal discipline, with a reduction in the NFPS deficit by 6¼ percentage points of GDP, as envisaged at the onset of the program, has been key to bring stability and improved confidence as shown by the steady improvement of international sovereign debt credit ratings. On the structural front, notable achievements are: the adoption of a fiscal responsibility law (FRL) to anchor a sustainable medium-term fiscal position; the overhaul of the tax administration; the reduction in the heavily overstaffed payroll of the state electricity company (ENEE); the adoption of a decisive plan to modernize monetary and exchange rate policies to adopt inflation targeting; and the reform of the bank resolution framework that substantially strengthens the authorities' capacity for dealing with financial sector distress.

Growth, Inflation, NFPS Balance



Sources: Honduras authorities and IMF staff estimates.

RECENT DEVELOPMENTS

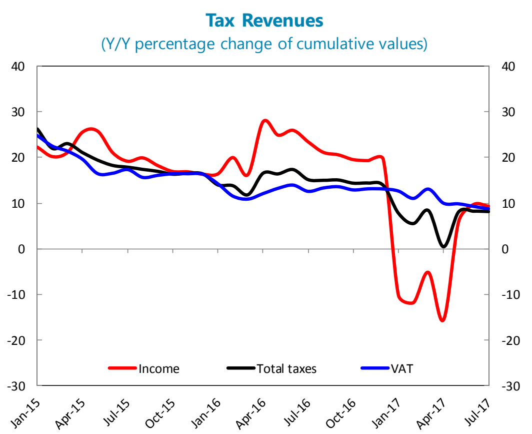
4. **The economy continues to perform well.** Through the second quarter of 2017, the real GDP grew at 5¼ percent (y/y) (3¾ percent in similar period last year). This performance is underpinned by strong external demand, particularly from the U.S., faster execution of public investment, and robust growth in remittances inflows that supported higher private consumption.

5. **Inflation remains low**. As of August 2017, headline inflation reached 3¾ percent y/y on the back of higher oil prices and a closed output gap, remaining within the central bank target band (4±1 percent). The Lempira has appreciated ½ percent in nominal terms until end-August against the USD.

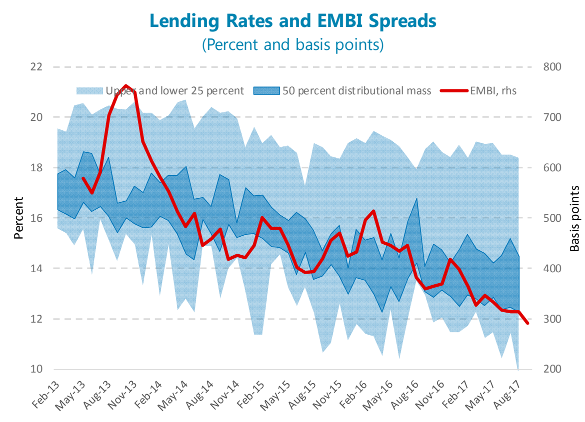
6. **The external position has strengthened on the back of favorable external conditions.** In the first half of 2017, the current account posted a surplus of 1 percent of GDP due to strong remittances inflows as well as a recovery in production and international prices for some of Honduras's most important agricultural commodities (coffee and bananas). As of end-August 2017, net international reserves covered the equivalent of 5 months of imports.

7. **Buoyed by strong growth, fiscal discipline continued through the first-half of 2017.** During the first semester of 2017, the NFPS posted a surplus of ¾ percent of GDP. After the introduction of the new tax code at the beginning of the year, the authorities managed to reverse the decline in income tax collection by using ad hoc measures to strengthen enforcement such as the request from taxpayers' banking information or the announcement of the use of AML legislation to prosecute tax fraud. In January 2017, the authorities placed an external bond in the amount of US$700 million at 6¼ yield. In 2013 US$500 million in external bonds were placed at 8¾ percent yield. Recently, Moody's Investors Service upgraded the Government of Honduras' ratings to B1 from B2 and moved the rating outlook to stable from positive (this follows a similar

rating upgrade in July by S&P). EMBI sovereign spread at the end of September 2017, reached historical low levels.



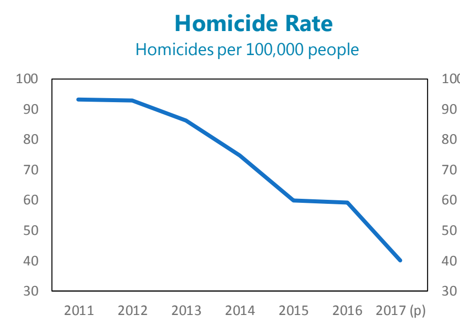
Source: Honduras Ministry of Finance



Source: Bloomberg

8. **The banking system remains stable.** As of July 2017, banks remain well-capitalized with a 13¾ percent CAR, above the 10 percent statutory minimum. Non-performing loans are low at 2½ percent of the loan portfolio. FX loans remain stable at 32 percent of loan portfolio. In line with improved confidence, the growth in the demand for domestic assets continues. Deposit dollarization reached 32 percent in July, down from 35 percent at the end of 2016.

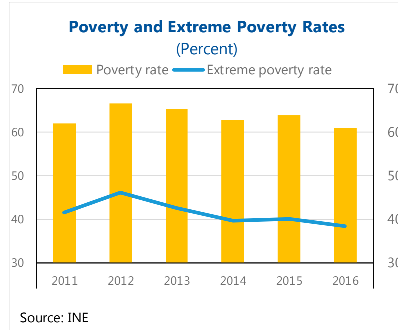
9. **The security situation and social conditions are improving**. Deployment of a new military police force, an increase in the security budget, and the overhaul of the police force have contributed to a considerable reduction in violent crime since 2013. The poverty rate declined from 65 percent in 2013 to 61 percent in 2016 following solid economic growth and the expansion of the social safety net, including the creation of the "*Vida Mejor*" program (Box 1).



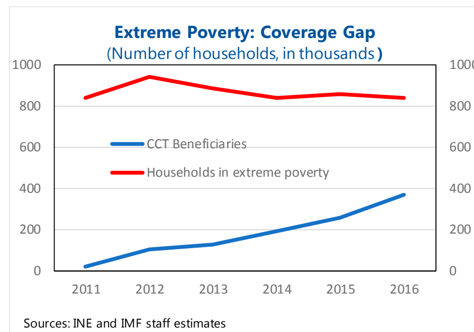
Source: United Nations Office on Drugs and Crime

Box 1. Closing the Social Spending Coverage Gap

Honduras is one of the poorest and more unequal countries in Latin America. 61 percent of the population lives below the poverty line, a ratio that has been nearly constant for more than a decade. Around 38½ percent of the population lives in extreme poverty which is predominantly higher in rural areas (52½ percent of incidence compared to 27¾ percent in urban areas). The poverty level is the highest in Central America even though some of the regional peers have lower *per capita* GDP. The latter points out towards the high and persistent prevalence of income inequality (the Gini coefficient is 0.53). Due to the large level of informality (75 percent), a large share of poverty is structural thus less responsive to spells in GDP growth rates. Such type of poverty requires a direct policy intervention to break the intergenerational transmission of poverty.



Honduras has been expanding social spending but a sizeable gap in coverage remains. Social spending primarily comprises social benefits such as conditional cash transfers (CCT) and other cash/in-kind transfers. Social spending has been increasing gradually from ½ percent of GDP in 2009 to close to 2 percent of GDP in 2016. The "*Vida Mejor*" program, introduced in 2014, has been an important source of financing for social spending. Despite the efforts in targeting beneficiaries, the coverage gap is still high (the number of families living under extreme poverty is around 800,000).



CCT programs have shown proven impacts on development outcomes. For the "*Bono 10,000*" program to reduce poverty in rural areas, the World Bank found: (i) poverty among beneficiaries fell by 3 percentage points; (ii) *per capita* consumption increased by 7 percent; (iii) enrollment in primary school increased by 2¾ percentage points; and (iv) visits to health centers for children aged 0-3 years increased by 2½ percentage points (World Bank, 2015).[1]

The current institutional framework requires to significantly increase the efficiency of social spending. To date, most of the financing for programs such as "*Bono 10,000*" comes from concessional resources. Given the limited room for more revenue gains and the pressing need for more social spending the authorities need to increase the efficiency of spending. To this end, a critical task is to rationalize the current number of programs (around 200) to select those with higher development outcomes. The initiative to unify the registry of beneficiaries to improve targeting is a positive development.

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[1] World Bank (2015). "Estudio del Gasto Público Social y sus Instituciones".

10. **New policy initiatives:**

Tax procedural code. Enacted in December 2016, the new code introduces better practices in tax codification and formalizes procedures already implemented by the tax authorities. It also contains provisions decreasing incentives for tax compliance and repealed criminal sanctions for tax fraud.

Customs. Last November, the authorities separated the customs administration from the tax authority. Customs administration inefficiencies caused a large cargo backlog disrupting the supply-chain and reducing private sector profits. A presidential commission (COPRISAO) now manages customs and adopted a strategic plan for the customs reform. During January-August 2017, the COPRISAO reported a nominal increase in customs duties of 11.2 percent (y/y), in line with the revenue projections for the year, and a marginal increase in efficiency indicators. Last June, a Honduran-Guatemalan customs union, aimed at boosting growth and employment, began operations. Currently around 80 percent of existing bilateral trade is tariff-free.

Bank resolution framework. On December 2016, the authorities issued extensive amendments to the financial system framework law. As part of this reform, a financial stability council was created to replace the early warning committee. The council comprises the central bank, the financial supervisor, the deposit guarantees fund, and the ministry of finance. The council is responsible for: (i) identifying systemically important financial institutions; (ii) promoting the exchange of information on financial developments and outlook; (iii) monitoring risks to financial stability; (iv) developing of early warning systems and contingency plans; and (v) recommending to its member institutions the issuance of macroprudential measures.

Financial inclusion law. Seeks to extend financial services to SMEs and diversify the portfolio of public pension funds.

Credit card law. Seeks to protect financial consumers and increase transparency. It imposes regulations on interest rate for banks and commercial companies. It also sets limits on fees and mandates the provision of financial information on the cost of credit card services.

Tourism promotion law. Seeks to grants concessions and tax exemptions to private tourism operators to generate employment and investment.

OUTLOOK AND RISKS

11. **The economic outlook is favorable.** Real GDP growth in 2017 is projected at 4 percent, driven by a steady expansion of private consumption, recovery of non-maquila exports, and strong investment growth mainly related to infrastructure projects. Headline inflation is expected to reach 4½ percent (y/y) by end-2017 on the back of strong demand and rising oil prices and returning to the center of the target band of 4±1 percentage points by end-2018. The current account deficit is projected to increase to 4.1 percent of GDP in 2017 and 4.3 percent of GDP in 2018 before stabilizing around 4 percent over the medium term due to higher imports of capital goods associated to new investment projects and somewhat higher oil prices. In sum, a strong policy mix, with projected NFPS deficits of 1.2 percent of GDP for both 2017 and 2018, and improved external conditions are expected to bolster the demand for domestic assets which will help rebuild private sector balance sheets, lower the cost of capital for domestic investors, and strengthen international reserves.

Honduras: Medium-Term Scenario

	Act. 2015	Prel. 2016	Projections 2017	2018	2019	2020	2021	2022
			(Annual percent change)					
Output and Inflation								
GDP at constant prices	3.6	3.6	4.0	3.6	3.8	3.8	3.8	3.8
Consumer prices (eop)	2.4	3.3	4.5	4.0	4.0	4.0	4.0	4.0
			(In percent of GDP, otherwise indicated)					
Nonfinancial Public Sector								
Net lending (+) / Net borrowing (-)	-1.0	-0.5	-1.2	-1.2	-1.0	-1.0	-0.9	-0.9
Primary balance	0.1	0.3	-0.1	0.1	0.4	0.3	0.2	0.2
Gross debt	38.4	42.5	43.0	44.1	45.3	44.2	42.3	38.7
External sector								
Current account balance	-5.5	-3.8	-4.1	-4.3	-4.0	-4.0	-4.0	-4.1
GIR (in months of non maquila imports)	4.8	4.5	4.7	5.0	5.1	5.2	5.2	5.3

Sources: Central Bank of Honduras, Ministry of Finance, and Fund staff estimates and projections.

12. **Risks are mostly on the downside and originated in global uncertainties and domestic political dynamics.**

External risks. Given Honduras's reliance on the U.S. as its main export destination and source of remittances (around 40 percent of total exports and 85 percent of remittances), two major risk factors are at play: (i) an adverse performance of the U.S. economy could significantly reduce Honduras's growth and trigger a reversal in capital inflows thus affecting investment, and (ii) the Temporary Protected Status (TPS) to Hondurans residing in the U.S. (set to expire in January 2018) not being renewed, which could reduce the inflow of remittances by around 7 percent per annum.[1] Retreat from cross-border integration by the U.S. remains a lingering, albeit less likely, risk. Additionally, given the current crawling-like arrangement, faster than expected tightening of the global financial conditions can put pressure on the monetary policy stance and international reserves.

Domestic risks. Failure to maintain fiscal prudence during the political transition remains low, but the implementation of recent legislation, namely the credit card law and new tourism law, might undermine policy credibility and affect investor confidence and growth.

POLICY DISCUSSIONS

A. Fiscal Policy

For 2017

13. **The NFPS deficit is projected to be 1.2 percent of GDP slightly below the authorities' 2017 target of 1.4 percent of GDP.** The projected overperformance reflects slower

[1] The TPS was granted in January 1999 and currently covers around 60,000 beneficiaries.

Box 2. Main Elements of the Fiscal Consolidation 2013-17

Honduras has implemented strong fiscal consolidation. The NFPS deficit was lowered by 6¼ percentage points of GDP. This performance was supported by both revenue and expenditure measures, including from public enterprises.

A comprehensive tax package was introduced at the beginning of 2014, which included: 3 percentage points increase in the VAT rate (from 12 to 15 percent), increase in fuels taxes, and establishment of a minimum income tax to strengthen tax compliance. During the last four years, tax revenue increased by 3½ percentage points of GDP, twice the original program projections. Sustained effort by the tax administration authority was the key for this outcome.

Most of the fiscal consolidation came from the central government and public companies. The government implemented a wide-ranging expenditure rationalization plan. The plan mainly focused on rightsizing public sector employment and controlling wage growth, as well as reducing other current expenditure. During the last four years, the wage bill of the nonfinancial public sector declined by 2.8 percentage points of GDP, with about ¼ of the reduction taking place outside the central government. At the central government and decentralized institutions, nominal wages were frozen during 2014-15 and 60 percent of unfilled posts were cancelled (except for health and education). Additionally, a census of public employees was conducted, with the initial aim of identifying and removing irregular workers. Capital spending with high social returns and proven capacity for speedy implementation was protected.

The authorities embarked on a strategy to put the public enterprises on a sound footing. As part of this strategy, the authorities adjusted electricity tariffs and rightsized their workforce.

Balance of the Nonfinancial Public Sector
(Percent of GDP)

	2013	2014	2015	2016	2017	Change 2017-2013
Revenues	**30.5**	**31.0**	**31.2**	**32.6**	**32.0**	**1.5**
Of which						
Taxes	15.6	17.1	18.0	19.5	19.1	3.5
Interest revenues	1.5	1.6	1.3	1.9	1.7	0.1
Sales of goods and services	6.7	6.4	5.9	5.3	5.6	-1.0
Expenditure	**37.9**	**34.9**	**32.2**	**33.1**	**33.2**	**-4.7**
Of which						
Compensation of employees	14.2	12.7	11.7	11.4	11.4	-2.8
Goods and services	10.6	9.4	8.2	8.2	8.4	-2.1
Interest payments	2.1	2.1	2.3	2.8	2.8	0.8
Net adquisition of nonfinancial assets	5.0	3.8	3.8	3.3	4.6	-0.4
Balance	**-7.5**	**-3.9**	**-1.0**	**-0.5**	**-1.2**	**6.2**
Memo						
Primary balance	-7.0	-3.4	0.1	0.3	-0.1	6.9
Public debt	41.0	41.3	41.2	42.5	43.0	2.0

Balance of the Nonfinancial Public Sector by Entity
(Percent of GDP)

	2013	2014	2015	2016	2017	Change 2017-2013
Central administration	-7.9	-4.5	-3.0	-2.8	-2.8	5.1
Social security administration	0.7	0.4	0.6	0.7	0.7	0.0
Public employees pension funds	2.0	1.2	1.6	1.6	1.6	-0.4
Other institutions	-0.1	0.0	0.0	0.1	-0.1	0.0
Central Government	**-5.4**	**-2.8**	**-0.9**	**-0.4**	**-0.6**	**4.7**
Local governments	-0.3	-0.1	0.1	0.0	0.0	0.2
General Government	**-5.6**	**-2.9**	**-0.8**	**-0.4**	**-0.6**	**5.0**
Nonfinancial public companies	-1.9	-1.0	-0.2	-0.1	-0.6	1.3
Nonfinancial Public Sector	**-7.5**	**-3.9**	**-1.0**	**-0.5**	**-1.2**	**6.2**

Compensation of Employees of the Nonfinancial Public Sector
(Percent of GDP)

	2013	2014	2015	2016	2017	Change 2017-2013
Central administration	9.8	9.0	8.4	8.1	8.0	-1.8
Social security administration	0.8	0.6	0.5	0.5	0.6	-0.2
Public employees pension funds	0.1	0.1	0.1	0.1	0.1	0.0
Other institutions	1.6	1.4	1.2	1.3	1.2	-0.4
Central Government	**12.2**	**11.0**	**10.3**	**10.0**	**9.9**	**-2.4**
Local governments	0.5	0.4	0.4	0.7	0.8	0.3
General Government	**12.8**	**11.5**	**10.7**	**10.7**	**10.7**	**-2.1**
Nonfinancial public companies	1.5	1.2	1.1	0.7	0.7	-0.7
Nonfinancial Public Sector	**14.2**	**12.7**	**11.7**	**11.4**	**11.4**	**-2.8**

Sources Honduras Ministry of Finance and IMF staff estimates pace of investment execution by the national university (UNAH). The debt-to-GDP ratio of the NFPS is expected to reach 43 percent of GDP, a modest increase relative to 2016. (Box 2).

14. **The implementation of the FRL is ongoing.** To ensure the fulfilment of the rules (NFPS deficit target and increase in current spending), the authorities have implemented a module into their information management system (SIAFI) at the spending unit that verifies in real time compliance with the annual current spending target.

For 2018

15. **The authorities' medium-term fiscal framework (MTFF) projects a gradual reduction in public debt to 30 percent of GDP in the medium term.** Consistent with this objective, the MTFF sets fiscal deficits targets lower than the 1 percent of GDP ceiling stated in the FRL. This will be achieved by controlling the growth in current spending, particularly the wage bill, and preserving the hard-won gains in tax collection.

16. **The authorities' revenue mobilization strategy does not foresee changes in rates but instead measures to improve revenue administration.** Staff have indicated that two points are critical to ensure the sustainability of revenue mobilization efforts over the next year.

- **Restore tax authority's enforcement mechanisms for tax collection.** This was the principal reform component, but the new tax code has repealed the criminality of tax fraud, severely weakening compliance. To date the authorities have sustained tax collection using short-term measures, but permanent solutions are needed to encourage compliance and monitoring.

- **Rationalize tax expenditures**. Honduras has the largest tax expenditures in the Central-American region and one of the largest in the world at 7 percent of GDP. Despite new control procedures introduced in the FRL and the new tax code, additional exemptions were recently introduced, such as VAT exemptions for agricultural goods and tourism operator income tax.[2] In the case of the new tourism law, staff estimates that exemptions could reach minimum of 1 percent of GDP over an 18-year period, if the exemption is granted only for new investments. If additional existing projects are included as beneficiaries, tax expenditures will be even higher.

Tax Expenditures
(In percent of GDP)

Corporate income tax	2.1
o/w special regimes (ZOLI, ZOLT, ZOLITUR)	0.9
Personal income tax	0.3
o/w teachers	0.1
VAT	3.8
o/w foodstaples	0.7
o/w credit cards	0.5
o/w agriculture	0.3
o/w special regimes (ZOLI, ZOLT, ZOLITUR)	0.2
Fuel tax	0.7
o/w termal generators	0.6
Customs	0.1
Total	7.0

Source: IMF staff estimates

[2] Both laws introduce an evaluation framework for new tax expenditures to ensure that social benefits are higher than fiscal costs.

17. **For 2018, the proposed budget targets a NFPS deficit of 1.2 percent of GDP (CG deficit of 3.4 percent of GDP), fully in line with the FRL.**[3] The 2018 budget envisages a small fiscal adjustment of ¼ percent of GDP and a ceiling of 7½ percent increase in current spending. The following policies underpin the proposed budget:

- **Moderate public wages increase**. An 8 percent nominal increase in the wage bill is proposed (5 percent average increase during the 2015-2017). This increase reflects the planned expansion of security forces, the costs of the police reform (severance payments), and the additional services required to expand the coverage of social programs using conditional cash transfers (CCT). The nominal growth in the wage bill excluding the expansion of security forces is about 6 percent.

- **Sustained increase in targeted social spending**. The budget provides additional funds for social spending particularly for the authorities' flagship program "*Vida Mejor*". This social program has contributed to the expansion of the social programs coverage; however, additional efforts are needed given the still large number of families living in poverty (Box 1). Part of the expansion of CCT programs requires the increase in the supply of educational and health services through higher expenditures. Using a unified registry of beneficiaries will strengthen beneficiary targeting.

- **Ongoing improvement in the efficiency of public spending**. Given the limits on current spending growth imposed by the FRL, the budget must rely on efficiency gains to ensure a proper provision of public services. To this end, and envisioning the future implementation of performance budgeting, the 2018 budget includes the preparation of pilot projects for performance budgeting.

B. Monetary Policy

18. **Staff and the BCH agreed on the currently broadly neutral monetary policy stance.** Inflation expectations are within the target band and financial conditions are stable. Against this backdrop, the BCH has maintained the policy rate constant at 5½ percent since June 2016 while mopping up liquidity resulting from the external bond issuance through steeped up issuance of central bank bills. This position is appropriate considering lingering external risks including possible changes in U.S. monetary policy.

19. **Staff supported the BCH decision to reduce the inflation target band from 4.5±1 percent to 4.0±1 percent.** In July 2017, the authorities decided to reduce the midpoint of the target band based on historically low inflation, especially in the last two years. The lower inflation target range, all else equal, might require stricter monetary conditions if inflation expectations leave the new target range, which can be challenging given essentially closed output gap and the risks balance.

[3] The budget was submitted to the legislature on September 14, 2017.

20. **Modernizing the monetary policy framework**. For the medium-run, the authorities decided to adopt a forward-looking approach to monetary policy based on an inflation targeting framework. To this end, the authorities are strengthening the interbank market by fostering operations with collateralized securities. In February 2017, they also have reduced the surrender requirements for foreign exchange by 10 percent. The foreign currency released by this measure is traded in a foreign exchange interbank market. The authorities have been working extensively to strengthen their in-house capacity for macroeconomic modeling, forecasting, and policy analysis. However, the critical reform of the central bank framework law has been delayed to allow full ownership by the new government (Box 3).

Box 3. Journey to Implement Inflation Targeting

Progress. Since the announcement to move towards inflation targeting (IT), the authorities have made a steady progress in three areas: (1) enhanced the market infrastructure by developing an interbank money market and a FX market, which was created once the process of phasing out FX surrender requirements started with the reduction by 10 percent; (2) improved the quality of BCH's decision-making process by strengthening its macroanalysis unit; and (3) initiate the analysis of the legal framework for the new BCH law with clearer mandate to pursue price stability as primary objective. In addition, the successful implementation of the FRL to date could be seen an important step towards reducing fiscal dominance.

Challenges. Monetary transmission from the monetary policy rate to lending rates remains imperfect and markets remain segmented and mostly uncollateralized. The FX interbank market is off to a good start and continued progress with the elimination of FX surrender requirements is needed.

Next steps agreed with authorities. Enact a new central bank law that provides the BCH the mandate, governance arrangements and instruments to ensure a successful implementation of IT. Continue to enhance BCH's decision-making process to make it more forward-looking and adopt organizational changes consistent with the new regime. To better anchor expectations, the BCH should also enhance its internal and external communication strategy including the production of quarterly monetary policy reports.

21. **Allowing exchange rate flexibility would be appropriate as market conditions improve.** The BCH remains committed to its crawling peg scheme which it believes has provided stability given significant dollarization of the economy. Staff suggested that with the stronger economy and the considerable reduction in fiscal dominance, there is room to allow the exchange rate to be more market-based. The recent reduction in surrender requirements is welcome and further reduction would be desirable once market conditions allow.

22. **Safeguards Assessments.** The BCH is strengthening its safeguards framework, but the recommended legal reforms to enhance its autonomy and governance structures remain

outstanding. The BCH has approved a plan to adopt International Financial Reporting Standards with effect from FY2018. While the bank has taken steps to align the central bank law with good international practice, plans to submit reforms to congress have been delayed.

C. Financial Sector Policy

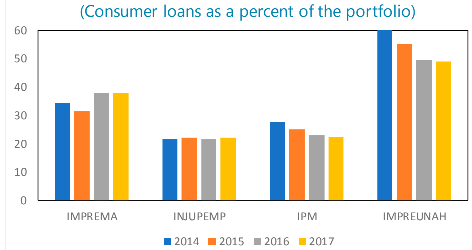
23. **The banking system remains stable with satisfactory capital and liquidity levels.** The banking system is supported by reliance on domestic funding sources (around 80 percent of funding come from deposits), which limits its exposure to external shocks. Growth in credit to the private sector stood at 10½ percent (y/y) as of August, supporting economic growth without generating financial stability risks. FX risk remains an important issue as the credit dollarization rate is still high (30 percent as of June-2017).

24. **The authorities have made progress modernizing banking sector legislation but recent setbacks have complicated the outlook**. The recent creation of the financial stability committee is positive and will enhance the authorities' early warning capacity. However, two recent laws pose risk to the financial sector.

- **Credit card law**. The law introduces caps on credit card interest rates. The maximum credit card interest rate will be equal to 2.7 times the weighted average annual lending rate in Lempiras of the banking system (currently about 20 percent) subject to a cap of 54 percent. The law might negatively affect banks' profitability by limiting their capacity to adequately price risk. It will also curtail the issuance of new credit cards particularly for low-income earners, potentially promoting the use of informal lending options and discouraging financial inclusion.[4]

- **Financial inclusion law.** This law introduces provisions for public pension funds to provide consumer and housing loans to affiliates using trust funds (20 percent of their investment portfolio each one). It also allows the provision of working capital loans for SMEs using similar mechanism (up to 10 percent of the portfolio). Since mid-2016, public pension funds have been involved in a significant expansion of consumer loans to their affiliates, especially the teachers' pension fund (IMPREMA). The pension funds argue that these loans are fully guaranteed by future pensions. The financial supervisor is planning to step-up the monitoring of risks related to these initiatives, including by assessing banks' measures to protect profitability and capital adequacy.

Public Pension Funds
(Consumer loans as a percent of the portfolio)



Source: Honduras Ministry of Finance

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[4] The last BCH's financial stability report has found that 70 percent of credit cards have credit lines below US$1,600.

D. Structural Reforms

25. **Honduras is implementing measures to tackle corruption.** In April 2016, the government of Honduras and the Organization of American States (OAS) installed a mission to support the fight against corruption and impunity (MACCIH), the first mission of this kind for the OAS. The MACCIH works side-by-side with the office of Honduras' Attorney General in the investigation of cases to dismantle corruption networks. Progress on combating corruption has been slow but steady. For instance, special tribunals to prosecute corruption cases have been established, a law on financing, transparency and oversight of political parties and campaigns has been enacted; and prosecution of the corruption cases at the Social Security Institute (IHSS) and in the national police are ongoing.

26. **Implementation of Honduras 20/20 Plan is ongoing**. The plan, developed as a joint initiative of the public and private sectors seeks to generate 600,000 jobs during the 2016–20 period. It identified four sectors where Honduras has competitive advantage: tourism, textiles, intermediate manufacturing, and business process outsourcing. The plan will also include agriculture and housing sectors at later stage. A "transformation unit" was created to implement the plan.

27. **The customs union with Guatemala was launched**. According to a recent study, the union could increase GDP growth by around ½ percent and would be particularly favorable for textiles, chemical, and petrochemical industries (ECLAC, 2017).[5] The Guatemalan and Honduran authorities have expressed their interest on expanding the union to El Salvador and Nicaragua.

28. **The reform of the electricity sector is progressing as expected.** As of August, the loss-reduction concessionaire has delivered a reduction in losses of 3¾ percent (0.2 percent of GDP in additional revenues), and it is well on track to meet the November 4 percent target.[6] The rightsizing program in ENEE has concluded with a 60 percent reduction in the workforce. Tariffs are adjusted quarterly based on a cost-recovery formula. As of June, they had been increased by 10 percent compared to 2016. The authorities have created a new secretary of energy to better coordinate implementation of the electricity sector reform going forward.

PROGRAM MODALITIES

29. **The program remains fully financed**. All financing needs are covered for the next 12 months based on external and domestic operations. The domestic financial system, especially pension funds, currently possesses ample liquidity to support the financing plans. The authorities

[5] Economic Commission for Latin America and the Caribbean (2017). "Posibles efectos económicos y sociales de la profundización de la unión aduanera entre Guatemala y Honduras".

[6] Although around 1 percent of this reduction is explained by an update in the ENEE's street lighting cadaster.

remain open to the possibility of tapping international capital markets to undertake liability management operations to smooth debt service.

30. **The authorities do not plan to draw the amount available upon the completion of these final reviews,** in line with their intention to treat the Stand-By Arrangement as precautionary in 2017. Nonetheless, in case of drawing the capacity to repay the Fund remains adequate, and the balance of risks is manageable. Potential access under the program would have only a modest effect on external debt, and the risk of debt distress is considered moderate per the latest debt sustainability analysis (Annex II).

31. **The debt sustainability analysis shows improved prospects relative to the previous review.** The medium-term fiscal projections show a declining path in the public debt over GDP ratio, a significant improvement relative to the recent past. These projections are consistent with the parameters of the FRL and reflect the stronger macroeconomic policies underpinned by structural reforms adopted. While the risk of external debt distress remains moderate, proper implementation of fiscal and monetary reforms will be key to move the risk assessment to a low distress rating. The authorities broadly agreed with this assessment.

STAFF APPRAISAL

32. **Program performance remains satisfactory because of steady implementation, strong ownership, and domestic support**. The authorities met all performance criteria for end-June 2017, and all but one indicative targets for end-June 2017: the ENEE's operating revenue-to-spending ratio. Steadfast implementation of the plan to reduce ENEE's the non-technical losses ensure adequate measures are in place to maintain the integrity of the program. Moreover, staff supports authorities' own targets for end-December 2017, as a signal to maintain policy credibility after the program expires.

33. **The economy continues to expand in 2017, and the outlook for the medium term remains favorable, broadly in line with program projections**. Sustained macroeconomic discipline and visible reforms have boosted stability and confidence. Growth continues to accelerate because of improved fundamentals which provided credibility on the sustainability of sound macroeconomic policies. Structural reforms, particularly of fiscal institutions, are laying the groundwork for buttressing inclusive growth and competitiveness. The recent credit rating upgrade and low-record sovereign spreads are testament to this progress.

34. **The fiscal stance for 2018 contemplated under the proposed 2018 budget is appropriate**. The moderate adjustment in the 2018 budget will lock in the fiscal consolidation achieved to date. The impressive consolidation delivered under the program has opened space for moderate increases in public wages and an increase in the much-needed social and infrastructure spending.

35. **The neutral monetary policy stance remains broadly appropriate in the near-term.** Nonetheless, the BCH should remain vigilant and ready to tighten if inflation or credit growth were to accelerate and there are signs of overheating.

36. **Staff welcomes the steps taken to move towards an inflation targeting framework to guide monetary policy**. The creation of an interbank-money market is progressing steadily and the reduction by 10 percent in FX surrender requirements is fostering the creation of a foreign interbank market. Nonetheless, staff encourages accelerating the pace in the reduction of FX surrender requirements to create a more vibrant FX market and increase exchange rate flexibility. The immediate priority remains to be reforming the central bank law to give it a clear mandate to achieve price stability.

37. **Fiscal institutions need to strengthen further to lock in the achievements to date.** Notwithstanding progress made in recent years, much more needs to be done to increase budget transparency, accountability, and control, particularly by phasing out extra-budgetary vehicles. Reducing tax exemptions and strengthening the enforcement of tax laws remains one of the critical tasks. This includes closing loopholes in the legislation and working decisively on fighting evasion and tax fraud. Increasing social spending, under the current institutional framework, requires major efficiency gains which in turn requires prioritizing programs with large positive impact assessments.

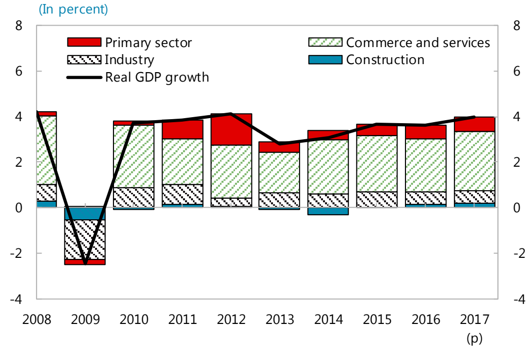
38. **The banking system remains broadly stable, but vulnerabilities remain requiring continuous regulatory efforts.** The banking system remains in good shape, but regulations need to focus on assessing risks stemming from excessive household debt, particularly in credit cards. Use of pension funds to finance consumption needs a structural solution which should include better assets-liabilities management scheme for pension funds. Excessive concentration of the portfolio in one product entails both a financial and macroeconomic risk. Expanding the funds' operations to SMEs could be risky and generates fiscal contingencies.

39. **Considering the authorities' performance so far and their proven commitment with the policies described in the attached Letter of Intent, staff supports the completion of the fifth and sixth reviews under the Stand-By Arrangement.**

Figure 1. Honduras: Growth is Strengthening Amid Prudent Macro Policies and Positive External Conditions

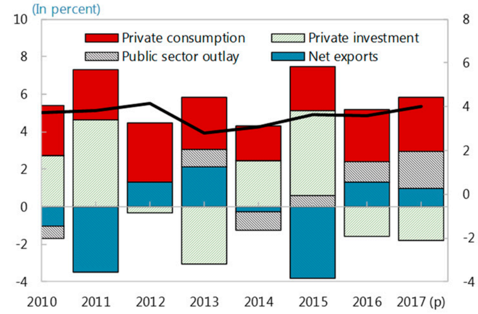
The services sector continues leading the economic activity.

Contributions to Growth by Sector
(In percent)



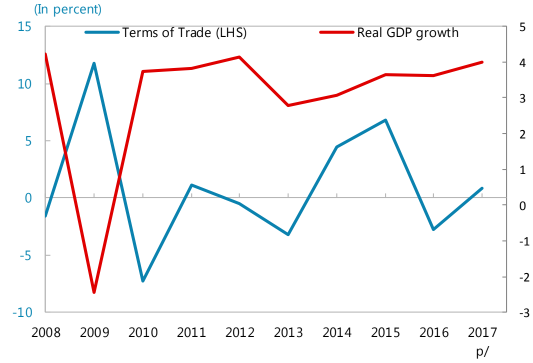
Consumption and net exports led demand growth.

Contributions to Growth, Demand Components
(In percent)



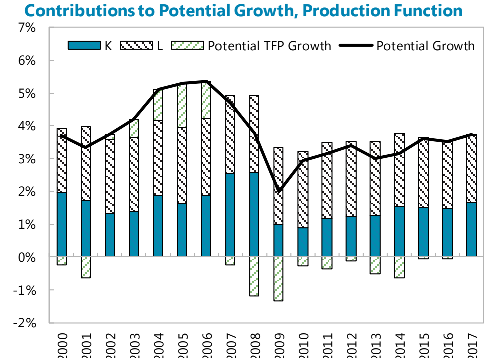
Despite a decline in the terms of trade, the economic activity remains strong.

Terms of Trade and Growth
(In percent)



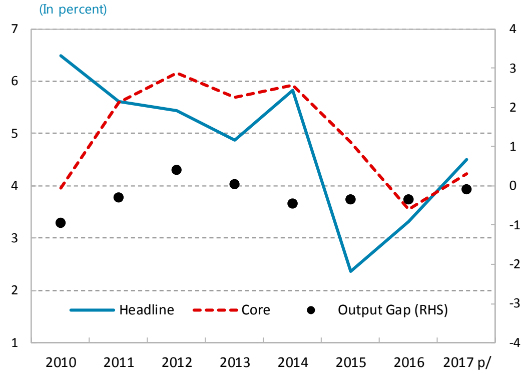
Solid growth has contributed to close the output gap, but potential growth remains subdued…

Contributions to Potential Growth, Production Function



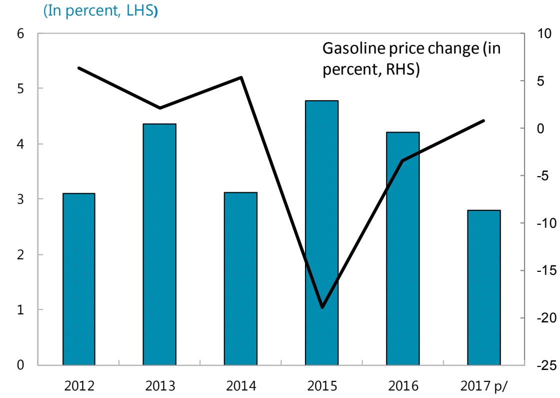
Vanishing slack is not affecting inflation.

Output Gap and Inflation Measures
(In percent)



Lower domestic energy prices and stable lempiras contributed to maintain low inflation.

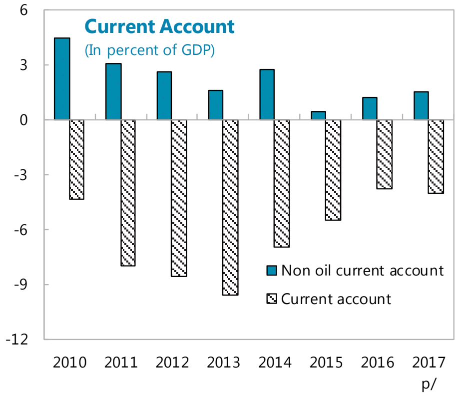
Exchange Rate
(In percent, LHS)



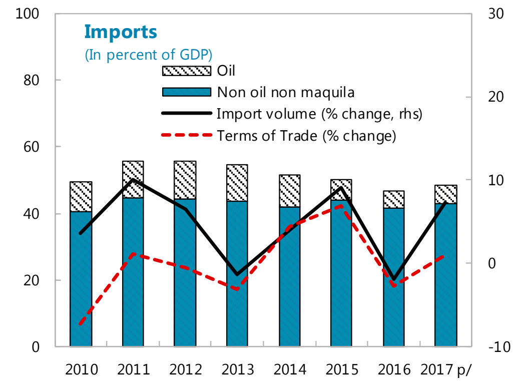
Sources: Central Bank of Honduras and Fund staff estimates and projections.

Figure 2. Honduras: The External Position Has Strengthened on the Back of Strong Remittances Inflows

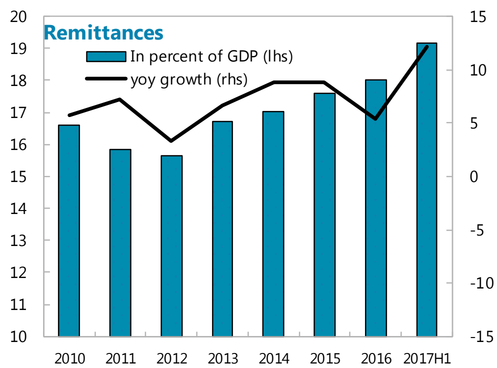
The current account deficit improved in 2016…



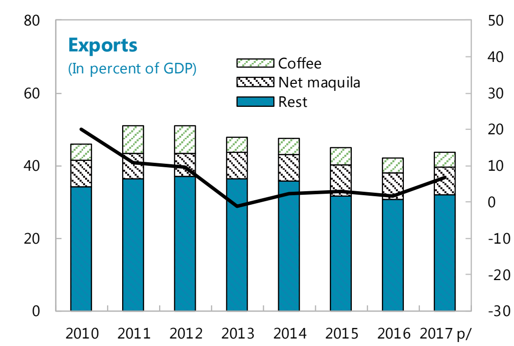
…driven mostly by lower oil imports…



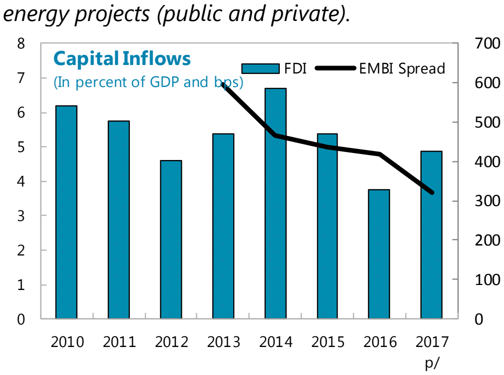
… strong growth of remittances, which have accelerated in the first half of 2017…



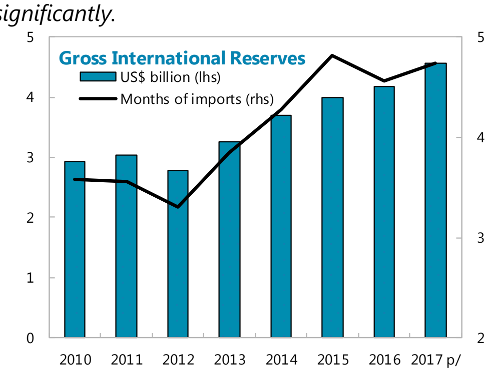
…and exports of commodities.



Net foreign direct investment is recovering on the back on new energy projects (public and private).



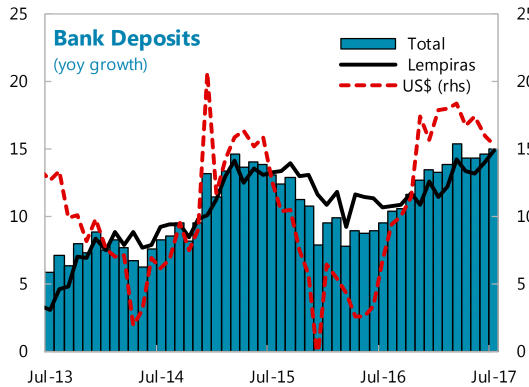
Against this background, reserve coverage has risen significantly.



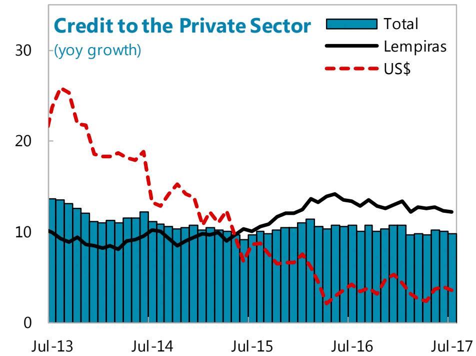
Sources: Central Bank of Honduras and Fund staff estimates and projections.

Figure 3. Honduras: Monetary Conditions have Remained Favorable

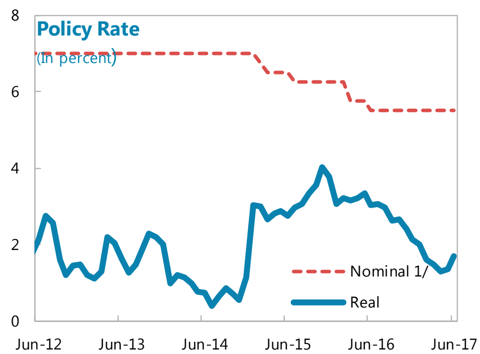
Healthy growth in bank funding sources...



...continues to provide financing to private sector.

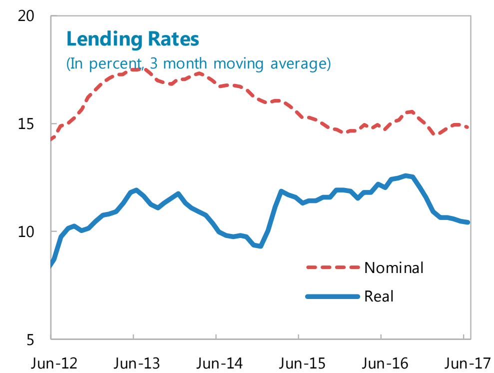


In June 2016, the Central Bank reduced the policy rate by 25 basis points ...

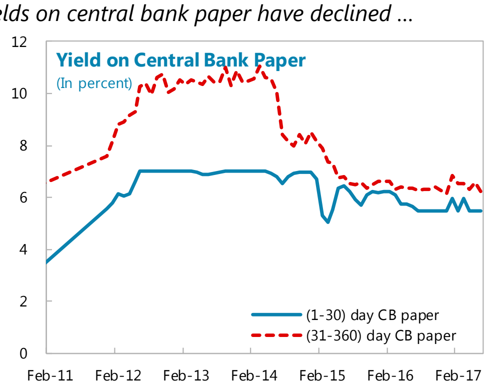


1/ In June 2016, the Central Bank lowered its policy rate to 5.5 from 5.75 percent .

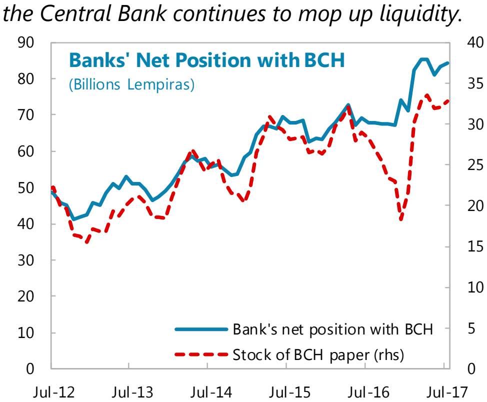
...and since then nominal lending rates continued to inch lower consistent with currently broadly neutral stance.



Yields on central bank paper have declined ...



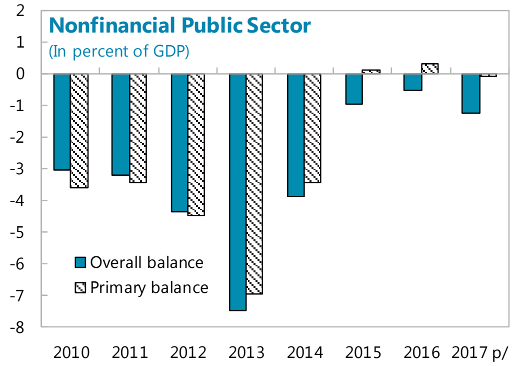
...and the Central Bank continues to mop up liquidity.



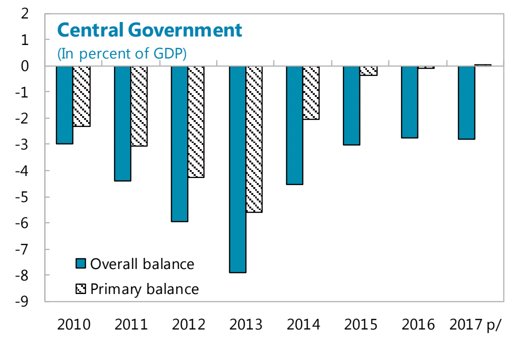
Sources: Central Bank of Honduras and Fund staff estimates and projections.

Figure 4. Honduras: The Fiscal Position Continues Strengthening

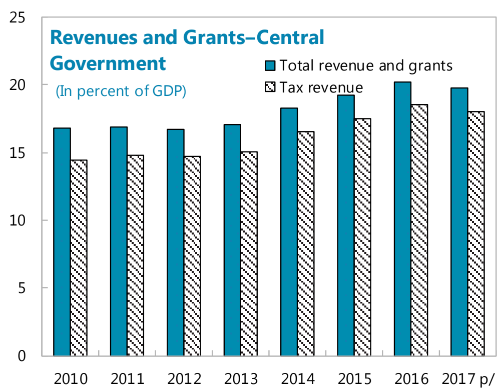
The fiscal position strengthened considerably in 2016…



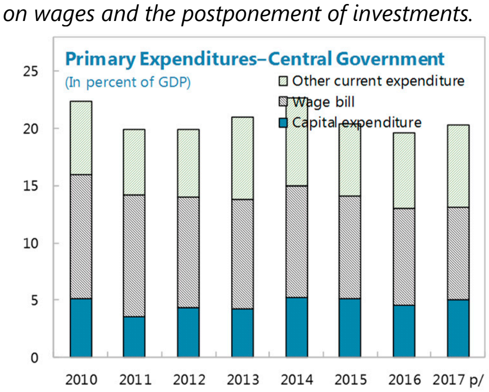
…driven mainly by a reduction in the central government deficit…



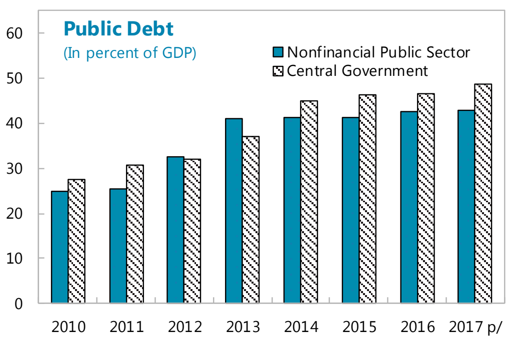
…owing to an increase in tax revenue from measures adopted in early 2014…



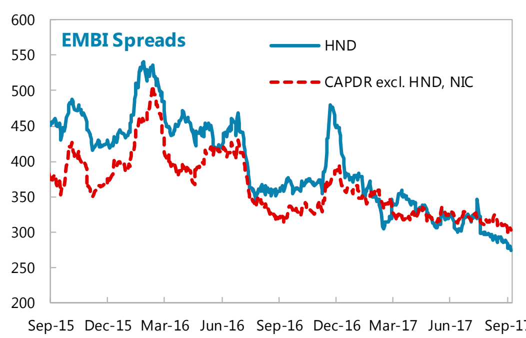
…and a reduction in spending, mainly due to strict limits on wages and the postponement of investments.



The stronger fiscal positon helped to contain debt growth…



…and improve conditions to access global markets.



Sources: Ministry of Finance and Fund staff estimates and projections.

Table 1. Honduras: Selected Economic Indicators

I. Social Indicators

Population (2016)	9.1 million	9.1 million	Life expectancy at birth in years (2015)	73
Per capita income in U.S. dollars (PPP, 2016)	4,738	4,738	Adult literacy (percent of ages 15 and above, 2014)	89
Rank in UNDP Development Index (2014)	131 of 188	131 of 188	Percent of pop. below poverty line (2016)	61
Unemployment rate (2016)	7.4	7.4	Gini index (2014)	51
Underemployment rate (2012)	54.1	54.1	Oil imports (2016)	US $1.1 billion
Net FDI (as percent of GDP, 2016)	3.7	3.7	Main exports: coffee, bananas, palm oil, and maquila.	

II. Economic Indicators

									2016		2017		2018	2019	2020	2021	2022
	2010	2011	2012	2013		Prog.	2014	2015	Rev. Prog	Prel.	Prog.	Proj.			Proj.		
Real Sector (percentage changes in contributions to growth)																	
Real GDP		3.8	4.1	2.8		3.0	3.1	3.6	3.6	3.6	3.7	4.0	3.6	3.8	3.8	3.8	3.8
Domestic demand		7.3	2.8	0.7	3.1	3.9	3.3	7.5	3.6	2.3	4.0	3.0	3.6	3.7	4.0	4.4	4.3
Consumption		2.5	3.5	3.2	1.8	-1.5	1.5	2.7	2.3	3.6	2.5	3.1	2.9	2.9	3.0	3.0	3.0
Private		2.7	3.1	2.8	2.0	-1.7	1.9	2.3	2.2	2.8	1.9	2.9	2.8	2.8	2.9	2.9	2.9
Public		-0.1	0.3	0.5	-0.2	0.2	-0.4	0.4	0.0	0.8	0.5	0.2	0.1	0.1	0.1	0.1	0.1
Investment		3.3	0.8	-0.4		3.1	0.1	2.5	1.4	-1.6	1.6	2.2	0.7	0.7	1.0	1.4	1.3
Private		3.2	1.1	-0.9		0.0	0.8	2.3	0.9	-1.9	3.7	0.5	0.0	0.5	0.6	1.1	0.8
Public		0.2	-0.3	0.5		0.0	-0.6	0.2	0.5	0.3	-2.1	1.7	0.6	0.2	0.4	0.3	0.5
Statistical discrepancy & inventories		1.5	-1.5	-2.1		2.4	1.7	2.3	0.0	0.3	0.0	-2.3	0.0	0.0	0.0	0.0	0.0
Net exports		-3.5	1.3	2.1	0.0	-0.9	-0.3	-3.8	0.0	1.3	-0.3	1.0	0.0	0.1	-0.2	-0.6	-0.5
Exports		4.6	5.6	-0.8		4.4	1.9	2.0	3.6	0.2	2.9	3.2	0.7	1.8	1.8	1.5	1.7
Imports		-8.0	-4.3	2.9		-5.4	-2.2	-5.8	-3.6	1.1	-3.2	-2.2	-0.7	-1.7	-2.0	-2.1	-2.2
Prices (annual percentage change)																	
GDP deflator		7.8	3.6	1.4		5.3	6.8	6.4	3.0	3.7	3.1	5.9	3.8	4.0	4.0	4.0	4.0
Consumer prices (eop)		5.6	5.4	4.9		6.5	5.8	2.4	4.0	3.3	4.5	4.5	4.0	4.0	4.0	4.0	4.0
Consumer prices (average)		6.8	5.2	5.2		6.2	6.1	3.2	3.0	2.7	3.6	4.0	4.0	4.0	4.0	4.0	4.0
Saving and Investment (percent of GDP)																	
Gross domestic investment		**24.4**	**24.4**	**22.9**		**25.6**	**23.0**	**25.6**	**26.4**	**23.2**	**26.8**	**25.9**	**25.7**	**25.8**	**26.0**	**26.4**	**26.9**
Private sector		21.1	21.4	17.9		22.3	19.2	21.8	20.1	19.9	20.3	21.3	20.5	20.6	20.5	20.8	21.0
Public sector		3.4	3.0	5.0		3.3	3.8	3.8	6.3	3.3	6.5	4.6	5.1	5.2	5.5	5.6	5.9
Gross national savings		**16.5**	**15.8**	**13.4**		**17.8**	**16.0**	**19.3**	**20.5**	**19.4**	**21.1**	**21.8**	**21.4**	**21.8**	**22.0**	**22.4**	**22.8**
Private sector		15.4	16.3	16.1		18.7	16.3	16.5	16.6	16.9	17.2	17.8	16.9	17.5	17.8	17.9	18.6
Public sector		1.1	-0.5	-2.8		-1.0	-0.3	2.8	3.9	2.6	3.9	3.3	3.8	4.1	4.4	4.6	4.9
Nonfinancial public sector (percent of GDP)																	
Primary balance		-3.4	-4.5	-7.0		-4.7	-3.4	0.1	-0.2	0.3	-0.1	-0.1	0.1	0.4	0.3	0.2	0.2
Overall balance		-3.2	-4.4	-7.5		-5.4	-3.9	-1.0	-1.2	-0.5	-1.5	-1.2	-1.2	-1.0	-1.0	-0.9	-0.9
o/w interest payments (net)		2.7	2.42	-0.5			-0.4	-1.1	-1.1	-0.9	-1.5	-1.1	-1.3	-1.4	-1.3	-1.2	-1.0
Public sector gross debt		25.4	32.4	41.0		43.0	41.3	41.2	41.9	42.5	43.2	43.0	44.1	45.3	44.2	42.3	38.7
Balance of payments																	
External current account balance (percent of GDP)		-8.0	-8.6	-9.6		-7.8	-7.0	-5.5	-5.9	-3.8	-5.7	-4.1	-4.3	-4.0	-4.0	-4.0	-4.1
Exports, f.o.b. (annual percentage change)		27.3	4.8	-6.6		4.7	4.0	0.9	2.0	-4.2	6.1	10.3	3.6	3.7	3.3	2.9	3.6
Imports, f.o.b. (annual percentage change)		24.9	2.2	-3.7		3.2	1.2	0.1	2.3	-4.8	5.3	10.5	3.1	3.1	3.0	3.4	4.1
Worker's Remittances (percent of GDP)		15.9	15.7	16.7		17.1	17.0	17.6	18.6	18.0	19.3	18.3	18.0	18.0	18.0	18.0	18.0
Net International Reserves (millions of dollars)		2,032	1,665	2,211		2,271	2,475	2,783	3,005	2,655	3,250	2,966	3,217	3,459	3,724	4,045	4,413
GIR (In months of imports) 1/		3.6	3.3	3.8		3.7	4.3	4.8	4.7	4.5	4.7	4.7	4.8	4.9	5.0	5.1	5.2
M1 to Net International Reserves (ratio)		1.3	1.3	1.6	1.7	1.5	1.7	1.6	1.8	1.6	1.8	1.6	1.6	1.6	1.6	1.6	1.7
Terms of Trade (annual percent change)		1.1	-0.5	-3.2		2.8	4.4	6.8	-1.2	-2.7	-0.2	0.9	0.9	1.1	0.5	0.2	0.0
Real effective exchange rate (eop, depreciation -)		1.8	-1.7	0.3		1.2	3.8	1.8	...	-2.2	...	...	...	...	...	...	...
Money and Financial																	
Broad money (percentage change)	9.4	12.7	6.6	8.4		10.2	13.2	8.4	9.1	13.1	9.4	9.6	8.5	9.0	9.0	9.0	10.1
Private sector credit (percentage change)	3.5	9.6	16.9	11.2		9.9	10.7	10.4	10.8	10.8	11.1	11.4	11.5	10.4	10.5	9.5	9.9
Bank Assets (percent of GDP)		80.9	83.6	88.9	104.6	...	104.6	97.0	...	97.4	102.6	98.6	102.1	104.4	106.9	108.4	110.4
Private Credit (percent of GDP)		46.9	50.9	54.3	54.6	...	54.6	54.6	57.5	56.3	59.8	57.0	59.1	60.4	61.8	62.7	63.8
Non-Performing Loans to total loans (ratio)		2.9	3.3	3.4	3.3	...	3.3	3.0	...	2.9	3.5	2.8	2.6	2.5	2.3	2.2	2.1
Capital Adequacy (percent)		14.9	14.7	14.5	14.6	...	14.6	14.0	...	13.8	...	...	...	...	...	...	...
Lending rate (eop, in percent)	15.1	14.2	16.7	16.9		16.9	15.9	14.0	...	14.3	13.6	14.0	13.7	13.7	13.7	13.4	13.2
Deposit rate (eop, in percent)	8.0	7.4	11.4	11.0		9.9	10.4	8.8	...	8.2	9.3	8.1	8.5	8.5	8.5	8.5	8.5

Sources: Central Bank of Honduras, Ministry of Finance, and Fund staff estimates and projections.
1/ Based on following year's imports of goods and services, excluding maquila.

Table 2a. Honduras: Statement of Operations of the Central Government

(In millions of Lempiras)

	Act.	2015		2016		2017						
	2014	Prog.	Act.	Rev. Prog.	Prel.	Prog.	Proj.	2018	2019	2020	2021	2022
Revenue	**75,978**	**81,527**	**88,175**	**92,169**	**99,389**	**99,064**	**107,043**	**114,362**	**124,413**	**134,275**	**144,910**	**157,166**
Taxes	68,598	73,626	79,863	84,000	90,966	90,300	97,631	104,438	113,381	122,404	132,141	143,439
Taxes on income	21,722	23,252	25,324	26,283	29,865	28,450	32,079	34,385	37,748	40,749	43,990	48,278
Taxes on property	275	296	298	318	330	340	364	391	422	456	492	531
Taxes on goods and services	41,781	44,932	48,501	51,792	54,481	55,381	58,630	63,063	68,078	73,491	79,335	85,644
Taxes on foreign trade	2,974	3,160	3,541	3,308	3,998	3,668	3,931	3,783	4,094	4,427	4,782	5,162
Other taxes	1,846	1,985	2,198	2,299	2,291	2,461	2,628	2,816	3,040	3,281	3,542	3,824
Social contributions	0	0	0	0	0	0	0	0	0	0	0	0
Grants	3,213	3,421	4,107	3,371	3,751	3,477	3,478	3,589	4,146	4,475	4,831	5,215
Other revenue	4,166	4,480	4,205	4,798	4,672	5,287	5,933	6,335	6,886	7,395	7,937	8,512
Expenditure	**94,769**	**98,428**	**101,967**	**107,173**	**112,982**	**117,064**	**122,217**	**134,137**	**145,162**	**156,884**	**169,382**	**182,815**
Expense	**85,908**	**91,674**	**92,591**	**93,586**	**103,130**	**102,387**	**105,717**	**114,733**	**123,273**	**131,600**	**140,722**	**150,329**
Compensation of employees	37,251	38,456	38,594	39,965	39,806	43,300	43,300	47,000	50,737	54,772	59,128	63,829
Purchases of goods and services	10,297	11,382	13,841	12,200	13,757	14,000	14,000	13,821	14,920	16,106	17,387	18,770
Interest	10,205	12,926	12,123	12,606	12,966	15,630	16,348	18,803	21,480	21,715	22,102	22,279
Domestic	6,499	8,398	7,963	8,040	8,303	11,000	10,153	10,953	12,922	11,896	12,392	12,126
Foreign	3,706	4,528	4,160	4,566	4,663	4,630	6,195	7,850	8,558	9,820	9,710	10,153
Subsidies	75	754	111	63	195	63	63	70	68	71	74	77
Grants	16,205	13,941	15,133	14,881	18,360	16,400	17,190	18,900	18,838	20,336	21,954	23,699
Current	10,319	8,231	9,881	9,714	11,977	10,101	12,244	13,171	12,655	13,661	14,747	15,920
Capital	5,886	5,710	5,252	5,167	6,383	6,299	4,946	5,728	6,184	6,676	7,206	7,779
Social benefits	3,808	6,289	5,013	4,205	8,131	4,315	7,461	7,431	8,022	8,660	9,349	10,092
Other expense	8,067	7,927	7,776	9,665	9,915	8,679	7,354	8,708	9,206	9,938	10,728	11,582
Current	1,549	1,946	1,451	1,534	1,300	1,351	1,056	1,204	1,104	1,192	1,287	1,389
Capital	6,518	5,980	6,325	8,131	8,615	7,328	6,298	7,505	8,102	8,746	9,441	10,192
Net acquisition of nonfinancial assets	**8,861**	**6,754**	**9,377**	**13,587**	**9,852**	**14,677**	**16,500**	**19,404**	**21,890**	**25,284**	**28,660**	**32,486**
Gross Operating Balance	**-9,931**	**-10,146**	**-4,416**	**-1,417**	**-3,741**	**-3,323**	**1,327**	**-371**	**1,140**	**2,675**	**4,187**	**6,837**
Net lending (+)/borrowing (-)	**-18,792**	**-16,900**	**-13,793**	**-15,004**	**-13,593**	**-18,000**	**-15,173**	**-19,775**	**-20,749**	**-22,609**	**-24,472**	**-25,649**
Net financial transactions	**-18,792**	**-16,900**	**-13,793**	**-15,004**	**-13,593**	**-18,000**	**-15,173**	**-19,775**	**-20,749**	**-22,609**	**-24,472**	**-25,649**
Net acquisition of financial assets	**-1,324**	**-5,550**	**2,433**	**-8,490**	**-1,344**	**-15,942**	**5,394**	**3,692**	**5,263**	**4,252**	**2,602**	**2,595**
Foreign	0	0	0	0	0	0	0	0	0	0	0	0
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	-1,324	-5,550	2,433	-8,490	-1,344	-15,942	5,394	3,692	5,263	4,252	2,602	2,595
Currency and deposits	-1,324	-5,550	2,433	-8,490	-1,273	-15,942	5,394	3,692	5,263	4,252	2,602	2,595
Debt securities	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	-70	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**17,468**	**11,350**	**16,225**	**6,514**	**12,250**	**2,057**	**20,567**	**23,467**	**26,013**	**26,861**	**27,074**	**28,244**
Foreign	10,414	12,427	10,207	6,428	3,585	9,527	25,735	2,704	6,369	29,909	17,026	20,456
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	10,381	12,478	10,172	6,380	3,564	9,562	25,769	2,804	6,527	30,067	17,183	20,613
Disbursment	12,553	15,442	11,309	9,271	7,495	13,024	30,057	7,442	12,378	30,067	17,183	20,613
Amorizations	-2,171	-2,964	-1,138	-2,891	-3,931	-3,462	-4,288	-4,638	-5,852	0	0	0
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/	195	100	216	249	221	176	176	149	120	120	120	120
Other external	-163	-151	-180	-201	-200	-211	-211	-249	-277	-277	-277	-277
Domestic	7,054	1,032	6,018	86	8,665	-7,470	-5,167	20,763	19,643	-3,048	10,049	7,789
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	7,639	112	5,788	6,435	14,920	6,140	-7,272	15,549	16,107	-5,911	8,609	6,445
Other accounts payable	-54	0	1,952	-7,959	-6,436	-15,596	0	0	0	0	0	0
PPPs/other	1,197	921	94	3,798	2,232	4,284	4,405	7,518	6,063	5,515	4,000	4,000
Adjustment for HIPC debt relief 2/	-1,728	-2,109	-1,815	-2,189	-2,051	-2,298	-2,301	-2,305	-2,526	-2,652	-2,560	-2,656
Memorandum items:	0		0	0	0	0	0	0	0	0	0	0
Net lending minus interest payments	-8.587	-3.975	-1.670	-2.398	-627	-2.369	1.174	-972	731	-894	-2.370	-3.369
Gross debt	192,365	210,771	212,822	232,491	239,508	259,503	265,380	299,551	337,148	363,100	393,477	418,454
Excluding BCH recapitalization	180,333	198,738	197,236	216,905	220,866	243,918	246,738	280,909	315,506	338,459	368,836	390,812
Nominal GDP (in billions of Lempiras)	414.6	440.5	457.4	481.3	491.3	514.7	541.0	581.9	628.1	678.1	732.0	790.2

Sources: Honduran authorities, Fund staff estimates and projections.

1/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

2/ Offsets the HIPC/MDRI debt relief accounted as grants.

Table 2b. Honduras: Statement of Operations of the Central Government

(In percent of GDP)

	2014	2015		2016		2017		Projections				
	Act.	Prog.	Act.	Rev. Prog.	Prel.	Prog.	Proj.	2018	2019	2020	2021	2022
Revenue	**18.3**	**18.5**	**19.3**	**19.4**	**20.2**	**19.2**	**19.8**	**19.7**	**19.8**	**19.8**	**19.8**	**19.9**
Taxes	16.5	16.7	17.5	17.6	18.5	17.5	18.0	17.9	18.1	18.1	18.1	18.2
Taxes on income	5.2	5.3	5.5	5.8	6.1	5.5	5.9	5.9	6.0	6.0	6.0	6.1
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.1	10.2	10.6	10.5	11.1	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Taxes on foreign trade	0.7	0.7	0.8	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other taxes	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.8	0.9	0.7	0.8	0.7	0.6	0.6	0.7	0.7	0.7	0.7
Other revenue	1.0	1.0	0.9	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Expenditure	**22.9**	**22.3**	**22.3**	**22.9**	**23.0**	**22.7**	**22.6**	**23.1**	**23.1**	**23.1**	**23.1**	**23.1**
Expense	**20.7**	**20.8**	**20.2**	**20.5**	**21.0**	**19.9**	**19.5**	**19.7**	**19.6**	**19.4**	**19.2**	**19.0**
Compensation of employees	9.0	8.7	8.4	8.5	8.1	8.4	8.0	8.1	8.1	8.1	8.1	8.1
Purchases of goods and services	2.5	2.6	3.0	2.4	2.8	2.7	2.6	2.4	2.4	2.4	2.4	2.4
Interest	2.5	2.9	2.7	3.4	2.6	3.0	3.0	3.2	3.4	3.2	3.0	2.8
Domestic	1.6	1.9	1.7	2.3	1.7	2.1	1.9	1.9	2.1	1.8	1.7	1.5
Foreign	0.9	1.0	0.9	1.1	0.9	0.9	1.1	1.3	1.4	1.4	1.3	1.3
Subsidies	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	3.9	3.2	3.3	3.1	3.7	3.2	3.2	3.2	3.0	3.0	3.0	3.0
Current	2.5	1.9	2.2	2.0	2.4	2.0	2.3	2.3	2.0	2.0	2.0	2.0
Capital	1.4	1.3	1.1	1.1	1.3	1.2	0.9	1.0	1.0	1.0	1.0	1.0
Social benefits	0.9	1.4	1.1	1.3	1.7	0.8	1.4	1.3	1.3	1.3	1.3	1.3
Other expense	1.9	1.8	1.7	1.8	2.0	1.7	1.4	1.5	1.5	1.5	1.5	1.5
Current	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Capital	1.6	1.4	1.4	1.5	1.8	1.4	1.2	1.3	1.3	1.3	1.3	1.3
Net acquisition of nonfinancial asset	**2.1**	**1.5**	**2.0**	**2.4**	**2.0**	**2.9**	**3.1**	**3.3**	**3.5**	**3.7**	**3.9**	**4.1**
Gross Operating Balance	**-2.4**	**-2.3**	**-1.0**	**-1.1**	**-0.8**	**-0.6**	**0.2**	**-0.1**	**0.2**	**0.4**	**0.6**	**0.9**
Net lending (+)/borrowing (-)	**-4.5**	**-3.8**	**-3.0**	**-3.5**	**-2.8**	**-3.5**	**-2.8**	**-3.4**	**-3.3**	**-3.3**	**-3.3**	**-3.2**
Net financial transactions	**-4.5**	**-3.8**	**-3.0**	**-3.5**	**-2.8**	**-3.5**	**-2.8**	**-3.4**	**-3.3**	**-3.3**	**-3.3**	**-3.2**
Net acquisition of financial assets	**-0.3**	**-1.3**	**0.5**	**0.1**	**-0.3**	**-3.1**	**1.0**	**0.6**	**0.8**	**0.6**	**0.4**	**0.3**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.3	-1.3	0.5	0.1	-0.3	-3.1	1.0	0.6	0.8	0.6	0.4	0.3
Currency and deposits	-0.3	-1.3	0.5	0.1	-0.3	-3.1	1.0	0.6	0.8	0.6	0.4	0.3
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**4.2**	**2.6**	**3.5**	**3.6**	**2.5**	**0.4**	**3.8**	**4.0**	**4.1**	**4.0**	**3.7**	**3.6**
Foreign	2.5	2.8	2.2	1.0	0.7	1.9	4.8	0.5	1.0	4.4	2.3	2.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.5	2.8	2.2	1.0	0.7	1.9	4.8	0.5	1.0	4.4	2.3	2.6
Disbursment	3.0	3.5	2.5	1.7	1.5	2.5	5.6	1.3	2.0	4.4	2.3	2.6
Amorizations	-0.5	-0.7	-0.2	-0.7	-0.8	-0.7	-0.8	-0.8	-0.9	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.7	0.2	1.3	2.6	1.8	-1.5	-1.0	3.6	3.1	-0.4	1.4	1.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.8	0.0	1.3	2.6	3.0	1.2	-1.3	2.7	2.6	-0.9	1.2	0.8
Other accounts payable	0.0	0.0	0.4	-0.1	-1.3	-3.0	0.0	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.3	0.2	0.0	0.6	0.5	0.8	0.8	1.3	1.0	0.8	0.5	0.5
Adjustment for HIPC debt relief 2/	-0.4	-0.5	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3
Memorandum items:												
Net lending minus interest payments	-2.1	-0.9	-0.4	0.0	-0.1	-0.5	0.2	-0.2	0.1	-0.1	-0.3	-0.4
Gross debt	46.4	47.8	46.5	50.9	48.7	50.4	49.1	51.5	53.7	53.5	53.8	53.0
Excluding BCH recapitalization	43.5	45.1	43.1	48.3	45.0	47.4	45.6	48.3	50.2	49.9	50.4	49.5
Nominal GDP (in billions of Lempiras)	414.6	440.5	457.4	470.8	491.3	514.7	541.0	581.9	628.1	678.1	732.0	790.2

Sources: Honduran authorities, Fund staff estimates and projections.

1/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

2/ Offsets the HIPC/MDRI debt relief accounted as grants.

Table 3a. Honduras: Statement of Operations of the Nonfinancial Public Sector

(In millions of Lempiras)

	2014	2015		2016		2017						
		Prog.	Act.	Rev. Prog.	Prel.	Prog.	Proj.	2018	2019	2020	2021	2022
Revenue	**128,693**	**138,255**	**142,734**	**149,421**	**160,065**	**160,576**	**172,918**	**188,546**	**203,500**	**220,846**	**238,170**	**257,882**
Taxes	70,979	75,887	82,213	86,279	95,971	92,563	103,144	110,116	119,620	129,140	139,412	151,332
Taxes on income	21,722	23,252	25,324	26,283	29,865	28,450	32,079	34,385	37,748	40,749	43,990	48,278
Taxes on property	275	296	298	318	330	340	364	391	422	456	492	531
Taxes on goods and services	41,781	44,932	48,501	51,792	54,481	55,381	58,630	63,063	68,078	73,491	79,335	85,644
Taxes on foreign trade	2,974	3,160	3,541	3,308	3,998	3,668	3,931	3,783	4,094	4,427	4,782	5,162
Other taxes	4,227	4,247	4,548	4,578	7,296	4,724	8,140	8,494	9,279	10,017	10,814	11,717
Social contributions	12,467	13,555	13,524	14,573	15,550	15,678	16,154	17,283	18,843	20,545	22,179	23,943
Grants	3,227	3,437	4,107	3,375	3,760	3,485	3,577	3,729	4,310	4,641	4,999	5,386
Other revenue	42,020	45,376	42,890	45,193	44,784	48,850	50,044	57,419	60,727	66,519	71,579	77,221
Expenditure	**144,767**	**147,532**	**147,085**	**155,203**	**162,727**	**168,376**	**179,598**	**195,747**	**209,917**	**227,508**	**244,935**	**264,869**
Expense	**129,185**	**133,734**	**129,480**	**132,840**	**146,698**	**143,672**	**154,630**	**165,875**	**177,204**	**190,304**	**203,767**	**218,281**
Compensation of employees	52,618	53,718	53,720	55,390	56,029	59,691	61,644	66,729	71,930	77,727	84,002	90,899
Purchases of goods and services	38,986	38,845	37,326	37,186	40,272	40,310	45,622	47,186	51,552	55,935	59,304	62,989
Interest	8,560	12,355	10,628	11,860	13,634	14,956	15,217	17,939	18,467	18,748	18,588	18,514
Domestic	4,807	7,795	6,411	7,174	8,853	10,217	8,848	9,912	9,910	8,928	8,878	8,361
Foreign	3,753	4,560	4,216	4,686	4,782	4,739	6,369	8,027	8,558	9,820	9,710	10,153
Subsidies	51	0	69	115	152	46	57	60	0	0	0	0
Social benefits	14,810	15,377	14,839	14,136	17,641	14,322	18,578	19,435	20,980	22,649	24,450	26,394
Other expense	14,159	13,440	12,898	14,154	18,969	14,346	13,511	14,525	14,274	15,245	17,424	19,485
Current	5,219	4,761	5,354	4,852	5,644	5,086	5,242	5,666	6,661	7,156	7,668	8,330
Capital	8,940	8,679	7,544	9,302	13,325	9,260	8,270	8,859	7,613	8,089	9,756	11,155
Net acquisition of nonfinancial assets	**15,582**	**13,798**	**17,605**	**22,363**	**16,029**	**24,704**	**24,968**	**29,872**	**32,713**	**37,204**	**41,168**	**46,588**
Gross Operating Balance	**-491**	**4,521**	**13,254**	**16,581**	**13,367**	**16,904**	**18,288**	**22,672**	**26,296**	**30,542**	**34,403**	**39,601**
Net lending (+)/borrowing (-)	**-16,073**	**-9,277**	**-4,351**	**-5,782**	**-2,662**	**-7,800**	**-6,680**	**-7,200**	**-6,417**	**-6,662**	**-6,765**	**-6,988**
Net financial transactions	**-16,073**	**-9,277**	**-4,351**	**-5,782**	**-2,662**	**-7,800**	**-6,680**	**-7,200**	**-6,417**	**-6,662**	**-6,765**	**-6,988**
Net acquisition of financial assets	**746**	**6,688**	**4,122**	**-5,795**	**365**	**-4,415**	**-4,212**	**5,852**	**8,966**	**-5,519**	**-8,770**	**-21,907**
Foreign	-27	0	0	0	-49	0	0	0	0	0	0	0
Currency and deposits	-27	0	0	0	-49	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	773	6,688	4,122	-5,795	413	-4,415	-4,212	5,852	8,966	-5,519	-8,770	-21,907
Currency and deposits	1,178	6,690	3,578	-7,495	-2,539	-5,415	-5,284	5,252	8,486	-5,903	-9,070	-22,207
Debt securities	0	0	0	0	0	0	0	0	0	0	0	0
Loans	-405	-2	544	1,700	2,952	1,000	1,071	600	480	384	300	300
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**16,819**	**15,965**	**8,473**	**-13**	**3,027**	**3,385**	**2,468**	**13,053**	**15,383**	**1,143**	**-2,005**	**-14,919**
Foreign	10,332	14,224	9,795	7,968	5,151	10,427	28,889	6,456	13,112	13,981	7,881	4,702
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	10,299	14,274	9,760	7,919	5,127	10,462	28,923	6,555	13,270	14,138	8,039	4,859
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/	195	100	215	249	224	176	176	149	120	120	120	120
Other external	-163	-151	-180	-201	-200	-211	-211	-249	-277	-277	-277	-277
Domestic	8,215	3,850	493	-5,791	-73	-4,744	-24,121	8,902	4,797	-10,185	-7,326	-16,964
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	7,465	2,930	2,697	-1,631	4,768	-1,473	-22,572	1,383	-1,266	-15,701	-11,326	-20,964
Other accounts payable	455	0	-3,621	-7,959	-7,073	-7,555	-5,954	0	0	0	0	0
PPPs/other	295	921	1,417	3,798	2,232	4,284	4,405	7,518	6,063	5,515	4,000	4,000
Adjustment for HIPC debt relief 2/	-1,728	-2,109	-1,815	-2,189	-2,051	-2,298	-2,301	-2,305	-2,526	-2,652	-2,560	-2,656
Memorandum items:												
Net lending minus net interest payments	-14,285	-4,546	520	-852	1,558	-306	-538	639	2,540	2,334	1,821	1,269
Gross total debt	171,059	189,840	188,628	201,451	208,897	222,375	232,408	256,695	284,540	299,424	309,766	306,114
Nominal GDP (in billions of Lempiras)	415	441	457	481	491	515	541	582	628	678	732	790

Sources: Honduran authorities, Fund staff estimates and projections.

1/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

2/ Offsets the HIPC/MDRI debt relief accounted as grants.

Table 3b. Honduras: Statement of Operations of the Nonfinancial Public Sector

(In percent of GDP)

	2014	2015		2016		2017		Projections				
	Act.	Prog.	Act.	Rev. Prog.	Prel.	Prog.	Proj.	2018	2019	2020	2021	2022
Revenue	**31.0**	**31.4**	**31.2**	**31.0**	**32.6**	**31.2**	**32.0**	**32.4**	**32.4**	**32.6**	**32.5**	**32.6**
Taxes	17.1	17.2	18.0	17.9	19.5	18.0	19.1	18.9	19.0	19.0	19.0	19.2
Taxes on income	5.2	5.3	5.5	5.5	6.1	5.5	5.9	5.9	6.0	6.0	6.0	6.1
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.1	10.2	10.6	10.8	11.1	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Taxes on foreign trade	0.7	0.7	0.8	0.7	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other taxes	1.0	1.0	1.0	1.0	1.5	0.9	1.5	1.5	1.5	1.5	1.5	1.5
Social contributions	3.0	3.1	3.0	3.0	3.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Grants	0.8	0.8	0.9	0.7	0.8	0.7	0.7	0.6	0.7	0.7	0.7	0.7
Other revenue	10.1	10.3	9.4	9.4	9.1	9.5	9.3	9.9	9.7	9.8	9.8	9.8
Expenditure	**34.9**	**33.6**	**32.2**	**32.2**	**33.1**	**32.7**	**33.2**	**33.6**	**33.4**	**33.6**	**33.5**	**33.5**
Expense	**31.2**	**30.4**	**28.3**	**27.6**	**29.9**	**27.9**	**28.6**	**28.5**	**28.2**	**28.1**	**27.8**	**27.6**
Compensation of employees	12.7	12.2	11.7	11.5	11.4	11.6	11.4	11.5	11.5	11.5	11.5	11.5
Purchases of goods and services	9.4	8.8	8.2	7.7	8.2	7.8	8.4	8.1	8.2	8.2	8.1	8.0
Interest	2.1	2.9	2.3	2.5	2.8	2.9	2.8	3.1	2.9	2.8	2.5	2.3
Domestic	1.2	1.9	1.4	1.5	1.8	2.0	1.6	1.7	1.6	1.3	1.2	1.1
Foreign	0.9	1.0	0.9	1.0	1.0	0.9	1.2	1.4	1.4	1.4	1.3	1.3
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	3.6	3.4	3.2	2.9	3.6	2.8	3.4	3.3	3.3	3.3	3.3	3.3
Other expense	3.4	3.1	2.8	2.9	3.9	2.8	2.5	2.5	2.3	2.2	2.4	2.5
Current	1.3	1.2	1.2	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.0	1.1
Capital	2.2	2.0	1.6	1.9	2.7	1.8	1.5	1.5	1.2	1.2	1.3	1.4
Net acquisition of nonfinancial assets	**3.8**	**3.1**	**3.8**	**4.6**	**3.3**	**4.8**	**4.6**	**5.1**	**5.2**	**5.5**	**5.6**	**5.9**
Gross Operating Balance	**-0.1**	**1.0**	**2.9**	**3.4**	**2.7**	**3.3**	**3.4**	**3.9**	**4.2**	**4.5**	**4.7**	**5.0**
Net lending (+)/borrowing (-)	**-3.9**	**-2.2**	**-1.0**	**-1.2**	**-0.5**	**-1.5**	**-1.2**	**-1.2**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Net financial transactions	**-3.9**	**-2.2**	**-1.0**	**-1.2**	**-0.5**	**-1.5**	**-1.2**	**-1.2**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Net acquisition of financial assets	**0.2**	**-1.5**	**0.9**	**-1.2**	**0.1**	**-0.9**	**-0.8**	**1.0**	**1.4**	**-0.8**	**-1.2**	**-2.8**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.2	-1.5	0.9	-1.2	0.1	-0.9	-0.8	1.0	1.4	-0.8	-1.2	-2.8
Currency and deposits	0.3	-1.5	0.8	-1.6	-0.5	-1.1	-1.0	0.9	1.4	-0.9	-1.2	-2.8
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.1	0.0	0.1	0.4	0.6	0.2	0.2	0.1	0.1	0.1	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**4.1**	**0.6**	**1.9**	**0.0**	**0.6**	**0.7**	**0.5**	**2.2**	**2.4**	**0.2**	**-0.3**	**-1.9**
Foreign	2.5	3.5	2.1	1.7	1.0	2.0	5.3	1.1	2.1	2.1	1.1	0.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.5	3.5	2.1	1.6	1.0	2.0	5.3	1.1	2.1	2.1	1.1	0.6
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.0	-2.4	0.1	-1.2	0.0	-0.9	-4.5	1.5	0.8	-1.5	-1.0	-2.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.8	0.2	0.6	-0.3	1.0	-0.3	-4.2	0.2	-0.2	-2.3	-1.5	-2.7
Other accounts payable	0.1	-2.9	-0.8	-1.7	-1.4	-1.5	-1.1	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.1	0.2	0.3	0.8	0.5	0.8	0.8	1.3	1.0	0.8	0.5	0.5
Adjustment for HIPC debt relief 2/	-0.4	-0.5	-0.4	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3
Memorandum items:												
Net lending minus net interest payments	-3.4	-1.0	0.1	-0.2	0.3	-0.1	-0.1	0.1	0.4	0.3	0.2	0.2
Gross total debt	41.3	43.5	41.2	41.9	42.5	43.2	43.0	44.1	45.3	44.2	42.2	38.7
Nominal GDP (in billions of Lempiras)	414.6	440.5	457.4	481.3	491.3	514.7	541.0	581.9	628.1	678.1	732.0	790.2

Sources: Honduran authorities, Fund staff estimates and projections.

1/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

2/ Offsets the HIPC/MDRI debt relief accounted as grants.

Table 4. Honduras: Summary Accounts of Central Bank and Financial System

(In millions of Lempiras; end-December)

	2014	2015	Prel. 2016	Projections 2017	2018	2019	2020	2021	2022
				I. Central Bank					
Net International Reserves 1/	**75,648**	**85,495**	**91,370**	**102,958**	**114,794**	**127,441**	**141,708**	**157,767**	**176,624**
(In millions of US$)	3,504	3,809	3,868	4,273	4,538	4,798	5,081	5,439	5,883
Net International Reserves (in millions of US$) 2/	2,475	2,783	2,655	2,966	3,217	3,459	3,724	4,045	4,413
Net Domestic Assets	**-49,253**	**-56,043**	**-60,010**	**-67,970**	**-77,160**	**-86,814**	**-97,850**	**-110,421**	**-125,514**
Credit to the public sector (net)	6,101	3,368	9,645	-5,955	-2,993	-8,500	-12,349	-9,883	-3,698
Other depository institutions (net)	-58,135	-63,211	-74,216	-65,770	-74,071	-72,007	-72,296	-81,202	-96,583
Other financial institutions	6,700	8,026	10,277	10,277	10,132	8,198	6,265	4,331	2,398
Nonfinancial private sector	-202	-858	-214	-214	-226	-261	-296	-331	-366
Medium and long-term net foreign assets	155	1,038	956	975	1,024	1,075	1,129	1,174	1,215
Other items net	-3,872	-4,406	-6,457	-7,282	-11,025	-15,319	-20,302	-24,510	-28,479
Currency issue	**26,395**	**29,452**	**31,359**	**34,989**	**37,634**	**40,627**	**43,858**	**47,345**	**51,110**
				II. Other Depository Institutions					
Net Foreign Assets	**-11,845**	**-15,905**	**-11,185**	**-2,577**	**-6,098**	**-6,582**	**-7,106**	**-7,671**	**-8,281**
(In millions of US$)	-549	-709	-474	-107	-241	-248	-255	-264	-276
Foreign assets (million Lempiras)	12,123	10,568	12,220	23,191	21,619	23,338	25,194	27,197	29,360
Foreign assets (in million of US$)	562	471	517	963	855	879	903	938	978
Net Domestic Assets	**215,905**	**236,204**	**260,700**	**275,388**	**301,604**	**328,186**	**357,133**	**391,065**	**430,862**
Credit to the monetary authorities (net)	65,380	71,087	81,483	73,532	81,704	79,594	79,766	88,476	103,849
Credit to other financial institutions (net)	-28,165	-30,372	-31,865	-32,116	-37,664	-35,500	-42,407	-47,961	-53,963
Credit to the nonfinancial public sector (net)	2,526	534	-2,948	-9,477	-13,553	-16,519	-20,763	-24,846	-29,079
Central government	-9,968	-12,954	-16,042	-19,960	-22,406	-24,927	-29,128	-33,174	-37,403
Other nonfinancial public sector	8,469	9,460	9,123	6,416	4,619	3,838	3,432	3,003	2,575
Local governments	4,025	4,028	3,972	4,067	4,233	4,570	4,933	5,325	5,749
Credit to the private sector	226,349	249,894	276,787	308,309	343,673	379,330	418,970	460,913	506,527
Local currency	159,179	178,301	201,383	228,656	259,718	292,002	328,411	367,773	411,295
Foreign currency	67,170	71,593	75,403	79,653	83,954	87,328	90,559	93,141	95,232
Other items net	-50,185	-49,048	-62,757	-64,861	-72,556	-78,717	-78,434	-85,517	-96,472
Liabilities	**204,060**	**220,299**	**249,780**	**272,811**	**295,507**	**321,604**	**350,027**	**383,394**	**422,581**
Of which: Deposits in domestic currency	140,062	156,364	176,036	192,667	210,319	230,663	252,975	279,209	307,779
Of which: Deposits in foreign currency	62,989	62,609	72,425	78,693	83,626	89,256	95,233	102,221	112,681
				III. Financial System					
Net Foreign Assets	**60,412**	**66,933**	**77,386**	**97,583**	**105,898**	**118,060**	**131,804**	**147,297**	**165,544**
(In millions of US$)	2,798	2,982	3,276	4,050	4,186	4,445	4,726	5,078	5,514
Net Domestic Assets	**163,018**	**175,359**	**196,527**	**202,499**	**219,656**	**236,635**	**254,665**	**276,226**	**300,943**
Credit to the nonfinancial public sector	8,627	3,902	6,697	-15,431	-16,546	-25,019	-33,112	-34,728	-32,776
Credit to the private sector	226,349	249,894	276,787	308,309	343,673	379,330	418,970	460,913	506,527
Local currency	159,179	178,301	201,383	228,656	259,718	292,002	328,411	367,773	411,295
Foreign currency	67,170	71,593	75,403	79,653	83,954	87,328	90,559	93,141	95,232
Other assets net	-6,890	-5,646	-534	-21,660	-27,442	-27,498	-36,644	-44,402	-52,596
Other items net 3/	-65,068	-72,791	-86,423	-68,719	-80,028	-90,178	-94,549	-105,557	-120,211
Broad Money (M4)	**223,429**	**242,292**	**273,913**	**300,082**	**325,554**	**354,695**	**386,469**	**423,523**	**466,487**
				(Rate of growth 12 months)					
Currency issue	11.8	11.6	6.5	11.6	7.6	8.0	8.0	8.0	8.0
Currency in circulation	12.2	12.7	11.7	13.0	10.2	10.1	10.1	10.1	9.4
Broad money	13.2	8.4	13.1	9.6	8.5	9.0	9.0	9.6	10.1
Broad money (constant exchange rate)	11.9	7.4	11.6	9.0	7.2	7.6	7.7	8.6	9.2
Credit to the private sector	10.7	10.4	10.8	11.4	11.5	10.4	10.5	10.0	9.9
Credit to the private sector (constant exchange rate)	9.3	9.2	9.3	10.8	10.2	9.2	9.3	9.2	9.2
M1	13.5	14.7	11.0	13.6	10.5	10.0	10.0	10.0	9.2

Sources: Central Bank of Honduras and Fund staff estimates.

1/ Includes allocation of SDR 104.8 million in August, 2009.

2/ Excluding domestic liabilities in foreign currency and deposits of Hondutel.

3/ Includes the revaluation account reflecting changes in the value of assets due to exchange rate fluctuations.

Table 5. Honduras: Balance of Payments

			Prel.			Projections			
	2014	2015	2016	2017	2018	2019	2020	2021	2022
			(In millions of U.s. dollars; unless otherwise indicated)						
Current account	**-1,372**	**-1,144**	**-811**	**-920**	**-1,016**	**-966**	**-986**	**-1,034**	**-1,103**
Trade Account	-2,968	-2,909	-2,719	-3,019	-3,063	-3,101	-3,162	-3,315	-3,493
Exports f.o.b.	5,556	5,674	5,443	6,178	6,404	6,641	6,851	7,019	7,260
Maquila Net (exports-imports)	1,468	1,720	1,552	1,658	1,707	1,752	1,800	1,838	1,876
Coffee	839	986	883	972	1,061	1,179	1,262	1,288	1,313
Others	3,249	2,968	3,008	3,548	3,635	3,709	3,789	3,893	4,071
Imports f.o.b.	-8,523	-8,583	-8,162	-9,196	-9,466	-9,742	-10,014	-10,334	-10,753
Petroleum products	-1,970	-1,271	-1,089	-1,298	-1,341	-1,388	-1,448	-1,516	-1,578
Others	-6,554	-7,312	-7,072	-7,898	-8,125	-8,353	-8,566	-8,817	-9,175
Services (net)	-437	-690	-610	-647	-682	-691	-710	-734	-763
Income (net)	-1,606	-1,380	-1,473	-1,562	-1,668	-1,715	-1,782	-1,809	-1,870
Of which: payments on direct investments	-1,383	-1,183	-1,226	-1,275	-1,325	-1,362	-1,400	-1,447	-1,506
Transfers (net)	3,638	3,835	3,991	4,308	4,397	4,540	4,668	4,823	5,023
Of which: Remittances	3,353	3,650	3,847	4,155	4,238	4,357	4,480	4,628	4,821
Others	285	185	144	153	159	183	188	195	202
Capital and Financial account	**1,904**	**1,468**	**996**	**1,232**	**1,267**	**1,208**	**1,251**	**1,356**	**1,471**
Financial account	**1,750**	**1,327**	**857**	**1,068**	**1,098**	**1,033**	**1,072**	**1,171**	**1,278**
Direct investment (net)	1,315	1,113	801	1,102	1,137	1,186	1,240	1,322	1,388
Other private capital flows (net)	-33	-228	-93	-1,244	-302	-662	-685	-431	-272
Public sector borrowing (net)	468	442	149	1,210	263	509	517	280	162
Capital account	**154**	**141**	**139**	**163**	**170**	**174**	**179**	**185**	**193**
Errors and omissions	-87	-31	-132	0	0	0	0	0	0
Overall balance	**444**	**293**	**53**	**311**	**251**	**241**	**265**	**322**	**368**
Change in central bank reserves (- increase)	**-459**	**-303**	**-66**	**-311**	**-251**	**-242**	**-265**	**-322**	**-368**
Exceptional financing	**14**	**10**	**13**	**0**	**0**	**0**	**0**	**0**	**0**
			(In percent of GDP; unless otherwise indicated)						
Current account	**-7.0**	**-5.5**	**-3.8**	**-4.1**	**-4.3**	**-4.0**	**-4.0**	**-4.0**	**-4.1**
Trade Account	-15.1	-14.0	-12.7	-13.3	-13.0	-12.8	-12.7	-12.9	-13.0
Exports f.o.b.	28.2	27.4	25.5	27.2	27.2	27.4	27.5	27.3	27.1
Maquila net (exports-imports)	7.5	8.3	7.3	7.3	7.2	7.2	7.2	7.1	7.0
Coffee	4.3	4.8	4.1	4.3	4.5	4.9	5.1	5.0	4.9
Others	16.5	14.3	14.1	15.6	15.4	15.3	15.2	15.1	15.2
Imports f.o.b.	-43.3	-41.4	-38.2	-40.6	-40.2	-40.2	-40.2	-40.2	-40.2
Petroleum products	-10.0	-6.1	-5.1	-5.7	-5.7	-5.7	-5.8	-5.9	-5.9
Others	-33.3	-35.3	-33.1	-34.8	-34.5	-34.5	-34.4	-34.3	-34.3
Services (net)	-2.2	-3.3	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
Of which: tourism receipts	3.5	3.1	3.2	3.2	3.3	3.5	3.6	3.8	3.9
Income (net)	-8.2	-6.7	-6.9	-6.9	-7.1	-7.1	-7.2	-7.0	-7.0
Of which: payments on direct investments	-7.0	-5.7	-5.7	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6
Of which: public sector interest payments	-0.8	-0.9	-0.9	-1.1	-1.3	-1.4	-1.4	-1.3	-1.3
Transfers (net)	18.5	18.5	18.7	19.0	18.7	18.7	18.7	18.7	18.8
Of which: Remittances	17.0	17.6	18.0	18.3	18.0	18.0	18.0	18.0	18.0
Capital and Financial account	**9.7**	**7.1**	**4.7**	**5.4**	**5.4**	**5.0**	**5.0**	**5.3**	**5.5**
Financial account	**8.9**	**6.4**	**4.0**	**4.7**	**4.7**	**4.3**	**4.3**	**4.6**	**4.8**
Direct investment (net)	6.7	5.4	3.7	4.9	4.8	4.9	5.0	5.1	5.2
Other private capital flows (net)	-0.2	-1.1	-0.4	-5.5	-1.3	-2.7	-2.7	-1.7	-1.0
Public sector borrowing (net)	2.4	2.1	0.7	5.3	1.1	2.1	2.1	1.1	0.6
Disbursements	2.9	2.8	1.5	6.3	2.1	3.1	5.2	2.3	2.6
Of which:									
Multilateral	2.3	2.1	1.3	2.1	0.9	1.8	1.7	1.6	1.7
Eurobonds	0.0	0.0	0.0	3.1	0.0	0.0	2.0	0.0	0.0
Official budget support									
Amortization	-0.5	-0.7	-0.8	-1.0	-1.0	-1.0	-3.2	-1.2	-2.0
Capital account	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Errors and omissions	-0.4	-0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**2.3**	**1.4**	**0.2**	**1.4**	**1.1**	**1.0**	**1.1**	**1.3**	**1.4**
Change in central bank reserves (- increase)	**-2.3**	**-1.5**	**-0.3**	**-1.4**	**-1.1**	**-1.0**	**-1.1**	**-1.2**	**-1.4**
Exceptional financing	**0.1**	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Terms of trade (percent change)	4.4	6.8	-2.7	0.9	0.9	1.1	0.5	0.2	0.0
Terms of trade, excluding maquila (percent change)	6.2	8.2	-4.6	-1.5	-1.6	-1.0	0.0		
Exports of goods (percent change)	4.0	0.9	-4.2	10.3	3.6	3.7	3.3	2.9	3.6
Of Which : volume growth (percent change)	2.3	2.9	1.6	6.9	2.1	2.2	2.4	2.1	2.1
Imports of goods (percent change)	1.2	0.1	-4.8	10.5	3.1	3.1	3.0	3.4	4.1
Of Which: volume growth (percent change)	4.0	9.1	-1.8	8.0	2.4	2.7	2.6	3.6	3.6
Gross reserves (end of period, millions of U.S. dollars)	3,698	3,992	4,172	4,483	4,734	4,976	5,241	5,562	5,930
In months of next year imports (excluding maquila)	4.3	4.8	4.5	4.7	4.8	4.9	5.0	5.1	5.2
Total external debt to GDP ratio (in percent)	36.5	36.0	35.1	38.3	37.9	38.8	39.9	39.9	39.1
Nominal GDP (millions of U.S. dollars)	19,688	20,729	21,367	22,675	23,562	24,224	24,905	25,731	26,774

Sources: Central Bank of Honduras; and Fund staff estimates and projections.

Table 6. Honduras: External Financing Needs and Sources

(In millions of U.S. dollars)

				Projections					
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Current account deficit	1,372	1,144	811	920	1,016	966	986	1,034	1,103
Debt amortizations	319	354	388	419	430	434	971	496	703
Subtotal (requirements)	**1,691**	**1,498**	**1,198**	**1,339**	**1,446**	**1,400**	**1,957**	**1,531**	**1,807**
Capital account flows (net)	154	141	139	163	170	174	179	185	193
Foreign direct investment (net)	1,315	1,113	801	1,102	1,137	1,186	1,240	1,322	1,388
Public sector borrowing (projects)	414	580	400	628	497	654	804	498	693
Bonds	0	0	0	700	0	0	500	0	0
Other capital flows (net) 1/	72	-205	-270	-1,043	-107	-472	-502	-154	-99
Change in reserves (+ decrease)	-264	-307	128	-311	-251	-242	-265	-322	-368
Subtotal (sources)	**1,690**	**1,321**	**1,198**	**1,239**	**1,446**	**1,300**	**1,957**	**1,531**	**1,807**
Financing gap	**0**	**177**	**0**	**100**	**0**	**100**	**0**	**0**	**0**
World Bank	0	50	0	0	0	0	0	0	0
IADB	0	100	0	100	0	100	0	0	0
IMF	0	0	0	0	0	0	0	0	0
EU	0	27	0	0	0	0	0	0	0

Sources: Central Bank of Honduras and Fund staff estimates and projections.

1/ Includes errors and omissions.

Table 7. Honduras: External Vulnerability Indicators

	2014	2015	Prel. 2016	Proj. 2017	2018	2019	2020	2021	2022
Exports of goods and services, annual percent change	5.8	-0.4	-2.9	9.8	4.0	3.9	3.4	3.0	3.7
Imports of goods and services, annual percent change	0.8	1.3	-4.2	9.9	3.5	3.2	3.1	3.4	4.1
Terms of trade (deterioration -)	4.4	6.8	-2.7	0.9	0.9	1.1	0.5	0.2	0.0
Real effective exchage rate (eop, depreciation -)	3.8	1.8	-2.2	…	…	…	…	…	…
Current account balance (percent of GDP)	-7.0	-5.5	-3.8	-4.1	-4.3	-4.0	-4.0	-4.0	-4.1
Capital and financial account (percent of GDP)	9.7	7.1	4.7	5.0	5.4	4.6	5.0	4.9	5.5
External public debt (percent of GDP)	28.3	28.6	28.6	32.3	32.2	33.5	34.6	34.6	33.9
Gross official reserves									
in millions of U.S. dollars	3,698	3,992	4,172	4,483	4,734	4,976	5,241	5,562	5,930
in percent of short-term external debt	1,041	1,187	1,360	1,499	1,621	1,746	1,802	1,865	1,925
Net international reserves									
in millions of U.S. dollars	2,475	2,783	2,655	2,966	3,217	3,459	3,724	4,045	4,413
in percent of short-term external debt	697	828	865	992	1,101	1,214	1,281	1,356	1,432

Sources: Central Bank of Honduras and Fund staff estimates and projections.

Table 8. Honduras: Medium-Term Macroeconomic Framework

(In percent of GDP. unless otherwise specified)

			Prel.			Projections			
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Growth and prices (in percent)									
Real GDP growth	3.1	3.6	3.6	4.0	3.6	3.8	3.8	3.8	3.8
GDP deflator	6.8	6.4	3.7	5.9	3.8	4.0	4.0	4.0	4.0
CPI inflation (eop)	5.8	2.4	3.3	4.5	4.0	4.0	4.0	4.0	4.0
Investment and saving									
Gross domestic investment	**23.0**	**25.6**	**23.2**	**25.9**	**25.7**	**25.8**	**26.0**	**26.4**	**26.9**
Private sector	19.2	21.8	19.9	21.3	20.5	20.6	20.5	20.8	21.0
Public sector	3.8	3.8	3.3	4.6	5.1	5.2	5.5	5.6	5.9
Gross national savings	**16.0**	**20.1**	**19.4**	**21.8**	**21.4**	**21.8**	**22.0**	**22.4**	**22.8**
Private sector	16.3	17.3	16.8	18.6	17.6	17.8	17.6	17.9	17.9
Public sector	-0.3	2.8	2.6	3.3	3.8	4.1	4.4	4.6	4.9
Balance of payments									
External current account	-7.0	-5.5	-3.8	-4.1	-4.3	-4.0	-4.0	-4.0	-4.1
Non oil current account	2.7	0.4	1.2	1.7	1.4	1.7	1.9	1.9	1.8
Gross international reserves (millions of dollars)	3,698	3,992	4,172	4,483	4,734	4,976	5,241	5,562	5,930
Terms of Trade (annual percent change)	4.4	6.8	-2.7	0.9	0.9	1.1	0.5	0.2	0.0
External debt	**36.5**	**36.0**	**35.1**	**38.3**	**37.9**	**38.8**	**39.9**	**39.9**	**39.1**
Nonfinancial public sector									
Revenue	31.0	31.2	32.6	32.0	32.4	32.4	32.6	32.5	32.6
Of which: Non-interest revenue and grants	29.4	29.9	30.7	30.3	30.7	30.9	31.1	31.2	31.3
Expenditure	34.9	32.2	33.1	33.2	33.6	33.4	33.6	33.5	33.5
Of which: Non-interest expenditure	32.8	29.8	30.3	30.4	30.6	30.5	30.8	30.9	31.2
Primary balance	**-3.4**	**0.1**	**0.3**	**-0.1**	**0.1**	**0.4**	**0.3**	**0.2**	**0.2**
Overall balance	**-3.9**	**-1.0**	**-0.5**	**-1.2**	**-1.2**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Central government									
Revenue	18.3	19.3	20.2	19.8	19.7	19.8	19.8	19.8	19.9
Expenditure	22.9	22.3	23.0	22.6	23.1	23.1	23.1	23.1	23.1
Of which: Non-interest expenditure	20.4	19.6	20.3	19.6	19.8	19.7	19.9	20.1	20.3
Primary balance	**-2.1**	**-0.4**	**-0.1**	**0.0**	**-0.4**	**-0.1**	**-0.3**	**-0.5**	**-0.6**
Overall balance	**-4.5**	**-3.0**	**-2.8**	**-2.8**	**-3.4**	**-3.3**	**-3.3**	**-3.3**	**-3.2**
Nonfinancial public sector debt									
Total	**41.3**	**41.2**	**42.5**	**43.0**	**44.1**	**45.3**	**44.2**	**42.3**	**38.7**
Domestic debt	12.9	12.8	13.7	10.9	11.7	11.6	9.2	7.5	4.8
External debt	28.4	28.5	28.8	32.1	32.5	33.7	35.0	34.8	34.0
Broad money (percentage change)	13.2	8.4	13.1	9.6	8.5	9.0	9.0	9.0	10.1
Private sector credit (percentage change)	10.7	10.4	10.8	11.4	11.5	10.4	10.5	9.5	9.9
Bank assets	96.1	97.0	97.4	98.6	102.1	104.4	106.9	108.4	110.4
Private credit	54.6	54.6	56.3	57.0	59.1	60.4	61.8	62.7	63.8
Non-performing loans to total loans (ratio)	3.3	3.0	2.9	2.8	2.6	2.5	2.3	2.2	2.1
Capital adequacy (percent)	14.6	14.0	13.8	…	…	…	…	…	…
Lending rate (eop, in percent)	15.9	14.0	14.3	14.0	13.7	13.7	13.7	13.4	13.2
Deposit rate (eop, in percent)	10.4	8.8	8.2	8.1	8.5	8.5	8.5	8.5	8.5
Memo items:									
Nominal GDP (in billions of lempiras)	415	457	491	541	582	628	678	732	790

Sources: Central Bank of Honduras, Ministry of Finance, and Fund staff estimates and projections.

Table 9. Honduras: Structure and Performance of the Banking Sector

(In percent, unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015	2016	2017M6
Total assets (in millions of Lempiras) 1/	**220,277**	**236,665**	**270,981**	**302,662**	**341,614**	**393,763**	**432,178**	**473,722**	**487,691**
(In percent of GDP)	80	79	81	84	91	95	94	96	92
Number of banks	**17**	**17**	**17**	**17**	**17**	**17**	**15**	**15**	15
Domestic	8	8	7	7	7	8	6	6	6
Foreign	9	9	10	10	10	9	9	9	9
Bank concentration									
Number of banks accounting for at least									
25 percent of total assets	2	2	2	2	2	2	2	2	2
75 percent of total assets	6	6	6	6	6	6	5	5	5
Capital adequacy									
Regulatory capital to risk weighted assets (RWA)	14.3	14.9	14.9	14.7	14.5	14.6	14.0	13.8	13.7
Capital (net worth) to assets	9.3	9.2	9.1	9.3	9.1	9.2	8.7	8.7	8.6
Asset quality and composition									
Nonperforming loans(NPLs) to total loans 2/	4.7	3.7	2.9	3.3	3.4	3.3	3.0	2.9	2.6
NPLs net of provisions to capital 2/	4.2	-4.4	-6.5	-4.6	-5.2	-5.2	-5.1	-3.4	-5.6
Restructured loans to regulatory capital	9.0	19.8	26.6	24.7	25.3	22.3	27.9	23.7	24.6
Non earning assets net of provisions									
to regulatory capital	47.2	47.9	46.9	45.0	44.1	51.2	54.6	48.4	41.6
Provisions to total loans	4.1	4.3	3.9	4.0	4.2	4.1	3.8	3.4	3.4
Provisions to NPLs 2/	86.2	118.9	135.0	121.8	123.7	125.5	126.1	117.4	133.0
Sectoral distribution of loans to total loans:									
Commerce	11.6	12.7	13.0	14.4	14.3	14.3	13.6	13.0	13.7
Construction and real estate	33.5	34.2	32.9	30.8	28.9	27.1	24.6	23.6	23.8
Agriculture and related sectors	0.0	0.0	0.0	4.4	4.7	5.0	5.9	7.2	n.a.
Industry	15.4	13.6	12.3	11.7	11.9	11.1	11.1	10.4	n.a.
Consumption	15.7	16.5	18.3	20.5	21.9	21.0	21.3	23.1	22.4
Other	0.0	0.0	0.0	18.2	18.0	21.3	23.5	22.5	n.a.
Profitability									
Return on assets (ROA)	1.2	1.3	1.3	1.5	1.4	1.4	1.4	1.3	1.3
Return on equity (ROE)	12.6	12.5	13.2	15.9	14.5	13.4	14.6	14.6	11.9
Interest margin to total income	48.1	48.2	48.9	52.1	47.5	52.1	52.8	52.9	52.3
Personnel expenses to administrative expenses	39.6	39.6	39.6	39.4	41.8	41.7	42.0	41.8	46.7
Liquidity									
Liquid assets to total assets	21.1	24.4	24.3	21.4	25.0	25.2	24.6	24.3	27.3
Liquid assets to total short-term liabilities	52.2	58.2	58.8	56.2	69.7	70.8	69.5	66.3	73.8
Dollarization									
Deposits in foreign currency in percent of total	30.0	29.5	29.1	30.6	30.6	32.0	29.8	30.2	30.5
Credit in foreign currency in percent of total	25.1	28.3	30.1	31.2	33.5	34.7	33.2	32.1	31.7

Source: National Commission of Banking and Insurance.
1/ Includes contingent assets.
2/ As of 2012 NPLs include delinquency of restructured loans.

Table 10. Honduras: Financial Stability Heat Map and Credit Cycle

Honduras	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Overall Financial Sector Rating	M	M	M	M	M	M	M	M	M	M	M
Credit cycle	L	L	L	L	L	L	L	L	L	L	L
Change in credit / GDP ratio (pp, annual)	1.29	0.29	-0.54	-0.52	-0.58	0.04	0.86	0.37	0.77	1.70	0.44
Growth of credit / GDP (%, annual)	2.41	0.54	-0.98	-0.94	-1.05	0.07	1.58	0.68	1.42	3.12	0.80
Credit-to-GDP gap (st. dev)	-0.17	-1.14	-1.91	-1.88	-1.81	-1.60	-1.28	-1.35	-1.02	-0.38	-0.78
Balance Sheet Soundness	M	M	M	M	M	M	M	M	M	M	M
Balance Sheet Structural Risk	M	M	M	M	M	M	M	M	M	M	M
Deposit-to-loan ratio	93.8	96.2	98.8	99.0	97.5	97.3	98.2	98.3	96.9	97.3	101.4
FX liabilities % (of total liabilities)	37.1	38.0	36.2	36.5	36.4	36.1	36.0	35.3	35.2	35.3	31.8
FX loans % (of total loans)	33.5	34.0	34.9	33.6	32.9	32.5	32.9	31.0	30.8	31.4	31.6
Balance Sheet Buffers	L	L	L	L	L	L	L	L	L	L	L
Leverage	L	L	L	L	L	L	L	L	L	L	L
Leverage ratio (%)	9.3	9.2	9.0	8.8	8.9	8.7	8.7	8.6	8.6	8.7	8.6
Profitability	L	L	L	L	L	L	L	L	L	L	L
ROA	1.4	1.4	1.3	1.3	1.3	1.4	1.2	1.3	1.3	1.3	1.3
ROE	13.3	13.4	12.5	13.1	13.5	14.6	11.8	13.5	13.5	14.6	12.4
Asset quality	M	L	L	L	L	L	M	M	L	L	L
NPL ratio	4.0	3.3	3.4	3.4	3.7	3.1	3.7	3.6	3.5	2.9	2.6
NPL ratio change (%, annual)	7.7	-3.6	-7.7	-10.0	-7.4	-6.6	10.9	8.4	-4.9	-4.4	-30.5

Memo items:	2014Q3	2014Q4	2015Q1	2015Q2	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4	2017Q1
Credit-to-GDP (%)	55.0	54.6	54.2	54.4	54.4	54.6	55.1	54.7	55.2	56.3	55.5
Credit-to-GDP gap (%; HP filter)	1.5	0.8	0.1	0.1	-0.2	-0.3	0.0	-0.7	-0.4	0.4	-0.6
Credit growth (%; annual)	10.8	10.7	10.6	10.6	10.5	10.4	9.8	8.5	8.9	10.8	9.3
CAR (in %)	14.5	14.6	14.5	14.0	14.1	14.0	13.9	13.7	13.7	13.8	13.7
Tier 1 CAR (in %)	10.2	10.5	10.2	10.1	10.0	10.2	10.0	10.0	9.8	9.6	9.4

Sources: National Commission of Banks and IMF staff estimates.

Table 11. Honduras: Millennium Development Goals

	1990	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016
Goal 1: Eradicate extreme poverty and hunger											
Employment to population ratio, 15+, total (%)	58.3	60.9	61.7	59.6	61.1	61.6	62.3	62.6	61.9	60.8	61.6
Employment to population ratio, ages 15-24, total (%)	49.9	53.5	52.0	46.3	47.4	47.8	48.3	48.5	45.9	44.7	45.9
Poverty gap at $1.25 a day (PPP) (%)	10.8	13.3	8.1	11.4	5.4	7.9	9.3	7.7	6.0	..	..
Malnutrition prevalence, weight for age (% of children under 5)	15.8	19.2	12.5	8.6	..	..	7.1	..	..	..	..
Prevalence of undernourishment (% of population)	22.7	19.8	18.5	16.4	14.9	14.6	13.7	12.8	12.3	12.2	..
Goal 2: Achieve universal primary education											
Primary completion rate, total (% of relevant age group)	67.3	70.9	..	88.3	97.2	100.7	100.7	94.5	90.7	92.5	..
School enrollment, primary (% net)	..	..	..	95.6	96.1	97.5	97.3	93.8	94.0	93.0	..
Goal 3: Promote gender equality and empower women											
Proportion of seats held by women in national parliaments (%)	10.2	..	9.4	23.4	18.0	19.5	19.5	19.5	25.8	25.8	25.8
Ratio of girls to boys in primary and secondary education (%)	..	..	..	1.1	1.1	1.1	1.1	1.1	1.0	1.1	..
Goal 4: Reduce child mortality											
Immunization, measles (% of children ages 12-23 months)	89.0	91.0	98.0	91.0	89.0	88.0	88.0	88.0	88.0	88.0	88.0
Mortality rate, infant (per 1,000 live births)	41.5	35.6	29.4	24.1	20.7	19.9	19.2	18.6	18.0	17.4	..
Mortality rate, under-5 (per 1,000 live births)	52.9	44.4	35.8	28.8	24.4	23.5	22.6	21.8	21.1	20.4	..
Goal 5: Improve maternal health											
Births attended by skilled health staff (% of total)	46.9	54.9	55.7	66.3	..	..	82.8	..	..	..	..
Contraceptive prevalence (% of women ages 15-49)	46.7	49.2	61.6	65.1	..	..	73.2	..	..	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	229.0	151.0	134.0	153.0	155.0	149.0	141.0	135.0	132.0	129.0	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases											
Incidence of tuberculosis (per 100,000 people)	..	..	108.0	66.0	47.0	52.0	48.0	46.0	43.0	43.0	..
Prevalence of HIV, total (% of population ages 15-49)	1.0	1.3	1.0	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Tuberculosis case detection rate (%, all forms)	..	..	74.0	69.0	82.0	82.0	82.0	82.0	81.0	83.0	..
Goal 7: Ensure environment sustainability											
CO2 emissions (metric tons per capita)	0.6	0.7	0.9	0.9	1.0	1.1	1.1	1.0	1.1	..	..
Forest area (% of land area)	69.6	63.4	56.1	50.7	46.4	45.3	44.3	43.2	42.1	41.0	..
Improved sanitation facilities (% of population with access)	51.3	57.4	64.7	71.9	77.4	78.7	80.0	81.3	82.6	82.6	..
Improved water source (% of population with access)	74.7	77.8	81.5	85.2	88.0	88.7	89.3	90.0	90.6	91.2	..
Terrestrial protected areas (% of total land area)	..	..	..	..	..	..	..	..	21.6	..	..
Goal 8: Develop a global partnership for development											
Internet users (per 100 people)	..	0.0	1.4	7.8	11.1	15.9	18.1	17.8	19.1	20.4	..
Mobile cellular subscriptions (per 100 people)	0.0	0.0	3.7	31.8	124.7	103.7	92.9	95.9	93.5	95.5	91.2

Source: Millenium Development Goals, World Bank.

Table 12. Honduras: Disbursements, Purchases, and Timing of Reviews Under the SCF/SBA Arrangements

		Amount (millions of SDRs)			Percent of quota 1/		
Date of Availability	Conditions	Total	SCF	SBA 2/	Total	SCF	SBA
December 3, 2014	Board approval of the arrangements	6.475	6.475	---	2.59	2.59	---
April 15, 2015	Observance of end-December 2014 performance criteria and continuous performance criteria and completion of first review	3.238	3.238	---	1.30	1.30	---
October 15, 2015	Observance of end-June 2015 performance criteria and continuous performance criteria and completion of second review	3.238	3.238	---	1.30	1.30	---
April 15, 2016	Observance of end-December 2015 performance criteria and continuous performance criteria and completion of third review.	19.425	19.425	---	7.78	7.78	---
October 26, 2016	Observance of end-June 2016 performance criteria and continuous performance criteria and completion of fourth review (SCF) and third and fourth reviews (SBA)	89.500	19.425	70.075 3/	35.83	7.78	28.05
April 15, 2017	Observance of end-December 2016 performance criteria and continuous performance criteria and completion of fifth review	3.8125		3.8125	1.53		1.53
October 15, 2017	Observance of end-June 2017 performance criteria and continuous performance criteria and completion of sixth review	3.8125		3.8125	1.53		1.53
	Total	129.500	51.80	77.700	51.84	20.74	31.11

Honduras' quota is currently SDR 249.8 million. Prior to the effectiveness of Honduras's quota increase, its quota was SDR 129.5 million.
See Press Release No. 16/25 on January 27, 2016 (http://www.imf.org/external/np/sec/pr/2016/pr1625a.htm) for more information
http://www.imf.org/external/np/sec/pr/2016/pr1625a.htm

Source: IMF staff estimates.

1/ Refers to current quota.

2/ Revisions to this column reflect the rephasing approved by the Board on October 26, 2016. This rephasing was necessary to take into account the increase in Honduras's First Credit Tranche as a result of its quota increase under the Fourteenth General Review of Quota.

For clarity, historical information is not shown.

3/ Of this amount of SDR 70.075 million, an amount of SDR 62.45 million, equivalent to Honduras's First Credit Tranche was available from when Honduras's quota increase under the Fourteenth General Review of Quotas became effective and is not subject to phasing or performance clauses. The remaining amount of SDR 7.625 million was available upon completion of the combined third and fourth reviews.

Table 13. Honduras: Indicators of Fund Credit

(As of August 31, 2017; in units indicated)

	2013	2014	2015	2016	Projections 2017	2018	2019	2020	2021
Existing Fund credit									
Stock, in millions of SDRs 1/	8.1	4.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs	4.1	4.1	3.1	1.0	0.0	0.0	0.0	0.0	0.0
SBA									
Stock, in millions of SDRs 1/	0.0	0.0	0.0	0.0	77.7	77.7	77.7	77.7	38.9
Disbursements, in millions of SDRs	0.0	0.0	0.0	0.0	77.7	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs 2/	0.0	0.0	0.0	0.0	0.5	1.6	1.6	1.6	40.2
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	38.9
Interest and charges, in millions of SDRs	0.0	0.0	0.0	0.0	0.5	1.6	1.6	1.6	1.3
Stock of existing and prospective Fund credit 1/									
In millions of SDRs	8.1	4.1	1.0	0.0	77.7	77.7	77.7	77.7	38.9
In percent of quota	3.3	1.6	0.4	0.0	31.1	31.1	31.1	31.1	15.6
In percent of exports of goods and services	0.1	0.1	0.0	0.0	1.1	1.1	1.0	1.0	0.5
In percent of external debt	0.2	0.1	0.0	0.0	1.2	1.2	1.2	1.1	0.5
In percent of gross reserves	0.4	0.2	0.0	0.0	2.4	2.2	2.1	2.0	0.9
Obligations to the Fund from existing arrangements and prospective Fund arrangements									
In millions of SDRs	4.1	4.1	3.1	1.0	0.6	1.7	1.8	7.6	40.2
In percent of quota	1.6	1.6	1.2	0.4	0.3	0.7	0.7	3.0	16.1
In percent of exports of goods and services	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.5
In percent of external debt	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.6
In percent of gross reserves	0.2	0.2	0.1	0.0	0.0	0.0	0.0	0.2	1.0

Source: IMF staff estimates.

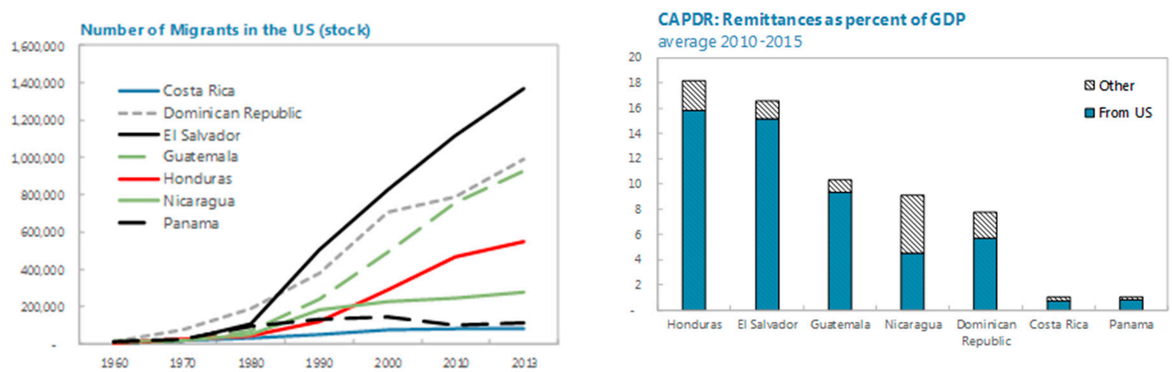
1/ End of period.

2/ Expected repayment schedule SBA, assuming full drawings and a rate of charge of 1.537 percent. The Honduran authorities have expressed their intention to treat the arrangement as precautionary, since balance of payment pressures have not materialized.

Annex I. Linkages with the U.S. Economy

1. **As in most of Central America, Honduras exposure to the U.S. economy is large**. Increasing migration to the U.S. since 1980, and especially in the wake of Hurricane Mitch in 1998, has resulted in more than 550 thousand Hondurans (6 percent of total population) residing in the U.S as of 2013 (Figure AI.1, left panel). In Honduras remittances from the U.S. currently stand at around 18 percent of GDP, only matched in magnitude by the flows received in El Salvador (Figure AI.1, right panel). According to the Central Bank of Honduras, remittances serve as a main source of income for more than 45 percent of those who receive them. On the back of potential changes to U.S. immigration policies, remittances have increased by 13.5 percent (y/y) in the first half of 2017 (in 2016 remittances grew by 5.4 percent).

Figure AI.1. Migration and Remittances

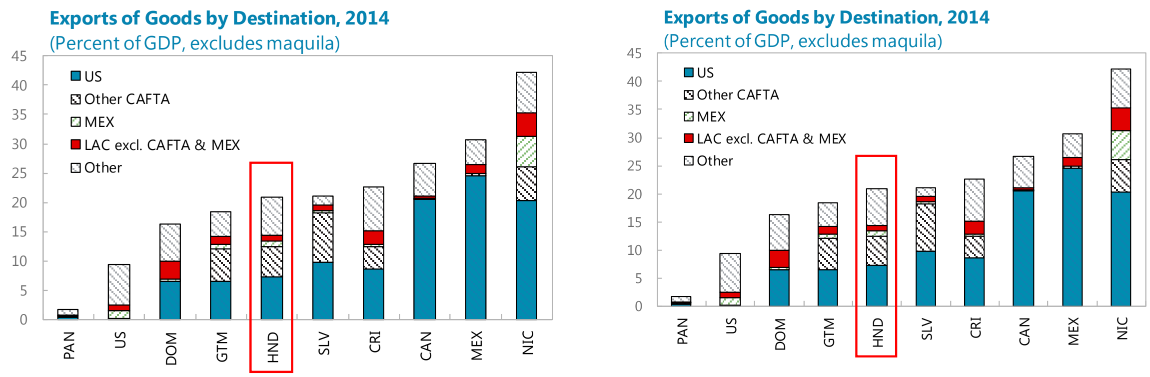


Sources: World Bank, United Nations, and Staff calculations.

2. **About one-third of Honduras' goods exports excluding maquila and two-thirds of total exports are sold to the U.S.** Compared with peers in Central America, Honduras' export base is slightly more diversified (Figure AI.2, left panel), as most coffee exports (12 percent of total exports) are sold to Europe. Direct exports to the U.S. are mainly of maquila products (textiles and auto parts; Figure AI.2, right panel). Accounting for indirect linkages, exposure to the U.S. through trade is likely somewhat larger given trade integration through CAFTA-DR and Mexico. Honduras has also attracted large FDI flows from the U.S., FDI stock from the U.S. stands at around 12 percent of GDP (Figure AI.3).

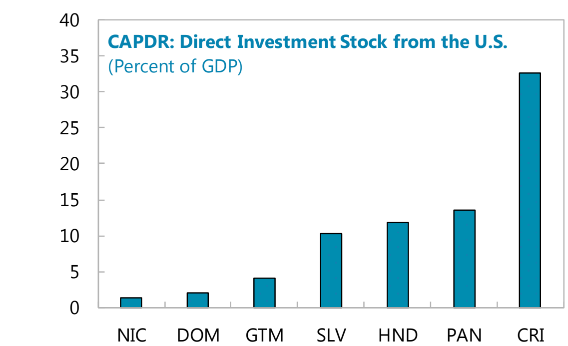
3. **Honduras economy routinely depends on the U.S. external demand and monetary policy.** Given Honduras' crawling-like exchange rate arrangement, the country is susceptible to changes in monetary conditions in the U.S., with inflation and credit conditions partly dependent on the U.S. monetary policy stance. Honduras exports and FDI depend on the U.S. demand. Remittances often react to changes in U.S. labor market conditions for Latino workers. Staff estimates that, overall, a one-percentage-point growth increase in the U.S. leads to about 0.9 percentage points higher growth in Honduras, 0.4 percentage points above a simple average for the CAPDR countries.

Figure AI.2. Trade Linkages



Sources: COMTRADE, Direction of Trade Statistics, National agencies, and Staff calculations

Figure AI.3. FDI Linkages between Central America and the U.S.



Sources: CIDS, WEO Databases

4. **Spillovers from structural changes in the trade and immigration U.S. policy can be large**. Given large trade exposure to the U.S., staff estimates that reverting from CAFTA-DR tariffs to most-favored nation treatment could lead to a permanent loss in the level of annual GDP of 0.6 – 1.0 percent. Changes in immigration policies would affect Honduras comparatively more than its regional peers, with a negative impact on consumption and investment (in both human and physical capital) in the short- to medium-term. The direct annual impact on remittances of non-extension of the Temporary Protection Status (TPS) for Honduras stands at about US$300 million (1.5 percent of GDP).

Annex II. Debt Sustainability Analysis

Risk of external debt distress:	Moderate
Augmented by significant risks stemming from domestic public and/or private external debt?	No

The debt sustainability analysis (DSA) shows improved prospects relative to the previous review due to stronger macroeconomic outlook.[1] However, staff still assess the risk of debt distress as moderate.[2] Continued strengthening of institutions underpinning sound macroeconomic policies would be required for a future upgrade.

A. Background

1. **Honduras' public debt increased slightly in 2016**. After satisfactory implementation of the IMF-supported program, nonfinancial public sector (NFPS) gross public debt stood at 42½ percent of GDP in 2016, an increase of about 1 percentage point *vis-à-vis* 2015. In 2016, the fiscal accounts posted a record low deficit of ½ percent of GDP. The NFPS public debt stock presented in this annex updates the stock of unpaid claims identified at the beginning of the program with results of the audit. It also includes the outstanding liabilities from the security tax trust fund around ½ percent of GDP.[3] Additionally, at the onset of the Fund-supported program, the authorities adopted the IPSAS-32 standard for reporting PPP operations in the fiscal accounts, the net stock of liabilities stemming from PPPs is also included into the gross public debt stock (½ percent of GDP).[4] In January 2017 the authorities issued US$700 million in international markets. Because of strong confidence in Honduras' economic outlook supported by the program implementation, the demand for the bonds was around US$5 billion, well above the amount placed. The yield also reached an historical minimum of 6¼ percent (see also EMBI spread chart below).

2. **Public debt is mostly with foreign creditors.** The fraction of public debt that is external rose from 67 percent to about 73 percent after the January 2017 bond issuance. The main external lenders to Honduras are the Inter-American Development Bank (IADB), the Central American Bank for Economic Integration (BCIE), and the World Bank. Debt to these institutions carries long maturities but only the IADB continues to provide loans on concessional terms (i.e., with a grant element of at least 35 percent). Domestic public debt is mainly to commercial banks, has a shorter—though rising—maturity (about 3 years), and carries a higher real interest rate.

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[1] See *Annex I* of *Honduras : 2016 Article IV Consultation, Third and Fourth Reviews under the Stand-By Arrangement and the Arrangement under the Standby Credit Facility-Press Release and Staff Report* (IMF Country Report No. 16/362).

[2] Honduras three-year average CPIA score is 3.41 and its policy performance category is medium.

[3] Debt from the security tax trust fund is not recorded as public debt by the authorities because of legal considerations, however, as the fund is financed by an earmarked FTT it should be classified as a general government entity according to the GFSM.

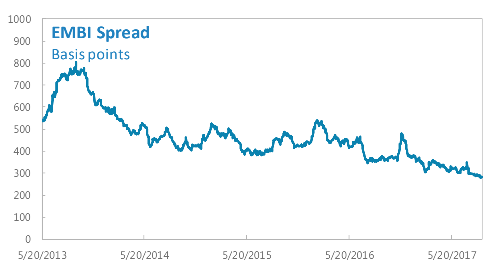
[4] See International Financial Reporting Standards (2013) for details on the IPSAS-32 accounting standard.

B. Underlying Assumptions

3. **Economic growth.** The baseline scenario assumes that growth in Honduras will reach 4 percent in 2017 driven by private consumption, exports and public investment, and moderate to about 3.8 percent in the long-run—in line with closing the output gap in the medium term. This reflects a slightly stronger outlook compared to the previous DSA for 2017, where growth was expected to reach 3.7 percent, on account of stronger-than-expected remittances growth and non-*maquila* exports that are benefiting from better terms of trade and a recovery in coffee production that had been suffering from a coffee rust outbreak. Risks to the macroeconomic outlook are tilted to the downside. Tighter U.S. immigration policy, including deportations, may reduce remittances, increase local labor market pressures and reduce output growth.

4. **Fiscal policy.** As in the previous DSA and consistent with the fiscal responsibility law (FRL) we expect that fiscal projections continue to be anchored by the FRL's rules. The law states a NFPS deficit ceiling of 1 percent of GDP from 2019 onwards and a limit in the nominal increase in current spending (around 7 percent). Our baseline scenario factors in a cumulative fiscal adjustment (measured using the primary balance) of about 7 percent of GDP during the program period (2014–17), with the primary balance becoming consistently positive starting in 2018. The fiscal consolidation included a combination of higher tax revenues (about 3½ percent of GDP) and lower expenditures (about 5½ percent of GDP).[5] On the revenue side, the main elements were an increase in tax rates and the adoption of anti-evasion measures geared to strengthen revenue administration; on the spending side, key elements were the rightsizing in public employment and reshaping the role of the state in strategic sectors such as energy and telecommunications. The fiscal deficit is projected to be within the law's parameters and the authorities medium term fiscal framework (see ¶10).

5. **Fiscal institutions.** Consolidating the role of the FRL as the cornerstone of macroeconomic policies is the critical challenge for the next years. On this front, the experience in Latin America with the adoption of a FRL is mixed. In some countries, a FRL failed to institutionalize fiscal prudence and in others it served to catalyze fiscal reforms and became the backbone of sound policy making. The implementation of the FRL in Honduras will require developing institutions, strengthening commitment, and fostering transparency and accountability across all levels of government. This process would need time to mature and therefore should be considered a medium-term target.



Source: Bloomberg.

6. **Public sector financing.** Financing of the public sector is assumed to come mainly from external sources. The financing mix is expected to change toward less concessional sources compared to recent years (Table A3), including with multilateral institutions and external capital markets, and in line with Honduras increasing ability to tap international markets.

[5] Despite the higher tax collection, the contribution of total revenues to the adjustment was lower (1½ percent of GDP) because of the decline in other revenues particularly ENEE's tariffs which are linked to oil prices.

7. **External sector.** The external current account deficit is projected to decline from 5½ percent of GDP in 2015 to about 4 percent by 2022, and stabilize slightly at around 3½ percent of GDP over the longer term. The external position is expected to improve over the medium to long-term owing to supportive macroeconomic policies and better terms of trade. The improvement in the current account reflects favorable external conditions (including higher coffee and maquila exports), and a stronger macroeconomic policy mix (fiscal consolidation based on reaching the targets stated in the FRL). As in the previous DSA, the current account deficit continues to be financed through foreign direct investment and, to a lesser extent, public sector borrowing, with very small private sector flows. This allows international reserves to increase to about 5 months of non-*maquila* imports by 2018.

C. External DSA

8. **External debt is expected to start decreasing around 2020** (Table AII.1). External debt ratios are projected to peak at about 39 percent of GDP in 2020, from about 36 percent of GDP in 2016. The share of external debt in total public debt rises slowly to about 78 percent by 2020. The increase takes place as total debt decreases substantially due to fiscal consolidation. Private external debt is around 5 percent of GDP.

Selected Macroeconomic Indicators, Current vs. Previous DSS

	2015	2016	2017	2018	Long term 1/
Real GDP growth (percent)					
Current DSA	3.6	3.6	4.0	3.6	3.8
Previous DSA	3.6	3.6	3.7	3.8	3.8
GDP deflator growth (percent)					
Current DSA	6.4	3.7	5.9	3.8	4.4
Previous DSA	6.3	3.0	3.1	4.3	4.5
Primary balance (% of GDP)					
Current DSA	-0.3	-0.3	-0.1	-0.1	0.6
Previous DSA	0.1	0.0	0.1	0.4	-0.1
Current account balance (% of GDP)					
Current DSA	-5.5	-3.8	-4.1	-4.3	-3.7
Previous DSA	-6.3	-5.9	-5.7	-5.7	-4.6
Net FDI (% of GDP)					
Current DSA	5.4	3.7	4.9	4.8	5.2
Previous DSA	5.4	5.7	6.1	6.0	6.4

Source: IMF staff estimates.

1/ Defined as the last 15 years of the projection period. For the current DSA, the long term covers the period 2023-37, whereas for the previous DSA it covered 2022-36.

9. **External debt ratios remain within indicative thresholds in most scenarios.**[6] The ratios for the PV of public debt and public debt service remain below their indicative thresholds in most scenarios throughout the projection period. External public debt remains initially stable and starts to decline earlier than in the previous DSA due to stronger than expected fiscal consolidation. Under most extreme shocks (one-time 30 percent depreciation), the debt service to revenue ratio threshold is marginally exceeded in 2020 and 2027, reflecting the amortizations of global bonds with balloon payments. The ratio of debt service to exports and remittances remain well below its threshold under all scenarios.

10. **Most indicators remain within indicative thresholds in the baseline scenario under the probability approach**. Figure AII.2 reports the results from the probability approach. Most ratios remain within indicative thresholds under the baseline scenario. Under the most extreme shock (an export shock), the threshold for the PV of debt to GDP ratio is breached initially and only returns to levels below the threshold in the late 2020s. The ratio of debt service to revenue is breached only in 2020 and 2027 under the most extreme scenario (a one-time 30 percent depreciation), reflecting the bullet payments of recent bond issuances. Going forward, some of the policy reforms that the authorities have embarked upon would increase the overall flexibility and dynamism of the economy to cushion some of these shocks. The ongoing scaling up of public sector investment in high-priority infrastructure would increase overall economy-wide productivity growth and lead to the development of other sectors, thus helping to make the economy more diversified and resilient to export shocks, such as the one mentioned above.

Baseline vs. Customized Scenario 1/

	2017	2018	2019	Long term 2/
Real GDP growth (percent)				
Baseline	4.0	3.6	3.8	3.8
Customized	2.6	2.5	2.8	3.5
Average interest rate on new external debt				
Baseline	4.3	4.3	4.3	4.3
Customized	5.3	5.3	5.3	5.3
Fiscal balance				
Baseline	-1.0	-1.0	-1.0	-0.6
Customized	-1.0	-3.0	-2.7	-1.0

Source: IMF staff estimates.

1/ In the customized scenario, (i) real GDP growth is 2.6 percent in 2017 and 2.5 in 2018, and rises on average 0.25 percentage points per year to reach 3.5 percent in 2021, staying at this level for the remainder of the DSA period; (ii) financing conditions from external capital markets deteriorate permanently, raising the average interest rate on new external debt by 100 basis points; and (iii) the overall deficit of the CPS increases by 2 percent of GDP in 2018 compared to the baseline and then fades out partially at a constant rate of 15 percent during the DSA period.

2/ Defined as the last 15 years of the projection period. For the current DSA, 2023-37.

11. **External debt indicators appear resilient to a customized scenario combining negative real, fiscal and financing shocks.** The customized scenario aims at capturing possible

[6] Honduras has large remittances inflows — about 18 percent of GDP. Therefore, the indicative external DSA thresholds reported are remittances-adjusted as per the DSA template.

downside risks and key vulnerabilities in Honduras. It includes negative shocks to GDP growth, which could arise from weaker external conditions; tighter external financing conditions that could be associated with negative developments in international financial markets; a weaker fiscal position from possible slippages in the implementation of the fiscal responsibility law.[7] In this scenario, external public debt slightly rises initially but remains below the indicative threshold and starts to decline in the early-2020s. The ratio of debt service to exports and remittances, and to revenue also remain below their indicative thresholds.

D. Public DSA

12. **Public debt ratios are expected to peak in 2019 and then start to decline subsequently** (Table AII.3). Public debt is projected to peak at about 45 percent of GDP in 2019 (up from 43½ percent of GDP in 2016) and start falling slowly as fiscal consolidation proceeds and interest payments decline reaching 33.3 percent of GDP by 2027. In present value terms, the public-debt ratio is expected to peak at around 41 percent of GDP in 2019 and fall to less than 30 percent of GDP in the late 2020s. The public debt dynamics remains somewhat vulnerable to both policy-related and exogenous shocks, especially to those related to economic growth and fiscal policy (Table AII.4). Only the scenario based on historical variables breaches the PV of debt-to-GDP ratio. This is because Honduras ran large fiscal deficits before the Fund-supported program. Since the beginning of the problem, the authorities have shown their commitment to fiscal prudence with a reduction of 7¼ points of GDP in the fiscal deficit in 3 years and their intention to pursue within this line has been clearly stated in the issuance of the fiscal responsibility law. Because of this, staff do not believe that the scenario based on historical behavior of fiscal variables is representative of the future evolution of the Honduran debt dynamics.

13. **The exposure to contingent liabilities seems to be limited**. Several measures recently taken by the authorities limit the exposure of public debt to contingent liabilities. For instance, by doubling the contribution rate for the social security institute, the authorities' have improved its actuarial position; the PPP framework law was amended to limit the provision of government guarantees for PPP operations; and by upgrading PPPs accounting rules to international standards the impact of firm PPP's operations is included into the regular spending or financing. The recent bond issuance is expected to be used to clear all ENEE's firm liabilities. This leaves only one contingent obligation for ENEE due to pre-program claims to energy providers which are still under dispute (estimated at around ¾ percent of GDP).

[7] Specifically, in the customized scenario (i) real GDP growth is 2.6 percent in 2017 and 2.5 in 2018, and rises on average 0.25 percentage points per year to reach 3.5 percent in 2022, staying at this level for the remainder of the DSA period; (ii) financing conditions from external capital markets deteriorate permanently, raising the average interest rate on new external debt by 100 basis points; and (iii) the overall deficit of the CPS increases by 2 percent of GDP in 2018 compared to the baseline and then fades out partially at a constant rate of 15 percent during the DSA period.

E. Conclusion

14. **Despite marked improvements on public and external debt indicators, including a satisfactory Fund-supported program implementation, the risk of external debt distress remains moderate.** Stronger than expected fiscal consolidation, and a reduced current account deficit strengthen the resilience of Honduras external position. The FRL passed in 2016 is a great achievement and sets the roadmap for continued structural fiscal reforms over the coming years. On the monetary front, the reform of the monetary policy framework has shown some progress but much more needs to be done. Proper implementation of such reforms over the next years are critical to generate a solid track record of commitment to sound macroeconomic policies, therefore, inclining future risk assessments towards a low distress rating.

Table AII.1. Honduras: External Debt Sustainability Framework, Baseline Scenario, 2014-37 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**37.2**	**36.5**	**35.9**			**38.2**	**37.9**	**38.4**	**38.6**	**37.9**	**37.2**		**31.0**	**19.2**	
of which: public and publicly guaranteed (PPG)	29.0	29.1	29.4			32.2	32.3	33.1	33.3	32.7	32.0		25.9	14.3	
Change in external debt	0.8	-0.7	-0.6			2.3	-0.3	0.5	0.2	-0.7	-0.7		-1.3	-1.0	
Identified net debt-creating flows	-2.0	-1.7	-1.0			-2.1	-1.8	-2.3	-2.4	-2.5	-2.4		-2.5	-2.5	
Non-interest current account deficit	**6.4**	**4.4**	**2.5**	**6.8**	**3.6**	**2.7**	**2.7**	**2.4**	**2.3**	**2.5**	**2.6**		**2.7**	**2.7**	2.7
Deficit in balance of goods and services	17.3	17.4	15.6			16.2	15.9	15.7	15.5	15.7	15.9		15.9	15.9	
Exports	47.4	44.8	42.2			43.7	43.7	44.2	44.4	44.3	44.1		44.1	44.1	
Imports	64.7	62.2	57.8			59.8	59.6	59.8	60.0	60.0	60.0		60.0	60.0	
Net current transfers (negative = inflow)	-18.5	-18.5	-18.7	-19.0	1.5	-19.0	-18.7	-18.7	-18.7	-18.7	-18.8		-18.7	-18.7	-18.7
of which: official	-0.6	-0.4	-0.2			-0.8	-0.8	-0.8	-0.8	-0.8	-0.8		-0.8	-0.8	
Other current account flows (negative = net inflow)	7.6	5.6	5.6			5.5	5.5	5.5	5.5	5.5	5.5		5.5	5.5	
Net FDI (negative = inflow)	**-6.7**	**-5.4**	**-3.7**	**-5.6**	**1.4**	**-4.9**	**-4.8**	**-4.9**	**-5.0**	**-5.1**	**-5.2**		**-5.2**	**-5.2**	-5.2
Endogenous debt dynamics 2/	**-1.7**	**-0.7**	**0.2**			**0.1**	**0.3**	**0.2**	**0.3**	**0.1**	**0.1**		**0.0**	**0.0**	
Contribution from nominal interest rate	0.6	1.1	1.3			1.4	1.6	1.6	1.7	1.6	1.5		1.2	0.7	
Contribution from real GDP growth	-1.0	-1.3	-1.3			-1.4	-1.3	-1.4	-1.4	-1.4	-1.4		-1.2	-0.6	
Contribution from price and exchange rate changes	-1.3	-0.6	0.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**2.8**	**1.0**	**0.5**			**4.5**	**1.5**	**2.8**	**2.6**	**1.8**	**1.7**		**1.2**	**1.5**	
of which: exceptional financing	-0.1	0.0	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	31.8			34.6	34.1	34.2	34.3	33.5	32.6		26.6	16.1	
In percent of exports	...	...	75.3			79.2	78.1	77.5	77.2	75.6	73.8		60.4	36.6	
PV of PPG external debt	**...**	**...**	**25.3**			**28.6**	**28.5**	**28.9**	**29.0**	**28.2**	**27.3**		**21.6**	**11.3**	
In percent of exports	**...**	**...**	**59.9**			**65.5**	**65.2**	**65.4**	**65.3**	**63.7**	**62.0**		**48.9**	**25.6**	
In percent of government revenues	**...**	**...**	**79.5**			**91.4**	**89.7**	**91.1**	**90.9**	**88.6**	**85.5**		**67.7**	**35.4**	
Debt service-to-exports ratio (in percent)	**21.1**	**22.7**	**26.6**			**16.1**	**16.0**	**15.4**	**19.8**	**15.1**	**16.6**		**19.1**	**14.3**	
PPG debt service-to-exports ratio (in percent)	**1.9**	**3.6**	**4.2**			**4.8**	**5.3**	**5.3**	**10.4**	**5.8**	**7.4**		**10.2**	**5.9**	
PPG debt service-to-revenue ratio (in percent)	**3.0**	**5.3**	**5.5**			**6.7**	**7.3**	**7.4**	**14.4**	**8.0**	**10.2**		**14.2**	**8.2**	
Total gross financing need (Billions of U.S. dollars)	2.2	2.3	2.5			1.4	1.5	1.3	1.8	1.3	1.6		2.4	2.8	
Non-interest current account deficit that stabilizes debt ratio	5.6	5.1	3.0			0.3	3.1	1.9	2.1	3.1	3.4		4.0	3.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.1	3.6	3.6	3.3	2.2	4.0	3.6	3.8	3.8	3.8	3.8	3.8	3.8	3.4	3.8
GDP deflator in US dollar terms (change in percent)	3.6	1.6	-0.5	3.7	3.9	2.0	0.3	-1.0	-1.0	-0.5	0.2	0.0	1.5	3.1	1.5
Effective interest rate (percent) 5/	1.7	3.2	3.7	2.6	0.6	4.2	4.3	4.4	4.5	4.2	4.2	4.3	3.9	3.5	3.8
Growth of exports of G&S (US dollar terms, in percent)	5.8	-0.4	-2.9	4.9	13.4	9.8	4.0	3.9	3.4	3.0	3.7	4.6	5.3	6.6	5.3
Growth of imports of G&S (US dollar terms, in percent)	0.8	1.3	-4.2	5.2	16.1	9.9	3.5	3.2	3.1	3.4	4.1	4.5	5.3	6.6	5.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	0.3	13.7	18.8	2.6	20.3	14.7	11.7	-1.2	14.7	13.7
Government revenues (excluding grants, in percent of GDP)	30.3	30.3	31.8			31.3	31.8	31.7	31.9	31.9	32.0		31.9	31.9	31.9
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.3			0.3	0.2	0.2	0.2	0.2	0.2		0.3	0.5	
of which: Grants	0.2	0.2	0.2			0.1	0.2	0.2	0.2	0.2	0.2		0.2	0.4	
of which: Concessional loans	0.2	0.1	0.1			0.2	0.0	0.0	0.1	0.0	0.1		0.0	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.7	0.9	1.2	0.8	1.1	1.1		0.6	1.0	0.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			10.3	36.9	35.4	16.2	42.0	32.5		15.0	35.4	45.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	19.7	20.7	21.4			22.7	23.6	24.2	24.9	25.7	26.8		34.4	58.4	
Nominal dollar GDP growth	6.8	5.3	3.1			6.1	3.9	2.8	2.8	3.3	4.1	3.8	5.3	6.6	5.3
PV of PPG external debt (in Billions of US dollars)			5.3			6.4	6.5	6.8	7.0	7.1	7.2		7.3	6.5	
(PVt-PVt-1)/GDPt-1 (in percent)						5.4	0.6	1.2	0.9	0.3	0.3	1.4	0.2	-0.2	-0.1
Gross workers' remittances (Billions of US dollars)	3.4	3.6	3.8			4.2	4.2	4.4	4.5	4.6	4.8		6.2	10.5	
PV of PPG external debt (in percent of GDP + remittances)	...	...	21.4			24.2	24.1	24.5	24.6	23.9	23.2		18.3	9.6	
PV of PPG external debt (in percent of exports + remittances)	...	...	42.0			46.1	46.2	46.5	46.5	45.3	44.0		34.7	18.2	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	2.9			3.4	3.8	3.8	7.4	4.1	5.2		7.3	4.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table AII.2. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-37

(In percent)

	Projections							
	2017	2018	2019	2020	2021	2022	**2027**	2037
PV of debt-to-GDP+remittances ratio								
Baseline	24	24	24	25	24	23	**18**	10
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	24	26	28	30	31	32	**37**	39
A2. New public sector loans on less favorable terms in 2017-2037 2/	24	24	25	26	26	25	**22**	16
A3. Customized 7/	24	24	25	26	26	25	22	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	24	24	25	25	24	24	**19**	10
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	24	27	35	36	35	34	**29**	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	24	24	24	24	23	22	**18**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	24	25	27	27	26	25	**20**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	24	25	29	29	28	28	**22**	11
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	24	32	32	32	31	30	**24**	12
PV of debt-to-exports+remittances ratio								
Baseline	46	46	46	46	45	44	**35**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	46	49	53	57	60	62	**73**	80
A2. New public sector loans on less favorable terms in 2017-2037 2/	46	46	47	49	48	48	**43**	30
A3. Customized 7/	55	55	57	58	58	58	49	24
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	46	45	45	45	44	43	**34**	18
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	46	57	79	79	78	77	**64**	30
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	46	45	45	45	44	43	**34**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	46	48	51	50	50	48	**39**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	46	50	60	60	59	58	**47**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	46	45	45	45	44	43	**34**	18
PV of debt-to-revenue ratio								
Baseline	91	90	91	91	89	86	**68**	35
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	91	95	102	108	112	115	**131**	137
A2. New public sector loans on less favorable terms in 2017-2037 2/	91	89	93	95	95	94	**83**	59
A3. Customized 7/	90	76	79	80	81	80	68	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	91	90	93	93	91	88	**69**	36
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	91	102	131	131	130	127	**106**	49
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	91	88	88	88	86	83	**66**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	91	92	99	99	97	94	**76**	38
B5. Combination of B1-B4 using one-half standard deviation shocks	91	94	106	106	104	101	**82**	40
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	91	125	127	126	123	119	**94**	49

Table AII.2. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-37 (concluded)

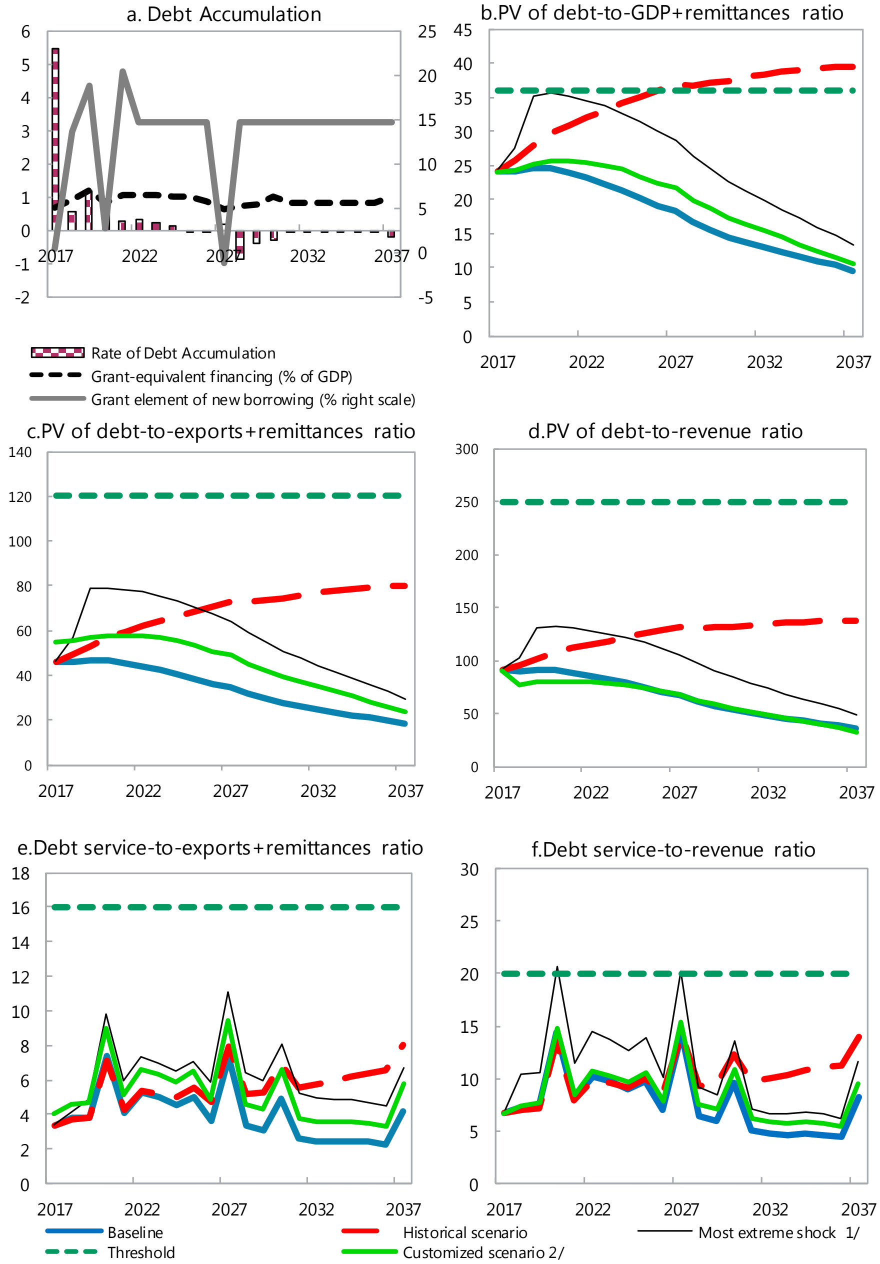
(In percent)

		Projections						
	2017	2018	2019	2020	2021	2022	2027	2037
Debt service-to-exports+remittances ratio								
Baseline	3	4	4	7	4	5	**7**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	3	4	4	7	4	5	**8**	8
A2. New public sector loans on less favorable terms in 2017-2037 2/	3	4	3	7	3	4	**3**	3
A3. Customized 7/	4	5	5	9	5	7	9	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	3	4	4	7	4	5	**7**	4
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	3	4	5	10	6	7	**11**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	3	4	4	7	4	5	**7**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	3	4	4	8	4	5	**8**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	4	8	5	6	**9**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	3	4	4	7	4	5	**7**	4
Debt service-to-revenue ratio								
Baseline	7	7	7	14	8	10	**14**	8
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	7	7	7	13	8	10	**14**	14
A2. New public sector loans on less favorable terms in 2017-2037 2/	7	7	6	13	7	8	**6**	5
A3. Customized 7/	7	7	8	15	8	11	15	9
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	7	8	8	15	8	11	**15**	9
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	7	7	8	16	10	12	**18**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	7	7	7	14	8	10	**14**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	7	7	8	15	8	11	**15**	9
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	15	9	11	**16**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	7	10	11	21	11	15	**20**	12
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	7	7	7	7	7	7	**7**	7

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.
7/ In the customized scenario, (i) real GDP growth is 2.6 percent in 2016 and 2.5 in 2017, and rises on average 0.25 percentage points per year to reach 3.5 percent in 2021, staying at this level for the remainder of the DSA period; (ii) financing conditions from external capital markets deteriorate permanently, raising the average interest rate on new external debt by 100 basis points; and (iii) the overall deficit of the CPS increases by 2 percent of GDP in 2015 compared to the baseline and then fades out partially at a constant rate of 15 percent during the DSA period.

Figure AII.1. Honduras: Indicators of Public and Publicly Guaranteed External Debt Including Remittances, 2017-37 1/

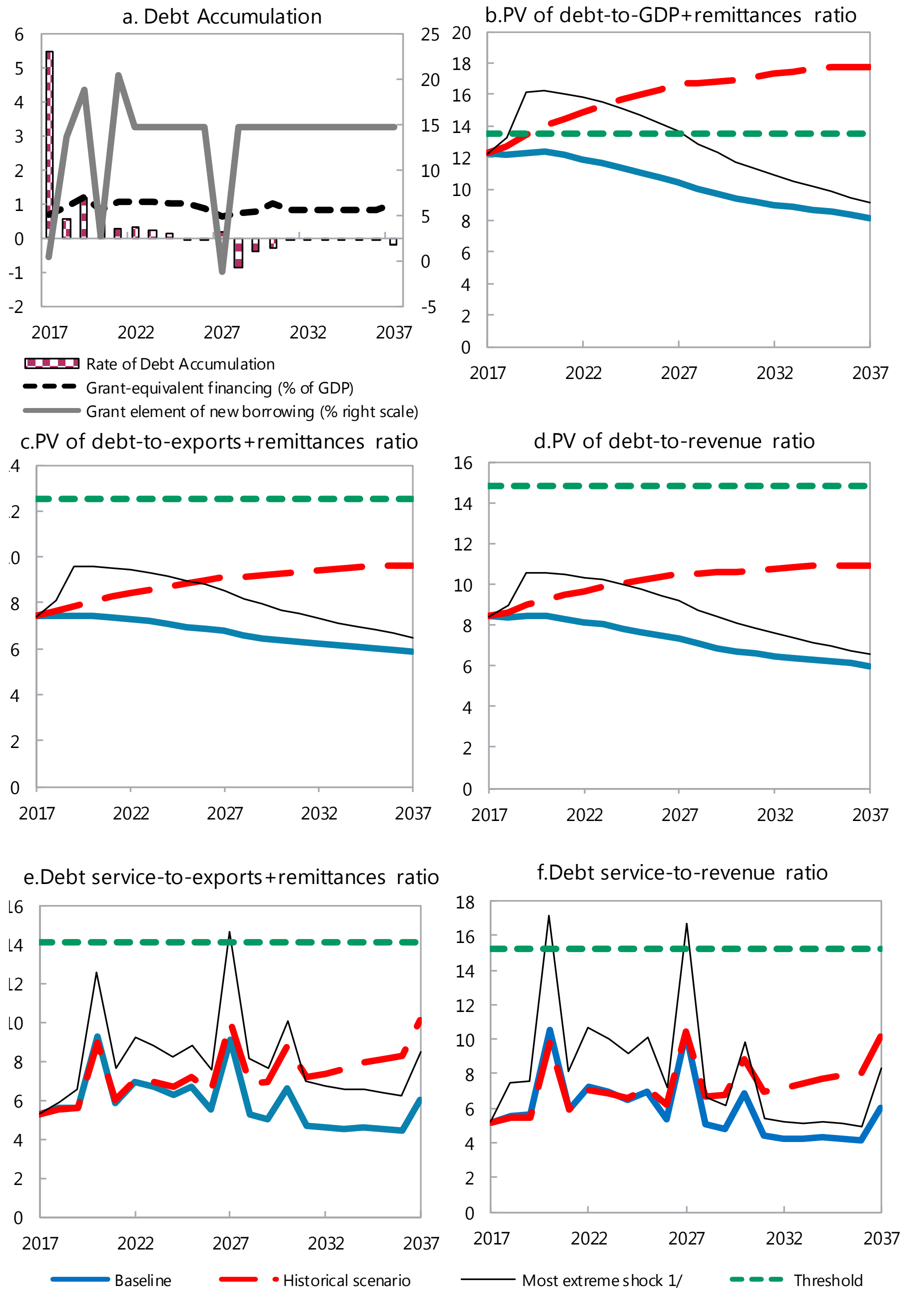


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

2/ In the customized scenario, (i) real GDP growth is 2.6 percent in 2016 and 2.5 in 2017, and rises on average 0.25 percentage points per year to reach 3.5 percent in 2021, staying at this level for the remainder of the DSA period; (ii) financing conditions from external capital markets deteriorate permanently, raising the average interest rate on new external debt by 100 basis points; and (iii) the overall deficit of the CPS increases by 2 percent of GDP in 2015 compared to the baseline and then fades out partially at a constant rate of 15 percent during the DSA period.

Figure AII.2. Honduras: Probability of Debt Distress of Public and Publicly Guaranteed External Debt under Alternative Scenarios, Including Remittances, 2017-37 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table AII.3. Honduras: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014-37

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2014	2015	2016	Average 5/	Standard Deviation 5/	2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	42.3	42.3	43.5			43.5	44.3	45.0	42.8	40.5	39.8		33.3	13.4	
of which: foreign-currency denominated	28.2	28.6	29.2			32.2	32.3	33.1	33.3	32.7	32.0		25.9	14.3	
Change in public sector debt	1.8	0.0	1.2			0.0	0.8	0.7	-2.2	-2.3	-0.7		-1.6	-2.4	
Identified debt-creating flows	3.3	0.2	1.8			-0.5	1.4	0.8	0.7	0.4	0.3		-0.4	-1.2	
Primary deficit 2/	3.6	0.3	0.3	3.2	2.1	0.1	0.2	-0.4	-0.3	-0.2	-0.2	-0.1	-0.4	-0.7	-0.5
Revenue and grants	29.4	29.9	30.7			30.3	30.7	30.9	31.1	31.2	31.3		31.0	31.0	
of which: grants	0.8	0.9	0.8			0.7	0.6	0.7	0.7	0.7	0.7		0.7	0.7	
Primary (noninterest) expenditure	33.0	30.3	31.0			30.4	30.8	30.5	30.8	30.9	31.2		30.6	30.3	
Automatic debt dynamics	-1.0	-0.6	1.2			-0.7	1.3	1.2	1.0	0.6	0.4		0.0	-0.5	
Contribution from interest rate/growth differential	-0.9	-0.2	0.4			-0.2	0.2	0.2	0.0	0.0	-0.1		-0.1	-0.3	
of which: contribution from average real interest rate	0.3	1.3	1.9			1.4	1.7	1.8	1.7	1.5	1.4		1.1	0.2	
of which: contribution from real GDP growth	-1.2	-1.5	-1.5			-1.7	-1.5	-1.6	-1.6	-1.6	-1.5		-1.3	-0.5	
Contribution from real exchange rate depreciation	-0.1	-0.4	0.8			-0.4	1.1	1.0	1.0	0.7	0.5		...	...	
Other identified debt-creating flows	0.7	0.4	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.7	0.4	0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.6	-0.2	-0.5			0.5	-0.7	-0.1	-2.8	-2.7	-1.0		-1.2	-1.2	
Other Sustainability Indicators															
PV of public sector debt	...	...	39.4			39.9	40.5	40.8	38.5	36.0	35.1		28.9	10.3	
of which: foreign-currency denominated	...	...	25.1			28.6	28.5	28.9	29.0	28.2	27.3		21.6	11.3	
of which: external	...	...	25.3			28.6	28.5	28.9	29.0	28.2	27.3		21.6	11.3	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	3.4	4.6	3.2			7.4	3.7	4.3	6.6	4.4	5.1		5.7	0.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	128.6			131.7	132.0	132.0	123.7	115.5	112.1		93.1	33.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	131.9			134.6	134.8	135.0	126.4	118.1	114.6		95.2	34.1	
of which: external 4/	...	...	84.6			96.6	94.8	95.6	95.2	92.5	89.1		71.0	37.2	
Debt service-to-revenue and grants ratio (in percent) 5/	7.6	17.8	14.5			27.9	16.4	19.1	25.6	18.4	20.1		23.3	7.4	
Debt service-to-revenue ratio (in percent) 6/	7.8	18.3	14.9			28.5	16.8	19.5	26.2	18.8	20.5		23.8	7.5	
Primary deficit that stabilizes the debt-to-GDP ratio	1.9	0.4	-0.9			0.2	-0.6	-1.1	1.8	2.1	0.5		1.2	1.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.1	3.6	3.6	3.3	2.2	4.0	3.6	3.8	3.8	3.8	3.8	3.8	3.8	3.4	3.8
Average nominal interest rate on forex debt (in percent)	1.7	3.6	3.4	2.3	0.7	4.3	4.4	4.4	4.6	4.2	4.2	4.4	3.9	3.4	3.7
Average nominal interest rate on domestic debt (in percent)	9.7	11.0	14.2	10.8	2.9	12.6	14.1	14.2	12.0	13.8	14.6	13.5	13.6	11.6	13.1
Average real interest rate (in percent)	0.8	3.1	4.7	2.1	1.9	3.4	4.1	4.3	3.9	3.8	3.6	3.9	3.4	1.3	3.1
Average real interest rate on foreign-currency debt (in percent)	-1.7	-1.0	-1.2	-1.6	0.5	-2.1	-2.1	-2.1	-1.9	-1.9	-2.0	-2.0	-2.0	-2.0	-2.0
Average real interest rate on domestic debt (in percent)	2.7	4.2	10.1	5.0	4.1	6.3	9.9	9.8	7.7	9.4	10.2	8.9	9.3	2.1	8.3
Real exchange rate depreciation (in percent, + indicates depreciation	-0.5	-1.3	2.8	-1.6	3.7	-1.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	6.8	6.4	3.7	5.6	2.2	5.9	3.8	4.0	4.0	4.0	4.0	4.3	4.0	9.3	4.4
Growth of real primary spending (deflated by GDP deflator, in percer	-5.5	-5.0	6.1	-0.4	3.2	2.0	5.0	2.7	4.8	4.3	4.7	3.9	3.5	3.8	3.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	0.3	13.7	18.8	2.6	20.3	14.7	11.7	-1.2	14.7	...

Sources: Country authorities; and staff estimates and projections.
1/ Gross debt of the Combined Public Sector
2/ As defined in the fiscal accounts
3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
4/ Revenues excluding grants.
5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table AII.4. Honduras: Sensitivity Analysis for Key Indicators of Public Debt 2017-37

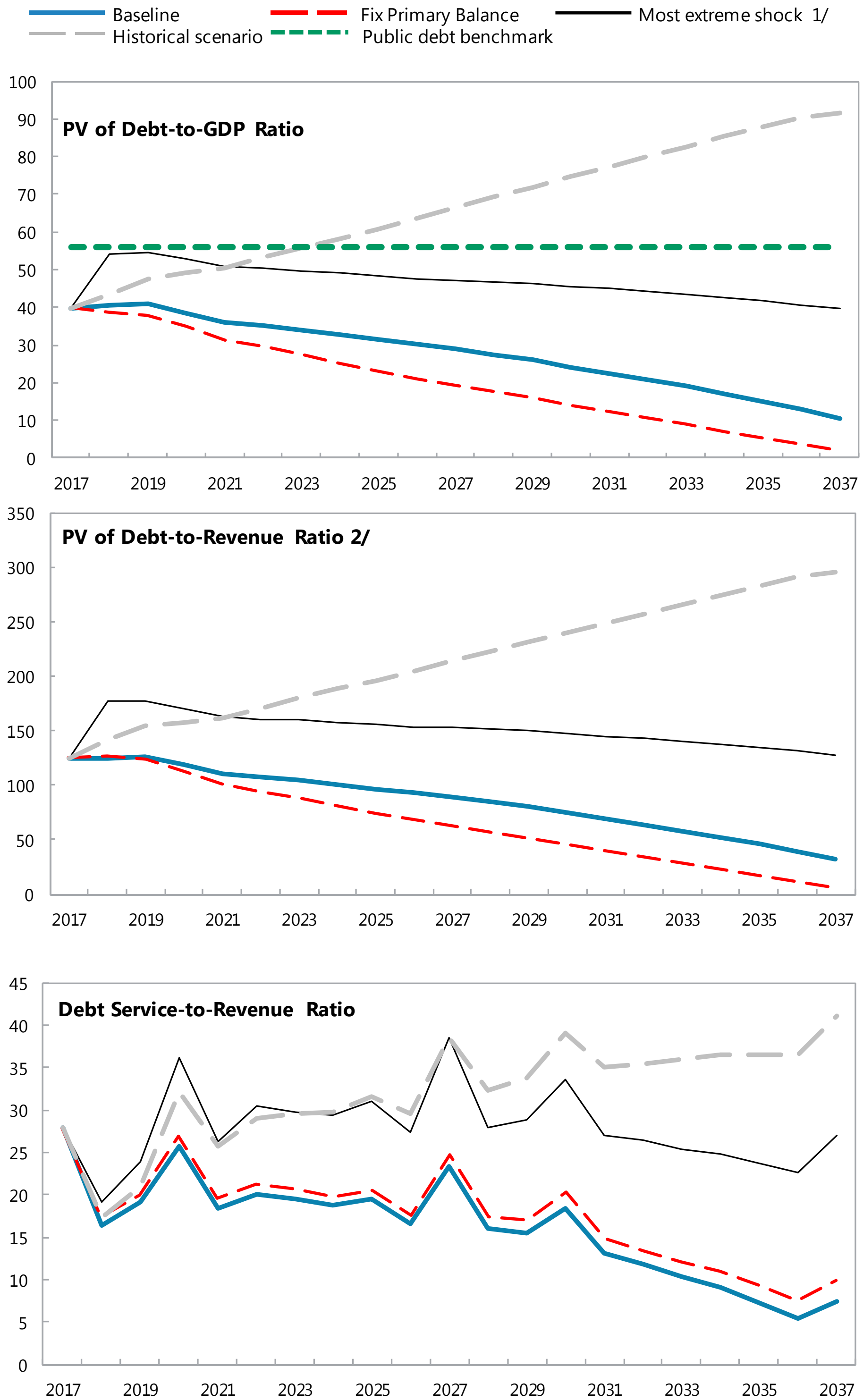
	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	40	40	41	38	36	35	29	10
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	40	43	47	49	50	53	66	92
A2. Primary balance is unchanged from 2017	40	39	38	35	31	29	19	2
A3. Permanently lower GDP growth 1/	40	41	42	40	39	39	41	53
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	40	42	45	44	44	45	48	50
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	40	45	51	49	47	47	42	31
B3. Combination of B1-B2 using one half standard deviation shocks	40	45	50	49	48	48	48	45
B4. One-time 30 percent real depreciation in 2018	40	54	55	53	51	50	47	40
B5. 10 percent of GDP increase in other debt-creating flows in 2018	40	50	50	48	46	46	42	30
PV of Debt-to-Revenue Ratio 2/								
Baseline	125	125	126	118	111	108	89	32
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	125	142	154	158	162	170	214	295
A2. Primary balance is unchanged from 2017	125	126	123	112	100	94	63	6
A3. Permanently lower GDP growth 1/	125	133	134	129	124	124	133	170
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	125	137	146	143	140	142	154	162
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	125	148	166	158	151	149	137	100
B3. Combination of B1-B2 using one half standard deviation shocks	125	146	163	158	154	154	155	143
B4. One-time 30 percent real depreciation in 2018	125	177	177	169	163	160	152	128
B5. 10 percent of GDP increase in other debt-creating flows in 2018	125	163	163	155	148	146	134	98
Debt Service-to-Revenue Ratio 2/								
Baseline	28	16	19	26	18	20	23	7
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	28	17	21	32	26	29	38	41
A2. Primary balance is unchanged from 2017	28	17	20	27	20	21	25	10
A3. Permanently lower GDP growth 1/	28	17	21	29	22	24	32	27
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-2019	28	18	21	31	24	27	34	27
B2. Primary balance is at historical average minus one standard deviations in 2018-2019	28	17	21	34	27	26	31	21
B3. Combination of B1-B2 using one half standard deviation shocks	28	18	22	34	27	27	33	25
B4. One-time 30 percent real depreciation in 2018	28	19	24	36	26	30	38	27
B5. 10 percent of GDP increase in other debt-creating flows in 2018	28	17	22	37	23	27	31	20

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Figure AII.3. Honduras: Indicators of Public Debt Under Alternative Scenarios, 2017-37 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.

2/ Revenues are defined inclusive of grants.

Appendix I. Letter of Intent

Tegucigalpa, October 10, 2017

Ms. Christine Lagarde
Managing Director
International Monetary Fund Washington, DC 20431

Dear Ms. Lagarde,

1. As these are the final reviews under our Stand-By Arrangement (SBA), we would like to take stock of the progress made in restoring macroeconomic stability and improving the conditions for sustainable and inclusive economic growth over the past 3½ years.

- In January 2014, the government of President Hernandez inherited difficult economic and security situations which threatened to aggravate the already high levels of poverty (65 percent). In 2013, real GDP growth had decelerated to 2.8 percent, driven mainly by exogenous external and domestic factors, including political uncertainty related to the presidential elections. The fiscal accounts had deteriorated sharply, with the combined public sector (CPS) deficit rising to 7.5 percent of GDP (from 2.8 percent of GDP in 2011), driven by rising primary spending and higher interest payments, as well as by a substantial increase in the deficit of the state-owned electricity company (ENEE). This resulted in a rapid increase in public debt and the emergence of cash-flow pressures. Coupled with real appreciation of the exchange rate and less favorable terms of trade, the external current account deficit ballooned to 9.5 percent of GDP (from 8 percent in 2011), with reserve coverage below 4 months of imports.

- The 2014-17 program sought to: implement a strong and front-loaded fiscal consolidation; implement structural reforms to strengthen the macroeconomic policy framework and promote economic growth; and adopt measures to strengthen the social safety net.

- After 3½ years in office, our government has succeeded in stabilizing the economy, institutionalizing fiscal prudence, improving domestic security (reducing the homicide rate from 75 per 100.000 in 2013 to 40 per 100.000 to date), and fighting corruption. On the latter, the recent creation of a special anti-corruption unit within the public prosecutors' office is a key institutional advance toward strengthening governance. This unit will be supported by international experts as part of the cooperation agreement with the Organization of American States' mission against corruption and impunity in Honduras. Is important to highlight that by strengthening the social safety net, poverty has declined by 4 percentage points.

2. Since the 4th review, implementation of our economic program has remained broadly consistent with the commitments under the SBA (Tables B1 and B2).

- All quantitative performance criteria for end-June 2017 were met. The fiscal deficit ceilings have been met by large margins amid strong tax revenue growth, restrain in current expenditure and under execution of infrastructure spending. ENEE has continued to strengthen its operations, the non-technical losses through August have been reduced by 3.8 percentage points; the target on net lending of the combined public sector (CPS), which was missed by a large margin at end-December 2016, was met after a drastic tightening in the concession of loans in June. The present value of new external debt contracted remained below program's ceilings. Monetary targets on the NIR and NDA were also met, reflecting the favorable external environment as well as the central bank's sterilization of liquidity.

- The indicative targets for the wage bill of the central government (ceiling) and social spending (floor) were met, and the operating revenue-to-spending ratio of ENEE (floor) was missed by small margin because of additional spending related to the hiring of a non-technical-loss-reduction concessionaire.

- We have also made good progress on structural benchmarks:

(i) On fiscal reforms. We moved ahead with the implementation of the Fiscal Responsibility Law (FRL) enacted in March 2016 by approving the required by-laws. We have published the national registry of trust funds and most operations from these trust funds have been incorporated into the budget. We have completed the audit of public sector (including ENEE) unpaid claims and determined that 20 percent of them were void. Made operational the new tax administration authority and created a new custom administration. On the latter, we have adopted a medium-term strategic plan for customs under the guidance from the Fiscal Affairs Department (FAD). In August 2016, the concessionaire hired by ENEE to reduce its non-technical losses by 17 percentage points in 7 years began operations.

(ii) On monetary and exchange rate policies. The Central Bank of Honduras (BCH) approved in October 2016 a strategic plan to modernize monetary policy with a view to adopt an inflation-forecast targeting framework. Since then, actions on this front have included: issuing new regulations for the interbank money market to help strengthen the monetary transmission mechanism; reducing by 10 percent the FX surrender requirements and issuing regulations for the operation of the FX market to transition towards a more flexible exchange rate system in the future; and preparing a new central bank law consistent with the newly envisaged monetary policy framework. The BCH also approved a plan to adopt International Financial Reporting Standards (IFRS) as of January 1, 2018.

(iii) On financial sector policies. We enacted a new bank resolution framework to strengthen the capacity for dealing with financial sector distress; made operational the Financial System Stability Committee, allowing it to provide prompt assessment and policy advice on financial stability and adopted a new regulation for the investments of public pension funds fostering the diversification of their portfolios in a sustainable and profitable way.

3. Based on this performance, we request completion of the fifth and sixth reviews under the Stand-By Arrangement. We will continue treating the Stand-By Arrangement as precautionary, and

therefore intend not to draw the amount that we would be entitled to purchase with the completion of these reviews.

4. We believe that the policies set out in the November 2014, April and November 2015, October 2016 Memoranda of Economic and Financial Policies (MEFP) and in this letter, are adequate for the successful implementation of the goals of the program. Having concluded the SBA supported program, we will continue to pursue our consultation and policy dialogue with the Fund. In line with our commitment to transparency, we authorize the IMF to publish this letter and the associated staff report.

A. Macroeconomic Outlook

5. The macroeconomic framework for 2017 underpinning our program is based on prudent assumptions, with a view to minimize the risk of downward revisions during the period ahead.

- Real GDP growth in 2017 is expected to accelerate to 4 percent driven by rising exports and investment, as well as stable private consumption-- supported by remittances growth.
- Headline inflation is expected to stay within the new 4±1 percent target range, aided by some exchange rate appreciation this year.
- The current account deficit is expected to widen only marginally to 4 percent of GDP as strong exports and remittances growth largely offset the impact of higher oil import prices. Sustained FDI flows and the government's Eurobond issuance of US$700 in January 2017 will result in substantial accumulation of international reserves, leading to increased reserve coverage to about 5 months of imports. External financing conditions continue to improve, supported by the recent one-notch sovereign rating upgrade by S&P to BB-, the highest rating by this agency in history, with the spread on external debt reaching record lows.

B. Fiscal Policy

The 2017 Fiscal Outlook

6. **Fiscal performance during the first semester has been consistent with most of our program targets**. During the first half of 2017, the Non-Financial Public Sector (NFPS) posted a fiscal surplus of ¾ percent of GDP and the Central Government (CG) posted a deficit of ¼ percent of GDP). To enhance our commitment with macroeconomic stability we have set our own targets for the end-2017 (deficits of 1.4 and 3.2 percent of GDP for the NFPS and CG, respectively). Both targets are lower than the ceilings implied by the FRL.

(i) **Revenue**. After the enactment of the new tax code, income tax collection showed a decline during the first quarter but recovered afterwards because we adopted *ad hoc* measures designed to enhance monitoring and enforcement. In the short- term, we will continue relying on such measures as we continue working toward a robust, predictable, and user-friendly tax framework in the coming years.

(ii) **Spending**. Current spending will be strictly contained to reach a nominal increase below the 7.4 percent stated in the FRL. To ensure compliance with the spending rule we have introduced a special module in the SIAFI which provides the monthly budget ceilings for spending units in strict adherence to the law. We also monitor monthly the consolidated report generated by that module before distributing ceilings for the next month. Our firm control of recurrent spending has released additional resources for social and infrastructure spending. We are projecting that public investment will be increased by around 1 percent of GDP at the NFPS level. This includes investments from the electricity company to expand hydropower generation and PPPs.

(iii) **Financing**. In January 2017, we placed a 10-year external bond in the amount of US$700 million at a historically low yield of 6¼ percent. We have continued our domestic debt program for institutional investors aiming at developing the domestic debt market. The program is based on standardized securities with long maturities. We have also finalized an audit of unpaid claims. The audit validated around one-third of the claims, which have now been incorporated as accrued spending and will be paid based on budget availability.

The 2018 Budget

7. **We have submitted to the legislature a 2018 budget that targets a NFPS deficit of 1.2 percent of GDP (CG target of 3.4 percent of GDP).** These targets are fully aligned with the FRL.

(i) **Revenue.** We will continue preserving the hard-won fiscal gains by strengthening tax compliance and decisively acting against noncompliance. To this end, we will identify noncompliance gaps and address them using risk-based audits.

(ii) **Spending.** The main priorities of the budget continue to be social spending, infrastructure, and security. Per the FRL spending rule, the budget is prepared with a nominal increase in current spending of 7.4 percent. We allocate additional resources for our flagship social program "*Vida Mejor*" aiming at expanding its coverage as envisaged in the 2014-2018 government plan. The wage bill is planned to increase in nominal terms by around 8 percent (6 percent nominal growth net of the increase in the police force needed to consolidate the improvement in the security situation). We remain committed to containing the wage bill and to discussing reform options with the assistance of the World Bank and the Fund. This reform aims at achieving a modern and performance-based civil service.

Other fiscal policy issues

8. **ENEE**. We will continue implementing the reform strategy to ensure the financial sustainability of ENEE, which includes a continued adoption of a tariff scheme based on cost-recovery principles. While we are encouraged by the reduction of 3.8 percentage points in electricity losses through August 2017 (0.2 percent of GDP in additional revenues), we will ensure the plan to achieve a reduction in 4 percentage point in losses by November 2017 remains on track.

9. **Fiscal transparency**. The use of extra-budgetary vehicles has facilitated the timely provision of public services. However, this solution cannot be permanent as it weakens the expenditure control chain. To have a detailed assessment of this issue, we will seek technical assistance from the Fund to conduct a fiscal transparency evaluation.

C. Monetary Policy

10. **So far in 2017, monetary policy continued to evolve in line with program objectives.** We maintained efforts to absorb liquidity coming from remittances and capital inflows through open market operations. This, together with a slight appreciation of the nominal bilateral USD exchange rate of 0.5 percent through August helped maintain inflation under control. Healthy bank deposit growth supported the continued extension of credit to the private sector, which is consistent with gradual financial deepening, without significant changes in lending rates.

11. **Monetary policy will remain focused on price stability and protecting the external position.** We continue to use the monetary policy rate to signal our monetary stance, while managing liquidity through open market operations to achieve the objective of keeping inflation within the 4±1 percent target band in 2017–18. We will also make further advances in the planned transition to full inflation targeting. Recent steps taken to modernize our monetary policy operational framework include strengthening our macroeconomic modeling capacity with technical assistance from the Fund and an updating of the organizational structure needed to support inflation targeting. In the short run, we will issue regulations for the use of repos and reverse repos. We also plan to continue upgrading the legal framework to support the development of capital markets needed to further strengthen the interest rate transmission channel.

12. **As part of the process to move toward inflation targeting and gradually increase exchange rate flexibility to better adjust to external shocks, we have reduced in 10 percent the FX surrender requirement to promote the development of the FX interbank market.**

D. Financial Sector Policies

13. **We adopted new measures to reduce risks in the financial sector.** Higher capital requirements for foreign currency borrowing by unhedged agents adopted last year have contributed to reduce credit dollarization. We strengthened the legal framework for bank resolution with a substantive legislative reform, and made operational the Financial System Stability Committee. We have also issued new regulations for pension funds' investment policies that protect their financial integrity by fostering diversification.

E. Structural Reforms

14. **Medium-term growth.** The country's medium-term development strategy launched in 2016, Honduras 2020, aims to achieve inclusive export-led growth of the tourism, textiles, intermediate-goods, back office support and agro-industrial sectors. The achievements in crime reduction, alongside active efforts to enhance the country's internal and regional connectivity, will

help spur the development of the tourism sector. In addition, the recently enacted tourism law introduced some tax exemptions to attract foreign investment to the sector. Nevertheless, we maintain the commitment not to renew any tax benefit scheduled to expire during the remainder of the program.

15. **Trade facilitation**. With the reform of customs, the government sought to reduce inefficiencies (such as a large cargo backlog) that were detrimental to supply-chains and corporate sector profitability. To date the new customs administration has succeeded in reducing the cargo backlog, while sustaining adequate revenue growth. The Honduras-Guatemala custom union signed in June 2017 should also enhance trade and boost growth in the region. The construction of a new airport with greater capacity will not only facilitate tourism, but also promote trade in general.

Sincerely yours,

/s/	/s/
Wilfredo Cerrato	Manuel de Jesús Bautista Flores
Chief Economic Cabinet and Finance Minister	President of the Central Bank

Table 1. Honduras: Performance Criteria 1/

	2016							2017				
	End-Jun.			End-Dec				End-June				End-Dec
	Prog.	Adjusted	Actual	Prog.	Adjusted	Actual	Status	Prog.	Adjusted	Actual	Status	Auth. Target
QUANTITATIVE PERFORMANCE CRITERIA												
Fiscal targets 2/												
Overall balance of the public sector (ceiling) 3/ 4/	-3,000	-1,824	4,043	-9,600	-6,887	-6,302	Met	-4,000	-1,417	4,472	Met	7,300
Overall balance of the central government (ceiling) 4/	-6,500	-5,234	-811	-16,300	-13,587	-13,455	Met	-8,000	-5,417	-1,493	Met	-17,000
Overall balance of ENEE (ceiling)	-750		-404	-1,000		-1,581	Not met	-600		-527	Met	-3,500
Net lending of the Combined Public Sector (ceiling) 5/	200		2,420	1,700		2,893	Not met	500		440	Met	1,071
Public debt targets 6/												
Contracting and guaranteeing of new non-concessional loans (continuous ceiling, in million US$)	…	…	… .	…	…	…	… .	…	…	…	…	…
Present value of new external debt contracted (continous ceiling, in millions US$) 7/	520		18	240		173	Met	260	260	59	Met	380
Increase in the stock of arrears of ENEE (continuous ceiling) 8/	0		2,327	0		0	Met	0		0	Met	0
Accumulation of new external arrears (continuous ceiling, in million US$)	0		0	…		0	Met	0		0	Met	0
Monetary targets												
Net international reserves of the central bank (floor, in million US$)	2,859	2,871	2,935	3,005	2,851	2,676	Not Met	3,120	2,869	3,259	Met	3,120
Stock of net domestic assets of the central bank (ceiling) 9/	-35,342	-35,588	-35,640	-31,760	-27,473	-25,120	Not Met	-36,751	-31,446	-38,975	Met	-31,539
Indicative targets 2/												
Wage bill of the central government (ceiling)	19,100		19,096	39,800		39,790	Met	21,075		20,819	Met	43,100
Social spending (floor)	3,000		4,934	9,600		11,225	Met	3,500		5,965	Met	11,500
Operating revenue-to-spending ratio of ENEE (floor)	1.00		1.07	1.05		1.06	Met	1.05		0.99	Not Met	1.00

1/ Definitions as specified in the Technical Memorandum of Understanding.
2/ Cumulative starting in January of the correspondent year.
3/ Corresponds to the combined public sector for test dates end-June 2016 and end-December 2016 and the nonfinancial public sector thereafter.
4/ Excluding capital grants resulting from debt cancellation.
5/ Stock of gross lending operations of public pension funds to remain constant as of 09/12/2016
6/ Cumulative starting in December 2014. Targets on non-concessional debt and external arrears are for the public sector.
7/ This PC will apply continuously from June 30, 2016.
8/ As stated in the Technical Memorandum of Understanding paragraph 23 of Third and Fourth Reviews Under the Stand-By and the Standby Credit Facility.
9/ Using the program exchange rate of L21.1066 = 1US$.

Table 2. Honduras: Structural Benchmarks			
Measure	**Rationale**	**Target Date**	**Status**
Adjust average electricity tariffs by 2.5 percent during 2015 to reflect past cost increases; further adjust tariffs to incorporate current changes in costs.	Promote a more efficient, open and transparent electricity sector. Improve financial position of ENEE by aligning its tariffs with underlying costs.	Continuous	Met
Approval of legislation to strengthen the PPP framework.	Eliminate fiscal risks stemming from PPPs. Improve transparency and accountability of fiscal policy.	December 2014	Met
Repeal legislation allowing the issuance of government guarantees for debt contracted by private companies involved in PPP projects.	Eliminate fiscal risks stemming from PPPs. Align incentives of private companies with productive activities.	December 2014	Met
Conduct a census of public employees, with the aim of identifying and cancelling redundant positions during 2015.	Strengthen the fiscal position by making the public sector more efficient and eliminate fraud.	December 2014	Met
Take actions sufficient to achieve savings in ENEE's wage bill as indicated in paragraph 11 of the MEFP of the November 2014 MEFP.	Eliminate fiscal risks stemming from ENEE by improving its operational margin.	March 2015	Met
Submit to congress legislation to reform the Social Security Institute (IHSS) to strengthen its actuarial position and improve its governance.	Strengthen financial position of the IHSS.	End-November 2015 [1]	Met
In consultation with staff, prepare a plan to address the financial difficulties of HONDUTEL.	Restore financial sustainability of the company.	March 2015	Met
Submit to congress legislation to reform the Social Security Institute (IHSS) to strengthen its actuarial position and improve its governance.	Strengthen financial position of the IHSS.	End-December 2015	Met
Approval of the law reforming the IHSS consistent with the fiscal objectives of the program.	Strengthen financial position of the IHSS.	End-December 2016[2]	Not Met
Present a program for developing a medium-term fiscal framework with a clear fiscal anchor and fiscal policy targets.	Anchor fiscal policy for the medium run in a credible and realistic manner. Ensure fiscal sustainability.	June 2015	Met
Complete an audit of public sector arrears, with a view to clearing them.	Improve the business environment by increasing accountability of the public sector.	End-December 2016[3]	Met
Present to congress a 2016 budget bill consistent with the program targets for central government and CPS deficits.	Ensure fiscal sustainability.	September 2015	Met
Strengthen the Large Taxpayer Unit with adequate staff levels.	Improve audit of large taxpayer and ensure stable and fair revenue collection by protecting the tax base.	September 2015	Met
Present a plan for a gradual removal of foreign exchange surrender requirements.	Safeguard competitiveness and strengthen the external position by reducing foreign exchange transaction costs on importers, exporters, banks, and the BCH.	End-December 2015	Met
Submit to Congress a law to reform the tax code in line with recommendations of the FAD.	Simplify the tax code and align it with international best practices.	End-June 2016	Not Met
Establish a new tax administration agency.	Introduce best practices in modern tax administration.	End-June 2016	Met
Publish a national registry of trust funds, conduct a study and prepare an assessment of their feasibility.	Make fiscal policy more transparent and improve its accountability.	End-June 2016	Met

Table 2. Honduras: Structural Benchmarks (continued)

Measure	Rationale	Target Date	Status
Include in the annual budget submission a document explaining the consistency of the proposed budget with the achievement of the medium term Fiscal Responsibility Legislation goals.	Ensure consistency of the budget with the FRL. Increase awareness of the FRL.	End-September 2016	Met
Eliminate central government subsidies to ENEE.	Eliminate fiscal risk stemming from subsidies. Align incentives of the company away from government support and towards higher efficiency and autonomy.	Continuous	Met
Adopt customs manuals in Puerto Cortes to enhance collection of import duties in gasoline and bulk freight.	Enhance collection of import duties.	End-June 2016	Met
Restore the PPP framework law to make it consistent with international best practices.	Eliminate fiscal risks stemming from PPPs. Improve transparency and accountability of fiscal policy.	Prior action 3rd review	Met
BCH's board to approve strategic plan to modernize monetary policy. This must include: the announcing of inflation-forecast targeting as the nominal anchor; a communication strategy; and a road map for the further development of the interbank money and foreign exchange markets.	Improve operational framework for conducting monetary policy.	End-October2016	Met
BCH to prepare regulations to create a system of primary dealers in the domestic money market in line with international best practices.	Develop the money market.	End-December 2016	Met
BCH to approve a plan to adopt International Financial Reporting Standards (IFRS).	Enhance financial supervision and financial market infrastructure.	End-December 2016 [4]	Met
BCH to issue supporting regulations/rules for the development of the FX market consistent with recommendation of Fund TA report of November 2015.	Develop the foreign exchange interbank market.	End-December 2016	Met
BCH to reduce by 10 percent obligations of authorized dealers (ADs) to sell their FX proceeds to the BCH, this is in line with the recommendations of the November 2015 MCM-TA report on eliminating surrender requirements.	Develop the foreign exchange interbank market.	End-December 2016	Met
Submit to Congress reforms to the BCH's law in line with Fund recommendations to support the transition towards inflation-forecast targeting.	Give the Central Bank a clear mandate to maintain price stability.	End March 2017	Not Met

Table 2. Honduras: Structural Benchmarks (concluded)

Measure	Rationale	Target Date	Status
National Banking Commission (CNBS) to issue prudential regulations for the investments of public pensions funds in line with IMF recommendations.	To strengthen pension funds investment policies.	End March 2017	Not Met
Tax Administration Authority to be fully operational.	Protect hard-won gains in tax collection and ensure its stability.	End-March 2017	Met
Ensure that the trust funds are managed within the general budget as per Art. 26 of the FRL.	Increase transparency and predictability of government spending.	End-March 2017	Not Met

[1] Reset as the original date was March 2015.

[2] Reset as the original date was June 2015.

[3] Reset as the original date was June 2015.

[4] BCH approved a plan to adopt IFRS as of January 1, 2018.

INTERNATIONAL MONETARY FUND

HONDURAS

October 12, 2017

FIFTH AND SIXTH REVIEWS UNDER THE STAND-BY ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By: The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of August 31, 2017)

Membership Status: Joined: December 27, 1945

General Resources Account:	**SDR Million**	**% Quota**
Quota	249.8	100.00
Fund holdings of currency (Exchange Rate)	211.1	84.51
Reserve Tranche Position	38.7	15.49

SDR Department:	**SDR Million**	**% Allocation**
Net cumulative allocation	123.85	100.00
Holdings	53.58	43.26

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	12/03/2014	12/02/2017	77.70	0.00
SCF	12/03/2014	12/02/2016	51.80	0.00
Stand-By	10/01/2010	3/31/2012	64.75	0.00
SCF	10/01/2010	3/31/2012	64.75	0.00
Stand-By	04/07/2008	03/30/2009	38.85	0.00
ECF[1]	02/27/2004	02/26/2007	71.20	40.68
ECF[1]	03/26/1999	12/31/2002	156.75	108.30

Projected Payments to Fund
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2017	2017	2018	2019	2020
Principal	0.00	0.00	0.00	0.0	0.0
Charges/Interest	0.10	0.38	0.38	0.38	0.38
Total	**0.10**	**0.38**	**0.38**	**0.38**	**0.38**

[1] Formerly PRGF.

Implementation of Enhanced HIPC Initiative: Enhanced Framework

Commitment of HIPC Assistance	
Decision point date	June 30, 2000[2]
Assistance committed (NPV terms)	End-1999
Total assistance (US$ million)	556.00
Of which: IMF assistance (US$ million)	30.30
Completion point date	April 2005

Disbursement of IMF Assistance (SDR million)

Amount disbursed	22.66
Interim assistance	8.80
Completion point balance	13.86
Additional disbursement of interest income	3.70
Total Disbursements	**26.36**

Implementation of MDRI Assistance

Total Debt Relieve (SDR million)[3]	107.46
Of which: MDRI	98.24
HIPC	9.21
Debt Relief by Facility (SDR million)	

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
January 2006	N/A	107.46	107.46

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable.

Exchange Rate Arrangement. Honduras' de jure exchange rate arrangement is crawling band since July 2011, when the Central Bank of Honduras (BCH) reactivated the crawling band arrangement that had been in operation until mid-2005. The de facto exchange arrangement is a crawling peg. The exchange rate of the lempira is determined by foreign exchange auctions of the BCH. The BCH maintains an operational band requiring all bid prices for the purchase of foreign exchange to be within a range of 7 percent above or below the base price, with such prices subject to the requirement that bids in auctions not exceed 1 percent of the average base price from auctions during the preceding seven business days. The base price is revised weekly according to a procedure established by the BCH board of directors for this purpose, which includes the following variables:

[2] World Bank Board, July 6, 2000.

[3] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

(1) the differential between the domestic inflation rate and the estimated inflation rates of Honduras's main trading partners, (2) changes in the exchange rates of these countries' currencies vis-à-vis the U.S. dollar, and (3) the performance of official reserve assets. In this setting, the lempira has followed a slow depreciating trend against the U.S. dollar until the end of 2016 and slight appreciation since then.

The BCH calculates an official exchange rate (TCR) daily as the weighted average of the accepted bids submitted by participants in BCH's foreign exchange auction. The TCR is then used the next day for (i) sales of foreign exchange by authorized dealers to the BCH, (ii) purchases of foreign exchange by authorized dealers from their clients, (iii) sales and purchases of foreign exchange between public institutions and the BCH and (iv) interbank foreign exchange market.

Honduras has accepted the obligations under Article VIII, Section 2, 3, and 4 of the Articles of Agreement, and currently maintains two multiple currency practices subject to the Fund's approval under Article VIII, Section 3. The two multiple currency practices arise from the absence of a mechanism to prevent the potential deviation of more than two percent at any given time among effective exchange rates for spot exchange transactions: (i) between successful bids within the foreign exchange auction; and (ii) between the official exchange rate (TCR) of the day and the exchange rates at which foreign exchange is sold at the auction on that day.

Article IV Consultation. The last Article IV consultation with Honduras was concluded on November 22, 2016.

An update safeguards assessment of the BCH was concluded in April 2015. The assessment concluded that the BCH Law continues to pose a significant risk to central bank autonomy and also that the bank's Board and audit committee do not have any independent members, which undermines these bodies' oversight function. The assessment recommended amendments to the BCH Law to protect the bank from political interference, establish its financial autonomy, and strengthen its governance arrangements. In addition, the assessment noted that recurring operating losses since the 1990s have severely weakened the bank's financial position and a recapitalization plan has been initiated, with the BCH expected to achieve positive equity in 2021. The assessment also recommended that the BCH adopt International Financial Reporting Standards.

FSAP, FSSR participation and ROSCs. Fiscal ROSC conducted on February 26–March 2, 2001 (IMF Country Report No. 02/16) and updated (IMF Country Report No. 05/256). Data ROSC data conducted on July 8–24, 2003 (IMF Country Report No. 05/230). FSAP conducted on October 14–19, 2002 and January 20–February 4, 2003. FSAP Update conducted on September 24 to October 9, 2007. FSSR conducted on June 8-9 and July 11-22, 2016.

Technical Assistance. Honduras has received substantial technical assistance. The table below details assistance provided by department since November 2012.

Department	Purpose	Time of Delivery
LEG	Legal Framework for Bank Resolution	May 2016
MCM	Central Bank Accounting	Nov 2012
MCM	Bank Supervision & Regulations	Nov 2012
MCM	Bank Supervision and Regulations	Feb 2013
MCM	Monetary and Foreign Exchange Policy	Apr 2013
MCM	Bank Supervision and Regulation	Apr 2013
MCM	Bank Supervision and Regulation	May 2013
MCM	CAPTAC-DR: Building of a Model of Inflation Forecasts	Nov 2013
MCM	Bank Supervision and Regulations	Nov 2013
MCM	CAPTAC-DR: Hedging Derivatives	Dec 2013
MCM	CAPTAC-DR: Building a Model for Structural Liquidity Forecasts	May 2014
MCM	CAPTAC-DR: Treasury Management	Jul 2014
MCM	CAPTAC-DR: Bank Supervision and Regulation	Jul 2014
MCM	CAPTAC-DR: Treasury Management	Oct 2014
MCM	Monetary Operations	Nov 2014
MCM	Bank Supervision and Regulations	Dec 2014
MCM	CAPTAC-DR: Risk Based Supervision Scheme	Dec 2014
MCM	FX Lending Prudential Requirements	Feb 2015
MCM	CAPTAC-DR: Strengthening Monetary Policy Framework	Feb 2015
MCM	Financial Supervision	March 2015
MCM	Strengthening Monetary Policy Operational Framework	May 2015
MCM	CAPTAC-DR: Risk Based Supervision Implementation	May, June 2015
MCM	Domestic consolidated supervision	June 2015
MCM	CAPTAC-DR: Strengthening and Expanding the Macroeconomic Model	August 2015
MCM	Operational risk supervision	August 2015
MCM	Modernizing the Foreign Exchange System	Sep 2015
MCM	CAPTAC-Strengthening Capacities for Financial Stabilities Analysis	Sept 2015
MCM	FSAP Scoping Mission	January 2016
MCM	Regional Macroprudential Policies, Central America Countries	January 2016
MCM	Macroprudential policies	January 2016
MCM	CAPTAC: Training on Macroeconomic Forecast Models	February 2016
MCM	Operational risk supervision	February 2016
MCM	CAPTAC: Forecast Efficiency of the Central Bank´s Semi-Structural Macroeconomic Model	March 2016
MCM	CAPTAC: Support capacity building projection and economic analysis	April 2016
MCM	Stress testing models for credit risk with data panel	April 2016
MCM	Risk-based supervision	April 2016

Department	Purpose	Time of Delivery
MCM	Financial Sector Stability Review (FSSR)	July 2016
MCM	Modernization of the Monetary Policy Framework: Scoping mission	July 2016
MCM	Liquidity risk regulation	August, November 2016
MCM	Strengthening of the credit, market and liquidity off-site supervision	September 2016
MCM	Modernization of the Monetary Policy Framework: Roadmap	September 2016
MCM	Enhancing the monetary policy operational framework and liquidity management	October 2016
MCM	Strengthening of the credit, market and liquidity off-site supervision	February 2017
MCM	Strengthening the stress testing framework for credit risk	March 2017
MCM	Monetary Policy Modernization: FPAS work plan	May 2017
MCM	Strengthening the Monetary and Exchange Rate Policies Operational Frameworks	June 2017
FAD	Public Financial Management	Nov 2012
FAD	MTEF Implementation	Nov 2012
FAD	Budget Execution and Cash Planning	Jan 2013
FAD	Customs Administration	Jan 2013
FAD	Tax Administration	Mar 2013
FAD	Customs Administration	Apr 2013
FAD	Public Financial Management	Aug 2013
FAD	Tax Administration	Aug 2013
FAD	Budget Execution and Arrears Control	Sept 2013
FAD	Managing Fiscal Risks	Sep 2013
FAD	Customs Administration	Nov 2013
FAD	Tax Administration	Dec 2013
FAD	Financial Programming and Analyzing Fiscal Risks	Feb 2014
FAD	Public Financial Management	Feb 2014
FAD	Strengthening the Medium-term Expenditure Framework	Feb 2014
FAD	Customs Administration	Apr 2014
FAD	Tax Administration	Apr 2014
FAD	Modernization of Revenue Administration	Jul 2014
FAD	Tax Administration	Oct 2014
FAD	Management of fiscal risks	Oct 2014
FAD	Treasury Single Account	Oct 2014
FAD	Accounting Rule for PPP Operations	Dec 2014
FAD	Medium-term expenditure framework	March, July, November 2015
FAD	Treasury Single Account	July, October 2015

Department	Purpose	Time of Delivery
FAD	CAPTAC: Degree of maturity of government paper	July 2015
FAD	CAPTAC: Strengthen control of VAT credit	May, December 2015
FAD	Introducing PBB to MDAs	August 2015
FAD	CAPTAC: Strengthen Audit Procedures	September 2015
FAD	Ex-post Inspection	October 2015
FAD	Tax Administration	October, December 2015
FAD	CAPTAC: Medium-term Expenditure Framework	January 2016
FAD	Treasury Single Account	February, June, August, November 2016
FAD	Customs Administration	March, April, December 2016
FAD	Streamlining Tax Exemptions	March 2016
FAD	Tax Administration	April, May 2016
FAD	Strategic Change Management	April 2016
FAD	CAPTAC: Strengthen audit procedures	May, October 2016
FAD	Budget - Preparation	June 2016
FAD	Fiscal Risks	July 2017
FAD	Taxpayer Service Improvement	February, October 2017
FAD	Treasury Single Account	February 2017
FAD	CAPTAC: Strengthen control of VAT credit	March 2017
FAD	Budget - Preparation	March 2017
FAD	CAPTAC: Strengthen audit procedures	March, October 2017
FAD	Fiscal Risks	April 2017
FAD	CAPTAC: Customs Administration	April 2017
STA	Balance of Payments	Nov 2012
STA	CAPTAC: Export/Import Price Index and PPI	Feb 2013
STA	Migration to GFSM 2001	Feb 2013
STA	CAPTAC: National Accounts 2008 SNA	Mar 2013
STA	CAPTAC: Balance of Payments Statistics and IIP	May 2013
STA	CAPTAC: National Accounts-Construction Data Sources	Jul 2013
STA	CAPTAC: Balance of Payments	Nov 2013
STA	CAPTAC: Producer Price Index	Dec 2013
STA	CAPTAC: National Accounts-Statistics and Construction Data Sources	Mar 2014
STA	CAPTAC: Coordinated FDI and Portfolio Surveys	Mar 2014
STA	External Debt Statistics	Jun 2014
STA	Balance of Payments and IIP Statistics	Jul 2014
STA	Topics of the Secondary Income Account	Jul 2014
STA	Balance of Payments and IIP	Feb 2015

Department	Purpose	Time of Delivery
STA	Topics of the Financial Account	March 2015
STA	CAPTAC: National Accounts-Statistics and Construction Data Sources	May 2015
STA	CAPTAC: Export and Import Price Index	May 2015
STA	Balance of Payments and IIP	July 2015
STA	External debt	July 2015
STA	CAPTAC: Consumer Price Index	September 2015
STA	CAPTAC: Balance of Payments	November 2015
STA	CAPTAC: Quarterly National Accounts	January 2016
STA	Balance of Payments and IIP	June-July 2016
STA	Basic STA surveys and directories	March 2016
STA	Enhanced General Data Dissemination System (e-GDDS)	March 2016
STA	National Accounts Source Data	March 2016
STA	National Accounts Statistics	April 2016
STA	Special Surveys of Agricultural Products	April 2016
STA	Financial Accounts – Cash Flow	April 2016
STA	Balance of Payments	June 2016
STA	CAPTAC: Non-observed Economy-Employment Matrix	July 2016
STA	National Accounts Rebasing Process	July 2016
STA	Improvements Quarterly Construction Survey-Revision of Sample Frames	March 2017

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of August 31, 2017)

A. Recent Projects and Objectives

1. **On December 2014, the IDB approved its country strategy with Honduras for the period 2015-2018.** It focused on the following areas: (i) fiscal consolidation; (ii) sustainability and competitiveness in the energy sector; (iii) road infrastructure for regional integration; (iv) social inclusion; and (v) sustainable development in the Central District.

2. **As of August 31, 2017, the portfolio of approved sovereign-guaranteed loans under execution amounted to USD633.8 million, with an undisbursed balance of USD409 million.**

3. **The existing portfolio of the IDB group focuses on public and private projects.** In the public sector, the portfolio focuses on: (i) social protection 36.3 percent; (ii) transportation 36.1 percent; (iii) energy 7.2 percent; (iv) fiscal administration 4.3 percent; (v) sustainable development 2.7 percent, and (v) others 13.4 percent. In the private sector, the IDB group has five projects in execution through the Inter-American Investment Corporation (IIC), amounting USD23 million, which support finance, manufacturing, and retail and services.

4. **The pipeline program for IDB sovereign-guaranteed approvals in 2017 includes three operations in the public sector distributed as follow**: (i) two operations in the energy sector for USD200 million aimed to (a) the National Power transmission program and (b) programmatic support for structural reforms in the Electricity Energy National Enterprise (ENEE by its acronym in Spanish); and (ii) one operation in education for the improvement human capital for USD60 million. These projects are expected to be approved before the end of the year.

IDB Sovereign Guaranteed Loan Portfolio in Honduras
As of August 31, 2017
(In millions of U.S. Dollars)

Sector	Current Approved	Available Amount
Social protection	229.9	155.0
Transportation	229.0	185.0
Energy	45.9	20.7
Fiscal	27.0	23.3
Sustainable Development	17.2	0.0
Other sectors	84.8	25.0
Total	**633.8**	**409.1**

IDB Non-sovereign Guaranteed Loan Portfolio in Honduras As of August 31, 2017 (In millions of U.S. Dollars)		
Sector	**Current Approved**	**Available Amount**
Financial Intermediaries	15.90	0.00
General Manufacturing	6.79	0.00
Services, Dist., Retail	0.16	0.00
Total	**22.85**	**0.00**

IDB Disbursement of Sovereign Guaranteed Loan Portfolio in Honduras 2010-17 (In millions of U.S. Dollars)	
Year	**Amount**
2010	162.8
2011	256.1
2012	206.8
2013	224.3
2014	302.0
2015	216.3
2016	135.2
2017*	210.5
(*) projected	

IDB Annual Net Flows with Sovereign Guarantee in Honduras 2010-16 (In millions of U.S. Dollars)							
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Repayments	25.3	24.3	17.1	12.0	12.7	19.5	25.4
Disbursement	162.8	256.1	206.8	224.3	302.0	216.3	135.2
Net Loan Flow	**137.5**	**231.7**	**189.7**	**212.2**	**289.3**	**196.8**	**109.9**
Subscriptions and Contributions	1.3	0.0	15.9	8.7	9.3	1.7	1.7
Net Capital Flow	**136.2**	**231.7**	**173.8**	**203.6**	**280.1**	**195.1**	**108.1**
Interest and Charges	10.2	12.7	16.5	22.1	26.1	32.7	42.3
Net Cash Flow	**125.9**	**219.1**	**157.2**	**181.5**	**254.0**	**162.4**	**65.8**

RELATIONS WITH THE WORLD BANK GROUP

(As of September 21, 2017)

A Country Partnership Framework (CPF) for 2016-2020 was endorsed by the Board on December 2015 using inputs from the Systematic Country Diagnostic (which was prepared in October 2015). The 2016-2020 CPF seeks to support Honduras in its efforts to foster social inclusion, while bolstering conditions for growth and reducing vulnerabilities to enhance the country's resilience. The CPF is aligned with the priorities identified in the Honduras' Country Vision for 2038 (adopted in 2010). Strengthening institutions and enhancing governance are critical cross-cutting themes that will underpin the strategic pillars.

The combined World Bank Group active portfolio in Honduras (IDA, IFC, MIGA plus trust funds), equals US$1.03 billion. The IDA18 allocation is SDR243.4 million (US$340 million), which will be allocated within the next three years, with Government expressing interest towards projects in agricultural competitiveness, land administration, water and sanitation, social protection, energy and rural infrastructure.

The active portfolio is made up of 5 projects, totaling US$193.95 million (US$163.95 million in IDA commitments, plus US$30 million from the Global Agriculture and Food Security Program - GAFSP), of which approximately US$74 million are undisbursed. Project disbursements (excluding budget support) dropped from US$70.1 million in FY14 to US$40.7 million in FY15 and stabilized around US$30 million in FY16-FY17, consistent with Government's fiscal consolidation objectives.

The World Bank's current activities are supporting Honduras efforts to strengthen social protection, enhance rural competitiveness and citizen security, and improve disaster risk management. Please see details under sections A and B.

In line with its regional strategy, IFC's investment activities focus on renewable energy generation, strengthening and broadening the financial sector, and supporting competitive agribusiness and commercial sectors. Furthermore, IFC has played a catalytic role in PPP development, improving access to finance for SMEs, streamlining administrative processes for business regulation and regional trade, and facilitation of international trade. IFC's current portfolio stands at US$509.46 million, mostly in financial sector, infrastructure, and commercial real estate.

MIGA has US$327.01 million in gross exposure through three projects in the transport and energy sectors. MIGA has provided guarantees of US$187.9 million for the construction and operation of a toll road which will improve the connectivity between Honduras' second largest city and the coast. In energy sector, MIGA granted US$82.4 million in guarantees for a 24MW expansion of the existing 102MW Cerro de Hula wind farm, and an investment of US$56.7 million in guarantees in three photovoltaic projects supporting 80 MW solar power.

A. Projects

The active IDA portfolio is made of 5 projects totaling US$193.95 million (US$163.95 million in IDA funding and US$30 million from the GAFSP), of which approximately US$74 million is undisbursed.

Honduras Rural Competitive Project. The Project Development Objective (PDO) is to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances. Responding to Government's request, an Additional Financing of US$25.0 million was approved by the Board to expand the model to other areas and to incorporate new clusters. The closing date of this Project is November 30, 2020.

Corredor Seco Food Security Project. The PDO of the Project is to enhance food and nutritional security of vulnerable households in Selected Areas of the Corredor Seco. Project will increase household availability of quality food and revenues of poor and extremely poor rural residents in 25 municipalities as a basis for improving nutrition and in the long-term for reducing child stunting. Project will also improve nutrition and nutritional practices especially for children and women in selected municipalities. Project is implemented with US$30 million of GAFSP (trust fund) resources.

Social Protection. The PDOs of this Project are to: (a) improve the institutional capacity of Recipient's institutions to manage the Conditional Cash Transfer (CCT) Program, by strengthening transparent mechanisms and instruments for targeting Program beneficiaries, monitoring compliance with Program co-responsibilities, and making payments to Program beneficiaries; (b) provide income support to Eligible Beneficiaries; (c) increase the use of preventive health services and school attendance in grades 1 to 9 among Program beneficiaries in rural areas; and (d) improve the Recipient's capacity to respond promptly and effectively to an Eligible Emergency. The closing date of this Project is December 31, 2018.

Safer Municipalities. The PDO of this Project are to support Honduras: (i) to improve the capacities of national and local actors in violence prevention, (ii) to ensure urban municipalities are addressing crime and violence risk factors, and (iii) to respond promptly and effectively to an eligible emergency. The closing date of this Project is August 31, 2018.

Disaster Risk Management. The PDO of this Project are to support Honduras to: (a) continue strengthening its capacity for integrated disaster risk management at the municipal and national level; and (b) improve its capacity to respond promptly and effectively to an eligible emergency. The closing date of this Project is April 30, 2019.

Recently Closed Projects:

Honduras Water and Sanitation Sector Modernization Project (PROMOSAS), closed December 2016. The PDO of PROMOSAS was to support the Recipient to improve: (a) the sustainability, efficiency, and reliability of its WSS services in Eligible Municipalities; (b) the performance of its national WSS sector institutions in the exercise of their respective roles in accordance with the WSS Sector Framework Law; and (c) its capacity to respond promptly and effectively to an Eligible Emergency.

Second Land Administration, closed January 2017. The PDO of the Project was to provide improved, decentralized land administration services, including better access to and more accurate information on property records and transactions.

First Fiscal Sustainability and Enhanced Competitiveness DPF, closed March 2017, to support the Government's efforts in (i) strengthening institutional arrangements to support fiscal sustainability; and (ii) enhancing the regulatory framework to promote competitiveness.

B. Non-Lending Activities

Economic and Sector Work. Honduras benefits from a comprehensive series of completed, ongoing and planned analytical and advisory activities to support the CPF pillars. Recently completed economic and sector work includes: "Honduras - Unlocking Economic Potential for Greater Opportunities : Systematic Country Diagnostic" (2015), "Honduras Economic Diagnostic for National Action (DNA)" (2015); a Guidance for Enhanced Regulatory Capacity for Improved Governance in Extractive Industries (2016); a regional study on the Fiscal and Welfare Impacts of Electricity Subsidies in Central America (2017); a "Technical and Economic Analysis of the Penetration of Wind and Solar Energy in the Honduran Electricity Grid" (2017). The current ongoing analytical and advisory services include: support to the development of the Education Sector Plan, Jobs Diagnostic; the regional study Women in Central America: An Overview of Progress and Challenges and a study on the migration and remittances. The Bank is also providing technical assistance in the area of public finances, contingent liabilities, energy sector reform as well as transparency and accountability through the Global Partnership for Social Accountability grant provided by the USAID.

C. Financial Relations

Project	Loan	Original Amount (USD Eq)	Percent Disbursed	Approval Date	Sign Date	Closing Date	Undisbursed Balance (USD Eq)	Disbursed Outstanding Balance (USD Eq)
Disaster Risk Management Project	IDA 51900	30,000,000.00	36.95%	13-Dec-12	18-Dec-12	30-Apr-19	12,917,345.62	11,087,231.08
HN Safer Municipalities	IDA 51920	15,000,000.00	54.42%	13-Dec-12	18-Dec-12	31-Aug-18	3,421,961.02	8,163,774.04
Social Protection	IDA 56030	25,000,000.00	84.22%	31-Mar-15	19-May-15	31-Dec-17	3,944,255.63	21,055,744.37
Social Protection	IDA 52940	12,300,000.00	94.36%	8-Aug-13	26-Aug-13	31-Dec-17	27,469.07	11,607,428.93
Social Protection	IDA 47740	40,000,000.00	93.97%	29-Jun-10	2-Aug-10	31-Dec-17	10,417.01	37,590,167.99
Honduras Rural Competitiveness Project	IDA 44650	30,000,000.00	47.50%	17-Jun-08	17-Sep-08	31-Dec-18	164,435.30	14,252,564
Honduras Rural Competitiveness Project	IDA 60460	25,000,000.00	0.00%	18-May-17		30-Nov-20	25,000,000.00	0.00
PROSASUR – Corredor Seco Food Security Project	TF 17904	30,000,000.00	8.61%	24-Sept-15	11-Nov-15	30-Oct-21	27,415,877.30	2,584,122.70

Period	Disb. Amt.	Repay Amt.	Net Amt.	Charges	Fees
Jul 2006 - Jun 2007	41,624,795.86	0.00	41,624,795.86	2,424,638.03	596,191.13
Jul 2007 - Jun 2008	62,219,851.37	0.00	62,219,851.37	1,395,496.53	1,810,261.38
Jul 2008 - Jun 2009	49,391,574.72	0.00	49,391,574.72	0.00	3,313,284.34
Jul 2009 - Jun 2010	31,696,088.07	0.00	31,696,088.07	0.00	3,643,503.66
Jul 2010 - Jun 2011	118,584,340.26	1,105,404.96	117,478,935.30	0.00	4,103,991.95
Jul 2011 - Jun 2012	147,730,043.84	2,635,298.73	145,094,745.11	0.00	4,855,712.31
Jul 2012 - Jun 2013	87,062,015.07	3,202,199.84	83,859,815.23	1,186,246.38	5,943,753.48
Jul 2013 - Jun 2014	68,112,870.03	4,390,624.09	63,722,245.94	1,098,579.63	6,554,020.70
Jul 2014 - Jun 2015	91,206,208.19	7,633,158.67	83,573,049.52	1,165,256.68	6,484,201.02
Jul 2015 - Jun 2016	76,539,217.77	21,332,670.75	55,206,547.02	2,166,183.33	6,653,254.21
Jul 2016 – Jun 2017	28,378,659.17	24,761,314.50	3,617,344.67	3,035,493.00	7,912,871.45
Total	**802,545,664.40**	**65,060,671.54**	**737,484,992.80**	**12,471,893.58**	**51,871,045.63**

STATISTICAL ISSUES

(As of September 20, 2017)

I. Assessment of Data Adequacy for Surveillance

General: Data provided to the Fund are broadly adequate for surveillance and program monitoring purposes. However, monitoring will benefit from both better timing of data release and more comprehensive data coverage. Some issues that were flagged in the previous Article IV have not been fully addressed, including the lack of comprehensive data on the financial operations of public enterprises, enhancing reporting of government guarantees and fiscal contingent liabilities, and a valid and reliable methodology to estimate private capital flows.

National Accounts: The Central Bank of Honduras (BCH) compiles the national accounts estimates following the *System of National Accounts 1993* (*1993 SNA*), rev. 4. The base year is 2000. The quarterly GDP data are fully consistent with the new annual series. The BCH annually provides the Honduran Institute of Tourism (ITH) with basic detailed data of the input-output matrix in order to develop the Tourism Satellite Account in the framework of national accounts (expected to be published during the second semester). The BCH is working on updating the base year, including adopting the main recommendations of the 2008 SNA, with support of TA from an independent consultant and CAPTAC-DR.

Labor statistics: Estimates of average wages and unit labor costs will help assess competitiveness and conducting a comprehensive household survey will help evaluate labor market conditions.

Price Statistics: The BCH prepares and publishes (since April 2000) the consumer price index (CPI), with reference period December 1999 = 100. The selection of products included in the CPI basket and corresponding weights are based on the National Household Income and Expenditure Survey (NHIES) of 1998–99. A new NHIES for 2016-2017 is expected to begin shortly. The BCH also revised the producer price index by expanding its coverage and updating its base and classification, in the context of the revision of the national accounts; preliminary estimations of this index were made and are expected to be released soon. The index only includes goods for processing activities (maquila), trade and transport margins, which limits its use it in the compilation of national accounts at constant prices.

Government Finance Statistics: The Ministry of Finance (SEFIN) compiles and disseminates government finance statistics (GFS) covering central administration, central government, general government, and nonfinancial public sector. The above-the-line data of these sectors are reported to WHD, along with below-the-line data for central administration and nonfinancial public sector, which are provided by the BCH. Currently, the SEFIN and the BCH are participating in the GFS harmonization project for Central America, Panama, and Dominican Republic. Under this project, country participants will elaborate and publish comparable GFS across countries to permit a comparative analysis of fiscal developments and facilitate the regional policy dialogue. The components of the projects are: (i) compilation and dissemination of high quality GFS sub-annual and annual data using the GFSM 2014 framework, and (ii) work towards the gradual implementation of the *Government Finance Statistics Manual 2014 (GFSM 2014)* and the *Public Sector Debt Statistics Guide (PSDSG)*. A mechanism is needed to systematically collect data on arrears and floating debt of public enterprises.

Monetary and Financial Statistics: Monetary and financial statistics (MFS) are reported to STA on a regular monthly basis using the standardized report forms (SRFs) for the central bank, other depository corporations, and other financial corporations (OFCs). However, pension funds are excluded from the coverage of OFCs. The inclusion of pension funds, and cross-sectoral data consistency between MFS and other data sets are the major issues that should be addressed.
Financial sector surveillance: The authorities report nine out of 12 core financial soundness indicators and three of the encouraged set.
External sector statistics: Honduras has achieved significant milestones in the context of the CAPTAC-DR's Regional Harmonization Project of External Sector Statistics (ESS), which ended in December 2015. The BCH disseminates quarterly Balance of Payments and International Investment Position (IIP) statistics, and monthly the Data Template on International Reserves and Foreign Currency Liquidity. Honduras also participates in the Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS). Work in progress at the BCH aims at (a) improving the coverage of the surveys on nonfinancial corporations, and, particularly, on direct investment enterprises, (b) improving the coverage of ESS; (c) ensuring consistency between external debt statistics and IIP statistics, and, (d) completing the migration to a BPM6 basis of recording and dissemination of external sector statistics.

II. Data Standards and Quality	
Honduras is an e-GDDS participant. In June 2016, it implemented the e-GDDS recommendations—including the launch of a National Summary Data Page to serve as a one-stop portal for essential macroeconomic and financial data. We encourage the authorities to start data dissemination according to a publicly available Advance Release Calendar, and take steps toward SDDS subscription.	Data ROSC was published on July 29, 2005.

Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]	Memo Items:[8] Data Quality – Methodological soundness[9]	Data Quality – Accuracy and reliability[10]
Exchange Rates	20/09/17	20/09/17	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	14/09/17	19/09/17	D	D	D		
Reserve/Base Money	7/09/17	19/09/17	D	M	D		
Broad Money	31/07/17	01/09/17	M	M	M		
Central Bank Balance Sheet	7/09/17	19/09/17	D	M	D		
Consolidated Balance Sheet of the Banking System	31/07/17	01/09/17	M	M	M		
Interest Rates[2]	08/09/17	19/09/17	W	M	M		
Consumer Price Index	31/08/17	09/09/17	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	30/06/17	31/08/17	Q	Q	Q		
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	30/06/17	31/07/17	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[5]	30/06/17	31/07/17	Q	Q	Q		
External Current Account Balance	31/03/17	15/07/17	Q	Q	Q		
Exports and Imports of Goods and Services	31/08/17	15/09/17	M	M	M		
GDP/GNP	31/03/17	01/07/17	Q	Q	Q		
Gross External Debt	31/07/17	01/09/17	M	M	M		
International Investment Position[6]	31/03/17	01/07/17	Q	Q	Q		

[1]Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

[7] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

[8] These columns should only be included for countries for which Data ROSC (or a Substantive Update) has been published.

[9] This reflects the assessment provided in the data ROSC or the Substantive Update (published on ..., and based on the findings of the mission that took place during...) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O); largely observed (LO); largely not observed (LNO); not observed (NO); and not available (NA).

[10] Same as footnote 7, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.

Statement by Carlos Hurtado, Executive Director for Honduras
October 27, 2017

On behalf of the Honduran authorities, we would like to thank staff for their report and fruitful discussions held during the 2017 Fifth and Sixth Reviews Under the Stand-By Arrangement (SBA). We are also grateful for Management and Executive Directors' ongoing support.

With strong ownership from the Honduran authorities of a Fund-supported program, the economic situation has improved dramatically over the past three and a half years. Honduras has successfully restored macroeconomic stability; substantially lowered the fiscal deficit (from a combined public sector deficit of 7.5 percent to a targeted deficit of 1.4 percent) and institutionalized fiscal prudence;[1] increased and maintained GDP growth; improved the external balance and initiated the path to adopt a more flexible exchange rate arrangement and an inflation targeting regime. These results have given rise to regained national and international investors' confidence reflected through historically low country risk premium.

On social conditions, the Honduran government has also made significant advances. The poverty rate has fallen from 65 percent in 2013 to 61 percent in 2016,[2] owing to sustained economic growth as well as the implementation of targeted social programs such as "Vida Mejor" a conditional cash transfers program (additional benefits included allocation to improve housing and access to solidarity lending, among others). Additionally, considerable progress has been made to improve domestic security (the homicide rate has decreased from 75 per 100.000 in 2013 to 40 per 100.000 to date).[3] Furthermore, a special anti-corruption unit within the public prosecutors' office, created in October and backed by the Mission to Support the Fight Against Corruption and Impunity in Honduras (MACCIH),[4] recently held their first hearings, enhancing the government's credibility in their fight against corruption.

Fiscal Performance

Fiscal discipline has been restored supported by the implementation of the Fiscal Responsibility Law (FRL) enacted in March 2016 and, to reinforce commitment with macroeconomic stability, Honduran authorities established their own targets for end-2017, which are lower than the ceilings implied by the FRL. The 2018 budget submitted to Congress was fully aligned with the FRL. Related to the new operational customs administration, guidance from the Fiscal Affairs Department (FAD) has been invaluable in guiding the elaboration and implementation of a medium-term strategic plan for customs.

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[1] A fiscal responsibility law was approved by Congress in March 2016.

[2] Similar results were obtained through the Global Multidimensional Poverty Index (MPI) that decreased from 74.2 percent in 2013 to 70.7 percent in 2016 (around 170,000 people).

[3] The homicide rate fell by 25.4 percent in the first nine months of 2017.

[4] In 2016, the government and the Organization of American States (OAS) signed an agreement to establish the MACCIH.

In addition, the financial position of the Honduran energy company (ENEE) has been strengthened and is evolving as expected. The reform strategy consists of an ongoing adoption of a tariff scheme based on cost-recovery principles. Additionally, the rightsizing program in ENEE concluded with a 60 percent reduction in the workforce.

On financial stability

Throughout the duration of the program, Honduras has taken several actions designed to protect the country's financial stability—including measures to discourage lending to unhedged foreign exchange (FX) borrowers—which resulted in a reduction of FX credit; enactment of a strengthened bank resolution framework and creation of the Financial Stability Committee (made operational recently); enactment of a financial inclusion law and regulations to reduce potential vulnerabilities coming from consumer loans from public pension funds to their affiliates. On these last two issues, authorities are committed to mitigating the risks from lending by public pension funds, strengthening the monitoring of pension funds' investments as well as households credit, and are ready to take additional measures, if necessary.

Credit Card Law

As the staff observes in their report, the authorities are aware of the potential borrowing problem facing households (particularly credit card loans, which account for around 9 percent of the total loan portfolio). Due to this and to protect financial consumers, the government enacted in August 2017 a Credit Card Law that expands the macroprudential toolkit, which seeks to mitigate credit risks by establishing limits to the ratio of loans to income. Moreover, authorities have agreed to evaluate the implementation of additional policy measures to contain and reduce household indebtedness.

On the way to inflation targeting

The Fund's technical assistance, combined with the authorities' knowledge of the country's financial market which enabled the adaptation of measures in accordance to Honduras' economic reality, has been crucial to the success of the gradual implementation of measures destined to pave the way towards inflation targeting and a more flexible exchange rate arrangement (Honduras had maintained a de jure crawling peg for more than twenty years). To promote the transition to a more flexible exchange rate system by creating a foreign interbank market, the FX surrender requirements were decreased by 10 percent and other steps in the same direction are forthcoming. In addition, new regulations were passed to strengthen the interbank money market to support the monetary transmission mechanism. Recently, the central bank made organizational changes for an effective implementation of an inflation targeting monetary scheme. The actions taken to date have been well received and understood by the private sector. Additionally, authorities will continue to review the Central Bank Law to grant the central bank more authority and independence as well as the necessary governance structure.

Given the strong program performance, on behalf of our authorities, we request the completion of the Fifth and Sixth Reviews Under the Stand-By Arrangement (SBA).