INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/186

HONDURAS

June 2020

SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR AUGMENTATION AND REPHASING OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HONDURAS

In the context of the Second Reviews Under the Stand-by Arrangement and the Arrangement Under the Standby Credit Facility, Requests for Augmentation and Rephasing of Access, and Modification of Performance Criteria 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 June 1, 2020, following discussions that ended on May 6, 2020, with the officials of Honduras on economic developments and policies underpinning the IMF Stand-By Arrangement and the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 22, 2020.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Honduras.

The documents listed below have been or will be separately released.

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

Memorandum of Economic and Financial Policies by the authorities of Honduras*

Technical Memorandum of Understanding*

*Also included in Staff Report

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR20/230

IMF Executive Board Completes Second Reviews Under SBA and SCF Arrangement and Approves Augmentations of Access to Support Honduras' COVID-19 Measures

FOR IMMEDIATE RELEASE

- The decisions increase total Fund support to about US$531 million. This immediately releases US$233 million, more than a fivefold increase in the amount originally approved by the Executive Board.
- The COVID-19 pandemic and external spillovers are expected to hit Honduras hard, and the augmentation of access will support the authorities' response to mitigate the impact.
- The completion of the reviews will help Honduras meet urgent balance of payments needs stemming from the pandemic, including increased health care and social spending.

WASHINGTON, DC – **June 1, 2020** The Executive Board of the International Monetary Fund (IMF) completed today the second reviews of Honduras' performance under its economic program supported by a two-year Stand-By Arrangement (SBA) and a two-year arrangement under the Standby Credit Facility (SCF). This program was approved on July 15th, 2019 in the amount of about US$308 million (SDR 224.82 million), the equivalent of 90 percent of Honduras' quota in the IMF (see Press Release 19/284). Today, the Executive Board also approved augmentations of access under both arrangements by about US$223 million (SDR 162.37 million), bringing combined total access under the SBA and SCF arrangement to about US$531 million (SDR 387.19 million, 155 percent of quota).

The completion of the reviews will release about US$233 million (SDR 169.864 million), to help Honduras meet urgent balance of payments and fiscal financing needs stemming from the COVID-19 pandemic, including increased health care and social spending. In late March, to support the policy response to the crisis, the authorities decided to draw on available Fund resources for US$143 million (SDR 104.92 million). Previously, the authorities had treated the arrangements as precautionary.

Following the Executive Board's discussion on Honduras, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"The COVID-19 pandemic and external spillovers are having a significant impact on Honduras, but the authorities remain strongly committed to the Fund-supported economic program. Despite a challenging economic environment in 2019, they have strived to maintain macroeconomic stability and protect social spending and investment. Electricity sector reforms are making progress and steps are being taken to improve governance.

"The authorities are articulating a strong policy response, including by using the flexibility under the Fiscal Responsibility Law to temporarily increase the deficit and accommodate higher healthcare and social spending. Measures are temporary and targeted to support affected groups and mitigate structural vulnerabilities. Monetary policy remains geared

700 19th Street NW
Washington, DC 20431
USA

towards maintaining price stability and adequate international reserves, and efforts to strengthen the monetary policy framework and support the transition to a more flexible exchange rate continue. The authorities will strengthen tax administration to preserve tax revenue and protect critical spending. They will resume revenue mobilization efforts once the impact of the pandemic subsides.

"The authorities continue to take steps to improve the institutional framework in the electricity sector. Important measures have been incorporated into the program. These aim at improving governance and facilitating the unbundling of the national electricity company (ENEE). Tariffs continue to reflect the cost of electricity provision while providing subsidies to the poor.

"To improve governance, efforts are ongoing to strengthen public procurement and the institutional framework in the central bank and the Treasury. Reforms also aim at enhancing the Public Private Partnership, AML/CFT, and anti-corruption frameworks; and at securing transparency and accountability—including on pandemic-related emergency spending.

"The augmentation of access under the Stand-By Arrangement and the Arrangement under the Standby Credit Facility should help the authorities cover external financing needs to mitigate the impact of the pandemic."

INTERNATIONAL MONETARY FUND

HONDURAS

June 1, 2020

SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR AUGMENTATION AND REPHASING OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA

Context. The COVID-19 pandemic and massive external spillovers are expected to hit Honduras hard, with deep social and economic implications. They are projected to prompt a recession and create large additional financing needs, including due to a deterioration in external financing conditions amid large public sector rollover needs. These shocks are compounding existing strong headwinds to growth in Honduras from exogenous factors, notably related to climate change. To support the policy response to the crisis, the authorities decided to draw on available Fund resources for SDR 104.92 million in late March, used for budget support.

Request for Augmentation. SBA/SCF arrangements with combined access of SDR 224.8 million (90 percent of quota) were approved on July 15, 2019. The program will continue to help Honduras address its macroeconomic challenges, but additional balance of payments and fiscal financing needs due to the pandemic call for an augmentation of access and modification of conditionality. The authorities are requesting a rephasing and augmentation of access to SDR 387.2 million (155 percent of quota), SDR 129.1 million under the SCF and SDR 258.1 million under the SBA, to be used for budget support.

Program Implementation. The authorities are strongly committed to the program, which remains on track. All end-December 2019 PCs, continuous PCs and all but one ITs were met. The authorities made substantial progress on reforms, completing several structural benchmarks and advancing on others. However, the economic slowdown and the pandemic have created challenges, prompting some delays and creating headwinds for the revenue mobilization agenda.

Focus of the Reviews. Discussions focused on pandemic-related challenges and measures to maintain the program objectives while allowing an adequate policy response. In particular, the importance of articulating a response to the pandemic that maintains the quality of fiscal policy, new elements in the program on electricity sector reforms, improvements in the monetary policy and financial framework; and the governance reform agenda were discussed.

Approved By
Patricia Alonso-Gamo (WHD) and Ana Corbacho (SPR)

Discussions took place via conference calls during April 24-May 6, 2020. The staff team comprised Esteban Vesperoni (head), Julia Bersch and Javier Kapsoli (all WHD), Cristian Alonso (FAD), and Tito Nicias Teixeira Da Silva Filho (SPR). Jaume Puig, Resident Representative in Tegucigalpa and Marlon Tábora (OED) participated in the discussions. Catherine Koh and Heidi Canelas (all WHD) provided research assistance and document management, respectively.

CONTENTS

ANNEX

APPENDIX

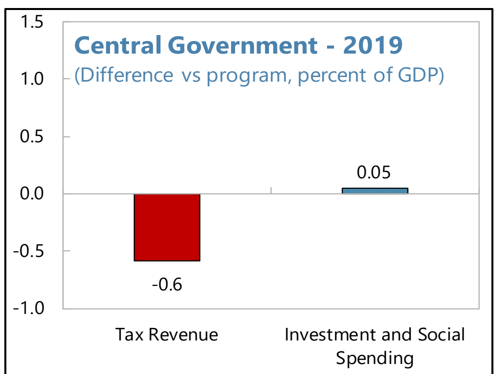
CONTEXT

1. The COVID-19 pandemic is expected to hit Honduras hard, with deep social and economic implications. The pandemic is projected to prompt a recession and increase already high poverty rates, working through several channels reflecting structural vulnerabilities and very large spillovers from the global economy. The fragility of the health system has prompted the authorities to lock down the economy early in the initiation phase of the virus, a prudent decision but with large costs in terms of activity. Spillovers are affecting the economy through lower external demand, tourism arrivals and remittances; and a deterioration in external financing conditions amid large public sector rollover needs. These shocks compound strong headwinds to growth—notably a severe drought resulting from climate change.[1] To respond to the pandemic, the authorities decided in late March to draw on SDR 104.92 million in Fund resources available after completion of the first review, used for budget support.

2. The authorities remain committed to the program objectives, while adjustments are needed to allow an adequate policy response to the pandemic. Despite the challenging economic environment in 2019, all end-December quantitative and continuous performance criteria (PCs) were met. The authorities have strived to maintain macroeconomic stability and protect social spending and investment from the fallout of revenues associated with last year's slowdown; reforms in the electricity sector are making progress and steps are being taken to improve governance. The pandemic will increase balance of payments (BOP) and fiscal financing needs significantly and in order to allow an adequate policy response the authorities are requesting an augmentation and rephasing of access from SDR 224.8 million (90 percent of quota) to SDR 387.2 million (155 percent of quota)—under the SCF from SDR 74.9 million to SDR 129.1 million and under the SBA from SDR 149.9 million to SDR 258.1 million, and to use it for budget support. The authorities are considering whether to request debt service suspension from official bilateral creditors as envisaged under the Debt Service Suspension Initiative, supported by the G-20 and Paris Club.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

3. Activity softened in 2019, but the authorities maintained the course on program objectives. Growth slowed from 3¾ percent in 2018 to 2¾ percent in 2019, dragged by a contraction in agriculture—due to the drought—and a deceleration in manufacturing. Headline inflation eased to the midpoint of the BCH's target band, amid falling inflation expectations. Import compression and buoyant remittances reduced the current account deficit to ¾ percent of GDP, allowing a larger than expected NIR accumulation—nonetheless, Honduras remains at the lower segment of the



Sources: National authorities and IMF staff calculations.

[1] Honduras is one the countries most affected by climate change.

ARA metric. Despite the revenue shortfall, the authorities maintained the fiscal stance within program targets—the nonfinancial public sector (NFPS) deficit reached 0.9 percent of GDP—while protecting investment and social spending through strict control of nonpriority current spending.

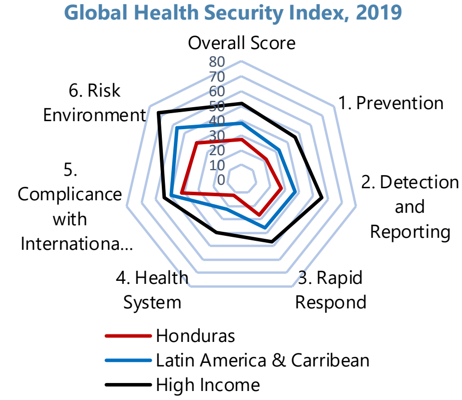
4. **The pandemic and its associated global spillovers are affecting the economy, but the financial system remains stable.** The lockdown is putting pressure on households and firms' income and remittances have decelerated significantly in April. EMBI spreads increased sharply in March, in line with regional and global developments, but declined again in May. The exchange rate depreciated only modestly, while the interbank market continues to operate smoothly. Central bank liquidity measures have supported the banking system, bank deposits have increased, private sector credit is stable, and solvency and liquidity indicators remain adequate.

5. **The authorities have taken swift and targeted actions to mitigate the impact of the pandemic.** Measures are targeted to support affected groups and mitigate structural vulnerabilities. They are being channeled through budget transfers, and are temporary in nature:

- *Lockdown.* The authorities have implemented strong mitigation measures—closing the border and declaring a national curfew on March 16—implying no group gatherings, school closures and tight restrictions on circulations. As of May 17, 2,646 COVID-19 cases and 142 deaths were reported.
- *Fiscal*. Efforts are concentrated on shoring up the fragile health system, including by reallocating spending towards the health sector, and providing transfers to protect a large share of the population facing a humanitarian crisis amid the lockdown. (MEFP ¶9)
- *Monetary and financial*. In 2020, the central bank reduced its policy rate by 100 basis points. Other measures are focused on increasing liquidity, allowing debt service rescheduling for affected debtors and providing subsidized loans to SMEs and the agricultural sector. (MEFP ¶¶22 and 27)

6. **Despite these efforts, the pandemic is expected to cause a deep recession, prompt additional fiscal needs, and stress the international reserve position.** The mitigation measures will help to save lives by alleviating pressures on the health system—which is particularly fragile—but at a large social and economic cost. Additionally, the economy is going to be hit by massive external spillovers from trade (trading partners' GDP is projected to contract by about 5¾ percent in 2020), significantly lower remittances, weaker tourism arrivals, and tighter financial conditions. Overall, economic activity is expected to decline by 3¼ percent in 2020. Public finances will come under significant pressure due to lower tax revenues and higher health and social spending, widening the NFPS deficit to 4 percent of GDP, using the flexibility provided by the Fiscal Responsibility Law (FRL).

Global Health Security Index, 2019



Source: John Hopkins Center for Health Security.

Finally, the impact of the shock on remittances, tourism, trade, and capital flows is expected to have an impact on central bank reserve accumulation.

7. The economy is expected to recover in 2021, but significant downside risks remain. Global activity is projected to start recovering in the second half of 2020 and rebound in 2021, supporting the Honduran economy. Over the medium term, growth is projected to hover around its potential. Inflation is expected to stay within the BCH's target band while the current account deficit would gradually widen on the back of the economic recovery and notwithstanding the return of remittances growth to historical rates. The fiscal deficit will be reduced over two years towards the FRL's target. Uncertainty around the outlook is high and risks are tilted to the downside (Annex I):

Text Table 1. Honduras: Program Scenario

(Selected Indicators, Percent of GDP Unless Otherwise Specified)

	Actual		Prel.	Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real									
GDP growth	4.8	3.7	2.7	-3.3	4.7	4.2	3.9	3.9	3.9
Inflation (average, percent change)	3.9	4.3	4.4	3.5	3.2	4.1	4.0	4.0	4.0
Fiscal									
Tax revenue	18.3	18.5	17.5	15.6	16.8	17.5	17.6	17.7	17.8
Primary balance	0.1	0.0	0.2	-3.0	-1.5	0.4	0.2	0.3	0.5
Overall balance	-0.8	-0.9	-0.9	-4.0	-3.0	-1.0	-1.0	-0.9	-0.9
Gross debt	40.1	42.2	43.1	47.8	50.9	51.6	51.4	50.4	48.9
Balance of payments									
Current account balance	-0.8	-5.4	-1.4	-2.1	-2.5	-3.4	-3.9	-4.0	-4.0
Foreign direct investment	4.5	3.7	2.0	1.4	2.5	2.7	3.0	3.5	4.1
Terms of trade (percent)	-2.3	-6.1	-0.4	12.0	-0.5	-1.0	-0.8	-0.9	-0.6
Monetary									
Change in net international reserves (mill. U.S.) 1/	884	50	993	18	460	320	400	400	440
Credit to the private sector (percent change)	9.3	14.3	8.8	2.0	8.9	7.9	7.7	7.4	7.4

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

1/ NIR (BCH) corresponds to reserves assets minus obligations with the IMF.

- *COVID-19 pandemic.* A protracted outbreak, with a prolonged impact on global growth and financial conditions, will delay the recovery and affect the fiscal stance. It will also have severe health and social consequences.
- *External risks.* Renewed protectionism could hamper long-term growth prospects, affecting exports and deteriorating the external position. Persistently tighter financial conditions would increase debt service, potentially crowding out other spending.
- *Domestic and climate-related risks.* A fragmented political landscape in the context of the forthcoming elections may complicate the passage of reforms. Natural disasters related to climate change would also reduce growth, exports and increase poverty and migration.

PROGRAM IMPLEMENTATION

8. All quantitative and continuous PCs and all but one indicative targets for end-December 2019 have been met (Text Table 2). The authorities missed the target on the public electricity company's (ENEE) operational ratio, as court orders forced ENEE to rehire workers previously dismissed. Nevertheless, this ratio improved from 0.93 in 2018 to 0.98 in 2019.

Text Table 2. Honduras: Program Implementation

(Cumulative flows; millions of Lempiras, unless specified)

	End-September			End-December			
	Program 1/	Actual	Status	Program 2/	Adj. 3/	Actual	Status
Fiscal Targets							
Quantitaive Performance Criteria							
Floor on net lending of the nonfinancial public sector	-3,898	3,304	**Met**	-6,100	...	-5,276	**Met**
Floor on net lending of ENEE	-4,312	-3,695	**Met**	-6,160	...	-5,937	**Met**
Ceiling on the accumulation of domestic arrears by ENEE	0	0	**Met**	0	...	0	**Met**
Ceiling on the accumulation of new external arrears (in million US$)	0	0	**Met**	0	...	0	**Met**
Ceiling on lending minus repayments from public pension funds	600	569	**Met**	800	...	599	**Met**
Indicative Targets							
Floor on the central government tax revenues	66,502	80,348	**Met**	107,180	...	107,446	**Met**
Ceiling on the central government wage bill	28,200	33,334	**Not Met**	47,000	...	46,962	**Met**
Floor on priority social spending	1,762	3,578	**Met**	5,873	...	6,375	**Met**
Floor on the operating revenue-to-spending ratio of ENEE	0.99	1.00	**Met**	1.02	...	0.98	**Not Met**
Monetary targets							
Floor on the stock of non-borrowed net international reserves of the BCH (in million US$)	3,738	3,968	**Met**	3,972	4,016	4,669	**Met**
Ceiling on the stock of net domestic assets of the central bank	-50,679	-61,394	**Met**	-53,931	-55,019	-70,430	**Met**

1/ Staff Report for the Request of a Stand-By Arrangement and an Arrangement under the Stand-By Credit Facility, July 2019.
2/ Staff Report for the First Reviews under the Stand-By Arrangement and the Arrangement under the Stand-By Credit Facility, December 2019.
3/ Adjustors as indicated in the Techincal Memorandum of Understanding.

9. The authorities made significant progress on reforms. They submitted to Congress a new central bank law (with technical support from LEG) and approved a timeline to eliminate surrender requirements. The authorities also submitted to Congress a proposal to address the financial situation in BANADESA, the draft securities market law (prepared with MCM TA) and a new public procurement law. They published the plan to execute trust funds' spending using full PFM regulations starting in the 2021 budget (completed with FAD support) and developed the plan to implement the electronic signature.

10. The pandemic has created challenges for some structural benchmarks, temporarily delaying completion. The economic slowdown and the pandemic prevented the authorities from building support in Congress for proposals to streamline tax exemptions. Two amendments to the tax code—the transfer of exemptions from the Treasury to the Tax Administration Office (SAR) and the electronic notification to taxpayers—were submitted to Congress and are pending approval (*proposed as rescheduled structural benchmarks*). The centralized wage bargaining mechanism was delayed due to technical issues that were solved with assistance from the World Bank and FAD, and the pandemic delayed submission to Congress of legislation requiring public regulatory agencies to streamline and publicize requirements for obtaining permits—both proposed as rescheduled structural benchmarks.

POLICY DISCUSSIONS

Discussions focused on pandemic-related challenges and measures to maintain the program objectives while allowing an adequate policy response. In particular, the importance of articulating a response to the pandemic that maintains the quality of fiscal policy, proposed new structural benchmarks on electricity sector reforms, improvements in the monetary policy and financial framework; and the governance reform agenda were discussed.

A. Responding to the Pandemic and Keeping the Quality of Fiscal Policy

Mitigating the Impact of the Pandemic

11. The pandemic has generated substantial spending needs to mitigate the economic, social and humanitarian impact. Efforts are concentrated on supporting the fragile health system and providing targeted support to families, workers, and firms. Additional crisis-related spending needs are estimated at 2.1 percent of GDP in 2020, including emergency healthcare expenditures (0.9 percent of GDP), temporary unemployment benefits to formal workers, delivery of food supplies to poor families, and cash transfers to informal workers. The authorities have identified significant nonpriority spending reallocations to partly finance these emergency expenditures.[2]

COVID-19 Social Spending
(percent of GDP)

Distribution of food supplies and other basic items to over 1 million poor households for 1 month.	0.2
Cash transfer of 2,000 lempiras per month to informal workers (up to 500,000) through electronic payment leveraging the CENISS database for targeting.	0.4
Temporary unemployment benefits of 6,000 lempiras per month for (up to 700,000) workers suspended in maquila, tourism, and other industries affiliated to the private pension regime. The cost of the scheme is shared by the employer, the private pension regime, and the government.	0.6
Total	**1.2**

Source: National authorities.

12. The expected recession will also weigh on tax revenue. The economic recession and temporary measures to mitigate the impact of the pandemic are explaining most of the decline in tax collection to 15.6 percent of GDP, 2.4 percent of GDP lower than expected under the program. The main factors behind this reduction are: (i) weaker growth (1.4 percent of GDP), (ii) lack of consensus in Congress to pass legislation reducing tax exemptions (0.4 percent of GDP), (iii) measures on medical supplies and free economic zones (0.1 percent of GDP), and (iv) reduced advance payments in corporate income tax to provide cash flow relief to companies (0.5 percent of

[2] These spending reductions reflect lower operational costs due to pandemic-related closures of some government buildings, purchases associated with the postponed move to the new Centro Cívico Gubernamental, and other cuts in goods and services.

GDP).[3] In response to the pandemic, the authorities have resisted calls to provide across-the-board tax benefits and have conceded tax deferrals instead.[4]

13. To mitigate the impact of the pandemic, the authorities will implement a well-targeted fiscal loosening. The FRL—which the authorities overperformed since its inception four years ago—provides an escape clause to deal with emergencies. It allows a temporary increase in the NFPS deficit, while requiring a gradual return to the fiscal ceiling. Amid unavoidable tax revenue losses and new health and social spending needs, the authorities envisage a loosening in the fiscal stance by 3 percent of GDP in 2020, resulting in a NFPS deficit of 4 percent of GDP. Using this flexibility will support an adequate crisis response while maintaining fiscal prudence over the medium term. Returning to the 1 percent NFPS deficit ceiling in 2022, Honduras remains at low risk of debt distress (see Annex II).

Fiscal Accounts: Central Government
(in percent of GDP)

	2020		
	1st review	2nd review	Difference
Revenue	19.8	17.3	-2.5
of which: Taxes	18.1	15.6	-2.4
Expenditure	22.7	23.4	0.7
of which: COVID-19 health spending		0.9	0.9
of which: COVID-19 social spending		1.2	1.2
Overall balance	-2.8	-6.1	-3.2
Memo:			
NFPS deficit	1.0	4.0	3.0

Source: National authorities and IMF staff calculations.

14. The authorities have taken measures to guarantee the transparency and accountability of emergency spending during the pandemic. They are categorizing and tracking all pandemic-related expenditure in the budget to facilitate the monitoring and publication of this spending—including through oversight by civil society— which is taking place in a dedicated web page. The authorities will also expeditiously publish post-crisis reports of pandemic-related spending as policy responses to the crisis continue to be implemented. The Court of Accounts is conducting concurrent audits of all COVID-19 related spending to speed up procurement, in addition to usual ex-post audits, which will be published.

Fiscal Space for Critical Spending

15. Over the medium term, protecting critical spending requires preventing a reduction in tax revenue and controlling non-priority current spending. Given the severity of the pandemic, the near-term policy response factors in lower tax revenue. At the same time, the authorities will adopt measures that preserve the program objectives and create fiscal space for critical spending. To prevent a reduction in tax revenue over the medium term, the authorities will continue to strengthen tax administration, including by participating in several fiscal transparency initiatives, and

[3] Congress extended an existing tax exemption—due to expire in 2025—for companies in free economic zones. This benefit was broadened to other income-related taxes, with a small fiscal cost—less than 0.1 percent of GDP.
[4] Congress extended an existing tax amnesty to cover tax liabilities until November 2019, but this does not have a short-term cost in terms of tax collection.

refrain from granting across-the-board tax benefits. On the spending side, they will continue the prioritization policies implemented last year to control nonpriority current spending.

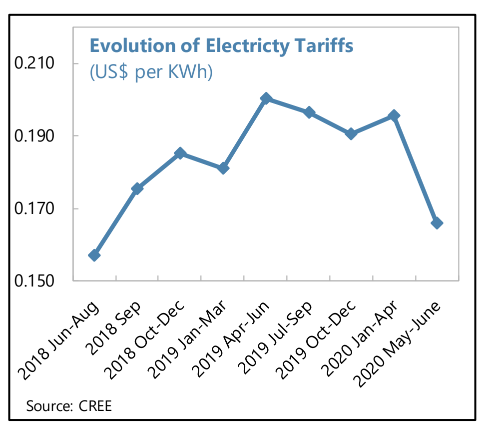
16. Despite challenges posed by the pandemic, the authorities continue to pursue tax administration measures and remain committed to their revenue mobilization agenda over the course of the program. They will engage with the private sector and work with Congress to build support towards approval of submitted legislation introducing electronic notification to taxpayers and a return to SAR of control and verification procedures for tax exemptions. Once the pandemic subsides, the authorities plan to resume their efforts to streamline tax exemptions to broaden the tax base, creating space for much-needed investment and social spending. In the meantime, they will continue raising social awareness and building consensus for this agenda, including by expanding the annex in the 2021 budget bundle with a cost-benefit analysis of tax exemptions (*proposed new structural benchmark*).

17. Public finance management reforms and the wage bill negotiation mechanism will be instrumental to control expenditures. The incorporation of trust funds' spending in the budget process will be important to ensure transparency and accountability and the authorities have created a unit within the Ministry of Finance to closely monitor trust funds. There was substantial progress to approve a new wage negotiation mechanism for the civil service and the authorities plan to enact it by June with assistance from the World Bank and FAD. This mechanism will strengthen the role of the Ministry of Finance in the bargaining process, instrumental to controlling current spending.

Creating Fiscal Space by Advancing Reforms in the Electricity Sector

18. The electricity sector reforms aim at strengthening the institutional framework and improving ENEE's governance and finances, while providing subsidies to the poor. An independent transmission system operator (ODS) and a regulatory body that sets tariffs based on operational costs (CREE) are already operating funded by a surcharge in electricity bills. To further strengthen CREE's governance, the authorities submitted to Congress a decree establishing its budgetary and operational independence. CREE approved ODS's medium term expansion plans that will guide new generation and investments plans in transmission. Furthermore, CREE and ODS continue to work on regulations aimed at making electricity markets more open and competitive.

19. CREE continues to work on regulations to implement the new tariff scheme. The regulator announced a 3 percent adjustment in tariffs for the January-March 2020 period, which has been fully subsidized for households consuming up to 150Mw and partially for those consuming 150-300Mw. In a context of high uncertainty related to the pandemic, revised demand projections, and collapsing oil prices, CREE delayed its quarterly tariff adjustment until May 1, when it announced a 14.8 percent reduction for May-June 2020. CREE is working on regulations



to phase in key elements of the new tariff scheme approved last summer, defined to reflect generation, transmission, and distribution costs.

20. Following due process, the authorities have initiated work on reassessing generation contracts that had not come into effect. These projects had been negotiated by ENEE over the last years, but the increase in supply they would bring about may not be in line with the expected evolution of electricity demand in Honduras—as defined by ODS's medium-term expansion plans—or may not be fully compliant. The authorities have already cancelled over twenty contracts that were in breach of contractual requirements, such as the provision of financial guarantees backing their implementation. They will continue the process of reviewing the remaining contracts over the next months, aiming at paving the way to procurement of energy following the electricity framework law.

21. The authorities intervened ENEE and created a law enforcement task force to reduce non-technical losses. The president appointed an intervention board to manage the company, with the mandate of placing it on a sustainable financial position through reductions in electricity losses and implementing reforms stated in the electricity sector framework law. A law enforcement task force has been assigned to recover unpaid bills and/or shut off delinquent customers. During the first two months in 2020, it has articulated 249 operations involving multiple interruptions of service to delinquent customers recovering about 0.1 percent of GDP in accounts receivable. The campaign has been temporarily suspended during the pandemic. To reduce technical losses, the authorities will upgrade the transmission grid, financed with a recently approved loan from the Inter-American Development Bank (IDB).

22. The ENEE Intervention Commission will take actions to perform a valuation of ENEE's assets. Limits in ENEE's data quality and lack of a proper valuation of assets are preventing the completion of the financial audits of the company. Hence, with support from the IDB, the authorities will hire an international firm to perform the valuation of ENEE's assets (*proposed new structural benchmark*). The planned asset valuation is a critical step to initiate the process of unbundling ENEE.

23. The authorities are committed to improving governance and the financial situation in ENEE. They plan to reach refinancing agreements with ENEE's creditors to reduce financing costs, including by terminating the distribution trust fund managing the company's cash flow, which will improve governance in ENEE as well (*proposed new structural benchmark*). Staff welcomed this step and encourage the authorities to continue working towards the elimination of the other trust funds. As financial markets normalize, the Ministry of Finance and ENEE will continue to seek resources and alternatives to restructure ENEE's financial obligations, in line with the ongoing electricity sector reforms. Additionally, in strict adherence to the legal framework, the authorities will seek a more efficient electricity market through agreements with existing private generation companies.

24. Following due process, the authorities will take steps to reassess the contract with EEH. They will finalize a study to estimate the cost of operating and maintaining the electricity distribution network, with IDB support (*proposed new structural benchmark*). This will be an important step both to implement the new electricity tariff scheme and to facilitate the dialogue with EEH.

25. The pandemic has raised challenges for ENEE as well. The lockdown has affected households and firms' income, leading to payment delays on electricity bills. This has created significant liquidity challenges in ENEE, giving place to new arrears with generators (estimated at US$100 million by end-June) that cannot be eliminated in the short run. Nonetheless, the authorities intend to gradually normalize these payments, aiming at clearing these new arrears by year-end.

B. Strengthening the Monetary Policy Framework and Financial Resilience

26. The authorities are implementing monetary and financial sector measures to soften the impact of the COVID-19 pandemic, while preserving financial stability. In line with Fund advice, immediate crisis response measures have concentrated on monetary easing, including by lowering the policy rate and injecting liquidity; allowing temporary debt service relief for affected sectors; a new credit guarantee scheme to foster credit while maintaining financial stability; and well-targeted support to critical sectors from the public development bank.

Monetary and Financial Policy: COVID-19 Measures

Instrument	Measure
Policy Rate	Reduced the policy rate by 75 basis points from 5.25 to 4.5 percent.
Emergency Lending Facility	Reduced the spread over the policy rate by 50 basis points.
Repo Rate	Reduced the spread by 25 basis points.
Liquidity	Suspended liquidity absorption operations and accelerated elimination of obligatory investments.
Guarantees	Created a guarantee fund for micro, small and medium enterprises.
Debt Relief	Provided temporary debt service relief to affected companies and individuals.
Additional Financing	Announced additional financing for SME loans, mortgages, and expedited approval of subsidized agricultural loans.

Source: Banco Central de Honduras

27. The credit guarantee fund can support the economic recovery, with limited fiscal risks. The guarantee fund for micro, small and medium enterprises has about 0.4 percent of GDP in capital and is expected to leverage 3 percent of GDP in new loans, which should support provision of working capital needed to restart activity. Contingent risks are limited through adequate credit quality thresholds for participation in the scheme and conservative assumptions on default rates underpinning the fund's capitalization. The fund will be financed with a loan from the Central American Bank for Economic Integration (CABEI) channeled through the central bank and managed by the second-tier public development bank Banhprovi. The authorities are considering setting up a separate credit guarantee scheme supporting large enterprises.

28. The authorities are closely monitoring the impact of the crisis and stand ready to take actions as needed to address potential liquidity or solvency issues.

- While bank liquidity, NPLs, profitability and capital adequacy are currently adequate, the authorities will closely monitor any impact from the pandemic. They will ensure that any losses are recognized against available buffers and new capital is raised if adequacy falls below regulatory standards. The central bank is also modernizing procedures to guarantee swift activation of its emergency lending facility when needed.

- The current regulatory and supervisory framework provided flexibility to introduce a debt service relief initiative, suspending principal and interest payments by affected sectors for three months. Afterwards, there can be targeted and timebound loan restructurings according to repayment capacity, while credit classifications remain frozen until the process is completed by October. While staff advised that lifting the regulatory freeze would be desirable for regulatory standards and transparency, the authorities considered that careful monitoring of these loans through a special new classification will be more appropriate during this period of heightened uncertainty over future payment capacities. Staff advocated explicit rules for provisioning and potential migration to NPLs of restructured loans.

- While the CNBS recently issued by-laws to implement the financial assistance law aimed at over-indebted borrowers, its implementation was interrupted by the pandemic. No new loan restructurings are taking place due to logistical complications to set up payroll deductions for debt service that are a key feature of the initiative. Moreover, banks are currently focused on managing the impact of the temporary debt service relief for sectors affected by the pandemic. The authorities intend to resume implementation of the financial assistance law as disruptions from the lockdown dissipate.

29. The authorities are complementing recent progress on the monetary policy framework with new initiatives. Collateralized interbank operations are now conducted on electronic platforms, strengthening monetary policy transmission. The authorities have reduced surrender requirements to 40 percent in January and will continue to implement the approved plan to gradually eliminate them, conditional on the normalization of economic conditions. They submitted to Congress a securities market law that should help strengthen the interest rate transmission channel. To further enhance the monetary policy framework and support the transition to a more flexible exchange rate, the authorities are working with support from MCM TA on: (i) adjusting FX intervention rules in preparation for the elimination of surrender requirements, (ii) regulations to support development of an FX derivate market, (iii) the use of treasury securities for monetary policy, and (iv) the development of an electronic platform to support a secondary securities market. The authorities request renewed temporary approval of the two multiple currency practices (MCPs) maintained for non-balance of payments reasons and staff supports this request.[5]

30. The authorities submitted to Congress a proposal to close the public agricultural bank (BANADESA). Pending approval, CNBS will continue to supervise the bank's operations, preventing new loans in line with regulatory guidelines. The government will refrain from injecting new public funds and appoint a new management team to maximize continued debt service and repayment of loans as they mature. The CNBS proposed, in parallel, the creation of a new agency to provide funding and technical assistance to the agricultural sector. While awaiting Congressional approval,

[5] The rationale for the request is in line with the description in the 2019 Article IV staff report.

the authorities have stepped up subsidized lending schemes for the sector funded by the public development bank Banhprovi.

C. Advancing the Agenda on Governance

31. The authorities aim at strengthening domestic institutions to foster the fight against corruption. Following thorough discussions with the Organization of American States over the mandate of the Mission to Support the Fight against Corruption and Impunity in Honduras (MACCIH) to incorporate more capacity building activities, lack of agreement prompted the government not to renew the MACCIH, with the view that the anti-corruption fight calls for the development of domestic institutions. To this end, the government announced the creation of a new anti-corruption unit (*Unidad Fiscal Especial contra la Impunidad y la Corrupción-UFERCO*), based on the structure of the former MACCIH's prosecutor office.

32. The authorities are implementing reforms to strengthen fiscal governance by preventing the misappropriation of public resources and limiting fiscal risks. They have already submitted a new procurement law to Congress to modernize the process and strengthen compliance. Furthermore, the authorities are making swift progress on the implementation of *Honducompras 2* and its full integration with the Treasury IFMIS (*September 2020*). They are also improving the framework for Public-Private Partnerships (PPP) and are creating a new PPP unit that will work with the Treasury's contingency unit to ensure that potential risks stemming from these partnerships are properly quantified and controlled. The IDB will provide technical assistance for the first two years of operation of the unit, and the authorities plan to issue the required by-law, in line with the structural benchmark (*June 2020*). The Treasury also started publishing comprehensive fiscal accounts, including financing flows.

33. To enhance governance, the authorities continue to strengthen the AML/CFT and anti-corruption framework. The Court of Accounts will issue by-laws to reform the public officials' asset declaration system to restrict the number of reporting officials, in line with good international practices; they are also developing, with IDB support, an electronic version of the asset declaration forms to migrate to electronic submissions, which will facilitate verification of declarations (*September 2020*). The authorities will also submit to Congress legislation requiring the amendment of the Code of Commerce to allow only registered shares, and the creation of a unified and centralized registry collecting beneficial ownership information that will ensure timely identification of owners of all types of legal persons, including by requiring legal entities to submit updates and establishing dissuasive actions to secure compliance (*September 2020*).

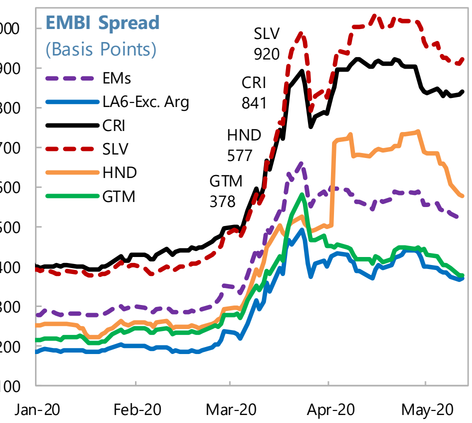
34. Several initiatives to improve the business environment are also advancing. The authorities have prepared draft legislation requiring regulatory agencies to streamline and publicize requirements for obtaining permits, to reduce discretion and accelerate approvals. Submission to Congress was delayed due to the lockdown, but the authorities plan to submit it by end-June. They also developed a plan to implement the electronic signature to simplify public administration procedures.

PROGRAM ISSUES

35. **The program remains appropriate to help Honduras address its macroeconomic challenges, but a rephasing and augmentation of access are needed.** The authorities' strong commitment to the solid fiscal framework gives credibility to the fiscal loosening proposed under the program, which also defines a clear convergence path to maintain debt sustainability. The program can help by providing financing until external financial conditions normalize. The fiscal program will help protect critical spending—including for the pandemic—and reforms in the electricity sector and governance can support the recovery in investment and growth. The pandemic and massive external spillovers will hit Honduras hard and lead to a significant increase in BOP needs. Staff, therefore, supports the authorities' request for augmentation and rephasing.

36. **The pandemic represents a larger and more complex shock than the one envisaged at program approval.** The disbursement scenario in the program considered a terms of trade shock that would deteriorate the current account. However, the impact of the pandemic is larger and involves both current account shocks and a sudden stop in capital flows; and calls for a looser fiscal stance. On the current account, weaker remittances—which are projected to fall by about 14 percent in nominal terms—and a collapse in tourism arrivals will be only partially offset by lower oil prices and import compression. On the financial account, the increase in spreads associated with the pandemic point to lower private rollover rates amid already weakening foreign direct investment. In this context, staff also envisages that the deterioration of global financial conditions raises risks to refinance a US$500 million Eurobond due by late-2020. Altogether, this implies an expected turnaround in the capital and financial accounts of about US$1.7 billion, partly offset by a lower current account deficit given better terms of trade, compared to the program.

EMBI Spread
(Basis Points)



Sources: Bloomberg LP.

Text Table 3. Honduras: BOP
(Millions of U.S. Dollars)

	Pre-COVID	2020
Current account	**-988**	**-520**
Trade Balance	-4,068	-2,748
o/w Exports of goods	6,274	5,674
o/w Imports of goods	10,341	8,421
Services	-824	-1,267
o/w Tourism	797	120
Income	-1,737	-1,491
Transfers	5,641	4,986
o/w Remittances	5,330	4,631
FDI (net)	999	345
Public sector borrowing	599	-228
Other capital flows	-420	-620
Change in reserves	-190	-18
BOP financing gap	**0**	**1,041**
Required additional resource	**0**	**1,041**
IMF disbursement	0	462
Other IFIS	0	579
IADB	0	160
CABEI	0	300
World Bank	0	119

Source: IMF staff projections

37. **The turnaround in the financial account will open a BOP financing need of about US$1 billion.** The authorities request an increase in access to SDR 129.1 million (51.67 percent of quota) under the SCF and SDR 258.1 million (103.33 percent of quota) under the SBA, and a rephasing of purchases under the arrangements (Tables 6 and 10). The Fund-supported program will catalyze additional financing from multilateral development banks of US$579 million to fill the BOP gap, preserving the reserve adequacy ratio (see Text Table 3). For 2021, new external financing for about US$350 million is expected, compared to the program. Thereby, the program is fully financed for this and next year. As higher public sector financing needs contribute to higher

BOP needs, the authorities will use the Fund disbursements for budget support. The exchange rate has depreciated modestly in the context of the crawling peg regime, which staff believes will not come under pressure because of the shock.

38. The authorities request some modifications of performance criteria. Downward revisions of NFPS' net lending targets for June-2020 and December-2020 are proposed to allow for an adequate fiscal response to the pandemic. ENEE's tighter net lending target for December-2020 reflects the positive impact of lower oil prices on generation costs. However, due to significant pandemic-related liquidity pressures, an increase in the ceiling on new domestic arrears for ENEE for June-2020 is proposed, which the authorities will clear by year-end. The June-2020 and December-2020 targets on lending minus repayments from pension funds were revised upward to accommodate potential pandemic-related increases in lending. Monetary targets for June-2020 and December-2020 are proposed to be modified as well and account for the expected capital flow deterioration in 2020.

39. Debt and capacity to repay. Honduras is assessed as having a low risk of debt distress, and strong capacity to repay the Fund. Outstanding liabilities to the Fund represent about 0.5 percent of GDP, and the proposed access would not affect significantly the level of external debt, as part of the increase in multilateral financing will be allocated to repay a Eurobond (US$500 million) due in December.

40. Safeguards assessment and budget support. The BCH is making progress in implementing the 2019 safeguards recommendations. Notably, the amendments to the central bank law were prepared in line with staff's advice and submitted to Congress. Steps are being taken to align the internal audit function with international leading practices. Further, the bank plans to transition to International Financial Reporting Standards (IFRS) in the near term. As Fund financing will be used for budget support, the BCH and the Ministry of Finance have signed an on-lending agreement that *inter alia* clarifies the responsibilities for repaying Fund resources.

STAFF APPRAISAL

41. Program performance remains strong. The authorities have made significant efforts to meet the program's quantitative targets. All end-December 2019 QPCs, continuous PCs and all but one ITs were met—the indicative target on ENEE's operational ratio was missed because court orders forced the company to rehire workers. Although the challenging economic environment and the lockdown associated with the pandemic have led to some delays and created headwinds for the revenue mobilization agenda, there has been substantial progress on reforms.

42. The authorities remain committed to the objectives of the program, while allowing an adequate policy response to the pandemic. The economy has been hit hard by the pandemic and massive external spillovers. The authorities are articulating a strong policy response, including by using the flexibility under the FRL, which allows for a temporary increase in the NFPS deficit, while mandating a gradual return to the deficit ceiling. They also remain committed to advance electricity sector reforms, persevere with tax administration reforms, implement significant governance reforms, and resume revenue mobilization efforts as the economy recovers from the pandemic.

Monetary policy continues to be geared towards maintaining price stability and an adequate level of international reserves to buffer external shocks. Efforts to strengthen the monetary policy framework and support the transition towards a more flexible exchange rate continue as planned.

43. Preventing a reduction in tax revenue and controlling non-priority current spending is required to protect critical spending. In the near term, the authorities will leverage tax administration to maintain the revenue envelope. They will engage with the private sector and work with Congress in the context of the 2021 budget discussions to build support towards approval of pending legislation aimed at more efficient administration practices. The authorities also remain committed to streamline tax exemptions to broaden the tax base and will resume their efforts in 2021, once the impact of the pandemic is expected to subside. In the meantime, they will continue to raise social awareness and build consensus for this agenda. To control nonpriority current spending, the authorities will continue last year's prioritization policies, approve a centralized wage negotiation mechanism and control nonsocial transfers.

44. The authorities have made progress in reforming the electricity sector, but further efforts are needed. Staff welcomes steps taken to improve the institutional framework in the electricity sector, in particular, efforts to strengthen the regulatory body and improve operations and governance in ENEE. Further efforts are needed for continued improvements in ENEE's governance and financial position, including reaching agreements with various stakeholders and reducing large electricity losses. A stronger financial position in ENEE will create space in the budget for much-needed social and infrastructure spending.

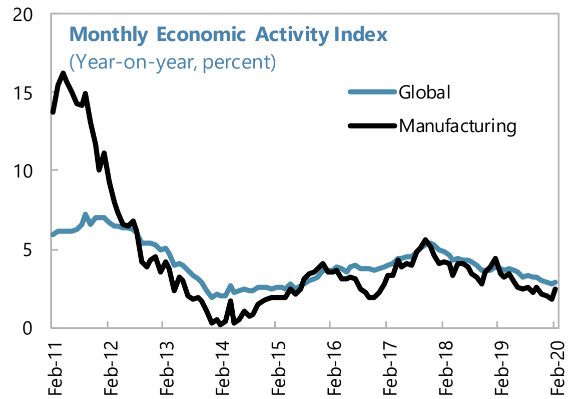
45. The authorities are implementing measures to improve governance and step up the fight against corruption. Efforts are ongoing to strengthen the institutional framework in the central bank, the Treasury, and public companies. Staff welcomes reforms to strengthen public procurement and the PPP framework, and measures taken to guarantee transparency and accountability of emergency spending during the pandemic and encouraged the authorities to continue with the implementation of their broad governance agenda.

46. Staff supports the authorities' renewed request for temporary approval of the two multiple currency practices subject to Fund jurisdiction under Article VIII, Section 3. The MCPs are maintained for non-balance of payments reasons. They do not materially impede the member's balance of payments adjustment, harm the interests of other members, or discriminate among members, and they are temporary. Staff again notes that the authorities' ongoing FX market liberalization should ultimately eliminate these measures. Staff, therefore, recommends approval for their retention for one year or the conclusion of the next Article IV consultation, whichever is earlier.

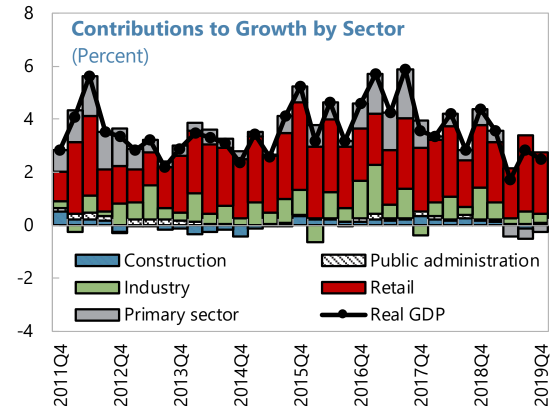
47. Staff recommends completion of the second reviews under the SBA and SCF arrangements and supports the request for augmentation of access and rephasing. As program performance remains on track, staff supports the authorities' request for modification of the performance criteria on NFPS' and ENEE's net lending targets, ENEE's domestic arrears, lending minus repayments from pension funds, NIR and NDA. Capacity to repay the Fund remains strong and the augmentation of access would help the authorities cover external financing needs to address the human and economic implications of the pandemic.

Figure 1. Honduras: Real Sector Developments

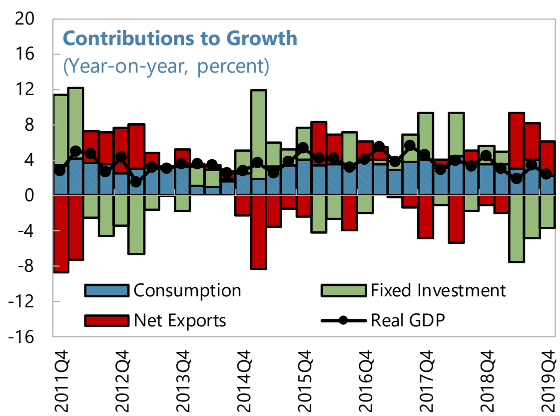
Economic activity softened in 2019...



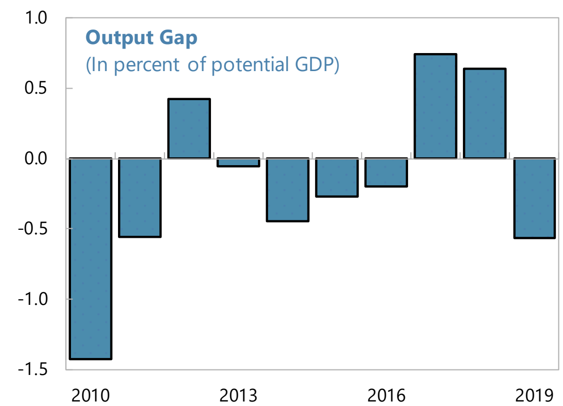
... driven by adverse shocks in the primary sector...



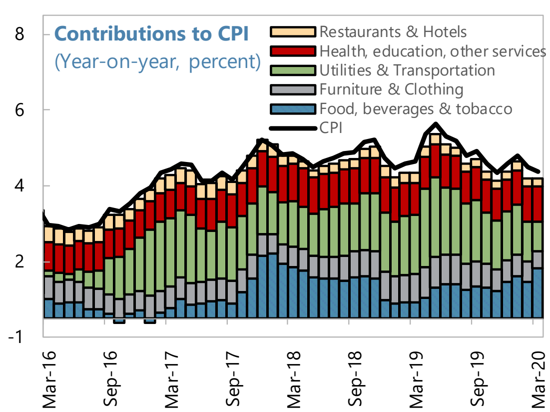
... and a large decline on investment.



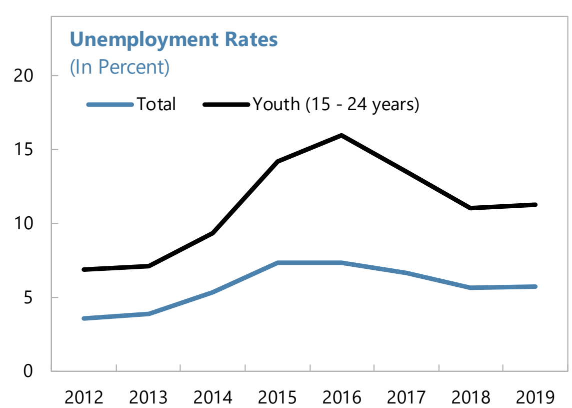
In 2019, the output gap has turned negative ...



... contributing to subdued inflation.



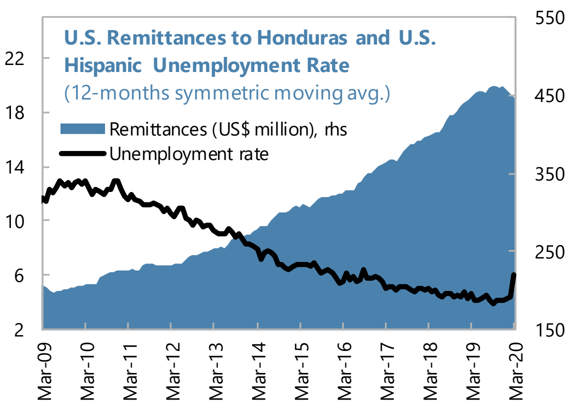
Unemployment rates increased slightly.



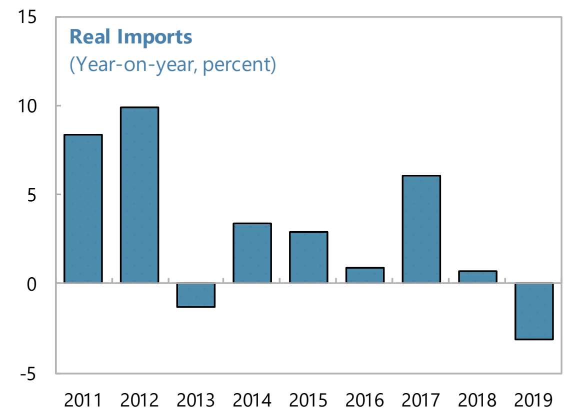
Sources: Central Bank of Honduras and IMF staff estimates and projections.

Figure 2. Honduras: External Sector Developments

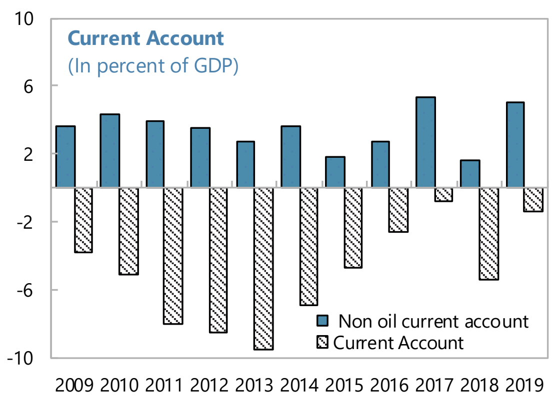
In 2019, buoyant workers' remittances …



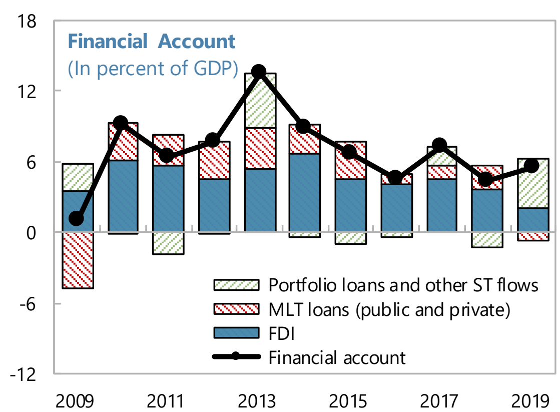
…coupled with a demand-driven import compression…



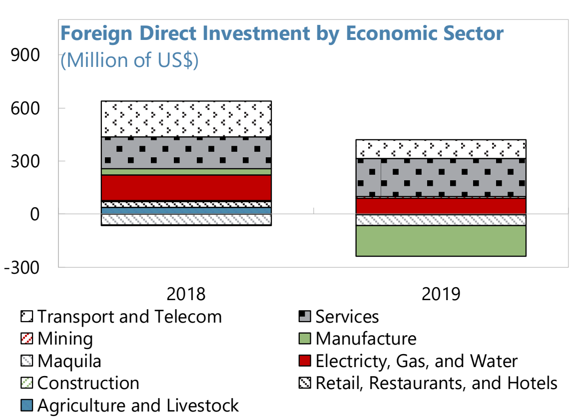
…led to a sharp current account improvement.



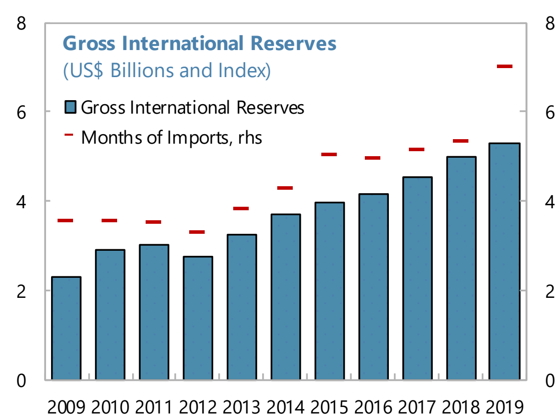
Large capital flows…



…despite plummeting FDI flows…



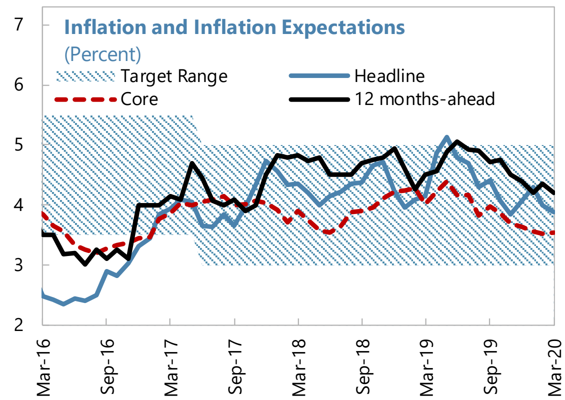
…supported a record accumulation of reserves.



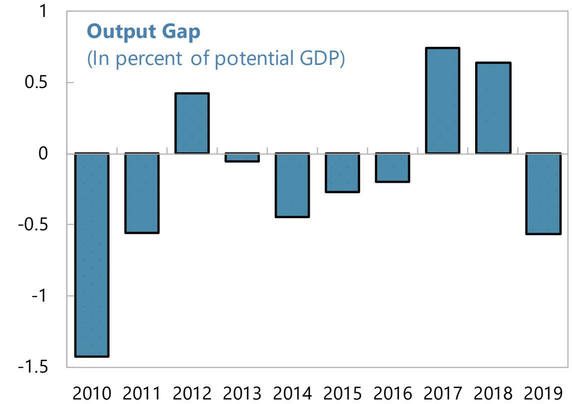
Sources: Central Bank of Honduras, Bloomberg, Haver Analytics, and IMF staff estimates and projections.

Figure 3. Honduras: Monetary Sector Developments

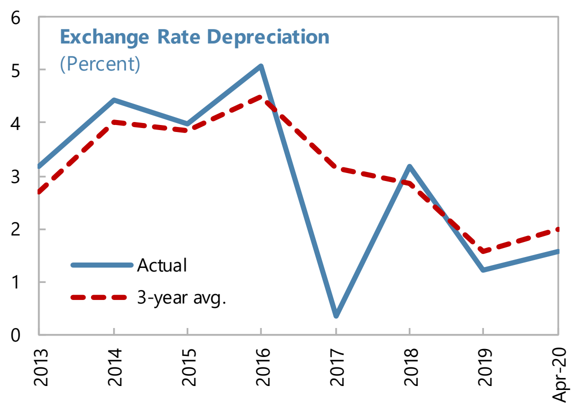
Given subdued core inflation and inflation expectations…



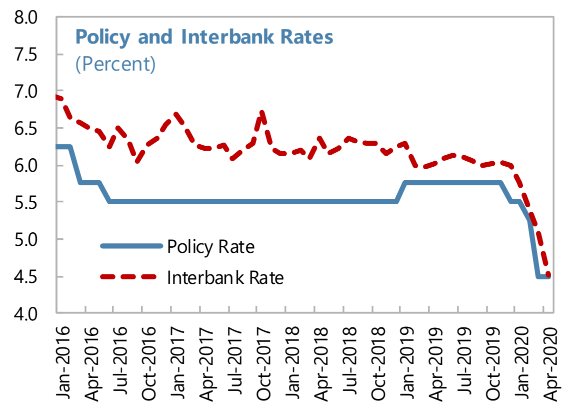
…a negative output gap….



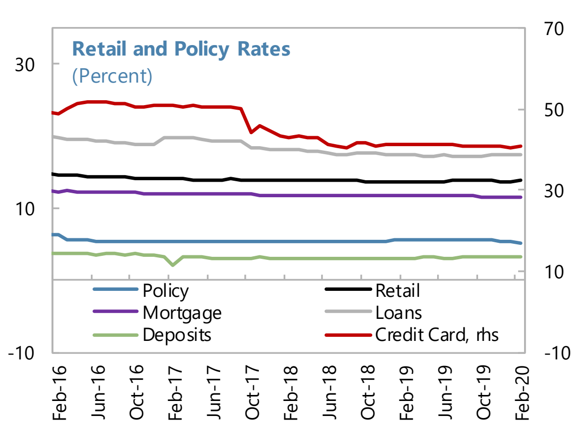
…and a modest exchange rate depreciation ….



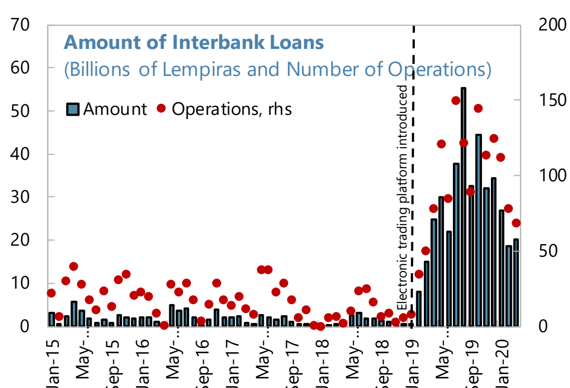
…the monetary policy stance turned accommodative…



…but the pass-through to retail interest rates is still limited…



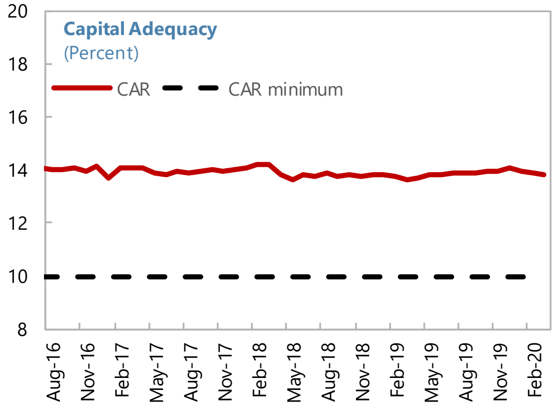
…despite efforts such as the electronic trading platform.



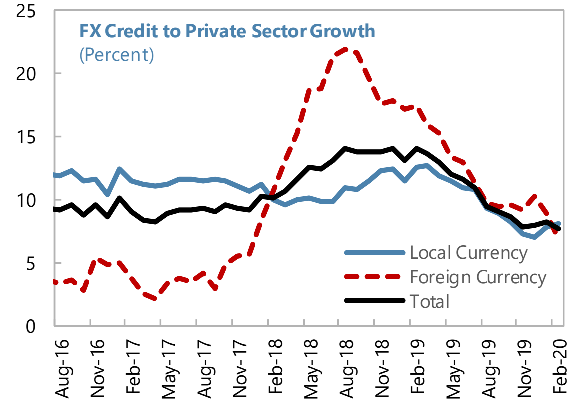
Sources: Central Bank of Honduras and IMF staff estimates and projections.

Figure 4. Honduras: Financial Sector Developments

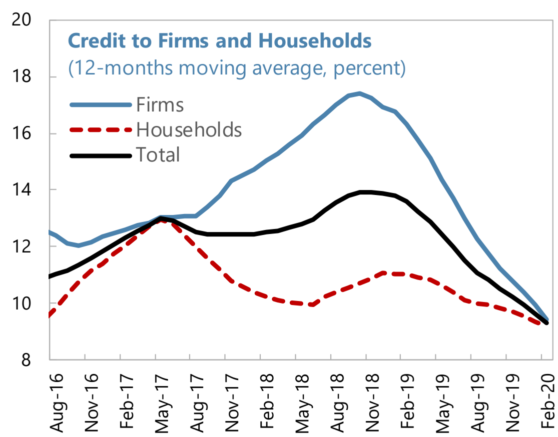
The capital adequacy ratio remains above the regulatory minimum.



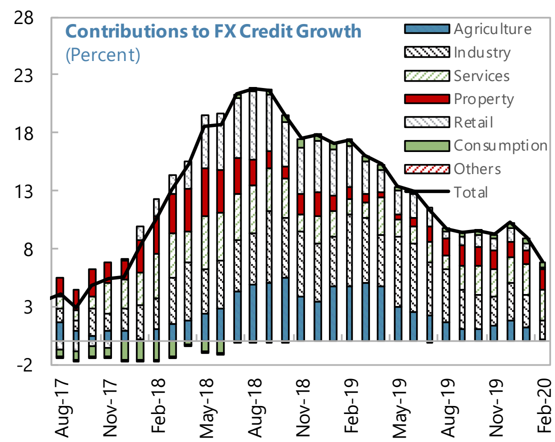
Credit growth is decelerating mainly in FX.



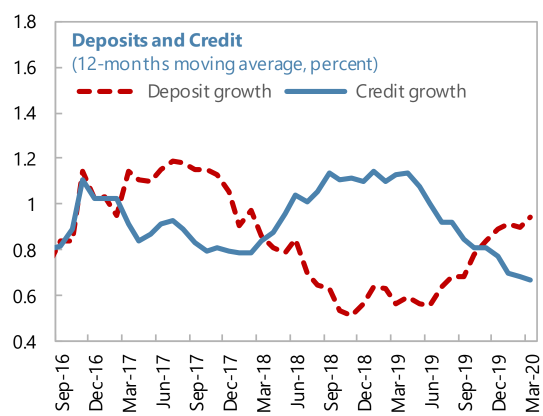
FX credit is mostly channeled to firms...



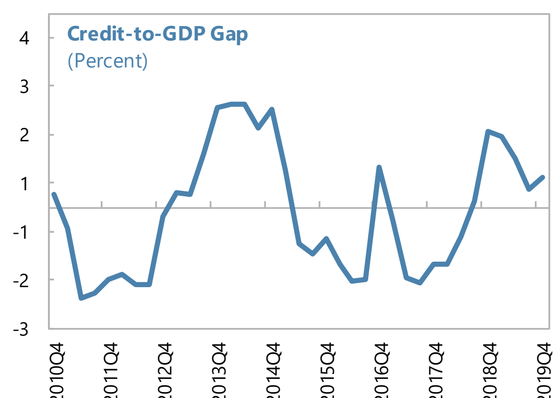
...in the agriculture and industrial sectors.



In late 2019, credit and deposit growth had been converging...



...resulting in a moderation of the credit-to-GDP gap.

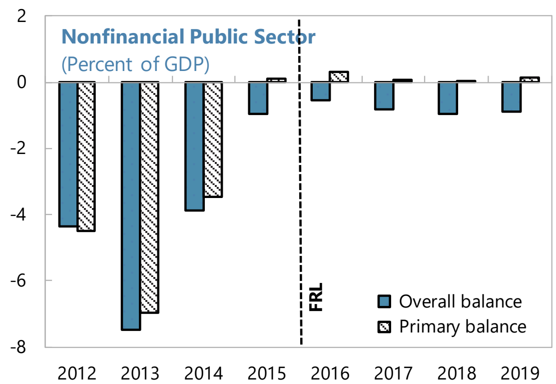


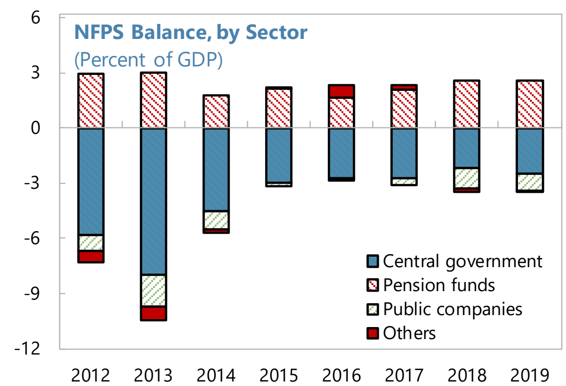
Sources: Central Bank of Honduras and IMF staff estimates and projections.

Figure 5. Honduras: Public Finances

In 2019, the NFPS deficit remained below the FRL ceiling...

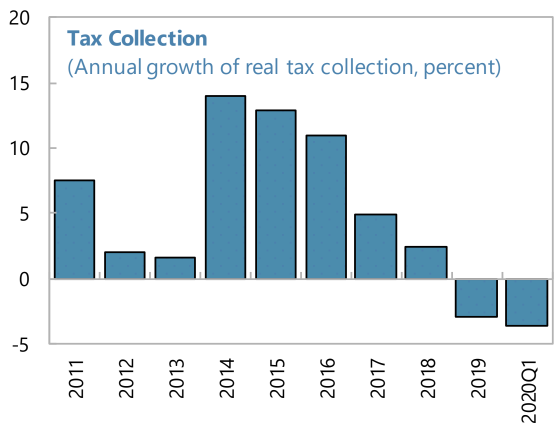
... with a slight improvement in ENEE's balance.

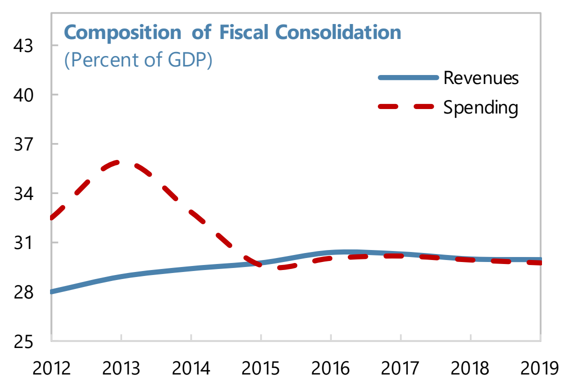




Tax collection contracted in 2019 ...

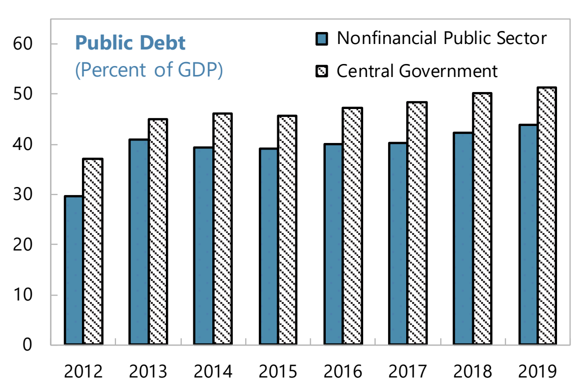
... but spending remained in check.

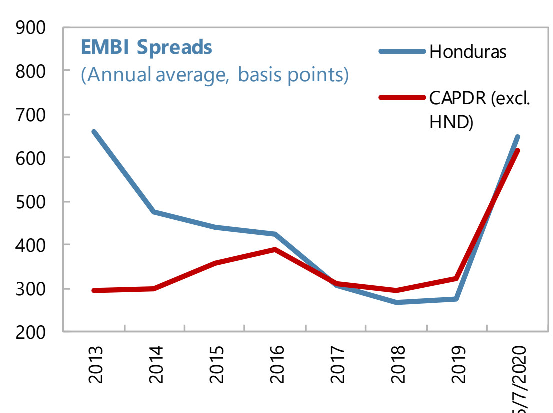




During the last years, public debt remained broadly stable ...

... contributing to a reduction in debt spreads.

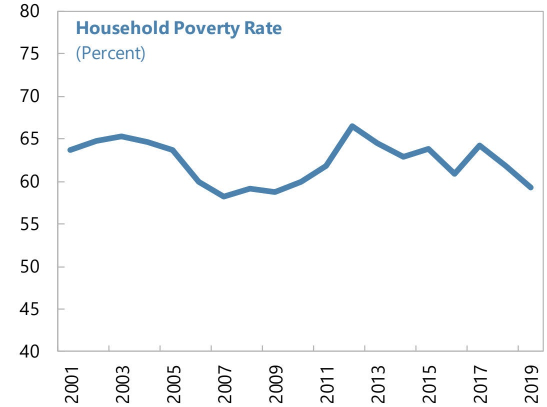




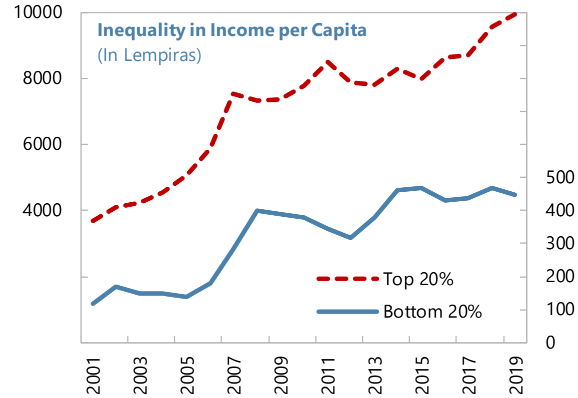
Sources: Ministry of Finance and IMF staff estimates and projections.

Figure 6. Honduras: Social Conditions

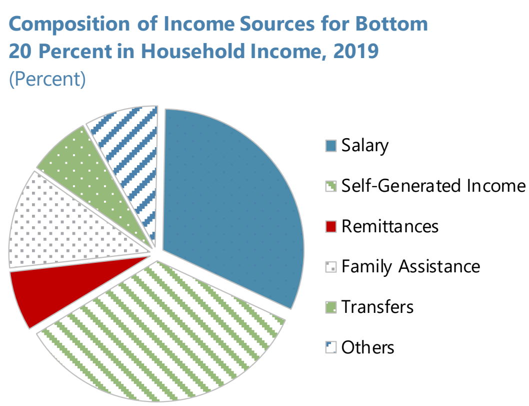
The income measure of poverty has been stable at about 60 percent of households for more than 20 years …



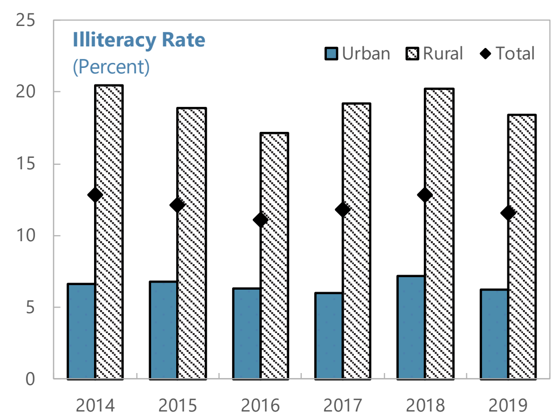
… while income inequality has increased.



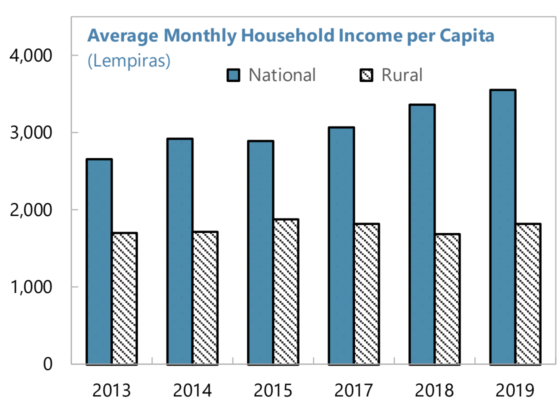
Transfers are an important component of poor households' income.



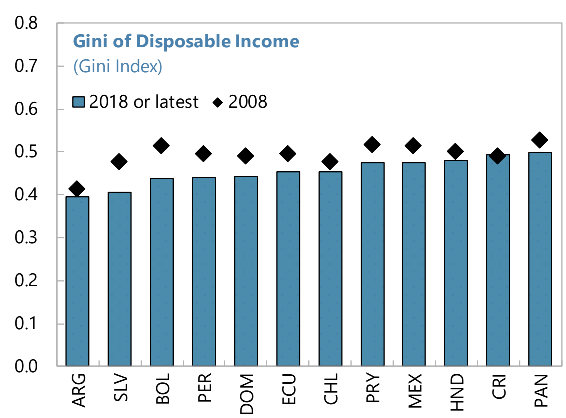
Illiteracy rates are high, particularly in rural areas.



Rural incomes continue to be significantly lower than urban incomes and the gap is widening …



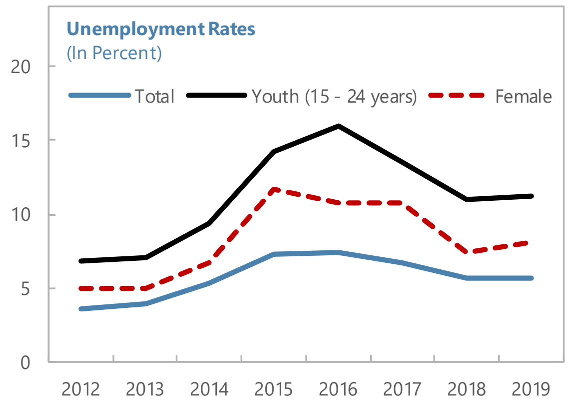
… while the Gini index remains high.



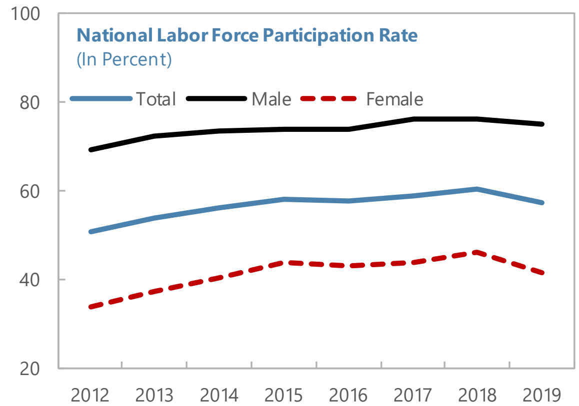
Sources: Honduras' National Institute of Statistics (INE), and IMF staff calculations.

Figure 7. Honduras: Labor Market Developments

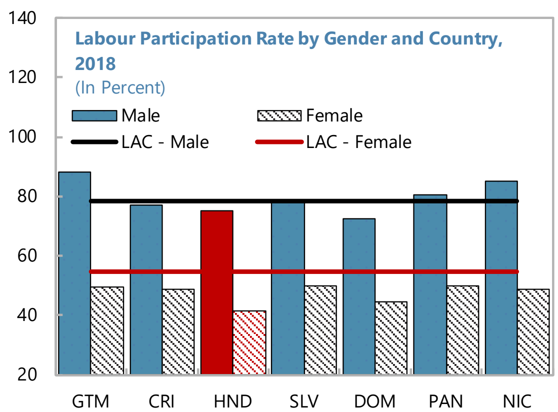
Unemployment rates have declined.



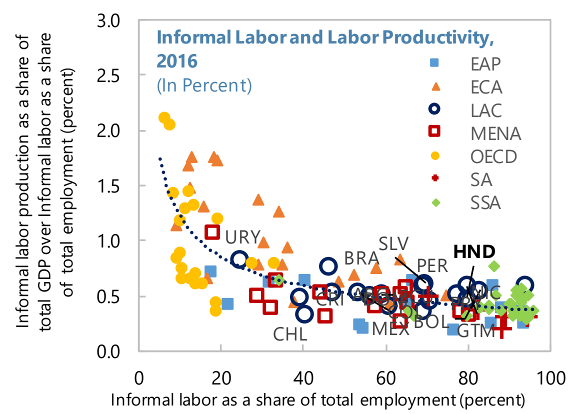
Labor force participation continues to rise steadily while the gender gap is declining.



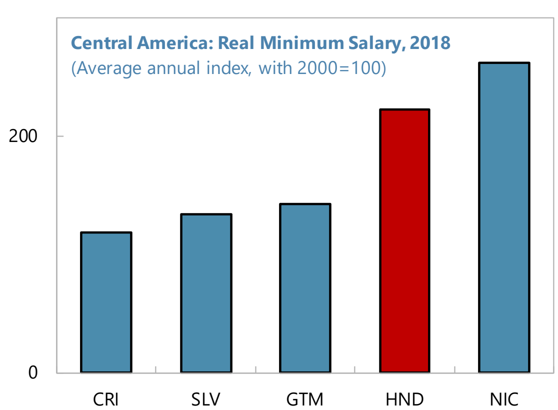
However, female labor force participation remains one of the lowest in the region and below the LAC average.



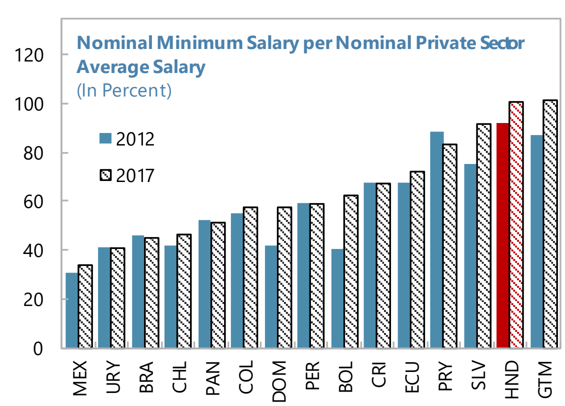
Informality is one of the largest in LAC, being a drag on productivity and competitiveness.



This is partly explained by relatively high minimum wages …



… that are not in line with labor market conditions.



Sources: Honduras' National Institute of Statistics (INE), Ministry of Labor, CEPALSTAT, Panorama Laboral América Latina y el Caribe (2018), Informality: Why Is It So Widespread and How Can It Be Reduced?, Loayza (2018), and IMF staff calculations.

Table 1. Honduras: Selected Economic Indicators

I. Social Indicators

Population (million, 2019)	9.7	Life expectancy at birth in years (2019)	75
Per capita income in U.S. dollars (PPP, 2019)	2,569	Adult literacy (percent of ages 15 and above, 2016)	89
Rank in UNDP Development Index (2019)	132	Percent of pop. below poverty line (2019)	59.3
Unemployment rate (2019)	5.7	Gini index (2019)	48
Underemployment rate (2019)	...	Oil imports (2019)	U.S. $1.6 billion
Net FDI (as percent of GDP, 2019)	2.0	Main exports:	Coffee, bananas, palm oil, and maquila

II. Economic Indicators

	Actual				Projections					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Real Sector (percentage changes in contributions to growth)										
Real GDP	**3.9**	**4.8**	**3.7**	**2.7**	**-3.3**	**4.7**	**4.2**	**3.9**	**3.9**	**3.9**
Domestic demand	2.3	6.1	4.7	-0.6	-2.1	6.4	5.7	5.5	5.6	5.7
Consumption	3.5	3.6	3.7	3.2	-0.3	4.6	3.2	3.8	3.7	3.8
Private	3.0	3.4	3.5	3.0	-0.8	3.9	3.3	3.3	3.2	3.1
Public	0.6	0.2	0.3	0.1	0.5	0.8	-0.1	0.5	0.5	0.7
Investment	-1.6	2.2	1.2	-1.2	-2.3	3.1	1.2	1.6	1.6	1.7
Private	-2.2	1.5	1.2	-1.0	-2.3	2.5	1.1	1.1	1.3	1.5
Public	0.6	0.7	0.0	-0.2	0.0	0.6	0.1	0.5	0.3	0.2
Net exports	1.6	-1.3	-1.0	3.2	-1.1	-1.7	-1.5	-1.5	-1.7	-1.7
Exports	0.5	3.4	0.4	1.2	-7.0	3.0	1.5	1.7	1.6	1.6
Imports	-1.1	4.7	1.4	-2.0	-5.9	4.7	3.0	3.2	3.3	3.3
Prices (annual percentage change)										
GDP deflator	3.7	4.5	1.9	4.3	4.5	6.0	4.7	4.7	4.7	4.7
Consumer prices (eop)	3.3	4.7	4.2	4.1	3.0	4.2	4.0	4.0	4.0	4.0
Consumer prices (average)	2.7	3.9	4.3	4.4	3.5	3.2	4.1	4.0	4.0	4.0
Saving and Investment (percent of GDP)										
Gross domestic investment	**23.4**	**24.9**	**26.0**	**22.3**	**19.0**	**20.6**	**22.3**	**24.6**	**26.5**	**28.6**
Private sector	20.2	20.9	22.0	18.7	15.2	16.4	18.1	20.0	21.9	24.0
Public sector	3.2	4.0	3.9	3.6	3.7	4.2	4.2	4.6	4.7	4.6
Gross national savings	**20.8**	**24.1**	**20.6**	**20.9**	**16.8**	**18.1**	**18.9**	**20.7**	**22.5**	**24.6**
Private sector	17.6	20.1	16.6	17.3	13.1	13.9	14.7	16.0	17.7	19.8
Public sector	2.6	3.5	3.3	2.9	-0.2	1.4	3.4	3.8	3.9	3.9
Nonfinancial public sector (percent of GDP)										
Primary balance	0.3	0.1	0.0	0.2	-3.0	-1.5	0.4	0.2	0.3	0.5
Overall balance	-0.5	-0.8	-0.9	-0.9	-4.0	-3.0	-1.0	-1.0	-0.9	-0.9
Gross debt	40.1	40.1	42.2	43.1	47.8	50.9	51.6	51.4	50.4	48.9
Balance of payments										
External current account balance (percent of GDP)	-2.6	-0.8	-5.4	-1.4	-2.1	-2.5	-3.4	-3.9	-4.0	-4.0
Exports, f.o.b. (annual percentage change)	-2.5	8.4	-2.8	1.9	-5.2	5.9	5.2	5.6	6.5	6.3
Imports, f.o.b. (annual percentage change)	-5.7	7.6	8.5	-4.7	-7.4	8.7	7.8	6.9	7.4	7.0
Worker's Remittances (percent of GDP)	17.7	18.6	19.8	21.6	18.8	19.0	18.4	18.0	18.0	18.0
Net International Reserves (millions of dollars) 1/	3,888	4,786	4,853	5,809	5,827	6,287	6,607	7,007	7,407	7,847
GIR (In months of imports) 2/	5.0	5.2	5.4	7.0	6.5	6.5	6.4	6.3	6.2	6.1
M1 to Net International Reserves (ratio)	1.6	1.7	1.7	1.7	1.8	1.8	1.7	1.7	1.7	1.7
Terms of Trade (annual percent change)	5.1	-2.3	-6.1	-0.4	12.0	-0.5	-1.0	-0.8	-0.9	-0.6
Real effective exchange rate (eop, depreciation -)	-2.0	-1.0	1.2	0.3	...	...	...	...	...	...
Money and Financial										
Broad money (percentage change)	15.6	12.0	8.4	10.8	1.3	10.5	8.9	8.8	8.8	8.8
Private sector credit (percentage change)	12.9	9.3	14.3	8.8	2.0	8.9	7.9	7.7	7.4	7.4
Private Credit (percent of GDP)	56.6	56.5	61.1	61.9	62.5	61.4	60.7	60.1	59.3	58.5
Bank Assets (percent of GDP)	97.8	97.7	105.7	107.1	...	...	...	...	...	...
Non-Performing Loans to total loans (ratio)	2.9	2.3	2.1	2.2	...	...	...	...	...	...
Capital Adequacy (percent)	13.8	13.7	13.4	13.7	...	...	...	...	...	...

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

1/ NIR (BCH) corresponds to reserves assets minus obligations with the IMF.

2/ Based on following year's imports of goods and services, excluding maquila.

Table 2. Honduras: Statement of Operations of the Central Government
(In percent of GDP)

	Actual		2019		2020		Projections				
	2017	2018	Revised	Prelim.	Program	Proj.	2021	2022	2023	2024	2025
Revenue	**20.3**	**20.3**	**19.5**	**19.2**	**19.8**	**17.3**	**18.4**	**19.2**	**19.2**	**19.3**	**19.4**
Taxes	18.3	18.5	17.7	17.5	18.1	15.6	16.8	17.5	17.6	17.7	17.8
Taxes on income	6.2	6.3	5.7	5.7	5.6	4.9	4.9	5.7	5.7	5.7	5.7
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
Taxes on goods and services	10.8	10.8	10.7	10.6	11.2	9.6	10.6	10.6	10.6	10.7	10.8
Taxes on foreign trade	0.8	0.8	0.7	0.7	0.7	0.6	0.8	0.8	0.8	0.8	0.8
Other taxes	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.6	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other revenue	1.4	1.1	1.1	1.0	1.2	1.1	1.0	1.1	1.1	1.1	1.0
Expenditure	**23.0**	**22.4**	**22.1**	**21.6**	**22.7**	**23.4**	**23.3**	**22.7**	**22.6**	**22.7**	**22.8**
Expense	**20.2**	**20.0**	**20.1**	**19.6**	**20.1**	**21.2**	**20.7**	**19.8**	**19.4**	**19.5**	**19.4**
Compensation of employees	8.5	8.3	8.2	8.3	8.2	8.6	8.4	8.4	8.3	8.3	8.3
Purchases of goods and services 1/	2.7	2.2	2.4	2.6	2.3	3.3	3.0	2.3	2.3	2.3	2.3
Interest	2.7	3.0	3.0	2.8	3.1	3.1	3.3	3.2	3.0	2.9	2.8
Domestic	1.7	1.9	1.9	1.8	2.0	2.0	2.1	2.1	2.0	2.1	2.0
Foreign	1.0	1.1	1.1	1.0	1.1	1.1	1.1	1.1	1.0	0.8	0.8
Subsidies	0.0	0.2	0.1	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	2.6	2.5	2.4	2.5	2.3	2.3	2.5	2.5	2.5	2.5	2.5
Current	1.5	1.6	1.5	1.6	1.5	1.4	1.6	1.6	1.6	1.6	1.6
Capital	1.0	0.9	0.9	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9
Social benefits	1.9	1.6	1.9	1.4	2.1	1.7	1.7	1.7	1.8	1.9	1.9
Other expense	1.8	2.2	2.1	2.0	1.9	2.1	1.7	1.6	1.5	1.5	1.5
Current	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital	1.6	2.0	1.9	1.7	1.7	1.9	1.6	1.5	1.4	1.4	1.4
Net acquisition of nonfinancial assets	**2.8**	**2.4**	**2.0**	**2.0**	**2.6**	**2.2**	**2.7**	**2.9**	**3.2**	**3.2**	**3.4**
Gross Operating Balance	**0.1**	**0.3**	**-0.6**	**-0.5**	**-0.3**	**-3.9**	**-2.3**	**-0.6**	**-0.2**	**-0.2**	**0.0**
Net lending (+)/borrowing (-)	**-2.7**	**-2.2**	**-2.6**	**-2.5**	**-2.8**	**-6.1**	**-4.9**	**-3.5**	**-3.4**	**-3.4**	**-3.4**
Net financial transactions	**-2.7**	**-2.2**	**-2.6**	**-2.5**	**-2.8**	**-6.1**	**-4.9**	**-3.5**	**-3.4**	**-3.4**	**-3.4**
Net acquisition of financial assets	**2.6**	**1.1**	**0.8**	**0.0**	**0.9**	**-0.5**	**-0.2**	**0.4**	**0.0**	**0.0**	**0.0**
Foreign	0.0	0.0	0.0	0.0	0.0	0.4	0.3	0.4	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
Loans	0.0	0.0	0.0	0.0	0.0	0.4	0.3	0.4	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
Domestic	2.6	1.1	0.8	0.0	0.9	-0.9	-0.4	0.0	0.0	0.0	0.0
Currency and deposits	2.6	1.1	0.5	0.0	-0.5	-0.9	-0.4	0.0	0.0	0.0	0.0
Debt securities	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	0.3	0.0	1.3	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
Net incurrence of liabilities	**5.3**	**3.3**	**3.4**	**2.5**	**3.7**	**5.6**	**4.8**	**3.9**	**3.4**	**3.4**	**3.4**
Foreign	3.6	0.9	1.6	1.5	2.3	1.3	2.1	0.5	1.7	-1.1	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
Loans	3.7	0.9	1.6	1.5	2.3	1.3	2.1	0.5	1.7	-1.0	0.0
Disbursment	4.8	1.9	2.7	2.5	5.3	4.4	3.3	2.2	3.5	1.0	2.1
Amorizations	-1.1	-1.0	-1.1	-1.0	-2.9	-3.1	-1.1	-1.7	-1.8	-2.1	-2.2
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
Exceptional financing 2/	0.0	0.0	0.0	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
Domestic	1.6	2.4	1.8	1.0	1.4	4.3	2.6	3.4	1.7	4.4	3.4
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
Loans	1.2	2.1	2.0	1.6	1.3	3.6	3.1	3.7	1.9	4.7	3.6
o/w IMF disbursements 3/	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.9*	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*
Other accounts payable	0.3	0.1	-0.1	-0.5	0.0	0.6	-0.2	0.0	0.0	0.0	0.0
PPPs/other	0.5	0.6	0.3	0.3	0.5	0.4	0.1	0.1	0.0	0.0	0.0
Adjustment for HIPC debt relief 4/	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
Memorandum items:											
Net lending minus interest payments	0.0	0.8	0.4	0.4	0.3	-3.0	-1.7	-0.3	-0.4	-0.5	-0.6
Priority social spending	…	…	1.0	1.0	1.1	1.1	1.2	1.2	1.3	1.3	1.4
Nominal GDP (in billions of Lempiras)	542.6	572.9	607.3	615.1	654.0	621.8	689.8	752.6	819.0	891.2	969.9

Sources: Honduran authorities, IMF staff estimates and projections.

1/ As recommended by the GFSM-2014, since 2019 debt service commissions are reported as goods and services (previously included in the interest bill).

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

3/ Reflects Fund purchases by the central bank to finance the budget

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

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

(In percent of GDP)

	Actual		2019		2020		Projections				
	2017	2018	Revised	Prelim.	Program	Proj.	2021	2022	2023	2024	2025
Revenue	**31.9**	**31.5**	**31.7**	**31.2**	**31.9**	**29.5**	**30.6**	**31.6**	**31.8**	**32.1**	**32.3**
Taxes	18.7	18.9	18.2	18.3	18.5	16.5	17.6	18.4	18.5	18.6	18.7
Taxes on income	6.2	6.3	5.7	5.7	5.6	4.9	4.9	5.7	5.7	5.7	5.7
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
Taxes on goods and services	10.8	10.8	10.7	10.6	11.2	9.6	10.6	10.6	10.6	10.7	10.8
Taxes on foreign trade	0.8	0.8	0.7	0.7	0.7	0.6	0.8	0.8	0.8	0.8	0.8
Other taxes	0.9	0.9	0.9	1.3	0.9	1.3	1.3	1.3	1.3	1.3	1.3
Social contributions	3.3	3.4	3.6	3.4	3.6	3.7	3.7	3.7	3.7	3.7	3.7
Grants	0.6	0.7	0.7	0.7	0.6	0.6	0.7	0.6	0.5	0.5	0.6
Other revenue	9.3	8.5	9.3	8.8	9.2	8.7	8.6	8.9	9.1	9.4	9.4
Expenditure	**32.7**	**32.4**	**32.7**	**32.0**	**32.9**	**33.5**	**33.6**	**32.5**	**32.8**	**33.1**	**33.1**
Expense	**28.2**	**28.1**	**28.8**	**28.3**	**28.7**	**29.6**	**29.2**	**28.1**	**28.0**	**28.2**	**28.4**
Compensation of employees	11.2	11.3	11.2	11.3	11.4	11.8	11.5	11.8	11.4	11.3	11.3
Purchases of goods and services	8.3	8.2	8.5	8.7	8.2	8.7	8.4	7.7	8.0	8.2	8.2
Interest	2.4	2.4	2.6	2.3	2.6	2.8	3.1	3.0	2.9	2.9	3.0
Domestic	1.4	1.3	1.4	1.2	1.5	1.6	2.0	2.0	2.0	2.1	2.2
Foreign	1.0	1.2	1.2	1.1	1.1	1.2	1.1	1.0	0.9	0.8	0.8
Subsidies	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	4.1	3.7	4.2	3.8	4.4	4.3	4.0	3.9	4.0	4.2	4.2
Other expense	2.2	2.3	2.3	2.2	2.2	2.1	2.2	1.8	1.7	1.7	1.8
Current	0.3	0.3	0.2	0.4	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Capital	1.8	2.0	2.1	1.7	1.9	1.8	2.0	1.6	1.5	1.5	1.5
Net acquisition of nonfinancial assets	**4.4**	**4.4**	**3.9**	**3.8**	**4.2**	**3.9**	**4.4**	**4.4**	**4.8**	**4.8**	**4.8**
Gross Operating Balance	**3.6**	**3.4**	**2.9**	**2.9**	**3.2**	**-0.1**	**1.4**	**3.4**	**3.8**	**3.9**	**3.9**
Net lending (+)/borrowing (-)	**-0.8**	**-0.9**	**-1.0**	**-0.9**	**-1.0**	**-4.0**	**-3.0**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Net financial transactions	**-0.8**	**-0.9**	**-1.0**	**-0.9**	**-1.0**	**-4.0**	**-3.0**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Net acquisition of financial assets	**0.4**	**1.9**	**1.0**	**1.6**	**0.4**	**1.2**	**1.0**	**1.5**	**1.1**	**1.0**	**1.0**
Foreign	0.0	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.1	0.0	0.2	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
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
Domestic	0.4	1.8	1.0	1.4	0.4	1.2	1.0	1.5	1.1	1.0	1.0
Currency and deposits	0.2	1.6	0.8	1.3	0.3	0.7	0.6	1.0	1.0	1.0	1.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.2	0.1	0.1	0.1	0.1	0.5	0.4	0.5	0.1	0.1	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
Net incurrence of liabilities	**1.2**	**2.8**	**2.0**	**2.5**	**1.4**	**5.3**	**4.0**	**2.4**	**2.1**	**2.0**	**1.9**
Foreign	3.8	1.1	1.8	1.4	2.3	1.3	2.1	0.5	1.7	-1.1	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
Loans	3.8	1.1	1.8	1.4	2.3	1.3	2.1	0.5	1.7	-1.0	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
Exceptional financing 1/	0.0	0.0	0.0	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
Domestic	-2.2	2.1	0.6	1.4	-0.5	4.4	2.2	2.3	0.7	3.3	2.2
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
Loans	-0.7	1.5	0.6	1.3	-0.9	3.5	1.9	2.4	0.9	3.0	1.9
o/w IMF disbursements 2/	0.0	0.0	0.6	0.0	0.0	1.9	0.2	0.0	0.0	0.0	0.0
Other accounts payable	-1.6	0.3	-0.3	-0.8	-0.2	0.4	0.0	-0.4	-0.7	-0.1	-0.1
PPPs/other	0.2	0.3	0.3	0.9	0.6	0.4	0.3	0.3	0.5	0.4	0.4
Adjustment for HIPC debt relief 3/	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3
Memorandum items:											
Net lending minus net interest payments	0.1	0.0	0.1	0.2	0.1	-3.0	-1.5	0.4	0.2	0.3	0.5
Gross total debt	40.1	42.2	43.4	43.1	43.2	47.8	50.9	51.6	51.4	50.4	48.9
Nominal GDP (in billions of Lempiras)	542.6	572.9	607.3	615.1	654.0	621.8	689.8	752.6	819.0	891.2	969.9

Sources: Honduran authorities, IMF staff estimates and projections.

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

2/ Reflects Fund purchases by the central bank to finance the budget.

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

Table 4. Honduras: Summary Accounts of the Financial System 1/

(In millions of Lempiras; end-December)

	Actual		Prelim.	Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
				I. Central Bank					
Net International Reserves 2/	**112,883**	**118,120**	**143,101**	**150,016**	**163,833**	**176,071**	**190,851**	**206,267**	**223,449**
(In millions of US$)	4,786	4,853	5,809	5,827	6,287	6,607	7,007	7,407	7,847
Net Domestic Assets	**-75,317**	**-78,827**	**-99,462**	**-105,086**	**-113,993**	**-121,696**	**-131,678**	**-141,872**	**-153,371**
Credit to the public sector (net)	7,398	-397	-1,535	10,855	13,450	11,020	9,091	7,596	6,469
Other depository institutions (net)	-84,589	-75,207	-91,512	-89,682	-99,483	-108,534	-118,112	-128,535	-138,014
Other financial institutions	8,109	6,637	6,028	9,015	8,306	7,652	6,959	6,206	5,385
Nonfinancial private sector	-228	-217	-297	-267	-294	-323	-355	-391	-430
Medium and long-term net foreign assets	1,915	2,149	2,853	-11,424	-15,941	-15,769	-15,572	-15,364	-15,141
Other items net	-7,923	-11,792	-14,999	-23,584	-20,032	-15,743	-13,689	-11,383	-11,640
Currency issued	**37,567**	**39,292**	**43,640**	**44,930**	**49,840**	**54,374**	**59,173**	**64,395**	**70,078**
				II. Other Depository Institutions					
Net Foreign Assets	**-16,343**	**-24,603**	**-30,786**	**-26,930**	**-27,986**	**-28,382**	**-28,386**	**-27,968**	**-28,064**
(In millions of US$)	-693	-1,011	-1,250	-1,046	-1,074	-1,065	-1,042	-1,004	-986
Foreign assets (in million of US$)	543	453	416	563	672	782	909	1,056	1,189
Net Domestic Assets	**298,174**	**327,864**	**370,344**	**368,875**	**407,303**	**442,207**	**478,731**	**518,057**	**561,404**
Credit to the monetary authority (net)	97,824	93,143	102,007	100,680	110,989	120,575	130,716	141,729	151,844
Credit to other financial institutions (net)	-31,751	-33,863	-34,138	-22,645	-29,397	-36,132	-43,444	-49,915	-54,489
Credit to the nonfinancial public sector (net)	-3,696	-1,803	-2,793	-16,085	-11,464	-7,984	-4,225	-178	4,166
Central government	-15,853	-18,379	-21,822	-30,855	-27,457	-23,907	-20,193	-16,302	-12,219
Other nonfinancial public sector	6,368	9,764	10,396	7,000	9,000	9,630	10,304	11,025	11,797
Local governments	5,789	6,812	8,633	7,770	6,993	6,294	5,664	5,098	4,588
Credit to the private sector	306,423	350,090	381,006	388,679	423,362	456,908	492,060	528,285	567,502
Local currency	227,510	256,799	277,991	285,175	307,872	331,919	357,801	384,793	414,043
Foreign currency	78,913	93,291	103,015	103,504	115,490	124,989	134,259	143,492	153,459
Other items net	-70,626	-79,703	-75,738	-81,753	-86,186	-91,161	-96,376	-101,863	-107,619
Liabilities	**281,830**	**303,260**	**338,212**	**341,945**	**379,317**	**413,825**	**450,345**	**490,089**	**533,340**
Of which: Deposits in domestic currency	205,926	221,585	247,123	249,851	277,157	302,371	329,056	358,096	389,698
Of which: Deposits in foreign currency	75,904	81,676	91,089	92,095	102,160	111,454	121,290	131,994	143,642
				III. Financial System					
Net Foreign Assets	**98,455**	**95,665**	**115,168**	**123,086**	**135,847**	**147,689**	**162,465**	**178,299**	**200,263**
(In millions of US$)	4,174	3,931	4,675	4,781	5,213	5,542	5,965	6,403	6,861
Net Domestic Assets	**217,091**	**246,328**	**263,807**	**260,731**	**288,220**	**314,021**	**339,974**	**368,438**	**394,367**
Credit to the nonfinancial public sector	3,789	-2,116	-4,170	-5,230	1,986	3,036	4,866	7,417	10,523
Credit to the private sector	306,423	350,090	381,006	388,679	423,362	456,908	492,060	528,285	567,502
Local currency	227,510	256,799	277,991	285,175	307,872	331,919	357,801	384,793	414,043
Foreign currency	78,913	93,291	103,015	103,504	115,490	124,989	134,259	143,492	153,459
Other items net 3/	-73,894	-87,990	-84,395	-94,605	-99,112	-105,845	-112,926	-120,536	-128,662
Broad Money (M4)	**315,546**	**341,993**	**378,975**	**383,818**	**424,068**	**461,709**	**502,439**	**546,737**	**594,631**
				(Rate of growth 12 months)					
Currency issued	19.8	4.6	11.1	3.0	10.9	9.1	8.8	8.8	8.8
Currency in circulation	18.5	3.5	13.1	2.3	12.8	10.3	9.9	9.8	9.8
Broad money	12.0	8.4	10.8	1.3	10.5	8.9	8.8	8.8	8.8
Broad money (constant exchange rate)	12.6	8.3	12.1	0.3	10.6	8.5	8.3	8.3	8.3
Credit to the private sector	9.3	14.3	8.8	2.0	8.9	7.9	7.7	7.4	7.4
o/w foreign currency	5.7	18.2	10.4	0.5	11.6	8.2	7.4	6.9	6.9
Credit to the private sector (constant exchange rate)	9.2	13.1	8.5	1.0	8.6	7.3	7.1	6.7	6.8
M1	15.1	6.1	16.1	1.5	11.0	9.0	8.8	8.8	8.8

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

1/ The central government in the monetary accounts is defined as the budgetary central government plus any NPIs under its control, in particular, pension funds while the central government in Table 2 mainly comprises the budgetary central government (Administración central in the authorities' sectorization).

2/ NIR (BCH) corresponds to reserves assets minus obligations with the IMF. Includes allocation of SDR 104.8 million in August, 2009.

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

Table 5. Honduras: Balance of Payments

	Actual		Prelim.	Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
	(In millions of U.S. dollars; unless otherwise indicated)								
Current account	**-176**	**-1,284**	**-343**	**-520**	**-676**	**-966**	**-1,191**	**-1,307**	**-1,379**
Trade Account	-2,753	-3,664	-3,107	-2,748	-3,141	-3,542	-3,873	-4,222	-4,570
Exports f.o.b.	6,043	5,875	5,985	5,674	6,011	6,326	6,679	7,113	7,563
Maquila (net)	1,469	1,567	1,789	1,263	1,382	1,462	1,549	1,656	1,755
Coffee	1,317	1,115	947	999	1,060	1,114	1,203	1,277	1,359
Others	3,257	3,193	3,249	3,411	3,569	3,750	3,927	4,180	4,449
Imports f.o.b.	-8,796	-9,539	-9,092	-8,421	-9,151	-9,867	-10,552	-11,335	-12,133
Petroleum products	-1,403	-1,667	-1,611	-1,038	-1,157	-1,291	-1,417	-1,545	-1,645
Others	-7,393	-7,872	-7,481	-7,383	-7,994	-8,576	-9,135	-9,789	-10,488
Services (net)	-663	-918	-1,228	-1,267	-1,047	-1,123	-1,195	-1,283	-1,346
Of which: tourism receipts	715	736	547	120	455	488	519	553	617
Income (net)	-1,406	-1,882	-1,901	-1,491	-1,920	-2,027	-2,181	-2,288	-2,413
Of which: payments on direct investments	-913	-1,378	-1,346	-1,031	-1,441	-1,546	-1,645	-1,751	-1,864
Of which: public sector interest payments	-212	-237	-263	-289	-294	-282	-276	-267	-263
Transfers (net)	4,646	5,180	5,894	4,986	5,432	5,726	6,058	6,485	6,950
Of which: Remittances	4,305	4,760	5,385	4,631	5,047	5,249	5,459	5,814	6,192
Others	340	420	510	355	384	477	599	671	758
Capital and Financial account	**1,851**	**1,232**	**1,593**	**76**	**1,067**	**1,286**	**1,669**	**1,912**	**1,961**
Financial account	**1,670**	**1,064**	**1,398**	**-82**	**896**	**1,102**	**1,474**	**1,704**	**1,739**
Direct investment (net)	1,035	895	499	345	657	774	921	1,131	1,413
Other capital flows (net)	-206	-96	529	-778	-359	151	-83	679	164
General government (net)	841	264	370	351	598	177	637	-107	163
Capital account	**181**	**168**	**195**	**158**	**171**	**184**	**195**	**208**	**222**
Errors and omissions	-790	97	-262	0	0	0	0	0	0
Overall balance	**885**	**46**	**988**	**-444**	**392**	**320**	**479**	**605**	**582**
Change in central bank reserves (- increase)	**-884**	**-50**	**-993**	**-18**	**-460**	**-320**	**-400**	**-400**	**-440**
Exceptional financing	**-1**	**4**	**4**	**462**	**68**	**0**	**-79**	**-205**	**-142**
Use of Fund credit (net)	0	0	0	462	68	0	-79	-205	-142
Other	-1	4	4	0	0	0	0	0	0
	(In percent of GDP; unless otherwise indicated)								
Current account	**-0.8**	**-5.4**	**-1.4**	**-2.1**	**-2.5**	**-3.4**	**-3.9**	**-4.0**	**-4.0**
Trade Account	-11.9	-15.3	-12.5	-11.2	-11.8	-12.4	-12.7	-13.0	-13.3
Exports f.o.b.	26.1	24.5	24.0	23.1	22.6	22.2	22.0	22.0	22.0
Maquila net (exports-imports)	6.4	6.5	7.2	5.1	5.2	5.1	5.1	5.1	5.1
Coffee	5.7	4.6	3.8	4.1	4.0	3.9	4.0	3.9	3.9
Others	14.1	13.3	13.0	13.9	13.4	13.1	12.9	12.9	12.9
Imports f.o.b.	-38.0	-39.8	-36.5	-34.2	-34.4	-34.6	-34.7	-35.0	-35.2
Petroleum products	-6.1	-6.9	-6.5	-4.2	-4.3	-4.5	-4.7	-4.8	-4.8
Others	-32.0	-32.8	-30.0	-30.0	-30.0	-30.0	-30.1	-30.3	-30.5
Services (net)	-2.9	-3.8	-4.9	-5.2	-3.9	-3.9	-3.9	-4.0	-3.9
Of which: tourism receipts	3.1	3.1	2.2	0.5	1.7	1.7	1.7	1.7	1.8
Income (net)	-6.1	-7.8	-7.6	-6.1	-7.2	-7.1	-7.2	-7.1	-7.0
Of which: payments on direct investments	-3.9	-5.7	-5.4	-4.2	-5.4	-5.4	-5.4	-5.4	-5.4
Of which: public sector interest payments	-0.9	-1.0	-1.1	-1.2	-1.1	-1.0	-0.9	-0.8	-0.8
Transfers (net)	20.1	21.6	23.7	20.3	20.4	20.1	19.9	20.0	20.2
Of which: Remittances	18.6	19.8	21.6	18.8	19.0	18.4	18.0	18.0	18.0
Capital and Financial account	**8.0**	**5.1**	**6.4**	**0.3**	**4.0**	**4.5**	**5.5**	**5.9**	**5.7**
Financial account	**7.2**	**4.4**	**5.6**	**-0.3**	**3.4**	**3.9**	**4.8**	**5.3**	**5.0**
Direct investment (net)	4.5	3.7	2.0	1.4	2.5	2.7	3.0	3.5	4.1
Other capital flows (net)	-0.9	-0.4	2.1	-3.2	-1.3	0.5	-0.3	2.1	0.5
General government (net)	3.6	1.1	1.5	1.4	2.2	0.6	2.1	-0.3	0.5
Capital account	**0.8**	**0.7**	**0.8**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**
Errors and omissions	-3.4	0.4	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**3.8**	**0.2**	**4.0**	**-1.8**	**1.5**	**1.1**	**1.6**	**1.9**	**1.7**
Change in central bank reserves (- increase)	**-3.8**	**-0.2**	**-4.0**	**-0.1**	**-1.7**	**-1.1**	**-1.3**	**-1.2**	**-1.3**
Exceptional financing	**0.0**	**0.0**	**0.0**	**1.9**	**0.3**	**0.0**	**-0.3**	**-0.6**	**-0.4**
Use of Fund credit (net)	0.0	0.0	0.0	1.9	0.3	0.0	-0.3	-0.6	-0.4
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Terms of trade (percent change)	-2.3	-6.1	-0.4	12.0	-0.5	-1.0	-0.8	-0.9	-0.6
Exports of goods (percent change)	8.4	-2.8	1.9	-5.2	5.9	5.2	5.6	6.5	6.3
Imports of goods (percent change)	7.6	8.5	-4.7	-7.4	8.7	7.8	6.9	7.4	7.0
Gross reserves (end of period, millions of U.S. dollars)	5,088	5,147	6,140	6,158	6,618	6,938	7,338	7,738	8,178
In months of next year imports	4.2	4.3	5.9	5.5	5.5	5.4	5.3	5.2	5.2
In months of next year imports (excluding maquila)	5.2	5.4	7.0	6.5	6.5	6.4	6.3	6.2	6.1
Total external debt to GDP ratio (in percent)	37.2	38.5	38.6	42.9	42.2	40.7	40.5	37.5	35.8
Nominal GDP (millions of U.S. dollars)	23,123	23,987	24,921	24,596	26,630	28,555	30,396	32,358	34,440

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

Table 6. Honduras: External Financing Needs and Sources

(In millions of U.S. dollars)

	Actual			Prelim.	Projections									
	2016	2017	2018	2019	Q1	Q2	Q3	Q4	2020	2021	2022	2023	2024	2025
Gross external financing requirements	**1,809**	**2,127**	**3,081**	**1,798**	**113**	**706**	**494**	**1,326**	**2,640**	**2,321**	**2,861**	**3,091**	**3,294**	**3,478**
Current account deficit	567	176	1,284	343	-66	192	104	290	520	676	966	1,191	1,307	1,379
Debt amortizations (public and private)	1,242	1,951	1,797	1,455	178	514	390	1,037	2,120	1,646	1,895	1,900	1,987	2,099
Public debt amortization	173	290	240	266	46	65	48	584	743	275	464	515	637	716
Private debt amortization	1,069	1,661	1,557	1,190	133	449	342	453	1,377	1,371	1,431	1,385	1,351	1,383
Available external financing	**1,809**	**2,127**	**3,081**	**1,798**	**-30**	**223**	**494**	**911**	**1,599**	**2,003**	**2,861**	**3,091**	**3,294**	**3,478**
Capital account flows (net)	130	181	168	195	34	50	40	34	158	171	184	195	208	222
Foreign direct investment (net)	900	1,035	895	499	108	0	6	231	345	657	774	921	1,131	1,413
Public sector borrowing	325	431	504	635	38	323	110	44	515	623	641	573	325	737
Bonds (public)	0	700	0	0	0	0	0	0	0	0	0	500	0	0
Other capital flows	520	664	1,563	1,461	67	-427	256	702	598	1,011	1,581	1,301	2,030	1,546
Change in reserves (+ decrease)	-66	-884	-50	-993	-277	277	82	-100	-18	-460	-320	-400	-400	-440
Gap	**0**	**0**	**0**	**0**	**143**	**483**	**0**	**415**	**1,041**	**318**	**0**	**0**	**0**	**0**
IMF	0	0	0	0	143	233	0	86	462	68				
Other IFIs	0	0	0	0	0	250	0	329	579	250	0	0	0	0

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

Table 7. Honduras: External Vulnerability Indicators

			Prelim.	Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Exports of goods and services, annual percent change	8.9	-0.7	-0.9	-15.2	10.8	5.6	5.8	6.5	6.6
Imports of goods and services, annual percent change	9.6	8.2	-2.3	-12.8	8.7	7.4	6.7	7.2	6.9
Terms of trade (deterioration -)	-2.3	-6.1	-0.4	12.0	-0.5	-1.0	-0.8	-0.9	-0.6
Real effective exchage rate (eop, depreciation -)	-1.0	1.2	0.3	...	...	...	...	...	...
Current account balance (percent of GDP)	-0.8	-5.4	-1.4	-2.1	-2.5	-3.4	-3.9	-4.0	-4.0
Capital and financial account (percent of GDP)	8.0	5.1	6.4	2.2	4.3	4.5	5.2	5.3	5.3
External public debt (percent of GDP)	30.5	31.0	30.8	35.0	34.4	32.9	32.7	29.8	28.1
Gross official reserves									
in millions of U.S. dollars	5,088	5,147	6,140	6,158	6,618	6,938	7,338	7,738	8,178
in percent of short-term external debt	1,057	737	1,678	1,705	1,693	1,655	1,644	1,629	1,617
Net international reserves 1/									
in millions of U.S. dollars	4,786	4,853	5,809	5,827	6,287	6,607	7,007	7,407	7,847
in percent of short-term external debt	994	694	1,588	1,614	1,608	1,576	1,570	1,559	1,552

Sources: Central Bank of Honduras and IMF staff estimates and projections.
1/ NIR (BCH) corresponds to reserves assets minus obligations with the IMF.

Table 8. Honduras: Medium-Term Macroeconomic Framework

(In percent of GDP. unless otherwise specified)

	Actual				Prelim.	Projections					
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Growth and prices (in percent)											
Real GDP growth	3.8	3.9	4.8	3.7	2.7	-3.3	4.7	4.2	3.9	3.9	3.9
GDP deflator	6.9	3.7	4.5	1.9	4.3	4.5	6.0	4.7	4.7	4.7	4.7
CPI inflation (eop)	2.4	3.3	4.7	4.2	4.1	3.0	4.2	4.0	4.0	4.0	4.0
Investment and saving											
Gross domestic investment	**26.4**	**23.4**	**25.3**	**26.4**	**22.4**	**19.1**	**20.8**	**22.4**	**24.8**	**26.7**	**28.8**
Private sector	22.6	20.2	20.9	22.0	18.7	15.2	16.4	18.1	20.0	21.9	24.0
Public sector	3.8	3.2	4.4	4.4	3.8	3.9	4.4	4.4	4.8	4.8	4.8
Gross national savings	**21.7**	**20.8**	**24.5**	**21.0**	**21.1**	**17.0**	**18.3**	**19.1**	**20.8**	**22.7**	**24.7**
Private sector	19.0	18.2	21.0	17.7	18.1	17.2	16.8	15.6	17.1	18.8	20.9
Public sector	2.8	2.6	3.5	3.3	2.9	-0.2	1.4	3.4	3.8	3.9	3.9
Balance of payments											
External current account	-4.7	-2.6	-0.8	-5.4	-1.4	-2.1	-2.5	-3.4	-3.9	-4.0	-4.0
Non oil current account	1.8	2.8	5.3	1.6	5.1	2.1	1.8	1.1	0.7	0.7	0.8
Gross international reserves (millions of dollars)	4,187	4,488	5,088	5,147	6,140	6,158	6,618	6,938	7,338	7,738	8,178
Terms of Trade (annual percent change)	12.4	5.1	-2.3	-6.1	-0.4	12.0	-0.5	-1.0	-0.8	-0.9	-0.6
External debt	**36.2**	**35.5**	**37.2**	**38.5**	**38.6**	**42.9**	**42.2**	**40.7**	**40.5**	**37.5**	**35.8**
Nonfinancial public sector											
Revenue	31.0	32.3	31.9	31.5	31.2	29.5	30.6	31.6	31.8	32.1	32.3
Expenditure	31.9	32.8	32.7	32.4	32.0	33.5	33.6	32.5	32.8	33.1	33.1
Primary balance	**0.1**	**0.3**	**0.1**	**0.0**	**0.2**	**-3.0**	**-1.5**	**0.4**	**0.2**	**0.3**	**0.5**
Overall balance	**-0.9**	**-0.5**	**-0.8**	**-0.9**	**-0.9**	**-4.0**	**-3.0**	**-1.0**	**-1.0**	**-0.9**	**-0.9**
Central government											
Revenue	19.2	20.0	20.3	20.3	19.2	17.3	18.4	19.2	19.2	19.3	19.4
Expenditure	22.1	22.8	23.0	22.4	21.6	23.4	23.3	22.7	22.6	22.7	22.8
Primary balance	**-0.4**	**-0.1**	**-0.1**	**0.6**	**0.3**	**-3.2**	**-1.8**	**-0.5**	**-0.6**	**-0.6**	**-0.7**
Overall balance	**-3.0**	**-2.7**	**-2.7**	**-2.2**	**-2.5**	**-6.1**	**-4.9**	**-3.5**	**-3.4**	**-3.4**	**-3.4**
Nonfinancial public sector debt											
Total	**39.2**	**40.1**	**40.1**	**42.2**	**43.1**	**47.8**	**50.9**	**51.6**	**51.4**	**50.4**	**48.9**
Domestic debt	11.0	11.7	9.6	11.2	12.3	12.9	16.4	18.7	18.6	20.7	20.9
External debt	28.2	28.4	30.5	31.0	30.8	35.0	34.4	32.9	32.7	29.8	28.1
Monetary and financial											
Broad money (percentage change)	9.0	15.6	12.0	8.4	10.8	1.3	10.5	8.9	8.8	8.8	8.8
Private sector credit (percentage change)	10.0	12.9	9.3	14.3	8.8	2.0	8.9	7.9	7.7	7.4	7.4
Bank assets	97.0	97.8	97.7	105.7	107.1	...	...	...	...	...	...
Private credit	54.0	56.6	56.5	61.1	61.9	62.5	61.4	60.7	60.1	59.3	58.5
Non-performing loans to total loans (percent)	3.0	2.9	2.3	2.1	2.2	...	...	...	...	...	...
Capital adequacy (percent)	14.0	13.8	13.7	13.4	13.7	...	...	...	...	...	...
Memorandum items:											
Nominal GDP (in billions of lempiras)	460	496	543	573	615	622	690	753	819	891	970

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

Table 9. Honduras: Structure and Performance of the Banking Sector 1/

(In percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020M3
Total assets (in millions of Lempiras) 2/	**236,665**	**270,981**	**302,662**	**341,614**	**393,763**	**432,178**	**473,722**	**521,869**	**579,373**	**632,607**	**650,051**
(In percent of GDP)	79	81	84	91	95	94	96	96	101	103	105
Number of banks	**17**	**17**	**17**	**17**	**17**	**15**	**15**	**15**	**15**	**15**	**15**
Domestic	8	7	7	7	8	6	6	6	6	6	6
Foreign	9	10	10	10	9	9	9	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	2	2
75 percent of total assets	6	6	6	6	6	5	5	5	5	5	5
Capital adequacy											
Regulatory capital to risk weighted assets (RWA)	14.9	14.9	14.7	14.5	14.6	14.0	13.8	13.7	13.4	13.7	13.5
Capital (net worth) to assets	9.2	9.1	9.3	9.1	9.2	8.7	8.7	8.7	8.7	8.9	8.7
Asset quality and composition											
Nonperforming loans(NPLs) to total loans 3/	3.7	2.9	3.3	3.4	3.3	3.0	2.9	2.3	2.1	2.2	2.1
NPLs net of provisions to capital	-4.4	-6.5	-4.6	-5.2	-5.2	-5.1	-3.4	-5.8	-5.8	-5.3	-6.0
Restructured loans to regulatory capital	19.8	26.6	24.7	25.3	22.3	27.9	23.7	25.0	25.0	26.2	27.0
Non earning assets net of provisions											
to regulatory capital	47.9	46.9	45.0	44.1	51.2	54.6	48.4	41.6	42.4	40.1	43.8
Provisions to total loans	4.3	3.9	4.0	4.2	4.1	3.8	3.4	3.2	3.0	3.0	3.0
Provisions to NPLs 2/	118.9	135.0	121.8	123.7	125.5	126.1	117.4	138.0	140.2	135.2	142.3
Sectoral distribution of loans to total loans:											
Commerce	12.7	13.0	14.4	14.3	14.3	13.6	13.0	14.9	15.2	14.4	14.2
Construction and real estate	34.2	32.9	30.8	28.9	27.1	24.6	23.6	23.3	23.0	22.8	22.9
Agriculture and related sectors	0.0	0.0	4.4	4.7	5.0	5.9	7.2	7.4	7.5	n.a.	n.a.
Industry	13.6	12.3	11.7	11.9	11.1	11.1	10.4	10.3	10.8	10.1	
Consumption	16.5	18.3	20.5	21.9	21.0	21.3	23.1	20.9	21.1	21.5	21.5
Other	0.0	0.0	18.2	18.0	21.3	23.5	22.5	23.0	21.9	n.a.	n.a.
Profitability											
Return on assets (ROA)	1.3	1.3	1.5	1.4	1.4	1.4	1.3	1.2	1.2	1.2	1.1
Return on equity (ROE)	12.5	13.2	15.9	14.5	13.4	14.6	14.6	12.0	12.0	12.8	10.5
Interest margin to total income	48.2	48.9	52.1	47.5	52.1	52.8	52.9	51.1	49.6	46.7	45.3
Personnel expenses to administrative expenses	39.6	39.6	39.4	41.8	41.7	42.0	41.8	45.5	45.1	44.2	45.2
Liquidity											
Liquid assets to total assets	24.4	24.3	21.4	25.0	25.2	24.6	24.3	26.3	22.2	22.9	23.5
Liquid assets to total short-term liabilities	58.2	58.8	56.2	69.7	70.8	69.5	66.3	71.5	61.7	62.8	64.3
Dollarization											
Deposits in foreign currency in percent of total	29.5	29.1	30.6	30.6	32.0	29.8	30.2	29.9	28.9	26.7	27.5
Credit in foreign currency in percent of total	28.3	30.1	31.2	33.5	34.7	33.2	32.1	31.2	31.8	31.1	31.5

Source: National Commission of Banking and Insurance.
1/ The information covers only private banks.
2/ Includes contingent assets.
3/ As of 2012 NPLs include delinquency of restructured loans.

Table 10. Honduras: Proposed Disbursements, Purchases, and Timing of Reviews Under the SBA/SCF Arrangements, 2020-21 1/

Date of Availability	Conditions	Amount (millions of SDRs)			Percent of quota		
		Total	SCF	SBA	Total	SCF	SBA
July 15, 2019	Approval of the arrangement	74.940	12.490	62.450	30.00	5.00	25.00
December 1, 2019	Observance of end-September 2019 performance criteria and continuous performance criteria and completion of first reviews	29.976	12.490	17.486	12.00	5.00	7.00
April 1, 2020	Observance of end-Dec 2019 performance criteria and completion of the second review	169.864	69.111	100.753	68.00	27.67	40.33
November 1, 2020	Observance of end-June 2020 performance criteria and completion of the third review	62.450	19.984	42.466	25.00	8.00	17.00
March 1, 2021	Observance of end-Dec 2020 performance criteria and completion of the fourth review	24.980	7.494	17.486	10.00	3.00	7.00
June 20, 2021	Observance of end-March 2021 performance criteria and completion of the fifth review	24.980	7.494	17.486	10.00	3.00	7.00
	Total Disbursements	387.190	129.063	258.127	155.00	51.67	103.33

1/ Honduras' quota is SDR 249.8 million. Table 11 shows the phasing under the original agreement.

Table 11. Honduras: Disbursements, Purchases, and Timing of Reviews Under the Original SBA/SCF Arrangements, 2019-21 1/

Date of Availability	Conditions	Amount (millions of SDRs)			Percent of quota		
		Total	SCF	SBA	Total	SCF	SBA
July 15, 2019	Approval of the arrangement	74.940	12.490	62.450	30.00	5.00	25.00
December 1, 2019	Observance of end-September 2019 performance criteria and continuous performance criteria and completion of first reviews	29.976	12.490	17.486	12.00	5.00	7.00
April 1, 2020	Observance of end-December 2019 performance criteria and continuous performance criteria and completion of second reviews	29.976	12.490	17.486	12.00	5.00	7.00
October 1, 2020	Observance of end-June 2020 performance criteria and continuous performance criteria and completion of third reviews	29.976	12.490	17.486	12.00	5.00	7.00
March 1, 2021	Observance of end-December 2020 performance criteria and continuous performance criteria and completion of fourth reviews	29.976	12.490	17.486	12.00	5.00	7.00
June 20, 2021	Observance of end-March 2021 performance criteria and continuous performance criteria and completion of fifth reviews	29.976	12.490	17.486	12.00	5.00	7.00
	Total	224.820	74.940	149.880	90.00	30.00	60.00

1/ Honduras' quota is SDR 249.8 million.

Table 12. Honduras: Indicators of Fund Credit, 2020-29

(As of May 7, 2020; in units indicated)

				Projections						
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Existing Fund credit										
Stock, in millions of SDRs 1/	104.9	104.9	104.9	74.9	29.4	13.9	8.3	2.8	0.0	0.0
Obligations, in millions of SDRs	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Proposed SCF										
Stock, in millions of SDRs 1/	89.1	104.1	104.1	104.1	86.5	63.4	40.2	17.1	1.7	0.0
Disbursements, in millions of SDRs	89.1	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs 2/	0.0	0.0	0.0	0.0	17.6	23.1	23.1	23.1	15.5	1.7
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	17.6	23.1	23.1	23.1	15.5	1.7
Interest and charges, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proposed SBA										
Stock, in millions of SDRs 1/	143.2	178.2	178.2	153.0	70.5	6.6	0.0	0.0	0.0	0.0
Disbursements, in millions of SDRs	143.2	35.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs 3/	1.2	1.9	1.9	27.0	83.9	64.4	6.6	0.0	0.0	0.0
Principal, in millions of SDRs	0.0	0.0	0.0	25.2	82.5	63.9	6.6	0.0	0.0	0.0
Interest and charges, in millions of SDRs	1.2	1.9	1.9	1.9	1.4	0.5	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit 1/										
In millions of SDRs	337.2	387.2	387.2	332.0	186.4	83.8	48.6	19.9	1.7	0.0
In percent of quota	135.0	155.0	155.0	132.9	74.6	33.5	19.4	8.0	0.7	0.0
In percent of exports of goods and services	5.5	5.8	5.5	4.5	2.4	1.0	0.5	0.2	0.0	0.0
In percent of external debt	4.6	4.9	4.8	3.9	2.2	1.0	0.5	0.2	0.0	0.0
In percent of gross reserves	7.8	8.4	8.2	6.7	3.6	1.5	0.8	0.3	0.0	0.0
Obligations to the Fund from existing arrangements and prospective Fund arrangements										
In millions of SDRs	1.6	2.4	2.4	27.6	102.0	88.0	30.3	23.7	16.0	2.2
In percent of quota	0.6	1.0	1.0	11.0	40.8	35.2	12.1	9.5	6.4	0.9
In percent of exports of goods and services	0.0	0.0	0.0	0.4	1.3	1.0	0.3	0.3	0.2	0.0
In percent of external debt	0.0	0.0	0.0	0.3	1.2	1.0	0.3	0.3	0.2	0.0
In percent of gross reserves	0.0	0.1	0.1	0.6	2.0	1.6	0.5	0.4	0.2	0.0

1/ End of period.

2/ On May 24, 2019 the IMF Executive Board approved a modified interest rate setting mechanism which effectively sets interest rates to zero on ECF and SCF through June 2021 and possibly longer. The Board also decided to extend zero interest rate on ESF till end June 2021 while interest rate on RCF was set to zero in July 2015. Based on these decisions and current projections of SDR rate, the following interest rates are assumed beyond June 2021: 0/0/0/0 percent per annum for the ECF, SCF, RCF and ESF, respectively. The Executive Board will review the interest rates on concessional lending by end-June 2021 and every two years thereafter.

3/ Expected repayment schedule SBA, assuming full drawings and a rate of charge of 1.05 percent as of May 7, 2020.

Table 13. Honduras: Sustainable Development Goals

	2012	2013	2014	2015	2016	2017	2018	2019
Goal 1. End poverty in all its forms everywhere								
Proportion of population below international poverty line (%)	20.0	17.0	16.0	16.0	18.0	17.0	17.0	..
Proportion of population living below the national poverty line (%)	66.5	64.5	62.8	63.8	60.9	64.3	61.9	..
Goal 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture								
Prevalence of undernourishment (% of population)	15.3	15.4	15.6	15.5	15.3	..	..	..
Goal 3. Ensure healthy lives and promote well-being for all at all ages								
Mortality rate, infant (per 1,000 live births)	18.6	18.0	17.3	16.7	16.2	15.6	..	..
Mortality rate, under 5 (per 1,000 live births)	21.9	21.0	20.3	19.6	18.9	18.2	..	..
Maternal mortality ratio (per 100,000 live births)	141.0	135.0	132.0	129.0	..	..	..	..
Prevalence of HIV, total (% of population ages 15-49)	0.4	0.4	0.4	0.4	0.4	0.3	..	..
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all								
Minimum proficiency in mathematics, secondary (%)	..	56.8	..	..	..	..	..	..
Minimum proficiency in reading, secondary (%)	..	69.7	..	..	..	..	..	..
Gender parity index for achievement in mathematics, secondary	..	1.0	..	..	..	..	..	..
Gender parity index for achievement in reading, secondary	..	1.1	..	..	..	..	..	..
Rural to urban parity index for achievement in mathematics, secondary	..	0.8	..	0.4	..	..	..	..
Rural to urban parity index for achievement in reading, secondary	..	0.9	..	0.5	..	..	..	..
Goal 5. Achieve gender equality and empower all women and girls								
Proportion of seats held by women in national parliaments (%)	19.5	19.5	25.8	25.8	25.8	25.8	21.1	..
Proportion of women in managerial positions (%)	59.5	61.3	59.9	49.1	47.0	48.4	51.4	..
Goal 6. Ensure availability and sustainable management of water and sanitation for all								
Proportion of population with basic handwashing facilities on premises, rural (%)	80.3	80.3	80.3	80.3	80.3	..	..	..
Proportion of population with basic handwashing facilities on premises, urban (%)	87.2	87.2	87.2	87.2	87.2	..	..	..
Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all								
Proportion of population with primary reliance on clean fuels and technology (%)	47.0	48.0	50.0	51.0	53.0	55.0	57.0	..
Renewable energy share in total energy consumption (%)	54.0	53.2	53.9	52.6	53.2	53.3	..	..
Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all								
Annual growth rate of real GDP per capita (%)	2.2	1.0	1.3	2.1	2.1	3.0	2.0	..
Proportion of informal employment in non-agriculture employment (%)	75.2	75.3	88.8	85.7	87.5	75.6	..	..
Proportion of youth not in education, employment or training (%)	28.7	26.8	28.7	27.0	27.8	27.7	26.7	..
Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation								
Manufacturing value added as a proportion of GDP (%)	17.4	17.5	17.5	17.5	17.4	17.3	17.3	17.4
Researchers (in full-time equivalent) per million inhabitants (per 1,000,000 population)	..	..	..	22.4	..	34.7	..	..
Proportion of medium and high-tech industry value added in total value added (%)	7.2	7.2	7.2	7.2	7.2	7.2	..	..
Goal 10. Reduce inequality within and among countries								
Growth rate of household expenditure or income per capita (%)	..	..	..	-4.2	..	1.0	..	..
Remittance costs as a proportion of the amount remitted (%)	..	..	..	4.3	..	4.2	4.1	..
Goal 11. Make cities and human settlements inclusive, safe, resilient and sustainable								
Annual mean levels of fine particulate matter in cities, total population (micrograms per cubic meter)	..	..	..	..	20.1	..	..	..
Goal 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development								
Average proportion of Marine Key Biodiversity Areas (KBAs) covered by protected areas (%)	44.4	54.3	54.3	54.3	54.3	54.3	54.3	54.3
Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels								
Number of victims of intentional homicide per 100,000 population	84.3	74.3	66.9	57.5	56.5	41.7	..	..
Bribery incidence (% of firms experiencing at least one bribe payment request)	..	..	..	..	8.7	..	..	..

Source: UN SDG Indicators Global Database.

Note: Goals 12, 13 and 17 are not listed due to data limitations.

Annex I. Risk Assessment Matrix[1]

Sources of Risks	Likelihood/Horizon	Impact if Realized	Recommended Policy Response
Global Risks			
Rising protectionism and retreat from multilateralism. Could reduce growth directly and through adverse confidence effects.	High/ST, MT	Pandemic-prompted protectionist actions stay in place deteriorating economic prospects. This would affect Honduran exports, GDP, and employment.	Diversify exports looking for higher value added. Seek for alternative markets and partners.
More severe Covid-19 pandemic causes widespread and prolonged disruptions to economic activity directly, through global trade and supply chain spillovers, and via confidence effects on financial markets and investment.	High/ST	Mitigation measures remain in place into early 2021 causing disruptions to economic activity, massive loss of employments, and increasing health spending. It would also cause a large human cost given weaknesses in the health system.	Use fiscal buffers prioritizing health spending and employment protection. Seek financial assistance from multilaterals mainly through concessional long-term loans.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources of Risks	Likelihood/Horizon	Impact if Realized	Recommended Policy Response
Higher frequency and severity of natural disasters cause severe economic damage to smaller economies susceptible to disruptions (medium probability). A sequence of severe events hits key infrastructure and large economies, which disrupts trade, reduces global GDP, and prompts a recalculation of risk and growth prospects (low probability).	**Medium, Low /ST, MT**	**High** Natural disasters mainly due to the impact of climate change reduce agricultural output, increase poverty, and migration.	Continue using intentional funds targeted to mitigate climate change (Green Fund). Work with farmers on prevention measures. Provide technical assistance and financing.
Sharp rise in risk premia that exposes financial vulnerabilities. An abrupt reassessment of market fundamentals triggers widespread risk-off events that expose financial vulnerabilities that have been building in a period of low interest rates and a search for yield. Risk asset prices fall sharply, leading to significant losses in major financial institutions. Higher risk premia generate debt service and refinancing difficulties; stress on leveraged firms, households, and vulnerable sovereigns; and capital outflows.	**High/ST**	A deterioration in economic fundamentals-due to Covid-19 related issues- leads to persistently tighter financial conditions which difficult the flow of credit and increase debt service. This would crowd out other spending mainly investment weakening medium-term growth prospects.	Control unnecessary spending, particularly current spending. Take advantage of the PGRT condition to look for concessional and emergency loans. Mobilize revenues to reduce financing needs.
Domestic Risks			
Policy implementation risks stemming from fragmented political landscape	**High/ST, MT**	**Medium** Policy slippage -influenced by interest groups- can result in reduced revenue mobilization and financing needs. Less resources available for social and infrastructure spending would damage long-term growth.	Continue with revenue mobilization efforts, avoid deteriorations in the tax framework through tax benefits.

Appendix I. Letter of Intent

May 21, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Georgieva,

1. **As in other countries, the COVID-19 pandemic is raising challenges for Honduras that require adjustments in the economic program and additional financing.** The pandemic will have a dramatic economic and social impact in Honduras, prompting a recession and creating large fiscal and balance of payments needs that were not envisaged at the time of our program request. Accordingly, we decided to draw on the resources that were available following the successful completion of the first review under the Stand-By arrangement (SBA) and the Stand-by Credit Facility (SCF), which had been treated as precautionary. We are also requesting rephasing and augmentation of combined access under the arrangements to SDR 387.2 million (155 percent of quota, see table 3) to support the policy response to the healthcare, humanitarian, and social emergency. We are considering whether to request debt service suspension from official bilateral creditors, as envisaged in the Debt Service Suspension Initiative, supported by the G-20 and the Paris Club.

2. **Despite these challenges, we reiterate our commitment to the objectives of our economic program.** The elements of the program remain as described in our Letters of Intent of June 20 and November 27, 2019: (i) securing the fiscal position by putting ENEE on a sustainable path through reforms while maintaining policy space for investment and social spending; (ii) strengthening monetary policy and financial institutions to buffer shocks and maintain stability; and (iii) improving the business environment and governance, including by stepping up efforts to fight against corruption. Despite headwinds to growth in 2019—including due to a severe drought associated with climate change—all quantitative performance criteria for the second review were met. We have strived to protect social spending and investment from the impact of the slowdown on public revenues and to strengthen governance; restructure the electricity sector; and modernize the monetary and exchange rate frameworks. We remain committed to the revenue mobilization agenda that will increase space to foster growth and reduce poverty over the medium term.

3. **We believe that the policies set forth in the attached Memorandum of Economic and Financial Policies (Attachment I) are adequate to achieve the objectives of our program**. The attached memorandum discusses the key elements of our policy response to mitigate the pandemic—carefully crafted to maintain debt sustainability over the medium term—as well as our continued efforts to implement the key reforms needed to reach higher inclusive growth over the medium term. These include measures to maintain macroeconomic stability, continued progress in

electricity sector reforms, and key initiatives to enhance governance. We will take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures, and before any revision to the policies contained in the memorandum, in accordance with the Fund's policies on such consultation. We will continue to provide Fund staff with all relevant information needed, as outlined in the Technical Memorandum of Understanding (Attachment II).

4. **We have taken measures to guarantee transparency and accountability of emergency spending during the pandemic.** This spending is being tracked in the budget and published in a dedicated webpage to facilitate its monitoring—including through oversight by the civil society. As explained in the attached Memorandum of Economic and Financial Policies, we will publish related procurement contracts, including names of companies awarded. We are also committed to publish post-crisis reports of pandemic-related spending as policy responses to the crisis continue to be implemented.

5. Consistent with the commitment to keep the public informed, we authorize the IMF to publish this Letter of Intent, its attachments and the related staff report, as well as all future program documents.

Sincerely yours,

/s/	/s/
Wilfredo Cerrato Rodriguez	Rocío Tábora Morales
President, Central Bank of Honduras	Secretary of the Treasury

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies

Background and Program Objectives

1. **The pandemic is creating new challenges to foster inclusive growth.** The government's prudent macroeconomic policies over the last years have spurred growth and institutional reforms—including through the approval of the Fiscal Responsibility Law (FRL)—and established the foundation for continued sound macroeconomic management. However, Honduras continues to be one of the poorest countries in the region, and the pandemic has the potential to reverse critical achievements over the last years, which would curb our efforts to foster growth and reduce poverty. We are committed to provide the vital policy response to the healthcare and humanitarian crisis, using the much-needed flexibility provided by the FRL.

2. **The overarching objective of our economic program is to maintain macroeconomic stability, while enacting economic and institutional reforms to foster inclusive growth.** We remain firmly committed to macroeconomic stability; and intend to build on previous achievements to strengthen the policy and institutional framework. In this connection, while we will use the flexibility in the FRL to increase the fiscal deficits in 2020 and 2021 to mitigate the pandemic, we are committed to return to a fiscal position consistent with debt sustainability in 2022, as mandated by the law. This adherence to the FRL and the reform program aims at creating space to reduce the infrastructure gap and increase social spending. Accelerating the implementation of the electricity sector reform—including through the implementation of the electricity sector law and measures to put the financial situation of the public electricity company (ENEE) on a sustainable path—will be essential. Continued revenue mobilization efforts will also be critical for our objectives. To buffer potential external shocks associated with volatile terms of trade and global financial conditions, the program will continue strengthening its monetary and financial policy frameworks. Finally, governance reforms will tackle areas that pertain to the macroeconomic policy framework, as well as the rule of law and the fight against corruption, fundamental to improve the business environment and foster inclusive growth.

Recent Economic Developments and Outlook

3. **The pandemic is expected to cause a deep recession, prompt additional fiscal needs, and stress the international reserves position**:

- In part due to climate change, economic activity was already experiencing headwinds in 2019. Growth eased from 3¾ percent in 2018 to 2¾ percent in 2019, dragged by: (i) a deceleration in the global economy; (ii) a severe drought, which affected the agricultural, livestock, and energy sectors; and (iii) some social tensions during the summer. Headline inflation eased to the midpoint of the BCH's 4±1 percent target band, amid falling inflation expectations. Import compression, against a backdrop of more sluggish activity, and still buoyant remittances, narrowed the current account deficit to 1½ percent of GDP. Private sector credit moderated, while the banking system remained sound, liquid and well capitalized, with bank capital above regulatory requirements and NPLs at low levels. Despite a shortfall in revenues, we maintained the fiscal stance under the FRL while protecting investment and social spending through strict control of nonpriority current spending.

- The COVID-19 pandemic is prompting a recession in 2020, with domestic economic activity drastically reduced amid unavoidable mitigation measures to alleviate pressures on the health system and protect lives. Additionally, the economy will be hit by massive external spillovers from trade through the maquila sector, significantly lower remittances, weaker tourism arrivals, and tighter external financial conditions. Public finances will come under significant pressure, and we expect a loss of central bank's reserves.

4. **We remain committed to maintaining the objectives of the program, while allowing an adequate policy response to the pandemic.** We are articulating a strong response by using the escape clause under the FRL—which allows a temporary increase in the NFPS deficit ceiling—which at the same time mandates a gradual return to the deficit target consistent with preserving debt sustainability. We also remain committed to take new steps in the electricity sector reform, resume our revenue mobilization efforts as the economy recovers from the pandemic, and implement a wide range of institutional reforms to promote sustained inclusive growth and raise the living standards of all Hondurans. The central bank will continue to steer inflation toward the midpoint of the target band through data-dependent policy actions. Starting in 2021, we will continue to accumulate reserves to cushion our economy.

Fiscal Policy

5. **We will implement a well-targeted fiscal loosening to mitigate the impact of the pandemic.** Our steadfast commitment to the FRL since its inception in 2016—notably through the electoral cycle in 2017 and despite challenges raised by ENEE—supports this strategy. Amid unavoidable losses in tax revenues and the need to accommodate new health and social spending, we will make use of the escape clause under the FRL to face emergencies. This envisages the suspension of the ceilings on the NFPS deficit and current expenditure growth for a maximum of two years. Consistent with this, we will submit to Congress our proposal for a projected NFPS deficit of 4 percent of GDP in 2020.

6. **Continued fiscal prudence—with the deficit converging back to the limit stated in the FRL by 2022—will maintain public debt on a sustainable path.** The flexibility in the FRL will allow us to respond to the crisis while maintaining our commitment to fiscal prudence over the medium term. Returning to the deficit ceiling in 2022 will keep public debt on a sustainable path. Our commitment to the FRL will be also instrumental to maintaining confidence, allowing us to regain access to markets when financial conditions normalize.

7. **Reforms in the electricity sector and renewed revenue mobilization efforts after the pandemic subsides will also increase fiscal space for much-needed investment and social spending.** Bold measures in the electricity sector will put ENEE's financial situation on a

sustainable path. These include implementing the electricity sector law approved in 2014, continuing to strengthen the regulatory body and addressing governance issues both in the electricity sector and in ENEE, reducing electricity losses and energy purchase costs, keeping tariffs in line with costs, and refinancing ENEE's financial obligations to replace high-cost debt. These reforms, together with renewed efforts to maintain the revenue mobilization agenda, will create fiscal space to increase investment and social spending. A centralized wage bargaining scheme that helps to control the wage bill will also support convergence to FRL current spending and deficit ceilings as the crisis subsides.

A. Revenue

8. **While accommodating an unavoidable decline in tax revenue during the pandemic, we will continue to strengthen tax administration to prevent erosion of the tax base.** The recession is expected to produce a temporary loss of revenue of about 2 percentage points of GDP in 2020 with respect to 2019, which will be primarily driven by the contraction of the tax base. Targeted and temporary tax relief measures will also affect tax collections—i.e., a discount in face value payments of the 2019 corporate income tax for SMEs that do not use the option to defer payments and an exemption of sales taxes on purchases of medical supplies in 2020. Also, we have allowed companies to reduce their CIT advanced payments to provide them a liquidity buffer during the pandemic—we expect this measure to be intertemporally neutral, as it will increase CIT clearings in 2021. Despite the economy's dire situation, we reiterate our commitment to continue strengthening tax administration measures and reassess tax policy issues once the pandemic recedes. In particular:

- **Tax administration.** The recently completed tax administration diagnostics assessment tool (TADAT) evaluation speaks about our significant progress on tax administration over the last years. We also joined OECD initiatives on BEPS, global forum, and tax inspectors without borders to strengthen fiscal transparency. In the context of the discussion of the 2021 budget, we will engaged in discussions with the private sector and work with Congress for the approval of submitted legislation introducing electronic notification of the tax administration office (SAR) procedures to taxpayers (*proposed rescheduled structural benchmark, November 2020)* and a return to SAR of control and verification procedures for tax exemptions (*proposed rescheduled structural benchmark, November 2020)*—we keep working on the operational adjustment needed for this transition, building on recent technical assistance from the Fund. We will also request technical assistance to design a plan to upgrade our system based on exempted purchase orders with a modern system based on timely tax refunds.

- **Customs.** We will continue to strengthen the capacity of the new customs administration created last January, following the appointment of a new managerial team (*structural benchmark, September 2019*).

- **Information sharing.** SAR, the ministry of finance, and the customs administration have signed an agreement to share information on a timely basis; and we are working on its implementation.

- **Tax base.** Once the pandemic subsides, we will resume our revenue mobilization efforts to support social and infrastructure spending by gradually broadening the tax base through the streamlining of exemptions. In order to continue raising social awareness and building consensus for this agenda, we will expand the annex in the 2021 budget bundle with a cost-benefit analysis of tax exemptions (*proposed new structural benchmark, September 2020*).

B. Spending

9. The pandemic will require new spending to attend the social and humanitarian crisis. The additional expenditure represents about two percentage points of GDP. This includes: (i) emergency healthcare expenditures—purchases of medical supplies, enabling of temporary medical facilities, and hiring of additional personnel; (ii) temporary unemployment benefits for workers in the formal sector during the lockdown; and (iii) a program of food delivery and cash transfers to poor families and informal sector workers. We have identified about 1 percent of GDP in nonpriority current spending that will be reduced through budget reallocations, leaving the net increase in expenditure of the NFPS at about 1 percent of GDP.

10. Rightsizing expenditure will be critical, both during the pandemic and over the medium term. We have been implementing measures to contain non-priority current spending. This containment is needed to create space for crisis-related spending, as well as to facilitate convergence to the FRL targets once the crisis subsides to support social and infrastructure spending over the medium term. Specifically, our spending plan includes the following:

- **Budget reallocations to address pandemic needs.** Last March, we issued a decree mandating cuts in all non-priority expenditures—excluding healthcare, education, energy and security related expenditures—to reallocate resources to mitigate the impact of the pandemic. This, together with other identified cuts in nonpriority current spending will allow us to partially finance crisis related spending.

- **Wage bill.** In the short term, we are planning to implement a centralized wage bargaining mechanism to guide decisions on nominal wage increases, in line with the FRL (*proposed rescheduled structural benchmark, June 2020*). Over the medium-term, we plan to upgrade the general directorate of civil service to a public administration authority in charge of reforms to right-size the number of labor frameworks existing in the public sector and establish a modern civil service career aligned with merit and performance.

- **Public investment.** As part of our policy response to mitigate the humanitarian impact of the pandemic and to support the economic recovery from the crisis, we are prioritizing execution of investment projects financed by the Central American Bank for Economic

Integration, Inter-American Development Bank, and World Bank to enhance productivity and competitiveness, as well as to address the impact of global warming on water and food security in the rural areas most affected by the drought.

C. Financing

11. Our program remains fully financed. Despite a lower than previously envisaged current account deficit, a sudden stop of private capital flows together with higher financing needs in the public sector have opened a BOP financing need of about US$1.1 billion in 2020. This will be covered by drawing on the augmented SBA and SCF arrangements—given that higher public sector financing needs contribute to higher BOP needs, Fund disbursements will be used for budget support—and additional financing from multilateral development banks (MDBs) for US$582 million, allowing us to draw down a limited amount of international reserves and preserve the adequacy ratio. We also expect new external financing for about US$320 million in 2021 with respect to the amounts programmed at the time of the first review.

12. Domestic arrears. ENEE had accumulated domestic arrears to private generators before program inception. As of June 2019, these arrears were estimated at about 1½ percent of GDP. We are conducting a full review of these arrears, with a view of clearing them gradually. No new arrears to generators were incurred by ENEE through end-December 2019. The pandemic—and the associated impact of the lockdown on households and firms' income—has raised significant liquidity challenges in ENEE, giving place to new arrears with generators that cannot be eliminated by end-June. Nonetheless, we intend to gradually normalize these payments, aiming at clearing these new arrears by year-end.

D. Fiscal Governance and Transparency

13. The quality of fiscal policy relies on sound governance and transparency of public spending. We are committed to enhancing the quality of public expenditure, so that policies supported by our sustained revenue mobilization efforts succeed in delivering the public services demanded by the population. Transparency and strong governance are key factors to achieve these aims. In line with this, we are implementing the recommendations of the Fiscal Transparency Evaluation (FTE) conducted by the Fund.

14. We have taken measures to guarantee transparency and accountability of emergency spending during the pandemic. A labeling mechanism is being implemented to categorize and track all pandemic-related expenditure in the budget. This will facilitate the monitoring and publishing of this spending—including through oversight by the civil society—which is taking place in a dedicated web page (www.sefin.gob.hn/covid-19). We will publish related procurement contracts, including names of companies awarded—once the new centralized registry is built, it will also allow identification of beneficial ownership (paragraph 38). We are also committed to expeditiously publish post-crisis reports of pandemic-related spending as policy responses to the crisis continue to be implemented. The Court of Accounts is conducting concurrent audits of the emergency healthcare and social spending, in addition to its role as ex-post auditor. The Court of Accounts will also publish ex-post audits of pandemic-related spending.

15. The incorporation of expenditure channeled through trust funds into the budget will be important to ensure transparency and accountability. To align our expenditure policies with the budget unity principle, we are taking steps to transfer well-established programs to the budget. As a first step, we included an annex on spending by trust funds in the 2020 budget (*structural benchmark, September 2019*). Building on technical assistance from the Fund, we have published—and we are implementing—a plan to execute spending currently funneled through social and infrastructure trust funds under full Public Financial Management regulations starting with the 2021 budget (*structural benchmark, March 2020*). We have created a unit within the ministry of finance to closely monitor trust funds and publish details on their execution (www.sefin.gob.hn/reduccion-de-la-pobreza).

16. We will take additional measures included in FTE recommendations. We are committed to enhancing the comprehensiveness of fiscal reports and strengthening the assessment of fiscal risks—particularly those stemming from trust funds and financial and non-financial public companies—through the publication of an annual Fiscal Risk Statement. This will include proposed contingent policies for risks with high probability of materialization. The Treasury is now publishing comprehensive fiscal reports—including financing lines—a long-awaited goal that contributes to transparency and accountability of the public sector. Moreover, we will work to strengthen the Unit of Norms and Processes in the Budget Office, aiming at creating an expenditure quality unit. The unit will be tasked with identifying the main sectors where performance budgeting pilots can be applied, as well as with developing the relevant indicators and their corresponding baselines—focus will be placed on improving the quality of expenditure in the sectors that are critical for the social wellbeing and long-term development.

E. Electricity Sector: Governance and Sustainability

17. The structural overhaul of the electricity market constitutes the cornerstone in our economic program. We continue to take steps to implement the approved electricity sector framework law, which aims at rehabilitating and upgrading the sector's infrastructure and mobilizing investment resources. Prior to the first review of the Fund-supported program, we launched the system operator (ODS) in charge of managing the power grid to ensure the reliable delivery of electricity. The mandate of the ODS—a function previously performed by ENEE—involves the design of plans to expand generation and transmission based on sound projections of energy demand, the preparation of procedures for purchase of energy in spot markets, and the operation of the payment system in the wholesale market. We are also strengthening the governance structure in the regulatory body (CREE). In this connection, we have submitted to congress a decree establishing its budgetary and operational independence last April—including by placing the institution outside the scope of the civil service law, necessary to hire the required human talent. Since the first review of the program, the CREE has approved expansion plans prepared by the ODS to guide new generation and investments plans in transmission over the next years. The ODS and the CREE continue to work on new procedures and regulations to enhance the operation of the electricity market, including by allowing open, competitive, and transparent auctions for new energy purchases.

18. We continue working on the regulatory framework to implement the new tariff scheme. Tariffs continue to be updated on a quarterly basis based on technical considerations (*continuous structural benchmark*). The new tariff scheme approved last summer—with assistance from the World Bank—defines the framework to reflect generation, distribution, transmission, and other costs to provide electricity services. Following the approval of the new tariff structure, the CREE is working on the associated regulations, aiming at phasing in its key elements as progress in technical work is made and required data is collected.

19. Following due process, we have initiated work on reassessing generation contracts that had not come into effect. These projects had been negotiated by ENEE over the last years, but the increase in supply they would bring about may not be in line with the expected evolution of electricity demand in Honduras—as defined by ODS's medium-term expansion plans—or may not be fully compliant. We have already cancelled over twenty contracts that were in breach of contractual requirements, such as the provision of financial guarantees backing their implementation. We will continue the process of reviewing the remaining contracts over the next months, aiming at paving the way to procurement of energy following the electricity framework law.

20. We are taking steps to tackle long-standing challenges in ENEE. At the onset of the program, the company's financial situation was critical—its deficit reached 1 percent of GDP in 2018, owing to lack of strategic planning that gave place to oversupply and high generation costs, a misalignment between tariffs and costs, high electricity losses, governance issues, and persistent operational inefficiencies. Over time, these weaknesses have resulted in a large accumulation of debt—close to 10 percent of GDP at end-2019—and the loss of the company's financial autonomy. In line with the plan outlined in July 2019, reforms are focused on the following issues:

- *Management.* Last January, the president appointed an intervention board with the mandate of strengthening supervision of ENEE's operations and governance, placing the company on a sustainable financial position, and implementing the reforms stated in the electricity sector framework law.

- *Audits.* As flaws in ENEE's data and lack of a proper valuation of assets are preventing the completion of the financial audits of the company, with support from the Inter-American Development Bank, we will hire an international firm to perform the valuation of ENEE's assets (*proposed new structural benchmark, July 2020*).

- *Unbundling of the company.* Unbundling of ENEE into three independent companies—operating in generation, transmission, and distribution, as mandated by the electricity framework law—can enhance the functioning of the electricity market and attract investment. The planned asset valuation is also a critical step for the initiation of this process. Multilateral development institutions are assisting us on our reform efforts to foster the implementation of the electricity framework law.

- *Financial and generation issues.* We plan to reach refinancing agreements with ENEE's creditors to reduce financing costs, including by terminating the distribution trust fund managing the company's cash flow, which will improve governance as well (*proposed new structural benchmark, December 2020*). As financial markets normalize, SEFIN and ENEE will continue seeking resources and alternatives to restructure ENEE's financial obligations, in line with the ongoing electricity sector reforms. Additionally, in strict adherence to our legal framework, we will seek a more efficient electricity market through agreements with existing private generation companies.

- *Electricity losses.* The current level of losses is testimonial of operational inefficiency. We continue to work towards implementing our strategy to reduce electricity losses in transmission and distribution. To this end, we launched last December a new law enforcement task force to reduce non-technical losses associated with large consumers by conducting more targeted field assessments looking for irregular connections, tampered or damaged meters, and unmetered consumers. In early 2020, the task force conducted operations to interrupt service to delinquent customers and made progress in recovering receivable accounts—in line with this, we are ensuring adequate budgeting to secure payment of electricity bills by public entities—but the campaign has been temporarily suspended during the pandemic. As for technical losses, we secured approval of an Inter-American Development Bank loan to upgrade the transmission grid. Finally, following due process, we are also working to reassess the contract with *Empresa Energía Honduras* (EEH), the operator of the distribution system.

- *Assessing distribution costs.* We will finalize a study to estimate the cost of operating and maintaining the electricity distribution network (*proposed new structural benchmark, December 2020*). This will be an important step both to implement the new electricity tariff scheme and to facilitate the dialogue with EEH.

21. Our energy sector reform plan includes appropriate support for the poor. It aims at clearly stating its long-term objectives—in consultation with key stakeholders—and maintaining communication with the public. Moreover, specific programs to protect the poor have been put in place, including by maintaining the electricity subsidy for those consuming less than 75kwh per month, as well as transitory budgetary transfers for low-consumption households after tariff adjustments.

Monetary Policy

22. The central bank (BCH) implemented policies to cushion the impact of the pandemic, while maintaining inflation on target and a solid reserves position. The BCH has eliminated mandatory investments by banking institutions; and reduced the monetary policy rate and central bank rates to access liquidity facilities. We are committed to ensuring that monetary and liquidity conditions remain adequate to cushion the impact of the pandemic. The Fund-supported program includes ceilings on the expansion of net domestic assets and floors on the accumulation of non-borrowed net international reserves of the central bank as performance criteria. To ensure that the growth in private sector credit is in line with the program objectives, the BCH will keep credit developments under close review and will continue to use its monetary policy instruments as needed. We will not provide additional financing to BANHPROVI beyond that envisaged under the trust fund approved in 2013.

23. We will continue to improve the operational framework for conducting monetary policy, aiming at the implementation of full-fledged inflation targeting in coming years. We submitted to Congress in December 2019 a new central bank law (structural benchmark) elaborated with legal technical assistance from the Fund. This will provide the central bank's capacity building required to implement these reforms. The law, in line with international best practices, will increase the central bank's autonomy, transparency and accountability by, *inter alia*, stating price stability as the overriding policy mandate of the BCH, establishing a sound central bank's governance structure with a proper allocation of oversight, daily management, and policy formulation responsibilities among its decision-making bodies, strengthening the central bank's personal and financial autonomy, and improving transparency by introducing a reference to International Financial Reporting Standards.

24. Continuous cooperation between the central bank and the ministry of finance will be of the essence to enhance the operational framework for monetary policy. In the past, coordination has resulted in a successful recapitalization of the central bank. Going forward, we believe that coordination has the potential to further increase efficiency in money markets by reducing market fragmentation between central bank and Treasury instruments. In line with this, we have received technical assistance from the Fund to assess the benefits of different arrangements between the central bank and the ministry of finance to give the former unrestricted access to a pool of government securities to implement monetary policy.

25. We will move gradually towards a flexible exchange rate regime. Over the medium term, this will allow the Honduran economy to less costly adjust to terms-of-trade and other external shocks. As of April 2020, we have reduced the FX surrender requirement by 60 percentage points. We will implement the plan for the gradual removal of the remainder 40 percent approved in December 2019 (*structural benchmark*), conditional on the normalization of economic conditions as the pandemic subsides. To support the transition to a more flexible exchange rate, and building on recent technical assistance from the Fund, we are working on: i) adjusting FX intervention rules in preparation for the elimination of surrender requirements; ii) introducing regulations to support the development of an FX derivatives market, for which we will request further Fund assistance; and iii) fostering the development of an electronic platform that can support a secondary securities market to further strengthen the interest rate channel of monetary transmission.

26. As part of our transition to inflation-targeting, we are also working to improve pricing and economic activity statistics that are critical to assess the monetary stance and forecast inflation. In light of the pandemic, we will assess the need to revise our target dates for the completion of the National Household Income and Expenditure Survey (NHIES)—previously expected by December 2020—and the publication of a new consumer price index (CPI)—previously expected for January 2022. We are also assessing our target date for publishing the new national accounts series, previously envisaged for December 2021.

Financial Policies

27. We are implementing regulatory and supervisory policies to preserve financial stability while sustaining economic activity through the pandemic:

- We have encouraged banks to provide temporary debt service relief—until June 30—to companies and individuals whose incomes have been affected by the crisis. Bank loans may also be reprofiled according to repayment capacity. We will carefully monitor restructured loans through a special new classification in the credit registry.

- We are implementing a new credit guarantee scheme that should help fostering credit while maintaining stability in the banking system. Contingent risks are limited through adequate thresholds of credit quality for participation in the scheme, as well as by conservative assumptions of default rates under substantial economic stress to calibrate the capitalization of the guarantee fund.

- Strong supervision will monitor the impact of the pandemic, taking action as needed to address any liquidity or solvency issues that may arise. The central bank is revising the emergency lending facility, simplifying procedures to allow its swift activation. We will also ensure that any losses are recognized actively against available buffers, and that new capital is raised if adequacy ratios fall below regulatory standards.

28. We will remain vigilant to potential needs for temporary relaxation of existing macroprudential buffers, while maintaining measures to further strengthen the regulatory framework and supervisory practices. In line with the FSSR recommendations and the Basel III standard, we are phasing in an additional capital charge of 2.5 percent on banks through December 2022—currently we are at 1 percent—and the liquidity coverage ratio. We are also strengthening the CNBS capacity in risk-based supervision—with assistance from the Fund and the Toronto Center—and furthering our stress testing capacities. Going forward, we plan to: (i) continue phasing in the liquidity coverage ratio and capital conservation buffer requirements, while assessing potential needs to adjust the pace at which these buffers are built amid the pandemic; (ii) gradually introduce regulations for market risks; and (iii) develop new methodologies to assess operational risks. The CNBS will also complete implementation of the bank resolution framework by creating guidelines for banks to prepare their recovery plans and develop manuals for bank resolution mechanisms with support from OTA.

29. Improving access to credit by small- and medium-size agricultural producers is a key element in our economic program. We submitted to Congress a proposal to close the operations of the public agricultural development bank (BANADESA), given its situation of financial insolvency (*structural benchmark, December 2019*). Pending approval by Congress, we will refrain from injecting new public funds, and the CNBS will continue to supervise BANADESA's operations—preventing new loans in line with regulatory guidelines for insolvent institutions. Following instructions from congress, the president will appoint a new management team to oversee the gradual repayment to depositors, as outstanding loans mature. Pending approval of the new agency to provide funding and technical assistance to the agricultural sector, we have stepped up support to the sector by expediting execution of subsidized and guaranteed lending schemes funded by our second-tier public development bank.

30. We will continue to assess improvements to the investment policy framework of public pension funds. Pension funds' investment policy frameworks should aim at aligning the maturity of their assets and liabilities and optimizing its risk-return strategy. Therefore, we will gradually move the structure of their investment portfolio towards international best practices. We will also assess whether lending policies place the incentives to secure the right amount of accumulated rights—net of outstanding loans—at the time of retirement.

31. Modernizing our legal framework is critical to broaden financing options for the private sector and investment alternatives for institutional investors. We submitted to Congress a new securities market law to support the development of domestic capital markets last April (*structural benchmark, March 2020*). The development of domestic capital markets will be critical to strengthen the interest rate channel of monetary transmission, supporting the transition to inflation targeting.

Social Policies

32. We have responded swiftly to the humanitarian crisis associated with the pandemic, notably through the new 'Honduras Solidaria' program. Given the need to reduce the high poverty rate for the success of our reform agenda, our program includes measures to combat poverty and favor social mobility—by focusing on women and early-age children. With the onset of the pandemic, we have taken additional temporary targeted measures to protect formal and informal sector workers whose incomes have been affected by the lockdown. Through *Honduras Solidaria*, we have also strengthened existing programs to secure the delivery of food to poor families.

33. Priority social spending. We have included these temporary expenditures in our priority social spending to be monitored during periodic program reviews in 2020 (indicative target). In addition to existing priority social spending channeled mainly through well-targeted cash transfers—including our flagship cash-transfer program "*Bono Vida Mejor*", which aims at covering the entire population in extreme poverty by end-2021—we will pay temporary unemployment benefits. With technical support from PNUD, we are also strengthening our food delivery programs—including by implementing electronic notification to beneficiaries—to cover basic needs of more than one million families affected by the pandemic.

34. Electricity subsidy. As suggested above, we will continue providing the subsidy for households consuming up to 75KW per month and an additional temporary subsidy to buffer the impact of the energy price increase on households approved last January. ENEE has also temporarily adjusted its collections policy, allowing consumers to pay a portion of the bill for the duration of the lockdown.

35. Gender equality. Raising female labor participation is critical to reduce gender inequality and boost potential growth. We will tailor our subsidized lending programs to small and self-employed producers to ensure adequate gender distribution that contributes to a gradual closing of the gender gap in the labor market. Some of our key programs in this area—*Primera Infancia, Ciudad Mujer, and Empoderamiento Económico de la Mujer*—will be included as priority social spending.

Business Environment, Governance, and Anti-Corruption Efforts

36. Fostering the conditions for private sector activity is critical to our economic program. Steps have been taken for further administrative simplification; and a one-step window is being implemented for international trade. Delays associated with the pandemic prevented us from submitting to Congress legislation requiring public regulatory agencies to streamline and publicize requirements for obtaining permits, to reduce discretion and accelerate approvals (*structural benchmark, March 2020)*, but we are planning to complete this action by end-June 2020. We also developed a plan to implement the electronic signature to simplify public administration procedures (*structural benchmark, December 2019*).

37. Supported by technical assistance form the Fund, we are implementing a roadmap to improve the legal framework. These measures—which we are implementing in consultation with Fund staff—will anchor our efforts to enhance fiscal governance and prevent corrupt practices:

- *Procurement*. We have submitted to Congress a new public procurement law to modernize the process and strengthen compliance (*structural benchmark, September 2020).* Under the new law, public procurement contracts will not have legal validity until they are published in our enhanced public purchases and contracting platform, *Honducompras 2*. Despite the disruption caused by the pandemic, we remain on track to conclude the implementation of the first two modules of *Honducompras 2,* which include the suppliers registry, the annual purchasing and contracting plans, and the procurement process—ensuring their full integration with the Treasury IFMIS (SIAFI) for central government entities covering 90 percent of the procurement budget (*structural* *benchmark, September 2020*).

- *Fiscal Risks*. We also remain on track for the improvement of the framework for Public-Private Partnerships (PPP) through the creation—with support from the Inter-American Development Bank—of a new unit in the Treasury supported by an inter-institutional council that will improve governance in the management of PPPs. This unit will work in tandem with the Treasury's contingency unit to (i) assess the convenience of procuring projects as PPPs rather than as traditional public investments; and (ii) conduct technical feasibility and cost-benefit studies at all stages of the project cycle (*structural benchmark, June 2020*).

- *Strengthening the Anti-corruption Framework*. A reform to the organic law of the Court of Accounts introduced last year addressed shortcomings in the current internal audit system, including lack of concurrent audits and independence of internal auditors from audited entities by granting the Court of Accounts exclusive responsibility over their nomination and removal. The Court of Accounts will issue by-laws to reform the public officials' asset declaration system in line with good international practices (*structural benchmark, September 2020*), for which technical assistance from the Fund was requested. These by-laws will enhance accountability by revising the criteria to determine reporting officials—based on hierarchy and risk criteria, such as salary and access to public funds—and migrating the system to electronic submission of declarations, with support from the Inter-American Development Bank.

38. AML/CFT. We will continue to expand supervision coverage of Designated Non-Financial Businesses and Professions (DNFBPs); and enhance the identification of shareholders and beneficial owners of all types of legal persons as well as the access to this information to prevent misuse of legal entities. To this end, we have requested technical support from Fund staff and we will submit to Congress legislation requiring the amendment of the Code of Commerce to allow only registered shares, and the creation of a unified and centralized registry collecting beneficial ownership information that will ensure timely identification of owners of all types of legal persons, including by requiring legal entities to submit updates and establishing dissuasive actions to secure compliance (*structural benchmark, September 2020*).

Safeguards Assessment and Program Monitoring

39. The institutional reforms identified in the Fund safeguards assessments of the BCH are underway. The assessment noted the successful recapitalization of our central bank during 2014–18. We have submitted to Congress the new central bank charter that when enacted will strengthen its independence and its governance framework, including by establishing independent oversight—in line with the recommendations of the Safeguards Assessment (*structural benchmark, end-December 2019*). We are committed to adopt International Financial Reporting Standards (IFRS) and recently initiated a process to hire a consulting firm to assist in the transition to IFRS.

40. Program monitoring. We request renewed temporary approval of the two multiple currency practices (MCPs) maintained for non-balance of payments reasons. We have not introduced any new rule on the FX market that would lead to a spread of more than 2 percent between the official exchange rates and the exchange rates resulting from the BCH's FX auction and plan to eliminate the two MCPs as part of our efforts to liberalize the FX regime. The program will continue to be subject to semi-annual reviews, and will be monitored through performance criteria, indicative targets, and structural benchmarks, as set out in tables 1 and 2. To facilitate program monitoring, we are committed to provide detailed information as specified in the technical memorandum of understanding (TMU). Relevant definitions and reporting procedures are further specified in the accompanying TMU.

41. Program Monitoring Committee (PMC). The PMC—comprising the chief of the economic cabinet, the president of the central bank, the minister of finance, the director of SAR, the president of the CNBS, the chief economist of the central bank, and the director of macro-fiscal policy at the ministry of finance—will continue to meet at least once a month to review implementation of the Fund-supported program and consistency of all relevant policy initiatives with the program's objectives. The Fund resident representative will attend the meetings as an observer. The central bank will prepare minutes of the meetings and send them to the Fund resident representative no later than five business days after each meeting.

Table AI.1. Honduras: Structural Benchmarks 2019-20			
Measure	**Test Date**	**Status**	**Comments**
Ensure that CREE implement periodic tariff adjustments aligned with the evolution of energy generation costs.	Continuous	Met	
Include an annex on spending by trust funds in the 2020 budget proposal to be submitted to congress.	September 2019	Met	
Enact the decree that creates the new customs administration and appoint its managerial team.	September 2019	Not met	Completed in November 2019
Introduce legislation to transfer all verification procedures for the management of tax exemptions from SEFIN to SAR.	December 2019	Not met	Proposed to be rescheduled for November 2020
Amend Article 89 of the Tax Code, allowing for electronic notification of SAR procedures to taxpayers.	December 2019	Not met	Proposed to be rescheduled for November 2020
Streamline tax exemptions, including those that are not in line with commitments under the benefit and/or lack proof of economic impact.	December 2019	Not met	
Submit to Congress the new draft BCH charter, in line with the recommendations of Fund staff (see paragraph 21 of the MEFP).	December 2019	Met	
Present a plan to phase out FX surrender requirements.	December 2019	Met	
Establish a centralized wage bargaining mechanism, in line with the FRL.	December 2019	Not met	Proposed to be rescheduled for June 2020
Submit to Congress of a proposal to address the financial situation in BANADESA.	December 2019	Met	
Prepare a plan to implement electronic signature.	December 2019	Met	
Submit to Congress draft legislation requiring regulatory agencies to streamline and publicize requirements for obtaining permits (*Ley de Simplificación Administrativa*).	March 2020	Not met	Proposed to be rescheduled for June 2020
Present a plan to execute social and infrastructure spending currently funneled by trust funds to be managed within full PFM regulations for the 2021 budget.	March 2020	Met	
Submit to Congress a new securities market law.	March 2020	Not met	Completed in April 2020
Issue regulations ensuring that the Treasury's PPP unit: (i) assesses the convenience of procuring projects as PPPs rather than as traditional public investments; and (ii) secures that technical and cost-benefit analysis is implemented at each stage of the project cycle.	June 2020	…	
Hire a firm to perform the valuation of assets of ENEE to facilitate the unbundling process and prepare for a financial audit.	July 2020	…	Proposed as new.

Table AI.1. Honduras: Structural Benchmarks 2019-20 (concluded)

Issue regulations to the framework law of the *Tribunal Superior de Cuentas* to reform the public officials' asset declaration system in line with international good practices, reducing and prioritizing the number of reporting officials based on hierarchy and risk, and digitalizing the submissions of declarations—in consultation with Fund staff.	September 2020	…	
Ensure that the procurement portal *Honducompras 2* is integrated with the Treasury's IFMIS (paragraph 37 of MEFP).	September 2020	…	
Submit to Congress a new procurement law.	September 2020	Met	
Submit legislation to ensure timely access to accurate beneficial ownership information on all types of legal persons in Honduras—including by requiring legal entities to submit updates, ensuring the centralization of beneficial ownership information, and establishing actions to secure compliance (paragraph 38 of the MEFP).	September 2020	…	
Expand the coverage of the budget annex on tax exemptions to perform cost-benefit analysis of these expenditures.	September 2020	…	Proposed as new.
Terminate the trust fund on electricity distribution (Decree 118-2013).	December 2020	…	Proposed as new.
Complete the study of the 'Costo de Operación, Mantenimiento y Administración de la Red' (COMA), as part of the assessment of the value added of electricity distribution.	December 2020	…	Proposed as new.

Table AI.2. Honduras: Performance Criteria and Indicative Targets 1/

(Cumulative flows; millions of Lempiras, unless specified)

	2019							2020				2021
	End-Sep.			End-Dec.				End-Jun.		End-Dec.		End-Jun.
	Prog.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Rev.	Prog.	Rev.	Indicative
QUANTITATIVE PERFORMANCE CRITERIA												
Fiscal targets 2/												
Net lending/borrowing of the nonfinancial public sector (-= borrowing, floor)	-3,898	3,304	Met	-6,100	...	-5,276	Met	-4,100	-37,304	-6,800	-25,000	-19,188
Net lending/borrowing of ENEE (-= borrowing, floor) /3	-4,312	-3,695	Met	-6,160	...	-5,937	Met	-3,264	-3,264	-5,440	-5,250	-3,000
Lending minus repayments from public pension funds (ceiling)	600	569	Met	800	...	599	Met	525	600	700	800	500
Public debt targets												
Accumulation of domestic arrears by ENEE (ceiling) 4/	0	0	Met	0	...	0	Met	0	2,500	0	0	0
Accumulation of new external arrears (ceiling, in million US$) 5/	0	0	Met	0	...	0	Met	0	0	0	0	0
Monetary targets												
Stock of non-borrowed net international reserves of the Central Bank (floor, in million US$)	3,738	3,968	Met	3,972	4,016	4,669	Met	4,029	4,669	4,161	4,687	4,947
Stock of net domestic assets of the central bank (ceiling) 6/	-50,679	-61,394	Met	-53,931	-55,019	-70,430	Met	-53,574	-73,634	-55,051	-69,581	-80,991
QUANTITATIVE INDICATIVE TARGETS 2/												
Tax revenue of the central government (floor)	66,502	80,348	Met	107,180	...	107,446	Met	59,020	34,264	118,040	97,216	57,807
Wage bill of the central government (ceiling) 7/	28,200	33,334	Not Met	47,000	...	46,962	Met	30,300	30,300	50,500	50,500	32,630
Priority social spending (floor)	1,762	3,578	Met	5,873	...	6,375	Met	2,193	2,193	7,309	7,309	2,412
Operating revenue-to-spending ratio of ENEE (floor)	0.99	1.00	Met	1.02	...	0.98	Not Met	1.02	0.97	1.04	0.97	1.02

1/ Definitions as specified in the Technical Memorandum of Understanding.

2/ Cumulative starting in January of the correspondent year.

3/ Excluding subsidies from the central government.

4/ Relative to the stock defined in the Technical Memorandum of Understanding.

5/ Continuous PC.

6/ Using the program exchange rate of L24.4316 = 1US$.

7/ Corresponds to the budgetary central governement (*Administración Central*) in the authorities' sectorization.

Table AI.3. Honduras: Proposed Disbursements, Purchases, and Timing of Reviews Under the SBA/SCF Arrangements, 2020-21 1/

Date of Availability	Conditions	Amount (millions of SDRs) Total	SCF	SBA	Percent of quota Total	SCF	SBA
July 15, 2019	Approval of the arrangement	74.940	12.490	62.450	30.00	5.00	25.00
December 1, 2019	Observance of end-September 2019 performance criteria and continuous performance criteria and completion of first reviews	29.976	12.490	17.486	12.00	5.00	7.00
April 1, 2020	Observance of end-Dec 2019 performance criteria and completion of the second review	169.864	69.111	100.753	68.00	27.67	40.33
November 1, 2020	Observance of end-June 2020 performance criteria and completion of the third review	62.450	19.984	42.466	25.00	8.00	17.00
March 1, 2021	Observance of end-Dec 2020 performance criteria and completion of the fourth review	24.980	7.494	17.486	10.00	3.00	7.00
June 20, 2021	Observance of end-March 2021 performance criteria and completion of the fifth review	24.980	7.494	17.486	10.00	3.00	7.00
	Total Disbursements	387.190	129.063	258.127	155.00	51.67	103.33

1/ Honduras' quota is SDR 249.8 million. Table 11 shows the phasing under the original agreement.

Attachment II. Technical Memorandum of Understanding

1. This memorandum sets out technical understandings between the Honduran authorities and the Fund staff for monitoring of the economic program agreed for the period July 2019–June 2021. It defines the concepts used to assess observance of quantitative performance criteria, structural benchmarks, and indicative targets specified in Tables AI.1 and AI.2 of the Memorandum of Economic and Financial Policies (MEFP). It also specifies the frequency of the data to be provided to the Fund to monitor the developments under the program.

2. For program monitoring purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program exchange rates" as defined below, except for items related to fiscal operations which will be measured at current exchange rates. The program rates are those that prevailed on March 29, 2019. Accordingly, the exchange rates for the purposes of the program are show in Table AII.1.

Table AII.1. Honduras. Program Exchange Rates	
Lempira to the U.S dollar	24.43
U.S dollar to the SDR	0.72
U.S dollar to the Yen	110.92
U.S dollar to the Euro	0.89
U.S dollar to the Canadian dollar	1.34
U.S dollar to the British Pound	0.76
U.S dollar to the Renminbi	6.72

3. Any variable that is mentioned herein for the purposes of monitoring a PC or IT and that is not explicitly defined, is defined in accordance with the Fund latest statistical manuals.

A. Quantitative Performance Criteria: Definition of Variables

4. Definitions:

a. The central government for the purposes of the program consists of the budgetary central government (*Administración Central*), trust funds, decentralized institutions (*desconcentradas*), and the Social Investment Fund (FHIS).

b. The nonfinancial public sector (NFPS) for the purposes of the program consists of the central administration as defined above, the social security institute (IHSS), all state-owned public pension funds, local governments, other decentralized agencies, and nonfinancial public enterprises.

Cumulative Floor of NFPS' Net Lending

5. Definitions: Net lending of the NFPS is defined as the difference between revenue and expenditure. NFPS' revenue is recorded on a cash basis and includes taxes, social contributions, grants, and other revenue—except for revenue of nonfinancial public enterprises, which will be recorded on an accrual basis. Payments from private users of public-private partnerships (PPPs) facilities will be considered public revenue.

6. NFPS expenditure is recorded on accrual basis and includes expense and net acquisition of nonfinancial assets. Private investment for PPPs is treated as expenditures and measured as part of the NFPS government net lending as they occur.

7. NFPS' net lending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

8. Monitoring. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 45 calendar days after the end of each month.

Cumulative Floor of ENEE's Net Lending

9. Definitions: Net lending of ENEE is defined as the difference between revenue and expenditure. Revenues and spending will be recorded on an accrual basis. For program purposes, it will be defined excluding subsidies from the central government to the company.

10. ENEE's net lending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

11. Monitoring. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 45 calendar days after the end of each month.

Cumulative Floor of Lending minus Repayments from Public Pension Funds

12. Definitions: Lending minus Repayments from Public Pension Funds is defined as loans to their affiliates made by public pension funds net of repayments received by them. Public pension funds included for this calculation are INJUPEMP, INPREMA, IMPREUNAH, and IPM.

13. Lending minus Repayments from Public Pension Funds will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

14. Monitoring. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 45 calendar days after the end of each month.

Ceiling on the ENEE's Accumulation of Domestic Arrears

15. Definition: Arrears of ENEE are defined as overdue payments of ENEE. Technical delays stemming from the payment process will not be considered arrears. Technical delays are defined as unpaid claims still under the maximum period allowed for payment stated in the law on state contracts (Decree 74-2001). This decree states a deadline up to 45 days starting from the submission of appropriate documents for payment. This definition does not preclude payment before the deadline if it is agreed by both parties.

16. ENEE's Accumulation of Domestic Arrears is measured as the difference between the increase in the stock of arrears at each test date relative to 9,133 million of Lempiras, the stock of arrears recorded at June 28, 2019.

17. Monitoring. All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 45 calendar days after the end of each month.

Ceiling on the Non-Accumulation of External Debt Payment Arrears

18. Definition of debt: External debt is determined according to the residency criterion. The term "debt"[1] will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being defined as follows:

c. Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

d. Suppliers' credits, i.e., contracts where the supplier allows the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided, and

e. Leases, i.e., arrangements under which the lessee has the right to use the provided property for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made

[1] As defined in Guidelines on Public Debt Conditionality in Fund Arrangements, Decision No 15688-(14/107).

during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

19. Definition of external arrears: External debt payments arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after June 30, 2019 that have not been paid, considering the grace periods specified in contractual agreements. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

20. Coverage: This performance criterion covers the NFPS. This performance criterion does not cover (i) arrears on trade credits, (ii) arrears on debt subject to renegotiation and restructuring; and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of litigation initiated prior to June 28th, 2019.

21. Monitoring: This PC will be monitored on a continuous basis.

Floor on the stock of Non-Borrowed Net International Reserves

22. Definitions: Non-Borrowed Net International Reserves (NIR) of the BCH are equal to the balance of payments concept of NIR defined as the U.S. dollar value of gross international reserves of the BCH minus gross official liabilities as defined below. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the program exchange rates.

23. Gross official reserves are defined consistently with the Sixth Edition of the Balance of Payments manual and International Investment position Manual (BMP6) as readily available claims on nonresidents denominated in foreign convertible currencies. They include the (i) monetary claims, (ii) free gold, (iii) holdings of SDRs, (iv) the reserve position in the IMF, and (v) holdings of fixed income instruments. Excluded from reserve assets are any assets that are pledged, collateralized or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency *vis-à-vis* domestic currency (such as futures, forwards, swaps and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

24. Gross official liabilities in foreign currencies include (i) all borrowed reserves, including foreign currency swaps, loans, and repo operations with all counterparties (domestic and foreign), regardless of maturity, (ii) other foreign currency liabilities including deposits of financial institutions, (ii) the use of Fund resources for Balance of Payments support extended in the context of the exceptional financing package, (iii) any deliverable forward foreign exchange (FX) liabilities on a net basis—defined as the long position minus the short position payable in foreign currencies. The stock of non-borrowed net international reserves will be measured as each test date.

25. Monitoring: Foreign exchange asset and liability data will be provided to the Fund at monthly frequency, within 2 weeks of the end of each month.

26. Adjustors

- **Adjustor for multilateral loans.** The NIR target will be adjusted upward (downward) by the surplus (shortfall) in program loans and disbursements from the IMF and other multilateral institutions, relative to the baseline projection reported in Table AII.2. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are usable for the financing of the NFPS.

Table AII.2. Honduras. External Program Disbursements

Cumulative flows	Million of US$
Budget Support Loans	
end-June 2020	711
end-December 2020	1,129
end-June 2021	0

- **Ceiling on the Stock of the BCH's Net Domestic Assets**

27. Definitions. Net Domestic Assets (NDA) of the BCH are defined as the difference between currency issued and non-borrowed NIR measured at program exchange rates.

28. The ceiling applies to the stock of NDA measured at each test date.

29. Monitoring: Data will be provided to the Fund monthly with a lag of no more than 2 weeks.

30. Adjustor for multilateral loans. The NDA target will be adjusted downward (upward) by the surplus (shortfall) in program loan disbursements from the IMF and other multilateral institutions and grants, relative to the baseline projection reported in Table AII.2. Program loan disbursements are defined as external loan disbursements (excluding project financing disbursements) from official creditors that are usable for the financing of the NFPS.

B. Quantitative Indicative Targets: Definition of Variables

- **Floor in the Central Government's Tax Revenues**

31. Definition: Tax revenue will be measured on a cash basis at the level of the central government. All compulsory and unrequited receivables by the government will be considered taxes as stated in the GFSM 2014.

32. For compliance with this IT the central government will be equivalent to the budgetary central government (*Administración Central*).

33. Monitoring. Monthly data will be provided to the Fund no more than 2 weeks after the end of the month.

- **Ceiling on the Central Government's Wage Bill**

34. Definition: The wage bill is defined as all wages and salaries measured on an accrual basis, including all cash and in-kind wage and salaries and severance payments, plus employers' social benefits.

35. For compliance with this IT the central government will be equivalent to the budgetary central government (*Administración Central*).

36. Monitoring. Quarterly data will be provided to the Fund no more than within 45 days of the end of each month.

Floor on Priority Social Spending

37. Priority social spending is defined as the public interventions with high impact on poverty reduction and long-term influence on beneficiaries. Interventions oriented to increase the participation of women in the labor market are also included. For program purposes, all interventions listed in Table AII.3 will be considered priority social spending.

38. Monitoring. Quarterly data will be provided to the Fund no more than within 45 days of the end of each month.

Floor on ENEE's Operating Revenue-to-Spending Ratio

39. Definition: Operating revenue-to-spending ratio of ENEE is defined as the ratio of operating revenue to operating expenditure. Operating revenue will be defined as current revenue excluding interest earnings and transfer from the central government either for investment or subsidies from the central government. Operating expenditure will be defined as total expenditure excluding interest payments and capital spending.

40. Monitoring. Quarterly data will be provided to the Fund no more than within 45 days of the end of each month.

Table AII.3. Honduras. Priority Social Spending
Social Safety Net
• *Better families*
• *School lunch*
• *Teen pregnancy prevention program*
• *Criando con amor*
• *Conditional Cash Transfer*
• *Other "Vida Mejor" interventions*
Early childhood
Childcare
Support for people with disabilities
Ciudad Mujer
Strengthening pre-elementary education
Maternal and Newborn Health Integration
Assistance to vulnerable women/children
Opportunities for young mothers
Assistance to people with special abilities
Women empowerment through credit
Electricity subsidy for low-income consumers

INTERNATIONAL MONETARY FUND

HONDURAS

June 1, 2020

SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR AUGMENTATION AND REPHASING OF ACCESS, AND MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

Approved By
Patricia Alonso-Gamo and Ana Corbacho (IMF) and Marcello Estevão (IDA)

Prepared by staff of the International Monetary Fund and the International Development Association.

Honduras: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Low
Overall risk of debt distress	Low
Granularity in the risk rating	Tool not applicable
Application of judgment	No

The Debt Sustainability Analysis (DSA) indicates that Honduras remains at low risk of debt distress both for public external debt and overall debt.[1,2] Honduras' proven record of compliance with the Fiscal Responsibility Law (FRL) provides confidence that the response to the COVID-19 pandemic will not jeopardize debt sustainability. Going forward, continuous adherence to the FRL and institutional reforms to boost inclusive growth and increase the economy's potential are critical to recover quickly from the crisis and maintain debt sustainability.

[1] This DSA updates the previous joint IMF/WB DSA prepared in July 2019 in the context of the Honduras Article IV staff report (IMF Country Report No. 19/236).

[2] Honduras's debt carrying capacity is assessed to be strong based on a composite indicator of 3.21 that uses the April and October 2019 WEO vintages and the 2018 CPIA.

BACKGROUND

1. **Total public debt increased in 2019 due mainly to higher domestic borrowing.**[3] Gross public debt stood at 43.1 percent of GDP at end-2019, up by 1.1 percentage points of GDP since 2018, of which 30.8 percentage points corresponded to external public and publicly guaranteed (PPG) debt and 12.3 percentage points to domestic debt (Text Table 1). Domestic debt explained most of the increase, reflecting in part the financial imbalances faced by the state-owned electricity company (ENEE).

2. **PPG external debt has increased slightly since 2016.** Following a US$700 million international bond issuance in 2017, the PPG external debt-to-GDP ratio increased to 30.8 percent in 2019. Total external debt reached 38.5 percent of GDP—up from 38.1 percent in 2018—mainly driven by an increase in private external debt of 0.4 percent of GDP. Private external debt has rebounded to the level shown five years ago.

Text Table 1. Honduras: PPG Debt Stock Composition by Level of Government

(End-of-year stock, in percent of GDP)

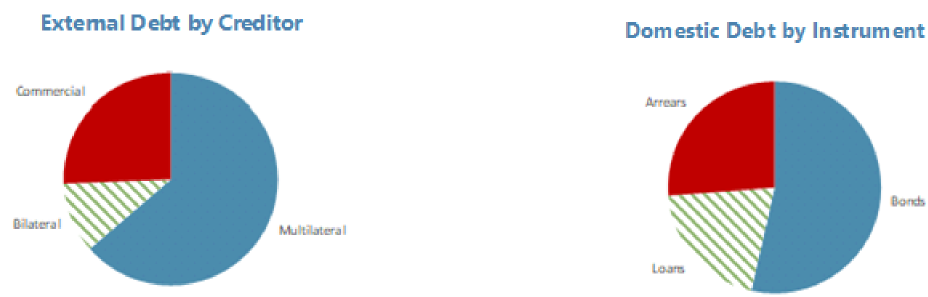
	2015	2016	2017	2018	2019
Domestic Debt					
Central government	8.1	8.9	7.4	8.4	9.2
Local governments	0.8	0.9	1.0	1.2	1.4
Nonfinancial public companies	2.1	1.9	1.2	1.7	1.7
Total	**11.0**	**11.7**	**9.6**	**11.3**	**12.3**
External Debt					
Central government	27.3	27.3	29.3	29.5	29.7
Local governments	0.0	0.0	0.0	0.0	0.0
Nonfinancial public companies	0.9	1.1	1.1	1.3	1.0
Total	**28.2**	**28.4**	**30.5**	**30.7**	**30.8**
Total Debt					
Central government	35.4	36.3	36.7	37.8	39.0
Local governments	0.8	0.9	1.0	1.2	1.4
Nonfinancial public companies	3.0	3.0	2.3	3.0	2.8
Total	**39.2**	**40.1**	**40.1**	**42.0**	**43.1**
Memorandum item					
Private External Debt	7.9	7.0	6.7	7.4	7.8

Source: Country authorities. Preliminary data for 2019.

[3] 2019 data used in this DSA is preliminary and subject to change.

3. Public debt is mostly held by foreign creditors (Text Figure 1). The share of PPG external debt stood at 71.4 percent of total public debt as of end 2019. The main creditors to Honduras are international bondholders, the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI), and the World Bank, which provide lending at long maturities, particularly in the case of the multilaterals. Public domestic debt is mainly held by commercial banks, has a shorter—though rising—maturity (over 4 years), and carries a higher real interest rate. In March 2018, the government placed a 15-year bond in the local market at a fixed interest rate of 11 percent raising 154 million Lempiras (around US$6 million). This reflects a broader strategy by the authorities to increase Lempiras-denominated debt with longer maturities, to be held increasingly by pension funds and other institutional investors.

Text Figure 1. Honduras: PPG Debt Stock Composition by Instrument



Source: Country authorities.

4. The debt coverage for the public sector is comprehensive. The DSA covers the nonfinancial public sector (NFPS). Therefore, it includes general government debt and non-financial state-owned enterprises' debt, both guaranteed and non guaranteed. Debt from extrabudgetary funds such as trust funds[4]—which are treated as private entities under Honduran legislation but should be registered as general goverment units according to the 2014 GFSM—are also included (Text Table 2).[5] Decentralized agencies such as public universities, among others, are included. Public pension funds debt and central bank debt borrowed on behalf of the government are also covered in the debt stock. Among debt for non-financial SOEs, in the case of ENEE, this includes arrears to energy generators. The contingent liability test includes lawsuits in international courts in the amount of 3.5 percent of GDP,[6] PPPs for 3 percent of GDP, and the default financial market shock (5 percent of GDP). Since the DSA coverage does not include public banks, an additional 2 percent of GDP is added to the contingent liability test. The DSA uses a currency-based definition of external debt—non-residents do not hold domestic debt, hence there is no material difference between the residency-based and the currency-based concepts. Whereby, lempiras-denominated debt is

[4] Only the trust fund "*Fondo de Protección y Seguridad Poblacional*" has contracted debt.

[5] Where complete details on the debt service for local governments and trust funds are not available, conservative, commercial bank financing assumptions are used.

[6] Disputed amounts reach 8.1 percent of GDP, but contingent liabilities are 3.5 percent after factoring lawsuit-specific probabilities of resolution according to estimations prepared by the Treasury's contingency unit.

considered public domestic debt and public foreign currency-denominated debt is accounted as public external debt.

Text Table 2. Honduras: Public Debt Coverage and Calibration of Contingent Liability Stress Test

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	X
3	Other elements in the general government	X
4	o/w: Social security fund	X
5	o/w: Extra budgetary funds (EBFs)	X
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	**The country's coverage of public debt**	The entire public sector, including SOEs		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0 percent of GDP	3.5	It includes contingent liabilities for international lawsuits.
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	It includes financial state-owned enterprises.
4	PPP	35 percent of PPP stock	3.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		13.5	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

MACROECONOMIC AND POLICY ASSUMPTIONS

5. **The main macroeconomic assumptions are based on the authorities' policy targets and staff projections.** The medium-to long-term macroeconomic outlook assumes that the FRL is fulfilled and that structural reforms envisaged in the Fund-supported program are implemented, while accommodating the response to the COVID-19 shock this year. As a result, the baseline macroeconomic projections are revised compared to the last DSA update dated July 2019 (Text Table 3).

Text Table 3. Honduras: Selected Economic Indicators, Current vs Previous DSA

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2029	2039
Real GDP growth (percent)											
Current DSA	4.8	3.7	2.7	-3.3	4.7	4.2	3.9	3.9	3.9	4.0	4.0
Previous DSA	4.9	3.7	3.4	3.5	3.6	3.7	3.9	3.9	3.9	3.9	3.9
GDP deflator growth (percent)											
Current DSA	4.5	1.9	4.3	4.5	6.0	4.7	4.7	4.7	4.7	4.0	4.0
Previous DSA	4.3	1.8	3.2	3.4	3.2	3.5	3.6	3.7	3.8	4.1	4.0
Primary balance (% of GDP)											
Current DSA	0.1	0.0	0.2	-3.0	-1.5	0.4	0.2	0.0	0.5	0.5	0.5
Previous DSA	0.1	0.0	0.6	0.7	0.8	1.0	0.9	0.7	0.8	0.7	0.5
Current account balance (% of GDP)											
Current DSA	-0.8	-5.4	-1.4	-2.1	-2.5	-3.4	-3.9	-4.0	-4.0	-4.4	-4.4
Previous DSA	-1.8	-4.2	-4.2	-4.3	-4.2	-4.1	-3.9	-3.9	-3.9	-3.7	-3.2
Net FDI (% of GDP)											
Current DSA	4.5	3.7	2.0	1.4	2.5	2.7	3.0	3.5	4.1	4.1	4.1
Previous DSA	4.4	4.8	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9

Source: IMF staff estimates and projections.

- **Real sector.** In the short term, GDP growth downward revisions reflect the slowdown of 2019 and the expected hit of the COVID-19 shock in 2020. In particular, the economy is expected to be hit by negative external shocks through weaker export demand as economic conditions deteriorate in the main trade partners (WEO April 2020), lower remittances due to the record high unemployment levels in the U.S., and a sharp decline in tourism revenues. In addition, containment and mitigation measures are expected to remain in place until June. A recovery in economic activity is envisaged for the second half of the year, with a stronger rebound — above potential — in 2021. GDP growth converges around 4 percent in the long term, unchanged with respect to the previous DSA. Inflation is projected to stabilize at 4 percent, in line with the Central Bank's target, but the deflator over the next few years is affected by the oil price dynamics. Naturally, given the high uncertainty surrounding the pandemic, risks are tilted to the downside.

- **Fiscal variables.** Fiscal projections assume compliance with the FRL. The escape clause of the FRL was called for 2020 and 2021 on the grounds of emergency (Art. 4 of the FRL, item 1) leading to a NFPS deficit of 4 and 3 percent of GDP, respectively. A return to the deficit limit of 1 percent of GDP is assumed from 2022 onwards.

- **Debt issuance assumptions.** The share of external borrowing from multilateral and bilateral institutions is expected to grow in response to the COVID-19 shock. The deterioration in global market conditions raise risks about the rollover of the Eurobonds maturing this year, which will be nonetheless covered by concessional financing instead.[7] Rollover of Eurobonds maturing later on and increased commercial borrowing lead to a decline in concessionality over the long run. The projections also envisage that the authorities succeed in deepening the domestic debt market, increasing maturities and issuing predominantly at fixed rates. These assumptions are consistent with the Honduran Debt Management Strategy.

- **Debt service suspension initiative (DSSI).** The authorities are considering whether to request debt service suspension from official bilateral creditors as envisaged under the Debt Service Suspension Initiative, supported by the G-20 and Paris Club.[8]

- **External sector.** With respect to the previous DSA, an improvement of the current account is now expected over the next few years reflecting the drop in economic activity induced by the COVID-19 shock and the lower oil prices. However, this still represents a worsening of the current account deficit in 2020 with respect to 2019. The current account deficit would hover

[7] The World Bank accelerated preparation of a Disaster Risk Management development policy credit with a Deferred Drawdown Option (CAT-DDO) of US$119 million, with a Board approval on April 10, 2020; that credit is fully disbursed. The CAT-DDO is a contingent DPO support product linked to disaster risk response, and, as a result, represents a departure of the Bank's preference to use the Investment Project Financing (IPF) instrument in Honduras. The Bank also approved a US$20 million COVID-19 Fast Track Facility on April 15, 2020 aimed at the prevention, containment and response to the pandemic, and temporarily waived the school-attendance condition under the Social Protection Integration Project to ensure that eligible families continue receiving a transfer while schools remain closed to contain the spread of COVID-19. The WBG is currently working with the Government to determine the need to activate emergency components of existing projects (CERCs) of some of its operations and discussing Pandemic Emergency Financing Facility (PEF) allocation for US$1.3 million.

[8] Participation in the DSSI which provides a time-bound suspension of official bilateral debt service payments to IDA-eligible and least developed countries as defined by the UN would provide additional fiscal space in the near term.

around 4 percent of GDP over the long term. In the outer years, the current account deficit is still expected to be financed primarily by foreign direct investment.[9] FDI is expected to increase in critical economic sectors such as electricity as the authorities move forward with their reform agenda for the sector.

6. **The realism tools suggest that the projections are reasonable** (Figures 3 and 4).[10] The baseline assumes an improvement of the primary balance of 0.2 percentage points of GDP over the next three years, which falls around the median of the distribution for LICs. This improvement in the primary balance is warranted by compliance with the FRL, which serves as an anchor to guide fiscal sustainability, with the loosening of 2020 expected to be reverted promptly as the economy recovers and temporary measures expire. Compared to the previous DSA, both growth projections and the evolution of investment are similar, after excluding the COVID-19 shock. The projected contribution of the government's capital stock to growth remains very low, in line with historical levels. The growth path is consistent with reasonable levels for the fiscal multiplier, as it is mostly driven by the COVID-19 shock.

COUNTRY CLASSIFICATION AND STRESS TESTS

7. **Honduras debt carrying capacity is classified as strong.** Debt carrying capacity is determined by a composite indicator (CI) that includes the World Bank's Country Policy and Institutional Assessment (CPIA) score, world economic growth, and Honduras's real growth rate, import coverage of reserves, and remittances. Two consecutive signals are needed to modify the classification. For this DSA, the April and October 2019 WEO vintages and the 2018 CPIA are used. Both the current and previous vintages yield a rating of strong debt carrying capacity, leading to no changes with respect to the previous DSA (Text Table 4). A strong debt-carrying capacity implies higher thresholds for the stress tests (Text Table 5).

Text Table 4. Honduras: Debt Carrying Capacity Country Classification

Debt Carrying Capacity	Strong

Final	Classification based on current vintage	Classification based on the previous vintage	Classification under old methodology based on the two vintages preceding the last two ones
Strong	Strong 3.21	Strong 3.22	Strong 3.21

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

[9] The lower levels assumed for the long term reflect methodological changes that led to a revision of the estimates for 2018 and 2019.

[10] Realism tools are designed to encourage examination of baseline assumptions and cover (i) drivers of debt dynamics, (ii) realism of planned fiscal adjustment, (iii) fiscal adjustment-growth relationship, and (iv) public investment-growth relationship.

8. Honduras qualifies for several stress tests. All standard stress tests apply without any changes to the default settings. The calibration of the contingent liabilities stress test is as discussed in paragraph 4. In addition, Honduras qualifies for a natural disaster tailored shock due to its exposure to frequent natural catastrophes such as hurricanes and droughts that are being exacerbated by climate change. Honduras does not qualify for a commodity price shock. Honduras qualifies for the market financing shock because it has outstanding Eurobonds. The default settings for the tailored shocks are considered appropriate for Honduras.

Text Table 5. Honduras: Public and Publicly Guaranteed (PPG) External Debt Thresholds and Total Public Debt Benchmarks

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

EXTERNAL DSA

9. Honduras's risk of external debt distress is assessed to be low. The PV of PPG external debt-to-GDP ratio is projected to peak at 32 percent in 2020, below the 55 percent threshold (Table 3). The PPG external debt to exports and PPG external debt service-to-revenue also peak in 2020, well under their respective thresholds of 240 percent and 23 percent, respectively. The PPG external debt service-to-exports ratio reaches 13 percent in 2027, below the threshold of 21. Consequently, all solvency and liquidity indicators under the baseline scenario and under various stress tests remain below their respective thresholds (Figure 1). The peaks observed on debt service indicators are explained by the repayments of Eurobonds in 2027.

10. However, some debt indicators are sensitive to shocks. A negative shock to exports, equivalent to a one standard deviation decline in the nominal growth of exports in the second and third years of projection and a decline in real GDP growth, generates the largest increase in the PV of the PPG external debt-to-GDP ratio, leading to a peak of 43 percent in 2022 (Figure 1). Under the same shock, the PPG external debt-to-exports ratio would peak in 2023, reaching 158 percent (below the 240 percent threshold). Furthermore, the same shock would lead the PPG external debt-service-to-exports ratio to reach 20 percent in 2027. The most extreme shock for the PPG external debt-service-to-revenue ratio would be combined shock, under which the ratio would reach 19 in 2027. In both cases, the liquidity ratios remain below their risk thresholds.

PUBLIC DSA

11. Public debt ratios are expected to peak in 2020, and then decline over the medium term. Public debt is projected to peak at 51.6 percent of GDP in 2022 and start declining, supported by stable primary surpluses as well as declining interest payments, reaching 45.1 percent of GDP by 2030 (Table 4 and Figure 2). The FRL is the critical difference between baseline projections and the historical scenario, providing an anchor for a sound fiscal position. In present value terms, the debt-to-GDP ratio is expected to peak at 49 percent of GDP in 2022 and fall to 42 percent of GDP by 2030. Public debt dynamics remain vulnerable to contingent liabilities and exogenous shocks, especially to those related to natural disasters (Table 4). However, under no scenario does any of the indicators breach its benchmark.

12. Market-Financing Risk Indicators suggest low liquidity risks given that the authorities do not plan to access the international market (Figure 5). The maximum gross financing needs over a 3-year period under the baseline projection horizon in Honduras are expected to be around 9 percent of GDP, which is below the benchmark value of 14 percent. EMBI spreads have increased from 252 basis points at the beginning of the year to 550 basis points on May 14, slightly below the benchmark level of 570 basis points. However, that increase reflects a general trend of massive capital outflows from emerging economies that have taken place over the last few months, rather than a Honduras-specific financial constraint. As Honduras is not assumed to rollover its Eurobonds maturing this year, the country is relatively insulated from the general trend. In addition, the PV of debt relative to GDP and to exports, as well as the ratios of debt service to exports and to revenue, are all expected to remain below the thresholds under the baseline projection and under the market financing scenario. Nevertheless, given significant uncertainty regarding global financial conditions, a cautious debt management approach is warranted.

RISK RATING AND VULNERABILITIES

13. The DSA indicates that Honduras's risks of external debt and public total debt distress are low, supported by strict observance of the FRL, even when leveraging its escape clause to deal with a temporary negative shock. This risk rating is unchanged from the 2019 DSA. PPG external debt burden indicators remain below the thresholds under the baseline scenario and stress tests. Nonetheless, shocks associated to exports or natural disasters showcase existing debt vulnerabilities, implying that adhering consistently to the FRL is a key element to ensuring debt sustainability. The results also highlight the importance of raising domestic revenue, addressing structural vulnerabilities in SOEs, and leveraging concessional sources of financing when available.

Authorities' Views

14. Authorities agreed with this debt sustainability assessment. They noted that the temporary activation of the escape clause of the FRL would allow them to address the challenges raised by the pandemic, but they will swiftly return to the target of 1 percent NFPS deficit by 2022 as mandated by the law. They reiterated their commitment to preserving the revenue mobilization efforts while implementing reforms in SOEs to resolve their imbalances, and to the further development of the domestic debt market. The contingency unit at SEFIN will continue addressing data limitations with the goal of improving the management of fiscal risks.

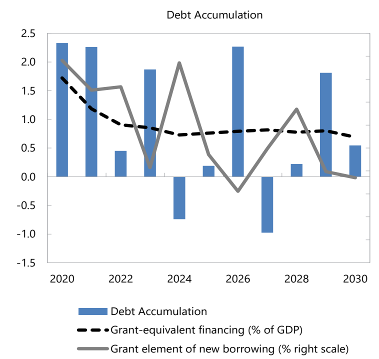
Table 1. Honduras: External Debt Sustainability Framework, Baseline Scenario, 2017-40

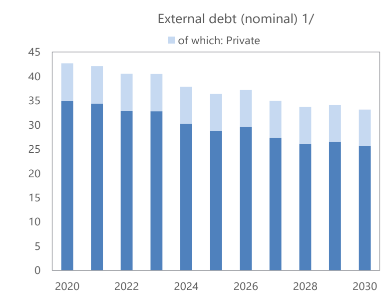
(In percent of GDP, unless otherwise indicated)

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
External debt (nominal) 1/	37.2	38.1	38.5	42.7	42.1	40.5	40.5	37.9	36.4	33.1	22.5	33.3	37.5
of which: public and publicly guaranteed (PPG)	30.5	30.7	30.8	34.9	34.3	32.8	32.8	30.2	28.7	25.6	15.0	25.9	29.9
Change in external debt	1.8	0.9	0.4	4.1	-0.6	-1.6	-0.1	-2.6	-1.5	-0.9	-1.1		
Identified net debt-creating flows	-5.9	0.3	-2.1	2.0	-1.8	-1.0	-0.6	-1.0	-1.5	-0.9	-0.7	-1.1	-0.8
Non-interest current account deficit	-0.5	4.0	0.2	0.8	1.1	2.0	2.5	2.6	2.6	3.2	3.5	4.4	2.4
Deficit in balance of goods and services	14.8	19.1	17.4	16.3	15.7	16.3	16.7	17.0	17.2	17.4	17.5	17.7	16.9
Exports	43.5	41.6	39.7	34.1	34.9	34.4	34.2	34.2	34.3	34.3	34.3		
Imports	58.2	60.7	57.1	50.4	50.7	50.7	50.9	51.2	51.4	51.7	51.8		
Net current transfers (negative = inflow)	-20.1	-21.6	-23.7	-20.3	-20.4	-20.1	-19.9	-20.0	-20.2	-20.2	-20.2	-19.3	-20.2
of which: official	-0.3	-1.3	-1.5	-1.2	-1.2	-1.2	-1.2	-1.2	-1.3	-1.3	-1.3		
Other current account flows (negative = net inflow)	4.8	6.5	6.5	4.7	5.8	5.7	5.8	5.6	5.6	6.0	6.1	6.0	5.7
Net FDI (negative = inflow)	-4.5	-3.7	-2.0	-1.4	-2.5	-2.7	-3.0	-3.5	-4.1	-4.1	-4.1	-4.7	-3.4
Endogenous debt dynamics 2/	-0.9	0.0	-0.3	2.6	-0.4	-0.2	-0.1	0.0	0.0	0.0	0.0		
Contribution from nominal interest rate	1.3	1.4	1.1	1.3	1.4	1.4	1.4	1.5	1.4	1.3	0.8		
Contribution from real GDP growth	-1.6	-1.3	-1.0	1.3	-1.8	-1.6	-1.5	-1.5	-1.4	-1.3	-0.9		
Contribution from price and exchange rate changes	-0.6	0.0	-0.5	...	...	...	...	...	...	...	...		
Residual 3/	7.7	0.7	2.5	2.1	1.2	-0.6	0.6	-1.7	0.0	0.0	-0.4	2.6	0.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	29.0	31.7	31.4	29.7	29.7	27.2	25.7	22.6	12.9		
PV of PPG external debt-to-exports ratio	...	...	73.0	93.0	89.9	86.3	86.7	79.4	75.0	66.0	37.6		
PPG debt service-to-exports ratio	9.1	9.6	10.4	12.5	6.8	8.6	8.5	8.6	9.0	6.9	5.2		
PPG debt service-to-revenue ratio	13.4	13.7	14.1	15.7	8.4	10.1	9.8	10.0	10.3	7.8	5.8		
Gross external financing need (Billion of U.S. dollars)	1.5	2.7	2.5	2.7	2.0	2.5	2.6	2.5	2.4	2.7	3.5		
Key macroeconomic assumptions													
Real GDP growth (in percent)	4.8	3.7	2.7	-3.3	4.7	4.2	3.9	3.9	3.9	4.0	4.0	3.6	3.4
GDP deflator in US dollar terms (change in percent)	1.6	0.0	1.2	2.0	3.5	2.9	2.4	2.4	2.4	1.7	1.7	1.8	2.2
Effective interest rate (percent) 4/	3.9	3.9	3.1	3.4	3.6	3.6	3.7	3.9	4.0	3.9	3.8	2.7	3.8
Growth of exports of G&S (US dollar terms, in percent)	8.9	-0.7	-0.9	-15.2	10.8	5.6	5.8	6.5	6.6	5.8	5.8	6.0	4.5
Growth of imports of G&S (US dollar terms, in percent)	9.6	8.2	-2.3	-12.8	8.7	7.4	6.7	7.2	6.9	5.8	5.8	5.9	4.9
Grant element of new public sector borrowing (in percent)	...	...	...	17.6	15.0	15.3	8.3	17.4	9.4	7.4	3.1	...	11.6
Government revenues (excluding grants, in percent of GDP)	29.7	29.1	29.3	27.1	28.3	29.4	29.6	29.6	29.8	30.4	30.9	28.4	29.5
Aid flows (in Billion of US dollars) 5/	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.7	1.2	0.9	0.9	0.7	0.8	0.7	0.6	...	0.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	25.0	28.4	32.3	20.9	47.8	28.4	30.1	41.9	...	28.7
Nominal GDP (Billion of US dollars)	23	24	25	25	27	29	30	32	34	46	80		
Nominal dollar GDP growth	6.6	3.7	3.9	-1.3	8.3	7.2	6.4	6.5	6.4	5.8	5.8	5.5	5.7
Memorandum items:													
PV of external debt 7/	...	...	36.7	39.5	39.1	37.4	37.3	34.8	33.3	30.2	20.3		
In percent of exports	...	...	92.5	115.7	112.0	108.7	109.2	101.8	97.3	88.0	59.3		
Total external debt service-to-exports ratio	26.6	26.2	29.7	33.5	25.7	27.4	26.1	25.1	25.0	20.0	14.5		
PV of PPG external debt (in Billion of US dollars)			7.2	7.8	8.4	8.5	9.0	8.8	8.8	10.3	10.3		
(PVt-PVt-1)/GDPt-1 (in percent)				2.3	2.3	0.5	1.9	-0.7	0.2	0.5	-0.2		
Non-interest current account deficit that stabilizes debt ratio	-2.4	3.0	-0.2	-3.3	1.7	3.5	2.6	5.2	4.1	4.1	4.6		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

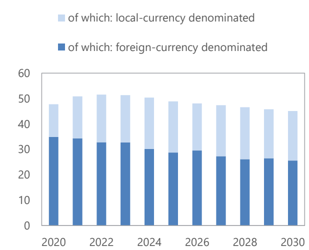
Table 2. Honduras: Public Debt Sustainability Framework, Baseline Scenario, 2017-40

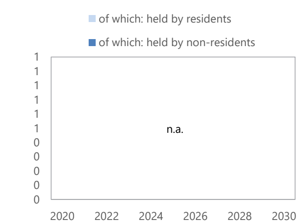
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030	2040	Historical	Projections
Public sector debt 1/	**40.0**	**41.8**	**43.1**	**47.8**	**50.9**	**51.6**	**51.4**	**50.4**	**48.9**	**45.1**	**38.9**	**36.2**	**48.5**
of which: external debt	**30.5**	**30.7**	**30.8**	**34.9**	**34.3**	**32.8**	**32.8**	**30.2**	**28.7**	**25.6**	**15.0**	**25.9**	**29.9**
Change in public sector debt	-0.1	1.8	1.3	4.6	3.1	0.7	-0.2	-1.0	-1.5	-0.7	-0.6		
Identified debt-creating flows	**-1.6**	**0.5**	**-1.7**	**3.8**	**2.1**	**0.1**	**-0.9**	**-1.6**	**-2.2**	**-0.7**	**-0.6**	**1.4**	**-0.2**
Primary deficit	**-0.1**	**0.0**	**-0.2**	**3.0**	**1.5**	**-0.4**	**-0.2**	**0.0**	**-0.5**	**-0.5**	**-0.5**	**2.1**	**0.1**
Revenue and grants	30.3	29.8	29.9	27.7	29.0	29.9	30.2	30.2	30.3	30.9	31.5	**29.3**	**30.1**
of which: grants	0.6	0.7	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6		
Primary (noninterest) expenditure	30.2	29.8	29.8	30.7	30.5	29.6	29.9	30.2	29.8	30.4	31.0	**31.4**	**30.2**
Automatic debt dynamics	**-1.1**	**1.0**	**-1.1**	**3.0**	**-1.8**	**-0.8**	**-0.6**	**-0.5**	**-0.4**	**-0.1**	**-0.1**		
Contribution from interest rate/growth differential	-0.5	-0.1	-0.9	3.1	-0.9	-0.7	-0.5	-0.3	-0.3	-0.2	-0.1		
of which: contribution from average real interest rate	1.3	1.3	0.2	1.6	1.2	1.4	1.5	1.6	1.6	1.6	1.4		
of which: contribution from real GDP growth	-1.9	-1.4	-1.1	1.4	-2.1	-2.1	-2.0	-1.9	-1.9	-1.8	-1.5		
Contribution from real exchange rate depreciation	-0.6	1.1	-0.2	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**-0.4**	**-0.4**	**-0.4**	**-2.2**	**2.4**	**1.2**	**0.0**	**-1.2**	**-1.3**	**-0.1**	**0.0**	**-0.3**	**-0.2**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (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		
Debt relief (HIPC and other)	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.1	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	-1.8	2.8	1.5	0.2	-0.9	-1.0	0.0	0.0		
Residual	**1.5**	**1.3**	**3.0**	**0.8**	**0.1**	**0.5**	**0.5**	**0.5**	**0.5**	**0.1**	**0.0**	**0.5**	**0.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**41.5**	**45.2**	**48.1**	**48.8**	**48.6**	**47.7**	**46.1**	**42.4**	**36.9**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**138.5**	**162.9**	**166.2**	**163.1**	**161.0**	**158.1**	**152.2**	**137.0**	**117.2**		
Debt service-to-revenue and grants ratio 3/	**11.0**	**10.8**	**13.8**	**29.8**	**18.6**	**26.2**	**29.6**	**30.3**	**32.8**	**30.3**	**31.9**		
Gross financing need 4/	2.9	2.8	3.6	9.1	9.3	8.7	8.7	8.0	8.2	8.8	9.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	4.8	3.7	2.7	-3.3	4.7	4.2	3.9	3.9	3.9	4.0	4.0	**3.6**	**3.4**
Average nominal interest rate on external debt (in percent)	3.5	3.4	3.6	4.0	4.2	4.2	4.3	4.6	4.7	4.7	5.0	**2.8**	**4.5**
Average real interest rate on domestic debt (in percent)	7.9	11.0	-3.6	4.2	3.7	4.4	4.3	4.6	4.5	4.8	4.2	**3.7**	**4.6**
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.2	3.8	-0.7	...	...	...	...	...	...	...	...	**0.0**	**...**
Inflation rate (GDP deflator, in percent)	4.5	2.5	3.8	4.5	6.0	4.7	4.7	4.7	4.7	4.0	4.0	**4.5**	**4.5**
Growth of real primary spending (deflated by GDP deflator, in percent)	5.3	2.3	2.6	-0.3	3.8	1.1	5.3	4.7	2.8	4.3	4.1	**2.7**	**3.6**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.0	-1.8	-1.5	-1.7	-1.6	-1.1	0.0	1.0	1.0	0.2	0.1	**-1.1**	**-0.1**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The entire public sector, including SOEs . Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

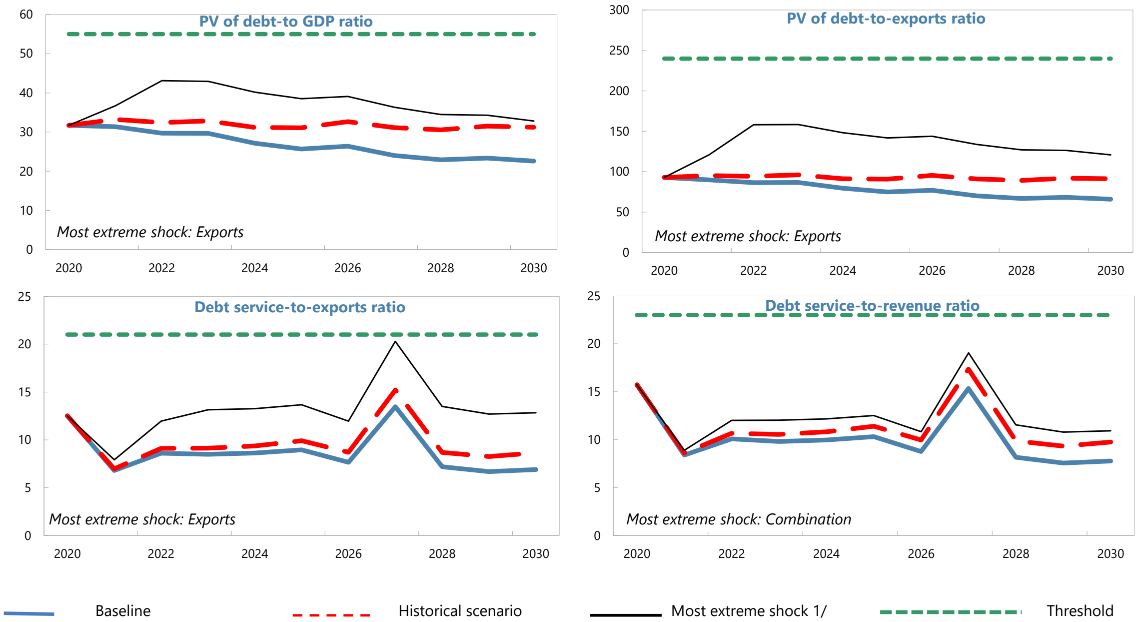
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Honduras: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2020-30



Customization of Default Settings		
	Size	**Interactions**
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

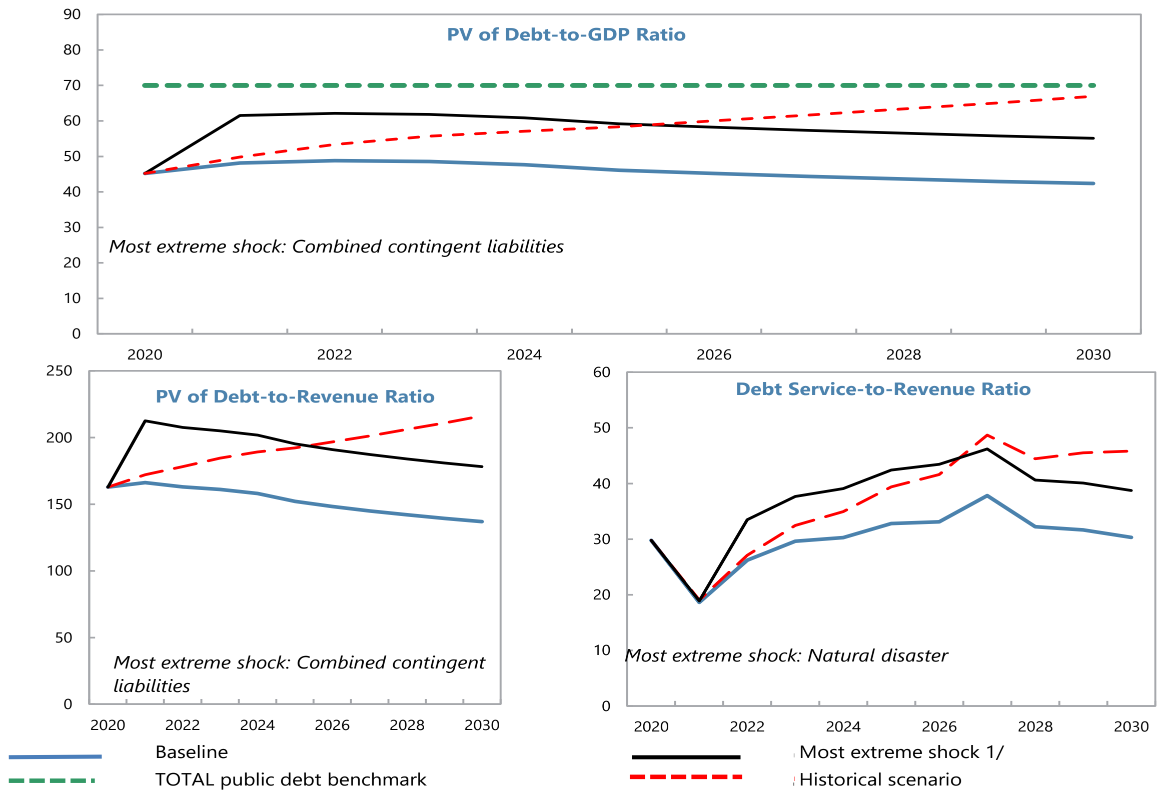
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	**User defined**
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.8%	4.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Honduras: Indicators of Public Debt under Alternative Scenarios, 2020-30



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	30%	30%
Domestic medium and long-term	70%	70%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.8%	4.8%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.1%	4.1%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2030. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2020-30

(In percent)

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of debt-to GDP ratio											
Baseline	32	31	30	30	27	26	26	24	23	23	23
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	32	33	32	33	31	31	33	31	31	32	31
B. Bound Tests											
B1. Real GDP growth	32	32	31	31	28	27	28	25	24	24	24
B2. Primary balance	32	32	33	33	31	30	31	29	28	29	28
B3. Exports	32	37	43	43	40	38	39	36	34	34	33
B4. Other flows 3/	32	36	38	38	35	34	34	32	30	30	29
B5. Depreciation	32	39	31	31	28	26	27	24	23	24	23
B6. Combination of B1-B5	32	41	41	41	38	36	37	34	33	33	31
C. Tailored Tests											
C1. Combined contingent liabilities	32	35	34	35	33	32	33	31	31	31	31
C2. Natural disaster	32	35	34	34	32	32	33	31	30	31	31
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	32	35	33	33	30	29	30	27	26	26	25
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	93	90	86	87	79	75	77	70	67	68	66
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	93	95	94	96	91	91	95	91	89	92	91
B. Bound Tests											
B1. Real GDP growth	93	90	86	87	79	75	77	70	67	68	66
B2. Primary balance	93	93	96	98	91	88	91	85	82	83	81
B3. Exports	93	121	158	158	148	142	144	134	127	126	121
B4. Other flows 3/	93	102	110	111	103	98	100	92	88	88	84
B5. Depreciation	93	90	72	72	65	61	63	56	54	56	55
B6. Combination of B1-B5	93	121	111	129	120	115	117	107	102	102	98
C. Tailored Tests											
C1. Combined contingent liabilities	93	101	99	102	96	93	97	91	89	91	90
C2. Natural disaster	93	102	100	102	96	94	98	92	90	93	92
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	93	90	86	87	80	75	78	71	68	69	66
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	13	7	9	8	9	9	8	13	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	13	7	9	9	9	10	9	15	9	8	9
B. Bound Tests											
B1. Real GDP growth	13	7	9	8	9	9	8	13	7	7	7
B2. Primary balance	13	7	9	9	9	10	8	14	8	8	8
B3. Exports	13	8	12	13	13	14	12	20	13	13	13
B4. Other flows 3/	13	7	9	10	10	10	9	15	9	9	9
B5. Depreciation	13	7	9	8	8	8	7	13	6	5	6
B6. Combination of B1-B5	13	7	11	11	11	12	10	18	11	10	10
C. Tailored Tests											
C1. Combined contingent liabilities	13	7	9	9	9	10	8	14	8	8	8
C2. Natural disaster	13	7	9	9	9	10	9	15	8	8	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	13	7	9	9	9	9	8	14	11	7	7
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	16	8	10	10	10	10	9	15	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	16	9	11	11	11	11	10	17	10	9	10
B. Bound Tests											
B1. Real GDP growth	16	9	11	10	10	11	9	16	9	8	8
B2. Primary balance	16	8	10	11	11	11	10	16	9	9	9
B3. Exports	16	9	11	12	12	12	11	18	12	11	11
B4. Other flows 3/	16	8	11	11	11	12	10	17	11	10	10
B5. Depreciation	16	11	13	11	12	12	10	18	8	8	8
B6. Combination of B1-B5	16	9	12	12	12	13	11	19	12	11	11
C. Tailored Tests											
C1. Combined contingent liabilities	16	8	11	11	11	11	10	16	9	9	9
C2. Natural disaster	16	8	11	10	11	11	10	16	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	16	8	10	10	10	11	10	16	12	7	8
Threshold	23	23	23	23	23	23	23	23	23	23	23

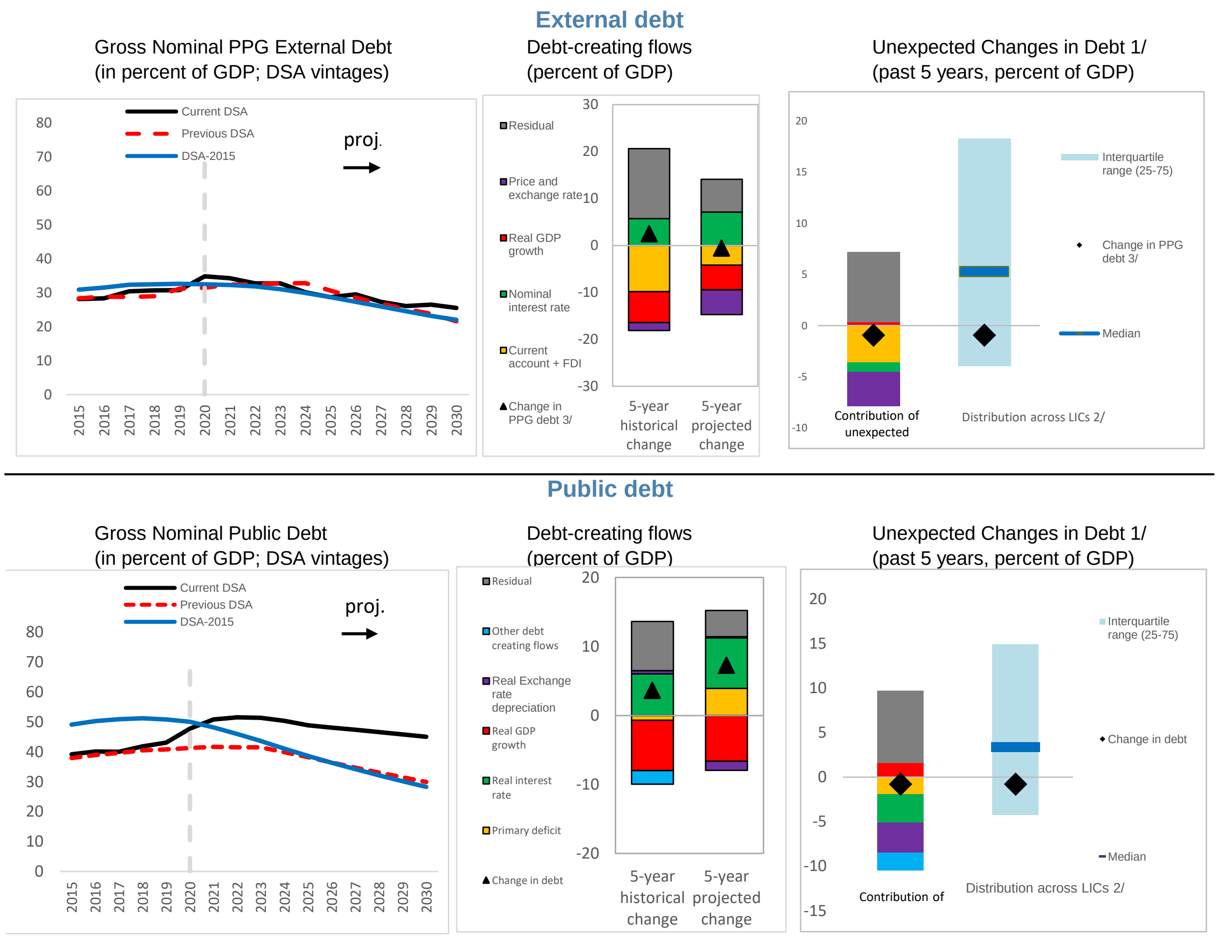
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Honduras: Sensitivity Analysis for Key Indicators of Public Debt, 2020-30

	Projections 1/										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
PV of Debt-to-GDP Ratio											
Baseline	45	48	49	49	48	46	45	44	44	43	42
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	45	50	53	56	57	58	60	62	63	65	67
B. Bound Tests											
B1. Real GDP growth	45	50	53	54	54	54	55	55	56	56	57
B2. Primary balance	45	51	58	58	57	55	54	53	53	52	51
B3. Exports	45	53	61	61	60	58	57	56	55	53	52
B4. Other flows 3/	45	52	57	57	56	54	53	52	51	50	49
B5. Depreciation	45	54	52	49	46	43	39	36	33	31	28
B6. Combination of B1-B5	45	49	54	53	52	50	49	48	46	45	44
C. Tailored Tests											
C1. Combined contingent liabilities	45	62	62	62	61	59	58	57	57	56	55
C2. Natural disaster	45	59	60	60	60	59	58	58	57	57	57
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	45	48	49	49	48	46	45	45	44	43	42
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	163	166	163	161	158	152	148	145	142	139	137
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	163	172	178	185	189	192	197	201	206	211	216
B. Bound Tests											
B1. Real GDP growth	163	173	177	179	181	179	179	179	181	182	184
B2. Primary balance	163	177	194	191	188	182	178	175	171	168	166
B3. Exports	163	183	205	202	199	192	187	183	178	172	168
B4. Other flows 3/	163	181	191	188	185	179	174	170	165	161	157
B5. Depreciation	163	187	174	164	154	141	129	119	109	99	90
B6. Combination of B1-B5	163	168	180	176	172	165	160	156	151	147	143
C. Tailored Tests											
C1. Combined contingent liabilities	163	213	208	205	202	195	191	187	184	181	178
C2. Natural disaster	163	204	201	200	198	193	190	188	186	184	183
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	163	166	163	161	158	153	149	146	143	140	137
Debt Service-to-Revenue Ratio											
Baseline	30	19	26	30	30	33	33	38	32	32	30
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2020-2030 2/	30	19	27	32	35	39	42	49	44	46	46
B. Bound Tests											
B1. Real GDP growth	30	19	28	32	34	38	39	45	40	40	40
B2. Primary balance	30	19	29	36	37	40	40	45	38	38	36
B3. Exports	30	19	27	32	32	35	35	40	36	35	34
B4. Other flows 3/	30	19	27	31	32	34	34	40	35	34	33
B5. Depreciation	30	19	28	30	30	33	32	38	31	29	27
B6. Combination of B1-B5	30	18	27	33	33	35	35	40	33	32	31
C. Tailored Tests											
C1. Combined contingent liabilities	30	19	35	39	40	43	44	46	40	39	38
C2. Natural disaster	30	19	33	38	39	42	43	46	41	40	39
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	30	19	26	30	31	33	34	39	36	31	30

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 3. Honduras: Drivers of Debt Dynamics – Baseline Scenario



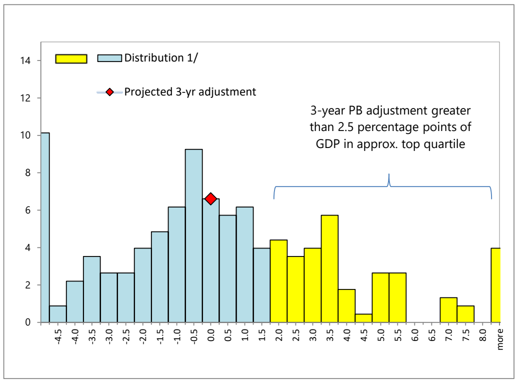
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

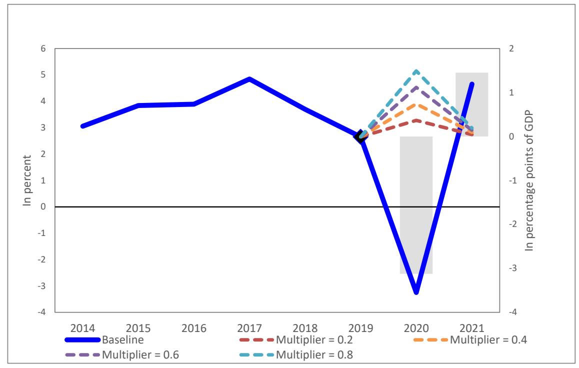
Figure 4. Honduras: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



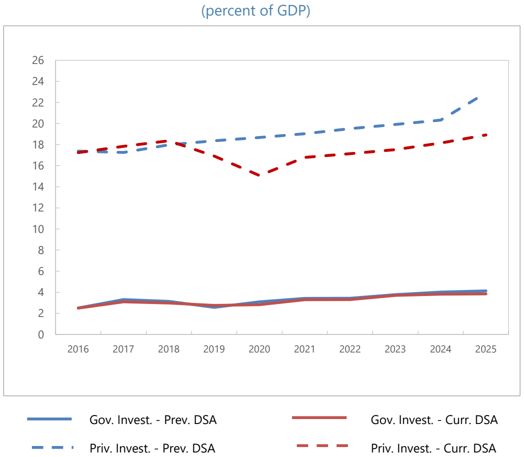
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

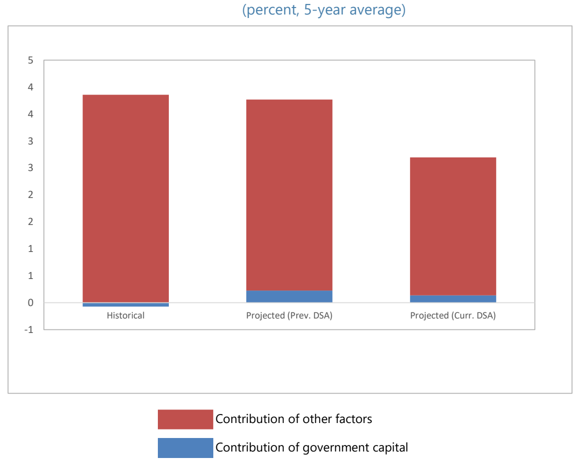
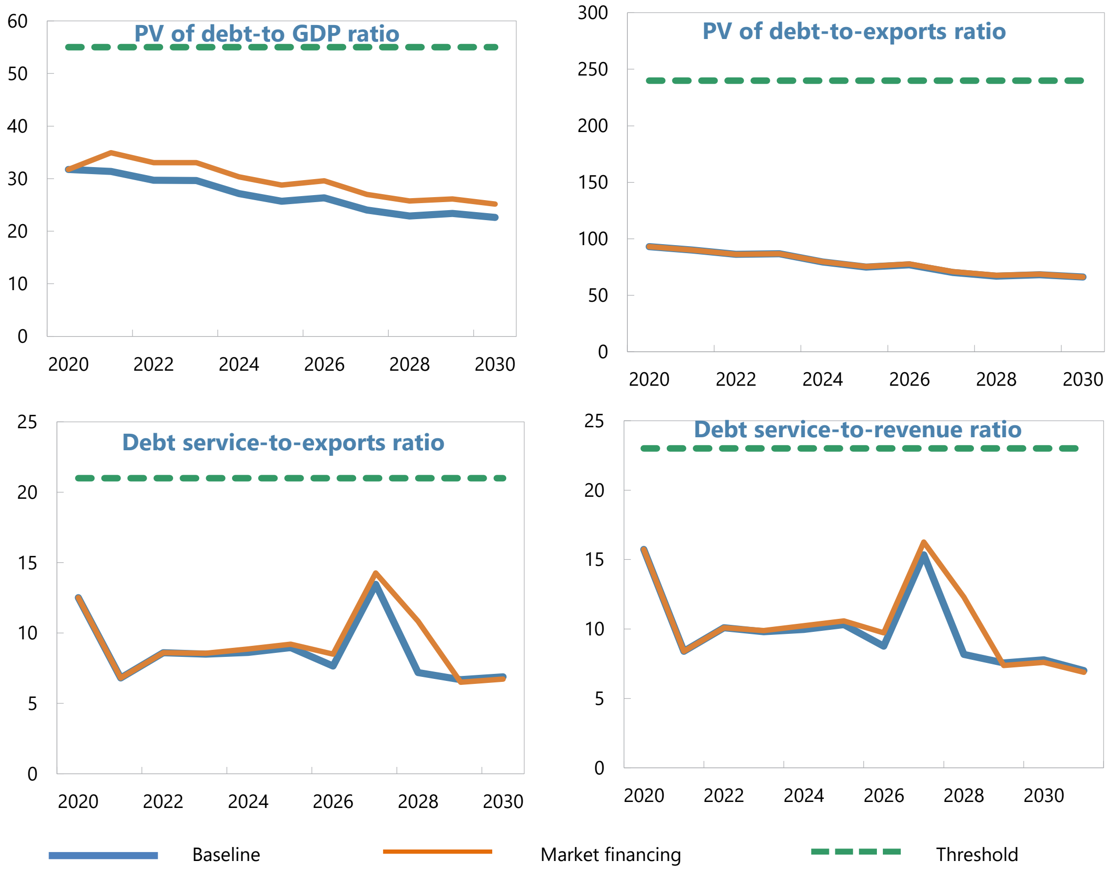


Figure 5. Honduras: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	9	550
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Statement by Mr. Villar, Executive Director
and Mr. Tabora Munoz, Senior Advisor on Honduras
June 1, 2020

On behalf of our Honduran authorities, we would like to thank Mr. Vesperoni and his team for their hard work and proactive engagement during these unexpected times. We also thank the Board and Management for their continued support and prompt response to the authorities' request. Authorities decided to draw on the available resources following the successful completion of the first review under the Stand-By Arrangement (SBA) and the Stand-by Credit Facility (SCF), which had been treated as precautionary. They are also requesting rephasing and augmentation of combined access under the arrangements up to SDR 387.2 million (155.0 percent of quota) to support the swift policy response to the humanitarian, healthcare, and socio-economic emergency to help mitigate the pandemic impact on the Honduran people and economy. Authorities are also considering whether to request debt service suspension from official bilateral creditors, as envisaged in the Debt Service Suspension Initiative, supported by the G-20 and the Paris Club.

Since launching fundamental reforms in 2014, the economic cabinet has made significant progress in implementing structural reforms, strengthening institutions, and improving market and investor confidence. The primary objective of the reforms has been restoring and preserving macroeconomic stability, lifting living standards for Hondurans while transitioning to a modern and market-based economy, which in turn allows to rebuild the social fabric. The relationship with the IMF has been strengthened—cooperation has intensified significantly at this difficult time—and the authorities truly recognize the Fund as a trusted advisor. The non-financial additionality of the relationship has been and continue being significantly valuable.

Despite the challenges posed by the COVID-19 pandemic, and as stated in the Letter of Intent (LOI), the authorities remain firmly committed to the program, which remains on track, as well as to continue implementing prudent macroeconomic policies and deep structural reforms. Notwithstanding the headwinds to growth in 2019—including due to a severe drought associated with climate change—all quantitative performance criteria (PC), continuous PC and all but one Indicative Targets (IT) for the second review—end-December 2019—were met. The authorities made substantial progress on reforms, completing several structural benchmarks and continue advancing on others.

Authorities continue striving to: (i) protect social spending and investment from the impact of the slowdown on public revenues and strengthen governance; (ii) restructure the electricity sector; and (iii) modernize the monetary and exchange rate frameworks. They also remain strongly committed to the revenue mobilization agenda that will increase space to foster growth and reduce poverty over the medium term. Authorities broadly share the staff's appraisal.

Impact of COVID-19

The first COVID-19 case in Honduras was reported on March 10, 2020. The authorities have implemented a lockdown and strong mitigation measures, closing the borders with neighbor countries and imposing a national curfew on March 16, thus cancelling public and group gatherings, closing school and universities, suspending all international commercial flights, quarantining everyone entering the country, and applying tight restrictions on circulation. As of May 26, there are 4,401 COVID-19 cases, 188 deaths and 493 recovered reported. Considering the fragility of the health system and in line with WHO guidelines, a country-wide quarantine is still in place, including physical distancing and sanitation protocols. Testing and monitoring virus cases continue to be a major challenge, but health authorities are gradually increasing capacity. The transformation of some hospitals and health centers and the construction of new quarantine facilities throughout the country to assist the population are also in progress.

Implementing the lockdown at an early stage of the virus spread has been a prudent, wise decision but it has taken a heavy toll on economic activity, especially for the small and medium enterprises and the informal sector. The pandemic has the potential to reverse significant advances attained over the last years which would curb the country's efforts to foster inclusive growth and reduce poverty. Growth is projected to slow down to -3.3 percent in 2020, after 2.7 percent in 2019 (-6.0 percent of GDP in total). The economic contraction will be the deepest in the last 50 years, strongly impacting industries that are highly dependent on foreign trade. The economy is expected to be hit by negative external shocks through weaker export demand, as economic conditions deteriorate in the main trade partners, lower remittances mainly due to the record high unemployment levels in the U.S., and a sharp decline in tourism revenues. The lockdown is also generating significant disruptions in the supply and distribution chains, impacting negatively the national production. The government is currently working on devising a mechanism to gradually reopening economic activity. However, containment and mitigation measures to save lives are expected to remain in place at least until June. A gradual recovery in economic activity is envisaged for the second half of the year, with a stronger rebound —above long-term potential of 4.0 percent— in 2021, but significant downside risks remain. A protracted outbreak, with a prolonged impact on global growth and financial conditions, would have severe health and social consequences, and it would also delay the recovery and affect the fiscal stance.

Initial estimates envisage fiscal revenues could deteriorate by about 2.5 percent of GDP in the short term—of which 0.5 percent of GDP are deferred taxes expected to be collected in 2020, so that net impact is 1.9 percent of GDP— due to the economic recession and temporary measures to mitigate the impact of the pandemic. Most of the decline may be in tax collection (2.4 percent of GDP lower than expected under the program) which is expected to drop to 15.6 percent of GDP. Additional crisis-related spending needs are estimated at 2.1 percent of GDP in 2020, including emergency healthcare expenditures (0.9 percent of GDP), and additional social spending (1.2 percent of GDP) that includes: temporary unemployment benefits to formal workers, delivery of food supplies to poor families, and cash transfers to informal workers. Authorities have identified about 1.0 percent of GDP in nonpriority current spending that will be reduced through budget reallocations, leaving the net increase in expenditure at about 1.0 percent of GDP. The consolidated Non-Financial Public Sector fiscal deficit will then expand from the 1.0 percent of GDP limit as mandated by the Fiscal Responsibility Law (FRL) to 4.0 percent of GDP in 2020 and 3.0 percent of GDP in 2021. Congress authorized the temporary activation of the FRL escape clause on the grounds of emergency (Art. 4, item 1), and they are strongly committed to swiftly return to the deficit limit of 1.0 percent of GDP from 2022 onwards.

Inflation up to April 2020 is at 3.3 percent, within the Central Bank's band, and it is expected to stabilize at 4.0 percent –the Central Bank's target— while the current account deficit is envisaged to widen from -1.4 percent of GDP in 2019 to -2.1 percent of GDP in 2020 due to the fall in remittances in 2020 which are projected to decrease by about 14.0 percent in nominal terms, and a collapse in tourism and textile manufacturing which will be only partially offset by lower oil prices and imports reduction.

The sudden stop of private capital flows, together with higher financing needs in the public sector, have opened a BOP financing need of about US$1.1 billion in 2020. This gap is planned to be financed by drawing on the augmented SBA and SCF arrangements—Fund disbursements will be used for budget support—and additional financing from multilateral development banks (MDB) for US$582 million. These will allow the authorities to reduce the use of international reserves and preserve the adequacy ratio. At May 25, the net international reserves were about US$6.3 billion, and the reserve adequacy ratio is greater than 7 months of next-year imports. The exchange rate has depreciated modestly in the context of the crawling peg regime and authorities do not expect it to be under pressure due to the pandemic.

The Debt Sustainability Analysis (DSA) indicates that Honduras remains at low risk of debt distress both for public external debt and overall debt. In the context of the COVID-19 pandemic response, authorities remain committed to the continuous adherence to the Fiscal Responsibility Law (FRL) to prevent jeopardizing debt sustainability. EMBI spreads increased from 252 basis points at the beginning of the year to 741 basis points on April 28. We agree with the staff that this increase reflects a general trend of massive capital outflows from emerging economies that have taken place over the last few months, rather than a Honduras-specific financial constraint. Indeed, after completing the IMF's technical review and the ratification of the sovereign credit rating, the EMBI Spreads drop to 466 basis points on May 21.

Policy Response

The authorities envisage a loosening in the fiscal stance by 3.0 percent of GDP in 2020 to create fiscal space for critical spending to mitigate the impact of the pandemic. Measures are targeted to support affected groups and mitigate structural vulnerabilities. Efforts are concentrated on shoring up the fragile health system, including by reallocating spending towards the health sector, and the creation of the program "Honduras Solidaria" to deliver food and health supplies to needy families, the elderly and people with disabilities thus protecting a large segment of the population facing a humanitarian crisis amid the lockdown, as well as temporary cash transfers to informal workers. New resources will be allocated for containment measures, the expansion of social protection safety net to protect the more vulnerable, and support to small and medium enterprises, including temporary unemployment benefits to formal workers.

Congress passed legislation granting tax exemptions on medical supplies and free economic zones—equivalent to 0.1 percent of GDP— and the administration have conceded tax deferrals reducing advance payments for corporate income tax to provide cash flow relief to businesses (0.5 percent of GDP).

The authorities are also implementing monetary and financial sector measures to provide liquidity and soften the impact of the COVID-19 pandemic, while preserving financial stability. In line with Fund advice, swift crisis response measures have focused on monetary easing, including by lowering the policy rate and injecting liquidity; allowing temporary (120 days) debt service relief for affected sectors; a new credit guarantee scheme to foster credit while maintaining financial stability with the support of the Central American Bank for Economic Integration (CABEI); and well-targeted support to critical sectors (agriculture, tourism and housing) from the public development bank (BANHPROVI).

The authorities are closely monitoring the impact of the pandemic on the financial sector, while bank liquidity, Non-Performing Loans (NPL), profitability and capital adequacy are currently adequate. They are firmly committed to ensure that any losses will be recognized against available buffers and new capital will be required if adequacy falls below regulatory standards. The Central Bank is also modernizing procedures to guarantee swift activation of its emergency lending facility when needed. Authorities have introduced a debt service relief initiative, allowing the suspension of principal and interest payments for three months for the affected sectors, using the flexibility provided by current regulatory and supervisory framework. Afterwards, targeted and timebound loan restructurings according to repayment capacity can be made available, while credit classifications remain frozen until the process is completed by October 2020.

The authorities have taken measures to guarantee the transparency and accountability of the emergency spending during the pandemic. They are already categorizing and tracking all pandemic related expenditure in the budget to facilitate monitoring and publication of this spending—including through oversight by civil society—in a dedicated web page. The authorities will also expeditiously publish post-crisis reports of pandemic-related spending as policy responses to the crisis continue to be implemented. The Court of Accounts is conducting concurrent audits of all COVID-19 related spending to speed up procurement, in addition to usual ex-post audits, which will be published.

Ongoing structural reforms

During the last six years, the authorities have attained significant advance in strengthening the macroeconomic and governance framework, restoring macroeconomic stability, including but not limited to fiscal consolidation, while protecting fiscal space to attend to the more vulnerable, achieving approval of the Fiscal Responsibility Law (FRL), modernization of the Monetary Policy Framework, and enhancing of the AML/FCT framework.

In that vein, Authorities remain firmly committed to macroeconomic stability and the reform agenda. They intend to build on previous achievements to strengthen the policy and institutional frameworks. They also continue fully committed to the revenue mobilization agenda that will increase fiscal space to foster growth and reduce poverty over the medium term. Moreover, they will continue their proven record of compliance with the FRL and debt sustainability, including with the implementation of a centralized wage bargaining mechanism to guide decisions on nominal wage increases. Authorities will enhance the level of engagement with the private sector and with Congress for the approval of submitted legislation introducing electronic notification from the tax administration office (SAR) on procedures to taxpayers and return to SAR the control and verification procedures for tax exemptions. They will also continue to strengthen capacity of the new customs administration and gradually broaden the tax base through the streamlining of exemptions.

The authorities recognize that more significant progress in the structural reform of the electricity sector is necessary to consolidate the reform agenda encompassed in the program and in that regard, they continue firmly committed with the plan included in the IMF program. They will pursue the strengthening of the governance structure in the regulatory body (CREE) and system operator (ODS). Authorities are also fully committed to the proper implementation of the General Law of the Electricity Industry (LGIE), aiming at creating an open, transparent, efficient and competitive electricity market, as well as taking the necessary steps to tackle long-standing challenges in the state-owned enterprise (ENEE), in particular the oversupply and high generation costs, a misalignment between tariffs and costs, high electricity losses, and persistent operational inefficiencies.

The Central Bank of Honduras (BCH) reaffirms its commitment with the modernization and further enhancement of the monetary policy framework and supports the transition to a more flexible exchange rate, including the adjustment of FX intervention rules in preparation for the elimination of surrender requirements, the regulations to support development of an FX derivate market, the use of treasury securities for monetary policy, and the development of an electronic platform to support a secondary securities market. A securities market law has been submitted to Congress; it should help strengthen the interest rate transmission channel, and the new central bank law that will increase the central bank's autonomy, transparency and accountability by, inter alia, stating price stability as the overriding policy mandate of the BCH, establishing a sound central bank's governance structure with a proper allocation of oversight, daily management, and policy formulation responsibilities among its decision-making bodies.

The National Commission of Banks and Insurance (CNBS) will remain vigilant to potential needs for temporary relaxation of existing macroprudential buffers, while continue maintaining measures to further strengthen the regulatory framework and supervisory practices. They are also fully committed to continue expanding the supervision coverage of Designated Nonfinancial Businesses and Professions (DNFBP); and enhancing identification of shareholders and beneficial owners as well as access to this information to prevent misuse of legal entities. They will submit to Congress a proposal to create a unified and centralized registry collecting beneficial ownership information that will ensure timely identification of owners and all types of legal persons, including by requiring legal entities to submit updates and establishing dissuasive actions to secure compliance.

The Honduran Government is fully committed to strengthen domestic institutions to foster the fight against corruption. Following thorough discussions with the Organization of American States, the attorney general office created a new anti-corruption unit (Unidad Fiscal Especial contra la Impunidad y la Corrupción (UFERCO), based on the structure of the former MACCIH prosecutor office. The Ministry of Finance (SEFIN) also continues enhancing fiscal governance to prevent corrupt practices. A new public procurement law has been submitted to Congress, aimed at modernizing the process and strengthening compliance, including with the enhanced public purchases and contracting platform, "Honducompras 2", that will fully integrate the procurement process with the Treasury IFMIS (SIAFI) for central government entities covering 90 percent of the procurement budget. A reform to the organic law of the Court of Accounts introduced last year addressed shortcomings in the current internal audit system. The Court of Accounts will issue by-laws to reform the public officials' asset declaration system in line with good international practices.

Finally, the authorities reaffirm their commitment to continue taking any other possible measure that is appropriate to preserve the objectives of the program.