

Table 1. Honduras: Ceilings on the Net Domestic Financing  
of the Nonfinancial Public Sector 1/

(In millions of lempiras)

Period	Ceilings	Actual
December 31, 1999 (performance criterion)	-2,300	-4,047
<b>Cumulative change from December 31, 1999 <u>2/</u></b>		
June 30, 2000 (performance criterion)	0	
December 31, 2000 (indicative target)	0	

1/ Domestic financing to the nonfinancial public sector (NFPS) comprises all domestic sources of financing. Thus, net domestic financing of the NFPS is defined as the sum of net credit (direct credit less deposits plus net bond placements by the NFPS) from the domestic financial system, net bond placements by the NFPS outside the financial system, suppliers' credit and increases in floating debt (checks issued but not yet cashed) of the NFPS.

2/ The end-1999 stock of net domestic financing to the NFPS was negative L11,675 million.

Table 2. Honduras: Ceilings on Base Money (Reserve Money) of the Central Bank 1/

(In millions of lempiras)

Period	Ceilings <u>2/</u>	Actual
December 31, 1999 (performance criterion)	10,300	10,472
June 30, 2000 (performance criterion)	9,510	
December 31, 2000 (indicative target)	10,375	

1/ Measured as the sum of currency issued, commercial banks' deposits at the Central Bank of Honduras, and financial institutions' mandatory investments in public securities (mostly CAMs) and FONAPROVI bonds (L 389 million at end-1999).

2/ The 2000 ceilings are below the end-1999 level of base money (reserve money) because they reflect the projected gradual decrease in mandatory investment ratios for commercial banks from the current 13 percent to 7 percent by December 2000.

Table 3. Honduras: Floors for the Net International Reserves of the Central Bank 1/

(In millions of U.S. dollars)

Period	Floor	Actual
Stock in December 31, 1999 (performance criterion)	810	1,001
<b>Cumulative change from December 31, 1999</b>		
June 30, 2000 (performance criterion)	0	
December 31, 2000 (indicative target)	0	

1/ Defined as the gross foreign reserves minus short-term foreign liabilities of the Central Bank of Honduras (CBH) and its liabilities to the Fund. The benchmarks exclude any conversion of short-term foreign liabilities into medium-term foreign liabilities and all foreign assets stemming from commercial banks' foreign currency deposits at the CBH.

Table 4. Honduras: Ceilings on the Amount of Nonconcessional External Loans Contracted or Guaranteed by the Nonfinancial Public Sector 1/

(In millions of lempiras)

	Ceilings		Actual
	Medium and Long Term 2/	Short Term 3/	
December 31, 1999 (performance criterion)	0	0	0
<b>Cumulative change from December 31, 1999 4/</b>			
June 30, 2000 (performance criterion)	0	0	
December 31, 2000 (performance criterion)	0	0	

1/ Defined as loans contracted or guaranteed with a grant element (NPV relative to face value) of less than 35 percent, based on the currency- and maturity-specific Commercial Interest Reference Rates (CIRR), published monthly by the OECD.

2/ Defined as debt with a maturity of more than one year.

3/ Defined as debt with a maturity of one year or less, excluding import-related credits as well as short-term borrowing by the Central Bank of Honduras for reserve management purposes up to a maximum of US\$50 million.

4/ Apply to January 1 - June 30, 2000 and January 1-December 31, 2000.

Table 5. Honduras: Ceilings on the Stock of Arrears  
on External Debt Service Payments of the Public Sector 1/

(In millions of dollars)

	Ceilings	Actual
<b>Stock as at December 31, 1999</b>	<b>0</b>	<b>0</b>
June 30, 2000 (performance criterion)	0	
December 31, 2000 (indicative target)	0	

1/ Defined as debt-service arrears on public and publicly guaranteed external debt.

Table 6. Honduras: Ceiling on Central Government Wage Bill 1/

(In millions of lempiras)

	Ceilings 2/	Actual
June 30, 2000 (performance criterion)	4,094	
December 31, 2000 (indicative target)	7,939	

1/ Defined as gross wages including severance payments, and employer social security and pension contributions. The wage bill in 1999 amounted to L 6,147 million.

2/ Cumulative from January 1, 2000.

Table 7. Honduras: Prior Actions, Structural Performance Criteria,  
and Structural Benchmarks for the Second Program Year

Program Timing

**A. Prior Actions**

1. Approve by IHSS Board an action plan to separate (operationally and on an accounting basis) the IHSS pension fund from the health fund and to restructure the IHSS based on recommendations of World Bank experts.
2. Implement tariff increases of electricity rates based on marginal cost pricing.
3. Approve the Framework Electricity Law.
4. Conclude bidding of airport concessions.
5. Prepare draft criteria for wage-setting in central government for the civil service law.

**B. Structural Performance Criteria**

- |   |               |
|---|---------------|
| 1. Approve legislation on permanent, limited deposit insurance.   | December 2000 |
| 2. Conclude bidding of Hondutel.  | June 2000     |
| 3. Submit to congress a law to simplify procedures on company establishment.                                      | June 2000     |
| 4. Approve legislation on Civil Service Reform Law that includes criteria for wage-setting in central government. | October 2000  |
| 5. Approve by congress contract with IFC for the privatization of el.distribution.                                | June 2000     |
| 6. Approve legislation on the Statistics Institute.   | June 2000     |

**C. Structural Benchmarks**

- |  |               |
|--|---------------|
| 1. Improve targeting of electricity subsidy by gradually reducing effective subsidy rate as consumption increases. | June 2000     |
| 2. Review subsidies to public transport in Tegucigalpa to improve targeting.                                       | December 2000 |
| 3. Establish working group to analyze options for pension reform.  | June 2000     |
| 4. Remove export taxes on bananas and minerals.  | June 2000     |
| 5. Submit draft law to congress to regulate private pension funds.   | December 2000 |
| 6. Submit a plan to congress to restructure the coffee sector.   | June 2000     |
| 7. Increase the CAR ratio to 10 percent.   | December 2000 |
| 8. Establish and publish a comprehensive good governance strategy.   | June 2000     |
| 9. Approve legislation to simplify licencing of cargo transport.   | December 2000 |
| 10. Define rules for the establishment of a electronic clearing of checks.   | June 2000     |
| 11. Make the above system operational.   | December 2000 |

Matrix of Economic Policies under the Poverty Reduction and Growth Facility, 2000-2002

Area and Overall Objective	Measure	Level of Conditionality 1/	Timing	Ministry or Agency in Charge of Execution
<b>Overall Framework</b>				
<b>I. Objectives</b>  <i>Alleviate poverty via enhanced and sustainable growth.</i>	Real GDP increase to 5-6 percent in the medium-term.	* Objective	2000-2002	
	Reduction in poverty.	* Objective		
	Reduce inflation to 7 percent by 2002.	* Objective	10 percent in 2000; 9 percent in 2001; and 7 percent in 2002	
	Increase public savings.	Objective		
<b>Macroeconomic Policies</b>				
<b>II. Overall Fiscal Policy</b>  <i>Strengthen public savings while increasing the quality and efficiency of social expenditures.</i>	Maintain high savings of the NFPS.	Overall aim	NFPS savings: 5.6 % in 2000, 5.8 % in 2001, 6.1 % in 2002	Ministry of Finance
	Net domestic financing of the nonfinancial public sector should be zero in 2000.	Quantitative performance criteria	June 2000 and December (indicative) 2000	Ministry of Finance
	Shift spending priorities towards social objectives and reconstruction of basic infrastructure.	* Overall aim	Program period	Ministry of Finance
	Maintain central government current revenue collection around 18.5 % of GDP, but at least above 18 %, and contain the growth of nonsocial current expenditures.	* Measure	Program period	Ministry of Finance
<b>a. Strengthen Tax Administration</b>	Firm application of penalties (available under the 1997 tax code).	Overall aim	2000-2002	Ministry of Finance
	Broaden tax base by expanding the register of large taxpayers, and increasing access to third-party sources of information.	Measure	2000-2002	Ministry of Finance
	Complete full identification of tax exemptions and reductions.	Measure	December 2000	Ministry of Finance
	Submit to congress a law on new definitions on income and costs in the income tax system.	Measure	June 2000	Ministry of the Presidency/ Ministry of Finance
<b>b. Improve Expenditure Efficiency</b>	Limit the central government wage bill to 9 percent of GDP in 2000 (L 4094 million in June and L 7939 million in December).	* Quantitative performance criteria	June 2000 December 2000 (indicative)	Ministry of Finance
	Limit the central government wage bill to 9.3 percent in 2001 and to 8.8 percent in 2002.	Overall aim	2001-2002	Ministry of Finance
	Establish draft criteria for wage setting for the civil service law for central government employees	Prior action		Ministry of the Presidency/ Ministry of Finance
	Provide a draft legal text on basic principles of central government wage policy including wage-setting criteria	Measure	June 2000	Ministry of the Presidency/ Ministry of Finance
	Approve the civil service reform law	* Structural performance criterion	October 2000	Ministry of the Presidency
	Review the implications of the audit of existing positions, the public expenditure review, and a review of hiring of teachers for the 2001 wage bill	Measure	September 2000	Ministry of the Presidency/ Ministry of Finance/ Ministry of Education
	Complete the audit of existing positions and reclassification of jobs for every position (Cincorp-Hay);	Measure	September 2000	Ministry of the Presidency/ Ministry of Finance



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Area and Overall Objective	Measure	Level of Conditionality 1/	Timing	Ministry or Agency in Charge of Execution
	Prepare an action plan to retrench redundant personnel;	Measure	October 2000	Ministry of the Presidency
	Complete wage scale reclassification	Measure	June 2001	Ministry of the Presidency/ Ministry of Finance
	Incorporate variable factors to wage structure.	Measure	June 2002	Ministry of the Presidency/ Ministry of Finance
	Shift current expenditures from tertiary to primary education.	* Overall aim	December 2001	Ministry of Finance Ministry of Education
	Implement the increase of electricity rates based on marginal cost pricing.	Prior action		Regulatory Agency and Energy Cabinet
	Increase the progressivity of the electricity subsidy.	* Structural benchmark	June 2000	Energy Cabinet
	Maintain total cost of electricity subsidies up to L280 million.	Measure	1999-2001	Ministry of Finance/Energy Cabinet
	Central government should not pay the debt service of ENEE--consolidate accounts once a month.	Measure	Program period	Ministry of Finance
	Review subsidies to public transport in Tegucigalpa to improve targeting.	* Structural benchmark	December 2000	Ministry of Transport
	Continue with the outside monitoring of external assistance and regular audits of external inflows.	* Overall aim	2000-2002	Ministry of the Presidency
	Continue to simplify the number and administration of government accounts at the central bank	Measure	Program period	BCH/Ministry of Finance
<b>c. Social Security and Pensions</b>	Approve by IHSS Board an action plan to separate (operationally and on an accounting basis) the pension fund from the health fund, and a plan to restructure the IHSS.	* Prior action		IHSS Board/Ministry of the Presidency
	Implement the action plan of IHSS reform.		2000-2002	IHSS Board/Ministry of the Presidency
	Establish a working group to settle government liabilities to to IHSS.	Measure	March 2000	Ministry of Finance/IHSS
	Establish a working group to analyze options for pension reform.	* Structural benchmark	June 2000	Ministry of the Presidency
	Take concrete steps to increase the transparency and efficiency of the operations of the public sector pension funds including INJUPEMP and IMPREMA.	Measure	June 2000	CNBS
<b>III. Monetary Policy</b>	Pursue inflation objective by flexibly managing the CAM auctions to achieve appropriate interest rate levels.	Overall aim	Program period	BCH
<i>Improve the efficiency of instruments to keep inflation in check and enhance the role of CAMs as a benchmark rate</i>	Reduce mandatory investment requirements, to increase efficiency of the financial sector, and lower banking spreads:	Measure	2000	BCH
	Commercial banks from 13 % to 10 % 10 % to 7 %		June 2000 December 2000	

Matrix of Economic Policies under the Poverty Reduction and Growth Facility, 2000-2002

Area and Overall Objective	Measure	Level of Conditionality 1/	Timing	Ministry or Agency in Charge of Execution
	Maintain base money of the central bank below L 9510 Million in June and L 10375 million in December. 2/	Quantitative performance criteria	June and December 2000	BCH
	The net international reserves of the central bank should remain above US\$ 1000.	Quantitative performance criteria	June and December 2000	BCH
	To strengthen BCH's independence to conduct monetary policy, review options for resolving the financial burden on the BCH deriving from the zero interest bond the BCH received in 1997 in compensation of exchange rate losses on government loans	Measure	December 2000	Ministry of Finance/BCH
<b>IV. External Sector Policies</b>				
<b>a. Exchange rate</b>				
<i>Maintain a competitive exchange rate, and enhance the efficiency of foreign exchange and other interbank operations</i>	To prepare for an interbank market in foreign exchange, improve the payments system by establishing an efficient communications network among financial institutions through the creation of national electronic clearing house.			
	Finalize clearing house rules.	Structural benchmark	June 2000	BCH
	Make the system operational.	Structural benchmark	December 2000	BCH/AHIBA
<b>b. External trade</b>				
<i>Expose the economy to more foreign competition through a further liberalization of the trade regime to enhance the efficiency of domestic producers.</i>	Abolish export taxes on bananas and minerals.	* Structural benchmark	June 2000	Ministry of Finance
	Under CACM agreement, tariffs on imports of certain consumer goods will be reduced to 15 percent in January 2001, and to 5-15 percent for certain textiles and clothing in 2005.	Measure	Program period	Ministry of Industry/ Ministry of Finance
	Submit to congress a coffee sector restructuring plan.	* Structural benchmark	June 2000	Ministry of Agriculture
	Prepare a report on how to simplify customs administration by reducing the number of tariff rates, and submit it to the tariff commission.	Measure	June 2000	Ministry of Industry/ Ministry of Finance
<i>Reduce incentives for fiscal fraud by rationalizing the tariff structure and simplifying foreign trade formalities.</i>				
<i>Improve incomes in agriculture by reforming the coffee sector</i>				
<b>c. External debt</b>				
	All new external loans will require prior approval of a committee comprising representatives from the Finance Ministry and BCH.	Measure	Program period	Ministry of Finance
	No contracting or guaranteeing of debt on nonconcessional terms.	Quantitative performance criteria	Program period	Ministry of Finance
	No new arrears will be accumulated.	Quantitative performance criteria	Program period	Ministry of Finance
	Negotiate and conclude promptly all bilateral agreements to implement the April 1999 Paris Club agreement and be prepared for HIPC decision point.	Overall aim	First semester of 2000	Ministry of Finance
	Work closely with the World Bank, IMF, and IDB on an updated assessment of Honduras external debt sustainability with a view towards reaching a decision point of HIPC.	* Overall aim	First semester of 2000	Ministry of Finance/BCH

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Area and Overall Objective	Measure	Level of Conditionality 1/	Timing	Ministry or Agency in Charge of Execution
<b>Structural Reforms</b>				
<b>V. Financial Sector</b>	Approve legislation on permanent, limited deposit insurance.	Structural performance criteria	December 2000	Ministry of the Presidency
<i>Improve efficiency of the financial sector reduce real lending rates</i>	Approve legislation on insurance and re-insurance companies and a regulatory framework for the stock exchange.	Measure	December 2000	Ministry of the Presidency
	Complete CAMEL-based on-site examination of banks, require corrective actions and recommendations arising from these findings and establish contingency plans.	Measure	June 2000	CNBS
	Adjusted CAR will be increased to 10 percent.	Structural benchmark	December 2000	CNBS
	Extend CAMEL-based on-site examination to finance companies and savings and loan institutions, require corrective actions arising from these findings and establish contingency plans.	Measure	December 2000	CNBS
	Strengthen technical capabilities of all CNBS inspectors.	Measure	Program period	CNBS
	Submit draft law to Congress to regulate private pension funds.	Structural benchmark	December 2000	Ministry of the Presidency
<b>VI. Privatization</b>	Conclude bidding of Hondutel.	Structural performance criteria	June 2000	Ministry of Finance
<i>Encourage more participation of the private sector in key economic activities.</i>	Conclude bidding of airport concession.	Prior action		Ministry of Transport
	Approve a contract with IFC designating it as investment banker for the planned privatization of electricity distribution.	Structural performance criteria	December 2000	Ministry of Natural Resources
	Approve the Framework Law on the Electricity Sector.	Prior action	October 2000	Ministry of Natural Resources
	Invite bids for shares in electricity distribution companies.	Overall aim	June 2001	Ministry of Natural Resources
	Approve Framework Law for the Water and Sewage Sector.	Measure	December 2000	Ministry of Natural Resources
	Propose a plan with the assistance of the IDB, to incorporate the private sector in the management, operations and financing of ports.	* Measure	October 2000	Ministry of Finance
	Deposit all proceeds of privatization revenues in a fund abroad and use interest proceeds for social investment.	Measure	Program period	Ministry of Finance
<b>VII. Transparency and Improved Governance</b>	Establish and publish a comprehensive strategy for promoting good governance.	* Structural benchmark	June 2000	Ministry of the Presidency
<i>Improve transparency of policies and minimize the potential for corruption to lower investment risk and increase growth potential.</i>	Continue to implement mechanisms that ensure full accountability in the use of public resources, and establish simplified and transparent procurement procedures (with the IDB).	Measure	Program period	Ministry of Finance
	Improve the functioning of the judicial system: Implement new procedural penal code and penal code.	Measure	February 2002	Ministry of the Presidency

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Area and Overall Objective	Measure	Level of Conditionality 1/	Timing	Ministry or Agency in Charge of Execution	
<b>VIII Investment Climate</b>	Evaluate domestic practices against the IMF's Code of Good Practices on Fiscal Transparency.	Measure	December 2000	Ministry of Finance	
	Evaluate domestic practices against the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies.	Measure	December 2000	BCH and CNBS	
	Approve the Law on the establishment of an independent Institute of Statistics and Census.	Structural performance criteria	June 2000	BCH/Ministry of Industry	
	<i>Simplify regulations to combat corruption, increase growth and investment.</i>	Simplify the licensing and regulatory regime for cargo transport to reduce potential for corruption and improve competitiveness by extending the annual operator license from 1 to 5 years.	* Structural benchmark	December 2000	Ministry of Transport
		Submit to congress the Administrative Simplification Law that among other things would eliminate the "calificacion judicial" and simplify rules on company establishment.	* Structural performance criterion	June 2000	Ministry of Presidency
		Establish a private/public sector working group to review regulations and licenses in view of their simplification.	Measure	June 2000	Ministry of the Presidency
	Reactivate the one-stop window for investment approval.	Measure	2001	Ministry of Industry	

1/ An asterix indicates that this policy enhances poverty reduction.



