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THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR EXTENSION AND REPHASING OF THE ARRANGEMENTS, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HONDURAS

In the context of the Third Reviews Under the Stand-by Arrangement and the Arrangement Under the Standby Credit Facility, Requests for Extension and Rephasing of the Arrangements, Waiver of Nonobservance of Performance Criterion, 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 December 14, 2020, following discussions that ended on October 30, 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 November 25, 2020.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for Honduras.

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

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PRESS RELEASE

PR20/373

IMF Executive Board Completes Third Reviews Under the Stand-By Arrangement and Arrangement under the Standby Credit Facility for Honduras

FOR IMMEDIATE RELEASE

- The IMF Executive Board's completion of the reviews allows for immediate disbursements of US$90 million.
- The pandemic has slowed down economic activity more than previously anticipated, but a recovery is expected for next year.
- The authorities are recalibrating their policy response to the pandemic and two recent tropical storms, while taking corrective actions to address initial implementation challenges.

WASHINGTON, DC – December 14, 2020: The Executive Board of the International Monetary Fund (IMF) completed today the third reviews of Honduras' performance under its economic program supported by a Stand-By Arrangement (SBA) and a arrangement under the Standby Credit Facility (SCF) and extended the duration of the SBA and SCF by four months until November 14, 2021.

The SBA and SCF were approved on July 15, 2019 in the total amount of about US$323 million (SDR 224.82 million), the equivalent of 90 percent of Honduras' quota in the IMF (see Press Release 19/284). On June 1, 2020, the Executive Board completed the second reviews and approved an augmentation of access under both the SBA and SCF by about US$234 million (SDR 162.37 million), bringing combined total access under the SBA and SCF to about US$557 million (SDR 387.19 million, 155 percent of quota), see Press Release 20/230.

The completion of the reviews allows for immediate disbursements of about US$90 million (SDR 62.45 million) to help Honduras meet its balance of payments and fiscal financing needs stemming from the pandemic and the recent tropical storms, including increased health care and social spending.

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

"Notwithstanding challenges from the pandemic and, more recently, two tropical storms, the authorities remain strongly committed to their Fund-supported economic program. They have strived to respond to these shocks, maintain macroeconomic stability, and protect social spending and critical investment. Significant progress has been made in fiscal and governance reforms.

"To mitigate the impact of the pandemic, the authorities designed a strong policy response, which had to be recalibrated as the outlook for 2020 worsened, allowing a more accommodative fiscal stance while maintaining debt sustainability. The implementation of emergency spending faced challenges, but the authorities took corrective actions promptly and are strengthening controls. Monetary policy continues to be geared towards maintaining price stability and adequate international reserves. Efforts to strengthen the monetary policy framework and support the transition to a more flexible exchange rate continue. The authorities remain committed to revenue mobilization and plan to streamline tax exemptions and persevere with customs administration reforms.

“The authorities continue to take steps to improve the institutional framework in the electricity sector and have cleared historical arrears to generators. Further efforts are needed to improve governance at the electricity company (ENEE) and its financial situation; restarting the losses reduction plan will be an important element.

“The authorities are implementing policies to preserve financial stability while sustaining economic activity. A prudent approach to regulation while encouraging loan restructurings will support sound monitoring of the financial system. The authorities stand ready to take actions as needed.

“Efforts to improve governance continue, notably through steps to strengthen public officials’ asset declarations, create a comprehensive beneficial ownership registry, and enhance transparency and accountability of pandemic-related spending and procurement. Efforts are also ongoing to strengthen the institutional framework in the central bank, the Treasury, and public companies.”

HONDURAS

November 25, 2020

THIRD REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR EXTENSION AND REPHASING OF THE ARRANGEMENTS, WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERIA

Context. The near-term outlook has worsened, while a recovery is expected for next year. Amid a weak health system and a surge in infections over the summer, the gradual reopening of the economy has faced setbacks and the pandemic is having a stronger and more protracted social and economic impact than expected. While the policy response to the Covid-19 shock was appropriately designed, there have been implementation challenges and delays. The authorities' monitoring system of pandemic-related spending and civil society oversight helped identify missteps to implement corrective actions, for which they are receiving technical assistance from FAD and the Inter-American Development Bank (IDB). More recently, Honduras is also facing the challenge to respond to two tropical storms, which the authorities intend to manage within the contour of the current economic program.

Program modalities. The SBA/SCF arrangements have a combined access of SDR387.2 million (155 percent of quota). The Fund-supported program is a critical anchor for macroeconomic policies and reforms. The authorities are requesting an extension of the arrangements by four months, together with a rephasing, to allow for additional time to complete the last review and the reform agenda.

Program Implementation. Despite challenges placed by the pandemic, the authorities have made significant progress on fiscal and governance reforms and met all but one of the quantitative performance criteria and all indicative targets. The pandemic has exacerbated liquidity shortages for ENEE, prompting higher than expected payment arrears, but decisive steps are being taken to correct this by year-end, including by paying historical arrears. The authorities are addressing policy implementation challenges and remain firmly committed to the Fund-supported program—which includes reforms that could have mitigated these challenges, but the pandemic hit before they could be fully operational.

Focus of the Reviews. Discussions focused on recalibrating the fiscal and monetary policy response to the evolving pandemic and addressing implementation challenges. It also assessed potential financial vulnerabilities; progress and challenges in the electricity sector; and next steps to advance the reform agenda.

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

Discussions took place via conference calls during October 19–30, 2020. The staff team comprised Esteban Vesperoni (head), Julia Bersch and Dmitry Vasilyev (all WHD), John Hooley and Luca Mazzone (FAD), and Tito Nicias Teixeira Da Silva Filho (SPR). Jaume Puig, Resident Representative in Tegucigalpa and Edgar Cartagena (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 outlook for 2020 has worsened, while a recovery is expected for next year**. The pandemic is having a stronger and more protracted economic and social impact. The authorities' quick response with a stringent lockdown and policy support mitigated its impact; as of November 15, 103,102 cases were reported and 2,823 deaths. However, the lockdown weighed heavily on economic activity this year, as the gradual reopening of the economy that started in June stumbled upon delays associated with surging infections amid a weak health system. Together with a weaker external environment, this is worsening the growth and fiscal outlook compared to the second review, although a recovery is still expected for next year.

2. **While the policy response to the pandemic was well designed, its implementation is facing challenges.** They quickly adopted emergency procedures and mobilized resources for health and social spending and other support measures through budget reallocations and additional borrowing. Nevertheless, spending execution has faced delays in some areas and led to wrongdoing allegations in others—particularly on the purchase of mobile hospitals by Invest-H using a trust fund. The authorities' efforts to set up a monitoring system of pandemic-related spending and civil society oversight helped identify irregularities promptly.

3. **The authorities are addressing policy implementation challenges and remain committed to the Fund-supported program**. The program includes important reforms that could have helped mitigate implementation problems, but the pandemic hit before they could be enacted. Notwithstanding this, supported by FAD and the Inter-American Development Bank (IDB), they plan to further strengthen controls without delaying emergency spending. Despite challenges, the authorities have made important progress on program commitments, notably on fiscal and governance issues.

4. **The authorities are also committed to manage the impact of two tropical storms within the contour of their current economic program.** By the time this report was being finalized, Eta and Iota entered Honduras as tropical depressions, causing life-threatening floods, landslides affecting vulnerable communities, and damage to agricultural production, particularly in the northern region. The assessment of their damage is ongoing and will require more time, including the short-term impact on growth—while agricultural production will likely be affected, the reallocation of public investment to emergency needs may have a positive short-term impact on activity. The authorities are planning to manage this additional emergency spending through further reallocations in the 2020 budget.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

5. **The pandemic has slowed down economic activity more than previously anticipated**. Slumping domestic and external demand hit activity hard, contracting by 10 percent during the first half of the year. Inflation remained at the lower bound of BCH's target band (4±1 percent). While

remittances have been more resilient than anticipated, exports (particularly *maquila*) have been hit hard. The lockdown and tax deferrals are also weighing on taxes, which declined by 21 percent in real terms through September. The non-financial public sector (NFPS) posted a 2.2 percent of GDP deficit during the first eight months, compared to a 0.3 percent surplus in the same period last year.

6. Despite the challenging environment, the authorities have accessed global markets for funds to help resolve longstanding issues in the electricity sector. A US$600 million sovereign bond placed in June is being used to pay down historical ENEE arrears to generators and debt of ENEE trust funds. The sovereign bond increased capital inflows in the first semester, contributing to over-performance of the NIR target, while the exchange rate has remained stable. As generators repay international creditors, most of its positive impact on capital flows will be reversed.

7. The near-term outlook has worsened. Reopening delays that extended the lockdown and weak external conditions have worsened the outlook, with the economy expected to contract by 7 percent in 2020 (some 3⅔ percentage points more than programmed). Inflation is expected to hover around the midpoint of the BCH target band, while the current account is projected to improve, as resilient remittances more than offset lower exports. The NFPS deficit is projected to widen to 5 percent of GDP, with lower revenue partially compensated by budget reallocations.

8. The recovery is projected to be more sluggish. Honduras' export markets are expected to recover gradually in the second half of 2020 and rebound in 2021, supporting the recovery. However, due to sustained declines in investment and an uncertain outlook for tourism and several infrastructure projects, the medium-term growth outlook was revised down while inflation is projected to remain stable at the center of the BCH's target band. As the economy recovers, the current account deficit is forecast to deteriorate gradually towards 4 percent of GDP, still smaller than the level implied by fundamentals. The fiscal balance is projected to return to the 1 percent of GDP deficit ceiling in the Fiscal Responsibility Law (FRL), with public debt declining to under 50 percent of GDP over the medium term.

9. Risks remain tilted to the downside (Annex I).

- *Covid-19*. An adverse shift in the pandemic could interrupt the gradual reopening, with severe economic and social consequences. Concurrently, this could deepen social discontent, further weakening activity.
- *External risks*. Accelerating de-globalization could hamper long-term growth prospects, affecting exports and deteriorating the external position.
- *Domestic risks*. A fragmented political landscape in the context of the forthcoming elections may complicate the passage of reforms.

The authorities have developed contingency plans to preserve macroeconomic and financial stability should these downside risks materialize, as describe in paragraphs 18 and 28.

Text Table 1. Honduras: Program Scenario

(Selected Indicators, Percent of GDP Unless Otherwise Specified)

	Actual		Prel.	2020		2021		Projections			
	2017	2018	2019	Prog.	Proj.	Prog.	Proj.	2022	2023	2024	2025
Real											
GDP growth	4.8	3.7	2.7	-3.3	-7.0	4.7	4.9	3.3	3.5	3.6	3.7
Inflation (average, percent change)	3.9	4.3	4.4	3.5	3.5	3.2	4.0	4.1	4.0	4.0	4.0
Fiscal											
Tax revenue	18.7	18.9	18.3	16.5	14.8	17.6	16.4	17.8	17.9	18.1	18.2
Primary balance	0.1	0.0	0.2	-3.0	-3.8	-1.5	-2.5	0.4	0.5	0.6	0.4
Overall balance	-0.8	-0.9	-0.9	-4.0	-5.0	-3.0	-3.8	-1.0	-1.0	-1.0	-0.9
Gross debt	40.1	42.2	44.9	47.8	52.9	50.9	53.7	53.4	51.6	51.3	49.3
Balance of payments											
Current account balance	-1.2	-5.9	-1.4	-2.1	-0.3	-2.5	-2.6	-2.7	-3.4	-3.8	-4.0
Foreign direct investment	4.5	3.7	2.0	1.4	1.4	2.5	1.9	2.1	2.4	2.9	3.5
Terms of trade (percent)	-2.3	-6.1	-0.3	12.0	10.2	-0.5	-0.4	-0.4	-0.4	-0.5	-0.4
Monetary											
Change in net international reserves (mill. U.S.) 1/	884	50	993	18	650	460	290	350	400	400	440
Credit to the private sector (percent change)	9.3	14.3	8.8	2.0	4.5	8.9	6.6	6.8	7.2	7.1	7.1

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.

PROGRAM IMPLEMENTATION

10. All but one quantitative performance criteria (PCs) and all indicative targets (ITs) for end-June as well as all continuous PCs have been met (Text Table 2).[1] Pandemic-related liquidity shortages at ENEE led to a breach of the domestic arrears PC, by about 1 billion Lempiras.

Text Table 2. Honduras: Program Implementation

(Cumulative flows; millions of Lempiras, unless specified)

	End-June 2020			
	Program 1/	Adj. 2/	Actual	**Status**
Fiscal Targets				
Quantitative Performance Criteria				
Floor on net lending of the nonfinancial public sector	-37,304	...	-11,075	**Met**
Floor on net lending of ENEE	-3,264	...	-1,716	**Met**
Ceiling on the accumulation of domestic arrears by ENEE	2,500	...	3,517	**Not met**
Ceiling on the accumulation of new external arrears (in million US$) 3/	0	...	0	**Met**
Ceiling on lending minus repayments from public pension funds	600	...	-1,215	**Met**
Indicative Targets				
Floor on the central government tax revenues	34,264	...	40,683	**Met**
Ceiling on the central government wage bill	30,300	...	23,832	**Met**
Floor on priority social spending	2,193	...	2,784	**Met**
Floor on the operating revenue-to-spending ratio of ENEE	0.97	...	0.99	**Met**
Monetary targets				
Quantitative Performance Criteria				
Floor on the stock of non-borrowed net international reserves of the BCH (in million US$)	4,669	4,725	5,725	**Met**
Ceiling on the stock of net domestic assets of the central bank	-73,634	-74,997	-94,159	**Met**

1/ Staff Report for the Second Reviews under the Stand-By Arrangement and the Arrangement under the Stand-By Credit Facility, June 2020.

2/ Adjustors as indicated in the Technical Memorandum of Understanding.

3/ Continuous performance criterion.

[1] This includes the continuous PC on exchange rate restrictions and multiple currency practices (see TMU in Appendix I, paragraph 3 and MEFP, paragraph 44).

11. Notwithstanding challenges from the pandemic, significant progress has been made on structural reforms. Overall, seven SBs have been completed, including one with a slight delay; two are proposed to be rescheduled for technical reasons; and two to provide more time to the authorities to continue working with Congress during December (see table AI.1). The authorities submitted a new procurement law to Congress (met in advance), established a centralized wage bargaining mechanism, issued new PPP regulations, submitted draft legislation to streamline administrative procedures to Congress, and included an extended annex on tax exemptions in the 2021 budget. Furthermore, they submitted legislation to create a comprehensive beneficial ownership registry and issued regulations to reform the public officials' asset declaration system (with a slight delay).

12. The authorities continue to make progress on other structural benchmarks, some of which have faced technical challenges.

- While virtually all central government agencies are already using *Honducompras 2*, strengthening transparency and accountability, additional functionalities are still needed to complete its integration with the Integrated Financial Information Management System (IFMIS). The first phase includes updating IFMIS's financial information with the final values of the purchase order registered in *Honducompras 2* and ensuring consistency between IFMIS's budget classifications and the catalogue of goods and services in *Honducompras 2* (*proposed revised and rescheduled structural benchmark (SB), June 2021*).

- The authorities have hired—with IDB support—consultants to perform the valuation of ENEE's transmission and generation assets. However, the valuation of distribution assets is technically more challenging, leading to delays in hiring consultants. This valuation comprises higher costs and a lengthier procurement process for this tender, and the authorities will start the process by first hiring a firm to identify ENEE's distribution assets (*proposed SB, December 2020*) and then hiring a firm to value these distribution assets (*proposed SB, March 2021*).

- In the context of the 2021 budget discussions, the authorities are engaging with Congress and the private sector on the approval of submitted legislation introducing electronic notification of taxpayers and the return to the tax administration office (SAR) of control and verification procedures for tax exemptions. While steady progress has been made in these discussions, more time is needed to achieve consensus—likely until the budget discussions are concluded—and, hence, both SBs are proposed to be rescheduled to December 2020.

POLICY DISCUSSIONS

Discussions focused on the recalibration of the fiscal, monetary and financial policy response to the evolving pandemic and the correction of implementation challenges. In particular, they assessed progress and challenges in the electricity sector, potential vulnerabilities in the financial sector, and next steps to advance the reform agenda.

A. Addressing Fiscal Challenges

Improving the Response to the Pandemic

13. The authorities have redirected spending towards pandemic-related priorities, but execution has faced delays in some areas and shortcomings in others.

Text Table 3. Honduras: Covid-19 Spending Execution 1/

	Millions of US$	Percent of GDP	Target 2/	2nd Review Target
Social spending	**98**	**0.4**	**0.4**	**1.2**
Food distribution	54	0.2	0.2	0.2
Furlough Scheme	28	0.1	0.1	0.6
Cash Transfers	17	0.1	0.1	0.4
Health Spending	**134**	**0.5**	**1.1**	**0.9**
Personnel	12	0.0	0.2	0.1
Goods and Services	122	0.5	0.9	0.8
PPE	27	0.1	0.2	
Medical Equipment	30	0.1	0.2	
Mobile Hospitals	47	0.2	0.2	
Other	18	0.1	0.2	
Total	**232**	**0.9**	**1.5**	**2.1**

Notes:
1/ Spending execution is as of October 23, 2020
2/ Authorities' target for the year as a percent of GDP.

- Spending on priority social programs has exceeded program targets and some areas of emergency Covid-19 social spending such as food distribution have been implemented promptly.[2] However, execution of spending in other areas of the response has lagged—particularly financial support to workers and households, partly due to technical difficulties with the registration and payment processes, which have now been addressed.[3]

- Implementation of emergency health spending has faced significant challenges. The authorities delegated most health-related purchases to Invest-H, the renamed entity that had successfully managed millennium account spending in the past. However, accusations of resource misappropriation—particularly related to a US$47 million purchase of mobile hospitals—and delays in obtaining medical supplies were reported.

- Overall, through mid-October, 0.9 percent of GDP of Covid-19 spending has been executed, which is expected to increase to 1.5 percent by year end (Text Table 3). This spending has been financed through budget reallocations, leaving overall non-interest spending broadly unchanged relative to 2019. The rest of the planned spending to manage COVID issues—about ½ percent of GDP—has been shifted to the 2021 budget.

14. A transparent monitoring system helped early detection of missteps, paving the way for corrective actions. To ensure accountability, the authorities introduced targeted transparency mechanisms for pandemic-related expenses. These include weekly publication of Covid-19 spending (https://www.sefin.gob.hn/covid-19/, portalunico.iaip.gob.hn/covid19.php), concurrent controls by the Court of Accounts, and CSO oversight. These mechanisms facilitated early detection of

[2] The program definition of priority social spending currently does not include Covid-19 related emergency spending. Going forward, the authorities propose to include selected pandemic-related social programs (see TMU in Appendix I). The purchase of mobile hospitals is not included in either definition.

[3] For example, the cash transfers to the informal sector (*Bono Unico*) faced technical difficulties in setting up the electronic transfer system, which have now been addressed.

irregularities and an effective response. An audit from the Court of Accounts found evidence of criminal responsibility and the authorities removed the head of Invest-H, nominated an intervention commission in charge of managing Invest-H and commissioned an international audit. It removed Covid-19 related spending authority from the agency as well. The attorney general's office is also investigating amid a lawsuit promoted by CSOs against the former head of Invest-H. Staff discussions with civil society points to their continued involvement in the monitoring of Covid-19 related spending.

15. The authorities are addressing implementation challenges, trying to avoid further delays in pandemic-related spending. Accelerating health and social spending while improving controls is critical to mitigate the impact of the pandemic. With FAD and IDB support, the authorities are taking measures to overcome implementation problems and strengthen controls. FAD technical assistance emphasized three immediate measures: (i) enhancements to the labeling mechanism to categorize and track all pandemic and post-pandemic related expenditure in the budget, (ii) adoption of a manual of procedures for emergency purchases, and (iii) implementation of an action plan to strengthen internal agency controls—covering both procedures for public procurement and monitoring—in particular for agencies in charge of Covid-19 related spending. The authorities intend to implement these measures during November to prevent missteps in execution going forward. The staff welcomed their commitment to publish related procurement contracts by January 2021, including names of companies awarded, post-crisis reports and audits of pandemic-related spending. With FAD support, the authorities also intend to strengthen transparency and controls by enhancing budgetary management via the use of general PFM processes and information systems and by improving the coverage and quality of data in transparency portals. Reforms under the program aim precisely at correcting some of the underlying issues in the future; staff encouraged the authorities to continue the work to incorporate trust fund spending into the 2021 budget and improve the procurement process, including by integrating *Honducompras 2* and IFMIS.

B. Adapting Fiscal Policy to the Covid-19 Shock

16. Considering the much weaker growth outlook, the authorities are implementing a more accommodative fiscal stance than initially planned.

- In 2020, tax collection is projected to decline by a further 1¾ percent of GDP compared to the second review, due to the impact of the extended lockdown and partial deferral of corporate income taxes to 2021. While the authorities have identified areas for expenditure rationalization to partially offset the revenue shortfall, an increase in the 2020 NFPS deficit target to 5 percent of GDP (from 4 percent under the program) will help protect social and health spending. Covid-19 related spending of around 1½ percent of GDP is expected to be executed, mostly accommodated through budget reallocations. Amid large central bank liquidity support to banks, the authorities will rely on domestic financing to cover additional needs, mostly already secured—placed through market channels—mainly at commercial banks and pension funds, and to a much lesser extent at insurance companies and financial cooperatives. Emergency spending associated with tropical storms Eta and Iota—including support to affected households, mobile bridges and road repairs—will be managed through further reallocations within the existing budget ceilings.

- The 2021 fiscal position will be supported by the cyclical recovery, one-off revenue from tax deferrals—0.6 percent of GDP—and strict spending control. Indirect tax collection will improve with the recovery—although less than previously envisaged in the program—while CIT is expected to remain weak, given the lagged impact on collection from subdued profits in 2020. The 2021 budget curtails current spending and contains the increase in investment—nominal expenditure will fall compared to the program, despite one-off outlays for the electoral process (0.3 percent of GDP)—while protecting priority social spending. To support the recovery, while paving the way for a gradual return to a sustainable fiscal position, the authorities' budget submitted to Congress is consistent with an increase in the 2021 NFPS deficit target to 3.8 percent of GDP, 0.8 percentage points higher than programmed. This deficit will be financed with multilateral support, a sovereign bond placement, and domestic debt. These financing plans could be adjusted to market conditions and changes in access to multilateral financing, and still leave ample scope to cover fiscal financing needs in domestic markets.

17. The authorities remain committed to fiscal prudence and maintaining public debt on a sustainable path. Following the activation of the escape clause for 2020-21, the authorities are committed to return to the 1 percent NFPS deficit ceiling in 2022 as required by the FRL, an important signal to preserve Honduras' hard-won fiscal credibility. Given the weaker fiscal stance for 2020 and 2021, the required consolidation in 2022 is challenging, though achievable given the authorities' strong track record and commitment to the FRL.[4] The consolidation will be supported by higher revenue—mainly 0.8 percent of GDP in terms of tax revenue from the recovery and 0.7 percent of GDP from policy measures under the program (see paragraph 19)—and lower current spending by 0.6 percent of GDP—from the absence of electoral spending and wage containment, facilitated by the recently-approved wage bargaining mechanism, which can limit wage increases to expected inflation. It requires balancing the need to support the recovery and preserve medium-term debt sustainability.

18. Given uncertainty about the outlook, the authorities are prepared to respond to eventual contingencies and risks. If downside risks materialize, for example, due to a recurrent pandemic wave or another climate-related event, they plan to reprioritize expenditure as needed to reduce non-priority spending—as done in the past, and notably during the pandemic, with a focus on spending that is not included in priority social programs or critical subsidies (e.g., on electricity consumption). This strategy will protect social spending and will be supported by the incorporation of social and infrastructure trust funds into the budget process, which will allow for stronger scrutiny

[4] The authorities' track-record includes a significant fiscal consolidation in 2014-15—when the NFPS deficit was reduced by 6.5 percent of GDP (3.6 and 2.9 percent of GDP in 2014 and 2015, respectively)—compared to a projected consolidation of 4 percent of GDP for 2021-22 (1.2 and 2.8 percent of GDP in 2021 and 2022, respectively). The 2014-15 consolidation required more measures, given the fiscal trends at that time.

of budget discussions and better alignment with government objectives.[5] The authorities also continue to closely monitor fiscal risks from PPPs and public enterprises; the strengthened regulation approved in June is instrumental to control the former, while they are working with FAD support to enhance the monitoring of the latter. While this strategy may imply a more phased recovery in public investment in a downside scenario, staff believes that it is justified by the gains in terms of macroeconomic stability embedded in the signaling of sustainable policies.

19. Despite pandemic-related challenges, the authorities continue to work on their revenue mobilization agenda, including by committing to new reforms in customs administration. The authorities are working with Congress and engaging the private sector to achieve consensus on two tax administration measures under the program (see paragraph 12). In line with their revenue mobilization agenda, the authorities plan to submit a draft bill to Congress by June 2021 to streamline tax exemptions effective in 2022 (*proposed new SB*). In the meantime, it will be important to contain the erosion of revenue and avoid new exemptions and amnesties. To further support revenue mobilization, the authorities propose to include a new structural benchmark on customs administration reform, building on ongoing FAD support, specifically, to automate the process to record operations between companies under special regimes, strengthening monitoring and compliance (*proposed new SB, June 2021*).

Progress and Challenges in the Electricity Sector

20. The authorities have taken steps to strengthen the institutional framework and improve governance in ENEE, but further efforts are needed. On the institutional front: (i) Congress strengthened the budgetary and operational independence of the regulatory body (CREE); (ii) after approving the regulations to implement the new tariff scheme, CREE has reflected generation costs in tariffs; (iii) CREE submitted to ENEE the terms of reference for the studies to accurately quantify transmission and distribution costs; and (iv) CREE approved regulations to develop markets for large consumers. As for governance in ENEE, the authorities are moving ahead to unbundle the company. With technical support from the IDB, they will submit to Congress draft legislation to initiate this process early next year—it is envisaged to last until end-2021.[6] With support from the Central American Bank for Economic Integration (CABEI), they are creating a dedicated unit to manage the process. Concurrently, the valuation of ENEE's assets will pave the way for completing financial audits of the company and the unbundling process. In terms of generation, modifications of some contracts negotiated by ENEE a few years ago have raised concerns that the process to introduce them was not in line with the sectoral framework law. CREE's recent decision preventing full pass-through to tariffs of costs resulting from these contracts highlights the

[5] With FAD support, the authorities have already fully incorporated into the budget process several social programs previously executed from the poverty reduction trust fund; they are also implementing FAD recommendations to incorporate resources from trust funds in the treasury single account and enhance reporting of execution to allow for adequate economic classification of expenditure from trust funds by January 2021.

[6] The draft law will establish ENEE as a public holding company owning three private corporations that will operate in the electricity generation, transmission and distribution markets under the sole regulation of the code of commerce and the electricity sector law.

importance of continuing assessing contracts negotiated in previous years and to ensure that procurement of energy follows due process in any future tenders.

21. The pandemic has exacerbated liquidity pressures on ENEE. The social impact of the lockdown has led to payment arrears in electricity bills, tightening ENEE's liquidity situation and giving rise to higher-than-anticipated new arrears to generators. The more protracted impact of the pandemic is likely to delay the normalization of bill payments.

22. Despite these challenges, the authorities have cleared historical arrears with generators, and they will ensure that ENEE has sufficient financing to clear arrears by year-end. They used the proceeds from the sovereign bond to clear ENEE's historical arrears to generators—around 1½ percent of GDP, accumulated before program inception. Settling these arrears during these difficult times involves a huge effort and is an important step to resolve liquidity issues in the sector, demonstrating the authorities' commitment to rein in arrears. To avoid recurrence of arrears, they will strengthen the process for timely transfers of authorized subsidies to ENEE and treasury support in securing financing for the company. The authorities have also introduced provisions in the 2021 budget to guarantee payment of electricity bills by public institutions. Based on these corrective actions, the authorities request a waiver of non-observance for the end-June PC on domestic arrears. Staff welcomed these corrective actions but encouraged the authorities to accelerate reforms aiming at resolving ENEE's financial situation.

23. The authorities remain committed to improving governance and the financial situation in ENEE. They plan to take steps to improve ENEE's financial situation, including by terminating the trust funds that manage the company's cash flow, which will improve governance as well. The authorities repaid a first maturing bond of the distribution trust fund, using the proceeds from the June sovereign bond placement, and will repay the second one in December. Furthermore, ENEE is paying the remaining debt in the transmission trust fund and requested its cancellation to the trustee. 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 are working to reassess the contract with *Empresa Energía Honduras* (EEH). With support from the World Bank, the authorities have hired a company to conduct a study to estimate the value added of distribution (VAD) and the technical work has already started. This will be an important step both to facilitate the dialogue with EEH and complete the implementation of the new electricity tariff scheme. As an intermediate step, they will complete the cost of operating and maintaining the electricity distribution network (COMA)—delays in the tender process during the pandemic and a revised schedule by the international company hired to conduct the VAD will delay slightly the completion of the COMA (*proposed rescheduled structural benchmark, March 2021*).

25. The authorities are revamping their losses reduction strategy, which was temporarily interrupted by the pandemic. As the economic reopening progresses and the social impact of the pandemic eases, the authorities will be revamping their losses reduction strategy, resuming operations by the law enforcement task force launched last December to reduce electricity theft by large consumers that represent the bulk of non-technical losses and enhancing cooperation with the operator of the distribution system to regularize unmetered connections associated with weaknesses in operational management. They are also planning supportive social policies to regularize illegal connections in areas with socially vulnerable populations. As for technical losses, the authorities are prioritizing investments to upgrade the transmission grid, including through implementation of an IDB loan.

C. Adjusting the Monetary Policy Response and Maintaining Financial Stability

26. As policies to support the recovery move to the forefront, the central bank appropriately eased the monetary policy stance. In a context of well-anchored inflation expectations and a negative output gap, the central bank cut the policy rate by 75 basis points in August, bringing it to 3.75 percent. This adds to liquidity support measures taken since March.

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

- Responding to the more protracted impact of the pandemic and the unusually high uncertainty, they have temporarily adjusted some macroprudential buffers, including an extension of the timeframe during which banks can restructure loans without having to change credit classifications and build additional provisions from October to December 2020. The authorities are carefully monitoring these loans through a special classification. They have furthermore increased the period of arrears associated with the NPL classification from 90 to 120 days (effective until end-October 2020). Starting in 2021, the constitution of provisions will resume, once there is greater clarity on the impact of the pandemic on debtors' future repayment capacity. Staff welcomes that the extended day-count for the NPL classification was phased out and provisions will resume in January 2021, as they may prevent an accurate measurement of losses and capital shortfalls. The mandatory provision coverage ratio of related exposures was reduced from 110 to 100 percent (effective until end-December 2021).

- The government agreed with banks on a scheme to support further restructuring of SME and microcredit loans according to repayment capacity. The scheme is available to high quality borrowers that were current on their debt obligations before the pandemic and includes: rolling over debt service arrears accumulated during the grace period, without capitalizing interest; extension of loan maturities; and reductions in interest rates. For restructured loans with a new maturity above five years, a dedicated rediscount facility was created through second-tier public bank BANHPROVI, which will be financed by accumulated profits.

- The authorities are also implementing two credit guarantee schemes to support credit supply during the pandemic and the recovery, while maintaining financial stability. Contingent risks are limited through adequate credit quality thresholds for participation in the scheme and conservative assumptions of default rates underpinning the funds' capitalization. The two funds are financed with a loan from CABEI channeled through the central bank and managed by the second-tier public development bank BANHPROVI. To incentivize bank participation, the BCH temporarily reduced reserve requirements on national currency from 12 to 9 percent, while reintroducing temporary mandatory investments of 3 percent backed by new credits to SMEs supported by the guarantee scheme.

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

- As of end-September bank profitability has declined moderately relative to end-2019, while liquidity has been supported by the BCH's policy measures. In the context of temporary regulatory forbearance (see above), the authorities are closely monitoring the impact of the pandemic and indicate that most creditors have resumed debt service after the grace period. The authorities have also conducted stress tests and required supervised financial institutions to design gradual adjustment plans to be implemented by end-2021, in order to ensure sufficient buffers in case of higher than expected losses. They also continue to strengthen capacity in risk-based supervision and stress testing.

- Given risks to financial stability, the authorities are also further enhancing their crisis preparedness. The CNBS has a system of early warning indicators and the powers to request corrective action plans and it is enhancing the bank resolution framework, while the central bank is revising its emergency lending facility to simplify activation procedures. In addition, the Financial Stability Council allows coordination and exchange of information to prevent and monitor systemic financial risks.

29. The authorities continue to work on reforms to the monetary policy framework, including for the transition to inflation targeting. While the new central bank law was submitted to Congress last year, discussion was delayed as legislative priorities currently focus on managing the pandemic, but the authorities expect it to resume as soon as possible. Accounting for temporary heightened uncertainty, the authorities have extended the timeline for the gradual removal of the remaining 40 percent surrender requirement by just three months, for completion by June 2021.[7] To support the transition to a more flexible exchange rate, and building on recent technical assistance from the Fund, the authorities are working on: (i) adjusting FX intervention rules in preparation for the elimination of surrender requirements; (ii) regulations to support development of an FX derivative market; and (iii) continuing to develop the efficient operation of money markets, including fostering integration of existing electronic platforms to support a secondary securities market. Staff encouraged the authorities to continue with the liberalization of FX markets, including measures allowing exporters and importers to better cover their FX exposures.

[7] This refers to the requirement for banks to surrender FX purchased from their private sector customers to the BCH.

D. Advancing the Agenda on Governance

30. The authorities are progressing with reforms to strengthen fiscal governance. Several steps have been taken to improve the transparency of public purchases, in addition to those related to Covid-19 spending—including the submission of a new procurement law to Congress. The authorities continue to work on fully integrating the new procurement portal *Honducompras 2* with IFMIS (see paragraph 12). The new PPP regulations will also introduce a more rigorous cost-benefit analysis of projects.

31. To enhance governance, the authorities continue to strengthen the AML/CFT and anticorruption framework. With LEG and IDB support, the authorities have submitted to Congress draft legislation to create a comprehensive beneficial ownership registry and issued new regulations to reform public officials' asset declaration in line with international good practice (*both SBs for September 2020*). Staff encouraged the authorities to work with Congress towards approval of the draft legislation on beneficial ownership.

32. The authorities have taken important steps to improve the business environment. They submitted draft legislation to Congress requiring regulatory agencies to streamline and publicize requirement for obtaining permits and other administrative procedures (*Ley de Simplificación Administrativa*) and prepared a plan to implement electronic signatures.

PROGRAM ISSUES

33. Financing assurances and capacity to repay. Resilient remittances have supported the external position in 2020 and the sovereign bond placement was used to pay ENEE arrears to generators and debt of ENEE trust funds, leaving public debt unchanged—most of these payments will in turn be used to repay private external debt. In 2021, the planned additional bond placement compensates for a more conservative assumption on private capital flows. These financing plans could be adjusted to market conditions and changes in access to multilateral financing, and the program remains fully financed. The international reserve position, now closer to the upper bound of the reserve adequacy metric, provides a backstop for external financing needs, and the authorities will continue to seek financing at concessional terms from multilateral and bilateral creditors. Honduras is assessed as having a low risk of debt distress[8], and strong capacity to repay the Fund. While there is uncertainty about the outlook, at around 50 percent of GDP, Honduras' public debt is among the lowest in CAPDR and significantly lower than the Latin American average—EMBI spreads are lower than the average for emerging markets—and gross financing needs are projected to decline in 2022-23. Outstanding liabilities to the Fund represent about 1.1 percent of GDP and debt service payments to the Fund peak at 1.6 percent of exports in 2024, well before Eurobond-related bullet payments in 2027 and 2030, when debt service still remains low relative to exports.

[8] See IMF Country Report No. 20/186.

34. Safeguards assessment. The BCH is making progress in implementing the 2019 safeguards recommendations but faces some delays in a few areas. Draft amendments to the central bank law have been submitted to Congress (see paragraph 29). Furthermore, the BCH is in the process of hiring a consulting firm to assist in the IFRS adoption in the near term. The internal audit department will undergo an external quality review in the coming months and subsequently align its charter with international standards. Also, while the BCH identified an expert to assist the audit committee, the appointment process was put on hold amidst the pandemic. Staff will continue to monitor developments in these areas.

35. The authorities are requesting some modifications of performance criteria. A downward revision of NFPS' net lending target for December 2020 is proposed to allow for an adequate fiscal response to the more protracted impact of the pandemic, while ENEE's tighter net lending target for December 2020 reflects the positive impact of lower oil prices on generation costs. To reflect the repayment of historical arrears of ENEE, replacing the target on the accumulation of ENEE's domestic arrears with a target on the stock of ENEE's domestic arrears, to be set to zero starting in December 2020, is proposed. Monetary targets for December 2020 are proposed to be modified as well and account for the more resilient external position. The authorities are also requesting a waiver of non-observance of the end-June PC on domestic arrears on the basis of corrective actions (see paragraph 22).

36. The authorities request the extension of the SBA and SCF arrangements by four months to November 14, 2021 and a rephasing of the last availability date from June to August 2021. This will allow for additional time to complete the last review of the program and maintain the semi-annual review cycle, as well as for the technical work required to complete the new structural benchmarks incorporated for June 2021 to successfully achieve key program objectives.

STAFF APPRAISAL

37. Program performance remains strong. Despite challenges posed by the pandemic, the authorities have made significant progress on fiscal and governance reforms and met all but one of the quantitative performance criteria and all indicative targets. Extremely tight liquidity in ENEE has prompted higher than expected payment arrears, but decisive steps are being taken to correct this by year-end, including by paying historical arrears.

38. The authorities remain committed to the program and are implementing an adequate policy response. As the pandemic is having a strong and protracted impact, worsening the outlook, the authorities appropriately recalibrated their fiscal, monetary and financial policy response. They also remain committed to advance electricity sector reforms, persevere with tax administration and procurement reforms, and resume the revenue mobilization policy agenda. Monetary policy continues to be geared towards maintaining price stability and an adequate level of international reserves, now closer to the upper bound of the reserve metric, to buffer external shocks. Efforts continue to strengthen the monetary policy framework and support the transition towards a more flexible exchange rate.

39. The authorities are addressing implementation challenges and strengthening controls, while accelerating pandemic-related spending. While the policy response was appropriately designed, implementation challenges included delays and wrongdoing allegations. The authorities' efforts to set up a monitoring system of pandemic-related spending and civil society oversight helped identify irregularities promptly and paved the way for corrective actions. Staff welcomes the additional measures being taken to overcome implementation problems and strengthen controls, with FAD and IDB support. Accelerating health and social spending while improving controls is critical to mitigate the impact of the pandemic.

40. Despite pandemic-related challenges, the authorities remain committed to fiscal sustainability, strengthening tax administration and their revenue mobilization agenda. Their commitment to return to the 1 percent NFPS deficit ceiling in 2022, as required in the FRL, is an important signal to preserve fiscal credibility. Given the weaker fiscal stance for 2020 and 2021, the required consolidation in 2022 is challenging, though consistent with debt sustainability and achievable given the authorities' strong track record and commitment to the FRL. To strengthen tax administration, the authorities are working with Congress and engaging the private sector to achieve consensus on two measures under the program. They plan to streamline tax exemptions effective in 2022 and automate the recording of operations between companies under special regimes, both aimed at mobilizing revenue.

41. The authorities have taken important steps to strengthen the institutional framework and improve governance in ENEE, but further efforts are needed. Staff welcomes steps taken to improve the institutional framework and to clear historical arrears with generators. Further efforts are needed to improve ENEE's governance and financial situation, including reaching agreements with various stakeholders. Restarting the losses reduction strategy will be an important element to strengthen ENEE's financial position, creating space in the budget for much needed social and infrastructure spending.

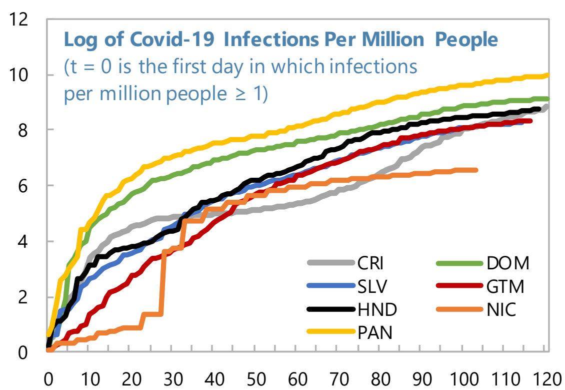
42. They are implementing regulatory and supervisory policies to preserve financial stability while sustaining economic activity. The authorities have appropriately taken measures to provide liquidity. They expressed an understanding that, going forward, credit support policies should adopt a prudent approach on regulation while encouraging loan restructurings, instrumental to maintain sound monitoring in the financial sector. They stand ready to take actions as needed to address potential liquidity or solvency issues and continue to enhance their crisis preparedness, including an intensified oversight of banks and their credit portfolios.

43. 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 regulations to reform public officials' asset declaration, draft legislation to create a comprehensive beneficial ownership registry, and measures to guarantee and strengthen transparency and accountability of pandemic-related spending and procurement.

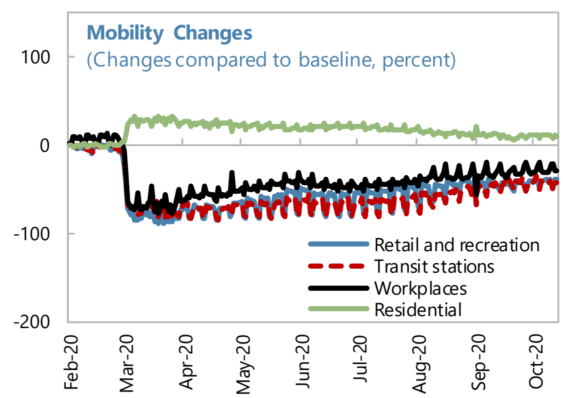
44. Staff recommends completion of the third reviews under the SBA and SCF arrangements and supports the requests for extension, rephasing and waiver of non-observance for a performance criterion. Staff supports the authorities' request for a waiver of non-observance for the end-June PC on domestic arrears, based on corrective actions. Furthermore, staff supports the authorities' request to modify the performance criteria on NFPS' and ENEE's net lending targets, NIR and NDA, as well as to move to a target on the stock of ENEE's domestic arrears.

Figure 1. Honduras: Real Sector Developments

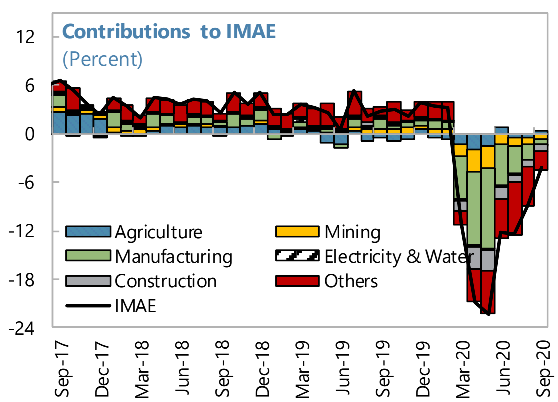
The number of Covid-19 cases continues to increase, as in other Central American countries…



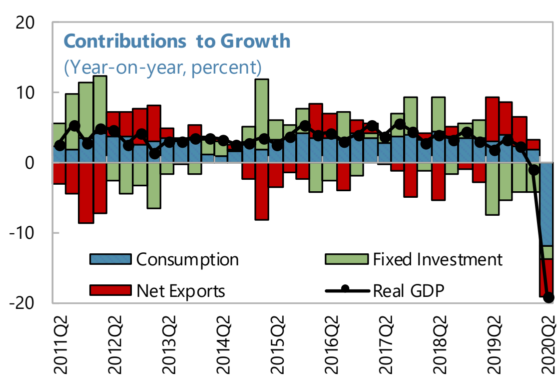
… while mobility remains constrained by the extended lockdown.



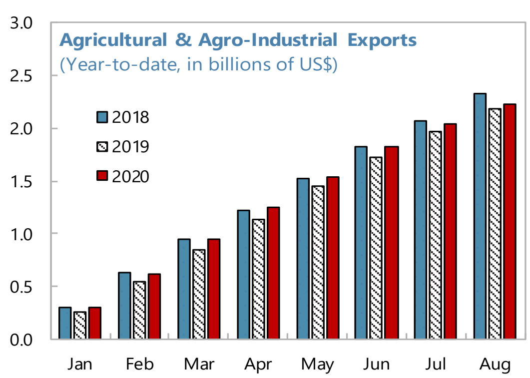
Economic activity decelerated sharply in the first half of 2020, across most sectors…



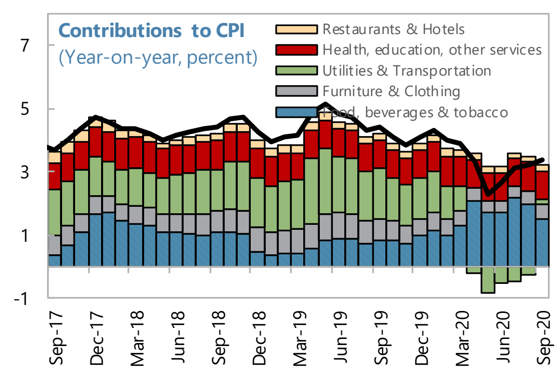
… as investment continued to decline and consumption contracted sharply.



At the same time, agricultural and agro-industrial exports have held up relatively well.



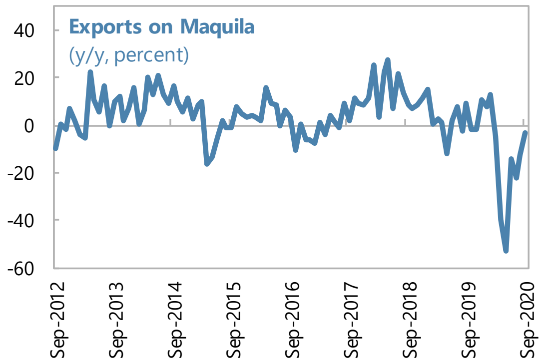
While remaining subdued, inflation has accelerated recently, driven mainly by food prices.



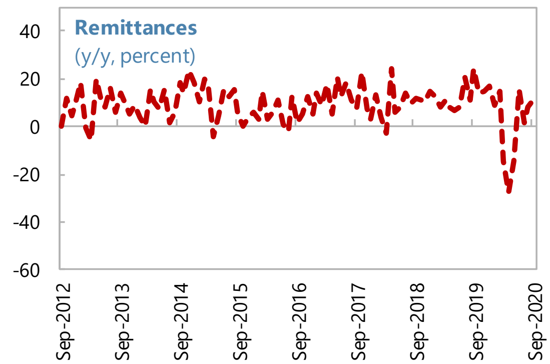
Sources: Johns Hopkins University CSSE, Google COVID-19 Mobility Reports, Central Bank of Honduras and IMF staff estimates.

Figure 2. Honduras: External Sector Developments

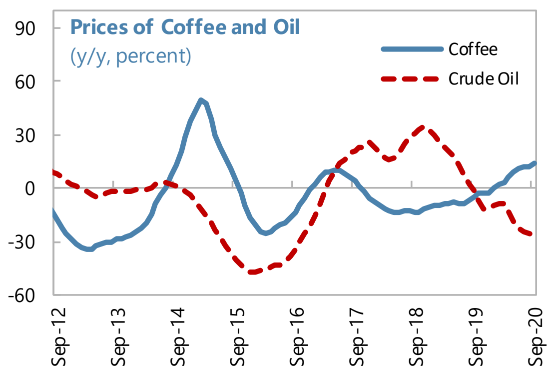
Maquila, a key export sector, has been hit hard but is starting to recover gradually.



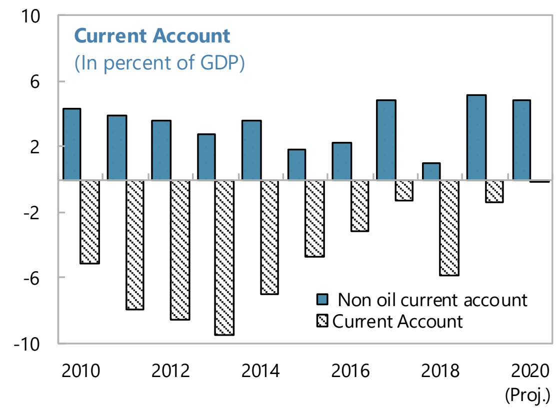
At the same time, remittances are rebounding, in line with regional developments.



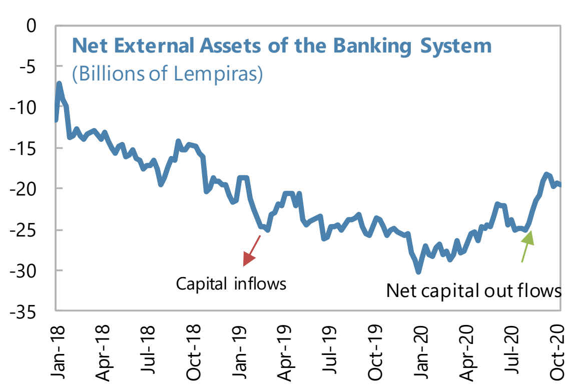
Together with improved terms of trade from lower oil prices and higher coffee prices…



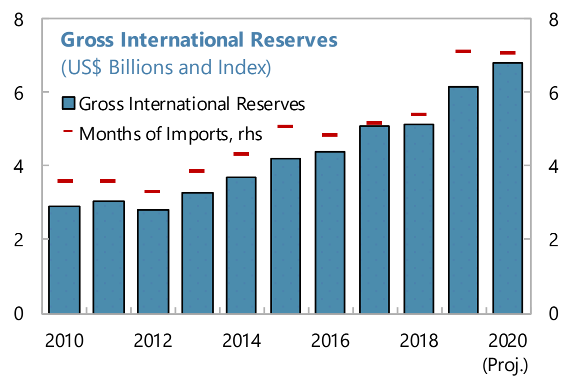
…they are projected to buffer the impact on the current account.



Even with higher capital outflows…



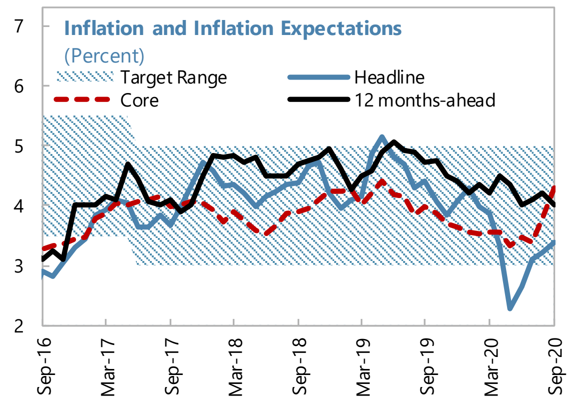
… some reserve accumulation is projected.



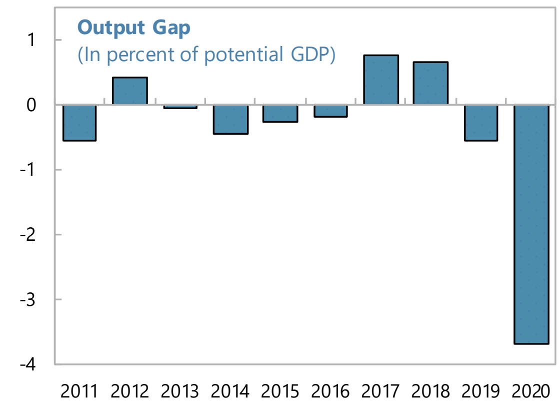
Sources: Central Bank of Honduras, Haver Analytics, and IMF staff estimates and projections.

Figure 3. Honduras: Monetary Sector Developments

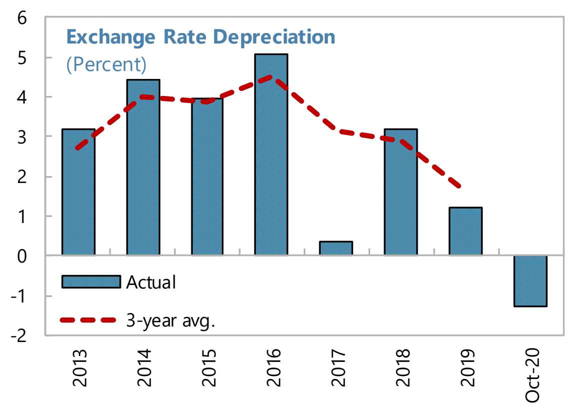
With subdued core inflation and inflation expectations…



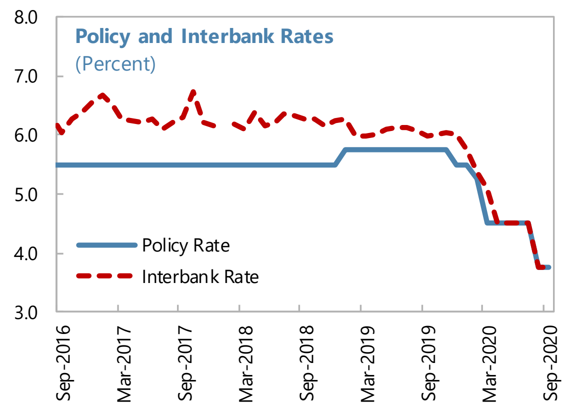
…a large negative output gap….



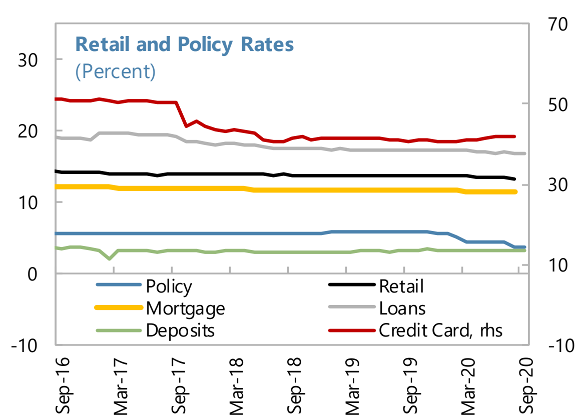
…and a modest exchange rate appreciation ….



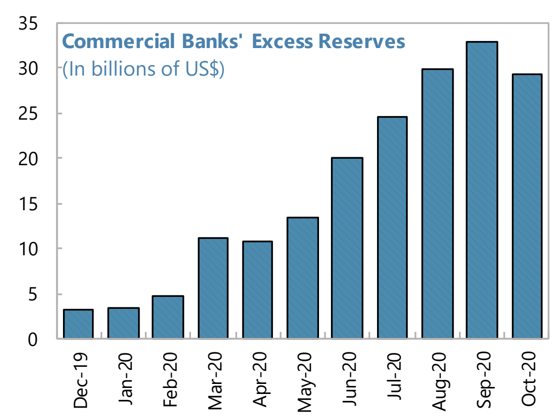
…the monetary policy stance is accommodative.



The pass-through to retail interest rates is still limited.

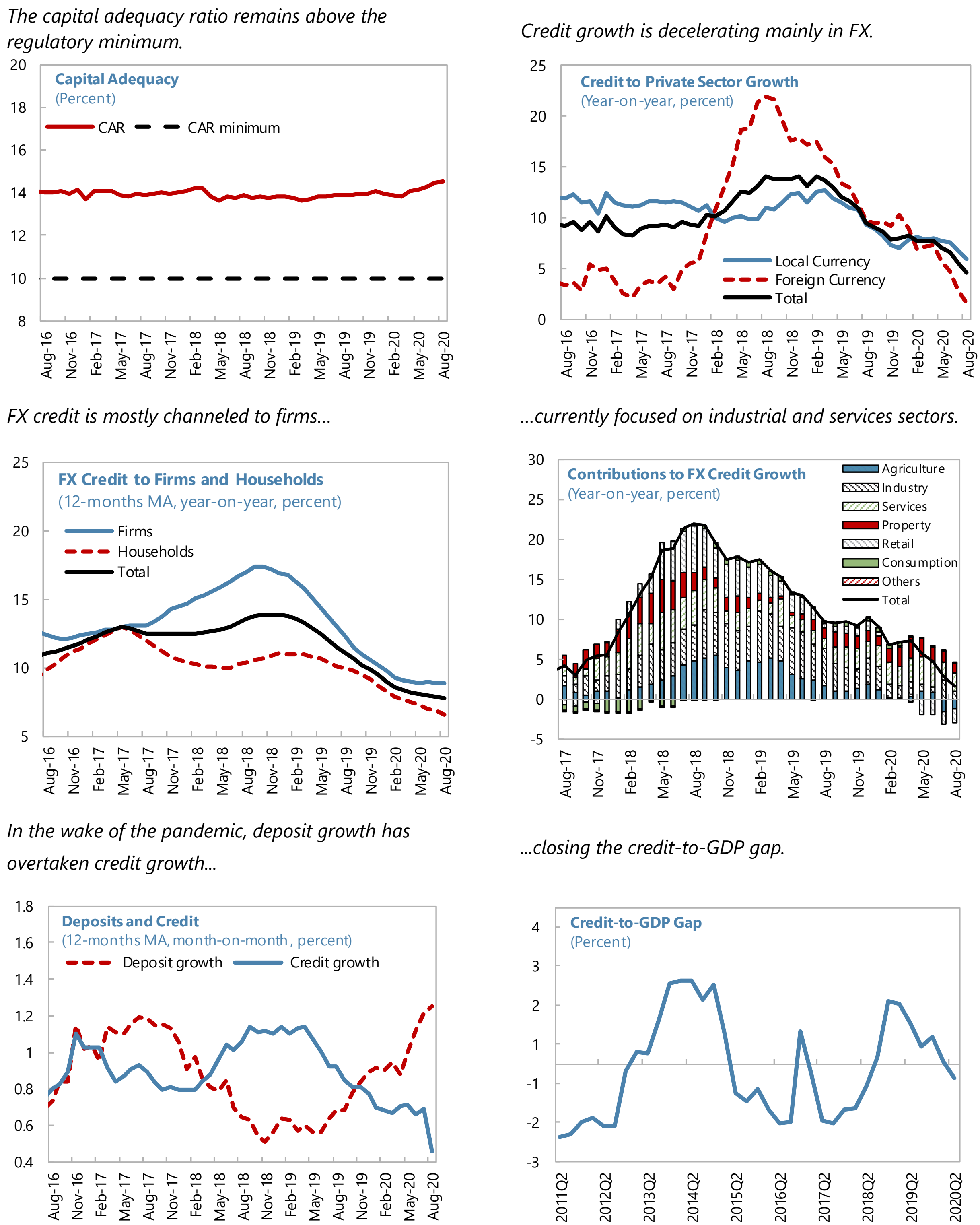


Central bank policy measures have supported liquidity in the banking system since the start of the pandemic.



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

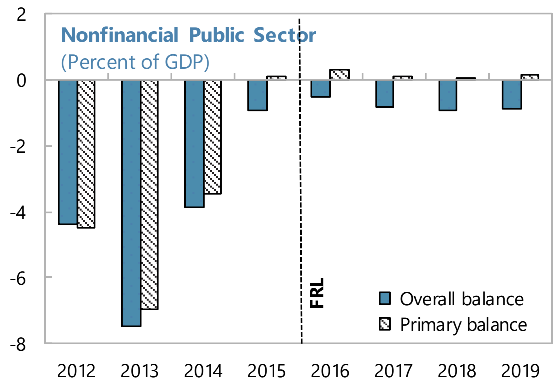
Figure 4. Honduras: Financial Sector Developments



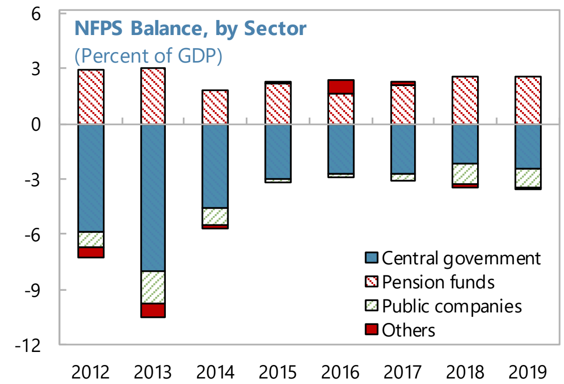
Sources: Central Bank of Honduras and IMF staff estimates and projections.

Figure 5. Honduras: Public Finances

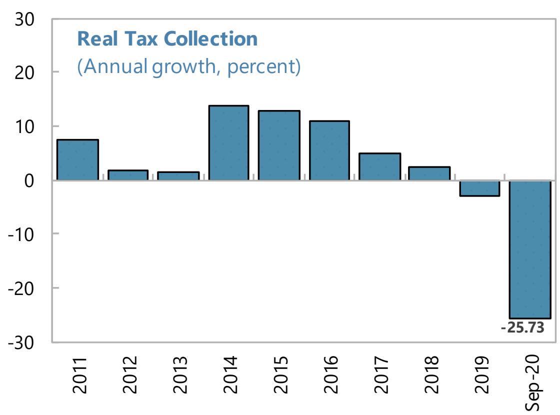
In 2019, the NFPS deficit remained below the FRL ceiling...



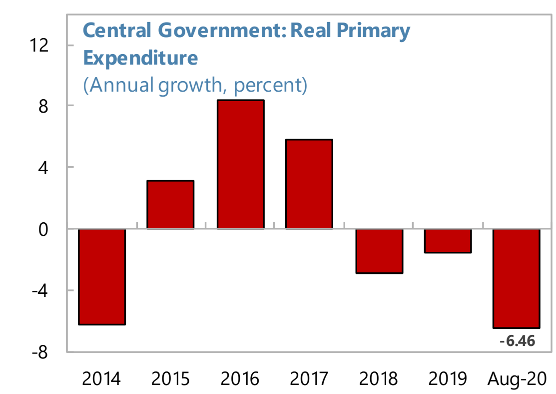
... with a slight improvement in ENEE's balance.



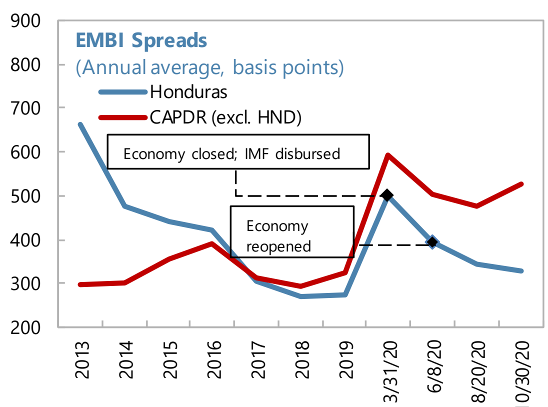
Tax collection is contracting sharply...



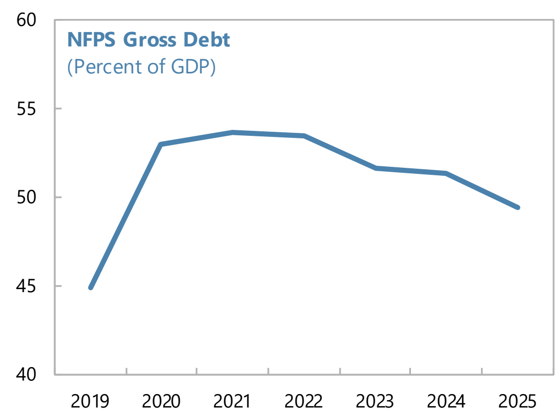
... while spending remained in check.



The authorities' commitment to fiscal sustainability has contributed to a decline in debt spreads.



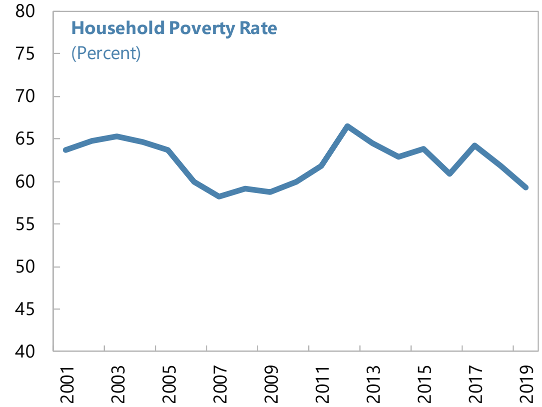
Notwithstanding weaker fiscal balances in 2020-21, debt is projected to decline over the medium term.



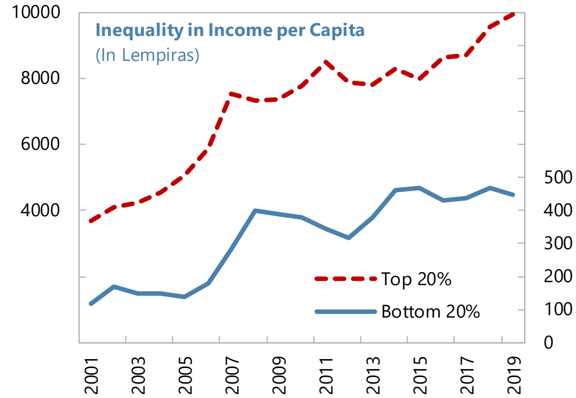
Sources: Ministry of Finance and IMF staff estimates and projections.

Figure 6. Honduras: Social Conditions

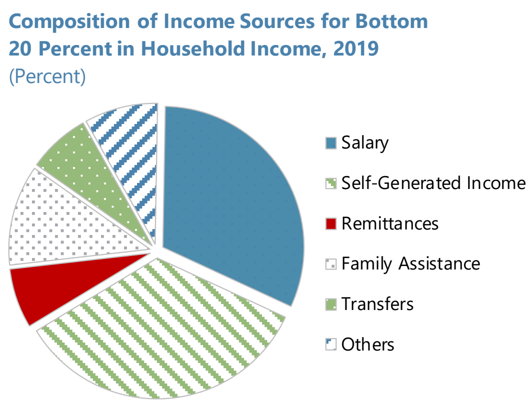
The income measure of poverty has been stable at about 60 percent of households for more than 20 years …



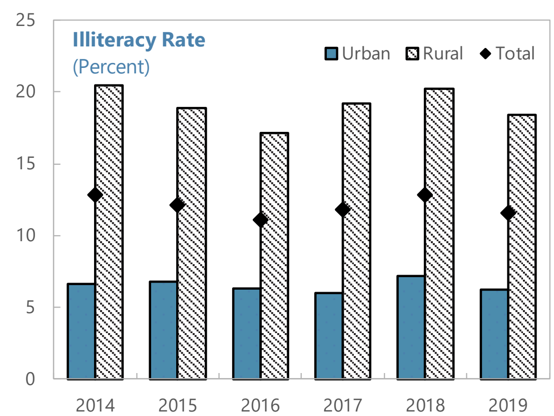
… while income inequality has increased.



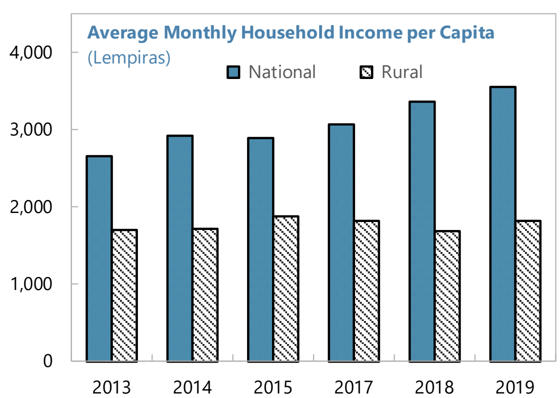
Transfers are an important component of poor households' income.



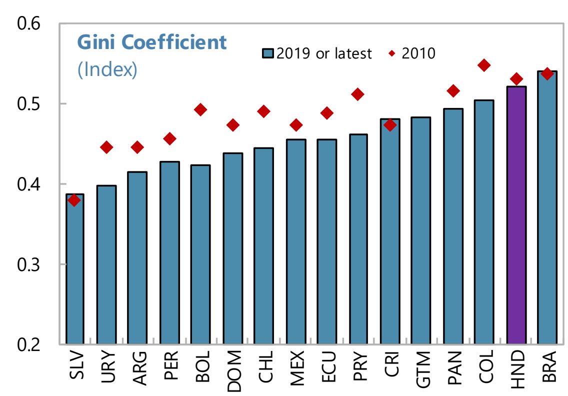
Illiteracy rates are high, particularly in rural areas.



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



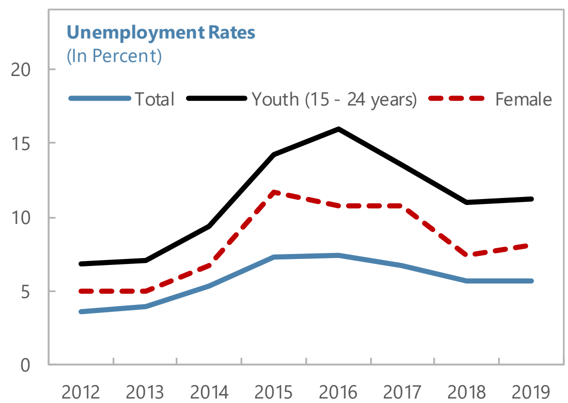
… while the Gini index remains high.



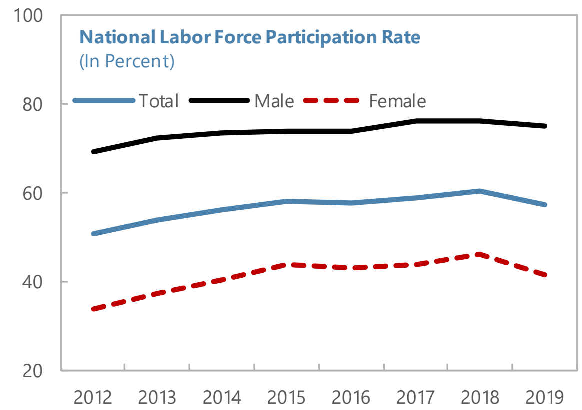
Sources: Honduras' National Institute of Statistics (INE), and IMF staff calculations.

Figure 7. Honduras: Labor Market Developments

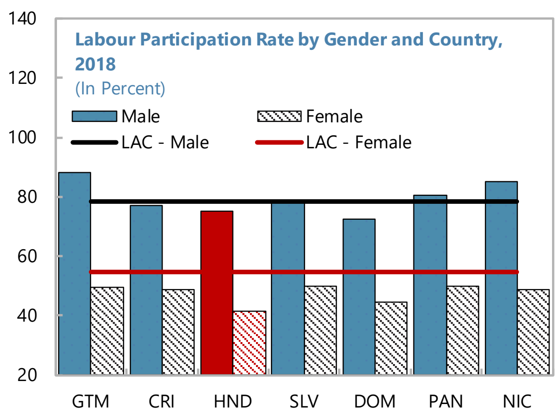
Unemployment rates have declined.



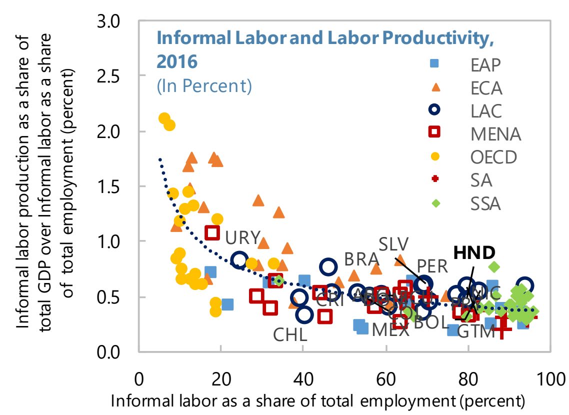
Labor force participation continues to rise steadily while the gender gap is declining.



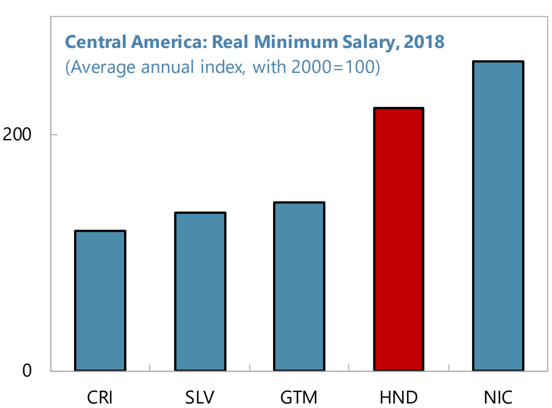
However, female labor force participation remains one of the lowest in the region and below the LAC average.



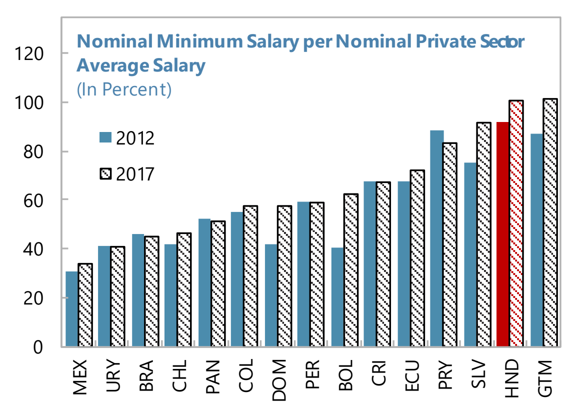
Informality is one of the largest in LAC, being a drag on productivity and competitiveness.



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)	50
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**	**-7.0**	**4.9**	**3.3**	**3.5**	**3.6**	**3.7**
Domestic demand	2.3	6.1	4.7	-0.6	-4.8	7.3	2.9	4.2	4.7	4.7
Consumption	3.5	3.6	3.7	3.2	-1.0	3.4	1.3	2.1	2.6	4.0
Private	3.0	3.4	3.5	3.0	-0.8	2.4	1.7	1.6	2.1	3.4
Public	0.6	0.2	0.3	0.1	-0.2	1.0	-0.4	0.5	0.5	0.5
Investment	-1.6	2.2	1.2	-1.2	-4.3	5.4	0.7	2.0	1.7	1.0
Private	-2.2	1.5	1.2	-1.0	-4.0	5.0	0.6	1.8	1.5	0.6
Public	0.6	0.7	0.0	-0.2	-0.4	0.4	0.1	0.2	0.2	0.3
Net exports	1.6	-1.3	-1.0	3.2	-2.1	-2.4	0.4	-0.8	-1.0	-0.9
Exports	0.5	3.4	0.4	1.2	-7.5	3.3	4.1	4.0	4.0	4.1
Imports	-1.1	4.7	1.4	-2.0	-5.5	5.7	3.6	4.8	5.0	5.0
Prices (annual percentage change)										
GDP deflator	3.7	4.5	1.9	4.3	4.3	5.9	4.3	4.6	4.8	5.0
Consumer prices (eop)	3.3	4.7	4.2	4.1	3.7	4.2	4.0	4.0	4.0	4.0
Consumer prices (average)	2.7	3.9	4.3	4.4	3.5	4.0	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**	**17.5**	**21.3**	**22.2**	**24.5**	**26.1**	**26.8**
Private sector	20.2	20.9	22.0	18.7	14.2	17.7	18.6	20.7	22.3	22.8
Public sector	3.2	4.0	3.9	3.6	3.4	3.6	3.6	3.7	3.8	4.0
Gross national savings	**20.2**	**23.6**	**20.1**	**20.9**	**17.3**	**18.7**	**19.6**	**21.0**	**22.3**	**22.9**
Private sector	17.6	20.1	16.7	18.0	18.9	18.8	17.0	18.3	19.4	19.7
Public sector	2.6	3.5	3.3	2.9	-1.5	-0.1	2.7	2.8	3.0	3.3
Nonfinancial public sector (percent of GDP)										
Primary balance	0.3	0.1	0.0	0.2	-3.8	-2.5	0.4	0.5	0.6	0.4
Overall balance	-0.5	-0.8	-0.9	-0.9	-5.0	-3.8	-1.0	-1.0	-1.0	-0.9
Gross debt	40.1	40.1	42.2	44.9	52.9	53.7	53.4	51.6	51.3	49.3
Balance of payments										
External current account balance (percent of GDP)	-3.1	-1.2	-5.9	-1.4	-0.3	-2.6	-2.7	-3.4	-3.8	-4.0
Exports, f.o.b. (annual percentage change)	-2.5	8.4	-2.7	1.8	-10.9	9.8	8.7	8.9	9.3	9.4
Imports, f.o.b. (annual percentage change)	-5.7	7.6	8.3	-4.6	-7.9	11.7	7.4	8.3	9.0	8.4
Worker's Remittances (percent of GDP)	17.7	18.6	19.8	21.6	22.5	21.0	20.2	19.3	18.9	18.6
Net International Reserves (millions of dollars) 1/	3,888	4,786	4,853	5,809	6,459	6,749	7,099	7,499	7,899	8,339
GIR (In months of imports) 2/	4.8	5.2	5.4	7.1	7.1	6.9	6.7	6.5	6.3	6.2
M1 to Net International Reserves (ratio)	1.6	1.7	1.7	1.7	1.8	1.7	1.7	1.7	1.6	1.6
Terms of Trade (annual percent change)	5.1	-2.3	-6.1	-0.3	10.2	-0.4	-0.4	-0.4	-0.5	-0.4
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	11.1	7.3	6.9	7.2	6.8	6.8
Private sector credit (percentage change)	12.9	9.3	14.3	8.8	4.5	6.6	6.8	7.2	7.1	7.1
Private Credit (percent of GDP)	56.6	56.5	61.1	61.9	66.7	63.9	63.4	62.8	62.0	60.9
Bank Assets (percent of GDP)	97.8	97.5	105.4	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 millions of Lempiras)

	Actual		Prelim.	Program	Proj.	Program	Proj.	Projections			
	2017	2018	2019	2020		2021		2022	2023	2024	2025
Revenue	**110,175**	**116,186**	**117,898**	**107,589**	**95,200**	**126,846**	**116,550**	**134,406**	**145,763**	**159,481**	**174,770**
Taxes	99,226	105,996	107,446	97,216	84,238	115,615	104,376	121,957	132,484	145,275	159,529
Taxes on income	33,390	36,330	34,856	30,348	24,799	33,665	29,080	34,379	37,199	41,221	45,807
Taxes on property	344	435	446	388	283	430	413	489	529	586	651
Taxes on goods and services	58,703	62,011	64,927	59,797	53,522	73,021	67,242	78,184	85,124	92,991	101,668
Taxes on foreign trade	4,244	4,485	4,474	3,918	3,247	5,430	4,740	5,781	6,252	6,807	7,405
Other taxes	2,545	2,735	2,743	2,766	2,387	3,068	2,900	3,124	3,380	3,671	3,999
Social contributions	0	0	0	0	0	0	0	0	0	0	0
Grants	3,311	4,105	4,175	3,826	3,826	4,139	3,508	4,215	4,484	4,785	5,213
Other revenue	7,638	6,085	6,277	6,547	7,137	7,092	8,666	8,234	8,795	9,421	10,028
Expenditure	**124,886**	**128,517**	**133,104**	**145,335**	**132,042**	**160,884**	**151,625**	**157,865**	**170,193**	**183,823**	**201,193**
Expense	**109,700**	**114,522**	**120,738**	**131,825**	**120,435**	**142,604**	**138,429**	**141,661**	**152,309**	**163,821**	**177,661**
Compensation of employees	45,908	47,615	50,947	53,364	51,374	57,943	56,998	59,393	64,266	69,785	76,021
Purchases of goods and services 1/	14,776	12,430	16,231	20,272	16,491	20,694	19,747	17,862	19,327	20,987	22,863
Interest	14,872	17,173	17,404	19,068	19,677	22,541	22,785	24,436	25,481	27,095	28,796
Domestic	9,468	11,000	11,276	12,136	12,839	14,711	15,345	16,611	17,717	19,970	21,664
Foreign	5,404	6,173	6,128	6,932	6,838	7,830	7,440	7,825	7,763	7,125	7,131
Subsidies	160	1,231	250	1,278	1,262	1,318	308	321	334	347	361
Grants	13,849	14,358	15,158	14,201	12,746	16,916	14,958	16,111	17,433	18,930	20,621
Current	8,250	9,438	9,808	8,901	7,950	11,037	8,369	9,014	9,753	10,591	11,537
Capital	5,599	4,920	5,350	5,300	4,797	5,879	6,589	7,097	7,679	8,339	9,084
Social benefits	10,435	9,062	8,670	10,295	8,215	11,382	9,986	12,146	13,143	14,971	16,247
Other expense	9,699	12,653	12,078	13,348	10,669	11,810	13,647	11,392	12,326	11,706	12,752
Current	1,010	1,074	1,707	1,469	1,394	1,085	1,210	1,304	1,411	1,532	1,669
Capital	8,689	11,578	10,371	11,878	9,275	10,725	12,436	10,088	10,916	10,174	11,083
Net acquisition of nonfinancial assets	**15,186**	**13,995**	**12,366**	**13,510**	**11,607**	**18,280**	**13,196**	**16,204**	**17,884**	**20,002**	**23,533**
Gross Operating Balance	**475**	**1,663**	**-2,840**	**-24,236**	**-25,235**	**-15,758**	**-21,879**	**-7,255**	**-6,546**	**-4,340**	**-2,890**
Net lending (+)/borrowing (-)	**-14,711**	**-12,332**	**-15,206**	**-37,746**	**-36,841**	**-34,038**	**-35,075**	**-23,459**	**-24,430**	**-24,342**	**-26,423**
Net financial transactions	**-14,711**	**-12,332**	**-15,206**	**-37,746**	**-36,841**	**-34,038**	**-35,075**	**-23,459**	**-24,430**	**-24,342**	**-26,423**
Net acquisition of financial assets	**13,904**	**6,357**	**222**	**-3,152**	**18,754**	**-1,173**	**-272**	**2,928**	**406**	**3,530**	**2,959**
Foreign	0	0	0	2,500	0	1,875	0	0	0	0	0
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	2,500	0	1,875	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0
Domestic	13,904	6,357	222	-5,652	18,754	-3,048	-272	2,928	406	3,530	2,959
Currency and deposits	13,904	6,357	222	-5,652	754	-3,048	-2,772	428	406	3,530	2,959
Debt securities	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	18,000	0	2,500	2,500	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**28,616**	**18,689**	**15,428**	**34,594**	**55,596**	**32,865**	**34,803**	**26,387**	**24,836**	**27,872**	**29,382**
Foreign	19,791	5,162	9,062	8,007	21,156	14,592	27,668	4,552	601	-8,559	-10,153
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	19,834	5,244	9,139	8,172	21,320	14,778	27,851	4,735	784	-8,376	-9,969
Disbursment	25,845	10,813	15,152	27,669	40,553	22,626	35,509	17,401	15,001	9,320	10,200
Amorizations	-6,011	-5,569	-6,013	-19,497	-19,233	-7,848	-7,659	-12,666	-14,216	-17,696	-20,170
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 2/	173	153	178	111	110	112	110	110	110	110	110
Other external	-217	-234	-256	-276	-274	-298	-293	-293	-293	-293	-293
Domestic	8,825	13,526	6,366	26,587	34,439	18,273	7,136	21,835	24,235	36,431	39,535
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	6,602	12,084	9,574	22,656	33,511	21,398	9,407	23,147	25,706	37,755	40,752
o/w IMF disbursements 3/	0	0	0	11,550	11,550	1,700	1,700	0	0	0	0
Other accounts payable	1,527	606	-2,771	3,698	2,000	-1,600	-2,000	0	0	0	0
PPPs/other	2,774	3,210	1,890	2,664	1,163	995	1,913	936	767	803	803
Adjustment for HIPC debt relief 4/	-2,077	-2,373	-2,326	-2,432	-2,235	-2,521	-2,185	-2,248	-2,238	-2,126	-2,020
Memorandum items:											
Net lending minus interest payments	161	4,842	2,198	-18,678	-17,164	-11,497	-12,291	977	1,051	2,753	2,373
Priority social spending	...	...	6,375	7,309	7,309	7,967	7,967	8,582	10,050	10,913	12,803
Nominal GDP (in billions of Lempiras)	543	573	615	622	597	690	663	714	773	839	915

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 Central Government
(In percent of GDP)

	Actual		Prelim.	Program	Proj.	Program	Proj.	Projections			
	2017	2018	2019	2020		2021		2022	2023	2024	2025
Revenue	**20.3**	**20.3**	**19.2**	**17.3**	**16.0**	**18.4**	**17.6**	**18.8**	**18.9**	**19.0**	**19.1**
Taxes	18.3	18.5	17.5	15.6	14.1	16.8	15.7	17.1	17.1	17.3	17.4
Taxes on income	6.2	6.3	5.7	4.9	4.2	4.9	4.4	4.8	4.8	4.9	5.0
Taxes on property	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.8	10.8	10.6	9.6	9.0	10.6	10.1	10.9	11.0	11.1	11.1
Taxes on foreign trade	0.8	0.8	0.7	0.6	0.5	0.8	0.7	0.8	0.8	0.8	0.8
Other taxes	0.5	0.5	0.4	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	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6
Other revenue	1.4	1.1	1.0	1.1	1.2	1.0	1.3	1.2	1.1	1.1	1.1
Expenditure	**23.0**	**22.4**	**21.6**	**23.4**	**22.1**	**23.3**	**22.9**	**22.1**	**22.0**	**21.9**	**22.0**
Expense	**20.2**	**20.0**	**19.6**	**21.2**	**20.2**	**20.7**	**20.9**	**19.8**	**19.7**	**19.5**	**19.4**
Compensation of employees	8.5	8.3	8.3	8.6	8.6	8.4	8.6	8.3	8.3	8.3	8.3
Purchases of goods and services 1/	2.7	2.2	2.6	3.3	2.8	3.0	3.0	2.5	2.5	2.5	2.5
Interest	2.7	3.0	2.8	3.1	3.3	3.3	3.4	3.4	3.3	3.2	3.1
Domestic	1.7	1.9	1.8	2.0	2.2	2.1	2.3	2.3	2.3	2.4	2.4
Foreign	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.0	0.8	0.8
Subsidies	0.0	0.2	0.0	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Grants	2.6	2.5	2.5	2.3	2.1	2.5	2.3	2.3	2.3	2.3	2.3
Current	1.5	1.6	1.6	1.4	1.3	1.6	1.3	1.3	1.3	1.3	1.3
Capital	1.0	0.9	0.9	0.9	0.8	0.9	1.0	1.0	1.0	1.0	1.0
Social benefits	1.9	1.6	1.4	1.7	1.4	1.7	1.5	1.7	1.7	1.8	1.8
Other expense	1.8	2.2	2.0	2.1	1.8	1.7	2.1	1.6	1.6	1.4	1.4
Current	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital	1.6	2.0	1.7	1.9	1.6	1.6	1.9	1.4	1.4	1.2	1.2
Net acquisition of nonfinancial assets	**2.8**	**2.4**	**2.0**	**2.2**	**1.9**	**2.7**	**2.0**	**2.3**	**2.3**	**2.4**	**2.6**
Gross Operating Balance	**0.1**	**0.3**	**-0.5**	**-3.9**	**-4.2**	**-2.3**	**-3.3**	**-1.0**	**-0.8**	**-0.5**	**-0.3**
Net lending (+)/borrowing (-)	**-2.7**	**-2.2**	**-2.5**	**-6.1**	**-6.2**	**-4.9**	**-5.3**	**-3.3**	**-3.2**	**-2.9**	**-2.9**
Net financial transactions	**-2.7**	**-2.2**	**-2.5**	**-6.1**	**-6.2**	**-4.9**	**-5.3**	**-3.3**	**-3.2**	**-2.9**	**-2.9**
Net acquisition of financial assets	**2.6**	**1.1**	**0.0**	**-0.5**	**3.1**	**-0.2**	**0.0**	**0.4**	**0.1**	**0.4**	**0.3**
Foreign	0.0	0.0	0.0	0.4	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.4	0.0	0.3	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	2.6	1.1	0.0	-0.9	3.1	-0.4	0.0	0.4	0.1	0.4	0.3
Currency and deposits	2.6	1.1	0.0	-0.9	0.1	-0.4	-0.4	0.1	0.1	0.4	0.3
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	3.0	0.0	0.4	0.3	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**	**2.5**	**5.6**	**9.3**	**4.8**	**5.2**	**3.7**	**3.2**	**3.3**	**3.2**
Foreign	3.6	0.9	1.5	1.3	3.5	2.1	4.2	0.6	0.1	-1.0	-1.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	3.7	0.9	1.5	1.3	3.6	2.1	4.2	0.7	0.1	-1.0	-1.1
Disbursment	4.8	1.9	2.5	4.4	6.8	3.3	5.4	2.4	1.9	1.1	1.1
Amorizations	-1.1	-1.0	-1.0	-3.1	-3.2	-1.1	-1.2	-1.8	-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	1.0	4.3	5.8	2.6	1.1	3.1	3.1	4.3	4.3
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	1.6	3.6	5.6	3.1	1.4	3.2	3.3	4.5	4.5
o/w IMF disbursements 3/	*0.0*	*0.0*	*0.0*	*1.9*	*1.9*	*0.2*	*0.3*	*0.0*	*0.0*	*0.0*	*0.0*
Other accounts payable	0.3	0.1	-0.5	0.6	0.3	-0.2	-0.3	0.0	0.0	0.0	0.0
PPPs/other	0.5	0.6	0.3	0.4	0.2	0.1	0.3	0.1	0.1	0.1	0.1
Adjustment for HIPC debt relief 4/	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2
Memorandum items:											
Net lending minus interest payments	0.0	0.8	0.4	-3.0	-2.9	-1.7	-1.9	0.1	0.1	0.3	0.3
Priority social spending		...	1.0	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.4
Nominal GDP (in billions of Lempiras)	543	573	615	622	597	690	663	714	773	839	915

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 4. Honduras: Statement of Operations of the Nonfinancial Public Sector

(In millions of Lempiras)

	Actual		Prelim.	Program	Proj.	Program	Proj.	Projections			
	2017	2018	2019	2020		2021		2022	2023	2024	2025
Revenue	**172,831**	**180,376**	**191,840**	**183,248**	**165,577**	**211,047**	**194,919**	**224,324**	**243,562**	**267,788**	**292,927**
Taxes	101,326	108,453	112,648	102,443	88,465	121,637	108,749	127,442	138,419	151,721	166,551
Taxes on income	33,390	36,330	34,856	30,348	24,799	33,665	29,080	34,379	37,199	41,221	45,807
Taxes on property	344	435	446	388	283	430	413	489	529	586	651
Taxes on goods and services	58,703	62,011	64,927	59,797	53,522	73,021	67,242	78,184	85,124	92,991	101,668
Taxes on foreign trade	4,244	4,485	4,474	3,918	3,247	5,430	4,740	5,781	6,252	6,807	7,405
Other taxes	4,645	5,193	7,945	7,993	6,614	9,090	7,274	8,610	9,316	10,116	11,020
Social contributions	17,911	19,302	21,068	22,903	20,969	25,406	23,435	25,242	27,313	29,659	32,309
Grants	3,332	4,105	4,175	3,826	3,826	4,514	3,508	4,661	3,940	4,252	5,213
Other revenue	50,262	48,516	53,950	54,077	52,317	59,490	59,227	66,979	73,889	82,156	88,854
Expenditure	**177,202**	**185,814**	**197,116**	**208,248**	**195,594**	**231,460**	**220,274**	**231,780**	**251,509**	**276,089**	**301,127**
Expense	**153,223**	**160,723**	**173,849**	**184,162**	**174,653**	**201,102**	**195,372**	**205,032**	**221,630**	**242,834**	**262,872**
Compensation of employees	60,828	64,585	69,428	73,431	71,539	79,500	76,906	81,366	85,798	92,626	100,294
Purchases of goods and services	45,119	47,124	53,592	53,839	50,452	58,066	56,781	59,163	66,693	73,629	80,246
Interest	13,083	13,753	13,901	17,318	17,335	21,312	20,386	23,189	25,209	28,176	27,871
Domestic	7,444	7,163	7,345	10,010	10,059	13,700	12,501	15,908	17,978	21,051	20,740
Foreign	5,639	6,590	6,556	7,307	7,276	7,611	7,885	7,281	7,230	7,125	7,131
Subsidies	8	791	313	56	130	0	28	0	0	0	0
Social benefits	22,378	21,244	23,390	26,495	24,292	27,247	28,348	28,579	30,924	34,279	38,195
Other expense	11,808	13,226	13,225	13,024	10,906	14,977	12,922	12,735	13,007	14,124	16,266
Current	1,864	1,532	2,532	1,972	1,814	1,181	1,749	1,304	1,411	1,532	2,183
Capital	9,944	11,694	10,693	11,052	9,092	13,796	11,173	11,432	11,596	12,592	14,083
Net acquisition of nonfinancial assets	**23,979**	**25,091**	**23,267**	**24,086**	**20,941**	**30,358**	**24,902**	**26,748**	**29,878**	**33,255**	**38,255**
Gross Operating Balance	**19,608**	**19,654**	**17,992**	**-914**	**-9,076**	**9,945**	**-453**	**19,292**	**21,931**	**24,954**	**30,054**
Net lending (+)/borrowing (-)	**-4,370**	**-5,438**	**-5,276**	**-25,000**	**-30,017**	**-20,413**	**-25,355**	**-7,456**	**-7,947**	**-8,301**	**-8,201**
Net financial transactions	**-4,370**	**-5,438**	**-5,276**	**-25,000**	**-30,017**	**-20,413**	**-25,355**	**-7,456**	**-7,947**	**-8,301**	**-8,201**
Net acquisition of financial assets	**2,142**	**10,805**	**9,825**	**7,663**	**15,360**	**6,939**	**8,744**	**13,943**	**8,965**	**17,228**	**27,272**
Foreign	0	750	1,019	0	0	0	0	0	0	0	0
Currency and deposits	0	750	1,019	0	0	0	0	0	0	0	0
Loans	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
Domestic	2,142	10,055	8,807	7,663	15,360	6,939	8,744	13,943	8,965	17,228	27,272
Currency and deposits	897	9,203	8,207	4,363	9,560	4,364	5,644	10,943	8,565	16,928	27,072
Debt securities	0	0	0	0	0	0	0	0	0	0	0
Loans	1,245	852	600	3,300	3,300	2,575	3,100	3,000	400	300	200
Other accounts receivable	0	0	0	0	2,500	0	0	0	0	0	0
Net incurrence of liabilities	**6,512**	**16,243**	**15,101**	**32,663**	**45,377**	**27,352**	**34,099**	**21,399**	**16,912**	**25,529**	**35,473**
Foreign	20,475	6,334	8,835	8,007	21,157	14,592	27,668	4,552	601	-8,559	-10,153
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	20,519	6,395	8,912	8,172	21,320	14,778	27,851	4,735	784	-8,376	-9,969
Disbursment	26,566	11,994	15,695	27,669	40,553	22,626	35,509	17,401	15,001	9,320	10,200
Amorizations	-6,047	-5,599	-6,783	-19,497	-19,233	-7,848	-7,659	-12,666	-14,216	-17,696	-20,170
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/	173	173	178	111	111	112	110	110	110	110	110
Other external	-217	-234	-256	-276	-274	-298	-293	-293	-293	-293	-293
Domestic	-11,886	12,281	8,593	27,088	26,455	15,281	8,616	19,095	18,549	36,214	47,645
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	-3,829	8,655	8,249	21,726	38,059	13,290	8,703	18,159	17,782	35,412	46,843
o/w IMF disbursements 2/	0	0	0	11,550	11,550	1,700	1,700	0	0	0	0
Other accounts payable	-8,932	1,663	-5,047	2,698	-13,000	0	-2,000	0	0	0	0
PPPs/other	876	1,963	5,390	2,664	1,396	1,991	1,913	936	767	803	803
Adjustment for HIPC debt relief 3/	-2,077	-2,373	-2,326	-2,432	-2,235	-2,521	-2,185	-2,248	-2,238	-2,126	-2,020
Memorandum items:											
Net lending minus net interest payments	457	119	974	-18,450	-22,696	-10,449	-16,597	3,207	3,709	5,157	3,638
Gross total debt	217,685	241,957	276,113	297,398	315,698	350,840	355,908	381,436	399,050	431,026	451,288
Nominal GDP (in billions of Lempiras)	543	573	615	622	597	690	663	714	773	839	915

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 5. Honduras: Statement of Operations of the Nonfinancial Public Sector

(In percent of GDP)

	Actual		Prelim.	Program	Proj.	Program	Proj.	Projections			
	2017	2018	2019	2020		2021		2022	2023	2024	2025
Revenue	**31.9**	**31.5**	**31.2**	**29.5**	**27.7**	**30.6**	**29.4**	**31.4**	**31.5**	**31.9**	**32.0**
Taxes	18.7	18.9	18.3	16.5	14.8	17.6	16.4	17.8	17.9	18.1	18.2
Taxes on income	6.2	6.3	5.7	4.9	4.2	4.9	4.4	4.8	4.8	4.9	5.0
Taxes on property	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.8	10.8	10.6	9.6	9.0	10.6	10.1	10.9	11.0	11.1	11.1
Taxes on foreign trade	0.8	0.8	0.7	0.6	0.5	0.8	0.7	0.8	0.8	0.8	0.8
Other taxes	0.9	0.9	1.3	1.3	1.1	1.3	1.1	1.2	1.2	1.2	1.2
Social contributions	3.3	3.4	3.4	3.7	3.5	3.7	3.5	3.5	3.5	3.5	3.5
Grants	0.6	0.7	0.7	0.6	0.6	0.7	0.5	0.7	0.5	0.5	0.6
Other revenue	9.3	8.5	8.8	8.7	8.8	8.6	8.9	9.4	9.6	9.8	9.7
Expenditure	**32.7**	**32.4**	**32.0**	**33.5**	**32.8**	**33.6**	**33.2**	**32.4**	**32.5**	**32.9**	**32.9**
Expense	**28.2**	**28.1**	**28.3**	**29.6**	**29.3**	**29.2**	**29.5**	**28.7**	**28.7**	**28.9**	**28.7**
Compensation of employees	11.2	11.3	11.3	11.8	12.0	11.5	11.6	11.4	11.1	11.0	11.0
Purchases of goods and services	8.3	8.2	8.7	8.7	8.5	8.4	8.6	8.3	8.6	8.8	8.8
Interest	2.4	2.4	2.3	2.8	2.9	3.1	3.1	3.2	3.3	3.4	3.0
Domestic	1.4	1.3	1.2	1.6	1.7	2.0	1.9	2.2	2.3	2.5	2.3
Foreign	1.0	1.2	1.1	1.2	1.2	1.1	1.2	1.0	0.9	0.8	0.8
Subsidies	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	4.1	3.7	3.8	4.3	4.1	4.0	4.3	4.0	4.0	4.1	4.2
Other expense	2.2	2.3	2.2	2.1	1.8	2.2	1.9	1.8	1.7	1.7	1.8
Current	0.3	0.3	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Capital	1.8	2.0	1.7	1.8	1.5	2.0	1.7	1.6	1.5	1.5	1.5
Net acquisition of nonfinancial assets	**4.4**	**4.4**	**3.8**	**3.9**	**3.5**	**4.4**	**3.8**	**3.7**	**3.9**	**4.0**	**4.2**
Gross Operating Balance	**3.6**	**3.4**	**2.9**	**-0.1**	**-1.5**	**1.4**	**-0.1**	**2.7**	**2.8**	**3.0**	**3.3**
Net lending (+)/borrowing (-)	**-0.8**	**-0.9**	**-0.9**	**-4.0**	**-5.0**	**-3.0**	**-3.8**	**-1.0**	**-1.0**	**-1.0**	**-0.9**
Net financial transactions	**-0.8**	**-0.9**	**-0.9**	**-4.0**	**-5.0**	**-3.0**	**-3.8**	**-1.0**	**-1.0**	**-1.0**	**-0.9**
Net acquisition of financial assets	0.4	1.9	1.6	1.2	2.6	1.0	1.3	2.0	1.2	2.1	3.0
Foreign	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	1.4	1.2	2.6	1.0	1.3	2.0	1.2	2.1	3.0
Currency and deposits	0.2	1.6	1.3	0.7	1.6	0.6	0.9	1.5	1.1	2.0	3.0
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	0.5	0.6	0.4	0.5	0.4	0.1	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**1.2**	**2.8**	**2.5**	**5.3**	**7.6**	**4.0**	**5.1**	**3.0**	**2.2**	**3.0**	**3.9**
Foreign	3.8	1.1	1.4	1.3	3.5	2.1	4.2	0.6	0.1	-1.0	-1.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	3.8	1.1	1.4	1.3	3.6	2.1	4.2	0.7	0.1	-1.0	-1.1
Disbursment	4.9	2.1	2.6	4.4	6.8	3.3	5.4	2.4	1.9	1.1	1.1
Amorizations	-1.1	-1.0	-1.1	-3.1	-3.2	-1.1	-1.2	-1.8	-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 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	1.4	4.4	4.4	2.2	1.3	2.7	2.4	4.3	5.2
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	1.3	3.5	6.4	1.9	1.3	2.5	2.3	4.2	5.1
o/w IMF disbursements 2/	0.0	0.0	0.0	1.9	1.9	0.2	0.3	0.0	0.0	0.0	0.0
Other accounts payable	-1.6	0.3	-0.8	0.4	-2.2	0.0	-0.3	0.0	0.0	0.0	0.0
PPPs/other	0.2	0.3	0.9	0.4	0.2	0.3	0.3	0.1	0.1	0.1	0.1
Adjustment for HIPC debt relief 3/	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2
Memorandum items:											
Net lending minus net interest payments	0.1	0.0	0.2	-3.0	-3.8	-1.5	-2.5	0.4	0.5	0.6	0.4
Gross total debt	40.1	42.2	44.9	47.8	52.9	50.9	53.7	53.4	51.6	51.3	49.3
Nominal GDP (in billions of Lempiras)	543	573	615	622	597	690	663	714	773	839	915

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 6. 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**	**161,865**	**172,059**	**184,239**	**197,949**	**212,174**	**227,971**
(In millions of US$)	4,786	4,853	5,809	6,459	6,749	7,099	7,499	7,899	8,339
Net Domestic Assets	**-75,317**	**-78,827**	**-99,462**	**-112,368**	**-117,034**	**-124,971**	**-133,819**	**-142,536**	**-152,111**
Credit to the public sector (net)	7,398	-397	-1,535	13,849	18,071	19,492	19,052	13,943	9,850
Other depository institutions (net)	-84,589	-75,207	-91,512	-107,984	-115,727	-124,651	-134,876	-146,459	-159,548
Other financial institutions	8,109	6,637	6,028	9,277	8,582	8,049	7,437	6,745	5,963
Nonfinancial private sector	-228	-217	-297	-267	-294	-323	-355	-391	-430
Medium and long-term net foreign assets	1,915	2,149	2,853	-14,148	-19,994	-19,834	-17,647	-10,651	-4,563
Other items net	-7,923	-11,792	-14,999	-13,095	-7,673	-7,703	-7,429	-5,724	-3,383
Currency issued	**37,567**	**39,292**	**43,640**	**49,496**	**55,025**	**59,268**	**64,130**	**69,638**	**75,861**
				II. Other Depository Institutions					
Net Foreign Assets	**-16,343**	**-24,603**	**-30,786**	**-25,948**	**-27,019**	**-27,085**	**-26,949**	**-26,500**	**-26,615**
(In millions of US$)	-693	-1,011	-1,250	-1,035	-1,060	-1,044	-1,021	-987	-974
Foreign assets (in million of US$)	543	453	416	558	663	767	890	1,037	1,174
Net Domestic Assets	**298,174**	**327,864**	**368,947**	**397,925**	**425,667**	**456,473**	**491,561**	**531,012**	**576,213**
Credit to the monetary authority (net)	97,824	93,143	102,019	118,880	127,133	136,590	147,373	159,538	173,235
Credit to other financial institutions (net)	-31,751	-33,863	-35,577	-22,677	-29,485	-35,765	-42,745	-48,982	-53,517
Credit to the nonfinancial public sector (net)	-3,696	-1,803	-2,692	-16,083	-11,462	-7,981	-4,221	-173	4,172
Central government	-15,853	-18,379	-21,821	-30,853	-27,455	-23,904	-20,189	-16,297	-12,214
Other nonfinancial public sector	6,368	9,764	10,396	7,000	9,000	9,630	10,304	11,025	11,797
Local governments	5,789	6,812	8,733	7,770	6,993	6,294	5,664	5,098	4,588
Credit to the private sector	306,423	350,090	380,934	397,889	424,041	452,926	485,403	520,089	557,250
Local currency	227,510	256,799	277,901	291,137	308,119	329,167	353,417	379,635	407,325
Foreign currency	78,913	93,291	103,033	106,752	115,921	123,759	131,985	140,454	149,925
Other items net	-70,626	-79,703	-75,738	-80,084	-84,559	-89,298	-94,249	-99,459	-104,926
Liabilities	**281,830**	**303,260**	**338,161**	**371,977**	**398,648**	**429,388**	**464,613**	**504,513**	**549,599**
Of which: Deposits in domestic currency	205,926	221,585	254,614	280,075	300,157	323,302	349,824	379,867	413,814
Of which: Deposits in foreign currency	75,904	81,676	83,547	91,901	98,491	106,086	114,788	124,646	135,785
				III. Financial Systems					
Net Foreign Assets	**98,455**	**95,665**	**115,168**	**135,916**	**145,040**	**157,154**	**171,001**	**185,675**	**201,357**
(In millions of US$)	4,174	3,931	4,675	5,423	5,689	6,055	6,478	6,912	7,365
Net Domestic Assets	**217,091**	**246,328**	**263,754**	**284,900**	**306,462**	**325,366**	**346,482**	**367,160**	**389,297**
Credit to the nonfinancial public sector	3,789	-2,116	-4,123	-2,235	6,609	11,511	14,832	13,770	14,022
Credit to the private sector	306,423	350,090	380,934	397,889	424,041	452,926	485,403	520,089	557,250
Local currency	227,510	256,799	277,901	291,137	308,119	329,167	353,417	379,635	407,325
Foreign currency	78,913	93,291	103,033	106,752	115,921	123,759	131,985	140,454	149,925
Other items net 3/	-93,122	-101,646	-113,057	-110,754	-124,187	-139,072	-153,752	-166,699	-181,974
Broad Money (M4)	**315,546**	**341,993**	**378,922**	**420,817**	**451,502**	**482,520**	**517,482**	**552,835**	**590,654**
				(Rate of growth 12 months)					
Currency issued	19.8	4.6	11.1	13.4	11.2	7.7	8.2	8.6	8.9
Currency in circulation	18.4	3.5	13.1	16.0	12.9	8.4	9.0	9.5	9.8
Broad money	12.0	8.4	10.8	11.1	7.3	6.9	7.2	6.8	6.8
Broad money (constant exchange rate)	11.0	7.4	11.3	11.0	7.6	8.0	9.5	10.9	13.2
Credit to the private sector	9.3	14.3	8.8	4.5	6.6	6.8	7.2	7.1	7.1
o/w foreign currency	5.7	18.2	10.4	3.6	8.6	6.8	6.6	6.4	6.7
Credit to the private sector (constant exchange	9.2	13.1	8.4	4.2	6.1	6.3	6.7	6.6	6.6
M1	15.1	6.1	16.1	11.7	9.8	8.0	8.6	9.0	9.3

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 7. 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	**-288**	**-1,416**	**-343**	**-65**	**-690**	**-741**	**-1,016**	**-1,205**	**-1,339**
Trade Account	-2,753	-3,653	-3,107	-3,040	-3,498	-3,682	-3,948	-4,286	-4,573
Exports f.o.b.	6,043	5,877	5,985	5,334	5,855	6,361	6,927	7,570	8,279
Maquila (net)	1,469	1,567	1,789	1,088	1,202	1,353	1,560	1,817	2,095
Coffee	1,317	1,115	947	964	1,103	1,227	1,314	1,408	1,507
Others	3,257	3,195	3,249	3,282	3,549	3,781	4,053	4,346	4,677
Imports f.o.b.	-8,796	-9,529	-9,092	-8,374	-9,353	-10,043	-10,875	-11,857	-12,853
Petroleum products	-1,403	-1,667	-1,616	-1,197	-1,402	-1,498	-1,648	-1,809	-1,936
Others	-7,393	-7,862	-7,476	-7,177	-7,951	-8,546	-9,227	-10,048	-10,916
Services (net)	-775	-1,062	-1,228	-1,260	-1,163	-1,114	-1,185	-1,281	-1,381
Of which: tourism receipts	603	592	547	120	340	476	506	541	608
Income (net)	-1,406	-1,882	-1,901	-1,504	-1,938	-2,023	-2,168	-2,280	-2,417
Of which: payments on direct investments	-913	-1,378	-1,346	-1,030	-1,459	-1,544	-1,642	-1,752	-1,876
Of which: public sector interest payments	-212	-237	-275	-314	-294	-283	-276	-268	-263
Transfers (net)	4,646	5,180	5,894	5,740	5,908	6,079	6,284	6,642	7,032
Of which: Remittances	4,305	4,760	5,385	5,385	5,519	5,602	5,686	5,970	6,269
Others	340	420	510	355	389	477	598	672	764
Capital and Financial account	**1,851**	**1,232**	**1,593**	**253**	**912**	**1,091**	**1,495**	**1,810**	**1,921**
Financial account	**1,670**	**1,064**	**1,398**	**95**	**739**	**907**	**1,299**	**1,601**	**1,697**
Direct investment (net)	1,035	895	499	345	490	586	715	906	1,168
Other capital flows (net)	-206	-96	529	-1,133	-881	110	448	777	728
General government (net)	841	264	370	883	1,130	212	136	-82	-198
Capital account	**181**	**168**	**195**	**158**	**174**	**184**	**195**	**208**	**223**
Errors and omissions	-678	230	-262	0	0	0	0	0	0
Overall balance	**885**	**46**	**988**	**188**	**222**	**350**	**479**	**605**	**582**
Change in central bank reserves (- increase)	**-884**	**-50**	**-993**	**-650**	**-290**	**-350**	**-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	**-1.2**	**-5.9**	**-1.4**	**-0.3**	**-2.6**	**-2.7**	**-3.4**	**-3.8**	**-4.0**
Trade Account	-11.9	-15.2	-12.5	-12.7	-13.3	-13.3	-13.4	-13.6	-13.6
Exports f.o.b.	26.1	24.5	24.0	22.3	22.3	22.9	23.5	24.0	24.5
Maquila net (exports-imports)	6.4	6.5	7.2	4.5	4.6	4.9	5.3	5.8	6.2
Coffee	5.7	4.6	3.8	4.0	4.2	4.4	4.4	4.5	4.5
Others	14.1	13.3	13.0	13.7	13.5	13.6	13.7	13.8	13.9
Imports f.o.b.	-38.0	-39.7	-36.5	-35.0	-35.6	-36.2	-36.8	-37.6	-38.1
Petroleum products	-6.1	-6.9	-6.5	-5.0	-5.3	-5.4	-5.6	-5.7	-5.7
Others	-32.0	-32.8	-30.0	-30.0	-30.3	-30.8	-31.2	-31.9	-32.3
Services (net)	-3.4	-4.4	-4.9	-5.3	-4.4	-4.0	-4.0	-4.1	-4.1
Of which: tourism receipts	2.6	2.5	2.2	0.5	1.3	1.7	1.7	1.7	1.8
Income (net)	-6.1	-7.8	-7.6	-6.3	-7.4	-7.3	-7.3	-7.2	-7.2
Of which: payments on direct investments	-3.9	-5.7	-5.4	-4.3	-5.6	-5.6	-5.6	-5.6	-5.6
Of which: public sector interest payments	-0.9	-1.0	-1.1	-1.3	-1.1	-1.0	-0.9	-0.8	-0.8
Transfers (net)	20.1	21.6	23.7	24.0	22.5	21.9	21.3	21.1	20.8
Of which: Remittances	18.6	19.8	21.6	22.5	21.0	20.2	19.3	18.9	18.6
Capital and Financial account	**8.0**	**5.1**	**6.4**	**1.1**	**3.5**	**3.9**	**5.1**	**5.7**	**5.7**
Financial account	**7.2**	**4.4**	**5.6**	**0.4**	**2.8**	**3.3**	**4.4**	**5.1**	**5.0**
Direct investment (net)	4.5	3.7	2.0	1.4	1.9	2.1	2.4	2.9	3.5
Other capital flows (net)	-0.9	-0.4	2.1	-4.7	-3.4	0.4	1.5	2.5	2.2
General government (net)	3.6	1.1	1.5	3.7	4.3	0.8	0.5	-0.3	-0.6
Capital account	**0.8**	**0.7**	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Errors and omissions	-2.9	1.0	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**3.8**	**0.2**	**4.0**	**0.8**	**0.8**	**1.3**	**1.6**	**1.9**	**1.7**
Change in central bank reserves (- increase)	**-3.8**	**-0.2**	**-4.0**	**-2.7**	**-1.1**	**-1.3**	**-1.4**	**-1.3**	**-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	-0.3	10.2	-0.4	-0.4	-0.4	-0.5	-0.4
Exports of goods (percent change)	8.4	-2.7	1.8	-10.9	9.8	8.7	8.9	9.3	9.4
Imports of goods (percent change)	7.6	8.3	-4.6	-7.9	11.7	7.4	8.3	9.0	8.4
Overall balance (in percent of GDP)	3.8	0.2	4.0	2.7	1.1	1.3	1.4	1.3	1.3
Gross reserves (end of period, millions of U.S. dollars)	5,088	5,147	6,140	6,790	7,080	7,430	7,830	8,230	8,670
In months of next year imports	4.2	4.3	5.8	5.8	5.6	5.4	5.1	4.9	4.8
In months of next year imports (excluding maquila)	5.2	5.4	7.1	7.1	6.9	6.7	6.5	6.3	6.2
Total external debt to GDP ratio (in percent)	37.2	38.5	38.6	43.0	44.6	43.2	41.1	37.9	34.8
Nominal GDP (millions of U.S. dollars)	23,123	23,987	24,921	23,925	26,242	27,775	29,535	31,525	33,746

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

Table 8. Honduras: External Financing Needs and Sources

(In millions of U.S. dollars)

	Actual			Prelim.	Projections													
	2016	2017	2018	2019	2020Q1	2020Q2	2020Q3	2020Q4	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024	2025
Gross external financing requirement	**1,925**	**2,239**	**3,213**	**1,799**	**341**	**-35**	**312**	**1,966**	**2,585**	**480**	**515**	**619**	**722**	**2,336**	**2,717**	**3,013**	**3,308**	**3,577**
Current account deficit	683	288	1,416	343	-76	-265	104	301	65	69	104	207	311	690	741	1,016	1,205	1,339
Debt amortizations (public and private)	1,242	1,951	1,797	1,456	417	230	208	1,665	2,520	411	411	411	411	1,646	1,976	1,997	2,103	2,238
Public debt amortization	173	290	240	266	46	65	48	584	743	69	69	69	69	275	464	515	637	716
Private debt amortization	1,069	1,661	1,557	1,191	371	165	160	1,081	1,777	343	343	343	343	1,371	1,511	1,481	1,466	1,521
Available external financing	**1,925**	**2,239**	**3,213**	**1,799**	**198**	**-268**	**312**	**1,880**	**2,123**	**230**	**480**	**619**	**687**	**2,017**	**2,717**	**3,013**	**3,308**	**3,577**
Capital account flows (net)	130	181	168	195	42	40	41	35	158	43	43	43	43	174	184	195	208	223
Foreign direct investment (net)	900	1,035	895	499	329	-35	-40	92	345	127	118	118	127	490	586	715	906	1,168
Public sector borrowing	325	431	504	635	60	119	250	597	1,026	138	138	138	138	553	676	573	350	376
Bonds	0	700	0	0	0	600	0	0	600	0	0	600	0	600	0	0	0	0
Other capital flows	636	776	1,695	1,463	13	318	198	114	644	51	251	69	118	489	1,621	1,930	2,243	2,249
Change in reserves (+ decrease)	-66	-884	-50	-993	-245	-1,310	-137	1,042	-650	-130	-70	-350	260	-290	-350	-400	-400	-440
Gap	**0**	**0**	**0**	**0**	**143**	**233**	**0**	**86**	**462**	**250**	**35**	**0**	**35**	**319**	**0**	**0**	**0**	**0**
IMF	0	0	0	0	143	233	0	86	462	0	35	0	35	69	0	0	0	0
CABEI	0	0	0	0	0	0	0	0	0	250	0	0	0	250	0	0	0	0

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

Table 9. Honduras: External Vulnerability Indicators

	Actual		Prelim.	Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Exports of goods and services, annual percent change	9.1	-1.0	0.6	-15.3	12.6	10.7	10.4	10.9	10.9
Imports of goods and services, annual percent change	9.6	8.1	-2.2	-10.9	11.2	8.1	9.3	10.2	9.7
Terms of trade (deterioration -)	-2.3	-6.1	-0.3	10.2	-0.4	-0.4	-0.4	-0.5	-0.4
Real effective exchange rate (eop, depreciation -)	-1.0	1.2	0.3	…	…	…	…	…	…
Current account balance (percent of GDP)	-1.2	-5.9	-1.4	-0.3	-2.6	-2.7	-3.4	-3.8	-4.0
Capital and financial account (percent of GDP)	8.0	5.1	6.4	3.0	3.7	3.9	4.8	5.1	5.3
Gross official reserves									
in millions of U.S. dollars	5,088	5,147	6,140	6,790	7,080	7,430	7,830	8,230	8,670
in percent of short-term external debt	1,057	737	1,678	2,929	2,674	2,651	2,627	2,587	2,546
Net international reserves 1/									
in millions of U.S. dollars	4,786	4,853	5,809	6,459	6,749	7,099	7,499	7,899	8,339
in percent of short-term external debt	994	694	1,588	2,787	2,549	2,533	2,516	2,483	2,449

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

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

Table 10. 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	-7.0	4.9	3.3	3.5	3.6	3.7
GDP deflator	6.9	3.7	4.5	1.9	4.3	4.3	5.9	4.3	4.6	4.8	5.0
CPI inflation (eop)	2.4	3.3	4.7	4.2	4.1	3.7	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**	**17.7**	**21.5**	**22.4**	**24.6**	**26.2**	**27.0**
Private sector	22.6	20.2	20.9	22.0	18.7	14.2	17.7	18.6	20.7	22.3	22.8
Public sector	3.8	3.2	4.4	4.4	3.8	3.5	3.8	3.7	3.9	4.0	4.2
Gross national savings	**21.7**	**20.3**	**24.0**	**20.5**	**21.1**	**17.4**	**18.8**	**19.7**	**21.1**	**22.4**	**23.0**
Private sector	19.0	17.7	20.5	17.2	18.1	18.9	18.9	17.0	18.3	19.4	19.7
Public sector	2.8	2.6	3.5	3.3	2.9	-1.5	-0.1	2.7	2.8	3.0	3.3
Balance of payments											
External current account	-4.7	-3.1	-1.2	-5.9	-1.4	-0.3	-2.6	-2.7	-3.4	-3.8	-4.0
Non oil current account	1.8	2.3	4.8	1.0	5.1	4.7	2.7	2.7	2.1	1.9	1.8
Gross international reserves (millions of dollars)	4,187	4,369	5,088	5,147	6,140	6,790	7,080	7,430	7,830	8,230	8,670
Terms of Trade (annual percent change)	12.5	5.1	-2.3	-6.1	-0.3	10.2	-0.4	-0.4	-0.4	-0.5	-0.4
External debt	**36.2**	**35.5**	**37.2**	**38.5**	**38.6**	**43.0**	**44.6**	**43.2**	**41.1**	**37.9**	**34.8**
Nonfinancial public sector											
Revenue	31.0	32.3	31.9	31.5	31.2	27.7	29.4	31.4	31.5	31.9	32.0
Expenditure	31.9	32.8	32.7	32.4	32.0	32.8	33.2	32.4	32.5	32.9	32.9
Primary balance	**0.1**	**0.3**	**0.1**	**0.0**	**0.2**	**-3.8**	**-2.5**	**0.4**	**0.5**	**0.6**	**0.4**
Overall balance	**-0.9**	**-0.5**	**-0.8**	**-0.9**	**-0.9**	**-5.0**	**-3.8**	**-1.0**	**-1.0**	**-1.0**	**-0.9**
Central government											
Revenue	19.2	20.0	20.3	20.3	19.2	16.0	17.6	18.8	18.9	19.0	19.1
Expenditure	22.1	22.8	23.0	22.4	21.6	22.1	22.9	22.1	22.0	21.9	22.0
Primary balance	**-0.4**	**-0.1**	**-0.1**	**0.6**	**0.3**	**-2.9**	**-2.0**	**0.0**	**0.0**	**0.2**	**0.1**
Overall balance	**-3.0**	**-2.7**	**-2.7**	**-2.2**	**-2.5**	**-6.2**	**-5.3**	**-3.3**	**-3.2**	**-2.9**	**-2.9**
Nonfinancial public sector debt											
Total	**39.2**	**40.1**	**40.1**	**42.2**	**44.9**	**52.9**	**53.7**	**53.4**	**51.6**	**51.3**	**49.3**
Domestic debt	11.0	11.7	9.6	11.3	14.1	15.2	14.6	15.7	16.0	18.8	20.0
External debt	28.2	28.4	30.5	31.0	30.8	37.7	39.1	37.7	35.7	32.5	29.3
Monetary and financial											
Broad money (percentage change)	9.0	15.6	12.0	8.4	10.8	11.1	7.3	6.9	7.2	6.8	6.8
Private sector credit (percentage change)	10.0	12.9	9.3	14.3	8.8	4.5	6.6	6.8	7.2	7.1	7.1
Bank assets	97.0	97.8	97.5	105.4	107.1	...	...	...	...	...	...
Private credit	54.0	56.6	56.5	61.1	61.9	66.7	63.9	63.4	62.8	62.0	60.9
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	597	663	714	773	839	915

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

Table 11. Honduras: Structure and Performance of the Banking Sector [1/]

(In percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020M9
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**	**688,125**
(In percent of GDP)	79	81	84	91	95	94	96	96	101	103	115
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)	15	15	15	14	15	14	14	14	13	14	14.1
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	8.6
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	2.6
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	-5.7
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	41.5
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	45.6
Provisions to total loans	4.3	3.9	4.0	4.2	4.1	3.8	3.4	3.2	3.0	3.0	3.5
Provisions to NPLs 2/	118.9	135.0	121.8	123.7	125.5	126.1	117.4	138.0	140.2	135.2	134.1
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	14.5
Construction and real estate	34.2	32.9	30.8	28.9	27.1	24.6	23.6	23.3	23.0	22.8	23.2
Agriculture and related sectors	0.0	0.0	4.4	4.7	5.0	5.9	7.2	7.4	7.5	0.0	n.a.
Industry	13.6	12.3	11.7	11.9	11.1	11.1	10.4	10.3	10.8	n.a.	
Consumption	16.5	18.3	20.5	21.9	21.0	21.3	23.1	20.9	21.1	21.5	21.0
Other	0.0	0.0	18.2	18.0	21.3	23.5	22.5	23.0	21.9	0.0	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	1.2
Return on equity (ROE)	12.5	13.2	15.9	14.5	13.4	14.6	14.6	12.0	12.0	12.8	8.5
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	42.4
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	43.8
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	28.8
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	73.9
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	27.0
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	30.1

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 12. Honduras: Proposed Rephased Disbursements, Purchases, and Timing of Reviews Under the 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 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 and continuous 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 and continuous 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 and continuous performance criteria and completion of the fourth review	24.980	7.494	17.486	10.00	3.00	7.00
August 1, 2021	Observance of end-June 2021 and continuous 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 13 shows the current phasing under the program.

Table 13. Honduras: Disbursements, Purchases, and Timing of Reviews Under the 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 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 and continuous 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 and continuous 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 and continuous 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 and continuous 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 14. Honduras: Indicators of Fund Credit, 2020-29

(As of November 5, 2020; in units indicated)

	2020	2021	2022	2023	Projections 2024	2025	2026	2027	2028	2029
Existing Fund credit										
Stock, in millions of SDRs 1/	274.8	274.8	274.8	219.6	108.4	52.3	31.4	10.5	0.0	0.0
Obligations, in millions of SDRs	0.9	2.0	2.0	57.1	112.4	56.3	21.0	21.0	10.5	0.1
Proposed SCF										
Stock, in millions of SDRs 1/	20.0	35.0	35.0	35.0	32.8	25.8	18.0	10.3	2.5	0.0
Disbursements, in millions of SDRs	20.0	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	2.2	6.9	7.8	7.8	7.8	2.5
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	2.2	6.9	7.8	7.8	7.8	2.5
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/	42.5	77.4	77.4	77.4	47.5	8.7	0.0	0.0	0.0	0.0
Disbursements, in millions of SDRs	42.5	35.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs 3/	0.2	0.8	0.9	0.9	30.8	39.1	8.8	0.0	0.0	0.0
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	30.0	38.7	8.7	0.0	0.0	0.0
Interest and charges, in millions of SDRs	0.2	0.8	0.9	0.9	0.8	0.4	0.1	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	188.6	86.8	49.4	20.7	2.5	0.0
In percent of quota	135.0	155.0	155.0	132.9	75.5	34.8	19.8	8.3	1.0	0.0
In percent of exports of goods and services	5.6	5.9	5.3	4.2	2.1	0.9	0.5	0.2	0.0	0.0
In percent of external debt	4.7	4.8	4.7	4.0	2.3	1.1	0.6	0.2	0.0	0.0
In percent of gross reserves	7.1	7.8	7.5	6.1	3.3	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	1.1	2.8	2.8	57.9	145.4	102.4	37.5	28.7	18.3	2.6
In percent of quota	0.4	1.1	1.1	23.2	58.2	41.0	15.0	11.5	7.3	1.0
In percent of exports of goods and services	0.0	0.0	0.0	0.7	1.6	1.0	0.4	0.3	0.2	0.0
In percent of external debt	0.0	0.0	0.0	0.7	1.8	1.3	0.4	0.3	0.2	0.0
In percent of gross reserves	0.0	0.1	0.1	1.1	2.6	1.7	0.6	0.4	0.3	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 1.095 percent as of November 5, 2020.

Table 15. 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)	20.8	19.3	17.3	14.9	14.1	13.8	13.8	..
Goal 3. Ensure healthy lives and promote well-being for all at all ages								
Maternal mortality ratio (per 100,000 live births)	70.0	69.0	68.0	67.0	65.0	65.0	..	..
Mortality rate, infant (per 1,000 live births)	18.3	17.7	17.1	16.5	15.9	15.4	14.9	14.5
Mortality rate, under 5 (per 1,000 live births)	21.5	20.7	20.0	19.3	18.6	17.9	17.4	16.8
Prevalence of HIV, total (% of population ages 15-49)	0.4	0.4	0.4	0.4	0.4	0.3	0.3	..
Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all								
Minimum proficiency in mathematics, lower secondary (%)	..	..	..	15.4	..	..	..	..
Minimum proficiency in reading, lower secondary (%)	..	..	..	29.7	..	..	..	..
Gender parity index for achievement in mathematics, secondary	..	..	..	0.7	..	..	..	..
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	..	25.8	25.8	25.8	..	21.1	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 (%)	..	..	..	..	..	1.0	..	..
Remittance costs as a proportion of the amount remitted (%)	..	..	..	4.3	..	4.2	4.1	3.6
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	38.9	..
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			
Unexpected shift in the Covid-19 pandemic. **Downside.** The disease proves harder to eradicate (e.g., due to difficulties in finding/distributing a vaccine), requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources). Monetary and fiscal policy response is insufficient amid dwindling policy space and concerns about debt sustainability. Financial markets reassess real economy risks leading to a repricing of risk assets, unmasking of debt-related vulnerabilities, and weakening banks and nonbank financial intermediaries–forcing them to reduce credit (further weighing on growth).	**High/ST**	Mitigation measures remain in place into early 2021, interrupting the reopening, causing disruptions to economic activity, massive job losses, and increasing health spending. It would also cause a large human cost given weaknesses in the health system.	Use fiscal space –if available—prioritizing health spending and employment protection. Seek financial assistance from multilaterals mainly through concessional long-term loans.
Upside. Alternatively, recovery from the pandemic is faster than expected due to the discovery of an effective and widely available vaccine and/or a faster-than-expected behavioral adjustment to the virus that boosts confidence and economic activity.	**Low/ST**	The reopening could proceed more quickly, limiting the negative economic and social impact.	If this creates additional fiscal space, use it for priority social and investment spending.

[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
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause economic hardship (including unemployment and higher incidence of poverty) and exacerbate preexisting socioeconomic inequities.	**High/ST**	Social tensions end in violent protests. As a result, economic activity is disrupted fostering political polarization and instability, weakening policymaking and confidence.	Prevent social tensions by providing direct transfers and monetary and in-kind subsidies.
Accelerating de-globalization. Geopolitical competition and fraying consensus about the benefits of globalization lead to further fragmentation. Reshoring and less trade reduce potential growth.	**High/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 trade partners.
Domestic Risks			
Policy implementation risks stemming from fragmented political landscape and the proximity of the electoral cycle.	**High/ST, MT**	Policy slippage—influenced by powerful interest groups—can derail the revenue mobilization agenda, resulting in less permanent resources available for social and infrastructure spending which on turn would weaken long-term growth.	Once pandemic recedes, continue with revenue mobilization efforts. In the meantime, avoid deterioration in the tax framework through additional tax benefits.

Appendix I. Letter of Intent

November 24, 2020

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

Dear Ms. Georgieva,

1. **Although the pandemic and more recently tropical storms continue to raise challenges for Honduras, we remain fully committed to the objectives of our economic program.** The pandemic is having a dramatic economic and social impact that requires significant efforts to manage the emergency. At the same time, the pandemic has underscored the importance of the objectives defined in our program: (i) improving the quality of fiscal policy through reforms that protect investment and social spending while maintaining debt sustainability; (ii) strengthening monetary policy and financial institutions to buffer shocks and maintain stability; and (iii) improving the business environment and governance to foster inclusive growth, including by stepping up efforts to fight against corruption. We have strived to protect social and health spending from the sharp decline in public revenues. More recently, Honduras is facing the challenge to respond to two tropical storms, which we intend to manage within the contour of our current economic program.

2. **Despite these challenges, we have strived to meet quantitative targets.** We met all but one quantitative performance criteria and all indicative targets. The impact of the lockdown has led to a shortfall in electricity bills collection, exacerbating liquidity pressures in ENEE, and leading to new arrears to generators, breaching the June performance criterion on domestic arrears. However, securing new financing during the summer, we have cleared a large amount of historical arrears—for about 1½ percent of GDP, which preceded the program—and have begun clearing the ones associated with the pandemic. To avoid recurrence of arrears going forward, we are already securing the required financing for ENEE and putting in place provisions in the 2021 budget to guarantee payment of electricity bills by public institutions. Based on these corrective actions, we request a waiver of non-observance for the end-June performance criterion on domestic arrears.

3. **Notwithstanding operational challenges from the pandemic lockdown, we have completed a large number of reforms envisaged in the program.** These involved seven structural benchmarks on fiscal and governance areas aiming at more effective fiscal policy, enhanced transparency and better governance—notably on AML and procurement issues. We have faced technical and operational challenges on two structural benchmarks, but we are already working to overcome them and complete the action plan defined in the program.

4. **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 and support the recovery—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).

5. We are strongly committed to continue strengthening procurement processes, internal controls, and monitoring systems to guarantee transparency and accountability of emergency spending. Weekly publications of pandemic-related spending support transparency and enable monitoring by the public, helping identify promptly some irregularities in the execution of emergency spending in the early days of the pandemic. As explained in the attached Memorandum of Economic and Financial Policies, we have taken corrective measures and will take further measures recommended by recent Fund technical assistance to overcome implementation problems and strengthen controls. These include enhancements to the labeling mechanism to categorize and track all pandemic and post-pandemic related expenditure in the budget, adoption of a manual of procedures for emergency purchases, and implementation of an action plan to strengthen internal agency controls. In compliance with established legislation, we reiterate our commitment to publish related procurement contracts, including names of companies awarded and post-crisis reports of pandemic-related spending.

6. We request the extension of the SBA and SCF arrangements by four months to November 14, 2021 and a rephasing of the last test date from March to June 2021. This will allow for additional time to complete the last review of the program and maintain the semi-annual review cycle. It would also provide time to complete proposed new structural benchmarks by June 2021. Table AI.3 sets out the proposed rephasing.

7. 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	Marco Midence Milla
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 having a strong and protracted economic and social impact, increasing the challenge of achieving higher 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 continue 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 are using the flexibility in the FRL to increase the fiscal deficits in 2020 and 2021 to mitigate the impact of 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—remain 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 causing a deeper than expected recession and prompting additional fiscal needs, while raising external risks:

- The extended lockdown and weaker external demand hit economic activity hard. Inflation remained at the lower bound of BCH's target band (4±1 percent). The surge in infections over the summer significantly delayed the gradual exit from the lockdown introduced to alleviate pressures on the health system and protect lives. While remittances have been more resilient than anticipated, exports (particularly *maquila*) have been hit hard.

- Public finances have come under significant pressure, with the lockdown and tax deferrals also weighing on taxes, which declined by about 24 percent in nominal terms through September. The non-financial public sector (NFPS) posted a 2.2 percent of GDP deficit during the first eight months, compared to a 0.3 percent surplus over the same period in 2019.

- We expect the recession in 2020 to be deeper than previously anticipated. The reopening process is facing delays and external conditions are weaker, with the economy projected to contract by around 7 percent in 2020 (some 3¾ percentage points more than expected during the second review). Inflation is expected to hover around the midpoint of the BCH target band.

4. We remain committed to maintaining the objectives of the program, while allowing an adequate policy response to the pandemic. We are implementing a strong response by using the escape clause under the FRL—which allows a temporary increase in the NFPS deficit ceiling while at the same time mandating a gradual return to the deficit target consistent with preserving debt sustainability. We also remain committed to move ahead with the electricity sector reform, resume our revenue mobilization efforts as the economy recovers from the pandemic, and continue to 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 and accumulate reserves over the medium term to cushion our economy.

5. We are also committed to manage the impact of tropical storms within the contour of our current economic program. In early November, Eta and Iota entered Honduras as tropical depressions, causing life-threatening floods, landslides affecting vulnerable communities, and damage to agricultural production, particularly in the northern region. The assessment of their damage to infrastructure and housing is ongoing and will require more time, including of the short-term impact on growth—while agricultural production will likely be affected, the reallocation of non-priority current expenditure to public investment for emergency needs may have a positive short-term impact on activity. We are planning to manage this additional emergency spending through further reallocations in the 2020 budget.

Fiscal Policy

6. We are implementing a moderately larger fiscal loosening than initially planned to mitigate the greater than expected impact of the pandemic on tax revenue. 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 are making use of the escape clause under the FRL to face emergencies. In line with this, Congress has already approved the increase in the ceilings on the NFPS deficit and current expenditure growth for a maximum of two years.

7. 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 allows 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 is also instrumental to maintain confidence and has allowed us to access international capital markets in June, placing a US$600 million sovereign bond at 10-year maturity and 5.6 percent interest rate.

8. **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.** Renewed efforts 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. These reforms, together with renewed efforts to maintain the revenue mobilization agenda, will create fiscal space to increase investment and social spending. The newly introduced centralized wage bargaining scheme will also help contain the wage bill and support convergence to FRL current spending and deficit ceilings as the crisis subsides.

A. Revenue

9. **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 3½ 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 are also affecting 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, including through deferral of payments to 2021. Despite the economy's dire situation, we reiterate our commitment to continue strengthening tax administration and avoid new tax exemptions or/and amnesties. In particular:

- **Tax administration.** The tax administration diagnostics assessment tool (TADAT) evaluation reflected 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 continue our engagement with Congress and the private sector for the approval of submitted legislation introducing electronic notification of the tax administration office (SAR) procedures to taxpayers (*structural benchmark, November 2020)* and a return to SAR of control and verification procedures for tax exemptions (*structural benchmark, November 2020)*. While steady progress has been made in these discussions, we believe that given the timeline of the budgetary discussions, more time is needed to achieve consensus. Hence, we propose to reschedule both structural benchmarks to end-December 2020. 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*). Building on technical assistance from the Fund, we will automate the process to record operations between companies under special regimes (companies that are in the *Régimen de Zonas Libres*—ZOLIS), strengthening the monitoring and encouraging compliance with the benefits granted (*proposed new structural benchmark, June 2021*).

- **Information sharing.** We continue working on implementing the agreement signed by the SAR, the ministry of finance, and the customs administration to share information on a timely basis.

- **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. To continue raising social awareness and building consensus for this agenda, we expanded the annex in the 2021 budget bundle with a cost-benefit analysis of tax exemptions (*structural benchmark, September 2020*). Going forward, we will prepare a plan to rationalize and streamline tax exemptions, with the intention to submit it to congress and to take effect in 2022 (*proposed new structural benchmark, June 2021*).

B. Spending

10. The pandemic has required new spending to attend the social and humanitarian crisis. The additional expenditure represents about 2 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. The execution of spending has been slow in some areas—including due to technical challenges as well as lower than expected demand—and we have taken measures to accelerate it, while strengthening controls (see below). In October, we also began distribution of electronic vouchers for food and medical expenses to poor households under the *Bono Unico*, designed with UNDP support. To accommodate this emergency spending, we have reduced nonpriority current and capital spending through budget reallocations, leaving the net increase in non-interest expenditure of the NFPS at about 0.1 percent of GDP, compared to 2019. Emergency spending needs associated with tropical storms—including support to affected households, mobile bridges and road repairs—will be managed through further reallocations within the existing budget ceilings.

11. 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 allows us to partially finance crisis related spending.

- **Wage bill.** Starting with the public sector wage negotiations for 2022, we will implement the centralized wage bargaining mechanism established in June to guide decisions on nominal wage increases, in line with the FRL (*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 strengthen the health system, enhance productivity and competitiveness, foster economic recovery—notably through support to SMEs as well as large enterprises. We will also address the impact of global warming on water and food security in the rural areas most affected by the drought.

12. Contingency plans. Uncertainty going forward could trigger the materialization of downside risks from additional emergency spending or revenue collection underperformance. In light of this, we plan to maintain our approach to use budget instruments to reprioritize expenditure as needed in order to reduce non-priority outlays—as done in the past, and notably during the pandemic, with a focus on spending that is not included in priority social programs or critical subsidies (e.g., on electricity consumption). This strategy will protect social spending and will be supported by our plan to incorporate trust funds spending into the budget process, which will allow for stronger scrutiny of budget discussions and better alignment with our objectives. Our track record of strict adherence to fiscal sustainability gives credibility to our strategy to adapt our policy response to the emergence of contingencies. We will continue to closely monitor fiscal risks from PPPs and public enterprises. The strengthened governance approved in June in the context of our program will be instrumental to control the former, while we will continue our collaboration with the Fund to enhance the monitoring of the latter. We are also closely monitoring the impact of the pandemic on macro-financial stability and stand ready to take actions as needed to address potential liquidity or solvency issues.

C. Financing

13. Our program remains fully financed. Resilient remittances have supported our external position; and the US$600 million sovereign bond placement in June was allocated to the clearance of arrears to generators and debt of ENEE trust funds, leaving public debt unchanged—most of these payments will in turn be used to repay private external debt. The 2021 budget will be financed both through multilateral project financing and budget support (for US$872 million, including drawings under the SBA and SCF arrangements) and a sovereign bond placement for US$600 million—this financing compensates for a more conservative assumption on private capital flows and a larger current account deficit. These financing plans could be adjusted to market conditions and changes in access to multilateral financing, and still leave ample scope to cover fiscal financing needs in domestic markets. The international reserve position provides a backstop for external financing needs, and we will continue to seek financing at concessional terms from multilateral and bilateral creditors.

14. Domestic arrears. We have cleared the domestic arrears to private generators of about 1½ percent of GDP that were accumulated by ENEE before program inception. While 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 exacerbated liquidity challenges in ENEE, giving place to new arrears of about ½ percent of GDP by end-June and leading to a breach of the performance criterion on domestic arrears. The more protracted impact of the pandemic is likely to delay the normalization of bill payments. Hence, we will ensure that ENEE has sufficient financing to clear arrears by year-end—securing congressional approval to increase its borrowing ceiling—backstopped by the ministry of finance. To avoid recurrence of arrears going forward, we will strengthen the process for timely transfers of authorized subsidies to ENEE and treasury support in securing financing for the company. We have also introduced provisions in the 2021 budget to guarantee payment of electricity bills by public institutions. On the basis of these corrective actions, we request a waiver of non-observance for the end-June performance criterion on domestic arrears.

D. Fiscal Governance and Transparency

15. 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.

16. We are strongly committed to continue strengthening our procurement processes, internal controls, and monitoring systems to guarantee transparency and accountability of emergency spending. We put in place solid systems to strengthen monitoring, including weekly publications of Covid-19 spending in various portals, concurrent control by the High Court of Accounts (Tribunal Superior de Cuentas), and intense civil society oversight. These helped to swiftly identify irregularities that emerged in the execution of emergency spending—particularly on the purchase of mobile hospitals—and to take corrective actions promptly. We are also implementing additional measures to strengthen controls and accountability, while accelerating emergency spending:

- The government has intervened the agency previously in charge of Covid-19 emergency purchases (Invest-H). A report of the High Court of Accounts pointing to evidence of criminal responsibility of former Invest-H management has been submitted to the general attorney's office. Moreover, the intervention commission heading Invest-H has commissioned an international audit of emergency purchases under the previous management team.

- With technical assistance from the Fund and the Inter-American Development Bank, we are implementing the following additional measures: i) enhancements to the labeling mechanism to categorize and track all pandemic and post-pandemic related expenditure in the budget, in order to better facilitate monitoring and publication of this spending—including through oversight by civil society; ii) introduction of a manual of procedures for emergency purchases, prepared with support from the IDB; and iii) adoption of an action plan to strengthen internal controls at the institutions with procurement responsibilities.

17. We reiterate our commitment to transparency of pandemic-related spending. In compliance with established legislation, we remain committed to publish emergency procurement contracts, including names of companies awarded—once the new centralized registry is built, it will also allow identification of beneficial ownership (paragraph 42). 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 High Court of Accounts continues conducting concurrent controls of the emergency healthcare and social spending. The High Court of Accounts will also publish the recommendations arising from its concurrent controls to facilitate monitoring of their implementation, as well as ex-post audits of pandemic-related spending.

18. Incorporating expenditures channeled through trust funds into the budget is critical to continue enhancing 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). We are working with Fund technical assistance implementing the plan to include social and infrastructure trust funds in the 2021 budget and in treasury single account operations.

19. 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

20. The structural overhaul of the electricity market is critical 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. Since the start of the Fund-supported program, we have 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 also strengthened the governance structure in the regulatory body (CREE) with congressional approval of a decree establishing its budgetary and operational independence—including by placing the institution outside the scope of the civil service law, necessary to hire the required human talent. The CREE has approved expansion plans prepared by the ODS to guide new generation and investments plans in transmission over the next years, and it has also approved regulations to allow large consumers to purchase directly from generators. 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.

21. 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, its regulations have been approved. The CREE has fully reflected generation costs in tariffs, and it has produced the terms of reference for the studies to accurately quantify and fully reflect transmission and distribution costs.

22. 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. The recent decision by CREE preventing full pass-through to tariffs of costs resulting from the modification in congress of contracts awarded in 2018 highlights the importance of continuing the process of reviewing contracts, aiming at paving the way to procurement of energy following the electricity framework law.

23. 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 hired international consultants to perform the valuation of ENEE's transmission and generation assets. As the valuation of distribution assets is technically more challenging, defining the terms of reference was more time-consuming, and stricter tendering requirements were triggered that have delayed hiring of consultants to value these assets. To move this process forward, we will in a first step hire a firm to identify ENEE's distribution assets (*proposed structural benchmark, December 2020*) and, as a second step, hire a firm to value these distribution assets (*proposed structural benchmark, March 2021*).

- *Scission 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. With technical support from the Inter-American Development Bank, we will submit to Congress draft legislation to initiate this process early next year. With support from the Central American Bank for Economic Integration, we will also create a dedicated unit and hire external consultants to manage and implement the scission. The planned asset valuation is also a critical step for the completion of this process.

- *Financial and generation issues.* We plan to reach refinancing agreements with ENEE's creditors to reduce financing costs, including by termination of the distribution trust fund managing the company's cash flow, which will improve governance as well (*structural benchmark, December 2020*). In the meantime, we have repaid a first maturing bond of the distribution trust fund, using the proceeds from the June sovereign bond placement, and will repay the second one in December. Furthermore, ENEE has paid the remaining debt in the transmission trust fund and requested its cancellation to the trustee. 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 and their reduction is critical to restore ENEE's financial situation. The pandemic temporarily hindered implementation of our strategy to reduce electricity losses in transmission and distribution. As the economic reopening progresses and the social impact of the pandemic eases, we are revamping our losses reduction strategy with the following key elements: (i) resumption of operatives by the law enforcement task force launched last December to reduce electricity theft by large consumers that represent the bulk of non-technical losses–the targeted field assessments looking for irregular connections, tampered or damaged meters will be supported by enhancements in the normative framework and intensified media campaign; (ii) enhanced cooperation with the operator of the distribution system to regularize unmetered connections associated with weaknesses in operational management; and (iii) intensification of amicable social policies to regularize illegal connections in areas with socially vulnerable populations. We have also introduced adequate budgeting to secure payment of electricity bills by public entities and penalties for noncompliance. As for technical losses, we are prioritizing investments to upgrade the transmission grid, including through implementation of an Inter-American Development Bank loan. 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.* With support from the World Bank, we have hired a company to conduct a study to estimate the value added of distribution (VAD) and the technical work has already started. This will be an important step both to complete the implementation of the new electricity tariff scheme and to facilitate the dialogue with EEH. As an intermediate step, we will complete the cost of operating and maintaining the electricity distribution network (COMA)—delays in the tender process during the pandemic and a revised schedule by the international company hired to conduct the VAD will delay completion of the COMA (*proposed rescheduled structural benchmark, March 2021*).

24. 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

25. The central bank (BCH) remains committed to implement policies to cushion the impact of the pandemic, while maintaining inflation on target and a solid reserves position. The BCH has taken liquidity support measures and reduced the monetary policy rate since the onset of the Covid-19 crisis. 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. The BCH will not provide additional financing to BANHPROVI beyond that envisaged under the trust fund approved in 2013.

26. 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. While legislative priorities currently focus on the management of emergencies associated with the pandemic, we expect discussions in Congress to resume as soon as the possible.

27. 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.

28. 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 had reduced the FX surrender requirement by 60 percentage points. Taking into account temporary heightened uncertainty during the pandemic, we have slightly adjusted the plan for the gradual removal of the remainder 40 percent approved in December 2019 (*structural benchmark*), which is now envisaged to be completed by June 2021—just three months after the original schedule.[1] 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 with Fund technical assistance; and iii) fostering integration of existing electronic platforms that can support a secondary securities market to further strengthen the interest rate channel of monetary transmission.

[1] This refers to the requirement for banks to surrender FX purchased from their private sector customers to the BCH.

29. 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 have revised our target dates for the completion of the National Household Income and Expenditure Survey (NHIES) to the third quarter of 2023. We maintain our target date for publishing the new national accounts series in December 2021.

Financial Policies

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

- At the outset of the pandemic in March, we encouraged banks to provide temporary debt service relief—until June 30, 2020—to companies and individuals whose incomes were being affected by the crisis. Accordingly, banks were also exempted from the obligation to change credit classifications and generate additional provisions until end-October to those borrowers who opted for grace periods, given the unusually high uncertainty over debt servicing capacity beyond the height of the pandemic. As the pandemic became more protracted, the CNBS decided to allow regulated entities to grant debt service relief and restructure loans through December 2020, maintaining credit classifications as of end-February until end-December 2020. Banks have made progress in restructuring loans during this period, and we are carefully monitoring these through a special classification in the credit registry.

- We encouraged banks to restructure loans that benefited from the grace period. In line with this, the executive branch reached agreement with commercial banks on a scheme to support further restructuring of SME and microcredit loans according to repayment capacity. The scheme is available to high quality borrowers that were current on their debt obligations before the pandemic and includes: rolling over debt service arrears accumulated during the grace period, without capitalizing interest; extension of loan maturities; and reductions in interest rates (of a up to 2 percent for loans with rates above the banking system's weighted average rate on SME and microcredit loans). For restructured loans with a new maturity above 5 years, a dedicated rediscount facility was created through second-tier public bank BANHPROVI, which will be financed by profits accumulated in the 2013 trust fund.

- We are also implementing two credit guarantee schemes created to foster credit provision during the pandemic and the post-pandemic recovery, which will contribute to maintaining stability in the financial 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 funds. To enhance incentives for bank participation, the BCH temporarily reduced in August reserve requirements on national currency from 12 to 9 percent, while reintroducing temporary mandatory investments of 3 percent backed by new credits to SMEs supported by the guarantee scheme—mandatory investments deposited at the central bank will remain unremunerated.

- We are closely monitoring the impact of the pandemic through constant tracking of credit trends, as well as scenarios and stress tests on bank liquidity and solvency. We are closely monitoring economic developments and their impact on the financial system and stand ready to take actions as needed to address any issues that may arise. Supervised financial institutions are required to design gradual adjustment plans to be implemented by end-2021. With this, we aim to strengthen the supervised institutions and ensure sufficient buffers that will be used in case of higher than expected losses; the supervisor will take the necessary measures to preserve financial stability.

31. Like other regulators in the region, we temporarily adjusted some existing macroprudential buffers, while maintaining our commitment to further strengthen the regulatory framework and supervisory practices.

- In addition to the relief measures to mitigate the impact of the pandemic, we have temporarily adjusted regulatory requirements related to the grace period and loan restructuring process described above, we have increased the period of arrears associated with the NPL classification from 90 to 120 days (effective until end-October 2020), while also reducing the mandatory provision coverage ratio of related exposures from 110 to 100 percent (effective until end-December 2021). Starting in 2021, the constitution of provisions will resume, once there is greater clarity on the impact of the pandemic on debtors' future repayment capacity.

- We maintain our efforts to strengthen the CNBS capacity in risk-based supervision—with assistance from the Fund and the implementation of the risk-based supervisory methodology developed by the Toronto Center—and continue to strengthen our stress testing capacities. Going forward, we plan to: (i) continue phasing in the liquidity coverage ratio and capital conservation buffer requirements, consistent with FSSR recommendation and Basel II standards; (ii) gradually introduce regulations for market risks; and (iii) develop new methodologies to assess operational risks. We are discussing with the Fund prospective technical assistance to quantify the solvency need in line with the risk profile of insurance institutions. At the same time, we are working on legislation for the insurance and reinsurance sectors to have a modern framework that contributes to the market development and financial inclusion, incorporating capital requirements based on risk.

32. We also maintain our determination to ensure a robust framework to respond to potential financial crises.

- The CNBS has a system of early warning financial indicators to identify financial institutions at risk of experiencing significant deterioration in solvency during economic and financial crises, as well as the powers to request corrective action plans from these institutions. The CNBS has also developed, with technical assistance from the Fund, a methodology to identify systemic institutions worthy of enhanced supervision. In addition, the Council of Financial Stability—composed of representatives from the central bank, the ministry of finance, the CNBS, and the deposit guarantee fund—allows coordination and exchange of information among public sector entities involved in the prevention and monitoring of systemic risks in the financial system.

- Crisis preparedness is also being enhanced at the central bank and the CNBS. The central bank is introducing revisions in its emergency lending facility aimed at simplifying procedures for activation. The CNBS is working with support from the OTA to enhance the bank resolution framework introduced in the 2016 financial sector law, including by: (i) introducing new guidelines for bank recovery plans; (ii) producing a manual on bank resolution mechanisms; (iii) enhancing methodologies to assess bank asset recovery values, including guarantees; and (iv) conducting simulation exercises on bank closures.

33. Improving access to credit by small- and medium-size agricultural producers remains 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 through our second-tier public development bank.

34. We have issued regulations that improve the investment policy framework of public pension funds. The pension funds have to issue investment policies that aim at aligning the maturity of their assets and liabilities and optimizing its risk-return strategy. Furthermore, we will assess whether these future lending policies ensure that the maturity and amount of consumer loans are aligned with the remaining time until retirement.

35. 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

36. 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.

37. 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 are paying temporary unemployment benefits. Including with technical support from UNDP, we are also strengthening our social safety net with food delivery and informal sector transfer programs—including with innovative mechanisms such as vouchers and direct electronic transfers programs—to cover basic needs of more than one million families affected by the pandemic.

38. Electricity subsidy and temporary relief measures. As suggested above, we will continue providing the subsidy for households consuming up to 75KW per month. Furthermore, we approved last January an additional temporary subsidy—until end-2020—to buffer the impact of the energy price increase on households. ENEE also temporarily adjusted its collections policy, allowing consumers to pay a portion of the bill for the duration of the lockdown.

39. 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

40. 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. We submitted to Congress legislation requiring public regulatory agencies to streamline and publicize requirements for obtaining permits, to reduce discretion and accelerate approvals (*structural benchmark, June 2020)*. We also developed a plan to implement the electronic signature to simplify public administration procedures (*structural benchmark, December 2019*).

41. 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. While the main components of the integration between *Honducompras 2* and the Treasury's IFMIS (SIAFI) have been developed, additional functionalities are still needed for its completion. This requires the hiring of a vendor to maintain and update the software platform for *Honducompras 2*—which we are expecting to finalize by end-November 2020. Once this software support is in place, additional functionalities to secure the integration of *Honducompras 2* with SIAFI will be developed. The first phase of the integration will include updating SIAFI's financial information with the final values of the purchase order registered in *Honducompras 2* and ensuring consistency between SIAFI's budget classifications and the catalogue of goods and services in *Honducompras 2* (*proposed revised and rescheduled structural benchmark, June 2021*).

- *Fiscal Risks.* To improve the framework for Public-Private Partnerships (PPP), we created—with support from the Inter-American Development Bank—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 High 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 high Court of Accounts exclusive responsibility over their nomination and removal. With technical support from the Fund, the High Court of Accounts issued in October by-laws to reform the public officials' asset declaration system in line with good international practices (*structural benchmark, September 2020*). 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.

42. **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, with Fund technical support, we submitted 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

43. 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 expect to hire a consulting firm to assist in the transition to IFRS during 2021Q1.

44. Program monitoring. The temporary approval of two multiple currency practices (MCPs) approved at the second review is still valid. 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. With the requested program extension by four months and rephasing of the March 2021 test date to June 2021, 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.

45. 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 2019-21			
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
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	
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	
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
Submit to Congress draft legislation requiring regulatory agencies to streamline and publicize requirements for obtaining permits (*Ley de Simplificación Administrativa*).	June 2020	Met	
Establish a centralized wage bargaining mechanism, in line with the FRL.	June 2020	Met	
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	Met	
Hire a firm to perform the valuation of assets of ENEE to facilitate the unbundling process and prepare for a financial audit.	July 2020	Not met	Firms to value the generation and transmission assets were hired in October and November, respectively. To cover the valuation of distribution assets, proposed to be revised and rescheduled for December 2020 and March 2021, see below.

Table AI.1. Honduras: Structural Benchmarks 2019-21 (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	Not met	Completed in October 2020.
Ensure that the procurement portal *Honducompras 2* is integrated with the Treasury's IFMIS (paragraph 37 of MEFP).	September 2020	Not met	Proposed to be revised and rescheduled for June 2021, see below.
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	Met	
Expand the coverage of the budget annex on tax exemptions to perform cost-benefit analysis of these expenditures.	September 2020	Met	
Introduce legislation to transfer all verification procedures for the management of tax exemptions from SEFIN to SAR.	November 2020	…	Proposed to be rescheduled to December 2020.
Amend Article 89 of the Tax Code, allowing for electronic notification of SAR procedures to taxpayers.	November 2020	…	Proposed to be rescheduled to December 2020.
Terminate the trust fund on electricity distribution (Decree 118-2013).	December 2020	…	
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 to be rescheduled for March 2021.
Hire a firm to identify ENEE's distribution assets.	December 2020	…	Proposed as new.
Hire a firm to perform the valuation of ENEE's distribution assets.	March 2021	…	Proposed as new.
Finalize phase 1 of the integration between *Honducompras 2* and SIAFI, including the update of SIAFI's financial information with the final values of the purchase order in *Honducompras 2* and ensuring consistency between SIAFI's budget classifications and *Honducompras 2* catalogue of goods and services.	June 2021	…	Proposed as new.
Automate the process to record operations between companies under special regimes (see paragraph 9 of the MEFP).	June 2021		Proposed as new.
Submit to Congress a draft bill to streamline tax exemptions, including those that are not in line with commitments under the benefit and/or lack proof of economic impact, effective in 2022.	June 2021	…	Proposed as new.

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

(Cumulative flows; millions of Lempiras, unless specified)

	2019				2020						2021	
	End-Dec.				End-Jun.				End-Dec.		End-Jun.	
	Prog.	Adj.	Actual	Status	Prog.	Adj.	Actual	Status	Prog.	Rev.	Indicative	Prop. PC
QUANTITATIVE PERFORMANCE CRITERIA												
Fiscal targets 2/												
Net lending/borrowing of the nonfinancial public sector (-= borrowing, floor)	-6,100	...	-5,276	Met	-37,304	...	-11,075	Met	-25,000	-30,017	-19,188	-17,899
Net lending/borrowing of ENEE (-= borrowing, floor) /3	-6,160	...	-5,937	Met	-3,264	...	-1,716	Met	-5,250	-5,114	-3,000	-2,300
Lending minus repayments from public pension funds (ceiling)	800	...	599	Met	600	...	-1,215	Met	800	800	500	500
Public debt targets												
Accumulation of domestic arrears by ENEE (ceiling) 4/	0	...	0	Met	2,500	...	3,517	Not met	0	...	0	...
Stock of domestic arrears by ENEE (ceiling)	...	...	...		...	...	...		...	0	...	0
Accumulation of new external arrears (ceiling, in million US$) 5/	0	...	0	Met	0	...	0	Met	0	0	0	0
Monetary targets												
Stock of non-borrowed net international reserves of the Central Bank (floor, in million US$)	3,972	4,016	4,669	Met	4,669	4,725	5,725	Met	4,687	4,851	4,947	5,016
Stock of net domestic assets of the central bank (ceiling) 6/	-53,931	-55,019	-70,430	Met	-73,634	-74,997	-94,159	Met	-69,581	-69,012	-80,991	-78,527
QUANTITATIVE INDICATIVE TARGETS 2/												
Tax revenue of the central government (floor)	107,180	...	107,446	Met	34,264	...	40,683	Met	97,216	84,238	57,807	49,488
Wage bill of the central government (ceiling) 7/	47,000	...	46,962	Met	30,300	...	23,832	Met	50,500	48,020	32,630	30,151
Priority social spending (floor)	5,873	...	6,375	Met	2,193	...	2,784	Met	7,309	9,445	2,412	3,631
Operating revenue-to-spending ratio of ENEE (floor)	1.02	...	0.98	Not met	0.97	...	0.99	Met	0.97	0.99	1.02	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 Rephased Disbursements, Purchases, and Timing of Reviews Under the SBA/SCF Arrangements, 2019-21 [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 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 and continuous 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 and continuous 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 and continuous performance criteria and completion of the fourth review	24.980	7.494	17.486	10.00	3.00	7.00
August 1, 2021	Observance of end-June 2021 and continuous 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 13 shows the current phasing under the program.

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–November 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	24.42
SDR to the U.S. dollar	0.72
Yen to the U.S. dollar	110.92
Euro to the U.S. dollar	0.89
Canadian dollar to the U.S. dollar	1.34
British Pound to the U.S. dollar	0.76
Renminbi to the U.S. dollar	6.72

3. In addition to the performance criteria listed in Tables AI.2 the arrangements will include the performance criteria standard to all Fund arrangements, namely:

- **i.** no imposition or intensification of restrictions on the making of payments and transfers for current international transactions;
- **ii.** no introduction or modification of multiple currency practices;
- **iii.** no conclusion of bilateral payments agreements that are inconsistent with Article VIII of the IMF Articles of Agreement;
- **iv.** no imposition or intensification of import restrictions for balance of payments reasons.

These four performance criteria will be monitored continuously.

4. 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

5. 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

6. 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.

7. 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.

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

9. 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

10. 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.

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

12. 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

13. 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.

14. 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.

15. 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 ENEE's Accumulation and Stock of Domestic Arrears

16. 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.

17. 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. The last test date for this performance criterion is June 2020.

18. Stock of arrears. Starting with test date December 2020, the program will monitor the stock of ENEE's domestic arrears.

19. 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

20. 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

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

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:

a. 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);

b. 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

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

21. 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.

22. 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.

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

Floor on the stock of Non-Borrowed Net International Reserves

24. 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.

25. 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.

26. 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.

27. 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.

Adjustors

28. Adjustor for multilateral loans. The NIR target will be adjusted upward (downward) by the surplus (shortfall) in program loans and disbursements from 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 and Project Disbursements

Cumulative flows	Million of US$
end-December 2020	1,026
end-June 2021	527

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

29. 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.

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

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

32. Adjustor for multilateral loans. The NDA target will be adjusted downward (upward) by the surplus (shortfall) in program loan disbursements from 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

33. 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.

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

35. 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

36. 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.

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

38. 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

39. 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. Newly created social programs to mitigate the impact of the Covid-19 pandemic ("*Saco solidario*", "*Bono Unico*", "*Bono Transporte*" and "*Aportación Solidaria Temporal*") will be included in the coverage starting with test date December 2020. For program purposes, all interventions listed in Table AII.3 will be considered priority social spending.

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 childhold
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
Saco solidario
Bono Unico
Bono Transporte
Aportación Solidaria Temporal

40. 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

41. 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.

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

Statement by the Staff Representative on Honduras
Executive Board Meeting
December 14, 2020

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

1. In November, Honduras, along with other countries in the region, was hit by two major tropical storms; the assessment of infrastructure damage and the impact on growth is still ongoing. Entering the country within 10 days, Eta and Iota caused almost 100 fatalities and significant infrastructure damage (affecting around 85,000 houses, 900 roads and 130 bridges). Some 96,000 persons have been relocated to temporary shelters, which risks intensifying the Covid-19 outbreak. Furthermore, the tropical storms had an impact on crops, with the full extent of damage still unclear. The Economic Commission for Latin America and the Caribbean (ECLAC) is leading the full assessment of economic damages, with results expected later this month. It is too early to estimate the impact on growth. The central bank's initial estimate is a negative growth impact from Eta of up to one percentage point in 2020, with the immediate impact stemming from crop losses. However, more data is needed to assess this and an official estimate of the impact of Iota is still pending. Staff is currently working on assessing climate change issues in Honduras.

2. In response to these natural disasters, the authorities have taken some immediate measures. They cut the monetary policy rate by 75 basis points to 3 percent, extended the period for banking sector debt restructurings—as described in paragraph 27 of the staff report—until end-March 2021 and granted a grace period on debt service until end-January 2021 to those affected by Eta and Iota. The public development bank (Banhprovi) broadened eligibility for its long-term refinancing program to SMEs affected by the storms, and reallocated resources towards its agricultural loan program. The authorities reiterated their plan to cope with the impact within the contours of their economic program and contingency plans, including to accommodate additional emergency spending via budget reallocations in 2020.

3. Honduras is likely to benefit from additional concessional financing in response to Eta and Iota. Multilateral development banks (MDB) and several partner countries have expressed their intention to support reconstruction and climate change risk mitigation spending. While the size of additional financial support is unclear at this stage, it could shift the financing mix towards more concessional financing, in particular in 2021—including if MDB project support is reallocated towards emergency reconstruction projects under concessional terms.

Statement by Mr. Moreno, Executive Director, Ms. Rivera Molina, Senior Advisor to the Executive Director, and Mr. Cartagena, Advisor to the Executive Director on Honduras December 14, 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 and challenging times for the country. We also thank the Board and Management for their continued support and prompt response to their requests.

I. General remarks

The authorities attach high value to the engagement with the Fund which has anchored Honduras' economic policy agenda. This close engagement during the country's recent history has been instrumental for the satisfactory execution of structural reforms, to reduce macroeconomic imbalances, to institutionalize fiscal prudence, and to lay the groundwork for a modern monetary policy framework. Strong performance under the 2014-2017 IMF program boosted structural reforms, strengthened institutions and helped to improve market and investor confidence. Following the successful completion of the former program, Honduras started a new Stand-by Agreement (SBA) in July 2019 to support the country's economic and institutional reforms, which aimed at increasing the quality of fiscal policy and improving governance and the business environment. This progress reflects the country's continuous commitment in the past years to take the necessary steps and measures to improve its policy and economic framework.

Despite the challenging circumstances posed by COVID-19 and the tropical storms, the authorities have steadfastly continued implementing the program, which has helped alleviate the adverse impact of the pandemic on the socio-economic conditions of the Honduran population. During part of the second review and through the whole third review, Honduras tackled the largest impact of the COVID-19 pandemic, which was aggravated by the two most recent tropical storms, Eta and Iota. The authorities have deployed a well-targeted fiscal response to the COVID-19 pandemic while strengthening transparency and accountability frameworks. They have also made reallocations of nonpriority expenditures to finance the emergency needs caused by the pandemic and tropical storms. The financial support that Honduras has received through the SBA has permitted to achieve the program's objectives and support the economy. As highlighted by staff, Honduras has complied with the criteria and targets of the program, despite the challenging circumstances derived from the COVID-19 shock and of the most recent natural disasters. The progress in the execution of the Honduras' SBA reflected for this third review reaffirms the authorities' commitment.

Honduras has taken decisive steps to strengthen transparency, governance and administrative/fiscal technical capacity, with the instrumental support of capacity development. The Technical Assistance and support provided by the IMF (Fiscal Affairs Department) and other multilateral and regional institutions (World Bank and InterAmerican Development Bank) have facilitated moving ahead with the reform agenda set out in the program and to comply with the program's objectives and targets for this review. The Honduran authorities truly recognize the Fund as a trusted advisor.

Going forward, the authorities remain firmly committed to fiscal sustainability. They intend to build on previous program achievements to strengthen the policy and institutional frameworks and to continue with the revenue mobilization agenda that will increase fiscal space to foster growth, reduce poverty and put debt in a downward trajectory over the medium term. Honduras is using the flexibility in the Fiscal Responsibility Law (FRL) to increase its fiscal deficits in 2020 and 2021 to mitigate the impact of the pandemic. They are committed to resume fiscal consolidation once the pandemic is contained, and return in 2022 to a fiscal position consistent with the FRL. Despite the challenging circumstances of the pandemic and impact of climate change, the authorities have confirmed their commitment to comply satisfactorily with the goals and targets of the SBA, as presented for this third review.

II. Recent Developments

The COVID-19 pandemic has hit Honduras hard. As of November 15th, there were 103,102 confirmed cases and 2,823 deaths. The government has gradually reopened the economy keeping some containment measures to continue addressing the pandemic amid a deteriorated health system and the still rising number of cases. Central Bank estimations account for a contraction of the economy expected at around 7 percent by the end of the year (without the estimated impact of the tropical storms), while the impact of the pandemic on tax revenue is projected to fall 1.7 percent of GDP, caused by delays in the reopening of the economy and weak external conditions. Remittances have recovered (they increased 2.3 percent by November 2020, yoy) but exports remain low (increased 0.3 percent by September, yoy). The economy is expected to recover in 2021 to 4.9 percent of economic growth. Inflation in November reached 3.8 percent, remaining in the lower bound of the Central Bank target.

The country has been doubly impacted by recent tropical storms, aggravating the economic shock. The recent storms Eta and Iota have largely affected the Honduran population, their crops and infrastructure, leaving more than 76,000 sheltered. According to preliminary estimations made by the Central Bank and the Secretary of Agriculture and Livestock, tropical storm ETA affected crop areas of African palm, sugar cane and rice, mostly in the northern coast of the country. The first estimates from the Central Bank account for an additional drop of 1 percentage point of GDP in 2020, only as a consequence of the first tropical storm (Eta); Iota will aggravate the contraction that the first storm provoked.

Consistent with the needs raised by the pandemic, the authorities loosened the fiscal stance to support health and social spending. The Non-Financial Public Sector (NFPS) fiscal deficit is projected to expand to 5 percent of GDP in 2020 and 4 percent of GDP in 2021. Congress has already approved the increase in the ceilings of the NFPS deficit using the escape clause under the Fiscal Responsibility Law (FRL), and to return to the deficit ceiling of 1 percent of GDP in 2022. There is a strong commitment to the FRL and to maintain fiscal prudence, as well as to maintain public debt on a sustainable path and to continue working on their revenue mobilization agenda. Authorities have submitted legislation—pending for approval—for introducing electronic notification of taxpayers and the return of the tax administration office (SAR) for procedures on tax exemptions.

The Central Bank of Honduras (BCH) reaffirms its commitment to 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. The BCH has reduced surrender requirements by 30 percent from December 7th, with the intention to eliminate this requirement by June 2021, letting the FX be traded through the interbank market. The Central Bank has implemented a more flexible monetary policy by bringing down the monetary policy rate by 250 basis point this year, reaching a level of 3 percent in November, the lowest figure observed since 2005, promoting credit for businesses and homes to reactivate the economy and provide resources for reconstruction.

The authorities continue to closely monitor the impact of the pandemic on the financial sector and are committed to preserve financial stability. While bank liquidity, Non-Performing Loans (NPL), profitability and capital adequacy are currently adequate, there is a commitment to take the necessary regulatory measures according to the circumstances to guarantee liquidity, solvency and disclosure of losses in the financial system. In response to the shock created by the pandemic, like other countries in the region, some temporary flexibility measures have been introduced in some prudential buffers, including on the constitution of provisions for those credits that were zero days past due as of February 29th, temporary debt relief, or the restructuring of loans in 2020. These measures were due in December 2020. However, as a result of the tropical storms (ETA and IOTA) these measures were extended to March 2021. Nevertheless, starting in 2021, the constitution of provisions will resume, once there is greater clarity on the impact of the pandemic and the natural disasters on debtors' future repayment capacity. The authorities maintain their commitment to further strengthen the regulatory framework and supervisory practices.

III. Program Performance and Authorities' Commitment

The authorities stand firmly committed to the program, which remains on track, as well as to continue implementing prudent macroeconomic policies and deep structural reforms. As stated in the Letter of Intent (LOI), they are firmly committed to the program, including the main objectives of: (i) improving the quality of fiscal policy through reforms that protect investment and social spending while maintaining debt sustainability; (ii) strengthening monetary policy and financial institutions to buffer shocks and maintain stability; and (iii) improving the business environment and governance to foster inclusive growth, including by stepping up efforts to fight against corruption.

Despite the headwinds to growth in 2020 because of COVID-19 and the impact of climate change, all but one quantitative performance criteria (PC), and all Indicative Targets (IT) for the third review have been met. The COVID-19 pandemic, and most recently two tropical storms, have weakened Honduras's economic prospects. Despite these shocks, the authorities complied satisfactorily with the review and remain focused on managing even the impact of the most recent tropical storms shocks within the contour of the current economic program. By the time the third review ended, the accumulation of domestic arrears by ENEE was not met because of liquidity shortages that the pandemic created; however, Honduras paid down US$600 million in historical ENEE arrears to generators and debt of ENEE trust funds (around 1½ percent of GDP, accumulated before program inception).

As stated in the LoI, our authorities are strongly committed to continue strengthening procurement processes, internal controls, and monitoring systems to guarantee transparency and accountability of emergency spending. Honduras has made important advances in transparency, increasing the availability of pandemic-related spending. They took prompt corrective measures when some irregularities raised in the agency previously in charge of COVID-19 emergency purchases (Invest-H), with an international audit of emergency purchases. Procurement contracts will continue to be published, including the names of the companies awarded with pandemic-related contracts, as well as post-crisis reports of pandemic-related spending. A new procurement law was submitted to Congress, which modernizes the process and strengthens compliance though the enhanced public purchases and contracting platform, Honducompras2, which is already being used by central government agencies.

The authorities have made progress in the electricity sector and remain committed to consolidate the reform agenda included in the program. The technical advice from World Bank has been helpful for the framework of the new tariff scheme and the authorities continue working on the reassessment of the generation contracts that have not come into effect. The reform agenda is focusing on strengthening supervision, reducing losses, and strengthening governance, audit and scissions of the state-owned enterprise (ENEE). All domestic arrears with generators and debt of ENEE trust funds have been cleared through the placement of a US$600 million sovereign bond, which shows the authorities' commitment to avoid recurrence in arrears and help to resolve liquidity issues in the sector. They have also made provisions in the 2021 budget to guarantee payment of electricity bills by public institutions.

As stated in the LoI, our authorities have requested the extension of the SBA and SCF arrangements by four months to November 14, 2021 and a rephasing of the last test date from March to June 2021. This will allow for additional time to complete the last review of the program and maintain the semi-annual review cycle. It would also provide time to complete proposed new structural benchmarks by June 2021.