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HONDURAS

September 2021

FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR AUGMENTATION OF ACCESS, EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA

In the context of the Fourth Reviews Under the Stand-by Arrangement and the Arrangement Under the Standby Credit Facility, Requests for Augmentation of Access, Extension and Rephasing of the Arrangements, and Waivers of Nonobservance 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 September 13, 2021, following discussions that ended on May 5, 2021, 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 August 30, 2021.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Honduras.

The 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

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IMF Executive Board Completes the Fourth Review Under the IMF's Stand-By Arrangement and Arrangement Under the Stand-By Credit Facility for Honduras

FOR IMMEDIATE RELEASE

- *The Executive Board of the International Monetary Fund (IMF) completed today the fourth review under the SBA and SCF for Honduras. The completion of the review enables an immediate disbursement of SDR 87.4 million (US$125.8 million).*
- *Honduras' worse than expected economic contraction in 2020 will only be partly reversed in 2021.*
- *The ongoing health emergency and significant reconstruction from tropical storms Eta and Iota needs warrant a temporarily looser fiscal stance. However, the authorities remain steadfastly committed to macroeconomic stability, fiscal responsibility, and structural reforms.*

Washington, DC – September 13, 2021: The Executive Board of the International Monetary Fund (IMF) completed today the fourth review of Honduras' performance under its economic program supported by a Stand-By Arrangement (SBA) and an arrangement under the Standby Credit Facility (SCF), approved an augmentation of access by SDR 149.9 million (US$215.8 million), and extended the duration of the SBA and SCF by two months until January 14, 2022.

The two-year arrangements under the SBA and SCF were approved on July 15, 2019 (see Press Release 19/284). Including the augmentations approved today and on June 1, 2020 (see Press Release 20/230), the two-year arrangement provides access to about SDR 537.1 million (about US$773 million).

The completion of the review allows for immediate disbursements of SDR 87.4 million (about US$125.8 million) to help Honduras meet its balance of payments and fiscal financing needs which have been exacerbated by the ongoing pandemic and tropical storms Eta and Iota.

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

"Despite the pandemic and tropical storms, the Honduran authorities remain committed to macroeconomic stability and continue to implement many of the reforms under the IMF-supported program. Nonetheless, sustained efforts and steadfast implementation of structural reforms, especially in the governance and financial management of the electricity sector, are urgently needed.

"The ongoing health emergency and significant reconstruction needs call for a temporarily looser fiscal stance in 2021-2022. The authorities appropriately triggered the escape clause under the Fiscal Responsibility Law which will help support the economy without jeopardizing the debt trajectory; Honduras' risk of debt distress remains low. Further advancing procurement and electricity sector reforms, together with the revenue mobilization agenda, will be key to preserve hard-won gains. The authorities' commitment to fiscal prudence over the medium term will also be crucial to anchor debt sustainability.

"Monetary policy accommodation remains appropriate in the current conjuncture. The authorities should continue their efforts to strengthen the monetary policy framework and continue the transition towards a more flexible exchange rate regime which will help anchor price stability and safeguard international reserves. Engaging Congress for a swift passage of the draft laws submitted during the program will help anchor policy continuity.

"Continued vigilance, together with prudent provision of liquidity and support for credit growth will bolster financial stability. The new requirement for supervised institutions to establish equity reserves will help build buffers. The authorities continue to enhance crisis preparedness and stand ready to act as needed.

"Expeditiously improving governance in the public electricity company (ENEE) and strengthening its financial situation will be key for fiscal sustainability and improving the business environment. Restarting the loss reduction strategy and containing the recurrence of arrears should be focal points.

"Continued institutional strengthening is essential to step up the fight against corruption. As part of this work, the authorities have aligned public officials' asset declarations with international standards and are finalizing the completion of a comprehensive beneficial ownership registry. Implementing the new procurement portal and streamlining administrative procedures will be important next steps.

"Expanding investments in climate-resilient infrastructure will be key to sustainable development given the country's vulnerability to climate shocks."

HONDURAS

August 30, 2021

FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR AUGMENTATION OF ACCESS, EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA

Context. The protracted pandemic and two tropical storms have hit Honduras hard. Despite authorities' responses, these shocks continue to weigh on activity; reconstruction needs are high while the outlook remains uncertain. The authorities plan to rebuild a more climate-resilient economy, given Honduras' vulnerabilities to climate change. Presidential elections are scheduled for November 2021.

Augmentation, Extension, and Rephasing Request. 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. As the tropical storms and continued pandemic have created additional balance of payments needs, an aggregate augmentation of access by SDR149.88 million (60 percent of quota), comprising SDR99.92 million under the SBA (40 percent of quota), and SDR49.96 million under the SCF (20 percent of quota) will support the authorities' reconstruction and COVID-19 efforts, while helping maintain reform momentum. A two-month extension and a rephasing of the availability date of the last disbursement are requested.

Program Implementation. The Fund-supported program remains broadly on track notwithstanding multiple shocks which caused the non-observance of some targets: the non-financial public sector balance PC (end-December), due to higher-than-expected pandemic and storm-related emergency spending; ENEE's domestic arrears PC (end-December and end-June), due to mounting and protracted liquidity pressures; the social spending IT (end-December and end-June), due to slightly slower take-up of one measure on pandemic-related support and shift to storm-related support; and the continuous PC on non-accumulation of external arrears due to a technical delay. Waivers of nonobservance are requested. Structural reforms on fiscal, governance and electricity sector issues are advancing, albeit slowed by shocks. The authorities completed two prior actions, on eliminating tax exemptions and improving governance on a trust fund.

Focus of the Reviews. Discussions focused on the impact of the tropical storms, adapting the policy response, and sustaining reform momentum. Topics included adjustments to the fiscal stance to incorporate reconstruction spending and continued emergency measures, challenges and next steps in electricity sector reform, potential vulnerabilities in the financial sector, and advancing the governance and revenue mobilization agendas.

Approved By
Patricia Alonso-Gamo (WHD) and Maria Gonzalez (SPR)

Discussions took place via conference call during April 26-May 5, 2021. The staff team comprised Joyce Wong (head), Julia Bersch, Carlos Chaverri-Morales, and Dmitry Vasilyev (all WHD), Luca Mazzone (FAD), and Tito Nicias Teixeira Da Silva Filho (SPR). Jaume Puig, Resident Representative in Tegucigalpa and Francia Rivera Molina and Edgar Cartagena (OED) participated in the discussions. Justin Lesniak and Heidi Canelas (all WHD) provided research assistance and document management, respectively.

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ECONOMIC AND POLITICAL CONTEXT

1. **Reforms are on course despite a protracted pandemic and two tropical storms; however, challenges are mounting.** The authorities' policy response mitigated the health impact of the pandemic, but the lockdowns weighed on activity. Two tropical storms struck last November damaging infrastructure and crops, and halting maquila production. Authorities have maintained macroeconomic stability and hard-won institutional gains but risks are increasing, as reconstruction needs are significant, while financing conditions are tightening. Nonetheless, this could be an opportunity to rebuild with climate-resilient infrastructure.

2. **Presidential elections are scheduled for November.** Final candidates were declared in May and they include Nasry "Tito" Asfura for the incumbent *Partido Nacional*, Xiomara Castro for *Partido Libre*, Yanni Rosenthal for *Partido Liberal*, and Salvador Nasralla for *Partido Salvador de Honduras,* who was the runner-up of the last election. The new administration would take office on January 27, 2022.

3. **The authorities remain committed to the program and adapting it to the difficult circumstances will support reform momentum**. The Fund-supported program remains broadly on track with key quantitative targets met and progress on structural reforms. To continue supporting these efforts, while recognizing the additional balance of payments needs created by the tropical storms and continued pandemic, the authorities are requesting an augmentation of access by an aggregate SDR149.88 million (60 percent of quota), augmenting the SBA by SDR99.92 million (40 percent of quota) and the SCF arrangement by SDR 49.96 million (20 percent of quota).

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

4. **A deep contraction in 2020 with a partial recovery in 2021.** A nascent recovery in mid-2020 was interrupted by two tropical storms in November which damaged crops, halted manufacturing, and damaged infrastructure. As a result, GDP contracted by 9 percent in 2020 (versus 7 percent projected at the third reviews) while the unemployment rate reached 10.9 percent. Strong remittances, import contraction, and resilient exports buffered the external position as the current account switched to a 3 percent of GDP surplus and international reserves increased by US$2.4 billion. The NFPS deficit increased to 5.5 percent of GDP on the back of emergency spending. Projected growth in 2021 remains unchanged at 4.9 percent as the negative impact from the storms and the continuing pandemic is offset by reconstruction spending and stronger U.S. growth. Inflation is expected to remain within the BCH's target band. The current account is projected to deteriorate, driven by higher import values while exports remain constrained. The NFPS

deficit is projected to reach up to 5.4 percent of GDP as reconstruction costs and continued pandemic-related spending are barely offset by recovering revenues.

Text Table 1. Honduras: Program Scenario

(Selected Indicators, Percent of GDP Unless Otherwise Specified)

	Actual	Prel.	2020		2021		Projections				
	2018	2019	Prog.	Est.	Prog.	Proj.	2022	2023	2024	2025	2026
Real											
GDP growth	3.8	2.7	-7.0	-9.0	4.9	4.9	4.4	3.5	3.6	3.7	3.9
Inflation (average, percent change)	4.3	4.4	3.5	3.5	4.0	4.6	3.7	4.0	4.0	4.0	4.0
Fiscal											
Tax revenue	18.9	18.3	14.8	15.5	16.4	16.8	17.5	18.2	18.0	17.9	17.8
Primary balance	0.0	0.2	-3.8	-4.2	-2.5	-4.3	-1.3	0.5	0.6	0.3	0.5
Overall balance	-0.9	-0.9	-5.0	-5.5	-3.8	-5.4	-2.3	-1.0	-1.0	-1.0	-1.0
Gross debt 1/	41.9	46.2	52.9	54.5	53.7	58.7	59.7	59.3	58.6	57.9	56.7
Balance of payments											
Current account balance	-5.8	-1.4	-0.3	3.0	-2.6	-3.2	-3.4	-3.6	-3.8	-3.9	-4.0
Foreign direct investment	3.7	2.0	1.4	1.6	1.9	2.0	2.4	2.7	3.1	3.5	3.8
Terms of trade (percent)	-6.2	-0.3	10.2	9.8	-0.4	-8.7	0.7	1.2	0.8	0.6	0.5
Monetary											
Change in net international reserves (mill. U.S.) 2/	50	956	650	2340	290	72	675	514	691	633	584
Credit to the private sector (percent change)	14.3	8.8	4.5	3.2	6.6	6.2	4.0	6.3	6.2	6.2	7.7

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

1/ Debt projections use the defintion from the DSA.

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

5. **The economy is projected to continue its recovery in 2022, before returning to its medium-term trend**. With vaccinations and positive spillovers from the U.S., real GDP in 2022 is expected to grow at 4.4 percent. The medium-term growth outlook remains just below 4 percent while inflation is projected to remain at the center of BCH's target band. As the economy recovers, the current account deficit is forecast to reach 4 percent of GDP, smaller than the level implied by fundamentals and desirable policies. The fiscal balance is projected to return to the 1 percent of GDP deficit ceiling in the FRL in 2023, supported by a recovery in revenues and the gradual unwinding of pandemic support with public debt declining over the medium-to-long term.

6. **While overall risks remain tilted to the downside, positive global spillovers provide some upside (Annex I)**.

- *COVID-19*. New variants and slow vaccinations could delay the recovery. Lockdowns and perceived inequality of access to vaccines could deepen social discontent, with severe economic and social consequences.
- *External risks*. Accelerating de-globalization could undermine exports and deteriorate the external position, as would bouts in oil price volatility. Market volatility poses risks to access and costs of financing. On the upside, remittances could be stronger and U.S. aid to the region could materialize.
- *Domestic risks*. An uncertain political landscape in the context of elections may complicate the passage of politically sensitive reforms and pressure public spending. Concerns about social

unrest could thwart reform efforts. The increased frequency and severity of climate shocks could impact the country's medium-term growth prospects.

PROGRAM IMPLEMENTATION

7. The program remains broadly on track notwithstanding multiple shocks which caused some targets to not be observed (Text Table 2).[1] For end-December, the NFPS deficit target was missed by 2.4 billion Lempira (about 0.4 percent of GDP), as pandemic and end-year storm-related emergency spending was higher than expected. Continued pandemic-related liquidity shortages at ENEE, exacerbated by the storms, led to a non-observance of the domestic arrears PC by 4.4 billion Lempira (about 0.7 percent of GDP) in end-December and 7.5 billion Lempira (about 1.2 percent of GDP) in end-June. Slow uptake of the *bono transporte* explained smaller than programmed social spending by end-December while the end-June indicative target was missed due to a rerouting of resources into programs to address the impact of the tropical storms, which were created after the completion of the 3rd reviews and thus not included in the program definition. A late receipt of the payment order led to a delay a debt service payment to Switzerland and a temporary non-observance of the external arrears continuous PC; these have since been cleared.

Text Table 2. Honduras: Program Implementation 1/

(Cumulative flows; millions of Lempiras, unless specified)

	2020				2021			
	End-Dec.				End-Jun.			
	Prog.	Adj.	Actual	Status	Progr.	Adj.	Actual	Status
QUANTITATIVE PERFORMANCE CRITERIA								
Fiscal targets 2/								
Net lending/borrowing of the nonfinancial public sector (-= borrowing, floor)	-30,017	...	-32,446	Not met	-17,899	...	4,164	Met
Net lending/borrowing of ENEE (-= borrowing, floor) /3	-5,114	...	-4,574	Met	-2,300	...	-1,666	Met
Lending minus repayments from public pension funds (ceiling)	800	...	-1,848	Met	500	...	242	Met
Public debt targets								
Stock of domestic arrears by ENEE (ceiling)	0	...	4,379	Not met	0	...	7534.1	Not met
Accumulation of new external arrears (ceiling, in million US$) 4/	0	...	0	Met	0	...	0.075	Not met
Monetary targets								
Stock of non-borrowed net international reserves of the Central Bank (floor, in million US$)	4,851	4,806	6,244	Met	5,016	4,584	6,786	Met
Stock of net domestic assets of the central bank (ceiling) 5/	-69,012	-67,912	-98,971	Met	-78,527	-67,968	-115,189	Met
QUANTITATIVE INDICATIVE TARGETS 2/								
Tax revenue of the central government (floor)	84,238	...	86,486	Met	49,488	...	58,490	Met
Wage bill of the central government (ceiling) 6/	48,020	...	48,001	Met	30,151	...	26,290	Met
Priority social spending (floor)	9,445	...	9,199	Not met	3,631	...	3,260	Not met
Operating revenue-to-spending ratio of ENEE (floor)	0.99	...	1.00	Met	1.02	...	1.03	Met

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/ Continuous PC.
5/ Using the program exchange rate of L24.4316 = 1US$.
6/ Corresponds to the budgetary central governement (*Administración Central*) in the authorities' sectorization.

[1] Program performance under the SCF arrangement is assessed under end-December 2020 PCs while performance under the SBA is assessed under the end-June 2021 PCs.

8. There has been some progress on structural reforms, though challenges remain.

- *Completed:* the tax code was amended to allow for electronic notification to taxpayers (structural benchmark (SB) met), and a consultant was hired to identify and value ENEE's distribution assets (SB not met, completed with delay and SB met, respectively). The cost of operating and maintaining the electricity distribution network (COMA) study was completed (SB not met, completed with delay). A draft bill to streamline tax exemptions was submitted to Congress (¶14, SB met). Two prior actions were completed (¶13 and 24), in line with program goals of eliminating tax exemptions and improving governance.
- *In progress:* The integration of the procurement portal *Honducompras2* with IFMIS (SB not met) has been delayed by IT issues. The automated process to record trade in special regimes has been delayed due to coordination issues across agencies (SB not met). Both are proposed to be reset to end-September 2021.
- *Not completed*: The authorities were not able to cancel the distribution trust fund (SB not met), as strategic negotiations continue with the operator of the distribution network. However, the transmission trust fund was eliminated. The transfer of control of tax exemptions to SAR remains pending in Congress (SB not met) but preparatory technical work continues at SAR. These SBs are not proposed to be reset but authorities will continue to advance reforms in these areas (see ¶13 and ¶20).

POLICY DISCUSSIONS

Discussions focused on the impact of the tropical storms, adapting the policy response, and sustaining reform momentum. Topics included adjustments to the fiscal stance to incorporate reconstruction spending and continued emergency measures, challenges and next steps in electricity sector reform, potential vulnerabilities in the financial sector, and advancing the governance and revenue mobilization agendas.

A. Addressing Fiscal Challenges and Supporting the Recovery

Improving the Response to the Pandemic

9. Progress continues to strengthen transparency and controls of emergency-related spending. The enhanced labeling system to track emergency spending in the budget, implemented with IMF support, is now operational. The manual of emergency-related public procurement procedures was approved, introducing guidance on critical elements.[2] The authorities have also started to publish emergency procurement contracts. Work is ongoing, in collaboration with development partners, to enhance internal controls in agencies involved in emergency acquisitions. The High Court of Accounts (TSC) continues to conduct and publish concurrent audits of pandemic-

[2] These include: (i) procedural requirements to establish technical specifications for the acquisition of goods and services; (ii) a list of certified suppliers; (iii) a reference list for prices; and (iv) mandatory supply guarantees.

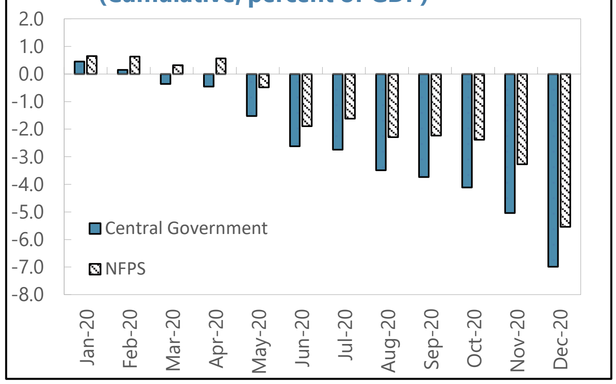
related spending. The TSC has completed and published two special audits of institutions executing this spending and two additional ex-post audits were also completed in August. Work on beneficial ownership information continues as well (see ¶25).

10. Execution of pandemic-related spending accelerated. In 2020, COVID-19-related spending reached 1.8 percent of GDP (10.5 billion Lempira), exceeding projections by 1.3 billion Lempira. Authorities also engaged digital technologies, distributing electronic cash vouchers to more than 70,000 households via mobile phones. As the roll-out of income support for workers in the transportation sector (*bono transporte*) was slower than expected, priority social spending under the program was marginally below targets in end-December and end-June by about 0.04 percent of GDP.

Supporting Reconstruction and the Recovery

11. The 2020 NFPS deficit exceeded the program target as emergency spending in response to the pandemic and tropical storms was larger than expected. The deficit widened to 5.5 percent of GDP compared to 5 percent under the program. This was driven by higher spending (2.3 billion Lempira), as revenue in nominal terms was in line with projections. In November and December, pandemic-related spending also accelerated, exceeding the annual target (see above), and immediate storm-related emergency needs added a further 1 billion Lempira in spending. Only part of this spending could be accommodated through additional reallocations (about 0.7 billion Lempira), as the needs were immediate and the fiscal year was closing. Given the temporary nature of the non-observance, the authorities are requesting a waiver of non-observance for the missed NFPS balance PC for end-December.

Central Government and NFPS Balance (Cumulative, percent of GDP)



12. As reconstruction needs are significant and the health emergency continues, the authorities are pursuing a looser fiscal stance in 2021-2022, returning to the FRL target in 2023, and are requesting an augmentation of access for to address increased balance of payments needs.

- While revenues are expected to recover somewhat in 2021—so far outturns are higher-than-expected—, they remain well below pre-pandemic levels. At the same time, pandemic spending needs (including vaccines) have been

Text Table 3. Honduras: 2021 Expenditures (% GDP)

	Current Projections	3rd Review
Expenditure	35.3	33.2
Compensation of employees	12.3	11.6
of which new health personnel hired in 2020:	*0.7*	*0.0*
Purchases of goods and services	9.4	8.6
of which vaccines:	*0.3*	*0.0*
of which continuation of pandemic programs from 2020:	*0.4*	*0.0*
Interest	2.9	3.2
Social benefits	3.9	4.3
of which new programs for storms:	*0.4*	*0.0*
Other expense	1.9	1.9
Capital Spending	4.9	3.8
of which reconstruction:	*0.6*	*0.0*

compounded by those related to tropical storms. As the health emergency continues, additional spending on goods and services of about 0.7 percent of GDP is projected, including the continuation of some of the emergency spending put in place in 2020 and 0.3 percent of GDP for vaccines.[3] The authorities' comprehensive medium-term reconstruction strategy will include climate-resilient infrastructure and dams for flood management, which are key for Honduras' sustainable development due to its vulnerability to climate-related shocks (see Box 1 for a discussion of structural, financial, and post-disaster resilience of Honduras). In 2021, they plan to start several projects, with an estimated immediate cost of 0.6 percent of GDP (see text table 3). Thus, the 2021 baseline targets a NFPS deficit of up to 5.4 percent of GDP. The requested augmentation will cover part of the additional balance of payment needs, supplemented by increased IFI financing (an additional US$205 million). Part of the investments in new flood management infrastructure will be implemented through an existing electricity generation trust fund (see ¶25).

- To continue supporting the reconstruction efforts and avoid an unnecessarily sharp and unrealistic adjustment in 2022, the authorities have called the escape clause of the FRL again. This allows for delaying the return to the FRL deficit target (1 percent of GDP) to 2023. In 2022, reconstruction spending is projected at 1.3 percent of GDP, consistent with a 2.3 percent of GDP NFPS deficit. This temporarily looser stance has only a small impact on the debt path. As the DSA shows (Annex II), Honduras' risk of debt distress remains low.

- Authorities will continue strict monitoring and publication of COVID-19 and reconstruction-related spending and procurement contracts, including continuing work on identifying the contracted companies and their beneficial owners, together with ex-post audits. To ensure accountability, the program will monitor execution of spending, relative to the authorities' plans (see text table 3), on (i) efforts to address the continued pandemic, including support measures and vaccines, and (ii) reconstruction investments, as published on the Honduran government's Transparency Portal for COVID-19 and the tropical storms. In addition, the TSC is in the process of signing an agreement with the ministry of finance to facilitate concurrent controls of large expenditure projects.

13. The authorities have made some progress on their revenue mobilization agenda, but work remains. Congress approved the electronic notification of taxpayers, an important step towards improving tax compliance. However, the measure transferring management of tax exemptions from SEFIN to SAR remains pending in Congress. While the authorities are redoubling their efforts to engage with Congress, capacity building is continuing at SAR with IMF support. A draft bill to streamline tax exemptions was submitted to Congress with a yield of about ½ percent of GDP (*SB, June 2021, met*). This included the elimination of exemptions in areas such as rural tourism, special tourism zones, and renewable energy. Relatedly, congress eliminated the "most privileged

[3] The authorities are targeting an 81 percent vaccination rate, equivalent to 5.7 million people. Coverage will include COVAX (2 million people), AstraZeneca (0.7 million people), Sputnik V (2.1 million people) and Pfizer (0.8 million people).

regime" concession to special economic zones (ZEDEs), which could have generated new exemptions (*Prior Action)*.

B. Monitoring the Monetary Policy Stance and Maintaining Financial Stability

14. The monetary stance remains appropriate although caution is warranted. In response to the tropical storms, the central bank cut the policy rate by 75 basis points in end-November 2020, bringing it to 3 percent, after which it has remained unchanged. The total cumulative cut since February 2020 to date is 250 bps—in line with most other CAPDR countries and the Fed—in an environment of well-anchored inflation expectations and a negative output gap. Nonetheless, the authorities remain vigilant as rising oil and food prices and recovering domestic demand could create inflationary pressures, while a renewed taper tantrum in the US could lead to capital outflows.

15. While reserve buffers are strong, Honduras remains vulnerable to external shocks. Following a significant reserve accumulation in 2020, reserve coverage is projected at about 166 percent of the ARA metric by end-2021, including the SDR allocation (about SDR228 million). Despite this, import coverage is expected to remain at end-2020 levels as the current account is projected to sharply reverse this year on the back of unfavorable terms of trade and recovering import values. New COVID-19 variants, high levels of infection, and the incoming hurricane season create further risks for economic activity and export performance. Hence, caution in protecting this buffer, including through well-anchored fiscal policy, is warranted.

16. Regulatory and supervisory measures introduced during the pandemic were extended in response to the tropical storms. The extended deadline to restructure loans of affected borrowers, without requiring changes in credit classification, ended in March 2021 and normal regulatory rules are back in place. Nearly 60 percent of loans (by value) benefited from credit moratoria in 2020. Nonetheless, risks remain contained because of Honduran banks' strong buffers and ample liquidity in the system. The authorities are conducting regular stress tests.

17. The authorities are closely monitoring and stand ready to take actions as needed to address potential liquidity or solvency issues. The capital adequacy ratio increased by 0.4 percentage points to 14.5 percent of risk-adjusted assets in 2020, while NPLs increased by 0.8 percentage points to 3.1 percent of total loans, and loan provisions increased only marginally to 3.8 percent of total loans. These increases are in line with others in the region, although regulatory forbearance may be masking some scarring effects. Supervised financial institutions are required to establish a temporary equity reserve to cover potential credit losses resulting from the shocks and banks falling below regulatory capital requirements have to present recapitalization plans.

18. The authorities continue reforming the monetary policy framework, including for the transition to inflation targeting.

- The new central bank law was submitted to Congress last year; the authorities expect discussion in Congress to be completed this year and are redoubling their outreach efforts to legislators.
- Surrender requirements for banks were removed in June, which will improve the efficiency with which private sector demand for foreign exchange is met.[4]
- To reduce fragmentation between central bank and treasury instruments, the central bank introduced a 28-day reverse repo with government securities to manage liquidity; two successful auctions have taken place.
- The authorities are also working with IMF TA to support the transition to a more flexible exchange rate, including developing a derivatives market. In line with IMF TA's recommendations, the BCH adjusted intervention rules and started to intervene in the interbank foreign exchange market only when the exchange rate is on the band's edges. In addition, to introduce more market elements into the base price that determines the exchange rate band,[5] its calculation now incorporates the outcome of the last five foreign currency auctions. Staff encouraged the authorities to continue with the liberalization of FX markets and resort to foreign exchange interventions to maintain orderly market conditions. As a next step towards a more flexible exchange rate, the authorities may consider widening the exchange rate band.
- The authorities request renewed temporary approval of the two multiple currency practices (MCPs) maintained for non-balance of payments reasons and staff supports this request.[6]

C. Progress and Challenges in the Electricity Sector

19. Work on the institutional framework and gradual implementation of the new tariff scheme continues. With support from the World Bank, the authorities are conducting a study to estimate the value added of distribution (VAD) which is a key input into the new electricity tariff scheme. As an intermediate step, the authorities completed the study on the cost of operating and maintaining the electricity distribution network (COMA) (*SB, March 2021, completed with delay)*.

20. Some progress was made on structural reforms, albeit with challenges. With technical support from the Inter-American Development Bank (IDB), legislation to continue the unbundling process is under discussion in Congress. With support from the Central American Bank for Economic Integration (CABEI), the authorities have staffed a dedicated unit to manage the process. With IDB

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

[5] The "base price" is calculated using the difference between inflation in Honduras and inflation among its trading partners, the behavior of its partners' exchange rate with respect to the U.S. dollar (USD), and making an adjustment according to the level of international reserves.

[6] The rationale for the request is in line with the description in the 2019 Article IV staff report. The MCPs relate to the use of the previous days' official exchange rates in certain FX transactions (which could differ by more than two percent from the official rate in force and the interbank rate on a given day), and the fact that there is no mechanism to prevent a spread of more than two percent between the official exchange rate and the exchange rates resulting from a central bank FX auction.

support, firms have been hired to provide a valuation of ENEE's assets (*SBs, December 2020, not met, completed with delay and March 2021, met*), which will feed into the firm's financial audit; both are expected to be completed by end-2021. While ENEE repaid the last maturing bond of the distribution trust fund in December, its cancelation (*SB, December 2020, not met*) is linked to ongoing strategic negotiations with the operator of the distribution system. Nonetheless, the authorities were able to terminate the transmission trust fund.

21. The tropical storms intensified ENEE's liquidity squeeze as consumers fell further behind on electricity bill payments. This prevented clearance of arrears to generators, leading to a nonobservance of the end-December and end-June PCs. Congress already approved a bond issuance covering arrears for all of 2021 and to avoid their recurrence, the authorities will strengthen the process for timely transfers to ENEE and provide treasury support in securing financing for the company. Authorities will also redouble efforts to guarantee payment by public institutions. Authorities are continuing strategic negotiations with the operator of the distribution system, which should be managed carefully to minimize fiscal costs. Against the backdrop of a complex legal process and pending its resolution—which would then permit more structural actions to reduce ENEE's cashflow losses—the authorities are committed to closely monitor to ensure that ENEE's liquidity situation does not deteriorate. Based on these corrective actions, the authorities are requesting waivers of non-observance for the end-December and end-June PCs on domestic arrears. Staff urged the authorities to accelerate reforms to resolve ENEE's financial situation.

22. The authorities are revamping their loss reduction strategy, which was interrupted by the pandemic and the tropical storms. As the economy recovers, the enforcement task force, launched in January 2020 to reduce electricity theft by large consumers—which represent the bulk of non-technical losses—, will resume operations. Authorities are also planning social policies to regularize connections among socially vulnerable populations. As for technical losses, the authorities are prioritizing investments to upgrade the transmission grid, including through an IDB loan.

D. Advancing the Agenda on Governance

23. The authorities continue making progress on governance and reducing vulnerabilities to corruption. Steps have been taken to improve the transparency of public purchases, including submission of a new procurement law to Congress and measures related to COVID-19 spending (see ¶9). The new PPP regulations also put in place a more rigorous cost-benefit analysis of projects. Work is ongoing on integrating the new procurement portal *Honducompras2* with IFMIS, with IMF support (*SB, June 2021, not met*). However, due to significant delays on the IT vendor's side, staff proposes resetting this SB to end-September 2021. Furthermore, given systemic errors in *Honducompras2*, authorities have temporarily reverted to the use of *Honducompras1*. Authorities expect to return to *Honducompras2* once these concerns and connectivity issues have been resolved.

24. Recent modifications to an existing electricity generation trust fund require adjustments to improve governance. While the changes allow for welcomed investments on flood prevention and energy generation, they could pose governance risks which will need to be well managed. The trust fund's mandate has been limited to 14 projects, which will be subject to viability studies and approval by the ministry of finance for budget-funded ones (*Prior Action)*. To further strengthen the trust fund's governance, the authorities are working on regulations and operational principles to strengthen transparency and accountability and guarantee minimum governance standards.[7] These are expected to be completed by end-October.

25. The authorities continue to strengthen the AML/CFT and anticorruption framework. With IMF and IDB support, the authorities issued new regulations to reform public officials' asset declarations and submitted to Congress draft legislation to create a comprehensive beneficial ownership registry. The amendment is now awaiting discussion in Congress after a favorable opinion by the Supreme Court. The Property Institute, who will host the beneficial ownership registry, is working on a design to be rolled-out upon Congressional approval. A proposal to reform the AML law was sent to Congress in November 2020. This includes a new definition of politically exposed persons (PEPs) which, according to the CNBS, is consistent with FATF standards. In preparation for the approval of the reform (expected in 2021), staff urged the banking commission to revise its regulations and provide guidance on the application of the new definition.

26. There have been important steps to improve the business environment. Authorities submitted draft legislation to Congress requiring regulatory agencies to streamline and publicize requirements for obtaining permits and other administrative procedures (*Ley de Simplificación Administrativa*) and prepared a plan to implement the use of electronic signatures. Regulations have been issued for the latter and digital government more broadly.

PROGRAM ISSUES

27. The authorities are requesting an augmentation of access. The storms caused sizable economic damage, estimated by ECLAC at 7.5 percent of GDP. In 2021, the damages will continue weighing on exports, especially agriculture, while reconstruction spending and demand rebound will fuel imports. Risks to export dynamics will also come from new COVID-19 variants and the intensity of the upcoming hurricane season. Furthermore, higher oil prices, unfavorable terms of trade and rebounding imports will further deteriorate the current account. With an increasingly uncertain outlook in global financial markets and mounting risks of rising financing costs, prior plans for a sovereign bond issuance look unlikely. An aggregate augmentation of the Fund financing by SDR149.88 million (60 percent of quota)—SDR99.92 million (40 percent of quota) under the SBA and SDR49.96 million (20 percent of quota) under the SCF—would support the authorities' efforts to address the continued pandemic through emergency spending and vaccine purchases, and reconstruction needs, all of which, together with higher oil prices, are expected to give rise to

[7] These will include (i) the publication of procurement contracts, including identifying the contracted companies and their beneficial owners, together with ex-post audits; (ii) ensuring the recording and monitoring of public funds directed into the trust fund, in line with public financial management rules, and included as part of the overall balance; (iii) ensuring that the Supreme Audit Institution covers both transfers to and execution of resources from the Fund; and (iv) implementing mandatory social audit contracts.

additional balance of payments needs. The proposed augmentation will be partly backloaded into the fifth review as execution gathers momentum in the later part of the year. The authorities plan to use the additional Fund financing for budget support, given significant fiscal financing needs. With the augmentation, reserves at the end of the program would be above the ARA metric, bolstered by the general allocation of SDRs (¶15).

28. The authorities request the extension of the SBA and SCF arrangements by two months to January 14, 2022 and a rephasing of the last availability date. This would allow for a time buffer for any technical delays in disbursement following the board meeting for the last review, which is expected to take place before mid-December. The availability date of the last disbursement is requested to be changed to October 1, 2021.

29. Financing assurances and capacity to repay. The program remains fully financed. Risks to the program stem from the proximity of the presidential elections and continued impact from the pandemic on incomes and policy implementation, such as slower-than-envisaged progress on the structural and governance agenda. Authorities, however, remain steadfastly committed to advancing reforms and there is broad-based social support for the IMF-supported program. Honduras is also assessed as having a low risk of debt distress (DSA, Annex II), and strong capacity to repay the Fund. Outstanding Fund credit, including the proposed augmentation, will peak at SDR 537.1 million (215 percent of quota) in 2021, equivalent to 2.9 percent of projected GDP or 8.5 percent of gross international reserves. Total debt service to the Fund will peak at 2.2 percent of gross international reserves in 2025.

30. Safeguards assessment. The authorities have continued to implement the recommendations of the 2019 safeguards assessment. In addition to the submission of the amendments on the central bank law to Congress to strengthen governance and autonomy, the authorities have hired a consulting firm to assist in the adoption of International Financial Reporting Standards (IFRS) and are taking steps to align the internal audit function with international leading practices, including engaging an expert to assist the audit committee. Staff continues to monitor developments in these areas.

STAFF APPRAISAL

31. The program is broadly on track and macroeconomic stability remains entrenched even in the face of multiple shocks. Multiple shocks led to some program targets to be missed such as the NFPS balance PC in end-December, ENEE's domestic arrears PCs in both end-December and end-June, the continuous PC on non-accumulation of arrears, and the social spending IT in both end-December and end-June. Progress continues on structural reforms on fiscal, governance, and electricity sector issues, albeit slowed by the pandemic and tropical storms. Despite these challenges and the election year, prospects for achieving key program objectives and reforms remain good albeit subject to risks to the outlook.

32. Navigating a complex environment will require steadfast commitment to macroeconomic stability while remaining flexible and vigilant. To maintain reform momentum and preserve hard-won gains, it will be paramount to persevere with procurement reforms and the revenue mobilization agenda, while advancing electricity sector reforms. Monetary policy should remain geared towards maintaining price stability and preserving international reserves. Efforts should continue on strengthening the monetary policy framework and supporting the transition towards a more flexible exchange rate with foreign exchange intervention aimed at preventing disorderly market conditions. The recent incorporation of market elements into the base price and the removal of surrender requirements for banks are important measures. Outreach should continue with Congress to pass the new central bank law.

33. A temporarily looser fiscal stance in 2021-2022 will appropriately balance between addressing significant reconstruction needs and the continued health emergency, while maintaining fiscal sustainability. The new triggering of the escape clause under the FRL—thereby delaying the return to the FRL deficit target (1 percent of GDP) to 2023—will help support reconstruction efforts and avoid an unnecessarily sharp and unrealistic adjustment in 2022. This temporary looser fiscal stance has only a small impact on the debt path and Honduras' risk of debt distress remains low.

34. Measures to provide liquidity and support the prudent provision of credit will help protect financial stability. Close monitoring of the impact of the pandemic and the tropical storms on banks' balance sheets will help trigger early responses if needed. The requirement for supervised institutions to establish equity reserves is a welcome development. The authorities should stand ready to take actions as needed to address potential solvency issues and continue to enhance crisis preparedness.

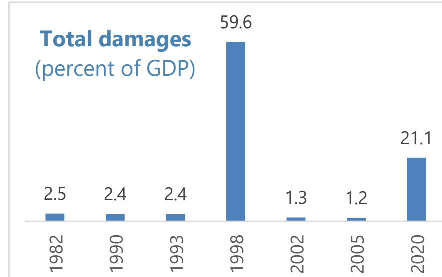
35. Accelerating electricity sector reforms will be key to ensure a sustainable fiscal position and improved business environment. Staff welcomes progress in the implementation of the tariff scheme and steps towards the unbundling of the company. Further efforts are needed to improve governance in ENEE and strengthen its financial situation, including to avoid recurrence of arrears. Restarting the loss reduction strategy will be important to strengthen ENEE's financial position and create broader fiscal space for social and infrastructure spending.

36. Better institutions hinge on improving governance and stepping up the fight against corruption. Staff welcomes steps towards the creation of a comprehensive beneficial ownership registry and implementation of new regulations on public officials' asset declaration, and urges their prompt completion. Implementing the new procurement portal and streamlining administrative procedures should be key next steps. Continued institutional strengthening through redoubled efforts to engage Congress for an urgent passage of the draft laws submitted during the program, including the draft legislation on beneficial ownership, will be essential to shield recent progress from pressures to regress and ensure policy continuity.

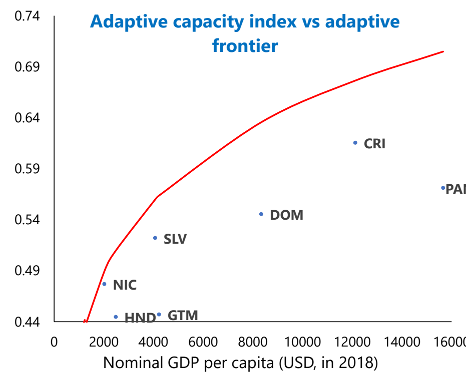
37. Staff supports the authorities' request for renewed temporary approval of the two multiple currency practices subject to Fund jurisdiction under Article VIII, Section 3. The MCPs are maintained for non-balance of payments reasons. They do not materially impede the member's balance of payments adjustment,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

38. Staff recommends completion of the fourth reviews under the SBA and SCF arrangements and supports the requests for augmentation, extension, rephasing, and four waivers of nonobservance for performance criteria. Staff supports the authorities' request for waivers of non-observance for the end-December PC on the NFPS balance and the continuous PC on non-accumulation of arrears, based on the temporary nature of the non-observance; and for the end-December and end-June PCs on ENEE's domestic arrears, based on corrective actions. Capacity to repay the Fund remains strong and the proposed augmentation of access would address additional balance of payments needs and support the authorities' efforts to address the continued pandemic through emergency spending and vaccine purchases, and reconstruction spending needs.

Box 1. Enhancing Honduras' Resilience to Natural Disasters



Sources: EM-DAT, IMF staff estimates.
Note: only disasters with total damages above 1 percent of GDP are shown.



Source: IMF staff calculations based on 2015–18 data from the EU commission, the United Nations University Institute for Environment and Human Security, the University of Notre Dame, and the IMF World Economic Outlook database.

Honduras is highly exposed to weather-related disasters. Between 1980 and 2020, average annual loss from droughts, hurricanes, and flooding reached 2.3 percent of GDP. The most significant event was Hurricane Mitch in 1998, which killed 14,600 people and inflicted economic losses of about 60 percent of GDP[1]. Honduras is at high risk of major natural disasters (IMF 2019) and remains far from the frontier in the adaptive capacity index, which measures economic, infrastructural, technological, institutional capacity, and awareness of climate change. Disasters can start a vicious cycle as lower growth and post-disaster spending increase public debt, shrink fiscal space, which in turn, elevates poverty which then fosters out-migration and lost human capital. A three-pillar approach (IMF 2019) can enhance structural, financial, and post-disaster resilience.

Investment in structural resilience will help Honduras contain the damage from natural disasters and speed up recovery. Investments in resilient infrastructure include strengthening riverbeds and building dams to avoid flooding, while "soft" resilience measures include developing early warning systems and improving land use planning. With support of the World Bank, Honduras has provided access to basic hydrometeorological information for 4.5 million people. In 2019, with support of GOAL, Honduras introduced the early warning for drought emergency response. The country is also promoting better land use. With public capital expenditures averaging 3.2 percent of GDP over the last 10 years and low risk of debt distress, Honduras has some fiscal space to invest in structural resilience. However, competing needs and weak execution capacity require cautious prioritization of projects to ensure that cost-benefit tradeoffs are clear.

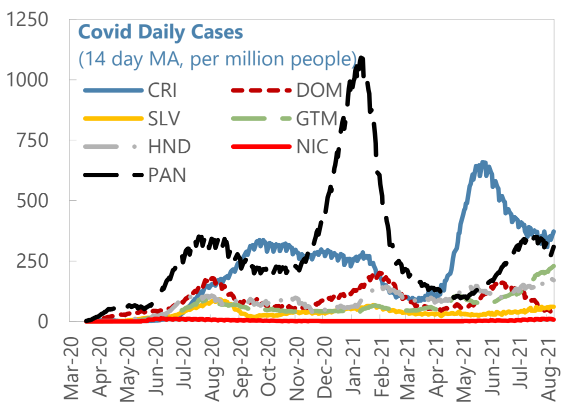
Honduras can improve its financial resilience. The government is in discussion with the IDB on a contingent credit facility instrument which would entitle the country to access up to US$400 million against a natural disasters. The authorities and the World Bank are considering a contingent Development Policy Operation with a Deferred Drawdown Option (CAT DDO). The Honduran authorities are also reconsidering their participation in CCRIF, which provides parametric insurance products and insures against rainfall, hurricanes, and seismic activity. Honduras could explore introducing a natural disaster clause in future bond issuances. Such a clause was introduced, for example, in the 2018 restructuring of domestic debt by Barbados.

Post-disaster resilience requires adjustments. Lack of necessary infrastructure often hampers the ability to reach the affected people during a weather event. Honduras, given its relatively vulnerable road and bridge systems, often faces situations where aid is constrained by physical access. According to the National Disaster Preparedness Baseline Assessment (PDC 2018), Honduras also needs to strengthen its procurement system to be able to quickly and transparently respond to a natural disaster.

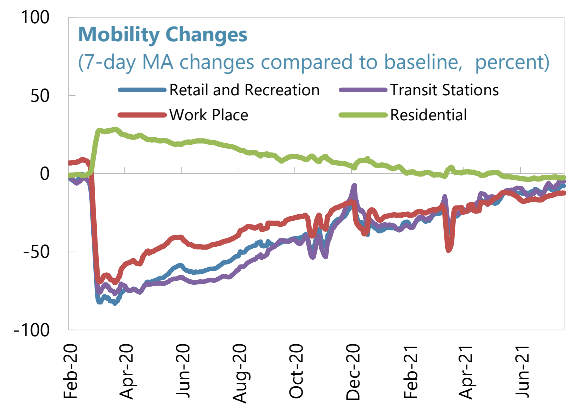
[1] While the EM-DAT estimates damages from tropical storm Eta in 2020 at 21.1 percent of GDP, the CEPAL assessed damages at 7.5 percent of GDP. At least 124 people died due to Eta and Iota in 2020.

Figure 1. Honduras: Real Sector Developments

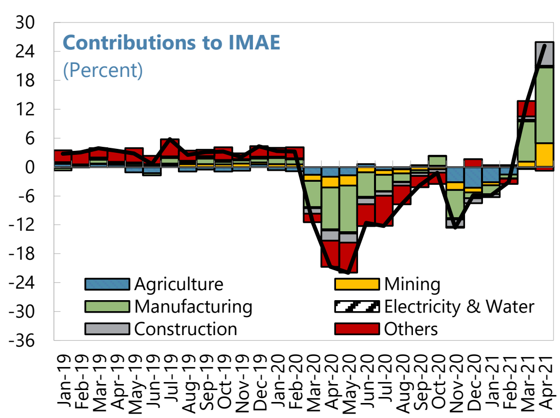
The number of new COVID-19 cases remains positive but relatively subdued…



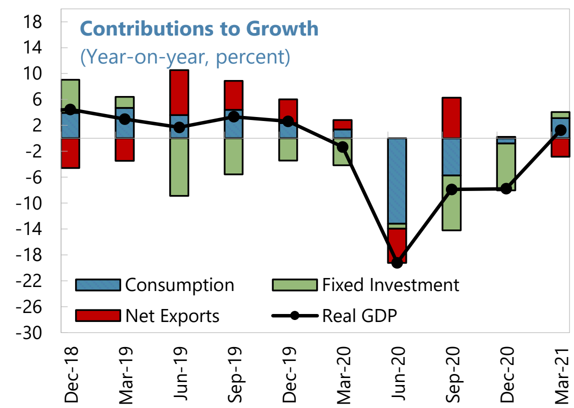
… while mobility remains constrained.



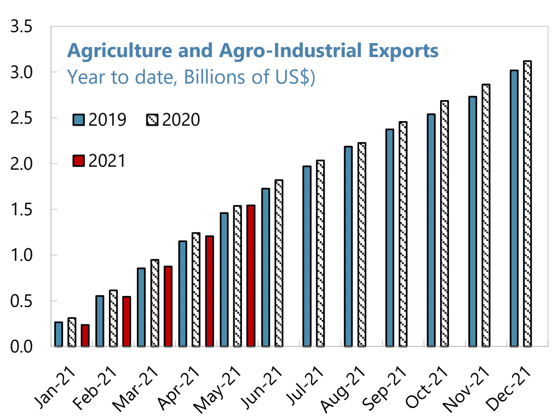
The gradual recovery that started in July 2020 was interrupted by the tropical storms in November.



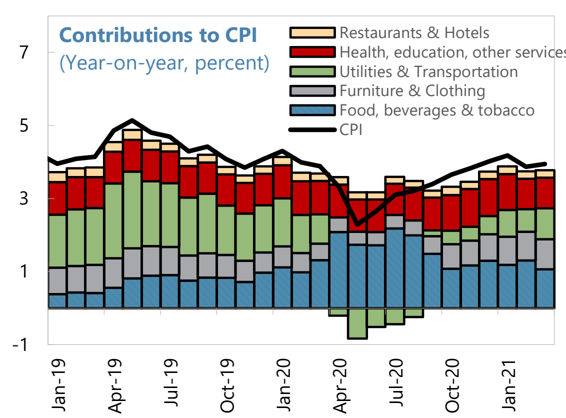
Consumption and investment contracted sharply in 2020.



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



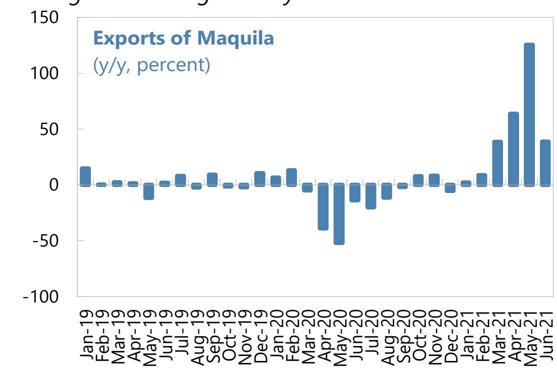
After some acceleration, inflation has remained contained.



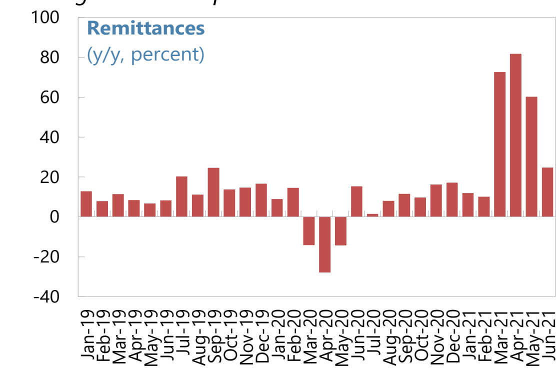
Sources: Johns Hopkins University CSSE, Google COVID-19 Mobility Reports, Central Bank of Honduras and IMF staff estimates.

Figure 2. Honduras: External Sector Developments

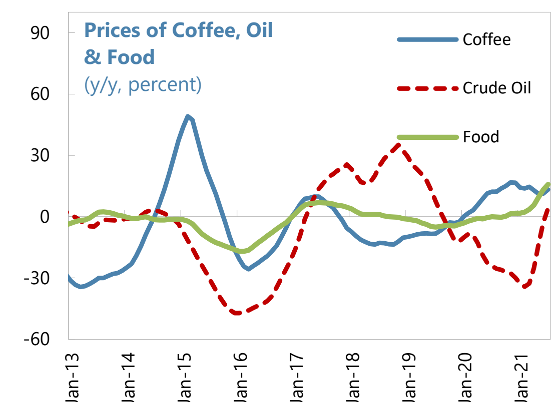
Maquila, a key export sector, was hit hard but is starting to recover gradually.



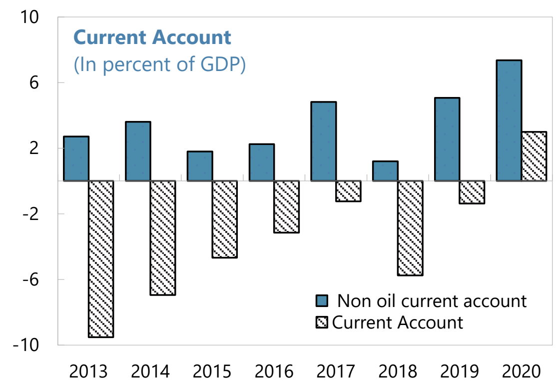
At the same time, remittances remain resilient, in line with regional developments.



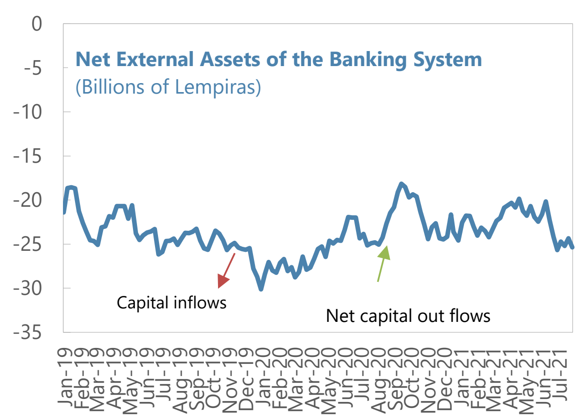
These factors, together with improved coffee prices and lower oil prices…



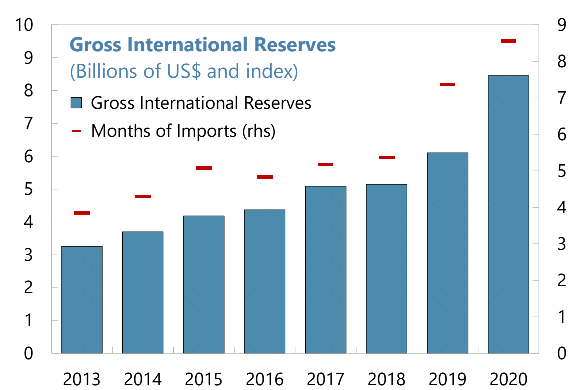
…helped buffer the impact on the current account in 2020.



Despite some capital outflows in the banking sector in 2020…



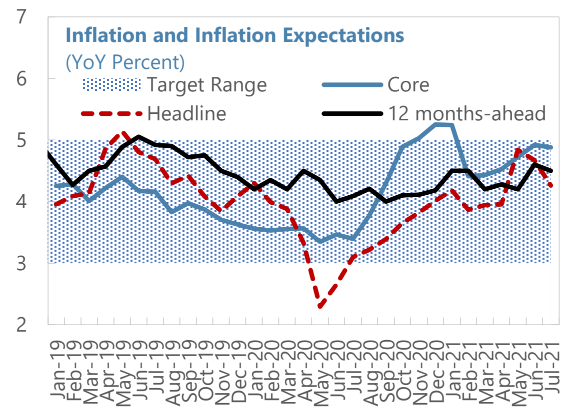
… reserve accumulation was strong.



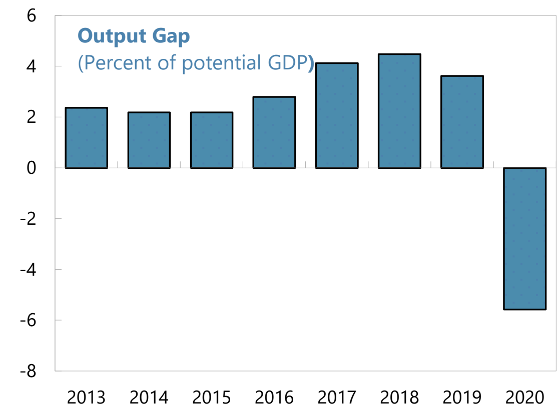
Sources: Central Bank of Honduras, Haver Analytics, and IMF staff estimates and projections.

Figure 3. Honduras: Monetary Sector Developments

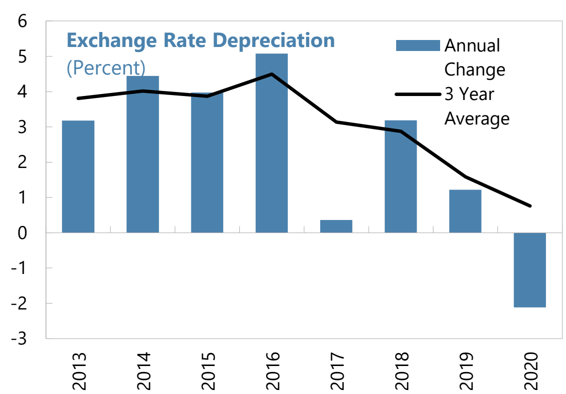
With headline inflation and inflation expectations in the target range…



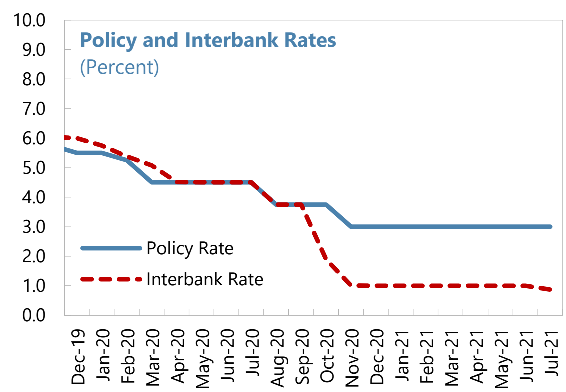
…a large negative output gap….



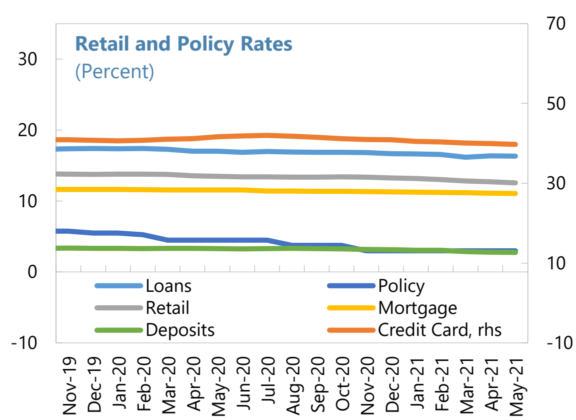
…and a modest exchange rate appreciation ….



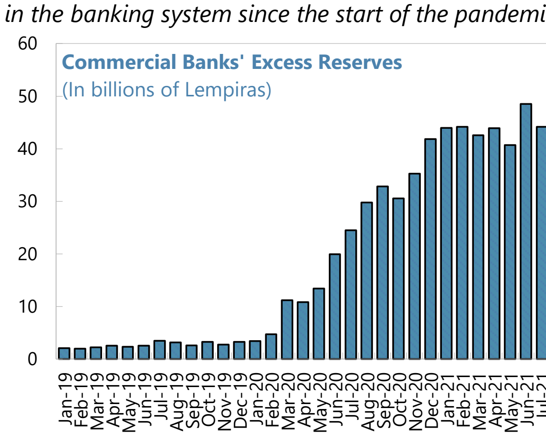
…the monetary policy stance is accommodative.



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



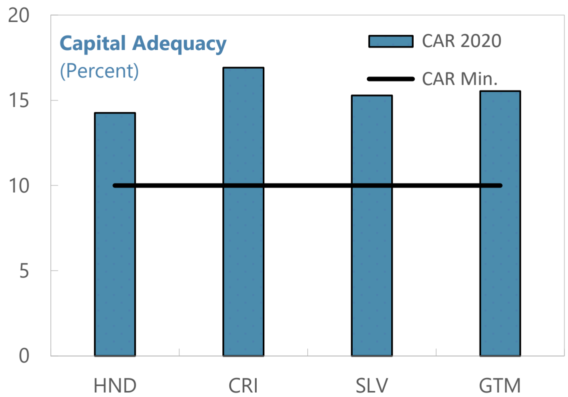
Central bank policy measures have supported liquidity in the banking system since the start of the pandemic.



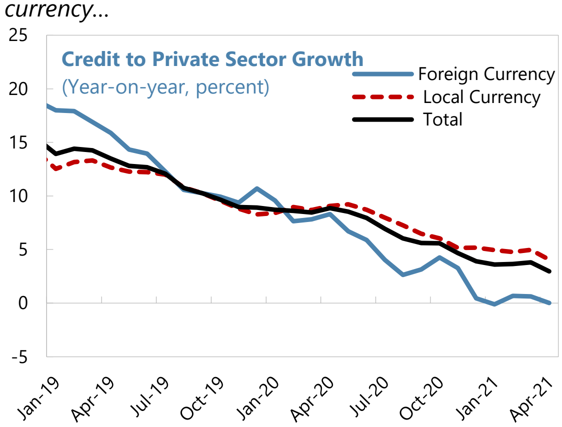
Sources: Central Bank of Honduras and IMF staff estimates and projections.

Figure 4. Honduras: Financial Sector Developments

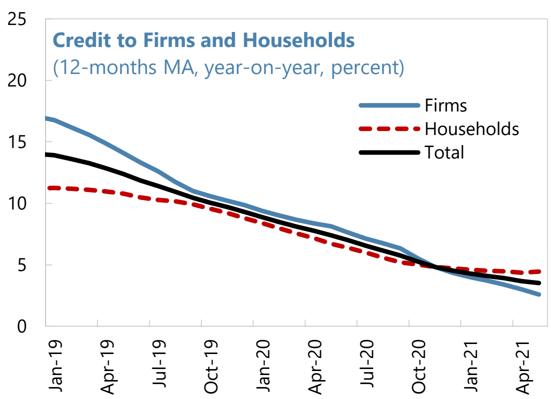
The capital adequacy ratio remains comfortably above the regulatory minimum.



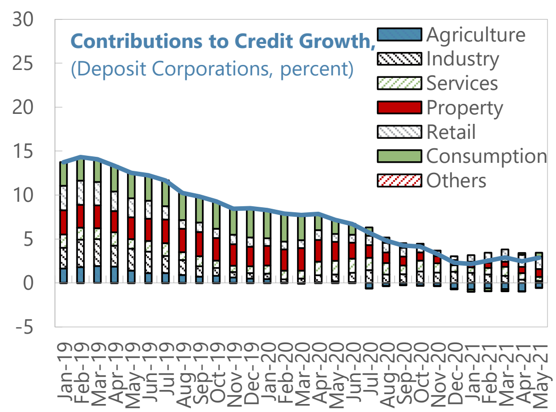
Credit growth is decelerating in domestic and foreign currency…



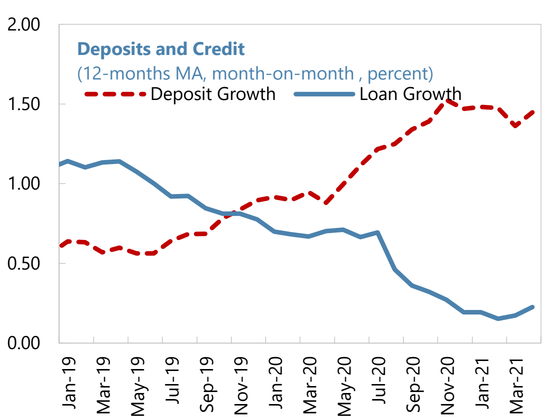
… and for both firms and households.



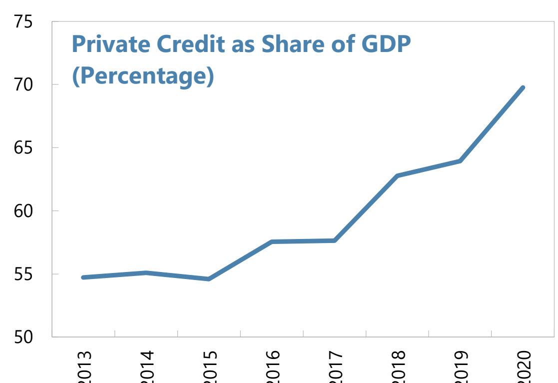
Slowdown in FX credit has affected all sectors



In the wake of the pandemic, deposit growth has overtaken credit growth…

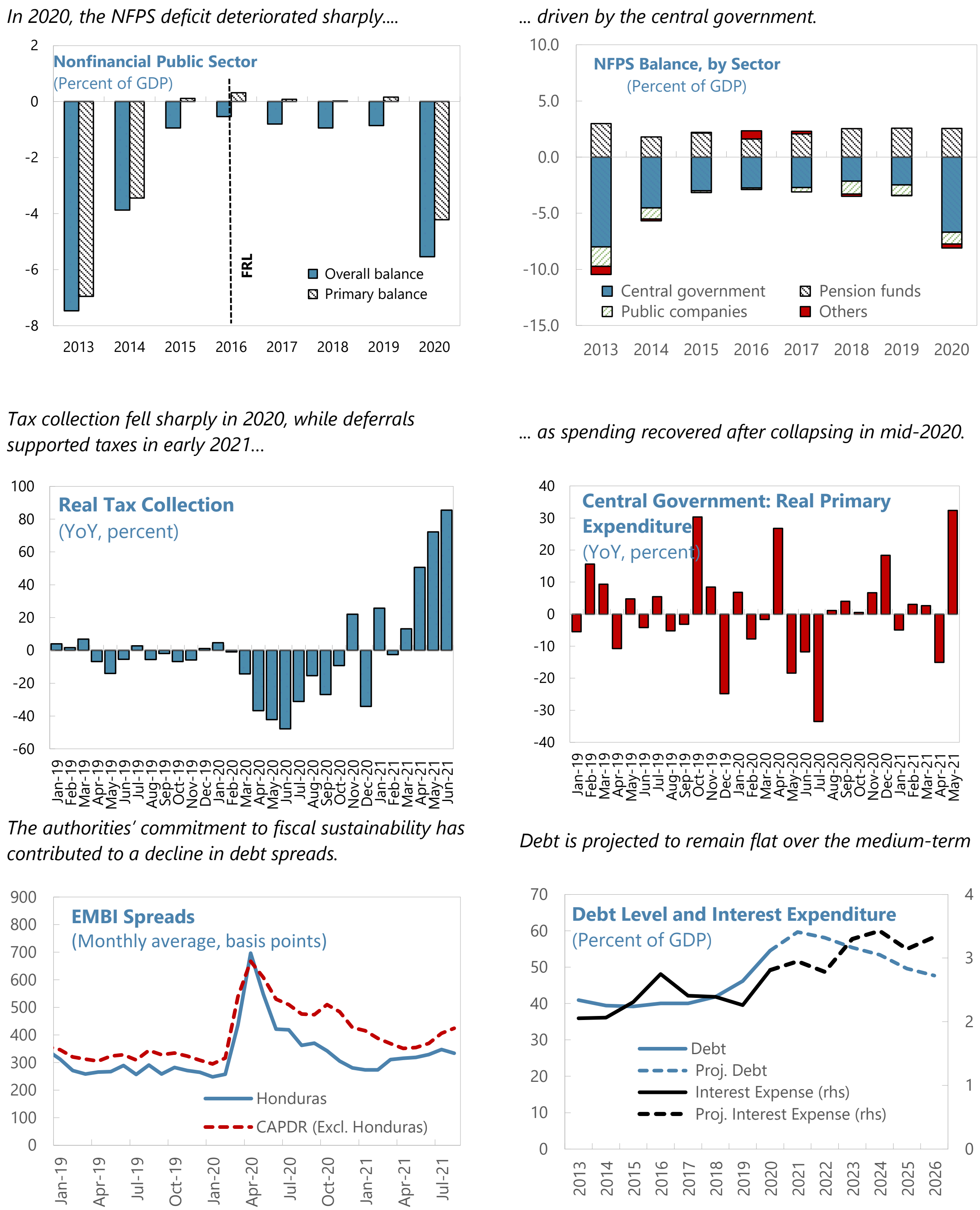


… although in percent of GDP credit to the private sector has continued to increase.



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

Figure 5. Honduras: Public Finances



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

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)	2,587	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 (2020)	10.9	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		Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real Sector (percentage changes in contributions to growth)									
Real GDP	**3.8**	**2.7**	**-9.0**	**4.9**	**4.4**	**3.5**	**3.6**	**3.7**	**3.9**
Domestic demand	6.1	-0.3	-9.7	5.6	5.1	5.1	4.6	4.7	4.4
Consumption	4.2	3.7	-4.4	3.0	2.9	2.5	2.9	3.5	3.5
Private	4.1	3.5	-4.8	2.1	2.8	2.7	2.7	3.1	3.1
Public	0.1	0.2	0.4	0.9	0.1	-0.2	0.2	0.4	0.4
Investment	1.5	-1.1	-4.8	1.5	2.2	3.1	1.7	1.3	1.0
Private	1.9	-0.9	-4.2	0.3	2.6	3.2	1.5	1.1	0.8
Public	-0.4	-0.2	-0.5	1.2	-0.4	-0.2	0.2	0.2	0.2
Net exports	-2.2	2.9	0.7	-0.7	-0.7	-1.6	-0.9	-1.0	-0.5
Exports	0.8	1.3	-11.1	0.5	4.8	4.6	4.7	4.5	5.0
Imports	3.0	-1.6	-11.8	1.2	5.6	6.2	5.6	5.5	5.4
Prices (annual percentage change)									
GDP deflator	1.9	4.1	4.6	4.6	3.7	4.0	4.0	4.0	4.0
Consumer prices (eop)	4.2	4.1	4.0	4.1	4.0	4.0	4.0	4.0	4.0
Consumer prices (average)	4.3	4.4	3.5	4.6	3.7	4.0	4.0	4.0	4.0
Saving and Investment (percent of GDP)									
Gross domestic investment	**26.6**	**22.7**	**18.7**	**25.7**	**27.0**	**28.0**	**28.3**	**28.0**	**27.7**
Private sector	23.1	19.6	16.0	21.8	23.6	25.0	25.2	24.9	24.5
Public sector	3.4	3.1	2.7	3.9	3.3	3.0	3.1	3.2	3.2
Gross national savings	**20.8**	**21.4**	**21.7**	**22.5**	**23.6**	**24.4**	**24.6**	**24.1**	**23.7**
Private sector	17.4	18.2	19.0	18.6	20.2	21.4	21.5	21.0	20.5
Public sector	3.4	3.1	2.7	3.9	3.3	3.0	3.1	3.2	3.2
Nonfinancial public sector (percent of GDP)									
Primary balance	0.0	0.2	-4.2	-4.3	-1.3	0.5	0.6	0.3	0.5
Overall balance	-0.9	-0.9	-5.5	-5.4	-2.3	-1.0	-1.0	-1.0	-1.0
Gross debt 1/	42.5	46.5	54.9	58.7	59.7	59.3	58.6	57.9	56.7
Balance of payments									
External current account balance (percent of GDP)	-5.8	-1.4	3.0	-3.2	-3.4	-3.6	-3.8	-3.9	-4.0
Exports, f.o.b. (annual percentage change)	-2.7	1.8	-7.0	7.4	6.7	8.0	7.0	6.7	7.3
Imports, f.o.b. (annual percentage change)	7.9	-4.2	-10.8	27.0	8.4	7.9	6.2	5.9	6.0
Worker's Remittances (percent of GDP)	19.8	21.5	23.4	23.7	23.5	23.3	22.9	22.4	22.4
Net International Reserves (millions of dollars) 2/	4,853	5,809	8,149	8,221	8,896	9,410	10,101	10,734	11,318
GIR (In months of imports) 3/	5.4	7.4	8.2	8.2	7.9	7.7	7.6	7.5	7.3
M1 to Net International Reserves (ratio)	1.7	1.7	1.8	1.7	1.8	1.8	1.8	1.8	1.7
Terms of Trade (annual percent change)	-6.2	-0.3	9.8	-8.7	0.7	1.2	0.8	0.6	0.5
Real effective exchange rate (eop, depreciation -)	1.2	0.3	4.3	...	...	...	...	...	...
Money and Financial									
Broad money (percentage change)	8.4	10.8	18.6	13.9	5.2	7.6	7.4	7.1	8.5
Private sector credit (percentage change)	14.3	8.8	3.2	6.2	4.0	6.3	6.2	6.2	7.7
Private sector credit (percent of GDP)	60.9	61.9	67.1	65.0	62.5	61.7	60.8	59.8	59.6
Bank Assets (percent of GDP)	100.7	102.9	122.2	118.3	113.8	112.3	110.7	109.0	108.6
Non-Performing Loans to total loans (ratio)	2.1	2.2	3.0	...	0.0	0.0	0.0	0.0	0.0
Capital Adequacy (percent)	13.4	13.7	14.2	...	0.0	0.0	0.0	0.0	0.0

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

1/ Debt projections use the defintion from the DSA.

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

3/ 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		Program	Est.	Program	Proj.	Projections				
	2018	2019	2020		2021		2022	2023	2024	2025	2026
Revenue	**116,186**	**117,898**	**95,200**	**98,825**	**116,550**	**115,754**	**128,426**	**143,412**	**152,633**	**163,386**	**174,513**
Taxes	105,996	107,446	84,238	86,486	104,376	103,580	116,102	130,316	138,702	148,559	159,777
Taxes on income	36,330	34,856	24,799	25,893	29,080	29,584	31,598	36,773	37,774	39,649	42,132
Taxes on property	435	446	283	282	413	413	433	452	468	485	504
Taxes on goods and services	62,011	64,927	53,522	54,603	67,242	65,942	75,152	83,460	90,011	97,089	104,838
Taxes on foreign trade	4,485	4,474	3,247	3,282	4,740	4,740	5,781	6,252	6,807	7,405	8,056
Other taxes	2,735	2,743	2,387	2,425	2,900	2,900	3,138	3,379	3,642	3,929	4,247
Social contributions	0	0	0	0	0	0	0	0	0	0	1
Grants	4,105	4,175	3,826	3,542	3,508	3,508	4,101	4,341	4,598	4,961	5,363
Other revenue	6,085	6,277	7,137	8,798	8,666	8,666	8,222	8,755	9,332	9,867	9,372
Expenditure	**128,517**	**133,104**	**132,042**	**138,047**	**151,625**	**157,549**	**168,031**	**172,306**	**183,017**	**198,202**	**216,490**
Expense	**114,522**	**120,738**	**120,435**	**126,869**	**138,429**	**137,645**	**148,651**	**153,002**	**161,170**	**173,453**	**189,067**
Compensation of employees	47,615	50,947	51,374	52,221	56,998	60,988	63,979	66,394	70,063	75,591	79,712
Purchases of goods and services 1/	12,430	16,231	16,491	19,209	19,747	20,996	20,852	18,712	20,169	21,760	25,404
Interest	17,173	17,404	19,677	18,907	22,785	20,299	24,183	25,227	26,573	28,250	32,240
Domestic	11,000	11,276	12,839	12,437	15,345	13,771	16,611	17,717	19,970	21,664	21,665
Foreign	6,173	6,128	6,838	6,470	7,440	6,528	7,572	7,510	6,603	6,586	10,574
Subsidies	1,231	250	1,262	1,546	308	308	320	332	346	360	374
Grants	14,358	15,158	12,746	15,336	14,958	14,958	16,182	17,425	18,781	20,263	21,904
Current	9,438	9,808	7,950	10,356	8,369	8,369	9,053	9,749	10,508	11,337	12,255
Capital	4,920	5,350	4,797	4,980	6,589	6,589	7,128	7,676	8,273	8,926	9,649
Social benefits	9,062	8,670	8,215	6,958	9,986	6,968	11,816	12,724	13,715	14,797	15,995
Other expense	12,653	12,078	10,669	12,692	13,647	13,128	11,318	12,188	11,523	12,432	13,439
Current	1,074	1,707	1,394	4,164	1,210	1,210	1,310	1,410	1,520	1,640	1,773
Capital	11,578	10,371	9,275	8,528	12,436	11,917	10,009	10,778	10,003	10,792	11,666
Net acquisition of nonfinancial assets	**13,995**	**12,366**	**11,607**	**11,178**	**13,196**	**19,905**	**19,380**	**19,304**	**21,847**	**24,749**	**27,422**
Gross Operating Balance	**1,663**	**-2,840**	**-25,235**	**-28,043**	**-21,879**	**-21,891**	**-20,225**	**-9,590**	**-8,537**	**-10,066**	**-14,554**
Net lending (+)/borrowing (-)	**-12,332**	**-15,206**	**-36,841**	**-39,221**	**-35,075**	**-41,796**	**-39,606**	**-28,894**	**-30,384**	**-34,816**	**-41,977**
Net financial transactions	**-12,332**	**-15,206**	**-36,841**	**-39,221**	**-35,075**	**-41,796**	**-39,606**	**-28,894**	**-30,384**	**-34,816**	**-41,977**
Net acquisition of financial assets	**6,357**	**222**	**18,754**	**18,754**	**-272**	**978**	**2,928**	**378**	**3,418**	**2,860**	**-11,720**
Foreign	0	0	0	0	0	0	0	0	0	0	0
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
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	6,357	222	18,754	18,754	-272	978	2,928	378	3,418	2,860	-11,720
Currency and deposits	6,357	222	754	754	-2,772	-1,522	428	378	3,418	2,860	-11,720
Debt securities	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	18,000	18,000	2,500	2,500	2,500	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	**18,689**	**15,428**	**55,596**	**57,975**	**34,803**	**42,774**	**42,534**	**29,272**	**33,802**	**37,675**	**30,257**
Foreign	5,162	9,062	21,156	20,461	27,668	18,564	20,433	13,180	-2,700	-956	17,994
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	5,244	9,139	21,320	20,625	27,851	18,747	20,616	13,363	-2,517	-773	18,177
Disbursment	10,813	15,152	40,553	39,582	35,509	26,340	32,926	27,172	14,620	18,579	28,842
Amortizations	-5,569	-6,013	-19,233	-18,957	-7,659	-7,593	-12,310	-13,809	-17,137	-19,352	-10,665
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 2/	153	178	110	110	110	110	110	110	110	110	110
Other external	-234	-256	-274	-274	-293	-293	-293	-293	-293	-293	-293
Domestic	13,526	6,366	34,439	37,514	7,136	24,210	22,101	16,093	36,502	38,632	12,263
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	12,084	9,574	33,511	36,586	9,407	26,482	23,413	17,564	37,825	39,849	13,380
o/w IMF disbursements 3/	0	0	11,550	11,141	1,700	6,762	0	-2,913	-7,570	-5,110	-2,263
Other accounts payable	606	-2,771	2,000	2,000	-2,000	-2,000	0	0	0	0	0
PPPs/other	3,210	1,890	1,163	1,163	1,913	1,913	936	767	803	803	803
Adjustment for HIPC debt relief 4/	-2,373	-2,326	-2,235	-2,235	-2,185	-2,185	-2,248	-2,238	-2,126	-2,020	-1,919
Memorandum items:											
Net lending minus interest payments	4,842	2,198	-17,164	-20,315	-12,291	-21,497	-15,423	-3,667	-3,811	-6,565	-9,737
Priority social spending	...	6375	7309	7309	7967.2	7967.2	8569.4	9675.5	10429	12117	13098
Nominal GDP (in billions of Lempiras)	575	615	597	586	663	642	695	748	807	870	941

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		Program	Est.	Program	Proj.	Projections				
	2018	2019	2020		2021		2022	2023	2024	2025	2026
Revenue	**20.2**	**19.2**	**16.0**	**16.9**	**17.6**	**18.0**	**18.5**	**19.2**	**18.9**	**18.8**	**18.5**
Taxes	18.4	17.5	14.1	14.8	15.7	16.1	16.7	17.4	17.2	17.1	17.0
Taxes on income	6.3	5.7	4.2	4.4	4.4	4.6	4.5	4.9	4.7	4.6	4.5
Taxes on property	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.8	10.6	9.0	9.3	10.1	10.3	10.8	11.2	11.2	11.2	11.1
Taxes on foreign trade	0.8	0.7	0.5	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9
Other taxes	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.7	0.7	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Other revenue	1.1	1.0	1.2	1.5	1.3	1.3	1.2	1.2	1.2	1.1	1.0
Expenditure	**22.3**	**21.6**	**22.1**	**23.6**	**22.9**	**24.5**	**24.2**	**23.0**	**22.7**	**22.8**	**23.0**
Expense	**19.9**	**19.6**	**20.2**	**21.7**	**20.9**	**21.4**	**21.4**	**20.4**	**20.0**	**19.9**	**20.1**
Compensation of employees	8.3	8.3	8.6	8.9	8.6	9.5	9.2	8.9	8.7	8.7	8.5
Purchases of goods and services 1/	2.2	2.6	2.8	3.3	3.0	3.3	3.0	2.5	2.5	2.5	2.7
Interest	3.0	2.8	3.3	3.2	3.4	3.2	3.5	3.4	3.3	3.2	3.4
Domestic	1.9	1.8	2.2	2.1	2.3	2.1	2.4	2.4	2.5	2.5	2.3
Foreign	1.1	1.0	1.1	1.1	1.1	1.0	1.1	1.0	0.8	0.8	1.1
Subsidies	0.2	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.5	2.5	2.1	2.6	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Current	1.6	1.6	1.3	1.8	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Capital	0.9	0.9	0.8	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Social benefits	1.6	1.4	1.4	1.2	1.5	1.1	1.7	1.7	1.7	1.7	1.7
Other expense	2.2	2.0	1.8	2.2	2.1	2.0	1.6	1.6	1.4	1.4	1.4
Current	0.2	0.3	0.2	0.7	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital	2.0	1.7	1.6	1.5	1.9	1.9	1.4	1.4	1.2	1.2	1.2
Net acquisition of nonfinancial assets	**2.4**	**2.0**	**1.9**	**1.9**	**2.0**	**3.1**	**2.8**	**2.6**	**2.7**	**2.8**	**2.9**
Gross Operating Balance	**0.3**	**-0.5**	**-4.2**	**-4.8**	**-3.3**	**-3.4**	**-2.9**	**-1.3**	**-1.1**	**-1.2**	**-1.5**
Net lending (+)/borrowing (-)	**-2.1**	**-2.5**	**-6.2**	**-6.7**	**-5.3**	**-6.5**	**-5.7**	**-3.9**	**-3.8**	**-4.0**	**-4.5**
Net financial transactions	**-2.1**	**-2.5**	**-6.2**	**-6.7**	**-5.3**	**-6.5**	**-5.7**	**-3.9**	**-3.8**	**-4.0**	**-4.5**
Net acquisition of financial assets	**1.1**	**0.0**	**3.1**	**3.2**	**0.0**	**0.2**	**0.4**	**0.1**	**0.4**	**0.3**	**-1.2**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	1.1	0.0	3.1	3.2	0.0	0.2	0.4	0.1	0.4	0.3	-1.2
Currency and deposits	1.1	0.0	0.1	0.1	-0.4	-0.2	0.1	0.1	0.4	0.3	-1.2
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	3.0	3.1	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**3.2**	**2.5**	**9.3**	**9.9**	**5.2**	**6.7**	**6.1**	**3.9**	**4.2**	**4.3**	**3.2**
Foreign	0.9	1.5	3.5	3.5	4.2	2.9	2.9	1.8	-0.3	-0.1	1.9
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	0.9	1.5	3.6	3.5	4.2	2.9	3.0	1.8	-0.3	-0.1	1.9
Disbursment	1.9	2.5	6.8	6.8	5.4	4.1	4.7	3.6	1.8	2.1	3.1
Amortizations	-1.0	-1.0	-3.2	-3.2	-1.2	-1.2	-1.8	-1.8	-2.1	-2.2	-1.1
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	2.4	1.0	5.8	6.4	1.1	3.8	3.2	2.2	4.5	4.4	1.3
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	2.1	1.6	5.6	6.2	1.4	4.1	3.4	2.3	4.7	4.6	1.4
o/w IMF disbursements 3/	*0.0*	*0.0*	1.9	*1.9*	0.3	*1.1*	*0.0*	*-0.4*	*-0.9*	*-0.6*	*-0.2*
Other accounts payable	0.1	-0.5	0.3	0.3	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.6	0.3	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Adjustment for HIPC debt relief 4/	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Memorandum items:											
Net lending minus interest payments	0.8	0.4	-2.9	-3.5	-1.9	-3.3	-2.2	-0.5	-0.5	-0.8	-1.0
Priority social spending	…	1.0	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.4	1.4
Nominal GDP (in billions of Lempiras)	575	615	597	586	663	642	695	748	807	870	941

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		Program	Est.	Program	Proj.	Projections				
	2018	2019	2020		2021		2022	2023	2024	2025	2026
Revenue	**180,376**	**191,840**	**165,577**	**165,462**	**194,919**	**192,123**	**221,544**	**242,980**	**261,398**	**280,901**	**301,128**
Taxes	108,453	112,648	88,465	90,792	108,749	107,953	121,539	136,170	145,012	155,366	167,136
Taxes on income	36,330	34,856	24,799	25,893	29,080	29,584	31,598	36,773	37,774	39,649	42,132
Taxes on property	435	446	283	282	413	413	433	452	468	485	504
Taxes on goods and services	62,011	64,927	53,522	54,603	67,242	65,942	75,152	83,460	90,011	97,089	104,838
Taxes on foreign trade	4,485	4,474	3,247	3,282	4,740	4,740	5,781	6,252	6,807	7,405	8,056
Other taxes	5,193	7,945	6,614	6,731	7,274	7,274	8,574	9,233	9,952	10,737	11,606
Social contributions	19,302	21,068	20,969	22,032	23,435	23,435	25,353	27,301	29,426	31,748	34,319
Grants	4,105	4,175	3,826	3,620	3,508	3,508	4,546	3,603	3,814	4,961	5,363
Other revenue	48,516	53,950	52,317	49,019	59,227	57,227	70,106	75,906	83,145	88,825	94,310
Expenditure	**185,814**	**197,116**	**195,594**	**197,909**	**220,274**	**226,874**	**237,344**	**250,379**	**269,431**	**289,789**	**310,348**
Expense	**160,723**	**173,849**	**174,653**	**178,207**	**195,372**	**195,933**	**209,138**	**222,785**	**239,023**	**256,040**	**275,440**
Compensation of employees	64,585	69,428	71,539	71,480	76,906	78,982	84,882	87,838	92,787	100,187	104,721
Purchases of goods and services	47,124	53,592	50,452	54,022	56,781	60,374	64,680	67,666	72,692	77,339	84,076
Interest	13,753	13,901	17,335	16,454	20,386	18,951	19,342	24,704	27,653	27,325	31,315
Domestic	7,163	7,345	10,059	9,658	12,501	11,972	12,508	17,978	21,051	20,740	20,741
Foreign	6,590	6,556	7,276	6,796	7,885	6,979	6,834	6,726	6,603	6,586	10,574
Subsidies	791	313	130	23	28	28	0	0	0	0	0
Social benefits	21,244	23,390	24,292	22,402	28,348	25,330	27,803	29,939	32,270	35,686	38,576
Other expense	13,226	13,225	10,906	13,827	12,922	12,267	12,431	12,637	13,621	15,502	16,753
Current	1,532	2,532	1,814	5,107	1,749	1,749	1,310	1,410	1,520	2,098	2,263
Capital	11,694	10,693	9,092	8,720	11,173	10,518	11,121	11,227	12,101	13,404	14,489
Net acquisition of nonfinancial assets	**25,091**	**23,267**	**20,941**	**19,701**	**24,902**	**30,941**	**28,206**	**27,594**	**30,408**	**33,749**	**34,908**
Gross Operating Balance	**19,654**	**17,992**	**-9,076**	**-12,745**	**-453**	**-3,810**	**12,406**	**20,195**	**22,375**	**24,861**	**25,688**
Net lending (+)/borrowing (-)	**-5,438**	**-5,276**	**-30,017**	**-32,446**	**-25,355**	**-34,751**	**-15,800**	**-7,399**	**-8,034**	**-8,888**	**-9,220**
Net financial transactions	**-5,438**	**-5,276**	**-30,017**	**-32,446**	**-25,355**	**-34,751**	**-15,800**	**-7,399**	**-8,034**	**-8,888**	**-9,220**
Net acquisition of financial assets	**10,805**	**9,825**	**15,360**	**15,623**	**8,744**	**150**	**300**	**-101**	**88**	**242**	**-1,835**
Foreign	750	1,019	0	0	0	0	0	0	0	0	0
Currency and deposits	750	1,019	0	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	10,055	8,807	15,360	15,623	8,744	150	300	-101	88	242	-1,835
Currency and deposits	9,203	8,207	9,560	9,823	5,644	150	300	-101	88	242	-1,835
Debt securities	0	0	0	0	0	0	0	0	0	0	0
Loans	852	600	3,300	3,300	3,100	0	0	0	0	0	0
Other accounts receivable	0	0	2,500	2,500	0	0	0	0	0	0	0
Net incurrence of liabilities	**16,243**	**15,101**	**45,377**	**48,069**	**34,099**	**34,901**	**16,100**	**7,297**	**8,122**	**9,130**	**7,385**
Foreign	6,334	8,835	21,157	20,462	27,668	18,564	20,433	13,180	-2,700	-956	17,994
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	6,395	8,912	21,320	20,625	27,851	18,747	20,616	13,363	-2,517	-773	18,177
Disbursment	11,994	15,695	40,553	39,582	35,509	26,340	32,926	27,172	14,620	18,579	28,842
Amorizations	-5,599	-6,783	-19,233	-18,957	-7,659	-7,593	-12,310	-13,809	-17,137	-19,352	-10,665
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/	173	178	111	111	110	110	110	110	110	110	110
Other external	-234	-256	-274	-274	-293	-293	-293	-293	-293	-293	-293
Domestic	12,281	8,593	26,455	29,842	8,616	18,522	-2,085	-3,644	12,948	12,106	-8,690
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0
Loans	8,655	8,249	38,059	41,446	8,703	18,609	-3,021	-4,411	12,145	11,303	-9,493
o/w IMF disbursements 2/	0	0	11,550	11,141	1,700	6,762	0	-2,913	-7,570	-5,110	-2,263
Other accounts payable	1,663	-5,047	-13,000	-13,000	-2,000	-2,000	0	0	0	0	0
PPPs/other	1,963	5,390	1,396	1,396	1,913	1,913	936	767	803	803	803
Adjustment for HIPC debt relief 3/	-2,373	-2,326	-2,235	-2,235	-2,185	-2,185	-2,248	-2,238	-2,126	-2,020	-1,919
Memorandum items:											
Net lending minus net interest payments	119	974	-22,696	-24,719	-16,597	-27,429	-9,038	3,759	5,018	2,684	5,066
Gross total debt 4/	243,686	286,152	315,698	321,560	355,908	377,066	415,127	443,581	472,882	503,910	533,418
Nominal GDP (in billions of Lempiras)	575	615	597	586	663	642	695	748	807	870	941

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.

4/ Debt projections use the defintion from the DSA.

Table 5. Honduras: Statement of Operations of the Nonfinancial Public Sector
(In percent of GDP)

	Actual		Program	Est.	Program	Proj.	Projections				
	2018	2019	2020		2021		2022	2023	2024	2025	2026
Revenue	**31.4**	**31.2**	**27.7**	**28.2**	**29.4**	**29.9**	**31.9**	**32.5**	**32.4**	**32.3**	**32.0**
Taxes	18.9	18.3	14.8	15.5	16.4	16.8	17.5	18.2	18.0	17.9	17.8
Taxes on income	6.3	5.7	4.2	4.4	4.4	4.6	4.5	4.9	4.7	4.6	4.5
Taxes on property	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.8	10.6	9.0	9.3	10.1	10.3	10.8	11.2	11.2	11.2	11.1
Taxes on foreign trade	0.8	0.7	0.5	0.6	0.7	0.7	0.8	0.8	0.8	0.9	0.9
Other taxes	0.9	1.3	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Social contributions	3.4	3.4	3.5	3.8	3.5	3.6	3.6	3.6	3.6	3.6	3.6
Grants	0.7	0.7	0.6	0.6	0.5	0.5	0.7	0.5	0.5	0.6	0.6
Other revenue	8.4	8.8	8.8	8.4	8.9	8.9	10.1	10.1	10.3	10.2	10.0
Expenditure	**32.3**	**32.1**	**32.8**	**33.8**	**33.2**	**35.3**	**34.1**	**33.5**	**33.4**	**33.3**	**33.0**
Expense	**27.9**	**28.3**	**29.3**	**30.4**	**29.5**	**30.5**	**30.1**	**29.8**	**29.6**	**29.4**	**29.3**
Compensation of employees	11.2	11.3	12.0	12.2	11.6	12.3	12.2	11.7	11.5	11.5	11.1
Purchases of goods and services	8.2	8.7	8.5	9.2	8.6	9.4	9.3	9.0	9.0	8.9	8.9
Interest	2.4	2.3	2.9	2.8	3.1	2.9	2.8	3.3	3.4	3.1	3.3
Domestic	1.2	1.2	1.7	1.6	1.9	1.9	1.8	2.4	2.6	2.4	2.2
Foreign	1.1	1.1	1.2	1.2	1.2	1.1	1.0	0.9	0.8	0.8	1.1
Subsidies	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	3.7	3.8	4.1	3.8	4.3	3.9	4.0	4.0	4.0	4.1	4.1
Other expense	2.3	2.2	1.8	2.4	1.9	1.9	1.8	1.7	1.7	1.8	1.8
Current	0.3	0.4	0.3	0.9	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Capital	2.0	1.7	1.5	1.5	1.7	1.6	1.6	1.5	1.5	1.5	1.5
Net acquisition of nonfinancial assets	**4.4**	**3.8**	**3.5**	**3.4**	**3.8**	**4.8**	**4.1**	**3.7**	**3.8**	**3.9**	**3.7**
Gross Operating Balance	**3.4**	**2.9**	**-1.5**	**-2.2**	**-0.1**	**-0.6**	**1.8**	**2.7**	**2.8**	**2.9**	**2.7**
Net lending (+)/borrowing (-)	**-0.9**	**-0.9**	**-5.0**	**-5.5**	**-3.8**	**-5.4**	**-2.3**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Net financial transactions	**-0.9**	**-0.9**	**-5.0**	**-5.5**	**-3.8**	**-5.4**	**-2.3**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Net acquisition of financial assets	1.9	1.6	2.6	2.7	1.3	0.0	0.0	0.0	0.0	0.0	-0.2
Foreign	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	1.7	1.4	2.6	2.7	1.3	0.0	0.0	0.0	0.0	0.0	-0.2
Currency and deposits	1.6	1.3	1.6	1.7	0.9	0.0	0.0	0.0	0.0	0.0	-0.2
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	0.1	0.1	0.6	0.6	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**2.8**	**2.5**	**7.6**	**8.2**	**5.1**	**5.4**	**2.3**	**1.0**	**1.0**	**1.0**	**0.8**
Foreign	1.1	1.4	3.5	3.5	4.2	2.9	2.9	1.8	-0.3	-0.1	1.9
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	1.1	1.4	3.6	3.5	4.2	2.9	3.0	1.8	-0.3	-0.1	1.9
Disbursment	2.1	2.6	6.8	6.8	5.4	4.1	4.7	3.6	1.8	2.1	3.1
Amorizations	-1.0	-1.1	-3.2	-3.2	-1.2	-1.2	-1.8	-1.8	-2.1	-2.2	-1.1
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	2.1	1.4	4.4	5.1	1.3	2.9	-0.3	-0.5	1.6	1.4	-0.9
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	1.5	1.3	6.4	7.1	1.3	2.9	-0.4	-0.6	1.5	1.3	-1.0
o/w IMF disbursements 2/	0.0	0.0	1.9	1.9	0.3	1.1	0.0	-0.4	-0.9	-0.6	-0.2
Other accounts payable	0.3	-0.8	-2.2	-2.2	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.3	0.9	0.2	0.2	0.3	0.3	0.1	0.1	0.1	0.1	0.1
Adjustment for HIPC debt relief 3/	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2
Memorandum items:											
Net lending minus net interest payments	0.0	0.2	-3.8	-4.2	-2.5	-4.3	-1.3	0.5	0.6	0.3	0.5
Gross total debt 4/	42.4	46.5	52.9	54.9	53.7	58.7	59.7	59.3	58.6	57.9	56.7
Nominal GDP (in billions of Lempiras)	575	615	597	586	663	642	695	748	807	870	941

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.

4/ Debt projections use the defintion from the DSA.

Table 6. Honduras: Summary Accounts of the Financial System 1/

(In millions of Lempiras; end-December)

	Actual		Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
				I. Central Bank					
Net International Reserves 2/	**118,120**	**143,101**	**196,501**	**203,039**	**223,174**	**240,469**	**262,776**	**284,184**	**304,946**
(In millions of US$)	4,853	5,809	8,149	8,221	8,896	9,410	10,101	10,734	11,318
Net Domestic Assets	**-78,827**	**-99,462**	**-143,003**	**-142,644**	**-162,007**	**-174,603**	**-190,976**	**-204,978**	**-219,327**
Credit to the public sector (net)	-397	-1,535	12,960	21,716	24,212	23,212	18,212	14,212	13,212
Other depository institutions (net)	-75,207	-91,512	-135,435	-137,624	-158,662	-167,452	-178,639	-191,651	-199,874
Other financial institutions	6,637	6,028	3,841	4,087	4,097	3,246	2,292	1,249	-6,256
Nonfinancial private sector	-217	-297	-324	-356	-392	-431	-474	-521	-573
Medium and long-term net foreign assets	2,149	2,853	-9,708	-13,741	-13,167	-13,693	-11,364	-5,608	-1,342
Other items net	-11,792	-14,999	-14,337	-16,726	-18,095	-19,485	-21,002	-22,659	-24,494
Currency issued	**39,292**	**43,640**	**53,499**	**60,395**	**61,167**	**65,866**	**71,800**	**79,206**	**85,620**
				II. Other Depository Institutions					
Net Foreign Assets	**-24,603**	**-30,786**	**-23,399**	**-21,999**	**-23,619**	**-22,826**	**-24,425**	**-26,160**	**-28,066**
(In millions of US$)	-1,011	-1,250	-970	-891	-941	-893	-939	-988	-1,042
Foreign assets (in million of US$)	453	416	675	856	905	1,044	1,098	1,155	1,218
Net Domestic Assets	**327,864**	**368,947**	**418,234**	**451,146**	**487,888**	**522,758**	**563,280**	**607,527**	**656,511**
Credit to the monetary authority (net)	93,143	102,019	147,463	150,175	171,790	181,188	193,011	206,692	215,616
Credit to other financial institutions (net)	-33,863	-35,577	-39,111	-39,345	-39,258	-39,170	-39,070	-38,957	-39,608
Credit to the nonfinancial public sector (net)	-1,803	-2,692	1,549	8,158	6,695	5,150	5,392	5,746	6,670
Central government	-18,379	-21,821	-16,296	-10,926	-14,274	-12,050	-12,050	-12,050	-12,050
Other nonfinancial public sector	9,764	10,396	8,657	9,397	10,782	11,536	12,344	13,208	14,132
Local governments	6,812	8,733	9,188	9,688	10,188	5,664	5,098	4,588	4,588
Credit to the private sector	350,090	380,934	393,006	417,396	434,246	461,616	490,384	520,917	561,164
Local currency	256,799	277,901	289,710	308,387	317,142	336,912	358,128	380,488	411,765
Foreign currency	93,291	103,033	103,296	109,009	117,103	124,704	132,256	140,428	149,400
Other items net	-79,703	-75,738	-84,672	-85,239	-85,586	-86,026	-86,437	-86,869	-87,332
Liabilities	**303,260**	**338,161**	**394,832**	**429,147**	**464,268**	**499,932**	**538,854**	**581,368**	**628,445**
Of which: Deposits in domestic currency	221,585	254,614	301,037	331,301	358,415	385,947	415,996	448,816	485,159
Of which: Deposits in foreign currency	81,676	83,547	93,795	97,845	105,853	113,984	122,859	132,552	143,285
				III. Financial Systems					
Net Foreign Assets	**95,665**	**115,168**	**163,394**	**189,067**	**199,555**	**217,643**	**238,351**	**258,024**	**276,880**
(In millions of US$)	3,931	4,675	6,776	7,655	7,954	8,517	9,162	9,746	10,276
Net Domestic Assets	**246,328**	**263,754**	**285,938**	**322,673**	**338,840**	**361,835**	**383,916**	**408,714**	**446,589**
Credit to the nonfinancial public sector	-2,116	-4,123	14,573	29,874	30,907	28,362	23,603	19,958	19,882
Credit to the private sector	350,090	380,934	393,006	417,396	434,246	461,616	490,384	520,917	561,164
Local currency	256,799	277,901	289,710	308,387	317,142	336,912	358,128	380,488	411,765
Foreign currency	93,291	103,033	103,296	109,009	117,103	124,704	132,256	140,428	149,400
Other items net 3/	-101,646	-113,057	-121,641	-124,597	-126,313	-128,143	-130,071	-132,160	-134,458
Broad Money (M4)	**341,993**	**378,922**	**449,332**	**511,740**	**538,395**	**579,478**	**622,267**	**666,738**	**723,469**
				(Rate of growth 12 months)					
Currency issued	4.6	11.1	22.6	12.9	1.3	7.7	9.0	10.3	8.1
Currency in circulation	3.5	13.1	27.2	14.9	0.4	8.3	10.0	11.5	8.8
Broad money	8.4	10.8	18.6	13.9	5.2	7.6	7.4	7.1	8.5
Credit to the private sector	14.3	8.8	3.2	6.2	4.0	6.3	6.2	6.2	7.7
o/w foreign currency	18.2	10.4	0.3	5.5	7.4	6.5	6.1	6.2	6.4
M1	6.1	16.1	29.9	12.0	5.0	7.9	8.6	9.3	8.4

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		Est.	Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026
	(In millions of U.S. dollars; unless otherwise indicated)								
Current account	**-1,379**	**-343**	**715**	**-836**	**-949**	**-1,058**	**-1,181**	**-1,283**	**-1,409**
Trade Account	-3,616	-3,107	-2,551	-4,330	-4,789	-5,165	-5,433	-5,696	-5,931
Exports f.o.b.	5,879	5,985	5,563	5,976	6,378	6,889	7,369	7,862	8,440
Maquila (net)	1,567	1,789	1,272	1,475	1,661	1,897	2,148	2,278	2,451
Coffee	1,115	947	964	1,043	1,149	1,243	1,331	1,411	1,499
Others	3,197	3,249	3,327	3,458	3,568	3,749	3,890	4,173	4,489
Imports f.o.b.	-9,494	-9,092	-8,115	-10,306	-11,168	-12,054	-12,802	-13,557	-14,370
Petroleum products	-1,667	-1,615	-1,039	-1,708	-1,772	-1,809	-1,871	-1,983	-2,107
Others	-7,827	-7,477	-7,075	-8,598	-9,395	-10,244	-10,931	-11,574	-12,264
Services (net)	-1,062	-1,229	-1,115	-1,157	-1,056	-1,118	-1,192	-1,260	-1,339
Income (net)	-1,882	-1,901	-1,601	-2,043	-2,156	-2,274	-2,400	-2,542	-2,850
Of which: payments on direct investments	-1,378	-1,346	-1,023	-1,461	-1,566	-1,674	-1,789	-1,916	-2,055
Transfers (net)	5,180	5,894	5,983	6,695	7,053	7,500	7,843	8,215	8,710
Of which: Remittances	4,760	5,385	5,573	6,242	6,554	6,882	7,157	7,443	7,890
Capital and Financial account	**1,232**	**1,593**	**1,667**	**1,233**	**1,299**	**1,571**	**1,872**	**1,916**	**1,993**
Financial account	**1,064**	**1,399**	**1,508**	**1,058**	**1,114**	**1,375**	**1,664**	**1,696**	**1,760**
Direct investment (net)	895	499	372	516	658	810	975	1,156	1,355
Other capital flows (net)	-672	635	767	-325	-340	-291	19	318	213
General government (net)	841	264	370	867	796	856	669	221	192
Capital account	**168**	**195**	**158**	**175**	**185**	**196**	**208**	**220**	**234**
Errors and omissions	193	-258	0	0	0	0	0	0	0
Overall balance	46	992	2,382	397	350	514	691	633	584
Change in central bank reserves (- increase)	**-50**	**-955**	**-2,352**	**-671**	**-350**	**-400**	**-400**	**-440**	**-500**
Exceptional financing	**4**	**-33**	**425**	**274**	**0**	**-114**	**-291**	**-193**	**-84**
Use of Fund credit (net)	0	0	462	274	0	-114	-291	-193	-84
Other	4	-33	-37	0	0	0	0	0	0
	(In percent of GDP; unless otherwise indicated)								
Current account	**-5.8**	**-1.4**	**3.0**	**-3.2**	**-3.4**	**-3.6**	**-3.8**	**-3.9**	**-4.0**
Trade Account	-15.1	-12.4	-10.7	-16.4	-17.2	-17.5	-17.4	-17.2	-16.8
Exports f.o.b.	24.5	23.9	23.3	22.7	22.8	23.3	23.6	23.7	24.0
Maquila net (exports-imports)	6.5	7.1	5.3	5.6	5.9	6.4	6.9	6.9	7.0
Coffee	4.6	3.8	4.0	4.0	4.1	4.2	4.3	4.3	4.3
Others	13.3	13.0	14.0	13.1	12.8	12.7	12.4	12.6	12.7
Imports f.o.b.	-39.6	-36.2	-34.1	-39.1	-40.0	-40.8	-40.9	-40.9	-40.8
Petroleum products	-6.9	-6.4	-4.4	-6.5	-6.3	-6.1	-6.0	-6.0	-6.0
Others	-32.6	-29.8	-29.7	-32.7	-33.6	-34.7	-34.9	-34.9	-34.8
Services (net)	-4.4	-4.9	-4.7	-4.4	-3.8	-3.8	-3.8	-3.8	-3.8
Of which: tourism receipts	2.5	2.2	0.8	1.4	2.0	2.0	2.0	2.1	2.1
Income (net)	-7.8	-7.6	-6.7	-7.8	-7.7	-7.7	-7.7	-7.7	-8.1
Of which: payments on direct investments	-5.7	-5.4	-4.3	-5.6	-5.6	-5.7	-5.7	-5.8	-5.8
Of which: public sector interest payments	-1.0	-1.1	-1.3	-1.1	-1.0	-0.9	-0.8	-0.8	-1.1
Transfers (net)	21.6	23.5	25.1	25.4	25.3	25.4	25.1	24.8	24.7
Of which: Remittances	19.8	21.5	23.4	23.7	23.5	23.3	22.9	22.4	22.4
Capital and Financial account	**5.1**	**6.3**	**7.0**	**4.7**	**4.7**	**5.3**	**6.0**	**5.8**	**5.7**
Financial account	**4.4**	**5.6**	**6.3**	**4.0**	**4.0**	**4.7**	**5.3**	**5.1**	**5.0**
Direct investment (net)	3.7	2.0	1.6	2.0	2.4	2.7	3.1	3.5	3.8
Other capital flows (net)	-2.8	2.5	3.2	-1.2	-1.2	-1.0	0.1	1.0	0.6
General government (net)	3.5	1.1	1.6	3.3	2.9	2.9	2.1	0.7	0.5
Capital account	**0.7**	**0.8**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
Errors and omissions	0.8	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**0.2**	**4.0**	**10.0**	**1.5**	**1.3**	**1.7**	**2.2**	**1.9**	**1.7**
Change in central bank reserves (- increase)	**-0.2**	**-3.8**	**-9.9**	**-2.5**	**-1.3**	**-1.4**	**-1.3**	**-1.3**	**-1.4**
Exceptional financing	**0.0**	**-0.1**	**1.8**	**1.0**	**0.0**	**-0.4**	**-0.9**	**-0.6**	**-0.2**
Use of Fund credit (net)	0.0	0.0	1.9	1.8	1.0	0.0	-0.4	-0.9	-0.5
Other	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Terms of trade (percent change)	**-6.2**	**-0.3**	**9.8**	**-8.7**	**0.7**	**1.2**	**0.8**	**0.6**	**0.5**
Exports of goods (percent change)	-2.7	1.8	-7.0	7.4	6.7	8.0	7.0	6.7	7.3
Imports of goods (percent change)	7.9	-4.2	-10.8	27.0	8.4	7.9	6.2	5.9	6.0
Gross reserves (end of period, millions of U.S. dollars)	**5,147**	**6,102**	**8,454**	**9,125**	**9,475**	**9,875**	**10,275**	**10,715**	**11,215**
In months of next year imports (excluding maquila)	**5.4**	**7.4**	**8.2**	**8.2**	**7.9**	**7.7**	**7.6**	**7.5**	**7.3**
Total external debt to GDP ratio (in percent)	**38.2**	**38.1**	**45.1**	**50.8**	**52.3**	**52.7**	**50.8**	**48.9**	**48.8**
Nominal GDP (millions of U.S. dollars)	**23,987**	**25,090**	**23,828**	**26,325**	**27,923**	**29,559**	**31,287**	**33,164**	**35,226**

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		Est.	Projections					
	2018	2019	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022
Gross external financing requirements	**3176**	**1799**	**1805**	**432**	**485**	**668**	**903**	**2490**	**2927**
Current account deficit	1379	343	-715	19	72	255	490	836	949
Debt amortizations (public and private)	1797	1456	2520	414	414	414	414	1654	1978
Public debt amortization	240	266	743	71	71	71	71	283	467
Private debt amortization	1557	1191	1777	343	343	343	343	1371	1511
Available external financing	**3176**	**1799**	**1243**	**432**	**366**	**418**	**749**	**1966**	**2927**
Capital account flows (net)	168	195	158	48	17	5	105	175	185
Foreign direct investment (net)	895	499	372	142	52	14	309	516	658
Public sector borrowing	504	635	1410	20	83	522	204	829	1323
Bonds	0	0	100	0	0	0	0	0	0
Other capital flows	1658	1425	1554	286	154	-16	693	1117	1111
Change in reserves (+ decrease)	-50	-955	-2352	-64	60	-106	-561	-671	-350
Gap	**0**	**0**	**562**	**0**	**120**	**250**	**154**	**524**	**0**
IMF	0	0	462	0	120	0	154	274	0
CABEI	0	0	100	0	0	250	0	250	0

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

Table 9. Honduras: External Vulnerability Indicators

	Actual		Est.	Projections				
	2018	2019	2020	2021	2022	2023	2024	2025
Exports of goods and services, annual percent change	-1.0	0.5	-15.1	10.8	10.0	8.0	8.4	7.9
Imports of goods and services, annual percent change	7.8	-2.0	-15.2	22.6	8.7	7.8	7.3	6.8
Terms of trade (deterioration -)	-6.2	-0.3	9.8	-8.7	0.7	1.2	0.8	0.6
Real effective exchage rate (eop, depreciation -)	1.2	0.3	4.3	...	...	...	...	...
Current account balance (percent of GDP)	-5.8	-1.4	3.0	-3.2	-3.4	-3.6	-3.8	-3.9
Capital and financial account (percent of GDP)	5.1	6.3	7.0	1.9	3.6	4.0	4.2	4.6
Gross official reserves								
in millions of U.S. dollars	5,147	6,102	8,454	9,125	9,475	9,875	10,275	10,715
in percent of short-term external debt	737	1,668	2,387	2,328	2,279	2,244	2,206	2,170
Net international reserves 1/								
in millions of U.S. dollars	4,853	5,809	8,149	8,221	8,896	9,410	10,101	10,734
in percent of short-term external debt	694	1,588	2,301	2,098	2,140	2,138	2,168	2,174

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			Est.	Projections					
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Growth and prices (in percent)										
Real GDP growth	4.8	3.8	2.7	-9.0	4.9	4.4	3.5	3.6	3.7	3.9
GDP deflator	4.5	1.9	4.1	4.6	4.6	3.7	4.0	4.0	4.0	4.0
CPI inflation (eop)	4.7	4.2	4.1	4.0	4.1	4.0	4.0	4.0	4.0	4.0
Investment and saving										
Gross domestic investment	**24.8**	**26.6**	**22.7**	**18.7**	**25.7**	**27.0**	**28.0**	**28.3**	**28.0**	**27.7**
Private sector	20.8	23.1	19.6	16.0	21.8	23.6	25.0	25.2	24.9	24.5
Public sector	4.0	3.4	3.1	2.7	3.9	3.3	3.0	3.1	3.2	3.2
Gross national savings	**23.6**	**20.8**	**21.4**	**21.7**	**22.5**	**23.6**	**24.4**	**24.6**	**24.1**	**23.7**
Private sector	19.6	17.4	18.2	19.0	18.6	20.2	21.4	21.5	21.0	20.5
Public sector	4.0	3.4	3.1	2.7	3.9	3.3	3.0	3.1	3.2	3.2
Balance of payments										
External current account	-1.2	-5.8	-1.4	3.0	-3.2	-3.4	-3.6	-3.8	-3.9	-4.0
Non oil current account	4.8	1.2	5.1	7.4	3.3	2.9	2.5	2.2	2.1	2.0
Gross international reserves (millions of dollars)	5,088	5,147	6,102	8,454	9,125	9,475	9,875	10,275	10,715	11,215
Terms of Trade (annual percent change)	-2.4	-6.2	-0.3	9.8	-8.7	0.7	1.2	0.8	0.6	0.5
External debt	**37.2**	**38.2**	**38.1**	**45.1**	**50.8**	**52.3**	**52.7**	**50.8**	**48.9**	**48.8**
Nonfinancial public sector										
Revenue	31.8	31.4	31.2	28.2	29.9	31.9	32.5	32.4	32.3	32.0
Of which: Non-interest expenditure	30.3	29.9	30.0	26.8	28.1	30.1	30.7	30.6	30.5	30.2
Expenditure	32.6	32.3	32.1	33.8	35.3	34.1	33.5	33.4	33.3	33.0
Primary balance	**0.1**	**0.0**	**0.2**	**-4.2**	**-4.3**	**-1.3**	**0.5**	**0.6**	**0.3**	**0.5**
Overall balance	**-0.8**	**-0.9**	**-0.9**	**-5.5**	**-5.4**	**-2.3**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Central government										
Revenue	20.3	20.2	19.2	16.9	18.0	18.5	19.2	18.9	18.8	18.5
Interest revenue	0.1	0.2	0.1	0.0	0.2	0.2	0.2	0.2	0.1	0.1
Of which: Noninterest revenue and grants	20.2	20.0	19.1	16.9	17.8	18.3	19.0	18.8	18.6	18.4
Expenditure	23.0	22.3	21.6	23.6	24.5	24.2	23.0	22.7	22.8	23.0
Interest payment	2.7	3.0	2.8	3.2	3.2	3.5	3.4	3.3	3.2	3.4
Of which: Non-interest expenditure	20.2	19.4	18.8	20.3	21.4	20.7	19.7	19.4	19.5	19.6
Primary balance	**-0.1**	**0.6**	**0.3**	**-3.5**	**-3.5**	**-2.4**	**-0.6**	**-0.6**	**-0.9**	**-1.2**
Overall balance	**-2.7**	**-2.1**	**-2.5**	**-6.7**	**-6.5**	**-5.7**	**-3.9**	**-3.8**	**-4.0**	**-4.5**
Nonfinancial public sector debt 1/										
Total	**40.1**	**42.5**	**46.5**	**54.9**	**58.7**	**59.7**	**59.3**	**58.6**	**57.9**	**56.7**
Domestic debt	9.6	11.2	15.0	17.0	19.3	19.7	19.3	20.7	21.7	20.5
External debt	30.5	31.3	31.5	37.9	39.4	40.1	39.9	37.9	36.1	36.2
Monetary and financial										
Broad money (percentage change)	12.0	8.4	10.8	18.6	13.9	5.2	7.6	7.4	7.1	8.5
Private sector credit (percentage change)	9.3	14.3	8.8	3.2	6.2	4.0	6.3	6.2	6.2	7.7
Bank assets	96.0	100.7	102.9	122.2	118.3	113.8	112.3	110.7	109.0	108.6
Private credit	56.4	60.9	61.9	67.1	65.0	62.5	61.7	60.8	59.8	59.6
Non-performing loans to total loans (percent)	2.3	2.1	2.2	3.0	3.2	0.0	0.0	0.0	0.0	0.0
Capital adequacy (percent)	13.7	13.4	13.7	14.2	14.3	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (in billions of lempiras)	543	575	615	586	642	695	748	807	870	941

Sources: Central Bank of Honduras, Ministry of Finance, and Fund staff estimates and projections.
1/ Debt projections use the defintion from the DSA.

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

(In percent, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020
Total assets (in millions of Lempiras) 2/	341,614	393,763	432,178	473,722	521,869	579,373	632,607	715,567
(In percent of GDP)	91	95	94	96	96	101	103	122
Number of banks	17.0	17.0	15.0	15.0	15.0	15.0	15.0	15.0
Domestic	7.0	8.0	6.0	6.0	6.0	6.0	6.0	6.0
Foreign	10.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Bank concentration								
Number of banks accounting for at least								
25 percent of total assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
75 percent of total assets	6.0	6.0	5.0	5.0	5.0	5.0	5.0	5.0
Capital adequacy								
Regulatory capital to risk weighted assets (RWA)	14.5	14.6	14.0	13.8	13.7	13.4	13.7	14.2
Capital (net worth) to assets	9.1	9.2	8.7	8.7	8.7	8.7	8.9	8.4
Asset quality and composition								
Nonperforming loans(NPLs) to total loans 3/	3.4	3.3	3.0	2.9	2.3	2.1	2.2	3.0
NPLs net of provisions to capital	-5.2	-5.2	-5.1	-3.4	-5.8	-5.8	-5.3	-5.0
Restructured loans to regulatory capital	25.3	22.3	27.9	23.7	25.0	25.0	26.2	48.1
Non earning assets net of provisions								
to regulatory capital	44.1	51.2	54.6	48.4	41.6	42.4	40.1	42.6
Provisions to total loans	4.2	4.1	3.8	3.4	3.2	3.0	3.0	3.8
Provisions to NPLs 2/	123.7	125.5	126.1	117.4	138.0	140.2	135.2	125.7
Sectoral distribution of loans to total loans:								
Commerce	14.3	14.3	13.6	13.0	14.9	15.2	14.4	14.4
Construction and real estate	28.9	27.1	24.6	23.6	23.3	23.0	22.8	23.1
Agriculture and related sectors	4.7	5.0	5.9	7.2	7.4	7.5	7.3	6.9
Industry	11.9	11.1	11.1	10.4	10.3	10.8	10.1	11.0
Consumption	21.9	21.0	21.3	23.1	20.9	21.1	21.5	21.2
Other	18.0	21.3	23.5	22.5	23.0	21.9	23.1	22.7
Profitability								
Return on assets (ROA)	1.4	1.4	1.4	1.3	1.2	1.2	1.2	1.2
Return on equity (ROE)	14.5	13.4	14.6	14.6	12.0	12.0	12.8	7.6
Interest margin to total income	47.5	52.1	52.8	52.9	51.1	49.6	46.7	40.8
Personnel expenses to administrative expenses	41.8	41.7	42.0	41.8	45.5	45.1	44.2	42.3
Liquidity								
Liquid assets to total assets	25.0	25.2	24.6	24.3	26.3	22.2	22.9	29.6
Liquid assets to total short-term liabilities	69.7	70.8	69.5	66.3	71.5	61.7	62.8	71.8
Dollarization								
Deposits in foreign currency in percent of total	30.6	32.0	29.8	30.2	29.9	28.9	26.7	25.1
Credit in foreign currency in percent of total	33.5	34.7	33.2	32.1	31.2	31.8	31.1	30.4

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 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	87.430	29.143	58.287	35.00	11.67	23.33
October 1, 2021	Observance of end-June 2021 and continuous performance criteria and completion of the fifth review	112.410	35.805	76.605	45.00	14.33	30.67
	Total Disbursements	537.070	179.023	358.047	215.00	71.67	143.33

1/ Honduras' quota is SDR 249.8 million. Table 13 shows the current phasing under the program.

Table 13. Honduras: Existing 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 14. Honduras: Indicators of Fund Credit, 2021-29

(As of August 12, 2021; in units indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Existing Fund credit									
Stock, in millions of SDRs 1/	337.2	337.2	282.1	147.4	65.6	40.3	14.9	0.0	0.0
Obligations, in millions of SDRs	0.6	2.4	57.5	136.2	82.2	25.4	25.4	14.9	0.0
Proposed SCF									
Stock, in millions of SDRs 1/	64.9	64.9	64.9	64.9	57.7	43.3	28.9	14.4	0.0
Disbursements, in millions of SDRs	64.9	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	7.2	14.4	14.4	14.4	14.4
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	7.2	14.4	14.4	14.4	14.4
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
Proposed SBA									
Stock, in millions of SDRs 1/	134.9	134.9	134.9	127.6	60.2	0.0	0.0	0.0	0.0
Disbursements, in millions of SDRs	134.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs 3/	0.8	1.3	1.4	8.7	68.6	60.6	0.0	0.0	0.0
Principal, in millions of SDRs	0.0	0.0	0.0	7.3	67.5	60.2	0.0	0.0	0.0
Interest and charges, in millions of SDRs	0.8	1.3	1.4	1.4	1.1	0.5	0.0	0.0	0.0
Stock of existing and prospective Fund credit 1/									
In millions of SDRs	537.1	537.1	481.9	339.9	183.5	83.5	43.8	14.4	0.0
In percent of quota	215.0	215.0	192.9	136.1	73.5	33.4	17.5	5.8	0.0
In percent of exports of goods and services	8.3	7.6	6.4	4.2	2.1	0.9	0.4	0.1	0.0
In percent of external debt	5.8	5.4	4.6	3.2	1.7	0.7	0.4	0.1	0.0
In percent of gross reserves	8.5	8.3	7.2	4.9	2.6	1.1	0.6	0.2	0.0
Obligations to the Fund from existing arrangements and prospective Fund arrangements									
In millions of SDRs	1.4	3.7	58.9	144.9	158.0	100.4	39.8	29.4	14.5
In percent of quota	0.5	1.5	23.6	58.0	63.2	40.2	15.9	11.8	5.8
In percent of exports of goods and services	0.0	0.1	0.8	1.8	1.8	1.1	0.4	0.3	0.1
In percent of external debt	0.0	0.0	0.6	1.4	1.5	0.9	0.4	0.3	0.1
In percent of gross reserves	0.0	0.1	0.9	2.1	2.2	1.3	0.5	0.4	0.2

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 1.050 percent as of August 12, 2021.

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. **Prolonged pandemic**. The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable.	**Medium/ST**	Mitigation measures cause continued disruptions to economic activity, job losses, and increased 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, while supporting needed structural adjustments. Seek financial assistance from multilaterals mainly through concessional long-term loans.
Faster containment. Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.	**Medium/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.
Widespread social discontent and political instability. Social tensions erupt as the pandemic and inadequate policy response cause socio-economic hardship (unemployment, poverty, and shortages and higher prices of essentials—often exacerbating pre-existing inequities).	**High/ST**	Social tensions end in violent protests, disrupting economic activity, fostering political polarization and instability, and weakening policymaking and confidence.	Prevent social tensions by providing direct transfers and monetary and in-kind subsidies.
Accelerating de-globalization. Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.	**Medium/MT**	Reduced trade would deteriorate economic prospects, affecting Honduran exports, GDP, and employment.	Diversify exports towards higher value-added, as well as alternative markets and trading partners.

[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.

Annex I. Risk Assessment Matrix (concluded)

Domestic Risks			
Policy implementation risks stemming from an uncertain political landscape and the proximity of the presidential elections.	**High/ST, MT**	Policy slippages—influenced by powerful interest groups—can derail the revenue mobilization agenda, resulting in less permanent resources available for social and infrastructure spending, weakening long-term growth.	Once the pandemic recedes, continue with revenue mobilization efforts. In the meantime, avoid deterioration in the tax framework from additional tax benefits.

Appendix I. Letter of Intent

August 25, 2021

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

Dear Ms. Georgieva,

1. We remain fully committed to the objectives of our economic program even as we face the aftermath of two tropical storms and the continued pandemic. Challenges are mounting as the pandemic outlook remains uncertain and spending needs associated with reconstruction from the tropical storms are high. The dramatic economic and social impact from these events requires significant efforts. To support these efforts and meet the additional balance of payments and fiscal financing needs, we request augmentation of combined access under the arrangements by SDR149.88 million (60 percent of quota), SDR99.92 million (40 percent of quota) under the SBA and SDR49.96 million (20 percent of quota) under the SCF. Despite difficulties, we remain fully committed to our reform program as the recent emergencies underscored the continued 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.

2. Despite these challenges, we have strived to keep the program on track. We met the majority of end-December and end-June quantitative performance criteria and all but two indicative targets. The impact of the continued lockdown and higher than expected storm-related emergency spending led to a breach of the NFPS deficit target in end-December by about 0.4 percent of GDP. The tropical storms also exacerbated liquidity pressures in ENEE related to the continued pandemic, resulting in new arrears to generators, breaching the performance criterion on domestic arrears in both end-December and end-June. To avoid recurrence of arrears going forward, we have already secured the required financing to clear these arrears and are enforcing provisions in the 2021 budget to guarantee payment of electricity bills by public institutions. Given the temporary nature of the shocks leading to the non-observance in the NFPS deficit target and based on the corrective actions outlined to clear the arrears, we request waivers of nonobservance for the two end-December and the one end-June performance criteria. A temporary technical issue led to a brief nonobservance of the continuous PC on non-accumulation of external arrears. These arrears have since been cleared and we also request a waiver of nonobservance for this continuous PC. The IT on social spending in end-December and end-June were missed by a small margin due to slightly slower rollout of transfers to the transport sector.

3. We have also made progress in structural reforms envisaged in the program. The tax code was amended to allow for electronic notification to taxpayers, and a consultant was hired to identify and value ENEE's distribution assets. We submitted in June a draft bill to congress to streamline tax exemptions. We have faced technical and operational challenges on some structural benchmarks, but we are already working to overcome them and complete the action plan defined in the program even if with delays. In addition, we will also redouble our outreach efforts to legislators to support the passage of draft legislation submitted under the program, including but not limited to, the draft BCH law.

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 the pandemic and the tropical storms, supporting reconstruction and the economic 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, continue progress in the electricity sector reforms and revenue mobilization, and move gradually towards a flexible exchange rate regime while developing domestic debt and derivative markets. 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. As explained in the attached Memorandum of Economic and Financial Policies, we have taken corrective measures to address execution weaknesses in the initial phase of the pandemic and will take further measures recommended by recent Fund technical assistance. We have implemented a labeling mechanism to categorize and track all emergency related expenditure in the budget and adopted a manual of procedures for emergency purchases. We are implementing 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 two months to January 14, 2022 and rephasing of the last availability date. This will allow for additional time to complete the last disbursement under the arrangements. In line with this, we request the last availability date to be changed to October 1, 2021.

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	Luis Fernando Mata
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 tropical storms Eta and Iota exacerbated an already difficult economic and social situation due to the pandemic, further 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. Moreover, tropical storms Eta and Iota further compounded the pandemic's devastating economic and social effects. In addition to short-term emergency measures to ease the humanitarian crisis and rehabilitation measures to restore damaged infrastructures, the storms revealed the need for large scale investments over the medium term to enhance the country's resilience to climate change as Honduras is considered one of the most affected countries by climate change. We remain committed to continue our careful and vital policy responses to these crises, all the while utilizing and respecting the 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 regard, we are committed to return to a fiscal position consistent with debt sustainability in 2023, as required by the FRL. We initially activated an escape clause under the FRL to allow for higher fiscal deficits in 2020 and 2021 to mitigate the impact of the pandemic. Following the tropical storms, we activated a new escape clause to accommodate additional emergency and reconstruction expenditure needs in 2021-22. While the immediate priorities are the pandemic and addressing the aftermath of the storms, the further reform pillars of the program, such as (i) accelerating 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—, (ii) continued revenue mobilization efforts, (iii) strengthening monetary and financial policy frameworks, and (iv) implementing governance reforms in areas that pertain to the macroeconomic policy framework, as well as the rule of law and the fight against corruption, all remain essential. Over the medium term, the central bank will continue to steer inflation inside the target band toward its midpoint and accumulate reserves to cushion our economy.

Recent Economic Developments and Outlook

3. **The pandemic and the tropical storms caused a deeper than expected recession, while prompting additional fiscal needs and raising external risks**:

- The two tropical storms that hit Honduras in November 2020 interrupted a fragile recovery. The economy had been rebounding since July, supported by a cautious gradual reopening from the continued lockdown, strong remittances, and relatively resilient exports (particularly of agricultural products). However, the tropical storms damaged crops and halted manufacturing, resulting in a GDP contraction of 9 percent in 2020, 2 percentage points worse than expected at the Third review. The current account switched to a surplus, reflecting also sharp import compression, while inflation remained within BCH's target band (4±1 percent), though briefly dipping below.

- As a result, public finances came under significant pressure, with the non-financial public sector (NFPS) deficit widening to 5.5 percent of GDP in 2020. The increase in the deficit from 2019 was mainly driven by a sharp deterioration of tax revenues amid the sizable economic contraction (16 percent in real terms). Fiscal discipline, to the extent possible, was maintained through a reallocation of current non-interest expenditures to accommodate a large part of the healthcare, social, and other emergency expenditures caused by the pandemic and the storms. Given the temporary nature of the shocks that led to the non-observance of the end-December 2020 NFPS deficit target, we request a waiver of non-observance of this end-December PC.

Fiscal Policy

4. A looser fiscal stance will be key to mitigate the impact of the continuing pandemic and allow for swift reconstruction. 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 continued weakness in tax revenues and the need to accommodate ongoing health, social spending, and execution of new infrastructure investment, we are making use of the essential flexibility built into the FRL to continue navigating these once in a generation crises. In line with this, Congress approved, after the onset of the pandemic, increases in the ceilings on the NFPS deficit and current expenditure growth for 2020-21; following the shock from the tropical storms, Congress approved a looser fiscal stance for 2021-22.

5. Continued fiscal prudence—with the deficit converging back to the limit stated in the FRL by 2023—will maintain public debt on a sustainable path. The flexibility in the FRL allows us to respond to the shocks while maintaining our commitment to fiscal prudence over the medium term. Returning to the deficit ceiling in 2023 will keep public debt on a sustainable path. Our commitment to the FRL and fiscal discipline have also been instrumental to maintain confidence, helping to contain the increase in country risk premia despite the challenges posed by the pandemic and the tropical storms.

6. 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. Continued efforts in the electricity sector will anchor ENEE's financial situation on a sustainable path. These include continued implementation of the electricity sector law approved in 2014, progress in strengthening the regulatory body and addressing governance issues both in the electricity sector and in ENEE, reducing electricity losses and energy purchase costs, and 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

7. While accommodating an unavoidable temporary decline in tax revenue during the pandemic, we will continue to strengthen revenue mobilization. The recession produced a temporary loss of revenue of about 3 percentage points of GDP in 2020 with respect to 2019, primarily driven by the contraction of the tax base. Targeted and temporary tax relief measures also affected tax collections—i.e., a discount in face value payments of the 2019 corporate income tax for SMEs who do not use the option to defer payments and an exemption of sales taxes on purchases of medical supplies in 2020. Also, we allowed companies to reduce their CIT advanced payments to provide them a liquidity buffer during the pandemic, including through deferral of payments to 2021. We expect indirect taxes to recover significantly in 2021 boosted by the economic recovery, but stagnant income tax collections reflecting the contraction in the 2020 tax base will delay until 2022 the recovery in total tax collections to pre-pandemic levels. To support these efforts, 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. We obtained Congressional approval of legislation introducing electronic notification of the tax administration office (SAR) procedures to taxpayers (*structural benchmark, December 2020)* and will redouble our efforts at engaging with Congress and the private sector for the approval of the transfer of control and verification procedures for tax exemptions to SAR. In the meanwhile, we are continuing with technical advances in SAR to prepare it for the new functions including but not limited to (i) preparing and entering into MOUs with different agencies, (ii) preparing new declaration forms and risk matrices, (iii) developing IT systems to classify tax credits, (iv) identifying and closing gaps in human capital, and (v) preparing a communication plan. 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 in January 2020, following the appointment of a new managerial team (*structural benchmark, September 2019*). Building on technical assistance from the Fund, we have rolled out the automated 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 (*structural benchmark, June 2021, completed in August*).

- **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. Specifically, we are intensifying the collaboration and information exchange between SAR and the customs administration and, in addition, by August, we plan to initiate at least two joint audits between SAR and the customs administration on ZOLIS identified as high risk.

- **Tax base.** We maintain our efforts to prevent the introduction of new tax incentives, including in special economic zones (ZEDEs). Once economic recovery takes hold, 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*). To further lay the groundwork, we submitted to Congress a plan to rationalize and streamline tax exemptions, for it to take effect in 2022 (*structural benchmark, June 2021*). In parallel, the above-mentioned audits to exempt taxpayers will help ensure that benefits are delivering the intended impact.

B. Spending

8. The pandemic and the tropical storms required new spending to attend the social and humanitarian crisis. The additional expenditure related to the pandemic represented about 1.8 percentage points of GDP. This included: (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; (iii) a program of food delivery and cash transfers to poor families and informal sector workers, and (iv) support to workers in the transportation sector (*bono sector transporte*). 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. Additional emergency spending needs associated with tropical storms in November-December represented about 0.2 percentage points of GDP. To accommodate total emergency spending, we reduced nonpriority current and capital spending through budget reallocations, resulting in total reduction in primary expenditure of about 1 percent in nominal terms in 2020.

9. Given large reconstruction needs and continued health emergency, we will temporarily relax the fiscal stance in 2021-22, returning to the FRL target in 2023.

- We have developed a comprehensive reconstruction strategy centered on climate-resilient and flood management infrastructure. Initial rehabilitation expenditures to restore and increase climate-resilience of infrastructures damaged by the storms, together with continued health spending related to the pandemic, including on vaccine purchases, will lead to an increase in the projected deficit for 2021 to up to 5.4 percent of GDP. Part of the investments in new flood management infrastructure will be implemented through the existing electricity generation trust fund (paragraphs 16 and 22).

- Given continued reconstruction needs in 2022, we have called a new escape clause allowing for a return to the 1 percent of GDP FRL deficit target in 2023.

10. Rightsizing expenditure will be critical, both during the pandemic and over the medium term. Measures to contain non-priority current spending have helped create space for emergency expenditures during the crisis. Continued efforts to rationalize expenditure will be critical to facilitate convergence to the FRL targets while supporting social and infrastructure spending over the short and medium term. Specifically, our spending plan includes the following:

- **Budget reallocations to address pandemic needs will continue.** Since March 2020, we issued legislation 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 continued identification of cuts in nonpriority current spending will allow us to partially finance crisis related spending. In addition, emergency social support spending will be extended as needed and adjusted in line with the evolution of the pandemic and the ongoing impact of the tropical storms.

- **Wage bill.** Starting with the public sector wage negotiations for 2022, we will implement the centralized wage bargaining mechanism established in June 2020 to guide decisions on nominal wage increases, in line with the FRL (*structural benchmark, June 2020*). Over the medium-term, we will 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 the storms 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, among others, to strengthen the health system, build resilience to climate change, enhance productivity and competitiveness, and foster economic recovery—notably through support to SMEs as well as large enterprises. Furthermore, we are supporting social housing via rehabilitation, donations and subsidies, and the reconstruction of road and basic public infrastructure.

11. 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 2020 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. Given the importance of streamlining exemptions for anchoring medium-term fiscal credibility, we will continue to refine contingency measures to enhance revenues in the medium-term while improving the equity of the tax system. We also continue to closely monitor the impact of the pandemic on macro-financial stability and stand ready to take actions as needed to address potential legacy solvency issues.

C. Financing

12. Our program remains fully financed. Resilient remittances, import compression, and external mostly concessional financing supported our external position in 2020. The 2021 budget will be financed both through multilateral project financing and budget support (for US$1,140 million, including drawings under the augmented SBA and SCF arrangements). 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.

13. Domestic arrears. We cleared in 2020 domestic arrears to private generators of about 1½ percent of GDP that were accumulated by ENEE before program inception. The pandemic—and the associated impact of last year's lockdown on households and firms' income gave rise to new arrears of about ½ percent of GDP by end-June 2020. The tropical storms further compounded customers' challenges to pay electricity bills, bringing total arrears to about 1 percent of GDP at end-June 2021. We will ensure that ENEE has sufficient financing to clear these arrears—congress has already approved an increase in its borrowing ceiling by Lempira 9 billion—backstopped by the ministry of finance. To avoid recurrence of arrears, we will strengthen the process for timely transfers of authorized subsidies to ENEE and treasury support in securing financing for the company. We will also redouble our efforts to enforce provisions in the 2021 budget to guarantee payment of electricity bills by public institutions, including by shielding the budget lines allocated to public service bills in such a way that they cannot be diverted to other purposes. On the basis of these corrective actions, we request a waiver of non-observance for the end-December and end-June 2020 performance criteria on domestic arrears.

D. Fiscal Governance and Transparency

14. The quality of fiscal policy relies on sound governance and transparency of public spending. We remain 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 continue implementing the recommendations of the Fiscal Transparency Evaluation (FTE) conducted by the Fund.

15. We are strongly committed to continue strengthening our procurement processes, internal controls, and monitoring systems to guarantee transparency and accountability of emergency spending. Solid monitoring systems—including weekly publications of Covid-19 spending, concurrent control by the High Court of Accounts (*Tribunal Superior de Cuentas*), and intense civil society oversight—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 agency previously in charge of Covid-19 emergency purchases (*Invest-H*) remains under government intervention, and its former manager is being prosecuted by the general attorney's office. A preliminary version of an international audit of past emergency purchases commissioned by Invest-H's intervention commission was completed on August 13, 2021. We are currently assessing its findings for completeness and quality.

- With technical assistance from the Fund and the Inter-American Development Bank, we have implemented 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—and introduced a manual of procedures for emergency purchases, prepared with support from the IDB. We are also working to implement the action plan prepared with support from CAPTAC to strengthen internal controls at the institutions with procurement responsibilities. As next steps, we will request a second TA to begin the drafting of an internal audit law to support these efforts.

16. We reiterate our commitment to transparency of pandemic-related and reconstruction spending.

- In compliance with established legislation, we remain committed to publish emergency procurement contracts related to COVID-19 and reconstruction spending, including identifying the contracted companies and their beneficial owners (paragraph 41). We will also work towards online publication of ex-post validation of delivery for large contracts given our capacity constraints.

- We are also committed publish post-crisis reports and audits of pandemic- and reconstruction-related spending, within a year, as policy responses to the crisis continue to be implemented.

- The High Court of Accounts (TSC) continues to conduct and publish concurrent audits of pandemic-related spending. The TSC completed and published two special audits of institutions executing this spending, and has also completed in August two additional ex-post audits of pandemic-related spending. The High Court of Accounts is also in the process of signing an agreement with the ministry of finance which will facilitate the conduct of concurrent controls of large expenditure projects mutually chosen by the two institutions, which will be especially important in the context of continued emergency spending and reconstruction projects.

- We have restricted the mandate of the electricity generation trust fund to the implementation of fourteen infrastructure projects in specific locations to contain floods and generate electricity. The ministry of finance will maintain control over financial operations and investment decisions for budget-financed flood management projects executed through the trust fund. We are working with the IMF on regulations to: (i) strengthen the trust fund's transparency and accountability; (ii) guarantee minimum governance standards such as publication of procurement contracts, including identifying the contracted companies and their beneficial owners, together with ex-post audits; (iii) ensure recording and monitoring of public funds directed into the trust fund, in line with public financial management rules, and included as part of the overall balance; (iv) ensure that the Supreme Audit Institution covers both transfers to and execution of resources from the Fund; and (v) implement mandatory social audit contracts. We expected to complete these by end-October.

17. 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 include well-established programs in 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 directorate within the ministry of finance to closely monitor trust funds and publish details on their execution (www.sefin.gob.hn/reduccion-de-la-pobreza), including spending associated with COVID-19 and the tropical storms Eta and Iota. We are working with Fund technical assistance on implementing the plan to include social and infrastructure trust funds in the 2021 budget and in treasury single account operations.

18. We will take additional measures included in FTE recommendations. We continue 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—and are publishing an annual Fiscal Risk Statement, together with the budget. 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

19. 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.

20. We continue working on the regulatory framework to implement the new tariff scheme and on strengthening the legal framework. Tariffs continue to be updated on a quarterly basis based on technical considerations (*continuous structural benchmark*). The new tariff scheme approved at the outset of the program—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 were approved. The CREE has fully reflected generation costs in tariffs, and the intervention commission of ENEE has commissioned studies—expected to be completed by December 2021—to accurately quantify and fully reflect transmission and distribution costs. We are working on addressing inconsistencies in the legal framework to ensure that new power purchase agreements can only be approved within the competitive framework under the sector law.

21. Following due process, we continue working 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.

22. 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—over 10 percent of GDP at end-2020—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.* In January 2020, 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 generation, transmission, and distribution assets (*structural benchmarks, December 2020 and March 2021*). Generation and transmission asset valuations are expected to be completed by end-October and distribution asset valuations and the financial audit by end-December.

- *Scission of the company.* Unbundling of ENEE into three independent companies—operating in generation, transmission, and distribution—and a holding company, as mandated by the electricity framework law—will enhance the sustainability and functioning of the electricity market and attract investment. With technical support from the Inter-American Development Bank, we drafted legislation to continue this process; we submitted this to Congress in July and we are actively building support towards its approval. With support from the Central American Bank for Economic Integration, we have created a dedicated unit and hired four of the five experts as well as the consultant firm for the transmission unbundling to support management and implement the process of scission. The planned asset valuations (see above) are 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. While we repaid in December the last maturing bond in the distribution trust fund, its cancelation to regain control of the company's cash flow and improve governance (*missed structural benchmark, December 2020*) is linked to ongoing strategic negotiations to seek observance of the contract with the operator of the distribution system. Nonetheless, ENEE has paid the remaining debt in the transmission trust fund and terminated it. The scope of the existing generation trust fund has been modified to address identified investment needs for flood management. In strict adherence to our legal framework, we will seek a more efficient electricity market through new generation contracts guided by expansion plans approved by the regulator and awarded in international competitive bidding processes, as well as through agreements with existing private generation companies, and through examination of possible irregularities in certain generation contracts.

- *Electricity losses.* The current level of losses is testimonial of operational inefficiency and their reduction is critical to restore ENEE's financial situation. The economic and social challenges posed by the pandemic and the tropical storms have hindered implementation of our strategy to reduce electricity losses in transmission and distribution. As the recovery from the economic and social impact of these crises takes hold, we will revamp our losses reduction strategy with the following key elements: (i) resumption of operatives by the law enforcement task force launched in early 2020 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, through measures such as working with community leaders on joint public lighting and electricity meter installation projects in those areas . We will also ensure adequate payment discipline of electricity bills by public entities, following improvements in budgeting and introduction of penalties for noncompliance in the 2021 budget. Additionally, as noted above, we will shield the budget lines allocated to public service bills to enhance enforcement for 2021. 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 seek observance of the contract with *Empresa Energía Honduras* (EEH), the operator of the distribution system, while carefully managing this to minimize fiscal costs. Pending the resolution of the ongoing legal process—which would permit more structural actions to reduce ENEE's cashflow losses—we continue a close monitoring to ensure that ENEE's liquidity situation does not deteriorate.

- *Assessing distribution costs.* With support from the World Bank, we are conducting a study to estimate the value added of distribution (VAD). 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 completed in August the study of the cost of operating and maintaining the electricity distribution network (COMA) (*structural benchmark, March 2021*).

23. 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

24. 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 took 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 and the tropical storms. 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.

25. 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. As legislative initiatives associated with management of emergencies associated with the pandemic and tropical storms have been largely addressed, we expect discussion of the BCH law in Congress to be completed this year and will redouble our outreach efforts to legislators in this regard.

26. 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 are implementing Fund technical assistance recommendations to start conducting monetary policy through reverse repurchase operations with Treasury bonds transferred in the context of the recapitalization, while continuing to assess the benefits of additional 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.

27. 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. We have successfully eliminated the FX surrender requirement in June as envisaged in the plan approved in December 2019 (*structural benchmark*) and slightly adjusted during the pandemic.[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) continuing to adjust FX intervention rules to mitigate sharp moves in the exchange rate over time; ii) introducing regulations to support the development of an FX derivatives market with Fund technical assistance; and iii) fostering

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

integration of existing electronic platforms that can support a secondary government securities market to further strengthen the interest rate channel of monetary transmission.

28. 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 fourth quarter of 2023 and the publication of the new national accounts series to 2022.

Financial Policies

29. We implemented extraordinary and temporary regulatory measures due to the effects of the pandemic and the tropical storms Eta and IOTA; and we will continue supervisory activities to ensure the stability of the financial system at all times.

- At the outset of the pandemic in March, we encouraged banks to provide temporary debt service relief—until June 30, 2020—to businesses and individuals whose incomes were being affected by the crisis; and we adopted the measure to "freeze" until October 2020 the risk classification category of the affected debtors, the institutions of the financial system continued provisioning according to the amount of credits overdue more than 120 days (up until October) and more than 90 days thereafter. 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 the risk classification categories of the debtors as of end-February until end-December 2020. With the additional challenges posed by the tropical storms, a new 3-month grace period for affected borrowers was introduced until January 2021, while the period for restructuring loans without changing risk classifications was further extended to March 2021. Banks have made progress in restructuring loans during this period, and we are carefully monitoring these through a special classification in the Credit Information Center reports.

- We encouraged banks to restructure loans that benefited from the grace periods. 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.

- The Central Bank implemented two credit guarantee schemes created to encourage the granting of credit 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 last August reserve requirements on national currency from 12 to 9 percent, while reintroducing temporary mandatory investments of 3 percent backed by new credits to micro and small enterprises supported by the guarantee scheme and credits from financial institutions to microfinance institutions that on-lend to micro enterprises—mandatory investments deposited at the central bank will remain unremunerated.

- We are closely monitoring the impact of the pandemic and the tropical storms 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 have been required to establish an equity reserve which is meant to cover potential credit losses resulting from these shocks; and banks falling below regulatory capital requirements are required to present recapitalization plans. 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 additional measures to preserve financial stability.

30. Like other regulators of 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 adjusting regulatory requirements related to the grace period and loan restructuring process described above, we also temporarily increased the period of arrears associated with the NPL classification from 90 to 120 days (effective until end-October 2020), while reducing the mandatory provision coverage ratio of related exposures from 110 to 100 percent (effective until end-December 2021).

- 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 III standards; (ii) gradually introduce regulations for market risks; and (iii) develop new methodologies to assess operational risks. We are discussing with the Fund technical assistance to be delivered in 2021 to quantify the solvency need in line with the risk profile of insurance institutions. At the same time, we plan to submit to Congress this year 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.

31. 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 at any time or 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 Finance Secretary, 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 will introduce revisions in its emergency lending facility aimed at simplifying procedures for activation. The CNBS continues working with support from the OTA to enhance the bank resolution framework introduced in the 2016 Financial System 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.

32. **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, The Government of the Republic we will refrain from providing 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 proceeded to designate a special and unique administrator who must guarantee and protect the rights of depositors and the institution's assets. Pending approval of the new agency to provide funding and technical assistance to the agricultural sector, support for this sector has been intensified by sizing up and expediting execution of subsidized and guaranteed lending schemes through our second-tier public development bank.

33. **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.

34. **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

35. We responded swiftly to the humanitarian crisis associated with the pandemic and the tropical storms. 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 the new *Honduras Solidaria* program, we also strengthened existing programs to secure the delivery of food to poor families. In response to the tropical storms, we introduced, inter alia, two new targeted cash transfer programs, *Bono No Estan Solos* and *Bono de Vulnerabilidad*.

36. Priority social spending. We 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 paid temporary unemployment benefits. Including with technical support from UNDP, we strengthened our social safety net during the pandemic and the tropical storms 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 and the tropical storms. We missed the social spending IT by a small margin (0.04 percent of GDP) only due to delays in the rollout of our *bono transporte* for operators of public transport services.

37. 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 on January 2020 an additional temporary subsidy—until end-2020—to buffer the impact of the energy price increase on households. ENEE also had temporarily adjusted its collections policy, allowing consumers to pay a portion of the bill for the duration of the lockdown, and now has restarted prioritized enforcement excluding vulnerable households.

38. Gender equality. Raising female labor participation is critical to reduce gender inequality and boost potential growth. We are tailoring 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*—are included as priority social spending.

Business Environment, Governance, and Anti-Corruption Efforts

39. 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) and* we are working with

Congress towards its approval. We also developed a plan to implement the electronic signature to simplify public administration procedures (*structural benchmark, December 2019*); we already issued regulation for electronic signatures, and digital government more broadly, and the pandemic has supported the widespread use of digital means.

40. 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 public purchases and contracting platform, *Honducompras*. Given systemic errors in the daily functions of *Honducompras2*, we temporarily reverted in June to the use of *Honducompras1*. We continue to work on restarting use of *Honducompras2*, including the phase 1 of its integration with the Treasury's IFMIS (SIAFI) (*structural benchmark, June 2021)*. While the main components of the integration have been defined, additional functionalities are still needed for its completion. We signed in February a maintenance contract with the IT vendor to maintain and update the software platform for *Honducompras2*. With support from the Fund, we have identified and requested from the IT vendor the additional functionalities needed to complete the first phase of the integration, including updating SIAFI's financial information with the final values of the purchase order registered in *Honducompras2* and ensuring consistency between SIAFI's budget classifications and the catalogue of goods and services in *Honducompras2*. While we maintain efforts to advance the process, the pandemic continues to generate important delays on the side of the IT vendor, and we therefore propose to reset this SB to September 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 to improve governance in the management of PPPs. This unit is working 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 enhanced accountability by revising the criteria to determine reporting officials—based on hierarchy and risk criteria, such as salary and access to public funds. We are also working on migrating the system to electronic submission of declarations, with support from the Inter-American Development Bank.

41. 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*). The Supreme Court already issued its favorable verdict regarding the amendment to the Code of Commerce, a pre-requisite to any Code reform, and the amendment is now awaiting discussion in Congress. The Property Institute, who accepted to be in charge of creating the beneficial ownership registry, is already working on a design for the registry to be ready once Congress approves the amendment. We are also working with Congress towards the approval of these reforms.

Safeguards Assessment and Program Monitoring

42. 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 working with Congress for the approval of this charter before the expiration of the current arrangement with the Fund. We are committed to adopt International Financial Reporting Standards (IFRS) for central banks and already hired a consulting firm to assist in the transition to IFRS in order to publish IFRS-compliant financial statements for FY2022 by end-April 2023. We already approved an accounting policy to distinguish between realized and unrealized foreign currency revaluation gains and losses. Furthermore, we are in the process of aligning the internal audit charter with international standards, a quality review was concluded by a consulting company and we are working on implementing the recommendations.

43. Program monitoring. We request renewed temporary approval of the two multiple currency practices (MCPs) maintained for non-balance of payments reasons. We have not introduced any new rule on the FX market that would lead to a spread of more than 2 percent between the official exchange rates and the exchange rates resulting from the BCH's FX auction and plan to eliminate the two MCPs as part of our efforts to liberalize the FX regime. We have not imposed or intensified any other restrictions on making payments and transfers for current international transactions and have not introduced or modified multiple currency practices. The program continues 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.

44. 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	Reset to June 2021
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	Completed in March 2021
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

Table AI.1. Honduras: Structural Benchmarks 2019-21 (continued)			
Ensure that the procurement portal *Honducompras 2* is integrated with the Treasury's IFMIS (paragraph 37 of MEFP).	September 2020	Not met	
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.	December 2020	Not met	
Amend Article 89 of the Tax Code, allowing for electronic notification of SAR procedures to taxpayers.	December 2020	Met	
Terminate the trust fund on electricity distribution (Decree 118-2013).	December 2020	Not met	
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.	March 2021	Not met	Completed in August 2021
Hire a firm to identify ENEE's distribution assets.	December 2020	Not met	Completed in March 2021
Hire a firm to perform the valuation of ENEE's distribution assets.	March 2021	Met	
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	Not met	Proposed to be reset to September 2021
Automate the process to record operations between companies under special regimes (see paragraph 7 of the MEFP).	June 2021	Not met	Proposed to be reset to September 2021
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	Met	

Table AI.1. Honduras: Structural Benchmarks 2019-21 (concluded)			
An amendment to the electricity generation trust fund decree should be submitted and adopted by Congress to (i) restrict in a clear manner the mandate of the trust fund, in particular, on the types of investments and amounts that can be financed, based on feasibility studies, (ii) eliminate the trust fund's ability to create new trust funds and incorporate new trustees, (iii) revise the trust fund's governance arrangements to ensure that the ministry of finance retains control over the trust fund's financial operations and investment decisions, especially for budget-financed projects.	Prior Action for 4th Reviews	Met	
Eliminate the "most privileged regime" concession for ZEDEs in an amendment to the congress' decree and provide assurances—in the MEFP or the decree itself—that no new tax exemptions to ZEDEs (beyond those in the 2013 law) have been granted through this new decree.	Prior Action for 4th Reviews	Met	

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

(Cumulative flows; millions of Lempiras, unless specified)

	2020				2021			
	End-Dec.				End-Jun.			
	Prog.	Adj.	Actual	Status	Progr.	Adj.	Actual	Status
QUANTITATIVE PERFORMANCE CRITERIA								
Fiscal targets 2/								
Net lending/borrowing of the nonfinancial public sector (-= borrowing, floor)	-30,017	...	-32,446	Not met	-17,899	...	4,164	Met
Net lending/borrowing of ENEE (-= borrowing, floor) /3	-5,114	...	-4,574	Met	-2,300	...	-1,666	Met
Lending minus repayments from public pension funds (ceiling)	800	...	-1,848	Met	500	...	242	Met
Public debt targets								
Stock of domestic arrears by ENEE (ceiling)	0	...	4,379	Not met	0	...	7534.1	Not met
Accumulation of new external arrears (ceiling, in million US$) 4/	0	...	0	Met	0	...	0.075	Not met
Monetary targets								
Stock of non-borrowed net international reserves of the Central Bank (floor, in million US$)	4,851	4,806	6,244	Met	5,016	4,584	6,786	Met
Stock of net domestic assets of the central bank (ceiling) 5/	-69,012	-67,912	-98,971	Met	-78,527	-67,968	-115,189	Met
QUANTITATIVE INDICATIVE TARGETS 2/								
Tax revenue of the central government (floor)	84,238	...	86,486	Met	49,488	...	58,490	Met
Wage bill of the central government (ceiling) 6/	48,020	...	48,001	Met	30,151	...	26,290	Met
Priority social spending (floor)	9,445	...	9,199	Not met	3,631	...	3,260	Not met
Operating revenue-to-spending ratio of ENEE (floor)	0.99	...	1.00	Met	1.02	...	1.03	Met

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

		Amount (millions of SDRs)			Percent of quota		
Date of Availability	Conditions	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	87.430	29.143	58.287	35.00	11.67	23.33
October 1, 2021	Observance of end-June 2021 and continuous performance criteria and completion of the fifth review	112.410	35.805	76.605	45.00	14.33	30.67
	Total Disbursements	537.070	179.023	358.047	215.00	71.67	143.33

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–December 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/Borrowing

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/Borrowing

10. Definitions: Net lending of ENEE is defined as the difference between revenue and expenditure. Negative values of this quantitative performance criterion operate as a quantitative performance criterion on borrowing. 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

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[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) all liabilities outstanding to the IMF, (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. SDR allocations are not netted out from gross international reserves for the calculation of net international reserves.

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. 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. In case Honduras participates in the new SDR allocation, the floor on NIR will be adjusted upward by the amount of the additional SDR allocation up to the test date.

Table AII.2 Honduras. External Program Disbursements

Cumulative flows	Million of US$
end-June 2021	147.3

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 are also included. For program purposes, all interventions listed in Table AII.3 will be considered priority social spending.

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

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

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.

INTERNATIONAL MONETARY FUND

HONDURAS

August 30, 2021

FOURTH REVIEWS UNDER THE STAND-BY ARRANGEMENT AND ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY, REQUESTS FOR AUGMENTATION OF ACCESS, EXTENSION AND REPHASING OF THE ARRANGEMENTS, AND WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

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

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

The Debt Sustainability Analysis (DSA) assesses that Honduras remains at low risk of debt distress both for public external and overall debt.[1,2] *Honduras maintains a strong debt-carrying capacity and none of the debt burden indicators breach their respective thresholds. Given the large and unavoidable effects of the COVID-19 pandemic and two tropical storms on public finances, the Honduran authorities triggered the escape clause within the Fiscal Responsibility Law (FRL)*[3]*. Nonetheless, Honduras' proven record of compliance with the FRL provides confidence that the response to the pandemic will not jeopardize debt sustainability. Going forward, continuous adherence to the FRL and institutional reforms to boost inclusive growth and increase the economy's potential are important to safeguard debt sustainability.*

[1] This DSA updates the previous joint IMF/WB DSA prepared in June 2020 in the context of the Honduras Second Reviews staff report (IMF Country Report No. 20/186).

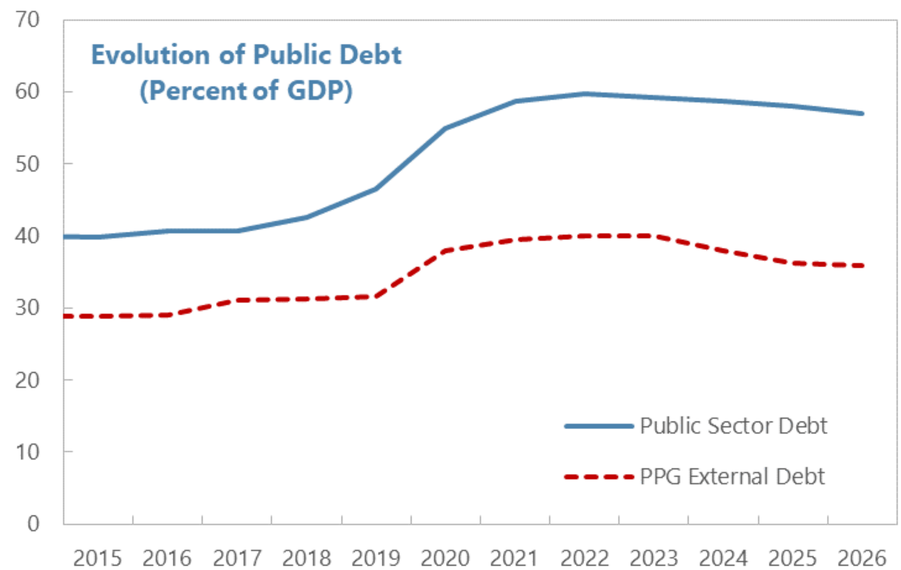
[2] Honduras's debt carrying capacity is assessed to be strong based on a composite indicator of 3.15 that uses the April 2021 WEO vintage and the 2019 CPIA.

[3] Under the FRL, the authorities commit to keep the overall fiscal deficit of non-financial public sector below one percent of GDP. An escape clause, to be approved by the legislative branch, allows deviation in exceptional circumstances.

BACKGROUND

1. **Public debt increased significantly in 2020 due to the adverse effects from the pandemic and two tropical storms.** The Honduran economy contracted by 9 percent in real terms in 2020. Compared to a scenario in which nominal GDP grew by the average rate in the last 5 years, about 80 percent of the increase in debt is accounted for by the lower GDP. Using the same metric, the fall in GDP accounted for 70 percent of the increase in external public and publicly guaranteed debt (PPG). Real interest rate on total public debt was at 2.7 percent vis-à-vis the average real interest rate of 3.1 percent in 2015-2019. Nominal interest rate on PPG was at 4 percent vis-à-vis the average nominal interest rate of 3.3 percent in 2015-2019.

Text Figure 1. Honduras: Public Debt



Source: Country authorities.

2. **In percent of GDP, total public debt increased in 2020 due mainly to a large GDP fall and higher external borrowing.**[4] Gross public debt stood at 54.9 percent of GDP at end-2020, up by 8.4 percentage points of GDP since 2019 (text figure 1 and table 2), of which 37.9 percentage points corresponded to PPG debt and 17 percentage points to domestic debt.

3. **The PPG external debt has jumped in 2020.** Similarly to the public debt, the PPG external debt-to-GDP ratio increased sharply from 31.5 percent in 2019 to 37.9 percent in 2020 on the back of lower nominal GDP. Note that the 10-year, US$600 million bond June placement, was almost

[4] 2020 data used in this DSA is preliminary and subject to change. IDA disbursement assumptions are as of May 1, 2021.

entirely used to repay external PPG debt (US$500 million) of the state electricity company (ENEE).[5] In its turn, total external debt increased from 38.8 percent in 2019 to 45.3 percent of GDP in 2020—almost entirely driven by the increase in debt to the public sector from multilateral institutions. Multilateral debt increased by about US$1.3 billion or 29 percent in 2020: in net inflows, about US$460 million came from the IMF, US$95 million from the World bank, and the rest was split between the Inter-American Development Bank and Central American Bank for Economic integration. External debt owned by the private sector increased by 16 percent, while bilateral debt slightly declined. 83.8 percent of total external debt corresponds to PPG debt, of which 65.5 percent (US$5,960 million) is contracted by multilaterals, 21.5 percent (US$1,952 million) contracted by commercial institutions, and 13 percent (US$1,177.3 million) by bilateral.

4. **Public debt is mostly held by foreign creditors** (Text Figure 2). The share of PPG external debt stood at 70 percent of total public debt as of end 2020. The main creditors to Honduras are international bondholders, the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI), and the World Bank. The multilateral institutions all provide lending at relatively long maturities. Public domestic debt, which is mainly held by domestic commercial banks, has a shorter—though rising—maturity (over 4 years) and carries a higher real interest rate. This reflects a broader strategy by the authorities to develop the domestic debt market and increase reliance on Lempiras-denominated debt with longer maturities, held increasingly by pension funds and other institutional investors.

Text Figure 2. Honduras: PPG Debt Stock Composition by Instrument (2019)

Source: Country authorities.

5. **The debt coverage for the public sector is comprehensive.** The DSA covers the nonfinancial public sector (NFPS). Therefore, it includes general government debt and non-financial state-owned enterprises' debt, both guaranteed and non guaranteed. Debt from extrabudgetary funds such as trust funds[6]—which are treated as private entities under Honduran legislation but should be registered as general goverment units according to the 2014 GFSM—are also included

[5] As a result, ENEE´s debt to the central government increased. It explains growth in SOEs' domestic debt from 47.7 million lempiras to 61.7 million lempiras in 2020. SOEs' external debt declined from US$281.6 million to US$251 million.

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

(Text Table 1).[7] Debt from decentralized agencies such as public universities; public pension funds debt; and central bank borrowing on behalf of the government are also covered in the debt stock. In the case of the ENEE, debt also includes arrears to energy generators. Currently, all arrears are from ENEE. Continued pandemic-related liquidity shortages at ENEE, exacerbated by the storms, resulted in the accumulation of arrears to generators at about 4.4 billion Lempira (about 0.7 percent of GDP). The DSA uses a currency-based definition of external debt—non-residents do not hold domestic debt, hence there is no material difference between the residency-based and the currency-based concepts[8]. Whereby, lempiras-denominated debt is considered public domestic debt and public foreign currency-denominated debt is accounted as public external debt.

6. The contingent liability tailored test includes four major contingent risks (text table 1). "Other elements of the general government" include lawsuits in international courts in the amount of 3.5 percent of GDP. Disputed amounts reach 8.1 percent of GDP, but contingent liabilities are 3.5 percent after factoring lawsuit-specific probabilities of resolution according to estimations prepared by the Treasury's contingency unit. Since the DSA coverage does not include public banks, an additional 2 percent of GDP is added to SoEs' debt. The contingent liability test also includes risks stemming from Public-Private Partnership (PPP) for 4.1 percent of GDP and the default financial market shock (5 percent of GDP).

Text Table 1. Honduras: Public Debt Coverage and Calibration of Contingent Liability Stress Test

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

1	**The country's coverage of public debt**	The entire public sector, including SOEs		
		Default	**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0 percent of GDP	3.5	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4	PPP	35 percent of PPP stock	4.1	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)		14.6	

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

MACROECONOMIC AND POLICY ASSUMPTIONS

7. The main macroeconomic assumptions are based on the authorities' policy objectives and staff projections. The medium-to long-term macroeconomic outlook assumes that, after

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

[8] Honduras' domestic investors do not have access to the government's external debt through local clearance houses. In the domestic market, residents can buy FX local debt. However, currently the Honduran government does not issue local FX debt.

triggering the escape clause to cope with the effects of the COVID-19 shock and the two tropical storms at end-2020, the FRL deficit ceiling will be binding again in 2023, and that structural reforms envisaged in the Fund-supported program are implemented. Text Table 2 shows the updated baseline macroeconomic projections compared to the last DSA, from June 2020.

Text Table 2. Honduras: Selected Economic Indicators, Current vs Previous DSA

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	2040
Real GDP growth (percent)											
Current DSA	3.8	2.7	-9.0	4.9	4.4	3.5	3.6	3.7	3.9	3.9	3.9
Previous DSA	3.7	2.7	-3.3	4.7	4.2	3.9	3.9	3.9	4.0	4.0	4.0
GDP deflator growth (percent)											
Current DSA	1.9	4.1	4.6	4.6	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Previous DSA	1.9	4.3	4.5	6.0	4.7	4.7	4.7	4.7	4.0	4.0	4.0
Primary balance (% of GDP)											
Current DSA	0.0	0.2	-4.2	-4.3	-1.3	0.5	0.7	0.3	0.5	0.6	0.5
Previous DSA	0.0	0.2	-3.0	-1.5	0.4	0.2	0.0	0.5	0.5	0.5	0.5
Overall balance (% of GDP)											
Current DSA	-0.9	-0.9	-5.5	-5.4	-2.3	-1.0	-1.0	-1.0	-1.0	...	...
Previous DSA	-0.9	-0.9	-4.0	-3.0	1.0	1.0	-0.9	-0.9	...	...	...
Current account balance (% of GDP)											
Current DSA	-5.8	-1.4	3.0	-3.2	-3.4	-3.6	-3.8	-3.9	-4.0	-4.0	-3.9
Previous DSA	-5.4	-1.4	-2.1	-2.5	-3.4	-3.9	-4.0	-4.0	-4.4	-4.4	-4.4
Net FDI (% of GDP)											
Current DSA	3.7	2.0	1.6	2.0	2.4	2.7	3.1	3.5	3.8	3.9	3.9
Previous DSA	3.7	2.0	1.4	2.5	2.7	3.0	3.5	4.1	4.1	4.1	4.1

Source: IMF staff estimates and projections.

- **Real sector.** Growth in 2021 is projected to reach 4.9 percent as the continued negative impact from the tropical storms Eta and Iota (mainly on agriculture) and the prolonging pandemic are offset by stronger US growth and reconstruction spending. Strong growth in the U.S. is expected to support remittances and maquila exports. The recovering index of monthly economic activity and growing remittances in early 2021 support staff projections. However, slowly recovering agriculture and slow vaccination are expected to result in spreading growth over two years: only 4.9 percent in 2021 after a plunge of 9 percent in 2020 and 4.4 percent in 2022. Inflation is expected to remain within the BCH's target band, with a negative output gap and contained credit growth. The economy is projected to almost return to its pre-crisis level in 2022, before returning to its medium-term trend. With vaccinations and positive spillovers from the U.S. through remittances and external demand for agricultural and manufacturing production, GDP in 2022 is expected to grow at 4.4 percent. However, due to slowing investment, persistently low productivity growth, climate change effects, and an uncertain recovery for tourism, the medium-term growth outlook remains just below 4 percent while inflation is projected to remain at the center of BCH's target band.

- **Fiscal variables.** Fiscal projections assume compliance with the FRL. The escape clause of the FRL is assumed to be called twice, on the grounds of emergency (Art. 4 of the FRL, item 1). This supports a NFPS deficit of 5.5 percent of GDP in 2020 and projected deficits of up to 5.4 and 2.3 percent of GDP, respectively, in 2021 and 2022. A return to the deficit limit of 1 percent of GDP is assumed from 2023 onwards.

- **Debt issuance assumptions.** The share of external borrowing from multilateral and bilateral institutions is expected to grow in response to the COVID-19 and climate-related shocks[9]. The recent tightening of global market conditions increases the uncertainty around the placement of a $600 million Eurobond initially planned for 2021, which is not included in this DSA. However, the increased concessional financing and the augmentation help mitigate financing risks. Consistent with the Honduran Debt Management Strategy, the projections also assume success in deepening the domestic debt market, increasing maturities, and issuing predominantly at fixed rates.

- **External sector.** Compared to the previous DSA, the 2020 current account fared much better than anticipated, to a great extent due to resilient remittances, while the projected 2021 deficit is now expected to be slightly higher. For the medium and long term, the current account deficit is projected to hover around 4 percent of GDP, with the outer years expected to be financed primarily by foreign direct investment. FDI is projected to increase as the economy starts to grow in a sustainable manner, and especially in critical economic sectors such as electricity, where greater investments in generation and transmission are expected, as the authorities move forward with the much-needed reform agenda for the sector. [10]

8. The realism tools suggest that the projections are optimistic, as these tools fail to account for the nature of 2020 crisis and ongoing recovery (Figures 3 and 4).[11,12] The baseline assumes an improvement of the primary balance of 4.6 percentage points of GDP over the next

[9] The World Bank accelerated preparation of a Disaster Risk Management development policy credit with a Deferred Drawdown Option (CAT-DDO) of US$119 million, with a Board approval on April 10, 2020; that credit is fully disbursed. The CAT-DDO is a contingent DPO support product linked to disaster risk response. The Bank also approved a US$20 million COVID-19 Emergency Project (Investment Project Financing - IPF) on April 15, 2020 aimed at the prevention, containment and response to the pandemic, and temporarily waived the school-attendance condition under the Social Protection Integration Project to ensure that eligible families continue receiving a transfer while schools remain closed to contain the spread of COVID-19. The WBG is currently working with the Government to activate emergency components of existing projects (CERCs and PEF) on two operations, which is expected to be completed by the end of April. In response to the tropical cyclones Eta and Iota, the Bank also approved a US$150 million Emergency Recovery Project on December 18, 2020 aimed to support Honduras' response and recovery needs and strengthen institutional capacity to manage a resilient and inclusive recovery and reconstruction. Finally, on April 16 the Bank approved a US$20 million Additional Financing to the COVID-19 Emergency Project to primarily finance the purchase and deployment of COVID-19 vaccines.

[10] Although Honduras is an eligible country, authorities are not considering requesting debt service suspension from official bilateral creditors as envisaged under the Debt Service Suspension Initiative, supported by the G-20 and Paris Club.

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

[12] Note that the unprecedented effects of the pandemic, such as the sharp plunge in GDP in 2020, somewhat distorts results. For example, if the GDP contribution to the endogenous debt dynamics had been in 2020, equal to the average of the previous 5 years, the GDP contribution would have been -6.6%, instead of -1.7%, a rate almost four times higher than that shown in Figure 3. Similarly, the large expected improvement in the primary balance reflects, to a large extent, a natural recovery after the sharp GDP drop in 2020. Finally, note that the sizable 2020 residual is largely explained by the IMF and other IFI financing.

three years, which falls around the center of the top quartile of the distribution for LICs. Partly, this improvement will come automatically due to a GDP rebound supported by vaccinations, remittances, and strong external demand. In addition, the improvement in the primary balance is warranted by compliance with the FRL, which serves as an anchor to guide fiscal sustainability, with the loosening of 2020 expected to be reversed by 2023 as the economy recovers, temporary measures expire, and reconstruction spending tapers off. The short-term projections based on fiscal multipliers do not take into account a rebound effect in domestic and external demand after a deep recession in 2020. Compared to the previous DSA, the medium-to-long-term growth projections and the evolution of investment are similar. The projected contribution of the government's capital stock to growth remains very low, in line with historical levels.

COUNTRY CLASSIFICATION AND STRESS TESTS

9. Honduras' debt carrying capacity is classified as strong. Debt carrying capacity is determined by a composite indicator (CI) that includes the World Bank's Country Policy and Institutional Assessment (CPIA) score, world economic growth, and Honduras's real growth rate, import coverage of reserves, and remittances. Two consecutive signals are needed to modify the classification. For this DSA, the April 2021 WEO vintage and the 2019 CPIA are used. Both the current and previous vintages yield a rating of strong debt carrying capacity, leading to no changes with respect to the previous DSA (Text Table 3). A strong debt-carrying capacity implies higher thresholds for the stress tests (Text Table 4).

Text Table 3. Honduras: Debt Carrying Capacity Country Classification

Debt Carrying Capacity and Thresholds

Country	Honduras
Country Code	**268**

Debt Carrying Capacity	**Strong**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Strong	Strong 3.15	Strong 3.13	Strong 3.17

10. Honduras qualifies for several stress tests.

- All shocks, except for the growth stress test, were applied without changes to default settings. The calibration of the contingent liabilities stress test is as discussed in paragraph 4. In addition, Honduras qualifies for a natural disaster tailored shock due to its exposure to frequent natural catastrophes such as hurricanes and droughts that have been being exacerbated by climate change. Honduras also qualifies for the market financing shock due to its outstanding Eurobonds. However, Honduras does not qualify for a commodity price shock. The default settings for the tailored shocks are considered appropriate for Honduras.

Text Table 4. Honduras: Public and Publicly Guaranteed (PPG) External Debt Thresholds and Total Public Debt Benchmarks

Applicable thresholds

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

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

- The growth stress test required adjustments. In 2020, Honduras faced a tail risk event: the global pandemic and two tropical storms which resulted in a fall in GDP of 9 percent (the previous highest drop in GDP before 2020 in the last twenty five years was -2.4 percent in 2009). As a result, the standard deviation of growth increased from 0.7 in the previous DSA to 4 and the average growth declined from 3.6 to 2.4 percent, using data between 2011 and 2020. In addition, since the 2020 outturn lowered the historical average, the effect compounded a much larger shock applied with a much lower historical average, generating a permanently higher primary deficit (5.2 versus 0.8 percent of GDP in the previous DSA), which would not be realistic. Given that 2020 was, in all likelihood, an extreme tail event and applying a shock of similar magnitude would not be informative about the more likely risks that Honduras faces, staff adjusted the shock in line with the parameters from the previous DSA and applied it to the baseline projections.

EXTERNAL DSA

11. Honduras's risk of external debt distress is assessed as low. The PV of PPG external debt-to-GDP and to-exports ratios are projected to peak in 2023 and 2021 at 29 and 78 percent, under the baseline scenario, well below the associated 55 and 240 percent thresholds (Table 3). The PPG external debt service-to-exports and to-revenue ratios reach 10 and 14 percent in 2027, also well below the 21 and 23 percent thresholds. In addition, all solvency and liquidity indicators under various stress tests remain well below their respective thresholds (Figure 1). The two peaks observed in 2027 on debt service indicators are due to the repayments of Eurobonds in that year.

12. Debt indicators are most sensitive to shocks in exports and combined shocks. A combination of negative shocks to growth, primary balance, exports, other balance of payments flows, and depreciation generates the largest increase in the PV of the PPG external debt-to-GDP and PPG external debt-service-to-revenue ratio indicator to 52 and 18 percent in 2023 and 2027 respectively (Figure 1). A negative shock to exports equivalent to a one standard deviation decline in the nominal growth of exports in the second and third years of projection increases the PV of debt-to-exports ratio and PPG debt-service-to-exports ratio to 170.9 and 17.1 percent in 2023 and 2027 respectively. The ratios, nonetheless, remain below their risk thresholds.

PUBLIC DSA

13. Public debt ratios are expected to peak in 2025, and then decline over the medium term. Public debt is projected to peak at 59.7 percent of GDP in 2022 and start declining thereafter, supported by stable primary surpluses as well as declining interest payments, reaching 40.1 percent of GDP by 2041 (Table 2). The FRL is the critical difference between baseline projections and the historical scenario, providing an anchor for a sound fiscal position. In addition, the historical average is affected by the exceptional 2020 data. In present value terms, the debt-to-GDP ratio is expected to peak at 48.6 percent of GDP in 2022 and fall to 43 percent of GDP by 2031. Public debt dynamics remain vulnerable to contingent liabilities and exogenous shocks, especially to those related to natural disasters (Table 4). However, no indicators breach their benchmarks under any scenario.

14. Market-Financing Risk Indicators suggest low liquidity risks (Figure 5). The maximum gross financing needs over a 3-year period under the baseline projection horizon in Honduras are expected to be around 11 percent of GDP, well below the benchmark value of 14 percent. EMBI spreads have decreased from 550 basis points in last Spring to 350 basis points in March, also well below the benchmark level of 570 basis points. In addition, the PV of debt relative to GDP and to exports, as well as the ratios of debt service to exports and to revenue, are all expected to remain below the thresholds under the baseline projection and the market financing scenario. Nevertheless, given significant uncertainty regarding global financial conditions, a cautious debt management approach is warranted.

RISK RATING AND VULNERABILITIES

15. The DSA shows that Honduras's risks of external debt and public total debt distress remain low, even after an exceptional year of negative shocks in 2020. The current risk rating is unchanged from the June 2020 DSA, as PPG external debt burden indicators remain below the thresholds under the baseline and stress scenarios. As was discussed in first paragraph, the debt-to-GDP ratios have increased significantly mostly due the GDP shock from the pandemic and severe tropical storms. With growth returning to the trend level and overall fiscal balance at 1 percent of GDP, in line with the FRL, the debt-to-GDP ratio is expected to start declining in 2024. Nonetheless, identifying shocks to exports as those most consequential, as well as the materialization of several shocks (pandemic and natural disasters) in 2020, highlight the importance of detecting and addressing existing debt vulnerabilities and rebuilding buffers. To mitigate those risks, adhering consistently to the FRL is a key element to ensuring debt sustainability, in addition to raising domestic revenue, addressing structural vulnerabilities in SOEs, and leveraging concessional sources of financing whenever feasible.

Authorities' Views

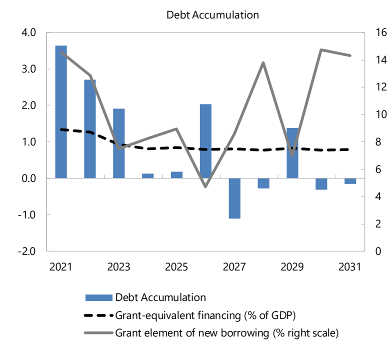
16. Authorities agreed with this debt sustainability assessment. As the Honduran economy faced a triple shock (the pandemic and two tropical storms in November 2020), the authorities triggered the FRL escape clause in both 2020 and in 2021. The flexibility built into the FRL allowed the authorities to address the challenges raised by these shocks without abandoning their medium-term anchor. They agreed that the impact of this temporary loosening of the fiscal stance on debt dynamics will be small and should not affect Honduras' debt carrying capacity and risk of debt distress. They further agreed that returning to the target of 1 percent NFPS deficit in 2023 and remaining committed to the FRL will be essential to anchor longer-term dynamics.

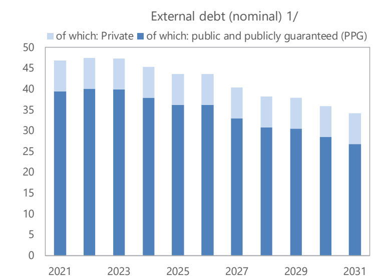
Table 1. Honduras: External Debt Sustainability Framework, Baseline Scenario, 2018-41

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	38.2	38.8	45.3	46.8	47.5	47.3	45.3	43.5	43.6	34.1	19.4	**35.4**	**41.8**
of which: public and publicly guaranteed (PPG)	31.3	31.5	37.9	39.4	40.1	39.9	37.9	36.1	36.2	26.7	12.0	**28.4**	**34.4**
Change in external debt	1.0	0.6	6.5	1.5	0.7	-0.1	-2.0	-1.8	0.0	-1.7	-1.3		
Identified net debt-creating flows	0.7	-2.3	-2.5	-0.8	-0.9	-0.7	-1.0	-1.2	-1.5	-1.2	-0.7	**-0.9**	**-1.1**
Non-interest current account deficit	4.4	-0.2	-4.8	1.5	1.7	1.8	1.9	2.0	2.2	2.6	3.1	**3.6**	**2.2**
Deficit in balance of goods and services	19.5	17.3	15.4	20.8	20.9	21.3	21.2	21.0	20.6	20.4	20.1	**17.6**	**20.8**
Exports	41.0	39.4	35.3	35.4	36.7	37.4	38.3	39.0	39.3	39.2	39.2		
Imports	60.5	56.7	50.7	56.2	57.6	58.7	59.5	60.0	59.9	59.6	59.4		
Net current transfers (negative = inflow)	-21.6	-23.5	-25.1	-25.4	-25.3	-25.4	-25.1	-24.8	-24.7	-24.7	-24.7	**-19.9**	**-24.9**
of which: official	-1.3	-1.5	-1.2	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4		
Other current account flows (negative = net inflow)	6.5	6.0	4.9	6.1	6.0	5.9	5.8	5.8	6.3	6.9	7.7	**6.0**	**6.3**
Net FDI (negative = inflow)	-3.7	-2.0	-1.6	-2.0	-2.4	-2.7	-3.1	-3.5	-3.8	-3.9	-3.9	**-4.3**	**-3.4**
Endogenous debt dynamics 2/	0.0	-0.1	3.8	-0.4	-0.2	0.2	0.2	0.2	0.2	0.1	0.1		
Contribution from nominal interest rate	1.4	1.6	1.8	1.6	1.7	1.8	1.9	1.8	1.8	1.4	0.9		
Contribution from real GDP growth	-1.4	-1.0	3.7	-2.0	-1.9	-1.6	-1.6	-1.6	-1.6	-1.3	-0.8		
Contribution from price and exchange rate changes	0.0	-0.7	-1.6	...	...	...	...	...	...	...	...		
Residual 3/	0.3	2.9	9.0	2.3	1.5	0.6	-1.0	-0.6	1.5	-0.5	-0.6	**3.0**	**0.1**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**27.0**	**27.7**	**28.7**	**28.9**	**27.4**	**26.1**	**26.5**	**19.4**	**7.7**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**76.5**	**78.4**	**78.2**	**77.2**	**71.6**	**66.8**	**67.4**	**49.6**	**19.5**		
PPG debt service-to-exports ratio	**4.8**	**10.5**	**12.7**	**6.3**	**7.8**	**7.8**	**7.7**	**8.0**	**5.8**	**5.3**	**2.8**		
PPG debt service-to-revenue ratio	**6.8**	**14.2**	**17.1**	**8.1**	**9.8**	**9.8**	**9.8**	**10.4**	**7.6**	**6.8**	**3.6**		
Gross external financing need (Billion of U.S. dollars)	2.8	2.5	1.8	2.3	2.7	2.6	2.6	2.7	2.3	2.7	3.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	2.7	-9.0	4.9	4.4	3.5	3.6	3.7	3.9	3.9	3.9	**2.4**	**4.0**
GDP deflator in US dollar terms (change in percent)	-0.1	1.9	4.3	5.3	1.6	2.2	2.1	2.2	2.2	2.0	1.5	**1.8**	**2.3**
Effective interest rate (percent) 4/	3.9	4.3	4.4	4.0	3.8	4.0	4.1	4.3	4.5	4.2	4.6	**3.0**	**4.1**
Growth of exports of G&S (US dollar terms, in percent)	-1.0	0.5	-15.1	10.8	10.0	8.0	8.4	7.9	6.9	6.0	5.5	**2.0**	**7.4**
Growth of imports of G&S (US dollar terms, in percent)	7.8	-2.0	-15.2	22.6	8.7	7.8	7.3	6.8	6.1	5.8	5.5	**2.3**	**8.1**
Grant element of new public sector borrowing (in percent)	...	...	...	14.5	12.9	7.5	8.2	8.9	4.7	14.3	0.0	**...**	**10.5**
Government revenues (excluding grants, in percent of GDP)	29.3	29.3	26.1	27.5	29.4	30.0	30.0	30.0	30.0	30.3	30.9	**28.7**	**29.8**
Aid flows (in Billion of US dollars) 5/	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.3	1.3	0.9	0.8	0.8	0.8	0.8	...	**...**	**0.9**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	23.6	23.5	21.6	32.6	30.3	21.5	48.0	...	**...**	**32.9**
Nominal GDP (Billion of US dollars)	24	25	24	26	28	30	31	33	35	47	84		
Nominal dollar GDP growth	3.7	4.6	-5.0	10.5	6.1	5.9	5.8	6.0	6.2	6.0	5.5	**4.3**	**6.4**
Memorandum items:													
PV of external debt 7/	...	...	34.4	35.1	36.1	36.3	34.8	33.5	33.9	26.8	15.1		
In percent of exports	...	...	97.4	99.3	98.4	97.0	90.9	85.8	86.2	68.5	38.4		
Total external debt service-to-exports ratio	26.5	30.8	39.5	26.2	27.8	26.3	24.9	24.6	21.3	18.1	12.1		
PV of PPG external debt (in Billion of US dollars)			6.4	7.3	8.0	8.5	8.6	8.6	9.3	9.2	6.4		
(PVt-PVt-1)/GDPt-1 (in percent)				3.6	2.7	1.9	0.1	0.2	2.0	-0.2	-0.7		
Non-interest current account deficit that stabilizes debt ratio	3.4	-0.8	-11.3	0.0	1.0	1.9	3.9	3.8	2.1	4.3	4.4		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
The sizable 2020 residual is largely explained by the IMF and other IFI financing.

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

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

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

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

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

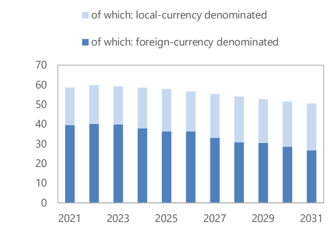
Table 2. Honduras: Public Debt Sustainability Framework, Baseline Scenario, 2018-41

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	42.5	46.5	54.9	58.7	59.7	59.3	58.6	57.9	56.7	50.3	40.1	40.2	55.9
of which: external debt	31.3	31.5	37.9	39.4	40.1	39.9	37.9	36.1	36.2	26.7	12.0	28.4	34.4
Change in public sector debt	1.9	4.0	8.4	3.8	1.0	-0.5	-0.6	-0.7	-1.2	-1.2	-0.8		
Identified debt-creating flows	1.4	-1.2	8.7	3.8	1.1	-0.4	-0.6	-0.7	-0.9	-1.2	-0.9	2.6	-0.4
Primary deficit	0.0	-0.2	4.2	4.3	1.3	-0.5	-0.7	-0.3	-0.5	-0.6	-0.5	2.2	0.1
Revenue and grants	30.0	30.0	26.8	28.1	30.1	30.7	30.7	30.7	30.7	31.0	31.6	29.3	30.4
of which: grants	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7		
Primary (noninterest) expenditure	30.0	29.8	31.0	32.4	31.4	30.2	30.0	30.3	30.1	30.4	31.1	31.5	30.5
Automatic debt dynamics	1.0	-1.4	4.1	-0.8	-0.6	-0.2	-0.1	-0.6	-0.6	-0.6	-0.4		
Contribution from interest rate/growth differential	-0.1	-1.0	6.0	-0.8	-0.6	-0.2	-0.1	-0.6	-0.6	-0.6	-0.4		
of which: contribution from average real interest rate	1.4	0.1	1.4	1.8	1.9	1.9	1.9	1.5	1.6	1.3	1.2		
of which: contribution from real GDP growth	-1.5	-1.1	4.6	-2.6	-2.4	-2.0	-2.1	-2.1	-2.2	-2.0	-1.6		
Contribution from real exchange rate depreciation	1.2	-0.4	-1.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.0	0.0	0.3	0.2
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.4	5.2	-0.3	-0.1	0.0	-0.1	-0.1	-0.1	-0.3	0.0	0.1	0.5	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	43.5	47.3	48.6	48.5	48.4	48.0	47.2	43.3	35.9		
PV of public debt-to-revenue and grants ratio	...	...	162.5	168.5	161.5	158.3	157.8	156.7	154.0	139.6	113.5		
Debt service-to-revenue and grants ratio 3/	10.8	13.9	32.6	22.8	27.9	24.9	23.3	17.4	19.3	19.3	20.2		
Gross financing need 4/	3.6	4.4	13.3	11.0	10.0	7.4	6.7	5.2	5.6	5.4	5.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	2.7	-9.0	4.9	4.4	3.5	3.6	3.7	3.9	3.9	3.9	2.4	4.0
Average nominal interest rate on external debt (in percent)	3.3	3.7	4.0	3.3	3.3	3.5	3.6	3.8	4.0	3.6	3.5	3.0	3.5
Average real interest rate on domestic debt (in percent)	11.9	-4.3	2.6	7.7	7.3	6.8	6.9	4.4	4.4	4.1	3.7	4.4	5.3
Real exchange rate depreciation (in percent, + indicates depreciation)	3.9	-1.4	-5.3	...	...	...	...	...	...	...	...	-0.3	...
Inflation rate (GDP deflator, in percent)	1.7	4.5	4.6	4.6	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	3.1	1.9	-5.3	9.6	1.1	-0.5	3.0	5.0	3.2	4.3	4.2	1.9	3.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.9	-4.2	-4.1	0.5	0.3	0.0	0.0	0.4	0.7	0.6	0.3	-3.4	0.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The entire public sector, including SOEs . Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021-31

(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	28	29	29	27	26	26	24	22	22	21	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	28	29	30	29	29	31	30	29	30	29	29
B. Bound Tests											
B1. Real GDP growth	28	29	30	28	27	27	24	23	23	21	20
B2. Primary balance	28	30	32	31	29	30	28	27	27	25	24
B3. Exports	28	35	47	45	44	44	41	39	39	36	34
B4. Other flows 3/	28	38	47	45	44	44	41	39	39	36	34
B5. Depreciation	28	36	29	27	25	26	23	21	21	19	18
B6. Combination of B1-B5	28	45	52	50	49	49	46	44	43	40	38
C. Tailored Tests											
C1. Combined contingent liabilities	28	33	33	32	30	31	30	29	29	27	26
C2. Natural disaster	28	32	32	31	30	30	29	28	28	27	26
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	28	32	32	31	29	30	27	25	25	23	22
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	78	78	77	72	67	67	61	57	57	53	50
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	78	79	80	77	75	79	75	74	76	75	74
B. Bound Tests											
B1. Real GDP growth	78	78	77	72	67	67	61	57	57	53	50
B2. Primary balance	78	81	87	81	76	76	71	68	68	64	60
B3. Exports	78	113	171	161	152	152	142	136	134	125	117
B4. Other flows 3/	78	103	126	118	112	112	105	100	99	92	86
B5. Depreciation	78	78	61	56	51	52	46	42	42	39	37
B6. Combination of B1-B5	78	128	126	151	144	143	134	129	127	118	110
C. Tailored Tests											
C1. Combined contingent liabilities	78	90	89	83	78	78	77	73	73	69	66
C2. Natural disaster	78	89	88	83	78	79	76	73	73	70	67
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	78	78	77	72	67	68	61	57	57	53	49
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	6	8	8	8	8	6	10	6	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	6	8	8	8	9	6	12	7	6	7	7
B. Bound Tests											
B1. Real GDP growth	6	8	8	8	8	6	10	6	5	5	5
B2. Primary balance	6	8	8	8	9	6	11	6	6	6	6
B3. Exports	6	9	12	14	14	11	17	11	11	13	13
B4. Other flows 3/	6	8	9	10	10	8	12	8	8	10	9
B5. Depreciation	6	8	8	7	7	5	10	5	5	4	4
B6. Combination of B1-B5	6	9	12	13	13	10	16	10	11	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	6	8	8	8	8	6	11	6	6	6	6
C2. Natural disaster	6	8	8	8	9	6	11	6	6	6	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	6	8	8	8	8	7	11	9	5	5	5
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	8	10	10	10	10	8	14	7	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	8	10	10	10	11	8	15	9	8	9	9
B. Bound Tests											
B1. Real GDP growth	8	10	10	10	11	8	14	8	7	7	7
B2. Primary balance	8	10	10	11	11	8	14	8	8	8	8
B3. Exports	8	10	11	13	13	10	17	10	10	12	12
B4. Other flows 3/	8	10	11	13	13	10	16	10	11	12	12
B5. Depreciation	8	12	12	11	12	8	16	8	7	7	6
B6. Combination of B1-B5	8	11	13	14	15	12	18	11	13	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	8	10	10	10	11	8	14	8	8	8	8
C2. Natural disaster	8	10	10	10	11	8	14	8	8	8	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	8	10	10	10	11	9	15	12	7	7	7
Threshold	23	23	23	23	23	23	23	23	23	23	23

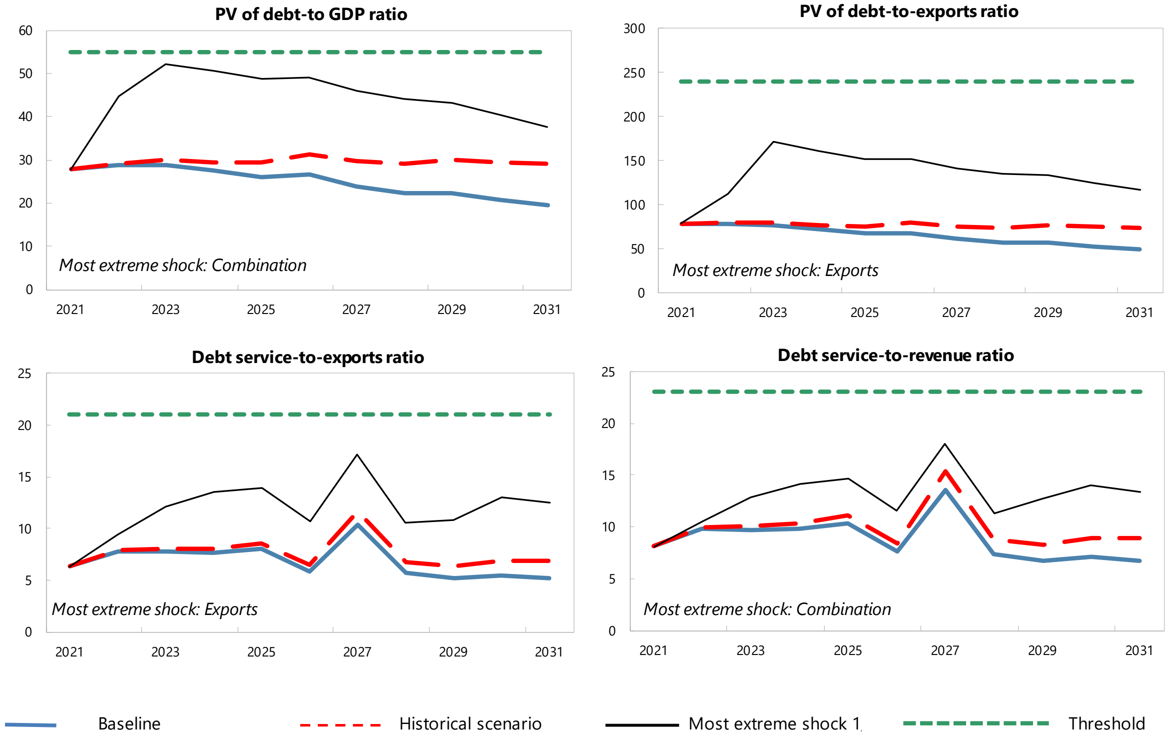
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private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

Table 4. Honduras: Sensitivity Analysis for Key Indicators of Public Debt, 2021-31

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of Debt-to-GDP Ratio										
Baseline	47	49	49	48	48	47	46	46	45	44	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	47	50	53	56	58	61	63	66	68	**70**	**73**
B. Bound Tests											
B1. Real GDP growth	47	49	51	51	51	51	51	51	51	51	50
B2. Primary balance	47	52	58	58	58	57	56	55	55	54	53
B3. Exports	47	54	65	65	64	63	62	61	60	58	56
B4. Other flows 3/	47	58	67	66	66	65	64	63	61	60	58
B5. Depreciation	47	53	50	48	45	42	39	37	34	31	28
B6. Combination of B1-B5	47	50	55	55	55	55	54	54	53	53	52
C. Tailored Tests											
C1. Combined contingent liabilities	47	63	63	63	62	61	60	60	59	58	57
C2. Natural disaster	47	60	60	60	60	60	59	59	59	58	58
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	47	49	49	48	48	47	47	46	45	44	43
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
	PV of Debt-to-Revenue Ratio										
Baseline	169	162	158	158	157	154	151	149	146	143	140
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	169	166	172	182	190	198	206	213	220	227	234
B. Bound Tests											
B1. Real GDP growth	169	164	165	167	168	167	166	166	164	163	162
B2. Primary balance	169	173	190	189	188	186	183	180	177	174	170
B3. Exports	169	181	212	211	209	206	202	199	194	188	182
B4. Other flows 3/	169	192	218	217	215	211	208	205	199	193	186
B5. Depreciation	169	176	165	157	148	138	128	119	109	100	90
B6. Combination of B1-B5	169	165	178	179	180	178	177	175	173	170	167
C. Tailored Tests											
C1. Combined contingent liabilities	169	209	205	205	203	200	197	195	191	187	184
C2. Natural disaster	169	198	195	196	197	195	193	192	190	188	186
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	169	162	158	158	157	155	152	149	146	142	139
	Debt Service-to-Revenue Ratio										
Baseline	23	28	25	23	17	19	27	23	22	21	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	23	28	25	25	19	22	32	32	32	31	32
B. Bound Tests											
B1. Real GDP growth	23	28	25	24	18	20	29	26	25	23	22
B2. Primary balance	23	28	26	26	20	22	35	35	26	24	23
B3. Exports	23	28	26	26	20	22	29	26	25	25	24
B4. Other flows 3/	23	28	26	26	20	22	29	26	26	26	24
B5. Depreciation	23	28	26	24	19	19	28	20	20	19	17
B6. Combination of B1-B5	23	27	27	26	20	22	30	26	25	23	22
C. Tailored Tests											
C1. Combined contingent liabilities	23	28	28	26	20	22	53	28	26	25	23
C2. Natural disaster	23	28	27	26	20	22	46	28	27	25	24
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	23	28	25	24	18	20	28	28	22	21	19

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

Figure 1. Honduras: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021-31



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

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

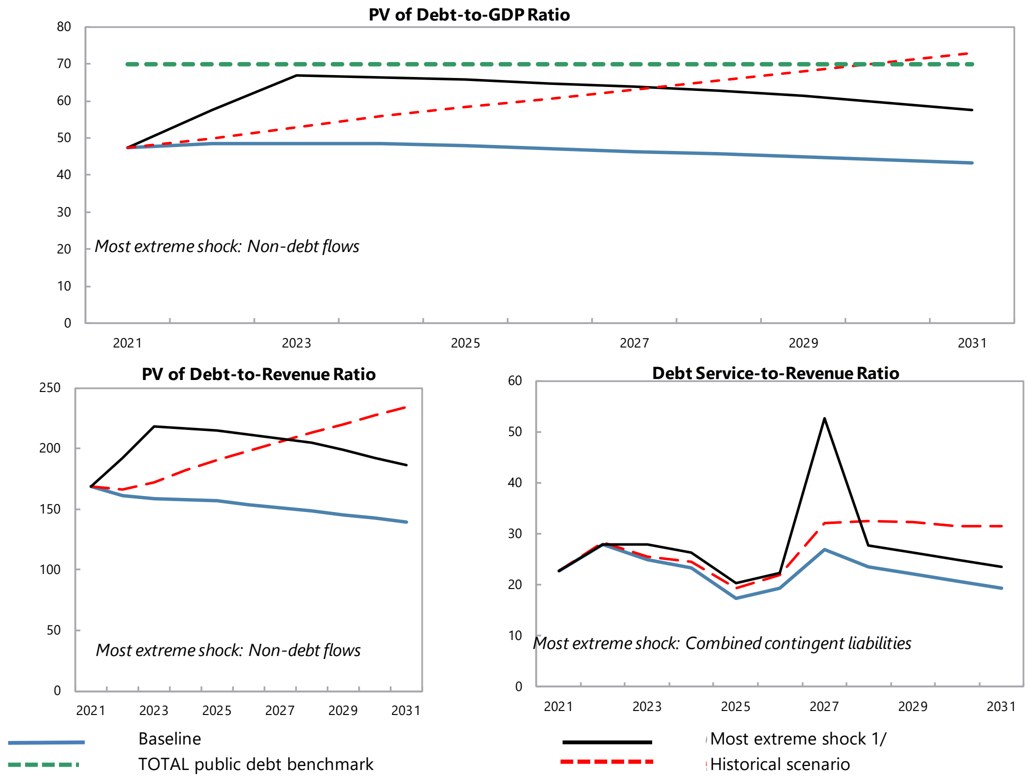
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.5%	4.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Honduras: Indicators of Public Debt under Alternative Scenarios, 2021-31



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	34%	30%
Domestic medium and long-term	66%	70%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.5%	4.5%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	4.1%
Avg. maturity (incl. grace period)	7	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

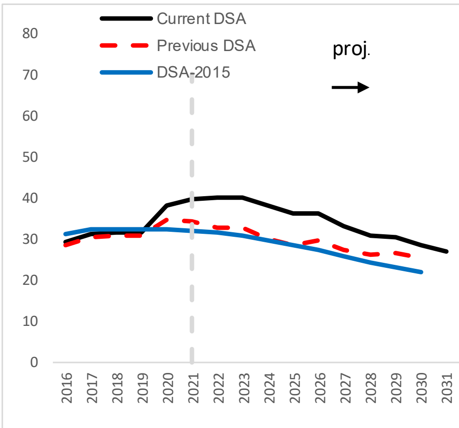
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

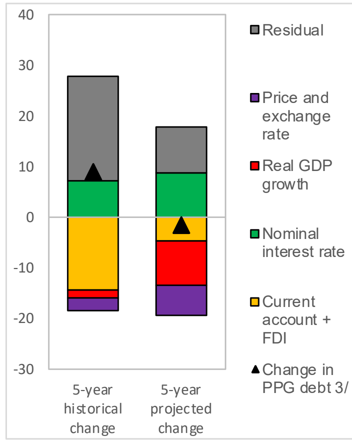
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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

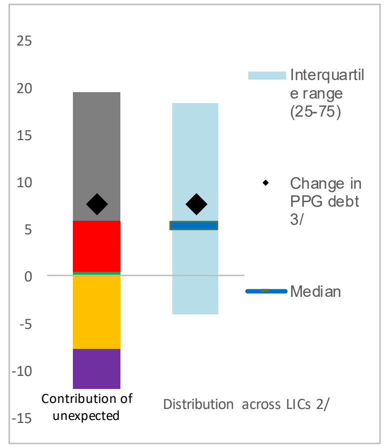
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

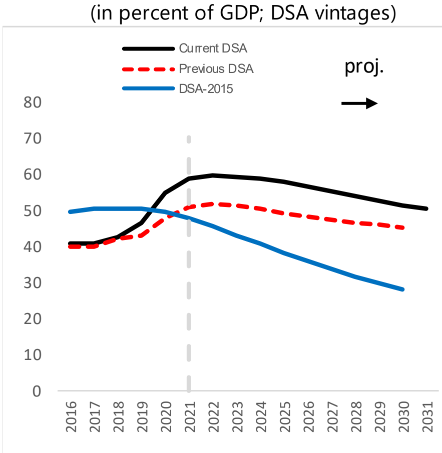


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

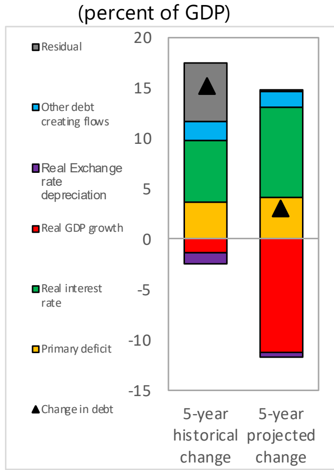


Public debt

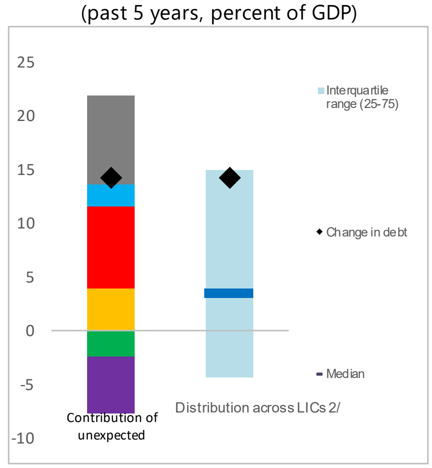
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)



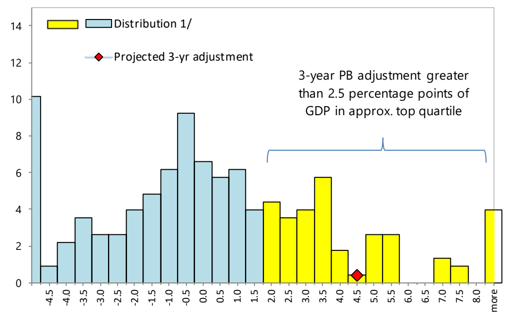
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

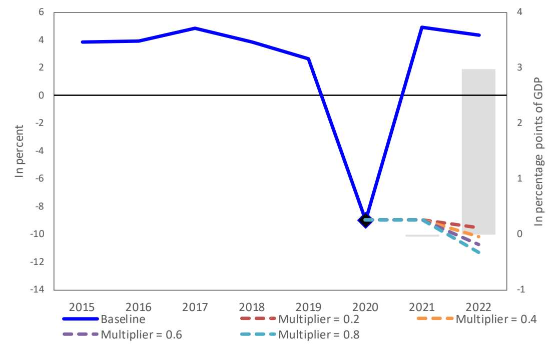
Figure 4. Honduras: Realism Tools

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



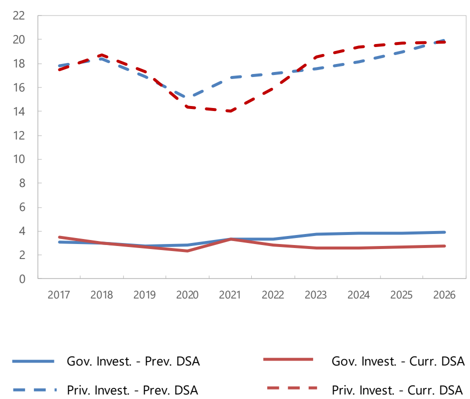
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Public and Private Investment Rates
(percent of GDP)



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

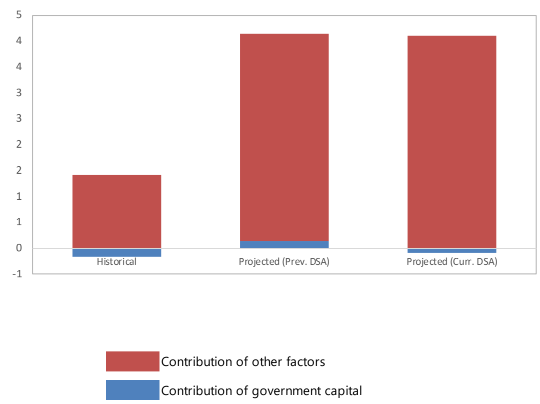
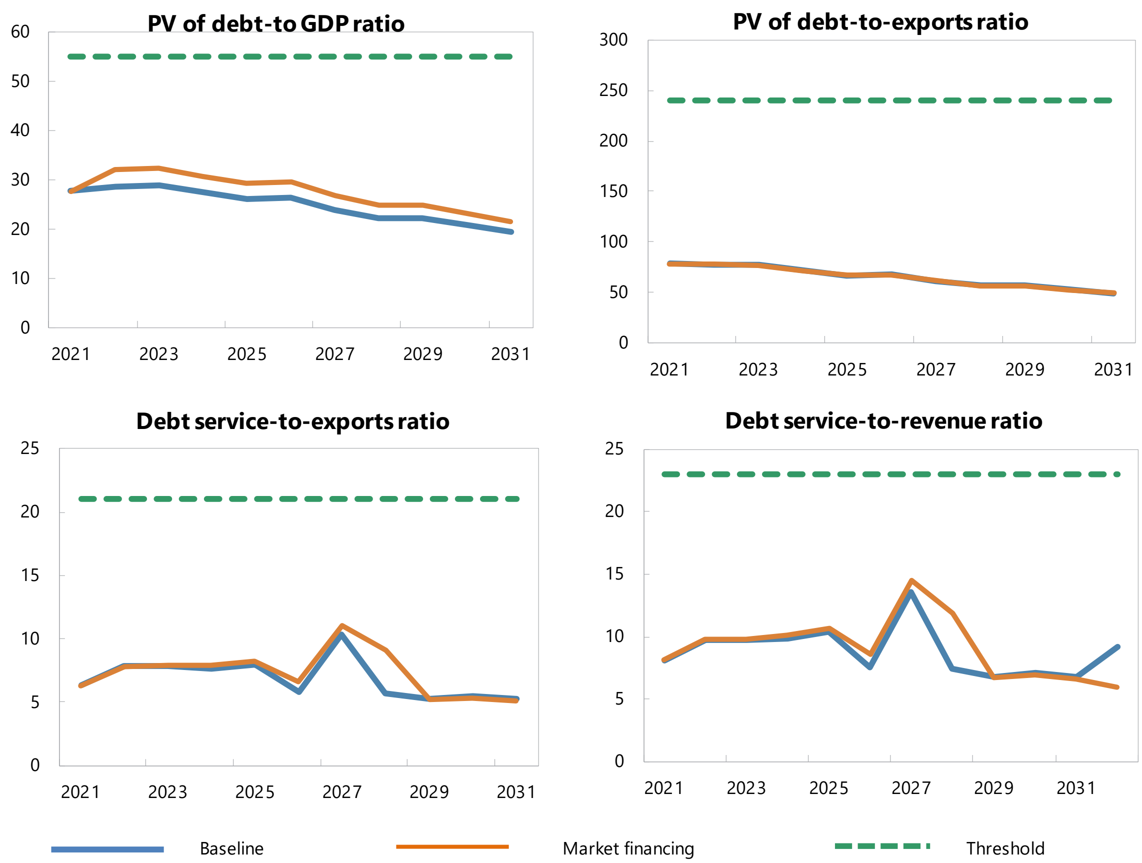


Figure 5. Honduras: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	11	350
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

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



Sources: Country authorities; and staff estimates and projections.

Statement by Mr. Moreno, Executive Director and Mr. Cartagena, Advisor to the Executive Director on Honduras
September 13, 2021

On behalf of our Honduran authorities, we would like to thank Ms. Wong and her team for their hard work and proactive engagement in program negotiations. We also thank Management and the Board for their continued support during these challenging times.

I. General remarks

Honduras has underpinned its reform agenda with the Fund's supported programs since 2010. Authorities attach high value to the engagement with the Fund, which continues to help anchor Honduras' economic policy agenda and reforms. The Fund's supported programs of the period 2010-2012 and 2014-2017, which were treated as precautionary, helped the country lift structural reforms, strengthen institutions and improve market and investor's confidence. Building on the progress achieved in those programs, Honduras has been engaged in a new Stand-by Agreement (SBA/SCF) since July 2019 to continue implementing economic and institutional reforms, increasing the quality of fiscal policy, strengthening its monetary policy framework and financial stability, and improving governance and the business environment.

The authorities maintain a strong commitment to the program objectives even after the dual COVID-19 and climate shock. The Fund's close dialogue and policy advice were instrumental in the country's satisfactory execution of the fourth review, amid the 2020 twin shocks. In this vein, Honduras continued implementing the policy agenda and objectives that authorities agreed with the Fund, with a few caveats in the timing of the reforms given the extraordinary circumstances. 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 on a downward trajectory over the medium term. Honduras has been using the flexibility window in the Fiscal Responsibility Law (FRL) since 2020, and it has been extended through 2021-2022 to mitigate the impact of the lasting effects that the twin shocks have created.

Technical Assistance has been instrumental in achieving the program's outcomes. The authorities underline the importance of the Fund's support in fiscal, monetary, financial, and other areas that 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.

II. Recent Developments

The financial support that Honduras has received through the SBA has allowed the country to achieve the program's objectives and support the recovery of its economy, which is expected to regain momentum in 2021. The largest part of the country's economic contraction in 2020 was related to the effects of the COVID-19 pandemic, as well as the necessary policy response to protect human lives and businesses and mitigate the crisis' effects. The authorities deployed a well-targeted fiscal response to the pandemic, strengthened transparency and accountability frameworks, and reallocated nonpriority expenditures to finance the emergency needs caused by the virus and tropical storms. The economy is expected to recover in 2021 with economic growth closer to the upper limit of 3.2-5.2 percent, while inflation is in the band of 3.0-5.0 percent, closer to the midpoint of the band.

The country is investing to overcome the impact of the two tropical storms that aggravated the economic shock. As highlighted in Box 1 of the staff paper, Honduras has a history of climate change effects and natural disasters that have periodically affected the economy and well-being of the population. The most recent tropical storms, Eta and Iota, affected the country in November 2020 and caused infrastructure damages that deepened the economic contraction of that year. The Central Bank's estimates accounted for 1.3 percentage points of the 9.0 percent GDP contraction in 2020 as a result of the two tropical storms, and the country is still struggling to rebuild the damage caused up to this year.

Vaccination advances are key to reducing the human impact of the pandemic and contributing to economic recovery. With one of the highest cumulative confirmed and fatality rates among its closest regional neighbors (close to 3.5 confirmed cases and 0.1 fatalities per 100 habitants as of September 1st), Honduras continues struggling with the effects of the crisis. To face these challenges, the government has prioritized accelerating the vaccination process in order to reduce fatalities and promote a swifter economic recovery. The vaccination process has been speeding up to catch-up with some of its regional peers. As of September 1st, around 30 percent of Hondurans had received at least their first dose. To reduce contagion rates, the government continues to promote the use of facemasks, maintaining social distance, and other health measures.

Consistent with the needs raised by the twin shocks, the authorities have maintained an expansive fiscal stance. The fiscal deficit in the Non-Financial Public Sector (NFPS) is expected to rise to 5.4 percent of GDP in 2021, close to the rate registered in 2020 (5.5 percent of GDP). As shared in the authorities' Letter of Intent (LOI), the Honduran Congress approved increases in the ceilings on the NFPS deficit and current expenditure growth for 2020-2021, following the shock from the tropical storms. Authorities will pursue returning to the deficit ceiling in 2023, keeping public debt on a sustainable path and remaining committed to fiscal prudence, as well as working on the revenue mobilization agenda and preventing new tax incentives, including through special economic zones.

The authorities continue to closely monitor the financial sector and are committed to preserving financial stability. Despite the effects of the pandemic in the financial system and slight increases in Non-Performing Loans (NPL), bank liquidity, profitability and capital adequacy are currently adequate and NPLs are adequately provisioned. Authorities are committed to take the necessary regulatory measures according to the circumstances to guarantee liquidity, solvency, and disclosure of losses in the financial system. The authorities maintain their commitment to further strengthen the regulatory framework and supervisory practices.

III. Program Performance and Authorities' Commitment

Authorities stand committed to the program, as well as to continue implementing prudent macroeconomic policies and deep structural reforms. As stated in the 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.

Honduras' program remained broadly on track, despite the heavy tolls caused by the COVID-19 pandemic and the impact of climate change. Honduras met the majority of end-December and end-June quantitative performance criteria and all but two indicative targets. The lasting effects of the twin shocks affected the performance of a few targets, such as the non-financial public sector balance because of higher-than-expected pandemic and storm-related emergency spending; ENEE's domestic arrears given liquidity pressures; the social spending target, due to slightly slower take-up of one measure on pandemic-related support and a shift to storm-related support; and the continuous PC on non-accumulation of external arrears due to a technical delay. Authorities request waivers of nonobservance given the extraordinary exogenous and endogenous shocks that have affected the performance of some of the program's outcomes.

The Central Bank of Honduras (BCH) remains committed to the modernization and further enhancement of the monetary policy framework. Authorities continue a policy dialogue with Congress to get support for the new central bank law that was submitted to Congress last year. This law is instrumental in strengthening CB's autonomy, transparency, and accountability, as well as governance structure. They are also making progress in reforming the monetary policy framework and in the transition to inflation targeting. Authorities support the transition to a more flexible exchange rate in the medium term and are already taking steps in this direction, including: continuing to adjust FX intervention rules to mitigate sharp moves in the exchange rate over time; introducing regulations to support the development of an FX derivatives market. The authorities will continue to work on the recommendations of the 2019 safeguard assessment as well as the reforms contained in the central bank's law and the steps towards the adoption of IFRS.

A number of measures have been taken on the structural reform front, including on: (i) governance. As acknowledged in the staff report, authorities continue to make progress on governance and are committed to further developments. Authorities are improving transparency of public purchases, including submission of a new procurement law to Congress and measures related to COVID-19 spending; (**ii) the electricity sector**, authorities continue taking steps to implement the approved electricity sector law and reassessing generation contracts that had not come into effect. They are also addressing inconsistencies to ensure that new power purchase agreements can only be approved within the competitive framework under the sector law. The reform agenda is focusing on strengthening supervision, reducing losses, and strengthening governance, audit and scissions of the state-owned enterprise (ENEE).

As stated in the LOI, given the twin shocks of last year, our authorities have requested the extension of the SBA and SCF arrangements by two months to January 14, 2022, and a rephasing of the last availability date to allow for additional time to complete the last disbursement under the arrangements. Our authorities have also requested an aggregate augmentation of access by SDR149.88 million under the SBA and SCF arrangements to finance some of the lasting scares from the dramatic economic and social impact from the combined shock (COVID-19 pandemic and the economic impact of the two tropical storms of end 2020).