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HONDURAS

FIRST AND SECOND REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND REPHASING OF PURCHASES—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HONDURAS

December 2024

In the context of the First and Second Reviews Under the Extended Fund Facility and the Extended Credit Facility Arrangements, and Requests for Waivers of Nonobservance of Performance Criteria and Rephasing of Purchases, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 6, 2024, following discussions that ended on October 18, 2024, with the officials of Honduras on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility and the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 21, 2024.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the World Bank.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Honduras.

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

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International Monetary Fund
Washington, D.C.

IMF Executive Board Completes First and Second Reviews of the Arrangements under the Extended Fund Facility and Extended Credit Facility for Honduras

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) completed the First and Second Reviews of the arrangements under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) for Honduras, enabling a disbursement of about US$198 million (SDR 150 million).
- The Honduran economy remains resilient, despite external and climate shocks. To bolster external stability and safeguard international reserves, the authorities have been normalizing monetary and exchange rate policies under the crawling band exchange rate, while also maintaining fiscal prudence.
- Strengthened budget execution, energy sector reforms, proactive implementation of monetary and exchange rate policies, and intensified efforts to tackle long-standing structural bottlenecks remain key to safeguard macroeconomic stability and to promote inclusive and sustained growth.

Washington, DC – December 6, 2024: The Executive Board of the International Monetary Fund (IMF) today completed the first and second reviews of the arrangements for Honduras under the Extended Fund Facility and Extended Credit Facility. The completion of the reviews enables the authorities to immediately draw about US$198 million (SDR 150 million), bringing total disbursements under the program so far to about US$315 million (SDR 239 million).[1] Honduras' 36-month arrangements totaling about US$823 million (SDR 624.5 million) were approved on September 21, 2023.

In completing the review, the Executive Board assessed quantitative performance targets for end-December 2023 and end-June 2024. The Board assessed that while all end-December 2023 performance criteria were met, the end-June 2024 criteria on net international reserves, central bank net domestic assets, and the stock of domestic arrears at the public electricity utility ENEE were not met. The Board approved the authorities' requests for waivers of non-observance of these end-June performance criteria on the basis of corrective actions.

The Honduran economy has remained resilient, growing 3.6 percent in 2023 and projected to expand by close to 4 percent in 2024, despite the negative impact of this year's El Niño-related drought on agricultural exports and energy production and a recent tropical storm. Inflation has also continued to decline close to the 4 percent objective. Fiscal performance has been strong, with the fiscal deficit outperforming the program target in 2023 at 1.3 percent of GDP and projected to outperform again in 2024 at around 1.5 percent of GDP. On the other

[1] U.S. dollar amounts have been calculated using today's exchange rate: (SDR 0.758881/US$).

hand, international reserves, while remaining adequate, continued to decline in 2024 in the context of the drought-related shock and lower-than-expected external financing support.

At the conclusion of the Executive Board’s discussion, Mr. Kenji Okamura, Deputy Managing Director and Acting Chair made the following statement:

“The Honduran economy remains resilient despite global and domestic challenges, including several climate-related shocks. The authorities’ policy adjustments and remedial actions demonstrate strong commitment to their Fund-supported program, which aims to durably strengthen macroeconomic stability and foster inclusive, sustainable growth.

“The authorities’ strong focus on fiscal discipline, as also reflected in the 2025 draft budget submitted to Congress, has opened space for greater public investment. Resolute efforts are still needed to strengthen the social safety net and protect the most vulnerable segments of the population. Continued progress in broadening the tax base, strengthening budget execution, and enhancing public financial management frameworks remains essential to support the authorities’ development efforts and preserve debt sustainability.

“The recent decisive monetary policy tightening was important to preserve low inflation and the crawling band exchange rate regime. The strengthened implementation of the exchange rate crawl should help improve competitiveness and preserve external stability, including safeguarding international reserves. The authorities must remain vigilant and stand ready to adjust policies as needed to achieve these objectives.

“Promptly addressing energy sector challenges remains a priority. The authorities have adopted measures to reduce electricity losses and domestic arrears of the state-owned electricity company. Continued progress on these fronts as well as strengthened financial management and transparency of the state-owned company are essential to promote needed investment in energy generation, contain fiscal risks, and support medium-term economic growth.

“Steadfast implementation of structural reforms remains key to fostering inclusive growth. Actions to simplify administrative processes, enhance transparency, streamline procedures, and strengthen procurement systems will help create a favorable environment for investment and job creation. Additionally, intensifying ongoing efforts to combat corruption and reinforce the AML/CFT framework is vital for improving governance.

“The increasing frequency of climate change-related events calls for accelerating the implementation of climate adaptation policies. To support these efforts, the authorities have requested an arrangement under the Resilience and Sustainability Facility. Close engagement with IMF staff on this area will continue.”

HONDURAS

November 21, 2024

FIRST AND SECOND REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND REPHASING OF PURCHASES

EXECUTIVE SUMMARY

Context. The Executive Board approved 36-month, US$822 million arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) for Honduras in September 2023. The IMF-supported program aims to strengthen macroeconomic stability, create fiscal space for productive investment and social spending, and improve governance and transparency. The economy remains resilient, despite external and climate shocks and long-standing impediments to growth. Early estimates suggest that the macroeconomic impact of Tropical Storm Sara, which recently hit Honduras, is expected to be small. Achieving internal consensus on the needed recalibration of monetary and exchange rate policies to bolster external stability has been protracted, partly amid concerns over the potential social impact, and delayed the completion of reviews under the program. The authorities remain firm in their commitment to achieve program goals and have begun implementing decisive measures to bolster external stability and restore the financial health of the energy sector.

Policy discussions. Program objectives remain unchanged. The macroeconomic framework has been revised to reflect the impact of the *El Niño* climate shock and the authorities' policy measures. Discussions focused on the need to implement a prudent macroeconomic policy mix to strengthen economic stability. The authorities concurred on the need to preserve budgetary discipline, including during the upcoming election year, to preserve debt sustainability while further enhancing budget execution and transparency, and strengthening the Treasury Single Account. These measures were seen as essential to sustainably scale up public investment and expand social spending to protect the most vulnerable. Building on the ongoing normalization of monetary and exchange policies—including through a higher rate of crawl of the Lempira and significant upfront moves in the monetary policy rate (TPM)—the authorities agreed to stand ready to further adjust these policies as needed to keep inflation low and safeguard international reserves. Moreover, the authorities have committed to continued reforms to underpin the power company ENEE's financial health, with near

term measures to reduce ENEE's payment arrears to generators and enhance coordination to tackle ENEE's challenges. The authorities also reemphasized their steadfast commitment to fight corruption.

Program performance. Some key program objectives have been met. Macroeconomic outcomes have generally been better than programmed, including higher growth, supported by a revival in public investment, and lower fiscal deficits and debt. Moreover, the domestic debt market has been reactivated, eliminating the need for monetary financing. On the other hand, international reserves have declined, and there have been delays on the structural reform agenda. All end-December 2023 Performance Criteria (PC) were met, and the end-June PC on the deficit of the Non-Financial Public Sector (NFPS) was also met by a wide margin. However, the end-June PCs on FX reserves (NIR), central bank net domestic assets (NDA), and the stock of domestic arrears at ENEE were missed due to the impact of a severe climate shock (*El Niño*), delays in implementing needed policies to strengthen the external sector and bolster the financial position of ENEE, and capacity constraints. The authorities are requesting waivers of these missed PCs on the basis of corrective actions. The structural reform agenda got off to a strong start, but failure to secure Congressional approval for the tax reform and capacity constraints have led to delays in some structural benchmarks, which will require revisions to their timeline.

Resilience and Sustainability Facility (RSF). In the context of Honduras' large vulnerabilities to climate shocks, the authorities have expressed interest in an arrangement under the RSF. Important progress has been made—supported by relevant Fund-provided technical assistance and continued engagement with development partners—in identifying a set of policies that could underpin a request for an RSF arrangement. Board consideration of such a request may be expected to take place in a future review of the EFF/ECF.

Staff supports the completion of the first and second reviews, and the authorities' requests for waivers of the missed performance criteria and rephasing of access. The authorities' commitment to the program, including prior actions, offers assurances of their ability to achieve program objectives. An SDR 150 million purchase would be available upon completion of the combined review.

Approved By
Rodrigo Valdés (WHD) and Anna Ivanova (SPR)

Discussions were held in Tegucigalpa on October 7-18, 2024. The team composed Ricardo Llaudes (head), Carlos Chaverri, William Lindquist (all WHD), and Jorge León (SPR). Christian Henn (Resident Representative) and Kevin Rodriguez (Resident Representative Office) also participated in the discussions. Messrs. Guerra (Executive Director) and Monterroso (Advisor to Executive Director) joined the meetings. The mission met with senior economic officials, including Minister of Finance Christian Duarte, Central Bank of Honduras President Rebeca Santos, in addition to representatives of Congress, the private sector, and development partners. Heidi Canelas and Justin Lesniak (WHD) provide administrative and analytical support, respectively.

CONTENTS

TABLES

ANNEXES

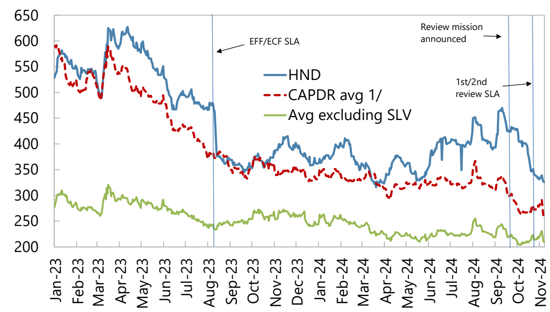
APPENDIX

CONTEXT

1. **The economy has remained resilient in the face of external shocks and long-standing social and structural challenges.** The severe *El Niño* episode has impacted key sectors and the external balance, with associated effects on incomes and the population. Meanwhile, progress advancing the reform agenda, including strengthened infrastructure and social support, has been slowed by limited capacity and a fragmented Congress, as attention also shifts to the late 2025 elections. Despite changes to the economic team, policies have shown continuity.[1]

2. **The authorities remain firmly committed to the program.** Achieving internal consensus on the needed recalibration of policies to bolster external stability has been protracted, also in consideration of their potential social impact. However, in a decisive break with past policies, the authorities have implemented significant moves in the monetary policy interest rate and exchange rate (¶23, 24), a testament to their steadfast commitment to implement the program. The authorities remain cognizant of the program's role in creating fiscal space for social and infrastructure spending, lending credibility to their policy frameworks, and catalyzing external financing.[2]

EMBI Bond Spreads
(Basis points)



1/ Average of Costa Rica, El Salvador, Guatemala, Panama, and Dom. Republic
Sources: Bloomberg LLC.

3. **The authorities are also committed to manage the impact of Tropical Storm Sara within the contour of their current economic program.** At the time this report was being finalized, Sara had entered Honduras as a tropical depression, causing floods and damage to infrastructure (bridges, roads), particularly on the Atlantic coast and the South. The assessment of the damage is ongoing and will require more time, but early estimates suggest that the macroeconomic impact of the storm is likely to be small: damages are currently estimated at around 0.05 percent of GDP and the main industrial and agricultural areas were largely spared.[3] The authorities have remained proactive in their response to the shock and in activating external financing from IFIs, which should be disbursed quickly and ample enough to meet coming urgent and priority reconstruction and social spending needs.[4] The authorities plan to manage this additional emergency spending through reallocations in the 2024 budget.

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[1] Finance Secretary Rixi Moncada resigned in January 2024 (to become a presidential candidate), succeeded by Marlon Ochoa. Christian Duarte took over from Mr. Ochoa (who took a new position) in September 2024.

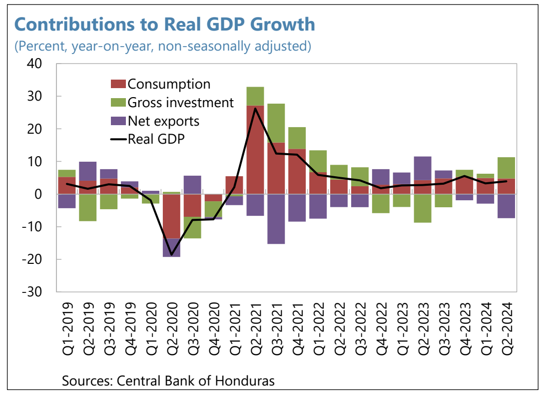
[2] Honduras' sovereign spreads have narrowed to near their lowest level since early 2022—by around 145 basis points (bps)—since the announcement of the review mission on September 11.

[3] This contrasts with previous storms, including Eta and Iota (2020), that mainly impacted the Sula Valley, a key industrial and exporting area.

[4] Staff will consider issuing a Supplement to the Staff Report with additional information on the impact of the storm as it becomes available.

RECENT ECONOMIC DEVELOPMENTS

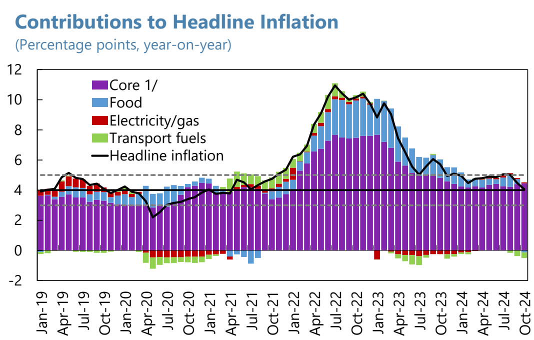
4. Despite significant headwinds, economic growth has continued at a faster-than-anticipated pace. Growth reached 3.6 percent in 2023 buoyed by remittance-fueled consumption and a recovery in public investment. In 2024:H1, growth continued at a similar pace, supported by consumption growth, gains in private investment, and a rebound in public investment in Q2 after a lull in Q1. Net exports have negatively contributed to growth at an increasing rate, mainly reflecting a slowdown in the maquila sector and the climate shock. Drought-related weakness in agriculture has been offset by strong dynamics in construction, commerce, and financial services.



5. Inflation has declined close to the 4 percent objective (Text Figure 1). Inflation declined to 5.2 percent at the end of 2023, mainly driven by a stabilization of commodity prices, and further to 4.1 percent in October 2024. However, core inflation remains sticky at around 5 percent from persistent service inflation fueled by strong domestic demand. Inflation expectations remain within the Central Bank of Honduras (BCH) reference range.

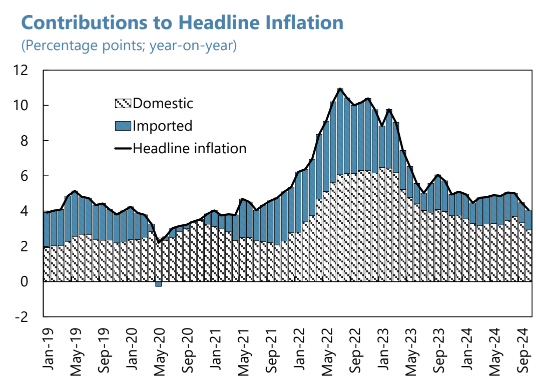
Text Figure 1. Inflation Developments

Inflation has declined near the 4 percent objective, aided by a decline in energy and food price inflation….



1/ BCH core inflation index excludes unprocessed perishable food (except meat), energy, and fuels.

…with remaining inflationary pressures mainly driven by domestic sources, including service prices.



Sources: Central Bank of Honduras; and IMF staff calculations.

6. Fiscal policies remain prudent. Overperformance in 2023—1.3 percent of GDP headline deficit against a programmed 2.0 percent of GDP—was explained by robust tax revenues and spending discipline, offsetting a rebound in public investment to 4.2 percent of GDP. Through

September 2024, the NFPS recorded a surplus of 2.0 percent of GDP, higher by 0.4 p.p. than the 2023 execution and overperforming program targets. Greater purchases of goods and services reflect larger energy purchases to compensate for a decline in domestic energy production (¶8). Public debt declined in 2023 to 47.6 percent of GDP, lower than the programmed 52 percent of GDP. Honduras' risk of external debt distress remains low, with moderate risk of overall public debt distress (**DSA Annex**).

Text Table 1. NFPS Fiscal Execution

(Percent of GDP, through September)

	2023	2024
Income and Grants	**21.2**	**22.1**
Current income	21.0	21.6
Tax income	13.5	13.6
Non-tax income	1.1	1.0
Contributions for pensions and social security	2.1	2.2
Sales of goods and services	2.8	3.3
Other current income	1.5	1.5
Grants	0.2	0.2
Capital income	0.0	0.3
Expenses	**19.6**	**20.2**
Current expenses	17.4	18.3
Wages and salaries	7.8	7.8
Purchases of goods and services	5.1	6.2
Interest paid	1.9	1.6
Current transfers	2.6	2.5
Other current expenses	0.0	0.1
Capital expenses	2.6	1.9
Fixed investment	2.2	1.7
Other capital expenditure	0.4	0.2
Overall Balance	1.6	2.0

Sources: Ministry of Finance, Haver Analytics, and IMF staff calculations.

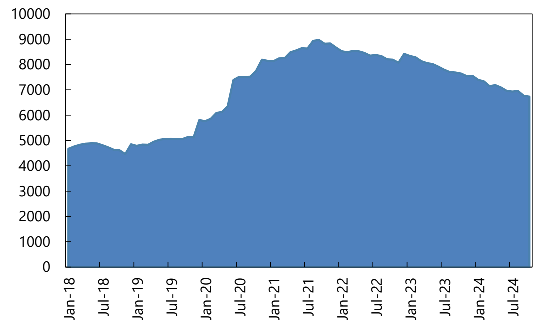
7. **The current account deficit has widened in 2024.** It declined to 3.9 percent of GDP in 2023—from 6.7 percent in 2022—as robust remittance flows and lower imports more than offset a decline in key exports. Through September 2024, remittance growth has continued at a solid pace (5.0 percent y/y cumulative annual growth), but trade dynamics have further deteriorated as adverse weather conditions have weighed on exports (down 5.3 percent cumulatively through August) and boosted energy imports (up 1.6 percent).

8. **While remaining adequate, international reserves have declined, with foreign exchange (FX) dynamics exacerbated by the climate shock (Text Figure 2).** An intense *El Niño* episode has led to large energy imports and lower output of key agricultural exports (coffee, banana, and palm oil) (**Annex I**). At the same time, market access issues have reduced exports of shrimp. These developments, which are projected to reduce net FX inflows by about $425 million in 2024, together with sizeable net external debt payments (about $400 million)—related to lower-than-expected official disbursements—explain around $825 million of the projected $1.05 billion decline in net international reserves in 2024, with the residual decline attributed to delays in monetary and exchange rate policy adjustments (**Box 1**). Against a backdrop of declining reserves levels, demand has outstripped supply in the central bank auctions, though FX demand has moderated in recent weeks—average daily FX demand presented at auctions has declined to around $160 million since October from around $190 million during July-September. Reserve levels remain adequate at around 4.3 months of imports coverage.

Text Figure 2. Developments in International Reserves and Foreign Exchange Markets

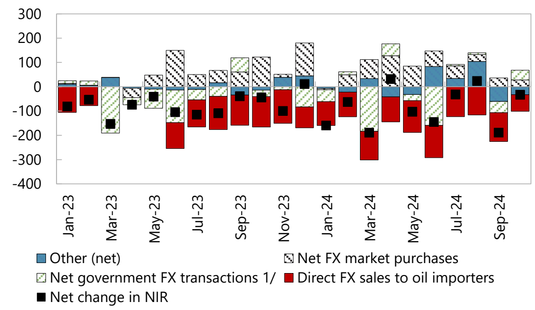
Net international reserves have continued their downward trend…

Net International Reserves
(Millions of USD)



…amid large energy imports (FX sales to importers) and net external repayments by the government.

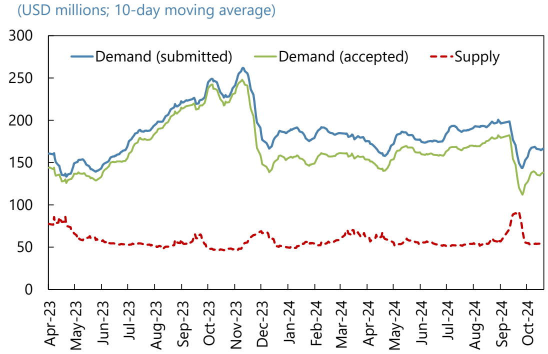
Monthly Change in Net International Reserves
(Millions of USD)



1/ Loan disbursements and grants minus debt service

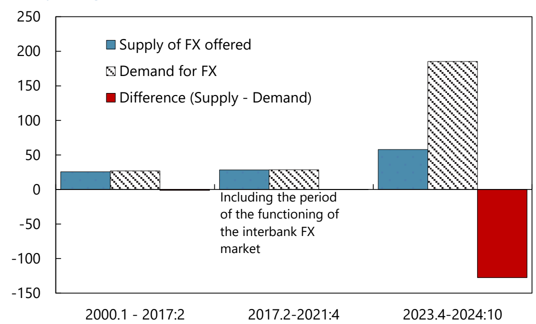
Since the return of the BCH FX auction in April 2023, demand for FX has exceeded supply…

BCH Foreign Exchange Auction
(USD millions; 10-day moving average)



…unlike during previous periods of the FX auction.

BCH Foreign Exchange Auctions
(Daily average, millions of US$)



Sources: Central Bank of Honduras; and IMF staff calculations.

9. Market interest rates have increased in response to monetary policy tightening. Measures implemented in late 2023 included: (i) an increase by 50 bps in the cut-off rate of BCH bills; (ii) an increase by 100 bps in reserve requirements in local currency to 10 percent; and (iii) a change in the maintenance period for reserve requirements averaging from two-week to one day. In response, market lending and deposit rates already increased into 2024 prior to the increase in the monetary policy rate (TPM) by 100 bps to 4.0 percent in August, the first adjustment of the rate since 2020 (**Text Figure 3**). The October TPM increase by 175 bps (¶24) should further increase market rates.

Box 1. International Reserves Dynamics in 2024

A range of factors has contributed to the decline in international reserves in 2024. Contrary to projections at program approval for an increase in net international reserves (NIR) in 2024 of $73 million, NIR are projected to decline by more than $1 billion. Much of this decline can be traced to external factors:

- *Disbursements:* Official sector loan and grant disbursements are projected to fall short by around $480 million in 2024, compared to earlier expectations. This largely reflects delays in budget support from multilateral development banks (MDBs) and lower-than-expected financing on account of technical delays in project execution.
- *Oil imports:* Drought conditions necessitated additional energy imports, $275 million more than projected at the time of program approval.
- *Exports:* Exports have suffered in 2024 based on several external factors. The drought has contributed to lower production of agricultural exports (coffee, bananas, palm oil), while market access issues have hampered exports of shrimp. Together, these factors account for around $150 million in lower exports compared to prior projections, with lower volumes partially compensated by higher prices for coffee, palm oil, and shrimp.

Box 1. Table 1. Balance of Foreign Exchange Flows
(Millions of USD)

	2023	2024	
		Sept 2023 SR	Current Proj.
Net purchases from banks and FX sales to oil importers	-314	105	-645
Net official sector disbursments	-552	-32	-408
Loan and grant disbursements	430	1220	740
Debt service	-982	-1252	-1148
Change in net international reserves	**-866**	**73**	**-1053**

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

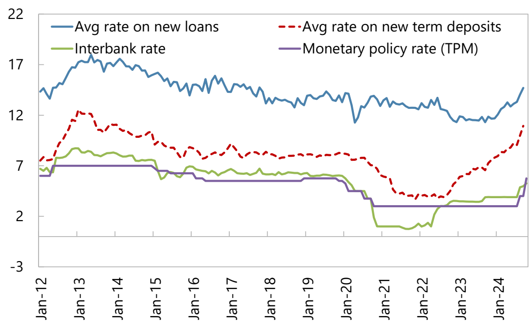
These factors suggest that much of the decline in NIR can be traced to external factors. Of the projected $1 billion decline in NIR, $408 million can be linked to net external official sector debt payments. The remaining $645 million represents the BCH's FX market transactions with the private sector. Of this amount, approximately $425 million could be attributed to the need to finance additional oil imports ($275 million) and lower export inflows ($150 million) from factors related to the drought and market access. The residual, around $220 million, could be attributed to monetary and exchange rate policies that did not support a balanced external position.

10. The financial sector remains stable. The capital adequacy ratio exceeded 13.6 percent in September and the system remains liquid and profitable. NPLs are low at 2.2 percent of total loans with ample provisioning. Growth of credit to the private sector is beginning to slow, from high levels, in response to the BCH's measures.

Text Figure 3. Interest Rates and Credit Growth

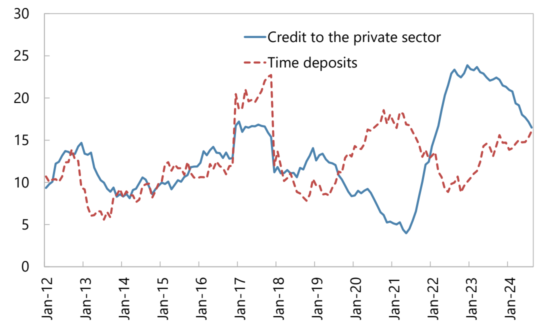
By September 2024, market lending rates had adjusted by nearly 350 bps in response to tighter monetary conditions and the August 2024 TPM increase…

Interest Rates in Local Currency
(Percent)



…and bank credit growth in local currency had begun to slow from high levels, while deposits are increasing.

Growth of Credit to the Private Sector and Deposits
(Percent, year-on-year; refers to local currency credit/deposits only)



Sources: BCH; Haver; and IMF staff calculations.

MACROECONOMIC OUTLOOK AND RISKS

11. The baseline macroeconomic framework has been revised to reflect the climate shock and the impact of policy adjustments, though uncertainty remains around the full impact of the tropical storm (Text Table 2).

- *GDP growth* is projected at close to 4 percent in 2024, driven mostly by domestic demand and benefiting from strong carryover from 2023 and solid growth in 2024Q2. Growth is projected to slow moderately in 2025 to around 3½ percent, as policy adjustments slow consumption and credit activity. Thereafter, growth is projected to return to potential around 3¾ percent.[5]

- *Inflation* is projected at end-2024 just below 5 percent. As the crawl of the nominal exchange rate accelerates, inflation is projected to increase to 5.1 percent on average in 2025, assuming a moderate level of exchange rate passthrough. Thereafter, inflation is projected to decline to the 4 percent objective by the end of 2026.

- The *current account* deficit is projected to increase to 5.3 percent of GDP in 2024 as goods exports have fallen, reflecting poor agricultural conditions and weak external demand for key maquila (garment) exports. Macroeconomic policy adjustments and more favorable terms-of-trade are projected to support a narrowing in the current account deficit to 4.7 percent of GDP in 2025. The current account deficit is projected to gradually decline to just under 4 percent of GDP, broadly in line with the estimated norm.

[5] This is broadly in line with the growth average over 2000-2023.

Text Table 2. Medium-Term Economic Projections

(Percent of GDP, unless otherwise indicated)

		Program Request	Actual	Program Request	Proj.	Program Request			Proj.		
	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
Real											
GDP growth, percent	4.1	2.9	3.6	3.2	3.8	3.5	3.6	3.6	3.8	3.8	3.8
Inflation (period average, percent)	9.1	6.4	6.7	4.7	4.8	4.1	5.1	4.5	4.0	4.0	4.0
Inflation (end of period, percent)	9.8	5.3	5.2	4.2	4.8	4.0	5.0	4.1	4.0	4.0	4.0
Fiscal											
Primary balance	1.2	-0.7	0.2	-0.2	0.0	0.0	0.0	0.5	0.5	0.5	0.6
Overall balance	-0.2	-2.0	-1.3	-1.7	-1.5	-1.4	-1.5	-1.0	-1.0	-1.0	-1.0
Public capital investment	2.8	3.0	4.2	3.8	4.0	4.0	4.3	4.0	4.0	4.0	4.0
Gross debt 1/	51.8	51.9	47.6	51.3	46.7	50.4	46.3	45.4	44.5	43.2	42.0
Balance of payments											
Current account balance	-6.7	-5.2	-3.9	-4.9	-5.3	-4.7	-4.7	-4.5	-4.3	-4.0	-3.8
Gross international reserves (percent of ARA)	136	120	119	116	104	112	105	115	114	116	115

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

1/ Debt projections use the defintion from the DSA.

12. **Downside risks are significant, driven by an uncertain external environment and domestic risks to program implementation (RAM, Annex III)**.

- *Global risks* stem from spillovers of regional conflicts on commodity prices, a global growth slowdown, or a monetary policy miscalibration, which would adversely impact growth, inflation, and reserve accumulation. Honduras remains highly vulnerable to climate change risks that could erode potential growth and increase inflation, impact FX inflows, and aggravate emigration. On the other hand, declining global interest rates, especially if accompanied by a weaker U.S. dollar, may ease external pressures.

- *Domestically,* downside risks to growth and the external sector stem from the economic damage of the storm, though this is not expected to be large. A challenging political and social context, including the government's lack of a majority in Congress, and political maneuvering as elections approach in late 2025 create risks to program implementation. The positive impact of program policies—reserve accumulation and reduced FX pressures—may not be immediately felt, possibly leading to a weakening of support for the program. Limited implementation capacity also risks program slippages. On the other hand, the arrangement with the IMF is widely seen as an anchor for economic stability and a backstop for prudent policies. Moreover, the ruling party and its leading presidential candidate have made the arrangement with the IMF a cornerstone of their political platform.

PROGRAM PERFORMANCE

13. **Recent program performance has been mixed, partly due to climate shocks and limited capacity (MEFP Tables AI.1 and AI.3).** While key program objectives have been met, including a revival in public investment and lower fiscal deficits and debt, progress has been more limited in addressing external imbalances and the financial position of the energy company (ENEE).

That said, the authorities have implemented significant measures in these areas, reaffirming their commitment to achieving program objectives.

- **Quantitative targets**. End-December 2023 targets are controlling for the first review under the ECF arrangement while end-June 2024 targets are controlling for the extended arrangement under the EFF (first and second reviews) and the second review of the ECF arrangement. Performance through end-December 2023 was strong, with all performance criteria (PCs) and two of four indicative targets (IT) met. However, performance through end-June was impacted by the climate shock and delays in implementing the necessary policies to strengthen reserves and bolster ENEE's financial position. The end-June PC on the deficit of the NFPS was met and there have been no new flows of monetary financing (***continuous PC***). On the other hand, the PCs on NIR, NDA, and ENEE's stock of arrears were missed. The authorities are requesting waivers of these missed PCs on the basis of the corrective actions, reflected in the *prior actions* (the upfront adjustment to the TPM (¶24), the Ministry of Finance transfer of funds to ENEE to clear arrears (¶29), and the establishment of a government committee to coordinate and support the financing for ENEE via different financing mechanisms (¶30). The authorities' implementation of and commitment to a decisive exchange rate crawl (¶23) also supports the waiver requests and provides confidence that program objectives remain within reach. Turning to indicative targets, the end-September IT on tax revenues was met, but the ITs on current spending (¶6) and energy sector losses were missed largely owing to the climate shock, while the IT on social spending was marginally missed due to implementation capacity constraints. The end-September ITs on NIR, NDA, and ENEE's stock of arrears and electricity losses were also missed.

- **Structural benchmarks.** Four out of eleven structural benchmarks (SBs) through end-September 2024 were met, with an additional one implemented with delay. Despite the authorities' efforts, **three end-December 2023 SBs** related to the congressional approval of the tax reform were not met, given a fragmented Congress. **Two end-June 2024 SBs** were not met given capacity constraints (establishment of an information system to guide social support, ¶16) and the authorities' redefinition of the scope of the proposed action (streamlining of administrative procedures, ¶33). Finally, **one end-September 2024 SB** was not met due to capacity limitations (census of urban households in extreme poverty). The timing of these SBs is proposed to be reset (¶36).

POLICY DISCUSSIONS

Program objectives remain unchanged. The program aims to serve as an anchor for policies that will underpin macroeconomic stability while beginning to tackle Honduras' structural impediments to growth. The need to stabilize international reserves has underscored the importance of monetary policy rate increases and an accelerated rate of crawl of the Lempira. Broader program objectives, including the maintenance of a prudent fiscal stance that creates space for capital and social spending, energy sector reform, and strengthened governance, are complementary to monetary and exchange rate policy adjustments in bolstering external stability and remain critical to poverty reduction and *boosting growth. The updated Memorandum of Economic and Financial Policies (MEFP) reflects the authorities' continued commitment to these objectives.*

A. Fiscal Policies

Text Table 3. Measures to Contain Current Expenditures
(Percent of GDP)

	2024 Budget *Approved by Congress*	2025 Budget *Proposed by MoF*	Diff.
Personnel services	1.3	1.1	-0.2
Non-personnel services	1.8	1.2	-0.6
Capitalizable assets	0.2	0.1	-0.1
Transfers, grants and financial assets	2.3	1.3	-1.0
Total	5.5	3.6	-1.9

Sources: Ministry of Finance; and IMF staff calculations.

14. The 2024 NFPS headline deficit is projected at around 1.5 percent of GDP, overperforming the program target of 1.7 percent of GDP. The estimated overperformance for 2024 is mainly driven by higher tax revenues surpassing initially conservative budget assumptions. Tax revenues have been boosted by strong domestic activity and improvements in tax administration. In response to overruns in current spending related to the climate shock, the authorities have issued a decree aimed at rationalizing current spending—including freezing of vacant positions and curbing non-essential purchases—yielding 0.2 percent of GDP. Budget reallocations within the current envelope may be considered to address emergency spending needs in the context of Tropical Storm Sara.

15. The authorities remain firmly committed to budgetary discipline and to prioritizing infrastructure and social spending. This is essential to contain macroeconomic risks in the context of an election year. The draft 2025 budget targets a headline deficit of around 1½ percent of GDP (around a balanced primary),[6] underpinned by prudent revenue assumptions. On the expenditure side, the full-year effect of the non-essential expenditure savings is expected to yield close to 2 percent of GDP (**Text Table 3**). Importantly, the budget incorporates all energy-related subsidies, some of which—totaling less than 0.1 percent of GDP—had gone unbudgeted, and additional transfers to offset some of ENEE's debt obligations.

16. Accelerating the implementation of social support remains a key priority. Priority social spending has lagged largely owing to constraints in implementation. The authorities are taking concrete actions to expedite the execution of social spending, including: (i) negotiation of a credit line from CABEI for *cajas rurales*[7] to speed up disbursements; (ii) an accelerated compilation of urban data for better targeting; and (iii) strengthened local capacity for updating social data through

[6] As in 2024, and given large-scale investment needs and manageable debt levels, the program contains an adjustor so that public investment (and therefore the fiscal deficit) in 2025 could be up to 1 percent of GDP higher than under the baseline should additional external financing (beyond that envisaged in the baseline) materialize for capital spending. The 2024 adjustor, of 1.3 percent of GDP, is expected to go unused.

[7] Community organizations that offer financial services to their members, such as savings and credit, aim to promote government projects or those of international donors through non-governmental organizations and municipalities. They were established in 1996 in the context of the National Program for Sustainable Rural and Urban Development (PRONADERS)

the establishment of *Mesas Solidarias*[8] (***MEFP ¶16***). Capacity constraints have hindered the strengthening of social spending implementation, including (i) the Single Social Sector Information System (SUISS) (***end-June 2024, SB***) and (ii) the finalization, working with the World Bank, of the census of urban households in extreme poverty (***end-September 2024, SB***). To enable adequate time for their implementation, the census of urban households and SUISS ***SBs*** are proposed to be reset to ***end-March 2025*** and ***end-June 2025***, respectively**.**

17. Continued efforts to broaden the tax base and strengthen the efficiency of revenue collection will further support program objectives:

- *Tax policy*: The Law on Tax Justice (LJT) currently in Congress reduces widespread exemptions, with an expected 1 percent of GDP medium-term yield.[9] Given the need to build Congressional support, the ***end-December 2023 SBs*** on adoption of the LJT and two associated bills (ratification of the Convention on Mutual Administrative Assistance in Fiscal Matters (MAAC) and legislation on beneficial ownership) are proposed to be reset to ***end-May 2025***.

- *Tax administration.* Efforts to strengthen the tax administration (SAR) have continued, including by launching in June an online portal to facilitate all administrative procedures with the SAR and implementing a system to ensure timely sales tax reimbursements, both initiatives supported by Fund CD. Additional efforts are still required to enhance compliance risk management, by implementing compliance improvement plans and improving human capital risks management. The IMF, in close coordination with the IDB, is also assisting the customs administration strengthen its key processes by adopting an integrated risk management approach and optimizing the use of data between tax and customs. A new customs law is expected to be submitted to Congress by mid-2025.

18. Reforms to improve the institutional framework for fiscal policy are proceeding. Progress has already been made in enhancing budget credibility and transparency, with support from IMF TA.

- *Enhancing public expenditure control.* Adoption and publication of "*Manual for the Programming of Budget Execution*" (***proposed end-February 2025, SB***) will seek to foster greater accountability and efficiency in public spending.

- *Eliminating the trust funds.* Most trust funds have been incorporated into the central government balance sheet, with 68 of 82 trust funds expected to be closed by end-December 2024 (***modified end-December 2024, SB***).[10] The authorities need more time to close the

[8] Community organizations that are responsible for identifying and addressing problems in the communities. These organizations are part of the *Red Solidaria* program.

[9] Baseline framework does not incorporate any additional revenues from this reform.

[10] In 2022, the authorities passed legislation to close trust funds, a longstanding Fund recommendation. Trust funds had executed a sizeable share of public spending outside of budgetary controls, a poor public financial management practice.

remaining 14 given their complex financial structure and the need to conduct audits (***proposed end-December 2025, SB***).

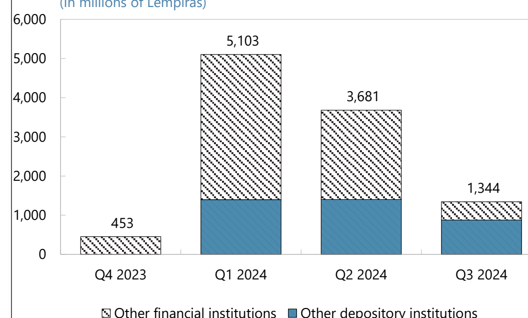
- *Strengthening the Treasury Single Account (TSA)*. Amendments to the Organic Budget Law to strengthen the TSA were submitted to Congress in August 2024 (implementing with delay the ***end-March 2024, SB***). Following Congressional adoption, establishing regulations, norms, and operational definitions (***end-December 2025, SB***) will support implementation of the law and the functioning of the TSA.

- *Improving public investment management practices*. The recent FAD Public Investment Management Assessment including a climate component (PIMA/C-PIMA) found some progress but also significant shortcomings in the public investment framework. A new draft procurement law aimed at addressing some of these shortcomings is being finalized.

B. Financing Strategy

19. The authorities have restarted domestic debt market issuances. Issuances through September reached approximately 1 percent of GDP (10 billion Lempiras), compared to less than 0.1 percent of GDP in 2023. Relatedly, cash management coordination is being strengthened through a new liquidity committee. These have been key steps to eliminate the need for monetary financing. The authorities are also exploring options to further deepen domestic markets, including by (i) shortening maturities of issuances (currently at 3 years or longer); (ii) broadening the investor base and strengthening investor relations; and (iii) enhancing coordination between the BCH and Ministry of Finance (SEFIN). The authorities have requested Fund TA to support these efforts.

Domestic Government Bond Issuance by Bondholder
(In millions of Lempiras)



Source: Ministry of Finance.

20. Securing external financing remains critical to safeguard external stability. Honduras has long relied on IFI support to build reserves and meet financing needs. However, shortfalls against expected official external financing in 2023-24 have been significant, leading to almost $1 billion in official net debt repayments (**Box 1**). Given significant external debt service obligations (**Text Table 4**), efforts are underway to mobilize budget support and project financing commitments, which are now expected to reach about $425 million in 2025 and $600 million in 2026, net of amortizations.[11] Moreover, the authorities have been

Text Table 4. External Debt Service
(US$, millions)

	2024Q4	2025Q1	2025Q2	2025
Principal	**148.7**	**207.6**	**204.2**	**790.7**
Multilateral	125.3	183.7	180.3	695.1
Bilateral	9.7	11.0	11.0	43.9
Commercial	13.7	12.9	12.9	51.7
Interest	**65.4**	**64.9**	**64.9**	**259.3**
Multilateral	55.4	55.5	55.5	221.8
Bilateral	8.2	8.0	8.0	32.0
Commercial	1.8	1.4	1.4	5.5
Comissions	2.8	2.6	2.6	10.3
Total	216.9	275.1	271.7	1,060.3

Source: Authorities; and IMF staff calculations.

[11] Honduras' accession to the CAF in Sep 2023 is expected to help catalyze additional financing.

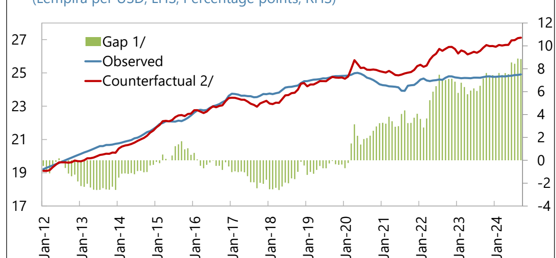
proactive in mobilizing additional external resources in the context of Tropical Storm Sara, with ample financing already identified from IFIs to meet possible additional external financing needs.[12] Finally, the authorities are finalizing the issuance of an external bond (expected size $700 million) in the coming weeks.[13]

C. Monetary, Exchange Rate, and Financial Sector Policies

21. The authorities are committed to implementing the necessary policy adjustments to the policy rate and the rate of crawl of the Lempira to maintain low inflation and safeguard international reserves. During the global shocks of 2020-23, the authorities maintained the TPM unchanged to support growth and sold foreign exchange to limit the passthrough of external shocks to domestic prices. After a period of inaction, the authorities have begun implementing a needed recalibration of monetary and exchange rate policies to strengthen external stability and safeguard reserves (¶23, ¶24). Effective communication will be essential to explain the goals of these policy adjustments and guide expectations.[14]

22. Honduras' external position in 2023 is assessed to be moderately weaker than the level implied by fundamentals (External Sector Assessment, Annex IV). While the EBA current account approach does not suggest overvaluation, the real effective exchange rate (REER) approach—also considering that the REER is currently about 9 p.p. stronger than the 2012- 19 average (**Text Figure 4**)—points to a REER overvaluation of about 5-10 percent. Steady losses of FX reserves since 2022 and FX market dynamics characterized by excess demand also point to some REER overvaluation. While the underlying methodology of the BCH's crawling band regime is based on purchasing power parity, the nominal exchange rate had been broadly stable since 2020.[15]

Nominal Exchange Rate
(Lempira per USD, LHS; Percentage points, RHS)



1/ Percentage difference between observed and counterfactual.
2/ Monthly changes determined solely by NEER movements and inflation differential with trading partners.
Sources: Haver; and IMF staff calculations.

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[12] Options include activating a contingent credit line (Cat DDO) with the World Bank of around $110 million and a contingent loan with the IADB of up to $400 million to help cushion the impact of the storm.

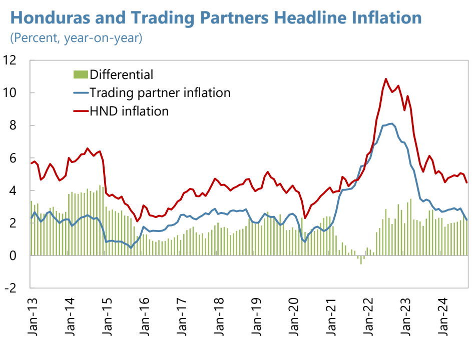
[13] The baseline does not include external issuances in 2024-25. In the event of an issuance, program reserve accumulation (NIR) targets would be adjusted upwards accordingly.

[14] The authorities have requested Fund TA on central bank communication.

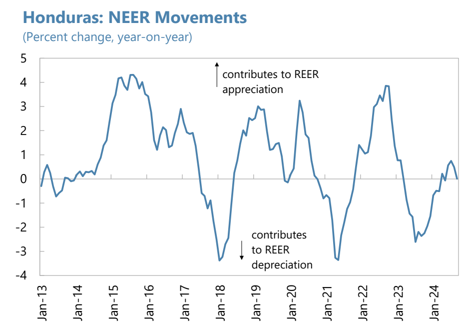
[15] The BCH calculates the base price for the exchange rate through a formula that considers: (1) the backward-looking inflation differential with trading partners; (2) movements in the nominal exchange rates of trading partners against the USD (NEER); and (3) international reserve coverage. A simple counterfactual exercise suggests that had the exchange rate followed only the inflation differential and the NEER since 2020, the Lempira would be nearly 9 percent weaker against the USD than its level at end-September 2024.

Text Figure 4. Real Effective Exchange Rate Developments

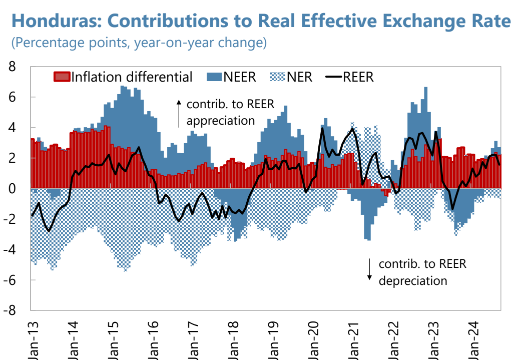
Given a consistently positive inflation differential….



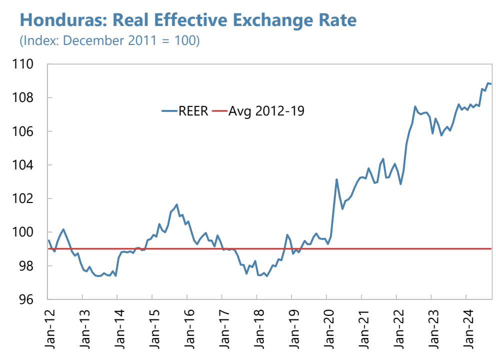
…and periods of USD strength, including in 2022…



…and absent consistent nominal exchange rate depreciation since 2020…



…the REER has appreciated.



Sources: Haver, BCH, and IMF staff calculations.

23. **The BCH has accelerated the crawl of the nominal exchange rate to improve competitiveness and preserve an adequate level of international reserves.** After several years of broad stability—with the Lempira virtually unchanged at end-2023 versus end-2019 and depreciating 0.7 percent over January to mid-September 2024—the Lempira was allowed to crawl at a brisker pace from mid-September, with daily annualized depreciation averaging 6 percent through mid-October. In mid-October, the BCH further accelerated the crawl, which has since averaged nearly 10 percent at an annualized rate (**Text Figure 5**). Looking ahead, the BCH is committed to implement the rate of crawl in line with the behavior of macroeconomic fundamentals while also supporting an adjustment in the REER to a level that supports a sustainable external position and safeguards reserves. Staff and the authorities concur that a gradual approach to nominal exchange rate adjustment can be effective in improving competitiveness, given a limited degree of overvaluation, the buffer provided by adequate reserves, and the authorities' strong preference for a gradual adjustment.[16] The BCH is prepared to adjust the rate of crawl as necessary to achieve the

[16] The Lempira routinely crawled against the USD between 3-5 percent annually between 2012 and 2018, without apparent outsized effects on realized or expected inflation. Alternative approaches, such a discrete exchange rate adjustment, present numerous challenges in the context of Honduras. Considering the lack of experience with one-

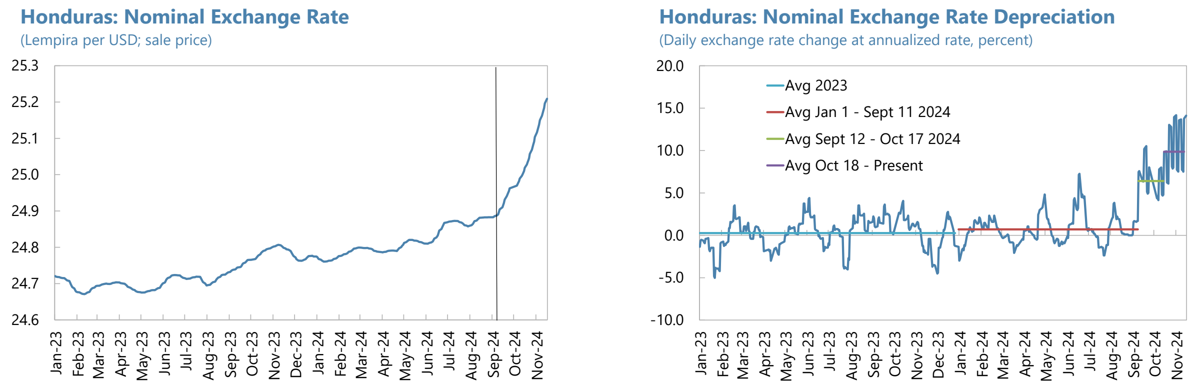
(continued)

reserve targets of the program (***quantitative performance criterion***). While reserves have declined significantly in 2024, they are projected to stabilize and increase modestly in 2025, remaining above 100 percent of the ARA metric during the program.

Text Figure 5. Nominal Exchange Rate

Since mid-September, clear exchange rate crawl has resumed....

...at a nearly 10 percent annualized pace since October.



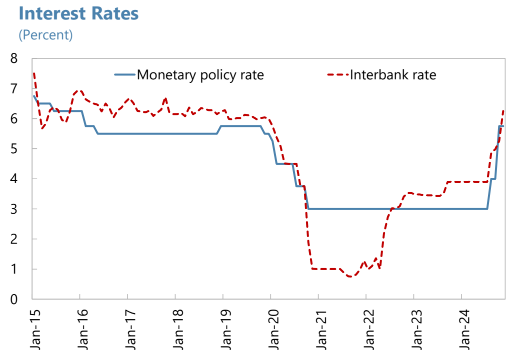
Sources: Central Bank of Honduras; Haver; and IMF staff calculations.

24. The BCH has also further recalibrated monetary policy, anchored around positive real rates and a positive differential to the U.S. policy rate, to provide support to Lempira assets. The increase in the TPM by 100 bps in August was followed by an additional 175 bps increase *(**prior action**)* in October, bringing the rate to 5.75 percent. This hike moved the TPM broadly in line with the neutral rate, re-established a positive differential with the U.S. policy rate, and moved the real rate firmly into positive territory (**Text Figure 6**). Moving forward, the BCH will remain data driven and adopt the necessary measures—mainly adjustments in the TPM—to contain second-round effects from potential shocks to inflation and keep inflation expectations anchored. In setting interest rates, the BCH will be guided by domestic and global information, including the level of international interest rates, and intends to maintain a positive real policy rate.

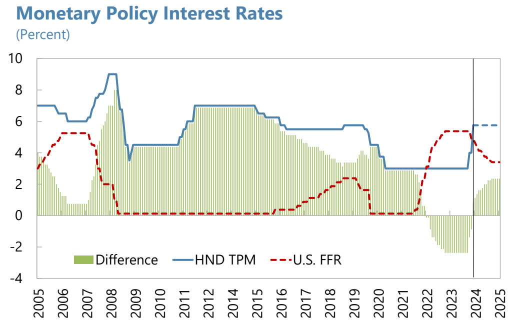
off devaluations during the longstanding crawling band regime, such a move could undermine confidence in the durability of the regime, with uncertain effects on FX demand and inflation expectations. Communication challenges would also be significant. Importantly, there is no evidence of a parallel FX market and, therefore, no need to unify the exchange rate with a parallel rate. There is also no firm evidence of the development of an FX backlog and most companies are available to satisfy their FX needs through participation in the auction over a few days, although this does constitute an undue delay in access to FX under the Fund's legal framework and is part of a finding of an exchange restriction subject to approval under Article VIII, section 2(a) as discussed in ¶41.

Text Figure 6. Policy Interest Rates

With the additional 175 bps increase in the TPM, interbank rates have increased to around 6.25 percent, similar to pre-pandemic levels…



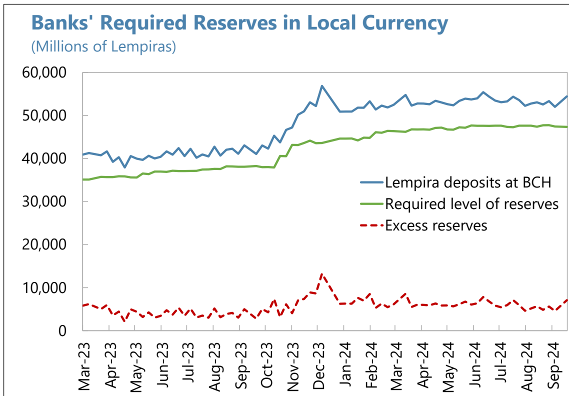
…while a positive differential to U.S. interest rates has been re-established and may increase, aided by expected U.S. interest rate easing.



Note: Illustrative path for FFR based on Sept 2024 FOMC projections. TPM path illustrates differential if maintained at 5.75 percent but is not meant to be a projection of future TPM rate.

Sources: BCH; Haver; and IMF staff calculations.

25. The BCH is also committed to improving the efficiency of FX allocation. With the decision to impose a 100 percent FX surrender requirement[17] and reinstate the BCH FX auction in April 2023, the interbank FX market—characterized by thin volumes and inequitable allocation—was suspended. While the authorities believe that the policies implemented under the program will improve the balance between supply and demand for FX over time, they also recognize a need to define and implement a roadmap for reforms to strengthen the efficiency of FX allocation, transitioning gradually to an FX allocation system that allows for price discovery and reflects supply and demand. As a first step, the authorities will prepare a diagnostic study, in collaboration with Fund staff, outlining options and recommendations to strengthen the system of FX allocation (***proposed April 2025, SB***).



Source: Central Bank of Honduras.

26. The authorities have also been proactive in ensuring adequate banking sector liquidity. The BCH's measures to tighten reserve requirements implemented in November 2023 were employed as a quantitative instrument of monetary policy. Alongside the increase in the TPM implemented in October, the BCH eased back the maintenance period for reserve requirements from daily to 14 days, with a daily minimum of 90 percent of the requirement. This change provides banks with appropriate flexibility in managing their daily liquidity needs and represents a shift by the BCH towards the TPM as the

[17] The Interdepartmental CFM working group assessed the 25 percent surrender requirement for foreign exchange agents to the interbank market imposed in February 2023 as an outflow CFM and the 100 percent surrender requirement to the BCH for foreign exchange agents taken in April 2023 as a tightening of the previous measure. As noted in the paragraph, the authorities will prepare a diagnostic study, in consultation with Fund staff, outlining options and recommendations to strengthen the system of FX allocation.

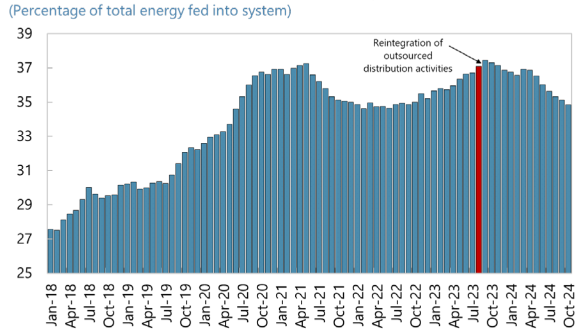
main tool of monetary policy. Despite the increase in reserve requirements implemented in November 2023, banks remain liquid and have maintained a steady level of excess reserve deposits at the BCH.[18]

27. Progress is being made implementing recommendations from the safeguards assessment, but gaps remain in the central bank's autonomy and governance arrangements. The update of the assessment determined that the BCH has made significant progress implementing past safeguards recommendations and broadly maintains strong controls over its operations. However, shortfalls remain in the legal framework, including lack of an independent oversight body and financial autonomy. The BCH is taking steps to further strengthen its safeguards framework, including by finalizing the adoption of IFRS accounting standards, strengthening the internal audit function, and further improving risk management. The BCH will begin technical engagement with Fund staff to discuss these issues to determine the best way to proceed. The BCH will also develop a medium-term strategy to unwind its quasi-fiscal operations, including the transfer of the Investment Fund to the state and wind down of the Guarantee Fund by 2029. The BCH will also not provide any new financing to the financial public sector (including *BANHPROVI* and *BANADESA*) to limit risks to inflation and the BCH's balance sheet (***continuous performance criterion***).

D. Energy Sector Policies

28. Significant challenges in the energy sector remain a key vulnerability (Annex II). Relatively high tariffs result from a history of uncompetitive contracting of generation capacity and inefficiencies, hurting competitiveness and consumers. Moreover, outdated infrastructure and incidence of fraud have driven high electricity losses, which, together with operational inefficiencies, have long saddled ENEE with financial losses, representing a significant fiscal challenge. ENEE's lack of payment discipline has stifled investment in generation and energy shortfalls have increased, hindering the business environment and growth. Promptly and decisively addressing these challenges will be essential to generate more economic opportunity, greater job creation, and set Honduras on a higher growth path.

ENEE Technical/Non-Technical Electricity Losses in Distribution
(Percentage of total energy fed into system)

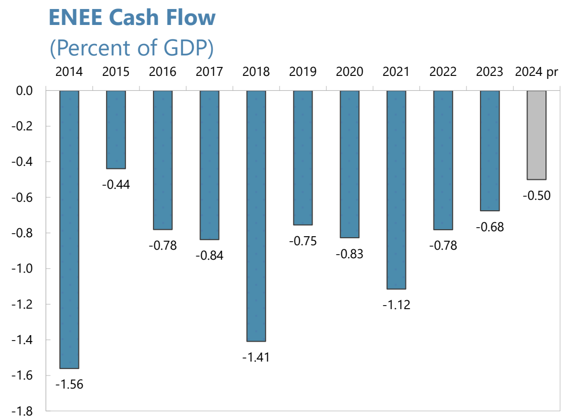


Sources: ENEE; and IMF staff calculations.

29. Decisive reductions in electricity losses remain essential to improve the health of the energy sector. Albeit with delay, partly due to the integration of distribution operations into ENEE,[19] electricity losses have now been placed on a firm downward trend (**Annex II**). Since September 2023, technical losses have been

[18] It is estimated that sufficient liquidity exists for banks to purchase government guaranteed ENEE bonds (¶30) to facilitate ENEE arrears clearance. To incentive purchase of the bonds, the BCH has made the bonds eligible to meet banks' 3 percent mandatory investment requirement, as with previously issued ENEE bonds.

[19] Most distribution operations had been performed by a private subcontractor through August 2023.



Source: ENEE.
Note: Projection for 2024.

reduced by 2½ percentage points, though they remained elevated at 34.8 percent at end-October 2024, somewhat above initial program targets. For 2025, the authorities' plan also envisages a reduction of 2½ percentage points. ENEE's cash flow deficits have been gradually improving, from over 1 percent of GDP in 2021 to an expected 0.5 percent of GDP in 2024 (MEFP ¶26).

30. Steadfast implementation of the authorities' plan to durably reduce ENEE's arrears is critical to ensure sufficient energy supply and support Honduras' long-term growth. While ENEE's overdue invoices (arrears) to generators were reduced to 9.8 billion Lempiras by end-2023, these had grown to 17.5 billion Lempiras by end-September 2024, significantly above program objectives (***performance criterion***). The increase in arrears stems from various factors, including significant ENEE debt service obligations, expensive power purchases during the dry season, and lack of debt issuances until October 2024 to finance operational losses. The authorities are mindful of the need to strengthen ENEE's payment discipline.[20] To this end, they have established a comprehensive plan to reduce ENEE's arrears to 11.5 billion Lempiras by end-2024 and ensure further quarterly reductions of 1 billion Lempiras during 2025:

i. *Establishing, by a Council of Ministers decree, a committee composed of BCH, CNBS, ENEE, SEFIN, the Ministry of Energy, and the Secretariat of the Presidency* to coordinate on financial policies related to the energy sector (***prior action***).

ii. *Expediting the issuance of ENEE domestic debt*, supported by BCH approval of ENEE bonds' eligibility to meet banks' reserve requirements. The authorities issued 0.9 billion Lempiras by November 15 compared to their goal of 5 billion Lempiras. In addition, SEFIN will make a transfer to ENEE of the shortfall of 4.1 billion Lempiras (***prior action***) to ensure achievement of the end-December PC. While debt issuance is an important element of arrears clearance, the authorities are cognizant it is not a long-term substitute for durable improvements to ENEE's financial health.

iii. *Absorbing in the state budget ENEE's debt service* of 2 billion Lempiras in each 2024 and 2025 and ensuring smaller subsidies (0.5 billion Lempiras per annum) are paid timely to ENEE.

iv. *Approving, by Congress,* renegotiated contracts with private power suppliers to reduce generation costs and lower consumer tariffs.

[20] This is also essential to ensure competitive bids in an upcoming large tender to provide energy security, contain energy costs, ensure sufficient energy supply for Honduras' development (MEFP ¶30).

31. The authorities are advancing structural reforms to strengthen ENEE's operational efficiency and financial transparency and update electricity tariffs (MEFP ¶29, ¶31). Ongoing efforts include (i) merging the operative processes of the three entities that currently manage distribution (***proposed end-August 2025, SB***); and (ii) establishing, within ENEE, generation, transmission, and distribution divisions with separate management. The latter will be facilitated by implementing international accounting standards (IFRS), for which ENEE will hire a consulting firm (***proposed end-March 2025, SB***) while continuing work on a proper software infrastructure. Publication of ENEE's IFRS-based audited annual financial statements (for 2025) is expected by mid-2026. In parallel, the authorities are also planning to start in early 2025, and with support from the IDB, a comprehensive audit of ENEE by the Superior Court of Accounts to identify further actions to improve ENEE's financial position and governance.[21] Finally, the Honduran electricity pricing system, although it covers all generation, transmission, and distribution costs in the tariff rate, needs to be updated with better estimates of these cost factors. The authorities will finalize needed studies to facilitate publication of key elements of a possible updated structure and hold public hearings by end-November 2025 ***(proposed end-November 2025, SB).***

E. Other Structural Policies: Climate, Governance, Transparency, and AML/CFT

32. The authorities are advancing their agenda to increase resilience to climate change. Key adopted and planned measures include (i) investing in resilient infrastructure (roads, dams, etc.); (ii) strengthening fiscal and financial frameworks to incorporate climate change considerations; (iii) developing a reference framework for issuance of sustainable bonds; (iv) and adoption of laws on efficient energy use and on carbon transactions related to forests **(MEFP ¶50)**. Further efforts are being informed by consultations with development partners and recent IMF technical assistance on Climate Policy Diagnostics and the PIMA/C-PIMA (**Box 2**). The authorities have requested an arrangement under the RSF, which may be discussed during a future review.

33. To improve the business climate, the authorities are prioritizing executive initiatives for digitalization, in lieu of legislative actions. The tax administration has launched an IT portal to allow taxpayers to perform administrative processes online. The authorities are also digitizing other processes to speed up times required to obtain permissions documents and government services, including related to investment, through a Digital Portal for Investment (DPI) (**MEFP ¶44**).[22] Staff supports the authorities' request to modify the ***end-June 2024 SB*** on an administrative simplification law into an ***end-April 2025 SB*** to launch the DPI and digitize thereon at least 50 processes.

[21] This would be ENEE's first audit since 2016.

[22] This project is part of an ongoing initiative, supported by UNDP TA, to bolster their administrative simplification efforts.

Box 2. Key Findings and Recommendations from Fund PIMA, C-PIMA, and CPD Reports

Fund-provided TA has identified key reform areas to strengthen Honduras' institutional framework and better address risks posed by climate change and reduce the socioeconomic costs from climate vulnerabilities.

Public Investment Management Assessment (PIMA): Identified the need to strengthen the efficiency of and procedures for public investment, including those related to climate change. Some key recommendations include: (i) designing a strategic framework for public investment that provides guidance on government priorities to bolster resilience to climate change; (ii) strengthening the formulation of the multi-year budget, with an effective project selection process and improved climate marking; and (iii) improving the identification and preparation of large infrastructure projects, taking climate change into account.

Climate-PIMA (C-PIMA): Identified that climate risks and natural disasters threaten public infrastructure, posing challenges to integrating climate change into Public Investment Management (PIM). Recommendations included (i) developing a disaster risk management strategy analyzing the main climate change-related risks affecting public infrastructure assets and networks; (ii) improve coordination in decision-making on climate change-related investments across the public sector; and (iii) preparing an investment plan for the Nationally Determined Contribution (NDC) and align sectoral plans with the objectives, goals, and projects of the NDC and its investment plan.

Climate Policy Diagnostics (CPD): Identified that Honduras has developed a legal and institutional framework for climate adaptation but faces challenges in some key areas, and recommends (i) improving Disaster Risk Management (DRM) through better integration of data for decision making; (ii) expanding coverage and improving the targeting of social assistance for those most vulnerable to climate change; and (iii) improve access to financial instruments to facilitate insurance for small farmers.

34. Good progress has been made strengthening the AML/CFT framework. Following a July 2023 congressional decree which reversed previous dilution of this framework, the authorities approved frameworks for implementation of AML/CFT regulations for credit cooperatives and non-financial professions. The authorities are now preparing a national AML/CFT risk evaluation and updates to various laws to ensure alignment with updates to Financial Action Task Force (FATF) standards ahead of Honduras' 2026 evaluation (**MEFP ¶47**).

35. The authorities are advancing on other transparency and governance-related reforms, though challenges in passing legislation have slowed progress in some areas (MEFP ¶46, 48). The authorities successfully implemented an electronic asset declaration system for public officials (***met end-February 2024 SB***) and are advancing towards making all declarations digital. Moreover, they are working towards approval of a National Transparency and Anti-Corruption Strategy by early 2025 and are preparing a whistleblower law to facilitate reporting of illicit activities with a view to submitting it to Congress by the second quarter of 2025. Also, a National Transparency and Anticorruption Observatory was established. The authorities continue to pursue, in collaboration with the United Nations, the establishment of an international anti-corruption commission (CICIH), although progress has been slow. On the other hand, the authorities' decision in February to withdraw from the International Centre for Settlement of Investment Disputes (ICSID) could adversely impact FDI inflows. Given that the authorities are continuing to work with Congress towards approval of beneficial ownership (BO) legislation, staff supports their request to reset also the ***end-December 2024 SB*** for operationalizing a BO registry to ***end-December 2025***.

PROGRAM MODALITIES

36. **The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and set out future policy commitments.** Program performance will continue to be monitored through semi-annual reviews based on QPCs and ITs (Table AI.2), and SBs (Table AI.4). New targets for QPCs for end-December 2024 and end-June 2025 and ITs for end-March 2025 and end-September 2025 are proposed. Given the delays in securing legislative approval for the tax reform and related legislation, the deadlines for these SBs are proposed to be reset from end-December 2023 to end-May 2025. In addition, considering capacity constraints, the deadlines for existing SBs related to the creation of the Single Social Sector Information System, census on urban poverty, and trust funds are proposed to be reset (Tables AI.3 and AI.4). Three existing SBs are proposed to be modified, with five new SBs proposed, and three prior actions (Tables AI.3 and AI.4). In addition, the scope of the continuous PC related to monetary financing is proposed to be modified to cover the public financial sector—in addition to the non-financial public sector—to disallow new central bank transfers to state-owned development banks *BANHPROVI* and *BANADESA*.

37. **Rephasing of purchases.** A rephasing of purchases, for indirect budget support, is proposed (Table 15b) in light of the uneven program performance to date, sizeable government FX financing needs, uncertain timing of additional official financing, and the strength of the authorities' corrective measures, including prior actions, to achieve program objectives.

38. **Financing assurances.** The program is fully financed, with firm commitments for the upcoming 12 months and good prospects of full financing for the remainder of the program. The authorities have secured access to ample external resources from IFIs to confront the impact of the tropical storm and to meet potential additional external financing needs should these needs be greater than currently envisaged. The conclusion of the first and second reviews is expected to catalyze additional official financing, especially in 2025, some of which was earlier anticipated to materialize in 2024. The program is also expected to support access to international capital markets. IMF financing is projected to fill 19 percent of the external financing gap (compared to 18 percent at program approval).

39. **Honduras' capacity to repay remains adequate.** Existing and prospective Fund credit outstanding is expected to reach 274 percent of quota by end-2026, before declining to 115 percent of quota by 2032. Repayments to the Fund increase during 2024-25 and are projected to peak at 1.8 percent of exports and 3.2 percent of gross reserves in 2024, before declining to 0.5 percent and 1.0 percent respectively by 2028.

40. Risks to the program. Program implementation challenges remain significant, largely stemming from the identified risks to the baseline (¶12). Several measures mitigate these risks, including (i) a rephasing of access; (ii) SBs that largely focus on measures that can be enacted without legislative approval; (iii) timelines more in line with implementation capacity; and (iv) the use of prior actions and front loading to establish a track record on exchange rate and monetary policy adjustment. Ongoing technical assistance and continued close coordination with development partners can also help mitigate the risk of implementation delays related to capacity constraints.

41. Jurisdictional issues. Since the re-introduction of the auction in April 2023 and the implementation of the 100 percent surrender requirement for exporters, the BCH is the only source of FX for market participants requesting more than $10,000.[23] The BCH limits the allocation of FX at the auction for bona fide current international transactions by (i) not fully meeting the demand at the auction and having bidder resubmit their bids over a period of time to receive the full amount requested, resulting in undue delays; and (ii) setting a hard cap for how much can be requested daily by an entity ($1.2 million) and by an individual ($100,000), with no possibility of obtaining more in a given day for bona fide current international transactions. The BCH also prioritizes access to FX for fuel importers, who can obtain a top up of FX from the BCH through direct sales after participating in the auction. These measures implemented by the BCH for the allocation of FX limit the access to FX for bona fide current international transactions and therefore constitute an exchange restriction subject to Fund approval under Article VIII Section 2(a).[24] The authorities are committed to gradually phase out these measures, as balance of payments stability is strengthened, supported by implementation of the policies under the Fund-supported program. The authorities are requesting Board approval for the retention of the exchange restriction arising from the BCH measures to allocate FX, on the basis that it is maintained for BOP reasons, temporary, and non-discriminatory.

42. Poverty Reduction and Growth Strategy (PRGS). Progress has been made in drafting a national PRGS, also supported by an external consultant, but more time is needed to coordinate between ministries and undertake stakeholder consultations. Staff supports the authorities' request for an extension of this requirement to the third review (**MEFP ¶15**).

[23] Requests for less than $10,000 are directed to commercial banks. Some exporters are excluded from the 100 percent surrender requirement and can keep 30 percent of the FX for priority purchases and debt service abroad.

[24] Honduras also maintains one exchange restriction arising from restrictions on the availability of FX for payments and transfers for current international transactions, as a law requires the BCH to reject participation in its FX auctions by exporters who have not duly repatriated export proceeds from two or more export transactions within required timeframes. The authorities have committed to removing the exchange restriction during the course of the program within the ambit of their planned reforms to the FX system. Furthermore, in line with the revised Multiple Currency Practices Policy that became effective on February 1, 2024, all MCPs maintained under the previous MCP policy are considered eliminated as of February 1, 2024. The relevant exchange rates are being monitored for impermissible spreads under the revised MCP policy.

STAFF APPRAISAL

43. The Honduran economy has remained resilient, and some key program objectives have been achieved. Despite a severe El Niño episode and a complex social and political environment, economic growth has been faster than anticipated, supported by a revival in public investment, and inflation has broadly converged to target. The fiscal position and debt levels have continued to improve amid prudent fiscal policies and a reactivation of the domestic debt market, and progress has been made in strengthening transparency and fighting corruption.

44. Nonetheless, durably strengthening macroeconomic stability and boosting growth to reduce poverty will require steadfast program implementation. Progress has been slower in addressing external imbalances, strengthening the financial position of the energy company (ENEE), and advancing the structural reform agenda. Moreover, social spending has fallen short of objectives. Against this backdrop, and recognizing the anchoring role of the program, the authorities remain firm in their commitment to implement program policies, as evidenced by the decisive adjustments to the monetary policy rate and the rate of crawl of the Lempira, and the measures to improve the financial health of ENEE.

45. Staff welcomes the authorities' commitment to prudent fiscal policies. The authorities' fiscal stance has overperformed program objectives on the back of robust tax revenues and continued spending discipline. Healthy increases in public investment support growth and job creation, but efforts must be intensified to accelerate the disbursement of social support. Adoption of the 2025 draft budget submitted to Congress will provide an anchor to fiscal policies during the upcoming election year. Continued broadening of the tax base, strengthening of the efficiency of revenue collection, and improving institutional frameworks will support efforts to further sustainably scale up public investment and social spending.

46. The recent recalibration of monetary and exchange rate policies is a welcome step to preserve low inflation and strengthen international reserves. The cumulative 275 basis point increase in the policy rate since August has moved the real rate into positive territory, essential to anchor inflation expectations, support demand for Lempira assets, and strengthen the crawling band regime. Moreover, maintaining the higher rate of crawl of the Lempira will improve external competitiveness and achieve a healthy and sustainable external position. The authorities' commitment to further adjust these policies as needed to ensure achievement of program objectives is welcome. Strong communication with the public and markets on these measures, which are critical to safeguard macroeconomic stability, will be key to strengthen their effectiveness.

47. Promptly addressing energy sector challenges is crucial to preserve macroeconomic stability, improve the business environment, and support Honduras' long-term growth. The downward trend in electricity losses is welcome, and continued progress in structural reforms to strengthen ENEE's operational efficiency and financial transparency will bolster the authorities' efforts to further reduce losses. Steadfast implementation of the authorities' comprehensive plan to durably reduce ENEE's arrears is critical to improve the financial health of the company and ensure sufficient energy supply.

48. Honduras remains vulnerable to the effects of climate change, and adaptation policies will be vital to strengthen resilience. As shown by the *El Niño* episode, climate shocks can have a severe impact on the economy and the Honduran population. Accelerating the implementation of climate adaptation policies, including strengthening climate-related institutional frameworks and public investment practices, will help bolster economic resilience. In this context, the authorities' interest in an arrangement under the RSF to support these efforts is welcome.

49. Continued progress on transparency and governance-related reforms is needed. The authorities have implemented measures to increase transparency, including an asset declaration system for public officials. The planned adoption of a National Transparency and Anti-Corruption Strategy would be another key step in the fight against corruption while initiatives to advance digitalization will be important to improve government services. Fast-tracking such initiatives while avoiding policies that can adversely impact the business environment is important to attract investment. Further efforts will be needed to secure legislative approval of beneficial ownership legislation, while legal initiatives will also be required to update the AML/CFT framework ahead of the 2026 FATF evaluation.

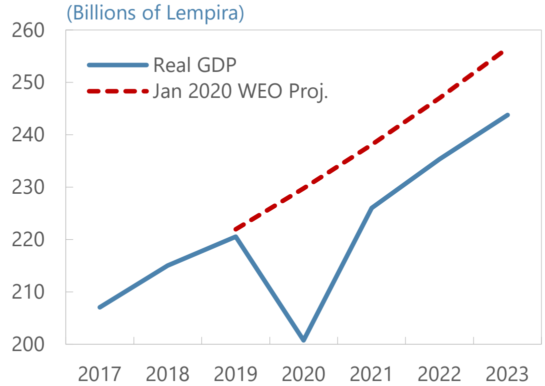
50. Staff supports the authorities' request for Board approval for the retention of the exchange restriction arising from the measures implemented by the BCH limiting the allocation of FX at the auction. The exchange restriction is maintained for balance of payments reasons, temporary, and non-discriminatory.

51. Given the strength of the authorities' commitments to reforms, bolstered by prior actions, staff supports the completion of the first and second reviews under the EFF and ECF arrangements, rephasing of purchases, and requests for waivers of non-observance for the end-June 2024 performance criteria under the EFF/ECF arrangements. Staff supports the request for the waivers of non-observance based on corrective actions taken by the authorities, supported by prior actions, in addition to the strength of the forward-looking policy commitments. The Letter of Intent (Appendix I) and Memorandum of Economic and Financial Policies (Attachment I) demonstrate program ownership and appropriate policies to reach the goals of the authorities' program.

Figure 1. Honduras: Real Sector Developments

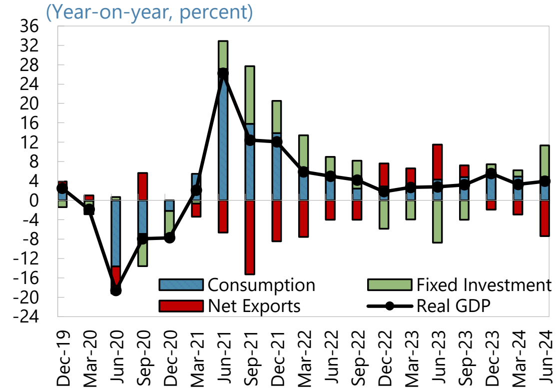
Output rebounded to pre-pandemic levels by 2021 but remains below the prior trend.

Real GDP
(Billions of Lempira)



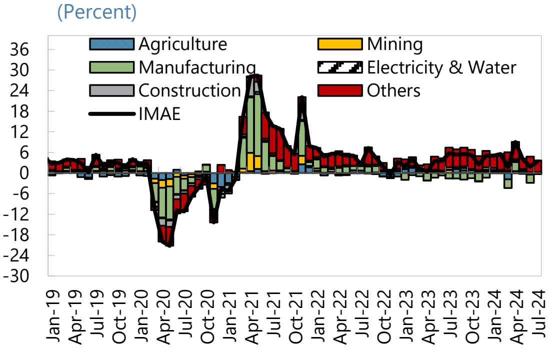
Consumption remains a key driver of growth…

Contributions to Growth
(Year-on-year, percent)



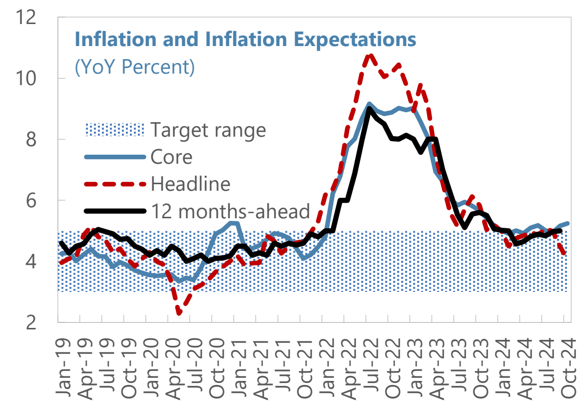
…and on the supply side, services – including financial services – have driven growth as manufacturing has underperformed.

Contributions to Index of Monthly Economic Activity
(Percent)



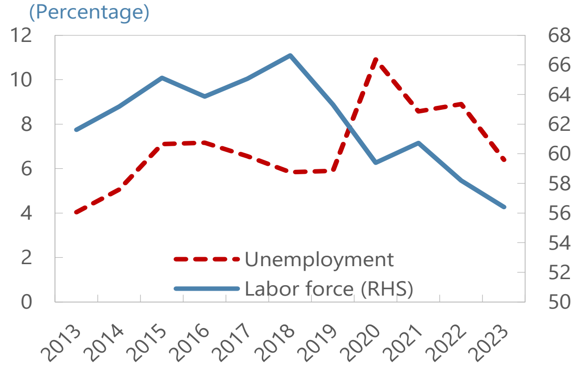
Inflation has declined significantly since peaking in 2022 and is within the 1 percent range around the 4 percent objective.

Inflation and Inflation Expectations
(YoY Percent)



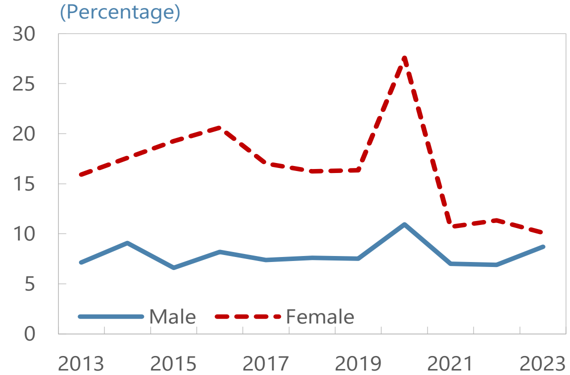
The labor market continues to recover from the pandemic shock, though participation remains weak…

Unemployment and Labor Force Participation
(Percentage)



…and female unemployment, while improving, remains above male unemployment.

Unemployment Rate by Gender
(Percentage)

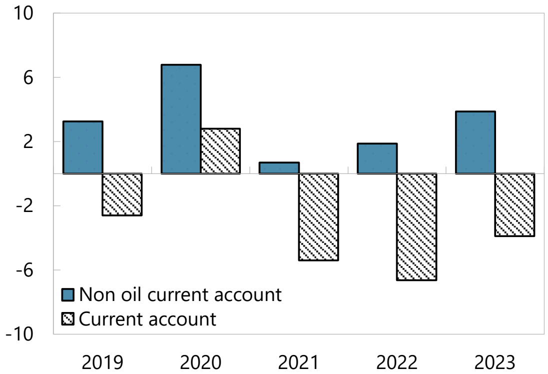


Sources: Central Bank, Haver Analytics, IMF World Economic Outlook, INE survey, and IMF staff projections

Figure 2. Honduras: External Sector Developments

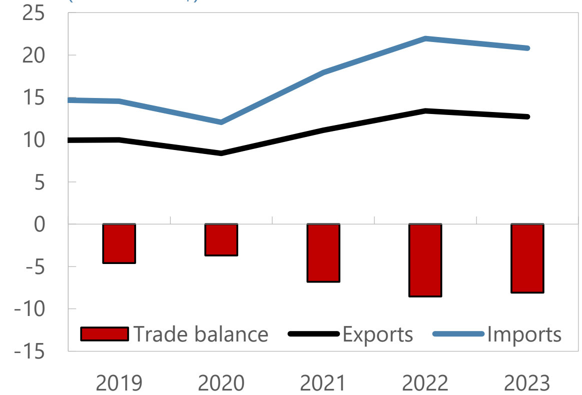
The current account deficit narrowed in 2023….

Current Account Balance
(In percent of GDP)



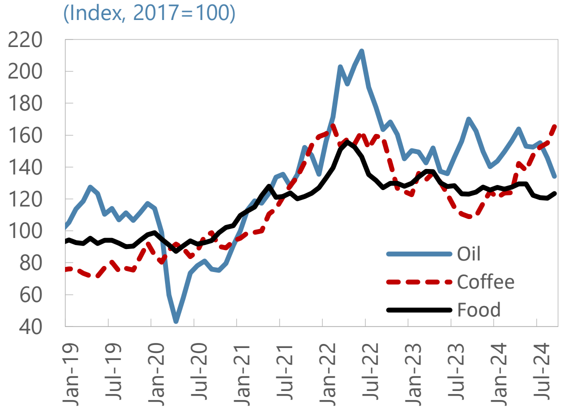
…as imports fell more than exports….

Evolution of Trade Flows
(Millions US$)



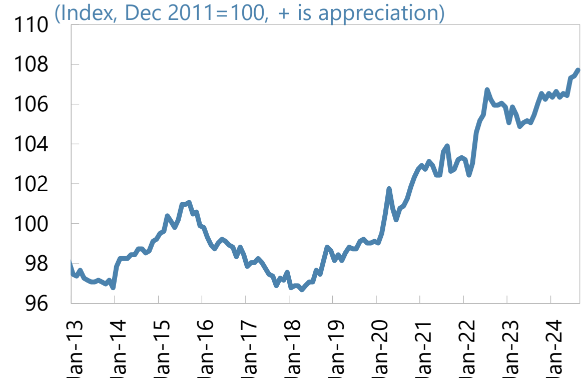
…and prices declined for key imported energy and food products, while coffee export prices have been volatile.

Prices of Coffee, Oil & Food
(Index, 2017=100)



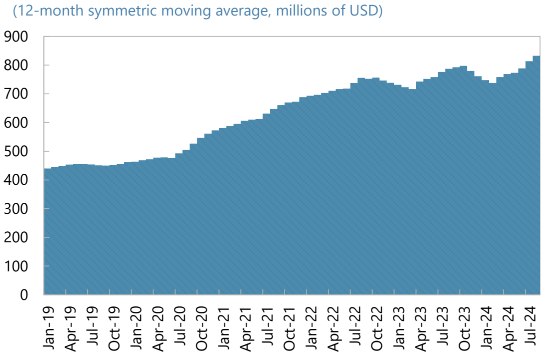
The REER has appreciated in the context of broad nominal exchange rate stability and a positive inflation differential.

Real Effective Exchange Rate
(Index, Dec 2011=100, + is appreciation)



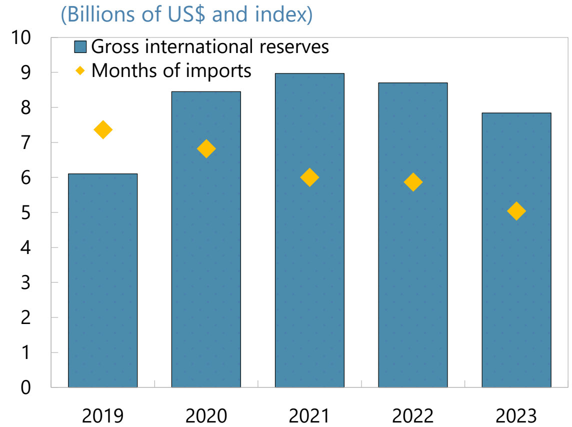
Remittances continue to grow, albeit at a slower pace.

U.S. Remittances to Honduras
(12-month symmetric moving average, millions of USD)



While still adequate, reserves have declined since 2021.

Gross International Reserves
(Billions of US$ and index)

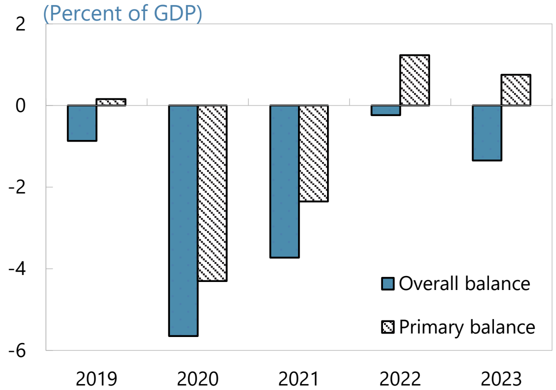


Sources: Central Bank of Honduras, Haver Analytics, IMF WEO; and IMF staff estimates and projections.

Figure 3. Honduras: Fiscal Developments

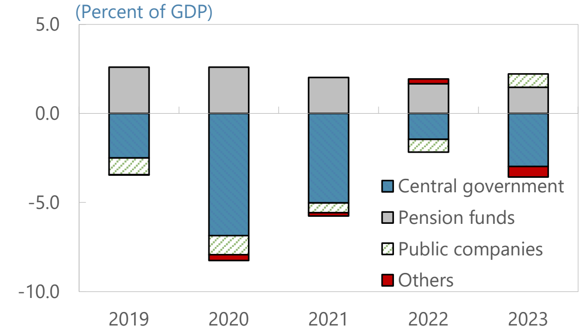
The fiscal deficit increased in 2023....

Nonfinancial Public Sector Balance
(Percent of GDP)



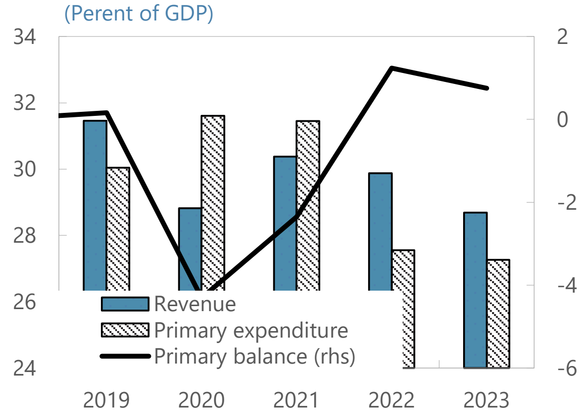
...driven by expansion of the central government deficit given that capacity in spending execution increased.

NFPS Balance, by Sector
(Percent of GDP)



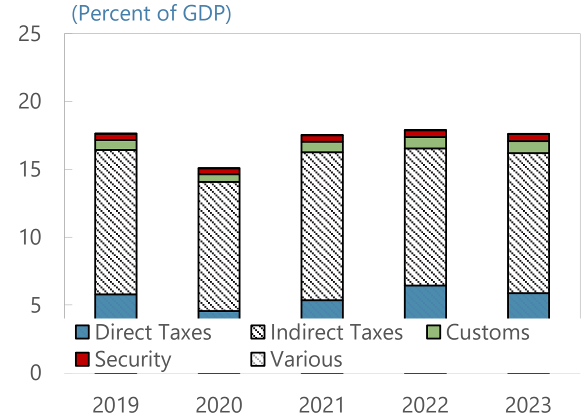
Current spending discipline offset an increase in capital expenditures....

NFPS: Revenue and Expenditures
(Perent of GDP)



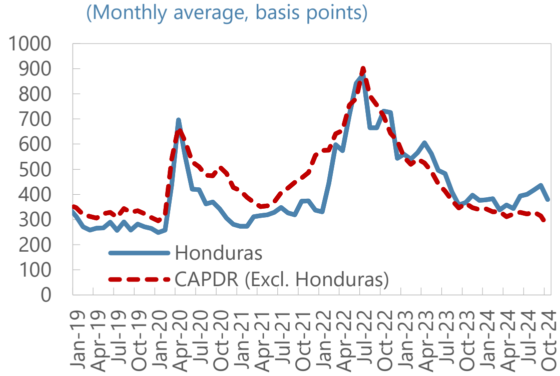
...and tax revenues held firm.

Central Government Tax Revenue
(Percent of GDP)



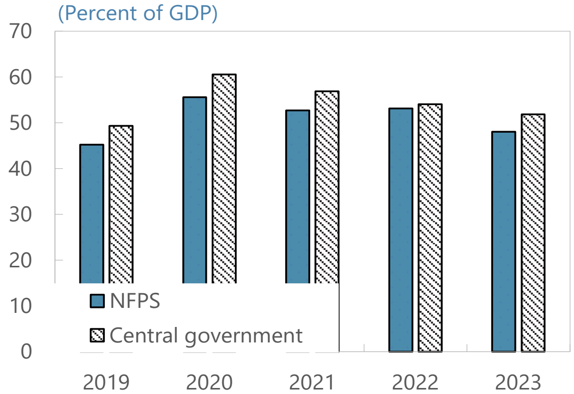
Bond spreads declined in 2023 along with regional peers.

EMBI Spreads
(Monthly average, basis points)



Public debt has declined since the recovery from the pandemic, overperforming program projections in 2023.

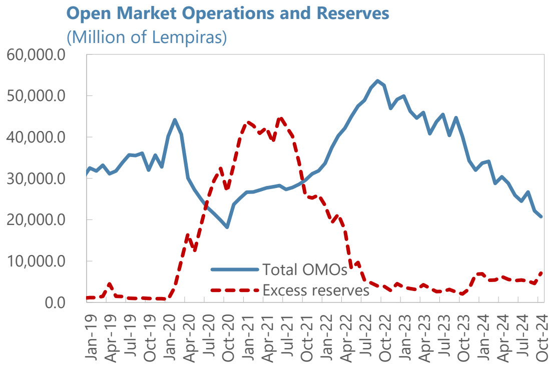
Public Debt
(Percent of GDP)



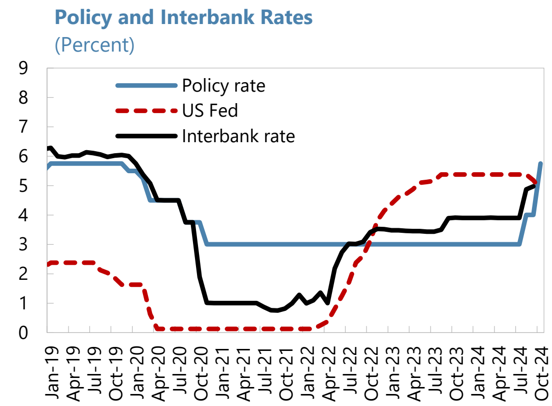
Sources: Ministry of Finance, Bloomberg, and IMF staff projections.

Figure 4. Honduras: Monetary and Financial Sector Developments

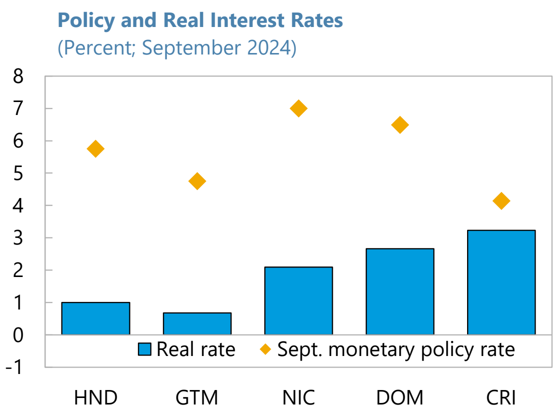
The central bank stepped up liquidity absorption operations in 2022....



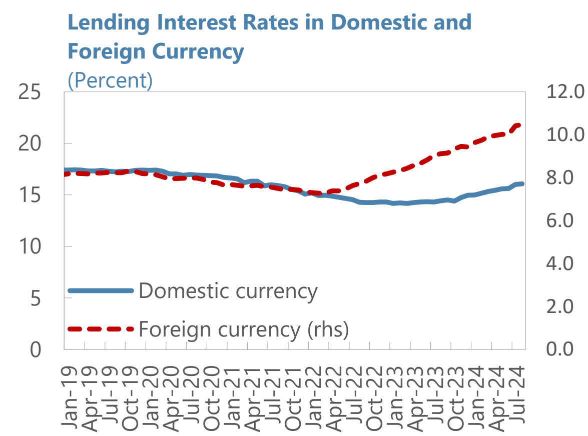
...and after several years of stability, the central bank has increased the policy rate...



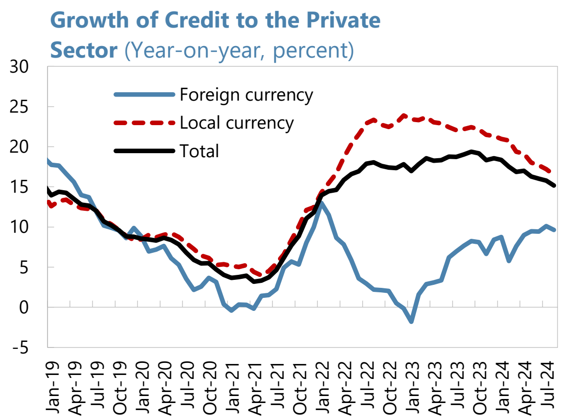
...turning the policy rate positive in real terms.



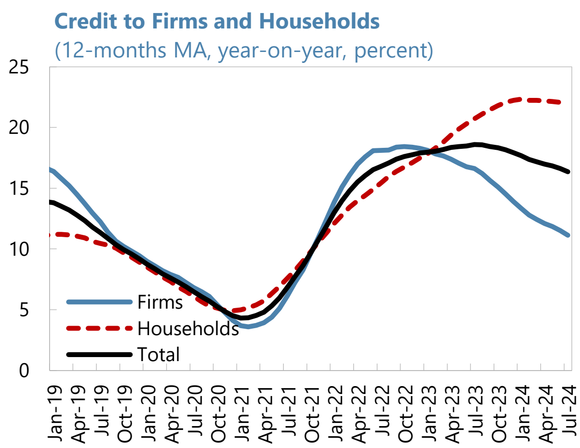
Large increases in international interest rates passed through quickly to foreign currency lending rates....



...while credit growth in local currency is slowing from a high rate of growth...



...though lending to households remains robust.



Sources: Central bank, Haver Analytics, IMF World Economic Outlook, and IMF staff projections.

Table 1. Honduras: Selected Economic Indicators, 2021-2029

I. Social Indicators

Population (million, 2023)	10.5	Life expectancy at birth in years (2021)	70
Per capita income in U.S. dollars (2023)	3,292	Adult literacy (percent of ages 15 and above, 2019)	89
Rank in UNDP Development Index (2022)	137	Percent of pop. under moderate poverty (2019)	48.0
Unemployment rate (2023)	8.1	Gini index (2019)	48
Net FDI (as percent of GDP, 2023)	2.5	Oil imports (2023)	U.S. $2.7 billion

II. Economic Indicators

	Actual		Program Request	Actual	Program Request	Proj.	Program Request	Proj.				
	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
National Income and Prices					*(Annual percentage changes unless otherwise indicated)*							
Real GDP	**12.6**	**4.1**	**2.9**	**3.6**	**3.2**	**3.8**	**3.5**	**3.6**	**3.6**	**3.8**	**3.8**	**3.8**
Domestic demand	18.6	5.6	6.4	0.7	3.8	5.5	4.2	3.1	4.0	3.8	4.1	4.1
Consumption	16.2	4.3	4.5	4.6	3.4	4.1	3.5	3.3	3.6	3.7	3.8	3.8
Investment	41.5	2.6	23.7	12.9	5.4	2.5	7.3	2.0	5.6	4.1	4.8	4.9
Exports	23.2	6.6	7.0	-7.5	4.9	2.8	5.9	7.8	7.8	7.3	6.4	6.2
Imports	32.6	8.5	12.4	-9.3	5.4	6.2	6.4	5.7	7.4	6.3	6.2	6.0
Net exports (percentage contribution to real GDP)	-8.2	-2.5	-4.8	2.7	-1.3	-2.6	-1.6	-0.1	-1.1	-0.7	-1.0	-1.0
Output gap (percentage of potential GDP)	0.4	0.8	-0.2	0.6	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Inflation (eop)	5.3	9.8	5.3	5.2	4.2	4.8	4.0	5.0	4.1	4.0	4.0	4.0
Inflation (average)	4.5	9.1	6.4	6.7	4.7	4.8	4.1	5.1	4.5	4.0	4.0	4.0
GDP deflator	4.6	9.3	6.4	6.2	4.7	4.8	4.1	5.1	4.5	4.0	4.0	4.0
Saving and Investment					*(Percentage of GDP unless otherwise indicated)*							
Saving - Investment Balance	**-5.5**	**-6.7**	**-5.2**	**-3.9**	**-4.9**	**-5.3**	**-4.7**	**-4.7**	**-4.5**	**-4.3**	**-4.0**	**-3.8**
Gross domestic investment	**24.2**	**26.3**	**23.6**	**23.1**	**23.2**	**24.3**	**22.8**	**23.9**	**24.1**	**24.0**	**23.7**	**23.4**
Private sector	21.2	24.0	20.9	19.5	19.8	20.8	19.2	20.2	20.6	20.4	20.2	19.9
Public sector	3.0	2.3	2.7	3.6	3.5	3.6	3.6	3.7	3.5	3.5	3.5	3.5
Gross national savings	**18.7**	**19.6**	**18.4**	**19.2**	**18.3**	**19.0**	**18.2**	**19.3**	**19.6**	**19.7**	**19.6**	**19.6**
Private sector	13.0	13.1	15.7	12.7	14.8	12.2	14.5	12.4	12.8	13.0	13.1	13.2
Public sector	5.8	6.5	2.7	6.5	3.5	6.8	3.6	6.9	6.8	6.7	6.5	6.4
Nonfinancial public sector												
Tax revenues	18.2	19.1	18.0	18.3	18.3	18.5	18.6	18.6	18.6	18.5	18.5	18.5
Public investment	3.5	2.8	3.0	4.2	3.8	4.0	4.0	4.3	4.0	4.0	4.0	4.0
Primary balance	-2.4	1.2	-0.7	0.2	-0.2	0.0	0.0	0.0	0.5	0.5	0.5	0.6
Overall balance	-3.7	-0.2	-2.0	-1.3	-1.7	-1.5	-1.4	-1.5	-1.0	-1.0	-1.0	-1.0
Gross debt	51.8	51.8	51.9	47.6	51.3	46.7	50.4	46.3	45.4	44.5	43.2	42.0
Balance of Payments												
Current account balance	-5.5	-6.7	-5.2	-3.9	-4.9	-5.3	-4.7	-4.7	-4.5	-4.3	-4.0	-3.8
Trade balance	-17.2	-19.2	-19.2	-17.3	-19.2	-18.1	-19.0	-16.8	-16.5	-16.1	-15.8	-15.2
Worker's Remittances	25.6	27.0	26.1	25.9	26.0	25.2	25.8	24.8	24.6	24.2	23.7	23.3
Net FDI	1.8	2.3	2.1	2.5	2.2	2.6	2.3	2.7	2.7	2.7	2.7	2.7
Net International Reserves (billions of US$) 1/	8.7	8.4	7.6	7.6	7.7	6.5	7.8	6.7	7.9	8.1	8.5	8.7
Gross International Reserves (billions of US$)	9.0	8.7	7.9	7.8	8.0	6.8	8.1	7.1	8.4	8.5	9.0	9.2
GIR (In months of imports) 2/	6.0	5.9	5.2	5.0	5.0	4.3	4.8	4.3	4.9	4.8	4.8	4.7
GIR (in percent of ARA)	152	136	120	119	116	104	112	105	115	114	116	115
Terms of Trade (annual percent change)	-11.3	0.3	0.0	3.1	-0.6	-1.2	1.4	2.0	0.3	0.2	0.2	0.1
Real effective exchange rate (eop, depreciation -)	1.2	4.1	…	1.3	…	…	…	…	…	…	…	…
Money and Credit												
Base money (percentage change)	2.7	1.3	-4.6	-1.4	3.0	5.1		7.2	7.6	7.1	7.4	7.5
Private sector credit (percentage change)	11.9	18.8	15.4	18.8	8.3	15.4	7.5	10.2	9.1	9.1	9.1	9.3
Private sector credit (percent of GDP)	65.7	68.6	71.1	74.1	71.2	78.5	71.1	79.4	80.0	80.9	81.7	82.7

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

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

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

Table 2. Honduras: Statement of Operations of the Central Government, 2021-2029

(In millions of Lempiras)

	Actual		Program Request	Actual	Program Request	Proj.	Program Request	Proj.				
	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
Revenue	**130,673**	**151,413**	**161,866**	**163,983**	**177,490**	**178,986**	**194,153**	**196,719**	**213,588**	**229,552**	**247,722**	**267,421**
Taxes	118,360	137,519	146,097	148,547	160,809	162,833	176,421	179,012	194,426	209,102	225,621	243,529
Taxes on income	35,660	48,703	48,883	53,263	53,893	56,471	59,220	61,117	66,734	71,234	76,862	82,962
Taxes on property	586	720	788	792	852	861	918	938	1,016	1,097	1,184	1,278
Taxes on goods and services	73,612	77,771	85,125	83,367	93,849	93,401	103,125	103,776	112,401	121,357	130,945	141,337
Taxes on foreign trade	5,288	6,501	7,115	6,919	7,691	7,526	8,285	8,198	8,879	9,587	10,344	11,165
Other taxes	3,214	3,823	4,185	4,205	4,523	4,574	4,873	4,982	5,397	5,827	6,287	6,786
Social contributions	0	0	0	0	0	0	0	0	0	0	0	0
Grants	3,741	2,723	3,474	3,151	3,386	2,790	3,406	3,151	3,396	3,428	3,734	4,068
Other revenue	8,573	11,170	12,296	12,285	13,295	13,363	14,326	14,556	15,766	17,022	18,367	19,825
Expenditure	**164,630**	**162,576**	**187,205**	**189,209**	**203,708**	**204,301**	**222,868**	**223,547**	**241,446**	**254,289**	**271,711**	**291,472**
Expense	**150,561**	**153,441**	**165,528**	**160,096**	**176,474**	**172,619**	**189,610**	**187,323**	**204,519**	**214,320**	**228,692**	**245,039**
Compensation of employees	59,485	63,951	69,997	68,595	75,658	75,358	81,506	82,087	88,909	95,994	103,578	111,798
Purchases of goods and services 1/	23,768	24,415	26,723	27,082	28,885	29,457	31,117	32,088	34,755	37,524	40,489	43,702
Interest	20,343	22,074	25,134	25,999	26,527	26,406	28,236	28,225	32,379	31,003	32,358	33,012
Domestic	14,724	16,103	17,717	17,679	19,970	19,970	21,664	21,664	21,665	21,666	21,667	21,667
Foreign	5,619	5,971	7,417	8,321	6,557	6,436	6,572	6,560	10,714	9,336	10,690	11,344
Subsidies	812	4,057	6,981	4,479	4,464	4,479	4,647	4,708	4,919	5,116	5,320	5,852
Grants	18,708	18,237	17,375	17,744	17,862	19,301	19,242	21,024	22,772	23,414	25,263	25,903
Current	11,985	12,768	13,975	12,667	15,105	13,778	16,273	15,008	16,255	17,551	18,937	20,440
Capital	6,723	5,469	3,400	5,078	2,756	5,523	2,969	6,017	6,517	5,863	6,326	5,463
Social benefits	10,309	10,042	10,991	11,044	14,078	12,013	15,166	13,086	14,173	15,302	16,511	17,822
Other expense	17,136	10,665	8,327	5,153	9,000	5,605	9,696	6,105	6,612	5,967	5,173	6,949
Current	2,556	2,171	2,376	1,767	2,568	1,922	2,767	2,094	2,268	2,449	2,642	2,852
Capital	14,580	8,494	5,950	3,385	6,432	3,682	6,929	4,011	4,344	3,518	2,531	4,097
Net acquisition of nonfinancial assets	**14,069**	**9,135**	**21,677**	**29,113**	**27,234**	**31,682**	**33,258**	**36,224**	**36,927**	**39,969**	**43,019**	**46,434**
Gross Operating Balance	**-19,888**	**-2,028**	**-3,662**	**3,887**	**1,016**	**6,367**	**4,543**	**9,396**	**9,069**	**15,232**	**19,030**	**22,382**
Net lending (+)/borrowing (-)	**-33,957**	**-11,164**	**-25,339**	**-25,226**	**-26,218**	**-25,315**	**-28,715**	**-26,828**	**-27,858**	**-24,737**	**-23,989**	**-24,051**
Net financial transactions	**-33,957**	**-11,164**	**-25,339**	**-25,226**	**-26,218**	**-25,315**	**-28,715**	**-26,828**	**-27,858**	**-24,737**	**-23,989**	**-23,989**
Net acquisition of financial assets	**-4,250**	**19,929**	**12,095**	**-28,069**	**8,774**	**-23,935**	**8,764**	**506**	**32,584**	**-37,995**	**18,715**	**18,715**
Foreign	0	0	0	0	0	0	0	0	0	0	0	0
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	-4,250	19,929	12,095	-28,069	8,774	-23,935	8,764	506	32,584	-37,995	18,715	18,715
Currency and deposits	-6,750	17,429	12,095	-28,069	8,774	-23,935	8,764	506	32,584	-37,995	18,715	18,715
Debt securities	0	0	0	0	0	0	0	0	0	0	0	0
Loans	2,500	2,500	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
Net incurrence of liabilities	**29,706**	**31,093**	**37,434**	**-2,844**	**34,991**	**1,380**	**37,480**	**27,334**	**60,442**	**-13,258**	**42,704**	**42,704**
Foreign	-732	9,874	3,512	-4,935	11,794	-1,159	4,380	9,017	32,208	-7,226	6,481	6,481
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	-549	10,057	3,696	-4,752	11,977	-976	4,564	9,200	32,391	-7,043	6,664	6,664
Disbursment	6,423	21,597	18,822	7,902	31,115	13,751	25,884	27,087	44,195	24,414	18,081	18,081
Amortizations	-6,972	-11,540	-15,126	-12,654	-19,139	-14,726	-21,320	-17,887	-11,803	-31,456	-11,417	-11,417
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 2/	110	110	110	110	110	110	110	110	110	110	110	110
Other external	-293	-293	-293	-293	-293	-293	-293	-293	-293	-293	-293	-293
Domestic	30,439	21,219	33,921	2,092	23,197	2,539	33,099	18,317	28,234	-6,032	36,223	36,223
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	32,710	20,531	35,392	3,563	24,521	3,862	34,315	19,532	29,346	-5,018	37,144	37,144
o/w IMF disbursements 3/	3,040	0	3,030	2,948	6,236	5,091	6,394	7,434	6,559	0	0	0
Other accounts payable	-2,000	2,000	0	0	0	0	0	0	0	0	0	0
PPPs/other	1,913	936	767	767	803	803	805	805	807	809	811	0
Adjustment for HIPC debt relief 4/	-2,185	-2,248	-2,238	-2,238	-2,126	-2,126	-2,020	-2,020	-1,919	-1,823	-1,732	-1,645
Memorandum items:												
Net lending minus interest payments	-13,614	10,910	-204	774	310	1,091	-479	1,396	4,521	6,266	8,369	8,960
Nominal GDP (in billions of Lempiras)	676	769	850	846	919	921	990	1,003	1,086	1,173	1,265	1,366

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, 2021-2029

(In percent of GDP)

	Actual		Program Request	Actual	Program Request	Proj.	Program Request	Proj.				
	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
Revenue	**19.3**	**19.7**	**19.0**	**19.4**	**19.3**	**19.4**	**19.6**	**19.6**	**19.7**	**19.6**	**19.6**	**19.6**
Taxes	17.5	17.9	17.2	17.6	17.5	17.7	17.8	17.9	17.9	17.8	17.8	17.8
Taxes on income	5.3	6.3	5.8	6.3	5.9	6.1	6.0	6.1	6.1	6.1	6.1	6.1
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.9	10.1	10.0	9.9	10.2	10.1	10.4	10.3	10.3	10.3	10.3	10.3
Taxes on foreign trade	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.6	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other revenue	1.3	1.5	1.4	1.5	1.4	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Expenditure	**24.4**	**21.1**	**22.0**	**22.4**	**22.2**	**22.2**	**22.5**	**22.3**	**22.2**	**21.7**	**21.5**	**21.3**
Expense	**22.3**	**19.9**	**19.5**	**18.9**	**19.2**	**18.8**	**19.2**	**18.7**	**18.8**	**18.3**	**18.1**	**17.9**
Compensation of employees	8.8	8.3	8.2	8.1	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Purchases of goods and services 1/	3.5	3.2	3.1	3.2	3.1	3.2	3.1	3.2	3.2	3.2	3.2	3.2
Interest	3.0	2.9	3.0	3.1	2.9	2.9	2.9	2.8	3.0	2.6	2.6	2.4
Domestic	2.2	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.0	1.8	1.7	1.6
Foreign	0.8	0.8	0.9	1.0	0.7	0.7	0.7	0.7	1.0	0.8	0.8	0.8
Subsidies	0.1	0.5	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Grants	2.8	2.4	2.0	2.1	1.9	2.1	1.9	2.1	2.1	2.0	2.0	1.9
Current	1.8	1.7	1.6	1.5	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5
Capital	1.0	0.7	0.4	0.6	0.3	0.6	0.3	0.6	0.6	0.5	0.5	0.4
Social benefits	1.5	1.3	1.3	1.3	1.5	1.3	1.5	1.3	1.3	1.3	1.3	1.3
Other expense	2.5	1.4	1.0	0.6	1.0	0.6	1.0	0.6	0.6	0.5	0.4	0.5
Current	0.4	0.3	0.3	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Capital	2.2	1.1	0.7	0.4	0.7	0.4	0.7	0.4	0.4	0.3	0.2	0.3
Net acquisition of nonfinancial assets	**2.1**	**1.2**	**2.6**	**3.4**	**3.0**	**3.4**	**3.4**	**3.6**	**3.4**	**3.4**	**3.4**	**3.4**
Gross Operating Balance	**-2.9**	**-0.3**	**-0.4**	**0.5**	**0.1**	**0.7**	**0.5**	**0.9**	**0.8**	**1.3**	**1.5**	**1.6**
Net lending (+)/borrowing (-)	**-5.0**	**-1.5**	**-3.0**	**-3.0**	**-2.9**	**-2.8**	**-2.9**	**-2.7**	**-2.6**	**-2.1**	**-1.9**	**-1.8**
Net financial transactions	**-5.0**	**-1.5**	**-3.0**	**-3.0**	**-2.9**	**-2.8**	**-2.9**	**-2.7**	**-2.6**	**-2.1**	**-1.9**	**-1.8**
Net acquisition of financial assets	**-0.6**	**2.6**	**1.4**	**-3.3**	**1.0**	**-2.6**	**0.9**	**0.1**	**3.0**	**-3.2**	**1.5**	**1.4**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-0.6	2.6	1.4	-3.3	1.0	-2.6	0.9	0.1	3.0	-3.2	1.5	1.4
Currency and deposits	-1.0	2.3	1.4	-3.3	1.0	-2.6	0.9	0.1	3.0	-3.2	1.5	1.4
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**4.4**	**4.0**	**4.4**	**-0.3**	**3.8**	**0.1**	**3.8**	**2.7**	**5.6**	**-1.1**	**3.4**	**3.1**
Foreign	-0.1	1.3	0.4	-0.6	1.3	-0.1	0.4	0.9	3.0	-0.6	0.5	0.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.1	1.3	0.4	-0.6	1.3	-0.1	0.5	0.9	3.0	-0.6	0.5	0.5
Disbursment	1.0	2.8	2.2	0.9	3.4	1.5	2.6	2.7	4.1	2.1	1.4	1.3
Amortizations	-1.0	-1.5	-1.8	-1.5	-2.1	-1.6	-2.2	-1.8	-1.1	-2.7	-0.9	-0.8
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	4.5	2.8	4.0	0.2	2.5	0.3	3.3	1.8	2.6	-0.5	2.9	2.7
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	4.8	2.7	4.2	0.4	2.7	0.4	3.5	1.9	2.7	-0.4	2.9	2.7
o/w IMF disbursements 3/	*0.4*	*0.0*	0.4	*0.3*	*0.7*	*0.6*	*0.6*	*0.7*	*0.6*	*0.0*	*0.0*	*0.0*
Other accounts payable	-0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Adjustment for HIPC debt relief 4/	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Memorandum items:												
Net lending minus interest payments	-2.0	1.4	0.0	0.1	0.0	0.1	0.0	0.1	0.4	0.5	0.7	0.7
Nominal GDP (in billions of Lempiras)	676	769	850	846	919	921	990	1,003	1,086	1,173	1,265	1,366

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, 2021-2029
(In millions of Lempiras)

	Actual		Program Request	Proj.	Program Request	Proj.	Program Request	Proj.				
	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
Revenue	**205,302**	**229,910**	**240,580**	**248,444**	**266,295**	**269,248**	**289,347**	**291,367**	**316,196**	**340,942**	**367,665**	**397,145**
Taxes	122,999	147,247	152,963	154,633	168,230	170,226	184,416	186,062	201,520	216,878	233,885	252,448
Taxes on income	35,660	48,703	48,883	53,263	53,893	56,471	59,220	61,117	66,734	71,234	76,862	82,962
Taxes on property	586	720	788	792	852	861	918	938	1,016	1,097	1,184	1,278
Taxes on goods and services	73,612	77,771	85,125	83,367	93,849	93,401	103,125	103,776	112,401	121,357	130,945	141,337
Taxes on foreign trade	5,288	6,501	7,115	6,919	7,691	7,526	8,285	8,198	8,879	9,587	10,344	11,165
Other taxes	7,854	13,552	11,051	10,292	11,945	11,967	12,868	12,033	12,490	13,603	14,551	15,705
Social contributions	23,452	24,723	26,519	25,249	29,238	28,837	31,497	31,412	34,022	36,733	39,636	42,781
Grants	3,743	2,998	2,790	3,151	3,424	3,428	3,460	3,734	4,068	4,431	4,826	5,257
Other revenue	55,107	54,941	58,308	65,411	65,403	66,758	69,973	70,158	76,586	82,900	89,318	96,658
Sales of goods and services	34,635	34,288	35,703	37,139	40,970	46,525	43,651	48,543	53,175	57,623	62,044	67,219
Interest earnings	8,600	8,403	9,198	10,614	9,942	8,659	10,710	9,008	9,756	10,534	11,366	12,268
Capital revenue	132	127	139	114	150	124	162	135	147	158	171	185
Nontax revenue	11,739	12,122	13,269	17,543	14,342	11,449	15,450	12,472	13,508	14,585	15,737	16,986
Expenditure	**230,502**	**231,739**	**257,318**	**259,668**	**281,610**	**282,660**	**302,962**	**306,276**	**327,407**	**352,713**	**380,744**	**411,062**
Expense	**206,869**	**209,888**	**231,816**	**223,811**	**246,696**	**245,387**	**263,369**	**263,659**	**283,963**	**305,690**	**330,133**	**356,435**
Compensation of employees	80,043	85,353	97,691	92,025	104,535	101,899	111,488	110,998	120,223	129,803	140,058	151,174
Purchases of goods and services	63,349	68,669	73,106	71,455	77,180	78,246	82,156	82,226	86,887	93,224	100,589	107,890
Interest	17,910	19,729	20,213	23,367	22,971	22,143	24,355	23,864	26,124	28,053	30,830	34,190
Domestic	12,063	13,497	12,746	14,666	14,850	12,255	15,888	13,833	15,306	16,168	16,637	18,357
Foreign	5,848	6,232	7,467	8,702	8,121	9,888	8,467	10,032	10,818	11,884	14,192	15,833
Social benefits	28,081	29,244	32,932	30,754	36,813	37,254	40,586	40,522	44,140	47,808	51,618	55,696
Other expense	17,423	6,831	7,856	6,196	5,176	5,832	4,762	6,035	6,574	6,785	7,022	7,468
Current	2,878	2,702	3,788	2,111	2,978	2,909	3,104	3,169	3,452	3,384	3,318	3,433
Capital	14,545	4,130	4,068	4,085	2,199	2,923	1,658	2,866	3,122	3,401	3,704	4,035
Net acquisition of nonfinancial assets	**23,633**	**21,850**	**25,502**	**35,856**	**34,915**	**37,273**	**39,593**	**42,617**	**43,443**	**47,023**	**50,611**	**54,628**
Gross Operating Balance	**-1,567**	**20,021**	**8,764**	**24,633**	**19,600**	**23,861**	**25,978**	**27,708**	**32,233**	**35,252**	**37,532**	**40,710**
Net lending (+)/borrowing (-)	**-25,200**	**-1,829**	**-16,738**	**-11,223**	**-15,315**	**-13,412**	**-13,615**	**-14,909**	**-11,211**	**-11,770**	**-13,079**	**-13,917**
Net financial transactions	**-25,200**	**-1,829**	**-16,738**	**-11,223**	**-15,315**	**-13,412**	**-13,615**	**-14,909**	**-11,211**	**-11,770**	**-13,079**	**-13,917**
Net acquisition of financial assets	**-7,101**	**48,840**	**27,314**	**-15,799**	**29,545**	**11,392**	**32,919**	**26,290**	**20,517**	**28,192**	**27,014**	**24,875**
Foreign	0	0	0	0	0	0	0	0	0	0	0	0
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	-7,101	48,840	20,674	-15,799	11,564	11,564	16,357	16,357	29,564	14,407	15,719	15,719
Currency and deposits	-12,903	48,840	20,674	-15,799	11,564	11,564	16,357	16,357	29,564	14,407	15,719	15,719
Debt securities	1	0	0	0	0	0	0	0	0	0	0	0
Loans	3,300	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	2,501	0	**0**	0	**0**	0	**0**	0	0	0	0	0
Net incurrence of liabilities	**18,099**	**50,669**	44,052	**-4,576**	44,860	**24,803**	46,534	**41,199**	**31,728**	**39,963**	**40,093**	**38,792**
Foreign	-730	10,168	3,807	-865	12,088	-865	4,675	9,311	32,502	-6,932	6,775	3,088
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	-549	10,057	3,696	-976	11,977	-976	4,564	9,200	32,391	-7,043	6,664	2,977
Disbursment	6,423	21,597	18,822	13,751	31,115	13,751	25,884	27,087	44,195	24,414	18,081	11,987
Amorizations	-6,972	-11,540	-15,126	-14,726	-19,139	-14,726	-21,320	-17,887	-11,803	-31,456	-11,417	-9,010
Other accounts payable	1	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/	111	111	111	111	111	111	111	111	111	111	111	111
Other external	-293	0	0	0	0	0	0	0	0	0	0	0
Domestic	21,014	42,749	42,483	-1,585	34,898	27,794	43,879	33,907	1,145	48,717	35,050	35,704
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	35,719	41,813	41,716	-2,388	34,096	26,992	43,075	33,103	338	47,908	34,239	35,704
o/w IMF disbursements 2/	3,040	0	3,030	2,948	6,236	5,091	6,394	7,434	6,559	0	0	0
Other accounts payable	-17,000	0	0	0	0	0	0	0	0	0	0	0
PPPs/other	2,295	936	767	803	803	803	805	805	807	809	811	0
Adjustment for HIPC debt relief 3/	-2,185	-2,248	-2,238	-2,126	-2,126	-2,126	-2,020	-2,020	-1,919	-1,823	-1,732	0
Memorandum items:												
Net lending minus net interest payments	-15,890	9,497	-5,722	1,530	-2,286	72	30	-53	5,157	5,749	6,384	8,004
Gross NFPS debt	408,614	400,442	441,387	406,070	470,954	429,883	498,533	463,867	492,575	521,565	546,088	573,762
Nominal GDP (in billions of Lempiras)	676	769	850	846	919	921	990	1,003	1,086	1,173	1,265	1,366

Sources: Honduran authorities, IMF staff estimates and projections.

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

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

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

Table 5. Honduras: Statement of Operations of the Nonfinancial Public Sector, 2021-2029

(In percent of GDP)

	Actual		Program	Actual	Program Request	Proj.	Program Request	Proj.				
	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
Revenue	**30.4**	**29.9**	**28.3**	**29.4**	**29.0**	**29.2**	**29.2**	**29.1**	**29.1**	**29.1**	**29.1**	**29.1**
Taxes	18.2	19.1	18.0	18.3	18.3	18.5	18.6	18.6	18.6	18.5	18.5	18.5
Taxes on income	5.3	6.3	5.8	6.3	5.9	6.1	6.0	6.1	6.1	6.1	6.1	6.1
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.9	10.1	10.0	9.9	10.2	10.1	10.4	10.3	10.3	10.3	10.3	10.3
Taxes on foreign trade	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	1.2	1.8	1.3	1.2	1.3	1.3	1.3	1.2	1.2	1.2	1.1	1.2
Social contributions	3.5	3.2	3.1	3.0	3.2	3.1	3.2	3.1	3.1	3.1	3.1	3.1
Grants	0.6	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.4	0.4
Other revenue	8.2	7.1	6.9	7.7	7.1	7.3	7.1	7.0	7.1	7.1	7.1	7.1
Expenditure	**34.1**	**30.1**	**30.3**	**30.7**	**30.6**	**30.7**	**30.6**	**30.5**	**30.1**	**30.1**	**30.1**	**30.1**
Expense	**30.6**	**27.3**	**27.3**	**26.4**	**26.8**	**26.7**	**26.6**	**26.3**	**26.1**	**26.1**	**26.1**	**26.1**
Compensation of employees	11.8	11.1	11.5	10.9	11.4	11.1	11.3	11.1	11.1	11.1	11.1	11.1
Purchases of goods and services	9.4	8.9	8.6	8.4	8.4	8.5	8.3	8.2	8.0	8.0	8.0	7.9
Interest	2.6	2.6	2.4	2.8	2.5	2.4	2.5	2.4	2.4	2.4	2.4	2.5
Domestic	1.8	1.8	1.5	1.7	1.6	1.3	1.6	1.4	1.4	1.4	1.3	1.3
Foreign	0.9	0.8	0.9	1.0	0.9	1.1	0.9	1.0	1.0	1.0	1.1	1.2
Social benefits	4.2	3.8	3.9	3.6	4.0	4.0	4.1	4.0	4.1	4.1	4.1	4.1
Other expense	2.6	0.9	0.9	0.7	0.6	0.6	0.5	0.6	0.6	0.6	0.6	0.5
Current	0.4	0.4	0.4	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Capital	2.2	0.5	0.5	0.5	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3
Net acquisition of nonfinancial assets	**3.5**	**2.8**	**3.0**	**4.2**	**3.8**	**4.0**	**4.0**	**4.3**	**4.0**	**4.0**	**4.0**	**4.0**
Gross Operating Balance	**-0.2**	**2.6**	**1.0**	**2.9**	**2.1**	**2.6**	**2.6**	**2.8**	**3.0**	**3.0**	**3.0**	**3.0**
Net lending (+)/borrowing (-)	**-3.7**	**-0.2**	**-2.0**	**-1.3**	**-1.7**	**-1.5**	**-1.4**	**-1.5**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Net financial transactions	**-3.7**	**-0.2**	**-2.0**	**-1.3**	**-1.7**	**-1.5**	**-1.4**	**-1.5**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Net acquisition of financial assets	-1.1	6.3	3.2	-1.9	3.2	1.2	3.3	2.6	1.9	2.4	2.1	1.8
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	-1.1	6.3	2.4	-1.9	1.3	1.3	1.7	1.6	2.7	1.2	1.2	1.2
Currency and deposits	-1.9	6.3	2.4	-1.9	1.3	1.3	1.7	1.6	2.7	1.2	1.2	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	0.0
Loans	0.5	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	0.4	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	**2.7**	**6.6**	**5.2**	**-0.5**	**4.9**	**2.7**	**4.7**	**4.1**	**2.9**	**3.4**	**3.2**	**2.8**
Foreign	-0.1	1.3	0.4	-0.1	1.3	-0.1	0.5	0.9	3.0	-0.6	0.5	0.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.1	1.3	0.4	-0.1	1.3	-0.1	0.5	0.9	3.0	-0.6	0.5	0.2
Disbursment	1.0	2.8	2.2	1.6	3.4	1.5	2.6	2.7	4.1	2.1	1.4	0.9
Amortizations	-1.0	-1.5	-1.8	-1.7	-2.1	-1.6	-2.2	-1.8	-1.1	-2.7	-0.9	-0.7
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.0	0.0	0.0	0.0	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	0.0
Domestic	3.1	5.6	5.0	-0.2	3.8	3.0	4.4	3.4	0.1	4.2	2.8	2.6
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	5.3	5.4	4.9	-0.3	3.7	2.9	4.4	3.3	0.0	4.1	2.7	2.6
o/w IMF disbursements 2/	0.4	0.0	0.4	0.3	0.7	0.6	0.6	0.7	0.6	0.0	0.0	0.0
Other accounts payable	-2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Adjustment for HIPC debt relief 3/	-0.3	-0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0
Memorandum items:												
Net lending minus net interest payments	-2.4	1.2	-0.7	0.2	-0.2	0.0	0.0	0.0	0.5	0.5	0.5	0.6
Gross NFPS debt	51.8	51.8	51.9	47.6	51.3	46.7	50.4	46.3	45.4	44.5	43.2	42.0
Nominal GDP (in billions of Lempiras)	676	769	850	846	919	921	990	1,003	1,086	1,173	1,265	1,366

Sources: Honduran authorities, IMF staff estimates and projections.

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

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

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

Table 6. Honduras: Summary Accounts of the Financial System, 2021-2029[1/]

(In millions of Lempiras; end-December)

	Actual		Program Request	Actual	Program Request	Proj.	Program Request	Proj.				
	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
I. Central Bank												
Net International Reserves 2/	**211,259**	**207,151**	**192,167**	**186,263**	**199,624**	**165,779**	**205,111**	**178,601**	**217,120**	**225,171**	**242,471**	**253,248**
(In millions of US$)	8,678	8,422	7,601	7,556	7,698	6,503	7,756	6,666	7,945	8,078	8,528	8,732
Net Domestic Assets	**-148,713**	**-140,061**	**-120,716**	**-115,530**	**-124,244**	**-91,517**	**-125,925**	**-100,979**	**-134,822**	**-137,224**	**-147,576**	**-150,821**
Credit to the public sector (net)	16,957	12,238	2,327	37,387	2,327	37,387	2,327	37,387	37,387	37,543	37,702	37,864
Other depository institutions (net)	-135,811	-127,471	-81,074	-124,228	-80,723	-95,578	-78,477	-100,000	-129,085	-126,679	-131,877	-129,535
Other financial institutions	13,844	10,805	810	17,466	-378	16,541	-1,605	15,516	14,478	13,399	12,245	10,993
Nonfinancial private sector	-273	-1,617	-1,763	-3,527	-1,939	-3,879	-2,133	-4,267	-4,694	-5,163	-5,680	-6,248
Medium and long-term net foreign assets	-11,958	-11,261	-14,557	-11,860	-14,931	-12,521	-15,227	-13,160	-13,423	-13,692	-13,965	-14,245
Other items net	-31,471	-22,755	-26,461	-30,768	-28,601	-33,467	-30,811	-36,456	-39,485	-42,632	-46,000	-49,651
Currency issued	**62,546**	**67,090**	**71,451**	**70,733**	**75,380**	**74,261**	**79,186**	**77,621**	**82,298**	**87,947**	**94,895**	**102,427**
II. Other Depository Institutions												
Net Foreign Assets	**-32,970**	**-34,820**	**-23,156**	**-36,902**	**-24,842**	**-36,579**	**-26,570**	**-39,518**	**-42,474**	**-45,520**	**-48,757**	**-52,240**
(In millions of US$)	-1,354	-1,416	-916	-1,497	-958	-1,435	-1,005	-1,475	-1,554	-1,633	-1,715	-1,801
Foreign assets (in million of US$)	706	652	1,071	802	1,120	769	1,175	790	833	875	919	965
Net Domestic Assets	**475,005**	**532,988**	**567,236**	**598,341**	**612,923**	**664,109**	**652,876**	**735,638**	**803,407**	**867,849**	**936,051**	**1,010,844**
Credit to the monetary authority (net)	147,942	140,569	95,737	139,624	96,206	146,650	94,829	159,080	171,666	183,612	196,234	210,010
Credit to other financial institutions (net)	-41,088	-38,839	-38,637	-45,333	-38,509	-45,183	-38,375	-45,012	-44,838	-44,655	-44,456	-44,237
Credit to the nonfinancial public sector (net)	8,631	9,910	9,697	-2,015	11,297	-9,472	13,043	-10,768	-12,246	-13,189	-13,806	-14,774
Central government	-9,166	-12,357	-9,489	-26,057	-8,270	-32,927	-7,027	-35,136	-37,590	-39,579	-41,314	-42,453
Other nonfinancial public sector	7,427	12,587	13,522	13,828	14,469	13,042	15,482	13,955	14,932	15,977	17,096	17,267
Local governments	10,369	9,679	5,664	10,215	5,098	10,413	4,588	10,413	10,413	10,413	10,413	10,413
Credit to the private sector	444,282	527,735	604,207	626,708	654,556	723,056	703,722	796,606	868,738	948,150	1,034,036	1,129,948
Local currency	331,336	414,857	487,520	504,658	534,629	590,580	580,360	655,230	722,979	797,791	878,869	969,877
Foreign currency	112,946	112,878	116,687	122,050	119,927	132,476	123,362	141,376	145,758	150,360	155,166	160,070
Other items net	-84,762	-106,386	-103,770	-120,644	-110,627	-150,942	-120,343	-164,268	-179,913	-206,070	-235,957	-270,103
Liabilities	**442,035**	**498,168**	**544,079**	**561,438**	**588,081**	**627,531**	**626,306**	**696,120**	**760,933**	**822,329**	**887,294**	**958,604**
Of which: Deposits in domestic currency	341,377	389,495	434,719	449,665	474,581	509,690	507,308	570,935	624,092	674,447	727,730	786,216
Of which: Deposits in foreign currency	97,706	104,845	109,360	108,485	113,500	114,165	118,998	121,107	132,383	143,065	154,367	166,773
III. Financial System												
Net Foreign Assets	**153,997**	**149,236**	**169,010**	**125,503**	**174,153**	**99,375**	**178,542**	**104,904**	**136,266**	**138,885**	**153,553**	**161,261**
(In millions of US$)	6,325	6,067	6,685	5,091	6,716	3,898	6,751	3,915	4,986	4,982	5,400	5,560
Net Domestic Assets	**346,879**	**411,298**	**461,967**	**494,217**	**501,917**	**559,398**	**544,903**	**613,929**	**661,863**	**702,614**	**736,020**	**773,266**
Credit to the nonfinancial public sector	25,587	22,148	12,025	35,373	13,624	46,859	15,370	48,155	49,633	50,732	51,508	52,638
Credit to the private sector	444,282	527,735	604,207	626,708	654,556	723,056	703,722	796,606	868,738	948,150	1,034,036	1,129,948
Local currency	331,336	414,857	487,520	504,658	534,629	590,580	580,360	655,230	722,979	797,791	878,869	969,877
Foreign currency	112,946	112,878	116,687	122,050	119,927	132,476	123,362	141,376	145,758	150,360	155,166	160,070
Other items net 3/	-135,423	-149,953	-154,265	-172,521	-166,262	-210,518	-174,189	-230,832	-256,507	-296,268	-349,524	-409,320
Broad Money (M4)	**500,875**	**560,533**	**630,977**	**619,720**	**676,070**	**658,773**	**723,445**	**718,833**	**798,128**	**841,499**	**889,573**	**934,527**
(Rate of growth 12 months)												
Currency issued	16.9	7.3	**6.5**	5.4	**5.5**	5.0	**5.0**	4.5	6.0	6.9	7.9	7.9
Currency in circulation	18.8	7.1	**6.9**	2.5	**5.4**	8.0	**4.8**	4.2	6.0	7.1	8.4	8.4
Base money	2.7	1.3	**-4.6**	-1.4	**3.0**	5.1	**2.3**	7.2	7.6	7.1	7.4	6.3
Credit to the private sector	11.9	18.8	**15.4**	18.8	**8.3**	15.4	**7.5**	10.2	9.1	9.1	9.1	9.3
o/w foreign currency	9.3	-0.1	3.1	8.1	2.8	8.5	2.9	6.7	3.1	3.2	3.2	3.2
M1	8.7	20.8	**9.5**	9.6	**7.6**	11.3	**7.2**	4.6	2.5	7.7	8.1	8.2

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, 2021-2029
(In millions of US Dollars)

	Actual		Program Request	Actual	Program Request	Proj.	Program Request	Proj.				
	2021	2022	2023	2023	2024	2024	2025	2025	2026	2027	2028	2029
	(In millions of U.S. dollars; unless otherwise indicated)											
Current account	**-1,538**	**-2,105**	**-1,770**	**-1,333**	**-1,775**	**-1,955**	**-1,762**	**-1,790**	**-1,823**	**-1,817**	**-1,819**	**-1,828**
Trade Account	-4,830	-6,040	-6,543	-5,968	-6,881	-6,631	-7,171	-6,443	-6,629	-6,861	-7,084	-7,244
Exports f.o.b.	7,199	8,290	8,022	8,382	8,118	8,280	8,522	8,518	8,869	9,295	9,716	10,179
Maquila (net)	1,985	2,140	1,986	2,397	2,021	2,489	2,133	2,619	2,768	2,924	3,091	3,271
Coffee	1,244	1,405	1,248	1,393	1,115	1,339	1,204	1,469	1,512	1,583	1,632	1,689
Other	3,970	4,745	4,789	4,593	4,982	4,451	5,185	4,431	4,589	4,788	4,993	5,218
Imports f.o.b.	-12,029	-14,330	-14,565	-14,351	-14,999	-14,910	-15,692	-14,961	-15,498	-16,156	-16,800	-17,423
Petroleum products	-1,731	-2,700	-2,399	-2,657	-2,402	-2,937	-2,465	-2,727	-2,893	-2,991	-3,119	-3,260
Other	-10,297	-11,630	-12,166	-11,694	-12,597	-11,973	-13,227	-12,234	-12,605	-13,165	-13,680	-14,163
Services (net)	-1,987	-2,500	-2,021	-2,120	-2,112	-2,426	-2,163	-2,623	-2,744	-2,774	-2,843	-2,966
Of which: tourism receipts	303	540	555	722	579	805	670	835	917	1,068	1,186	1,280
Income (net)	-2,352	-2,486	-2,373	-2,583	-2,400	-2,558	-2,469	-2,671	-2,788	-2,933	-3,072	-3,243
Of which: public sector interest payments	-244	-255	-299	-354	-317	-393	-323	-384	-400	-406	-458	-479
Transfers (net)	7,632	8,921	9,166	9,337	9,618	9,660	10,041	9,948	10,338	10,750	11,179	11,625
Of which: Remittances	7,184	8,465	8,888	8,946	9,333	9,242	9,740	9,510	9,880	10,265	10,665	11,081
Capital and Financial account	**1,691**	**1,829**	**873**	**663**	**1,799**	**929**	**1,757**	**1,911**	**2,892**	**1,997**	**2,413**	**2,161**
Capital account	**301**	**315**	**315**	**313**	**339**	**339**	**357**	**355**	**372**	**393**	**416**	**440**
Financial account	**1,391**	**1,515**	**558**	**349**	**1,460**	**589**	**1,400**	**1,556**	**2,520**	**1,604**	**1,997**	**1,720**
Direct investment (net)	513	738	700	857	777	956	858	1,026	1,087	1,165	1,232	1,304
Other capital flows (net)	749	341	-259	-343	236	-356	427	150	208	667	500	313
General government (net)	129	436	117	-164	447	-11	115	380	1,225	-227	265	104
Disbursements	390	877	633	320	975	547	747	1,036	1,633	884	642	417
Amortization	-260	-440	-516	-484	-528	-558	-631	-656	-408	-1,112	-378	-314
Errors and omissions	**305**	**149**	**0**	**-396**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**459**	**-127**	**-898**	**-1,067**	**24**	**-1,026**	**-5**	**122**	**1,069**	**180**	**594**	**333**
Financing	**-459**	**127**	**898**	**1,067**	**-24**	**1,026**	**5**	**-122**	**-1,069**	**-180**	**-594**	**-333**
Change in central bank reserves (- increase)	-587	122	796	949	-73	1,053	-82	-163	-1,150	-75	-500	-246
Use of Fund credit (net)	124	0	59	118	49	-27	87	41	81	-105	-94	-86
Purchases	124	0	120	119	240	200	242	277	240	0	0	0
Repurchases	0	0	61	60	191	227	155	236	159	105	94	86
Exceptional financing	4	5	42	1	0	0	0	0	0	0	0	0
Residual financing	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:												
Terms of trade (percent change)	-11.3	0.3	0.0	3.1	-0.6	-1.2	1.4	2.0	0.3	0.2	0.2	0.1
Exports of goods (percent change)	33.4	19.9	-0.3	-7.3	2.2	-0.1	4.5	3.3	4.3	4.8	4.7	4.9
Goods exports volume (percent change)	22.5	0.2	5.3	-3.1	2.3	0.4	3.0	3.4	3.6	4.1	3.9	3.8
Change in importer demand (percent change)	14.9	5.6		-0.6		2.4		2.9	2.6	2.8	2.8	2.6
Imports of goods (percent change)	47.0	21.5	6.2	-5.3	3.2	3.7	4.4	1.0	3.8	4.3	4.2	4.0
Goods imports volume (percent change)	22.4	4.0	12.2	1.6	2.8	2.9	4.3	3.6	3.4	3.6	3.8	3.5
Gross reserves (end of period, millions of U.S. dollars)	8,973	8,703	7,907	7,840	7,980	6,826	8,062	7,094	8,373	8,506	8,956	9,161
In months of next year imports (excluding maquila)	6.0	5.9	5.2	5.0	5.0	4.3	4.8	4.3	4.9	4.8	4.8	4.7
in percent of ARA	152	136	120	119	116	104	112	105	115	114	116	115
Total external debt (percent of GDP)	40.7	36.5	35.9	34.7	35.8	32.6	34.8	32.1	33.0	33.4	33.0	32.2
Nominal GDP (millions of U.S. dollars)	28,107	31,406	33,992	34,480	35,882	36,626	37,796	38,356	40,135	42,483	44,940	47,556

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

Table 8. Honduras: Balance of Payments, 2021-2029
(In percent of GDP)

	Actual 2021	Actual 2022	Program Request 2023	Actual 2023	Program Request 2024	Proj. 2024	Program Request 2025	Proj. 2025	Proj. 2026	Proj. 2027	Proj. 2028	Proj. 2029
					(In percent of GDP; unless otherwise indicated)							
Current account	**-5.5**	**-6.7**	**-5.2**	**-3.9**	**-4.9**	**-5.3**	**-4.7**	**-4.7**	**-4.5**	**-4.3**	**-4.0**	**-3.8**
Trade Account	-17.2	-19.2	-19.2	-17.3	-19.2	-18.1	-19.0	-16.8	-16.5	-16.1	-15.8	-15.2
Exports f.o.b.	25.6	26.4	23.6	24.3	22.6	22.6	22.5	22.2	22.1	21.9	21.6	21.4
Maquila net (exports-imports)	7.1	6.8	5.8	7.0	5.6	6.8	5.6	6.8	6.9	6.9	6.9	6.9
Coffee	4.4	4.5	3.7	4.0	3.1	3.7	3.2	3.8	3.8	3.7	3.6	3.6
Others	14.1	15.1	14.1	13.3	13.9	12.2	13.7	11.6	11.4	11.3	11.1	11.0
Imports f.o.b.	-42.8	-45.6	-42.8	-41.6	-41.8	-40.7	-41.5	-39.0	-38.6	-38.0	-37.4	-36.6
Petroleum products	-6.2	-8.6	-7.1	-7.7	-6.7	-8.0	-6.5	-7.1	-7.2	-7.0	-6.9	-6.9
Other	-36.6	-37.0	-35.8	-33.9	-35.1	-32.7	-35.0	-31.9	-31.4	-31.0	-30.4	-29.8
Services (net)	-7.1	-8.0	-5.9	-6.1	-5.9	-6.6	-5.7	-6.8	-6.8	-6.5	-6.3	-6.2
Of which: tourism receipts	1.1	1.7	1.6	2.1	1.6	2.2	1.8	2.2	2.3	2.5	2.6	2.7
Income (net)	-8.4	-7.9	-7.0	-7.5	-6.7	-7.0	-6.5	-7.0	-6.9	-6.9	-6.8	-6.8
Of which: public sector interest payments	-0.9	-0.8	-0.9	-1.0	-0.9	-1.1	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0
Transfers (net)	27.2	28.4	27.0	27.1	26.8	26.4	26.6	25.9	25.8	25.3	24.9	24.4
Of which: Remittances	25.6	27.0	26.1	25.9	26.0	25.2	25.8	24.8	24.6	24.2	23.7	23.3
Capital and Financial account	**6.0**	**5.8**	**2.6**	**1.9**	**5.0**	**2.5**	**4.6**	**5.0**	**7.2**	**4.7**	**5.4**	**4.5**
Capital account	**1.1**	**1.0**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Financial account	**4.9**	**4.8**	**1.6**	**1.0**	**4.1**	**1.6**	**3.7**	**4.1**	**6.3**	**3.8**	**4.4**	**3.6**
Direct investment (net)	1.8	2.3	2.1	2.5	2.2	2.6	2.3	2.7	2.7	2.7	2.7	2.7
Other capital flows (net)	2.7	1.1	-0.8	-1.0	0.7	-1.0	1.1	0.4	0.5	1.6	1.1	0.7
General government (net)	0.5	1.4	0.3	-0.5	1.2	0.0	0.3	1.0	3.1	-0.5	0.6	0.2
Disbursements	1.4	2.8	1.9	0.9	2.7	1.5	2.0	2.7	4.1	2.1	1.4	0.9
Amortization	-0.9	-1.4	-1.5	-1.4	-1.5	-1.5	-1.7	-1.7	-1.0	-2.6	-0.8	-0.7
Errors and omissions	**1.1**	**0.5**	**0.0**	**-1.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**1.6**	**-0.4**	**-2.6**	**-3.1**	**0.1**	**-2.8**	**0.0**	**0.3**	**2.7**	**0.4**	**1.3**	**0.7**
Financing	**-1.6**	**0.4**	**2.6**	**3.1**	**-0.1**	**2.8**	**0.0**	**-0.3**	**-2.7**	**-0.4**	**-1.3**	**-0.7**
Change in central bank reserves (- increase)	-2.1	0.4	2.3	2.8	-0.2	2.9	-0.2	-0.4	-2.9	-0.2	-1.1	-0.5
Use of Fund credit (net)	0.4	0.0	0.2	0.3	0.1	-0.1	0.2	0.1	0.2	-0.2	-0.2	-0.2
Purchases	0.4	0.0	0.4	0.3	0.7	0.5	0.6	0.7	0.6	0.0	0.0	0.0
Repurchases	0.0	0.0	0.2	0.2	0.5	0.6	0.4	0.6	0.4	0.2	0.2	0.2
Exceptional financing	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:												
Terms of trade (percent change)	-11.3	0.3	0.0	3.1	-0.6	-1.2	1.4	2.0	0.3	0.2	0.2	0.1
Exports of goods (percent change)	33.4	19.9	-0.3	-7.3	2.2	-0.1	4.5	3.3	4.3	4.8	4.7	4.9
Goods exports volume (percent change)	22.5	0.2	5.3	-3.1	2.3	0.4	3.0	3.4	3.6	4.1	3.9	3.8
Change in trading partner demand (percent change)	14.9	5.6		-0.6		2.4		2.9	2.6	2.8	2.8	2.6
Imports of goods (percent change)	47.0	21.5	6.2	-5.3	3.2	3.7	4.4	1.0	3.8	4.3	4.2	4.0
Goods imports volume (percent change)	22.4	4.0	12.2	1.6	2.8	2.9	4.3	3.6	3.4	3.6	3.8	3.5
Gross reserves (end of period, millions of U.S. dollars)	8,973	8,703	7,907.2	7,840	7,980.2	6,826	8,062.2	7,094	8,373	8,506	8,956	9,161
In months of next year imports (excluding maquila)	6.0	5.9	5.2	5.0	5.0	4.3	4.8	4.3	4.9	4.8	4.8	4.7
in percent of ARA	152	136	119.5	119	115.8	104	112.5	105	115	114	116	115
Total external debt (percent of GDP)	40.7	36.5	35.9	34.7	35.8	32.6	34.8	32.1	33.0	33.4	33.0	32.2
Nominal GDP (millions of U.S. dollars)	28,107	31,406	33,992.3	34,480	35,882.0	36,626	37,795.9	38,356	40,135	42,483	44,940	47,556

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

Table 9. Honduras: External Financing Needs and Sources, 2024-2029
(In millions of U.S. dollars)

	Projections					
	2024	2025	2026	2027	2028	2029
Gross external financing requirement (a)	**4,369**	**4,408**	**4,133**	**4,724**	**3,964**	**3,920**
Current account deficit	1,955	1,790	1,823	1,817	1,819	1,828
Debt amortizations (public and private)	2,414	2,618	2,310	2,906	2,145	2,092
Public debt amortization	785	892	567	1,217	471	400
Private debt amortization	1,629	1,726	1,743	1,690	1,673	1,692
External financing sources (b)	**3,622**	**3,094**	**2,260**	**3,839**	**3,322**	**3,503**
Capital account flows (net)	339	355	372	393	416	440
Foreign direct investment (net)	956	1,026	1,087	1,165	1,232	1,304
Other capital flows	1,274	1,876	1,951	2,356	2,173	2,005
Change in reserves (+ decrease)	1,053	-163	-1,150	-75	-500	-246
Financing gap (c) = (a) -(b)	**747**	**1,314**	**1,873**	**884**	**642**	**417**
Official financing	547	1,036	933	884	642	417
o/w World Bank	66	318	198	98	41	41
o/w CABEI	198	366	346	431	431	306
o/w IADB	165	210	223	170	141	41
o/w Other official	118	142	167	186	30	30
Eurobonds	0	0	700	0	0	0
IMF financing	200	277	240	0	0	0
ECF	67	92	80	0	0	0
EFF	133	185	160	0	0	0
Residual Gap	**0**	**0**	**0**	**0**	**0**	**0**

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

Table 10. Honduras: External Financing Gap, 2023-2026 1/

(In millions of U.S. dollars)

	2023	2024	2025	2026	Total USD Million	Total SDR Million	Total Percent of Quota	Total Percent of Gap
Financing gap	**439**	**747**	**1,314**	**1,873**	**4,372**	**3,262**	**1,306**	**100**
Official financing	**320**	**547**	**1,036**	**933**	**2,836**	**2,117**	**847**	**65**
o/w World Bank	93	66	318	198	675	503	201	15
o/w CABEI	107	198	366	346	1,016	758	304	23
o/w IADB	88	165	210	223	686	512	205	16
o/w Other official	32	118	142	167	459	343	137	11
Eurobonds	**0**	**0**	**0**	**700**	**700**	**520**	**208**	**16**
IMF Financing	**119**	**200**	**277**	**240**	**836**	**624**	**250**	**19**
ECF	40	67	92	80	279	208	83	6
EFF	79	133	185	160	557	416	167	13
Residual Gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Memorandum items:								
SDR/USD, period average	0.750	0.751	0.745	0.743				
Honduras' quota	249.80	249.80	249.80	249.80				

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

1/ Honduras' quota is SDR 249.8 million.

Table 11. Honduras: External Vulnerability Indicators, 2021-2029

	Actual			Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Exports of goods and services, percent change	32.3	20.7	-5.2	0.1	3.2	4.4	5.6	5.2	5.0
Imports of goods and services, percent change	48.6	22.4	-5.2	4.7	1.9	4.0	4.5	4.4	4.2
Terms of trade (deterioration -)	-11.3	0.3	3.1	-1.2	2.0	0.3	0.2	0.2	0.1
Real effective exchage rate (eop, depreciation -)	1.2	4.1	1.3	...	...	...	...	...	...
Current account balance (percent of GDP)	-5.5	-6.7	-3.9	-5.3	-4.7	-4.5	-4.3	-4.0	-3.8
Capital and financial account (percent of GDP)	6.0	5.8	1.9	2.5	5.0	7.2	4.7	5.4	4.5
External public debt (percent of GDP)	32.4	29.2	27.5	25.3	24.9	25.7	26.1	25.7	25.0
Gross official reserves									
in millions of U.S. dollars	8,973	8,703	7,840	6,826	7,094	8,373	8,506	8,956	9,161
in percent of short-term external debt	890	885	777	637	632	713	684	681	658
Net international reserves 1/									
in millions of U.S. dollars	8,678	8,422	7,556	6,503	6,666	7,945	8,078	8,528	8,732
in percent of short-term external debt	861	857	749	607	594	676	650	648	627

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

Table 12. Honduras: Decomposition of Public Debt and Debt Service by Creditor, 2023-2025

	Debt Stock (end of period)			Debt Service					
	2023			2023	2024	2025	2023	2024	2025
	(In US$ million)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total[1]	**15946.3**	**100.0**	**46.6**	**1859.5**	**2315.0**	**2299.1**	**5.4**	**6.3**	**6.0**
External	**9017.4**	**56.5**	**26.3**	**820.9**	**1073.6**	**1108.4**	**2.4**	**2.9**	**2.9**
Multilateral creditors[2]	**6524.1**	**40.9**	**19.1**	**477.7**	**723.5**	**930.1**	**1.4**	**2.0**	**2.4**
IMF	506.4	3.2	1.5	69.3	220.5	176.7	0.2	0.6	0.5
World Bank	970.0	6.1	2.8	70.1	75.0	71.6	0.2	0.2	0.2
IDB	3101.7	19.5	9.1	137.2	177.5	184.9	0.4	0.5	0.5
Other Multilaterals	1946.0	12.2	5.7	201.1	250.6	496.9	0.6	0.7	1.3
Bilateral Creditors	**871.3**	**5.5**	**2.5**	**52.3**	**68.9**	**75.7**	**0.2**	**0.2**	**0.2**
Paris Club	289.2	1.8	0.8	12.0	14.1	17.3	0.0	0.0	0.0
Non-Paris Club	582.1	3.7	1.7	40.3	54.8	58.4	0.1	0.1	0.2
Bonds	**1466.7**	**9.2**	**4.3**	**262.9**	**250.4**	**77.5**	**0.8**	**0.7**	**0.2**
Commercial creditors	**155.3**	**1.0**	**0.5**	**28.0**	**30.8**	**25.1**	**0.1**	**0.1**	**0.1**
Domestic	**6928.9**	**43.5**	**20.2**	**1038.6**	**1241.4**	**1190.7**	**3.0**	**3.4**	**3.1**
Held by residents, total	6928.9	**43.5**	20.2	1038.6	1241.4	1190.7	3.0	3.4	3.1
Held by non-residents, total	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	5204	32.6	15.2	780.0	932.3	894.2	2.3	2.5	2.3
Loans	1725	10.8	5.0	258.6	309.1	296.5	0.8	0.8	0.8
Memo items:									
Collateralized debt[3]	n/a	n/a	n/a						
o/w: Related	n/a	n/a	n/a						
o/w: Unrelated	n/a	n/a	n/a						
Contingent liabilities	n/a	n/a	n/a						
o/w: Public guarantees	n/a	n/a	n/a						
o/w: Other explicit contingent liabilities[4]	n/a	n/a	n/a						
Nominal GDP	34,229			34,229	36,595	38,294			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Table 13. Honduras: Medium-Term Macroeconomic Framework, 2021-2029
(In percent of GDP unless otherwise specified)

	Actual			Projections					
	2021	2022	2023	2024	2025	2026	2027	2028	2029
Growth and prices (in percent)									
Real GDP growth	12.6	4.1	3.6	3.8	3.6	3.6	3.8	3.8	3.8
GDP deflator	4.6	9.3	6.2	4.8	5.1	4.5	4.0	4.0	4.0
CPI inflation (eop)	5.3	9.8	5.2	4.8	5.0	4.1	4.0	4.0	4.0
Investment and saving									
Gross domestic investment	**24.2**	**26.3**	**23.1**	**24.3**	**23.9**	**24.1**	**24.0**	**23.7**	**23.4**
Private sector	21.2	24.0	19.5	20.8	20.2	20.6	20.4	20.2	19.9
Public sector	3.0	2.3	3.6	3.6	3.7	3.5	3.5	3.5	3.5
Gross national savings	**18.8**	**19.6**	**19.3**	**19.0**	**19.3**	**19.6**	**19.7**	**19.6**	**19.6**
Private sector	13.0	13.1	12.8	12.2	12.4	12.8	13.0	13.1	13.2
Public sector	5.8	6.5	6.5	6.8	6.9	6.8	6.7	6.5	6.4
Balance of payments									
External current account	-5.5	-6.7	-3.9	-5.3	-4.7	-4.5	-4.3	-4.0	-3.8
Non oil current account	0.7	1.9	3.8	2.7	2.4	2.7	2.8	2.9	3.0
Exports goods and services, (percentage change)	32.3	20.7	-5.2	0.1	3.2	4.4	5.6	5.2	5.0
Imports goods and services, (percentage change)	48.6	22.4	-5.2	4.7	1.9	4.0	4.5	4.4	4.2
Gross international reserves (millions of dollars)	8,973	8,703	7,840	6,826	7,094	8,373	8,506	8,956	9,161
Real effective rate (eop, depreciation -)	1.2	4.1	1.3	...	...	...	...	...	...
Terms of Trade (percent change)	-11.3	0.3	3.1	-1.2	2.0	0.3	0.2	0.2	0.1
External debt	**40.7**	**36.5**	**34.7**	**32.6**	**32.1**	**33.0**	**33.4**	**33.0**	**32.2**
Nonfinancial public sector									
Revenue	30.4	29.9	29.4	29.2	29.1	29.1	29.1	29.1	29.1
Interest revenue	1.3	1.1	1.3	0.9	0.9	0.9	0.9	0.9	0.9
Of which: Non-interest expenditure	29.1	28.8	28.1	28.3	28.2	28.2	28.2	28.2	28.2
Expenditure	34.1	30.1	30.7	30.7	30.5	30.1	30.1	30.1	30.1
Interest expenditure	2.6	2.6	2.8	2.4	2.4	2.4	2.4	2.4	2.5
Of which: Non-interest expenditure	31.5	27.6	27.9	28.3	28.2	27.7	27.7	27.7	27.6
Capital expenditure	5.6	3.4	6.6	5.8	6.2	5.7	5.7	5.7	5.3
Net interest payments	1.0	1.0	1.4	1.4	1.4	1.4	1.4	1.5	1.5
Primary balance	**-2.4**	**1.2**	**0.2**	**0.0**	**0.0**	**0.5**	**0.5**	**0.5**	**0.6**
Overall balance	**-3.7**	**-0.2**	**-1.3**	**-1.5**	**-1.5**	**-1.0**	**-1.0**	**-1.0**	**-1.0**
Central government									
Revenue	19.3	19.7	19.4	19.4	19.6	19.7	19.6	19.6	19.6
Interest revenue	1.3	1.1	1.3	0.9	0.9	0.9	0.9	0.9	0.9
Of which: Noninterest revenue and grants	18.1	18.6	18.1	18.5	18.7	18.8	18.7	18.7	18.7
Expenditure	24.4	21.1	22.4	22.2	22.3	22.2	21.7	21.5	21.3
Interest payment	3.0	2.9	3.1	2.9	2.8	3.0	2.6	2.6	2.4
Of which: Non-interest expenditure	21.3	18.3	19.3	19.3	19.5	19.2	19.0	18.9	18.9
Primary balance	**-3.3**	**0.3**	**-1.2**	**-0.8**	**-0.8**	**-0.5**	**-0.4**	**-0.2**	**-0.2**
Overall balance	**-5.0**	**-1.5**	**-3.0**	**-2.8**	**-2.7**	**-2.6**	**-2.1**	**-1.9**	**-1.8**
Nonfinancial public sector debt 1/									
Total	**51.8**	**51.8**	**47.6**	**46.7**	**46.3**	**45.4**	**44.5**	**43.2**	**42.0**
Of which : Domestic debt	19.4	22.5	20.1	21.3	21.4	19.6	18.3	17.4	17.0
Of which: External debt	32.4	29.2	27.5	25.3	24.9	25.7	26.1	25.7	25.0
Monetary and financial									
Broad money (percentage change)	9.6	11.9	10.6	6.3	9.1	11.0	5.4	5.7	5.1
Private sector credit (percentage change)	11.9	18.8	18.8	15.4	10.2	9.1	9.1	9.1	9.3
Bank assets	118.4	123.6	133.4	141.5	143.1	144.1	145.7	147.2	149.1
Private credit	65.7	68.6	74.1	78.5	79.4	80.0	80.9	81.7	82.7
Non-performing loans to total loans (percent)	2.7	2.3	2.0	...	...	...	...	...	...
Capital adequacy (percent)	14.1	13.5	13.4	...	...	...	...	...	...
Lending rate (eop, in percent)	12.6	11.3	11.7	...	...	...	...	...	...
Deposit rate (eop, in percent)	4.2	5.5	7.8	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (in billions of lempiras)	676	769	846	921	1,003	1,086	1,173	1,265	1,366

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

Table 14. Honduras: Structure and Performance of the Banking Sector, 2016-2024 1/

(In percent, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021	2022	2023	Sept 2024
Total assets (in millions of Lempiras) 2/	473,722	521,869	579,373	632,607	715,567	802,598	871,520	1,002,341	1,079,892
(In percent of GDP)	96	96	101	104	125	119	113	118	117
Number of banks	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Domestic	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Foreign	9.0	9.0	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	2.0
Capital adequacy									
Regulatory capital to risk weighted assets (RWA)	13.8	13.7	13.4	13.7	14.2	14.1	13.5	13.4	13.6
Capital (net worth) to assets	8.7	8.7	8.7	8.9	8.4	8.3	8.5	8.1	8.1
Asset quality and composition									
Nonperforming loans(NPLs) to total loans	2.9	2.3	2.1	2.2	3.0	2.7	2.3	2.0	2.2
NPLs net of provisions to capital	-3.4	-5.8	-5.8	-5.3	-5.0	-5.9	-6.7	-6.8	-5.4
Restructured loans to regulatory capital	23.7	25.0	25.0	26.2	48.1	50.3	44.0	37.3	41.5
Non earning assets net of provisions to regulatory capital	48.4	41.6	42.4	40.1	42.6	36.5	35.2	35.9	37.8
Provisions to total loans	3.4	3.2	3.0	3.0	3.8	3.6	3.3	2.9	3.0
Provisions to NPLs 2/	117.4	138.0	140.2	135.2	125.7	133.7	143.8	146.9	132.4
Sectoral distribution of loans to total loans:									
Commerce	13.0	14.9	15.2	14.4	14.4	14.1	15.0	14.7	14.5
Construction and real estate	23.6	23.3	23.0	22.8	23.1	22.6	23.3	24.6	25.0
Agriculture and related sectors	7.2	7.4	7.5	7.3	6.9	6.3	5.7	5.0	4.9
Industry	10.4	10.3	10.8	10.1	11.0	11.3	11.5	11.5	9.9
Consumption	23.1	20.9	21.1	21.5	21.2	20.8	21.7	23.3	23.8
Other	22.5	23.0	21.9	23.1	22.7	24.4	22.3	20.6	17.6
Profitability									
Return on assets (ROA)	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Return on equity (ROE)	14.6	12.0	12.0	12.8	7.6	11.1	14.7	13.7	14.3
Interest margin to total income	52.9	51.1	49.6	46.7	40.8	40.2	50.8	51.3	48.1
Personnel expenses to administrative expenses	41.8	45.5	45.1	44.2	42.3	40.7	40.7	40.6	41.5
Liquidity									
Liquid assets to total assets	24.3	26.3	22.2	22.9	29.6	28.8	24.8	21.0	19.2
Liquid assets to total short-term liabilities	66.3	71.5	61.7	62.8	71.8	66.2	55.6	49.5	50.0
Dollarization									
Deposits in foreign currency in percent of total	30.2	29.9	28.9	26.7	25.1	23.7	23.0	20.9	21.0
Credit in foreign currency in percent of total	32.1	31.2	31.8	31.1	30.4	29.5	25.4	23.1	22.4

Source: National Commission of Banking and Insurance.

1/ The information covers only private banks.

2/ Includes contingent assets.

Table 15a. Honduras: Existing Schedule of Reviews and Purchases 1/

Date of Availability	Conditions	Amount (millions of SDRs) Total	ECF	EFF	Percent of quota 2/ Total	ECF	EFF
Sep. 21, 2023	Approval of the arrangement	89.21	29.74	59.47	35.71	11.91	23.81
Mar. 1, 2024	Observance of end-December 2023 and continuous performance criteria and completion of first reviews	89.21	29.74	59.47	35.71	11.91	23.81
Sep. 1, 2024	Observance of end-June 2024 and continuous performance criteria and completion of the second review	89.21	29.74	59.47	35.71	11.91	23.81
Mar. 1, 2025	Observance of end-December 2024 and continuous performance criteria and completion of the third review	89.21	29.74	59.47	35.71	11.91	23.81
Sep. 1, 2025	Observance of end-June 2025 and continuous performance criteria and completion of the fourth review	89.21	29.74	59.47	35.71	11.91	23.81
Mar. 1, 2026	Observance of end-December 2025 and continuous performance criteria and completion of the fifth review	89.21	29.74	59.47	35.71	11.91	23.81
Aug. 31, 2026	Observance of end-June 2026 and continuous performance criteria and completion of the sixth review	89.24	29.76	59.48	35.72	11.91	23.81
	Total Disbursements	624.50	208.20	416.30	250.00	83.35	166.65

1/ Honduras' quota is SDR 249.8 million.
2/ Percentages may not add up due to rounding

Table 15b. Honduras: Proposed Schedule of Reviews and Purchases 1/

Date of Availability	Conditions	Amount (millions of SDRs) Total	ECF	EFF	Percent of quota 2/ Total	ECF	EFF
Sep. 21, 2023	Approval of the arrangement	89.21	29.74	59.47	35.71	11.91	23.81
Sep. 1, 2024	Observance of end-December 2023 and end-June 2024 and continuous performance criteria and completion of first and second reviews 3/	150.00	50.01	99.99	60.05	20.02	40.03
Mar. 1, 2025	Observance of end-December 2024 and continuous performance criteria and completion of the third review	117.63	39.21	78.42	47.09	15.70	31.39
Sep. 1, 2025	Observance of end-June 2025 and continuous performance criteria and completion of the fourth review	89.21	29.74	59.47	35.71	11.91	23.81
Mar. 1, 2026	Observance of end-December 2025 and continuous performance criteria and completion of the fifth review	89.21	29.74	59.47	35.71	11.91	23.81
Aug. 31, 2026	Observance of end-June 2026 and continuous performance criteria and completion of the sixth review	89.24	29.76	59.48	35.72	11.91	23.81
	Total Disbursements	624.50	208.20	416.30	250.00	83.35	166.65

1/ Honduras' quota is SDR 249.8 million.
2/ Percentages may not add up due to rounding
3/ First and second reviews to be combined. The amounts associated with the first review became available for purchase on March 1, 2024. The amounts associated with each review are SDR 25 million and 25.01 million for the first and second reviews, respectively, under the ECF (for a total of SDR 50.01 million) and SDR 49.99 million and SDR 50 million for the first and second reviews, respectively, under the EFF (for a total of SDR 99.99 million).

Table 16. Honduras: Indicators of Fund Credit, 2024-2032
(As of November 7, 2024; in units indicated)

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Existing Fund credit									
Stock, in millions of SDRs 1/	316.7	202.6	148.9	117.1	85.8	63.4	47.6	31.7	15.9
Obligations, in millions of SDRs	169.0	131.7	68.8	46.3	45.6	36.3	29.4	29.0	28.6
Proposed ECF									
Stock, in millions of SDRs 1/	79.8	148.7	208.2	208.2	208.2	202.3	182.4	149.7	108.0
Disbursements, in millions of SDRs	50.0	69.0	59.5	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	0.0	23.2	44.6	59.5	59.5
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	23.2	44.6	59.5	59.5
Interest and charges, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proposed EFF									
Stock, in millions of SDRs 1/	159.5	297.4	416.3	416.3	406.4	373.3	318.8	249.4	180.0
Disbursements, in millions of SDRs	100.0	137.9	119.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs 3/	6.1	12.1	18.1	21.0	35.6	54.3	71.9	83.7	80.2
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	14.9	34.7	54.5	69.4	69.4
Interest and charges, in millions of SDRs	6.1	12.1	18.1	21.0	20.8	19.6	17.4	14.3	10.8
Stock of existing and prospective Fund credit 1/									
In millions of SDRs	466.7	559.4	684.2	652.3	621.1	575.5	501.1	399.0	288.0
In percent of quota	186.8	223.9	273.9	261.1	248.6	230.4	200.6	159.7	115.3
In percent of exports of goods and services	4.9	5.7	6.8	6.1	5.5	4.9	4.0	3.0	2.1
In percent of external debt	4.9	5.6	6.1	5.8	5.3	4.9	4.2	3.3	2.4
In percent of gross reserves	8.8	10.3	11.5	11.1	9.8	9.0	7.3	5.8	4.1
In percent of GDP	1.7	2.0	2.3	2.1	1.9	1.6	1.3	1.0	0.7
Obligations to the Fund from existing arrangements and prospective Fund arrangements									
In millions of SDRs	169.5	138.6	80.9	60.7	60.0	73.6	100.8	126.0	132.2
In percent of quota	67.8	55.5	32.4	24.3	24.0	29.5	40.4	50.5	52.9
In percent of exports of goods and services	1.8	1.4	0.8	0.6	0.5	0.6	0.8	1.0	1.0
In percent of external debt	1.8	1.4	0.7	0.5	0.5	0.6	0.8	1.0	1.1
In percent of gross reserves	3.2	2.6	1.4	1.0	1.0	1.1	1.5	1.8	1.9
In percent of GDP	0.6	0.5	0.3	0.2	0.2	0.2	0.3	0.3	0.3
Net use of Fund credit (SDR million)	8.0	92.7	124.8	-31.8	-36.2	-50.1	-75.3	-102.1	-111.0
Disbursements and purchases	150.0	206.8	178.5	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases	142.0	114.1	53.7	31.8	36.2	50.1	75.3	102.1	111.0

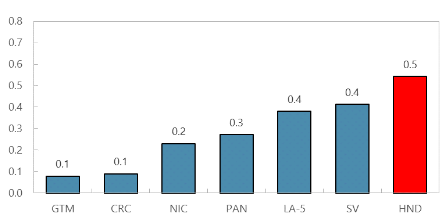
1/ End of period.
2/ The current zero percent interest rate applicable to PRGT facilities will be maintained until the next review of PRGT interest rates scheduled for July 2025.
3/ Total interest/charges based on existing and prospective drawings using GRA rate of charge = 4.027 (as of November 7, 2024).

Annex I. Economic Impact of Droughts on Honduras' Economy

1. Honduras is highly vulnerable to the impact of climate shocks, as the strong 2023-24 *El Niño* episode shows. Economic losses caused by droughts, averaging approximately 0.5 percentage points of GDP per event, are higher for Honduras than regional peers and LA5 countries, with an acute impact on the agricultural sector, a key export activity (Annex I. Figure 1). The recent *El Niño* episode has led to intense drought conditions during the dry season (from mid-November to May), also intensifying plant diseases in key agricultural exports. Official data confirm the severity of this shock since 2023, but especially during the first half of 2024: during January 1-May 15, 2024, rainfall was 15 percent lower compared to the same timeframe in 2023.[1] The economic impact has been significant, leading to lower agricultural output and exports as well as significantly lower (hydro) energy production, increasing the need for higher fuel imports for electricity generation. These factors have contributed to the weakening of Honduras' trade balance and international reserve position in 2024.

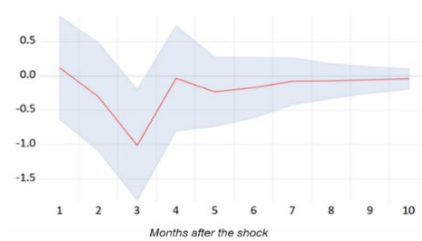
Annex I. Figure 1. Economic Impact of Droughts

Droughts: Economic Losses 1960-2023



(Average, Percentage points of GDP)

Primary Sector Growth Response to a Drought Shock 1/



(in percentage points)

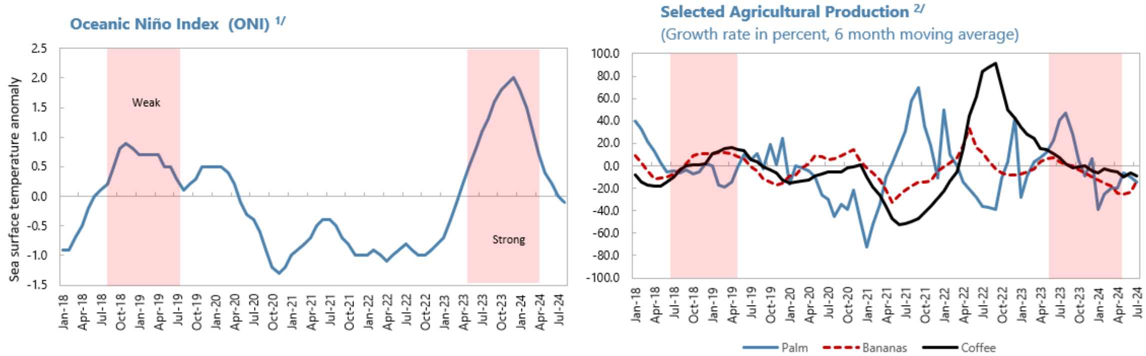
Sources: EM-DAT database; and IMF staff calculations.

1/ The estimation was carried out using a SVAR model and presents the response of the primary sector (primarily agricultural activities) monthly growth rate to a one-standard-deviation shock in the high-frequency indicator that measures drought intensity. For more details see "*On the Macro Impact of Extreme Climate Events in Central America: A Higher Frequency Investigation*". IMF Working Paper WP/22/237."

2. Drought conditions have impacted Honduras' main agricultural output. Compared to previous El Niño events (i.e, the 2018-2019 event), the most recent episode has had more severe effects on key agricultural commodities. Coffee harvests saw a decline of around 9 percent through July 2024 (YoY), while production of bananas and palm oil recorded declines of around 13 percent and 8 percent, respectively (Annex I. Figure 2).

[1] Preliminary data suggests that the most recent *El Niño* episode has been stronger compared to other similar episodes recorded (1982-83, 1997-98, 2013-16) where rainfall on average decreased by about 7.6 percent in comparison to years without El Niño.

Annex I. Figure 2. El Niño and Selected Agricultural Products



1/ Is a climate index used to monitor and assess the state of the El Niño-Southern Oscillation (ENSO) phenomenon. It is calculated based on sea surface temperature anomalies in the central equatorial Pacific Ocean. ONI values of +0.5°C or greater suggest an *El Niño* period.
2/Palm production is measured in metric tons, coffee in 46-kilogram bags, and banana production in pounds.
Source: BCH , National Oceanic and Atmospheric Administration (NOAA); and IMF staff calculations.

3. The smaller harvests have impacted the exports of these agricultural products. Coffee exports, around 30 percent of total exports, have fallen 11.5 percent through July 2024 (Y/Y). Palm oil and bananas (15 percent of total exports combined) have also experienced significant contractions in exports, with declines of around 18 percent for palm oil and 24 percent for bananas (Annex I. Table 1). Other factors have also contributed to the fall in agricultural exports, including diseases in plantations, reduced yields from the use of lower-quality fertilizers, and labor shortages due to local and external migration. These lower exports have led to a decrease in foreign exchange inflows in 2024 (through July) of approximately $272 million compared to the same period in 2023 and $321 million compared to 2022.

Annex I. Table 1. Exports of Main Agricultural Products Through July

		2022	2023	2024	(YoY, % change) 2023/2022	2024/2023
Coffee	**Value**	**1207.3**	**1173.8**	**1039.0**	**-2.8%**	**-11.5%**
	Quintals	*4961.6*	*5789.9*	*5175.1*	*16.7%*	*-10.6%*
	Price per quintal	*243.3*	*202.7*	*200.8*	*-16.7%*	*-1.0%*
Banana	**Value**	**343.9**	**419.4**	**342.5**	**22.0%**	**-18.3%**
	Volume (in boxes of 40 lbs)	*15691.6*	*16316.0*	*15163.6*	*4.0%*	*-7.1%*
	Price per box	*21.9*	*25.7*	*22.6*	*17.3%*	*-12.1%*
Palm Oil	**Value**	**339.3**	**247.7**	**186.6**	**-27.0%**	**-24.7%**
	Volume (in kilograms)	*215764.1*	*242577.6*	*175692.1*	*12.4%*	*-27.6%*
	Price per kilogram	*1.6*	*1.0*	*1.1*	*-35.1%*	*4.0%*

Sources: BCH trade data base; and IMF staff calculation.

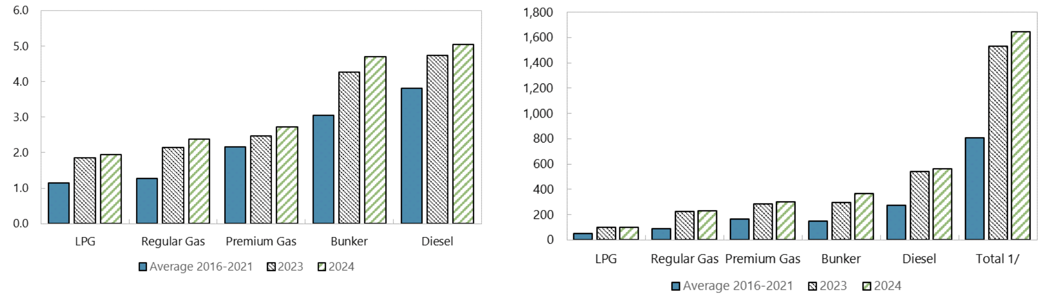
4. The drought also led to a significant increase in fuel imports. Lower precipitation and heat waves affected hydroelectric power generation, forcing private generators to import more fuels (especially bunker and diesel) as an alternative source for electricity production to meet growing electricity demand (Annex II).[2] These increased imports largely accumulated during the dry season (the first two quarters of the year). In 2024, but also 2023, a combination of significantly higher energy import volumes and still elevated prices have led, through July, to an additional $600 million in energy imports when compared to non-*El Niño* years (Annex I. Figure 3).

[2] This energy production is then acquired by the state-owned company (ENEE) to be distributed through its network.

Annex I. Figure 3. Trends in Fuel Imports through July

Fuel Imports: 2016-2024
(Millions of barrels)

Fuel Imports: 2016-2024
(Millions of U.S dollars)



Sources: BCH trade database; and IMF staff calculations.
1/ Includes kerosene and lubricants.

5. In the absence of such a severe shock, Honduras' external position would have been much improved. To assess the impact of the shocks, a counterfactual exercise using a structural vector auto-regression (SVAR) model with high-frequency data is estimated. The simulation considers a less-severe *El Niño* shock—its intensity adjusted downward by one standard deviation.[3] The model estimates only the effects on the quantities of agricultural goods and fuel imports, assuming no changes in international prices (treated as exogenous). This generates a new baseline trajectory for quantities, and the difference from the actual data measures the estimated trade gain. Model estimates suggest that in a less adverse scenario in 2023, fuel imports would have been around $355 million lower, while exports of agricultural goods would have been around $209 million higher. In 2024 H1, fuel imports would have been $268 million lower, while agricultural exports would have been around $93 million higher (Annex I. Table 2, Section A). Thus, in such a counterfactual scenario, the trade balance could have been 1.6 and 1.0 percent of GDP better in 2023 and 2024, respectively. For robustness, another estimation was carried out for fuel imports applying the average imported volumes over the period 2016-2021 ("normal" years) to 2023 and 2024H1 prices. The results point in the same direction, with potential savings for 2023 estimated around $300 million and $138 million for 2024H1 (Annex I. Table 2, Section B). Therefore, in the absence of the *El Niño* shock, net FX inflows would have improved significantly while also reducing ENEE's expensive energy purchases.

Annex I. Table 2. Trade Dynamics: Counterfactual Exercise
(Millions of USD)

		A. SVAR Estimates		
		Actual 2/	Counterfactual	Abs. difference 3/
2023	Fuel imports 1/	1,526	1,171	-355
	Agricultural exports	2,591	2,800	209
	Total			**564**
2024H1	Fuel imports	834	566	-268
	Agricultural exports	1,366	1,459	93
	Total			362

		B. Average Volume Estimate		
		Actual	Counterfactual	Abs. difference
2023	Fuel imports	1,526	1,227	-299
2024H1		834	696	-138

1/ Includes: Diesel, kerosene and bunker.
2/ The projection window covers 2023Q1-2024Q2
3/ A negative sign implies savings.
Source: IMF staff calculations.

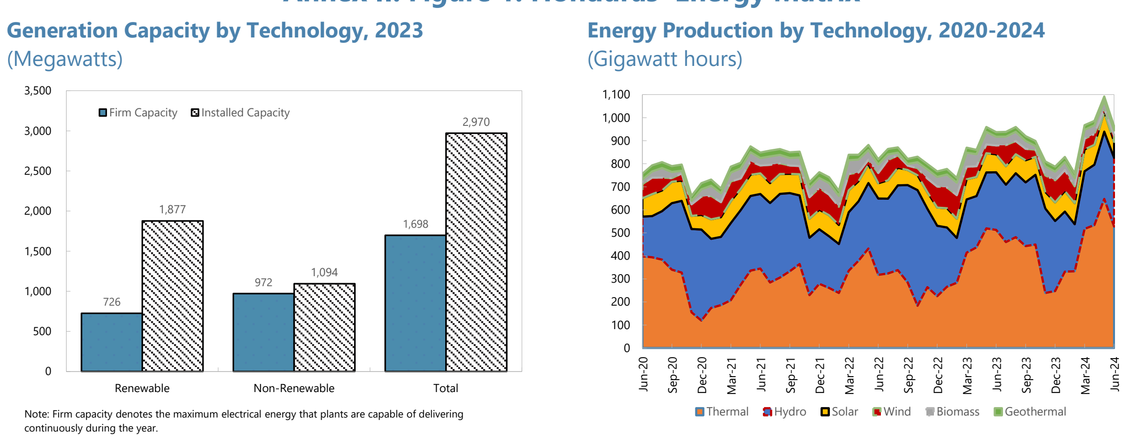
[3] For estimation purposes, we use an interaction variable as a proxy for drought intensity, which combines the maximum number of consecutive days with less than 1 mm of daily precipitation augmented by the El Niño–Southern Oscillation (ENSO) index. SVAR models typically assume linear relationships between variables. However, in counterfactual situations, especially when analyzing shocks of significant magnitude, the relationships can be non-linear, particularly in the case of climate shocks. Additionally, given the frequency of the data, the IRFs in this particular exercise are estimated for 10 months after the shock, so by the end of the sample in this exercise, the effects of the shock tend to revert to the mean, and for this reason, the estimated magnitudes tend to be smaller.

Annex II. Background on the Energy Sector and Reforms

1. The state-owned ENEE is the dominant player in Honduras' electricity sector, although private plants are important in power generation. The state-owned power company ENEE controls all transmission and distribution in Honduras. Most power (78 percent) is generated by private firms, with whom ENEE either has long-term power purchasing agreements or buys their production as needed in an "opportunity market."[1] The rest is generated by ENEE mainly via hydroelectric dams. In the past, there were plans to restructure the energy sector, including with a view to privatization. The current government is committed to maintaining ENEE as a state-owned company while improving its efficiency.

2. The energy sector has long represented a major impediment to growth, now exacerbated by climate change. The gap between energy demand and supply has grown in recent years. Demand stood above 1,900 MW in 2024, compared to peak production of 1,698 MW, and leading to scheduled power outages,[2] which stifle growth and investment. While the country has a diversified energy matrix—37 percent of electricity is produced by fossil fuels and the remaining 63 percent by renewable technologies (end of 2023)—use of thermal energy has increased as climate change limits hydro production and increases demand.[3] The National Dispatch Center projects that demand will reach 2,980 MW in 10 years; therefore, it is important that ENEE's long-term expansion plans (below) be successful.[4]

Annex II. Figure 1. Honduras' Energy Matrix



Source: Centro Nacional de Despacho (CND).

[1] Generators in the opportunity market do not have any purchase guarantees. However, they can generally charge more when making sales as ENEE mainly purchases from this market to meet demand peaks.

[2] Power outages per consumer average three interruptions of 6 hours per month.

[3] Hot temperatures, apart from increasing demand for cooling, also exacerbate technical losses in distribution and transmission by heating up equipment.

[4] To address energy shortfalls in the short term, ENEE in 2024 contracted 300 MW of new generation capacity with the private sector. However, it resulted in higher costs given its contracting modality (leasing mainly of diesel turbines, and opportunity market purchases). For 2025-26, ENEE plans to add another 450 MW of generation via another short-run contingency plan.

3. Electricity tariffs are on the high end compared to the region, their impact cushioned by subsidies. This is partly due to the uncompetitive contracting of energy in the past. Subsidies in 2023 totaled 0.7 percent of GDP, largely financed by government transfers to ENEE:

(i) *Free energy for small poor households:* Introduced in 2022, it benefits over 900,000 households with monthly consumption below 150 kWh. Budgetary expenditures finance 60 percent (at a cost of ¼ percent of GDP), with the remaining 40 percent financed by higher tariffs for large consumers, in particular industry.

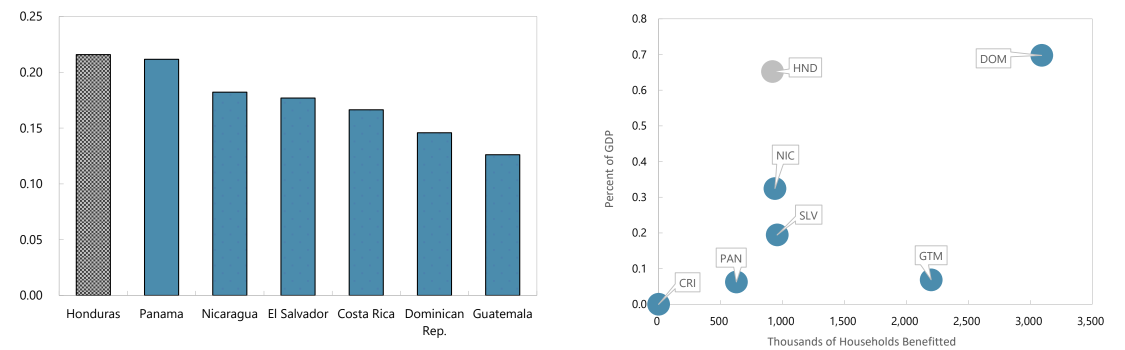
(ii) *A general tariff subsidy*: Introduced in the wake of international fuel price spikes, it is a subsidy to smooth tariff fluctuations. Its fiscal cost was 0.4 percent of GDP in 2023. However, it is expected to increase to 0.5 percent of GDP in 2024—allocated in the budget—due to the government's decision to not pass through a 15.2 percent tariff increase in the third quarter, resulting from the very hot dry season. Going forward, it will be important to monitor developments to contain the fiscal risks stemming from possible further increases in energy prices.

(iii) *Several minor subsidies* (including to senior citizens) of less than 0.1 percent of GDP. While these had gone unpaid in the past, the government will start paying them from 2025 as part of its ENEE financing plan (below).

Annex II. Figure 2. Regional Comparison of Electricity Tariffs and Subsidies

Electricity Tariff paid by Consumers on Average, 2024 (USD per kWh)

Central Government Electricity Subsidies, 2023 (Percent of GDP and Thousands of Households Benefitted)



Note: Final average price paid by consumers after all subsidies; latest observation for 2024.

Note: Data for Nicaragua are from 2022.

Sources: Country regulators; and IMF staff calculations.

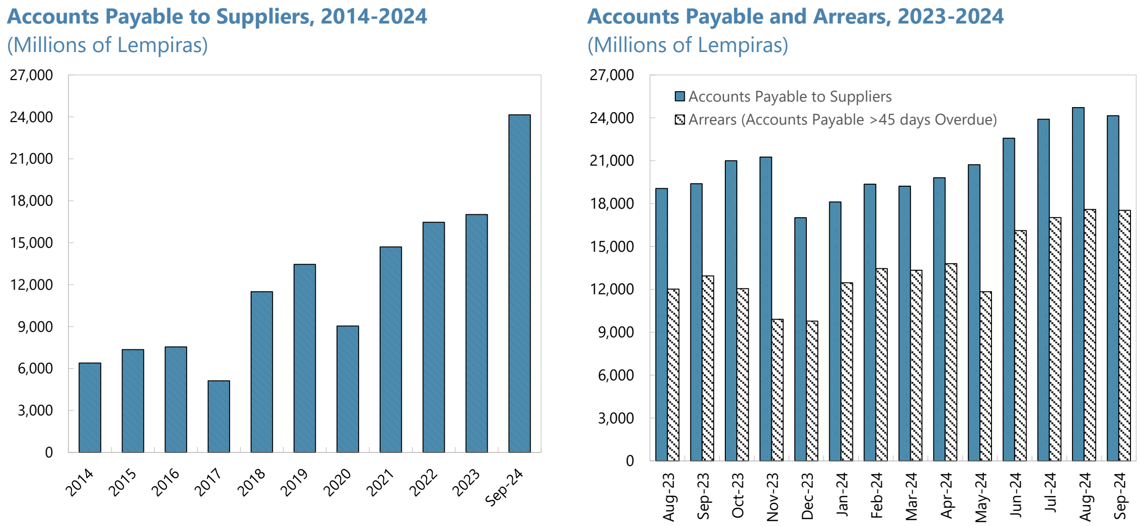
4. A transparent and successful upcoming tender to expand generation will be key to contain the cost of electricity. To ensure adequate energy supply, the government is working on an international public tender to add permanent capacity for 1,500 MW during 2027-29.[5] The auction for this tender is planned to take place in mid-2025 and is part of ENEE's "Indicative Generation Expansion Plan 2024–2033" which envisages a total investment of $2.6 billion, focused on renewable energy. Some priority investments have already been implemented and studies are

[5] The plan envisages that new generation capacity would come onstream as follows: 800 MW in 2027; 300 MW in 2028; 400 MW in 2029.

being finalized, in collaboration with CABEI, for two important new dams; these would provide new generation capacity as well as flood control for the Sula Valley industrial region.

5. A reduction in ENEE's payment arrears and establishment of good payment discipline are essential. The authorities recognize that good ENEE payment discipline is important to attract investor interest. ENEE's arrears are defined as accounts payable to suppliers that are overdue for more than 45 days. While data on ENEE's arrears are not available for a long timeframe, its total accounts payable constitute a proxy. Total accounts payable have increased considerably during the last decade, resulting from ENEE's still considerable operating losses (see below), combined with insufficient debt placement. Payment arrears increased substantially in 2024 to 17.5 billion Lempiras (1.9 percent of GDP) in September, in line with total accounts payable, largely from (i) ENEE's limited placement of domestic debt early in the year and (ii) higher costs, around 2 billion Lempiras, from the hot dry season. The government is implementing a financing plan to address ENEE's arrears (below).

Annex II. Figure 3. ENEE Accounts Payable and Arrears

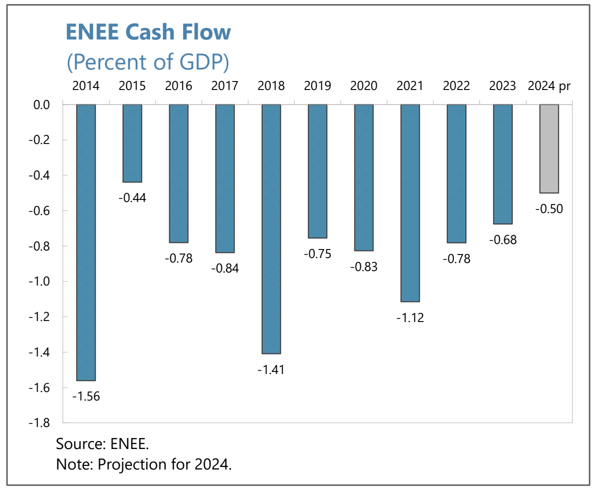


Source: ENEE.

6. ENEE's continued cash flow deficits, while improving recently, represent a structural vulnerability. ENEE's cash flow deficits have averaged 0.9 percent of GDP over the past decade.[6] As a result, ENEE's long-term financial debt rose from \$600 million in 2015 to \$2.6 billion in 2024, with the government issuing a total of \$1.3 billion in sovereign bonds in 2017 and 2020 to address ENEE's cash flow needs. Although these bonds were placed at favorable rates, the resulting debt service has added a further challenge for ENEE.

[6] Note that fluctuations are partly driven by changes in input costs on account of international fuel prices. For instance, lower fuel prices after 2014 reduced cash flow deficits in immediately subsequent years.

7. Factors causing ENEE's financial difficulties are high electricity losses, the company's low efficiency, and a need to update the electricity tariff:



- *Electricity losses:* About 35 percent of the energy that ENEE produces or purchases is not being billed. About one-third of these losses are *technical*, caused by insufficient investment and maintenance in transmission lines and distribution infrastructure. About two-thirds are *non-technical,* resulting from high fraud, billing problems, and low collection of receivables.

- *Low efficiency:* For many years, ENEE had been neglected and its negative profitability has resulted in a lack of necessary investments.

- *Electricity tariff:* The electricity tariff system established in 2016 includes all generation, transmission, and distribution costs. Nonetheless, it leads to deficits for two reasons: (i) ongoing updates to studies to estimate these costs suggest that they could be higher, especially once the needed investment is integrated, and (ii) to protect consumers, there is a 15 percent cap on electricity losses that can be integrated into the tariff, in line with international practices.

8. The authorities' multi-pronged strategy to strengthen ENEE includes:

- **A coordinated financing plan to reduce arrears.** Through debt issuance, the volume of ENEE arrears would be reduced still in 2024 to below 11.5 billion Lempiras. SEFIN would assume 2 billion Lempiras of debt service for ENEE each year during 2024 and 2025 and, from 2025, start paying around L500 million in smaller subsidies that previously went unpaid. An inter-governmental committee[7] has been established to coordinate on financial policies for the energy sector.

- **Renegotiation of power-purchasing agreements to help reduce tariffs.** A first set of 18 renegotiated contracts has been submitted to Congress in May this year. Their approval would reduce tariffs for consumers by about 5 percent over the next few years and create more certainty for future investments in the sector.[8]

- **Investments to reduce technical losses and improve supply.** The government has been developing ambitious medium/long-term investment plans for transmission and distribution, in addition to the aforementioned plan to expand power generation. An IDB loan has funded some

[7] This committee is composed of the BCH, the CNBS, ENEE, SEFIN, and the Secretariat of the Presidency.

[8] In addition, their approval would also reduce ENEE's arrears with one of the private generators by about 2 billion Lempiras as foreseen in the renegotiated agreement.

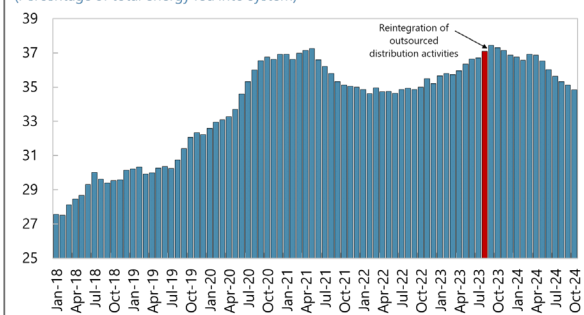
upgrades to transmission infrastructure, but most financing to date has come from national funds.[9] Securing adequate financing remains key for a successful implementation of these investment plans:

- A "Transmission Network Expansion Plan 2024-33" with investments worth $770 million.

- The "Five-Year Business Plan 2024-2028" is being finalized and includes investment in distribution for $1.7 billion to improve the quality of service and street lighting, reduce electricity losses, and guarantee universal access to electricity.

- **Reduction of electricity losses.** At the end of 2022, the National Loss Reduction Program (NLRP) was launched with its own staff. During its initial year, the impact of the PNRP was subdued due to sourcing challenges and limited control over distribution. The latter was resolved in August 2023 when distribution activities that were previously outsourced were reintegrated into ENEE.[10] By regaining full control of the business relationship with customers, together with the installation of more than 300,000 new meters, improved customer review and fraud detection, and, crucially, investments in transmission and distribution, ENEE put electricity losses on a downward path. From a 37.4 percent peak in September 2023, a reduction of 2.3 percentage points was achieved during the following year, equivalent to an annual revenue gain of $50 million.[11]

ENEE Technical/Non-Technical Electricity Losses in Distribution
(Percentage of total energy fed into system)



Sources: ENEE; and IMF staff calculations.

- **Structural reforms to increase efficiency.** These focus on three areas in particular:

  - *Establish functionally and administratively independent divisions in generation, transmission and distribution with their own management:* As a first step, it is necessary to improve ENEE's accounting to enable the separation. To this end, ENEE is working on establishing an appropriate IT structure and hiring a consultancy to implement international standards (IFRS) with a view enable ENEE to produce audited 2025 financial statements by mid-2026.

  - *Integration of distribution units:* The reintegration of distribution activities and the establishment of the PNRP have left ENEE with three active units in distribution. Their planned integration would improve governance, offer scope for cost savings by eliminating

[9] For 2024, investment in transmission is projected at 3.1 billion Lempiras (0.3 percent of GDP) of which 0.5 billion financed by the IDB with the remainder funded mainly by government deposits from a 2022 loan from the BCH.

[10] In 2016, a private company was hired to run distribution and loss reduction activities, with limited success.

[11] A one percentage point reduction in electricity losses increases revenues by $22 million annually.

redundancies, and could ensure that the loss reduction process is carried out in a cost-effective manner. As a first step, the three units' operational processes would be integrated.

- *Tariff structure update:* The current tariff likely does not fully cover costs due to outdated inputs and failure to consider necessary future investments, thus contributing to ENEE's financial difficulties. ENEE and the regulator CREE are working on updating studies, including those on Value Added in Distribution and Transmission (VAD and VAT), with the aim of publishing a technical note with the key elements of an updated tariff structure and holding a public hearing by end-November 2025. This will foster transparency and would allow for public dialogue on a socially and fiscally sustainable solution.

Annex III. Risk Assessment Matrix[1]

Sources	Likelihood	Impact	Policy
Global risks			
Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	H	**High**. Trade disruption, elevated commodity prices due to lower supply, increased cost of food and basic materials, hurting growth and increasing inflation.	Diversify supply chains, create or increase buffers for short-term unavailability of key commodities. Provide targeted support to mitigate risks of food insecurity. Use monetary policy to address potential second-round effects on inflation.
Global growth surprises: •**Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. •**Acceleration.** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	M L	**High**. *Slowdown:* Lower economic activity due to weaker demand for exports, lower remittances, tight financial conditions, spiking risk premia, fiscal pressures. **Medium.** *Acceleration:* Higher economic activity due to stronger demand for exports, stronger remittance growth, looser external borrowing costs.	*Slowdown:* Diversify trade patterns, allow real exchange rate to cushion a portion of external shock, continue executing key infrastructure spending. Support domestic market development and labor markets. *Acceleration:* Allow real exchange rate to move in line with fundamentals, continue to execute infrastructure spending to boost productivity growth, maintain competitive business environment to attract investment to diversify exports and increase value added of exports.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	H	**High**. Larger import bill and current account deficit, leading to lower FX reserves; higher domestic inflation due to large share of food in CPI basket.	Provide targeted fiscal support to mitigate risks of food insecurity. Monetary policy to remain proactive to forestall second-round effects. In the long-term, expand productive capacity, diversify trade, and increase value added content of exports.

[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 is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources	Likelihood	Impact	Policy
Monetary policy miscalibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	M	High. Global financial conditions tighten, and emerging market bond yields increase amid outflows from emerging markets.	Allow real exchange rate to cushion a portion of the external shock while adjusting policy interest rates to support external stability. Remain committed to fiscal adjustment program to bolster market access and safeguard debt sustainability.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	M	High. Global financial conditions tighten, and emerging market bond yields increase amid outflows from emerging markets. External demand falters, with spillovers to exports.	Allow real exchange rate to cushion a portion of the external shock while adjusting policy interest rates to support external stability. Remain committed to fiscal adjustment program to bolster market access and safeguard debt sustainability. Continue executing key infrastructure spending. Support domestic market development and labor markets.
Sovereign debt distress. Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	M	High. Capital outflows and pressure on exchange rate prompt higher domestic interest rates. External market access is jeopardized.	Remain committed to fiscal adjustment program to safeguard debt sustainability; allow real exchange rate to cushion a portion of external shock.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	M	High. Disruptions in economic activity; lower GDP growth; damage to properties and infrastructure, resulting in lower growth potential.	Prioritize expenditure to support affected households. Guard against second-round effects of inflation. Accelerate reconstruction and building of climate-resilient infrastructure. Design and implement an adaptation plan.
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), and worsening inequality stir social unrest, drive populist policies, and increase resistance to reforms, especially in the context of polarized or disputed elections. This exacerbates imbalances and weakens growth prospects, leading to policy uncertainty and market repricing.	H	Medium. Disruptions to economic activity, political polarization, and instability. Harms confidence, raising risk premia.	Strengthen governance and accountability to attract investment and support growth. Foster diversification and job creation. Strengthen social safety net.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation	H	Medium. Reconfiguration of global trade patterns leads to disruption of	Strengthen business environment and governance and continue to invest in physical infrastructure and human capital to raise

Sources	Likelihood	Impact	Policy
result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.		some trade flows in the near term, hurting exports. Over medium term, physical proximity to large markets could present new export opportunities.	productivity and increase competitiveness and value added in exports.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**H**	**Medium**. Lower economic activity due to weaker demand for exports, lower remittances, tight financial conditions, and increasing risk premia.	Diversify trade patterns, allow real exchange rate to cushion a portion of external shock, continue executing key infrastructure spending. Support domestic market development and labor markets.
Domestic risks			
Political instability. Allegations of illicit financial activities in political parties leads to domestic political instability, leading to legislative gridlock and hurting governability and confidence in political parties.	**M**	**High**. Needed reforms stall. Domestic and international investor confidence is shaken, leading to lower investment and capital outflows.	Reinvigorate efforts to combat corruption and strengthen governance, including through building stronger institutions. Maintain consistent monetary and exchange rate policies and remain committed to fiscal program to safeguard debt sustainability and maintain investor confidence.
Implementation risks to reform agenda. Low implementation capacity and divided Congress. Implementation slippages can jeopardize reforms and program objectives.	**H**	**High**. Needed reforms stall.	Retain strong commitment to build institutions and ensure policy continuity. Build broader political coalition.
Inconsistent macroeconomic policies. Inconsistency may hamper the response in the event of global shocks, with knock-on effects on domestic and external stability.	**M**	**High**. Inconsistent policies can undermine external and internal stability.	Monetary policy needs to support the exchange rate crawling band, with the center of the crawling band adjusting in line with fundamentals, including the projected inflation differential.

Annex IV. External Sector Assessment

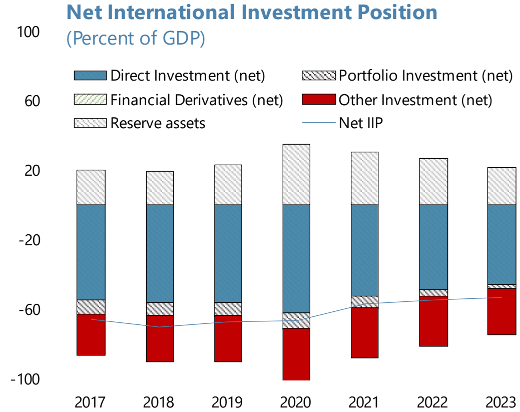
Overall Assessment: *The external position of Honduras in 2023 was moderately weaker than the level implied by fundamentals and desirable policy settings, and the real effective exchange rate (REER) for 2023 is estimated to be overvalued by 5-10 percent. Falling key exports, including maquila, impacted by a weather shock and competitiveness losses increase the risks to external sustainability in the near term. These risks are partially mitigated by the path and composition of the net international investment position, with gross external liabilities tilted towards foreign direct investment and a declining trend for external debt. The gross international reserves coverage ratio remains adequate, albeit on a declining trend, and reserve coverage is projected to remain within the recommended range of the ARA metric over the medium term.*

Potential Policy Responses*: The REER assessment is consistent with existing imbalances between supply and demand in FX markets. The ongoing recalibration of monetary and exchange policies, underpinned by (i) monetary policy rates that are positive in real terms and above the U.S. Federal Funds rate to provide support to Lempira assets and (ii) a decisive ongoing nominal exchange rate adjustment through an accelerated rate of crawl will support a reduction in the estimated REER overvaluation. Strengthening the crawling band regime and ensuring that the exchange rate reflects economic fundamentals, including the inflation differential and movements in trading partners' exchange rates, will also promote a better balance between supply and demand in FX auctions and safeguard level of international reserves. Likewise, measures to strengthen the coordination between monetary and exchange rate policies, maintain prudent fiscal and debt policies and advance the structural reform agenda remain essential to maintain external sustainability.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) marginally improved to -54 percent of GDP in 2023, from -55 percent in 2022, driven by a decline in gross FDI liabilities. Gross assets stood at 42 percent of GDP, with reserves accounting for the largest share (52 percent of gross assets). At 96 percent of GDP in 2023, gross liabilities were primarily composed of FDI liabilities (57 percent of GDP and 60 percent of gross liabilities). External debt stood at US$11.9 billion at end-2023 (37.2 percent of GDP) and was mostly public (81 percent of the total stock), with private external debt driven by the financial sector. As of June 2024, public external debt stood at US$9,159 million (27 percent of GDP), against US$9,372 million (30 percent of GDP) at end-2023. Public external debt was mainly US$-denominated and primarily consisted of loan liabilities to multilateral creditors (72.9 percent of total public external debt as of June 2024 and 12.0 percent to bilateral creditors).

Net International Investment Position
(Percent of GDP)

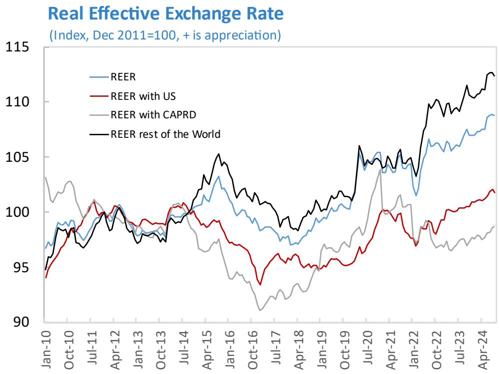


Source: Central Bank of Honduras, and IMF staff calculations.

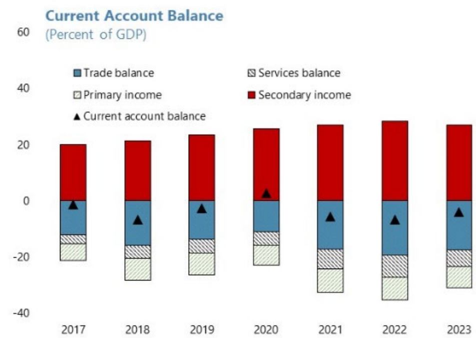
Assessment. Honduras' negative NIIP does not present an elevated risk to external sustainability. The composition of gross liabilities, tilted towards FDI, limits vulnerabilities. However, the ES model suggests a small 3.9 percent overvaluation. This, together with the REER model appreciation (see below), imply that stabilizing Honduras' NIIP at its 2023 level in the medium term would require a further REER adjustment in the near term.

Current Account and Real Exchange Rate

Background. The CA balance sharply improved to - 3.9 percent of GDP in 2023, from -6.7 percent of GDP in 2022. The deceleration of key exports (coffee, banana, and palm oil) and maquila sector was compensated by robust remittances flows and a strong fall in imports. From the savings-investment balance perspective, the CA deficit in 2023 reflected a decrease in private investment linked to the decumulation of inventories. As of 2024H1, goods exports declined by 5.3 percent y/y, while imports increased by 2.4 percent y/y. Remittances increased cumulatively 5 percent for the year through September 2024. The CA deficit is projected at 5.3 percent of GDP in 2024, improving to 4.7 percent of GDP in 2025. The REER appreciated by 0.7 percent in 2023 and a further 0.7 percent in the first half of 2024. This trend is expected to reverse as the exchange rate has begun to crawl in line with Honduras' fundamentals.



Sources: Central Bank of Honduras: IMF staff calculations



Sources: Central Bank of Honduras; and IMF staff calculations.

Honduras: EBA-lite Model Results, 2023

	CA model 1/	REER model 1/	ES model
		(in percent of GDP)	
CA-Actual	**-3.9**		
Cyclical contributions (from model) (-)	0.1		
Additional temporary/statistical factors (-)	0.0		
Natural disasters and conflicts (-)	0.0		
Adjusted CA	**-3.9**		
CA Norm (from model) 2/	**-4.6**		
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**-4.6**		
CA Gap	**0.7**	**-3.5**	**-1.3**
o/w Relative policy gap	2.2		
Elasticity	-0.3		
REER Gap (in percent)	**-2.0**	**10.5**	**3.9**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Assessment. The CA approach finds that the cyclically adjusted CA was -3.9 percent of GDP after accounting for the model's cyclical contributions and natural disasters. The cyclically adjusted CA norm, which reflects the CA level that is in line with fundamentals and desirable policy levels, stood at -4.6 percent of GDP. This yields a positive CA gap of 0.7 percent of GDP consistent with a REER undervaluation of 2.0 percent (assuming the cross-country CA elasticity of -0.35 with respect to REER). The contribution of policy gaps is estimated at 2.2 percent of GDP, primarily driven by the fiscal spending gap. In contrast, the REER index model finds a CA gap of -3.5 percent of GDP, suggesting a REER overvaluation of around 10 percent. The CA and the REER models complement each other but accentuate different economic channels.[1] In the case of Honduras, the overall assessment of the external position is based on the REER model, which has the advantage of explicitly accounting for the level of real interest rates in home and foreign economies. The ES model further suggests an overvaluation of 3.9 percent.

Taking a holistic view of these methodologies, in addition to persistent pressures in FX markets and the decline in reserves, the external position is assessed to be moderately weaker than the level implied by fundamentals and desirable policies, with the REER estimated to be 5-10 percent overvalued, which is expected to decrease with the recent increase of the monetary policy interest rate of 275 basis points and as the nominal exchange rate continues to crawl.

Developments in the Capital and Financial Accounts

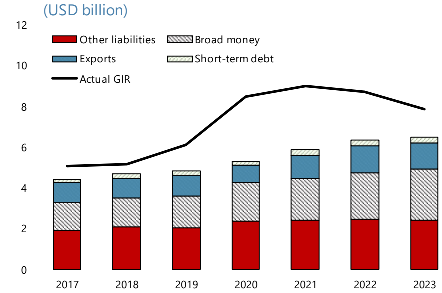
Background. The financial account surplus stood at 0.5 percent of GDP in 2023, mainly driven by net inflows of FDI (2.5 percent of GDP) explained by firms' retained earnings, while the negative net government borrowing (-0.5 percent of GDP) is explained by low disbursements (0.9 percent of GDP) and higher level of amortizations (-1.4 percent of GDP). Between 2017 and June 2021, the surrender requirement for foreign exchange agents on proceeds from current and capital transactions to the central bank was phased out as part of the reforms supporting the transition toward a more flexible exchange rate regime and fewer foreign exchange interventions by the central bank. The central bank also ended its daily FX auctions in favor of an interbank FX market. However, in April 2023, the authorities reinstated a 100 percent surrender requirement for FX agents, together with the daily FX auctions, and shut down the interbank FX market. Exporters also remain required to sell all their export receipts in FX to foreign exchange agents, except for those exporters authorized by the Central Bank's Board of Directors to retain up to 30 percent for priority purchases or debt service abroad. Going forward, the financial account is projected to increase its surplus to 1.6 percent of GDP in 2024, primarily on the back of projected official disbursements and net FDI inflows.

Assessment. Going forward, the financial account is projected to record a surplus. Positive net FDI flows are projected to continue, while net flows to the general government are projected to strength in line with official sector disbursements and continued market access. A recalibration of monetary and exchange rate policies is also projected to strengthen other capital flows.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) reached US$7,839.6 million or 5.0 months of non-maquila imports of goods and services at end-2023. This represented 738 percent of short-term debt in 2023. GIR stood at US$7,016 million (4.3 months of prospective imports) as of end-October 2024. Honduras's de jure exchange rate arrangement is a crawling band, while de facto the exchange rate is stabilized. In 2023, the central bank intervened in the FX market selling on net US$948.5 million. BCH has also sold FX directly to oil importers outside the FX auction, totaling $1,100 million in 2024 through October. GIR declined $823 million in 2024 through October.

GIR: Reserve Adequacy Metric
(USD billion)



Sources: Central Bank of Honduras; IMF staff calculations

Assessment. GIR stood at 119 percent of the ARA metric in 2023 and are projected to fall to 104 by the end of 2024. GIR are projected to stabilize in 2025 and remain within the 100-150 percent of the ARA metric during the forecast horizon.

[1] See the details of the models in IMF: Methodological Note on EBA-Lite, February 2016.

Appendix I. Letter of Intent

November 20, 2024

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

Dear Ms. Georgieva:

In the attached update to the Memorandum of Economic and Financial Policies (MEFP) from September 1, 2023, we confirm our commitment to the policies and objectives of the economic program supported by the IMF arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). We also describe progress and further policy steps toward meeting these objectives.

With the support of the IMF, we have continued to implement important structural reforms as part of the economic program of President Xiomara Castro that seeks to promote inclusive economic development. Notwithstanding a challenging environment, including climate shocks, strong economic growth has continued, while inflation has remained on a declining path. We have achieved a considerable increase in public investment while maintaining fiscal prudence. We have advanced on important fiscal reforms to strengthen the tax and customs administrations, improve transparency of public finances, and resume domestic and international public bond placements. To reduce corruption, we have advanced in the process of installation of the International Commission Against Corruption and Impunity in Honduras (CICIH), implemented an electronic asset declaration system for public servants, and strengthened the anti-money laundering framework in line with international standards.

We remain committed to achieving progress in areas of the program that have been more challenging. We will continue our efforts to secure congressional approval of our landmark tax reform to improve equity in the payment of taxes. The effects of climate change, in particular the phenomenon of *El Niño*, have reduced exports while also increasing fuel imports, which in combination with our debt service and delays experienced in disbursements of official sector loans have contributed to a decline in international reserves. In this context, we have begun to normalize our monetary and exchange rate policies and will continue to adjust policies as needed to contain inflationary pressures and safeguard external stability. While our energy company ENEE has begun to consistently reduce its technical and non-technical losses, ongoing reforms to its financial and operational management have taken longer than expected to bear fruit, resulting in a notable increase in arrears in payments to generators this year. In response, we are implementing a decisive financing plan to address ENEE's arrears and improve payment discipline going forward, including the formation of an inter-governmental committee for the analysis of financial policies related to the electricity sector and to coordinate on and support the speeding up of financing for ENEE via different financing mechanisms.

Based on policy actions already taken and the strength of the policies set forth in the attached MEFP, we request completion of the first and second reviews of the arrangements under the Extended Fund Facility and Extended Credit Facility. In line with the combined nature of the reviews, we request a rephasing of access. We met four out of eleven structural benchmarks through end-September 2024 for these reviews, with one additional structural benchmark implemented with delay. For the outstanding structural benchmarks, which were not yet met due to delays in Congressional approvals or limited implementation capacity, we have proposed new timeframes and modifications to meet them. We request Executive Board approval of waivers of non-observance of the stock of non-borrowed net international reserves of the central bank, the stock of net domestic assets of the central bank, and the stock of domestic arrears of ENEE for the end-June program performance criteria. Lastly, we also request the IMF Executive Board's approval for retaining the exchange restriction arising from the measures implemented by the BCH for the allocation of FX for the making of payments and transfers on current international transactions on the ground that the measures are maintained for balance of payments purposes, are temporary, and non-discriminatory. We are committed to gradually phasing out these measures, as balance of payments stability is strengthened, supported by implementation of the policies under our Fund-supported program and the requested Fund-provided technical assistance. The program will continue to be monitored through semi-annual reviews, prior actions, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

We remain confident that our policies are well suited to achieve the objectives of our economic program and underpin our democratic institutions, poverty reduction, and equitable and sustainable economic growth. We stand ready to take any additional measures that may be appropriate to achieve these objectives. In accordance with the Fund's policies on consultations, we will engage with the Fund on the adoption of these measures, and in advance of any revisions to the policies contained in this memorandum. Such consultations will also take place in line with Honduras' legal framework. In keeping with our commitment to transparency with the public and the international community, we will share all information necessary to monitor our program performance and we authorize the IMF to publish this Letter of Intent, the MEFP and its annexes, the TMU, and the Staff Report.

Honduras is highly vulnerable to climate shocks and most recently we have been facing the challenge to respond to Tropical Storm Sara, which we intend to manage within the contour of our current economic program. We maintain our interest in future support under the Resilience and Sustainability Facility (RSF), as requested in November 2023. However, considering the need to focus our efforts on the completion of the first and second reviews of the program with the IMF, we propose to continue conversations regarding the RSF at the next review.

Sincerely,

/S/

Rebeca Santos
President, Central Bank of Honduras

/S/

Christian Duarte
Secretary of Finance

Attachments (2)
Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. Context

1. **Honduras continues to navigate a complex external and domestic environment.** Since the approval of our program with the Fund in September 2023, the negative effects of external and climate shocks have continued. A more severe dry season exacerbated by the phenomenon of *El Niño* has hurt production of our agricultural exports and forced an increase in expensive energy imports. Lower U.S. demand, the challenges in accessing certain export market and the effects of climate change have affected our exports, dampening employment generation and generating higher migration pressures Domestically, despite the government's best effort in fostering public consultation and dialogue on the structural measures of the program, the difficulties of approving them have hindered their implementation.

2. **We reiterate our commitment to our program under the Extended Fund Facility and the Extended Credit Facility.** Support from the IMF is important to strengthen our balance of payments, bolster the stock of our international reserves, and obtain additional external financing to meet our fiscal financing needs. During the program, we have improved public investment execution while maintaining fiscal discipline, and we continue to implement important public financial management reforms. Nevertheless, in the context of external shocks and shortfalls in external official sector disbursements in 2023-24, we have faced pressures on our international reserves. At the same time, arrears of our public utility ENEE increased considerably, partly due to higher energy purchases due to the *El Niño* climate shock; we have taken initial measure to improve the financial management of ENEE and to address its payment arrears. In addition, we have already implemented adjustments to normalize monetary and exchange rate policies. These actions reflect our reinvigorated commitment to implement our economic program and to continue to take the necessary actions to ensure its success.

3. **We are also committed to managing the impact of Tropical Storm Sara within the contour of our current economic program.** In mid-November, Sara brought high amounts of rain to Honduras, especially the Atlantic coast and the South, causing extensive flooding, which damaged road infrastructure and bridges and affected vulnerable communities, including by its impact on subsistence agriculture. Fortunately, loss of life could almost be avoided, and damages limited, including on account of preventive measures we have taken. Our response to this shock will remain equally proactive: While ongoing damage assessments will take more time to complete, we are confident that the external financing we are activating from multilateral development partners and donors will allow us to meet urgent and priority reconstruction and social spending needs in a timely manner. We are planning to manage this additional spending through further reallocations in the 2024 budget.

II. Recent Developments and Program Performance

4. **The Honduran economy has remained resilient, despite a challenging international**

environment. Solid economic growth has continued, and inflation steadily declined as the external commodity and food price shock abated. At the same time, in the context of abnormal weather patterns associated with *El Niño* and lower external demand, our current account deficit has increased.

- **Growth:** The economy expanded 3.6 percent in 2023, buoyed by remittance-supported and credit-fueled consumption and our efforts to reinvigorate public investment. In terms of sectors, construction, wholesale and retail trade, and financial services have been the most dynamic. Robust growth continued in the first half of 2024, with continued support from consumption and a recovery in private investment.

- **Inflation:** After peaking at nearly 11 percent in 2022, inflation declined significantly in 2023, reaching 5.2 percent by the end of the year, driven mostly by a stabilization in food and energy prices and our monetary policy measures, which, together with the complementary fiscal measures, contributed to attenuate impacts. Through October 2024, inflation had declined further to 4.05 percent, close to our 4 percent inflation objective and within the ±1 percent tolerance range.

- **Current account:** The current account deficit narrowed to 3.9 percent of GDP in 2023 from 6.5 percent of GDP in 2022, as strong remittance inflows and sharply declining imports more than offset a decrease in key exports. In the first half of 2024, the current account deficit has increased, as imports have recovered while export receipts continued to decline, with remittances partly compensating.

5. While climate shocks and limited capacity have hampered some areas of program performance through end-September 2024, key actions already implemented and strong policies will help ensure adherence to the program targets going forward.

- **Fiscal targets:** We have met all performance criteria (PCs) and indicative targets (ITs) for the fiscal deficit and tax revenue of the central government. On the other hand, we fell short of ITs on priority social spending as capacity constraints have hindered implementation of social programs. To improve execution, we are implementing measures to enhance the effectiveness and targeting of conditional cash transfers (¶16). We also modestly exceeded ceilings on current primary spending (ITs for end-March and end-June 2024) as we faced unexpectedly large energy purchases necessitated by abnormal weather. In response, we are already implementing measures to contain specific current expenditures (¶9). We have not accumulated new external arrears (continuous PC).

- **Monetary targets:** We met PCs for the stock of net international reserves and net domestic assets of the central bank for end-December 2023. However, we underperformed in both areas against end-March ITs and end-June 2024 PCs in the context of pressures on the current account and lower inflows of external disbursements than programmed. To achieve reserve targets going forward, we have decisively strengthened the implementation of our monetary and exchange rate policies (¶33, ¶34 and ¶36). There have been no new flows of monetary financing to the Non-Financial Public Sector (continuous PC).

- **Energy sector targets:** While we met the end-December 2023 PC on the reduction ENEE arrears, we did not meet the end-March IT or end-June 2024 PC as arrears increased in the context of delays in issuing bonds necessary to finance an arrears reduction. To address the situation, we are implementing a comprehensive ENEE financing plan (¶27). We also did not meet ITs on ENEE energy distribution losses, as reforms implemented (¶25) took more time to place such losses on the current downward trend.

- **Structural benchmarks (SBs):** Four of eleven SBs through September 2024 were met, with one additional SB implemented with delay. Despite the government's best efforts, three SBs for end-December 2023 related to congressional approval of the tax reform were not met, as we need additional time to build political support around the reforms. Due to delays related to capacity constraints in our social sector and the need to adapt one of the SBs, we also did not meet three additional end-June and end-September 2024 SBs. We propose to reschedule the missed SBs, as shown in Table AI.4, to better reflect our implementation capacities.

III. Policy Framework and Economic Program

6. **The baseline macroeconomic framework has been revised to reflect recent domestic and global developments and renewed commitments to meet our program targets.** The design and implementation of a prudent macroeconomic policy mix will enable us to strengthen our economic stability and support inclusive growth.

- **Real GDP growth** is projected to remain within our forecast range of 3.5 to 4.5 percent in both 2024 and 2025. We project more balanced growth in line with our policies, with consumption moderating, a strengthening of private investment, and a larger contribution of the external sector to growth.

- **Headline inflation** is projected to remain at end 2024 within the established medium run tolerance range (4% ±1pp). In 2025, we expect inflation to stand slightly above this range, peaking in the second half of 2025, in the context of normalization of our monetary and exchange rate policies. We project that inflation will return toward the 4 percent objective in 2026.

- The **current account deficit** is projected to increase to around 5¼ percent of GDP in 2024 as goods exports have declined, reflecting adverse climate conditions and weak external demand. We project the deficit to decline below 5 percent of GDP in 2025 in line with favorable terms-of-trade dynamics, a more balanced economic growth, and the impact of our policy adjustments. While we project that liquid international reserves will decline $1,255.1 million in 2024 ***(quantitative performance criterion)***, for the first nine months of 2025 we have set a target for accumulation of $38 million ***(quantitative performance criterion)***, supported by more favorable projected external disbursements and our adjustments of monetary and exchange rate policies.

7. Policies may need to be adjusted in the context of evolving external and domestic conditions. The economic outlook for Honduras includes considerable risks. Increased geopolitical tensions could adversely affect commodity prices or global growth, with negative impacts on our exports and a worsening of our terms of trade. A possible increase in international commodity prices would again pressure domestic inflation and FX reserve accumulation. Honduras also remains highly vulnerable to severe weather events. Domestically, the political environment may inhibit the to the legislative approval of necessary reforms, while capacity constraints in certain areas could pose a risk to program implementation. The persistence of services inflation may also make further convergence to the central bank's inflation objective more challenging. In this context, we stand ready to adapt our policies and instruments as needed to ensure macroeconomic stability and social wellbeing through continued adherence to program objectives.

A. Fiscal Policies

8. Our fiscal policies seek to anchor fiscal stability and budgetary discipline to create space for productive investment and social spending. On the back of our budgetary discipline, public debt stood at 48 percent of GDP at end 2023, about 4 percentage points of GDP below that envisaged at program approval. Moreover, we remain committed to further reducing the non-financial public sector (NFPS) fiscal deficit to 1 percent of GDP by the end of the program, which is critical to preserving debt sustainability. We continue to aim to reorient spending towards investment and social expenditure. Public investment will continue to focus on infrastructure, the road and hospital network, school repairs, the energy sector, food security, social protection, and adaptation to climate change.

9. For 2024, we expect to again overperform fiscal objectives under the program. Spending restraint and higher-than-budgeted revenue collection, supported by tax administration efforts, helped reduce the 2023 NFPS deficit to 1.3 percent of GDP, 0.4 percentage points lower than programmed. For 2024, fiscal prudence has continued, and we expect a fiscal deficit of around 1.5 percent of GDP. Tax revenues continue to grow, supported by the dynamism of economic activity. Regarding current expenditure control, we have approved a decree in the Council of Ministers, implementing measures such as freezing public sector job creation, cutting unnecessary expenditures, and regularizing temporary employment schemes of the central government. These steps will allow us to redirect up to 1.8 billion Lempiras (about 0.2 percent of GDP) from current spending to capital spending, also creating space to financially support ENEE in its decisive plan to reduce its stock of arrears (¶27). We are also planning to use further reallocations within the 2024 budget envelope to address emergency spending needs in the context of Tropical Storm Sara.

10. Our draft 2025 budget continues to reflect our program objectives. The budget, which we have submitted to Congress, targets a NFPS deficit of 1.5 percent of GDP, reflecting the government's commitment to strengthening revenues to support public investment and social protection, allocating resources to assistance programs such as the *Red Solidaria*. We will continue investments in energy infrastructure, hospitals, road construction, public safety, and education. In 2025, the program will allow for additional productive capital expenditures of up to 1 percentage point of GDP in case external disbursements exceed those projected in the TMU. We will ensure that the financing of these projects is properly identified.

11. We continue to work towards making the tax system more equitable and reducing high and inefficient tax expenditures. Our Law on Tax Justice bill, sent to Congress for adoption in March 2023, seeks to streamline tax exemptions and reduce high tax expenditures while at the same time respecting acquired rights. We continue to work to achieve its approval. Therefore, we are requesting that the December 2023 ***structural benchmark*** of its approval be postponed until ***May 2025***. Once approved, we will work on regulations to implement the Law on Tax Justice, with the support of the IMF, with a particular focus on defining objective and transparent processes.

12. We also remain committed to the approval of the Convention on Mutual Administrative Assistance in Tax Matters (MAAC). We submitted to Congress a decree to ratify this convention, which will promote international cooperation by our tax administration, together with the Law on Tax Justice. To give time to for its approval, we are requesting to also postpone to ***May 2025*** the December 2023 ***structural benchmark*** for its approval.

13. Our government is committed to enhancing public expenditure control and transparency in budget execution. As part of these efforts, we plan to adopt in the Council of Ministers a decree and publish a "Manual for the Programming of Budget Execution" by ***February 2025 (structural benchmark)***. This manual will define clear standards and technical guidelines for the entire budget execution process, encompassing the pre-commitment, commitment, verification, and payment stages. By making these guidelines binding for the entire central government, we can ensure a more rigorous and transparent approach to budget management, ultimately fostering greater accountability and efficiency in public spending.

B. Social Safety Net

14. Protecting the poor and strengthening social spending remain key pillars of our economic program. To this end, we remain committed to scale up social expenditures on the most vulnerable in a well-focused manner through our flagship programs, including *Red Solidaria* and *PROASOL*. Moreover, we continue to provide electricity free of charge to poor households consuming less than 150 kWh per month, with 60 percent of the cost borne by the state, while 40 percent is financed by large consumers through a cross-subsidy. In addition, we have sought since this July to limit large increases in electricity rates, which would not have been socially feasible, in a fiscally sustainable manner. The 2024 budget includes a 4.8 billion Lempira allocation which is sufficient to finance this latter measure during the remainder of this year. We will continue the process that we started this October of scaling this measure down to the 3.15 billion Lempiras allocated in the 2025 budget.

15. To strengthen our fight against poverty, we are advancing on a Poverty Reduction and Growth Strategy (PRGS). To support this effort, we have hired an international consultant to help the government units integrate the formulation of their plans. However, due to delays in preparing the strategy, we are requesting an extension until the third review of the program. This extension will enable us to align our poverty reduction efforts with the updated strategy and meet the IMF's requirements for programs financed by the Poverty Reduction and Growth Trust.

16. We continue to work on strengthening the design of our social protection network through the *Red Solidaria* program. Despite our best efforts, we have faced capacity constraints in administering *Red Solidaria* conditional cash transfers—the program's largest component supported by multilateral financing support—because in 2024 the population and housing census could not be carried out (essential for updating beneficiaries and databases), so that implementation could only be done late in the year and causing us to underperform the priority social spending targets of our program. Going forward, we are implementing a series of measures to enhance the effectiveness and targeting of conditional cash transfers, including (i) negotiating external credits to finance *Cajas Rurales* to support the execution of transfers; (ii) strengthening our technical capacity to update social records through *Mesas Solidarias;* and (iii) streamlining the hiring processes to support the implementation and execution processes. We are also working toward expanding *Red Solidaria* to 120,000 households in 500 marginalized urban neighborhoods. To this end, we are working with the help of the World Bank on a census of urban urban poverty. Despite the progress we have made, we have experienced capacity issues, therefore we request that the September 2024 ***structural benchmark*** for completion of the census and entering the data into the Honduran Beneficiary Information and Registration System (SIRBHO) be postponed to ***end-March 2025***.

17. We are finalizing the Single Social Sector Information System (SUISS) to facilitate the design, monitoring, and transparency of our social programs. SUISS will centralize and structure information generated by the existing data systems within the Social Cabinet to allow for policy design based on better information. Updated information on the socio-economic status of households will help improve the effectiveness and coverage of social assistance programs. We are committed to ensuring the operational readiness of SUISS, however, we must request a reprogramming of this June 2024 ***structural benchmark*** to ***end-June 2025*** due to capacity constraints.

C. Quality of Spending and Structural Fiscal Measures

18. We remain committed to improving our practices in public investment management. We completed earlier this year a public investment management assessment (PIMA) including a climate component (C-PIMA), with assistance from Fund TA, which has provided many useful recommendations to help us improve investment management. We plan to establish a database of costed future investment project with completed financing and design studies, which would significantly reduce the lag between planning and project implementation. Another essential reform to speed up project implementation is the reform of procurement procedures (¶45). The Fiscal Contingencies Unit (UCF) within the Ministry of Finance (SEFIN) is responsible for quantifying risks arising from PPP contracts and others defined under the Fiscal Responsibility Law. This unit continues to make progress in implementing methodologies that enhance and complement the corresponding fiscal risk analyses, enabling the government and its authorities to make timely decisions for the proper management of risks.

19. We continue to eliminate the trust funds that created considerable opacity and corruption in the execution of public spending. We have made further progress in the liquidation and transfer of balances from trust funds into the accounts of the General Treasury, incorporating a further 4.4 billion Lempiras in trust fund assets in 2023 and an expected 1 billion Lempiras in 2024. Seventeen trust funds are already liquidated and another 51 only remain open as they have tax liabilities, so that we expect to bring them to closure soon. Thus, we plan to have 68 of the total of 82 trust funds closed by end-December 2024, the deadline of our program's corresponding structural benchmark, which we request to narrow to these 68 trust funds. We have found closing the remaining 14 trust funds to be very challenging given their complex financial structure. Therefore, we request these to be separated out into a new ***end-December 2025 structural benchmark***. For a first group of 8 trust funds, the higher difficulty arises from them holding loan portfolios, because they belong to our public development bank *BANHPROVI*. A second group of 5 trust funds requires complex audits (*INVEST-H*, *Tasa de Seguridad*, *Instituto de la Propiedad (IP-SITEC)*, and 2 of *SENPRENDE*), which in September we requested our Superior Court of Accounts to undertake. To expedite the process and in light of the complexity of these audits, we will consider that the Superior Court engage a private audit company for this purpose and will provide the needed funding. For a final trust fund (*Fideicomiso Beca Internacional*), delays have resulted from irregularities found for which judicial complaints have been filed.

20. We are working to strengthen the Treasury Single Account (TSA) to improve liquidity and debt management. To further improve cash management coordination, we have recently established (via ministerial agreement) a committee within SEFIN dedicated to this purpose. We have submitted to Congress this August amendments to the Organic Budget Law, prepared with support from IDB and Fund TA, which strengthen the TSA, thereby implementing with a delay the structural benchmark originally programmed for March 2024. We retain our original timeline to implement the amendments by ***December 2025 (structural benchmark)***, establishing regulations, norms and operational definitions to (i) ensure the efficient functioning of the TSA; (ii) facilitate recovery of outstanding bank balances to reintegrate into the TSA; (iii) define operational details for payment via revolving funds (including type of eligible expenditures, maximum amounts); and (iv) to establish procedures for public sector institutions to submit cash flow projections to the Treasury.

21. We are implementing a comprehensive reform of customs. This is a $50 million IDB-financed project being implemented with technical assistance from the IDB and the Fund over four years (2023-26). It comprises a redesign of customs procedures, installation of more advanced systems for inspection, restructuring of staffing, and an update to the customs law, which is currently being drafted and expected to be submitted to Congress by mid-2025. As of today, we already have launched tenders for half of the project's value, and we expect to see first impacts on customs revenues in late 2025. In the future, we will also work towards a single window to further facilitate international trade.

22. We also continue to strengthen our tax administration (SAR). The SAR inaugurated this June an online portal allowing taxpayers to undertake all administrative procedures with the SAR online. Together with the reactivation of the SAR's risk committee, we expect that this will increase tax revenues over time by allowing for enhanced cross-checking of data. Also, the SAR is currently developing a plan with concrete measures to increase tax revenues, which we will launch by early next year. Finally, the SAR is working with Fund TA to implement systems and processes to ensure timely sales tax reimbursements. This should allow us, as envisaged in the Law on Tax Justice, to eventually abolish orders granting firms ex-ante sales tax exemptions, which are commonly subject to non-compliance with the law.

D. Financing

23. We have successfully resumed domestic bond issuances and will continue to develop domestic bond markets. Last year, we published a new annual Public Borrowing Policy in September (met ***structural benchmark***) and a Medium-Term Debt Strategy in December (met ***structural benchmark***). As part of their implementation, SEFIN resumed since late 2023 domestic bond issuances, placing more than 10 billion Lempiras (over 1 percent of GDP) in line with our published bond issuance schedule (met January 2024 ***structural benchmark***). We have requested Fund technical assistance to further strengthen our yield curve. We will also ensure that ENEE has sufficient market access (¶27). Finally, taking into account the strength of our economic program and the transparency and efficiency in the management of public resources, we would not obtain monetary financing from the Central Bank of Honduras (BCH) in normal times (***continuous performance criterion***). In the event of an emergency, the most appropriate response will be in line with our legal framework and the objectives of our program.

24. International financial support remains important for our program. We continue to engage on financing with the Central American Bank for Economic Integration (CABEI), the the Andean Development Corporation (CAF), the IDB, and the World Bank. This financing will be important for investment spending, especially in the social, energy, and infrastructure sectors. We expect close engagement with the IMF accelerate funding from multilateral and bilateral donors. Given that international financial conditions are normalizing and with our policies having made our economy more resilient, we are also advancing with our plans to access the international debt markets with a thematic bond issue.

E. Energy Sector

25. We remain steadfast in our commitments to improve the health of our energy sector. Importantly, we are now observing some initial positive results, with ENEE losses on a downward trend driven by investments in the entire network and improved implementation of our National Loss Reduction Program (NLRP) after ENEE's takeover of the entire distribution function in August 2023. To date, as part of the NLRP, about half a million accounts have been reviewed, and anomalies, including indications of fraud, were detected in about a quarter of these. In addition, more than 300,000 new meters have been installed. While there was a delay relative to the program's indicative targets, given that our NLRP measures bore fruit later than expected, electricity losses were reduced from their 37.4 percent peak at September 2023 to 34.8 percent at October this year. However, until end-December this year, losses are likely to increase slightly to 35.5 percent, driven by stronger demand, higher-than-expected temperatures, and a change in the billing cycle. Our ambition for 2025 is to achieve a cumulative reduction of about 2½ percentage points.

26. ENEE's financial performance is also improving. The cash flow deficits, which surpassed 1 percent of GDP in 2021 have narrowed to 0.8 percent of GDP in 2022 and further to 0.7 percent of GDP in 2023. For 2024, we anticipate a deficit of 0.5 percent of GDP. Key improvements include: (i) improved compliance by public institutions in paying their obligations to ENEE; (ii) expected timely SEFIN transfers to ENEE of all subsidies, including some smaller ones (around 500 million Lempira per year) that went unpaid in the past and that will also support reducing ENEE's arrears (¶27); (iii) payment by SEFIN of ENEE's upcoming debt service of about 2 billion Lempiras in both 2024 and 2025. We are also planning to start, in early 2025 and with support from the IDB, a comprehensive audit of ENEE by the Superior Court of Accounts to provide more recommendations on how to improve ENEE's financial position and governance. This would be ENEE's first audit since 2016.

27. Regrettably, ENEE's arrears have increased significantly during 2024, but we are implementing a financing plan to redress the situation. At end 2023, ENEE's invoices more than 45 days past due, stood at to 9.8 billion Lempiras, meeting the program's ***performance criterion***. However, by September 2024, ENEE's arrears had grown to 17.5 billion Lempiras. This can be partly explained by ENEE's debt service obligations and power purchases during the (abnormally hot) dry season, costing almost 2 billion Lempiras more than normal. However, and more importantly, there have been delays in ENEE's debt issuances, which are necessary to finance its operational losses as well as the gradual arrears reduction we envisage under our program. For the analysis of financial policies related to the electricity sector and to coordinate on and support the speeding up of financing for ENEE via different financing mechanisms, we will establish, through a decree in the Council of Ministers and published in the official gazette, a committee composed of BCH, CNBS, ENEE, SEFIN, the Ministry of Energy, and the Secretariat of the Presidency (***prior action***). To reduce the arrears stock, ENEE has issued debt for 898.4 million Lempiras in the first half of November which, together with the measures of ¶25, would reduce its arrears below 11.5 billion Lempiras by end 2024. Given that issuances by November 15, 2024 totaled less than 5 billion Lempiras, SEFIN will execute a transfer to or a payment towards its accounts payable to ENEE for the shortfall to 5 billion Lempiras, i.e. 4,101.6 million Lempiras (***prior action***). Thus, for 2025, we will ensure that ENEE issue debt gradually throughout the year and reduce arrears further by 1 billion Lempiras each quarter.

28. We have submitted this May to the National Congress for approval a first set of renegotiated contracts with private power suppliers to reduce generation costs. As established in the new Energy Law passed by Congress in April 2022, we initiated a renegotiation process with private electricity suppliers for 28 contracts that had irregularities. The first set of 18 renegotiated contracts submitted to the National Congress this May, once approved, would generate savings of around 5 percent for consumers during the initial years.

29. We are working to transform the public company ENEE into an integrated, secure, and efficient entity. Our administration is committed to maintaining the state-owned company. However, in order to improve ENEE's efficiency, we remain committed to separating the administrative functions of generation, transmission, and distribution into separate business divisions. To achieve this, two separate sets of ongoing reforms need to be completed:

i. Merging of the three units of ENEE involved in distribution (UTCD, PNRP, ENEE Distribución). As a first step, we will integrate their operative processes by ***end-August 2025 (structural benchmark)***, which should allow ENEE to reduce operational costs, including by eliminating redundancies.

ii. Implementing international (IFRS) accounting standards, for which ENEE will (i) hire a consulting firm by ***end-March 2025 (structural benchmark)***, and in parallel (ii) establish an adequate IT software infrastructure, on which progress is ongoing. We aim to publish ENEE's IFRS-based audited annual financial statements (for the year 2025) by mid-2026.

30. ENEE is preparing the launch of a 1500 MW energy tender to expand generation capacity, essential to provide energy security. To limit blackouts during 2024-26, additional generation capacity (mainly diesel powered) of about 300 Megawatts (MW) was brought onstream, but at high cost given the emergency and short-term nature of the contracting. Therefore, ENEE is planning to launch by year-end an open, competitive, international, and transparent tender for new 1500 MW capacity to be installed during 2027-29. By mid-2025, when the auction is expected to take place, we expect that ENEE's improved record of payment discipline will have provided reassurance to investors to ensure broad participation and competitive offers.

31. We will continue to implement a fair pricing system to further underpin ENEE's financial recovery. The Honduran electricity pricing system is designed to cover all generation, transmission, and distribution costs in the tariff rate. That said, the tariff structure needs to be updated and, to this end, we plan to send to our energy sector regulator (CREE) by April 2025 all updated relevant studies to better reflect actual electricity costs. Based thereupon and prior to designing a tariff structure in line with resolution CREE-148 of June 24, 2019, the CREE would publish a preliminary technical note with the calculation of the maximum price (P0), Factor X and tariff structure and hold a public consultation thereupon by ***end-November 2025 (structural benchmark)***. This would lay the basis to update in 2026 the tariff structure to better reflect actual costs and thereby further fortify ENEE's financial position.

F. Monetary and Exchange Rate Policies

32. We remain committed to the implementation of monetary and exchange rate policies aimed at maintaining low inflation and safeguarding international reserves. A continued priority of our program is to maintain solid reserve coverage and a robust external position. At mid-November 2024, gross international reserves remained adequate at $6.9 billion, equivalent to a coverage of 4.3 months of imports. The achievement of the BCH's mandate to preserve the internal and external stability of the Lempira, and our priority of bolstering international reserves, will be underpinned by the continued implementation of our monetary and exchange rate policies and will also be supported by complementary policies, including the maintenance of fiscal discipline, the deepening of domestic debt markets, and the strengthening of ENEE's financial position. Strong communication with the public and markets on our policy measures will strengthen their effectiveness in achieving these goals.

33. The BCH is advancing on the normalization process of its monetary policy focused on containing inflation and safeguarding international reserves. The decline in headline inflation to 4.05 percent in October 2024 has been supported by the decisive monetary policies implemented by the BCH to tighten liquidity conditions, limit the growth of credit, and strengthen the monetary policy rate (TPM) as the main signaling instrument of the monetary policy stance. These implemented measures, which have resulted in changes in the marked interest rates (lending, borrowing and interbank rates) since mid-2023, include:

- An increase by 50 bps in the cut rate of BCH bills throughout maturities.
- An increase by 100 bps in reserve requirements in local currency to 10 percent in November 2023 together with a change in the maintenance period for reserve requirements to daily from two-week averages.
- An increase in the TPM by 100 bps to 4.0 percent in August 2024, which was reinforced by a further 175 bps to 5.75 percent in October 2024 (***prior action***). With the increases in the TPM, the process of normalization continues and, at the same time, the existing transmission mechanism is strengthened, improving the signaling effect of this instrument and the efficient management of market liquidity, which helps reduce inflationary pressures and safeguard the external position.

34. The BCH will continue to implement a combination of monetary and exchange rate measures to contain inflationary pressures and safeguard external stability. We will adopt the necessary measures, mainly adjustments in the TPM, and other policy instruments at our disposal to: (i) ensure that inflation continues on a downward path and that potential domestic and external shocks do not have second-round effects on inflation; (ii) keep inflation expectations anchored; and (iii) strengthen the use of monetary policy instruments, such as the TPM. To this end, we will continue to be guided by the latest domestic and global information, including international interest rates, to maintain a positive real monetary policy rate that supports the demand for Lempira assets.

35. The BCH, during 2022-2023, prioritized moderating exchange rate volatility to limit the pass-through of external inflation to domestic prices. This measure was effective in reducing inflationary pressures in the aftermath of the pandemic and in face of climate shocks and global price increases. However, the relative stability of the nominal exchange rate, coupled with a positive inflation differential vis-à-vis trading partners, and the appreciation of the U.S. dollar (USD)—especially in 2022—contributed to a slight appreciation of our real effective exchange rate (REER). We recognize that maintaining a competitive REER remains essential to improve the trade balance and safeguard external stability, including international reserves.

36. The BCH is taking measures to strengthen the implementation of the crawling band exchange rate regime to ensure the external competitiveness of the Lempira and preserve an adequate level of international reserves. Consistent with the crawling band regime, the BCH considers it appropriate that movements in the exchange rate begin to reflect the variations observed since the reactivation of the crawling band, to allow for improving competitiveness and the external position, and to better absorb external shocks. To this end, the initial expected path of the exchange rate would be determined by the behavior of the macroeconomic fundamentals implicit in the formula of our crawling band regime, which will allow us to correct the imbalance of the REER and strengthen the external position. During this period, we will be prepared to strengthen our exchange rate measures to be consistent with the reserve accumulation targets envisaged in our program.

37. We remain committed to enhancing the operational frameworks for monetary and exchange rate policies to enhance their effectiveness. We are developing analytical tools to strengthen the transmission mechanism of the TPM, including its channels, effectiveness, and lags, and the reaction of the financial system to changes in the instruments of the BCH. Revisions to the current operational framework will be aimed at improving open market operations, the functioning of legal reserve requirements, and coordination between the BCH and SEFIN. On the exchange rate front, we will consider options to strengthen the implementation of our crawling band regime.

38. We seek to improve the balance of supply and demand in the foreign exchange market over time. Under the monetary and exchange rate policies we implemented within our framework, we believe that the balance between supply and demand for foreign exchange will improve. At the same time, we will define and implement a roadmap for reforms to strengthen the efficiency of foreign exchange allocation. As a first step, we will prepare a diagnostic study, in collaboration with Fund staff, outlining options and recommendations to strengthen the foreign exchange allocation ***(April 2025 structural benchmark)***. Building on this study's recommendations, the BCH will take the actions it deems necessary to safeguard the national interest and economic stability, and to transition gradually during the life of our program to a balanced, competitive, and efficient foreign exchange allocation system that allows for price discovery and reflects foreign exchange supply and demand. During this process, we will ensure that the essential elements for its proper functioning have been identified and addressed in a way that safeguards against undue short-term exchange rate volatility and protects the rights of economic agents to purchase and sell foreign currency at equal conditions.

G. Financial Sector

39. The National Banking and Insurance Commission (CNBS) continues to closely monitor the health of our financial sector. Banks are well capitalized, liquid, and highly profitable, and non-performing loans remain low (around 2 percent). The latest stress tests conducted by the CNBS show that the banking system is resilient to significant shocks. Nevertheless, we are constantly monitoring for potential systemic risks and are prepared to address them as needed to safeguard the health of our financial system.

40. Our efforts to strengthen the regulatory framework and banking supervision practices continue. We have enhanced the capacity of the CNBS in risk-based supervision, applying the supervision methodology developed by the Toronto Centre. The CNBS has developed the criteria to identifying systemically important financial institutions (SIFIs), and we plan to fully phase in the capital conservation buffer of 2.5 percent by December 2025. We also plan to implement the net stable funding ratio requirement by early 2025, making Honduras the first country in the region to have two measures of liquidity in line with the Basel standards. We are also starting a project to implement IFRS-9 financial accounting standards by 2026. The BCH has carried out a process of public consultation with relevant stakeholders on modernizing the country's digital payment systems and is considering these inputs in determining the best the way forward.

41. We continue to promote the resilience of the financial system against climate change. The CNBS has defined an action plan to incorporate climate change vulnerabilities into stress testing of the financial system and current regulations. Important ongoing projects along these lines, supported by World Bank technical assistance, include the estimation of expected losses related to climate change and the geo-referencing of economic activities.

42. We are working on new laws for the equity and bond markets and the insurance and reinsurance sectors. Both laws, drafted with technical assistance from the IDB, will create a regulatory framework in line with international best practices that will contribute to development of the markets and financial inclusion, incorporating risk-based capital requirements. The CNBS is in the process of reviewing and analyzing comments by SEFIN and the BCH in order to submit these laws to the National Congress in the first half of 2025.

43. We will protect the confidentiality of banking information, appropriately limiting access by the tax authorities. Once passed, the Law on Tax Justice will provide for access to bank records by tax authorities in line with international standards. We do, however, recognize the importance of maintaining access limited to that required for tax purposes and will protect the confidentiality of data once the law enters into force.

H. Governance, Rule of Law, and Business Climate

44. Improving the environment for investment and job creation is key to fostering inclusive growth. In this context, we advanced with our work on the simplification of administrative procedures. After evaluating the merits of a Law on Simplification of Administrative Procedures (***June 2024 structural benchmark*** in our original program), we concluded that more substantial and immediate benefits could be realized via executive actions to digitize administrative procedures. Thus, we request that this ***structural benchmark*** be modified and reset to ***end-April 2025***, by which time we would launch the government's Digital Investment Portal, which is already well advanced, and digitize at least 50 administrative procedures thereon. This will streamline the interaction of our citizens and investors with the government and speed up required times to obtain permissions, documents and government services, including related to health, education, security, employment, commerce, infrastructure, social protection, and agriculture and fisheries.

45. We are finalizing the drafting of a new public procurement law to enhance transparency and strengthen the public contracting process. We prepared this new public procurement law in consultation with all relevant stakeholders and development partners and we plan to submit it to the National Congress soon. The law seeks to enhance transparency, streamline procedures, strengthen procurement and contracting processes, and include powers to detect fraud. Following approval, expected for the first half of 2025, we will proceed with the timely issuance of implementing regulations. Finally, we have already started working on a new electronic platform for procurement, whose first phase we plan to operationalize mid-2025.

46. We remain steadfast in our fight against corruption. Our ambitious strategy includes:

- *Establishment of an electronic asset declaration system for public officials* (met ***February 2024 structural benchmark***). The Superior Court of Auditors is implementing the rollout of the system, which is expected to become fully digital by early 2026. We are further working, with IDB support, on the introduction of risk markers and alert modules for early detection of illicit activities and the extension of the system to municipalities.

- *Adoption of a Honduran National Transparency and Anti-Corruption Strategy (ENTAH),* which is awaiting discussion by the Council of Ministers, expected by early 2025. The ENTAH seeks to improve public culture against corruption; strengthen institutional capacity to prevent, detect, investigate and sanction corruption; promote accountability of public institutions; as well as strengthen agreements for coordination among actors on anti-corruption matters.

- *Establishment of the International Commission against Corruption and Impunity in Honduras (CICIH)*, an international mechanism to support the Honduran government in combating corruption. We have submitted to the United Nations a revised action plan and expect establishment of the CICIH to take place in 2025.

- *Creation of the National Transparency and Anticorruption Observatory*, established at the *Universidad Nacional Autonóma de Honduras* (UNAH) in June 2024. The Observatory, which incorporates ample participation from civil society and NGOs, aims at advancing transparency and good government practices through the monitoring of public policies and the preparation of academic and policy studies, including the preparation of an Index of Transparency for Honduras.

- *Adoption of a whistleblower law*. We are advancing, with United Nations support, on the preparation, together with the launching of a digital portal, of a new whistleblower law to that ensures safety and legality when illicit activities are reported. We plan to submit the draft law to the National Congress in the second quarter of 2025.

47. We are further advancing our efforts to strengthen our AML/CFT framework ahead of the evaluation by the Financial Action Task Force (FATF) in 2026. We approved technical standards for prevention of money laundering risks in December 2023 for cooperatives supervised by the National Supervisory Council for Cooperatives (CONSUCOOP) and in May this year for Designated Non-Financial Businesses and Professions (DNFBPs). We expect to finalize still this year the national risk evaluation on AML/CFT, which will guide allocation of resources under our risk-based supervision to where they are most effective in preventing money laundering and financing of terrorism. Finally, we plan to advance updates to four laws to Congress by early 2025 to further strengthen the AML/CFT frameworks to bring them fully into line with the standards of the Financial Action Task Force of Latin America (GAFILAT). These updates relate to the Counter-Terrorist Financing Law, the Special Law against Money Laundering, the Law on the Regulation of DNFBPs and the Law on the Definitive Deprivation of Ownership of Property of Illicit Origin.

48. We will create a business registry with information on firms' beneficial owners. The Law on Beneficial Ownership remains in Congress, and we request that the ***December 2023 structural benchmark*** of its congressional approval be reset to ***end-May 2025*** to allow more time its approval. In addition, we plan to submit to the National Congress a Law on the Superintendence of Commercial Companies by early 2025. Together, these two laws will create the legal basis for establishing a single national registry of commercial companies, including information on their beneficial owners. This registry will be administered by the SAR and we will put it into operation soon after the approval of the legal framework. Given the delays incurred in the National Congress, we request to reset the ***December 2024 structural benchmark*** for launching the new registry with information on commercial companies and their beneficial owners to ***end-December 2025***.

I. Statistics

49. We are working to improve price and economic activity statistics, which are essential for assessing the monetary stance and forecasting inflation. The BCH, working together with the National Institute of Statistics (INE), completed in April 2024 the field work for the National Household Income and Expenditure Survey (ENIGH); the evaluation and preparation of the data are ongoing with a view to their publication in the second half of 2025. These data will also enable, by late 2025, the rebasing of the Consumer Price Index, and thereafter of the National Accounts. The latter, however, will require more time, including to also fully incorporate results from the agricultural and fisheries census and the population and housing census. For the former, a pilot has been completed with assistance of the FAO and the field work is scheduled for the last quarter of 2024. The latter is at the planning stage and will be financed by the IDB.

J. Climate Change

50. We have made progress in implementing our agenda to address climate change. In October last year, the National Congress approved a Special Law on Forest Carbon Transactions for Climate Justice, that establishes norms for such transactions and the sustainable management of forest carbon sinks. This July, the National Congress approved a Law on the Rational and Efficient Use of Energy, mandating energy-efficiency labelling of appliances, drafting of a national strategy for efficient energy use and establishment of a fund to promote related actions. The Ministry of Energy is now working on the implementing regulations for this law, as well as on a new law on bioenergy. SEFIN has been developing, with UNDP technical assistance, a reference framework for sustainable bonds and expects to publish the ministerial agreement of its approval in the official gazette before year end. It lays out characteristics for sustainable projects, of which we identified about $2 billion worth in our 2023 and 2024 budgets, providing a solid basis for our planned issuance of a sustainable bond. With the help of CABEI, we have significantly advanced feasibility studies for the El Tablón and Morolica dams and expect to publish these by early next year. These dams are crucial in our climate adaptation strategy by providing flood control, irrigation, clean water and electricity generation. Finally, we are also planning to scale up the capacity of our disaster response agency to be able to help 30,000 affected families in case of disasters, from 10,000 presently.

K. Safeguards Assessment and Program Monitoring

51. Work to address recommendations of the updated safeguards assessment is ongoing. The assessment highlights that the BCH has made significant progress implementing past safeguards recommendations and broadly maintains strong controls over its operations. That said, we have already taken concrete steps to further strengthen BCH's institutional framework by: (i) finalizing the full adoption of international accounting standards (IFRS), (ii) further strengthening the internal audit function, including through training of our auditors, and (iii) improving risk management and cybersecurity practices. Further planned activities to address recommendations from the safeguards assessment include:

- *Develop a medium-term strategy to unwind the BCH's quasi-fiscal operations*. This would include the eventual transfer of the Investment Fund to the state and the wind down of the Guarantee Fund by 2029, in line with its incorporation agreement. In this context, the BCH engaged an external auditor to provide an independent audit opinion of the Investment Fund, which was included in the May presentation of the BCH's 2023 financial statements. Moreover, we will start independent audits of the Guarantee Fund with the accounts for the 2024 fiscal year. We recognize the value of our development banks for our long-term growth. The financing to these institutions would be provided by SEFIN as part of the budget and/or through financing obtained from bilateral or multilateral partners. the BCH will not provide any new financing to the financial public sector, including *BANHPROVI* and *BANADESA* (***continuous performance criterion***), in accordance with the provisions of its Organic Law, to limit risks to inflation and the BCH's balance sheet stemming from quasi-fiscal operations.

- *Engage with Fund staff to advance on other recommendations of the safeguards assessment.* The BCH Law has not been amended since 2004, and we recognize that there is potential to further strengthen BCH's institutional framework in line with international best practices, as well as to reinforce permanent processes for modernization and upgrading of the central bank. To this end, we will set up a technical team that will begin work in this direction in coordination with the Fund. Another step forward in this direction is the *Financial Innovation Roundtable*, established since 2019, under which interaction will continue with specialized IMF staff on these and other issues to determine the best way to proceed.

52. Program monitoring. The program remains subject to semi-annual reviews and will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks, as set out in Tables AI.2 and AI.4. To facilitate the monitoring of the program, we commit to providing detailed information as specified in the Technical Memorandum of Understanding (TMU). The relevant definitions and reporting procedures are further specified in the attached TMU.

Table AI.1. Honduras: Evaluation of Performance Criteria and Indicative Targets

(Cumulative flows; millions of Lempiras, unless specified)

	End-Dec 2023				End-Mar 2024				End-June 2024				End-Sept 2024			
	PCs	Adj.	Actual	Status	ITs	Adj.	Actual	Status	PCs	Adj.	Actual	Status	ITs	Adj.	Actual	Status
QUANTITATIVE PERFORMANCE CRITERIA 1/																
Fiscal and public debt targets																
Net lending/borrowing of the nonfinancial public sector (-= borrowing, floor) 2/	-16,970		-11,222	Met	-1,897		4,409	Met	-3,843		8,302	Met	-6,170		18,088	Met
Stock of domestic arrears of ENEE (ceiling)	10,500		9,787	Met	10,500		13,339	Not met	9,451		16,113	Not met	9,148		17,527	Not met
Accumulation of new external arrears (ceiling, in million US$) 3/	0		0	Met	0		0	Met	0		0	Met	0		0	Met
Monetary targets																
Stock of non-borrowed net international reserves of the Central Bank (floor, in million US$)	5,465	5,126	5,437	Met	5,477	5,329	4,955	Not met	5,500	5,268	4,801	Not met	5,371	4,875	4,549	Not met
Stock of net domestic assets of the central bank (ceiling)	-62,794	-54,461	-62,820	Met	-62,593	-58,960	-54,628	Not met	-61,685	-55,978	-53,194	Not met	-61,459	-49,278	-47,646	Not met
Monetary financing (ceiling) 3/	0		0	Met	0		0	Met	0		0	Met	0		0	Met
INDICATIVE TARGETS 1/																
Tax revenue of the central government (floor) 2/	145,070		148,863	Met	30,500		30,721	Met	77,000		77,900	Met	116,500		120,421	Met
Current primary spending of the SNPF excluding priority social spending (ceiling) 2/	203,395		190,451	Met	44,685		46,279	Not met	97,877		101,240	Not met	143,672		149,392	Not met
Priority social spending (floor) 2/	7,000		5,907	Not met	856		594	Not met	2,472		2,341	Not met	4,851		3,643	Not met
Percentage of energy lost by ENEE in energy distribution (ceiling)	34.5		36.9	Not met	33.8		36.9	Not met	33.1		36.0	Not met	32.4		35.1	Not met

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

2/ Cumulative from the start of the calendar year.

3/ Continuous PC.

Table AI.2. Honduras: Quantitative Performance Criteria and Indicative Targets

(Cumulative flows; millions of Lempiras, unless specified)

	2024	2025		
	End-Dec	End-March	End-June	End-Sep.
	PCs	ITs	PCs	ITs
QUANTITATIVE PERFORMANCE CRITERIA [1/]				
Fiscal and public debt targets				
Net lending/borrowing of the nonfinancial public sector (-= borrowing, floor) [2/]	-13,752	-2,553	-4,786	-7,919
Stock of domestic arrears of ENEE (ceiling)	11,500	10,500	9,500	8,500
Accumulation of new external arrears (ceiling, in million US$) [3/]	0	0	0	0
Monetary targets				
Stock of non-borrowed net international reserves of the Central Bank (floor, in million US$)	4,182	4,188	4,214	4,220
Stock of net domestic assets of the central bank (ceiling)	-28,430	-31,873	-33,915	-34,149
Monetary financing (ceiling) [3/]	0	0	0	0
Central bank transfers to financial public sector (ceiling) [3/]	0	0	0	0
INDICATIVE TARGETS [1/]				
Tax revenue of the central government (floor) [2/]	160,467	29,538	73,151	127,393
Current primary spending of the SNPF excluding priority social spending (ceiling) [2/]	208,345	47,515	109,335	166,455
Priority social spending (floor) [2/]	6,000	1,250	2,600	5,550
Percentage of energy lost by ENEE in energy distribution (ceiling)	35.5	34.9	34.3	33.7

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

2/ Cumulative from the start of the calendar year.

3/ Continuous PC.

Table AI.3. Honduras: Prior Actions and Existing Structural Benchmarks 2023-25					
	Measure	**Test Date**	**Objective**	**MEFP ¶**	**Status**
Prior Action	Increase interest rate on BCH's overnight lending facility (Facilidad Permanente de Crédito, FPC) by 50 basis points	Prior Action	Strengthening monetary policy transmission	n.a.	Met at the time of approval of the arrangements
1.	Prepare and approve in the Public Credit Committee (Comisión de Crédito Público) an annual Public Borrowing Policy (Política de Endeudamiento Público, PEP) and publish it on the website of the Ministry of Finance.	End-September 2023	Deepen domestic debt markets; improve government financing and debt service profile	¶23	Met
2.	Prepare a Medium-Term Debt Strategy and publish it on the Ministry of Finance website.	End-December 2023	Deepen domestic debt markets; improve government financing and debt service profile	¶23	Met
3.	Approve the Law on Tax Justice (Ley de Justicia Tributaria) in the National Congress.	End-December 2023	Make the tax system more equitable and reduce tax expenditures	¶11	Not met; propose to reset to end-May 2025 (see Table AI.4, SB #7)
4.	Approve the decree to ratify the Convention on Mutual Administrative Assistance in Fiscal Matters (MAAC) in the National Congress.	End-December 2023	Improve tax administration	¶12	Not met; propose to reset to end-May 2025 (see Table AI.4, SB #8)
5.	Approve a law that ensures timely access to beneficial ownership information for all types of legal persons in Honduras—including requiring legal entities to submit updates, ensuring the centralization of beneficial ownership information, and establishing measures to ensure compliance.	End-December 2023	Improve transparency and governance, and reduce corruption vulnerabilities	¶48	Not met; propose to reset to end-May 2025 (see Table AI.4, SB #9)
6.	Publish an issuance schedule for treasury bonds on the Ministry of Finance's website.	End-January 2024	Deepen domestic debt markets	¶23	Met
7.	Make the electronic asset declaration system for public officials operational nationwide.	End-February 2024	Improve transparency and governance, and reduce corruption vulnerabilities	¶46	Met
8.	Prepare a Special Law to Strengthen the Single Treasury Account and submit it to the National Congress for approval.	End-March 2024	Improve governance and transparency in public spending	¶20	Not met; Implemented on August 16, 2024

Table AI.3. Honduras: Prior Actions and Existing Structural Benchmarks 2023-25 (Concluded)					
9.	Create the Single Social Sector Information System (SUISS) and populate it with the data (according to ¶18 of the September 2023 MEFP).	End-June 2024	Combat poverty and inequality	¶17	Not met; propose to reset to end-June 2025 (see Table AI.4, SB #10)
10.	In consultation with IMF staff, prepare a draft law on Simplification of Administrative Procedures and submit it to the National Congress for approval.	End-June 2024	Improve efficiency in the public administration and the business climate	¶44	Not met; propose to modify (see Table AI.4, SB #5)
11.	Complete the census of urban households in extreme poverty and register the resulting data in the Honduran Beneficiary Information and Registration System (SIRBHO).	End-September 2024	Combat poverty and inequality	¶16	Not met; Propose to reset to end-March 2025 (see Table AI.4, SB #3)
12.	To implement the Law on Beneficial Ownership, make operational a comprehensive beneficial ownership registry	End-December 2024	Improve transparency and governance, and reduce corruption vulnerabilities	¶48	Propose to reset to end-December 2025 (see Table AI.4, SB #15)
13.	Conclude liquidation and audit of all trust funds, and their complete integration into the budget processes and the central government balance sheet, including INVEST-H, Tasa de Seguridad and Instituto de la Propriedad (IP-SITEC), and share the associated audit documents with IMF staff. Quantify and register their debts (including accounts payable) as part of public debt stock.	End-December 2024	Improve governance and transparency in public spending	¶19	Propose to modify this benchmark by dividing it into two (see Table AI.4, SBs #1 and #13)
14.	Operationalize the Special Law to Strengthen the Treasury Single Account	End-December 2025	Improve governance and transparency in public spending	¶20	Propose to modify to SB #14 in Table AI.4 to provide more detail on the specifics of operationalizing the amendments to the law

Table AI.4. Honduras: New Prior Actions and Proposed Structural Benchmarks					
	Measure	**Test Date**	**Objective**	**MEFP ¶**	**Comments**
Prior Action	Increase Monetary Policy Rate (TPM) by 175 bps	Prior Action	Tightening monetary policy	¶33	Met on October 24, 2024
Prior Action	SEFIN to make a transfer or payment towards its accounts payable to ENEE in the amount that ENEE's 2024 new debt issuances fall short of 5 billion Lempiras as of November 15, 2024	Prior Action	Reduce arrears of and improve financial sustainability of SOEs; improve the business climate	¶27	
Prior Action	Establish, through an agreement in the Council of Ministers published in the Official Gazette, a committee composed of the BCH, CNBS, ENEE, SEFIN, the Ministry of Energy, and the Secretariat of the Presidency for the analysis of financial policies related to the electricity sector and to coordinate on and support the speeding up of financing for ENEE via different financing mechanisms	Prior Action	Improve governance, ensure ENEE arrears reduction, and improve the business environment	¶27	
1.	Conclude liquidation and audit of all trust funds, except for the 14 trust funds of structural benchmark #13 of this Table AI.4, and their complete integration into the budget processes and the central government balance sheet, and share the associated audit documents with IMF staff. Quantify and report their debts (including accounts payable) as part of the public debt stock.	End-December 2024	Improve governance and transparency in public spending	¶19	Modification of SB #13 in Table AI.3
2.	Adopt by decree of the Council of Ministers and publish a "Manual for the programming of budget execution" strengthening public expenditure control by defining standards and technical guidelines for the programming of budget execution (including at least the pre-commitment, commitment, verification, and payment stages) and which is binding for the entire central government.	End-February 2025	Strengthen public financial Management and expenditure control	¶13	New SB
3.	Complete the census of urban households in extreme poverty and register the resulting data in the Honduran Beneficiary Information and Registration System (SIRBHO).	End-March 2025	Combat poverty and inequality	¶16	Reset version of SB #11 in Table AI.3
4.	ENEE to hire a consulting firm to help implement international accounting standards (IFRS) to facilitate establishment within ENEE of separate business divisions for generation, transmission and distribution	End-March 2025	Improve transparency, accountability, and governance of SOEs	¶29	New SB

Table AI.4. Honduras: New Prior Actions and Proposed Structural Benchmarks (Continued)					
5.	Launch the government's Digital Portal for Investment and digitize at least 50 processes thereon to streamline obtaining government permissions, documents and services for citizens and investors	End-April 2025	Improve efficiency in the public administration and the business climate	¶44	Modification of SB #10 in Table AI.3
6.	In line with ¶38 of the MEFP, prepare, in collaboration with Fund staff, a diagnostic study outlining options and recommendations to strengthen foreign exchange (FX) allocation aimed at achieving a balanced, competitive, and efficient FX allocation system that allows for price discovery and reflects supply and demand	End-April 2025	Improve efficiency of foreign exchange allocation	¶38	New SB
7.	Approve the Law on Tax Justice (Ley de Justicia Tributaria) in the National Congress.	End-May 2025	Make the tax system more equitable and reduce tax expenditures	¶11	Reset version of SB #3 in Table AI.3
8.	Approve the decree to ratify the Convention on Mutual Administrative Assistance in Fiscal Matters (MAAC) in the National Congress.	End-May 2025	Improve tax administration	¶12	Reset version of SB #4 in Table AI.3
9.	Approve a law that ensures timely access to beneficial ownership information for all types of legal persons in Honduras—including requiring legal entities to submit updates, ensuring the centralization of beneficial ownership information, and establishing measures to ensure compliance.	End-May 2025	Improve transparency and governance, and reduce corruption vulnerabilities	¶48	Reset version of SB #5 in Table AI.3
10.	Create the Single Social Sector Information System (SUISS) and populate it with the data (according to ¶18 of the September 2023 MEFP).	End-June 2025	Combat poverty and inequality	¶17	Reset version of SB #9 in Table AI.3
11.	Integrate into a single unit the operational processes of ENEE's three distribution units (UTCD, PNRP, ENEE Distribución)	End-August 2025	Improve governance and profitability of SOEs, including by facilitating further reductions in electricity losses	¶29	New SB
12.	In preparation for the design of a tariff structure in accordance with the tariff regulations according to resolution CREE-148 of June 24, 2019, publish a Preliminary Technical Note with the Calculation of the Maximum Price (P0), Factor X, and Tariff Structure and carry out a public hearing thereon.	End-November 2025	Update the tariff structure of the electricity sector and improve the financial situation of state-owned companies	¶31	New SB

Table AI.4. Honduras: New Prior Actions and Proposed Structural Benchmarks (Concluded)					
13.	Complete liquidation and audits of the 14 trust funds that require complex audits (INVEST-H, Tasa de Seguridad, Instituto de la Propiedad (IP-SITEC), 2 SENPRENDE trust funds), are in the recovery process of their loan portfolios (8 BANHPROVI trust funds) or whose closure has been delayed by legal claims (Fideicomiso Beca Internacional). Complete their integration into the central government's budgetary processes and balance sheet and share audit documents with IMF staff. Quantify and report their debts (including accounts payable) as part of the public debt stock.	End-December 2025	Improve governance and transparency in public spending	¶19	Resulting from modification of SB #13 in Table AI.3
14.	Effective implementation of the Amendments to the Organic Budget Law to Strengthen the Single Treasury Account (TSA), including by establishing regulations, norms and operational definitions to (i) ensure the efficient functioning of the TSA, (ii) to facilitate recovery of outstanding bank balances to reintegrate into the TSA, (iii) to define operational details for payment via revolving funds (including type of eligible expenditures, maximum amounts), and (iv) procedures for public sector institutions to submit their cash flow projections to the Treasury.	End-December 2025	Improve governance and transparency in public spending	¶20	Modification to better define SB #14 of Table AI.3
15.	To implement the Law on Beneficial Ownership, make operational a comprehensive beneficial ownership registry	End-December 2025	Improve transparency and governance, and reduce corruption vulnerabilities	¶48	Reset version of SB #12 in Table AI.3

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 September 2023-September 2026.** 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 May 25, 2023. Accordingly, the exchange rates for the purposes of the program are shown in Table AII.1. If any needed exchange rates are not listed in this table, the exchange rate for May 25, 2023 from the IMF website will be used (https://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Table AII.1. Honduras: Program Exchange Rates	
Lempira to the U.S dollar	24.56
SDR to the U.S dollar	0.75
Yen to the U.S dollar	139
Euro to the U.S dollar	0.93
Canadian dollar to the U.S dollar	1.36
British Pound to the U.S dollar	0.81
Renminbi to the U.S dollar	7.07

3. **Standard performance criteria.** 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's 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*) and decentralized agencies (*instituciones desconcentradas*). The trust funds have been considered part of the central government since 2022.

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

- **c.** The public financial sector of Honduras includes the National Bank for Agricultural Development (*Banco Nacional de Desarrollo Agrícola; Banadesa*), the Honduran Bank for Production and Housing (*Banco Hondureño para la Producción y la Vivienda; Banhprovi*), and any other financial institutions either (i) controlled by the central government or other NFPS entities or (ii) that have a majority participation in their own capital by the central government or other NFPS entities.

Cumulative Floor of NFPS' Net Lending/Borrowing

6. Definitions: Net lending of the NFPS calculated from above-the-line and is defined as the difference between revenue and expenditure of the NFPS.

7. NFPS' revenues are recorded on a modified cash basis: taxes, grants and other revenues are recorded on a cash basis; and the income of non-financial public companies and social contributions will be recorded on an accrual basis. Payments from private users of public-private partnerships (PPPs) facilities will be considered public revenue.

8. NFPS' expenditure is recorded on an accrual basis and includes expenses and the net acquisition of nonfinancial assets. Private investments for PPPs are treated as expenses and measured as part of NFPS net lending as they occur.

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

10. 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.

Adjustors

11. Adjustor for external financing disbursements for productive investment projects. The cumulative floor of NFPS' net lending/borrowing will be adjusted downward by the excess in external program and project disbursements from official multilateral and bilateral institutions, relative to the baseline projection reported in Table AII.2. The value of the adjustor would be capped at a cumulative 10 billion Lempiras in 2025 (equivalent to approximately 1 percent of projected 2025 nominal GDP) to be used for the projects in the priority areas indicated in Table AII.3. Project disbursements are defined as external loan and grant disbursements from official multilateral and bilateral creditors that will be used to finance specific productive investment projects.

Table AII.2. Honduras: External Program and Project Disbursements

Cumulative flows per year (Millions of US$)

	End-Dec 2024	End-March 2025	End-June 2025	End-Sep 2025	End-Dec 2025
Loans	726.1	243.6	795.2	959.4	1,254.9
Grants	50.7	8.8	22.8	34.5	50.5

Table AII.3. Honduras: Priority Investment Projects Covered by the Adjustor

- Design, construction, remodeling, and equipment of hospitals and laboratories.
- Design, construction, and expansion of the generation, transmission, and distribution infrastructure for the energy sector.
- Construction and rehabilitation of national and municipal roads, including productive roads and bridges.
- Construction, reconstruction, and expansion of educational infrastructure.
- Design, construction, and expansion of infrastructure aimed at climate change adaptation and mitigation.
- Investment programs for the improvement of sanitation systems, distribution, and water supply.
- Infrastructure projects to enhance resilience and competitiveness in the agricultural, fisheries and livestock sectors.

Ceiling on ENEE's Stock of Domestic Arrears

12. Definition: ENEE's domestic arrears are defined as overdue payments of ENEE to all entities that are not part of the Honduran public sector. 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.

13. Monitoring. The data on ENEE's stock of domestic arrears 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

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

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.

15. 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,

[1] As defined in paragraph 8(a) in Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

2023, 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.

16. 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 November 30, 2022. For the purposes of this performance criterion, nonpayment of external debt service to Venezuela will not give rise to arrears when the government cannot pay or settle based on the contractual terms solely due to factors outside the debtor's control such as the existence of sanctions on Venezuela, as long as the debt service payments have been paid in full into an escrow account held at the Central Bank of Honduras by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts will be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the PC.

17. Monitoring: This performance criterion will be monitored on a continuous basis.

Floor on the Stock of Non-Borrowed Net International Reserves

18. 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.

19. Gross official reserves are defined consistently with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) 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.

20. 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.

21. **Monitoring:** Foreign exchange asset and liability data will be provided to the Fund at a daily frequency, with a lag of no more than 3 business days.

Adjustors

22. **The NIR target will be adjusted** upward (downward) by the surplus (shortfall) in disbursements (loans and grants) for programs and projects from official multilateral and bilateral institutions, relative to the baseline projection reported in Table AII.2. In case Honduras participates in a new SDR allocation, the floor on NIR will be adjusted upward by the amount of the additional SDR allocation up to the test date. The NIR target will also be adjusted upward by the full amount of any excess in gross external borrowing by the Honduran public sector from private creditors in foreign currency relative to the baseline projections in the BOP. The baseline projections in the BOP include zero gross external borrowing by the Honduran public sector from private creditors in 2024 and 2025.

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

23. **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.

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

25. **Monitoring:** Data will be provided to the Fund monthly with a lag of no more than 2 weeks after the end of each month.

26. **Adjustor for multilateral loans.** Consistent with the NIR adjustor, the NDA target will be adjusted downward (upward) by the surplus (shortfall) in disbursements (loans and grants) for programs and projects from official multilateral and bilateral institutions, relative to the baseline projection reported in Table AII.2. In case Honduras participates in a new SDR allocation, the ceiling on NDA will be adjusted downward by the amount of the additional SDR allocation up to the test date.

Ceiling on Monetary Financing of the Central Bank to the Non-Financial Public Sector (NFPS) and the Public Financial Sector (PFS)

27. **Definition:** Monetary financing is defined as any disbursement from the BCH to the NFPS after January 1, 2023 or to the public financial sector (PFS), as defined in ¶5c, after November 15, 2024, under any loan between these entities, whether the loan is repayable or not or interest-bearing or not. The only exception is the on-lending loan between BCH and SEFIN under which the BCH will on-lend IMF disbursements received as part of this program to SEFIN.

28. **Measurement and monitoring:** In accordance with the Organic Law of the Central Bank of Honduras, this program establishes a ceiling of zero on net monetary financing in accordance with Attachment I (Memorandum of Economic and Financial Policies), section E, paragraph 23; this PC will be monitored on a continuous basis. For the purposes described above, the BCH balance sheet, with detail on the net credit balance to the NFPS and the PFS, will be provided to the Fund on a daily basis with a lag of no more than one business day.

B. Quantitative Indicative Targets: Definition of Variables

Floor on the Central Government's Tax Revenues

29. 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 Governance Finance Statistics Manual (GFSM) 2014.

30. For compliance with this indicative target the central government will be considered equivalent to the budgetary central government (*Administración Central*).

31. The central government's tax revenues will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

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

Ceiling on current primary spending of the NFPS excluding priority social spending

33. Primary current spending excluding priority social spending is defined as total current spending minus interest spending minus priority social spending, as defined below.

34. Current expenditure is defined as the total expenditures of the SNPF minus the capital expenditures (i.e., the net acquisition of non-financial assets) of the SNPF. As defined above, all expenditures are recorded on an accrual basis.

35. Primary current spending of the NPFS excluding priority social spending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

36. Monitoring. Monthly data will be provided to the Fund within 45 days of the end of each month.

Floor on Priority Social Spending

37. Priority social spending is defined for program purposes as the interventions by the central government with high impact on poverty reduction and long-term influence on beneficiaries that are listed in Table AII.4.

38. Priority social spending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

39. Monitoring. Monthly data will be provided to the Fund within 45 days of the end of each month.

Table AII.4. Honduras: Priority Social Spending
• Red Solidaria
• Becas SEDESOL
• Ciudad Mujer
• Merienda Escolar
• Bono Tecnológico
• Bono Cafetalero
• Bono Ganadero
• Becas PROASOL
• Bonos PROASOL

Ceiling on Percentage of Energy Lost by ENEE in Energy Distribution

40. Definition: The percentage of energy lost by ENEE in energy distribution is defined as the energy injected into the distribution network minus the sales invoices issued to its customers (both in GWh) during the 12 months prior to the test date, divided by the energy injected into the distribution network during the same period.

41. Monitoring. Monthly data will be provided to the Fund within 45 days of the end of each month.

HONDURAS

November 21, 2024

FIRST AND SECOND REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND REPHASING OF PURCHASES—DEBT SUSTAINABILITY ANALYSIS

Approved By
Rodrigo Valdés and Anna Ivanova (IMF) and Oscar Calvo-Gonzalez and Manuela Francisco (IDA)

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

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

Prudent fiscal management and sizeable net debt repayments have led to an improvement in Honduras' debt dynamics compared to the September 2023 full DSA, resulting in an end-2023 public debt stock of 48 percent of GDP, 4 p.p. lower than projected at program approval. Risk ratings remain unchanged, with Honduras' risk of external debt distress assessed low, while the risk of overall public debt distress is moderate.[1,2] *Honduras maintains a strong debt-carrying capacity. Going forward, the authorities remain committed to prudent macroeconomic policies, including by continuing to adequately balance social and investment needs with preserving fiscal and debt sustainability. Sustaining efforts to further strengthen the domestic debt market, enhance monetary and foreign exchange policy frameworks, and strengthen the financial viability of the energy sector are important safeguards to debt sustainability. The debt sustainability outlook remains vulnerable to policy slippages and risks of exogenous shocks, such as natural disasters and a deterioration of the global outlook.*

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[1] Prepared by the IMF and the World Bank. With "Low" risk of external debt distress, Honduras has been exempted from the preparation of Performance and Policy Actions under the Sustainable Development Finance Policy since its inception in July 2020.

[2] Honduras's debt carrying capacity is assessed to be strong based on a composite indicator of 3.12 that uses the April 2024 WEO vintage and the 2022 World Bank CPIA.

PUBLIC DEBT COVERAGE

1. **The debt coverage of the public sector is comprehensive (Text Table 2).** The debt sustainability analysis (DSA) covers the non-financial public sector (NFPS), which includes the general government and non-financial state-owned enterprises (SOEs). Debt from extrabudgetary trust funds is also included, with the authorities having abolished through legislation all trust funds in 2022.[3] Debt from decentralized agencies such as public universities, public pension funds, and central bank borrowing on behalf of the government is also covered. In addition, the baseline 2023 debt stock includes 2.1 percent of GDP in domestic debt that was unaccounted for before approval of the Fund arrangements (**Text Table 1**),[4] of which (i) 0.3 percent of GDP relates to central government arrears to domestic suppliers; (ii) 0.6 percent of GDP consists of trust funds' debt liabilities,[5] and (iii) 1.2 percent of GDP pertains to arrears accumulated by the state electricity utility *Empresa Nacional de Energía Eléctrica* (ENEE), mainly to private electricity generators and which the authorities are working on reducing. External debt is defined on a currency basis.[6]

Text Table 1. Honduras: Domestic Debt Regularization

	Lempiras (million)	% GDP
Domestic Debt	**17,612**	**2.1**
Central Government	2,946	0.3
Trust funds	4,879	0.6
ENEE	9,787	1.2

Source: Country authorities'; and IMF staff calculations.

2. **The contingent liability tailored stress test is calibrated to account for public sector debt coverage gaps and risks from contingent liabilities (Text Table 2).** First, the default shock of 0 percent of GDP for other entities of the general government is kept unchanged as these are already captured in the coverage of public debt. Second, the default shock of 2 percent of GDP for SOE debt and government-guaranteed private debt is maintained to reflect risks from potential lawsuits linked to a highway concession project (0.4 percent of GDP) and the electricity utility (1.5 percent of GDP) and to capture the publicly-guaranteed external debt of a financial SOE

[3] Note that remaining trust funds are in process of being liquidated. While trust funds were treated as private entities under Honduran legislation, they should be registered as general government units according to the 2014 GFSM.

[4] The debt definition of Honduras' Organic Budget Law does not include these items, but the authorities are now working on providing data in a timely manner also on these debts for program monitoring. The slight uptick in the 2022 debt stock to 51.8 percent of GDP is explained by the recognition of 2.6 percent in domestic debt that was previously unaccounted for, and which is estimated for 2023 at 2.1 percent of GDP. This reduction results from implemented measures that will be further enhanced, including the liquidation and transfer of trust fund balances to the General Treasury, with 17 trust funds already liquidated and 51 remaining open due to tax liabilities. Additionally, to address ENEE arrears, institutional coordination is being strengthened to expedite ENEE debt issuances, which, along with SEFIN's financial support, will help reduce its arrears by the end of 2024 in alignment with program commitments. Finally, the authorities continue working towards the recognition of debts associated with the public private partnerships (PPPs) contracts in accordance with the law.

[5] The authorities have already recognized and fully repaid the "*Tasa de Seguridad*" trust fund's debt liabilities of 0.2 percent of GDP by contracting bank loans in January 2023.

[6] There is no material difference between the residency- and currency-based definitions of external debt as non-residents do not hold domestic debt.

(0.1 percent of GDP).[7] Third, the default shock to account for risks stemming from public private partnerships (PPPs) remains at 5.7 percent of GDP to reflect potential liabilities from PPP projects.[8] Fourth, the default minimum value of 5 percent of GDP for the financial market shock is kept unchanged since Honduras' financial sector does not exhibit significant vulnerabilities warranting an upward adjustment.

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

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

1	The country's coverage of public debt	The entire public sector, including SOEs		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
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	5.7	
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)		12.7	

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%.

RECENT ECONOMIC AND DEBT DEVELOPMENTS

3. **Macroeconomic performance in 2023 was better than projected.** The economy grew 3.6 percent in 2023, driven by strong domestic demand and a recovery in public investment. After peaking at over 10 percent in 2022, inflation declined significantly in 2023 to 5.2 percent. The current account deficit also declined to 3.9 percent from 6.7[9] percent in 2022, supported by robust remittance flows and improved net export dynamics.

4. **Fiscal policies have remained prudent and budget execution continues to face capacity headwinds.** The fiscal deficit of 1.3 percent of GDP in 2023 was smaller than programmed (2.0 percent of GDP) as strong tax revenues and spending discipline offset a robust increase in public investment. Social spending was slower than expected, given capacity constraints in implementing new programs. Some overperformance is expected again this year amid challenges to execute social and investment expenditures.

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[7] Please refer to the World Bank Honduras Public Expenditure Review (2022) for a discussion of key fiscal risks and way to strengthen fiscal resilience.

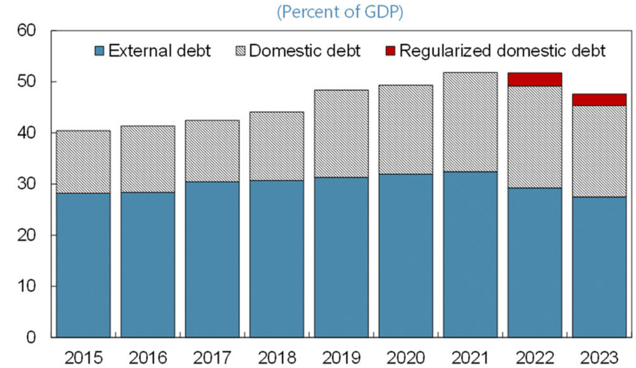
[8] Consistent with the LIC DSF guidance note, the PPP stock is calculated as 35 percent of the country's PPP capital stock from the World Bank database, further updated to account for a PPP project worth 1.6 percent of GDP.

[9] In August 2023, the 2022 current account deficit was revised by the authorities from 3.2 to 6.7 percent of GDP primarily due to a revision in goods imports related to efforts to expand the coverage of data transmitted by customs.

5. The financial sector remains stable. The capital adequacy ratio of 13.6 percent in July 2024 well exceeded the 10 percent requirement, while the system remained liquid and profitable. NPL's are low at 2.2 percent of total loans with ample provisioning. Growth of credit to the private sector is beginning to slow, from high levels, as the BCH has tightened liquidity conditions and raised interest rates. The results of the stress tests recently conducted by the banking commission show that the financial system is robust and resilient even in severe stress scenarios (a combination of a decline in economic activity, a slowdown in credit growth, an increase in commodity prices, and a drop in remittances).

6. Public and publicly guaranteed (PPG) debt stood at 47.6 percent of GDP at end-2023, with external debt accounting for 27.5 percent of GDP (Table 2). After the COVID-related increase in gross public debt in 2020, debt levels have remained on a downward trend on the back of prudent fiscal policies. In addition, an increase in net amortization, with higher capital payments (US$610 million) compared to lower disbursements received (US$437 million), contributed to a further significant reduction in gross public debt, which amounted to 47.6 percent of GDP in 2023.

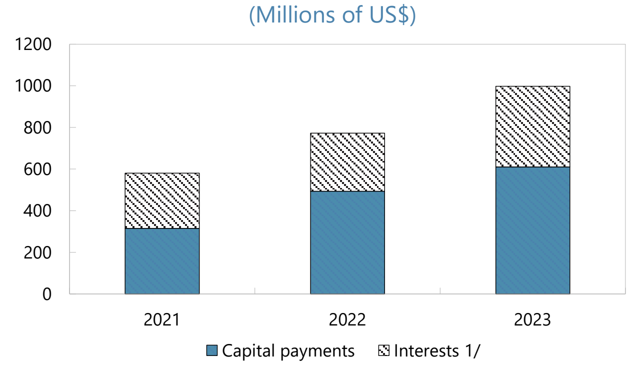
Text Figure 1. Honduras: Public and Publicly Guaranteed Debt
(Percent of GDP)



Sources: Country authorities; and IMF staff calculations.

7. Total external debt moderated from 36.5 percent of GDP in 2022 to 34.7 percent of GDP in 2023 (Table 1). PPG external debt-to-GDP ratio declined to 27.5 percent of GDP in 2023, from 29.2 percent of GDP in 2022, as a result of debt amortizations amid a moderation in GDP growth and inflation. 72 percent of PPG external debt is owed to multilateral creditors, 11.4 percent to official bilateral creditors, while the remainder (16.6 percent) is owed to commercial banks or Eurobond holders (Text Figure 3). By creditor, the reduction in external debt, is primarily attributed to a decrease of US$222.1 million or 7.8 percent y/y in the debt owed to bilateral and commercial creditors, even though there was a US$60 million (0.9 percent y/y in 2023) increase in debt to multilateral creditors.

Text Figure 2. Honduras: External Debt Service
(Millions of US$)

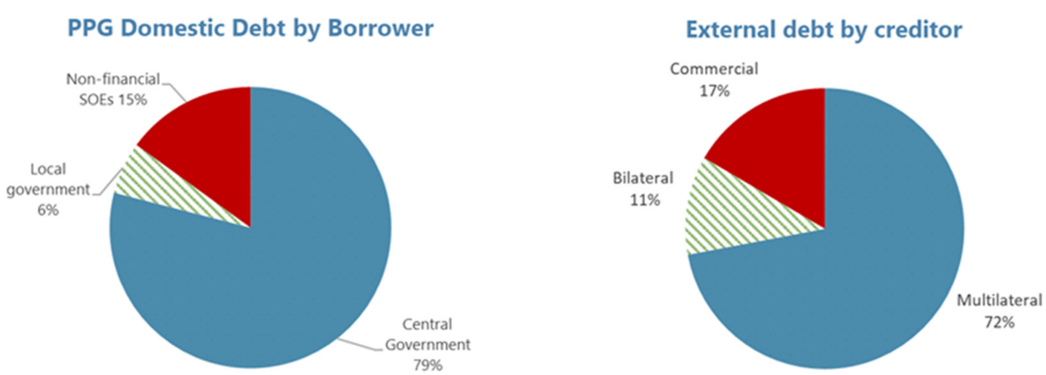


Sources: Country authorties'; and IMF staff calculations.
1/ Includes commsisions and fees.

8. Honduras has dealt with a significant service burden from both external and domestic debt. In 2023, external debt service payments reached US$997.5 million (**Text Figure 2**), with the majority going to multilateral creditors (US$604.7 million), followed by commercial (US$283 million) and bilateral (US$110 million) creditors.[10] Looking ahead, external debt service obligations remain significant, totaling around US$909 million in 2024 and US$983 million in 2025.Domestic debt service during 2023 amounted to approximately US$1,257 million, of which 45 percent ($566 million) were allocated to capital payments, 53 percent (US$666 million) to interest payments, and around 2 percent (US$24 million) to commissions and fees.

9. Public debt is mostly held by foreign creditors (Text Figure 3). The main creditors to Honduras are international bondholders and official multilateral creditors, such as the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI), and the World Bank. The multilateral institutions provide lending at relatively long maturities and largely concessional terms. 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. Domestic issuances were replaced by borrowing from the Central Bank in 2022, temporarily negatively impacting domestic debt market development and reducing investment opportunities, including for pension funds. However, from late 2023, in line with their economic strategy, the authorities have resumed regular domestic debt issuances and placed more than 1 percent of GDP in government bonds. These domestic bond issuances have primarily been acquired by other financial institutions, with interest rates ranging from 6-6.5 percent for the shortest terms and between 9.75-10.5 percent for the longest terms.

Text Figure 3. Honduras: PPG Debt Stock Composition (Percent, 2023)



Source: Country authorities and IMF staff elaboration.
Note: NFPS domestic debt excluding IMF debt and including regularized domestic debt.

[10] The weighted average maturity for external multilateral is 31.3 year, for official bilateral is 24.6 years and for commercial debt is 4.4 years.

MACROECONOMIC AND POLICY ASSUMPTIONS

10. The main macroeconomic assumptions are based on staff projections and EFF/ECF program targets. Text Table 3 summarizes baseline macroeconomic projections compared to the last published DSA, from September 2023, with the revised baseline reflecting the continued resilience of the economy and a more favorable global environment.

- **Real sector.** Real GDP growth is projected around 3.8 percent in 2024— driven mostly by private consumption— and to gradually converge toward potential (around 3 ¾ percent)[11] supported by strong public investment and the implementation of reforms, as part of the EFF/ECF program and support from other international financial institutions.[12] This is slightly higher than recent historical trend growth.[13] In the medium-term, the Honduran economy is projected to benefit from the program's structural reform agenda and investment in critical infrastructure, in particular for climate adaptation (dams) that will have benefits on growth and poverty.

- **Inflation.** Inflation is projected to remain within the BCH reference range (4 percent ± 1p.p) in the remainder of 2024 and slightly above the upper limit of the reference range in 2025, driven mainly by a normalization of global commodity prices and the recalibration of monetary and FX policies.

- **Fiscal sector.** The non-financial public sector (NFPS) deficit is expected to close 2024 at 1.5 percent of GDP—broadly in line with the 2023 outturn—as spending execution, including capital expenditure, is expected to pick up during the second half of the year. The 2025 draft budget bill, submitted to Congress in September, also includes a baseline deficit of 1.5 percent of GDP. Thereafter, a moderate fiscal consolidation is assumed to return the NFPS deficit to 1 percent of GDP in 2026, mainly underpinned by expenditure adjustments to return to pre-pandemic levels, including with the reprioritization of current spending towards social spending[14]. The envisaged consolidation path would be further supported

[11] By 2034, baseline projections suggest that the economy will gradually converge to a growth rate of 3.9 percent, reflecting the dual impacts of climate change-related events and productivity gains from resilient infrastructure projects, as well as improvements from policies underpinned by the program and those aimed at enhancing climate change preparedness.

[12] The authorities are seeking to jumpstart capital investment projects and have identified a list of projects in the latest 2025 draft Budget Bill (hospitals, schools, dams, roads) and corresponding potential financing sources. The energy sector will also continue to require large investments over the next few years, in generation, transmission, and distribution. The authorities' public investment agenda includes reforms to strengthen the planning, selection, and monitoring of infrastructure projects in addition to structural reforms strengthening institutions, transparency, combating public-private corruption, and governance, together with improving the management of public finances.

[13] Real GDP growth averaged 3.9 percent over 2001-19 and 3.7 percent over 2010-2019.

[14] In 2024, the authorities approved a decree in the Council of Ministers, implementing measures such as freezing public sector job creation, cutting unnecessary expenditures, and regularizing temporary employment schemes in the central government. These steps have allowed for the redirection of up to 1.8 billion Lempiras. For 2025, the budget

(continued)

through continued strengthening of the tax administration to enhance revenues. If the major reform of tax exemptions (awaiting Congressional approval) materializes, it would pose an upside risk to the projection. Furthermore, the baseline assumes gradual reduction of ENEE's stock of domestic arrears, after their increase during the first half of 2024 is assumed to have been largely reverted by year-end by the financing plan for ENEE put in place by the authorities.[15] The primary balance is projected to turn positive in the medium term.

- **External sector.** The current account deficit is projected to widen to 5.3 percent in 2024, consistent with a decrease in exports due to the intense drought during the first half of 2024 that also amplified the demand of energy imports, and with decelerations in the U.S. and remittance growth. In the medium-term the current account is expected to improve converging to 4 percent of GDP as the negative effect of the drought will dissipate, allowing the main agricultural exports to rebound and converge to their historical growth rate. Textile maquila exports that had been affected by high levels of inventories in the U.S. will also recoup once the inventory levels normalize, and automobile part maquila exports will continue with their strong growth. Honduras will also benefit from an expansion of tourism as airlines increase flights to the new airport and cruise ships arrivals growth in the Caribbean coast. Additionally, the recalibration of monetary and exchange rate policies in the context of the program with the Fund will also allow for an improvement in the current account as corrections are made to the real exchange rate. Furthermore, improvements in the electricity grid and investment in new electric generation plants will diminish the need of energy imports. Reserve adequacy is expected to remain within the recommended 100-150 percent range of the ARA metric and above 4 months of import cover over the medium term.

- **Financing assumptions.** The DSA assumes that financing needs would be covered by external sources and by domestic borrowing.

- ***External.*** The baseline assumes net positive financing from international financial institutions (IFIs) over the medium term, with budget and project support provided both by official multilateral sources. The baseline also assumes that Honduras would tap international capital markets—as implementation of the ECF/EFF program would further underpin confidence—with Eurobond placements of USD 700 million in 2026 and USD 600 million in 2030 to meet external bond redemptions coming due.[16] The grant element of new

presented by the Ministry of Finance includes adjustment measures amounting to 2 percent of GDP. These measures include reductions in personnel expenses as well as non-personnel expenditures.

[15] ENEE's stock of arrears increased to 1¾ percent of GDP as of June 2024 as plans to start issuing debt early in the year have not materialized. ENEE's recent debt service obligations were significant, and power purchases during the abnormally hot 2024 spring were 0.2 percent of GDP higher than normal. The authorities plan to expedite the issuance of domestic debt (to be purchased by domestic banks) to provide ENEE with liquidity to reduce arrears (mainly to domestic generators) in line with program targets during the second half of 2024 and through 2025.

[16] The authorities are exploring the issuance of an external bond (expected size $500-800 million) in the upcoming months.

external public sector borrowing is projected to average 18.5 percent over 2023-27.

- ***Domestic.*** In 2022, the authorities resorted to US$1 billion (3.2 percent of GDP) in monetary financing,[17] largely to address liquidity strains. As of end 2023, most of these resources have been spent with a smaller portion remaining in the Treasury Single Account and being used during 2024 for financing the budget in addition to the now regular issuance of Treasury bonds. As such, for 2024, the DSA assumes i) some drawdowns of treasury deposits remaining from this contracting of a loan from the Central Bank and ii) and continued normalization of the regular issuance of Treasury bonds at market rates. Amortizations are assumed to be rolled over as they come due. The baseline also assumes that the authorities will work on deepening the domestic debt market to diversify their financial sources, consistent with their overall debt management strategy. This includes issuing domestic debt instruments with increasing maturities and predominantly at fixed rates. The authorities published an annual borrowing plan, a calendar of auctions and a Medium-term Debt Management Strategy (MTDS) at the time of the 2024 budget, underpinned by the recommendations of a joint IMF/World Bank Technical Assistance on debt management. Additionally, to reinforce the commitment to macroeconomic and financial stability and ensure coordination between monetary, credit, and exchange rate policies with fiscal and debt policies, the Ministry of Finance must obtain authorization from the central bank for its debt issuance operations, while the Public Credit Commission of which both institutions are part, meets on quarterly basis to coordinate debt issuance policies.

Text Table 3. Honduras: Assumptions for Key Economic Indicators, 2021-43

	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043
Real GDP growth (percent)										
Current DSA	12.6	4.1	3.6	3.8	3.6	3.6	3.8	3.8	3.9	3.9
September 2023 DSA	12.5	4.0	2.9	3.2	3.5	3.7	3.8	3.8	…	…
Inflation, Period Average (percent)										
Current DSA	4.5	9.1	6.7	4.8	5.1	4.5	4.0	4.0	4.0	4.0
September 2023 DSA	4.5	9.1	6.4	4.7	4.1	4.0	4.0	4.0	…	…
GDP deflator growth (percent)										
Current DSA	4.6	9.3	6.2	4.8	5.1	4.5	4.0	4.0	4.0	4.0
September 2023 DSA	3.8	9.1	6.4	4.7	4.1	4.0	4.0	4.0	…	…
Primary balance (percent of GDP)										
Current DSA	-2.4	1.2	0.2	0.0	0.0	0.5	0.4	0.5	0.5	0.5
September 2023 DSA	-2.3	1.2	-0.7	-0.2	0.0	0.4	0.4	0.5	…	…
Overall balance (percent of GDP)										
Current DSA	-3.7	-0.2	-1.3	-1.5	-1.5	-1.0	-1.0	-1.0	-0.5	-0.1
September 2023 DSA	-3.7	-0.2	-2.0	-1.7	-1.4	-1.0	-0.9	-0.9	…	…
Current account balance (percent of GDP)										
Current DSA	-5.5	-6.7	-3.9	-5.3	-4.7	-4.5	-4.2	-4.0	-3.5	-2.7
September 2023 DSA	-4.6	-3.2	-5.2	-4.9	-4.7	-4.3	-4.1	-3.9	…	…
Net FDI (percent of GDP)										
Current DSA	1.8	2.3	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7
September 2023 DSA	1.8	2.0	2.1	2.2	2.3	2.4	2.5	2.6	…	…

Source: Country authorities and staff elaboration.

[17] Contracting of a loan from the from Central Bank of Honduras by the central government in 2022 which was issued following the "exceptional circumstances" provision of the Central Bank law, given declaration of a national emergency in early 2022 due to liquidity shortages in the public administration.

11. Tools for assessing the realism of the baseline scenario do not flag significant and systematic deviations from historical experience (Figures 3 and 4).

- **Drivers of debt dynamics**. The contributions of past and projected debt-creating flows for PPG external debt remain broadly unchanged, although the current account and FDI are expected to positively contribute to PPG external debt accumulation relative to historical experience. For total public debt, gradual fiscal adjustment under the EFF/ECF program should curb the contribution of the primary deficit to public debt accumulation more than in the past. A comparison with the distribution of past forecast errors for LICs shows that unexpected changes in debt for Honduras are within the interquartile range for both public and PPG external debt.

- **Realism of planned fiscal adjustment**. The projected three-year fiscal adjustment in the primary balance stands at 0.7 percentage points of GDP between 2024 and 2026 and falls comfortably below the top quartile of the distribution of past adjustments of the primary fiscal deficit derived from the sample of LICs, hence alleviating concerns of credibility of baseline assumptions.

- **Consistency between fiscal adjustment and growth**. The projected growth path for 2024 and 2025 is broadly in line with the multiplier-based projections. The realism of the expected adjustment is predicated on the authorities' commitment to fiscal consolidation, supported by revenue and spending measures, as well as efforts to strengthen the financial position of ENEE.

- **Consistency between public investment and growth**. The contribution of public investment to real GDP growth remains marginal across the previous and current DSA. Public investment is expected to remain at around 4 percent of GDP in the medium term.

COUNTRY CLASSIFICATION AND STRESS TESTS

12. Honduras' debt-carrying capacity is classified as strong (Text Table 4). Debt-carrying capacity is determined by a composite indicator (CI) that combines the World Bank's Country Policy and Institutional Assessment (CPIA) score, external conditions captured by world economic growth, and country-specific factors. Based on the April 2024 WEO vintage and the 2022 CPIA, the CI score for Honduras stands at 3.12, which is above the threshold of 3.05 applicable for a "strong" rating. The CI score reflects positive contributions from the CPIA (42 percent), international reserves (60 percent), world growth (3 percent), remittances (10 percent), and Honduras' real growth rate (3 percent). The debt burden thresholds implied by the strong debt-carrying capacity are summarized in Text Table 5.

Text Table 4. Honduras: CI Score Summary Table

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.39	3.38	1.30	42%
Real growth rate (in percent)	2.72	3.54	0.10	3%
Import coverage of reserves (in percent)	4.05	45.91	1.86	60%
Import coverage of reserves^2 (in percent)	-3.99	21.08	-0.84	-27%
Remittances (in percent)	2.02	15.49	0.31	10%
World economic growth (in percent)	13.52	2.91	0.39	13%
CI Score			3.12	100%
CI rating			Strong	

Source: IMF staff calculations. The CI cutoff for strong debt-carrying capacity is CI>3.05.

Text Table 5. Honduras: Debt Threshold and Total Public Debt Benchmarks under Strong Debt Carrying Capacity

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

Source: IMF staff calculations.

13. **The DSA relies on standardized, tailored, and contingent liability stress tests.** While all six standardized stress tests apply to Honduras, only the natural disaster and market financing tailored stress tests are triggered. Honduras qualifies for a natural disaster tailored shock due to its exposure to frequent extreme weather events such as hurricanes and droughts that have been exacerbated by climate change.[18] Honduras also qualifies for the market financing shock due to its outstanding Eurobonds.[19] However, the country does not qualify for a commodity price shock, which requires commodities to constitute at least 50 percent of total goods and services exports over the previous three-year period. While the default settings for the standardized and tailored shocks are

[18] Specifically, Honduras meets the frequency criteria (2 disasters every 3 years) and economic loss criteria (above 5 percent of GDP per year) that trigger the natural disaster shock under the DSA.

[19] The market financing shock applies to LICs with market access, i.e., those that: (i) have outstanding Eurobonds; or (ii) meet the market access criterion for PRGT graduation but have not graduated due to serious short-term vulnerabilities.

considered appropriate for Honduras, the contingent liabilities test is customized as described in paragraph 2.

EXTERNAL DSA

14. None of the PPG external debt burden indicators breach their respective thresholds under the baseline or the most extreme stress test (Figure 1, Tables 1 and 3).

- ***Under the baseline scenario***, all the PPG external debt burden indicators are projected to remain comfortably below their prescribed thresholds throughout the DSA horizon. The PV of PPG external debt ratios to GDP and exports are expected to decline gradually from 2026, averaging 20.7 and 61.3 percent over the projection horizon (2024-34). The two peaks observed in 2027 and 2030 on debt service indicators are linked to the repayments of Eurobonds issued in 2017 and 2020.

- ***Under the customized stress test scenarios***, none of the PPG external debt burden indicators breach their thresholds. Under the most extreme shock in the standardized stress test – a scenario that combines shocks to growth, the primary balance, exports, other balance of payments flows, and the exchange rate – the PV of PPG external debt-to-GDP ratio is projected to sharply increase to 41.5 percent of GDP in 2026 before gradually receding over the projection horizon. Similarly, the PV of PPG external debt-to-exports peaks to 137.3 percent in 2027 before declining gradually. Both the PV of PPG external debt-to-GDP ratio and debt service-to-revenue ratios appear most sensitive to the stress test scenario that combines various shocks, while the PV of debt-to-exports and debt service-to-exports ratios are most adversely impacted by a shock to exports.

PUBLIC DSA

15. The PV of public debt-to-GDP ratio remains below its benchmark under the baseline but breaches it under the most extreme stress test (Figure 2, Tables 2 and 4).

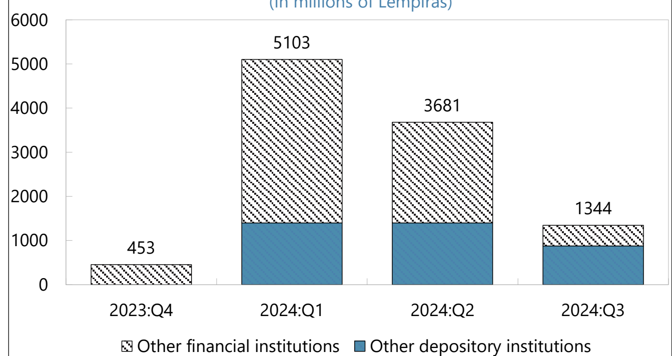
- ***Under the baseline scenario***, the PV of public debt-to-GDP ratio is projected to gradually decline from 44.8 percent of GDP in 2024 to 40.5 percent of GDP in 2028 and thereafter, reaching 29.5 percent of GDP by 2044. This path is expected to be supported by reforms underpinning the ECF/EFF program which would open fiscal space for investment, while also ensuring the return to a fiscal deficit of below 1 percent by 2026. All public debt indicators, including the PV of debt-to-revenue and the debt service-to-revenue ratios remain below their levels suggested in the historical scenario.

- ***Under the customized stress test scenarios,*** the PV of public debt-to-GDP ratio breaches its benchmark in the most extreme scenario—a growth shock—from 2028 onwards, illustrating the vulnerability of public debt dynamics to growth shocks. The growth shock also emerges as the most extreme stress test scenario for the PV of debt-to-revenue and the debt service-to-revenue ratios.

16. 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 are expected to be around 6 percent of GDP, well below the benchmark value of 14 percent. EMBI spreads stood at 337 basis points as of October 30, 2024, below the benchmark level of 570 basis points.[20]

17. Domestic debt lies substantially above the median level across LICs (Figure 6). Domestic-public debt-to-GDP is projected to remain above the average among countries using the LIC-DSF (17.2) throughout the forecast horizon. This trend reflects the authorities' borrowing strategy that continues to prioritize concessional terms, active debt management, and an updated medium-term debt strategy that rebalances the debt portfolio towards more domestic debt to reduce the risk of debt distress (Text Figure 4). The domestic-debt-service to revenue ratio was 18.2 in 2023 and will remain below the average countries using the LIC-DSA until 2038.

Text Figure 4. Honduras: Domestic Government Bond Issuance by Bondholder
(In millions of Lempiras)



Source: Ministry of Finance, and IMF Staff calculations.

RISK RATING AND VULNERABILITIES

18. Honduras' risk of external debt distress remains low, while the risk of overall public debt distress is moderate. All PPG external debt burden indicators remain below their prescribed thresholds under the baseline and stress scenarios, thereby signaling a low risk of external distress. However, the overall risk of public debt distressed is assessed as moderate as the PV of debt to GDP ratio breaches its benchmark under the most extreme stress test scenario. Notwithstanding, debt-to-GDP ratios are expected to decline in the projection period as the overall fiscal balance gradually adjusts back to below 1 percent of GDP by 2026 in the baseline scenario. Nonetheless, with significant downside risks to the outlook, largely driven by a challenging global environment and adverse weather events, it would be important to consistently adhere to the reform agenda of the ECF/EFF program and continue to strike a balance between urgent investment and social spending needs and safeguarding debt sustainability.

[20] In the LIC DSF market financing module, near-term liquidity risks as measured by the projected baseline public gross financing needs over the next three years and current market sentiment as measured by the latest EMBI spread are compared against their respective benchmarks of 14 percent of GDP and 570 bps, respectively. A breach of both benchmarks would signal high market financing pressures.

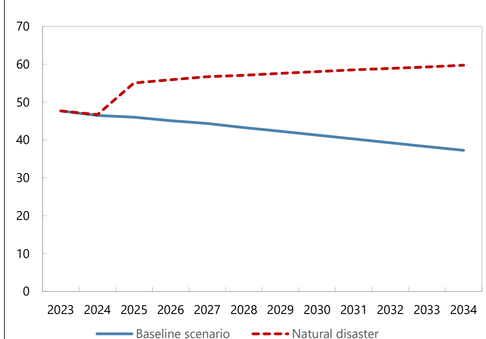
Climate Change Risks

19. As noted by the most recent CCDR, Honduras is highly vulnerable to climate change risk. In 2019, the Global Climate Risk Index (CRI) identified Honduras as the second most severely affected country in the world by extreme weather events from 1998 to 2017, underscoring its significant vulnerability to climate change and its low level of preparedness to address these challenges. Honduras vulnerability to severe natural hazards severely compromises its macroeconomic stability. Based on historical growth trends and natural hazard risk patterns, and in the absence of additional climate or policy changes, the combined effects of productive capital lost due to excessive rainfall (flooding), tropical cyclones (strong winds), and earthquakes are projected to lead to a cumulative loss of approximately 5.4[21] percent of annual GDP by 2050, compared to a hypothetical scenario without the impacts of natural hazards.

20. Climate-related extreme events can have large negative macroeconomic effects in Honduras. Floods, tropical storms, cyclones, and droughts pose the greatest risks. The economic impact of these events can be substantial. Between 1960 and 2022, annual losses from floods and storms averaged 6.3 percent of GDP, with specific extreme weather events inflicting significant damage to the economy. For instance, the most recent extreme events—storms Eta and Iota in November 2020—were estimated to have caused damage amounting to 7.5 percent of GDP. Likewise, droughts can destroy agricultural production through insufficient water, while floods can both destroy agricultural production and damage public infrastructure. The latter can have long-lasting impacts on output through lower levels of both public and private capital. Furthermore, the effects of such shocks on migration can be significant, affecting potential growth capacity in the medium and long term.

21. Given Honduras high vulnerability to natural disasters and climate change (particularly from flooding), a customized natural disaster shock has also been applied. The stress test is tailored to Honduras exposure to climate shocks and is calibrated to the average floods and storms damages between 1960-2022, assuming a 4 percent one-off shock to external PPG debt-to-GDP ratio in the second year of the projection period, a 6.3 percent reduction of GDP growth, and a 4.5 percent reduction of export growth. The stress test result reflects a deterioration in Honduras indicators for external debt (Text Figure 5) accompanied by a substantial increase in financing needs, highlighting the importance of continued reforms for climate adaptation.[22]

Text Figure 5. Honduras: Public Sector Debt
(In percent of GDP)



Source: IMF staff calculations based on LIC-DSA natural disaster tailored test.

[21] Honduras Country Climate and Development Report (CCDR), 2023.

[22] The authorities have expressed interest in an arrangement under the RSF.

22. Resilient infrastructure will be essential for reducing the socioeconomic costs of climate vulnerability. A resilient, low-carbon public investment is crucial for building adaptive capacity and supporting the transition to a diversified, green economy. Increasing public adaptation investment can enhance the resilience of public capital, helping to mitigate the impact of severe natural disasters on GDP. This, in turn, reduces the resources needed for reconstruction and improves both fiscal and external positions.

23. Recognizing Honduras' vulnerability to natural disasters, the World Bank approved a Policy Credit with a Catastrophe Deferred Drawdown Option (CAT DDO). The financial credit line, totaling up to $119 million, will support Honduras in enhancing its capacity to manage natural disasters, climate risks, and disease outbreaks. The program supported by this operation will contribute to the Honduras government efforts to: (a) strengthen the country's capacity to handle natural hazards, including disease outbreaks and climate-related disasters; and (b) rapidly mobilize resources in response to such catastrophic events. The CAT DDO will be activated in the event of a natural disaster.

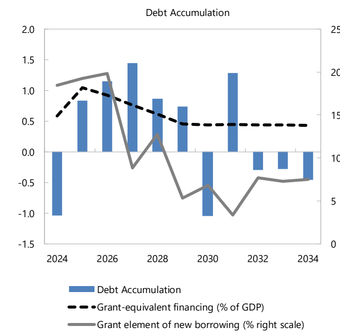
Authorities' Views

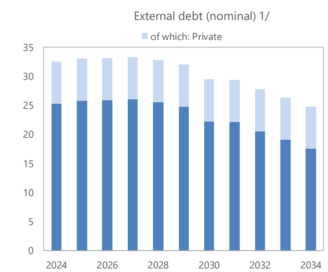
24. The authorities broadly agreed with the assumptions and results of the DSA. They recognized the downside risks including potential impacts of climate shocks and a slowdown in economic activity due to weaker external demand related to key exports and its implication for economic activity. They also noted that risks related to market financing have been easing, as evidenced by the gradual decline in EMBI spreads for Honduras in recent months, and highlighted the continuous importance of concessional lending from multilateral institutions. Additionally, they reaffirmed their commitment to transparency by continuing to compile a broader debt coverage for previously unaccounted domestic debt and to debt sustainability through prudent fiscal policies.

Table 1. Honduras: External Debt Sustainability Framework, Baseline Scenario, 2021-44
(In percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2044	Historical	Projections
External debt (nominal) 1/	**40.7**	**36.5**	**34.7**	**32.5**	**33.0**	**33.1**	**33.3**	**32.7**	**32.0**	**29.5**	**29.4**	**27.8**	**26.3**	**24.7**	**16.5**	**36.4**	**30.4**
of which: public and publicly guaranteed (PPG)	**32.4**	**29.2**	**27.5**	**25.3**	**25.8**	**25.9**	**26.0**	**25.5**	**24.7**	**22.2**	**22.1**	**20.5**	**19.0**	**17.5**	**9.3**	**28.7**	**23.2**
Change in external debt	0.0	-4.3	-1.7	-2.2	0.5	0.1	0.2	-0.5	-0.8	-2.5	-0.1	-1.6	-1.5	-1.6	-0.1		
Identified net debt-creating flows	**-3.2**	**0.1**	**-1.9**	**1.5**	**0.9**	**0.7**	**0.3**	**0.1**	**-0.1**	**-0.2**	**-0.2**	**-0.2**	**-0.3**	**-0.3**	**-1.1**	**-1.7**	**0.2**
Non-interest current account deficit	**4.4**	**5.7**	**2.9**	**4.1**	**3.6**	**3.4**	**3.1**	**2.9**	**2.7**	**2.7**	**2.6**	**2.6**	**2.6**	**2.5**	**1.8**	**2.7**	**3.0**
Deficit in balance of goods and services	24.3	27.2	23.5	24.7	23.7	23.3	22.6	22.1	21.5	21.0	20.5	20.0	19.6	19.1	14.7	**19.3**	**21.6**
Exports	39.5	42.6	36.8	34.7	34.2	34.1	34.0	33.9	33.6	33.5	33.4	33.3	33.2	33.1	32.4		
Imports	63.8	69.8	60.3	59.4	57.9	57.4	56.7	56.0	55.1	54.5	53.9	53.3	52.8	52.2	47.2		
Net current transfers (negative = inflow)	-27.2	-28.4	-27.1	-26.4	-25.9	-25.8	-25.3	-24.9	-24.4	-24.0	-23.6	-23.1	-22.7	-22.3	-19.6	**-22.9**	**-24.4**
of which: official	-0.4	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0		
Other current account flows (negative = net inflow)	7.3	6.9	6.5	5.8	5.8	5.8	5.8	5.7	5.7	5.7	5.7	5.7	5.7	5.7	6.6	**6.3**	**5.7**
Net FDI (negative = inflow)	**-1.8**	**-2.3**	**-2.5**	**-2.6**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-3.4**	**-2.7**
Endogenous debt dynamics 2/	**-5.8**	**-3.2**	**-2.3**	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.2**		
Contribution from nominal interest rate	1.1	1.0	1.0	1.2	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	0.9	0.9	0.5		
Contribution from real GDP growth	-4.3	-1.5	-1.2	-1.2	-1.1	-1.1	-1.2	-1.2	-1.2	-1.2	-1.1	-1.1	-1.0	-1.0	-0.7		
Contribution from price and exchange rate changes	-2.6	-2.8	-2.1	...	...	...	...	...	...	...	...	...	...	...	...		
Residual 3/	**3.2**	**-4.4**	**0.1**	**-3.7**	**-0.4**	**-0.6**	**-0.1**	**-0.6**	**-0.7**	**-2.3**	**0.1**	**-1.4**	**-1.2**	**-1.2**	**1.0**	**2.4**	**-1.1**
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	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Sustainability indicators																	
PV of PPG external debt-to-GDP ratio	**...**	**...**	**25.6**	**23.1**	**22.8**	**22.9**	**23.0**	**22.6**	**22.0**	**19.8**	**19.9**	**18.5**	**17.2**	**15.8**	**8.4**	**25.6**	**20.7**
PV of PPG external debt-to-exports ratio	**...**	**...**	**69.4**	**66.5**	**66.7**	**67.1**	**67.6**	**66.6**	**65.5**	**59.1**	**59.6**	**55.6**	**51.8**	**47.8**	**25.8**	**69.4**	**61.3**
PPG debt service-to-exports ratio	**5.0**	**5.3**	**8.0**	**9.0**	**9.1**	**6.5**	**10.7**	**5.7**	**5.1**	**8.5**	**5.3**	**5.9**	**6.0**	**5.7**	**2.8**	**5.8**	**7.0**
PPG debt service-to-revenue ratio	**6.9**	**8.0**	**10.7**	**11.1**	**11.2**	**7.9**	**13.2**	**7.0**	**6.1**	**10.3**	**6.4**	**7.0**	**7.1**	**6.8**	**3.2**	**8.3**	**8.6**
Gross external financing need (Billion of U.S. dollars)	3.9	4.6	3.8	4.4	4.4	4.1	4.6	3.9	3.9	4.6	4.1	4.3	4.5	4.6	4.9	**3.0**	**4.3**
Key macroeconomic assumptions																	
Real GDP growth (in percent)	12.6	4.1	3.6	3.8	3.6	3.6	3.8	3.8	3.8	3.9	3.9	3.9	3.9	3.9	3.9	**3.3**	**3.8**
GDP deflator in US dollar terms (change in percent)	6.8	7.3	6.0	2.3	1.1	1.0	2.0	1.9	1.9	2.0	2.0	2.0	2.0	2.0	-3.4	**3.1**	**1.8**
Effective interest rate (percent) 4/	3.2	2.8	3.0	3.8	3.7	3.6	3.4	3.6	3.6	3.4	3.4	3.6	3.5	3.5	2.9	**3.5**	**3.6**
Growth of exports of G&S (US dollar terms, in percent)	32.3	20.7	-5.2	0.1	3.2	4.4	5.6	5.2	5.0	5.6	5.6	5.6	5.6	5.6	1.2	**4.5**	**4.7**
Growth of imports of G&S (US dollar terms, in percent)	48.6	22.4	-5.2	4.7	2.0	3.8	4.4	4.5	4.2	4.8	4.8	4.8	4.9	4.9	-0.6	**6.4**	**4.3**
Grant element of new public sector borrowing (in percent)	...	...	...	18.5	19.3	19.9	8.8	12.7	5.3	6.8	3.4	7.7	7.3	7.5	7.6	**...**	**10.6**
Government revenues (excluding grants, in percent of GDP)	28.4	28.2	27.5	27.9	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	27.8	29.1	**28.5**	**27.8**
Aid flows (in Billion of US dollars) 5/	0.3	0.4	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.6	1.0	0.9	0.8	0.6	0.5	0.4	0.5	0.4	0.4	0.4	0.4	**...**	**0.6**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	38.5	27.1	29.5	16.2	27.7	26.2	36.2	18.5	40.2	36.5	42.7	55.7	**...**	**30.8**
Nominal GDP (Billion of US dollars)	28	31	34	...	...	...	...	...	...	...	...	...	...	... ...	...		
Nominal dollar GDP growth	20.3	11.7	9.8	6.2	4.7	4.6	5.9	5.8	5.8	6.0	6.0	6.0	6.0	6.0	0.4	**6.6**	**5.7**
Memorandum items:																	
PV of external debt 7/	...	...	32.8	30.3	30.1	30.1	30.2	29.8	29.3	27.0	27.1	25.7	24.4	23.0	15.6		
In percent of exports	...	...	89.0	87.3	87.9	88.3	88.8	88.0	87.0	80.7	81.2	77.3	73.6	69.6	48.1		
Total external debt service-to-exports ratio	29.1	26.5	28.5	30.2	30.8	27.8	30.9	25.2	24.2	27.2	23.4	23.4	23.1	22.4	16.8		
PV of PPG external debt (in Billion of US dollars)			8.8	8.5	8.8	9.2	9.8	10.1	10.5	10.0	10.6	10.5	10.3	10.0	9.0		
(PVt-PVt-1)/GDPt-1 (in percent)				-1.0	0.8	1.1	1.4	0.9	0.7	-1.0	1.3	-0.3	-0.3	-0.5	-0.1		
Non-interest current account deficit that stabilizes debt ratio	4.4	9.9	4.6	6.3	3.0	3.3	3.0	3.4	3.5	5.2	2.7	4.2	4.0	4.1	1.9		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

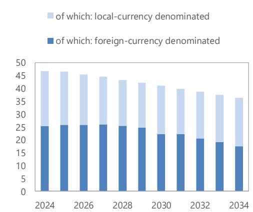
Table 2. Honduras: Public Debt Sustainability Framework, Baseline Scenario, 2021-44

(In percent of GDP, unless otherwise indicated)

	Actual			Projections												Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2044	Historical	Projections
Public sector debt 1/	51.8	51.8	47.6	46.7	46.4	45.4	44.5	43.2	42.1	40.9	39.8	38.6	37.4	36.3	30.2	**43.9**	**41.9**
of which: external debt	32.4	29.2	27.5	25.3	25.8	25.9	26.0	25.5	24.7	22.2	22.1	20.5	19.0	17.5	9.3	**28.7**	**23.2**
Change in public sector debt	2.5	-0.1	-4.1	-1.0	-0.3	-1.0	-0.9	-1.3	-1.1	-1.2	-1.2	-1.2	-1.2	-1.1	0.7		
Identified debt-creating flows	-2.4	-5.0	-2.8	-0.9	-0.8	-1.2	-1.2	-1.1	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8	0.2	**0.1**	**-1.0**
Primary deficit	2.3	-1.2	-0.2	0.0	0.1	-0.5	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	**0.8**	**-0.4**
Revenue and grants	28.9	28.6	27.9	28.3	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	28.2	29.5	**29.1**	**28.2**
of which: grants	0.6	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4		
Primary (noninterest) expenditure	31.3	27.4	27.7	28.3	28.2	27.7	27.7	27.7	27.7	27.7	27.7	27.7	27.7	27.7	29.0	**29.9**	**27.8**
Automatic debt dynamics	-4.4	-3.5	-2.4	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.3	0.7		
Contribution from interest rate/growth differential	-4.7	-3.1	-1.8	-0.7	-0.7	-0.6	-0.6	-0.5	-0.5	-0.5	-0.5	-0.4	-0.4	-0.3	0.7		
of which: contribution from average real interest rate	0.8	-1.0	0.0	1.1	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.8		
of which: contribution from real GDP growth	-5.5	-2.1	-1.8	-1.7	-1.6	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6	-1.5	-1.5	-1.4	-1.1		
Contribution from real exchange rate depreciation	0.3	-0.4	-0.6	...	...	...	...	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**-0.4**	**-0.1**
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	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	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0		
Residual	4.8	4.9	-1.3	0.0	0.6	0.2	0.3	-0.2	-0.1	-0.2	-0.2	-0.3	-0.4	-0.3	0.5	**1.7**	**-0.1**
Sustainability indicators																	
PV of public debt-to-GDP ratio 2/	...	...	45.7	44.8	44.0	42.7	41.7	40.5	39.6	38.7	37.8	36.8	35.7	34.8	29.5	**45.7**	**39.7**
PV of public debt-to-revenue and grants ratio	...	...	164.0	158.2	156.3	151.2	148.1	143.9	140.6	137.4	134.0	130.5	126.8	123.5	100.0	**164.0**	**140.9**
Debt service-to-revenue and grants ratio 3/	20.1	21.2	21.3	22.8	22.5	18.1	23.5	16.2	16.3	23.3	18.3	17.1	17.2	17.1	16.7	**16.3**	**19.3**
Gross financing need 4/	7.8	4.6	5.5	6.2	6.2	4.4	6.0	3.9	4.1	6.1	4.7	4.3	4.4	4.3	4.4	**5.1**	**5.0**
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	12.6	4.1	3.6	3.8	3.6	3.6	3.8	3.8	3.8	3.9	3.9	3.9	3.9	3.9	3.9	**3.3**	**3.8**
Average nominal interest rate on external debt (in percent)	3.5	3.0	3.2	4.2	4.2	4.2	3.9	4.1	4.1	4.0	4.1	4.3	4.4	4.4	4.7	**4.0**	**4.2**
Average real interest rate on domestic debt (in percent)	7.3	0.8	0.9	3.0	1.8	2.4	3.0	3.3	3.3	3.5	3.6	3.7	3.7	3.7	8.0	**6.4**	**3.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	1.1	-1.3	-2.2	...	...	...	...	...	...	...	...	...	...	...	...	**-0.5**	**...**
Inflation rate (GDP deflator, in percent)	4.4	9.3	6.4	4.0	5.1	4.5	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	0.0	**5.1**	**4.2**
Growth of real primary spending (deflated by GDP deflator, in percent)	12.2	-8.8	4.8	5.9	3.4	1.9	3.8	3.7	3.9	3.9	3.9	3.9	3.9	3.9	8.8	**0.9**	**3.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-0.1	-1.2	3.9	0.9	0.3	0.6	0.4	0.8	0.7	0.7	0.7	0.7	0.7	0.6	-1.2	**0.9**	**0.7**
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	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, 2024-34

(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio											
Baseline	23	23	23	23	23	22	20	20	19	17	16
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	23	21	19	18	17	16	13	12	11	9	7
B. Bound Tests											
B1. Real GDP growth	23	25	27	27	27	26	24	24	22	20	19
B2. Primary balance	23	24	26	26	25	25	23	23	22	21	19
B3. Exports	23	28	37	37	37	36	33	33	31	29	27
B4. Other flows 3/	23	31	39	39	39	38	36	35	33	31	28
B5. Depreciation	23	29	21	21	21	20	17	17	16	15	14
B6. Combination of B1-B5	23	35	42	41	41	40	37	37	34	32	30
C. Tailored Tests											
C1. Combined contingent liabilities	23	27	27	28	27	27	25	26	25	23	22
C2. Natural disaster	23	26	27	28	28	28	27	28	27	27	26
C3. Commodity price	23	23	24	24	23	21	18	17	15	13	10
C4. Market Financing	23	25	26	26	25	25	22	22	21	19	18
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	66	67	67	68	67	66	59	60	56	52	48
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	66	61	57	54	50	47	38	37	32	27	22
B. Bound Tests											
B1. Real GDP growth	66	67	67	68	67	66	59	60	56	52	48
B2. Primary balance	66	69	75	76	75	74	68	69	65	62	58
B3. Exports	66	92	137	137	136	134	125	125	117	109	101
B4. Other flows 3/	66	91	115	115	114	113	106	105	99	92	86
B5. Depreciation	66	67	48	49	48	47	41	41	38	36	32
B6. Combination of B1-B5	66	101	107	123	122	121	113	112	104	98	91
C. Tailored Tests											
C1. Combined contingent liabilities	66	80	80	81	80	79	75	77	74	70	66
C2. Natural disaster	66	76	78	80	81	82	78	82	80	79	77
C3. Commodity price	66	68	71	70	67	64	54	52	45	38	32
C4. Market Financing	66	67	67	68	67	66	60	60	56	52	48
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	9	9	6	11	6	5	9	5	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	9	9	6	10	5	4	7	4	4	4	4
B. Bound Tests											
B1. Real GDP growth	9	9	6	11	6	5	9	5	6	6	6
B2. Primary balance	9	9	7	11	6	6	9	6	7	7	7
B3. Exports	9	10	9	16	10	9	13	10	12	12	12
B4. Other flows 3/	9	9	8	13	8	7	11	9	10	10	10
B5. Depreciation	9	9	6	10	5	4	8	4	4	4	4
B6. Combination of B1-B5	9	10	9	14	9	8	12	10	11	11	10
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	7	11	6	6	9	7	7	7	7
C2. Natural disaster	9	10	7	12	6	6	10	7	7	8	8
C3. Commodity price	9	9	7	11	6	5	9	5	6	6	5
C4. Market Financing	9	9	6	11	6	5	9	5	10	6	6
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	11	11	8	13	7	6	10	6	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	11	11	7	12	6	5	9	5	5	5	4
B. Bound Tests											
B1. Real GDP growth	11	12	9	16	8	7	12	8	8	9	8
B2. Primary balance	11	11	8	14	8	7	11	7	8	8	8
B3. Exports	11	12	9	16	9	9	13	9	11	11	11
B4. Other flows 3/	11	11	9	16	10	9	13	10	12	12	12
B5. Depreciation	11	14	10	15	7	6	12	7	6	7	6
B6. Combination of B1-B5	11	12	11	17	10	9	14	11	13	13	12
C. Tailored Tests											
C1. Combined contingent liabilities	11	11	9	14	8	7	11	8	9	9	9
C2. Natural disaster	11	12	9	14	8	7	12	8	9	9	9
C3. Commodity price	11	12	9	15	8	7	11	6	7	7	6
C4. Market Financing	11	11	8	13	7	6	11	7	12	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, 2024-34
(In percent)

	Projections 1/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of Debt-to-GDP Ratio											
Baseline	45	44	43	42	41	40	39	38	37	36	35
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	45	45	45	45	44	44	45	45	45	45	45
Alternative Scenario	45	59	65	**70**	**73**	**76**	**77**	**77**	**77**	**78**	**78**
B. Bound Tests											
B1. Real GDP growth	45	50	58	62	66	70	**74**	**78**	**81**	**85**	**89**
B2. Primary balance	45	47	49	48	47	46	45	44	43	42	41
B3. Exports	45	48	55	54	53	52	51	49	48	46	44
B4. Other flows 3/	45	53	59	58	57	56	55	53	51	49	47
B5. Depreciation	45	46	43	40	36	34	31	28	25	22	19
B6. Combination of B1-B5	45	45	47	47	47	47	47	47	46	46	46
C. Tailored Tests											
C1. Combined contingent liabilities	45	56	55	54	53	52	51	50	49	48	47
C2. Natural disaster	45	53	53	54	54	55	56	56	57	57	58
C3. Commodity price	45	49	54	60	66	**71**	**75**	**79**	**83**	**87**	**90**
C4. Market Financing	45	44	43	42	41	40	39	38	37	36	35
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	158	156	151	148	144	141	137	134	130	127	123
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	158	159	158	159	158	158	158	159	159	159	159
Alternative Scenario	158	233	256	269	270	279	271	273	274	275	277
B. Bound Tests											
B1. Real GDP growth	158	179	206	221	234	248	261	275	288	301	314
B2. Primary balance	158	165	174	171	167	163	160	157	153	149	146
B3. Exports	158	172	195	192	187	184	180	175	169	163	157
B4. Other flows 3/	158	187	210	207	202	198	194	189	182	175	168
B5. Depreciation	158	165	151	141	129	119	109	99	89	79	69
B6. Combination of B1-B5	158	160	168	168	167	166	166	165	164	163	162
C. Tailored Tests											
C1. Combined contingent liabilities	158	201	195	192	188	184	181	177	173	169	166
C2. Natural disaster	158	187	187	190	192	195	197	200	202	204	206
C3. Commodity price	158	183	204	227	243	258	271	281	294	307	321
C4. Market Financing	158	156	151	148	144	141	138	135	131	127	124
Debt Service-to-Revenue Ratio											
Baseline	23	23	18	23	16	16	23	18	17	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	23	23	18	24	17	17	24	20	20	21	21
Alternative Scenario	23	26	25	32	24	24	37	37	40	38	36
B. Bound Tests											
B1. Real GDP growth	23	24	22	30	22	23	34	32	35	38	39
B2. Primary balance	23	23	19	25	18	18	26	23	22	21	20
B3. Exports	23	23	19	25	18	18	25	21	21	21	21
B4. Other flows 3/	23	23	19	26	19	19	26	22	22	22	22
B5. Depreciation	23	23	19	25	16	16	23	16	15	14	14
B6. Combination of B1-B5	23	22	20	26	19	19	27	22	21	22	22
C. Tailored Tests											
C1. Combined contingent liabilities	23	23	21	26	19	19	33	28	27	22	22
C2. Natural disaster	23	24	21	27	19	20	31	27	27	26	26
C3. Commodity price	23	24	21	28	22	23	33	33	36	39	41
C4. Market Financing	23	23	18	23	16	17	24	19	22	17	17

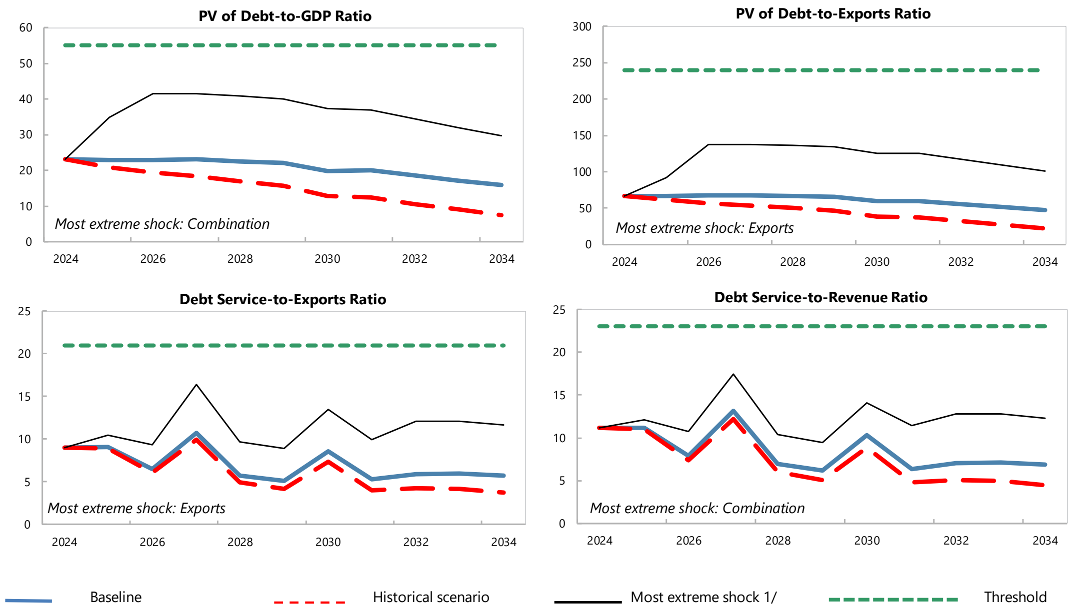
Sources: Country authorities; and staff estimates and projections.

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, 2024-34



Customization of Default Settings		
Tailored Stress	**Size**	**Interactions**
Combined CL	No	
Natural disaster	Yes	Yes
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.

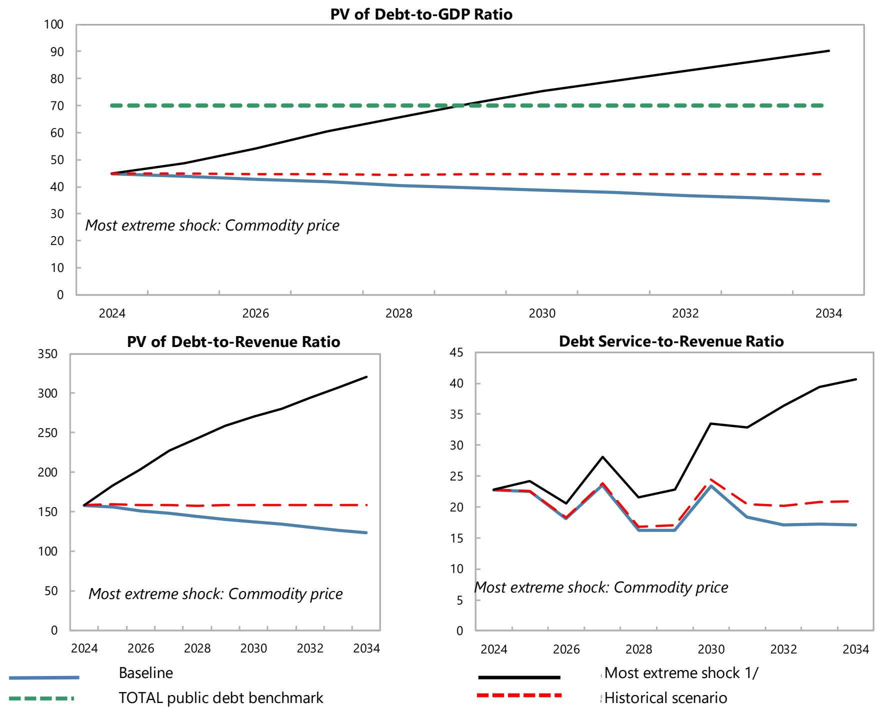
Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*		
	Default	**User defined**
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.5%	4.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. 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, 2024-34



Borrowing Assumptions on Additional Financing Needs Resulting from the Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	36%	36%
Domestic medium and long-term	64%	64%
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)	21	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.8%	3.8%
Avg. maturity (incl. grace period)	7	7
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	3.2%	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.

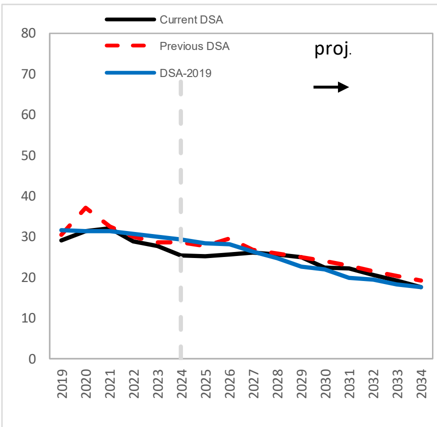
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. 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.

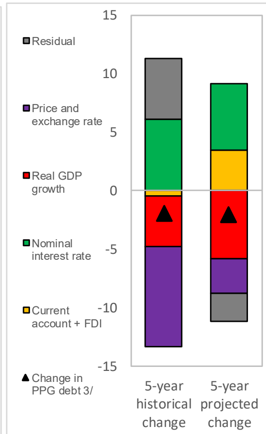
Figure 3. Honduras: Drivers of Debt Dynamics—Baseline Scenario

External debt

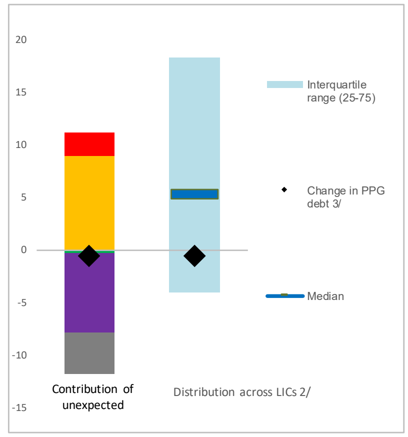
Gross Nominal PPG External Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)

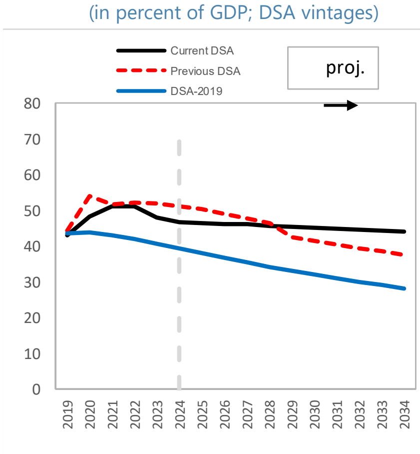


Unexpected Changes in Debt 1/
(past 5 years, percent of GDP)

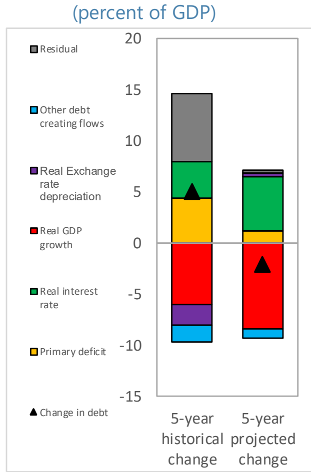


Public debt

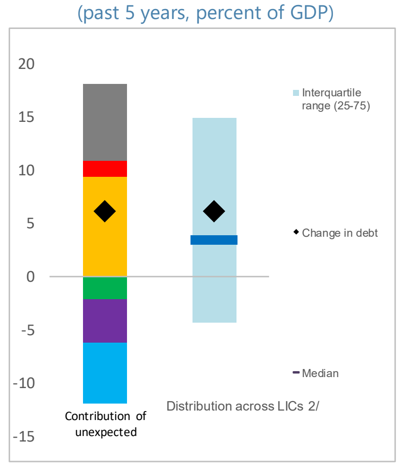
Gross Nominal Public Debt
(in percent of GDP; DSA vintages)



Debt-creating flows
(percent of GDP)



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



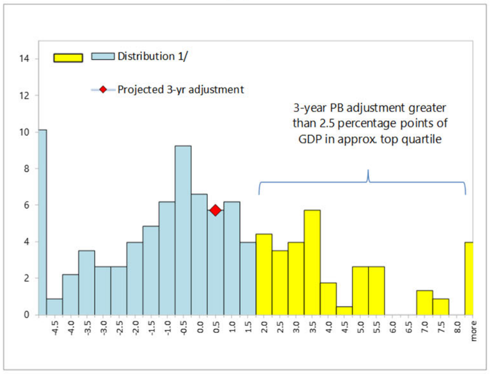
1/ Difference between anticipated and actual contributions on debt ratios.

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.

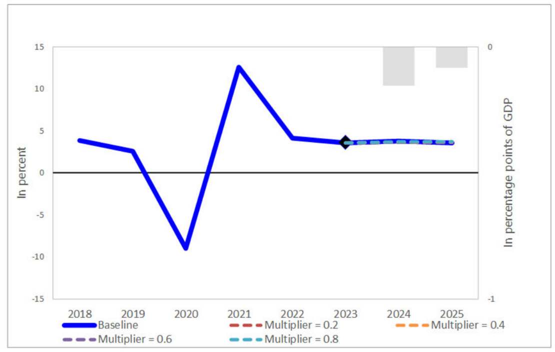
Figure 4. Honduras: Realism Tools

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



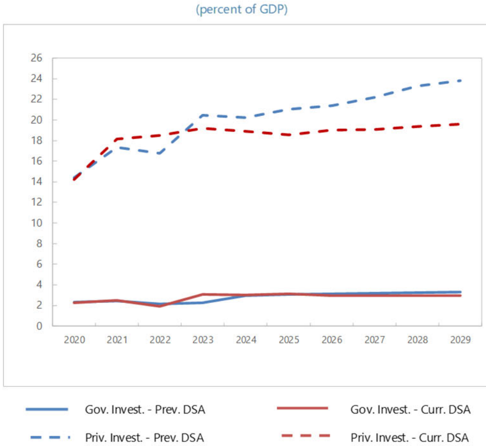
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

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)

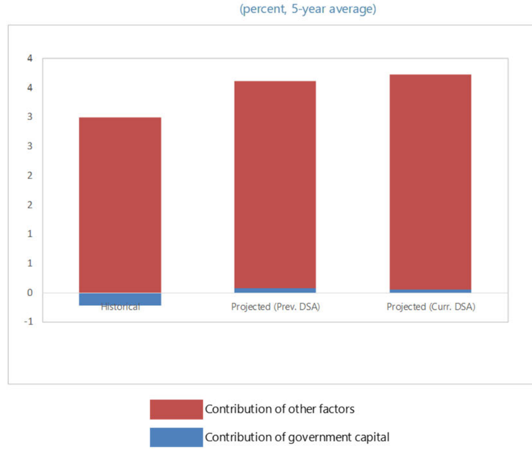
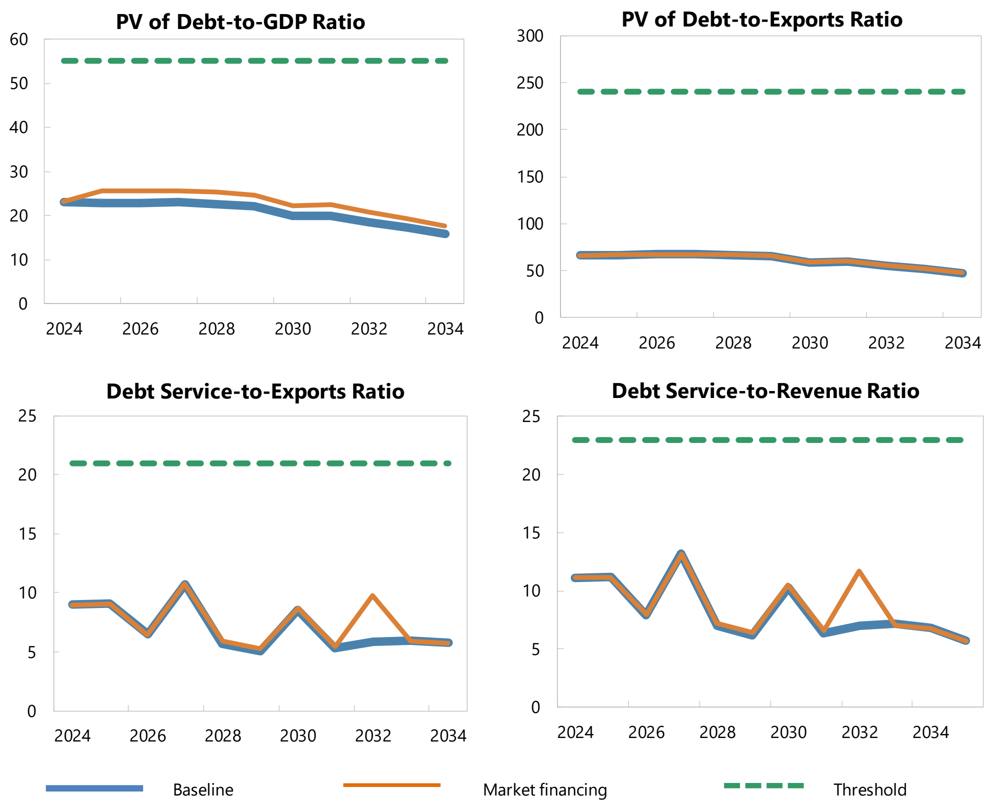


Figure 5. Honduras: Market Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	6	337
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

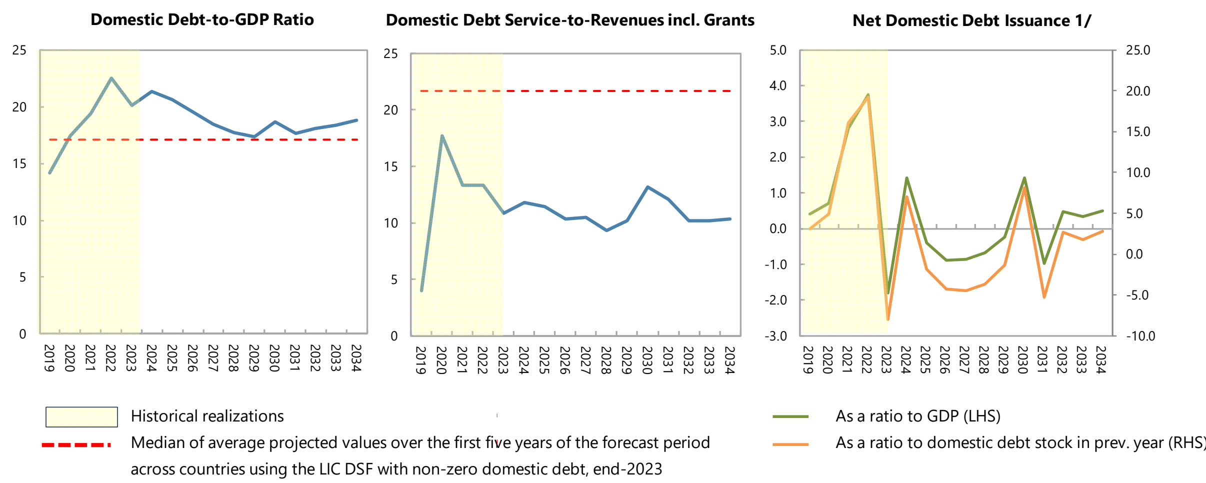
1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.

Figure 6. Honduras: Indicators of Domestic Public Debt, 2019-2034



Borrowing Assumptions (average over 10-year projection)	Value
Shares in new domestic debt issuance	
Medium and long-term	100%
Short-term	0%
Borrowing terms	
Domestic MLT debt	
Avg. real interest rate on new borrowing	3.8%
Avg. maturity (incl. grace period)	7
Avg. grace period	4
Domestic short-term debt	
Avg. real interest rate	3.2%

Sources: Country authorities; and staff estimates and projections.

1/ Net domestic debt issuance is an estimate based on the calculated public gross financing need net of gross external financing, drawdown of assets, other adjustments and domestic debt amortization. It excludes short-term debt that was issued and matured within the calendar year.

INTERNATIONAL MONETARY FUND

HONDURAS

December 3, 2024

FIRST AND SECOND REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND REPHASING OF PURCHASES—SUPPLEMENTARY INFORMATION

Approved By
Rodrigo Valdés (WHD) and Anna Ivanova (SPR)

Prepared by the Honduras team of the Western Hemisphere Department

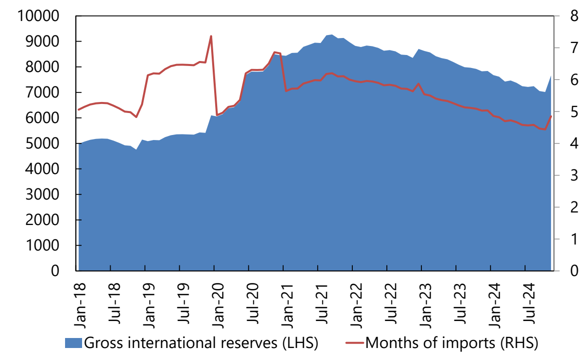
This supplement provides an update on developments since the issuance of the Staff Report (EBS/24/125) on November 21, 2024. Specifically, it provides an update on the implementation of prior actions for these reviews, the issuance of an external bond by Honduras, exchange rate policy implementation, November inflation data, and updated information on the impact of Tropical Storm Sara and the policy response. The thrust of the staff appraisal remains unchanged.

RECENT DEVELOPMENTS

1. **The authorities have completed remaining prior actions for the reviews.** On November 28, the authorities published in the official gazette a Council of Ministers decree establishing a committee composed of the Central Bank of Honduras, the National Banking and Insurance Commission (CNBS), the Ministry of Finance (SEFIN), the Ministry of Energy, ENEE, and the Secretariat of the Presidency that will coordinate financial policies related to the electricity sector and financing for ENEE (***prior action***). Also on that date, SEFIN made a payment towards its accounts payable to ENEE for slightly more than the required 4,101.6 million Lempiras (***prior action***), filling the shortfall from the 5,000 million Lempiras destined to reduce the stock of arrears. ENEE has used these resources, as well as the 898.4 million Lempiras obtained from domestic bond placements since late October, to pay arrears to private generators, thereby reducing their outstanding stock as of end-November to 14.8 billion Lempiras. With further payments to be made before year end, funded by additional debt issuances and transfers from SEFIN, ENEE is on track to meet the end-December performance criterion to reduce arrears to 11.5 billion Lempiras.

2. **Honduras has completed the issuance of a ten-year thematic external bond.** The November 21 operation, supported by UNDP and Honduras' first since 2020, raised US$700 million (1.9 percent of GDP) to support social and green public investment.[1] The bond, which was issued at par, carries a coupon of 8.65 percent and was more than four times oversubscribed.[2] As a result of the issuance and as a testament to the catalytic role of the Fund arrangement, gross international reserves increased from US$7.0 billion (4.4 months of imports) at end-October 2024 to US$7.6 billion (4.8 months of imports or around 115 percent of the ARA metric) at end-November 2024. Since the baseline projections contained in the Staff Report did not include the issuance of such a bond, the end-December QPC for international reserves will be adjusted upwards by the proceeds of the issuance, as specified in the TMU. Given broadly unchanged gross financing external needs and the use of the bond (Lempira equivalent) to substitute for domestic financing (see below), Fund-provided resources will be aimed at closing Honduras' balance of payment gap and enable a smaller reserve drawdown in 2024.[3]

Gross International Reserves
(Millions of USD, LHS; and months of imports, RHS)



Source: Central Bank of Honduras; and IMF staff calculations.

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[1] The proceeds of the bond may be used for social projects, including support for vulnerable populations, job creation, access to basic housing, education, health services, and basic infrastructure, and green projects, including low-carbon transport, energy efficiency, renewable energy, sustainable agriculture, pollution control, and climate change adaptation. Tracking of the proceeds takes place through the relevant subaccount in the TSA.

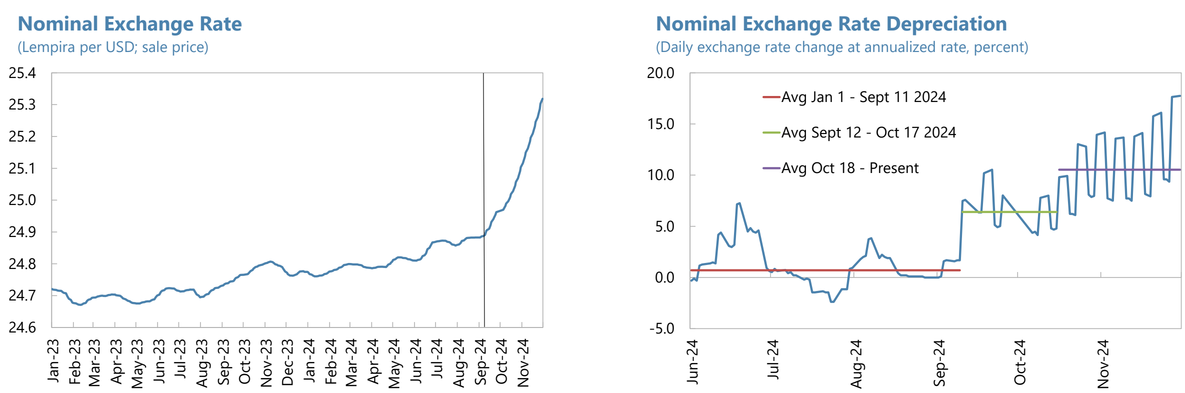
[2] The bond pays semi-annual coupons and a bullet repayment upon maturity.

[3] Staff will fully incorporate the bond issuance in the context of the Staff Report for the Third Review.

3. The bond issuance is not expected to impact the fiscal path envisaged under the program. The authorities plan to use the bond issuance proceeds to (i) build-up deposits at the Treasury Single Account (TSA) at the central bank; (ii) repay domestic arrears, including 0.4 percent of GDP (around $160 million) in ENEE arrears (¶1);[4] and (iii) pre-finance planned relevant near-term current and capital expenditures in lieu of domestic market issuances. The bond issuance increases projected end-2024 gross public debt by around 2 percent of GDP to about 48.6 percent of GDP, still below the expected debt level for 2024 at program approval (51.3 percent of GDP). In this respect, and also considering that resources from the operation can be used to substitute for domestic financing, the main findings of the debt sustainability assessment remain unchanged.[5]

4. The Lempira has continued to crawl against the USD in line with program objectives. From October 18 through December 2, the Lempira has depreciated against the USD at an annualized daily rate of about 10.5 percent (**Figure 1**). Year-to-date, the Lempira has depreciated 2.2 percent against the USD, with the bulk of the movement (1.7 percentage points) taking place since mid-September.

Figure 1. Honduras: Nominal Exchange Rate Developments



Sources: Central Bank of Honduras; and IMF staff calculations.

5. Inflation declined in November to its lowest level since March 2021. Headline inflation edged further down to 3.9 percent from 4.1 percent in October, while core inflation declined to 5.0 percent from 5.2 percent in October (**Figure 2**). The decline in headline inflation was mainly driven by base effects, as food prices have stabilized in level terms in 2024 following strong increases in 2023. With imported goods inflation increasing marginally from 2.9 percent in October to 3.1 percent in November, there were no clear signs of strong pass-through from exchange rate

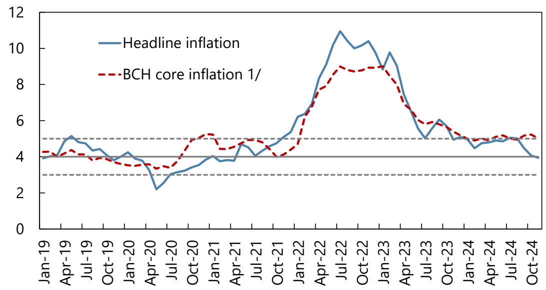
[4] Past expenditures included support for vulnerable populations, job creation, access to basic housing, education, health services, and basic infrastructure, and green projects, including low-carbon transport, energy efficiency, renewable energy, sustainable agriculture, pollution control, and climate change adaptation. Tracking of the proceeds takes place through the relevant subaccount in the TSA.

[5] Staff will update the Debt Sustainability Analysis, including to reflect the impact of the bond, in the context of the Third Review.

movements to prices. The November inflation print increases downside risk to staff's end-2024 inflation projection of 4.8 percent.

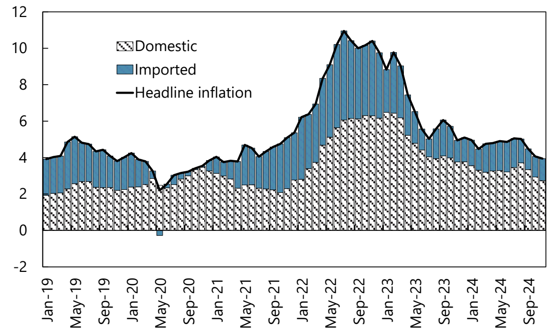
Figure 2. Honduras: Inflation Developments

Headline and Core Inflation
(Percent, year-on-year)



1/ BCH core inflation index excludes unprocessed perishable food (except meat), energy, and fuels.

Contributions to Headline Inflation
(Percentage points; year-on-year)



Sources: Central Bank of Honduras; and IMF staff calculations.

6. **Still preliminary estimates suggest that Tropical Storm Sara's impact has been smaller than initially feared.** Damages and losses from Sara, which hit Honduras in mid-November, are expected to be smaller than those of other recent storms. Fortunately, loss of life has been limited due to the authorities' improved preparations and rapid response. No adjustments to the program baseline from the impact of the storm are needed at this juncture.

Table 1. Honduras: Impact of Tropical Storm Sara and Other Recent Storms

	Tropical Storm Sara (2024)	Tropical Storm Julia (2022)	Hurricanes Eta/Iota (2020)
Population/housing affected			
Lives lost	7	42	95
Persons requiring shelters	8,247	15,000	96,000
Homes destroyed	430	975	1,398
Homes damaged	4,762	5,867	91,048
Infrastructure affected			
Bridges destroyed	11	59	71
Health centers damaged	50	70	381
Schools damaged	208	259	534
Total Damages (Percent of GDP)	Assessment ongoing	1.1	8.5

Sources: COPECO, IDB/CEPAL; and IMF staff.

- *Damages to buildings and infrastructure:* While quantification of damages remains ongoing, available information suggests that they would be lower than those of Julia (2022; 1.1 percent of GDP in total damage) and Eta/Iota (2020; 8.5 percent of GDP total damage). Fewer people required shelters, and fewer homes were damaged or destroyed than in these previous storms. Public infrastructure reconstruction needs will likely focus on roads and bridges, including a vital bridge in the country's third city of La Ceiba along the Atlantic coast highway. In addition, 50 health centers and about 200 schools were damaged (**Table 1**).

- *Impact on production:* The agricultural sector is the most affected, as Honduras' industrial center around San Pedro Sula was largely spared. The impact on agriculture could also be more limited compared to previous storms, given that (i) the affected Atlantic coast specializes in African palm, which is quite resistant to flooding, and (ii) basic grains had largely already been harvested. In this vein, the authorities indicate that there is no apparent impact of the storm on food prices. An initial estimate by the Ministry of Agriculture points to losses of around 0.2- 0.3 percent of GDP.

- *Policy response:* Although the authorities are still developing their policy response, their preliminary estimate is of around US$80 million (0.2 percent of GDP) in additional spending needs related to the storm and not incorporated in the program baseline for the Staff Report.[6] Of this, about one quarter (US$20 million) would be spent in 2024, largely financed through budget reallocations, donations received (US$5.6 million), and a US$4.7 million disaster insurance disbursement. The authorities have lined up financing for priority reconstruction needs, including from the external bond issuance, to be planned in more detail after damages are fully assessed. They have requested a US$51 million World Bank disbursement (expected in the coming days and not in the program baseline), from the repurposing of project financing resources that could not yet be used elsewhere.[7] Moreover, resources from CABEI (US$11 million for La Ceiba bridge reconstruction) are temporarily being shifted towards the addressing the urgent reconstruction needs within the existing road construction program. The authorities also have the option of requesting disbursements of available larger disaster facilities from the IDB (up to US$400 million) and World Bank (up to US$110 million), if warranted, though at this point they have not made such requests. Finally, to support activity, the CNBS has issued a resolution to encourage banks to restructure loans of those affected by the storm.

[6] This is initial priority spending identified by the authorities and does not cover all damage from the storm, including reconstruction of homes.

[7] These resources are from two projects that are soon expiring and have not completely disbursed due to capacity limitations. Thus, amounts that were expected to be lost due to the projects' expiry are being repurposed to address Sara reconstruction.

Statement by Ms. Xiana Mendez Bertolo, Executive Director for Honduras and Mr. Oscar Monterroso, Advisor to Executive Director December 6, 2024

Our authorities want to thank management and staff for their close and active engagement in successfully concluding the first and second reviews of the program under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). They would like to extend their appreciation to Mr. Ricardo Llaudes, the Mission Chief, and his team for their remarkable work, commitment, and open discussions with the government, private sector, and the National Congress. Honduras has widely used the Fund's technical assistance, and the authorities thank these missions for their close engagement. The authorities welcome the valuable capacity development efforts and highlight the importance of continued engagement for the program's success.

The Program

Since the beginning of President Xiomara Castro's administration in 2022, the commitment to macroeconomic stability and social inclusion has been evident, despite challenges from the complex international environment and climate shocks. The program is designed to improve Honduras' social conditions, support the authorities' structural reform agenda, strengthen institutions, and increase investor confidence while preserving macroeconomic stability. In this context, the program supports policies to reduce poverty and protect the most vulnerable population. It also has an ambitious agenda to strengthen monetary and fiscal policies, preserve financial stability, and, most importantly, enhance governance and the business climate. Under the program, mixed results have thus far been achieved regarding prior actions, performance criteria, indicative targets, and structural benchmarks, as explained in the Memorandum of Economic and Financial Policies. While the authorities acknowledge some delays in meeting the program's goals, they reiterate their strong commitment to the program's objectives and to maintaining close dialogue with the IMF to achieve these goals. The Honduran authorities recognize and appreciate the role of technical assistance in fiscal, monetary, financial, and other key areas to achieve the program's targets in future reviews.

Economic Outlook

Honduras continues to grow solidly despite the complex international environment. The economy expanded by 3.6 percent in 2023, driven by consumption supported by remittances and credit, as well as public investment. By economic sector, construction, trade, and banking have been the most dynamic activities. In September 2024, the Monthly Economic Activity Index expanded by 4.1 percent (year to date over the prior year). The Central Bank projects GDP growth to remain within the range of 3.5 percent to 4.5 percent in 2024 and 2025, anticipating more balanced growth, consistent with implemented policies, showing moderation in consumption, strengthening private investment, and a greater contribution from the external sector. The near-term outlook could be affected by the impact of the recent tropical storm Sara, which hit Honduras in mid-November 2024. Fortunately, the loss of life was small, and damage was limited, including on account of preventive measures that the authorities have taken.

After ending 2023 at 5.19 percent, inflation has decreased, driven by the stabilization of food and energy prices and monetary and fiscal policy measures. Through October 2024, inflation declined further to 4.05 percent. In 2024 and 2025, inflation is projected to remain within the established medium-run tolerance range (4 percent +/- 1pp).

The current account deficit was 3.9 percent of GDP in 2023, resulting from increased family remittances and decreased imports that offset the decline in exports. By the third quarter of 2024, the current account deficit has increased as imports have recovered while exports continue to decline, partially offset by remittance flows. The Central Bank projects the current account deficit to reach 5.2 percent of GDP in 2024, as exports have not yet recovered due to adverse weather conditions and weak external demand. For 2025, the Central Bank estimates the current account deficit to be 4.8 percent of GDP, consistent with improved external demand, especially in the textile industry, and the impact of adjustments to monetary and exchange rate policies.

Fiscal Policy

The authorities have implemented a disciplined fiscal policy to create space for productive investment and social spending while maintaining debt sustainability. Thanks to budgetary discipline, the total debt of the Non-Financial Public Sector (NFPS) stood at 47.4 percent of GDP in 2023 and is expected to reach 46.1 percent and 45.8 percent of GDP in 2024 and 2025, respectively. Fiscal policy discipline contained the NFPS deficit to 1.3 percent of GDP in 2023. In 2024 and 2025, the NFPS deficit is expected to reach 1.5 percent of GDP.

The authorities have made considerable progress in strengthening tax and customs administration (including efforts to prepare and submit the Law on Tax Justice project to the National Congress), improving public finance transparency, and activating bond issuance in the domestic market. The 2025 budget sent to Congress is committed to reinforcing revenues to support investment and social protection through assistance programs like the Solidarity Network. The government's priority is to continue investing in energy infrastructure, hospitals, roads, security, and education. To create more fiscal space and improve the investment climate for the energy sector, the authorities are committed to accelerating all necessary reforms, including a decisive financing plan to address the state-owned electricity company ENEE’s arrears and improve payment discipline going forward. Indeed, in November, to reduce the arrears of the electricity company ENEE and improve the company's financial sustainability, the Secretary of Finance (SEFIN) made a payment to ENEE. This operation allowed ENEE to pay for private electricity generators. Additionally, to improve governance and ensure the reduction of ENEE's arrears, the authorities published a decree in the official gazette, creating an intergovernmental committee aimed at implementing measures to achieve the financial balance of the SOE.

As a result of the authorities’ prudent fiscal policies, Honduras has maintained strong access to international financial markets, having issued its first sustainable bond on November 21, 2024. The bond (US$700 million)—issued at a ten-year maturity—was more than four times oversubscribed, which demonstrates the confidence of market participants in the authorities’ economic program.

Monetary Policy

To contain inflation and preserve international monetary reserves, the Central Bank continues to advance effectively in normalizing its monetary and exchange rate policies. The decline in inflation to 3.94% in November 2024 is explained by the disciplined monetary policy implemented by the monetary authority to reduce liquidity, moderate bank credit growth, and strengthen the use of the monetary policy rate. The Central Bank of Honduras (BCH) increased the Policy Rate (TPM) from 3.0 percent to 4.0 percent (100 basis points) in August 2024. Then, in October 2024, it raised the TPM from 4.0 percent to 5.75 percent (an additional 175 basis points) as a prior action. Looking ahead, in setting interest rates, the BCH will be guided by domestic and global information, including the level of international interest rates, and intends to maintain a positive real policy rate and ensure a competitive Lempira exchange rate.

From December 2023 to November 29, 2024, international monetary reserves decreased by about USD 174.8 million due to the decline in exports, increased imports, and lower remittance dynamism, as well as higher net external debt service payments. However, they remain at adequate levels of USD 7,381.1 million, equivalent to 4.8 months of imports. Given that Honduras is a small and open economy, a priority for the authorities is to maintain solid reserve coverage and a robust external position. To preserve international reserves, they are committed to pursuing prudent monetary policy and disciplined fiscal policy. In this context, the authorities recognize that communication with economic agents is essential to manage expectations in goods, services, and foreign exchange markets.

The Central Bank is implementing measures to strengthen the crawling band exchange rate regime to ensure external competitiveness and maintain an adequate level of international reserves. The goal is to improve the balance between foreign exchange supply and demand in the medium term. The Central Bank is developing analytical tools to strengthen the transmission mechanisms of the monetary policy rate, including its channels, effectiveness, and lags, and the financial system's reaction to changes in Central Bank instruments. The monetary authority has also been progressing in modernizing the country's payment systems. Additionally, the Central Bank and the National Institute of Statistics (INE) completed the initial phase of the National Household Income and Expenditure Survey (ENIGH) in April 2024. The survey will allow updates to the Consumer Price Index and the base year of national accounts in the coming years.

Financial Sector

Despite external shocks, the financial sector remains healthy, liquid, and solvent. Credit continues to grow at double-digit rates. The credit-to-GDP ratio was 74.0 percent in 2023 and is expected to reach 77.0 percent in 2024. Non-performing loans remain low (around 2.0 percent). The latest stress tests conducted by the National Banking and Insurance Commission (CNBS) show that the financial system is resilient to significant shocks. The authorities are committed to strengthening the regulatory framework and supervisory practices to improve financial deepening. The CNBS has defined an action plan to incorporate climate change vulnerabilities into the financial system's stress tests. The authorities are also working on a securities and insurance market law project with technical assistance from the Inter-American Development Bank (IDB) to create a regulatory framework in line with international best practices, which will contribute to market development and financial inclusion.

Progress on the Structural Agenda

The authorities have reiterated their commitment to this area. In July 2024, the National Congress approved the Law on Rational and Efficient Use of Energy to address climate change. Honduras is one of the most vulnerable countries in the world to climate disasters, evidenced by the recent tropical storm Sara, reflecting the fragility of the country's productive infrastructure and its impact on economic growth, exports, and living conditions of the most vulnerable population. In this context, the authorities aim to ensure social investment, improve food security, and increase sustainable public investment focused on their climate adaptation strategy. There is a need to enhance the resilience of the energy sector and the country's productive infrastructure to climate events. In this context, the authorities maintain their interest in future support under the Resilience and Sustainability Facility (RSF). However, considering the need to focus their efforts on the completion of the first and second reviews of the program, they have proposed to continue conversations regarding the RSF at the next review. The authorities are committed to transparency and governance and have made noteworthy progress in combating corruption. Given the ambitious agenda, the authorities continue to progress in strengthening their Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) legal framework in preparation for the Financial Action Task Force (FATF) assessment in 2026. They plan to update four related laws in the first half of 2025.

Conclusion

The support of the IMF for Honduras is crucial to strengthen the balance of payments, reinforce international reserves, foster sustainable and inclusive economic growth, and obtain additional external financing to meet resource needs and drive structural reforms. The authorities have made significant efforts and shown commitment to continuing the economic program, implementing necessary policy adjustments despite the limitations of the complex international and national context. They also hope that these measures will help achieve the program's objectives, strengthen public institutions, reduce poverty, and accelerate growth. Finally, the Honduran authorities reaffirm their commitment and willingness to adopt any additional measures to achieve the program's goals.