



HONDURAS

October 2015

FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND STANDBY CREDIT FACILITY— PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; STAFF SUPPLEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HONDURAS

In the context of the First Reviews under the Stand-By Arrangement and Standby Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 11, following discussions that ended on March 18, 2015, with the officials of Honduras on economic developments and policies underpinning the IMF arrangement under the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on April 29, 2015.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Honduras.

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

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

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

Technical Memorandum of Understanding*

*Also included in Staff Report

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

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IMF Completes First Reviews Under the Stand-By Arrangement and arrangement under the Stand-By Credit Facility for Honduras

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Honduras's performance under an economic program supported by a three-year Stand-By Arrangement (SBA) and a two-year arrangement under the Stand-By Credit Facility (SCF). This blended program was approved on December 3, 2014 in the amount of SDR 129.5 million (then about US\$188.6 million), the equivalent of 100 percent of Honduras' quota in the IMF (see [Press Release No. 14/545](#)). With the completion of the review, the authorities have access to resources in the total amount of SDR 45.325 million (about US\$63.8 million); however the authorities plan to continue treating the arrangements as precautionary.

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

"The Honduran authorities are implementing their Fund-supported economic program with strong commitment, amid improved terms of trade and strong remittance inflows.

"For 2015, the authorities have strengthened fiscal and monetary targets, taking advantage of the more favorable external environment to reduce the deficit of the central government and state electricity company (ENEE) at a faster pace than originally envisaged. This will add to the credibility of fiscal adjustment and enhance confidence. The authorities also plan to continue changing the composition of public expenditure to create room for higher and better-targeted social spending to support the reduction of the high levels of poverty.

"The tightening of monetary targets is important to strengthen international reserve buffers and help keep monetary policy focused on controlling inflation and protecting the external position. Plans to strengthen the central bank's governance and independence will enhance its capacity to maintain stable monetary and financial conditions.

“To bolster public finances and support long-run economic growth, the authorities should press ahead with reforms in the electricity sector. In particular, the authorities’ plan to bring forward measures to reduce the deficit of ENEE is required to further lower the burden on the central government finances and increase efficiency. These measures should be accompanied by full implementation of the reforms envisaged in the 2014 electricity sector law, including the implementation of plans to reduce distribution losses in the sector.

“Finally, Honduras would benefit from protecting the hard won gains envisaged under the program by establishing a fully functional medium-term fiscal framework, which would institutionalize fiscal policy discipline. In addition, the provisions under the recently adopted social protection framework law should be implemented gradually to ensure consistency with the program’s objectives and with long-term fiscal sustainability.”



HONDURAS

FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE STANDBY CREDIT FACILITY

April 29, 2015

EXECUTIVE SUMMARY

Fund-supported program. The Executive Board approved a precautionary blended program on December 3, 2014. The program is for a total of SDR 129.5 million (100 percent of quota) and is being supported by a 36-month Stand-By Arrangement (SDR 77.7 million, 60 percent of quota) and a 24-month arrangement under the Standby Credit Facility (SDR 51.8 million, 40 percent of quota). The main objectives of the program are to preserve macroeconomic stability and to implement a broad structural reform agenda to improve conditions for sustainable inclusive growth and support poverty reduction.

Macroeconomic context. Macroeconomic performance in 2014 was significantly better than envisaged at program approval, benefiting from strong program implementation and ownership, as well as more favorable external conditions. The 2014 outturn included lower inflation and stronger external sector and fiscal positions relative to the program. The outlook has also improved—reflecting mainly lower oil prices—with higher GDP growth, lower inflation, and stronger fiscal and external accounts.

Program implementation. Program implementation for the first reviews has been strong. All 2014 performance criteria and indicative targets were met, most with significant margins. The authorities have also created fiscal space within the program to increase social spending and support efforts to reduce poverty. On the structural side, December 2014 and March 2015 benchmarks were also generally observed. The revised program proposed for 2015 envisages further strengthening fiscal and NIR targets. This reflects last year's overperformance, the improved external sector outlook, and the authorities' strategy of taking advantage of lower oil prices to reduce fiscal deficits and put the finances of the state electricity company on a sound footing faster than originally anticipated. The revised program also proposes to move the timing for the completion of structural benchmarks related to social security reform and audit of domestic arrears to later in 2015. The authorities will continue to treat the program as precautionary.

Approved By
Robert Rennhack (WHD)
and Masato Miyazaki
(SPR)

Discussion took place in Tegucigalpa during March 9–18. The staff team comprised L. Abrego (Head), P. Druck, G. Nicholls, D. Plotnikov (all WHD), J. Kapsoli (FAD), M. Appendino (SPR), and M. Dehesa (Resident Representative).

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BACKGROUND, RECENT DEVELOPMENTS, AND OUTLOOK

1. **Domestic context.** After over a year in office, support for President Hernandez among the Honduran population remains strong. Investor confidence is also high, having improved substantially since Mr. Hernandez took office in January 2014. In addition to its strong commitment to improving economic policy management and reducing poverty, President Hernandez's government is making important efforts to strengthen domestic security, which has improved over the last year. The government has been working generally well with key opposition parties in congress, which have thus far broadly supported its legislative proposals on the economic side.
2. **The Board approved a precautionary three-year Fund-supported program in December 2014.** The program is for SDR 129.5 million (100 percent of quota) and is being supported by a 36-month Stand-By Arrangement (SBA, SDR 77.7 million, 60 percent of quota) and a 24-month arrangement under the Standby Credit Facility (SCF, SDR 51.8 million, 40 percent of quota). The main objectives of the program are to preserve macroeconomic stability and to implement a broad structural reform agenda to improve conditions for sustainable inclusive growth and support poverty reduction.
3. **Macroeconomic performance in 2014 generally exceeded program projections.** Real GDP growth is estimated to have risen to 3.1 percent (in line with the 3 percent envisaged in the program), driven by private investment (Figure 1). Inflation closed at 5.8 percent, well below the 6.5 percent projected in the program, owing mainly to lower fuels prices. The current account deficit is estimated to have narrowed by 2 percent of GDP, to 7.4 percent of GDP (below the 7.8 percent of GDP projected in the program), reflecting fiscal consolidation, more favorable terms of trade, and strong growth of remittances (Figure 2). NIR increased by about US\$260 million, comfortably exceeding the program target (paragraph 6) and bringing reserve coverage to 4.3 months of imports (3.7 months under the program). Fiscal performance was also significantly stronger than anticipated (paragraph 6), reflecting the frontloaded implementation of substantive fiscal consolidation measures and strong program ownership.
4. **The 2015 outlook is more positive than envisaged in the program.** The external environment is expected to be more favorable than anticipated at the time of program approval, reflecting lower oil prices and a steady US recovery. This would support economic growth and allow a faster reduction of inflation, and strengthen the external and fiscal positions compared to the program. Real GDP growth is projected to increase to 3.3 percent (3 percent in the program) as higher incomes from lower oil prices boost domestic demand, although output would still remain below estimated potential. At the same time, inflation is expected to drop to about 4¾ percent (5.8 percent in the original program), owing both to the lower oil prices¹ and the fading of the one-

¹ There are no fuels subsidies in Honduras, and changes in international fuels prices are passed onto domestic prices.

off effects from fiscal measures adopted in 2014 (e.g., increase in VAT rate). Annual inflation has continued to decline in 2015, reaching 3.7 percent (y/y) in March. The external position is expected to strengthen further, with the current account deficit projected to decline to 6½ percent of GDP (7.1 percent of GDP in the program). Supported by tight macroeconomic policies, this would allow a substantial strengthening of international reserve buffers (paragraph 18).

5. **The balance of risks to the macroeconomic outlook has improved relative to the program.** Given the significant improvement in the external environment for Honduras and increased investor confidence, staff views risks around growth and inflation projections as slanted to the upside. In particular, the effect of lower oil prices on GDP growth and inflation could be more positive than currently envisaged. Similarly, private sector demand could be stronger than projected, supported by continued solid growth of remittances and higher investment from improved confidence and the more favorable external conditions.

6. **Monetary policy has remained broadly appropriate.** Credit growth remained moderate in 2014, at about 10 percent, aided by the central bank's (BCH) efforts to control liquidity through open market operations (Figure 3). Credit in foreign currency decelerated significantly, expanding at about the same pace as loans in domestic currency. The BCH reduced the policy rate by a total of 50 basis points (to 6.5 percent, which implies a real rate of about 2 percent) in February and March 2015 on the basis of the significantly more favorable inflation and external sector outlooks and a still negative output gap. As envisaged in the program, the BCH has allowed the currency to depreciate faster since the last few months of 2014. However, the lempira has strengthened in real effective terms (by about 3 percent in the year that ended in February 2015), following the appreciation of the US dollar vis-à-vis the euro and the yen.

PROGRAM IMPLEMENTATION

7. **Program implementation has been off to a strong start.** Fiscal consolidation in 2014 was stronger than envisaged under the program while the strengthening of international reserve buffers proceeded at a pace significantly faster than anticipated.

- **The fiscal performance criteria (PC) for 2014 were met with ample margins.** The deficit of the combined public sector (CPS) is estimated to have declined to 4.3 percent of GDP, well below the program target (5.9 percent of GDP) (See Box 1). Overall revenue was in line with program projections while primary expenditures were considerably lower (Figure 4), particularly on wages.

Operations of the Combined Public Sector (In percent of GDP)			
	2013	2014	
		Prog.	Prel.
Total revenue and grants	22.9	24.5	24.4
<i>Of which</i>			
Tax revenue	15.6	17.3	17.3
Interest revenue	1.5	1.7	1.6
Oper.Bal.Publ.Enterprises	-0.9	-0.8	-0.6
Total expenditure	30.6	30.4	28.7
<i>Of which</i>			
Wages and salaries	12.8	12.4	11.6
Goods and services	4.4	4.1	3.7
Interest payments	2.1	2.4	2.1
Capital expenditure	6.4	6.2	6.0
Overall balance	-7.6	-5.9	-4.3
Primary balance	-7.1	-5.2	-3.8
Sources: Honduras authorities and Fund staff estimates.			

Box 1. The Fiscal Consolidation in 2014

Honduras implemented strong fiscal consolidation in 2014, reducing the CPS deficit to 4.3 from 7.6 in 2013. This performance was supported by both revenue and expenditure measures, as well as by measures to restore the financial health of public enterprises. As shown in the table below, the bulk of the adjustment came from the central government and public companies.

A comprehensive tax package was implemented early in the year. The main measures were an increase of 3 points in the VAT rate (from 12 to 15 percent), higher fuels taxes, elimination of exemptions, and the introduction of an advanced income tax to help strengthen tax compliance (see 2014 Article IV Consultation, Box 2). Compared to 2013, tax revenue increased by about 1¾ percent point of GDP, in line with program projections.

The government also implemented a wide-ranging expenditure rationalization plan under the umbrella of a fiscal emergency law. The plan was mainly focused on rightsizing public sector employment and controlling wage growth, as well as reducing other current expenditure. The wage bill of the non-financial public sector declined by 1.4 percent of GDP, with about one-half of the reduction taking place outside the central government. There were workforce reductions by local governments, the social security institute and other decentralized agencies. At the central government and decentralized institutions, nominal wages were frozen during 2014 and 60 percent of unfilled posts available at end-2013 were cancelled (with the exception of health and education). As part of the ongoing restructuring process at the Honduran Institute of Social Security (IHSS), many administrative posts were cancelled. Additionally, a census of public employees was conducted, with the initial aim of identifying and removing irregular workers. Capital spending was reduced somewhat, mainly through prioritization of projects and focusing on those with high social returns and proven capacity for speedy implementation. Social and security expenditures rose, aided by higher revenues and the reduction of other primary spending.

The authorities embarked on a strategy to put the public enterprises on a sound footing. As part of this strategy, the authorities adjusted electricity tariffs to increase net margins, taking advantage of the reduction in international oil prices. Implementation of plans to downsize the state telecommunications and electricity companies (Hondutel and ENEE, respectively) also started in 2014, with many redundant posts cancelled, especially at Hondutel. Progress was also made in the process of reducing ENEE's workforce, which started with the initial step of suspending redundant staff. The full impact of these measures on the wage bill is yet to be seen in the fiscal accounts due to the payment of severance compensations for dismissed workers.

Overall Balance of the Combined Public Sector by Entity (Percent of GDP)			
	2013	2014	Change
1 Central Government	-7.9	-4.6	-3.3
2 IHSS	0.7	0.5	0.2
3 Other pension funds	2.3	1.4	1.0
4 Other institutions	-0.1	0.0	-0.1
5 Local governments	-0.3	-0.1	-0.2
General Government	-5.2	-2.8	-2.4
6 Non-financial public companies	-1.9	-1.0	-0.9
Non-financial Public Sector	-7.1	-3.8	-3.3
7 Central Bank	-0.5	-0.4	0.0
Combined Public Sector	-7.6	-4.3	-3.3

Sources: Honduras authorities and Fund staff estimates.

Wage Bill of the Non-Financial Public Sector
(Percent of GDP)

	2013	2014	Change
1 Central Government	9.8	9.1	-0.7
2 IHSS	0.8	0.6	-0.2
3 Other pension funds	0.1	0.1	0.0
4 Other institutions	1.6	1.4	-0.2
5 Local governments	0.5	0.5	-0.1
General Government	12.8	11.6	-1.1
6 Non-financial public companies	1.5	1.2	-0.2
Non-financial Public Sector	14.2	12.8	-1.4

Sources: Honduras authorities and Fund staff estimates.

The overperformance on the wage bill reflects mainly substantial personnel reductions as the authorities brought forward the process of reducing public sector employment. Most of the decrease in primary spending took place at the central government and the state-owned electricity company (ENEE), although decentralized institutions and local governments also contributed by reducing their wage bills. The central government deficit (4.6 percent of GDP) was also below the program target (5.5 percent of GDP). The indicative targets on the central government wage bill and social spending were met as well.

- **ENEE.** All end-December targets for ENEE were met. The electricity tariff increase (about 12 percent before correcting for lower costs arising from the decline in oil prices²) that took place during October-November 2014 and stronger expenditure controls helped ENEE reduce its deficit by ½ percent of GDP, increase operational margins, and reduce the stock of arrears.
 - **The monetary targets for end-December were met comfortably.** Net domestic assets of the central bank were substantially below the program ceiling and the NIR target was comfortably met. The NIR overperformance reflected the stronger external current account and higher FDI inflows relative to the program, as well as the late arrival in 2014 of IFI program support. At the same time, the BCH mopped up substantial liquidity through open market operations to keep growth of net domestic assets in line with program targets.
8. **The structural benchmarks for December 2014 and March 2015 were generally met.**
- **Private-Public Partnerships (PPPs).** The two PPP-related structural benchmarks that had been set for December 2014 were met. In December, amendments to the PPP framework law were enacted, and legislation allowing government guarantees for debt contracted by private companies involved in PPP projects was repealed. The amendments to the PPP law will strengthen the PPP framework, including by granting the ministry of finance the power to stop projects (at any stage of their cycle) that do not provide value for money or jeopardize fiscal sustainability. The new legislation also creates a special unit at the finance ministry, charged with assessing and monitoring PPP-related fiscal risks.

² Under the current institutional setup, tariffs in Honduras are adjusted monthly to incorporate changes in costs arising from variations in fuel prices.

Box 2. Reforming Hondutel

The finances of the state-owned telecom company (Hondutel) deteriorated in recent years.

The company has been running deficits for most of the last decade as it proved unable to compete with private companies that entered the sector in the early 2000s. In 2014, the authorities began putting in place measures focused on lowering costs (see below), which led to the generation of a small surplus.

Hondutel (In percent of GDP)						
	2009	2010	2011	2012	2013	2014
Revenue	1.1	0.9	0.7	0.6	0.5	0.5
Spending	1.3	1.0	0.8	0.7	0.6	0.4
Overall Balance	- 0.2	- 0.1	- 0.0	- 0.0	- 0.0	0.1

Hondutel offers a number of services, although some of them with limited availability. These include landline-based and public phone services, broadband internet, data transmission, and mobile phone communications. The company also has a wide fiber optic network (about 3,000 kilometers) and its own network for international connections. However, Hondutel has been losing market share to private companies and saw its finances deteriorate, owing to lack of investments to keep up with new technologies, lower demand for its core landline businesses, and high operational costs, including from a bloated workforce. A new administration appointed in 2014 has made some improvements to stabilize its financial conditions by cutting current expenditure, mainly on wages and goods and services.

The government has designed a plan to restore Hondutel medium-term financial sustainability. The strategy includes finding a strategic partner to create a one-stop shop for all telecommunication needs, with the aim of regaining market share in mobile communications and broadband internet. Simultaneously, Hondutel plans to continue reducing non-essential costs to improve operational efficiency. It is not anticipated that Hondutel will need government support to execute this strategy. Specifically, the overall plan includes the following:

- *Wage bill and goods and services.* Measures to reduce non-essential spending include (i) reducing personnel, a process that started in 2014, where the reduction reached about 35 percent of the workforce; (ii) implementing efficiency-enhancing administrative actions (e.g. limiting overtime hours devoted to network maintenance, reducing outsourcing in several areas), and (iii) reducing energy consumption.
- *Streamline operations.* Improving network efficiency by conducting adequate maintenance, introducing monitoring mechanisms to reduce losses (e.g. irregular traffic, fraud), and enhancing customer satisfaction by repairing broken lines, installing new services, and improving the billing process.
- *Institutional reorganization.* The reorganization of Hondutel is expected to reduce the number of business units to 133, from the current 233. This will require training to ensure the new organizational structure works efficiently.
- *Strategic partner to increase revenue.* The goal is to bring a strategic partner to offer bundled services to become a one-stop shop for all telecommunication needs, and expand the internet and mobile phone business lines while consolidating the landline business.

The process to bring the strategic partner is ongoing, and expected to be finalized during the last quarter of this year. Hondutel's strategy prioritizes profitability to ensure the company's medium-term financial sustainability, and prepare it to compete in such a highly competitive market.

- **A public employment census was completed.** The census comprised the central government and other levels of the public sector. All public employees are now recorded in a centralized system which is almost fully integrated with the automated payroll system. The next step is to perform an audit to match assignments with job descriptions with the aim of continuing to eliminate redundant positions and further reduce the wage bill.
- **ENEE wage bill.** The program targets a reduction in ENEE's wage bill (excluding severance payments) by about $\frac{1}{4}$ percent of GDP in 2015. This involves a reduction of about 40 percent in ENEE's personnel. The downsizing process started in December 2014 with the suspension (an intermediate step before dismissal) of redundant staff. Through March 2015, enough personnel was separated to reduce the wage bill by about 0.15 percent of GDP this year. The authorities plan to complete the work reduction process by August to achieve the reduction in the wage bill targeted for 2015.
- **Hondutel.** The authorities have developed a strategy to restore the financial sustainability of the state-owned telecommunications company, Hondutel (see Box 2). A key component of the strategy consists of finding a "strategic private partner" tasked mainly with revamping Hondutel's internet and mobile phone business lines. To make the company more attractive to potential investors, in 2014 the authorities started to implement a program to reduce operational costs. This helped Hondutel moved into a small surplus for the first time in about a decade.
- **IHSS reform.** This reform seeks to strengthen the governance of IHSS and reduce its actuarial deficit through parametric changes. As the current provider of pensions for the formal private sector and health services for both private and public sector, the IHSS is expected to play a central role in the proposed new social protection system (see paragraph 16). It is therefore crucial that its reform fully takes into account the cost and short and medium-term financing implications of the new framework legislation. To give adequate time for the preparation of both the IHSS reform and the new framework law, the authorities request moving congressional submission of the legislation reforming the IHSS to September 2015 (from March), and its approval to December 2015 (from June). The authorities have started implementing measures that do not require congressional approval aimed at improving the financial situation of IHSS by raising efficiency, namely by reducing redundancies and strengthening procurement process and practices.

POLICY DISCUSSIONS

9. **The authorities are taking advantage of the decline in oil prices to strengthen the fiscal and external positions relative to the original program.** The revised program for 2015 envisages a stronger external current account and targets a substantially higher level of international reserves. On the fiscal side, the 2015 program targets lower deficits for the CPS, the central government and ENEE, compared with the program, as the authorities take advantage of lower fuels costs, including by eliminating untargeted electricity subsidies. The authorities are committed to locking in most of

these gains over the medium term, which also features stronger fiscal and external positions compared to original program projections.

Honduras: Medium-Term Scenario										
	2013	2014		2015		Projections				
		Prog.	Prel.	Prog.	Rev.Prog.	2016	2017	2018	2019	2020
(Annual percent change)										
Output and Inflation										
GDP at constant prices	2.8	3.0	3.1	3.0	3.3	3.4	3.6	3.8	3.8	3.8
Consumer prices (eop)	4.9	6.5	5.8	5.8	4.7	5.2	5.4	5.4	5.4	5.4
(In percent of GDP, unless otherwise indicated)										
Public Sector										
CPS overall balance	-7.6	-5.9	-4.3	-3.2	-2.7	-1.9	-1.5	-1.1	-0.9	-0.7
CPS primary balance	-7.1	-5.2	-3.8	-2.1	-1.5	-0.4	0.1	0.3	0.4	0.3
Public sector debt	45.3	47.8	46.5	49.4	49.3	51.0	51.8	51.7	51.1	50.1
External sector										
Current account balance	-9.5	-7.8	-7.4	-7.1	-6.5	-6.4	-6.2	-5.8	-5.3	-5.0
GIR (in months of non maquila imports)	3.8	3.7	4.3	3.8	4.5	4.6	4.8	4.9	5.0	5.0

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

A. Fiscal Policy

10. **The revised 2015 program envisages tighter fiscal policy.** The program targets a deficit of 3.8 percent of GDP (4.0 percent in the original program) for the central government, and 2.7 percent of GDP for the CPS (3.2 percent in the original program). The latter target reflects also a stronger financial position of ENEE, whose deficit excluding government transfers is now projected to be 0.3 percent of GDP lower compared to the original program. The revisions to the central government targets reflect more rapid progress in lowering the wage bill than originally envisaged, while the stronger ENEE position is the result of better operational margins as the authorities have taken advantage of lower oil prices to eliminate untargeted electricity subsidies.³ The 2015 program targets an adjustment (measured by the change in the primary balance of the CPS) of 2¼ percent of GDP, following the adjustment of 3¼ percent of GDP during 2014.

11. **The fiscal program for 2015 focuses on continuing to reduce spending while improving the finances of public enterprises.**

- **Central government.** Following the substantial tax revenue increase in 2014, fiscal consolidation for the central government in 2015 would concentrate mainly on further reducing primary spending, notably the wage bill. Consistent with the 2015 budget, wages at the central government and decentralized institutions will remain at last year's level, while

³ The government modified the tariff formula again in late December, effectively raising the average tariff by 9 percent (on top of the 12 percent increase that had taken place in October-November). In the process, it delivered a tariff adjustment well in excess of the additional 2.5 percent increase it had committed to implement by July 2015, and eliminated untargeted subsidies.

the process of rightsizing public employment is set to continue, following the completion of the civil servants census last year. The authorities expect public employment losses to be more than offset by overall job growth in the economy as the ongoing recovery of GDP growth continues. The process of rationalizing capital spending—after the high levels reached in 2013—is also set to continue as the authorities prioritize projects with high social returns. On the revenue side, tax collections are projected to increase modestly on the back of the stronger domestic demand expansion resulting from the decline in fuels prices, but this will be offset by lower nontax revenue. The constitutional challenge to the advance income tax payment (whose yield is estimated at $\frac{1}{4}$ percent of GDP) has yet to be resolved. The authorities remain confident that the Supreme Court will uphold the tax. The program conservatively assumes no revenue gains from tax administration in 2015. This and the possibility of higher GDP growth than envisaged in the program provide an upside risk to tax revenue this year.

- **Public enterprises.** The program envisages stronger adjustment by public enterprises compared to 2014 and the original program, mainly on the back of measures already adopted in the electricity sector (e.g., higher tariffs before correcting for reductions in fuels costs) and stricter expenditure control and efficiency gains by other public enterprises, notably Hondutel. The operational balance of public enterprises would increase by about 1 percent of GDP and move into a surplus of about $\frac{1}{2}$ percent of GDP in 2015, mainly due to the improvement in ENEE's finances.

12. **Program financing.** The program remains fully financed. External financing remains as in the original program, with the IADB, the World Bank and the European Union providing a total of US\$104 million in budget support in 2015. The reduced financing needs from the lower fiscal deficit will be reflected in lower domestic debt placements. The program envisages the need for resources from external bond placements of about US\$290 million (1.4 percent of GDP) during 2015–16 (US\$186 million in 2015). The authorities have indicated they are considering tapping domestic markets instead, with the aim of limiting exposure to currency risk. They plan to make a decision in the coming months. Given domestic banks' abundant liquidity and substantially improved confidence, the authorities might be able to place these resources in the domestic market. However, should this prove difficult, the authorities will tap international capital markets—and should have no difficulty with this—ensuring that the program remains fully financed.

13. **Debt management.** The authorities are preparing a market-friendly plan to improve the profile of domestic debt and reduce financing risks over the medium term. The plan—expected to be executed in the first half of this year—involves exchanging bonds maturing in 2016–18 (when sizeable amortizations will become due) with new bonds carrying longer maturities. Participation by creditors (local banks and public pension funds) will be voluntary, and the operation will be neutral in net present value terms. The plan appears to provide an adequate balance between extending debt maturities and costs.

14. **Domestic arrears.** The stock of domestic arrears was estimated at about 3 percent of GDP at end-2014. While the authorities have already started auditing the arrears of Hondutel and ENEE,

there have been delays in the procurement process of the accounting firm that will conduct the audit for other entities. The authorities therefore request postponing completion of the corresponding structural benchmark (originally set for June 2015) to September 2015, still in time for the second program review. Once the audit is finalized, the authorities will decide on the best options—including the use of securities—to clear all validated claims during 2015. The Finance Ministry has strengthened the expenditure control processes to prevent the accumulation of new arrears.

B. Social Protection

15. **Social spending.** The government will continue to expand the coverage for its social programs, partly by re-allocating savings from reductions in the wage bill. In particular, the coverage of *Vida Mejor*,⁴ the government's flagship social program, is being expanded from 270,000 families in extreme poverty in 2014 to 300,000 families this year.⁵ The expansion would help protect poor families from the effects of the ongoing fiscal adjustment. There would be room for additional social spending under the program if tax revenues overperformed. The government has also been conducting a thorough review of its social programs (to be completed in June 2015), with the aim of improving their targeting. The authorities' measures to protect low-income groups also include subsidizing families with monthly electricity consumption below 75KWh. The subsidy would provide protection against the recent electricity tariff increases.

16. **Reform of the social protection system.** Congress is discussing framework legislation to reform the social protection system, notably by gradually moving to universal health and pension coverage and introducing some basic unemployment protection.⁶ While the authorities have made changes to the draft legislation submitted to congress in September 2014, a thorough assessment of its fiscal costs and implications for intertemporal sustainability is yet to be done. In line with program commitments, they plan to bring this legislation to a formal vote only when (i) its consistency with the program's fiscal targets and intertemporal sustainability has been ensured, and (ii) the design of complementary, specific legislation (particularly the social security law, governing the IHSS, and the law on public health care) has been worked out.

C. Monetary and Exchange Rate Policies

17. **Monetary policy will remain focused on keeping inflation low and protecting the external position.** The real policy rate remains well in positive territory (at about 2 percent) and growth of monetary aggregates is under control. The stance of monetary policy looks broadly

⁴ *Vida Mejor* is allocated, by law, a minimum of 4,500 million lempiras annually (about 1 percent of 2015 GDP). This figure is based on the initial estimate for the first year revenue yield from raising the VAT rate in 2014.

⁵ The envisaged expansion would be funded through unspent *Vida Mejor* resources transferred to a trust fund in 2014 and better targeting of other social programs.

⁶ The proposed new pension and healthcare systems are designed as multi-pillar, with a first pillar comprising subsidized regimes for low-income groups.

appropriate and consistent with the authorities' inflation and external sector objectives. Staff and the authorities agreed that further monetary easing in the current macroeconomic circumstances would not be advisable, notably because the recent decline in inflation could be reversed if oil prices start to rise earlier than expected. At the same time, it is important to continue strengthening international reserve buffers. The authorities are implementing a plan to phase out the use by banks of government bonds to meet reserve requirements, with the aim of eliminating this practice by the end of the program period (when most of the current stock of such bonds expire). No authorization to use government bonds for that purpose has been issued by the BCH since early 2014.

18. **The NIR target for 2015 has been substantially strengthened compared to the original program.** Although the 2014 overperformance reflected partly the fact that program disbursements from other IFIS and the EU arrived at year-end, the improved outlook for the external current account argued for a tighter NIR target in 2015. With the new target, reserve coverage is projected to rise to 4½ months of imports (3.8 months in the original program). Given that oil price changes have a significant effect on the external current account, the NIR target includes an adjustor for deviations of actual oil prices from current WEO projections.⁷

19. **Plans to strengthen the monetary policy framework are moving forward.** The government is implementing a multi-year plan to recapitalize the central bank through non-negotiable bonds bearing a positive real interest rate. In addition, the BCH has adopted a plan to modernize its policy framework, including by improving short-term liquidity management and improving the information used by the monetary policy committee. It is also trying to improve communications with market participants to complement efforts to enhance monetary policy transmission.

20. **Strengthening the central bank.** Following recommendations from the April 2015 safeguards assessment, the authorities plan to reform the central bank law (congressional approval of amendments is envisaged for end-2015), with the aim of strengthening central bank governance and operational independence. The BCH will also strengthen financial reporting by taking steps to move to IFRS during the period of the program.

21. **Exchange rate policy.** The authorities are committed to making use of the scope for exchange rate flexibility allowed by the current exchange rate system. In line with this, the central bank will allow the lempira to depreciate by 5 percent in nominal terms during 2015 (as envisaged in the program), over one percentage point more than in 2014. This is consistent with the objectives of protecting competitiveness and the external sector while helping ease the costs of fiscal adjustment. As the US dollar strengthened against other major currencies, the lempira appreciated somewhat more than expected in 2014 but this has been accompanied by a more favorable terms of trade than envisaged in the original program. The authorities expressed interest in receiving Fund technical

⁷ Staff estimates indicate that a US\$10 change in the oil price changes the current account balance by about US\$90 million (about 0.4 percent of GDP) after second-round effects are factored in.

assistance to prepare a plan to gradually remove FX surrender requirements (structural benchmark, December 2015), a crucial step to move towards a more flexible regime over the medium term.

D. Financial Sector

22. **Reforms in the financial sector are advancing.** Supported by Fund technical assistance, the authorities are putting in place stricter regulations aimed at reducing bank exposure to currency mismatches by unhedged borrowers. These comprise gradual but substantial increases in capital requirements for mortgage and consumer loans to such borrowers. The authorities are also in the process of strengthening investment policies of pension funds to align them more closely with best international practices, with the aim of protecting pension fund resources while achieving adequate returns. The BCH resumed publication of the financial stability report in March 2015. In January, congress approved new AML/CFT legislation to bring it in line with the 2012 FATF standard.⁸

E. Structural Reforms

23. **Electricity sector.** Reforms in the electricity sector are advancing, although at a slower pace than envisaged under the program.

- **New sector regulator.** The authorities are pressing ahead with establishing the Regulatory Committee for Electrical Energy (CREE), the new sector regulator created by the electricity law approved by congress in 2014. The CREE is expected to be formally established by May 2015, and start operating shortly after, drawing initially on the resources inherited from the current regulator (the National Energy Commission, CNE). The 2014 electricity law provides that CREE will be independent from the government (unlike the CNE), and would be charged with overseeing the setting of electricity tariffs based on technical criteria; issuing operation licenses for companies in generation, transmission and distribution; overseeing purchase contracts from generators; and authorizing installation of new generation plants.⁹ The authorities expect the CREE to become fully functional by mid-2015.
- **Reduction of distribution losses.** The authorities are implementing a program to reduce distribution losses, which are expected to decline by about 2 percentage points in 2015 (generating additional revenues of about 0.15 percent of GDP), from its level of about 20 percent at end-2014. The program comprises installing smart meters (to cover users accounting for 65 percent of electricity consumption) and disconnecting electricity provision for customers with unpaid bills and legally prosecuting those committing fraud. To support these efforts, the government has issued legislation declaring the reduction of distribution losses a national priority. The authorities also plan to hire a private company under a short-

⁸ An assessment of Honduras' AML/CFT framework against the 2012 FATF standard is scheduled to be conducted this year by GAFILAT, the FATF-style regional body of which Honduras is a member.

⁹ See Staff Report for the 2014 Article IV Consultation, Box 6.

term contract (up to 5 years) to manage billing, collections, and the maintenance of infrastructure. The authorities anticipate that the company can start work in the sector by the last quarter of 2015. Meanwhile, they will continue implementing the current strategy to lower distribution losses, which also include a program agreed with the World Bank (the Power Sector Efficiency Enhancement Project, PROMEF).

24. **Tax administration is being strengthened.** The authorities are in the process of strengthening the Large Taxpayers Unit (LTU) with additional and better-trained staff. The LTU's efforts are now focused largely on auditing a group of about 40 "mega" taxpayers, which account for about 40 percent of tax revenue. The fiscal intelligence department of the tax agency (DEI) has been restructured while the process of modernizing IT systems to better support DEI's core activities has started. The authorities have also made progress in improving basic processes (in most cases with support from CAPTAC-DR), including to exert better control of the key import of fuels products. There are also plans for a deeper overhaul of DEI—whose implementation is expected to begin later this year—aimed at strengthening its institutional and human resources, and reducing its operational costs.

25. **PPP framework.** The reforms enacted in December 2014 (paragraph 8) would strengthen the PPP framework and help reduce risks emanating from PPPs. Following these amendments, a new unit charged with assessing fiscal risks is being established within the Finance Ministry. The authorities plan to make this unit fully capable of estimating contingent risks stemming from PPP projects. They will resume the process of approval and development of new PPP projects once the unit has achieved such capacity, and in the meantime concentrate on implementing already-existing projects. The Finance Ministry is already implementing international accounting standards (IPSAS32) to record PPP operations, following a provision in the 2015 budget law.

26. **Medium-term fiscal framework.** With TA from CAPTAC-DR and the Millennium Challenge Corporation, the authorities are developing a plan for the implementation of a medium-term fiscal framework, which would include a clear fiscal anchor and fiscal policy targets (June 2015 structural benchmark). They are aiming to use this framework in the preparation of the 2017 budget.

OTHER ISSUES

27. **The balance of risks to the program has improved, especially in the near term.** Previously identified risks on reducing the wage bill and electricity tariff adjustments have not materialized. In fact, the program has overperformed in both areas. Risks to the revised 2015 fiscal program are slightly slanted to the upside. With upside risks to economic growth (paragraph 5) and continued improvements in tax administration, tax revenue could turn out higher than envisaged under the program. The upside potential from these factors would likely offset possible revenue losses should the constitutional challenge to the advance income tax payment succeed. The main risk to the 2015 fiscal program involves possible slippages on the implementation of the plan to reduce electricity distribution losses. However, the revenue loss from this potential slippage would be modest in 2015 and could be offset by lower energy costs, which are projected conservatively in

the program. Looking beyond 2015, the potential costs of the envisaged reform of the social protection system continue to pose risks to the program. At the same time, while the government remains strongly committed to reducing the wage bill, further progress on this front could become more difficult as the 2017 election cycle approaches.

28. **Capacity to repay the Fund.** Honduras' capacity to repay the Fund remains strong. Current obligations to the Fund are very low (SDR 3 million at end-February 2015), potential access under the program would have only a modest effect on external debt (36 percent of GDP at end-2014), and the risk of debt distress is considered moderate according to the latest debt sustainability analysis.¹⁰

STAFF APPRAISAL

29. **Program performance has been strong thus far.** The authorities made a strong effort to reduce fiscal imbalances and strengthen the external sector position in 2014, substantially overperforming program targets. Importantly, this performance has taken place against a backdrop of solid GDP growth and higher social spending. Implementation of structural reforms has been broadly in line with the program. The strong program performance reflects the authorities' resolute commitment to address macroeconomic disequilibria and enhance the condition for higher sustainable and inclusive growth.

30. **The authorities have rightly decided to strengthen fiscal and monetary targets for 2015.** They are taking advantage of the more favorable external environment to reduce the deficit of the central government and ENEE at a faster pace than originally envisaged. The tightening of the monetary targets is important to strengthen international reserve buffers. Improved private sector confidence from the successful implementation of the program so far and better external conditions would make it possible for the adjustment effort to be accompanied by higher economic growth, as well as lower inflation. Staff also welcomes the authorities' efforts and continued commitment to change the composition of public expenditure and create room for higher social spending to support the reduction of the still high levels of poverty.

31. **Implementation of reforms in the electricity sector is key to bolster the public finances and support long-run economic growth.** Staff supports the authorities' decision to bring forward measures to reduce the deficit of ENEE, which will continue to lower the burden on the central government finances while fostering efficiency. It is crucial that these measures are accompanied by full implementation of the reforms envisaged in the 2014 electricity sector law, including the establishment of a fully-functional new sector regulator (CREE). These reforms would strengthen the institutional framework in this key sector while helping to raise efficiency and long-run economic growth. It is also important to keep advancing with plans to reduce distribution losses in the sector,

¹⁰ See Request for a Standby Arrangement and an Arrangement under the Standby Credit Facility, Appendix I, December 2014.

which—in addition to contributing to improving ENEE’s finances—would foster a more efficient use of resources.

32. **The monetary policy stance remains broadly appropriate.** Monetary policy should remain focused on keeping inflation under control and protecting the external position. The stance of monetary policy looks consistent with the authorities’ inflation and external sector objectives, including strengthening international reserve buffers. **Exchange rate policy management by the BCH is also consistent with the objectives of protecting competitiveness, strengthening the external sector, and easing the costs of fiscal adjustment.**

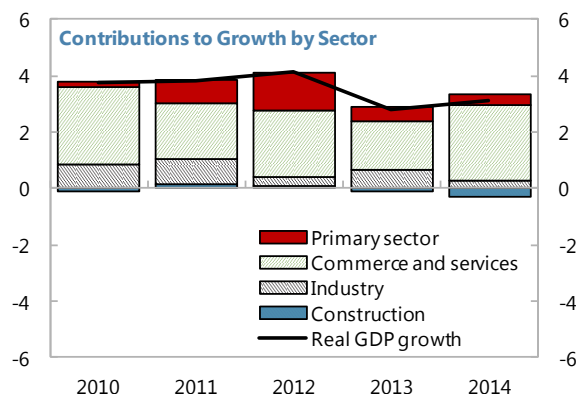
33. **The authorities are committed to strengthening the fiscal framework.** Recent efforts to reform the PPP framework would contribute to reducing fiscal risks. The authorities plan to stay the course with these reforms by making fully functional the new finance ministry unit charged with assessing fiscal risks. Staff also supports the plan to establish a medium-term fiscal framework, which would instill more discipline to fiscal policy and help consolidate the reduction in the fiscal deficit envisaged under the program.

34. **Risks to the program have subsided.** Potential risks identified previously concerning the implementation of measures to reduce the wage bill and strengthen ENEE’s finances have not materialized. Staff considers risks to the 2015 program as slanted slightly to the upside both on economic growth and macro-fiscal policy. The authorities remain committed to ensuring that the fiscal costs from the proposed reform of the social protection system fit into the program’s targets and are consistent with intertemporal fiscal sustainability. Staff encourages them to conduct a thorough assessment of the costs of this reform before it is brought to a formal vote in congress.

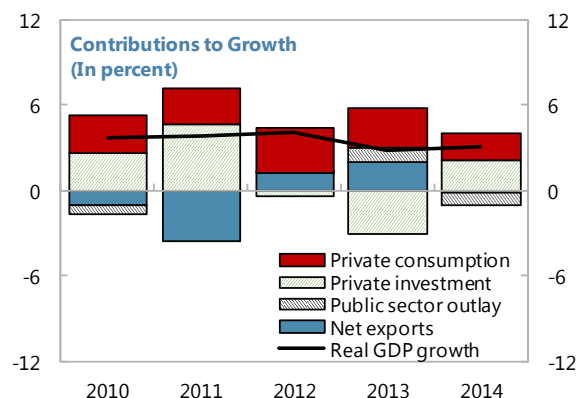
35. **Staff supports the completion of the first reviews under the SBA and the SCF arrangements.** Staff also supports the modifications to the end-June and end-December 2015 performance criteria.

Figure 1. Honduras: Recent Developments

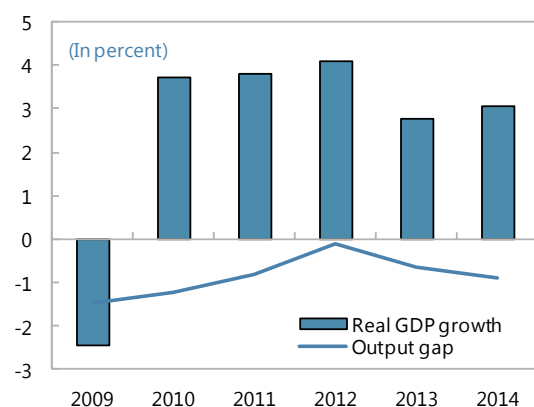
GDP growth increased in 2014, led by services.



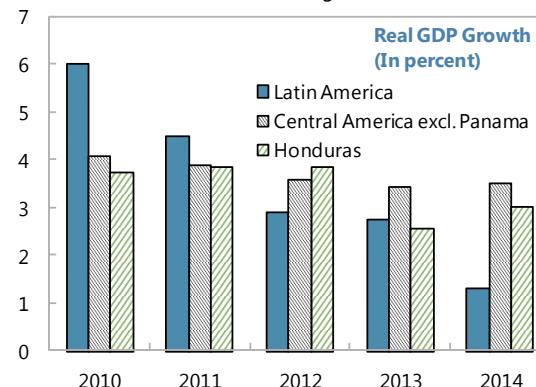
On the demand side, the higher growth was driven by private investment.



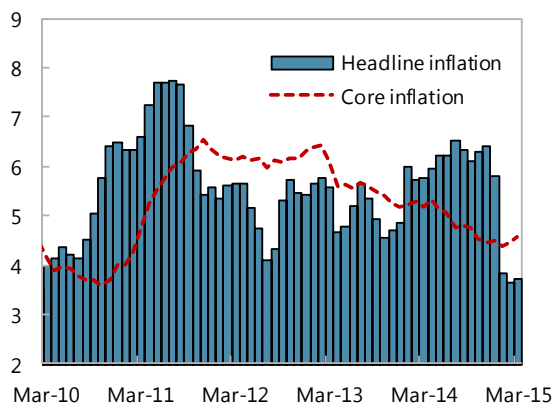
Despite higher growth, the output gap remained negative.



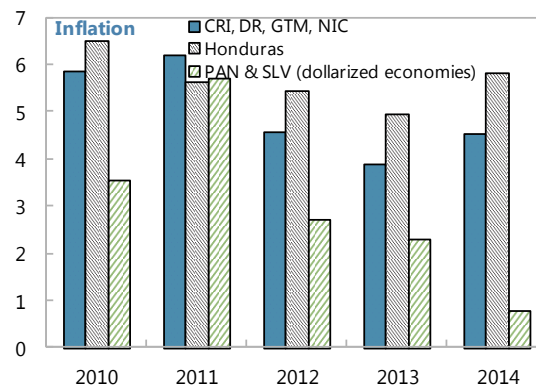
Growth was comparable to that in the rest of Central America and well above the average for Latin America.



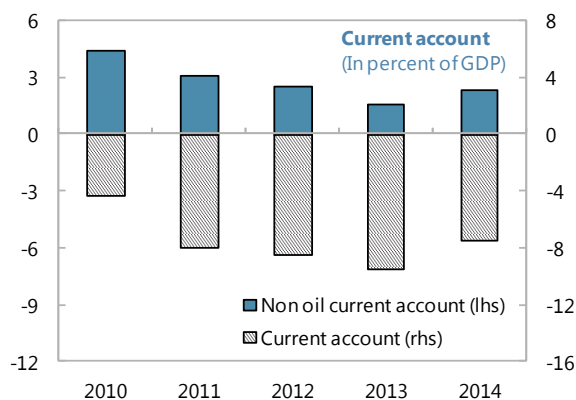
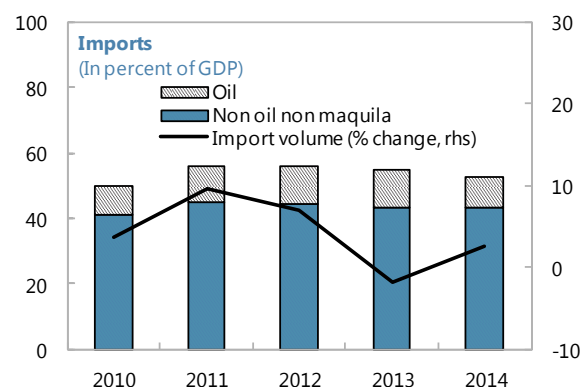
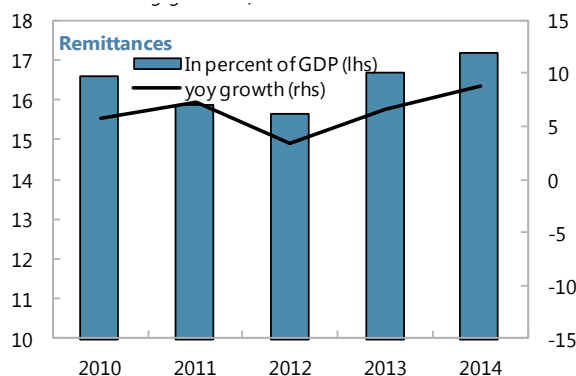
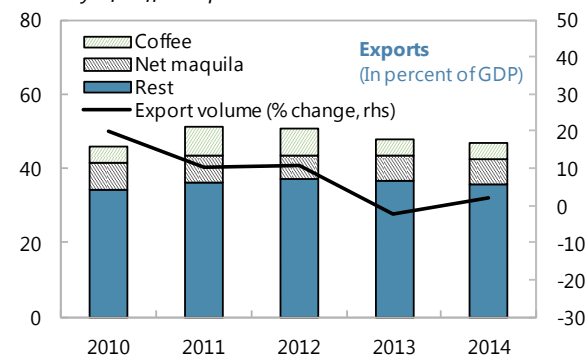
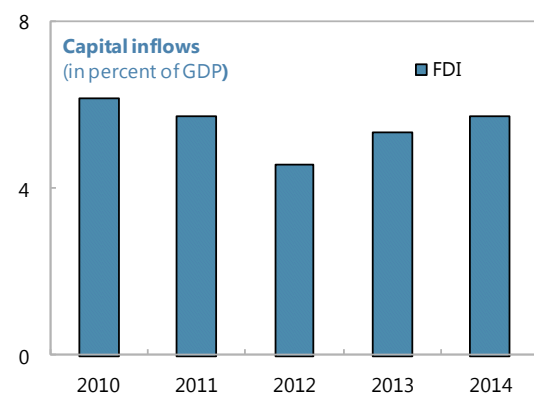
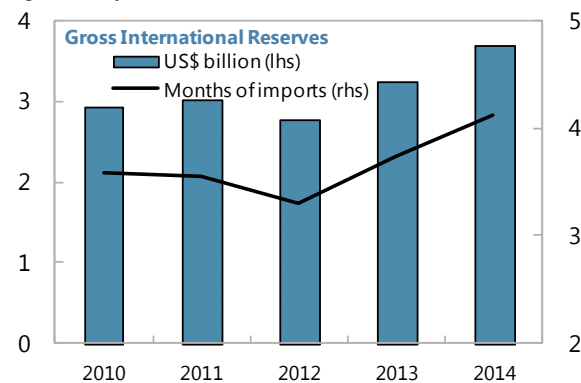
Inflation has been declining since late 2014, driven mainly by lower oil prices, though core inflation has also dropped.



Inflation was higher than in other non-dollarized economies in Central America, due mainly to one-off tax measures.



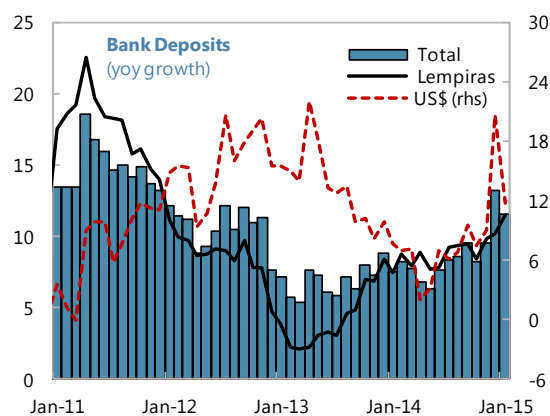
Sources: Central Bank of Honduras, Ministry of Finance, and Fund staff estimates and projections.

Figure 2. Honduras: External Sector Developments*The current account deficit declined in 2014...**...driven mostly by lower oil imports...**...and strong growth of remittances.**Exports remained broadly constant, despite a slight recovery of coffee exports.**Foreign direct investment continued to grow.**Against this background, reserve coverage rose significantly.*

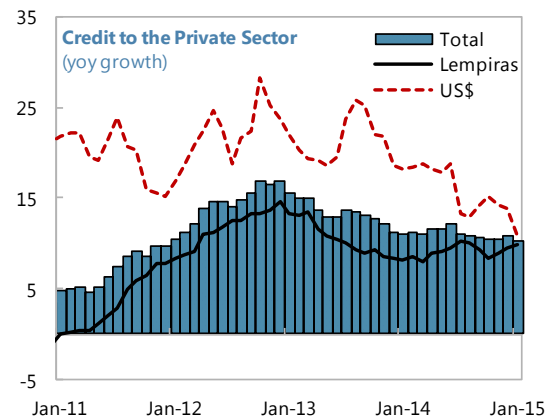
Sources: Central Bank of Honduras and Fund staff estimates and projections.

Figure 3. Honduras: Monetary Developments

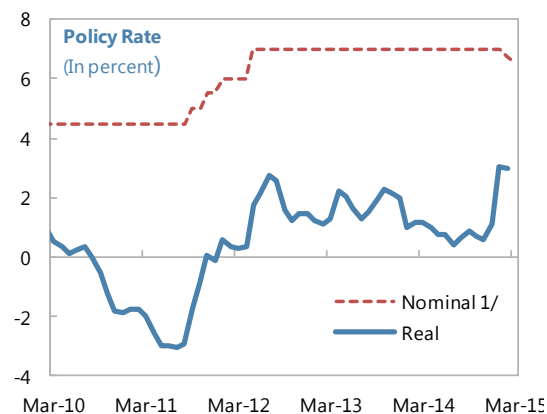
Deposits growth has picked up in recent months...



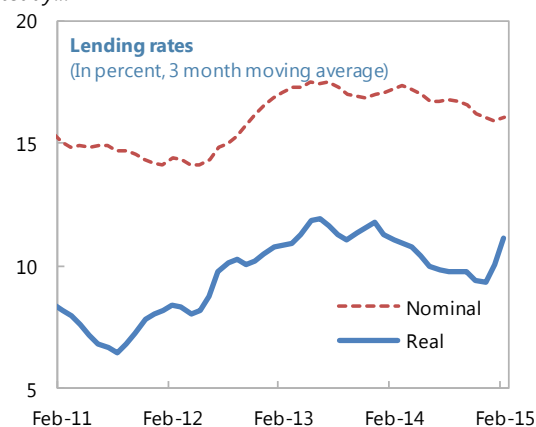
...while growth of credit to the private sector has slowed somewhat.



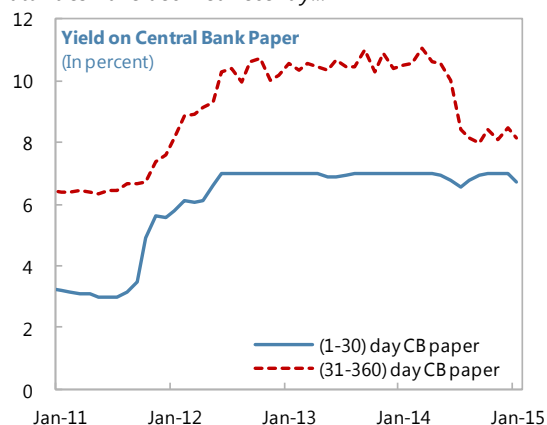
The policy rate was reduced in February and March...



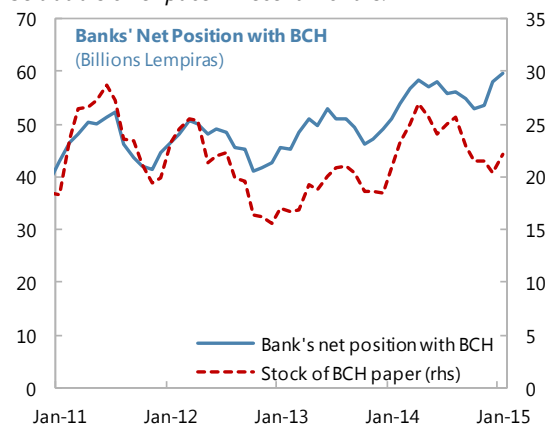
...but nominal lending rates have, thus far, remained steady...



Although yields on central bank paper for longer maturities have declined recently...



...the central bank has continued to mop up liquidity, albeit at a slower pace in recent months.

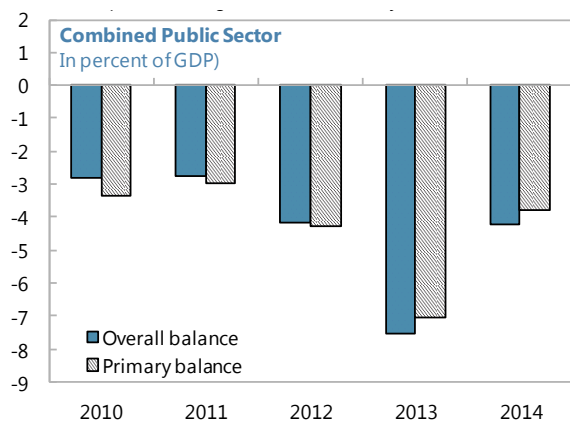


Source: Central Bank of Honduras and Fund staff estimates and projections.

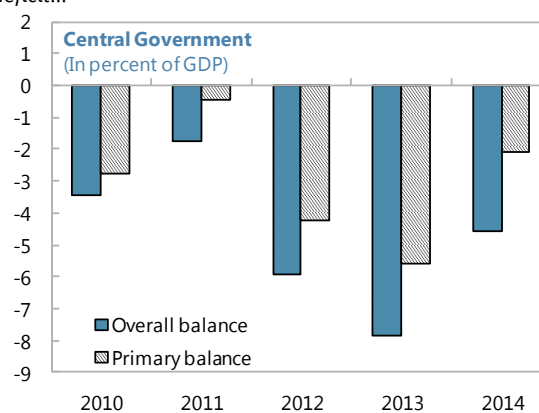
1/ The Central Bank lowered its policy rate to 6.75 percent in February and again in Mar to 6.5 percent. Data on the real policy rate is through February.

Figure 4. Honduras: Fiscal Developments

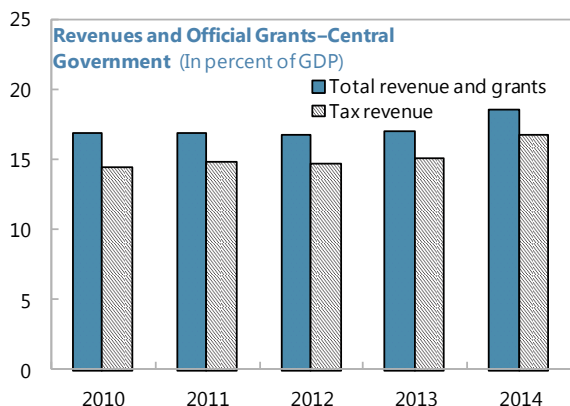
The fiscal position strengthened considerably in 2014...



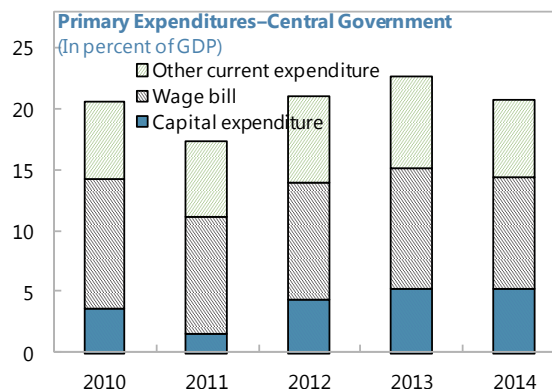
...driven mainly by a reduction in the central government deficit...



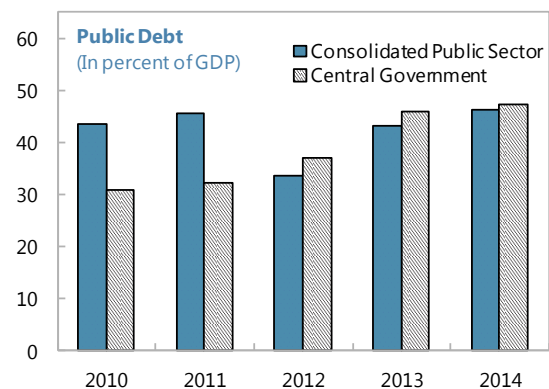
...owing to an increase in tax revenue from measures adopted in early 2014...



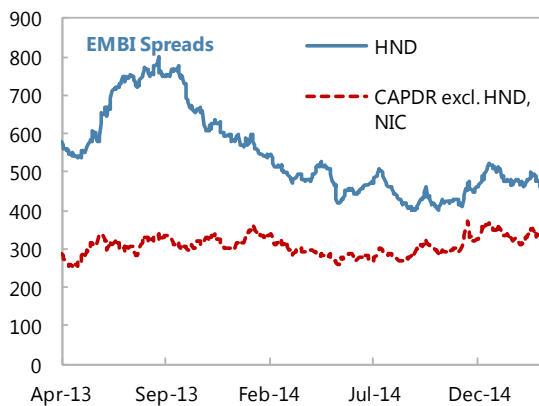
...and a reduction in spending, mainly wages and transfers.



The stronger fiscal position helped contain debt growth...



...and improve conditions to access global markets.



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

Table 1. Honduras: Selected Economic Indicators**I. Social Indicators**

Population (2013)	8.1 million	Life expectancy at birth in years (2011)	73
Per capita income in U.S. dollars (PPP, 2012)	4,194	Adult literacy (ages 15 and above, 2010)	84.8 percent
Rank in UNDP Development Index (2012)	120 of 186	Percent of pop. below poverty line (2011)	61.9
Unemployment rate (2012)	3.6	Gini index (2010)	57
Underemployment rate (2012)	54.1	Oil imports (2013)	US\$2.1 billion
Net FDI (as percent of GDP, 2013)	5.7	Main exports: coffee, bananas, palm oil, and maquila.	

II. Economic Indicators

	2011	2012	2013	2014	2015		
				Prog.	Prel.	Prog.	Rev.Prog.
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	3.8	4.1	2.8	3.0	3.1	3.0	3.3
GDP deflator	7.8	3.6	1.4	5.3	5.5	5.7	4.1
Consumer prices (eop)	5.6	5.4	4.9	6.5	5.8	5.8	4.7
Consumer prices (average)	6.8	5.2	5.2	6.2	6.1	5.6	4.1
Money and credit							
Private sector credit	9.6	16.9	11.2	9.9	10.7	10.5	9.5
Broad money	12.7	6.6	8.4	10.2	13.2	10.6	9.6
Lending rate (eop, in percent)	14.2	16.7	16.9	16.9	15.9	...	...
Deposit rate (eop, in percent)	7.4	11.4	11.0	9.9	10.4	...	...
(In percent of GDP, unless otherwise indicated)							
Investment and saving							
Gross domestic investment	24.4	24.4	21.8	25.6	22.1	25.3	21.8
Private sector	21.1	21.4	17.9	22.3	19.2	22.9	19.5
Public sector	3.4	3.0	3.9	3.3	2.8	2.4	2.3
Gross national savings	16.5	15.8	12.2	17.7	14.7	18.2	15.3
Private sector	15.4	16.4	15.0	18.7	14.0	18.0	13.9
Public sector	1.1	-0.5	-2.7	-1.0	0.6	0.2	1.3
Balance of payments							
External current account balance	-8.0	-8.5	-9.5	-7.8	-7.4	-7.1	-6.5
Exports, f.o.b. (annual percentage change)	27.3	4.8	-6.6	4.7	3.4	3.9	2.2
Imports, f.o.b. (annual percentage change)	24.9	2.2	-3.7	3.2	1.1	3.4	-0.3
GIR (In months of imports) 1/	3.6	3.3	3.8	3.7	4.3	3.8	4.5
Net International Reserves (millions of dollars)	2,032	1,665	2,211	2,271	2,475	2,411	2,730
Terms of Trade (annual percent change)	1.5	-1.1	-2.6	2.8	3.0	1.7	1.8
Real effective exchange rate (eop, depreciation -)	1.8	-1.7	0.4	1.2	3.6	...	...
Combined public sector							
Primary balance	-3.0	-4.3	-7.1	-5.2	-3.8	-2.1	-1.5
Overall balance	-2.8	-4.2	-7.6	-5.9	-4.3	-3.2	-2.7
Public sector debt	32.0	34.7	45.3	47.8	46.5	49.4	49.3

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

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

Table 2. Honduras: Operations of the Central Government

	(In percent of GDP)									
	2014			2015		Revised Program				
	2013	Prog.	Prel.	Prog.	Rev.Prog.	2016	2017	2018	2019	2020
Total revenue and grants	17.0	18.8	18.5	18.4	18.5	18.5	18.6	18.6	18.6	18.5
Current revenue	16.3	17.9	17.8	17.6	17.7	17.9	18.1	18.2	18.2	18.2
Tax revenue	15.1	16.8	16.7	16.5	16.7	16.9	17.1	17.2	17.2	17.2
Nontax revenue	1.2	1.2	1.0	1.2	1.0	1.0	1.0	1.0	1.0	1.0
Interest revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.9	0.8	0.8	0.8	0.6	0.5	0.4	0.4	0.3
Total expenditure	24.9	24.3	23.1	22.4	22.4	21.8	21.3	21.1	20.8	20.5
Current expenditure	19.8	19.3	17.9	18.7	18.2	17.9	17.2	17.0	16.7	16.3
Wages and salaries	9.8	9.3	9.1	8.8	8.7	8.4	8.0	8.0	8.0	8.0
Goods and services	3.0	2.5	2.5	2.3	2.6	2.6	2.7	2.6	2.5	2.5
Transfers	4.4	4.8	3.6	4.6	3.7	3.5	3.1	3.1	2.9	2.9
Interest payments	2.3	2.6	2.5	3.0	3.0	3.3	3.3	3.2	3.2	2.8
External	0.5	0.9	0.9	1.0	1.0	1.1	1.2	1.2	1.2	1.1
Domestic	1.7	1.7	1.6	2.0	2.0	2.2	2.1	2.0	2.0	1.7
Other current expenditure	0.4	0.0	0.3	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Capital expenditure	5.2	4.8	5.2	3.7	4.1	3.8	4.1	4.1	4.1	4.2
Fixed capital formation	2.6	1.7	2.2	1.1	1.5	1.5	1.5	1.5	1.5	1.7
Transfers	2.6	3.1	3.0	2.6	2.6	2.4	2.6	2.6	2.6	2.6
Net lending	-0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-7.9	-5.5	-4.6	-4.0	-3.8	-3.2	-2.7	-2.4	-2.2	-2.0
Financing	7.9	4.3	3.6	2.6	2.4	2.3	2.4	2.4	2.2	2.0
External financing	8.3	1.5	1.6	1.4	1.6	0.7	0.8	1.1	0.7	0.7
Disbursements	3.2	2.0	2.1	2.0	2.3	1.3	1.6	2.0	2.0	2.1
Amortization	-0.3	-0.6	-0.5	-0.7	-0.7	-0.6	-0.8	-0.9	-1.3	-1.3
Bond issues	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.1	0.1	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Domestic financing	-0.1	3.4	2.5	1.7	1.2	2.1	2.0	1.8	1.9	1.6
Financial system	-1.3	2.2	0.9	0.6	0.4	0.5	0.6	0.6	0.8	0.7
Central bank	-1.3	1.7	0.2	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Rest of the financial system	0.0	0.5	0.7	0.6	0.0	0.5	0.6	0.6	0.8	0.7
Bonds outside the financial system	1.1	1.1	1.3	3.1	2.9	0.8	0.8	0.5	0.5	0.5
Floating debt/arrears 2/	0.1	0.0	0.0	-2.2	-2.2	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.1	0.3	0.2	0.2	0.7	0.7	0.7	0.6	0.5
Adjustment for HIPC/MDRI debt relief 3/	-0.4	-0.5	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Gap	0.0	1.1	0.9	1.4	1.5	0.9	0.3	0.0	0.0	0.0
Official budget support	...	1.1	0.9	0.5	0.5	0.4	0.3	0.0	0.0	0.0
Eurobonds	...	0.0	0.0	0.9	0.9	0.5	0.0	0.0	0.0	0.0
Memorandum items										
Primary balance	-5.6	-2.9	-2.1	-1.0	-0.8	0.1	0.6	0.8	1.0	0.8
Gross total debt	45.8	49.0	47.1	50.9	49.6	51.3	52.1	52.5	52.5	50.2
Arrears 2/	2.6	2.4	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (in billions of lempiras)	376.5	408.2	409.6	444.3	440.5	475.1	514.1	558.3	606.5	659.1

Sources: Honduran authorities, Fund staff estimates and projections.

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

2/ Wage and suppliers arrears and other unsettled payments.

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

Table 3. Honduras: Operations of the Combined Public Sector^{1/}

	(In percent of GDP)									
	2014			2015		Revised Program				
	2013	Prog.	Prel.	Prog.	Rev. Prog.	2016	2017	2018	2019	2020
Total revenue and grants	22.9	24.5	24.4	24.6	25.4	25.8	26.2	26.4	26.5	26.5
Current revenue	21.8	23.2	23.4	23.6	24.5	25.0	25.5	25.8	26.0	26.0
Tax revenue	15.6	17.3	17.3	17.0	17.2	17.5	17.6	17.7	17.7	17.7
Nontax revenue	5.6	5.1	5.1	5.0	5.1	5.2	5.2	5.2	5.2	5.2
Interest earnings 2/	1.5	1.7	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Operating balance of public enterprises	-0.9	-0.8	-0.6	-0.1	0.4	0.6	0.9	1.1	1.3	1.3
Capital revenue	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Grants	0.8	1.1	0.8	0.8	0.8	0.6	0.5	0.4	0.4	0.3
Total expenditure	30.6	30.4	28.7	27.8	28.1	27.7	27.7	27.5	27.4	27.2
Current expenditure	24.5	24.2	22.8	23.3	23.1	22.7	22.5	22.2	22.1	21.7
Wages and salaries	12.8	12.4	11.6	11.8	10.9	10.6	10.3	10.3	10.3	10.3
Goods and services	4.4	4.1	3.7	3.8	4.1	4.0	4.2	4.0	4.0	4.0
Transfers	3.5	3.8	3.7	3.5	3.8	3.5	3.5	3.5	3.5	3.5
Operating losses of the central bank	0.5	0.5	0.4	0.4	0.5	0.5	0.4	0.3	0.3	0.3
Interest payments	2.1	2.4	2.1	2.8	2.9	3.2	3.2	3.1	3.1	2.7
External	0.5	0.9	0.9	1.0	1.0	1.1	1.2	1.2	1.2	1.1
Domestic	1.5	1.4	1.2	1.8	1.9	2.1	2.0	1.9	1.8	1.6
Other	1.3	1.0	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Capital expenditure	6.4	6.2	6.0	4.5	5.0	5.0	5.1	5.3	5.3	5.5
Fixed capital formation	5.1	4.8	3.9	3.5	3.4	3.4	3.6	3.7	3.8	4.0
Transfers	1.2	1.4	2.1	1.0	1.5	1.5	1.5	1.5	1.5	1.5
Net lending	-0.4	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-7.6	-5.9	-4.3	-3.2	-2.7	-1.9	-1.5	-1.1	-0.9	-0.7
Financing	8.0	5.3	3.7	2.3	1.7	1.4	1.6	1.5	1.3	1.1
External financing	8.3	1.9	1.6	1.8	2.1	1.0	1.0	1.0	0.7	0.7
Disbursements	3.2	2.5	2.1	2.5	2.7	1.7	2.0	2.2	2.1	2.1
Amortization	-0.4	-0.6	-0.6	-0.7	-0.7	-0.7	-1.0	-1.2	-1.4	-1.4
Bond Issues	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 3/	0.1	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Domestic financing	-0.3	3.4	2.2	0.5	-0.4	0.4	0.6	0.5	0.7	0.4
Financial system	0.2	3.3	0.8	0.4	-0.6	-0.2	-0.1	-0.2	0.1	-0.1
Central bank	-0.9	2.2	-0.6	0.4	0.8	0.5	0.4	0.3	0.3	0.3
Rest of the financial system	1.1	1.1	1.4	0.0	-1.5	-0.7	-0.5	-0.5	-0.2	-0.4
Bonds outside the financial system	0.0	0.0	0.5	2.6	2.9	0.0	0.0	0.0	0.0	0.0
Floating debt/arrears 4/	-0.5	0.0	-0.1	-2.6	-2.9	0.0	0.0	0.0	0.0	0.0
Other	0.0	-0.4	0.9	-0.2	0.2	0.7	0.7	0.7	0.6	0.5
Adjustment for HIPC/MDRI debt relief 5/	-0.4	-0.5	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary financing	0.0	1.1	0.9	1.4	1.5	0.9	0.3	0.0	0.0	0.0
Official budget support	...	1.1	0.9	0.5	0.5	0.4	0.3	0.0	0.0	0.0
Eurobonds	...	0.0	0.0	0.9	0.9	0.5	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance 6/	-7.1	-5.2	-3.8	-2.1	-1.5	-0.4	0.1	0.3	0.4	0.3
Overall balance electricity company (ENEE)	-1.8	-1.3	-1.1	-0.8	-0.4	-0.1	-0.1	0.0	0.1	0.2
Consolidated total debt	45.3	47.8	46.5	49.4	49.3	51.0	51.8	51.7	51.1	50.1
Nominal GDP (in billions of lempiras)	376.5	408.2	409.6	444.3	440.5	475.1	514.1	558.3	606.5	659.1

Sources: Honduran authorities and Fund staff estimates and projections.

1/ Includes central government, social security institutions, public enterprises, local governments, and decentralized agencies.

2/ Interest earned on public pension funds personal and housing loans to their affiliates.

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

4/ Wage and suppliers arrears and other unsettled payments.

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

6/ Primary deficit calculation takes into account interest earnings.

Table 4. Honduras: Summary Accounts of the Central Bank and Financial System

(In millions of Lempiras; end-December)

	2011	2012	2013	Prel. 2014	Proj. 2015
I. Central Bank					
Net International Reserves	53,919	51,500	62,945	75,648	85,615
(In millions of US\$)	2,821	2,571	3,056	3,516	3,790
Net International Reserves (in millions of US\$) 1/	2,032	1,665	2,211	2,475	2,730
Net Domestic Assets	-32,561	-29,351	-39,344	-49,253	-56,625
Credit to the public sector (net)	12,567	12,729	7,237	6,101	7,611
Other depository institutions (net)	-44,592	-42,618	-49,112	-58,135	-66,504
Other financial institutions	6,853	6,268	6,917	6,700	8,916
Nonfinancial private sector	-593	-275	-212	-202	-176
Medium and long-term net foreign assets	1,008	1,304	2,181	155	767
Other items net	-7,804	-6,759	-6,356	-3,872	-7,240
Currency issue	21,358	22,149	23,600	26,395	28,990
II. Other Depository Institutions					
Net Foreign Assets	1,129	-5,453	-10,277	-11,845	-12,673
(In millions of US\$)	59	-272	-497	-549	-561
Foreign assets (in million of US\$)	597	472	490	562	584
Net Domestic Assets	152,924	171,234	190,820	215,905	236,435
Credit to the monetary authorities (net)	49,751	48,341	55,650	65,380	74,534
Credit to other financial institutions (net)	-21,135	-23,448	-26,045	-28,165	-30,505
Credit to the combined public sector (net)	1,232	1,947	1,089	2,555	-3,977
Central government	-3,534	-3,705	-8,618	-9,968	-12,143
Other nonfinancial public sector	716	1,227	5,640	8,498	4,141
Local governments	4,050	4,425	4,067	4,025	4,025
Credit to the private sector	157,263	183,916	204,443	226,349	247,940
Local currency	117,057	134,149	145,428	159,179	176,370
Foreign currency	40,205	49,768	59,015	67,170	71,570
Other items net	-34,187	-39,522	-44,316	-50,215	-51,557
Liabilities	154,053	165,781	180,544	204,060	223,762
Of which: Deposits in domestic currency	112,123	117,378	127,211	140,062	156,275
Of which: Deposits in foreign currency	41,173	47,565	52,224	62,989	66,398
III. Financial System					
Net Foreign Assets	53,144	44,063	51,347	60,412	69,551
(In millions of US\$)	2,780	2,200	2,484	2,799	3,079
Net Domestic Assets	117,636	137,968	145,958	163,018	175,406
Credit to the nonfinancial combined public sector	13,799	14,676	8,326	8,656	3,634
Credit to the private sector	157,263	183,916	204,443	226,349	247,940
Local currency	117,057	134,149	145,428	159,179	176,370
Foreign currency	40,205	49,768	59,015	67,170	71,570
Other assets net	-6,572	-7,088	-7,369	-6,903	-20,267
Other items net 2/	-46,853	-53,536	-59,441	-65,085	-55,901
Broad Money (M4)	170,780	182,031	197,305	223,429	244,957
(Rate of growth 12 months)					
Currency issue	7.1	3.7	6.6	11.8	9.8
Currency in circulation	10.3	1.4	3.9	12.2	9.5
Broad money	12.7	6.6	8.4	13.2	9.6
Broad money (constant exchange rate)	12.5	5.3	7.5	12.0	8.2
Credit to the private sector	9.6	16.9	11.2	10.7	9.5
Credit to the private sector (constant exchange)	9.5	15.5	10.2	9.4	8.0
M1	10.3	-6.9	4.5	13.5	10.4

Sources: Central Bank of Honduras and Fund staff estimates.

1/ Excluding domestic liabilities in foreign currency and deposits of Hondutel.

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

Table 5. Honduras: Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

	2013	Prel. 2014	2015	2016	2017	2018	2019	2020
	Projections							
Current account balance	-1,763	-1,444	-1,302	-1,323	-1,301	-1,269	-1,199	-1,179
Trade balance	-3,147	-2,998	-2,793	-2,938	-3,116	-3,277	-3,437	-3,597
Exports	7,806	8,072	8,247	8,608	8,970	9,343	9,732	10,097
<i>Of which: maquila</i>	3,889	3,980	4,122	4,278	4,461	4,652	4,851	5,021
Imports	-10,953	-11,070	-11,040	-11,547	-12,086	-12,620	-13,168	-13,694
<i>Of which: maquila</i>	-2,560	-2,595	-2,649	-2,757	-2,884	-3,016	-3,152	-3,262
<i>Of which: Petroleum products</i>	-2,061	-1,903	-1,414	-1,602	-1,734	-1,838	-1,933	-2,001
Services	-668	-698	-708	-714	-719	-725	-730	-755
Income (net)	-1,353	-1,321	-1,528	-1,543	-1,529	-1,530	-1,503	-1,504
<i>Of which: payments on direct investments</i>	-1,208	-1,129	-1,281	-1,270	-1,237	-1,226	-1,196	-1,226
Current transfers (net)	3,405	3,572	3,728	3,873	4,062	4,262	4,471	4,678
<i>Of which: remittances</i>	3,083	3,353	3,496	3,645	3,827	4,019	4,220	4,418
Capital account	133	145	149	150	154	160	165	171
Financial account	2,495	1,651	1,117	1,234	1,394	1,398	1,325	1,330
Direct investment (net)	992	1,120	1,089	1,130	1,121	1,136	1,146	1,162
Other private capital flows (net)	17	73	-366	-88	73	56	40	16
Public sector borrowing (net)	1,487	459	394	191	200	206	139	151
Disbursements	1,600	599	548	355	420	476	467	492
<i>Of which:</i>								
Eurobonds	1,000	0	0	0	0	0	0	0
Official budget support		185						
Amortization	-70	-121	-141	-150	-206	-255	-312	-332
Errors and omissions	-332	-86	0	0	0	0	0	0
Overall balance	533	265	-36	61	248	288	292	322
Net international reserves (- increase)	-546	-264	-254	-254	-313	-288	-292	-322
Financing gap	0	0	290	193	65	0	0	0
Official budget support	0	0	104	86	65	0	0	0
Eurobond	0	0	186	106	0	0	0	0
Residual gap	0	0	0	0	0	0	0	0
Memorandum items:								
Current account (in percent of GDP)	-9.5	-7.4	-6.5	-6.4	-6.2	-5.8	-5.3	-5.0
Non oil current account (in percent of GDP)	1.6	2.4	0.6	1.4	2.0	2.6	3.2	3.5
Terms of trade (percent change)	-2.6	3.0	1.8	-1.8	-0.6	-0.6	-0.3	0.0
Exports of goods (percent change)	-6.6	3.4	2.2	4.4	4.2	4.2	4.2	3.8
<i>Of which: volume growth (percent change)</i>	-2.2	1.8	7.2	5.0	3.7	3.9	4.1	3.8
Imports of goods (percent change)	-3.7	1.1	-0.3	4.6	4.7	4.4	4.3	4.0
<i>Of which: volume growth (percent change)</i>	-1.7	2.5	6.6	3.3	3.6	3.6	3.9	4.0
Gross reserves (end of period)	3,255	3,698	3,972	4,259	4,601	4,899	5,195	5,337
In months of next year imports (excluding maquila)	3.8	4.3	4.5	4.6	4.8	4.9	5.0	5.0
Total external debt to GDP ratio (in percent)	35.9	36.4	38.7	39.3	39.1	38.4	37.5	37.0
External public debt to GDP ratio (in percent)	28.1	29.1	31.9	33.0	33.3	33.2	32.8	32.4
Nominal GDP (millions of U.S. dollars)	18,499	19,511	19,977	20,520	21,146	21,871	22,629	23,421

Sources: Central Bank of Honduras and Fund staff estimates.

Table 6. Honduras: External Financing Needs and Sources

(In millions of U.S. dollars)

	2012	2013	Prel.	Proj.					
			2014	2015	2016	2017	2018	2019	2020
Current account deficit	1,581	1,763	1,444	1,302	1,323	1,301	1,269	1,199	1,179
Debt amortizations	266	342	344	358	360	410	453	504	518
Public debt amortization	76	70	121	141	150	206	255	312	332
Private debt amortization	190	272	223	217	210	204	198	192	186
Subtotal (requirements)	1,847	2,105	1,789	1,660	1,682	1,711	1,722	1,702	1,697
Capital account flows (net)	101	133	145	149	150	154	160	165	171
Foreign direct investment (net)	851	992	1,120	1,089	1,130	1,121	1,136	1,146	1,162
Pulic sector borrowing (project related)	513	600	599	548	355	420	476	467	492
Eurobond	0	1,000	0	0	0	0	0	0	0
Other capital flows (net) 1/	14	-74	189	-163	108	263	239	217	194
Change in reserves (+ decrease)	367	-546	-264	-254	-254	-313	-288	-292	-322
Subtotal (sources)	1,847	2,105	1,788	1,370	1,490	1,646	1,722	1,702	1,697
Financing gap	0	0	0	290	193	65	0	0	0
World Bank	...	...	...	25	0	0	0	0	0
IADB	...	...	...	65	65	65	0	0	0
IMF	...	...	...	0	0	0	0	0	0
EU	...	...	...	14	21	0	0	0	0
Eurobond	...	...	...	186	106	0	0	0	0

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

1/ Includes errors and omissions.

Table 7. Honduras: Medium-Term Macroeconomic Framework

(In percent of GDP, unless otherwise specified)

		Prel.			Proj.			
	2013	2014	2015	2016	2017	2018	2019	2020
Growth and prices (in percent)								
Real GDP growth	2.8	3.1	3.3	3.4	3.6	3.8	3.8	3.8
GDP deflator	1.4	5.5	4.1	4.3	4.4	4.6	4.7	4.7
CPI inflation (eop)	4.9	5.8	4.7	5.2	5.4	5.4	5.4	5.4
Investment and saving								
Gross domestic investment	21.8	22.1	21.8	22.0	22.2	22.4	22.5	22.6
Private sector	17.9	19.2	19.5	19.7	19.8	20.0	20.0	20.0
Public sector	3.9	2.8	2.3	2.3	2.4	2.5	2.5	2.6
Gross national savings	12.2	14.7	15.3	15.6	16.0	16.6	17.2	17.6
Private sector	15.0	14.0	13.9	13.3	13.1	13.0	13.3	13.2
Public sector	-2.7	0.6	1.3	2.3	3.0	3.6	3.8	4.4
Balance of payments								
External current account	-9.5	-7.4	-6.5	-6.4	-6.2	-5.8	-5.3	-5.0
Non oil current account	1.6	2.4	0.6	1.4	2.0	2.6	3.2	3.5
Gross international reserves (millions of dollars)	3,255	3,698	3,972	4,259	4,601	4,899	5,195	5,337
Terms of Trade (annual percent change)	-2.6	3.0	1.8	-1.8	-0.6	-0.6	-0.3	0.0
External debt	35.9	36.4	38.7	39.3	39.1	38.4	37.5	37.0
Combined public sector								
Revenue	22.9	24.4	25.4	25.8	26.2	26.4	26.5	26.5
Of which: Noninterest revenue and grants	21.4	22.8	23.7	24.0	24.5	24.7	24.8	24.8
Expenditure	30.6	28.7	28.1	27.7	27.7	27.5	27.4	27.2
Primary balance	-7.1	-3.8	-1.5	-0.4	0.1	0.3	0.4	0.3
Overall balance	-7.6	-4.3	-2.7	-1.9	-1.5	-1.1	-0.9	-0.7
Central government								
Revenue	17.0	18.5	18.5	18.5	18.6	18.6	18.6	18.5
Expenditure	24.9	23.1	22.4	21.8	21.3	21.1	20.8	20.5
Of which: Noninterest expenditure	22.6	20.6	19.3	18.5	18.0	17.9	17.6	17.8
Primary balance	-5.6	-2.1	-0.8	0.1	0.6	0.8	1.0	0.8
Overall balance	-7.9	-4.6	-3.8	-3.2	-2.7	-2.4	-2.2	-2.0
Consolidated public sector debt								
Total	45.3	46.5	49.3	51.0	51.8	51.7	51.1	50.1
Memo items:								
Nominal GDP (in billions of lempiras)	377	410	440	475	514	558	606	659

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

Table 8. Honduras: External Vulnerability Indicators

	2011	2012	2013	Prel. 2014	Proj. 2015	2016
Exports of goods and services, annual percent change	24.3	4.6	-6.3	3.9	2.4	4.3
Imports of goods and services, annual percent change	24.8	3.5	-3.0	1.8	0.2	4.3
Terms of trade (deterioration -)	1.5	-1.1	-2.6	3.0	1.8	-1.8
Real effective exchange rate (eop, depreciation -) 1/	1.8	-1.7	0.4	3.6	...	...
Current account balance (percent of GDP)	-8.0	-8.5	-9.5	-7.4	-6.5	-6.4
Capital and financial account (percent of GDP)	7.4	8.2	14.2	9.2	6.3	6.7
External public debt (percent of GDP)	18.1	19.7	28.1	29.1	31.9	33.0
Gross official reserves						
in millions of U.S. dollars	3,043	2,778	3,255	3,698	3,972	4,259
in percent of short-term external debt	1,211	1,055	1,022	1,170	1,322	1,497
Net international reserves						
in millions of U.S. dollars	2,032	1,665	2,211	2,475	2,730	2,983
in percent of short-term external debt	809	633	694	783	909	1,049

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

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

(In percent, unless otherwise indicated)

	2010	2011	2012	2013	Prel. 2014	Prel. 2015M1
Total assets (in millions of Lempiras) 1/	236,665	270,981	302,662	341,614	393,763	395,265
(In percent of GDP)	79	81	84	91	96	97
Number of banks	17	17	17	17	17	17
Domestic	8	7	7	7	8	8
Foreign	9	10	10	10	9	9
Bank concentration						
Number of banks accounting for at least						
25 percent of total assets	2	2	2	2	2	2
75 percent of total assets	6	6	6	6	6	6
Bank rating (CAMEL)						
Number of banks (Category IV and V)	0	0	0	0	0	0
Share of total assets	0	0	0	0	0	0
Capital adequacy						
Regulatory capital to risk-weighted assets	14.9	14.9	14.7	14.5	14.6	14.5
Capital (net worth) to assets	9.2	9.1	9.3	9.1	9.2	9.3
Asset quality and composition						
Nonperforming loans(NPLs) to total loans 2/	3.7	2.9	3.3	3.4	3.3	3.5
NPLs net of provisions to capital 2/	-4.4	-6.5	-4.6	-5.2	-5.2	-3.8
Restructured loans to regulatory capital	19.8	26.6	24.7	25.3	22.3	22.8
Non earning assets net of provisions						
to regulatory capital	47.9	46.9	45.0	44.1	51.2	49.8
Provisions to total loans	4.3	3.9	4.0	4.2	4.1	4.1
Provisions to NPLs 2/	118.9	135.0	121.8	123.7	125.5	117.5
Sectoral distribution of loans to total loans:						
Commerce	12.7	13.0	14.4	14.3	14.3	14.1
Construction and real estate	34.2	32.9	30.8	28.9	27.1	27.2
Agriculture and related sectors	0.0	0.0	4.4	4.7	5.0	5.4
Industry	13.6	12.3	11.7	11.9	11.3	11.0
Consumption	16.5	18.3	20.5	21.9	21.0	20.9
Other	0.0	0.0	18.2	18.0	21.3	21.2
Profitability						
Return on assets (ROA)	1.3	1.3	1.5	1.4	1.4	1.4
Return on equity (ROE)	12.5	13.2	15.9	14.5	13.4	13.3
Interest margin to total income	48.2	48.9	52.1	47.5	52.1	52.8
Personnel expenses to administrative expenses	39.6	39.6	39.4	41.8	41.7	42.3
Liquidity						
Liquid assets to total assets	24.4	24.3	21.4	25.0	25.2	25.0
Liquid assets to total short-term liabilities	58.2	58.8	56.2	69.7	70.8	72.8
Dollarization						
Deposits in foreign currency in percent of total	29.5	29.1	30.6	30.6	32.0	31.1
Credit in foreign currency in percent of total	28.3	30.1	31.2	33.5	34.7	35.0

Source: National Commission of Banking and Insurance.

1/ Includes contingent assets.

2/ As of 2012 NPLs include delinquency of restructured loans.

Table 10. Honduras: Millennium Development Goals

	1990	1995	2000	2005	2010	2011	2012
Goal 1: Eradicate extreme poverty and hunger							
Employment to population ratio, 15+, total (%)	56.8	58.9	63.4	58.7	60.2	60.3	..
Employment to population ratio, ages 15-24, total (%)	48.5	50.9	54.2	47.1	46.4	46.3	..
Poverty gap at \$1.25 a day (PPP) (%)	22.4	10.9	8.1	13.3	9.4	..	..
Malnutrition prevalence, weight for age (% of children under 5)	15.8	16.1	12.5	8.6	..	..	..
Prevalence of undernourishment (% of population)	21.4	18.6	16.3	14.2	10.0	9.6	..
Goal 2: Achieve universal primary education							
Primary completion rate, total (% of relevant age group)	64.5	..	..	81.8	98.5	101.4	..
School enrollment, primary (% net)	88.8	..	88.8	91.8	95.8	97.3	..
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliaments (%)	10.2	..	9.4	23.4	18.0	19.5	19.5
Ratio of girls to boys in primary and secondary education (%)	104.4	..	..	105.6	107.2	106.9	..
Goal 4: Reduce child mortality							
Immunization, measles (% of children ages 12-23 months)	90.0	89.0	98.0	96.0	99.0	99.0	..
Mortality rate, infant (per 1,000 live births)	42.9	35.6	28.8	23.4	18.9	18.2	..
Mortality rate, under-5 (per 1,000 live births)	55.0	44.4	35.0	27.9	22.2	21.4	..
Goal 5: Improve maternal health							
Births attended by skilled health staff (% of total)	46.9	54.9	55.7	66.9	..	..	..
Contraceptive prevalence (% of women ages 15-49)	46.7	50.0	61.8	65.2	..	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	220.0	180.0	160.0	130.0	100.0	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Incidence of tuberculosis (per 100,000 people)	125.0	125.0	116.0	89.0	51.0	43.0	..
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	..	..	..	..
Tuberculosis case detection rate (% of all forms)	60.0	71.0	89.0	55.0	74.0	96.0	..
Goal 7: Ensure environment sustainability							
CO2 emissions (metric tons per capita)	0.5	0.7	0.8	1.1	1.0	..	..
Forest area (% of land area)	72.7	..	57.1	51.8	46.4	45.3	..
Improved sanitation facilities (% of population with access)	48.8	56.8	64.5	72.1	79.2	80.6	..
Improved water source (% of population with access)	72.8	76.9	80.8	84.7	88.2	88.9	..
Terrestrial protected areas (% of total land area)	13.6	15.0	18.2	18.2	18.2	..	..
Goal 8: Develop a global partnership for development							
Internet users (per 100 people)	0.0	0.0	1.2	6.5	11.1	15.9	18.1
Mobile cellular subscriptions (per 100 people)	0.0	0.0	2.5	18.6	125.1	104.0	93.1
Source: Millennium Development Goals, World Bank.							

Table 11. Honduras: Structural Benchmarks 2014–15

Measure	Target Date	Status
Adjust average electricity tariffs by 2.5 percent during 2015 to reflect past cost increases; further adjust tariffs to incorporate current changes in costs.	Continuous	Met
Approval of legislation to strengthen the PPP framework	December 2014	Met
Repeal legislation allowing the issuance of government guarantees for debt contracted by private companies involved in PPP projects	December 2014	Met
Conduct a census of public employees, with the aim of identifying and cancelling redundant positions during 2015	December 2014	Met
Take actions sufficient to achieve savings in ENEE's wage bill as indicated in paragraph 11 of the November 2014 MEFP.	March 2015	Not met. Mostly implemented ¹
In consultation with staff, prepare a plan to address the financial difficulties of HONDUTEL	March 2015	Met
Present a program for developing a medium-term fiscal framework with a clear fiscal anchor and fiscal policy targets	June 2015	In progress
Submit to congress legislation to reform the Social Security Institute (IHSS) to strengthen its actuarial position and improve its governance	September 2015 ²	In progress
Complete an audit of public sector arrears, with a view to clearing them	September 2015 ³	In progress
Strengthen the Large Taxpayer Unit with adequate staff levels	September 2015	In progress
Present to congress a 2016 budget bill consistent with the program targets for central government and CPS deficits	September 2015	
Present a plan for a gradual removal of foreign exchange surrender requirements	December 2015	
Approval of the law reforming the IHSS	December 2015 ⁴	

¹ See third bullet of paragraph 8 for details.

² The original date was March 2015.

³ The original date was June 2015.

⁴ The original date was June 2015.

(Cumulative flows; millions of Lempiras, unless specified)

	2014			2015			
	Prel.	Dec		End-Jun.		End-Dec.	
	End-Jun.	Prel.	Prog.	Program	Rev. prog.	Program	Rev. prog.
QUANTITATIVE PERFORMANCE CRITERIA							
Fiscal targets 2/							
Overall balance of the combined public sector (floor)	-2,642	-16,670	-23,931	-5,256	-2,600	-14,283	-11,700
Overall balance of the central government (floor)	-4,365	-18,001	-22,252	-6,870	-4,470	-17,873	-16,900
Overall balance of ENEE (floor) 3/	-2,155	-5,511	-5,521	-1,491	-1,249	-3,353	-1,648
Public debt targets 4/							
Contracting and guaranteeing of new non-concessional loans (continuous ceiling, in million US\$)	...	55	600	600	...	600	...
Accumulation of new arrears by ENEE (continuous ceiling)	...	0	0	0	...	0	...
Accumulation of new external arrears (continuous ceiling, in million US\$)	0	0	0	0	...	0	...
Monetary targets							
Net international reserves of the Central Bank (floor, in million US\$)	2,362	2,475	2,271	2,390	2,594	2,411	2,730
Stock of net domestic assets of the central bank (ceiling) 5/	-28,900	-26,857	-22,017	-27,001	-30,922	-22,454	-28,625
Indicative targets 2/							
Wage bill of the central government (ceiling)	17,945	37,251	38,049	18,850	18,600	39,248	38,456
Social spending (floor)	2,496	9,950	7,078	2,384	2,384	7,333	9,000
Operating revenue-to-spending ratio of ENEE (floor)	...	0.86	0.85	0.97	0.98	0.97	1.03

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

2/ Cumulative starting in January of the correspondent year.

3/ Excluding government transfers.

4/ Cumulative starting in December 2014. Targets on non-concessional debt and external arrears are for the combined public sector.

5/ Using the program exchange rate of L21.1066 = 1US\$.

**Table 13. Honduras: Disbursements, Purchases, and Timing of Reviews
under the SCF/SBA Arrangements**

Date of Availability	Conditions	Amount (millions of SDRs)			Percent of quota		
		Total	SCF	SBA	Total	SCF	SBA
December 3, 2014	Board approval of the arrangement	38.8500	6.4750	32.3750	30.00	5.00	25.00
April 15, 2015	Observance of end-December 2014 performance criteria and continuous performance criteria and completion of first review	6.4750	3.2375	3.2375	5.00	2.50	2.50
October 15, 2015	Observance of end-June 2015 performance criteria and continuous performance criteria and completion of second review	6.4750	3.2375	3.2375	5.00	2.50	2.50
April 15, 2016	Observance of end-December 2015 performance criteria and continuous performance criteria and completion of third review	25.9000	19.4250	6.4750	20.00	15.00	5.00
October 15, 2016	Observance of end-June 2016 performance criteria and continuous performance criteria and completion of fourth review	25.9000	19.4250	6.4750	20.00	15.00	5.00
April 15, 2017	Observance of end-December 2016 performance criteria and continuous performance criteria and completion of fifth review	12.9500	0.0000	12.9500	10.00		10.00
October 15, 2017	Observance of end-June 2017 performance criteria and continuous performance criteria and completion of sixth review	12.9500	0.0000	12.9500	10.00		10.00
	Total	129.5000	51.8000	77.7000	100.00	40.00	60.00

Honduras' quota is SDR 129.5 million.

Table 14. Honduras: Indicators of Fund Credit

(As of February 28, 2015; in units indicated)

	2013	2014	Projections					
			2015	2016	2017	2018	2019	2020
Existing Fund credit								
Stock, in millions of SDRs 1/	8.1	4.1	1.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs	4.1	4.1	3.1	1.0	0.0	0.0	0.0	0.0
SCF								
Stock, in millions of SDRs 1/	0.0	0.0	13.0	51.8	51.8	51.8	49.3	39.9
Disbursements, in millions of SDRs	0.0	0.0	13.0	38.9	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs 2/	0.0	0.0	0.0	0.0	0.1	0.1	2.8	9.6
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	2.5	9.4
Interest and charges, in millions of SDRs	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.2
SBA								
Stock, in millions of SDRs 1/	0.0	0.0	38.9	51.8	77.7	68.8	47.8	27.5
Disbursements, in millions of SDRs	0.0	0.0	38.9	13.0	25.9	0.0	0.0	0.0
Obligations, in millions of SDRs 3/	0.0	0.0	0.4	0.5	0.8	9.7	21.7	20.7
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	8.9	21.0	20.2
Interest and charges, in millions of SDRs	0.0	0.0	0.4	0.5	0.8	0.8	0.7	0.4
Stock of existing and prospective Fund credit 1/								
In millions of SDRs	8.1	4.1	52.8	103.6	129.5	120.6	97.0	67.5
In percent of quota	6.3	3.1	40.8	80.0	100.0	93.1	74.9	52.1
In percent of exports of goods and services	0.1	0.1	0.8	1.5	1.8	1.6	1.3	0.9
In percent of external debt	0.2	0.1	1.0	1.8	2.2	2.1	1.7	1.1
In percent of gross reserves	0.4	0.2	1.9	3.4	4.0	3.6	2.7	1.9
Obligations to the Fund from existing arrangements and prospective Fund arrangements								
In millions of SDRs	4.1	4.1	3.5	1.6	0.9	9.9	24.5	30.2
In percent of quota	3.1	3.1	2.7	1.2	0.7	7.6	18.9	23.3
In percent of exports of goods and services	0.1	0.1	0.1	0.0	0.0	0.1	0.3	0.4
In percent of external debt	0.1	0.1	0.1	0.0	0.0	0.2	0.4	0.5
In percent of gross reserves	0.2	0.2	0.1	0.1	0.0	0.3	0.7	0.8
1/ End of period.								
2/ Expected SCF repayment schedule, assuming full drawings and interest at zero percent through end 2016, 0.25 percent through end 2018 and 0.50 percent thereafter. The Honduran authorities have the intention to treat the arrangement as precautionary.								
3/ Expected repayment schedule SBA, assuming full drawings and a rate of charge of 1.05 percent. The Honduran authorities have expressed their intention to treat the arrangement as precautionary, since balance of payment pressures have not materialized.								

Appendix I. Letter of Intent

April 29, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

The implementation of our program is off to a strong start. Honduras' macroeconomic performance strengthened substantially in 2014, supported by our economic program and aided by more favorable external conditions. Economic growth increased, inflation declined, and the external position strengthened. Fiscal consolidation advanced strongly, with a large reduction in the central government and combined public sector deficits. Against this background, all program quantitative targets set for the first review were met, generally with ample margins. At the same time, all but one of the structural benchmarks were observed, as explained in more detail in the attached MEFP supplement.

Notwithstanding the strong start of the program, we are aware that, as set out in the November 2014 Memorandum of Economic and Financial Policies (MEFP), continued efforts are required to bolster macroeconomic stability and enhance the conditions for sustainable inclusive economic growth. We remain fully committed to these objectives and to the policies contained in the MEFP. The attached MEFP supplement discusses program implementation so far and the main elements, including some revisions, of our economic program for 2015.

Strengthening the fiscal position—including the finances of public enterprises—and the external sector, moving forward with structural reforms to boost competitiveness and growth, while protecting low-income group, remain our priorities for 2015. To attain these goals, we will adhere to the November 2014 MEFP and the policies set forth in the attached supplement to the MEFP. This supplement discusses in more detail the performance under the program and update the policies to meet our program objectives focusing on (i) improving the fiscal position, including tight control in the wage bill and capital spending; (ii) restoring financial sustainability of the state-owned electricity company (ENEE) and of the telecommunication company (Hondutel); (iii) strengthening tax administration; (iv) expanding our social protection system in a fiscally sustainable manner; and (v) advancing with our structural reform program to boost competitiveness by establishing strong foundations for robust and sustainable growth.

Based on the performance under the program so far and our commitment to continued program implementation, including its proposed revisions, we request the completion of the first review under the SBA/SCF arrangements. We plan to continue treating the arrangements as precautionary.

We remain confident that the policies set forth in the November 2014 MEFP and in the attached supplement are adequate for a successful implementation of the program. However, the government stands ready to take additional measures that may be required. The government will consult with the Fund on the adoption of such measures and in advance of revisions to the policies contained in the MEFP and the attached supplement of the MEFP, in accordance with Fund's policies on such consultation. The government will also continue to provide relevant information to monitor performance and reviews of the program on a timely basis.

We authorize the IMF to publish this Letter of Intent, its attachments and the related staff report.

Sincerely yours,

/s/

Marlon Tábor Muñoz
President, Central Bank of Honduras

/s/

Wilfredo Rafael Cerrato Rodríguez
Minister of Finance

Attachments

- I. Memorandum of Economic and Financial Policies
- II. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies for 2015–17

1. Honduras has made significant progress to bolster macroeconomic stability. Since taking office in January 2014, the new administration embarked on a sound home-grown economic program, supported later by the December approval of a Stand-By Arrangement (SBA) and an arrangement under the Standby Credit Facility (SCF). Strong program implementation allowed for an overperformance on the fiscal targets owing to higher revenue, strict spending controls, and adjustments to electricity tariffs, while structural reforms were broadly on track (table 1 and 2). Despite the strong fiscal consolidation, social spending directed to the most vulnerable was protected.

2. We remain fully committed to the objectives set forth in the November 2014 Memorandum of Economic and Financial Policies (MEFP). These reforms will be complemented with policies described in this supplementary MEFP to ensure program's goals remain within reach. These includes (i) continuing the fiscal consolidation, including tight control on the wage bill and rationalization of capital spending, with a view to improving efficiency and productivity in the delivery of public services; (ii) regaining financial sustainability of the public-owned electricity company (ENEE) and the telecommunication company (Hondutel); (iii) strengthening tax administration; (iv) expanding our social protection system in a fiscally sustainable manner; (v) and advancing with the structural reforms program to boost competitiveness and strengthen the foundations for robust and sustainable growth.

I. Macroeconomic Developments, Program Implementation and Outlook

3. Economic activity strengthened in 2014. Real GDP growth is estimated to have risen to 3.1 percent (3 percent under the program and 2.8 percent in 2013), reflecting mainly an increase in private investment, as confidence rebounded and more than offset the dampening effects of fiscal consolidation. For 2015, GDP growth is expected to rise to 3.3 percent (3 percent in the program), reflecting mainly higher incomes from lower international oil prices and the recovery of the US economy.

4. Inflation has declined over the last year. Inflation dropped to 5.8 percent (6.5 projected in the program) in 2014, owing to lower fuel prices. In 2015, inflation is projected to decline further to 4¾ percent (5.8 percent in the program), driven by the decline in domestic fuels prices and the fading of one-off effects from the fiscal measures implemented in early 2014 (particularly the increase in the VAT rate). Inflation stood at 3.7 percent in March 2015.

5. The external position has strengthened. The external current account deficit is estimated at about 7.4 percent of GDP in 2014 (7.8 projected in the program), 2 percent below the 2013 deficit of 9.5 percent of GDP. This improvement reflects the strong fiscal consolidation, improvement in the terms of trade, and strong growth of remittances. The improved current account and steady capital inflows allowed for an NIR accumulation of about US\$260 million in 2014, comfortably exceeding

program projections. The external position is expected to strengthen further in 2015, with the current account deficit projected to narrow to 6½ percent of GDP (7.1 percent of GDP in the program), driven mainly by lower spending on fuel imports. This would allow a further strengthening of international reserve buffers (see paragraph 18), bringing the projected reserve coverage to 4.5 months of imports (3.8 months of imports in the program).

6. Fiscal consolidation targets were met with ample margins (Table 1). In 2014, the combined public sector (CPS) deficit declined to 4.3 percent of GDP (5.9 percent of GDP projected in the program), driven mainly by a smaller wage bill and cuts in goods and services, and, to a lesser extent, lower capital spending and an improvement in the balance of public enterprises. The fiscal improvement was evenly split between the central government and the rest of the public sector. The smaller wage bill compared to the program projection reflects positions not filled at the central government level and a reduction of redundant positions at the rest of the public sector level, mainly in Honduran Social Security Institute (IHSS) municipalities, and other public entities.

7. End-December 2014 quantitative targets for ENEE were also met, including the continuous target of no arrears accumulation. The ENEE deficit declined as programmed to 1.3 percent of GDP in 2014 (from 1.8 percent in 2013), on the back of strict spending controls, lower energy costs, and tariff adjustments implemented during the last quarter in 2014.

8. Monetary policy evolved in line with program objectives. In 2014, credit growth expanded by about 10 percent, restrained by active efforts from the central bank to mop up liquidity. In addition, the deceleration of banks' credit in foreign currency contributed to reduce somewhat the increasing risks in the banking system from unhedged borrowers (we plan to implement a set of measures to further reduce this risk, see paragraph 22). In February and March 2015, the monetary policy rate was reduced by a total of 50 basis points to 6.5 percent (implying a real rate of about 2 percent, based on expected inflation) in response to a drop in inflation rates and an improvement in external conditions, and ongoing excess capacity as output remains below its potential level. The pace of currency depreciation was adjusted in recent months as envisaged in the program and in line with requirements to support external competitiveness.

9. December 2014 and March 2015 structural benchmarks were mostly met (Table 2). In December, we have enacted reforms to strengthen the PPP-framework to reduce fiscal risks, including repealing legislation that provided for the issuance of debt guarantees to private firms involved in PPP projects. We also completed a census of public employees, which has registered all public servants in a centralized system that is almost fully integrated with the automated payroll system. Our next task in this area is to conduct an audit to match assignments with job descriptions, with the objective of eliminating redundant positions and reduce further the wage bill. In the area of public enterprises, through March, we took measures to reduce the wage bill of ENEE by about 0.16 percent of GDP in 2015 excluding severance payments via reductions in its workforce. We plan to continue the workforce reduction process and complete it by August to achieve our goal of lowering ENEE's wage bill by about ¼ percent of GDP during this year, as specified in the structural benchmark. We have also prepared a plan to improve the finances of the state telecommunications

company (HONDUTEL), whose full-fledged implementation is expected to begin in October 2105 (see paragraph 20).

II. Fiscal Policy

F. Fiscal Program for 2015

10. Our 2015 fiscal program will focus on further reducing the CPS deficit and strengthening the finances of ENEE. The revised fiscal program targets central government and combined CPS deficits of 3.8 and 2.7 percent of GDP, respectively, somewhat lower than in the original program. The 2015 fiscal adjustment, measured by the primary balance of the CPS, is projected at about 2¼ percent of GDP, with primary spending projected to decline by about 1¼ percent of GDP. Expenditure reduction will concentrate at the central government level, and focus on further declines in the wage bill. At the same time, the operational balance of public enterprises would rise by about 1 percent of GDP, mainly on the back of measures already adopted in the electricity sector (e.g., tariff revision to better reflect the energy cost structure, reduction of redundancies at ENEE) and stricter discipline and efficiency gains by other public enterprises.

G. Revenue

11. Tax revenue. Tax revenue is expected to improve slightly in 2015 relative to the program, by about 0.2 percent of GDP, owing to more vigorous economic activity arising from lower oil prices. On the legal challenge to the advance payment on the income tax adopted in late 2013, we continue to feel confident that the court will uphold the tax. In the unlikely event that the tax is not upheld, we will reduce spending accordingly to protect our fiscal program's targets.

12. Tax administration. Progress continues to be made on improving the administrative capacity of the tax agency (DEI) in order to support tax revenue growth. We are in the process of strengthening the Large Taxpayers Unit (LTU) with more and better trained staff (Structural benchmark, September 2015). We are concentrating our efforts to audit a group of 39 "mega" taxpayers, which account for about 40 percent of tax revenue. We have also created a special division at the LTU to deal with transfer pricing. At the same time, as envisaged in our program, we have established a business process mapping (BPM), strengthened control process for fuel imports, and are in the process of streamlining operations in the tax intelligence and risk analysis unit and strengthening the post clearance and risk management department. We plan to start the process of strengthening the quality of DEI staff, which will involve hiring specialized personnel and elimination of redundant positions.

H. Spending

13. Wage bill. We reaffirm our commitment to keep the nominal wages stable at the central government (including in the health and education sectors) in 2015. We have made significant advances in different initiatives to control further the payroll. The census of all public employees was completed in December 2014 (structural benchmark). Currently, all wage payments are executed

through our integrated financial management information system (SIAFI) that is linked to the system that manages public employment (SIREP). This link would allow us to identify and close irregular positions. In addition, consistent with the 2015 budget law, we will cancel at least 60 percent of all unfilled posts existing at the start of year at the central government and decentralized institutions. For the rest of 2015, with the assistance of the World Bank, we will conduct a review to match functional operations of occupations with job assignments, and those positions identified as redundant will be closed by end-2015.

14. Capital spending. Following the recommendations of a committee created to review our investment program, we will continue to rationalize public investment, including rescheduling non-priority investment programs. This rationalization process would allow raising efficiency and contributing to lowering financing needs while still providing adequate support to long-run economic growth.

15. Financing. Our baseline plan envisages placing bonds in global markets to help finance the 2015 budget. However, we are considering the possibility of issuing in the domestic market instead, in order to take advantage of improving domestic financial conditions along with reducing foreign currency risks. We will make a decision on this in the coming months. Our priority is to keep our program fully financed. Therefore, should securing this financing from domestic prove difficult, we will tap external markets, which we are confident will remain open to Honduras—likely on improved conditions—given our strong program implementation.

16. Domestic debt management. We plan to launch a market-friendly plan to improve the domestic debt profile in the first half of 2015. The plan involves the exchange of bonds maturing in 2016–18 (when sizeable amortizations will become due) with new bonds that will carry longer maturities. Participation by creditors (local banks and public pension funds) will be voluntary, and the operation will be neutral in net present value terms. The implementation of this plan will allow us to spread better the government's gross financing needs over the medium term while providing debt holders with a standardized debt instrument. The latter may also help to facilitate improved liquidity management in the inter-bank money market—an important step to strengthen the transmission channel of monetary policy—and the development of a yield curve in local currency.

17. Domestic arrears. The audit of all domestic arrears, estimated at about 3 percent of GDP at end-2104, is ongoing, including in central government and public enterprises. We are focusing the audit on claims that have proper documentation (verification notes, also called F-01 in the Honduran government accounts) as irregular claims cannot be paid under Honduran legislation. Owing to some delays in the procurement process of the accounting firm mandated to do the audit, we request to postpone completion of the corresponding structural benchmark (original set for June 2015) to September 2015, still in the time for the second program review. Once the audit is finalized, we will decide on the best way to clear all validated claims, including the use of securities, during 2015 as envisaged in the November 2014 MEFP.

I. Public Enterprises

18. We will continue to strengthen the finances of key public enterprises. The operational balances of ENEE and HONDUTEL improved last year reflecting adjustment to tariffs and higher operational margins in the former case and increased efficiency and payroll reductions in the latter. We are confident that our 2015 plans for ENEE (revising tariffs to reflect variations in costs, elimination of redundant personnel, and reduction in non-technical losses), and Hondutel (overhaul of the business model, suppression of redundant posts) are the right steps to strengthen the finances of these companies and reduce the burden on the public finances. This would contribute to generating additional fiscal space to expand social programs and protect high-priority capital projects and raising overall efficiency in the economy.

ENEE

19. We plan to meet ENEE's 2015 quantitative targets on the basis of the following policies:

- *Wage bill reduction.* Our program envisages a reduction in the payroll of about $\frac{1}{4}$ percent of GDP in 2015 (excluding severance payment estimated at about 0.2 percent of GDP). As mentioned above (paragraph 9), to achieve this goal, we plan to further reduce ENEE's personnel by August. We expect to complete the whole downsizing process, including paying corresponding severance costs, by November. With the measure expected to be broadly financially neutral in 2015 after severance payments are accounted for, its full impact on ENEE's wage bill will start to be seen in 2016.
- *Electricity tariff adjustments* in 2014-15 have been consistent with our objective to recover financial sustainability of ENEE. To protect operational margins, ENEE will continue to revise tariffs to reflect variations in fuels costs until the new Regulatory Committee for the Electrical Energy (CREE) is fully functioning. Once CREE is fully working, tariffs will be revised on a quarterly basis to reflect overall cost changes, as mandated by the new electricity sector law.
- *Reduction in non-technical losses.* As envisaged in the November 2014 MEFP, we plan to reduce non-technical losses ((estimated at about 20 percent in end 2014) by about 2 percentage points in 2015. To this end, until a new private operator takes charge of the ENEE, the following plan to reduce losses will be put in place: (i) complete the installation of smart meters (a process started in 2014), aiming to monitor about 65 percent of consumption by June 2015; (ii) disconnect the electricity provision to customers with unpaid bills and enforce legal prosecution of those committing fraud; and (iii) finalize databases to identify theft comparing the physical electricity distribution with the billing system. In addition, as part of a program agreed with the World Bank,¹¹ we are implementing an action

¹¹ The Power Sector Efficiency Enhancement Project (PROMEF).

plan that includes improving the measurement of losses, closely monitoring technical losses via the distribution network's optimization system, installing special (high-voltage) meters for large users to make electricity theft more difficult, changing damaged meters, and putting in place a commercial management system for new costumers. Our fiscal program provides for the ENEE investment required for this loss reduction plan.

Hondutel

20. We have prepared a plan to restore the financial sustainability of Hondutel (structural benchmark, March 2015). This plan includes an overhaul of its previous business model, including reducing its cost structure and attracting a strategic investor to open new line of businesses (internet and mobile services) to underserved areas. The process to select the strategic partner is expected to start in April 2015, and the partnership to start operating by October 2015. Meanwhile, as part of the cost reduction plan, Hondutel will continue downsizing its payroll to fit the personnel needs of the new business model while unloading unnecessary assets.

III. Monetary, Exchange Rate, and Financial Sector Policies

21. Monetary policy will remain focused on price stability and protecting the external position. We are aiming to further lower inflation to 4¾ percent during 2015. Taking advantage of the favorable external position, we propose to revise up our targets for accumulation of net international reserves (NIR) to about US\$2,730 million by end-December 2015 (increasing reserve coverage to 4½ months of imports, up from 3.8 months in the original program). Accordingly, we will revise the net domestic assets target to be consistent with a prudent expansion of bank credit to the private sector to support the growth objectives of the government (Table 1). That said, should inflation begin to rise and external reserves target becomes at risk, we stand ready to tighten monetary policy, as appropriate

22. We will continue to improve the operational framework for conducting monetary policy. The BCH has continued to move in this direction by: (i) improving liquidity forecasting and liquidity management on a daily basis; (ii) improving market-based repo operations for liquidity management; (iii) increasing the signaling content of the TPM; and (iv) starting the phasing out of banks' use of government bonds to meet a portion of reserve requirements, with the aim of eliminating this practice during the program period. The BCH has not issued any new authorizations to allow government bonds to be held as reserve requirements.

23. Our exchange rate policy will continue to be consistent with the objective of safeguarding competitiveness and strengthening the external position. With the view to gradually moving to a more flexible exchange rate arrangement over the medium term, we will request IMF technical assistance to help us with the preparation of an operational plan for the gradual removal of foreign exchange surrender requirements (structural benchmark, December 2015). This plan will also include the regulations needed to ensure a proper functioning and development of the foreign exchange market.

24. Recapitalization of the central bank. In December 2014, we started implementing a multi-year plan to recapitalize the central bank (adopted by congress in May 2014) through non-negotiable bonds bearing a positive real interest rate. As scheduled, the first issuance took place in December 2014 for L. 3,058 million, with a coupon of 6 percent for the first year and 8 percent afterward. The recapitalization program comprises four additional annual issuances of L. 3,000 million at an 8 percent coupon (the next issuance is scheduled for December 2015). We anticipate that the central bank would be able to reach a positive level of capital by the early 2020s.

25. We are taking measures to reduce risks in the financial sector. We are aware that foreign-currency borrowing by unhedged agents remains a risk in the banking system. Based on recommendations of recent IMF technical assistance, we plan to increase, for lending to unhedged agents, the risk-weighted capital asset ratios to 150 percent for mortgage loans where debt-to-collateral ratio exceeds 80 percent and to 200 percent for consumer loans (including credit cards). This increase will be implemented gradually during 2015-17, with the process starting by mid-2015. At the same time, we plan to closely monitor and assess risks on banks' foreign currency funding and introduce additional corrective measures, if needed. We will also improve data provision on foreign-currency operations. As envisaged in the November 2014 MEFP, we are in the process of strengthening pension funds' investment policies and governance in line with best international practices to safeguard pension fund resources while achieving adequate returns. We expect to complete this process during the third quarter of 2015.

26. We resumed publication of the financial stability report in April 2015. This report will allow us to monitor more closely developments in the financial sector and improve transparency of their operations. Congress has also approved new legislation on AML/CFT to bring it in line with the 2012 FATF standard.

27. The update of the safeguards assessment of the BCH has been completed. In keeping with its recommendations, we are committed to reforming the central bank law, with the aim of strengthening the central bank's governance and operational autonomy. We plan to bring the necessary amendments to a vote in congress by December 2015. We will also strengthen financial reporting by taking steps to move to IFRS during the period of the program.

IV. Structural Reforms

28. Implementing the new PPP framework. A new fiscal unit in charge of assessing fiscal risks within the Finance Ministry was created, following the amendment of the PPP framework law in compliance with the December 2014 structural benchmarks. Assistance from the IADB and the Millennium Challenge Account is being sought to further strengthen the capacity of the staff attached to this unit so it can properly estimate contingent risks stemming from PPP projects. Once the unit has achieved this capacity, we will resume the process of approval and development of new PPP projects. In the meantime, we will continue moving forward with the implementation of our portfolio of existing projects that has already been approved by congress, subject to the requisite favorable assessment by the Finance Ministry. We will continue implementing the international

accounting standard (IPSAS32) to record PPP operations in the fiscal accounts as stated in our 2015 budget law.

29. Energy sector. We have revised our strategy to engage a private operator to strengthen the financial conditions of ENEE. This new strategy includes hiring a management company (for up to 5 years) that will focus on reducing non-technical losses, maintaining and upgrading the distribution network, and streamlining costs. These steps are needed to open the way to find a permanent long-term strategic investor. We launched the bidding process in March 2015, and plan to appoint an operator in charge of reducing nontechnical losses by August 2015. In the mean time, ENEE will continue to implement its action plan (see paragraph 19) to lower losses.

30. Medium-term fiscal framework (structural benchmark, June 2015). Based on previous CAPTAC TA and supported by the Millennium Challenge Corporation, we are on track to develop a plan for the implementation of a medium-term fiscal framework. Our goal is to use this framework in the preparation of the 2017 budget.

31. Framework law for social protection. We are aiming at widening the social protection system, including unemployment protection and a new framework to provide health services, while moving gradually to a universal health and pension coverage supported by multi-pillar systems. As set out in the November 2014 MEFP, we are assessing the fiscal costs of these initiatives to ensure they can be accommodated within our fiscal targets and that the reform is fiscally sustainable on an intertemporal basis. At the same time, we are working on the design of complementary, specific legislation (particularly the social security law, governing the IHSS, and the law on public health care). We will bring the new framework legislation on social protection to a vote in congress only when (i) it has been ensured that it is consistent with our fiscal program targets and intertemporal fiscal sustainability; and (ii) the details of the complementary, specific legislation have been worked out.

32. IHSS reform. The November 2014 MEFP envisaged submitting the IHSS reform legislation to congress by March and its approval by June 2015. The IHSS is expected to play a central role in the proposed new social protection system and it is crucial that its reform fully takes into account the cost and financing implications of the new framework legislation. To give adequate time for the preparation of the both reforms, we request moving congressional submission of the legislation reforming the IHSS to September 2015 (structural benchmark), and its approval to December 2015 (structural benchmark).

Program Monitoring

33. Program Monitoring. The program will be subject to semi-annual reviews, and will be monitored through performance criteria, indicative targets, and structural benchmarks, as set out in tables 1 and 2.

(Cumulative flows; millions of Lempiras, unless specified)

	2014			2015			
	Prel.	Dec		End-Jun.		End-Dec.	
	End-Jun.	Prel.	Prog.	Program	Rev. prog.	Program	Rev. prog.
QUANTITATIVE PERFORMANCE CRITERIA							
Fiscal targets 2/							
Overall balance of the combined public sector (floor)	-2,642	-16,670	-23,931	-5,256	-2,600	-14,283	-11,700
Overall balance of the central government (floor)	-4,365	-18,001	-22,252	-6,870	-4,470	-17,873	-16,900
Overall balance of ENEE (floor) 3/	-2,155	-5,511	-5,521	-1,491	-1,249	-3,353	-1,648
Public debt targets 4/							
Contracting and guaranteeing of new non-concessional loans (continuous ceiling, in million US\$)	...	55	600	600	...	600	...
Accumulation of new arrears by ENEE (continuous ceiling)	...	0	0	0	...	0	...
Accumulation of new external arrears (continuous ceiling, in million US\$)	0	0	0	0	...	0	...
Monetary targets							
Net international reserves of the Central Bank (floor, in million US\$)	2,362	2,475	2,271	2,390	2,594	2,411	2,730
Stock of net domestic assets of the central bank (ceiling) 5/	-28,900	-26,857	-22,017	-27,001	-30,922	-22,454	-28,625
Indicative targets 2/							
Wage bill of the central government (ceiling)	17,945	37,251	38,049	18,850	18,600	39,248	38,456
Social spending (floor)	2,496	9,950	7,078	2,384	2,384	7,333	9,000
Operating revenue-to-spending ratio of ENEE (floor)	...	0.86	0.85	0.97	0.98	0.97	1.03

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

2/ Cumulative starting in January of the correspondent year.

3/ Excluding government transfers.

4/ Cumulative starting in December 2014. Targets on non-concessional debt and external arrears are for the combined public sector.

5/ Using the program exchange rate of L21.1066 = 1US\$.

Table 2. Honduras: Structural Benchmarks 2014–15

Measure	Target Date	Status
Adjust average electricity tariffs by 2.5 percent during 2015 to reflect past cost increases; further adjust tariffs to incorporate current changes in costs.	Continuous	Met
Approval of legislation to strengthen the PPP framework	December 2014	Met
Repeal legislation allowing the issuance of government guarantees for debt contracted by private companies involved in PPP projects	December 2014	Met
Conduct a census of public employees, with the aim of identifying and cancelling redundant positions during 2015	December 2014	Met
Take actions sufficient to achieve savings in ENEE's wage bill as indicated in paragraph 11 of the November 2014 MEFP.	March 2015	Not met. Mostly implemented ¹
In consultation with staff, prepare a plan to address the financial difficulties of HONDUTEL	March 2015	Met
Present a program for developing a medium-term fiscal framework with a clear fiscal anchor and fiscal policy targets	June 2015	In progress
Submit to congress legislation to reform the Social Security Institute (IHSS) to strengthen its actuarial position and improve its governance	September 2015 ²	In progress
Complete an audit of public sector arrears, with a view to clearing them	September 2015 ³	In progress
Strengthen the Large Taxpayer Unit with adequate staff levels	September 2015	In progress
Present to congress a 2016 budget bill consistent with the program targets for central government and CPS deficits	September 2015	
Present a plan for a gradual removal of foreign exchange surrender requirements	December 2015	
Approval of the law reforming the IHSS	December 2015 ⁴	
¹ See paragraph 9 for details. ² The original date was March 2015. ³ The original date was June 2015. ⁴ The original date was June 2015.		

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 November 2014–November 2017. It defines the concepts used to assess observance of quantitative performance criteria, structural benchmarks, and indicative targets specified in Tables 1 and 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.

A. Program Assumptions

2. For program monitoring purposes, unless otherwise indicated, U.S. dollar denominated components of the balance sheet of the Central Bank of Honduras will be valued at the exchange rate of L21.1066/US\$ exchange rate at end-August 2014. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross-rates as of end-August 2014 published on the IMF website <http://www.imf.org>, including US\$/EUR = 1.3188, JPY/US\$ = 103.71, CHF/US\$ = 0.9145, CAD/US\$ = 1.0858, SDR/US\$ = 0.6586.

B. Fiscal Targets

3. Unless otherwise specified, the definitions of all fiscal variables contained in this Technical Memorandum of Understanding are based on the IMF's 2001 Manual on Government Finance Statistics.

4. **The deficit of the combined public sector (CPS)** will be measured from the financing side (i.e., "below the line"), and will correspond to the net borrowing of the CPS, from both external and domestic sources, excluding payment of domestic arrears accumulated until December 2013. The CPS comprises the nonfinancial public sector (NFPS) and the operating result (quasi-fiscal balance) of the central bank. The NFPS covers the central government, local governments and decentralized agencies, the social security institute (IHSS), the public pension funds (INJUPEMP, INPREMA, and IPM), all decentralized agencies and funds, and non-financial public enterprises.

5. **The deficit of the central government** will also be measured from the financing side, excluding payment of domestic arrears accumulated until December 2013. For program purposes, the central government corresponds to the concept of central administration used by the authorities and includes the executive, judicial, and legislative branches.

6. **The current primary expenditure of the central government** is defined as total current expenditure less interest payments.

7. **The central government wage bill** is defined as all central government wages and salaries, including severance payments, plus employer social security and pension contributions; other remunerations (such as bonus payments and in-kind compensations) are also included in the definition.
8. **Social spending** is measured at the central government level and defined as the programs and projects with social content that are financed with domestic resources, debt relief, grants and loans (see Table B).
9. **The overall balance of ENEE** will be measured from the financing side. For program purposes, it will be defined excluding subsidies in the form of current transfers) from the central government to the company.
10. **The operating margin of ENEE** will be defined as the ratio of operating revenue to operating expenditure. Operating revenue will be defined as current revenue excluding interest earnings and subsidies in the form of current transfers from the central government. Operating expenditure will be defined as total expenditure excluding interest payments and capital spending.
11. **The operating balance of public enterprises** is defined as the difference between operating revenue and operating expenditure of the enterprises.
12. **Net domestic financing of the CPS** will be measured as the operating result of the central bank and the change (relative to end-December 2013) in the stocks of: (1) outstanding indebtedness of the NFPS (direct bank credit plus bank holdings of public sector bonds less deposits) to the domestic financial system (central bank, commercial banks, and other financial institutions); (2) outstanding public sector bonds held outside the financial system; (3) repatriation of deposits held abroad; and (4) outstanding suppliers' credit and floating debt (un-cashed and undelivered checks, and unpaid invoices and orders) of the central government, and unpaid orders of the rest of the NFPS. For the purposes of the program, domestic financial system is defined as comprising all depository institutions, according to the Monetary and Financial Statistics Manual (MFSM) definition.
13. **Discrepancies.** The authorities will undertake periodic reconciliations to minimize discrepancies between above-the-line and below-the-line financing data. As needed, such reconciliations must be carried out prior to completion of the program reviews.
14. **Adjustor.** If tax revenues net of legally-mandated transfers to the *Vida Mejor* and security trust funds were to exceed those projected under the program for 2015, at least 50 percent of the excess revenue will be saved and the residual will be allocated as counterpart to social and/or capital projects (Paragraph 8, Table B).

C. Monetary Targets

15. **Net International Reserves (NIR) of the central bank (program definition).** For program purposes, the NIR of the central bank will be measured as gross international reserves that are readily available minus (i) short-term reserve liabilities (including purchases and credits from the Fund), as described in the international reserves table prepared by the central bank according to the MFSM; (ii) foreign assets that are counterpart of foreign currency deposits of financial institutions at the central bank and of any other liability of the central bank with residents that is payable in foreign currency; (iii) the transfer to the central bank of foreign currency deposits held abroad by all public entities, including HONDUTEL, INJUPEMP, and IHSS. Readily available reserves also exclude those assets that are pledged or otherwise encumbered, including but not limited to reserve assets used as collateral or guarantee for a third-party external liability. NIR will be valued at program accounting exchange rates.

16. **Net domestic assets (NDA) of the central bank** will be measured as the difference between currency issue and NIR, both measured on the basis of end-of-period data.

17. **Adjustors.** Starting in 2014, the target floor on NIR will be adjusted downwards by up to US\$100 million for the shortfall of programmed external disbursements to the budget (including from sovereign bond placements).¹² In case of an excess during the program period, the target floor on NIR will be adjusted upwards by the full such amount. External disbursements to the budget (including sovereign bond placements) are expected to total about US\$290 million in 2015. For 2015, the end-year target floor on NIR will also be adjusted downwards (upwards) by about US\$9 million (US\$4.5 million for the end-June target) for every US dollar that the price of oil exceeds (falls below) the oil price projected in the program. For program purposes, the relevant oil price is the WEO's average petroleum spot price (APSP). The program projects an APSP of US\$58.14 for 2015.

D. External Targets

18. **External debt.** For program purposes, the definition of debt is the one set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No 14416-(09/91, effective December 1, 2009). This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they

¹² In the program, any adjustment to the NIR target will be mirrored by an equal adjustment in the opposite direction to the target ceiling on net domestic assets of the central bank.

contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities. For the purpose of the program, external debt is defined on the basis of residency.

19. **Debt definition.** The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

(a) For the purpose of this guideline, the term "debt" 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 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 a number of forms, the primary ones being as follows: (i) 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); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, 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.

(b) Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt give rise to new debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

20. **Definition of public debt.** For the purpose of the program, public sector debt is defined as the debt of the CPS excluding the debt of local governments.

21. For purpose of the program, the guarantee of a debt arises from any explicit legal obligation of the general government or any other agency acting on behalf of the general government to service such a debt in the event of nonpayment by the recipient (involving payments in cash or in kind), or from any implicit legal or contractual obligation to finance partially or in full any shortfall incurred by the debtor.

22. **Concessional** will be calculated using a unified discount rate of 5 percent and taking into account all details of the loan agreement, including maturity, grace period, payment schedule, upfront commission, and management fees. The grant element of loans can be calculated using the concessional calculator available at the IMF web site <http://www.imf.org>.¹³ For program purposes, a debt is **concessional** if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

23. **Borrowing on non-concessional terms.** For the purposes of the program, this continuous ceiling applies to the contracting or guaranteeing of nonconcessional external debt by the CPS or any other agencies on its behalf.¹⁴ Debt denominated in currencies other than the U.S. dollar shall be converted to the U.S. dollars using program assumptions on bilateral exchange rates. The continuous ceiling applies not only to debt as defined above, but also to commitments contracted or guaranteed for which value has not been received. This ceiling will be adjusted downwards by the amount of programmed disbursements that change into concessional resources.

24. **Exclusions.** Excluded from the non-concessional external debt continuous ceiling are: (i) debts classified as international reserve liabilities of the Central Bank, (ii) debts to restructure, refinance, or prepay existing debts, (iii) use of Fund resources (iv) short-term import financing (with a maturity of less than one year), and (v) central bank instruments placed in the domestic market held by nonresidents.

25. **Stock of external debt arrears.** For the purpose of the program's continuous ceiling, external debt service arrears are defined as overdue debt service arising in respect of obligations incurred directly or guaranteed by the public sector, except on debt subject to rescheduling or restructuring, as indicated by the respective creditors. The CPS will accumulate no external debt arrears during the program period.

¹³ Currently available at <http://www.imf.org/external/np/pdr/conc/calculator/default.aspx>.

¹⁴ This includes short-term external debt (with an original maturity of up to and including one year) and non-concessional medium- and long-term debt with original maturities of more than one year.

E. Energy Sector

26. **Arrears of ENEE** are defined as overdue payments of ENEE to private and public entities. During the program period, no new arrears to the private sector will be accumulated, excluding technical delays stemming from the payment process. Technical delays are defined as the maximum period allowed for the payment of suppliers' and/or contractors' invoices to ENEE without incurring arrears, in line with the law on public contracts (Decree 74-2001). This period extends up to 45 days, starting from submission of appropriate documents for payment.

F. Monitoring and Reporting Requirements

27. **The information required to monitor the compliance with quantitative and structural benchmarks** specified in the MEFP will be supplied to the Fund at least monthly (electronically, to the extent possible) and within 45 days of the end of the previous month (unless otherwise noted) according to the sources detailed in the next paragraph.

28. **The ceilings on the deficit of the central government and of the CPS** will be monitored below-the-line on the basis of the monthly reports *Financiamiento de la Administración Central* and *Financiamiento del Sector Público Combinado*, respectively, prepared by the central bank, which contain:

- **Net external financing** of the central government and the NFPS, respectively, with detailed information on disbursements, amortizations, exceptional financing, zero coupon bonds, and accumulation of arrears. This information will be prepared by the central bank and reconciled with the Ministry of Finance.
- **Net domestic financing** of the central government and the NFPS, respectively, with detailed information on: (1) net domestic financing from the central bank and the rest of the financial system to the central government and the NFPS, as contained in the *Balance diario*; (2) net placement of bonds (including stabilization bonds) by the central government and the NFPS outside the financial system, as reported by the central bank with data from the Public Credit Directorate of the Ministry of Finance; (3) change in foreign currency deposits held abroad by the central government and the NFPS; and (4) change in the outstanding stock of suppliers' credit and floating debt of the central government, as reported by the Treasury, and the rest of the NFPS as reported by the central bank. To monitor the net domestic financing to the CPS, the central bank will provide the Fund with detailed data on a cash basis on the operating revenue and expenditure of the central bank.

29. **The ceilings on the wage bill of the central government** will be monitored monthly on the basis of the Ministry of Finance report: *Sueldos y salarios de la administracion central*.

30. To complement the monitoring of fiscal performance, a breakdown of tax revenue by type of tax will also be provided monthly.
31. **Social spending (Table B)** will be monitored quarterly on the basis of financial reports provided by the Ministry of Finance.
32. **The overall balance of ENEE** and its non-accumulation of arrears will be monitored monthly on the basis of financial reports provided by the Ministry of Finance.
33. **The floor on NIR and the ceiling on NDA of the central bank** will be monitored on the basis of information produced by the central bank, in accordance with the new presentation of the MFSM. This information will be provided within two weeks of the end of the previous month.
34. **The ceilings on the contracting of non-concessional external debt and on the non-accumulation of external payments arrears** will be monitored with information provided by the Ministry of Finance. The accounting of non-reschedulable external debt-service arrears by creditor (if any), with detailed explanations, will be transmitted by the Ministry of Finance on a monthly basis within four weeks of the end of each month. Moreover, a loan-by loan accounting of all new loans contracted or guaranteed by the public sector, including detailed information on the amounts, currencies, and terms and conditions, as well as relevant supporting materials, will be transmitted by the central bank on a quarterly basis within four weeks of the end of each quarter.
35. **Implementation of structural measures in the program** will be monitored monthly based on information provided by the central bank, the Ministry of Finance, and the Banking and Securities Commission.

Table A. Data to Be Reported to the IMF

Item	Periodicity
I. Fiscal Data	
Net external financing: detailed information on disbursements, amortizations, exceptional financing, zero coupon bond, and accumulation of arrears.	Monthly, within 45 days of the end of each month.
Net domestic financing of the central government and the NFPS: detailed information on (1) net domestic financing from the central bank and the rest of the financial system to the central government and the NFPS, (2) net placement of bonds by the central government and the NFPS outside the financial system, (3) change in foreign currency deposits held abroad by the central government and the NFPS; and (4) change in the outstanding stock of suppliers' credit and floating debt of the central government, as reported by the Treasury, and the rest of the NFPS as reported by the central bank.	Monthly, within 45 days of the end of each month.
Monitoring of net domestic financing to the central government will require that the central bank provide the Fund with detailed data on a cash basis on the operating revenue and expenditure of the central bank.	Monthly, within 45 days of the end of each month.
Monitoring of net domestic financing to the CPS will require that the central bank provide the Fund with detailed data on a cash basis on the operating revenue and expenditure of the central bank.	Monthly, within 45 days of the end of each month.
Overall balance of ENEE and arrears (if any, with detailed explanations)	Monthly, within 45 days of the end of each month.
Wage bill of the central government.	Monthly, within 45 days of the end of each month.
Breakdown of tax revenue by type of tax	Monthly, within 45 days of the end of each month.
Social spending	Quarterly, within 45 days of the end of each quarter.

Detailed information on:	
Revenues and expenditures of the central government.	Monthly, within 45 days of the end of each month.
Revenues and expenditures of the NFPS, including the operating balance of public enterprises.	Quarterly, within 45 days of the end of each month.
Revenues and expenditures of ENEE.	Monthly, within 45 days of the end of each month.
II. Monetary Data	
Detailed information on the Central Bank balance sheet, including Net International Reserves and Net Domestic Assets.	Monthly, within 2 weeks of the end of each month.
Detailed information on domestic liabilities of the central bank payable in foreign currency, including change in foreign currency deposits of public enterprises in the central bank.	Monthly, within 2 weeks of the end of each month.
III. External Debt	
Loan-by loan accounting of all new loans contracted or guaranteed by the public sector, including detailed information on the amounts, currencies, and terms and conditions, as well as relevant supporting materials	Quarterly, within four weeks of the end of each quarter.
The accounting of arrears on external debt-service by creditor (if any), with detailed explanations.	Monthly, within four weeks of the end of each month.
IV. Additional Data	
Balance of Payments statistics	Quarterly, within three months of the end of each quarter.

Table B. Main Social Programs

Description
<i>Bono Diez Mil and Vida Mejor Programs</i>
<i>Bono Diez Mil</i>
<i>Vida Mejor</i>
Other social investment expenditures and programs
<p>Honduran Social Investment Fund (FHIS)</p> <p>Community Education Program (PROHECO)</p> <p>Family allowances program (PRAF)</p> <p>Healthy schools program (Free school meals)</p> <p>Free tuition</p> <p>Social work scholarships</p> <p>Transportation education bond</p> <p>Social aid to persons</p> <p>Patronatos Aldeas y Caserios, NGOs</p> <p>Academic excellence scholarships</p> <p>Various scholarships</p> <p>Other scholarships and programs</p>



HONDURAS

FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE STANDBY CREDIT FACILITY—INFORMATIONAL ANNEX

April 29, 2015

Prepared By

The Western Hemisphere Department

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FUND RELATIONS

(As of March 31, 2015)

Membership Status: Joined: December 27, 1945

General Resources Account:	SDR Million	% Quota
Quota	129.50	100.00
Fund holdings of currency (Exchange Rate)	120.87	93.34
Reserve Tranche Position	8.63	6.66

SDR Department:	SDR Million	% Allocation
Net cumulative allocation	123.85	100.00
Holdings	87.08	70.31

Outstanding Purchases and Loans:	SDR Million	% Quota
ECF Arrangements	3.05	2.36

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	12/03/2014	12/02/2017	77.70	
SCF	12/03/2014	12/02/2016	51.80	
Stand-By	10/01/2010	3/31/2012	64.75	0.00
SCF	10/01/2010	3/31/2012	64.75	0.00
Stand-By	04/07/2008	03/30/2009	38.85	0.00
ECF ¹	02/27/2004	02/26/2007	71.20	40.68
ECF ¹	03/26/1999	12/31/2002	156.75	108.30

Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2015	2016	2017	2018	2019
Principal	2.03	1.02			
Charges/Interest	0.01	0.02	0.02	0.02	0.02
Total	2.05	1.04	0.02	0.02	0.02

¹ Formerly PRGF.

Implementation of Enhanced HIPC Initiative: Enhanced Framework**Commitment of HIPC Assistance**

Decision point date	June 30, 2000 ²
Assistance committed (NPV terms)	End-1999
Total assistance (US\$ million)	556.00
<i>Of which:</i> IMF assistance (US\$ million)	30.30
Completion point date	April 2005

Disbursement of IMF Assistance (SDR million)

Amount disbursed	22.66
Interim assistance	8.80
Completion point balance	13.86
Additional disbursement of interest income	3.70
Total Disbursements	26.36

Implementation of MDRI Assistance

Total Debt Relieve (SDR million) ³	107.46
<i>Of which:</i> MDRI	98.24
HIPC	9.21
Debt Relief by Facility (SDR million)	

Delivery Date	Eligible Debt		
	GRA	PRGF	Total
January 2006	N/A	107.46	107.46

Exchange Rate Arrangement. Honduras' de facto exchange arrangement has been reclassified as a crawling band, making the exchange arrangement (de jure and de facto) a crawling band since July 2011, when the BCH reactivated the crawling band arrangement that had been in operation until mid-2005. The exchange rate of the lempira is determined by foreign exchange auctions of the Central Bank of Honduras (BCH). The BCH maintains an operational band requiring all bid prices for the purchase of foreign exchange to be within a range of 7 percent above or below the base price, with such prices subject to the requirement that bids in auctions not exceed 1 percent of the average base price from auctions during the preceding seven business days. The base price is revised weekly according to a procedure established by the BCH board of directors for this purpose, which includes the following variables: (1) the differential between the domestic inflation rate and

² World Bank Board, July 6, 2000.

³ The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

the estimated inflation rates of Honduras's main trading partners, (2) changes in the exchange rates of these countries' currencies vis-à-vis the U.S. dollar, and (3) the performance of official reserve assets. In this setting, the lempira has followed a slow depreciating trend against the U.S. dollar.

Honduras has accepted the obligations under Article VIII, Section 2, 3, and 4 of the Articles of Agreement, and maintains a system that is free of restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation. The last Article IV consultation with Honduras was concluded on June 9, 2014.

FSAP participation and ROSCs. Fiscal ROSC conducted on February 26–March 2, 2001 (IMF Country Report No. 02/16) and updated (IMF Country Report No. 05/256). Data ROSC data conducted on July 8–24, 2003 (IMF Country Report No. 05/230). FSAP conducted on October 14–19, 2002 and January 20–February 4, 2003. FSAP Update conducted on September 24 to October 9, 2007.

Safeguards Assessments. The latest safeguards assessment for the Central Bank of Honduras (BCH) was completed on April 13, 2015. The assessment concluded that the BCH Law continues to pose a significant risk to central bank autonomy and also that the bank's Board and audit committee do not have any independent members, which undermines these bodies' oversight function. The assessment recommended amendments to the BCH Law to protect the bank from political interference, establish its financial autonomy, and strengthen its governance arrangements. In addition, the assessment noted that recurring operating losses since the 1990s have severely weakened the bank's financial position and a recapitalization plan has been initiated, with the BCH expected to achieve positive equity in 2021. The assessment also recommended that the BCH adopt International Financial Reporting Standards.

Technical Assistance. Honduras has received substantial technical assistance. The table below details assistance provided since November 2012.

Department	Purpose	Time of Delivery
MCM	Central Bank Accounting	Nov 2012
MCM	Bank Supervision & Regulations	Nov 2012
MCM	Bank Supervision and Regulations	Feb 2013
MCM	Monetary and Foreign Exchange Policy	Apr 2013
MCM	Bank Supervision and Regulation	Apr 2013
MCM	Bank Supervision and Regulation	May 2013
MCM	CAPTAC-DR: Building of a Model of Inflation Forecasts	Nov 2013
MCM	Bank Supervision and Regulations	Nov 2013
MCM	CAPTAC-DR: Hedging Derivatives	Dec 2013
MCM	CAPTAC-DR: Building a Model for Structural Liquidity Forecasts	May 2014
MCM	CAPTAC-DR: Treasury Management	Jul 2014
MCM	CAPTAC-DR: Bank Supervision and Regulation	Jul 2014
MCM	CAPTAC-DR: Treasury Management	Oct 2014
MCM	Monetary Operations	Nov 2014
MCM	Bank Supervision and Regulations	Dec 2014
MCM	CAPTAC-DR: Risk Based Supervision Scheme	Dec 2014
MCM	FX Lending Prudential Requirements	Feb 2015
MCM	CAPTAC-DR: Strengthening Monetary Policy Framework	Feb 2015
MCM	Financial Supervision	March 2015
FAD	Public Financial Management	Nov 2012
FAD	MTEF Implementation	Nov 2012
FAD	Budget Execution and Cash Planning	Jan 2013
FAD	Customs Administration	Jan 2013
FAD	Tax Administration	Mar 2013
FAD	Customs Administration	Apr 2013
FAD	Public Financial Management	Aug 2013
FAD	Tax Administration	Aug 2013
FAD	Budget Execution and Arrears Control	Sept 2013
FAD	Managing Fiscal Risks	Sep 2013
FAD	Customs Administration	Nov 2013
FAD	Tax Administration	Dec 2013
FAD	Financial Programming and Analyzing Fiscal Risks	Feb 2014
FAD	Public Financial Management	Feb 2014
FAD	Strengthening the Medium-term Expenditure Framework	Feb 2014
FAD	Customs Administration	Apr 2014

FAD	Tax Administration	Apr 2014
FAD	Modernization of Revenue Administration	Jul 2014
FAD	Tax Administration	Oct 2014
FAD	Management of fiscal risks	Oct 2014
FAD	Treasury Single Account	Oct 2014
FAD	Accounting Rule for PPP Operations	Dec 2014
FAD	Medium-term expenditure framework	Mar 2015
STA	Balance of Payments	Nov 2012
STA	CAPTAC: Export/Import Price Index and PPI	Feb 2013
STA	Migration to GFSM 2001	Feb 2013
STA	CAPTAC: National Accounts 2008 SNA	Mar 2013
STA	CAPTAC: Balance of Payments Statistics and IIP	May 2013
STA	CAPTAC: National Accounts-Construction Data Sources	Jul 2013
STA	CAPTAC: Balance of Payments	Nov 2013
STA	CAPTAC: Producer Price Index	Dec 2013
STA	CAPTAC: National Accounts-Statistics and Construction Data Sources	Mar 2014
STA	CAPTAC: Coordinated FDI and Portfolio Surveys	Mar 2014
STA	External Debt Statistics	Jun 2014
STA	Balance of Payments and IIP Statistics	Jul 2014
STA	Topics of the Secondary Income Account	Jul 2014
STA	Balance of Payments and IIP	Feb 2015
STA	Topics of the Financial Account	March 2015

RELATIONS WITH THE WORLD BANK GROUP

(As of March 31, 2015)

The World Bank Group's Board discussed the current joint IDA/IFC Country Partnership Strategy (CPS) for the Republic of Honduras for FY2012–FY2014 on December 6, 2011. The CPS provides the strategic areas in which the World Bank Group (WBG) support can best assist Honduras in achieving sustainable development and poverty reduction for the period. The CPS was designed to continue supporting the Honduras Country Vision and National Plan adopted in 2010. The strategic objectives of the CPS are to: (i) improve citizen security; (ii) expand opportunities and reduce vulnerabilities (social, economic, and climate); and (iii) enhance good governance. On May 8, 2013 the World Bank Group's Board considered the Progress Report, assessing implementation of the CPS at mid-term. While the CPS remained relevant, the WBG extended the CPS by 12 months to allow more time to achieve CPS outcomes and work with the incoming administration on the next partnership strategy. IDA 16 resources were focused on poverty reduction, including delivering services in poor communities and strengthening the

Government's social protection program; improving public sector performance and improving citizen security. In line with their regional strategy, the IFC program has continued its focus on the financial sector, infrastructure, agribusiness, public private partnerships, investment climate and competitiveness. The investment lending program has materialized largely as expected, and reflects strong continuity with the existing portfolio. Portfolio implementation improved, including a notable increase in disbursement rates during 2012 and 2013. At the request of the Government of Honduras, the WBG mobilized resources from the IDA 17 round to help the new administration with its fiscal consolidation program, including a US\$55 million Fiscal Sustainability and Enhanced Social Protection Development Policy Credit in line with the Government efforts to seek a SDR 77.7 million Stand-by Arrangement and a SDR 51.8 million Standby Credit Facility for Honduras, achieved late 2014.

Under the current strategy, the Bank's activities help Honduras adopt a balanced and comprehensive approach to reducing violence, combining the traditional focus on control and punishment with a new emphasis on prevention contributing to the achievement of improvements in citizen security and to strengthening evidence-based decision-making at both national and local levels. A large number of CPS outcomes and targets are clustered under the Expand opportunities and reduce vulnerabilities strategic objective. Fiscal consolidation was achieved during the first year of the CPS, a better investment climate (especially transport/logistics for trade), strengthened education quality and social protection and better disaster risk management. With respect to reducing the fiscal burden of the state-owned Electricity Company (ENEE), progress has been made in laying the policy and institutional groundwork for future improvements and the authorities have taken measures to reduce subsidies and adjust electricity tariffs, although ENEE's losses continue to represent a fiscal burden. Planned outcomes with respect to education quality improvement have been largely achieved and targets aimed at improving coverage and governance of Honduras' National Conditioned Cash Transfer Social Protection Program (*Bono Vida Mejor*, formerly *Bono 10,000*) have been achieved. Ongoing activities are supporting public sector financial management practices, increased participation of Small Micro Entrepreneurs increase access to agriculture markets, land titling, and improved logistics in transport.

The ongoing program is supported with IDA lending in the order of SDR 109.5 million approximately US\$171 million over FY12-14 (which coincides with the IDA 16 cycle) and similar SDR amount over the FY 15-18, to coincide with the IDA 17 cycle. Complementary, IFC has committed US\$638.9 million to support private sector-led growth, out of which US\$535.7million is IFC's own account and the remaining US\$103.3million mobilized from other lenders. IFC financing has contributed to foster access to finance for approximately 30,000 micro, small and medium enterprises (MSMEs) and expanded or improved access to electricity for approximately 140,000 people. Furthermore, IFC has 10 advisory service programs for private sector and the Government in amount of US\$3.1million aimed at building capacity of financial intermediaries, supporting development of PPPs, improving investment climate conditions in Honduras and training small and medium business to become more productive and sustainable.

IFC is actively supporting the electricity sector through the financing of renewable energy projects and also advising one of the local trustees commissioned by the GoH in the preparation of the PPP for distribution of electricity.

Complementary, MIGA is increasing its support to the electricity and infrastructure sectors through guarantees totaling US\$462 million.

A. Projects

The active IDA portfolio is made of 10 projects totaling close to US\$425 million in IDA funding, of which approximately US\$101 million are undisbursed. The portfolio is rather mature, and by early 2016, only five projects will remain in the portfolio.

Honduras Rural Competitive Project (COMRURAL). The Project Development Objective of COMRURAL is to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances.

Honduras Water and Sanitation Sector Modernization Project (PROMOSAS). The PDO of PROMOSAS is to support the Recipient to improve: (a) the sustainability, efficiency, and reliability of its WSS services in Eligible Municipalities; (b) the performance of its national WSS sector institutions in the exercise of their respective roles in accordance with the WSS Sector Framework Law; and (c) its capacity to respond promptly and effectively to an Eligible Emergency.

Power Sector Efficiency Enhancement Project (PROMEF). The PDO is to improve ENEE's operational and financial performance, thus contributing to the sustainability of the power sector in Honduras.

Second Land Administration Project. Provide improved, decentralized land administration services, including better access to and more accurate information on property records and transactions.

Roads Rehabilitation and Improvement. Improve the quality of road network and of road management in support of the government's growth and competitiveness goals through: (i) Improved governance and enhanced road management capacity in INSEP (former SOPTRAVI) and the Road Fund; (ii) Improvement in selected road corridors; and (iii) Extension in the scope of the maintenance of the unpaved road network; and (iv) improvement of the Recipient capacity to respond promptly and effectively to an eligible emergency

Improving Public Sector Performance. To strengthen the management of public finances and to establish a more efficient, effective and transparent public procurement system through: (i) upgrading the public financial management system; (ii) upgrading the e-procurement platform;

(iii) enhancing the internal control systems over personnel expenditures; and (iv) building capacity of the Central Administration.

Social Protection. To: (a) improve the institutional capacity of Recipient's institutions to manage the Conditional Cash Transfer (CCT) Program, by strengthening transparent mechanisms and instruments for targeting Program beneficiaries, monitoring compliance with Program co-responsibilities, and making payments to Program beneficiaries; (b) provide income support to Eligible Beneficiaries; (c) increase the use of preventive health services and school attendance in grades 1 to 6 among Program beneficiaries in rural areas; and (d) improve the Recipient's capacity to respond promptly and effectively to an Eligible Emergency.

Safer Municipalities. Support Honduras (i) to improve the capacities of national and local actors in violence prevention, (ii) to ensure urban municipalities are addressing crime and violence risk factors, and (iii) to respond promptly and effectively to an eligible emergency.

Disaster Risk Management. Support Honduras to: (a) continue strengthening its capacity for integrated disaster risk management at the municipal and national level; and (b) improve its capacity to respond promptly and effectively to an eligible emergency.

Rural Infrastructure. The objectives of the Project are: (a) to improve the access, quality and sustainability of infrastructure services (roads, water, sanitation and electricity) for the rural poor in the Recipient's territory; (b) to develop capacities and an enabling environment within the Recipient for locally-driven infrastructure service provision and planning; and (c) to improve the Recipient's capacity to respond promptly and effectively to an Eligible Emergency.

B. Non-Lending Activities

Economic and Sector Work. Honduras benefits from a comprehensive series of completed, ongoing and planned analytical and advisory activities to support the CPS' pillars. Recently completed economic and sector work includes: a "Honduras Public Expenditure Review: Towards Restoring Fiscal Consolidation" (2013); a poverty and inequality report titled "*Centroamérica en el Nuevo Milenio: Seis Historias Diferentes de Pobreza y Desigualdad*" (2013) with a chapter on Honduras; a series of Policy and Sectoral Notes titled "Towards Fiscal Stability and Sustainable Development for a Better Life" (2014); a "Honduras Gender Assessment" (2014); a "Debt Management and Performance Assessment" (2014); and a "Honduras Current Account Assessment" (2014).

C. Financial Relations

Project	Loan	Approved Amount	Percent Disbursed	Approval	Sign	Undisbursed	Disbursed	Closing
		(USD Eq)		Date	Date	Balance	Outstanding Balance	Date
						(USD Eq)	(USD Eq)	
HONDURAS ROAD REHABILITATION AND IMPROVEMENT II (Additional Financing)	IDA 45830	25,000,000.00	81.18%	21-May-09	2-Aug-10	3,819,237.03	16,469,551.17	31-Dec-14
HONDURAS ROAD REHABILITATION AND IMPROVEMENT II	IDA 44660	48,600,000.00	97.03%	17-Jun-08	13-Oct-08	1,305,104.08	42,658,887.92	31-Dec-14
Power Sector Efficiency Enhancement Project (PROMEF)	IDA 45360	30,000,000.00	77.80%	22-Jan-09	27-Feb-09	6,158,639.96	21,586,203.64	30-Jun-15
Honduras Rural Competitiveness Project	IDA 44650	30,000,000.00	74.73%	17-Jun-08	17-Sep-08	5,254,657.94	15,539,122.06	30-Nov-15
Improving Public Sector Performance	IDA 50200	18,200,000.00	15.01%	6-Dec-11	7-Dec-11	14,769,592.03	2,608,066.97	31-Dec-15
Social Protection (Additional Financing)	IDA 52940	12,300,000.00	10.69%	8-Aug-13	26-Aug-13	10,877,431.31	1,301,782.69	31-Dec-15
Social Protection	IDA 47740	40,000,000.00	93.17%	29-Jun-10	2-Aug-10	2,686,511.74	36,673,143.26	31-Dec-15
HN Rural Infrastructure Project (Additional Financing)	IDA 52890	20,000,000.00	9.75%	19-Jun-13	12-Jul-13	17,828,732.08	1,925,358.92	30-Jun-16
HN Rural Infrastructure Project	IDA 40990	47,000,000.00	100.00%	7-Jul-05	16-Nov-05	0.00	47,528,640.00	30-Jun-16
HN Water and Sanitation Sector Modernization Project (Additional Financing)	IDA 52700	10,000,000.00	9.71%	19-Jun-13	12-Jul-13	8,984,940.32	966,368.68	31-Dec-16
HN Water and Sanitation Sector Modernization Project	IDA 43350	30,000,000.00	98.79%	21-Jun-07	16-Nov-07	356,397.83	29,051,948.17	31-Dec-16

Second Land Administration Project	IDA 46410	32,800,000.00	75.74%	30-Jun-11	23-Aug-11	7,386,327.99	23,061,707.01	30-Jan-17
HN Safer Municipalities	IDA 51920	15,000,000.00	7.30%	13-Dec-12	18-Dec-12	13,493,402.22	1,062,243.78	31-Aug-18
Disaster Risk Management Project	IDA 51900	30,000,000.00	10.85%	13-Dec-12	18-Dec-12	22,401,778.38	2,725,805.60	30-Apr-19

Period	Disb. Amt. US dollars	Repay Amt. US dollars	Net Amt. US dollars	Charges US dollars	Fees US dollars
Jan 2004 - Dec 2004	124,993,399.88	26,631,377.19	98,362,022.69	13,384,750.51	891,813.61
Jan 2005 - Dec 2005	151,277,671.07	81,949,113.22	69,328,557.85	12,269,288.49	1,497,989.24
Jan 2006 - Dec 2006	57,559,309.34	7,670,153.72	49,889,155.62	6,125,782.48	544,575.44
Jan 2007 - Dec 2007	45,593,696.79	0.00	45,593,696.79	2,659,538.45	483,934.13
Jan 2008 - Dec 2008	51,133,214.53	0.00	51,133,214.53	0.00	3,336,665.56
Jan 2009 - Dec 2009	49,366,580.43	0.00	49,366,580.43	0.00	2,988,997.79
Jan 2010 - Dec 2010	108,874,081.26	206,291.01	108,667,790.25	0.00	4,115,824.21
Jan 2011 - Dec 2011	134,874,013.63	2,216,075.80	132,657,937.83	0.00	4,668,739.38
Jan 2012 - Dec 2012	79,525,717.39	2,925,066.67	76,600,650.72	648,194.77	5,343,130.05
Jan 2013 - Dec 2013	90,226,017.05	3,428,128.16	86,797,888.89	1,072,187.71	6,185,978.29
Jan 2014 - Oct 2014	32,462,389.28	4,079,209.61	28,383,179.67	1,106,545.82	5,142,924.02
Report Total	925,886,090.65	129,105,415.38	796,780,675.27	37,266,288.23	35,200,571.72

STATISTICAL ISSUES

(As of March 2015)

Assessment of Data Adequacy for Surveillance

General: Data provision is broadly adequate for surveillance, although it has some shortcomings. Data on the banking system, the public finances, trade, and external debt broadly satisfy minimum criteria required for surveillance and program monitoring purposes. However, timely and comprehensive data on public enterprises' financial operations, widening the coverage of financial institutions, improving estimate of arrears and floating debt of public entities, enhancing reporting

of government guarantees and fiscal contingent liabilities, and a consistent and reliable method to estimates of private capital flows would strengthen surveillance work.

National accounts: The Central Bank of Honduras (BCH) compiles the national accounts estimates following the *System of National Accounts 1993 (1993 SNA)*, rev. 4. The base year is 2000. The BCH has published quarterly GDP data that are fully consistent with the new annual series. The BCH annually provides the Honduran Institute of Tourism (ITH) with basic detailed data of the input-output matrix in order to develop the Tourism Satellite Account in the framework of national accounts (expected to be published during the second semester). The BCH is working in adopting the national account framework 2008 SNA, supported by TA from an independent consultant and CAPTAC-DR.

Price statistics: The BCH prepares and publishes (since April 2000) the consumer price index (CPI), with reference period December 1999 = 100. The selection of products included in the CPI basket and corresponding weights are based on the National Survey on Household Income and Expenditure of 1998–1999. The BCH also revised the producer price index by expanding its coverage and updating its base and classification, in the context of the revision of the national accounts; preliminary estimations of this index were made and its release is expected soon. This index includes goods for processing activities (maquila), trade and transport margins, making it difficult to use it in the compilation of national accounts at constant prices.

Government finance statistics: The Ministry of Finance (SEFIN) compiles and disseminates government finance statistics (GFS) covering central administration, central government, general government, and nonfinancial public sectors. The above-the-line data of these sectors are reported to WHD, along with below-the-line data for central administration and nonfinancial public sector, which are provided by the BCH. Issue related to the recording of debt relief hinders the quality of below-the-line data. Currently, the SEFIN and the BCH are participating in the GFS harmonization project for Central America, Panama, and Dominican Republic. Under this project, country participants will elaborate and publish comparable GFS across countries to permit a comparative analysis of fiscal developments and facilitate the regional policy dialogue. The components of the projects are: (i) compilation and dissemination of GFS sub-annual and annual using the GFSM 2001 framework, and (ii) preparation of a detailed migration plan for gradual adoption of the full GFSM 2001 framework. A mechanism to collect data systematically of arrears and floating debt of public entities, particularly public enterprises are needed.

Monetary statistics: Monetary and financial statistics (MFS) are reported on a regular monthly basis to STA using the standardized report forms (SRFs) for the central bank, other depository corporations, and other financial corporations. The cross sectoral data consistency between MFS and other data sets is the major issue that should be addressed by the authorities. The authorities report nine out of 12 core financial soundness indicators and three of the encouraged set.

Balance of Payments: In line with STA recommendations, Honduras disseminates a monthly Data Template on International Reserves and Foreign Currency Liquidity, quarterly Balance of Payments

(BOP), and quarterly International Investment Position (IIP) on the Fund's website. Currently Honduras compiles and disseminates Coordinated Direct Investment Survey (CDIS) data, while the BCH is working towards compiling the Coordinated Portfolio Investment Survey (CPIS). The BCH are on time with its working program to compile public and private external debt data on an accrual basis. The work plan of the BCH on external sector statistics include: (a) improving the coverage of external debt figures; (b) achieving consistency between gross external debt by sectors and IIP statistics, and; (c) expanding coverage of outward direct investment. The process of automatic reporting of import and export forms of the free trade areas has been completed. Currently, the BCH, with support from CAPTAC, are in the process of implementing the BPM6 and the System of National Accounts 2008.

Data Standards and Quality: Honduras has participated in the General Data Dissemination System (GDDS) since September 29, 2005 and its metadata are posted on the Data Standards Bulletin Board (DSBB). A Report on the Observance of Standards and Codes—Data Module, Response by the Authorities, and Detailed Assessments Using the Data Quality Assessment Framework was published on the IMF website in July 2005.

Honduras: Table of Common Indicators Required for Surveillance

(As of April 10, 2015)

	Date of latest observation	Date received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of publication	Memo Items:	
						Data Quality Methodological soundness	Data Quality Accuracy and reliability
Exchange Rates	4/07/15	4/08/15	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	4/07/15	4/08/15	D	M	D		
Reserve/Base Money	4/07/15	4/08/15	D	M	D		
Broad Money	1/30/15	3/12/15	M	M	M		
Central Bank Balance Sheet	4/07/15	4/08/15	D	M	D		
Consolidated Balance Sheet of the Banking System	1/30/15	3/12/15	M	M	M		
Interest Rates ³	2/28/15	3/27/15	M	M	M		
Consumer Price Index	2/28/15	4/1/15	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing ⁴ —General Government ⁵	12/31/14	2/27/15	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	12/31/14	2/27/14	Q	Q	Q		
External Current Account Balance	12/31/14	3/23/15	Q	Q	Q		
Exports and Imports of General Goods	1/31/15	3/27/15	M	M	M		
GDP/GNP	2014	1/30/15	A	A	A		
IIP	9/30/14	2/11/15	Q	Q	Q		

¹ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

² Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

³ Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic nonbank financing.

⁵ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁶ Including currency and maturity composition.



HONDURAS

FIRST REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE STANDBY CREDIT FACILITY—SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY LETTER OF INTENT

September 4, 2015

Approved By

Robert Rennhack (WHD) and Masato Miyazaki (SPR)

This supplement provides information on developments and program performance since the issuance of the staff report for the first reviews under the Stand-By Arrangement and the arrangement under the Standby Credit Facility (EBS/15/44). Board consideration of the reviews were originally scheduled to take place in mid-May on a lapse-of-time basis, but were postponed to allow time to assess the fiscal implications of the new social protection law, which was approved unexpectedly by congress in May. This supplement does not change the thrust of the staff appraisal.

A. Recent Developments

1. Congress approved the new framework law for social protection in May.¹ The law aims at expanding the coverage of healthcare, pensions, and existing social programs. The authorities plan to implement the law gradually, so that costs can be accommodated within the program targets and pressures over the public finances are minimized. Based on staff's assessment, with gradual implementation, the law's additional costs during the program period can be contained to be consistent with the existing fiscal targets envisaged in the program. Costs are projected to rise further over the longer term. However, improved targeting of social protection programs (which the authorities are working on as part of the program) and the winding down of some programs should also contain the growth of these costs. The authorities have also indicated that they would be prepared to reduce or phase out existing tax exemptions (about $\frac{1}{3}$ percent of GDP starting in 2020) to help cover the law's longer-term costs.

2. The authorities have taken measures against corruption, following revelations of misappropriation of funds at the Honduran Social Security Institute (IHSS) during the previous administration (see supplementary Letter of Intent). The revelations have led to anti-government protests demanding a stronger stance against corruption, including

¹ The framework law is described in paragraph 16 of the Staff Report.

its investigation by an independent international body. The government is supporting the ongoing investigation by a multi-party parliamentary commission, while calling for a broad and unconditional national dialogue on corruption. It has also proposed five concrete measures to address corruption in the country: (i) the creation of a unit of supervision and support against corruption and impunity at the Public Prosecutor's Office; (ii) a similar unit for the council of the judiciary and the courts inspectorate; (iii) a special new unit for the security of judges, prosecutors, their families and judicial installations; (iv) a new monitoring entity for the justice system; and (v) a new system of business integrity. As part of the IHSS reforms included in the program (structural benchmarks for September and December 2015), the authorities will also strengthen this institution's governance through changes to its law. Following the replacement of the IHSS's management team in 2014, they have also adopted measures to strengthen procurement practices and processes at the institution. To further enhance oversight and accountability, staff encourages the authorities to comply more fully with the provisions of the fiscal transparency code, and also publish the findings of such assessment.

3. Macroeconomic performance in 2015 has been in line with the program.

- According to the monthly index of economic activity, real output grew by 3.6 percent year on year in the first half of 2015 led by stronger than expected export demand (2.7 percent in 2014). Against this background, staff has revised the 2015 growth projection slightly up to 3.5 percent. Partly aided by lower fuels prices, headline inflation stood at 3.2 percent year on year in July, the second lowest level in the last 25 years, and broadly in line with the end-year projection of 4.7 percent.
- The balance of payments has continued strengthening, aided by the lower international fuels prices and solid export growth. In the first half of 2015, net international reserves rose by over US\$370 million to US\$2,848.5 million, well above the program target.
- Fiscal performance has also been consistent with program targets during the first half of 2015. The combined public sector posted a surplus of 0.8 percent of GDP (adjusted program target for end-June was a deficit of 0.6 percent of GDP). The central government had a small deficit of 0.1 percent of GDP (end-June adjusted program target was a deficit of 1.0 percent of GDP). The operational margin of the state electricity company (ENEE) has improved, following the elimination of untargeted electricity subsidies since end-2014. Distribution losses, however, remain above 20 percent of electricity output, well above regional averages.

B. Program Performance

4. **The completion of the review after June 2015 means that end-June performance criteria, rather than end-December 2014 performance criteria, will govern the completion of the first review under the Stand-By Arrangement.** The first review under the Standby Credit Facility, however, will continue to be governed by the December 2014 performance criteria. The authorities met all performance criteria and indicative targets for end-June 2015 as shown in Table 1. The authorities are no longer requesting modification of the performance criteria for end-June 2015.

Table 1. Honduras: Performance Criteria 1/

(Cumulative flows; millions of Lempiras, unless specified)

	2015			Status	2015	
	End-Jun.				End-Dec.	
	Program	Adjusted	Actual		Program	Rev. prog.
Fiscal targets 2/						
Overall balance of the combined public sector (floor)	-5,256	-3,345	3,461	v	-14,283	-11,700
Overall balance of the central government (floor)	-6,870	-4,959	-707	v	-17,873	-16,900
Overall balance of ENEE (floor) 3/	-1,491	...	-395	v	-3,353	-1,648
Public debt targets 4/						
Contracting and guaranteeing of new nonconcessional loans (continuous ceiling, in millions of US\$)	600	...	80	v	600	...
Accumulation of new arrears by ENEE (continuous ceiling)	0	...	0	v	0	...
Accumulation of new external arrears (continuous ceiling, in millions of US\$)	0	...	0	v	0	...
Monetary targets						
Net international reserves of the Central Bank (floor, in millions of US\$)	2,390	2,406	2,848	v	2,411	2,730
Stock of net domestic assets of the central bank (ceiling)	-27,001	-27,345	-38,706	v	-22,454	-28,625
Indicative targets 2/						
Wage bill of the central government (ceiling)	18,850	...	18,459	v	39,248	38,456
Social spending (floor)	2,384	...	3,985	v	7,333	9,000
Operating revenue-to-spending ratio of ENEE (floor)	0.97	...	1.04	v	0.97	1.03

Sources: Honduran authorities and Fund staff estimates.

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

2/ Cumulative starting in January of the correspondent year.

3/ Excluding government transfers.

4/ Cumulative starting in December 2014. Targets on nonconcessional debt and external arrears are for the combined public sector.

5. **The structural benchmark for June 2015 was met, Table 2.** The authorities have made progress in developing a medium-term fiscal framework (going beyond the June structural benchmark that called for presenting a plan for developing such a framework), and additional work is being undertaken to develop a formal fiscal anchor to have a full-fledged and operational fiscal framework. Tax administration reforms are also advancing, in some cases ahead of the program schedule.

Table 2. Honduras: Structural Benchmarks

(Qualitative targets for end-june 2015)

Policy Action	Status
Present a program for developing a medium-term fiscal framework with a clear fiscal anchor and fiscal policy targets.	Met

Sourced: Honduran authorities and Fund staff estimates.

6. Electricity sector reforms continue to move forward, albeit with some hurdles.

The planned reduction of ENEE's staff has continued as envisaged in the program. The government has also completed the formal process for establishing the new electricity regulator, which is expected to become functional over the coming months. However, little progress was made with reducing distribution losses.

C. Administrative Arrangements

7. The Economic Cabinet has been given overall responsibility for economic policy in Honduras. As a result, the supplementary letter of intent and future letters of intent will be signed by the Head of the Economic Cabinet, the President of the Central Bank, and the Minister of Finance.

Honduras—Supplementary Letter of Intent First Reviews Under the Stand-By Arrangement and the Standby Credit Facility

September 3, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

This letter supplements the Letter of Intent (LOI) for the first reviews under the SBA/SCF arrangement of April 29, 2015.

In May, Congress approved a framework social protection law (SPL) that would provide a multi-pillar scheme for expanding coverage of healthcare, pensions and existing social programs. This law will be complemented with specific legislation to reform the Honduran Social Security Institute (IHSS) and the public health law. We will implement the provisions of the SPL gradually to keep costs within the program targets and minimize pressures on the public finances. The law's additional costs during the program period will be contained to be consistent with the fiscal targets envisaged in our program. We will also continue to improve the targeting of our social safety net to help contain the cost of the new law. At the same time, consistent with the provisions of the SPL, we are prepared to reduce, eliminate or phase out existing tax exemptions to help cover the long run costs of the law and maintain a low and sustainable fiscal deficit.

Following revelations of corruption at the IHSS during the previous administration, our government has moved towards a stronger stance against corruption in Honduras. We have responded quickly to these revelations by ordering a full investigation of the events, while calling for a broad and unconditional national dialogue on corruption. We have also proposed five concrete measures to address corruption: the creation of a unit of supervision and support against corruption and impunity at the Public Prosecutor's Office; a similar unit for the council of the judiciary and the courts inspectorate; a special new unit for the security of judges, prosecutors, their families and judicial installations; a new monitoring entity for the justice system; and a new system of business integrity. We are confident that these measures will prove effective in combating corruption. In addition, as set out in the November 2014 LOI, we also plan to strengthen the governance of IHSS on the basis of legal reforms. This will build on measures already taken to strengthen procurement practices and process at the institution, following the replacement of its management team in 2014.

Macroeconomic performance remains in line with the program targets, we have met all the end-June performance criteria (PC) and indicative targets and no longer request modification of the end-June 2015 PCs as previously requested, (See Table 1). We have developed a medium-term fiscal framework (the June structural benchmark called for a presentation of plan for developing it), which we intend to use in the preparation of the 2016 budget (originally planned to use for the 2017 budget). At the same time, we have established the new electricity sector regulator, which will become operational over the coming months.

We authorize the Fund to publish this letter and the associated staff report supplement.

Very truly yours,

/s/
Marlon Tábor Muñoz
Chief Economic Cabinet

/s/
Wilfredo Rafael Cerrato Rodriguez
Minister of Finance

/s/
Manuel de Jesus Bautista Flores
President of the Central Bank

Table 1. Honduras: Performance Criteria 1/
(Cumulative flows; millions of Lempiras, unless specified)

	2015			Status	2015	
	End-Jun.				End-Dec.	
	Program	Adjusted	Actual		Program	Rev. prog
Fiscal targets 2/						
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Overall balance of the central government (floor)	-6,870	-4,959	-707	✓	-17,873	-16,900
Overall balance of ENEE (floor) 3/	-1,491	...	-395	✓	-3,353	-1,648
Public debt targets 4/						
Contracting and guaranteeing of new non-concessional loans (continuous ceiling, in million US\$)	600	...	80	✓	600	...
Accumulation of new arrears by ENEE (continuous ceiling)	0	...	0	✓	0	...
Accumulation of new external arrears (continuous ceiling, in million US\$)	0	...	0	✓	0	...
Monetary targets						
Net international reserves of the Central Bank (floor, in million US\$)	2,390	2,406	2,848	✓	2,411	2,730
Stock of net domestic assets of the central bank (ceiling)	-27,001	-27,345	-38,706	✓	-22,454	-28,625
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Source: Honduran authorities and fund staff estimates.

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

2/ Cumulative starting in January of the correspondent year.

3/ Excluding government transfers.

4/ Cumulative starting in December 2014. Targets on non-concessional debt and external arrears are for the combined public sector.

**Statement by Mr. Jimenez Latorre, Executive Director for Honduras,
and Ms. Garcia Corzo, Advisor to Executive Director
September 11, 2015**

On behalf of our Honduran authorities, we thank staff for their commitment with the program and its implementation as well as the Executive Directors and Management for their support. The authorities have benefited from a continuous constructive dialogue with staff and welcome the achievements made so far with their support, including the technical assistance. We also thank staff for a well-written report and supplement.

Board consideration of the first reviews was postponed in May to allow time to assess the fiscal implications of the new social protection law (SPL) approved by Congress in May. Our authorities have discussed extensively with staff the provisions approved by Congress and their implications for fiscal accounts, which they are prepared to contain. As stated in the supplementary letter, our authorities will implement the provisions of the SPL gradually to keep costs within the program targets and minimize pressures on the public finances. They will also continue to improve the targeting of the social safety net and are prepared to reduce, eliminate or phase out existing tax exemptions to help cover the long-run costs of the law. Furthermore, the design of complementary specific legislation to the SPL is being worked out including provisions to strengthen governance of the Honduran Social Security Institute and reforms of the public health law.

Program performance has been a success, all performance criteria and indicative targets for end-December 2014 and end-June 2015 were met. Program implementation has benefited from both authorities' ownership of the program and a more positive external context than the one envisaged at program approval, favoring a more positive macroeconomic performance which was strategically used by the authorities to create additional fiscal space to increase social spending and support ongoing programs aimed at reducing poverty and inequality. The authorities are no longer requesting modification of the performance criteria for end-June 2015.

The implementation of sound macroeconomic policies supported by the program has fostered investment confidence and has been recognized by credit rating agencies.

Foreign direct investment increased by 4.6 percent during the first quarter of 2015 after a contraction of 20.3 percent during the same period of 2014. In July, Standard & Poor's Ratings Services raised its long-term foreign and local currency sovereign credit ratings to B+ from B. The outlook was set as stable. Previously, in May, Moody's had revised the outlook from stable to positive. These actions reflect the acknowledgement of recent fiscal and other reforms that improved fiscal flexibility and will stabilize the government's debt burden in the coming years as well as of the continued commitment of the authorities towards fiscal consolidation and structural reforms implementation.

Recent Developments and Outlook

Economic activity has been robust, GDP increased by 0.8 percent during the first quarter of 2015 (4.0 percent yoy) supported mainly by manufactures (0.9 percent); communications (2.0 percent); electricity and water distribution (3.3 percent); and agriculture, livestock, forestry and fishing (0.5 percent). The Monthly Economic Activity Index keeps signaling the robustness of the economy as it increased by 3.6 percent during the first semester of 2015 (2.7 percent first semester of 2014), with a positive performance by almost all economic activities but construction and mining and quarrying with the former showing a lower contraction than in previous months.

External sector performance has also been positive. During the first quarter of 2015 exports increased by 11.2 percent relative to the same period of 2014 (-6.0 percent in 1Q2014) mainly supported by coffee exports which accounted for about 40 percent of total exports, an increase of 62.6 percent relative to 1Q2014 when coffee production was still suffering the impact of rust and lower international prices. Total imports increased by 11.1 percent during the same period (-1.9 percent in 1Q2014) while non-fuel imports increased by 22.8 percent (1.4 percent in 1Q2014). Worker remittances performance has also been robust increasing by 16.7 percent during the first quarter of 2015 (yoy) compared to 4.5 percent in the same period of 2014. International monetary reserves increased by USD67.4 million and USD356.0 million during the first quarter and first semester of 2015, respectively.

Headline inflation has continued to perform below the Central Bank's target of 5.5 percent +/- 1 percent, supporting a reduction of the monetary policy rate three times during 2015. In August 2015 headline inflation reached 3.09 percent mainly reflecting lower fuel and food prices. The policy rate was reduced from 7.0 percent in December 2014 to 6.25 percent in July 2015, contributing to a continued declining path of market interest rates. Meanwhile, the growth of banking credit to the private sector has continued its decreasing trend reaching an annual growth rate of 9.2 percent in June 2015, mainly driven by lower growth rates of credit in foreign currency (6.6 percent in June 2015 compared to 18.4 percent in June 2014) which represents about 30 percent of total credit; credit in domestic currency reached 10.2 percent in June 2015 (9.8 percent in June 2014).

The central bank is taking actions to modernize its monetary policy and exchange rate frameworks. With support from the IMF as well as from the central bank of Mexico, Honduras is in the process of implementing a plan aimed at improving monetary policy transmission channels, including the introduction of new market instruments based on strengthened tools for market liquidity forecasts and economic liquidity management. In addition, the central bank is already working with the IMF in a plan for considering the gradual removal of foreign exchange surrender requirements.

Strong fiscal consolidation measures have continued in line with program targets. As acknowledged by the staff, the combined fiscal deficit experienced a significant reduction of 3.3 percentage points of GDP in 2014 (to 4.0 percent of GDP), 1.7 percentage points of GDP higher than the reduction envisaged in the program. As of June 2015, the combined public sector reported a surplus of 0.9 percent of GDP (adjusted program target for end-June was a deficit of 0.6 percent of GDP). The fiscal deficit of the central government was 0.2 percent of GDP (end-June adjusted program target was a deficit of 1.0 percent of GDP). These results show the strong commitment of the government with program implementation.

The authorities have made progress in developing a medium-term fiscal framework (June structural benchmark). The framework is intended to be used in the preparation of the 2016 budget, originally envisaged to be used for the 2017 budget. In addition, work is ongoing to develop a formal fiscal anchor to have a full-fledged and operational fiscal framework. Furthermore, tax administration reforms are advancing even ahead of the program schedule.

The authorities have implemented a market-friendly plan to improve the profile of domestic debt and reduce financing risks over the medium term. Four bond issues accounting for about USD 107 million with maturities in 2016-2018 have been redeemed. The new bond issue has a lower interest rate and matures in March 2022. Similar operations will continue in the following months giving the authorities more fiscal space in the coming years as about 80 percent of internal debt was scheduled to mature between 2015 and 2018. Furthermore, total public debt from the central government has remained relatively stable increasing by 1 percent during the first semester of 2015 with respect to December 2014. Total public debt represents 44.3 percent of GDP, with external debt accounting for about two thirds, mainly with multilateral organizations and at fixed interest rates.

Policy actions are ongoing to secure financial sustainability for the public-owned electricity company (ENEE) and the telecommunication company (Hondutel), particularly regarding wage bill reduction. As of June 2015, and in line with program implementation, the number of employees (“*supernumerarios*”)¹ at the ENEE and Hondutel has been reduced, allowing for a decrease in the wage bill of 45.8 percent and 23.0 percent, respectively. Furthermore, an independent regulatory agency for the electricity sector

¹ Means employees that were hired in excess so the elimination of these positions does not affect ENEE and Hondutel operations.

(CREE) has been appointed, it will regulate the electricity market and set tariffs based on technical criteria.

In light of recent macroeconomic developments in Honduras as well as the updated world economic outlook, the Central Bank revised its 2015-2016 monetary program in July. While projections for economic growth rates for 2015 remained unchanged at a range of 3.0 to 3.5 percent, exports and imports growth rates were reduced from 6.5 percent to 1.1 percent for the former due to lower international prices than previously expected for main export products and from 1.4 percent to -0.4 percent for the latter, mainly as a result of lower oil prices expected for the rest of the year. Current account deficit is expected to remain at 6.5 percent of GDP as previously projected. Inflation projections were also reduced for 2015 from 5.5 +/- 1 percentage point to 4.75 +/- 1 percentage point mainly due to lower oil prices. Fiscal deficits for the non financial public sector and the combined public sector are projected at 2.1 and 2.7 percent of GDP, respectively (3.9 and 4.0 percent of GDP, respectively, in 2014).

Final remarks

The authorities restate their commitment to continue program implementation and to treat the arrangements as precautionary. The authorities remain confident that the policies set forth in both the November 2014 and the May 2015 Memorandums of Economic and Financial Policies are adequate for a successful implementation of the program and to achieve the main objective of preserving macroeconomic stability while improving the conditions for sustainable and inclusive economic growth. However, the government stands ready to take other measures that may be required to ensure the program's objectives. Also, the authorities would like to emphasize that if more favorable macroeconomic conditions than the ones currently envisaged materialize, they are committed to use the favorable winds to further advance in program implementation and to strengthen macroeconomic achievements reached so far, particularly regarding fiscal consolidation, and to enhance inclusive economic growth.