INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/4

HONDURAS

January 2016

SECOND REVIEWS UNDER THE STAND-BY ARRANGEMENT AND THE ARRANGEMENT UNDER THE STANDBY CREDIT FACILITY—PRESS RELEASE; AND STAFF REPORT

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

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on October 6, 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 December 1, 2015.
- An **Informational Annex** prepared by the IMF staff.

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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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND
COM COMMUNICATIONS DEPARTMENT

Press Release No. 15/579
FOR IMMEDIATE RELEASE
December 18, 2015

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Second 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) completed the second 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 51.8 million (about US$71.2 million); however the authorities plan to continue treating the arrangements as precautionary. The Board decision was taken on a lapse of time basis (a process where the Board agrees that a proposal can be approved without convening formal discussions) on December 17, 2015.[1]

Macroeconomic performance continues to be better than envisaged in the program. In 2015, real GDP growth is projected at 3.5 percent, led by a broad expansion across sectors and supported by favorable terms of trade, growth in trading partners and strong capital inflows. Inflation through October remained low at 2.5 percent, owing to a better monetary and fiscal policy mix as well as the effects of lower fuels prices. In addition, overall investor confidence, as measured by declining spreads on external debt, has improved. For 2016, the outlook remains just as positive, with inflation low at about 5 percent and real GDP growth projected at 3.5 percent.

Program implementation for the second review has been strong. All 2015 end-June performance criteria and indicative targets were met, most with significant margins. On the structural side, June and September 2015 benchmarks were broadly observed. The authorities are pressing ahead with structural reforms, including the introduction of a Fiscal Responsibility Law (FRL), and an overhaul of tax administration.

[1] The Executive Board takes decisions under its lapse-of-time procedures when it is agreed by the Board that a proposal can be considered without convening formal discussions.

INTERNATIONAL MONETARY FUND

HONDURAS

December 1, 2015

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

EXECUTIVE SUMMARY

Macroeconomic Context. Macroeconomic performance continues to be better than envisaged in the program. In 2015, real GDP growth is projected at 3.5 percent, led by a broad expansion across sectors and supported by favorable terms of trade, growth in trading partners and strong capital inflows. Inflation through October remained low at 2.5 percent—below the program projection of 3.3 percent—owing to a better policy mix as well as the effects of lower fuels prices. Private credit growth remains steady and overall investor confidence, as measured by declining spreads on external debt, has improved. For 2016, the outlook remains just as positive, with inflation low at about 5 percent and real GDP growth projected at 3.5 percent.

Program Implementation. The Executive Board approved a precautionary blended program on December 3, 2014 in the amount 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). Program implementation for the second review has been strong. All 2015 end-June performance criteria and indicative targets were met, most with significant margins. On the structural side, June and September 2015 benchmarks were broadly observed. The revised program proposed for 2016 envisages a further strengthening of fiscal and net international reserve targets. The authorities are pressing ahead with structural reforms, including the introduction of a Fiscal Responsibility Law (FRL), an overhaul of tax administration, and reforms to the Honduran Social Security Institute. The authorities will continue to treat the program as precautionary.

Program Risks. Risks to the program have subsided, including possible external shocks that could derail the recovery, pressures for increased social spending and policy slippages.

Appraisal. Based on performance to date and the authorities' updated intentions and commitments, staff recommends completion of the second review under the SBA/SCF arrangement.

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

Discussion took place in Tegucigalpa during September 24 to October 6. The staff team comprised R. Garcia-Saltos (Head), G. Nicholls, D. Plotnikov (all WHD), J. Kapsoli (FAD), M. Appendino (SPR), and M. Dehesa (Resident Representative).

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RECENT DEVELOPMENTS

With favorable external conditions and strong policy implementation the economic recovery is strengthening.

1. **Domestic context**. After two years in office, the government is improving domestic security, stabilizing the economy, and fighting corruption amid political and institutional challenges. It has won broad Congressional support for some key legislative initiatives despite its lack of an electoral majority in Congress. In addition, the authorities have secured the help of an Organization of American States (OAS) support mission against corruption and impunity (MACCIH) as part of its response to the unveiling of the embezzlement episode at the Honduran Social Security Institute (IHSS), which occurred during the previous administration. The Honduran Banking and Insurance Commission recently liquidated the *Banco Continental* (BC), after it was designated for allegedly engaging in money laundering by the United States Treasury's Office of Foreign Assets Control (OFAC). Although this created some initial uncertainty within the political and business class in Honduras, the authorities acted resolutely and swiftly to limit its macroeconomic impact (Box 1).

2. **The economic recovery is in line with the program.** Recent trends point to real GDP growth of 3.5 percent on annual terms through the first half of 2015. This reflects largely improved U.S. growth and better terms of trade, which helped Honduras to sustain faster growth in both private investment and consumption.[1] Aided by a decline in fuel prices, headline inflation stood at 2.5 percent year on year in October, the lowest level in the last 28 years, and below the program projection of 3.3 percent. Through October, net international reserves (NIR) rose by US$139 million to US$2,614 million, just short of the program target of US$2,730 million for end-December, supported by lower international fuels prices, higher workers' remittances inflows and solid export growth.

3. **Fiscal performance has been consistent with program targets during the first half of 2015.** On the back of stronger revenue collection (18 percent annual growth January-August), the fiscal position has strengthened considerably. The combined public sector posted a surplus of 0.8 percent of GDP (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 program target was a deficit of 1.0 percent of GDP).

Operations of the Combined Public Sector
(In percent of GDP)

	2014		2015	
	Prog.	Prel.	Prog.	Proj.
Total revenue and grants	**24.5**	**24.4**	**24.6**	**26.3**
Of which				
Tax revenue	17.3	17.3	17.0	17.9
Interest revenue	1.7	1.6	1.7	1.5
Oper.Bal.Publ.Enterprises	-0.8	-0.6	-0.1	0.7
Total expenditure	**30.4**	**28.7**	**27.8**	**28.8**
Of which				
Wages and salaries	12.4	11.6	11.8	11.3
Goods and services	4.1	3.7	3.8	4.0
Interest payments	2.4	2.1	2.8	2.9
Capital expenditure	6.2	6.0	4.5	5.3
Overall balance	**-5.9**	**-4.3**	**-3.2**	**-2.4**
Primary balance	**-5.2**	**-3.8**	**-2.1**	**-1.1**
Total debt	**47.8**	**46.4**	**49.4**	**49.1**

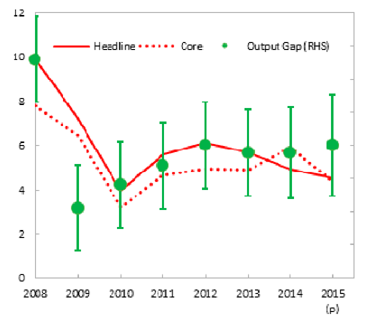
Sources: Honduras authorites and Fund staff estimates.

[1] Changes in international fuel prices are fully passed onto domestic prices. Staff estimates that a US$10 change in oil price in 2015 changes real personal disposable income by 0.23 percent, which results in 0.17 percent increase in real GDP through higher consumption spending; and changes the current account balance by about US$90 million (about 0.4 percent of GDP) after second-round effects.

4. Reforms in the electricity sector continue, albeit with some hurdles. The strengthening of the state electricity company's (ENEE) finances has continued as envisaged in the program. The government has also completed the formal process for establishing the new Regulatory Commission for the Electricity Sector (CREE), which is expected to become fully functional over the coming months. The operational margin of ENEE has improved, following the elimination of untargeted electricity subsidies and the reduction in the operational costs. Electricity losses, however, remain at 32 percent of electricity output, well above regional averages.

5. Monetary conditions have remained broadly expansionary and the negative output gap is shrinking. Since March the Central Bank of Honduras (BCH) has lowered its policy rate by 75 basis points to 6.25 percent, amid a fall in inflation and strong foreign currency inflows. As a result, liquidity conditions are relatively easy, but credit growth, especially in foreign currency, moderated somewhat, while the currency has been fairly stable vis-à-vis the U.S. dollar. These conditions have exerted downward pressure on nominal lending rates and spreads.

Output gap and Inflation Measures
(In percent)



Error bands correspond to the 90 percent confidence interval of output gap

Box 1. The Designation of *Grupo Continental*

On October 7, 2015, the U.S. OFAC designated several companies from the *Grupo Continental* (GC), including *Banco Continental* (BC), and its owners pursuant to the Kingpin Act for allegedly laundering money for drug traffickers. The Kingpin Act prohibits US citizens from engaging in any transactions with designated persons, and freezes any property in their possession or under their control in which the designated persons have a financial interest. These designations have been adopted in parallel to proceedings initiated by the U.S. Department of Justice, where the individuals designated by OFAC have also been charged in connection with a multi-year money-laundering scheme.

The Honduran authorities' policy responses were resolute and swift. To limit any potential contagion from the designation, the Honduran banking regulator—National Commission of Banking and Insurance (CNBS)—and the Prosecutor General promptly adopted containment measures. The CNBS ordered the liquidation of BC, a small bank, with 3.2 percent of total system deposits. So far, almost all depositors have received up to 208,680 Lempiras (about US$9,400)—the insured threshold of the Honduran deposit insurance fund. To date, CNBS has conducted a resolution process involving purchase and assumption operations for almost all of BC's loan portfolio. For the GC, the Honduran Prosecutor General seized assets from 19 companies belonging to GC and transferred them to the Office of Seized Assets (OABI) for custody and management.

The macroeconomic impact of the designation, over the medium term, would depend on the speed with which the authorities are able to restore business normalcy for the GC. A disruption of production in the affected entities would have a direct and indirect impact on output.

OUTLOOK AND RISKS

The outlook is favorable and risks to it are balanced.

6. **In 2015, economic growth is projected to remain steady, with lower inflation.** Real output growth is projected at 3.5 percent, led by a broad expansion in several sectors supported by favorable terms of trade, growth in trading partners and strong capital inflows. Meanwhile, inflation is projected to remain low at 4.2 percent owing to a better policy mix as well as the temporary effects of lower fuels prices. Staff expects the external current account to improve to 6 percent of GDP from 7.4 percent in 2014, on the back of ongoing fiscal adjustments, terms of trade gains, and higher remittances inflows.

7. **Despite the initial uncertainties created by the listing of the GC, the 2016 outlook remains positive**. GDP growth is projected at 3.5 percent, on the back of continued strong growth in consumption and investment spending, as private sector confidence strengthens in line with the improved policy mix. Staff anticipates the impact from the designation of the GC would be small. At the same time, inflation is projected to remain low, at 5 percent, as the effects of the decline in 2015 wear off. The external current account deficit is expected to narrow further to 5.8 percent of GDP, supported by continued strong growth in remittances inflows and fiscal consolidation. As a result, NIR is projected to increase by US$275 million, to reach US$3,005 million by end-2016. This will increase reserve coverage to 4.7 months of imports in the context of the more favorable external environment.

8. **Risks to the outlook are balanced**. While an expected lift off of the interest rate by the Fed later this year may slow FDI inflows, a steady inflow of private remittances associated with faster US growth, should support private consumption and spending. In addition, lower oil prices would continue to support activity. That said, a delay in dealing resolutely with the residual issues and uncertainties created by the GC designation could cause economic activity to slow as investors take a "wait and see" approach. Slower growth (primarily in the agricultural sector) can also be affected by a stronger than expected El Niño weather phenomena.

PROGRAM IMPLEMENTATION

- **Fiscal performance has been significantly stronger than anticipated and remains on track to meet all quantitative performance criteria for end-December 2015**. Based on year-to-date performance, the deficits of central government and combined public sector (CPS) are projected at 3.5 and 2.4 percent of GDP respectively, below the program targets of 3.8 percent and 2.7 percent of GDP.

9. **Program implementation continues to be good.** As indicated in the staff supplement to the first reviews (Country Report No. 15/283), the end-June performance criteria governed the completion of the First Review under the Standby Arrangement, but it will govern the Second

Review under the Standby Credit Facility.[2] The authorities met all performance criteria and indicative targets through end-June 2015, and are on track to meet end-December 2015 performance targets.[3]

- **The authorities are also on track to meet the NIR target for end-December 2015**. Through end-October, NIR rose by US$139 million to about US$2,614 million, just shy of the end-December 2015 target of US$2,730 million. On current trends, planned disbursement of external loans, along with continued strong growth of private remittances, staff remains confident that the NIR target would be comfortably met.

10. Two of four structural benchmarks for end-September 2015 were met.

- **The submitted 2016 budget bill was consistent with program targets**. For 2016, the authorities' budget aims to lock-in the fiscal gains attained thus far, by establishing a full medium-term fiscal plan that is consistent with a steady reduction in the debt to GDP ratio.

- **Strengthening of the large tax payer unit**. The large tax payer unit has been strengthened with the employment of additional skilled professionals in the area of tax analysis. In addition, the number of large payers has been reduced, and tax intelligence and analysis has been strengthened, with the adoption of improved methodologies for estimating tax liabilities.

11. Two structural benchmarks for end-September 2015 are proposed for modification.

- **Public sector domestic arrears.** The structural benchmark on arrears is proposed to be moved from end-September 2015 to end-June 2016. This was necessary, as the ongoing audit to verify public sector domestic arrears is behind schedule owing to delays in the bidding process to select an internationally recognized audit firm.

- **Draft Social Security Law.** The structural benchmark on the submission to Congress of a draft law to reform the IHSS is proposed to be moved from end-September to end-November 2015. This legislation seeks to improve the IHSS's finances, without damaging competitiveness and employment creation.

[2] Under the PRGT instrument, specific performance criteria are set for specific reviews whilst under the GRA, the most recent test date governs the completion of the review. Therefore, the first review under the SCF arrangement, which took place in September, was governed by the end-December 2014 PCs whilst the review under the SBA was governed by the end-June 2015 PCs.

[3] On September 11, 2015, the Executive Board completed the first reviews under the SBA/SCF arrangement. It judged that the Honduran authorities had met all performance criteria, indicative targets and relevant structural benchmarks through end-June 2015.

POLICY DISCUSSIONS

12. The authorities plan to consolidate the hard-won gains on fiscal adjustment and the external position, by creating a robust institutional framework for fiscal policy. The revised program for 2016 envisages a stronger external current account and targets a higher level of international reserves. The 2016 fiscal program focuses on locking in the hard-won gains through the introduction of a MTFF and fiscal rule.

Honduras: Medium-Term Scenario

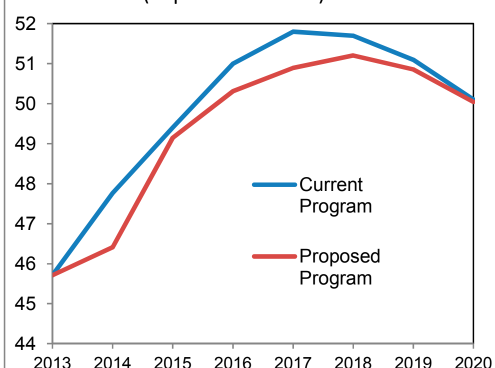
		Prel.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020
	(Annual percent change)							
Output and Inflation								
GDP at constant prices	2.8	3.1	3.5	3.5	3.7	3.8	4.0	4.0
Consumer prices (eop)	4.9	5.8	4.2	5.2	5.4	5.4	5.4	5.4
	(In percent of GDP, unless otherwise indicated)							
Public Sector								
CPS overall balance	-7.6	-4.3	-2.4	-2.0	-1.9	-1.5	-1.0	-1.0
CPS primary balance	-7.1	-3.8	-1.1	-0.3	-0.3	0.1	0.5	0.3
Public sector debt	45.7	46.4	49.1	50.3	50.9	51.2	50.9	50.0
External sector								
Current account balance	-9.5	-7.4	-6.0	-5.8	-5.8	-5.7	-5.6	-5.6
GIR (in months of non maquila imports) 2/	3.8	4.3	4.5	4.7	4.8	5.0	5.0	5.0

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

A. Fiscal Policy

13. The 2016 fiscal program focuses on institutionalizing the hard-won gains, while creating the fiscal space to finance high-quality infrastructure projects. The revised program now targets central government and public sector deficits of 3.5 percent and 2.0 percent of GDP in 2016, respectively. These proposed targets are somewhat above the original program targets, which are intended to provide modest space to increase infrastructure spending and maintain the floor on targeted social spending, maximizing its impact on growth and poverty reduction.

Consolidated Public Debt
(In percent of GDP)



Sources: Honduras authorites and Fund staff estimates.

Operations of the Combined Public Sector (In percent of GDP)	2015	2016			2017		
	Proj.	Original Program	Revised Program	Proposed Program 1/	Original Program	Revised Program	Proposed Program 1/
Total revenue and grants	**26.3**	**25.8**	**26.4**	**26.4**	**26.1**	**26.7**	**26.7**
Of which							
Tax revenue	17.9	17.5	18.1	18.1	17.6	18.1	18.1
Interest revenue	1.5	1.7	1.5	1.5	1.7	1.5	1.5
Oper.Bal.Publ.Enterprises	0.7	0.6	0.7	0.7	0.9	1.0	1.0
Total expenditure	**28.8**	**27.7**	**28.1**	**28.5**	**27.5**	**28.2**	**28.6**
Of which							
Wages and salaries	11.3	10.6	11.0	11.0	10.3	10.8	10.8
Goods and services	4.0	4.0	3.5	3.5	4.2	3.7	3.7
Interest payments	2.9	3.2	3.2	3.2	3.2	3.1	3.1
Capital expenditure	5.3	4.9	5.5	5.9	5.1	5.9	6.3
Overall balance	**-2.4**	**-1.9**	**-1.6**	**-2.0**	**-1.4**	**-1.5**	**-1.9**
Primary balance	**-1.1**	**-0.4**	**0.1**	**-0.3**	**0.1**	**0.1**	**-0.3**
Total debt	**49.1**	**51.0**	**49.9**	**50.3**	**51.8**	**50.5**	**50.9**

Sources: Honduras authorities and Fund staff estimates.
1/ The difference between revised program and proposed program is the additional outlays for capital spending.

- **Central government.** For 2016, the central government deficit target is 3.5 percent of GDP. To achieve this, the authorities plan to mobilize revenues, while restraining spending. In particular, improved tax administration is expected to generate additional revenues for 0.2 percent of GDP, mostly because of measures already implemented. The authorities also plan to submit to Congress a law simplifying the tax code to facilitate tax compliance and provide better service to taxpayers (Structural benchmark, June 2016). On the expenditure side, the authorities are committed to keep the wage bill under control by limiting its nominal annual increase to no more than 5 percent. All payrolls in the central administration are now executed through the integrated financial management information system (SIAFI), which is linked to the public employment management system (SIREP). In addition, the authorities are working with the World Bank on an audit of vacancies, jobs and required skills in several line ministries that should generate additional savings. At the same time, the authorities plan to boost investment spending, with the additional savings from lower current spending (see Box 3). The additional investment spending for 2016 amounts to 0.4 percentage points of GDP and will be allocated exclusively to infrastructure projects which have previously obtained the quality certification by the national public investment system (SNIP) (see TMU, Paragraph 14). If this infrastructure spending doesn't materialize, the deficit floor will adjust downwards by the corresponding amount. To improve the public investment management system and align it with the international best practice, the authorities have requested to participate in the Fund-sponsored PIMA pilot project.

Box 2. Public Infrastructure Spending

To support the nascent output recovery and raise potential growth over the medium term, the authorities are ramping up public infrastructure spending. This strategy focuses on overhauling the transportation network, logistics including ports and airports, electricity sector and telecommunications.

The core of the infrastructure plan is overhauling the national transportation network. The plan aims to reduce transaction costs, linking the Atlantic with Pacific side of the country, advance regional economic integration, thereby, enabling a quick outlet for agricultural products, while promoting international and domestic tourism. The transportation redevelopment strategy comprises major road, port and airport projects with an estimated public cost of about USD 957million (4.8 percent of GDP) spread over several years. This strategy would be partially financed by private investors using public-private-partnerships (PPP) arrangements along with concessional and non-concessional debt.

Honduras: Investment in infrastructure
(In percent of GDP)

	Private financing (PPP)	Public Financing	Total
Roads	2.9	4.5	7.4
Agriculture corridor	-	0.6	0.6
Logistics corridor	0.7	1.7	2.4
Pacific corridor	-	1.3	1.3
Occidental corridor	0.3	0.9	1.2
Lenca corridor	0.5	-	0.5
Tourism corridor	1.3	-	-
Palmerola Airport	0.4	0.3	0.7
Ports	6.3	-	6.3
Total	9.5	4.8	14.3

Source: Ministry of Finance

The authorities want to improve transparency and efficiency of infrastructure spending. They plan to strengthen key institutions involved in the planning, allocating and implementing public investments, and plan to use the recently-developed public investment management framework diagnostic tool (PIMA) to strengthen the process of appraisal, selection, and approval of investment projects. The Finance Ministry has also created a fiscal contingency unit to assess risks stemming from PPPs. Capital budgeting is also being improved.

- **Public enterprises.** The 2016 program contains measures to continue strengthening public enterprises finances. As of September 2015, HONDUTEL has made significant progress on the legal and financial audit for 2012–14 and on consolidating its financial position. In the electricity sector, the authorities plan to make the CREE fully operational by December 2015.

- **Settlement of Arrears**. The audit of all domestic arrears, estimated at about 3 percent of GDP at end-2013 for the central administration and public enterprises is ongoing. The authorities are focusing the audit on claims that have proper documentation. As a result of delays in the bidding process, progress on completing the audit has been slow, and the authorities have requested postponement of the completion of this benchmark to June 2016 (currently set for September 2015). Once the audit is finalized, the authorities plan to develop a payment schedule to settle all validated claims.

B. Public Financial Management

14. The authorities plan to establish a formal fiscal anchor through a FRL to support medium term fiscal sustainability. The FRL will build on the authorities' initiatives to lock-in the fiscal gains achieved so far and the progress made in developing the Medium-Term Fiscal Framework (MTFF).

- **Fiscal Responsibility Law (FRL)**. The authorities have submitted to Congress a FRL seeking to institutionalize the hard-won fiscal consolidation achieved thus far. This law will adopt the accountability, transparency, and stability principles consistent with international best practices (see Box 3). It will contain a limit on the public sector deficit and a restriction on the growth rate of current spending. The law will also contain a transitory clause defining the transition path to obtain these goals by 2019. This path will be fully consistent with the program's fiscal targets. Once the law is approved by the legislature all its provisions, with the exception of the fiscal rules for 2016–17, will be enforceable.

- **Transparency and accountability.** The authorities plan to assess the use of trust funds as an efficient and transparent tool to implement budgetary programs. They also plan to assess the feasibility of gradually phasing out trust funds in the context of the FRL implementation and the feasibility of transferring their accumulated balances to the treasury single account (TSA). In addition, they plan to establish a national registry of all remaining trust funds funded by public resources together with the obligation to periodically report their operations in detail to the Ministry of Finance (structural benchmark, June 2016).

- **Treasury single account (TSA).** The authorities plan to continue strengthening the operational coverage of the TSA with technical assistance (TA) from multilateral institutions. In the meantime, and due to the proliferation of trust funds they are working on a special module that allows for the operation of trust funds through the TSA.

Box 3. Institutionalizing Fiscal Prudence

Honduras is implementing an effective fiscal consolidation. After a long tradition of fiscal excesses, the government elected in November 2013 embarked on a path to restore sound public finances. After two years, the results are impressive. For 2015, the public deficit is expected to have been reduced by around 5 points of GDP from the 7.6 percent of GDP reached in 2013. This result has been achieved mainly by high-quality measures including: a tax reform, rightsizing employment in public companies, adjusting electricity tariffs and making more efficient the operation of the ENEE.

There is wide interest in protecting these results and institutionalizing a sound fiscal position. Despite the recent fiscal consolidation, public debt is still high (the Non Financial Public Sector (NFPS) debt stock was 41 percent of GDP in 2014). Therefore, a key priority for the fiscal policy is to contain the increase in public debt and build confidence that fiscal policy will remain under control. Against this backdrop the authorities have decided to institutionalize prudent management for fiscal policy through the use of a fiscal responsibility law (FRL). Besides the consolidation efforts, several reforms have been put in place to improve the budgeting process. One of the most critical is the implementation of the medium-term fiscal framework (MTFF) which was included as part of the 2016 budget bundle sent to the legislature in September.

The draft FRL is based on international best practices. The FRL builds upon the budgetary principles of accountability, transparency, and stability. The last is implemented by codifying fiscal rules defined as permanent constraints on fiscal policy. The draft law includes a 1 percentage point of GDP ceiling on the NFPS deficit and provisions to limit the real growth of current spending. On transparency and accountability, the draft law formalizes the introduction of the MTFF as a critical part of the budget cycle. It also requires a formal assessment of the central bank on the consistency of the MTFF with the monetary and exchange rate policies. The ministry of finance would also report periodically on the evolution of the fiscal aggregates relative to the targets and the compliance with the law.

The draft law also includes appropriate escape clauses and other complementary provisions. The law would not be applied immediately as some time is needed to implement reforms in the treasury required control the many trust funds operating as extra-budgetary entities. A transition period for the period 2016–17 is defined with deficit targets of 1.6 and 1.5 percentage points of GDP, which are consistent with the authorities' economic program. Additionally, the draft law includes escape clauses for the cases of economic emergency or natural disasters. A clear convergence path is also included to guide the return of fiscal aggregates to the mandated parameters, if the escape causes are used.

C. Monetary and Exchange Rate Policies

15. Monetary policy is set to remain focused on maintaining price stability and protecting the external position. The current stance of monetary policy appears to be broadly appropriate for achieving these objectives. Nevertheless, the central bank has stepped up its efforts to absorb additional liquidity resulting from capital inflows while monitoring private sector credit growth.

16. The NIR target for 2016 has been substantially strengthened compared to the original program. Against the backdrop of improved external sector outlook and an improved policy mix, a higher NIR target for 2016 was agreed. With the new target, reserve coverage is projected to rise to 4.7 months of imports (4.4 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.

17. The authorities are advanced in their plans to strengthen the monetary policy framework. The BCH has improved short-term liquidity forecasting and management, and the monetary policy committee has adopted a more consistent strategy for communicating monetary policy decisions. In particular, the BCH has started publishing an annual calendar of meetings of the open market operations committee, and issuing press releases to explain their monetary policy interest rate (TPM) decisions. In addition, in October 2015, the BCH introduced daily liquidity auctions to enhance its monetary policy operations, and is coordinating with the Ministry of Finance on the exchange of information to facilitate liquidity management.

18. The BCH has started working to address key recommendations of the April 2015 update safeguards assessment report. The report noted that the BCH Law poses significant challenges and amendments are needed to align it with leading central bank practices. Subsequently, The BCH has engaged a consultant to review the central bank law and propose reforms in line with international best practices. These proposals will be shared with the IMF's Legal Department for review by end-December, after which draft amendments to the law would be submitted to congress. In addition, preparatory work has commenced on the adoption of the international financial reporting standards at the BCH, with full adoption expected for FY2107.

19. Exchange rate policy. The authorities continue to exercise 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 2016 (as envisaged in the program), over one percentage point more than in 2015. This is consistent with safeguarding competitiveness and strengthening the external position, while easing the costs of fiscal adjustment. As the US dollar strengthened against other major currencies, the lempira appreciated somewhat more than expected in 2015 but this has been accompanied by a more favorable terms-of-trade than envisaged in the original program. At the same time, the authorities are preparing a multi-stage operational plan (structural benchmark, December 2015) for the gradual removal of foreign exchange surrender requirements. The plan includes regulations needed to ensure a proper functioning and development of the foreign exchange market.

D. Financial Sector

20. The authorities are taking measures to enhance financial sector resilience. The financial sector remains stable following the October 2015 liquidation of Banco Continental. During this episode, the authorities took swift action to close the bank, paid out depositors using the deposit insurance fund, and ring fenced the rest of the financial system from possible contagion. The OFAC designation points to potential deficiencies in the anti-money laundering (AML) and combating the financing of terrorism (CFT) framework. Strengthening the AML/CFT supervision function and implementing adequate fit and proper requirements for beneficial ownership and control of financial institutions would contribute to enhancing financial stability. Against this backdrop, the authorities have requested TA from the Fund and the World Bank to address financial stability issues, including improvements to the financial sector resolution framework and corporate bankruptcy code. This TA will build on other initiatives that the authorities are currently implementing to strengthen financial sector resilience. These initiatives included adopting higher capital requirements for foreign currency borrowing by unhedged agents in mid-2015, maintaining close monitoring and assessment of risks on banks' foreign currency funding and introducing additional corrective measures, if needed. In addition, they plan to issue in November 2015, new guidelines to strengthen pension funds' investment policies and governance in line with international best practices. In the meantime, they are pressing ahead with the implementation plans for improving institutional governance of the agricultural development bank (BANADESA).

21. In 2016, the authorities also plan to create a mortgage insurance scheme to foster the development of housing finance. The scheme envisages the use of privately owned mortgage guarantee societies (SHG), funded through bonds, to issue guarantees for specified mortgages, primarily for low income families. This initiative is expected to help boost housing sector finance, while generating additional employment in the construction sector.

E. Structural Reforms

22. Electricity sector. Reforms to the electricity sector are moving ahead, albeit slower than originally envisaged. A new electricity sector law was enacted in 2014 to promote a more efficient, open and transparent electricity sector. The law allows for greater private sector participation in generation, transmission, and distribution. The CREE was appointed in mid-2015 and it is expected to become fully operational in 2016. Its objectives include regulating the operation of the new electricity market and setting tariffs and design mechanisms to use the electricity network in a more efficient and transparent way.

23. Social Protection Framework Law (SPL). The authorities plan to expand the social safety net and achieve universal health coverage over the medium term in a fiscally sustainable manner and in accordance with the program targets. The authorities are working on complementary regulations and bylaws to ensure that: (i) implementation of the provisions of the law does not require any tax benefits; (ii) investment by public pension funds is consistent with international best practices; (iii) changes in the capital market to accommodate the operation of the new private pension fund scheme are in line with the Fund recommendations; and (iv) governance of investment funds improves.

24. Social Security Institute reform. The law reforming the IHSS was originally scheduled to be sent to Congress in September 2015, but the authorities' have requested an extension of the date to end-November 2015 (structural benchmark, November 2015). This law will include the parametric reforms necessary to, ensure that the IHSS pension fund's finances are sustainable in the long term, and improve governance. The authorities are committed to taking all necessary actions to place the IHSS on a sound financial footing, while ensuring that contribution rates do not hinder international competitiveness.

Program Monitoring

25. The authorities are migrating towards the GFSM 2001 methodology for the fiscal accounts. As part of their global transparency efforts, the authorities are working on the compilation of the fiscal statistics based on the GFSM 2001 standard. Under this standard, fiscal information is recorded on an accrual basis thus better measuring the economic impact of government operations. As a result, the fiscal tables are presented as operational statements instead of traditional flow tables. This staff report includes the statements of the central government and non-financial public sector in addition to the traditional presentation (GFSM 1986). The latter will be discontinued in following publications.

26. 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.

PROGRAM DESIGN AND FINANCING

27. The program remains fully financed. The authorities have already completed 78 percent of their planned domestic debt management refinancing operation. As a result, given the lower financing requirements, they do not anticipate tapping the international capital markets as initially envisaged, but remain open to this possibility in 2016. The extended infrastructure investment plan will require additional US$170 million for 2016–17 in external financing, which they plan to secure mainly from multilateral institutions on concessional terms. Should the authorities be unable to secure this financing on appropriate terms, the infrastructure investment plan will be scaled back to available resources.

28. The preparation of a new budget support operation of the World Bank is advancing. The World Bank is expected to discuss a new US$50 million budget support operation in December 2015. This proposed credit is the first of a series of two development policy financing operations to support the authorities' efforts to strengthen institutional arrangements for fiscal sustainability and enhancing competitiveness.

29. Additional program conditions have been agreed for 2016. In particular, to contain the consolidated public sector (CPS) deficit, a new performance criterion on net lending of the combined public sector was agreed. This became necessary as pension funds have sharply increased loans to their affiliates and through this the CPS deficit. The first test date for this new PC is proposed to be December 2015. In addition, a new debt performance criterion (PC) that establishes a ceiling on the present value of new external debt contracted was agreed with the authorities. Staff and the authorities agreed that in setting this PC, it would be preferable to allow for a transition period to establish a framework to monitor and control debt in line with this PC. Therefore, the first test date for this new PC is June 2016.

30. **For 2016, the new PC on the present value of new external debt contracted puts a limit on new external debt contracted of US$520 million (see text table below)**. These resources would be substantially secured from multilateral creditors, mostly in US dollars with a mix of fixed (1/3) and variable (2/3) interest rates. The authorities plan to use these resources to support mostly infrastructure and social spending.

Summary Table of Projected External Borrowing Program

PPG external debt	Volume of new debt in 2016		PV of new debt in 2016 (program purposes)	
	USD million	Percent	USD million	Percent
By sources of debt financing	**655.6**	**100**	**517.0**	**100**
Concessional debt, of which	**186.8**	**28**	**51.6**	**10**
Multilateral debt	152.6	23	44.8	9
Bilateral debt	34.2	5	6.8	1
Other	0.0	0	0.0	0
Non-concessional debt, of which	**468.8**	**72**	**465.3**	**90**
Semi-concessional	32.0	5	28.6	6
Commercial terms	436.8	67	436.8	84
By Creditor Type	**655.6**	**100**	**517.0**	**100**
Multilateral	621.4	95	510.1	99
Bilateral - Paris Club	34.2	5	6.8	1
Bilateral - Non-Paris Club	0.0	0	0.0	0
Other	0.0	0	0.0	0
Uses of debt financing	**655.6**	**100**	**517.0**	**100**
Infrastructure	446.4	68	376.7	73
Social Spending	82.0	13	57.1	11
Budget Financing	20.0	3	13.5	3
Other	107.2	16.4	69.7	13.5
Memo Items				
Indicative projections				
Year 2	**1007.3**		**739.1**	

31. **The balance of risks to the program has improved, especially in the near term.** Risks to the revised 2016 fiscal program are slightly on the upside. With upside risks to economic growth (paragraph 8) and continued improvements in tax administration, tax revenue could turn out higher than envisaged under the program. The main risks to the 2016 fiscal program are further slippages

on the implementation of the plan to reduce electricity distribution losses, and the faster than planned expansion of coverage under the recently enacted social protection framework law.

32. Capacity to repay the Fund. Honduras' capacity to repay the Fund remains adequate. Current obligations to the Fund are very low (SDR 1 million at end-September 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.

STAFF APPRAISAL

33. Program performance continues to be good amid strong ownership, improving investor confidence and favorable external conditions. All quantitative performance criteria and most structural benchmarks for the second review were met. Implementation of structural reforms has been broadly in line with the program. The economic recovery strengthened in 2015, with an improved outlook for the medium term. At the same time, spending on the government's poverty reduction programs has risen for a second year in a row. The strong program performance reflects an improved macro policy mix and the authorities' continued commitment to creating the necessary conditions that are conducive to sustainable and inclusive growth.

34. The authorities are committed to institutionalizing the hard-won fiscal gains. The MTFF, along with the FRL would safeguard the gains from fiscal adjustment achieved thus far. In particular, this law would promote accountability, transparency and stability in public finances in line with international best practices. In this context, the authorities plan to re-assimilate the expenditures of most trust funds within the budget process during the program period. Staff also supports the proposed fiscal adjustment path which prioritizes infrastructure spending and public debt reduction. Additional infrastructure spending—subject to an adjustor in case this spending doesn't materialize—is facilitated by using a share of the fiscal space created by the faster than originally programmed pace of fiscal consolidation. At the same time under this adjustment path, the public debt-to-GDP ratio is reduced, over the medium-term, to a lower level than in the current program. The proposed adjustment path should also help to lower fiscal risk and rebuild policy buffers.

35. Now that the electricity regulatory body has been appointed, the authorities need to press ahead with other reforms to the sector. These reforms are key to improve the public finances and supporting long-run economic growth. Staff supports the authorities' continued rationalization of the operations of ENEE. In addition, staff encourages the implementation without delay of a consistent plan to reduce non-technical losses and welcomes the proposed hiring of a management company that will focus on reducing these losses, while maintaining and upgrading the distribution network, and streamlining costs would contribute to improving ENEE's finances.

36. 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 is 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. Staff also supports the authorities' plan for the modernization of the monetary policy framework, including through the gradual phasing out of foreign exchange surrender requirements.

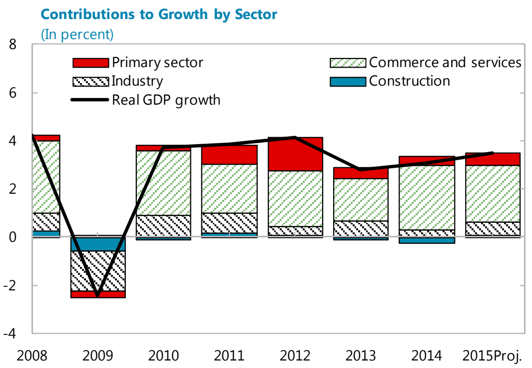
37. The financial system appears resilient following the October 2015 liquidation of Banco Continental, but vulnerabilities within the system need to be closely monitored. Staff analysis shows that the financial system remains adequately capitalized. At the same time liquidity remains high, but monitoring needs to be stepped up to ensure that existing rules are fully observed. Finally, it is essential to ensure close cooperation and coordination between the financial sector supervisor, the Prosecutor General and other agencies, while pushing ahead with improvements to the financial sector resolution framework and corporate bankruptcy code.

38. Consistent with the authorities' strong commitment, program risks have subsided. Due to the resolute and targeted response of the Honduran authorities to the indictment of a large conglomerate, the potential impact on macroeconomic outcomes, if any, is expected to be short-lived. Therefore, in 2016 growth is expected to maintain its upward trajectory, given the domestic policy mix and the positive external environment. Staff considers risks to the 2016 program as titled slightly to the upside both on the economic growth and fiscal policy. The authorities remain committed to rolling out the provisions of the recently enacted social protection framework law gradually and have already established model agreements with some sectors to this effect. In addition, they are redoubling their efforts to advance the electricity sector reform agenda. These efforts would be supported by the authorities' recent moves to adopt the principles of transparency, accountability and stability in the management of public finances.

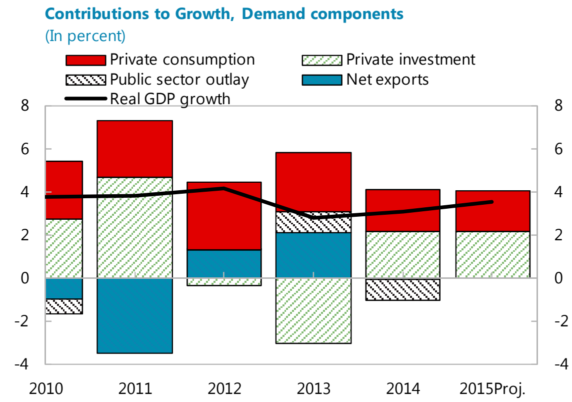
39. Staff supports the completion of the second reviews under the SBA and the SCF arrangements. Staff also supports the modifications to the end-December 2015 performance criteria.

Figure 1. Honduras: Growth is strengthening, owing to better external conditions and stable macro policies

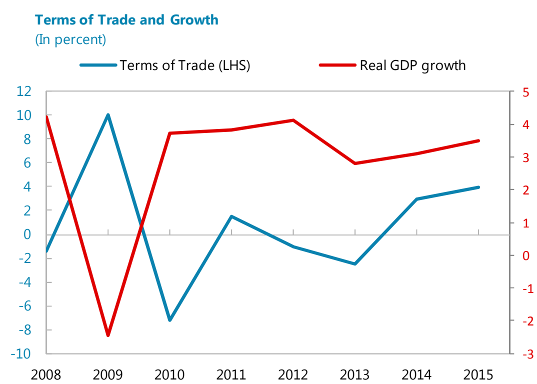
The service sector led the recovery in activity...



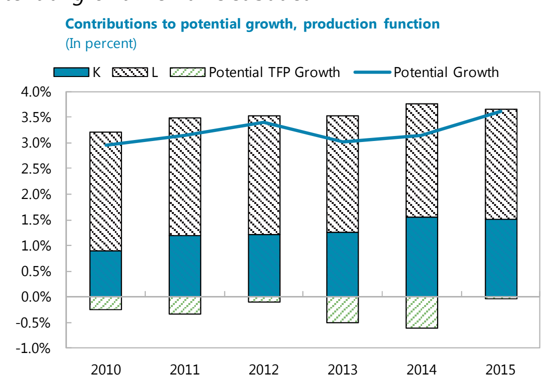
and private investment led demand growth.



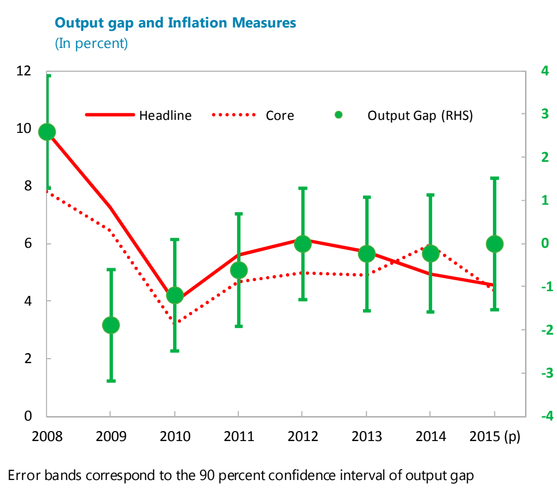
The recent improvement in the terms of trade also helped to sustain activity



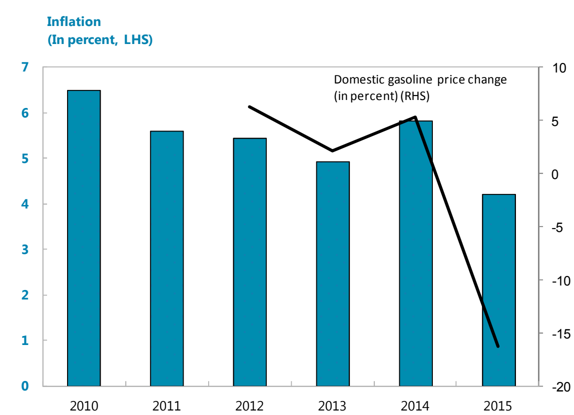
The recovery contributed to close the output gap, but potential growth remains subdued



With a negative output gap, although shrinking, inflation has remained under control

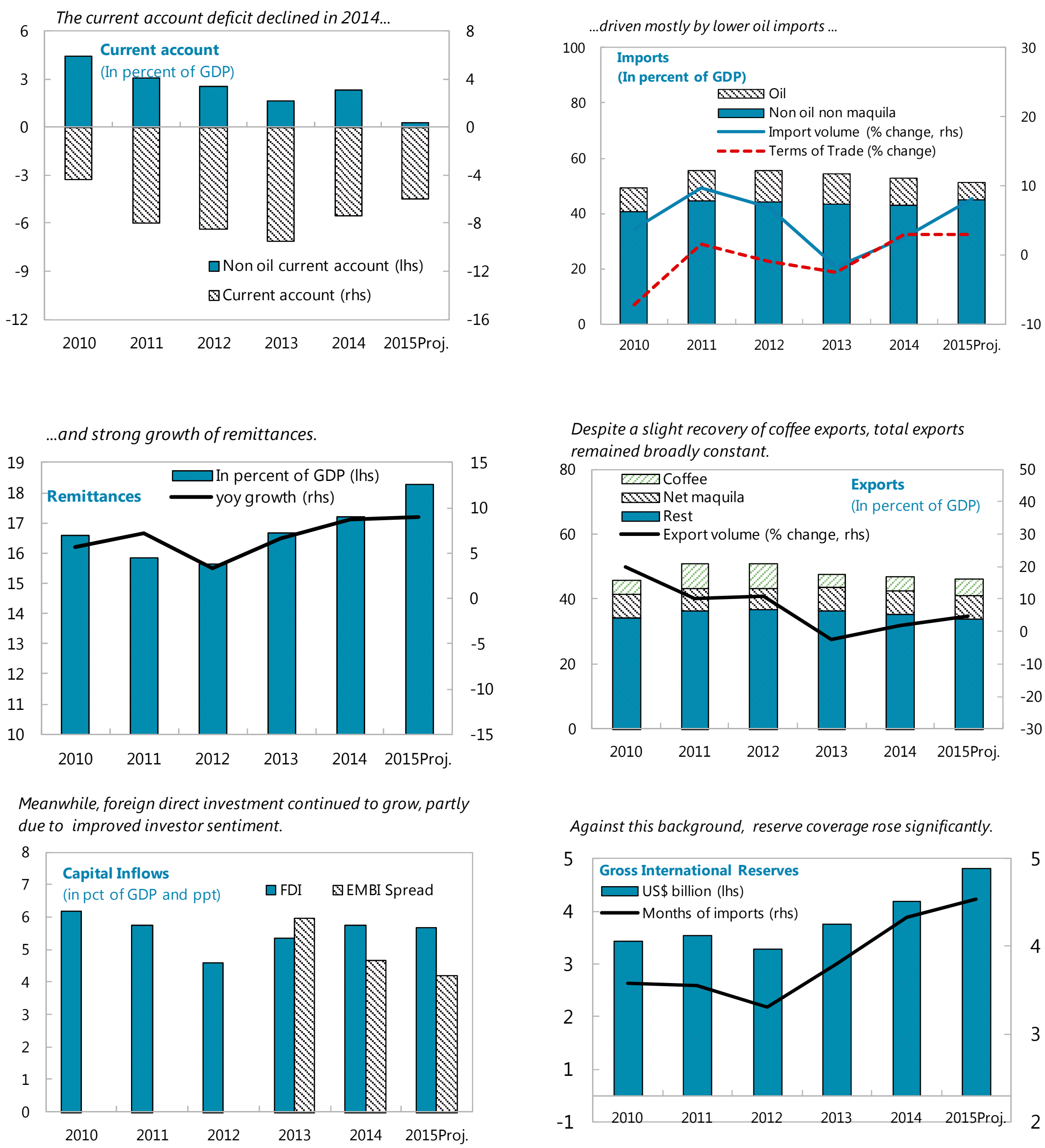


The reduction in inflation was also influenced by a decrease in gasoline prices that responded to the fall in international oil prices.



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

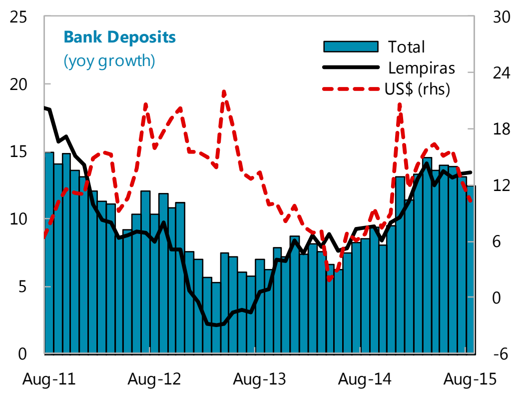
Figure 2. Honduras: Strengthened external position primarily due to favorable terms of trade



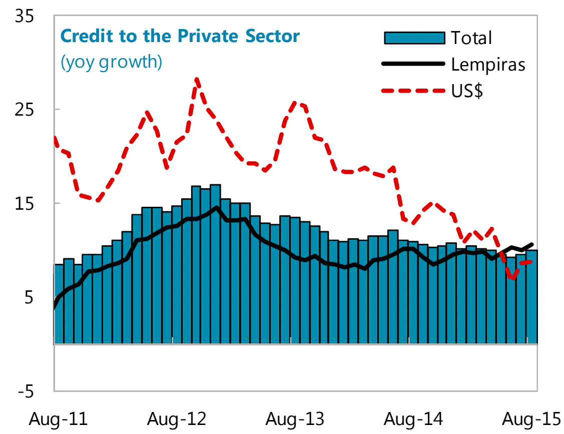
Sources: Central Bank of Honduras and Fund staff estimates and projections.

Figure 3. Honduras: Monetary conditions have remained favorable, but total credit growth has slowed

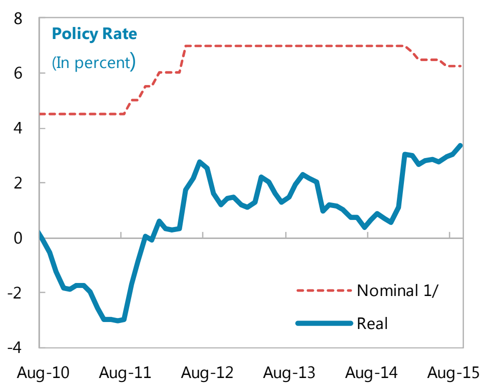
Deposits growth has picked up in 2015…



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

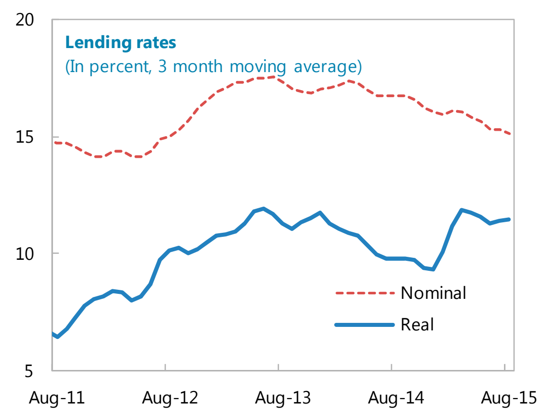


The policy rate was reduced in February, March and July…

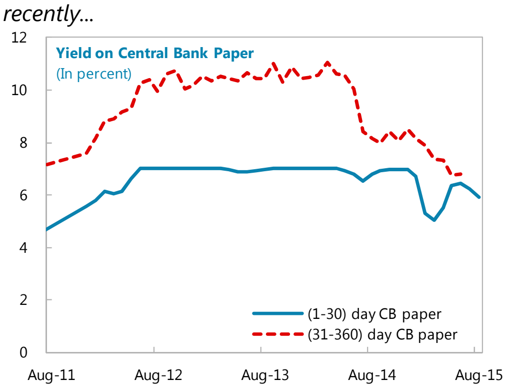


1/ The Central Bank lowered its policy rate to 6.25 percent on Feb 7, Mar 23 and again on July 6, to 6.25 percent. The real policy rate is up to September

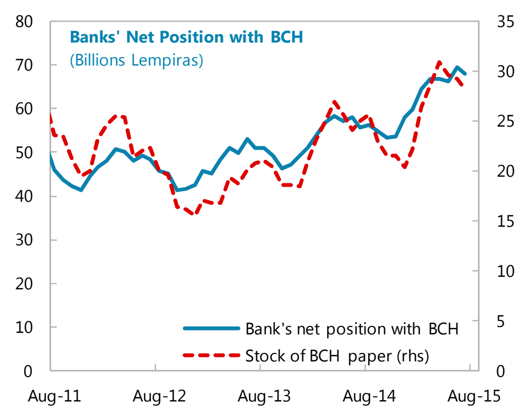
…and nominal lending rates have started to inch lower in recent months…



Yields on central bank paper have declined recently…

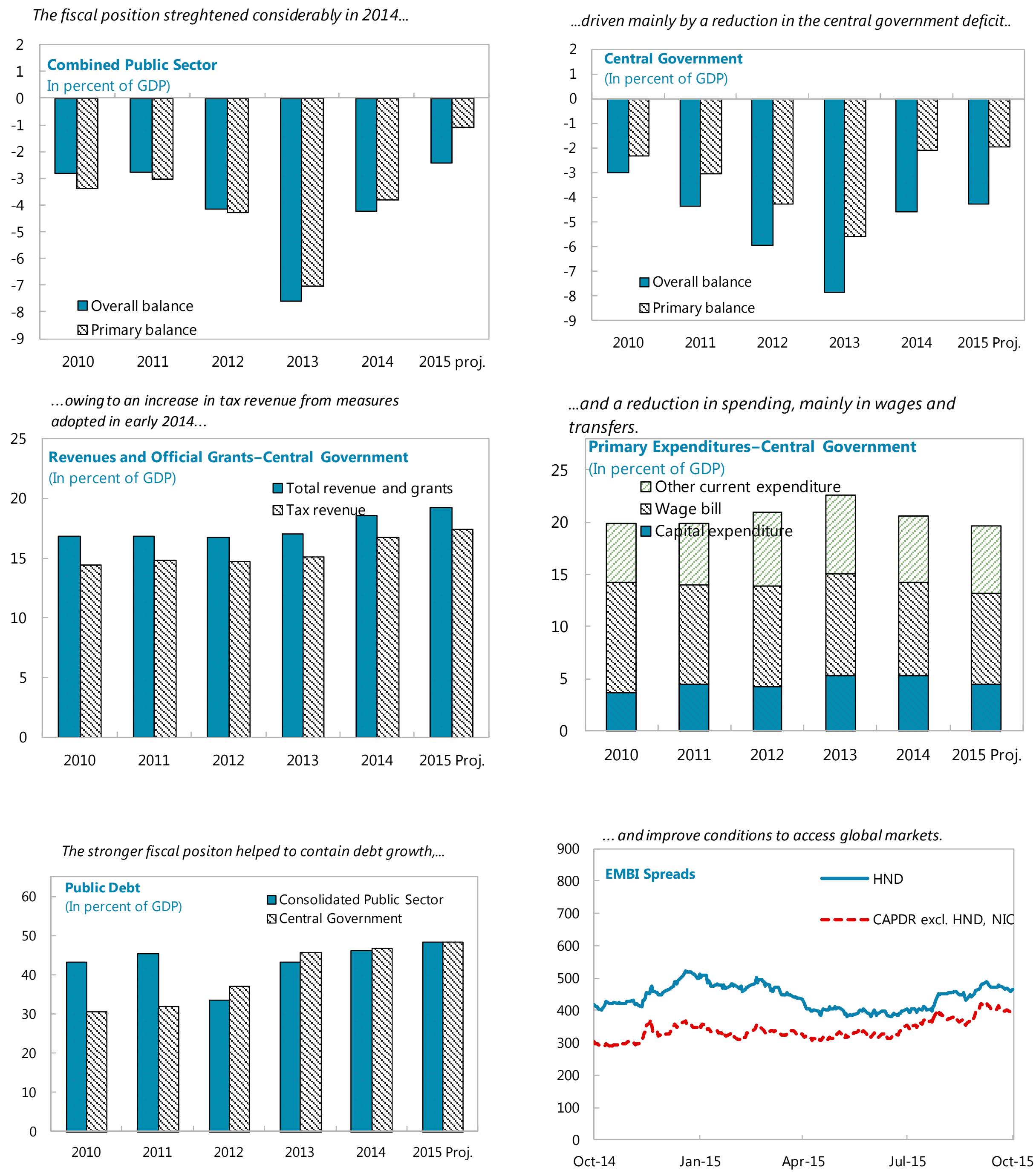


…but the central bank continues to mop up liquidity.



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 consolidation moved ahead of schedule



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 (2013)	74
Per capita income in U.S. dollars (PPP, 2014)	4,417	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 (2013)	64.5
Unemployment rate (2012)	3.6	Gini index (2011)	57
Underemployment rate (2012)	54.1	Oil imports (2013)	US$2.1 billion
Net FDI (as percent of GDP, 2014)	5.7	Main exports: coffee, bananas, palm oil, and maquila.	

II. Economic Indicators

					Prel.	Projections	
	2010	2011	2012	2013	2014	2015	2016
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	3.7	3.8	4.1	2.8	3.1	3.5	3.5
GDP deflator	4.7	7.8	3.6	1.4	5.5	3.6	3.6
Consumer prices (eop)	6.5	5.6	5.4	4.9	5.8	4.2	5.2
Consumer prices (average)	4.7	6.8	5.2	5.2	6.1	3.5	5.2
Money and credit							
Private sector credit	3.5	9.6	16.9	11.2	10.7	9.6	11.2
Broad money	9.4	12.7	6.6	8.4	13.2	12.8	12.4
Lending rate (eop, in percent)	15.1	14.2	16.7	16.9	15.9	…	…
Deposit rate (eop, in percent)	8.0	7.4	11.4	11.0	10.4	…	…
	(In percent of GDP, unless otherwise indicated)						
Investment and saving							
Gross domestic investment	**21.6**	**24.4**	**24.4**	**21.8**	**22.1**	**21.8**	**22.7**
Private sector	18.2	21.1	21.4	17.9	19.2	19.3	20.0
Public sector	3.3	3.4	3.0	3.9	2.8	2.5	2.7
Gross national savings	**17.2**	**16.5**	**15.8**	**12.2**	**14.7**	**15.8**	**16.9**
Private sector	16.6	15.4	16.4	15.0	14.0	13.7	14.0
Public sector	0.6	1.1	-0.5	-2.7	0.6	2.2	3.0
Balance of payments							
External current account balance	-4.3	-8.0	-8.5	-9.5	-7.4	-6.0	-5.8
Exports, f.o.b. (annual percentage change)	29.8	27.3	4.8	-6.6	3.4	0.4	3.7
Imports, f.o.b. (annual percentage change)	20.8	24.9	2.2	-3.7	1.1	-0.2	3.2
Net International Reserves (millions of dollars)	2,082	2,032	1,665	2,211	2,475	2,730	3,005
Terms of Trade (annual percent change)	-7.2	1.5	-1.0	-2.5	3.0	3.9	-2.9
Real effective exchange rate (eop, depreciation -) 1/	4.3	1.8	-1.7	0.2	3.6	4.1	…
Combined public sector							
Of which: Non-interest revenue and grants	22.7	21.8	21.1	21.4	22.8	24.8	25.0
Of which: Non-interest expenditure	26.1	24.8	25.4	28.5	26.6	25.9	25.2
Capital expenditure	5.3	5.6	5.5	6.4	6.0	5.3	5.9
Net interest payments	-0.6	-0.2	-0.1	0.5	0.5	1.3	1.8
Primary balance	-3.4	-3.0	-4.3	-7.1	-3.8	-1.1	-0.3
Overall balance	-2.8	-2.8	-4.2	-7.6	-4.3	-2.4	-2.0
Public sector debt	**30.7**	**32.1**	**35.2**	**45.7**	**46.4**	**49.1**	**50.3**

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

1/ 2015 data as of June.

Table 2a. Honduras: Statement of Operations of the Central Government

(In percent of GDP)

	2013	2014 Prel.	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Revenue	**17.0**	**18.5**	**19.2**	**19.4**	**19.4**	**19.3**	**19.5**	**19.5**
Taxes	15.1	16.7	17.4	17.6	17.6	17.7	17.9	18.0
Taxes on income	5.2	5.3	5.6	5.8	5.8	5.9	6.1	6.2
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	8.8	10.2	10.5	10.5	10.5	10.5	10.5	10.5
Taxes on foreign trade	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Other taxes	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Social contributions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.8	0.8	0.7	0.6	0.6	0.5	0.4
Other revenue	1.2	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Expenditure	**25.0**	**23.1**	**22.7**	**23.0**	**22.8**	**22.7**	**22.2**	**22.3**
Expense	**22.4**	**21.0**	**21.0**	**20.5**	**20.1**	**19.8**	**19.4**	**19.1**
Compensation of employees	9.8	9.1	8.8	8.5	8.3	8.3	8.3	8.3
Purchases of goods and services	3.0	2.5	2.8	2.4	2.6	2.4	2.4	2.4
Interest	2.3	2.5	3.0	3.4	3.3	3.2	3.2	2.9
Domestic	1.7	1.6	2.0	2.3	2.2	2.1	2.1	1.8
Foreign	0.5	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	5.0	4.0	3.2	3.1	2.9	2.9	2.7	2.7
Current	2.7	2.5	2.0	2.0	1.7	1.7	1.5	1.5
Capital	2.3	1.4	1.2	1.1	1.1	1.1	1.1	1.1
Social benefits	1.5	0.9	1.2	1.3	1.3	1.3	1.0	1.0
Other expense	0.8	2.0	1.9	1.8	1.8	1.8	1.8	1.7
Current	0.5	0.4	0.4	0.3	0.3	0.3	0.2	0.2
Capital	0.3	1.6	1.6	1.5	1.5	1.5	1.5	1.5
Net acquisition of nonfinancial assets	**2.6**	**2.2**	**1.7**	**2.5**	**2.6**	**2.8**	**2.8**	**3.2**
Gross Operating Balance	**-5.4**	**-2.4**	**-1.7**	**-1.1**	**-0.8**	**-0.5**	**0.1**	**0.4**
Net lending/borrowing	**-8.0**	**-4.6**	**-3.5**	**-3.6**	**-3.4**	**-3.3**	**-2.7**	**-2.7**
Net financial transactions	**-8.0**	**-4.6**	**-3.5**	**-3.6**	**-3.4**	**-3.3**	**-2.7**	**-2.7**
Net acquisition of financial assets	**1.1**	**-0.2**	**-0.8**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.1	-0.2	-0.8	0.3	0.0	0.0	0.0	0.0
Currency and deposits	1.3	-0.2	-0.8	0.3	0.0	0.0	0.0	0.0
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**9.1**	**4.4**	**2.6**	**3.9**	**3.4**	**3.3**	**2.7**	**2.7**
Foreign	8.3	2.5	2.3	1.0	1.5	1.1	0.8	1.2
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	8.3	2.5	2.3	1.0	1.5	1.1	0.8	1.2
Disbursment	8.6	3.1	3.0	1.7	2.2	2.0	1.9	4.3
Amorizations	-0.3	-0.5	-0.7	-0.7	-0.8	-0.9	-1.1	-3.2
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.2	2.2	0.8	3.3	2.3	2.6	2.4	2.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment for HIPC debt relief 2/	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Net lending minus interest payments	-5.7	-2.1	-0.4	-0.2	-0.1	-0.1	0.5	0.1
Gross debt	45.8	46.9	48.3	50.9	52.5	53.7	54.1	52.3
Excluding BCH recapitalization	43.3	43.9	45.6	48.4	50.1	51.5	52.1	50.4
Nominal GDP (in billions of Lempiras)	376.5	409.6	439.0	470.8	507.4	549.1	595.5	646.1

Sources: Honduran authorities, Fund staff estimates and projections.

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

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

Table 2b. Honduras: Operations of the Central Government

(In percent of GDP)

	2013	2014		2015		Revised Program				
		Prog.	Prel.	Prog.	Rev.Prog.	2016	2017	2018	2019	2020
Total revenue and grants	**17.0**	**18.8**	**18.5**	**18.4**	**19.2**	**19.4**	**19.4**	**19.3**	**19.5**	**19.5**
Current revenue	16.3	17.9	17.8	17.6	18.4	18.7	18.7	18.8	19.0	19.1
Tax revenue	15.1	16.8	16.7	16.5	17.4	17.6	17.6	17.7	17.9	18.0
Nontax revenue	1.2	1.2	1.0	1.2	1.0	1.1	1.1	1.1	1.1	1.1
Of which: Telecommunications measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital 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	0.7	0.6	0.6	0.5	0.4
Of which: Millennium Challenge Corporation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**24.9**	**24.3**	**23.1**	**22.4**	**22.7**	**23.0**	**22.8**	**22.7**	**22.2**	**22.3**
Current expenditure	19.8	19.3	17.9	18.7	18.2	17.8	17.5	17.2	16.7	16.4
Wages and salaries	9.8	9.3	9.1	8.8	8.8	8.5	8.3	8.3	8.3	8.3
Goods and services	3.0	2.5	2.5	2.3	2.8	2.4	2.6	2.4	2.4	2.4
Transfers	4.4	4.8	3.6	4.6	3.4	3.3	3.0	3.0	2.6	2.6
Of which: Electricity subsidies 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Direct fuel subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Urban transport subsidies 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Poverty program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments	2.3	2.6	2.5	3.0	3.0	3.4	3.3	3.2	3.2	2.9
External	0.5	0.9	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Domestic	1.7	1.7	1.6	2.0	2.0	2.3	2.2	2.1	2.1	1.8
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	4.5	5.2	5.3	5.5	5.5	5.8
Fixed capital formation	2.6	1.7	2.2	1.1	1.7	2.5	2.6	2.8	2.8	3.2
Transfers	2.6	3.1	3.0	2.6	2.7	2.7	2.7	2.7	2.7	2.7
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**	**-3.5**	**-3.6**	**-3.4**	**-3.3**	**-2.7**	**-2.7**
Financing	**7.9**	**4.3**	**3.6**	**2.6**	**2.6**	**3.5**	**3.1**	**3.3**	**2.7**	**2.7**
External financing	**8.3**	**1.5**	**1.6**	**1.4**	**1.5**	**0.9**	**1.2**	**1.1**	**0.8**	**1.2**
Disbursements	3.2	2.0	2.1	2.0	2.1	1.6	2.0	2.0	1.9	4.3
Amortization	-0.3	-0.6	-0.5	-0.7	-0.7	-0.7	-0.8	-0.9	-1.1	-3.2
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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**	**1.6**	**3.1**	**2.3**	**2.6**	**2.4**	**2.0**
Financial system	-1.3	2.2	0.9	0.6	1.4	0.7	0.2	0.6	0.8	0.7
Central bank	-1.3	1.7	0.2	0.0	0.8	-0.3	0.0	0.0	0.0	0.0
Rest of the financial system	0.0	0.5	0.7	0.6	0.6	0.9	0.2	0.6	0.8	0.7
Bonds outside the financial system	1.1	1.1	1.3	3.1	2.4	1.8	1.5	1.3	1.0	0.8
Floating debt/arrears 2/	0.1	0.0	0.0	-2.2	-2.4	-0.1	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**	**-0.5**	**-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**	**0.9**	**0.1**	**0.3**	**0.0**	**0.0**	**0.0**
Official budget support	...	1.1	0.9	0.5	0.9	0.1	0.3	0.0	0.0	0.0
Eurobonds	...	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Primary balance	-5.6	-2.9	-2.1	-1.0	-0.4	-0.2	-0.1	-0.1	0.5	0.1
Gross total debt	45.8	49.0	46.9	50.9	48.3	50.9	52.5	53.7	54.1	52.3
Nominal GDP (in billions of lempiras)	376.5	408.2	409.6	444.3	439.0	470.8	507.4	549.1	595.5	646.1

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 2c. Honduras: Operations of the Central Government

(In millions of Lempiras)

				Projections				
	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue and grants	**64,119.3**	**75,977.0**	**84,410.6**	**91,385.1**	**98,194.2**	**106,108.8**	**115,931.6**	**126,125.4**
Current revenue	61,246.4	72,764.0	80,989.3	87,952.0	94,978.5	103,053.9	113,029.5	123,368.3
Tax revenue	56,726.7	68,598.5	76,517.2	82,973.9	89,517.9	97,144.0	106,620.4	116,414.7
Nontax revenue	4,519.7	4,165.5	4,472.1	4,978.2	5,460.6	5,909.9	6,409.1	6,953.6
Transfers 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2,872.9	3,213.0	3,421.3	3,433.1	3,215.7	3,054.9	2,902.2	2,757.1
Total expenditure	**93,783.6**	**94,768.5**	**99,585.1**	**108,285.0**	**115,466.5**	**124,422.1**	**132,188.4**	**143,865.3**
Current expenditure	74,508.6	73,504.0	80,043.0	84,002.5	88,662.5	94,303.7	99,557.7	106,127.7
Wages and salaries	36,807.3	37,251.0	38,455.6	39,800.0	42,038.8	45,497.4	49,340.4	53,532.3
Goods and services	11,289.4	10,296.9	12,091.4	11,500.0	13,409.5	13,359.2	14,487.6	15,718.5
Transfers	16,402.3	14,634.6	15,125.9	15,550.9	15,407.7	16,671.1	15,627.9	16,951.4
Interest payments	8,615.0	10,204.8	13,290.0	16,077.6	16,648.9	17,523.1	18,947.0	18,672.6
External	2,032.4	3,706.2	4,505.3	5,260.6	5,344.2	5,880.7	6,310.7	7,001.1
Domestic	6,582.6	6,498.6	8,784.7	10,817.0	11,304.8	11,642.4	12,636.2	11,671.5
Other current expenditure	1,394.6	1,116.8	1,080.2	1,074.0	1,157.6	1,252.8	1,154.8	1,252.9
Capital expenditure	19,701.9	21,264.5	19,542.1	24,282.5	26,804.0	30,118.5	32,630.7	37,737.6
Net lending	-426.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**-29,664.3**	**-18,791.5**	**-15,174.5**	**-16,899.8**	**-17,272.3**	**-18,313.3**	**-16,256.8**	**-17,740.0**
Financing	**29,664.3**	**18,791.5**	**15,174.5**	**16,899.8**	**17,272.3**	**18,313.3**	**16,256.8**	**17,740.0**
External financing	**31,434.5**	**10,414.0**	**10,291.4**	**4,664.5**	**7,537.8**	**6,263.0**	**4,661.6**	**7,526.5**
Disbursements	12,007.0	12,552.6	13,263.8	8,003.8	11,407.2	10,991.5	11,309.9	28,070.1
Amortization	-1,244.6	-2,171.2	-3,032.1	-3,414.5	-3,918.9	-4,778.0	-6,697.8	-20,593.1
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recuperation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bond issues	20,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	321.1	195.3	241.1	276.0	200.0	200.0	200.0	200.0
Zero coupon bonds	-149.0	-162.7	-181.3	-200.8	-150.5	-150.5	-150.5	-150.5
Change in arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	**-203.5**	**10,105.3**	**7,003.6**	**14,424.3**	**11,877.6**	**14,349.8**	**14,117.1**	**12,722.1**
Financial system	-4,776.9	3,624.5	6,175.2	3,219.1	864.2	3,376.8	4,567.5	4,238.0
Central bank	-4,718.6	949.4	3,638.6	-1,224.5	0.0	0.0	0.0	0.0
Rest of the financial system	-58.3	2,675.1	2,536.6	4,443.6	864.2	3,376.8	4,567.5	4,238.0
Bonds outside the financial system	4,316.4	5,484.6	10,319.0	8,516.9	7,417.1	7,278.9	6,056.0	5,253.6
Rest of the NFPS	4,229.6	5,203.3	10,319.0	8,516.9	7,417.1	7,278.9	6,056.0	5,253.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial stabilization bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floating debt 2/	257.0	-53.8	-10,411.2	-500.0	0.0	0.0	0.0	0.0
Privatization/deposits abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	1,050.0	920.6	3,188.3	3,596.2	3,694.2	3,493.7	3,230.5
Adjustment for HIPC/MDRI debt relief 3/	-1,566.7	-1,727.8	-2,120.5	-2,188.9	-2,143.0	-2,299.5	-2,522.0	-2,508.7

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 3a. Honduras: Statement of Operations of the Nonfinancial Public Sector

(In percent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	**30.5**	**31.4**	**32.1**	**31.6**	**31.9**	**31.8**	**32.1**	**32.7**
Taxes	15.6	17.3	17.9	18.1	18.1	18.1	18.4	18.5
Taxes on income	5.2	5.3	5.6	5.8	5.8	5.8	6.0	6.1
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	8.8	10.2	10.5	10.5	10.5	10.5	10.5	10.5
Taxes on foreign trade	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Other taxes	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Social contributions	3.3	3.0	3.0	3.1	3.1	3.1	3.1	3.2
Grants	0.8	0.8	0.8	0.7	0.6	0.6	0.5	0.4
Other revenue	10.8	10.3	10.5	9.6	10.0	10.0	10.0	10.5
Sales of goods and services	6.7	6.5	6.5	5.7	6.1	6.1	6.2	6.7
Interest earnings	1.5	1.7	1.6	1.5	1.5	1.5	1.5	1.5
Capital revenue	0.4	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Nontax revenue	2.2	1.9	2.2	2.2	2.2	2.2	2.2	2.2
Expenditure	**37.9**	**35.3**	**33.9**	**33.0**	**33.4**	**33.0**	**32.9**	**33.5**
Expense	**32.9**	**31.5**	**30.5**	**29.1**	**28.5**	**28.2**	**28.0**	**28.3**
Compensation of employees	14.2	12.8	12.4	11.9	11.7	11.7	11.6	11.6
Purchases of goods and services	10.6	9.5	8.7	7.8	8.1	7.9	8.1	8.5
Interest	2.1	2.1	2.9	3.2	3.1	3.0	3.0	2.7
Domestic	1.5	1.2	1.8	2.1	2.0	1.9	1.9	1.7
Foreign	0.5	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social benefits	3.4	3.6	3.4	3.3	3.3	3.3	3.3	3.3
Other expense	2.7	3.5	3.1	2.8	2.3	2.3	2.0	2.2
Current	1.3	1.3	1.1	0.9	1.0	1.0	0.8	0.8
Capital	1.3	2.2	2.0	1.9	1.2	1.2	1.2	1.4
Net acquisition of nonfinancial assets	**5.0**	**3.8**	**3.3**	**3.9**	**4.9**	**4.8**	**4.8**	**5.2**
Gross Operating Balance	**-2.4**	**-0.1**	**1.6**	**2.4**	**3.4**	**3.6**	**4.0**	**4.3**
Net lending/borrowing	**-7.5**	**-3.9**	**-1.7**	**-1.5**	**-1.5**	**-1.2**	**-0.8**	**-0.8**
Net financial transactions	**-7.5**	**-3.9**	**-1.7**	**-1.5**	**-1.5**	**-1.2**	**-0.8**	**-0.8**
Net acquisition of financial assets	**1.2**	**-0.3**	**-2.0**	**0.7**	**1.1**	**1.4**	**1.6**	**1.6**
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	1.2	-0.2	-2.0	0.7	1.1	1.4	1.6	1.6
Currency and deposits	1.5	-0.1	-2.2	0.6	1.1	1.4	1.6	1.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-0.4	-0.1	0.2	0.1	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	**8.6**	**3.7**	**-0.3**	**2.2**	**2.6**	**2.6**	**2.4**	**2.5**
Foreign	8.3	2.5	2.6	1.2	1.7	1.1	1.1	0.9
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	8.3	2.5	2.6	1.2	1.7	1.1	1.1	0.9
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.7	1.6	-2.4	1.4	1.4	1.9	1.7	1.9
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.2	1.4	0.1	0.9	0.7	1.3	1.1	1.4
Other accounts payable	-0.5	-0.1	-2.7	-0.1	0.0	0.0	0.0	0.0
PPPs/other	0.0	0.3	0.2	0.7	0.7	0.7	0.6	0.5
Adjustment for HIPC debt relief 4/	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Memorandum items:								
Net lending minus net interest payments	-7.0	-3.5	-0.4	0.3	0.1	0.3	0.7	0.5
Gross total debt	40.2	40.8	42.7	44.1	44.8	45.2	45.4	45.4
Nominal GDP (in billions of Lempiras)	376.5	409.6	439.0	470.8	507.4	549.1	595.5	646.1

Sources: Honduran authorities, Fund staff estimates and projections.

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

2/ Year 2013 a bond issuance of 20.500 millions of Lempiras.

3/ Wage and supplies arrears and other unsettled payments

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

Table 3b. 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**	**26.3**	**26.4**	**26.7**	**26.6**	**26.8**	**27.0**
Current revenue	21.8	23.2	23.4	23.6	25.4	25.6	25.9	25.9	26.2	26.4
Tax revenue	15.6	17.3	17.3	17.0	17.9	18.1	18.1	18.2	18.4	18.5
Nontax revenue	5.6	5.1	5.1	5.0	5.3	5.3	5.3	5.3	5.4	5.4
Interest earnings 2/	1.5	1.7	1.6	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Operating balance of public enterprises	-0.9	-0.8	-0.6	-0.1	0.7	0.7	1.0	1.0	0.9	1.1
Capital revenue	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.8	1.1	0.8	0.8	0.8	0.7	0.6	0.6	0.5	0.4
Total expenditure	**30.6**	**30.4**	**28.7**	**27.8**	**28.8**	**28.5**	**28.6**	**28.1**	**27.8**	**28.0**
Current expenditure	24.5	24.2	22.8	23.3	23.3	22.5	22.2	21.8	21.5	21.3
Wages and salaries	12.8	12.4	11.6	11.8	11.3	11.0	10.8	10.8	10.8	10.8
Goods and services	4.4	4.1	3.7	3.8	4.0	3.5	3.7	3.5	3.5	3.5
Transfers	3.5	3.8	3.7	3.5	3.5	3.4	3.4	3.4	3.2	3.2
Operating losses of the central bank	0.5	0.5	0.4	0.4	0.5	0.5	0.4	0.3	0.2	0.1
Interest payments	2.1	2.4	2.1	2.8	2.9	3.2	3.1	3.0	3.0	2.7
External	0.5	0.9	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.1
Domestic	1.5	1.4	1.2	1.8	1.8	2.1	2.0	1.9	1.9	1.7
Other	1.3	1.0	1.2	1.0	1.0	0.8	0.8	0.8	0.8	0.8
Capital expenditure	6.4	6.2	6.0	4.5	5.3	5.9	6.3	6.3	6.3	6.7
Net lending	-0.4	0.0	-0.1	0.0	0.2	0.1	0.0	0.0	0.0	0.0
Overall balance	**-7.6**	**-5.9**	**-4.3**	**-3.2**	**-2.4**	**-2.0**	**-1.9**	**-1.5**	**-1.0**	**-1.0**
Financing	**8.0**	**5.3**	**3.7**	**2.3**	**2.0**	**2.4**	**2.0**	**1.9**	**1.4**	**1.5**
External financing	**8.3**	**1.9**	**1.6**	**1.8**	**1.7**	**1.1**	**1.4**	**1.1**	**1.1**	**0.9**
Disbursements	3.2	2.5	2.1	2.5	2.4	1.9	2.3	2.1	2.3	4.4
Amortization	-0.4	-0.6	-0.6	-0.7	-0.7	-0.8	-0.9	-1.1	-1.2	-3.4
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**	**0.3**	**1.3**	**0.6**	**0.8**	**0.3**	**0.5**
Financial system	0.2	3.3	0.8	0.4	0.5	0.7	-0.1	0.1	-0.3	0.0
Central bank	-0.9	2.2	-0.6	0.4	0.8	-0.4	0.4	0.3	0.2	0.1
Rest of the financial system	1.1	1.1	1.4	0.0	-0.3	1.1	-0.4	-0.2	-0.5	-0.2
Bonds outside the financial system	0.0	0.0	0.5	2.6	2.2	0.0	0.0	0.0	0.0	0.0
Floating debt/arrears 4/	-0.5	0.0	-0.1	-2.6	-2.7	-0.1	0.0	0.0	0.0	0.0
Adjustment for HIPC/MDRI debt relief 5/	-0.4	-0.5	-0.4	-0.5	-0.5	-0.5	-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**	**0.9**	**0.1**	**0.3**	**0.0**	**0.0**	**0.0**
Official budget support	…	1.1	0.9	0.5	0.9	0.1	0.3	0.0	0.0	0.0
Eurobonds	…	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary balance 6/	-7.1	-5.2	-3.8	-2.1	-1.1	-0.3	-0.3	0.1	0.5	0.3
Overall balance electricity company (ENEE)	-1.8	-1.3	-1.1	-0.8	-0.2	-0.2	-0.1	0.0	0.0	0.1
Consolidated total debt	45.7	47.8	46.4	49.4	49.1	50.3	50.9	51.2	50.9	50.0
Nominal GDP (in billions of lempiras)	376.5	408.2	409.6	444.3	439.0	470.8	507.4	549.1	595.5	646.1

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 3c. Honduras: Operations of the Combined Public Sector 1/

(Millions of Lempiras)

	2013	2014	2015	2016	2017	2018	2019	2020
		Projections						
Total revenue and grants	**86,406.0**	**100,009.3**	**115,685.7**	**124,499.3**	**135,346.4**	**146,273.4**	**159,855.8**	**174,461.2**
Current revenue	82,156.3	95,959.7	111,690.2	120,453.0	131,424.0	142,453.4	156,124.1	170,804.7
Tax revenue	58,781.1	70,979.0	78,630.2	85,272.6	92,060.7	99,911.5	109,799.0	119,721.6
Nontax revenue	21,036.4	20,864.6	23,380.0	24,956.8	26,898.7	29,111.6	31,886.3	34,595.3
Interest earnings 2/	5,721.7	6,691.2	6,804.1	6,967.7	7,509.8	8,127.6	8,814.2	9,563.0
Operating balance of public enterpris	(3,382.9)	(2,575.2)	2,875.9	3,255.9	4,954.9	5,302.6	5,624.7	6,924.8
Transfers	-	-	-	-	-	-	-	-
Extraordinary revenues	-	-	-	-	-	-	-	-
Capital revenue	1,362.5	822.4	574.2	613.2	660.9	715.3	775.7	841.6
Grants	2,887.1	3,227.2	3,421.3	3,433.1	3,261.5	3,104.7	2,956.0	2,814.9
Total expenditure	**115,033.4**	**117,490.8**	**126,295.3**	**134,099.0**	**144,925.5**	**154,239.2**	**165,711.8**	**180,695.4**
Current expenditure	92,414.4	93,374.3	102,184.1	105,835.5	112,784.5	119,876.0	128,172.4	137,316.3
Wages and salaries	48,064.2	47,638.2	49,456.5	51,585.8	54,688.7	59,188.0	64,187.4	69,640.7
Goods and services	16,626.2	15,140.9	17,772.3	16,709.6	19,024.5	19,436.1	21,077.8	22,868.6
Transfers	13,231.5	15,263.2	15,554.7	16,055.0	17,304.2	18,540.6	19,306.7	20,946.9
Operating losses of the central bank	1,849.5	1,813.6	2,282.8	2,217.9	1,811.4	1,571.4	1,078.1	903.0
Interest payments	7,735.9	8,560.0	12,602.1	15,284.0	15,662.5	16,494.7	17,736.7	17,764.7
External	2,039.8	3,753.4	4,537.3	5,306.4	5,344.2	5,880.7	6,310.7	7,001.1
Domestic	5,696.0	4,806.7	8,064.8	9,977.6	10,318.3	10,613.9	11,425.9	10,763.6
Other	4,907.2	4,958.4	4,515.6	3,983.2	4,293.1	4,645.3	4,785.8	5,192.4
Capital expenditure	23,967.4	24,521.7	23,447.6	27,863.2	32,141.0	34,363.2	37,539.4	43,379.2
Net lending	-1,348	-405.1	664	400	0	0	0	0
Overall balance	**-28,627**	**-17,481**	**-10,610**	**-9,600**	**-9,579**	**-7,966**	**-5,856**	**-6,234**
Financing	**28,627**	**17,481.5**	**10,610**	**9,600**	**9,579**	**7,966**	**5,856**	**6,234**
External financing	**31,376**	**10,331.8**	**11,330**	**5,666**	**8,425**	**5,890**	**6,675**	**6,123**
Disbursements	12,213	12,558.3	14,451	9,531	13,075	11,739	13,810	28,161
Amortization	-1,433	-2,259.1	-3,182	-3,940	-4,699	-5,898	-7,184	-22,088
Zero coupon bonds	-151	-162.7	-181	-201	-151	-151	-151	-151
Bond Issues	20,500	0.0	0	0	0	0	0	0
Exceptional financing 3/	246	195.3	241	276	200	200	200	200
Change in arrears	0	0.0	0	0	0	0	0	0
Domestic financing	**-1,182**	**8,877.5**	**1,401**	**6,123**	**3,297**	**4,375**	**1,703**	**2,620**
Financial system	617	5,264.3	2,291	3,435	-299	681	-1,791	-611
Central bank	-3,435	2,894.9	3,641	-1,908	1,811	1,571	1,078	903
Rest of the financial system	4,052	2,369.4	-1,350	5,343	-2,111	-890	-2,869	-1,514
Bonds outside the financial system	-31	2,107.9	9,832	0	0	0	0	0
Financial stabilization bonds	0	0.0	0	0	0	0	0	0
Floating debt 4/	-1,768	455.3	-11,643	-500	0	0	0	0
Privatization proceeds/deposits abroad	0	0.0	0	0	0	0	0	0
Other	0	1,050.0	921	3,188	3,596	3,694	3,494	3,230

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.

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	Proj. 2016
			I. Central Bank			
Net International Reserves	**53,919**	**51,500**	**62,945**	**75,648**	**85,012**	**97,194**
(In millions of US$)	2,821	2,571	3,056	3,516	3,800	4,137
Net International Reserves for program purposes (in millions of US$) 1/	2,032	1,665	2,211	2,475	2,730	3,005
Net Domestic Assets	**-32,561**	**-29,351**	**-39,344**	**-49,253**	**-56,073**	**-65,625**
Credit to the public sector (net)	12,567	12,729	7,237	6,101	9,740	8,515
Other depository institutions (net)	-44,592	-42,618	-49,112	-58,135	-68,447	-75,235
Other financial institutions	6,853	6,268	6,917	6,700	7,311	9,267
Nonfinancial private sector	-593	-275	-212	-202	-346	-346
Medium and long-term net foreign assets	1,008	1,304	2,181	155	496	521
Other items net	-7,804	-6,759	-6,356	-3,872	-4,826	-8,347
Currency issue	**21,358**	**22,149**	**23,600**	**26,395**	**28,939**	**31,568**
			II. Other Depository Institutions			
Net Foreign Assets	**1,129**	**-5,453**	**-10,277**	**-11,845**	**-12,699**	**-14,963**
(In millions of US$)	59	-272	-497	-549	-568	-637
Foreign assets (in million of US$)	597	472	490	562	558	626
Net Domestic Assets	**152,924**	**171,234**	**190,820**	**215,905**	**243,069**	**275,202**
Credit to the monetary authorities (net)	49,751	48,341	55,650	65,380	76,316	83,819
Credit to other financial institutions (net)	-21,135	-23,448	-26,045	-28,165	-30,369	-33,875
Credit to the combined public sector (net)	1,232	1,947	1,089	2,526	1,176	6,519
Central government	-3,534	-3,705	-8,618	-9,968	-10,418	-8,639
Other nonfinancial public sector	716	1,227	5,640	8,469	7,893	11,403
Local governments	4,050	4,425	4,067	4,025	3,701	3,754
Credit to the private sector	157,263	183,916	204,443	226,349	248,090	275,864
Local currency	117,057	134,149	145,428	159,179	175,177	196,899
Foreign currency	40,205	49,768	59,015	67,170	72,913	78,965
Other items net	-34,187	-39,522	-44,316	-50,185	-49,048	-56,057
Liabilities	**154,053**	**165,781**	**180,544**	**204,060**	**230,370**	**260,239**
Of which: Deposits in domestic currency	112,123	117,378	127,211	140,062	158,793	180,059
Of which: Deposits in foreign currency	41,173	47,565	52,224	62,989	70,907	79,019
			III. Financial System			
Net Foreign Assets	**53,144**	**44,063**	**51,347**	**60,412**	**68,922**	**78,839**
(In millions of US$)	2,780	2,200	2,484	2,798	3,081	3,356
Net Domestic Assets	**117,636**	**137,968**	**145,958**	**163,018**	**183,167**	**204,634**
Credit to the nonfinancial combined public sector	13,799	14,676	8,326	8,627	10,916	15,034
Credit to the private sector	157,263	183,916	204,443	226,349	248,090	275,863
Local currency	117,057	134,149	145,428	159,179	175,177	196,899
Foreign currency	40,205	49,768	59,015	67,170	72,913	78,965
Other items net/2	-53,425	-60,624	-66,810	-71,959	-75,838	-86,263
Broad Money (M4)	**170,780**	**182,031**	**197,305**	**223,429**	**252,089**	**283,473**
			(Rate of growth 12 months)			
Currency issue	7.1	3.7	6.6	11.8	9.6	9.1
Currency in circulation	10.3	1.4	3.9	12.2	10.0	9.1
Broad money	12.7	6.6	8.4	13.2	12.8	12.4
Broad money (constant exchange rate)	12.5	5.3	7.5	12.0	11.6	11.0
Credit to the private sector	9.6	16.9	11.2	10.7	9.6	11.2
Credit to the private sector (constant exchange rate)	9.5	15.5	10.2	9.4	8.4	9.7
M1	10.3	-6.9	4.5	13.5	11.6	11.5

Sources: Central Bank of Honduras and Fund staff estimates.

1/ Excluding domestic liabilities in foreign currency and deposits of Hondutel, as per the TMU.

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

Table 5. Honduras: Balance of Payments

		Prel.	Projections					
	2013	2014	2015	2016	2017	2018	2019	2020
(In millions of U.S. dollars; unless otherwise indicated)								
Current account	**-1,763**	**-1,444**	**-1,207**	**-1,194**	**-1,232**	**-1,246**	**-1,267**	**-1,306**
Trade Account	-3,147	-2,998	-2,937	-2,991	-3,135	-3,267	-3,363	-3,471
Exports f.o.b.	5,246	5,511	5,474	5,662	5,922	6,224	6,530	6,951
Maquila Net (exports-imports)	1,330	1,418	1,472	1,529	1,609	1,712	1,824	2,048
Coffee	750	839	989	886	942	1,039	1,105	1,151
Others	3,166	3,254	3,013	3,248	3,371	3,473	3,601	3,751
Imports f.o.b.	-8,393	-8,508	-8,411	-8,654	-9,057	-9,491	-9,893	-10,421
Petroleum products	-2,061	-1,903	-1,269	-1,307	-1,455	-1,599	-1,712	-1,787
Others	-6,332	-6,605	-7,141	-7,347	-7,602	-7,892	-8,181	-8,635
Services (net)	-668	-698	-706	-688	-688	-722	-749	-774
Income (net)	-1,353	-1,322	-1,421	-1,517	-1,567	-1,599	-1,649	-1,705
Of which: payments on direct investments	-1,208	-1,129	-1,174	-1,270	-1,312	-1,337	-1,385	-1,431
Transfers (net)	3,395	3,573	3,857	4,002	4,159	4,343	4,494	4,644
Of which: Remittances	3,083	3,353	3,655	3,805	3,957	4,135	4,259	4,401
Capital and Financial account	**2,628**	**1,796**	**1,565**	**1,469**	**1,527**	**1,545**	**1,599**	**1,649**
Direct investment (net)	992	1,120	1,137	1,195	1,215	1,254	1,296	1,340
Other private capital flows (net)	17	73	-225	-111	-176	-83	-95	-71
Public sector borrowing (net)	1,487	458	500	230	333	216	234	209
Disbursements	1,600	828	659	416	543	464	520	1,010
Of which:								
Multilateral	514	453	452	310	378	280	97	571
Eurobonds	1,000	0	0	0	0	0	0	0
Amortization	-70	-95	-145	-172	-195	-233	-271	-792
Errors and omissions 1/	-332	-87	-103	0	0	0	0	0
Overall balance	**533**	**265**	**78**	**255**	**230**	**300**	**332**	**343**
Net international reserves (- increase)	**-546**	**-264**	**-254**	**-275**	**-295**	**-300**	**-332**	**-343**
Residual gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
(In percent of GDP, unless otherwise indicated)								
Current account	**-9.5**	**-7.4**	**-6.0**	**-5.8**	**-5.8**	**-5.7**	**-5.6**	**-5.6**
Trade Account	-17.0	-15.4	-14.7	-14.6	-14.9	-15.0	-15.0	-15.0
Exports f.o.b.	28.4	28.2	27.4	27.6	28.1	28.7	29.1	30.0
Maquila Net (exports-imports)	7.2	7.3	7.4	7.4	7.6	7.9	8.1	8.8
Coffee	4.1	4.3	4.9	4.3	4.5	4.8	4.9	5.0
Others	17.1	16.7	15.1	15.8	16.0	16.0	16.1	16.2
Imports f.o.b.	-45.4	-43.6	-42.0	-42.2	-43.0	-43.7	-44.1	-45.0
Petroleum products	-11.1	-9.8	-6.3	-6.4	-6.9	-7.4	-7.6	-7.7
Others	-34.2	-33.9	-35.7	-35.8	-36.1	-36.3	-36.5	-37.3
Services (net)	-3.6	-3.6	-3.5	-3.3	-3.3	-3.3	-3.3	-3.3
Of which: tourism receipts	3.3	3.2	3.3	3.4	3.4	3.5	3.6	3.6
Income (net)	-7.3	-6.8	-7.1	-7.4	-7.4	-7.4	-7.4	-7.4
Of which: payments on direct investments	-6.5	-5.8	-5.9	-6.2	-6.2	-6.2	-6.2	-6.2
Of which: public sector interest payments	-0.5	-0.9	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1
Transfers (net)	18.4	18.3	19.3	19.5	19.7	20.0	20.0	20.0
Of which: Remittances	16.7	17.2	18.3	18.5	18.8	19.0	19.0	19.0
Capital and Financial account	**14.2**	**9.2**	**7.8**	**7.2**	**7.2**	**7.1**	**7.1**	**7.1**
Direct investment (net)	5.4	5.7	5.7	5.8	5.8	5.8	5.8	5.8
Other private capital flows (net)	0.1	0.4	-1.1	-0.5	-0.8	-0.4	-0.4	-0.3
Public sector borrowing (net)	8.0	2.3	2.5	1.1	1.6	1.0	1.0	0.9
Disbursements	8.6	4.2	3.3	2.0	2.6	2.1	2.3	4.4
Of which:								
Multilateral	2.8	2.3	2.3	1.5	1.8	1.3	0.4	2.5
Eurobonds	5.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official budget support								
Amortization	-0.4	-0.5	-0.7	-0.8	-0.9	-1.1	-1.2	-3.4
Errors and omissions 1/	-1.8	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0
Overall balance	**2.9**	**1.4**	**0.4**	**1.2**	**1.1**	**1.4**	**1.5**	**1.5**
Net international reserves (- increase)	**-2.9**	**-1.4**	**-1.3**	**-1.3**	**-1.4**	**-1.4**	**-1.5**	**-1.5**
Residual gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:								
Non oil current account (in percent of GDP)	1.6	2.4	0.3	0.5	1.1	1.6	2.0	2.1
Terms of trade (percent change)	-2.5	3.0	3.9	-2.9	-0.8	-0.3	-0.2	0.0
Terms of trade, excluding maquila (percent change)	-1.8	6.2	8.2	-4.6	-1.5	-1.6	-1.0	0.0
Exports of goods (percent change)	-6.6	3.4	0.4	3.7	5.3	6.1	5.9	5.9
Of Which: volume growth (percent change)	-2.4	1.9	4.8	6.9	4.8	5.1	5.6	5.9
Imports of goods (percent change)	-3.7	1.1	-0.2	3.2	5.2	5.6	5.1	5.2
Of Which: volume growth (percent change)	-1.8	2.5	8.2	3.4	3.8	4.3	4.5	5.2
Overall balance (in percent of GDP)	2.6	2.4	0.4	1.2	1.1	1.4	1.5	1.5
Gross reserves (end of period, millions of U.S. dollars)	3,255	3,698	3,978	4,316	4,636	4,966	5,311	5,688
In months of next year imports	3.0	3.4	3.6	3.7	3.8	3.9	3.9	4.0
In months of next year imports (excluding maquila)	3.8	4.3	4.5	4.7	4.8	5.0	5.0	5.0
Total external debt to GDP ratio (in percent)	35.9	36.8	38.1	38.0	38.3	37.9	37.4	37.3
External public debt to GDP ratio (in percent)	28.1	28.5	30.4	30.8	31.6	31.8	31.9	31.8
Nominal GDP (millions of U.S. dollars)	18,499	19,511	20,008	20,528	21,072	21,719	22,432	23,179

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

Notes: 1/ 2015 reflects information through June 2015.

Table 6: Honduras: External Financing Needs and Sources

(In millions of U.S. dollars)

	2011	2012	2013	Prel. 2014	Proj. 2015	2016	2017	2018	2019	2020
Current account deficit	1,409	1,581	1,763	1,444	1,207	1,194	1,232	1,246	1,267	1,306
Debt amortizations	333	259	342	316	360	380	397	429	461	977
Public debt amortization	125	76	70	95	145	172	195	233	271	792
Private debt amortization	208	184	272	221	215	208	202	196	190	184
Subtotal (requirements)	1,741	1,840	2,105	1,761	1,567	1,574	1,629	1,675	1,728	2,282
Capital account flows (net)	166	101	133	145	152	155	154	159	164	169
Foreign direct investment (net)	1,012	851	992	1,120	1,137	1,195	1,215	1,254	1,296	1,340
Public sector borrowing (project related)	554	513	600	599	482	396	478	464	520	1,010
Eurobond	0	0	1,000	0	0	0	0	0	0	0
Other capital flows (net) 1/	-41	8	-74	161	-127	84	12	98	80	106
Change in reserves (+ decrease)	50	367	-546	-264	-254	-275	-295	-300	-332	-343
Subtotal (sources)	1,741	1,840	2,105	1,761	1,390	1,554	1,564	1,675	1,728	2,282
Financing gap	0	0	0	0	177	20	65	0	0	0
World Bank	…	…	…	…	50	0	0	0	0	0
IADB	…	…	…	…	100	20	65	0	0	0
IMF	…	…	…	…	0	0	0	0	0	0
EU	…	…	…	…	27	0	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	3.5	3.5	3.7	3.8	4.0	4.0
GDP deflator	1.4	5.5	3.6	3.6	3.9	4.3	4.3	4.3
CPI inflation (eop)	4.9	5.8	4.2	5.2	5.4	5.4	5.4	5.4
Investment and saving								
Gross domestic investment	**21.8**	**22.1**	**21.8**	**22.7**	**23.0**	**23.2**	**23.3**	**23.5**
Private sector	17.9	19.2	19.3	20.0	20.3	20.4	20.5	20.5
Public sector	3.9	2.8	2.5	2.7	2.8	2.8	2.8	3.0
Gross national savings	**12.2**	**14.7**	**15.8**	**16.9**	**17.2**	**17.5**	**17.7**	**17.8**
Private sector	15.0	14.0	13.7	14.0	13.7	13.5	13.1	12.8
Public sector	-2.7	0.6	2.2	3.0	3.6	4.0	4.5	5.0
Balance of payments								
External current account	-9.5	-7.4	-6.0	-5.8	-5.8	-5.7	-5.6	-5.6
Non oil current account	1.6	2.4	0.3	0.5	1.1	1.6	2.0	2.1
Gross international reserves (millions of dollars)	3,255	3,698	3,978	4,316	4,636	4,966	5,311	5,688
Terms of Trade (annual percent change)	-2.5	3.0	3.9	-2.9	-0.8	-0.3	-0.2	0.0
External debt	**35.9**	**36.8**	**38.1**	**38.0**	**38.3**	**37.9**	**37.4**	**37.3**
Combined public sector								
Revenue	22.9	24.4	26.3	26.4	26.7	26.6	26.8	27.0
Of which: Non-interest revenue and grants	21.4	22.8	24.8	25.0	25.2	25.2	25.4	25.5
Expenditure	30.6	28.7	28.8	28.5	28.6	28.1	27.8	28.0
Primary balance	**-7.1**	**-3.8**	**-1.1**	**-0.3**	**-0.3**	**0.1**	**0.5**	**0.3**
Overall balance	**-7.6**	**-4.3**	**-2.4**	**-2.0**	**-1.9**	**-1.5**	**-1.0**	**-1.0**
Central government								
Revenue	17.0	18.5	19.2	19.4	19.4	19.3	19.5	19.5
Expenditure	24.9	23.1	22.7	23.0	22.8	22.7	22.2	22.3
Of which: Non-interest expenditure	22.6	20.6	19.7	19.6	19.5	19.5	19.0	19.4
Primary balance	**-5.6**	**-2.1**	**-0.4**	**-0.2**	**-0.1**	**-0.1**	**0.5**	**0.1**
Overall balance	**-7.9**	**-4.6**	**-3.5**	**-3.6**	**-3.4**	**-3.3**	**-2.7**	**-2.7**
Consolidated public sector debt								
Total	**45.7**	**46.4**	**49.1**	**50.3**	**50.9**	**51.2**	**50.9**	**50.0**
Memo items:								
Nominal GDP (in billions of lempiras)	377	410	439	471	507	549	596	646

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

Table 8. Honduras: External Vulnerability Indicators

		Prel.	Proj.					
	2013	2014	2015	2016	2017	2018	2019	2020
Exports of goods and services, annual percent change	-6.3	3.9	0.9	3.8	5.2	6.0	5.8	5.8
Imports of goods and services, annual percent change	-3.0	1.7	0.2	3.0	4.9	5.5	5.0	5.1
Terms of trade (deterioration -)	-2.5	3.0	3.9	-2.9	-0.8	-0.3	-0.2	0.0
Real effective exchage rate (eop, depreciation -)	0.4	3.6	…	…	…	…	…	…
Current account balance (percent of GDP)	-9.5	-7.4	-6.0	-5.8	-5.8	-5.7	-5.6	-5.6
Capital and financial account (percent of GDP)	14.2	9.2	6.9	7.1	6.9	7.1	7.1	7.1
External public debt (percent of GDP)	28.1	28.5	30.4	30.8	31.6	31.8	31.9	31.8
Gross official reserves								
in millions of U.S. dollars	3255	3698	3978	4316	4636	4966	5311	5688
in percent of short-term external debt	1,022	1,041	1,172	1,334	1,509	1,711	1,947	2,034
Net international reserves								
in millions of U.S. dollars	2,211	2,475	2,730	3,005	3,300	3,600	3,932	4,275
in percent of short-term external debt	694	697	804	928	1,074	1,240	1,441	1,528

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	2014	Prel. 2015M9
Total assets (in millions of Lempiras) 1/	**236,665**	**270,981**	**302,662**	**341,614**	**393,763**	**423,000**
(In percent of GDP)	79	81	84	91	96	100
Number of banks	**17**	**17**	**17**	**17**	**17**	**16**
Domestic	8	7	7	7	8	7
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
Capital adequacy						
Regulatory capital to risk-weighted assets	14.9	14.9	14.7	14.5	14.6	14.1
Capital (net worth) to assets	9.2	9.1	9.3	9.1	9.2	8.9
Asset quality and composition						
Nonperforming loans(NPLs) to total loans 2/	3.7	2.9	3.3	3.4	3.3	3.6
NPLs net of provisions to capital 2/	-4.4	-6.5	-4.6	-5.2	-5.2	-2.5
Restructured loans to regulatory capital	19.8	26.6	24.7	25.3	22.3	28.1
Non earning assets net of provisions						
to regulatory capital	47.9	46.9	45.0	44.1	51.2	48.2
Provisions to total loans	4.3	3.9	4.0	4.2	4.1	4.0
Provisions to NPLs 2/	118.9	135.0	121.8	123.7	125.5	111.0
Sectoral distribution of loans to total loans:						
Commerce	12.7	13.0	14.4	14.3	14.3	13.7
Construction and real estate	34.2	32.9	30.8	28.9	27.1	26.1
Agriculture and related sectors	0.0	0.0	4.4	4.7	5.0	5.8
Industry	13.6	12.3	11.7	11.9	11.1	11.5
Consumption	16.5	18.3	20.5	21.9	21.0	22.4
Other	0.0	0.0	18.2	18.0	21.3	20.6
Profitability						
Return on assets (ROA)	1.3	1.3	1.5	1.4	1.4	1.3
Return on equity (ROE)	12.5	13.2	15.9	14.5	13.4	13.5
Interest margin to total income	48.2	48.9	52.1	47.5	52.1	52.2
Personnel expenses to administrative expenses	39.6	39.6	39.4	41.8	41.7	42.7
Liquidity						
Liquid assets to total assets	24.4	24.3	21.4	25.0	25.2	25.5
Liquid assets to total short-term liabilities	58.2	58.8	56.2	69.7	70.8	72.7
Dollarization						
Deposits in foreign currency in percent of total	29.5	29.1	30.6	30.6	32.0	30.4
Credit in foreign currency in percent of total	28.3	30.1	31.2	33.5	34.7	33.5

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	2013
Goal 1: Eradicate extreme poverty and hunger								
Employment to population ratio, 15+, total (%)	56.7	58.9	63.4	58.7	59.2	59.6	59.7	60.0
Employment to population ratio, ages 15-24, total (%)	48.3	50.9	54.1	47.1	44.9	45.0	45.1	45.4
Poverty gap at $1.25 a day (PPP) (%)	22.4	10.0	7.4	13.0	4.2	7.2	..	..
Malnutrition prevalence, weight for age (% of children under 5)	15.8	16.1	12.5	8.6	..	..	7.1	..
Prevalence of undernourishment (% of population)	23.0	20.5	19.0	16.7	14.9	14.6	13.5	12.1
Goal 2: Achieve universal primary education								
Primary completion rate, total (% of relevant age group)	64.1	69.9	..	81.6	98.2	101.0	100.1	93.1
School enrollment, primary (% net)	88.1	..	88.4	91.5	95.8	97.3	94.0	89.3
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	19.5
Ratio of girls to boys in primary and secondary education (%)	104.4	..	..	105.6	107.2	106.9	106.8	106.5
Goal 4: Reduce child mortality								
Immunization, measles (% of children ages 12-23 months)	90.0	89.0	98.0	96.0	98.0	95.0	93.0	89.0
Mortality rate, infant (per 1,000 live births)	45.7	37.6	31.1	25.5	21.0	20.3	19.6	18.9
Mortality rate, under-5 (per 1,000 live births)	59.1	47.3	38.2	30.7	24.9	23.9	23.0	22.2
Goal 5: Improve maternal health								
Births attended by skilled health staff (% of total)	46.9	54.9	55.7	66.9	..	..	82.9	..
Contraceptive prevalence (% of women ages 15-49)	46.7	50.0	61.8	65.2	..	..	73.2	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	290.0	200.0	150.0	130.0	120.0	..	..	120.0
Goal 6: Combat HIV/AIDS, malaria, and other diseases								
Incidence of tuberculosis (per 100,000 people)	114.0	114.0	114.0	73.0	53.0	53.0	54.0	54.0
Prevalence of HIV, total (% of population ages 15-49)	0.8	1.5	1.3	0.9	0.6	0.5	0.5	0.5
Tuberculosis case detection rate (%, all forms)	65.0	78.0	90.0	66.0	71.0	78.0	71.0	68.0
Goal 7: Ensure environment sustainability								
CO2 emissions (metric tons per capita)	0.5	0.7	0.8	1.1	1.0	1.1	..	..
Forest area (% of land area)	72.7	64.9	57.1	51.8	46.4	45.3	44.3	..
Improved sanitation facilities (% of population with access)	48.2	55.9	63.3	70.5	77.3	78.7	80.0	..
Improved water source (% of population with access)	72.8	76.9	80.8	84.7	88.2	88.9	89.6	..
Terrestrial protected areas (% of total land area)	16.0	15.0	21.0	18.2	21.1	..	21.1	..
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	17.8
Mobile cellular subscriptions (per 100 people)	0.0	0.0	2.5	18.6	124.7	103.7	92.9	95.9

Source: Millenium Development Goals, World Bank.

Table 11. Honduras: Structural Benchmarks 2015 and Proposed New Measures for 2016

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 MEFP of the November 2014 MEFP.	March 2015	Met.
Submit to congress legislation to reform the Social Security Institute (IHSS) to strengthen its actuarial position and improve its governance.	November 2015[1]	Not Met
In consultation with staff, prepare a plan to address the financial difficulties of HONDUTEL.	March 2015	Met
Approval of the law reforming the IHSS	End-December 2015[2]	
Present a program for developing a medium-term fiscal framework with a clear fiscal anchor and fiscal policy targets	June 2015	Met
Complete an audit of public sector arrears, with a view to clearing them	[End-June 2016] End-December 2015[3]	
Present to congress a 2016 budget bill consistent with the program targets for central government and CPS deficits	September 2015	Met
Strengthen the Large Taxpayer Unit with adequate staff levels	September 2015	Met
Present a plan for a gradual removal of foreign exchange surrender requirements	End-December 2015	
Proposed New Measures		
Submit to Congress a Fiscal Responsibility Law		Met
Submit to Congress a law to reform the tax code in line with recommendations from FAD.	End-June 2016	
Establish a new tax administration agency	End-June 2016	
Publish a national registry of trust funds, conduct a study and prepare an assessment of their feasibility.	End-June 2016	
Include in the annual budget submission a document explaining the consistency of the proposed budget with the achievement of the goals of the Fiscal Responsibility Law.	End-September 2016	
Eliminate central government transfers to ENEE	End-December 2016	
Adopt customs manuals in Puerto Cortes to enhance collection of import duties in gasoline and bulk freight	End-June 2016	

[1] The original date was March 2015.

[2] The original date was June 2015.

[3] The original date was June 2015.

Table 12. Honduras: Performance Criteria 1/

(Cumulative flows; millions of Lempiras, unless specified)

	2014			2015					2016	
	End-Jun.	End-Dec		End-Jun.			End-Dec.		End-Jun.	End-Dec.
	Prel.	Prel.	Prog.	Prog.	Adjusted	Actual	Prog.	Rev. Prog.	Prog.	Prog.
QUANTITATIVE PERFORMANCE CRITERIA										
Fiscal targets 2/										
Overall balance of the combined public sector (floor)	-2,642	-16,670	-23,931	-5,256	-3,345	3,461	-14,283	-11,700	-3,000	-9,600
Overall balance of the central government (floor)	-4,365	-18,001	-22,252	-6,870	-4,959	-707	-17,873	-16,900	-6,500	-16,300
Overall balance of ENEE (floor) 3/	-2,155	-5,511	-5,521	-1,491	...	-395	-3,353	-1,648	-750	-1,000
Net lending of the combined public sector (ceiling) 4/	...	...	...	...	...	...	...	680	200	400
Public debt targets 5/										
Contracting and guaranteeing of new non-concessional loans (continuous ceiling, in million US$)	...	55	600	600	...	80	600	600	...	...
Present Value of new external debt contracted (continous ceiling, in millions US$) 6/	...	...	...	...	...	...	...	...	520	520
Accumulation of new arrears by ENEE (continuous ceiling)	...	0	0	0	...	0	0	...	0	...
Accumulation of new external arrears (continuous ceiling, in million US$)	0	0	0	0	...	0	0	...	0	...
Monetary targets										
Net international reserves of the Central Bank (floor, in million US$)	2,362	2,475	2,271	2,390	2,406	2,848	2,411	2,730	2,859	3,005
Stock of net domestic assets of the central bank (ceiling) 7/	-28,900	-26,857	-22,017	-27,001	-27,345	-38,706	-22,454	-28,625	-35,342	-31,760
Indicative targets 2/										
Wage bill of the central government (ceiling)	17,945	37,251	38,049	18,850	...	18,459	39,248	38,456	19,100	39,800
Social spending (floor)	2,496	9,950	7,078	2,384	...	3,985	7,333	9,000	3,000	9,600
Operating revenue-to-spending ratio of ENEE (floor)	...	0.86	0.85	0.97	...	1.04	0.97	1.03	1.00	1.05

1/ Definitions as specified in the Technical Memorandum of Understanding.
2/ Cumulative starting in January of the correspondent year.
3/ Excluding government transfers.
4/The ceiling on the net lending of the combined public sector is proposed to be introduced with the first test date of end-December 2015.
5/ Cumulative starting in December 2014. Targets on non-concessional debt and external arrears are for the combined public sector.
6/ The first test date for this PC is end-June 2016.
7/ 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) Total	SCF	SBA	Percent of quota 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 September 9, 2015; in units indicated)

			Projections					
	2013	2014	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	3.0	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	50.4	41.0
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	1.7	9.6
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	1.4	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	77.7	56.7	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	0.2	0.5	0.8	0.8	21.8	29.6
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	21.0	29.1
Interest and charges, in millions of SDRs	0.0	0.0	0.2	0.5	0.8	0.8	0.8	0.5
Stock of existing and prospective Fund credit 1/								
In millions of SDRs	8.1	4.1	52.8	103.6	129.5	129.5	107.0	68.5
In percent of quota	6.3	3.1	40.8	80.0	100.0	100.0	82.6	52.9
In percent of exports of goods and services	0.1	0.1	0.8	1.5	1.8	1.8	1.4	0.9
In percent of external debt	0.2	0.1	1.0	1.9	2.3	2.3	1.8	1.2
In percent of gross reserves	0.4	0.2	1.9	3.3	3.8	3.4	2.6	1.6
Obligations to the Fund from existing arrangements and prospective Fund arrangements								
In millions of SDRs	4.1	4.1	3.3	1.6	0.9	1.0	23.5	39.2
In percent of quota	3.1	3.1	2.5	1.2	0.7	0.7	18.1	30.3
In percent of exports of goods and services	0.1	0.1	0.0	0.0	0.0	0.0	0.3	0.5
In percent of external debt	0.1	0.1	0.1	0.0	0.0	0.0	0.4	0.7
In percent of gross reserves	0.2	0.2	0.1	0.0	0.0	0.0	0.6	0.9

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.

Annex I. Debt Sustainability Analysis

Risk of external debt distress:	Moderate
Augmented by significant risks stemming from domestic public and/or private external debt?	No

The debt sustainability analysis (DSA) shows improved prospects relative to the previous update.[1] The main factors for this assessment are the strong fiscal consolidation—containing high-quality fiscal measures—and improved external conditions. However, new uncertainties arose due to the designation by the U.S. Treasury's Office of Foreign Assets Control (OFAC) pursuant to the Kingpin act of some companies within the Grupo Continental (GC) and its owners. Staff's assessment is that under the current circumstances, Honduras' risk of external debt distress is assessed to remain moderate. External public debt indicators, except for the most extreme shock in only one indicator, are expected to remain below their indicative thresholds.[2] Against this background, an improved rating of low risk of debt distress could be considered in a future DSA provided that the program's fiscal consolidation and growth targets are achieved.

A. Background

1. **Honduras' public debt increased slightly in 2014**. After strong implementation of the program, the total public debt stood at 46.4 percent of GDP in 2014, a small increase of ¾ percentage points of GDP relative to 2013. The aggressive reduction in the public deficit in 2014 *vis-à-vis* 2013 (from 7.6 to 4.3 percent of GDP) explained this result.

2. **The measure of public debt reported in Honduras is comprehensive**. Public debt is defined as the gross stock of liabilities from the non-financial public sector (general government and public companies) owned by private investors plus the stock of central bank securities held by private banks (around 5½ percent of GDP).[3] The general government's debt includes arrears (2½ percent of GDP), and PPPs (0.1 percent of GDP). Since 2015, the fiscal reporting of PPPs is based on the IPSAS-32 standard.[4] Under this standard, PPP operations are reported in the fiscal accounts based on ownership criteria, and not on financing.

[1] See *Appendix I* of the *Staff Report for a Request for a Stand-by Arrangement and an Arrangement under the Standby Credit Facility* (IMF Country Report No. 14/361).

[2] Honduras three-year average CPIA score is 3.41 and its policy performance category is medium.

[3] These are securities issued for liquidity regulation and recorded as liabilities in the central bank's balance sheet.

[4] The stock of arrears is estimated. The authorities are currently implementing an audit with the help of an international audit firm to identify valid claims.

3. Public debt is mostly with foreign creditors. About 60 percent of total public debt is external but the share of domestic debt has risen in recent years. The main external lenders to Honduras are the Inter-American Development Bank (IADB), the Central American Bank for Economic Integration, and the World Bank. Debt to these institutions carries long maturities but only the IADB continues to provide loans on concessional terms (i.e., with a grant element of at least 35 percent). Domestic public debt is mainly to commercial banks, has a shorter—though rising—maturity (about 3 years), and carries a higher real interest rate (Tables A1 and A2). The authorities are implementing a debt management operation, seeking to refinanced US$530 million. Currently 78 percent has been refinanced. The recent creation of a private pension fund scheme is expected to increase the demand for domestic securities thus deepening and expanding the domestic capital market.

B. Underlying Assumptions

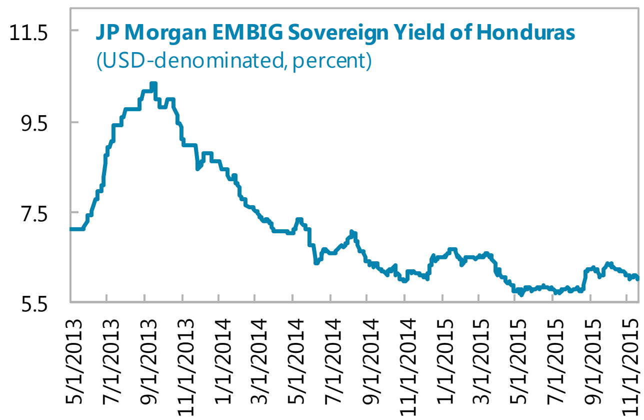
4. Economic growth. The baseline scenario assumes that growth in Honduras will rise to 3.5 percent in 2015 and 3.5 percent in 2016 and strengthen further in subsequent years, before stabilizing at about 4 percent—broadly in line with its current estimated potential. This reflects an improvement from the previous DSA, where growth was expected to reach 3¾ percent in the medium term. The acceleration of growth over the medium term is predicated on more favorable external conditions than previously expected (notably better terms of trade, lower fuel prices and a growth pick up in the U.S.), the recovery of the coffee sector from leaf-rust disease, as well as improved confidence and higher private investment from stronger economic policy management. These factors are expected to offset the dampening effect of fiscal consolidation on growth.

5. Fiscal policy. The baseline scenario incorporates a cumulative fiscal adjustment (measured using the primary balance) of about 6¾ percent of GDP during the program period (2014–17), with the primary deficit of the CPS declining to ½ percent of GDP by 2017. The overall CPS deficit continues to decline slowly over the medium term as debt and interest payments start to fall, stabilizing at about 1 percent of GDP over the longer term (consistent with a small primary surplus).[5] The fiscal adjustment features a combination of higher tax revenues (about 2⅓ percent of GDP) and lower expenditures (about 2⅓ percent of GDP). The fiscal consolidation contains high-quality measures: on the revenue side, it is based on raising tax rates and anti-evasion measures; on the spending side, it involves rightsizing public employment and reducing the role of the state on key economic sectors such as energy and telecommunications. To lock-in the gains from fiscal consolidation and make more institutional fiscal discipline/transparency and enhance credibility, the authorities have decided to introduce a fiscal responsibility law.

6. Public sector financing. Financing of the public sector is assumed to come mainly from external sources with a gradual increase in domestic sources. It is, however, assumed that the financing mix changes toward less concessional sources compared to recent years (Table A2), including within multilateral institutions. Due to lower financing needs relative to the last DSA, no

[5] The primary balance is measured as in the fiscal accounts deducting from the overall balance not only the interest payments on government liabilities but also the interest revenues on government assets.

placement of external bonds is included in the current DSA. Other financing needs are met through official, mostly multilateral, financing. Thanks to strong program implementation and Honduras' recent upgrade in sovereign ratings, relative to the last Eurobond issuance the authorities have recently received bond issuance offers at much more favorable conditions, including longer maturities. For now they are, however, opting to postpone issuing new external bonds but they could consider a debt management operation that significantly reduce the liquidity risk in 2020.[6] Against this background, for the DSA simulations in 2020 we assumed the same financing mix as in previous years.



7. **External sector.** The external current account deficit is projected to decline from 7.4 percent in 2014 to 5.8 percent by 2017, and stabilize at about 5.4 percent of GDP over the longer term. The previous DSA projected a weaker external position—with the current account deficit stabilizing at about 5.2 percent of GDP over the medium term—reflecting mainly higher oil prices in the short to medium term. The improvement in the current account during the program period reflects more favorable external conditions (including lower oil prices and continued recovery of worker remittances), and a stronger macroeconomic policy mix (fiscal consolidation after strong implementation of the program). As in the previous DSA, the current account deficit continues to be financed through foreign direct investment and, to a lesser extent, public sector borrowing, with very small private sector flows. This allows international reserves to increase to about 4.8 months of imports by 2017 and settle at close to 6 months of imports over the longer term.

[6] This potential debt management operation would not impact on the external DSA.

Table: Selected Macroeconomic Indicators, Current vs. Previous DSA

	2014	2015	2016	Long term 1/
Real GDP growth (percent)				
Current DSA	3.1	3.5	3.5	4.0
Previous DSA	3.0	3.0	3.3	3.7
Primary Balance (% GDP)				
Current DSA	-3.8	-1.2	-0.4	0.2
Previous DSA	-5.5	-2.9	-2.1	-0.4
Current account balance (% GDP)				
Current DSA	-7.4	-6.0	-5.8	-5.4
Previous DSA	-7.8	-7.1	-6.8	-5.2
Net FDI (% GDP)				
Current DSA	5.7	5.7	5.8	5.7
Previous DSA	5.0	5.0	4.9	4.8

1/ Defined as the last 15 years of the projection period. For the current DSA, the long term covers the period 2021-35, whereas for the previous DSA it covered 2020-34.

C. Public and External Debt Sustainability Analysis

8. Public debt ratios are expected to peak in 2018 and then start to decline subsequently (Table A1)**.** Public debt is projected to peak at about 51 percent of GDP in 2018 (up from 46.4 percent of GDP in 2014) and start falling slowly as fiscal consolidation proceeds and interest payments decline reaching 34 percent of GDP by 2027. This represents an improvement from the previous DSA, which projected a public debt-to-GDP ratio of 42 percent by that year. In present value terms, the public-debt ratio is expected to peak at 45 percent of GDP in 2018 and fall to about 20 percent of GDP in the late 2020s. The public debt dynamics remains somewhat vulnerable to both policy-related and exogenous shocks, especially to those related to economic growth and fiscal policy (Table A3).

9. The exposure to contingent liabilities seems to be limited. Several measures recently taken by the authorities limit the exposure of public debt to contingent liabilities. For instance, by doubling the contribution rate for the social security institute, the authorities' have improved its actuarial position; they amended the PPP framework law to eliminate the provision of government guarantees for PPP operations; and by upgrading to international standards the PPPs accounting (see section A), they have made transparent the potential fiscal impact of PPP's operations. There could, however, be a contingent obligation for ENEE if the interpretation of financial penalties for differing payments to energy providers, currently under litigation materialized. That said, this liability would be small. During 2009–14, the nominal amount under dispute is about 0.6 percent of GDP, plus indemnification costs that are to be decided by the courts. As part of the implementation of a medium-term fiscal framework, the authorities are developing a comprehensive framework to analyze and determine potential fiscal risks.[7] It is unclear at the time this DSA was prepared if contingent obligations could arise from measures related to situation of the *Grupo Continental*.

10. The evolution of external debt ratios is projected to follow a similar pattern (Table A2). External debt ratios are projected to peak at 39.1 percent of GDP in 2017, from about 37.5 percent of GDP in 2014. The share of external debt in total public debt rises slowly to about two-thirds by the mid-2020s. Afterwards, it increases as total debt decreases substantially due to fiscal consolidation. Private external debt is less than 10 percent of GDP and is expected to shrink with the ongoing de-dollarization of the economy. The ratios for the PV of public debt and public debt service remain below their indicative thresholds in the baseline scenario throughout the projection period. (Table A4). No alternative scenario leads to breaching the thresholds for the PV of debt, as it was the case in the previous DSA. The threshold for the ratio of debt service to revenue is exceeded in only one year (2020) under the most extreme shock,[8] an improvement with respect to the previous DSA. The spikes reflect the amortization of a global bond with a balloon payment, which the authorities are planning to refinance to take advantage of improved financing conditions given Honduras' recent upgrade in sovereign ratings, as discussed above. The ratio of debt service to exports and remittances remain well below its threshold under all scenarios. External public debt rises initially but remains below the indicative threshold and starts to decline before 2020, earlier than in the previous DSA due to stronger fiscal consolidation and more favorable external conditions. The threshold for the ratio of debt service to revenue is exceeded once only (in 2020, owing to the global bond repayment, as mentioned above).[9]

11. A customized scenario with several negative shocks shows that external public debt indicators remain below their indicative thresholds. The scenario aims at capturing key risks and vulnerabilities in Honduras. It includes negative shocks to GDP growth, which could arise from weaker external conditions; tighter external financing conditions that could be associated with negative developments in international financial markets such as Fed tapering and EM turbulence; a weaker fiscal position from possible slippages in the implementation of adjustment measures. In this scenario, external public debt rises initially but remains below the indicative threshold and starts to decline around the mid-2020s. The ratio of debt service to exports and remittances, and to revenue also remain below its indicative threshold, while a similar customized scenario in the previous DSA presented breaches of the debt service to revenue ratio.

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[7] Last May, in the published Medium Term Fiscal Framework the authorities included a section on fiscal risks.

[8] This standardized stress test that simulates a 30 percent depreciation of the currency may overstate risks in a country like Honduras with a longstanding stable US dollar exchange rate whose external debt is denominated primarily in US dollars. Under this same scenario, the probability of external debt distress breaches temporarily the corresponding thresholds in the case of the PV of public debt and in the case of the ratio of debt service to revenue.

[9] In the last three years, Remittances were around 18 percent of GDP—still slightly below pre-global crisis levels but expected to continue to recover over the next few years—and close to 40 percent of exports of goods and services. Figure A2 shows that the same results hold after the inclusion of remittances.

Table: Baseline vs. Customized Scenario 1/

	2015	2016	2017	Long term 2/
Real GDP growth (percent)				
Baseline	3.5	3.5	3.7	4.0
Customized	3.1	2.6	2.5	3.5
Average interest rate on new external debt				
Baseline	3.8	3.8	3.8	3.8
Customized	4.9	4.9	4.9	4.9
Fiscal balance (% GDP)				
Baseline	-2.5	-2.0	-1.9	-1.0
Customized	-4.5	-3.7	-3.3	-1.3

1/ In the customized scenario, (i) real GDP growth is 3.1 perent in 2015, 2.6 percent in 2016 and 2.5 in 2017, and rises on average 0.25 percentage points per year to reach 3.5 percent in 2021, staying at this level for the remainder of the DSA period; (ii) financing conditions from external capital markets deteriorate permanently, raising the average interest rate on new external debt by 106 basis points; and (iii) the overall deficit of the CPS increases by 2 percent of GDP in 2015 compared to the baseline and then fades out partially at a constant rate of 15 percent during the DSA period.

2/ Defined as the last 15 years of the projection period. For the current DSA, 2021-35.

D. Conclusion

12. Despite improvements on public and external debt indicators and strong program implementation we have decided to maintain Honduras risk of debt distress as moderate. The improvement in debt indicators reflect the stronger macroeconomic policies underpinning the IMF-supported program, which has been translated into substantially lower fiscal and current account deficits. This is also aided by stronger economic growth compared to the previous DSA. External public debt indicators are expected to stay below their indicative thresholds (except for the ratio of debt service to revenue under the most extreme shock), provided that the program's fiscal consolidation and growth targets are achieved. However, the macroeconomic consequences of the designation of some companies within the GC are difficult to fully assess at this stage. In this light, we have maintained our previous assessment of Honduras risk of debt distress as moderate. At the same time, should the program's fiscal consolidation and growth targets are achieved an improved rating of low risk of debt distress should be considered in a future DSA.

Table A1. Honduras: Public Sector Debt Sustainability Framework, Baseline Scenario, 2012-2035

(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035	2021-35 Average
Public sector debt 1/	35.2	45.7	46.4			49.1	50.3	50.9	51.2	50.9	50.0		38.7	19.7	
of which: foreign-currency denominated	20.2	28.5	29.2			31.0	31.5	32.4	32.5	32.7	32.6		28.7	16.6	
Change in public sector debt	3.0	10.5	0.7			2.7	1.2	0.6	0.3	-0.3	-0.8		-2.4	-1.6	
Identified debt-creating flows	4.0	8.3	3.3			2.0	1.7	1.2	0.6	0.0	0.0		-0.9	-0.1	
Primary deficit 2/	4.3	7.2	3.8	3.7	1.6	1.2	0.4	0.3	-0.1	-0.5	-0.3	0.2	-0.4	0.2	-0.2
Revenue and grants	21.1	21.4	22.8			24.8	25.0	25.2	25.2	25.4	25.5		25.5	26.3	
of which: grants	1.0	0.8	0.8			0.8	0.7	0.6	0.6	0.5	0.4		0.4	0.4	
Primary (noninterest) expenditure	25.5	28.6	26.6			26.0	25.3	25.5	25.1	24.8	25.2		25.1	26.5	
Automatic debt dynamics	-0.3	1.1	-0.5			0.8	1.3	0.9	0.7	0.5	0.3		-0.5	-0.3	
Contribution from interest rate/growth differential	-0.8	0.4	-0.6			0.4	0.5	0.1	-0.2	-0.4	-0.6		-0.6	0.0	
of which: contribution from average real interest rate	0.4	1.4	0.8			2.0	2.2	1.9	1.6	1.6	1.4		1.0	0.8	
of which: contribution from real GDP growth	-1.3	-1.0	-1.4			-1.6	-1.7	-1.8	-1.9	-2.0	-2.0		-1.6	-0.8	
Contribution from real exchange rate depreciation	0.5	0.7	0.1			0.4	0.8	0.9	0.9	0.9	0.9		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.0	2.2	-2.6			0.8	-0.5	-0.6	-0.3	-0.3	-0.8		-1.5	-1.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	41.0			43.3	44.5	45.1	45.4	44.8	43.6		32.5	15.7	
of which: foreign-currency denominated	...	...	23.9			25.1	25.8	26.6	26.7	26.6	26.2		22.5	12.6	
of which: external	...	...	23.9			25.1	25.8	26.6	26.7	26.6	26.2		22.5	12.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 3/	4.6	8.0	4.8			6.3	4.8	5.0	7.2	7.8	8.6		4.7	1.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	180.2			174.6	178.4	178.8	180.3	176.8	171.0		127.2	59.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	186.6			180.2	183.8	183.5	184.5	180.3	174.0		129.4	60.6	
of which: external 4/	...	...	108.5			104.6	106.3	108.3	108.6	107.1	104.3		89.7	48.7	
Debt service-to-revenue and grants ratio (in percent) 5/	7.2	9.9	10.4			25.3	22.3	23.2	33.0	36.6	38.6		24.6	9.5	
Debt service-to-revenue ratio (in percent) 6/	7.5	10.3	10.8			26.1	22.9	23.7	33.7	37.2	39.2		25.0	9.6	
Primary deficit that stabilizes the debt-to-GDP ratio	1.3	-3.3	3.1			-1.6	-0.8	-0.3	-0.4	-0.2	0.5		2.0	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.1	2.8	3.1	3.8	2.6	3.5	3.5	3.7	3.8	4.0	4.0	3.8	4.0	4.0	4.0
Average nominal interest rate on forex debt (in percent)	1.8	2.0	3.3	1.8	0.6	3.5	3.5	3.5	3.5	3.4	3.5	3.5	3.0	2.9	3.0
Average real interest rate on domestic debt (in percent)	3.3	9.0	1.8	0.9	3.6	7.6	8.6	7.5	6.8	6.6	5.4	7.1	6.5	8.6	6.5
Real exchange rate depreciation (in percent, + indicates depreciation)	3.0	3.4	0.2	-2.2	3.4	1.4	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.6	1.4	5.5	5.8	2.1	3.6	3.6	3.9	4.3	4.3	4.3	4.0	4.2	1.6	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	6.7	15.6	-4.2	2.0	5.8	0.9	1.1	4.2	2.2	3.0	5.5	2.8	4.7	7.1	4.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	22.6	10.8	14.9	16.7	23.9	17.0	17.7	17.0	17.0	...

Sources: Country authorities; and staff estimates and projections.

1/ Gross debt of the Combined Public Sector

2/ As defined in the fiscal accounts

3/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

4/ Revenues excluding grants.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A2. Honduras: External Debt Sustainability Framework, Baseline Scenario, 2012-2035 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-2020 Average	2025	2035	2021-2035 Average
External debt (nominal) 1/	**26.7**	**36.3**	**37.5**			**38.7**	**38.7**	**39.1**	**38.6**	**38.2**	**38.1**		**34.0**	**21.4**	
of which: public and publicly guaranteed (PPG)	20.2	28.5	29.2			31.0	31.5	32.4	32.5	32.7	32.6		28.7	16.6	
Change in external debt	2.8	9.6	1.2			1.2	0.0	0.3	-0.4	-0.4	-0.1		-1.3	-1.2	
Identified net debt-creating flows	2.8	4.2	-0.2			-0.9	-1.3	-1.3	-1.5	-1.6	-1.6		-1.7	-1.7	
Non-interest current account deficit	**8.0**	**8.8**	**6.4**	**6.6**	**3.8**	**4.7**	**4.5**	**4.5**	**4.4**	**4.4**	**4.4**		**4.3**	**4.3**	4.4
Deficit in balance of goods and services	19.5	20.6	18.9			18.2	17.9	18.1	18.4	18.3	18.3		18.3	17.3	
Exports	50.9	47.7	46.9			46.2	46.7	47.9	49.3	50.5	51.7		53.4	50.6	
Imports	70.3	68.3	65.9			64.4	64.7	66.1	67.6	68.8	70.0		71.8	67.9	
Net current transfers (negative = inflow)	-17.8	-18.4	-18.3	-19.4	1.8	-19.3	-19.5	-19.7	-20.0	-20.0	-20.0		-20.0	-20.3	-20.0
of which: official	-1.2	-0.8	-0.9			-0.9	-0.9	-0.9	-0.9	-0.9	-0.9		-0.9	-0.9	
Other current account flows (negative = net inflow)	6.3	6.6	5.8			5.8	6.1	6.1	6.1	6.1	6.1		6.0	7.3	
Net FDI (negative = inflow)	**-4.6**	**-5.4**	**-5.7**	**-5.8**	**1.2**	**-5.7**	**-5.8**	**-5.8**	**-5.8**	**-5.8**	**-5.8**		**-5.7**	**-5.8**	-5.7
Endogenous debt dynamics 2/	**-0.6**	**0.7**	**-0.9**			**0.0**	**0.0**	**-0.1**	**-0.1**	**-0.2**	**-0.2**		**-0.3**	**-0.2**	
Contribution from nominal interest rate	0.5	0.7	1.0			1.3	1.3	1.3	1.3	1.3	1.3		1.1	0.7	
Contribution from real GDP growth	-0.9	-0.7	-1.1			-1.3	-1.3	-1.4	-1.4	-1.5	-1.5		-1.3	-0.9	
Contribution from price and exchange rate changes	-0.2	0.8	-0.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**0.0**	**5.4**	**1.4**			**2.1**	**1.3**	**1.6**	**1.0**	**1.2**	**1.5**		**0.4**	**0.5**	
of which: exceptional financing	0.0	-0.1	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	32.1			32.8	32.9	33.2	32.8	32.2	31.7		27.8	17.4	
In percent of exports	...	...	68.5			71.1	70.5	69.3	66.5	63.8	61.3		52.0	34.4	
PV of PPG external debt	**...**	**...**	**23.9**			**25.1**	**25.8**	**26.6**	**26.7**	**26.6**	**26.2**		**22.5**	**12.6**	
In percent of exports	**...**	**...**	**50.8**			**54.4**	**55.1**	**55.5**	**54.2**	**52.8**	**50.6**		**42.1**	**25.0**	
In percent of government revenues	**...**	**...**	**101.0**			**98.2**	**100.2**	**102.1**	**102.4**	**101.1**	**98.5**		**84.7**	**46.0**	
Debt service-to-exports ratio (in percent)	**15.8**	**16.9**	**15.3**			**17.8**	**16.9**	**15.8**	**14.8**	**13.8**	**17.0**		**13.4**	**10.3**	
PPG debt service-to-exports ratio (in percent)	**1.4**	**1.6**	**2.9**			**3.7**	**4.0**	**4.1**	**4.4**	**4.5**	**8.7**		**5.8**	**3.0**	
PPG debt service-to-revenue ratio (in percent)	**3.4**	**3.5**	**5.8**			**6.6**	**7.2**	**7.6**	**8.2**	**8.6**	**16.9**		**11.6**	**5.5**	
Total gross financing need (Billions of U.S. dollars)	2.4	2.4	1.8			1.8	1.7	1.7	1.6	1.5	2.0		2.0	2.4	
Non-interest current account deficit that stabilizes debt ratio	5.2	-0.8	5.2			3.5	4.5	4.2	4.9	4.8	4.5		5.6	5.5	
Key macroeconomic assumptions															
Real GDP growth (in percent)	4.1	2.8	3.1	3.8	2.6	3.5	3.5	3.7	3.8	4.0	4.0	3.8	4.0	4.0	4.0
GDP deflator in US dollar terms (change in percent)	0.7	-2.8	2.3	4.4	3.5	-0.9	-0.9	-1.0	-0.7	-0.7	-0.6	-0.8	1.6	1.6	1.3
Effective interest rate (percent) 5/	2.3	2.7	2.9	2.4	0.4	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.1	3.1	3.2
Growth of exports of G&S (US dollar terms, in percent)	4.6	-6.3	3.9	6.6	13.0	0.9	3.8	5.2	6.0	5.8	5.8	4.6	5.7	0.0	5.3
Growth of imports of G&S (US dollar terms, in percent)	3.5	-3.0	1.7	8.0	15.7	0.2	3.0	4.9	5.5	5.0	5.1	4.0	5.7	0.0	5.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	22.6	10.8	14.9	16.7	23.9	17.0	17.7	17.0	17.0	17.0
Government revenues (excluding grants, in percent of GDP)	21.5	22.2	23.6			25.6	25.7	26.0	26.1	26.3	26.6		26.6	27.4	26.6
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.3			0.3	0.2	0.3	0.2	0.1	0.2		0.2	0.3	
of which: Grants	0.2	0.1	0.2			0.2	0.1	0.1	0.1	0.1	0.1		0.1	0.2	
of which: Concessional loans	0.2	0.2	0.2			0.1	0.1	0.1	0.0	0.0	0.1		0.1	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.5	0.9	1.0	0.9	1.1	1.2		0.9	0.6	0.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			37.9	34.5	31.9	34.1	37.4	24.5		29.2	42.7	36.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	18.5	18.5	19.5			20.0	20.5	21.1	21.7	22.4	23.2		29.3	51.0	
Nominal dollar GDP growth	4.9	-0.1	5.5			2.5	2.6	2.6	3.1	3.3	3.3	2.9	5.7	5.7	5.4
PV of PPG external debt (in Billions of US dollars)			4.5			4.9	5.2	5.5	5.7	5.8	5.9		6.5	6.4	
(PVt-PVt-1)/GDPt-1 (in percent)						2.0	1.2	1.5	0.9	0.8	0.4	1.1	0.1	-0.1	0.1
Gross workers' remittances (Billions of US dollars)	2.9	3.1	3.4			3.7	3.8	4.0	4.1	4.3	4.4		5.6	9.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	20.4			21.2	21.7	22.4	22.4	22.4	22.0		18.9	10.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	37.2			39.0	39.5	39.9	39.1	38.4	37.0		31.1	18.4	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	2.1			2.6	2.8	3.0	3.1	3.3	6.4		4.3	2.2	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

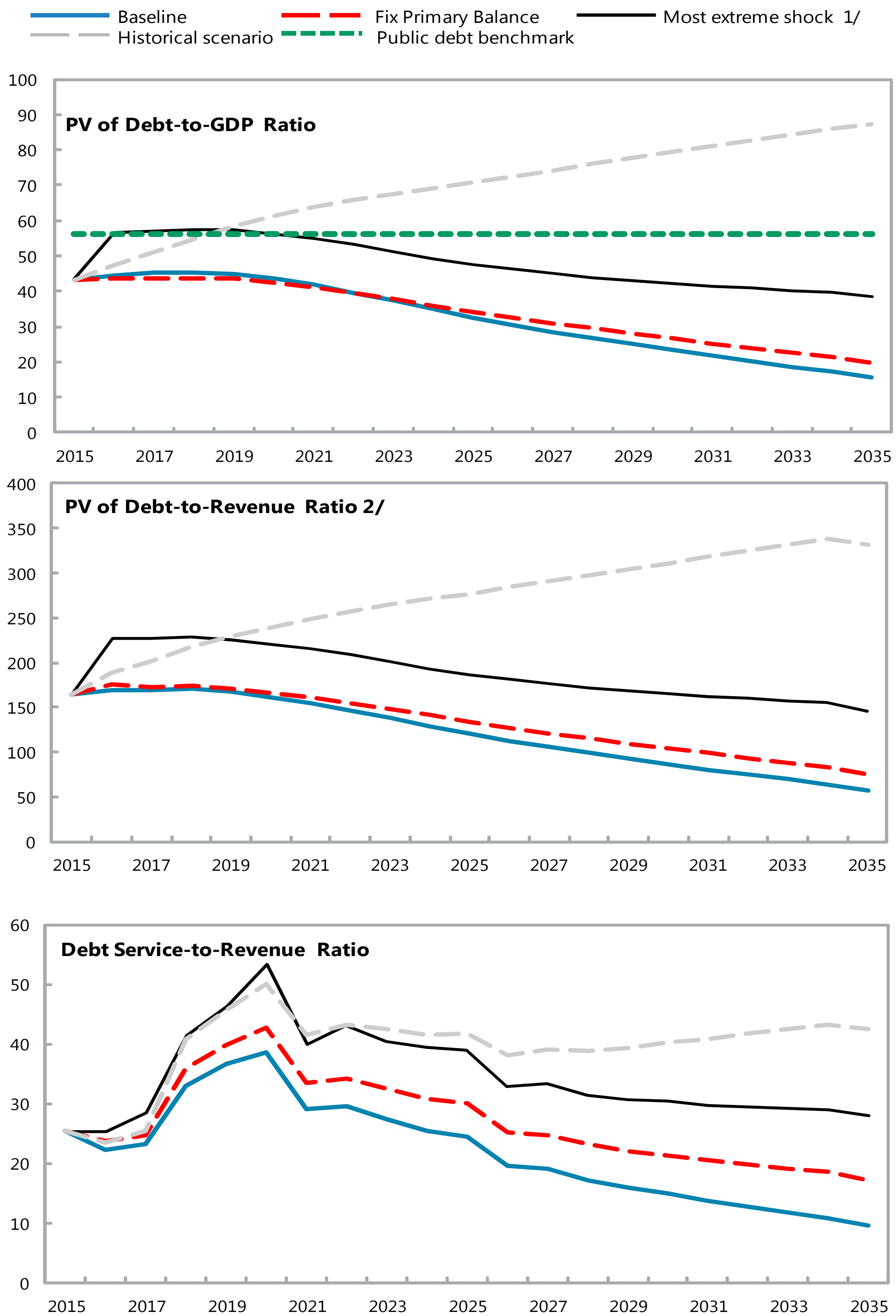
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table A3. Honduras: Sensitivity Analysis for Key Indicators of Public Debt 2015-2035

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	43	45	45	45	45	44	32	16
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	43	47	51	55	58	61	71	87
A2. Primary balance is unchanged from 2015	43	44	44	44	43	42	34	20
A3. Permanently lower GDP growth 1/	43	45	46	47	47	47	44	53
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	43	46	49	50	51	51	46	44
B2. Primary balance is at historical average minus one standard deviations in 2016-201	43	49	54	54	54	53	44	32
B3. Combination of B1-B2 using one half standard deviation shocks	43	49	54	54	55	54	47	39
B4. One-time 30 percent real depreciation in 2016	43	56	57	57	57	56	47	38
B5. 10 percent of GDP increase in other debt-creating flows in 2016	43	53	54	54	54	53	44	32
PV of Debt-to-Revenue Ratio 2/								
Baseline	164	168	169	170	167	162	120	56
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	164	189	202	217	230	240	277	332
A2. Primary balance is unchanged from 2015	164	175	173	174	171	166	134	74
A3. Permanently lower GDP growth 1/	164	179	182	186	186	185	172	201
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	164	184	192	199	200	199	181	165
B2. Primary balance is at historical average minus one standard deviations in 2016-201	164	196	214	216	213	209	172	120
B3. Combination of B1-B2 using one half standard deviation shocks	164	194	212	216	215	212	184	146
B4. One-time 30 percent real depreciation in 2016	164	226	226	229	226	220	186	146
B5. 10 percent of GDP increase in other debt-creating flows in 2016	164	214	215	216	214	209	172	120
Debt Service-to-Revenue Ratio 2/								
Baseline	25	22	23	33	37	39	25	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	25	24	25	41	46	50	42	42
A2. Primary balance is unchanged from 2015	25	24	25	36	40	43	30	17
A3. Permanently lower GDP growth 1/	25	24	25	38	42	45	34	30
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-20	25	24	26	39	44	47	35	26
B2. Primary balance is at historical average minus one standard deviations in 2016-201	25	24	26	43	47	46	32	22
B3. Combination of B1-B2 using one half standard deviation shocks	25	24	26	43	47	47	34	25
B4. One-time 30 percent real depreciation in 2016	25	25	29	41	46	53	39	28
B5. 10 percent of GDP increase in other debt-creating flows in 2016	25	24	27	47	43	47	32	22

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Figure A1. Honduras: Indicators of Public Debt Under Alternative Scenarios, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.
2/ Revenues are defined inclusive of grants.

Table A4. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035

(In percent)

	Projections							
	2015	2016	2017	2018	2019	2020	**2025**	2035
PV of debt-to-GDP+remittances ratio								
Baseline	21	22	22	22	22	22	**19**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	21	22	23	24	24	25	**26**	24
A2. New public sector loans on less favorable terms in 2015-2035 2	21	22	23	23	24	24	**24**	18
A3. Customized 7/	21	22	24	25	26	27	27	20
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	21	22	23	23	23	22	**19**	11
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	21	24	31	31	31	31	**28**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	21	21	21	21	21	21	**18**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	21	25	29	28	28	28	**24**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	21	23	26	26	26	26	**23**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	21	28	29	29	29	29	**25**	14
PV of debt-to-exports+remittances ratio								
Baseline	39	39	40	39	38	37	**31**	18
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	39	41	42	42	43	43	**45**	44
A2. New public sector loans on less favorable terms in 2015-2035 2	39	39	41	41	41	41	**40**	32
A3. Customized 7/	45	48	50	51	52	52	51	40
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	39	39	39	38	37	36	**30**	18
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	39	47	64	63	62	60	**53**	28
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	39	39	39	38	37	36	**30**	18
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	39	46	52	49	48	46	**40**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	39	44	52	50	49	48	**41**	23
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	39	39	39	38	37	36	**30**	18
PV of debt-to-revenue ratio								
Baseline	98	100	102	102	101	98	**85**	46
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	98	102	105	106	107	107	**112**	95
A2. New public sector loans on less favorable terms in 2015-2035 2	98	100	104	106	107	109	**108**	79
A3. Customized 7/	96	86	93	97	100	102	103	73
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	98	100	104	104	102	100	**86**	47
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	98	112	142	143	142	139	**125**	60
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	98	96	96	97	95	93	**80**	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	98	111	127	127	126	124	**110**	54
B5. Combination of B1-B4 using one-half standard deviation shocks	98	104	117	117	116	113	**101**	50
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	98	140	143	143	141	137	**119**	64

Table A4. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2015-2035 (continued)

(In percent)

Debt service-to-exports+remittances ratio

Baseline	3	3	3	3	3	6	**4**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	3	3	3	3	3	6	**4**	4
A2. New public sector loans on less favorable terms in 2015-2035 2	3	3	3	3	3	6	**4**	3
A3. Customized 7/	3	3	4	4	4	8	6	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	3	3	3	3	3	6	**4**	2
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	3	3	4	4	5	8	**6**	4
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	3	3	3	3	3	6	**4**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	3	3	3	4	4	7	**5**	3
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	3	4	4	7	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	3	3	3	3	3	6	**4**	2

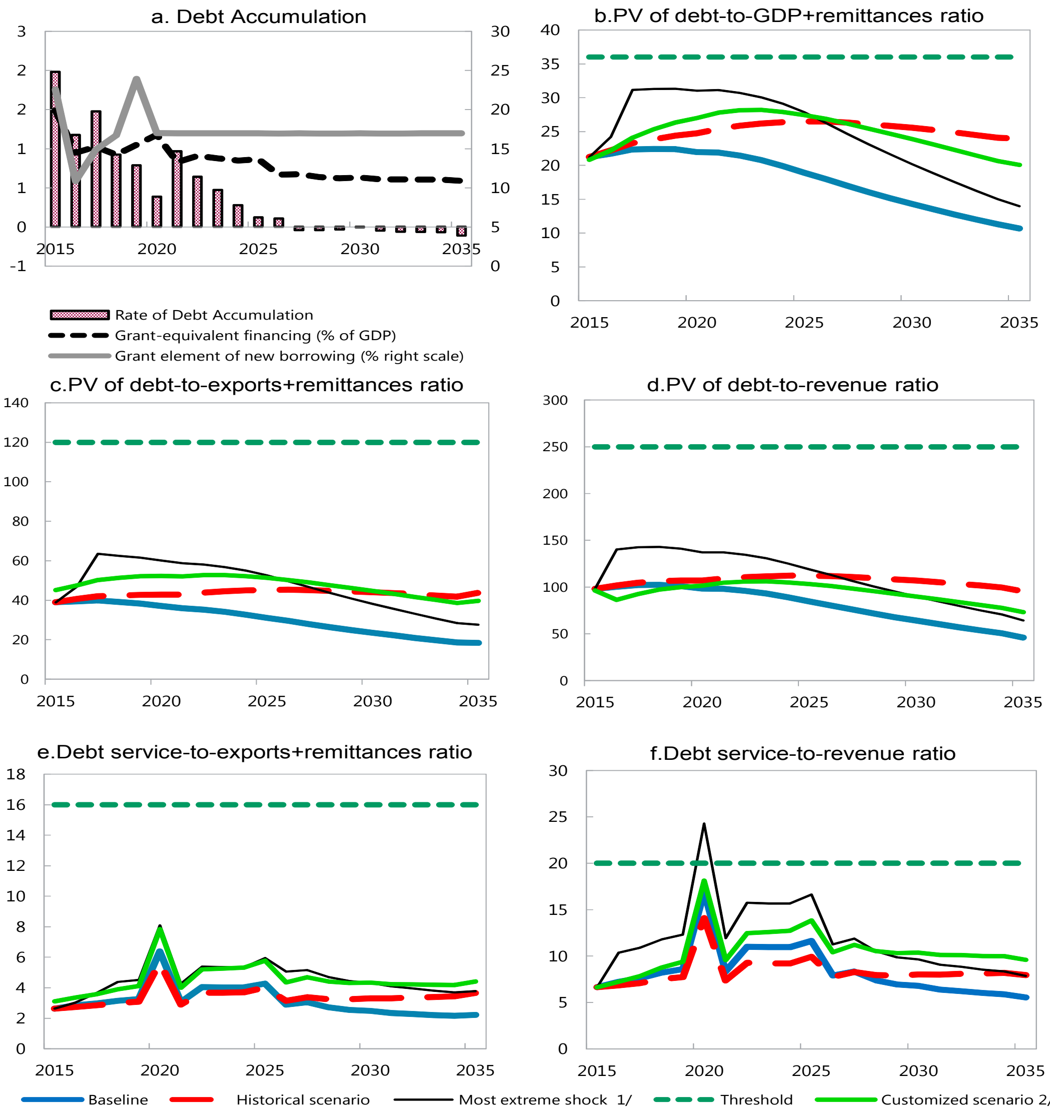
Debt service-to-revenue ratio

Baseline	7	7	8	8	9	17	**12**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	7	7	7	8	8	14	**10**	8
A2. New public sector loans on less favorable terms in 2015-2035 2	7	7	7	8	8	16	**11**	8
A3. Customized 7/	7	7	8	9	9	18	14	10
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	7	7	8	9	9	18	**12**	6
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	7	7	8	10	10	19	**14**	8
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	7	7	7	8	8	16	**11**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	7	7	8	9	10	18	**13**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	8	9	9	17	**12**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	7	10	11	12	12	24	**17**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	12	12	12	12	12	12	**12**	12

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly a an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.
7/ In the customized scenario, (i) real GDP growth is 3.1 perent in 2015, 2.6 percent in 2016 and 2.5 in 2017, and rises on average 0.25 percentage points per year to reach 3.5 percent in 2021, staying at this level for the remainder of the DSA period; (ii) financing conditions from external capital markets deteriorate permanently, raising the average interest rate on new external debt by 106 basis points; and (iii) the overall deficit of the CPS increases by 2 percent of GDP in 2015 compared to the baseline and then fades out partially at a constant rate of 15 percent during the DSA period.

Figure A2. Honduras: Indicators of Public and Publicly Guaranteed External Debt Including Remittances, 2015-2035 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

2/ In the customized scenario, (i) real GDP growth is 3.1 perent in 2015, 2.6 percent in 2016 and 2.5 in 2017, and rises on average 0.25 percentage points per year to reach 3.5 percent in 2021, staying at this level for the remainder of the DSA period; (ii) financing conditions from external capital markets deteriorate permanently, raising the average interest rate on new external debt by 106 basis points; and (iii) the overall deficit of the CPS increases by 2 percent of GDP in 2015 compared to the baseline and then fades out partially at a constant rate of 15 percent during the DSA period.

Appendix I. Letter of Intent

November 30, 2015

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

Dear Ms. Lagarde,

Over the past twenty two months Honduras has adopted ambitious policy measures that have laid the foundation for inclusive growth and fiscal sustainability. These policies have started to yield positive results.

Honduras' macroeconomic strong performance continued in 2015, supported by a firm commitment in our economic program amid improved terms of trade and strong remittance inflows. Economic growth increased, inflation declined, and the external position strengthened. Fiscal consolidation advanced, with a large reduction in the central government and combined public sector deficits, and we took advantage of the favorable external environment to reduce the deficit of the state electricity company (ENEE).

Notwithstanding the economic activity acceleration in 2015 and the favorable external environment, we are aware that continued efforts are required to reinforce macroeconomic stability, enhance credibility and transparency on public policies, and advance the conditions for sustainable inclusive economic growth.

We remain fully committed to the guidelines set out in the November 2014 and April 2015 Memoranda of Economic and Financial Policies (MEFP). The attached MEFP discusses program implementation so far in 2015 and the key elements of our economic program for 2016–17.

The economic outlook for the remainder of 2015 is positive. Output growth expands steadily supported by remittances and low oil prices, inflation is at its lowest in many years, fiscal performance is in line with program targets supported by solid tax revenue growth and spending control, the electricity sector reform continues to move forward, albeit with some hurdles, the international reserves end year target of 4.5 months of imports is within reach, while investor confidence remains high as reflected in the Honduras international bond spreads over US treasuries.

The policies set forth in the attached supplement to the MEFP aim to bolster the fiscal and external position, and move forward with structural reforms to boost competitiveness and growth while expanding gradually social protection. In particular, the MEFP for 2016–17 seeks to (i) institutionalize the hard-won fiscal consolidation and enhance efficiency and transparency in public expenditure by adopting a fiscal responsibility law, (ii) continue strengthening the fiscal position while accommodating additional growth-enhancing spending, (iii) consolidate the financial position of public companies, (iv) establish a new tax administration agency to consolidate gains in tax administration, (v) advance the gradual implementation of the new framework law of social protection system in a fiscally sustainable manner, (vi) modernize the monetary framework by developing the money market and gradually phasing–out surrender requirements, and (vi) adopt structural reforms to boost competitiveness while upgrading the quality of financial stability assessment to strengthen the foundations for robust and sustainable growth.

We are aware of the critical role played by transparency in all the public sector accounts and plan to strengthen the governance of public entities including the Honduran Social Security Institute as set out in the November 2014 LOI.

Against the background of the recent listing of some companies from a large conglomerate, including a bank, under the Kingpin act of the U.S., we are moving to resolve any residual weaknesses that may exist in our financial sector regulatory and money laundering prevention frameworks. In this light, we will enhance the resolution framework to ensure that the National Commission for Banks and Insurance Companies (CNBS) is strengthened and has the required legal powers to act.

We remain confident that the policies set forth in the attached supplement are adequate for a successful implementation of the program. Nonetheless, 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 consultations. 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 Tábora Muñoz
Chief Economic Cabinet

/s
Rocío Izabel Tabora Morales
Minister of Finance, by Law.

/s
Manuel de Jesús Bautista Flores
President of the Central Bank, a.i.

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

Attachment I. Memorandum of Economic and Financial Policies for 2016–17

1. **Honduras has made steady progress in its efforts to bolster macroeconomic stability.** Since taking office in January 2014, the new administration embarked on a sound homegrown 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 resulted in overperformance on 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 targeted the most vulnerable segments of the population.

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 the program's goals remain within reach. These include: (i) institutionalizing the hard-won fiscal consolidation by adopting fiscal responsibility law to anchor a sound fiscal position, enhancing efficiency and transparency in public spending; (ii) continuing fiscal consolidation while allowing new growth-promoting public infrastructure spending and continue tightening controls on the wage bill growth; (iii) strengthening financial sustainability of the publicly owned electricity company (ENEE) and the telecommunications company (Hondutel); (iv) establishing a new tax administration agency to consolidate the tax administration gains ; (v) advancing the gradual implementation of the new framework law of social protection system in a fiscally sustainable manner; (vi) modernizing the monetary policy framework by developing the money market and gradually phasing out surrender requirements, and (vii) adopting structural reforms to boost competitiveness while upgrading the quality of financial stability assessment to strengthen the foundations for a robust and sustainable growth.

I. Macroeconomic Developments, Program Implementation and Outlook

3. **Economic recovery consolidated in 2015.** Real GDP growth is estimated to accelerate for a second consecutive year to 3.5 percent (3.1 percent in 2014 and 2.8 percent in 2013). Recovery is mainly driven by the strong performance in the financial intermediation services, telecommunications, and manufacturing sectors, which together with lower international oil prices and stronger activity in the U.S. helped boost private consumption and remittances growth.

4. **Inflation continues to fall.** As of October 2015, headline inflation fell to 2.5 percent year on year (6.3 percent in the same month in 2014 and the lowest level in the last 28 years), due to lower fuel and food prices and a relatively stable exchange rate (the nominal exchange rate has depreciated 3.5 percent year on year, broadly in line with program commitments).

5. **The external position continues to strengthen**. The external current account deficit is projected to be 6.0 percent of GDP in 2015 (7.1 projected in the original program and 7.4 percent of GDP deficit in 2014). This improvement reflects the strong fiscal consolidation, better terms of trade, and strong growth of remittances. The improved current account and steady capital inflows will allow NIR accumulation of approximately US$254 million in 2015 (US$264 million in 2014 and US$254 million in the revised program). The external position is expected to strengthen further in 2016, with the current account deficit projected to be about 5.8 percent of GDP (6.8 percent of GDP in the original program), driven mainly by lower spending on fuel imports. This would allow a further strengthening of international reserve buffers (see Paragraph 28), bringing the projected reserve coverage to 4.7 months of imports (3.8 months of imports in the original program).

6. **Fiscal performance has been consistent with program targets during the first half of 2015.** The combined public sector posted a surplus of 0.8 percent of GDP (the program target for end-June was a deficit of 0.6 percent of GDP). The central government had a small 0.1 percent deficit of GDP (end-June program target was a 1.0 percent deficit of GDP). All ENEE targets including the continuous non-accumulation target of new arrears were met. However, the reduction in electricity losses is still pending.

7. **The fiscal outlook for 2015 remains positive.** With vigorous tax revenues growth (17 percent annual growth cumulative through September) and spending under control, we assess that our year-end fiscal targets are achievable. Moreover, the recently enacted Social Protection Framework Law has provided additional resources for the general government by increasing the mandatory contribution rates for the IHSS pension fund from 3.5 to 6.5 percent. The ENEE deficit is expected to decline to 0.2 percent of GDP (from 1.1 percent of GDP in 2014), due to strict spending controls, lower energy costs, and tariff adjustments implemented during the last quarter of 2014.

8. **Fiscal transparency is advancing.** To enhance transparency in public spending the government introduced an information system operated by COST, an entity devoted to supervise public infrastructure. COST monitored the execution of 13 road projects supported by a specialized task force whose membership includes academia, the private sector and government. Since June 2014, we have also implemented "The Open Government" initiative spanning line ministries to improve the provision of public services through more transparency and accountability, which has lead to significant cost reductions and technological modernization. The implementation of this initiative at the secretary of finance (SEFIN) increased the dissemination of public finances and provided didactic programs on budgetary practices.

9. **Monetary policy continued to evolve in line with program objectives.** The authorities lowered policy rate by 75 basis points during the first seven months of 2015, amidst a sharp deceleration in headline inflation. At the same time the central bank stepped up its efforts to absorb additional liquidity from capital inflows while keeping under control private sector credit growth. In addition, the deceleration of banks' credit in foreign currency contributed to reduce risks in the banking system from unhedged borrowers (we have introduced additional measures to reduce this risk). These actions have exerted downward pressure on lending rates and spreads and contributed to favorable monetary and credit conditions.

10. **September and December 2015 structural benchmarks were mostly met (Table 2).** In September we submitted a draft budget bill consistent with program's fiscal targets; in November we will submit to congress legislation to reform the Social Security Institute (IHSS) that seeks to strengthen its actuarial position and improve its governance; in November we began the process of establishing a new tax administration agency; in December we will present a plan to gradually remove foreign exchange surrender requirements; and in June 2016; however we rescheduled the audit of public sector arrears and will formulate a plan to clear them by June 2016 (see below).

11. **On October 7, 2015, the U.S. Treasury's Office of Foreign Assets Control (OFAC) designated several companies from the *Grupo Continental* (GC), which included *Banco Continental* (BC), under the Kingpin Act for allegedly laundering money for drug traffickers**. As a result, the operations of several companies from the GC were suspended, since no U.S. institution could do business with it pursuant to the Kingpin Act. In the case of BC, the freeze of its foreign assets caused the bank's capital adequacy ratio to fall below the regulatory minimum. In response, our banking regulator—National Commission for Banks and Insurance Companies (CNBS) and the Prosecutor General adopted measures to limit contagion to the wider economy and secure evidence for a criminal investigation. The CNBS liquidated BC, a small bank, with 3.2 percent of total system deposits. In this process, depositors were able to withdraw up to 208,640 Lempiras (US$9,400)—the insured threshold of our deposit insurance fund.

II. Fiscal Policy

A. Fiscal Program for 2016

12. **Our 2016 fiscal program focuses on institutionalizing the hard-won fiscal gains, while creating the fiscal space to finance high-quality infrastructure projects.** The revised program, targets central government and public sector deficits of 3.5 and 2.0 percent of GDP, respectively. The 2016 fiscal effort, measured by the primary balance of the CPS, is projected at about ¾ percent of GDP, with primary spending projected to decline by approximately ½ percent of GDP. Simultaneously we will increase infrastructure spending and maintain the floor on social spending, therefore increasing the quality of public spending and maximizing its impact on growth and poverty reduction.

B. Revenue

13. **Tax revenues.** We will continue to mobilize revenues as committed in the program. Tax revenues are expected to improve in 2016 by approximately 0.2 percent of GDP, due to more vigorous economic activity and the performance of administrative measures already implemented. We also plan to submit to congress a law simplifying the tax code to improve tax administration (Structural benchmark, June 2016). The Supreme Court ruled positively on the legality of the advance income tax adopted in late 2013.

14. **Tax administration reform**. We continue to implement our plans to improve the operational capacity of the tax authorities to support tax revenue growth. Resources required to implement the new Tax Administration Service (TAS) have been secured and the new agency will start operations on March 1, 2016 (structural benchmark, March 2016). The Large Taxpayers Unit (LTU) has been strengthened with highly qualified staff, while the number classified as large taxpayers has been reduced. At the same time, customs reforms continue and we have established a detailed mapping of the business process and issued operating manuals to be implemented in *Puerto Cortés* to enhance collection of import duties in gasoline and bulk freight (structural benchmark, June 2016).

C. Spending

15. **Wage bill.** We reaffirm our commitment to keep the wage bill under control. For 2016 the wage bill of the Central Government is targeted at 8.5 percent of GDP and for the Combined Public Sector at 11 percent of GDP. We have made significant advances in several initiatives to control the payroll. Currently, all payrolls in the central administration are executed through our integrated financial management information system (SIAFI) which is linked to the public employment management system (SIREP). We are working with the World Bank on conducting vacancies, jobs and required skills audits in several line ministries. Such audits should generate additional savings.

16. **Capital spending**. Considering the fiscal space created by the faster than originally anticipated fiscal consolidation pace and the need to boost employment growth with high-quality spending, we plan to allocate additional resources to increase public investment. The additional investment spending for 2016 amounts to 0.4 percentage points of GDP and will be allocated to fund several infrastructure projects (see TMU, Paragraph 14). These projects are expected to enhance employment and growth and have already been declared as priority projects by the Public Management Investment System (SNIP). If any of these projects are not implemented as scheduled, the associated resources will be saved and our fiscal targets will be adjusted accordingly. To help strengthen investment outcomes, we will seek to participate in the Fund-sponsored pilot program for Public Investment Management Assessment.

17. **Financing**. We made solid progress on our first debt management operation that refinanced about 78 percent of our financing plan (US$410 million out of US$530 million target). Given the lower financing requirements, we do not anticipate tapping the international capital markets as initially envisaged but we remain open to this possibility in 2016. Our extended investment plan will require an additional US$170 million for 2016–17 in external financing which we plan to obtain mainly from multilateral institutions. Given the strong program implementation we expect to obtain this financing at concessional terms.

D. Public Financial Management

18. **Fiscal Responsibility Law (FRL)**. As a prior action, we have submitted to congress a FRL seeking to institutionalize the hard-won fiscal consolidation achieved thus far. This law will adopt the

accountability, transparency, and stability principles consistent with international best practices. It will contain numerical rules that we expect to be enforceable in 2019. A limit on the public sector deficit of 1 percent of GDP and a limit on the growth rate of current spending equal to the average of the real growth rate over the last 10 years. The law will also contain a transitory clause defining the transition path to obtain these goals in 2019. This path will be fully consistent with our program's fiscal targets. In addition, we plan to include in the 2017 budget submission a document explaining the consistency of the proposed budget with the achievement of the goals stated in the medium-term Fiscal Responsibility Legislation.

19. **Transparency and accountability.** One of the key components of the FRL is the strengthening of transparency and accountability of public spending. We will assess the use of trust funds as an efficient and transparent tool to implement budgetary programs. Otherwise, we will transfer their responsibilities to the budget without affecting the provision of public services financed by them during the program period. We plan to study the feasibility of gradually phasing out trust funds in the context of the FRL implementation. For these funds, we plan to study the feasibility of transferring their accumulated balances to the treasury single account (TSA). A national registry of all remaining trust funds funded by public resources will be established together with the obligation to periodically report their operations to the Ministry of Finance (structural benchmark, June 2016).

20. **Treasury single account.** Incorporating trust funds within the budget process is a recommended condition to continue the implementation of the TSA. We will continue strengthening the operational coverage of the TSA with technical assistance from multilateral institutions. In the meantime we will work on a special module that allows operating trust funds through the TSA.

21. **Settlement of Arrears**. We are focusing the audit on claims that have proper documentation (verification notes also known as F-01). Once the audit is finalized, we will present a plan to settle all validated claims. The audit of all domestic arrears, estimated at about 3 percent of GDP at end-2013 for the central administration and public enterprises had to be stopped as the selected firm to conduct the audit has recently been blacklisted by the World Bank. As a result we will reopen the bidding process to find an internationally known audit firm duly authorized by the National Commission of Banks and Insurance Companies (CNBS) to operate in Honduras and therefore we request an extension to complete the audit by June 2016, (currently set for September 2015).

22. **Implementing the new PPP framework**. In December 2014 a unit was created in the Ministry of Finance in charge of assessing fiscal risks stemming from PPPs. The unit has now undertaking extensive training and technical support from the IADB and the Millennium Challenge Account. Currently the unit can assess contingent risks for specific projects with simple designs. We expect the unit to be fully operational in the near future. For fiscal reporting, as stated in the law, we will continue preparing fiscal statistics based on the international accounting standard recommended by the International Public Sector Accounting Standards Board (IPSASB).

23. **Net lending**. In recent years, public pension funds (including the IHSS) have been increasing their financial resources due to higher contributions and a wider tax base. This fact and the limited availability of investment opportunities have led to have more appetite to offer loans to their affiliates. Under the current accounting rules, this increase in net lending raises the public sector deficit. We plan to contain the increase in net lending by establishing new performance criteria to reduce new net lending during the program period.

E. Public Enterprises

24. **We are committed to continue making progress in making more efficient the energy and telecommunications sectors with a view to attract private investors.**.

25. **A new regulatory framework was introduced in the electricity sector.** Following the creation of the Regulatory Commission for the Electricity Sector (CREE), three commissioners were appointed in July 2015 and they are finalizing the procedures for the CREE to become fully operational. We expect the CREE to be fully operational by December 2015 and regulations to determine the tariff structure be issued by December 2016. In the interim, we will continue using the current regulation to protect ENEE's finances.

ENEE

26. **We will continue strengthening ENEE's financial position.** The 2014 financial audit will be completed by December 2015. As indicated in our April 2015 MEFP, we expect that the financial impact of the rationalization measures already adopted, to bear fruit in 2016. During January-July 2015, its deficit shrank by 87 percent relative to 2014. As a signal of our commitment to improve ENEE's financial and operational conditions, we will eliminate in 2016 all transfers from the Central Government originally planned to be used as financing to the enterprise (Continuous structural benchmark). The elimination of transfers will allow us to further expand our infrastructure program.

27. **Electricity distribution losses.** We acknowledge that the reduction in the electricity losses is the pending issue in our reform agenda and we will implement an aggressive plan to reduce non-technical electricity losses. This plan includes hiring a management company (for up to 7 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 strategic partner for the distribution sector. We launched the bidding process in June 2015, and plan to conclude the entire process by November 2015. We commit to reduce non-technical losses by at least 3 percent in 2016 and up to 17 percent during the next 7 years.

Hondutel

28. **We continue to strengthen the finances of HONDUTEL.** During January-July 2015, its operating surplus increased by 300 percent relative to 2014; and we have advanced significantly on our commitment to finalize the legal and financial audit for 2012–14. Additionally, we have made

significant steps in rightsizing personnel, addressing technical issues, recovering accounts payable and increasing the number of corporate clients.

29. **We will speed up the process of finding a strategic private partner for HONDUTEL.** The plan consists of three steps: legal, financial and technical audits; selection of the investment bank and legal firm; and, choose a strategic private sector partner for the operation of the company.

III. Monetary, Exchange Rate, and Financial Sector Polices

30. **Monetary policy will remain focused on price stability and protecting the external position.** We are aiming to further lower inflation to 4.2 percent during 2015 and to contain it at approximately 5.2 percent in 2016. Taking advantage of the favorable external position, we have revised up our targets for accumulation of net international reserves (NIR) to 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). In 2016, our monetary program contemplates an increase in net international reserves of US$275 million to US$3,005 million by end-December. 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 is at risk, we stand ready to tighten monetary policy as appropriate.

31. **We will continue to move ahead with our plans 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) continuing the phasing out of the banks' use of government bonds to meet a portion of reserve requirements, with the aim to eliminate this practice during the program period. The BCH has not issued any new authorizations to allow government bonds to be held as reserve requirements. In addition, by end-October, the BCH plans to introduce daily liquidity auctions to enhance its monetary policy operations. They also plan to sign a memorandum of understanding with SEFIN to exchange information.

32. **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 move towards a more flexible exchange rate arrangement over the medium term, we have prepared an operational plan (structural benchmark, December 2015) for the gradual removal of foreign exchange surrender requirements. This is a multi-stage plan that also includes the regulations needed to ensure a proper functioning and development of the foreign exchange market. This plan is also fully consistent with our reform initiatives on the monetary policy framework.

33. **Recapitalization of the central bank.** In December 2014, we started implementing a multiyear 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 second issuance will take

place in December 2015 for L. 3,000 million, with an 8 percent coupon. The recapitalization program comprises three additional annual issuances of L. 3,000 million at an 8 percent coupon (the next issuance is scheduled for December 2016). We anticipate that the central bank will be able to attain a positive level of capital by early 2020s. At the same time, the BCH has started working to address key aspects of the safeguards report. Specifically, the BCH has engaged a consultant to review the central bank law and propose reforms to follow international best practices. These proposals will be shared with the IMF"s Legal Department for review by end-December 2015, after which draft amendments to the law would be submitted to congress in 2016. In addition, preparatory work has commenced on the adoption of the IFRS at the BCH for FY2017.

34. **We are taking measures to reduce risks in the financial sector.** We are undertaking three initiatives. First, we will submit legislation to congress to enhance coordination and cooperation mechanisms between the banking supervisors and the prosecutors. This will improve the governance framework for handling criminal investigations into financial crimes and bank resolution while preserving financial stability. Second, we have requested technical assistance from the Fund during 2016 to evaluate the quality of our financial stability framework and reform the law of Financial Institutions. Third, we have adopted higher capital requirements for foreign currency borrowing by unhedged agents. Since mid-2015, we have adjusted, for lending to unhedged agents, the risk-weighted capital asset ratios to 150 percent for mortgage loans where debt-to collateral ratio exceeds 85 percent and to 175 percent for consumer loans (including credit cards). This regulation will be implemented gradually during 2016. At the same time, we plan to continue our close monitoring and assessment of risks on banks' foreign currency funding and introduce additional corrective measures, if needed. We will publish data on foreign-currency operations. In addition, in November 2015, we will issue new guidelines to strengthen pension funds' investment policies and governance according to international best practices. This should safeguard pension fund resources while achieving adequate returns. In the meantime, we are pressing ahead with the implementation of our plans for improving institutional governance of the agricultural development bank, BANADESA.

35. **In 2016, we also plan to create a mortgage insurance scheme to foster the development of housing finance**. The scheme envisages the use of privately owned mortgage guarantee societies (SHG), funded through bonds, to issue guarantees for specified mortgages, primarily for low income families. We expect that this initiative will help boost housing sector finance, while generating additional employment in the construction sector.

IV. Structural Reforms

36. **Electricity sector**. We continue adopting measures to overhaul the electricity sector. A new electricity sector law was enacted in 2015 to promote a more efficient, open and transparent electricity sector. The law also allows for greater private sector participation in transmission, distribution and public lightening through PPP initiatives. Private sector companies already participate in electricity generation increasing completion and efficiency. We plan to fully implement the law by the end of 2016 due to the complexity of the process. A first step in this process was the

creation of an independent and CREE that is charged with regulating the operation of the new electricity market, and setting tariffs, access mechanisms and use of the electricity systems, in a more efficient and transparent way.

37. **Social protection framework law**. With the enactment of the social protection framework law we expect to increase the coverage of the social safety net and reach universal health coverage over the next years in a fiscally sustainable manner and in accordance with our program targets. We commit to work speedily on all complementary regulations and bylaws to ensure sound implementation. Specifically, (i) we will clarify that no form of tax benefit is needed for the implementation of the provisions of the law, (ii) we will issue a regulation guiding the investment by public pension funds to make it consistent with international best practices, (iii) we commit to working with the Fund in designing the changes in the capital market required for the proper operation of the new private pension fund scheme, and (iv) improve the governance the of investment funds.

38. **Social Security Institute reform.** The law reforming the IHSS was originally scheduled to be sent to Congress in September 2015, but we have requested an extension of this structural benchmark to end-November 2015. The law will include the parametric reforms necessary to ensure that the IHSS pension fund's finances are sustainable in the long term. The social protection framework law has increased the contribution rate from 3.5 to 6.5 percent. Resources from the Private Contributions Scheme (RAP) were used for this and therefore it was neutral to workers and employers. We will take the necessary actions to place the IHSS on a sound financial footing by focusing on maintaining international competitiveness of the contribution rate.

Program Monitoring

39. **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.

Table 1. Honduras: Performance Criteria 1/

(Cumulative flows; millions of Lempiras, unless specified)

	2014			2015					2016	
	End-Jun.	End-Dec		End-Jun.			End-Dec.		End-Jun.	End-Dec.
	Prel.	Prel.	Prog.	Prog.	Adjusted	Actual	Prog.	Rev. Prog.	Prog.	Prog.
QUANTITATIVE PERFORMANCE CRITERIA										
Fiscal targets 2/										
Overall balance of the combined public sector (floor)	-2,642	-16,670	-23,931	-5,256	-3,345	3,461	-14,283	-11,700	-3,000	-9,600
Overall balance of the central government (floor)	-4,365	-18,001	-22,252	-6,870	-4,959	-707	-17,873	-16,900	-6,500	-16,300
Overall balance of ENEE (floor) 3/	-2,155	-5,511	-5,521	-1,491	...	-395	-3,353	-1,648	-750	-1,000
Net lending of the combined public sector (ceiling) 4/	...	...	...	...	...	...	...	680	200	400
Public debt targets 5/										
Contracting and guaranteeing of new non-concessional loans (continuous ceiling, in million US$)	...	55	600	600	...	80	600	600	...	...
Present Value of new external debt contracted (continous ceiling, in millions US$) 6/	...	...	...	...	...	...	...	...	520	520
Accumulation of new arrears by ENEE (continuous ceiling)	...	0	0	0	...	0	0	...	0	...
Accumulation of new external arrears (continuous ceiling, in million US$)	0	0	0	0	...	0	0	...	0	...
Monetary targets										
Net international reserves of the Central Bank (floor, in million US$)	2,362	2,475	2,271	2,390	2,406	2,848	2,411	2,730	2,859	3,005
Stock of net domestic assets of the central bank (ceiling) 7/	-28,900	-26,857	-22,017	-27,001	-27,345	-38,706	-22,454	-28,625	-35,342	-31,760
Indicative targets 2/										
Wage bill of the central government (ceiling)	17,945	37,251	38,049	18,850	...	18,459	39,248	38,456	19,100	39,800
Social spending (floor)	2,496	9,950	7,078	2,384	...	3,985	7,333	9,000	3,000	9,600
Operating revenue-to-spending ratio of ENEE (floor)	...	0.86	0.85	0.97	...	1.04	0.97	1.03	1.00	1.05

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

2/ Cumulative starting in January of the correspondent year.

3/ Excluding government transfers.

4/The ceiling on the net lending of the combined public sector is proposed to be introduced with the first test date of end-December 2015.

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

6/ The first test date for this PC is end-June 2016.

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

Table 2. Honduras: Structural Benchmarks 2015 and Proposed New Measures for 2016

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	Met
Submit to congress legislation to reform the Social Security Institute (IHSS) to strengthen its actuarial position and improve its governance.	End-November 2015[1]	Not Met
In consultation with staff, prepare a plan to address the financial difficulties of HONDUTEL.	March 2015	Met
Approval of the law reforming the IHSS	End-December 2015[2]	
Present a program for developing a medium-term fiscal framework with a clear fiscal anchor and fiscal policy targets	June 2015	Met
Complete an audit of public sector arrears, with a view to clearing them	[End-June 2016] End-December 2015[3]	
Present to congress a 2016 budget bill consistent with the program targets for central government and CPS deficits	September 2015	Met
Strengthen the Large Taxpayer Unit with adequate staff levels	September 2015	Met
Present a plan for a gradual removal of foreign exchange surrender requirements	End-December 2015	
Proposed New Measures		
Submit to Congress a Fiscal Responsibility Law (prior action)		Met
Establish a new tax administration agency	End-March 2016	
Adopt customs manuals in Puerto Cortes to enhance collection of import duties in gasoline and bulk freight	End-June 2016	
Submit to Congress a law to reform the tax code in line with the recommendations from FAD	End-June 2016	
Publish a national registry of trust funds, conduct a study and prepare an assessment of their feasibility.	End-June 2016	
Include in the annual budget submission a document explaining the consistency of the proposed budget with the achievement of the goals of the Fiscal Responsibility Law.	End-September 2016	
Eliminate central government transfers to ENEE	End-December 2016	

[1] The original date was March 2015.
[2] The original date was June 2015.
[3] 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. For the purposes of calculating performances criteria for end-December 2015, all the assumptions indicated in the TMU signed on April 29, 2015 will prevail.

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 L. 21.1066/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 public enterprises.

12. **Net lending**. It is defined as the difference between loans made by public entities minus receipts from loans repaid.

13. **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 depositary institutions, according to the Monetary and Financial Statistics Manual (MFSM) definition.

14. **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.

15. **Fiscal Adjustors.**

a. **For tax revenues**: 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 could be allocated for social and/or capital spending (Paragraph 8, Table B).

b. **For investment projects**: If spending (in Lempiras) on the specific public investment projects as specified in Table C is less than the amount specified in such table, the targets for the central government and CPS will be reduced in the difference between the value in the Table and the amount spent (measured on an accrual basis).

C. Monetary Targets

16. **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.

17. **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.

18. **Adjustors**. Starting in 2016, the target floor on NIR will be adjusted downwards or upwards for the shortfall or excess of programmed external public disbursements.[1] In case of a shortfall or excess during the program period, the target floor on NIR will be adjusted downwards or upwards by the full amount. External disbursements to the budget (including sovereign bond placements) are expected to US$117.10 million to end-June 2016 and total US$416.60 million in 2016. For 2016, 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$50.36 for 2016.

D. External Targets

19. **External debt.** For program purposes, the definition of debt is the one set forth in point No. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board's Decision No. 6230-(79/140), as amended by Decision on December 5th 2014 (effective June 30, 2015). 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

[1] 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.

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 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.

20. **Debt definition**. The definition of debt set forth in No. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements reads as follows:

(a) For the purpose of these guidelines, 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) eases, 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 lessor retains the title to the property. For the purpose of these guidelines, 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 this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

21. **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.

22. For purpose of the program, the guarantee of a debt arises from any explicit legal obligation of the combined public sector or any other agency acting on behalf of the combined public sector 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.

23. **Concessionality** 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 concessionality calculator available at the IMF web site http://www.imf.org.[2] 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.

24. **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.[3] 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.

25. **New external debt contracted.[4]** For the purposes of the program and starting end-June 2016the continuous ceiling on the present value (PV) of new external debt contracted applies to all external debt. PV will be calculated using a unified discount rate of 5 percent and taking into account all details of the different loans agreements, including maturities, grace periods, payment schedules, upfront commissions, and management fees. 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 PV of every loan with negative grant element will be equal to its face value. 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.

26. **New external debt contracted adjustor.** Recognizing that deviations may come from one large loan or a few number of small/medium loans, program conditionality could accommodate moderate changes to the debt limit set on PV terms and use an adjustor of up to 5 percent of the new borrowing in PV terms (i.e., the envisioned debt limit) only when deviations are prompted by an unexpected change in the financing terms of a loan or loans.

27. **Exclusions**. Excluded from the external debt continuous ceiling are: (i) debts classified as international reserve liabilities of the Central Bank, (ii) debts to restructure, refinance, or prepay

[2] Currently available at http://www.imf.org/external/np/pdr/conc/calculator/default.aspx.

[3] This includes short-term external debt (with an original maturity of up to and including one year) and nonconcessional medium- and long-term debt with original maturities of more than one year.

[4] The Public Debt Limits in IMF-Supported Programs website at http://www.imf.org/external/np/spr/2015/conc/index.htm provides information on this issue and The Present Value (PV) Monitoring Tool for calculations.

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.

28. **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.

E. Energy Sector

29. **Arrears of ENEE** are defined as overdue payments of ENEE to private and public entities. During the program period, the stock of arrears to the private sector will not be increased relative to 3,867 million of Lempiras (as at December 2013), 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 decree states a deadline up to 45 days starting from the submission of appropriate documents for payment. This does not preclude payments before this deadline if it is agreed by both parties..

F. Monitoring and Reporting Requirements

30. **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.

31. **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.

32. **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*.

33. To complement the monitoring of fiscal performance, a breakdown of tax revenue by type of tax will also be provided monthly.

34. **Social spending (Table B)** will be monitored quarterly on the basis of financial reports provided by the Ministry of Finance.

35. **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.

36. **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.

37. **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.

38. **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. Revenues and expenditures of the NFPS, including the operating balance of public enterprises. Revenues and expenditures of ENEE.	Monthly, within 45 days of the end of each month. Quarterly, within 45 days of the end of each month. Monthly, within 45 days of the end of each month.
Annual estimation of tax expenditures	Annually as part of the budget bundle
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. Social Programs

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

Table C. Extended Investment Plan for 2016

In millions of Lempiras

Project	**Amount**
CA-5 section 2A	404
Road infrastructure priority projects	229
Logistic corridor, sections I-A and I-B	229
CA-4 La Entrada-Santa Rosa de Copan	142
CA-4 La Entrada-El Florido	142
Irrigation project: Nacaome valley	115
CA-1: Jicaro Galan - El Amatillo	115
CA-1: Jicaro Galan - Choluteca	115
CA-3: jicaro Galan - Guasaule	115
Total	**1,605**

INTERNATIONAL MONETARY FUND

HONDURAS

December 1, 2015

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

Prepared By | The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of October 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	85.03	68.66

Outstanding Purchases and Loans:	**SDR Million**	**% Quota**
ECF Arrangements	1.02	0.79

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	0.0	1.02			
Charges/Interest	0.0	0.02	0.02	0.02	0.02
Total	**0.0**	**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
Of which: 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
Of which: MDRI	98.24
HIPC	9.21
Debt Relief by Facility (SDR million)	

	Eligible Debt		
Delivery Date	**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.

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
MCM	Strengthening Monetary Policy Operational Framework	May 2015
MCM	CAPTAC-DR: Risk Based Supervision Implementation	May 2015
MCM	CAPTAC-DR: Strengthening and Expanding the Macroeconomic Model	August 2015
MCM	Modernizing The Foreign Exchange System	Sep 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
FAD	Medium-term expenditure framework	July 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
STA	CAPTAC: National Accounts-Statistics and Construction Data Sources	May 2015
STA	Balance of Payments and IIP	July 2015

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of November 10, 2015)

RECENT PROJECTS AND OBJECTIVES

1. **On December 2014, the IADB approved its country strategy with Honduras for the period 2015–18.** It focused on the following areas: (i) fiscal consolidation; (ii) sustainability and competitiveness in the energy sector; (iii) road infrastructure for regional integration; (iv) social inclusion; and (v) sustainable development in the Central District.

2. **As of November 10th 2015, the portfolio of approved sovereign-guaranteed loans under execution amounted to US$790.4 million, with an undisbursed balance of US$455.2 million.**

3. **The existing sovereign guaranteed portfolio focuses on:** (i) transport 37 percent; (ii) social protection 25 percent; (iii) modernization of the State 11 percent; and (iv) health 10 percent. In the private sector, the IADB has four non-sovereign projects under execution amounted to US$39 million, which support trade facilitation, energy efficiency and rural finance.

4. **The pipeline for IADB approvals in 2015 includes five operations in the public sector for US$170 million distributed as follows:** (i) two operations related to fiscal policy for US$87 million, focused on: (a) tax administration reform, and (b) a Policy-Based Loan to strengthen fiscal policy implementation; (ii) two operations in the energy sector, aimed at: (a) generation and transmission capacities, and (b) a Policy-Based Loan to support policy reforms; one operation in the transport sector for US$20 million for the improvement of road infrastructure. As of November 10th, two operations for US$50 million have been approved, and the rest of the pipeline will be approved before the end of the year.

IADB Sovereign Guaranteed Loan Portfolio in Honduras As of November 10th 2015 (In millions of US Dollars)		
Sector	**Current Approved**	**Available Amount**
Transport	268.0	169.5
Social protection	209.9	114.9
Modernization of the State	102.0	49.7
Health	80.0	45.2
Energy	45.9	38.2
Municipal management	28.6	3.0
Fiscal	27.0	27.0
Disaster risk prevention	19.0	2.4
Trade	10.0	5.2
Total	**790.4**	**455.2**

IADB Non-sovereign Guaranteed Loan Portfolio in Honduras As of November 10th 2015 (In millions of US Dollars)		
Sector	**Current Approved**	**Available Amount**
Trade facilitation	30.0	15.0
Energy efficiency	6.0	6.0
Rural finance	3.0	3.0
Total	**39.0**	**24.0**

IADB Disbursement of Sovereign Guaranteed Loan Portfolio in Honduras 2010-2015 (In millions of US Dollars)	
Year	**Amount**
2010	162.8
2011	256.1
2012	206.8
2013	224.3
2014	302.0
2015*	296.6
(*) projected	

IADB Annual Net Flows with Sovereign Guarantee in Honduras 2010-2014 (In millions of US Dollars)					
	2010	**2011**	**2012**	**2013**	**2014**
Repayments	25.3	24.3	17.1	12.0	12.7
Disbursement	162.8	256.1	206.8	224.3	302.0
Net Loan Flow	**137.5**	**231.7**	**189.7**	**212.2**	**289.3**
Subscriptions and Contributions	1.3	0.0	15.9	8.7	9.3
Net Capital Flow	**136.2**	**231.7**	**173.8**	**203.6**	**280.1**
Interest and Charges	10.2	12.7	16.5	22.1	26.1
Net Cash Flow	**125.9**	**219.1**	**157.2**	**181.5**	**254**

RELATIONS WITH THE WORLD BANK GROUP

(As of September 30, 2015)

Preparation of the World Bank Group's (WBG) first Systematic Country Diagnostic (SCD) is underway, with expected completion by end October 2015. Building on this, a new WBG Country Partnership Framework (CPF) for the Republic of Honduras for FY2015–FY2018 is under preparation and scheduled for Board discussion in December 2015. The new CPF will continue supporting the Honduras Country Vision for 2038 (adopted in 2010) and the Administration's "Plan para una Vida Mejor." To do so, the CPF is organized around three strategic pillars, namely: (i) fostering inclusion; (ii) bolstering conditions for growth and enhancing competitiveness; and (iii) reducing environmental, fiscal and social vulnerabilities. Strengthening institutions and enhancing governance are critical cross-cutting themes that will underpin the strategic pillars.

The IDA17 allocation is SDR97.8 million (US$138 million), of which US$80 million has already been allocated to an additional financing and a Development Policy Credit. IDA 17 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. 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 Stand-by Credit Facility for Honduras, achieved in late 2014.

At the end of the reporting period, IDA's active portfolio consists of 9 Projects of total commitments of US$354 million, of which US$102 million is undisbursed (as of September 15, 2015). The portfolio was consolidated from 14 to 9 projects with increasingly larger grant or credit amounts. Project disbursements (excluding budget support) increased steadily from US$62.6 million in FY12, to US$87.1 million in FY13. Gains in disbursements during the first two years of the previous Country Partnership Strategy period were reversed by the Government's fiscal measures to contain the deficit. As a result, disbursements dropped to US$68.1 million in FY14 and US$36.2 million in FY15.

The World Bank's current activities are helping Honduras efforts to achieve fiscal consolidation, improve the 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 loses continue to represent a fiscal burden. Furthermore, the World Bank's activities are contributing to 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. Targets aimed at improving coverage and management of Honduras´ National Conditional Cash Transfer Social Protection Program (Bono Vida Mejor, formerly Bono 10,000) have been achieved. Ongoing activities are also supporting public sector financial management practices, increased access of small and medium enterprises to agriculture markets, land titling, and improved logistics in transport.

In line with its regional strategy, IFC's investment activities focus on renewable energy generation, strengthening and broadening the financial sector, and supporting competitive agribusiness and commercial sectors. Furthermore, IFC has played a catalytic role in PPP development, improving access to finance for SMEs, streamlining administrative processes for business regulation and regional trade, and facilitation of international trade. IFC investments, for instance, include four large scale renewable energy projects with an aggregate capacity of 210.5MW (accounting for about 15 percent of the country's installed capacity), financing to 7 out of the 16 banks of the local banking system and investments on commercial real estate, services and agribusiness sectors. Total committed portfolio in Honduras for FY15 is US$639.7 million, including mobilization (US$496.1 million in non-trade; US$68.1 million in trade finance; and US$75.5 million from IFC's Asset Management Company). This represents a substantial increase compared to FY11 results of US$193.4 million and is IFC's second largest portfolio in Central America. Since 2012 IFC financing has contributed to improving access to finance for approximately 18,000 micro, small and medium enterprises (MSMEs) and is supporting key agri-commodities, such as palm oil and sugar reaching 2,500 farmers and contributing to nearly 7,500 direct jobs, out of which 1,600 (21 percent) are women. IFC is currently considering opportunities in commercial property development, construction materials, infrastructure, logistics and health coverage.

MIGA has US$326.9 million in gross exposure through three projects in the transport and energy sectors. MIGA has recently provided guarantees of US$187.9 million for the construction and operation of a toll road which will improve the connectivity between Honduras' second largest city and the coast. In energy, MIGA granted US$82.4 million in guarantees for a 24MW expansion of the existing 102MW Cerro de Hula wind farm, and an investment of US$56.7 million in guarantees in three photovoltaic projects supporting 80 MW solar power.

A. Projects

The active IDA portfolio is made of 9 projects (8 investment operations plus one US$55 million budget support operation) totaling US$354 million in IDA funding, of which approximately US$102 million is undisbursed. The portfolio is rather mature, and by early 2016, only five projects will remain in the portfolio.

Honduras Rural Competitive Project. The Project Development Objective (PDO) is to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances. The closing date of this Project is November 30, 2015, however it is expected to be extended with an additional financing.

Honduras Water and Sanitation Sector Modernization Project. The PDO is to support the Recipient to improve: (a) the sustainability, efficiency, and reliability of Honduras's water supply and sanitation (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. The closing date of this Project is December 31, 2016.

Second Land Administration Project. The PDO is to provide the population in the Project Area with improved, decentralized land administration services, including better access to and more accurate information on property records and transactions. The closing date of this Project is January 30, 2017.

Improving Public Sector Performance. The PDO is 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. The closing date of this Project is December 31, 2015.

Social Protection. The PDOs of this Project are 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. The closing date of this Project is December 31, 2017.

Safer Municipalities. The PDOs of this Project are to 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. The closing date of this Project is August 31, 2018.

Disaster Risk Management. The PDOs of this Project are to 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. The closing date of this Project is April 30, 2019.

Rural Infrastructure. The PDOs 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. The closing date of this Project is June 30, 2016.

Recently closed projects:

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

Roads Rehabilitation and Improvement. The PDO was to 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

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 CPF 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); a "Honduras Current Account Assessment" (2014); and a "Honduras Economic Diagnostic for National Action (DNA)" (2015).

C. Financial Relations

Project	Loan	Approved Amount (USD Eq)	Percent Disbursed	Approval Date	Sign Date	Closing Date	Undisbursed Balance (USD Eq)	Disbursed Outstanding Balance (USD Eq)
HN Rural Infrastructure Project	IDA 40990	47,000,000.00	100.00%	7-Jul-05	16-Nov-05	30-Jun-16	0.00	42,627,184.00
HN Water and Sanitation Sector Modernization Project	IDA 43350	30,000,000.00	99.98%	21-Jun-07	16-Nov-07	31-Dec-16	5,422.60	27,758,335.40
Honduras Rural Competitiveness Project	IDA 44650	30,000,000.00	75.82%	17-Jun-08	17-Sep-08	30-Nov-15	4,747,460.10	14,883,479.90
Second Land Administration Project	IDA 46410	32,800,000.00	92.20%	30-Jun-11	23-Aug-11	30-Jan-17	2,243,125.43	26,502,179.57
Social Protection	IDA 47740	40,000,000.00	96.84%	29-Jun-10	2-Aug-10	31-Dec-17	1,173,875.99	35,984,689.01
Improving Public Sector Performance	IDA 50200	18,200,000.00	23.52%	6-Dec-11	7-Dec-11	31-Dec-15	12,546,558.74	3,859,298.26
Disaster Risk Management Project	IDA 51900	30,000,000.00	23.56%	13-Dec-12	18-Dec-12	30-Apr-19	18,134,566.31	5,587,820.55
HN Safer Municipalities	IDA 51920	15,000,000.00	23.99%	13-Dec-12	18-Dec-12	31-Aug-18	10,444,568.17	3,297,089.83
HN Water and Sanitation Sector Modernization Project	IDA 52700	10,000,000.00	15.42%	19-Jun-13	12-Jul-13	31-Dec-16	7,945,757.58	1,449,049.42
HN Rural Infrastructure Project	IDA 52890	20,000,000.00	31.69%	19-Jun-13	12-Jul-13	30-Jun-16	12,739,143.75	5,910,249.25
Social Protection	IDA 52940	12,300,000.00	55.76%	8-Aug-13	26-Aug-13	31-Dec-17	5,086,577.41	6,411,544.59
Honduras Fiscal Sustainability & Enhanced Social Protection DPC	IDA 55770	55,000,000.00	100.00%	9-Dec-14	10-Dec-14	1-Mar-16	0.00	55,000,000.00
Social Protection	IDA 56030	25,000,000.00	0.00%	31-Mar-15	19-May-15	31-Dec-17	25,000,000.00	0.00

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 - Dec 2014	97,353,332.92	5,905,168.55	91,448,164.37	1,153,009.41	6,773,554.90
Jan 2015 – Sep 2015	22,542,566.05	12,408,133.97	10,134,432.08	1,546,651.37	5,039,865.54
Report Total	**888,326,200.46**	**116,708,131.10**	**771,618,069.36**	**25,474,652.68**	**40,979,254.53**

STATISTICAL ISSUES

(As of October 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 November 5, 2015)

	Date of latest observation	Date received	Frequency of Data[1]	Frequency of Reporting[1]	Frequency of publication	Memo Items: Data Quality Methodological soundness	Memo Items: Data Quality Accuracy and reliability
Exchange Rates	11/3/15	11/4/15	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[2]	11/3/15	11/4/15	D	M	D		
Reserve/Base Money	11/3/15	11/4/15	D	M	D		
Broad Money	8/31/15	10/21/15	M	M	M		
Central Bank Balance Sheet	11/3/15	11/4/15	D	M	D		
Consolidated Balance Sheet of the Banking System	8/31/15	10/21/15	M	M	M		
Interest Rates[3]	[8/31/15]	[9/07/15]	M	M	M		
Consumer Price Index	9/30/15	10/6/15	M	M	M		
Revenue, Expenditure, Balance and Composition of Financing[4]—General Government[5]	[6/30/15]	[8/31/15]	Q	Q	Q		
Stocks of Central Government and Central Government-Guaranteed Debt[6]	[6/30/15]	[8/31/15]	Q	Q	Q		
External Current Account Balance	06/30/15	09/24/15	Q	Q	Q		
Exports and Imports of General Goods	07/31/15	10/01/15	M	M	M		
GDP/GNP	2014	1/30/15	A	A	A		
IIP	06/30/15	10/15/15	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 of 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.