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July 2021

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F I S C A L A F F A I R S D E P A R T M E N T

Honduras
Fiscal Transparency Evaluation

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Technical Report

April 2020

CONTENTS

ACRONYMS 5

INTRODUCTION 9

EXECUTIVE SUMMARY 10

I. FISCAL REPORTING 15
A. COVERAGE 17
B. FREQUENCY AND TIMELINESS 27
C. QUALITY 29
D. INTEGRITY 30
E. CONCLUSIONS AND RECOMMENDATIONS 33

II. FISCAL FORECASTING AND BUDGETING 37
A. COMPREHENSIVENESS 38
B. ORDERLINESS 46
C. POLICY ORIENTATION 49
D. BUDGET CREDIBILITY 54
E. CONCLUSIONS AND RECOMMENDATIONS 57

III. FISCAL RISK ANALYSIS AND MANAGEMENT 60
A. RISK DISCLOSURE AND ANALYSIS 62
B. RISK MANAGEMENT 68
C. FISCAL COORDINATION 85
D. CONCLUSIONS AND RECOMMENDATIONS 94

BOXES
1.1. Honduran Pension System 18
1.2. Key Findings of the 2018 TSC Report 32
3.1. Long-Term Pressures on Public Finances 68
3.2. Domestic Market Debt Absorption Capacity 71
3.3. Operating Earnings of Public Corporations 94

FIGURES
1.1. Fiscal Reporting Coverage 21
1.2. Coverage of Stocks in Fiscal Reports 24
1.3. Public Sector Net Worth in Selected Countries 24
1.4. Tax Expenditures, 2016–21 27
2.1. Accuracy of Macroeconomic Projections 42
2.2. MTBF Indicative Spending Ceilings and Initial Budget Appropriation 43
2.3. Annual Update of Multiyear Commitments 45
2.4. Central Administration and NFPS Balance Sheet 51

2.5. Honduras Open Budget Index 53
2.6. Citizen Participation Index 53
2.7. Increase in Total Amounts of Approved Budgets, 2014–17 56
3.1. Macro-fiscal Risk Indicators, Selected Central American Countries, 2003–17 62
3.2. Oil Prices and ENEE, 2009–17 63
3.3. Public Debt Indicators under Alternative Scenarios, 2018–38 65
3.4. Appropriation for Contingency as a Percentage of Central Government Current Revenue 69
3.5. Capital Adequacy Ratios for the Banking System 80
3.6. Distribution of Capital Adequacy Ratios 80
3.7. Ratio of Liquid Assets to Short-Term Liabilities 80
3.8. Ratio of Liquid Assets to Total Assets 80
3.9. Natural Resources Income in Honduras and Selected Latin American Countries 83
3.10. Exposure to Natural Disasters 83
3.11. Number of Natural Disasters and Persons Affected, 1997–2018 84

TABLES

ES.1. Summary of Fiscal Transparency Evaluation 13
ES.2. Public Sector Financial Overview, 2017 14
1.1. Fiscal and Budget Projection Documents 15
1.2. Subsector Contributions to Public Sector Results 19
1.3. Flows Between Central Government and Trusts 25
1.4. Reconciliation of Stocks and Flows for Trusts 26
1.5. Fiscal Reports Published by BCH 28
1.6. Summary of Fiscal Reporting Evaluation 35
2.1. Fiscal and Budget Projection Documents 37
2.2. Documents Containing Medium-Term Fiscal Projections that Accompany the Budget Presentation 43
2.3. Characteristics of the Medium-Term Budget Framework 44
2.4. Budget Calendar 49
2.5. Basic Principles of the Fiscal Rule 50
2.6. Compliance with Fiscal Rule in 2016 and 2017 51
2.7. Summary of Evaluation of Fiscal and Budget Projections 59
3.1. Fiscal Risk Reporting 61
3.2. Internal Documentation: Revenue and Expenditure Sensitivity Analysis 64
3.3. Specific 2017 Risks 66
3.4. Bond Absorption Capacity 71
3.5. Floating Debt, 2018 and Prior Years 72
3.6. PPP Contracts in Execution 77
3.7. Deposits Insured by FOSEDE 78
3.8. Natural Disasters in Central America, 1997–2018 84
3.9. Consolidation of Municipalities' Financial Accounts, Fourth Quarter 2017 prepared by DGID (Preliminary) 87
3.10. Municipalities' Borrowings from the National Financial System 90
3.11. Municipalities' Borrowings from Local Banks 90
3.12. Government Transfers to Nonfinancial Public Corporations 92

3.13. Nonfinancial Public Corporations Transfers to the Government 92
3.14. Aggregated Balance Sheet of Nonfinancial Public Corporations 93
3.15. Current Revenue and Expenditures of Financial and Nonfinancial Public Corporations 94
3.16. Summary of the Evaluation of Fiscal Risk Analysis and Management 97

ANNEXES

I. Recommendations of the Fiscal Transparency Evaluation: Action Plan 99
II. Summary of Nonfinancial Assets 103
III. Financial Soundness Indicators of Commercial Banks in Honduras and Summary of Banking System Indicators for Central America, the Dominican Republic, and Panama 105
IV. BANADESA Financial Statements (2016-17) 106

ACRONYMS

AWP	Plan operativo anual (Annual work plan)
BAHNPROVI	Banco Hondureño para la Producción y la Vivienda (Honduran Bank for Production and Housing)
BANADESA	Banco Nacional de Desarrollo Agrícola (National Agricultural Development Bank)
BANASUPRO	Suplidora Nacional de Productos Básicos (National Commodities Supplier)
BCH	Banco Central de Honduras (Central Bank of Honduras)
CEF	Consejo de Estabilidad Financiera (Financial Stability Comitte)
CGR	Contaduria General de la Republica (General Accounting Office)
CNA	Consejo Nacional Anti-Corrupción (National Anti-Corruption Board)
CNBS	Comisión Nacional de Bancos y Seguros (National Banking and Insurance Commission)
COALIANZA	Comisión para la promoción de las alianzas público-privadas (Public-Private Partnership Promotion Commission)
COPECO	Comisión Permanente de Contingencias (Permanent Commission on Contingencies)
DGCP	Dirección General de Crédito Público (Directorate General of Public Credit)
DGID	Dirección General de Instituciones Descentralizadas (Directorate General of Decentralized Institutions)
DGIP	Dirección General de Inversión Pública (Directorate General of Public Investment)
DGP	Dirección General de Presupuesto (Directorate General of Budget)
DGPMF	Dirección General de Política Macrofiscal (Directorate General of Macro-fiscal Policy)
DNBE	Dirección Nacional de Bienes del Estado (National Directorate of Government Property)
DSA	Debt sustainability analysis
HONDUCOR	Empresa de Correos de Honduras (Honduran Postal Service)
HONDUTEL	Empresa Hondurena de Telecomunicaciones (Honduran Telecommunications Company)
ENEE	Empresa Nacional de la Energía Eléctrica (National Electricity Company)
FHIS	Fondo Hondureño de Inversión Social (Honduran Social Investment Fund)
FNH	Ferrocarril Nacional de Honduras (National Railway Company)
FOPRIDEH	Federación de Organizaciones Privadas de Desarrollo de Honduras (Federation of Honduran Private Development Organizations)
FOSEDE	Fondo de Seguros de Depósitos (Deposit Insurance Fund
FTC	Código de Transparencia Fiscal (Fiscal Transparency Code)
FTS	Fideicomiso Tasa de Seguridad (Security Trust Fund)
GDDS	Sistema General de divulgación de datos (General Data Dissemination System)
GDP	Gross domestic product
GFSM	*Government Financial Statistics Manual*

IAIP	Instituto de Acceso a la Información Pública (Institute on Access to Public Information)
IFRS	International Financial Reporting Standards
IHMA	Instituto Hondureño de Mercadeo Agrícola (Honduran Agricultural Market Institute)
IHSS	Instituto Hondureño de Seguridad (Honduran Social Security Institute)
IIP	International Investment Position
IMAG	Ingreso mínimo anual garantizado (Secured minimum annual income)
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística (National Statistics Institute)
INHGEOMIN	Instituto Geominero de Honduras (Honduran Institute of Geology and Mines)
INJUPEMP	Instituto Nacional de Jubilaciones y Pensiones del Poder Ejecutivo (National Executive Branch Retirement and Pension Administrator)
INPREMA	Instituto Nacional de Previsión del Magisterio (National Educational Professionals Pension Administrator)
INPREUNAH	Instituto de Previsión Social de los empleados de la Universidad Nacional Autónoma de Honduras ("Universidad Nacional Autónoma de Honduras" Employee Pension Administrator)
INSEP	Secretaría de Estado de Infraestructura y Servicios Públicos (Ministry of Infrastructure and Public Services)
INTOSAI	International Organization of Supreme Audit Institutions
IPM	Instituto de Previsión Militar (Military Pension Administrator)
IPSAS	International Public Sector Accounting Standards
IRC	Informe de rendición de cuentas (consolidated annual reports required of all public sector entities pursuant to the respective governing laws)
ISPPIA	International Standards for the Professional Practice of Internal Auditing
LCE	Ley de Contrataciones del Estado (Government Procurement Law)
LCETME	Ley de Compras Eficientes y Transparentes a Través de Medios Electrónicos (Law on Efficient, Transparent Procurement via Electronic Media)
LOP	Ley Orgánica del Presupuesto (Framework Budget Law)
LOTSC	Ley orgánica del Tribunal Superior de Cuentas (Court of Audit Founding Law)
LRF	Ley de responsabilidad fiscal (Fiscal Responsibility Law)
LTAIP	Ley de transparencia y accesso a la información pública (Transparency and Access to Public Information Act)
MCA	Cuenta del Desafío del Milenio (Millennium Challenge Account)
MTBF	Medium-term budget framework
MTMFF	Medium-term macro-fiscal framework
NFPS	Nonfinancial public sector
NOGENAIG	Normas Generales de Auditoría Interna Gubernamental (General Standards for Government Internal Audit issued by the Honduran Supreme Court of Audit)
LPAPP	Ley para la promoción de las Alianzas Público-Privadas (Law on Promotion of Public-Private Partnerships)

OBI	Open Budget Index
ONADICI	Oficina Nacional de Desarrollo Integral del Control Interno (National Office on Comprehensive Internal Control Development)
ONCAE	Oficina Normativa de Contrataciones y Adquisiciones del Estado (Government Procurement Regulatory Office)
PACC	Plan Anual de Compras y Contrataciones (Annual procurement plan)
PEFA	Public Expenditure and Financial Accountability
PEI	Plan Estratégico Institucional (Institutional Strategic Plan)
PEP	Política de Endeudamiento Público (Public borrowing policy)
PFM	Public financial management
PIP	Plan de inversion publica (Public investment program)
PPAs	Contratos de compra de energía (Power purchase agreements)
PPP	Alianza Público Privada (Public-private partnership)
SAMI	Sistema de Administración Municipal Integrado (Integrated Municipal Administration System)
SANAA	Servicio Autónomo Nacional de Acueductos y Alcantarillado (National Water and Sewer Service)
SAPP	Superintendencia de alianzas público privadas (Superintendency of Public-Private Partnerships)
SCGG	Secretaría de Coordinación General del Gobierno (Ministry of Government Coordination)
SDJGD	Secretaría de Estado en el Despacho de Justicia, Gobernación y Descentralización (Ministry of Justice, Government and Decentralization
SDR	Special Drawing Rights
SEDS	Secretaría de Estado en el Despacho de Seguridad (Ministry of Security)
SEDUC	Secretaría de Estado en el Despacho de Educación (Ministry of Education)
SEFIN	Secretaría de Estado en el Despacho Finanzas (Ministry of Finance)
SESAL	Secretaría de Estado en el Despacho de Salud (Ministry of Health)
SIAFI	Sistema de Administración Financiera Integrada (Integrated financial management system)
SIGADE	Sistema de Gestión y Análisis de la Deuda (Debt Management Information System)
SINACORP	Sistema Nacional de Control de los Recursos Públicos (National System for Public Resources Control)
SIREP	Sistema de Registro y Control de Empleados (Personnel management system)
SIRFIDE	Sistema de Registro de Fideicomisos (Trust funds Registry)
SISERA	Sistema de Seguimiento a las Recomendaciones de Auditoria (Audit recommendations monitoring system)
SISOCS	Sistema de Información y Seguimiento de Obras y Contratos de Supervisión (Construction and supervision contracts information system)
SNIP	Sistema Nacional de Inversión Pública (National public investment system)
TSA	Treasury Single Account
TSC	Tribunal Superior de Cuentas (Court of Accounts)
UCF	Unidad de contingencias fiscales (Fiscal Contingencies Unit)

UNAH	Universidad Nacional Autónoma de Honduras (National Autonomous University of Honduras)
UPEP	Unidad de Planeamiento y Evaluation de la Gestión (Unit of Planning and evaluation of Performance)

INTRODUCTION

At the request of the Honduran Ministry of Finance (SEFIN), a mission from the IMF Fiscal Affairs Department visited Tegucigalpa, Honduras from October 22 to November 5, 2018, to conduct a fiscal transparency evaluation under the first three pillars of the IMF Fiscal Transparency Code. The mission team consisted of Ramón Hurtado (mission chief), Concha Verdugo (FAD), Mariana Sabatés (STA), and Marta Morano and Natalia Salazar (FAD experts). Mr. Jean-Baptiste Gros, long-term resident expert from the IMF Central America-Panama-Dominican Republic Regional Technical Assistance Center (CAPTAC-DR), participated in the initial meetings. Mr. Jaume Puig, resident representative of the IMF Western Hemisphere Department in Honduras, took part in the initial and closing meetings with the authorities.

During its visit, the mission met with Ms. Rocio Tábora, Minister of Finance; the deputy ministers of finance; and the heads of the directorates general of Macro-fiscal Policy, Transparency, Public Credit, Decentralized Institutions, Budget; Accounting, the Treasury, and other SEFIN divisional units.

The mission also met with officials of the Central Bank of Honduras (BCH), the National Banking and Insurance Commission (CNBS), the Municipality of Tegucigalpa, the legislature, the Court of Audit (Tribunal Superior de Cuentas, TSC), the congressional general accounting office (Contraloría General de Cuentas), the National Electric Company (ENEE), and the social security and pension administrations.

The results of the evaluation and the key recommendations of the action plan were presented at a closing meeting, chaired by SEFIN and attended by members of the government's economic sector cabinet.

This fiscal transparency evaluation is based on the information available in November 2018 when it was concluded. The findings and recommendations represent the opinions and advice of the IMF mission team and do not necessarily reflect the views of the Honduran government. Unless otherwise specified, the data presented in the text and tables of this report are estimates by the IMF mission team, not official estimates by the Honduran government. The mission would like to thank all of the institutions for their hospitality and consideration and for the frank and open discussions. Special thanks go to Ivonne Ramirez and Belky Mejia of SEFIN for their impeccable organization of the agenda and for arranging the mission's access to information.

EXECUTIVE SUMMARY

This report evaluates Honduras's fiscal transparency practices in relation to the IMF Fiscal Transparency Code (FTC). Honduras's score is similar to those of other Latin American countries and emerging market economies that have undergone the evaluation. In relation to the fiscal transparency principles, Honduran practices are considered basic in 15 areas; good in seven areas; and advanced in six areas. Fiscal transparency practices in the area of fiscal forecasting and budgeting are the strongest, while the fiscal risk analysis and management practices are the weakest. Finally, Honduras's current fiscal transparency practices fall short of the FTC principles in eight areas.

Pillar I: Fiscal Reporting

Honduras's fiscal reporting practices are considered basic and good, in line with the fiscal transparency evaluations conducted in other Latin American countries. Numerous monitoring reports are published by different institutions. The budget monitoring reports and reports on financial statements issued throughout the year by the General Accounting Office of the Republic (CGR) are produced monthly, within the first 10 days of the following month, on average, and quarterly, before the end of the following quarter. Budget outturn is reconciled monthly with the accounting records. Budget documentation includes an analysis of the cost of tax expenditures. An independent body, the Court of Audit (Tribunal Superior de Cuentas, TSC), is responsible for the external control and coordination of internal control and publishes the audit and supervisory reports. The annual accountability process (rendición de cuentas) is completed prior to the regulatory deadline, and the TSC's consolidated annual report (informe de rendición de cuentas, IRC) is published and submitted to the Congress prior to the presentation of the general budget.

The transparency of fiscal reporting can be easily improved in a number of areas. Although the institutional coverage of fiscal data is broad and includes the nonfinancial public sector (NFPS), it is incomplete due to the absence of data on the execution of funds managed by trusts and on delays in reporting by municipalities. The available monthly and quarterly information on financing is not exhaustive and lags behind other budget outturn publications and financial accounts; this information is particularly important because it is used to corroborate the consistency of the information about fiscal outturn. The financial statements of the consolidated public sector are also incomplete. In 2017, a number of institutions delayed the submission of information or did not submit financial statements to the CGR by due date. Only the 20 percent of the total expenditures of municipalities was considered reliable to be included in 2017 financial statements. The analyses of tax expenditure contained in budget documentation includes the methodology and detail, by sectors, only for 2017; it should be expanded to 2018 and 2019 at the same level of detail.

The annual report by the TSC comments extensively on performance in terms of budget outturn, but the TSC does not issue a qualified opinion on the reliability of the Government General Account (Cuenta General del Estado), and it limits its analysis to the Government Property Account (Cuenta de Bienes Patrimoniales del Estado).

Pillar II. Fiscal and Budget Forecasting

Honduras's fiscal and budget forecasts demonstrate significant strengths with respect to transparency. The legal framework, which is relatively simple and comprehensive, was strengthened through the Fiscal Responsibility Law (LRF), which became effective in 2016. Adherence to the budget calendar facilitates the timely submission and approval of the budget. The budget incorporates a macro-fiscal framework that is considered complete and presents the principal fiscal and budget aggregates according to international standards classifications. The public investment management system is transparent and provides for periodic updates of multiyear commitments and public disclosure of all public tenders. There is a system in place for budget management at the output level, and it is subject to ongoing monitoring by the government and oversight entities. Significant efforts have been made to disclose and communicate the approved budget in simple and accessible language to promote citizen participation.

Substantive but relatively simple technical improvements can be made in several areas, although these improvements would require political support. The institutional coverage of budgets is incomplete; accordingly, a portion of public resources escapes the budget process, which violates the principle of budget unity and the one-year budget rule. Transparency would be enhanced if the documents accompanying the budget identified the most relevant assumptions underlying the macroeconomic projections and provided a discussion of any revisions and their impact on the fiscal forecasts.

Pillar III: Fiscal Risks Analysis and Management

The mission identified a number of strengths in the management of fiscal risk in Honduras. Honduras has conducted a satisfactory internal analysis of macroeconomic risk and debt sustainability over the past 20 years. The Directorate General of Macro-fiscal Policy (DGPMF) is currently refining the macroeconomic scenarios and sensitivity analyses, and it will soon begin using additional stochastic models. Calculations are performed to determine specific risks, such as guarantees, litigation, and public-private partnerships (PPPs). Methodologies have been developed for other risks, such as public corporations and municipalities, but the calculations are not yet complete. A legal limit on borrowing is in place. The transparency with respect to PPPs is satisfactory. The government agency tasked with promoting PPPs, Public-Private Partnership Promotion Agency (COALIANZA), and the Superintendency of Public-Private Partnerships (SAPP) have implemented

satisfactory transparency mechanisms. Both entities publish extensive information on individual projects, and information on contracts is accessible to the public. The regulations governing PPPs establish an orderly process and restrict the use of this mechanism, thereby limiting the fiscal risks associated with contingencies. The regulations provide for a specific line item to cover contingencies, with clear access and limits, which is satisfactory in light of unforeseeable events the government may face, such as natural disasters. Given Honduras's vulnerability to natural disasters, the government has developed a risk management and mitigation policy geared to prevention. Finally, the BCH publishes semiannual reports on the stability of the financial system.

However, fiscal risks analysis and management is still in the early stages and should be strengthened. The analysis of macroeconomic assumptions and their implications for fiscal variables is not published, although there are numerous internal studies at the DGPMF. The analysis and management of specific risks should be improved and coordinated among the different institutions involved. Risk disclosure is incomplete, and the relationship of risks to fiscal projections is not clear. Regulations permit the allocation of resources for contingencies; however, they are generally below the allowed limit; given the magnitude of potential disasters, these resources for contingencies must be covered by budget amendments, a process that erodes the effectiveness of budget planning. The strategies to mitigate the risks from other liabilities than debt and from financial and nonfinancial assets are not yet fully defined. Significant risks arise in the management of trust assets and liabilities that are not disclosed. The net assets of Fideicomisos (trust fund) represented 2.3 percent of GDP in 2017. Government guarantees also represent a significant fiscal risk for the central administration; these contingencies are currently being quantified. The financial system is well capitalized, and liquidity levels are adequate. There are significant risks, however, associated with one state bank, the National Agricultural Development Bank (BANADESA), whose aggregate liabilities represented 1.09 percent of 2017 GDP and are not fully analyzed or disclosed. Contingencies associated with natural disasters are not covered by the risk report under preparation by the government, which will be presented next year. The municipalities are an important sector (7.5 percent of general government expenditure); their debts are not significant, but there is no annual report that discloses their financial performance.

Table ES.1 represents a summary of Honduras's performance against the FTC, and Table ES.2 presents a preliminary and partial estimate of the Honduras public sector financial overview for FY 2017.

Annex 1 of this report includes an action plan that presents the mission's most important recommendations, organized by pillar, to improve fiscal transparency practices in Honduras.

Table ES.1. Summary of Fiscal Transparency Evaluation

I. Fiscal Reporting	II. Fiscal Forecasting and Budgeting	III. Fiscal Risk Analysis and Management
1.1.1. Coverage of Institutions	2.1.1. Budget Unity	3.1.1. Macroeconomic Risks
1.1.2. Coverage of Stocks	2.1.2. Macroeconomic Forecasts	3.1.2. Specific Fiscal Risks
1.1.3. Coverage of Flows	2.1.3. Medium-Term Budget Framework	3.1.3. Long-Term Fiscal Sustainability Analysis
1.1.4. Coverage of Tax Expenditures	2.1.4. Investment Project	3.2.1. Budgetary Contingencies
1.2.1. Frequency of In-Year Fiscal Reporting	2.2.1. Fiscal Legislation	3.2.2. Asset and Liability Management
1.2.2. Timeliness of Annual Financial Statements	2.2.2. Timeliness of Budget Documents	3.2.3. Guarantees
1.3.1. Classification	2.3.1. Fiscal Policy Objectives	3.2.4. Public Private Partnerships
1.3.2. Internal Consistency	2.3.2. Performance Information	3.2.5. Financial Sector Exposure
1.3.3. Historical Revisions	2.3.3. Public Participation	3.2.6. Natural Resources Stocks and Flows
1.4.1. Statistical Integrity	2.4.1. Independent Evaluation	3.2.7. Environmental Risks
1.4.2. External Audit	2.4.2. Supplementary Budget	3.3.1. Sub-National Governments
1.4.3. Comparability of Fiscal Data	2.4.3 Forecasts Reconciliation	3.3.2. Public Corporations

Legend	Level of Practice				
	Not met	Basic	Good	Advanced	Not applicable

Table ES.2. Honduras: Public Sector Financial Overview, 2017
(Percentage of GDP)

	Central Government														
	Budgetary Central Government (CG)	Extrabudgetary CG	Social Security	Consolidated	Consolidated CG	State Government	Consolidated	Consolidated General Government	Nonfinancial Corporations	Consolidated	Nonfinancial Public Sector	Financial Corporations	Central Bank	Consolidated	Public Sector
Total Transactions															
Revenue	20.1	0.0	5.6	0.0	25.7	1.8	-1.0	26.5	5.6	-0.2	31.9	0.6	0.9	0.0	33.4
Expenditures	22.0	0.0	3.2	0.0	25.2	2.0	-0.3	26.9	6.0	-0.2	32.7	0.3	0.9	0.0	33.9
Expenses	18.9	0.0	3.2	0.0	22.2	0.7	-0.3	22.6	5.6	-0.2	27.9	0.3	0.9	0.0	29.1
Investment in NFA	3.0	0.0	0.0	0.0	3.0	1.3	0.0	4.3	0.4	0.0	4.8	0.0	0.0	0.0	4.8
Net Operating Result	**1.2**	**0.0**	**2.3**	**0.0**	**3.5**	**1.1**	**-0.7**	**3.9**	**0.0**	**0.0**	**3.9**	**0.3**	**0.0**	**0.0**	**4.2**
Net Lending/Net Debt	**-1.8**	**0.0**	**2.3**	**0.0**	**0.5**	**-0.2**	**-0.7**	**-0.4**	**-0.4**	**0.0**	**-0.8**	**0.3**	**0.0**	**0.0**	**-0.5**
Total Assets	**37.4**	**0.0**	**36.5**	**-8.4**	**65.5**	**4.0**	**-0.5**	**57.4**	**8.7**	**-5.7**	**60.4**	**7.1**	**31.0**	**-12.8**	**85.7**
Nonfinancial Assets	**25.8**	**0.0**	**1.2**	**0.0**	**27.1**	2.7	0.0	29.8	6.2	0.0	35.9	0.1	0.4	0.0	36.4
Financial Assets	11.6	0.0	35.2	-8.4	38.5	1.3	-0.5	27.7	2.5	-5.7	24.5	7.0	30.6	-12.8	49.2
Total Liabilities (a)+(b)	**60.7**	**0.0**	**15.2**	**-8.4**	**67.5**	**1.5**	**-0.5**	**69.0**	**11.0**	**-5.7**	**74.3**	**1.6**	**30.0**	**-12.8**	**93.1**
Reported Liabilities (a)	47.7	0.0	0.0	-8.4	39.4	1.5	-0.5	40.4	8.1	-5.7	42.8	1.6	29.8	-12.8	61.4
Debt Securities	25.4	0.0	0.0	-8.4	17.1	0.0	0.0	17.1	0.0	0.0	17.1	0.0	8.5	-4.6	20.9
Loans	22.3	0.0	0.0	0.0	22.3	1.5	-0.5	23.4	8.1	-5.7	25.8	1.3	1.8	-0.1	28.7
Unreported Liabilities (b)	12.9	0.0	15.2	0.0	28.1	0.0	0.0	28.6	2.9	0.0	31.5	0.0	0.1	0.0	31.6
Deposits and SDR Allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.3**	**19.5**	**-8.1**	11.8
Pension Liabilities	0.0	0.0	**11.6**	0.0	11.6			11.6			11.6				11.6
Foreign Creditors Debt Relief	**7.8**				7.8			7.8			7.8				7.8
APP Liabilities	**0.3**				0.3			0.3			0.3				0.3
Security Tax Trust Loan	**0.7**				0.7			0.7			0.7				0.7
Other Accounts Payable	**4.1**	0.0	3.6	0.0	7.7	0.4	0.0	8.2	2.9	0.0	11.1	0.0	0.1	0.0	11.2
Net Financial Worth	**-49.1**	**0.0**	**20.0**	**0.0**	**-29.1**	**-0.3**	**0.0**	**-41.3**	**-8.5**	**0.0**	**-49.8**	**5.4**	**0.7**	**0.0**	**-43.8**
Net Worth	**-23.2**	**0.0**	**21.2**	**0.0**	**-2.0**	**2.4**	**0.0**	**-11.6**	**-2.3**	**0.0**	**-13.9**	**5.5**	**1.0**	**0.0**	**-7.4**

Sources: Annual financial accounts by NFPS subsectors; 2017 Annual Financial Statements published in the CGN; and Financial Statements of the Municipality of Tegucigalpa and San Pedro Sula, from respective websites; Actuarial Deficit Reports from the Social Security Institutes, INJUPEMP, IPM, INPREMA, and IHSS; calculation of APP liabilities by Department of contingencies; own estimates; PII; and the BCH and Public Credit's internal and external debt balances.

I. FISCAL REPORTING

Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance.

1. **This chapter evaluates the quality of Honduras's fiscal reporting practices with respect to standards established by the Fiscal Transparency Code.** It considers four key dimensions of reporting based on publicly available information:

- the coverage of public sector institutions in terms of both stocks and flows
- the frequency and timeliness of reports
- the quality, accessibility, and comparability of fiscal reports
- the reliability and integrity of data.

2. **Honduras's fiscal reports are prepared and disseminated by different entities. Table 1.1** presents a summary of the principal fiscal and budget laws and documents reviewed during the mission.

Table 1.1. Fiscal and Budget Projection Documents

Legislation			
Budget Framework Law (LOP) and implementing regulations		2004	
Fiscal Responsibility Law and implementing regulations		2016	
TSC founding law (LOTSC)		2002	
Transparency and Access to Public Information Act		2007	
Document	**Description**	**Entity**	**Frequency**
Budget execution reports	Includes budget execution monitoring data by institution, funding source, expenditure group, purpose; and whether approved, current, or accrued.	SEFIN (DGP)	Monthly
Budget evaluation report	This report is the result of the self-evaluation exercise, which all government institutions are required by law to conduct through the integrated financial management system (SIAFI) and compiled by SEFIN.	SEFIN (DGP)	Annual

Document	Description	Entity	Frequency
Budget liquidation report	Summary of consolidated revenue, expenditure, and budget modification figures for the public sector, central administration, and decentralized sector. The report uses budget figures at the different expenditure phases and a budget account classification.	SEFIN (DGP)	Annual
Medium-term macro-fiscal framework (MTMFF) monitoring report	Monitoring report on adherence to the MTMFF, in particular, the targets for the fiscal year closing and comparison with June execution, to identify potential deviations and corrective measures, as needed.	SEFIN (DGPM)	By end-August of each year
Report on fiscal rule compliance	Summary of compliance with the fiscal rule during the preceding year.	SEFIN (DGPM)	By the close of the first half of each year
Citizen budget	Presentation of the budget process and the approved budget in simple language, including visual aids to facilitate understanding.	SEFIN (DGP)	Annual
Central administration financial statements and total public sector annual financial statements	These include statements of financial position, financial performance, changes in assets and net worth, statement of cash flows, comparative statements presenting and explaining differences between the budget and accounting records, and an analysis of funding and debt.	CGR	Monthly and annual
Central administration and NFPS financial accounts	Monthly report monitoring substantial government revenue, expenditure, and funding and NFPS revenue and expenditure.	SEFIN (DGPMF)	Monthly
BCH Statistical Bulletin	Statistical multiples of gross domestic public debt for the central government, decentralized institutions, municipalities, and NFPS, by creditor, borrower, and currency.	BCH	Monthly
Debt statistics and BCH website	Stock of government bonds by interest rate, creditor, and amortization period. Central government domestic debt service by transaction. Decentralized institutions' and local governments' consolidated domestic debt, by creditor. Public sector domestic debt, by borrower and type of instrument. (See 1.3 for further details).	BCH	Monthly

Document	Description	Entity	Frequency
Reports on actuarial deficit calculations for IHSS, INPREMA, IPM, and INJUPEMP	Actuarial debt calculations for the institutions indicated.	Social security agencies	Not produced on a regular basis
Annual financial statements of the Tegucigalpa and San Pedro Sula municipalities (website)	Financial statements.	Municipalities	Annual

A. Coverage

1.1.1.	Coverage of institutions	Basic

3. In 2017, the public sector in Honduras included 408 institutions of various legal forms whose total spending represented approximately 34 percent of GDP (Table 1.2). The institutions are grouped as follows in accordance with international standards:

- ***Budgetary central government (BCG):*** The BCG consists of 91 entities divided as follows: the 70 national institutions of what is known at the national level as the central administration—consisting of seven economic cabinets, 9 bodies of the three branches of government (executive, legislative, and judicial), 17 ministries, and 37 deconcentrated entities; and 21 decentralized entities, including the national universities.

- ***Extrabudgetary central government (ECG):*** This sector does not exist as an institutional unit because all central government entities that manage public funds are included in the budget. However, there are extrabudgetary funds organized as trusts that manage budget funds but do not submit expenditure execution reports. In 2017, budget transfers to those funds represented less than 9 percent of total budget expenditure. There is also a vehicle registration fee collected by the Property Institute (Instituto de la Propiedad), whose execution and collection do not appear in the budget because they are transferred to the trust that administers those funds. The last budget represented an exception insofar as 30 percent of vehicle registration fees were included as a budget revenue line item.

- ***Social security funds:*** The sector includes five social security (pension and health benefits) institutions: the Honduran Social Security Institute (IHSS), the Executive Branch Employee Retirement and Pension Fund Administrator (INJUPEMP), National Teachers' Pension Fund Administrator (INPREMA), the Military Pension Institute (IPM), and the Autonomous National University of Honduras Employees Pension Administrator (INPREUNAH) (Box 1.1).

Box 1.1. Honduran Pension System

The Honduran public pension system is fragmented; multiple pension scheme administrators cover different sectors of the population.

The **Honduran Social Security Institute (IHSS)** created by Decree 140-1959 on July 3, 1959, provides health, disability, retirement pension, and survivor benefits to the **general population**.

The other social security institutions are divided according to subsectors of the public sector; they are defined-benefits scheme with allocated funding and are employment-related plans. The institutions and target populations are as follows:

- The National Executive Branch Retirement and Pension Institute (INJUPEMP), a social protection system for Executive Branch employees, was created by law in 1971.
- The National Educational Professionals Pension Institute (INPREMA, created by Decree No. 84 on December 10, 1970, provides post-employment benefits to public and private educators.
- The Universidad Nacional Autónoma de Honduras Employee Pension Institute (INPREUNAH) was created in accordance to Article 59 of Decree No. 209-04 of the National Congress, approving the UNAH founding law; the INPREUNAH administers retirement benefits for university officials.
- The Military Pension Institute (IPM) administers pension benefits for members of the Armed Forces, national police, and firefighter corps.

Under the 2014 GFSM, the statistical treatment of pension schemes depends on whether the plan is contributory or not, whether it is a defined-benefit or defined-contribution plan, and whether the plan is social-security-related or employment-related. For defined-benefits plans, the treatment depends on the type of beneficiary: if the beneficiary is the general population or a large segment of the general population, the plan is considered to be a **social security plan**. If individuals, households, or a group of employees are eligible to receive social benefits, the plan is considered an **employment-related social security plan**.
Under a **social security** scheme, the relationship between benefits and contributions is not considered sufficiently strong to give rise to a financial claim by contributors. Accordingly, liabilities are not recorded, but an estimate equal to the net implicit obligations for future social security benefits should be presented as a memorandum item on the balance sheet, as a contingent liability.
In contrast, **employment-related pension plans** are considered to entail a contractual responsibility vis-à-vis employees and are recorded as liabilities. Under this criterion, the actuarial liabilities of the INJUPEMP, INPREMA, INPREUNAH, and IPM are recognized in the public sector financial statements as firm liabilities, while the net actuarial liabilities of the IHSS are considered contingent liabilities.

Pension plan	Actuarial liabilities	
	HNL millions	% GDP
Liabilities	**62,597**	**11.6**
INJUPEMP	41,827	7.8
INPREMA	20,065	3.7
INPREUNAH	N/A	N/A
IPM	705	0.1
Contingent liabilities	**99,491**	**18.4**
IHSS	99,491	18.4

- ***Municipal governments:*** This sector comprises 298 municipalities but is characterized by the fact that the population and volume of expenditure managed are concentrated in a relatively small number of municipalities. The largest 18 municipalities account for nearly 60 percent of total expenditure.

- ***Public corporations***: This sector consists of four financial institutions and eight nonfinancial institutions. The financial institutions are the National Banking and Insurance Commission (CNBS)—the oversight authority for the system; the Central Bank of Honduras (BCH); and two public banks, BANADESA and BANHPROVI. The nonfinancial institutions are ENEE, the National Port Authority (ENP), the Honduran Telecommunications Company (HONDUTEL), the National Water and Sewer Service (SANAA), the Honduran Agricultural Market Institute (IHMA), the National Commodities Supplier (BANASUPRO), the National Railway Company (FNH), and the Honduran Postal Service (HONDUCOR).

Table 1.2. Subsector Contributions to Public Sector Results

	Number of Entities	Income % GDP	Expenses % GDP	Result % GDP	Intrasector % GDP	Net Expenses % GDP	% of PS Net Expenses
Public Sector	**407**	**33.4**	**33.9**	**-0.5**	**0.0**	**33.9**	**100.0**
General Government	**394**	**26.5**	**26.9**	**-0.4**	**0.0**	**26.9**	**79.3**
Central Government	96	25.7	25.2	0.5	1.0	24.2	71.3
Budget CG	91	20.1	22.0	-1.8	1.0	20.9	61.8
Extrabudget CG	0	0.0	0.0	0.0	0.0	0.0	0.0
Social Security Funds	5	5.6	3.2	2.3	0.0	3.2	9.6
Local Governments	**298**	**1.8**	**2.0**	**-0.2**	**0.0**	**2.0**	**5.9**
Nonfinancial Public Corporations	**8**	**5.6**	**6.0**	**-0.4**	**0.0**	**6.0**	**17.7**
Central Bank	**1**	**0.9**	**0.9**	**0.0**	**0.0**	**0.9**	**2.6**
Financial Public Corporations including the BCH	**4**	**1.5**	**1.2**	**0.3**	**0.0**	**1.2**	**3.6**

Sources: Honduras authorities and IMF estimates.

4. **Fiscal reports in Honduras traditionally covered the entities of the central government, general government, nonfinancial public sector (NFPS), and, in some cases, what is referred to as the "combined public sector,"** which is the NFPS and BCH. Reports on stocks of gross debt continue to be published for the combined public sector.

5. **The entry into force of the LRF placed increased the emphasis on the production of fiscal information for the NFPS and its subsectors**. This information is critical for monitoring compliance with the rules imposed by the law and for evaluating the impact of fiscal policy on the economy. However, the results of the monitoring are not systematically published in a report covering the NFPS and each of its subsectors. The subsectors included in the financial account are the general government, the central government, and the central administration as a subgroup of the central government. These financial reports are reported individually.

6. **Although a fiscal report covering the entire public sector is desirable, as long as coverage of the NFPS continues, it should include each of the subsectors indicated in the macroeconomic statistics manuals.** The report should include revenue, expenditure, and financing flows (the financial account), as well as stocks of assets and liabilities associated with the same institutional coverage. Revenue and expenditures are publicly disseminated in various reports, each of which provides limited institutional coverage. The SEFIN website publishes the

following information on flows: (1) monthly revenue and expenditure for the NFPS, general government, and central government; and (2) quarterly report of central administration revenue, expenditures, and financing. For the other sectors, financing data are limited to net borrowings plus an income line item. Information on stocks is limited to the monthly publication of gross debt liabilities of the NFPS, general government, central government, and BCH, by borrower and creditor and, for domestic debt, by instrument.

7. The reports providing the broadest institutional coverage are the annual financial statements. The financial statements are consolidated for the total public sector; for its subsectors like the general government, public corporations, and NFPS, aggregates are presented with a general column with the consolidation for the entire public sector. Efforts are underway to prepare consolidated reports for each of these subsectors based on the accounting data.

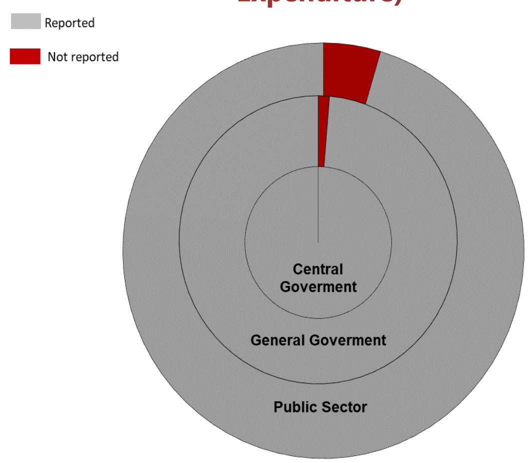
8. A system is being developed to consolidate each of the subsectors. When the consolidated accounting information for the public sector and subsectors becomes available, it will represent a substantial improvement in the presentation and analysis of fiscal data by subsector, which will then include information on stocks of assets, as well as liabilities.

9. The 2017 financial statements cover all subsectors of the public sector but do not include data from each of institutions, and they were not updated with data as of December 2017. The Universidad Nacional Autónoma de Honduras (UNAH), a national university, and BANADESA did not submit their December 2017 financial statements on time, and therefore the balances from June 2017 were included. For the local government sector, out of the more than 100 municipal financial statements received, only 91 municipalities were included —78 of which came through the Integrated Municipal Administration System (SAMI) and the remainders were provided by the CGR—; the others were rejected due to inconsistencies in figures. The 91 municipalities represented do not include the largest, Tegucigalpa and San Pedro Sula; as a result, the volume of expenditure included in the annual financial statements represents no more than 20 percent of total expenditures managed at the municipal level.

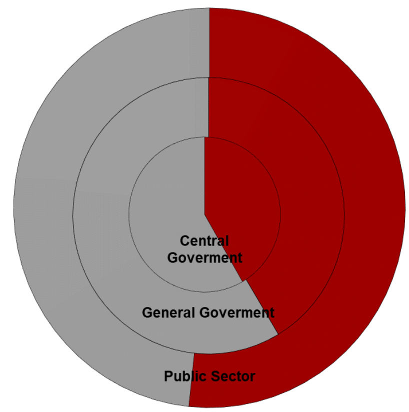
10. The financial account omits the flows of public financial corporations. These flows represent the largest omission of information from the financial account. In the case of municipalities, the largest do not report through the system specially designed to manage municipal information. When the rest of the municipalities report, they do not meet all of the required criteria for clarity. The information input is not always consistent, and there are differences between revenue and expenditure data and financing, or conceptual errors in classification. For this reason, the financial account uses data processed by BCH for the local government sector, by source of financing; revenue and expenditure are distributed based on the same percentage used in the distribution for the previous year.

Figure 1.1. Fiscal Reporting Coverage

1.1.1. Institutional Flows (Percentage of Total Expenditure)



1.1.2. Stocks of Gross Debt (Percentage of Instruments and Institutions in Total Gross Debt)



Source: Prepared by the IMF.

1.1.2.	Coverage of stocks	Not met

11. The principal fiscal reports used to monitor the rules prescribed by the LRF and BCH publications do not include stocks of assets. The reports focus solely on stocks of gross debt without taking account of stocks of financial and nonfinancial assets. This indicator, however, is also inadequate because information on the public debt reported fails to take into account a number of debt instruments.

12. The reports providing the most information on stocks are the financial statements published by the CGR. The CGR publishes central administration financial statements monthly and consolidated public sector financial statements annually. These possess all of the deficiencies in terms of institutional coverage discussed previously. Also as noted above, however, the subsectors of the public sector are not consolidated, as required by the 2014 GFSM, to ensure the information is internationally comparable and provides consistent and significant macroeconomic aggregates for analysis.

13. The SEFIN annual report (memoria anual) is the only public report that provides data on stocks and flows for the central administration and NFPS; in this case, the stocks are limited to gross domestic and external debt. It does not consider the stocks of all instruments that would qualify as debt instruments (as discussed in the following paragraph), which are included in the total financing calculated by BCH.

14. On an aggregate basis, the instruments not considered or disclosed in debt reports represent nearly 32 percent of GDP for 2017 (Figure 1.2). Those instruments are as follows:

- **Central government loans refinanced in 2005 with multilateral creditors and creditors under the Heavily Indebted Poor Countries (HIPC) Initiative amounted to HNL 42.176 billion (78 percent of GDP), according to data provided by Public Credit.** In 2005, Honduras refinanced outstanding loans with a number of its creditors". In that process, the creditors agreed to forgive debt disbursed until 1999. With respect to disbursements made after that date, to the extent that the government used funds that would otherwise go to amortization and interest payments on the debt, social and infrastructure works implemented by the government would be recognized as payments. In other words, the debt was converted from debt amortized in cash to debt repaid in kind (expenditure on social programs and projects under the Poverty Reduction Strategy).

- **The debt contracted by Fideicomiso Tasa de Seguridad with the banking system could not be determined because the information on this liability is aggregated with another loan.** The total amount of both loans was HNL 3.942 billion (0.7 percent of GDP) in December 2017.[1] Information on the use of this funding and financing of trusts in general is not monitored on a regular basis. The transfer from the budget to the trust is recognized directly in the financial account as an expenditure made by the trust. This treatment will be discussed under the next indicator.

- **Liabilities in connection with public works implemented in the form of PPP contracts.** These are calculated by the DGPMF applying the standard 32 of the International Public Sector Accounting Standards (IPSAS) to determine whether the amounts owed for each contract are characterized as financial or nonfinancial liabilities.[2] The total financial liabilities pursuant to PPP contracts is HNL 1.360 billion (0.3 percent of GDP), which should be included in the stock of public debt. Changes in these liabilities are reflected in the financing and public works in the central administration financial account; however, they are not included in the stock of gross debt.

- **Other payable accounts not considered in stocks of gross debt represent a total of HNL 60.673 billion (11.2 percent of GDP), according to the 2017 financial statements.** They consist of HNL 3.990 million in external payable accounts arising from the difference between the amount recorded in stocks of external debt and that recorded under the General Government Sector as liabilities in the International Investment Position (IIP) published quarterly on the BCH website. The rest arise from liabilities recorded in the financial statements

[1] This is explained in Note 47 to the 2017 financial statements.

[2] A financial liability is part of the debt because it entails an unconditional obligation for the government to pay the operator of the asset. Although the nonfinancial liability is not a debt instrument because there is no unconditional obligation to pay the operator, and the operator is granted the right to collect it directly from the users of the asset, it forms part of the contingent liabilities of those contracts.

- **The pension liabilities of the social security institutions covering government employees have not been considered and represent roughly 11.6 percent of GDP (HNL 62.597 billion).** This information was obtained from actuarial debt calculations provided by those institutions.

- **The stocks of debt consider only BCH; the liabilities of BANADESA and BANHPROVI should also be included.** The liabilities consist of deposits by the general public plus loans received by both institutions, for combined total of HNL 8.543 billion (1.6 percent of GDP).

- **Other debt instruments relating to BCH total HNL 61.866 million (11.5 percent of GDP).** Although BCH is included in the coverage of institutions for which stocks of gross debt are published, the coverage of instruments included in that information is limited; it omits deposits of other sectors at BCH, the monetary base, and Special Drawing Right (SDR) allocations from the IMF.

15. The only institutions whose financial statements include stocks of financial and nonfinancial assets are those institutions that report annually to the CGR and those that submit their financial statements through the Integrated Financial Management System (SIAFI):

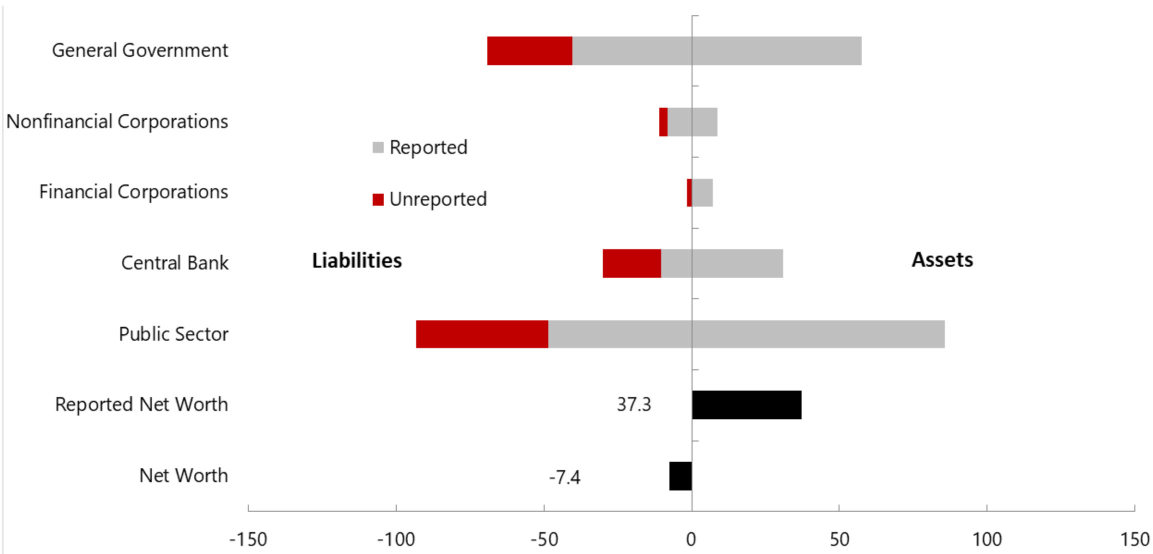
- **Nonfinancial assets** are reported in a decentralized SIAFI subsystem for nearly the entire central government and are valued at a constant carrying value. To gain an idea of the stock of nonfinancial assets for the entire public sector, the mission worked with the data included in financial statements. The total amount of nonfinancial assets, including accumulated depreciation for the total public sector, is HNL 196.544 billion (25.8 percent of GDP).

- **Financial assets** are not reported in a fiscal report. The information reported in the IIP provides an indication of their magnitude. The IIP includes assets with respect to the rest of the world and is published quarterly. For the total public sector, the assets represent 49.2 percent of GDP, or HNL 265.790 billion. This amount was estimated based on data from financial statements, with the relevant consolidations. Financial assets with respect to the local banking system can be obtained more readily from the monetary statistics compiled by BCH.

16. Government securities are recorded at face value, not market value or nominal value. The new module of the debt management system, SIGADE, is being checked to be able to calculate accrued interest to use as part of the calculation of nominal values for government securities, as well as loans entered in SIGADE. With respect to government securities issued internationally, the total amount is considered external debt, despite information indicating that some of those instruments are held by residents. That information appears in the annexes to accounting statements from the banking system, which include information on government securities held by both banks and customers. The inclusion of this information would improve data on government securities by creditor. Efforts are being made to improve the available

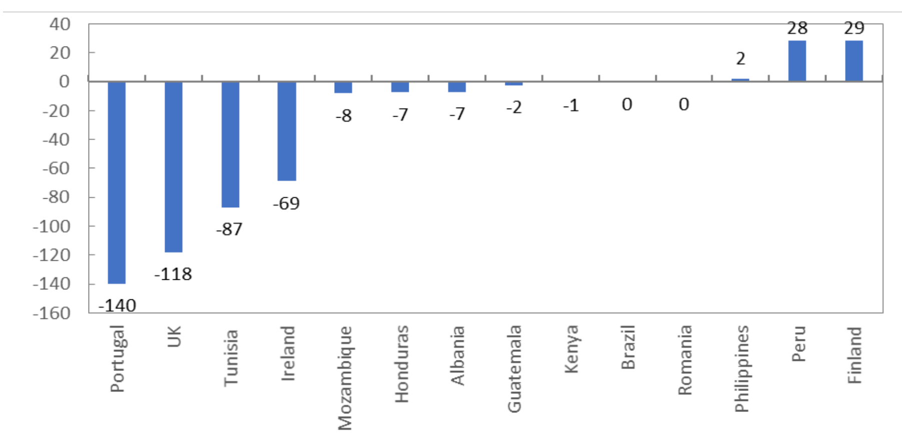
information about the holders of these instruments by requesting information from the banks that hold them in their portfolios. The figure 1.3 shows the public sector net worth in selected countries.

Figure 1.2. Coverage of Stocks in Fiscal Reports
(% of GDP)



Source: IMF staff estimates.

Figure 1.3. Public Sector Net Worth in Selected Countries
(% of GDP)



Source: IMF staff estimates.

1.1.3.	Coverage of flows	Basic

17. The fiscal reports used to monitor compliance with fiscal rules (see dimension 2.3.1) and discuss fiscal policies are registered on a modified cash basis. Revenue and expenditures are registered on a cash basis; accrual accounting is used for some expenditures,

and the accrual basis is used in calculating the financing because all financial assets and liabilities are considered, including other payable accounts and liabilities relating to PPPs. Interest is recognized on a cash basis, but efforts are underway to calculate interest on an accrual basis.

18. **Changes in deposit accounts owned by trusts (extrabudgetary funds) are not taken into account in the financing calculations**. The bank accounts of the 67 existing trusts, which are managed separately from the budget, are not considered in calculating the amounts effectively spent by the trusts for their activities. The assumption is that the budgetary spending takes place at the moment that the budgetary virement from the budget to the trust is released. In fact, the trusts maintain balances in their accounts; Fideicomiso de Tasa de Seguridad (FTS) is also a borrower from the resident banking system. All information about changes in financial assets and liabilities should be taken into account in determining the trust's effective expenditures.

19. **Tables 1.3 and 1.4 presents the manner in which these transactions should be reflected in the consolidated central government and the overestimation of the trusts' expenditures for 2017**. The transfer from the budget is used, in part, to increase available cash, which, combined with the increased borrowing by the FTS, brings total expenditure for the year to HNL 8.295 billion rather than HNL 12.093 billion.

Table 1.3. Flows Between Central Government and Trusts

Year 2017 (MM lempiras)	**CG**	**Trusts**	**To be consolidated**	**Consolidated CG**
Note	**1**	**2**	**3**	**4**
Revenue		12,093	-12,093	0
Expenses	12,093	8,295	-12,093	8,295
Result-deficit/+surplus	**-12,093**	**3,797**	**0**	**-8,295**
Financial balance sheet	**-12,093**	**3,797**	**0**	**-8,295**
Financial Assets	-12,093	5,509		-6,584
Liabilities (Security Fee F.)		**V**/ 1,711		1,711

Notes:

1. Transfer from Budget CG to Trust.

2. Transactions in Trusts, they receive transfer from CG, spend part, and are financed by

3. Consolidated PCG expense column and income for Trusts.

4. Consolidated transactions for the CG.

5. Increase in liabilities that also includes Security Fee, debt for infrastructure construction.

Source: IMF staff calculations.

Table 1.4. Reconciliation of Stocks and Flows for Trusts

Trust Statement	Balance as of Dec 2016	Transactions 2017	Balance as of Dec 2017
Income (budget transfers)		12,093	
Expenses		8,295	
Result - deficit/+surplus		**3,797**	
Financial balance sheet	**8,662**	**3,797**	**12,459**
Financial Assets	10,892	5,509	16,401
Liabilities (Security Fee Trust) **(1)**	2,230	1,711	3,942
Expenditures Adjusted in Financial Accounts		**-3,797**	
Increase to Debt	**2,230**	**1,711**	**3,942**

Notes:

(1) The liability is not entirely for the Security Fee Trust, there's a part that is debt for infrastructure construction.

Source: IMF calculations.

1.1.4.	Coverage of tax expenditures	Basic

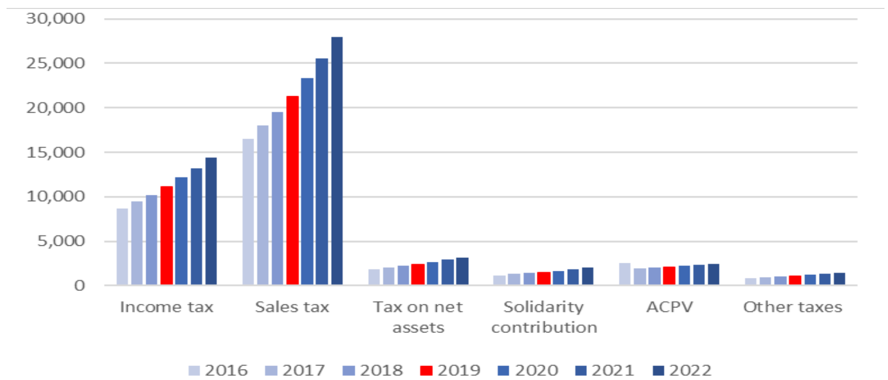
20. Information on revenue losses due to tax expenditures during the fiscal year is published annually. The details of tax expenditures are included in two different set of budgetary documents. First, as part of the MTMFF, where past tax expenditures and a three-year projection, with a brief explanation of the used methodology is presented by type of tax. Second, a separate section on tax expenditures, but referred to 2017, was included for the first time in the 2019 proposed budget.

21. The proposed 2019 budget identifies the beneficiaries of each type of tax by sector, but it does not indicate the objective of the tax expenditures or reference the fiscal year of the proposed budget. The budget section mentioned includes the most detail by the type of tax and identifies the branch of the economy and sector. However, the information presented in 2019 consists of ex-post tax information on the collection for 2017 but is not a forecast. This lag of two fiscal years precludes a comparison of the spending programs stated in the budget proposal with the benefits established as tax expenditures; the data relate to different fiscal years and therefore do not provide a complete view of total public spending allocated to a specific objective or sector.

22. The regulations clearly define tax expenditure; for new tax expenditures, the regulations require the publication of their impact during the time they remain in effect. Article 3 of the LRF implementing regulations defines tax expenditure as revenue forgone due to the creation or expansion of tax incentives or benefits; this category includes exemptions;

preferential rates; and deductions to benefit, promote, or develop specific activities, sectors, branches of the economy, regions, or taxpayer groups. The regulations also provide, in Article 4, that a cost-benefit analysis of new tax expenditures must be conducted and made it public. In 2019, these benefits represented 6.3 percent of GDP, equivalent to 36 percent of projected tax revenue in 2019, with a similar tax structure to the projected total revenue collection.

Figure 1.4. Tax Expenditures, 2016–21
(HNL millions)



Source: IMF staff estimates.

23. **The law establishes no controls or targets for the size of tax expenditures.** Tax expenditures are, by nature, the same as spending appropriations for different programs and should therefore be included in fiscal rules to limit their growth. The current budget regulations prescribe no limit or control of the total amount of tax expenditures. An advanced practice with respect to this principle would entail one of the following approaches: (1) establish a ceiling on total volume, in the same way as spending ceilings are imposed or limits of growth are set; (2) impose a time limit on tax benefits when they are approved; or (3) ensure that tax expenditures and spending programs projections are presented in the budget documentation and discussed collectively so as to consider trade-offs between them by the time that decisions on spending appropriations occur.

B. Frequency and Timeliness

1.2.1.	Frequency of in-year fiscal reporting	Advanced

24. **The CGR, DGPMF, and BCH publish the financial statements for the central administration, the financial account for the central administration and the NFPS, and debt statistics on a monthly basis**. The reports on financial statements by the CGR are published within 10 days following the month to which they pertain. They include statements of financial position, financial performance, changes in net assets, cash flows statement, and comparative statements between the budget and accounting reports, as well as an explanation of differences and an analysis of financing and debt. The DGPMF's monitoring reports for the

central administration and NFPS financial accounts include revenue, expenditures, and stocks; these are reported monthly but with a longer publication lag. Finally, BCH publishes a wealth of monthly and quarterly information on domestic debt.

Table 1.5. Fiscal Reports Published by BCH

TABLES PUBLISHED BY THE BCH PUBLIC FINANCE UNIT	FREQUENCY	LAG TIME
TABLES PUBLISHED IN STATISTICAL BULLETIN		
Gross internal debt of central administration, by creditor	MONTHLY	40 DAYS
Gross internal debt of decentralized bodies, by creditor	MONTHLY	40 DAYS
Gross internal debt of local governments, by creditor and currency	MONTHLY	40 DAYS
Consolidated internal debt of non-financial public sector, by creditor	MONTHLY	40 DAYS
Consolidated internal debt of non-financial public sector, by creditor and currency	MONTHLY	40 DAYS
TABLES PUBLISHED IN THE TAX SECTION OF THE WEBSITE		
Gross internal debt of central admin, by creditor	MONTHLY	40 DAYS
Gross internal debt of central admin, by creditor and type of instrument	MONTHLY	40 DAYS
Balance of Honduran government bonds (bgh), by rate type, creditor, and original amortization term	MONTHLY	40 DAYS
Internal debt service of central administration by transaction	MONTHLY	40 DAYS
Consolidated internal debt of decentralized bodies and local governments, by creditor	MONTHLY	40 DAYS
Public sector internal debt, by debtor and type of instrument	MONTHLY	40 DAYS

Source: BCH.

25. **The Directorate General of Budget (DGP) publishes monthly reports on budget execution and quarterly monitoring reports on financial execution by the public administration**. The DGP publishes monthly budget execution reports within the first 30 days of the following month on the SEFIN website. The reports provide details of expenditure, by institution, for the central administration, the decentralized institutions, and social security funds, as well as the expenditure relative to initial projections, current expenditure, and accrued spending, by funding source, group, and spending targets. The quarterly Report of Monitoring and Evaluation of Budget Financial Execution for the Public Administration is published 45 days after the close of each quarter. In addition to revenue and expenditure execution for the central administration and decentralized institutions, the report analyzes budget modifications; executed expenditure, by purpose; the public debt position; transfers to municipalities pursuant to applicable laws; and the public investment program for the public sector.

1.2.2.	Timeliness of the annual financial statements	Advanced

26. **The audited annual financial statements are published in July, within nine months after the annual closing**. The TSC submits the audited reports to the National Congress in late July of each year,[3] to ensure that the Congress has time to analyze the public sector reports from the previous fiscal year before approving the following year's budget.

27. **Pursuant to Article 100 of the Budget Framework Law (LOP), the CGR has until April 30 to submit its annual report (informe de rendición de cuentas, IRC) for the previous fiscal year to the Congress**. However, the CGR submits the reports ahead of

[3] An example is https://www.tsc.gob.hn/web/Rendicion_de_cuentas/2017/Informe_ejecutivo_RC-DF.pdf.

schedule: in March of each year, it presents the budget liquidation; the central administration balance sheet, which includes the net assets of decentralized institutions; and a report on the consolidated public sector financial position. The mission confirmed the IRC submission dates for a three-year period.

C. Quality

1.3.1	Classification	Basic

28. **The general budget is based on a three-level classification: institutional, economic (by spending object and revenue category) and functional (by spending sector); the budget execution reports, however, do not reflect these classifications.** The budget execution reports consider the institutional and economic classifications, but they do not include spending details by function. This principal classification is accompanied by a secondary classification by funding source, financing entity, and geographic location. The budget classifications are governed by technical regulations and procedures approved in the context of the LOP and set out in the 2018 Manual of Budget Classifiers. This budget classification is aligned to the 2001 GFSM; efforts are underway to complete the alignment to the 2014 GFSM.

29. **The classification by budget program is quite limited.** Pilot projects have been conducted to define budget programs in specific spending areas, but the definitions have not been developed and put into widespread use. Further details on the budget classifications are presented in indicator 3.2 of the performance information.

30. **There are weaknesses in the allocation of investments to economic classifications, by spending objective**. A substantial volume of expenditures for projects identified as human development projects are recorded as investments, but these should be considered current spending.

31. **The municipal budgets use a specific economic classification, by spending objective, that incorporates a level of detail more aligned with their needs**. A specific manual, the Budget Classification Manual for SAMI Municipalities, provides for greater disaggregation to accommodate the specificities of said municipalities. It incorporates classifications by spending objective, with a systematic, standardized organization of goods, services, and transfers applied by the municipalities in their activities.

32. **Honduras is in the process of implementing the International Accounting Standards**. The process will include implementation of the IPSAS and the International Financial Reporting Standards (IFRS) for the NFPS and public financial corporations, respectively.

33. **The financial account uses the 1986 GFSM classification, but the conceptual definitions of revenue and expenditure are aligned with the 2014 GFSM**. Net lending by the government is treated as a component of financial assets rather than as an expenditure item;

amortizations and disbursements are treated as financing transactions rather than negative or positive spending, respectively.

34. The country is submitting general government data to the IMF database in accordance with the 2014 GFSM format. At the date of the mission, the most recent submission dated from 2015; the 2016 and 2017 data were being prepared for transmittal but have yet to be sent.

1.3.2.	**Internal consistency**	**Basic**

35. Honduras publishes only one of the three internal consistency reports on fiscal data required under the FTC. The BCH publications on gross debt include tables presenting total external debt by type of borrower sector, as well as creditor and domestic public debt by debt holder.

36. There is no reconciliation report between the deficit measured above the line by SEFIN and the below the line financing calculated by BCH. The two institutions discuss and explain the discrepancy monthly, but neither the amount nor a reconciliation is published. Public disclosure and explanation of the discrepancy would substantially improve the transparency of fiscal figures.

37. There is likewise no public report explaining the change in debt from one year to another according to disbursements and amortizations during the period. Although there is a BCH report analyzing the consistency between stocks and flows of gross public debt, it is not disclosed to the public.

1.3.3.	**Historical revisions**	**Basic**

38. The most recent revision of data from 2016 is explained in a note to the tables published on the SEFIN website. No data prior to 2016 have been revised. This revision was undertaken because the LRF established a new methodology for calculating the fiscal deficit in line with the 2014 GFSM. Previously, loans from the central government to other institutions were treated as an expenditure at the time of disbursement and as a negative expenditure when the borrowing institution repaid it (1986 GFSM). From the effective date of the LRF, such loans have been treated as central government financial assets, and therefore neither disbursements nor repayments affect the deficit. An explanatory note is included in the 2016 SEFIN economic report (Memoria Económica) and will also be included in the 2017 version; both are published on the SEFIN website.

D. Integrity

1.4.1.	**Statistical integrity**	**Basic**

39. Fiscal statistics are compiled and disseminated by the DGPMF, a unit of SEFIN, and BCH, in accordance with the IMF General Data Dissemination System. Public finance statistics were reported in 2014 GFSM format through 2015, when the reporting was suspended. There is a commitment to resume transmittal of the information beginning 2018, completing the historical series through 2017.

40. BCH compiles and disseminates statistics on gross domestic and external public debt, and it calculates the financing for the NFPS and subsectors thereof, which is reconciled with data compiled by the DGPMF. The published data on gross public debt are disaggregated by creditor and borrower. As prescribed by the LRF, SEFIN is responsible for the publication of the medium-term fiscal framework (MTFF), in consultation with BCH, to ensure compliance with the fiscal rules established in the LRF. SEFIN is also responsible for compiling revenue and expenditure statistics for the NFPS and subsectors thereof. Accordingly, there is no independent fiscal statistics unit.

41. Designating a specific government agency—and, to the extent possible, an independent professional body—responsible for the production of fiscal statistics would enhance the function and would be consistent with the most advanced international practices. Doing this would result in a higher score with respect to FTC principles. An important aspect of fiscal integrity is the professional independence of the agency responsible for producing fiscal statistics, which will enable it to produce reliable statistics. The involvement of multiple agencies in compiling and publishing fiscal data based on different methodologies can create confusion and be counterproductive to transparency.

1.4.2.	External Audit	Basic

42. The Court of Audit (TSC) has a clear mandate, is independent of the institutions it audits, and publishes all of its audit and inspection reports. The TSC is governed by the Constitution and its founding law (LOTSC). Its members are appointed to a six-year term by a two-thirds vote of the Congress. The Constitution and Article 6 of the LOTSC recognize functional and administrative autonomy of the TSC from the branches of government. The TSC's annual external audit and inspection reports, and its recommendations on the public administrations' operations and practices, are disclosed to the public.

43. The TSC is the supreme audit institution and reports annually to the Congress on budget outturn prior to the government's presentation of the proposed budget for the following fiscal year. Article 205 of the Constitution and Article 32 of the LOTSC grant the TSC the authority to issue an opinion on budget outturn for the general government's revenue and expenditure budget and to evaluate the efficiency and effectiveness of the public sector in terms of expenditure, organization, performance, management, adherence to operational plans, quality of internal control, and the accounting framework and implementation thereof.

44. **The TSC is responsible for the supervision and evaluation of the efficiency of the internal controls of public institutions**. In the course of performing these functions, the TSC develops manuals and issues the Standards for Public Sector Internal Control and General Standards for Internal Audit. Internal audit units are in place in all instrumentalities of the central government and the concentrated institutions. The audit units have professional independence, broad authorities, and training in professional audit methods; however, they lack sufficient resources and have little enforcement authority.

45. **The TSC annual audit reports focus primarily on an analysis of budget liquidation; in 2017, the report did not include any opinion on central administration financial statements other than in a section on public debt**. The TSC's IRCs focus on budget outturn by means of a specific analysis of 87 public sector entities in 2017. The 2015 and 2016 IRCs included specific sections evaluating the consolidated public sector financial position and central administration financial statements. However, the 2017 report is limited to an evaluation of reporting on the public debt—the evaluation includes a comparative analysis of balances in public debt accounts, as shown in the central government financial statements; compliance with the Standards for the Accounting Closing; a reconciliation of public debt balances in SEFIN records; and an evaluation of the Government Property Account (Cuenta de Bienes Patrimoniales del Estado). The TSC's IRCs do not provide an opinion; they merely describe findings and formulate recommendations.

Box 1.2. Key Findings of the 2018 TSC Report

The most important conclusions of the 2018 reports focus on debt records and the special audit of the Government Property Account.

- The debt records indicate poor budget programming with respect to debt service, which led to substantial modifications, and noncompliance with guidelines for the accounting closing. According to the authorities, the budget cutoff approved by the DGP and the Congress entailed a redistribution of the public debt ceiling that impacted the closing at the end of the fiscal year. Discrepancies were identified that related to external debt and debt relief.
- With respect to the Government Property Account, discrepancies were identified between historical records in SIAFI and records maintained by the institutions. The general performance of the institutions reviewed is considered effective, with adequate use of resources. The report identified weaknesses in the financial structure of public corporations, particularly due to the sensitive position of ENEE, and the need for an actuarial analysis of the financial positions of social security institutions.
- Internal controls of the central administration and decentralized institutions were considered effective, with a strong performance; however, significant weaknesses were identified in terms of training and adequate organization of the institutions.

46. **The TSC prepares its reports based on its own regulatory framework, which is aligned with International Audit Standards**. The review of public sector entities' IRCs is conducted in accordance with the Framework for Government External Control (Marco Rector de Control Externo Gubernamental). The framework is consistent with the International Audit Standards issued by the International Federation of Accountants; the Statements on Auditing

Standards issued by the American Instituted Certified Public Accountants; and the International Standards for the Professional Practice of Internal Auditing (ISPPIA). It is being gradually adapted to the audit standards developed by the International Organization of Supreme Audit Institutions (INTOSAI); the key differences with respect to the Honduran framework concern the identification of risks, audit evidence, and a stricter characterization of audit opinions.

1.4.3.	Comparability of fiscal data	Good

47. Budget execution reports facilitate comparisons with the budgets initially approved, using the same classification. The monthly reports of central administration and CGR financial statements compare the amounts initially approved in the revenue and expenditure budget, the modifications made during the fiscal year, the expenditures accrued and paid, and the revenues accrued and received.

48. The accounting records are not directly comparable with budget execution because of differences in coverage and base, but monthly reconciliation tables are published. The CGR financial statements also publish[4] comparative tables of budget execution data and accounting records, with notes explaining any differences. The differences essentially relate to differences in allocation of exchange gains and losses, external debt relief, and trust funds.

49. The financial statements differ from the budget in terms of coverage and financial structure and are therefore not directly comparable. Although the principal source of information is the budget execution, the differences between the fiscal statistics and the budget in terms of scope of coverage[5] and accounting base preclude direct comparison.

E. Conclusions and Recommendations

50. Honduras's fiscal reporting is considered basic and good, in line with the fiscal transparency evaluations conducted in other Latin American countries. This pillar includes the only indicator not met, which could be easily remedied because the information is available.

51. The evaluation identifies the following strengths in fiscal reporting:

- Numerous monitoring reports are published by different institutions. The budget monitoring reports and the reports of financial statements issued by the CGR throughout the year are produced monthly within the first 30 days of the following month and quarterly by the end of the following quarter. Monthly publications cover central administration and decentralized institutions' budget outturn, central administration

[4] https://www.sefin.gob.hn/liquidacion-presupuestaria/.

[5] Basically, these are the different recognition of PPP expenditures and the register of trusts (vehicle registration trust).

financial statements, and central administration and NFPS financial accounts, as well as debt statistics for the central administration, decentralized institutions, municipalities, and NFPS. Budget execution is reconciled with accounting records on a monthly basis.

- The annual public sector reporting exercise is concluded in advance of the regulatory deadline, and reports are issued prior to April of each year. The TSC's IRC is published and submitted to the Congress prior to the presentation of the general budget for the following year, a practice that enables the detection of any problems so they can be addressed in the following budget.

- In accordance with the LRF, the budget documentation included an analysis of revenue losses due to tax expenditures.

- Honduras has established an independent body, the TSC, which is responsible for the external control and coordination of internal control for public sector economic-financial activities. The TSC publishes reports of its audit and controls.

52. Fiscal transparency could be enhanced in the following three areas:

- Although the institutional coverage of fiscal data is broad, covering the NFPS, the coverage is incomplete in light of the lack of execution data for funds managed by trusts (representing 9 percent of total budget expenditure) and the lag in reporting by municipalities.

- The available monthly and quarterly financing information is not exhaustive and lags behind the other publications on budget outturn and the financial accounts. This information is particularly important because it is used to ensure consistency between fiscal outturn data (above the line) and the uses and sources of financing (below the line).

- The statements of consolidated public sector financial position are incomplete. In 2017, several institutions were late in submitting information; other entities, such as the UNAH and BANADESA, failed to submit information to the CGR in December, and the data from June 2017 were used for the public sector consolidation. The information on municipalities is based on data from only 91 municipalities that represent roughly 20 percent of total municipal expenditure.

- The analysis of tax expenditure presented in the budget documentation presents the methodology and detail by sectors only for 2017; in other words, it presents information on the two fiscal years prior to the fiscal year to which the proposed budget pertains. The projected tax expenditures for 2018 and 2019 are less complete and refer only to the type of taxes. It would be helpful to identify the areas or policies to which the tax expenditures are applied in order to facilitate comparability with the budgeted expenditures.

- Although the TSC's IRC is detailed and comments extensively on the attainment of budget execution targets, the TSC does not issue a qualified opinion on the reliability of the Government General Account; rather, it limits its analysis to the Government Property Account.

53. The mission offers four recommendations under this pillar of the FTC to improve fiscal transparency:

- **Recommendation 1.1.** Design a statistical report, published at least annually, that summarizes information on flows (revenue, expenditure, and financing) and stocks of assets and liabilities (balance sheet) for the major sectors defined by the manual and the respective subsectors using the 2014 GFSM as the analytical framework; and publish statistical information in Excel format to facilitate users' analysis of the data.

- **Recommendation 1.2.** In the tax expenditure section of the proposed budget, which includes the analysis to (t-2), include the projection in the MTMFF for the same expenditures. Doing this would provide a more complete view of the fiscal year to which the budget pertains, which would improve the score for this indicator to "good."

- **Recommendation 1.3.** Include an express opinion in the TSC's IRC of the appropriateness and accuracy of the balance sheet and earnings shown in the financial position and financial returns and in the consolidated public sector financial statements.

- **Recommendation 1.4**. Make an effort to increase the transparency and comparability of fiscal, accounting, and budget statistics by publishing reconciliation tables with descriptions or details of the adjustments and main differences between those statistics.

Table 1.6 represents a summary of Honduras's evaluation against the Pillar I of the FTC.

Table 1.6. Honduras: Summary of Fiscal Reporting Evaluation

	Principle	Evaluation	Importance	Recommen-dation
Coverage	**1.1.1 Coverage of institutions**	**Basic:** Fiscal reports (statistics and accounting) are consolidated for the public sector (including BCH in some reports and the public sector in others), although they are not consolidated by subsector.	**Medium:** Efforts are underway at the CGR to provide for consolidation of financial statements at the level of subsectors of the public sector.	**1.1**
	1.1.2 Coverage of stocks	**Not met:** Published fiscal reports cover only certain debt liabilities; other payable accounts, liabilities associated with PPPs, and other liabilities are omitted. Also, only internal BCH reports include financial assets.	**High**: It is important to include information on financial assets and liabilities, which are not currently included in the published debt reports.	**1.1**
	1.1.3 Coverage of flows	**Basic:** Flows include revenue on a cash basis and some expenditures on an accrual basis. Other payable accounts are considered in calculating financing.	**Low:** All that needs to be included are revenue and interest and the statement of sources and application of cash.	**1.1**

	Principle	Evaluation	Importance	Recommen-dation
	1.1.4 Coverage of tax expenditures	**Basic:** Since 2018, the annual budget has included tax expenditures, with details by tax and sector, and a summary of the methodology used. However, the information pertains to the two previous fiscal years. For the budget year, only tax figures are reported.	**Low:** Progress has been made in terms of transparency by analyzing the tax benefits for the first time in the 2019 budget. The MTMFF includes projections for this fiscal year but with less detail.	**1.2**
Frequency and timeliness	**1.2.1 Frequency of in-year fiscal reporting**	**Advanced:** Data on budget execution, the central administration financial statements, the central administration financial account, the NFPS financial accounts, and debt statistics are published monthly. Quarterly information is also published.	**Low:** The monthly reports cover the central administration and decentralized institutions and are generally timely.	
	1.2.2 The timeliness of the annual financial statements	**Advanced:** The CGR presents the IRC for the previous fiscal year to Congress in March.	**High:** The TSC audits them and issues its report in July of each year, prior to the presentation of the budgets for the following year.	
Quality	**1.3.1 Classification**	**Basic:** The reports do not follow the IMF 2014 economic classification.	**Medium:** However, the 2001 format is followed, and the structure of net loans in the financial accounts has been adapted as part of financing.	
	1.3.2 Internal consistency	**Basic:** Revenue, expenditure, and financing are reviewed for consistency. However, statistical discrepancies are not explained in all reports.	**High:** Explain the statistical discrepancy among revenue, expenditure, and financing in the regular publications; Publish the integration of financial assets and liabilities flows and stocks.	
	1.3.3 Historical revisions	**Basic:** Revisions of fiscal aggregates are not indicated in bridging tables but are indicated by a note.	**Low:** The revisions to data were minor, representing less than 0.1 percent of GDP.	
Integrity	**1.4.1 Statistical integrity**	**Basic:** This is in line with international standards for data disclosure GDDS.	**Medium**: There is a conflict of interest between verifying the compliance with the fiscal rule and methodological purity, because the same directorate, the DGPMF, is responsible of monitoring fiscal rule compliance and compiling fiscal statistics.	
	1.4.2 External Audit	**Basic:** The TSC is the independent institute that implements external control. Its annual audit report analyzes budget liquidation, excluding a qualified opinion on the central administration general account in 2017, apart from the public debt section and the property account.	**Medium**: Its regulatory framework is consistent with International Audit Standards.	**1.3**

	Principle	Evaluation	Importance	Recommen-dation
	1.4.3 Comparability of fiscal data	**Good:** Accounting records are not directly comparable with budget execution due to differences in coverage and base, but reconciliation tables are published monthly. Fiscal statistics and budgets are not directly comparable due to differences in coverage and economic structure.	**Medium:** Budget execution reports can be compared with the budgets initially approved because they use the same classification. Improving the standardization of classifications will improve the comparability of the data.	**1.4**

II. FISCAL FORECASTING AND BUDGETING

Fiscal forecasts and budgets should provide a clear statement of the government's budgetary objectives and policy intentions, as well as comprehensive, timely, and credible projections of the evolution of public finances, together with proper monitoring.

54. This section evaluates the quality of Honduras's fiscal forecasting and budgeting practices in comparison with the rules established by the FTC. It considers four dimensions relevant to fiscal forecasting and the budget exercise, based on publicly available information:

- The comprehensiveness of the budget and associated documentation.
- The orderliness and timeliness of the budget process.
- The fiscal policy orientation.
- The credibility of fiscal projections and budget proposals.

Table 2.1 presents a summary of the principal laws and fiscal and budget documents reviewed by the mission.

Table 2.1. Fiscal and Budget Projection Documents

Legislation	
Honduran Constitution	1982
Budget Act and implementing regulations	2004
Fiscal Responsibility Law and implementing regulations	2016
Court of Audit Founding Law (LOTSC)	2002
General Law on the Public Administration (LGAP)	1986, 2014 amendment
Transparency and Access to Public Information Act	2007
Government Procurement Law	2001

Documents Relating to the Annual Budget			
Document	**Description**	**Entity**	**Frequency**
Annual budget	The annual budget contains the following documents: (1) statement of purpose, (2) the MTMFF, (3) the multiyear budget (medium-term expenditure framework), (4) estimated revenue from taxes and quasi-fiscal levies, (5) the annual work plan, (6) the revenue budget, (7) the expenditure budget, (8) the financial accounts, (9) comparative table of fiscal aggregates for the two previous years, (10) an analytic explanation of the calculation of revenue, and (11) general provisions. In addition to those documents, the budget includes a document of budget policy guidelines and the investment program. Table 2.2 details the horizon and content with respect to revenue, expenditure, and financing in the documents corresponding to the evaluation of this principle.	SEFIN (DGP and DGPM)	The MTMMF is presented to the president in April All the documentation is presented to the Congress before September 15
Budget execution reports	These include monitoring of expenditure budget execution by institution, financing source, expenditure group, purpose, approved, actual, and accrued.	SEFIN (DGP)	Monthly
Budget Evaluation Report	The report is the result of the self-evaluation exercise, which, by law, must be carried out by every government institution through SIAFI and compiled by SEFIN.	SEFIN (DGP)	Annual
Budget Liquidation Report	This provides a summary of consolidated revenue and expenditure figures and budget amendments for the public sector, central administration, and decentralized administration. It uses budget figures at the different phases of expenditure and a system of budget account classifiers.	SEFIN (DGP)	Annual
MTMFF Monitoring Report	This publication reports on monitoring of compliance with the MTMFF, particularly targets for the annual closing and comparison with execution as at-June, to identify potential deviations and any corrective measures required.	SEFIN (DGPM)	By end-August of each year
Report on Fiscal Rule Compliance	This presents compliance with the fiscal rule in the previous year, addressing the three components of the rule.	SEFIN (DGPM)	By the close of the first half of each year
Citizen Budget	This presents the budget process and the approved budget in simple language, with visual aids to understanding.	SEFIN (DGP)	Annual
Central administration financial statements	The financial statements include (1) statements of financial position, financial returns, changes in assets and net capital, and cash flows; (2) a comparison of the budget and accounting records with an explanation of differences; and (3) an analysis of financing and debt.	CGR	Monthly

A. Comprehensiveness

2.1.1.	Budget unity	Not met

55. The LOP establishes the coverage of the central government budget, which includes the central administration and decentralized institutions constituting the budgetary central government (BCG). The central administration includes the executive, legislative, and judicial branches; the Supreme Electoral Tribunal, and the TSC. The decentralized institutions consist of the following: (1) decentralized entities, (2) social security institutions, and (3) national universities. The budgets of the institutions that make up the BCG are presented, discussed, and approved simultaneously and are published in a single decree in the Official Gazette.

56. The municipal governments follow similar principles but are not part of the central government budget. Municipal governments have autonomy to present their own budgets, which are not part of Honduras's general budget, although they receive a substantial volume of transfers from the general budget. The principal transfer between public administrations is the central administration transfer to local governments, which represented 4.4 percent of total expenditure in the initial 2018 budget.

57. Collectively, the decentralized institutions represent 13.6 percent of GDP, and the social security institutions represent 7.3 percent. The 2018 approved budget for public corporations represents 6 percent of GDP. ENEE is particularly important in view of its size—accounting for 13.7 percent of total spending (central administration plus decentralized institutions)—and its fragile financial position. The quantitative importance of the social security institutions is slightly greater than the public corporations combined.

58. The central government budget is presented in a single document, with separate sections containing the budget of the central administration and decentralized institutions, respectively. There is no consolidated revenue and expenditure budget covering the entities included in the national budget proposal. The budgets of decentralized institutions present aggregates for each institution in the subsector. Transfers from the central administration to decentralized institutions absorb 2 percent of total central administration expenditure. In addition, the budget includes the MTMFF, which provides revenue and expenditure data in gross terms, financing, and debt.[6]

59. The principle of budget unity, which requires that all economic-financial activities of the public sector be included in the budget, is not fully observed. In particular, revenue collected by the Property Institute[7] in the form of vehicle registration fees is not included in the central government budget.

[6] Specifically, the analysis considers the stock and recent changes in the consolidated NFPS domestic debt, by borrowing agency and instrument (bonds or loans) and by debt holder.

[7] The total amount is HNL 2.158 billion, according to the 2016 Property Institute annual report: https://www.ip.gob.hn/memorias/Memoria_Anual_IP_2016.pdf.

60. In addition to this violation of the budget unity principle is the existence of extrabudgetary funds, or trusts,[8] for which complete budget information is not presented. The Honduran government uses trusts to administer different spending programs. In 2017, the CGR financial statements included information on 69 trusts totaling HNL 16.400 billion (3 percent of GDP). The trusts' activities remain apart from the general budget, which only reflects central government contributions to certain trusts as financial investments; in the initial 2018 budget, this item represented 4 percent of total aggregate expenditure and 1.7 percent of GDP.

61. The extrabudgetary activity of trusts precludes adequate budget planning and programming, in violation of the one-year budget rule and the principle that budget figures should be presented in gross values. Spending by the trusts charged to prior fiscal years generates fiscal activities during the year that are not reflected in the current budget. In addition, some trusts have own resources that are not presented in the revenue budget.

62. The central administration has adopted measures to gradually subject trusts to greater control and increase the budget transparency of their activities. These efforts are still in the early stage and are not included in the budget documentation. A centralized, online trust registration system (SIRFIDE) has been created, and a technical committee on trusts is responsible for monitoring them. For the larger trusts, such as the Fideicomiso para la Reducción de la Pobreza Extrema (Trust for the Reduction of Extreme Poverty), periodic budget execution data are already available. The general budgets for 2019 contain various general provisions on control or trusts and the compulsory inclusion of trusts in budgets.

2.1.2	Macroeconomic projections	Basic

63. The different documents accompanying the annual budget contain projections of the principal macroeconomic variables on which the budget is based. The projections include GDP growth, domestic consumption, gross fixed capital formation, inflation, exports, imports, foreign direct investment, foreign remittances, the current account balance, and international reserves coverage. The projections are discussed at meetings of the interagency committee created by the LRF and are published in the BCH monetary program for the current and following year (that is, every April, with a revision in August), and in the MTMFF for the current year and following three years (in April). Other documents accompanying the budget presented prior to September 15 include inflation and GDP growth projections for the same time horizon.

[8] A trust is a legal instrument whereby title to assets is assigned to an authorized bank, subject to the limitation that the bank may only carry out those acts required to accomplish the legitimate, specific purpose for which the trust is intended, as provided by article 1033 of the Commercial Code.

64. The projections of the principal macroeconomic variables are published; however, the assumptions underlying the projections are not specified, with the exception of economic growth worldwide and in the United States, which the authorities take from the IMF *World Economic Outlook* (WEO). Important assumptions regarding the exchange rate, devaluation, domestic and international interest rates, and international coffee prices—given Honduras's status as net importer of unprocessed coffee beans and the resultant impact on the fiscal accounts—are not explicitly identified in BCH documents or the documents accompanying the budget.

65. The projections are not compared with those of other organizations, such as the IMF, the UN Economic Commission for Latin America and the Caribbean, or the Central American Bank for Economic Integration. A comparison of projected macroeconomic variables would provide additional support and enhance the credibility of government and BCH projections.

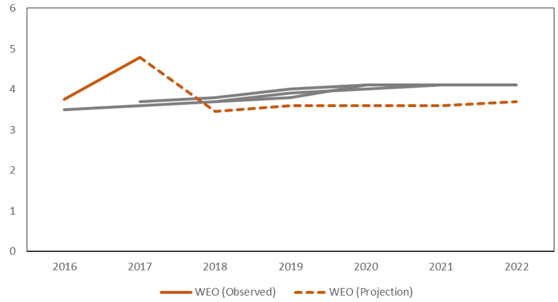
66. Revisions of projections and assumptions between April and August are not discussed in detail in the documents accompanying the budget. As noted previously, the first round of projections is discussed by the interagency committee in April, prior to presentation of the MTMFF. The projections are revised by August, before the budget is presented to the Congress. The initial projections for the current year and the following year are published in the BCH monetary program. Also, although the MTMFF presents initial macroeconomic projections covering the current year and three following years, and the fiscal programming is formulated in accordance with the fiscal rule based on those projections, no document explicitly presents the August revisions or discusses those changes.[9]

67. The deviations in projections of macroeconomic variables are usually not minor, although they do not appear to be systematically biased (Figure 2.1). The short-term projections for GDP growth and inflation are generally conservative. In the medium term, projections for economic growth and inflation tend to be higher than those presented in the WEO.

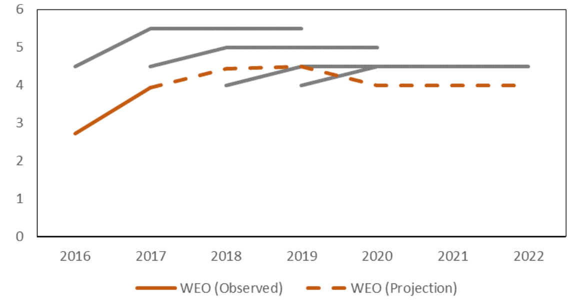
[9] The MTMFF is issued every July/August by the Unit of Planning and Evaluation of Management (UPEM) and presents a comparison of actual versus projected changes in the principal variables for the entire year. The interagency committee discusses the new projections accompanying the budget. However, the projection for the upcoming fiscal year is not reflected in the documents.

Figure 2.1. Accuracy of Macroeconomic Projections

2.1.1. Observed and Projected Real GDP Growth



2.1.2. Observed and Projected Average Inflation



Source: DGPM-SEFIN and IMF *World Economic Outlook*.
Note: The gray lines represent the projections contained in successive medium-term budget frameworks.

2.1.3.	Medium-term budget framework	Good

68. **Honduras has progressed to preparation of an integrated medium-term budget framework (MTBF) that is consistent with the fiscal policy objectives**. The annual budget is accompanied by various documents; the first of them, the MTMFF, is published in April and provides fiscal projections of revenue, expenditure (ceilings), and debt, with economic disaggregation, under the considered macroeconomic scenario and in accordance with requirements of the fiscal rule. The aim of the exercise is to approximate coverage of the NFPS. For purposes of this section, the other relevant document is the MTBF, which is produced annually although it is not required by the LRF. The document sets out the spending ceilings over a three-year horizon, applying an economic disaggregation on the revenue side, and disaggregation by institution, objective, and function on the expenditure side. In addition to those documents, the budget includes the budget policy guidelines document. Tables 2.2 and 2.3 detail the horizon and content with respect to revenue, expenditure, and financing in the documents relevant to the evaluation of this principle.

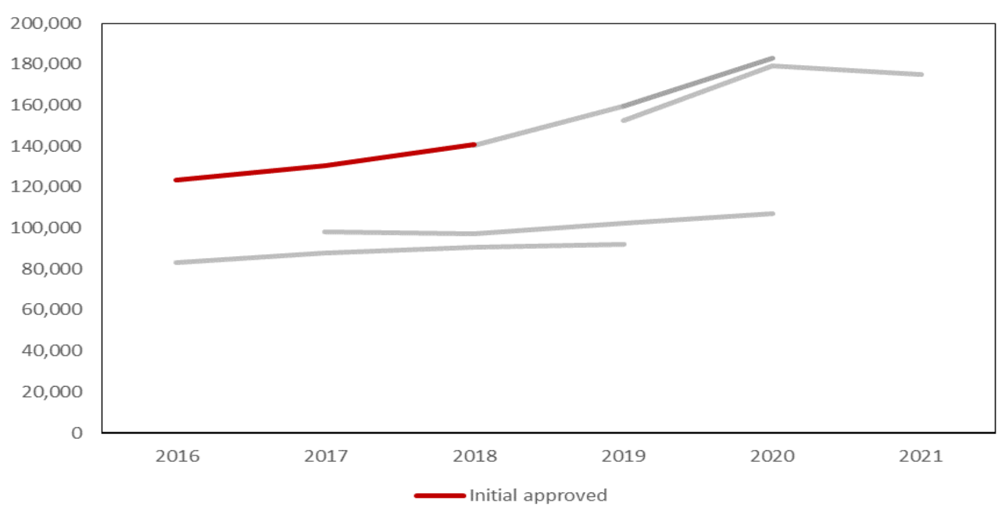
Table 2.2. Documents Containing Medium-Term Fiscal Projections that Accompany the Budget Presentation

Report	Timeline	Fiscal Aggregates and Disaggregation
Medium-term Macro-Fiscal Framework	Two prior years, ongoing year, two or three years into the future	Macroeconomic and fiscal variable projections under economic disaggregation; NFPS estimated based on Central Administration consolidation, social security and welfare institutes, other decentralized entities, municipalities, and public companies
Medium-term Budget Framework	Three years into future	Revenue budget (economic disaggregation) and expense budget by expense group (economic disaggregation), institution, purpose, and duty
Revenue budget	Prior year, ongoing year, next year	Revenue budget by detailed item
Expenditures comparison	Prior year, ongoing year, next year	Expense budget by financing source, expense group, purpose, program, entity, purpose, and duty

Source: based on SEFIN data.

69. **However, the indicative ceilings defined in the MTMFF and the MTBF have been changing from one year to the next, with no explanation provided of the changes or discussion of whether they reflect changes in the macroeconomic scenario or the impact of fiscal measures adopted (Figure 2.2).** Total spending ceilings were modified upwards in the three first years and downwards in the most recent fiscal year. Initially, the difference between the ceiling defined in the MTBF and the spending initially approved in the budget was significant. Over time, however, the difference has narrowed.

Figure 2.2. MTBF Indicative Spending Ceilings and Initial Budget Appropriation (HNL millions)



Note: The gray lines represent MTBF indicative spending ceilings from 2016 to 2018.
Source: SEFIN.

70. Honduras has made a significant effort to align the features of its MTBF with international standards. Honduras has made progress in seven of the 11 characteristics of an advanced MTBF.

Table 2.3. Characteristics of the Medium-Term Budget Framework

	Honduras	Advanced
Macro-Fiscal Framework with 3 to 5 year analysis period	Yes	Yes
Indicative expense ceilling for projection years	Yes	Yes
Alignment of budget projections with fiscal policy objectives and macroeconomic forecasts	Yes	Yes
Estimated expenses "roll over" from one Macro-Fiscal Framework to another	No	Yes
Integrated process for preparing the capital and recurrent expenditure budget	Yes	Yes
Classifying revenues and expenses in line with international standards	Yes	Yes
Process defined to prepare Macro-Fiscal Framework and integrated budget documentation	Yes	Yes
Separation of cost of existing policy and new policy proposals	No	Yes
Reliable estimates for upcoming periods	Improving	Yes
Planning reserves to allocate budget credits	No	Yes
Year-to-year change in expenses within well-defined limits	No	Yes

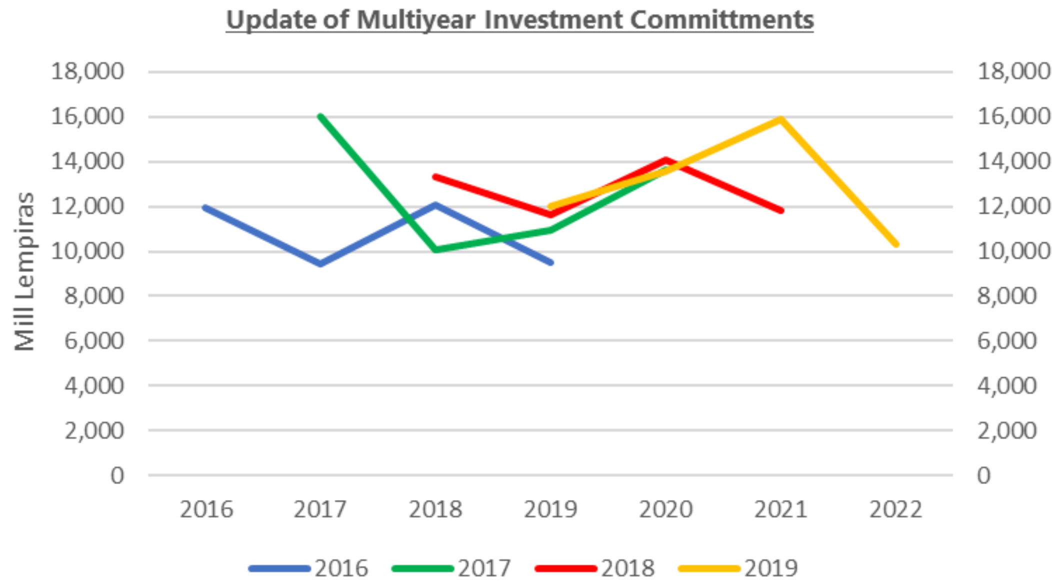
Source: Prepared by the mission.

71. However, the MTMFF and the MTBF, which are the most extensive documents on medium-term projections consistent with the fiscal rule that accompanies the budget presentation, are based on different time horizons. As a result, the figures presented in the two documents are not fully consistent.

2.1.4	Investment projects	Good

72. Each year, the budget documentation includes a public investment program (PIP) and details of multiyear commitments associated with investment projects. The PIP included in the budget reviews the recent evolution of investment and provides detailed forecasts by sector, institution, and project, including projected investments for public corporations, PPPs, and trusts. The PIP includes a substantial volume of spending for projects identified as human development projects that actually represent current spending, not investment expenditure. Together, those projects represent 30 percent of the PIP. The documentation also indicates sources of investment financing; 58 percent is domestic, and the remainder is external (external credit and grants). The PIP is also published by sector cabinet (groups of public sector institutions), identifying the institution and multiyear commitments for each specific project (Figure 2.3). The revisions involve substantial deviations relative to the previous year's projections; they were larger in the first year than in following years, except in 2019.

Figure 2.3. Annual Update of Multiyear Commitments



Source: Budget reports of the Sector Public Investment Program (annual budget).

73. **The public investment process includes a preinvestment phase in which cost-benefit analyses are prepared only for selected projects, and the analyses are not published**. During the preinvestment phase, an ex ante evaluation is conducted for each project to decide whether it will be included in the PIP. The evaluation follows the General Methodological Guide for Formulation and Evaluation of Public Investment Projects, which is detailed and complete and includes the calculation of cost-benefit analyses. The analysis is applied largely to major infrastructure projects and selected defense projects, but it is not a widespread practice for all sectors. When the analyses are conducted, they are not published. However, a methodology is being developed with the support of the Inter-American Development Bank to standardize the analyses for all sectors and provide project sponsors with a common methodology. The Directorate General of Public Investment (DGIP) conducts cost-efficiency analyses for all projects. Furthermore, DGIP prescribes the requirements for the information to be submitted to obtain authorization to include a public investment project in the budget; those requirements include estimates of the recurring expenditures associated with those projects.

74. **Substantially fewer projects have been approved since 2017, because the only projects approved are those for which there is sufficient fiscal space, in accordance with the LRF**. Once a project is analyzed, it is submitted to the Ministry of Coordination and Planning, which determines whether it is aligned with the strategic goals of the national

planning strategy. In collaboration with SEFIN, priority papers (Notas de Prioridad)[10] are issued, and the availability of sufficient funding is verified. Under the current process, the number of priority papers approved has decreased from 88 in 2012 to 6 in 2017.

75. **An appropriate institutional framework exists to promote coordination among the actors involved**. For each project, a project operations manual is prepared that identifies each actor's role in the execution phase. During execution, ongoing physical-financial monitoring is performed, including on-site visits that are documented in monthly and quarterly reports and that are made public.

76. **Contract awards financed with domestic resources are governed by the procurement law and are generally awarded through public competitive processes, in accordance with the DGIP**. The regulatory framework for public procurement is considered adequate; the Government Procurement Law[11] governs procurement procedures and requires open and transparent processes by means of public tenders. Contract awards are published by the National Office of Government Procurements,[12] where all projects are available with details of the award processes. The Office publishes a consolidated statistical report. The 2016 report, which estimated the proportion awarded under each procurement modality in terms of the number of contracts and the amounts, showed that public tenders accounted for only 2 percent of the number of contracts; however, they represented 70 percent of the total amounts, the largest volume of public investment reflected in the contracting. Private tenders, in contrast, were employed for 18 percent of contracts and represented 17 percent of the total value. The other procurement modalities represented 3 percent of contracts in terms of volume and 1 percent in terms of value.[13] In addition, the TSC audits procurement processes, and its audit reports are publicly available on the TSC website.

B. Orderliness

2.2.1	**Fiscal legislation**	**Advanced**

77. **Honduras's budget and public financial management legal frameworks are comprehensive and clear.** The Constitution contains provisions on public finance, the budget

[10] The Priority Note is a technical-legal opinion that determines whether a public investment project is economically, socially, environmentally, legally, and technically viable; it analyzes and approves the logical design (logical framework matrix) of the investment project. The full analysis of the project's logical design is based on the internal consistency of resources and goals (activities, components, purpose, and goal). It also ensures that the project goal is consistent with the institutional and sector strategic plans and Honduras's Plan de Nación y Visión (Nation and Vision Plan).

[11] Government procurement law (Law 47/2001).

[12] www.honducompras.gob.hn.

[13] August 2017 report of the assessment of Honduras's public procurement system, based on the OECD Development Assistance Committee methodology.

process, and the definition of the Congress's role in approving the annual budget (articles 205, 361–372). The Constitution is complemented by various laws and regulations on public finance and the budget, notably, the LRF (in effect since 2016), which covers all aspects of risk management, including PPPs; the Law on Accounting and Audit Standards (2004) and amendments thereto; laws on public borrowing; and the recent Government Procurement Law. Article 100 of the LOP establishes the deadline for issuance of the IRC for the previous year (see dimension 1.2.2).

78. The legal framework establishes the timetable for budget preparation and approval that has generally been upheld, particularly in the budget preparation phase (see dimension 2.2.2). The principal aspects of public financial management (PFM) originate with Honduras's Constitution. In accordance with Article 368 of the Constitution, the Framework Budget Law, Law No. 83-2004 (LOP), defines all aspects of budget management, including formulation, discussion and approval, execution, monitoring, and evaluation. The fiscal year corresponds to the calendar year. The LOP also defined key requirements for the budget and the role of each institution in the budget process. The general provisions of budgets specify the role of SEFIN most clearly. Article 100 of the LOP establishes the deadline for the IRC for the preceding year.

79. Article 23 of the budget law prescribes the supporting documentation for Honduras's general revenue and expenditure budget. It requires that SEFIN prepares the statement of purpose; the medium-term financial programming; and the multiyear budget, including macroeconomic context; estimates of tax revenues not specified in budget appropriations and of fiscal activities; the annual work plan; the revenue and expenditure budget; the financial account showing current savings, investment, net income, and financing; a comparative chart of fiscal aggregates for the two previous years; a document explaining the calculation of revenue; and the general provisions.

80. Article 27 of the LOP clearly establishes the requirements for increasing or modifying expenditures. Any increase in total spending in the proposed budget presented by the Executive Branch must have the respective financing based on the prior reasoned opinion of SEFIN. Investment projects that have not undergone the evaluation and approval phases provided under the national public investment system may not be included in the budget; once the project is approved and budgeted and execution has begun, the Executive Branch shall have the initiative to increase or modify the expenditure budget.

2.2.2	**Timeliness of budget documents**	**Basic**

81. The legal and regulatory framework for Honduras's budget process provides that the Executive Branch must submit the budget to Congress during the first half of September. That deadline, provided in Article 25 of the LOP, is systematically observed, and Congress has more than three months to analyze, discuss, and approve the final budget. SEFIN,

as the entity responsible for coordinating the process, is charged with establishing timely measures and ensuring that preliminary budget proposals are presented on time and in due form. The legislation also provides that if the established deadline is not met, the previous year's budget will apply to the entity in question (LOP Article 22). A calendar of budget activities, which is prepared and published annually, covers the entire budget preparation process (Table 2.4).

82. There is no deadline or established procedure for congressional discussion and approval of the budget, which has been delayed until January on occasion.[14] The congressional process begins with discussions in the Budget Committee, which consists of 12 deputies, and is assisted by a technical committee that facilitates the technical understanding of the budget document and applicable regulations. The technical committee also reviews the budget documentation and identifies any errors or inconsistencies for correction. Once Congress has approved the budget, it must be submitted to the Executive Branch within three days for publication. Article 29 of the LOP addresses budget extensions in the event that the budget is not approved at the beginning of the fiscal year.

83. The documentation included in the budget proposal, stated in Article 23 of the Administrative Procedures Act, is considered complete, orderly, and detailed to facilitate review and approval by the Congress. The budget documentation includes budget policy guidelines summarizing the key figures and priorities incorporated in the proposal; the statement of purpose; the general provisions that review and explain the budget regulations to facilitate understanding; the medium-term framework including the MTMFF and the MTBF; the details of the revenue and expenditure budget; the financial accounts; the investment program; and, for the first time in the 2019 budget proposal, an analysis of tax expenditures. In addition to the budget proposal, in July, the Congress receives the audit report on the General Account for the previous fiscal year; it issues an opinion on the report, which is approved in a session of the full Congress.

[14] It was determined that although the 2016 and 2017 budgets were approved and published prior to the start of the respective fiscal years, the 2018 budget was approved on January 18, 2018.

Table 2.4. Budget Calendar

Date	Activity
March	Creation of budget policy technical and steering committee to establish guidelines
By May	Update of the MTMFF, baseline, and medium-term budget policy; approval by the president
June	Transmittal of preliminary ceilings, institutions' proposed updates, and allocation of final ceilings; revision of the Public Investment Program
July	Communication of final ceilings and recording in the integrated financial management system (SIAFI)
August	Revision of AWP-Budget and SIAFI adjustments
By August	Update of general provisions
By September 15	Preparation and presentation of the proposed budget, including the MTBF document, to the National Congress
October to December	Consideration and final approval by the legislature

Source: SEFIN http://www.sefin.gob.hn/wp-content/uploads/2018/04/Calendario_Presupuestario_2019.pdf.

C. Policy Orientation

2.3.1	Fiscal policy objectives	Advanced

84. **The LRF introduced a quantitative fiscal rule that explicitly presents the transition to achieve long-term targets. The law establishes specific exceptions and has remained unchanged since its introduction in 2016.**[15] The law establishes quantitative rules for three variables: (1) the NFPS deficit may not exceed 1 percent of GDP; (2) central administration current spending may not increase at a rate that exceeds average economic growth over the previous 10 years plus the projected inflation rate for the following year; and (3) central administration payable accounts may not increase by more than 0.5 percent of GDP (Table 2.5). The law provides for the convergence of the first component over time by establishing intermediate targets for the NTFS deficit of 1.5 percent of GDP in 2017, 1.2 percent of GDP in 2018, and 1 percent of GDP in 2019 and thereafter. It also establishes the circumstances in which the rule may be suspended and the procedure to be followed to request congressional suspension of the rule.

[15] Legislative Decree 25 of 2016 approved the FRL.

Table 2.5. Basic Principles of the Fiscal Rule

Characteristics of the Fiscal Rule	Provisions
Quantitative targets	(1) Annual ceiling on NFPS balance of 1% of GDP
	Transition period
	Not to exceed 1.6% in 2016
	Not to exceed 1.5% in 2017
	Not to exceed 1.2% in 2018
	Not to exceed 1% in 2019 and thereafter
	(2) The nominal annual increase in central government current spending may not exceed the annual average real GDP growth for the past 10 years plus the average inflation forecast for the following year.
	(3) Following approval of this law, the new floating debt at the close of the fiscal year shall in no case exceed 0.5% of nominal GDP.
Exceptions provided	(1) For a declared national emergency or natural disaster that could seriously affect the national economy (defined as damage greater than or equal to 1.0 percent of GDP). At the request of the government, the Congress must suspend application of all three components of the rule. The government's request should include the new targets for stocks and the corrective measures needed to correct the deviation from the rule after the two-year exception has ended.
	(2) Economic recession (defined as a contraction of real GDP for two consecutive quarters). In this case, the first component of the rule is not mandatory, but under no circumstance may the deficit exceed 2.5% of GDP that year. This exception may be extended for an additional year with appropriate justification.
	In cases (1) and (2), the fiscal deficit must be reduced by at least 0.5 percent of GDP in each subsequent year until it returns to the limit established by the rule.
Compliance and transparency	Declaration of noncompliance with the fiscal rule in the previous year should be submitted to Congress and published before June 30 of the current year. In case of deviations, the report must present and explain the corrective measures to be taken.
	A monitoring report on fiscal rule compliance for the current year should be published by end-August. In the event of deviations, corrective measures must be identified and explained and must be approved by the Council of Ministers.

Source: Prepared by the mission, based on the Fiscal Responsibility Law.

85. **The government provides regular quantitative reports on the achievement of targets for fiscal aggregates**. Within the first half of each year, SEFIN must submit to Congress and publish a report on compliance with the fiscal rule during the previous year. Prior to end-August, the DGPMF must publish a monitoring report on targets for the current year, explaining

any significant deviations and identifying corrective measures. Both documents have been published since 2016. The compliance reports indicate that the rule has been observed and surpassed in 2016 and 2017 (Figure 2.4 and Table 2.6). The most recent monitoring report by the DGPMF, published in August 2018, identifies ENEE problems as a risk for compliance with the first component of the fiscal rule. It presents the main aspects of the adjustment program adopted to consolidate ENEE finances, which will enable the NFPS balance sheet to be closed at 1.2 percent of GDP, as established by the LRF.

Figure 2.4. Central Administration and NFPS Balance Sheet (% GDP)

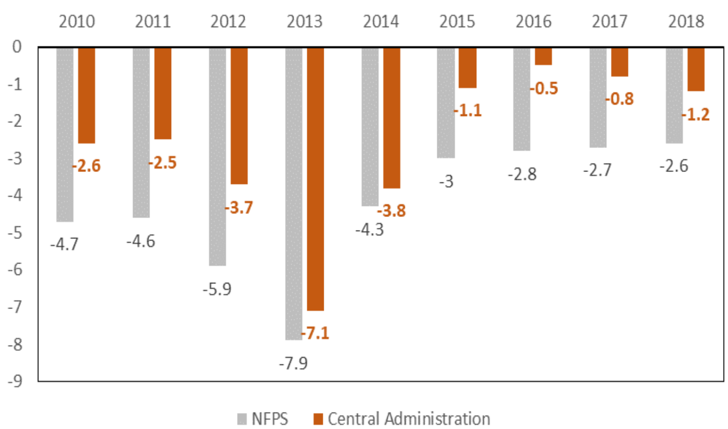


Table 2.6. Compliance with Fiscal Rule in 2016 and 2017

	2016 Goal	2016 Close	2017 Goal	2017 Close
Rule 1				
NFPS Deficit (% GDP)	1.6	0.5	1.5	0.8
Rule 2				
Growth rate of central administration current expenses	9.1	8.8	8.1	7.8
Rule 3				
New payments arrears from central administration of more than 45 days	0.5	0.2	0.5	0.2

Source: DPMF, Monitoring Report on the Medium-Term Fiscal Rule, 2018–21.

2.3.2	Performance information	Good

86. The Honduran government has been developing budget performance evaluations at the output level. The performance of all public entities is evaluated annually by means of progress on the annual work plan (AWP). The preparation of an AWP is required for an entity's appropriations to be included in the upcoming annual budget. Based on a strategic institutional plan that defines the mission, vision, objectives, project/programs, and activities, each entity prepares an AWP that establishes targets for each of its programs in terms of the quantities produced, which are associated with the budget resources to achieve them. All components of the AWP are entered into the SIAFI platform to facilitate monitoring and evaluation during implementation of the plans. SEFIN and the Ministry of General Government Coordination (SCGG) are involved throughout the AWP cycle. Physical and financial execution is monitored quarterly and published in the budget evaluation report. The AWP serves as a basis for discussion at an annual public hearing before the Congress (see Section 2.3.3). In addition, the TSC conducts annual AWP compliance reviews for a substantial number of entities.

87. **The scope of AWP evaluations includes the sector cabinets, which encompass national and decentralized entities and public corporations working in related policy areas.**[16] A consolidated AWP is prepared for each sector and monitored quarterly in a published report by SEFIN. There are currently eight sector cabinets: Government and Decentralization; Development and Social Inclusion; Economic Development; Security and Defense; Productive Infrastructure; International Relations and International Cooperation; Economic Management and Regulation; and Prevention, Peace, and Coexistence.

88. **Although information from the AWPs has proven useful for hearings and supports budget decisions, Honduras has yet to develop results-based budgeting per se**. Despite strengthening of the SCGG, AWP accounting under program budgeting has been complex. What has been accomplished at this point is that the SIAFI data identifies, for each program/project, the objectives of national development plans—the Nation and Visio Plan (Plan de Nación y Visión) and the Government Plan (Plan de Gobierno), with which it is associated. However, the definition of indicators and method of measurement have yet to be determined. This missing element is explained by weaknesses in institutional capacity, lack of clarity as to the responsibilities of SCGG and SEFIN in this area, and difficulties in coordinating their actions. This finding is consistent with the results of the 2016 Public Expenditure and Financial Accountability (PEFA) report and the report of the IMF 2017 mission on results-based budgeting.[17]

2.3.3	**Public participation**	**Good**

89. **In recent years, Honduras has progressed toward budget transparency. However, the component on citizen participation in the budget process does not reflect a high rating with respect to the Open Budget Index (OBI) (Figures 2.5 and 2.6).**[18] Measured by that indicator, the country advanced from a ranking of 12/100 in 2010 to 53/100 in 2012 and 54/100 in 2017. This last rating is above the global average of 42/100. With respect to the citizen participation component of this survey—which assesses the degree to which the government provides opportunities for public participation in *all phases* of the budget process (preparation, discussion, execution, and audit)—Honduras's rating is low, at 7/100, below the global average and one of the least satisfactory of the region.

[16] General Law on the Public Administration (Ley General de la Administración Pública).

[17] AECOM-Millennium Account 2016. "Public Expenditure and Financial Accountability Report (PEFA) measuring performance". (MCATHP-17-2015); IMF. 2017. "Honduras: Improving Performance-Based Budgeting." Technical Assistance Report, International Monetary Fund, Washington, DC.

[18] Open Budget Survey Rankings (https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/).

Figure 2.5. Honduras Open Budget Index

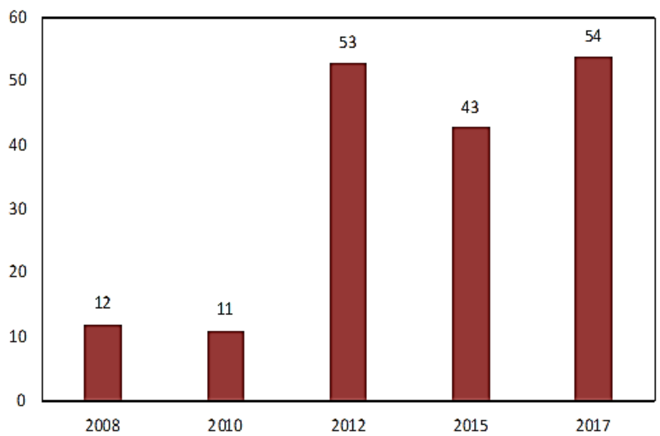
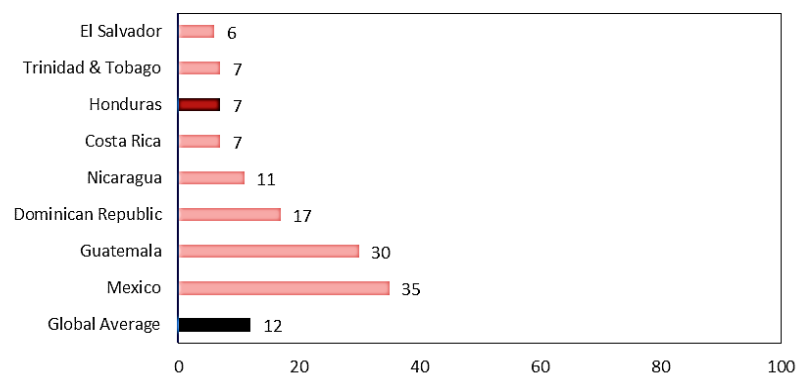


Figure 2.6. Citizen Participation Index



Source: International Budget.

90. SEFIN has published an annual Citizen Budget document since 2010. This is a document written in simple language with visual elements illustrating key aspects of the approved budget: (1) basic elements of the budget exercise, (2) principal provisions of the approved budget (expenditure by administrative classification, sector, expenditure group, and function), (3) relevant aspects of social and municipal spending, and (4) general implications of the fiscal deficit. The document presents the budget's implications for citizens in general terms, without differentiating by population group (for example, poor and vulnerable.). One of the criticisms of the International Budget is the delays in publishing the Citizen Budget.

91. Prior to the budget debate, the Congress holds public televised hearings attended by the sector cabinets. The hearings are broadcast on the channel used by the Congress to televise its sessions. Civil society also participates in the hearings. Experts or specialized firms take part in the budget hearings; informally, a WhatsApp channel has been set up to allow citizens to make suggestions during the public hearings. However, although citizens are allowed to participate, they have little influence on formulation of the budget, which is consistent with the OBI ranking.

92. Honduras has adopted laws to improve transparency and public participation in the other phases of the budget process. The two most important laws in this respect are the Transparency and Access to Public Information Act (LTAIP), promulgated in 2007, and the LRF adopted in 2016. The LTAIP and implementing regulations require all institutions to publish information on institutional management and the public funds that they administer or that have been guaranteed by the government. The regulations stem from the recognition that transparency, accountability, and access to information serve to improve the management of public funds and represent a powerful instrument to fight corruption. The law created the Institute on Access to Public Information (IAIP), which is responsible for facilitating citizens' access to public information, regulating and supervising the entities required to provide citizens

with information, and implementing an information system to integrate and systematize the information from entities required to provide information to citizens. The LRF, in turn, contains a section on fiscal transparency that establishes the obligation to prepare, present to Congress, and publish the MTMFF and monitoring documents on compliance with the fiscal rule. That law also contains provisions to ensure the transparency of tax exemptions and benefits.

93. **In implementing the LTAIP, the IAIP administers the One-Stop Transparency Portal (Portal Único de Transparencia)**. It is a uniform template designed to present public institutions' information in a simple, user-friendly manner. The portal includes an area dedicated to the publication of key budget information for each entity. Based on the information reported, the IAIP evaluates the transparency portal of each entity; one of the components of analysis is the existence of a link enabling citizens to submit questions and recommendations.[19] As of June 2018, the portal included information and evaluations for 210 entities required to disclose information; a total of 405,439 documents has been publicly released to date.

94. **In addition to the transparency portal, other portals contribute to transparency in public resources management**. HoncuCompras is a web-based procurement information system that disseminates and manages information on contracting procedures conducted by entities subject to provisions of the Government Procurement Law. The public platform provides access to information on suppliers, public institutions, and international cooperation for monitoring, control, and audit purposes. Another important portal is the sistema de información y seguimiento de obras y contratos de supervisión (SISOCS), which reports information and monitoring of investment projects, including PPPs.

D. Budget Credibility

2.4.1	Independent evaluation	Not met

95. **The government's macroeconomic and fiscal forecasts included in the budget documentation are not subject to an independent evaluation**. Each fiscal year, SEFIN prepares initial fiscal projections that are submitted to BCH, which prepares macroeconomic forecasts, including the impact of fiscal policy in the final macroeconomic table. The BCH forecasts are estimated within a range or band, without providing a specific estimate, to account for uncertainties in the assumptions underlying the estimates. Internally, SEFIN considers the gross intervals estimated by BCH and compares them with the forecasts of international institutions—basically with the IMF Article IV staff reports—and evaluates and estimates the specific scenarios to be used in preparing the definitive fiscal projections.

[19] The portal contains six [sic] tabs for each entity: (1) organizational structure, (2) planning and accountability, (3) finances, (4) regulation, (5) citizen participation, and (6) links. Under the finances tab, each entity reports information on financial statements, budget liquidation, monthly budget, annual reporting, physical expenditure, physical execution, financial execution, debt, and arrears.

96. The macroeconomic projections are compared with the IMF projections for Honduras, but this comparison is not included in the budget documentation. The budget documentation does not include a comparison between the government's macro-fiscal forecast and those prepared by other institutions for Honduras. It would be useful to compare the forecasts and justify the potential differences based on the respective underlying assumptions. Also, the BCH reports do not include forecasts by rating agencies or research institutions or studies by other domestic banks. Such an exercise would improve the quality and accuracy of macroeconomic forecasts and enhance the transparency and objectivity of the forecasts.

2.4.2	**Supplementary Budget**	**Good**

97. Once the budget is approved, any increase in the total budget amount must be authorized by the Congress. Article 36 of the LOP grants to the Congress the exclusive authority to approve amendments that alter the total amount of the budget initially approved. Moreover, increases in domestic borrowing require the prior opinion of SEFIN. As an exception, SEFIN may, by internal resolution, add external resources from grants and loans previously approved by Congress to the current budget, in the amounts it plans to use and subject to ceilings, to facilitate fiscal planning for each year.

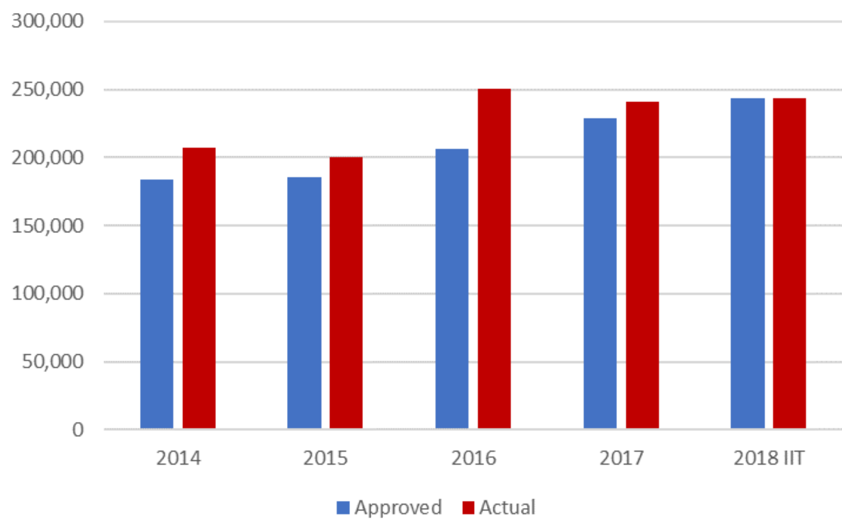
98. The legislation addressing budget modifications is clear and limits the government's authority to modify approved budgets. Articles 36 and 37 of the LOP prescribe the authorities to modify the total budget amount and to authorize transfers between budget appropriations after they have been approved by the Congress. The general provisions of the annual budgets also govern modifications. In accordance with the LOP and annual budgets:

- Congress has authority over modifications that entail a change in the total approved amount, as well as over transfers between the branches of government.
- The president has authority over transfers between individual ministries, between ministries and decentralized institutions, and between capital spending and current spending, subject to the prior opinion of the interagency committee established by the LRF.
- Ministries may transfer funds between categories of the same program (up to a maximum of 40 per institution), and SEFIN may transfer funds between appropriations for contingencies.

99. As provided by those laws, the government may transfer funds so as to alter the composition of the budget and periodically report to the Congress on such transfers. The quarterly monitoring reports submitted to the Congress detail modifications by institution and source of funding.

100. The principal sources of funding primarily arise from surplus revenue collection or loans received relative to the amounts initially anticipated. The most common source of funding of those increases are additions to the budget for increased revenues collection or internal or external credits. To adhere to the fiscal policy targets for each fiscal year, which could be altered with additions, regulations are issued to identify budget space between institutions that prevent or limit additions. In the past four years, changes in the total budget amount have averaged 12 percent of the initial expenditures, although the percentage fell substantially in 2017 and the second half of 2018 (Figure 2.7).

Figure 2.7. Increase in Total Amounts of Approved Budgets, 2014–17



Source: Budget Evaluation Report (http://www.sefin.gob.hn/?page_id=8248).

2.4.3	Reconciliation of forecasts	Basic

101. The budget documentation provides no analysis of the differences between macroeconomic and fiscal forecasts for successive fiscal years. As mentioned in Section 2.1.2, macroeconomic and fiscal projections change between successive MTMFFs and MTBFs; however, the documents do not explain the factors underlying the changes or whether they are due to the evolution of economic conditions or are the result of fiscal policy measures.

102. In the context of annual budget monitoring, the annual budget liquidation document presents information on all of the phases of expenditure under the respective classifications,[20] describing the principal modifications and, in some cases, the measures that explain them. The document presents this information for the central administration and decentralized institutions; it also provides reports, by entity, on the page devoted to the

[20] Article 13 of the LOP establishes the integrity of budget appropriations for expenditures, with a financial structure that distinguishes among current spending, procurement of nonfinancial assets, and financial assets and liabilities.

Directorate General of Budget (DGB). Although explanations are given for the principal modifications occurring between appropriation and execution (some of them relating to economic factors, policies, or changes made during the budget year), no breakdown is provided between the amounts reflecting changes in macroeconomic projections and those reflecting fiscal policy measures. In view of the many changes made to the budget, differences arise—often significant—between the amounts approved and the amounts executed (accrued). These modifications, in turn, implies changes in the composition of the budget.

103. A reconciliation of projections, which would improve the score and practice with respect to this principle, should include explanations of the differences in macroeconomic and fiscal projections resulting from the following:

- **a.** changes in accounting treatment or classification
- **b.** changes in the baseline for macroeconomic projections due to changes in assumptions or demographic parameters
- **c.** the impact of policies adopted during the year.

104. Among the countries for which the IMF has conducted a fiscal transparency evaluation, the Finland and the United Kingdom stand out with respect to reconciliation of projections. In the United Kingdom, the Budget Office produces an ex post evaluation of its performance in the forecasting exercise in an annual report that scrutinizes the difference between fiscal results and the previous projections. It also provides a reconciliation of changes to fiscal projections at each budget update, presenting the changes according to three categories: (1) changes in classification following a decision of the Office of Statistics; (2) changes made at the Budget Office's discretion, particularly where economic forecasts are changed in light of new information; and (3) changes resulting from policy decisions.

E. Conclusions and Recommendations

105. In comparison with Pillars I and III, Pillar II indicates the most satisfactory levels of fiscal transparency. Only two dimensions of this pillar are unmet; a large number of dimensions is considered good.

106. The evaluation identifies strengthens in macro-fiscal forecasting and budgeting:

- The legal framework is relatively simple and comprehensive, and it was recently strengthened with the entry into force of the Fiscal Responsibility Law. This process has resulted in an orderly and significant fiscal adjustment, including compliance with the requirements of a quantitative fiscal rule.
- The annual budget formulation process adheres to the calendar, and the budget is sent to Congress sufficiently in advance to allow discussion and approval.

- The budget incorporates a macro-fiscal framework that is considered complete and presents the principal fiscal and budget aggregates, according to classifications consistent with international standards.

- The public investment management system is transparent, providing for periodic updates of multiyear commitments and publication of all procurement processes.

- Significant efforts have been made to disclose and communicate the approved budget in language that is simple and accessible to citizens to promote citizen participation.

- Honduras has a system in place to manage the budget at the output level; the system is continually monitored by the government and oversight bodies.

107. Fiscal transparency can be improved in several areas:

- The institutional coverage of budgets is considered incomplete insofar as substantial resources are managed through trusts that escape the budget process, distorting the transparency of public sector economic and financial activities conducted in each budget year.

- Macroeconomic and fiscal projections are not subject to independent evaluation, which could erode the credibility of projections.

- Although Congress has been compliant in approving the budget prior to the start of the year, there was a delay of close to 20 days in 2018, which prevented the executing entities from accessing their budgets to begin the fiscal year.

- Macroeconomic projections do not explicitly identify the underlying assumption.

- Both macroeconomic and fiscal projections deviate perceptibly from actual conditions, yet the documents do not explain the reasons for the deviations.

- Due to challenges in terms of institutional capacity, delimitation of responsibilities, and problems in the coordination of objectives and procedures between SEFIN and the SCGG, Honduras has far to go to effectively implement results-based budgeting.

108. There are three principal recommendations for this pillar of the FTC to enhance fiscal transparency:

- **Recommendation 2.1**. Include all revenue and expenditure in the scope of coverage of the general budget, in addition to information on the trusts' annual execution of revenue, expenditure, and financing.

- **Recommendation 2.2**. Improve the macroeconomic and fiscal projection exercises by explicitly identifying the underlying assumptions and methodologies used, and submit projections for comparison with those of other institutions that issue projections for Honduras.

- **Recommendation 2.3.** Adopt procedures for congressional discussion and approval of the proposed budget to ensure approval prior to the close of the year. The procedure could specify a calendar for comparisons, Budget Committee review and discussion of detailed revenue and expenditure items, and discussion of the final proposal as a whole by the full Congress. The debate should also be more regulated and more orderly.

Table 2.7 represents a summary of Honduras's evaluation against the Pillar II of the FTC.

Table 2.7. Honduras: Summary of Evaluation of Fiscal and Budget Projections

Principle		Evaluation	Importance	Recommen-dation
Comprehensiveness	**2.1.1 Budget unity**	**Not met:** The budget includes ministries and central administration institutions, decentralized institutions, social security funds, and public corporations; but some revenue and expenditure are not reflected in the budget because they are managed through trusts.	**High**: There is a significant volume of public sector economic-financial activity not reflected in the budget for which complete information is not available.	**R2.1**
	2.1.2 Macroeconomic projections	**Basic:** Budgets include macroeconomic projections but do not explicitly identify the underlying assumptions.	**Medium:** The transparency exercise would enhance the credibility of projections.	**R2.2**
	2.1.3 Medium-term budget framework	**Good:** Honduras has made progress toward the preparation of an integrated macro-fiscal framework consistent with fiscal policy objectives.	**Medium:** Strengthening the framework by ensuring consistency among all components would enhance the credibility of fiscal policy.	
	2.1.4 Investment projects	**Good:** The budget includes a public investment program and details of multiyear commitments for investment projects. In most cases, project contracts are awarded through competitive processes.	**Low**: Cost-benefit analyses are conducted for key projects, but the analyses are not public. A common methodology is being developed.	
Ord	**2.2.1 Fiscal legislation**	**Advanced:** The Honduran legal framework for the budget and public financial management is complete and clear.	**Medium:** Appropriate regulation of congressional budget debate would enhance the transparency and reliability of the budget approval process.	

	Principle	Evaluation	Importance	Recommen-dation
	2.2.2 Timeliness of budget documents	**Basic:** The proposed budget is duly presented to Congress by September 15, but it is not always approved before the start of the year.	**Low:** Exceptionally, the 2018 budget was approved in January; the general practice is the Congress approves budgets in December.	**R2.3**
Poli	**2.3.1 Fiscal policy objectives**	**Advanced:** The LRF introduced a quantitative fiscal rule that explicitly sets out the transition to achieve long-term targets and provides for specific exceptions.	**High:** The clarity of fiscal objectives and the authorities' commitment represent an important anchor to move forward in the macroeconomic adjustment process.	
Poli	**2.3.2 Performance information**	**Good:** Honduras has been developing budget performance evaluations at the output level.	**Medium:** Lack of clarity as to the respective authorities of SCGG and SEFIN, and difficulties in coordinating their actions, have limited progress toward results-based budgeting.	
	2.3.3 Public participation	**Good:** An educational document (Citizen Budget) is published, but citizen participation is limited despite the availability of channels.	**Low:** OBI transparency indicators have improved substantially.	
Credibility	**2.4.1 Independent evaluation**	**Not met:** Macroeconomic and fiscal projections are not subjected to independent evaluation.	**Medium:** Although no significant bias is detected in the projections, they would gain in credibility if they were compared with projections by other institutions.	**R2.2**
	2.4.2 Supplemental budget	**Good:** Once the budget is approved, increases in the total amount require authorization by Congress. Changes made during execution are reported quarterly.	**Medium:** The budgets initially approved have been increased by significant amounts.	
	2.4.3 Reconciliation of forecasts	**Basic:** The budget provides no analysis between successive medium-term macroeconomic and fiscal projections.	**Low:** An explanation of deviations would enhance the clarity and credibility of fiscal policies.	

III. FISCAL RISK ANALYSIS AND MANAGEMENT

Governments should disclose, analyze, and manage risks to public finances and ensure effective coordination of fiscal decision-making across the public sector.

109. This section evaluates the quality of fiscal risk analysis, reporting, and management with respect to principles of the FTC. The focus of this pillar is to evaluate the central government's exposure to shocks to fiscal variables produced from the rest of the public

sector, the domestic private sector, and the international context. The section also covers issues of long-term debt sustainability. The fiscal risks include explicit risks—legal obligations or firm commitments to provide fiscal support under specific conditions—as well as implicit risks, where there is no legal obligation on the government but there is an expectation that the government will provide fiscal support. The risks are evaluated in terms of three dimensions:

i. General provisions for disclosure and analysis of macroeconomic and specific fiscal risks

ii. Risks arising from specific sources, such as government assets and liabilities, guarantees, financial sector, and PPPs

iii. Coordination of fiscal policy decision-making among the central government, subnational governments, and public corporations.

Table 3.1 presents the key documents providing information on fiscal risks in Honduras.

Table 3.1. Honduras: Fiscal Risk Reporting

Fiscal Risks Analyzed	Report or Publication and Links	Publication Agency	Frequency
Macroeconomic Risks	2014 annual report 2019–22 Public Borrowing Policy MTMFF 2018 Annual Financing Plan Financial Stability Report, December 2017	SEFIN Public Credit Commission SEFIN, SCGG, and BCH DGCP BCH	Annual Annual Annual Annual Semiannual
Long-term fiscal sustainability	2019–22 Public Borrowing Policy. Nonfinancial public sector 2019–22 MTMFF Fiscal deficit scenarios for the analysis of public debt payment capacity in the medium term	Public Credit Commission SEFIN, SCGG, and BCH SEFIN	Annual Annual Annual
Debt management	2018 Annual Financing Plan 2018 Public Debt Strategy	SEFIN DGCP	Annual Annual
Financial sector risks	Financial system stability reports (December 2017) CNBS annual report (2017)	BCH CNBS	Biannual Annual
	FOSEDE annual report	FOSEDE	Annual
Guarantees	Budget Act Financial statements (Note 68) SEFIN-UCF internal calculations for risk report	SEFIN Accounting SEFIN-UCF	2004 Monthly In preparation
Budget contingencies	Various budget reports (expenditure budget report, budget execution report, and budget liquidation report)	SEFIN-DGP	Annual
Trusts	2018 financial statements	CGR	Annual
Nonfinancial assets	Directorate General of Government Property annual report	DGBE	Annual

Fiscal Risks Analyzed	Report or Publication and Links	Publication Agency	Frequency
Municipalities	Report on municipalities, first quarter 2018 2019–22 MTMFF	DGID SEFIN, SCGG and BCH	Quarterly Annual
Public corporations	2019–22 MTMFF Report on public corporations	SEFIN, SCGG, and BCH DGID	Annual Annual
PPPs	Information available on COALIANZA and SISOCS-APP websites Superintendency of PPPs—Annual Report	COALIANZA SISOCS-PPP SAPP	Annual Annual
Natural disasters	SINAGER Law National Risk Management Plan (PNGIRH) COPECO website		2009 2014

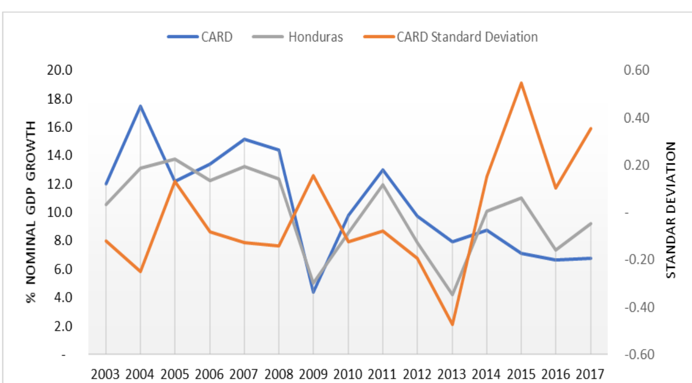
A. Risk Disclosure and Analysis

3.1.1	Macroeconomic Risks	Not met

110. Honduras's economy is volatile. Nominal GDP volatility from 2003–16 was close to the average for specific Central American countries. However, greater volatility is seen in the standard deviation of fluctuations of fiscal revenue in real terms (Figure 3.1).

Figure 3.1. Macro-fiscal Risk Indicators, Selected Central American Countries, 2003–17 (Percentage)

3.1.1. Standard Deviation of Honduras's Real GDP Growth Relative to CA5



Sources: SEFIN, DGPMF, IMF staff estimates.

Note: The CADR includes Costa Rica, the Dominican Republic, El Salvador, Guatemala, Nicaragua, and Panama.

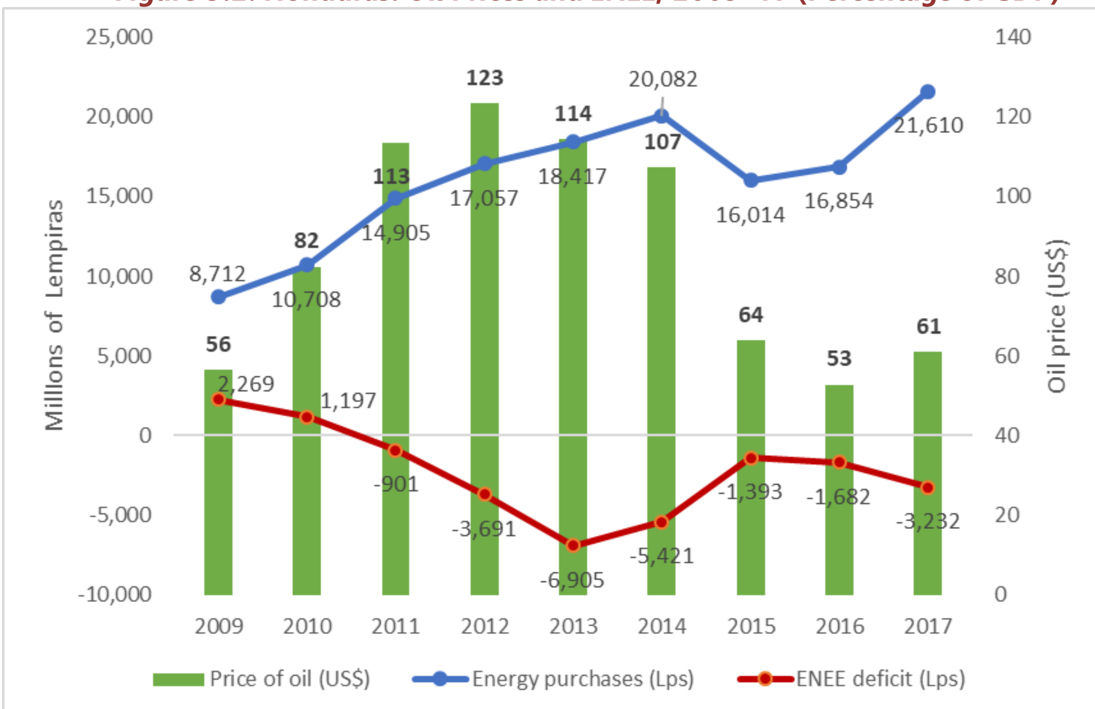
3.1.2. Standard Deviation of Honduras's Real Growth of Tax Revenue Relative to CA5

Sources: SEFIN, DGPMF, IMF staff estimates.

Note: CA5 includes Costa Rica, El Salvador, Guatemala, Nicaragua, and Panama.

111. The volatility of Honduras's economy is attributable to diverse factors. They include the impact of fluctuations in agricultural commodity prices, such as coffee, oil prices, interest rates, exchange rates, and migrant remittances. In particular, during periods of falling oil prices, the shocks are reflected in the balance sheet of the national power company, ENEE (Figure 3.2). The price of oil impacts the purchase of energy and overall balance sheet of ENEE; when oil prices increase, the cost of energy increases; when oil prices fall, the cost of energy decreases.[21]

Figure 3.2. Honduras: Oil Prices and ENEE, 2009–17 (Percentage of GDP)



Source: DGPMF (SEFIN) and IMF staff estimates.

112. SEFIN identified risks that could affect medium-term macro-fiscal projections in the 2019–22 MTMFF and the 2018 Public Borrowing Policy (PEP). The risks addressed in the PEP described macroeconomic factors that could impact the real, external, and fiscal sectors and the implications for debt management. With respect to the real sector, the factors considered were natural factors, the economic deceleration in Honduras's key trading partners, United States' immigration policies, and increased fuel and commodities prices. For the external sector, the risks were linked to slower economic growth, an accelerated depreciation of the exchange rate, and reduced exports. The DGPMF has begun developing a comprehensive risk methodology that could affect macro-fiscal projections, including fluctuations in commodity prices, impacts of remittances, and various macroeconomic scenarios. The authorities expect to finalize those models during first quarter of 2019.

[21] Uncertainties as to rising oil prices create uncertainties for short- and medium-term fiscal risks, particularly for ENEE, and are analyzed by the BCH. However, the BCH analysis is not part of the budget documentation.

113. The authorities publish no discussion of the sensitivity of fiscal projections to key macroeconomic assumptions, although projections are available internally. The MTMFF and the PEP include medium-and-long-term macroeconomic projections of the deficit. They do not include an analysis of the sensitivity of revenue and expenditure to changes in five key variables for the real, fiscal, external, and monetary sectors: growth, oil prices, exchange rates, interest rates, and coffee prices.[22] Internally, however, SEFIN has a number of sensitivity calculations that are presented in Table 3.2. The sensitivities are analyzed for the budget year. The assumed changes in variables used to calculate sensitivities are relatively small. The authorities include a sensitivity analysis for public debt in the PEP, and it is attached as an annex to the MTMFF. However, there is no discussion of the analysis, and alternatives macroeconomic scenarios are not presented.

Table 3.2. Internal Documentation: Revenue and Expenditure Sensitivity Analysis

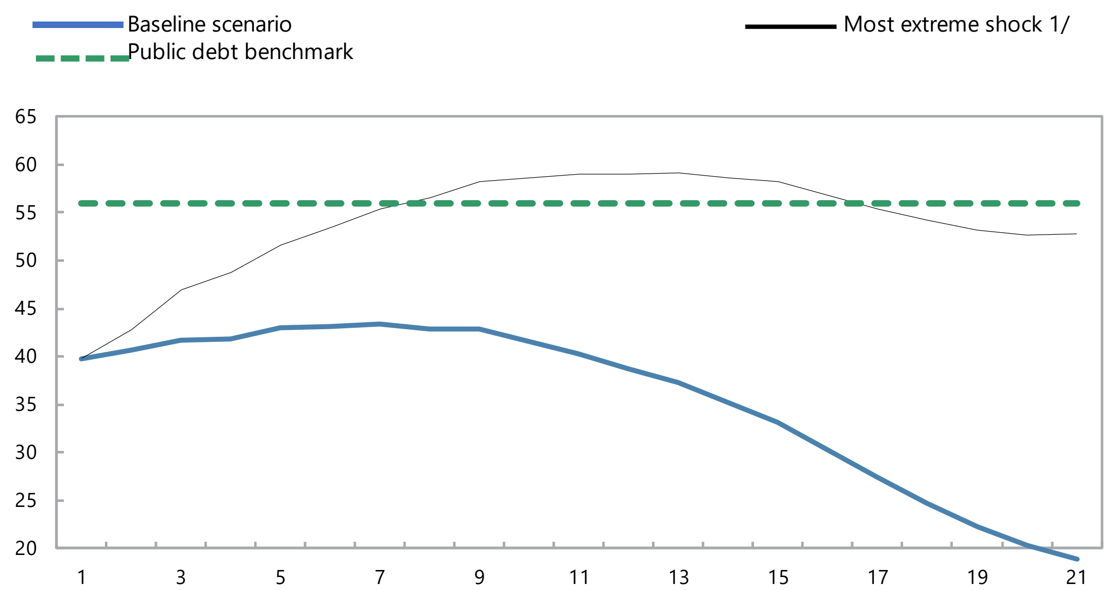
	Impact Projections for 2018 (Percentage of GDP)
Economic growth (1% increase)	
Impact on tax revenue	0.2
Petroleum price (US$1 increase per barrel)	
Impact of ENEE on the deficit	0.04
Impact of NFSP on the deficit	0.04
Petroleum price (US$5 increase per barrel)	
Impact of ENEE on the deficit	0.18
Impact of NFSP on the deficit	0.18
Exchange rate (5% depreciation and the average exchange rate)	
Impact of the central government on current expenditure	0.1
Impact of the central government on the deficit	0.1
Impact on stock of NFPS public debt	1.6
Financial costs Impact on debt service/revenue	0.3
Interest rate (1% increase)	
Impact on stock of NFPS public debt	0.1

Sources: DGMPF, SEFIN, and IMF staff estimates.

[22] See "Principal Macroeconomic Risks," PEP, table 2, pages 12–13: https://www.sefin.gob.hn/download_file.php?download_file=/wp-content/uploads/2019/06/politica_endeudamiento_2015_20181.pdf

114. SEFIN also publishes medium-and long-term projections of public debt. The 2019–22 PEP includes simulations for the next 20 years for a baseline scenario that provides a present value of the ratio of debt to GDP, but there is no discussion of the sensitivity analysis of underlying fiscal variables[23] (Figure 3.3). The sensitivity of costs associated with the effect of interest rates on debt, changes in the interest rate, and refinancing risk in the next fiscal year are evaluated in the 2018–22 Medium-Term Debt Strategy document.

Figure 3.3. Public Debt Indicators under Alternative Scenarios, 2018–38



Sources: SEFIN & BCH.

1/ The Debt/GDP indicator shows that the most extreme stress test is in the growth rate, which is the historic average minus one standard deviation. It only applies to the second and third year of projections, however, this impact does not exceed the threshold until 2014.

2/ The definition of income includes donations.

3.1.2	Specific Fiscal Risks	Not met

115. The MTMFF has a enumeration of specific risks, but it is not exhaustive, does not include qualitative or quantitative analysis, and does not establish a clear relationship to the fiscal projections. There are multiple sources of fiscal risk in Honduras; see Table 3.3 for a quantification of certain specific risks based on information provided by the authorities. The

[23] The assumptions used in the debt sustainability analysis—economic growth and prices, fiscal policy, financing terms for the NFPS and external sector—are discussed on page 40 of the 2019–22 PEP. The sensitivity analyses appear on pages 43–45.

MTMFF includes a section on fiscal risks; however, it still cannot be considered a disclosure of fiscal risks because there is no quantitative or qualitative discussion, and it is quite summary.[24]

116. The LRF provides that SEFIN[25] must identify, evaluate, and publish a report of fiscal risks in a period of three years from 2016 and include mitigation plans. The most recent MTMFF discusses the risks currently being addressed by SEFIN, that is, the risks associated with government-guaranteed debt, PPPs, local governments, legal actions, public corporations, and natural disasters. The calculations relating to those risks have not yet been finalized (see Table 3.3).[26] SEFIN has no methodology to analyze risks arising from the banking sector and development banks or to calculate the risks associated with natural disasters. Also, information on contingent liabilities relating to pensions and the health sector are not consolidated but are presented individually, by entity.

Table 3.3. Honduras: Specific 2017 Risks

Fiscal risks	Maximum exposure (HNL millions)	Percentage of GDP contingent liabilities (projected) 2018)	Contingent liabilities (HNL millions)	Cost (HNL millions)
Explicit fiscal risks				
Legal actions against the government	3,430	4.17%	1,003	
Guarantees of public credit operations (Movimiento Unificado de Campesinos del Aguan, Universidad Autónoma de Honduras, ENP, ENEE, BANHPROVI), June 2018	909	2.07%	497	
BANADESA		**> 1%** [27]		
Energy contract guarantees	900	1.86%	447	
PPP				
PPP claims (2 IMAG projects)	811		277[1/]	
PPP dispute	No pending lawsuits			
PPP guarantees				

[24] Article 25 of MTMFF.

[25] The SEFIN Fiscal Contingencies Unit (UCF) is the entity responsible for consolidating information on fiscal risks and analyzing fiscal implications.

[26] The authorities have completed the calculations, but they have not been officially reported.

[27] Based on calculations provided by the authorities.

Fiscal risks	Maximum exposure (HNL millions)	Percentage of GDP contingent liabilities (projected) 2018)	Contingent liabilities (HNL millions)	Cost (HNL millions)
PPP exchange rate		0.004%	0.96	
PPP force majeure				
Construction PPPs				
Compensation		0.0007%	0.17	
Natural Disasters				
Other liabilities				
Actuarial liabilities IHSS INPREMA IPM INJUPEMP		As a percentage of the central government budget 17.0 3.3 0.2 7.2	99.000 19,000 1.04 41.800	160,894

Sources: Authorities and IMF staff estimates.
Note:
1. Contingent liabilities associated with the tourist corridor project will depend on early termination of the contract. (In any event, HNL 277 million represents the contingent liability for IMAG.)
2. There is still no study of the risks associated with trusts. The authorities have a methodology to analyze the risks of municipalities but do not have calculations. The same is true for public corporations: the methodology is in place, but there are no calculations.
3. The IHSS, IMPREMA, IPM, and INJUPEMP actuarial liabilities were presented to the IMF team during the on-site evaluation.

117. For the risks mentioned in the MTFF, the absence of a qualitative or quantitative analysis makes difficult to know how these risks could affect the achievement of fiscal goals and projections for the coming years. Furthermore, the information disclosed does not explain how these risks could be positively correlated with, for example, low economic growth or an increase of the financial system risks.

3.1.3	Long-term fiscal sustainability analysis	Basic

118. There is information on the long-term fiscal sustainability in the 2019–22 MTMFF, which includes projections to 2038. Those projections take the form of a simple debt sustainability analysis (DSA). The fiscal variables included in the DSA are consistent with the MTMFF and the monetary program. This DSA includes projections of fiscal variables, such as tax revenue and expenditure, debt, nominal and real GDP, exchange rate, and the fiscal and real current account.

119. Pensions and the health sector are included in the deficit calculations. However, the budget document does not provide details on the outlook for the population age structure or contingent liabilities associated with pensions. The pension plan administrators—such as the IHSS, INPREMA, INJUPEMP, and IPM—have those actuarial calculations. Detailed information on those liabilities would help supplement the projections and calculations on the challenges for public finances in Honduras, as discussed in Box 3.1.

Box 3.1. Long-Term Pressures on Public Finances

Honduras faces demographic changes and pressures that call for appropriate fiscal planning.[28] **The public sector faces pressures arising from pension systems and public sector employees**. The social security institutions for public sector employees regularly produce actuarial estimates of future pension liabilities. Based on data from the authorities, the actuarial value of pension liabilities—excluding INPREUNAM—was estimated at more than 27.6 percent of the central administration budget in 2017. (See the memorandum item on pensions in Table 3.3.)

Health sector expenditures are also expected to continue to grow considerably, exerting pressure on public finances. The government expects that health expenditures will increase by the 15 percent projected population increase. The DGPMF analyzes the costs of a gradual increase in the population covered by the Ministry of Health up to the 2020 period. The results predict health expenditure of 2.54 percent of GDP in 2020.

A gradual increase in the population covered by the Department of Health

	2015	2016	2017	2018	2019	2020
Health Expenditures % GDP	2.34	2.39	2.43	2.47	2.51	2.54
Health Expenditures (millions of Lps)	10,293.5	11,351	12,513	13,791	15,195	16,739
Health Expenditures (millions of dollars)	466.8	490.3	514.7	540.2	567.0	594.8
Inflation	6.44	6.44	6.44	6.44	6.44	6.44
Population (thousands of people)	8,895.0	9064	9236	9412	9591	9773
Growth rate	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Population served (thousands of people)	5,337	5,529	5,726	5,929	6,138	6,352
Coverage	60.0	61.0	62.0	63.0	64.0	65.0
Annual increase	0	1	1	1	1	1
Annual cost per capita Lps	1,928.7	2,052.9	2,185.1	2,325.8	2,475.6	2,635.1
Annual cost per capita Dollars	87.5	88.7	89.9	91.1	92.4	93.6

Source: DGPMF, IHSS, IMPREMA, IPM, INJUPEMP, and IMF staff.

B. Risk Management

3.2.1	Budget contingencies	Advanced

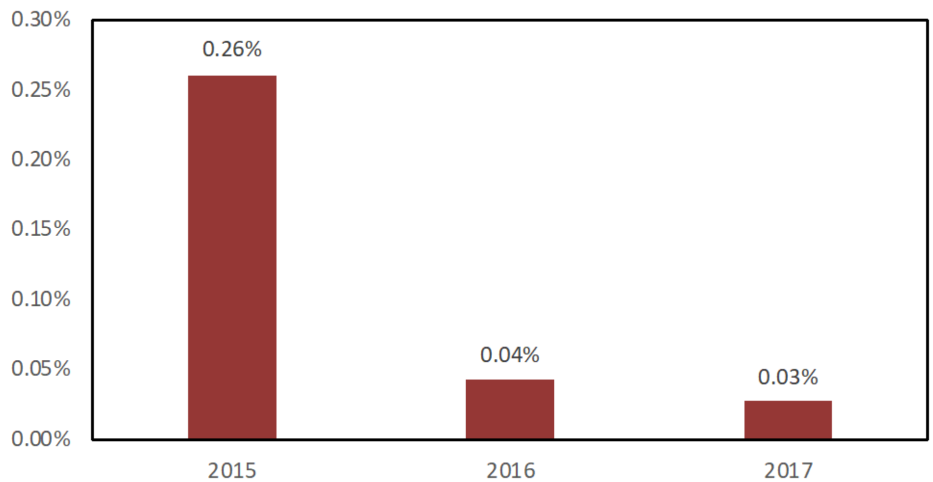
120. The law provides for a budget line item to address contingencies; the line item has a quantitative limit, specific uses prescribed by the law, and clear criteria for access. Article 40 of the LOP provides for a budget appropriation for contingencies that may not exceed 2 percent of current revenue budgeted for the central administration. The appropriation may be used only for special circumstances established by the law: to cover counterpart contributions under loan agreements; fulfill obligations under guarantees; fulfill obligations arising from the

[28] Information on pensions and the health sector are based on information provided by the authorities.

implementation of laws in preparation during the budget approval phase; or meet immediate, urgent, or unanticipated needs resulting from natural disasters, domestic unrest, or public emergency. To use resources allocated to this line item, the requesting entity must submit a formal request to SEFIN with the relevant justification. SEFIN will review the request and accept or deny it. If it is accepted, the funds are transferred to the requesting entity, and SEFIN so advises the Congress.

121. **The contingencies line item is included in the approved budget and in the budget execution reports.**[29] The amounts appropriated have generally been below the legal limit (Figure 3.4); in practice, the 2 percent limit has proven insufficient. Coping with contingencies has required substantial resources in many years, particularly for contingencies associated with natural disasters, which occur frequently in Honduras, as discussed in Section 3.2.7. As a result, it is common to exceed the 2 percent budget item to address unanticipated events, and the composition of the budget needs to be altered accordingly. Contingencies associated with natural disasters explain most of the frequent budget modifications.

Figure 3.4. Appropriation for Contingency as a Percentage of Central Government Current Revenue



Sources: SEFIN and mission calculations.

3.2.2	Asset and liability management	Basic

122. **There is a legal ceiling on the debt**. The legal framework of the PEP consists of provisions set out in the Constitution (Decree No. 131-1982), which provides that debts legally contracted for current expenditures or investment represent financial obligations of the government for execution of the general revenue and expenditure budget. Other components

[29] Sub-item 900 of item 499 of 2017 approved budget.

of the legal framework are the Regulations on the Public Credit Subsystem of the Budget Framework Law (Decree No. 83-2004), the implementing regulations (Decision No. 0419 of 2005), and the provisions for execution of the general revenue and expenditure budget, updated each fiscal year, specifically in the section on "Public credit operations" (see Section 2.3.1). All public sector borrowing, including guarantees for borrowing, must be authorized by Congress. The LRF and the MTMFF established a limit on the municipalities' borrowing (see Section 3.3.1). Regarding PPPs, there is a statutory limit on both firm commitment and quantifiable contingencies, which may not exceed 5 percent of GDP. The limit may be revised by the president at the request of SEFIN (see Section 3.2.4); the limit must be considered before initiating a new PPP. This President's faculty hasn't been applied yet.

Liabilities: Debt

123. Information on debt sustainability is published in the PEP and the MTMFF, and a 2018–22 medium-term debt strategy is in place.[30] In the PPP, SEFIN publishes the evaluation and evolution of NFPS debt, the 2018–22 guidelines for public debt, and the public debt sustainability analysis. The information includes a breakdown of debt by type of domestic and external debt, currency, amortization profiles, sources of borrowing, maturities, and interest- and exchange-rate exposure. According to preliminary figures at the close of 2017, the NFPS debt was estimated at 42.6 percent of GDP.[31]

124. The debt strategy covers external and domestic public debt for the NFPS. External debt represents 71.7 percent of the public debt portfolio; the remaining 28.3 percent represents domestic financing. The 2017 NFPS external debt was 18.3 percent higher than the 2016 debt following the issuance of sovereign bonds in the amount of US$700 million to cover outstanding accounts payable and the ENEE deficit. The debt to multilateral institutions represents 58.5 percent of the total. The annual financing plan proposes a strategy to meet the demand for funds from investors and the government's financing needs by issuing medium-term securities aimed at a favorable cost/risk ratio for the country and consistency with the PEP. The financing needs in 2018 were HNL 28,390.6 million. Although Honduras has made significant progress in debt management, it must continue on this path in light of current conditions in the market, such as concentration of the investor base and competition between government securities and central bank instruments (Box 3.2).

125. Coordination between monetary policy and debt management would be more transparent if the same coverage of public debt were used.[32] BCH issues central bank bills for its monetary policy operations. BCH records that debt in its financial statements; the

[30] See 2018–22 Medium-term Debt Strategy. The financing requirements are described in the 2018 financing plan.

[31] PEP (2019–22), page 13.

[32] IMF. 2018. Technical Assistance report on the development of local debt markets.

information is not included in the DSA because Honduras's DSA is conducted for the NFPS. Losses on monetary policy operations are absorbed by SEFIN. In the past, this quasi-fiscal activity totaled HNL 12 billion.

Box 3.2. Domestic Market Debt Absorption Capacity

SEFIN has developed fiscal deficit scenarios in the context of analyzing the capacity to service the medium-term debt. The policies implemented for revenue and containment of spending in the central administration led to a substantial deficit adjustment of 5.1 percentage points of GDP between 2013 and 2018. However, those results were not sufficient to prevent the accumulation of debt and the impact of interest on the level of expenditure and the central administration deficit. This accumulation of debt arises from the increase in current spending since 2006, which has become recurrent, without the adequate counterpart in permanent revenue, requiring the issuance of bonds to cover financing needs. An analysis of the market's capacity to absorb the bonds indicates limitations and implications (see Table 3.4). The absorption is taken into account in the DSA. Given the limited capacity of the Honduran domestic market to absorb bonds, the country has had to cover financing needs by borrowing from international institutions through budgetary assistance funds.

Table 3.4. Bond Absorption Capacity

Description	2017
Bond issuance	18,991.9
Amortization	11,219.1
Net issues	7,772.8
Pension funds	3,914.9
Banking system	1,071.8
Total absorption	4,986.6
Absorption gap	2,786.1
% GDP	0.5%

Source: DGPMF 2018.

Other Liabilities

126. The floating debt is valued at HNL 11.256 billion at September 30, 2018 (2.08 percent of 2017 GDP).[33] Of the total amount of floating debt at end-2018, 27 percent represented debt from previous years (Table 3.5). There are discrepancies between the Treasury estimations of floating debt and the figures indicated in the accounting system. The differences

[33] Source: CGR and IMF staff calculations.

arise because the Treasury's debt table covers only the National Treasury, while the accounting system includes all sources. The amount of floating debt and related cash flows can fluctuate with inflation and interest rates, and there is no clear policy for the analysis and mitigation of these risks. The floating debt has been reduced through the issuance of bonds.

Table 3.5. Floating Debt, 2018 and Prior Years (Lempiras, millions)

No.	Code	Accounting Code	Floating Debt 9/30/2018
1	21111	Commercial Accounts Payable	942,194,710.42
2	21112	Contractors Accounts Payable	270,321,620.26
3	21113	Accounts Payable Other Central Gov. Institutions	216,847,161.57
4	21114	Accounts Payable Office of the President	3,864,404.58
5	21121	Wages and Salaries Payable	65,534,598.07
6	21122	Other Non-Personnel Services Payable	29,890,999.96
7	21123	Payroll System Wages and Salaries Payable	61,639,573.90
8	21124	Representation Expenses Payable	1,521,271.45
9	21131	Employer Contributions Payable	2,360,003,414.53
10	21133	Benefits and Compensation Payable	31,984,355.73
11	21134	Deductions Payable	806,861,997.51
12	21135	Guarantees Payable	207,832.08
13	21141	Taxes Payable	387,851.35
14	21142	Rights and Fees Payable	346,177.02
15	21144	Legal Expenses Payables	7,548,895.60
16	21153	Donations Payable to External Sector	360,447.00
17	21154	Transfers Payable to Public Sector	1,270,032,403.60
18	21155	Transfers Payable to Private Sector	261,958,736.25
19	21156	Transfers Payable to External Sector	12,690,048.68
20	21157	Subsidies Payable to Public Sector	5,932,130.83
21	21196	Other Accounts Payable	60,434,851.82
22	21311	Third-Party Funds Received in Custody	95,305,595.16
23	21312	Third-Party Funds Received in Guarantee	74,530,324.96
24	21314	Legal Attachments in Custody	154,949,486.01
	21611	Trust Funds Payable	1,382,297,917.67
	21614	Trust to Finance Different Short-term Programs and Projects	3,427,592.00
	21617	Trust for Construction Obispo-Empalme Highway, La Esperanza Highway; Rehabilitation San Miguelito-San Juan; Bacheo San Juan-Gracias-Santa Rosa de Copán, and Maintenance on Esperanza-Santa Rosa Payable	159,447,000.00
Current Year Total			**8,280,521,398.01**
25	21411	Prior Fiscal Year Commercial Accounts Payable	602,125,173.58
26	21412	Prior Fiscal Year Contractors Accounts Payable	58,795,977.30
27	21413	Prior Fiscal Year Other Accounts Payable	630,968,786.61
28	21421	Prior Fiscal Year Employee Wages Payable	34,680,259.75
29	21422	Prior Fiscal Year Instructors Wages Payable	2,300,175.65
30	21424	Prior Fiscal Year Representation Expenses Payable	964,999.65
31	21425	Prior Fiscal Year Other Non-Personnel Services Payable	5,813,949.10
32	21431	Prior Fiscal Year Employer Contributions Payable	107,566,375.06
33	21433	Prior Fiscal Year Benefits and Compensation Payable	13,549,236.65
34	21434	Prior Fiscal Year Deductions Payable	95,539.33
35	21441	Prior Fiscal Year Taxes Payable	346,968.31
36	21442	Prior Fiscal Year Rights and Fees Payable	704,842.85
37	21443	Prior Fiscal Year Fines and Charges Payable	18,765.61
38	21444	Prior Fiscal Year Legal Expenses Payable	1,608,551.40
39	21451	Prior Fiscal Year Transfers to Public Sector Payable	76,144,945.40
40	21452	Prior Fiscal Year Transfers to Private Sector Payable	442,147,646.20
41	21453	Prior Fiscal Year Subsidies to Public Sector Payable	64,961,331.00
42	21454	Prior Fiscal Year Subsidies to Private Sector Payable	1,019,636.49
43	21457	Prior Fiscal Year Transfers to External Sector Payable	12,232,414.57
44	21497	Prior Fiscal Year Loans to Non-Financial Public Companies Payable	49,819,458.02
48	21811	Prior Fiscal Year Trust Funds Payable	870,590,668.25
Prior Year Total			**2,976,455,700.78**
		Floating Debt Total	**11,256,977,098.79**

Source: Central Administration Financial Statements at 09/30/2017.

Financial Assets

127. There is still no clear policy on financial asset management. The financial assets of the budgetary central government were 11.6 percent of 2017 GDP. The value of assets and associated cash flows can vary with inflation, interest rates, and exchange rates. The government has no policy to calculate the effects of these changes on the total value of public sector assets. Investments in bonds are recognized in the accounting system at cost, interest is recognized in the income statement, and the assessment method is cost with changes in profit or loss.[34] The financial assets include accounts and loans receivable, documents, advances, guaranteed debt, and trust funds.

128. Substantial risks appear that are associated with the management of the assets and liabilities of trusts, due to the limited information on their use. The total assets of the trusts represented 3 percent of GDP in 2017. This information appears in the list of trusts included in Note 10 to the financial statements. There is also budget information on budget transfers to those trusts (see Section 2.1.1 of Pillar II). Further analysis is needed to understand the risks associated with these trusts.[35]

129. There is no strategy for managing trusts, primarily because there is no public regulation. The only law applicable to the trusts is the commercial code. The lack of legal framework for trusts hinders the implementation of well-defined accounting procedures. The trusts in Note 10 of the financial statements correspond to the central administration; the rest is managed by decentralized institutions. In addition, public corporations manage directly and reflect their trusts in their financial statements. Those trusts managed by banks report to SEFIN, and accounting adjustments are made, but in no case is there a budget appropriation. There are certain public cases of lack of transparency in the management of a trust, for example, in BANADESA, according to the mission's discussions with the authorities (see Section 3.2.5 on risks for the financial system).

Nonfinancial Assets

130. Information on nonfinancial assets exists but is incomplete. There are two sources of information: the physical information on the assets in the register and the accumulated accounting information. Work is underway to reconcile the two information sources. The authorities are finalizing the reconciliation of physical and accounting data, which will allow the register and accounting systems to be connected (see Annex 2).

[34] See Notes 4 and 14 to the financial statements.

[35] For example, some of the trusts make risky investments, such as transferring money for loans to banks like BANADESA.

131. The Directorate National of Government Property assumes the functions of recording, control, and administration of all government assets.[36] In 2017, SEFIN issued Executive Decision 226-2017 establishing the regulations, organization, and operation of government property. All public sector institutions are required to maintain records and to perform internal audits of inventories of government property under their control (for example, real and personal property); these entities are required to submit updated inventories to the National Directorate of Government Property (DNBE) by December 15 of each year. The authorities cited a need to refine the single automated government property information system in terms of information, as well as control. The DNBE should continue working with the CGR to update, upgrade and preserve the national inventory of government real property; so nonfinancial assets ownership and use will be legally protected and safe from misappropriation.

3.2.3	Guarantees	Not met

132. The LOP permits the central administration to provide guarantees and does not establish a quantitative limit of any kind on stocks or flows of new guarantees. The requirement of prior congressional approval of new guarantees implies that the government does not have full control over the provision of guarantees. Article 78 of the LOP provides that guarantees, bonds, and similar undertakings require approval by the Honduran president prior to congressional approval. Article 78 also establishes that the SEFIN Fiscal Contingencies Unit (UCF) must evaluate the associated risks and determine whether counter-guarantees should be implemented to mitigate the risk to the central administration.

133. According to preliminary figures provided by SEFIN, the central administration's exposure to guarantees could be on the order of 2.1 percent of GDP. This figure as well as a breakdown by beneficiary has not been made public as the FTC requests. The exposure includes exposure to guarantees of borrowings by public corporations and public universities and one guarantee provided to the private sector. In the context of SEFIN's commitment to begin producing a fiscal risks document in 2019, consistent efforts are being made to measure the total exposure to guarantees, the nature of the guarantees, the probability of a contingency event, and the value at risk represented by the guarantees.

134. Power purchase agreements (PPAs) should be considered as central administration fiscal contingencies. According to preliminary UCF calculations, the guarantees associated with PPAs represent approximately 1.86 percent of GDP. The new Electric Power Law of 2014 eliminated PPAs. However, there are currently 210 signed PPAs; many of them signed between 2010 and 2014, and 87 of them are still in commercial operation. A large number of

[36] The National Directorate of Government Property previously operated as the Office of National Property Administration within the CGR organizational structure. Decree-law No. 1001 of 1980. Legislative Decree No. 274-2010 of 2011 created the Directorate of National Property (Dirección de Bienes Nacionales); Executive Decree PCM-047-2015) modified the Directorate General of National Property (Dirección General de Bienes Nacionales) to the National Directorate of Government Property (Dirección Nacional de Bienes del Estado).

the other contracts was approved by the Congress. Nevertheless, ENEE is undergoing an upgrading process because, given the contract clauses, some contracts may be in default.

135. Financing of infrastructure works through PPPs may give rise to contingencies associated with the guarantees provided for those contracts (see dimension 3.2.4). The liabilities have not been quantified, but a quantification of risks is expected to be included in the fiscal risks report to be published in 2019. Some contracts in execution provided for minimum-income guarantees and other financial guarantees. Those contingencies are not included in the 2.1 percent of GDP reported earlier. Because Honduras adheres to the IPSAS, the national accounting system (in Note 68 to the financial statements published by the CGR) identifies the beneficiary contracts and the characteristics of the guarantees provided; it does not quantify the contingent liabilities. The contingency represented by guarantees of PPPs will also be part of the report on fiscal risks being prepared by the UCF, which is expected to be published in 2019.

136. It should be noted that although the government does not guarantee loans contracted by subnational entities, those operations could give rise to implicit contingent guarantees. Controlling the fiscal risks of those operations will require more specific, more enforceable regulations to limit borrowing by subnational entities, based on their capacity to pay. Although regulations address this issue, it is important to ensure that the limitations are applied in practice.

3.2.4	**Public-private partnerships**	**Advanced**

137. The regulatory and institutional framework for PPPs has been consolidated over time. Honduras has relied increasingly on PPPs to close the country's infrastructure gap. The initial boost was provided by the 2010 Law on Promotion of Public-Private Partnerships (LPAPP),[37] which established the principles governing PPPs and the modalities of PPPs (public or private initiative) and identified the national and municipal entities that could initiate PPP projects. The LPAPP created (1) the Commission on Promotion of Public-Private Partnerships (Comisión para la Promoción de la Alianza Público-Privada, COALIANZA) as the agency responsible for managing PPPs for public works and services; and (2) the SAPP as the entity responsible for the regulation, control, and monitoring of works and services delivered through PPPs. The LPAPP was amended in 2014 and 2015. The first amendment[38] created the SEFIN-UCF and tasked it with identifying, analyzing, quantifying, managing, and issuing its opinion on the costs and fiscal risks arising from investment projects implemented as PPPs and other sources of fiscal risks, as well as developing action plans to address the potential triggering of contingencies.

[37] Legislative Decree 143-2010.

[38] Legislative Decree 115 of 2014.

138. Currently, 11 PPP projects are under construction or in execution, representing a total investment of US$1.263 billion. A large number of projects belongs to the infrastructure sector (roads, ports, and airports) and public buildings (Table 3.6). If a project is undertaken at the government's initiative, COALINANZA conducts cost-benefit studies and is involved in the definition of the project structure and the award of project contracts through competitive procedures. If the project is a private initiative, the private parties conduct the cost-benefit analysis, and the UCF issues an opinion confirming that the project is in the country's interest before proceeding with the definition of the project structure.

139. The Honduran government publishes extensive information on individual PPP projects through the COALIANZA information system and the construction and supervision contracts information system (SISOCS). All contracts are accessible to the public. Based on the contracts, the UCF is working on modeling the different variables to approximate the individual and aggregate contingencies associated with PPP guarantees. As mentioned, this work will be part of the fiscal risks report being prepared by the UCF. In addition, the SAPP annual report will disclose estimated future revenue and payments.

140. A legal limit has been established for the total firm and contingent commitments associated with PPP contracts, but there is no public report providing regular disclosure of the percentage of the limit consumed. Article 26 of the LPAPP provides that total present value of quantifiable firm and contingent commitments assumed by the NFPS in connection with PPP contracts, net of income, may not exceed the equivalent of 5 percent of GDP. The limit may be increased every three years by the president and the Council of Ministers, after consultation with SEFIN, provided the new limit is consistent with the country's capacities. According to internal, nonpublic calculations, the amount of current PPPs liabilities is close to the limit imposed by the law.

Table 3.6. PPP Contracts in Execution

Project	Sector	Investment		Entity	Stage	Departments	Term	Contract signing date
		Millions of LPR	Millions of Dollars					
Logistics Corridor: Goascorán - Villa de San Antonio & Tegucigalpa - San Pedro Sula - Puerto Cortés	Communication & energy	1,938.68	80,778,333	INSEP	Implementation	Comayagua, Cortés, Francisco Morazán	20	2012
Tourism Corridor: El Progreso - Tela & stretches San Pedro Sula - El Progreso & La Barca -El Progreso	Communication & energy	1,970.55	82,106,250	INSEP	Implementation	Atlántida, Cortés, Yoro	30	2012
Design, Financing, Construction, Conservation, Operation & Maintenance at the Puerto Cortés Container and General Cargo Terminal	Productive infrastructure	12,913.15	538,047,917	INSEP	Implementation	Cortés	30	2014
Design, Construction, Financing, Operation & Maintenance at Palmerola International Airport	Productive infrastructure	3,664.61	152,692,083	INSEP	Implementation	Comayagua	30	2013
Government Civic Center	Productive infrastructure	4,901.90	204,245,833	INSEP	Implementation	Francisco Morazán	30	2014
Bus terminal project and municipal commercial plaza, Danlí - El Paraíso	Productive infrastructure	99.23	4,134,583	nicipality of D	Contract	Paraíso		
Design, Construction, Administration, Financing, Maintenance and Transfer of Infrastructure Works and Improvements to the Road Network at San Pedro Sula (SIGLO XXI)	Infrastructure Sector	1,845.64	76,901,667	General of Hig	Implementation	Cortés	30	2014
La Lima, My City is Developing	Infrastructure Sector	70.99	2,957,917	icipality of La	Implementation	Cortés		
"Construction Obispo-Empalme Highway with the highway to La Esperanza; Rehabilitation San Miguelito - San Juan; Bacheo San Juan-Gracias-Santa Rosa de Copán, and Maintenance on the highway from La Esperanza to Santa Rosa de Copán" (Stage I & II)	Infrastructure Sector	920	38,333,333	INSEP	Implementation	Copán, Intibucá, Lempira		
Construction Obispo-Empalme Highway with the highway to La Esperanza; Rehabilitation San Miguelito - San Juan; Bacheo San Juan-Gracias-Santa Rosa de Copán, and Maintenance on the highway from La Esperanza to Santa Rosa de Copán (Stage III & IV)	Infrastructure Sector	968	40,333,333	INSEP	Implementation	Copán, Intibucá, Lempira		
Puerto Cortés Solid Bulk Terminal	Productive infrastructure	1,029.96	42,915,000	INSEP	Implementation	Cortés	30	2013
Total Investment		30,322.71	1,263,446,250					

Source: Based on COALIANZA and Sisocs-APP.

3.2.5	Financial sector exposure	Basic

141. The government's support to the financial sector through explicit guarantees to public banks and the Deposit Insurance Fund (FOSEDE) is quantified and disclosed. Annual reports disclose explicit support to the financial sector through guarantees to second-tier banks, such as BANHPROVI, and the government's explicit guarantee provided to BANADESA (see dimension 3.1.2).[39] FOSEDE protects the savings of small depositors with private banks, nonbank financial institutions, and savings and loan associations, guaranteeing reimbursement up to the insured amount. The maximum FOSEDE coverage per depositor and per institution[40] represented HNL 227,990 for the 2017 period.[41]

142. FOSEDE-insured deposits represented 30 percent of total deposits of Honduras's financial system at December 31, 2017. Table 3.7 presents the number of accounts guaranteed and the amounts in national and foreign currencies.

Table 3.7. Deposits Insured by FOSEDE (HNL millions)

Deposits	**Consolidated**			**National currency**		**Foreign currency**	
Status/deposits	**Number of accounts**	**Amount**	**%**	**Number of accounts**	**Amount**	**Number of accounts**	**Amount**
Up to HNL 200,000.00	6,353,569	HNL 54,018.6	18.00	6,048,845	HNL 45,973.2	321,034	HNL 8,045.4
HNL 200,000.01 to HNL 227,990.00	161,325	HNL 36,780.5	12.00	120,397	HNL 27,449.3	24,618	HNL 9331.2
Total Insured	6,514,894	HNL 90,799.1	30.00	6,169,242	HNL 73,422.5	345,652	HNL 17,376.6
Uninsured deposits		HNL 212,670.7	70.00		HNL 140,363.0	345,652	HNL 72,307.7
Total deposits	**6,514,894**	**HNL 303,469.8**	**100.00**	**6,169,242**	**HNL 213,785.5**	**345,652**	**HNL 89,684.3**

Source: FOSEDE annual report 2017.

[39] See Article 51 of the Law Establishing the National Agricultural Development Bank (BANADESA) ("all Bank obligations are fully guaranteed by the government").

[40] See the FOSEDE 2017 annual report for further information on the financial position and financial statements.

[41] The maximum guaranteed amount is derived by converting the amount of insurance coverage, US$9632.92, to HNL; this was done by the FOSEDE board of directors in Resolution No. 287/20-01-2017.

143. FOSEDE has implemented mechanisms for the resolution and recovery of assets since 2001. FOSEDE has paid insurance coverage in the amount of HNL 2,015.9 million, has made capital contributions in the amount of HNL 470 million, has provided loans under the least-cost rule in the amount of HNL 300 million, and has made reimbursable contributions under the same rule in the amount of HNL 219 million, for a total of HNL 3,012.8 million, disbursed under various resolution mechanisms resolved and executed by the CNBS. For example, this includes those to the savings and loan, La Constancia, or those in the liquidation process of Banco Continental S.A.[42]

144. The president of the Executive Branch exercises oversight and control of banking, insurance, and financial institutions through the CNBS. The CNBS founding law charges it with the supervision, oversight, control, and audit of institutions that engage in financial intermediation and other institutions defined by applicable laws as supervised entities.[43] In this respect, and in accordance with Article 39 of the CNBS law, the annual report was presented for fiscal year 2017; it summarizes the agency's efforts to uphold the solvency and efficiency of the financial system and other supervised institutions.

145. The Financial Stability Committee (CEF)[44] is one of the innovations introduced by the Financial System Law. CEF was created to comply with international standards and monitor the integrity and soundness of the financial system by providing mechanisms for the coordination and exchange of information to effectively manage systemic risk and resolve critical situations.

146. BCH's responsibilities include the periodic monitoring of developments in the banking system. In conducting its monitoring, BCH must take account of the close interrelationship of the banking system to other sectors of the Honduran economy and their involvement in safeguarding the country's financial stability. BCH publishes semiannual reports on financial sector stability; the most recent financial stability report is from December 2017.

147. The Honduran commercial banking system is well capitalized and has adequate liquidity. The BCH financial stability reports, published semiannually, present numerous indicators of the strength of the commercial banking system, including results of sensitivity tests that estimate the impact of various shocks on the banks' balance sheets. The BCH and CNBS websites include specific, timely, easily accessible information on commercial banks. For example, Figures 3.5, 3.6, 3.7, and 3.8 present the capital adequacy and soundness of the

[42] See the discussion in the FOSEDE 2017 annual report, page 13.

[43] The entities supervised by the CNBS pursuant to its legal authorities are primarily public and private banks, financial corporations, insurance companies, pension funds, and securities intermediaries (stock exchanges and brokerage firms). CNBS also supervises institutions that engage in other financial activities, including currency dealers and warehouse operators that make loans secured by goods or merchandise on deposit (almacenes generales de depósito).

[44] At its first meeting on November 2, 2017, the Financial Stability Committee also discussed measures to prevent and correct situations that could compromise financial system stability.

banking system. Annex 3 describes the financial soundness indicators of the banking system and compares Honduras with other countries in the region. In terms of regional liquidity, Honduras's 31 percent exceeds the average of 27.4 percent for Central America, the Dominican Republic, and Panama. BCH also conducts stress tests for the commercial banking system.[45] Those tests do not include public banks, and their status was not discussed in the semiannual reports on financial stability. The Financial Stability Report (BCH 2017) also notes that despite the increase in commercial bank lending to the private sector (9.6 percent a year), the arrears declined to 2.3 percent at end-2019 from 2.9 percent in 2016.

Figure 3.5. Capital Adequacy Ratios for the Banking System

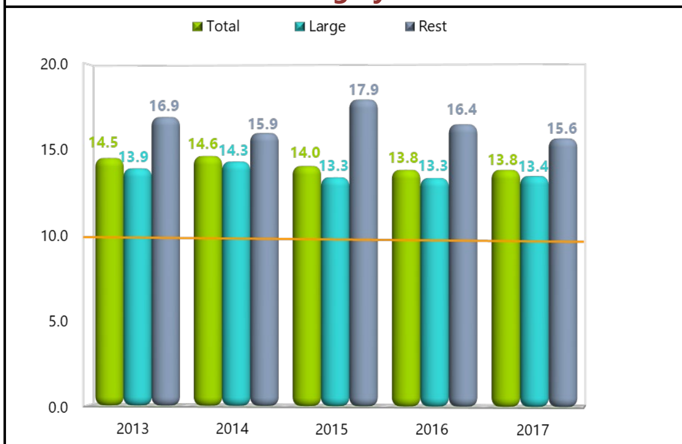


Figure 3.6. Distribution of Capital Adequacy Ratios

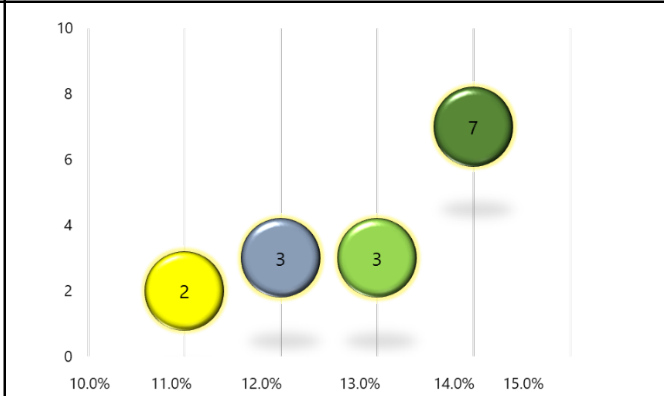


Figure 3.7. Ratio of Liquid Assets to Short-Term Liabilities

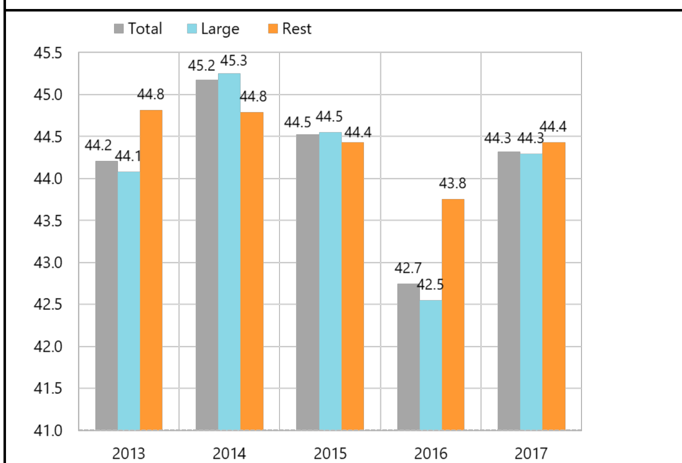
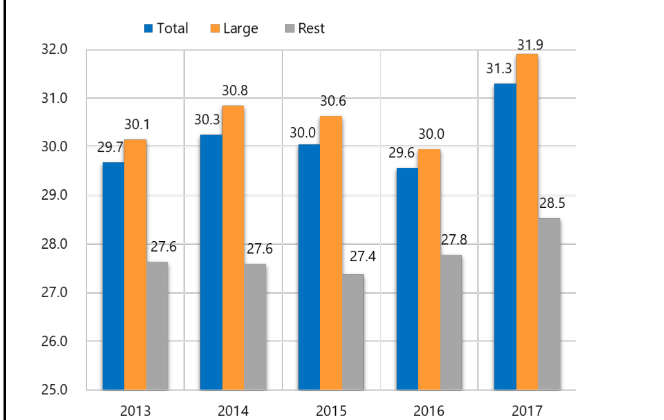


Figure 3.8. Ratio of Liquid Assets to Total Assets



Source: BCH. 2017. "Financial Stability Report," December

[45] See BCH. 2017. "The "Financial Stability Report."

148. The CNBS analyzes the evolution of supervised institutions. The supervised entities include public banks, as indicated in its report, although the results of the supervision of BANADESA were not included in its annual report.

149. The financial position of BANADESA presents a risk for the government due to irregularities identified by the National Anti-Corruption Board in its administration of a trust signed by the bank and a commercial firm.[46] A decision was made to provide funds in the amount of HNL 105 million to the commercial firm through the trust in 2016 to be used for the construction of real property.[47] In that case, BANADESA also violated articles 44 and 52 of the Financial System Law; Articles 1037, 1053, and 1056 of the Commercial Code; and the clauses of the trust agreement specifying the use of the trusts (see BANADESA financial statements, Annex 4).

150. The measurement and mitigation of fiscal risks generated by a public bank requires coordination among multiple institutions. In Honduras, the management of fiscal risks created by public banks requires close coordination between the CNBS and SEFIN. The CNBS has experience in monitoring those risks, in particular, those that can affect third parties to which the public banks are working with. The SEFIN-UCF must manage the fiscal consequences of potential problems, especially where there is an explicit legal guarantee to support public banks activities (see dimension 3.1.2, Table of specific risks for Honduras).[48]

3.2.6	Natural resources	Not met

151. The government does not publish the amount or volume of the country's natural resources annually. The Honduran Institute of Geology and Mines (INHGEOMIN), which is in charge of promoting natural resources, publishes a monthly updated list of concessions for the exploration and development of minerals; it does not have aggregate statistics or periodic volumes of production and prices. Honduras joined the Extractive Industries Transparency Initiative (EITI)[49] in 2013; additional information on the extractive sector can be obtained from

[46] CNA press release on irregularities in the administration of the trust signed between BANADESA and a commercial firm, November 1, 2018.

[47] HNL 105.6 million was transferred through the trust to the firm, to be used for the construction of the market and layout of interior spaces. The CNA stated that it determined on-site that the physical progress of the project at this time is inconsistent with the amounts authorized for the project and that there is an unjustified difference of HNL 29.4 million. According to the CNA, BANADESA officials were negligent in making the loan without following the procedures established by law.

[48] If the financial position of any of those public banks indicated a need for compulsory liquidation, this would trigger application of article 261 of the Constitution: "In order to create or eliminate a decentralized institution, the National Congress shall adopt a resolution by two-thirds vote of its members. Prior to promulgating laws relating to the decentralized institutions, the National Congress shall request the opinion of the Executive Branch."

[49] The initiative ensures transparency and accountability in payments to governments by companies of the extractive and hydrocarbon industries, as well as the revenues that the governments receive from those companies.

the annual reports. The information, however, is disaggregated by company; it is not possible to quantify the total production of each mineral, the revenue for the government and municipalities, or trends in those figures over time.

152. Given the limited scale of mining activity in Honduras, the uncertainty linked to fluctuations in the value of production and exports of natural resources does not represent a significant fiscal risk. Honduras's extractive sector consists of the development of metallic minerals (gold, zinc, lead, and silver) and nonmetallic minerals (limestone, pozzolans, clay, gypsum, and aggregates). The total production of metallic minerals is sold abroad and is insufficient in volume to generate a risk for the stability of public finances. The INHGEOMIN is responsible for the promotion and development of all mining activities and grants of development rights; it maintains a database of information on the country's mineral resources. It provides services to mining companies or concessions, for which it charges a fee; the fee is paid to the Honduran Treasury, with 60 percent of the fee to INHGEOMIN for its operations. Its budget has been reduced from HNL 67 million in 2015 to HNL 50 million in 2017.[50]

153. The importance of mining in Honduras is decreasing, because the income from this activity is small in comparison with other countries in the region. According to the World Bank, total income from mining activities in Honduras represented 2.3 percent of GDP in 2016. This percentage is similar to that of Guatemala and higher than those of Costa Rica and El Salvador. However, it is lower than that of Nicaragua and other countries of the region, such as Bolivia, Chile, Colombia, and Peru, whose mining and energy production makes a significant contribution to public finances (Figure 3.9). The mining sector contribution to GDP in Honduras represented 0.6 percent of the total during 2015–17[51]. During that same period, exports of gold, zinc, and lead averaged less than 2 percent of the country's total external sales. The government's revenue from taxes, royalties, and other fees on mineral production represent less than 1 percent of total revenue[52].

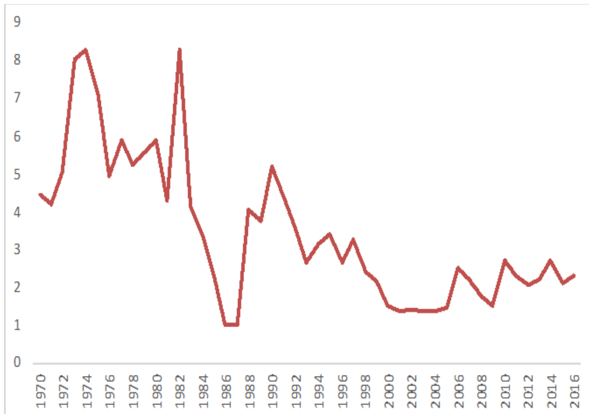
[50] The most recent INHGEOMIN report that is available is from 2016, at which time the extractive industry—primarily gold and zinc—represented 1 percent of GDP.

[51] According to BCH statistics.

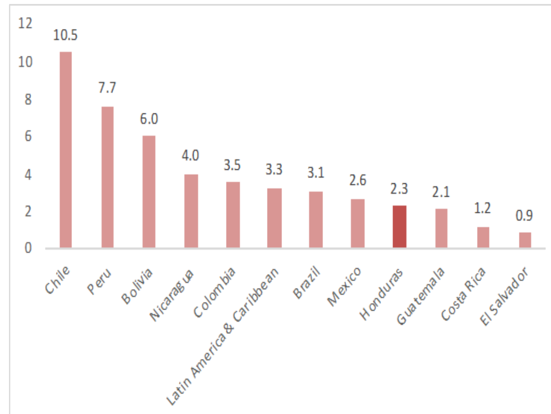
[52] According to the EITI.

Figure 3.9. Natural Resources Income in Honduras and Selected Latin American Countries (% GDP)

3.9.1. Natural Resources in Honduras



3.9.2. Natural Resources in Latin American Countries, 2016

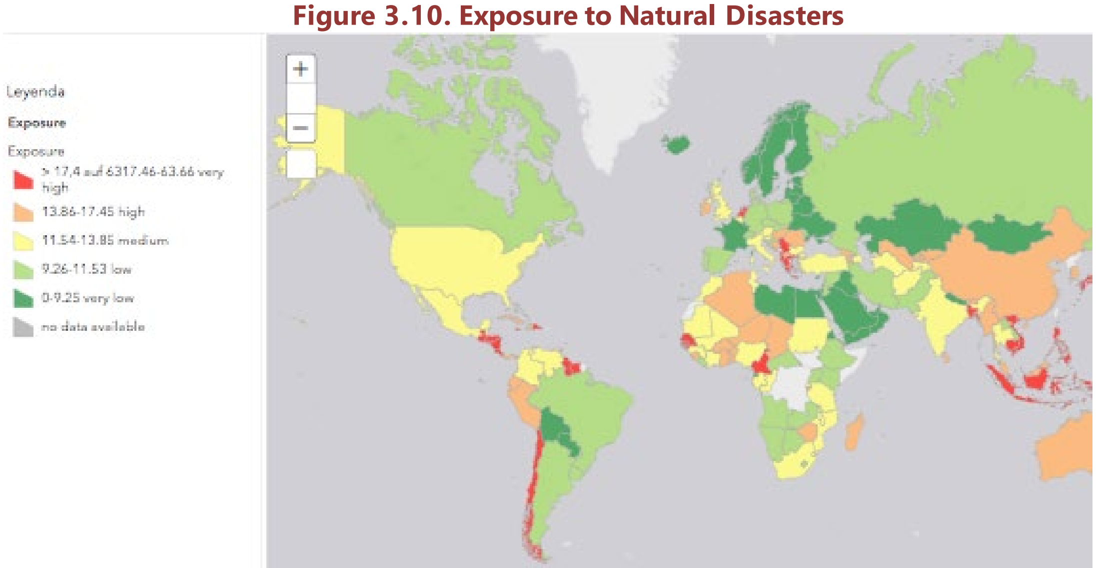


Source: World Bank World Development Indicators.

3.2.7	Environmental risks	Basic

154. Honduras is one of the countries in the world most vulnerable to natural disasters, especially hurricanes, droughts, and flooding (Figures 3.10 and 3.11, Table 3.8). Between 1997 and 2018, the country withstood 12 hurricanes, 9 droughts, and 22 floods, which left 5.3 million persons affected in a country whose total population is only 9.3 million inhabitants. Honduras has the largest number of natural events in Central America; Nicaragua has the second largest number of victims and is in second place in terms of the associated economic costs.

Figure 3.10. Exposure to Natural Disasters



Source: WorldRisk Index.

Figure 3.11. Number of Natural Disasters and Persons Affected, 1997–2018

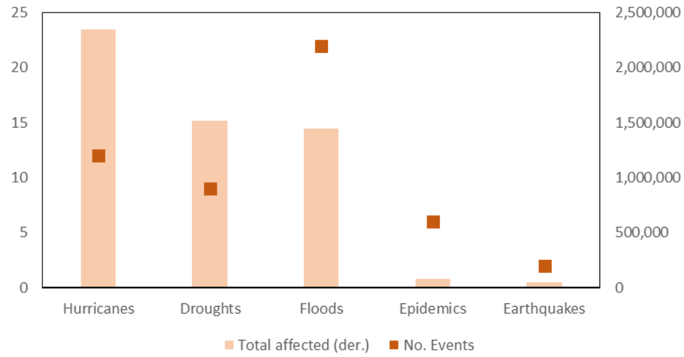


Table 3.8. Natural Disasters in Central America, 1997–2018

	No. Events	Deaths	Injured	Affected	Homeless	Total affected*	Total damages in US$ thousands
El Salvador	43	2,501	8,130	3,800,068	19,850	3,828,048	4,909,200
Honduras	52	15,163	12,181	5,387,791	39,127	5,439,099	4,241,579
Guatemala	73	3,542	16,531	10,894,795	66,440	10,977,766	3,325,132
Nicaragua	52	3,822	575	2,988,015	21,682	3,010,272	996,250
Costa Rica	35	179	431	776,594	6,346	783,371	671,090
Panama	37	116	411	173,380	5,300	179,091	292,850

Note: * = Total deaths, injuries, indigents and persons affected in any way.

Source: Center for Research on the Epidemiology of Disasters (CRED). International disaster database, emdat.be.

155. The human and economic toll of Hurricane Mitch, considered the worst disaster to strike the country in recent times, prompted the government to begin the implementation of a disaster risk management program. The country began to shift from a reactive approach to managing the risks of natural disasters to a proactive approach, as well as from a weak centralized system to one of capacity building at the local level. The principal achievements include the consolidation of the legal and institutional framework by the adoption of the National Risk Management (SINAGER) Law in 2009, which established the risk management system and strengthened the key entities responsible in this area, such as the Permanent Commission on Contingencies (COPECO) and the Ministry of the Environment. In addition, the effectiveness of monitoring was improved through the adoption of a hydrological and geological early warning system. In 2014, the National Risk Management Plan was established, which is the operational instrument to activate and coordinate risk management in response to natural disasters. Many municipalities have acted to characterize risks for their respective jurisdictions, based on the historical statistics of the different types of disasters and the basic elements of regional planning to manage them. Those documents, the SINAGER law, the National Risk Management Plan, and the municipal characterizations are public.

156. The fiscal contingencies associated with natural disasters have not been quantified; according to the authorities, they will not be included in the first report on fiscal risks. Although local governments have devoted efforts to identifying and characterizing the principal risks, the fiscal cost of the largest natural disasters to strike the country have not been quantified in either qualitative or quantitative terms. Given the country's extreme vulnerability to this type of risk, it is important for Honduras to begin quantifying the fiscal cost. Doing this will help to identify possible actions to address the fiscal contingency without requiring budget modifications, which would erode efforts at fiscal planning, as noted in the context of dimension 3.2.1.

C. Fiscal Coordination

3.3.1	Subnational governments	Not met

157. At this time, there is no annual reporting on the municipalities' financial position. However, there is a legal framework that provides for this report to be produced in the medium term. The municipalities are required to enter their financial performance information into the SAMI system every three months, but the information is not received in a timely manner.

158. The LRF and implementing regulations provide[53] for the phased incorporation of information from the municipalities into the NFPS fiscal balance, with categories A and B municipalities reporting in 2018 and categories C and D municipalities reporting in 2019.[54] The municipal data will be entered through SAMI or an equivalent system specified by SEFIN. Until all of the municipalities have entered their data into the specified system, they may report through a general ledger reporting module in SAMI.

159. To manage the risk related to the municipalities' financial position, categories A and B municipalities must be included in SAMI because those municipalities represent more than 70 percent of the total revenue and expenditure of all local governments. In addition to the municipalities not reporting through the SAMI system (a total of seven from Group A and B), changes in personnel in some municipalities under the new government administration are hindering the consolidation of information.

160. The municipalities also have difficulty submitting reports within the period established by law. In 2018, of the 19 category A municipalities, only 16 have reported information for the second quarter; only 1 of the 43 category B municipalities has reported for the same period.

161. Consolidated information from SAMI for fourth quarter 2017 provides information on budget execution by those municipalities that have reported information. Table 3.9 aggregates the information available in SAMI for municipalities that have reported information for the fourth quarter 2017 and allows the comparison of the budget with the actual execution

[53] There is a methodology for classification of municipalities, which is a combination of two indices, the municipio and the municipality. The municipio index, which includes the UNDP Human Development Index (2009), contains urban/rural population data from the 2014 census (forecast data from the 2014 census) and sector data for 2014 from the ENEE on residential energy coverage. The municipality index includes, for example, the available, certified, universal information available on the administrative and financial performance of Honduras's 298 municipios, provided by the Ministry of Justice, Government, and Decentralization (SDJGD).

[54] See Legislative Decree No. 25-2016, article 24, and implementing regulations (Decision No. 288-2016, article 20); SDJGD 2014 Municipal Categorization; Executive Decision No. 556-A-2016, Technical Guidelines for Measurement of Macro-Fiscal Rules for the Nonfinancial Public Sector; and Decree No. 141-2017, General Budget Provisions for fiscal year 2018.

through that quarter. For example, the figures indicate that actual tax collection by the municipalities represented 65 percent of the amount budgeted for 2017. Expenditures for wages and salaries and goods and service purchases totaled 85 percent and 80 percent, respectively, of the amounts budgeted for 2017. With respect to investments, execution represented only 65 percent of the budget.[55]

[55] Compares with the DGID report on municipalities for the first quarter 2018.

Table 3.9. Consolidation of Municipalities' Financial Accounts, Fourth Quarter 2017 prepared by DGID(Preliminary)

Description	Municipalities Category "A"1			Municipalities Category "B"2			Municipalities Category "C"3			Municipalities Category "D"4			Consolidated Total		
	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual Annual
Revenue and Donations	**9,706,465,413.00**	**6,895,462,383.00**	**71.00%**	**2,601,822,354.80**	**2,265,251,561.90**	**87.10%**	**2,218,779,511.90**	**2,180,777,128.70**	**98.30%**	**1,834,145,055.90**	**1,841,501,264.70**	**98.30%**	**16,361,212,335.60**	**13,182,992,338.20**	**81%**
Current Revenue	**8,705,400,933.60**	**5,715,953,981.70**	**65.70%**	**1,515,694,617.50**	**1,206,428,273.30**	**79.60%**	**767,572,976.80**	**646,405,483.70**	**84.20%**	**266,765,833.20**	**242,733,480.10**	**84.20%**	**11,255,434,361.20**	**7,811,521,218.80**	**69%**
Tax Revenue	5,237,812,515.50	3,147,538,719.60	**60.10%**	836,148,444.30	667,223,754.90	**79.80%**	392,304,865.20	324,489,543.30	**82.70%**	117,031,844.50	117,422,888.30	**82.70%**	6,583,297,669.50	**4,256,674,906.10**	65%
Non-Tax Revenue	3,120,005,345.80	2,389,238,733.30	**76.60%**	459,470,808.80	347,428,315.90	**75.60%**	199,411,341.70	166,835,311.90	**83.70%**	37,213,212.60	35,457,341.50	**83.70%**	3,816,100,708.90	**2,938,959,702.70**	77%
Interest and Dividends	159,763,596.80	74,826,317.00	**46.80%**	67,516,382.10	45,717,589.80	**67.70%**	22,624,613.30	20,454,816.10	**90.40%**	4,006,027.60	3,496,293.20	**90.40%**	253,910,619.90	**144,495,015.90**	57%
Current Transfers	75,939,961.00	18,524,534.10	**24.40%**	68,183,682.30	80,191,676.40	**117.60%**	125,662,365.50	111,042,112.90	**88.40%**	105,812,515.10	84,803,715.10	**88.40%**	375,598,523.90	**294,562,038.60**	78%
Central Administration	75,919,961.00	16,352,719.10	**21.50%**	63,663,950.30	79,032,256.40	**124.10%**	125,662,365.50	110,792,938.30	**88.20%**	105,812,515.10	83,739,646.50	**88.20%**	371,058,791.80	**289,917,560.40**	78%
Rest of General Government	0	0		0	0		0	0		0	0		0	**0**	
Local Governments		0		0	0		0	0		0	0		0	**0**	
Pension Funds		0		0	0		0	0		0	0		0	**0**	
Other Decentral. Entities		0		0	0		0	0		0	0		0	**0**	
Local Entities		0		0	0		0	0		0	0		0	**0**	
Private Sector and Financial Sector	20,000.00	2,171,815.00	**10859.10%**	4,519,732.10	25,000.00	**0.60%**	0	116,000.00		0	788,951.40		4,539,732.10	**3,101,766.40**	
Private Sector	20,000.00	2,171,815.00	**10859.10%**	4,519,732.10	25,000.00	**0.60%**	0	116,000.00		0	788,951.40		4,539,732.10	**3,101,766.40**	
Public Financial Sector	0	0		0	0		0	0		0	0		0	**0**	
Private Financial Sector	0	0		0	0		0	0		0	0		0	**0**	
Public Companies	0	0		0	0		0	0		0	0		0	**0**	
Others (External Sector and Others)	0	0		0	1,134,420.00		0	133,174.60		0	275,117.20		0	**1,542,711.80**	
Other Current Revenue	111,879,514.40	85,825,677.70	**76.70%**	84,375,300.00	65,866,936.30	**78.10%**	27,569,791.20	23,583,699.60	**85.50%**	2,702,233.40	1,553,241.90	**85.50%**	226,526,839.00	**176,829,555.50**	78%
Donations	**0**	**330,044,077.40**		**0**	**51,698,040.40**		**0**	**74,197,340.40**		**0**	**19,691,925.00**		**0**	**475,631,383.20**	
		0		**0**			**0**						**0**	**0**	
Capital Inflows	**1,001,064,479.30**	**849,464,323.90**	**84.90%**	**1,086,127,737.30**	**1,007,125,248.20**	**92.70%**	**1,451,206,535.10**	**1,460,174,304.60**	**100.60%**	**1,567,379,222.70**	**1,579,075,859.60**	**100.60%**	**5,105,777,974.40**	**4,895,839,736.30**	**96%**
Revenue	473,301,903.00	270,153,756.20	**57.10%**	80,728,102.70	51,585,684.70	**63.90%**	26,551,356.60	23,019,541.40	**86.70%**	35,174,458.80	8,922,085.10	**86.70%**	615,755,821.10	**353,681,067.40**	57%
Capital Transfers	527,762,576.30	579,310,567.80	**109.80%**	1,005,399,634.60	955,539,563.40	**95.00%**	1,424,655,178.50	1,437,154,763.20	**100.90%**	1,532,204,763.90	1,570,153,774.50	**100.90%**	4,490,022,153.30	**4,542,158,668.90**	101%
Central Administration	391,085,023.00	578,004,597.80	**147.80%**	1,005,399,634.60	938,111,636.20	**93.30%**	1,386,294,725.30	1,407,441,486.40	**101.50%**	1,532,204,763.90	1,547,099,714.70	**101.50%**	4,314,984,146.80	**4,470,657,435.10**	104%
Rest of General Government	0	0		0	0		0	0		0	0		0	**0**	
Local Governments		0		0	0		**0**	0		0	0		0	**0**	
Pension Funds		0		0	0		0	0		0	0		0	**0**	
Other Decentral. Entities		0		0	0		0	0		0	0		0	**0**	
Local Entities		0		0	0		0	0		0	0		0	**0**	
Private Sector and Financial Sector	136,677,553.30	250,000.00	**0.20%**	0	14,943,990.80		38,360,453.20	17,469,933.00		0	1,023,821.20		175,038,006.50	**33,687,745.00**	
Private Sector	136,677,553.30	250,000.00	**0.20%**	0	14,943,990.80		38,360,453.20	17,469,933.00		0	1,023,821.20		175,038,006.50	**33,687,745.00**	
Public Financial Sector		0		0	0		0	0		0	0		0	**0**	
Private Financial Sector		0		0	0		0	0		0	0		0	**0**	
Public Companies		0		0	0		0	0		0	0		0	**0**	
Others (External Sector and Others)	0	1,055,970.00		0	2,483,936.50		0	12,243,343.90		0	22,030,238.50		0	**37,813,488.90**	

Description	Municipalities Category "A"1			Municipalities Category "B"2			Municipalities Category "C"3			Municipalities Category "D"4			Consolidated Total		
	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual Annual
Expenses	**9,410,017,456.50**	**5,641,658,706.90**	**60.00%**	**2,444,460,873.80**	**2,261,049,655.50**	**92.50%**	**2,174,475,544.10**	**2,178,175,074.50**	**100.20%**	**1,811,978,024.80**	**1,805,204,421.20**	**100.20%**	**15,840,931,899.20**	**11,886,087,858.00**	**75%**
	0												**0**	**0**	
Current Expenses	**5,004,518,178.80**	**3,676,208,130.70**	**73.50%**	**1,315,478,528.70**	**1,386,951,551.60**	**105.40%**	**1,034,699,688.50**	**1,071,126,728.40**	**103.50%**	**763,678,459.10**	**793,205,008.00**	**103.50%**	**8,118,374,855.00**	**6,927,491,418.70**	**85%**
Wages and Salaries	2,747,154,288.50	2,195,797,160.70	**79.90%**	673,357,711.80	664,746,475.50	**98.70%**	472,728,898.80	443,410,530.20	**93.80%**	297,424,221.10	276,282,042.10	**93.80%**	4,190,665,120.30	**3,580,236,208.50**	85%
of which				0			0	0		0	0		0	**0**	
Employer Contributions	0	0		0	0		0	0		0	0		0	**0**	
Benefits		0		0	0		0	0		0	0		0	**0**	
Goods and Services	1,501,322,689.40	830,439,860.80	**55.30%**	453,435,664.50	542,028,873.10	**119.50%**	312,559,861.80	369,523,733.30	**118.20%**	173,982,956.10	210,069,821.50	**118.20%**	2,441,301,171.80	**1,952,062,288.70**	80%
Interest Paid	415,762,716.50	376,850,955.50	**90.60%**	65,183,972.80	76,440,647.20	**117.30%**	13,215,099.50	11,915,137.10	**90.20%**	4,174,396.70	5,705,023.50	**90.20%**	498,336,185.50	**470,911,763.30**	94%
External	0	0		0	0		0	10,283.60		0	0		0	**10,283.60**	
Internal	415,762,716.50	376,850,955.50	**90.60%**	65,183,972.80	76,440,647.20	**117.30%**	13,215,099.50	11,904,853.60	**90.10%**	4,174,396.70	5,705,023.50	**90.10%**	498,336,185.50	**470,901,479.80**	94%
Current Transfers	320,168,484.40	273,120,153.70	**85.30%**	123,501,179.50	103,735,555.90	**84.00%**	235,945,728.40	246,236,993.70	**104.40%**	288,096,385.10	301,148,120.90	**104.40%**	967,711,777.50	**924,240,824.10**	96%
Central Administration	52,062,239.00	55,645,794.70	**106.90%**	50,404,178.10	39,542,928.60	**78.50%**	94,081,600.50	128,063,439.60	**136.10%**	118,179,606.20	156,868,087.50	**136.10%**	314,727,623.80	**380,120,250.50**	121%
Rest of General Government	24,117,139.00	22,048,408.90	**91.40%**	3,525,060.80	4,510,460.10	**128.00%**	838,154.40	595,024.10	**71.00%**	1,401,454.30	1,669,452.90	**71.00%**	29,881,808.40	**28,823,345.90**	96%
Local Governments	250,000.00	235,750.00	**94.30%**	784,540.80	2,058,291.80	**262.40%**	200,000.00	0	**0.00%**	0	0	**0.00%**	1,234,540.80	**2,294,041.80**	186%
Pension Funds	4,205,155.60	4,616,095.60	**109.80%**	1,052,500.00	843,938.40	**80.20%**	550,000.00	595,024.10	**108.20%**	914,298.20	1,669,452.90	**108.20%**	6,721,953.80	**7,724,510.90**	115%
Other Decentral. Entities	19,661,983.40	17,196,563.30	**87.50%**	1,688,020.00	1,608,229.90	**95.30%**	88,154.40	0	**0.00%**	487,156.10	0	**0.00%**	21,925,313.80	**18,804,793.20**	86%
Local Entities		0		0	0		0	0		0	0		0	**0**	
Private Sector and Financial Sector	238,431,895.40	193,459,292.80	**81.10%**	67,691,685.30	58,875,222.30	**87.00%**	139,627,297.80	117,199,531.30	**83.90%**	167,340,720.40	142,601,597.70	**83.90%**	613,091,598.90	**512,135,644.10**	84%
Private Sector	238,431,895.40	193,459,292.80	**81.10%**	67,691,685.30	58,875,222.30	**87.00%**	139,627,297.80	117,199,531.30	**83.90%**	167,340,720.40	142,601,597.70	**83.90%**	613,091,598.90	**512,135,644.10**	84%
Public Financial Sector		0		0	0		0	0			0		0	**0**	
Private Financial Sector		0		0	0		0	0			0		0	**0**	
Public Companies	3,657,312.20	971,882.30	**26.60%**	1,564,255.40	638,011.50	**40.80%**	1,398,675.70	378,998.60	**27.10%**	1,174,604.30	8,982.90	**27.10%**	7,794,847.60	**1,997,875.30**	26%
Others (External Sector and Others)	1,899,898.90	994,775.00	**52.40%**	316,000.00	168,933.30	**53.50%**	0	0		0	0		2,215,898.90	**1,163,708.30**	
Other Current Expenses	20,110,000.00	0	**0.00%**	0	0		250,100.00	40,334.10		500	0		20,360,600.00	**40,334.10**	

Description	Municipalities Category "A"1			Municipalities Category "B"2			Municipalities Category "C"3			Municipalities Category "D"4			Consolidated Total		
	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual - 4th Quarter	Budget	Cumulative thru 4th Quarter	Percent Budgeted to Actual Annual
														0	
Capital Expenditures	**4,405,499,277.70**	**1,965,450,576.10**	**44.60%**	**1,128,982,345.10**	**874,098,103.90**	**77.40%**	**1,139,775,855.70**	**1,107,048,346.20**	**97.10%**	**1,048,299,565.70**	**1,011,999,413.20**	**97.10%**	**7,722,557,044.20**	**4,958,596,439.30**	**64%**
Real Investment	2,221,745,990.50	272,480,402.90	**12.30%**	706,148,341.10	318,947,531.50	**45.20%**	577,788,190.40	290,947,124.80	**50.40%**	481,681,213.30	204,200,648.90	**50.40%**	3,987,363,735.30	**1,086,575,708.00**	27%
Change to Inventory	1,968,360,578.10	1,487,602,526.90	**75.60%**	123,087,899.20	244,493,223.00	**198.60%**	270,262,720.70	508,602,633.00	**188.20%**	372,704,190.90	595,183,333.30	**188.20%**	2,734,415,388.90	**2,835,881,716.20**	104%
Other Capital Expenditures	0	0		160,000.00	242,500.00		0	0		0	0		160,000.00	**242,500.00**	
Capital Transfers	215,392,709.20	205,367,646.30	**95.30%**	299,586,104.80	310,414,849.40	**103.60%**	291,724,944.60	307,498,588.40	**105.40%**	193,914,161.50	212,615,431.00	**105.40%**	1,000,617,920.10	**1,035,896,515.10**	104%
Central Administration	44,997,892.40	46,504,658.00	**103.30%**	63,893,242.30	96,308,822.00	**150.70%**	89,812,062.40	93,375,741.20	**104.00%**	60,073,583.90	59,748,817.80	**104.00%**	258,776,781.00	**295,938,039.10**	114%
Rest of General Government	103,119,434.40	75,573,944.50	**73.30%**	26,701,775.70	23,007,074.10	**86.20%**	12,917,870.70	18,784,730.30	**145.40%**	11,019,954.60	32,369,087.60	**145.40%**	153,759,035.40	**149,734,836.60**	97%
Local Governments	17,970,696.20	6,962,023.90	**38.70%**	0	0		1,010,250.90	0		0	0		18,980,947.10	**6,962,023.90**	
Pension Funds	60,536,132.00	44,717,269.70	**73.90%**	7,845,327.50	6,828,640.80	**87.00%**	5,952,986.40	2,601,740.90	**43.70%**	8,461,092.50	3,957,698.50	**43.70%**	82,795,538.40	**58,105,350.00**	70%
Other Decentral. Entities	24,612,606.20	23,894,650.90	**97.10%**	18,856,448.20	16,178,433.30	**85.80%**	5,954,633.40	16,182,989.40	**271.80%**	2,558,862.10	28,411,389.10	**271.80%**	51,982,549.90	**84,667,462.60**	163%
Local Entities	0	0		0			0	0		0			0	**0**	
Private Sector and Financial Sector	67,155,382.40	74,863,263.60	**111.50%**	208,946,955.20	190,783,111.00	**91.30%**	184,536,327.90	187,945,625.70	**101.80%**	121,346,059.80	119,336,511.00	**101.80%**	581,984,725.20	**572,928,511.40**	98%
Private Sector	67,155,382.40	74,863,263.60	**111.50%**	208,946,955.20	190,783,111.00	**91.30%**	184,536,327.90	187,945,625.70	**101.80%**	121,346,059.80	119,336,511.00	**101.80%**	581,984,725.20	**572,928,511.40**	98%
Public Financial Sector		0					0			0			0	**0**	
Private Financial Sector		0					0			0			0	**0**	
Public Companies	120,000.00	1,463,756.30	**1219.80%**	44,131.60	315,842.20	**715.70%**	4,458,683.70	7,341,124.20	**164.60%**	1,474,563.20	989,097.20	**164.60%**	6,097,378.50	**10,109,819.80**	166%
Others (External Sector and Others)	0	6,962,023.90		0	0		0	51,366.90		0	171,917.40		0	**7,185,308.30**	
														0	
														0	
Net Overall Balance	**296,447,956.50**	**1,253,803,676.10**		**157,361,481.00**	**4,201,906.40**		**44,303,967.80**	**2,602,054.20**		**22,167,031.10**	**36,296,843.50**		**520,280,436.40**	**1,296,904,480.20**	

NOTE 1: In Category "A", there are 19 municipalities, for the purposes of this comparison, La Ceiba, Atlántida is not included, since it hasn't provided information for 2017.

NOTE 2: In Category "B", there are 43 municipalities, for this purposes of this comparison, 100% of municipalities from this category are included.

NOTE 3: In Category "C", there are 111 municipalities, for this purposes of this comparison, 100% of municipalities from this category are included.

NOTE 4: In Category "D", there are 125 municipalities, for the purposes of this comparison, Lauterique, La Paz is not included, since it hasn't provided information for the 4th Quarter of 2017.

NOTE 5: La Ceiba, Atlántida had been included in the 2017 Budget Financial Accounts of Municipalities, with an estimate on a historical basis, but, for comparison's sake, that estimate was left off of this table.

NOTE 6: Both the 2017 Budget Financial Accounts of Municipalities and the Cumulative 4th Quarter 2017 presented in this spreadsheet match in full with the SAMI Financial Accounts.

162. **New borrowing by the municipalities is limited by budget laws.**[56] The municipalities may borrow from a national institution, preferably a sovereign institution; when they do so from foreign entities, the municipalities must follow all of the procedures established in the Public Credit Law (Decree No. 111-90, sections 1, 2, and 3).

163. **At the close of 2017, the gross domestic debt of the municipalities stood at HNL 8,218.7 million, an increase relative to the close of 2016 that basically reflects the increased borrowing from the national financial system.** The total debt was contracted through loans, of which HNL 7,825.5 million was in national currency and HNL 393.2 billion was in foreign currency. The amounts by creditor are HNL 5,593.1 million from commercial banks and HNL 2,625.6 million from the central administration. With respect to the borrowing from local banks, HNL 5,149.4 million was disbursed, and HNL 3,870 million was amortized.

164. **The distribution by size of municipality is as follows: categories A and B municipalities account for 90.1 percent of borrowing, and categories C and D municipalities account for the remaining 9.9 percent.** The municipalities with the largest [: indebtedness to the financial system are the Central District (HNL 2,995.6 million), San Pedro Sula (HNL 976.6 million), and Puerto Cortés (HNL 499.8 million), representing 80 percent of the total. Between January and December 2017, the Central District received HNL 4,031.4 million in loan resources and repaid HNL 2,315.4 million; Puerto Cortés received disbursements of HNL 465.5 million and amortized HNL 481.9 million. The total amount of debt to commercial banks is contracted in national currency at interest rates ranging between 10 percent and 28 percent (see Tables 3.10 and 3.11).

Table 3.10. Municipalities' Borrowings from the National Financial System (HNL millions)

2014	2015	2016	2017
3,789.9	3,762.3	4,313.8	5,593.1

Source: BCH, based on information provided by the financial system.

Table 3.11. Municipalities' Borrowings from Local Banks (HNL millions)

2017 debt	A and B Municipalities	C and D Municipalities
5,149.40	4639.61	509.79

Source: IMF calculations with municipalities' domestic debt data from the 2019–22 MTMFF, page 43.

[56] Ministerial Decision 213 of 2013, article 19, and pages 29-31 of the document attached to the PEP.

3.3.2	Public corporations	Good

165. The policy on public corporations is established by law for each sector. Public corporations are those created to conduct economic activities for various purposes that do not adopt the form of commercial corporations (Public Administration Law, Article 53). Nonfinancial public corporations produce important goods and services for society in multiple sectors, including electric power, telecommunications, drinking water, port services, strategic reserves management to support food security for the population, access to basic goods, and transportation. The purpose and regulations for each public corporation are described in the laws creating them.[57] In addition to nonfinancial public corporations are the financial corporations, which are primarily the state banks (BCH, BAHNPROVI, and BANADESA).

166. The government of Honduras, through the economic report ("Memoria Económica") prepared by SEFIN and the annual budget, discloses transfers between the government and public corporations. The report presents annual consolidated data on current and capital transfers for public corporations. Table 3.12 provides a breakdown of current and capital transfers for each public corporation in 2016. The largest current transfers in 2016 were provided to the Honduran Agricultural Market Institute (IHMA); there were no current transfers to ENEE, the ENP, or national telecommunications company (HONDUTEL). The largest capital transfers were allocated to ENEE. Only the ENP transferred funds to the government from 2013 to 2016 (Table 3.13). The government also reports the subsidies it has historically provided to ENEE.[58]

[57] The laws establishing policies for public corporations include, for example, Decree No. 404-2013, the General Law on the Electricity Industry; Decree No. 91-61, establishing the SANAA, Water Law 181-2009; Decree No. 120-93, creating HONDUCOR; Decree 89-99, establishing HONDUTEL's public interest status; Decree Law 592/78, creating the IHMA; Decree 185-95, the Framework Law on the Telecommunications Sector, as amended by Decree 118-97; and the 2014–18 Strategic Institutional Plan, January 2011.

[58] For further discussion of the subsidies historically provided to ENEE, see the SEFIN 2016 annual report. The government of Honduras has established indirect electricity subsidies through tax exemptions on imports of fuels, equipment, or materials used for electricity generation; and direct subsidies supporting the price per kilowatt hour for residential users, either through the cross-subsidy incorporated in tariffs or through direct government payments to cover the residential electric service according to household consumption tranches. The subsidies have been modified over time; there were no direct consumer subsidies in 2016.

Table 3.12. Government Transfers to Nonfinancial Public Corporations (HNL millions)

Nonfinancial Public Corporations	Central Government Current Transfers, 2016	Central Government Capital Transfers, 2016
ENEE	0	181
ENP	0	0
HONDUTEL	0	0
SANAA	52.3	164.7
IHMA	74.5	0
BANASUPRO	6.3	0
FNH	3.3	0
HONDUCOR	58.6	0

Source: SEFIN 2016 annual report and IMF estimates.

Table 3.13. Nonfinancial Public Corporations Transfers to the Government (HNL millions)

Public corporation	2013	2014	2015	2016
ENP	50	50	10	60

Source: SEFIN 2016 annual report.

167. SEFIN regularly reports on the financial performance of nonfinancial public corporations through its MTMFF.[59] The annual report and the MTMFF provide an aggregate balance sheet for nonfinancial public corporations, including total revenue, total current capital spending, and the total balance for all entities. Table 3.14 summarizes the total balance of nonfinancial public corporations. The public corporations' total deficit has contracted since 2013, when it was -1.7 percent of GDP. In 2017, the total balance represented -0.4 percent of GDP, a deterioration with respect to the -0.1 percent of GDP in 2016. As part of its functions, the DGID prepares various reports, notably, the Institutional Performance Evaluation of the Decentralized Public Sector, which includes financial corporations, such as BANADESA.[60]

[59] The DGPMF reports only on the NFPS. The financial corporations are BANHPROVI, BCH, and BANADESA.

[60] Under article 47 of Decree No. 83-2004 approving the Framework Budget Law, the DGID is responsible for the following: reviewing the institutions' performance and submitting periodic reports to the senior authorities to support decision-making; and supervising economic-financial activities and periodically evaluating the efficiency of institutional activities.

Table 3.14. Aggregated Balance Sheet of Nonfinancial Public Corporations

ITEM	2016	2017[a/]	2017[b/]	2016	2017[a/]	2017[b/]
	HNL millions			% GDP		
Total Revenue	**27,019.4**	**34,461.8**	**30,295.8**	**5.5**	**6.4**	**5.6**
Sales of Goods and Services	25,336.4	32,436.6	28,809.7	5.1	6.0	5.3
Transfers from the Central Administration	540.8	737.5	524.5	0.1	0.1	0.1
Current	*195.1*	*63.3*	*160.2*	0.0	0.0	0.0
Capital	*345.7*	*674.2*	*364.3*	0.1	0.1	0.1
Other Revenue	1,142.2	1,287.6	961.6	0.2	0.2	0.2
Total Expenses	**27,710.7**	**36,902.9**	**32,449.5**	**5.6**	**6.8**	**6.0**
Current Expenses	**25,590.9**	**33,188.6**	**30,166.1**	**5.2**	**6.1**	**5.6**
Operating Expenses	23,960.7	30,702.2	28,379.0	4.8	5.7	5.3
Other Expenses	1,630.2	2,486.4	1,787.1	0.3	0.5	0.3
Capital Expenditures	**2,119.7**	**3,714.2**	**2,283.4**	**0.4**	**0.7**	**0.4**
OVERALL BALANCE	**-691.3**	**-2,441.1**	**-2,153.7**	**-0.1**	**-0.5**	**-0.4**

Note a/: Medium-term Macro-Fiscal Framework 2018-2021.

Note b/: Preliminary.

Source: MTMMF 2019–22.

168. The evaluation report prepared for fourth quarter 2017 contains a summary of achievements of activities programmed for the year, financial and budget results, and actions for the upcoming period. The analysis is based on information reported by each institution in accordance with the respective legal framework at the close of each quarter, the behavior of budget execution, and the figures from the financial statements (income statement and balance sheet), which should reflect the institution's real position. In general, ENEE and BANHPROVI are the institutions least likely to provide to provide timely and complete information. For some institutions, the budget performance is inconsistent with the results reported on their financial statements (Box 3.3).

Box 3.3. Operating Earnings of Public Corporations

ENEE, SANAA, and MIHMA reported negative results for fiscal year 2017. The ENEE income statement disclosed a net loss of HNL 4,548.7 million, compared to losses of HNL 3,872.5 million in 2016. It reported energy losses of 27.9 percent, 10.5 percent of which represented technical losses and 17.4 of which represented percent non-technical losses. SANAA reported a financial debt of HNL 273.6 million, which largely reflected reduced operating income and an HNL 173.4 million increase in the administrative balance for payment of services. IHMA reported negative current account savings of HNL 5.8 million, because the institution's strategic reserves (Other Expenses) are included in current spending. Other entities—such as HONDUTEL, BANASUPRO, ENP, and HONDUCOR—present positive results for fiscal year 2017. BANADESA reports as well positive results for 2017 in the DGID report. There are inconsistencies between the data reported by the DGID and SEFIN shown in the 2019–22 MTMFF. In preliminary MTMFF data for 2017, ENEE reported an overall balance of -0.6 percent of GDP; a balance of 0 percent of GDP is projected for HONDUTEL, and ENP posted an overall balance of 0.1 percent of GDP. SANAA also posted a balance of 0 percent of GDP. **The status of investment execution is also reviewed in the DGID report**. ENEE is the public corporation with the most investment programmed, and its execution is 3 percent. SANAA execution is less than 50 percent. HONDUTEL executed investment of less than 10 percent in 2017.

Table 3.15. Current Revenue and Expenditures of Financial and Nonfinancial Public Corporations

Public Corporations	Current Revenue 2016	Current Expenditures 2016	Current Revenue 2017	Current Expenditures 2017
ENEE[1]	22,505.6	21,502.1	16,845.30	21,387.888
ENP	1,221.5	850.3	1,221.888	868.0
HONDUTEL	1,920.6	1,536.6	1,737.4	1,509.4
SANAA	1,227.4	1,022.1	987.6	926.7
IHMA	1,74.9	168.0	54.9	60.7
BANASUPRO	1,029.2	149.6	1,057,4	134.7
FNH	N/A	N/A	N/A	N/A
HONDUCOR	118.0	113.1	125.1	123.2
BANADESA	477.5	347.4	480.1	345.2

Source: DGID.

D. Conclusions and Recommendations

169. Honduras faces varied and significant fiscal risks. GDP and tax revenue are relatively volatile. The price of oil has a significant effect on ENEE's energy costs and its ability to generate profits. The public sector is challenged by growing long-term pressures from the pension system and increased healthcare costs. Some of the specific risks appear to be substantial and interconnected.

170. Although Honduras has demonstrated strengths in managing fiscal risks, its analysis, disclosure, and mitigation strategies need improvement.

- The analysis of macroeconomic risks is not published, although internal models analyzing the sensitivity of fiscal variables to different macroeconomic scenarios have been developed.

- The analysis and management of specific risks needs to be improved and coordinated among the different institutions. The disclosure of those risks is incomplete, and the relationship of fiscal projections is unclear.

- Although regulations provide for the ability to appropriate resources for contingencies, the appropriations have generally been well below the limit, creating the need for contingencies to be covered through budget modifications—a process that erodes the effectiveness of budget planning.

- The strategies to mitigate the risks associated with liabilities not related to debt, and with financial and nonfinancial assets, are unclear.

- Important risks arise from the management of the assets and liabilities of trusts, which are not disclosed. The net assets of trust total HNL 12,459 million.

- Government guarantees represent a significant contingent liability for the central administration which are currently being quantified.

- The transparency with respect to PPPs is satisfactory. Both COALIANZA and the SAPP publish extensive information on individual projects, and there is public access to the contracts. The PPP regulations facilitate orderly progress and limits on the use of this mechanism, which contains the fiscal risks associated with potential contingencies.

- The financial system is well capitalized with adequate liquidity, but there are substantial risks associated with one state bank, BANADESA, that have not been fully analyzed and disclosed.

- Honduras's vulnerability to natural disasters has prompted the establishment and development of a risk management and mitigation policy geared to prevention. However, contingencies associated with natural disasters will not be addressed in the risk report being prepared by the government for presentation next year.

- The municipalities are an important sector, with total expenditure representing 9.6 percent of budgetary central government GDP. Although municipal borrowing is limited, there is no annual report disclosing their physical and financial performance.

171. To strengthen risk management practices, the government could consider the following actions:

- **Recommendation 3.1:** The DGPMF should strengthen the macroeconomic risk analysis and include other risks in order to enhance the efficiency of fiscal policy formulation.

- Submit the baseline scenarios used in the MTMFF and the PEP to shocks of longer duration, as well as combined shocks.
- Publish macroeconomic and fiscal scenarios and the associated sensitivity analyses.
- Expand the analysis to include the impact of exogenous shocks on fiscal variables, and combine macro shocks and specific risks.

- **Recommendation 3.2:** Prepare an annual report that quantifies the specific risks, and develop a mitigation strategy for each of those risks.

  - Develop and finalize methodologies to quantify specific risks, in consultation with other relevant institutions, prior to the first publication in 2019 (including guarantees, legal issues, PPPs, municipalities, and public corporations).
  - Develop and finalize methodologies to quantify specific risks, such as financial, environmental and from trusts, in consultation with other relevant institutions.
  - Strengthen the DGPMF Fiscal Contingencies Unit to prepare and publish reports on specific risks, in cooperation with other institutions, and develop and implement a strategy to manage these risks.

- **Recommendation 3.3:** Establish a legal and supervisory framework for the trusts.

  - Establish a list of criteria for the creation of trusts, and prepare a framework for financial and accounting supervision of trusts.
  - Create a unit responsible for implementing financial supervision of trusts.
  - Publish a consolidated report on the financial performance of trusts to be included in the budget documents.

- **Recommendation 3.4:** Publish long-term public finance projections.

  - Include a long-term projection of finances, including risks associated with pension and healthcare liabilities in the budget documents, with corresponding explanations.
  - Publish long-term projections.

- **Recommendation 3.5:** Publish an annual report on municipalities.

  - Compile data for categories A and B municipalities, and shorten the lag times in entering the data.
  - Compile data for categories C and D municipalities.
  - Publish a consolidated report on the fiscal and financial performance of municipalities to be included in budget documents.

- **Recommendation 3.6:** Ensure coverage of contingent liabilities associated with the different types of guarantees, and include them in the fiscal risks statement.

- Present a report on risks that includes contingent liabilities associated with all types of guarantees.

- **Recommendation 3.7:** Complete the characterization of natural disaster risks, and quantify the associated contingencies.

    - Compile information on the characterization of disaster risks at the municipal level, and identify the municipalities without those characterizations.
    - Complete the characterization and, in parallel, develop a methodology to quantify fiscal contingencies associated with natural disasters, based on the existing characteristics and historical information.
    - Include a quantification of those contingent liabilities in the annual fiscal risks statement.

Table 3.16 represents a summary of Honduras's evaluation against the Pillar III of the FTC.

Table 3.16. Honduras: Summary of the Evaluation of Fiscal Risk Analysis and Management

Principle		Evaluation	Importance	Recommen-dation
Risk analysis and disclosure	**3.1.1 Macroeconomic risks**	**Not met:** SEFIN identified risks that could affect macro-fiscal projections in the 2019–20 MTMFF. However, the budget document does not discuss the analysis of sensitivity to fiscal variables. It only presents a sensitivity table for public debt.	**High**: The macroeconomic risks due to changes in GDP, the exchange rate, oil and coffee prices, and migrant remittances increase uncertainty as to the results of public finances.	**R1**
	3.1.2 Specific fiscal risks	**Not met:** The MTMFF discloses a minimal list of specific risks, with no qualitative or quantitative analysis. The relationship between the risks analyzed internally and the macroeconomic projections are unclear.	**High:** Multiple risks are important, including those relating to lawsuits; guarantees; the financial sector; natural disasters; and asset and liability management, including trusts.	**R2**
	3.1.3 Long-term fiscal sustainability analysis	**Basic:** An analysis of the long-term (20 years) behavior of public debt is published, but the underlying calculations do not consider the actuarial values of pension liabilities.	**Medium:** Honduras could face fiscal risks due to increased pension and healthcare expenditures.	**R3**
Risk management	**3.2.1 Budget contingencies**	**Advanced:** The appropriations for contingencies, applicable limits, and criteria for access are established by law.	**Medium:** In practice, the appropriations for contingencies have been well below the limit; as a result, frequent contingencies result in successive budget modifications.	
	3.2.2 Asset and liability management	**Basic:** There is a legally established limit on borrowing. The PEP analyzes the amount and behavior of NFPS debt, and the country has a clear strategy to ensure debt sustainability. However, there is no clear strategy for the risk associated with liabilities other than debt or for financial and nonfinancial assets.	**High:** Public sector liabilities represent 93 percent of GDP.	**R4**

	Principle	Evaluation	Importance	Recommen-dation
	3.2.3 Guarantees	**Not met:** The government is authorized to extend guarantees with no quantitative limit on stocks or flows. No information is published on the government's exposure to guarantees or a breakdown by beneficiary.	**High:** According to preliminary, incomplete calculations of the exposure to guarantees, the exposure to guarantees represents 4 percent of GDP. However, the government is aware of this and is quantifying the associated contingency.	**R6**
	3.2.4 Public-private partnerships	**Advanced:** The institutional framework has been strengthened. A wealth of information is published on individual PPP contracts, and the law establishes a limit on firm commitment and quantifiable contingencies.	**Low:** Clear legislation and appropriate transparency of information mean low fiscal risks.	
Risk management	**3.2.5 Financial sector exposure**	**Basic:** There is annual reporting on explicit support to the financial sector (guarantees to BANHPROVI and BANADESA) and the deposits guarantee fund (FOSEDE). The authorities publish semiannual reports on financial sector stability. However, not all scenarios or risk arising from the financial system are analyzed and published (government-held banks).	**Medium**: The liabilities of BANADESA and BANHPROVI represent 1.57 percent of GDP. One government bank is highly indebted, with a liquidation plan.	**R6**
	3.2.6 Natural resources	**Not met:** Natural resources do not represent a risk to public finances.	**Low**: Natural resources represent less than 1 percent of GDP.	
	3.2.7 Environmental risks	**Basic:** There is no comprehensive characterization of risks arising from natural disasters. The fiscal contingencies associated with disasters have not been quantified; neither have the fiscal costs of previous major disasters. However, the institutional framework and a risk management plan are being consolidated.	**High:** Honduras is among the countries with the greatest exposure and vulnerability to natural disasters.	**R7**
Fiscal coordination	**3.3.1 Subnational governments**	**Not met:** The municipalities input information on their financial performance to SAMI every three months, but there is no annual report, and the information is not received on a timely basis. The DGID began preparing quarterly reports on the municipalities' financial accounts in 2018. Budget laws limit new borrowing by the municipalities.	**High:** The municipalities represent a substantial portion of the public sector; their expenditures represent over 19.6 percent of budgetary central government GDP.	**R5**
	3.3.2 Public corporations	**Good:** Transfers between the government and public corporations are disclosed once a year. There is a consolidated report on public corporations' financial performance, but no reports of their quasi-fiscal activities are disclosed.	**High**: The total expenditures of the two largest nonfinancial public corporations represents 6 percent of GDP, and BAHNPROVI and BANADESA total expenditures represents 0.24 percent of GDP.	

Annex I. Recommendations of the Fiscal Transparency Evaluation: Action Plan

Pillar I

Action	2018	2019	2020	2021	Responsible Agency
Pillar I: Fiscal reporting					
Objective 1. *Improve the coverage of fiscal reports.*					
Implement the 2014 MEFP.	Publish an annual summary table of NFPS stocks and flows, using the analytical framework of the 2014 GFSM. Publish the statement of uses and application of funds for the NFPS. Publish the general government in the IMF statistics yearbook.	Complete the revision, and coordinate the 2014 GFSM sectoring and classifications between the compilers of macroeconomic statistics. Publish a summary table of annual flows for the NFPS and subsectors, making use of the consolidation work by the CGN. Establish mechanisms to ensure support of municipalities' financial statements at the CGN.	Include financial public sector institutions in fiscal statistics. Regularly publish a summary table of stocks and flows for the public sector and subsectors.		DGPM, CGN, and BCH
Expand the analysis of tax expenditures to the current budget exercise.		Include a projection by sectors through 2020 in the tax expenditure section of the 2020 budget.	In addition to the current year projections, publish the projections for the period covered by the MTFF.		SEFIN
Objective 1. *Improve the comparability of fiscal reports.*					
Publish reconciliation tables with a description or details of adjustments and key differences between statistical tables and others.		Develop reconciliation tables between budget and accounting statistics and the financial account.	Publish the reconciliation on a quarterly basis.	Publish the reconciliation on a monthly basis.	SEFIN, DGPM

Pillar II

Action	2018	2019	2020	2021	Responsible Agency
Pillar II: Fiscal and budget forecasting					
Objective 1. Include information on annual revenue and expenditure execution by trusts in the general budgets' scope of coverage.					
Propose that the practice of managing public resources via trusts be eliminated or restricted to limited situations.		Issue regulations			SEFIN
Include trusts in the scope of coverage of the general budget.		Develop a standardized data entry form for revenue and expenditure and financing information, where applicable.	Include information on the 70 percent of the trusts' budget in the general budget.	Include information on the remaining trusts' budgets in the budget documentation.	SEFIN
Objective 2. Enhance the macroeconomic and fiscal projection exercises by means of explicit assumptions, hypotheses, and methodologies.					
Enhance the macroeconomic and fiscal projection exercises by means of explicit assumptions, hypotheses, and methodologies.		Include the assumptions and methodologies underlying macro-fiscal projections in the budget documentation. Explain deviations between the observed and expected projections, and include comparisons with projections by other institutions.			Interagency Committee
Objective 3: Revise the procedure for congressional discussion and approval of the proposed budget to ensure its approval before the end of the year.					
Revise the procedure for congressional discussion and approval of the proposed budget to ensure it is approved before the end of the year.		Amend the LOP to provide for a regulated procedure for discussion and approval of the budget that ensures budget approval prior to the end of the year.			SEFIN and Congress

Pillar III (1)

Action	2018	2019	2020	2021	Responsible Agency
Pillar III: Fiscal risk analysis and management					
***Objective 1*. Improve the analysis of macroeconomic and other risks.**					
Deepen, expand, and publish the analysis of macroeconomic risks done by DGPMF.	Submit the baseline scenarios used in the MTMFF and the PEP to shocks of longer duration, as well as combined shocks.	Publish macroeconomic and fiscal scenarios and the respective sensitivity analyses. Strengthen the DGPMF.	Expand the analysis to include the impact of exogenous shocks on fiscal variables, and combine macro-fiscal shocks with specific risks shocks		DGPMF
***Objective 2*. Quantify and disclose information on specific principal risks.**					
Prepare an annual report that quantifies specific risks, and develop a corresponding mitigation strategy.		Develop and finalize methodologies to quantify specific risks, in consultation with other relevant institutions.	Strengthen the DGPMF Fiscal Contingencies Unit to prepare and publish reports on specific risks, and develop and implement a strategy to manage the risks.		DGPMF (UCF), CNBV, and BCH
***Objective 3:* Establish a legal and supervisory framework for trusts.**					
Develop a regulatory and supervisory framework for trusts.	Establish list of criteria for the creation of trusts, and prepare a framework for financial and accounting supervision of trusts.	Create a unit responsible for implementing financial supervision of trusts, and create an early warning system.	Publish a consolidated report on the financial performance of trusts to be included in the budget documents.		DGPMF
Objective 4. Publish the public finance projections.					
Prepare long-term public finance projections.	The budget documents should include a long-term projection of public finances, including risks associated with pension and healthcare liabilities.	Publish long-term projections.			DGPMF, IHSS, IMPREMA, IPM, and INJUPEM

Objective 5. Publish an annual report on municipalities.					
Prepare an annual report that quantifies the risks assumed by municipalities.	Compile data for categories A and B municipalities, and shorten the lag times in entering the data.	Compile data for categories C and D municipalities.	Publish a consolidated report on the financial performance of municipalities to be included in the budget documents.		DGPMF and DGID
Objective 6. Ensure that contingent liabilities associated with all types of guarantees are included in the risk report.					
Ensure coverage of contingent liabilities associated with all types of guarantees included in the risk report		Present a report on risks that includes contingent liabilities associated with all types of guarantees.			UCF-SEFIN
Objective 7. Supplement the characterization of natural disaster risks, and quantify associated contingencies.					
Supplement the characterization of natural disaster risks, and quantify associated contingencies.	Compile information on the characterization on disaster risks at the municipal level, and compile a list of municipalities where the characterizations have not been prepared.	Complete the characterization; in parallel, based on the existing characteristic and historical information, develop a methodology to quantify fiscal contingencies associated with natural disasters.	Include a quantification of those contingent liabilities in the annual report on risks.		COPECO and UCF-SEFIN

Annex II. Summary of Nonfinancial Assets

Note 20
1231 Lands and Properties

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12311	Lands and Properties	1,906,992,065.54	357,561,917.42	220,061,000.00	37,805,053.06	0.00	145,698.86	2,082,152,337.16
	Total	**1,906,992,065.54**	**357,561,917.42**	**220,061,000.00**	**37,805,053.06**	**0.00**	**145,698.86**	**2,082,152,337.16**

Note 21
1232 Buildings

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12321	Non-Residential Buildings	835,043,165.63	78,768,178.98	0.00	3,726,780.80	0.00	5,599,928.01	911,938,197.40
12322	Personnel Housing	339,999.04	0.00	0.00	0.00	0.00	0.00	339,999.04
	Total	**835,383,164.67**	**78,768,178.98**	**0.00**	**3,726,780.80**	**0.00**	**5,599,928.01**	**912,278,196.44**

Note 22
1233 Machinery & Equipment

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12331	Office Equipment	1,376,940,320.82	127,060,905.76	105,551,407.58	8,252,351.26	309,271,446.02	329,743,224.90	1,386,230,391.38
12332	Medical & Health Equipment	3,544,977,235.19	125,393,471.84	29,415,348.22	1,550,094.53	938,000,086.85	951,995,409.00	3,628,510,131.19
12333	Educational & Recreational Equipment	921,438,325.11	11,413,521.13	7,249,691.14	2,051,954.32	91,754,074.99	92,687,500.89	926,720,683.52
12334	Transport Equipment	5,865,246,695.64	252,412,865.98	25,695,099.86	9,035,873.00	571,940,087.67	574,780,046.77	6,098,160,375.66
12335	Production Equipment	1,637,341,851.32	73,855,525.26	37,626,934.00	10,811,273.28	373,516,740.50	389,619,027.02	1,668,279,429.34
12336	Communications Equipment	2,025,469,736.25	57,936,275.22	8,900,623.11	3,690,012.35	188,859,745.50	196,089,599.02	2,070,965,547.19
12337	Computer Equipment	2,957,936,845.26	296,415,009.64	37,785,483.65	22,045,004.23	1,023,047,081.30	1,086,470,058.54	3,175,188,398.24
12338	Security Equipment	842,595,092.73	365,133,571.08	335,382.35	0.00	2,098,709.84	2,097,927.12	1,207,394,064.18
12339	Non-War Military Equipment	1,168,544,493.98	253,676,335.32	79,152.00	31,000.00	1,549,946.33	1,066,591.25	1,422,656,032.38
	Total	**20,340,490,596.30**	**1,563,297,481.23**	**252,639,121.91**	**57,467,562.97**	**3,500,037,919.00**	**3,624,549,384.51**	**21,584,105,053.08**

Note 23
1234 Office, Household, & Lab Equipment

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12341	Household/Lodging Furniture	1,077,594,196.57	29,580,795.53	395,785,753.52	144,124.58	3,573,915.92	225,957.77	714,881,321.31
12342	Books, Magazines, other Collectables	38,290,066.91	43,599.00	639,071.48	0.00	0.00	43,838.00	37,650,756.43
12344	Larger Tools	105,228,028.01	1,198,327.00	14,970,399.74	69,811.55	3,692,440.10	4,826,889.94	90,391,316.98
12345	Non-Medical Lab Equipment	25,084,845.76	792,542.10	1,560,884.91	0.00	593,118.72	1,367,373.48	23,542,248.19
	Total	**1,246,197,137.25**	**31,615,263.63**	**412,956,109.65**	**213,936.13**	**7,859,474.74**	**6,464,059.19**	**866,465,642.91**

Note 24
1235 Public Goods

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12351	Airports	33,911,336.88	0.00	0.00	0.00	0.00	0.00	33,911,336.88
12352	Urban Works	1,706,450,293.20	0.00	0.00	0.00	0.00	0.00	1,706,450,293.20
12353	Hydraulic Works	370,652,084.07	0.00	0.00	0.00	98,755,213.50	45,530,802.43	423,876,495.14
12354	Highways, Roads & Bridges	13,398,336,026.12	0.00	0.00	0.00	32,259,360.84	0.00	13,430,595,386.96
	Total	**15,509,349,740.27**	**0.00**	**0.00**	**0.00**	**131,014,574.34**	**45,530,802.43**	**15,594,833,512.18**

Note 25
1236 Installations

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12361	Installations	422,463,585.82	0.00	0.00	0.00	0.00	0.00	422,463,585.82
	Total	**422,463,585.82**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**422,463,585.82**

Note 26
1245 Public Goods under Concession

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12451	Airports under Concession	1,512,999,743.61	0.00	0.00	0.00	0.00	0.00	1,512,999,743.61
12454	Highways, Roads & Bridges under Concession	4,150,468,312.02	754,978,327.83	0.00	0.00	0.00	0.00	4,905,446,639.85
	Total	**5,663,468,055.63**	**754,978,327.83**	**0.00**	**0.00**	**0.00**	**0.00**	**6,418,446,383.46**

Description of Assets under Concession	Project Number	30-09-18	30-09-17	Change
Airports in Toncontín, Tegucigalpa, Ramón Villeda Morales, San Pedro Sula, Golosón, La Ceiba, and Roatán, in Islas de la Bahía	Interairport Concession Agreement	1,512,999,743.61	1,512,999,743.61	0.00
Highway Goascorán - Villa de San Antonio & Tegucigalpa - San Pedro Sula - Puerto Cortés	Logistics Corridor	3,186,573,103.13	2,806,465,011.26	380,108,091.87
Highway El Progreso - Tela, San Pedro Sula -El Progreso & La Barca -El Progreso	Tourism Corridor	1,042,384,057.18	868,130,004.75	174,254,052.43
San Pedro Sula Road Network	Siglo XXI	676,489,479.54	475,873,296.01	200,616,183.53
Total		**6,418,446,383.46**	**5,663,468,055.63**	**754,978,327.83**

Note 28
1281 Biological Assets

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12811	Biological Assets	0.00	845,129.66	0.00	0.00	0.00	0.00	845,129.66
	Total	**0.00**	**845,129.66**	**0.00**	**0.00**	**0.00**	**0.00**	**845,129.66**

Note 29
1291 Intangible Assets

Code	Description	Assets as of 9/30/2017	Investment in New Assets	Assets written-off or sold	Donations of Assets Received	Reclassifications		Assets as of 9/30/2018
						Debits	Credits	
12911	Intangible Assets	1,458,925,237.80	284,808,542.23	119,941,144.52	22,824,370.26	270,877,071.28	163,256,760.01	1,754,237,317.04
	Total	**1,458,925,237.80**	**284,808,542.23**	**119,941,144.52**	**22,824,370.26**	**270,877,071.28**	**163,256,760.01**	**1,754,237,317.04**

Source: Comptroller General.

Annex III. Financial Soundness Indicators of Commercial Banks in Honduras and Summary of Banking System Indicators for Central America, the Dominican Republic, and Panama

Financial Solvency Indicators of Commercial Banks (Percentages, December of each year)	**2013**	**2014**	**2015**	**2016**	**2017 p/**
Capital Sufficiency					
Required Capital to Risk-weighted assets	14.5	14.6	14.0	13.8	13.8
Primary capital to Risk-weighted assets	10.2	10.6	10.3	9.9	8.5
Total capital to Total assets	11.3	11.7	11.0	11.2	10.5
Asset Quality					
NPL ratio	3.4	3.3	3.0	2.9	2.3
Earnings and Returns					
Return on Assets (ROA)	1.3	1.3	1.3	1.3	1.3
Return on Equity (ROE)	13.8	13.2	13.7	14.0	13.5
Interest margin to Gross income	69.8	71.5	71.8	70.6	74.4
Other interest expenses to gross income	61.9	62.5	62.1	60.6	62.0
Liquidity					
Liquid Assets to Total Assets	29.7	30.3	30.0	29.6	31.3
Liquid Assets to Short-term Liabilities	44.2	45.2	44.5	42.7	44.3
Sensitivity to Market Risk					
Net position in foreign exchange to capital	15.7	9.9	14.3	10.4	9.1

Source: Department of Financial Stability, BCH, with figures from the CNBS.

Note p/: Preliminary

Summary of Banking System Indicators from Central America, Panama, and Dominican Republic

December of each year

Financial Indicators 1/	**Costa Rica**		**El Salvador**		**Guatemala**		**Honduras**		**Nicaragua**		**Panama**		**Dom. Republic**		**CAPARD 2/**	
	2016	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**
I. Financial Soundness 3/																
Capital / Risk-weighted Assets	17.1	16.8	18.7	18.1	13.6	14.6	13.8	13.8	14.5	14.7	16.4	16.4	15.8	16.7	15.7	15.9
II. Credit Portfolio Quality																
NPL Ratio (Outstanding Loans / Total Loans)	1.8	2.4	2.1	2.0	2.1	2.3	2.9	2.3	0.9	1.0	1.5	1.6	1.6	1.7	1.8	1.9
Allowances for Portfolio Losses / Outstanding Loans	116.4	113.5	116.3	120.2	120.4	119.6	117.4	138.0	252.0	228.5	80.2	74.8	181.3	173.2	140.6	138.2
III. Returns 2/																
EBIT / Average Equity (ROE)	11.9	7.7	9.6	10.5	17.0	17.8	19.7	18.9	30.9	28.1	8.5	12.4	22.1	19.9	17.1	16.5
EBIT / Average Assets (ROA)	1.3	0.8	1.3	1.3	1.5	1.6	2.0	1.9	3.4	3.2	1.0	1.4	2.1	2.0	1.8	1.8
IV. Liquidity Indicators																
(Cash + Short-term Inv.) / Total Assets	25.8	28.1	24.3	24.9	28.5	29.1	29.6	31.3	26.7	26.8	16.6	17.0	34.3	34.5	26.5	27.4
(Cash + Short-term Inv.) / Total Deposits	41.1	44.0	35.1	34.3	40.2	41.0	42.7	44.3	38.7	39.7	20.5	21.8	44.7	44.6	37.6	38.5

Source: Secretariat of the Central American Monetary Council (SECMCA)

1/ Data from Honduras are prepared at the BCH. Return indicators use earnings before income taxes as the numerator to be comparable with coefficients in the rest of the countries.

2/ Calculations are based on a simple average.

3/ According to the SECMCA, CARD countries require 10.0% of IAC, except for El Salvador, which requires 12.0%, and Panama, 8.0%.

Annex IV. BANADESA Financial Statements, 2016-17

BANCO NACIONAL DE DESARROLLO AGRICOLA (BANADESA)			
CONDENSED STATEMENT OF FINANCIAL POSITION			
ACCOUNT	**Dec-15**	**Dec-16**	**Dec-17**
ASSETS			
CASH	278,553,464.23	537,712,861.27	752,061,102.69
Cash	87,076,943.69	161,484,370.80	125,395,844.80
Central Bank	79,809,058.85	201,349,636.33	163,253,718.72
Domestic Currency	78,260,858.13	200,502,974.45	159,679,605.81
Foreign Currency	1,548,200.72	846,661.88	3,574,112.91
Domestic Banks	111,667,461.69	174,878,854.14	463,411,539.17
Foreign Banks			
INVESTMENTS	424,684,278.99	872,764,521.10	571,504,614.87
in Official Entities	306,576,120.12	735,199,822.96	411,981,538.70
Immediately Available			
Shares and Equity	23,085,361.52	21,920,955.04	21,941,148.39
Other Investments	95,022,797.35	115,643,743.10	137,581,927.78
LOAN PORTFOLIO	2,339,196,521.40	4,356,489,990.48	3,298,859,990.61
Current	1,503,048,840.81	3,232,754,355.68	1,698,585,270.79
Domestic Currency	1,503,048,840.81	3,232,754,355.68	1,698,585,270.79
Foreign Currency			
Outstanding	395,519,673.52	694,852,059.90	1,445,796,962.03
Domestic Currency	395,519,673.52	694,852,059.90	1,445,796,962.03
Foreign Currency			
Overdue	440,628,007.07	428,883,574.90	154,477,757.79
Domestic Currency	440,628,007.07	428,883,574.90	154,477,757.79
Foreign Currency			
INTEREST RECEIVABLE	67,712,383.95	109,328,773.91	72,249,942.97
INCIDENTAL ASSETS	38,762,482.51	35,385,093.02	26,213,964.23
FIXED ASSETS	507,807,909.83	529,631,997.54	530,637,313.92
DEFERRED CHARGES	13,996,417.73	3,823,930.17	3,312,124.03
OTHER ASSETS	1,178,125,264.45	1,067,261,239.18	1,677,436,117.42
ASSETS SUBTOTAL	4,848,838,723.09	7,512,398,406.67	6,932,275,170.74
CONTINGENT ASSETS	36,338,500.78	149,166,450.22	104,578,950.65
Guarantees and Sureties	304,387.50	49,734,129.95	49,104,675.00
Credits Receivable	36,034,113.28	99,432,320.27	55,474,275.65
Repos Receivable			
Loans and Negotiated Discounts			
TOTAL ASSETS	4,885,177,223.87	7,661,564,856.89	7,036,854,121.39

LIABILITIES			
DEPOSITS	1,499,242,471.92	1,530,656,611.66	1,599,063,714.97
In Checking Accounts	957,518,812.56	884,162,487.38	1,002,414,600.75
Domestic Currency	955,258,799.20	874,007,252.34	988,822,045.31
Foreign Currency	2,260,013.36	10,155,235.04	13,592,555.44
Savings	466,736,477.24	602,299,465.03	505,112,687.96
Domestic Currency	466,157,183.23	601,330,012.71	504,098,348.35
Foreign Currency	579,294.01	969,452.32	1,014,339.61
Term	41,046,351.28	28,403,512.91	75,926,144.77
Domestic Currency	41,046,351.28	27,063,847.61	74,581,634.47
Foreign Currency		1,339,665.30	1,344,510.30
Other Deposits	33,940,830.84	15,791,146.34	15,610,281.49
Domestic Currency	26,179,225.77	15,603,558.17	15,422,014.90
Foreign Currency	7,761,605.07	187,588.17	188,266.59
OTHER DEBT	991,978,045.27	3,379,193,207.92	2,893,073,619.61
BANKING DEBT	1,313,255,704.56	1,433,893,240.77	1,395,898,353.13
Sector Loans	717,301,634.18	837,939,170.39	799,944,282.75
Domestic Currency	717,301,634.18	837,939,170.39	799,944,282.75
Foreign Currency			
Banking Debt and Credits	595,954,070.38	595,954,070.38	595,954,070.38
Central Bank			
Foreign Bank Loans			
Domestic Currency			
Foreign Currency			
Loans from Dom. Finan. Inst.			
Domestic Currency			
Foreign Currency			
Others	595,954,070.38	595,954,070.38	595,954,070.38
Domestic Currency	595,954,070.38	595,954,070.38	595,954,070.38
Foreign Currency			
Leased Asset Debt			
Subordinated Debt			
TECHNICAL RESERVES			
DEFERRED LOANS	7,649,640.99	7,075,101.89	7,078,526.87
VALUATION RESERVES	422,253,968.23	414,031,795.37	435,812,284.96
For Doubtful Accounts	277,465,150.29	304,452,929.93	322,815,498.58
For Depreciation of Moveable & Immoveable Prop.	76,137,124.88	81,086,789.98	84,504,710.92
Others	68,651,693.06	28,492,075.46	28,492,075.46
INCIDENTAL RESERVES	85,901,791.28	112,504,518.11	145,954,757.14
LIABILITIES SUBTOTAL	**4,320,281,622.25**	**6,877,354,475.72**	**6,476,881,256.68**
CAPITAL AND CAPITAL RESERVES	528,557,100.84	635,043,930.95	455,393,914.06
PRIMARY CAPITAL	820,786,579.50	820,786,579.50	570,786,579.50
Capital	820,786,579.50	820,786,579.50	570,786,579.50
Paid-in Surplus			
Legal Reserve			
SUPPLEMENTAL CAPITAL	-292,229,478.66	-185,742,648.55	-115,392,665.44
Revaluation Reserves	275,634,937.86	275,634,937.86	275,634,937.86
Contingency Reserves			
Retained Earnings			
Term Subordinated Debt			
Other Capital Reserves			
Losses from Prior Fiscal Years	-573,110,365.09	-567,864,416.52	-457,047,524.00
Results from the Fiscal Year	5,245,948.57	106,486,830.11	66,019,920.70
LIABILITIES AND CAPITAL SUBTOTAL	**4,848,838,723.09**	**7,512,398,406.67**	**6,932,275,170.74**
CONTINGENT LIABILITIES	36,338,500.78	149,166,450.22	104,578,950.65
TOTAL LIABILITIES AND CAPITAL	4,885,177,223.87	7,661,564,856.89	7,036,854,121.39
MEMORANDUM & CONTROL ACCTS.	10,966,868,885.54	18,512,170,466.49	15,626,994,538.58
Securities and Goods Pledged as Collateral	688,553,694.39	788,687,633.46	754,768,768.48
Loan Guarantees	5,672,547,198.81	5,972,042,690.15	5,991,289,161.70
Credit Portfolio Rating	2,407,213,292.85	4,816,214,773.41	3,420,214,608.58
Commercial Loans	2,305,205,708.30	4,558,162,815.23	3,153,411,092.04
Consumer Loans	-20,755,527.54	26,957,969.89	
Housing Loans	122,763,112.09	231,093,988.29	266,803,516.54
Microcredit			
Lending to Related Parties	5,785,647.86	5,945,866.18	4,163,612.89
Other Authorities	1,472,917,202.54	6,103,177,061.88	4,459,123,507.32
Trusts	1,308,216,798.20	5,915,504,821.86	2,897,703,757.68
Others	164,700,404.34	187,672,240.02	1,561,419,749.64
Other Memorandum and Control Accounts	719,851,849.09	826,102,441.41	997,434,879.61