



HONDURAS

September 2021

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

In the context of the Fourth Reviews Under the Stand-by Arrangement and the Arrangement Under the Standby Credit Facility, Requests for Augmentation of Access, Extension and Rephasing of the Arrangements, and Waivers of Nonobservance of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 13, 2021, following discussions that ended on May 5, 2021, with the officials of Honduras on economic developments and policies underpinning the IMF Stand-By Arrangement and the Standby Credit Facility. Based on information available at the time of these discussions, the staff report was completed on August 30, 2021.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Honduras.

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

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

FOR IMMEDIATE RELEASE

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

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

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

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

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

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

"The ongoing health emergency and significant reconstruction needs call for a temporarily looser fiscal stance in 2021-2022. The authorities appropriately triggered the escape clause under the Fiscal Responsibility Law which will help support the economy without jeopardizing the debt trajectory; Honduras' risk of debt distress remains low. Further advancing procurement and electricity sector reforms, together with the revenue mobilization agenda, will

be key to preserve hard-won gains. The authorities' commitment to fiscal prudence over the medium term will also be crucial to anchor debt sustainability.

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

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

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

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

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



HONDURAS

August 30, 2021

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

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

Augmentation, Extension, and Rephasing Request. The SBA/SCF arrangements have a combined access of SDR387.2 million (155 percent of quota). The Fund-supported program is a critical anchor for macroeconomic policies and reforms. As the tropical storms and continued pandemic have created additional balance of payments needs, an aggregate augmentation of access by SDR149.88 million (60 percent of quota), comprising SDR99.92 million under the SBA (40 percent of quota), and SDR49.96 million under the SCF (20 percent of quota) will support the authorities' reconstruction and COVID-19 efforts, while helping maintain reform momentum. A two-month extension and a rephasing of the availability date of the last disbursement are requested.

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

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

Approved By
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and **Maria
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