HONDURAS

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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—DEBT SUSTAINABILITY ANALYSIS

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

The Debt Sustainability Analysis (DSA) assesses that Honduras remains at low risk of debt distress both for public external and overall debt.[1,2] *Honduras maintains a strong debt-carrying capacity and none of the debt burden indicators breach their respective thresholds. Given the large and unavoidable effects of the COVID-19 pandemic and two tropical storms on public finances, the Honduran authorities triggered the escape clause within the Fiscal Responsibility Law (FRL)*[3]*. Nonetheless, Honduras' proven record of compliance with the FRL provides confidence that the response to the pandemic will not jeopardize debt sustainability. Going forward, continuous adherence to the FRL and institutional reforms to boost inclusive growth and increase the economy's potential are important to safeguard debt sustainability.*

[1] This DSA updates the previous joint IMF/WB DSA prepared in June 2020 in the context of the Honduras Second Reviews staff report (IMF Country Report No. 20/186).

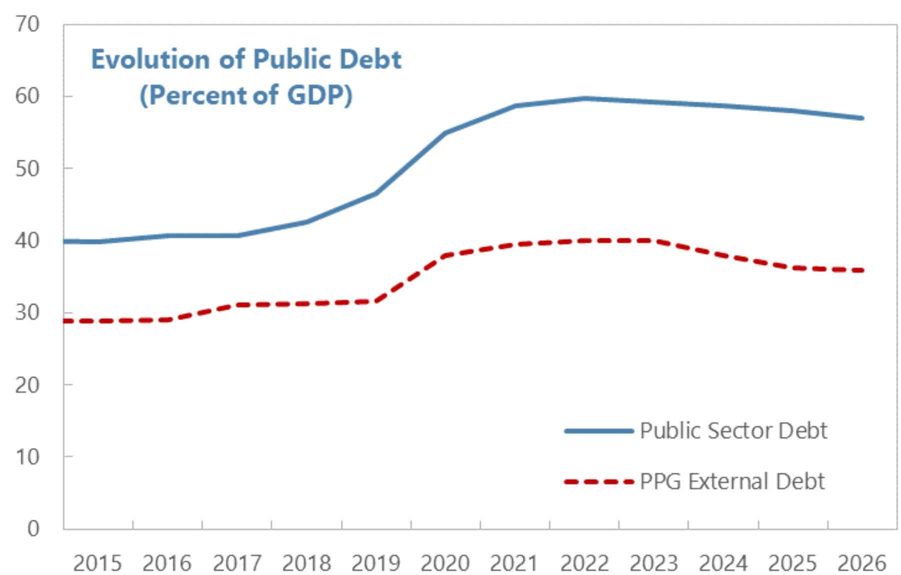
[2] Honduras's debt carrying capacity is assessed to be strong based on a composite indicator of 3.15 that uses the April 2021 WEO vintage and the 2019 CPIA.

[3] Under the FRL, the authorities commit to keep the overall fiscal deficit of non-financial public sector below one percent of GDP. An escape clause, to be approved by the legislative branch, allows deviation in exceptional circumstances.

BACKGROUND

1. Public debt increased significantly in 2020 due to the adverse effects from the pandemic and two tropical storms. The Honduran economy contracted by 9 percent in real terms in 2020. Compared to a scenario in which nominal GDP grew by the average rate in the last 5 years, about 80 percent of the increase in debt is accounted for by the lower GDP. Using the same metric, the fall in GDP accounted for 70 percent of the increase in external public and publicly guaranteed debt (PPG). Real interest rate on total public debt was at 2.7 percent vis-à-vis the average real interest rate of 3.1 percent in 2015-2019. Nominal interest rate on PPG was at 4 percent vis-à-vis the average nominal interest rate of 3.3 percent in 2015-2019.

Text Figure 1. Honduras: Public Debt



Source: Country authorities.

2. In percent of GDP, total public debt increased in 2020 due mainly to a large GDP fall and higher external borrowing.[4] Gross public debt stood at 54.9 percent of GDP at end-2020, up by 8.4 percentage points of GDP since 2019 (text figure 1 and table 2), of which 37.9 percentage points corresponded to PPG debt and 17 percentage points to domestic debt.

3. The PPG external debt has jumped in 2020. Similarly to the public debt, the PPG external debt-to-GDP ratio increased sharply from 31.5 percent in 2019 to 37.9 percent in 2020 on the back of lower nominal GDP. Note that the 10-year, US$600 million bond June placement, was almost

[4] 2020 data used in this DSA is preliminary and subject to change. IDA disbursement assumptions are as of May 1, 2021.

entirely used to repay external PPG debt (US$500 million) of the state electricity company (ENEE).[5] In its turn, total external debt increased from 38.8 percent in 2019 to 45.3 percent of GDP in 2020—almost entirely driven by the increase in debt to the public sector from multilateral institutions. Multilateral debt increased by about US$1.3 billion or 29 percent in 2020: in net inflows, about US$460 million came from the IMF, US$95 million from the World bank, and the rest was split between the Inter-American Development Bank and Central American Bank for Economic integration. External debt owned by the private sector increased by 16 percent, while bilateral debt slightly declined. 83.8 percent of total external debt corresponds to PPG debt, of which 65.5 percent (US$5,960 million) is contracted by multilaterals, 21.5 percent (US$1,952 million) contracted by commercial institutions, and 13 percent (US$1,177.3 million) by bilateral.

4. **Public debt is mostly held by foreign creditors** (Text Figure 2). The share of PPG external debt stood at 70 percent of total public debt as of end 2020. The main creditors to Honduras are international bondholders, the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI), and the World Bank. The multilateral institutions all provide lending at relatively long maturities. Public domestic debt, which is mainly held by domestic commercial banks, has a shorter—though rising—maturity (over 4 years) and carries a higher real interest rate. This reflects a broader strategy by the authorities to develop the domestic debt market and increase reliance on Lempiras-denominated debt with longer maturities, held increasingly by pension funds and other institutional investors.

Text Figure 2. Honduras: PPG Debt Stock Composition by Instrument (2019)

Source: Country authorities.

5. **The debt coverage for the public sector is comprehensive.** The DSA covers the nonfinancial public sector (NFPS). Therefore, it includes general government debt and non-financial state-owned enterprises' debt, both guaranteed and non guaranteed. Debt from extrabudgetary funds such as trust funds[6]—which are treated as private entities under Honduran legislation but should be registered as general goverment units according to the 2014 GFSM—are also included

[5] As a result, ENEE´s debt to the central government increased. It explains growth in SOEs' domestic debt from 47.7 million lempiras to 61.7 million lempiras in 2020. SOEs' external debt declined from US$281.6 million to US$251 million.

[6] Only the trust fund "*Fondo de Protección y Seguridad Poblacional*" has contracted debt.

(Text Table 1).[7] Debt from decentralized agencies such as public universities; public pension funds debt; and central bank borrowing on behalf of the government are also covered in the debt stock. In the case of the ENEE, debt also includes arrears to energy generators. Currently, all arrears are from ENEE. Continued pandemic-related liquidity shortages at ENEE, exacerbated by the storms, resulted in the accumulation of arrears to generators at about 4.4 billion Lempira (about 0.7 percent of GDP). The DSA uses a currency-based definition of external debt—non-residents do not hold domestic debt, hence there is no material difference between the residency-based and the currency-based concepts[8]. Whereby, lempiras-denominated debt is considered public domestic debt and public foreign currency-denominated debt is accounted as public external debt.

6. The contingent liability tailored test includes four major contingent risks (text table 1). "Other elements of the general government" include lawsuits in international courts in the amount of 3.5 percent of GDP. Disputed amounts reach 8.1 percent of GDP, but contingent liabilities are 3.5 percent after factoring lawsuit-specific probabilities of resolution according to estimations prepared by the Treasury's contingency unit. Since the DSA coverage does not include public banks, an additional 2 percent of GDP is added to SoEs' debt. The contingent liability test also includes risks stemming from Public-Private Partnership (PPP) for 4.1 percent of GDP and the default financial market shock (5 percent of GDP).

Text Table 1. Honduras: Public Debt Coverage and Calibration of Contingent Liability Stress Test

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

1	**The country's coverage of public debt**	The entire public sector, including SOEs			
		Default		**Used for the analysis**	**Reasons for deviations from the default settings**
2	Other elements of the general government not captured in 1.	0	percent of GDP	3.5	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4	PPP	35	percent of PPP stock	4.1	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			14.6	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

MACROECONOMIC AND POLICY ASSUMPTIONS

7. The main macroeconomic assumptions are based on the authorities' policy objectives and staff projections. The medium-to long-term macroeconomic outlook assumes that, after

[7] Where complete details on the debt service for local governments and trust funds are not available, conservative, commercial bank financing assumptions are used.

[8] Honduras' domestic investors do not have access to the government's external debt through local clearance houses. In the domestic market, residents can buy FX local debt. However, currently the Honduran government does not issue local FX debt.

triggering the escape clause to cope with the effects of the COVID-19 shock and the two tropical storms at end-2020, the FRL deficit ceiling will be binding again in 2023, and that structural reforms envisaged in the Fund-supported program are implemented. Text Table 2 shows the updated baseline macroeconomic projections compared to the last DSA, from June 2020.

Text Table 2. Honduras: Selected Economic Indicators, Current vs Previous DSA

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2030	2040
Real GDP growth (percent)											
Current DSA	3.8	2.7	-9.0	4.9	4.4	3.5	3.6	3.7	3.9	3.9	3.9
Previous DSA	3.7	2.7	-3.3	4.7	4.2	3.9	3.9	3.9	4.0	4.0	4.0
GDP deflator growth (percent)											
Current DSA	1.9	4.1	4.6	4.6	3.7	4.0	4.0	4.0	4.0	4.0	4.0
Previous DSA	1.9	4.3	4.5	6.0	4.7	4.7	4.7	4.7	4.0	4.0	4.0
Primary balance (% of GDP)											
Current DSA	0.0	0.2	-4.2	-4.3	-1.3	0.5	0.7	0.3	0.5	0.6	0.5
Previous DSA	0.0	0.2	-3.0	-1.5	0.4	0.2	0.0	0.5	0.5	0.5	0.5
Overall balance (% of GDP)											
Current DSA	-0.9	-0.9	-5.5	-5.4	-2.3	-1.0	-1.0	-1.0	-1.0	...	...
Previous DSA	-0.9	-0.9	-4.0	-3.0	1.0	1.0	-0.9	-0.9	...	...	...
Current account balance (% of GDP)											
Current DSA	-5.8	-1.4	3.0	-3.2	-3.4	-3.6	-3.8	-3.9	-4.0	-4.0	-3.9
Previous DSA	-5.4	-1.4	-2.1	-2.5	-3.4	-3.9	-4.0	-4.0	-4.4	-4.4	-4.4
Net FDI (% of GDP)											
Current DSA	3.7	2.0	1.6	2.0	2.4	2.7	3.1	3.5	3.8	3.9	3.9
Previous DSA	3.7	2.0	1.4	2.5	2.7	3.0	3.5	4.1	4.1	4.1	4.1

Source: IMF staff estimates and projections.

- **Real sector.** Growth in 2021 is projected to reach 4.9 percent as the continued negative impact from the tropical storms Eta and Iota (mainly on agriculture) and the prolonging pandemic are offset by stronger US growth and reconstruction spending. Strong growth in the U.S. is expected to support remittances and maquila exports. The recovering index of monthly economic activity and growing remittances in early 2021 support staff projections. However, slowly recovering agriculture and slow vaccination are expected to result in spreading growth over two years: only 4.9 percent in 2021 after a plunge of 9 percent in 2020 and 4.4 percent in 2022. Inflation is expected to remain within the BCH's target band, with a negative output gap and contained credit growth. The economy is projected to almost return to its pre-crisis level in 2022, before returning to its medium-term trend. With vaccinations and positive spillovers from the U.S. through remittances and external demand for agricultural and manufacturing production, GDP in 2022 is expected to grow at 4.4 percent. However, due to slowing investment, persistently low productivity growth, climate change effects, and an uncertain recovery for tourism, the medium-term growth outlook remains just below 4 percent while inflation is projected to remain at the center of BCH's target band.

- **Fiscal variables.** Fiscal projections assume compliance with the FRL. The escape clause of the FRL is assumed to be called twice, on the grounds of emergency (Art. 4 of the FRL, item 1). This supports a NFPS deficit of 5.5 percent of GDP in 2020 and projected deficits of up to 5.4 and 2.3 percent of GDP, respectively, in 2021 and 2022. A return to the deficit limit of 1 percent of GDP is assumed from 2023 onwards.

- **Debt issuance assumptions.** The share of external borrowing from multilateral and bilateral institutions is expected to grow in response to the COVID-19 and climate-related shocks[9]. The recent tightening of global market conditions increases the uncertainty around the placement of a $600 million Eurobond initially planned for 2021, which is not included in this DSA. However, the increased concessional financing and the augmentation help mitigate financing risks. Consistent with the Honduran Debt Management Strategy, the projections also assume success in deepening the domestic debt market, increasing maturities, and issuing predominantly at fixed rates.

- **External sector.** Compared to the previous DSA, the 2020 current account fared much better than anticipated, to a great extent due to resilient remittances, while the projected 2021 deficit is now expected to be slightly higher. For the medium and long term, the current account deficit is projected to hover around 4 percent of GDP, with the outer years expected to be financed primarily by foreign direct investment. FDI is projected to increase as the economy starts to grow in a sustainable manner, and especially in critical economic sectors such as electricity, where greater investments in generation and transmission are expected, as the authorities move forward with the much-needed reform agenda for the sector. [10]

8. **The realism tools suggest that the projections are optimistic, as these tools fail to account for the nature of 2020 crisis and ongoing recovery** (Figures 3 and 4).[11,12] The baseline assumes an improvement of the primary balance of 4.6 percentage points of GDP over the next

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[9] The World Bank accelerated preparation of a Disaster Risk Management development policy credit with a Deferred Drawdown Option (CAT-DDO) of US$119 million, with a Board approval on April 10, 2020; that credit is fully disbursed. The CAT-DDO is a contingent DPO support product linked to disaster risk response. The Bank also approved a US$20 million COVID-19 Emergency Project (Investment Project Financing - IPF) on April 15, 2020 aimed at the prevention, containment and response to the pandemic, and temporarily waived the school-attendance condition under the Social Protection Integration Project to ensure that eligible families continue receiving a transfer while schools remain closed to contain the spread of COVID-19. The WBG is currently working with the Government to activate emergency components of existing projects (CERCs and PEF) on two operations, which is expected to be completed by the end of April. In response to the tropical cyclones Eta and Iota, the Bank also approved a US$150 million Emergency Recovery Project on December 18, 2020 aimed to support Honduras' response and recovery needs and strengthen institutional capacity to manage a resilient and inclusive recovery and reconstruction. Finally, on April 16 the Bank approved a US$20 million Additional Financing to the COVID-19 Emergency Project to primarily finance the purchase and deployment of COVID-19 vaccines.

[10] Although Honduras is an eligible country, authorities are not considering requesting debt service suspension from official bilateral creditors as envisaged under the Debt Service Suspension Initiative, supported by the G-20 and Paris Club.

[11] Realism tools are designed to encourage examination of baseline assumptions and cover (i) drivers of debt dynamics, (ii) realism of planned fiscal adjustment, (iii) fiscal adjustment-growth relationship, and (iv) public investment-growth relationship.

[12] Note that the unprecedented effects of the pandemic, such as the sharp plunge in GDP in 2020, somewhat distorts results. For example, if the GDP contribution to the endogenous debt dynamics had been in 2020, equal to the average of the previous 5 years, the GDP contribution would have been -6.6%, instead of -1.7%, a rate almost four times higher than that shown in Figure 3. Similarly, the large expected improvement in the primary balance reflects, to a large extent, a natural recovery after the sharp GDP drop in 2020. Finally, note that the sizable 2020 residual is largely explained by the IMF and other IFI financing.

three years, which falls around the center of the top quartile of the distribution for LICs. Partly, this improvement will come automatically due to a GDP rebound supported by vaccinations, remittances, and strong external demand. In addition, the improvement in the primary balance is warranted by compliance with the FRL, which serves as an anchor to guide fiscal sustainability, with the loosening of 2020 expected to be reversed by 2023 as the economy recovers, temporary measures expire, and reconstruction spending tapers off. The short-term projections based on fiscal multipliers do not take into account a rebound effect in domestic and external demand after a deep recession in 2020. Compared to the previous DSA, the medium-to-long-term growth projections and the evolution of investment are similar. The projected contribution of the government's capital stock to growth remains very low, in line with historical levels.

COUNTRY CLASSIFICATION AND STRESS TESTS

9. Honduras' debt carrying capacity is classified as strong. Debt carrying capacity is determined by a composite indicator (CI) that includes the World Bank's Country Policy and Institutional Assessment (CPIA) score, world economic growth, and Honduras's real growth rate, import coverage of reserves, and remittances. Two consecutive signals are needed to modify the classification. For this DSA, the April 2021 WEO vintage and the 2019 CPIA are used. Both the current and previous vintages yield a rating of strong debt carrying capacity, leading to no changes with respect to the previous DSA (Text Table 3). A strong debt-carrying capacity implies higher thresholds for the stress tests (Text Table 4).

Text Table 3. Honduras: Debt Carrying Capacity Country Classification

Debt Carrying Capacity and Thresholds

Country	Honduras
Country Code	**268**

Debt Carrying Capacity	**Strong**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Strong	Strong 3.15	Strong 3.13	Strong 3.17

10. Honduras qualifies for several stress tests.

- All shocks, except for the growth stress test, were applied without changes to default settings. The calibration of the contingent liabilities stress test is as discussed in paragraph 4. In addition, Honduras qualifies for a natural disaster tailored shock due to its exposure to frequent natural catastrophes such as hurricanes and droughts that have been being exacerbated by climate change. Honduras also qualifies for the market financing shock due

to its outstanding Eurobonds. However, Honduras does not qualify for a commodity price shock. The default settings for the tailored shocks are considered appropriate for Honduras.

Text Table 4. Honduras: Public and Publicly Guaranteed (PPG) External Debt Thresholds and Total Public Debt Benchmarks

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	240
GDP	55
Debt service in % of	
Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

- The growth stress test required adjustments. In 2020, Honduras faced a tail risk event: the global pandemic and two tropical storms which resulted in a fall in GDP of 9 percent (the previous highest drop in GDP before 2020 in the last twenty five years was -2.4 percent in 2009). As a result, the standard deviation of growth increased from 0.7 in the previous DSA to 4 and the average growth declined from 3.6 to 2.4 percent, using data between 2011 and 2020. In addition, since the 2020 outturn lowered the historical average, the effect compounded a much larger shock applied with a much lower historical average, generating a permanently higher primary deficit (5.2 versus 0.8 percent of GDP in the previous DSA), which would not be realistic. Given that 2020 was, in all likelihood, an extreme tail event and applying a shock of similar magnitude would not be informative about the more likely risks that Honduras faces, staff adjusted the shock in line with the parameters from the previous DSA and applied it to the baseline projections.

EXTERNAL DSA

11. Honduras's risk of external debt distress is assessed as low. The PV of PPG external debt-to-GDP and to-exports ratios are projected to peak in 2023 and 2021 at 29 and 78 percent, under the baseline scenario, well below the associated 55 and 240 percent thresholds (Table 3). The PPG external debt service-to-exports and to-revenue ratios reach 10 and 14 percent in 2027, also well below the 21 and 23 percent thresholds. In addition, all solvency and liquidity indicators under various stress tests remain well below their respective thresholds (Figure 1). The two peaks observed in 2027 on debt service indicators are due to the repayments of Eurobonds in that year.

12. **Debt indicators are most sensitive to shocks in exports and combined shocks.** A combination of negative shocks to growth, primary balance, exports, other balance of payments flows, and depreciation generates the largest increase in the PV of the PPG external debt-to-GDP and PPG external debt-service-to-revenue ratio indicator to 52 and 18 percent in 2023 and 2027 respectively (Figure 1). A negative shock to exports equivalent to a one standard deviation decline in the nominal growth of exports in the second and third years of projection increases the PV of debt-to-exports ratio and PPG debt-service-to-exports ratio to 170.9 and 17.1 percent in 2023 and 2027 respectively. The ratios, nonetheless, remain below their risk thresholds.

PUBLIC DSA

13. **Public debt ratios are expected to peak in 2025, and then decline over the medium term.** Public debt is projected to peak at 59.7 percent of GDP in 2022 and start declining thereafter, supported by stable primary surpluses as well as declining interest payments, reaching 40.1 percent of GDP by 2041 (Table 2). The FRL is the critical difference between baseline projections and the historical scenario, providing an anchor for a sound fiscal position. In addition, the historical average is affected by the exceptional 2020 data. In present value terms, the debt-to-GDP ratio is expected to peak at 48.6 percent of GDP in 2022 and fall to 43 percent of GDP by 2031. Public debt dynamics remain vulnerable to contingent liabilities and exogenous shocks, especially to those related to natural disasters (Table 4). However, no indicators breach their benchmarks under any scenario.

14. **Market-Financing Risk Indicators suggest low liquidity risks (Figure 5).** The maximum gross financing needs over a 3-year period under the baseline projection horizon in Honduras are expected to be around 11 percent of GDP, well below the benchmark value of 14 percent. EMBI spreads have decreased from 550 basis points in last Spring to 350 basis points in March, also well below the benchmark level of 570 basis points. In addition, the PV of debt relative to GDP and to exports, as well as the ratios of debt service to exports and to revenue, are all expected to remain below the thresholds under the baseline projection and the market financing scenario. Nevertheless, given significant uncertainty regarding global financial conditions, a cautious debt management approach is warranted.

RISK RATING AND VULNERABILITIES

15. **The DSA shows that Honduras's risks of external debt and public total debt distress remain low, even after an exceptional year of negative shocks in 2020.** The current risk rating is unchanged from the June 2020 DSA, as PPG external debt burden indicators remain below the thresholds under the baseline and stress scenarios. As was discussed in first paragraph, the debt-to-GDP ratios have increased significantly mostly due the GDP shock from the pandemic and severe tropical storms. With growth returning to the trend level and overall fiscal balance at 1 percent of GDP, in line with the FRL, the debt-to-GDP ratio is expected to start declining in 2024. Nonetheless, identifying shocks to exports as those most consequential, as well as the materialization of several shocks (pandemic and natural disasters) in 2020, highlight the importance of detecting and addressing existing debt vulnerabilities and rebuilding buffers. To mitigate those risks, adhering

consistently to the FRL is a key element to ensuring debt sustainability, in addition to raising domestic revenue, addressing structural vulnerabilities in SOEs, and leveraging concessional sources of financing whenever feasible.

Authorities' Views

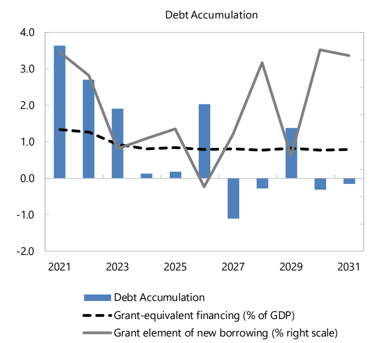
16. Authorities agreed with this debt sustainability assessment. As the Honduran economy faced a triple shock (the pandemic and two tropical storms in November 2020), the authorities triggered the FRL escape clause in both 2020 and in 2021. The flexibility built into the FRL allowed the authorities to address the challenges raised by these shocks without abandoning their medium-term anchor. They agreed that the impact of this temporary loosening of the fiscal stance on debt dynamics will be small and should not affect Honduras' debt carrying capacity and risk of debt distress. They further agreed that returning to the target of 1 percent NFPS deficit in 2023 and remaining committed to the FRL will be essential to anchor longer-term dynamics.

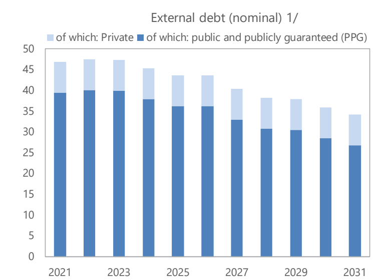
Table 1. Honduras: External Debt Sustainability Framework, Baseline Scenario, 2018-41

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	38.2	38.8	45.3	46.8	47.5	47.3	45.3	43.5	43.6	34.1	19.4	**35.4**	**41.8**
of which: public and publicly guaranteed (PPG)	31.3	31.5	37.9	39.4	40.1	39.9	37.9	36.1	36.2	26.7	12.0	**28.4**	**34.4**
Change in external debt	1.0	0.6	6.5	1.5	0.7	-0.1	-2.0	-1.8	0.0	-1.7	-1.3		
Identified net debt-creating flows	0.7	-2.3	-2.5	-0.8	-0.9	-0.7	-1.0	-1.2	-1.5	-1.2	-0.7	**-0.9**	**-1.1**
Non-interest current account deficit	4.4	-0.2	-4.8	1.5	1.7	1.8	1.9	2.0	2.2	2.6	3.1	**3.6**	**2.2**
Deficit in balance of goods and services	19.5	17.3	15.4	20.8	20.9	21.3	21.2	21.0	20.6	20.4	20.1	**17.6**	**20.8**
Exports	41.0	39.4	35.3	35.4	36.7	37.4	38.3	39.0	39.3	39.2	39.2		
Imports	60.5	56.7	50.7	56.2	57.6	58.7	59.5	60.0	59.9	59.6	59.4		
Net current transfers (negative = inflow)	-21.6	-23.5	-25.1	-25.4	-25.3	-25.4	-25.1	-24.8	-24.7	-24.7	-24.7	**-19.9**	**-24.9**
of which: official	-1.3	-1.5	-1.2	-1.2	-1.3	-1.3	-1.3	-1.4	-1.4	-1.4	-1.4		
Other current account flows (negative = net inflow)	6.5	6.0	4.9	6.1	6.0	5.9	5.8	5.8	6.3	6.9	7.7	**6.0**	**6.3**
Net FDI (negative = inflow)	-3.7	-2.0	-1.6	-2.0	-2.4	-2.7	-3.1	-3.5	-3.8	-3.9	-3.9	**-4.3**	**-3.4**
Endogenous debt dynamics 2/	0.0	-0.1	3.8	-0.4	-0.2	0.2	0.2	0.2	0.2	0.1	0.1		
Contribution from nominal interest rate	1.4	1.6	1.8	1.6	1.7	1.8	1.9	1.8	1.8	1.4	0.9		
Contribution from real GDP growth	-1.4	-1.0	3.7	-2.0	-1.9	-1.6	-1.6	-1.6	-1.6	-1.3	-0.8		
Contribution from price and exchange rate changes	0.0	-0.7	-1.6	...	...	...	...	...	...	...	...		
Residual 3/	0.3	2.9	9.0	2.3	1.5	0.6	-1.0	-0.6	1.5	-0.5	-0.6	**3.0**	**0.1**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	**...**	**...**	**27.0**	**27.7**	**28.7**	**28.9**	**27.4**	**26.1**	**26.5**	**19.4**	**7.7**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**76.5**	**78.4**	**78.2**	**77.2**	**71.6**	**66.8**	**67.4**	**49.6**	**19.5**		
PPG debt service-to-exports ratio	**4.8**	**10.5**	**12.7**	**6.3**	**7.8**	**7.8**	**7.7**	**8.0**	**5.8**	**5.3**	**2.8**		
PPG debt service-to-revenue ratio	**6.8**	**14.2**	**17.1**	**8.1**	**9.8**	**9.8**	**9.8**	**10.4**	**7.6**	**6.8**	**3.6**		
Gross external financing need (Billion of U.S. dollars)	2.8	2.5	1.8	2.3	2.7	2.6	2.6	2.7	2.3	2.7	3.3		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	2.7	-9.0	4.9	4.4	3.5	3.6	3.7	3.9	3.9	3.9	**2.4**	**4.0**
GDP deflator in US dollar terms (change in percent)	-0.1	1.9	4.3	5.3	1.6	2.2	2.1	2.2	2.2	2.0	1.5	**1.8**	**2.3**
Effective interest rate (percent) 4/	3.9	4.3	4.4	4.0	3.8	4.0	4.1	4.3	4.5	4.2	4.6	**3.0**	**4.1**
Growth of exports of G&S (US dollar terms, in percent)	-1.0	0.5	-15.1	10.8	10.0	8.0	8.4	7.9	6.9	6.0	5.5	**2.0**	**7.4**
Growth of imports of G&S (US dollar terms, in percent)	7.8	-2.0	-15.2	22.6	8.7	7.8	7.3	6.8	6.1	5.8	5.5	**2.3**	**8.1**
Grant element of new public sector borrowing (in percent)	...	...	...	14.5	12.9	7.5	8.2	8.9	4.7	14.3	0.0	**...**	**10.5**
Government revenues (excluding grants, in percent of GDP)	29.3	29.3	26.1	27.5	29.4	30.0	30.0	30.0	30.0	30.3	30.9	**28.7**	**29.8**
Aid flows (in Billion of US dollars) 5/	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	1.3	1.3	0.9	0.8	0.8	0.8	0.8	...	**...**	**0.9**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	23.6	23.5	21.6	32.6	30.3	21.5	48.0	...	**...**	**32.9**
Nominal GDP (Billion of US dollars)	24	25	24	26	28	30	31	33	35	47	84		
Nominal dollar GDP growth	3.7	4.6	-5.0	10.5	6.1	5.9	5.8	6.0	6.2	6.0	5.5	**4.3**	**6.4**
Memorandum items:													
PV of external debt 7/	...	...	34.4	35.1	36.1	36.3	34.8	33.5	33.9	26.8	15.1		
In percent of exports	...	...	97.4	99.3	98.4	97.0	90.9	85.8	86.2	68.5	38.4		
Total external debt service-to-exports ratio	26.5	30.8	39.5	26.2	27.8	26.3	24.9	24.6	21.3	18.1	12.1		
PV of PPG external debt (in Billion of US dollars)			6.4	7.3	8.0	8.5	8.6	8.6	9.3	9.2	6.4		
(PVt-PVt-1)/GDPt-1 (in percent)				3.6	2.7	1.9	0.1	0.2	2.0	-0.2	-0.7		
Non-interest current account deficit that stabilizes debt ratio	3.4	-0.8	-11.3	0.0	1.0	1.9	3.9	3.8	2.1	4.3	4.4		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
The sizable 2020 residual is largely explained by the IMF and other IFI financing.

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

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

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

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

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

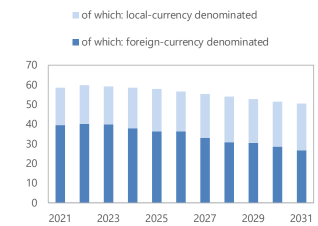
Table 2. Honduras: Public Debt Sustainability Framework, Baseline Scenario, 2018-41

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	42.5	46.5	54.9	58.7	59.7	59.3	58.6	57.9	56.7	50.3	40.1	40.2	55.9
of which: external debt	31.3	31.5	37.9	39.4	40.1	39.9	37.9	36.1	36.2	26.7	12.0	28.4	34.4
Change in public sector debt	1.9	4.0	8.4	3.8	1.0	-0.5	-0.6	-0.7	-1.2	-1.2	-0.8		
Identified debt-creating flows	1.4	-1.2	8.7	3.8	1.1	-0.4	-0.6	-0.7	-0.9	-1.2	-0.9	2.6	-0.4
Primary deficit	0.0	-0.2	4.2	4.3	1.3	-0.5	-0.7	-0.3	-0.5	-0.6	-0.5	2.2	0.1
Revenue and grants	30.0	30.0	26.8	28.1	30.1	30.7	30.7	30.7	30.7	31.0	31.6	29.3	30.4
of which: grants	0.7	0.7	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7		
Primary (noninterest) expenditure	30.0	29.8	31.0	32.4	31.4	30.2	30.0	30.3	30.1	30.4	31.1	31.5	30.5
Automatic debt dynamics	1.0	-1.4	4.1	-0.8	-0.6	-0.2	-0.1	-0.6	-0.6	-0.6	-0.4		
Contribution from interest rate/growth differential	-0.1	-1.0	6.0	-0.8	-0.6	-0.2	-0.1	-0.6	-0.6	-0.6	-0.4		
of which: contribution from average real interest rate	1.4	0.1	1.4	1.8	1.9	1.9	1.9	1.5	1.6	1.3	1.2		
of which: contribution from real GDP growth	-1.5	-1.1	4.6	-2.6	-2.4	-2.0	-2.1	-2.1	-2.2	-2.0	-1.6		
Contribution from real exchange rate depreciation	1.2	-0.4	-1.9	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.0	0.0	0.3	0.2
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	0.4	5.2	-0.3	-0.1	0.0	-0.1	-0.1	-0.1	-0.3	0.0	0.1	0.5	-0.1
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	43.5	47.3	48.6	48.5	48.4	48.0	47.2	43.3	35.9		
PV of public debt-to-revenue and grants ratio	...	...	162.5	168.5	161.5	158.3	157.8	156.7	154.0	139.6	113.5		
Debt service-to-revenue and grants ratio 3/	10.8	13.9	32.6	22.8	27.9	24.9	23.3	17.4	19.3	19.3	20.2		
Gross financing need 4/	3.6	4.4	13.3	11.0	10.0	7.4	6.7	5.2	5.6	5.4	5.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	2.7	-9.0	4.9	4.4	3.5	3.6	3.7	3.9	3.9	3.9	2.4	4.0
Average nominal interest rate on external debt (in percent)	3.3	3.7	4.0	3.3	3.3	3.5	3.6	3.8	4.0	3.6	3.5	3.0	3.5
Average real interest rate on domestic debt (in percent)	11.9	-4.3	2.6	7.7	7.3	6.8	6.9	4.4	4.4	4.1	3.7	4.4	5.3
Real exchange rate depreciation (in percent, + indicates depreciation)	3.9	-1.4	-5.3	...	...	...	...	...	...	...	...	-0.3	...
Inflation rate (GDP deflator, in percent)	1.7	4.5	4.6	4.6	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.5	4.0
Growth of real primary spending (deflated by GDP deflator, in percent)	3.1	1.9	-5.3	9.6	1.1	-0.5	3.0	5.0	3.2	4.3	4.2	1.9	3.8
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.9	-4.2	-4.1	0.5	0.3	0.0	0.0	0.4	0.7	0.6	0.3	-3.4	0.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The entire public sector, including SOEs . Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 3. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021-31

(In percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	28	29	29	27	26	26	24	22	22	21	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	28	29	30	29	29	31	30	29	30	29	29
B. Bound Tests											
B1. Real GDP growth	28	29	30	28	27	27	24	23	23	21	20
B2. Primary balance	28	30	32	31	29	30	28	27	27	25	24
B3. Exports	28	35	47	45	44	44	41	39	39	36	34
B4. Other flows 3/	28	38	47	45	44	44	41	39	39	36	34
B5. Depreciation	28	36	29	27	25	26	23	21	21	19	18
B6. Combination of B1-B5	28	45	52	50	49	49	46	44	43	40	38
C. Tailored Tests											
C1. Combined contingent liabilities	28	33	33	32	30	31	30	29	29	27	26
C2. Natural disaster	28	32	32	31	30	30	29	28	28	27	26
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	28	32	32	31	29	30	27	25	25	23	22
Threshold	55	55	55	55	55	55	55	55	55	55	55
PV of debt-to-exports ratio											
Baseline	78	78	77	72	67	67	61	57	57	53	50
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	78	79	80	77	75	79	75	74	76	75	74
B. Bound Tests											
B1. Real GDP growth	78	78	77	72	67	67	61	57	57	53	50
B2. Primary balance	78	81	87	81	76	76	71	68	68	64	60
B3. Exports	78	113	171	161	152	152	142	136	134	125	117
B4. Other flows 3/	78	103	126	118	112	112	105	100	99	92	86
B5. Depreciation	78	78	61	56	51	52	46	42	42	39	37
B6. Combination of B1-B5	78	128	126	151	144	143	134	129	127	118	110
C. Tailored Tests											
C1. Combined contingent liabilities	78	90	89	83	78	78	77	73	73	69	66
C2. Natural disaster	78	89	88	83	78	79	76	73	73	70	67
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	78	78	77	72	67	68	61	57	57	53	49
Threshold	240	240	240	240	240	240	240	240	240	240	240
Debt service-to-exports ratio											
Baseline	6	8	8	8	8	6	10	6	5	5	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	6	8	8	8	9	6	12	7	6	7	7
B. Bound Tests											
B1. Real GDP growth	6	8	8	8	8	6	10	6	5	5	5
B2. Primary balance	6	8	8	8	9	6	11	6	6	6	6
B3. Exports	6	9	12	14	14	11	17	11	11	13	13
B4. Other flows 3/	6	8	9	10	10	8	12	8	8	10	9
B5. Depreciation	6	8	8	7	7	5	10	5	5	4	4
B6. Combination of B1-B5	6	9	12	13	13	10	16	10	11	12	12
C. Tailored Tests											
C1. Combined contingent liabilities	6	8	8	8	8	6	11	6	6	6	6
C2. Natural disaster	6	8	8	8	9	6	11	6	6	6	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	6	8	8	8	8	7	11	9	5	5	5
Threshold	21	21	21	21	21	21	21	21	21	21	21
Debt service-to-revenue ratio											
Baseline	8	10	10	10	10	8	14	7	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	8	10	10	10	11	8	15	9	8	9	9
B. Bound Tests											
B1. Real GDP growth	8	10	10	10	11	8	14	8	7	7	7
B2. Primary balance	8	10	10	11	11	8	14	8	8	8	8
B3. Exports	8	10	11	13	13	10	17	10	10	12	12
B4. Other flows 3/	8	10	11	13	13	10	16	10	11	12	12
B5. Depreciation	8	12	12	11	12	8	16	8	7	7	6
B6. Combination of B1-B5	8	11	13	14	15	12	18	11	13	14	13
C. Tailored Tests											
C1. Combined contingent liabilities	8	10	10	10	11	8	14	8	8	8	8
C2. Natural disaster	8	10	10	10	11	8	14	8	8	8	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	8	10	10	10	11	9	15	12	7	7	7
Threshold	23	23	23	23	23	23	23	23	23	23	23

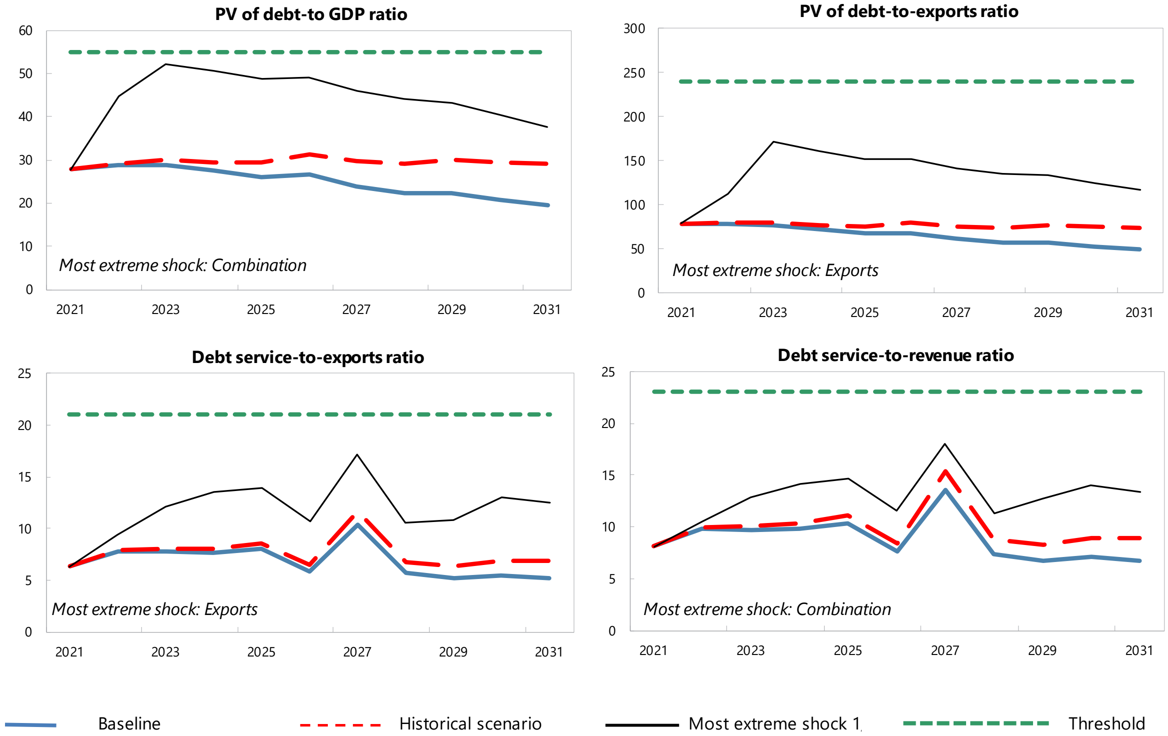
Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Honduras: Sensitivity Analysis for Key Indicators of Public Debt, 2021-31

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	47	49	49	48	48	47	46	46	45	44	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	47	50	53	56	58	61	63	66	68	**70**	**73**
B. Bound Tests											
B1. Real GDP growth	47	49	51	51	51	51	51	51	51	51	50
B2. Primary balance	47	52	58	58	58	57	56	55	55	54	53
B3. Exports	47	54	65	65	64	63	62	61	60	58	56
B4. Other flows 3/	47	58	67	66	66	65	64	63	61	60	58
B5. Depreciation	47	53	50	48	45	42	39	37	34	31	28
B6. Combination of B1-B5	47	50	55	55	55	55	54	54	53	53	52
C. Tailored Tests											
C1. Combined contingent liabilities	47	63	63	63	62	61	60	60	59	58	57
C2. Natural disaster	47	60	60	60	60	60	59	59	59	58	58
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	47	49	49	48	48	47	47	46	45	44	43
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	169	162	158	158	157	154	151	149	146	143	140
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	169	166	172	182	190	198	206	213	220	227	234
B. Bound Tests											
B1. Real GDP growth	169	164	165	167	168	167	166	166	164	163	162
B2. Primary balance	169	173	190	189	188	186	183	180	177	174	170
B3. Exports	169	181	212	211	209	206	202	199	194	188	182
B4. Other flows 3/	169	192	218	217	215	211	208	205	199	193	186
B5. Depreciation	169	176	165	157	148	138	128	119	109	100	90
B6. Combination of B1-B5	169	165	178	179	180	178	177	175	173	170	167
C. Tailored Tests											
C1. Combined contingent liabilities	169	209	205	205	203	200	197	195	191	187	184
C2. Natural disaster	169	198	195	196	197	195	193	192	190	188	186
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	169	162	158	158	157	155	152	149	146	142	139
Debt Service-to-Revenue Ratio											
Baseline	23	28	25	23	17	19	27	23	22	21	19
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	23	28	25	25	19	22	32	32	32	31	32
B. Bound Tests											
B1. Real GDP growth	23	28	25	24	18	20	29	26	25	23	22
B2. Primary balance	23	28	26	26	20	22	35	35	26	24	23
B3. Exports	23	28	26	26	20	22	29	26	25	25	24
B4. Other flows 3/	23	28	26	26	20	22	29	26	26	26	24
B5. Depreciation	23	28	26	24	19	19	28	20	20	19	17
B6. Combination of B1-B5	23	27	27	26	20	22	30	26	25	23	22
C. Tailored Tests											
C1. Combined contingent liabilities	23	28	28	26	20	22	53	28	26	25	23
C2. Natural disaster	23	28	27	26	20	22	46	28	27	25	24
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	23	28	25	24	18	20	28	28	22	21	19

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.

Figure 1. Honduras: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2021-31



Customization of Default Settings		
	Size	Interactions
Standardized Tests	Yes	
Tailored Stress		
Combined CL	Yes	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

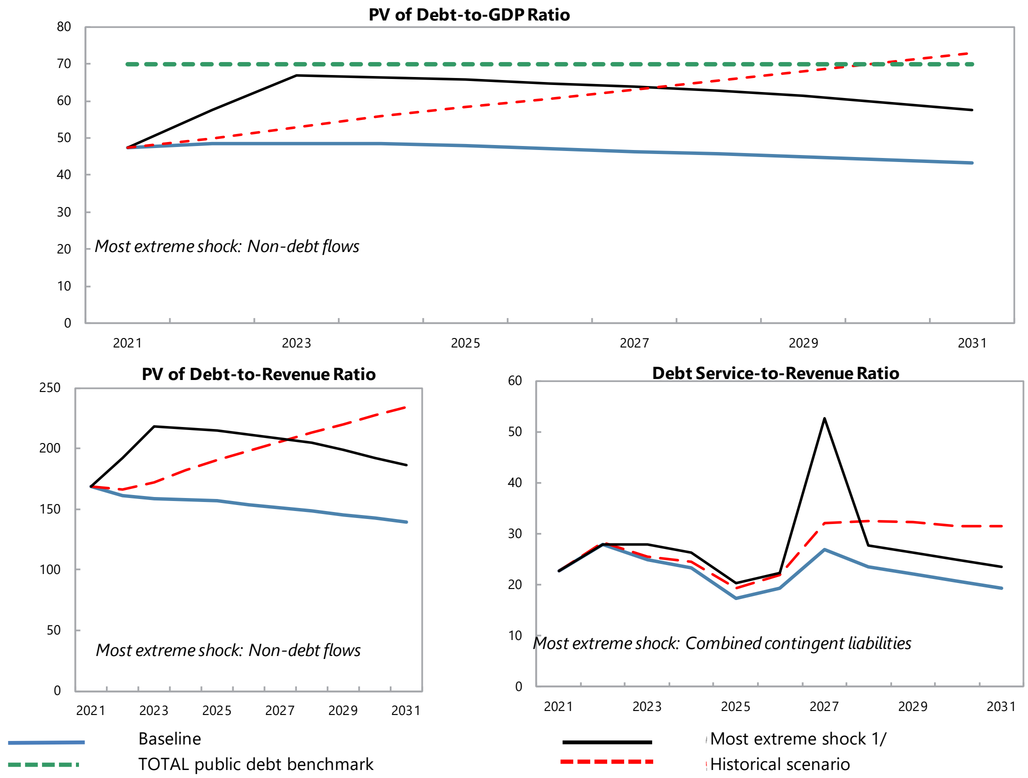
Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.5%	4.5%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6

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

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 2. Honduras: Indicators of Public Debt under Alternative Scenarios, 2021-31



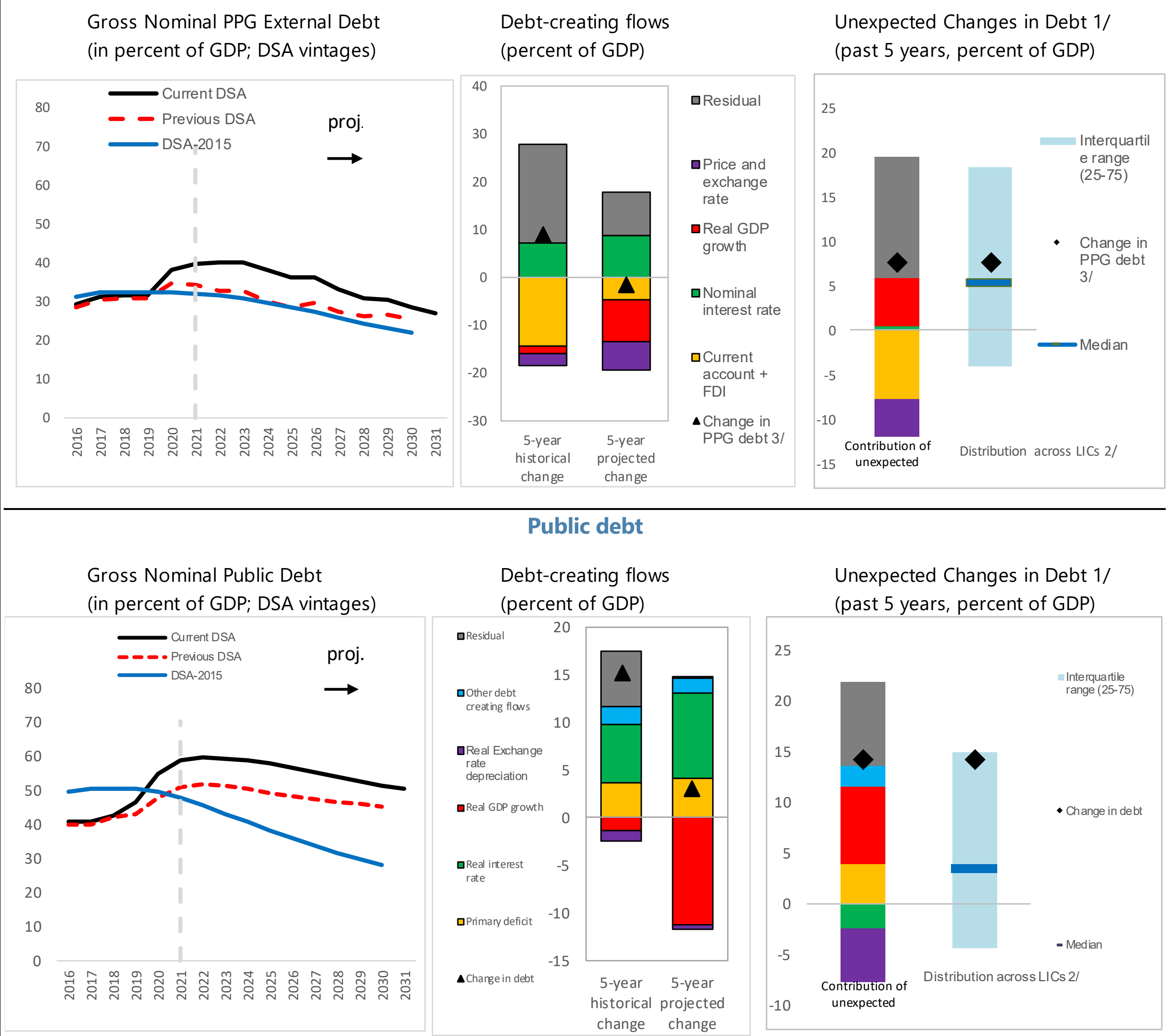
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	34%	30%
Domestic medium and long-term	66%	70%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.5%	4.5%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	4.2%	4.1%
Avg. maturity (incl. grace period)	7	5
Avg. grace period	4	4
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

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



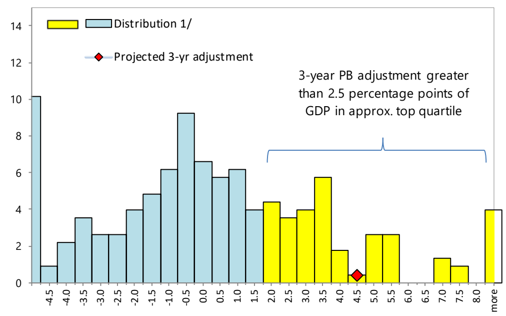
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

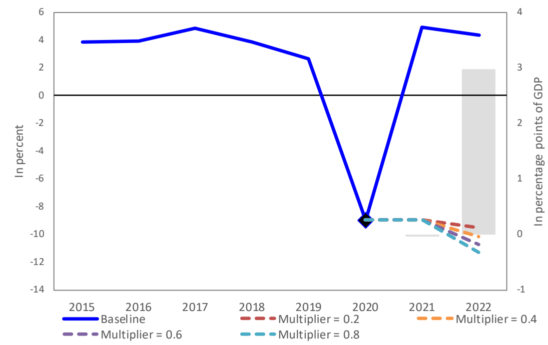
Figure 4. Honduras: Realism Tools

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



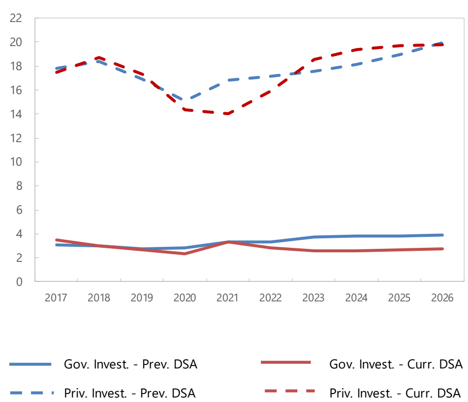
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(percent of GDP)



Contribution to Real GDP growth
(percent, 5-year average)

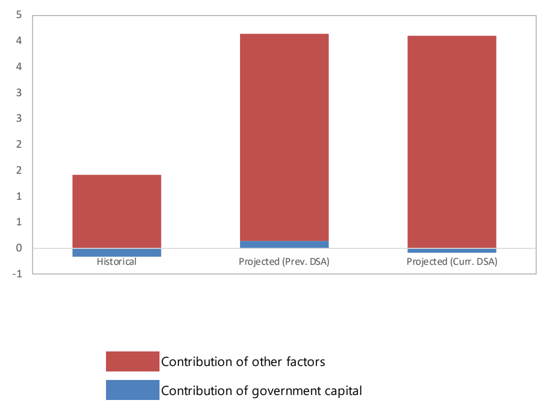
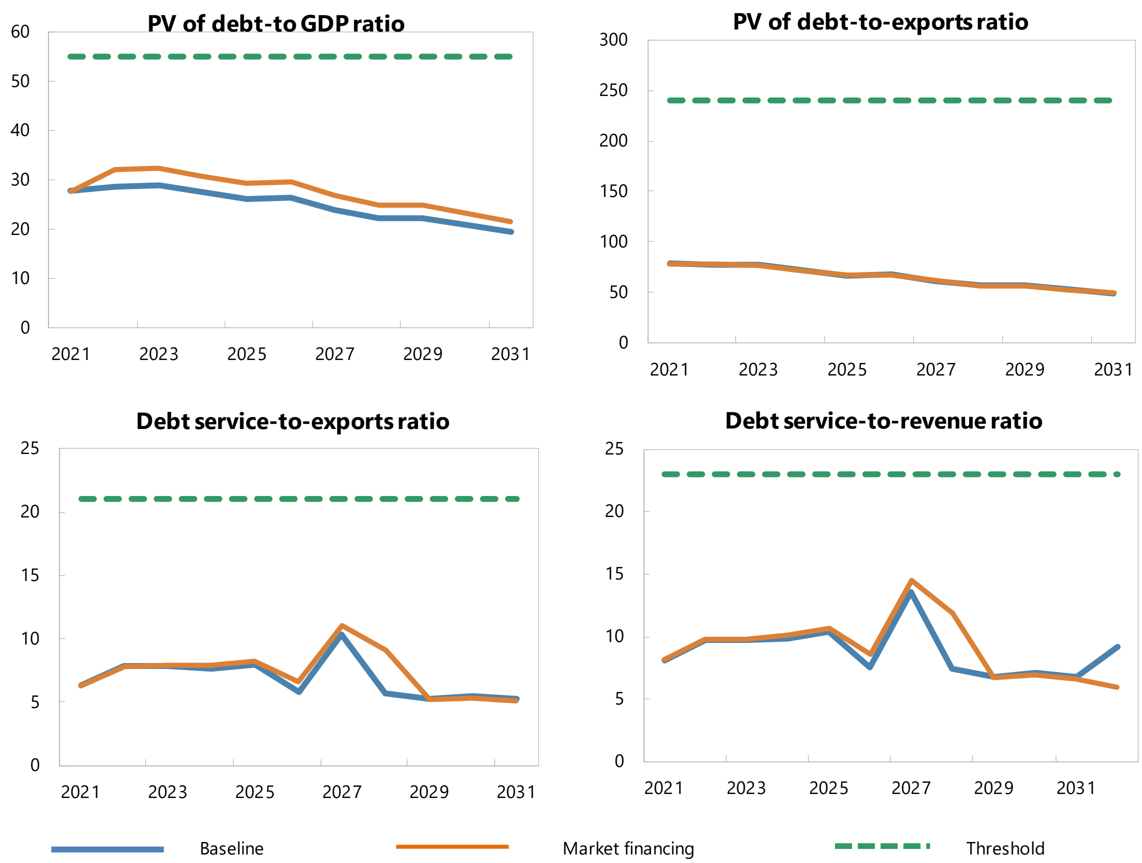


Figure 5. Honduras: Market-Financing Risk Indicators

	GFN 1/	EMBI 2/
Benchmarks	14	570
Values	11	350
Breach of benchmark	No	No
Potential heightened liquidity needs	Low	

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.
2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.