

## International Monetary Fund

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**Honduras:** Letter of Intent, Memorandum of Economic and Financial  
Policies, and Technical Memorandum of Understanding

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## Letter of Intent

November 30, 2015

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

Dear Ms. Lagarde,

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

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

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

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

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

The policies set forth in the attached supplement to the MEFP aim to bolster the fiscal and external position, and move forward with structural reforms to boost competitiveness and growth while expanding gradually social protection. In particular, the MEFP for 2016–17 seeks to (i) institutionalize the hard-won fiscal consolidation and enhance efficiency and transparency in public expenditure by adopting a fiscal responsibility law, (ii) continue strengthening the fiscal position while

accommodating additional growth-enhancing spending, (iii) consolidate the financial position of public companies, (iv) establish a new tax administration agency to consolidate gains in tax administration, (v) advance the gradual implementation of the new framework law of social protection system in a fiscally sustainable manner, (vi) modernize the monetary framework by developing the money market and gradually phasing-out surrender requirements, and (vi) adopt structural reforms to boost competitiveness while upgrading the quality of financial stability assessment to strengthen the foundations for robust and sustainable growth.

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

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

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

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

Sincerely yours,

/s

Marlon Tábora Muñoz  
Chief Economic Cabinet

/s

Rocío Izabel Tabora Morales  
Minister of Finance, by Law.

/s

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

Attachments

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

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

1. **Honduras has made steady progress in its efforts to bolster macroeconomic stability.** Since taking office in January 2014, the new administration embarked on a sound homegrown economic program, supported later by the December approval of a Stand-By Arrangement (SBA) and an arrangement under the Standby Credit Facility (SCF). Strong program implementation resulted in overperformance on fiscal targets owing to higher revenue, strict spending controls, and adjustments to electricity tariffs, while structural reforms were broadly on track (Table 1 and 2). Despite the strong fiscal consolidation, social spending targeted the most vulnerable segments of the population.
2. **We remain fully committed to the objectives set forth in the November 2014 Memorandum of Economic and Financial Policies (MEFP).** These reforms will be complemented with policies described in this supplementary MEFP to ensure the program's goals remain within reach. These include: (i) institutionalizing the hard-won fiscal consolidation by adopting fiscal responsibility law to anchor a sound fiscal position, enhancing efficiency and transparency in public spending; (ii) continuing fiscal consolidation while allowing new growth-promoting public infrastructure spending and continue tightening controls on the wage bill growth; (iii) strengthening financial sustainability of the publicly owned electricity company (ENEE) and the telecommunications company (Hondutel); (iv) establishing a new tax administration agency to consolidate the tax administration gains ; (v) advancing the gradual implementation of the new framework law of social protection system in a fiscally sustainable manner; (vi) modernizing the monetary policy framework by developing the money market and gradually phasing out surrender requirements, and (vii) adopting structural reforms to boost competitiveness while upgrading the quality of financial stability assessment to strengthen the foundations for a robust and sustainable growth.

### I. Macroeconomic Developments, Program Implementation and Outlook

3. **Economic recovery consolidated in 2015.** Real GDP growth is estimated to accelerate for a second consecutive year to 3.5 percent (3.1 percent in 2014 and 2.8 percent in 2013). Recovery is mainly driven by the strong performance in the financial intermediation services, telecommunications, and manufacturing sectors, which together with lower international oil prices and stronger activity in the U.S. helped boost private consumption and remittances growth.
4. **Inflation continues to fall.** As of October 2015, headline inflation fell to 2.5 percent year on year (6.3 percent in the same month in 2014 and the lowest level in the last 28 years), due to lower fuel and food prices and a relatively stable exchange rate (the nominal exchange rate has depreciated 3.5 percent year on year, broadly in line with program commitments).

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

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

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

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

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

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

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

## II. Fiscal Policy

### A. Fiscal Program for 2016

**12. Our 2016 fiscal program focuses on institutionalizing the hard-won fiscal gains, while creating the fiscal space to finance high-quality infrastructure projects.** The revised program, targets central government and public sector deficits of 3.5 and 2.0 percent of GDP, respectively. The 2016 fiscal effort, measured by the primary balance of the CPS, is projected at about  $\frac{3}{4}$  percent of GDP, with primary spending projected to decline by approximately  $\frac{1}{2}$  percent of GDP. Simultaneously we will increase infrastructure spending and maintain the floor on social spending, therefore increasing the quality of public spending and maximizing its impact on growth and poverty reduction.

### B. Revenue

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

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

### C. Spending

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

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

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

### D. Public Financial Management

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

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

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

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

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

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



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

## E. Public Enterprises

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

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

### ENEE

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

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

### Hondutel

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

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

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

### III. Monetary, Exchange Rate, and Financial Sector Policies

30. **Monetary policy will remain focused on price stability and protecting the external position.** We are aiming to further lower inflation to 4.2 percent during 2015 and to contain it at approximately 5.2 percent in 2016. Taking advantage of the favorable external position, we have revised up our targets for accumulation of net international reserves (NIR) to US\$2,730 million by end-December 2015 (increasing reserve coverage to 4½ months of imports, up from 3.8 months in the original program). In 2016, our monetary program contemplates an increase in net international reserves of US\$275 million to US\$3,005 million by end-December. Accordingly, we will revise the net domestic assets target to be consistent with a prudent expansion of bank credit to the private sector to support the growth objectives of the government (Table 1). That said, should inflation begin to rise and external reserves target is at risk, we stand ready to tighten monetary policy as appropriate.

31. **We will continue to move ahead with our plans to improve the operational framework for conducting monetary policy.** The BCH has continued to move in this direction by: (i) improving liquidity forecasting and liquidity management on a daily basis; (ii) improving market-based repo operations for liquidity management; (iii) increasing the signaling content of the TPM; and (iv) continuing the phasing out of the banks' use of government bonds to meet a portion of reserve requirements, with the aim to eliminate this practice during the program period. The BCH has not issued any new authorizations to allow government bonds to be held as reserve requirements. In addition, by end-October, the BCH plans to introduce daily liquidity auctions to enhance its monetary policy operations. They also plan to sign a memorandum of understanding with SEFIN to exchange information.

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

33. **Recapitalization of the central bank.** In December 2014, we started implementing a multiyear plan to recapitalize the central bank (adopted by congress in May 2014) through non-negotiable bonds bearing a positive real interest rate. As scheduled, the second issuance will take

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

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

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

## IV. Structural Reforms

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

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

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

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

### **Program Monitoring**

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

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

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

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

2/ Cumulative starting in January of the correspondent year.

3/ Excluding government transfers.

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

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

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

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

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

| Measure  | Target Date                                       | Status  |
|--|---|---------|
| Adjust average electricity tariffs by 2.5 percent during 2015 to reflect past cost increases; further adjust tariffs to incorporate current changes in costs.            | Continuous  | Met     |
| Approval of legislation to strengthen the PPP framework.   | December 2014                                     | Met     |
| Repeal legislation allowing the issuance of government guarantees for debt contracted by private companies involved in PPP projects.                                     | December 2014                                     | Met     |
| Conduct a census of public employees, with the aim of identifying and cancelling redundant positions during 2015.  | December 2014                                     | Met     |
| Take actions sufficient to achieve savings in ENEE's wage bill as indicated in paragraph 11 of the November 2014 MEFP  | March 2015  | Met     |
| Submit to congress legislation to reform the Social Security Institute (IHSS) to strengthen its actuarial position and improve its governance.                           | End-November 2015 <sup>1</sup>                    | Not Met |
| In consultation with staff, prepare a plan to address the financial difficulties of HONDUTEL.  | March 2015  | Met     |
| Approval of the law reforming the IHSS   | End-December 2015 <sup>2</sup>                    |         |
| Present a program for developing a medium-term fiscal framework with a clear fiscal anchor and fiscal policy targets   | June 2015   | Met     |
| Complete an audit of public sector arrears, with a view to clearing them   | [End-June 2016]<br>End-December 2015 <sup>3</sup> |         |
| Present to congress a 2016 budget bill consistent with the program targets for central government and CPS deficits   | September 2015                                    | Met     |
| Strengthen the Large Taxpayer Unit with adequate staff levels  | September 2015                                    | Met     |
| Present a plan for a gradual removal of foreign exchange surrender requirements  | End-December 2015                                 |         |
| <b>Proposed New Measures</b>   |   |         |
| Submit to Congress a Fiscal Responsibility Law (prior action)  |   | Met     |
| Establish a new tax administration agency  | End-March 2016                                    |         |
| Adopt customs manuals in Puerto Cortes to enhance collection of import duties in gasoline and bulk freight   | End-June 2016                                     |         |
| Submit to Congress a law to reform the tax code in line with the recommendations from FAD  | End-June 2016                                     |         |
| Publish a national registry of trust funds, conduct a study and prepare an assessment of their feasibility.  | End-June 2016                                     |         |
| Include in the annual budget submission a document explaining the consistency of the proposed budget with the achievement of the goals of the Fiscal Responsibility Law. | End-September 2016                                |         |
| Eliminate central government transfers to ENEE   | End-December 2016                                 |         |

<sup>1</sup> The original date was March 2015.

<sup>2</sup> The original date was June 2015.

<sup>3</sup> The original date was June 2015.

## Attachment II. Technical Memorandum of Understanding

1. This memorandum sets out technical understandings between the Honduran authorities and the Fund staff for monitoring of the economic program agreed for the period November 2014–November 2017. It defines the concepts used to assess observance of quantitative performance criteria, structural benchmarks, and indicative targets specified in Tables 1 and 2 of the Memorandum of Economic and Financial Policies (MEFP). It also specifies the frequency of the data to be provided to the Fund to monitor the developments under the program. For the purposes of calculating performances criteria for end-December 2015, all the assumptions indicated in the TMU signed on April 29, 2015 will prevail.

### A. Program Assumptions

2. For program monitoring purposes, unless otherwise indicated, U.S. dollar denominated components of the balance sheet of the Central Bank of Honduras will be valued at the exchange rate of L. 21.1066/US\$ exchange rate at end-August 2014. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross-rates as of end-August 2014 published on the IMF website <http://www.imf.org>, including US\$/EUR = 1.3188, JPY/US\$ = 103.71, CHF/US\$ = 0.9145, CAD/US\$ = 1.0858, SDR/US\$ = 0.6586.

### B. Fiscal Targets

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

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

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

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

7. **The central government wage bill** is defined as all central government wages and salaries, including severance payments, plus employer social security and pension contributions; other

remunerations (such as bonus payments and in-kind compensations) are also included in the definition.

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



central government and CPS will be reduced in the difference between the value in the Table and the amount spent (measured on an accrual basis).

### C. Monetary Targets

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

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

18. **Adjustors.** Starting in 2016, the target floor on NIR will be adjusted downwards or upwards for the shortfall or excess of programmed external public disbursements.<sup>1</sup> In case of a shortfall or excess during the program period, the target floor on NIR will be adjusted downwards or upwards by the full amount. External disbursements to the budget (including sovereign bond placements) are expected to US\$117.10 million to end-June 2016 and total US\$416.60 million in 2016. For 2016, the end-year target floor on NIR will also be adjusted downwards (upwards) by about US\$9 million (US\$4.5 million for the end-June target) for every US dollar that the price of oil exceeds (falls below) the oil price projected in the program. For program purposes, the relevant oil price is the WEO's average petroleum spot price (APSP). The program projects an APSP of US\$50.36 for 2016.

### D. External Targets

19. **External debt.** For program purposes, the definition of debt is the one set forth in point No. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board's Decision No. 6230-(79/140), as amended by Decision on December 5<sup>th</sup> 2014 (effective June 30, 2015). This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the

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<sup>1</sup> In the program, any adjustment to the NIR target will be mirrored by an equal adjustment in the opposite direction to the target ceiling on net domestic assets of the central bank.

normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities. For the purpose of the program, external debt is defined on the basis of residency.

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

(a) For the purpose of these guidelines, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

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

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

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

23. **Concessional** will be calculated using a unified discount rate of 5 percent and taking into account all details of the loan agreement, including maturity, grace period, payment schedule, upfront commission, and management fees. The grant element of loans can be calculated using the concessional calculator available at the IMF web site <http://www.imf.org>.<sup>2</sup> For program purposes, a debt is **concessional** if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

24. **Borrowing on non-concessional terms.** For the purposes of the program, this continuous ceiling applies to the contracting or guaranteeing of nonconcessional external debt by the CPS or any other agencies on its behalf.<sup>3</sup> Debt denominated in currencies other than the U.S. dollar shall be converted to the U.S. dollars using program assumptions on bilateral exchange rates. The continuous ceiling applies not only to debt as defined above, but also to commitments contracted or guaranteed for which value has not been received. This ceiling will be adjusted downwards by the amount of programmed disbursements that change into concessional resources.

25. **New external debt contracted.**<sup>4</sup> For the purposes of the program and starting end-June 2016 the continuous ceiling on the present value (PV) of new external debt contracted applies to all external debt. PV will be calculated using a unified discount rate of 5 percent and taking into account all details of the different loans agreements, including maturities, grace periods, payment schedules, upfront commissions, and management fees. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The PV of every loan with negative grant element will be equal to its face value. The continuous ceiling applies not only to debt as defined above, but also to commitments contracted or guaranteed for which value has not been received.

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

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<sup>2</sup> Currently available at <http://www.imf.org/external/np/pdr/conc/calculator/default.aspx>.

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

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

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

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

## E. Energy Sector

29. **Arrears of ENEE** are defined as overdue payments of ENEE to private and public entities. During the program period, the stock of arrears to the private sector will not be increased relative to 3,867 million of Lempiras (as at December 2013), excluding technical delays stemming from the payment process. Technical delays are defined as the maximum period allowed for the payment of suppliers' and/or contractors' invoices to ENEE without incurring arrears, in line with the law on public contracts (Decree 74-2001). This decree states a deadline up to 45 days starting from the submission of appropriate documents for payment. This does not preclude payments before this deadline if it is agreed by both parties..

## F. Monitoring and Reporting Requirements

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

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

**Net external financing** of the central government and the NFPS, respectively, with detailed information on disbursements, amortizations, exceptional financing, zero coupon bonds, and accumulation of arrears. This information will be prepared by the central bank and reconciled with the Ministry of Finance.

**Net domestic financing** of the central government and the NFPS, respectively, with detailed information on: (1) net domestic financing from the central bank and the rest of the financial system to the central government and the NFPS, as contained in the *Balance diario*; (2) net placement of bonds (including stabilization bonds) by the central government and the NFPS outside the financial

system, as reported by the central bank with data from the Public Credit Directorate of the Ministry of Finance; (3) change in foreign currency deposits held abroad by the central government and the NFPS; and (4) change in the outstanding stock of suppliers' credit and floating debt of the central government, as reported by the Treasury, and the rest of the NFPS as reported by the central bank. To monitor the net domestic financing to the CPS, the central bank will provide the Fund with detailed data on a cash basis on the operating revenue and expenditure of the central bank.

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

Table A. Data to Be Reported to the IMF

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

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

**Table B. Social Programs**

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

**Table C. Extended Investment Plan for 2016**

In millions of Lempiras

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