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This paper was prepared by staff of the International Monetary Fund and the World Bank in connection with the Executive Board's consideration of Honduras' Enhanced Initiative for Heavily Indebted Poor Countries. It is based on the information available at the time it was completed on **March 9, 2005.** The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Honduras or the Executive Board of the IMF.

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HONDURAS

Enhanced Heavily Indebted Poor Countries (HIPC) Initiative Completion Point Document

Prepared by the Staffs of the International Monetary Fund and International Development Association[1]

March 9, 2005

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ABBREVIATIONS AND ACRONYMS

BCH	Central Bank of Honduras
BCP	Basel Core Principles
BOP	Balance of Payments
CABEI	Central American Bank For Economic Integration
CAFTA	Central American Free Trade Agreement
CDC	Commonwealth Development Corporation
CIRRs	Commercial Interest Reference Rates
CNBS	National Banking and Insurance Commission
DMFAS	Debt Management and Financial Analysis System
DSA	Debt Sustainability Analysis
ESAF	Enhanced Structural Adjustment Facility
FDI	Foreign Direct Investment
FHIS	Honduran Social Investment Fund
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
IDA	International Association for Development
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFI	International Financial Institutions
IHSS	Honduran Social Security Institute
IMF	International Monetary Fund
JSA	Joint Staff Assessment
JSAN	Joint Staff Advisory Note
MDG	Millennium Development Goal
MOF	Ministry of Finance
MOH	Ministry of Health
NGO	Non-governmental Organization
NPV	Net Present Value
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
ONCAE	Public Procurement Policy Office
OPEC	Organization of Petroleum-Exporting Countries
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PROHECO	Honduran Community Education Project
SDR	Special Drawing Rights
SEFIN	Finance ministry (Secretaría de Finanzas)
SIAFI	Integrated financial management system
TSC	Supreme Audit Institution (“Tribunal Superior de Cuentas”)
UNCTAD	United Nations Conference on Trade and Development
UNAT	Technical Assistance Unit of the Presidency
UPEG	Sector Planning and Evaluation Groups
UPET	Coordinating unit of the Public Procurement Strengthening Program
WDR	World Bank Indicators

MAIN CONCLUSIONS

- **The staffs of the IMF and IDA consider that Honduras has met all but one of the conditions for reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, as specified in the decision point document. A waiver is recommended for nonobservance of the unmet condition, which refers to the substantive application of Basel Core Principles in the financial sector**. Completion of the second review of the PRGF arrangement, as recommended by Fund staff, would provide evidence that Honduras's macroeconomic program is on track, and the government has made significant progress in implementing its structural adjustment program. The staffs consider that, despite a difficult political and economic environment, important progress has been made in the implementation of the PRSP, which was prepared in broad consultation with civil society and the donor community, and provides sufficient evidence of the government's continuing commitment to poverty reduction.

- **The interim relief provided under the enhanced HIPC Initiative has allowed the government to increase social spending in recent years**. As indicated in the second PRSP Progress Report, total PRSP spending (adjusted for hurricane Mitch-related programs) increased by a cumulative total of US$476.2 million since 2000, of which about half (US$236.5 million) was financed through interim HIPC relief. Nevertheless, improvement of poverty indicators has been mixed and the prevailing low income elasticity of poverty reduction in Honduras calls for additional efforts.

- **Based on the debt reconciliation exercise for the completion point, the end-1999 stock of debt in net present value (NPV) terms has been revised downwards by US$37.5 million**. Under the current framework, for countries that reached the decision point prior to March 2002, the amount of enhanced HIPC assistance required at the decision point cannot be adjusted downwards without the consent of the country concerned. The Honduran authorities have not agreed to a revision on the grounds that such a revision could weaken poverty-combating efforts by reducing the resources available for PRSP programs. As a result, the total relief committed under the enhanced HIPC Initiative would remain as stated in the decision point at US$556 million in NPV terms. The full delivery of HIPC assistance together with additional bilateral assistance beyond HIPC will reduce the NPV of debt-to-revenues ratio at completion point to 188 percent as of end-2003, significantly below the HIPC threshold. Based on these findings, Honduras does not qualify for topping-up.

- **The updated DSA suggests that the debt remaining after the completion point will be sustainable under sound policies**. With the fiscal adjustment envisaged under the current PRGF program and levels of GDP growth similar to those achieved in 2004, Honduras's external debt ratios are projected to decline over the next 20 years. The accompanying sensitivity analysis shows that under those circumstances the Honduran economy will also be able to withstand temporary external shocks, such as terms-of-trade or weather-related shocks. If GDP growth remains just 1½ percentage point below the baseline projections, however, Honduras's debt ratios would not decline over time. If, in addition, the fiscal balance were to deteriorate, then debt ratios would significantly increase over time and eventually become unsustainable. Hence, a prudent fiscal policy stance and a strategy for sustaining growth are critical for long-run debt sustainability

- **The staffs of the IMF and IDA recommend that Executive Directors approve the completion point for Honduras under the enhanced HIPC Initiative**.

I. INTRODUCTION

1. **This paper assesses the progress made by Honduras under the enhanced HIPC Initiative and seeks approval of the Executive Boards of the IMF and IDA, respectively, of the completion point under the Initiative**. After establishing a three-year track record of good performance, Honduras reached the decision point under the enhanced Heavily Indebted Poor Country (HIPC) initiative in July 2000 (qualifying for assistance under the fiscal window).[2] At that time, Honduras was expected to reach the HIPC completion point in 2002. A full Poverty Reduction Strategy Paper (PRSP) was completed in July 2001 and endorsed by the Boards of the IMF and IDA in October 2001, but difficulties in implementing a stable macroeconomic program set back the implementation of the poverty reduction strategy and, thus, delayed the completion point. The government garnered the necessary support for a strong macroeconomic policy program in 2003, and the IMF Board approved a new PRGF arrangement on February 18, 2004. The first annual progress report of the PRSP and accompanying Joint Staff Assessment (JSA) were presented to the Boards of the IMF and IDA in February 2004. A second annual progress report and a Joint Staff Advisory Note (JSAN) are being considered at the same time as this document. In addition, the Board of the IMF will discuss the staff report for the second review of the PRGF-supported program.

2. **Total assistance to be provided to Honduras under the enhanced HIPC Initiative amounts to US$556 million in NPV terms**. This represents a reduction of 17.8 percent of the NPV of debt as of end-1999 after assuming full delivery of traditional debt relief. Based on this commitment, IDA and the IMF will provide debt relief in NPV terms in the amount of US$98 million and SDR$22 million (approximately US$30 million) respectively. During 2000–04, Honduras benefited from interim assistance from multilateral creditors in the amount of US$236in nominal terms, including US$37 million from IDA and SDR8.8 million from the IMF (US$12 million). The Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI) provided HIPC interim assistance of US$50 million and US$137 million in nominal terms. Interim relief from the Paris Club has been provided through a flow rescheduling on Cologne terms. Additionally, some commercial creditors have provided interim relief through either flow cancellation or debt restructuring.

3. **This paper recommends that the Boards approve the completion point for Honduras under the Enhanced HIPC Initiative**. In the staffs' opinion, Honduras has

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[2] Honduras became eligible for HIPC assistance under the fiscal window, as at the time of the Decision Point the net present value of Honduras's external debt after traditional debt relief was determined to be at 304 percent of the country's fiscal revenues, above the HIPC threshold of 250 percent, while its exports-to-GDP ratio was 45 percent and its fiscal revenue-to-GDP ratio was 18 percent, exceeding the eligibility thresholds of 30 percent and 15 percent respectively.

made substantial and satisfactory progress on all measures set out in the decision point document, and met all but one of the conditions for reaching the completion point. A waiver is recommended for the unmet condition.

4. **The remainder of this document is organized as follows**: Section II assesses Honduras's performance in meeting the conditions for reaching the completion point. Section III presents the results of the debt reconciliation exercise and of the updated debt sustainability analysis, together with several sensitivity tests. It also discusses the status of creditor participation. Section IV summarizes the main conclusions and Section V presents issues for discussion.

II. Assessment of Compliance with Requirements for Reaching the Completion Point

5. **Staff considers that the policy and reform conditions for reaching the completion point were met by end-2004, except for one condition pertaining to the strengthening of the financial sector, for which a waiver is recommended (Box 1)**. The conditions for reaching the floating Completion Point are established in Section IV of the Decision Point document [Honduras Decision Point Document for the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. June 20, 2000 (www.imf.org, www.worldbank.org)]. These conditions, which aim to address the challenges to growth and poverty reduction in Honduras, read as follows: (a) maintenance of macroeconomic stability as evidenced by performance under a program supported by a PRGF arrangement, (b) successful implementation of the full PRSP for at least one year as evidenced in one comprehensive annual report endorsed by the Boards of IDA and the IMF, (c) preparation and implementation of a participatory, comprehensive anti-corruption strategy and its presentation to the national and international community, (d) reform of the social security system, which is crucial to increase both the coverage and the quality of health services and ensure a sound pension system, (e) strengthening of the basic health services for the poor, (f) improvement in the quality of education by increasing the number of schools with community participation (PROHECO), (g) increase the efficiency and targeting of safety nets, and (h) strengthening of the financial sector by application of Basel Core Principles. This section discusses Honduras's progress toward meeting these conditions.

A. Macroeconomic Performance in 2000–04

6. **Staff considers that the program supported by the PRGF has been on track throughout 2004, in compliance with the first completion point condition**. The condition calls for the maintenance of macroeconomic stability as evidenced by performance under a program supported by a PRGF arrangement. The IMF Board approved the current PRGF arrangement on February 18, 2004 and concluded the first program review in September 2004. Completion of the second review of the program supported by the PRGF would constitute compliance with this condition.

Box 1. Status of Poverty Reduction and Structural Measures for Reaching the Enhanced HIPC Initiative Floating Completion Point Conditions	Monitoring Institution and Compliance	
1. **Maintenance of macroeconomic stability as evidenced by performance under a program supported by a PRGF arrangement**. The IMF Board approved the PRGF arrangement in February 2004 and the first review in September 2004. The second review is presented alongside this document for approval to the IMF Board.	IMF	Done
2. **Successful implementation of the full PRSP for at least one year as evidenced in one comprehensive annual report endorsed by the Boards of IDA and IMF**. The full PRSP was submitted to the IMF and IDA Boards in July 2001 and a first progress report was submitted in December 2003. The second progress report is being submitted to the IMF and IDA Boards alongside this document.	IDA/ IMF	Done
3. **Preparation and implementation of a participatory, comprehensive anti-corruption strategy and its presentation to the national and international community**. Key measures include		
a. **Elaboration and publication of a participatory comprehensive anti-corruption strategy in consultation with civil society and the international community**. Anti-corruption strategy prepared and published by the National Anti-Corruption Council in November 2003.	IDB	Done
b. **Measures to strengthen control mechanisms such as the Offices of the Comptroller General and of Administrative Probity**. Offices of Comptroller General and of Administrative Probity were merged in January 2003 to create TSC. TSC personnel has been restructured and a training program for TSC staff has been prepared and is being implemented. Measures to strengthen procurement include the creation of ONCAE, its merger with UPET and designation of its Consultative Council in 2004.	IDA/ IDB	Done
c. **Increasing the automaticity and transparency of regulations that affect the private sector**. Government passed the Administrative Simplification law in 2002, reducing average time to register new businesses.	IDB	Done
4. **Reform of the social security system, which is crucial to increase both the coverage and the quality of health services and ensure a sound pension system**. Key measures include:		
a. **Separation of the health and pension plans of the IHSS**. The separation of plans was completed in March 2004.	IDA	Done
b. **Strengthening of the regulatory capacity of the ministry of health, and the improvement of coverage, efficiency and quality of health service provision**. Norms for the licensing of health facilities were approved in May 2004 and 121 health facilities were rehabilitated and licensed under the health ministry's new health facility certification program.	IDB	Done
c. **In pensions, the IHSS system will be made actuarially sound, its coverage expanded, and pension benefits rationalized to improve the incomes of the neediest**. Passage of Decree 80-2001 and the raising of salary ceilings for pension contributions in 2001 have placed the social security system on a sound financial footing over the medium to long term. IHSS affiliation was increased to almost 500,000 by December 2004, and introduction of automated identification card system for IHSS affiliates is well underway**.**	IDA	Done
5. **Strengthening of the basic health services for the poor**. (Specific trigger is the delivery of a basic health services package to at least 100,000 beneficiaries.) During 2004, coverage of the basic package of primary health care services was extended to cover over 285,000 persons in poor communities	IDB	Done
6. **Improvement in the quality of education by increasing the number of schools with community participation (PROHECO)**. (The specific completion point trigger is the implementation of the program in at least 1,350 PROHECO schools.) As of November 2004, the number of PROHECO schools had increased to over 2000.	IDA	Done
7. **Increase in the efficiency and targeting of safety nets.** (Specifically, the implementation of social investment projects based on participatory planning methodologies in all beneficiary municipalities.) As of October 2004, participatory planning processes have been implemented in all Honduran municipalities, including the 87 poorest municipalities.	IDA	Done
8. **Strengthening of the financial sector by application of the Basel Core Principles (BCP)**. (Specifically, improving the efficiency and soundness of the financial system by substantive application of BCP to the banking sector, and by raising the capital adequacy ratio from 9 to 10 percent and enforcing it on all commercial banks.) The capital adequacy ratio was raised to 10 percent at end-2000, and progress toward BCP compliance has been achieved, especially with respect to reforming the legal framework, strengthening supervision and implementing a program to increase the solvency of the financial system. A reform program to gradually increase solvency and improve surveillance further, and create the conditions needed for substantive compliance with BCP in the medium term is under implementation with IMF and IDA support.	IMF/ IDA	Not fully complied with, but significant progress has been achieved (Waiver Recommended)

7. **After reaching the decision point in 2000, growth was initially boosted by the reconstruction efforts following Hurricane Mitch but later fell as a result of external shocks and inadequate policy efforts**. The terms of trade continued to decline amid falling coffee and banana prices and growth fell by 3 percentage points, to about 2½ percent in 2001 and 2002. Initial progress under the previous ESAF/PRGF arrangement allowed Honduras to reach the HIPC Decision Point in mid-2000. However, the program went off track soon after as fiscal imbalances related to wage pressures and weak tax collections intensified. Public savings dropped sharply on account of wage increases and the widening fiscal deficit required large domestic financing including extraordinary transfers from public enterprises. Meanwhile, financial system fragilities increased and policy making was constrained by social unrest and influential vested interests.

8. **In December 2003, following extensive consultations and consensus building, the government was able to garner the support needed for an economic program with Fund support**. The main goal of the program was to address the rising fiscal pressures and create room for anti-poverty spending, bolster growth, and gradually reduce inflation to the level of the trading partners. Additionally, the program aimed at strengthening the financial sector.

9. **The program has already delivered positive results in 2004**. Growth accelerated to 4.6 percent and PRSP spending increased to 8.4 percent of GDP (from 7.5 percent in 2003). Meanwhile the fiscal deficit was reduced by 2 percent of GDP, reflecting an increase of public sector savings. The external position also strengthened substantially despite higher oil prices, on account of high remittances, higher exports, and capital inflows. Net international reserves increased by US$496 million in 2004, covering 4.8 months of imports. High oil prices and foreign exchange inflows intensified inflationary pressures during 2004. However, inflation has stabilized in recent months reflecting a tightening of monetary policy and somewhat lower oil prices.

10. **Restoring sound macroeconomic policies has been an important achievement, but carrying on the reform agenda and preserving sound policies through the upcoming election period and beyond will be challenging**.[3] Controlling the public sector wage bill and maintaining strong revenue collection is critical for sustaining a stable macroeconomic framework and adequate poverty reduction efforts. Efforts are also needed to reduce vulnerabilities and improve the resilience to external shocks by introducing more flexibility into the exchange rate regime, further diversifying the export base, and continuing to strengthen the financial system. Additionally, maintaining competitiveness and controlling inflation in the context of strong inflows fueled by remittances remains a challenge.

[3] Presidential, legislative, and municipal elections are scheduled for November 2005.

B. Implementation of Poverty Reduction Strategy

11. **Honduras has complied with the second floating completion point condition, which calls for the successful implementation of the full PRSP for at least one year**. The full PRSP was completed in July 2001, but difficulties in implementing a stable macroeconomic program set back the implementation of the poverty reduction strategy, delaying the completion point, which had originally been expected for 2002. A first PRSP Progress Report, presented to the Boards of IDA and IMF in early 2004, indicated mixed progress in the implementation of its poverty reduction strategy. An important reason for slow progress in achieving the goals established in the PRSP was the weak macroeconomic framework, especially due to an unsustainable public wage policy, which limited the economy's capacity to sustain growth and the government's ability to spend on poverty reducing programs during 2001–2003. With the preparation of the first Progress Report, the authorities expanded the definition of poverty reducing-spending (as recommended by IDA) to achieve a closer link between anti-poverty spending and poverty-reducing outcomes.

12. **The second annual PRSP progress report, issued in February 2005 indicates a broadly successful implementation of the PRSP, both in terms of poverty-reducing spending and of improvements in the PRSP indicators**. Three out of every four PRSP monitorable goals were met in 2004, in contrast to the record in 2002 and 2003, when only about one-third to one-half of the goals were achieved. PRSP spending has been increased since 2000 despite the phasing out in 2002 of Mitch-related reconstruction spending (much of it donor financed). Nevertheless, the improvement of poverty indicators has been mixed (Box 2) and the prevailing low income elasticity of poverty reduction in Honduras calls for additional efforts to ensure attainment of all PRSP targets. (The use of HIPC interim relief to expand PRSP spending is described in Box 3, using the government's revised definition of PRSP spending and applying a virtual fund approach—as stated in the first annual PRSP progress report.) Both PRSP progress reports were subject to consultation within the targeted for retirement have been released and 62 new staff members have been hired, leaving only 24 additional hires to complete the restructuring process. A medium term government and with the Consultative Council of the PRSP, which includes members of civil society and the donor community. The staffs of the Bank and the Fund consider that the country's efforts toward implementation of the PRSP strategy has been satisfactory over the past year.

C. Preparation and Implementation of Anti-Corruption Strategy

13. **The third floating completion point condition was complied with through the implementation of an anti-corruption strategy**. The condition calls for (i) the implementation and publication of a participatory, comprehensive anti-corruption strategy, in consultation with civil society and the international community; (ii) measures to strengthen control mechanisms such as the Offices of the Comptroller General and of Administrative Probity; and (iii) an increase in the automaticity and transparency of regulations that affect the private sector. The anti-corruption strategy was prepared and published in March 2002 by a commission set up by the government in consultation with

Box 2. Honduras: Selected Social and Demographic Indicators

Honduras's social and demographic indicators have been gradually improving, but greater momentum is needed to reach the MDGs by 2015. The share of the population living in poverty has fallen modestly, from 66 percent in 2000 to 64 percent in 2004, while that in extreme poverty declined from 49 percent to 44.6 percent. Secondary education indicators have improved, as have certain infrastructure coverage indicators (electricity and sanitation services), which should help technology adoption and FDI in the context of CAFTA. However, recent advances in two key indicators, primary education and access to water, have been slow. This is worrisome, given that most PRSP goals and MDGs are strongly associated with literacy rates, and access to water is critical for reducing child mortality and malnutrition. Honduras had previously made important advances in both areas and it needs to accelerate the momentum in order to achieve its PRSP targets and MDGs.

Honduras: Selected Social and Demographic Indicators, 2000-2004
(In percentages, except as noted)

Indicator	2000	2001	2002	2003	2004	Latin America and the Caribbean	Low Income Countries
						2000-2002	2000-2002
Population							
Total population (millions of inhabitants) [A]	6.5	6.6	6.8	7.0	7.1	527	2,495
Global fertility rate (births per woman) [D]	..	..	3.8	..	..	2.5	3.56
Life expectancy at birth (number of years) [F]	70.0	70.7	..	..	..	70.6	58.7
Poverty							
National (of total population) [A]	66.0	64.4	63.3	63.5	64.2	..	..
Urban (of urban population) [A]	..	..	55.5	56.3	58.7	..	..
Rural (of rural population) [A]	..	..	70.8	70.2	70.3	..	..
Extreme national (of total population) [A]	49.0	47.4	45.2	44.7	44.6	..	..
Education							
Illiteracy rate [A]	25.0	24.0	19.7	19.0	18.5	10.8	38.1
Net preschool enrollment rate [B]	..	..	..	27.0	29.0	..	..
Net primary enrollment rate [B]	88.3	87.0	77.0	90.0	88.2	96.9	..
Gross primary enrollment rate [B]	99.6	98.3	97.7	101.1	110.2	..	..
Complete primary education in six years [C]	68.5	69.0	69.0	69.0	..	..	..
Net secondary enrollment rate [G]	24.2	31.0	30.9	31.2	38.2	..	..
Health and nutrition							
Immunizations (of children under one year)							
DPT [F]	94.0	96.0	95.0	92.0	95.0	89.0	61.0
Measles [E]	98.0	95.0	97.0	..	..	91.0	59.0
Malnutrition (of children under five years) [H]	37.8	32.9	..	..	..	..	..
Infant mortality (per 1,000 live births) [H]	36.0	34.0	..	..	..	28.2	80.9
Under five mortality rate (per 1,000 live births) [H]	48.0	45.0	..	..	..	34.0	121.0
Maternal mortality (per 100,000 live births) [H]	147.0	108.0	..	..	..	..	..
Institutional births (of expected births) [G]	51.7	44.0	45.4	47.7	56.6	..	43.0
Prenatal care (of expected pregnant women) [G]	73.0	70.0	77.0	94.0	94.0	..	..
Basic infrastructure services							
Access to safe water (of population) [A]	..	89.5	82.3	83.4	84.1	86.0	76.0
Sanitation access in urban populations [A]	..	95.3	94.9	95.1	96.2	..	..
Coverage of electricity (of population) [G]	54.9	57.5	60.1	62.1	63.7	..	..

Sources: World Development Indicators (WDR) for Latin America and the Caribbean and for Low Income Countries; for Honduras: (A) Housold Survey from the National Institute of Statistics (INE) 2001, 2002, 2003, 2004, (B) UPEG, Secretary of Education, (C) EFA-HONDURAS/Secretary of Education 2002, (D) The World Health Organization Report 2003, (E) World Bank Database: DDP Time Series, (F) UPEG/ Secretary of Health, (G) PRSP Progress Report, (H) ENESF/PRSP Progress Report civil society and the donor community,[4] thereby fully complying with the first item under this condition.

14. **The government's fiduciary and audit control mechanisms were strengthened in 2003 with the merger of the Comptroller General's office with the Office of Administrative Probity, to create the new "*Tribunal Superior de Cuentas*" (TSC)**.[5] Also, the government's procurement mechanisms were strengthened with the creation of a public procurement policy office ("*Oficina Normativa de Contratación y Adquisiciones*", ONCAE), its merger with the coordinating unit of the public procurement strengthening program ("*Unidad del Programa de Eficiencia y Transparencia en las Compras y Contrataciones del Estado*", UPET) and designation of its Consultative Council in November 2004.[6] The regulations for the decree creating the TSC were issued on July 19, 2003, and a 5-year institutional-strengthening plan for TSC was prepared. That plan included a personnel restructuring component, the preparation of a medium term training program for TSC staff, and the hiring of an international expert to support implementation of the TSC strengthening plan. The personnel restructuring plan called for the retirement of 188 of TSC's original staff of 587 employees and the hiring of 86 new staff with a more appropriate skill mix. As of December 17, 2004, all the persons training program for TSC staff has been prepared[7] and a number of capacity building activities were carried out during 2004. The most substantive elements of the training program have had to wait until the completion of the personnel restructuring, however, and they are expected to be initiated in 2005. The authorities are currently in the process of hiring an international expert to help implement the TSC strengthening plan. Finally, to improve the quality of audits, the TSC completed several manuals on following up on audit recommendations, general norms for internal control and audits, and on the norms for government audits.

15. **The automaticity and transparency of regulations that affect the private sector was increased through passage of the Administrative Simplification Law in 2002**. Since then, the average time it takes to register a business located in Tegucigalpa

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[4] The anti-corruption strategy was prepared by the National Anti-Corruption Council created by Executive Decree 015-2001, dated February 16, 2001. The National Anti-Corruption Council was reinstated by President Maduro to oversee the implementation of the strategy through *Acuerdo Ejecutivo 064-2002*, published in *La Gaceta* on March 11, 2002.

[5] Decree No. 10-2002-E ("*Ley del Tribunal Superior de Cuentas*"), published in *La Gaceta* on January 20, 2003.

[6] *Acuerdos Ejecutivos Nos. 015-2004, 029-2004 and 030-2004*, published in *La Gaceta* on November 20, 2004, and Acuerdo Ejecutivo No. 018-2004, published in *La Gaceta* on November 24, 2004.

[7] Details of the TSC capacity building plan are in the communication, dated November 12, 2004 (*Oficio No. 57-2004-DDI-TSC*), from Mr. Roberto Gálvez Bueno, TSC Director of Institutional Development.

Box 3. Honduras: Tracking Total and Poverty-Reducing Expenditures

The table below provides an overview of public spending in Honduras during 2000–04. Total public spending is divided into spending on interest obligations and primary spending, with the latter divided into poverty-reducing spending (denoted PRSP spending) and non-PRSP spending. Total PRSP spending is divided further into poverty-reducing, post-hurricane Mitch reconstruction activities that were phased out in 2002, and other ongoing poverty-reducing programs, denoted Adjusted PRSP spending. This adjustment allows the assessment of PRSP spending net of the extraordinary expenditure due to Mitch-related reconstruction—much of which was financed by donor grants. The figures show PRSP spending according to the revised definition introduced in the context of the First PRSP APR.

The last column on the right shows the cumulative changes in public spending and of internal and external resource flows with respect to 2000 (the base year). It can be readily seen that the cumulative increase in adjusted PRSP spending during 2001–04 (US$476.2 million) exceeds the cumulative increase in total external resource inflows targeted to poverty-reducing programs over that period (US$347.4 million), which includes US$236.5 million in interim HIPC relief. (It should also be noted that the cumulative flow of domestic financing devoted to adjusted PRSP spending has been positive.) From this we can conclude that the inflow of external resources intended for PRSP spending contributed entirely to higher PRSP spending and did not lead to a substitution of domestic resources.

Honduras: Central Government Finances

	2000	2001	2002	2003	2004	Sum of changes*
			in US$ millions			*(2001-04)*
Total Income	1,132.0	1,277.9	1,279.1	1,374.0	1,506.6	909.8
of which: donations	59.5	112.2	69.4	77.2	73.0	93.7
Total Expenditure	1,470.9	1,653.8	1,624.7	1,787.1	1,767.7	949.7
of which: interest	155.8	137.3	124.8	133.3	129.9	-98.0
Total PRSP Spending	493.1	564.9	497.4	538.1	598.9	226.7
Adjusted PRSP Spending	384.3	445.5	430.8	538.1	598.9	476.2
Financing						
Domestic	269.7	296.5	299.2	314.9	348.3	180.2
External +	114.6	149.0	131.6	223.1	250.6	347.4
of which: HIPC relief +		55.5	57.3	53.3	60.0	236.5
Other	104.3	93.5	74.3	169.8	190.6	110.9
Mitch-related PRSP Spending	108.9	119.4	66.6	na	na	-249.5
Financing						
Domestic	26.9	5.5	12.3	na	na	-89.8
External	82.0	113.9	54.3	na	na	-159.8
Total non-PRSP Spending	821.9	951.6	1,002.5	1,115.7	1,038.9	821.1
Financing						
Domestic	754.9	787.8	915.4	1,014.0	963.9	661.4
External	67.0	163.8	87.1	101.7	75.0	159.7
Balance	-338.9	-375.9	-345.6	-413.1	-261.1	-39.9
Financing	338.9	375.9	345.6	413.1	261.1	39.9
Net External financing	75.1	176.2	53.3	123.1	73.5	125.5
External resources	204.0	314.5	203.5	247.7	252.6	202.1
Amortization	128.9	138.2	150.3	124.6	179.1	76.6
Internal Deficit Financing	263.8	199.6	292.3	290.1	187.6	-85.6

Source: SEFIN and UNAT. Notes: * Represents the cumulative change in flows with respect to the base year, 2000. + Includes US$10.2 million of interim HIPC debt relief provided to Honduras in 2000.

has been significantly reduced, from 129 days in 2002 to 62 days in the first quarter of 2004, by streamlining permit processes.[8]

D. Reform of the Social Security System

16. **The government has complied with the fourth floating completion point condition, which calls for the implementation of the social security reform plan approved by the IHSS Board on May 24, 2000**. Implementation of this plan includes (i) the separation of the health and pension plans of the IHSS, (ii) strengthening the regulatory capacity of the ministry of health and the improvement of coverage, efficiency and quality of health service provision, and (iii) assuring that, in pensions, the IHSS system will be made actuarially sound, its coverage expanded and pension benefits rationalized to improve the incomes of the neediest. Legislative Decree 80-2001[9] provided the legal foundation enabling the implementation of significant reforms in IHSS, such as raising contribution rates and contribution ceilings for the health and pension regimes (which had not been changed in 30 years). Also, the Decree ordered the separation of the pensions and health systems into two separate regimes, and the creation of a third regime to cover professional risks.

17. **The IHSS completed the separation of the financial accounting and budgeting systems of the Old Age, Disability and Death Regime from the Sickness-Maternity Regime in March 2004, and has significantly expanded its population coverage**. A new pensions department (headed by a separate pensions manager) was established in April 2004. IHSS also has developed a registry of affiliates, based on a new, automated identification card system. The distribution of cards is proceeding according to plan: by March 2004, 10 percent of the total eligible IHSS affiliates were registered, and by October, 2004, 34 percent (of a total of 480,000 affiliated contributors) were registered. By end 2004, the total number of IHSS affiliated contributors expanded to 498,000, about 16 percent of the economically active labor force, up from 14 percent in 2003.[10] The authorities plan to have all IHSS affiliates registered by end 2005.

18. **The regulatory capacity of the MOH is being strengthened with the development of the new health facility certification program, which has been developed with assistance from IDA and IDB. Norms for the licensing of health establishments were approved by ministerial decree in 2004**.[11] The licensing program had called for licensing of 10 percent of all (2,473) private and public health centers and health posts in the country by September 2004. This process has been advancing well, albeit more slowly than originally envisaged because most health establishments did not meet the established standards and required significantly more rehabilitation than

[8] See World Bank (2004) "Doing Business in 2005: Removing Obstacles to Growth".
[9] Published in *La Gaceta* on 14 June 2001.
[10] Letter of certification from the Director of IHSS, attaching the database of contributors affiliated with IHSS as of December 2004.
[11] *Acuerdo Ministerial No. 934*, issued by the Minister of Health on 20 May 2004.

anticipated. As of end-2004, 121 facilities have been licensed, while another 100 facilities are in the process of being rehabilitated. According to IDA's project supervision documents, the resulting physical improvements of the primary health care facilities are beginning to generate a positive impact on beneficiaries. The revised plan calls for the licensing of at least 19 percent of all health establishments by December 2005 and of all health establishments by December 2015.

19. **The actuarial soundness of the pension system has been assured over the medium term with the passage of Decree 80-2001.** This decree introduced a state contribution to the pension system (amounting to 0.5 percent of eligible salaries) and raised the salary ceilings for pension contributions from L 600 to L 4,800 between 2001 and 2003, which compensated for the inflationary erosion that took place over previous decades. Also, this decree gave the IHSS Board of Directors the discretionary powers to revise the pension system parameters as needed to maintain its actuarial soundness (in a manner to be determined on the basis of actuarial studies). Three actuarial studies to support efforts to extend IHSS coverage to priority geographic areas and to define the parameters of the pension and health systems needed to render IHSS actuarially sound were completed in April 2004.[12] These studies show that the parameter reforms that have been implemented so far are sufficient to ensure the system's financial viability over a considerable period of time: in the absence of further changes, the pension system is projected to generate a growing surplus over the next five years. It is projected to generate a deficit after approximately 35 years, however, eventually requiring further corrective actions. On the basis of these studies, draft regulations for Decree 80-2001 to improve further the actuarial soundness of the pension and health regimes have been prepared and submitted to the IHSS Executive Directors.[13] These regulations have been

[12] These three studies refer to (i) Sanigest Internacional S.A. (Fabio Durán-Valverde, Alexander Amoretti & Liliana Velez), "*Estudio Actuarial: Proyecciones Actuariales del Seguro de Invalidez, Vejez y Muerte del Instituto Hondureño de Seguridad Social*", Tegucigalpa, Honduras, Abril 2004, (ii) Sanigest Internacional, S.A. (Fabio Durán-Valverde), "*Informe de Consultoría: Estudio Actuarial Seguro de Salud", Tegucigalpa, Honduras, Abril 2004*, and (iii) Sanigest Internacional, S.A., "*Valuación Actuarial para la Creación del Seguro de Riesgos Profesionales del Instituto Hondureño de Seguridad Social", March 2004.*

[13] The total contribution rate applied to the salaries of IHSS-affiliated workers is 10.5 percent, of which 3.5 percent is designated for pensions and 7 percent finances the health insurance system. In the absence of further reforms, the 3.5 percent of eligible salaries assigned to the pension system is enough to ensure its financial viability for at least 35 years. This outcome is attributable to the relative youth of the program and modest level of benefits. The system's health insurance regime also will require a parametric response to avoid potential declines in the quality of service, since contribution ceilings are not indexed to inflation at the present time. Consequently, in the absence of further measures (such as the indexation of contribution ceilings to inflation), the real value of social security contributions channeled to the health regime would

(continued)

discussed by the Directors in various workshops convened during the second half of 2004, and agreement in principle has been reached on all but a few items. The authorities expect to conclude the consultation process by early 2005 and to approve the new regulations by mid-2005.

E. Strengthening of Basic Health Services for the Poor

20. **The government has complied with this condition, which required the delivery of a package of basic health services to at least 100,000 beneficiaries in poor communities, with emphasis on primary and maternal/child health care**. The Ministry of Health has increased delivery of its basic package of primary health care services (emphasizing maternal and infant services) through the purchase of services of mobile health teams from NGOs. During 2002–03, coverage of this package was extended to approximately 100,000 persons living in poor communities, formerly with very limited access to health care. The Ministry also increased its direct provision of services by roughly 20 percent. During 2004, coverage of this package was extended further to cover an estimated total in excess of 285,000 persons in poor communities.[14]

F. Improving Education Quality Through Increased Community Participation

21. **The government has complied with this condition, which calls for increasing the number of schools with community participation (denoted PROHECO schools) to at least 1,350, to ensure better coverage, lower urban-rural discrepancies and higher quality of education in the neediest areas**. As of December 2003, there were 1,700 PROHECO schools in operation, mainly in rural areas, which exceeds the completion point target by an ample margin. As of November 2004, the number of PROHECO schools increased to 2,055, employing 3,309 teachers attending to an estimated 93,259 students.[15]

G. Increasing the Efficiency and Targeting of Safety Nets

22. **The government has complied with this condition, which calls for the implementation of social investment projects by the Honduran Social Investment Fund (FHIS), on the basis of participatory planning methodologies in all beneficiary municipalities**. The aim of these participative planning methodologies is to ensure that communities and beneficiaries have a greater say in the selection of FHIS projects, which has been shown to enhance their quality and the sustainability of project benefits. FHIS

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gradually erode, which could result in a decline in the quality of health services and would eventually undermine the effectiveness of the IHSS.

[14] To maintain this coverage, the health ministry has signed 28 contracts with 16 NGOs for the provision of basic health services in specially targeted regions.

[15] See documentation, dated 23 December 2004, from the Minister of Education certifying the number of schools, teachers and students covered by the PROHECO program.

has been basing its social investment projects on participatory local development methods that result in municipal investment plans ("*Planes de Inversión Municipal*") since 2000. As of October 2004, these participative planning processes have been implemented in all (298) municipalities in Honduras, including the 87 poorest municipalities, thereby complying with this completion point target.[16] In addition, municipal strategic development plans ("*Planes Estratégicos de Desarrollo Municipal*" – PEDMs) based on these processes have been completed for 172 municipalities, including 47 of the poorest ones.

H. Strengthening the Financial Sector

23. **Fund and IDA staff support a waiver of the trigger condition regarding financial sector reforms on the basis of the significant progress being made with the ongoing financial sector reform program**. The condition calls for improving the efficiency and soundness of the financial system by substantive application of Basel Core Principles (BCP) to the banking sector and raising the capital adequacy ratio from 9 to 10 percent and enforcing it on all commercial banks. While the authorities have made substantial financial reforms, Honduras—like many other countries—is still not in a position to fully apply the Basel Core Principles, given the level of development of its financial sector and institutional framework. The regulation raising the capital-adequacy ratio to 10 percent was approved at 2000 and is being enforced. In addition, the authorities are implementing an ambitious financial sector strategy that includes: (i) upgrading the regulatory and supervisory framework (that brings local practices closer to compliance with the BCP framework) and improving the bank resolution framework and (ii) strengthening the solvency of the system. Significant progress in the implementation of this reform has been achieved during 2004 (described below) and is programmed to continue in 2005–06. The reform program, which is supported by the Fund (in the context of the PRGF arrangement) and IDA (through present and planned financial sector credits) provides the legal framework needed to promote substantive compliance with the BCP over a medium-term horizon.

24. **A comprehensive assessment (FSAP) undertaken in 2003 revealed important weaknesses of the financial sector**. The FSAP found that compliance with BCP was very limited. Honduras' largely complied with 3 of the 25 BCP, materially non-complied with 20 BCP, and not complied with 2 BCP.[17] In addition, the solvency of the system was found to be weak due to the adverse impact on banks' loan portfolio of Hurricane Mitch

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[16]See letter of certification from Minister Leoncio Yu Way Morales (dated 2 November 2004), confirming application of participative planning methods in all municipalities and attaching a database of the municipalities for which PEDMs have been completed.

[17] The FSAP assessed material non-compliance with the first BCP, which has 6 subcategories. One of this was assessed compliant, another one largely compliant, and the rest materially noncompliant.

(1998) and the collapse of coffee prices (1999 and 2001)—a situation that had not been fully known at the time of the Decision Point (mid-2000).

25. **Progress has been made toward compliance with BCP, particularly from a legal and regulatory standpoint, and strengthening supervision**. Consistent with the recommendations of the 2003 FSAP, a series of laws and several underpinning regulations were approved that: (i) improve provisioning and loan classification procedures; (ii) allow for the introduction of consolidated supervision (including off-shores, affiliates and subsidiaries); (iii) grant additional operational powers to the supervisory authorities; (iv)) broaden the circumstances that trigger the need for a bank's action plan; and (vi) improve the bank resolution framework. These measures led to the following improvements in BCP compliance:

- *BCP 1: Objectives, autonomy, powers and resources*. Political interference was reduced in the CNBS budget.

- *BCP 2–5: Licensing and Structure.* The CNBS was granted further powers to issue and revoke licenses on an ongoing basis.

- *BCP 6–15: Prudential regulations and requirements.* Loan classification and provisioning rules were brought closer to best practices. A plan was adopted for the commercial banks to comply with the new provisioning rules during a 3-year transition period. The authorities are strictly enforcing the gradual reduction of related-party loans from very high practices.

- *BCP 16–20: Methods of ongoing supervision.* The legal framework for consolidated supervision was introduced.

- *BCP 21: Information requirements.* CNBS was given authority to guide external audits of financial institutions, including by requesting working plans, reviewing audit results, and verifying compliance with the working plans.

- *BCP 22: Formal powers of supervisors.* The bank resolution framework was overhauled and significantly strengthened. Resolution powers were brought into the CNBS (before the deposit guarantee fund was in charge of bank resolution, and the framework itself was weak). The CNBS received additional powers to impose a broader set of penalties (including revoking the license).

- *BCP 2–25: Cross-border banking.* The CNBS was granted the authority to include off-shores, affiliates and subsidiaries under consolidated supervision.

26. **The authorities have implemented a program to gradually increase the solvency of the financial system**. The program gives the banks three years (until end-2006) to bring provisioning to the level required in the new regulations. For several banks, this creates a need to bring in fresh capital. This plan will be monitored closely by the authorities. If banks fall short of meeting these requirements, the CNBS will invoke its new bank resolution framework to address the deficiencies. The gradual approach to

improving solvency reflects a number of factors: Hurricane Mitch and the coffee crisis had a large adverse impact on commercial bank portfolios, while the creation of a capitalization fund has not been possible due to a lack of financing. Fortunately, rising bank profitability owing to an improved macroeconomic environment will enable the use of retained earnings to help finance higher bank reserves, but additional fresh capital continues to be needed.

27. **The authorities are taking steps to mitigate the risks associated with this approach**. The main risk lies with the low level of bank provisioning that will not be corrected until end-2006. This condition makes the financial system more vulnerable to shocks. To mitigate this risk, the authorities are implementing a program to improve its enhanced surveillance methods with support from IDA. These methods include adopting legislation to improve bankruptcy and corporate reorganization procedures, creditor rights, and corporate governance, and the consolidated supervision of all financial groups operating in Honduras.

III. DEBT SUSTAINABILITY

A. Data Reconciliation and Revision of Assistance

28. **Staffs of IDA and the IMF, together with the Honduran authorities, have reviewed the stock of debt as of end-1999 presented in the decision point document**. As a result of this exercise, the NPV of the debt owed to some creditors as presented in the Decision Point Document was revised. These revisions arise from discrepancies with the decision point data discovered during consultations with creditors after the decision point document was published. The main revisions are as follows:

- **Multilateral Creditors**. The NPV of debt to CABEI was revised upwards from US$409 million to US$416 million. For this creditor, the estimates at decision point omitted a total of US$7.9 million in principal and interest arrears outstanding at end-1999.[18] In addition, a revision in the terms of some IDB loans warranted a downward revision of the NPV of debt owed to this creditor from US$750 million to US$746 million.[19]

- **Bilateral Creditors**. The NPV of the debt owed to the Paris Club after traditional debt relief was revised downwards from US$944 million to US$908 million. There are two main reasons for the revision. First, at the time of the Decision Point, individual agreements with creditors following the 1999 Paris Club rescheduling had not yet been signed. Consequently, official data for the rescheduled Paris Club loans were not available, and the data presented were estimates. Additionally, some debt categories were incorrectly classified at the time of the decision point.

[18] By the time of the HIPC Decision Point in June 2000, these arrears had been cleared.
[19] Other small revisions concerned debts owed to IDA, IMF and IFAD.

29. **After full implementation of traditional relief mechanisms, the revised end-1999 NPV of debt amounts to US$3,077 million, compared to US$3,114 million estimated at the decision point** (Table 3). A recalculation of the HIPC assistance based on the revised database would result in a decrease of US$39 million in NPV terms, from the decision point estimate of US$556 million to US$517 million.[20]

30. **The amount of enhanced HIPC assistance required at the decision point cannot be adjusted downwards without the consent of the country authorities, for countries that reached the decision point prior to the adoption of the information reporting decision by the Boards**.[21] The Honduran authorities have not agreed to a revision on the grounds that it would weaken poverty-combating efforts by reducing the resources available for PRSP programs. As a result, the committed debt relief under the enhanced HIPC Initiative remains as stated in the decision point at US$556 million in NPV terms and the common reduction factor remains at 17.8 percent, as estimated at the Decision Point.

B. Status of Creditor Participation

31. **Honduras has received assurances of participation in the enhanced HIPC Initiative from creditors accounting for about 92 percent of the NPV of HIPC assistance**. Most multilateral creditors, as well as the Paris Club, have been providing interim assistance. The authorities are working toward reaching agreements with all remaining creditors.

Multilateral creditors

32. **Debt relief from multilateral creditors under the enhanced HIPC Initiative amounts to US$340 million in NPV terms or 61 percent of total HIPC relief** (Table 4). IDA, IMF, IDB, and CABEI have provided interim assistance. The International Fund for Agricultural Development (IFAD) and the OPEC Fund have committed to provide the required assistance once Honduras reaches the Completion Point.

33. **Assistance from IDA**. Debt relief from IDA under the enhanced HIPC Initiative approved at the Decision Point amounts to US$98 million in NPV terms. Interim assistance was delivered through a reduction of 50 percent of the debt service falling due on disbursed and outstanding IBRD credits as of end-December 1999. During the period July 2000–July 2002, US$37 million has been delivered as interim assistance (or US$33 million in NPV terms). The remaining relief will be provided at the Completion Point

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[20] The debt data are based on parameters prevailing at the end of each year.

[21] The HIPC Initiative: Status of Implementation, The Achievements of Long-Term Debt Sustainability, External Debt Management and Information Reporting in the Context of HIPC Assistance (www.worldbank.org). And, "Information Reporting in the Context of HIPC Initiative Assistance", approved by the members of the Executive Board of the IMF (www.imf.org and www.worldbank.org).

through a HIPC debt relief credit to fund the prepayment of the outstanding stock of IBRD debt and through a reduction of approximately 50 percent of debt service on IDA debt disbursed and outstanding as of end-1999.

34. **Assistance from the IMF**. Enhanced HIPC assistance from the IMF amounts to SDR22.66 million in NPV terms (equivalent to US$30.3 million).[22] Through end-February 2005, the IMF disbursed a total of SDR8.8 million as interim assistance. The remaining IMF assistance of SDR13.86 million will be disbursed from the PRGF-HIPC Trust to the Honduras Umbrella Account as a grant at the Completion Point. This assistance would cover, on average, 42 percent of Honduras' principal payments falling due to the IMF during the next three years (Table 13).

35. **Assistance from CABEI**. Enhanced HIPC assistance from CABEI amounts to US$73 million in NPV terms. At the time of the Decision Point a debt relief agreement with CABEI had already been reached [23].This agreement provided the required debt reduction in NPV terms through the restructuring of 60 percent of CABEI's loans as of end-March 2000, which at the time the operation took place amounted to US$251.9 million in nominal terms. A total of US$137 million in nominal terms has already been provided throughout 2004.

36. **Assistance from the IDB**. Debt relief from the IDB under the enhanced HIPC Initiative amounts to US$133 million in NPV terms. As of December 2004, about US$44 million in NPV terms had been provided as interim assistance during 2001–2003. At the Completion Point, the remaining assistance will be provided through the reduction of debt service payments to the IDB on disbursed and outstanding debt as of end-December 1999.

37. **Assistance from the OPEC Fund**. The OPEC Fund has agreed to provide HIPC debt relief of US$3.6 million in NPV terms, as committed in the Decision Point document. The modalities of the delivery are being negotiated with the OPEC Fund authorities.

38. **Assistance from IFAD**. IFAD will deliver its share of assistance under the enhanced HIPC Initiative, amounting to US$1.9 million in NPV terms, at Completion Point through a reduction of 100 percent of debt service payments on credits outstanding as of end-1999. It is estimated that the total assistance could be delivered by 2007.

Bilateral creditors

39. **Paris Club creditors have agreed in principle to provide their share of assistance under the enhanced HIPC Initiative (US$169 million in NPV terms)**. Interim assistance has been provided through a flow rescheduling under Cologne terms in

[22] Based on the USD$/SDR exchange rate as of end-December 1999.

[23] The agreement was signed on April 2000, prior to the Decision Point.

April 2004. This agreement also covered arrears accumulated since early 2002 when the previous agreement with the Paris Club—arranged in 1999 after the devastations of Hurricane Mitch—expired. Bilateral agreements following the 2004 rescheduling have been signed with all Paris Club creditors except for Japan, Italy, Denmark, and the Netherlands. Most of the signed agreements provide relief in excess of the terms agreed at the 2004 Paris Club meeting. Following the completion point, most Paris Club creditors are expected to provide debt relief beyond that required under the enhanced HIPC initiative. The beyond-HIPC relief is estimated at about US$540 million in end-2003 NPV terms.

40. **Of the seven non-Paris Club bilateral creditors, only Costa Rica has already agreed to provide HIPC debt relief to Honduras**. Non-Paris Club official creditors account for about 8 percent of the debt relief committed at the decision point. Costa Rica's central bank has indicated its willingness to provide relief on comparable terms. The modalities, however, have not been decided and would still require congressional approval. Venezuela has made an offer to refinance the debt at concessional terms, but, as the implied debt relief would have fallen short of HIPC terms, the authorities did not accept the offer. Colombia, Guatemala, Kuwait, Mexico, and Taiwan Province of China have indicated that they do not intend to provide relief to Honduras.

41. **Honduras' commercial debt is small and the two largest creditors have already granted debt relief**. At end-1999, commercial debt amounted to less than 0.5 percent of the stock of external debt in NPV terms. The Commonwealth Development Corporation (CDC) and Lloyds Bank, representing 85 percent of the NPV of commercial debt, have already provided debt relief. The CDC has been canceling debt service falling due since October 2000 and will forgive the remaining stock of debt at the time of the HIPC completion point. Lloyds Bank participated in an IDA Debt Reduction Facility buyback operation in 2002. One claim is currently under litigation and the remaining commercial creditors did not participate in the IDA Debt Reduction Facility buy-back operation as they failed to provided sufficient documentation to support their claims.

C. Updated Debt Sustainability Analysis

External debt situation at end-2003

42. **The DSA included in the HIPC decision point document has been updated jointly by the Honduran authorities and the staffs of IDA and the IMF**. The stock of debt disbursed and outstanding was updated on the basis of end-2003 loan-by-loan information provided by the authorities. This information has been reconciled with creditor statements from all multilateral and Paris Club creditors, as well as several non-Paris Club creditors. The exchange rates and discount rates used for calculating

Honduras' nominal stock of debt and the NPV of debt as of end-2003 are presented in Table 6.[24]

43. **Based on the reconciled data, Honduras' nominal stock of disbursed and outstanding debt reached US$4.84 billion at end-2003, compared with US$4.38 billion at end-1999**.[25] Of the total nominal debt at end-2003, 64 percent was owed to multilateral creditors, 36 percent to bilateral creditors, and 0.1 percent to commercial creditors. Honduras' largest official creditors at end-2003 were the IDB and IDA, accounting for 27 percent and 24 percent of total debt, respectively.

44. **In NPV terms, the end-2003 stock of debt amounted to US$3.85 billion or 306 percent of central government revenue, but full delivery of debt relief would significantly reduce the level of debt**. After a hypothetical application of traditional debt relief, the NPV would be reduced to US$3.60 billion, equivalent to 286 percent of central government revenue. Assuming full delivery of enhanced HIPC relief would further reduce it to US$2.89 billion, or 231 percent of revenue. And finally, estimated bilateral relief beyond HIPC of about US$543 million would lower it to US$2.35 billion, representing 188 percent of revenue.

45. **Notwithstanding the anticipated decline due to debt relief, the 2003 NPV of debt to revenue ratio considerably exceeded the projected value at the decision point**. Considering the delay experienced in reaching the completion point, the ratios should be compared only after assumed delivery of enhanced HIPC relief. At the time of the decision point, the NPV of debt to revenue ratio was projected to decline to 170 percent by end-2003. The revised number, however, is 61 percentage points higher at 231 percent. As presented in the table below, the most important factors behind the upward revision of the NPV of debt to revenue ratio compared to the projections made at the decision point have been lower GDP growth and changes in discount rates. At the decision point, real GDP was projected to grow at an average rate of 5.3 percent in

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[24] The HIPC DSA framework differs from the new debt sustainability framework for low-income countries, both conceptually (the indicative debt burden indicators are based on the quality of countries' policies and institutions) and methodologically (using different definitions for debt ratio denominators and discount and interest rates). Notwithstanding these differences, applying the LIC DSA framework would not alter the main results. If Honduras' debt sustainability is assessed under the new framework, the relevant ratios after HIPC relief would be below the indicative burden thresholds, and would remain below throughout the period of analysis. For further information on the LIC DSA framework see: "Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications" (www.imf.org and www.worldbank.org) and "Debt Sustainability in Low-Income Countries—Further Consideration on an Operational Framework and Policy Implications," (www.imf.org and www.worldbank.org).

[25] The debt data are based on the parameters prevailing at the end of each year.

2000–02 and 6.0 percent in 2003–2005. Actual GDP growth between 1999 and 2003, however, averaged only 3.6 percent, thus leading to much lower nominal GDP and accordingly government revenue. The GDP effect alone explains an increase in the ratio by 57 points. Discount and exchange rate changes led to an additional increase by 45 percentage points. However, this was partially offset by lower than envisaged new borrowing and other factors.

Honduras: Breakdown of the Increase of NPV of Debt-to-Revenue Ratio as of end-2003 1/

	Percentage Points	Percent of total increase
NPV of debt-to-revenue ratio (as projected at Decision Point)	**170.4**	
NPV of debt-to-revenue ratio (actual)	**230.6**	
Total increase	**60.3**	**100%**
1. Due to changes in the parameters	**45.0**	**75%**
o/w due to changes in the discount rates	32.1	53%
o/w due to changes in the exchange rates	12.9	21%
2. Due to unanticipated new borrowing	**(18.1)**	**-30%**
o/w due to lower than expected disbursements	(2.2)	-4%
o/w due to higher concessionality of the loans	(15.9)	-26%
3. Due to changes in revenue	**63.3**	**105%**
o/w due to lower revenue buoyancy	6.1	10%
o/w due to lower GDP	57.2	95%
5. Other factors 2/	**(30.0)**	**-50%**
Memorandum item:		
NPV of debt-to-revenue ratio after bilateral debt relief beyond HIPC assistance 3/	189.9	

Sources: Staff estimates

1/ NPV of debt-to-revenue ratio after enhanced HIPC assistance.
2/ Due to revisions in the end-99 database and changes in the timing and mechanisms of delivery of assistance compared to the assumptions in the decision point projections (mainly due to delays in reaching the Completion Point).
3/ After full delivery as of end-2003.

External debt outlook, 2004–2023

46. **The full delivery of the remaining debt relief after the completion point will reduce Honduras' external public debt to a sustainable level**. The nominal stock of debt after full delivery of additional bilateral assistance beyond HIPC is estimated to reach US$4.15 billion by end-2005, compared to US$4.84 billion in 2003 and US$5.05 billion in 2004. This is equivalent to US$2.67 billion in NPV terms by end-2005, or 174 percent of central government revenue.[26] In addition to the anticipated

[26] Based on end-2003 discount and exchange rates. As interest rates have recently increased, a revision of the discount rate would further lower the NPV of debt.

debt relief, the recovery of central government revenue due to measures taken in the context of the PRGF supported program, has also contributed to lowering the debt-to-revenue ratio despite significant new external borrowing of US$427 million in 2004 and a projected US$328 million in 2005.

47. **Long-term debt sustainability will need to be supported by the authorities' macroeconomic framework that envisages sound macroeconomic policies and steady growth of per capita GDP (Box 4; Appendix II)**. Continuing structural reforms, prudent macroeconomic policies, and international trade agreements (including CAFTA) are expected to improve the environment for private sector development. Growth is expected to accelerate to 4½ percent in the medium term before gradually declining in line with slower population growth. Fiscal policy will support private sector growth by limiting the fiscal deficit to a level that can be financed by concessional external loans. The current account deficit is expected to stabilize at about 3½ percent of GDP in the medium term—a level that is expected to be financed by FDI and official loans on concessional terms. Growth in key export sectors, including maquila and tourism, a partial recovery in the terms-of-trade, and continued growth of remittances are all important factors in this scenario.

Box 4. Honduras: Macroeconomic Assumptions Underlying the Debt Sustainability Analysis

Economic growth. Growth is expected to reach 4½ percent in the medium term. In the long run, stable per capita GDP growth combined with decelerating population growth rates and will lower economic growth reaching 3½ percent by 2023.

Inflation is expected to gradually decline to 2½ percent by 2009 and remain at that level thereafter.

Central government revenues are projected to decline slightly to 19.3 percent of GDP in 2006 and then stabilize at that level.

New disbursements of external loans will decline gradually from 3.7 percent of GDP in 2005 to 2.7 percent by 2008 and remain at that level thereafter. Following graduation from IDA, disbursements from the Bank and the IDB are expected to gradually shift to non-concessional terms.

Foreign grants are expected to decline from 3.4 percent of GDP in 2005 to 2.0 percent in the long run.

Exports of goods and services will grow by 7–8 percent annually in nominal U.S. dollar terms. This will raise its share of GDP from currently 41 percent to 46 percent in the long run.

Current account deficit. Assisted by continued, albeit slower, growth of remittances and improvements in the terms of trade, the current account deficit is expected to decline and then remain at about 3½ percent of GDP in the medium and long term.

48. **Honduras's debt and debt-service burdens are projected to decline progressively under the baseline macroeconomic assumptions.** The trajectory of NPV of external debt-to-revenues is projected to decline from 174 percent in 2005 after full delivery of debt relief to about 151 percent in 2012 at which level the ratio stabilizes. Meanwhile, the NPV of debt-to-exports ratio is projected to decline from 89 percent to 69 percent between 2005 and 2023**.** External debt service ratios, on the other hand, exhibit a different pattern: Honduras's external debt service is projected to decline as a share of GDP from 3.3 percent in 2003 to 1.6 percent in 2007 and then gradually rise to 2.2 percent by 2023 as amortization payments increase on account of shorter average loan maturities. As a share of exports, debt service payments decline to about 4 percent in the medium term and then rise to 5 percent by 2023.

D. Sensitivity Analysis and Long-Term Debt Sustainability Analysis

49. **The sensitivity analysis highlights the importance of sustaining economic growth and prudent fiscal policies**. This section examines the implications for debt sustainability under more pessimistic assumptions than those included in the baseline scenario described above. Three scenarios are examined and compared to the baseline case in terms of their impact on the ratio of debt to central government revenues and the ratio of debt to exports of goods and services.

Alternative Scenario 1: Higher Fiscal Deficit

50. **This scenario considers a permanent deterioration of the fiscal position starting in 2006**. Revenues are lower by 1 percent of GDP and expenditures exceed the baseline assumptions by 1 percent of GDP from 2006 onwards. The resulting increase in the fiscal deficit of 2 percent of GDP is assumed to be financed by additional external loans. Under this scenario the debt ratios increase steadily over the next 15 years (Figures 2 and 3). The NPV of debt to exports reaches about 105 percent by 2020 while the NPV of debt to revenue ratio rises to about 240 percent by the same time and continues to increase thereafter, albeit at a slower pace, to reach 244 percent by 2023, only slightly below the HIPC threshold of 250 percent. This scenario demonstrates the importance of sustaining the fiscal adjustment under the PRGF program and controlling external borrowing, even on concessional terms.

Alternative Scenario 2: Terms-of-Trade Shock

51. **The second alternative scenario considers a temporary external shock**. A deterioration in the terms-of-trade lowers nominal export growth by 4 percentage points from 2006–10. Real GDP growth remains 1½ percentage points lower over the same time period before returning to the baseline growth path. The additional balance of payments need is initially financed fully through external borrowing and then gradually replaced through lower imports by 2010. The additional borrowing, combined with lower growth, and thus government revenue, would raise the debt ratios to 186 percent of revenue and 94 percent of exports by 2009. From 2010 onwards, as export and GDP growth return to the baseline level, debt ratios would fall again and gradually approach the baseline paths in the long run.

Alternative Scenario 3: Lower GDP Growth

52. **This scenario shows the effects of permanently lower GDP growth**. The assumed shortfall of growth (by 1½ percentage points annually) would result in annual growth rates of 3 percent in the medium term, comparable to the historical average over the past 20 years. Under this scenario, the debt ratios would initially decline but then increase from 2012 onwards. While the NPV of debt to export ratio would eventually stabilize at slightly below 90 percent, the NPV of debt to revenue ratio would continue to increase and reach 200 percent by 2023. While debt still appears sustainable under this scenario, public finances could not withstand a further deterioration as this would lead to further increases in the debt ratios.

Long-term debt sustainability

53. **The preceding scenarios underscore the importance for Honduras of sustaining the fiscal adjustment as well as maintaining sufficient long-run economic growth**. While the stock of debt remains significant even after the completion point, it is sustainable under sound policies. If the fiscal adjustment envisaged under the PRGF program and the acceleration in real growth that has already been achieved can be sustained over the long-run, debt ratios will decline over the next 20 years. Under those circumstances, the economy can withstand temporary external shocks, such as terms-of-trade and weather-related shocks. Low average fiscal deficits and sufficient long-run GDP growth are crucial, however. If GDP growth were to remain only 1½ percentage point below the baseline projections, debt ratios would increase again by 2012. If in addition the fiscal balance were to deteriorate, it would render the debt unsustainable. Hence, responsible fiscal policies and a credible strategy to sustain growth are critical for long run debt sustainability.

IV. Issues for Discussion

54. **Executive Directors may wish to focus on the following issues and questions**:

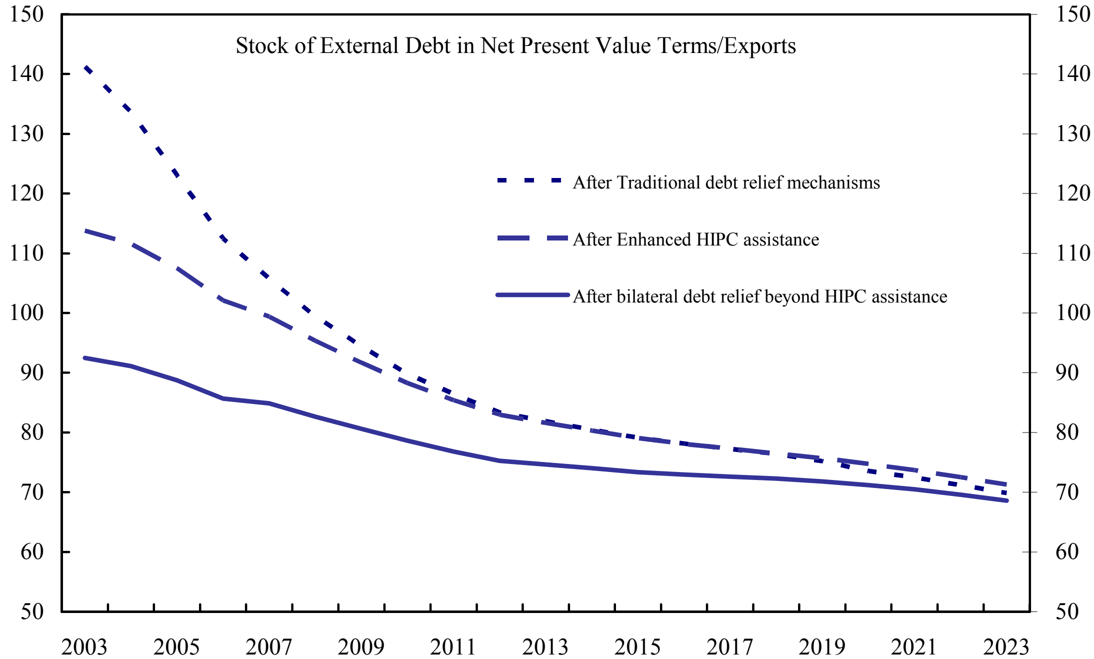
- Do Directors agree that the waiver on the condition referring to the substantive application of Basel Core Principles to the banking sector is warranted.

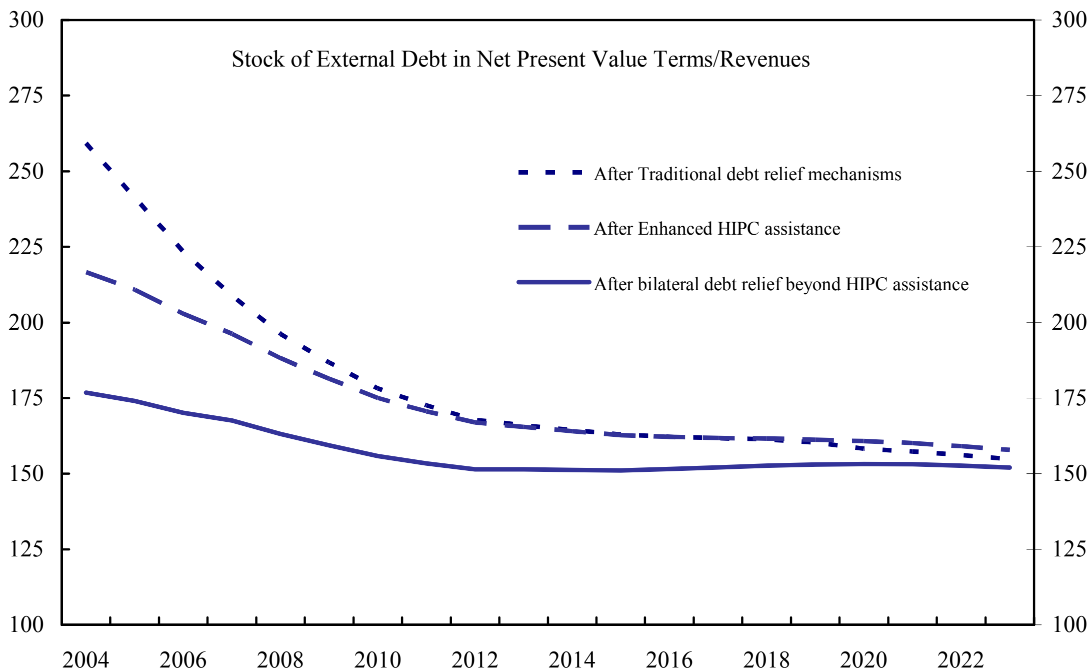
- Do Directors approve the completion point for Honduras on the grounds that Honduras has made substantial and satisfactory progress on all measures set out in the decision point?

- Do Directors agree that sufficient assurances have been given by Honduras's other creditors to commit enhanced HIPC Initiative assistance to Honduras, as approved at the decision point?

- Do Directors agree that Honduras's PRSP and expenditure-tracking mechanism provide adequate assurances that assistance provided under the enhanced HIPC Initiative and other sources will further poverty-reduction efforts?

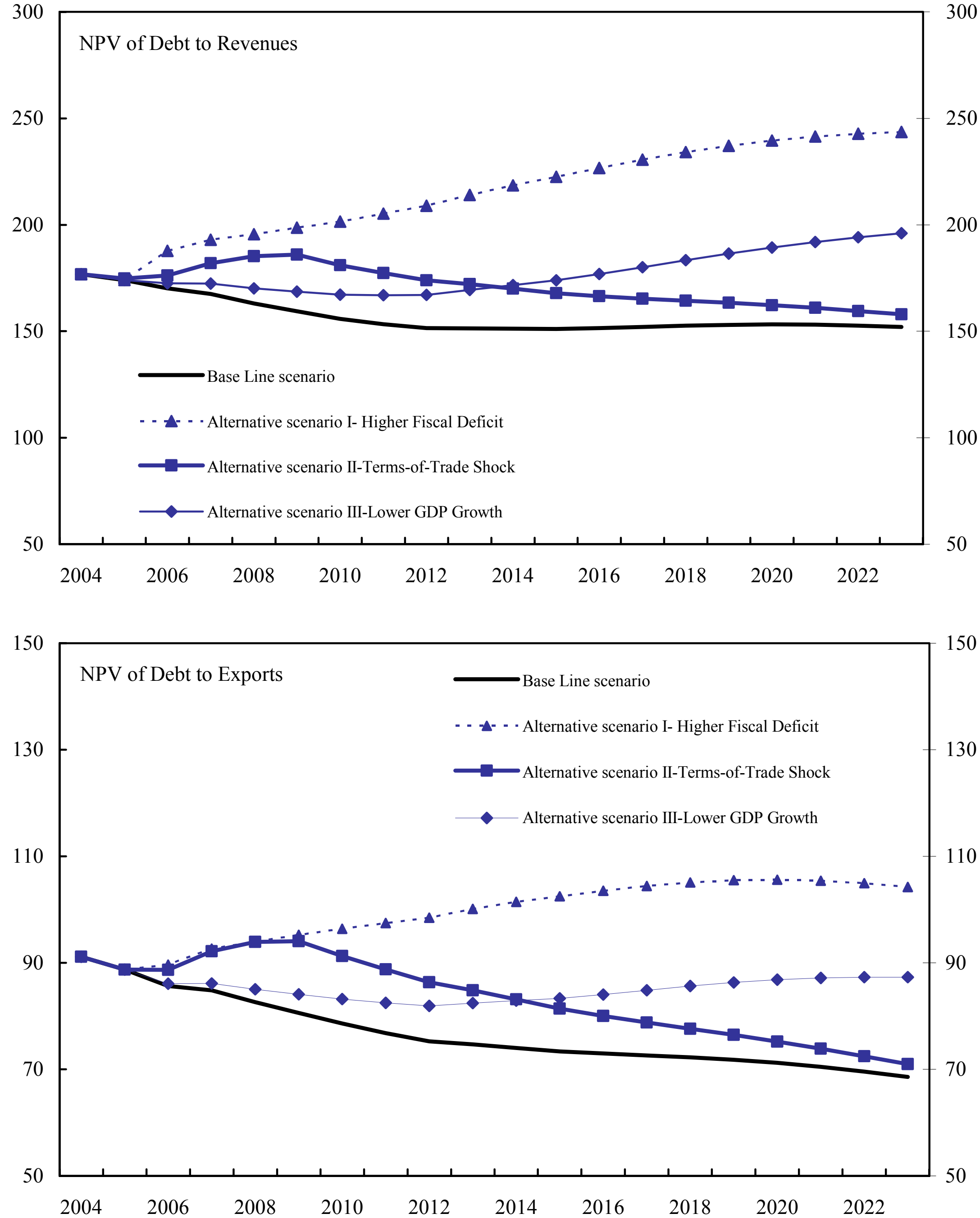
Figure 1. Honduras: External Debt Indicators for Medium- and Long-Term Public Sector Debt
(In percent)





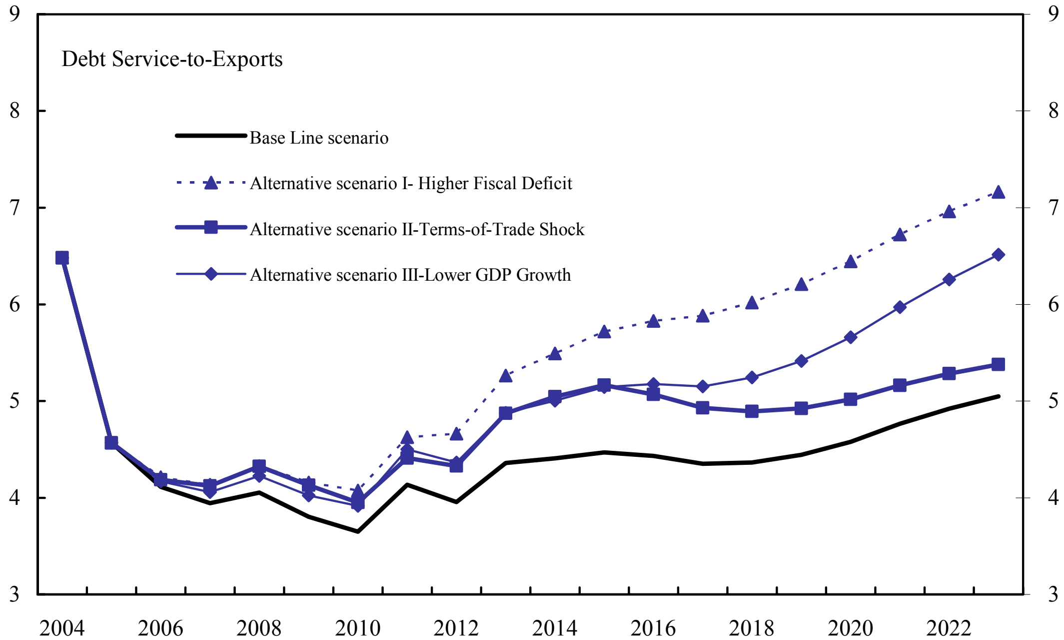
Sources: Honduran authorities; and Bank-Fund staff estimates and projections.

Figure 2. Honduras: Sensitivity Analysis
(In percent)



Sources: Honduran authorities; and Bank-Fund staff estimates and projections.

Figure 3. Honduras: Sensitivity Analysis
(In percent)



Sources: Honduran authorities; and Bank-Fund staff estimates and projections.

Table 1. Honduras: Medium- and Long-Term Macroeconomic Framework

		Prel.	Est.	Projection					Annual Averages	
	2002	2003	2004	2005	2006	2007	2008	2009	2002-2011	2012-2024
	(Percentage changes)									
Output and prices										
Real GDP	2.7	3.5	4.6	4.2	4.5	4.5	4.5	4.5	4.2	4.0
GDP deflator	6.3	7.7	7.7	7.8	6.4	4.9	4.0	3.3	5.3	2.5
Inflation										
End of period	8.1	6.8	9.2	6.9	5.0	4.0	3.0	2.5	5.0	2.5
Period average	7.7	7.7	8.1	8.1	5.8	4.4	3.5	2.8	5.3	2.5
	(In percent of GDP)									
National accounts										
Gross domestic investment	22.2	21.8	25.7	24.5	24.9	25.0	25.6	26.0	24.8	26.2
Gross national savings	19.1	17.6	20.5	22.0	22.5	22.4	22.3	22.4	21.4	22.7
Combined public sector accounts										
Primary revenue, excluding grants	24.2	24.8	26.0	26.1	26.0	26.0	26.0	26.0	25.7	26.0
Grants	1.1	1.1	1.0	1.8	1.4	1.3	1.3	1.2	1.3	0.8
Primary expenditure and net lending	28.6	30.6	29.7	30.2	29.0	28.9	28.9	28.8	29.2	28.7
Primary balance	-3.3	-4.6	-2.7	-2.3	-1.7	-1.7	-1.6	-1.6	-2.3	-2.0
Net interest payments	0.3	0.5	0.3	0.2	0.0	0.0	-0.1	-0.1	0.1	-0.4
Overall balance	-3.6	-5.1	-3.0	-2.5	-1.7	-1.6	-1.6	-1.6	-2.4	-1.7
External financing (net)	1.9	1.9	3.9	2.9	2.2	2.1	1.8	1.8	2.2	1.7
Domestic financing (net)	1.7	3.2	-0.9	-0.4	-0.6	-0.5	-0.2	-0.3	0.2	0.0
	(In percent of GDP, unless otherwise noticed)									
Balance of payments										
Exports of goods and services	38.2	38.9	41.2	40.8	40.5	40.5	40.7	40.9	40.4	43.9
Imports of goods and services	53.6	55.4	61.2	59.9	60.1	60.5	61.1	61.5	59.6	62.0
Current account, including official transfers	-3.1	-4.2	-5.2	-2.5	-2.4	-2.7	-3.3	-3.5	-3.4	-3.5
Current account, excluding official transfers	-7.2	-7.5	-8.2	-6.0	-6.0	-6.1	-6.5	-6.6	-6.7	-5.7
Official transfers	4.1	3.3	3.0	3.5	3.5	3.4	3.2	3.1	3.3	2.2
Gross official reserves (in months of imports)	4.7	3.7	4.8	4.9	4.9	4.9	4.8	4.6		
	(Percentage changes)									
Export growth, value	3.5	7.4	13.8	6.7	7.2	7.5	7.7	7.8	7.7	7.5
Import growth, value	1.1	9.1	18.7	5.6	8.3	8.1	8.3	7.8	8.1	6.9

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

Table 2. Honduras: Medium- and Long-Term Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

				Program		Projections					
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Current account	**-205**	**-293**	**-391**	**-200**	**-213**	**-251**	**-330**	**-380**	**-404**	**-450**	**-466**
Trade balance	-1,442	-1,681	-2,106	-2,246	-2,464	-2,687	-2,936	-3,177	-3,404	-3,640	-3,891
Exports	1,364	1,384	1,580	1,644	1,746	1,867	1,999	2,144	2,312	2,487	2,674
Imports 1/	-2,806	-3,066	-3,686	-3,889	-4,211	-4,554	-4,935	-5,321	-5,716	-6,127	-6,565
Services	432	536	614	704	763	827	897	978	1,081	1,190	1,308
Income (net)	-200	-259	-284	-306	-305	-308	-326	-352	-386	-424	-464
Of which: Interest payments	-144	-131	-119	-118	-116	-115	-115	-116	-118	-123	-129
Current transfers (net)	1,004	1,112	1,385	1,647	1,794	1,917	2,035	2,170	2,305	2,424	2,581
Public sector 2/	270	229	223	281	306	320	321	329	335	322	337
Private sector	734	883	1,162	1,367	1,487	1,597	1,714	1,841	1,969	2,103	2,244
Capital account	**154**	**74**	**720**	**291**	**306**	**344**	**401**	**454**	**480**	**542**	**579**
Foreign direct investment (net)	176	247	293	190	217	243	280	322	345	369	395
Portfolio investments (net)	-4	-4	-4	-5	-5	-5	-5	-5	-5	-5	-5
Public sector loans (net)	-29	6	176	103	92	111	111	126	130	147	167
Disbursements 3/	163	221	390	296	279	283	270	288	308	329	351
Amortizations 3/	-192	-215	-214	-194	-187	-172	-159	-162	-178	-182	-184
Other medium- and long-term loans (net)	-20	-106	217	-3	-2	3	12	18	24	26	28
Short-term loans (net)	31	-69	38	6	3	-7	2	-6	-14	5	-7
Errors and omissions	70	8	33	0	0	0	0	0	0	0	0
Overall balance	**18**	**-210**	**362**	**91**	**93**	**93**	**71**	**74**	**76**	**92**	**112**
Net international reserves (- increase)	-129	77	-496	-210	-190	-180	-140	-140	-140	-154	-169
Exceptional financing 4/	111	133	134	119	97	87	69	66	64	62	57
Memorandum items:											
Exports of goods and services (percent change)	3.5	7.4	13.8	6.7	7.2	7.5	7.7	7.8	8.0	7.8	7.7
Of goods only	-0.8	1.5	14.2	4.0	6.2	6.9	7.1	7.3	7.3	7.1	7.1
Imports of goods and services (percent change)	1.1	9.1	18.7	5.6	8.3	8.1	8.3	7.8	7.0	7.0	7.0
Of goods only	1.3	9.2	20.2	5.5	8.3	8.1	8.4	7.8	7.0	7.0	7.0
Current account (in percent of GDP)											
Including official transfers	-3.1	-4.2	-5.2	-2.5	-2.4	-2.7	-3.3	-3.5	-3.5	-3.7	-3.5
Excluding official transfers	-7.2	-7.5	-8.2	-6.0	-6.0	-6.1	-6.5	-6.6	-6.4	-6.3	-6.1
Overall balance (in percent of GDP)	0.3	-3.0	4.9	1.1	1.1	1.0	0.7	0.7	0.7	0.7	0.9
Gross reserves (end of period)	1,492	1,398	1,936	2,121	2,311	2,491	2,631	2,712	2,834	2,969	3,118
In months of next year imports of nonmaquila goods and nonfactor services	4.7	3.7	4.8	4.9	4.9	4.9	4.8	4.6	4.5	4.4	4.3
Nominal GDP (millions of U.S. dollars)	6,580	6,945	7,455	8,045	8,686	9,330	10,002	10,720	11,499	12,310	13,171

Table 2. Honduras: Medium- and Long-Term Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

	Projections											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account	**-508**	**-530**	**-564**	**-590**	**-637**	**-684**	**-735**	**-788**	**-844**	**-885**	**-928**	**-972**
Trade balance	-4,156	-4,437	-4,745	-5,072	-5,430	-5,809	-6,210	-6,635	-7,084	-7,541	-8,021	-8,526
Exports	2,873	3,086	3,312	3,553	3,808	4,079	4,366	4,670	4,992	5,332	5,691	6,070
Imports 1/	-7,029	-7,523	-8,058	-8,625	-9,238	-9,888	-10,576	-11,305	-12,076	-12,872	-13,712	-14,596
Services	1,435	1,572	1,719	1,877	2,047	2,228	2,422	2,629	2,849	3,083	3,332	3,596
Income (net)	-513	-565	-620	-670	-731	-794	-860	-931	-1,004	-1,081	-1,162	-1,248
Of which: Interest payments	-142	-155	-171	-180	-197	-214	-232	-251	-269	-288	-307	-327
Current transfers (net)	2,727	2,900	3,083	3,275	3,477	3,690	3,914	4,149	4,395	4,653	4,923	5,206
Public sector 2/	334	349	365	382	399	418	437	457	478	500	523	548
Private sector	2,393	2,551	2,718	2,893	3,078	3,272	3,477	3,691	3,917	4,153	4,400	4,658
Capital account	**642**	**689**	**743**	**795**	**857**	**916**	**955**	**987**	**1,110**	**1,160**	**1,211**	**1,275**
Foreign direct investment (net)	423	452	482	515	549	585	624	664	706	751	798	847
Portfolio investments (net)	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5
Public sector loans (net)	187	208	230	255	292	318	317	301	366	373	381	405
Disbursements 3/	375	401	428	457	488	521	557	594	635	678	724	773
Amortizations 3/	-188	-193	-198	-202	-196	-203	-240	-294	-269	-305	-344	-368
Other medium- and long-term loans (net)	29	31	34	36	38	38	38	38	38	38	38	38
Short-term loans (net)	8	3	2	-6	-18	-21	-19	-11	5	3	-1	-11
Errors and omissions	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	**134**	**159**	**180**	**205**	**220**	**232**	**220**	**199**	**266**	**275**	**283**	**304**
Net international reserves (- increase)	-186	-205	-225	-248	-255	-263	-271	-279	-288	-296	-305	-314
Exceptional financing 4/	52	46	46	43	35	32	51	80	21	21	22	11
Memorandum items:												
Exports of goods and services (percent change)	7.7	7.7	7.6	7.6	7.5	7.5	7.5	7.4	7.4	7.3	7.3	7.2
Of goods only	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.2	7.2	7.2
Imports of goods and services (percent change)	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.8	6.8	6.8	6.8	6.8
Of goods only	7.0	7.0	6.9	6.9	6.9	6.9	6.9	6.9	6.8	6.8	6.8	6.8
Current account (in percent of GDP)												
Including official transfers	-3.6	-3.5	-3.5	-3.4	-3.5	-3.5	-3.5	-3.6	-3.6	-3.5	-3.5	-3.4
Excluding official transfers	-6.0	-5.8	-5.8	-5.7	-5.7	-5.6	-5.6	-5.6	-5.6	-5.5	-5.5	-5.4
Overall balance (in percent of GDP)	1.0	1.1	1.1	1.2	1.2	1.2	1.1	0.9	1.1	1.1	1.1	1.1
Gross reserves (end of period)	3,282	3,467	3,678	3,917	4,172	4,435	4,706	4,985	5,273	5,569	5,874	6,188
In months of next year imports of nonmaquila goods and nonfactor services	4.3	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.0	4.0	3.9	3.9
Nominal GDP (millions of U.S. dollars)	14,084	15,052	16,078	17,162	18,307	19,515	20,789	22,132	23,545	25,031	26,593	28,233

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

1/ Includes special imports for investment projects of US$400 million in 2004 and US$100 million in 2005.
2/ Includes HIPC grants from the World Bank, IDB, and the Fund.
3/ Net of debt relief operation granted by the Central American Bank for Economic Integration (CABEI) in 2000.
4/ Includes all past flow debt relief and anticipated HIPC and beyond-HIPC relief following the completion point except for HIPC grants.

Table 3. Honduras: Nominal and Net Present Value of External Debt
Outstanding as of End-December 1999 1/

	Nominal Debt			NPV of debt After Rescheduling 2/	
	From Decision Point	Revised		From Decision Point	Revised
	(In millions of U.S. dollars)				
Total	**4,288.2**	**4,382.2**		**3,114.1**	**3,076.6**
Multilateral institutions	**2,757.0**	**2,759.8**	3/	**1,908.0**	**1,910.1**
IBRD	185.4	185.4		192.4	192.4
IDA	840.7	840.7		355.6	355.6
IDB	1,086.3	1,083.7		749.9	746.1
IMF	210.4	210.4		169.9	169.9
CABEI	390.9	396.8		409.4	415.5
IFAD	19.3	19.0		10.5	10.1
OPEC Fund	23.8	23.8		20.4	20.4
Bilateral and commercial	**1,531.2**	**1,622.4**		**1,206.0**	**1,166.5**
Paris Club	1,213.2	1,306.7		944.0	908.4
Canada	18.1	21.1		8.0	12.0
Denmark	11.3	12.4		6.0	5.0
France	47.7	53.5		29.0	32.1
Germany	104.4	109.6		41.0	44.3
Italy	151.1	164.4		83.0	84.2
Japan	471.2	529.0		525.0	494.5
Netherlands	20.4	20.7		13.0	12.1
Norway	2.2	3.3		1.0	2.0
Spain	236.1	235.0		167.0	159.2
Switzerland	5.1	5.5		3.0	2.8
United States	145.6	152.0		68.0	60.2
Non-Paris Club official bilateral	272.5	272.7		247.0	243.9
Colombia	22.7	22.7		20.0	20.2
Costa Rica	27.0	27.0		26.0	25.9
Guatemala	30.1	30.1		28.0	27.3
Kuwait	38.7	38.6		36.0	33.7
Mexico	56.8	56.8		53.0	53.8
Taiwan, Province of China	71.5	71.5		60.0	59.6
Venezuela	25.7	25.9		24.0	23.4
Commercial creditors	45.4	43.0		15.0	14.2
Bofa and Santander	1.8	1.8		0.6	0.6
Columbus Latinoamericana	0.2	0.0		0.1	0.0
CDC	19.4	19.4		6.5	6.4
Deutsch Sudamerikanische Ban	0.1	0.1		0.0	0.0
First Security	2.9	0.7		1.0	0.2
Laboratorio Bagu	3.2	3.2		1.1	1.1
Lloyds Bank	17.5	17.4		5.8	5.8
Swiss Bank	0.4	0.4		0.1	0.1

Sources: Honduran authorities; and Bank-Fund staff estimates.

1/ Public and publicly guaranteed debt only.
2/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) and at least comparable action by other official bilateral and commercial creditors.
3/ Includes US$7.9 million in arrears and a revision of IDB loans' terms.
4/ Data revision are due to better data availability, especially from the 1999 Paris Club, loans reclassification and strategies assumptions revision.

Table 4. Honduras: Estimated Assistance at Decision Point 1/

(In millions of U.S. dollars in NPV terms at end-1999, unless otherwise indicated)

	NPV of Debt-to-Revenue Target (In percent)	Assistance 2/			Common Reduction Factor (In percent of end-1999 NPV of debt)
		Total	Bilateral 3/	Multilateral	
Decision point	250	556	215	340	17.8
Memorandum items:					
NPV of debt at end-1999 2/	…	3,114	1,206	1,908	…
Paris Club	…	…	908	…	…
Non-Paris Club 3/	…	…	244	…	…
Commercial	…	…	14	…	…
Central government revenue at decision point		1,024			
NPV of debt-to-revenue ratio 4/		304			
Targeted NPV	…	760	…	…	…

Sources: Honduran authorities; and Bank-Fund staff estimates.

1/ The proportional burden-sharing approach is described in "HIPC Initiative-Estimated Costs and Burden-Sharing Approaches."
2/ Based on latest data available as of end-1999 after full application of traditional debt relief mechanisms.
3/ Includes official bilateral and commercial creditors.
4/ Based on the 1999 government revenue excluding grants converted at end-1999 exchange rate.

Table 5. Honduras: External Public and Publicly Guaranteed Debt at End-December 2003 1/

(In millions of U.S. dollars)

	Legal Situation 2/		NPV of Debt 3/	
	Nominal Debt	NPV of Debt	After Enhanced HIPC	After Additional Bilateral Assistance
Total	**4,844.9**	**3,849.2**	**2,898.7**	**2,356.4**
Multilateral institutions	**3,106.7**	**2,263.8**	**1,973.2**	**1,973.2**
IBRD	84.7	89.1	28.4	28.4
IDA	1,146.6	655.1	588.9	588.9
IDB	1,287.5	1,005.2	880.8	880.8
IMF	171.4	148.5	115.9	115.9
CABEI	320.7	302.5	302.5	302.5
IFAD	62.4	36.3	33.9	33.9
OPEC Fund	24.9	22.9	18.5	18.5
NDF	8.4	4.2	4.2	4.2
Bilateral and commercial	1,738.2	1,585.4	925.5	383.2
Paris Club	1,465.1	1,345.8	763.1 4/	220.8 4/
Canada	16.2	15.1	...	...
Denmark	10.3	8.6	...	...
France	70.1	69.4	...	...
Germany	134.0	88.3	...	...
Italy	223.2	162.4	...	...
Japan	501.8	543.2	...	...
Netherlands	20.4	20.5	...	...
Norway	8.4	7.1	...	...
Spain	330.6	267.8	...	...
Switzerland	6.9	4.8	...	...
United States	143.2	158.5	...	...
Non Paris Club official creditors	267.5	234.0	161.4	161.4
Colombia	20.0	20.9	13.1	13.1
Costa Rica	17.5	16.1	7.2	7.2
Guatemala	23.1	14.5	4.8	4.8
Kuwait	49.2	45.5	39.2	39.2
Mexico	56.8	40.1	18.3	18.3
Taiwan, Province of China	85.2	81.3	71.5	71.5
Venezuela	15.7	15.7	7.4	7.4
Commercial	5.6	5.6	0.9	0.9
Bofa and Santander	2.1	2.1	0.6	0.6
Columbus Latinoamericana	0.0	0.0	0.0	0.0
CDC	0.0	0.0	0.0	0.0
Deutsch Sudamerikanische Bank	0.1	0.1	0.0	0.0
First Security	0.7	0.7	0.2	0.2
Laboratorio Bagu	2.4	2.4	0.0	0.0
Lloyds Bank	0.0	0.0	0.0	0.0
Swiss Bank	0.4	0.4	0.1	0.1

Sources: Honduran authorities; and Bank-Fund staff estimates.

1/ Figures are based on data as of end-2003.
2/ Reflects the external debt situation as of end-2003, and includes the 1996 and 1999 Naples flows, 100 percent debt cancellation from CDC and the IDA buyback for Lloyds.
3/ Assumes full delivery of HIPC assistance as of end-2003.
4/ Paris Club creditors deliver their share of assistance as a group. Actual delivery modalities are defined on a case-by-case basis.

Table 6. Honduras: Comparison of Discount Rate and Exchange Rate Assumptions

	Discount Rates 1/ 2/ (In percent per annum)		Exchange Rates (U.S. dollar per currency)	
	At Decision Point End-1999	At Completion Point End-2003	At Decision Point End-1999	At Completion Point End-2003
Currency				
U.S. dollar	7.04	4.47	1.00	1.00
Domestic currency	5.59	4.20	0.07	0.06
Special Drawing Right	5.59	4.20	1.37	1.49
Euro	5.47	4.63	1.00	1.26
Austrian shillings	5.47	4.63	0.07	0.09
Belgian franc	5.47	4.63	0.02	0.03
Canadian dollar	6.67	5.18	0.69	0.77
Swiss franc	4.27	3.21	0.63	0.81
Chinese Yuan	5.59	4.20	0.27	0.12
Deutsche mark	5.47	4.63	0.51	0.64
Danish kroner	5.32	4.77	0.14	0.17
Spanish peseta	5.47	4.63	0.01	0.01
Finnish markaa	5.47	4.63	0.17	0.21
French franc	5.47	4.63	0.15	0.19
Pound sterling	6.70	5.37	1.62	1.78
Italian Lira	5.47	4.63	0.00	0.00
Japanese yen	1.98	1.70	0.01	0.01
Kuwaiti dinar	5.59	4.47	0.30	0.29
Norwegian kroner	6.64	5.30	0.12	0.15
Netherland guilder	5.47	4.63	0.46	0.57
Swedish kroner	5.80	5.00	0.12	0.14
Venezuelan bolivar	5.59	4.20	0.002	0.001
IDB unit of account	5.59	4.20	1.55	1.63
Memorandum item:				
Paris Club cut-off date: June 1, 1990				

Sources: OECD; and IMF, *International Financial Statistics.*

1/ The discount rates used are the average commercial interest reference rates (CIRRs) for the respective currencies over the six-month period ending in December 2003 for the completion point and in December 1999 for the decision point.

2/ For all Euro area currencies, the Euro CIRR is used. For the Kuwaiti dinar, the U.S. dollar CIRR is used for completion point calculations (compared to the decision point calculations, when the SDR CIRR was used), in accordance to the explicit peg of the dinar to the U.S. dollar in the beginning of 2003. For all currencies for which the CIRRs are not available, the SDR discount rate is used as a proxy.

Table 7. Honduras: Comparison of Net Present Value of External Public Debt Between Decision Point and Completion Point

(In millions of U.S. dollars, unless otherwise indicated)

	Stock at end-2003			
	Decision Point DSA (Projection) 1/	Completion Point DSA 2/		
	After Enhanced Debt Relief	After traditional debt relief	After enhanced debt relief 3/	After additional bilateral relief 4/
NPV of debt using end-December 1999 parameters	**2,937**	**3,026**	**2,333**	**1,858**
Multilateral	1,362	1,808	1,549	1,549
Official bilateral and commercial	1,575	1,218	784	309
NPV of debt using end-December 2003 parameters	**…**	**3,599**	**2,899**	**2,356**
Multilateral	…	2,215	1,973	1,973
Official bilateral and commercial	…	1,383	926	383
NPV of debt-to-revenue ratio 5/ 6/				
Using end-December 1999 parameters	170.4	…	…	…
Using end-December 2003 parameters	…	286.3	230.7	187.5
Central government revenue 5/				
Decision point	1,724	…	…	…
Completion point	…	1257	1257	1257

Sources: Honduran authorities; and Bank-Fund staff estimates.

1/ Debt sustainability analysis (DSA) based on stock of debt reconciled as of end-1999, assuming full (hypothetical) delivery of enhanced HIPC assistance.

2/ Based on stock of debt reconciled as of end-2003.

3/ Assuming full (hypothetical) delivery of enhanced HIPC assistance at end-2003.

4/ Assuming full (hypothetical) delivery of enhanced HIPC assistance at end-2003, and includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial credits beyond the requirements of the enhanced HIPC framework.

5/ Based on the governemnt revenue excluding grants converted at end of year exchange rate.

6/ The value of assistance under the enhanced HIPC framework was determined at its June 2000 decision point, namely, US$556 million in NPV terms, using end-1999 parameters (exchange rates and discount factors). The corresponding values for enhanced HIPC relief expressed as of end-2003 are provided for information only.

Table 8. Honduras: Net Present Value of External Debt 1/

(In millions of U.S. dollars, unless otherwise indicated)

	Actual	Projections											Averages	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2018	2023	2003-13	2014-23
I. After traditional debt-relief mechanisms 2/															
1. NPV of total debt (2+6)	3,598.5	3,691.0	3,711.8	3,700.6	3,728.7	3,769.1	3,854.2	3,953.5	4,100.0	4,264.9	4,513.6	6,077.0	7,945.9	3,898.7	6,283.0
Multilateral	2,215.2	2,096.9	1,979.5	1,858.1	1,739.0	1,642.9	1,558.7	1,485.5	1,421.7	1,367.0	1,317.0	1,056.3	766.8	1,698.3	1,023.0
Bilateral	1,343.4	1,319.3	1,272.5	1,204.1	1,137.7	1,083.5	1,047.6	1,011.6	978.1	945.6	918.3	792.7	561.1	1,114.7	740.7
2. NPV of outstanding debt (3+4)	3,598.5	3,436.4	3,252.0	3,062.1	2,876.7	2,726.4	2,606.3	2,497.1	2,399.8	2,312.6	2,235.3	1,849.0	1,327.9	2,818.5	1,763.6
3. Official bilateral and commercial	1,383.4	1,339.5	1,272.5	1,204.1	1,137.7	1,083.5	1,047.6	1,011.6	978.1	945.6	918.3	792.7	561.1	1,120.2	740.7
Paris Club	1,145.4	1,115.4	1,063.9	1,010.2	958.8	919.9	897.4	873.1	849.6	825.0	801.6	688.0	548.4	950.9	671.6
Other official bilateral and commercial	237.9	224.1	208.6	193.8	178.9	163.7	150.3	138.4	128.5	120.6	116.8	104.7	12.7	169.2	69.1
4. Multilateral	2,215.2	2,096.9	1,979.5	1,858.1	1,739.0	1,642.9	1,558.7	1,485.5	1,421.7	1,367.0	1,317.0	1,056.3	766.8	1,698.3	1,023.0
IDA	655.1	662.5	669.7	673.9	677.9	681.3	680.0	678.2	673.5	666.1	655.7	572.5	429.8	670.3	549.7
IMF	148.5	139.0	117.0	93.9	65.3	35.6	13.7	4.6	0.0	0.0	0.0	0.0	0.0	56.1	0.0
IDB	1,005.2	975.3	945.7	909.9	871.2	832.4	786.7	738.7	689.8	646.8	610.7	446.7	309.7	819.3	436.7
Others	406.3	320.1	247.2	180.3	124.6	93.6	78.2	64.0	58.4	54.1	50.7	37.2	27.4	152.5	36.6
5. Nominal stock of total debt	4,698.1	4,963.4	5,101.7	5,213.5	5,309.2	5,389.7	5,513.9	5,656.2	5,820.1	6,007.4	6,214.7	7,580.3	9,301.3	5,444.4	7,780.4
II. After enhanced HIPC assistance															
1. NPV of total debt (2+6)	3,868.2	3,837.6	3,242.7	3,359.2	3,504.4	3,615.4	3,742.4	3,883.4	4,052.1	4,243.5	4,496.6	6,085.6	8,104.3	3,804.1	6,339.5
NPV of total debt after full delivery 3/	2,898.7	3,082.9	3,242.7	3,359.2	3,504.4	3,615.4	3,742.4	3,883.4	4,052.1	4,243.5	4,496.6	6,085.6	8,104.3	3,647.4	6,339.5
Multilateral	1,973.2	2,081.8	2,206.7	2,339.7	2,493.8	2,611.7	2,744.3	2,892.8	3,054.3	3,232.6	3,469.3	4,920.8	6,737.5	2,645.5	5,145.8
Bilateral	925.5	1,001.0	1,035.9	1,019.6	1,010.5	1,003.7	998.1	990.5	997.8	1,010.9	1,027.3	1,164.8	1,366.7	1,001.9	1,193.7
2. NPV of outstanding debt (3+4)	3,868.2	3,582.9	2,782.8	2,720.7	2,652.4	2,572.7	2,494.4	2,427.0	2,351.9	2,291.2	2,218.3	1,857.6	1,486.3	2,723.9	1,820.1
3. Official bilateral and commercial	1,609.8	1,395.9	926.1	888.3	847.3	806.0	763.0	719.7	690.7	665.6	642.3	554.6	476.9	905.0	549.1
Paris Club	1,345.5	1,171.9	779.9	742.0	700.9	659.5	616.4	573.0	544.0	519.0	496.0	412.9	351.5	740.7	410.2
Other official bilateral and commercial	264.2	223.9	146.2	146.3	146.4	146.5	146.6	146.7	146.7	146.6	146.3	141.7	125.5	164.2	138.9
4. Multilateral	2,258.4	2,187.1	1,856.7	1,832.4	1,805.1	1,766.8	1,731.4	1,707.2	1,661.2	1,625.6	1,576.0	1,303.0	1,009.4	1,818.9	1,271.0
IDA	655.1	662.5	602.2	619.4	636.8	654.4	671.9	689.2	704.3	717.7	709.0	610.8	439.3	665.7	584.3
IMF	143.1	133.3	99.8	83.7	65.3	35.6	13.7	4.6	0.0	0.0	0.0	0.0	0.0	52.6	0.0
IDB	1,005.2	975.3	830.9	814.4	797.5	781.1	760.6	738.7	689.8	646.8	610.7	446.7	309.7	786.5	436.7
Others	454.9	415.9	323.8	315.0	305.5	295.7	285.2	274.7	267.1	261.0	256.4	245.5	260.4	314.1	250.0
5. Nominal stock of total debt	4,869.2	5,071.7	4,821.1	4,963.3	5,086.0	5,180.5	5,298.7	5,434.7	5,603.9	5,799.5	6,011.7	7,397.2	9,239.3	5,285.5	7,639.7
III. After bilateral debt relief beyond HIPC assistance 4/															
1. NPV of total debt (2+6)	3,843.8	3,855.9	2,677.3	2,818.3	2,992.8	3,132.9	3,289.0	3,458.6	3,644.6	3,849.1	4,114.9	5,748.8	7,801.9	3,425.2	6,003.8
NPV of total debt after full delivery 3/	2,356.4	2,516.9	2,677.3	2,818.3	2,992.8	3,132.9	3,289.0	3,458.6	3,644.6	3,849.1	4,114.9	5,748.8	7,801.9	3,168.3	6,003.8
Multilateral	1,973.2	2,081.8	2,206.7	2,339.7	2,493.8	2,611.7	2,744.3	2,892.8	3,054.3	3,232.6	3,469.3	4,920.8	6,737.5	2,645.5	5,145.8
Bilateral	383.2	435.1	470.6	478.6	499.0	521.2	544.7	565.8	590.3	616.5	645.6	828.0	1,064.3	522.8	858.1
2. NPV of outstanding debt (3+4)	3,843.8	3,601.3	2,217.5	2,179.8	2,140.9	2,090.2	2,041.0	2,002.2	1,944.4	1,896.8	1,836.6	1,520.8	1,183.8	2,345.0	1,484.4
3. Official bilateral and commercial	1,585.4	1,414.2	360.8	347.3	335.8	323.4	309.6	295.0	283.3	271.2	260.6	217.8	174.5	526.1	213.4
Paris Club	1,345.8	1,192.6	214.5	201.0	189.4	176.9	163.0	148.3	136.5	124.6	114.3	76.1	49.0	364.3	74.6
Other official bilateral and commercial	239.6	221.6	146.2	146.3	146.4	146.5	146.6	146.7	146.7	146.6	146.3	141.7	125.5	161.8	138.9
4. Multilateral	2,258.4	2,187.1	1,856.7	1,832.4	1,805.1	1,766.8	1,731.4	1,707.2	1,661.2	1,625.6	1,576.0	1,303.0	1,009.4	1,818.9	1,271.0
5. Nominal stock of total debt	4,844.9	5,052.3	4,153.9	4,326.5	4,482.7	4,610.1	4,761.1	4,929.2	5,118.7	5,330.2	5,557.9	7,001.9	8,892.6	4,833.4	7,247.0
Memorandum items:															
6. NPV of new borrowing	…	254.6	459.9	638.5	852.0	1,042.7	1,247.9	1,456.4	1,700.2	1,952.3	2,278.3	4,228.0	6,618.0	1,188.3	4,519.4
Official bilateral	…	68.1	109.8	131.3	163.2	197.8	235.0	270.8	307.1	345.3	385.0	610.2	889.8	221.3	644.6
Multilateral	…	186.5	350.0	507.2	688.7	844.9	1,012.9	1,185.6	1,393.1	1,607.1	1,893.3	3,617.8	5,728.2	966.9	3,874.7

Sources: Honduran authorities; and Bank-Fund staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only and is discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to the latest date for which actual data are available (December 2003).

2/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end-2003, and at least comparable action by other official bilateral and commercial creditors.

3/ NPV of total debt assuming the entire HIPC Initiative assistance is fully delivered as of end-2003.

4/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

Table 9. Honduras: External Debt Service After Full Implementation of Debt-Relief Mechanisms
(In millions of U.S. dollars, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2019	2024	Annual Averages 2004-13	Annual Averages 2014-24
Total debt service	**309.5**	**329.0**	**330.0**	**322.6**	**285.4**	**254.6**	**257.0**	**261.4**	**266.3**	**282.8**	**304.2**	**442.9**	**683.7**	**289.9**	**440.2**
After traditional debt-relief mechanisms 1/	**304.4**	**319.9**	**317.6**	**305.1**	**262.5**	**226.0**	**210.1**	**194.1**	**180.0**	**166.4**	**162.1**	**174.0**	**137.3**	**248.6**	**160.9**
Multilateral	211.4	205.6	204.6	196.8	169.0	153.0	138.3	126.5	114.7	107.7	106.3	101.4	92.4	162.8	100.6
IDA	20.2	20.8	24.0	24.4	25.2	29.9	30.5	33.2	35.8	38.5	40.7	49.4	50.1	28.2	46.7
IMF	15.8	27.8	28.0	32.6	32.4	23.4	9.6	4.8	0.0	0.0	0.0	0.0	0.0	17.4	0.0
IDB	72.3	70.7	75.6	77.1	75.6	80.9	81.2	80.2	72.1	63.6	60.1	48.4	39.5	74.9	49.9
Others	103.2	86.2	77.0	62.8	35.8	18.8	17.0	8.2	6.8	5.7	5.4	3.6	2.8	42.2	4.0
Official bilateral	93.0	114.4	113.1	108.3	93.4	73.1	71.7	67.6	65.3	58.7	55.9	72.6	44.9	85.9	60.3
Paris Club	68.5	88.8	89.0	84.7	70.2	52.4	53.2	51.6	51.6	49.5	47.5	44.0	42.0	66.0	46.6
Other official bilateral and commercial	24.4	25.5	24.1	23.6	23.2	20.7	18.5	16.0	13.7	9.1	8.4	28.5	2.9	19.9	13.7
Total debt service	**199.8**	**175.8**	**186.4**	**193.2**	**207.6**	**208.8**	**213.4**	**239.3**	**241.0**	**280.8**	**300.2**	**422.8**	**686.1**	**214.6**	**433.5**
After enhanced HIPC assistance	**194.7**	**166.7**	**174.0**	**175.7**	**184.7**	**180.3**	**166.4**	**172.0**	**154.6**	**164.4**	**158.2**	**153.8**	**139.6**	**173.4**	**154.1**
Multilateral	160.7	118.3	102.8	104.8	114.9	110.3	97.6	119.1	106.7	119.2	117.2	121.9	107.6	115.5	119.3
IDA	20.2	16.3	8.7	9.2	9.7	10.5	11.5	14.4	16.8	39.5	41.7	63.3	63.5	15.7	58.7
IMF	10.0	15.6	20.3	21.9	32.4	23.4	9.6	4.8	0.0	0.0	0.0	0.0	0.0	13.8	0.0
IDB	72.3	50.2	51.4	51.2	50.0	53.5	54.0	80.2	72.1	63.6	60.1	48.4	39.5	59.8	49.9
Others	58.3	36.1	22.3	22.5	22.7	22.9	22.5	19.7	17.8	16.2	15.3	10.1	4.6	26.1	10.7
Official bilateral	34.0	48.4	71.2	70.9	69.9	70.0	68.8	52.9	47.9	45.2	41.0	31.9	32.0	57.9	34.8
Paris Club	10.1	42.4	64.7	64.5	63.4	63.5	62.3	46.4	41.2	38.4	34.0	23.8	20.8	49.7	26.4
Other official bilateral and commercial	23.9	6.1	6.4	6.4	6.4	6.4	6.4	6.5	6.7	6.8	7.0	8.1	11.2	8.2	8.4
Total debt service	**199.2**	**149.9**	**144.6**	**149.2**	**165.0**	**167.0**	**173.0**	**211.2**	**217.7**	**258.3**	**281.1**	**407.7**	**671.1**	**183.5**	**417.1**
After bilateral debt relief beyond HIPC 2/	**194.1**	**140.9**	**132.2**	**131.8**	**142.1**	**138.5**	**126.0**	**143.9**	**131.3**	**141.9**	**139.1**	**138.7**	**124.7**	**142.3**	**137.7**
Multilateral	160.7	118.3	102.8	104.8	114.9	110.3	97.6	119.1	106.7	119.2	117.2	121.9	107.6	115.5	119.3
Official bilateral	33.4	22.6	29.4	27.0	27.3	28.1	28.4	24.8	24.6	22.6	21.9	16.8	17.0	26.8	18.4
Paris Club	9.5	16.5	23.0	20.5	20.8	21.7	21.9	18.3	17.9	15.8	14.9	8.7	5.8	18.6	10.0
Other official bilateral and commercial	23.8	6.1	6.4	6.4	6.4	6.4	6.4	6.5	6.7	6.8	7.0	8.1	11.2	8.2	8.4
Memorandum items:															
Debt service of new debt	5.1	9.1	12.4	17.5	22.9	28.5	46.9	67.3	86.4	116.4	142.0	269.0	546.4	41.2	279.4
Multilateral	3.3	6.2	9.0	13.3	17.9	22.6	35.6	52.3	69.2	96.2	118.7	227.0	479.3	32.5	238.5
Official bilateral	1.8	2.9	3.4	4.2	5.0	5.9	11.4	15.0	17.2	20.2	23.3	42.0	67.1	8.7	40.9
Nominal HIPC relief															
Under the enhanced HIPC initiative	109.6	153.2	143.6	129.4	77.8	45.7	43.6	22.1	25.4	2.0	4.0	20.2	-2.3	75.2	5.9

Sources: Honduran authorities; and Bank-Fund staff estimates and projections.

1/ Assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end of 2003, and at least comparable action by other official bilateral and commercial creditors.

2/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

Table 10. Honduras: External Debt Indicators 1/

(In percent, unless otherwise indicated)

	Actuals	Projections												Averages	
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2018	2023	2003-2013	2014-2023
After traditional debt relief mechanisms 2/																
NPV of debt-to-GDP ratio	51.8	49.5	46.1	42.6	40.0	37.7	36.0	34.4	33.3	32.4	32.0	31.7	31.1	29.9	40.4	31.0
NPV of debt-to-exports ratio 3/ 4/	141.2	133.6	123.0	112.5	105.7	99.4	94.4	89.8	86.4	83.4	81.9	80.5	76.4	69.9	107.0	76.0
NPV of debt-to-revenue ratio 5/	286.3	259.3	241.3	223.4	208.8	196.2	186.7	178.1	172.6	167.8	166.0	164.4	161.3	154.8	212.1	160.5
Debt service-to-exports ratio	…	10.1	10.0	9.4	8.5	7.0	5.8	5.4	5.1	4.8	4.8	4.8	4.5	5.2	7.4	4.8
Debt service-to-revenue ratio 5/	…	21.7	21.4	19.9	18.1	14.9	12.3	11.6	11.0	10.5	10.4	10.5	10.2	12.3	15.7	11.0
After enhanced HIPC assistance																
NPV of debt-to-GDP ratio	55.7	51.5	40.3	38.7	37.6	36.1	34.9	33.8	32.9	32.2	31.9	31.7	31.2	30.5	39.4	31.2
NPV of debt-to-exports ratio 3/ 4/	151.8	138.9	107.5	102.1	99.4	95.4	91.7	88.3	85.4	83.0	81.6	80.3	76.5	71.3	104.3	76.4
NPV of debt-to-exports ratio (existing debt only) 3/ 4/	151.8	129.7	92.2	82.7	75.2	67.9	61.1	55.2	49.6	44.8	40.3	36.2	23.3	13.1	81.0	24.7
NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/	113.8	111.6	107.5	102.1	99.4	95.4	91.7	88.3	85.4	83.0	81.6	80.3	76.5	71.3	97.8	76.4
NPV of debt-to-revenue ratio 5/	307.8	269.6	210.8	202.8	196.2	188.2	181.3	175.0	170.6	166.9	165.4	164.1	161.6	157.9	206.9	161.5
NPV of debt-to-revenue ratio after full delivery in 2003 5/ 6	231	216.5	210.8	202.8	196.2	188.2	181.3	175.0	170.6	166.9	165.4	164.1	161.6	157.9	193.9	161.5
Debt service-to-exports ratio	…	6.5	5.4	5.3	5.1	5.1	4.8	4.5	4.7	4.4	4.7	4.7	4.6	5.2	5.1	4.8
Debt service-to-revenue ratio 5/	…	14.0	11.4	11.3	10.8	10.8	10.1	9.6	10.1	9.5	10.3	10.3	10.3	12.3	10.8	10.8
After bilateral debt relief beyond HIPC assistance 7/																
NPV of debt-to-GDP ratio	55.3	51.7	33.3	32.4	32.1	31.3	30.7	30.1	29.6	29.2	29.2	29.2	29.5	29.3	35.6	29.4
NPV of debt-to-exports ratio 3/ 4/	150.9	139.6	88.7	85.7	84.9	82.6	80.6	78.6	76.8	75.2	74.7	74.0	72.3	68.6	94.4	72.0
NPV of debt-to-exports ratio (existing debt only) 3/ 4/	150.9	130.4	73.5	66.3	60.7	55.1	50.0	45.5	41.0	37.1	33.3	29.9	19.1	10.4	71.0	20.2
NPV of debt-to-exports ratio after full delivery 3/ 4/ 6/	92.5	91.1	88.7	85.7	84.9	82.6	80.6	78.6	76.8	75.2	74.7	74.0	72.3	68.6	83.7	72.0
NPV of debt-to-revenue ratio 5/	305.9	270.9	174.0	170.2	167.6	163.1	159.4	155.8	153.4	151.4	151.4	151.2	152.6	152.0	187.2	152.2
NPV of debt-to-revenue ratio after full delivery in 2003 5/ 6	188	176.8	174.0	170.2	167.6	163.1	159.4	155.8	153.4	151.4	151.4	151.2	152.6	152.0	165.9	152.2
Debt service-to-exports ratio	…	6.5	4.6	4.1	3.9	4.1	3.8	3.7	4.1	4.0	4.4	4.4	4.4	5.1	4.3	4.6
Debt service-to-revenue ratio 5/	…	14.0	9.7	8.7	8.4	8.6	8.1	7.8	8.9	8.6	9.5	9.7	9.9	12.0	9.2	10.4
Memorandum items (in millions of U.S. dollars):																
NPV of debt after enhanced HIPC assistance	3,868.2	3,837.6	3,242.7	3,359.2	3,504.4	3,615.4	3,742.4	3,883.4	4,052.1	4,243.5	4,496.6	4,765.8	6,085.6	8,104.3	3,734.9	6,171.9
Of which: existing debt only	3,868.2	3,582.9	2,782.8	2,720.7	2,652.4	2,572.7	2,494.4	2,427.0	2,351.9	2,291.2	2,218.3	2,148.7	1,857.6	1,486.3	2,774.4	1,856.3
Debt service after enhanced HIPC assistance	…	199.8	175.8	186.4	193.2	207.6	208.8	213.4	239.3	241.0	280.8	300.2	389.2	631.3	207.3	419.6
Debt service beyond HIPC assistance	…	199.2	149.9	144.6	149.2	165.0	167.0	173.0	211.2	217.7	258.3	281.1	372.7	615.2	175.2	402.6
GDP	6,945.1	7,454.6	8,045.2	8,685.8	9,330.4	10,002.3	10,720.4	11,499.3	12,310.3	13,171.1	14,084.3	15,052.3	19,515.0	26,593.1	9,601.7	19,844.4
Exports of goods and services 3/	2,699.7	3,072.7	3,279.8	3,517.6	3,782.3	4,072.6	4,388.9	4,739.0	5,106.6	5,501.2	5,924.7	6,378.8	8,538.3	12,181.1	3,930.3	8,743.8
Exports of goods and services (three-year mvg. Avg.) 3/ 4/	2,547.7	2,762.2	3,017.4	3,290.0	3,526.6	3,790.8	4,081.2	4,400.1	4,744.8	5,115.6	5,510.9	5,934.9	7,955.7	11,372.2	3,639.9	8,149.6
Government revenue 5/	1,256.7	1,423.6	1,538.4	1,656.2	1,785.8	1,921.0	2,063.9	2,219.4	2,375.9	2,542.0	2,718.3	2,905.1	3,766.4	5,132.5	1,802.8	3,830.0

Sources: Honduran authorities; and Bank-Fund staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated.

2/ Refers to public and publicly guaranteed external debt only and assumes a stock-of-debt operation on Naples terms (67 percent NPV reduction) as of end of 2003, and at least comparable action by other official bilateral and commercial creditors.

3/ Exports of goods and nonfactor services as defined in IMF, *Balance of Payments Manual*, 5th edition, 1993.

4/ Based on a three-year average of exports ending in the current year (e.g., export average over 2001-2003 for NPV of debt-to-exports ratio in 2003).

5/ Revenue is defined as central government revenue, excluding grants.

6/ Assuming full delivery of HIPC assistance as of end-2003.

7/ Includes additional debt relief provided on a voluntary basis by the Paris Club and some commercial creditors beyond the requirements of the enhanced HIPC framework.

Table 11. Honduras: Sensitivity Analysis 1/

(In percent, unless otherwise indicated)

	Projections																Annual Averages	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2016	2018	2020	2022	2023	2003-13	2014-23
A. Baseline Scenario																		
NPV of debt-to-revenue ratio 2/	176.8	174.0	170.2	167.6	163.1	159.4	155.8	153.4	151.4	151.4	151.2	151.5	152.6	153.2	152.7	152.0	162.3	152.2
NPV of debt-to-exports ratio 3/	91.1	88.7	85.7	84.9	82.6	80.6	78.6	76.8	75.2	74.7	74.0	73.0	72.3	71.2	69.6	68.6	81.9	71.7
Debt service-to-exports ratio 3/	6.5	4.6	4.1	3.9	4.1	3.8	3.7	4.1	4.0	4.4	4.4	4.4	4.4	4.6	4.9	5.1	4.3	4.6
(In millions of U.S. dollars)																		
Memorandum items:																		
NPV of debt	2,516.9	2,677.3	2,818.3	2,992.8	3,132.9	3,289.0	3,458.6	3,644.6	3,849.1	4,114.9	4,393.8	5,017.2	5,748.8	6,543.5	7,374.9	7,801.9	3,249.5	6,003.8
Of which: new debt	254.6	459.9	638.5	852.0	1,042.7	1,247.9	1,456.4	1,700.2	1,952.3	2,278.3	2,617.1	3,368.5	4,228.0	5,155.5	6,123.2	6,618.0	1,188.3	4,519.4
Debt service	199.2	149.9	144.6	149.2	165.0	167.0	173.0	211.2	217.7	258.3	281.1	327.4	372.7	451.3	558.9	615.2	183.5	417.1
Of which: new debt	5.1	9.1	12.4	17.5	22.9	28.5	46.9	67.3	86.4	116.4	142.0	180.5	233.9	315.6	426.5	486.7	41.2	279.4
Exports of goods and services, three-year average	2,762.2	3,017.4	3,290.0	3,526.6	3,790.8	4,081.2	4,400.1	4,744.8	5,115.6	5,510.9	5,934.9	6,876.7	7,955.7	9,189.2	10,596.7	11,372.2	4,024.0	8,413.5
Exports of goods and services, annual average	3,072.7	3,279.8	3,517.6	3,782.3	4,072.6	4,388.9	4,739.0	5,106.6	5,501.2	5,924.7	6,378.8	7,385.9	8,538.3	9,854.6	11,355.0	12,181.1	4,338.5	9,025.7
Revenues	1,423.6	1,538.4	1,656.2	1,785.8	1,921.0	2,063.9	2,219.4	2,375.9	2,542.0	2,718.3	2,905.1	3,312.2	3,766.4	4,271.4	4,831.0	5,132.5	2,024.5	3,941.1
B. Sensitivity Analysis																		
Alternative scenario I 4/																		
NPV of debt-to-revenue ratio 2/	176.8	174.0	187.8	192.9	195.6	198.6	201.5	205.3	209.0	214.1	218.5	226.6	234.1	239.6	242.8	243.6	195.6	233.7
NPV of debt-to-exports ratio 3/	91.1	88.7	89.7	92.6	94.0	95.3	96.4	97.5	98.5	100.1	101.4	103.5	105.1	105.6	104.9	104.2	94.4	104.3
Debt service-to-exports ratio 3/	6.5	4.6	4.2	4.1	4.3	4.2	4.1	4.6	4.7	5.3	5.5	5.8	6.0	6.4	7.0	7.2	4.7	6.2
(In millions of U.S. dollars)																		
Memorandum items:																		
NPV of debt	2,516.9	2,677.3	2,949.5	3,267.1	3,562.5	3,887.5	4,240.5	4,625.2	5,036.5	5,517.4	6,020.0	7,117.8	8,360.2	9,703.2	11,120.1	11,852.9	3,828.1	8,787.1
Of which: new debt	254.6	459.9	769.8	1,126.2	1,472.4	1,846.4	2,238.3	2,680.8	3,139.7	3,680.8	4,243.4	5,469.0	6,839.4	8,315.3	9,868.3	10,669.1	1,766.9	7,302.7
Debt service	199.2	149.9	148.1	156.4	176.3	182.5	193.1	236.2	256.6	311.9	350.3	430.6	514.1	635.3	790.5	872.7	201.0	573.4
Of which: new debt	5.1	9.1	15.9	24.7	34.1	44.0	67.0	92.3	125.3	170.0	211.2	283.7	375.3	499.7	658.1	744.1	58.7	435.7
Exports of goods and services, three-year average	2,762.2	3,017.4	3,290.0	3,526.6	3,790.8	4,081.2	4,400.1	4,744.8	5,115.6	5,510.9	5,934.9	6,876.7	7,955.7	9,189.2	10,596.7	11,372.2	4,024.0	8,413.5
Exports of goods and services, annual average	3,072.7	3,279.8	3,517.6	3,782.3	4,072.6	4,388.9	4,739.0	5,106.6	5,501.2	5,924.7	6,378.8	7,385.9	8,538.3	9,854.6	11,355.0	12,181.1	4,338.5	9,025.7
Revenues	1,423.6	1,538.4	1,570.4	1,693.3	1,821.5	1,957.0	2,104.4	2,252.8	2,410.3	2,577.4	2,754.6	3,140.6	3,571.2	4,050.1	4,580.7	4,866.5	1,934.9	3,736.9

Table 11. Honduras: Sensitivity Analysis 1/

(In percent, unless otherwise indicated)

	Projections																Annual Averages	
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2016	2018	2020	2022	2023	2003-13	2014-23
Alternative scenario II 5/																		
NPV of debt-to-revenue ratio 2/	176.8	174.8	176.1	182.0	185.3	186.0	181.0	177.3	173.9	172.1	170.1	166.4	164.4	162.3	159.5	157.9	178.5	163.8
NPV of debt-to-exports ratio 3/	91.1	88.7	88.7	92.2	93.9	94.1	91.3	88.8	86.4	84.8	83.1	80.0	77.6	75.2	72.5	71.0	90.0	77.0
Debt service-to-exports ratio 3/	6.5	4.6	4.2	4.1	4.3	4.1	3.9	4.4	4.3	4.9	5.0	5.1	4.9	5.0	5.3	5.4	4.5	5.1
	(In millions of U.S. dollars)																	
Memorandum items:																		
NPV of debt	2,516.9	2,677.3	2,917.4	3,250.2	3,559.7	3,839.1	4,017.7	4,212.9	4,420.5	4,679.4	4,940.6	5,512.8	6,191.5	6,931.8	7,707.1	8,105.2	3,609.1	6,431.4
Of which: new debt	254.6	459.9	737.6	1,109.3	1,469.5	1,798.1	2,015.5	2,268.5	2,523.7	2,842.8	3,164.0	3,864.0	4,670.7	5,543.9	6,455.3	6,921.3	1,547.9	4,947.0
Debt service	199.2	149.9	147.3	156.0	176.2	181.2	187.2	225.4	238.4	289.1	322.5	375.1	419.0	496.1	602.3	658.0	195.0	462.2
Of which: new debt	5.1	9.1	15.0	24.2	34.1	42.8	61.2	81.5	107.1	147.3	183.4	228.2	280.2	360.5	469.9	529.5	52.7	324.6
Exports of goods and services, three-year average	2,762.2	3,017.4	3,290.0	3,526.6	3,790.8	4,081.2	4,400.7	4,746.4	5,119.0	5,516.2	5,942.5	6,889.7	7,975.3	9,217.1	10,634.5	11,415.8	4,025.0	8,436.7
Exports of goods and services, annaul average	3,072.7	3,279.8	3,517.6	3,782.3	4,072.6	4,388.9	4,740.5	5,109.9	5,506.5	5,932.2	6,388.8	7,401.9	8,561.7	9,887.1	11,398.4	12,230.7	4,340.3	9,053.0
Revenues	1,423.6	1,531.5	1,656.2	1,785.8	1,921.0	2,063.9	2,219.4	2,375.9	2,542.0	2,718.3	2,905.1	3,312.2	3,766.4	4,271.4	4,831.0	5,132.5	2,023.8	3,941.1
Alternative scenario III 6/																		
NPV of debt-to-revenue ratio 2/	176.8	174.0	172.6	172.4	170.1	168.6	167.2	166.9	167.1	169.4	171.7	176.9	183.4	189.3	194.1	196.1	170.5	184.4
NPV of debt-to-exports ratio 3/	91.1	88.7	86.1	86.1	85.0	84.1	83.2	82.5	81.9	82.5	82.9	84.1	85.6	86.8	87.3	87.3	85.1	85.6
Debt service-to-exports ratio 3/	6.5	4.6	4.2	4.1	4.2	4.0	3.9	4.5	4.4	4.9	5.0	5.2	5.2	5.7	6.3	6.5	4.5	5.6
	(In millions of U.S. dollars)																	
Memorandum items:																		
NPV of debt	2,516.9	2,677.3	2,818.3	2,992.8	3,132.9	3,289.0	3,458.6	3,644.6	3,849.1	4,114.9	4,393.8	5,017.2	5,748.8	6,543.5	7,374.9	7,801.9	3,249.5	6,003.8
Of which: new debt	254.6	459.9	638.5	852.0	1,042.7	1,247.9	1,456.4	1,700.2	1,952.3	2,278.3	2,617.1	3,368.5	4,228.0	5,155.5	6,123.2	6,618.0	1,188.3	4,519.4
Debt service	199.2	149.9	144.6	149.2	165.0	167.0	173.0	211.2	217.7	258.3	281.1	327.4	372.7	451.3	558.9	615.2	183.5	417.1
Of which: new debt	5.1	9.1	12.4	17.5	22.9	28.5	46.9	67.3	86.4	116.4	142.0	180.5	233.9	315.6	426.5	486.7	41.2	279.4
Exports of goods and services, three-year average	2,762.2	3,017.4	3,273.7	3,475.4	3,683.6	3,910.3	4,156.8	4,419.7	4,698.4	4,990.5	5,299.1	5,968.9	6,712.7	7,536.8	8,448.0	8,938.3	3,838.8	6,995.5
Exports of goods and services, annual average	3,072.7	3,279.8	3,468.7	3,677.7	3,904.5	4,148.9	4,417.2	4,693.1	4,984.9	5,293.4	5,619.1	6,324.7	7,107.3	7,973.5	8,930.2	9,444.6	4,094.1	7,403.8
Revenues	1,423.6	1,538.4	1,633.2	1,736.4	1,841.7	1,951.1	2,068.7	2,183.5	2,303.5	2,428.6	2,559.1	2,836.3	3,135.2	3,456.1	3,799.4	3,979.5	1,910.9	3,236.1

Sources: Honduran authorities; and Bank-Fund staff estimates and projections.

1/ All debt indicators refer to public and publicly guaranteed debt and are defined after rescheduling, unless otherwise indicated.
2/ Revenues are defined as central government revenues, excluding grants.
3/ Exports of goods and services as defined in IMF, Balance of Payments Manual, 5th edition, 1993; excludes transit trade. The NPV of debt-to-exports ratio is based on the average of three consecutive years of exports of goods and non factor services ending in the current year; the debt-service ratio is based on current export year.
4/ Scenario I assumes a permanent deterioration of the fiscal position starting in 2006.
5/ Scenario II assumes a temporary deterioration in the terms-of-trade, lowering nominal exports growth by 4 percentage points during 2006-10.
6/ Scenario III assumes a permanent lower GDP growth of 1 percent below the baseline projection.

Table 12. Honduras: Status of Creditor Participation Under Enhanced HIPC Initiative

	HIPC Assistance as at the Decision Point Document			
	Debt relief in NPV Terms (US$ millions)	Percentage of Total Assistance	Satisfactory Reply	Modalities to Deliver Debt Relief
IDA/IBRD	97.8	17.6	Yes	Interim assistance was provided equivalent to a 50 percent reduction on Honduras's debt service to IBRD, amounting to a total of US$32 million in NPV terms. After completion point, the remaining assistance will be provided as a supplementary loan to prepay the outstanding IBRD debt, and through debt-service reduction of 50 percent on IDA loans as of end-1999.
IMF	30.3	5.5	Yes	IMF assistance will be delivered through grants from the PRGF/HIPC Trust Fund to the member's Umbrella Account. At completion point these resources, plus accrued interest, would be used to reduce the payments falling due to IMF during 2005–08 on Honduras's obligations as of December 1999.
IDB	134	24.1	Yes	Interim assistance has been provided through the reduction of the debt service payments to the IDB over the period of January 2001–December 2003, on disbursed and outstanding debt as of end-December 1999. After completion point, assistance will be delivered in the same manner. Total NPV assistance will amount to US$133 million.
IFAD	1.9	0.3	Yes	Assistance will be delivered at the completion point, through a reduction of debt-service payments on eligible debt by up to 100 percent until the target in NPV terms is reached. Preliminary estimates show that IFAD's relief could be delivered over three years.
OPEC Fund	3.6	0.7	Yes	The OPEC Fund has agreed to provide HIPC debt relief in the amount of US$3.6 million in NPV terms. An agreement between the OPEC Fund and the authorities regarding the delivery modality is yet to be reached.
CABEI	73.0	13.1	Yes	In April 2000, CABEI and the Honduran authorities concluded a debt relief agreement which provided for the required reduction in NPV terms as specified in the decision point document. This agreement restructured 60 percent of CABEI's loans which are guaranteed by zero-coupon bonds from the U.S. Treasury.
Total multilateral	**340**	**61**		

Table 12. Honduras: Status of Creditor Participation Under Enhanced HIPC Initiative

	HIPC Assistance as at the Decision Point Document			
	Debt relief in NPV Terms (US$ millions)	Percentage of Total Assistance	Satisfactory Reply	Modalities to Deliver Debt Relief
Paris Club Creditors	168.6	30.4	Yes	Interim assistance is provided through Cologne term flow relief and several of the creditors have cancelled 100 percent of flow during the interim period. The Paris Club creditors will deliver the rest of the relief at the completion point.
Non-Paris Club Creditors	43.9	7.9		
Colombia	3.6	0.7	No	
Costa Rica	4.7	0.8	No	
Guatemala	4.9	0.9	No	
Kuwait fund	6.4	1.1	No	
Mexico	9.4	1.7	No	
Taiwan, province of China	10.7		No	
Venezuela	4.3	0.8	No	
Commercial creditors	2.7	0.5		
Bofa and Santander	0.1	0.0	No	
Columbus Latinoamericana	0.0	0.0	No	
CDC	1.2	0.2	Yes	As of October 2000, CDC decided to forgive all debt service as it falls due and the remaining stock at the time of the completion point.
Deutsch Sudamerikanishe Bank	0.0	0.0	No	
First Security	0.2	0.0	No	
Laboratorio Bago	0.2	0.0	No	
Lloyds	1.0	0.2	Yes	An IDA buyback operation was concluded in November 2001.
Swiss Bank	0.0	0.0	No	
Total bilateral and commercial	**215.3**	**38.7**		
Total	**556**	**100**		

Sources: Honduran authorities; and Bank-Fund staff estimates.

Table 13. Honduras: Delivery of IMF Assistance under the Enhanced HIPC Initiative 1/
(In millions of SDRs, unless otherwise indicated)

	Actual										
	Jul.-Dec. 2000	2001	2002	2003	2004	Jan.-Feb. 2005	Mar.-Dec. 2005	2006	2007	2008	2009
Delivery schedule of IMF assistance (in percent of total assistance)	0.0	4.4	15.4	0.0	17.1	1.9	32.6	14.1	14.5	0.0	0.0
Debt service due on current IMF obligations 2/	4.7	10.3	32.7	30.5	11.0	1.1	18.2	16.3	16.2	16.1	10.1
Principal	2.4	6.8	30.5	29.2	10.1	1.0	17.2	15.2	15.2	15.2	9.2
Interest	2.3	3.5	2.2	1.3	1.0	0.1	0.9	1.1	1.0	0.9	0.8
IMF assistance--deposits into Honduras' account											
Interim assistance	0.0	4.5	0.0	0.0	4.3	0.0					
Completion point assistance 3/							13.9	0.0	0.0	0.0	0.0
IMF assistance--drawdown schedule 4/	0.0	1.0	3.5	0.0	3.9	0.5	9.0	5.5	5.4	0.0	0.0
IMF assistance without interest	0.0	1.0	3.5	0.0	3.9	0.4	7.4	3.2	3.3	0.0	0.0
Estimated interest earnings	0.0	0.0	0.0	0.0	0.0	0.0	1.6	2.3	2.1	0.0	0.0
Debt service due on current IMF obligations after IMF assistance 4/	4.7	9.3	29.2	30.5	7.1	0.7	9.2	10.8	10.8	16.1	10.1
Share of debt service due on current IMF obligations covered by IMF assistance (in percent)	0.0	52.4	10.7	0.0	35.1	41.9	49.5	33.9	33.5	0.0	0.0
Proportion (in percent) of each repayment falling due during the period to be paid by IMF HIPC Initiative assistance from the principal deposited in Honduras' account 5/	0.0	14.7	11.5	0.0	38.5	42.8	42.8	21.0	21.6	0.0	0.0
Memorandum items:											
Total debt service due (millions of U.S. dollars) 6/	219.0 7/	230.0	281.8	307.3	309.5		329.0 7/	330.0	322.6	285.4	254.5
Of which: debt service due on IMF obligations (millions of U.S. dollars)	6.2 7/	13.1	42.4	42.7	16.3		29.7 7/	25.1	25.0	24.9	15.5
Debt service due on current IMF obligations after IMF assistance											
In millions of U.S. dollars	6.2 7/	11.8	37.9	42.7	10.6		15.2 7/	16.6	16.6	24.9	15.5
In percent of exports	0.2 7/	0.5	1.5	1.6	0.3		0.5 7/	0.5	0.4	0.6	0.4
Share of total debt service covered by IMF assistance (in percent)	0.0	0.6	1.6	0.0	1.9		4.4 7/	2.6	2.6	0.0	0.0

Source: Member authorities; and Fund staff estimates.

1/ Total IMF assistance under the HIPC Initiative is SDR 22.66 million calculated on the basis of data available at the decision point excluding interest earned on member's account and on committed but undisbursed amounts as described in Footnote 4.

2/ Forthcoming obligations estimated based on rates and principal schedules in effect as of June 2000. Interest obligations include net SDR charges and assessments.

3/ A final disbursement of SDR 13.86 million (plus accrued interest) assumed to be deposited into Honduras' account at the completion point in March 2005.

4/ Includes estimated interest earnings on: (1) amounts held in member's account; and (2), up to the completion point, amounts committed but not yet disbursed. It is assumed that these amounts earn a rate of return of 5 percent in SDR terms; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point.

5/ For 2001-02 and 2004, the Board approved delivery schedule of IMF interim HIPC assistance has been annualized. First interim assistance of SDR 4.5 million was used to cover 98.04 percent of principal repayment obligations falling due in October-December 2001, and 14.84 percent of repayments falling due in January-October 2002. During February 18, 2004 and February 17 2005, second interim assistance of SDR 4.3 million was applied to cover 42.8 percent of each repayment obligation.

6/ After traditional debt relief mechanisms.

7/ Refers to the entire year.

Table 14. Honduras: Possible Delivery of IDA's Assistance Under the Enhanced HIPC Initiative, 2004-2024 1/, 2/

(In millions of U.S. dollars, unless otherwise indicated)

										Cumulative		
	2004	2005	2006	2007	2008	2009	2010	2015	2024	2004-12	2013-24	2000-2024
Debt service before HIPC Assistance	16.6	17.0	19.2	19.2	19.7	24.0	23.8	31.1	35.6	227.4	409.3	645.4
of which principal	10.5	11.0	13.2	13.3	13.9	18.3	18.3	26.4	33.0	157.1	362.7	522.1
of which interest	6.1	6.1	6.0	5.9	5.8	5.7	5.5	4.7	2.6	70.3	46.6	123.3
Debt Service after HIPC Assistance	16.6	12.2	9.5	9.6	9.8	11.9	11.9	31.1	35.6	143.6	409.3	561.5
of which principal	10.5	7.9	6.6	6.6	6.9	9.1	9.1	26.4	33.0	94.8	362.7	459.8
of which interest	6.1	4.3	3.0	2.9	2.9	2.8	2.7	4.7	2.6	48.7	46.6	101.7
Savings on debt service to IDA	0.0	4.8	9.7	9.7	9.9	12.1	12.0	0.0	0.0	83.9	0.0	83.9
of which principal	0.0	3.1	6.7	6.7	7.0	9.2	9.2	0.0	0.0	62.3	0.0	62.3
of which interest	0.0	1.8	3.0	3.0	2.9	2.8	2.8	0.0	0.0	21.6	0.0	21.6

1/ Enhanced HIPC assistance proposed to be delivered over about 6 years through a 50 percent relief on the debt service falling due to IDA on credits outstanding at end-1999.
2/ Excludes relief provided through the prepayment of IBRD debt.

Table 15. Honduras: Paris Club Creditors' Delivery of Debt Relief Under Bilateral Initiatives Beyond the HIPC Initiative 1/

	Countries Covered (1)	ODA (In percent) Pre-cutoff Date Debt (2)	ODA (In percent) Post-cutoff Date Debt (3)	Non-ODA (In percent) Pre-cutoff Date Debt (4)	Non-ODA (In percent) Post-cutoff Date Debt (5)	Provision of Relief Decision point (In percent) (6)	Provision of Relief Completion point (7)
Australia	HIPCs	100	100	100	100 2/	- 2/	- 2/
Austria	HIPCs	100	-	100	-	Case-by-case, flow	Stock
Belgium	HIPCs	100	100	100	-	100 flow	Stock
Canada	HIPCs 3/	- 4/	- 4/	100	100	100 flow	Stock
Denmark	HIPCs	100	100 5/	100	100 5/	100 flow	Stock
France	HIPCs	100	100	100	-	100 flow 6/	Stock
Finland	HIPCs	100	- 7/	100	- 7/	-	-
Germany	HIPCs	100	100	100	- 8/	100 flow	Stock
Ireland	-	-	-	-	-	-	-
Italy	HIPCs	100	100 9/	100	100 9/	100 flow	Stock
Japan	HIPCs	100	100	100	-	-	Stock
Netherlands, the	HIPCs	100 10/	100	100	-	90-100 flow 10/	Stock 10/
Norway	HIPCs	11/	- 11/	- 12/	- 12/	-	-
Russia	Case-by-case	-	-	-	-	-	Stock
Spain	HIPCs	100	Case-by-case	100	Case-by-case	-	Stock
Sweden	HIPCs	-	- 13/	100	-	-	Stock
Switzerland	HIPCs	100		100	Case-by-case	100, flow 14/	Stock
United Kingdom	HIPCs	100	100	100	100 15/	100 flow 15/	Stock
United States	HIPCs	100	100	100	100 16/	100 flow	Stock

Source: Paris Club Secretariat.

1/ Columns (1) to (7) describe the additional debt relief provided following a specific methodology under bilateral initiatives and need to be read as a whole for each creditor. In column (1), "HIPCs" stands for eligible countries effectively qualifying for the HIPC process. A "100 percent" mention in the table indicates that the debt relief provided under the enhanced HIPC Initiative framework will be topped up to 100 percent through a bilateral initiative.

2/ Australia: post-cutoff date non-ODA relief to apply to debts incurred before a date to be finalized; timing details for both flow and stock relief are to be finalized.

3/ Canada: including Bangladesh. Canada has granted a moratorium of debt service as of January 2001 on all debt disbursed before end-March 1999 for 13 out of 17 HIPCs with debt service due to Canada. Eligible countries are Benin, Bolivia, Cameroon, Dem. Rep. Of Congo, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Rwanda, Senegal, Tanzania, and Zambia. 100% cancellation will be granted at completion point. As of July 2004, Canada has provided completion point stock of debt cancellation for Benin, Bolivia, Guyana, Senegal and Tanzania.

4/ 100 percent of ODA claims have already been cancelled on HIPCs, with the exception of Myanmar's debt to Canada.

5/ Denmark provides 100 percent cancellation of ODA loans and non-ODA credits contracted and disbursed before September 27, 1999.

6/ France: cancellation of 100 percent of debt service on pre-cutoff date commercial claims on the government as they fall due starting at the decision point. Once countries have reached their completion point, debt relief on ODA claims on the government will go to a special account and will be used for specific development projects.

7/ Finland: no post-COD claims

8/ Germany proposes to cancel all debts incurred before June 20, 1999 depending on a consensus within Paris Club creditors

9/ Italy: cancellation of 100 percent of all debts (pre- and post-cutoff date, ODA and non-ODA) incurred before June 20, 1999 (the Cologne Summit). At decision point, cancellation of the related amounts falling due in the interim period. At completion point, cancellation of the stock of remaining debt.

10/ The Netherlands: 100 percent ODA (pre- and post-cutoff date debt will be cancelled at decision point); for non-ODA: in some particular cases (Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Mali, Mozambique, Nicaragua, Rwanda, Tanzania, Uganda and Zambia), the Netherlands will write off 100 percent of the consolidated amounts on the flow at decision point; all other HIPCs will receive interim relief up to 90 percent reduction of the consolidated amounts. At completion point, all HIPCs will receive 100 per cent cancellation of the remaining stock of the pre-cutoff date debt.

11/ Norway has cancelled all ODA claims.

12/ Due to the current World Bank/IMF methodology for recalculating debt reduction needs at HIPC completion point, Norway has postponed the decisions on whether or not to grant 100% debt reduction until after the completion point.

13/ Sweden has no ODA claims.

14/ Switzerland: In principle 100 percent cancellation of Pre-cutoff date non-ODA debt. However, Switzerland claims the right at the decision point to forgive only 90 percent in case of major political and/or political weaknesses.

15/ United Kingdom: "beyond 100 percent" full write-off of all debts of HIPCs as of their decision points, and reimbursement at the decision point of any debt service paid before the decision point.

16/ United States: 100 percent post-cutoff date non-ODA treated on debt assumed prior to June 20, 1999 (the Cologne Summit).

Table 16. Honduras: HIPC Initiative: Status of Country Cases Considered Under the Initiative, February 11, 2005

Country	Decision Point	Completion Point	Target NPV of Debt-to- Exports (In percent)	Target NPV of Debt-to- Gov. Revenue (In percent)	Assistance Levels 1/ (In millions of U.S. dollars, present value) Total	Bilateral	Multi-lateral	IMF	World Bank	Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)
Completion point reached under enhanced framework											
Benin	Jul. 00	Mar. 03	150		265	77	189	24	84	31	460
Bolivia					1,302	425	876	84	194		2,060
Original framework	*Sep. 97*	*Sep. 98*	*225*		*448*	*157*	*291*	*29*	*54*	*14*	*760*
Enhanced framework	*Feb. 00*	*Jun. 01*	*150*		*854*	*268*	*585*	*55*	*140*	*30*	*1,300*
Burkina Faso					553	83	469	57	231		930
Original framework	*Sep. 97*	*Jul. 00*	*205*		*229*	*32*	*196*	*22*	*91*	*27*	*400*
Enhanced framework	*Jul. 00*	*Apr. 02*	*150*		*195*	*35*	*161*	*22*	*79*	*30*	*300*
Topping-up	*…*	*Apr. 02*	*150*		*129*	*16*	*112*	*14*	*61*	*24*	*230*
Ethiopia					1,982	637	1,315	60	832		3,275
Enhanced framework	*Nov. 01*	*Apr. 04*	*150*		*1,275*	*482*	*763*	*34*	*463*	*47*	*1,941*
Topping-up		*Apr. 04*	*150*		*707*	*155*	*552*	*26*	*369*	*31*	*1,334*
Ghana	Feb. 02	Jul. 04	144	250	2,186	1,084	1,102	112	781	56	3,500
Guyana					591	223	367	75	68		1,354
Original framework	*Dec. 97*	*May 99*	*107*	*280*	*256*	*91*	*165*	*35*	*27*	*24*	*634*
Enhanced framework	*Nov. 00*	*Dec-03*	*150*	*250*	*335*	*132*	*202*	*40*	*41*	*40*	*719*
Madagascar	Dec. 00	*Oct-04*	150		836	474	362	19	252	40	1,900
Mali					539	169	370	59	185		895
Original framework	*Sep. 98*	*Sep. 00*	*200*		*121*	*37*	*84*	*14*	*43*	*9*	*220*
Enhanced framework	*Sep. 00*	*Mar. 03*	*150*		*417*	*132*	*285*	*45*	*143*	*29*	*675*
Mauritania	Feb. 00	Jun. 02	137	250	622	261	361	47	100	50	1,100
Mozambique					2,023	1,270	753	143	443		4,300
Original framework	*Apr. 98*	*Jun. 99*	*200*		*1,717*	*1,076*	*641*	*125*	*381*	*63*	*3,700*
Enhanced framework	*Apr. 00*	*Sep. 01*	*150*		*306*	*194*	*112*	*18*	*62*	*27*	*600*
Nicaragua	Dec. 00	Jan. 04	150		3,308	2,175	1,134	82	191	73	4,500
Niger					663	235	428	42	240		1,190
Enhanced framework	*Dec. 00*	*Apr. 04*	*150*		*521*	*211*	*309*	*28*	*170*	*53*	*944*
Topping-up	*…*	*Apr. 04*	*150*		*143*	*23*	*119*	*14*	*70*	*25*	*246*
Senegal	Jun. 00	Apr. 04	133	250	488	212	276	45	124	19	850
Tanzania	Apr. 00	Nov. 01	150		2,026	1,006	1,020	120	695	54	3,000
Uganda					1,003	183	820	160	517		1,950
Original framework	*Apr. 97*	*Apr. 98*	*202*		*347*	*73*	*274*	*69*	*160*	*20*	*650*
Enhanced framework	*Feb. 00*	*May 00*	*150*		*656*	*110*	*546*	*91*	*357*	*37*	*1,300*
Decision point reached under enhanced framework											
Cameroon	Oct. 00	Floating	150		1,260	874	324	37	179	27	2,800
Chad	May. 01	Floating	150		170	35	134	18	68	30	260
Congo, Democratic Rep. of	Jul. 03	Floating	150		6,311	3,837	2,474	472	831	80	10,389
Gambia, The	Dec. 00	Floating	150		67	17	49	2	22	27	90
Guinea	Dec. 00	Floating	150		545	215	328	31	152	32	800
Guinea-Bissau	Dec. 00	Floating	150		416	212	204	12	93	85	790
Honduras	Jul. 00	Floating	110	250	556	215	340	30	98	18	900
Malawi	Dec. 00	Floating	150		643	163	480	30	331	44	1,000
Rwanda	Dec. 00	Floating	150		452	56	397	44	228	71	800
São Tomé and Príncipe	Dec. 00	Floating	150		97	29	68	-	24	83	200
Sierra Leone	Mar. 02	Floating	150		600	205	354	123	122	80	950
Zambia	Dec. 00	Floating	150		2,499	1,168	1,331	602	493	63	3,850
Decision point reached under original framework											
Côte d'Ivoire	Mar. 98 3/	...	141	280	345	163	182	23	91	6 4/	800
Total assistance provided/committed					**32,002**	**15,541**	**16,325**	**2,532** 5/	**7,577**		**54,093**
Preliminary HIPC document issued											
Burundi	...	...	150		801	120	681	24	414	92	1,313
Côte d'Ivoire 6/	…	...	91	250	2,569	1,027	918	166	438	37	3,900

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Côte d'Ivoire reached its decision point under the original framework in March 1998. The total amount of assistance committed thereunder was US$345 million in NPV terms.

4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPVof debt at the completion point in the calculation of this ratio.

5/ Equivalent to SDR 1,718 million at an SDR/U.S. dollar exchange rate of 0.6635, as of February 11, 2005.

6/ It is suggested that enhanced HIPC relief for Côte d'Ivoire overtake the commitments made under the original HIPC framework.

Honduras—Debt Management

Institutional framework

1. Under the 2004 organic budget law (*Ley Orgánica de Presupuesto*), the Ministry of Finance (MoF) and the Central Bank (*Banco Central de Honduras, BCH*) share the responsibility for public debt management. The commission for public credit (*comisión de crédito público*), which is formed by both institutions and chaired by the MoF, formulates the general policy for public debt (domestic and external). While the MoF is in charge of negotiating external public sector loans as well as negotiating debt relief, all new external loans require approval by the MoF, the BCH, and finally by Congress. However, there are two exceptions: the BCH can contract and manage external debt for balance of payments purposes without approval by the MoF and Congress, and external debt contracted by municipalities requires such approval only if guaranteed by the government. Debt service payments of the government are initiated by the MoF and executed by the BCH. The MoF publishes a quarterly public debt report while the BCH takes the lead on economic analysis and data provision to the Fund and the Bank.

Debt management

2. The authorities have been using UNCTAD's Data Management and Financial Analysis System (DMFAS) as their loan database management system since 1988. The software is set up in network between the Ministry of Finance and the Central Bank to allow each institution to manage its part of the loans' portfolio. Additionally, the network allows BCH staff to access the information on the MoF database for analytical purposes. A direct electronic link between DMFAS and SIAFI—the MoF's financial accounting system—is expected to be operational by June. Government staff are familiar with the DMFAS and seem comfortable using it.

3. Additionally, the DebtPro software is used by BCH staff as a debt management tool for debt relief projections, such as Paris Club rescheduling or HIPC completion point simulations. In the past, however, there have been problems of data consistency between the DMFAS and the DebtPro databases. To address this problem, the authorities are planning to upgrade to the 5.3 version of DMFAS which includes a module that can perform long-term debt sustainability assessments using the DMFAS database. This will render the use of a parallel DebtPro database for long-term debt service projections unnecessary. The ability to make consistent and accurate debt service projections and to perform debt sustainability assessments will be essential after graduating from the HIPC initiative.

4. Private sector external debt is recorded for statistical purposes by the BCH. Systematic information is available for the banking sector and exporters. Coverage of other debtors, such as importers, is incomplete. Accurate recording of private sector external debt is becoming more and more important considering increasing private capital flows and the trend towards direct cross-border banking in the region.

Policy coordination

5. Cooperation between the MoF and the BCH is adequate, although there is room for improvement regarding timely information sharing and database reconciliation. In that regard, the planned upgrade of the DMFAS system should improve the consistency of actual data and economic projections. The BCH is also training MoF staff to help the MoF fulfill its mandate under the new budget law to do more analytical work

Honduras—Macroeconomic Framework

1. The authorities' medium and long-term macroeconomic framework envisages steady growth of per capita GDP supported by sound macroeconomic policies. The strategy involves continuing structural reforms and consolidating prudent macroeconomic policies. Reforms would focus on strengthening the development of human capital and basic infrastructure, improving the environment for private sector development, and using international trade agreements to boost growth. Private investment in maquilas, tourism, energy, and telecommunication are important elements for sustaining growth over the medium- and long-run. Growth is expected to reach 4½ percent in the medium term. In the long run, stable per capita GDP growth combined with decelerating population growth rates will lower economic growth to 3½ percent by 2023.

2. Fiscal policy will support private sector development and ensure long term fiscal sustainability by limiting the deficit to a level that can be financed externally by loans from the international financial institutions and bilateral donors. New disbursements of external loans are expected to decline gradually from 3.7 percent of GDP in 2005 to 2.7 percent by 2008 and remain at that level thereafter. Accordingly, net public sector external borrowing will decline to 1.8 percent by 2008 and eventually decline to 1.5 percent by 2023. Following graduation from IDA, disbursements from the Bank and the IDB are expected to gradually shift towards non-concessional terms. Foreign grants are also projected to decline gradually over the medium- and long-term. To avoid the need for domestic financing, the current level of revenues needs to be maintained as a share of GDP and a sound and sustainable public sector wage policy is essential.

3. Monetary policy aims at reducing inflation gradually to about 2½ percent, in line with the level of Honduras' main trading partners. Improving monetary policy instruments and operations will assist prudent monetary management. Moreover, gradually introducing more flexibility into the exchange rate regime and strengthening the financial sector will reduce the economies' vulnerability to external shocks, while at the same time facilitating monetary policy.

4. Assisted by continued, albeit slower, growth of remittances and improvements in the terms of trade, the current account deficit is expected to remain at about 3½ percent of GDP in the medium and long term. This current account deficit and the reserve accumulation needed to maintain an adequate reserve cover can be financed by a combination of foreign direct investment and official external loans. Meanwhile, increasing trade integration will raise the level of both exports and imports as share of GDP. The extraordinarily strong growth of remittances is not expected to persist, and more moderate growth rates are expected to lead to a stabilization of remittances as a share of GDP, following the experience in other countries.