May 2011
IMF Country Report No. 11/101

Honduras: First Review Under the Stand-By Arrangement and Under the Standby Credit Facility—Staff Report; Staff Statement; Press Release; and Statement by the Executive Director for Honduras.

In the context of the first review under the SBA and the SCF, the following documents have been released and are included in this package:

- The First Review Under the SBA and SCF, prepared by a staff team of the IMF, following discussions that ended on March 11, 2011, with the officials of Honduras on economic developments and policies. Based on information available at the time of these discussions, the first review was completed on April 13, 2011. The views expressed in the report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Statement by the Staff.

- A Press Release summarizing the views of the Executive Board as expressed during its April 27, 2011 discussion of the staff report that completed the request and/or review.

- A Statement by the Executive Director for Honduras.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

HONDURAS

First Reviews Under the Stand-By Arrangement and Under the Standby Credit Facility and Request for Waiver of Applicability of Performance Criteria

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by Miguel A. Savastano and Jan Kees Martijn

April 13, 2011

- **Context**. On October 1, 2010, the Executive Board approved 18-month SBA/SCF blended arrangements in the amount of SDR129.5 million (100 percent of quota). An initial disbursement (combined SBA/SCF) of SDR35.61 million (27.5 percent of quota) became available upon Board approval, but has not been made. The arrangements support the government's goals of reducing the overall deficit of the public sector, improving the composition of public expenditure, upgrading the monetary and exchange rate policy frameworks and protecting the external position.

- **Program review**. Staff supports the completion of the first review under the arrangements. All end-2010 performance criteria were met with a significant over-performance of the NIR target. Structural reforms advanced, although a benchmark on pension reform is being implemented with some delay, and electricity tariff adjustments were temporarily suspended in February and March. Understandings have been reached on proposed performance criteria and structural benchmarks for June–December 2011. The authorities plan to continue treating the arrangement as precautionary.

- **Macroeconomic strategy and outlook**. The macroeconomic strategy for 2011 envisaged under the original program remains valid. Real GDP is projected to grow by 3½ percent, while higher world food and fuel prices will push up annual inflation to about 8 percent. The overall fiscal deficit will be kept at 3.1 percent of GDP, despite an under-performance of revenues in 2010, and the balance of payments will remain in surplus. Further increases in commodity prices and continued weak tax collections represent the main risks to the program.

- **Discussions**. A staff team comprising P. Gajdeczka (Head), F. Frantischek, C. Pérez (all WHD), and M. Arena (SPR) visited Tegucigalpa during February 28–March 11. Mr. H. Ma (Resident Representative) assisted the mission. Mr. J. Gramajo (OED) attended the final meetings. The team met with President Lobo, Minister of the Presidency de Bogran, Central Bank President Mondragon, Finance Minister Chong Wong, and other senior officials.

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Attachments

I. Recent Economic Developments

1. **Economic activity is recovering**. Real GDP in 2010 is estimated to have increased by 2.8 percent, mainly driven by domestic demand. Headline inflation at end-December 2010 reached 6½ percent (yoy), somewhat above program projections, reflecting higher energy and food prices and weather-related shocks. At end-February 2011, annual inflation remains at about the same rate (6.4 percent).

2. **The balance of payments recorded a larger-than-expected surplus in 2010.** Available data suggest that imports grew slightly faster than exports and the external current account deficit widened to 6½ percent of GDP, in line with projections. However, large private capital inflows in the last quarter of the year (including unusually large pre-financing of coffee exports), contributed to a sharp increase in net international reserves (of close to US$0.6 billion, or 3½ percent of GDP) for the year.

3. **The central bank intensified its open market operations**. Issuance of central bank *letras* increased significantly in the last quarter of 2010 to mop up the domestic liquidity created by the large foreign exchange inflows (Table 4). As a result, by end-March 2011 the net domestic assets of the central bank were substantially below the program ceiling. Currency in circulation and bank deposits increased, but private credit growth remained low.

4. **The banking system remained sound and prudential indicators improved**. Nonperforming loans fell from 4.7 percent in December 2009 to 3.7 percent by end-2010, bank profitability improved, and bank liquidity remained high. Although loan refinancing reached 20 percent of capital (a two-fold increase from 2009) overall provisioning levels are high, and the Banking and Securities Commission (CNBS) is reviewing all refinancing cases.

II. Performance under the Program

5. **All quantitative performance criteria for end-December 2010 were met (MEFP Table 1)**. The overall deficit of the public sector (2.9 percent of GDP) was significantly below target. Although revenues were lower than projected by about 0.3 percent of GDP, largely reflecting shortfalls in central government tax collections (Box 1), they were more than offset by large surpluses in public pension funds and the energy company (mostly due to higher-than-envisaged use of low cost hydroelectric energy). Expenditure restraint by the central government, including on the wage bill, made room for unexpected outlays to repair infrastructure destroyed by tropical storms and allowed for above-target social spending. The end-2010 international reserves target was met by a wide margin and preliminary data suggest that reserves continued to grow strongly in the first quarter of 2011.

6. **Structural reforms have advanced though progress has been uneven (MEFP ¶4 and Table 2)**. The CNBS issued new norms for loan classification, reserve coverage, and liquidity risks in line with program commitments (October 2010). In the fiscal area, the control over education payroll was transferred to the Ministry of Finance (December 2010); a contract to audit public sector arrears with the private sector was signed in January 2011 and new terms of reference and salary scale for the tax collection agency (DEI) were approved

and are expected to upgrade the staffing of the large taxpayer unit. The continuous benchmark on periodical electricity tariff adjustments, however, was missed in February and March as the authorities sought to protect real income of low-income groups. Reform proposals for public pension funds were submitted to their respective boards as envisaged, though their submission to Congress has been delayed by technical consultations and protracted negotiations with the public sector employees' unions.

III. Policy Discussions

7. **The government is committed to build on the progress to date to further strengthen macroeconomic stability and reduce public sector and external vulnerabilities**. The macroeconomic framework for 2011 remains broadly as outlined at the time of the program approval in October 2010 (EBS/10/181). Real GDP growth is projected at 3.5 percent, while inflation is expected to rise to about 8 percent owing to high international food and oil prices. The external current account deficit is projected to increase to around 7 percent of GDP, taking into account that the rising cost of fuel imports and food will be partly offset by also higher prices for coffee exports, and stronger inflows of remittances. Assuming a normalization of private capital inflows and full disbursement of bilateral and multilateral loans commitments, net international reserves are projected to increase by US$227 million, on top of the large increase observed in 2010.

8. **The authorities recognized that the external environment continues to carry downside risks**. In particular, rapidly rising international food and fuel prices could push up headline inflation and widen the external current account deficit. They were confident, however, that a recent buildup in official international reserves and the Fund-supported program would help maintain confidence in their macroeconomic management. Moreover, they believed that further progress in fiscal consolidation and continued prudent monetary policy would go a long way to attenuate the external risks. The discussions, therefore, focused on policies that would contribute to attain the main macroeconomic and structural objectives of the program.

A. Fiscal Policy

9. **The authorities' remain committed to lower the fiscal deficit and stabilize the public debt-to-GDP ratio at 30 percent of GDP while improving the quality of expenditure**. For 2011 they expect to keep the deficit of the combined public sector at about 3 percent of GDP and reduce the deficit of the central government to 3.5 percent of GDP (4.8 percent in 2010). Attainment of these targets will hinge on the strict implementation of the tax reform of April 2010 and on making substantial progress in strengthening tax collections. Firm control over current expenditure, in particular of the wage bill, also will remain key, including for creating space for high priority social and capital spending. In line with their medium-term fiscal objectives, the authorities plan to present to Congress by September a draft budget for 2012 consistent with a combined public sector deficit of 2½ percent of GDP.

10. **Staff urged the authorities to implement promptly measures to strengthen tax administration**. The authorities noted that the 2011 revenue target for the central

government (15.4 percent of GDP) was ambitious and carried downside risks for the program. Nonetheless, they expressed their commitment to substantially improve the operational capacity of the large taxpayer unit (responsible for collecting close to 80 percent of central government revenue) in the course of the year (MEFP ¶8). They also agreed to submit to congress (in April) an anti-evasion law to facilitate tax administration; to undertake a census of all taxpayers (by September) and to complete an assessment of tax exemptions by year end.

11. **The authorities agreed to maintain public expenditure within the ceilings established in the 2011 budget (MEFP ¶9-10)**. In order to protect high priority spending on capital investment and in the social sector, they endeavor to exercise firm control over current expenditure, in particular over the wage bill (the largest expenditure item in the budget). To do this, the authorities will continue the process of verification of employment in the education sector to eliminate irregularities (e.g., payments to "ghost workers") and will make all new hiring subject to approval of the Ministry of Finance. To ensure that spending will remain within budgetary limits in the event that revenues were weaker than expected, the authorities are considering additional measures, including improved targeting of energy subsidies and delaying lower priority investment projects.

12. **Further progress in public sector reform is essential for improving the efficiency and sustainability of public finances**. During 2011, the authorities will focus on the following (MEFP ¶17):

- **Public sector enterprises**. Adjustments in electricity tariffs, which have resumed in April, will continue as mandated by law, and will contribute to restore the financial stability of the electricity company (ENEE). In addition, comprehensive plans to strengthen the financial position and improve the operational efficiency of the electricity and the telephone companies will be finalized by the end of the year.

- **Public pension funds**. Laws and statutes of public pension funds will be modified to eliminate their actuarial deficits (by updating contribution and benefit schedules) and strengthen their investment policies. In line with this objective, a revised statute of the fund for university employees was presented to its executive board in March and a draft law for the pension fund of public sector employees and a draft law for the teachers' pension fund will be submitted to Congress later this year.

- **Social security fund (IHSS)**. The IHSS comprises both the system of public pensions and the national health care insurance, and has a weak financial position owing to several years of poor management. Cognizant of this, the authorities plan to initiate this year a comprehensive audit of the IHSS to develop a plan for its future reform.

- **Civil service reform**. A comprehensive review of the regulatory framework for the selection and hiring of public sector employees will be completed this year and will serve as a basis for a new Civil Service law to be submitted to Congress by December 2011.

13. **Progress has been made in improving the government's debt management strategy**. The domestic financing requirements of the central government during 2011–12 will remain sizable, reflecting large domestic borrowing at short maturities during 2008–10 (Box 2). To alleviate this problem, the authorities have developed a debt management strategy, which, *inter alia*, seeks to extend the maturity profile and lower the cost of domestic government debt (MEFP ¶13). As a first step, last January, the authorities conducted a successful voluntary domestic bond swap (for 1.2 percent of GDP). The authorities plan to set up similar debt exchange operations later in the year and are seeking new financing from regional and multilateral banks to refinance the most expensive outstanding bonds. As part of their financing plan, the authorities have secured commitments for external budget financing from the IDB, the World Bank, and Taiwan totaling US$170 million. The authorities are also reviewing and addressing the outstanding issues on their external debt obligations.[1]

B. Monetary and Financial Sector Policies

14. **Monetary policy will be geared at containing inflation and safeguarding the external position**. During 2010, the central bank stepped up the placement of its own securities to mop up liquidity while keeping its policy rate unchanged at 4.5 percent. The monetary program for 2011 is based on conservative assumptions for growth and net capital inflows, and targets an increase in NIR of at least US$227 million, on top of the large increase observed in late 2010 (MEFP ¶14). Although the projected increase in credit to the private sector is moderate (and consistent with a gradual economic recovery) the excess liquidity held by banks would be more than sufficient to absorb a faster-than-envisaged pick up in the demand for credit. Importantly, the central bank is committed to tightening the monetary stance if inflation pressures intensify or if the NIR target comes under pressure, as well as to maintain the policy of not extending credit to the public sector.

15. **The central bank has prepared a plan for upgrading the monetary policy framework (MEFP ¶15)**. The plan envisages development of an interbank market and of secondary markets for central bank and government paper, improvement of the instruments for liquidity management, increasing the signaling content of the policy rate, and producing liquidity forecasts.

16. **The authorities will continue to reform financial regulations and the financial safety net (MEFP ¶17)**. The CNBS has initiated a review of the regulatory framework with a view to enhance transparency, information sharing, and protection of users of financial services. Work is also underway to strengthen the risk-based supervision framework for

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[1] Regarding the debt subject to forgiveness under two bilateral agreements in the context of the Paris Club HIPC debt reduction of 2005, the memorandums of understanding have been signed by the government of Honduras and recently communicated to the governments of Spain and France. Following the approval of the arrangements, the authorities have informed staff about possible external arrears. With respect to the debt service to Venezuela, the Honduran authorities have opened an escrow account in the Central Bank and started to make deposits in lieu of making actual debt service payments until contacts with Venezuela resume. Finally, there is a possibility of unsettled external payments to three private creditors for about US$3 million dating back to early 1980s and 1990s, the existence of which the authorities are verifying.

savings and loans cooperatives, and the relevant regulations are expected to be issued by February 2012. In consultation with the banks (and with assistance from the IDB) the authorities are revising the recently issued norms for loan classification and reserve coverage to allow more flexibility in order not to discourage banks' activities in microcredit and housing. Finally, the CNBS is making progress in addressing problems in two small banks. One bank was bought in late 2010 by a large credit cooperative and a special unit is being set up to recover nonperforming loans in order to repay the contribution of the deposit insurance fund. For the other small public bank, the authorities are currently assessing its financial condition and, once this is finalized, will develop a plan to restore its viability.

C. Social Spending

17. **Poverty reduction is a key objective of the Honduran government**. In 2010, social spending was effectively shielded from budgetary pressures; for 2011 the budget provides resources equivalent to 1.5 percent of GDP for all social programs. The government's key vehicle for social spending—the conditional cash transfer program (*Bono 10 mil*)—has benefited a larger-than-originally envisaged number of families and it is now targeted to nearly double its reach to up to 300 thousand families. Staff supported the authorities' intention to review the scope of their social programs in order to better target the available resources on those in the greatest need, including for mitigating the impact of higher food and fuel prices.

IV. Program Modalities

18. **The attached Letter of Intent (LOI) and the Memorandum of Economic and Financial Policies (MEFP) describe the authorities' progress in implementing their economic program and sets out their commitments through December 2011**. Specifically, the MEFP presents the quarterly performance criteria proposed for June, September, and December 2011; it also proposes the modification of one structural benchmark and the addition of a new benchmark (on the social security fund). The proposed ceilings for the fiscal deficit and public debt are broadly similar to the indicative targets for those variables set at the time of the program's approval; in contrast, the targets for net international reserves and net domestic assets for the remainder of 2011 were revised (relative to the original program) to take account of the better-than-expected balance of payments outturn in 2010. On the structural benchmarks, those related to electricity tariff adjustments and the recapitalization of the central bank are being maintained; the target dates for the submission to congress of a new draft law for the public sector employees' fund (INJUPENP) and the teachers' pension fund (INPREMA) have been postponed from December 2010, and a structural benchmark on initiating an audit of the social security (IHSS) has been added. The authorities are requesting waivers of applicability for the end-March 2011 performance criteria, other than net international reserves and net domestic assets of the central bank, in view of the fact that the relevant data will not be available at the time of the Board discussion of the first program review.

19. **The authorities are committed to implement the recommendations of the safeguards assessment completed on March 4 2011.** The assessment concluded that the main risk to central bank autonomy—lending to government that exceed limits in the BCH

law—is being addressed by program commitments but should ultimately be resolved through changes in legislation. Other key recommendations include securing capacity building for IFRS implementation, strengthening the external audit framework, and modernizing the internal audit function.

V. Staff Appraisal

20. **Strengthened macroeconomic policies and a more favorable external environment enabled a moderate recovery of economic activity in Honduras in 2010.** Following a sharp output decline in 2009, real GDP growth rose to 2¾ percent, while core inflation remained low. Renewed lending from official creditors and a larger-than-envisaged pick up in private capital inflows contributed to increase official international reserves to a historical high. Prudent macroeconomic management, anchored on tight control of government expenditures, and the launch of key structural reforms contributed importantly to these outcomes by bolstering private sector confidence.

21. **Strict adherence to the 2011 budget will be essential to continue improving the fiscal position and establishing a track record of sound macroeconomic management.** On the revenue side, it will be critical to attain the targeted increase of tax revenues. For this, prompt adoption of all measures geared at strengthening tax collections (especially making the large tax payer unit fully operational and approving the anti-evasion law) will be essential. On the expenditure side, staff welcomes the authorities' commitment to continue keeping government expenditure in check (especially the public sector wage bill) and improving the composition and quality of public expenditure. Staff supports the authorities' objective of reducing the overall fiscal deficit to levels consistent with maintaining the public debt-to-GDP ratio stable (at about 30 percent) over the medium term.

22. **Staff welcomes the government's commitment to deepen the reforms that are critical for restoring macroeconomic stability and strengthening public finances**. Continued adjustments of electricity tariffs in line with costs of inputs, as prescribed by Honduran legislation, is essential for protecting financial stability of this important public sector enterprise. In this context, staff encourages the authorities to develop before year end concrete plans to enhance the operational efficiency and competitiveness of the electricity and telephone companies. Staff welcomes the progress made toward reforming public pension funds and recognizes the challenges in obtaining consensus for those reforms, which are nonetheless necessary to restore their solvency. Staff also welcomes the implementation of a comprehensive debt management strategy which will help alleviate the problem of bunching of maturities and lower the cost of domestic borrowing based on transparent and market-based mechanisms.

23. **The monetary and exchange rate policies contemplated for 2011 are consistent with containing inflation and protecting the external position**. In particular, the central bank should continue to control the expansion of its net domestic assets through active placement of its instruments and increases in its policy rate, as necessary. Staff also welcomes the authorities' commitment to tighten the policy stance as soon as there is evidence of second round effects on inflation from higher oil and food prices or if external factors compromise the NIR targets. The authorities are encouraged to take prompt actions to

modernize Honduras' monetary policy framework in line with recommendations of past Fund technical assistance.

24. **Based on Honduras' strong performance under the SCF/SBA, staff supports the completion of the first review**. Staff also supports the approval of a waiver of applicability for the end-March 2011 targets, for which data are not available at this time (though the information available through late March makes the authorities confident that they will observe those performance criteria). Staff also recommends approval of the modification of program conditionality, as proposed in the attached LOI/MEFP.

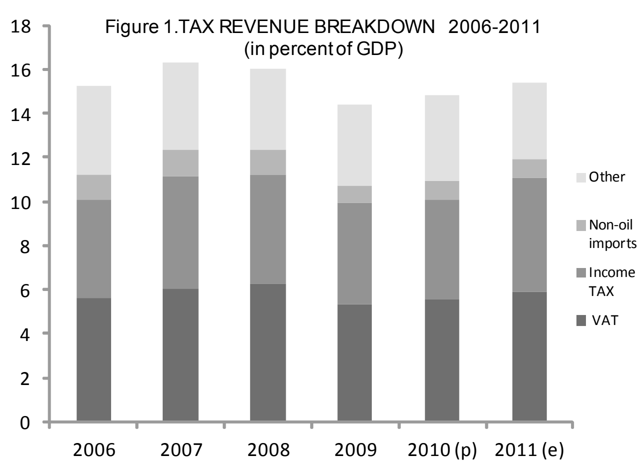
Box 1. Tax Revenue Performance

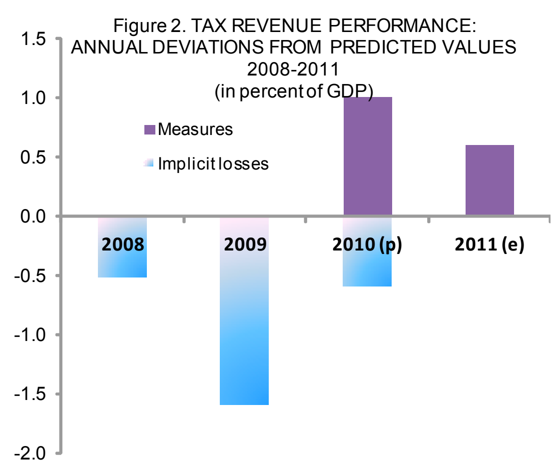
Tax revenue performance in Honduras has weakened considerably since 2007. Central government tax revenue peaked at 16.4 percent of GDP in 2007 and declined by close to 2 percentage points of GDP during 2008–09. During 2010, the tax intake rebounded by 0.4 percent of GDP. The bulk of the deterioration took place in 2009 when central government tax revenue fell by about 8 percent in real terms, with the most pronounced decline in consumption based taxes (VAT and taxes on non-oil imports) which account for about 45 percent of total tax revenue.

The underlying deterioration in tax revenue was larger than what the headline figures suggest. An estimate of the underlying performance (estimates of annual revenue levels based on average tax elasticities) shows a decline in tax revenue of 2.7 percentage points of GDP from its peak in 2007 to 13.6 percent of GDP in 2010. Part of the decline reflects the lagged effect of the 2009 recession on income tax revenue, and lower imports of taxable consumer goods. However, a significant fraction of the decline appears to be due to deterioration in tax administration (Figures 1 and 2).

Implicit revenue losses largely offset the positive impact of the April 2010 tax reform. The increase in the tax revenue ratio observed in 2010 (0.4 percent of GDP) reflects the combined effect of the new tax measures (with an expected yield of 1 percent of GDP) and implicit revenue losses of about 0.6 percent of GDP, which, again, are partly attributable to weak tax administration.

Tax revenue projections for 2011 assume a full-year impact of the 2010 tax measures as well as gains from improved tax administration. Tax revenue is projected to increase by 0.6 percent of GDP, reflecting the full-year effect of the 2010 tax measures (0.3 percent of GDP) and a recovery in income tax revenues and gains in tax administration.



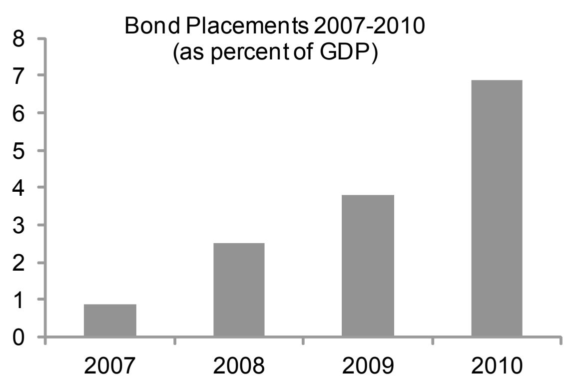


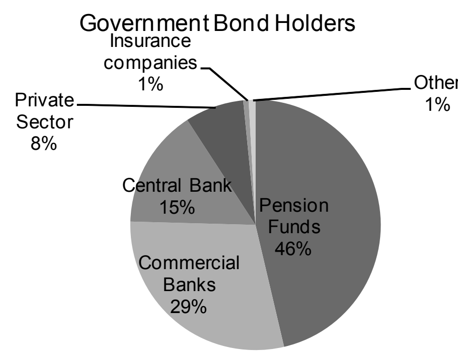
Box 2. Central Government Domestic Debt

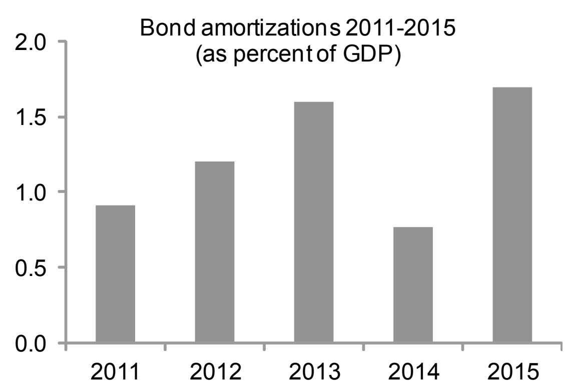
Government borrowing during 2008-10. Faced with rising fiscal deficits and limited access to external financing , Honduras' central government secured financing from domestic sources through the issuance of short-term domestic bonds, and (prior to 2010) by accumulating arrears with other public sector entities and private sector suppliers. This strategy resulted in a sharp rise in the stock of domestic debt; as of end-2010 the central government domestic debt stood at 13 percent of GDP, up from 4.8 percent of GDP in 2008. Most of the bonded debt placed during this period had short maturities (1–3 years) and carried coupon rates ranging from 8 to 13 percent. Public pension funds and commercial banks were the main buyers of those bonds.

Consequences. The borrowing strategy followed in 2008-10 carried high interest costs and gave rise to a heavily concentrated repayment schedule. In fact, amortizing or rolling over the outstanding stock of central government domestic debt would create significant financing pressures for the central government in the next few years, especially considering that access to external financing is likely to l remain limited and domestic financial markets are thin.

Refinancing strategy. To alleviate this problem, in 2010, the government was able to replace maturing bonds equivalent to 1.4 percent of GDP with 3-5 year bonds carrying an interest rate of 8.25-10 percent. In addition, the central government issued new bonds to cancel the arrears it had with other public entities (2 percent of GDP) and to cover its contributions to pension funds (0.5 percent of GDP). Going forward, the authorities are developing a debt management strategy seeking to increase the maturity of domestic bonds. As a first step, two voluntary bond conversions (for a total of 1.2 percent of GDP) were completed in early 2011 exchanging existing bonds into 3-7 year instruments carrying 9-12.25 percent coupon rates.





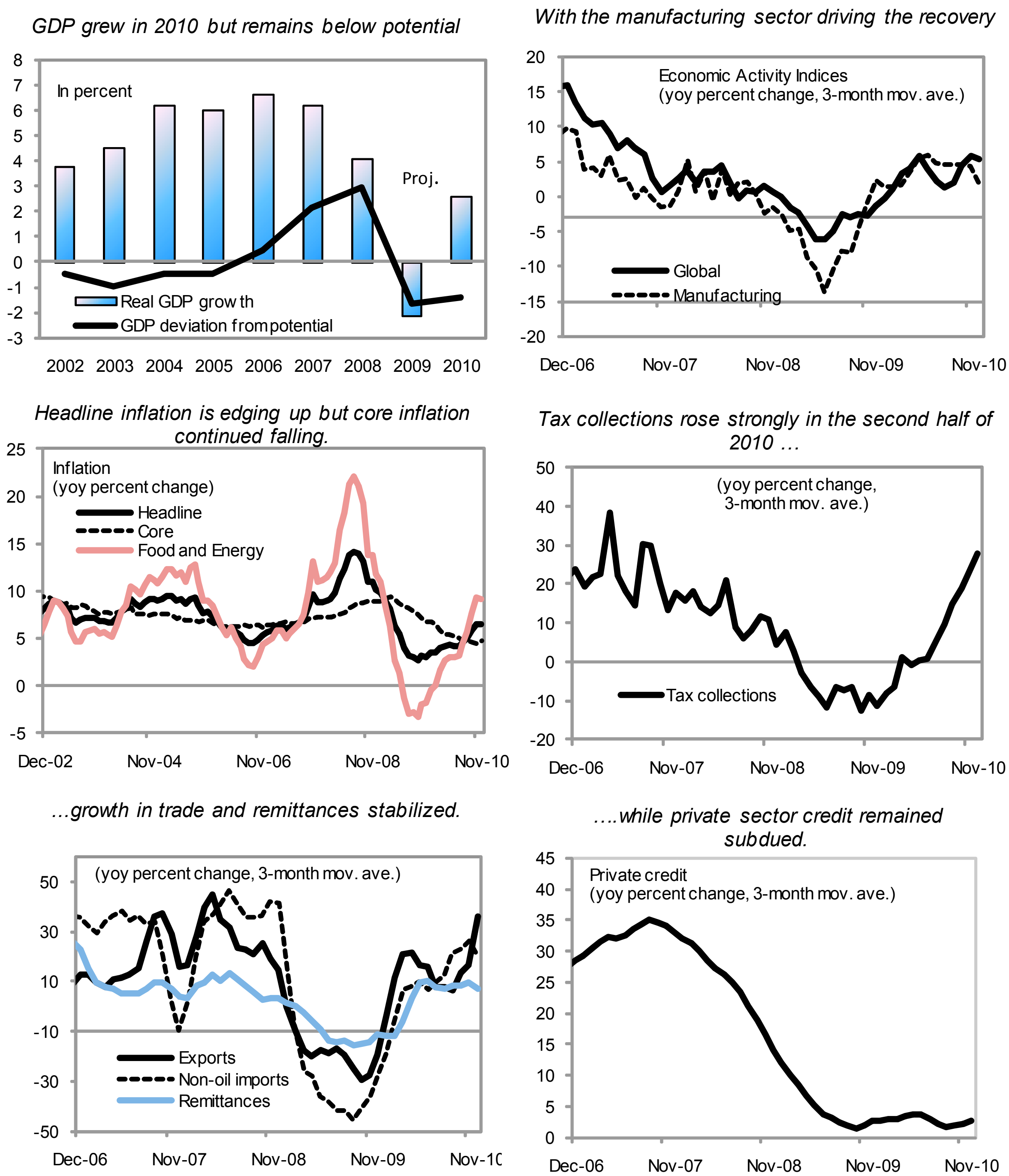


Central Govt Borrowing Requirements (% of GDP)

	2010	2011
Requirements	**-9.0**	**-5.4**
Central Government Deficit	-4.8	-3.5
Amortization	-2.0	-1.3
Floating Debt	-2.2	-0.7
Identified Sources	**9.0**	**5.4**
Domestic	5.8	2.5
Bonds	5.2	2.5
Central Bank	0.6	0.0
External	3.2	2.8
Project Loans	1.9	1.7
Budget support	1.1	1.0
Other	0.2	0.2
Remaining financing needs	0.0	0.0

Figure 1. Honduras: Recent Developments

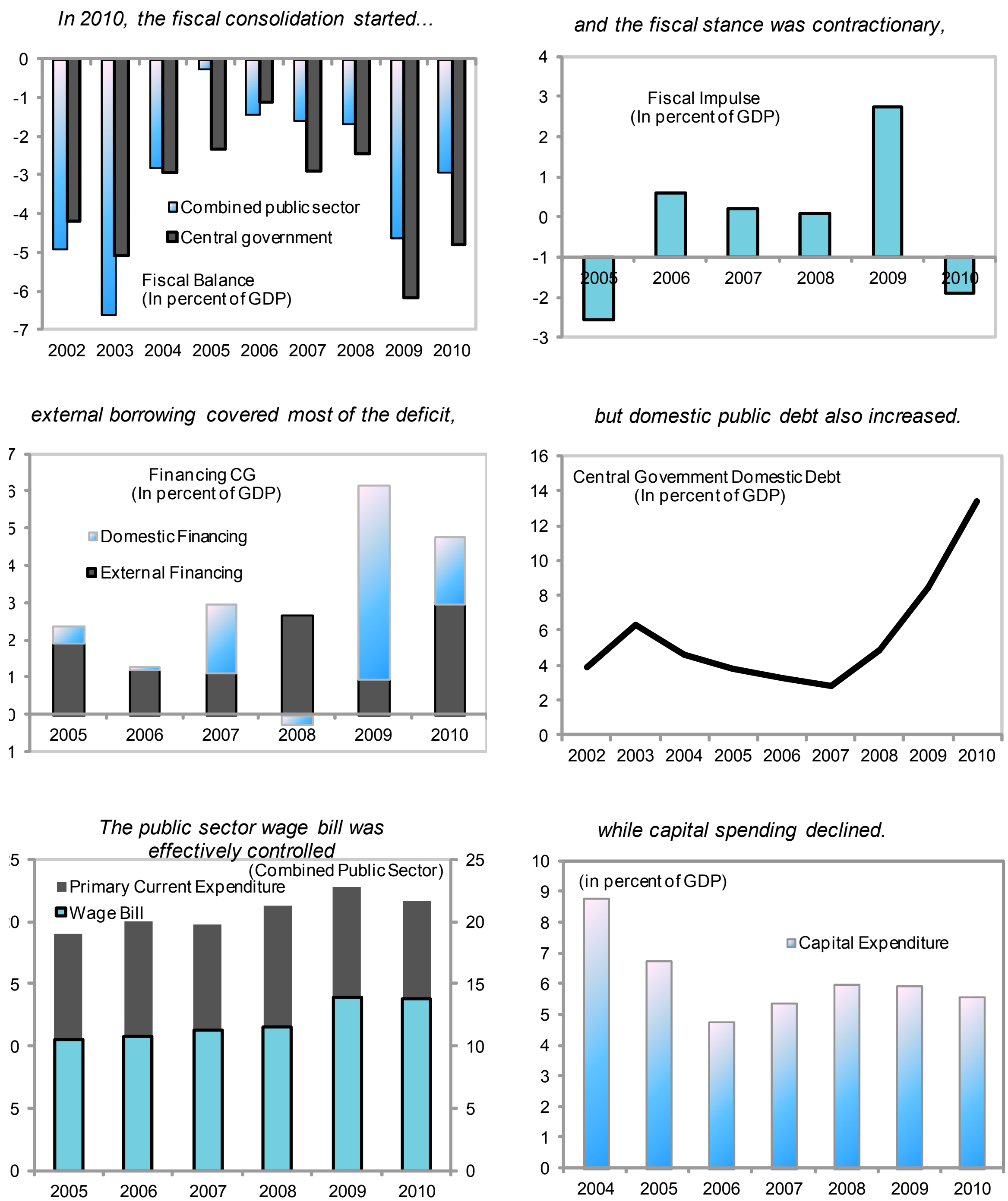
Following the sharp decline in activity in 2009, the economy is recovering at a slow pace



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

Figure 2. Honduras: Fiscal Developments

In 2010, tax revenues increased and current expenditure was contained.

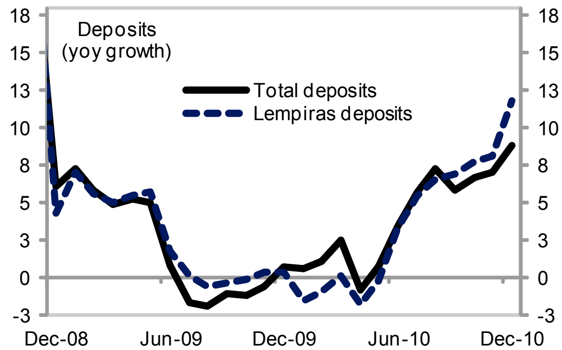


Sources: Ministry of Finance; and Fund staff estimates.

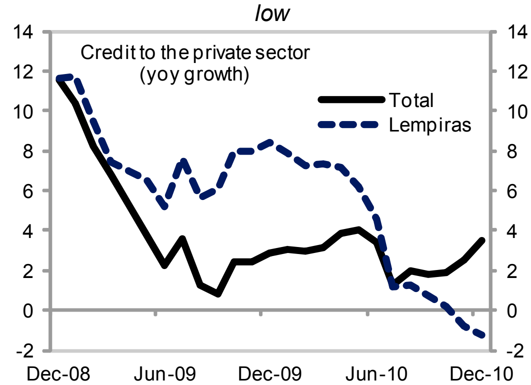
Figure 3. Honduras: Monetary and Financial Developments

With growing deposits and sluggish credit, banks increased their net position at the central bank

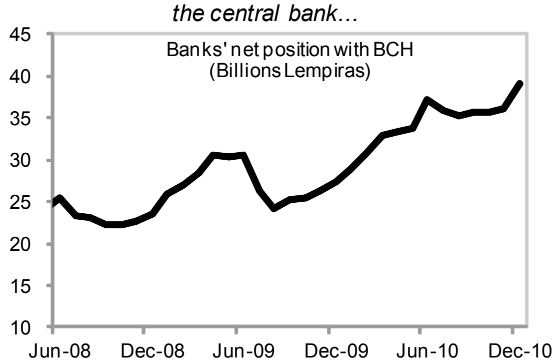
Deposits growth picked up in mid-year



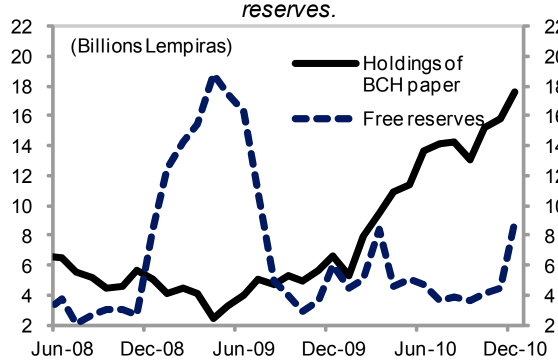
But private sector credit growth remains low



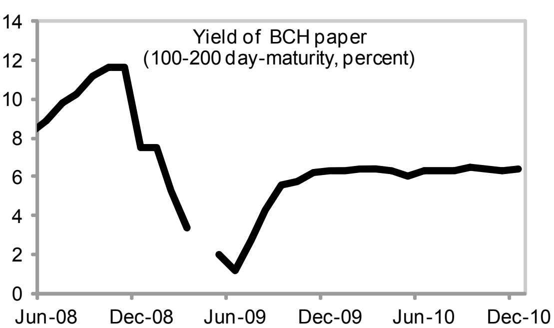
As a result, banks increased their net position with the central bank...



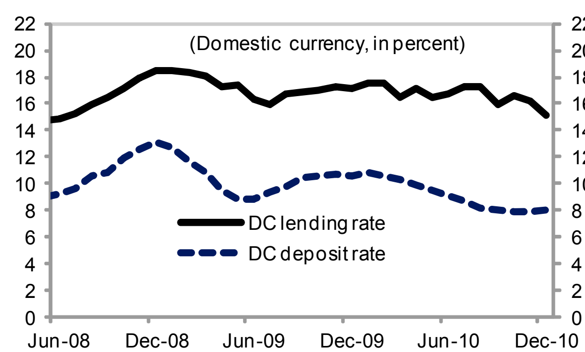
in the form of central bank paper and free reserves.



Yields on central bank paper have not changed.



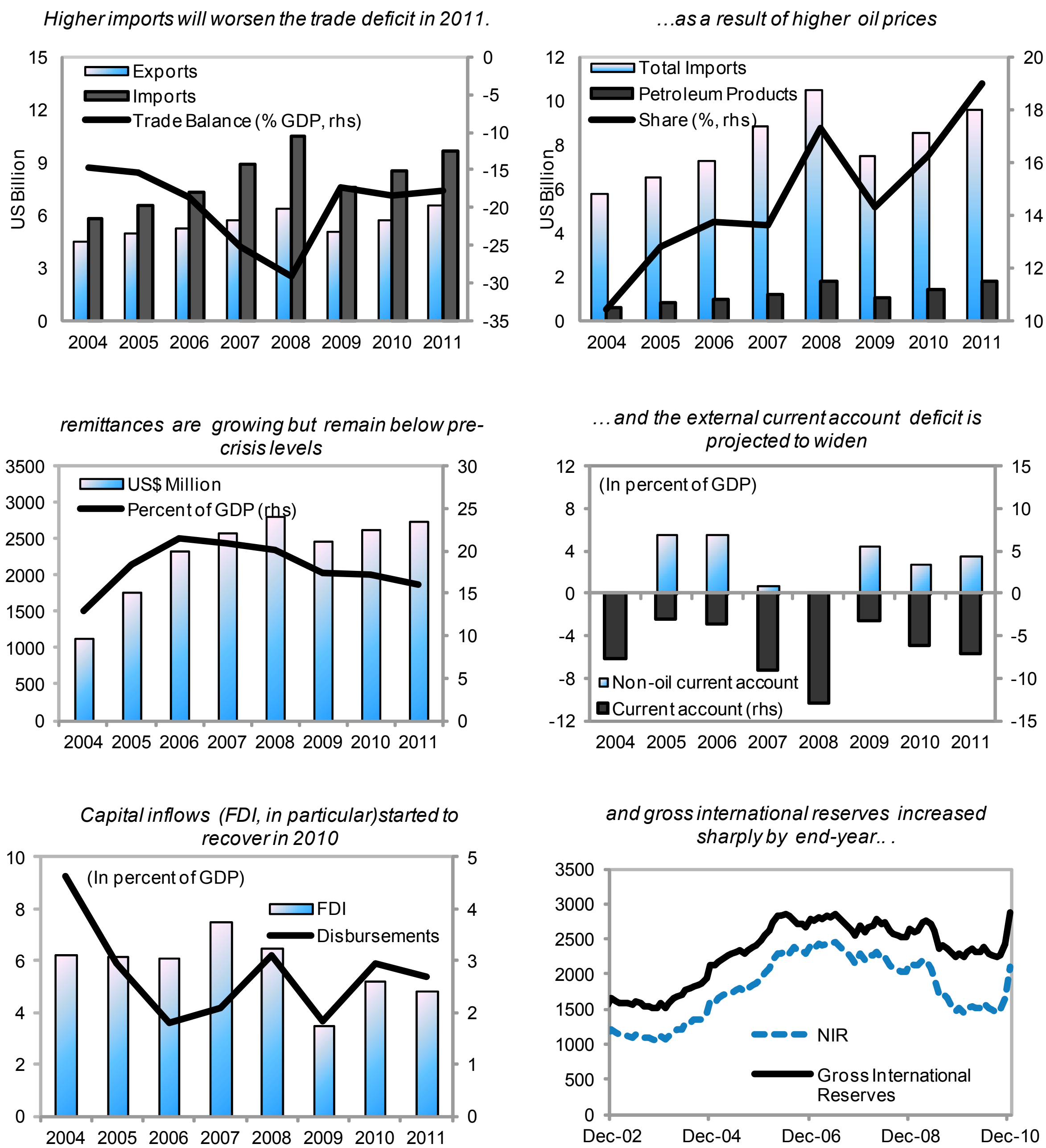
and interest rate spreads remain stable.



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

Figure 4. Honduras: External Sector Developments

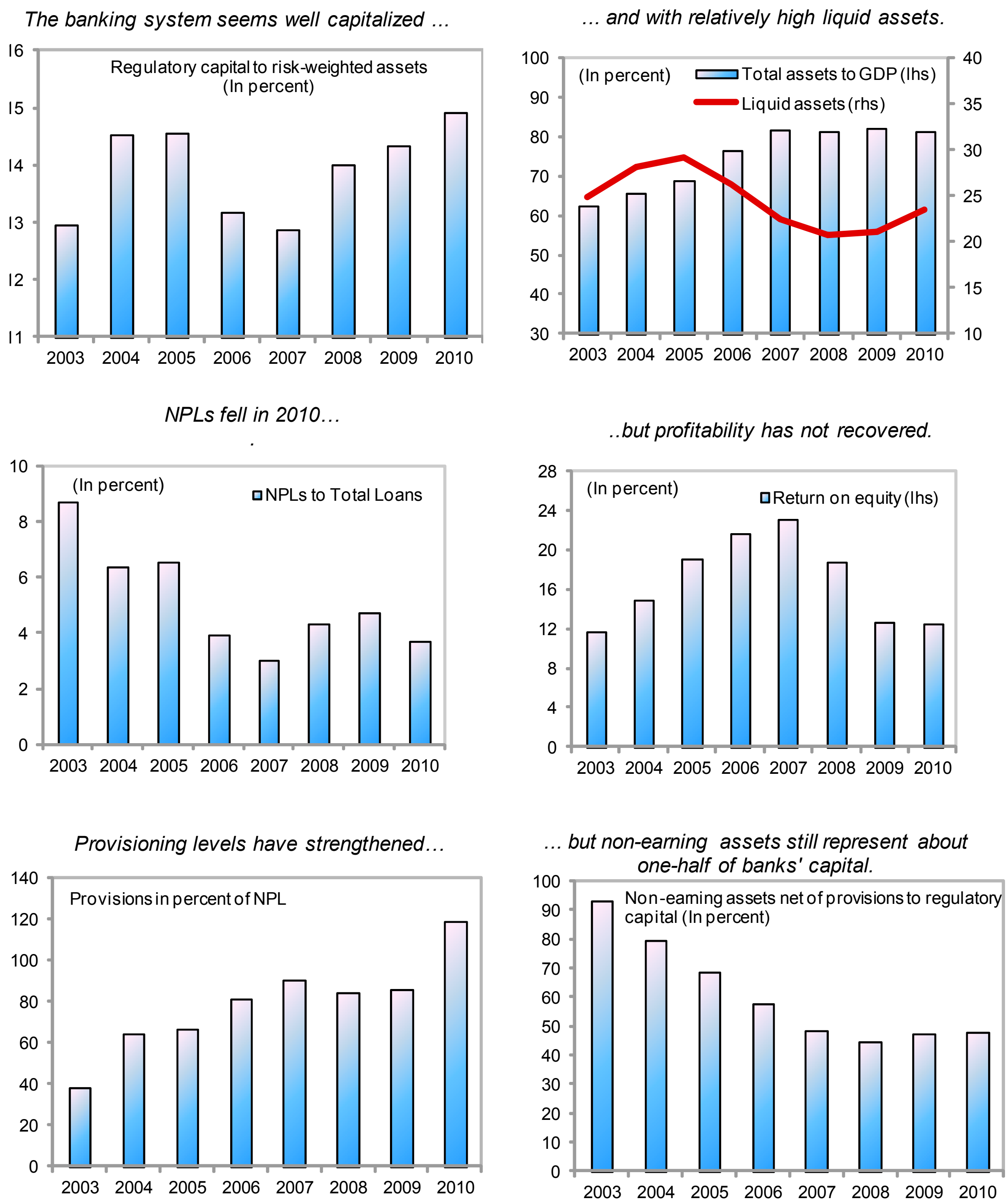
Remittances and exports are recovering, but higher oil prices will worsen the current account deficit.



Source: Central Bank of Honduras, and Fund staff estimates.

Figure 5. Honduras: Financial Sector Developments

Financial indicators have recovered, including NPL and provisioning ratios.



Source: National Commission of Banking and Insurance.

Table 1. Honduras: Selected Economic Indicators

I. Social Indicators

Population	7.61 million	Life expectancy at birth in years (2007)	70
Per capita income in U.S. dollars (PPP, 2010)	4,405	Adult literacy (ages 15 and above, 2007	83.6 percent
Rank in UNDP Development Index (2009)	112 of 182	Percent of pop. below poverty line (2007	64
Unemployment rate (2009)	4.3	Gini index	55
Underemployment rate (2009)	36.0	Oil imports (2010 actual)	US$1.4 billion
Net FDI (as percent of GDP, 2010)	5.2	Main exports coffee, bananas, shrimp, and maquila	

II. Economic Indicators

			Prog. 1/	Prel.	Prog. 1/	Proj.	Proj.
	2008	2009	2010		2011		2012
	(Annual percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	4.0	-1.9	2.4	2.8	3.5	3.5	4.0
GDP deflator	7.6	4.3	4.9	5.7	4.0	7.8	7.5
Consumer prices (end of period, eop)	10.8	3.0	5.7	6.5	5.8	8.0	6.5
Exchange rate (eop, depreciation -)							
Lempiras per U.S. dollar	0.0	0.0	...	0.0	...	...	...
Real effective rate	4.9	7.8	...	1.7	...	...	...
Money and credit							
Net domestic assets of the financial system	8.6	9.1	5.1	3.5	12.0	8.1	8.1
Combined public sector credit 2/	4.8	15.5	5.8	4.3	8.5	-0.6	1.1
Private sector credit	9.9	5.0	4.1	3.3	8.9	9.2	9.9
Broad money	5.3	1.1	5.6	9.4	8.0	8.9	9.1
Lending rate (eop, in percent)	17.6	17.1	...	15.1	...	...	...
Deposit rate (eop, in percent)	9.2	10.6	...	8.0	...	...	...
	(In percent of GDP)						
Combined public sector							
Noninterest revenue and grants	24.6	23.2	23.1	23.4	23.3	22.0	22.4
Noninterest expenditure	27.3	28.7	27.2	26.8	26.2	25.0	24.3
Primary balance	-2.7	-5.5	-4.1	-3.5	-3.0	-3.0	-1.9
Net interest payments	-1.0	-0.9	-0.4	-0.6	0.1	0.1	0.3
Savings	2.7	-0.9	-0.3	0.6	1.5	0.9	2.2
Capital expenditure	6.0	5.9	5.1	5.6	5.8	5.3	5.6
Overall balance	**-1.7**	**-4.6**	**-3.7**	**-2.9**	**-3.1**	**-3.1**	**-2.2**
External financing	2.7	0.9	3.1	2.6	2.8	2.6	2.0
Domestic financing	-0.9	3.8	0.6	0.4	0.3	0.5	0.0
Savings and investment							
Fixed capital formation	32.6	22.6	22.0	23.4	23.4	23.0	23.7
Gross national savings	19.7	0.2	15.9	17.2	16.5	15.8	16.6
	(In millions of U. S. dollars, unless otherwise indicated)						
Balance of payments							
Gross international reserves 3/	2,691	2,331	2,385	2,931	2,606	3,161	3,366
(In months of imports) 4/	4.7	3.5	3.4	3.9	3.5	4.0	4.0
Change in net international reserves (increase -) 3/	57	344	-60	-603	-227	-229	-205
Change in net international reserves (increase -) 3/ 5/	120	655	-50	-575	-220	-227	-198
External current account balance (percent of GDP)	-15.4	-3.7	-6.3	-6.2	-6.9	-7.0	-6.9
(Excluding official transfers)	-16.5	-4.5	-7.0	-7.0	-7.7	-7.5	-7.7
Exports, f.o.b. (annual percentage change) 6/	7.2	-22.2	7.1	19.0	7.4	15.3	5.8
Imports, f.o.b. (annual percentage change) 6/	17.6	-30.2	6.7	17.1	6.3	12.4	6.6
Public sector debt (in percent of GDP) 7/	19.8	23.9	26.1	26.3	27.2	26.5	26.4
Public sector external debt (in percent of GDP) 7/	16.3	17.4	17.6	18.4	19.0	18.9	19.6
Public sector external debt service							
(In percent of exports of goods and services) 8/	1.2	3.4	1.4	1.3	1.6	1.4	1.3

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

1/ Original program projections (See IMF Country Report 10/322).
2/ In relation to base money at the beginning of the period.
3/ Includes the one-off allocation of SDR 104.8 million in August, 2009.
4/ Refers to the following year's imports of nonmaquila goods and nonfactor services.
5/ Excluding foreign currency reserve requirements, obligatory investments, as well as deposits by Hondutel.
6/ Goods only.
7/ Includes medium- and long-term public- and publicly-guaranteed external debt after HIPC, beyond HIPC, and MDRI. All external debt is denominated in foreign currency.
8/ Debt service paid.

Table 2a. Honduras: Operations of the Central Government

(In millions of Lempiras)

	Prel.	Prog.1/	Prel.	Prog.1/	Proj.
	2009	2010		2011	
Total revenue and grants	**47,007**	**52,469**	**50,494**	**57,340**	**56,512**
Current revenue	41,987	47,645	46,416	54,252	53,524
Tax revenue	39,035	44,054	43,172	50,322	49,813
Grants	5,020	4,824	4,078	3,088	2,988
Total expenditure	**63,669**	**65,568**	**64,466**	**68,068**	**67,787**
Current expenditure	51,351	54,275	53,668	54,633	54,792
Wages and salaries	29,938	32,235	31,908	32,235	32,235
Goods and services	8,235	7,390	7,408	7,702	7,590
Transfers	11,169	9,578	9,578	8,712	8,847
Interest payments	2,009	3,069	2,892	4,061	4,048
External	837	771	710	856	842
Domestic	1,172	2,298	2,182	3,205	3,205
Other current expenditure	0	2,003	1,882	1,922	2,072
Capital expenditure	14,145	10,755	11,185	13,435	12,995
Net lending	-1,827	538	-387	0	0
Overall balance	**-16,662**	**-13,099**	**-13,972**	**-10,728**	**-11,275**
Financing	**16,662**	**13,099**	**13,972**	**10,728**	**11,275**
External financing	**2,632**	**8,826**	**7,492**	**8,375**	**8,170**
Disbursements 2/	5,851	8,773	8,335	8,708	8,488
Amortization	-3,129	-901	-1,161	-1,068	-1,055
Zero coupon bonds	-109	-115	-116	-125	-137
Exceptional financing 3/	560	1,069	473	860	860
Change in arrears	-541	0	-40	0	0
Domestic financing	**14,086**	**4,273**	**6,558**	**2,353**	**3,105**
Financial system	6,218	1,715	3,186	8,261	2,259
Rest of the financial system	2,027	4,472	1,700	3,709	72
Central bank	4,191	-2,757	1,487	4,552	2,187
Bonds outside the financial system	2,188	8,100	9,782	-509	2,974
Rest of the NFPS	2,168	7,283	9,069	409	1,337
Other	94	817	787	-918	1,637
Financial stabilization bonds	-74	0	-74	0	0
Floating debt 4/	5,680	-5,542	-6,410	-5,400	-2,128
Statistical discrepancy	-56	…	-78	…	0

Sources: Honduran authorities; and Fund staff estimates.

1/ Original program projections (See IMF Country Report 10/322).
2/ Projection for 2011 includes possible budget support from multilateral banks.
3/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.
4/ Wage and suppliers arrears and other unsettled payments in 2010-11.

Table 2b. Honduras: Operations of the Central Government

(In percent of GDP)

	Prel.	Prog.1/	Prel.	Prog.1/	Proj.	Proj.
	2009	2010		2011		2012
Total revenue and grants	**17.4**	**18.0**	**17.4**	**18.3**	**17.4**	**17.4**
Current revenue	15.5	16.4	16.0	17.3	16.5	16.0
Tax revenue	14.4	15.1	14.8	16.1	15.4	15.5
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0
Grants	1.9	1.7	1.4	1.0	0.9	1.4
Total expenditure	**23.5**	**22.5**	**22.2**	**21.7**	**20.9**	**19.8**
Current expenditure	19.0	18.7	18.4	17.4	16.9	15.5
Wages and salaries	11.1	11.1	11.0	10.3	9.9	8.9
Goods and services	3.0	2.5	2.5	2.5	2.3	2.0
Transfers	4.1	3.3	3.3	2.8	2.7	2.7
Interest payments	0.7	1.1	1.0	1.3	1.2	1.4
External	0.3	0.3	0.2	0.3	0.3	0.3
Domestic	0.4	0.8	0.7	1.0	1.0	1.2
Other current expenditure	0.0	0.7	0.6	0.6	0.6	0.5
Capital expenditure	5.2	3.7	3.8	4.3	4.0	4.3
Overall balance	**-6.2**	**-4.5**	**-4.8**	**-3.4**	**-3.5**	**-2.5**
Financing	**6.2**	**4.5**	**4.8**	**3.4**	**3.5**	**2.5**
External financing	**1.0**	**3.0**	**2.6**	**2.7**	**2.5**	**2.1**
Disbursements 2/	2.2	3.0	2.9	2.8	2.6	…
Amortization	-1.2	-0.3	-0.4	-0.3	-0.3	…
Exceptional financing 3/	0.2	0.4	0.2	0.3	0.3	…
Domestic financing	**5.2**	**1.5**	**2.3**	**0.8**	**1.0**	**0.4**
Financial system	2.3	0.6	1.1	2.6	0.7	…
Rest of the financial system	0.7	1.5	0.6	1.2	0.0	…
Central bank	1.5	-0.9	0.5	1.5	0.7	…
Bonds outside the financial system	0.8	2.8	3.4	-0.2	0.9	…
Floating debt 4/	2.1	-1.9	-2.2	-1.7	-0.7	…
Privatization/deposits abroad	0.0	0.0	0.0	0.0	0.0	…
Other	0.0	0.0	0.0	0.0	0.0	…
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Nominal GDP (billion of Lempiras)	270.5	290.9	291.0	313.1	324.4	362.6

Sources: Honduran authorities; and Fund staff estimates.

1/ Original program projections (See IMF Country Report 10/322).
2/ Projection for 2011 includes possible budget support from multilateral banks.
3/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.
4/ Wage and suppliers arrears and other unsettled payments in 2010-11.

Table 2c. Honduras: Operations of the Central Government, 2010–11
(Quarterly Data; In millions of Lempiras)

	Program (Cummulative)				Program (Quarterly Flows)			
	Mar-11	Jun-11	Sep-11	Dec-11	Mar-11	Jun-11	Sep-11	Dec-11
Total revenue and grants	**10,618**	**27,395**	**41,708**	**56,512**	**10,618**	**16,777**	**14,313**	**14,804**
Current revenue	9,912	26,270	39,664	53,524	9,912	16,358	13,394	13,860
Tax revenue	8,989	24,573	36,961	49,813	8,989	15,584	12,388	12,852
Grants	706	1,125	2,043	2,988	706	418	919	945
Total expenditure	**14,562**	**31,921**	**47,855**	**67,787**	**14,562**	**17,359**	**15,934**	**19,931**
Current expenditure	11,810	26,213	39,460	54,792	11,810	14,403	13,248	15,331
Wages and salaries	6,905	15,917	22,779	32,235	6,905	9,012	6,862	9,456
Goods and services	1,515	3,036	5,366	7,590	1,515	1,521	2,330	2,224
Transfers	2,026	4,441	6,989	8,847	2,026	2,415	2,548	1,858
Interest payments	953	1,990	3,058	4,048	953	1,036	1,068	990
External	239	414	678	843	239	175	265	164
Domestic	714	1,576	2,379	3,205	714	862	803	826
Other current expenditure	410	829	1,268	2,072	410	418	439	804
Capital expenditure	2,752	5,709	8,395	12,995	2,752	2,956	2,686	4,600
Net lending	0	0	0	0	0	0	0	0
Overall balance	**-3,944**	**-4,526**	**-6,148**	**-11,275**	**-3,944**	**-582**	**-1,621**	**-5,127**
Financing	**3,944**	**4,526**	**6,148**	**11,275**	**3,944**	**582**	**1,621**	**5,127**
External financing	**794**	**2,611**	**6,562**	**8,170**	**794**	**1,817**	**3,951**	**1,608**
Disbursements 1/	941	3,006	6,844	8,488	941	2,065	3,838	1,645
Amortization	-232	-493	-762	-1,055	-232	-261	-269	-293
Zero coupon bonds	-61	-61	-123	-123	-61	0	-63	0
Exceptional financing 2/	146	159	603	860	146	12	445	257
Change in arrears	0	0	0	0	0	0	0	0
Domestic financing	**3,150**	**1,913**	**-415**	**3,105**	**3,150**	**-1,237**	**-2,328**	**3,520**
Financial system	2,064	1,293	60	2,259	2,064	-771	-1,233	2,199
Rest of the financial system	1,798	561	-1,071	72	1,798	-1,236	-1,632	1,143
Central bank	266	732	1,131	2,187	266	466	399	1,056
Bonds outside the financial system	1,193	2,124	2,923	2,974	1,193	931	798	51
Rest of the NFPS	341	806	1,206	1,337	341	466	399	132
Other	852	1,318	1,717	1,637	852	466	399	-81
Financial stabilization bonds	0	0	0	0	0	0	0	0
Floating debt 3/	-107	-1,504	-3,398	-2,128	-107	-1,397	-1,894	1,270
Statistical discrepancy	0	0	0	0	0	0	0	0

Sources: Honduran authorities; and Fund staff estimates.

1/ Projection for 2011 includes possible budget support from multilateral banks.

2/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

3/ Wage and suppliers arrears and other unsettled payments.

Table 3a. Honduras: Operations of the Combined Public Sector [1/]

(In millions of Lempiras)

	2009	2010		2011	
	Prel.	Prog.2/	Prel.	Prog. 2/	Proj.
Total revenue and grants	**67,151**	**71,341**	**72,261**	**76,618**	**75,038**
Current revenue	61,570	65,860	67,586	72,814	71,312
Tax revenue	40,575	45,987	45,141	52,244	51,930
Nontax revenue	13,259	14,494	14,736	14,728	14,567
Interest earnings 3/	4,254	4,212	4,279	3,699	3,686
Operating balance of public enterprises	3,481	1,167	3,430	2,143	1,129
Capital revenue	545	619	591	701	701
Grants	5,036	4,862	4,084	3,103	3,025
Total expenditure	**79,645**	**82,241**	**80,734**	**86,318**	**85,138**
Current expenditure	63,890	66,829	65,746	68,066	68,385
Wages and salaries	37,673	39,742	40,073	40,222	40,054
Goods and services	12,691	10,576	10,629	11,208	11,023
Transfers	7,561	8,878	8,407	8,008	8,465
Operating losses of the central bank	788	807	644	1,014	1,119
Interest payments	1,884	3,070	2,613	4,140	4,116
External	845	880	723	972	954
Domestic	1,039	2,190	1,889	3,168	3,162
Other	3,294	3,756	3,381	3,474	3,608
Capital expenditure	16,075	14,873	16,245	18,253	17,158
Net lending	-320	538	-1,257	0	-405
Overall balance	**-12,494**	**-10,900**	**-8,473**	**-9,700**	**-10,100**
Financing	**12,494**	**10,900**	**8,473**	**9,700**	**10,100**
External financing	**2,440**	**9,141**	**7,485**	**8,778**	**8,455**
Disbursements 4/	5,851	9,089	8,429	9,111	8,773
Amortization	-3,323	-901	-1,258	-1,068	-1,055
Zero coupon bonds	-109	-115	-116	-125	-123
Exceptional financing 5/	562	1,069	473	860	860
Domestic financing	**10,280**	**1,759**	**1,297**	**922**	**1,645**
Financial system	8,337	2,987	998	4,486	-483
Central bank	7,931	-2,207	1,083	4,568	309
Net credit to the NFPS	7,143	-3,014	439	4,625	681
Operating balance of the central bank	788	807	644	1,014	1,119
Rest of the financial system	406	5,194	-85	-82	-792
Bonds outside the financial system	369	817	798	-918	1,556
Financial stabilization bonds	-18	0	-18	0	
Floating debt 6/	969	-2,045	-708	-2,646	572
Privatization proceeds/deposits abroad	623	0	209	0	0
Statistical discrepancy	-226	0	-309	0	0

Sources: Honduran authorities; and Fund staff estimates.

1/ Includes central government, social security institutions, public enterprises, local governments and decentralized a

2/ Original program projections (See IMF Country Report 10/322).

3/ Interest earned on public pension funds personal and housing loans to their affiliates.

4/ Projection for 2011 includes possible budget support from multilateral banks.

5/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

6/ Wage and suppliers arrears and other unsettled payments in 2010-11.

Table 3b. Honduras: Operations of the Combined Public Sector [1/]

(In percent of GDP)

	Prel.	Prog.2/	Prel.	Prog.2/	Proj.	Proj.
	2009	2010		2011		2012
Total revenue and grants	**24.8**	**24.5**	**24.8**	**24.5**	**23.1**	**23.5**
Current revenue	22.8	22.6	23.2	23.3	22.0	22.3
Tax revenue	15.0	15.8	15.5	16.7	16.0	16.1
Nontax revenue	4.9	5.0	5.1	4.7	4.5	4.7
Interest earnings 3/	1.6	1.4	1.5	1.2	1.1	1.1
Operating balance of public enterprises	1.3	0.4	1.2	0.7	0.3	0.3
Capital revenue	0.2	0.2	0.2	0.2	0.2	0.2
Grants	1.9	1.7	1.4	1.0	0.9	1.2
Total expenditure	**29.4**	**28.3**	**27.7**	**27.6**	**26.2**	**25.7**
Current expenditure	23.6	23.0	22.6	21.7	21.1	20.1
Wages and salaries	13.9	13.7	13.8	12.8	12.3	11.0
Goods and services	4.7	3.6	3.7	3.6	3.4	3.5
Transfers	2.8	3.1	2.9	2.6	2.6	2.6
Operating losses of the central bank	0.3	0.3	0.2	0.3	0.3	0.3
Interest payments	0.7	1.1	0.9	1.3	1.3	1.4
External	0.3	0.3	0.2	0.3	0.3	0.3
Domestic	0.4	0.8	0.6	1.0	1.0	1.0
Other	1.2	1.3	1.2	1.1	1.1	1.2
Capital expenditure	5.9	5.1	5.6	5.8	5.3	5.6
Net lending	-0.1	0.2	-0.4	0.0	-0.1	0.0
Overall balance	**-4.6**	**-3.7**	**-2.9**	**-3.1**	**-3.1**	**-2.2**
Financing	**4.6**	**3.7**	**2.9**	**3.1**	**3.1**	**2.2**
External financing	**0.9**	**3.1**	**2.6**	**2.8**	**2.6**	**2.0**
Disbursements 4/	2.2	3.1	2.9	2.9	2.7	…
Amortization	-1.2	-0.3	-0.4	-0.3	-0.3	…
Exceptional financing 5/	0.2	0.4	0.2	0.3	0.3	…
Domestic financing	**3.8**	**0.6**	**0.4**	**0.3**	**0.5**	**0.0**
Financial system	3.1	1.0	0.3	1.4	-0.1	…
Central bank	2.9	-0.8	0.4	1.5	0.1	…
Net credit to the NFPS	2.6	-1.0	0.2	1.5	0.2	…
Operating balance of the central bank	0.3	0.3	0.2	0.3	0.3	…
Rest of the financial system	0.2	1.8	0.0	0.0	-0.2	…
Bonds outside the financial system	0.1	0.3	0.3	-0.3	0.5	…
Financial stabilization bonds	0.0	0.0	0.0	0.0	0.0	…
Floating debt 6/	0.4	-0.7	-0.2	-0.8	0.2	…
Privatization proceeds / deposits abroad	0.2	0.0	0.1	0.0	0.0	…
Statistical discrepancy	-0.1	0.0	-0.1	0.0	0.0	0.0
Memorandum items:						
Nominal GDP (billion of Lempiras)	270.5	290.9	291.0	313.1	324.4	362.6

Sources: Honduran authorities; and Fund staff estimates.

1/ Includes central government, social security institutions, public enterprises, local governments and decentralized agencies.

2/ Original program projections (See IMF Country Report 10/322).

3/ Interest earned on public pension funds personal and housing loans to their affiliates.

4/ Projection for 2011 includes possible budget support from multilateral banks.

5/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

6/ Wage and suppliers arrears and other unsettled payments in 2010-11.

Table 3c. Honduras: Operations of the Combined Public Sector, 2010–11 1/

(Quarterly Data; In millions of lempiras)

	Program (Cummulative)				Program (Quarterly Flows)			
	Mar-11	Jun-11	Sep-11	Dec-11	Mar-11	Jun-11	Sep-11	Dec-11
Total revenue and grants	**14,373**	**35,725**	**54,495**	**75,038**	**14,373**	**21,352**	**18,770**	**20,543**
Current revenue	13,487	34,283	52,012	71,312	13,487	20,796	17,729	19,299
Tax revenue	9,462	25,534	38,468	51,930	9,462	16,071	12,934	13,462
Nontax revenue	3,357	7,220	10,803	14,567	3,357	3,863	3,583	3,763
Interest earnings 2/	710	1,674	2,645	3,686	710	964	971	1,041
Operating balance of public enterprises	-43	-144	96	1,129	-43	-102	240	1,033
Capital revenue	160	293	409	701	160	134	115	293
Grants	726	1,148	2,074	3,025	726	422	926	951
Total expenditure	**19,088**	**40,646**	**61,565**	**85,138**	**19,088**	**21,558**	**20,920**	**23,573**
Current expenditure	14,954	32,808	49,131	68,385	14,954	17,853	16,323	19,255
Wages and salaries	8,780	19,544	28,187	40,054	8,780	10,765	8,643	11,867
Goods and services	2,132	4,598	7,609	11,023	2,132	2,466	3,011	3,414
Transfers	2,298	4,587	6,901	8,465	2,298	2,289	2,315	1,564
Operating losses of the central bank	179	519	882	1,119	179	340	362	238
Interest payments	837	1,903	2,998	4,116	837	1,067	1,095	1,118
External	267	454	741	954	267	186	288	213
Domestic	569	1,450	2,257	3,162	569	880	807	905
Other	729	1,656	2,553	3,608	729	927	897	1,055
Capital expenditure	3,982	7,307	11,554	17,158	3,982	3,325	4,247	5,604
Net lending	151	531	881	-405	151	380	350	-1,286
Overall balance	**-4,715**	**-4,921**	**-7,070**	**-10,100**	**-4,715**	**-206**	**-2,149**	**-3,030**
Financing	**4,715**	**4,921**	**7,070**	**10,100**	**4,715**	**206**	**2,149**	**3,030**
External financing	**817**	**2,717**	**6,723**	**8,455**	**817**	**1,900**	**4,006**	**1,732**
Disbursements 3/	964	3,112	7,005	8,773	964	2,148	3,893	1,768
Amortization	-232	-493	-762	-1,055	-232	-261	-269	-293
Zero coupon bonds	-61	-61	-123	-123	-61	0	-63	0
Exceptional financing 4/	146	159	603	860	146	12	445	257
Domestic financing	**3,898**	**2,204**	**347**	**1,645**	**3,898**	**-1,694**	**-1,857**	**1,298**
Financial system	1,033	-229	-591	-483	1,033	-1,263	-362	109
Central bank	1,293	441	-629	309	1,293	-852	-1,070	938
Net credit to the NFPS	-1,113	78	1,510	681	-1,113	1,192	1,432	-829
Operating balance of the central bank	179	519	882	1,119	179	340	362	238
Rest of the financial system	-259	-671	37	-792	-259	-411	708	-829
Bonds outside the financial system	772	1,237	1,637	1,556	772	466	399	-81
Financial stabilization bonds	0	0	0	0	0	0	0	0
Floating debt 5/	2,093	1,196	-698	572	2,093	-897	-1,894	1,270
Privatization proceeds/deposits abroad	0	0	0	0	0	0	0	0
Statistical discrepancy	0	0	0	0	0	0	0	0

Sources: Honduran authorities; and Fund staff estimates.

1/ Includes central government, social security institutions, public enterprises, local governments and decentralized agencies.

2/ Interest earned on public pension funds personal and housing loans to their affiliates.

3/ Projection for 2011 includes possible budget support from multilateral banks.

4/ Includes debt forgiveness, accumulation, rescheduling, payment and/or forgiveness of arrears.

5/ Wage and suppliers arrears and other unsettled payments.

Table 4. Honduras: Summary Accounts of Central Bank and Financial System

(End-December)

	2008	2009	2010 Prog. 1/	2010 Prel.	2011 Prog. 1/	2011 Proj.
			(In millions of Lempiras)			
			I. Central Bank			
Net International Reserves 2/	**46,482**	**39,988**	**41,128**	**51,382**	**46,775**	**56,542**
(In millions of US$)	2,460	2,116	2,177	2,719	2,403	2,948
Net International Reserves (in millions of US$, TMU) 3/	2,162	1,507	1,557	2,082	1,777	2,309
Net Domestic Assets	**-30,014**	**-22,283**	**-22,784**	**-31,449**	**-26,871**	**-34,319**
Credit to the public sector (net)	-430	6,188	3,935	8,050	8,523	8,422
Other depository institutions (net)	-23,780	-27,436	-27,572	-39,946	-34,838	-42,600
Other financial institutions	-2,078	4,945	6,916	6,171	6,616	6,263
Nonfinancial private sector	-484	-135	-252	-119	-252	-310
Medium and long-term net foreign assets	604	949	746	980	792	976
Other items net	-3,845	-6,793	-6,558	-6,584	-7,711	-7,070
Currency	**16,468**	**17,706**	**18,344**	**19,933**	**19,904**	**22,223**
			II. Other Depository Institutions			
Net Foreign Assets	**1,213**	**3,246**	**4,864**	**1,189**	**5,090**	**1,369**
(In millions of US$)	64	172	257	63	262	74
Foreign assets (in million of US$)	813	642	691	559	662	612
Foreign liabilities (in millions of US$)	-749	-470	-428	-496	-428	-541
Net Domestic Assets	**123,552**	**122,660**	**128,013**	**135,378**	**138,648**	**147,740**
Credit to the monetary authorities (net)	28,392	32,171	31,869	45,194	39,397	48,319
Credit to other financial institutions (net)	-7,967	-15,670	-19,403	-19,063	-21,736	-20,267
Credit to the combined public sector	-2,789	-2,120	2,946	-1,725	2,896	-2,512
Central government	-5,994	-5,313	-248	-5,230	-497	-6,228
Other nonfinancial public sector	648	656	656	741	656	752
Local governments	2,557	2,537	2,537	2,764	2,737	2,964
Credit to the private sector	134,732	138,660	144,553	143,460	154,263	156,603
Local currency	101,310	109,902	114,768	108,577	125,269	118,959
Foreign currency	33,422	28,758	29,785	34,883	28,994	37,644
Other items net	-28,815	-30,381	-31,952	-32,487	-36,173	-34,403
Liabilities	**124,765**	**125,906**	**132,876**	**136,567**	**143,738**	**149,109**
Of which: Deposits in domestic currency	87,595	87,839	93,183	98,341	101,387	108,073
Of which: Deposits in foreign currency	35,989	36,811	38,588	37,107	41,246	39,930
			III. Financial System			
Net Foreign Assets	**47,744**	**41,098**	**43,855**	**50,627**	**49,729**	**55,966**
(In millions of US$)	2,527	2,175	2,321	2,679	2,555	2,918
Net Domestic Assets	**89,430**	**97,535**	**102,238**	**100,970**	**108,519**	**109,164**
Credit to the nonfinancial combined public sector	-3,219	4,068	6,880	6,324	11,419	5,910
Credit to the private sector	135,546	142,289	148,183	147,051	157,893	160,553
Local currency	101,310	112,524	117,368	111,359	127,869	121,959
Foreign currency	34,236	29,765	30,815	35,693	30,024	38,594
Other assets net	-5,324	-6,737	-9,404	-8,423	-10,722	-10,281
Other items net 4/	-37,572	-42,085	-43,422	-43,983	-50,072	-47,018
Broad Money (M4)	**137,174**	**138,632**	**146,093**	**151,597**	**158,248**	**165,130**
			(Rate of growth 12 months)			
Currency issue	0.6	7.5	3.6	12.6	8.5	11.5
Currency in circulation	-0.4	9.4	4.5	13.2	10.6	12.4
Broad money	5.3	1.1	5.5	9.4	8.3	8.9
Credit to the private sector	9.9	5.0	4.1	3.3	6.6	9.2
M1	2.0	5.0	4.8	15.4	9.4	7.1
Memorandum item						
NDA (millions Lempiras, TMU)	-24,383	-10,765	-11,080	-19,408	-13,676	-21,404

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

1/ Original program projections (See IMF Country Report 10/322).

2/ Includes allocation of SDR 104.8 million in August, 2009.

3/ Excluding domestic liabilities in foreign currency and deposits of Hondutel.

4/ Includes the revaluation account reflecting changes in the value of assets due to exchange rate fluctuations.

Table 4a. Honduras: Summary Accounts of Central Bank and Financial System

Quarterly Data

	Mar-10	Jun-10	Sep-10	Prel. Dec-10	Projections Mar-11	Jun-11	Sep-11	Dec-11
				(In millions of Lempiras)				
				I. Central Bank				
Net International Reserves 1/	**41,464**	**41,719**	**39,108**	**51,382**	**55,732**	**55,495**	**55,989**	**56,542**
(In millions of US$)	2,194	2,208	2,070	2,719	2,950	2,937	2,941	2,948
Net International Reserves (in millions of US$, TMU) 2	1,533	1,597	1,450	2,082	2,310	2,299	2,303	2,309
Net Domestic Assets	**-24,893**	**-26,206**	**-24,952**	**-31,449**	**-37,931**	**-37,059**	**-39,206**	**-34,319**
Credit to the public sector (net)	8,284	10,483	10,869	8,050	9,292	8,451	7,373	8,422
Other depository institutions (net)	-32,993	-37,432	-36,191	-39,946	-47,440	-45,988	-46,876	-42,600
Other financial institutions	5,769	6,517	6,232	6,171	6,305	6,206	6,236	6,263
Nonfinancial private sector	-109	-185	-223	-119	-300	-302	-301	-310
Medium- and long-term net foreign assets	949	1,000	952	980	935	986	946	976
Other items net	-6,793	-6,589	-6,590	-6,584	-6,723	-6,413	-6,583	-7,070
Currency	**16,571**	**15,513**	**14,156**	**19,933**	**17,801**	**18,436**	**16,783**	**22,223**
				II. Other Depository Institutions				
Net Foreign Assets	**4,250**	**4,530**	**4,894**	**1,189**	**904**	**890**	**1,142**	**1,369**
(In millions of US$)	225	240	259	63	51	50	63	74
Foreign assets (in million of US$)	667	663	647	559	608	614	610	612
Foreign liabilities (in millions of US$)	-442	-424	-388	-496	-560	-567	-550	-541
Net Domestic Assets	**125,438**	**125,197**	**123,325**	**135,378**	**144,711**	**144,954**	**144,890**	**147,740**
Credit to the monetary authorities (net)	37,165	41,591	40,146	45,194	52,091	50,821	51,643	48,319
Credit to other financial institutions (net)	-17,614	-18,374	-18,941	-19,063	-18,945	-19,394	-19,836	-20,267
Credit to the combined public sector	-2,869	-5,241	-4,609	-1,725	-1,731	-1,936	-1,792	-2,512
Central government	-5,932	-8,443	-7,835	-5,230	-5,247	-5,451	-5,308	-6,228
Other nonfinancial public sector	611	709	707	741	752	752	752	752
Local governments	2,452	2,493	2,520	2,764	2,764	2,764	2,764	2,964
Credit to the private sector	139,088	138,806	138,591	143,460	147,449	149,757	149,212	156,603
Local currency	108,786	108,511	108,262	108,577	109,447	111,737	111,896	118,959
Foreign currency	30,303	30,295	30,329	34,883	38,002	38,021	37,316	37,644
Other items net	-30,331	-31,585	-31,862	-32,487	-34,153	-34,294	-34,336	-34,403
Liabilities	**129,688**	**129,727**	**128,219**	**136,567**	**145,614**	**145,844**	**146,032**	**149,109**
Of which: Deposits in domestic currency	90,145	91,977	90,648	98,341	104,362	105,060	105,567	108,073
Of which: Deposits in foreign currency	38,446	36,622	36,442	37,107	40,147	39,679	39,360	39,930
				III. Financial System				
Net Foreign Assets	**43,711**	**44,400**	**41,941**	**50,627**	**54,692**	**54,441**	**55,186**	**55,966**
(In millions of US$)	2,313	2,350	2,220	2,679	2,894	2,881	2,899	2,918
Net Domestic Assets	**98,877**	**97,317**	**96,919**	**100,970**	**103,591**	**104,525**	**102,381**	**109,164**
Credit to the nonfinancial combined public sector	5,415	5,242	6,260	6,324	7,560	6,515	5,580	5,910
Credit to the private sector	142,835	142,781	142,150	147,051	151,298	153,606	153,061	160,553
Local currency	111,542	111,452	110,974	111,359	112,376	114,666	114,825	121,959
Foreign currency	31,293	31,329	31,176	35,693	38,922	38,941	38,236	38,594
Other assets net	-7,336	-7,621	-8,128	-8,423	-9,480	-9,978	-10,106	-10,281
Other items net 3/	-42,037	-43,086	-43,364	-43,983	-45,788	-45,619	-46,155	-47,018
Broad Money (M4)	**142,588**	**141,717**	**138,860**	**151,597**	**158,282**	**158,966**	**157,567**	**165,130**
				(Rate of growth 12 months)				
Currency issue	13.6	3.3	-1.0	12.6	7.4	18.8	18.6	11.5
Currency in circulation	12.2	-0.1	-1.4	13.2	6.1	19.8	17.8	12.4
Broad money	4.2	4.5	5.8	9.4	11.0	12.2	13.5	8.9
Credit to the private sector	2.8	3.1	2.2	3.3	5.9	7.6	7.7	9.2
M1	6.0	4.5	4.7	15.4	11.6	19.7	20.5	7.1
Memorandum item								
NDA (millions Lempiras, TMU)	-12,399	-14,664	-13,240	-19,408	-25,841	-25,007	-26,727	-21,404

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

1/ Includes allocation of SDR 104.8 million in August 2009.

2/ Excluding domestic liabilities in foreign currency and deposits of Hondutel.

3/ Includes the revaluation account reflecting changes in the value of assets due to exchange rate fluctuations.

Table 5. Honduras: Balance of Payments

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

		Prog.[1/]	Prel.	Proj.					
	2009	2010	2010	2011	2012	2013	2014	2015	2016
Current account	**-517**	**-964**	**-955**	**-1,195**	**-1,268**	**-1,279**	**-1,314**	**-1,401**	**-1,415**
Trade balance	-2,475	-2,827	-2,808	-2,995	-3,241	-3,375	-3,484	-3,620	-3,781
Exports	4,825	5,571	5,742	6,618	7,004	7,433	7,856	8,322	8,813
Of which: maquila	2,507	2,909	2,979	3,240	3,457	3,692	3,943	4,207	4,485
Imports	-7,299	-8,398	-8,550	-9,613	-10,245	-10,809	-11,340	-11,942	-12,594
Of which: maquila	-1,600	-1,859	-1,890	-2,030	-2,142	-2,255	-2,377	-2,506	-2,641
Of which: petroleum products	-1,042	-1,565	-1,388	-1,828	-1,947	-2,025	-2,083	-2,175	-2,282
Services	-150	-239	-310	-339	-288	-299	-312	-322	-333
Of which: tourism receipts	616	650	650	701	746	789	831	873	912
Income (net)	-532	-541	-598	-696	-693	-659	-675	-724	-763
Of which: payments on direct investments	-499	-477	-567	-688	-695	-666	-693	-769	-802
Of which: public sector interest payments	-46	-58	-44	-44	-50	-56	-63	-58	-60
Current transfers (net)	2,639	2,644	2,760	2,836	2,954	3,055	3,157	3,264	3,462
Public sector	123	112	121	83	133	141	145	145	153
Private sector	2,516	2,531	2,639	2,753	2,821	2,913	3,012	3,119	3,310
Capital account	**130**	**84**	**84**	**91**	**90**	**88**	**65**	**60**	**40**
Financial account	**314**	**696**	**1,247**	**1,333**	**1,318**	**1,380**	**1,474**	**1,569**	**1,658**
Direct investment (net)	523	687	799	831	894	976	1,052	1,125	1,204
Of which: FDI to maquila	57	225	244	147	163	175	188	200	214
Portfolio investments (net)	56	-15	-15	-12	-6	-4	-4	-4	-4
Other investments	-264	24	463	513	430	408	426	447	459
Commercial credit (net)	-19	-22	-2	52	34	40	41	43	43
Currency and deposits (net)	85	-69	54	-1	33	34	34	35	36
Public sector long-term borrowing (net)	13	213	376	393	295	268	268	263	274
Disbursements	266	348	454	462	356	341	346	349	365
Amortization	-253	-135	-78	-69	-61	-72	-77	-85	-91
Other medium- and long-term borrowing (net)	-135	-26	-27	31	29	25	33	45	43
Other and short-term borrowing (net)	-208	-72	63	38	39	41	49	61	63
Errors and omissions	-342	58	203	0	0	0	0	0	0
Overall balance	**-414**	**57**	**580**	**230**	**140**	**189**	**225**	**227**	**284**
Net international reserves (- increase)	**344**	**-60**	**-603**	**-230**	**-205**	**-189**	**-225**	**-227**	**-284**
Reserve assets	360	-55	-601	-230	-205	-189	-225	-227	-284
Of which: SDR allocation	-163								
Reserve liabilities	-16	-2	-2	1	0	0	0	0	0
Exceptional financing	**71**	**23**	**23**	**0**	**0**	**0**	**0**	**0**	**0**
Of which: debt relief (excluding MDRI from IMF)	10	0	0	0	0	0	0	0	0
Expected financing[2/]	**0**	**140**	**0**	**0**	**65**	**0**	**0**	**0**	**0**
World Bank	0	80	0	0	40	0	0	0	0
IADB	0	60	0	0	0	0	0	0	0
Other	0	0	0	0	25	0	0	0	0
Bilaterals and other multilaterals	0	0	0	0	0	0	0	0	0
IMF	0	0	0	0	0	0	0	0	0
Unidentified financing	0	0	0	0	0	0	0	0	0
Memorandum items:									
Terms of trade (percent change)	18.3	-2.2	-6.3	-6.9	-1.6	2.2	-2.7	-3.8	-3.6
Terms of trade, excluding maquila (percent change)	19.4	-3.3	-6.6	-6.9	-1.9	1.8	-3.0	-4.0	-3.7
Exports of goods and services (percent change)	-18.7	9.1	17.1	14.4	5.8	6.1	5.7	5.8	5.8
Of goods only	-22.2	9.5	19.0	15.3	5.8	6.1	5.7	5.9	5.9
Imports of goods and services (percent change)	-28.1	11.6	17.6	12.0	5.8	5.5	5.0	5.3	5.4
Of goods only	-30.2	11.1	17.1	12.4	6.6	5.5	4.9	5.3	5.5
Current account (in percent of GDP)	-3.7	-6.3	-6.2	-7.0	-6.9	-6.7	-6.5	-6.5	-6.1
Excluding official transfers	-4.5	-7.0	-7.0	-7.5	-7.7	-7.4	-7.3	-7.2	-6.8
Overall balance (in percent of GDP)	-2.9	0.4	3.8	1.3	0.8	1.0	1.1	1.1	1.2
Non-oil current account (percent of GDP)	3.7	3.9	2.8	3.7	3.7	3.9	3.8	3.6	3.8
Gross reserves (end of period) [3/]	2,331	2,385	2,931	3,162	3,367	3,556	3,782	4,009	4,293
In months of next year imports	2.8	2.8	3.2	3.2	3.3	3.3	3.3	3.3	3.4
In months of next year imports (excluding maquila)	3.5	3.4	3.9	4.0	4.0	4.0	4.1	4.1	4.2
Outstanding public external debt	2,461	2,694	2,831	3,225	3,584	3,853	4,121	4,383	4,657
Public sector debt service paid to exports (in percent)	3.4	1.4	1.3	1.4	1.3	1.4	1.5	1.5	1.5

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

1/ Original program projections (See IMF Country Report 10/322).

2/ Budgetary support. At the time of Board approval, there were US$ 140 million of expected financing. By end-December 2010, disbursements were made and are included under public sector disbursements.

3/ Includes foreign currency deposits of financial institutions at the central bank for reserve requirements.

Table 6. Honduras: Structure and Performance of the Banking Sector

(In percent, unless otherwise indicated)

	End-December				
	2006	2007	2008	2009	2010
Total assets (in millions of Lempiras) 1/	**157,941**	**191,612**	**213,486**	**220,277**	**236,665**
(In percent of GDP)	76.6	81.8	81.4	82.2	81.3
Number of banks	**16**	**18**	**17**	**17**	**17**
Domestic	8	8	8	8	8
Foreign	8	10	9	9	9
Bank concentration					
Number of banks accounting for at least					
25 percent of total assets	2	2	2	2	2
75 percent of total assets	7	9	6	6	6
Bank rating (CAMEL)					
Number of banks (Category IV and V)	1	2	1	1	0
Share of total assets	2.6	3.5	1.8	2.0	0.0
Capital adequacy					
Regulatory capital to risk-weighted assets	13.2	12.9	14.0	14.4	14.9
Capital (net worth) to assets	8.4	8.3	9.1	9.3	9.2
Asset quality and composition					
Nonperforming loans(NPLs) to total loans 2/	3.9	3.0	4.3	4.7	3.7
NPLs net of provisions to capital	4.1	2.1	4.6	4.2	-4.4
Restructured loans to regulatory capital	1.3	0.8	0.5	9.0	19.8
Non earning assets net of provisions					
to regulatory capital	57.6	48.7	44.5	47.2	47.8
Provisions to total loans	3.2	2.8	3.6	4.1	4.3
Provisions to NPLs	81.5	90.4	84.3	86.2	118.9
Sectoral distribution of loans to total loans:					
Commerce	17.8	17.8	11.1	11.6	12.7
Construction and real estate	23.3	26.2	31.9	33.5	34.2
Agriculture and related sectors	5.5	4.5	4.9	5.1	4.7
Manufacturing	19.0	16.0	16.5	15.4	13.7
Consumption	15.1	16.5	16.6	15.7	16.5
Other	19.4	19.0	19.0	18.7	18.3
Profitability					
Return on assets (ROA) 3/	1.8	1.9	1.6	1.2	1.3
Return on equity (ROE)	21.7	23.1	18.8	12.6	12.5
Interest margin to total income	49.1	50.0	48.4	48.1	48.2
Personnel expenses to administrative expenses	36.0	40.8	42.3	39.6	39.6
Liquidity 4/					
Liquid assets to total assets	26.2	22.4	20.8	21.1	24.4
Liquid assets to total short-term liabilities	56.6	49.6	50.5	52.2	58.2
Dollarization					
Deposits in foreign currency in percent of total	29.4	28.1	29.6	30.0	29.5
Credit in foreign currency in percent of total	36.3	30.7	29.3	25.1	28.3

Sources: National Commission of Banking and Insurance.

1/ Includes contingent assets.

2/ NPLs exclude restructured loans, mostly to the agricultural sector.

3/ Assets include off-balance sheet items.

4/ Includes cash, public sector securities, and other liquid assets.

Table 7. Honduras: External Vulnerability Indicators

	2008	2009	2010	Projections 2011	2012	2013	2014	2015	2016
				(Percent change)					
Exports of goods and services, U.S. dollars	8.3	-18.7	17.1	14.4	5.8	6.1	5.7	5.8	5.8
Imports of goods and services, U.S. dollars	17.4	-28.1	17.6	12.0	5.8	5.5	5.0	5.3	5.4
Terms of trade (deterioration -)	-5.4	18.3	-6.3	-6.9	-1.6	2.2	-2.7	-3.8	-3.6
Real effective exchange rate, end-of-period	4.9	7.8	1.7	…	…	…	…	…	…
				(In percent of GDP, unless otherwise indicated)					
Current account balance	-15.4	-3.7	-6.2	-7.0	-6.9	-6.7	-6.5	-6.5	-6.1
Capital and financial account	10.8	3.1	8.7	8.3	7.7	7.7	7.7	7.5	7.4
External public debt	16.3	17.4	18.4	18.9	19.6	20.2	20.5	20.3	20.2
External public debt									45.4
(In percent of exports of goods and	31.8	42.6	41.9	41.7	43.8	44.4	44.9	45.1	
Debt service on external public debt									1.5
(In percent of exports of goods and	1.2	3.4	1.3	1.4	1.3	1.4	1.5	1.5	
Gross official reserves									
In millions of U.S. dollars	2,691	2,331	2,931	3,162	3,367	3,556	3,782	4,009	4,293
In percent of short-term external debt	467	496	852	929	890	868	834	809	797
In months of next year's imports 1/	4.7	3.5	3.9	4.0	4.0	4.0	4.1	4.1	4.2
NIR									
In millions of U.S. dollars	2,460	2,116	2,719	2,949	3,154	3,344	3,569	3,796	4,080
In percent of short-term external debt	427	451	790	866	834	816	788	766	758
In months of next year's imports 1/	3.5	2.6	2.9	3.0	3.1	3.1	3.1	3.2	3.2

Sources: Central Bank of Honduras, and Fund staff estimates.
1/ Imports of goods and non-factor services excluding maquila.

Table 8. Honduras: Indicators of Fund Credit

(In units indicated)

	2009	2010	Projections 2011	2012	2013	2014	2015	2016
Existing Fund credit								
Stock, in millions of SDRs 1/	20.3	19.3	16.3	12.2	8.1	4.1	1.0	0.0
Obligations, in millions of SDRs	0.2	1.0	3.1	4.2	4.1	4.1	3.1	1.0
Proposed SCF								
Stock, in millions of SDRs 1/	...	0.0	51.8	64.8	64.8	64.8	56.1	41.7
Obligations, in millions of SDRs 2/	...	0.0	0.0	0.3	0.3	0.3	8.9	14.6
Principal	...	0.0	0.0	0.0	0.0	0.0	8.6	14.4
Interest and charges	...	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Proposed SBA								
Stock, in millions of SDRs 1/	...	0.0	58.3	64.8	64.8	52.6	21.0	0.8
Obligations, in millions of SDRs 3/	...	0.0	0.6	0.9	0.9	13.0	32.2	20.4
Principal	...	0.0	0.0	0.0	0.0	12.1	31.6	20.2
Interest and charges	...	0.0	0.6	0.9	0.9	0.9	0.6	0.2
Stock of existing and prospective Fund credit 1/								
In millions of SDRs	20.3	19.3	126.3	141.7	137.6	121.4	78.2	42.5
In percent of quota	15.7	14.9	97.6	109.4	106.3	93.8	60.4	32.8
In percent of exports of goods and services	0.6	0.4	2.6	2.7	2.5	2.1	1.3	0.6
In percent of external debt	1.3	1.0	6.1	6.2	5.6	4.6	2.8	1.4
In percent of gross reserves	1.4	1.0	6.3	6.6	6.0	5.0	3.0	1.5
Obligations to the Fund from existing arrangements and prospective Fund arrangements								
In millions of SDRs	0.7	1.0	3.7	5.4	5.4	17.5	44.2	35.0
In percent of quota	0.5	0.8	2.9	4.1	4.2	13.5	34.1	27.1
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.1	0.3	0.7	0.5
In percent of external debt	0.0	0.1	0.2	0.2	0.2	0.7	1.6	1.2
In percent of gross reserves	0.0	0.1	0.2	0.2	0.2	0.7	1.7	1.3

1/ End of period.

2/ Expected repayment schedule SCF, assuming full drawings and a constant 0.50 percent interest rate. Disbursements made available in 2010 are assumed to be drawn in 2011. The Honduran authorities have expressed their intention to treat the arrangement as precautionary, since balance of payments pressures have not materialized. No interest payments until June 2012.

3/ Expected repayment schedule SBA, assuming full drawings and a rate of charge of 1.42 percent. Disbursements made available in 2010 are assumed to be drawn in 2011. The Honduran authorities have expressed their intention to treat the arrangement as precautionary, since balance of payment pressures have not materialized.

Table 9. Disbursements, Purchases, and Timing of Reviews under the SCF/SBA Arrangements

Date of Availability	Conditions	Amount (millions of SDRs) Total	SCF	SBA	Percent of quota Total	SCF	SBA
October 1, 2010	Board approval of the arrangements	35.613	3.2375	32.375	27.50	2.50	25.00
February 15, 2011	Observance of end-December 2010 performance criteria and structural benchmarks and completion of first review	16.188	9.7125	6.475	12.50	7.50	5.00
May 15, 2011	Observance of end-March 2011 performance criteria and structural benchmarks and completion of second review	19.425	12.950	6.475	15.00	10.00	5.00
August 15, 2011	Observance of end-June 2011 performance criteria and structural benchmarks and completion of third review	19.425	12.950	6.475	15.00	10.00	5.00
November 15, 2011	Observance of end-September 2011 performance criteria and structural benchmarks and completion of fourth review	19.425	12.950	6.475	15.00	10.00	5.00
February 15, 2012	Observance of end-December 2011 performance criteria and structural benchmarks and completion of fifth review	19.425	12.950	6.475	15.00	10.00	5.00
	Total	129.50	64.75	64.75	100.00	50.00	50.00

Honduras' quota is SDR 129.5 million.

Table 10. Honduras: External Borrowing Requirements 2010-16

(In millions of U.S. dollars)

	2009	2010	Projections 2011	2012	2013	2014	2015	2016
Current account deficit	517	955	1,195	1,268	1,279	1,314	1,401	1,415
Exports	4,825	5,742	6,618	7,004	7,433	7,856	8,322	8,813
Remittances	2,516	2,639	2,753	2,821	2,913	3,012	3,119	3,310
Imports (non-oil)	6,257	7,162	7,785	8,298	8,784	9,257	9,767	10,312
Oil imports	1,042	1,388	1,828	1,947	2,025	2,083	2,175	2,282
Payments on direct investments	499	567	688	695	666	693	769	802
Public sector (debt amortization)	253	78	69	61	72	77	85	91
Private sector (debt amortization)	396	188	251	288	328	369	418	479
Subtotal (requirements)	**1,165**	**1,220**	**1,514**	**1,617**	**1,679**	**1,760**	**1,904**	**1,984**
Net foreign direct investment	523	799	831	894	976	1,052	1,125	1,204
Long-term gross public sector borrowing	317	475	462	421	341	346	349	365
Of which: World Bank	58	111	94	130	93	95	95	93
Of which: IADB	24	162	191	100	100	100	98	106
Short-term debt (inflow)	188	251	288	328	369	418	479	541
New borrowing (private sector)	122	37	77	61	70	71	74	75
Other capital flows	-328	263	122	119	113	99	105	83
Change in reserves (+ = decrease)	344	-603	-230	-205	-189	-225	-227	-284
Subtotal (sources)	**1,165**	**1,220**	**1,514**	**1,617**	**1,679**	**1,760**	**1,904**	**1,984**
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Source: Central Bank of Honduras and Fund staff estimates.

ATTACHMENT I. LETTER OF INTENT

Tegucigalpa, April 12, 2011

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn,

1. During 2010, the Honduran economy started to recover from the external and domestic crises that hit the country in 2009. Real GDP grew 2.8 percent, mainly driven by a rebound of domestic demand. The overall fiscal deficit was reduced significantly to 2.9 percent of GDP (compared to 3.7 percent envisaged in the program) and the overall balance of payments posted a surplus, resulting in an increase in international reserves of about US$600 million. The outlook for 2011 is positive, and economic growth is projected to be 3.5 percent, although external conditions remain a significant risk.

2. In 2010, the government started to implement key reforms aimed at reducing macroeconomic imbalances and strengthening the finances of the public sector. In line with the economic program stated in our letter of September 2010, we have taken measures aimed at improving tax administration and reducing current expenditure. In particular, the administrative capacity of the Large Taxpayer Unit of the Tax Collection Agency is being rebuilt, and the Ministry of Finance now has firm control over the public sector wage bill. This allowed us to expand our anti-poverty programs and increase public investment. We are also moving ahead with important reforms in the financial sector and the public pension funds regime.

3. In line with our commitments under the program, we have implemented the agreed policies and all the quantitative performance criteria for December 2010 have been fully met. Furthermore, our commitments on structural benchmarks up to March 2011 have been observed or had advanced significantly by the date of this first review. In support of our economic program, we request completion of the first review of the 18-month arrangement with the Fund approved on October 2, 2010.

4. The attached Memorandum of Economic and Financial Policies (MEFP) updates the government's economic program and policy framework for 2011-12. It also proposes a set of quantitative performance criteria and structural benchmarks for June, September, and December 2011. Our intention is to continue treating the arrangement as precautionary. We believe that the policies set forth in the letter of September 10, 2010 and contained in the attached MEFP are adequate to achieve the objectives of our program, but we are committed to

take any further measures that may be needed for this purpose. We maintain our commitment of consulting with the Fund on the adoption of these measures as needed, and in advance of revisions to the policies contained in the MEFP, in accordance with IMF policies on such consultations.

5. During the program, the government will not introduce or intensify any exchange rate restrictions, multiple currency practice, and import restrictions for balance of payment purposes, and will continue to comply with all obligations of Article VIII of the IMF's Articles of Agreement.

6. The government requests waivers of applicability for the relevant end-March 2011 performance criteria other than net international reserves and net domestic assets of the central bank in view of the fact that the Board discussion of the first program review will be held in April 2011. Full information to assess performance under the criteria other than net international reserves and net domestic assets of the central bank will not be available by the Board date, but we are confident that all the criteria will be observed. Subsequent reviews under the SCF/SBA are expected to be held on a quarterly basis based on relevant performance criteria.

7. Program implementation will continue to be monitored through quarterly reviews, with the second one to be completed on or after May 15, 2011. The quantitative performance criteria and structural benchmarks under the program are set out in Tables 1, 2, and 3 of the attached MEFP. Consistent with the commitment to keep the public informed, the government will publish the program documents and will report periodically on progress under the program.

Sincerely yours,

/s/	/s/
Maria Elena Mondragon de Villar President, Central Bank of Honduras	William Chong Wong Minister of Finance

Attachments

ATTACHMENT II. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. The economy of Honduras is gradually recovering from the recession caused by the global economic crisis and the domestic political impasse of 2009. Following a 2.1 percent decline in 2009, real GDP grew by 2.8 percent in 2010, above program projections (2.4 percent), driven by a surge in domestic demand. Last December, headline inflation reached 6.5 percent, (year-on-year) close to the upper limit of the programmed range of 5.5-6 percent (+/- one percentage point), mostly due to the impact of higher food, fuel, and energy prices, and weather-related domestic supply shocks. However, core inflation, which excludes energy and food prices, declined to 4 percent in 2010.

2. In the Honduran external sector, the current account deficit widened but was more than offset by capital inflows. According to preliminary data, imports rebounded more strongly than exports; however, the current account deficit (6.2 percent of GDP) was as programmed, financed by large private capital inflows, especially at end-2010. This boosted the gross international reserves to a historic record of US$2,931 million (equivalent to four months of non-maquila imports).

3. Fiscal consolidation is generally proceeding as envisaged, despite higher infrastructure spending related to damage from tropical storms in 2010. The control mechanisms we have put in place have helped keep current spending within the budgetary limits. However, despite tax administration improvements, revenues were below target because even though the April 2010 tax reform (Decree 17-2010) yielded the anticipated results, the strengthening of the tax administration has taken more time than foreseen. In this context, the central government deficit was 0.3 percent of GDP higher than projected. However, performance in the rest of the public sector was better than envisaged, more than offsetting the central government deficit. The estimated deficit of the combined public sector was 2.9 percent of GDP, compared with the programmed 3.7 percent of GDP.

4. All end-December 2010 quantitative performance criteria were met by wide margins. Also, our structural reform commitments through March 2011 were either already implemented by the time of the program review (Tables 1 and 2) or had advanced considerably toward completion:

- The Banking and Securities Commission (CNBS) issued new rules on loan classification, reserve coverage, and liquidity risks in October 2010. In January 2011, the CNBS approved new standards for appraisers. In December 2010, the Early Warning Committee, which meets on a quarterly basis, was reactivated. Also, the Chamber of Commerce and Industry of Tegucigalpa established a register of movable collateral in January 2011, as a first step toward implementation of the "secured transactions" law.

- The contract with an international firm to audit public sector arrears to the private sector was signed in December 2010, and the draft of the final report was presented in March 2011. On the basis of the audit results, a plan will be formulated to regularize all legitimate arrears. We have made progress in settling central government domestic arrears. By end-2010, most of the intra-public sector arrears had been paid.

- In February 2011, the CNBS completed drafts of the laws and regulations to reform the public pension funds (INPREMA, INJUPEMP, and INPREUNAH), modifying the parameters of contributions and benefits with the aim of strengthening the actuarial position of these funds, and the respective boards of directors have duly discussed the drafts. Also, in December 2010, the CNBS revised the regulations for the investment of public pension funds, to diversify the financial instruments for investment, with proper limits to ensure their liquidity, profitability, and security.

- Control over the education sector payroll was effectively transferred to the Ministry of Finance last December and has been fully incorporated into the integrated financial management system (SIAFI). Furthermore, as of January 2011, any modification to the budgeted central government payroll requires prior approval of the Ministry of Finance.

- Efforts are under way to improve human resource management and administrative capacity at the tax collection agency (DEI). In March 2011, the job and pay description manual for the hiring and evaluation of qualified personnel in the Large Taxpayers Unit (LTU) was approved.

- The financial position of the electricity company (ENEE) improved considerably last year, reflecting the increase in electricity tariffs and due to more hydroelectric power was available than anticipated. In March 2011, the arrears to private suppliers were settled. Until January 2011, electricity tariffs were adjusted in line with fuel costs, as envisaged. In February 2011, electricity tariffs for the public sector were increased by 3.63 percent.

- At end-2010, the number of households covered by the conditional cash transfer program (*Bono 10 mil*) reached 161,368. The original target of 150,000 households was thus surpassed.

II. MACROECONOMIC POLICIES FOR 2011-12

5. The macroeconomic outlook for 2011-12 remains broadly as envisaged under the program. A gradual economic recovery is under way, and real GDP growth is projected at 3.5 percent for 2011 and 4 percent for 2012. Year-on-year inflation is expected to rise to 8 percent in December 2011, due to a higher-than-expected increase in oil, energy, and food prices, but a decline in inflation is expected in 2012. The external current account deficit in 2011 is projected to increase to 7.2 percent of GDP, mainly because of the increase in fuel and imported food prices. However, given the still weak state of economic recovery and the control of core inflation, the overall policy stance will be maintained. Furthermore, the accumulation of the net international reserves in 2011 will be broadly as originally programmed, while the stock will possibly exceed the original targets. Fiscal consolidation will continue, while the monetary

policy stance will be adjusted if there is evidence of second-round effects of the commodity price increases or if external sector objectives are threatened. A less favorable external environment would constitute a factor of considerable risk in the process of economic recovery.

Fiscal Policy

6. Our fiscal policy will continue to aim at reducing the public sector deficit to 2 percent of GDP in the medium term, consistent with a debt-to-GDP ratio of less than 30 percent, and on improving the quality of public expenditure. In line with these objectives, the 2011 public sector budget targets a deficit of 3.1 percent of GDP. This target is consistent with a central government deficit equivalent to 3.5 percent of GDP. Furthermore, the 2012 budget we plan to submit to Congress by September 2011 will target an overall deficit of the central government at about 2.5 percent of GDP, consistent with a consolidated public sector deficit of 2 percent of GDP.

7. During 2010, we managed to reduce the public sector fiscal deficit, control current expenditure, and settle the domestic payment arrears. Nevertheless, important challenges lie ahead. In particular, during 2011 it will be essential to broaden the tax revenue base, establish firm control over employment and the wage bill in the public sector, and improving domestic debt management to ease the liquidity pressures facing the government.

8. On the revenue side, we plan to fully implement the tax measures approved in 2010 and strengthen the DEI. In particular, we will continue strengthening the LTU, implement electronic tax filing, and prohibit firms with tax arrears from obtaining government contracts. In addition, we are advancing preparations for a census of taxpayers, expected to begin in September 2011. The operations of the LTU will improve once it is focused on a number of taxpayers accounting for 80 percent of total tax revenue. We will continue to implement the tax reform of April 2010 and the controls to verify its proper enforcement. In addition, by December 2011 we will complete a comprehensive review of tax exemptions and create a franchising and tax exemption unit in the Ministry of Finance by July 2011, which should help enforce tax compliance. We expect to send to Congress, in April 2011, the final version of the preliminary draft law against tax evasion. These measures are intended to increase the tax revenue of the central government to 15.4 percent of GDP (from 14.8 percent of GDP in 2010).

9. We will continue to exercise firm control over public sector current spending and give priority to high-impact capital investment projects and well-targeted social spending, in part to mitigate the effects of the food and fuel price increases on the most vulnerable segments of the population. To this effect, it will be essential to maintain government expenditure strictly within the ceilings established in the 2011 budget. We will also identify low-priority expenditure which could be deferred in the event of insufficient revenue or of higher spending in priority areas, so as to ensure observance of the 2011 targets for the overall deficit of the consolidated public sector. These measures, combined with the positive impact of the ongoing reforms of public

sector enterprises and public pension funds, will help us meet the fiscal deficit targets, strengthen the financial position of the public sector, and improve the composition of expenditure.

10. One of the key elements of our expenditure policy for 2011 is control of the wage bill. In line with our commitment to tighten payroll control, regarding existing positions, the process of employment verification in the education sector was completed in March 2011, and in the health sector completion is envisaged for December 2011. As a follow up, the Government Audit Office (TSC) will implement remedial measures based on the census and the audit of teaching positions by end-March 2012. At the same time, the Ministry of Finance, the Ministry of Planning and External Cooperation, and the Ministry of Education will take action to screen the payroll, seeking to eliminate all the redundant and irregular positions identified in SIAFI and the educational human resources integrated management system (SIARHD). It is envisaged that this process will be completed by October 2011, and the TSC will be kept informed for all pertinent purposes. A centralized unit was created in the Ministry of Finance last year for payroll control, which incorporated into the SIAFI the payroll management modules of the Ministry of Education, and by October 2011 it is planned to incorporate into the SIAFI payments by bank transfer to day laborers.

11. Our budget financing strategy aims at reducing reliance on domestic resources and not using central bank credit to the public sector. For that purpose, our 2011 financial plan includes external budget financing of US$170 million. In addition, last September we contracted a nonconcessional loan with the Central American Bank for Economic Integration (CABEI) for US$280 million, which remains within the limit on the contracting of nonconcessional external debt (US$350 million). We will not incur external arrears at any time during the program period.

12. Our budget plan provides that if tax revenue were to be higher than projected, we will use up to 50 percent of the excess revenue to repay domestic debt and allocate the remainder to social investment projects. Also, should external budget support loans exceed the amount projected in the program for 2011, the floor of the NIR target will be raised (the ceiling on the central bank's net domestic assets will be lowered) by the excess amount (TMU, paragraph 14).

13. The government has recently adopted a new a debt management strategy to extend the maturity profile of public domestic debt and lower its cost. In the first operation of this kind, completed in January 2011, existing bonds (1.2 percent of GDP) were swapped on a voluntary basis for 3-7 year instruments carrying 9-12.25 percent coupon rates. In addition, the Guidelines for Public Sector Borrowing for 2011-14, aimed at building public debt management capacity and to link government borrowing plans to a multiyear fiscal framework, were updated in April 2011.

Monetary and Exchange Rate Policies

14. The government is committed to seeking price stability while keeping core inflation under control and maintaining an adequate level of international reserves. The monetary program for 2011 takes into account the impact of rising oil, energy, and food prices. Accordingly, in 2011 we will seek to keep annual inflation in the range of 8 percent (+/- one percentage point), whereas the accumulation of net international reserves is projected at US$227 million. However, if inflation continues to accelerate and external reserves target becomes at risk, we will tighten monetary policy, as appropriate. We commit to maintain the policy of not extending central bank credit to the nonfinancial public sector or to public banks. We will assess the appropriateness of interest rate levels throughout the program period and will adjust the policy rate (TPM) as necessary to achieve the inflation target and protect the external position. The monetary program will be kept consistent with a prudent expansion of credit to the private sector.

15. The central bank will reform the operational framework for conducting monetary and exchange rate policy. The central bank will take measures to foster the development of an active interbank market and secondary markets for central bank and government paper, refine monetary instruments, and enhance policy signaling. The reform program we have devised includes: (i) adopting a system of daily liquidity forecasting and management; (ii) improving repo operations for liquidity management, (iii) ensuring that the TPM functions as a tool for signaling the monetary policy stance; and (iv) strengthening the structural auctions of central bank paper to allow for price discovery by market participants. We are committed to maintaining an exchange policy that is consistent with the objective of safeguarding competitiveness and strengthening the external position.

16. To enhance the central bank's ability to pursue effective monetary policy, we will develop a plan for its recapitalization and institutional strengthening by December 2011. We intend to request technical assistance from the IMF for this purpose.

III. Structural Reforms

17. Successful modernization of the Honduran economy requires the sustained implementation of structural reforms in the public and financial sectors. During 2011, the government's reform efforts will center on the following areas:

- **Strengthening the operating balances of key public enterprises**. The tariff adjustment is a key factor in the financial sustainability of the ENEE. Accordingly, we are committed to adjusting the tariffs as required by law. HONDUTEL has concluded an alliance with a U.S. company to improve its services. In December 2011, the ENEE and HONDUTEL will present comprehensive plans to restore their financial viability and enhance their operational efficiency.

- **Strengthening the financial position of public pension funds**. In March 2011, we submitted for review and approval the INPREUNAH Regulations to the institution's Board of Directors. In the case of the INJUPEMP and INPREMA, we anticipate that the draft laws will be submitted to the National Congress later this year.

- **Improving the management and fortifying the financial position of the Honduran Social Security Institute (IHSS).** The Ministries of Finance, Labor and Social Security, and the CNBS, with technical assistance from the Inter-American Development Bank (IDB) will prepare an administrative, technical, and financial assessment of the IHSS, including actuarial studies and a thorough assessment of the situation of the Disease and Maternity System.

- **Reform of the civil service law**. With the assistance of the IDB, we have prepared the Terms of Reference for hiring an expert to review the current regulations and procedures for the selection and recruitment of employees at all levels of public administration. Based on the expert's report, a plan to amend the Civil Service Law will be presented to Congress by December 2011.

- **Financial sector policies**. The government is committed to continue improving the regulatory framework and supervisory practices in the financial system and to strengthen the financial safety net. In line with our commitments in the program, much progress has been made in the process of establishing adequate regulations for bonded warehouses, credit bureau, and extraordinary assets. Also, the process has been initiated to revise regulations to promote transparency, disclosure, and the protection of users of financial services. We will strengthen the risk-based supervision framework for savings and loans associations and, for that purpose; we plan to issue new regulations by February 2012. The restructuring of *Banco de los Trabajadores* is well advanced, and the only outstanding task is that of establishing the trust that will be responsible for collecting doubtful assets. At BANADESA, the CNBS is conducting a study to assess the actual position of the bank, to be completed in December 2011, for the purpose of preparing an institutional strengthening and financial plan.

- **Social investment**. Poverty reduction is one of the strategic objectives of the government. With this purpose, the 2011 budget allocates 1.5 percent of GDP to all social investment programs. In addition, the government will continue improving the targeting of subsidies to allocate savings to ease the impact of the rise in food and fuel prices on the most vulnerable segments of the population. With the assistance of multilateral banks and in accordance with the established procedures, the government is fully committed to a gradual expansion of the coverage of the conditional cash transfer program (*Bono 10 mil*) to include 300,000 households by end-2011, to the monitoring and strict control of proper program implementation, and to expand the provision and access to health and education services to the program's beneficiaries.

IV. Other Program Issues

18. **Safeguards Assessment**. An IMF mission visited Honduras last December to update the safeguards assessment of the Central Bank of Honduras. The central bank is committed to fully implement the recommendations resulting from that assessment.

19. **Program Monitoring**. The program will continue to be monitored through regular quarterly reviews, quantitative performance criteria, and structural benchmarks. The second program review will be completed on or after May 15, 2011; the third one, on or after August 15, 2011; the fourth one, on or after November 15, 2011; and the final one, on or after February 15, 2012. The quantitative performance criteria proposed for June, September, and December 2011 are shown in Table 3. The structural benchmarks are shown in Table 2. The date for the submission of the law reforming public pension funds will be changed from the original December 2010 date to March 2011 for INPREUNAH (presentation of statute to that institution's Board of Directors), and for INJUPEMP and INPREMA, the draft laws will be submitted to the National Congress later in 2011. We propose to add a new benchmark on improving the management of the IHSS and strengthening its financial position. The definitions and reporting procedures are specified in the attached Technical Memorandum of Understanding.

Table 1. Honduras - Performance Criteria 2010 1/

(Cumulative flows; millions of Lempiras, unless specified)

	Prog.	Prel.	Margin
	End-December 2010		
QUANTITATIVE PERFORMANCE CRITERIA			
Fiscal targets 2/			
Deficit of the combined public sector (ceiling)	7,487	5,060	-2,427
Net domestic financing of the combined public sector (ceiling)	-250	-711	-461
Monetary targets			
Stock of net international reserves (floor, in millions of US$)	1,557	2,082	525
Stock of net domestic assets of the central bank (ceiling)	-11,080	-19,408	-8,328
Public debt targets 2/			
Contracting or guaranteeing of non-concessional external debt (continuous ceiling, in million of US$)	350	280	-70
New arrears of ENEE with the private sector (continuous ceiling)	0	0	
External payment arrears of the combined public sector (continuous ceiling)	0	0	
INDICATIVE TARGETS 2/			
Central government current primary expenditure (ceiling)	28,773	28,342	-431
Social investment related spending (floor)	1,197	3,153	1,956
Wage bill of the central government (ceiling)	17,335	17,008	-327
Memo Items 2/			
Central government tax revenues 3/	24,146	23,264	-882
Budget support external loans (in million of US$)	190	157	-33

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

2/ Cumulative starting on July 1, 2010.

3/ Does not constitute a Performance Criterion, Indicative Target or Structural Benchmark.

Table 2. Honduras: Structural Benchmarks

	Date	Status
A. Fiscal		
Present to Congress a 2011 Budget consistent with a combined public sector deficit of 3.1 percent of GDP.	Prior action	**Done**
Improve human resources management and administrative capacity of the DEI; strengthen a Large Taxpayer Unit with adequate staff; and develop a job and pay description manual.	March 2011	**In progress**
Transfer the control over Education payroll to the Ministry of Finance.	March 2011	**Done** Control transferred in December 2010.
Sign a contract to audit public sector arrears with the private sector.	January 2011	**Done** Contract signed in December 2010.
Adjust electricity tariffs in line with fuel costs (continuous starting 2011).	Continuous 2011	**Not met** Implementation suspended during February and March 2011.
Present a law reform proposal that allows changing the bases of defined benefits, to reduce the actuarial deficit of INPREMA, INJUPEMP and INPREUNAH	December 2010	**Not observed, new dates proposed** (see below). The INPREUNAH reform to statutes was presented to its Board of Directors in March 2011.
Present a law reform proposal for INJUPEMP to Congress	April 2011	**New date proposed**
Present a law reform proposal for INPREMA to Congress	2011	**New date proposed**
Contract an administrative, technical and financial assessment of the Honduran Institute of Social Security (IHSS).	September 2011	**New structural benchmark**
B. Financial Sector		
Issue norms for loan classifications, reserve coverage and approve regulations for measuring and monitoring liquidity risks in line with international best practices.	December 2010	**Done** The Banking and Securities Commission issued these regulations in October 2010.
C. Monetary		
Prepare a plan to recapitalize the central bank.	December 2011	**In progress**

Table 3. Honduras - Proposed Performance Criteria for 2011 1/

(Cumulative flows; millions of Lempiras, unless specified)

	PC 2/	Proposed Targets		
	End-Mar.	End- Jun.	End- Sept.	End-Dec.
	2011			
QUANTITATIVE PERFORMANCE CRITERIA				
Fiscal targets 3/				
Deficit of the combined public sector (ceiling)	4,715	4,921	7,070	10,100
Net domestic financing of the combined public sector (ceiling)	3,868	2,204	347	1,645
Monetary targets				
Stock of net international reserves (floor, in millions of US$)	1,606	2,299	2,303	2,309
Stock of net domestic assets of the central bank (ceiling)	-12,855	-25,007	-26,727	-21,404
Public debt targets 3/				
Contracting or guaranteeing of nonconcessional external debt (continuous ceiling, in million of US$)	350	350	350	350
New arrears of ENEE with the private sector (continuous ceiling)	0	0	0	0
External payment arrears of the combined public sector (continuous ceiling)	0	0	0	0
INDICATIVE TARGETS 3/				
Central government current primary expenditure (ceiling)	10,827	24,223	36,402	50,744
Social investment related spending (floor)	442	954	1,532	3,477
Wage bill of the central government (ceiling)	6,716	15,917	22,779	32,235
Memo Items 3/				
Central government tax revenues 4/	9,298	24,573	36,961	49,813
Budget support external loans (in million of US$)	0	25	90	170

1/ Definitions as specified in the Technical Memorandum of Understanding.
2/ Performance criteria established at the time of program approval (IMF Contry Report 10/322).
3/ Cummulative starting on January 1 for 2011.
4/ Does not constitute a Performance Criterion, Indicative Target or Structural Benchmark.

ATTACHMENT III. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out technical understandings between the Honduran authorities and the Fund staff for monitoring of the economic program agreed for the period October 2010–March 2012. It defines the concepts used to assess observance of quantitative performance criteria, structural benchmarks, and indicative targets specified in Tables 1 and 2, and 3 of the Memorandum of Economic and Financial Policies (MEFP). It also specifies the frequency of the data to be provided to the Fund to monitor the developments under the program.

I. Program Assumptions

2. For program monitoring purposes, unless otherwise indicated, U.S. dollar denominated components of the balance sheet of the Central Bank of Honduras will be valued at the exchange rate of L18.8951/US$. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the cross-rates as of end-June 2010 published on the IMF website (http://www.imf.org).

II. Fiscal Targets

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

4. **The deficit of the central government** also will be measured from the financing side. The central government includes the executive, judicial, and legislative branches, and the so-called decentralized agencies (*desconcentradas*).

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

6. **The central government wage bill** is defined as all central government wages and salaries, including severance payments, plus employer social security and pension contributions; other remunerations (such as bonus payments) are also included in the definition.

7. **Social investment spending** is defined as the programs and projects of social content that are financed with domestic resources, debt relief, grants and loans. (See Table B).

8. **The operating balance of the public enterprises** is defined as the difference between the operating revenue (excluding interest earnings and transfers) and the operating expenditure (excluding interest payments and transfers) of the enterprises.

9. **Net domestic financing of the CPS** will be measured as the operating result of the central bank and the change (relative to end-December 2010) in the stocks of: (i) outstanding indebtedness of the NFPS (direct bank credit plus bank holdings of public sector bonds less deposits) to the domestic financial system (central bank,[1] commercial banks, and other financial institutions); (ii) outstanding public sector bonds held outside the financial system; (iii) repatriation of deposits held abroad; and (iv) outstanding suppliers' credit and floating debt (un-cashed and undelivered checks, and unpaid invoices and orders) of the central government, and unpaid orders of the rest of the NFPS. For the purposes of the program, domestic financial system is defined as comprising all depositary institutions, according to the Monetary and Financial Statistics Manual (MFSM) definitions.

10. **Discrepancies**. The authorities will undertake periodic reconciliations to minimize discrepancies between above-the-line and below-the-line financing data. As needed, such reconciliations must be carried out prior to completion of the program reviews.

11. **Adjustor**. If tax revenues of the central government were to exceed those projected under the program for 2011, up to 50 percent of the excess revenue will be used to amortize domestic debt (and thus, the ceilings on the deficit of the CPS and its net domestic financing would be lowered by the exact amount of the excess revenue used to amortize domestic debt) and the residual will be allocated to increase social investment spending defined in Paragraph 7, Table B (and accordingly, the floor on social investment would be raised by the exact amount of the excess revenue allocated to social investment).

III. Monetary Targets

12. **Net International Reserves (NIR) of the central bank (program definition)**. For program purposes, the NIR of the central bank will be measured as gross international reserves that are readily available minus (i) short-term reserve liabilities (including purchases and credits from the Fund), as described in the international reserves table prepared by the central bank according to the MFSM); (ii) foreign assets that are counterpart of foreign currency deposits of financial institutions at the central bank and of any other liability of the central bank with residents that is payable in foreign currency; (iii) any conversion of short-term reserve liabilities; and (iv) the transfer to the central bank of foreign currency deposits

[1] The losses of the Central Bank of Honduras will be explicitly excluded from the calculation of credit to the public sector.

held abroad by HONDUTEL, INJUPEMP, and IHSS, which amounted to US$73.4 million at end-June 2010. Readily available reserves also exclude those assets that are pledged or otherwise encumbered, including but not limited to reserve assets used as collateral or guarantee for a third-party external liability. NIR will be valued at program accounting exchange rates. In addition, monetary gold included in the gross international reserves will be valued at the constant price as at December 31, 2010 (US$1,411.5 per troy ounce).

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

14. **Adjustor**. Starting in 2011, the target floor on NIR will be adjusted downwards (the target ceiling on net domestic assets of the central bank will be adjusted upwards) by up to US$50 million by the shortfall of programmed budget support external loans. In case of an excess during the program period, the target floor on NIR will be adjusted upwards (the target ceiling on domestic assets of the central bank will be adjusted downwards) by full such amount. The external disbursements contemplated in the program for 2011 are to be received from the World Bank, IADB, and Taiwan, province of China, totaling US$170 million.

IV. External Targets

15. **External debt**. For program purposes, the definition of debt is the one set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No 14416-(09/91, effective December 1, 2009). This definition applies also to commitments contracted or guaranteed for which value has not been received, and to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector. Excluded from this definition are normal import-related credits, defined as liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities. For the purpose of the program, external debt is defined on the basis of residency.

16. **Debt definition**. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

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

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt give rise to new debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

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

19. **Concessionality** will be calculated using currency-specific discount rates based on the OECD commercial interest reference rates (CIRRs) and taking into account all details of the loan agreement, including maturity, grace period, payment schedule, upfront commission, and management fees. The ten-year average of CIRRs will be used as the discount rate to assess the concessionality of loans of an original maturity of at least 15 years, and a six-month average of CIRRs will be used to assess the concessionality of loans with original maturities of less than 15 years. To both the ten-year and six-month averages, the following margins will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for

15–19 years; 1.15 percent for 20–30 years; and 1.25 percent for over 30 years. The grant element of loans can be calculated using the concessionality calculator available at the IMF website (http://www.imf.org).[2] For program purposes, a debt is **concessional** if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the CIRRs published by the OECD.

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

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

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

V. Energy Sector

23. **Arrears of ENEE** are defined as overdue payments (capital and interest) of ENEE to private and public entities. During the program period, no new arrears to the private sector will be accumulated, excluding technical delays stemming from the payment process. Technical delays are defined as the maximum period allowed for the payment of suppliers'

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[2] http://www.imf.org/external/np/pdr/conc/calculator/default.aspx

[3] This includes short-term external debt (with an original maturity of up to and including one year) and non-concessional medium- and long-term debt with original maturities of more than one year.

and/or contractors' invoices to ENEE without incurring arrears, in line with the law on public contracts (Decree 74-2001). This period extends up to 45 days, starting from the submission of appropriate documents for payment.

VI. Monitoring and Reporting Requirements

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

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

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

- **Net domestic financing** of the central government and the NFPS, respectively, with detailed information on: (i) net domestic financing from the central bank and the rest of the financial system to the central government and the NFPS, as contained in the *Panorama Financiero* monthly report; (ii) net placement of bonds (including stabilization bonds) by the central government and the NFPS outside the financial system, as reported by the central bank with data from the Public Credit Directorate of the Ministry of Finance; (iii) change in foreign currency deposits held abroad by the central government and the NFPS; and (iv) change in the outstanding stock of suppliers' credit and floating debt of the central government, as reported by the Treasury, and the rest of the NFPS as reported by the central bank. To monitor the net domestic financing to the CPS, the central bank will provide the Fund with detailed data on a cash basis on the operating revenue and expenditure of the central bank.

26. **The ceilings on the wage bill of the central government** will be monitored monthly on the basis of the Ministry of Finance report: *Información institucional por objeto de gasto - servicios personales y aportes patronales.*

27. To complement the monitoring of fiscal performance, a breakdown of tax revenue by type of tax will also be provided monthly.

28. **Social investment (Table B)** will be monitored quarterly on the basis of financial reports provided by the Ministry of Finance.

29. **The floor on NIR and the ceiling on NDA of the central bank** will be monitored on the basis of information produced by the central bank, in accordance with the new presentation of the MFSM. This information will be provided within two weeks of the end of the previous month.

30. **The ceilings on the contracting of nonconcessional external debt and on the nonaccumulation of external payments arrears** will be monitored with information provided by the Ministry of Finance. The accounting of non-reschedulable external debt-service arrears by creditor (if any), with detailed explanations, will be transmitted by the Ministry of Finance on a monthly basis within four weeks of the end of each month. Moreover, a loan-by loan accounting of all new loans contracted or guaranteed by the public sector, including detailed information on the amounts, currencies, and terms and conditions, as well as relevant supporting materials, will be transmitted by the central bank on a quarterly basis within four weeks of the end of each quarter.

31. **Implementation of structural measures in the program** will be monitored monthly based on information provided by the central bank, the Ministry of Finance, and the Banking and Securities Commission.

Table A: Data to be Reported to the IMF

Item	Periodicity
I. Fiscal Data	
Net external financing (detailed information on disbursements, amortizations, exceptional financing, zero coupon bond, and accumulation of arrears).	Monthly, within 45 days of the end of each month.
Net domestic financing of the central government and the NFPS detailed information on: (i) net domestic financing from the central bank and the rest of the financial system to the central government and the NFPS, (ii) net placement of bonds by the central government and the NFPS outside the financial system, (iii) change in foreign currency deposits held abroad by the central government and the NFPS; and (iv) change in the outstanding stock of suppliers' credit and floating debt of the central government, as reported by the Treasury, and the rest of the NFPS as reported by the central bank.	Monthly, within 45 days of the end of each month.
Monitoring of net domestic financing to the CPS will require that the central bank provide the Fund with detailed data on a cash basis on the operating revenue and expenditure of the central bank.	Monthly, within 45 days of the end of each month.
Wage bill of the central government.	Monthly, within 45 days of the end of each month.
Breakdown of tax revenue by type of tax.	Monthly, within 45 days of the end of each month.
Social investment	Quarterly, within three weeks of the end of each quarter.
Detailed information on: Revenues and expenditures of the central government. Revenues and expenditures of the NFPS, including the operating balance of public enterprises.	 Monthly, within 45 days of the end of each month. Quarterly, within 45 days of the end of each quarter.

II. Monetary Data	
Detailed information on the Central Bank balance sheet, including Net International Reserves and Net Domestic Assets.	Monthly, within 2 weeks of the end of each month.
Detailed information on domestic liabilities of the central bank payable in foreign currency, including change in foreign currency deposits of public enterprises in the central bank.	Monthly, within 2 weeks of the end of each month.
III. External Debt	
Loan-by loan accounting of all new loans contracted or guaranteed by the public sector, including detailed information on the amounts, currencies, and terms and conditions, as well as relevant supporting materials.	Quarterly basis within four weeks of the end of each quarter.
The accounting of arrears on external debt-service by creditor (if any), with detailed explanations.	Monthly, within four weeks of the end of each month.
IV. Additional Data	
Balance of Payments statistics.	Quarterly, within 3 months of the end of each quarter.

Table B. Social Investment Spending

Description
Bono Diez Mil
Bono Diez Mil
Other social investment expenditures
Honduran Social Investment Fund (FHIS)
Community Education Program (PROHECO)
Family allowances program (PRAF)
Healthy Schools Program (free school meals)
Social work scholarship
Transportation education bond
Social help to individuals
Patronatos, Aldeas y Caseríos
Academic excellence scholarships
Miscellaneous scholarships
Other scholarships and programs

Statement by the Staff Representative on the Honduras
Executive Board Meeting
April 27, 2011

This statement provides information that has become available since the issuance of the staff report (EBS/11/57). The new information does not alter the thrust of the staff appraisal.

Staff has received information on two quantitative performance criteria for end-March 2011. The information confirms that the two monetary targets were observed with wide margins.

Honduras - Performance Criteria 1/
(Quantitative monetary targets for end-March 2011)

	Prog.	Act.	Margin
Stock of net international reserves (floor, in millions of US$)	1,606	2,322	716
Stock of net domestic assets of the central bank (ceiling)	-12,855	-26,206	-13,351

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

Other Developments

These new developments are in line with the macroeconomic projections presented in the staff report.

- Headline inflation in March 2011 was 0.7 percent, which brought the 12-month inflation rate to 6.6 percent. Core inflation (12-month rate) rose to 4.7 percent in March 2011 from 4 percent in December 2010.
- The monthly index of economic activity (IMAE) increased (yoy) to 3.9 percent in January 2011; it showed a 3.7 percent increase in December 2010.
- As of mid-April, gross international reserves stood at US$3,236 million; US$305 million higher than at end-December2010.
- Cumulative tax collections through February 2011 were 15 percent higher than during the same period in 2010.
- By end-February, commercial bank credit to the private sector was 5 percent higher than one year earlier.

Press Release No. 11/149
FOR IMMEDIATE RELEASE
April 27, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review of Honduras Economic Program

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Honduras economic performance under a program that combines two different IMF credit lines, the Stand-By Arrangement (SBA) and the Stand-By Credit Facility (SCF). Upon completion of the review, a total equivalent to SDR 51.8 million (about US$ 83.4 million) becomes immediately available for disbursement, but the Honduran authorities plan to continue treating the financing as precautionary.

The SBA and the SCF arrangements for Honduras were approved on October 1, 2010 (see Press Release No. 10/374), to support the country's efforts to restore macroeconomic stability and advance economic reforms consistent with the authorities' poverty reduction and growth objectives.

Following the Executive Board's discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"The Honduran economy experienced a gradual recovery in 2010, helped by strengthened macroeconomic policies and increased access to external official financing. Real GDP grew by 2½ percent, inflation remained low, international reserves increased significantly, and private sector confidence improved. Effective control of public sector expenditure and the launch of important structural reforms were key factors behind the strong program performance under the Stand-By Arrangement and the Standby Credit Facility, for which the authorities are to be commended.

"Going forward, close adherence to the policies and targets set out in the 2011 budget will be essential to further strengthening the fiscal position and establishing a track record of sound macroeconomic management. To attain the revenue targets, all measures aimed at strengthening tax administration should be adopted without delays. On the expenditure side, continued strict control of current spending will be essential to improve the composition and quality of public expenditure. These policies are necessary to meet the government's objective of reducing the fiscal deficit and maintaining the public debt-to-GDP ratio stable over the medium term.

“The government is committed to deepen the reforms that are critical for maintaining macroeconomic stability and strengthening public finances. In this context, they intend to advance the reforms of public pension funds, which are needed to restore their long-term financial viability, and to develop concrete plans before year-end to enhance the operational efficiency of the electricity and telephone companies. The shift in government spending toward poverty reduction should be accompanied by efforts to improve targeting and structural reforms to promote private sector development and enhance the economy’s growth potential.

“The monetary and exchange rate policies for 2011 are appropriately geared at containing inflation and protecting Honduras’ external position. To achieve these objectives, the central bank will continue to rely as necessary on active placements of its instruments and adjustments in its policy rate. The authorities also plan to take prompt action to modernize Honduras’ monetary policy framework, taking into account recommendations of Fund technical assistance missions,” Mr. Shinohara said.

Statement by Mr. Perez-Verdia and Mr. Gramajo-Marroquín on Honduras
Executive Board Meeting
April 27, 2011

We thank the staff for a candid and well-balanced report, and the excellent work carried out during the mission. Our authorities broadly agree with the staff's appraisal and recommendations. The authorities would also like to thank management and staff for a continued and fruitful policy dialogue, which has been crucial to reach agreement on main policy actions.

Regarding performance under the program, all the quantitative performance criteria for end-December 2010 were fully met. Moreover, our authorities' commitments on structural benchmarks up to March 2011 have been observed or advanced significantly by the date of this review. The continuous benchmark on periodical electricity tariff adjustments was missed in February and March as the authorities strived to protect real income of vulnerable groups; however, adjustments have resumed in April. Therefore, we request the completion of the first review of the 18-month SBA/SCF arrangement.

Recent Developments

During 2010, the Honduran economy started to recover from the external and domestic crises that hit the country in 2009. Real GDP grew 2.8 percent, mainly driven by a surge of domestic demand.

The overall fiscal deficit was reduced significantly to 2.9 percent of GDP in 2010 (compared to 3.7 percent envisaged in the program) and the overall balance of payments posted a surplus, leading to an increase in international reserves of about US$600 million.

Last December, headline inflation reached 6.5 percent (y-o-y) close to the upper limit of the programmed range of 5.5-6 percent (+/- 1 percentage point), mostly reflecting the impact of higher food, fuel and energy prices, and weather- related domestic supply shocks. Notwithstanding, core inflation declined to 4 percent.

To establish conditions for a robust and sustainable growth in the medium term, the government started to implement key reforms in 2010, and has developed an economic program for 2011-2012 aimed at reducing macroeconomic imbalances and strengthening the finances of the public sector. The authorities expect that strong implementation of this program will help bolster investor confidence and strengthen the support of the international community.

In this context, the authorities have taken measures aimed at improving tax administration and reducing current expenditure. In particular, the administrative capacity of the Large Taxpayer Unit of the Tax Collection Agency (DEI) is being rebuilt and the Ministry of Finance now has firm control over the public sector wage bill. This has allowed expansion of the anti-poverty programs and increased public investment. The authorities are also moving ahead with important reforms in the financial sector and the public pension funds regime.

Macroeconomic Policies for 2011-2012

The macroeconomic outlook for 2011-2012 remains in line with the program, albeit with downside risks stemming from the external environment. A gradual recovery is under way, and real GDP growth is projected at 3.5 percent for 2011 and 4.0 percent for 2012. Inflation (y-o-y) is expected to rise in 2011, largely reflecting higher prices of oil and imported food, but authorities expect inflation to begin to decline somewhat in 2012. The deficit in the external current account is projected to remain high (around 7 percent of GDP) owed to higher prices of imported commodities.

The accumulation of the net international reserves in 2011 will be broadly as originally programmed, while the stock will possibly exceed the original targets. Fiscal consolidation will continue while the monetary policy stance will be restricted further if there is evidence of second-round effects on inflation derived from higher commodity prices or if external position is at risk. A less favorable external environment would constitute a considerable risk factor in the process of economic recovery.

Fiscal Policy

During 2010, our authorities managed to reduce the public sector fiscal deficit, control current expenditure and settle the domestic payment arrears. Nevertheless, important challenges lie ahead. In particular, during 2011 it will be crucial to broaden the tax revenue base, establish firm control over employment and the wage bill in the public sector, and improve domestic debt management to ease the liquidity pressures facing the government.

On the medium term, the fiscal policy will continue to aim at reducing the public sector deficit to 2 percent of GDP and a debt-to-GDP ratio of less than 30 percent, and on improving the quality of public expenditure. In line with these objectives, the 2011 public sector budget targets a deficit of 3.1 percent of GDP. This target is congruent with a central government deficit equivalent to 3.5 percent of GDP. In addition, the 2012 budget our authorities plan to submit to Congress by September 2011 will target an overall deficit of the central government at about 2.5 percent of GDP, consistent with a consolidated public sector deficit of 2 percent of GDP.

On the expenditure side, in 2011 our authorities will continue to apply firm control over public sector current spending and give priority to high-impact capital investment projects and well-targeted social spending, in part to mitigate the effects of the food and fuel price increases on the most vulnerable segments of the population. To this end, government expenditure will be maintained within the ceilings established in the 2011 budget. Additional efforts will seek to identify low-priority expenditure which could be deferred in the event of insufficient revenue or of higher spending in priority areas, so as to ensure observance of the 2011 targets for the overall deficit of the consolidated public sector. These measures, combined with the positive impact of the ongoing reforms of public sector enterprises and public pension funds, will help the authorities meet the fiscal deficit targets, strengthen the financial position of the public sector, and improve expenditure's composition.

One of the key elements of our authorities' expenditure policy for 2011 is control of the wage bill. In line with the commitment to tighten payroll control and regarding existing positions, the process of employment verification in the education sector was completed in March 2011, and in the health sector completion is envisaged for December 2011.

On the revenue side, authorities plan to fully implement the tax measures approved in 2010 and strengthen the DEI. In particular, they will continue strengthening the Large Taxpayer Unit (LTU), implementing electronic tax filing and prohibiting firms with tax arrears from obtaining government contracts. In addition, there are advances in preparations for a taxpayers' census, expected to begin in September 2011. The operations of the LTU will improve once it is focused on a number of taxpayers accounting for 80 percent of total tax revenue. The authorities will continue to implement the tax reform of April 2010 and the controls to verify its proper enforcement. Furthermore, by December 2011 they will complete a comprehensive review of tax exemptions and create a franchising and tax exemption unit within the Ministry of Finance by July 2011, which should help enforce tax compliance. Shortly, the final version of the draft law against tax evasion will be sent to Congress. These measures are intended to increase tax revenue of the central government to 15.4 percent of GDP (from 14.8 percent of GDP in 2010).

Monetary and Exchange Rate Policies

Keeping inflation under control remains the main goal on monetary policy, whereas maintaining an adequate level of international reserves. The monetary program for 2011 considers the impact of higher commodities prices, therefore the programmed inflation range was establish at 8 percent (+/- one percentage point), while accumulation of NIR is projected at US$227 million.

If inflation continues to accelerate due to second-round effect from raises in commodities prices or if external reserves targets become at risk, monetary policy will be tightened further. In this context, the monetary authorities will assess continuously the appropriateness of the interest rate levels and will adjust the policy rate accordingly in order to achieve the programmed inflation range and protect the external position.

The authorities plan to reform the operational framework for monetary policy and set up the infrastructure to enhance the functioning of the exchange market. They are committed to an exchange rate policy consistent with the objective of safeguarding competitiveness and strengthening the external position.

To enhance the Central Bank's ability to pursue effective monetary policy, the authorities will develop a plan for its capitalization and institutional strengthening by December 2011. To this purpose, they intend to request technical assistance from the IMF.

Structural Reforms

The priorities in this area are consistent with our authorities' long-term growth strategy and will be implemented in the next three years. In this context, envisaged reforms include: strengthening the operating balances of key public enterprises (electricity and telecommunications); strengthening the financial position of public pension funds; improving management and fortifying the financial position of the Honduran Social Security Institute; reforming the civil service law; continuing improving the regulatory framework and supervisory practices in the financial system and strengthening the financial safety nets; and maintaining social investment (including a gradual expansion of the successful conditional cash transfer program called *Bono 10 mil*).

Finally, we believe that the envisaged policies are adequate to meet the objectives of the authorities' economic and social program and we are certain that authorities stand ready to take additional measures—in consultation with the Fund—that should become necessary for that purpose. We also think that the program is still being instrumental to preserve Honduras' macroeconomic stability and to help support economic recovery.