



HONDURAS

June 2025

THIRD REVIEWS UNDER THE EXTENDED FUND FACILITY AND THE EXTENDED CREDIT FACILITY ARRANGEMENTS, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR HONDURAS

In the context of the Third Reviews Under the Extended Fund Facility and the Extended Credit Facility Arrangements, and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 11, 2025, following discussions that ended on April 11, 2025, with the officials of Honduras on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility and the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on May 28, 2025.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Honduras.

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

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IMF Executive Board Completes Third Reviews Under the Extended Fund Facility and Extended Credit Facility Arrangements for Honduras

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) completed the Third Reviews under the Extended Fund Facility (EFF) and Extended Credit Facility (ECF) arrangements for Honduras, enabling a disbursement of about US\$160 million (SDR 117.6 million).
- The Honduran economy has remained resilient, and program performance for the third reviews has been strong. Prudent fiscal policies and decisive adjustments in monetary and exchange rate policies have bolstered economic stability. Progress in energy sector reforms continues.
- Strengthened budget execution, greater social spending, proactive implementation of monetary and exchange rate policies, and a deepening of energy sector reforms remain key to safeguard macroeconomic stability and boost the growth potential of the economy.

Washington, DC – June 11, 2025: The Executive Board of the International Monetary Fund (IMF) today completed the third reviews under the Extended Fund Facility and Extended Credit Facility arrangements for Honduras. The completion of the reviews enables the authorities to draw about US\$160 million (SDR 117.6 million), bringing the total disbursements under the programs so far to about US\$485 million (SDR 356 million).¹ Honduras' 36-month arrangements totaling about US\$850 million (SDR 624.5 million) were [approved](#) on September 21, 2023.

Program performance for the third reviews has been strong. In completing the reviews, the Executive Board assessed that all quantitative performance targets for end-December 2024 had been met. Through end-May 2025, three structural benchmarks were also met – including the adoption of a manual for budget execution programming, the launch of a digital investment portal, and the completion of a diagnostic study of the foreign exchange allocation system, while progress has been made on the implementation of three additional structural benchmarks.

The Honduran economy continues to show resilience. Following growth of 3.6 percent in 2024, the economy is projected to expand by 3.5 percent in 2025, supported by a rebalancing of the economy, normalizing weather conditions, and favorable terms of trade. Inflation has declined close to the 4 percent objective. Fiscal performance continues to be strong, with the fiscal deficit outperforming the program target in 2024 at 1.0 percent of GDP and projected to increase modestly to 1.5 percent of GDP in 2025. International reserve coverage has strengthened since late 2024, supported by external market access, exchange rate and

¹ U.S. dollar amounts have been calculated using today's exchange rate: (SDR 0.735050/US\$).

monetary policy adjustments, and favorable foreign exchange inflows in the context of high remittances and coffee prices.

At the conclusion of the Executive Board's discussion, Ms. Gita Gopinath, First Deputy Managing Director and Acting Chair made the following statement:

"The Honduran economy remains resilient in the face of a challenging economic landscape. Policies under the program have bolstered macroeconomic stability and contributed to a rebalancing of the economy, including a marked strengthening of the external position. That said, policy agility and steadfast program implementation are essential amid heightened external risks. The authorities' commitment to the Fund-supported economic program is strong.

"Fiscal prudence continues to be a pillar of the authorities' agenda and is key to creating fiscal space for public investment and social spending while preserving debt sustainability. Importantly, containing non-productive spending is key to anchor stability this election year. Targeted efforts are underway to strengthen the social safety net and protect the most vulnerable. Continued progress on structural fiscal reforms is essential to improve public investment and strengthen budget execution.

"The authorities' decisive recalibration of monetary and exchange rate policies has been instrumental to support low inflation, improve external competitiveness and international reserve buffers, and strengthen conditions in FX markets. Amid ongoing global uncertainty, including related to migration and trade policies, the authorities' readiness to adjust monetary and exchange rate policies as needed is essential to safeguard stability. The authorities also remain committed to improving the efficiency of the current system of foreign exchange allocation.

"Significant progress is being achieved in the energy sector. The authorities' initiatives to reduce energy losses, including investments in energy transmission and distribution, are delivering positive results, while stronger coordination across government institutions is facilitating the reduction of arrears with private generators. These measures are contributing to a stronger financial position for the state-owned utility company, helping to reduce related fiscal risks and supporting medium-term economic growth.

"Structural reforms are the cornerstone of the authorities' agenda to spur private sector investment and job creation. Advancements in public financial management, procurement modernization, and institutional transparency are strengthening governance. Concurrent efforts to improve the business environment, combat corruption, and reinforce the AML/CFT framework are also progressing."



HONDURAS

May 28, 2025

THIRD REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Economic resilience continues, and the recalibration of monetary and exchange rate policies initiated in 2024 is bearing fruit, with the economy rebalancing, inflation contained, international reserves strengthening, and foreign exchange market conditions improving. Progress under the Fund-supported program is catalyzing external financing, including from the private sector. The authorities remain strongly committed to the program, a key anchor for Honduras in the context of heightened external risks and domestic uncertainty as the November 2025 elections approach.

Program performance. Program performance for the third review has been strong, with macroeconomic outcomes generally more favorable than programmed. All end-December 2024 Performance Criteria (PC) were met on the back of the authorities' decisive policies. The international reserves target was met by a wide margin, an important turnaround. All end-March 2025 Indicative Targets (ITs) were met except the floor on priority social spending, which has lagged in the context of ongoing challenges to execution. Three of six Structural Benchmarks (SBs) through end-April 2025 have been met, with the missed SBs subject to delays in implementation.

Policy discussions. Focus lied on measures to advance structural reforms while maintaining a prudent and agile policy mix to support economic stability in the context of heightened risks. The authorities concurred on the need to maintain current expenditure discipline, especially in this election year, and to stand ready to adjust the monetary policy stance as necessary to maintain low inflation while continuing the implementation of the crawling band FX regime. They also remain committed to improving the power utility ENEE's financial health. Discussions also highlighted the importance of updates to the AML/CFT legal framework.

Staff supports the completion of the third review and the authorities' request for modification of performance criteria. Strong recent program performance and the authorities' continued commitment to the program offer assurances of their ability to achieve program objectives. Performance criteria for reserves and net domestic assets are proposed to be modified considering stronger performance. A total of SDR 117.6 million would be available upon completion of the third review (SDR 78.42 under the EFF and SDR 39.21 under the ECF).

Approved By
Dora Iakova (WHD)
and Anna Ivanova
(SPR)

Discussions were held in Tegucigalpa on March 31-April 11, 2025. The team comprised Ricardo Llaudes (head), Carlos Chaverri, William Lindquist, (all WHD), Pedro Juarros (FAD), and Jorge León (SPR). Christian Henn (Resident Representative) and Kevin Rodriguez (Resident Representative Office) also participated in the discussions. Ms. Lankester (Senior Advisor to Executive Director) also joined the meetings. Andrea Paloschi (RES, formerly WHD) also contributed to the Staff Report. The mission met with senior economic officials, including Minister of Finance Christian Duarte, Central Bank of Honduras President Rebeca Santos, in addition to representatives of Congress, the private sector, and development partners. Heidi Canelas and Joe Ue (WHD) provided administrative and analytical support, respectively.

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CONTEXT

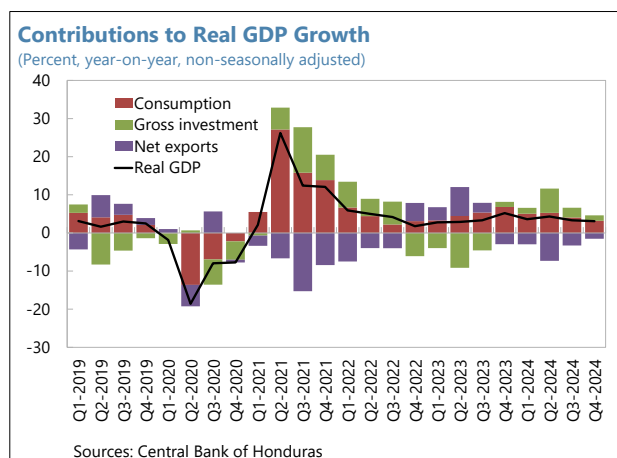
1. The authorities' decisive policy measures are bearing fruit, though external risks have intensified. In the context of the combined First and Second Reviews, the authorities demonstrated their firm commitment to program objectives, implementing moderate spending policies, significant monetary and exchange rate policy adjustments, and decisive measures to address energy sector challenges. These actions, together with the catalytic role of the Fund-supported program, are showing results: the economy is rebalancing, inflation remains contained, international reserves have increased significantly, and foreign exchange market conditions are improving. Nevertheless, Honduras faces a highly uncertain external environment, with heightened risks from ongoing policy changes in key trading partners.

2. The authorities continue to view the Fund program as an important economic anchor. The program provides a policy framework amid significant external and domestic uncertainties. In addition to the uncertainty related to evolving policies in trading partners, Honduras will hold presidential elections on November 30. The candidates of the three largest parties were selected in primary elections held on March 9, and campaign focus may limit the scope for the approval of significant new legislation. To focus on the implementation of the EFF/ECF program, the authorities have decided not to pursue currently an arrangement under the Resilience and Sustainability Facility (RSF).

RECENT ECONOMIC DEVELOPMENTS

3. The economy has remained resilient.

The economy again grew by 3.6 percent in 2024 buoyed by remittance-supported consumption and some private investment gains. Public investment stabilized in 2024, while broadly maintaining progress achieved in 2023. Exports were weak in 2024, reflecting a maquila sector slowdown and the impact of *El Niño* on agriculture, while energy imports increased to compensate for weather-related difficulties in hydroelectric production. In early 2025, the export sector is improving, aided by a normalization in weather conditions and record-high coffee prices. High-frequency indicators through March suggest that economic activity remains solid.



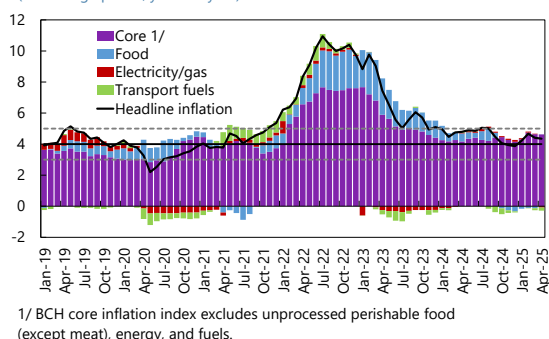
4. Inflation has remained within the tolerance range (4 ± 1 p.p.) since Q3:2024. Inflation dipped to 3.9 percent at the end of 2024, aided by declining food and fuels prices. Driven by an uptick in core, headline inflation modestly increased to 4.4 percent in April 2025. Imported goods inflation has remained contained, suggesting that pass-through from exchange rate crawl has thus

far been lower than initially expected (**Text Figure 1**). Inflation expectations remain well anchored.¹

Text Figure 1. Inflation Developments

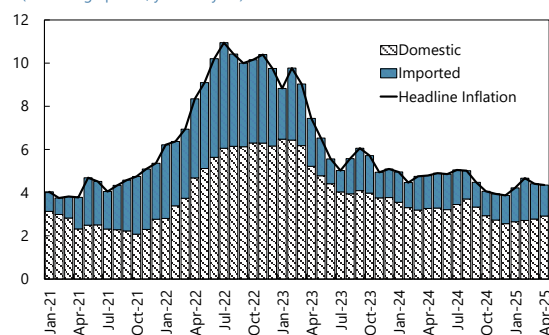
Inflation fell below 4 percent in late 2024, aided by a decline in food and energy prices...

Contributions to Headline Inflation
(Percentage points, year-on-year)



...while imported inflation remains contained.

Contributions to Headline Inflation
(Percentage points, year-on-year)



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

5. The fiscal balance outperformed in 2024, but scaling up social and capital spending remains challenging. The non-financial public sector (NFPS) posted a deficit of 1.0 percent of GDP in 2024 (versus 1.5 percent of GDP programmed). Measures implemented in Q4:2024 helped to contain primary expenditures below the ceiling (*IT*), but public investment and priority social spending² (*IT*) underperformed, reflecting execution bottlenecks and delays in external financing disbursements. Gross NFPS debt closed 2024 at 48 percent of GDP, up from 46.7 percent projected at the time of the combined reviews, reflecting the US\$700 million sustainable bond issued in November 2024.

Text Table 1. NFPS Fiscal Outturn
(Percent of GDP)

	Actual	1st/2nd Review	Actual
	2023	2024	2024
Revenue	29.4	29.2	29.3
Taxes	18.3	18.5	18.3
Social contributions	3.0	3.1	3.1
Grants	0.4	0.4	0.3
Other revenue	7.7	7.3	7.7
Expenditures	30.7	30.7	30.3
Current expenditures	26.4	26.7	26.4
Compensation of employees	10.9	11.1	10.9
Purchases of goods and services	8.4	8.5	8.4
Interest	2.8	2.4	2.6
Social benefits	3.6	4.0	3.7
Other expense	0.7	0.6	0.7
Net acquisition of nonfin. assets	4.2	4.0	3.9
Gross Operating Balance	2.9	2.6	3.0
Overall balance	-1.3	-1.5	-1.0

Source: Ministry of Finance and IMF staff projections.

6. The current account deficit widened in 2024 to 4.6 percent of GDP.³ While the trade deficit increased in 2024 mainly due to drought-related export weakness and a slowdown in the maquila sector, recent data point to a recovery in exports (up 18 percent year-to-date through

¹ Inflation expectations refer to those of economic analysts in a monthly central bank survey (see Figure 1, middle right figure).

² Although there was significant catch-up toward the end of the year, it was not enough to meet the priority social spending *IT*. This was primarily due to delays in *Red Solidaria's* funding, which stemmed from a lack of progress on key instruments needed to expedite disbursements in the *Red Solidaria's* covered regions.

³ The current account deficit was narrower than projected at the time of the First and Second Reviews (5.3 percent of GDP).

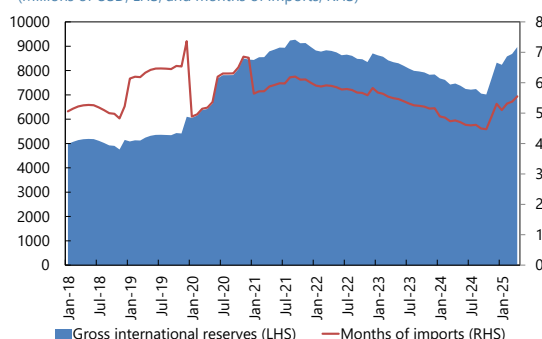
March), aided by a maquila recovery and strong coffee export volumes amid record-high prices. Remittances increased 6 percent in 2024 and have increased sharply in early 2025 (up 21 percent year-to-date through April) as migrants appear to be reallocating savings to Honduras in the context of changing U.S. immigration enforcement. Non-FDI financial inflows turned positive in 2024, led by large external disbursements to the government in Q4.

Text Figure 2. Developments in International Reserves and Foreign Exchange Markets

Large external disbursements in Q4:2024 strengthened international reserve coverage...

Gross International Reserves

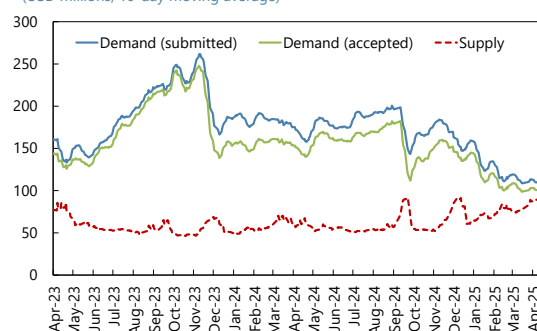
(Millions of USD, LHS; and months of imports, RHS)



...while the gap between supply and demand in the BCH FX auction has narrowed significantly.

BCH Foreign Exchange Auction

(USD millions; 10-day moving average)



Remittances have surged in 2025.

Remittances Growth

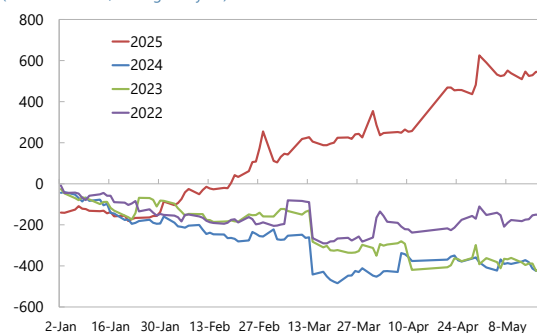
(Accumulated growth over previous year, percent)



Organic reserve accumulation has occurred in early 2025, a sharp turnaround from recent years.

Cumulative Change in BCH Net International Reserves

(Millions of USD, through May 19)



Sources: Central Bank of Honduras; and IMF staff calculations.

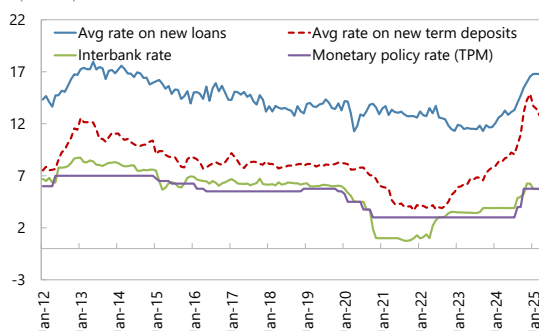
7. Reserve coverage has strengthened, supporting a marked improvement in foreign exchange (FX) market dynamics (Text Figure 2). Net international reserves (NIR) increased by nearly \$500 million in 2024 to \$8 billion (5.4 months of imports and 119 percent of the ARA metric), well ahead of program objectives, supported by sizeable external disbursements in Q4. Through May 19, NIR had increased by a further \$530 million, an important organic accumulation of reserves in the absence of significant external disbursements. Implemented policy adjustments—including renewed exchange rate crawl and policy rate increases—have also contributed to a decline in FX demand, which, in combination with increased FX inflows, increased FX auction coverage to nearly 85 percent of demand since April 2025, compared to about 35 percent in H1:2024.

8. Monetary policy tightening has transmitted strongly to credit markets. Interest rates on new bank loans and deposits have increased by 3.5 p.p. since August 2024 (Text Figure 3). Credit growth to the private sector in local currency has slowed to below 12 percent (year-on-year), broadly in line with long-term trends, while bank deposit growth has increased to about 17 percent year-on-year.

Text Figure 3. Interest Rates and Credit Growth

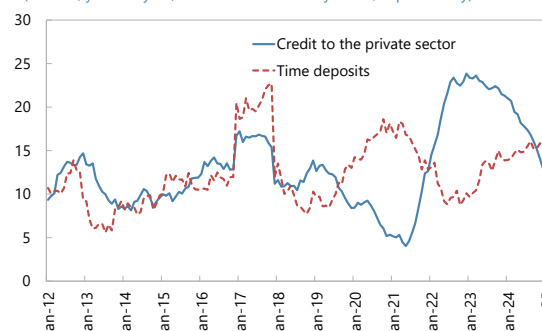
Market interest rates have increased strongly in response to monetary policy tightening...

Interest Rates in Local Currency
(Percent)



...while bank credit growth continues to slow.

Growth of Credit to the Private Sector and Deposits
(Percent, year-on-year; refers to local currency credit/deposits only)



Sources: Central Bank of Honduras; Haver; and IMF staff calculations.

MACROECONOMIC OUTLOOK AND RISKS

9. The baseline framework has been revised to reflect positive external dynamics in early 2025 but also heightened forward-looking external risks and uncertainty (Text Table 2).

Exceptional uncertainty around the outlook remains, with the future behavior of remittances (nearly 26 percent of GDP in 2024), external demand, and global trade policies as key drivers. The baseline assumes a declining path of remittances as a share of GDP (Annex II) and takes external demand assumptions from the April 2025 WEO reference scenario.

- *GDP growth* is projected at 3.5 percent in 2025 as tighter credit conditions and slower credit activity moderate consumption growth, partially offset by stronger net exports, supported by higher remittances, exchange rate adjustment, normalizing weather conditions, and improving terms of trade. While Honduras may experience temporary gains from trade diversion should the U.S. tariffs announced on April 2 enter into force (Annex III), possible reductions in the U.S. tariff increases on Honduras' key competitors and persistently high policy uncertainty are expected to reverse any gains. The tariffs announced are assumed to reduce the level of GDP by

around ½ p.p. cumulatively by 2028, primarily through indirect effects of lower global medium-term output, resulting in a slowdown in growth to 3.2-3.4 percent in 2026-27.⁴

- *Inflation* is projected to increase modestly above the Central Bank of Honduras (BCH) 4 percent objective in 2025, averaging 4.6 percent, due to (i) base effects from the decline in food and energy prices in H2:2024; and (ii) expectations of moderate exchange rate pass through. In 2026, inflation is projected to decline back to the 4 percent objective, supported by monetary policy tightening implemented in 2024.

Text Table 2. Medium-Term Economic Projections
(Percent of GDP, unless otherwise indicated)

	Act. 2023	1st/2nd Review 2024	Act. 2024	1st/2nd Review 2025	Proj. 2025	1st/2nd Review 2026	Projected				
							2026	2027	2028	2029	2030
Real											
GDP growth, percent	3.6	3.8	3.6	3.6	3.5	3.6	3.2	3.4	3.7	3.8	3.8
Inflation (period average, percent)	6.7	4.8	4.6	5.1	4.6	4.5	4.0	3.9	4.0	4.0	4.0
Inflation (end of period, percent)	5.2	4.8	3.9	5.0	4.8	4.1	3.9	4.0	4.0	4.0	4.0
Fiscal											
Primary balance	0.2	0.0	0.2	0.0	0.0	0.5	0.1	0.2	0.3	0.4	0.5
Overall balance	-1.3	-1.5	-1.0	-1.5	-1.5	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Public capital investment	4.2	4.0	3.9	4.0	4.1	4.0	4.0	4.0	4.0	4.0	4.0
Gross debt ^{1/}	48.0	46.7	48.1	46.3	47.6	45.4	47.1	46.3	45.4	45.1	44.7
Balance of payments											
Current account balance	-3.9	-5.3	-4.6	-4.7	-3.7	-4.5	-4.1	-4.0	-4.0	-4.0	-4.0
Remittances	25.9	25.2	25.8	25.9	25.2	24.6	25.0	24.3	23.5	22.7	22.0
Gross international reserves (percent of ARA)	118	104	119	105	119	115	125	119	117	115	110

Sources: Central Bank of Honduras, Ministry of Finance, and IMF staff estimates and projections.

1/ Debt projections use the definition from the DSA.

- The *current account* deficit is projected to narrow to 3.7 percent of GDP in 2025 based on improvements to the trade balance from the revival in export volumes—and record-high coffee prices—and a reduction in energy import volumes and lower oil prices.⁵ Remittances are projected to decline by about ½ p.p. to about 25 percent of GDP in 2025, based on a conservative projection of about 3 percent remittance growth, but decline to 22 percent of GDP by 2030 (**Annex IV**). Over the medium term, the current account deficit is projected to decline to just under 4 percent of GDP, anchored in part by the continued implementation of exchange rate crawl that maintains external competitiveness.

⁴ In line with the April 2025 WEO reference scenario, any initial trade diversion effects fade over the medium term, and the impact of tariff implementation becomes negative for global output as prices and quantities begin to adjust and tariff-driven distortions spread through global supply chains.

⁵ Projected secondary income inflows have been lowered by about 0.5 percent of GDP to reflect reduced official development assistance. The fiscal impact is limited, as most USAID flows had been disbursed to non-government entities in Honduras. Inward transfers in the balance of payments are dominated by remittances, which account for about 90 percent of inflows.

- *Public sector debt* is projected to gradually decline to around 45 percent of GDP supported by small primary surpluses on the back of continued prudent fiscal policies.⁶ A sovereign bond issuance is anticipated in late 2026 to pre-finance the bond maturing in early 2027.

10. Downside risks are significant, and agile policy adjustments will be paramount (RAM, Annex I).

- The largest *external risks* are the evolution of trade and immigration policies and the strength of external demand. While trade diversion may bring temporary benefits, the global effects of recent trade policy actions could be more contractionary than anticipated, with stronger spillovers to Honduran economic growth. An intensification of U.S. immigration enforcement beyond the baseline assumptions could lead to significantly lower remittances, impacting consumption, tax revenues, reserve accumulation, and social conditions. Honduras' exposure to recent developments in official development assistance is relatively limited (¶19). On the upside, Honduras could benefit from new momentum toward regional or multilateral trade agreements, which would reduce policy uncertainty and potentially promote new investment.
- *Domestically*, the complex political environment, including the government's lack of a working majority in Congress and general elections in late 2025, continues to present a risk to program implementation. Support for politically difficult policy adjustments and reform momentum could wane in the run-up to the elections. Furthermore, the materialization of external risks could lead to policy backtracking or a relaxation of fiscal discipline. These developments, together with the above-mentioned external risks, could lead to higher borrowing costs and more challenging debt dynamics. Limited implementation capacity continues to pose a risk of program slippages. On the other hand, broad political backing for the Fund program could continue to contain domestic uncertainty and support program implementation.
- Against this backdrop, contingency planning and the agile adjustment of policies to changing circumstances, especially the evolution of external demand and remittances, will be essential to ensure program objectives are met. The materialization of a downside scenario of significantly lower external demand and a more immediate downside shock to remittances would weaken the balance of payments and necessitate policy adjustments, including potentially faster nominal exchange rate crawl and policy interest rate increases to provide support for Lempira assets. The possible shock to household incomes of lower remittances may require the creation of fiscal space to strengthen targeted poverty-reducing social programs. While direct exposure of the financial sector to remittance flows is limited, increased vigilance of household loan asset quality would be needed (¶25).

⁶ At the time of the First and Second Reviews, Honduras was assessed to have a low risk of external debt distress and a moderate overall risk of debt distress. With broadly unchanged debt dynamics, staff considers that this assessment remains appropriate.

PROGRAM PERFORMANCE

11. Program performance has been strong, with key quantitative targets met and progress made on structural benchmarks on the back of the authorities' more decisive policy implementation.

- **Quantitative targets (Table AI.1).** All end-December 2024 performance criteria (PCs) and three of four indicative targets (ITs) were met. The international reserves target (adjusted upwards by the bond issuance) was met by a wide margin. Debt issuances and the transfer of budgetary resources to the state-owned energy company ENEE also facilitated the targeted reduction of domestic arrears, while the IT on energy distribution losses was met. The IT on priority social spending was marginally missed, reflecting execution challenges. For end-March 2025, all ITs except that on priority social spending were met. There have been no new flows of monetary financing (*continuous PC*).
- **Structural benchmarks (Tables AI.2 and AI.3).** Through end-April, three of six structural benchmarks (SBs)—including the adoption of a manual for budget execution programming, the launch of a digital investment portal, and a diagnostic study of the FX allocation system—were met. The liquidation of 48 (of 68) trust funds was completed but fell short of the end-December 2024 SB. The finalization of the urban poverty census and ENEE's hiring of a consulting firm to help implement IFRS were also not completed by the end-March deadline, but progress is ongoing. The timing of these SBs is proposed to be reset (¶35). Given challenges in building Congressional support for the package of legislation centered around the tax reform—also including measures on tax information exchange and beneficial ownership—the three related end-May 2025 SBs are unlikely to be met.

POLICY DISCUSSIONS

A. Fiscal Policies

12. The 2025 budget, targeting a NFPS deficit of 1.5 percent of GDP (Text Table 3), remains prudent and in line with program commitments. Resisting non-productive spending pressures in an election year will be essential to safeguard macroeconomic stability.

- **Revenues** are projected to decrease by 0.3 p.p. of GDP relative to 2024, primarily driven by a decline in tax revenues based on: (i) low tax buoyancy from higher coffee export prices that boost nominal GDP more than revenues; and (ii) more subdued domestic consumption.
- **Expenditures** are projected to increase by around 0.2 p.p. of GDP. Despite pending salary adjustments for health and education workers, wages and salaries are projected to stabilize as a share of GDP. Lower energy purchases and prices will contain goods and services spending, while social spending is projected to increase modestly, reflecting still limiting execution bottlenecks. Capital expenditures are projected to increase by 0.2 p.p. as financing constraints

have eased, and the authorities seek to ramp up execution.

13. The authorities remain focused on addressing execution bottlenecks to increase social expenditures.

Implementation of the Single Social Sector Information System (SUISS),⁷ is on track (**end-June 2025 SB**), but the completion of the census of urban households in poverty is now expected to be completed by end-July (proposed reset of the **end-March 2025 SB**). The delay contributed to recent underperformance against the social spending **IT**. Completion of the census will unlock external financing for *Red Solidaria* earmarked to support vulnerable urban households (MEFP ¶18). The authorities have also launched a program (*Hermano, hermana, vuelve a casa*) to support returning migrants (MEFP ¶15).⁸ To further improve social spending execution, the authorities have committed to: (i) publish a manual for the implementation of temporary social assistance payments in case of emergencies (**proposed end-December 2025 SB**) (MEFP ¶20); and (ii) establish a social committee with development partners to evaluate and address ongoing challenges in delivering social support (MEFP ¶17).

Text Table 3. Statement of Operations of the Non-Financial Public Sector
(Percent of GDP)

	Actual	1st/2nd Review	Proj.
	2024	2025	2025
Revenue	29.3	29.1	29.0
Taxes	18.3	18.6	18.0
Social contributions	3.1	3.1	3.1
Grants	0.3	0.4	0.3
Other revenue	7.7	7.0	7.6
Expenditures	30.3	30.5	30.5
Current Expenditures	26.4	26.3	26.5
Compensation of employees	10.9	11.1	11.0
Purchases of goods and services	8.4	8.2	8.0
Interest	2.6	2.4	3.0
Social benefits	3.7	4.0	3.8
Other expense	0.7	0.6	0.7
Net acquisition of nonfin. assets	3.9	4.3	4.1
Overall balance	-1.0	-1.5	-1.5

Source: Ministry of Finance and IMF staff projections.

14. While a continued priority, approval of the tax reform has not garnered sufficient Congressional support. Congressional approval of the Law on Tax Justice (LT) and of the Convention on Mutual Administrative Assistance in Tax Matters (MAAC) (**end-May 2025 SBs**) remains challenging during this election year. While these measures would be beneficial in terms of simplification of tax exemptions and combating tax evasion, their potential revenue yields are not included in the program's baseline, and suitable alternatives have been identified (see ¶15 below). As such, staff no longer considers these SBs to be macro-critical for the ongoing program and—also considering repeated delays to their approval—proposes dropping them as SBs. The authorities intend to continue working to secure their approval.

15. The authorities are advancing additional measures to strengthen tax revenues and administration. The Tax Administration (SAR) is enhancing its Virtual Tax Office that provides online administrative processes for taxpayers, implementing electronic signatures, and improving its integrated IT system. With IMF support, the SAR aims to ensure timely sales tax refunds. Audit plans focused on tax incentives compliance are underway, and a project for electronic invoicing has been approved with IDB assistance. Regarding customs, work on a new customs law is ongoing to better

⁷ SUISS is an integrated system of social registries and other information to guide policies on social assistance.

⁸ The program, with estimated expenditures of 0.1 percent of GDP, provides food stamps, cash assistance, and seed money to start a business.

address current trade needs and improve compliance. The draft is expected by June and to be submitted to Congress later this year.

16. Efforts to enhance public financial management (PFM) and public investment management are also ongoing:

- *Eliminating trust funds.* Good progress has been made in liquidating 82 trust funds, but technical and legal requirements have hindered the elimination of some of these. Of an initial group of 68 trust funds (**end-December 2024 SB**), 48 have been legally liquidated, and 8 have been transferred to the central government balance sheet. The transfer of the remaining 12 requires additional procedures.⁹ Therefore, this SB is proposed to be reset to end-September 2025. Work is ongoing to close an additional 14 complex trust funds by **end-December 2025 (SB)**. Moreover, both SBs are proposed to be redefined on the transfer of the trust funds to the central government balance sheet rather than the legal liquidation (MEFP ¶23).¹⁰ Importantly, the trust funds are no longer operating and, therefore, do not represent a fiscal risk.
- *Enhancing public expenditure control.* Following the adoption of a “Manual for the programming of budget execution”¹¹ (**met end-February 2025 SB**), the authorities will implement this manual in five pilot entities and produce a “Report on the Application of the Manual and Budget Execution” for H1:2025 (**proposed end-August 2025 SB**) (MEFP ¶24). The procurement law is on track for submission to Congress by **end-June 2025 (proposed SB)** (MEFP ¶21). The authorities are working with Congress to expedite the adoption of amendments to the Organic Budget Law, which is essential for the timely implementation of the Single Treasury Account (**end-December 2025 SB**) (MEFP ¶25).
- *Climate budget tagging:* Supported by IMF technical assistance, the authorities will further strengthen their climate budget tagging methodology—to be used to identify expenditures for climate adaptation—and its application in strategic investment planning by **end-April 2026 (proposed SB)** (MEFP ¶25).

17. Increasing the transparency and coordination of public investment will be important to accelerate execution. The authorities plan to establish, with technical assistance from the Development Bank of Latin America and the Caribbean (CAF), a database of costed future investment projects with completed financing and design studies with the goal of reducing the lag between planning and project implementation, a key PIMA recommendation. The authorities aim to complete a first version of this database by mid-2026 to inform investment expenditures in the 2027 budget. Additionally, in line with the C-PIMA, the authorities aim to include climate-related

⁹ These 12 trust funds, belonging to BANHPROVI, contain loan portfolios and have outstanding surcharges/fines from past tax debts (of less than 0.05 percent of GDP). A Congressional decree is required to address these liabilities, which would then enable these 12 trust funds to be incorporated into the Central Government’s balance sheet.

¹⁰ Liquidation as legal entity of trust funds with loan portfolios is only possible after their loans mature.

¹¹ Developed with support of FAD Technical Assistance and aimed at strengthening budget implementation.

maintenance expenditures for roads, with IDB support using the *Blue Spot* methodology, to assess flood risks on road segments and estimate associated costs (MEFP ¶22).

18. The government is working on developing the domestic debt market and increasing official sector external financing. Despite ongoing challenges, including lower excess bank liquidity and higher interest rates, efforts are underway—including through requested Fund TA—to deepen the domestic debt market and broaden the investor base. Development partner (excluding IMF) net external financing is expected to increase to 1.2 percent of GDP in 2025, up from 0.8 percent of GDP in 2024, supported by improved project execution and the catalytic effect of the Fund program on multilateral development bank lending.

B. Monetary, Exchange Rate, and Financial Sector Policies

19. Monetary and exchange policies have remained in line with program objectives.

Following hikes of 275 bps in 2024, the monetary policy rate has remained at 5.75 percent. Honduras' exchange rate regime remains a crawling band, with the exchange rate as the nominal anchor. The Lempira depreciated more than 2 percent against the U.S. dollar (USD) in Q4 2024—about a 10 percent annualized rate—and has crawled at an annualized daily rate of 6 percent so far in 2025 (**Text Figure 4**).

20. The real effective exchange rate (REER) has begun to adjust. Honduras' external position in 2024 is assessed to be moderately weaker than implied by fundamentals (**External Sector Assessment, Annex IV**).¹² Since the resumption of exchange rate crawl in September 2024, the REER has depreciated by about 2.5 p.p. through April, with the appreciation of the nominal effective exchange rate (NEER)—driven by USD appreciation in late 2024/early 2025—preventing a stronger REER adjustment (**Text Figure 4**).

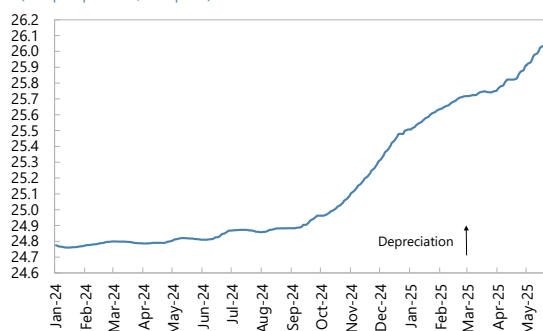
21. The BCH will continue to implement its crawling band FX regime to improve external competitiveness and maintain an adequate level of international reserves. The expected path of the exchange rate will continue to be determined by the behavior of the macroeconomic fundamentals, namely inflation differentials with trading partners and movements in the NEER. The BCH also considers it appropriate to correct earlier REER appreciation and is prepared to adjust the rate of crawl as needed to bolster external competitiveness and achieve reserve accumulation objectives (**quantitative PC**).

¹² While the EBA-lite current account approach does not suggest overvaluation, the REER approach continues to point to a REER overvaluation of 5-10 percent.

Text Figure 4. Exchange Rate Developments

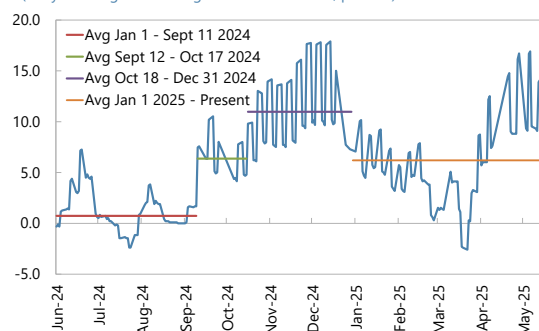
The nominal exchange rate has depreciated 4.7 percent since the crawl restarted in Q3 2024....

Nominal Exchange Rate
(Lempira per USD; sale price)



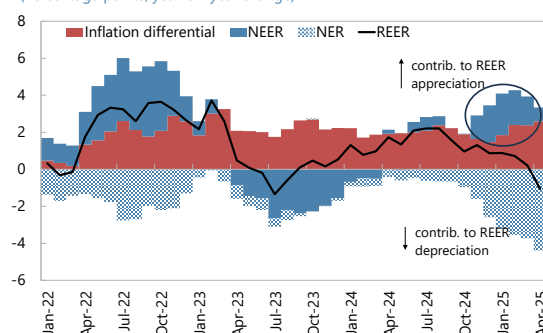
...with the annualized rate of crawl at 6 percent in 2025.

Nominal Exchange Rate Depreciation
(Daily exchange rate change at annualized rate, percent)



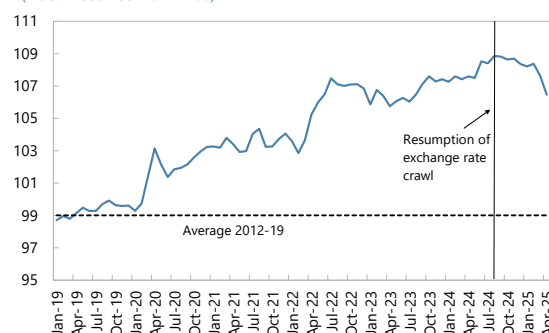
Despite an appreciation of the USD in late 2024/early 2025...

Honduras: Contributions to Real Effective Exchange Rate
(Percentage points, year-on-year change)



...the real effective exchange rate has begun to adjust.

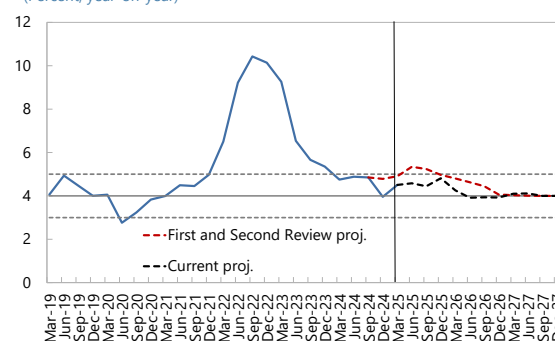
Honduras: Real Effective Exchange Rate
(Index: December 2011=100)



Sources: Haver; Central Bank of Honduras; and IMF staff calculations.

22. The BCH will maintain a data-driven approach to adjust monetary policy as necessary to contain inflation and safeguard external stability. Considering the current neutral stance of the real monetary policy rate, the level of international interest rates, and that inflation is projected to remain within the tolerance range around the objective, the current monetary policy stance is appropriate. Nevertheless, the BCH remains vigilant to domestic and external risks to inflation and is prepared to adjust its policy stance as needed. The BCH also continues to monitor the level of international interest rates (**Text Figure 5**) and will maintain both a positive real policy rate and a positive interest rate differential with respect to international rates to support demand for Lempira assets.

Honduras: Headline Inflation
(Percent, year-on-year)

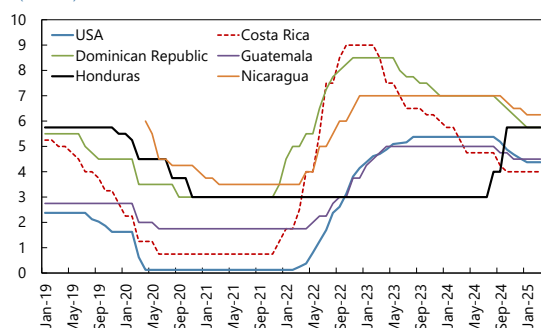


Sources: BCH; and IMF staff projections.

Text Figure 5. Policy Interest Rates

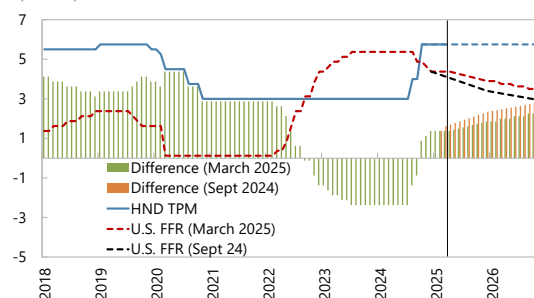
Previous increases of the TPM have brought the policy rate in Honduras in line with regional peers.

Monetary Policy Interest Rates (Percent)



The BCH should continue to monitor the current and projected differential with U.S. interest rates.

Monetary Policy Interest Rates (Percent)

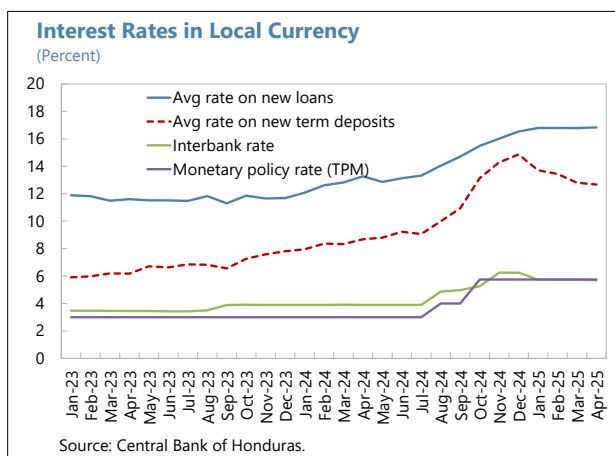


Note: Illustrative path for FFR based on end-year FOMC projections. TPM path illustrates differential if maintained at 5.75 percent.

Sources: Haver; and IMF staff calculations and projections.

23. The authorities seek to build on recent improvements to the balance of supply and demand in the FX market. Maintaining appropriate monetary and exchange rate policies will bolster such improvements. Supported by IMF technical assistance, the BCH has prepared a diagnostic study of the current system of FX allocation, including options to strengthen it (*met end-April 2025 SB*). The study highlights that while the re-establishment of the BCH FX auction in April 2023 expanded the number of agents able to access FX, the system has operated under various degrees of imbalance of supply and demand—due to a combination of external shocks and delays in normalization of policies—and has presented some operational difficulties for market participants.¹³ To ease these difficulties, the BCH will undertake a review of current documentation requirements for the FX auction to simplify, where feasible, such requirements and monitoring. In consultation with Fund staff, the BCH will publish an update to relevant regulations (*proposed end-September 2025 SB*).

24. The authorities remain vigilant to banking sector health and have taken steps to ensure adequate liquidity. Banks remain well capitalized with a 13.3 percent capital adequacy ratio (versus 12 percent minimum), and NPLs contained at 2.4 percent of assets. While still adequate, banking sector liquidity tightened in late 2024 as monetary policy rate increases were transmitted to market rates, prompting banks to increase deposit rates to capture funding. To provide banks with greater flexibility in



Source: Central Bank of Honduras.

¹³ Firms find documentation requirements and process uncertainty to be costly. Delays in accessing necessary FX have been easing, but many firms adapted in 2023-24 by taking credit from suppliers and banks.

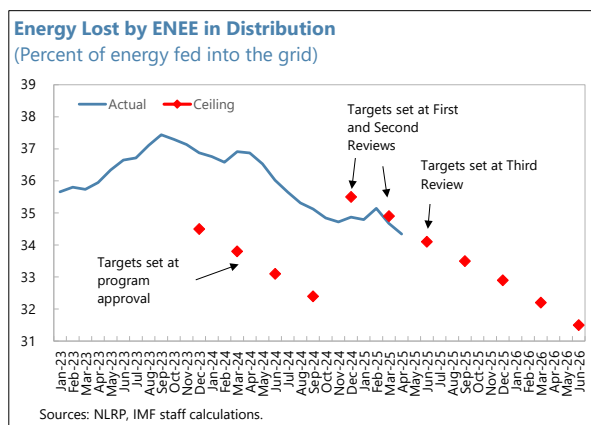
managing daily liquidity needs and guard against the risk of an excessive increase in market interest rates, the BCH reduced the minimum daily liquidity requirement from 100 percent of the reserve requirement to 90 percent in October 2024 and 80 percent in January 2025. The BCH also introduced a daily liquidity auction instrument in January 2025. As a result, interbank rates realigned with the policy rate, and the rate on term deposits eased in early 2025.

25. The impact on the banking sector of a possible decline in remittances warrants close monitoring. That said, supervisory stress tests suggest that bank capital levels would be resilient to a decline in remittances. While banks play a central role in the transfer of remittances to domestic recipients, the direct impact on the banking system is limited, with remittances accounting for only 9 percent of deposits and remittance intermediation accounting for 2 percent of bank revenues.

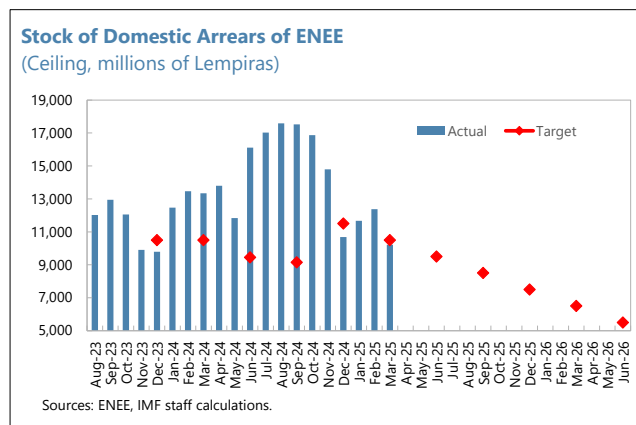
26. Work is progressing to address safeguards assessment recommendations (MEFP 150). Consistent with the expanded **continuous PC**, the BCH has not made new transfers to the financial public sector. To strengthen its internal audit function, the BCH is updating its internal audit statutes in line with best practices and will work with the IMF on reassignment of non-related activities from the internal audit unit. An internal audit of end-2024 monetary data has been completed and will continue semi-annually, as recommended in the last assessment. The BCH plans to complete a comprehensive update of its integrated risk management system and complete the adoption of IFRS, both by December 2025. The BCH has also formed a technical team that will study international best practices to draft amendments to modernize and strengthen the BCH Law, in coordination with Fund staff.

C. Energy Sector Policies

27. Electricity loss reduction efforts are showing results, and ENEE's financial position is stabilizing. Electricity losses have further declined to 34.3 percent at end-April—the lowest level since early 2020—from 34.9 percent at end-December 2024 (**IT**). Ongoing and recently completed investments in transmission and distribution are contributing to these efforts, improving energy provision and grid resilience, and enabling future targets to aim for a 2½ p.p. annual reduction (MEFP 126). The National Loss Reduction Program is also further addressing inefficiencies, installing new meters, and improving collections (MEFP 127). This allowed ENEE to stabilize its financial losses at 0.6 percent of GDP in 2024, unchanged from 2023, despite higher input costs due to *El Niño*. Financial audits of ENEE for 2021–23 are ongoing and should provide additional recommendations to improve its financial position and governance. The authorities plan to publish these, alongside an audit for 2024, by **end-September (proposed SB)**.



28. The authorities successfully implemented their ENEE financing plan to meet arrears reduction targets. ENEE's 2024 domestic debt issuance fell short of expectations, partly due to lower excess liquidity in the banking system, prompting the Ministry of Finance to make a payment to ENEE to provide the funds necessary to reduce domestic arrears to 10.7 billion Lempiras at end-December (*met PC*). Arrears reduction has continued in 2025.



29. The authorities remain committed to the sustainable financing of ENEE, including by ensuring timely subsidy payments. Some delays in SEFIN subsidy payments to ENEE at end-2024 into early 2025, owing to SEFIN's challenges in cash flow planning, resulted in an accumulation of unpaid subsidies of 3.9 billion Lempira at end-March (MEFP ¶30). To remedy this situation and avoid future recurrence, the authorities have been working on a cash flow plan in the recently established inter-institutional committee on the energy sector that includes SEFIN transfers of 3.5 billion Lempiras in subsidies to ENEE by May 27, 2025 (*prior action*). The inter-institutional committee is also exploring options to secure additional external funding for ENEE to finance investment and facilitate considerable further arrears reduction (MEFP ¶31). These steps are essential to ensure success of a long-term 1500 MW generation capacity auction, planned for early 2026 (MEFP ¶34). Regarding ENEE's domestic debt placements, the committee is streamlining procedures, but further progress is desirable as ENEE's first domestic issuance this year would only take place in June.

30. Reforms to strengthen ENEE's operations and enhance electricity sector efficiency are advancing (MEFP ¶33). In particular:

- *Merger of operational processes of the three entities involved in distribution:* ENEE has adopted a time-bound plan for this integration. However, given some delays due to unanticipated complexities and ENEE's capacity limitations, it is proposed to reset the corresponding **end-August 2025 SB** to **end-November 2025**.
- *Introducing international accounting (IFRS) standards:* ENEE has identified through a tender process a consulting firm to help with the implementation of IFRS, albeit with some delay. It is proposed to reset the corresponding **end-March 2025 SB** to **end-June 2025** to allow the authorities to complete the contracting process. ENEE also keeps moving forward in parallel the implementation of a supportive IT software infrastructure.

31. Joint work between ENEE and the regulator CREE is progressing well on the preliminary technical note to underpin an update of the electricity tariff structure (end-November 2025 SB). It would incorporate recent valuations of transmission and distribution assets to better reflect actual costs and thereby further fortify ENEE's financial position (MEFP ¶35).

D. Other Structural Policies: Business Environment, Transparency, and AML/CFT

32. Ongoing digitization initiatives will support the business environment. The authorities have recently launched digital signatures¹⁴ and implemented a “single window for investment,” an online platform already digitizing 74 administrative procedures at end-April (*met SB*) with additional procedures in progress (MEFP ¶45).

33. Actions to strengthen further the AML/CFT framework are underway ahead of the FATF evaluation in 2026 (MEFP ¶47). The authorities are expecting to finalize during Q3:2025 an updated national risk evaluation and implementation strategy on AML/CFT, which will help focus supervisory resources. Moreover, they are drafting legislation to align with updated FATF standards. Specifically, they plan to submit to Congress updated amendments to (i) the AML law; (ii) the CFT law; and (iii) the Law on Designated Non-Financial Activities and Professions (DNFBP), as well as a new bill to establish beneficial ownership legislation (*end-July 2025 proposed SB*). This new bill, developed in collaboration with the UN Office on Drugs and Crime (UNODC), is comprehensive. As such, staff proposes eliminating the *end-May 2025 SB* on approval of provisions on beneficial ownership previously submitted to Congress as part of the LJT in favor of the new bill and SB. Prompt approval of this legislation will be important to establish a beneficial ownership registry by *end-December 2025 (SB)* (MEFP ¶48).

34. Progress on other transparency and governance-related reforms continues (MEFP ¶46). The authorities are committed to approving in the Council of Ministers and publishing their national transparency and anti-corruption strategy (ENTAH) by *end-June 2025 (proposed SB)*. In addition, implementation of the electronic asset declaration system for public officials continues to deepen, with more than one-third of declarations made electronically and a goal of full coverage by 2026. To establish a legal framework around the reporting of illicit activities, the authorities are advancing a new whistleblower law, expected to be submitted to Congress by end-2025, with a related digital portal and complaint line. Meanwhile, progress on the establishment of the international anti-corruption commission (CICIH) has been slow, but engagement with the UN continues.

PROGRAM MODALITIES

35. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) describe the authorities’ progress in implementing their economic program and set out future policy commitments. Program performance will continue to be monitored through semi-annual reviews based on QPCs and ITs (**Table AI.1**) and SBs (**Table AI.3**). End-June 2025 PCs for reserves and net domestic assets are proposed to be modified to reflect recent developments, including stronger reserve accumulation to date. New targets for QPCs and ITs for end-December 2025 and ITs for end-March and end-June 2026 are proposed. The three SBs

¹⁴ Anyone can request such a digital signature for a small nominal fee from the tax administration, which is spearheading this effort, and it is valid as an official signature on any private or public document.

through end-April 2025 that were not met are proposed to be reset and/or redefined, as discussed in ¶13 (completion of urban census), ¶16 (closure of trust funds), and ¶30 (ENEE hiring of consultancy for IFRS implementation). In addition, the end-August 2025 SB on the integration of ENEE's three distributional units is proposed to be reset to end-November 2025 (¶30). As discussed in ¶14, two of the end-May 2025 SBs (tax reform, Mutual Administrative Assistance in Fiscal Matters (MAAC)) are proposed to be eliminated considering repeated delays to their approval and the assessment that they are not macro-critical at this juncture. The Law on Beneficial Ownership is now included in a newly proposed SB for end-July 2025 as part of a package of legislation related to the AML/CFT regime (¶33).

36. Financing under the program, to continue in the form of budget support, remains adequate to address actual, prospective, and protracted balance of payments needs. Fund financing underpins the authorities' reform efforts—including strengthening priority and social spending—and the strengthening of FX reserve buffers. Despite the recent improvement in the BOP—driven in part by temporary factors, including record-high coffee prices and large remittance inflows—heighted risks and the exceptionally high levels of uncertainty (¶10) call for the maintenance of ample reserve buffers to manage such risks and safeguard economic stability. Moreover, Honduras' public external debt service obligations in 2025 remain elevated at around 3 percent of GDP. Without Fund financing, and its catalytic role, staff projects that international reserves would fall below the level that is considered adequate in the current uncertain environment, thus limiting the authorities' policy options and creating uncertainty about external sustainability.

37. Financing assurances. The program is fully financed, with firm commitments for the upcoming 12 months and good prospects of full financing for the remainder of the program. The authorities have continued to secure access from multilaterals, including the IDB, World Bank, CABEL, and the CAF. The program does not assume or rely on financing from international capital markets in 2025. Fund resources are projected to fill 15 percent of the external financing gap over 2023-26, down from 18 percent at program approval due to the additional financing provided by the bond issuance in 2024.

38. Honduras' capacity to repay remains adequate. Existing and prospective Fund credit outstanding is expected to reach 273.9 percent of quota by end-2026, before declining to 32.8 percent of quota by 2034. Repayments to the Fund are projected to peak at 1.4 percent of exports and 2.1 percent of gross reserves in 2025, before declining over 2026-28 to 0.5 percent of exports and 0.7 percent of gross reserves.

39. Risks to the program. Program implementation challenges remain significant, largely stemming from the identified risks to the baseline (¶10). Measures to mitigate these risks include: (i) SBs that largely focus on measures that can be enacted without legislative approval, in recognition of the challenges of legislating prior to the election; (ii) timelines in line with implementation capacity; and (iii) close coordination with development partners to help mitigate the risk of implementation delays related to capacity constraints.

40. Jurisdictional issues. Honduras maintains two pre-existing exchange restrictions on the availability of FX for payments and transfers for current transactions subject to Fund jurisdiction.¹⁵ No additional exchange restrictions have been implemented (*continuous PC*).

41. Poverty Reduction and Growth Strategy (PRGS). The authorities have completed a draft of the national PRGS. However, the authorities have requested additional time to discuss the strategy with key stakeholders and incorporate feedback. Staff thus supports the authorities' request for an extension of this requirement to the fourth review (MEFP ¶16).

STAFF APPRAISAL

42. The Honduran economy is rebalancing, bolstered by policy adjustments under the program and favorable external conditions. Growth has remained resilient, despite the recent severe *El Niño* episode, and inflation broadly converged to the objective, while the fiscal position and debt levels have improved amid continued prudent fiscal policies. Underpinned by monetary and exchange rate policy adjustments and favorable terms-of-trade and remittances dynamics, the external position is strengthening, with higher international reserves, a declining current account deficit, and more balanced FX market conditions.

43. Nevertheless, policy agility and steadfast program implementation remain essential in the face of heightened external risks. Evolving external immigration and trade policies could become headwinds for Honduras, risking hard-won gains on external stability. To navigate these challenges, the authorities should be prepared to adjust policies as needed to maintain program objectives. Steadfast program implementation will also contain domestic uncertainty as elections approach.

44. The authorities remain committed to prudent fiscal policies. Fiscal outcomes continue to outperform program objectives in the context of resilient tax revenues and spending discipline. Continued current expenditures prudence remains important in the context of upcoming elections. While public investment execution has improved, structural bottlenecks still limit the execution of investment and social spending. In this context, continued progress on structural fiscal reforms is critical to improve public investment planning and strengthen the budget execution process.

45. The authorities are prepared to adjust monetary and exchange rate policies as needed to maintain inflation anchored to the objective and safeguard external stability. The recent adjustments have been instrumental to anchor inflation expectations, support FX accumulation, and strengthen conditions in FX markets. Looking ahead, the authorities remain committed to adjusting

¹⁵ The first exchange restriction stems from a law requiring the BCH to reject participation in its FX auctions by exporters who have not duly repatriated export proceeds from two or more export transaction within required timeframes. The authorities remain committed to removing the restriction during the program within the ambit of reforms to the FX system. The second exchange restriction relates to limits on the allocation of FX at the BCH auction. The authorities are committed to gradually phase out the relevant measures, as balance of payments stability is strengthened, supported by implementation of policies under the program. The Executive Board approved the second exchange restriction on December 6, 2024, in the context of the First and Second Reviews.

the rate of crawl of the exchange rate as necessary to bolster competitiveness and further support reserve accumulation. Monetary policy will follow a data-driven approach, with adjustments as necessary to achieve internal and external stability. The authorities are committed to improving the efficiency of the current system of FX allocation while safeguarding the strengthened confidence of market participants.

46. Energy sector reforms remain critical to supporting long-term growth. Recent investments in energy transmission and distribution are helping to reduce electricity losses, which is necessary to improve ENEE's financial health. Continued progress in the reduction of payment arrears will be supported by the timely transfer of subsidy payments from the budget. Steadfast implementation of structural reforms to strengthen ENEE's financial transparency and operational efficiency will also be necessary for a successful tender of new generation capacity.

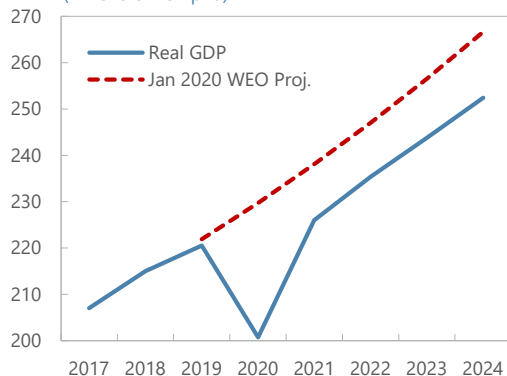
47. Continued efforts to combat corruption and improve the business environment are needed. The authorities have made progress on digital initiatives to support the business environment, including the launch of digital signatures and an online investment portal. Legislative support for amendments to key laws will be critical to update Honduras' AML/CFT framework ahead of the 2026 FATF evaluation. Finally, follow through on the authorities' commitment to approve the National Transparency and Anti-Corruption Strategy (ENTAH) remains essential.

48. Given favorable program performance and the authorities' continued commitment to reforms, staff supports the completion of the third review under the EFF and ECF arrangements and request for modification of performance criteria. The Letter of Intent (Appendix I) and Memorandum of Economic and Financial Policies (Attachment I) demonstrate program ownership and appropriate policies to reach the goals of the authorities' program.

Figure 1. Honduras: Real Sector Developments

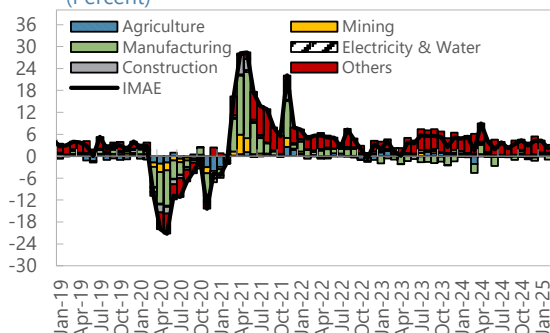
Output rebounded quickly to pre-pandemic levels in 2021 but remains below the prior trend.

Real GDP
(Billions of Lempira)



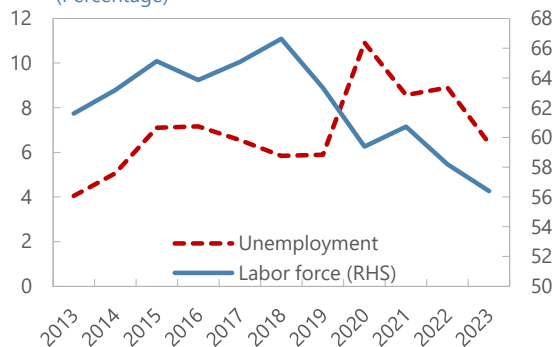
On the supply side, services – including financial services – have driven growth as manufacturing underperformed in 2023-24.

Contributions to Index of Monthly Economic Activity
(Percent)



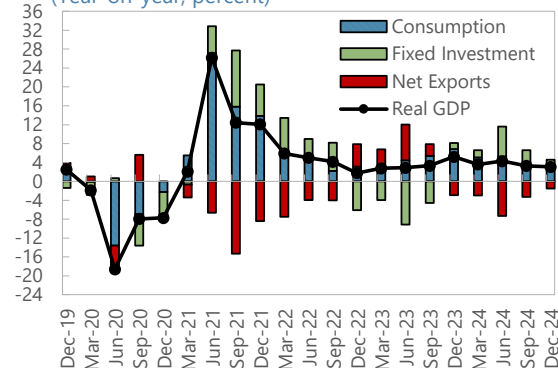
While unemployment has declined, labor force participation remains weak.

Unemployment and Labor Force Participation
(Percentage)



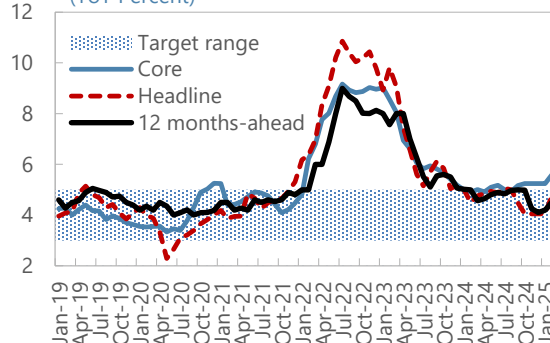
Consumption remains the main driver of growth.

Contributions to Growth
(Year-on-year, percent)



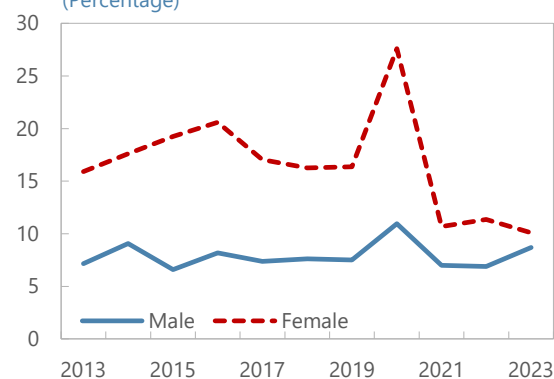
Inflation has declined back to the tolerance range around the 4 percent objective.

Inflation and Inflation Expectations
(YoY Percent)



Female unemployment, while improving, remains above male unemployment.

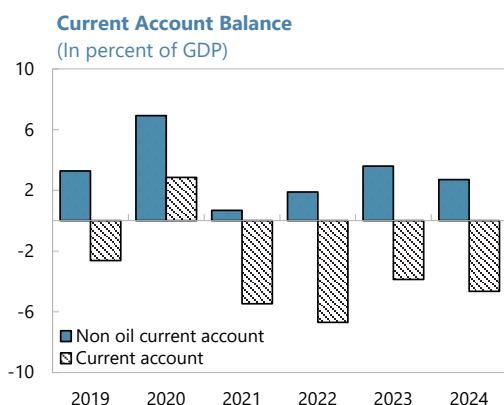
Unemployment Rate by Gender
(Percentage)



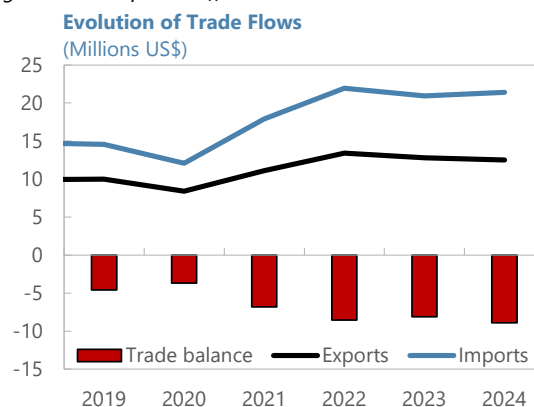
Sources: BCH; Haver Analytics; IMF World Economic Outlook, INE survey, and IMF staff projections.

Figure 2. Honduras: External Sector Developments

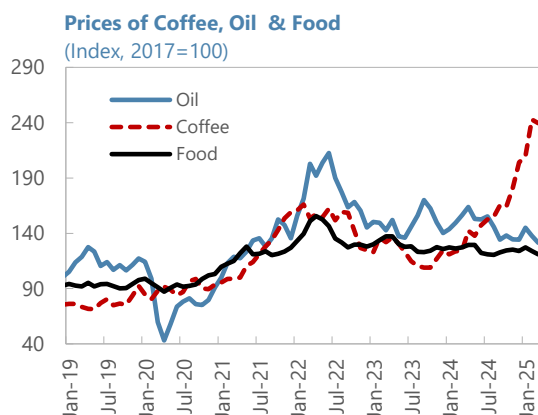
The current account deficit widened in 2024....



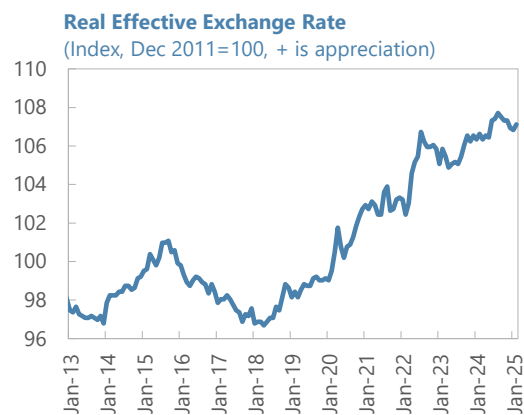
...as the drought increased energy-related imports, while agricultural exports suffered.



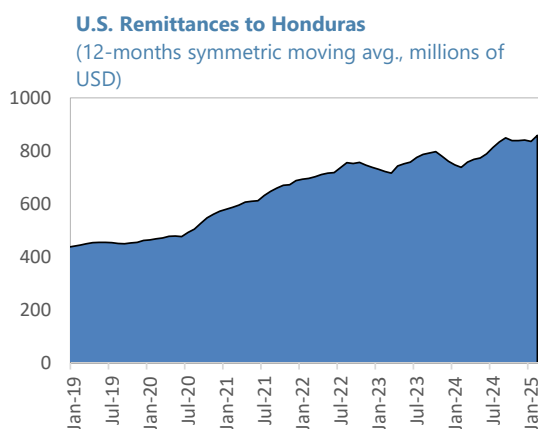
Coffee prices have surged in recent months, boosting export receipts.



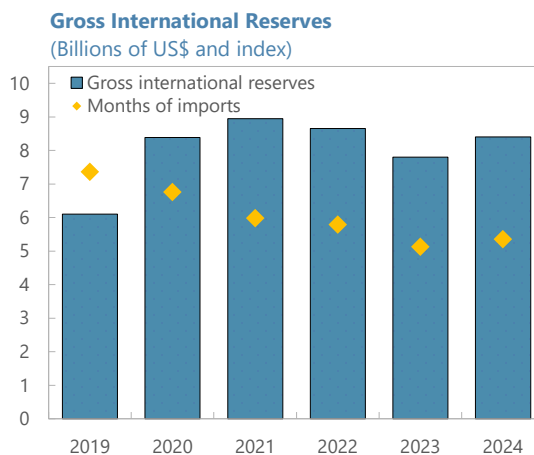
The resumption of exchange rate crawl in late 2024 has begun to reverse previous REER appreciation.



Remittances remain robust...



...and reserve coverage strengthened in 2024 following declines in 2022-23.

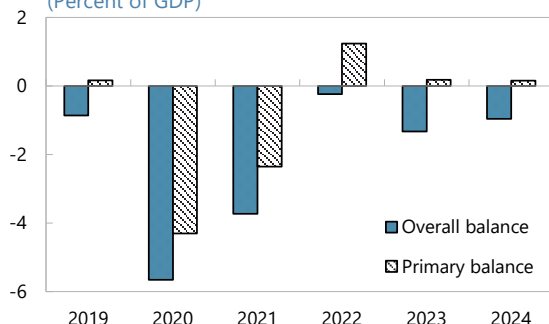


Sources: Central Bank of Honduras, Haver Analytics, IMF WEO and IMF staff estimates and projections.

Figure 3. Honduras: Fiscal Developments

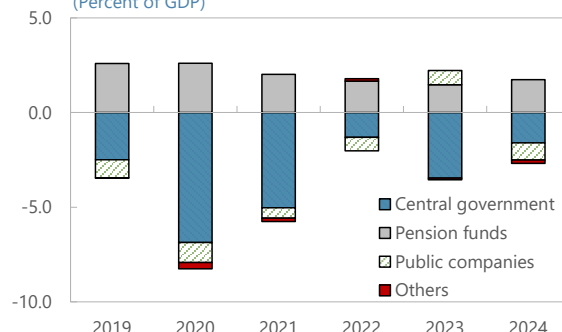
Fiscal discipline has been maintained after the pandemic....

Nonfinancial Public Sector Balance (Percent of GDP)



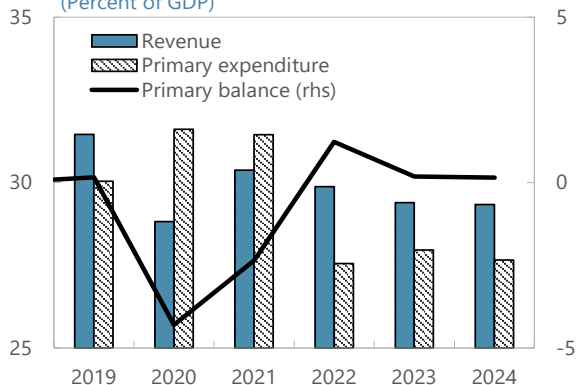
...with the central government deficit declining in 2024.

NFPS Balance, by Sector (Percent of GDP)



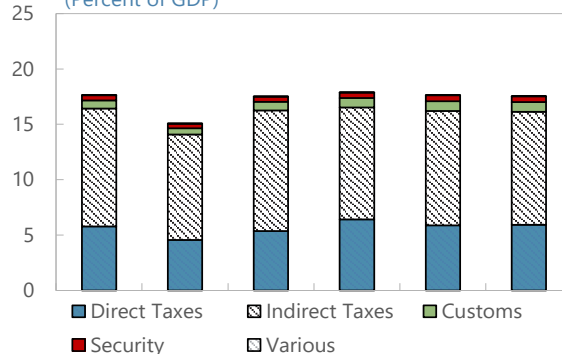
Primary expenditure has been contained in 2022-24.

NFPS: Revenue and Expenditures (Percent of GDP)



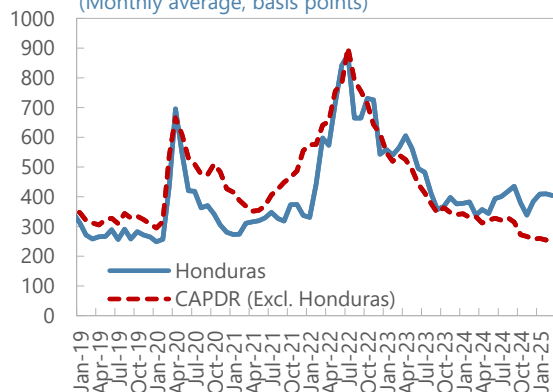
Tax revenues have held firm.

Central Government Tax Revenue (Percent of GDP)



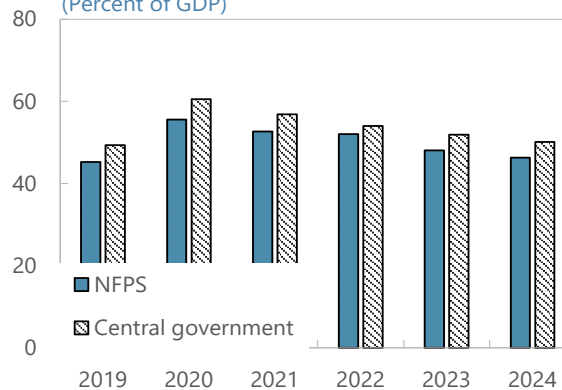
Bond spreads declined in 2023-24, supporting external issuance.

EMBI Spreads (Monthly average, basis points)



Public debt has declined since the recovery from the pandemic amid continued fiscal discipline.

Public Debt (Percent of GDP)

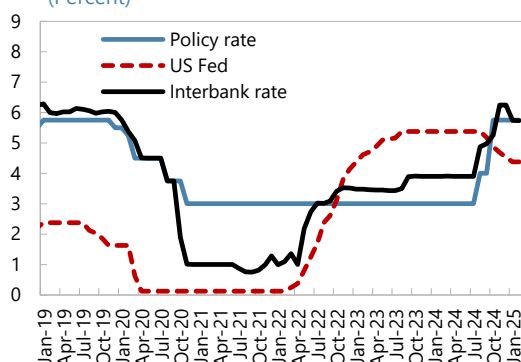


Sources: Ministry of Finance; Bloomberg, and IMF staff projections.

Figure 4. Honduras: Monetary and Financial Sector Developments

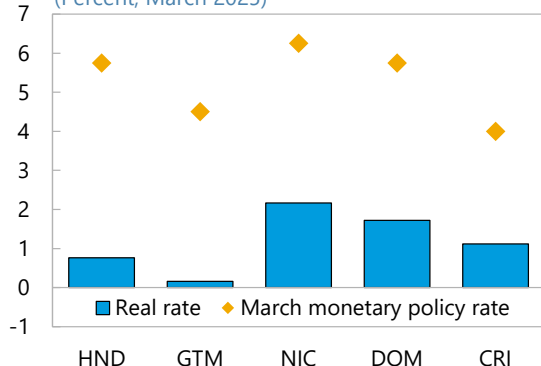
The policy rate increases of 2024 transmitted to interbank markets...

Policy and Interbank Rates
(Percent)



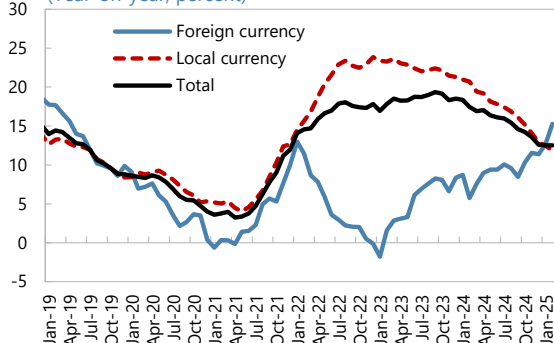
The policy interest rate in Honduras is now positive in real terms.

Policy and Real Interest Rates
(Percent; March 2025)



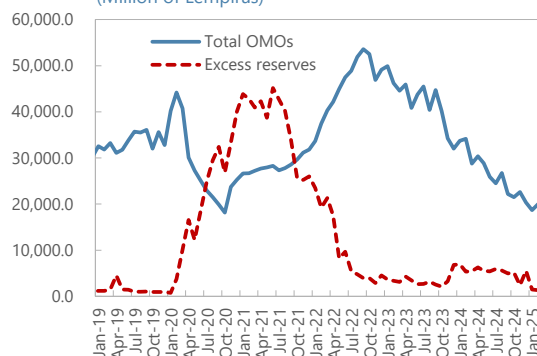
...while credit growth in local currency is slowing from a high rate of growth...

Growth of Credit to the Private Sector
(Year-on-year, percent)



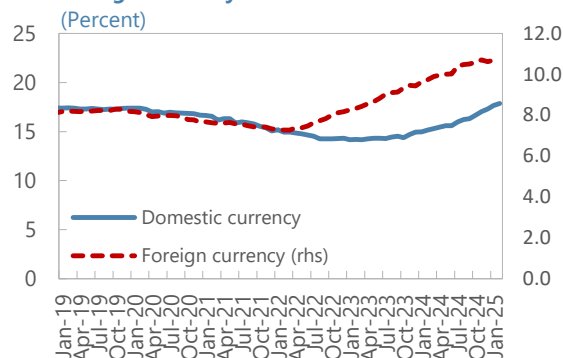
...following open market operations to reduce banks' excess reserves in 2022-23.

Open Market Operations and Reserves
(Million of Lempiras)



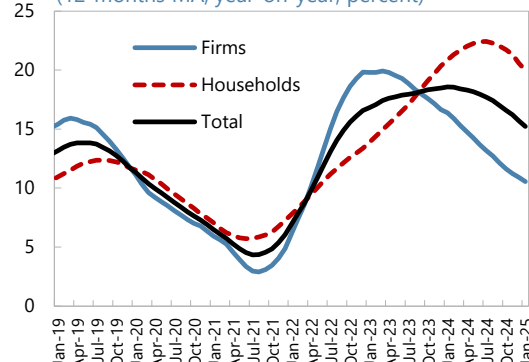
Domestic currency interest rates are increasing following monetary tightening...

Lending Interest Rates in Domestic and Foreign Currency
(Percent)



...though lending to households remains robust.

Credit to Firms and Households
(12-months MA, year-on-year, percent)



Sources: Central Bank of Honduras, Haver Analytics, IMF WEO and IMF staff estimates and projections.

Table 1. Honduras: Selected Economic Indicators, 2022-30

I. Social Indicators												
Population (million, 2023)	10.6		Life expectancy at birth in years (2022)		71							
Per capita income in U.S. dollars (2023)	3,268		Adult literacy (percent of ages 15 and above, 2019)		89							
Rank in UNDP Development Index (2022)	137		Percent of pop. under moderate poverty (2019)		48.0							
Unemployment rate (2023)	6.1		Gini index (2019)		48							
Net FDI (as percent of GDP, 2023)	2.5		Oil imports (2023)		U.S. \$2.7 billion							
II. Economic Indicators												
	Actual		1st/2nd Review	Actual	1st/2nd Review	Proj.	1st/2nd Review	Proj.				
	2022	2023	2024	2024	2025	2025	2026	2026	2027	2028	2029	2030
National Income and Prices												
(Annual percentage changes unless otherwise indicated)												
Real GDP	4.1	3.6	3.8	3.6	3.6	3.5	3.6	3.2	3.4	3.7	3.8	3.8
Domestic demand	5.6	0.9	5.5	6.3	3.1	4.7	4.0	3.5	3.3	3.8	3.7	3.8
Consumption	4.3	5.2	4.1	4.5	3.3	4.4	3.6	3.3	3.5	3.7	3.8	3.7
Investment	2.6	11.2	2.5	6.2	2.0	6.0	5.6	3.9	2.2	4.1	3.1	3.9
Exports	6.6	-7.0	2.8	-4.8	7.8	6.7	7.8	7.3	5.9	5.4	4.9	4.7
Imports	8.5	-8.6	6.2	2.3	5.7	8.0	7.4	6.4	4.9	5.1	4.4	4.4
Net exports (percentage contribution to real GDP)	-2.5	2.5	-2.6	-3.7	-0.1	-2.1	-1.1	-1.0	-0.6	-0.9	-0.7	-0.8
Output gap (percentage of potential GDP)	0.8	0.6	0.2	0.4	0.0	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
Inflation (eop)	9.8	5.2	4.8	3.9	5.0	4.8	4.1	3.9	4.0	4.0	4.0	4.0
Inflation (average)	9.1	6.7	4.8	4.6	5.1	4.6	4.5	4.0	3.9	4.0	4.0	4.0
GDP deflator	9.3	6.0	4.8	5.1	5.1	7.2	4.5	3.8	4.1	4.0	4.0	4.0
Saving and Investment												
(Percentage of GDP unless otherwise indicated)												
Saving - Investment Balance	-6.7	-3.9	-5.3	-4.6	-4.7	-3.7	-4.5	-4.1	-4.0	-4.0	-4.0	-4.0
Gross domestic investment	26.3	22.2	24.3	22.5	23.9	23.0	24.1	23.0	22.6	22.2	21.8	21.2
Private sector	24.0	18.3	20.8	18.8	20.2	19.2	20.6	19.2	18.8	18.4	18.0	17.3
Public sector	2.3	3.9	3.6	3.7	3.7	3.8	3.5	3.8	3.8	3.8	3.8	3.9
Gross national savings	19.6	18.3	19.0	17.8	19.3	19.2	19.6	18.9	18.6	18.2	17.8	17.2
Private sector	13.1	11.8	12.2	11.4	12.4	13.8	12.8	12.6	12.3	12.0	11.6	11.5
Public sector	6.5	6.5	6.8	6.5	6.9	5.5	6.8	6.3	6.3	6.2	6.2	5.7
Nonfinancial public sector												
Tax revenues	19.1	18.3	18.5	18.3	18.6	18.0	18.6	18.0	18.1	18.1	18.2	18.2
Public investment	2.8	4.2	4.0	3.9	4.3	4.1	4.0	4.0	4.0	4.0	4.0	4.0
Primary balance	1.2	0.2	0.0	0.2	0.0	0.0	0.5	0.1	0.2	0.3	0.4	0.5
Overall balance	-0.2	-1.3	-1.5	-1.0	-1.5	-1.5	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Gross debt	52.0	48.0	46.7	48.1	46.3	47.6	45.4	47.1	46.3	45.4	45.1	44.7
Balance of Payments												
Current account balance	-6.7	-3.9	-5.3	-4.6	-4.7	-3.7	-4.5	-4.1	-4.0	-4.0	-4.0	-4.0
Trade balance	-19.2	-17.3	-18.1	-18.1	-16.8	-16.5	-16.5	-16.2	-15.3	-14.6	-13.8	-13.1
Worker's remittances	27.0	25.9	25.2	25.8	24.8	25.2	24.6	25.0	24.3	23.5	22.7	22.0
Net FDI	2.3	2.5	2.6	1.7	2.7	1.9	2.7	2.2	2.5	2.6	2.5	2.5
Net International Reserves (billions of US\$) ^{1/}	8.4	7.5	6.5	8.0	6.7	8.4	7.9	9.6	9.5	9.9	10.3	10.7
Gross International Reserves (billions of US\$)	8.7	7.8	6.8	8.4	7.1	8.8	8.4	10.1	10.1	10.5	10.9	11.0
GIR (In months of imports) ^{2/}	5.8	5.1	4.3	5.4	4.3	5.5	4.9	6.0	5.8	5.7	5.7	5.4
GIR (in percent of ARA)	136	118	104	119	105	119	115	125	119	117	115	110
Terms of Trade (annual percent change)	0.3	3.2	-1.2	-0.6	2.0	7.9	0.3	0.1	-1.4	-1.1	-0.2	-0.1
Real effective exchange rate (eop, depreciation -)	4.1	1.3	...	1.0	...	...	...	...	...	...	...	...
Money and Credit												
Base money (percentage change)	1.2	-1.4	5.1	9.1	7.2	11.5	7.6	7.2	7.6	7.6	7.7	7.7
Private sector credit (percentage change)	18.8	18.7	15.4	12.5	10.2	10.5	9.1	8.2	8.1	8.5	8.6	8.8
Private sector credit (percent of GDP)	68.5	74.0	78.5	76.5	79.4	76.1	80.0	76.9	77.3	77.7	78.2	78.8

Sources: Central Bank of Honduras, Ministry of Finance, and IMF staff estimates and projections.

1/ NIR (BCH) corresponds to reserves assets minus obligations with the IMF.

2/ Based on following year's imports of goods and services, excluding maquila.

Table 2. Honduras: Statement of Operations of the Central Government, 2022-2030
(In millions of Lempiras)

	Actual		1st/2nd Review	Actual	1st/2nd Review	Proj. 2025	1st/2nd Review	Proj.				
	2022	2023	2024				2026	2026	2027	2028	2029	2030
Revenue	152,543	165,113	178,986	179,922	196,719	196,541	213,588	211,097	227,551	246,384	266,891	288,220
Taxes	137,519	148,864	162,833	161,263	179,012	177,052	194,426	190,202	205,663	222,796	241,232	260,415
Taxes on income	48,703	48,802	56,471	53,679	61,117	60,333	66,734	65,719	70,143	76,316	82,946	88,208
Taxes on property	720	910	861	911	938	1,080	1,016	1,169	1,268	1,376	1,491	1,186
Taxes on goods and services	77,771	87,292	93,401	93,896	103,776	101,585	112,401	108,371	118,288	127,879	139,168	151,843
Taxes on foreign trade	6,501	7,490	7,526	8,002	8,198	8,666	8,879	9,172	9,753	10,522	10,391	11,367
Other taxes	3,823	4,369	4,574	4,774	4,982	5,388	5,397	5,771	6,212	6,702	7,236	7,811
Social contributions	0	0	0	0	0	0	0	0	0	0	0	0
Grants	2,723	3,136	2,790	2,559	3,151	3,151	3,396	3,396	2,584	3,267	3,719	4,120
Other revenue	12,300	13,113	13,363	16,100	14,556	16,337	15,766	17,499	19,305	20,321	21,940	23,685
Expenditure	162,576	194,354	204,301	194,640	223,547	224,650	241,446	239,472	255,236	272,520	294,333	317,037
Expense	153,441	174,501	172,619	175,750	187,323	189,412	204,519	201,915	214,814	228,906	247,244	266,706
Compensation of employees	63,951	68,619	75,358	76,738	82,087	85,179	88,909	91,237	98,197	105,948	114,391	123,487
Purchases of goods and services 1/	24,415	24,806	29,457	27,908	32,088	33,185	34,755	34,452	37,080	40,007	43,880	46,630
Interest	22,074	25,999	26,406	25,801	28,225	27,369	32,379	31,230	32,348	32,995	34,929	36,354
Domestic	16,103	17,679	19,970	17,433	21,664	20,711	21,665	21,404	22,926	22,208	23,481	22,817
Foreign	5,971	8,321	6,436	8,369	6,560	6,658	10,714	9,826	9,422	10,788	11,448	13,536
Subsidies	4,057	8,308	4,479	7,280	4,708	4,676	4,919	4,861	5,052	5,254	5,780	6,358
Grants	18,237	20,336	19,301	22,402	21,024	21,391	22,772	21,818	22,305	24,066	25,984	28,642
Current	12,768	12,667	13,778	12,831	15,008	14,243	16,255	15,256	16,420	17,716	19,127	20,648
Capital	5,469	7,669	5,523	9,571	6,017	7,148	6,517	6,562	5,886	6,350	6,856	7,994
Social benefits	10,042	9,042	12,013	9,298	13,086	11,742	14,173	12,031	12,948	13,971	15,084	16,875
Other expense	10,665	17,391	5,605	6,324	6,105	5,869	6,612	6,286	6,884	6,665	7,196	8,361
Current	2,171	1,767	1,922	2,068	2,094	2,295	2,268	2,459	2,646	2,855	3,082	3,328
Capital	8,494	15,624	3,682	4,256	4,011	3,574	4,344	3,828	4,238	3,810	4,114	5,033
Net acquisition of nonfinancial assets	9,135	19,852	31,682	18,890	36,224	35,238	36,927	37,558	40,423	43,614	47,089	50,330
Gross Operating Balance	-898	-9,389	6,367	4,171	9,396	7,129	9,069	9,183	12,738	17,738	19,647	21,514
Net lending (+)/borrowing (-)	-10,034	-29,241	-25,315	-14,719	-26,828	-28,109	-27,858	-28,375	-27,685	-26,136	-27,442	-28,817
Net financial transactions	-10,034	-29,241	-25,315	-14,719	-26,828	-28,109	-27,858	-28,375	-27,685	-26,136	-27,442	-28,817
Net acquisition of financial assets	21,059	-34,081	-23,935	7,795	506	-546	32,584	29,419	-38,169	1,466	1,743	-875
Foreign	0	0	0	0	0	0	0	0	0	0	0	0
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	21,059	-34,081	-23,552	7,795	506	-546	32,584	29,419	-38,169	1,466	1,743	-875
Currency and deposits	18,559	-36,581	-23,552	5,295	506	-546	32,584	29,419	-38,169	1,466	1,743	-875
Debt securities	0	0	0	0	0	0	0	0	0	0	0	0
Loans	2,500	2,500	0	2,500	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	31,093	-4,841	1,380	22,513	27,334	27,563	60,442	57,794	-10,484	27,602	29,185	27,942
Foreign	9,874	-4,933	-1,159	23,316	9,017	14,176	32,208	33,332	-2,650	7,919	9,415	8,088
Currency and deposits	0	1	0	2	0	0	0	0	0	0	0	0
Loans	10,057	-4,752	-976	23,495	9,200	14,359	32,391	33,515	-2,467	8,102	9,598	8,271
Disbursement	21,597	7,902	13,751	37,050	27,087	32,227	44,195	45,337	29,260	19,664	18,873	37,205
Amortizations	-11,540	-12,654	-14,726	-13,555	-17,887	-17,868	-11,803	-11,822	-31,727	-11,563	-9,275	-28,934
Other external	-293	-293	-293	-293	-293	-293	-293	-293	-293	-293	-293	-293
Domestic	21,219	93	2,539	-803	18,317	13,386	28,234	24,462	-7,834	19,683	19,769	19,855
Currency and deposits	0	1	0	2	0	0	0	0	0	0	0	0
Loans	20,531	3,563	3,862	-1,482	19,532	14,601	29,346	25,575	-6,820	20,604	20,604	20,604
o/w IMF disbursements 2/	0	2,948	5,091	5,079	7,434	7,426	6,559	6,574	0	0	0	0
Other accounts payable	2,000	-2,000	0	2,000	0	0	0	0	0	0	0	0
PPPs/other	936	767	803	803	805	805	807	807	809	811	811	814
Adjustment for HIPC debt relief	-2,248	-2,238	-2,126	-2,126	-2,020	-2,020	-1,919	-1,919	-1,823	-1,732	-1,645	-1,563
Memorandum items:												
Net lending minus interest payments	12,040	-3,241	1,091	11,082	1,396	-740	4,521	2,855	4,663	6,860	7,487	7,537
Nominal GDP (in billions of Lempiras)	769	845	921	920	1,003	1,021	1,086	1,094	1,177	1,270	1,371	1,480

Sources: Honduran authorities, IMF staff estimates and projections.

1/ As recommended by the GFSM-2014, since 2019 debt service commissions are reported as goods and services (previously included in the interest bill).

2/ Reflects Fund purchases by the central bank to finance the budget.

Table 3. Honduras: Statement of Operations of the Central Government, 2022-2030
(In percent of GDP)

	Actual		1st/2nd Review	Actual	1st/2nd Review	Proj.	1st/2nd Review	Proj.				
	2022	2023	2024	2024	2025	2025	2026	2026	2027	2028	2029	2030
Revenue	19.8	19.5	19.4	19.6	19.6	19.2	19.7	19.3	19.3	19.4	19.5	19.5
Taxes	17.9	17.6	17.7	17.5	17.9	17.3	17.9	17.4	17.5	17.5	17.6	17.6
Taxes on income	6.3	5.8	6.1	5.8	6.1	5.9	6.1	6.0	6.0	6.0	6.0	6.0
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.1	10.3	10.1	10.2	10.3	9.9	10.3	9.9	10.0	10.1	10.1	10.3
Taxes on foreign trade	0.8	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Grants	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3
Other revenue	1.6	1.6	1.5	1.8	1.5	1.6	1.5	1.6	1.6	1.6	1.6	1.6
Expenditure	21.1	23.0	22.2	21.2	22.3	22.0	22.2	21.9	21.7	21.5	21.5	21.4
Expense	19.9	20.6	18.8	19.1	18.7	18.6	18.8	18.5	18.2	18.0	18.0	18.0
Compensation of employees	8.3	8.1	8.2	8.3	8.2	8.3	8.2	8.3	8.3	8.3	8.3	8.3
Purchases of goods and services 1/	3.2	2.9	3.2	3.0	3.2	3.3	3.2	3.2	3.2	3.2	3.2	3.2
Interest	2.9	3.1	2.9	2.8	2.8	2.7	3.0	2.9	2.7	2.6	2.5	2.5
Domestic	2.1	2.1	2.2	1.9	2.2	2.0	2.0	2.0	1.9	1.7	1.7	1.5
Foreign	0.8	1.0	0.7	0.9	0.7	0.7	1.0	0.9	0.8	0.8	0.8	0.9
Subsidies	0.5	1.0	0.5	0.8	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Grants	2.4	2.4	2.1	2.4	2.1	2.1	2.1	2.0	1.9	1.9	1.9	1.9
Current	1.7	1.5	1.5	1.4	1.5	1.4	1.5	1.4	1.4	1.4	1.4	1.4
Capital	0.7	0.9	0.6	1.0	0.6	0.7	0.6	0.6	0.5	0.5	0.5	0.5
Social benefits	1.3	1.1	1.3	1.0	1.3	1.2	1.3	1.1	1.1	1.1	1.1	1.1
Other expense	1.4	2.1	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.6
Current	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Capital	1.1	1.8	0.4	0.5	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Net acquisition of nonfinancial assets	1.2	2.3	3.4	2.1	3.6	3.5	3.4	3.4	3.4	3.4	3.4	3.4
Gross Operating Balance	-0.1	-1.1	0.7	0.5	0.9	0.7	0.8	0.8	1.1	1.4	1.4	1.5
Net lending (+)/borrowing (-)	-1.3	-3.5	-2.7	-1.6	-2.7	-2.8	-2.6	-2.6	-2.4	-2.1	-2.0	-1.9
Net financial transactions	-1.3	-3.5	-2.7	-1.6	-2.7	-2.8	-2.6	-2.6	-2.4	-2.1	-2.0	-1.9
Net acquisition of financial assets	2.7	-4.0	-2.6	0.8	0.1	-0.1	3.0	2.7	-3.2	0.1	0.1	-0.1
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.7	-4.0	-2.6	0.8	0.1	-0.1	3.0	2.7	-3.2	0.1	0.1	-0.1
Currency and deposits	2.4	-4.3	-2.6	0.6	0.1	-0.1	3.0	2.7	-3.2	0.1	0.1	-0.1
Loans	0.3	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.0	-0.6	0.1	2.4	2.7	2.7	5.6	5.3	-0.9	2.2	2.1	1.9
Foreign	1.3	-0.6	-0.1	2.5	0.9	1.4	3.0	3.0	-0.2	0.6	0.7	0.5
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	1.3	-0.6	-0.1	2.6	0.9	1.4	3.0	3.1	-0.2	0.6	0.7	0.6
Disbursement	2.8	0.9	1.5	4.0	2.7	3.2	4.1	4.1	2.5	1.5	1.4	2.5
Amortizations	-1.5	-1.5	-1.6	-1.5	-1.8	-1.7	-1.1	-1.1	-2.7	-0.9	-0.7	-2.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.8	0.0	0.3	-0.1	1.8	1.3	2.6	2.2	-0.7	1.5	1.4	1.3
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	2.7	0.4	0.4	-0.2	1.9	1.4	2.7	2.3	-0.6	1.6	1.5	1.4
o/w IMF disbursements 3/	0.0	0.3	0.6	0.6	0.7	0.7	0.6	0.6	0.0	0.0	0.0	0.0
Other accounts payable	0.3	-0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for HIPC debt relief	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Memorandum items:												
Net lending minus interest payments	1.6	-0.4	0.1	1.2	0.1	-0.1	0.4	0.3	0.4	0.5	0.5	0.5
Nominal GDP (in billions of Lempiras)	769	845	921	920	1,003	1,021	1,086	1,094	1,177	1,270	1,371	1,480

Sources: Honduran authorities, IMF staff estimates and projections.

1/ As recommended by the GFSM-2014, since 2019 debt service commissions are reported as goods and services (previously included in the interest bill).

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

3/ Reflects Fund purchases by the central bank to finance the budget

Table 4. Honduras: Statement of Operations of the Nonfinancial Public Sector, 2022-2030
(In Millions of Lempiras)

	Actual		1st/2nd Review	Actual	1st/2nd Review	Proj.	1st/2nd Review	Proj.				
	2022	2023	2024	2024	2025	2025	2026	2026	2027	2028	2029	2030
Revenue	229,910	248,444	269,248	269,830	291,367	296,300	316,196	317,042	341,379	368,632	399,550	430,900
Taxes	147,247	154,633	170,226	167,919	186,062	184,174	201,520	196,865	212,738	229,841	249,120	269,112
Taxes on income	48,703	48,802	56,471	53,679	61,117	60,244	66,734	65,622	70,039	76,203	82,824	88,078
Taxes on property	720	910	861	911	938	991	1,016	1,073	1,163	1,263	1,368	1,088
Taxes on goods and services	77,771	87,292	93,401	93,896	103,776	101,496	112,401	108,276	118,184	127,767	139,046	151,710
Taxes on foreign trade	6,501	7,490	7,526	8,002	8,198	8,577	8,879	9,078	9,652	10,414	10,284	11,250
Other taxes	13,552	10,139	11,967	11,430	12,033	12,866	12,490	12,817	13,699	14,194	15,597	16,985
Social contributions	24,723	25,249	28,837	28,673	31,412	31,654	34,022	33,248	35,196	37,691	40,863	44,100
Grants	2,998	3,151	3,428	2,584	3,734	3,267	4,068	3,719	4,120	5,080	5,485	5,477
Other revenue	54,941	65,411	66,758	70,654	70,158	77,206	76,586	83,210	89,325	96,019	104,082	112,211
Sales of goods and services	34,288	37,139	46,525	36,388	48,543	38,640	53,175	47,029	51,794	55,882	63,078	68,094
Interest earnings	8,403	10,614	8,659	13,968	9,008	15,520	9,756	16,405	16,480	16,511	16,455	16,283
Capital revenue	127	114	124	3,069	135	6,122	147	251	239	257	278	300
Nontax revenue	12,122	17,543	11,449	17,229	12,472	16,923	13,508	19,524	20,813	23,369	24,271	27,534
Expenditure	231,739	259,668	282,660	278,648	306,276	311,907	327,407	328,270	352,823	380,976	412,639	445,748
Expense	209,888	223,811	245,387	242,676	263,659	270,451	283,963	284,085	305,267	329,666	357,240	386,536
Compensation of employees	85,353	92,025	101,899	100,010	110,998	112,626	120,223	120,307	128,778	138,944	150,016	161,945
Purchases of goods and services	68,669	71,455	78,246	77,139	82,226	81,993	86,887	85,965	93,347	100,842	108,878	117,536
Interest	19,729	23,367	22,143	24,196	23,864	30,765	26,124	29,092	30,841	32,513	35,516	38,932
Domestic	13,497	14,666	12,255	15,358	13,833	17,563	15,306	15,749	16,244	17,654	19,335	21,020
Foreign	6,232	8,702	9,888	8,839	10,032	13,202	10,818	13,343	14,596	14,860	16,181	17,912
Social benefits	29,244	30,754	37,254	34,417	40,522	38,315	44,140	40,029	43,554	47,043	51,285	55,363
Other expense	6,831	6,196	5,832	6,759	6,035	6,739	6,574	8,670	8,724	10,299	11,519	12,731
Current	2,702	2,111	2,909	2,343	3,169	2,042	3,452	3,168	3,309	4,456	4,114	4,885
Capital	4,130	4,085	2,923	4,417	2,866	4,697	3,122	5,501	5,415	5,842	7,405	7,846
Net acquisition of nonfinancial assets	21,850	35,856	37,273	35,971	42,617	41,456	43,443	44,185	47,556	51,310	55,399	59,212
Gross Operating Balance	20,021	24,633	23,861	27,154	27,708	25,849	32,233	32,957	36,113	38,966	42,310	44,364
Net lending (+)/borrowing (-)	-1,829	-11,223	-13,412	-8,818	-14,909	-15,607	-11,211	-11,228	-11,444	-12,344	-13,089	-14,848
Net financial transactions	-1,829	-11,223	-13,412	-8,818	-14,909	-15,607	-11,211	-11,228	-11,444	-12,344	-13,089	-14,848
Net acquisition of financial assets	48,840	-20,031	11,392	40,457	26,290	30,640	20,517	21,513	32,984	29,076	31,379	48,983
Currency and deposits	48,840	-20,031	11,564	40,457	16,357	30,640	29,564	21,513	32,984	29,076	31,379	48,983
Debt securities	0	0	0	0	0	0	0	0	0	0	0	0
Loans	0	0	0	0	0	0	0	0	0	0	0	0
Other accounts receivable	0	0	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities	50,669	-8,808	24,803	49,275	41,199	46,247	31,728	32,741	44,428	41,420	44,468	63,831
Foreign	10,168	-4,641	-865	23,606	9,311	14,359	32,502	33,515	-2,467	8,102	9,598	8,271
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	10,057	-4,752	-976	23,495	9,200	14,359	32,391	33,515	-2,467	8,102	9,598	8,271
Disbursement	21,597	7,902	13,751	37,050	27,087	32,227	44,195	45,337	29,260	19,664	18,873	37,205
Amortizations	-11,540	-12,654	-14,726	-13,555	-17,887	-17,868	-11,803	-11,822	-31,727	-11,563	-9,275	-28,934
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0	0
Exceptional financing 1/	111	111	111	111	111	0	111	0	0	0	0	0
Other external	0	0	0	0	0	0	0	0	0	0	0	0
Domestic	42,749	-1,929	27,794	27,794	33,907	33,907	1,145	1,145	48,717	35,050	36,514	57,124
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Loans	41,813	-2,732	26,992	26,992	33,103	33,103	338	338	47,908	34,239	35,704	56,310
o/w IMF disbursements 2/	0	2,948	5,091	5,079	7,434	7,426	6,559	6,574	0	0	0	0
Other accounts payable	0	0	0	0	0	0	0	0	0	0	0	0
PPPs/other	936	803	803	803	805	805	807	807	809	811	811	814
Adjustment for HIPC debt relief	-2,248	-2,238	-2,126	-2,126	-2,020	-2,020	-1,919	-1,919	-1,823	-1,732	-1,645	-1,563
Memorandum items:												
Net lending minus net interest payments	9,497	1,530	72	1,410	-53	-362	5,157	1,459	2,917	3,659	5,972	7,801
Gross NFPs debt	400,442	406,070	429,883	442,602	463,867	485,719	492,575	514,716	545,035	576,704	617,935	662,128
Nominal GDP (in billions of Lempiras)	769	845	921	920	1,003	1,021	1,086	1,094	1,177	1,270	1,371	1,480

Sources: Honduran authorities; IMF staff estimates and projections.

1/ Includes debt forgiveness, accumulation, rescheduling, payments, and forgiveness of arrears.

2/ Reflects Fund purchases by the central bank to finance the budget.

Table 5. Honduras: Statement of Operations of the Nonfinancial Public Sector, 2022-2030
(In Percent of GDP)

	Actual		1st/2nd Review	Actual	1st/2nd Review	Proj.	1st/2nd Review	Proj.				
	2022	2023	2024	2024	2025	2025	2026	2026	2027	2028	2029	2030
Revenue	29.9	29.4	29.2	29.3	29.1	29.0	29.1	29.0	29.0	29.0	29.1	29.1
Taxes	19.1	18.3	18.5	18.3	18.6	18.0	18.6	18.0	18.1	18.1	18.2	18.2
Taxes on income	6.3	5.8	6.1	5.8	6.1	5.9	6.1	6.0	6.0	6.0	6.0	6.0
Taxes on property	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Taxes on goods and services	10.1	10.3	10.1	10.2	10.3	9.9	10.3	9.9	10.0	10.1	10.1	10.2
Taxes on foreign trade	0.8	0.9	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other taxes	1.8	1.2	1.3	1.2	1.2	1.3	1.2	1.2	1.2	1.1	1.1	1.1
Social contributions	3.2	3.0	3.1	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0	3.0
Grants	0.4	0.4	0.4	0.3	0.4	0.3	0.4	0.3	0.4	0.4	0.4	0.4
Other revenue	7.1	7.7	7.3	7.7	7.0	7.6	7.1	7.6	7.6	7.6	7.6	7.6
Expenditure	30.1	30.7	30.7	30.3	30.5	30.5	30.1	30.0	30.0	30.0	30.1	30.1
Expense	27.3	26.5	26.7	26.4	26.3	26.5	26.1	26.0	25.9	26.0	26.1	26.1
Compensation of employees	11.1	10.9	11.1	10.9	11.1	11.0	11.1	11.0	10.9	10.9	10.9	10.9
Purchases of goods and services	8.9	8.5	8.5	8.4	8.2	8.0	8.0	7.9	7.9	7.9	7.9	7.9
Interest	2.6	2.8	2.4	2.6	2.4	3.0	2.4	2.7	2.6	2.6	2.6	2.6
Domestic	1.8	1.7	1.3	1.7	1.4	1.7	1.4	1.4	1.4	1.4	1.4	1.4
Foreign	0.8	1.0	1.1	1.0	1.0	1.3	1.0	1.2	1.2	1.2	1.2	1.2
Social benefits	3.8	3.6	4.0	3.7	4.0	3.8	4.1	3.7	3.7	3.7	3.7	3.7
Other expense	0.9	0.7	0.6	0.7	0.6	0.7	0.6	0.8	0.7	0.8	0.8	0.9
Current	0.4	0.2	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.4	0.3	0.3
Capital	0.5	0.5	0.3	0.5	0.3	0.5	0.3	0.5	0.5	0.5	0.5	0.5
Net acquisition of nonfinancial assets	2.8	4.2	4.0	3.9	4.3	4.1	4.0	4.0	4.0	4.0	4.0	4.0
Gross Operating Balance	2.6	2.9	2.6	3.0	2.8	2.5	3.0	3.0	3.1	3.1	3.1	3.0
Net lending (+)/borrowing (-)	-0.2	-1.3	-1.5	-1.0	-1.5	-1.5	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Net financial transactions	-0.2	-1.3	-1.5	-1.0	-1.5	-1.5	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Net acquisition of financial assets	6.3	-2.4	1.2	4.4	2.6	3.0	1.9	2.0	2.8	2.3	2.3	3.3
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	6.3	-2.4	1.3	4.4	1.6	3.0	2.7	2.0	2.8	2.3	2.3	3.3
Currency and deposits	6.3	-2.4	1.3	4.4	1.6	3.0	2.7	2.0	2.8	2.3	2.3	3.3
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	6.6	-1.0	2.7	5.4	4.1	4.5	2.9	3.0	3.8	3.3	3.2	4.3
Foreign	1.3	-0.5	-0.1	2.6	0.9	1.4	3.0	3.1	-0.2	0.6	0.7	0.6
Loans	1.3	-0.6	-0.1	2.6	0.9	1.4	3.0	3.1	-0.2	0.6	0.7	0.6
Disbursement	2.8	0.9	1.5	4.0	2.7	3.2	4.1	4.1	2.5	1.5	1.4	2.5
Amortizations	-1.5	-1.5	-1.6	-1.5	-1.8	-1.7	-1.1	-1.1	-2.7	-0.9	-0.7	-2.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	5.6	-0.2	3.0	3.0	3.4	3.3	0.1	0.1	4.1	2.8	2.7	3.9
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	5.4	-0.3	2.9	2.9	3.3	3.2	0.0	0.0	4.1	2.7	2.6	3.8
o/w IMF disbursements 2/	0.0	0.3	0.6	0.6	0.7	0.7	0.6	0.6	0.0	0.0	0.0	0.0
Other accounts payable	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PPPs/other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Adjustment for HIPC debt relief	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Memorandum items:												
Net lending minus net interest payments	1.2	0.2	0.0	0.2	0.0	0.0	0.5	0.1	0.2	0.3	0.4	0.5
Gross NFPS debt	52.0	48.0	46.7	48.1	46.3	47.6	45.4	47.1	46.3	45.4	45.1	44.7
Nominal GDP (in billions of Lempiras)	769	845	921	920	1,003	1,021	1,086	1,094	1,177	1,270	1,371	1,480

Sources: Honduran authorities, IMF staff estimates and projections.

1/ Includes debt forgiveness, accumulation, rescheduling, payments, and forgiveness of arrears.

2/ Reflects Fund purchases by the central bank to finance the budget.

Table 6. Honduras: Summary Accounts of the Financial System, 2022-2030^{1/}
(In millions of Lempiras; end-December)

	Actual		1st/2nd Review	Actual	1st/2nd Review	Proj.	1st/2nd Review	Proj.				
	2022	2023	2024	2024	2025	2025	2026	2026	2027	2028	2029	2030
I. Central Bank												
Net International Reserves 2/ (In millions of US\$)	207,149	186,262	165,779	204,289	178,601	227,500	217,120	263,765	268,128	283,773	300,847	318,836
	8,375	7,520	6,503	8,037	6,666	8,414	7,945	9,564	9,532	9,890	10,280	10,681
Net Domestic Assets	-140,060	-115,528	-91,517	-128,850	-100,979	-142,707	-134,822	-173,477	-170,953	-178,927	-187,646	-196,633
Credit to the public sector (net)	12,272	37,418	37,387	33,102	37,387	36,259	37,387	36,259	36,411	36,566	36,724	36,885
Other depository institutions (net)	-127,472	-124,228	-95,578	-130,342	-100,000	-143,459	-129,085	-169,720	-162,221	-164,673	-167,380	-169,884
Other financial institutions	10,758	17,451	16,541	19,310	15,516	17,509	14,478	16,218	14,733	13,080	11,280	9,340
Nonfinancial private sector	-1,560	-3,511	-3,879	-3,877	-4,267	-4,265	-4,694	-4,691	-5,161	-5,677	-6,244	-6,869
Medium and long-term net foreign assets	-11,030	-11,735	-12,521	-15,036	-13,160	-13,225	-13,423	-13,490	-13,759	-14,035	-14,315	-14,602
Other items net	-23,027	-30,924	-33,467	-32,006	-36,456	-35,527	-39,485	-38,053	-40,956	-44,189	-47,710	-51,504
Currency issued	67,090	70,733	74,261	75,439	77,621	84,794	82,298	90,288	97,175	104,846	113,201	122,203
II. Other Depository Institutions												
Net Foreign Assets (In millions of US\$)	-34,815	-36,875	-36,579	-50,294	-39,518	-55,274	-42,474	-58,811	-62,849	-67,314	-72,142	-77,305
Foreign assets (in million of US\$)	-1,408	-1,489	-1,435	-1,979	-1,475	-2,044	-1,554	-2,133	-2,234	-2,346	-2,465	-2,590
	649	799	769	987	790	1,019	833	1,063	1,114	1,170	1,229	1,291
Net Domestic Assets	534,781	601,464	664,109	667,035	735,638	746,968	803,407	806,612	871,646	939,956	1,015,195	1,095,349
Credit to the monetary authority (net)	140,686	139,761	146,650	147,144	159,080	162,524	171,666	174,470	187,325	200,788	215,558	231,267
Credit to other financial institutions (net)	-37,012	-43,242	-45,183	-47,087	-45,012	-46,668	-44,838	-46,383	-46,047	-45,668	-45,250	-44,796
Credit to the nonfinancial public sector (net)	9,888	-2,154	-9,472	-148	-10,768	-1,122	-12,246	-4,083	-3,514	-3,377	-4,128	-5,501
Central government	-12,378	-26,195	-32,927	-27,491	-35,136	-29,646	-37,590	-33,871	-34,656	-35,966	-36,938	-39,876
Other nonfinancial public sector	12,587	13,826	13,042	16,880	13,955	18,062	14,932	19,326	20,679	22,127	22,348	23,912
Local governments	9,679	10,215	10,413	10,462	10,413	10,462	10,413	10,462	10,462	10,462	10,462	10,462
Credit to the private sector	526,770	625,479	723,056	703,720	796,606	777,442	868,738	841,289	909,794	987,410	1,072,543	1,167,000
Local currency	413,844	503,381	590,580	567,382	655,230	624,663	722,979	673,620	728,240	791,801	861,347	938,393
Foreign currency	112,926	122,099	132,476	136,338	141,376	152,780	145,758	167,669	181,554	195,608	211,197	228,607
Other items net	-105,552	-118,380	-150,942	-136,594	-164,268	-145,207	-179,913	-158,682	-175,912	-199,196	-223,528	-252,620
Liabilities	499,965	564,589	627,531	616,740	696,120	691,694	760,933	747,800	808,796	872,642	943,053	1,018,044
Of which: Deposits in domestic currency	390,808	452,328	509,690	492,318	570,935	553,145	624,092	598,012	646,790	697,847	754,155	814,125
Of which: Deposits in foreign currency	104,839	108,614	114,165	120,358	121,107	133,992	132,383	144,860	156,676	169,044	182,683	197,210
III. Financial System												
Net Foreign Assets (In millions of US\$)	149,470	125,654	99,375	126,981	104,904	140,336	136,266	167,862	168,639	180,280	193,574	208,651
	6,043	5,073	3,898	4,995	3,915	5,190	4,986	6,087	5,995	6,283	6,614	6,990
Net Domestic Assets	412,089	496,652	559,398	557,871	613,929	606,207	661,863	650,014	685,285	716,401	752,590	793,695
Credit to the nonfinancial public sector	22,160	35,264	46,859	32,954	48,155	37,381	49,633	40,342	39,926	39,944	40,852	42,387
Credit to the private sector	526,770	625,479	723,056	703,720	796,606	777,442	868,738	841,289	909,794	987,410	1,072,543	1,167,000
Local currency	413,844	503,381	590,580	567,382	655,230	624,663	722,979	673,620	728,240	791,801	861,347	938,393
Foreign currency	112,926	122,099	132,476	136,338	141,376	152,780	145,758	167,669	181,554	195,608	211,197	228,607
Other items net 3/	-149,349	-170,263	-210,518	-192,483	-230,832	-208,617	-256,507	-231,618	-264,435	-310,952	-360,805	-415,692
Broad Money (M4)	561,559	622,306	658,773	684,853	718,833	746,543	798,128	817,875	853,923	896,681	946,165	1,002,346
(Rate of growth 12 months)												
Currency issued	7.3	5.4	5.0	6.7	4.5	12.4	6.0	6.5	7.6	7.9	8.0	8.0
Currency in circulation	7.1	2.5	8.0	6.2	4.2	14.2	6.0	6.6	8.1	8.4	8.5	8.4
Base money	1.2	-1.4	5.1	9.1	7.2	11.5	7.6	7.2	7.6	7.6	7.7	6.3
Credit to the private sector	18.8	18.7	15.4	12.5	10.2	10.5	9.1	8.2	8.1	8.5	8.6	8.8
o/w foreign currency	0.0	8.1	8.5	11.7	6.7	12.1	3.1	9.7	8.3	7.7	8.0	8.2
M1	19.7	10.7	11.3	-3.5	4.6	25.1	2.5	2.3	8.1	8.1	8.2	8.1

Sources: Central Bank of Honduras and IMF staff estimates and projections.

1/ The central government in the monetary accounts is defined as the budgetary central government plus any NPIs under its control, in particular, pension funds while the central government in Table 2 mainly comprises the budgetary central government (Administración central in the authorities' sectorization).

2/ NIR (BCH) corresponds to reserves assets minus obligations with the IMF. Includes allocation of SDR 104.8 million in August, 2009.

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

Table 7. Honduras: Balance of Payments, 2022-2030
(In millions of U.S. dollars)

	Actual		1st/2nd	Actual	1st/2nd	Proj.	1st/2nd	Proj.				
	2022	2023	Review	2024	Review	2025	2026	2026	2027	2028	2029	2030
(In millions of U.S. dollars; unless otherwise indicated)												
Current account	-2,105	-1,333	-1,955	-1,716	-1,790	-1,455	-1,823	-1,636	-1,675	-1,769	-1,904	-1,989
Trade Account	-6,040	-5,968	-6,631	-6,672	-6,443	-6,398	-6,629	-6,501	-6,486	-6,530	-6,525	-6,544
Exports f.o.b.	8,290	8,382	8,280	7,915	8,518	8,632	8,869	8,928	9,521	10,079	10,776	11,526
Maquila (net)	2,140	2,397	2,489	2,242	2,619	2,393	2,768	2,511	2,696	2,890	3,104	3,369
Coffee	1,405	1,393	1,339	1,218	1,469	1,574	1,512	1,560	1,588	1,577	1,682	1,780
Other	4,745	4,593	4,451	4,456	4,431	4,665	4,589	4,858	5,237	5,612	5,989	6,377
Imports f.o.b.	-14,330	-14,351	-14,910	-14,587	-14,961	-15,030	-15,498	-15,429	-16,008	-16,609	-17,301	-18,071
Petroleum products	-2,700	-2,577	-2,937	-2,714	-2,727	-2,434	-2,893	-2,458	-2,586	-2,739	-2,896	-3,054
Other	-11,630	-11,774	-11,973	-11,873	-12,234	-12,595	-12,605	-12,972	-13,422	-13,870	-14,405	-15,016
Services (net)	-2,500	-2,120	-2,426	-2,211	-2,623	-2,336	-2,744	-2,457	-2,587	-2,710	-2,890	-3,032
Of which: tourism receipts	540	666	805	714	835	733	917	740	781	843	919	982
Income (net)	-2,486	-2,583	-2,558	-2,891	-2,671	-2,983	-2,788	-3,135	-3,268	-3,414	-3,597	-3,748
Of which: public sector interest payments	-255	-354	-393	-562	-384	-472	-400	-555	-561	-615	-637	-621
Transfers (net)	8,921	9,337	9,660	10,057	9,948	10,262	10,338	10,457	10,666	10,885	11,108	11,336
Of which: Remittances	8,465	8,946	9,242	9,510	9,510	9,805	9,880	10,031	10,261	10,502	10,749	11,002
Capital and Financial account	1,829	663	929	2,276	1,911	1,697	2,892	2,620	1,728	2,211	2,415	2,589
Capital account	315	313	339	320	355	336	372	347	366	387	410	433
Financial account	1,515	349	589	1,956	1,556	1,360	2,520	2,273	1,362	1,824	2,005	2,155
Direct investment (net)	738	857	956	620	1,026	738	1,087	878	1,063	1,140	1,190	1,277
Other capital flows (net)	341	-343	-356	365	150	47	208	140	359	371	484	599
General government (net)	436	-164	-11	971	380	575	1,225	1,255	-61	313	331	280
Disbursements	877	320	547	1,487	1,036	1,227	1,633	1,660	1,050	692	651	1,259
Amortization	-440	-484	-558	-516	-656	-652	-408	-405	-1,111	-379	-320	-979
Errors and omissions	149	-396	0	-87	0	0	0	0	0	0	0	0
Overall balance	-127	-1,067	-1,026	473	122	242	1,069	983	53	442	511	600
Financing	127	1,067	1,026	-473	-122	-242	-1,069	-983	-53	-442	-511	-600
Change in central bank reserves (- increase)	122	949	1,053	-447	-163	-365	-1,150	-1,150	-10	-400	-450	-500
Use of Fund credit (net)	0	118	-27	-27	41	123	81	167	-43	-42	-61	-100
Purchases	0	119	200	199	277	275	240	238	0	0	0	0
Repurchases	0	60	227	226	236	152	159	72	43	42	61	100
Exceptional financing	5	1	0	0	0	0	0	0	0	0	0	0
Residual financing	0	0	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items:</i>												
Terms of trade (percent change)	0.3	3.2	-1.2	-0.6	2.0	7.9	0.3	0.1	-1.4	-1.1	-0.2	-0.1
Exports of goods (percent change)	19.9	-7.3	-0.1	-2.6	3.3	5.9	4.3	3.6	6.6	6.1	6.9	6.7
Goods exports volume (percent change)	0.2	-3.1	0.4	0.4	3.4	3.4	3.6	3.6	4.1	3.9	3.8	4.7
Change in importer demand (percent change)	5.5	-0.6		2.7		3.0		2.6	3.2	3.2	3.0	3.0
Imports of goods (percent change)	21.5	-5.3	3.7	2.3	1.0	2.1	3.8	2.9	4.2	4.3	4.7	4.7
Goods imports volume (percent change)	4.0	1.6	2.9	2.9	3.6	3.6	3.4	3.4	3.6	3.8	3.5	3.7
Remittances (percent change)	17.8	5.7	3.3	6.3	2.9	3.1	3.9	2.3	2.3	2.4	2.3	2.4
Gross reserves (end of period, millions of U.S. dollars)	8,656	7,802	6,826	8,401	7,094	8,820	8,373	10,135	10,103	10,461	10,851	10,957
In months of next year imports (excluding maquila)	5.8	5.1	4.3	5.4	4.3	5.5	4.9	6.0	5.8	5.7	5.7	5.4
In percent of ARA	136	118	104	119	105	119	115	125	119	117	115	110
Total external debt (percent of GDP)	36.5	34.7	32.6	35.1	32.1	35.1	33.0	36.8	37.1	36.7	35.8	33.5
Nominal GDP (millions of U.S. dollars)	31,406	34,480	36,626	36,915	38,356	38,866	40,135	40,051	42,261	44,703	47,319	50,080

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

Table 8. Honduras: Balance of Payments, 2022-2030
(In percent of GDP)

	Actual		1st/2nd Review	Actual	1st/2nd Review	Proj.	1st/2nd Review	Proj.				
	2022	2023	2024	2024	2025	2025	2026	2026	2027	2028	2029	2030
(In percent of GDP; unless otherwise indicated)												
Current account	-6.7	-3.9	-5.3	-4.6	-4.7	-3.7	-4.5	-4.1	-4.0	-4.0	-4.0	-4.0
Trade Account	-19.2	-17.3	-18.1	-18.1	-16.8	-16.5	-16.5	-16.2	-15.3	-14.6	-13.8	-13.1
Exports f.o.b.	26.4	24.3	22.6	21.4	22.2	22.2	22.1	22.3	22.5	22.5	22.8	23.0
Maquila net (exports-imports)	6.8	7.0	6.8	6.1	6.8	6.2	6.9	6.3	6.4	6.5	6.6	6.7
Coffee	4.5	4.0	3.7	3.3	3.8	4.0	3.8	3.9	3.8	3.5	3.6	3.6
Others	15.1	13.3	12.2	12.1	11.6	12.0	11.4	12.1	12.4	12.6	12.7	12.7
Imports f.o.b.	-45.6	-41.6	-40.7	-39.5	-39.0	-38.7	-38.6	-38.5	-37.9	-37.2	-36.6	-36.1
Petroleum products	-8.6	-7.5	-8.0	-7.4	-7.1	-6.3	-7.2	-6.1	-6.1	-6.1	-6.1	-6.1
Other	-37.0	-34.1	-32.7	-32.2	-31.9	-32.4	-31.4	-32.4	-31.8	-31.0	-30.4	-30.0
Services (net)	-8.0	-6.1	-6.6	-6.0	-6.8	-6.0	-6.8	-6.1	-6.1	-6.1	-6.1	-6.1
Of which: tourism receipts	1.7	1.9	2.2	1.9	2.2	1.9	2.3	1.8	1.8	1.9	1.9	2.0
Income (net)	-7.9	-7.5	-7.0	-7.8	-7.0	-7.7	-6.9	-7.8	-7.7	-7.6	-7.6	-7.5
Of which: public sector interest payments	-0.8	-1.0	-1.1	-1.5	-1.0	-1.2	-1.0	-1.4	-1.3	-1.4	-1.3	-1.2
Transfers (net)	28.4	27.1	26.4	27.2	25.9	26.4	25.8	26.1	25.2	24.3	23.5	22.6
Of which: Remittances	27.0	25.9	25.2	25.8	24.8	25.2	24.6	25.0	24.3	23.5	22.7	22.0
Capital and Financial account	5.8	1.9	2.5	6.2	5.0	4.4	7.2	6.5	4.1	4.9	5.1	5.2
Capital account	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Financial account	4.8	1.0	1.6	5.3	4.1	3.5	6.3	5.7	3.2	4.1	4.2	4.3
Direct investment (net)	2.3	2.5	2.6	1.7	2.7	1.9	2.7	2.2	2.5	2.6	2.5	2.5
Other capital flows (net)	1.1	-1.0	-1.0	1.0	0.4	0.1	0.5	0.3	0.9	0.8	1.0	1.2
General government (net)	1.4	-0.5	0.0	2.6	1.0	1.5	3.1	3.1	-0.1	0.7	0.7	0.6
Disbursements	2.8	0.9	1.5	4.0	2.7	3.2	4.1	4.1	2.5	1.5	1.4	2.5
Amortization	-1.4	-1.4	-1.5	-1.4	-1.7	-1.7	-1.0	-1.0	-2.6	-0.8	-0.7	-2.0
Errors and omissions	0.5	-1.1	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.4	-3.1	-2.8	1.3	0.3	0.6	2.7	2.5	0.1	1.0	1.1	1.2
Financing	0.4	3.1	2.8	-1.3	-0.3	-0.6	-2.7	-2.5	-0.1	-1.0	-1.1	-1.2
Change in central bank reserves (- increase)	0.4	2.8	2.9	-1.2	-0.4	-0.9	-2.9	-2.9	0.0	-0.9	-1.0	-1.0
Use of Fund credit (net)	0.0	0.3	-0.1	-0.1	0.1	0.3	0.2	0.4	-0.1	-0.1	-0.1	-0.2
Purchases	0.0	0.3	0.5	0.5	0.7	0.7	0.6	0.6	0.0	0.0	0.0	0.0
Repurchases	0.0	0.2	0.6	0.6	0.6	0.4	0.4	0.2	0.1	0.1	0.1	0.2
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>												
Terms of trade (percent change)	0.3	3.2	-1.2	-0.6	2.0	7.9	0.3	0.1	-1.4	-1.1	-0.2	-0.1
Exports of goods (percent change)	19.9	-7.3	-0.1	-2.6	3.3	5.9	4.3	3.6	6.6	6.1	6.9	6.7
Goods exports volume (percent change)	0.2	-3.1	0.4	0.4	3.4	3.4	3.6	3.6	4.1	3.9	3.8	4.7
Change in trading partner demand (percent change)	5.5	-0.6		2.7		3.0		2.6	3.2	3.2	3.0	3.0
Imports of goods (percent change)	21.5	-5.3	3.7	2.3	1.0	2.1	3.8	2.9	4.2	4.3	4.7	4.7
Goods imports volume (percent change)	4.0	1.6	2.9	2.9	3.6	3.6	3.4	3.4	3.6	3.8	3.5	3.7
Gross reserves (end of period, millions of U.S. dollars)	8,656	7,802	6,825.7	8,401	7,094.4	8,820	8,373.1	10,135	10,103	10,461	10,851	10,957
In months of next year imports (excluding maquila)	5.8	5.1	4.3	5.4	4.3	5.5	4.9	6.0	5.8	5.7	5.7	5.4
In percent of ARA	136	118	104.2	119	105.1	119	114.7	125	119	117	115	110
Total external debt (percent of GDP)	36.5	34.7	32.6	35.1	32.1	35.1	33.0	36.8	37.1	36.7	35.8	33.5
Nominal GDP (millions of U.S. dollars)	31,406	34,480	36,625.8	36,915	38,356.2	38,866	40,134.5	40,051	42,261	44,703	47,319	50,080

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

Table 9. Honduras: External Financing Needs and Sources, 2025-2030
(In millions of U.S. dollars)

	Projections					
	2025	2026	2027	2028	2029	2030
Gross external financing requirement (a)	3,985	3,856	4,518	3,863	3,977	4,772
Current account deficit	1,455	1,636	1,675	1,769	1,904	1,989
Debt amortizations (public and private)	2,530	2,219	2,843	2,094	2,073	2,784
Public debt amortization	804	477	1,154	421	381	1,079
Private debt amortization	1,726	1,743	1,690	1,673	1,692	1,705
External financing sources (b)	2,483	1,957	3,468	3,171	3,326	3,514
Capital account flows (net)	336	347	366	387	410	433
Foreign direct investment (net)	738	878	1,063	1,140	1,190	1,277
Other capital flows	1,773	1,883	2,049	2,044	2,177	2,303
Change in reserves (+ decrease)	-365	-1,150	-10	-400	-450	-500
Financing gap (c) = (a) - (b)	1,501	1,899	1,050	692	651	1,259
Official financing 1/	1,227	960	1,050	692	651	659
o/w World Bank	278	143	208	121	120	120
o/w CABEL	355	426	431	325	270	270
o/w IADB	126	162	184	115	120	175
o/w Other official	467	229	229	131	141	94
Eurobonds	0	700	0	0	0	600
IMF financing	275	238	0	0	0	0
ECF	92	79	0	0	0	0
EFF	183	159	0	0	0	0
Residual Gap	0	0	0	0	0	0

Sources: Central Bank of Honduras and IMF staff estimates and projections.

1/ Official sector financing projections for 2027-30 are assumptions.

Table 10. Honduras: External Financing Gap, 2023-2026^{1/}
(In millions of U.S. dollars)

					Total			
	2023	2024	2025	2026	USD Million	SDR Million	Percent of Quota	Percent of Gap
Financing gap	439	1,686	1,501	1,899	5,525	4,147	1,660	100
Official financing	320	787	1,227	960	3,293	2,472	990	60
o/w World Bank	93	232	278	143	746	560	224	14
o/w CABEL	157	258	355	426	1,197	898	360	22
o/w IADB	156	196	126	162	640	481	192	12
o/w Other official	41	101	467	229	837	629	252	15
Eurobonds	0	700	0	700	1,400	1,051	421	25
IMF Financing	119	199	275	238	831	624	250	15
ECF	40	66	92	79	277	208	83	5
EFF	79	133	183	159	554	416	167	10
Residual Gap	0	0	0	0	0	0	0	0

Sources: Central Bank of Honduras and IMF staff estimates and projections.

1/ Honduras' quota is SDR 249.8 million.

Table 11. Honduras: External Vulnerability Indicators, 2022-2030

	Actual			Projections					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Exports of goods and services, percent change	20.7	-4.4	-2.2	5.4	3.4	6.5	6.2	6.8	6.6
Imports of goods and services, percent change	22.4	-4.6	2.3	2.5	3.1	4.4	4.5	5.0	4.8
Terms of trade (deterioration -)	0.3	3.2	-0.6	7.9	0.1	-1.4	-1.1	-0.2	-0.1
Real effective exchange rate (eop, depreciation -)	4.1	1.3	1.0	...	...	...	...	...	...
Current account balance (percent of GDP)	-6.7	-3.9	-4.6	-3.7	-4.1	-4.0	-4.0	-4.0	-4.0
Capital and financial account (percent of GDP)	5.8	1.9	6.2	4.4	6.5	4.1	4.9	5.1	5.2
External public debt (percent of GDP)	29.4	27.7	28.1	27.8	29.3	29.6	29.2	28.4	26.0
Gross official reserves									
in millions of U.S. dollars	8,656	7,802	8,401	8,820	10,135	10,103	10,461	10,851	10,957
in percent of short-term external debt	880	773	778	775	865	817	800	784	748
Net international reserves 1/									
in millions of U.S. dollars	8,375	7,520	8,037	8,414	9,564	9,532	9,890	10,280	10,681
in percent of short-term external debt	852	745	744	740	816	771	756	742	729

Sources: Central Bank of Honduras and IMF staff estimates and projections.

1/ NIR (BCH) corresponds to reserves assets minus obligations with the IMF.

Table 12. Honduras: Decomposition of Public Debt and Debt Service by Creditor, 2024-2027

	Debt Stock (end of period)			Debt Service					
	2024			2025	2026	2027	2025	2026	2027
	(In US\$ million)	(Percent total debt)	(Percent GDP)	(In US\$ million)	(In US\$ million)	(In US\$ million)	(Percent GDP)	(Percent GDP)	(Percent GDP)
Total¹	17773.4	100.0	48.1	2804.6	2471.8	2994.4	7.2	6.2	7.1
External	10309.5	58.0	27.9	1192.6	857.1	1467.4	3.1	2.1	3.5
Multilateral creditors²	7107.6	40.0	19.3	961.1	619.3	553.7	2.5	1.5	1.3
IMF	649.6	3.7	1.8	176.5	100.9	74.3	0.5	0.3	0.2
World Bank	1114.1	6.3	3.0	86.0	83.0	85.9	0.2	0.2	0.2
IDB	3234.9	18.2	8.8	193.8	192.2	191.1	0.5	0.5	0.5
Other Multilaterals	2109.0	11.9	5.7	504.8	243.2	202.4	1.3	0.6	0.5
Bilateral Creditors	1071.7	6.0	2.9	69.5	76.1	74.6	0.2	0.2	0.2
Paris Club	345.8	1.9	0.9	12.2	15.5	15.5	0.0	0.0	0.0
Non-Paris Club	726.0	4.1	2.0	57.3	60.6	59.1	0.1	0.2	0.1
Bonds	2000.0	11.3	5.4	137.9	137.9	816.0	0.4	0.3	1.9
Commercial creditors	130.2	0.7	0.4	24.1	23.8	23.1	0.1	0.1	0.1
Domestic	7463.9	42.0	20.2	1612.0	1614.7	1527.0	4.1	4.0	3.6
Held by residents, total	7463.9	42.0	20.2	1612.0	1614.7	1527.0	4.1	4.0	3.6
Held by non-residents, total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
T-Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bonds	5790.8	32.6	15.7	1311.4	1340.9	1275.3	3.4	3.3	3.0
Loans	1673.1	9.4	4.5	300.6	273.8	251.7	0.8	0.7	0.6
Memo items:									
Collateralized debt ³	n/a	n/a	n/a						
o/w: Related	n/a	n/a	n/a						
o/w: Unrelated	n/a	n/a	n/a						
Contingent liabilities	n/a	n/a	n/a						
o/w: Public guarantees	n/a	n/a	n/a						
o/w: Other explicit contingent liabilities ⁴	n/a	n/a	n/a						
Nominal GDP	36,915			38,866	40,051	42,261			

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/Multilateral creditors² are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

Table 13. Honduras: Medium-Term Macroeconomic Framework, 2022-2030
(In percent of GDP, unless otherwise specified)

	Actual			Projections					
	2022	2023	2024	2025	2026	2027	2028	2029	2030
Growth and prices (in percent)									
Real GDP growth	4.1	3.6	3.6	3.5	3.2	3.4	3.7	3.8	3.8
GDP deflator	9.3	6.0	5.1	7.2	3.8	4.1	4.0	4.0	4.0
CPI inflation (eop)	9.8	5.2	3.9	4.8	3.9	4.0	4.0	4.0	4.0
Investment and saving									
Gross domestic investment	26.3	22.2	22.5	23.0	23.0	22.6	22.2	21.8	21.2
Private sector	24.0	18.3	18.8	19.2	19.2	18.8	18.4	18.0	17.3
Public sector	2.3	3.9	3.7	3.8	3.8	3.8	3.8	3.8	3.9
Gross national savings	19.6	18.3	17.8	19.2	18.9	18.6	18.2	17.8	17.2
Private sector	13.1	11.8	11.4	13.8	12.6	12.3	12.0	11.6	11.5
Public sector	6.5	6.5	6.5	5.5	6.3	6.3	6.2	6.2	5.7
Balance of payments									
External current account	-6.7	-3.9	-4.6	-3.7	-4.1	-4.0	-4.0	-4.0	-4.0
Non oil current account	1.9	3.6	2.7	2.5	2.1	2.2	2.2	2.1	2.1
Exports goods and services, (percentage change)	20.7	-4.4	-2.2	5.4	3.4	6.5	6.2	6.8	6.6
Imports goods and services, (percentage change)	22.4	-4.6	2.3	2.5	3.1	4.4	4.5	5.0	4.8
Gross international reserves (millions of dollars)	8,656	7,802	8,401	8,820	10,135	10,103	10,461	10,851	10,957
Real effective rate (eop, depreciation -)	4.1	1.3	1.0	...	...	...	...	...	...
Terms of Trade (percent change)	0.3	3.2	-0.6	7.9	0.1	-1.4	-1.1	-0.2	-0.1
External debt	36.5	34.7	35.1	35.1	36.8	37.1	36.7	35.8	33.5
Nonfinancial public sector									
Revenue	29.9	29.4	29.3	29.0	29.0	29.0	29.0	29.1	29.1
Interest revenue	1.1	1.3	1.5	1.5	1.5	1.4	1.3	1.2	1.1
Of which: Non-interest expenditure	28.8	28.1	27.8	27.5	27.5	27.6	27.7	27.9	28.0
Expenditure	30.1	30.7	30.3	30.5	30.0	30.0	30.0	30.1	30.1
Interest expenditure	2.6	2.8	2.6	3.0	2.7	2.6	2.6	2.6	2.6
Of which: Non-interest expenditure	27.6	28.0	27.7	27.5	27.4	27.4	27.4	27.5	27.5
Capital expenditure	3.4	6.7	4.1	6.3	6.5	6.5	6.5	6.5	4.5
Net interest payments	1.0	1.4	1.1	1.4	1.1	1.1	1.2	1.3	1.5
Primary balance	1.2	0.2	0.2	0.0	0.1	0.2	0.3	0.4	0.5
Overall balance	-0.2	-1.3	-1.0	-1.5	-1.0	-1.0	-1.0	-1.0	-1.0
Central government									
Revenue	19.8	19.5	19.6	19.2	19.3	19.3	19.4	19.5	19.5
Interest revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Noninterest revenue and grants	19.8	19.5	19.6	19.2	19.3	19.3	19.4	19.5	19.5
Expenditure	21.1	23.0	21.2	22.0	21.9	21.7	21.5	21.5	21.4
Interest payment	2.9	3.1	2.8	2.7	2.9	2.7	2.6	2.5	2.5
Of which: Non-interest expenditure	18.3	19.9	18.4	19.3	19.0	18.9	18.9	18.9	19.0
Primary balance	1.6	-0.4	1.2	-0.1	0.3	0.4	0.5	0.5	0.5
Overall balance	-1.3	-3.5	-1.6	-2.8	-2.6	-2.4	-2.1	-2.0	-1.9
Nonfinancial public sector debt 1/									
Total	52.0	48.0	48.1	47.6	47.1	46.3	45.4	45.1	44.7
Of which: Domestic debt	22.7	20.3	20.0	19.8	17.8	16.7	16.2	16.7	18.7
Of which: External debt	29.4	27.7	28.1	27.8	29.3	29.6	29.2	28.4	26.0
Monetary and financial									
Broad money (percentage change)	11.6	10.8	10.1	9.0	9.6	4.4	5.0	5.5	5.9
Private sector credit (percentage change)	18.8	18.7	12.5	10.5	8.2	8.1	8.5	8.6	8.8
Bank assets	123.5	133.5	138.0	137.4	138.8	139.5	140.3	141.1	142.2
Private credit	68.5	74.0	76.5	76.1	76.9	77.3	77.7	78.2	78.8
Non-performing loans to total loans (percent)	2.3	2.0	2.2	...	...	...	...	...	...
Capital adequacy (percent)	13.5	13.4	13.5	...	...	...	...	...	...
Lending rate (eop, in percent)	11.3	11.7	16.5	...	...	...	...	...	...
Deposit rate (eop, in percent)	5.5	7.8	14.9	...	...	...	...	...	...
Memorandum items:									
Nominal GDP (in billions of lempiras)	769	845	920	1,021	1,094	1,177	1,270	1,371	1,480

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

1/ Debt projections use the definition from the DSA.

Table 14. Honduras: Structure and Performance of the Banking Sector, 2017-2024 ^{1/}
(In percent, unless otherwise specified)

	2017	2018	2019	2020	2021	2022	2023	2024
Total assets (in millions of Lempiras) 2/	522,358	579,373	632,607	715,567	802,598	871,520	1,002,341	1,126,952
(In percent of GDP)	96	101	104	125	119	113	119	123
Number of banks	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Domestic	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Foreign	9.0	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Bank concentration								
Number of banks accounting for at least 25 percent of total assets	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Capital adequacy								
Regulatory capital to risk weighted assets (RWA)	13.8	13.4	13.7	14.2	14.1	13.5	13.4	13.5
Capital (net worth) to assets	8.8	8.7	8.9	8.4	8.3	8.5	8.1	7.9
Asset quality and composition								
Nonperforming loans(NPLs) to total loans	2.3	2.1	2.2	3.0	2.7	2.3	2.0	2.2
NPLs net of provisions to capital	-5.8	-5.8	-5.3	-5.0	-5.9	-6.7	-6.8	-6.0
Restructured loans to regulatory capital	24.8	25.0	26.2	48.1	50.3	44.0	37.3	42.4
Non earning assets net of provisions to regulatory capital	41.2	42.4	40.1	42.6	36.5	35.2	35.9	38.1
Provisions to total loans	3.2	3.0	3.0	3.8	3.6	3.3	2.9	3.0
Provisions to NPLs 2/	138.0	140.2	135.2	125.7	133.7	143.8	146.9	136.5
Sectoral distribution of loans to total loans:								
Commerce	14.9	15.2	14.4	14.4	14.1	15.0	14.7	14.5
Construction and real estate	23.3	23.0	22.8	23.1	22.6	23.3	24.6	25.3
Agriculture and related sectors	7.4	7.5	7.3	6.9	6.3	5.7	5.0	4.9
Industry	10.3	10.8	10.1	11.0	11.3	11.5	11.5	9.7
Consumption	20.9	21.1	21.5	21.2	20.8	21.7	23.3	23.9
Other	23.0	21.9	23.1	22.7	24.4	22.3	20.6	17.4
Profitability								
Return on assets (ROA)	1.3	1.2	1.3	1.2	1.2	1.2	1.2	1.2
Return on equity (ROE)	12.9	12.0	12.8	7.6	11.1	14.7	13.7	13.3
Interest margin to total income	51.5	49.6	46.7	40.8	40.2	50.8	51.3	46.2
Personnel expenses to administrative expenses	45.5	45.1	44.2	42.3	40.7	40.7	40.6	40.9
Liquidity								
Liquid assets to total assets	26.4	22.2	22.9	29.6	28.8	24.8	21.0	20.3
Liquid assets to total short-term liabilities	71.8	61.7	62.8	71.8	66.2	55.6	49.5	53.7
Dollarization								
Deposits in foreign currency in percent of total	29.9	28.9	26.7	25.1	23.7	23.0	20.9	21.4
Credit in foreign currency in percent of total	31.2	31.8	31.1	30.4	29.5	25.4	23.1	23.1

Source: National Commission of Banking and Insurance.

1/ The information covers only private banks.

2/ Includes contingent assets.

Table 15. Honduras: Schedule of Reviews and Purchases ^{1/}

Date of Availability	Conditions	Amount (millions of SDRs)			Percent of quota ^{2/}		
		Total	ECF	EFF	Total	ECF	EFF
Sep. 21, 2023	Approval of the arrangement	89.21	29.74	59.47	35.71	11.91	23.81
Sep. 1, 2024	Observance of end-December 2023 and end-June 2024 and continuous performance criteria and completion of first and second reviews ^{3/}	150.00	50.01	99.99	60.05	20.02	40.03
Mar. 1, 2025	Observance of end-December 2024 and continuous performance criteria and completion of the third review	117.63	39.21	78.42	47.09	15.70	31.39
Sep. 1, 2025	Observance of end-June 2025 and continuous performance criteria and completion of the fourth review	89.21	29.74	59.47	35.71	11.91	23.81
Mar. 1, 2026	Observance of end-December 2025 and continuous performance criteria and completion of the fifth review	89.21	29.74	59.47	35.71	11.91	23.81
Aug. 31, 2026	Observance of end-June 2026 and continuous performance criteria and completion of the sixth review	89.24	29.76	59.48	35.72	11.91	23.81
	Total Disbursements	624.50	208.20	416.30	250.00	83.35	166.65

^{1/} Honduras' quota is SDR 249.8 million.

^{2/} Percentages may not add up due to rounding

^{3/} First and second reviews were combined. The amounts associated with the first review became available for purchase on March 1, 2024. The amounts associated with each review were SDR 25 million and 25.01 million for the first and second reviews, respectively, under the ECF (for a total of SDR 50.01 million) and SDR 49.99 million and SDR 50 million for the first and second reviews, respectively, under the EFF (for a total of SDR 99.99 million).

Table 16. Honduras: Indicators of Fund Credit, 2025-2034

(As of May 8th, 2025; in units indicated)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Existing Fund credit										
Stock, in millions of SDRs ^{1/}	352.6	298.9	267.1	235.8	196.8	154.2	111.7	69.2	26.7	0.0
Obligations, in millions of SDRs	132.2	69.1	46.7	46.1	53.3	55.9	55.0	54.0	53.0	36.3
ECF										
Stock, in millions of SDRs ^{1/}	148.7	208.2	208.2	208.2	202.3	182.4	149.7	108.0	66.4	30.7
Disbursements, in millions of SDRs	69.0	59.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs ^{2/}	0.0	0.0	0.0	0.0	6.5	27.9	42.8	42.8	42.8	42.8
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	6.5	27.9	42.8	42.8	42.8	42.8
Interest and charges, in millions of SDRs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EFF										
Stock, in millions of SDRs ^{1/}	297.4	416.3	416.3	406.4	373.3	318.8	249.4	180.0	110.6	51.1
Disbursements, in millions of SDRs	137.9	119.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations, in millions of SDRs ^{3/}	0.0	0.0	0.0	0.0	9.2	40.7	66.7	70.2	70.2	70.2
Principal, in millions of SDRs	0.0	0.0	0.0	0.0	6.5	27.9	42.8	42.8	42.8	42.8
Interest and charges, in millions of SDRs	0.0	0.0	0.0	0.0	2.6	12.8	23.8	27.4	27.4	27.4
Stock of existing and prospective Fund credit ^{1/}										
In millions of SDRs	559.4	684.2	652.3	621.1	575.5	501.1	399.0	288.0	177.0	81.8
In percent of quota	223.9	273.9	261.1	248.6	230.4	200.6	159.7	115.3	70.9	32.8
In percent of exports of goods and services	5.9	6.9	6.4	5.7	5.0	4.1	3.1	2.1	1.2	0.5
In percent of external debt	5.8	6.9	6.2	5.6	5.0	4.2	3.4	2.4	1.4	0.7
In percent of gross reserves	8.9	10.4	8.7	8.2	7.3	6.3	5.0	3.5	2.2	1.0
In percent of GDP	2.0	2.4	2.2	2.0	1.7	1.4	1.1	0.7	0.4	0.2
Obligations to the Fund from existing arrangements and prospective Fund arrangements ^{4/}										
In millions of SDRs	134.3	76.5	56.0	55.3	69.1	96.5	122.0	128.4	125.9	107.7
In percent of quota	53.8	30.6	22.4	22.1	27.6	38.6	48.8	51.4	50.4	43.1
In percent of exports of goods and services	1.4	0.8	0.5	0.5	0.6	0.8	0.9	0.9	0.9	0.7
In percent of external debt	1.4	0.8	0.5	0.5	0.6	0.8	1.1	1.1	1.0	0.9
In percent of gross reserves	2.1	1.2	0.7	0.7	0.9	1.2	1.5	1.6	1.5	1.3
In percent of GDP	0.5	0.3	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.2
Net use of Fund credit (SDR million)										
Disbursements and purchases	92.7	124.8	-31.8	-31.3	-45.5	-74.4	-102.1	-111.0	-111.0	-95.2
Repayments and repurchases	206.8	178.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	114.1	53.7	31.8	31.3	45.5	74.4	102.1	111.0	111.0	95.2

^{1/} End of period.

^{2/} The current zero percent interest rate applicable to PRGT facilities will be maintained until the next review of PRGT interest rates scheduled for July 2025.

^{3/} Total interest/charges based on existing and prospective drawings using GRA rate of charge = 4.027 (as of May 1st, 2025).

^{4/} The sum of the ECF and EFF Fund credits or obligations does not align with the existing, prospective, or total Fund credits and obligations, as there are outstanding obligations from previous programs under different Fund instruments.

Annex I. Risk Assessment Matrix¹

Sources	Likelihood	Impact	Policy
Global Risks: Conjunctural			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financing conditions, and higher inflation.	H	High. While trade disruptions may lead to temporary benefits through trade diversion, heightened uncertainty and the associated lower external demand and investment can reduce exports.	Allow real exchange rate to move in line with fundamentals by implementing the crawling band formula for the nominal exchange rate. Raise policy interest rates if needed to provide support for Lempira assets. Maintain competitive business environment to attract investment to diversify exports and increase value added of exports.
Sovereign debt distress. Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	H	High. Capital outflows and pressure on exchange rate prompt higher domestic interest rates. External market access is jeopardized.	Remain committed to fiscal adjustment program and public financial management advances to safeguard debt sustainability; allow real exchange rate to cushion a portion of external shock.
Tighter financial conditions and systemic financial instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	M	High. Global financial conditions tighten, and emerging market bond yields increase amid outflows from emerging markets. External demand falters, with spillovers to exports.	Allow real exchange rate to cushion a portion of the external shock while adjusting policy interest rates to support external stability. Allow domestic interest rates to adjust to reduce capital outflows. Remain committed to fiscal adjustment program to bolster market access and safeguard debt sustainability. Continue executing key infrastructure spending. Support domestic market development and labor markets.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	M	High. Trade disruption, elevated commodity prices due to lower supply, increased cost of food and basic materials, hurting growth and increasing inflation.	Diversify supply chains, create or increase buffers for short-term unavailability of key commodities. Provide targeted support to mitigate risks of food insecurity. Use monetary policy to address potential second-round effects on inflation.
Commodity price volatility. Supply and demand volatility (due to	M	High. Larger import bill and current	Provide targeted fiscal support to mitigate risks of food insecurity. Monetary policy to

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Sources	Likelihood	Impact	Policy
conflicts, trade restrictions, OPEC + decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.		account deficit, leading to lower FX reserves; higher domestic inflation due to large share of food in CPI basket.	remain proactive to forestall second-round effects. In the long-term, expand productive capacity, diversify trade, and increase value added content of exports.
Global growth acceleration. Easing of conflicts, positive supply-side surprises (e.g., oil production shocks), productivity gains from AI, or structural reforms raise global demand and trade.	L	Medium. Higher economic activity due to stronger demand for exports, stronger remittance growth, lower external borrowing costs.	Allow real exchange rate to move in line with fundamentals, continue to execute infrastructure spending to boost productivity growth, maintain competitive business environment to attract investment to diversify exports and increase value added of exports.
Global Risks: Structural			
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	H	High. Higher barriers to migration and return migration would lower remittances. Reconfiguration of global trade patterns leads to disruption of some trade flows in the near term, hurting exports. Over medium term, physical proximity to large markets could present new export opportunities.	Allow real exchange rate to move in line with fundamentals by implementing the crawling band formula for the nominal exchange rate. Strengthen business environment and governance and continue to invest in physical infrastructure and human capital to raise productivity and increase competitiveness and value added in exports.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	H	Medium. Lower economic activity due to weaker demand for exports, lower remittances, tight financial conditions, and increasing risk premia.	Diversify trade patterns, allow real exchange rate to cushion a portion of external shock, continue executing key infrastructure spending. Support domestic market development and labor markets.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	M	High. Disruptions in economic activity; lower GDP growth; damage to properties and infrastructure, resulting in lower growth potential.	Prioritize expenditure to support affected households. Guard against second-round effects of inflation. Accelerate reconstruction and building of climate-resilient infrastructure. Design and implement an adaptation plan.

Sources	Likelihood	Impact	Policy
Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	M	Medium. Disruptions to economic activity, political polarization, and instability. Harms confidence, raising risk premia.	Strengthen governance and accountability to attract investment and support growth. Foster diversification and job creation. Strengthen social safety net.
Domestic Risks			
Implementation risks to reform agenda. Low implementation capacity and divided Congress worsens as elections approach in late 2025. Implementation slippages can jeopardize reforms and program objectives.	H	High. Needed reforms stall.	Retain strong commitment to build institutions and ensure policy continuity. Build broader political coalition.
Inconsistent macroeconomic policies. Inconsistency may hamper the response in the event of global shocks, with knock-on effects on domestic and external stability.	M	High. Inconsistent policies can undermine external and internal stability.	Monetary policy needs to support the exchange rate crawling band, with the center of the crawling band adjusting in line with fundamentals, including the projected inflation differential.

Annex II. Remittances and Migration in Honduras

Background on Migration and Remittances

1. Remittances to Honduras have risen in recent years, reaching nearly 26 percent of GDP in 2024. Remittances surged in 2021-22 during the recovery from the pandemic, associated with strong economic growth and a tight labor market in the United States. While growth of remittances has slowed, they remain a critical source of financing for Honduras' large trade deficit (18 percent of GDP in 2024). Remittances also provide an important source of income for Honduran families, supporting household consumption.

Annex II. Figure 1. Remittances in Honduras

Remittances surged during the recovery from the pandemic....

...peaking at 27 percent of GDP in 2022.

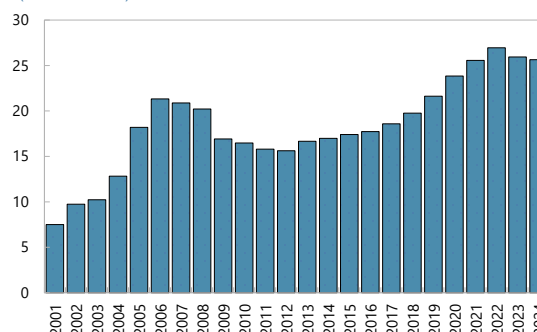
Remittances Growth

(Accumulated growth over previous year, percent)



Remittances in Honduras

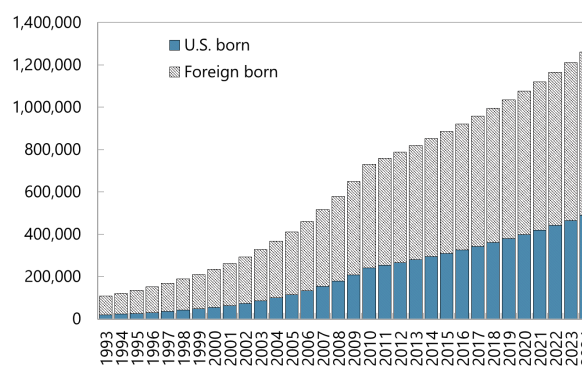
(Percent of GDP)



Sources: Central Bank of Honduras; and IMF staff calculations.

2. The estimated 1.2 million persons of Honduran descent in the United States provide the bulk of remittances to Honduras. Of these, around 62 percent are foreign born.¹ The population is evenly distributed between males and females, with about 63 percent of working age. According to a Central Bank of Honduras (BCH) survey, 91 percent of Honduran migrants live in the United States, followed by Spain² (5 percent) and Mexico and Canada (less than 1 percent). The main recipients of remittances are mothers (37 percent), followed by siblings (18 percent), and fathers (12 percent). Remittances comprise the

Persons of Honduran Descent in United States



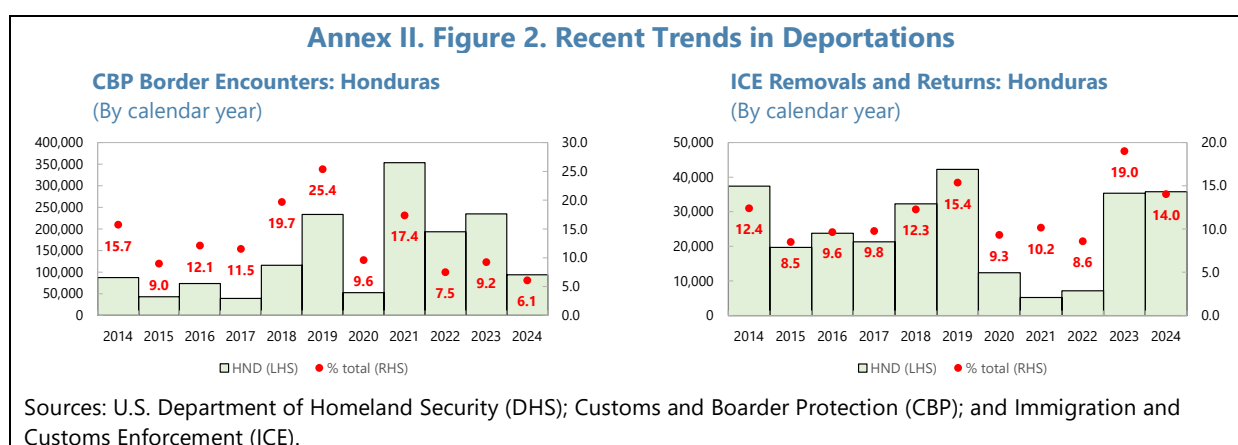
Source: Pew Research Center analysis of the U.S. Census Bureau's American Community Survey and Staff Calculations

¹ There are 54,290 Hondurans under Temporary Protected Status (TPS), set to expire July 2025.

² Spain has become an important and growing source of remittances (US\$520 million or 6 percent of remittances in 2023), and the number of Hondurans in Spain increased by 9.4 percent in 2024.

main source of income for 44 percent of recipient families. About 75 percent of remittances are received through commercial banks or cooperatives. The BCH survey finds that the average monthly earnings of remittance senders is US\$3,627 (US\$4,466 for males and US\$2,413 for females), with average monthly remittances sent standing at US\$448 (US\$574 for males and US\$322 for females), compared to the average monthly salary in Honduras of US\$570.

3. Attempted immigration of Hondurans to the U.S. already appears to be on a downward trend, while deportations have increased. Total border encounters with Hondurans declined in 2024 as border enforcement increased in H2:2024. At the same time, internal deportations of Hondurans reached about 36,000 in 2024,³ close to the level reached prior to the pandemic. About 14 percent of all deported migrants from the U.S. are Honduran citizens, representing the third most deported group in 2024, after citizens of Mexico and Guatemala.



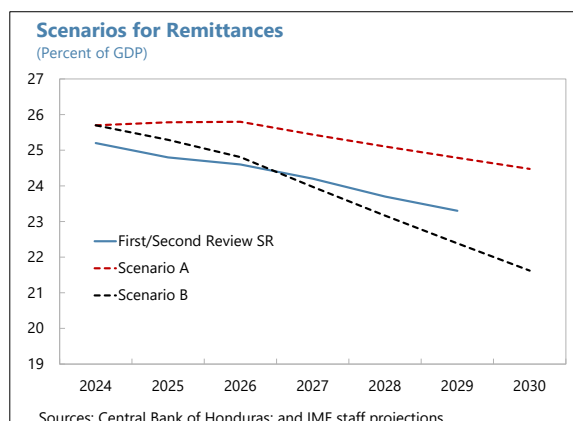
Scenarios Under Changing U.S. Immigration Enforcement

4. Several scenarios are considered for possible immigration enforcement changes and their potential impact on remittances flows. The new U.S. administration aims to increase barriers to migration through its southern border and increase deportation of undocumented migrants. Using a stylized model for remittances—taking into account new migration to the U.S., wages and savings rates in the U.S., and levels of deportation that reduce the stock of migrants in the U.S., also considering the contribution of migrants in other countries to remittances—two scenarios are simulated for remittances over the medium term. Both scenarios are based on stable employment trends within the Latino population in the United States.

- **Scenario A: Continued immigration, no increase in deportations:** Under this scenario, both rates of migration and deportation remain at their 2024 levels, resulting in nominal growth of remittances of about 4.5 percent annually over the medium term, and portraying a modest decline in remittances as a percent of GDP from 26 percent in 2025 to about 24.5 percent in 2030.

³ December 2024 data not yet available.

- Scenario B: Lower immigration, moderate increase in deportations:** This scenario considers a 70 percent decline in new immigration and a 20 percent increase in deportations above the 2024 level. Remittances would increase about 2 to 2.5 percent annually, declining to 21.6 percent of GDP by 2030. This scenario is similar to staff's current baseline assumptions for remittances in the balance of payments.



5. The surge in remittances in early 2025 suggests there are upside risks to these scenarios for 2025, but the outlook thereafter is more uncertain. Remittances increased 25 percent in through end-March over 2024 levels, a surge that may be explained by migrants' precautionary transfer of savings. Remittances from other regions, Spain in particular, also appear to be picking up. While this phenomenon is likely to be short lived, it may provide a cushion for remittance levels in 2025, and staff's baseline assumption for remittance growth of 3.1 percent in 2025 may be conservative. That said, the medium-term outlook remains highly uncertain, depending on the evolution of U.S. immigration enforcement. A downturn in U.S. economic growth and associated deterioration in the Latino labor market is also a key cyclical risk for remittances.

Policy Implications

6. A sharp decline in remittances could widen the current account deficit and reduce economic growth in Honduras. Remittances are mainly used to finance consumption, including of imported goods. While a decline in imports would likely offset lower remittances to a certain extent, the current account deficit would likely expand, while economic growth would decline, driven by lower private consumption and lower fiscal revenues. Such a shock to the balance of payments would likely need to be met with faster crawl of the exchange rate, higher policy interest rates, and possible fiscal adjustment measures could also put strain on the financial sector, as the financial sector revenues from managing remittances would decrease and households could reduce their savings to smooth consumption.

7. The authorities have announced short-term support for returning migrants, but a strategy to support their integration over the medium term would also be needed. The authorities are providing returning migrants with a \$100 cash grant, two months of food (valued at \$150), and eligibility to receive \$1,000 to start a business. The estimated fiscal cost is small at less than 0.1 percent of GDP. Preliminary figures suggest that this program could cover around 261,000 returning Hondurans. However, over the medium term, the authorities would need to elaborate a strategy to facilitate their integration into labor markets.

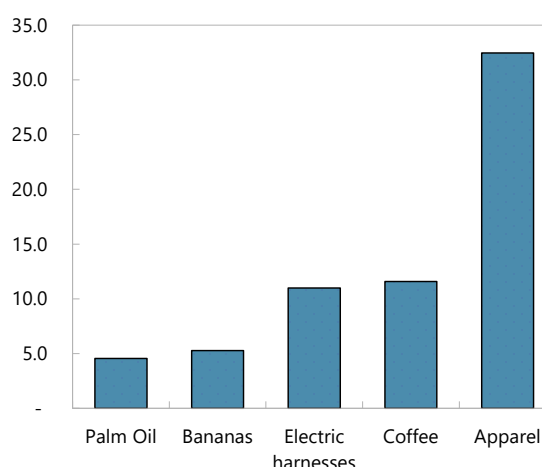
Annex III. Implications of Global Trade Policies for Honduras

1. Honduras exports mainly processed goods and agricultural products. The most significant exports are goods processed in the maquila sector, specifically apparel products, accounting for 32.5 percent of exports over 2022-24, followed by electric harnesses at 11 percent. The other cornerstone is the agricultural sector, led by coffee, averaging 12 percent of exports, followed by bananas (5 percent) and palm oil (4.5 percent).

2. The United States is Honduras' largest trading partner. The U.S. remains Honduras' primary export destination (52 percent of total exports), receiving a substantial share of both agricultural and maquila exports. Other important markets include the Central America region (24 percent), as well as Mexico (around 3 percent) and some destinations in Europe, which have shown steady demand for agricultural commodities such as coffee, bananas, and palm oil.

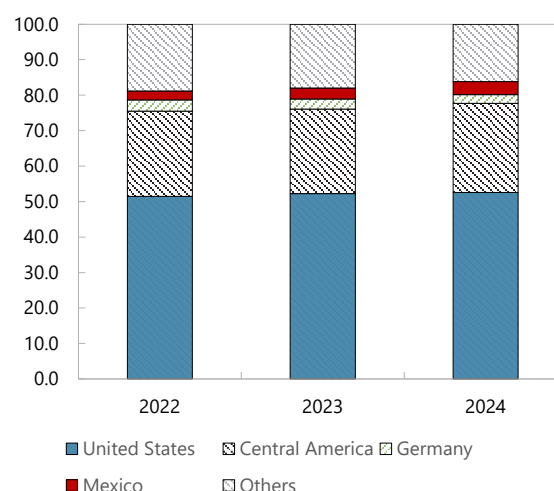
3. U.S. tariffs announced on April 2 are generally higher for Honduras' main export competitors. Under the tariffs announced and later paused, the U.S. would charge a 10 percent tariff on imports from Honduras. This rate is lower than the paused tariff on goods from several important competitors that also export products to the U.S. including apparel, coffee, bananas, and palm oil. Using the weight of each competitor in the same export products in the U.S. market and the set of announced tariffs, an estimate of the relative gain of competitiveness for Honduras can be made.¹ For the initially announced tariffs on April 2, Honduras would experience a competitiveness

Annex III. Figure 1. Main Export Products
(Average share of total exports, 2022-2024)



Source: Central Bank of Honduras; and IMF staff calculations.

Annex III. Figure 2. Main Trading Partners
(As share of total exports)



Source: Central Bank of Honduras; and IMF staff calculations.

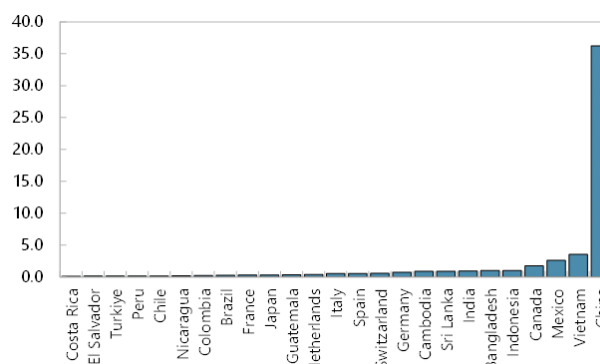
¹ The relative weight in the U.S. market of competitors on a product-level basis is calculated as the product of three shares: (1) Honduran exports to the U.S. as a share of total Honduras exports; (2) Honduran exports by product as a

(continued)

gain of approximately 25 percent, while the gain is about 7 percent under the current level of tariffs (incorporating the pause on tariffs on China announced on May 12 and temporary reduction to 30 percent). The large estimated gain mainly owes to the high tariffs on China. In a scenario of full implementation of the April 2 tariffs, besides China, Honduras would gain relative competitiveness against competitors in Asia such as Vietnam, Indonesia, and Sri Lanka.

4. If implemented, the announced tariffs could provide incentives for trade diversion to Honduras, especially in the maquila sector. Maquila production tends to have a high labor to capital ratio and relatively low reallocation costs, providing greater incentive and scope to shift production in response to gains in competitiveness. In apparel and clothing, Honduras' main competitors are China, Vietnam, Bangladesh, and Cambodia, which may be comparatively disadvantaged by higher tariffs and Honduras' geographical proximity to the United States. Honduras' estimated competitiveness gains in this sector are about 57 and 6 percent for the announced and current tariffs, respectively (**Annex III. Table 1**).²

Annex. III. Figure 3. Relative Gain of Competitiveness for Honduras from April 2 U.S. Tariffs by Trading Partner (Percent)



Source: IMF Direction of Trade database; and IMF staff calculations.

Annex III. Table 1. Honduras: Main Competitors in Articles of Apparel and Clothing (Percent)

Country	Weight of competition	Announced	Current
China	52.6	145.0	30.0
Vietnam	19.2	45.0	10.0
Bangladesh	9.0	37.0	10.0
Cambodia	7.1	49.0	10.0
Overall		56.6	5.6

Note: "Announced" rates refer to those introduced through April 11, and "current" rates refer to those as of May 18. The tariff rates used do not incorporate product exemptions, sector-specific tariffs (on steel, aluminum and cars) and those specific to Canada and Mexico.

Source: IMF staff calculations.

5. Possible competitiveness gains, however, may not necessarily translate into a larger volume of exports to the United States, even under discriminatory U.S. tariff scenarios that are favorable to Honduras. The effects of tariffs may lower U.S. demand for imports should prices increase for the U.S. consumer and should U.S. (and global) growth decline. In this scenario,

share of total Honduras exports; and (3) the share of the same product in the exports of the competitor country in the U.S. market by competitor country. These products are then summed across product for each competitor country. This resulting competitor weight is then multiplied by each country-level tariff to obtain the relative change in tariff-induced competitiveness.

² The calculations of the weight of the competition in Annex III. Table 1 are similar to the calculations described in footnote 1 but only taking into account trade in this particular good.

competitiveness gains may only result in a larger share of a smaller market. Furthermore, the response of competitors will have to be considered, including the adjustment of competitors' exchange rates relative to Honduras. Other countries in Central America may also make similar competitiveness gains, and businesses could decide to concentrate production in certain countries, reducing the gains for others.

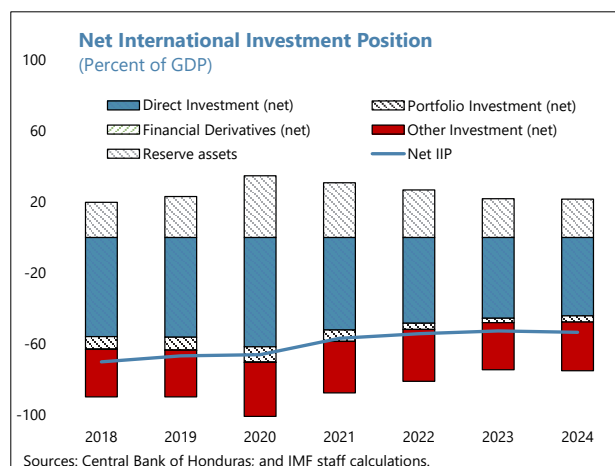
Annex IV. External Sector Assessment

Overall Assessment: The external position of Honduras in 2024 was moderately weaker than the level implied by fundamentals and desirable policy settings, and the real effective exchange rate (REER) for 2024 is estimated to be overvalued by 5-10 percent. Key exports declined in 2024, impacted by an extreme weather event and competitiveness losses. In late 2024 and early 2025, there has been a recovery in exports associated with improving agricultural production, higher coffee prices, a stabilization of maquila exports, and in the context of incipient exchange rate adjustments. Risks to external stability persist, though they are partially mitigated by the path and composition of the net international investment position, with gross external liabilities tilted towards foreign direct investment and a declining trend for external debt. The gross international reserves coverage ratio increased in 2024Q4, and reserve coverage is projected to remain within the recommended range of the ARA metric over the medium term.

Potential Policy Responses: The REER assessment is consistent with existing imbalances between supply and demand in FX markets. The ongoing recalibration of monetary and exchange policies, underpinned by (i) monetary policy rates that are positive in real terms and above the U.S. Federal Funds rate to provide support to Lempira assets; and (ii) a decisive ongoing nominal exchange rate adjustment through an accelerated rate of crawl is supporting a reduction in the estimated REER overvaluation. Strengthening the crawling band regime and ensuring that the exchange rate reflects economic fundamentals, including the inflation differential and movements in trading partners' exchange rates, is also promoting a better balance between supply and demand in FX auctions and helping to safeguard the level of international reserves. Likewise, measures to strengthen the coordination between monetary and exchange rate policies, maintain prudent fiscal and debt policies, and advance the structural reform agenda remain essential to maintain external sustainability.

Foreign Assets and Liabilities: Position and Trajectory

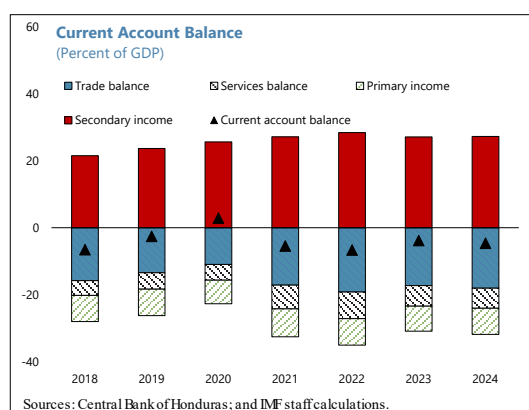
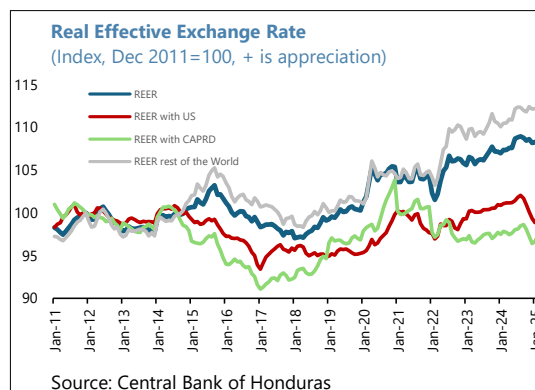
Background. The net international investment position (NIIP) remained stable at -53 percent of GDP in 2024 as FDI and portfolio investment were stable as a percent of GDP. Gross assets stood at 41 percent of GDP, with reserves accounting for the largest share (57 percent of gross assets). At 94 percent of GDP in 2024, gross liabilities were primarily composed of FDI liabilities (55 percent of GDP and 58 percent of gross liabilities). External debt was estimated at US\$12.8 billion at end-2024 (34.7 percent of GDP) and was mostly public (79 percent of the total stock). Public external debt was mainly US\$-denominated and primarily consisted of loan liabilities to multilateral creditors (72.3 percent of total public external debt as of December 2024), with 9.6 percent to bilateral creditors).



Assessment. Honduras' negative NIIP does not present an elevated risk to external sustainability. The composition of gross liabilities, tilted towards FDI, limits vulnerabilities. This, together with the REER model overvaluation (see below), imply that stabilizing Honduras' NIIP at its 2024 level in the medium term would require a continuation of the REER adjustment in the near term.

Current Account and Real Exchange Rate

Background. The CA balance widened to -4.6 percent of GDP in 2024 from -3.9 percent of GDP in 2023. The fall of key exports (coffee, banana, and palm oil), weakness in the maquila sector, and a moderate growth of imports was only partially compensated by robust remittance flows. Larger imports of petroleum products in 2024 (up 4.0 percent) were needed as the drought affected hydroelectric production, and warmer-than-usual weather increased the use of energy, while total imports increased by 2.3 percent in 2024. Maquila exports increased by 0.2 percent, while total goods exports declined by 2.6 percent. Remittances increased 6.3 percent in 2024. The CA deficit is projected to improve to 3.7 percent of GDP in 2025, supported by high exports of coffee due to high prices and volume, and lower oil prices. The REER appreciated by 1.1 percent in 2024 but depreciated by 0.7 in December compared with August 2024, a trend that is expected to continue as the exchange rate has continued to crawl in line with Honduras' fundamentals.



Assessment. The CA approach finds that the cyclically adjusted CA was -4.7 percent of GDP after accounting for the model's cyclical contributions and natural disasters. The cyclically adjusted CA norm, which reflects the CA level that is in line with fundamentals and desirable policy levels, stood at -5.0 percent of GDP. This yields a positive CA gap of 0.3 percent of GDP consistent with a marginal REER undervaluation of 0.9 percent (assuming the cross-country CA elasticity of -0.35 with respect to REER). The contribution of policy gaps is estimated at 2.2 percent of GDP, primarily driven by the fiscal spending gap. In contrast, the REER index model finds a CA gap of -3.8 percent of GDP, suggesting a REER overvaluation of around 11.4 percent. The CA and the REER models complement each other but accentuate different economic channels.¹ In the case of Honduras, the overall assessment of the external position is based on the REER model, which has the advantage of explicitly accounting for the level of real interest rates in home and foreign economies.

Taking a complete view of these methodologies, in addition to pressures in FX markets in 2024, the external position is assessed to be moderately weaker than the level implied by fundamentals and desirable policies, with the REER estimated to be 5-10 percent overvalued. REER overvaluation is expected to decrease as the nominal exchange rate continues to crawl and monetary policy interest rates continue to have a positive differential with respect to the Federal Funds Rate.

Honduras: EBA-lite Model Results, 2024		
	CA model 1/ (in percent of GDP)	REER model 1/ (in percent of GDP)
CA-Actual	-4.6	
Cyclical contributions (from model) (-)	0.2	
Additional temporary/statistical factors (-) 2/		
Natural disasters and conflicts (-)	0.0	
Adjusted CA	-4.7	
CA Norm (from model) 3/	-5.0	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-5.0	
CA Gap	0.3	-3.8
o/w Relative policy gap	2.2	
Elasticity	-0.3	
REER Gap (in percent)	-0.9	11.4

1/ Based on the EBA-lite 3.0 methodology
2/ Additional adjustment to account for the temporary impact of shock A (for eg. pandemic)
3/ Cyclically adjusted, including multilateral consistency adjustments.

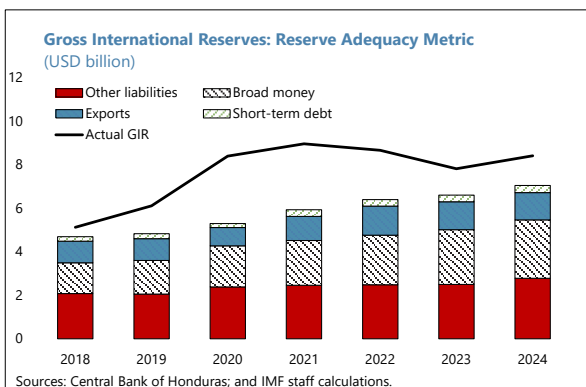
Developments in the Capital and Financial Accounts

Background. The financial account surplus stood at 5.3 percent of GDP in 2024, an important improvement with respect to 2023 (1.0 percent of GDP), driven by net inflows of FDI (1.7 percent of GDP) explained by firms' retained earnings, while the above average net government borrowing (2.9 percent of GDP) is explained by issuance of a US\$700 million Eurobond in 2024Q4 (1.9 percent of GDP) and higher disbursements (2.4 percent of GDP) that more than compensate for the higher level of amortizations (-1.4 percent of GDP). Between 2017 and June 2021, the surrender requirement for foreign exchange agents on proceeds from current and capital transactions to the central bank was phased out as part of the reforms supporting the transition toward a more flexible exchange rate regime and fewer foreign exchange interventions by the central bank. The central bank also ended its daily FX auctions in favor of an interbank FX market. However, in April 2023, the authorities reinstated a 100 percent surrender requirement for FX agents, together with the daily FX auctions, and shut down the interbank FX market. The Interdepartmental CFM working group has assessed the surrender requirement to be a CFM. Exporters also remain required to sell all their export receipts in FX to foreign exchange agents, except for those exporters authorized by the Central Bank's Board of Directors to retain up to 30 percent for priority purchases or debt service abroad. Going forward, the financial account is projected to reduce its surplus to 3.3 percent of GDP in 2025, primarily due to no external bond issuances being included in the baseline for 2025.

Assessment. Going forward, the financial account is projected to maintain a surplus but lower than the one observed in 2024. Positive net FDI flows are projected to continue, while net flows to the general government are projected to strengthen in line with official sector disbursements and continued market access. Current monetary and exchange rate policies are also projected to strengthen other capital flows and to incentivize FDI, especially in the maquila sector.

FX Intervention and Reserves Level

Background. Gross international reserves (GIR) reached US\$8,325 million or 5.4 months of non-maquila imports of goods and services at end-2024. This represented 775 percent of short-term debt in 2024. GIR stood at US\$8,684 million as of March 2025. The increase in GIR in 2024 was a result of larger disbursements and the Eurobond issuance in late 2024, as GIR had declined \$823 million in the year through October 2024. Honduras's de jure exchange rate arrangement is a crawling band, while de facto the exchange rate is a crawling peg.



Assessment. GIR stood at 119 percent of the ARA metric in 2024 and is projected to remain unchanged in 2025. GIR are projected to stabilize and remain within the 100-150 percent of the ARA metric during the forecast horizon.

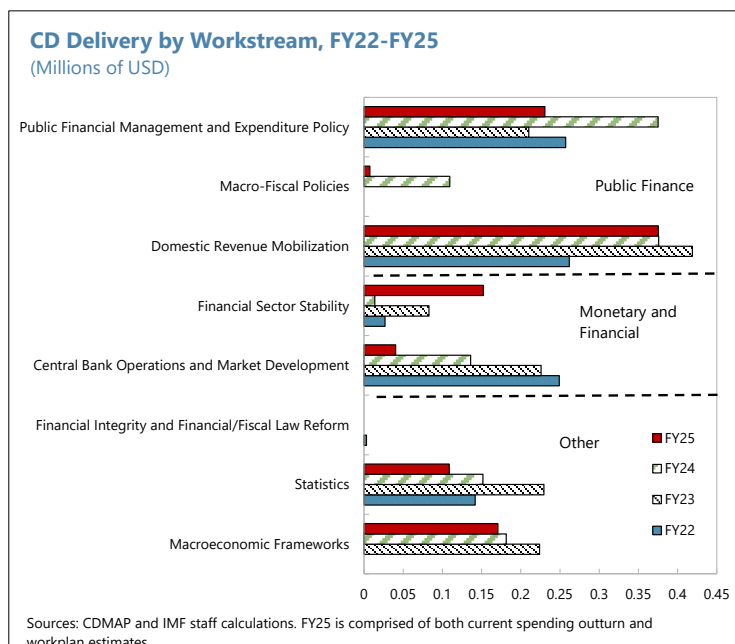
¹ See the details of the models in IMF: [Methodological Note on EBA-Lite, February 2016](#).

Annex V. Summary of Capacity Development Strategy

- Honduras' policy frameworks and administration continue to strengthen thanks to Fund's Capacity Development (CD).** Honduras was the largest recipient of Fund CD in the Western Hemisphere in FY24. CD has been focused on priorities in the Fund-supported programs. Traction of CD has been high in most areas. CD has focused on tax policy, revenue and customs administration, public financial management, macroeconomic policy frameworks, financial supervision and domestic financial market development, as well as statistical reporting. Going forward, an additional CD focus will be the further strengthening of monetary and foreign exchange mechanisms under Honduras' crawling band regime.
- Partner collaboration has been strong,** particularly with the World Bank and the IDB on issues not covered by Fund CD but important to Honduras' ECF/EFF program, especially strengthening of social assistance and energy sector governance.

Key Areas of Focus for Fund CD

- Tax Policy:** Recognizing Honduras' high level of tax exemptions, the current government, shortly after taking office in early 2022, requested substantial CD for designing a tax reform focused on streamlining income tax exemptions, which was swiftly provided. The resulting Law on Tax Justice (LJT) bill and was submitted to Congress in April 2023. Its approval has been a structural benchmark of the ECF/EFF; unfortunately garnering sufficient political support for its passage has remained challenging. The LJT also included other important provisions such as a beneficial ownership law, an updated version of which is now planned to be advanced separately (SR 1133).



- Revenue and Customs Administration:** In close coordination with the authorities, there has been ample CD activity in this area, most recently through the Global Public Finance Partnership which ensures enhanced coordination of different workstreams. CD has aimed at increasing voluntary compliance and further revenue mobilization efforts. On tax administration, CD responded to the authorities' requests for organizational strengthening, including of the unit granting tax exemptions; incorporating best practices on the new IT system -SIISAR- operational

since June 2024; and improving the tax refund process. While tax revenues remain solid, further revenue mobilization was conditioned by holding off on audits and other administrative actions to first await approval of the LJT. In customs, Fund CD helps guide implementation of a US\$50 million IDB project to overhaul customs procedures and further risk-based inspections. This should improve clearance times and predictability starting late 2025.

- *Public Financial Management (PFM)*: CD on PFM has focused on addressing the authorities' most pressing needs in their reform efforts under the ECF/EFF program. A very active workstream has helped the Ministry of Finance improve its cash management and improve budget preparation and spending control, including by helping devise a manual to this effect. It also helped the authorities' draft amendments to the organic budget law, already submitted to Congress, that will strengthen the single treasury account. Fund CD has also been assisting the authorities in closing trust funds, through which, before 2022, much budget execution took place to the detriment of transparency and oversight. Investment management has benefitted from the 2024 PIMA update. To help strengthen climate-related analysis, this included a C-PIMA component and also climate policy diagnostic CD was delivered.
- *Macroeconomic Frameworks*: ICD provided a series of nine missions during FY23-FY25 to help the Ministry of Finance implement its own macroeconomic forecasting and policy analysis framework, which now underpins their medium-term budget process.
- *Financial Supervision, Central Bank Operations, and Financial Market Development*: MCM CD has assisted the supervisor in ongoing efforts towards implementing Basel III, including development of a liquidity coverage ratio, expected credit loss model, and capabilities to supervise regional banking groups. In addition, it has assisted the authorities to publish a medium-term debt strategy and deepen development of domestic capital markets, including by resuming public bond issuances in late 2023. Engagement through CD helped the central bank advance their thinking, including through a public consultation, on Central Bank Digital Currency (CBDC) or creation of a rapid domestic payment mechanism. MCM TA has also assisted the authorities with the preparation of a diagnostic study on the current system of foreign exchange allocation. Finally, CD assisted with improving the modelling capabilities of the central bank.
- *Statistics*: STA has been providing CD in various areas. On government statistics, support is being provided to transition Honduras' GFS to the GFSM 2014 framework, concurrently with adoption of the International Public Sector Accounting Standards (IPSAS) and broadening of coverage of public sector debt statistics (PSDS). CD also helped the central bank revisit compilation of Honduras' MFS based on the 2016 Monetary and Financial Statistics Manual and Compilation Guide. In the area of real sector statistics, efforts focused on updating the base year of the national accounts and price statistics and development of a producer price index. However, the authorities decided to hold off with publication to await an update to a new 2024 base year, given that a household survey has been conducted, an agricultural and fisheries census is underway, and a population census slated to start thereafter (MEFP ¶49). To ensure consistency, this includes external sector statistics, on which CD was provided to update to BPM6.

CD Priorities Going Forward

3. Fund CD will continue to address the authorities' needs with a focus of implementing the ECF/EFF program. In several of the previously addressed domains it will continue to support the Honduran authorities in improving their frameworks and administrative infrastructure. PFM assistance will continue strengthening budgeting and budget implementation processes. In addition, CD would help improve the climate budget tagging methodology of the Ministry of Finance. On tax administration, a priority will be to help implement a system to ensure timely sales tax refunds. On central bank operations, the focus of CD will be to help the authorities move to a more balanced, competitive, and efficient foreign exchange allocation system that allows for price discovery and reflects foreign exchange supply and demand and to strengthen the crawling band FX regime. CD is also planned to help the central bank further improve its communications. Finally, the authorities have continued CD needs related to the ongoing restructuring of the public power company ENEE to improve its financial viability, on which other IFIs are taking the lead, and a review of the structure of energy subsidies could enhance their targeting and expenditure efficiency.

Appendix I. Letter of Intent

May 22, 2025

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Georgieva:

In the attached update to the Memorandums of Economic and Financial Policies (MEFP) from September 1, 2023, and November 20, 2024, we confirm our commitment to the policies and objectives of the economic program supported by the IMF arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). We also describe progress and further policy steps toward meeting these objectives.

Implementation of the economic program of President Xiomara Castro that seeks to promote inclusive economic development continues to proceed satisfactorily. Our monetary policy measures implemented since late last year have shown positive results, with foreign exchange market conditions improving and international reserves having strengthened considerably, and also on the back of our successful external bond issuance last November. Our fiscal policies have remained prudent, while we continue to foster public social and productive investment, focused on expanding road, health, education and energy infrastructure, while addressing bottlenecks to social spending in parallel. Construction of the crucial *El Tablón* dam, which will protect from flooding our populous industrial Sula Valley region, will start this year, and constitutes a key part of our climate adaptation strategy. Finally, we decisively implemented late last year our financing plan to reduce arrears of the public power company ENEE, and progress on structural reforms adopted to improve its efficiency continues. This should also help underpin interest in a tender for larger energy generation capacity, planned for late this year, crucial to ensuring sufficient energy supply at competitive prices.

However, we are mindful of considerable risks to the economic outlook, mainly related to the uncertain external policy environment. We therefore remain vigilant and stand ready to adjust our policies as needed to preserve economic stability. Also, we are taking advantage of the current, still favorable, conditions to build policy space. Our international reserves have continued to increase, with our adjustments in monetary and foreign exchange policies bearing fruit, in addition to this year's positive effects from high coffee prices and increases in remittances, which could however be temporary. We are also making use of existing communication and coordination channels and closely monitoring for possible adverse external shocks, although there is also potential that certain export sectors could benefit from external policy adjustments.

To enhance Honduras' resilience, we continue to advance structural reforms. On foreign exchange policies, we are continuing to work with the Fund to transition during the time of the program to a more balanced, competitive, and efficient foreign exchange allocation system that allows for price discovery and reflects demand and supply. Our strengthening of public financial management continues through the ongoing closure of trust funds and the pilot implementation in ministries of our recently approved manual for programming of budget execution. We expect this to enhance expenditure efficiency. A new Procurement Law, to be submitted to Congress by June, will enhance transparency, streamline procedures, strengthen procurement and contracting processes, and include powers to detect irregular practices. We also continue to engage with Congress to assure passage of the amendments to the Organic Budget Law to strengthen the Treasury Single Account. On social spending, we are committed to redouble our efforts to strengthen its implementation, including by concluding the urban poverty census to add more beneficiaries to our flagship *Red Solidaria* program and ensuring that transfers are made more regularly. In the energy sector, ENEE continues to reduce its technical and non-technical losses. We are advancing to secure its financing needs for this year and are committed to ensure that subsidies payments to ENEE are made in a timely manner. To improve the business environment, we recently introduced electronic signatures and the Digital Investment Portal, on which many transactions with government can now be conducted digitally and more seamlessly. To reinforce our AML/CFT framework in line with latest international standards, we will submit to Congress updates to several laws. Approval of a beneficial ownership law will also be key in this respect to allow us to establish a corresponding registry. Finally, we expect to approve of our national transparency and anti-corruption strategy (ENTAH) by June, with implementation of its content already well underway.

Based on policy actions already taken and the strength of the policies set forth in the attached MEFP, we request completion of the third reviews of the arrangements under the Extended Fund Facility and Extended Credit Facility. We also request the modification of the end-June 2025 performance criteria on the ceiling on net domestic assets (NDAs) and the floor on the net international reserves of the Central Bank to reflect improved external sector conditions. We met through end-April 2025 three out of six structural benchmarks for these reviews. We have made considerable progress on the remaining ones, which turned out to be more complex in light of capacity limitations. Two of these should be concluded by July (MEFP ¶18, 33). The program will continue to be monitored through semi-annual reviews, prior actions, quantitative performance criteria, indicative targets, and structural benchmarks as described in the attached MEFP and Technical Memorandum of Understanding (TMU).

We remain confident that our policies are well suited to achieve the objectives of our economic program and underpin our democratic institutions, poverty reduction, and equitable and sustainable economic growth. We stand ready to take any additional measures that may be appropriate to achieve these objectives. In accordance with the Fund's policies on consultations, we will engage with the Fund on the adoption of these measures, and in advance of any revisions to the policies contained in this memorandum. Such consultations will also take place in line with Honduras' legal framework. In keeping with our commitment to transparency with the public and the international community, we will share all information necessary to monitor our program

performance and we authorize the IMF to publish this Letter of Intent, the MEFP and its annexes, the TMU, and the Staff Report.

Although climate adaptation remains a key objective of our government, we have informed Fund staff of withdrawal of our request for an arrangement under the RSF for the time being, to focus on the implementation of the existing program.

Sincerely,

/s/

Rebeca Santos

President, Central Bank of Honduras

/s/

Christian Duarte

Secretary of Finance

Attachments (2)

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

I. Context

1. The decisive policies implemented by our government are showing positive results, and the Honduran economy remains robust. A prudent fiscal position, decisive adjustments to monetary and exchange rate policies, and progress in energy sector reforms are contributing to solid growth and a healthy rebalancing of the economy. Supported by record-high coffee prices and growing remittances, the Central Bank of Honduras (BCH) has accumulated substantial foreign exchange (FX) reserves (over 5 months of imports), bolstering external stability and enabling greater balance in the FX market. Inflation has remained within the BCH tolerance range, and credit growth rates are converging toward their historic averages. We are also beginning to close long-standing investment gaps in the energy sector. In recognition of these efforts, as well as a comfortable debt position, our government successfully issued a US\$700 million sovereign bond in November 2024, Honduras' first external issuance since 2020.

2. However, we continue to face a complex domestic environment, and heightened external risks could spill over to Honduras. Our economy is highly exposed to global trade developments and policies, with the full impact of the ongoing changes still uncertain. That said, there is a possibility that certain export sectors could benefit from the adjustments in international trade. More restrictive immigration policies in the U.S. and a related increase in repatriated Honduran migrants represent a risk for our fiscal resources and could lead to a deceleration in remittance flows; however, during previous administrations these risks have not materialized. Domestically, it is likely that the dynamics of in political campaigns during this election year further complicate legislative processes, which are already challenging. To face this complex context, we will remain agile in adjusting our policies and will design well-coordinated contingency plans.

3. We reiterate our commitment to our economic program under the Extended Fund Facility and the Extended Credit Facility. Support from the IMF is important to strengthen our external position, anchor prudent policies, and underpin confidence during this time of extraordinarily high global uncertainty. We have also continued to work on improving social spending and public investment execution, while maintaining fiscal discipline and implementing important public financial management reforms. To support our compatriots returning from the U.S., 9,000 of whom have arrived this year up to April, President Castro has responded quickly with the program *Hermano, hermana vuelve a casa*, providing initial financial and food support as well as seed capital for promising entrepreneurs. We have also managed the fallout from Tropical Storm Sara of November 2024, providing initial relief to the affected population, and reconstruction of key damaged infrastructure is well underway. We remain strongly committed to our economic program and will continue to take the necessary actions to ensure its success.

II. Recent Developments and Program Performance

4. The Honduran economy has continued to sustain solid growth. Moreover, inflation

remains in the tolerance range of the BCH, with inflation expectations well anchored. The current account deficit closed 2024 lower than expected, driven by a recovery in exports, including strong increases in coffee prices, and robust remittances.

- **Growth:** The economy expanded 3.6 percent in 2024, supported by solid remittances, the recovery in exports, and our efforts to reinvigorate public investment. In terms of sectors, telecommunications, wholesale and retail trade, construction, and financial services have been the most dynamic. Economic activity data through March suggest that activity remains strong.
- **Inflation:** Inflation continued to decline during the second half of 2024, reaching 3.9 percent at end 2024, in line with the 4 percent inflation objective of the BCH. Through April 2025, inflation increased to 4.4 percent, driven by an increase in core inflation, but remains within the tolerance range.
- **Current account:** The current account deficit stood at 4.6 percent of GDP at end-2024, as remittances growth remained solid at 6.3 percent for the year. Exports experienced a recovery, in particular coffee exports, given record-high prices. This positive trend continued at the beginning of 2025, alongside growth in remittances exceeding 20 percent, likely caused by a temporary and one-off asset reallocation effect of Honduran emigrants against the backdrop of changing U.S. policies.

5. Our program performance has been strong. We met quantitative performance targets and continue to make progress on structural reforms, while continuing to navigate capacity constraints, especially around social spending.

- **Quantitative targets:** We met all end-December 2024 performance criteria (PCs) and three of four indicative targets (ITs). We also met all end-March 2025 ITs, except the one on priority social spending. The adjustments to monetary and exchange rate policies are giving expected results, allowing us to meet the international reserve targets by a wide margin. Fiscal policy remained prudent, with all targets in this area met, and tax revenues performing slightly above expectations. Targets related to the energy sector were also met. Vigorous implementation of our financing plan for state-owned energy company ENEE helped it reduce its arrears substantially by end-2024, and reduction of energy distribution losses continued. While we made progress in late 2024 in delivering conditional monetary transfers targeted at the poor, we still missed the IT on priority social spending by a small margin at end 2024, but we plan to address bottlenecks in the provision of social support going forward. There have been no new flows of monetary financing to the financial public sector.
- **Structural benchmarks (SBs):** We met three of six structural benchmarks through end-April. These included the adoption of a manual for the programming of budget execution, launch of the government's Digital Portal for Investment with more than 50 processes digitized thereon, and preparation of a diagnostic study to further strengthen FX allocation. We made good progress in the liquidation/audit of all trust funds, with 48 of these 68 trust funds liquidated, but fell short of the end-December objective due to the required legal processes, which we are

working on addressing. Likewise, we have been progressing on the end-March benchmark of the census of urban households in extreme poverty to further strengthen social spending. Fieldwork is now well underway, and we expect its completion by July, including upload of new beneficiary data to the SIRBHO registry. Finally, hiring of a consultant by ENEE to upgrade its accounting to international standards was delayed but now expected to be concluded by June. With regards to the three May benchmarks on congressional approval of the tax reform, challenges have continued to obtain the needed votes. In this light, we are maintaining our support for the Law of Tax Justice and moreover, given its importance for our international commitments on AML/CFT, we will advance separately legislation on the beneficial ownership registry. In parallel, to reduce tax evasion through international cooperation, we intend to move forward with the law to adopt the Convention on Mutual Administrative Assistance in Fiscal Matters (MAAC).

III. Policy Framework and Economic Program

6. The baseline macroeconomic framework has been revised to reflect recent domestic and global developments. Continued implementation of a prudent macroeconomic policy mix will underpin our economic stability and support inclusive growth.

- **Real GDP growth** is projected within our forecast range of 3.5 to 4.0 percent in both 2025 and 2026, although subject to downside risks. We project more balanced growth in line with our policies, with more moderate growth of consumption, continued strengthening of exports, and higher public and private investment.
- **Headline inflation** is projected to remain in 2025 within the established 4 ± 1 percentage point (p.p.) tolerance range, but close to the upper limit of this range as we continue to normalize our monetary and exchange rate policies. We project that inflation will return toward the 4 percent objective in 2026.
- The **current account deficit** is projected to narrow to around 3.5 to 4.0 percent of GDP in 2025 on the back of a continued export recovery and record-high coffee prices, the one-off effect of stronger remittances, and lower energy imports compared to 2024. We expect BCH liquid reserves to increase, with an accumulation of about US\$190 million in the first half of 2025 (**quantitative performance criterion**), on the back of these trends, more favorable projected external disbursements, and the impact of our adjustments of monetary and exchange rate policies.

7. We recognize that in this context of high global policy uncertainty and evolving domestic conditions, timely adjustments of policies will be essential. Honduras is highly exposed to external trade and immigration policy changes, which could negatively impact remittances and trade and thereby the balance of payments. Honduras also remains highly vulnerable to severe weather events. Domestically, the political environment remains complex and could make the legislative approval of necessary reforms difficult, while capacity constraints in certain areas could pose a risk to program implementation. In this context, we stand ready to adapt

our policies and instruments as needed to ensure macroeconomic stability and social wellbeing through continued adherence to program objectives.

A. Fiscal Policies

8. In 2024, we overperformed the program's fiscal targets and were successful in the issuance of a sustainable external sovereign bond. Spending moderation and higher-than-budgeted revenue collection, supported by tax administration efforts, helped reduce the NFPS deficit to 1 percent of GDP, 0.5 percentage points lower than programmed. That said, we recognize that capital and social spending were below expectations, largely owing to delays in external financing disbursements and execution constraints. On the financing side, capitalizing on market confidence in our fiscal discipline and strong program performance during the first and second reviews, we issued a US\$700 million sustainable Eurobond in the international market in November 2024 to finance capital and social, including environmental, investment projects. On the back of our budgetary discipline, public debt stood at 48 percent of GDP at end 2024, about 5 percentage points of GDP below that envisaged at program approval.

9. For 2025, we expect a fiscal deficit of around 1.5 percent of GDP, in line with program objectives. To contain macroeconomic risks during the election year, our government remains committed to maintaining fiscal prudence. Moreover, we are committed to systematically reduce the accumulation of floating debt at the end of the year with support of ongoing IMF TA (T24). Tax revenues are projected to remain robust, supported by the dynamism of the economy and our continued efforts in tax administration. Current expenditures are projected to remain broadly unchanged as we continue to implement our expenditure control measures, including limiting public sector job creation, cutting unnecessary expenditures, and regularizing temporary employment schemes of the central government. Further improvements in ENEE's operational efficiency and a normalization in energy demand will contribute to containing goods and service spending, also creating space to financially support ENEE and enabling a timely payment of electricity subsidies (T30). Over the medium-term, we remain committed to further reducing the NFPS fiscal deficit to 1 percent of GDP, which is essential to preserving debt sustainability.

10. Despite the challenges we faced in 2024, we remain steadfast in our commitment to redirect spending toward investment and social expenditure. The government is demonstrating its commitment to supporting social protection by allocating ample resources to assistance programs, including the *Red Solidaria*, which should allow us to meet our program social spending targets. Similarly, we plan to increase capital expenditures supported by our efforts to mobilize financing and to remove, in close collaboration with our development partners, bottlenecks to execution. We are also planning to create fiscal space within the 2025 budget envelope to increase capital expenditure by about 770 million Lempiras (0.1 percent of GDP) to address reconstruction after Tropical Storm Sara. We will continue investments in energy infrastructure, hospitals, road construction, public safety, and education. In 2025, the program will allow for additional productive capital expenditures of up to 1 percentage point of GDP in case external disbursements exceed those projected in the TMU. We will ensure that the financing of

these projects is properly identified.

11. We continue working on developing the domestic debt market and remain active in catalyzing international financial support. However, challenges remain. While we have already issued over 6 billion Lempiras in Treasury bonds this year through May 2, this has lagged last year's placements due to more limited market liquidity and higher interest rates in the private market. In this context, we expect this year with technical assistance from the IMF to continue to deepen domestic debt markets, expand the investor base, and strengthen our yield curve. On the external front, our economic program and close engagement with the IMF has accelerated funding from multilateral and bilateral donors, including the Andean Development Corporation (CAF), the IDB, the World Bank and the Central American Bank for Economic Integration (CABEI), with whom we agreed late last year on a \$300 million loan for the El Tablón dam, crucial for flood protection of our industrial Sula Valley region. Overall, we plan to increase our net concessional external financing (including the IMF) by approximately \$300 million relative to 2024 (about 0.8 percent of GDP), to enhance our capital and social expenditures. Finally, taking into account the strength of our economic program and the transparency and efficiency in the management of public resources, we would not obtain monetary financing from the BCH in normal times (***continuous performance criterion***).

12. We continue to work towards making the tax system more equitable and reducing high and inefficient tax expenditures. Our Law of Tax Justice bill, sent to Congress for adoption in March 2023, seeks to streamline tax exemptions and reduce high tax expenditures while at the same time respecting acquired rights. We continue to work to achieve its approval. Thereafter, we will work on regulations to implement the Law on Tax Justice, with the support of the IMF, with a particular focus on defining objective and transparent processes.

13. Our efforts to strengthen tax administration are advancing gradually. In addition to supporting our revenue mobilization plans, our broad-based reforms in this area seek to increase transparency and bolster the business environment.

- *Strengthen tax administration (SAR).* After its mid-2024 launch, the SAR has been improving the reliability of its online portal allowing taxpayers to undertake all administrative procedures with the SAR online, including the first annual tax declarations that were due this April. SAR has spearheaded our effort of launching electronic signatures (T45), which we expect to facilitate transactions between businesses, individuals and the government. Internally, the SAR is implementing various modules of its new integrated IT system SIISAR. The SAR also continues to work with Fund TA on its longer-term project to ensure timely sales tax reimbursements to foster further the business environment and eventually abolish orders granting firms ex-ante sales tax exemptions, which are commonly subject to non-compliance with the law. Reforms to the directorate in the Ministry of Finance that processes and controls these tax exemptions have also advanced. Moreover, the SAR is starting to implement its plans to increase revenues including through risk-based audits of taxpayers, which had been put on hold while awaiting passage of the Law on Tax Justice. Finally, SAR's project to establish electronic billing has been approved and SAR is now working on setting out a work plan, supported by IDB technical

assistance.

- *Comprehensive reform of customs.* This is a \$50 million IDB-financed project being implemented with technical assistance from the IDB and the Fund over four years (2023–26). To date, about 1/3 of this complex project has been completed, comprising a redesign of customs procedures, installation of more advanced systems for inspection, and restructuring of staffing. The drafting of the customs law, supported by Fund TA, has kicked off. This new law will be more aligned with today's challenges and demands of the trading community and increasing custom's capacity to more effectively manage compliance risks. We have been socializing a draft with stakeholders during the second quarter of 2025 and plan to finalize it by June, for submission to Congress later this year.
- *Adoption of the Convention on Mutual Administrative Assistance in Tax Matters (MAAC).* Given its importance to reduce fiscal evasion through international cooperation, we will continue to analyze options for its prompt approval.

B. Social Safety Net

14. Protecting the poor and strengthening social spending remain key pillars of our economic program. We achieved a reduction in the poverty rate from 73.6 percent in 2021 to 62.9 percent in 2024, with extreme poverty falling from 53.7 percent to 40.1 percent during the same period. To consolidate this progress, we remain committed to scale up social expenditures on the most vulnerable in a well-focused manner through our flagship programs, including *Red Solidaria* and *PROASOL*. The 2025 budget projects an increase of 0.1 p.p. of GDP in priority social spending relative to the amount executed in 2024. Moreover, we continue to provide electricity free of charge to about 900,000 of the poorest households consuming less than 150 kWh per month, with 60 percent of the cost borne by the state and 40 percent financed through cross-subsidies from large consumers.

15. We have launched the "*Hermano, hermana, vuelve a casa*" program, aimed at providing support to returned migrants. This program is a short-term response to the complex migration landscape and aims to mitigate the impact of present policies on affected citizens. This initiative is structured around three key components: a \$100 Solidarity (cash) Bonus to support economic reintegration, a Food Support Scheme for two months (about \$150) to ensure food security and a Mass Employment Program to create job opportunities for (about \$1,000) to start a business within essential sectors of the economy. We project to cover around 50,000 Hondurans returning to our country, with an estimated fiscal cost of about 700 million Lempiras (0.1 percent of GDP). We are committed to protecting the rights of returnees and facilitating their effective integration into Honduran society.

16. To strengthen our fight against poverty, we have made substantial progress on our Poverty Reduction and Growth Strategy (PRGS), which we aim to publish by September 2025. The PRGS strategy aligns our poverty reduction efforts with the Government's Strategic Plan (2022–2026) and the 2030 Sustainable Development Goals. Preparation of this far-reaching strategy

has been supported by continued engagement of development partners. At a kick-off event in March, we presented a first complete draft of the strategy, which is currently under discussion with key stakeholders. We request to postpone the presentation of the PRGS to the fourth review of our program, given that additional time is needed for stakeholders to provide their inputs and for their incorporation in the strategy.

17. We continue to work on strengthening the design of our social protection network through the *Red Solidaria* program. Disbursements of Red Solidaria's conditional cash transfers were mostly focused in rural areas.¹ However, these disbursements continued to lag in urban areas because the population and housing census, expected to be used as input for identifying urban households in extreme poverty (urban household census), could not be conducted in 2024. This led to a performance below the priority social spending targets of our program by end-December 2024, but now we have taken steps to implement the urban household census, without the input of the population and housing census. We are implementing additional measures to enhance the effectiveness and targeting of conditional cash transfers, and we established a social committee composed of SEDESOL, SEFIN, the World Bank, the IADB, and the IMF. This committee will play a crucial role in identifying and analyzing execution bottlenecks, facilitating communication among stakeholders, and expediting the resolution of implementation challenges. Finally, Red Solidaria's Productive Funds project supports small producers and farmers nationwide with affordable loans, training, and improved market access. Our vision is for these productive funds to evolve into regional cooperatives.

18. We continue to advance with the census of urban poverty. Although we did not meet the **end-March 2025 SB** due to the aforementioned challenges, we anticipate achieving it with a delay by **end-July 2025** and request to reset the associated **SB**. We started the field work for this census in April, with assistance of the World Bank, and expect to complete it and integrate the data into the Honduran Beneficiary Information and Registration System (SIRBHO) by July. Once the urban census is finalized, we will be able to expand *Red Solidaria* to 120,000 households across 500 marginalized urban neighborhoods, with disbursements of conditional cash transfers planned for August. Despite our best efforts, this delay led to our underperformance against the end-March priority social spending target. To address this issue, we plan to accelerate the execution of other priority social spending financed by domestic revenues, such as *PROASOL*, to compensate for this setback and stay on track to meet our targets by June.

19. We are on track to finalizing the Single Social Sector Information System (SUISS), facilitating the design, monitoring, and transparency of our social programs. SUISS centralizes and structures information generated by the existing data systems within the Social Cabinet, thus allowing for greater effectiveness and coverage of social assistance programs. We have achieved considerable progress, having integrated already five databases, and remain on track to integrate the remaining six by **end-June 2025**, thereby making SUISS fully operational and in line with the

¹ Conditional cash transfers make up the largest portion of Red Solidaria's budget and are largely funded by multilaterals.

SB.

20. We are working to strengthen social assistance for households impacted by natural disasters. To protect the most vulnerable households when they need it the most, we are expanding the design of our disaster response social assistance programs. By leveraging the Red Solidaria beneficiary database, we have provided food aid and additional cash transfers to rural households affected by climate emergencies, such as floods, and we will continue this support in 2025. Furthermore, in January 2025, we launched a parametric agricultural micro-insurance in collaboration with the World Food Program, aimed at benefiting 1,880 corn and bean producers across the country. This insurance will automatically activate in response to extreme weather events, such as droughts or heavy rains, providing quick financial assistance and enhancing the resilience and economic stability of rural families dependent on agriculture. Moreover, in our commitment to further strengthen the social safety net, we will work, with World Bank support, on a manual for the implementation of temporary social assistance payments in case of climatic and social emergencies. The new manual will specify methodologies for identifying the affected population and beneficiary households for targeted and timely transfers. We will approve this new manual in the Council of Ministers and publish it in the Official Gazette by **end-December 2025 (proposed SB)**. In this regard, we also plan to publish our first Adaptive Social Protection Strategy, where we will lay out our policy framework that aims to strengthen the resilience of vulnerable populations to shocks by combining timely social protection and disaster risk management.

C. Quality of Spending and Structural Fiscal Measures

21. We will submit the new public procurement law to enhance transparency and strengthen the public contracting process to Congress by end-June 2025 (proposed SB). The law, drafted in consultation with all relevant stakeholders, seeks to enhance transparency, streamline procedures, strengthen procurement and contracting processes, and include powers to detect fraud. After its approval, we will proceed with the timely issuance of implementing regulations, expected for late 2025. Finally, we have started work on a new electronic platform for procurement, whose first phase we plan to operationalize also in late 2025. This new public procurement framework will also strengthen our public investment management.

22. We are also starting additional reforms to improve our public investment management.

- *Database of shovel-ready investment projects:* With technical assistance from CAF, we are planning to establish a database of costed future investment projects with completed financing and design studies. This would significantly reduce the lag between planning and project implementation and was a key recommendation of the recent public investment management assessment (PIMA). We aim to complete a first version of this database by mid-2026, which will inform investment expenditures in the 2027 budget.
- *Incorporation of road infrastructure maintenance expenses into the budget:* Moreover, we are interested in incorporating maintenance expenditures related to road infrastructure in the

budget, another PIMA recommendation. We are therefore exploring technical assistance with the IADB to undertake a study of which segments of roads are at risk of flooding and related costs using their Blue Spots methodology.

- *Development of a digital platform for certain contingent liabilities:* With IADB support, we are enhancing institutional capacities for analyzing and managing fiscal contingencies through the development of a digital platform to effectively identify, quantify, and manage contingent liabilities related to natural disasters and legal claims. This project will standardize data on physical damage to public infrastructure and emergency response expenditures related to natural disasters, contributing to strengthening our long-term fiscal planning.

23. Our work to eliminate the trust funds continues, although it is taking longer than expected given its high complexity. In early 2022, we commenced our work on liquidating these 82 trust funds to eliminate the considerable opacity and corruption in the execution of public spending that they created. We have redoubled our efforts since late last year.

- *On the 68 “less complex” trust fund covered by the **end-December 2024 SB**:* By end-December 2024, we managed to liquidate 48 of these trust funds, falling short of the 68 envisaged in the **SB**. Of the remaining 20, which all belonged to our public development bank *BANHPROVI* and have loan portfolios, we managed to incorporate 8 into the central government balance sheet and signed a contract with *BANHPROVI* to administrate them. We have found that this is the closest achievable closure for all trust funds with loan portfolios—their complete legal liquidation will only be possible after all their loans mature in several years. The other 12 trust funds have also loan portfolios and, in addition, have outstanding surcharges/fines emanating from past tax debts, that need to be pardoned through a Congressional decree. Only after *BANHPROVI* has been exempted from these surcharges/fines can these 12 trust funds be brought onto the central government balance sheet. We will submit a draft decree to this effect to Congress by this June. To allow time for Congress to pass the decree and the process to transfer their assets to the central government, we propose to reset this **SB** to **end-September 2025**. In addition, we request to redefine this structural benchmark so that incorporating the trust funds on the central government balance sheet is considered sufficient, given that their complete liquidation will only be possible in several years after their loans mature.
- *On the 14 “more complex” trust fund covered by the **end-December 2025 SB**:* We are also continuing to work on this group of trust funds, which we aim to close by end-December 2025. For 4 of them, our Superior Court of Accounts is currently drawing up a work plan for their audits. We will ensure that the Superior Court of Accounts has sufficient resources to undertake these audits in a timely manner. On the remaining 10 trust funds of this group, we are also continuing to work towards closure with the corresponding institutions (public development banks *BANHPROVI* and *BANADESA*; our agency supporting entrepreneurs, *SENPRENDE*; and a private bank). The complexity here emanates from findings of acts of corruption and associated legal complications. As for the first **SB** on trust funds above, we also request redefinition of this structural benchmark, so that incorporating the trust funds on the central government balance sheet is sufficient, given that some of them also have loan portfolios.

24. We are improving our budgeting and expenditure control processes, crucial to tackle the accumulation of floating debt. Improvements in cash management are continuing with the relevant SEFIN committee meeting regularly since its establishment late last year. Its work, with support of Fund TA, has also allowed us to approve (via ministerial agreement) and publish in the Official Gazette in late February a manual for the programming of budget execution (met **end-February 2025 SB**). Implementation of this manual will strengthen public expenditure control through its definition of standards and technical guidelines. The first step in its implementation is to incorporate it in the processes of five pilot entities and produce a “Report on the Application of the Manual and Budget Execution” in these entities for the first half of 2025 (**proposed end-August 2025 SB**). These five entities are the Ministries of Finance, Health, Infrastructure and Transport, Education, and Social Affairs, which represent a large share of budgetary execution.

25. We are also advancing reforms in other areas of public financial management.

- *Strengthening the Treasury Single Account.* We are working with Congress to secure prompt adoption of the amendments to the Organic Budget Law, which will allow for its timely implementation through regulations, norms and operational definitions (**end-December 2025 SB**).
- *Improving the climate tagging methodology.* During the last two years, we have implemented a climate tagging methodology to identify fiscal expenditures related to climate adaptation, which helped underpin our successful external bond issue in late 2024. However, we strive to further improve this methodology to enhance the quality of the tagging and its usefulness in strategic investment planning. We have requested Fund technical assistance and plan to implement this new methodology in SEFIN by **end-April 2026 (proposed SB)**.

D. Energy Sector

26. Ongoing and several completed energy sector investments are positively impacting Honduras’ grid, improving reliability and reducing electricity costs and technical losses. We have invested US\$750 million since 2022. Notable advances are 11 (public and private) generation projects adding 350 MW in capacity; three new transmission lines; the expansion of 11 substations and the construction of four new ones. The installation of five high-end power transformers has eased and strengthened the system’s capacity to accommodate new companies and high-volume consumers. The recent coming onstream of the crucial San Pedro Sula Sur-San Buena Ventura transmission line enables transmission of affordable—but previously underutilized—renewable energy from the south of the country to our industrial Sula Valley region in the north. In addition, this new transmission line also improves connectivity to Guatemala and the regional energy market. These efficiency improvements, along with reduced generation costs, have allowed for savings in the 2025 budget on the general subsidy for electricity users (introduced in 2022), reducing such expenses from 4.1 billion lempiras in 2024 to 3.15 billion lempiras. We will continue working to increase the targeting of our subsidies and social spending.

27. Implementation of the National Loss Reduction Program (NLRP) has further reduced

electricity losses. Close to 600,000 accounts have been reviewed, and anomalies, including indications of fraud, detected in more than 200,000 cases. In addition, more than 460,000 new meters have been installed. At end-December 2024, electricity losses in distribution stood at 34.9 percent—meeting the program target and registering a 2-percentage point decline for the year—and have further declined to 34.3 percent at end-April. Our ambition for 2025 is to achieve another reduction of 2 percentage points, partly supported by the above-mentioned completion of transmission and distribution infrastructure.

28. ENEE’s financial performance continues to improve. The operating deficit has declined from over 1 percent of GDP in 2021 to around 0.6 percent of GDP in 2024—despite the very hot dry season and related higher expenditures of 0.2 percent of GDP—on the back of lower electricity losses and improvements in collection. Financial audits of ENEE for 2021–23 are ongoing and we are planning to complete and publish these on ENEE’s website, alongside an audit for 2024, by **end-September (proposed SB)**. These audits, ENEE’s first since 2016, should provide additional recommendations to further improve ENEE’s financial position and governance.

29. We steadfastly implemented ENEE’s financing plan to reduce its arrears in late 2024 and are redoubling our efforts in 2025. As was planned, SEFIN (i) assumed 2 billion Lempiras in ENEE’s debt service in 2024 and (ii) made a payment towards its accounts payable to ENEE of 4.1 billion Lempiras in November 2024. ENEE also managed to issue debt of 1.9 billion Lempiras and US\$100 million in late 2024. Taken together, this allowed ENEE to reduce its arrears to 10.8 billion Lempiras at end-December 2024, meeting the program target. We reduced arrears further since then to 10.2 billion Lempiras meeting the program’s end-March 2025 IT. However, this latest reduction was driven by a one-off debt reduction of 2.7 billion Lempiras agreed under a renegotiated contract with one electricity supplier (T32), which more than offset delays in subsidies payments by SEFIN in early 2025.

30. SEFIN remains committed to the timely payments of subsidies, critical to support ENEE’s arrear reduction efforts. Subsidy payments by to ENEE were timely during most of 2024, but some delays in payments at end-2024 into early 2025, owing to SEFIN’s cash flow constraints, resulted in 3.9 billion Lempiras in outstanding subsidy debt at end-March, compared to a typical balance of around 1 billion Lempiras (as payment is made with a 1.5–2-month delay given the need to settle amounts). To remedy this situation, SEFIN will pay 3.5 billion Lempiras in subsidies to ENEE by May 27, 2025 (**prior action**). Moreover, in our inter-institutional committee on energy sector financial policies we will adopt a cash flow plan to avoid accumulation of arrears. These actions will support achievement of the end-June program target on ENEE’s arrears.

31. We have also strengthened our coordination to facilitate ENEE debt placements. Although our collaboration in the new committee on energy sector financial policies significantly sped up the process, ENEE will only start issuing domestic debt in June. We are also advancing a significant external debt placement by ENEE, backed by a sovereign guarantee. This would ensure a further drastic reduction in ENEE’s arrears and help finance key investments, especially in transmission. The inter-institutional committee on energy sector financial policies is developing

contingency scenarios to ensure financing for ENEE.

32. In January, the National Congress approved a first set of 18 renegotiated contracts with private power suppliers to reduce generation costs. This culminates an initial part of the renegotiation process with private electricity suppliers for 28 contracts that had irregularities. We estimate this to generate savings of around 5 percent for consumers during the initial years and a savings for ENEE's financial position of close to US\$1.2 billion over the lifetime of the renegotiated contracts. We are working to submit to Congress soon a second set of renegotiated contracts to advance further the renegotiation process established in the new Energy Law passed by Congress in April 2022.

33. We are advancing on reforms to turn ENEE into an integrated, secure, and efficient entity. To improve ENEE's efficiency, we remain committed to separating the administrative functions of generation, transmission, and distribution into separate business divisions. To achieve this, two separate sets of reforms are ongoing:

- i. *Merging of the three units of ENEE involved in distribution (UTCD, PNRP, ENEE Distribución).* ENEE has adopted and started implementation of a time-bound action plan for this integration process, which would reduce operational costs, including by eliminating redundancies. Phase I of this process has concluded with an in-depth process-level diagnosis of each unit. While we aimed to completely integrate these units' operative processes by **end-August 2025 (SB)**, we have incurred delays due to unanticipated complexities and ENEE's capacity limitations. We therefore propose to reset this **SB** to **end-November 2025**.
- ii. *Implementing international (IFRS) accounting standards.* ENEE has identified through a tender process a consulting firm to help with the implementation of the IFRS. However, there have been some delays in the process, with contracting now expected to conclude by end-June. We therefore propose to reset the corresponding **end-March 2025 SB** to **end-June 2025**. Work has been advancing in parallel towards implementation of a supportive IT software infrastructure, for which ENEE already identified a separate consultancy with its contracting expected to conclude by end-July. We aim to publish ENEE's IFRS-based audited annual financial statements (for the year 2026) in early 2027.

34. ENEE continues to advance its plans for a long-term 1500 MW energy tender to expand generation capacity, while minimizing shortages in the interim. We expect interruptions to energy provision during 2025 to be considerably rarer than in 2024, given that we have extended additional generation capacity (mainly diesel powered) of about 300 Megawatts (MW) brought onstream in 2024 and are contracting another 150 MW in 2025. With these actions, we closed the gap in firm generation capacity gap for critical peak demand hours in summer. That said, given the emergency and short-term nature of the contracting, its cost is high. Therefore, we continue to advance our plans for an open, competitive, international, and transparent tender for new 1500 MW capacity to be installed during 2027-29. We now expect to launch the tender by mid-year and hold the auction by early 2026. By that time, we expect that ENEE's improved record of payment discipline provide reassurance to investors to attract broad participation and

competitive offers.

35. Work is progressing well on the preliminary technical note that could underpin an update of the electricity tariff structure. The Honduran electricity pricing system is designed to cover all generation, transmission, and distribution costs in the tariff rate, which is reflected in quarterly tariff adjustments. That said, the tariff structure needs to be updated, especially to reflect recent valuations of transmission and distribution assets, for which two main inputs are needed: (i) a Value Added in Transmission (VAT) study to be published this June and (ii) a Value Added in Distribution (VAD) study, on which we have made considerable progress through close interactions between ENEE and CREE's (the energy sector regulator) staff. The VAD study should be ready by early November, which would allow the CREE to publish the preliminary technical note with the calculation of the maximum price (P0), Factor X and tariff structure and hold a public consultation thereupon by **end-November 2025 (SB)**. This would lay the basis to update in 2026 the tariff structure in line with resolution CREE-148 of June 24, 2019, to better reflect actual costs and thereby further fortify ENEE's financial position.

E. Monetary and Exchange Rate Policies

36. We remain committed to the implementation of monetary and exchange rate policies aimed at maintaining low inflation and safeguarding international reserves. A continued priority of our program is to maintain a robust external position buttressed by a solid reserve coverage. Since October 2024, the reserves of the BCH increased by US\$1.9 billion based on the catalytic effect of our policies on external financing and robust external receipts in early 2025. At end-April 2025, gross international reserves reached \$8.9 billion, equivalent to a coverage of 5.5 months of imports. The achievement of the BCH's mandate to preserve the internal and external stability of the Lempira, and our priority of bolstering international reserves, will be underpinned by the continued implementation of our monetary and exchange rate policies and will also be supported by complementary policies, including the maintenance of fiscal discipline, the deepening of domestic debt markets, and the strengthening of ENEE's financial position. Clear and timely communication with the public and markets on our policy measures remains essential to their effectiveness in achieving these goals. In this respect, we have requested IMF technical assistance to strengthen the BCH's communication.

37. The normalization of monetary policies has supported convergence of inflation around the BCH objective and the rebalancing of the economy. Headline inflation declined to 3.9 percent at the end of 2024, supported by the decisive policies implemented by the BCH to moderate liquidity conditions and the growth of credit, and strengthen the monetary policy rate (TPM) as the main signaling instrument of the monetary policy stance. All of this is supported by a prudent fiscal policy, which has contributed to price stability. The monetary policy measures, which have transmitted strongly to market interest rates (lending, borrowing and interbank rates) since mid-2023, include:

- An increase by 50 bps in the cut rate of BCH bills throughout maturities in 2023.

- An increase by 100 bps in reserve requirements in local currency to 10 percent in November 2023 together with a change in the maintenance period for reserve requirements to daily from two-week averages.
- An increase in the TPM by 100 bps to 4.0 percent in August 2024, which was reinforced by a further 175 bps to 5.75 percent in October 2024. At the same time, the cut rates of BCH bills throughout maturities were increased by the same amount.
- To strengthen the signaling effect of the TPM on market interest rates, in October 2024 a symmetric corridor of 50 bps was established around the TPM, with the Permanent Credit Facility (FPC) rate set at 50 bps above the TPM and the Permanent Investment Facility (FPI) rate set at 50 bps below the TPM.
- Finally, to provide banks with additional flexibility in managing daily liquidity needs, the minimum daily liquidity requirement was lowered from 100 percent of the reserve requirement (where it had been set in November 2023) to 90 percent in October 2024 and further to 80 percent in January 2025. Additionally, liquidity injection auctions with national financial institutions as participants were implemented starting in January 2025.

38. Looking forward, the BCH will continue to implement the necessary monetary policy measures to contain inflationary pressures and safeguard external stability. Using primarily the TPM, complemented by other instruments at our disposal, we will adopt a data-driven approach to adjust monetary policies as necessary to (i) maintain inflation around the medium-term objective; (ii) prevent the emergence of second-round effects from the potential emergence of future domestic or external shocks; and (iii) keep inflation expectations firmly anchored. In this regard, considering the current level of the real monetary policy rate and the level of international interest rates and that inflation is projected to remain within the tolerance range around the objective, we consider the current monetary policy stance to be appropriate. Nevertheless, we remain very vigilant to both domestic and external risks to inflation and are prepared to adjust our policy stance as necessary to meet our objectives. We also continue to monitor the level of international interest rates and will maintain a positive real monetary policy rate and positive interest rate differential with respect to international rates that supports demand for Lempira assets.

39. The BCH continues to strengthen the implementation of the crawling band exchange rate regime to ensure the external competitiveness of the Lempira and preserve an adequate level of international reserves. We believe that maintaining a competitive real effective exchange rate (REER) remains essential to improve the trade balance, sustain domestic production, and safeguard external stability, including the level of international reserves. Consistent with the crawling band regime, the BCH considers it appropriate that movements in the exchange rate promote improvements to competitiveness and the external position and the absorption of external shocks. To this end, the expected path of the exchange rate will continue to be determined by the behavior of the macroeconomic fundamentals implicit in the formula of our crawling band regime, which will allow us to continue to correct the accumulated appreciation of the REER and

strengthen the external position. We are prepared to strengthen our exchange rate measures, if necessary, to achieve the reserve accumulation targets in our program.

40. We seek to continue to improve the balance of supply and demand in the foreign exchange market. Supported by the monetary and exchange rate policies we have implemented, the balance between supply and demand for foreign exchange has improved since the third quarter of 2024. We have prepared, supported by IMF technical assistance, a diagnostic study of the current system of foreign exchange (FX) allocation, including options to strengthen the current system (*met end-April 2025 SB*). The study highlights that while the re-establishment of the central bank FX auction system in April 2023 expanded the number of agents able to access FX, the system has operated for various reasons under an imbalance of supply and demand—which has improved in recent months—and presents some operational difficulties for FX market participants. The continued implementation of appropriate monetary and exchange rate policies will support further improvements in the balance between FX supply and demand, and we remain committed to strengthening the efficiency of FX allocation. In this regard, we will continue open communication with auction participants and strengthen our communication on documentation requirements. We will also undertake a review of current documentation requirements for the FX auction with a view towards simplification of such requirements and monitoring, where feasible, to ease the operational cost of the auction system. In consultation with Fund staff, we will publish an update to relevant regulations (*proposed end-September 2025 SB*). More broadly, the BCH remains committed to take the actions it deems necessary to safeguard the national interest and economic stability, and to transition gradually during the life of our program to a balanced, competitive, and efficient FX allocation system that allows for price discovery and reflects FX supply and demand. During this process, we will ensure that the essential elements for its proper functioning have been identified and addressed in a way that safeguards against undue short-term exchange rate volatility and protects the rights of economic agents to purchase and sell foreign currency at equal conditions.

F. Financial Sector

41. The National Banking and Insurance Commission (CNBS) continues to closely monitor the health of our financial sector. Banks are well capitalized, liquid, and highly profitable, and non-performing loans remain low (around 2 percent). The latest stress tests conducted by the CNBS show that the banking system is resilient to significant shocks. Nevertheless, we are constantly monitoring for potential systemic risks and are prepared to address them as needed to safeguard the health of our financial system.

42. Our efforts to strengthen the regulatory framework and banking supervision practices continue. We have enhanced the capacity of the CNBS in risk-based supervision. The CNBS has identified systemically important financial institutions (SIFIs), and we plan to finalize the gradual phase-in of the capital conservation buffer of 2.5 percent by December 2025. We also plan to implement the net stable funding ratio requirement by mid-2025. Moreover, we plan to complete the implementation of IFRS-9 financial accounting standards by 2026 and reform the

framework for consolidated and cross-border supervision by the end of 2025. The BCH has carried out a process of public consultation with relevant stakeholders on modernizing the country's digital payment systems and is considering these inputs in determining the best the way forward.

43. We continue to promote the resilience of the financial system against climate change.

The CNBS has defined an action plan to incorporate climate change vulnerabilities into stress testing of the financial system and current regulations. Important ongoing projects along these lines, supported by World Bank technical assistance, include the estimation of expected losses related to climate change and the geo-referencing of economic activities.

44. We are working on new laws for the equity and bond markets and the insurance and reinsurance sectors.

Both laws, drafted with technical assistance from the IDB, will create a regulatory framework in line with international best practices that will contribute to development of the markets and financial inclusion, incorporating risk-based capital requirements. The CNBS has submitted these laws to SEFIN in advance of their submission to the National Congress.

G. Governance, Rule of Law, and Business Climate

45. We have made much progress on our digitization initiatives, which will bolster the business environment.

The SAR launched in March this year the electronic signature which can be used by any natural person or legal entity and is valid for all transactions within government and the private sector. Over time, we expect this to speed up transactions economy wide and enhance both government efficiency and the business climate. Also, the government's Digital Investment Portal is already onstream, and as of end-April, we have digitized 74 administrative procedures thereon, thereby meeting the corresponding **end-April 2025 SB**. We are continuously digitizing more procedures on the portal to further streamline the interaction of our citizens and investors with the government and speed up required times to obtain permissions, documents and government services, including related to health, education, security, employment, commerce, infrastructure, social protection, and agriculture and fisheries.

46. We continue to implement our ambitious strategy to fight against corruption:

- *Electronic asset declaration system for public officials.* For the 2025 declaration season, currently underway, the share of electronic declarations submitted has already increased to over 1/3. Our Superior Court of Accounts maintains the objective to fully phase out paper declaration in favor of a fully digital by early 2026. The Court is also working toward data sharing agreements with the CNBS, the Property Registry, and the SAR, to improve validation of the declarations.
- *Adoption of a Honduran National Transparency and Anti-Corruption Strategy (ENTAH).* The ENTAH seeks to improve public culture against corruption; strengthen institutional capacity to prevent, detect, investigate and sanction corruption; promote accountability of public institutions; as well as strengthen agreements for coordination among actors on anti-corruption matters. While there have been delays to the approval of the ENTAH, we have already made much progress in its implementation (82 measures implemented with 30 more in

progress), and we commit to its approval in the Council of Ministers and publication in the Official Gazette by **end-June 2025 (proposed SB)**.

- *Adoption of a whistleblower law.* We have advanced the preparation of a new whistleblower law, with United Nations support, together with the launching of a digital portal and a complaint line, which are already partly operational. The law will ensure safety and legality when illicit activities are reported, with its submission to Congress planned by late 2025.
- *Establishment of the International Commission against Corruption and Impunity in Honduras (CICIH),* an international mechanism to support the Honduran government in combating corruption, on which we have continued discussions with the United Nations.

47. We are strengthening our AML/CFT framework with the aim of achieving timely implementation to guarantee positive results in the next evaluation of the Financial Action Task Force of Latin American (GAFILAT) in 2026, as well as to protect the integrity of the financial system and the economy, complying with international commitments and combatting money laundering and terrorist financing more effectively. Among the main actions are the following:

- *Update of a national risk evaluation on AML/CFT and the corresponding strategy,* a fundamental tool for strengthening the country's capacity to prevent and combat money laundering and terrorist financing. This analysis will allow us to focus our supervisory resources on areas where they have the greatest impact on preventing these scourges, ensure greater inter-institutional coordination and compliance with international standards. Based on the results of this evaluation, our national strategy to combat AML/FT is also being updated. Both the evaluation and the strategy are expected to be completed in the third quarter of 2025.
- *Submission to Congress of amendments to AML/CFT legislation and of a new law on beneficial ownership registration.* These legal reforms are critical to ensure a satisfactory evaluation by the GAFILAT expected for 2026. The amendments, aimed at reflecting updated standards, relate to the (i) the AML law, (ii) the CFT law, and (iii) the Law on the Regulation of Designated Non-Financial Activities and Professions (DNFBP). In addition, to establish beneficial ownership legislation, we have, in collaboration with the UN Office on Drugs and Crime (UNODC), drafted a new Law on Beneficial Ownership Registration. We will submit this law to Congress alongside the amendments to the three other laws by **end-July 2025 (proposed SB)** and we will work with Congress on their prompt passage. With this proposed **SB** we would also be achieving one of the key objectives set out in the Law on Tax Justice.

48. We reaffirm our commitment to the establishment of a beneficial ownership registry.

Once the National Congress approves the Law on Beneficial Ownership Registration, the planned timeline for the implementation of this registry remains achievable, consistent with the **end-December 2025 structural benchmark**. Given that the SAR, the institution expected to be responsible for this registry, already has the necessary information for its implementation, efforts will focus solely on developing a portal that provides timely and efficient access. This beneficial

ownership registry will identify the individuals who truly control legal entities, protect the integrity of the economic and financial system, and foster confidence, investment, and a culture of legality and accountability.

H. Statistics

49. Our workstreams to improve price and economic activity statistics are progressing well. Updated statistics in this area are essential for assessing the monetary stance and forecasting inflation. In this regard, the BCH has continued to make important efforts to update the necessary inputs needed for strengthening the national accounts and price indices.

- The BCH has been evaluating and processing the data of *National Household Income and Expenditure Survey (ENIGH)* and expects its publication in the third quarter of 2025.
- The change in the base year of the *Consumer Price Index (CPI)* to 2024, including the expansion of product coverage, number of establishments surveyed, and cities covered continues to be our main priority. For this, the main data collection activities in the field have already commenced and technological upgrades to survey implementation will allow the new CPI to be published in the first half of 2026.
- The *National Accounts Base Year Change (CAB2024)* project continues to advance. Preliminary data from the ENIGH are being analyzed and refined, and their incorporation will help better quantify household participation in the Honduran economy. The *CAB2024* project also draws on other comprehensive complementary sources of information, such as the National Agricultural and Fisheries Census, which began during the last quarter of 2024 and is still ongoing.
- Finally, the *Population and Housing Census*, whose financing from the IDB has already been secured, will begin after the completion National Agricultural and Fisheries Census. However, the timelines established by the BCH for updating the national accounts (based on the 2025 SNA manual) and the external sector statistics (based on the BPM 7) remain the same, with completion expected for 2029.

I. Safeguards Assessment and Program Monitoring

50. Work to address recommendations of the updated safeguards assessment is progressing. We have been implementing the following measures:

- i. To strengthen further our *internal audit function*, we are reviewing the internal audit statutes with an aim of updating them in line with standards and are planning to engage with the Fund regarding the reassignment of activities of our internal audit unit that are not related to auditing, within the framework of the audit law. In addition, we are designing a training plan including certifications by the Institute of Internal Auditors. Finally, we have completed an internal audit of monetary data for end-2024 and will

continue to do so semiannually.

- ii. To strengthen our *risk management*, we are undertaking a comprehensive update of our integrated risk management system. This complex project is on track to be finished, as planned, by December this year and will include, *inter alia*, an update to the risk committee's statutes and its quarterly risk reports.
- iii. To complete the adoption of *international accounting standards* (IFRS), we are working on finalizing the implementation of standard 19 on benefits to employees. We expect to present financial statements on this basis for the year 2025.
- iv. We have established a technical team, and we will prepare a timeline to review international best practices with a view to propose and draft amendments to update, modernize, and strengthen the *BCH law*, in coordination with the Fund.

Finally, we reiterate our commitment to our development banks, essential for our long-term growth. Any needed financing to these institutions would be provided by SEFIN as part of the budget and/or through financing obtained from bilateral or multilateral partners. The BCH has continued to produce audited financial statements of its Investment Fund and Guarantee Fund and will start discussions with SEFIN how to transfer the former to the State. The BCH has not provided, through these funds or otherwise, and will not provide any new financing to the financial public sector, including *BANHPROVI* and *BANADESA* (***continuous performance criterion***), in accordance with the provisions of its Organic Law, to limit risks to inflation and the BCH's balance sheet stemming from quasi-fiscal operations.

51. Program monitoring. The program remains subject to semi-annual reviews and will be monitored through quantitative performance criteria, indicative targets, and structural benchmarks, as set out in Tables AI.1 and AI.3. To facilitate monitoring, we commit to providing detailed information as specified in the Technical Memorandum of Understanding (TMU). The relevant definitions and reporting procedures are further specified in the attached TMU.

Table AI.1. Honduras: Performance Criteria and Indicative Targets
(Cumulative flows; millions of Lempiras, unless otherwise specified)

	2024				2025								2026		
	End-Dec				End-March				End-June		End-Sep.		End-Dec.	End-March	End-June
	Target	Adj. Target	Actual	Status	ITs	Adj.	Actual	Status	Target	Proposed Rev. Target	ITs	Proposed Rev. Target	Proposed Target	ITs	ITs
QUANTITATIVE PERFORMANCE CRITERIA ^{1/}															
Fiscal and public debt targets															
Net lending/borrowing of the nonfinancial public sector (-= borrowing, floor) ^{2/}	-13,752		-8,818	Met	-2,553		6,050	Met	-4,786		-7,919		-15,607	-1,674	-3,650
Stock of domestic arrears of ENEE (ceiling)	11,500		10,781	Met	10,500		10,213	Met	9,500		8,500		7,500	6,500	5,500
Accumulation of new external arrears (ceiling, in million US\$) ^{3/}	0		0	Met	0		0	Met	0		0		0	0	0
Monetary targets															
Stock of non-borrowed net international reserves of the Central Bank (floor, in million US\$)	4,182	5,085	5,661	Met	4,188	4,709	5,892	Met	4,214	5,850	4,220	5,855	5,879	5,949	6,019
Stock of net domestic assets of the central bank (ceiling)	-28,430	-50,618	-63,623	Met	-31,873	-44,672	-71,377	Met	-33,915	-69,264	-34,149	-70,754	-59,605	-62,219	-65,789
Monetary financing (ceiling) ^{3/}	0		0	Met	0		0	Met	0		0		0	0	0
Central bank transfers to financial public sector (ceiling) ^{3/}	0		0	Met	0		0	Met	0		0		0	0	0
INDICATIVE TARGETS ^{1/}															
Tax revenue of the central government (floor) ^{2/}	160,467		161,263	Met	29,538		33,659	Met	73,151		127,393		177,052	36,137	78,161
Current primary spending of the SNPF excluding priority social spending (ceiling) ^{2/}	208,345		208,262	Met	47,515		47,047	Met	109,335		166,455		227,489	51,198	107,588
Priority social spending (floor) ^{2/}	6,000		5,802	Not met	1,250		379	Not Met	2,600		5,550		7,500	1,400	2,700
Percentage of energy lost by ENEE in energy distribution (ceiling)	35.5		34.9	Met	34.9		34.7	Met	34.3	34.1	33.7	33.5	32.9	32.2	31.5

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

2/ Cumulative from the start of the calendar year.

3/ Continuous PC.

Table AI.2. Honduras: Prior Actions and Existing Structural Benchmarks 2024-26

	Measure	Test Date	Objective	MEFP ¶	Comments
Prior Action	Increase Monetary Policy Rate (TPM) by 175 bps	Prior Action	Tightening monetary policy		Met
Prior Action	SEFIN to make a transfer or payment towards its accounts payable to ENEE in the amount that ENEE's 2024 new debt issuances fall short of 5 billion Lempiras as of November 15, 2024	Prior Action	Reduce arrears of and improve financial sustainability of SOEs; improve the business climate		Met
Prior Action	Establish, through an agreement in the Council of Ministers published in the Official Gazette, a committee composed of the BCH, CNBS, ENEE, SEFIN, the Ministry of Energy, and the Secretariat of the Presidency for the analysis of financial policies related to the electricity sector and to coordinate on and support the speeding up of financing for ENEE via different financing mechanisms	Prior Action	Improve governance, ensure ENEE arrears reduction, and improve the business environment		Met
1.	Conclude liquidation and audit of all trust funds, except for the 14 trust funds of structural benchmark #13 of this Table AI.2, and their complete integration into the budget processes and the central government balance sheet and share the associated audit documents with IMF staff. Quantify and report their debts (including accounts payable) as part of the public debt stock.	End-December 2024	Improve governance and transparency in public spending	¶23	Not met; propose to redefine and reset to end-September 2025
2.	Adopt by decree of the Council of Ministers and publish a "Manual for the programming of budget execution" strengthening public expenditure control by defining standards and technical guidelines for the programming of budget execution (including at least the pre-commitment, commitment, verification, and payment stages) and which is binding for the entire central government.	End-February 2025	Strengthen public financial Management and expenditure control	¶24	Met
3.	Complete the census of urban households in extreme poverty and register the resulting data in the Honduran Beneficiary Information and Registration System (SIRBHO).	End-March 2025	Combat poverty and inequality	¶18	Not met; reset to end-July 2025
4.	ENEE to hire a consulting firm to help implement international accounting standards (IFRS) to facilitate	End-March 2025	Improve transparency, accountability, and	¶33	Not met; reset to end-June 2025

Table AI.2. Honduras: Prior Actions and Existing Structural Benchmarks 2024-26 (continued)

	Measure	Test Date	Objective	MEFP ¶	Comments
	establishment within ENEE of separate business divisions for generation, transmission and distribution		governance of SOEs		
5.	Launch the government's Digital Portal for Investment and digitize at least 50 processes thereon to streamline obtaining government permissions, documents and services for citizens and investors	End-April 2025	Improve efficiency in the public administration and the business climate	¶45	Met
6.	In line with ¶38 of the December 2024 MEFP, prepare, in collaboration with Fund staff, a diagnostic study outlining options and recommendations to strengthen foreign exchange (FX) allocation aimed at achieving a balanced, competitive, and efficient FX allocation system that allows for price discovery and reflects supply and demand	End-April 2025	Improve efficiency of foreign exchange allocation	¶40	Met
7.	Approve the Law on Tax Justice (Ley de Justicia Tributaria) in the National Congress.	End-May 2025	Make the tax system more equitable and reduce tax expenditures	¶12	Proposed to be dropped
8.	Approve the decree to ratify the Convention on Mutual Administrative Assistance in Fiscal Matters (MAAC) in the National Congress.	End-May 2025	Improve tax administration	¶13	Proposed to be dropped
9.	Approve a law that ensures timely access to beneficial ownership information for all types of legal persons in Honduras—including requiring legal entities to submit updates, ensuring the centralization of beneficial ownership information, and establishing measures to ensure compliance.	End-May 2025	Improve transparency and governance, and reduce corruption vulnerabilities		Proposed to be dropped but incorporated into new SB #6 in Table AI.3.
10.	Create the Single Social Sector Information System (SUISS) and populate it with the data (according to ¶18 of the September 2023 MEFP).	End-June 2025	Combat poverty and inequality	¶19	
11.	Integrate into a single unit the operational processes of ENEE's three distribution units (UTCD, PNRP, ENEE Distribución)	End-August 2025	Improve governance and profitability of SOEs, including by facilitating further reductions in electricity losses	¶33	Propose to reset to end-November 2025

Table AI.2. Honduras: Prior Actions and Existing Structural Benchmarks 2024-26 (concluded)

	Measure	Test Date	Objective	MEFP ¶	Comments
12.	In preparation for the design of a tariff structure in accordance with the tariff regulations according to resolution CREE-148 of June 24, 2019, publish a Preliminary Technical Note with the Calculation of the Maximum Price (P0), Factor X, and Tariff Structure and carry out a public hearing thereon.	End-November 2025	Update the tariff structure of the electricity sector and improve the financial situation of state-owned companies.	¶35	
13.	Complete liquidation and audits of the 14 trust funds that require complex audits (INVEST-H, Tasa de Seguridad, Instituto de la Propiedad (IP-SITEC), 2 SENPRENDE trust funds), are in the recovery process of their loan portfolios (8 BANHPROVI trust funds) or whose closure has been delayed by legal claims (Fideicomiso Beca Internacional). Complete their integration into the central government's budgetary processes and balance sheet and share audit documents with IMF staff. Quantify and report their debts (including accounts payable) as part of the public debt stock.	End-December 2025	Improve governance and transparency in public spending	¶23	Propose to redefine
14.	Effective implementation of the Amendments to the Organic Budget Law to Strengthen the Single Treasury Account (TSA), including by establishing regulations, norms and operational definitions to (i) ensure the efficient functioning of the TSA, (ii) to facilitate recovery of outstanding bank balances to reintegrate into the TSA, (iii) to define operational details for payment via revolving funds (including type of eligible expenditures, maximum amounts), and (iv) procedures for public sector institutions to submit their cash flow projections to the Treasury.	End-December 2025	Improve governance and transparency in public spending	¶25	
15.	To implement the Law on Beneficial Ownership, make operational a comprehensive beneficial ownership registry	End-December 2025	Improve transparency and governance, and reduce corruption vulnerabilities	¶48	

Table AI.3. Honduras: New Prior Actions and Proposed Structural Benchmarks

	Measure	Test Date	Objective	MEFP ¶	Comments
Prior action	Ministry of Finance to transfer a total amount of 2025 subsidy payments to ENEE of at least 3.5 billion Lempiras by May 27, 2025	Prior Action	Reduce arrears and ensure financial sustainability of SOEs; strengthen public financial management practices	¶30	Newly proposed PA
1.	ENEE to hire a consulting firm to help implement international accounting standards (IFRS) to facilitate establishment within ENEE of separate business divisions for generation, transmission and distribution	End-June 2025	Improve transparency, accountability, and governance of SOEs	¶33	Reset version of SB #4 in Table AI.2
2.	Create the Single Social Sector Information System (SUISS) and populate it with the data (according to ¶18 of the September 2023 MEFP).	End-June 2025	Combat poverty and inequality	¶19	SB #10 in Table AI.2
3.	Submit to Congress a Public Procurement Law strengthening contracting processes, competitive bidding, powers for detection of irregular practices, and speed up procurement while ensuring appropriate safeguards	End-June 2025	Improve efficiency, governance and transparency in public spending	¶21	Newly proposed SB
4.	Approve as a PCM decree in the Council of Ministers and publish in the Official Gazette the National Transparency and Anti-Corruption Strategy (ENTAH).	End-June 2025	Improve governance and transparency and fight corruption	¶46	Newly proposed SB
5.	Complete the census of urban households in extreme poverty and register the resulting data in the Honduran Beneficiary Information and Registration System (SIRBHO).	End-July 2025	Combat poverty and inequality	¶18	Reset version of SB #3 in Table AI.2
6.	Submit to Congress as separate pieces of legislation the Law on Beneficial Ownership and amendments to (i) the AML law, (ii) the CFT law, and (iii) the Law on Designated Non-Financial Activities and Professions (DNFBP) that would align Honduran legislation with updated FATF standards	End-July 2025	Strengthen the AML/CFT framework	¶47	Newly proposed SB
7.	Adapt the operational processes in line with the “Manual for the programming of budget execution” in at least 5 pilot entities, including SEFIN, and produce a “Report on the Application of the Manual and Budget Execution” for the	End-August 2025	Improve efficiency, governance and transparency in public spending	¶24	Newly proposed SB

Table AI.3. Honduras: New Prior Actions and Proposed Structural Benchmarks (continued)

	Measure	Test Date	Objective	MEFP ¶	Comments
	first half of 2025 in these entities based on the methodology of this manual				
8.	Conclude the closing of all trust funds, except for the 14 trust funds of structural benchmark #14 of this Table AI.4, by their complete integration into the budget processes and the central government balance sheet and share the associated audit documents with IMF staff. Quantify and report their debts (including accounts payable) as part of the public debt stock.	End-September 2025	Improve governance and transparency in public spending	¶23	Redefined and reset version of SB #1 in Table AI.2
9.	Conclude external financial audits of ENEE for the years 2021-24 and publish them on ENEE's website.	End-September 2025	Improve transparency and governance of SOEs	¶28	Newly proposed SB
10.	Undertake a review of current documentation requirements for the FX auction with a view towards simplification of documentation requirements and monitoring system and, in consultation with IMF staff, publish an update to the relevant regulations	End-September 2025	Improve efficiency of foreign exchange allocation	¶40	Newly proposed SB
11.	Integrate into a single unit the operational processes of ENEE's three distribution units (UTCD, PNRP, ENEE Distribución)	End-November 2025	Improve governance and profitability of SOEs, including by facilitating further reductions in electricity losses	¶33	Reset version of SB #11 in Table AI.2
12.	In preparation for the design of a tariff structure in accordance with the tariff regulations according to resolution CREE-148 of June 24, 2019, publish a Preliminary Technical Note with the Calculation of the Maximum Price (P0), Factor X, and Tariff Structure and carry out a public hearing thereon.	End-November 2025	Update the tariff structure of the electricity sector and improve the financial situation of state-owned companies	¶35	SB #12 in Table AI.2
13.	Approve as a PCM decree in the Council of Ministers and publish in the Official Gazette a manual for the implementation of temporary social assistance payments in an emergency, specifying methodologies for identifying affected and beneficiary households and for implementation of these transfers.	End-December 2025	Strengthen social assistance systems to better combat poverty and inequality, by incorporating climate risks	¶20	Newly proposed SB

Table AI.3. Honduras: New Prior Actions and Proposed Structural Benchmarks (continued)

	Measure	Test Date	Objective	MEFP ¶	Comments
14.	Complete closure by integration into the central government's budgetary processes and balance sheet of 14 trust funds that require complex audits (INVEST-H, Tasa de Seguridad, Instituto de la Propiedad (IP-SITEC), 2 SENPRENDE trust funds), are in the recovery process of their loan portfolios (8 BANHPROVI trust funds) or whose closure has been delayed by legal claims (Fideicomiso Beca Internacional). Share audit documents with IMF staff. Quantify and report their debts (including accounts payable) as part of the public debt stock.	End-December 2025	Improve governance and transparency in public spending	¶23	Redefined version of SB #13 in Table AI.2
15.	Effective implementation of the Amendments to the Organic Budget Law to Strengthen the Single Treasury Account (TSA), including by establishing regulations, norms and operational definitions to (i) ensure the efficient functioning of the TSA, (ii) to facilitate recovery of outstanding bank balances to reintegrate into the TSA, (iii) to define operational details for payment via revolving funds (including type of eligible expenditures, maximum amounts), and (iv) procedures for public sector institutions to submit their cash flow projections to the Treasury.	End-December 2025	Improve governance and transparency in public spending	¶25	SB #14 in Table AI.2
16.	To implement the Law on Beneficial Ownership, make operational a comprehensive beneficial ownership registry	End-December 2025	Improve transparency and governance, and reduce corruption vulnerabilities	¶48	SB #15 in Table AI.2
17.	Establish a more robust climate budget tagging methodology by adopting as a PCM decree in the Council of Ministers and publishing in the Official Gazette a revised manual reflecting key recommendations from forthcoming Fund technical assistance	End-April 2026	Improve the identification of climate-related expenditures in the budget	¶26	Newly proposed SB

Attachment II. Technical Memorandum of Understanding

1. This memorandum sets out technical understandings between the Honduran authorities and the Fund staff for monitoring of the economic program agreed for the period September 2023-September 2026. It defines the concepts used to assess observance of quantitative performance criteria, structural benchmarks, and indicative targets specified in Table AI.1 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.

2. For program monitoring purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at “program exchange rates” as defined below, except for items related to fiscal operations which will be measured at current exchange rates. The program rates are those that prevailed on May 25, 2023. Accordingly, the exchange rates for the purposes of the program are shown in Table All.1. If any needed exchange rates are not listed in this table, the exchange rate for May 25, 2023 from the IMF website will be used (https://www.imf.org/external/np/fin/data/param_rms_mth.aspx).

Table All.1 Honduras: Program Exchange Rates

Lempira to the U.S dollar	24.56
SDR to the U.S dollar	0.75
Yen to the U.S dollar	139
Euro to the U.S dollar	0.93
Canadian dollar to the U.S dollar	1.36
British Pound to the U.S dollar	0.81
Renminbi to the U.S dollar	7.07

3. Standard performance criteria. In addition to the performance criteria listed in Table AI.1 the arrangements will include the performance criteria standard to all Fund arrangements, namely:

- i. no imposition or intensification of restrictions on the making of payments and transfers for current international transactions;
- ii. no introduction or modification of multiple currency practices;
- iii. no conclusion of bilateral payments agreements that are inconsistent with Article VIII of the IMF Articles of Agreement;
- iv. no imposition or intensification of import restrictions for balance of payments reasons.

These four performance criteria will be monitored continuously.

4. Any variable that is mentioned herein for the purposes of monitoring a PC or IT and that is not explicitly defined, is defined in accordance with the Fund’s latest statistical manuals.

A. Quantitative Performance Criteria: Definition of Variables

5. Definitions:

- a. The central government for the purposes of the program consists of the budgetary central government (*Administración Central*) and decentralized agencies (*instituciones desconcentradas*). The trust funds have been considered part of the central government since 2022.
- b. The nonfinancial public sector (NFPS) for the purposes of the program consists of the central government as defined above, the social security institute (IHSS), all state-owned public pension funds, local governments, other decentralized agencies, and nonfinancial public enterprises.
- c. The public financial sector of Honduras includes the National Bank for Agricultural Development (*Banco Nacional de Desarrollo Agrícola; Banadesa*), the Honduran Bank for Production and Housing (*Banco Hondureño para la Producción y la Vivienda; Banhprovi*), and any other financial institutions either (i) controlled by the central government or other NFPS entities or (ii) that have a majority participation in their own capital by the central government or other NFPS entities.

Cumulative Floor of NFPS' Net Lending/Borrowing

6. **Definitions:** Net lending of the NFPS calculated from above-the-line and is defined as the difference between revenue and expenditure of the NFPS.
7. **NFPS' revenues** are recorded on a modified cash basis: taxes, grants and other revenues are recorded on a cash basis; and the income of non-financial public companies and social contributions will be recorded on an accrual basis. Payments from private users of public-private partnerships (PPPs) facilities will be considered public revenue.
8. **NFPS' expenditure** is recorded on an accrual basis and includes expenses and the net acquisition of nonfinancial assets. Private investments for PPPs are treated as expenses and measured as part of NFPS net lending as they occur.
9. **NFPS' net lending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.**
10. **Monitoring.** All fiscal data referred to above and needed for program monitoring purposes will be provided to the Fund with a lag of no more than 45 calendar days after the end of each month.

Adjustors

11. Adjustor for external financing disbursements for productive investment projects. The cumulative floor of NFPS' net lending/borrowing will be adjusted downward by the excess in external program and project disbursements from official multilateral and bilateral institutions, relative to the baseline projection reported in Table AII.2. The value of the adjustor is capped at a maximum of 1 percent of the projected nominal GDP for 2025 (approximately L 10,200 million) to be used for the projects in the priority areas indicated in Table AII.3. Project disbursements are defined as external loan and grant disbursements from official multilateral and bilateral creditors that will be used to finance specific productive investment projects.

Table AII.2 Honduras. External Program and Project Disbursements Cumulative flows per year (Millions of US\$)					
	End-June 2025	End-Sep 2025	End-Dec 2025	End-March 2026	End-June 2026
Loans	703.2	1112.3	1226.6	98.5	379.4
Grants	22.8	34.5	50.5	8.8	22.8

Table AII.3 Honduras: Priority Investment Projects Covered by the Adjustor	
<ul style="list-style-type: none"> • Design, construction, remodeling, and equipment of hospitals and laboratories. • Design, construction, and expansion of the generation, transmission, and distribution infrastructure for the energy sector. • Construction and rehabilitation of national and municipal roads, including productive roads and bridges. • Construction, reconstruction, and expansion of educational infrastructure. • Design, construction, and expansion of infrastructure aimed at climate adaptation and mitigation. • Investment programs for the improvement of sanitation systems, distribution, and water supply. • Infrastructure projects to enhance resilience and competitiveness in the agricultural, fisheries and livestock sectors. 	

Ceiling on ENEE's Stock of Domestic Arrears

12. Definition: ENEE's domestic arrears are defined as overdue payments of ENEE to all entities that are not part of the Honduran public sector. Technical delays stemming from the payment process will not be considered arrears. Technical delays are defined as unpaid claims still under the

maximum period allowed for payment stated in the law on state contracts (Decree 74-2001). This decree states a deadline up to 45 days starting from the submission of appropriate documents for payment. This definition does not preclude payment before the deadline if it is agreed by both parties.

13. Monitoring. The data on ENEE's stock of domestic arrears will be provided to the Fund with a lag of no more than 45 calendar days after the end of each month.

Ceiling on the Non-Accumulation of External Debt Payment Arrears

14. Definition of debt: External debt is determined according to the residency criterion. The term "debt"¹ 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 financial and nonfinancial 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 several forms; the primary ones being defined as follows:

- a. 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);
- b. Suppliers' credits, i.e., contracts where the supplier allows the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided, and
- c. Leases, i.e., arrangements under which the lessee has the right to use the provided property for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the program, 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.

15. Definition of external arrears: External debt payments arrears for program monitoring purposes are defined as external debt obligations (principal and interest) falling due after June 30, 2023, that have not been paid, considering the grace periods specified in contractual agreements. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are

¹ As defined in paragraph 8(a) in Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

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.

16. Coverage: This performance criterion covers the NFPS. This performance criterion does not cover (i) arrears on trade credits, (ii) arrears on debt subject to renegotiation and restructuring and (iii) arrears resulting from the nonpayment of commercial claims that are the subject of litigation initiated prior to November 30, 2022. For the purposes of this performance criterion, nonpayment of external debt service to Venezuela will not give rise to arrears when the government cannot pay or settle based on the contractual terms solely due to factors outside the debtor's control such as the existence of sanctions on Venezuela, as long as the debt service payments have been paid in full into an escrow account held at the Central Bank of Honduras by the contractual due date, taking into account any contractual grace period. Funds in such escrow accounts will be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the PC.

17. Monitoring: This performance criterion will be monitored on a continuous basis.

Floor on the Stock of Non-Borrowed Net International Reserves

18. Definitions: Non-Borrowed Net International Reserves (NIR) of the BCH are equal to the balance of payments concept of NIR defined as the U.S. dollar value of gross international reserves of the BCH minus gross official liabilities as defined below. Non-U.S. dollar denominated foreign assets and liabilities will be converted into U.S. dollar at the program exchange rates.

19. Gross official reserves are defined consistently with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) as readily available claims on nonresidents denominated in foreign convertible currencies. They include the (i) monetary claims, (ii) free gold, (iii) holdings of SDRs, (iv) the reserve position in the IMF, and (v) holdings of fixed income instruments. Excluded from reserve assets are any assets that are pledged, collateralized or otherwise encumbered, claims on residents, claims in foreign exchange arising from derivatives in foreign currency *vis-à-vis* domestic currency (such as futures, forwards, swaps and options), precious metals other than gold, assets in nonconvertible currencies and illiquid assets.

20. Gross official liabilities in foreign currencies include (i) all borrowed reserves, including foreign currency swaps, loans, and repo operations with all counterparties (domestic and foreign), regardless of maturity, (ii) other foreign currency liabilities including deposits of financial institutions, (ii) all liabilities outstanding to the IMF, (iii) any deliverable forward foreign exchange (FX) liabilities on a net basis—defined as the long position minus the short position payable in foreign currencies. The stock of non-borrowed net international reserves will be measured as each test date. SDR allocations are not netted out from gross international reserves for the calculation of net international reserves.

21. Monitoring: Foreign exchange asset and liability data will be provided to the Fund at a daily frequency, with a lag of no more than 3 business days.

Adjustors

22. The NIR target will be adjusted upward (downward) by the surplus (shortfall) in disbursements (loans and grants) for programs and projects from official multilateral and bilateral institutions, relative to the baseline projection reported in Table AII.2. In case Honduras participates in a new SDR allocation, the floor on NIR will be adjusted upward by the amount of the additional SDR allocation up to the test date. The NIR target will also be adjusted upward by the full amount of any excess in gross external borrowing by the Honduran public sector from private creditors in foreign currency relative to the baseline projections in the BOP. The baseline projections in the BOP include zero gross external borrowing by the Honduran public sector from private creditors in 2025 and USD 700 million in 2026.

Ceiling on the Stock of the BCH's Net Domestic Assets

23. Definitions. Net Domestic Assets (NDA) of the BCH are defined as the difference between currency issued and non-borrowed NIR measured at program exchange rates.

24. The ceiling applies to the stock of NDA measured at each test date.

25. Monitoring: Data will be provided to the Fund monthly with a lag of no more than 2 weeks after the end of each month.

26. Adjustor for multilateral loans. Consistent with the NIR adjustor, the NDA target will be adjusted downward (upward) by the surplus (shortfall) in disbursements (loans and grants) for programs and projects from official multilateral and bilateral institutions, relative to the baseline projection reported in Table AII.2. In case Honduras participates in a new SDR allocation, the ceiling on NDA will be adjusted downward by the amount of the additional SDR allocation up to the test date.

Ceiling on Monetary Financing of the Central Bank to the Non-Financial Public Sector (NFPS) and the Public Financial Sector (PFS)

27. Definition: Monetary financing is defined as any disbursement from the BCH to the NFPS after January 1, 2023 or to the public financial sector (PFS), as defined in ¶15c, after November 15, 2024, under any loan between these entities, whether the loan is repayable or not or interest-bearing or not. The only exception is the on-lending loan between BCH and SEFIN under which the BCH will on-lend IMF disbursements received as part of this program to SEFIN.

28. Measurement and monitoring: In accordance with the Organic Law of the Central Bank of Honduras, this program establishes a ceiling of zero on net monetary financing in accordance with Attachment I (Memorandum of Economic and Financial Policies), section E, paragraph 23; this PC will be monitored on a continuous basis. For the purposes described above, the BCH balance sheet, with detail on the net credit balance to the NFPS and the PFS, will be provided to the Fund on a daily basis with a lag of no more than one business day.

B. Quantitative Indicative Targets: Definition of Variables

Floor on the Central Government's Tax Revenues

29. Definition: Tax revenue will be measured on a cash basis at the level of the central government. All compulsory and unrequited receivables by the government will be considered taxes as stated in the Governance Finance Statistics Manual (GFSM) 2014.

30. For compliance with this indicative target the central government will be considered equivalent to the budgetary central government (*Administración Central*).

31. The central government's tax revenues will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

32. Monitoring. Monthly data will be provided to the Fund no more than 2 weeks after the end of the month.

Ceiling on current primary spending of the NFPS excluding priority social spending

33. Primary current spending excluding priority social spending is defined as total current spending minus interest spending minus priority social spending, as defined below.

34. Current expenditure is defined as the total expenditures of the SNPF minus the capital expenditures (i.e., the net acquisition of non-financial assets) of the SNPF. As defined above, all expenditures are recorded on an accrual basis.

35. Primary current spending of the NPFS excluding priority social spending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

36. Monitoring. Monthly data will be provided to the Fund within 45 days of the end of each month.

Floor on Priority Social Spending

37. Priority social spending is defined for program purposes as the interventions by the central government with high impact on poverty reduction and long-term influence on beneficiaries that are listed in Table All.4.

38. Priority social spending will be measured at each test date as the cumulative value starting from the beginning of each calendar year.

39. Monitoring. Monthly data will be provided to the Fund within 45 days of the end of each month.

Table All.4. Honduras: Priority Social Spending

- Red Solidaria
- Becas SEDESOL
- Ciudad Mujer
- Merienda Escolar
- Bono Tecnológico
- Bono Cafetalero
- Bono Ganadero
- Becas PROASOL
- Bonos PROASOL

Ceiling on Percentage of Energy Lost by ENEE in Energy Distribution

40. Definition: The percentage of energy lost by ENEE in energy distribution is defined as the energy injected into the distribution network minus the sales invoices issued to its customers (both in GWh) during the 12 months prior to the test date, divided by the energy injected into the distribution network during the same period.

41. Monitoring. Monthly data will be provided to the Fund within 45 days of the end of each month.



HONDURAS

June 5, 2024

THIRD REVIEWS UNDER THE EXTENDED FUND FACILITY AND EXTENDED CREDIT FACILITY ARRANGEMENTS, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—SUPPLEMENTARY INFORMATION

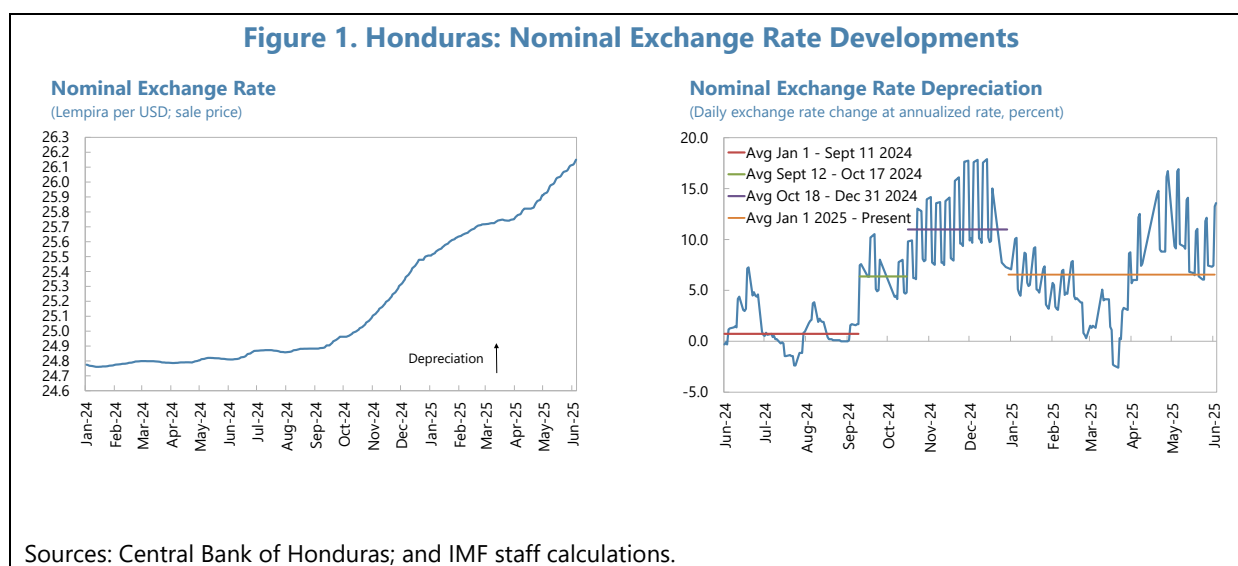
Approved By
Dora Iakova (WHD)
and **Anna Ivanova**
(SPR)

Prepared by the Honduras team of the Western
Hemisphere Department

This supplement provides an update on developments since the issuance of the Staff Report (EBS/25/39) on May 28, 2025. Specifically, it provides an update on the implementation of the prior action for these reviews, the implementation status of end-May 2025 structural benchmarks, exchange rate policy implementation, and May inflation data. The thrust of the staff appraisal remains unchanged.

RECENT DEVELOPMENTS

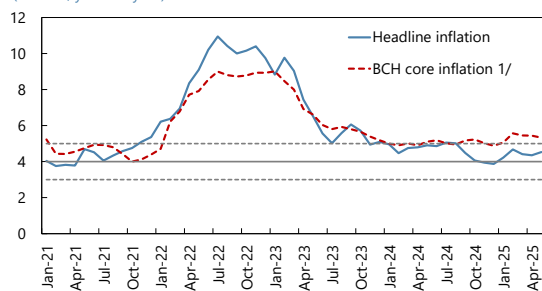
- The authorities have completed the prior action for these reviews.** On May 23, the Ministry of Finance (SEFIN) completed the transfer of subsidies to the state-owned utility ENEE, totaling 3.5 billion Lempiras during 2025 (**prior action**). These transfers have strengthened ENEE's cash flow and were used to reduce domestic arrears to private generators. Also, the interinstitutional committee on energy sector financial policies agreed on a cash flow plan for the regular payment of SEFIN subsidies to ENEE going forward. These efforts will support the achievement of program objectives.
- As expected, the three end-May 2025 structural benchmarks (SBs) requiring legislative approval were not met.** Congressional support remains elusive for the package of legislation including the three SBs covering the tax reform, an international convention on tax information exchange, and a beneficial ownership law (¶35 of the Staff Report).
- The Lempira has continued to crawl against the USD in line with program objectives.** Year-to-date through June 5, the Lempira has depreciated against the USD by 2.5 percent, equivalent to an annualized daily rate of about 6.5 percent (**Figure 1**). The Lempira has depreciated about 5 percent since the crawl restarted in September 2024. The real effective exchange rate (REER) is estimated to have depreciated about 1 percentage point (p.p.) in May, bringing total REER depreciation year-to-date to about 3 p.p.



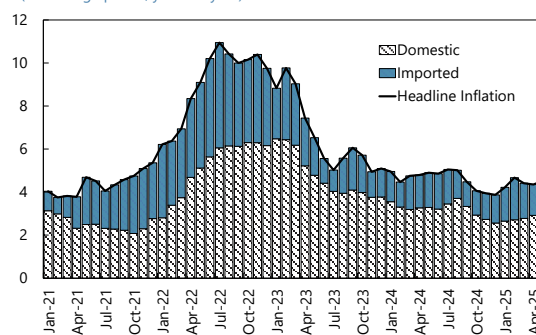
- Inflation in May remained within the tolerance range (4 ± 1 percent).** Headline inflation increased modestly to 4.5 percent from 4.4 percent in April, while core inflation eased to 5.3 percent from 5.4 percent in April (**Figure 2**). The small increase in headline inflation was mainly driven by base effects from the low month-on-month print in May 2024. Imported goods inflation was broadly stable, suggesting that pass-through from exchange rate crawl continues to be contained.

Figure 2. Honduras: Inflation Developments**Headline and Core Inflation**

(Percent, year-on-year)

**Contributions to Headline Inflation**

(Percentage points, year-on-year)



Sources: Central Bank of Honduras; and IMF staff calculations.

**Statement by Ms. Xiana Mendez Bertolo, Executive Director for Honduras, and
Ms. Valerie Lankester Campos, Senior Advisor to Executive Director
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Our authorities would like to convey their appreciation to management and staff for their close and dynamic engagement in successfully concluding the third review under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF). They would also like to extend their gratitude to Mr. Llaudes, the Mission Chief, and his team for their remarkable work, commitment, and candid discussions with the government and private sector. Honduras has widely used the Fund's technical assistance, and the authorities thank these missions for their close engagement.

Amid the ongoing global challenges, the economic program laid out by the Honduran authorities and supported by the EFF and ECF has been critical to safeguarding macroeconomic stability. Since the beginning of President Xiomara Castro's administration in 2022, the commitment to macroeconomic stability and social inclusion has been evident, despite challenges from the complex international environment and climate shocks. The program is designed to improve Honduras' social conditions, support the authorities' structural reform agenda, and strengthen the country's institutions as it supports policies to reduce poverty and protect the most vulnerable population while strengthening monetary and fiscal policies, preserving financial stability, and enhancing governance and the business climate. The program has also been instrumental in catalyzing additional financial support from other multilateral institutions and international capital markets. IMF support through this program has strengthened market confidence and anchored the authorities' reform efforts.

For the third review, the Honduran authorities report a strong performance on the implementation of macroeconomic policies to achieve the main program objectives and significant progress on the structural reforms. All end-December 2024 Performance Criteria (PC) were met. The international reserves target was met by a wide margin, and all end-March 2025 Indicative Targets (ITs) were met except for the floor on priority social spending. Three of six Structural Benchmarks (SBs) were met through end-April 2025, with the missed SBs subject to delays in implementation. On the latter, the authorities reiterate their strong commitment to the program's objectives and to maintaining close dialogue with the IMF to achieve these goals.

Economic Overview and Outlook

In 2024, the Honduran economy continued to demonstrate notable resilience, recording a solid growth rate of 3.6 percent despite a still complex international environment—characterized by weaker external demand—and the adverse effects of climate change on domestic production. The economic growth momentum was driven mainly by domestic factors, such as private sector consumption and investment, partially offset by lower exports due to reduced external demand. For 2025–2026, the Central Bank projects the economy to maintain its growth path within a range of 3.5–4.0 percent, especially supported by sustained domestic private demand, public investment, and a partial recovery in some export sectors.

In 2025, public investment is expected to continue supporting economic growth through the increased execution of programs and projects in productive infrastructure, notably: strengthening the hospital network and healthcare system capacity, programs to increase resilience to flooding in the Sula Valley, reconstruction and rehabilitation of schools, and road infrastructure projects.

As a result of external transactions and decisive adjustments in monetary and exchange rate policies, international reserves recorded a gain of USD 493.3 million by the end of 2024, bringing the total to USD 8,049.2 million, with reserve indicators considered adequate according to international standards. Net International Reserves (NIR) were strengthened due to access to external financing from international organizations, highlighting the recent issuance of the “Thematic Bond: Green, Social, and Sustainable.” This was supported by the normalization process of monetary and exchange rate policy, along with higher foreign currency inflows from family remittances and the recovery of exports (particularly goods for processing).

By end-May 2025, the level of reserves was USD 8,600 million. This performance is mainly explained by higher foreign exchange earnings from exports, particularly coffee sales, driven by historically high prices and increased volume, and an increase in remittance inflows. These income sources, combined with the positive results of monetary and exchange rate policy measures, have improved conditions in the foreign exchange market.

By the end of 2024, exchange rate fluctuations reflected the behavior of key macroeconomic determinants, helping to better absorb external shocks and strengthen the country’s external position. In line with the current exchange rate regime, the expected trajectory of the exchange rate will continue to be determined by macroeconomic fundamentals, promoting improvements in external competitiveness and the absorption of external shocks.

Additionally, the Central Bank of Honduras (BCH) will continue to analyze measures to strengthen the allocation of foreign exchange and work on identifying opportunities for improvement, both in administrative procedures and in technical elements.

Fiscal Policy

Fiscal revenues of the Central Administration (CA) showed strong growth during 2024, recording a year-on-year increase of 9.1 percent. This performance aligns with the strong economic activity and the efforts of fiscal authorities to broaden the tax base and enhance revenue collection efficiency. On the expenditure side, the government remains committed to maintaining budgetary discipline and prioritizing social and investment spending. In this regard, public investment has focused on the Energy, Health, Roads, Security and Defense, and Education sectors. As a result, by the end of 2024, the CA recorded a deficit of 1.8 percent of GDP, lower than the 3.6 percent of GDP recorded the previous year.

Regarding the Non-Financial Public Sector (NFPS), as of December 2024, it recorded revenues 6.8 percent higher than those observed at the end of the previous year. Similarly, expenditures for

the same period were 5.7 percent higher compared to the end of 2023, with current expenditures accounting for 86.7 percent of total spending. This resulted in a deficit of 1.0 percent of GDP. This outcome remained within the target set in the Medium-Term Fiscal Framework (MTFF), which had a deficit ceiling of 3.0 percent of GDP for 2024. This result reflects a balance between improved tax collection and greater efficiency in public spending, with a priority on social spending. For 2025, the expected deficit is 2.5 percent of GDP, below the ceiling of 3.0 percent of GDP set in the 2025–2028 MTFF. This estimated deficit includes fiscal space for capital spending equivalent to 1.0 percent of GDP.

For 2025–2026, the Secretaría de Finanzas (SEFIN) will maintain its efforts to strengthen fiscal management focused on fiscal prudence. Total revenues of the CA are expected to increase by 8.0 percent, mainly due to improved tax collection, in line with the favorable performance of the Honduran economy. Total expenditures are projected to rise by 18.3 percent compared to the previous year, primarily due to increased social spending focused on priority sectors such as health, security, and education, in line with the Red Solidaria program. Public investment is expected to remain above historical averages, with estimated funds of around L22.4 billion (compared to L14.8 billion in 2024), mainly allocated to road construction projects and the development of key corridors for national development (Lenca, agricultural, and tourism corridors), in accordance with the public investment program. The CA will continue to execute spending efficiently, both in the procurement of goods and services and in public employee compensation. As a result, the CA deficit is projected to reach 3.7 percent of GDP by the end of 2025.

Regarding the National Electric Power Company (ENEE), the authorities remain committed to accelerating all necessary reforms, including a decisive financing plan to address its arrears and improve payment discipline going forward.

Monetary Policy

For the BCH, communication with the public will remain a priority to facilitate a better understanding of the macroeconomic situation and the fundamentals behind monetary and exchange rate policy decisions, as well as issues related to the stability and efficiency of the financial system.

Following hikes of 275 bps in 2024, the monetary policy rate remains at 5.75 percent. In 2024, overall inflation converged ahead of schedule to the medium-term tolerance range set by the BCH of 4.0 ± 1.0 percent. For 2024, the year-over-year variation of the Consumer Price Index (CPI) was 3.88 percent (1.31 percentage points lower than in 2023, 5.19 percent). For May 2025, monthly inflation stood at 0.31 percent, while accumulated inflation was 2.51 percent and the y-o-y 4.54 percent.

The Central Bank will continue to assess the macroeconomic situation, domestic and external outlooks, as well as associated risks. If any risk materializes and affects the projected path of overall inflation, the Monetary Authority reaffirms its commitment to continue implementing monetary and

exchange rate policy measures that support the achievement of its objective: maintaining the internal and external value of the national currency.

The BCH also continues to monitor the level of international interest rates and will maintain both a positive real policy rate and a positive interest rate differential with respect to international rates to support demand for Lempira assets. The Central Bank is implementing measures to strengthen the crawling band exchange rate regime to ensure external competitiveness and maintain an adequate level of international reserves. Also, to strengthen its internal audit function, the BCH is updating its internal audit statutes in line with best practices and will work with the IMF on the reassignment of non-related activities from the internal audit unit.

Structural Agenda

The authorities have reiterated their commitment to improving the business environment. They have launched digital signatures and implemented a “single window for investment,” an online platform already digitalizing administrative procedures at end-April, and met the SB. Also, they have been bound to improve transparency and governance and have made noteworthy progress in combating corruption. Specifically, they are committed to approving in the Council of Ministers and publishing their national transparency and anti-corruption strategy (ENTAH) by end-June 2025 and are advancing a new whistleblower law, expected to be submitted to Congress by end-2025, with a related digital portal and complaint line. Meanwhile, progress on the establishment of the international anticorruption commission (CICIH) has been slow, but engagement with the UN continues.

The authorities continue to progress in strengthening their Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT) legal framework in preparation for the Financial Action Task Force (FATF) assessment in 2026. The authorities are expecting to finalize an updated national risk evaluation and implementation strategy on AML/CFT during 2025, which will help focus on supervisory resources. They are also drafting legislation to align with updated FATF standards.

Conclusion

By end-April 2025, the Honduran authorities had met three out of six structural benchmarks, while there was considerable progress on the remaining ones, which turned out to be more complex considering capacity limitations. Two of these should be concluded by July. We would like to emphasize the authorities’ ownership of the EFF and ECF and the appreciation for the Fund’s support on capacity development.

Overall, the authorities remain strongly committed to achieving the objectives of the program focused on poverty reduction and equitable and sustainable economic growth and stand ready to take any additional measures that may be appropriate to achieve these objectives. They will share all the information necessary to monitor the program. The support of the IMF for Honduras is crucial to strengthen the balance of payments, reinforce international reserves, foster sustainable and inclusive

economic growth, and obtain additional external financing to meet resource needs and drive structural reforms.

Although climate adaptation remains a key objective of our government, we have informed Fund staff of the withdrawal of our request for an arrangement under the RSF for the time being to focus on the implementation of the existing program.