Press Release No. 16/482
FOR IMMEDIATE RELEASE
November 2, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes Third and Fourth Reviews Under SBA and SCF with Honduras

On October 26, 2016, the Executive Board of the International Monetary Fund (IMF) completed the combined third and fourth reviews of Honduras' performance under an economic program supported by a three-year Stand-By Arrangement (SBA) and a two-year arrangement under the Stand-By Credit Facility (SCF). This blended program was approved on December 3, 2014 in the amount of about US$188.6 million (SDR 129.5 million), the equivalent of 100 percent of Honduras' quota in the IMF at that time (see Press Release No. 14/545).

The Executive Board also approved a rephasing of the SBA to take into account the increase in Honduras' First Credit Tranche as a result of its quota increase (from SDR 129.5 million to SDR249.8 million) under the Fourteenth General Review of Quotas. The completion of the reviews enables the authorities to access resources in the total amount of about US$168.20 million (SDR 121.875 million). The authorities have expressed their intention to continue to treat the arrangements as precautionary.

The Board granted a waiver of the end-December 2015 performance criterion on the ceiling of the stock of net domestic assets (NDA) as the authorities have corrected the deviation by observing the end-June 2016 target. In addition, on the basis of corrective policy measures taken, the Board also granted a waiver on the non-observance of the end-June performance criterion on net lending by the public pension funds and on the arrears from state electricity company (ENEE).

Following the Executive Board's discussion of the reviews, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, said:

"Honduras's economic reform program supported by the Fund's blended Stand-By Arrangement and Standby Credit Facility has made considerable progress in restoring macroeconomic stability, reducing the fiscal deficit, and tackling some structural issues. At the same time, the external current account deficit has narrowed, private credit is expanding at a sustainable pace, and net international reserves have risen. Together, these favorable developments have contributed to a systematic improvement in Honduras's international sovereign debt credit ratings.

"The authorities have signaled their intention to institutionalize hard-won fiscal discipline. The adoption in April 2016 of the fiscal responsibility law, which over the medium term would cap public spending and change its composition in favor of investment, is a significant step. The steadfast implementation of this law and other planned measures to increase public sector efficiency are critical to ensure that public debt ratios decrease over the medium term. The consolidation of the reforms in the electricity sector are crucial to further strengthen public finances and foster competition in the electricity market.

"Reforms to the monetary policy framework and exchange rate regime are needed to give the central bank the necessary tools to effectively respond to external shocks. To support these reforms and the ongoing process of de-dollarization and financial market development, measures to strengthen the central bank need to be fast tracked. At the same time, financial stability should be reinforced by enhancing the bank resolution framework and strengthening prudential regulations on household debt.

"Honduras's poverty level and informality remain high, while potential growth and employment remain relatively low. While social spending has been protected, structural reforms to boost growth and employment should focus on reducing crime and violence; closing infrastructure gaps, especially in energy; and increasing financial market access for poor households and the efficiency of public spending."