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INTERNATIONAL MONETARY FUND

HONDURAS**Joint World Bank-IMF Debt Sustainability Analysis**

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Prepared jointly by the staffs of the International Development Association (IDA)

and the International Monetary Fund (IMF)

Approved by Marcello Estevão (IDA), Patricia Alonso-Gamo, and Ana Corbacho, (IMF)

Honduras: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	Low
Overall risk of debt distress	Low
Granularity in the risk rating	Tool not applicable
Application of judgment	No

The Debt Sustainability Analysis (DSA) indicates that Honduras stands at low risk of debt distress both for public external debt and overall debt, which represents an upgrade from the 2018 DSA, where risk of debt distress was assessed as moderate.¹ The DSA was undertaken under the revised debt-sustainability framework for low income countries (LIC DSF), whereby Honduras's debt carrying capacity was upgraded from medium to strong. Changes in the debt-sustainability framework have contributed to the risk of debt distress improvement. A proven record of compliance with the Fiscal Responsibility Law (FRL) and solid macroeconomic conditions also contributed to rate Honduras' risk of debt distress as low. Going forward, adherence to the FRL and institutional reforms to boost inclusive growth and increase the economy's potential are critical to maintain debt sustainability.

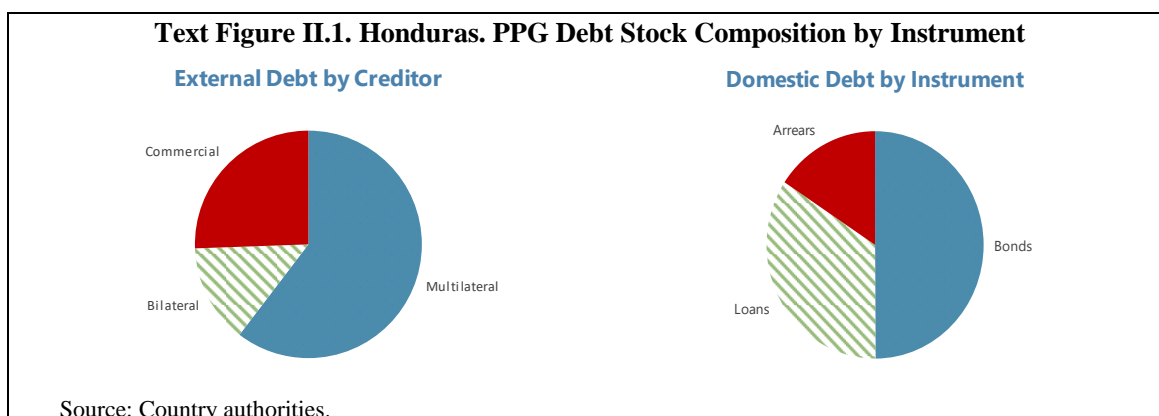
¹ This DSA updates the previous joint IMF/WB DSA prepared in June 2018 in the context of the Honduras Article IV staff report (IMF Country Report No. 18/206).

Background

- 1. Total public debt increased slightly in 2018 due mainly to higher domestic borrowing.** Gross public debt stood at 41.8 percent of GDP at end-2018, up by almost 2 percentage points of GDP since 2017 (domestic debt comprising 1.4 percent the increase), of which 31 percentage points corresponded to external public and publicly guaranteed (PPG) debt and 10.8 percentage points to domestic debt (Text Table II.1). Regarding debt dynamics, the observed higher domestic real interest rates and real exchange rate depreciation (Table II.2) were partially offset by the contribution of real economic growth. The increase in domestic debt also portrays financial imbalances faced by the state-owned electricity company (ENEE).
- 2. PPG external debt increased slightly since 2016.** Following a US\$700 million international bond issuance in 2017, the PPG external debt-to-GDP ratio increased to 31 percent in 2018. Total external debt reached 38.6 percent of GDP—up from 37.3 percent in 2017—mainly driven by the increase in private external debt of 0.8 percent of GDP. Nonetheless, private external debt has declined somewhat over the last five years, easing from 9 percent of GDP in 2014 to 7.5 percent as of end 2018.

Text Table II.1. Honduras: PPG Debt Stock Composition by Level of Government				
(End-of-year stock, in percent of GDP)				
	2015	2016	2017	2018
Domestic Debt				
Central government	7.8	8.7	7.1	7.4
Local governments	0.8	0.8	1.0	1.2
Nonfinancial public companies	2.2	2.0	1.2	2.2
Total	10.8	11.5	9.4	10.8
External Debt				
Central government	27.3	27.3	29.4	29.8
Local governments	0.0	0.0	0.0	0.0
Nonfinancial public companies	0.9	1.1	1.1	1.3
Total	28.2	28.4	30.5	31.0
Total Debt				
Central government	35.1	36.0	36.5	37.2
Local governments	0.8	0.8	1.0	1.2
Nonfinancial public companies	3.1	3.1	2.4	3.5
Total	39.0	39.9	39.9	41.8
Memorandum item				
Private External Debt	8.0	7.2	6.7	7.5
Source: Country authorities.				

3. Public debt is mostly held by foreign creditors (Text Figure II.1). The share of PPG external debt stood at 74.2 percent of total public debt as of end 2018. The main creditors to Honduras are international bondholders, the Inter-American Development Bank (IDB), the Central American Bank for Economic Integration (CABEI), and the World Bank, which provide lending at long maturities, particularly in the case of the multilaterals. Public domestic debt is mainly held by commercial banks, has a shorter—though rising—maturity (over 4 years), and carries a higher real interest rate. In March 2018, the government placed a 15-year bond in the local market at a fixed interest rate of 11 percent raising 154 million Lempiras. This reflects a broader strategy by the authorities to increase Lempiras-denominated debt with longer maturities, to be held increasingly by pension funds and other institutional investors.



4. The debt coverage for the public sector is comprehensive. The DSA covers the nonfinancial public sector (NFPS). Therefore, it includes general government debt and non-financial state-owned enterprises' debt, both guaranteed and non guaranteed. Debt from extrabudgetary funds such as trust funds²—which are treated as private entities under Honduran legislation but should be registered as general government units according to the 2014 GFSM—are also included (Text Table II.2).³ Decentralized agencies such as public universities, among others, are included. Public pension funds debt and central bank debt borrowed on behalf of the government are also covered in the debt stock. Among debt for non-financial SOEs, in the case of ENEE, this includes arrears to energy generators. The contingent liability test includes lawsuits related to labor and administrative disputes in the amount of 4 percent of GDP,⁴ PPPs for 4 percent of GDP, and the default financial market shock (5 percent of GDP). Since the DSA coverage does not include public banks, an additional 2 percent of GDP is added to the contingent liability test. The DSA uses a currency-based definition of external debt—non-residents do not hold domestic debt, hence there is no material difference between the residency-based and the currency-based

² Only the trust fund “Fondo de Protección y Seguridad Poblacional” has contracted debt.

³ Where complete details on the debt service for local governments and trust funds are not available, conservative, commercial bank financing assumptions are used.

⁴ Disputed amounts reach 9 percent of GDP, but contingent liabilities are 4 percent after factoring lawsuit-specific probabilities of resolution according to estimations prepared by the Treasury's contingency unit.

concepts. Whereby, lempiras-denominated debt is considered public domestic debt and public foreign currency-denominated debt is accounted as public external debt.

Text Table II.2. Honduras: Public Debt Coverage and Calibration of Contingent Liability Stress Test

Subsectors of the public sector	Sub-sectors covered
1 Central government	X
2 State and local government	X
3 Other elements in the general government	X
4 o/w: Social security fund	X
5 o/w: Extra budgetary funds (EBFs)	X
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	X

1 The country's coverage of public debt	The entire public sector, including SOEs		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	4.3	It includes contingent liabilities for lawsuits.
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	It includes financial state-owned enterprises.
4 PPP	35 percent of PPP stock	3.0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		14.3	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

Macroeconomic and Policy Assumptions

5. The main macroeconomic assumptions are based on the authorities' policy targets and staff projections. The medium-to long-term macroeconomic outlook assumes that the FRL is fulfilled and that structural reforms envisaged in the Fund-supported program are implemented. As a result, the baseline macroeconomic projections are revised compared to the last DSA update dated June 2018 (Text Table II.3).

Text Table II.3. Honduras: Selected Economic Indicators, Current vs Previous DSA

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2028	2038
Real GDP (percent change)											
Current DSA	3.8	4.9	3.7	3.4	3.5	3.6	3.7	3.9	3.9	3.9	3.9
Previous DSA	3.8	4.8	3.7	3.7	3.7	3.7	3.8	3.8	3.8	3.8	3.8
GDP deflator (percent change)											
Current DSA	3.8	4.3	1.8	3.2	3.4	3.2	3.5	3.6	3.7	4.0	4.0
Previous DSA	3.5	4.2	4.2	4.3	4.1	4.1	4.0	4.0	4.0	4.0	4.0
Primary balance (percent of GDP)											
Current DSA	0.3	0.1	0.0	0.6	0.7	0.8	1.0	0.9	0.9	0.8	1.1
Previous DSA	-0.7	-0.4	0.2	0.5	0.7	0.6	0.5	0.6	0.6	0.7	0.7
Current account balance (percent of GDP)											
Current DSA	-2.6	-1.8	-4.2	-4.2	-4.3	-4.2	-4.1	-3.9	-3.9	-3.7	-3.5
Previous DSA	-2.7	-1.7	-3.8	-3.9	-4.0	-3.9	-3.9	-3.8	-3.7	-3.6	-3.3
FDI (percent of GDP)											
Current DSA	4.1	4.4	4.8	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Previous DSA	4.5	4.2	4.4	4.2	4.2	4.3	4.3	4.3	4.4	4.5	4.7

Sources: IMF staff estimates and projections.

- **Real sector.** GDP growth estimates are broadly unchanged with respect to the previous DSA. Compared to the baseline projections in the 2018 DSA, the increased FDI level in 2019 is expected to be maintained over the projection period, supported by the structural reforms implemented during the program. Inflation is projected at about 4 percent, in line with the Central Bank's target.
- **Fiscal variables.**⁵ Fiscal projections assume compliance with the FRL, which sets a NFPS deficit limit of 1 percent of GDP from 2019 onwards and a limit to the increase for current spending at the budgetary central government level—which should be below the average real economic growth of the previous 10 years plus the inflation target (leading to about 7 percent in nominal terms). Guided by the FRL deficit target and by an increase in public pension funds' investment in central government debt, the NFPS debt is expected to decrease over the medium-term, as intra public sector financing will be increasing.
- **Debt issuance assumptions.** The share of external borrowing from multilateral and bilateral institutions is expected to remain broadly constant on average over the medium-term. These projections assume that existing Eurobonds will be rolled over, and as a result the grant-element of the overall financing is expected to be lower in the years when Eurobonds are issued (reaching about 20 percent). The share of external financing in total financing is expected to remain constant (at about 75 percent) in the medium-term and to start declining in the long-run (to about 60 percent). The projections also envisage that the authorities succeed in deepening the domestic debt market, increasing maturities and issuing predominantly at fixed rates. These assumptions are consistent with the Honduran Debt Management Strategy.
- **External sector.** In 2018 and 2019, the current account deteriorated as a result of unfavorable terms of trade shocks. The current account deficit is projected to hover around 4 percent of GDP over the medium term; and reach 3½ percent of GDP in the longer term reflecting an improvement in the trade balance as Honduras heightens its competitiveness and penetration of export markets. A decline in external public sector interest payments—as the stock of external debt decreases—explains the lower current account deficits towards the end of the projection period. In the outer years, the current account deficit is expected to be financed primarily by foreign direct investment. This outcome would allow for international reserves to remain above 5 months of non-maquila imports throughout the projection period. FDI is expected to increase in critical economic sectors such as electricity.

⁵ Historical fiscal figures have changed as a result of data revisions and progressive consolidation of additional government units into the nonfinancial public sector statistics as required by the FRL.

6. The realism tools suggest that the projections are reasonable (Figures II.3 and II.4).^{6,7} The baseline assumes an improvement of the primary balance of 0.5 percentage points of GDP over the next three years, which falls in the third quartile of the distribution for LICs. This improvement in the primary balance is warranted by compliance with the FRL, which serves as an anchor to guide fiscal sustainability. Compared to the previous DSA, both growth projections and the evolution of investment are similar. The projected contribution of the government's capital stock to growth remains in line with the historical levels and the growth path assumes reasonable levels for the fiscal multiplier.

Country Classification

7. Honduras debt carrying capacity is classified as strong under the revised LIC DSF. Debt carrying capacity is determined by a composite indicator (CI) that includes the World Bank's Country Policy and Institutional Assessment (CPIA) score, world economic growth, and Honduras's real growth rate, import coverage of reserves, and remittances. Two consecutive signals are needed to modify the classification, which has been the case for Honduras since the implementation of the revised LIC DSF with a CI classification of strong debt carrying capacity in April and October 2018. The current April 2019 vintage also yields a rating of strong debt carrying capacity (Text Table II.4). Under the previous methodology (CPIA-based), Honduras debt carrying capacity was classified as medium (Text Table II.5).

Text Table II.4. Honduras: Calculation of the Composite Indicator

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	3.482	1.34	42%
Real growth rate (in percent)	2.719	3.676	0.10	3%
Import coverage of reserves (in percent)	4.052	40.340	1.63	51%
Import coverage of reserves^2 (in percent)	-3.990	16.273	-0.65	-20%
Remittances (in percent)	2.022	15.494	0.31	10%
World economic growth (in percent)	13.520	3.559	0.48	15%
CI Score			3.22	100%
CI rating			Strong	

⁶ Realism tools are designed to encourage examination of baseline assumptions and cover (i) drivers of debt dynamics, (ii) realism of planned fiscal adjustment, (iii) fiscal adjustment-growth relationship, and (iv) public investment-growth relationship.

⁷ Weaknesses in private net foreign assets data could explain in part historical residuals.

Text Table II.5. Honduras: Debt Carrying Capacity Country Classification			
Final	Classification based on current vintage	Classification based on the October 2018 vintage	Classification based on the April 2018 vintage
Strong	Strong 3.22	Strong 3.21	Strong 3.21

8. A strong debt-carrying capacity implies higher thresholds for the stress tests. For countries classified as having a strong debt carrying capacity, such as Honduras, the corresponding indicative thresholds are the following: 55 percent for the present value (PV) of PPG external debt-to-GDP ratio; 240 percent for the PV of PPG external debt-to-exports ratio; 21 percent for the PPG external debt service-to-exports ratio; and 23 percent for the PPG debt service-to-revenue ratio. The applicable benchmark for total public debt in the case of Honduras is 70 percent for the PV of total public debt-to-GDP ratio (Text Table II.6).

Text Table II.6. Honduras: Public and Publicly Guaranteed (PPG) External Debt Thresholds and Total Public Debt Benchmarks				
EXTERNAL debt burden thresholds	Weak	Medium	Strong	
PV of debt in % of				
Exports	140	180	240	
GDP	30	40	55	
Debt service in % of				
Exports	10	15	21	
Revenue	14	18	23	
TOTAL public debt benchmark		Weak	Medium	Strong
PV of total public debt in percent of GDP		35	55	70

External DSA

9. Honduras's risk of external debt distress is assessed to be low. The PV of PPG external debt-to-GDP ratio is projected to peak at 27.8 percent in 2019, below the 55 percent threshold (Table II.3). The PPG external debt service-to exports and PPG external debt service-to-revenue peak in 2019, well under their respective thresholds of 21 percent and 23 percent, respectively. Consequently, all solvency and liquidity indicators under the baseline scenario and under various stress tests remain below their respective thresholds (Figure II.1). The peaks observed on debt service indicators are explained by the repayments of Eurobonds (in 2019, 2022, 2026, 2029) and the CABEI bullet repayment in 2025.

10. However, some debt indicators are sensitive to shocks. A negative shock to exports, equivalent to a one standard deviation decline in the nominal growth of exports in the second and third years of projection and a decline in real GDP growth, generates the largest increase in the PV

of the PPG external debt-to-GDP ratio, leading to a peak of 44.5 percent in 2021 (Figure II.1). Under the same shock, the PPG external debt-to-exports ratio would peak in 2021, reaching 135.4 percent (below the 240 percent threshold). Furthermore, the same shock would lead the PPG external debt-service-to-exports ratio to reach 17.1 percent in 2026, and the PPG external debt-service to revenue ratio to peak at 17.7 in 2026, in both cases well-below the risk thresholds.

11. Accessing the SBA/SCF arrangements would not jeopardize debt sustainability. If the SBA/SCF arrangements were to be accessed, the PV of PPG external debt-to-GDP ratio would peak at 28.4 percent in 2020, still below the 55 percent threshold. Similarly, PPG external debt service-to exports and PPG external debt service-to-revenue would peak in 2026 at 11.6 and 14.9, respectively, both well under their respective thresholds. All solvency and liquidity indicators would also remain below their thresholds under all the stress tests.

Public DSA

12. Public debt ratios are expected to peak in 2019, and then decline over the medium term. Public debt is projected to peak at 42.1 percent of GDP in 2019 and start declining, supported by stable primary surpluses of around 1 percent of GDP as well as declining interest payments, reaching 36.1 percent of GDP by 2029 (Table II.4 and Figure II.2). The FRL is the critical difference between baseline projections and the historical scenario, providing an anchor for a sound fiscal position. In present value terms, the debt-to-GDP ratio is expected to peak at 37.5 percent of GDP in 2019 and fall to 31.6 percent of GDP by 2029. Public debt dynamics remain somewhat vulnerable to both policy-related and exogenous shocks, especially to those related to fiscal policy and exports (Table II.4). However, under no scenario does any of the indicators breach its benchmark. Thresholds would not be breached either if the SBA/SCF arrangements were to be accessed.

13. The exposure to contingent liabilities seems to be limited, except for materialization of downside risks facing SOEs. Upgraded PPP accounting rules to international standards has enabled the impact of PPP operations to be included into the regular public-sector spending and financing recording. In addition, the new contingency unit at the Ministry of Finance (SEFIN) is effectively taking stock of and limiting fiscal exposure from PPPs. The cost of clearing ENEE's growing pending liabilities (estimated at around 1.1 percent of GDP at end-December 2018) is included in the baseline macroeconomic projections through a comprehensive reform program that will include debt refinancing and operational gains. But if this process ends-up being more onerous than currently anticipated it could translate into a negative shock to the PV of public debt.

14. Market-Financing Risk Indicators suggest potentially low liquidity requirements (Figure II.5). The maximum gross financing needs over a 3-year period under the baseline projection horizon in Honduras are expected to be around 7 percent of GDP, which is below the benchmark value of 14 percent. In addition, current EMBI spreads of 283 basis points are substantially below the benchmark level of 570 basis points. In addition, the PV of debt relative to

GDP and to exports, as well as the ratios of debt service to exports and to revenue, are all expected to remain below the thresholds under the baseline projection and under the market financing scenario. Nevertheless, given significant uncertainty regarding global financial conditions, a cautious debt management approach is warranted.

Conclusion

15. The DSA indicates that Honduras's risks of external debt and public total debt distress are low, supported by strict observance of the FRL. This updated risk rating is an improvement from the previous moderate risk rating from the 2018 DSA and reflects also the upgrade in the debt carrying capacity assessment to strong, under the revised DSF methodology. PPG external debt burden indicators remain below the thresholds under the baseline scenario and stress tests. Nonetheless, shocks affecting exports or economic growth showcase existing debt vulnerabilities, implying that adhering consistently to the FRL is a key element to ensuring debt sustainability. The results also highlight the importance of raising domestic revenue, addressing structural vulnerabilities in SOEs, and leveraging concessional sources of financing when available.

Authorities' Views

16. Authorities agreed with the change in the risk rating following the application of the revised LIC DSF. They noted their commitment to adhere to the FRL, preserving the revenue mobilization efforts while implementing reforms in SOEs to resolve their imbalances, and to the further development of the domestic debt market. The contingency unit at SEFIN will continue addressing data limitations with the goal of improving the management of fiscal risks.

Table II.1. Honduras: External Debt Sustainability Framework, Baseline Scenario, 2016-39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	35.4	37.2	38.5	38.0	37.8	37.8	37.1	36.5	35.8	28.9	19.4	31.7	35.0
of which: public and publicly guaranteed (PPG)	28.9	31.1	31.6	31.7	31.5	31.5	30.8	30.2	29.5	22.7	13.1	25.0	28.7
Change in external debt	-0.7	1.9	1.2	-0.5	-0.2	0.0	-0.6	-0.7	-0.7	-2.2	-0.6		
Identified net debt-creating flows	-2.7	-4.7	-1.6	-2.1	-2.0	-1.8	-1.8	-2.0	-2.0	-2.0	-2.1	-1.1	-2.0
Non-interest current account deficit	2.1	1.2	3.2	2.7	2.7	3.0	2.9	2.7	2.8	2.7	2.8	4.9	2.8
Deficit in balance of goods and services	14.2	14.1	18.3	17.4	17.5	17.8	17.8	18.0	18.1	17.9	18.1	17.6	17.9
Exports	42.4	43.1	42.1	41.7	42.2	42.3	42.3	42.5	42.3	41.9	42.3		
Imports	56.6	57.3	60.3	59.2	59.7	60.1	60.1	60.5	60.4	59.8	60.4		
Net current transfers (negative = inflow)	-18.4	-19.5	-20.7	-20.3	-20.3	-20.2	-20.2	-20.3	-20.2	-19.9	-20.1	-18.6	-20.1
of which: official	-0.3	-0.3	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8		
Other current account flows (negative = net inflow)	6.3	6.5	5.7	5.6	5.5	5.5	5.3	5.0	4.9	4.7	4.8	5.9	5.0
Net FDI (negative = inflow)	-4.1	-4.4	-4.8	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7	-5.0	-4.7
Endogenous debt dynamics 2/	-0.6	-1.5	0.0	-0.1	0.0	-0.1	0.0	-0.1	-0.1	0.0	-0.1		
Contribution from nominal interest rate	0.6	0.6	1.1	1.2	1.3	1.2	1.3	1.3	1.2	1.1	0.6		
Contribution from real GDP growth	-1.3	-1.6	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3	-1.4	-1.2	-0.7		
Contribution from price and exchange rate changes	0.1	-0.5	0.3	...	...	...	...	...	...	...	...
Residual 3/	1.9	6.6	2.9	1.6	1.8	1.7	1.2	1.4	1.4	-0.2	1.5	2.4	1.1
of which: exceptional financing	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	22.2	22.3	22.5	22.9	22.6	22.3	21.9	16.7	9.0		
PV of PPG external debt-to-exports ratio	...	...	52.8	53.5	53.3	54.0	53.5	52.5	51.7	39.8	21.2		
PPG debt service-to-exports ratio	8.4	8.8	4.8	9.5	4.8	8.8	4.8	4.6	4.4	7.2	2.5		
PPG debt service-to-revenue ratio	12.0	12.7	6.7	13.4	6.6	12.2	6.5	6.2	5.9	9.5	3.3		
Gross external financing need (Billion of U.S. dollars)	1.4	1.8	2.1	2.6	1.6	2.2	1.7	1.6	1.6	2.1	2.0		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.8	4.9	3.7	3.5	3.6	3.6	3.7	3.8	3.9	3.9	3.9	3.1	3.8
GDP deflator in US dollar terms (change in percent)	-0.2	1.4	-0.7	0.3	0.3	0.7	0.6	0.7	0.7	1.0	1.2	2.5	0.7
Effective interest rate (percent) 4/	1.7	1.8	3.0	3.2	3.7	3.3	3.7	3.6	3.5	3.8	3.2	1.9	3.6
Growth of exports of G&S (US dollar terms, in percent)	-2.4	8.2	0.4	3.0	4.9	4.7	4.3	4.8	4.4	4.6	5.2	4.2	4.5
Growth of imports of G&S (US dollar terms, in percent)	-4.2	7.6	8.4	1.8	4.8	5.1	4.2	5.1	4.6	4.6	5.2	3.1	4.4
Grant element of new public sector borrowing (in percent)	...	...	...	8.2	10.7	4.1	6.2	12.4	16.5	13.4	20.5	...	11.3
Government revenues (excluding grants, in percent of GDP)	29.6	29.7	29.7	29.5	30.3	30.7	30.9	31.3	31.3	31.5	32.0	28.2	31.0
Aid flows (in Billion of US dollars) 5/	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.5		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	0.9	0.9	0.8	0.7	0.8	0.9	0.8	0.8	...	0.8
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	19.9	32.4	17.4	32.8	38.0	41.4	44.5	57.0	...	35.3
Nominal GDP (Billion of US dollars)	22	23	24	25	26	27	28	29	30	39	64		
Nominal dollar GDP growth	3.5	6.4	2.9	3.8	3.8	4.4	4.3	4.5	4.6	5.0	5.2	5.6	4.5
Memorandum items:													
PV of external debt 7/	...	...	29.1	28.6	28.8	29.2	28.9	28.6	28.2	22.9	15.3		
In percent of exports	...	...	69.2	68.6	68.2	68.9	68.4	67.3	66.5	54.7	36.0		
Total external debt service-to-exports ratio	20.2	25.6	25.3	30.2	19.8	23.5	18.8	17.8	16.9	17.9	12.0		
PV of PPG external debt (in Billion of US dollars)	...	...	5.3	5.5	5.8	6.1	6.3	6.5	6.7	6.4	5.7		
(Pvt-Pvt-1)/GDPI-1 (in percent)	...	...	...	1.0	1.0	1.4	0.7	0.6	0.6	-1.0	0.0		
Non-interest current account deficit that stabilizes debt ratio	2.8	-0.7	1.9	3.2	2.9	3.1	3.6	3.4	3.5	4.8	3.3		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)] / (1+g+p+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No

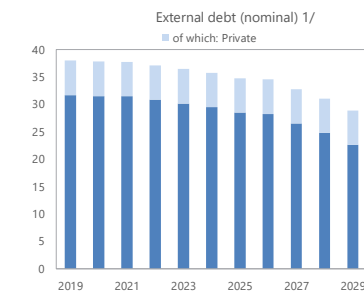
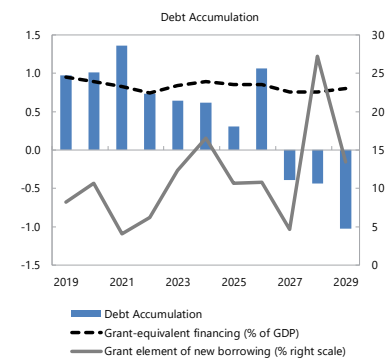
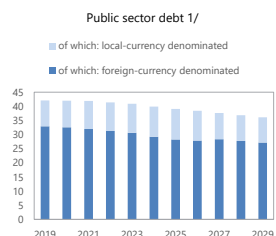


Table II.2. Honduras: Public Debt Sustainability Framework, Baseline Scenario, 2016-39

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	39.9	39.9	41.8	42.1	42.0	41.9	41.4	40.9	39.9	36.1	31.3	33.9	39.7
of which: external debt	28.4	30.5	31.0	32.9	32.6	32.0	31.3	30.6	29.3	27.2	18.8	24.4	29.9
Change in public sector debt	0.8	0.1	1.9	0.3	-0.1	-0.1	-0.5	-0.5	-1.0	-0.8	-0.3		
Identified debt-creating flows	0.1	-1.9	1.1	0.3	-0.1	0.0	-0.4	-0.2	-0.5	-0.7	-0.3	2.0	-0.4
Primary deficit	-0.3	-0.1	0.0	-0.6	-0.7	-0.8	-1.0	-0.9	-0.7	-0.7	-0.5	2.7	-0.8
Revenue and grants	30.4	30.3	30.1	30.9	31.3	31.7	31.8	31.9	31.9	32.4	32.9	29.2	31.9
of which: grants	0.8	0.6	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6		
Primary (noninterest) expenditure	30.1	30.2	30.0	30.3	30.6	30.9	30.8	31.0	31.2	31.7	32.4	31.8	31.1
Automatic debt dynamics	-0.9	-1.4	1.5	0.9	0.4	0.4	0.3	0.4	0.3	0.1	0.2		
Contribution from interest rate/growth differential	0.2	-0.9	0.2	0.1	-0.1	-0.1	-0.1	0.0	0.0	-0.1	0.0		
of which: contribution from average real interest rate	1.6	0.9	1.6	1.5	1.3	1.4	1.4	1.5	1.5	1.3	1.2		
of which: contribution from real GDP growth	-1.4	-1.9	-1.4	-1.4	-1.4	-1.5	-1.5	-1.5	-1.6	-1.4	-1.2		
Contribution from real exchange rate depreciation	0.6	-0.5	1.3	...	...	...	...	...	...	...	...
Other identified debt-creating flows	-0.4	-0.4	-0.4	-0.1	0.2	0.4	0.3	0.3	-0.2	-0.1	0.0	-0.2	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.1	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.3	0.6	0.8	0.7	0.6	0.1	0.0	0.0		
Residual	0.7	2.0	0.8	0.8	0.5	0.3	0.3	0.1	-0.1	0.2	0.1	0.7	0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	37.3	37.5	37.4	37.2	36.8	36.2	35.2	31.6	28.3		
PV of public debt-to-revenue and grants ratio	...	...	124.1	121.1	119.3	117.7	115.7	113.5	110.4	97.6	86.1		
Debt service-to-revenue and grants ratio 3/	10.2	10.4	11.6	24.3	16.5	17.3	24.6	18.7	19.0	22.4	21.4		
Gross financing need 4/	2.4	2.7	3.1	6.9	4.7	5.1	7.1	5.4	5.2	6.4	6.5		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.8	4.9	3.7	3.4	3.5	3.6	3.7	3.9	3.9	3.9	3.9	3.1	3.8
Average nominal interest rate on external debt (in percent)	1.9	2.0	3.4	4.2	4.3	4.3	4.5	4.8	4.7	4.5	4.8	2.0	4.6
Average real interest rate on domestic debt (in percent)	13.4	8.4	14.5	7.1	7.1	7.7	7.2	7.6	7.7	7.1	6.1	4.1	7.3
Real exchange rate depreciation (in percent, + indicates depreciation)	2.3	-1.9	4.3	...	...	...	...	...	...	...	...	-0.6	...
Inflation rate (GDP deflator, in percent)	3.8	4.3	1.8	3.2	3.4	3.2	3.5	3.6	3.8	4.1	4.0	4.9	3.7
Growth of real primary spending (deflated by GDP deflator, in percent)	5.2	5.6	3.0	4.4	4.5	4.4	3.4	4.7	4.7	4.3	4.0	2.3	4.3
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-1.2	-0.2	-1.9	-0.9	-0.6	-0.7	-0.5	-0.4	0.4	0.1	-0.2	-1.1	-0.3
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	Currency-based
Is there a material difference between the two criteria?	No



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The general government, government-guaranteed debt, non-guaranteed SOE debt. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

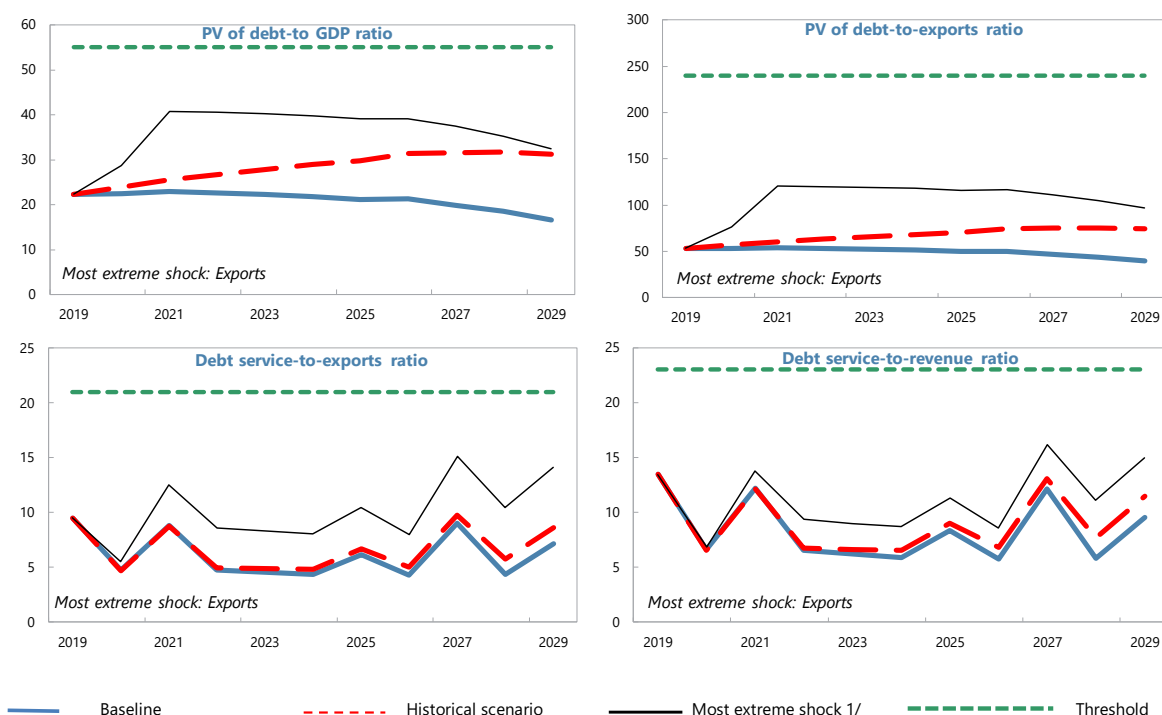
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (i.e., a primary surplus), which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure II.1. Honduras: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2019-29



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	No	
Natural disaster	No	No
Commodity price	n.a.	n.a.
Market financing	No	No

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.7%	4.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure II.2. Honduras: Indicators of Public Debt under Alternative Scenarios, 2019-29



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	45%	45%
Domestic medium and long-term	54%	54%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	5.1%	5.1%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	6.7%	6.7%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table II.3. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019-29

(In percent)

	(in percent)											
	2019	2020	2021	2022	2023	Projections 1/			2026	2027	2028	2029
PV of debt-to GDP ratio												
Baseline	28	28	27	26	26	24	23	23	23	23	23	22
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2019-2029 2/	28	29	30	32	33	34	35	37	40	42	43	
B. Bound Tests												
B1. Real GDP growth	28	29	29	28	28	26	25	25	25	25	25	24
B2. Primary balance	28	30	35	35	35	34	34	34	35	35	35	34
B3. Exports	28	34	44	44	43	42	41	40	41	39	38	38
B4. Other flows 3/	28	33	38	37	36	35	34	34	34	33	32	32
B5. Depreciation	28	35	26	25	24	23	22	21	22	21	21	21
B6. Combination of B1-B5	28	38	42	41	41	39	38	38	38	37	35	
C. Tailored Tests												
C1. Combined contingent liabilities	28	34	34	35	35	34	34	34	35	35	35	35
C2. Natural disaster	28	33	33	33	33	33	33	33	34	35	35	35
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	28	31	30	29	29	27	26	26	26	26	25	
Threshold	55	55	55	55	55	55	55	55	55	55	55	
PV of debt-to-exports ratio												
Baseline	68	68	66	65	63	60	58	56	58	57	55	
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2019-2029 2/	68	72	74	77	81	84	88	92	99	103	107	
B. Bound Tests												
B1. Real GDP growth	68	68	66	65	63	60	58	56	58	57	55	
B2. Primary balance	68	74	86	86	86	85	84	84	87	86	85	
B3. Exports	68	92	135	133	131	128	125	123	124	120	116	
B4. Other flows 3/	68	81	93	91	89	87	84	83	84	81	79	
B5. Depreciation	68	68	51	49	47	44	42	41	42	42	42	
B6. Combination of B1-B5	68	94	95	106	105	102	99	98	98	95	92	
C. Tailored Tests												
C1. Combined contingent liabilities	68	84	84	85	85	85	85	84	87	87	86	
C2. Natural disaster	68	82	83	83	83	83	83	84	87	87	87	
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
C4. Market Financing	68	68	66	65	63	61	58	57	59	57	56	
Threshold	240	240	240	240	240	240	240	240	240	240	240	
Debt service-to-exports ratio												
Baseline	11	6	6	10	6	6	8	11	5	6	9	
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2019-2029 2/	11	6	6	10	6	7	9	12	7	8	12	
B. Bound Tests												
B1. Real GDP growth	11	6	6	10	6	6	8	11	5	6	9	
B2. Primary balance	11	6	6	12	7	7	9	13	7	8	12	
B3. Exports	11	7	9	16	10	10	13	17	10	12	17	
B4. Other flows 3/	11	6	7	12	7	7	9	12	7	8	12	
B5. Depreciation	11	6	6	10	5	5	7	10	5	4	8	
B6. Combination of B1-B5	11	6	8	13	8	8	11	14	9	10	14	
C. Tailored Tests												
C1. Combined contingent liabilities	11	6	7	11	7	7	9	12	7	7	11	
C2. Natural disaster	11	6	7	11	7	7	9	13	7	7	11	
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
C4. Market Financing	11	6	6	10	6	6	9	12	10	5	9	
Threshold	21	21	21	21	21	21	21	21	21	21	21	
Debt service-to-revenue ratio												
Baseline	14	8	8	14	8	8	10	14	7	7	12	
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2019-2029 2/	14	8	8	14	8	9	11	15	9	10	15	
B. Bound Tests												
B1. Real GDP growth	14	8	8	15	8	8	11	16	8	8	13	
B2. Primary balance	14	8	8	15	10	9	12	16	9	10	15	
B3. Exports	14	8	9	17	11	11	13	18	11	12	17	
B4. Other flows 3/	14	8	9	15	9	9	12	16	9	10	15	
B5. Depreciation	14	10	10	16	9	8	12	17	8	6	12	
B6. Combination of B1-B5	14	8	10	17	11	10	13	18	11	12	17	
C. Tailored Tests												
C1. Combined contingent liabilities	14	8	9	15	9	9	12	16	9	9	14	
C2. Natural disaster	14	8	8	14	9	9	11	16	8	9	13	
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
C4. Market Financing	14	8	8	14	8	8	11	15	12	7	11	
Threshold	23	23	23	23	23	23	23	23	23	23	23	

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table II.4. Honduras: Sensitivity Analysis for Key Indicators of Public Debt, 2019-29

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	37	37	37	37	36	35	34	34	33	32	32
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	37	40	43	46	49	51	54	57	60	63	66
B. Bound Tests											
B1. Real GDP growth	37	40	44	46	48	50	51	53	55	57	59
B2. Primary balance	37	43	52	52	51	50	50	49	49	48	47
B3. Exports	37	43	52	52	52	51	50	49	48	47	45
B4. Other flows 3/	37	43	48	48	47	46	45	45	44	42	41
B5. Depreciation	37	42	40	37	34	30	27	24	20	17	14
B6. Combination of B1-B5	37	41	47	46	46	45	44	43	42	42	41
C. Tailored Tests											
C1. Combined contingent liabilities	37	52	52	52	51	50	50	49	48	48	47
C2. Natural disaster	37	48	49	49	49	49	48	48	48	48	48
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	37	37	37	37	36	35	35	34	33	32	32
TOTAL public debt benchmark	70	70	70	70	70	70	70	70	70	70	70
PV of Debt-to-Revenue Ratio											
Baseline	121	119	118	116	113	110	108	105	102	100	98
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	121	129	137	146	154	161	169	177	186	194	203
B. Bound Tests											
B1. Real GDP growth	121	128	139	145	150	155	160	166	171	177	183
B2. Primary balance	121	138	164	162	161	158	156	153	151	148	146
B3. Exports	121	136	166	164	161	158	155	152	149	144	139
B4. Other flows 3/	121	137	152	150	148	145	142	139	135	131	127
B5. Depreciation	121	136	126	116	106	95	84	74	63	54	44
B6. Combination of B1-B5	121	131	147	145	143	140	137	134	132	129	126
C. Tailored Tests											
C1. Combined contingent liabilities	121	165	164	162	160	158	155	153	150	148	146
C2. Natural disaster	121	154	154	154	154	153	151	150	149	148	148
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	121	119	118	116	114	111	108	106	103	100	98
Debt Service-to-Revenue Ratio											
Baseline	24	16	17	25	19	19	22	28	20	18	22
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	24	16	18	27	23	25	30	37	31	31	37
B. Bound Tests											
B1. Real GDP growth	24	17	19	29	24	26	31	38	31	30	36
B2. Primary balance	24	16	21	33	27	28	32	36	27	26	30
B3. Exports	24	16	18	27	21	21	25	30	23	23	27
B4. Other flows 3/	24	16	18	26	20	21	24	30	22	21	26
B5. Depreciation	24	17	18	26	18	18	22	28	18	16	21
B6. Combination of B1-B5	24	16	19	28	23	23	26	32	23	21	25
C. Tailored Tests											
C1. Combined contingent liabilities	24	16	25	33	27	28	32	35	26	25	28
C2. Natural disaster	24	17	23	31	26	27	31	35	26	25	29
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	24	16	17	25	19	20	23	29	25	18	22

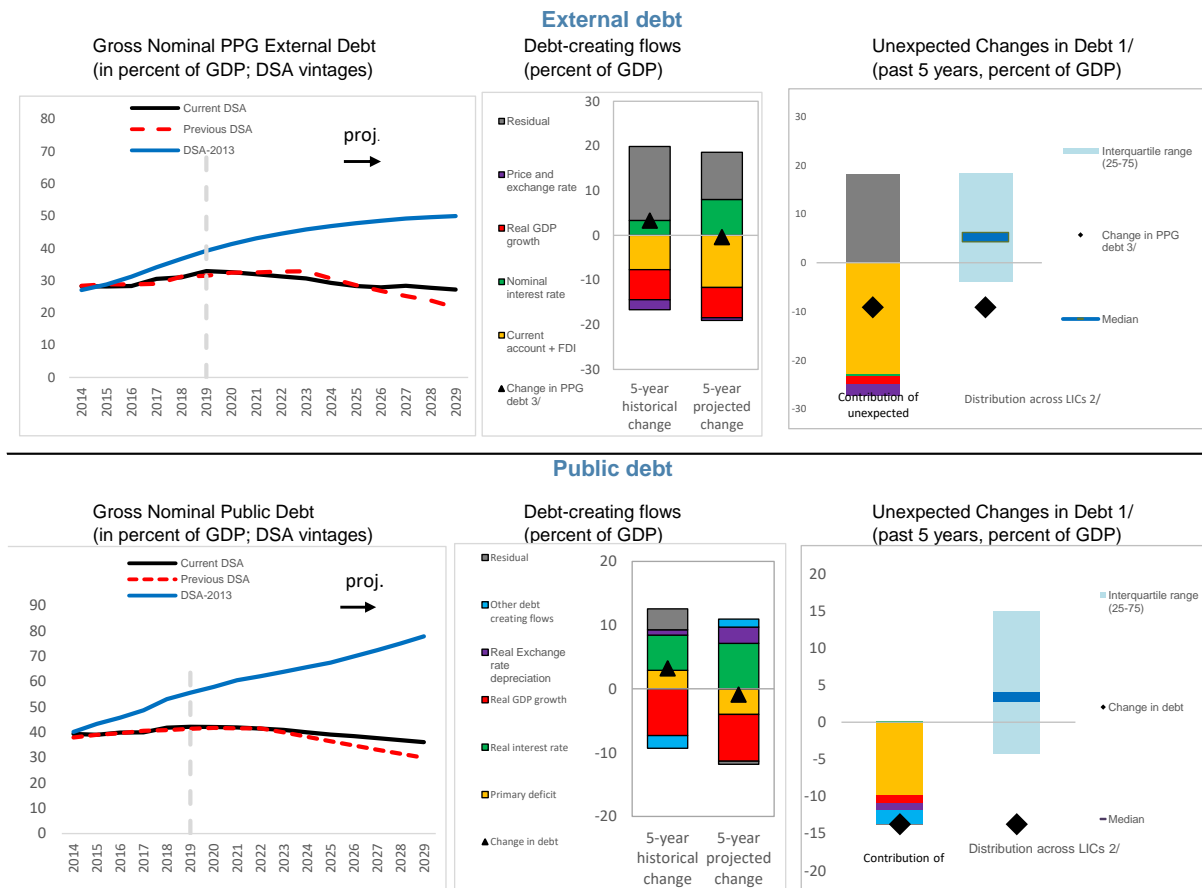
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure II.3. Honduras: Drivers of Debt Dynamics – Baseline Scenario



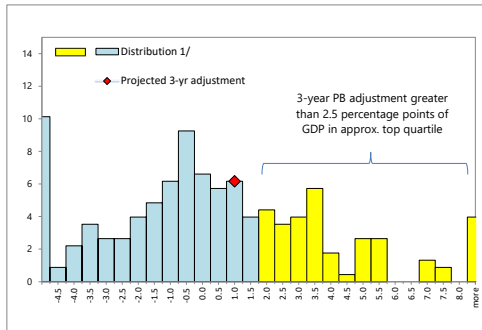
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

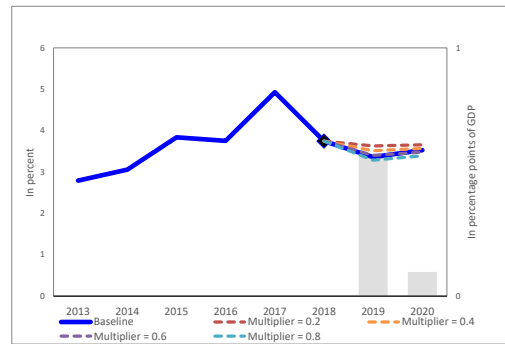
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure II.4. Honduras: Realism Tools

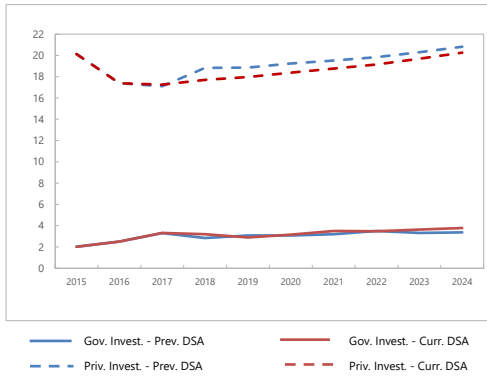
3-Year Adjustment in Primary Balance (Percentage points of GDP)



Fiscal Adjustment and Possible Growth Paths 1/



Public and Private Investment Rates (percent of GDP)



Contribution to Real GDP growth (percent, 5-year average)

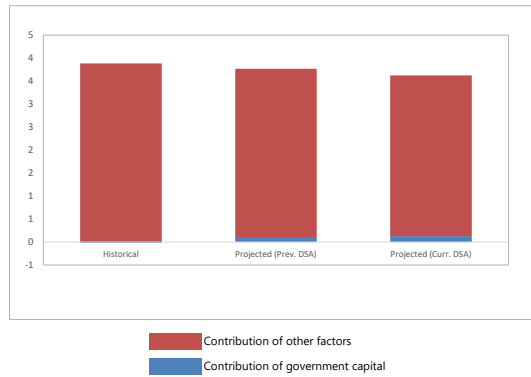
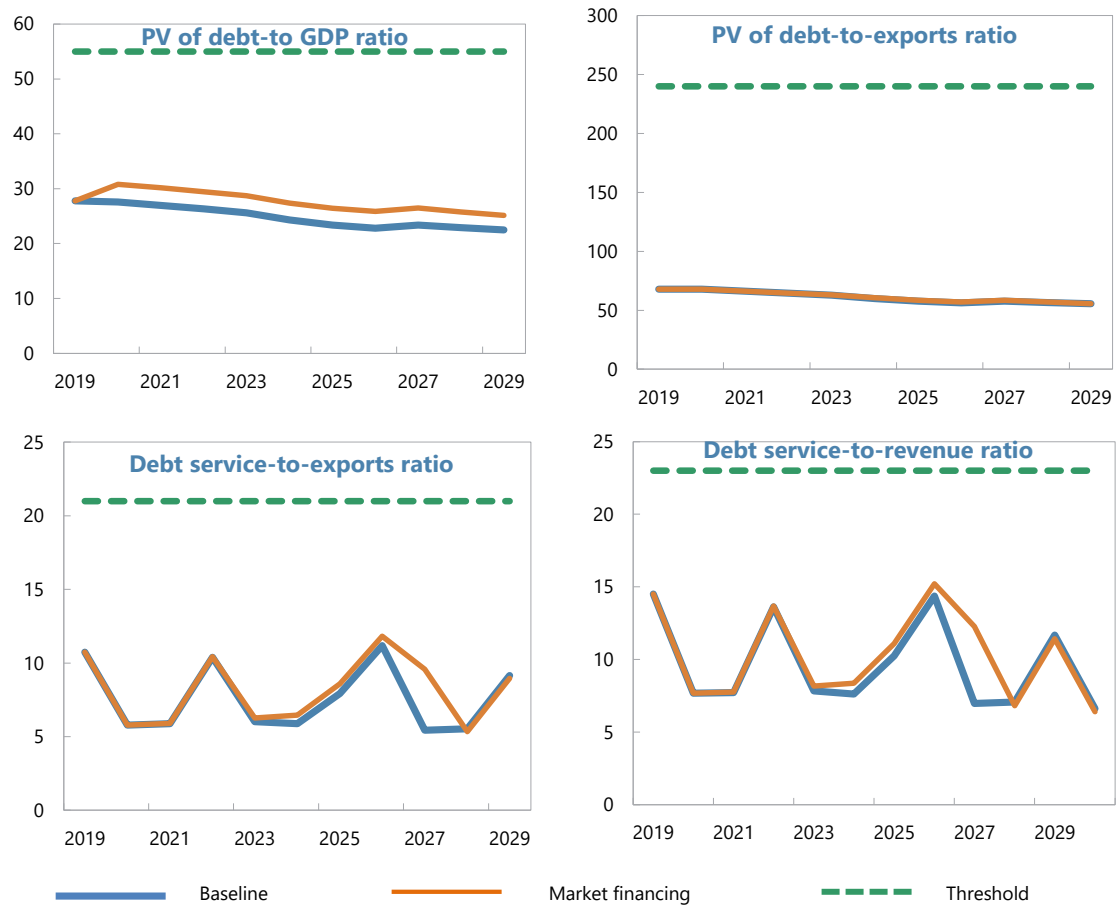


Figure II.5. Honduras: Market-Financing Risk Indicators

	GFN	1/	EMBI	2/
Benchmarks	14		570	
Values	7		283	
Breach of benchmark	No		No	
Potential heightened liquidity needs	Low			

1/ Maximum gross financing needs (GFN) over 3-year baseline projection horizon.

2/ EMBI spreads correspond to the latest available data.



Sources: Country authorities; and staff estimates and projections.