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December 10, 2020

**Statement by Mr. Peter and Mr. Muradov on Honduras
(Preliminary)
Executive Board Meeting
December 14, 2020**

We thank staff for the comprehensive report and Mr. Moreno, Ms. Rivera Molina, and Mr. Cartagena Guardado for the comprehensive Buff statement. Honduras has been hit hard by the COVID-19 pandemic and by the shock of two major tropical storms that are expected to cause a significant contraction of the economy this year. While the authorities' policy response to the pandemic has been timely and properly designed, implementation challenges have exacerbated an already worsening situation. Despite these setbacks, program performance has been strong, with all but one quantitative performance criteria and all indicative targets met. Against this backdrop, we support the completion of the third reviews under the SBA and SCF arrangements as well as the requests for extension and rephasing, for a waiver of nonobservance of a performance criterion as well as for the modification of performance criteria.

The consequences of the recent hurricanes Eta and Iota, as well as their short, medium and long-term economic impact should be promptly assessed. The possibility of a worsening humanitarian situation in the storm-affected areas and the associated negative impact on COVID-19 infections cannot be excluded considering the overcrowded shelters and the lack of sufficient protective measures. While it may take some time to fully assess the impact of the hurricanes, we urge the authorities to consider the lessons learnt from the first wave of the pandemic when developing the policy response, in particular avoiding irregularities in the use of emergency funds.

We commend the authorities for their commitment to fiscal sustainability, strengthening tax administration and revenue mobilization. We agree with staff that achieving the 1 percent NFPS deficit ceiling in 2022, as required in the FRL, will be an important signal for preserving fiscal credibility. We welcome the efforts to streamline tax exemptions and reform the customs administration. While the expenditure rationalization and

budget reallocations to accommodate the emergency health and social spending are encouraging, we urge the authorities to address the implementation challenges across all areas of pandemic related spending, and in particular financial support to workers and household affected by COVID-19. *Can staff elaborate more on the technical challenges regarding the registration and processing of these payments?*

Efforts to ensure the financial sustainability and strengthen the governance of ENEE should continue. We take good note of the institutional reforms aimed at addressing the budgetary and operational independence of the regulatory body in the electricity sector, introducing new tariffs, assessing the transmission and distribution costs with the further objective of unbundling the company. *We welcome staff comments on what would constitute a realistic implementation timeline for this reform.* We agree with staff that implementing a loss reduction strategy will be an important element to strengthen ENEE's financial position and create fiscal space for much needed social and infrastructure spending.

While monetary policy is rightly accommodative, preserving financial stability is key. We take good note of the measures taken by BCH to provide liquidity to the financial system. Going forward, preserving the stability of the financial system will be key, and the system of early warning indicators by CNBS is welcome given the temporary loosening of macroprudential regulations. We urge the authorities to carefully monitor and manage NPL classifications to ensure additional buffers, as well as loan restructuring of SME and microcredit loans. We welcome the authorities' commitment to the implementation of a full-fledged inflation targeting framework in the coming years and a gradual move to a flexible exchange rate system.

Strengthening governance and improving transparency will contribute to enhancing the business environment. We welcome efforts undertaken in the context of the program to strengthen fiscal governance as well as the AML/CFT and anticorruption framework. Given that public awareness of governance and transparency challenges seems to have grown during the COVID-19 pandemic and will likely intensify during the election period, institutional strengthening and coordination on all state levels in the field of anticorruption and fiscal governance will have a beneficial impact on the business environment.