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GRAY/20/2185

May 29, 2020

**Statement by Mr. Beblawi and Ms. Al-Riffai on Honduras  
(Preliminary)  
Executive Board Meeting 20/65  
June 1, 2020**

We thank staff for their reports and Messrs. Villar and Tabora Munoz for their informative Buff statement. Honduras' reform efforts, which started in 2014, and strong program performance are restoring and preserving macroeconomic stability, lifting the living standards of the Honduran people, and helping the country's transition to a modern market-based economy. The COVID-19 pandemic threatens the Honduran economy by reducing external demand, tourism receipts and remittances, as well as tightening external financing conditions. In spite of these difficult conditions, the authorities have stated their commitment to the SBA/SCF arrangement, as they work to keep the program on track. The program can help provide financing until external financial conditions normalize. We support the completion of the second reviews under the SBA and SCF arrangements and the proposed decisions. We commend the authorities on their swift and decisive measures to contain and mitigate COVID-19's impact on lives, livelihoods, and economic activity and welcome staff's re-focus of the review to address COVID-19 related challenges, as well as measures to maintain the program's objectives.

The authorities appropriately loosened their fiscal stance to combat the COVID-19 pandemic. Lower fiscal revenue streams and a significantly larger spending envelope on health and social protection are expected to widen the non-financial public sector (NFPS) deficit. We welcome that the authorities protected investment and social spending by rationalizing non-priority current spending. We note that some of these spending rationalizations reflect lower operational costs due to pandemic-related closures of some government activity. *Once the economy re-opens and these pandemic-related closures are reversed, will there be space to cut other non-priority spending to create space for priority spending?* We welcome the authorities' substantial spending measures on mitigating the economic, social, and humanitarian impact of the pandemic, including through targeted support to families, workers, and firms and *wonder if families just above the poverty line would also benefit from these targeted measures.* We take positive note that the authorities intend to strengthen fiscal

governance and transparency and intend to return to the 1 percent NFPS deficit ceiling in 2022.

The Central Bank of Honduras' liquidity measures have supported the banking system and solvency and liquidity indicators remain adequate. We commend the authorities' close monitoring of the impact of the crisis on the sector and that they stand ready to intervene should potential liquidity or solvency issues arise. Further strengthening the monetary policy and AML/CFT frameworks is warranted, and we therefore welcome the ongoing technical assistance from the Fund.

The authorities' have made progress in advancing electricity sector reforms aimed at improving the institutional framework, including the efforts to strengthen the regulatory body and improve operations and governance. Whilst we note that the pandemic may challenge the reform momentum in the electricity sector, advancing the sector's reforms remain crucial. We note that the authorities missed the target on public electricity company's operational ratio, since the court ordered the electricity company to rehire the workers previously dismissed. *Can staff shed light on the reasoning behind the court's order and what that means for operational efficiency and worker productivity in the sector?*

We wish the Honduran authorities further success in their reform efforts.