

BUFF/20/25

December 8, 2020

**Statement by the Staff Representative on Honduras
Executive Board Meeting
December 14, 2020**

This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

1. In November, Honduras, along with other countries in the region, was hit by two major tropical storms; the assessment of infrastructure damage and the impact on growth is still ongoing. Entering the country within 10 days, Eta and Iota caused almost 100 fatalities and significant infrastructure damage (affecting around 85,000 houses, 900 roads and 130 bridges). Some 96,000 persons have been relocated to temporary shelters, which risks intensifying the Covid-19 outbreak. Furthermore, the tropical storms had an impact on crops, with the full extent of damage still unclear. The Economic Commission for Latin America and the Caribbean (ECLAC) is leading the full assessment of economic damages, with results expected later this month. It is too early to estimate the impact on growth. The central bank's initial estimate is a negative growth impact from Eta of up to one percentage point in 2020, with the immediate impact stemming from crop losses. However, more data is needed to assess this and an official estimate of the impact of Iota is still pending. Staff is currently working on assessing climate change issues in Honduras.

2. In response to these natural disasters, the authorities have taken some immediate measures. They cut the monetary policy rate by 75 basis points to 3 percent, extended the period for banking sector debt restructurings—as described in paragraph 27 of the staff report—until end-March 2021 and granted a grace period on debt service until end-January 2021 to those affected by Eta and Iota. The public development bank (Banhprovi) broadened eligibility for its long-term refinancing program to SMEs affected by the storms, and reallocated resources towards its agricultural loan program. The authorities reiterated their plan to cope with the impact within the contours of their economic program and contingency plans, including to accommodate additional emergency spending via budget reallocations in 2020.

3. Honduras is likely to benefit from additional concessional financing in response to Eta and Iota. Multilateral development banks (MDB) and several partner countries have expressed their intention to support reconstruction and climate change risk mitigation spending. While the size of additional financial support is unclear at this stage, it could shift the financing mix towards more concessional financing, in particular in 2021—including if MDB project support is reallocated towards emergency reconstruction projects under concessional terms.