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HONDURAS

Joint World Bank/IMF Debt Sustainability Analysis 2009

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The debt sustainability analysis (DSA) suggests that Honduras' debt would remain low and sustainable, with all debt indicators remaining below their indicative thresholds and relatively robust under various stress tests. The analysis hinges on the assumption that macroeconomic policies will be strengthened to stabilize the external current account deficit at sustainable levels and that a prudent borrowing strategy will be maintained. The resulting debt outlook is subject to a low risk of debt distress, though debt dynamics would weaken under current policies and/or a permanent adverse shock to GDP growth.

I. BACKGROUND

1. ***Honduras debt outlook has significantly improved as a result of debt relief.***¹ Under the Enhanced HIPC Initiative, Honduras received over US\$800 million in stock of debt reduction. Honduras also obtained further debt relief from Paris Club bilateral creditors for US\$940 million and under the MDRI for US\$2.3 billion. In all, these operations reduced Honduras' public sector external debt from 78 percent of GDP in 1999 to 17 percent in 2007.² Under a prudent fiscal policy, the 2006 DSA found that the debt outlook would remain sustainable (i.e., below its indicative thresholds) and robust under various bound tests, albeit a moderate risk of debt distress would result from severe external shocks.³

¹ See *Honduras—Debt Sustainability Analysis 2006 (EBS/06/137)*. The calculations in the present document use the revised National Income Accounts (2008), which raise the yearly estimates of GDP by about 20 percent and, consequently, lower debt indicators expressed in terms of GDP relative to those reported in the 2006 DSA.

² Honduras reached the HIPC Decision Point in June 2000 and the Completion Point in April 2005. More recently, Venezuela has agreed to cancel all HIPC debt owed by Honduras and negotiations have started with Colombia on a similar agreement.

³ Thresholds are determined by the 3-year average of the World Bank's Country Policy and Institutional Assessment (CPIA) rating. In 2005, Honduras was upgraded from "medium" to a "strong" performer.

2. ***Since the 2006 DSA, Honduras' public sector external debt has remained broadly stable, as the authorities have kept the overall fiscal deficit under control and have relied primarily on concessional borrowing.*** During 2007–08, Honduras' overall fiscal deficit was about 1½ percent of GDP; concessional loans, mainly from multilateral institutions (75 percent) and bilateral creditors (including Venezuela), provided most of the deficit financing. As a result, the public external debt declined to 16 percent of GDP at end-2008, while the present value (PV) of the total external debt was under 17 percent of GDP.

3. ***The public sector domestic debt also has stayed low, reaching 3½ percent of GDP at end-2008.***⁴ In 2008, the central government issued a relatively large amount of domestic bonds to clear the arrears of the state electricity company with private generators (1.6 percent of GDP) and finance its deficit. However, most of these bonds were placed with public pension funds, and the impact on public sector domestic debt was small. Private sector external debt also declined during this period, to 7 percent of GDP by end-2008.

II. STRENGTHENED POLICY SCENARIO

A. Assumptions

4. ***The DSA assumes that macroeconomic policies will be strengthened.*** The scenario is similar to the strengthened policies scenario discussed with the authorities, which aims at consolidating macroeconomic stability and place the external current account deficit on a sustainable path, including through an improvement in external competitiveness. Use of a strengthened policy scenario (rather than a scenario based on current policies) avoids the need to make arbitrary assumptions about the path of key macroeconomic variables following a disorderly external adjustment. For the purposes of the DSA, however, the strengthening of policies is assumed to take place in 2010, rather than 2009 (as staff recommended in the staff report, paragraphs 10–15, SM/09/92). During the Article IV discussions, the authorities indicated their intention to maintain in place the present policy stance during the last year of the current administration to mitigate the adverse impact of the global crisis. At the same time, it is reasonable to assume that policies may be strengthened by the administration that will be in government in 2010, as this will help reduce the risks of disorderly balance of payments adjustments, reduce inflation to international levels, and improve the resiliency of the banking system.

5. ***The scenario assumes that real GDP will grow by 4 percent per year over the medium-term.*** Reflecting the impact of the global crisis, GDP growth is assumed to slow to 1½ percent in 2009, and to pick up gradually thereafter helped by improved performance in exports of commodities and *maquila*, and tourism. Growth prospects are assumed to be

⁴ This DSA includes as public debt the domestic debt of the nonfinancial public sector. Part of the central government domestic debt is held by other public sector entities (mainly pension funds).

enhanced by higher public investment, which is assumed to reach 7 percent of GDP over the medium-term (compared to 5½ percent in 2007–08).

6. ***A prudent fiscal policy would ensure sustainability in the public finances and support long-term growth.*** Following a temporary increase in 2009-10, the overall fiscal deficit is projected to remain at 1½ percent of GDP over the medium-term. Public sector revenue is projected to increase to 25½ percent of GDP by 2011 (from 24½ percent of GDP in 2009), based on improved tax administration and strengthened finances of the public enterprises, while official grants are projected to decline. Public sector primary expenditure would remain close to 26½ percent of GDP, and its composition would be shifted to priority infrastructure investment and poverty reduction. The fiscal deficit would be financed mostly by concessional resources from multilaterals and bilateral creditors, with the grant element of new debt declining slightly below 35 percent.⁵

7. ***Annual export growth would remain at about 9 percent over the long run.*** Export of goods and services rose on average by 14 percent during 2005–08 due to robust external demand and high commodity prices. Over the medium term, a projected decline in export prices is expected to be offset by continued productivity gains. This would be supported by rising tourism revenue (to 5 percent of GDP in the long-term) and a recovery of *maquila*

Box 1. Strengthened Policy Scenario: Key Assumptions

Growth and inflation. Real GDP growth is projected to stabilize at its long-term average of 4 percent in the medium term, while inflation is assumed to fall to 5 percent.

Fiscal deficit. The deficit of the combined public sector is projected to stabilize at 1½ percent of GDP after 2010, which would be consistent with a debt-stabilizing primary deficit of about 1 percent of GDP.

Grants and loans. Official grants to the public sector are assumed to remain stable (at 2 percent of GDP) over the medium term and drop to 0.7 percent of GDP in the long run. External financing of the fiscal deficit is assumed to decline from 2½ percent of GDP in 2008 to 1¼ percent of GDP in the long run.

Export/imports and remittances. Boosted by CAFTA, exports of goods and services are assumed to grow by almost 9 percent per year (and reach 79 percent of GDP by 2029), while imports of goods and services are assumed to grow by 7 percent per year (and reach 103 percent of GDP by 2029). Following a period of rapid expansion, remittances are assumed to grow at 5 percent per year and stabilize at 20 percent of GDP over the long term.

External current account balance. A gradual improvement of the trade balance is projected to help lower the current account deficit from its 2007–08 level to about 5½ percent of GDP in the long term.

⁵ Although the risk of debt distress is primarily used to guide IDA's grant allocation, Honduras is currently subject to IDA lending on hardened terms and, thus, not eligible to receive IDA grants. As a result, the annual IDA allocation to Honduras is unaffected by the risk of debt distress classification obtained from this exercise.

exports. Export volumes would grow by 7 percent per year, compared to an average of 8.3 percent in 2006–07.

8. ***Annual import growth would stabilize at 7 percent per year.*** Nonfuel imports are projected to increase moderately, in line with domestic demand growth and *maquila* activity. Fuel imports volumes are assumed to grow in line with real GDP, while prices are expected to remain broadly stable at current levels.

9. ***The external current account deficit is projected to decline gradually from its high level during 2007–08 to about 5½ percent of GDP in the long term.*** This improvement would be the result of favorable dynamics in the trade balance and tourism, with remittances reaching 20 percent of GDP over the long term. In the medium term, the current account deficit would be largely financed by foreign direct investment (FDI). Following a sharp decline in 2009–10 due to the global crisis, FDI is assumed to recover to some 6 percent of GDP, and contribute to the projected expansion in *maquila* and tourism.

B. Debt Dynamics

10. ***Under this scenario, Honduras' public sector debt would remain low and sustainable.*** Public sector debt would remain below 20 percent of GDP (15 percent in PV terms), with external debt accounting for the lion's share of the total. As the fiscal deficit declines to 1½ percent of GDP starting in 2010 and growth rebounds to its long-term rate, the sustainable primary deficit of 1 percent of GDP would be achieved. Other debt indicators would remain sustainable over the long term, with the PV of public debt increasing to almost 60 percent of tax revenue (somewhat higher than in 2007–08) and public debt service accounting for about 10 percent of tax revenues (slightly below the 2007–08 value) (Table 2 and Figure 2).

11. ***Honduras' external debt would also remain sustainable.*** All external debt indicators remain well below their thresholds, with the PV of external debt projected to stay below 20 percent of GDP over the entire horizon of the analysis (Table 4 and Figure 1).

III. STRESS TESTS

12. ***Large adverse shocks (exogenous or policy-related) would weaken public sector debt dynamics.*** While the sensitivity analysis shows that public debt indicators remain fairly robust to many stress tests, shocks that bring the primary fiscal deficit to levels similar to those envisaged in the 2009 draft budget or that result in a permanent decline in real GDP growth would place the PV of public debt-to-GDP ratio on an upward trend (Table 2). The debt dynamics is also vulnerable to shocks to the exchange rate and the financial system. A one-time real depreciation of 30 percent (e.g. under a scenario of a severe balance of payments correction) or a 10 percent of GDP increase in other debt-creating flows (e.g. under a scenario of severe financial sector distress that leads to the realization of contingent

liabilities) would raise the PV of public debt to 80–90 percent of tax revenue in the long-term, compared to 60 percent under the strengthened policies scenario.

13. ***Honduras' external debt shows a low risk of distress.*** Under stress tests, external debt indicators remain robust (i.e. below their sustainable thresholds). The PV of external debt would rise to 25 percent of GDP during 2011–19, following a temporary adverse shock on exports or FDI in 2010–11, but the ratio would decline steadily thereafter (Table 4).

IV. DEBT DISTRESS CLASSIFICATION AND CONCLUSION

14. ***In the staff's view, Honduras' debt is subject to a low risk of distress.*** Under a framework of strengthened macroeconomic policies, Honduras's debt indicators remain below their indicative thresholds and broadly resilient to adverse shocks. If macroeconomic policies are not strengthened, however, public sector debt dynamics would be weaker. This relatively favorable debt outlook, even under a weak policy scenario, is a reflection of the low initial levels of public debt, in turn a result of the large debt relief granted to Honduras in the past decade.

Table 1. Honduras: Public Sector Debt Sustainability Framework, Strengthened Policies Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate										Projections	
	2006	2007	2008	Average 5/ Deviation 5/ ¹	Standard Deviation 5/ ¹	2009	2010	2011	2012	2013	2014	2015-29 Average	2019	2029	2015-29 Average		
Public sector debt 1/ o/w foreign-currency denominated	31.9	19.7	19.3			17.7	18.7	19.3	19.5	19.8	19.9	19.9	19.9	17.9			
Change in public sector debt	28.5	16.9	15.9			14.3	15.5	16.2	16.5	16.2	16.2	16.2	16.7	15.2			
Identified debt-creating flows	-16.4	-12.2	-0.5			-1.5	1.0	0.6	0.2	0.3	0.1		-0.1	-0.2			
Primary deficit (excludes interest revenue)	-3.5	-2.4	-0.8			-0.1	1.7	1.0	0.6	0.3	0.5		0.5	0.6			
Revenue and grants	0.4	0.8	1.0	1.0	2.5	1.8	1.2	1.0	0.9	0.9	0.9	1.1	0.9	1.0	0.9		
of which: grants	24.2	24.6	25.7			24.4	24.5	25.5	25.6	25.6	25.5		25.5	25.5			
Primary (noninterest) expenditure	1.1	1.6	2.1			1.7	2.0	2.0	2.0	2.0	1.8		0.9	0.7			
Automatic debt dynamics	24.6	25.3	26.7			26.2	25.7	26.4	26.5	26.4	26.3		26.4	26.5			
Contribution from interest rate/growth differential	-3.9	-3.1	-1.8			-1.9	0.5	0.1	-0.3	-0.6	-0.3		-0.4	-0.4			
of which: contribution from average real interest rate	-3.4	-2.0	-0.7			-0.2	-0.3	-0.5	-0.6	-0.6	-0.6		-0.7	-0.6			
of which: contribution from real GDP growth	-0.4	-0.1	0.1			0.1	0.1	0.2	0.2	0.2	0.2		0.1	0.1			
Contribution from real exchange rate depreciation	-3.0	-1.9	-0.8			-0.3	-0.5	-0.7	-0.7	-0.8	-0.8		-0.8	-0.7			
Other identified debt-creating flows	-0.5	-1.1	-1.1			-1.7	0.9	0.5	0.3	0.0	0.3		...	...	
Privatization receipts (negative)	-0.1	-0.1	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0			
Recognition of implicit or contingent liabilities	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)	-0.1	-0.1	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0			
Other (specify, 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			
Residual, including asset changes and interest revenue	-12.8	-9.8	0.3			-1.5	-0.7	-0.5	-0.3	0.0	-0.4		-0.5	-0.8			
Other Sustainability Indicators																	
PV of public sector debt	12.9	12.7	13.5			13.7	14.2	14.5	14.7	15.1	15.2		15.2	13.7			
o/w foreign-currency denominated	9.5	9.8	10.1			10.2	11.0	11.4	11.6	11.5	11.5		12.0	11.0			
o/w external	...	...	9.7			9.9	10.8	11.2	11.4	11.2	11.3		11.9	11.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	4.1	3.4	2.3			4.6	3.5	3.2	3.1	3.3	3.4		3.3	3.3			
PV of public sector debt-to-revenue and grants ratio (in percent)	53.2	51.7	52.6			55.9	57.9	57.0	57.5	59.0	59.6		59.7	54.0			
PV of public sector debt-to-revenue ratio (in percent)	55.8	55.3	57.1			60.2	62.9	61.8	62.3	63.9	64.2		61.9	55.5			
o/w external 3/	...	...	41.3			43.7	47.6	47.6	48.4	47.7	47.7		48.4	44.4	
Debt service-to-revenue and grants ratio (in percent) 4/	15.3	10.8	5.3			10.6	9.7	8.9	8.7	9.5	9.9		9.3	9.2			
Debt service-to-revenue ratio (in percent) 4/	16.1	11.5	5.7			11.4	10.6	9.7	9.4	10.3	10.6		9.7	9.4			
Primary deficit that stabilizes the debt-to-GDP ratio	16.8	13.0	1.5			3.4	0.1	0.4	0.7	0.6	0.7		1.0	1.2			
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	6.6	6.3	4.0	3.8	2.9	1.6	2.8	3.6	4.0	4.1	4.1	3.4	4.1	4.1	4.1		
Average nominal interest rate on forex debt (in percent)	1.4	1.5	2.1	1.8	0.4	2.2	2.0	1.9	1.9	1.9	1.9	2.0	1.8	1.7	1.7		
Average real interest rate on domestic debt (in percent)	11.2	7.7	4.2	4.6	6.9	1.4	2.0	6.0	6.1	6.2	4.6	4.4	4.6	4.5	4.6		
Real exchange rate depreciation (in percent, + indicates depreciation)	-1.1	-4.3	-6.9	-1.2	3.3	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.4	6.6	9.8	10.3	10.1	14.3	9.2	3.1	4.3	5.6	6.2	7.1	5.5	5.5	5.5		
Growth of real primary spending (deflated by GDP deflator, in percent)	13.5	9.5	8.1	8.1	7.5	0.0	0.6	6.6	4.2	4.0	3.6	3.2	4.1	4.1	4.1		
Grant element of new external borrowing (in percent)	...	...	...	...	...	36.9	38.6	40.3	37.2	39.6	39.0	38.6	34.0	32.7	...

Sources: Country authorities; and Fund staff estimates and projections.

1/ Gross debt of the non-financial public sector. Excludes accumulated losses of the Central Bank.

2/ 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.

3/ Revenues excluding grants.

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

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 2. Honduras: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Strengthened Policies Scenario	14	14	15	15	15	15	15	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	14	14	15	15	15	16	15
A2. Primary balance is unchanged from 2009	14	15	16	17	18	19	23	29
A3. Permanently lower GDP growth 1/	14	14	15	16	17	18	24	46
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	14	15	16	18	19	20	25	33
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	14	16	19	19	19	20	20	18
B3. Combination of B1-B2 using one half standard deviation shocks	14	15	17	17	18	19	20	22
B4. One-time 30 percent real depreciation in 2010	14	20	20	20	20	20	20	21
B5. 10 percent of GDP increase in other debt-creating flows in 2010	14	23	24	24	24	24	25	23
PV of Debt-to-Revenue Ratio 2/								
Strengthened Policies Scenario	56	58	57	57	59	60	60	54
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	56	57	56	57	59	61	64	60
A2. Primary balance is unchanged from 2009	56	60	63	66	71	75	92	116
A3. Permanently lower GDP growth 1/	56	59	59	61	65	69	92	179
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	56	60	64	69	74	78	97	129
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	56	66	74	75	76	77	77	71
B3. Combination of B1-B2 using one half standard deviation shocks	56	62	66	68	71	73	79	87
B4. One-time 30 percent real depreciation in 2010	56	80	78	78	78	79	80	83
B5. 10 percent of GDP increase in other debt-creating flows in 2010	56	94	93	94	95	96	97	89
Debt Service-to-Revenue Ratio 2/								
Strengthened Policies Scenario	11	10	9	9	10	10	9	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	11	10	9	9	9	10	9	10
A2. Primary balance is unchanged from 2009	11	10	9	9	10	10	11	14
A3. Permanently lower GDP growth 1/	11	10	9	9	10	10	11	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	11	10	9	9	10	11	11	15
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	11	10	9	10	10	11	10	11
B3. Combination of B1-B2 using one half standard deviation shocks	11	10	9	9	10	11	10	12
B4. One-time 30 percent real depreciation in 2010	11	10	10	10	11	12	11	13
B5. 10 percent of GDP increase in other debt-creating flows in 2010	11	10	11	11	11	11	11	13

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at strengthened policies scenario minus one standard deviation divided by the length of the projection period.

2/ Revenues are defined inclusive of grants.

Table 3.: External Debt Sustainability Framework, Strengthened Policies Scenario, 2006-2029 1/ (In percent of GDP, unless otherwise indicated)

	Actual		Historical		Projections										2015-2029
	2006	2007	2008	Average 6/	Standard Deviation 6/	2009	2010	2011	2012	2013	2014	2015-2014	2019	2029	Average
External debt (nominal) 1/	36.4	25.0	23.0			21.4	22.7	23.3	23.6	23.3	23.4		24.0	22.5	
o/w public and publicly guaranteed (PPG)	28.5	16.9	15.9			14.3	15.5	16.2	16.5	16.2	16.2		16.7	15.2	
Change in external debt	-16.1	-11.4	-2.0			-1.6	1.3	0.7	0.3	-0.3	0.0		0.0	-0.2	
Identified net debt-creating flows	-7.7	-1.5	4.8			4.2	0.8	-0.1	-0.7	-1.8	-2.0		-2.0	-2.1	
Non-interest current account deficit	2.9	9.7	13.8		3.8	7.2	6.3	6.5	6.6	5.5	5.2		5.5	5.6	5.7
Deficit in balance of goods and services	21.5	28.7	31.1			22.6	22.1	23.1	23.3	23.2	23.1		22.7	24.1	
Exports	55.8	52.4	49.6			38.0	41.7	44.0	45.7	45.9	46.3		55.3	78.7	
Imports	77.2	81.1	82.8			60.6	63.8	67.1	68.9	69.2	69.4		78.0	102.9	
Net current transfers (negative = inflow)	-22.7	-21.6	-21.5		-15.3	-16.9	-17.7	-18.8	-19.3	-20.6	-21.0		-21.3	-22.5	-21.7
o/w official	-1.8	-1.2	-1.8			-1.2	-1.2	-1.2	-1.2	-1.2	-1.4		-1.0	-1.0	
Other current account flows (negative = net inflow)	4.1	2.6	2.2			2.2	1.9	2.2	2.6	2.9	3.1		4.0	4.0	
Net FDI (negative = inflow)	-6.2	-7.6	-6.2		1.3	-3.6	-5.2	-6.1	-6.7	-6.7	-6.7		-6.8	-7.1	-6.9
Endogenous debt dynamics 2/	-4.3	-3.7	-2.8			0.0	-0.3	-0.5	-0.6	-0.6	-0.6		-0.6	-0.6	
Contribution from nominal interest rate	0.9	0.7	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.3	
Contribution from real GDP growth	-3.1	-2.0	-0.9			-0.3	-0.6	-0.8	-0.9	-0.9	-0.9		-0.9	-0.9	
Contribution from price and exchange rate changes	-2.1	-2.4	-2.2			...	...	...	...	...	...		...	...
Residual (3-4) 3/	-8.5	-9.8	-6.8			-5.8	0.5	0.7	1.0	1.5	2.1		2.0	1.9	
o/w exceptional financing	-5.3	-1.4	-1.2			-0.5	-0.1	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	16.9			17.1	17.7	18.1	18.4	18.3	18.2		18.9	18.1	
In percent of exports	...	...	34.1			44.9	42.4	41.1	40.3	39.7	39.2		34.2	22.9	
PV of PPG external debt	...	...	9.8			9.9	10.5	11.0	11.2	11.1	11.0		11.6	10.8	
In percent of exports	...	...	19.7			26.1	25.3	24.9	24.6	24.2	23.8		21.0	13.7	
In percent of government revenues	...	...	41.4			43.8	46.6	46.7	47.1	46.5	46.5		47.3	43.4	
Debt service-to-exports ratio (in percent)	9.1	6.7	5.1			5.1	4.6	4.3	4.0	3.8	3.7		2.9	2.0	
PPG debt service-to-exports ratio (in percent)	2.6	1.6	1.1			2.0	1.8	1.7	1.5	1.5	1.5		1.5	1.4	
PPG debt service-to-revenue ratio (in percent)	6.3	3.6	2.3			3.3	3.4	3.2	3.0	2.8	3.0		3.4	4.3	
Total gross financing need (Billions of U.S. dollars)	0.4	1.0	1.7			1.3	0.8	0.7	0.6	0.5	0.4		0.6	0.8	
Non-interest current account deficit that stabilizes debt ratio	19.0	21.1	15.8			9.4	5.0	5.9	6.3	5.8	5.2		5.4	5.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.6	6.3	4.0		3.8	2.9	1.6	2.8	4.0	4.1	4.1		3.4	4.1	4.1
GDP deflator in US dollar terms (change in percent)	4.2	7.0	9.8		6.7	9.5	14.3	-2.0	-0.1	1.8	1.3		2.2	0.5	0.5
Effective interest rate (percent) 5/	1.9	2.1	1.6		2.1	0.5	1.7	1.5	1.4	1.4	1.4		1.5	1.3	1.3
Growth of exports of G&S (US dollar terms, in percent)	4.8	6.8	8.2		12.6	22.1	-10.9	10.3	7.3	7.7	6.2		4.6	8.3	8.5
Growth of imports of G&S (US dollar terms, in percent)	11.6	19.4	16.5		15.8	14.4	-14.9	6.1	6.8	6.3	5.8		2.8	7.5	7.3
Grant element of new public sector borrowing (in percent)	...	...	...		...	...	36.9	38.6	40.3	37.2	39.6		34.0	32.7	33.7
Government revenues (excluding grants, in percent of GDP)	23.1	23.0	23.6		...	22.7	22.6	23.5	23.6	23.6	23.7		24.5	24.8	24.6
Aid flows (in Billions of US dollars) 7/	0.3	0.5	0.7		...	0.7	0.5	0.5	0.5	0.5	0.5		0.4	0.6	
o/w Grants	0.1	0.2	0.3		...	0.3	0.3	0.3	0.3	0.4	0.3		0.2	0.3	
o/w Concessional loans	0.2	0.3	0.4		...	0.4	0.2	0.2	0.2	0.2	0.2		0.2	0.3	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...		...	2.9	2.5	2.6	2.5	2.4	2.2		1.4	1.1	1.3
Grant-equivalent financing (in percent of external financing) 8/	...	...	...		...	59.1	73.3	75.3	74.4	79.0	77.3		61.8	56.2	60.1
Memorandum items:															
Nominal GDP (Billions of US dollars)	10.8	12.3	14.0			16.3	16.4	16.7	17.3	18.3	19.4		24.2	37.9	
Nominal dollar GDP growth	11.1	13.7	14.2			16.1	0.8	1.5	3.9	6.0	5.5		5.6	4.6	4.6
PV of PPG external debt (in Billions of US dollars)	...	...	1.4			1.6	1.7	1.8	1.9	2.0	2.1		2.8	4.1	
(PV=PVI-1)/GDPt-1 (in percent)	...	...	...			1.8	0.7	0.6	0.7	0.5	0.5		0.8	0.6	0.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - r(1+g)] / (1+g+r-g)$ times previous period debt ratio, with r = nominal interest rate, g = real GDP growth rate, and r = 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/ Assumes that PV of private sector debt is equivalent to its face value.

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

8/ 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).

Table 4. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of debt-to GDP ratio								
Strengthened Policies Scenario	10	11	11	11	11	11	12	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	10	9	9	9	10	11	14	16
A2. New public sector loans on less favorable terms in 2009-2029 2/	10	11	11	12	12	11	13	14
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	10	11	11	11	11	11	12	11
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	10	15	24	24	24	24	23	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	10	11	11	11	11	11	12	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	10	17	25	25	25	25	25	15
B5. Combination of B1-B4 using one-half standard deviation shocks	10	15	21	22	21	21	21	13
B6. One-time 30 percent nominal depreciation relative to the strengthened policies scenario in 2010 5/	10	15	16	16	16	16	16	15
PV of debt-to-exports ratio								
Strengthened Policies Scenario	26	25	25	25	24	24	21	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	26	22	20	20	21	23	26	20
A2. New public sector loans on less favorable terms in 2009-2029 2/	26	26	25	25	25	25	23	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	26	25	25	24	24	24	21	13
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	26	43	75	73	71	70	58	25
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	26	25	25	24	24	24	21	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	26	41	57	56	55	53	44	19
B5. Combination of B1-B4 using one-half standard deviation shocks	26	40	57	56	55	54	45	20
B6. One-time 30 percent nominal depreciation relative to the strengthened policies scenario in 2010 5/	26	25	25	24	24	24	21	13
PV of debt-to-revenue ratio								
Strengthened Policies Scenario	44	47	47	48	47	47	47	43
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	44	41	37	38	41	44	59	64
A2. New public sector loans on less favorable terms in 2009-2029 2/	44	47	48	49	49	49	51	56
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	44	47	47	48	48	47	47	43
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	44	67	102	103	101	99	96	58
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	44	47	48	49	48	47	48	43
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	44	75	107	108	106	105	100	59
B5. Combination of B1-B4 using one-half standard deviation shocks	44	66	91	91	90	88	85	52
B6. One-time 30 percent nominal depreciation relative to the strengthened policies scenario in 2010 5/	44	67	67	68	67	66	67	61

Table 4. Honduras: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

Debt service-to-exports ratio								
Strengthened Policies Scenario	2	2	2	2	1	2	1	1
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	2	2	1	1	1	1	1	1
A2. New public sector loans on less favorable terms in 2009-2029 2/	2	2	2	2	1	2	2	1
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	2	2	2	2	1	2	1	1
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	2	2	3	3	3	3	4	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	2	2	2	2	1	2	1	1
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	2	2	2	2	2	2	3	2
B5. Combination of B1-B4 using one-half standard deviation shocks	2	2	2	3	2	2	3	2
B6. One-time 30 percent nominal depreciation relative to the strengthened policies scenario in 2010 5/	2	2	2	2	1	2	1	1
Debt service-to-revenue ratio								
Strengthened Policies Scenario	3	3	3	3	3	3	3	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	3	3	3	2	2	2	2	4
A2. New public sector loans on less favorable terms in 2009-2029 2/	3	3	3	3	3	3	3	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	3	3	3	3	3	3	3	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	3	3	4	5	4	4	6	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	3	3	3	3	3	3	3	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	3	3	4	5	4	5	7	8
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	4	4	4	4	5	7
B6. One-time 30 percent nominal depreciation relative to the strengthened policies scenario in 2010 5/	3	5	5	4	4	4	5	6
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	31	31	31	31	31	31	31	31

Source: Staff projections and simulations.

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

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

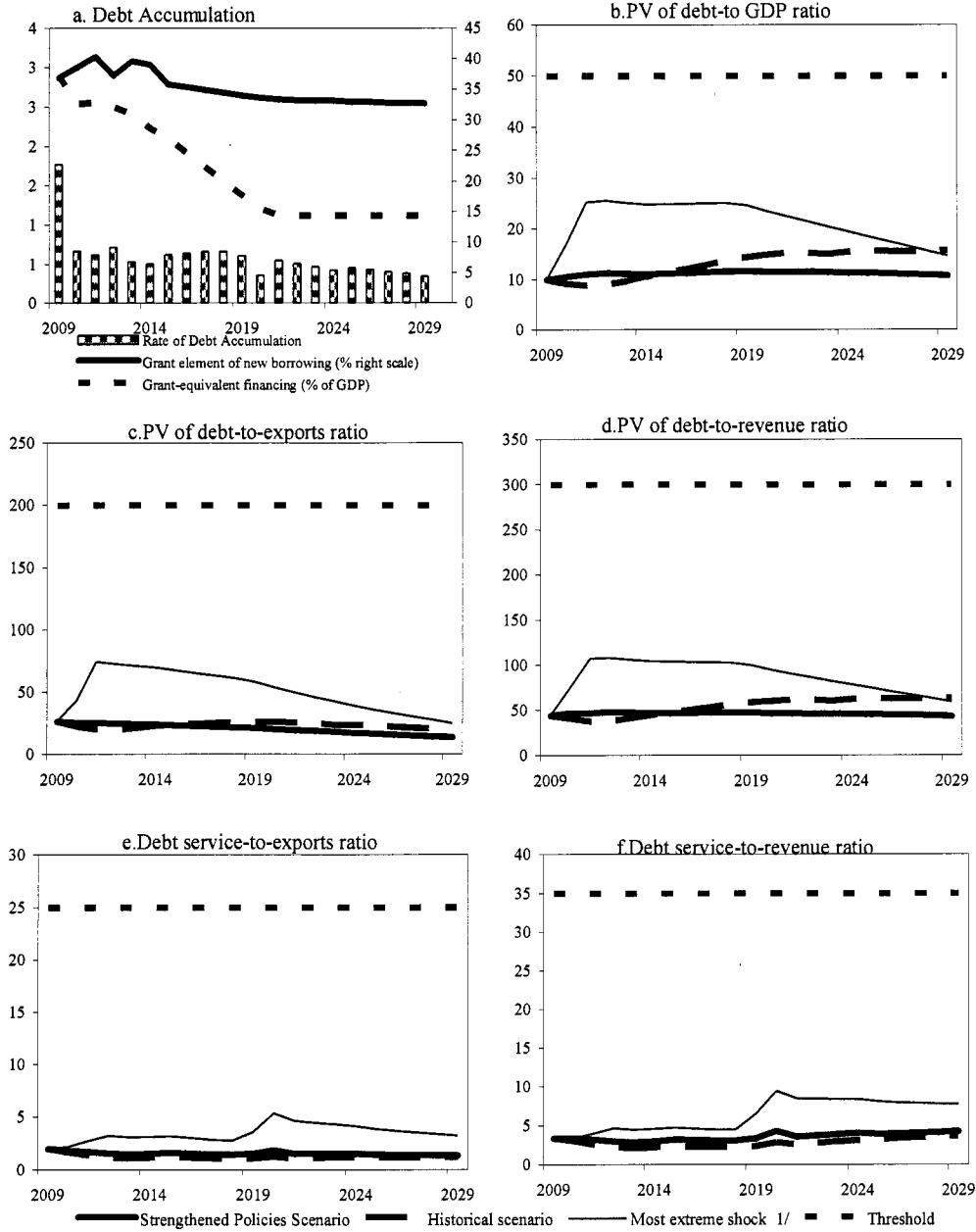
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to the level of the strengthened policies scenario after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

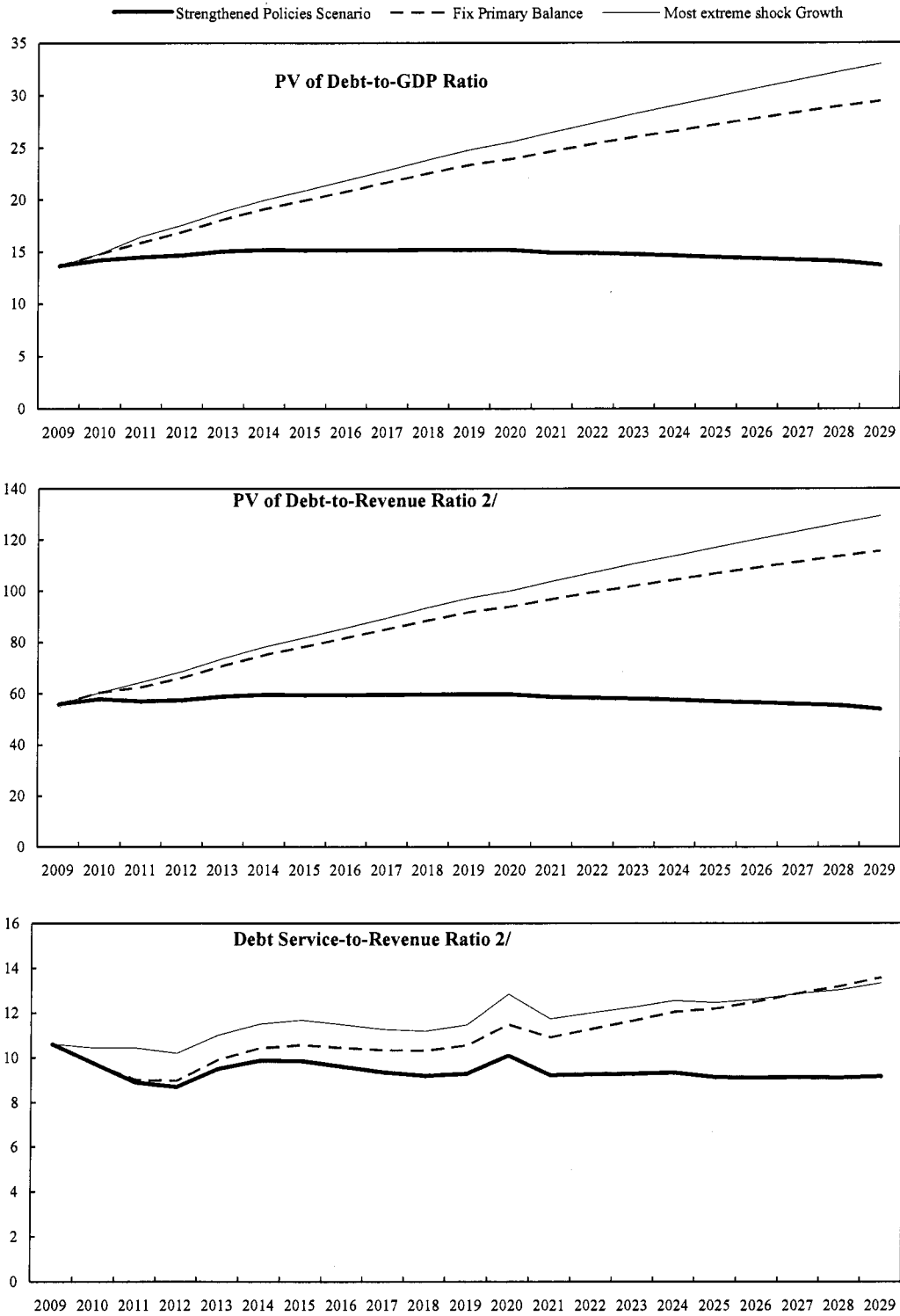
Figure 1. Honduras: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a Non-debt flows shock; in c. to a Exports shock; in d. to a Non-debt flows shock; in e. to a Exports shock and in picture f. to a Non-debt flows shock

Figure 2. Honduras: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/



Sources: Country authorities; and Fund staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.