

IMF and Honduras Reach Basic Agreement on Key Points of New Economic Program

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During policy discussions in Washington D.C. February 1-8, 2008, an International Monetary Fund (IMF) staff team and the Honduran authorities reached basic agreement on key points of an economic program for 2008.

In a meeting with IMF Deputy Managing Director Murilo Portugal, Honduran President Manuel Zelaya underscored the government's commitment to maintaining macroeconomic stability while ensuring continued solid growth and poverty reduction in an increasingly difficult external environment. President Zelaya also emphasized that the government's full ownership of the economic program will ensure the achievement of these goals.

"We stand ready to continue assisting Honduras in its efforts to sustain growth and alleviate poverty, and we thank the authorities for maintaining a close policy dialogue," Mr. Portugal said.

The government's envisaged economic program is aimed at developing a comprehensive set of fiscal, monetary, and external policy measures to address emerging macroeconomic imbalances, maintain solid growth, and place the energy sector on a sustainable footing. The program is based on an overall fiscal deficit of 1½ percent of GDP for 2008, which will provide room for an increase in public investment while keeping the public debt stable. To this end, actions are envisaged to control current spending and strengthen the finances of public enterprises, including with an energy tariff policy that better reflects cost recovery, while focusing subsidies on the poor. Among other policies, monetary policy will be geared to reduce inflation, increase the level of international reserves, and safeguard external competitiveness and stability, in line with growth objectives and within the framework of the current exchange rate system. Prudential policy will encourage banks to manage credit risk better.

Over the next few days, further discussions will take place with the aim of finalizing agreement with staff before end-February. At that time, the authorities will request a Stand-By Arrangement, which the IMF Executive Board could consider for approval in April. In the months ahead, the authorities intend to reinforce their program with a medium-term agenda for poverty reduction and growth.