FOR AGENDA

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CONTAINS CONFIDENTIAL INFORMATION

September 20, 2001

To: Members of the Executive Board

From: The Secretary

Subject: **Honduras—Selected Issues**

This paper provides background information to the staff report on the 2001 Article IV consultation discussions with Honduras (to be issued), which is tentatively scheduled for discussion on Friday, October 5, 2001. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of Honduras indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Rennhack (ext. 37350), Mrs. Mercer-Blackman (ext. 34251), and Mr. Garza (ext. 39970).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, September 28, 2001; and to the European Commission, the European Investment Bank, the Food and Agriculture Organization, the Islamic Development Bank, and the United Nations Development Programme, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

HONDURAS

Selected Issues

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Approved by the Western Hemisphere Department

September 20, 2001

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Honduras: Basic Data

I. Social and Demographic Indicators

Area (thousand sq. km)	111.9	Nutrition (1994)	
		Calorie intake per person	2,368.0
Population (1998)			
Total (million)	6.2	Health (1997)	
Annual rate of growth 1990-98 (percent a year)	2.8	Population per physician	1,226.0
		Population per hospital bed	909.0
Density (per sq. km.)	55.0	Population per nurse	na
GDP per capita (US$) 1999	852		
		Access to electricity	
Population characteristics (1997)		Percent of dwellings	
Life expectancy at birth (years)	69	Urban	na
Crude birth rate (per thousand)	32.7	Rural	na
Crude death rate (per thousand)	5.2		
Infant mortality (per thousand live births)	35.9	Access to safe water (1995)	
Under 5 mortality rate (per thousand)	46.0	Percent of population	77.0
		Urban	91.0
Income distribution (1995)		Rural	66.0
Percent of income received:			
By highest 20 percent of households	58	Education	
By lowest 20 percent of households	3	Adult literacy rate (1998)	73.4
Gini coefficient (1998)	0.58	Enrollment rates, in percent	
		Primary education 1994	111.0
Distribution of labor force, in percent		Secondary education 1993	32.4
Agriculture	41.4	Tertiary 1996	9.0
Industry and mining	11.7		
Services	46.9	GDP (2000)	L 88,025 million US$ 5,932 million

II. Economic Indicators, 1997-2001

	1997	1998	1999	Prel. 2000	Staff Proj. 2001
	(In percent of GDP)				
Origin of GDP					
Agriculture and mining	21.4	17.9	15.3	14.5	14.7
Manufacturing and construction	24.4	24.6	25.9	26.0	26.1
Services	40.8	42.8	44.2	45.7	47.0
	(Annual percentage changes, unless otherwise indicated)				
National accounts and prices					
Real GDP	5.1	2.9	-1.9	4.8	4.0
Real GDP per capita	2.1	0.1	-4.5	2.2	1.5
GDP deflator	22.5	11.6	11.6	9.0	7.8
Consumer price index (period average)	20.2	13.7	11.6	10.5	9.4
Consumer price index (end of period)	12.8	15.6	10.9	10.1	9.0
Open unemployment rate (in percent)	3.6	3.5	3.7	3.5	3.2
	(In percent of GDP)				
Gross domestic investment	23.8	25.4	23.8	24.6	24.8
Of which					
Public investment	6.6	6.3	6.3	4.8	8.7
Gross national savings	20.0	22.6	20.2	21.1	18.4
External savings	-3.9	-2.8	-3.7	-3.5	-6.4
Private consumption	59.0	60.5	68.0	70.4	70.4
Public consumption	23.1	22.2	22.4	18.8	19.9
Public finances					
Central government					
Total revenue 1/	16.9	18.7	19.2	19.8	18.7
Total expenditures	19.7	20.4	23.8	23.5	26.0
Of which					
Interest	3.4	2.8	2.0	1.7	1.4
Savings	1.9	4.1	2.6	3.0	1.7
Primary balance	0.6	1.4	-2.2	-1.3	-3.8
Overall balance 2/	-2.8	-1.4	-4.2	-3.0	-5.2
Consolidated public sector					
Primary balance 3/	2.2	3.7	1.3	2.1	-2.6
Overall balance 3/4/	-2.0	0.2	-0.5	0.7	-3.8

Honduras: Basic Data

	1997	1998	1999	Prel. 2000	Staff Proj. 2001
	(12-month percent change, unless otherwise indicated)				
Money and credit					
Liabilities to private sector	43.3	23.3	22.2	19.6	13.6
Of which					
Money	33.8	12.7	21.2	5.1	12.1
Quasi money	48.2	28.3	22.6	25.5	14.1
Net domestic assets of the banking system	11.5	15.9	-4.7	18.4	9.1
Of which					
Credit to the public sector (net) 5/	276.9	129.2	73.2	2.7	0.6
Liabilities to private sector, in percent of GDP	39.4	42.5	46.6	48.8	49.5
Interest rate (on certificate of deposits, end of period)	21.7	21.7	18.5	14.7	...
	(In millions of U. S. dollars, unless otherwise indicated)				
Balance of payments					
Current account	-183	-148	-198	-205	-394
Merchandise trade balance	-504	-759	-1,292	-1,321	-1,555
Exports	1,534	1,612	1,218	1,377	1,355
Imports	-2,039	-2,371	-2,510	-2,698	-2,910
Services and transfers (net)	322	819	1,258	1,260	1,335
Of which					
Interest	-193	-194	-192	-158	-173
Capital and financial account	210	257	260	71	312
Foreign direct investment	128	99	237	282	200
Portfolio investment 6/	54	-26	-17	-57	0
Other capital (net)	29	184	40	-154	112
Errors and omissions	141	-37	23	26	...
Change in net international reserves (increase -)	-280	-159	-340	-20	-100
Exports of goods (in percent of GDP)	32.5	30.7	22.6	23.2	21.9
Imports of goods (in percent of GDP)	43.2	45.2	46.6	45.5	47.1
Current account (in percent of GDP)	-3.9	-2.8	-3.7	-3.5	-6.4
Merchandise exports (in US$, annual percentage change)	8.2	5.1	-24.4	13.1	-1.6
Merchandise imports (in US$, annual percentage change)	15.9	16.3	5.9	7.5	7.9
Terms of trade (annual percentage change)	8.2	3.6	-9.4	-2.7	-5.1
Real effective exchange rate (12-month percentage change)	15.0	5.4	7.5	10.0	...
International reserve position and external debt (as of December 31)					
Gross official reserves	548	804	1,230	1,285	1,385
(in months of imports) 7/	2.3	3.2	4.4	4.3	4.4
Net official reserves	492	635	976	996	1,096
Net reserves of the banking system	215	364	875	1,020	1,117
Outstanding external debt, in percent of GDP					
Public	69	65	80	77	77
Private	...	...	...	...	...
Total debt service ratio (percent of exports of goods and services 8/	27	17	18	24	14
Of which					
Interest	9	8	8	6	6
Gross reserves/short term debt (in percent)	...	...	...	...	...
IMF data (as of January 31, 2001)					
Membership status:					Article VIII
Intervention currency and rate (buying)					U.S. dollar, at L 15.2 per U.S. dollar
Quota					SDR 129.5 million
Fund holdings of lempiras					SDR 168.4 million
(as percent of quota)					130.0
Outstanding purchases and loans					
PRGF arrangement					SDR 116.9 million
First credit tranche					SDR 47.5 million
SDR department					
Net cumulative allocation					SDR 19.06 million
Holdings					SDR 0.98 million

Sources: Honduran authorities; and Fund staff estimates.

1/ Excludes grants.
2/ Includes HIPC.
3/ After 1998, excludes HONDUTEL.
4/ For 2000 the surplus includes an extraordinary one time transfer from the telecommunications company, which is not consolidated in the nonfinancial public sector, of about 1.7 percent of GDP to cover part of the deficit.
5/ Adjusted to exclude HONDUTEL from the public sector since the 1999 change.
6/ In 2000, the purchase of a zero-coupon bond as guarantee of CABEI debt rescheduling.
7/ Excludes maquila imports.
8/ Before debt relief.

I. Determinants of Investment

A. Introduction

1. After the severe damage on the country's capital stock inflicted by Hurricane Mitch in October 1998, Honduras embarked on a process of reconstruction and poverty alleviation. A challenge for Honduras is to raise the level of per capita income, including through higher factor productivity in the economy. A key element in this strategy is to set up appropriate conditions to further attract high-quality private investment.

2. **This chapter examines the main determinants of investment in Honduras since the late 1970s.**[1] It analyzes the uneven record of macroeconomic policy-making and the undeveloped institutional infrastructure as possibly raising real and intangible production costs and uncertainty, thereby negatively impacting productive investment. The finding confirms the importance of sustained macroeconomic stability for reducing investor uncertainty and setting the stage for sustainable structural reforms.

3. **An investment model is presented as a framework to test the significance of key variables on investment in Honduras.**[2] The analysis focuses primarily on private sector investment in machinery and equipment because of its relevant role in production: empirical evidence suggests that this type of investment has spurred long-term growth due to its association to innovation and higher productivity (Delong and Summers (1991) and Maddison (1991)). Unlike construction, this type of investment tends to be less responsive to business cycles.

B. Evolution of Investment

4. Despite a relatively high level of total investment (21.7 percent of GDP), per capita GDP declined slightly (-0.1 percent per year) over the last two decades. This development suggests that capital productivity, as measured by the inverse of the incremental capital to output ratio (ICOR),[3] remained relatively low. Additional evidence of a low capital productivity includes:

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[1] Due to the unavailability of investment data prior to 1978 in Honduras, the time-series analysis presented has less than 30 observations, and the results should be interpreted in that light.

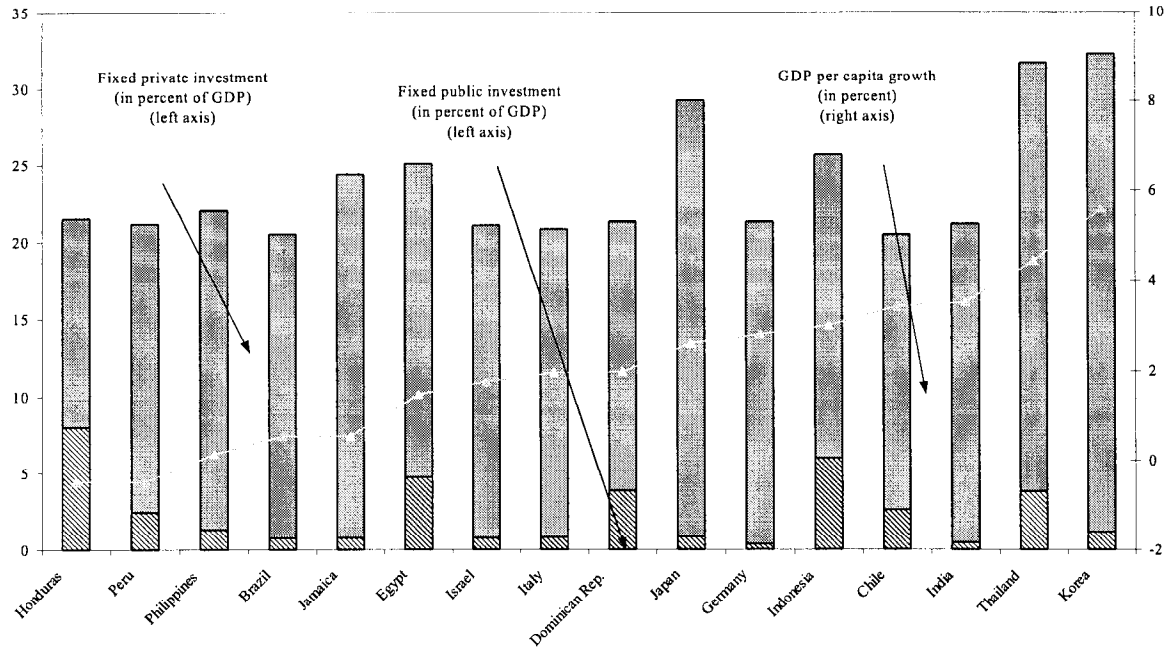
[2] See Caballero (1999) for a survey on recent literature on investment and uncertainty.

[3] Defined as the investment-to-GDP ratio in the two previous years divided by GDP growth of the current year.

- **Capital productivity in Honduras was about the same as in other Central American countries[4] in the 1980s, but lagged behind in the 1990s**. In the 1980s, Honduras sustained levels of investment (17.5 percent of GDP) and per capita GDP growth (-0.8 percent a year) similar to those observed in the other countries. GDP growth was modest in all countries mostly reflecting the adverse effects of the external debt crisis, social unrest, and the war. In contrast, in the 1990s investment in Honduras (25 percent of GDP) was higher than in the other countries in the region (20 percent of GDP), but per capita GDP expanded at a slower pace—0.1 percent a year in Honduras compared to 1.3 percent a year in the other countries.

- **The investment-to-GDP ratio in Honduras was similar to other more developed countries**, but again, most of those countries experienced higher per capita GDP growth (Figure 1). Moreover, the share of public investment in total investment was also higher in Honduras.

Figure 1. Per Capita GDP Growth and Composition of Investment
in Honduras and Selected Countries, 1980-2000



[4] Costa Rica, El Salvador, Guatemala, and Nicaragua.

- **Private machinery investment in terms of GDP (and of total private investment) rose recently** (Table 1). This development reflected higher foreign direct investment, particularly in maquila (in the 1990s), a strengthening of macroeconomic management (1997–2000), and the reconstruction of industrial facilities and residential areas following the damage left by Hurricane Mitch (1999–2000).[5]

Table 1. Honduras: Investment and Growth, 1978-2000
(In percent of GDP, unless otherwise indicated)

	1978-81	1982-85	1986-89	1990-93	1994-97	1998-2000
Per-capita GDP growth (percent)	0.86	-1.80	0.73	0.64	-0.43	-0.70
Gross Fixed Capital Formation (GFCK)	22.8	17.5	15.3	22.6	25.3	28.5
Private GFCK	14.1	7.7	9.8	13.5	16.6	22.7
Of which						
Machinery and equipment	9.9	4.1	5.6	7.9	11.2	15.9
Public GFCK	8.7	9.8	5.4	9.2	8.7	5.8
Memorandum items:						
Share of private machinery and equipment to total private GFCK	70	54	57	59	68	70
ICOR 1/	16.7	-8.9	9.8	45.3	6.2	7.3
ICOR, Central America 1/ 2/	...	...	17.6	7.2	5.5	5.7
Share of permits for industrial construction to total construction permits	...	...	3.7	4.7	2.7	10.6

Source: Central Bank of Honduras; and Fund staff estimates.

1/ Incremental capital-output ratio (ICOR), defined as the investment-to-GDP ratio of the previous two years divided by the current-year real GDP growth. A number roughly above four signals investment inefficiencies. First column is for 1979-81.

2/ Consists of Costa Rica, El Salvador, Guatemala, and Honduras.

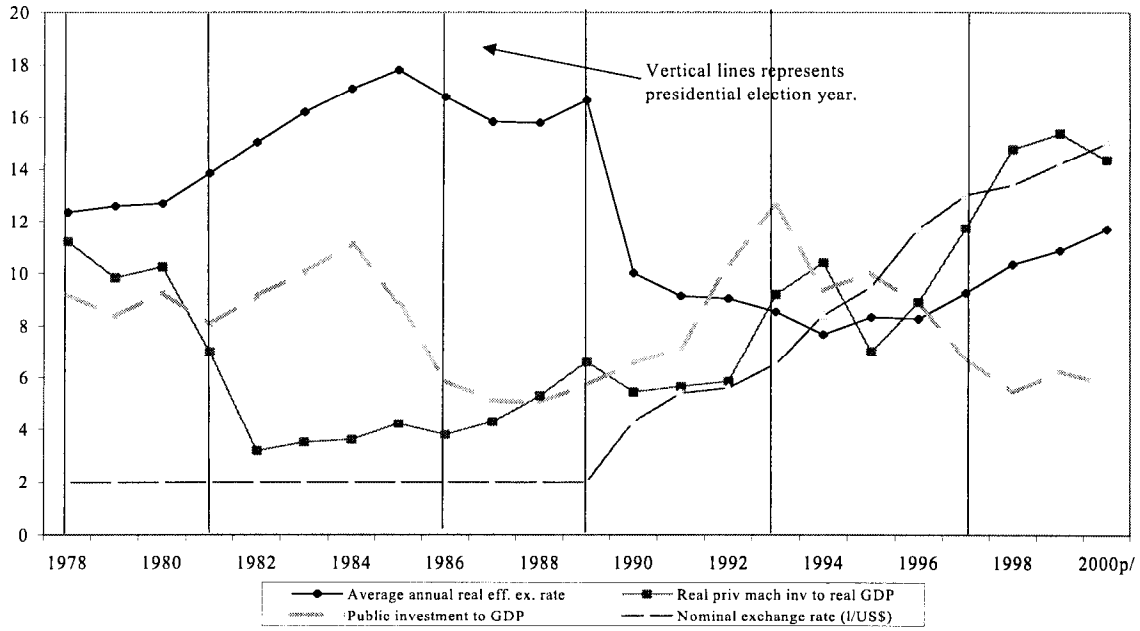
5. **Investment decisions were greatly influenced by changes in macroeconomic policies, changes in the external environment, and natural shocks during this period.** Political cycles[6] and the effects of the external debt crisis in the 1980s adversely affected the behavior of investment. Conversely, the significant real depreciation of the lempira that followed the abandonment of the fixed exchange system (1990) and the liberalization of prices and interest rates (1996–97) greatly improved investment conditions as prices

[5] During the last two decades, most private construction has been residential (Juan-Ramon (1999)).

[6] Political cycles can be associated with temporary increases in public expenditure and rising inflation prior to a presidential election year.

provided better signals in the allocation of resources (Figure 2). After Hurricane Mitch struck, the pursuit of prudent macroeconomic and poverty reduction policies was supported by foreign aid and HIPC debt relief which enabled the process of reconstruction and the recovery of investment.

Figure 2: Private Machinery Investment, Selected Macroeconomic Indicators and the Political Cycle (percent)1/



6. **Improvements in the level and quality of investment in Honduras will require a sounder institutional infrastructure which will help to reduce direct and intangible costs for investors.** Recent studies highlight the role of reliable basic infrastructure, simplified business regulations, improved legal security and reduced corruption in improving the investment environment, thereby promoting long-term growth.[7] These factors also are discussed in the Honduran Poverty Reduction Strategy Paper (PRSP) (Box). Moreover, poor access to credit and adequate technology for innovative activities also inhibit productive investment. In Honduras the development of most traditional activities (mostly in agriculture) has been supported by high protection from external competition.[8] A narrow manufacturing

[7] See for example Olson (1997) and Hall and Jones (1998).

[8] The PRSP (p. 23) notes that most agricultural output is produced by small poor farmers who have marginal access to technology and other inputs such as fertilizers, pesticides, and improved seeds.

base is mostly owned by an urban minority that developed its own financial institutions to fund these activities. Consequently, there were few incentives to develop nontraditional, innovative activities.

Box 1. Adverse Conditions Which Increase Direct and Intangible Costs for Investors in Honduras

The Honduran PRSP defines the following macroeconomic and structural conditions which affect investment. This chapter's analysis will focus in particular on the first three conditions.

- Weak application of the legal and administrative framework to achieve transparency, lower transaction costs, and improve legal security; mainly in relation to simplifying customs procedures; eliminating delays in the issuance of licenses and permits; simplifying investment procedures; modernizing registration systems; and reforming procedures that may lead to corruption or extortion.
- The lack of a uniform and efficient land registry with geographic reference does not guarantee secure land tenure or facilitate the development of markets for purchasing, selling and leasing land.
- There is a lack of infrastructure to support productive investment, because the public sector lacks the capacity to obtain new loans that would finance expansion and improvement in areas such as roads, electric power, telecommunications, ports, airports and water systems. There is still a lack of wide spread private-sector participation. (PRSP 2001), page 24).
- The current labor norms require reform. In particular, it is not possible for employer and employees to create mutually beneficial contracts regarding timetable, benefits, part-time work, and an appropriate pension system.
- The financial sector is not yet sufficiently efficient and competitive as an instrument of development to efficiently channel savings for production. There are restricted interest rates, related lending activities, and supervision is still weak.
- Trade of Honduras with the rest of Central America has not been taken advantage of to its full potential.
- Despite substantial progress in the process of state modernization and decentralization, there is still evidence of an overextended public sector and an inadequate de facto assignment of responsibilities between central and local governments.
- An appreciated real exchange rate in the last few years may have offset some of the positive effects on investment of the 1990 exchange rate liberalization.

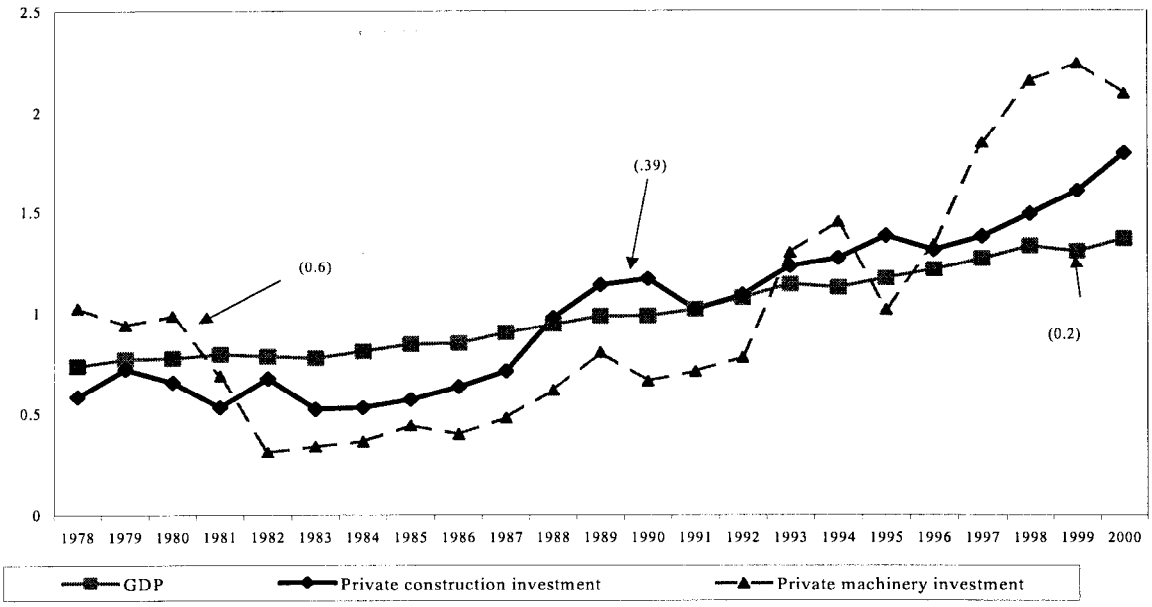
7. **Appendix I presents an investment model to illustrate how uncertainty about macroeconomic policies and the economic environment can increase intangible costs and negatively affect innovative investment**. The model describes the problem of an investor who has two types of capital. One type of capital, labeled "long-term" capital, is said to become "specific" to the production process (irreversible) and is highly productive, but has no resale value if production were to cease.[9] Therefore, the decision of whether to invest in this type of capital is highly sensitive to swift policy changes (such as the transition to a new government, which could be preceded by large increases in government expenditures) or the probability of external shocks. There is a high value to waiting for better information about the future. In the aggregate, it follows from the model that if a critical amount of possibly well-informed investors adopt such cautious behavior and postpone the implementation of investment projects using "long term" capital, there will be a lower level of total economic activity in the economy. This can, in turn, threaten the sustainability of government policies.

[9] As explained, so-called "long-term" capital is meant to represent private investment in machinery and equipment in Honduras.

At the same time, a surge in investment could occur if less well-informed investors follow better-informed investors' decisions to go ahead and invest.

8. **The model predicts a number of trends that can be tested for Honduras.** For instance, overall investment (i) can be adversely affected in periods of high uncertainty as investors may take a wait-and-see attitude (i.e., periods of presidential election may lead to uncertainty for private sector machinery investment); (ii) is negatively related to intangible costs; and (iii) can be volatile as a result of a "herding behavior" among investors (i.e., as some individuals start investing, others follow quickly). As a result, "long-term" capital investment, which is usually more productive and highly responsive to news, is likely to fluctuate more widely than short-term capital investment. In Honduras, private investment in machinery and equipment experienced a considerably higher variance than construction investment and real GDP (Figure 3).

Figure 3. Honduras: Variations of Selected Normalized Real Variables:
(Standard deviation in parenthesis)



C. Estimation and Results

9. **The implications of the model for Honduras are tested in this section.** First, an equation is specified to test whether variables that proxy for macroeconomic uncertainty significantly affect investment decisions of Honduran firms over time, because they increase intangible costs. Second, an aggregate investment demand equation is specified to measure the determinants of the level of investment in Honduras and the relative importance of direct costs such as interest rates and prices.

D. Effects of Macroeconomic Uncertainty on Investment Decisions

10. **An equation with the following specification for the period 1978–2000 is tested** (expected signs of coefficients are in parenthesis):

$$I_{t+1} - I_t = \underset{(-)}{\beta_1 Price_{mach}} + \underset{(-)}{\beta_2 GovDef} + \underset{(-)}{\beta_3 DPOL} + \underset{(-)}{\beta_4 DMITCH} + \underset{(+)}{\beta_5 gr_{GDP}} + \beta_6 Z$$

The behavioral equation states that the one-period-ahead change in real private machinery investment (I_{t+1} - I_t) should be negatively related to (i) the direct cost of investment (i.e., the relative price of machinery expressed in lempiras, $Price_{mach}$);[10] and to (ii) indirect costs associated with factors that amplify macroeconomic uncertainty such as large general government deficits in terms of GDP (*GovDef*) or a presidential election year (expressed as a dummy, *DPOL*). To capture the direct effect from the severe damage inflicted by Hurricane Mitch a dummy variable (*DMITCH*) is added which takes the value 1 for the period 1998–2000 and 0 otherwise. Changes in real private machinery investment should be positively related to growth in aggregate demand proxied by GDP growth (gr_{GDP}). Investment changes may also depend on other variables (***Z***).[11]

11. **All coefficients, except one, have the expected sign and are significant at the 10 percent level and several at the 5 percent level (Table 2).** The results related to the uncertainty variables and real demand are relatively robust for alternative specifications, including replacing the election-year dummy by a nonelection year dummy (positive sign). However, the coefficient for the relative price of machinery, which is closely linked to the exchange rate,[12] was positive and significant. The unexpected sign may reflect the fact that a real depreciation (appreciation) of the lempira tends to raise (lower) the profitability of exportable goods and investment in the sector (see below), offsetting the negative impact of a higher (lower) price of machinery on investment in other sectors. Including the real lending interest rate in the equation did not help as its coefficient was insignificant and reduced the fit of the equation.

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[10] For a discussion of variables and specifications see Appendix II.

[11] Other variables were tested, such as inflation and real interest rates. Ideally other intangible costs such as red-tape costs and corruption could be added, but corresponding data are unavailable.

[12] About 90 percent of the changes in the price of machinery are explained by changes in the exchange rate. The equation was also tested using other variables that captured the effects of relative prices on investment decisions, but the results were poor and in most cases the coefficients were insignificant. This may reflect the problem mentioned in the literature of specifying a relative price when the data is highly aggregated: the relative price faced by each individual investor in Honduras could vary significantly.

12. **The results support the notion that conditions which increase future uncertainty, such as presidential elections and natural disasters, reduce the immediate amount of private machinery investment**. During a presidential election year private machinery investment tends to decline over 2 percent of GDP relative to a normal year (equations 1 and 4). Also, the direct impact of Hurricane Mitch was to curb private machinery investment by almost 7 percent of GDP, although the indirect effects, in particular the subsequent demand for reconstruction investment (see below), could have offset the direct impact.

13. **Policy actions appeared to have altered the underlying economic structure for investment behavior.** For instance, the abandonment of the fixed exchange system and the liberalization of prices suggest that a structural change may have occurred in the 1990s. For this purpose, a Chow breakpoint test was performed. The test rejected the hypothesis of structural stability. In fact, the fit of the equation improves markedly from the period 1978–89 to the period 1990–2000 (equations 2 and 3 in Table 2).[13]

Table 2. Honduras: Determinants of Changes in Machinery Investment, 1978-2000 1/
Dependant variable: DIFFINV Mach 2/
Full-Period Observations: 22

	(1)	(2)	(3)	(4)	(5)	(6)
Sample	1978-2000	1978-1989	1990-2000	1978-2000	1978-1989	1990-2000
PRICE(mach)	0.108	-0.03	0.164	0.152	1.010	0.187
	(2.69)	-(0.06)	(2.08)	(2.97)	(2.33)	(2.08)
GGGDP	-0.720	-0.05	-1.980	-0.545	-1.360	-1.808
	(-1.93)	(-.045)	(-2.161)	(-1.41)	(-1.56)	(-1.79)
DPOL	-0.076	-0.073	-0.067	-0.088	-0.092	-0.094
	(-1.78)	(-1.51)	(-1.0)	(-2.062)	(-2.89)	(-1.16)
DMITCH	-0.209		-0.265	-0.268		-0.299
	(-2.35)		(-2.26)	(-2.75)		(-2.23)
INFLA				-0.335	-1.325	-0.205
				(-1.34)	(-3.49)	(-.68)
gr(GDP)	1.380	0.5	2.850	1.440	-0.6	3.020
	(2.35)	(.595)	(3.2)	(2.50)	(0.1)	(3.09)
R^2	0.472	0.24	0.809	0.525	0.723	0.830
Standard error of the regression	0.083	0.074	0.072	0.080	0.047	0.077
Durbin-Watson statistic	1.9	1.5	2.62	2.1	2.48	2.29

1/ t-statistics in parenthesis.
2/ See Appendix for a full description of the variables.

[13] Due to a small number of degrees of freedom, the result should be interpreted with caution.

14. **Inflation appears to have been a better indicator of macroeconomic stability under the fixed exchange system.** As inflation was added in as a dependant variable in the specification, the coefficients retained their signs (equation 4–6 in Table 2). The coefficient for inflation was negative and highly significant for the period 1978–89 (equation 5), while the hypothesis of structural stability was also rejected (Chow test). This suggests that inflation was a relevant indicator for investors to ascertain the government's commitment to macroeconomic stability, particularly under the fixed exchange rate regime. Moreover, the coefficient for the election year dummy continues to be important, becoming significant at the 5 percent level. Under the specification, the coefficient for the government deficit becomes insignificant, suggesting that this variable captured, in the earlier specification, the effect that inflation now captures. The general government still captures well the effects of macroeconomic uncertainty during the second subperiod (1990s).

E. The Determinants of the Level of Investment

15. **The following aggregate investment demand equation is specified to examine the determinants of the level of machinery investment**:

$$I_{mach}/GDP = \alpha + \beta_1 (FDI/GDP) + \beta_2 REER + \beta_3 REALr + \gamma' \mathbf{Z}$$

This specification postulates that real private machinery investment in terms of real GDP may be related (i) positively to the external financing available, as measured by the lagged net foreign direct investment as a share of GDP *(FDI/GDP)*; (ii) negatively (positively) to the appreciation (depreciation) of the real effective exchange rate if most investment is in the export (domestic production) sector; and (iii) negatively to the real interest rate. Points (ii) and (iii) reflect the direct cost of investment. Other relevant variables tested (denoted by *Z*) include (i) public investment to GDP (*PUB.INV/GDP*) in an attempt to capture complementary/crowding out effects on private investment; (ii) a dummy for the period affected by Hurricane Mitch (*DMITCH*); and (iii) the general government deficit to GDP (*GGGDP*).

16. **The results generally confirm the importance of two external variables in the determination of the level of private machinery investment to GDP in Honduras (Table 3, equation 7).** The coefficient of *FDI/GDP* and *REER* have the expected signs and are significant. A 10 percent real depreciation of the lempira increases private machinery investment by more than one half of one percent of GDP. The coefficient on the real interest rate is significant but not in the direction expected: a higher real lending rate actually increases investment.[14] Neither the contemporaneous general government deficit to GDP (in equation 8), nor the level of public investment to GDP (in equation 9) are significant at the

[14] This result is heavily influenced by the sharp increases in inflation in 1990 and 1993, which actually made real interest rates negative. It may also be capturing the adverse effects of inflation on investment during those periods.

5 percent level, (even though, as explained earlier, these government expenditure variables could have an indirect effect by affecting how investors perceive the future macroeconomic stability).

Table 3. Honduras: Determinants of the Level of Private Machinery Investment
OLS Regression - Dependant Variable: *MINVGDP 1/*
Sample: 1982-2000

	(7)	(8)	(9)	(10)
Constant	0.095	0.089	0.144	0.142
	(4.6)	(3.0)	(4.26)	(4.5)
FDI/GDP(-1)	1.65	1.7	1.1	0.5
	(3.0)	(2.9)	(1.83)	(0.75)
REER	-0.048	-0.047	-0.06	-0.06
	(-3.4)	(-3.2)	-(4.0)	(-4.2)
PUB. INV/GDP			-0.35	-0.25
			(-1.8)	(-1.28)
DMITCH				0.028
				2.0
Real lending interest rate	0.162	0.158	0.19	0.146
	(2.7)	(2.43)	(3.2)	(2.37)
GGGDP		0.056		
		(.328)		
R^2	0.81	0.81	0.84	0.87
Standard error of the regression	0.017	0.017	0.016	0.015
Durbin-Watson statistic	1.8	1.8	1.9	2.1

1/ t-statistics in parenthesis.

17. **The results suggest that there may have been a positive indirect effect resulting from the reconstruction investment following Hurricane Mitch:** the coefficient of the Mitch dummy (*DMITCH*) in equation 10 is significant and positive. The massive inflows of foreign concessional financing for reconstruction investment right after the hurricane, together with new regulations to contract out more public works to the private sector in 1999, helped boost the growth of private machinery investment. This interpretation is also consistent with evidence presented in Lopez (2000) suggesting that public investment may be complimentary to private investment in Honduras.[15] Nonetheless, public investment itself is not generally considered to be as productive as private investment. This may explain why,

[15] Lopez (2000) argues that this is because the bulk of public investment in the 1980s and early 1990s in Honduras has been in roads and creation of energy sources, such as the large "Cajon" hydroelectric generation plant.

unlike Honduras, high-growth economies' share of public investment in total investment is relatively small (see Figure 1).

18. **The role of FDI and the real exchange rate in determining private machinery investment became more relevant over the last decade** as the maquila sector flourished and the trade system became more open. As a result, the bulk of manufacturing investment was made by the maquila sector—value added in this sector rose from 1 to 12 percent of GDP between 1990 and 2000, and accounts for roughly half of all machinery and raw material imports. As part of the free trade zone regime, the maquila sector has enjoyed an environment with lower intangible costs and is responsive to changes in the real exchange rate of the lempira. On the basis of the econometric analysis, the replication of these conditions in other sectors in the economy would have the potential to significantly increase productive investment.

19. **Another approach to assess capital productivity is to consider the current level of investment in Honduras in a standard growth framework and compared to similar countries.** On the basis of parameters estimated by Levine and Renelt's (1992) from cross country regressions of 119 countries over a 30-year period, the current ratio of investment to GDP in Honduran should have resulted in per capita GDP growth of 3.8 percent per year since 1978—compared to -0.1 percent per year experienced during the period. This supports the hypothesis that intangible costs in Honduras are high relative to other countries, translating into less productive investment.

F. Concluding Remarks

20. This chapter examined the determinants of private investment in Honduras. Investor uncertainty regarding the sustainability of government's policies, as observed in the key economic and political variables, has been a deterrent for high productive investment. Productive investment in the maquila sector built up rapidly in the 1990s partly as a result of lower direct and intangible costs (i.e., fewer regulations and higher competition) than in traditional activities. A key challenge is not only to preserve those investment conditions in the maquila sector, but also to replicate them in other sectors of the economy.

21. The chapter highlights the importance of preserving prudent macroeconomic policies, including during the transition to a new administration. Presidential election periods have been a source of uncertainty in the past, which have resulted in less productive investment. Moreover, the econometric analysis also suggests that maintaining a competitive exchange rate is also crucial to encourage productive investment. Overall, steps to reduce uncertainty (such as simplifying business regulations and improving transparency and governance) and "intangible" costs (such as improving access to long-term credit and provision of public services) could contribute to enhancing prospects for higher long-term growth.

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APPENDIX I. AN INVESTMENT MODEL

This model illustrates how uncertainty can reduce investment in Honduras. An investor's objective is to select an optimal amount of investment every period so as to maximize the expected stream of future discounted profits:

$$V_0 = E_0 \sum_{t=0}^{T} \frac{\Pi_t}{(1+r)^t}$$

The value of an investment project at time 0 (V_0) is the expected (E_0) sum of a stream of profits discounted at a certain interest rate (r). Profits at time t (Π_t) are the difference of net

$$\Pi_t \equiv (1-\tau_t)\, P_t\, Q_t(K_t, S_t) - c_{kt}\, K_t - c_{st}\, S_t$$

sales from total costs:

where P_t is the price of output, Q_t. Output is a function of long-term capital K_t and short-term capital S_t, while c_k and c_s are the cost per unit of each type of capital, respectively. Unit revenues are reduced by a factor τ_t, which represents the tangible and intangible unit costs which adversely influences production. This cost is modeled as a tax rate, which can take one of two values each period: a high rate (τ_H) and a low rate (τ_L).[16] It will be referred to in the model as a tax, but it not supposed to represent a standard government-levied sales tax. Rather, it represents the costs that can arise from economic inefficiencies or from an uncertain macroeconomic environment.[17] In the specific case of Honduras, it represents the extra unit cost to investors that may have resulted from swift policy changes from one government to the next, external shocks and intangible costs resulting from the undeveloped infrastructure. Production could be carried out with short-term capital only, but it is more productive to use both inputs. The nature of the two types of capital is important:

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[16] In the literature on investment and uncertainty, the source of uncertainty is either the output price or a variant thereof, such as taxes (see Caballero (1999), Dixit, and Pindyck (1993)).

[17] For example, the loss of purchasing power in a hyperinflationary economy, the high transaction costs of routine errands for firms operating in an environment where there are ambiguous laws and poor infrastructure, or the high costs of security under transitional political situations.

- Long-term capital is a specialized input that becomes completely *specific* (Caballero and Hammour (1998)) once it is used in production. It bears the highest productivity, but has no resale value if production were to cease.[18]

- Short-term capital is working capital that responds quickly to changes in demand (such as raw material, small machines, and computers), that may be used for other purposes, and therefore has resale value.

A new government is assumed to take office at period zero and choose a "tax rate" for each period $\tau_t = \{\tau_H, \tau_L\}$. The investor is uncertain at the start of each period whether this "tax rate" will be high or low. The government adopts its macroeconomic program with the intention to remain in power (or have its party's candidates in power) for a number of periods, ***T***. There are two types of governments; a rich (better-endowed) government (superscript ***r***) and a poor government (superscript ***v***).[19] The difference between the two is the amount of tax revenue required to sustain their program through period ***T***. The investor is also uncertain about which type of government is in power. The objective of the government (***i={r, v}***) is to choose a sequence of tax rates from period 1 to ***T*** that minimizes the total discounted stream of loss functions, Λ_t:

$$G = \underset{\{\tau_t\}}{\text{Min}} \sum_{t=0}^{T} \frac{1}{(1+r)^t} \Lambda_t(\tau_t)$$

subject to the budget constraint,

$$\sum_{t=0}^{T} \frac{\tau_t H_t}{(1+r)^t} \geq R^i$$

---

[18] The standard literature on investment and uncertainty (Abel and Eberly (1999), Caballero (1991)) shows how an investor must have a factor of production which becomes specific to production once invested (is irreversible), and there is increasing returns to scale in production. K_t in this simplified model represents such a factor of production.

[19] The two types of government merely represent two possible states of nature: they are labeled "rich" or "poor" for presentational clarity. The government in the model acts passively and minimizes its loss function ahead of time.

where H_t is the sum of the taxable income from investors in period t and R^i is the total amount of revenue required to successfully implement ex-ante the government program. Since the two governments differ in the total amount of tax revenue to be raised ($R^r<R^p$), the optimal sequence of taxes levied by the rich government is lower than that levied by the poor government. Another interpretation is that the rich government implements better policies which translate into lower costs for investors over the relevant period.

Each period the investor carefully observes the realized "tax rate" and updates his/her prior beliefs on whether the government is "rich" or "poor." The content of information makes it rational either to adopt a wait-and-see attitude or move forward at once with the investment project. Investors also vary according to the type of project and prior information. In this regard, there is a group of individuals with highly profitable projects which invest immediately, regardless of the government in power. Alternatively, there is another group who would only invest under favorable macroeconomic conditions. The latter group, hence, is highly sensitive to the information available on the government (i.e., the observed sequence of tax rates).

The solution to the investor's problem highlights the importance of information.[20] The optimal choice of short-term capital in each period (S^*_t) is achieved when the expected marginal revenue from investing in this type of capital is equal to its marginal cost. The solution for long-term capital, however, is different because of its irreversible nature and the uncertainty arising from government actions. The optimal amount of long-term capital (K_t^*) at any period, say $\boldsymbol{u}$, is achieved when the marginal revenue from investing in long-term capital exceeds its marginal cost by an amount equal to the marginal option value $\boldsymbol{O}$:

$$O_u = (E_{u+1} - E_u)\left[\sum_{t=u+1}^{T} \frac{W_t^r}{(1+r)^t} - \sum_{t=u}^{T} \frac{W_t^p}{(1+r)^t}\right] - \Pi_t(K_t, S_t^*)$$

When $\boldsymbol{O_u}$ is positive, there is value from waiting at time t. That is, the value of the information on the possible future profitability of K_t is greater than the foregone profits of investing K_t at time u.[21] When $\boldsymbol{O_u}$ is zero or negative, there is no value from waiting. The individual invests K_u^* and the option is extinguished. The square-bracketed term in the above equation is the difference between the expected discounted future profits if the government were rich versus if it were poor, which is always positive. The term $\boldsymbol{E_{u+1} - E_u}$ is the extra

[20] See Mercer-Blackman (1996) for a detailed solution to the investor's problem.

[21] This is a standard result from the uncertainty-investment literature, namely, that the 'threshold' optimal value of the marginal profitability of capital (where the investor invests more) needs to be higher than what is obtained from the standard Marshallian first order-conditions (Dixit and Pindyck (1993)).

information gained by the investor from waiting one more period. Once the investor is certain about the type of government in power, no information is gained from waiting and the term becomes zero. The tax rates in the model act as signals every period which enable the investor to get more information about which type of government is in power. All else being equal (in particular the investors' prior beliefs),[22] the more there are lower taxes τ_L in the sequence $\{\tau\}_{t=0}^{T}$, the smaller the option value, O_t.

In the case of asymmetric information, once some individuals decide to invest, this action may give a signal to other, less well-informed investors to follow, thus amplifying the overall investment response. A surge in investment would thus increase the revenue of the government. *Ex-post,* even a "poor" government may be able to receive enough revenue to sustain its macroeconomic program in the model. The opposite case could occur: a government that comes to power with the best of intentions and possibly well-endowed, when faced with a pessimistic group of investors that have a tendency to wait a long time before investing (low priors, perhaps because of a history of bad policymaking by previous administrations), may be unable to sustain its program as the low revenues could lead to unsustainable fiscal deficits.

[22] The prior beliefs of investors also affect the option value. For example, an initially well-informed, optimistic investor may conclude after observing only low taxes for five periods that the government in power is "rich" and will go ahead and invest. Another investor with exactly the same technology but possibly less information may prefer to wait an extra period or two before going ahead.

APPENDIX II: DESCRIPTION OF DATA AND ISSUES ARISING FROM THE SPECIFICATIONS

The table below describes the variables used in the estimations, their source and the periods for which they are available.

The estimations presented in Tables 2 and 3 were performed using ordinary least squares. Most of the variables are expressed either in percentage shares, first differences, or in the case of dummies, as binary variables (Table). The lack of data availability prevented an analysis over a longer time horizon. In the second equation (examined in Table 3), there are few degrees of freedom due to the reduced sample resulting from the lack of data for the earlier years examined. Nonetheless, the coefficients of the main variables seemed to be robust to small changes in the specifications.

Several tests were conducted to ensure the robustness of the estimation results. The dependant variables—the first difference of real private machinery investment and investment to GDP—were tested for nonstationarity using the Augmented Dickey-Fuller test, which rejected the hypothesis of nonstationarity. The second equation used the lagged *FDI/GDP* variable to address possible simultaneity between contemporaneous foreign direct investment and real machinery investment. The possibility of using maquila exports as a proxy for external demand as an explanatory variable was not possible since even first-order variations of the variable were found to be nonstationary. The standard errors of the regression and the fit of the equation tend to be better for the second sub-period tested: 1990–2000. Finally, no collinearity among the dependant variables was detected.

Table. Honduras: Description of Variables Used in Estimation

Variable Name	Description	Source	Availability Since
DIFFINV $_{mach}$	One period ahead first difference of real private maachinery investment, which is expressed in billions of 1978 lempira.	Central Bank of Honduras, (CBH) detailed national accounts	1978
DMITCH	Dumy, with value 1 in for all years on or after 1998.		
DPOL	Binary variable, equal to 1 during the year of presidential elections.	Honduras factbook	
FDI/GDP	Net direct investment in billions of US$ as a percent of GDP.	Balance of payments, CBH.	1975
GGGDP	General government balance as a percent of GDP (numerator and denominator expressed in nominal lempiras).	Ministry of Finance and CBH	
$_{gr}$(GDP)	Real annual average GDP growth (in percent).	National accounts and Fund staff estimates	1970
INFLA	Change in the consumper price index (in percent).	CBH	1970
MINVGDP	Real private investment in machinery and equipment, in billions of 1978 lempiras, as a percent of real GDP.	CBH, detailed national accounts	1978
PRICE$_{(mach)}$	U. S. producer price index (Dec. 1993=1) of general purpose machinery and equipment multiplied by the lempira/US$ exchange rate, divided by the U.S. wholesale price index. 1/	U.S. Bureau of Labor Statistics and IMF Information Notice System	1975
PUB.INV/GDP	Nominal public investment as a share of nominal GDP.	Ministry of Finance and CBH	1978
Real lending interest rate	Average banking system lending interest rate minus inflation (in percent)	CBH	1982
REER	Real effective exchange rate index (1990=1).	IMF Information Notice System and Fund staff estimates	1978

1/ Used as a proxy for its domestic price (not available). However, most of the machinery and equipment used for investment in Honduras is imported.

II. Soundness of the Financial Sector

22. This chapter describes the structure and developments in the Honduran financial system over the period 1996–2000. It also discusses aspects related to the overall health of the sector and highlights some deficiencies in the current prudential framework.

A. Structure of the Financial Sector

23. **The financial system is relatively large,** with total assets equivalent to 76 percent of GDP,[23] credit to the private sector amounting to 41 percent of GDP, and broad money standing at 47 percent of GDP. The financial system comprises commercial banks, state-owned banks, savings and loans (*asociaciones de ahorro y prestamo)*, and finance corporations (*financieras)* (Table 1). The banking system is the dominant player in the sector, accounting for 90 percent of total assets. The role of off-shore operations in financial intermediation is very limited.

24. **Financial intermediation is somewhat concentrated within the banking system,** as four banks account for half of total assets and deposits in the system while nine banks account for about 75 percent of total assets and deposits. Over the last five years, the number of financial intermediaries and their market share remained broadly stable,[24] although two medium-sized banks merged in June 2000 to create the largest bank of the system, accounting for 16 percent of assets. Mergers and acquisitions may become an option among smaller banks as a way to raise the level of profitability and broaden the deposit base in the context of a relatively small market.

25. **Foreign ownership is limited** to only 2.3 percent of commercial bank capital (only two banks have majority foreign ownership).[25] While there are no legal barriers for entry, a greater foreign involvement in the sector seems to have been discouraged by the small size of the market and a current weak financial situation (see below).

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[23] This ratio is higher than in Costa Rica (60 percent of GDP), El Salvador (65 percent of GDP), and Guatemala (29 percent of GDP).

[24] Although the number of finance corporations rose in 1999–2000 as new licenses were issued following the broadening of supervision to cover these intermediaries.

[25] For instance, foreign ownership in the banking system amounts to 20 percent in El Salvador.

Table 1. Honduras: Structure of the Financial System

	1996	1997	1998	1999	Prel. 2000
Total financial sector					
Number of institutions	30	30	34	39	39
Total assets					
In millions of lempiras	29,389	39,662	34,346	58,881	67,054
In percent of GDP	61.5	64.7	48.8	76.4	76.2
Commercial banks					
Number of institutions	21	22	22	22	21
Of which					
Foreign owned institutions 1/	2	2	2	2	2
Degree of foreign ownership (percent) 2/	...	2.4	2.9	2.2	2.3
Number of banks accounting for 75 percent of assets	10	10	10	10	9
Number of banks accounting for 50 percent of assets	5	5	5	5	4
Total assets (in millions of lempiras)	25,631	35,091	29,688	53,071	60,379
In percent of total system assets	87.2	88.5	86.4	90.1	90.0
In percent of GDP	53.7	57.2	42.1	68.8	68.6
State-owned banks					
Number of institutions	3	3	2	2	2
Total assets					
In millions of lempiras	1,700	2,426	1,196	1,123	1,118
In percent of total system assets	5.8	6.1	3.5	1.9	1.7
Savings and loans					
Number of institutions	6	5	4	4	4
Total assets					
In millions of lempiras	2,058	2,145	2,803	3,547	4,340
In percent of total system assets	7.0	5.4	8.2	6.0	6.5
Finance institutions					
Number of institutions	--	--	6	11	12
Total assets					
In millions of lempiras	--	--	659	1,141	1,216
In percent of total system assets			1.9	1.9	1.8

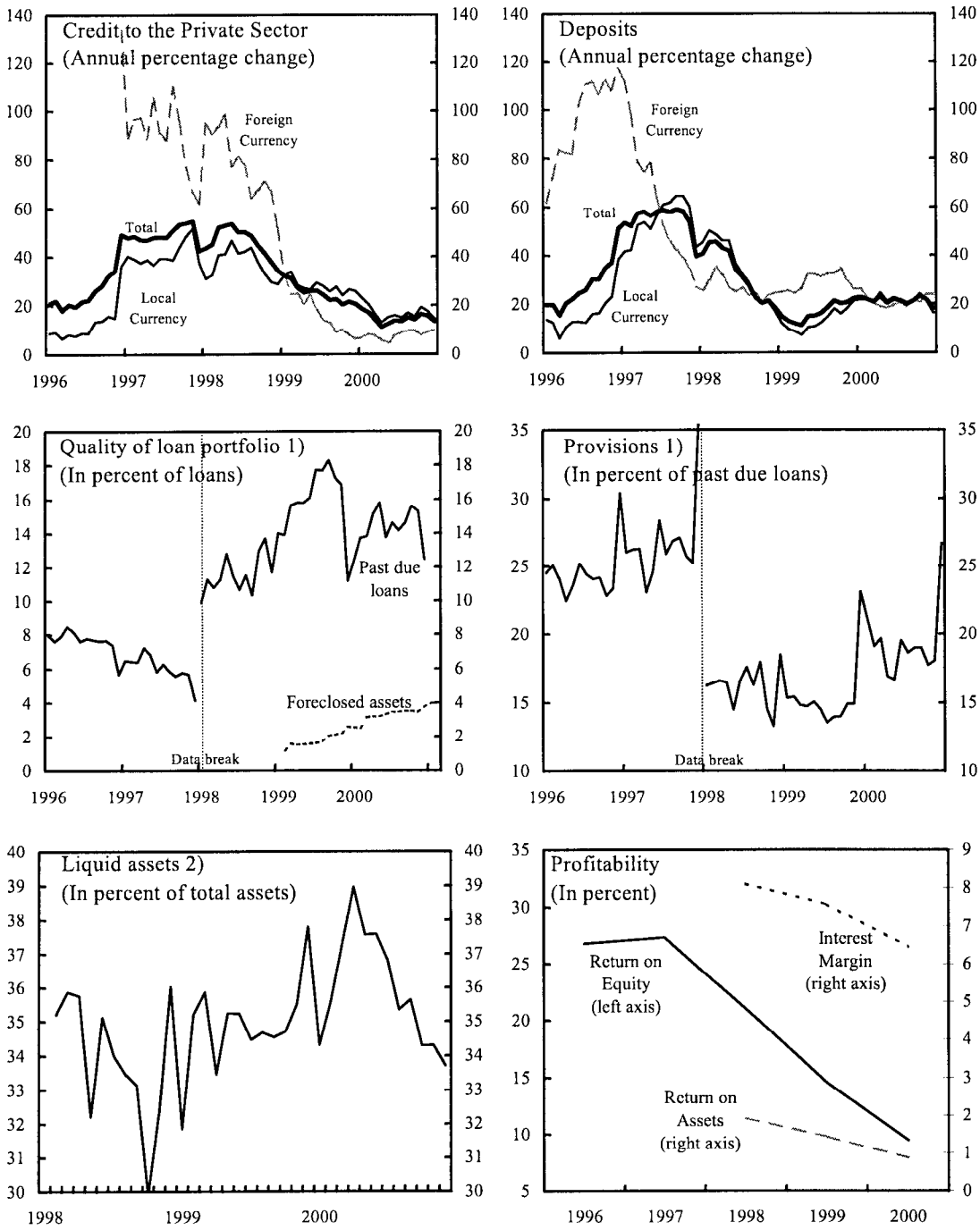
Sources: Superintendency of Banks; and Fund staff estimates.

1/ Number of banks with more than 50 percent foreign ownership.
2/ Percentage of commercial bank capital owned by foreigners.

B. Performance Indicators of the Banking System

26. **The overall situation of the banking system deteriorated following a lending boom experienced during 1997–98.** During this period, credit to the private sector expanded at an annual rate of 45 percent in real terms against a background of high coffee prices and strong economic growth—real GDP grew by about 5 percent a year in the period. As bank deposits rose at a slower pace, credit expansion was partly financed from external sources of financing (Figure 1). After Hurricane Mitch struck in October 1998, a strengthening in macroeconomic policies and a more cautious bank behavior contributed to lower the

Figure 1. Honduras: Performance Indicators in Commercial Banks, 1996-2000



Sources: Superintendency of Banks; and Fund staff estimates.

1/ Past-due loans were redefined in January 1998 to include full principal of loan.

2/ Liquid assets are defined as cash, deposits in the Central Bank, deposits in other domestic and foreign banks, checks and transaction values.

expansion in credit to a more sustainable level of 8 percent in real terms during 1999–2000. At the same time, a strong increase in deposits in this period allowed banks to improve their net foreign asset position.

27. **A deteriorating quality of the loan portfolio and low provisioning of overdue loans became a serious problem for the financial system during 1998–2000**. The deterioration in loan quality that began in early 1998 was compounded by the adverse effect of Hurricane Mitch on the real sector, inhibiting the repayment capacity of lenders while reducing the banks' willingness to lend. As a result, the share of overdue loans (90 days and more) in total loans rose from an estimated 10 percent at end-1997 to a peak of 18 percent in August 1999, and fell to 12.5 percent at end-2000 (see Figure 1). Meanwhile, the level of provisioning only rose from an average of 15 percent of overdue loans in 1998 to an average of 20 percent in 2000, while foreclosed assets (realization of loan collateral) rose from about 1 percent of total loans in January 1999 to 4 percent at end-2000.

28. **Profitability in the banking system declined as a result of the weakening in the loan portfolio.** The return on equity fell sharply from 27 percent in December 1997 to 9 percent in December 2000. In the meantime, the return on assets declined from 3 percent in 1998 to 1 percent in 2000.

29. **Overall, the soundness of the banking system in Honduras compares unfavorably to other countries in the region (Table 2).** By December 2000, the quality of loans and provisioning of overdue loans were weaker than in other Central American countries. The CAR of the banking system was also the smallest in the region while the level of profitability was about the same as in Costa Rica, El Salvador, and Guatemala.

C. Exposure of the Banking System

30. **The exposure of the banking system to foreign exchange risk is somewhat high.** In February 2001, the banking system held a long position in foreign exchange (net assets in foreign exchange) equivalent to 42 percent of capital and reserves—with each bank holding a long position, which for one bank amounted to 147 percent of capital and reserves. There is no mandatory limit on the net foreign exchange position of banks, but present regulations make bank deposits in foreign currency subject to a 50 percent reserve requirement while the rest may be lent in foreign exchange. Of the latter amount, up to 80 percent may be lent to foreign-exchange generating firms and up to 20 percent to nonforeign-exchange generating firms.

Table 2. Central America: Key Performance Indicators of Commercial Banks

(As of December 2000)

	Honduras	El Salvador	Guatemala	Costa Rica	Nicaragua
	(In percent, unless otherwise stated)				
Structure					
Total assets (US$ billion)	4.0	9.3	5.0	6.0	1.9
Private sector credit/total assets	51.5	61.0	54.8	46.9	46.6
Credit/GDP	41.0	41.3	15.7	25.7	36.4
Asset quality					
Overdue loans/gross loans 1/	12.5	5.0	9.7	3.7	5.3
Provisions/overdue loans	26.7	84.4	37.3	100.0	100.0
Assets substandard or worse/total loans 2/	20.5	14.3	5.2	5.4	11.5
Solvency					
Risk-weighted capital to assets ratio	11.3	11.5	14.2	...	14.1
Profitability					
Return on Assets	0.9	0.3	1.1	0.8	-0.1
Return on Equity	9.5	3.1	10.6	9.3	-1.8

Sources: Superintendency of Banks; and Fund staff estimates.

1/ Overdue loans are defined as loans past due for 90 days or more for Costa Rica, El Salvador, Guatemala, and Honduras. The definition is unavailable for Nicaragua.

2/ Assets classified as III, IV, and V in Honduras and C, D, and E in the rest of the countries.

31. **Overall, credit risk from productive sectors in the economy is diversified** as most of the banks' lending operations were distributed among the agricultural, housing, commercial and manufacturing sectors, accounting for 50 percent of GDP (Table 3). On an individual basis, however, there was a number of banks that were excessively exposed to the agricultural sector making them highly vulnerable to terms of trade shocks and weather conditions.[26] One bank was heavily concentrated in lending operations to the real estate sector. Savings and loans provided loans mainly to the housing sector while finance corporations were mostly concentrated on consumption and commercial sector loans.

[26] Four banks which accounted for a combined 18 percent of assets in the financial sector held over 40 percent of their portfolio in agricultural loans.

Table 3. Honduras: Financial Sector Exposure to Economic Sectors

(As of November 2000)

	Agri-culture	Housing	Commerce	Manu-facturing	Con-sumption	Other
Total financial sector	**19.3**	**21.4**	**19.5**	**16.1**	**7.5**	**16.3**
Commercial banks	21.1	15.4	21.1	18.1	7.0	17.3
State banks	87.5	1.5	6.0	1.0	0.0	4.1
Savings and loans	0.0	84.7	3.9	0.1	10.7	0.6
Finance institutions	4.4	6.6	19.6	3.5	20.3	45.6

Sources: Superintendency of Banks; and Fund staff estimates.

32. **A significant maturity mismatch in the financial system constitutes a source of high liquidity risk.** On the basis of on-site inspections, the CNBS estimated that the average maturity of assets was a little longer than one year while the average maturity of liabilities was only three months. Although the deposit base remained fairly stable in terms of GDP during 1996–2000, the maturity mismatch makes banks vulnerable to liquidity risk that could arise from unanticipated shocks in the demand for deposits.

33. **Bank lending to related parties and equity participation in private corporations is excessive.** Current legislation allows banks to engage in related lending up to the equivalent of 120 percent of capital and reserves, well above the limit dictated by international best practices (20–30 percent of capital and reserves). Notwithstanding, in February 2001, two banks exceeded the legal limit on related lending while nine banks surpassed the above international threshold. In addition, banks involvement in the equity of private companies is allowed up to 50 percent of capital and reserves, well above the level consistent with international best practices (25 percent capital and reserves).

D. Regulatory Framework

34. **The regulatory framework suffers from significant deficiencies despite progress made towards complying with Basle principles and other international standards.** An assessment of the Basel Core Principles for Effective Banking Supervision has not been undertaken in Honduras. Therefore, the implications of existing deficiencies and lack of compliance with international best practices have not been properly evaluated. Nevertheless, this section intends to identify some of the broad problems affecting current prudential and supervision practices.

35. **Despite a tightening of classification and provisioning rules for overdue loans in June 1999, they remain weaker than international standards (Table 4).** For example, provisioning of loans under execution (cartera vencida) was only 40 percent of those loans in December 2000, compared to a full provisioning suggested by international best practices. Moreover, international best practices dictate that loan classification should be based primarily on the debtor's future capacity to repay. In Honduras, however, loan classification is based on the debtor's history of repayment while the capacity to repay and availability of collateral are considered secondary factors. Also, the use of a generic provisioning for performing loans (about 1 percent), which recently became a common best practice in a number of Latin American countries (for instance, Argentina, Bolivia, Peru, and Costa Rica), has not been adopted in Honduras.

Table 4. Classification of Assets and Minimum Provisioning Requirements 1/

(As of December 2000)

	Commercial 2/		Consumption		Housing	
	Days Past Due	Provisioning (Percent)	Days Past Due	Provisioning (Percent)	Days Past Due	Provisioning (Percent)
I. Normal	<30	0	<30	0	<30	0
II. Special mention	31-60	1	31-90	1	31-120	1
III. Substandard	61-90	10	91-120	10	121-180	10
IV. Doubtful 3/	91-180	...	121-180	50	>180	50
IV. 1.		25		...		...
IV. 2.		50		...		...
IV. 3.		75		...		...
V. Lost	>180	100	>180	100		...

Sources: Superintendency of Banks; and Fund staff estimates.

1/ Apart from the number of days for which interest payments are past due, the value and quality of collateral as well as the payment capacity of the debtor are also taken into account when classifying an asset.

2/ Only 80 percent of commercial loans requires classification. The remainder consists of small loans, which are provisione according to the weighted average risk category for the total commercial loan portfolio.

3/ Asset classification for categories IV.1.3 is subject to the expected realization value of corresponding guarantees.

36. **Current prudential regulations create a bias toward undercapitalization of banks.** Besides high ceilings on lending to related parties and equity participation in private companies, regulations permit a two-year grace period for provisioning of foreclosed assets and another two-year period to write off these assets, effectively allowing banks to dilute provisioning and capitalization levels. The regulations also do not require provisioning of restructured loans to the agricultural sector, encouraging weak banks to restructure such loans to comply with the required CAR.

37. **Steps were taken to address the problem of undercapitalization in the banking system.** Regulations were issued in July 1999 to bring risk weights for the calculation of the capital adequacy ratio (CAR) in line with Basel standards.[27] In addition, the required CAR was raised from 8 to 9 percent in June 1999 and was further increased in a series of steps to 10 percent during 2000. These actions implied a significant capitalization of the banking system. However, three banks failed to meet the new required CAR and were subject to action plans from the superintendency of banks (CNBS) to comply with the capital requirement by December 2001.

38. **The supervisory powers of the CNBS have been strengthened gradually.** On-site inspections have been carried out for all financial intermediaries since 1999, allowing the CNBS to better formulate actions to improve bank compliance with established regulations regarding asset classification, provisioning, and capitalization. On-site inspections helped identify the improper classification and provisioning of about 25 percent of assets at end-2000. In response, the CNBS requested all banks to present their balance sheets in line with present regulations starting in September 2001. Also, as noted above, the CNBS placed three undercapitalized banks under special plans to make them comply with the required CAR by December 2001. However, consolidated supervision of financial conglomerates or economic groups still needs to be adopted to (i) level the playing field further for all financial intermediaries; (ii) avoid regulatory arbitrage; and (iii) limit systemic risk and contagion and strengthen the safety net for the sector.

39. **An explicit limited deposit insurance is being introduced.** In September 1999, a financial sector bill was passed to establish an explicit full government guarantee of bank deposits and provide for a shift to a system of limited deposit insurance by September 2002. The bill insured deposits up to L 100,000 (about US$6,700) and set an insurance premium of 0.25 percent of deposits until September 2002 and 0.1 percent thereafter. Subsequently, a deposit insurance bill was approved in May 2001 that raised the insured deposit amount to L 150,000 (about US$10,000) and strengthened the powers of the CNBS to require corrective plans from weak financial intermediaries, and clarified the criteria for intervention/liquidation of financial intermediaries.

40. **The envisaged deposit insurance scheme has some problems.** First, the insured amount is relatively high as it effectively provides full guarantee for 70 percent of total deposits.[28] This situation may inhibit market discipline as depositors would be less likely to

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[27] The risk weights were adjusted to reflect more accurately the quality of bank assets, but left aside other relevant sources of risk such as those related to market and liquidity conditions.

[28] The insured amount covers 99 percent of all deposit accounts and is equivalent to 10.8 times per capita GDP in Honduras, which exceeds the average amount (3.5 times per capita GDP) insured in other Latin American countries and the amount (1–2 times per capita GDP) suggested under international best practices.

require higher deposit rates from riskier banks. Second, with a difficult situation in the banking system, the envisaged insurance scheme may also be underfunded because the premium could be insufficient to cover potential bankruptcy risk. Moreover, the envisaged insurance premium is well below the level prevailing in most other neighboring countries.[29] However, the fragile situation in the financial sector makes it difficult to reduce insurance coverage.

41. **Standards for public disclosure of financial information are also weaker than international standards, but significant progress is envisaged by end-2001**. The customary monthly release of banks' balance sheets will be supplemented with additional financial information starting in November 2001. The new information will include income statements, asset classification and provisioning, restructured loans and related lending, and liquidity and capital adequacy ratios.

42. **Significant deficiencies in the legal system contribute to the high cost and low access to credit.** Outdated bankruptcy procedures increase the cost of asset recovery while lengthy civil procedures related to contract enforcement and adjudication of claims make credit operations riskier and costlier. In addition, difficulties in the use of movable property as collateral reduces access to credit for small and rural enterprises, and the absence of an efficient registration system for movable property results in high enforcement cost for security interests created over movables, making lenders reluctant to accept it as collateral. The recent approval of an out-of-court arbitration scheme is envisaged to reduce dispute settlement costs and lengthy judicial processes.

E. Conclusions

43. The Honduran financial system is fragile and problems remain in the regulatory framework. With the objective of further improving the situation in the system, the authorities are taking a number of actions, including:

- **Strenghtening prudential framework** and submitting legislation to bring down ceilings on related lending (from the current 120 percent of capital to 30 percent over three years), and equity participation in private corporations (from 50 to 20 percent over two years) in line with international best practices.

- **Improving accounting and disclosure practices** starting in November 2001, with a view of fostering a proper classification of assets and provisioning, and disseminating relevant financial information to the public.

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[29] Insurance premium amounts to an average 0.4–0.5 percent of deposits in Latin American countries, but could be higher in countries with weaker banking systems. The premium amounts to 2 percent in Venezuela, and 0.65 percent plus a risk premium in Ecuador.

- **Assessing compliance with Basel Principles for effective banking supervision** as to better identify deficiencies and set up priorities for improvement. In this regard, the authorities plan to participate next year in a Financial Sector Assessment Program (FSAP) from the Fund.

- **Introducing legal protection for CNBS staff** for actions adopted in the conduct of their responsibilities. For this purpose, a draft bill is to be presented to congress by year's end.

- **Upgrading bankruptcy procedures** to facilitate exit for banks; streamlining civil procedures on contract enforcement; and introducing an appropriate registration system for movable property. To this end, the authorities are taking steps to seek approval of related laws and modify corresponding rules.

44. With the objective of supplementing these actions, it would be desirable to (i) discontinue practices that lead to artificially higher CARs, such as grace periods for provisioning of foreclosed assets and zero-provisioning of restructured loans (i.e., agricultural loans); and (ii) broaden supervision to cover consolidated financial conglomerates, encompassing regulation of an individual bank, its subsidiaries, holding companies, and other financial affiliates.

III. Exchange Rate Determination in Honduras: Auctions within a Crawling Band

A. A Flexible Exchange Rate Regime

45. A country's exchange rate plays a critical role in facilitating the economic adjustment process following an internal or external shock. While ultimately the result of market forces, in the short and medium term the exchange rate is affected by a country's exchange rate regime, that is, by the way in which the authorities go about influencing the course of the exchange rate. Lately there has been much debate on what regime is the best for countries under different circumstances (see IMF (2000) and Fischer (2001)). Alternatives are usually presented on a spectrum that runs from a fixed exchange rate—the adoption of another country's currency being the most fixed regime possible—to a fully flexible one. Most regimes fall in a wide middle which includes not only pegs of all kinds—fixed, crawling, single and multiple currency—but also the broad category of managed float regimes. While this debate is far from over, one thing is clear. Whatever the chosen regime is, it must be supported credibly by a set of policies, in particular monetary and fiscal policy, that is fully consistent with the logic of that regime.

46. Honduras' current exchange rate regime has been in place since 1996. It falls into the flexible middle of the spectrum: the exchange rate of the lempira is determined in a market consisting of central bank auctions that are constrained by a crawling band.[30] This chapter does not assess whether a more fixed or more flexible exchange rate regime would be better for Honduras. It takes as starting point the degree of potential flexibility inherent in the current crawling band system. Instead, after analyzing the operation of the current regime, it concludes that the same degree of flexibility could perhaps be achieved more effectively and efficiently with a regime that relies on an interbank market rather than auctions for allocating foreign exchange.

B. Exchange Rate Regimes in Honduras Since 1990

47. Honduras' exchange rate regime underwent a major change in 1990 when after a large initial depreciation, the **fixed dollar peg** was abandoned in favor of **an adjustable peg with a band**. In 1992, the peg was replaced by a **floating exchange rate**, an experience which lasted only two years. During that time, the exchange rate was determined in an **interbank market**, with the central bank intervening as necessary to meet its reserve target. Trading in the interbank market was limited, however, as many banks and exchange houses preferred to deal with industrial and import/export groups with whom they were closely

[30] Within the category of flexible regimes, crawling bands are relatively rare: only four other countries had them as of end-2000 (IMF, August 2001).

associated.[31] More importantly, expansionary fiscal and monetary policies exerted strong downward pressure on the exchange rate. In June 1994, the interbank market was suspended and "temporarily" replaced with **auctions**. These auctions relied on the requirement to surrender most export proceeds requirements, while their exchange rate outcome was constrained by a band of acceptable bids defined around a "base rate." Initially the band was very narrow—only one percent on either side of the base rate—and the base rate was adjusted three times a week. Owing to an excess demand, foreign exchange had to be rationed among the successful bidders and the auction rate tended to be at the most depreciated side of the band.[32]

48. In 1994–95, the auctions were run in such a way as to maintain an unchanged nominal rate, even though domestic inflation was much higher than trading partner inflation. In October 1995, auction rules were simplified and base rate adjustments henceforth were linked to the previous week's auction outcome (but capped at 0.5 percent), permitting a gradual depreciation of the base rate and band. Nonetheless, the rationing continued and the reference rate remained at the most depreciated side of the band.

49. In **April 1996**, further modifications took place and **the regime as it exists currently** came into existence. The band was widened to 5 percent on either side of the base rate, and the discretionary adjustments to the base rate—and therewith the band—gave way to a formula-based mechanism for making weekly adjustments. In March 1998, the band was widened once more, to 7 percent on either side of the base rate.

C. Foreign Exchange Auctions

50. Since the suspension of the interbank market in 1994, the Central Bank of Honduras (CBH) has intermediated between private sector sellers and buyers of foreign exchange. In **daily auctions** it sells to the highest bidders the foreign exchange previously bought under the prevailing surrender requirements.[33] The weighted average price of the successful bids

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[31] An analysis of the poor functioning of the interbank market at the time identified the need for more supervision and transparency, and a better payments infrastructure.

[32] This chapter follows the practice of defining the exchange rate in lempiras per U.S. dollar. Thus, the most depreciated (appreciated) side of the band is the upper (lower) side.

[33] The auctions are run by an executive board (*Mesa Directiva*) presided over by a representative of the CBH, and consisting of one representative each of the bankers' association (*Asociacion Hondureña de Instituciones Bancarias*-AHIBA), of the savings and loans association *(Camara Hondureña de Asociaciones de Ahorro y Prestamo*-CAHDEAP), and of the exchange houses (*Casas de Cambio*), plus two representatives from independent audit firms. A notary public authenticates the outcome of each auction.

serves as the market reference rate (*Tipo de Cambio de Referencia del Mercado de Divisas*) and also as the official exchange rate for that day.

51. The surrender requirement is the source of most **foreign exchange inflows**. All exporters are obliged to surrender their foreign exchange proceeds through the domestic banking system to the CBH, subject to certain exemptions.[34] Likewise, foreign exchange houses must sell their net foreign exchange receipts to the CBH (much of it private remittances). In addition, the CBH receives the foreign exchange from foreign grants and loans to the public sector.

52. Most but not all of the **foreign exchange outflows** pass through the auctions. Importers of goods and services bid in the auctions to satisfy their needs. Also, exchange houses purchase in the auctions, part of which is passed on to the curb market.[35] However, certain foreign exchange needs are met by the CBH outside the auctions, namely, the servicing of the external public debt, public sector purchases, and oil imports. Finally, the foreign exchange cash going in and out of foreign currency accounts in domestic banks also bypasses the auctions.[36]

53. During 1998–2000, **data on foreign exchange flows** show that purchases from banks accounted for three quarters of inflows, purchases from exchange houses for 10 percent and loans and grants likewise for about 10 percent (Table 1). Sales in auctions accounted for about 80 percent of outflows, while 10 percent of outflows were sales for oil imports and another 10 percent sales to the government for debt service. A **comparison of foreign exchange and trade data** suggests that a stable share of export proceeds—some

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[34] Depending on the product, exporters must surrender within 20 to 85 days. They can, however, apply for permission to retain up to 30 percent of their estimated export proceeds in foreign exchange in a local bank to meet future import needs and other payment obligations. In 2000, about 40 exporters availed themselves of the exemption. Exempt from the surrender requirement also are all producers in tax free zones, plus all exporters to Central American countries. (*Reglamento a la Ley de Ingresos de Divisas Provenientes de las Exportaciones (Acuerdo No. 1866), Banco Central de Honduras*, last version October 27, 1999).

[35] In this way, the curb market is connected to the auctions. Consequently, when all the demand for foreign exchange in the auction is being met, the rates in the curb (or "black") market will not deviate from the auction rates except for logistical or convenience reasons.

[36] Banks are required to place a minimum of 50 percent of foreign exchange deposits abroad as a reserve requirement, and may lend out the rest domestically in foreign exchange.

Table 1. Honduras: Inflows and Outflows of Net International Reserves

	1996	1997	1998	1999	2000	Average 1998-2000
	(In millions of U.S. dollars)					
Beginning-of-year balance	113	211	492	660	1,002	
Inflows	1,736	2,103	2,418	2,689	2,824	2,644
Purchases	1,211	1,748	2,131	2,131	2,472	2,245
National banking system	0	0	1,811	1,832	2,176	1,940
Exchange houses	0	0	320	298	297	305
Disbursements	400	205	182	440	179	267
Other inflows	125	150	105	118	172	132
Outflows	1,638	1,823	2,197	2,256	2,794	2,416
Sales in auctions	759	1,150	1,660	1,813	2,140	1,871
Petroleum	213	195	181	183	276	213
Debt service	585	330	273	149	213	212
Other outflows	81	142	82	111	166	120
Other changes to NIR	0	0	53	91	9	51
End-of-year balance	211	492	660	1,002	1,023	
	(In percent)					
Inflows	100.0	100.0	100.0	100.0	100.0	100.0
Purchases	69.8	83.1	88.1	79.2	87.6	85.0
National banking system	0.0	0.0	74.9	68.1	77.0	73.4
Exchange houses	0.0	0.0	13.3	11.1	10.5	11.6
Disbursements	23.0	9.7	7.5	16.4	6.3	10.1
Other inflows	7.2	7.1	4.4	4.4	6.1	5.0
Outflows	100.0	99.7	100.0	100.0	100.0	100.0
Sales in auctions	46.3	63.1	75.6	80.4	76.6	77.5
Petroleum	13.0	10.7	8.3	8.1	9.9	8.7
Debt service	35.7	18.1	12.4	6.6	7.6	8.9
Other outflows	4.9	7.8	3.7	4.9	5.9	4.9
Other changes to NIR	0.0	0.0	2.4	4.0	0.3	2.2
Memorandum items:						
Inflows						
Purchases from banks as percent of exports of goods and services	0	0	75	80	87	
Exports of goods and services (in millions of US$)	1,915	2,175	2,430	2,281	2,507	
Purchases from exchange house as percent of remittances	0	0	133	84	66	
Private sector remittances (in millions of US$)	140	174	241	354	447	
Purchases minus remittances as percent of exports of goods and services	56	72	78	78	81	
Total purchases minus private remittances	1,071	1,575	1,890	1,777	2,026	
Outflows						
Sales in auctions as percent of imports excluding petroleum	49	63	76	80	92	
Imports of goods and services excluding petroleum (in millions of US$)	1,539	1,829	2,179	2,280	2,326	
Sales to petroleum importers as percent of imports	97	93	95	80	87	
Imports of petroleum products (in millions of US$)	220	209	192	230	317	

Sources: Central Bank of Honduras; and IMF staff estimates.

80 percent—was being surrendered to the CBH;[37] on the other hand, the share of imports covered by auction sales has been rising, from 50 percent in 1996 to 90 percent in 2000. Sales for oil imports covered about 90 percent of petroleum product imports.

54. In an auction system the policy instrument at the disposal of the central bank for influencing the exchange rate is **the amount of foreign exchange offered for sale**. According to auction regulations, the CBH must offer at least 60 percent of the foreign exchange it buys.[38] Depending on its target level of foreign reserves, and the volumes and prices bid in the auction, the CBH may decide to sell more than this minimum if more is demanded. By varying the supply in relation to the demand, the CBH affects the exchange rate and the level of reserves in a manner comparable to the interventions of a central bank operating in an interbank market for foreign exchange.

55. In practice, for the past several years, the availability of foreign exchange has enabled the CBH to almost always meet the full amount demanded. An analysis of individual auction data for the period 1998–2000 shows that the share of the volume of accepted bids, i.e., the bids that were within the band, that was awarded increased from about 90 percent in 1998 to virtually 100 percent in 2000 (Figure 1). When accepted bids were not awarded, it was usually because they did not meet all formal requirements.

56. Some of the **features of the auction process** can have an impact on the auction outcome. Most importantly, the requirement that bid prices must fall within a **band** of 7 percent on either side of the base rate, obviously constrains the exchange rate outcome. The auctions are of the **"discriminative" type**, where sealed bids are accepted in descending order of price, and each successful bidder pays his own bid price. This could in principle discourage nonsophisticated bidders.[39] The auction rules impose strict **limits as to the size**

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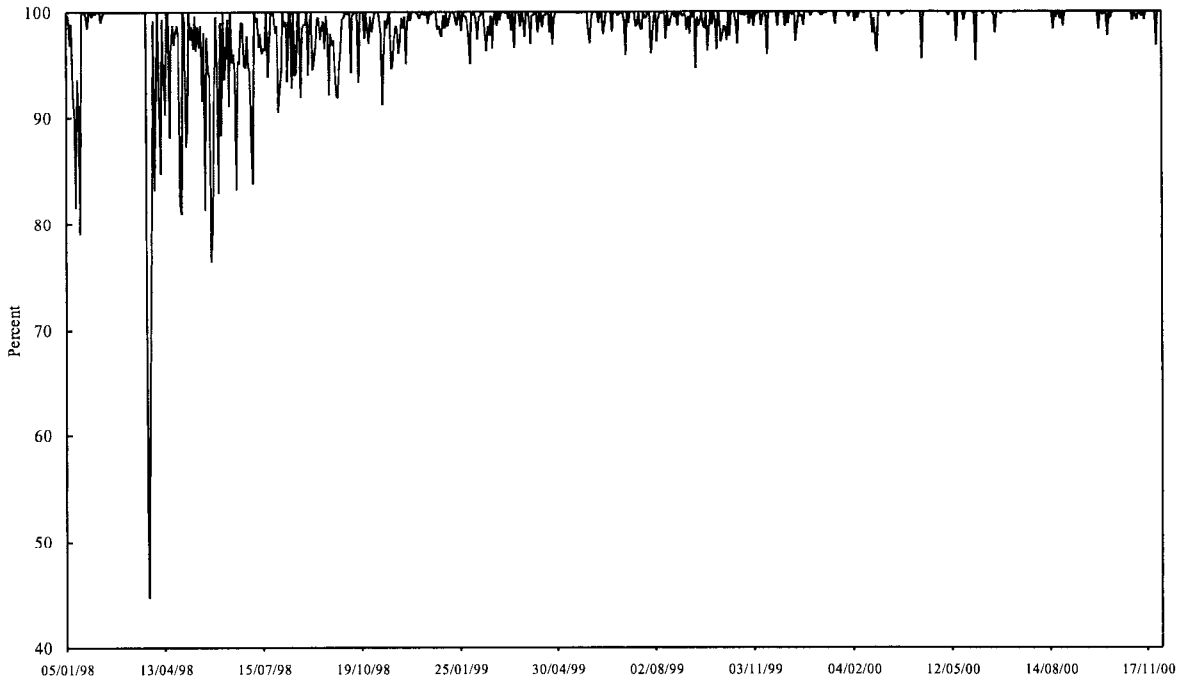
[37] Private sector remittances enter the country through the banks as well as the exchange houses; the share of the latter seems to be decreasing. Hence, the best measure of effective surrender is perhaps obtained by comparing export proceeds from the balance of payments minus private remittances as estimated with the total amount of foreign exchange purchased by the CBH from banks and exchange houses (see Table 1).

[38] It is not quite clear, however, to what period the 60 percent rule applies. The auctions are governed by the *Reglamento para la Negociacion Pública de Divisas en el Mercado Cambiario (Resolución No. 337-6/94), Jefatura Departamento Regulador de Financiamiento Externo (Derfe)*, as updated on October 27, 1999.

[39] There is some empirical evidence to that effect, and also to the risk of collusion in discriminative price auctions compared to uniform price auctions (see Kovanen, 1994).

and number of bids. Bids must be for at least US$5,000, and one (judicial or natural) person may not enter more than three bids at a time, with an overall maximum of US$300,000.[40]

Figure 1. Honduras: Daily Foreign Exchange Auctions--
Share of Bids Awarded As Percentage of Bids Accepted
May 1, 1998 to November 30, 2000



Source: Central Bank of Honduras.

Consequently to meet large foreign exchange needs, bidders must succeed in several auctions.[41] In practice bids have tended to be numerous and small: between 150 and 200 bids per auction with an average size of around US$50,000 .[42] Also likely to affect the number

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[40] Anybody can submit a bid but in most cases it is the banks that do so on behalf of their customers. Foreign exchange houses and banks may also bid up to US$10,000 and US$30,000, respectively, to sell to their retail customers in amounts not exceeding US$5,000.

[41] This is the reason the oil importers' needs are met outside the auction.

[42] During 1999, when there were 254 auctions, the average number of bidders per auction was 163, and the average amount demanded US$7.3 million which results in an average bid size of US$45,000. For the period January–June 2000 (128 auctions), the average number of

(continued)

and size of bids is the liquidity costs associated with the fact that banks must have **sufficient balances** in their account with the CBH to cover the total amount they are bidding for; moreover, they must debit their customers' accounts for the total amounts bid. Bidding behavior will further be affected by the **information on auction results** that participants have at their disposal. Before each auction, the CBH publishes the minimum amount on offer, the base price in effect that day, the minimum and maximum bid prices, and the reference rate determined in the previous day's auction. After each auction, the CBH publishes the number of bids, the total amount of bids, the totals accepted, the number of successful bids, the amounts awarded, and the minimum, maximum and weighted average bid price. The CBH also publishes the weighted average price of all *successful* bids, the so-called reference exchange rate—which is also the rate at which the CBH buys foreign exchange. Trading is divided over a fairly large number of banks: in 2000, five banks out of 30 in total accounted for only half of total in- and outflows, and the ten largest for about three quarters, with almost all banks participating to some extent.

D. Base Rate and Crawling Band

57. For bids in the auction to be acceptable they have to fall in a band consisting of minimum and maximum bid prices. These prices are set by the CBH in relation to the base rate (*Precio Base del Tipo de Cambio*), presently the base rate plus and minus seven percent. The base rate itself is adjusted weekly, and thus the band crawls in line with the base rate. Hence, the methodology the CBH uses for determining the rate of crawl of the base rate determines the possible exchange rate outcomes.

58. In 1996, the CBH introduced its current practice of **systematic periodic adjustments to the base rate**. The objective of the periodic adjustments is to ensure that the base rate and therewith the band will guide the auction exchange rate in a way that avoids loss of **competitiveness**. Such loss of competitiveness would be reflected in an appreciation of the so-called real exchange rate.

59. The CBH auction regulation describes the methodology for adjusting the base rate. Every five auctions—which is every five working days—the base rate is adjusted in line with monthly projections of the difference between domestic inflation and inflation in principal trading partner countries. Changes in the nominal exchange rates of these countries relative to the U. S. dollar are taken into account. In practice, the CBH has based its weekly adjustments on fixed **assumptions for domestic and trading partner inflation** which were changed only occasionally: the assumption was 11.4 percent annual domestic inflation and 4 percent annual trading partner inflation until February 1999, when the assumption for domestic inflation was lowered to an annual rate of 7.4 percent. As of September 2002, the assumptions are 10 percent annual domestic inflation and 3.4 percent annual trading partner

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bidders was 184, the average amount demanded close to US$6 million, and the average bid size US$46,000.

inflation. Actual trading partner inflation was slightly less than assumed (80 percent of exports and 60 percent of imports are with industrial countries). Actual domestic inflation was substantially higher than assumed, especially in 1996 and 1997 when it was 23.8 percent and 20.2 percent, respectively; although it declined to 13.7 percent in 1998, 11.6 percent in 1999 and 10.5 percent in 2000, which was still higher than the rate assumed. Consequently, the adjustments to the base rate compensated for only part of the inflation differential.

E. Exchange Rate Developments

60. In principle the exchange rate of the lempira is determined in the market, but the particular way in which it is done—through auctions constrained within an exchange rate band which depreciates in line with the base rate—has had a marked impact on the rate. In practice, the nominal exchange rate has tended towards the limits of the band, and the real exchange rate has appreciated substantially.

61. In 1996 and 1997, the **nominal exchange rate**, i.e., the auction average or reference rate, followed very closely the upper limit of the band; it then crossed over to the lower limit, which it has been following very closely since early 1998 (Figure 2). This pattern can be explained by the fact that early on during this period foreign exchange was occasionally rationed so that auction participants could not be certain that their bids would be awarded in full. Consequently they tended to bid the maximum price they were allowed in order to meet their needs. During 1998 to 2000, the inflow of foreign exchange was much improved, first thanks to short-term capital inflows attracted by high real interest rates, and then on account of aid flows following Hurricane Mitch. Consequently, the CBH found itself in the comfortable position of being able to award all bids in the auction in full, and still build up its level of foreign reserves. Thanks to the bidding results illustrated in Figure 1, auction participants have come to expect that their bids will always be awarded in full. As long as this firm expectation persists, they will have no inclination to bid more than the minimum price required, and the bottom of the band effectively guides the nominal exchange rate.

62. The other notable trend since 1996 has been the sharp appreciation of the **real exchange rate** (Figure 3). As noted above, the real exchange rate is a measure of competitiveness. It is estimated by adjusting the nominal exchange rate for some measure of the discrepancy in cost or price inflation between a country and either one trading partner (bilateral) or a weighted average of trading partners (effective). In practice, the most widely considered measures are real effective exchange rates (REERs) based on consumer price inflation.[43]

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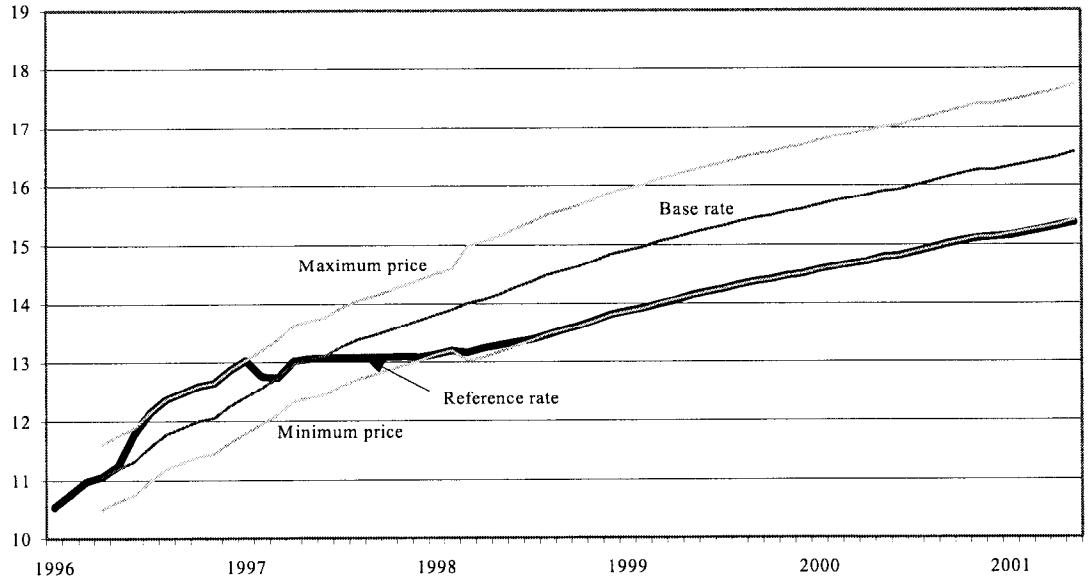
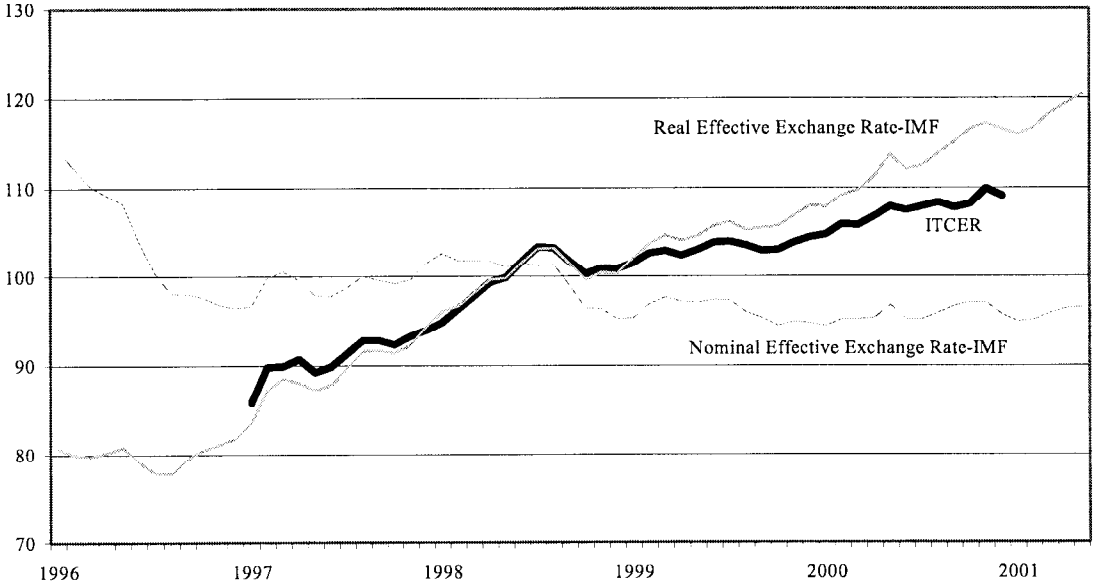
[43] For a clarification of concepts and analysis of different measurements, see Lipschitz and McDonald (1991). Labor costs statistics may be preferable over consumer price inflation, but are generally not available for developing countries.

Figure 2. Honduras: Auction Exchange Rates
(Lempiras per U.S. dollar)



Source: Central Bank of Honduras.

Figure 3. Honduras: Real and Nominal Effective Exchange Rates
(1998=100)



Sources: Central Bank of Honduras; and IMF Information Notice System.

63. Figure 3 shows two such REER measures for the lempira: the *Indice del Tipo de Cambio Effectivo Real* or ITCER computed by the Central American Monetary Council and published by the CBH; and the REER indicator computed by the IMF as part of its Information Notice System.[44] The principal difference between the two indices[45] is that the IMF's REER—using trade statistics collected by the IMF—considers in addition to the countries that trade with Honduras a few countries that do not trade much with Honduras but whose exports compete with Honduran exports in third markets, notably the coffee exporters Brazil and Colombia. When the dollar price these countries charge for their coffee exports becomes more competitive, e.g., because they depreciated their nominal exchange rate—as did Brazil in 1999 by 32 percent against the dollar, or because they managed to bring production costs down, this has a negative impact on Honduras' competitiveness, which is picked up by the IMF's REER. Both indices point to a significant real appreciation since 1996; the REER's sharper appreciation in 1999 and 2000 is partly due to its coverage of the third market effect.

F. The Interbank Market Alternative

64. The present system has worked well in ensuring stability in the nominal exchange rate. Nonetheless, there are good reasons for considering switching to the approach followed by most countries—even countries with financial systems at the same stage of development as Honduras. In most countries the allocation of foreign exchange is left to an **interbank market**, and it is in this market that the exchange rate is determined, albeit subject to various forms of intervention by the central banks.[46]

A number of these reasons have to do with **macro efficiency**.

- The **"price discovery"** would proceed more efficiently in an interbank market where many parties supplying and demanding foreign exchange meet directly, and the price or exchange rate could find itself anywhere within the 14 percent band rather than just at the extremes.

- An exchange rate that is more sensitive to changes in demand and supply would provide a useful **signal to guide monetary policy**.

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[44] See Zanello and Desruelle (1997) for a description of the IMF's REER.

[45] They also use somewhat different weights for trading partners.

[46] For a description of the modalities of an interbank foreign exchange market, see IMF SM/98/218. Some countries made the switch gradually by allowing an interbank market to operate side-by-side with auctions.

- In an interbank market the central bank still has many ways of directly influencing the exchange rate.[47] Instead of varying the amount of foreign exchange for sale as it does in the auctions, it would actively intervene by buying or selling foreign exchange in the open market. In fact, a well-designed **intervention policy** would give more effective control over the exchange rate; in particular, it would eliminate the potential volatility inherent in the auctions operating within a band.

In addition there are reasons of **micro efficiency** that favor an interbank market.

- Allowing **competition** in the wholesale and retail trade in foreign exchange would give the banking system another area of financial services delivery in which to compete. There is much differentiation between parties that a competitive market will try to cater to but a centralized auction system cannot.

- More competition between banks would likely result in **lower commissions**.[48]

- An interbank market would be **continuously liquid**, providing parties the opportunity to transact foreign exchange all day long as opposed to only once a day during the auction.

- As **managerial resources** are released, by shifting these activities to the market, the CBH would be able to concentrate on its core policy responsibilities.

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[47] Not discussed here are monetary and fiscal policies which exert an indirect influence.

[48] When it buys foreign exchange from banks or exchange houses, the CBH pays a commission of 0.6 percent on top of the previous day's reference rate. When it sells them foreign exchange in the auctions, either for themselves or their customers, it charges the same 0.6 percent provision on top of the bid rate. Banks and exchange houses in turn may charge their customers up to 1.5 percent commission on top of their bid price, and in practice most charge the maximum. Other parties besides foreign exchange agents that buy in the auction—a rare occurrence—pay 1.2 percent commission. The CBH also charges 1.2 percent commission on foreign exchange sold outside the auctions, to the oil companies and the government.

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IV. Trade Policy and Poverty

A. Introduction

65. **The links between greater openness and poverty are complex and difficult to measure.** Over the long term, trade liberalization promotes growth by attracting resources to more efficient uses in response to changes in the relative prices of tradable and nontradable goods and services. The benefits of growth for the poor depend on the impact on their real incomes and employment opportunities through changes in prices and wages. The exact effect of trade policies on these variables is difficult to measure, as relative prices of tradables and nontradables and factor returns are also influenced by domestic policies and international commodity prices. Greater openness should benefit most poor in the long run as prospects for growth and income opportunities improve, but some may loose in the short run.

66. **This chapter examines the implications of trade policy in the 1990s.** It describes the evolution of trade policy and its role on the structural changes that took place in the economy over the last decade. The chapter outlines the effects of trade policy on poverty through its possible impact on the incomes of the poor. It also explores the determinants of agricultural income as three-quarters of the poor live in rural areas.

B. Trade Policy

67. **The Honduran trade system was considerably liberalized in the last decade.** Successive trade reforms lowered the overall average tariff from 27 percent in 1990 to 7 percent in 2000 (Figure 1). A large number of nontariff barriers were removed in 1992, with the elimination of licensing and quantitative controls on most imports.[49] Most export licenses were removed in 1992 while remaining export taxes were eliminated in 2000, after some increases in the mid-1990s. With these reforms, the rating of Honduras' trade system climbed from 10 to 1 (open trade system) on the Fund's index of trade restrictiveness (Table 1).

68. **Nevertheless, protection of some importables remained high and uneven across sectors (see Figure 1).** Low tariffs on inputs (1–5 percent) and high tariffs on selected final goods (15–55 percent) lead to high effective rates of protection for value added, especially for agricultural and consumer goods. While most agricultural tariffs are no higher than 15 percent, tariffs on selected agricultural goods (such as sugar, orange juice, and cigars) may go up to 55 percent. High tariffs on basic grains (20–45 percent) are topped up with variable levies and domestic purchase requirements. Some other goods such as chicken are subject to additional temporary surcharges, which provide protection against dumping, raising related tariffs to 80 percent. Tariffs on textiles and clothing average 25 percent.

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[49] Honduras is a member of the Central American Common Market (CACM) and joined the World Trade Organization (WTO) in 1997.

Table 1. Honduras: Summary of Trade Policy

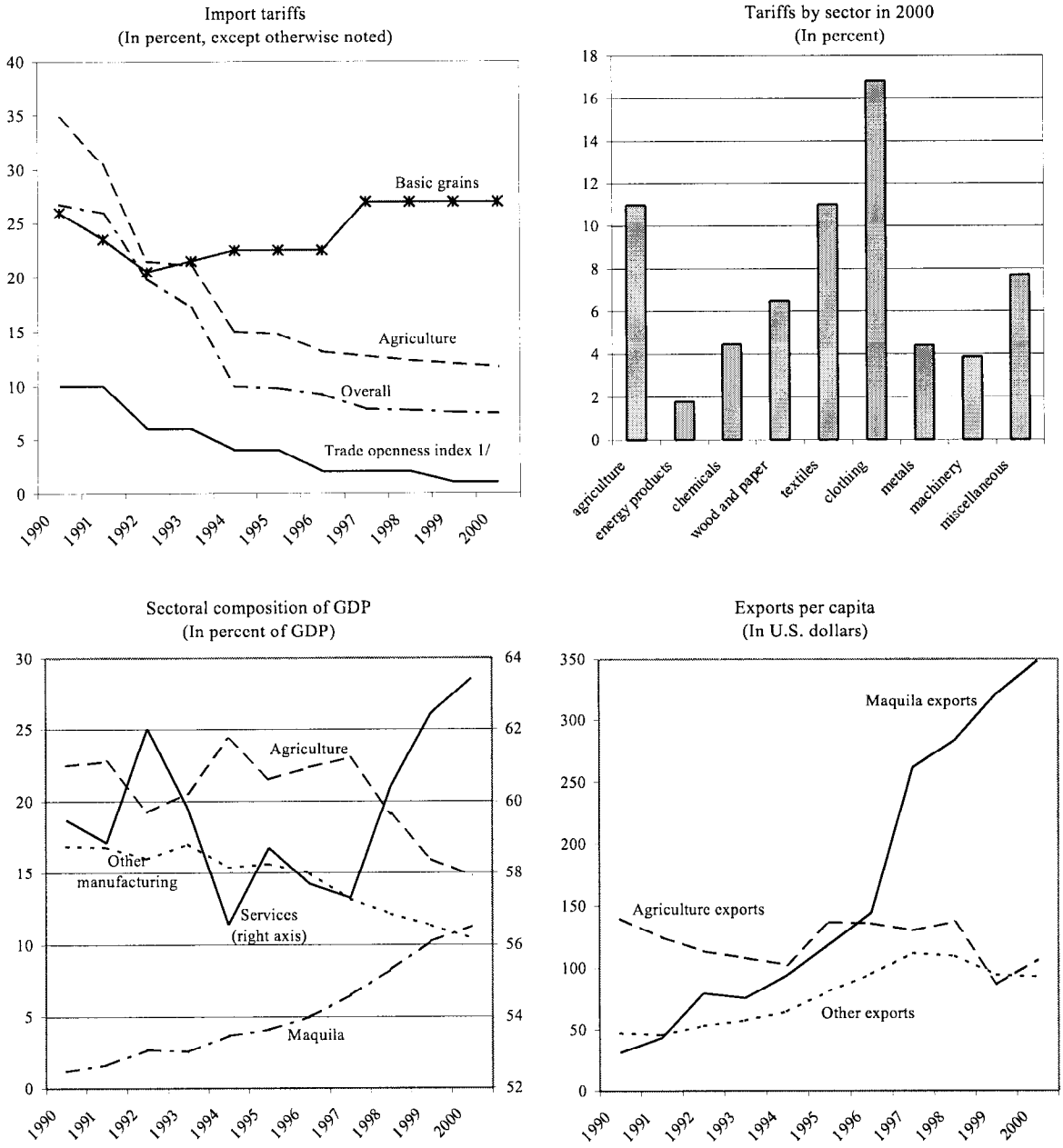
	Tariff 1/		Fund's Trade Restrictiveness Index 2/		
	Overall	Agriculture	Non-Tariff Barriers	Overall	Main Changes
	(In percent)		(Rating)		
1988	above 25.0	above 35.0	10	3	State monopoly in agricultural trade, restrictive licensing for all imports and exports, quantitative controls on agricultural imports. Taxes and restrictions on many exports.
1989			10	3	
1990	26.8	34.8	10	3	
1991	26.0	30.5	10	3	State monopoly in agricultural trade abolished.
1992	19.9	21.5	6	2	Most licenses on imports and export abolished, variable levies on basic grain imports introduced.
1993	17.2	21.1	6	2	
1994	10.0	15.0	4	2	Export tax (5 percent) introduced, joined CACM.
1995	9.8	14.8	4	2	Export tax on coffee eliminated.
1996	9.2	13.1	4	2	
1997	7.8	12.7	4	2	Most duties bound in the WTO.
1998	7.7	12.3	4	2	
1999	7.5	12.0	1	1	Export tax on most products eliminated, coffee retention scheme on exports removed.
2000	7.4	11.7	1	1	Remaining export taxes on coffee and minerals removed.
2001	7.0	11.0	1	1	

Sources: Ministry of Finance; various Fund documents; and Fund staff estimates.

1/ Includes most-favored-nation tariffs and surcharges.

2/ Based on a 10-point scale which combines information on tariffs and nontariff barriers. Rating of 1 means open trade system with no significant impediments to trade.

Figure 1. Honduras: External Trade Indicators



Sources: Ministry of Finance; Central Bank of Honduras; and Fund staff estimates.

1/ Based on a 10-point scale rating on tariffs and nontariff barriers. Rating of 1 means the least restricted trade system.

69. **The changes in trade policy and their impact on relative prices would be expected to have resulted in a decline in the anti-export bias** (lower protection of imports and removal of export taxes) through a shift of resources from nontraded goods and importables to exportables. However, selective protection would inhibit the shift in resources and retain resources in importables. A higher relative price of exportables would tend to raise the relative incomes of factors intensive (land, capital, or labor) in the production of tradable goods.

70. **The impact of trade policy on poverty would depend on the effect of changes in relative prices and factor returns on the incomes of the poor**. Poor consumers would be expected to have been adversely affected by the resulting higher protection of basic consumer goods, as the relative price of these goods would remain high. The relative income of poor producers would rise (fall) if they participate in the production of exportables or protected importables (nontradables, such as services). In this regard, the rural poor (mostly unskilled labor) would be expected to have benefited from trade policy changes as they are important producers of protected basic grains (protected importables) and coffee (exportables) (Table 2) while the urban poor (mostly involved in services) would be negatively affected.

Table 2. Honduras: Small Producers of Major Crops

	Share of Small Farms in Total (%)	Share of Small Farms in Total Production (%)
Importable		
Beans	58	39
Corn	63	36
Sorghum	66	33
Plantain	55	24
Rice	45	18
Exportable		
Coffee	58	25
Watermelon	46	11
Tobbaco	44	6
Pineapple	52	4
Banana	43	1
African palm	17	0
Melon	20	0

C. Structural Change and Incomes

71. **Over the past decade, both the maquila (tradable) and service (nontradable) sectors increased their contribution to GDP, while the share of other tradables declined.** The share of the maquila sector rose steadily from 1 percent of GDP in 1990 to 11 percent in 2000, mostly reflecting the positive effects of a duty free status and preferential access to the United States (see Figure 1). At the same time, the share of services rose from 59 to

64 percent of GDP while the shares of other manufacturing and agriculture (other tradable) fell from 17 and 22 percent of GDP to 10 and 15 percent of GDP, respectively, during the period. Despite the opening up of the trade system, resources shifted to the nontradable sector (services) and to one tradable sector (maquila) that is largely unaffected by trade policy.

72. **Maquila replaced agriculture as the major export sector in Honduras.** Agricultural goods (including coffee and bananas) in total exports declined from 65 percent in 1990 to 20 percent in 2000 while net maquila exports rose from 14 to 64 percent of total exports over the same period. In per capita terms, nonmaquila exports (excluding agriculture) rose steadily through 1997 reflecting the effects of trade liberalization, but fell thereafter partly as a result of a significant real appreciation of the lempira (see Figure 1).[50] Agricultural exports remained broadly stable through 1997 despite favorable commodity prices in the first half of the decade, but declined in 1998–2000 reflecting the effect of Hurricane Mitch. The development of new export crops (such as African palm and melon) that began in 1992 suggests a positive impact from trade liberalization on agriculture.

73. **Structural shifts in employment mirror those in GDP.** While the labor force rose by over 50 percent over the period, the share employed in agriculture fell from about 50 to 38 percent while that for manufacturing remained broadly stable at 12 percent. In contrast, the service sector became the major employer in the economy (50 percent of the labor force in 2000). Rural and urban un- and underemployment declined until the mid-1990s, but further significant reductions were not achieved thereafter (30 and 15 percent of rural and urban labor force, respectively, remained underemployed, Figure 2).

74. **Wage developments suggest a worsening of relative income of agriculture and services in favor of manufacturing.**[51] While manufacturing wages declined over the period 1992–96, they substantially rose thereafter (by about 40 percent in real terms) mostly reflecting a growing maquila demand for labor. Agricultural wages rose in the wake of trade opening (1992–94) and strong commodity prices, but declined by over 30 percent in real terms during 1998–2000 reflecting the effects of Mitch. Service wages fell substantially over the decade reflecting a sustained excess of labor in the sector (see Figure 2). Overall, wages for unskilled labor in agriculture and services declined in favor of skilled labor in manufacturing.

75. **Initially, trade liberalization benefited capital more than labor, but the trend was reversed in recent years (see Figure 2).** The share of wages in value added declined in all three sectors during the first half of the decade. This suggests that the factors used most intensively in export production (land and capital) would have gained relatively more from

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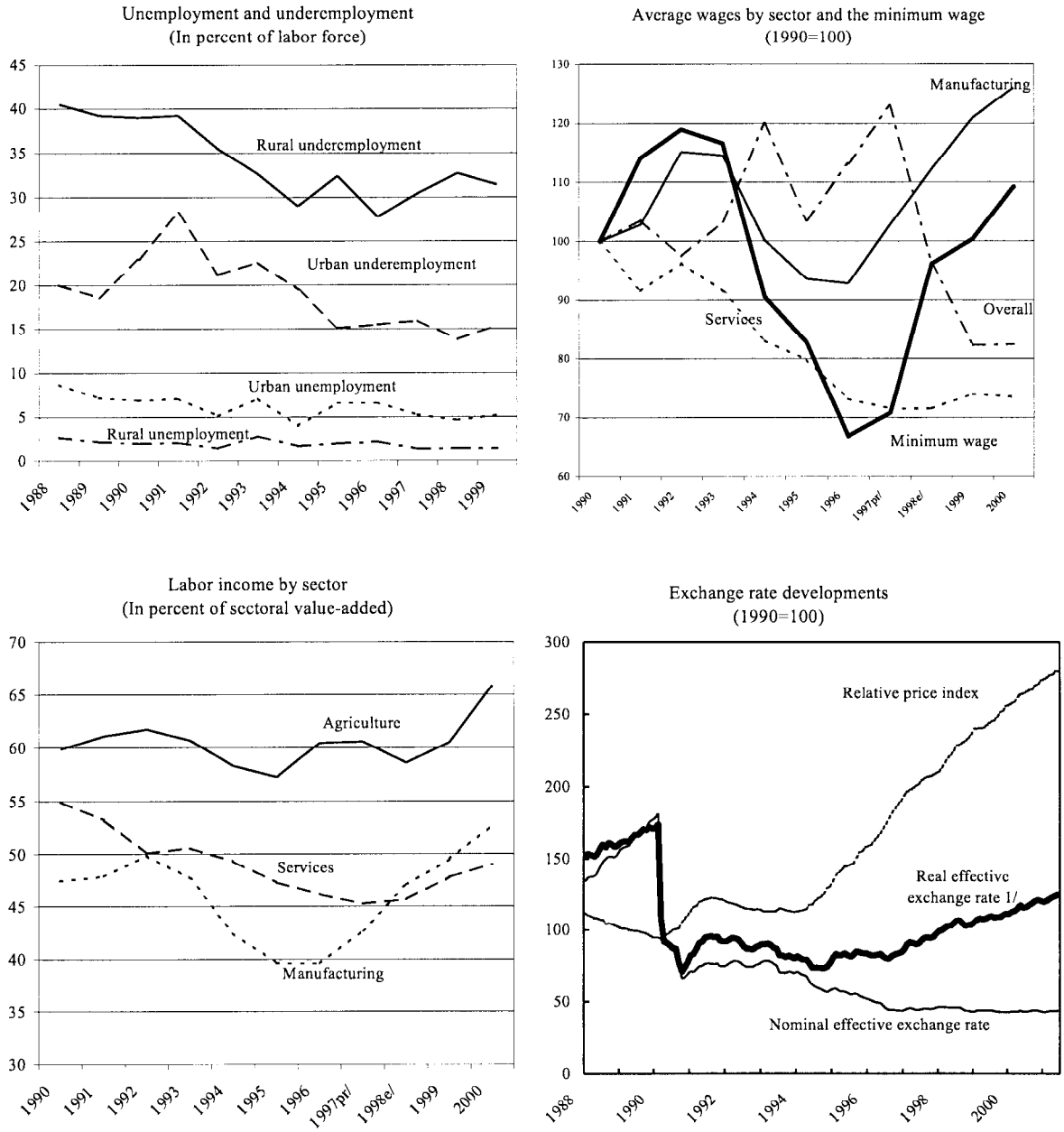
[50] The lempira appreciated by 42 percent in real terms from 1996 to 2000 (Figure 2).

[51] In Honduras, wage data is weak and is only available for minimum wages. Sectoral wages are derived from dividing labor income by number of employed.

higher relative prices. However, a rising share of wages in value added, especially in manufacturing, suggests that capital or land could have borne most of the impact from adverse changes in commodity prices during the second half of the decade and from Mitch.

Figure 2. Honduras: Labor Sector Indicators and Exchange Rate Developments



Sources: Ministry of Finance; Central Bank of Honduras; and Fund staff estimates.

1/ Trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase (decrease) indicated appreciation (depreciation).

76. **The above developments suggest that the role of trade liberalization in influencing structural changes in the economy was likely to have been limited**. Domestic policies and the commodity prices appeared to have had a larger effect on the incomes of the poor particularly in the second half of the decade. For instance, the large appreciation of the real effective exchange rate that began in 1996 coincides with the changes in the shares of traded and nontraded goods in GDP and in the trends of real wages. As for real wages, the evolution of manufacturing wages partly reflects a strong maquila demand for labor. In agriculture, incomes appeared to have been influenced by changes in commodity prices, which first increased until the middle of the decade but declined considerably thereafter. The prices of coffee and basic grains are of particular importance for Honduras given their large share in total agricultural production. Another important external factor affecting incomes was Hurricane Mitch, that physically destroyed especially agricultural land and capital.

77. **The limited impact of trade policy may be due to the selective nature of liberalization and high remaining protection of selected goods**. Incomes in agriculture may have been supported by high protection of key crops. However, in some cases (such as rice) protection resulted in extraordinary income for processing and distribution activities rather than in higher income for poor producers. Early in the decade, area and volume of production declined in some of the most protected crops, but this trend appears to have been reversed with the increase in protection of basic grains in recent years. Moreover, the real income of poor consumers appears not to have been significantly reduced by selective protection as food price inflation lagged overall consumer price inflation over the decade.

D. Determinant of Agricultural Incomes in Honduras in the 1990s

78. To assess the role of various factors in explaining changes in incomes of the poor over the past decade, a regression analysis was carried out on the determinants of agricultural incomes given the dominance of rural poverty in Honduras.

79. **Simple regression analysis indicates that the main determinants of agricultural incomes have been the real exchange rate, Hurricane Mitch, and the external price of coffee.**[52] Hurricane Mitch clearly had a negative effect on agricultural incomes and the coefficient is statistically significant. This means that both large land owners and subsistence farmers would have been affected adversely by Hurricane Mitch. The impact of the real exchange rate, coffee prices, and trade liberalization is less clear because of the potential

[52] All variables are stationary in first or second differences and there is at least one cointegrating equation among them. The first difference of agricultural value added was regressed on first differences of coffee prices (COFFEE), second difference of the real effective exchange rate (REER) and the trade policy index (TRINDEX), and a dummy for Hurricane Mitch for 1998–99 (MITCH). The fit is relatively good (0.78 R square), all the coefficients have the expected signs, and there is no serial correlation (DW statistic of 2.4).

problem of collinearity between these variables.[53] Trade liberalization has a small and positive coefficient suggesting that it may have had a small positive impact on agricultural incomes. This would imply that the increase in relative prices of traded goods would have benefited agricultural producers. Coffee prices were significant with a large impact on the evolution of agricultural incomes over the decade. This may reflect the fact that among the export crops coffee is mainly produced by smaller farmers. The real exchange rate had a small negative impact on agricultural incomes, which suggests that real appreciation is lowering the relative price of tradable and thereby agricultural incomes.[54] In sum, the regression results suggest that the main determinants of agricultural incomes in Honduras over the past decade were international commodity prices and natural shocks like Hurricane Mitch. The main domestic policy variable affecting incomes in agriculture was the real exchange rate, but the role of trade liberalization was minor.

E. Conclusions

80. **The trade system was liberalized significantly over the past decade, but the strategy was unable to produce a sustained shift of resources to nonmaquila tradables**. Incentives from duty free zones were more effective in shifting resources towards maquila. At the same time, the real appreciation of the lempira experienced in the second half of the 1990s contributed to the reversal in the allocation of resources toward the services sector (non-tradable). These developments were accompanied by an increase in tradable income (manufacturing) and a decline in nontradable income (agricultural and service).

81. **While these trends led to increased employment in the service sector, the poor were unlikely to have been net winners in the process**. This is because (i) skilled workers (rather than unskilled poor workers) tend to gain from higher manufacturing income; (ii) poor workers tend to lose from lower agricultural income (most of the poor live in rural areas); and (iii) poor workers tend to lose from reduced income (and high underemployment) in the services sector.

82. **Despite trade liberalization, selected agricultural and consumer goods remained highly protected.** Overall, agricultural income continued to be largely influenced by commodity prices and natural shocks while it was little affected by trade policy. Although, few new export crops emerged during the period. The limited effect of trade policy in agriculture could be due to the selective nature of liberalization.

83. **In sum, a more neutral trade policy and adequate value of the lempira could lead to a further expansion of exportable output (nonmaquila) and raise income from**

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[53] The real exchange rate is likely to be influenced by the coffee price and trade liberalization.

[54] The regression was also ran on REER, TRINDEX, and COFFEE separately to test for collinearity, but there was no significant change in the parameters.

tradables. The poor would benefit from lower consumer prices and further development of new export crops. In the short term, however, poor workers in the service sector and in the production of some importable crops may be adversely affected. In the long term, the allocation of resources would become more efficient, supporting higher quality growth, and sustained poverty reduction.

Table 1. Honduras: National Accounts

(In millions of current lempiras)

	1996	1997	1998	1999	Prel. 2000
Consumption	**39,216**	**50,307**	**58,241**	**70,405**	**79,056**
General government	10,742	14,166	16,215	18,572	21,372
Private sector	28,474	36,141	42,026	51,834	57,684
Gross domestic investment	**11,031**	**14,621**	**17,904**	**18,075**	**20,572**
Fixed capital formation	11,031	14,621	17,904	18,075	20,572
Public sector	3,485	4,074	4,873	4,855	5,256
Private sector 1/	7,547	10,547	13,031	13,219	15,317
Gross domestic expenditure	**50,248**	**64,929**	**76,145**	**88,480**	**99,628**
Exports of goods and nonfactor services	22,419	28,283	32,535	32,008	37,098
Imports of goods and nonfactor services	-24,904	-31,889	-38,242	-43,393	-49,204
GDP at market prices	**47,763**	**61,322**	**70,438**	**77,095**	**87,523**
Net factor payments	-3,069	-2,871	-2,854	-2,324	-2,451
Factor receipts from abroad	390	527	796	1,026	1,346
Factor payments abroad	-3,459	-3,398	-3,650	-3,350	-3,797
GNP at market prices	**44,694**	**58,451**	**67,584**	**74,771**	**85,072**
Indirect taxes	6,733	8,332	10,484	11,484	11,713
Subsidies	130	120	114	270	114
GDP at factor cost	**41,160**	**53,110**	**60,068**	**65,881**	**75,924**
GNP at factor cost	**38,091**	**50,239**	**57,214**	**63,557**	**73,473**
Depreciation	-2,845	-3,528	-4,086	-4,645	-5,283
National income	**35,246**	**46,711**	**53,128**	**58,912**	**68,190**

Sources: Central Bank of Honduras; and Fund staff estimates.

1/ Includes inventory changes.

Table 2. Honduras: National Accounts at Constant Prices

(In millions of 1978 lempiras)

	1996	1997	1998	1999	Prel. 2000
Consumption	**5,122**	**5,233**	**5,432**	**5,730**	**6,049**
General government	517	483	588	652	708
Private sector	4,605	4,750	4,844	5,078	5,341
Gross domestic investment	**1,329**	**1,483**	**1,587**	**1,477**	**1,547**
Fixed capital formation	1,329	1,483	1,587	1,477	1,547
Public sector	405	403	434	410	424
Private sector 1/	924	1,080	1,153	1,067	1,123
Gross domestic expenditure	**6,451**	**6,716**	**7,019**	**7,207**	**7,597**
Exports of goods and nonfactor services	1,890	1,915	1,920	1,739	1,740
Imports of goods and nonfactor services	-1,973	-1,945	-2,059	-2,196	-2,251
GDP at market prices	**6,368**	**6,686**	**6,880**	**6,750**	**7,086**
Net factor payments	-242	-172	-152	-116	-99
Factor receipts from abroad	33	36	48	60	58
Factor payments abroad	-275	-208	-200	-176	-157
GNP at market prices	**6,126**	**6,514**	**6,728**	**6,634**	**6,987**
Indirect taxes	-629	-657	-693	-632	-594
Subsidies	12	9	8	16	6
GDP at factor cost	**5,751**	**6,038**	**6,195**	**6,134**	**6,498**
GNP at factor cost	**5,509**	**5,866**	**6,043**	**6,018**	**6,399**
Depreciation	-360	-368	-374	-381	-389
National income	**5,149**	**5,498**	**5,669**	**5,637**	**6,010**
Terms of trade effect	-111	-188	-164	-100	-93
National income adjusted by terms of trade	**5,038**	**5,310**	**5,505**	**5,537**	**5,917**

Sources: Central Bank of Honduras; and Fund staff estimates.

1/ Includes inventory changes.

Table 3. Honduras: Origin of Gross Domestic Product

	1996	1997	1998	1999	Prel. 2000
	(In millions of current lempiras)				
Gross domestic product at factor cost	**41,160**	**53,110**	**60,068**	**65,881**	**75,924**
Primary production	**9,951**	**13,140**	**12,595**	**11,825**	**12,863**
Agriculture and related sectors	9,188	12,220	11,493	10,500	11,354
Mining	763	920	1,102	1,325	1,509
Secondary production	**11,895**	**14,945**	**17,322**	**19,987**	**22,983**
Manufacturing	7,455	9,535	11,186	12,916	15,002
Construction	1,900	2,464	3,043	3,863	4,326
Utilities	2,540	2,946	3,093	3,208	3,655
Services	**19,314**	**25,025**	**30,151**	**34,069**	**40,078**
Transport and communications	1,824	2,464	2,985	3,423	3,967
Commercial services	4,903	6,264	7,360	8,365	9,742
Financial services	3,654	4,971	6,331	7,155	7,997
Housing services	2,317	2,941	3,478	3,990	4,772
Public administration	2,440	3,178	3,625	3,875	4,590
Other services	4,176	5,207	6,372	7,261	9,010
	(In millions of 1978 lempiras)				
Gross domestic product at factor cost	**5,751**	**6,038**	**6,195**	**6,134**	**6,513**
Primary production	**1,681**	**1,753**	**1,726**	**1,595**	**1,743**
Agriculture and related sectors	1,578	1,645	1,614	1,477	1,622
Mining	103	108	112	118	121
Secondary production	**1,287**	**1,347**	**1,400**	**1,454**	**1,535**
Manufacturing	881	935	967	992	1,041
Construction	234	227	239	264	275
Utilities	172	185	194	198	219
Services	**2,783**	**2,938**	**3,069**	**3,085**	**3,235**
Transport and communications	498	520	534	543	570
Commercial services	631	653	673	678	705
Financial services	547	605	662	659	666
Housing services	384	399	414	426	440
Public administration	277	300	301	288	307
Other services	446	461	485	491	547

Source: Central Bank of Honduras.

Table 4. Honduras: Financing of Investment

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Gross domestic investment	**11,031**	**14,621**	**17,904**	**18,075**	**20,572**
Fixed capital formation	11,031	14,621	17,904	18,075	20,572
Public sector	3,485	4,074	4,873	4,855	5,256
Private sector 1/	7,547	10,547	13,031	13,219	15,317
Financing of investment	**11,031**	**14,621**	**17,904**	**18,075**	**20,572**
Gross national savings	8,760	12,244	15,923	14,855	16,985
Public sector 2/	2,714	3,400	6,481	5,675	5,672
Private sector	6,046	8,844	9,442	9,179	11,313
External savings	2,271	2,377	1,981	3,220	3,587
	(In percent of GDP)				
Gross domestic investment	**23.1**	**23.8**	**25.4**	**23.4**	**23.5**
Fixed capital formation	23.1	23.8	25.4	23.4	23.5
Public sector	7.3	6.6	6.9	6.3	6.0
Private sector 1/	15.8	17.2	18.5	17.1	17.5
Financing of investment	**23.1**	**23.8**	**25.4**	**23.4**	**23.5**
Gross national saving	18.3	20.0	22.6	19.3	19.4
Public sector 2/	5.7	5.5	9.2	7.4	6.5
Private sector	12.7	14.4	13.4	11.9	12.9
External saving	4.8	3.9	2.8	4.2	4.1
Gross national saving as percent of national disposable income	18.3	19.6	21.5	17.4	17.7
Memorandum items:					
Nominal GDP (in millions of lempiras)	47,763	61,322	70,438	77,095	87,523
Average exchange rate (lempira/US$)	11.7	13.0	13.4	14.2	14.8
External transfers	3,240	4,056	6,523	10,449	11,160
National disposable income 3/	47,934	62,507	74,107	85,220	96,232

Sources: Central Bank of Honduras; and Fund staff estimates.

1/ Includes inventory changes.

2/ Equivalent to the current account balance of the nonfinancial public sector.

3/ Equivalent to the sum of GNP plus external transfers.

Table 5. Honduras: Composition of Fixed Capital Formation

(In millions of current lempiras)

	1996	1997	1998	1999	Prel. 2000
Gross fixed capital formation	**11,031**	**14,621**	**17,904**	**18,075**	**20,572**
Machinery and equipment	**6,296**	**9,213**	**12,517**	**13,851**	**13,640**
Public sector	1,378	796	1,003	942	1,031
Private sector	4,918	8,417	11,514	12,909	12,609
Construction	**4,735**	**5,408**	**5,387**	**4,224**	**6,932**
Public sector	2,107	3,278	3,870	3,913	4,225
Private sector	2,629	2,130	1,517	310	2,708

Sources: Central Bank of Honduras; and Fund staff estimates.

Table 6. Honduras: Selected Agricultural Products

(Area in thousands of hectares; production and exports in thousands of quintals; yield in quintals per hectare; values in millions of current lempiras)

	1996	1997	1998	1999	Prel. 2000
Bananas					
Area	18	17	17	5	9
Yield	1,208	1,169	1,043	1,042	1,051
Volume of production	21,745	19,878	17,727	4,700	9,463
Of which					
Exported	15,499	13,250	11,294	2,700	7,570
Gross value of production	3,254	3,666	3,442	842	2,106
Value added	1,023	1,277	1,199	343	921
Coffee					
Area	202	205	207	207	254
Yield	16	16	19	17	17
Volume of production	3,210	3,194	3,832	3,463	4,266
Of which					
Exported	2,687	2,246	3,039	2,591	3,796
Gross value of production	3,365	4,943	3,765	3,464	2,859
Value added	2,827	4,162	3,170	2,916	2,402
Corn					
Area	386	390	392	385	405
Yield	30	34	26	25	28
Volume of production	11,689	13,440	10,356	9,625	11,285
Gross value of production	1,322	1,722	1,233	1,095	1,130
Value added	833	1,055	776	690	712
Beans					
Area	92	108	112	60	95
Yield	13	15	19	16	16
Volume of production	1,195	1,643	2,077	983	1,535
Gross value of production	556	729	791	423	496
Value added	222	292	316	169	198
Rice					
Area	17	18	18	9	8
Yield	78	62	34	33	29
Volume of production	1,318	1,109	612	300	229
Gross value of production	137	132	72	37	22
Value added	45	43	23	12	7
Plantains					
Area	8	8	8	3	4
Yield	568	525	459	347	325
Volume of production	4,545	4,196	3,671	1,040	1,300
Gross value of production	358	416	443	151	178
Value added	218	253	269	98	116

Table 6. Honduras: Selected Agricultural Products

(Area in thousands of hectares; production and exports in thousands of quintals; yield in quintals per hectare; values in millions of current lempiras)

	1996	1997	1998	1999	Prel. 2000
Yield	24	22	18	11	12
Volume of production	1,888	2,117	1,721	950	1,334
Gross value of production	196	250	188	131	123
Value added	108	134	104	52	67
Tobacco					
Area	7	7	7	7	7
Yield	14	14	14	13	16
Volume of production	99	99	111	89	111
Of which					
Exported	51	54	60	83	106
Gross value of production	84	114	133	145	181
Value added	46	62	80	90	112
Sugarcane					
Area	46	49	52	41	50
Yield	1,716	1,636	1,720	1,643	1,626
Volume of production	78,930	80,185	89,426	67,350	81,305
Gross value of production	443	604	768	775	1,038
Value added	267	385	464	460	643
African palm					
Area	30	34	37	40	48
Yield	365	360	393	367	370
Volume of production	10,936	12,246	14,533	14,681	17,738
Gross value of production	358	521	589	637	701
Value added	269	392	509	433	452
Melon					
Area	4	4	4	4	4
Yield	563	639	677	691	679
Volume of production	1,970	2,429	2,708	2,762	2,715
Gross value of production	85	114	157	193	183
Value added	56	71	94	104	99
Pineapple					
Area	3	3	3	3	4
Yield	458	456	407	467	438
Volume of production	1,374	1,368	1,383	1,400	1,750
Gross value of production	167	202	231	199	211
Value added	75	89	105	107	114

Source: Central Bank of Honduras.

Table 7. Honduras: Production and Prices of Basic Grains

(Production in thousands of quintals; prices in lempiras per quintal)

	Production	Wholesale Prices	Support Prices Paid to Producers
Corn			
1995-96	11,689	146.1	113.1
1996-97	13,440	160.7	124.6
1997-98	10,356	157.1	119.0
1998-99	9,625	149.3	113.8
1999-00	11,285	131.3	100.1
Beans			
1995-96	1,195	597.6	464.9
1996-97	1,643	560.5	444.2
1997-98	2,077	484.2	380.5
1998-99	983	544.4	429.8
1999-00	1,535	420.1	323.0
Rice			
1995–96	1,318	341.8	103.9
1996–97	1,109	363.0	116.2
1997–98	612	377.8	118.0
1998-99	300	391.4	123.6
1999-00	229	321.1	98.0
Sorghum			
1995–96	1,888	140.4	104.0
1996–97	2,117	154.8	114.7
1997–98	1,721	147.8	109.5
1998-99	950	147.0	109.0
1999-00	1,334	130.0	91.8

Sources: Honduran Institute for Agricultural Marketing (IHMA); and Central Bank of Honduras.

Table 8. Honduras: Consumer Price Index
(December 1999 = 100)

	Weight 1/	1996	1997	1998	1999	2000
	(Period average)					
Total	**100**	**62.5**	**75.2**	**85.5**	**95.4**	**106.0**
By expenditure						
Food and nonalcoholic beverages	32	66.3	79.9	90.2	97.5	105.0
Housing, water, electricity, gas, and other oil products	19	62.1	71.6	79.4	91.9	105.3
Transportation	9	56.3	67.5	76.0	87.2	108.7
Clothing and shoes	8	57.6	73.9	85.4	96.5	105.3
Hotels and restaurants	7	61.0	76.2	90.0	97.9	105.6
Furniture and house maintenance	7	67.0	78.1	86.6	95.8	104.7
Personal care	5	63.1	77.0	89.4	97.4	107.3
Culture and recreation	4	56.9	73.0	90.7	99.3	104.9
Health	4	51.9	64.5	76.4	90.6	111.9
Education	3	51.6	66.7	83.9	98.2	114.4
Communication	2	54.6	82.4	86.9	94.9	106.5
Alcoholic beverages and tobacco	0	56.1	76.1	83.5	96.1	106.0
By Region						
Central	34	64.1	76.5	86.2	95.6	106.4
Northern	26	60.9	73.9	84.4	95.1	105.3
Southern	6	60.6	71.0	83.2	94.9	105.9
Western	5	61.3	75.4	87.2	96.0	107.0
Eastern	3	65.7	77.9	88.7	97.3	106.9
	(End of period) 2/					
Total	**100**	**69.1**	**77.9**	**90.1**	**100.0**	**110.1**
By expenditure						
Food and nonalcoholic beverages	32	73.5	81.6	94.1	100.0	108.7
Housing, water, electricity, gas, and other oil products	19	67.4	74.7	83.9	100.0	108.0
Transportation	9	65.0	67.4	81.7	100.0	118.4
Clothing and shoes	8	66.2	79.2	91.3	100.0	108.7
Hotels and restaurants	7	65.4	85.9	93.6	100.0	108.4
Furniture and house maintenance	7	72.3	81.2	91.8	100.0	107.8
Personal care	5	68.9	80.9	95.8	100.0	111.5
Culture and recreation	4	69.9	78.5	98.2	100.0	109.0
Health	4	56.2	69.4	81.9	100.0	124.5
Education	3	52.6	68.0	85.4	100.0	115.7
Communication	2	74.8	84.8	89.3	100.0	109.2
Alcoholic beverages and tobacco	0	70.4	75.9	91.1	100.0	113.5
By Region						
Central	34	70.5	78.7	90.7	100.0	111.2
Northern	26	67.9	77.0	89.5	100.0	109.5
Southern	6	66.0	75.7	88.3	100.0	109.2
Western	5	67.1	78.6	86.9	100.0	111.9
Eastern	3	71.1	81.3	91.4	100.0	110.9

Source: Central Bank of Honduras.

1/ In percent.
2/ Data refer to the month of December.

Table 9. Honduras: Wholesale Price Index

(1978 = 100)

	Weight 1/	1996	1997	1998	1999	2000
		(Period average)				
Total	**100**	**926**	**1,062**	**1,165**	**1,296**	**1,393**
National	**67**	**969**	**1,110**	**1,218**	**1,366**	**1,459**
Agriculture and livestock	28	933	1,047	1,125	1,307	1,343
Agriculture	11	925	1,010	1,015	1,368	1,341
Livestock	10	783	951	1,076	1,074	1,106
Other	7	1,163	1,241	1,365	1,550	1,689
Industrial	**39**	**995**	**1,156**	**1,284**	**1,409**	**1,543**
Food	12	842	955	1,064	1,108	1,151
Beverages and tobacco	7	1,006	1,201	1,397	1,610	1,785
Oil products	5	1,220	1,394	1,284	1,430	1,997
Construction material	4	866	999	1,074	1,221	1,275
Chemical	3	1,629	1,925	2,350	2,604	2,673
Textile	3	916	1,105	1,182	1,210	1,227
Other	3	952	1,089	1,214	1,315	1,354
Clothing	2	760	892	1,140	1,310	1,428
Imported	**33**	**839**	**965**	**1,056**	**1,152**	**1,256**
Chemical	10	903	965	990	1,148	1,295
Other	8	886	1,003	1,089	1,173	1,227
Food	6	904	1,088	1,214	1,283	1,380
Textile	5	547	595	699	720	726
Pharmaceutic	4	845	1,135	1,325	1,418	1,653
Beverages and tobacco	1	839	1,143	1,316	1,478	1,602
		(End of period) 2/				
Total	**100**	**1,007**	**1,074**	**1,202**	**1,326**	**1,423**
National	**67**	**1,051**	**1,114**	**1,259**	**1,395**	**1,487**
Agriculture and livestock	28	984	1,023	1,165	1,269	1,344
Agriculture	11	989	935	1,036	1,277	1,278
Livestock	10	848	987	1,114	1,061	1,146
Other	7	1,172	1,210	1,435	1,558	1,733
Industrial	**39**	**1,099**	**1,180**	**1,328**	**1,486**	**1,591**
Food	12	890	984	1,085	1,118	1,166
Beverages and tobacco	7	1,019	1,290	1,466	1,756	1,843
Oil products	5	1,548	1,329	1,245	1,744	2,222
onstruction material	4	973	1,009	1,147	1,253	1,285
Chemical	3	1,853	1,948	2,481	2,657	2,678
Textile	3	1,037	1,103	1,210	1,210	1,274
Other	3	1,033	1,127	1,263	1,322	1,346
Clothing	2	828	907	1,228	1,338	1,451
Imported	**33**	**918**	**993**	**1,085**	**1,186**	**1,291**
Chemical	10	956	963	1,019	1,226	1,326
Other	8	956	1,019	1,127	1,182	1,244
Food	6	1,001	1,093	1,257	1,317	1,419
Textile	5	576	627	714	726	726
Pharmaceutic	4	1,011	1,310	1,332	1,427	1,718
Beverages and tobacco	1	1,192	1,142	1,332	1,478	1,977

Source: Central Bank of Honduras.

1/ In percent.
2/ Data refer to the month of December.

Table 10. Honduras: Average Daily Minimum Wage by Sector

	1996	1997	1998	1999	2000
	(In lempiras)				
Annual average	**25.4**	**33.9**	**39.7**	**43.3**	**50.5**
Agriculture and related sectors	20.3	27.5	32.0	34.8	40.4
Mining of metals	30.6	39.7	46.8	50.9	59.6
Other mining	21.9	28.5	33.1	36.3	42.4
Manufacturing	21.9	28.5	33.1	36.3	42.4
Construction	21.7	28.5	33.1	36.3	42.4
Commerce, hotels, and restaurants	22.0	28.5	33.1	36.3	42.4
Transport	24.0	30.0	34.4	38.6	46.1
Financial services	24.2	31.0	36.2	41.5	50.4
Other services	21.7	28.5	33.1	36.3	42.4
Dockage services	29.1	39.7	46.8	50.9	59.6
Petroleum refining	29.1	39.7	46.8	50.9	59.6
Railroad repairing	29.1	39.7	46.8	50.9	59.6
Banana exporting	29.1	39.7	46.8	50.9	59.6
Companies with temporal importing regimen	27.9	39.7	46.8	47.2	51.6
	(Annual percentage increase)				
Annual average	**21.5**	**33.3**	**17.1**	**9.0**	**16.8**
Agriculture and related sectors	21.4	35.6	16.5	8.5	16.1
Mining of metals	17.6	29.7	18.0	8.8	17.0
Other mining	12.4	29.9	16.0	9.8	16.8
Manufacturing	22.5	30.1	16.0	9.8	16.8
Construction	30.2	31.3	16.0	9.8	16.8
Commerce, hotels, and restaurants	18.4	29.3	16.0	9.8	16.8
Transport	21.0	25.1	14.6	12.2	19.6
Financial services	15.0	28.2	16.7	14.7	21.4
Other services	21.3	31.6	16.0	9.8	16.8
Dockage services	18.7	36.3	18.0	8.8	17.0
Petroleum refining	18.7	36.3	18.0	8.8	17.0
Railroad repairing	18.7	36.3	18.0	8.8	17.0
Banana exporting	18.7	36.3	18.0	8.8	17.0
Companies with temporal importing regimen	61.2	42.2	18.0	0.7	9.3
Memorandum items:					
Annual average in U.S. dollars	2.0	2.6	2.9	3.0	3.3
Consumer price index (percentage change)	23.8	20.3	13.7	11.6	11.1

Source: Central Bank of Honduras.

Table 11. Honduras: Total Labor Remuneration by Sector 1/

(In millions of current lempiras)

	1996	1997	1998	1999	Prel. 2000
Total	**19,701**	**25,659**	**29,064**	**33,038**	**39,674**
Agriculture and related sectors	5,556	7,403	6,729	6,353	7,403
Mining	195	243	287	330	393
Manufacturing	2,953	4,068	5,261	6,395	7,906
Construction	916	1,203	1,540	1,845	2,049
Utilities	344	348	381	451	527
Transport and communication	1,495	1,887	2,289	2,849	3,388
Commercial services	1,851	2,163	2,404	2,719	3,164
Financial services	1,260	1,699	2,172	2,546	2,910
Housing services	260	329	403	477	569
Public administration	1,661	2,299	2,739	2,716	3,454
Other services	3,210	4,017	4,859	6,357	7,913
Public services	2,250	2,591	...	...	...
Private services	960	1,426	...	...	...

Source: Central Bank of Honduras.

1/ Defined as the total amount allocated to wages, salaries, and benefits in each sector.

Table 12. Honduras: Labor Force by Sector

(In percent of total labor force)

			Preliminary		Est.
	1996	1997	1998	1999	2000
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Primary production	**42.0**	**41.1**	**40.2**	**39.4**	**38.5**
Agriculture and related sectors	41.8	40.9	40.0	39.2	38.3
Mining	0.2	0.2	0.2	0.2	0.2
Secondary production	**19.4**	**19.6**	**19.8**	**20.1**	**20.3**
Manufacturing	11.8	11.7	11.7	11.7	11.6
Construction	6.8	7.0	7.2	7.4	7.6
Utilities	0.8	0.9	0.9	0.9	1.0
Services	**38.6**	**39.3**	**39.9**	**40.6**	**41.2**
Transport and communications	2.8	2.8	2.8	2.7	2.7
Commercial services	10.9	11.0	11.2	11.3	11.4
Financial services	2.1	2.2	2.2	2.3	2.3
Other services	22.8	23.3	23.8	24.3	24.8
Memorandum item:					
Labor force as a percent of total population	32.4	32.7	33.0	32.3	33.8

Source: Central Bank of Honduras.

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector 1/

(In millions of lempiras)

	1996	1997	1998	1999	Prel. 2000
	I. Central Government				
Total revenue	**7,897**	**10,355**	**13,365**	**15,045**	**16,688**
Current revenue	7,895	10,351	13,165	14,779	16,036
Tax revenue	7,455	9,698	11,959	13,554	14,795
Direct taxes	2,043	2,512	3,363	3,099	3,174
Property and income	1,977	2,390	3,242	3,005	3,096
Other 2/	66	122	122	94	78
Indirect taxes	5,411	7,185	8,596	10,455	11,621
Goods and services	3,125	3,982	5,427	6,730	7,433
Sales tax	1,679	2,319	3,472	4,690	5,149
Other	1,446	1,663	1,955	2,040	2,284
International trade	1,803	2,156	2,115	1,957	2,138
Import	1,706	2,068	2,043	1,950	2,132
Export	97	88	72	7	5
Petroleum derivatives	482	1,046	1,052	1,766	2,051
Other	2	2	2	2	0
Nontax revenue	182	353	919	835	676
Transfers	259	300	287	390	565
Capital revenue	2	3	20	17	8
Grants	0	0	179	249	643
Total primary expenditure	**7,108**	**8,807**	**12,403**	**16,673**	**19,233**
Current primary expenditure	5,515	7,330	8,322	11,273	13,246
Wages and salaries	2,839	3,605	4,487	5,665	7,252
Social security contributions	207	252	367	482	639
Goods and services	1,138	1,509	1,421	1,722	2,361
Transfers	1,332	1,965	2,047	3,404	2,994
Rest of general government	645	936	756	1,675	1,991
Public enterprises	233	433	70	19	0
Private sector	410	527	738	1,614	871
Other	44	69	483	97	132
Capital expenditure	1,704	2,226	4,101	4,461	4,804
Fixed capital formation	1,309	1,652	2,265	2,162	2,220
Transfers	395	575	1,836	2,299	2,584
Rest of general government	226	394	1,289	1,530	1,804
Public enterprise	164	171	278	508	460
Private sector and financial public sector	4	10	269	261	320
Net lending	-110	-749	-20	939	1,183
Rest of general government	-60	-67	-190	183	221
Public enterprise	-50	-682	170	756	962
Current primary balance	**2,381**	**3,021**	**4,843**	**3,506**	**2,790**
Primary balance	**789**	**1,547**	**962**	**-1,628**	**-2,545**
Interest payments	**2,070**	**2,698**	**1,965**	**1,580**	**1,519**
External	1,458	1,607	1,407	1,091	1,114
Domestic	612	1,091	558	489	405
Current balance	**311**	**324**	**2,878**	**1,926**	**1,271**
Overall balance	**-1,281**	**-1,150**	**-1,003**	**-3,208**	**-4,064**

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector 1/

(In millions of lempiras)

	1996	1997	1998	1999	Prel. 2000
II. Rest of General Government					
Total revenue	**3,109**	**4,585**	**5,037**	**6,871**	**7,028**
Current revenue	2,590	3,387	4,038	5,075	6,116
Tax revenue	283	346	390	727	832
Contributions to social security	684	981	1,197	1,249	1,718
Private sector	417	591	830	841	1,185
Central government	184	276	268	297	377
Rest of general government	27	38	37	45	58
Public enterprises	56	76	62	66	98
Interest earnings	445	570	700	1,004	948
Transfers	323	737	738	1,005	1,237
Central government	323	737	738	1,005	1,132
Private sector	0	0	0	0	105
Other nontax revenue	819	707	995	1,089	1,334
Change in accounts receivable (increase -)	37	47	18	0	46
Capital revenue	519	898	669	486	512
Central government transfers	486	745	551	468	384
Other	34	153	118	18	128
Grants	0	300	330	1,310	400
Total expenditure	**2,614**	**3,834**	**3,624**	**4,402**	**5,547**
Current expenditure	1,500	2,258	2,619	3,338	3,827
Wages and salaries	539	596	1,298	1,667	1,966
Goods and services	395	436	559	808	886
Interest payments	42	65	89	75	85
Contribution to social security	26	35	83	73	86
Transfers	488	1,134	590	706	793
Private sector	480	1,127	587	704	768
Other	8	7	3	3	25
Change in accounts payable	11	-6	0	9	11
Capital expenditure and net lending	1,114	1,576	1,005	1,064	1,720
Fixed capital formation	817	1,076	854	686	1,133
Net lending	294	460	149	374	565
Other	4	41	1	5	22
Primary balance	**91**	**246**	**802**	**1,539**	**618**
Current account balance	**1,090**	**1,129**	**1,419**	**1,737**	**2,289**
Overall balance	**495**	**751**	**1,413**	**2,469**	**1,480**

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector 1/

(In millions of lempiras)

	1996	1997	1998	1999	Prel. 2000
	III. General Government				
Total primary revenue	**8,996**	**11,814**	**15,180**	**18,189**	**19,441**
Current primary revenue	8,960	11,358	14,533	16,596	18,262
Tax revenue	7,737	10,044	12,349	14,282	15,628
Nontax revenue	1,001	1,061	1,914	1,924	2,011
Contributions to social security institutions 5/	473	667	892	907	1,283
Public enterprises	56	76	62	66	98
Private sector	417	591	830	841	1,185
Current transfers	259	300	287	390	670
Public enterprises	259	300	287	390	670
Change in accounts receivables (increase -)	37	47	18	0	46
Capital revenue and grants	36	456	647	1,594	1,179
Total expenditure	**8,456**	**10,448**	**14,319**	**18,762**	**22,223**
Current expenditure	6,174	8,073	9,594	12,949	15,121
Wages and salaries	3,377	4,200	5,785	7,331	9,218
Goods and services	1,533	1,944	1,980	2,530	3,247
Transfers	941	1,730	1,811	2,417	1,796
Private sector	890	1,654	1,325	2,318	1,639
Abroad	52	76	486	100	157
Adjustment for current transfers 1/	322	199	18	670	859
Capital expenditure	2,038	2,597	4,405	4,683	5,575
Fixed capital formation	2,125	2,727	3,119	2,848	3,353
Inventory changes	4	41	1	5	22
Transfers	-91	-171	1,285	1,831	2,200
Public enterprises	164	171	278	508	460
Private sector	4	10	269	261	320
Adjustment for capital transfers 1/	-259	-351	738	1,062	1,420
Net lending	244	-222	319	1,130	1,527
Public enterprises	-50	-682	170	756	962
Pension funds lending to members	294	460	149	374	565
Primary current balance	**2,786**	**3,285**	**4,939**	**3,647**	**3,141**
Primary balance	**539**	**1,366**	**861**	**-573**	**-2,782**
Interest revenue	445	570	700	1,004	948
Interest payments	2,112	2,762	2,054	1,655	1,604
External	1,458	1,607	1,407	1,091	1,114
Domestic	654	1,155	647	564	490
Current balance	**1,120**	**1,092**	**3,585**	**2,996**	**2,485**
Overall balance	**-1,127**	**-827**	**-493**	**-1,223**	**-3,438**

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector 1/

(In millions of lempiras)

	1996	1997	1998	1999	Prel. 2000
IV. Nonfinancial Public Enterprises 4/					
Operating revenue	**4,301**	**5,123**	**6,358**	**6,823**	**8,124**
Sale of goods and services	4,267	4,983	6,050	6,426	7,636
Interest	81	114	206	340	325
Other 5/	-47	27	102	57	164
Operating expenditure	**2,989**	**3,190**	**4,306**	**4,899**	**5,304**
Wages and salaries	561	663	800	1,030	1,407
Goods and services	1,684	1,843	2,189	1,996	2,623
Interest	580	504	1,184	1,401	1,141
External	373	482	1,179	1,387	1,139
Domestic	207	23	5	14	2
Other 6/	163	181	133	473	133
Operating balance	**1,312**	**1,933**	**2,053**	**1,924**	**2,821**
Net current transfers	**-22**	**-43**	**145**	**-132**	**-568**
Transfers receipts	232	314	483	278	0
Central government	232	314	483	278	0
Transfers and tax payments	253	357	338	409	568
Central government	210	270	250	360	525
Rest of general government	13	17	26	24	23
Private sector	29	70	62	25	20
Current account balance	**1,291**	**1,890**	**2,198**	**1,793**	**2,252**
Net capital revenue	**174**	**116**	**329**	**463**	**237**
Capital revenue	12	0	51	0	0
Tranfers receipts	161	116	278	463	237
Central government	161	116	278	463	237
Abroad	0	0	0	0	0
Capital expenditure and net lending	**1,675**	**1,435**	**1,264**	**1,324**	**1,012**
Fixed investment	1,657	1,434	1,140	1,323	1,009
Net lending	0	2	0	0	0
Other	18	-1	124	1	3
Primary balance	**289**	**961**	**2,240**	**1,993**	**2,293**
Overall balance	**-210**	**571**	**1,262**	**932**	**1,477**

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector 1/

(In millions of lempiras)

	1996	1997	1998	1999	Prel. 2000
V. Consolidated Nonfinancial Public Sector					
Total revenue	**13,447**	**17,207**	**21,911**	**25,123**	**27,848**
Current primary revenue	13,412	16,751	21,263	23,530	26,669
Tax revenue	7,737	10,044	12,349	14,282	15,628
Nontax revenue	1,037	1,107	1,932	1,924	2,057
Private sector contributions to social security institutions 3/	417	591	830	841	1,185
Operating primary revenue of public enterprises	4,220	5,009	6,153	6,483	7,799
Capital revenue and grants	36	456	647	1,594	1,179
Total primary expenditure	**12,260**	**15,129**	**17,873**	**22,297**	**25,671**
Current primary expenditure	8,414	10,754	12,450	16,142	19,526
Wages and salaries	3,939	4,863	6,585	8,362	10,625
Goods and services	3,217	3,787	4,169	4,526	5,870
Transfers	1,259	2,105	1,697	3,255	3,031
Private sector	919	1,724	1,387	2,342	1,659
Abroad	52	76	486	100	157
Adjustment for transfers	288	306	-177	813	1,214
Capital expenditure	3,552	3,915	5,273	5,781	5,580
Fixed capital formation	3,782	4,161	4,259	4,171	4,362
Transfers	-252	-286	888	1,604	1,192
Private sector	4	10	269	261	320
Adjustment for transfers	-256	-296	619	1,343	872
Other capital expenditure	22	40	125	6	25
Net lending	294	460	149	374	565
Pension funds loans to members	294	460	149	374	565
			5,422	6,154	6,144
Primary current balance	**4,997**	**5,996**	**8,813**	**7,387**	**7,143**
Primary balance	**1,187**	**2,078**	**4,038**	**2,826**	**2,177**
Interest revenue	526	684	906	1,344	1,273
Interest payments	2,692	3,267	3,238	3,055	2,745
External	1,831	2,089	2,586	2,478	2,253
Domestic	860	1,178	652	578	492
Current balance	**2,832**	**3,414**	**6,481**	**5,676**	**5,671**
Overall balance	**-978**	**-505**	**1,706**	**1,115**	**706**
Identified financing	**1,926**	**923**	**-3,142**	**425**	**-821**
Net foreign financing	**1,483**	**1,733**	**1,037**	**5,964**	**1,445**
Net foreign borrowing 7/	599	490	32	3,206	-11,556
Disbursements	2,174	3,012	2,481	5,529	4,087
Amortization	-1,575	-2,522	-2,449	-2,323	-15,643
Debt relief and other exceptional financing	635	492	794	2,458	12,671

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector 1/

(In millions of lempiras)

	1996	1997	1998	1999	Prel. 2000
V. Consolidated Nonfinancial Public Sector					
Change in arrears	-109	501	-140	-92	-516
Foreign grants used for adjustment	352	259	350	391	847
Change in government bonds held by international organizations	6	-9	0	0	0
Net domestic financing	**443**	**-810**	**-4,179**	**-5,539**	**-2,266**
Banking system	376	-880	-3,918	-5,042	-1,517
Central bank	125	-670	-1,977	-4,142	-557
Rest of banking system	251	-210	-1,941	-900	-960
Private sector bonds	7	70	-394	-337	-879
Transfers from ESF and other	60	0	133	-160	129
Statistical discrepancy	**948**	**418**	**-1,436**	**1,540**	**-115**

Source: Ministry of Finance; Central Bank of Honduras; and Fund staff estimates.

1/ Includes telecommunications company (HONDUTEL).
2/ Includes taxes on net assets in 1996 -97.
3/ Includes contributions to IHSS, INJUPEMP, and IMPREMA.
4/ Comprising HONDUTEL, ENEE (electricity company), SANAA (water and sanitation company, and ENP (National (National Ports Company).
5/ Includes change in accounts receivable.
6/ Includes change in accounts payable.
7/ In 2000 includes debt swap/rescheduling operation with CABEI.

Table 14. Honduras: Central Government Revenue

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Total revenue	**7,897**	**10,355**	**13,186**	**14,796**	**16,044**
Current revenue	7,895	10,351	13,165	14,779	16,036
Tax revenue	7,455	9,698	11,959	13,554	14,795
Direct taxes	2,043	2,512	3,363	3,099	3,174
Income tax	1,909	2,293	3,110	2,853	2,908
Property tax	68	97	132	152	189
Net assets	66	122	122	94	78
Domestic indirect taxes	3,125	3,982	5,427	6,730	7,433
Sales tax	1,679	2,319	3,472	4,690	5,149
Petroleum derivatives	459	407	411	468	385
Alcohol and nonalcohol beverages	378	465	560	591	664
Other	609	791	984	982	1,235
International trade	1,803	2,156	2,115	1,957	2,138
Imports	1,706	2,068	2,043	1,950	2,132
Petroleum	399	409	316	384	427
Other	1,306	1,659	1,727	1,566	1,705
Exports	97	88	72	7	5
Bananas	82	76	67	7	5
Other	16	13	5	0	0
Petroleum derivatives	482	1,046	1,052	1,766	2,051
Other	2	2	2	2	0
Nontax revenue	182	353	919	835	676
Transfers	259	300	287	390	565
Capital revenue	2	3	20	17	8
	(In percent of GDP)				
Total revenue	**16.5**	**16.9**	**18.7**	**19.2**	**18.3**
Current revenue	16.5	16.9	18.7	19.2	18.3
Tax revenue	15.6	15.8	17.0	17.6	16.9
Direct taxes	4.3	4.1	4.8	4.0	3.6
Of which					
Income tax	4.0	0.2	0.2	0.2	0.2
Domestic indirect taxes	6.5	6.5	7.7	8.7	8.5
Sales tax	3.5	3.8	4.9	6.1	5.9
Petroleum derivatives	1.0	0.7	0.6	0.6	0.4
Alcohol and nonalcohol beverages	0.8	0.8	0.8	0.8	0.8
Other	1.3	1.3	1.4	1.3	1.4
International trade	3.8	3.5	3.0	2.5	2.4
Imports	3.6	3.4	2.9	2.5	2.4
Exports	0.2	0.1	0.1	0.0	0.0
Petroleum derivatives	1.0	0.0	0.0	0.0	0.0
Nontax revenue	0.4	1.7	1.5	2.3	2.3
Transfers	0.5	0.0	0.0	0.0	0.0

Source: Ministry of Finance.

Table 15. Honduras: Operations of the Social Security Institute

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Total revenue	**526.5**	**600.6**	**737.2**	**641.9**	**794.6**
Current revenue	526.5	600.6	737.2	641.9	794.6
Contributions from	297.0	385.3	393.8	350.6	568.4
Private sector	222.7	288.8	353.3	309.4	507.8
Central government	22.8	29.6	0.0	0.0	0.0
Social security institute	4.5	4.7	4.9	9.5	9.2
Pension funds	3.4	4.4	4.5	4.0	6.6
Local governments	5.9	8.8	2.2	2.0	3.2
Public enterprises	37.7	48.9	28.9	25.7	41.7
Interest earnings	152.4	148.3	300.9	185.3	218.6
Other	77.1	32.8	24.8	106.0	7.6
Change in accounts receivable	0.0	34.2	17.7	0.0	0.0
Total expenditure	**268.5**	**333.2**	**384.7**	**462.4**	**507.5**
Current expenditure	228.8	298.8	377.9	453.1	479.4
Wages and salaries	131.4	146.7	183.8	255.6	312.1
Goods and services	67.2	70.6	95.3	117.9	70.6
Contribution to social security	4.5	4.7	5.5	9.5	9.2
Transfers	25.7	78.4	93.3	70.1	87.5
Private sector (benefits)	22.5	71.0	90.0	68.1	62.2
Other	3.2	7.4	3.3	2.0	25.3
Change in accounts payable	0.0	-1.6	0.0	0.0	0.0
Capital expenditure and net lending	39.7	34.4	6.8	9.4	28.1
Fixed capital formation	39.7	2.9	6.8	4.7	6.9
Other	0.0	31.5	0.0	4.7	21.2
Primary current balance	**145.3**	**153.5**	**58.4**	**3.5**	**96.6**
Primary balance	**105.6**	**119.1**	**51.6**	**-5.8**	**68.5**
Current account balance	**297.7**	**301.8**	**359.3**	**188.8**	**315.2**
Overall balance	**258.0**	**267.4**	**352.5**	**179.5**	**287.1**
	(In percent of GDP)				
Current revenue	**1.1**	**1.0**	**1.0**	**0.8**	**0.9**
Contributions	0.6	0.6	0.6	0.5	0.6
Interest earnings	0.3	0.2	0.4	0.2	0.2
Other	0.2	0.1	0.0	0.1	0.0
Current expenditure	0.5	0.5	0.5	0.6	0.5
Wages and salaries	0.3	0.2	0.3	0.3	0.4
Current transfers	0.1	0.1	0.1	0.1	0.1
Other	0.2	0.1	0.1	0.2	0.1
Capital expenditure	0.1	0.1	0.0	0.0	0.0
Primary balance	0.2	0.2	0.1	0.0	0.1
Current account balance	0.6	0.5	0.5	0.2	0.4
Overall balance	0.5	0.4	0.5	0.2	0.3

Sources: Central Bank of Honduras; Honduran Institute for Social Security; and Fund staff estimates.

Table 16. Honduras: Operations of INJUPEMP 1/

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Total revenue	**419.4**	**576.6**	**667.1**	**853.7**	**975.5**
Current revenue	**401.1**	**522.7**	**610.4**	**853.7**	**975.5**
Contributions	204.3	307.5	351.0	433.2	606.8
Government employees	118.9	177.2	198.9	245.5	343.9
Central government	58.4	89.1	103.3	127.5	178.7
Local governments	1.3	1.9	2.1	2.6	3.6
Decentralized agencies	7.8	12.0	13.9	17.1	24.0
Public enterprises	17.9	27.3	32.7	40.4	56.6
Interest earnings	158.0	167.8	210.1	420.5	317.3
Other	4.2	43.4	49.3	0.0	5.1
Change in accounts receivable	34.6	4.0	0.0	0.0	46.3
Capital revenue	**18.3**	**53.9**	**56.7**	**0.0**	**0.0**
Total expenditure	**489.5**	**562.1**	**278.0**	**366.9**	**409.1**
Current expenditure	**121.8**	**113.1**	**158.9**	**199.1**	**238.8**
Wages and salaries	12.2	15.1	20.0	30.4	34.0
Goods and services	5.7	6.5	12.3	10.1	9.2
Contribution to social security	1.3	1.4	0.0	0.0	0.7
Transfers	83.9	94.7	126.6	158.6	187.4
Private sector (benefits)	79.6	94.7	126.6	157.9	187.3
Other	4.3	0.0	0.0	0.7	0.1
Other	0.0	0.0	0.0	0.0	7.5
Change in accounts payable	18.7	-4.6	0.0	0.0	0.0
Capital expenditure and net lending	**367.7**	**449.0**	**119.1**	**167.8**	**170.3**
Fixed capital formation	226.4	145.1	12.5	6.4	1.7
Net lending	139.6	301.3	106.6	161.4	168.5
Other	1.7	2.6	0.0	0.0	0.0
Primary balance	**-228.1**	**-153.3**	**179.0**	**66.3**	**249.1**
Current account balance	**279.3**	**409.6**	**451.5**	**654.6**	**736.7**
Overall balance	**-70.1**	**14.5**	**389.1**	**486.8**	**566.4**
	(In percent of GDP)				
Current revenue	**0.8**	**0.9**	**0.9**	**1.1**	**1.1**
Contributions	0.4	0.5	0.5	0.6	0.7
Interest earnings	0.3	0.3	0.3	0.5	0.4
Other	0.0	0.1	0.1	0.0	0.0
Current expenditure	**0.3**	**0.2**	**0.2**	**0.3**	**0.3**
Transfers	0.2	0.2	0.2	0.2	0.2
Other	0.1	0.0	0.0	0.1	0.1
Current account balance	0.6	0.7	0.6	0.8	0.8
Capital expenditure and net lending	0.8	0.7	0.2	0.2	0.2
Overall balance	-0.1	0.0	0.6	0.6	0.6

1/ National Institute of Pensions for public employees.

Table 17. Honduras: Operations of INPREMA 1/

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Total revenue	**294.2**	**558.7**	**631.3**	**818.9**	**897.1**
Current revenue	**288.3**	**504.8**	**601.2**	**818.9**	**894.1**
Contributions from	182.6	288.5	452.3	465.5	542.9
Private sector	75.8	125.2	277.8	285.9	333.5
Central government	102.9	157.2	165.0	169.8	198.1
IMPREMA as employer	3.9	6.1	9.5	9.8	11.4
Interest earnings	90.0	182.9	135.5	316.4	319.1
Other	13.7	25.1	13.4	37.0	32.1
Change in accounts receivable	2.0	8.3	0.0	0.0	0.0
Capital revenue	**5.9**	**53.9**	**30.1**	**0.0**	**3.0**
Total expenditure	**387.8**	**430.9**	**357.9**	**547.5**	**763.5**
Current expenditure	**152.6**	**217.9**	**275.1**	**335.2**	**359.3**
Wages and salaries	11.3	14.5	14.7	19.6	20.3
Goods and services	8.1	10.9	10.1	7.8	11.9
Contribution to social security	5.7	6.1	2.3	0.4	1.9
Transfers to private sector (benefits)	135.6	186.4	248.0	307.4	325.3
Change in accounts payable	-8.1	0.0	0.0	0.0	0.0
Capital expenditure and net lending	**235.2**	**213.0**	**82.8**	**212.3**	**404.2**
Capital expenditure	80.5	57.8	27.5	3.6	12.1
Fixed capital formation	78.6	51.4	26.3	3.6	11.2
Other	1.9	6.4	1.2	0.0	0.9
Net lending	154.7	155.2	55.3	208.7	392.1
Primary balance	**-183.6**	**-55.1**	**137.9**	**-44.9**	**-185.4**
Current account balance	**135.7**	**286.9**	**326.1**	**483.8**	**534.9**
Overall balance	**-93.6**	**127.8**	**273.4**	**271.5**	**133.6**
	(In percent of GDP)				
Current account balance	0.3	0.5	0.5	0.6	0.6
Capital expenditure and net lending	0.5	0.3	0.1	0.3	0.5
Overall balance	-0.2	0.2	0.4	0.4	0.2

Sources: Central Bank of Honduras; IMPREMA; and Fund staff estimates.

1/ Pension fund for civil service and teachers.

Table 18. Honduras: Operations of the Local Governments

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Total revenue	**684.4**	**962.5**	**993.8**	**266.8**	**335.6**
Current revenue	**520.5**	**655.5**	**655.5**	**0.0**	**0.0**
Tax revenue	282.6	345.8	390.3	727.3	832.4
Nontax revenue	227.7	301.9	324.7	273.1	521.3
Current transfers from	0.0	0.0	0.0	21.2	29.2
Central government	0.0	0.0	0.0	21.1	29.1
Private sector	0.0	0.0	0.0	0.1	0.1
Interest earnings	3.4	7.8	17.4	7.8	9.0
Capital revenue	**163.9**	**307.0**	**338.3**	**266.8**	**335.6**
From central government	154.5	262.1	307.0	249.3	315.5
Other	9.4	44.9	31.3	17.5	20.1
Total expenditure	**767.7**	**1,275.4**	**1,184.9**	**1,234.1**	**1,845.2**
Curent expenditures	**425.9**	**571.5**	**656.7**	**861.5**	**1,003.9**
Wages and salaries	245.9	275.6	283.7	371.4	434.0
Goods and services	113.4	151.5	154.0	303.8	356.7
Interest	24.9	62.7	87.7	72.6	83.0
Contributions to social security	7.2	10.7	43.3	23.0	26.3
Transfers to private sector	34.5	71.0	58.1	75.5	86.4
Other taxes and transfer payments	0.0	0.0	29.8	5.8	6.7
Change in accounts payables (increase -)	0.0	0.0	0.0	9.3	10.7
Capital expenditure	**341.8**	**703.9**	**528.2**	**372.6**	**841.4**
Fixed capital formation	341.8	700.5	540.7	369.1	837.4
Net lending	0.0	3.4	-12.4	3.5	4.0
Primary current account balance	**116.1**	**138.9**	**69.1**	**-796.8**	**-929.8**
Primary balance	**-61.8**	**-258.0**	**-120.8**	**-902.5**	**-1,435.6**
Current account balance	**94.6**	**84.0**	**-1.2**	**-861.5**	**-1,003.9**
Overall balance	**-83.3**	**-312.9**	**-191.1**	**-967.3**	**-1,509.7**
	(In percent of GDP)				
Capital expenditure	0.7	1.1	0.7	0.5	1.0
Current account balance	0.2	0.1	0.0	-1.1	-1.1
Primary balance	-0.1	-0.4	-0.2	-1.2	-1.6
Overall balance	-0.2	-0.5	-0.3	-1.3	-1.7

Sources: Ministry of Finance; and Fund staff estimates.

Table 19. Honduras: Operations of the Decentralized Agencies 1/

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Total revenue	**1,191.5**	**1,587.1**	**1,600.7**	**1,950.2**	**2,128.4**
Current revenue	860.5	1,103.9	1,356.7	1,731.2	1,954.7
Central government transfers	322.8	736.7	737.8	983.8	1,102.6
Other revenue	496.3	304.1	582.6	673.4	768.3
Interest earnings	41.4	63.1	36.2	74.0	83.8
Capital revenue	331.0	483.2	244.0	219.0	173.7
Central government transfers	331.0	483.2	244.0	219.0	68.7
Other	0.0	0.0	0.0	0.0	105.0
Total expenditure	**700.9**	**1,232.9**	**1,530.4**	**1,851.8**	**2,106.4**
Curent expenditure	570.9	1,057.0	1,263.7	1,539.4	1,817.8
Wages and salaries	138.2	143.6	795.5	989.7	1,165.4
Goods and services	200.5	196.0	287.0	368.9	437.4
Interest	16.6	1.8	1.5	2.0	2.0
Contributions to social security	7.8	12.0	31.9	39.7	48.2
Transfers to private sector	207.8	703.6	64.3	94.6	106.8
Other transfers	0.0	0.0	0.0	44.4	57.4
Other current expenditures	0.0	0.0	83.5	0.0	0.6
Capital expenditure	130.0	175.9	266.7	312.4	288.6
Fixed capital formation	130.0	175.9	268.1	302.2	276.3
Other and net lending	0.0	0.0	-1.4	10.2	12.3
Primary balance	**465.8**	**292.9**	**35.5**	**26.3**	**-59.7**
Current account balance	**289.6**	**46.9**	**93.0**	**191.8**	**136.9**
Overall balance	**490.6**	**354.2**	**70.3**	**98.4**	**22.1**
	(In percent of GDP)				
Capital expenditure	0.3	0.3	0.4	0.4	0.3
Current accountbalance	0.6	0.1	0.1	0.2	0.2
Primary balance	1.0	0.5	0.1	0.0	-0.1
Overall balance	1.0	0.6	0.1	0.1	0.0

Source: Central government budget.

1/ Includes about 21agencies, with the largest being UNAH and UPNFM (the public universities), INFOP (technical assistance to producers), COHDEFOR (forestry agency), and IHNFA (Honduran Family Institute).

Table 20. Honduras: Operations of National Enterprise of Electricity Energy, ENEE

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Operating revenue	**2,104.5**	**2,567.7**	**3,426.5**	**3,203.3**	**3,782.4**
Sales of electricity 1/	2,156.9	2,525.0	3,196.0	3,036.3	3,581.1
Interest earnings	13.4	32.4	46.3	112.0	77.3
Other goods and services	103.7	132.9	259.2	125.0	0.0
Change in accounts receivable	-169.5	-122.6	-75.0	-70.0	124.0
Operating expenditure	**2,034.7**	**2,315.5**	**3,259.7**	**3,779.7**	**3,668.6**
Wages and salaries 2/	137.1	172.1	181.2	311.8	302.4
Severance payments	12.4	7.9	4.7	9.1	19.8
Goods and services	1,445.9	1,616.0	1,925.6	1,675.4	2,259.8
Fuels	49.3	67.8	476.1	250.0	62.4
Others including maintenance	148.8	127.8	188.9	17.1	18.0
Purchase of energy	1,247.8	1,420.4	1,260.6	1,408.3	2,179.4
Interest	429.2	365.8	1,014.9	1,335.0	1,019.5
External	243.0	350.3	1,014.9	1,325.0	1,019.5
Domestic	186.2	15.5	0.0	10.0	0.0
Other	24.2	161.8	82.1	416.9	50.5
Change in accounts payable (increase -)	-14.1	-8.1	51.2	31.5	16.6
Operating balance	**69.8**	**252.2**	**166.8**	**-576.4**	**113.8**
Net transfer payments	**-224.0**	**-274.5**	**-433.7**	**-264.0**	**15.8**
Taxes and transfer payments	7.5	39.3	49.5	13.5	15.8
Central government	0.1	0.0	0.0	0.0	0.0
Rest of general government	0.0	0.0	3.3	0.0	0.0
Private sector	7.4	39.3	46.2	13.5	15.8
Transfer receipts	231.5	313.8	483.2	277.5	0.0
Central government	231.5	313.8	483.2	277.5	0.0
Private sector	0.0	0.0	0.0	0.0	0.0
Current account balance	**293.8**	**526.7**	**600.5**	**-312.4**	**98.0**
Net capital revenue	**10.0**	**20.0**	**24.8**	**52.0**	**66.8**
Tranfers receipts	10.0	20.0	24.8	52.0	66.8
Central government	10.0	20.0	24.8	52.0	12.0
Others	0.0	0.0	0.0	0.0	54.8
Capital expenditure and net lending	**369.4**	**537.0**	**420.3**	**329.0**	**389.5**
Primary balance	**350.2**	**343.1**	**1,173.6**	**633.6**	**717.5**
Overall balance	**-65.6**	**9.7**	**205.0**	**-589.4**	**-224.7**

Table 20. Honduras: Operations of National Enterprise of Electricity Energy, ENEE

	1996	1997	1998	1999	Prel. 2000
Financing	**65.6**	**-9.7**	**-205.0**	**589.4**	**224.7**
Foreign (net)	-274.8	-214.8	-351.9	-217.5	-131.7
Disbursements	7.7	15.9	69.4	60.0	0.0
Amortization	282.5	230.7	421.3	277.5	131.7
Domestic	340.4	205.1	146.9	806.9	356.4
Central bank	27.1	-16.1	87.0	0.0	0.0
Rest of banking system	7.4	-69.4	35.7	-102.0	-375.0
From government with foreign resources	356.5	-78.5	69.0	64.4	-33.9
Investment in securities	16.3	-67.0	0.0	50.7	0.0
Other	-66.9	436.1	-44.8	793.8	765.3
	(In percent of GDP)				
Operating revenue	4.4	4.2	4.9	4.2	4.3
Operating expenditure	4.3	3.8	4.6	4.9	4.2
Net capital revenue	0.0	0.0	0.0	0.1	0.1
Capital expenditure	0.8	0.9	0.6	0.4	0.4
Operating balance	0.1	0.4	0.2	-0.7	0.1
Current account balance	0.6	0.9	0.9	-0.4	0.1
Primary balance	0.7	0.6	1.7	0.8	0.8
Overall balance	-0.1	0.0	0.3	-0.8	-0.3
External financing	-0.6	-0.4	-0.5	-0.3	-0.2
Domestic financing	0.7	0.3	0.2	1.0	0.4
Memorandum items:					
Tariff in lempiras per KWH, average	1.0	1.1	...	...	...
Tariff in U.S. cents per KWH, average	7.8	8.7	...	...	...
Output sold in GW/H (in millions of lempiras)	2,193	2,828	...	...	...

Sources: Ministry of Finance; ENEE; Central Bank; and Fund staff estimates.

1/ On accrual basis; cash amounts obtained by adding changes in accounts receivable.
2/ Includes employers contributions to the social security system.

Table 21. Honduras: Operations of the National Telecommunications Enterprise, HONDUTEL

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Operating revenue	**1,688.8**	**1,874.2**	**2,217.8**	**2,985.5**	**3,448.6**
Sales of goods and services 1/	1,645.1	1,884.5	2,187.7	2,767.6	3,203.5
Interest earnings	50.8	51.9	142.9	217.9	230.6
Other	136.8	32.3	37.5	0.0	14.5
Change in accounts receivable (increase -)	-143.9	-94.5	-150.3	0.0	0.0
Operating expenditure	**677.1**	**565.6**	**727.5**	**723.5**	**1,070.2**
Wages and salaries 2/	260.1	324.0	379.6	466.8	549.4
Severance payments	29.5	7.4	52.0	13.4	231.9
Goods and services	171.3	124.4	143.3	179.1	174.3
Interest	123.2	109.8	152.6	51.6	114.6
External	111.6	103.3	148.0	47.6	112.5
Domestic	11.6	6.5	4.6	4.0	2.1
Other	0.0	0.0	0.0	12.6	0.0
Change in accounts payable (increase -)	93.0	0.0	0.0	0.0	0.0
Operating balance	**1,011.7**	**1,308.6**	**1,490.3**	**2,262.0**	**2,378.4**
Net transfer payments	**202.7**	**212.1**	**155.2**	**305.6**	**425.0**
Taxes and transfer payments	202.7	212.1	155.2	305.6	425.0
Central government	184.4	189.6	150.0	300.0	425.0
Rest of general government	0.0	0.0	0.0	0.0	0.0
Private sector	0.0	6.6	3.1	4.1	0.0
Abroad	18.3	15.9	2.1	1.5	0.0
Current account balance	**809.0**	**1,096.5**	**1,335.1**	**1,956.4**	**1,953.4**
Net capital revenue	**58.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital expenditure	**1,093.1**	**711.9**	**405.6**	**296.3**	**181.0**
Fixed investment	1,078.0	724.9	282.0	296.3	181.0
Inventory changes and other	14.5	-13.5	123.6	0.0	0.0
Net lending	0.6	0.5	0.0	0.0	0.0
Primary balance	**-153.7**	**442.5**	**939.2**	**1,493.8**	**1,656.4**
Overall balance	**-226.1**	**384.6**	**929.5**	**1,660.1**	**1,772.4**
Total financing	**226.1**	**-384.6**	**-929.5**	**-1,660.1**	**-1,772.4**
Foreign	-39.1	-315.6	-280.4	-42.3	-3.6
Disbursement	4.3	19.7	138.5	11.9	36.9
Amortization	43.4	335.3	418.9	54.2	40.5
Investment trust amortization	0.0	0.0	0.0	0.0	0.0
Domestic	265.2	-69.0	-649.1	-1,617.8	-1,768.8
Central bank	-130.3	5.3	0.0	0.0	0.0
Rest of banking system	-9.5	-70.9	-5.9	-6.9	-9.1
Government with foreign resources	-26.6	-52.9	0.0	0.0	0.0
Investment in securities and foreign account	554.9	-22.3	0.0	583.0	1,146.3
Other, including distribution of dividends and profits to government and others	-123.3	71.8	-643.2	-2,193.9	-2,906.0
	(In percent of GDP)				
Operating revenue	3.5	3.1	3.1	3.9	3.9
Operating expenditure	1.4	0.9	1.0	0.9	1.2
Net current transfers payments	0.4	0.3	0.2	0.4	0.5
Net capital revenue	0.1	0.0	0.0	0.0	0.0
Capital expenditure	2.3	1.2	0.6	0.4	0.2
Operating balance	2.1	2.1	2.1	2.9	2.7
Current account balance	1.7	1.8	1.9	2.5	2.2
Primary balance	-0.3	0.7	1.3	1.9	1.9
Overall balance	-0.5	0.6	1.3	2.2	2.0
External financing	-0.1	-0.5	-0.4	-0.1	0.0
Domestic financing	0.6	-0.1	-0.9	-2.1	-2.0

Sources: Ministry of Finance; HONDUTEL; Central Bank of Honduras; and Fund staff estimates.

1/ On accrual basis; cash amounts obtained by deducting changes in accounts receivable.
2/ Includes employers contributions to the social security system.

Table 22. Honduras: Operations of the National Autonomous Water and Sewerage Service, SANAA

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Operating revenue	**110.9**	**158.7**	**165.4**	**162.9**	**251.0**
Sales of goods and services 1/	104.1	117.3	149.4	162.9	236.9
Interest earnings	0.0	4.2	0.0	0.0	0.0
Other	26.3	27.9	9.8	0.0	5.5
Change in accounts receivable (increase -)	-19.5	9.3	6.2	0.0	8.6
Operating expenditure	**107.9**	**112.5**	**139.0**	**179.5**	**232.3**
Wages and salaries 2/	42.7	58.0	72.1	89.0	117.5
Severance payments	5.7	5.4	4.8	2.9	8.5
Goods and services	33.5	59.9	62.1	76.1	93.5
Interest	0.9	0.0	0.0	0.0	0.0
Domestic	0.9	0.0	0.0	0.0	0.0
Other	1.8	0.0	0.0	0.0	0.0
Change in accounts payable (increase -)	23.3	-10.8	0.0	11.5	12.8
Operating balance	**3.0**	**46.2**	**26.4**	**-16.7**	**18.7**
Net transfer payments	**0.0**	**0.1**	**1.7**	**0.2**	**0.2**
Taxes and transfer payments	0.0	0.1	1.7	0.2	0.2
Rest of general government	0.0	0.0	1.7	0.2	0.2
Private sector	0.0	0.1	0.0	0.0	0.0
Current account balance	**3.0**	**46.1**	**24.7**	**-16.9**	**18.5**
Net capital revenue	**151.3**	**95.7**	**302.9**	**411.4**	**224.8**
Capital revenue	0.0	0.0	50.0	0.0	0.0
From central government	151.3	95.7	252.9	411.4	224.8
Tranfers	151.3	95.7	252.9	411.4	224.8
Capital expenditure	**161.0**	**137.7**	**302.9**	**413.5**	**240.9**
Fixed investment	165.4	127.6	302.9	411.4	240.9
Inventory changes and other	-4.4	10.1	0.0	2.1	0.0
Primary balance	**-5.8**	**-0.1**	**24.7**	**-19.0**	**2.4**
Overall balannce	**-6.7**	**4.1**	**24.7**	**-19.0**	**2.4**

Table 22. Honduras: Operations of the National Autonomous Water and Sewerage Service, SANAA

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Financing	**6.7**	**-4.1**	**-24.7**	**19.0**	**-2.4**
External	11.7	118.7	0.0	0.0	0.0
Foreign official transfers	11.7	118.7	0.0	0.0	0.0
Domestic	-5.0	-122.8	-24.7	19.0	-2.4
	(In percent of GDP)				
Operating revenue	0.2	0.3	0.2	0.2	0.3
Operating expenditure	0.2	0.2	0.2	0.2	0.3
Net capital revenue	0.3	0.2	0.4	0.5	0.3
Capital expenditure	0.3	0.2	0.4	0.5	0.3
Operating balance	0.0	0.1	0.0	0.0	0.0
Current account balance	0.0	0.1	0.0	0.0	0.0
Primary balance	0.0	0.0	0.0	0.0	0.0
Overall balance	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance; SANAA; Central Bank of Honduras; and Fund staff estimates.

1/ On accrual basis; cash amounts obtained by deducting changes in accounts receivable.
2/ Includes employers contributions to the social security system.

Table 23. Honduras: Operations of the National Ports Enterprise, ENP

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Operating revenue	**396.7**	**522.3**	**548.7**	**471.4**	**642.4**
Sales of goods and services 1/	360.7	455.7	517.3	459.2	614.3
Interest earnings	17.0	25.3	16.7	10.0	17.2
Other	18.1	16.7	14.7	2.2	6.5
Change in accounts receivable (increase -)	0.9	24.6	0.0	0.0	4.4
Operating expenditure	**168.9**	**196.3**	**179.7**	**216.1**	**332.7**
Wages and salaries 2/	68.0	77.7	96.3	126.6	164.6
Severance payments	5.7	10.0	9.1	10.5	13.1
Goods and services	33.2	42.3	58.1	64.9	95.9
Interest	27.0	28.7	16.2	14.1	6.6
External	18.8	28.0	16.2	14.1	6.6
Domestic	8.2	0.7	0.0	0.0	0.0
Other	7.1	0.0	0.0	0.0	0.0
Change in accounts payable (increase -)	27.9	37.6	0.0	0.0	52.6
Operating balance	**227.8**	**326.0**	**369.0**	**255.3**	**309.7**
Net transfer payments	**42.8**	**105.6**	**131.7**	**89.7**	**127.2**
Taxes and transfer payments	42.8	105.6	131.7	89.7	127.2
Central government	25.7	80.7	100.0	60.0	100.0
Rest of general government	13.4	17.1	20.9	24.1	22.5
Private sector	2.4	6.4	9.3	3.9	3.1
Abroad	1.3	1.4	1.5	1.7	1.6
Current account balance	**185.0**	**220.4**	**237.3**	**165.6**	**182.5**
Net capital revenue	**12.3**	**0.0**	**1.1**	**0.0**	**0.0**
Capital revenue	12.3	0.0	1.1	0.0	0.0
Capital expenditure	**51.1**	**47.8**	**135.0**	**284.8**	**200.2**
Fixed investment	43.8	44.5	134.8	286.3	197.6
Inventory changes and other	7.3	1.7	0.0	-1.5	0.0
Net lending	0.0	1.6	0.2	0.0	2.6
Primary balance	**156.2**	**176.0**	**102.9**	**-115.1**	**-28.3**
Overall balance	**146.2**	**172.6**	**103.4**	**-119.2**	**-17.7**

Table 23. Honduras: Operations of the National Ports Enterprise, ENP

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Financing	**-146.2**	**-172.6**	**-103.4**	**119.2**	**17.7**
Foreign	-115.7	-32.9	-87.2	-47.5	-35.9
Drawings	0.0	0.0	0.0	0.0	0.0
Amortization	115.7	32.9	87.2	47.5	35.9
Domestic	-30.5	-139.7	-16.2	166.7	53.6
	(In percent of GDP)				
Operating revenue	0.8	0.9	0.8	0.6	0.7
Operating expenditure	0.4	0.3	0.3	0.3	0.4
Net transfer payments	0.1	0.2	0.2	0.1	0.1
Net capital revenue	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.1	0.1	0.2	0.4	0.2
Operating balance	0.5	0.5	0.5	0.3	0.4
Current account balance	0.4	0.4	0.3	0.2	0.2
Primary balance	0.3	0.3	0.1	-0.1	0.0
Overall balance	0.3	0.3	0.1	-0.2	0.0
External financing	-0.2	-0.1	-0.1	-0.1	0.0
Domestic financing	-0.1	-0.2	0.0	0.2	0.1

Sources: Ministry of Finance; Central Bank of Honduras; and Fund staff estimates.

1/ On accrual basis; cash amounts obtained by deducting changes in accounts receivable.
2/ Includes employers contributions to the social security system.

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	1996	1997	1998	1999	2000
	I. Central Bank				
Net international reserves	**2,519**	**6,235**	**8,775**	**14,154**	**15,078**
Foreign assets	3,444	7,536	11,100	17,833	19,458
Net Fund position	-752	-606	-1,489	-2,835	-3,138
Other short-term foreign liabilities	-174	-695	-836	-843	-1,241
Domestic assets	**6,160**	**1,914**	**-360**	**-4,585**	**-5,014**
Credit to public sector	-915	-1,621	-3,600	-7,795	-7,687
Central government	-654	-1,011	-2,633	-5,927	-4,388
Credit	1,138	1,411	1,501	991	1,096
Deposits	-1,792	-2,423	-4,134	-6,919	-5,484
Rest of the public sector	-261	-609	-967	-1,868	-3,299
Credit	173	99	79	65	52
Deposits	-434	-709	-1,046	-1,933	-3,351
Government trust fund	-201	0	0	0	0
FHIS	-19	-8	-1	-45	-43
Official capital	-1,550	-1,161	-511	-542	-597
Credit to the private sector	58	5	3	2	1
Credit to banks, net	-137	-3,816	-4,583	-4,766	-5,489
Claims	1,275	289	204	167	130
Development banks	312	151	104	106	96
Commercial banks	720	136	99	60	33
Specialized saving institutions	242	2	1	1	1
Liabilities	-1,412	-4,104	-4,787	-4,933	-5,619
Net unclassified assets	9,280	8,856	8,687	8,931	9,182
Exchange losses	7,097	5,348	16	-41	50
Other 1/	2,183	3,508	8,670	8,972	9,132
Allocation of SDRs	-355	-341	-354	-370	-381
Medium- and long-term foreign liabilities	**5,288**	**3,499**	**3,653**	**3,505**	**3,279**
Private sector deposits	**414**	**571**	**102**	**375**	**883**
Money	180	264	93	166	206
Sight deposits	18	20	19	80	42
Time and savings deposits	162	244	75	86	165
Bonds	37	0	0	0	0
CAMs	197	307	9	209	676
Currency issue	**3,178**	**4,079**	**4,660**	**5,689**	**5,903**
Cash in vault	583	804	960	1,025	1,219
Currency in circulation	2,595	3,275	3,700	4,664	4,683

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	1996	1997	1998	1999	2000
	II. Commercial Banks				
Net international reserves	**3,600**	**4,850**	**5,928**	**7,122**	**9,021**
Foreign assets	2,840	3,589	4,611	6,243	8,059
Short-term foreign liabilities	760	1,261	1,317	879	961
Claims on central bank	**1,993**	**4,460**	**5,223**	**5,500**	**5,925**
Cash in vaults	547	764	916	975	1,175
Deposits	578	1,379	1,912	1,891	2,273
FOVI bonds 2/	27	0	0	0	0
CAMs 3/	841	2,317	2,395	2,634	2,477
Domestic assets	**13,223**	**17,972**	**23,789**	**29,603**	**35,936**
Credit to public sector (net)	190	-1,048	-2,986	-3,855	-3,671
Central government	869	32	-827	-1,147	-1,393
Credit	958	496	100	217	389
Deposits	-89	-464	-927	-1,363	-1,782
Rest of public sector	-679	-1,080	-2,159	-2,708	-2,278
Credit	129	227	302	261	273
Deposits	-809	-1,307	-2,461	-2,969	-2,551
FHIS	-43	-13	-4	-162	-178
Credit to the private sector	12,464	18,466	25,591	30,945	35,721
Unclassified assets 1/	612	567	1,189	2,675	4,064
Medium- and long-term foreign liabilities	**1,298**	**2,250**	**3,391**	**3,326**	**3,424**
Liabilities to central bank	**1,343**	**333**	**199**	**171**	**134**
Liabilities to the private sector	**16,175**	**24,699**	**31,350**	**38,727**	**47,324**
Liquid liabilities	13,291	19,564	24,757	30,255	37,033
Sight deposits	3,077	4,313	4,859	5,707	6,219
Quasi-money	9,766	14,707	19,157	23,834	29,981
Domestic currency	5,600	9,353	12,475	15,403	19,540
Time and savings deposits	5,454	9,202	12,315	15,227	19,370
Specialized savings	99	112	116	129	112
Other deposits	48	39	44	47	58
Deposits in foreign currency	4,167	5,354	6,682	8,430	10,441
Bonds	33	78	97	58	50
Other obligations	414	467	644	656	783
Capital and reserves	2,884	5,134	6,593	8,473	10,291

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	1996	1997	1998	1999	2000
III. Consolidated Development Banks					
Net international reserves	**2**	**2**	**4**	**6**	**29**
Of which					
Foreign assets	3	4	7	7	29
Claims on central bank	**34**	**208**	**388**	**263**	**565**
Cash in vaults	14	21	20	24	12
Deposits	18	168	339	188	87
CAMs	3	19	29	51	467
Domestic assets	**679**	**427**	**232**	**205**	**360**
Credit to public sector (net)	33	-151	-857	-1,151	-1,544
Central government	-10	-230	-902	-1,176	-1,576
Rest of public sector	43	79	45	25	31
Government trust fund	-1	-1	-1	0	0
Official capital and surplus	109	-1,124	-1,507	-2,215	-2,726
Credit to the private sector	201	283	292	550	554
Unclassified assets 1/	337	1,420	2,305	3,021	4,076
Medium- and long-term foreign liabilities	**164**	**164**	**174**	**75**	**456**
Liabilities to central bank	**316**	**149**	**104**	**105**	**101**
Liabilities to the private sector	**235**	**324**	**347**	**294**	**397**
Sight deposits	15	26	18	40	38
Quasi-money	99	117	138	159	188
Domestic currency	98	115	135	153	182
Time and savings deposits	92	106	123	137	164
Other deposits in local currency	6	9	12	16	19
Deposits in foreign exchange	2	2	2	6	6
Bonds	0	17	7	0	0
Other obligations	121	164	184	95	171

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	1996	1997	1998	1999	2000
IV. Specialized Savings Institutions					
Net international reserves	**155**	**89**	**88**	**107**	**167**
Of which					
Foreign assets	155	89	88	107	167
Claims on central bank	**106**	**227**	**199**	**282**	**386**
Cash in vaults	22	19	24	26	32
Deposits	55	105	128	192	252
FOVI bonds	20	0	0	0	0
CAMs	10	103	47	64	102
Domestic assets	**1,490**	**1,251**	**1,600**	**2,060**	**2,656**
Credit to public sector (net)	-18	-105	-72	-166	-175
Central government	82	1	3	0	0
Rest of public sector	-100	-106	-75	-166	-175
Credit to the private sector	1,306	1,439	2,053	2,554	3,237
Unclassified assets 1/	202	-84	-381	-327	-406
Liabilities to central bank	**262**	**12**	**1**	**1**	**1**
Liabilities to the private sector	**1,490**	**1,555**	**1,887**	**2,448**	**3,209**
Liquid liabilities	1,281	1,359	1,639	2,127	2,789
Quasi-money	943	1,002	1,178	1,477	1,990
Deposits in domestic currency	767	908	1,067	1,346	1,794
Time and savings deposits	767	908	1,067	1,346	1,794
Deposits in foreign currency	176	94	111	131	196
Other obligations	338	357	461	650	799
Capital and surplus	209	196	248	321	420

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	1996	1997	1998	1999	2000
IV. Consolidated Financial System					
Net international reserves	**6,275**	**11,175**	**14,796**	**21,388**	**24,295**
Foreign assets	6,442	11,217	15,806	24,189	27,714
Net Fund position	-752	-606	-1,489	-2,835	-3,138
Short-term foreign liabilities	585	564	478	35	-280
Net domestic assets	**21,182**	**25,161**	**29,807**	**32,026**	**39,359**
Credit to public sector	-710	-2,925	-7,516	-12,967	-13,078
Central government	287	-1,208	-4,360	-8,250	-7,356
Credit	2,213	2,129	1,623	1,233	1,509
Deposits	-1,926	-3,337	-5,983	-9,483	-8,865
Rest of public sector	-997	-1,717	-3,156	-4,717	-5,722
Credit	416	499	537	462	455
Deposits	-1,413	-2,216	-3,693	-5,179	-6,177
Government trust fund	-202	-1	-1	0	0
Credit to private sector	14,029	20,193	27,939	34,051	39,513
Official capital	-1,441	-2,285	-2,018	-2,757	-3,323
FHIS	-62	-21	-6	-207	-221
Unclassified assets 1/	10,431	10,759	11,800	14,299	16,916
Allocation of SDRs	-355	-341	-354	-370	-381
Interbank float	-507	-218	-37	-23	-68
Medium- and long-term foreign liabilities	**6,750**	**5,913**	**7,217**	**6,906**	**7,159**
Central bank	5,288	3,499	3,653	3,505	3,279
Rest of banking system	1,462	2,414	3,564	3,401	3,880
Liabilities to the private sector	**20,909**	**30,423**	**37,386**	**46,508**	**56,495**
Liquid liabilities	17,816	25,093	30,545	37,715	45,784
Money	5,705	7,634	8,595	10,490	10,982
Currency in circulation	2,595	3,275	3,700	4,664	4,683
Sight deposits	3,110	4,359	4,896	5,827	6,299
Quasi-money	10,971	16,071	20,547	25,555	32,323
Domestic currency	6,626	10,620	13,751	16,988	21,681
Time and savings deposits	6,474	10,460	13,579	16,796	21,492
Specialized savings	99	112	116	129	112
Other deposits in local currency	53	48	56	63	77
Deposits in foreign exchange	4,345	5,451	6,795	8,568	10,643
Bonds	70	95	104	58	50
Other obligations	873	987	1,290	1,401	1,752
CAMs	197	307	9	209	676
Capital and surplus	3,093	5,330	6,841	8,794	10,711

Source: Central Bank of Honduras.

1/ Includes valuation adjustment.
2/ Housing Fund.
3/ Open market operations.

Table 25. Honduras: Destination of Banking System Credit to the Private Sector

	1996	1997	1998	1999	Prel. 2000
	(In millions of lempiras)				
Total	**12,106**	**17,703**	**25,266**	**30,788**	**35,201**
Agriculture and related sectors	1,938	2,808	4,081	5,498	6,737
Agriculture	1,333	1,974	3,085	4,222	5,106
Coffee	406	622	1,131	1,571	1,653
Cotton	11	10	15	32	39
Basic grains	239	339	529	663	699
Bananas	192	288	297	362	572
Other	485	716	1,112	1,594	2,144
Livestock	484	629	760	918	1,159
Fishing	122	205	236	358	471
Mining	9	14	58	124	149
Manufacturing	2,382	3,064	4,429	5,350	5,822
Transport and communications	201	341	415	491	550
Construction and real estate	2,114	3,147	5,000	6,503	7,760
Commerce	3,923	5,946	7,735	7,953	8,506
Consumption	702	1,132	1,677	2,183	2,544
Other	837	1,252	1,871	2,687	3,132
	(In percent of GDP)				
Total	**25.3**	**28.9**	**35.9**	**39.9**	**40.2**
Agriculture and related sectors	4.1	4.6	5.8	7.1	7.7
Agriculture	2.8	3.2	4.4	5.5	5.8
Coffee	0.9	1.0	1.6	2.0	1.9
Cotton	0.0	0.0	0.0	0.0	0.0
Basic grains	0.5	0.6	0.8	0.9	0.8
Bananas	0.4	0.5	0.4	0.5	0.7
Other	1.0	1.2	1.6	2.1	2.4
Livestock	1.0	1.0	1.1	1.2	1.3
Fishing	0.3	0.3	0.3	0.5	0.5
Mining	0.0	0.0	0.1	0.2	0.2
Manufacturing	5.0	5.0	6.3	6.9	6.7
Transport and communications	0.4	0.6	0.6	0.6	0.6
Construction and real estate	4.4	5.1	7.1	8.4	8.9
Commerce	8.2	9.7	11.0	10.3	9.7
Consumption	1.5	1.8	2.4	2.8	2.9
Other	1.8	2.0	2.7	3.5	3.6
	(In percent of total)				
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture and related sectors	16.0	15.9	16.2	17.9	19.1
Agriculture	11.0	11.2	12.2	13.7	14.5
Coffee	3.4	3.5	4.5	5.1	4.7
Basic grains	2.0	1.9	2.1	2.2	2.0
Bananas	1.6	1.6	1.2	1.2	1.6
Other	4.0	4.0	4.4	5.2	6.1
Livestock	4.0	3.6	3.0	3.0	3.3
Fishing	1.0	1.2	0.9	1.2	1.3
Mining	0.1	0.1	0.2	0.4	0.4
Manufacturing	19.7	17.3	17.5	17.4	16.5
Transport and communications	1.7	1.9	1.6	1.6	1.6
Construction and real estate	17.5	17.8	19.8	21.1	22.0
Commerce	32.4	33.6	30.6	25.8	24.2
Consumption	5.8	6.4	6.6	7.1	7.2
Other	6.9	7.1	7.4	8.7	8.9

Source: Central Bank of Honduras.

Table 26. Honduras: Legal Reserve Requirements

	1996	1997	1998	1999	2000
	(End of period)				
Commercial and development banks					
Local currency deposits					
Demand, saving, and time deposits	34.0	12.0	12.0	12.0	12.0
Other deposits 1/ 2/	34.0	12.0	12.0	12.0	12.0
Housing	15.0	12.0	12.0	12.0	12.0
"Bonos de caja" 3/	15.0	12.0	12.0	12.0	12.0
Foreign currency deposits					
Demand, saving, and time deposits 4/	100.0	12.0	12.0	12.0	12.0
Certicates of deposit 3/ 5/	100.0	12.0	12.0	12.0	12.0
"Free availability" deposits 4/ 5/	100.0	12.0	12.0	12.0	12.0
Specialized saving institutions					
Local currency deposits 6/ 7/	21.0	12.0	12.0	12.0	12.0
Foreign currency deposits 6/ 7/	100.0	12.0	12.0	12.0	12.0
Investment companies ("financieras")					
Local currency deposits 6/ 8/	15.0	12.0	12.0	12.0	12.0
Special requirements for agricultural banks					
Local currency deposits 9/	20–30	20–30	20–30	20–30	20–30

Source: Central Bank of Honduras.

1/ In addition, 19 percent as obligatory investment in official securities for 1997. This obligatory investment was gradually lowered to 13 percent in 1998, and to 7 percent in 2000.

2/ Savings certificates and certificates of deposit.

3/ Long-term bonds issued to finance specific activities.

4/ In addition, 38 percent in foreign deposits and investments abroad since 1997.

5/ US$25,000 minimum balance.

6/ Banks are authorized to hold these reserves in deposits abroad or in credits for exports.

7/ In addition, 9 percent as obligatory investment in official securities from April 1997-October 1998, 5 percent from November 1998-April 2001.

8/ In addition, 3 percent as obligatory investment in official securities since 1997.

9/ For banks lending mainly to the agricultural sector.

Table 27. Honduras: Distribution of Domestic Bonded Debt

(In millions of lempiras)

	1996	1997	1998	1999	Prel. 2000
Central government bonds	**3,471**	**4,026**	**3,547**	**3,117**	**3,787**
By holder:					
Central bank	1,138	1,411	1,501	991	1,096
Commercial banks	841	275	77	191	325
BANADESA	33	39	5	25	24
BANMA	3	4	9	0	0
FONAPROVI	0	177	6	0	0
Savings and loan associations	82	1	3	0	0
Nonbank financial institutions	143	36	31	0	0
IHSS	399	684	702	599	377
Rest of public sector	247	273	492	935	895
Insurance companies	38	71	103	148	127
Private sector	547	1,056	618	228	944
Local government bonds	**1,341**	**1,481**	**1,534**	**1,736**	**1,811**
By holder:					
Private sector	56	116	127	136	12
Central bank	92	48	45	83	39
Other credit institutions	110	189	278	198	245
Rest of public sector	22	19	19	17	6
Central government	1,062	1,109	1,065	1,302	1,508
Other public sector bonds	**10,552**	**9,792**	**10,327**	**11,063**	**10,119**
By holder:					
Central bank	82	51	34	23	0
BANADESA	19	37	25	23	0
Central government	10,420	9,677	10,249	11,002	10,109
IHSS and INJUPEM	31	27	20	15	10
By debtor:					
ENEE	7,766	7,334	7,771	8,036	7,971
ENP	389	341	228	214	191
HONDUTEL	1,886	1,674	1,906	2,100	1,228
Others	511	443	422	713	729

Source: Central Bank of Honduras.

Table 28. Honduras: Weighted Interest Rates of the Banking System

(In percent, end of period)

	1996	1997	1998	1999	2000
	I. Nominal Rates				
Lending rates					
Loans	29.8	32.1	30.6	29.5	24.6
Overdraft	38.1	39.6	38.8	37.8	37.9
Deposit rates					
Saving deposits	10.0	12.6	12.5	11.4	10.2
Term deposits	17.4	19.3	20.0	19.0	14.5
Certificates	19.5	21.7	21.7	18.6	14.9
Annual inflation (CPI)	25.3	12.8	15.7	10.9	10.1
	II. Real Rates 1/				
Lending rate					
Loans	3.6	17.1	12.9	16.7	13.1
Overdraft	10.2	23.8	19.9	24.3	25.2
Deposit rates					
Saving deposits	-12.2	-0.2	-2.8	0.4	0.1
Term deposits	-6.3	5.7	3.7	7.3	4.0
Certificates	-4.6	7.9	5.2	6.9	4.4

Source: Central Bank of Honduras.

1/ Nominal rates deflated by inflation.

Table 29. Honduras: Balance of Payments

(In millions of U.S. dollars; unless otherwise indicated)

				Preliminary	
	1996	1997	1998	1999	2000
Current account	**-194**	**-183**	**-148**	**-227**	**-242**
Trade balance	-341	-504	-758	-1,292	-1,244
Exports of goods (f.o.b.)	1,418	1,534	1,613	1,218	1,426
Of which					
Coffee	279	326	430	256	339
Bananas	280	225	220	38	124
Shrimp	143	151	157	150	160
Non-commodity exports	517	595	588	525	561
Imports of goods (f.o.b.)	-1,759	-2,039	-2,371	-2,510	-2,670
Services	129	227	332	491	428
Of which					
Value added from maquila industries	204	305	436	552	624
Income	-258	-217	-208	-164	-165
Of which					
Interest on external debt	-217	-193	-194	-192	-186
Current transfers	277	311	487	738	739
Capital accounts	**190**	**282**	**183**	**213**	**-57**
Foreign direct investment	90	128	99	237	262
Portfolio investment 1/	0	54	-26	-17	-57
Medium- and long-term loans	-3	-55	-30	169	10
Disbursements 2/	301	211	183	387	412
Amortizations 2/	-304	-266	-213	-219	-401
Short-term (net)	100	113	29	-197	-208
	264	392	271	468	98
Errors and Omissions	**38**	**72**	**36**	**99**	**164**
Overall balance	**35**	**171**	**71**	**85**	**-135**
Net international reserves (increase -)	-108	-280	-159	-340	-20
Exceptional financing 3/	74	109	89	256	155
	264	392	271	468	98
Memorandum items:					
Current account (in percent of GDP)	-4.8	-3.9	-2.8	-4.2	-4.1
Overall balance (in percent of GDP)	0.8	3.6	1.3	1.6	-2.3
Gross reserves (end of period)	268	575	804	1,230	1,285
in months of imports 4/	1.3	2.4	3.2	4.4	4.4
Merchandise exports (percent change)	9.2	8.2	5.1	-24.5	17.1
Merchandise imports (percent change)	11.9	15.9	16.3	5.9	6.4
Outstanding debt 5/	3,767	3,631	3,792	4,119	4,060
External debt arrears 6/	180	121	155	236	97
Debt to GDP ratio (in percent)	92	77	72	76	69
Debt service ratio (in percent) 7/	26.9	20.9	16.7	18.0	25.5
Of which					
Public sector	24.7	17.3	12.8	10.6	9.3
GDP	4,080	4,716	5,262	5,424	5,899
Lempira per U.S. dollar (period average)	11.7	13.0	13.4	14.2	14.8

Sources: Central Bank of Honduras; and Fund staff estimates.

1/ Data not available before 1997.
2/ After debt restructuring from CABEI in 2000. Zero-coupon acquired in the operation is recorded under portfolio investment.
3/ Includes arrears to the Paris Club
4/ Next year's imports of goods and services.
5/ Medium and long-term public and publically guaranteed external debt.
6/ Principal and interest arrears, includes arrears to the Paris Club.
7/ Relative to exports of goods and services. Includes Fund principal and HIPC relief. For 2000, net of amortization restructured from CABEI.

Table 30. Honduras: Exports by Product

	1996	1997	1998	Preliminary 1999	Preliminary 2000
	(Value in millions of dollars, unit value in dollars)				
Traditional exports	**817.5**	**832.2**	**925.3**	**588.4**	**727.8**
Coffee	278.9	326.3	429.8	256.1	340.6
Volume (thousands of quintals)	2,687.0	2,246.0	3,039.0	2,591.0	3,796.0
Unit Value (per 100 lb.)	103.8	145.3	141.4	98.8	89.7
Bananas	279.8	212.0	219.6	38.1	113.6
Volume (millions of 40 lb. boxes)	38.7	33.1	28.2	6.8	18.9
Unit Value (per box)	7.2	6.4	7.8	5.6	6.0
Wood	21.7	19.5	17.1	27.5	17.4
Volume (thousands of cubic meters)	71.1	60.5	25.5	38.2	22.9
Unit Value (per cubic meter)	305.2	322.3	283.9	305.1	322.1
Beef	11.0	11.0	4.0	2.3	2.1
Volume (millions of kilograms)	5.8	5.5	1.8	1.2	1.2
Unit Value (per kilogram)	1.8	2.0	2.2	1.9	1.8
Lead	2.7	4.6	3.2	3.7	3.4
Volume (millions of lbs.)	7.4	13.6	10.4	12.4	11.8
Unit Value (per lb.)	0.4	0.3	0.3	0.3	0.3
Zinc	25.7	53.8	36.3	50.2	47.5
Volume (millions of lbs.)	61.5	96.6	85.7	94.8	83.4
Unit Value (per lb.)	0.4	0.6	0.4	0.5	0.6
Silver	4.7	6.5	7.8	5.4	4.8
Volume (millions troy ounces)	0.9	1.4	1.5	1.1	1.0
Unit Value (per ounce)	5.0	4.5	5.1	4.9	4.8
Shrimps	143.2	150.9	156.9	149.8	147.6
Volume (millions of kilograms)	10.7	10.5	11.5	10.8	10.4
Unit Value (per kilogram)	13.4	14.4	13.5	13.9	14.2
Lobsters	35.0	28.2	31.8	39.5	29.7
Volume (millions of kilograms)	1.1	0.9	0.9	1.2	0.9
Unit Value (per kilogram)	32.4	32.5	32.8	32.9	32.9
Sugar	9.5	12.1	10.2	5.3	7.6
Volume (millions of kilograms)	19.3	24.9	21.0	10.5	25.5
Unit Value (per kilogram)	0.5	0.5	0.5	0.5	0.3
Tobacco	5.3	7.3	8.6	10.5	13.5
Volume (millions of kilograms)	2.3	2.4	2.7	3.8	4.7
Unit Value (per kilogram)	2.3	3.0	3.2	2.8	2.8
Nontraditional exports	**498.5**	**613.5**	**607.5**	**576.0**	**594.4**
Total exports, customs basis	**1,316.0**	**1,445.7**	**1,532.8**	**1,164.4**	**1,322.2**
Adjustments	**101.7**	**88.6**	**79.1**	**53.4**	**55.0**
Unrecorded exports	79.2	83.1	73.1	47.9	49.5
Re-exports	5.0	5.0	5.5	5.5	5.5
Other	17.5	0.5	0.5	0.0	0.0
Total exports, BOP basis	**1,417.7**	**1,534.3**	**1,611.9**	**1,217.8**	**1,377.2**
	(In percent)				
Memorandum items:					
Traditional share, customs basis	62.1	57.6	60.4	50.5	55.0
Nontraditional share, customs basis	37.9	42.4	39.6	49.5	45.0

Source: Central Bank of Honduras.

Table 31. Honduras: Economic Classification of Imports

	1996	1997	1998	Preliminary 1999	Preliminary 2000
	(In millions of U.S. dollars)				
Total imports, c.i.f. 1/	**1,840**	**2,149**	**2,535**	**2,676**	**2,885**
Consumer goods	**400**	**481**	**692**	**733**	**788**
Durables	119	143	288	267	300
Nondurables	281	338	404	466	488
Raw materials	**662**	**795**	**741**	**775**	**905**
Agriculture	138	165	97	79	121
Manufacturing	524	630	644	696	784
Lubricants and fuels	**246**	**234**	**214**	**256**	**355**
Capital goods	**494**	**597**	**785**	**801**	**725**
Agriculture	18	22	70	84	52
Manufacturing	244	293	397	392	339
Transport	178	214	213	212	237
Construction	54	68	104	114	98
Other	**38**	**43**	**103**	**112**	**112**
	(In percent of total imports)				
Consumer goods	22	22	27	27	27
Raw material	36	37	29	29	31
Lubricants and fuels	13	11	8	10	12
Capital goods	27	28	31	30	25
Other	2	2	4	4	4

Source: Central Bank of Honduras.

1/ Customs basis.

Table 32. Honduras: Distribution of Exports, f.o.b. by Destination

(In percent of total)

	1996	1997	1998	1999	Prel. 2000
Total exports	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
United States	**44.9**	**42.4**	**40.9**	**39.3**	**39.9**
Other Western Hemisphere	**21.4**	**20.4**	**22.6**	**30.6**	**25.0**
CACM countries 1/	15.7	14.7	17.1	22.1	19.5
Dominican Republic	0.6	0.2	0.1	0.1	0.1
Trinidad and Tobago	0.0	0.1	0.1	0.1	0.1
Venezuela	0.0	0.0	0.1	0.1	0.1
Other	5.1	5.4	5.2	8.2	5.2
Europe	**24.5**	**28.0**	**29.8**	**22.6**	**29.0**
Belgium	4.8	4.5	5.9	4.1	5.8
France	1.0	1.0	1.0	1.0	1.0
Germany	6.5	8.3	8.1	3.7	7.9
Italy	2.2	2.9	2.0	2.1	2.0
Netherlands	2.3	1.1	1.0	1.4	0.9
Spain	3.3	3.4	2.9	3.3	2.8
Other	4.4	6.8	8.9	6.9	8.6
Other countries	**9.2**	**9.2**	**6.7**	**7.5**	**6.1**
Japan	2.9	3.0	4.4	4.8	4.2
Other	6.3	6.2	2.4	2.8	1.8

Source: Central Bank of Honduras.

1/ Central American Common Market countries include Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Table 33. Honduras: Distribution of Imports, c.i.f., by Origin

(In percent of total)

	1996	1997	1998	Preliminary 1999	Preliminary 2000
Total imports 1/	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
North America	**47.3**	**48.7**	**46.4**	**45.2**	**46.5**
Canada	0.7	0.6	0.4	0.6	0.4
United States	46.6	48.1	46.0	44.6	46.1
Other Western Hemisphere	**36.3**	**35.1**	**34.8**	**35.5**	**34.4**
CACM countries 2/	16.3	16.0	19.8	20.2	19.2
Brazil	1.1	1.1	0.9	1.2	0.9
Colombia	1.0	0.7	0.6	1.0	0.6
Mexico	4.9	5.4	4.7	5.1	4.7
Trinidad and Tobago	0.2	0.5	1.0	0.6	1.0
Venezuela	1.6	1.3	1.3	1.3	1.0
Other	11.2	10.1	6.5	6.1	6.9
Europe	**8.1**	**7.5**	**7.8**	**8.5**	**7.8**
Belgium	0.8	0.9	0.7	0.5	0.7
France	1.1	0.4	0.7	1.0	0.7
Germany	1.7	1.6	1.3	1.7	1.3
Italy	0.6	0.7	0.6	0.8	0.6
Netherlands	1.0	0.4	1.4	1.0	1.4
Spain	1.1	0.9	1.1	1.1	1.1
United Kingdom	0.5	0.5	0.6	0.5	0.6
Other	1.3	2.1	1.4	1.8	1.4
Other countries	**8.3**	**8.7**	**11.1**	**10.8**	**11.3**
Japan	4.3	3.5	4.6	4.0	4.6
Other	4.0	5.2	6.4	6.8	6.7

Source: Central Bank of Honduras.

1/ Excludes adjustments for undervaluation and coverage.

2/ Central America Common Market countries include Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Table 34. Honduras: Visible Trade with the Central American Common Market

(In millions of U.S. dollars)

	1996	1997	1998	Preliminary 1999	Preliminary 2000
Exports, f.o.b. 1/	**206.3**	**213.0**	**262.3**	**257.2**	**258.1**
By destination					
Costa Rica	27.2	28.1	24.6	27.3	28.1
El Salvador	59.1	61.0	83.3	83.3	121.3
Guatemala	56.0	57.8	88.7	72.9	71.1
Nicaragua	64.0	66.1	65.7	73.7	37.6
By commodity 2/					
Soap	34.1	36.9	28.3	21.4	27.6
Barbed wire	0.0	0.1	2.6	1.1	1.7
Natural and vulcanized rubber	0.1	0.1	0.1	0.0	0.1
Edible corn starches	0.0	0.0	0.1	0.0	0.0
Plywood	0.0	0.0	1.4	2.6	0.0
Fruit juices	0.1	0.3	6.6	7.3	5.6
Crown corks and metal stoppers	0.0	0.0	0.3	0.2	0.1
Imports, c.i.f. 1/	**299.6**	**342.2**	**501.7**	**540.9**	**554.1**
By origin					
Costa Rica	59.3	56.6	87.9	97.8	96.8
El Salvador	89.4	113.4	156.4	180.4	189.4
Guatemala	133.5	151.1	232.5	224.7	235.9
Nicaragua	17.4	21.1	24.9	38.0	32.0
By commodity 2/					
Foodstuff, beverages, and tobacco	58.6	71.1	89.4	90.3	89.7
Raw materials	0.0	0.0	0.0	36.3	39.6
Chemicals	60.2	56.9	85.0	67.4	68.6
Manufactures	57.4	63.9	69.2	58.2	56.8
Capital goods	64.6	82.6	100.7	104.6	101.4

Source: Central Bank of Honduras.

1/ Excludes adjustments for undervaluation and coverage.
2/ Breakdown not exhaustive.

Table 35. Honduras: Medium- and Long-term, Public and Publicly Guaranteed External Debt and Debt Service

(In millions of U.S. dollars)

		Preliminary			
	1996	1997	1998	1999	2000
Total outstanding (end of period)	**3,767**	**3,631**	**3,792**	**4,119**	**4,060**
IMF	58	46	113	211	216
Multilaterals 1/	2,245	2,219	2,315	2,561	2,515
Paris Club creditors	1,171	1,100	1,156	1,136	1,114
Other bilaterals	196	212	189	192	196
Disbursements	**301**	**246**	**255**	**491**	**151**
IMF	0	0	67	103	22
Multilaterals	278	173	154	361	111
Paris Club creditors	11	26	30	20	4
Other bilaterals	11	47	4	7	14
Debt service due before rescheduling	**587**	**506**	**410**	**291**	**527**
IMF	40	9	2	7	9
Multilaterals	348	317	236	236	462
Paris Club creditors	133	104	67	10	33
Other bilaterals	29	32	62	38	24
Private creditors	38	45	43	0	0
Debt service due after rescheduling	**567**	**425**	**342**	**212**	**217**
IMF	40	9	2	7	9
Multilaterals	348	235	180	181	184
Paris Club creditors	114	104	55	2	0
Other bilaterals	29	32	62	22	24
Private creditors	38	45	43	0	0
Debt service cash payments	**482**	**378**	**273**	**140**	**165**
IMF	40	9	2	7	9
Multilaterals	341	228	175	110	132
Paris Club creditors	44	71	55	2	0
Other bilaterals	21	27	41	22	24
Private creditors	36	43	1	0	0
Stock of arrears	**180**	**121**	**155**	**236**	**97**
Multilaterals	7	10	13	19	0
Paris Club creditors	92	53	109	186	64
Other bilaterals	47	44	3	1	0
Private creditors	34	14	30	31	33

Source: Central Bank of Honduras.

1/ Including CABEI.

Table 36. Honduras: Stock of Arrears

(In millions of U.S. dollars)

	1996	1997	1998	1999	Prel. 2000
Stock of arrears	**180**	**121**	**155**	**236**	**97**
Multilaterals	7	10	13	19	0
Official bilateral	139	97	112	187	64
Paris Club creditors	92	53	109	186	64
Non-Paris Club creditors	47	44	3	1	0
Commercial	34	14	30	31	33
Principal	**119**	**73**	**102**	**150**	**53**
Multilaterals	4	6	7	10	0
Official bilateral	94	60	78	123	36
Paris Club creditors	65	34	76	123	36
Non-Paris Club creditors	29	26	2	1	0
Commercial	21	7	17	17	17
Interest	**61**	**47**	**54**	**87**	**45**
Multilaterals	3	4	6	9	0
Official bilateral	45	37	34	64	28
Paris Club creditors	27	19	33	63	28
Non-Paris Club creditors	18	18	0	0	0
Commercial	13	7	14	14	17

Source: Central Bank of Honduras

Table 37. Honduras: Nominal and Real Effective Exchange Rates

(Period Averages; 1990 = 100)

Period	Lempiras/ U.S. Dollar	Nominal Effective Exchange Rate Index 1/	Real Effective Exchange Rate Index 1/
1996	11.7	47.1	81.9
1997	13.0	45.0	91.7
1998	13.4	45.3	103.3
1999	14.2	43.6	108.6
2000	14.8	43.5	116.7
1996			
I	10.7	50.9	81.9
II	11.2	48.6	82.2
III	12.2	44.8	80.5
IV	12.7	44.0	83.2
1997			
I	12.8	44.9	88.6
II	13.0	44.6	90.0
III	13.1	45.1	93.3
IV	13.1	45.4	94.9
1998			
I	13.2	46.3	100.2
II	13.3	46.0	103.7
III	13.4	45.6	105.9
IV	13.7	43.5	103.4
1999			
I	14.0	43.8	106.8
II	14.1	44.1	108.2
III	14.3	43.6	109.1
IV	14.4	43.0	110.3
2000			
I	14.6	43.1	112.5
II	14.8	43.4	116.0
III	14.9	43.5	117.6
IV	15.1	43.8	120.6
2000			
January	14.5	42.8	111.4
February	14.6	43.2	112.7
March	14.7	43.2	113.3
April	14.7	43.2	114.8
May	14.8	43.9	117.5
June	14.8	43.2	115.7
July	14.8	43.2	116.2
August	14.9	43.5	117.6
September	15.0	43.8	118.9
October	15.0	44.0	120.4
November	15.1	44.0	121.1
December	15.1	43.4	120.4

Sources: Central Bank of Honduras; and the Information Notice System.

1/ A decline in the index reflects depreciation.