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Statement by Mr. Senior on Honduras  
Executive Board Meeting 82/142  
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I would like to express the appreciation of my Honduran authorities for the excellent work done by recent Fund missions in relation to the 1982 Article IV consultation and the requests for use of Fund resources under a stand-by arrangement and under the compensatory financing facility. The authorities are in broad agreement with the excellent set of papers the staff has prepared regarding developments in the economy during the past three years and its prospects for 1982, and very grateful for the speed and flexibility shown by the staff during the negotiations for the use of Fund resources.

As Directors know, the regional political and social situation in Central America has been quite difficult in the last few years, affecting severely all the economies of the Central American common market, though in varying degrees of severity as between the individual countries. As with other Central American countries, a full understanding of the Honduran economic developments since 1979 must be put in its proper perspective and analyzed in this broader context. As mentioned in the staff papers, after many years of relatively balanced growth and a marked financial stability, the economic and financial performance of Honduras during the last two years has deteriorated significantly. This deterioration has clearly been the result of a conjunction of important external and, to a lesser degree, internal developments, some of which individually would have been sufficient to affect economic activity, but that taken together have severely affected economic performance and made very difficult economic management and the formulation of economic policy.

Very succinctly put, on the external front the Honduran economy has clearly been affected by the doubly negative environment of the world economy in general, and of the regional Central American situation in particular. In the broad international context, the Honduran economy in the last three years has been affected by the oil price increases of 1979 and by the world economic recession that has decreased the demand and prices of the main Honduran exports. At the same time, it has been affected by unprecedented interest rates in the international capital markets, and a progressively lesser access to such markets when it was mostly needed to help finance increasing external deficits. In the more narrow regional environment, political developments in the area undermined confidence in the region, stimulated capital flight, stagnated private investment and overall economic activity, and virtually cut off all access to the international financial markets.

These negative external developments initiated at the same time that the Honduran authorities embarked, in 1979, on a major development and investment effort covering the period 1979-83 and which was basically designed to alleviate the most significant bottlenecks in the country's

development process. The five-year public investment program contemplated investments of the order of US\$1.5 billion--a very significant amount relative to the size of the Honduran economy--and as it was likely to result in balance of payments pressures, prompted the authorities to prudently request in mid-1979 a three-year extended Fund arrangement. The main aim of this program was to strengthen the public sector's financial position at the time the Government was embarking on the major development effort which the investment program represented. The extended arrangement expired in June 1982, and as the staff indicates, performance under it was somewhat mixed. During the first 12-month period of the arrangement, performance under the program was completely satisfactory. However, during the second semester of 1980 significant departures began to emerge as economic activity decelerated markedly due to a weakening in private sector confidence, and a further deterioration in the terms of trade which gave rise to a worsening in the public sector's financing. A program for the final 12-month period of the arrangement was approved in mid-1981 which again went off the track by the end of that year, mainly due to a further weakening of the performance of the public sector and severe difficulties encountered by several financial intermediaries. In the broader context, however, this mixed performance can only be considered satisfactory and clearly shows the authorities' determination to adjust under adverse conditions which could not have been foreseen at the initial structuring of the program. It can safely be stated that the changed conditions in the world economy and in the regional environment would normally have entailed a much greater departure from the program than was the case in Honduras.

The authorities' clear determination to reverse the financial deterioration of previous years has been underscored by the actions taken by the new administration that initiated early this year. These actions are basically directed at the strengthening of the public sector's finances, a sharp reduction of its financing needs from the banking system, and the improvement of the financial situation of other public institutions. However, it is important to mention that, specially in the present and past years, the outcome in the overall balance of payments has been significantly disappointing mainly because of much less than expected capital inflows, while the current account balance shows a relative improvement and a high degree of adjustment. Suffice it to say that while imports in 1980 amounted to US\$1,045 million, in 1981 and 1982 are estimated to be only US\$973 million and US\$995 million, respectively. In real terms, this clearly represents a substantial adjustment. The special assistance from bilateral creditors and foreign commercial banks hold out the prospect of a substantial improvement in the overall balance of payments situation in 1983.

The program for 1983 is very clearly presented in the staff papers, and I need not dwell on it or repeat its main characteristics. I would like, however, to commend the staff for the very comprehensive analytical treatment they have made of the program in the stand-by paper, and very specifically for the excellent presentation of the principal assumptions

and main elements of the financial program in Appendix III. I daresay this is one of the most comprehensive presentations of a program the staff has prepared, and will undoubtedly be of significant value to the authorities and to the Board.

From its analysis, it can clearly be seen that the program the authorities have framed together with the staff is a sound one, well balanced and appropriate to the circumstance. Clearly it deserves the support of the Board. I should only add that the authorities have, during the whole of 1982, been already adopting important policies and measures that set the basis for the present program and which practically ensure its success. In this regard, the authorities, in consultation with the staff, decided to postpone their request until now, when the adjustment effects of the measures will be apparent during the program period.

In relation to the request for use of Fund resources under the compensatory financing facility, it is clear from the staff paper that it meets all the requirements of the decision for use of such resources.

My Honduran authorities prize very highly the support of the Fund and their commitment to consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultations.