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**The Chairman's Summing Up at the Conclusion of the
1982 Article IV Consultation with Honduras
Executive Board Meeting 82/142 - November 5, 1982**

Executive Directors were in general agreement with the thrust of the staff appraisal contained in the report for the 1982 Article IV consultation with Honduras. They observed that the adverse impact of the uncertainties in the region and the unfavorable shifts in terms of trade, together with an easing of fiscal and monetary policies, had led to significant departures from the extended Fund facility targets in the last phase of that program.

Directors commended the efforts being taken by the new Government to redress the financial problems of Honduras, and they agreed that the economic program presented by the authorities warranted the financial support of the Fund.

Directors noted specifically the new measures adopted by the authorities to increase revenues and to limit current expenditures in order to raise substantially public sector savings during 1982 and 1983. In the view of several Directors, a larger fiscal effort on the revenue and the expenditure side would be warranted and might well become necessary to deal with unforeseen contingencies. The heavy dependence of the tax system on foreign trade was noted as an element of weakness in the existing system. The inadequacies in tax administration had been stressed for a long time and it was essential for the authorities to act promptly and decisively in that field.

A number of Directors pointed out that higher public sector savings should be instrumental in achieving a significant reduction in bank credit expansion to the public sector. The projected strong increase in public investment would require careful monitoring in order to avert overruns. And a number of Directors--who recalled the slippages in the previous arrangement with the Fund, and who had some doubts concerning the attainability of the fiscal targets on the basis of the present measures--emphasized that the authorities should stand ready to take additional measures to keep the fiscal position on track. It was essential, in the view of Directors, that all public entities participated actively in such an effort and did not escape the consequences of fiscal discipline.

Directors welcomed the intention of the authorities to maintain a flexible posture regarding interest rates as a central feature of monetary policy. However, several Directors also stressed the need to tighten domestic credit expansion further.

Directors also referred to the negotiations being conducted by the Honduran Government with foreign banks to reschedule parts of the foreign commercial debt, and they stressed the urgent need for the authorities to restructure and strengthen the control over those public entities that had

been unable to service their direct or guaranteed debt, in order to eliminate the burden of external debt-service payments to the Central Government.

Several Directors expressed doubt about the forecast improvement in the current account position in 1983, which hinged on both a significant recovery in exports and a further fall in imports. They underscored the critical importance of adequately restrictive demand management policies, and of the maintenance of adequate competitiveness. In that context, several Directors suggested that the Honduran authorities should maintain sufficient flexibility in the area of exchange rate policy. The proposed early elimination by the end of 1982 of external arrears was considered an essential element of the program.

The fragility of the external position of Honduras and the dangers of engaging in excessive borrowing abroad were underlined. The rapidly rising debt-service ratio required vigilant monitoring, especially in the present context of sluggish international demand. The full implementation of the present demand management-oriented program was considered by Directors essential for the success of more fundamental structural actions that were indispensable for the medium- and long-term improvements in the economy, and that were being presently supported by international cooperation.

Directors expressed support for the Honduran Government's efforts to re-establish as soon as possible an exchange and trade system free of restrictions for current international transactions.