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February 18, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Honduras - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Honduras, which will be brought to the agenda for discussion on a date to be announced.

Mr. Elson (ext. 8500) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

HONDURAS

Staff Report for the 1986 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Eduardo Wiesner and Manuel Guitián

February 18, 1987

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I. Introduction

The 1986 Article IV consultation discussions with Honduras were held in Tegucigalpa during the period December 1-16, 1986. The Honduran representatives included the Vice President of the Republic (who is in charge of the Economic Cabinet), the Ministers of Finance, Economy, and Labor, the Vice Minister of Agriculture, the Executive Secretary of the National Planning Office, the President of the Central Bank; and other senior officials of public sector entities. The mission also was received by the President of the Republic, Mr. Azcona. The staff representatives were R.A. Elson (Head-WHD), B. Fritz-Krockow (EP-WHD), G. Pastor, O. Roncesvalles (both WHD), N. Weerasinghe (ETR), and M. Torres-Chardon (Secretary-FAD). Mr. Ayales, Advisor to the Executive Director for Honduras, participated in the final round of policy discussions.

The last Article IV consultation discussions with Honduras were held in October-November 1985 and the staff papers (SM/85/345 and SM/86/8) were considered by the Executive Board on January 27, 1986 (EBM/86/13). In the Summing Up of the 1985 Article IV consultation, the Chairman noted that the economic recovery and the reduction of inflation that had occurred recently in Honduras had not been accompanied by a strengthening of Honduras' financial and external position. Therefore, Executive Directors placed emphasis on the need for Honduras to reduce its reliance on foreign savings over the medium term by a stronger fiscal effort (including a shift in the burden of taxation toward domestic transactions), a cutback in overall bank credit growth, and a more flexible exchange rate policy that would allow for a liberalization of restrictions and support export growth and diversification.

Honduras has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement. A summary of Honduras' relations with the Fund is contained in Appendix I.

II. Recent Developments

1. Developments through 1985

Following a substantial deterioration in the period 1981-83, the Honduran economy began to recover in 1984, stimulated by an acceleration in public investment on a large hydroelectric project (El Cajon), a partial relaxation of import restrictions, and an expansionary credit policy vis-a-vis the private sector. The Government financed the expansion mainly with foreign resources, including concessional aid from the U.S. Government; as a result, the external current account deficit (excluding official transfers) widened to about 11 percent of GDP in 1984. The overall balance of payments continued to be in deficit as in previous years, which was financed mainly by a buildup of arrears.

Honduras' economic recovery continued in 1985 with real GDP growing by 2.9 percent, a slightly higher rate than in 1984 (Table 1). The growth in output was accompanied by a continued low rate of inflation (around 4 percent), linked largely to the drop in inflation rates abroad and the maintenance of the fixed parity of the lempira at L 2 per U.S. dollar.

Table 1. Honduras: Ouput and Prices

(Annual percentage change)

	1982	1983	1984	1985	1986
Real GDP	-1.8	-0.3	2.6	2.9	2.9
Consumer prices					
Average annual	9.0	8.2	4.7	3.4	4.5
End of year	8.9	7.8	3.6	4.3	4.3

Source: Staff Report on recent economic developments.

The overall public sector deficit was reduced from an average of 12 percent of GDP in 1983 and 1984 to around 9 percent of GDP in 1985 (Table 2). Some of this improvement reflected an increase in tax collections associated with a more buoyant economy, but for the most part it was related to a decline in capital outlays following the completion of the large hydroelectric project referred to earlier. Most of the fiscal deficit was financed with foreign resources, including US$45 million (1.3 percent of GDP) in budget support from U.S. AID.

The lower fiscal deficit contributed to a slowdown in the rate of overall bank credit expansion in 1985, notwithstanding some increase in the rate of growth of credit to the private sector. The commercial banks, however, became increasingly dependent upon central bank resources to sustain their credit expansion because of a continued decline in the growth of private sector financial savings. As in the previous year, the expansion in central bank credit to the rest of the banking system was financed by credits from international financial institutions, as well as economic assistance from the U.S. Government over and above the budget support mentioned above (Table 3).

The external current account deficit declined to just below 10 percent of GDP in 1985 as exports rose by 8 percent, or more than double the pace of import growth. The behavior of imports reflected the effect of the cutback in public investment, which was offset by an

Table 2. Honduras: Consolidated Operations of the Nonfinancial Public Sector

	1982	1983	1984	1985	Est. 1986
	(In millions of lempiras)				
Total revenue	1,057	1,140	1,328	1,532	1,565
Tax revenue	823	833	1,015	1,125	1,134
Nontax revenue	207	282	282	345	395
Central Government	38	55	51	59	125
Rest of general government	99	116	126	149	160
Public enterprises 1/	70	111	106	136	110
Current transfers	9	10	18	18	14
Capital revenue	18	16	12	44	23
Total expenditure and net lending	1,700	1,876	2,051	2,154	2,081
Current expenditure	966	1,115	1,209	1,373	1,477
Capital expenditure	551	658	749	715	550
Fixed capital formation	510	611	739	680	513
Capital transfers	22	28	1	18	21
Other capital expenditure	19	19	9	16	16
Net lending	183	103	94	67	54
Current account balance	73	9	108	115	65
Overall surplus or deficit (-)	-643	-736	-723	-622	-516
External financing (net)	270	386	606	423	183
Foreign assistance 2/	--	34	68	115	125
Domestic financing (net)	373	316	49	84	208
Banking system (net)	256	209	87	40	34
Other	117	107	-38	44	174
	(As percent of GDP)				
Total revenue	18.9	19.3	21.1	22.8	21.6
Tax revenue	14.8	14.1	16.1	16.7	15.7
Nontax revenue	3.7	4.8	4.5	5.1	5.5
Central Government	0.7	0.9	0.8	0.9	1.7
Rest of general government	1.8	2.0	2.0	2.2	2.2
Public enterprises 1/	1.3	1.9	1.7	2.0	1.5
Current transfers	0.2	0.2	0.3	0.3	0.2
Capital revenue	0.3	0.3	0.2	0.7	0.3
Total expenditure and net lending	30.5	31.8	32.6	32.0	28.8
Current expenditure	17.3	18.9	19.2	20.4	20.4
Capital expenditure	9.9	11.1	11.9	10.6	7.6
Fixed capital formation	9.1	10.4	11.7	10.1	7.1
Capital transfers	0.4	0.5	--	0.3	0.3
Other capital expenditure	0.3	0.3	0.1	0.2	0.2
Net lending	3.3	1.8	1.5	1.0	0.7
Current account balance	1.3	0.2	1.7	1.7	0.9
Overall surplus or deficit (-)	-11.5	-12.5	-11.5	-9.3	-7.1
External financing (net)	4.8	6.5	9.6	6.3	2.5
Foreign assistance 2/	--	0.6	1.1	1.7	1.7
Domestic financing (net)	6.7	5.4	0.8	1.3	2.9
Banking system (net)	4.6	3.5	1.4	0.6	0.5
Other	2.1	1.8	-0.6	0.7	2.4

Source: Staff report on recent economic developments.

1/ Operating surplus.
2/ Mainly special U.S. assistance for budgetary support.

Table 3. Honduras: Summary Banking System Operations

	1982	1983	1984	Prel. 1985	Est. 1986
	(In millions of lempiras)				
	I. Banking System				
Net foreign assets	-266.7	228.9 1/	-312.4	-293.1 2/	-254.4 3/
Domestic assets	2,831.6	3,158.7	3,561.6	3,923.9	4,261.1
Credit to public sector (net)	748.2	957.4	1,044.0	1,083.9	1,118.0
Central Governmet	746.2	924.5	1,046.8	1,171.9	1,333.0
Rest of public sector	2.0	32.9	-2.8	-88.0	-215.0
Credit to private sector	1,802.6	1,966.4	2,177.9	2,429.8	2,562.4
Other	280.8	234.9	339.7	410.2	580.7
Medium and long-term foreign liabilities 4/	642.8	708.8 1/	838.5	1,067.3 2/	1,280.8 3/
Liabilities to private sector	1,922.1	2,221.0	2,410.7	2,563.5	2,725.9
	II. Monetary Authority				
Net international reserves	-221.4	-167.7 1/	-241.8	209.9 2/	-169.4 3/
Official reserves	-221.4	-167.7 1/	-186.3	-154.6 2/	-148.9 3/
Arrear deposits	--	--	-55.5	-55.3	-20.5
Net domestic assets	564.4	559.7	666.2	664.5	646.4
Credit to public sector (net)	529.7	619.9	650.9	698.3	656.6
Central Government	464.4	530.6	576.9	622.5	623.0
Rest of public sector	65.3	89.3	74.0	75.8	33.6
Banks (net)	324.9	384.7	563.4	721.8	866.5
Medium- and long-term foreign liabilities 4/	-422.8	-501.6 1/	-626.5	-851.3 2/	-1,065.8 3/
Other	132.6	56.7	78.4	95.7	189.1
Currency issue	343.0	392.0	424.4	454.6	477.0
	(In percent of GDP)				
Banking system					
Domestic assets	50.7	53.5	56.5	58.4	58.9
Of which: credit to public sector	13.4	16.2	16.6	16.1	15.5
credit to private sector	32.3	33.4	34.6	36.1	35.4
Liabilities to private sector	34.4	37.6	38.3	38.1	37.7
	(Changes in percent) 5/				
Banking system					
Domestic assets	32.4	17.0	18.1	15.0	13.2
Of which: credit to public sector	15.3	10.9	3.9	1.7	1.3
credit to private sector	12.8	8.5	9.5	10.4	5.5
Liabilities to private sector	15.1	15.6	8.5	6.3	6.3

Source: Staff report on recent economic developments.

1/ A US$30 million (L 60 million) short-term loan which was converted into a medium-term liability is included in medium- and long-term foreign liabilities.
2/ US$34.8 million (L 69.6 million) in short-term liabilities which were converted into medium-term liabilities are included in medium- and long-term foreign liabilities.
3/ A US$5 million (L10 million) short-term loan which was converted into a medium- term liability is included in medium- and long-term foreign liabilities.
4/ Includes SDR allocations and valuation adjustment.
5/ With respect to the stock of liabilities to the private sector at the beginning of the period.

expansion in private sector imports related in part to a relaxation of exchange controls involving reductions in surrender requirements and the establishment of a parallel exchange market for trade transactions with the rest of Central America. 1/ During the year the official rate for the lempira depreciated in real effective terms by around 6 percent (local currency terms). From 1980 to early 1985, the lempira had appreciated in real terms by 23 percent; thereafter, the lempira depreciated with the U.S. dollar against other major currencies (see Chart 1).

Despite the decline in the current account deficit in 1985, the overall balance of payments deficit widened somewhat, to US$56 million, because of a drop in net capital inflows; increased economic assistance from the U.S. Government was more than offset by lower disbursements of international development loans. The overall balance of payments was financed mainly by a further buildup of arrears on debt service payments to foreign commercial banks (Table 4).

2. Developments in 1986

Soon after taking office in January 1986, the newly elected Government framed an economic program as a basis for its request for increased economic aid from the U.S. Government. This program was aimed at sustaining the recent economic recovery, while ensuring that the windfall effects of last year's favorable price developments in world coffee and oil markets would be reflected in a reduction in the external current account deficit to 7 percent of GDP. To this end, the program called for a decline in the rate of overall bank credit expansion, government expenditure restraint, and the absorption by the Government of a significant part of the terms of trade gains through an increase in coffee tax revenues and unchanged levels of domestic fuel prices. On this basis, the overall fiscal deficit was expected to decline to around 7 percent of GDP, with domestic bank borrowing moderately lower than in 1985. In addition, the Government undertook to initiate studies on structural reforms aimed at stimulating private sector investment and exports; the reforms under consideration included changes in the customs tariff and in tax exemptions, and the divestment of certain public sector activities.

The results under the Government's economic program last year were mixed. While the rate of inflation remained low as intended, the rate of economic growth was weaker than projected. This latter development reflected a slower than expected expansion in exports and private investment, and a larger than projected contraction in public investment.

1/ An unofficial parallel market for transactions outside Central America also exists, where the lempira reportedly fluctuated around L 2.70 per U.S. dollar at the end of 1985.

Table 4. Honduras: Summary Balance of Payments

	1982	1983	1984	Prel. 1985	Est. 1986
(In millions of U.S. dollars)					
Current account	-278.1	-260.9	-340.1	-325.9	-249.5
Trade balance	-89.2	-124.1	-174.9	-148.4	-53.0
Exports, f.o.b.	676.5	698.7	745.7	805.1	902.5
Imports, c.i.f.	-765.7	-822.8	-920.6	-953.5	-955.5
Factor payments (net)	-203.5	-158.7	-179.4	-194.5	-213.9
Other services and transfers (net)	14.6	21.9	14.2	17.0	17.4
Capital account	113.6	210.6	294.4	269.7	224.7
Official transfers	56.0	41.1	79.9	112.6	135.0
Of which: U.S. AID 1/	35.0	18.0	68.0	90.0	109.0
Private capital 2/	-32.1	-3.5	-80.4	-71.2	-25.3
Official capital	126.1	184.3	287.2	203.5	88.1
Financial intermediaries 3/	-36.4	-11.3	7.7	24.8	26.9
Overall balance	-164.5	-50.3	-45.7	-56.2	-24.8
Rescheduled short-term to medium-term liabilities	--	30.0	--	34.1	5.0
Net international reserves (increase -)	121.1	-26.9	9.3	-15.9	-2.9
Of which: Fund (net)	67.6	40.5	-1.7	-15.0	-48.0
External arrears	43.4	47.2	36.4	38.0	22.7
(As percent of GDP)					
Current account	-10.0	-8.9	-10.8	-9.7	-6.9
Trade balance	-3.2	-4.2	-5.6	-4.4	-1.5
Exports, f.o.b.	24.2	23.7	23.7	23.9	24.9
Imports, c.i.f.	-27.4	-27.9	-29.2	-28.4	-26.4
Factor payments (net)	-7.3	-5.4	-5.7	-5.8	-5.9
Other services and private transfers (net)	0.5	0.7	0.5	0.5	0.5
Capital account	4.1	7.2	9.3	8.0	6.2
Official transfers	2.0	1.4	2.5	3.3	3.7
Of which: U.S. AID 1/	1.2	0.6	2.2	2.7	3.0
Private capital 2/	-1.1	-0.1	-2.5	-2.1	-0.7
Official capital	4.5	6.3	9.1	6.1	2.4
Financial intermediaries 3/	-1.3	-0.4	0.2	0.7	0.7
Overall balance	-5.9	-1.7	-1.5	-1.7	-0.7
Rescheduled short-term to medium-term liabilities	--	1.0	--	1.0	0.1
Net international reserves	4.3	-0.9	0.3	-0.5	--
External arrears	1.6	1.6	1.2	1.1	0.6
Memorandum item					
Stock of trade arrears	...	...	27.8	27.7	17.7

Sources: Staff report on recent economic developments.

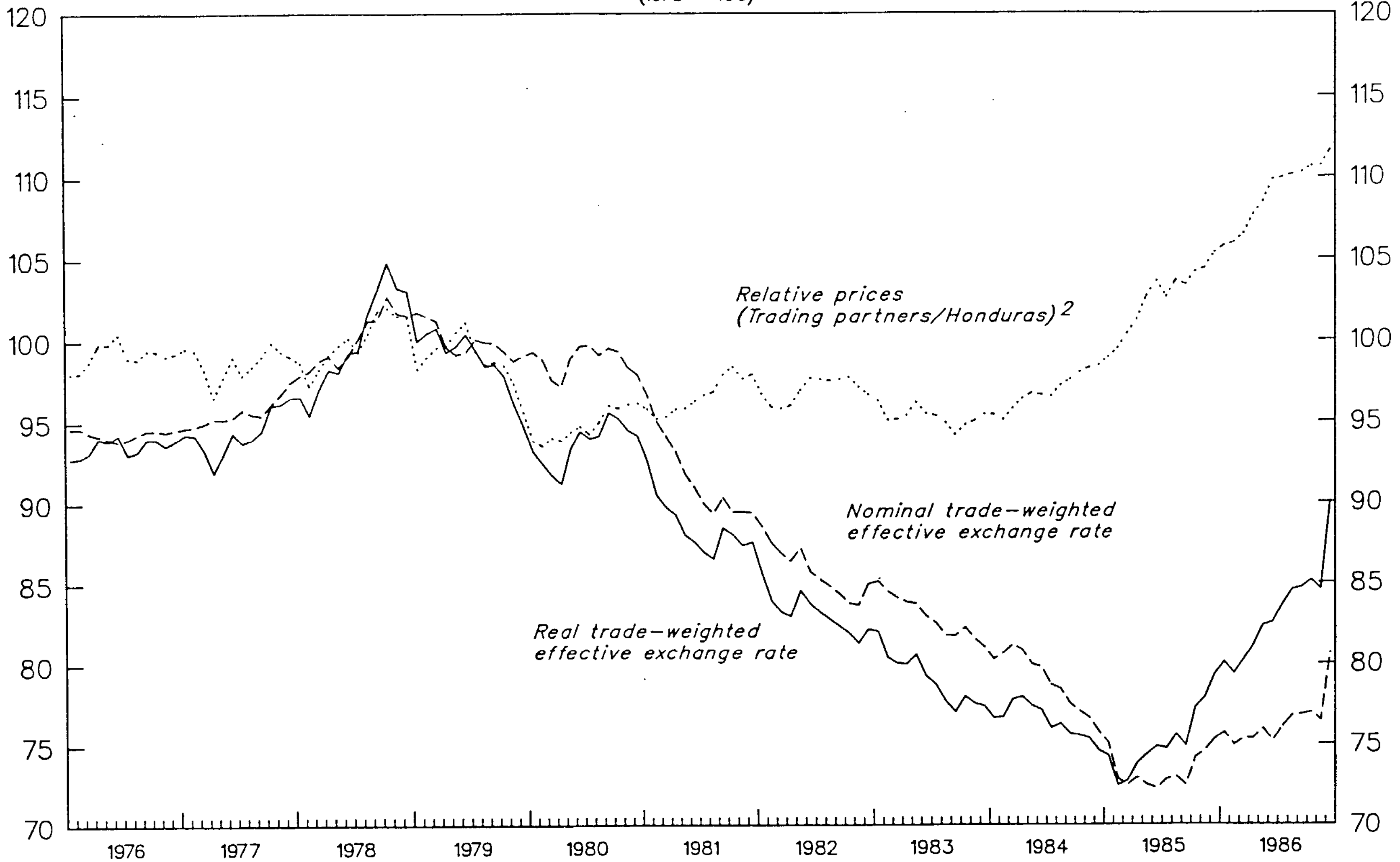
1/ Balance of payments support from U.S. AID.
2/ Includes net errors and omissions.
3/ Includes valuation adjustments.

CHART 1

HONDURAS

EFFECTIVE EXCHANGE RATE INDICES, 1976–1986[1]

(1978 = 100)



Sources: International Monetary Fund, *International Financial Statistics;* and Fund staff estimates.
1 In Honduran lempira per unit of foreign exchange, therefore a decline in the index indicates an appreciation of the domestic currency. The weights are based on the average distribution of export trade in 1980(excluding oil).
2 Relative price levels are measured by consumer price indices.

The overall public sector deficit was reduced from 9 percent to 7 percent last year, in line with the program target, but there were significant departures from the revenue and expenditure estimates in the program. Public sector capital outlays were expected to decline with the completion of the El Cajon hydroelectric project, but the drop was 1 percentage point more than programmed. Also, the current account balance of the public sector deteriorated by around 1 percentage point of GDP in 1986 as a result of slippages in tax revenue performance and additional government expenditures not contemplated in the budget.

On the revenue side, the main adjustment introduced during the program was a reduction in coffee export taxes in July 1986 by a flat amount of L 20 per bag (of 40 kg.) for the 1985-86 coffee crop and a deferral of last year's coffee tax payments over a period of two years. The revenue loss involved in this arrangement during 1986 is estimated at L 54 million (0.7 percent of GDP). This tax adjustment was made mainly to mitigate the heavy losses for a number of private coffee traders and their domestic bank creditors arising from speculative activity in the coffee market.

There also were slippages on the expenditure side of the budget during 1986 as the Government established for the first time subsidies for certain export products (cotton and meat), introduced new social programs, and made external debt service payments on behalf of public entities with domestic financial problems. These expenditures amounted to L 44 million in 1986 (0.6 percent of GDP).

As a result of these departures from the fiscal program last year, the overall central government deficit was equivalent to 8 percent of GDP (compared with a program target of 7 percent). However, the weakness in central government finances was offset by a better than expected outturn in the rest of the public sector, reflecting mainly the larger cutback in investment mentioned above. Notwithstanding the reduction of the overall deficit and the continued availability of budget support from U.S. AID on a scale similar to 1985, the public sector's domestic financing requirement rose sharply last year because of a sizable reduction in project loan disbursements from abroad. Most of the domestic financing took the form of bond placements with the private sector, and the increase in net bank credit to the public sector was moderately lower than in the previous year.

As a result of the lower utilization of bank credit by the public sector and a weak demand for private sector credit, the growth in total bank credit continued to decelerate in 1986 with respect to previous years. The decline in the rate of credit expansion to the private sector reflected, in part, an apparent shift in domestic credit demand to foreign sources because of the maintenance of relatively high interest rates in Honduras. Although there has been some softening in effective loan rates in the last couple of years, lending rates in general have remained high in Honduras (around 16 percent), in large measure because of the high yields paid on government bonds which have a repurchase guarantee by the Central Bank on demand and which, therefore, have become close substitutes for time deposits in the banking system.

As the result of a sharp improvement in Honduras' terms of trade, the external current account deficit declined in 1986 by nearly 3 percentage points of GDP to 6.9 percent, which was in line with the target set in the Government's economic program. However, both exports and imports were lower than projected. Exports were lower because of domestic supply problems affecting bananas and minerals, as well as a weak performance of nontraditional exports. Imports were lower than expected because domestic demand did not expand as had been projected.

Total net capital inflows also were lower in 1986 than in the previous year, notwithstanding a modest increase in economic assistance from U.S. AID to US$109 million (3 percent of GDP). Net disbursements of development lending fell sharply in 1986 to less than one half the average level of the three previous years, reflecting both lower utilizations and higher repayments. The overall balance of payments resulted in a deficit moderately lower than in previous years, compared with a target of overall equilibrium in the Government's program. Most of this deficit was financed by a further accumulation of external debt arrears, as Honduras' was unable to conclude negotiations for commercial bank rescheduling which had been under discussion for some time. During 1986 the lempira depreciated in real terms by an estimated 8 percent, mainly because of the continued depreciation of the U.S. dollar against other major currencies. 1/

At the end of 1986, Honduras' external public debt amounted to 71 percent of GDP, a large proportion of which is concessional in nature. Honduras' debt service ratio rose to an estimated 30 1/2 percent in 1986, compared with 25 percent in 1984, in part because of a significant increase in repurchase obligations to the Fund.

3. Relations with the World Bank

Honduras' financial relations with the World Bank Group are summarized in Appendix IV. As of December 31, 1986, total loan commitments from the World Bank Group amounted to US$624 million, of which US$81 million remained to be disbursed. The power sector has been the most important recipient of IBRD/IDA credits (44 percent) reflecting the World Bank Group's involvement in the financing of the El Cajon hydroelectric project (US$125 million). The agricultural, transport, and industrial sectors have been the other major beneficiaries of IBRD lending.

1/ In late 1986 the value of the lempira in the unofficial parallel exchange market had fallen to around L 2.3 per U.S. dollar, apparently reflecting the effects of some underinvoicing of coffee exchange receipts in the official market.

After reaching a peak of US$66 million in FY 1984, loan disbursements of the World Bank Group declined in the next two years, reflecting the completion of the El Cajon project. The only loans approved by the Bank for Honduras in the last two years were one for urban development (US$ 6.7 million) and one to support industrial financing through the National Fund for Industrial Development (FONDEI) amounting to US$37.4 million. An educational loan (US$4.4 million) is expected to be approved in April 1987. Bank staff are discussing possible loans for integrated rural development in the Guayape Valley and the expansion of Honduras' electrification system.

An IBRD economic mission visited Tegucigalpa in September 1985 and its report was discussed with the Honduran authorities in October 1986. In the opinion of Bank staff, an expanded lending program with Honduras would require assurances that adjustment measures are in place that will improve Honduras' balance of payments viability over the medium term.

III. Summary of Policy Discussions

The policy discussions focused on the adjustment measures that would sustain Honduras' economic recovery on a lasting basis and strengthen the country's external position. Emphasis was placed on the need for improvements in public sector management to bolster domestic savings, changes in monetary policy instruments to improve control over bank credit expansion, and a revision of exchange and trade policies to promote exports. In these discussions, the authorities expressed strong interest in reaching understandings with the staff which could serve as a basis for a possible stand-by arrangement from the Fund. It was expected that a Fund arrangement would pave the way for increased lending by other international financial institutions. The talks related to a possible stand-by arrangement were largely exploratory; however, further discussions are expected to take place after the conclusion of the 1986 Article IV consultation.

1. Fiscal policy

In the fiscal area, the authorities indicated that their objective over the medium term was to reduce further the public sector's borrowing requirements through improvements in public sector management, including the divestment of selected public sector activities. They recognized that the reduction in the overall fiscal deficit during the last couple of years had been achieved mainly by means of cuts in investment, but in their view further cuts would adversely affect the economy's medium-term growth path. They said that public investment should remain at about its present level in relation to GDP, or even rise slightly. To provide the basis for future economic growth of the country, private investment would need to expand importantly.

In the opinion of the authorities, fiscal improvement should come from a strengthening of tax revenues, restraint in current government expenditures, and greater efficiency in public enterprise operations. They believe that the main emphasis of tax policy should be on administrative improvements to strengthen the yield of existing taxes, rather than on new tax measures. In this connection, they pointed to changes that would be made during 1987 in extending income tax withholding; establishing better controls over sales tax invoices; creating a registry of taxpayers; and improving customs procedures. While the staff supported these initiatives, it raised doubts about whether these measures would improve revenue yields in a major way or shift the tax burden away from foreign trade taxes which represent about 40 percent of tax collections. The staff, therefore, recommended actions to broaden the base of taxes on domestic transactions, for example, through changes in the coverage of the sales tax and selective consumption duties.

In the area of expenditure policy, the authorities said their objective was to limit the future growth in current government spending to the annual rate of inflation, thus achieving a small decline in relation to GDP over the medium term. Because there is little scope for achieving economies in the area of interest payments and military outlays, efforts to curtail the growth in current expenditures would have to focus on wages and salaries, transfers, and purchases of nonmilitary goods and services. In the 1987 budget, they explained that expenditure on these items was projected to grow by 3 percent (compared with a growth in nominal GDP of 7 percent). In particular, they noted that government wages and employment would be frozen in 1987 (a 6 percent wage increase had been granted at the beginning of 1986).

The authorities did not intend to continue the extraordinary expenditures that had been introduced in 1986, although transfers might still be necessary to finance the debt service payments of the National Development Corporation and the Electricity Authority. On the assumptions that government revenues would grow by around 6 percent in 1987, and that the increase in total expenditure would be held to about 4 percent (including provisions for debt service payments mentioned above), the overall central government deficit would decline from around 8 percent of GDP in 1986 to 7 percent in 1987.

The authorities were concerned about the efficiency of the nonfinancial public enterprises, particularly from the point of view of minimizing pressures on the Central Administration. To this end, they were planning to strengthen the oversight responsibilities of the Superintendency of Decentralized Institutions in the Ministry of Finance, establish independent audit procedures for the public enterprises, and experiment with zero-based budgeting. The authorities also emphasized that they had initiated a program to curtail public sector involvement in certain economic activities following a congressional mandate approved in late 1985. Thus, a number of retail outlets of the Commodity Marketing Agency (BANASUPRO) had been closed as private concessionaires were allowed to take over the marketing of basic commodities. In addition, during 1987 the National Forestry Corporation (COHDEFOR) was expected to sell several sawmill subsidiaries to private interests, which also would be allowed to assume partial ownership of national forest preserves they had agreed to rehabilitate. The authorities also planned to sell the Government's holdings in CORFINO, a large pulp and paper plant, once certain defects in project design that had prevented the company from entering into operation had been corrected.

The authorities noted that the Electricity Authority (ENEE) and the Social Security Institute (IHSS) faced especially difficult financial problems. The authorities explained that ENEE's financial problems were due to the fact that the El Cajon hydroelectric plant was not operating at full capacity. To expand El Cajon's operations, the Government had entered into sales arrangements with neighboring countries, although two of these countries were having difficulties making payments on a timely basis. The authorities also were considering the negotiation of special contracts with a few large electricity users (e.g. the foreign banana companies), which would make it possible to lower charges for power consumption above a certain minimum level. The authorities were reluctant to increase ENEE's tariffs for the time being, as they were judged to be already very high by international standards.

The authorities were concerned over the actuarial position of the Social Security Institute (IHSS). The IHSS operates two funds: one for maternity and health care and the other for retirement. Partly because of low contribution rates, which have been fixed at their original levels since the inception of the social security system in 1962, and because of the failure of the Government to pay its assigned share, IHSS has been experiencing heavy operating losses in the first fund. These deficits have been covered by borrowing from the surplus generated in the retirement fund. As a result, there was some doubt as to whether the retirement fund would be able to meet its future pension obligations, which would begin in 1987. The authorities recognized that the solution to IHSS's financial problems would require an increase in contribution rates, as well as some contribution from the Government to meet its legal obligations under the system. It was expected that legal changes to allow for increases in contribution rates would be proposed during 1987.

2. Monetary policy

The authorities were of the view that their expansionary credit policy toward the private sector in recent years had been an important factor in the economic recovery. They also felt that the Central Bank had been forced, to some extent, to assume an active monetary stance because other official banks had curtailed operations or ceased to function as a result of severe financial problems. In late 1985 the Government had transferred the mortgage lending operations of the National Housing Finance Corporation (FINAVI) to the Central Bank by creating a special Housing Trust Fund (FOVI). Also, the Central Bank had established new rediscount lines for the agricultural sector, which had been serviced in the past by the Agricultural Bank (BANADESA), and had extended special credit lines at subsidized interest rates to BANADESA to deal with its liquidity problems.

The new rediscount facilities of the Central Bank, which have grown sharply in the last few years, have been funded for the most part with long-term external credits. The mission observed that central bank credit to the rest of the financial system had increased by more than the flow of long-term foreign resources intermediated through the Central Bank (including economic assistance from U.S. AID), however, thereby giving rise to pressures on the net international reserve position.

For the future, the authorities said it was their intention to conduct credit operations so as to be consistent with the achievement of approximate overall balance of payments equilibrium and continued low inflation. At the same time, it was their aim to limit domestic bank financing of the public sector so as to ensure an adequate expansion in bank credit to support private sector activity.

The authorities reported that some progress was being made in improving the performance of the official banks. In the case of CONADI, a program of divestment was set to begin early in 1987 whereby several of its enterprise subsidiaries would be sold to private interests through a public bidding process. It was expected that in some cases divestment would take place by means of converting CONADI's external commercial indebtedness into equity investments in the local enterprises. Similarly, BANADESA was expected to sell some of its equity holdings in certain domestic industries during 1987. Moreover, BANADESA was making efforts to reduce its large loan delinquency rate, which had been as high as 32 percent, through better screening procedures, more thorough loan supervision, and closer coordination with technical assistance operations of the Ministry of Agriculture. The authorities indicated that BANADESA's large indebtedness to the Central Bank would be eliminated through a special issue of government bonds under a program to recapitalize the Agricultural Bank.

The Honduran representatives were concerned about the effect of high domestic interest rates (around 11 percent in real terms at the end of 1986) on domestic economic activity, although they recognized that interest rate policy had been a positive factor for the balance of payments. The staff observed that high real interest rates were probably a necessary consequence of the large fiscal deficit and the still relatively high value of the lempira.

The authorities were receptive to the staff's recommendation that efforts be made to introduce more flexibility in interest rate determination and to reduce the dispersion of interest rates. It was recognized that interest rate flexibility would be enhanced by gradually phasing out the sight characteristic of government bonds, whose yields have served as a floor to deposit rates in the banking system. Since late 1985, the authorities had been experimenting, with some success, with an arrangement whereby the yields of government bonds were scaled to their holding period to encourage longer term investments by the private sector. For the future, the authorities were considering the possibility of an auction system whereby government bond yields for different maturities would be set according to market forces. The authorities also reported that they had approved in November 1986 a new financial instrument (bonos de caja) to encourage long-term private savings in the banking system to support credit for agricultural and industrial development.

The authorities recognized that the structure of bank lending rates had become more complicated partly as a result of the proliferation of new rediscount lines and selective credit mechanisms of the Central Bank. The authorities said that this policy was being reviewed by the Central Bank with a view to simplifying the interest rate structure and reducing the number of rediscount lines offered by the Central Bank at rates below the maximum deposit rate in the banking system.

3. External sector policies and medium-term balance of payments prospects

The authorities said that export promotion was a critical feature of their economic program, but they were of the view that this objective should be achieved mainly by means of fiscal incentives rather than by way of exchange rate action. In general, the authorities were skeptical about the benefits for Honduras of exchange rate adjustment given the heavy concentration of its export trade in primary commodities (e.g. bananas, coffee, and sugar), which are subject to special international marketing arrangements, and the effects on domestic prices of currency depreciation in an economy so closely linked with the rest of the world.

As an alternative to exchange rate adjustment, the authorities indicated that a number of tax incentives recently had been approved by the National Congress or were awaiting approval. In November 1986 a revision of the drawback scheme (Ley de Importacion Temporal) had been approved which would grant producers of exports outside Central America duty-free entry of imported inputs, as well as an income tax holiday for a period of ten years. In addition, the Government had recently submitted to Congress a revision of the corporate income tax which would allow for investment tax credits, as well as deductions for financial losses. At the same time, the authorities were preparing a bill to establish industrial export zones which would exempt export firms of a certain minimum size from all taxes, except those related to employees' income. Finally, the authorities had revised the existing system of negotiable tax credit certificates (CEFEX) for nontraditional exports outside Central America to make it more attractive to exporters. In the future, the CEFEX would be linked to the gross value of nontraditional exports, instead of incremental value, in proportions ranging from 5 to 20 percent of export value depending upon the domestic value-added and employment content of the export good.

The staff expressed reservations about this approach to export promotion, especially in view of the fiscal cost of the proposed fiscal incentives and their distorting effect on resource allocation. The mission observed that the need for these incentives, together with the granting of outright export subsidies in 1986 and the maintenance of exchange restrictions, raised questions about the adequacy of the official parity of the lempira. The mission also noted that, although much of the erosion in the competitiveness of the lempira that had occurred since 1980 had been reversed in the last two years, exports had shown virtually no growth since the beginning of the decade, excluding gains in bananas.

Honduras' exchange system involves the following restrictions and multiple currency practices subject to the Fund's approval under Article VIII of the Fund Agreement: (a) an exchange restriction arising from limitations on the authorization of official foreign exchange for import payments; (b) a restriction, which also may involve a multiple currency practice and discriminatory currency arrangement, arising from a parallel exchange market for transactions with certain Central American countries; 1/ and (c) a restriction arising from the existence of payments arrears for external debt, import payments and certain invisibles. In general, the authorities considered the exchange control arrangements just described as a necessary safety valve, given Honduras' current weak external position and low international prices for a number of primary commodities (other than coffee). Once international economic conditions improved, they were confident that the effects of their economic program would allow them to re-establish a unified exchange system, free of restrictions, at the existing official parity.

The authorities explained that they intended to embark on a program of trade reform. The first stage of their customs reform involved the changeover of the tariff nomenclature to the Brussels classification, the conversion of specific tariff rates to ad-valorem ones, and changes in customs administration and valuation procedure. A proposal along these lines, which also involved some changes in tariff levels, was submitted to the National Congress in December 1986 and was expected to be approved in early 1987. This reform was similar in nature to the revision of the Common External Tariff of the Central American Common Market (of which Honduras is not formally a member) which entered into effect at the beginning of 1986.

At a later stage, this reform would be followed by a proposal to unify the various import surcharges and fees into a uniform customs

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1/ In May 1985 Honduran exporters to the rest of Central America were allowed to retain their foreign exchange proceeds in deposits denominated in the currency of the country to which they exported to pay for imports from that country or to be negotiated freely with other importers. During 1986 Nicaragua was excluded from this arrangement and regulated by a special bilateral credit arrangement.

tariff, which would provide the basis on which a program for the reduction of effective tariff protection would be designed. However, no timetable was provided for these future stages of tariff reform.

The authorities were concerned about the recent rise in Honduras' external debt service burden, and attributed it largely to the bunching of repayments to international financial institutions (including the Fund), at a time when the country's loan pipeline had dwindled to a low level. For this reason, they were anxious to step up their borrowing from both the Inter-American Development Bank and the World Bank, including the possibility in the latter case of a sectoral or other form of policy-based loan.

The authorities reported that they were near the completion of negotiations with foreign commercial banks on a multi-year rescheduling arrangement amounting to approximately US$235 million (or about 10 percent of the stock of external public debt outstanding at the end of 1986). This arrangement would involve the rescheduling of all arrears on principal repayments which had been accumulated since 1982 and would extend the maturities falling due in the period 1987-89 over a 12-year term. Most of the foreign loans in question related to indebtedness of CONADI on behalf of its subsidiaries, but also included foreign commercial liabilities of ENEE and the Central Government.

The discussions of external sector policies were placed in the context of Honduras' medium-term balance of payments prospects. Two medium-term scenarios were developed by the staff: the first was based essentially on the Government's existing economic program and assumed that policies would be geared to a re-establishment of a unified exchange system, free of restrictions, at the existing parity; the other projection was based on an aggressive external policy stance involving exchange rate action and tariff reductions.

In both scenarios, it was assumed that the Government would pursue an external debt policy that did not exacerbate the country's debt position as measured by the standard ratios of debt service to exports of goods and services and of debt outstanding to nominal GDP. The projections for foreign trade prices were similar to those used in the recent World Economic Outlook exercise which implied a reversal of the terms of trade gains registered in 1986. It also was assumed in both scenarios that exceptional balance of payments support from bilateral sources would gradually decline over time. Under these assumptions, the two scenarios show somewhat similar results for the external current account deficit by the years 1990-91, but substantially different outcomes as regards levels of foreign trade flows, real GDP and, by extension, employment (Table 5).

In the first scenario, it was estimated that the average real rate of growth in exports and GDP during the period 1987-91 would be similar to those recorded in the last five years, i.e. around 2 1/2 percent and

Table 5. Honduras: Medium-Term External Outlook

	1983	1984	1985	Est. 1986	Scenario 1 1/ 1990	Scenario 1 1/ 1991	Scenario 2 2/ 1990	Scenario 2 2/ 1991
	(In millions of U.S. dollars)							
Current account	-261	-340	-326	-250	-162	-179	-197	-177
Trade balance	-124	-175	-148	-53	77	68	41	70
Exports, f.o.b.	699	746	805	903	1,083	1,152	1,234	1,351
Imports, c.i.f.	-823	-921	-954	-956	-1,006	-1,084	-1,193	-1,281
Non-oil	-659	-741	-790	-837	-869	-940	-1,055	-1,135
Oil	-164	-180	-164	-119	-137	-144	-139	-146
Factor payments (net)	-159	-179	-195	-214	-259	-269	-259	-269
Other (net)	22	14	17	17	20	21	20	21
Capital account	211	294	270	225	220	231	220	231
Official transfers	41	80	113	135	90	80	90	80
Public capital, net 3/	181	305	234	120	120	136	120	136
Other (net)	-12	-90	-77	-30	10	15	10	15
Overall balance	-50	-46	-56	-25	58	52	23	54
Rescheduled short-term to medium-term liabilities	30	--	34	5	--	--	--	--
Net international reserves (increase -)	-27	9	-16	-3	-58	-52	-23	-54
Of which: Fund (net)	41	-2	-15	-48	-8	-2	-8	-2
Changes in arrears	47	36	38	23	--	--	--	--
	(As percent of GDP)							
Current account	-8.9	-10.8	-9.7	-6.9	-3.7	-3.9	-4.0	-3.3
Trade balance	-4.2	-5.6	-4.4	-1.5	1.7	1.5	0.8	1.3
Exports	23.7	23.7	23.9	24.9	24.7	24.9	25.3	25.5
Imports	27.9	29.2	28.4	26.4	23.0	23.4	24.4	24.1
Official transfers	1.4	2.5	3.3	3.7	2.1	1.7	1.8	1.5
Outstanding debt	64.6	70.8	74.1	70.6	67.6	66.9	63.2	60.7
	(As percent of exports of goods and services)							
Total debt service 3/	27.0	25.1	29.3	30.4	23.7	21.6	21.8	19.3
Principal	13.7	12.2	15.9	18.5	12.0	10.3	10.8	9.0
Interest	13.3	12.9	13.4	11.9	11.7	11.3	11.0	10.4
Of which: Fund	1.6	1.5	2.7	5.5	0.7	0.1	0.6	0.1
Repurchases	--	0.2	1.6	4.6	0.6	0.1	0.5	0.1
Charges	1.6	1.3	1.1	0.9	0.1	--	0.1	--
Memorandum items								
Change in terms of trade (in percent)	-2.3	4.5	1.5	16.4	--	--	--	--
Gross reserves (in months of imports)	1.9	1.9	1.6	1.8	3.5	3.8	1.9	2.3
Nominal GDP (in millions of U.S. dollars)	2,946	3,150	3,362	3,618	4,382	4,625	4,880	5,304

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

1/ In scenario 1, average export volume is projected to grow at an annual rate of about 2 1/2 percent; real GDP and non-oil import volume growth during 1988-91 are projected to be at annual rates of 1 1/2 percent and 1 percent, respectively.

2/ In scenario 2, average export volume is projected to grow at an annual rate of about 6 percent; real GDP and non-oil import volume growth during 1988-91 are projected to be at annual rates of 4 percent and 3 1/3 percent, respectively.

3/ Assumes that the multiyear rescheduling agreed in principle with the commercial banks in September 1986 will be finalized in 1987.

1 1/2 percent, respectively. This result occurs mainly because of the weak incentives for export growth involved in the existing exchange and trade system and the substantial domestic fiscal restraint required to contain the growth in aggregate demand to a rate consistent with a sustainable current account position. Such a position is defined as one which would not lead to a deterioration of Honduras' external debt indicators as defined earlier, while allowing for a significant accumulation of liquid official foreign reserves that would enable the Central Bank to maintain the traditional parity on a credible basis without reliance on restrictions. The accumulation of international reserves is larger in the first scenario than in the second as it is assumed in the first case that very restrained demand management policies are pursued which would reduce sharply the current account deficit in the early years of the projection period to achieve a significant overall balance of payments surplus.

The second scenario was based on an alternative external policy package involving exchange rate action, the elimination of exchange restrictions, a reduction in protection, and the elimination of all import tax exemptions except for imports used in the production of exports. This combination of policies would have the effect of strengthening substantially the incentives for new exports. It was estimated that such a program would yield average export and real GDP growth rates more than double those derived from the first scenario and would reverse the decline in the share of foreign trade activity in the economy that had occurred since 1980. To achieve the export target in the second scenario, it is estimated that traditional exports (other than coffee and bananas) would need to grow at an average annual rate of 4 1/2 percent in real terms over the projection period, and nontraditional exports outside Central America by 17 percent. The reduction in the current account deficit is somewhat more gradual in the second scenario than in the first, and the accumulation of net international reserves is less as it is assumed that lower reserve growth would be offset by more exchange rate flexibility.

The medium-term balance of payments projections are fairly sensitive to variations in the prices of coffee and petroleum. A 10 percent difference in the assumed path of coffee prices would change the current account deficit by 0.5 percent of GDP in the years 1990-91; the same variation in the price of petroleum would alter the current account result by around 0.25 percent of GDP at the end of the projection period.

IV. Staff Appraisal

Following a period of economic decline in 1984, the rate of economic growth in Honduras began to recover moderately and the rate of inflation started to come down. To a large extent these developments were stimulated by an acceleration in public investment, an expansionary credit policy toward the private sector and a partial liberalization of import restrictions. During 1984-85, the economic reactivation was financed largely with foreign resources, and Honduras' external current account deficit (excluding official transfers) widened to around 10 percent of GDP.

In 1986 Honduras' economic recovery continued, although the expansion in private investment and exports was less pronounced than had been expected. At the same time, Honduras' external current account deficit was reduced by around 3 percentage points of GDP because of the favorable effects of coffee and petroleum prices in international markets and a sharp fall in public investment. However, Honduras' external position remained weak, as evidenced by a fall in noncoffee exports and a further rise in the debt service ratio, in part owing to a significant increase in debt repayments.

The Administration which came into office at the beginning of 1986 has designed a medium-term adjustment program which is intended to strengthen Honduras' recovery effort and external position. This program involves improvements in public sector management to raise domestic savings and a number of fiscal incentives to promote private investment and export growth. While the staff agrees with the main thrust of the Government's program, it does not believe that the proposed measures go far enough to correct the distortions caused by past policies and, therefore, it is of the view that the measures need to be bolstered in order to lay the basis for sound economic growth and balance of payments viability over the medium term. For these purposes, a comprehensive adjustment program is needed involving fiscal measures to reduce significantly the public sector's borrowing requirement, a streamlining of the monetary instruments, and a reform of the exchange and trade system.

In view of the slippages in the public finances during 1986, special attention needs to be given to an improvement in central government operations. In this connection, the staff strongly supports the Government's intention to improve the yield of existing taxes, but believes that measures should be introduced to shift the burden of taxation toward domestic transactions, thus lowering the dependence of the tax system on foreign trade transactions. Specific measures that might be taken include a modernization of the income and property tax system, a broadening of the base of the sales tax and a wider use of selective consumption duties.

On the expenditure side, the staff notes with concern the increase in budgetary commitments that were incurred in the last budget exercise which led to deviations from the Government's fiscal program. Given the rigidity of recurrent expenditure for debt service and military obligations, strict control over other current expenditure will be required if the Government's objective of zero growth in real current outlays is to be achieved. In this connection, a cautious public sector wage and employment policy is called for, as well as the elimination of export subsidies.

In the rest of the public sector, the effort to improve enterprise efficiency will require stronger oversight by the Central Administration. Until now, the Superintendency of Decentralized Institutions has served largely a statistical function. The staff would suggest that authority be given to the Superintendency to enable it to establish and enforce budgetary guidelines on public sector entities. The divestment program which has been introduced by the Government could contribute significantly to an improvement in public savings. At the same time, however, the tariffs and prices of the main state enterprises should be reviewed to ensure that they are adequate to cover operational costs and a significant portion of the enterprises' investment program.

Improvements in fiscal policy will ease the burden on monetary management which has been reflected in a high level of domestic interest rates. It should be noted that recent slippages in fiscal policy have not been easy to offset by changes in credit policy given the pressures on the Central Bank to expand its lending to support economic reactivation. In this connection, it is important that the instruments of monetary policy be simplified and thus be made more effective. Specifically, actions should be taken to reduce the dispersion of interest rates in the banking system which have proliferated with new rediscount facilities offered by the Central Bank. At the same time, more interest rate flexibility should be sought through changes in the "sight" characteristic of government bonds.

In the external sector, the changes in the customs tariff and administration that have been proposed by the Government in a program of tariff reform are a welcome first step. To be effective, however, these changes should be followed soon by the unification of the various customs surcharges and fees into a single uniform tariff, as well as a reduction in effective protection involving the elimination of tariff exemptions for all imports except those used in export production. It is unfortunate, however, that the Government is not taking action to liberalize further the existing exchange and trade restrictions, especially since they have become more complex in recent years and subject to arbitrary and discretionary adjustments.

The staff recognizes that tax incentives may be a useful adjunct to exchange and trade reform, but it does not believe that such incentives can be an effective substitute for exchange rate action. In addition to their fiscal cost, which may be substantial over time, tax incentives can increase distortions in resource allocation and therefore encourage an inefficient growth process. More flexibility in exchange rate management would eliminate the need for fiscal incentives and subsidies for exports, as well as import restrictions, while enhancing the prospects for export growth over the medium term.

The staff would encourage the authorities to eliminate the existing exchange restrictions (including external payments arrears) and multiple currency practices as quickly as possible and to adopt measures that would prevent their re-emergence. In particular, early actions to eliminate the long-standing payments arrears would help to re-establish Honduras' international creditworthiness. In the absence of a well-defined set of policies that would lead to their removal, the staff does not recommend approval of Honduras' exchange restrictions or multiple currency practices.

It is proposed that the next Article IV consultation take place on the regular 12-month cycle.

Honduras - Fund Relations
(As of December 31, 1986)

I. Membership Status

a. Date of membership: December 1945

b. Honduras accepted the obligations of Article VIII, Sections 2, 3, and 4 (July 1950).

A. Financial Relations

II. General Department

(a) Quota: SDR 67.8 million

	Millions of SDRs	Percent of Quota
(b) Fund's currency holdings	148.1	218.4
(c) Fund's credit	80.3	118.4
From Fund Resources:	48.9	72.2
Credit tranche purchases (including SBA)	18.5	27.3
CFF purchases	14.5	21.4
EFF purchases	15.9	23.5
From Supplementary and Enlarged Access Resources	31.4	46.3
(d) Reserve tranche position	--	--

III. Stand-by or Extended Arrangements and Special Facilities in the Last Ten Years

(a) Extended Arrangements:

(i) Duration: From June 1979 to June 1982
(ii) Amount: SDR 47.6 million (140 percent of quota)
(iii) Purchases: February 1980 SDR 16.0 million
August 1981 SDR 7.9 million
(iv) Undrawn balance: SDR 23.7 million

(b) Stand-by arrangements:

(i) Duration: From November 1982 to December 1983
(ii) Amount: SDR 76.5 million (150 percent of quota)
(iii) Purchases: November 1982 SDR 15.3 million
April 1983 SDR 15.3 million
May 1983 SDR 15.3 million
August 1983 SDR 15.3 million
(iv) Undrawn balance: SDR 15. 3 million

(c) Special Facilities

(i) Oil Facility: Approved: November 1974.
Amount: SDR 16.79 million

(ii) Compensatory Financing Facility:
Approved: January 8, 1982
Amount: SDR 23.3 million

(iii) Compensatory Financing Facility:
Approved: November 1982
Amount: SDR 23.10 million

IV. SDR Department	Millions of SDRs	Percent of Allocation
(a) Net cumulative allocation:	19.06	100.0
(b) Holdings:	--	--
(c) Current Designation Plan:	None	--

V. Administered Accounts (Trust Fund loans)

(a) Disbursed SDR 14.07 million
(b) Outstanding SDR 9.24 million

B. Nonfinancial Relations

VI. Exchange Rate Arrangement

The currency of Honduras is the lempira, which is pegged to the U.S. dollar at L 2=US$1. A special exchange arrangement exists whereby transactions with certain Central American countries are permitted to be negotiated through a parallel foreign exchange market. The exchange rate in this market is freely determined. There are no taxes or subsidies on purchases or sales of foreign exchange. Payments for imports with official foreign exchange are restricted. Honduras' exchange restrictions are not approved by the Fund.

VII. Last Article IV Consultation

The last Article IV Consultation with Honduras was concluded by the Executive Board on January 27, 1986 (EBM/86/13).

VIII. Technical Assistance

CBD: From September 1982 to February 1986 the Central Banking Department provided technical assistance to the Central Bank of Honduras in the area of bank supervision.

Honduras - Basic Data

Area and population	
Area	112,088 sq. kilometers
Population (mid-1986)	4.3 million
Annual rate of population increase (1980-86)	2.8 percent
GDP (1986)	SDR 3,019.5 million
	US$3,618.5 million
	L 7,237.0 million
GDP per capita (1986)	SDR 702

Origin of GDP	1983	1984	1985	Est. 1986
		(percent)		
Agriculture and mining	33.1	33.4	33.5	33.4
Manufacturing	14.6	14.6	14.0	14.1
Construction	4.1	4.2	4.1	3.9
Transport, communications, and utilities	8.7	8.8	8.9	8.9
Commerce and banking services	15.7	15.8	16.2	16.3
Other	23.8	23.2	23.4	23.4
Ratios to GDP				
Exports of goods and nonfactor services	27.2	27.2	27.4	28.8
Imports of goods and nonfactor services	-31.0	-32.7	-33.7	-29.6
Current account of the balance of payments	-8.9	-10.8	-9.7	-6.9
Central government revenues	13.6	15.5	16.2	16.1
Central government expenditures	24.2	27.2	25.9	24.2
Central government current account deficit (-)	-3.2	-1.6	-2.2	-2.4
Central government overall surplus or deficit (-)	-10.6	-11.7	-9.7	-8.1
External public and government-guaranteed debt (end of year) 1/	63.0	69.2	72.6	69.2
Gross national savings	6.9	9.1	8.2	8.4
Gross domestic investment	15.7	19.9	17.9	15.3
Money and quasi-money (end of year)	33.7	34.0	33.5	33.0
Annual changes in selected economic indicators				
Real GDP per capita	-3.2	-0.2	0.1	0.2
Real GDP	-0.3	2.6	2.9	2.9
GDP at current prices	5.7	6.7	6.7	7.6
Domestic expenditure (at current prices)	6.5	8.4	5.6	4.6
Gross domestic investment	12.3	35.1	-4.3	-7.7
Consumption	5.6	3.7	7.8	7.1
GDP deflator	6.0	4.0	3.7	4.6
Consumer prices (annual averages)	8.1	4.7	3.3	4.4
Central government revenues	1.2	21.8	11.7	6.5
Central government expenditures	6.8	20.2	1.7	0.3
Money and quasi-money	16.1	7.8	5.1	6.1
Money	14.3	4.1	3.0	3.4
Quasi-money	17.4	10.3	6.4	7.7
Domestic bank credit 2/	17.0	18.1	15.0	13.2
Credit to public sector (net)	10.9	3.9	1.7	1.3
Credit to private sector 3/	8.5	9.6	10.5	5.5
Merchandise exports (f.o.b., in U.S. dollars)	3.3	6.7	8.0	12.1
Merchandise imports (c.i.f., in U.S. dollars)	7.5	11.9	3.6	0.2

Central government finances	1983	1984	1985	Est. 1986
	(millions of lempiras)			
Revenues	802	977	1,091	1,162
Expenditures	1,427	1,715	1,744	1,749
Current account deficit (-)	-198	-101	-145	-176
Overall deficit (-)	-626	-738	-652	-588
External financing (net) 4/	336	558	438	364
Domestic financing (net)	290	180	194	224
Balance of payments				
Merchandise exports (f.o.b.)	698.7	745.7	805.4	902.5
Merchandise imports (c.i.f.)	-822.8	-920.6	-953.5	-955.5
Investment income (net)	-30.0	-56.5	-58.0	-67.5
Other service and transfers (net)	-106.8	-108.7	-119.8	-129.0
Balance on current and transfer accounts	-260.9	-340.1	-325.9	-249.5
Official transfers 4/	41.1	79.9	112.6	135.0
Official capital (net)	184.3	287.2	203.5	88.1
Financial system capital (net)	-11.3	7.7	24.7	26.9
Private capital (net) 5/	-3.5	-80.4	-71.2	-25.3
Overall balance (deficit -)	-50.3	-45.7	-56.3	-24.8
Net official international reserves (increase -)	-26.9	9.3	-15.9	-2.9
External payments arrears	47.2	36.4	38.0	22.7
Conversion of short-term debt to medium-term liabilities	30.0	--	34.1	5.0
International reserve position (end of year)	(In millions of SDRs)			
Central Bank (gross)	122.4	151.4	116.0	115.3
Central Bank (net)	-80.1	-95.1	-70.4	-61.5
Rest of banking system (net)	-29.2	-36.0	-37.9	-35.1

1/ Includes obligations to IMF. Excludes short-term debt.
2/ In relation to the banking system's liabilities to the private sector at the beginning of the period.
3/ Includes credit to the nonbank financial intermediaries.
4/ Includes special assistance from the U.S. Government.
5/ Includes net errors and omissions.

Honduras: Statistical Issues

1. Outstanding Statistical Issues

a. Government finance

A reply to the GFS questionnaire has not been received since 1984. As a result, the 1986 Government Finance Statistics Yearbook contains a derivation table with data only through 1976. Furthermore, coverage of data in the statistical tables needs to be expanded after 1976 to include transactions of extrabudgetary accounts and social security funds. The data in IFS relate only to the budgetary accounts.

b. Monetary accounts

Monetary data produced by the Central Bank have a number of shortcomings. These relate to: the netting of foreign liabilities against assets in certain cases; the exclusion of SDR holdings and reserve position in the Fund from foreign assets; the exclusion of use of Fund credit from foreign liabilities; the definition of the government sector; and the absence of a reserve money aggregate. There are also problems with the classification of data on deposit money banks. A technical assistance mission in the field of monetary statistics is scheduled to take place sometime later in 1987.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Honduras in the February 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Honduras, which during the past year have been provided on a timely basis, although the currentness of the data on foreign trade could be improved.

Status of IFS Data

		Latest Data in November 1986 IFS
Real Sector	- National Accounts	1985
	- Prices	July 1986
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	September 1986
	- Financing	September 1986
	- Debt	September 1986
Monetary Accounts	- Monetary Authorities	September 1986
	- Deposit Money Banks	September 1986
	- Other Financial Institutions	September 1986
Interest rates	- Discount Rate	June 1986
	- Bank Lending/Deposit Rate	n.a.
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade:	
	Values	Q3 1985
	Prices (export values) export commodities	Q3 1985
	- Balance of Payments	1985
	- International Reserves	November 1986
	- Exchange Rates	December 1986

Honduras: Financial Relations With the World Bank Group

(In millions of U.S. dollars)

1. Financial relations

A. IBRD/IDA/IFC Operations
(as of December 31, 1986) 1/

	Disbursed	Undisbursed
IBRD/IDA loans		
Agriculture	90.8	12.9
Education	11.0	--
Industry	42.3	38.7
Ports	30.5	--
Power	236.6	0.3
Municipal development	1.3	5.7
Transport	113.0	4.9
Tourism	11.4	2.1
Petroleum exploration	2.8	0.2
Water supply	3.4	16.2
Total	543.1	81.0
Of which: repaid	94.9	--
outstanding 2/	448.2	—
IFC investments	7.0	0.5

B. IBRD/IDA Loan Disbursements 3/

	1982	1983	1984	1985	Est. 1986
Net disbursements	39.2	47.5	56.3	36.1	27.2
Gross disbursements	46.1	54.7	65.6	40.3	42.2
Amortization	6.9	7.2	9.3	12.2	15.0

2. Recent IBRD technical assistance

None.

3. Recent economic and sector missions

An IBRD mission visited Tegucigalpa in September 1985 to assess Honduras' creditworthiness.

Source: IBRD.

1/ Net of cancellations.
2/ Net of loans sold to a third party.
3/ By IBRD fiscal year: July 1 to June 30.