SM/85/22

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January 18, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Honduras - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Honduras, which is proposed to be brought to the agenda for discussion on Monday, February 11, 1985.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Cha, ext. 8501.

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INTERNATIONAL MONETARY FUND

HONDURAS

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984 Article IV Consultation with Honduras

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January 18, 1985

I. Introduction

The 1984 Article IV consultation discussions 1/ with Honduras were conducted in Tegucigalpa during the period October 16-November 1, 1984. Representatives of Honduras in the discussions included the Ministers of Finance, Economy, and Labor; the President of the Central Bank; the Vice Minister of Natural Resources; the Executive Secretary of Planning; and senior officials of public sector agencies and corporations. The mission also met with representatives of the banking community and the Council of Private Enterprises. The staff representatives in the discussions were Chungsuk Cha (Head-WHD), Marcelo Figuerola (WHD), Fernando Sanchez-Ugarte (FAD), Robert Rennhack (EP-WHD), and Bonnie Coles (Secretary-WHD).

The last Article IV consultation discussions with Honduras were conducted in August 1983 and were concluded by the Executive Board on November 21, 1983 (EBM/83/157). A stand-by arrangement for SDR 76.5 million (150 percent of Honduras' quota at the time) was approved in November 1982 and expired on December 31, 1983. Honduras made the first four purchases under the arrangement totaling SDR 61.2 million, 2/ but it was unable to make the last purchase of SDR 15.3 million because of noncompliance with performance criteria relating to the net domestic assets of the Central Bank, net bank credit to the public sector, and exchange restrictions.

II. Recent Developments and Performance under the Stand-by Arrangement

Following several years of financial stability and rapid economic growth in the second half of the 1970s, the economic and financial position of Honduras deteriorated markedly beginning in 1980. During the

1/ Honduras has accepted the obligations of Article VIII, Section 2, 3, and 4 of the Articles of Agreement.

2/ As was discussed in EBS/84/94, at least two of the purchases under the arrangement were unwarranted according to revised data on net banking system credit to the nonfinancial public sector.

period 1980-82 the cumulative balance of payments deficits amounted to nearly US$350 million, including the accumulation of large external payments arrears. At the same time, the growth in real GDP, which had averaged 6 1/2 percent in the period 1977-79, decelerated in 1980-81 and turned negative in 1982.

Several factors contributed to this deterioration in economic performance. Political instability in Central America had adverse repercussions on nontraditional exports and capital flows and damaged the climate for investment, while the worldwide recession affected unfavorably the markets for Honduras' major export commodities. The resulting balance of payments problems were compounded by expansionary fiscal and monetary policies, which were intended to counteract the adverse impact of external developments on domestic economic activity. The overall deficit of the nonfinancial public sector rose from an average of 6 percent of GDP in 1977-79 to an average of 9 1/2 percent of GDP in 1980-82, reflecting mainly a weakening of revenue performance and a sharp increase in current expenditures. An expansion in bank credit to the public sector and a rise in credit to the private sector outpaced the growth of financial resources accruing to the banking system, and thus led to a decline in international reserves.1/

1. Performance under the 1982-83 stand-by arrangement

In an effort to halt the deterioration in Honduras' external position, the authorities framed an adjustment program during 1982 which was supported by a stand-by arrangement covering the period from November 1982 through December 1983. The main objective of the program was to achieve approximate equilibrium in the overall balance of payments and to facilitate the elimination of external payments arrears and import restrictions. The key feature of the program was a strengthening of the fiscal position, thereby reducing substantially the domestic financing requirement of the public sector. Also, the program envisaged an increased use of concessional foreign assistance together with the rescheduling of certain debt obligations to foreign commercial banks.

Honduras' performance under the program fell short of expectations mainly because of weaknesses in fiscal performance in 1983, especially at the central government level (Table 1). Revenues were about 2 percent of GDP less than projected because of sluggish economic activity, deficiencies in tax administration, and the failure of the authorities to implement a comprehensive customs tariff reform that was the main revenue feature of the program (Table 2). Despite a decline in investment spending, total government expenditures exceeded the amount programmed by 2 percent of GDP because of large increases in outlays for national defense and interest payments. Thus, the overall central government deficit amounted to 10 percent of GDP in 1983, compared with

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1/ Honduras had an extended arrangement from the Fund during the period June 1979-June 1982, but performance in the monetary and fiscal areas fell short of the program objectives (see SM/82/151).

Table 1. Honduras: Performance Under Stand-By Arrangement 1/

	Dec. 31, 1982	Dec. 31, 1983
	(In millions of lempiras)	
Net domestic assets of Central Bank		
Ceiling	510	550
Actual	564	560 2/
Net banking system credit to non-financial public sector		
Ceiling	725	775
Actual	815	1,020
	(In millions of U.S. dollars)	
Foreign commercial indebtedness		
Limit	75	100
Actual	-6	17

Sources: EBS/82/179; and Central Bank of Honduras.

1/ The performance criteria also included the elimination of all external payments arrears which were not subject to rescheduling by end-October 1983.

2/ Includes conversion of a US$30 million (L 60 million) reserve liability of the Central Bank into a liability of more than one year maturity.

Table 2. Honduras: Central Government Operations

	1980	1981	1982 SBA	1982 Actual	1983 SBA	1983 Actual	Est. 1984
	(In millions of lempiras)						
Revenue	760	741	832	770	980	780	946
Tax revenue	697	695	786	717	939	713	876
Nontax revenue	63	46	46	53	41	67	70
Expenditure	1,140	1,138	1,272	1,328	1,370	1,358	1,682
Current	734	792	825	880	873	971	1,061
Capital and net lending 1/	406	346	447	448	497	387	621
Current account deficit (-)	26	-51	7	-110	107	-191	-115
Overall deficit	-380	-397	-440	-558	-390	-578	-736
External financing (net)	246	248	250	251	300	281	463
U.S. assistance	--	--	--	--	--	35	68
Domestic financing (net)	134	149	190	307	90	262	205
Banks	(141)	(159)	(150)	(245)	(50)	(182)	(100)
Bonds	(5)	(32)	(40)	(46)	(40)	(91)	(80)
Other	(-12)	(-42)	(--)	(16)	(--)	(-11)	(25)
	(In percent of GDP)						
Revenue	15.3	14.0	14.3	13.8	15.2	13.2	14.8
Of which: tax	(14.0)	(13.1)	(13.5)	(12.8)	(14.6)	(12.1)	(13.7)
Expenditure	22.9	21.5	21.9	23.8	21.3	23.0	26.3
Current	(14.7)	(15.0)	(14.2)	(15.8)	(13.6)	(16.5)	(16.6)
Capital	(8.2)	(6.5)	(7.7)	(8.0)	(7.7)	(6.5)	(9.7)
Current account deficit (-)	0.5	-1.0	0.1	-2.0	1.7	-3.2	-1.8
Overall deficit	-7.6	-7.5	-7.6	-10.0	-6.1	-9.8	-11.5
	(Change in percent)						
Revenue	20.4	-2.5	12.2 2/	3.9	17.8	1.3	21.3
Expenditure	41.0	-0.2	11.1 2/	16.7	7.7	2.3	23.9
Current	(29.3)	(7.9)	(2.1) 2/	(11.1)	(5.8)	(10.3)	(9.3)
Capital	(44.0)	(-14.8)	(32.6) 2/	(29.5)	(11.2)	(-13.6)	(60.5)

Sources: EBS/82/179; Ministry of Finance; Central Bank of Honduras; and Fund staff estimates.

1/ Includes loans to the rest of the public sector to cover interest payments on foreign commercial indebtedness.
2/ Changes envisaged in the program.

a program target of 6 percent. The overrun in the deficit was financed mainly by domestic bank credit and the sale of bonds to the nonfinancial private sector. As a result, net bank credit to the nonfinancial public sector exceeded the ceilings throughout most of the program period, and at the end of 1983 it was L 245 million (4.2 percent of GDP) above the ceiling of L 775 million.

The ceiling on the net domestic assets of the Central Bank was exceeded by only L 10 million at the end of 1983, mainly because of a smaller-than-projected increase in net central bank credit to the rest of the banking system (Table 3). Apart from a weak demand for credit by the private sector, there was a buildup of liquidity in the commercial banks, which to a large extent reflected the effect of import restrictions applied during the period. The maintenance of positive real interest rates also contributed to the growth of financial savings.

The current account deficit of the balance of payments amounted to 8 percent of GDP in 1983, compared with a projection of 9 1/2 percent, as imports and net factor payments were lower than had been forecast (Table 4). Imports increased toward the end of 1983 due to a relaxation of restrictions, but for the year as a whole they were still substantially below the level projected in the program. The reduction in net factor payments was related to a temporary decline in profit remittances by the banana companies because of a weather-related drop in banana production. However, net capital inflows were substantially lower than projected, and the overall balance of payments deficit amounted to US$50 million, compared with US$10 million envisaged in the program.

The program included as a performance criterion the elimination by end-October 1983 of all external arrears that were not part of the rescheduling package with the foreign commercial banks. This commitment was not observed, and by the end of December 1983 such arrears totaled US$18 million. Moreover, the program contemplated that overdue principal owed to foreign commercial banks would be rescheduled during the program period. However, negotiations with the banks were delayed because of lack of agreement on Honduras' request for new money to accompany the rescheduling. As of the end of 1983, the outstanding principal in arrears pending rescheduling amounted to US$86 million.

The authorities continued to rely on quantitative import restrictions in 1983. Prior to July 1983 all imports required import licenses which were issued by the Central Bank on the basis of a set of priorities, but there were no specified periods for responding to requests. The absence of a fixed waiting period meant that the requests for certain imports resulted in long delays at the discretion of the Central Bank. These restrictions were liberalized somewhat in the second half of 1983, but the result still fell far short of the program objective. In July 1983 fixed waiting periods for the approval of import licenses were introduced, ranging from 30 days to 120 days, according to the priority of the import. In November 1983 the import licensing system was further modified to grant import licenses freely in cases where

Table 3. Honduras: Summary Banking System Operations

	1980	1981	1982 SBA	1982 Actual	1983 SBA	1983 Actual	Est. 1984
(In millions of lempiras)							
I. Banking System							
Net foreign assets	125.5	-18.3	-251.0	-266.7	-293.0	-228.9 1/	-299.0
Net domestic assets	1,938.4	2,308.1	2,666.0	2,853.9	2,907.0	3,196.5	3,560.0
Credit to public sector (net)	377.9	510.4	658.0	775.5	708.0	1,003.8	1,104.0
Central Government	(342.4)	(501.2)	(649.0)	(746.2)	(699.0)	(928.0)	(1,028.0)
Rest of public sector	(35.5)	(9.2)	(9.0)	(29.3)	(9.0)	(75.8)	(76.0)
Credit to private sector	1,465.3	1,589.7	1,747.0	1,802.6	1,924.0	1,966.4	2,250.0
Other	95.2	208.0	261.0	275.8	275.0	226.3	206.0
Medium and long-term foreign liabilities 2/	523.3	602.1	623.0	637.8	688.0	703.7 1/	801.0
Liabilities to private sector	1,540.6	1,687.7	1,792.0	1,949.4	1,926.0	2,263.9	2,460.0
II. Monetary Authority							
Net international reserves	233.8	20.8	-173.0	-221.4	-193.0	-167.7 1/	-218.0
Official reserves	233.8	20.8	-173.0	-221.4	-193.0	-167.7	-168.0
Arrear deposits	--	--	--	--	--	--	-50.0
Net domestic assets	73.1	311.7	506.0	564.4	546.0	559.7	648.0
Credit to public sector (net)	421.7	574.2	722.0	814.7	772.0	1,019.9	1,110.0
Central Government 3/	(346.4)	(504.1)	(652.0)	(749.4)	(702.0)	(930.6)	(1,030.0)
Rest of public sector	(75.3)	(70.1)	(70.0)	(65.3)	(70.0)	(89.3)	(80.0)
Banks (net)3/	4.8	66.9	97.0	39.9	127.0	-11.8	93.0
Medium- and long-term foreign liabilities 2/	-341.6	-378.9	-403.0	-417.8	-468.0	-496.5 1/	-597.0
Other	-11.8	49.5	90.0	127.6	115.0	48.1	42.0
Currency issue	306.9	332.5	333.0	343.0	353.0	392.0	430.0
(Change in percent)4/							
Banking system							
Net domestic assets	18.8	24.0	22.6 5/	32.3	13.5	17.6	16.1
Credit public sector	11.5	8.6	8.9 5/	15.7	2.8	11.7	4.4
Credit private sector	7.3	8.1	9.3 5/	12.6	9.9	8.4	12.5
Liabilities to private sector	6.9	9.5	6.2 5/	15.5	7.5	16.1	8.7

Sources: EBS/82/179; Central Bank of Honduras; and Fund staff estimates.

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/ Includes SDR allocations and valuation adjustment.
3/ Government bonds held by the rest of the banking system are included in the Central Bank's net credit to the Central Government and in deposits of the rest of the banking system in the Central Bank.
4/ With respect to the stock of liabilities to the private sector at the beginning of the period.
5/ Changes envisaged in the program.

Table 4. Honduras: Summary Balance of Payments

	1980	1981	1982 SBA	1982 Actual	1983 SBA	1983 Actual	Est. 1984
	(In millions of U.S. dollars)						
Current account	-316.7	-302.9	-329.1	-257.1	-312.0	-233.8	-395.5
Trade balance	-189.3	-191.7	-187.5	-89.2	-157.0	-120.1	-218.3
Exports, f.o.b.	(850.3)	(783.8)	(710.0)	(676.5)	(781.0)	(694.2)	(738.1)
Imports, c.i.f.	(-1,039.6)	(-975.5)	(-897.5)	(-765.7)	(-938.0)	(-814.3)	(-956.4)
Services and transfers	-127.4	-111.2	-141.6	-167.9	-155.0	-113.7	-177.2
Capital account	252.1	183.0	232.1	92.6	302.0	183.5	362.5
Private 1/	84.6	30.1	10.0	-32.1	30.0	0.6	-12.3
Nonfinancial public sector	141.6	160.2	152.0	126.1	195.0	174.8	276.0
Financial sector 2/	25.9	-7.3	26.6	-36.4	34.0	-9.9 3/	-0.8
Debt relief	--	--	43.5	--	43.0	--	31.6
U.S. assistance	--	--	--	35.0	--	18.0	68.0
Overall balance	-64.6	-119.9	-97.0	-164.5	-10.0	-50.3	-33.0
Net official reserves	64.6	106.5	87.0	121.1	10.0	3.1 3/	--
Payments arrears	--	13.4	10.0	43.4	--	47.2	33.0
	(In percent of GDP)						
Current account balance	-12.7	-11.4	-11.3	-9.2	-9.7	-7.9	-12.4
Exports	34.2	29.6	24.5	24.2	24.3	23.6	23.1
Imports	-41.8	-36.9	-30.9	-27.4	-29.2	-27.6	-29.9
Other	-5.1	-4.1	-4.9	-6.0	-4.8	-3.9	-5.6
Capital account	10.1	6.9	8.0	3.3	9.4	6.2	11.4
Private	3.4	1.1	0.4	-1.1	0.9	--	-0.3
Public sector	5.7	6.1	5.2	4.5	6.1	5.9	8.6
Financial sector	1.0	-0.3	0.9	-1.3	1.1	-0.3	--
Debt relief	--	--	1.5	--	1.3	--	1.0
U.S. assistance	--	--	--	1.2	--	0.6	2.1
Overall balance	-2.6	-4.5	-3.3	-5.9	-0.3	-1.7	-1.0
	(Change in percent)						
Exports	12.4	-7.8	-9.4	-13.7	10.0	2.6	6.3
Imports	22.0	-6.2	-8.0	-21.5	4.5	6.3	17.5

Sources: EBS/82/179; Central Bank of Honduras; and Fund staff estimates.

1/ Includes errors and omissions.
2/ Includes transactions with nonmonetary international organizations, SDR allocations, and valuation adjustments.
3/ A US$30 million short-term foreign liability of the Central Bank, which was converted into a medium-term liability in March 1983, is treated as a short-term liability in this table.

importers did not require official foreign exchange; an important result of this change was that exporters were allowed to use their export proceeds to cover their import requirements.

2. Developments in 1984

Economic and financial developments in 1984 were influenced to a significant extent by the acceleration of the El Cajon hydroelectric project,1/ the relaxation of exchange restrictions, and the increased availability of balance of payments assistance from the United States. El Cajon, which would more than double the existing electricity generating capacity in Honduras, is projected to cost more than US$700 million, of which US$240 million (approximately 7 1/2 percent of GDP) is estimated to have been spent in 1984 to complete the civil works of the project. The relaxation of exchange restrictions introduced in late 1983 was followed by substantial U.S. balance of payments assistance in 1984, the result being a sharp increase in imports.

With these changes, and a moderate recovery of exports and a good harvest of basic grains, real GDP is estimated to have grown by nearly 3 percent in 1984, following a decline in 1982-83. There was also a deceleration of inflation (as measured by the consumer price index) to around 6 percent in 1984, compared with increases in the range of 9-9 1/2 percent in the period 1981-83 (Table 5).

Table 5. Honduras: GDP and Prices

(In percentage change)

			1982		1983		Est.
	1980	1981	SBA	Actual	SBA	Actual	1984
Nominal GDP	13.7	6.4	7.7	5.5	10.6	5.5	8.4
Real GDP	2.7	1.2	-1.5	-1.8	1.0	-0.5	2.8
Consumer prices (period average)	18.1	9.4	9.5	9.4	10.0	8.9	6.0

Sources: EBS/82/179; and Central Bank of Honduras.

The favorable developments in output and prices have not been accompanied by improvements in the country's basic financial situation. Indeed, during the first nine months of 1984 the overall deficit of the

1/ The El Cajon project, which was started in 1979, is now expected to be completed in 1985 by advancing its construction timetable. This project is being financed mostly with concessional foreign loans, including US$185 million from the Inter-American Development Bank and US$125 million from the World Bank.

Central Government was substantially higher than in 1983. Also, private sector credit accelerated while the growth of private financial savings slowed. In addition, the current account deficit of the balance of payments is estimated to have risen sharply; although this change in the current account was attributable, in part, to the unusually large investment for El Cajon and the liberalization of exchange restrictions, it also reflected expansionary financial policies.

Despite a strong improvement in tax collections, the central government deficit is estimated to have risen from 10 percent of GDP in 1983 to 11 1/2 percent in 1984, reflecting a sharp increase in investment spending and defense-related outlays.

Following three years of very sluggish growth, central government revenues increased by an estimated 21 percent in 1984. The improvement in revenue performance was due to a combination of factors, including higher duty collections because of the rise of imports, the effects of tax measures introduced in May 1984, and some improvements in tax administration. The measures introduced in May 1984 included a 5 percent customs service charge on imports, an extension of the base of the sales tax, and increases in the stamp tax on legal documents, car registration fees, and the tax on public entertainment; these measures are estimated to have yielded around L 35 million in 1984, or the equivalent of about 1 percent of GDP on an annual basis. The improvement in tax administration, including the collection of customs duties in arrears, yielded about L 40 million.

Total expenditures rose by an estimated 24 percent in 1984, reflecting a more than 60 percent increase in capital outlays associated with the El Cajon hydroelectric project. Current expenditures also grew faster than nominal GDP, as large increases in defense spending and interest payments more than offset a decline in current transfers.

Although the Government's overall deficit in 1984 was higher than in 1983, a large portion of the deficit was covered by development loans from multilateral agencies and U.S. budgetary assistance, thereby reducing the need for domestic financing below that of 1982-83. Domestic bank credit to the public sector rose by an estimated 4 1/2 percent in 1984, compared with an increase of 11 1/2 percent in 1983.1/ However, the growth rate of financial savings decelerated, in part because of the relaxation of exchange controls, while private sector demand for credit grew at a faster pace. The rise in credit to the private sector also was stimulated by the policy pursued by the Central Bank. Although the average legal reserve requirement was raised from 28 percent to 32 percent in a series of monthly steps during the second half of 1984, the contractionary impact of this measure was more than offset by a sharp increase in central bank lending to the rest of the banking system. This development reflected an increase in borrowing by certain

1/ In relation to the stock of bank liabilities to the private sector at the beginning of each year.

official financial institutions, which encountered financial difficulties, as well as a rise in lending to private banks which may have been induced by a drop in the rediscount rate in December 1983 from 13 percent to 11 percent.

The current account deficit in the balance of payments is estimated to have widened from 8 percent of GDP in 1983 to 12 1/2 percent in 1984, as a sharp increase in imports more than offset a 6 percent growth in exports resulting from higher coffee prices and a recovery of banana production. Imports grew by an estimated 18 percent because of the acceleration of work on the El Cajon project and the effect of the relaxation of exchange restrictions in late 1983 that was made possible by the increased availability of foreign exchange. The current account deficit was financed mostly by larger disbursements of development loans, debt relief, and balance of payments assistance from the United States. Despite the increase in net capital inflows from 6 percent of GDP in 1983 to 11 1/2 percent in 1984, the overall balance of payments showed a deficit estimated at US$33 million in 1984.

III. Prospects and Policy Discussions

In view of the weakness of Honduras' external position, policy discussions focused on the measures which could be expected to restore viability to the balance of payments. In these discussions, the staff was mindful of the recommendations of the Executive Directors in the summing up of the 1983 Article IV consultations regarding the role which a prudent fiscal stance and a more flexible exchange rate policy could play in Honduras' stabilization efforts.

The Honduran authorities acknowledged that serious imbalances existed and that efforts to improve the financial situation were necessary. However, they also were of the view that growth of the economy had to be spurred in order to ease the social and political tension arising from high unemployment. They therefore felt that there was only limited scope for an intensification of the stabilization effort in 1985. In their view, the pursuit of the dual objectives of economic growth and financial stability would be facilitated by external assistance. Although the amount of external assistance, mainly from the United States, that is likely to be available during 1985 is currently being reviewed, the authorities estimated that it could be as much as US$160 million, or one third of the projected deficit in the current account of the balance of payments.

1. Fiscal policy

Staff projections suggested that the fiscal situation might very well deteriorate in 1985. On the basis of the recently approved budget for 1985 (adjusted to include extrabudgetary expenditures), the central government deficit is projected to remain virtually unchanged as a ratio to GDP (i.e., about 11 percent). In contrast to 1984, however, the deficit would result mainly from a sharp increase in current expenditures in the face of a sluggish revenue performance; capital expenditures are expected to decline substantially because spending for the El Cajon hydroelectric project will be diminishing. As a result, the current account deficit in government operations is expected to exceed 4 percent of GDP and, in the absence of extraordinary budget support from abroad, the domestic financing requirement could rise to as much as L 430 million (6 percent of GDP), or twice the estimated amount of domestic financing in 1984.

Revenues are estimated to grow by 7 percent in 1985, which would be somewhat less than the projected growth in nominal GDP, reflecting the disappearance of certain nonrecurrent revenues and the effects of a slowdown in import growth on import duty collections. The authorities recognized the lack of buoyancy in Honduras' tax system and its heavy dependence on import duties, which account for over one third of total tax receipts. The authorities recalled that a tariff reform proposal had been submitted to the National Assembly in 1982, providing for the adoption of the Brussels Tariff Nomenclature, the conversion of duties from a specific to an ad valorem basis, and a rationalization of the tariff structure. However, such a proposal would now need to be altered in the light of ongoing negotiations for the revision of the common external tariff within the Central American Common Market (CACM).1/ The authorities were of the view that the first two elements of the reform might be adopted in 1985, but consideration of the change in the tariff structure would need to be postponed.

Current expenditures are projected to increase by about 22 1/2 percent in 1985, reflecting the upward trend in defense spending and interest payments, expenditures related to the elections scheduled for November, and higher salaries for public school teachers. After being frozen for the last several years, teachers' salaries were raised in 1984 and another increase is due in 1985. Interest payments on government debt have increased from less than 1 percent of GDP in 1979 to a projected 3 percent in 1985, owing mainly to the large increase in the domestic bonded debt in recent years.

In addition to the increase in current expenditure, the budget of the Central Government is likely to continue to be strained by large transfers to the rest of the public sector in order to cover interest obligations and investment outlays of certain public entities. Several entities, most notably the National Investment Corporation (CONADI), have been experiencing financial difficulties as a result of unprofitable ventures, and since 1981 the Central Government has paid the interest due on their foreign commercial liabilities. In 1985 the amount of transfers for interest payments is estimated at L 62 million (nearly 1 percent of GDP), including transfers to cover past due interest

1/ Although Honduras withdrew formally from the CACM in 1969, it participates in the CACM through multilateral and bilateral agreements with each member country of the CACM.

owed by the Olancho Industrial Forestry Corporation (CORFINO), a large sawmill that began operation in 1984. The authorities noted that, as envisaged in the Fund's last stand-by program, CONADI has received technical assistance from the World Bank, which has led to the divesture of several of its enterprises and the adoption of a number of measures to improve its management. Also, CORFINO is reviewing options to improve its profitability, including the construction of a pulp and paper plant which would make use of the by-products of the sawmill operations.

Public enterprises in general have come to rely to a significant extent on transfers and loans from the Central Government, as the share of investment outlays of the state enterprises financed by internally generated funds has declined in recent years because of both a rise in investment and a weakening in savings performance. Furthermore, several enterprises have been unable to make transfers to the Central Government, as required by law, because of financial difficulties. The authorities said that it was their intention to seek an improvement in the performance of enterprises through tariff adjustments and expenditure restraint. In this connection, they noted that the role of the Superintendency of Autonomous Agencies was being strengthened to exercise tighter control over spending by the public enterprises.

2. Monetary policy

The authorities agreed with the staff that the management of monetary policy in 1985 would be difficult if substantial financing had to be provided to the public sector while deposit growth in the financial system slowed further.

In discussing the means for strengthening credit control, the authorities said that they would review the level of rediscount rates and would explore the possibility of setting a limit on the total volume of rediscount operations in 1985; emphasis also would be given to channeling the credit available into high priority activities such as exports and housing. The authorities observed that rediscount policy in 1984 had been expansionary in part because of large overdrafts by the Agricultural Development Bank (BANADESA); BANADESA had suffered difficulties as the result of a poor loan portfolio, which included overdue claims on CONADI and CORFINO. The authorities felt that the financial problems of BANADESA would be alleviated in 1985 as a result of the projected improvement in the financial situation of CONADI. The authorities also expected to finance a significant share of central bank credit expansion to the rest of the banking system in 1985 with an increased use of long-term foreign loans.

The authorities reiterated their commitment to a flexible interest rate policy, their objective being to maintain rates that are positive in real terms. Although there is a ceiling of 19 percent on lending rates, the actual level of interest rates for both loans and deposits is determined essentially by market forces. At present, with a rate of inflation of about 6 percent a year, most interest rates in the banking system are positive in real terms; the effective lending rate is on the order of 16 percent, while the average rate on six-month time deposits is around 11 percent. Deposit rates have come to reflect the high interest rates prevailing for government obligations, the bulk of which are short-term notes yielding 10 percent interest.

3. Price and wage policy

The authorities attributed the slowing of inflation in 1984 in large part to an exceptionally good harvest and the increased availability of imported goods with the relaxation of exchange controls. In addition, they pointed out that price controls were intensified in July 1984 in order to avert price increases that might have been prompted by the tax measures of May 1984. Price controls, which prior to July 1984 applied to 14 essential items, were extended to cover an additional 63 items, including food, clothing, educational materials and construction goods. The authorities emphasized nevertheless that their general policy was to allow prices to be set in accordance with market forces; for this reason, they planned to return to the pre-July 1984 price control arrangements in 1985.

Wage settlements in the private sector are determined essentially by collective bargaining. The Government's influence on private sector wage trends stems from its minimum wage policy and the example shown by wage developments in the public sector. The authorities expected to continue to use these channels to encourage moderation in wage settlements in the private sector. Although teachers have received salary increases recently, the Government has kept the nominal wages of many of its other employees roughly constant since 1981. Also, minimum wages set by the Government have remained unchanged since 1981. Although there are no comprehensive data, partial information indicate that private sector wage increases have been moderate in the recent past, reflecting in part the high level of unemployment.

4. External sector policies and medium-term outlook

A review of the short-term balance of payments prospects suggested that the current account deficit would remain close to 12 percent of GDP in 1985. Exports would grow only moderately as increases in the volume of coffee and bananas would be accompanied by virtually stable international prices. On the assumption that restrictions are not changed further, imports were projected to grow by 10 percent, or slightly faster than nominal GDP. On this basis, the current account would show a deficit of nearly US$420 million. External financing for projects can be expected to decline in 1985 as El Cajon nears completion. In these circumstances, and in the absence of any special assistance from abroad, the overall financing gap would be on the order of US$170 million.

The authorities recognized that the external position would be under serious pressure in 1985, but felt that the balance of payments situation could be managed by a combination of foreign assistance (mainly from the United States) and some action to restrain demand. The authorities also said that it was their intention to retain the existing exchange restrictions until the foreign exchange situation improved.

In addition to the existence of restrictions on current payments, Honduras has accumulated arrears on external debt service and import payments. As of end-October 1984, arrears on external debt service amounted to an estimated US$137 million, which included amounts owed to both foreign commercial banks and bilateral creditors. On the basis of deposits for arrears, trade arrears of the private sector amounted to US$25 million at end-October 1984.

In summary, the restrictions on payments and transfers for current international transactions that are presently subject to Fund approval under Article VIII, Section 2(a) include: (1) exchange restrictions on import payments involving the use of official foreign exchange; and (2) external payments arrears.

Subsequent to the consultation discussions, the authorities informed the staff that in December 1984 they concluded an agreement in principle to reschedule debts with foreign commercial banks. The agreement involves two stages: first, all principal repayments due from 1981 to 1985, amounting to US$149 million, would be temporarily rescheduled through the end of 1985; then, as of end 1985, all maturities owed to foreign commercial banks, including those falling due from 1986 to 1989, would be converted into a medium-term obligation to be repaid in the period 1988-95. One of the conditions for making the conversion effective at the end of 1985 is that Honduras enter into a stand-by arrangement with the Fund.

The Fund staff reviewed with the authorities the medium-term outlook for the balance of payments, including the question of exchange rate policy. In view of the persistent weakness in the balance of payments, it was agreed that the objectives of economic policy over the medium term should be the strengthening of the external position, to facilitate the attainment of economic growth; it was noted in this connection that the population was growing by about 3 percent a year.

On the assumption that net capital inflows (development loans and long-term private capital) would return to their historical level of 6 percent of GDP by 1989, a sustainable balance of payments position would require that the current account deficit decline to 5 1/2 percent of GDP by 1989, leaving room for a moderate improvement in net international reserves (Table 6). Allowing for an increase in imports consistent with a moderate economic recovery, achievement of the current account target just mentioned would require that exports grow, on average, by 15 percent a year in nominal terms. Alternatively, lower export growth would necessitate a compensating squeeze of imports.

Table 6. Honduras: Medium-Term Outlook

	1983	Est. 1984	Projected 1985	1986	1987	1988	1989
	(In millions of U.S. dollars)						
Balance of payments							
Current account	-234	-396	-416	-320	-310	-289	-268
Exports, f.o.b.	(694)	(738)	(775)	(983)	(1,121)	(1,281)	(1,453)
Imports, c.i.f.	(-814)	(-956)	(-1,047)	(-1,151)	(-1,266)	(-1,393)	(-1,532)
Other	(-114)	(-178)	(-144)	(-152)	(-165)	(-177)	(-189)
Capital account	184	363	416 1/	340	330	314	293
Overall balance	-50	-33	--	20	20	25	25
External debt							
Outstanding debt 2/	1,848	2,144	2,412	2,641	2,857	3,072	3,252
Debt service 3/							
Total	213	190	219	277	294	306	327
Interest	(101)	(125)	(131)	(144)	(156)	(168)	(181)
Principal	(112)	(65)	(88)	(133)	(138)	(138)	(146)
Excluding IMF	200	177	193	225	249	284	313
Interest	(88)	(114)	(120)	(135)	(151)	(165)	(180)
Principal	(112)	(63)	(73)	(90)	(98)	(119)	(133)
	(As a percent of GDP)						
Current account	-7.9	-12.4	-12.0	-8.5	-7.5	-6.5	-5.5
Capital account	6.2	11.4	12.0 3/	9.0	8.0	7.0	6.0
Overall balance	-1.7	-1.0	--	0.5	0.5	0.5	0.5
Outstanding debt	62.7	67.1	69.6	69.9	69.4	68.5	66.6
	(As a percent of exports of goods and services)						
Debt service							
With rescheduling	26.1	22.2	24.1	24.7	23.3	21.5	20.5
Interest	(12.4)	(14.6)	(14.6)	(13.1)	(12.6)	(12.0)	(11.5)
Principal	(13.7)	(7.6)	(9.5)	(11.6)	(10.7)	(9.5)	(9.0)
Without rescheduling	26.1	24.5	25.9	26.0	22.6	19.0	17.9
Interest	(12.4)	(13.1)	(12.5)	(10.9)	(10.4)	(10.1)	(9.9)
Principal	(13.7)	(11.4)	(13.4)	(15.1)	(12.2)	(8.9)	(8.0)

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

1/ Assumes that the projected current account deficit would be fully financed by capital inflows, including disbursements of extraordinary foreign assistance.
2/ Public and publicly guaranteed external debt repayable in local and foreign currency with a maturity of over one year.
3/ Debt service takes into account impact of proposed rescheduling. Interest includes interest on short-term debt.

Even with rapid growth in exports, the debt service ratio would remain high through 1987 and would begin to decline only in 1988. This result highlights the need to maintain a cautious policy in respect of the use of external credits. At the end of 1983 Honduras' external debt amounted to US$1.8 billion, or more than 60 percent of GDP. Debt service, on a contractual basis, was equivalent to 26 percent of exports of goods and services in 1983, and in 1984 the debt service ratio (excluding the impact of recent rescheduling) is estimated at 24 1/2 percent. The relief of obligations due in 1984 and 1985 owed to foreign commercial banks would reduce the debt service ratio to 22 percent in 1984 and 24 percent in 1985. The debt service ratio would remain close to 24 percent until 1987, mainly because of large repurchase obligations to the Fund in 1986 and 1987, but it would fall to around 21 percent by 1988-89. Interest payments would decline gradually from 14 1/2 percent of exports of goods and services in 1985 to 11 1/2 percent in 1989.

The authorities agreed that strong export growth would be essential to strengthen the country's external position and to stimulate growth in output. The staff pointed out that these objectives would require not only prudent demand management but also adjustment in other policies, including a more active exchange rate policy. In real effective terms, the lempira appreciated by 24 percent from the average for 1978 to September 1984, mainly due to the strengthening of the U.S. dollar to which the lempira is pegged (Chart 1). The real appreciation of the lempira appears to have been a factor behind the sluggish performance of exports. External pressures have contributed to the development of an unofficial parallel market, where the value of the lempira currently fluctuates in the range of L 2.50-2.70 per U.S. dollar, compared with the official rate of L 2.00 per U.S. dollar.

Against this background, the staff stressed the beneficial effects that could be expected from an adjustment in the external value of the lempira; it emphasized in particular the role of exchange rate action in achieving a stronger balance of payments without excessive costs in terms of output and employment. The Honduran authorities recognized that an exchange rate adjustment could potentially aid export growth, but they were concerned about the effects of a devaluation of the lempira on prices and wages. They also emphasized the uncertain political consequences of an adjustment in the exchange rate, which has remained pegged to the U.S. dollar for more than 50 years.

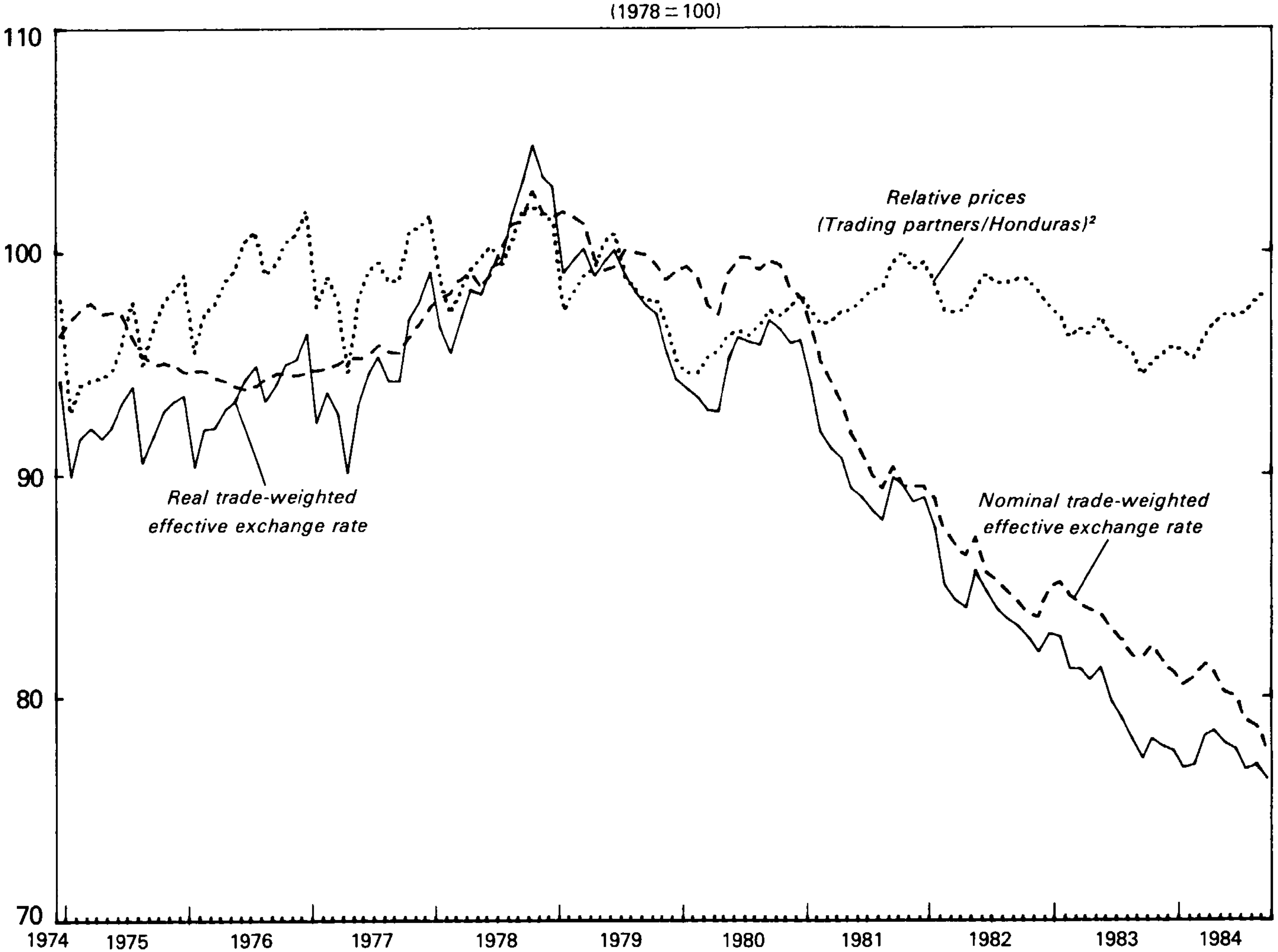
For these reasons, the authorities preferred to use at the present time a more selective approach to the promotion of nontraditional exports. In this connection, they referred to a recent export incentive law which provides for a rebate of indirect taxes, an exemption from the 1 percent export tax, and an export promotion fund for nontradational goods. In addition, they indicated that a second free zone will be opened shortly to help promote exports.

CHART 1

HONDURAS

EFFECTIVE EXCHANGE RATE INDICES, 1974-1984[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 were based on the average distribution of export and import trade in 1980(excluding oil).

[2] Relative price levels were measured by consumer price indices.

V. Staff Appraisal

The economic and financial situation of Honduras has deteriorated since 1979, reflecting political and economic difficulties in the Central American region, the worldwide recession, and the lack of timely domestic adjustments, particularly in the fiscal area. Efforts were made in 1982-83 to strengthen the external position within the framework of a stabilization program supported by the Fund. However, performance under this program was below expectations, mainly because of slippages in fiscal performance. In order to limit the decline in net international reserves, the authorities turned to the use of restrictions.

The financial situation continued to be weak in 1984. The overall deficit of the Central Government rose despite a significant increase in revenues. Monetary conditions also deteriorated as a result of a slowdown in the growth of private financial savings and an increase in bank credit. Although capital inflows rose sharply, the widening of the deficit in the current account of the balance of payments is estimated to have resulted in a substantial overall payments deficit. In contrast with previous years, in 1984 there was an increase in output and a decline in the rate of inflation. There is a question, however, about the durability of these gains, inasmuch as the results of 1984 reflected an exceptionally high level of public investment associated with the El Cajon hydroelectric project, the sharp increase in the supply of imported goods, and an unusually good harvest of basic grains.

Based on current trends and fiscal prospects, there is a serious risk that the financial situation will deteriorate further in 1985. While it is possible that the external difficulties will be eased temporarily by foreign assistance, it remains that Honduras needs to undertake strong adjustment efforts to strengthen its external position over the medium term if it is to achieve a satisfactory economic growth on a sustainable basis. The staff would emphasize that foreign assistance should be relied upon mainly to bridge the time required for adjustment efforts to yield their positive effects on production and exports.

The strengthening of fiscal performance will be crucial for the improvement of the external position. On the revenue side, the staff welcomes the recent improvement in tax administration and encourages the authorities to continue these efforts. However, it is unlikely that actions along this line alone would generate resources sufficient to eliminate the fiscal gap, particularly in view of the lack of tax buoyancy. Therefore, further efforts are needed to raise tax revenues from domestic sources. Measures that might be taken include an increase in the scope and rate of consumption taxes, as well as reform of the income tax.

On the expenditure side, there is obviously a need to restrain current expenditures. This effort would be aided by the continuation of a restrained wage policy. Effective control over expenditures will require close monitoring of the operations of the rest of the public sector (particularly the public enterprises) in order to diminish the need for budgetary transfers. More effective management, as well as the adoption of realistic pricing policies, will be required to improve the savings performance of the public enterprises.

The recent weakening of performance in the monetary and credit field reflected in part the effects of the relaxation of exchange restrictions in late 1983, but it was also a consequence of the credit policy pursued by the Central Bank. The staff welcomes the authorities' intention to restrain credit expansion in 1985, and would note that an increase in the rediscount rate would help to contain credit demand. The staff also supports the authorities' stated policy of keeping interest rates positive in real terms.

Policies of demand restraint should be accompanied by corrective actions in the exchange and trade area. Given the need to strengthen export growth and the widening of the gap between the official and the parallel market rates, the staff believes that exchange rate flexibility should play an important role in the adjustment effort. A selective approach to promote exports, as has been recently proposed by the authorities, is not only unlikely to provide a large enough incentive to foster export growth but also may introduce further distortions in resource allocation.

The staff recognizes the effort made by Honduras to regularize its debt situation with foreign commercial banks, and it believes that the recent rescheduling agreement should make the debt burden more manageable. The staff remains concerned, however, about the continuing arrearages on import payments and on debt service to various bilateral creditors. The staff would stress the importance of eliminating all arrears to help restore the creditworthiness of the country.

In recent years the authorities have used exchange restrictions to contain pressures on the balance of payments. Although these restrictions recently have been partially eased, there are still administrative controls which not only interfere with an efficient allocation of resources but also create uncertainties that may discourage foreign and domestic investment. The staff would urge the authorities to remove these exchange restrictions promptly and to adopt measures which would prevent their re-emergence. In the absence of a well-defined adjustment policy which would facilitate their removal, the staff does not recommend approval of Honduras' exchange restrictions.

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

Honduras - Fund Relations
(As of December 31, 1984)

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 (General Resources Account)

(a) Quota: SDR 67.8 million

	Millions of SDRs	Percent of Quota
(b) Fund's currency holdings	206.2	304.1
(c) Fund's credit	138.4	204.1
From Fund Resources:	(102.1)	(150.6)
Credit tranche purchases (including SBA)	/36.1/	/53.2/
CFF purchases	/46.4/	/68.4/
EFF purchases	/19.6/	/28.9/
From Supplementary and Enlarged Access Resources	(36.3)	(53.5)
Stand-by purchases	/36.3/	/53.5/
(d) Reserve tranche position	/--/	/--/

III. Stand-by or External 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:	19.057	100.0
(b) Holdings:	0.16	0.8
(c) Current Designation Plan:	None	--

V. Administered Accounts

(a) Trust fund loans

(1) Disbursed SDR 14.07 million

(ii) Outstanding SDR 14.07 million

B. Nonfinancial Relations

VI. Exchange Rate Arrangement

The currency of Honduras is the Honduran Lempira, which is pegged to the U.S. dollar at L 2=US$1. There are no taxes or subsidies on purchases or sales of foreign exchange. Payments for imports with official foreign exchange are restricted.

VII. Last Article IV Consultation

The last Article IV Consultation with Honduras was concluded by the Executive Board on November 21, 1983 (EBM/83/158).

VIII. Technical Assistance

CBD: Since September 1982 the Central Banking Department has been providing technical assistance to the Central Bank of Honduras in the area of bank supervision.

IX. Resident Representative/Advisor

The resident representative post has been vacant since December 1982.

Honduras - Basic Data

Area and population	
Area	112,088 sq. kilometers
Population (mid-1984)	4.1 million
Annual rate of population increase (1980-84)	2.8 percent
GDP (1984)	SDR 3,107.3 million
	US$3,193.5 million
	L 6,387.0 million
GDP per capita (1984)	SDR 758

	1981	1982	1983	Est. 1984
		(percent)		
Origin of GDP				
Agriculture and mining	30.1	29.7	29.7	29.7
Manufacturing	15.3	15.0	15.3	15.4
Construction	5.5	6.0	6.1	6.7
Transport, communications, and utilities	10.3	10.2	10.2	10.2
Commerce and banking services	18.3	17.8	17.9	18.2
Other	20.5	21.3	20.8	19.8
Ratios to GDP				
Exports of goods and nonfactor services	33.5	27.5	27.1	26.5
Imports of goods and nonfactor services	40.1	30.5	30.8	33.2
Current account of the balance of payments	-11.4	-9.2	-7.9	-12.4
Central government revenues	14.0	13.8	13.2	14.8
Central government expenditures	21.5	23.8	23.0	26.3
Central government current account deficit (-)	-1.0	-2.0	-3.2	-1.8
Central government overall surplus or deficit (-)	-7.5	-10.0	-9.8	-11.5
External public and government-guaranteed debt (end of year) 1/	51.6	56.8	62.7	67.1
Gross national savings	11.2	9.8	9.1	9.5
Gross domestic investment	22.6	19.0	17.0	21.9
Money and quasi-money (end of year)	28.2	31.2	34.5	34.4
Annual changes in selected economic indicators				
Real GDP per capita	-1.6	-4.5	-3.2	--
Real GDP	1.2	-1.8	-0.5	2.8
GDP at current prices	6.4	5.5	5.5	8.4
Domestic expenditure (at current prices)	5.7	1.8	6.2	11.6
Gross domestic investment	(-8.3)	(-11.1)	(5.8)	(39.9)
Consumption	(10.1)	(5.3)	(9.0)	(6.0)
GDP deflator	5.3	7.3	6.1	5.5
Consumer prices (annual averages)	9.4	9.4	8.9	6.0
Central government revenues	-2.5	3.9	1.3	21.3
Central government expenditures	-0.2	16.7	2.3	23.9
Money and quasi-money	9.9	16.6	16.7	8.4
Money	(4.5)	(10.6)	(14.3)	(6.4)
Quasi-money	(14.3)	(21.1)	(18.4)	(9.7)
Domestic bank credit 2/	24.0	32.3	17.6	16.1
Credit to public sector (net)	(8.6)	(15.7)	(11.7)	(4.4)
Credit to private sector 3/	(8.1)	(12.6)	(8.4)	(12.5)
Merchandise exports (f.o.b., in U.S. dollars)	-7.8	-13.7	2.6	6.3
Merchandise imports (c.i.f., in U.S. dollars)	-6.2	-21.5	6.3	17.5

Central government finances	1981	1982	1983	Est. 1984
	(millions of lempiras)			
Revenues	741.0	770.0	780.0	946.0
Expenditures	1,138.0	1,328.0	1,358.0	1,682.0
Current account deficit (-)	-51.0	-110.0	-191.0	-115.0
Overall deficit (-)	-397.0	-558.0	-578.0	-736.0
External financing (net)	248.0	251.0	316.0	531.0
Domestic financing (net)	149.0	307.0	262.0	205.0
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	783.8	676.5	694.2	738.1
Merchandise imports (c.i.f.)	-975.5	-765.7	-814.3	-956.4
Investment income (net)	-43.7	-45.0	-30.0	-60.0
Other services and transfers (net)	-67.5	-122.9	-83.7	-117.2
Balance on current and transfer accounts	-302.9	-257.1	-233.8	-395.5
Official capital (net)4/	160.2	126.1	192.3	310.0
Financial system capital (net)4/	-7.3	-1.4	-9.4	33.2
Debt relief	--	--	--	31.6
Private capital (net)5/	30.1	-32.1	0.6	-12.3
Overall balance (deficit -)	-119.9	-164.5	-50.3	-33.0
Net official international reserves (increase -)	106.5	121.1	3.1 6/	--
External payments arrears	13.4	43.4	47.2	33.0

International reserve position	1981	1982	1983	Est. 1984
	(millions of SDRs)			
Central Bank (gross)	101.9	124.7	122.4	130.0
Central Bank (net)	8.9	-100.4	-80.1	-83.2
Rest of banking system (net)	-16.8	-20.5	-29.2	-40.1

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 balance of payments assistance.
5/ Includes net errors and omissions.
6/ A US$30 million short-term foreign liability of the Central Bank, which was converted into a medium-term liability, is treated as a short-term liability.

Honduras - Statistical Issues

1. Coverage, currentness, and reporting of data in IFS

		Latest Date in Dec. 1984 IFS
Real Sector	- National Accounts	1983
	- Prices	July 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	July 1984
	- Financing	July 1984
	- Debt	June 1984
Monetary Accounts	- Central Bank	June 1984
	- Deposit Money Banks	May 1984
	- Other Financial Institutions	May 1984
External Sector	- Merchandise Trade: Values	September 1983
	- Merchandise Trade: Prices	September 1983
	- Balance of Payments	1983
	- International Reserves	October 1984
	- Exchange Rates	October 1984

During the past year, the reporting of data for inclusion in the *IFS* has been reasonably satisfactory.

2. Outstanding statistical issues

a. Government finance

The *Government Finance Statistics Yearbook* presentation for Honduras covers only the operations of the Central Government. Data for extra-budgetary accounts and social security funds are omitted.

b. Monetary accounts

Although money and banking data for *IFS* are received on a timely basis, the Government sector is not clearly defined in the accounts.

c. Merchandise trade

The trade data in *IFS* are not reported on a current basis.