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December 30, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Honduras - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Honduras.

It is proposed to bring this subject to the agenda for discussion on Monday, January 27, 1986.

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 1985 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

December 26, 1985

Contents | Page

I. Introduction

The 1985 Article IV consultation discussions with Honduras were held in Tegucigalpa during the period October 22-November 5, 1985. The Honduran representatives included 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 staff representatives were R. A. Elson (Head-WHD), E. Croce (INST), M. Figuerola (WHD), G. Pastor (EP-WHD), N. Weerasinghe (ETR), and C. Diaz (Secretary-STAT). Mr. Perez, 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 1984 and the staff papers (SM/85/22 and SM/85/26) were considered by the Executive Board on February 11, 1985 (EBM/85/21). In the summing up of the 1984 Article IV consultation, the Chairman noted that, notwithstanding recent gains made by Honduras in the reduction of inflation and the recovery of economic growth, Honduras' underlying financial position remained weak. Emphasis was placed on the need for a reduction in the overall fiscal deficit, a curtailment of central bank credit expansion, and more flexibility in exchange rate management.

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 1984

An erosion of confidence associated with mounting political instability in the Central American region, the decline in primary commodity prices, and the failure to adjust domestic policies on a timely basis resulted in a substantial deterioration in Honduras' economic and financial position in the period 1980-82. During this period 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. 1/

In an effort to halt the deterioration in Honduras' external position, the authorities framed an adjustment program during 1982 which

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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 program targets.

was supported by a stand-by arrangement covering the period from November 1982 through December 1983. The main objective of the program was to strengthen fiscal performance as a means of reducing the external disequilibrium. With the support of increased concessional foreign assistance and commercial bank debt relief, this effort was expected to produce approximate equilibrium in the overall balance of payments and to eliminate external payments arrears during 1983. Honduras' performance under the program was generally poor, mainly due to slippages in the fiscal area, which led to reliance on import restrictions as a means of containing the pressures of the fiscal imbalance on the balance of payments. 1/ The imposition of import restrictions created supply bottlenecks which exacerbated the domestic recession and unemployment and contributed to a domestic inflation rate significantly above that prevailing in Honduras' trading partners. The latter phenomenon, together with an appreciation of the U.S. dollar to which the lempira is pegged, led to an erosion in external competitiveness; during the period 1980-83, the lempira appreciated in real effective terms by around 20 percent (Chart 1).

In 1984 output rose for the first time since 1981 (Table 1). Real GDP grew by about 3 percent on the basis of a sharp increase in investment--related to the final construction phase of a large hydroelectric project (El Cajon) and the rebuilding of inventories by the private sector--as well as a strong growth in exports after a declining trend of three years. At the same time, the 12-month rate of inflation dropped from approximately 8 percent at the end of 1983 to 3 3/4 percent at the end of 1984 as a result of a good harvest of basic grains and a strong growth in imports, associated with a partial relaxation of restrictions and the continued real effective appreciation of the lempira (about 3 percent).

Tax collections increased significantly in 1984, after three years of virtually no growth, reflecting the economic recovery as well as new measures taken at midyear. In May 1984 the authorities introduced a 5 percent customs service charge on imports, extended the base of the sales tax, and increased the stamp tax on legal documents. These measures yielded an estimated L 53 million, or the equivalent of about 1 percent of GDP on an annual basis. Despite the better tax effort, the overall fiscal deficit remained virtually unchanged in 1984 at 12 percent of GDP because of a large increase in expenditure (Table 2). Public expenditure rose substantially because of work on the El Cajon hydroelectric project, an increase in defense-related outlays, and larger interest payments on the public debt (including arrears of the National Development Corporation (CONADI), an official bank which administers several loss-making enterprises). However, the domestic financing requirement of the public sector was reduced in 1984 because of large disbursements of development loans and budgetary support from the U.S. Government.

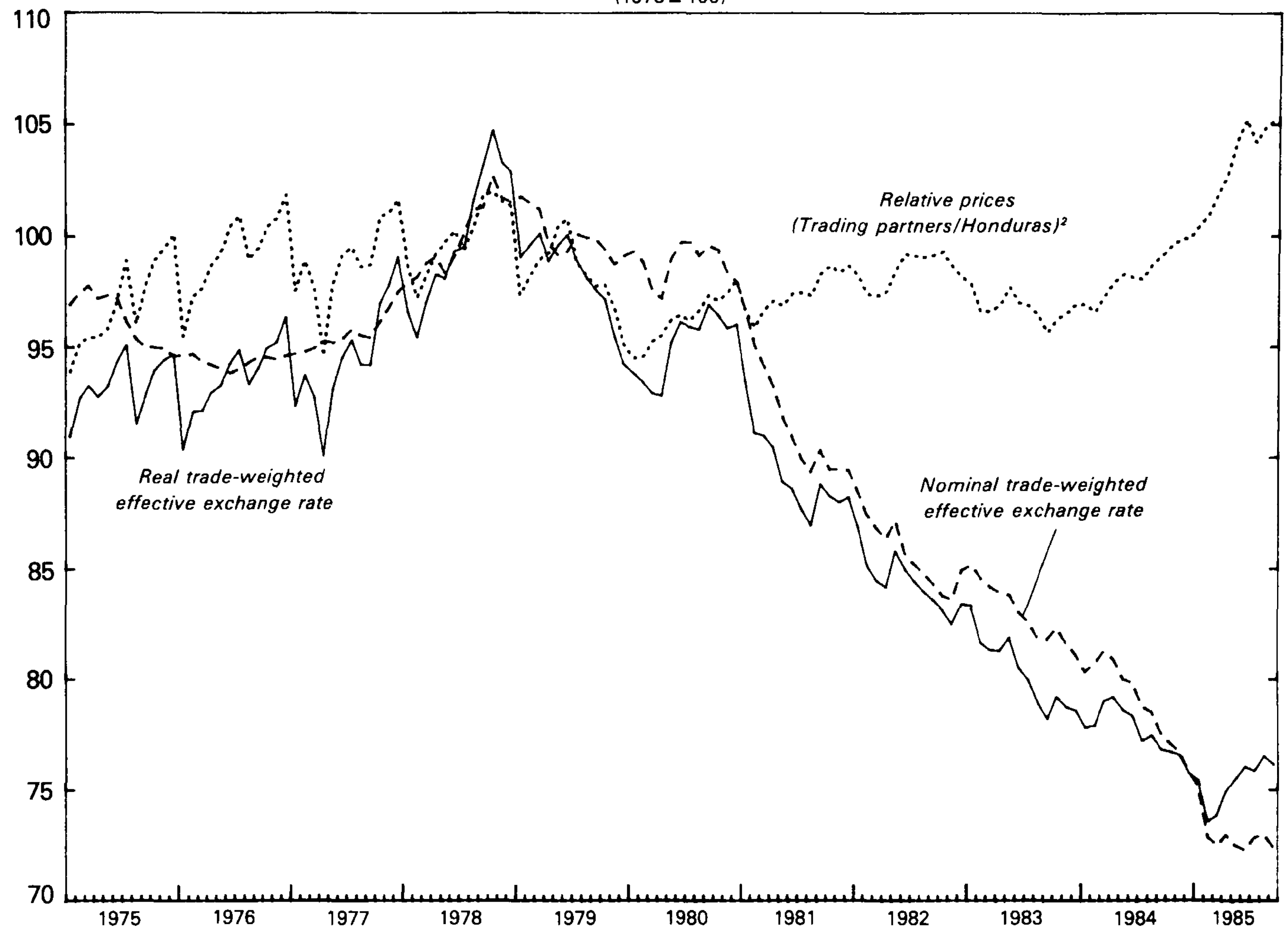
1/ Performance under the stand-by arrangement was described in detail in SM/85/22.

CHART 1

HONDURAS

EFFECTIVE EXCHANGE RATE INDICES, 1975-1985[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 and import trade in 1980(excluding oil).

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

Table 1. Honduras: Growth in Output and Prices

(Percentage changes)

	1981	1982	1983	1984	Est. 1985
Consumer prices					
End of year	9.2	8.9	7.8	3.7	4.0
Average annual	9.4	9.2	8.1	4.7	3.6
Real GDP	1.2	-1.8	-0.5	2.8	2.5

Source: Staff report on recent economic developments.

Notwithstanding the slowdown in domestic borrowing by the public sector, the expansion of overall bank credit remained strong in 1984 as credit to the private sector continued to grow at a brisk pace. Broad money growth, however, decelerated from around 15 percent in 1982-83 to 8 1/2 percent in 1984, in part because of a relaxation of exchange restrictions which facilitated a shift of financial savings into inventories of imported goods (Table 3). As a result, banks increased their recourse to central bank resources to finance credit expansion, in part encouraged by a reduction in the rediscount rate at the end of 1983. Faced with an increased demand for central bank resources, the authorities raised legal reserve requirements during the second half of 1984. In all, the banks' net position with the Central Bank deteriorated in 1984, in part because of large overdrafts by the Agricultural Development Bank (BANADESA) associated with an increase in nonperforming loans in its portfolio.

After two years of decline, the external current account deficit (excluding official grants) widened by about 2 percent of GDP to 11 percent of GDP in 1984 (Table 4). Exports (in U.S. dollar terms) rose by 7 percent, reflecting higher coffee prices and a recovery in banana production, but the trade account deteriorated because of a faster growth in imports related to investment in the El Cajon project and a partial relaxation of restrictions. Restrictions began to be relaxed at the end of 1983 with a streamlining of import control procedures and a decision to grant import licenses freely to importers using "own" exchange.

Net foreign capital inflows rose sharply in 1984, reflecting an increase in disbursements of development aid associated with the El Cajon project and financial assistance from the U.S. Government

Table 2. Honduras: Consolidated Operations of the Public Sector

	1981	1982	1983	Prel. 1984	Est. 1985
(In millions of lempiras)					
Total revenue	1,016	1,057	1,112	1,277	1,441
Tax revenue	801	825	826	1,019	1,136
Nontax revenue	204	205	257	271	291
Central Government	34	36	52	49	51
Rest of general government	84	99	119	129	132
Public enterprises 1/	86	70	86	93	108
Current transfers 2/	1	9	7	-28	12
Capital revenue	10	18	22	15	2
Total expenditure and net lending	1,486	1,700	1,834	2,026	2,016
Current expenditure	903	966	1,093	1,187	1,344
Capital expenditure	477	551	661	726	594
Fixed capital formation	419	510	612	708	566
Capital transfers	12	22	28	14	21
Other capital expenditure	46	19	21	4	7
Net lending	106	183	80	113	78
Current account surplus or deficit (-)	103	73	-3	75	95
Overall surplus or deficit (-)	-470	-643	-722	-749	-575
External financing (net)	320	269	386	585	385
Foreign assistance 3/	--	--	35	68	115
Domestic financing (net)	150	374	301	96	75
Banking system (net)	114	256	209	87	61
Other	36	118	92	9	14
(As percent of GDP)					
Total revenue	19.2	18.9	18.9	20.3	21.5
Tax revenue	15.1	14.7	14.0	16.2	16.9
Nontax revenue	3.9	3.7	4.4	4.3	4.4
Central Government	0.7	0.6	0.9	0.8	0.8
Rest of general government	1.6	1.8	2.0	2.0	2.0
Public enterprises 1/	1.6	1.3	1.5	1.5	1.6
Current transfers	--	0.2	0.1	-0.4	0.2
Capital revenue	0.2	0.3	0.4	0.2	--
Total expenditure and net lending	28.1	30.4	31.2	32.2	30.1
Current expenditure	17.1	17.3	18.6	18.9	20.1
Capital expenditure	9.0	9.8	11.2	11.5	8.8
Fixed capital formation	7.9	9.1	10.4	11.2	8.5
Capital transfers	0.2	0.4	0.4	0.2	0.2
Other capital expenditure	0.9	0.3	0.4	0.1	0.1
Net lending	2.0	3.3	1.4	1.8	1.2
Current account surplus or deficit (-)	2.0	1.3	-0.1	1.2	1.4
Overall surplus or deficit (-)	-8.9	-11.5	-12.3	-11.9	-8.6
External financing (net)	6.1	4.8	6.6	9.3	5.8
Foreign assistance 3/	--	--	0.6	1.1	1.7
Domestic financing (net)	2.8	6.7	5.1	1.5	1.1
Banking system (net)	2.1	4.6	3.6	1.4	0.9
Other	0.7	2.1	1.5	0.1	0.2

Sources: Staff report on recent economic developments.

1/ Operating surplus.
2/ Includes adjustments for the difference between transfers made and received.
3/ Special U.S. assistance for budgetary support.

Table 3. Honduras: Summary Banking System Operations

	1981	1982	1983	Prel. 1984	Est. 1985
	(In millions of lempiras)				
	I. Banking System				
Net foreign assets	-18.3	-266.7	228.9 1/	-312.4	-230.0 2/
Domestic assets	2,289.9	2,831.6	3,158.7	3,561.6	3,904.0
Credit to public sector (net)	492.2	748.2	957.4	1,044.0	1,105.0
Central Governmet	501.2	746.2	924.5	1,046.8	1,200.8
Rest of public sector	-9.0	2.0	32.9	-2.8	-95.8
Credit to private sector	1,589.7	1,802.6	1,966.4	2,177.9	2,460.0
Other	208.0	280.8	234.9	339.7	339.0
Medium and long-term foreign liabilities 3/	602.1	642.8	708.8 1/	838.5	1,093.0 2/
Liabilities to private sector	1,669.5	1,922.1	2,221.0	2,410.7	2,581.0
	II. Monetary Authority				
Net international reserves	20.8	-221.4	-167.7 1/	-241.8	-155.0 2/
Official reserves	20.8	-221.4	-167.7 1/	-186.3	-100.0 2/
Arrear deposits	--	--	--	-55.5	-55.0
Net domestic assets	311.7	564.4	559.7	666.2	607.7
Credit to public sector (net)	383.9	529.7	619.9	650.9	673.0
Central Government	313.8	464.4	530.6	576.9	628.0
Rest of public sector	70.1	65.3	89.3	74.0	45.0
Banks (net)	300.7	403.4	462.1	604.7	785.0
Medium- and long-term foreign liabilities 3/	-378.9	-422.8	-501.6 1/	-626.5	-878.0 2/
Other	6.0	54.1	-20.7	37.1	27.7
Currency issue	332.5	343.0	392.0	424.4	452.7
	(In percent of GDP)				
Banking system					
Domestic assets	43.3	50.7	53.6	56.6	58.4
Of which: credit to public sector	9.3	13.4	16.3	16.6	16.5
credit to private sector	30.0	32.3	33.4	34.6	36.8
Liabilities to private sector	31.5	34.4	37.7	38.3	38.6
	(Changes in percent) 4/				
Banking system					
Domestic assets	22.8	32.4	17.0	18.1	14.2
Of which: credit to public sector	7.4	15.3	10.9	3.9	2.5
credit to private sector	8.1	12.8	8.5	9.5	11.7
Liabilities to private sector	8.4	15.1	15.6	8.5	7.1

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/ *Includes SDR allocations and valuation adjustment.*
4/ With respect to the stock of liabilities to the private sector at the beginning of the period.

Table 4. Honduras: Summary Balance of Payments

	1981	1982	1983	Prel. 1984	Est. 1985
	(In millions of U.S. dollars)				
Current account	-321.5	-278.1	-260.9	-354.2	-367.9
Trade balance	-191.7	-89.2	-124.1	-174.9	-188.8
Exports, f.o.b.	783.8	676.5	698.7	745.7	805.4
Imports, c.i.f.	-975.5	-765.7	-822.8	-920.6	-994.2
Factor payments (net)	-153.4	-203.5	-158.7	-179.4	-193.0
Other services and transfers (net)	23.6	14.6	21.9	0.1	13.9
Capital account	201.6	113.6	210.6	308.5	338.5
Official transfers	18.6	56.0	41.1	94.0	141.0
Of which: U.S. AID 1/	--	35.0	18.0	68.0	115.0
Private capital 2/	30.1	-32.1	-3.5	-80.2	-9.5
Official capital	160.2	126.1	184.3	287.0	187.2
Financial intermediaries 3/	-7.3	-36.4	-11.3	7.7	19.8
Overall balance	-119.9	-164.5	-50.3	-45.7	-29.4
Rescheduled short-term to medium-term liabilities	--	--	30.0	--	34.8
Net international reserves (increase -)	106.5	121.1	-26.9	9.3	-43.4
Of which: Fund (net)	23.6	67.6	40.5	-1.7	-15.0
External arrears	13.4	43.4	47.2	36.4	38.0
	(As percent of GDP)				
Current account	-12.1	-10.0	-8.9	-11.3	-11.0
Trade balance	-7.2	-3.2	-4.2	-5.6	-5.6
Exports, f.o.b.	29.6	24.2	23.7	23.7	24.1
Imports, c.i.f.	-36.8	-27.4	-27.9	-29.3	-29.7
Factor payments (net)	-5.8	-7.3	-5.4	-5.7	-5.8
Other services and private transfers (net)	0.9	0.5	0.7	--	0.4
Capital account	7.6	4.1	7.2	9.8	10.1
Official transfers	0.7	2.0	1.4	3.0	4.2
Of which: U.S. AID 1/	--	1.2	0.6	2.2	3.4
Private capital 2/	1.1	-1.1	-0.1	-2.5	-0.3
Official capital	6.1	4.5	6.3	9.1	5.6
Financial intermediaries 3/	-0.3	-1.3	-0.4	0.2	0.6
Overall balance	-4.5	-5.9	-1.7	-1.5	-0.9
Rescheduled short-term to medium-term liabilities	--	--	1.0	--	1.0
Net international reserves	4.0	4.3	-0.9	0.3	-1.3
External arrears	0.5	1.6	1.6	1.2	1.2
Memorandum item					
Stock of trade arrears	...	...	...	27.8	27.8

Source: Staff report on recent economic developments.

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

amounting to US$68 million (compared with US$18 million in 1983). Despite the increase in official capital inflows, the overall balance of payments deficit remained virtually unchanged in 1984 at US$46 million, which was financed mainly by an increase in payments arrears.

2. Developments in 1985

The economic recovery that began in 1984 continued in 1985, albeit at a weak pace, while the rate of inflation remained low (around 3-4 percent). The growth in real GDP continued to reflect increases in trade volumes and an attendant growth in services, but it was not widely dispersed among economic sectors. Agricultural output for the domestic market did not increase in 1985, and there was a decline in the manufacturing sector reflecting weak domestic and regional demand. Domestic price behavior has reflected a continued inflow of imported goods, as well as low foreign inflation.

Fiscal performance improved during 1985 as a result of the tax measures introduced in mid-1984 and a decline in capital expenditure associated with the winding down of the El Cajon project. The current account position of the public sector improved only moderately in 1985 as the rise in current revenues was largely offset by an increase in current expenditure (especially at the central government level), because of rising interest payments on the public debt, higher military outlays and exceptional expenditures related to the national elections in November 1985. The overall public sector deficit is estimated to have declined from 12 percent of GDP in 1984 to about 8 1/2 percent of GDP in 1985, which is nearly the same as the estimated cutback in the public sector's investment outlays and net lending. Most of the deficit was covered by external resources, including US$57 million in budgetary support from U.S. AID.

Credit developments in 1985 were broadly similar to those in 1984. Total bank credit expansion was moderated in line with the reduction in the domestic borrowing requirement of the public sector. However, the growth in credit to the private sector continued to accelerate at a rate in excess of the growth in bank deposits and was made possible only by an increasing amount of central bank support financed by foreign borrowing abroad. The largest share of these foreign resources (US$57 million) came from U.S. AID (in addition to budgetary support for the same amount mentioned earlier), but other lines of credit (from the World Bank and Inter-American Development Bank) also were used.

In the external sector, a further move towards exchange liberalization was made in May 1985 with the establishment of a parallel exchange market outside the domestic banking system for trade transactions with the rest of Central America. As of that date, exporters to Central American countries were authorized to retain foreign exchange proceeds in deposits denominated in the currency of the country to which they export. These deposits could be used to pay for imports from the same country or could be transferred to other importers in exchange for lempiras at a freely negotiated rate. During the remainder of 1985, the amount of imports transacted through this scheme was rather limited, and the value of the lempira in bilateral exchange conversions with the other currencies of Central America fluctuated around L 2.6 per U.S. dollar (on an implicit basis). 1/

In 1985 the current payments deficit (excluding official transfers) is estimated to have remained virtually unchanged at around 11 percent of GDP. Exports rose by 8 percent, on the strength of a further recovery in banana exports, but this growth was matched by a similar expansion in imports largely related to a further rebuilding of private sector inventories. The current account deficit is estimated to have been nearly fully covered by net long-term official inflows, as a sharp decline in external loans associated with the completion of the El Cajon project was offset by a substantial increase in U.S. Government assistance to US$115 million (about 3 1/2 percent of GDP) and loans from international financial institutions intermediated through the Central Bank. An overall payments deficit estimated at around US$30 million was financed mainly by a further buildup of arrears on debt service payments to foreign commercial banks.

3. Relations with the World Bank

Honduras' financial relations with the World Bank Group are summarized in Appendix IV. As of September 30, 1985, total loan commitments to Honduras from the World Bank Group amounted to about US$590 million, of which US$71 million had been repaid and US$84 million remained to be disbursed. The power sector has been the most important recipient of IBRD/IDA credits (44 percent) reflecting the Bank Group's involvement in the financing of the El Cajon hydroelectric project (about US$125 million). Other sectors which have benefited from Bank financing include transport (22 percent), agriculture (12 percent) and ports (8 1/2 percent). In addition, the World Bank embarked on a technical assistance program to the National Investment Corporation (CONADI) during 1982-83. This technical assistance was initiated in the context of the last stand-by arrangement, and provided the basis for CONADI's divestiture program and a number of administrative improvements.

After reaching a peak in 1983-84, loan disbursements of the World Bank Group declined in 1985, reflecting the completion of the El Cajon project. Two loans totaling US$26.5 million for urban development were approved by the Bank in mid-1984 and mid-1985. In addition, the Bank is now working with the authorities on a loan of US$40 million to support financing of the industrial sector through the National Fund for

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1/ The official exchange rate is fixed at L 2 per US$1. There also is an informal exchange market (for transactions outside Central America) in which the value of the lempira fluctuates around L 2.7 per U.S. dollar.

Industrial Development (FONDEI). The Bank also is discussing possible loans for rural and agricultural development in the Guayape Valley and the expansion of Honduras' electrification system.

To lay the foundation for additional lending, a Bank economic mission visited Honduras in September 1985 to analyze long-term obstacles to growth. The report of the mission is expected to be discussed with the Honduran authorities early in 1986.

III. Summary of policy discussions

The consultation discussions were conducted shortly before presidential and congressional elections which took place on November 23, 1985. The policy discussions focused to an important extent on the adjustments required over the medium term to restore a balance of payments position that could be sustained without reliance on exchange restrictions or exceptional balance of payments support. As a guide to the future administration, the outgoing government had prepared a medium-term development strategy which was reviewed with the mission. The mission also examined with the authorities recent actions to liberalize the exchange system, as well as efforts to improve Honduras' domestic financial performance over the short run.

1. Domestic policies

The authorities were generally satisfied with the results of their financial policies in the last two years in the sense that both the domestic financing requirement of the public sector and the rate of overall bank credit expansion had been reduced significantly compared with the experience of 1980-83. In their view, the low rate of domestic inflation and the sustained pace of economic recovery achieved in 1984-85 were evidence of the success of their economic policies. While acknowledging the progress that had been made towards economic recovery and lower inflation, the staff stressed that the underlying financial position of Honduras was still weak, especially in view of its heavy dependence on external assistance in the last two years.

a. Fiscal policy

The authorities believed that the fiscal problem had become more manageable in the last year or so because of the strengthening of government tax revenue. They attributed the improvement in tax collections to the increased flow of imports that had been facilitated by the recent liberalization of restrictions and Honduras' increased access to foreign credits, the tax measures introduced in mid-1984 and better tax administration. They recognized, however, that the share of the tax burden on foreign trade (mainly imports) was high and that a substantial proportion (roughly half) of the revenue gain in the last two years was attributable to increases in taxes generated by imports. For this reason, they believed that one of the major fiscal issues which the new administration would have to address was the question of how the tax burden could be shifted more to domestic transactions. Such a reform would inevitably have to involve a broadening of the base of the sales tax and selective consumption duties, as well as efforts to reduce tax evasion.

One aspect of their efforts to improve tax administration highlighted by the authorities was the customs tariff reform, which involved the substitution of ad valorem for specific duties and the change in tariff nomenclature from the Nauca (regional) classification to the Brussels (BTN) system. This project had been under way for some time and had originally been part of a plan to revise the customs tariff primarily for purposes of raising government revenues. However, they explained that concern had been raised over the trade policy implications of such a plan and, as a result, it was decided to proceed with a technical reform of the customs tariff without altering its fundamental revenue yield. The authorities reported that they had had extensive consultations with private sector representatives from the commercial and industrial sectors and expected to submit the tariff reform proposal to the legislative assembly around the end of the year.

The authorities recognized that there were many rigidities on the side of government expenditure, especially for recurrent items such as defense and interest on the public debt. Extraordinary commitments for the preparation of the 1985 elections also were mentioned as a factor which inhibited expenditure control in the past. The authorities explained that the 1986 budget, which was expected to be approved before the end of 1985, limited overall expenditure to about the same level as budgeted for 1985. Within the total budget, investment spending was projected to fall, while current expenditure would increase with respect to the 1985 budget. A significant share of the increase in current expenditure, they explained, would be accounted for by an increase in public sector wages on the order of 6 percent, which would be the first such increase since 1982. On the assumption that government revenues would grow roughly in line with nominal GDP (about 8 1/2 percent), the overall government deficit implicit in the 1986 budget could be reduced to around 7 percent of GDP (compared with 9 percent of GDP in 1985).

In the rest of the public sector, the authorities considered the main problem to be how the efficiency of the nonfinancial public enterprises might be improved. They pointed to efforts being made to strengthen the Finance Ministry's control of the budgetary process for the main entities outside the Central Administration through the Superintendency of Decentralized Agencies. Moreover, their aim was to make public enterprise tariff adjustments more automatic in order to avoid the social and political impact of large, discrete adjustments.

They also reported that a law had recently been approved by the legislative assembly which would facilitate the divestiture of certain public entities which had become a burden on the Central Government and the Central Bank. This law was intended to apply mainly to the National

Development Corporation (CONADI), but would be applied to the National Forestry Corporation (COHDEFOR) and the Agricultural Development Bank (BANADESA), as well. In the case of COHDEFOR, however, a major uncertainty was the status of its subsidiary CORFINO, a pulp and paper plant which the authorities said could not be operated at a profit because of errors in project design. A commission had been established to make recommendations on the future of CORFINO, and in the meantime its external debt service was being absorbed, in part, by COHDEFOR.

b. Monetary policy

The reduction in the overall fiscal deficit and the increase in U.S. AID budget support in 1985 were cited by the authorities as major factors in facilitating a decline in the rate of overall bank credit expansion. At the same time, this reduction had made possible a shift in credit allocation to the private sector, which had been promoted by the central bank and was, in the view of the authorities, an important factor in the economic recovery of the last two years. The staff noted its concern that credit policy had been unduly expansionary, as evidenced by the marked divergence between the growth in bank credit to the private sector and bank deposits in the last two years.

It was agreed that interest rate policy had been an important factor in promoting the growth of private financial savings and the placement of government bonds outside the domestic banking system. Since early 1983, the authorities had encouraged nonbank investors to purchase government bonds from the Central Bank's own portfolio (such bonds carry a repurchase guarantee on demand) by raising their yield from 7 percent to 10 percent. As a result of this policy, placements of "sight" bonds outside the banking system had doubled to L 382 million from the end of 1982 through September 1985. The rate offered on these bonds, it was recognized, also put an effective "floor" to the rates offered on savings and time deposits in the banking system, with the result that interest rates throughout the financial system were significantly positive in real terms.

In an effort to promote the placement of government debt outside the banking system on a more permanent basis, the authorities explained that in the future private investors would be encouraged to buy government bonds carrying maturities of two to five years and yields of 7 percent to 13 percent per annum, depending upon their term. They believed that this modification might lead to some reduction in interest rates, in general, but they were intent on maintaining positive real interest rates, especially in view of recent monetary and credit trends. No change, however, was planned in regard to the ceiling on bank lending rates, which had remained at 19 percent since 1982. The authorities felt that this ceiling did not effectively inhibit the banks' freedom of action as, in fact, bank lending rates had tended to fluctuate below this ceiling. 1/

The authorities informed the mission that some progress was being made in improving the financial position of the official banks. In the case of BANADESA, its chronic overdrafts with the Central Bank had been consolidated into a medium-term facility and efforts were being made to improve its loan recovery ratio in the context of lending programs with the IDB and IBRD. In the case of CONADI, it was reported that, in accordance with the provisions of the public sector divestiture law mentioned earlier, a campaign had been initiated to sell or liquidate the enterprises held in CONADI'S equity portfolio. Twelve small firms (of a total of 66) had already been sold to private investors, but it was thought that the whole divestiture process could take up to five years. The authorities also indicated that, as a result of long-standing problems, the operations of the National Housing Fund (FINAVI), had been suspended and transferred to a special trust fund to be managed by the Central Bank.

2. External sector policies

The major focus of discussion in the area of external policies was the progress made toward exchange liberalization and the adequacy of the official exchange rate. The main steps taken since the end of 1983 to liberalize payments were to (a) grant import permits freely for those importers using "own" foreign exchange; (b) establish fixed (maximum) time periods of up to 120 days for the authorization of import permits for those importers requesting the use of official foreign exchange; and (c) allow exporters to the rest of Central America to retain foreign currency proceeds for the payment of imports from those countries or to negotiate those proceeds with other importers at a freely determined exchange rate. The authorities also informed the staff that recently they had begun the practice of allowing certain exporters to retain a proportion of their export proceeds (in varying amounts) to pay for their own imports. Such an arrangement had been worked out with exporters of bananas, minerals, and shrimp, and a similar arrangement was reportedly being negotiated for exporters of meat. It was estimated that roughly 15 percent of total imports was being paid for through the various liberalized payments schemes described above.

The staff welcomed the steps that had been taken to liberalize the exchange system, but stressed that the process was evolving in a manner that was not transparent for all agents in the economy. In addition, the staff called attention to the discriminatory character of the payments arrangement with Central America and its restrictiveness in that it did not allow for multilateral clearings among the regional

1/ During 1985, the weighted average lending rate charged by financial institutions was around 16 percent.

currencies. 1/ It also was pointed out that the regional scheme did not allow the exchange rate to play a market-clearing function, since certain bilateral (priority) imports from other Central American countries were covered by sales of foreign exchange by the Central Bank at the official rate. The staff also raised doubts about the viability of the official exchange rate in the light of recent developments in the current account balance of payments, including the weak performance of Honduras' nontraditional exports and its loss of market share in total imports by the United States from countries in the Caribbean Basin.

The authorities indicated that they had wanted to move slowly in the area of exchange and trade liberalization because of the underlying weakness in Honduras' balance of payments and because of the Government's opposition to a devaluation of the lempira. In their view, the loss of competitiveness, as measured by the real effective exchange rate for Honduras, was still limited and was likely to be reversed, at least in part, with further depreciation of the U.S. dollar vis-a-vis other major currencies. Furthermore, they considered that an exchange rate adjustment would not have any significant, beneficial impact on export performance given the importance of quota limitations in the markets for their major exports (coffee, sugar, and meat). Moreover, in the case of nontraditional exports, they believed that a more effective incentive was the use of fiscal subsidies and import-duty exemptions on imported inputs. In this connection, they referred to various arrangements which had been put into place since mid-1984: one of these established a tax credit certificate for 15 percent of the f.o.b. value of nontraditional exports; another changed the existing "drawback" scheme on imported inputs for the export sector to allow for duty free entry at the point of customs.

In the area of external debt, the authorities reported that the proposed rescheduling agreement with foreign commercial banks (mainly related to CONADI's indebtedness), which had been under discussion since 1982, had not yet been signed. A main issue in the discussions was the role of the Fund in the supervision of Honduras' economic policies during the lifetime of the agreement, whether in the form of a stand-by arrangement or some other modality. Since the present government did not wish to enter into a stand-by arrangement--and did not wish to commit a future administration--it was decided in September 1985 to suspend negotiations with the banks until the new government took office. In the meantime, Honduras has continued to accumulate arrears on debt service to the banks on the order of US$30 million per year. At the end of 1985, it is estimated that Honduras' total arrears amounted to US$198 million, of which US$170 million represented delays in

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1/ Transactions under the special payments arrangement with Central America continue to be channelled through the Central American Clearing House. Settlements of net debit balances in the Clearing House are made every six months in the case of amounts less than US$12 million, and are required immediately in the case of amounts in excess of US$12 million.

repayments of principal and interest to the banks and US$28 million was related to import payments.

The authorities indicated that, as a result of the suspension of CONADI's activities and the assumption of its debt service payments by the Central Government, a law had been enacted in mid-1884 to centralize debt control procedures on all external borrowing by the public sector. Also, as a result of that law, no public entity other than the Central Government was able to give guarantees on foreign indebtedness to private enterprises, which was one of the sources of CONADI's problems. It was reported that all new borrowing by the public sector in the last two years had been contracted with official financial institutions, as access to foreign commercial borrowing had been limited by the rescheduling exercise under way.

The Honduran authorities reported that they did not expect to join in the near future the rest of Central America in its reform of the regional customs tariff. In September 1985 the representatives of the other four Central American countries had completed detailed, line-by-line negotiations of a revised common external tariff with a view toward a reduction of nominal and effective protection. This revised tariff was expected to be put into place around the end of the year. The Honduran authorities indicated that they were now engaged in technical studies of effective protection in Honduras with a view to proposing changes in the level of protection, as a follow-up to the technical reform of the external tariff mentioned earlier, at some later stage.

At the end of 1985, the following exchange practices gave rise to restrictions subject to the Fund's jurisdiction under Article VIII: (1) an exchange restriction on payments for imports through the official market; (2) a multiple currency practice which arises from the parallel market established in May 1985 for the negotiation of proceeds generated by exports to other Central American countries (this discriminatory arrangement also gives rise to a restriction on current payments within the meaning of Article VIII); and (3) a restriction arising from arrears on debt service and import payments.

3. Medium-term outlook

The staff reviewed with the authorities a medium-term development strategy which they had prepared for submission to the incoming administration in January 1986. This plan calls for a sharp increase in Honduras' rate of economic growth (to 4 1/2 percent per year) over the period 1986-89 mainly under the impetus of a drive to promote import substitution and public sector efficiency in the delivery of basic human needs and services. The development strategy also proposes a marked shift in the relative contribution of the private and public sectors to the overall investment effort in the next four years. Whereas the public sector was the main force behind domestic investment in the last five years, largely because of its involvement in the El Cajón hydro-electric project and the erosion of private sector confidence, in the next four years private sector investment is projected to surge while public investment declines in relation to GDP. At the same time, the growth in output of the nonfinancial public enterprises is expected to be the same as that for the overall economy, while general government consumption is held to no growth in real terms. The mission raised some questions about the feasibility of achieving the targets for public sector performance just mentioned, especially in the light of recent fiscal experience.

The staff also examined in detail the balance of payments implications of the plan. Detailed financial projections were not included in the plan; but in the external sector, real growth rates of 5.3 percent and 3.9 percent were projected for exports and imports, respectively. The export target is to be achieved by the expanded use of fiscal incentives and the continued gradual relaxation of exchange controls (with no change in the official exchange rate) to foster the growth in selected export activities with a high content of domestic value added.

On the assumptions that the external terms of trade and the purchasing power parity of the lempira remained unchanged (i.e. foreign prices and the GDP deflator were assumed to grow by 4 percent), the current account balance of payments was projected through 1990. At the same time, the external inflows of official aid projected in the plan were fed in (roughly US$ 375 million per annum), as was an assumption that official transfers would remain at their present level of around US$140 million. It also was assumed that Honduras would conclude a restructuring agreement with the foreign banks for US$ 220 million, on the same terms that had been agreed in principle at the end of 1984, and that the net international reserves of the Central Bank would improve by at least the equivalent of Honduras' repurchase obligations to the Fund (around US$40 million per year in 1986-87). With these assumptions, the external current account deficit declines only marginally from around 11 percent of GDP in 1984-85 to 9 percent by 1989-90 (Table 5). At the same time, a large unfinanced gap, especially in 1986, 1989, and 1990, emerges which, it was assumed, would need to be filled by foreign borrowing on commercial terms. On this basis, the stock of external public debt to GDP rises from just under 70 percent in 1983-85 to more than 75 1/2 percent over the remainder of the decade, whereas the ratio of debt service payments to exports of goods and nonfactor services (after rescheduling) rises to 29 1/2 percent in 1987 before tapering off gradually by the end of the decade.

In view of the worsening debt indicators and continued dependence on exceptional balance of payments financing implicit in the medium-term development strategy, the mission raised questions about the viability of the plan. Aside from its external financial implications, the staff noted that the plan envisaged no change in the size of the foreign sector in the economy (see Table 5), leaving it one third smaller than it was during the second half of the 1970s, which was a period of rapid economic growth and balance of payments stability for Honduras. To

Table 5. Honduras: Medium-Term Outlook

	1983	1984	Est. 1985	Projections 1986	1987	1988	1989	1990
	(In millions of U.S. dollars)							
Balance of payments								
Current account	-261	-354	-368	-385	-399	-401	-432	-467
Exports, f.o.b.	699	746	805	877	960	1,053	1,160	1,275
Imports, c.i.f.	-823	-921	-994	-1,067	-1,142	-1,224	-1,352	-1,484
Other, net 1/	-137	-179	-179	-195	-216	-229	-239	-258
Capital account	211	309	339	324	422	415	342	349
Official transfers	41	94	141	140	120	120	120	120
Public capital, net 2/	182	304	217	192	300	283	200	197
Others, net	-12	-90	-19	-8	2	12	22	32
Overall balance	-50	-46	-29	-62	24	14	-90	-119
Financing gap	--	--	--	105	26	15	113	135
External debt 2/ 3/								
Outstanding debt	1,900	2,222	2,441	2,695	2,953	3,217	3,530	3,851
Total debt service	220	219	248	292	327	344	352	393
Principal	(112)	(106)	(123)	(152)	(167)	(171)	(168)	(190)
Interest	(109)	(113)	(125)	(140)	(160)	(173)	(184)	(203)
Of which: IMF	13	13	25	51	45	22	14	7
Principal	(--)	(2)	(15)	(43)	(40)	(19)	(13)	(7)
Charges	(13)	(11)	(10)	(8)	(5)	(3)	(1)	(--)
	(As percent of GDP)							
Current account	-8.9	-11.3	-11.0	-10.7	-10.2	-9.4	-9.2	-9.2
Exports	23.7	23.7	24.1	24.4	24.6	24.7	24.8	25.0
Imports	27.9	29.3	29.7	29.7	29.3	28.7	29.0	29.1
Capital account	7.2	9.8	10.1	9.0	10.8	9.7	7.3	6.8
Official transfers	1.4	3.0	4.2	3.9	3.1	2.8	2.6	2.4
Overall balance	-1.7	-1.5	-0.9	-1.7	0.6	0.3	-1.9	-2.3
Financing gap	--	--	--	2.9	0.7	0.3	2.4	2.7
Outstanding debt	64.5	70.6	73.0	75.1	75.7	75.4	75.6	75.5
	(As percent of exports of goods and services)							
Total debt service 4/								
With rescheduling	27.1	25.1	26.4	28.8	29.6	28.6	26.7	27.3
Principal	(13.7)	(12.1)	(13.1)	(15.0)	(15.1)	(14.2)	(12.7)	(13.2)
Interest	(13.4)	(13.0)	(13.3)	(13.8)	(14.5)	(14.4)	(13.9)	(14.1)
Without rescheduling 5/	27.1	25.1	26.4	30.4	29.3	26.0	23.7	24.3
Principal	(13.7)	(12.1)	(13.1)	(17.8)	(16.4)	(13.1)	(11.1)	(11.3)
Interest	(13.4)	(13.0)	(13.3)	(12.5)	(12.9)	(12.9)	(12.6)	(13.0)
Memorandum items								
Change in terms of trade (in percent)	-2.2	4.4	-2.4	--	--	--	--	--
Gross reserves (in months of imports)	1.9	1.9	1.8	1.6	1.6	1.6	1.6	1.5

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

1/ Includes interest payments on borrowing related to the projected financing gap.
2/ Takes into account the impact of the proposed multiyear rescheduling with the commerical banks (on overdue obligations since 1981 and on current obligations falling due through 1989).
3/ The financing terms for new contractual inflows assumed in the capital account are the average terms previously obtained by Honduras, while the closing of the financing gap is accounted for at commercial rates (LIBOR plus).
4/ Debt service is provided on an accrual basis for 1983-85.
5/ Does not include payments on external debt arrears outstanding at end-1985, which are subject to rescheduling.

achieve the targeted growth in real GDP in the plan, the mission felt that export and import growth would need to exceed the targets specified in the plan. However, this result would only be possible if Honduras embarked on a major drive to open up the economy through an exchange reform and a reduction of protection.

IV. Staff Appraisal

In the period 1980-83, Honduras' economic and financial position deteriorated as a result of an erosion of confidence associated with mounting political instability in the Central American region, the decline in primary commodity prices, and the failure to adjust domestic policies accordingly. Two attempts to reverse the deterioration in the context of policy programs supported by arrangements from the Fund turned out to be ineffective. Slippages in fiscal and monetary management led to large overall payments deficits, an intensification of restrictions and an accumulation of arrears in a setting of rising prices and declining output.

In 1984-85 Honduras made progress toward lower inflation and economic recovery, but its underlying economic situation remained weak. As a result of a partial relaxation of exchange controls, increased access to external loans and an expansionary credit policy by the Central Bank vis-a-vis the private sector, Honduras' current account balance of payments deficit rose to 11 percent of GDP in 1984-85, after declining in the three previous years.

The revenue performance of the public sector improved in the last two years as a result of new tax measures introduced in 1984 and the recovery in economic activity (especially the foreign trade sector). However, the overall fiscal deficit remained high in 1984 and declined in 1985 only as a result of a drop in investment outlays attendant upon the completion of the El Cajón hydroelectric project. Current outlays of the public sector have nearly kept pace with revenue, as a result of rising interest payments on the public debt and defense requirements.

To lay the basis for a sustained economic recovery, Honduras needs to reduce its external current account deficit to a level that can be maintained without resort to exchange restrictions and exceptional balance of payments financing. The achievement of such a target will require adjustments in both domestic and external sector policies. While it is possible that Honduras' external difficulties can be eased temporarily by foreign assistance, 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.

A further strengthening of fiscal performance will be crucial for an improvement of the external position. Additional revenue effort will be needed in the future, but it is clear that ways must also be found to shift the tax burden away from the foreign sector to domestic transactions. Measures that might be taken include an increase in the scope and rate of consumption taxes, as well as a reform of the income tax.

At the same time, there is obviously a need to restrain public expenditure, especially for recurrent items. Effective control over expenditures will require caution in the adjustment of public sector wages in the future and close surveillance over the operations of the rest of the public sector (especially the parastatal enterprises) to limit the need for transfers from the Central Administration. The staff welcomes the recent initiative taken by the Honduran authorities to reduce the size of the public sector through a process of divestiture. However, more effective management and the application of realistic pricing policies will be required to improve the financial performance of the public enterprises and to achieve the fiscal targets of the government's medium term strategy.

Notwithstanding the recent slowing in the rate of overall bank credit expansion, central bank credit policy has been expansionary as evidenced by the divergence between the growth rates of credit to the private sector and private financial savings. The staff would caution the authorities on the need to restrain bank credit expansion and to maintain domestic interest rates at levels which foster an efficient allocation of credit. The recent measures taken to encourage private sector investment in medium-term government bonds, as opposed to sight bonds held by the Central Bank, is a move in the right direction, but the authorities should be prepared to adjust the yields on such bonds in the light of monetary and credit developments. The authorities also need to continue an effective surveillance over the operations of official financial institutions in order to maintain a sound financial system.

Policies of demand restraint would allow for, and should be accompanied by, further action to liberalize exchange restrictions. In general, the staff welcomes the actions taken since late 1983, but regrets that the functioning of the exchange system has become complex and subject to arbitrary and discretionary adjustments, and that it contains discriminatory elements. Given the need to strengthen export growth and the widening of the gap between the official and parallel market rates, the staff believes that action to bring about exchange rate unification at a realistic value for the lempira is required. The selective approach to export promotion preferred by the authorities is not only unlikely to provide sufficient incentive for export growth over the medium term, but also may introduce further distortions in resource allocation.

The staff would encourage the authorities to eliminate the existing exchange restrictions (including external payments arrears) and discriminatory currency practices promptly, and to adopt measures that would prevent their re-emergence. In the absence of well-defined policies that 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 November 30, 1985)

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	191.1	281.8
(c) Fund's credit	123.3	181.8
From Fund Resources:	(87.0)	(128.3)
Credit tranche purchases (including SBA)	/29.7/	/43.8/
CFF purchases	/37.7/	/55.6/
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 Extended Arrangements and Special Facilities in the Last Ten Years

(a) Extended Arrangements:

(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:	0.001	0.01
(c) Current Designation Plan:	None	--

V. Administered Accounts (Trust fund loans)

(a) Disbursed	SDR 14.07 million
(b) Outstanding	SDR 12.34 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. In May 1985 Honduras introduced a scheme whereby transactions with the rest of the 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 February 11, 1985 (EBM/85/21).

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-1985)	4.2 million
Annual rate of population increase (1980-85)	2.8 percent
GDP (1985)	SDR 3,344.0 million
	US$3,344.0 million
	L 6,688.0 million
GDP per capita (1985)	SDR 796

Origin of GDP	1982	1983	1984	Est. 1985
		(percent)		
Agriculture and mining	32.0	33.2	33.4	33.5
Manufacturing	15.1	14.7	14.6	14.1
Construction	4.0	4.1	4.2	4.0
Transport, communications, and utilities	8.8	8.7	8.8	8.9
Commerce and banking services	16.1	15.8	15.8	16.2
Other	24.0	23.5	23.2	23.3
Ratios to GDP				
Exports of goods and nonfactor services	27.5	27.3	27.3	27.6
Imports of goods and nonfactor services	-30.5	-31.1	-32.7	-33.1
Current account of the balance of payments	-10.0	-8.9	-11.3	-11.0
Central government revenues	13.8	13.3	15.2	16.0
Central government expenditures	23.9	23.6	26.8	25.3
Central government current account deficit (-)	-1.7	-3.4	-1.7	-2.2
Central government overall surplus or deficit (-)	-10.1	-10.3	-11.6	-9.3
External public and government-guaranteed debt (end of year) 1/	56.8	63.0	69.2	71.7
Gross national savings	4.8	6.9	7.8	6.9
Gross domestic investment	14.8	15.8	19.1	17.9
Money and quasi-money (end of year)	30.7	33.7	34.0	34.0
Annual changes in selected economic indicators				
Real GDP per capita	-4.5	-3.2	--	-0.3
Real GDP	-1.8	-0.5	2.8	2.5
GDP at current prices	5.5	5.5	6.9	6.2
Domestic expenditure (at current prices)	1.8	6.4	8.6	6.3
Gross domestic investment	-26.5	12.5	29.4	-0.3
Consumption	8.9	5.3	4.8	7.7
GDP deflator	7.3	6.0	4.0	3.6
Consumer prices (annual averages)	9.2	8.1	4.7	3.6
Central government revenues	4.3	1.2	17.1	11.9
Central government expenditures	15.3	4.1	21.4	0.1
Money and quasi-money	16.2	16.1	7.8	6.3
Money	10.6	14.3	4.1	5.0
Quasi-money	20.4	17.3	10.3	7.0
Domestic bank credit 2/	32.4	17.0	18.1	14.2
Credit to public sector (net)	15.3	10.9	3.9	2.5
Credit to private sector 3/	12.8	8.5	9.5	11.7
Merchandise exports (f.o.b., in U.S. dollars)	-13.7	3.3	6.7	8.0
Merchandise imports (c.i.f., in U.S. dollars)	-21.5	7.5	11.9	8.0

Central government finances	1982	1983	1984	Est. 1985
	(millions of lempiras)			
Revenues	773	782	956	1,070
Expenditures	1,336	1,391	1,688	1,690
Current account deficit (-)	-95	-198	-107	-150
Overall deficit (-)	-563	-609	-732	-620
External financing (net) 4/	251	316	558	438
Domestic financing (net)	312	293	174	182
Balance of payments				
Merchandise exports (f.o.b.)	676.5	698.7	745.7	805.4
Merchandise imports (c.i.f.)	-765.7	-822.8	-920.6	-994.2
Investment income (net)	-45.0	-30.0	-56.5	-58.0
Other service and transfers (net)	-143.9	-106.8	-122.8	-121.1
Balance on current and transfer accounts	-278.1	-260.9	-354.2	-367.9
Official transfers 4/	56.0	41.1	94.0	141.0
Official capital (net)	126.1	184.3	287.0	187.2
Financial system capital (net)	-36.4	-11.3	7.7	19.8
Private capital (net) 5/	-32.1	-3.5	-80.2	-9.5
Overall balance (deficit -)	-164.5	-50.3	-45.7	-29.4
Net official international reserves (increase -)	121.1	-26.9	9.3	-43.4
External payments arrears	43.4	47.2	36.4	38.0
Conversion short-term debt to medium-term liabilities	--	30.0	--	34.8
International reserve position	(In millions of SDRs)			
Central Bank (gross)	124.7	122.4	151.4	124.5
Central Bank (net)	-100.4	-80.1	-95.1	-46.1
Rest of banking system (net)	-20.6	-29.2	-36.0	-34.6

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

The replies to the GFS questionnaire in the last several years have been incomplete. The 1985 GFS Yearbook to be issued shortly, will contain a deriviation 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 which hinder their analytical usefulness. The problems in Central Bank data include: 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; inaccurate definition of the government sector; and the absence of a reserve money aggregate. In addition, there are problems with the classification of data on deposit money banks.

c. Merchandise trade

Export and import unit value data were reported to the Bureau of Statistics by the national authorities until 1975--after that date, quarterly figures for export unit values have been calculated by the Bureau from data on individual commodity exports, while the IFS line for import unit values was deleted.

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 December 1985 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 an irregular basis, although the reporting of data for government finance has been timely.

Status of IFS Data

		Latest Data in November 1985 IFS
Real Sector	- National Accounts	1984
	- Prices	March 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	May 1985
	- Financing	May 1985
	- Debt	May 1985
Monetary Accounts	- Monetary Authorities	July 1985
	- Deposit Money Banks	July 1985
	- Other Financial Institutions	July 1985
External Sector	- Merchandise Trade: Value	Q3 1983
	Prices	Q3 1983
	- Balance of Payments	1984
	- International Reserves	October 1985
	- Exchange Rates	October 1985

Honduras--Financial Relations With the World Bank Group

1. Financial relations

(In millions of U.S. dollars)

A. IBRD/IDA/IFC Operations
(as of September 30, 1985) 1/

	Disbursed	Undisbursed
IBRD/IDA loans		
Agriculture	59.3	34.0
Education	10.8	0.2
Industry	35.6	9.4
Ports	42.8	--
Power	217.3	7.5
Regional development	10.7	0.2
Transport	110.6	26.5
Tourism	9.0	5.5
Petroleum exploration	2.6	0.4
Total	498.7	83.7
Of which: repaid	71.3	--
outstanding	427.4	--
IFC investments	7.0	--

B. IBRD/IDA Loan Disbursements

	1981	1982	1983	1984	Est. 1985
Net disbursements	36.7	43.7	51.9	49.4	21.4
Gross disbursements	42.4	50.6	60.2	61.5	35.5
Amortization	5.7	6.9	8.3	12.1	14.1

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 and loans sold to a third party.