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Honduras: Selected Issues

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HONDURAS

Selected Issues

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Approved by the Western Hemisphere Department

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Honduras: Basic Data

I. Social and Demographic Indicators

Area (thousand sq. km)	113	Labor force, in millions	3.9
Population (1997)		Health	
Total (million)	6	Population per physician	1,266
Annual rate of growth, 1984-97 (percent a year)	3.3	Population per hospital bed	1,276
Density (per sq. km.)	49.8	Access to safe water	
GDP per capita (US\$)	780	Percent of population	70
Population characteristics (1995)		Urban	90
Life expectancy at birth (years)	68	Rural	54
Crude birth rate (per thousand)	35	Education (1993)	
Crude death rate (per thousand)	6	Enrollment rates, percent in	
Infant mortality (per thousand live births)	45	Primary education	112
Under 5 mortality rate (per thousand)	59	Secondary education	33

II. Economic Indicators, 1993-97

	1993	1994	1995	Prel. 1996	Est. 1997
	(In percent)				
Annual changes in sectoral product aggregates at factor cost					
GDP (in constant prices)	6.2	-1.5	4.1	3.7	4.9
Investment, consumption, and savings ratio					
Fixed capital formation/GDP ratio	28.7	27.6	24.0	23.3	23.6
National savings/GDP ratio	21.0	19.4	19.5	18.6	21.4
	(In millions of lempiras)				
Public sector finances					
Noninterest revenues	6,491	8,103	11,384	14,449	18,120
Noninterest expenditures	8,276	7,555	10,412	13,865	15,828
Primary balance (deficit -)	-1,785	548	972	583	2,294
Overall balance (deficit -)	-2,304	-1,982	-1,015	-1,526	-933
Memorandum items:					
Primary balance (percent of GDP)	-7.9	1.9	2.6	1.2	3.7
Overall balance (percent of GDP)	-10.2	-6.9	-2.7	-3.2	-1.5
Monetary accounts of the banking system					
Liabilities to private sector	7,752	10,553	12,741	16,838	24,138
Money (M-1)	2,742	3,739	4,456	5,672	7,587
Quasi-money	5,010	6,814	8,285	11,166	16,551
Net domestic assets	12,447	16,464	16,853	18,923	21,138
Credit to the public sector	1,023	803	-110	-690	-2,615
Credit to the private sector	13,815	7,914	7,420	12,711	18,690
	(Percentage change)				
Consumer price index (end-of-period)	13.0	28.9	26.8	25.5	12.8

Honduras: Basic Data

	1993	1994	1995	Prel. 1996	Est. 1997
(In millions of U.S. dollars)					
Balance of payments					
Trade balance	-462	-382	-273	-336	-428
Exports, f.o.b.	857	1,017	1,298	1,423	1,536
Imports, f.o.b.	1,319	1,399	1,571	1,759	1,964
Services and transfers (net)	192	33	96	146	327
<i>Of which: Interest</i>	-198	-212	-228	-218	-195
Current account	-270	-349	-177	-190	-101
Capital account	103	348	199	202	298
Foreign direct investment	35	42	69	90	114
Portfolio investment	...	...	...	...	54
Other capital (net) 1/	68	307	129	111	130
Overall balance (deficit -)	-167	-1	22	12	196
Change in reserves (increase -)	94	-25	-116	-83	-280
Memorandum items:					
Debt service ratio (before rescheduling) 2/	34.8	35.9	33.3	33.5	26.2
Current account (as percent of GDP)	-2.7	-10.2	-4.5	-4.7	-2.2
External debt outstanding (as percent of GDP)	106.0	109.0	100.0	92.0	78.0
Central bank gross reserves 3/	0.9	1.5	2.0	1.7	3.2
International reserve position and external debt (as of December 31)					
International reserves (gross)	131	205	296	283	591
External debt (gross)	3,657	3,752	3,952	3,977	3,643
Relations with the Fund (as of July 31, 1998)					
Membership status:					Article IV
Intervention currency and rate (buying)					U.S. dollar, at L 13.38 per U.S. dollar
Quota					SDR 95 million
Fund holdings of lempiras (as percent of quota)					SDR 95 million 100.0
ESAF arrangement					SDR 32.54 million
As percent of quota					34.3
SDR department					
Net cumulative allocation					SDR 19.96 million
Holdings					SDR 0.28 million

1/ Includes errors and omissions.

2/ As percent of exports of goods and nonfactor services.

3/ In months of imports of goods and nonfactor services.

I. GROWTH PERFORMANCE AND CONSTRAINTS¹

1. For more than three decades, Honduras' average annual growth in real per capita GDP has been close to zero and highly uneven, even though its total investment-to-GDP ratio has been larger than that of many high-growth-performing countries in Latin America. This chapter explores the likely causes of this weak performance. It examines the behavior of the variables relevant to sustainable growth in Honduras vis-a-vis two comparator groups: high-growth and medium- to low-growth countries, selected from a sample of 17 Latin American countries. The first section reviews recent growth trends in Honduras, and the second section discusses the result of the analysis.

2. The findings indicate that Honduras' low growth rates in real per capita GDP reflect the influence of a combination of factors. Policy- and efficiency-related variables, exogenous shocks, and political uncertainty seem to have had less of a negative influence on growth in Honduras than they have had on the comparator groups. Instead, low growth appears to be closely related to (i) the low productivity of labor and capital, which results from relatively low levels of human capital (education, skills, and health); and (ii) the poor composition of investment and inadequate physical infrastructure.

A. Growth in Honduras

3. Since 1970, Honduras' growth performance has been consistently weak and variable despite relatively high ratios of total investment to GDP for most of the period and low inflation (see Figures 1 to 3). For the period 1970-97, the average growth rate of real per capita GDP was close to zero. Annual rates fluctuated widely (from 6 percent to -6 percent), with the greatest variability occurring during 1970-84, probably because of the various shocks to the economy, including the war with El Salvador in 1969, hurricane damage in 1974, the coffee boom of 1976, and the debt crisis in the early 1980s (Table 1).

B. Discussion of Results

Growth accounting analysis

4. The average contribution of inputs to growth in real GDP for the period 1985-97, calculated from the Solow growth accounting equation (Attachment), are shown in Table 2. The average contribution of labor to growth of 1.4 percent is explained by the average rate of growth of the labor force (3.3 percent) and the share of labor income in GDP (42 percent). The share of labor income in GDP is smaller than in most of the comparator countries mainly because of low labor productivity,² which is associated with low levels of human capital.

¹Prepared by V. Hugo Juan-Ramon.

²The rate of growth of the labor force is larger in Honduras than in the other countries.

Table 1. Honduras: Selected Variables

	1970-84		1985-97		1970-97	
	Average	Std. Dev.	Average	Std. Dev.	Average	Std. Dev.
(Average annual percentage change)						
Real GDP (at 1978 prices)	4.0	4.2	3.5	2.3	3.8	3.4
Real GDP per capita (at 1978 prices)	0.6	4.1	0.2	2.3	0.4	3.3
Population	3.3	0.0	3.3	0.0	3.3	0.0
GDP deflator	7.1	4.1	15.0	9.6	10.8	8.1
Consumer price index	7.7	4.3	15.1	10.8	11.1	8.7
External terms of trade, goods	2.0	14.6	1.5	12.1	1.8	13.3
Real effective exchange rate 1/ 2/	7.1	1.8	-3.6	12.8	-0.7	11.9
(Average annual percentage of GDP)						
External current account	-7.7	2.9	-4.5	2.4	-6.1	3.2
Foreign direct investment	0.1	0.3	1.2	0.3	0.6	0.6
(Average of annual stocks, in US\$ millions)						
International reserves	105.0	61.7	162.2	146.5	131.5	111.2
(Index, 1990 = 100)						
Real effective exchange rate	143.8	19.3	116.9	39.5	125.3	36.2

Sources: Central Bank of Honduras; and IMF documents.

1/ Data available for the period 1979-97.

2/ Negative numbers indicate a real depreciation of the lempira.

Table 2. Honduras: Contribution to Real GDP Growth,
Capital Formation, and Savings

	1970-97	1985-97
(Average annual percentage change)		
Real GDP	3.8	3.5
Contribution of 1/ Labor 2/	1.5	1.4
Capital 3/	1.9	1.9
Residual	0.4	0.2
(Average annual percentage of GDP)		
Gross capital formation at constant prices	19.4	18.8
Gross capital formation at constant prices	20.2	20.6
Public	7.7	7.9
Private	12.5	12.7
Gross domestic savings at current prices	16.3	19.9
Public	3.1	3.7
Private	13.2	16.2
External Savings	6.5	5.1

Sources: Central Bank of Honduras, IMF documents, and Fund Staff estimates.

1/ The contributions of inputs to real GDP growth are calculated using the Solow's growth accounting equation, which can be expressed as follows: $\Delta y / y = \omega_L (\Delta L / L) + F_K (\Delta K / y)$, where y denotes real GDP; L and K are stocks of labor and capital, respectively; ω_L is the share of labor income in GDP; and F_K is the marginal productivity of capital.

2/ Based on an average share of labor income in total GDP of 44 percent for the period 1970-97 and of 42 percent for the period 1985-97; and on an average annual growth of the labor force of 3.3 percent for both periods.

3/ Based on average real rate of return on new investment of 10 percent; and average real gross capital formation as percent of real GDP of 19.4 percent for the period 1970-97 and 18.8 percent for the period 1985-97.

5. The average contribution of **capital** to growth in real GDP (1.9 percent) is explained by the average ratio of gross capital formation at constant prices to real GDP (18.8 percent), (see Table 2) and by the assumed average real rate of return on new investment (marginal productivity of capital) of 10 percent. The rate of technological progress (the residual in the Solow equation) is low, 0.2 percent. Alternatively, if one considers that a plausible rate of technological progress for Honduras lies between 1 percent and 1½ percent, then the marginal productivity of capital (obtained as a residual) would be between 6 percent and 3 percent, indicating a poor quality of investment. The quality of investment is assessed by examining the composition of investment between the private and public sectors and between construction and machinery.

Cross-country analysis

6. Cross-country analysis is based on Table 3, which shows average values of selected variables during 1969–95 for 17 Latin American countries, including Honduras, and for two comparator groups: high-growth countries and medium- to low-growth countries.³ Honduras, which is classified as a negative-growth country, is excluded from the comparator groups.

7. The average values of Honduras' **policy-related variables**—inflation, central government fiscal deficit as percent of GDP, export growth, structural change, and measures of openness and black market premium—compare favorably with the values for the comparator groups. Average inflation in Honduras at 10 percent has been much lower than that in high-growth countries (75 percent) and in medium- to low-growth countries (277 percent). The same is true for the average black market premium, which was 18 percent for Honduras, compared with 27 percent and 56 percent for the two sample groups, respectively. Furthermore, the Honduran economy is more open. It has had higher central government fiscal surpluses, higher export growth rates, and similar indices of structural change relative to those of the two comparator groups.

8. The behavior of the **external terms of trade** and the **real effective exchange rate** have tended to foster growth. Honduras' external terms of trade improved on average 2.3 percent, compared with about 0.6 percent in the two control groups. On average, the lempira depreciated in real terms by 2.1 percent, compared with average real appreciations of the currencies of high-growth countries of 7.4 percent and average real appreciation of the currencies of medium- to low-growth countries of 2.1 percent.

9. The value of proxies for **political uncertainty** in Honduras relative to those of the comparator groups suggest that the degree of political uncertainty in Honduras is not hampering growth. For example, the index of **government crisis** for Honduras (0.1)

³The 17 countries in the sample are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Uruguay, and Venezuela.

Table 3. Country Averages of Selected Variables, 1969-95 1/

Country	YGPC	YO	PG	TYY	PIY	GIY	SEC70	INFL	DEFYI	XG	STRUC	OPEN	TIG	REGG	BMP	CRI	RIO
High-growth countries 2/																	
Brazil	2.62	1,740.6	2.2	21.2	13.1	8.1	9.6	474.6	-1.0	13.6	0.2	16.8	0.0	86.1	34.9	0.3	0.5
Colombia	2.37	922.8	2.2	18.3	12.4	5.9	9.8	21.9	-1.4	11.8	0.2	30.0	2.6	-1.4	9.2	0.4	0.6
Ecuador	2.35	957.2	2.7	21.4	16.2	5.2	6.2	26.4	-1.6	14.5	0.0	50.1	3.0	-2.0	24.9	0.3	0.3
Dominican Republic	2.35	882.7	2.7	23.4	16.8	6.6	12.1	16.8	-0.7	7.7	0.0	51.1	1.9	-0.7	37.2	0.1	0.7
Paraguay	2.17	909.1	3.0	25.7	17.3	8.4	10.3	16.6	-0.4	14.1	0.2	48.1	-0.7	-1.5	34.4	0.1	0.0
Chile	2.10	2,175.5	1.7	18.6	12.3	6.2	26.6	77.2	-0.3	13.4	0.8	66.9	-1.4	-3.9	48.9	0.4	1.5
Panama	2.08	1,769.7	2.5	25.0	19.3	5.7	17.4	3.7	-5.3	8.1	0.1	133.9	-0.2	-2.4	0.0	0.3	0.3
Uruguay	1.77	2,279.9	0.6	16.9	10.5	6.4	16.4	59.8	-2.3	10.5	0.3	37.9	1.5	2.0	15.4	0.4	0.3
Costa Rica	1.68	1,359.9	2.7	25.0	19.0	6.0	7.6	18.1	-4.0	11.0	0.3	71.6	-0.1	-1.7	57.5	0.0	0.1
Mexico	1.29	2,213.0	2.6	21.9	16.9	5.1	7.8	35.5	-4.4	17.1	0.3	26.5	0.4	-0.7	7.4	0.0	0.4
Medium- to low-growth countries 3/																	
Guatemala	0.64	828.8	3.0	15.2	10.3	4.9	3.5	12.1	-2.3	9.5	0.1	40.7	0.7	-1.3	15.9	0.4	0.4
Bolivia	0.52	629.7	2.4	14.6	6.4	8.2	21.6	521.1	-5.5	9.7	0.4	46.4	0.8	1.3	47.9	0.9	0.5
El Salvador	0.49	745.6	2.1	15.0	11.2	3.8	6.0	13.6	-2.4	9.2	0.3	56.7	2.7	2.6	58.5	0.0	0.3
Argentina	0.46	3,837.5	1.5	19.2	13.5	5.7	15.3	352.7	-4.6	12.0	0.2	17.0	-1.2	4.5	100.9	0.7	1.4
Peru	0.29	1,124.9	2.3	22.7	17.9	4.8	13.4	486.4	-3.9	8.9	0.2	32.3	0.0	3.5	55.8	0.4	0.5
Negative-growth countries 4/																	
Venezuela	-0.02	2,891.8	2.9	21.7	8.7	13.0	11.1	20.9	-1.9	11.5	0.3	52.2	6.7	-1.8	42.2	0.2	0.5
Honduras	-0.02	576.2	3.6	21.4	11.8	9.6	3.1	10.0	-6.7	8.3	0.2	67.1	2.3	-2.1	18.2	0.1	0.7
Group averages																	
High-growth countries 2/	2.08	1,521.0	2.3	21.7	15.4	6.4	12.4	75.0	-2.1	12.2	0.2	53.3	0.7	7.4	27.0	0.2	0.5
Medium- to low-growth countries 3/	0.48	1,433.3	2.3	17.3	11.9	5.5	12.0	277.2	-3.7	9.9	0.2	38.6	0.6	2.1	55.8	0.5	0.6
Negative-growth countries 4/	-0.02	1,734.0	3.2	21.6	10.2	11.3	7.1	15.4	-4.3	9.9	0.2	59.6	4.5	-1.9	30.2	0.1	0.6
All countries	1.36	1,520.3	2.4	20.4	13.7	6.7	11.6	127.5	-2.9	11.2	0.2	49.7	1.1	4.7	35.8	0.3	0.5

Table 3. Country Averages of Selected Variables, 1969-95 5/

Country	LIFE	ILLIT	PRIC	SEC	SECC	HIGH	HIGHC	TYR	PYR	SYR	HYR	REV	ANT	CAB	STR	WAR
High-growth countries 6/																
Brazil	63.2	23.6	10.5	6.5	2.5	5.0	3.4	3.1	2.2	0.7	0.2	0.0	0.6	0.2	0.4	0.9
Colombia	66.0	15.2	11.6	15.4	6.0	4.5	3.1	3.8	2.6	1.0	0.2	0.2	0.5	0.6	0.4	0.9
Ecuador	64.2	19.3	21.5	10.5	4.9	8.8	6.0	4.6	3.3	1.0	0.3	0.3	0.3	0.4	0.6	0.1
Dominican Republic	65.1	23.6	7.5	10.4	3.1	4.9	3.3	3.2	2.4	0.6	0.2	0.1	0.9	0.3	0.6	0.3
Paraguay	66.5	13.7	14.9	12.5	5.3	3.6	2.9	4.3	3.4	0.8	0.1	0.0	0.3	0.0	0.0	0.0
Chile	69.0	8.4	13.4	25.6	11.1	6.7	4.6	5.8	4.1	1.5	0.2	0.2	2.5	0.4	0.5	0.5
Panama	70.3	14.9	19.8	21.9	11.2	9.1	6.2	5.8	3.9	1.5	0.3	0.2	0.9	0.6	0.3	0.0
Uruguay	70.8	4.9	20.0	21.5	6.3	7.9	5.4	6.0	4.2	1.5	0.3	0.0	0.5	0.3	0.6	0.3
Costa Rica	72.9	8.7	15.0	10.0	4.2	8.6	5.8	4.6	3.5	0.8	0.3	0.0	0.2	0.3	0.1	0.0
Mexico	66.9	17.3	17.2	12.5	5.6	5.5	3.3	4.2	3.1	0.9	0.2	0.0	0.5	0.2	0.1	0.3
Medium- to low-growth countries 7/																
Guatemala	59.3	49.4	7.3	5.5	1.6	2.5	1.7	2.1	1.7	0.3	0.1	0.5	1.0	0.4	0.3	1.0
Bolivia	53.4	29.4	8.7	16.2	6.4	6.3	4.3	3.9	2.6	1.2	0.2	0.8	1.1	1.2	1.1	0.5
El Salvador	60.6	33.6	10.5	5.8	2.4	3.4	2.3	2.9	2.3	0.4	0.1	0.5	0.9	0.5	0.3	0.8
Argentina	69.8	5.7	30.4	19.2	8.1	7.2	4.4	6.6	5.2	1.1	0.2	0.5	1.7	0.7	1.9	1.1
Peru	59.5	19.5	14.3	16.3	7.9	9.3	6.3	4.8	3.3	1.1	0.3	0.3	0.6	0.4	0.8	0.6
Negative-growth countries 8/																
Venezuela	68.6	15.0	10.7	14.7	6.1	7.2	4.9	4.2	3.0	0.9	0.2	0.1	0.3	0.5	0.1	0.3
Honduras	60.6	35.3	9.0	7.2	4.4	2.3	1.6	2.7	2.2	0.4	0.1	0.2	0.9	0.5	0.2	0.3
Group averages																
High-growth countries 6/	67.5	15.0	15.1	14.7	6.0	6.5	4.4	4.5	3.3	1.0	0.2	0.1	0.7	0.4	0.4	0.3
Medium- to low-growth countries 7/	60.5	27.5	14.3	12.6	5.3	5.7	3.8	4.0	3.0	0.8	0.2	0.5	1.0	0.6	0.9	0.8
Negative-growth countries 8/	64.6	25.2	9.8	11.0	5.2	4.8	3.2	3.4	2.6	0.7	0.2	0.1	0.6	0.5	0.1	0.3
All countries	65.1	19.8	14.3	13.6	5.7	6.1	4.1	4.3	3.1	0.9	0.2	0.2	0.8	0.5	0.5	0.5

Source: Young and Guin-Siu (1997)

1/ YGPC = Growth of real per capita GDP; Y0 = GDP in U.S. dollars/total population; PG = Population growth; TIY = Total gross capital formation/GDP; PIY = Private gross capital formation/GDP; GIY = Public gross capital formation/GDP; SEC70 = Percentage of "secondary school attained" in the total population in 1970; INFL = Percentage change in CPI; DEFYI = Central government deficit/GDP (- if surplus); XG = Percentage change in value of exports of goods; STRUC = Structural change (dummy variable: 1 since the structural change began); OPEN = Measure of openness: (exports + imports of goods and services)/GDP; TTG = Percentage change in the external terms of trade (goods and services); RERG = Growth of real effective exchange rate; BMP = Black market premium; CRI = Government crisis; RIO = Riots.

2/ Countries with real income per capita growth rates greater than or equal to 1 percent per year.

3/ Countries with real income per capita growth rates between 0 and 1 percent per year.

4/ Countries with negative real income per capita growth rates between 0 and minus 1 percent per year.

5/ LIFE = Life expectancy at birth; ILLIT = Overall illiteracy rate, as a percentage of the population over 15 years old; PRIC = Percentage of "primary school complete" in the total population; SEC = Percentage of "secondary school attained" in the total population; SECC = Percentage of "secondary school complete" in the total population; HIGHC = Percentage of "high school attained" in the total population; HIGH = Percentage of "high school complete" in the total population; TYR = Average years of secondary schooling in the total population; TYR = Average years of primary schooling in the total population; SYR = Average years of secondary schooling in the total population; HYR = Average years of high school education in the total population; REV = Average years of primary schooling in the total population; ANT = Antiguovernment demonstration; CAB = Major cabinet changes; STR = General strikes; WAR = Guerrilla warfare.

6/ Countries with real per capita growth rates greater than or equal to 1 percent per year.

7/ Countries with real per capita growth rates between 0 and 1 percent per year.

8/ Countries with real per capita growth rates between 0 and minus 1 percent per year.

compares favorably with those for high-growth countries (0.2) and medium- to low-growth countries (0.5). Other variables proxying political uncertainty⁴ also compare favorably with those of the comparator groups. Thus, given that Honduras' policy- and efficiency-related variables performed well relative to those in the two comparator groups, the offsetting factors driving the country's low growth rates would have to be explained by low productivity of labor and capital. This confirms the indication of low input productivity obtained in the growth accounting calculations.

10. Low labor productivity is usually attributed to low indices of human capital (education, skills, and health). Honduras has much lower indices of **education** than the two control groups. For example, the **illiteracy rate** in Honduras (35 percent) is higher than that of the two control groups: 15 percent and 28 percent, respectively; and the percentage of **primary school completed** in the total population is lower in Honduras at 9 percent, than that in the comparator groups at about 15 percent for each.⁵ Other indices corroborate Honduras' low level of education (see Table 3). The low education level of mature workers may be gauged by examining their school attendance, where Honduras has the worst record among all the countries in the sample. Honduras' percentage of secondary school attained in the total population in 1970 was 3 percent compared with 12 percent for each of the comparator groups.

11. Regarding **investment**, the quantity appears to be adequate, while the quality seems to be low. Gross capital formation as a percentage of GDP in Honduras is 21.4 percent, which is similar to that of high-growth countries (21.7 percent) and higher than that of medium- to low-growth countries (17.3 percent). Empirical studies have found that investment in physical infrastructure, particularly in transport and communications, and in institutional infrastructure such as more effective property rights and judicial system, fosters growth, but that public investment in other areas generally does not. Public investment as percentage of GDP in Honduras (9.6 percent) is higher than that of the two control groups: 6.4 percent and 5.5 percent, respectively.

Time-series analysis of human and physical capital in Honduras

Human capital

12. Levels of education by cohorts and for various years were compiled from surveys that the Statistics Office has conducted twice a year since 1988 (Table 4).

⁴These include riots, major cabinet changes, strikes, revolutions, and guerrilla warfare.

⁵The Pan American Health Organization (PAHO) reports that in 1995, the illiteracy rate in Honduras was 25 percent, compared with an average of 14 percent in Latin America.

Table 4. Honduras: Levels of Education by Cohorts

Cohorts	1988	1992	1997
Panel A: persons without schooling as percentage of total persons in their cohort			
20 - 29	14.6	10.1	10.7
30 - 44	23.3	17.9	16.5
45 - 59	47.5	38.9	32.3
Panel B: persons with either incomplete or complete primary school as percentage of total persons in their cohort			
20 - 29	59.8	57.2	55.9
30 - 44	59.3	57.6	55.2
45 - 59	44.9	49.1	51.8
Panel C: persons with either incomplete or complete high-technical school as percentage of total persons in their cohort			
20 - 29	21.3	26.7	26.7
30 - 44	13.2	19.1	22.9
45 - 59	5.8	9.7	12.8

Source: Statistics Office of Honduras, "Encuesta Permanente de Hogares de Propósitos Múltiples," various issues.

13. These statistics reveal that the **level of education** of the labor force in Honduras is low, and the rate of improvement in the level of education has slowed in the last five years. Panel A shows that illiterate persons as a percentage of total population in each cohort decreased substantially from 1988 to 1992 (an advance in literacy); however, the rate of improvement subsided from 1992 to 1997. A similar concern is revealed when considering persons with either incomplete or complete primary school. Panel B shows the number of persons between the ages of 20 and 44 years with some years of primary school to have decreased relative to the total population since 1988. Also, as shown in Panel C, the number of persons with some years of high-technical school relative to the total population in each cohort has improved from the low level it reached in 1988, but the rate of progress has slowed during the last five years.

14. The **health and nutrition** of the population has improved in the last five years, partly because of improved delivery of these services in the poorest regions of the country.⁶ PAHO reports that in Honduras life expectancy at birth increased from 61 years in 1983 to 68 years in 1995 (compared with an average of 69 years in Latin America), and that infant mortality

⁶Honduras' central government expenditure on health as percentage of GDP averaged 2.6 percent per year during 1992-95 and fell to 2.1 percent in 1996.

decreased from 79 per 1,000 in 1983 to 44 per 1,000 in 1995 (compared with an average of 37 per 1,000 in Latin America).

Physical capital

15. As already noted, the quantity of investment in Honduras, as measured by the ratio of gross fixed capital formation (GFCF) at current prices relative to GDP (20.2 percent on average in 1970–97) seems to be adequate when compared with high-growth-performing countries, but the quality of investment does not. Table 5 shows the ratios of GFCF at constant prices to real GDP for the private and public sectors and for construction and machinery.

Table 5. Honduras: Gross Fixed Capital Formation at Constant Prices

(In percent of real GDP, four-year averages)

	1978–81	1982–85	1986–89	1990–93	1994–97
Total GFCF	21.9	16.5	15.0	19.7	22.5
Private GFCF	13.4	7.0	9.4	11.6	14.8
Construction	3.8	3.4	4.4	5.1	5.3
Machinery	9.6	3.6	5.0	6.5	9.5
Public GFCF	8.5	9.5	5.6	8.1	7.7
Construction	7.4	8.5	4.9	7.3	5.0
Machinery	1.2	1.0	0.7	0.7	2.7

Source: Central Bank of Honduras.

16. Private GFCF as a percentage of GDP decreased in the 1980s but picked up in the early 1990s. Private investment in machinery relative to total private investment has fallen since the late 1970s. From the data presented above, it can be inferred that private investment in machinery as a percentage of total private investment was on average 72 percent in the period 1978–81. It fell to an average of 53 percent during 1982–93 and rose again to an average of 64 percent during 1994–97. Surveys on private investment in construction conducted by the Central Bank of Honduras indicate that its composition was less prone to growth, because a larger proportion of construction was in the residential sector rather than in commercial or industrial activities.

17. Public GFCF was largely devoted to construction rather than to machinery, although in recent years the trend seems to be changing. During 1978–93, public GFCF averaged 7.9 percent of GDP, of which construction and machinery were 7 percent and 0.9 percent, respectively. During 1994–97, public GFCF was at about the same level, but construction and machinery were 5 percent and 2.7 percent of GDP, respectively.

18. The composition of public GFCF reveals that during 1978–93 infrastructure was on average about 60 percent of total public GFCF, and fell to an average of about 34 percent in 1994–96 (Table 6). Public GFCF in infrastructure relative to total public GFCF is rather low for a country like Honduras, which has insufficient infrastructure. During 1978–93, public GFCF in industrial and transport machinery was on average about 8 percent of total public GFCF, and it increased substantially to about 31 percent in 1994–96.

Table 6. Honduras: Composition of Public Gross Fixed Capital Formation

(Four-year averages)

	1978–81	1982–85	1986–89	1990–93	1994–96
Total public GFCF	100.0	100.0	100.0	100.0	100.0
Construction	86.0	88.5	85.6	90.4	63.3
Infrastructure 1/	56.1	70.6	51.5	61.2	33.9
Other 2/	29.9	17.9	34.1	29.2	29.4
Machinery	14.0	11.5	14.4	9.6	36.7
Industrial and transport	8.5	8.0	8.1	6.0	30.7
Other machinery	5.5	3.5	6.3	3.6	6.0

Source: Central Bank of Honduras.

1/ Water-related and sewerage projects, ports, airports and railways, electricity and telephone lines, streets, roads, and bridges.

2/ Public buildings and recreational facilities.

Conclusion

19. Honduras has experienced a long period of low growth in real per capita GDP despite having a relatively high ratio of total investment to GDP. The experience of Honduras across time and in comparison with a sample of better-growth-performing countries in Latin America seems to indicate that the main constraints to growth facing Honduras are low levels of human capital and poor quality of private and public investment. The performances of policy- and efficiency-related variables, exogenous shocks, and proxies for political uncertainty seem to have had less of a negative influence on growth in Honduras than they have had in other countries in Latin America. Instead constraints on per capita growth in Honduras seem to have been caused more by the poor quality of labor and investments.

20. Higher labor productivity is crucial for generating sustainable per capita growth. But improving labor productivity is a long-term endeavor as it takes time and resources to have a healthier, more educated, and skillful labor force. In addition to public investment in education and health, having a more flexible labor market also contributes to improving the skills of the

labor force, as it reduces the cost to private firms of investing in employee training. Increasing the stock and productivity of capital is also crucial to growth. This requires (i) facilitating foreign (and domestic) investments; (ii) modernizing the concession law; (iii) improving the judicial system; (iv) speeding up privatizations in communication, electricity, the pension system, ports, and airports; (v) upgrading prudential regulations and tightening supervision of the financial sector; (vi) further opening the economy; and (vii) eliminating remaining regulations to internal trade.

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Figure 1. Honduras: Growth Real Per Capita GDP

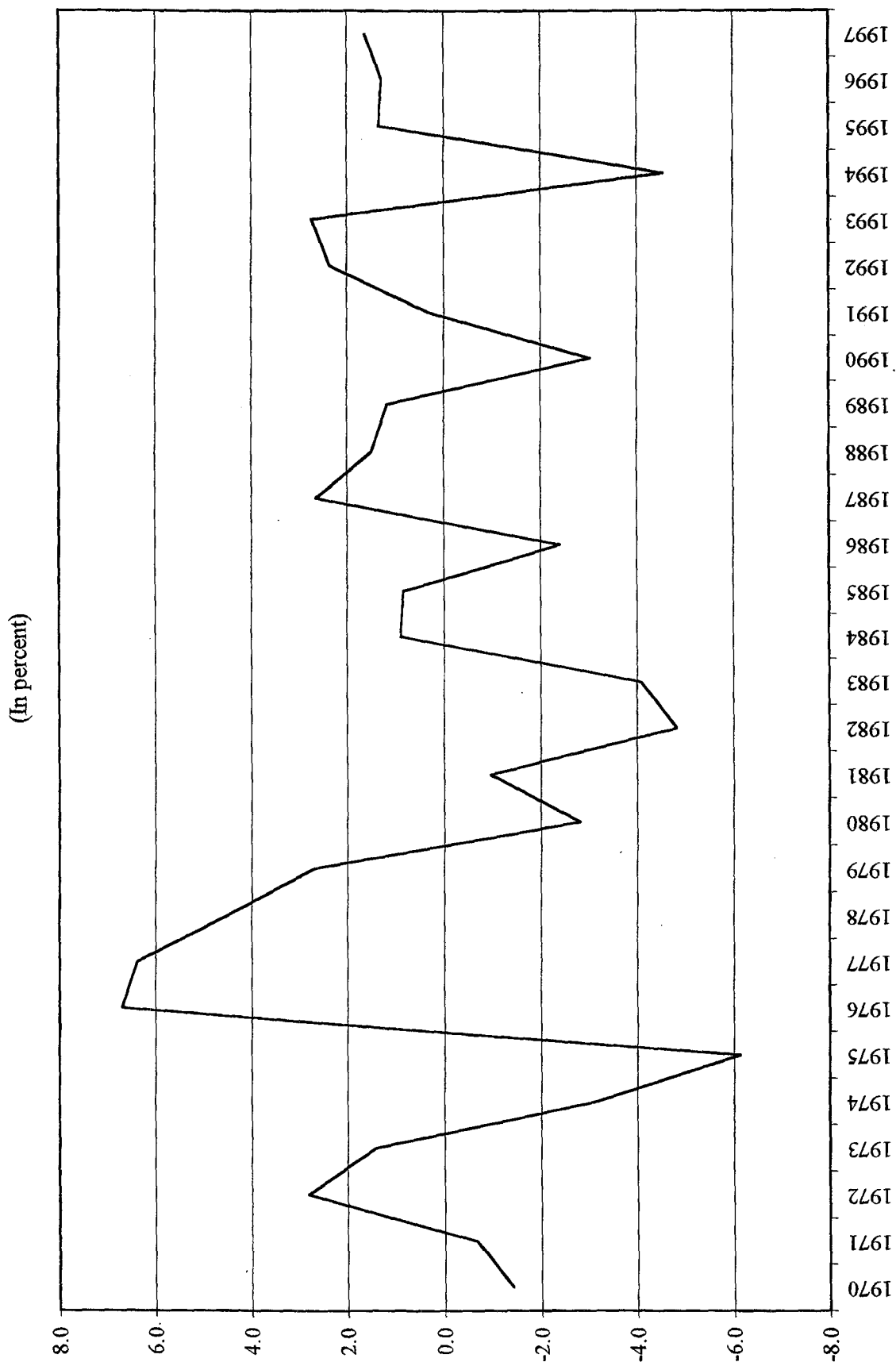


Figure 2. Honduras: GDP Deflator

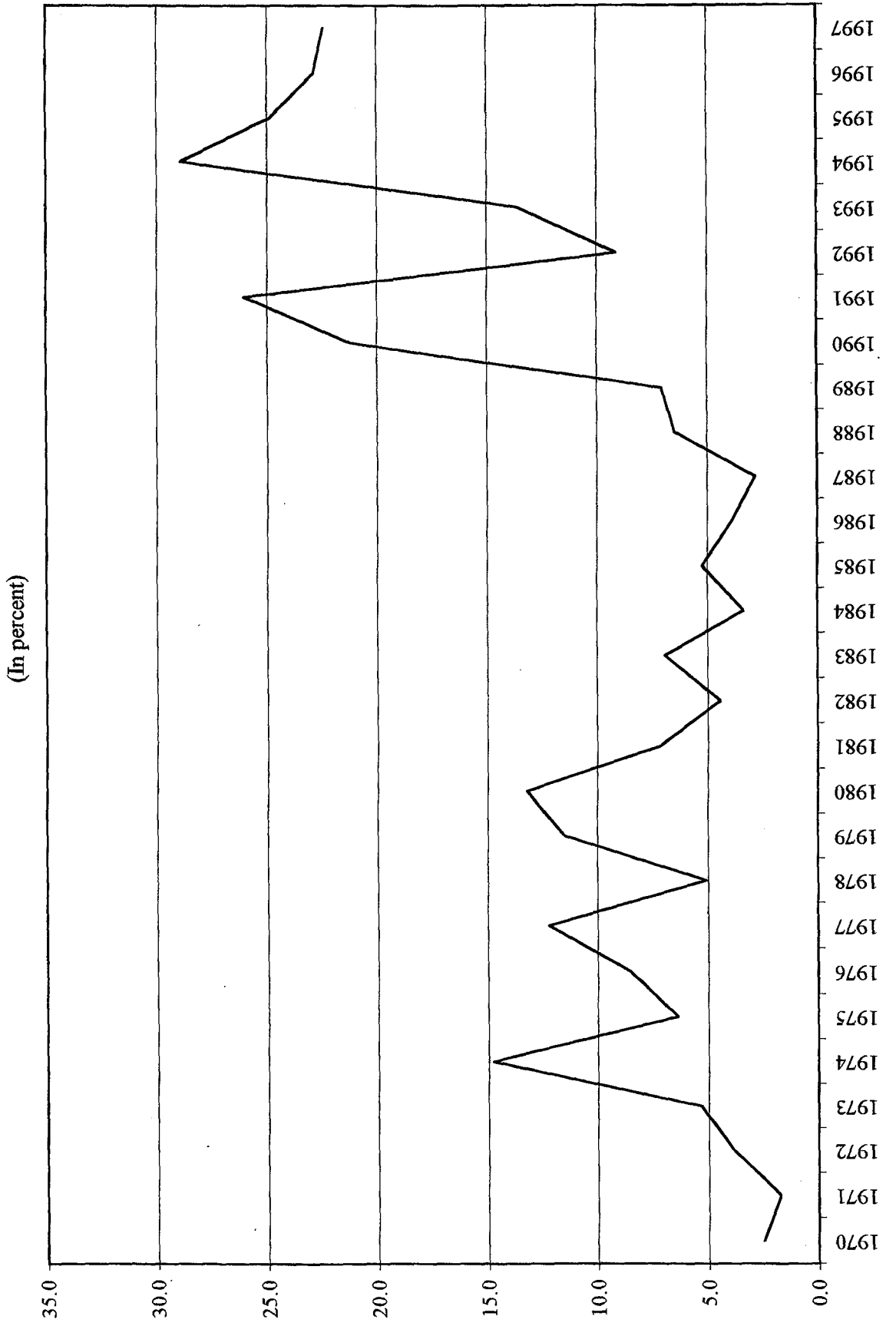
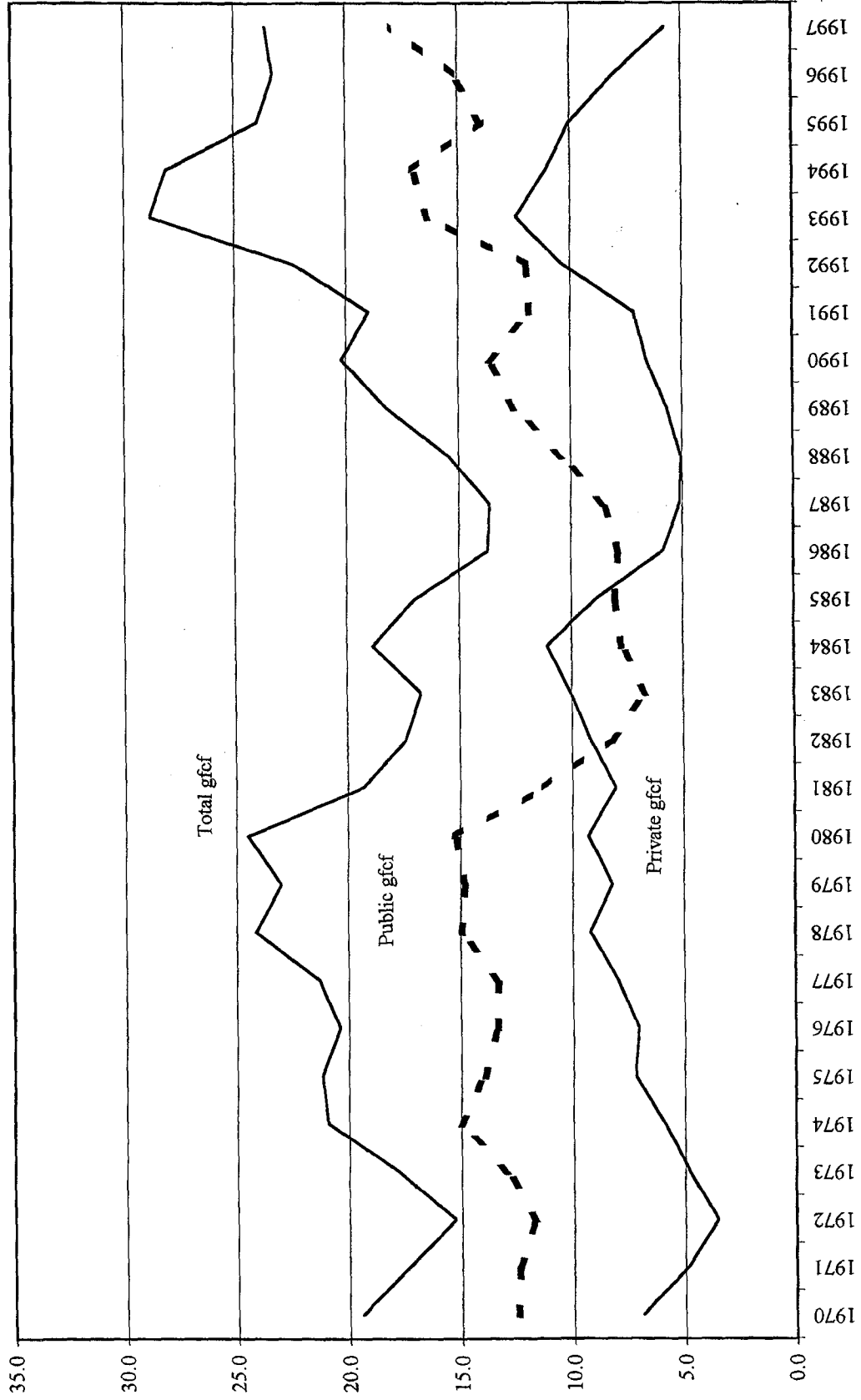


Figure 3. Honduras: Gross Capital Formation

(In percent of GDP)



Growth Accounting Equation

The Solow neoclassical growth accounting equation used in the analysis may be specified as follows:

$$\frac{\Delta y}{y} = \omega_L \frac{\Delta L}{L} + F_K \frac{\Delta K}{y} + \textit{Technological progress} \quad (1)$$

where Δ is the absolute change operator; y denotes real GDP; L and K are stocks of labor and capital; ΔK stands for gross fixed capital formation; ω_L is the share of labor income in GDP; and F_K is the marginal productivity of capital. A more general approach to determine growth, which is based on a cross-section of countries over a specified period, can be formulated as follows:

$$\begin{aligned} YGPC = & \varphi_0 \ln Y_0 + \varphi_1 \ln PG + \varphi_2 \ln TIY + \varphi_3 \ln HCI + \varphi_4 \ln INFL + \\ & + \varphi_5 \ln DEFYI + \varphi_6 \ln XG + \varphi_7 \ln STRUC + \varphi_8 \ln OPEN + \varphi_9 \ln TTG + \\ & + \varphi_{10} \ln RERG + \varphi_{11} \ln BMP + \varphi_{12} \ln PV + \textit{disturbance terms} + \textit{constant} \end{aligned} \quad (2)$$

where:

\ln	= natural logarithm
$YGPC$	= growth of real per capita GDP
Y_0	= GDP in U.S. dollar per capita
PG	= population growth
TIY	= total gross fixed capital formation to GDP
HCI	= a measure of human capital
$INFL$	= percentage change in consumer price index
$DEFYI$	= central government deficit to GDP
XG	= growth in the value exports of goods
$STRUC$	= dummy variable that takes unitary value since the structural change began
$OPEN$	= a measure of openness
TTG	= percentage change in the external terms of trade
$RERG$	= percentage change in the real effective exchange rate
BMP	= a measure of black market premium
PV	= proxy for political variables.

II. KEY REFORMS IN THE PUBLIC SECTOR DURING 1994–98⁷

21. Public sector reforms in Honduras during 1994–98 have focused mainly on improving the structure and efficiency of the tax system, and substantial progress has been made in this area. Some advances were made in efforts to reduce the size of the public sector and increase its efficiency, but in the public enterprises, there is an urgent need for additional investment to satisfy the unmet demand for telecommunications and electricity services, and to upgrade the quality of service in these sectors to meet the increasingly sophisticated demands by users. However, long-standing proposals to increase the role of the private sector in these activities are yet to be implemented.

A. Reforms of the Tax System

22. Revenue reforms implemented during 1994–98 aimed mainly at changing the structure of the tax system by reducing its traditional reliance on foreign trade and income taxes and shifting its focus toward indirect taxes. This shift was predicated on the need to move Honduras' tax structure closer in line with international and regional trends; increase competitiveness; reduce distortions against saving, investment, and exports; and raise the efficiency of revenue administration.

23. The reforms appear to have largely achieved their objectives. By end-June 1998, the tax structure had changed markedly (Figure 4).⁸ The top marginal income tax rate had been lowered sharply and commitments made for a further reduction in 1999; import tariffs had been reduced to levels prevailing in other Central American countries and remaining export taxes were being phased out; the sales tax rate had been raised to a level more in line with those of neighboring countries; and progress had been made in strengthening revenue administration. As to overall performance, over the period 1994–97, central government revenue increased from 16 percent of GDP to 17 percent, and the end-1997 ratio compared well with the combined ratio for Latin American countries.

24. Regarding **income taxes**, the reduction in the ratio to total tax receipts stemmed mainly from (i) the lowering of tax rates (the top marginal tax rate on personal and corporate incomes) fell from 42 percent to 30 percent in 1998,⁹ and the surcharges on profits were eliminated;¹⁰ and

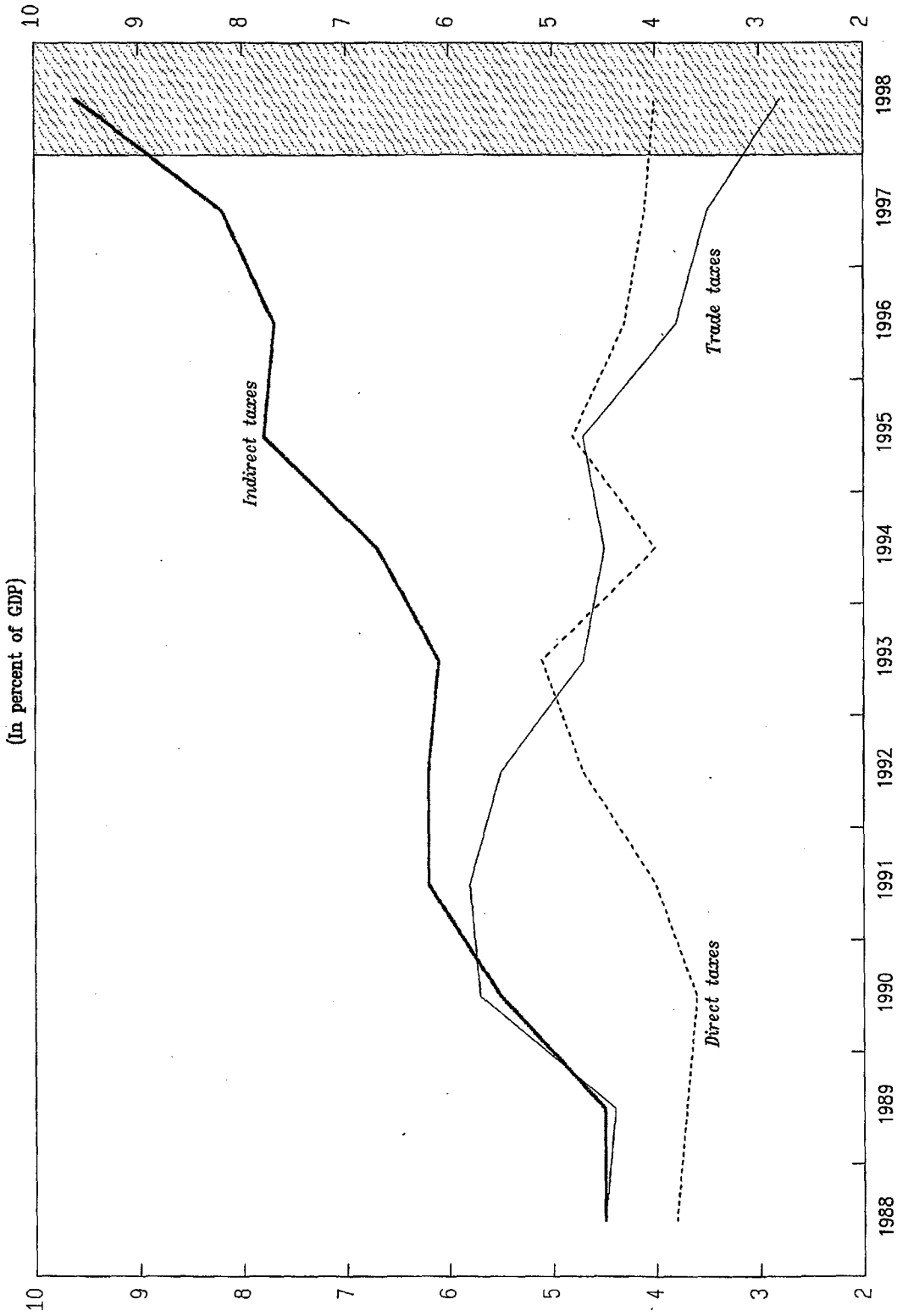
⁷Prepared by Antonio Gómez-Oliver.

⁸At the end of 1997, income and trade-related taxes comprised 24 percent and 21 percent of total government revenue, respectively, compared with 28 percent and 27 percent at end-1993. Over the same period, indirect taxes (other than trade taxes) increased to 49 percent of revenue from 36 percent.

⁹The marginal rate is scheduled to decline further to 25 percent in 1999. The tax rate on

(continued...)

Figure 4. Honduras
CHANGES IN THE TAX STRUCTURE
(in percent of GDP)



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

(ii) raising the minimum income subject to taxation. The decline in the share of **trade taxes** in total revenue was achieved also through a lowering of tax rates as part of an agreement among Central American countries to harmonize their import tariff regime by end-1999.¹¹ In Honduras, import tariffs on capital goods and raw materials were lowered from 5 percent in 1996 to 1 percent in 1998, and those on most consumer goods were reduced from 20 percent to 19 percent. Also, import surcharges and most export taxes (on coffee, meat, and sugar) were eliminated.¹² Reduced reliance on income and trade taxes was compensated mainly through increased collections from the petroleum derivatives and **sales taxes**.¹³ Regarding the former, the most recent change has been to set the tax in terms of U.S. dollars (payable in lempiras at the current exchange rate).¹⁴ The base of the sales tax was widened to include services in 1995, and the sales tax rate¹⁵ was raised from 7 percent to 12 percent in June 1998 (Box).¹⁶

25. Important improvements in **revenue administration** have been made largely through the introduction of a tax code in 1997 (see Box), and reforms in the customs area. The key improvements in the tax code comprised the establishment of a clear legal framework for defining and strengthening penalties for tax evasion and fraud, and for collecting tax arrears that resulted in less discretion in the application of tax rules. The code characterizes tax evasion, tax fraud, and

⁹(...continued)

profits below L 200,000 is 15 percent.

¹⁰The rates of surcharge were 5 percent for profits above L 500,000 and 10 percent for profits above L 1 million.

¹¹The objectives of the regional agreement are to eliminate tariffs on imports of raw materials and of capital goods, and lower tariffs on consumer goods to 15 percent.

¹²The remaining export tax (on bananas) was reduced in 1998 and is scheduled to be eliminated by the year 2000.

¹³At end-1997, these taxes accounted for 10 percent and 22 percent, respectively, of government revenue, compared with 0 percent and 18 percent at end-1993.

¹⁴The specific taxes are as follows: super gasoline—US\$0.80 per gallon; regular gasoline—US\$0.76 per gallon; diesel—US\$0.20 per gallon; and fuel oil—US\$0.08 per gallon.

¹⁵This tax is levied at each stage of production in a noncumulative way allowing a credit for the tax paid in previous stages of production. Investment goods are exempted from this tax and exports are levied at a zero rate.

¹⁶The sales tax rate for alcoholic beverages and tobacco products was raised from 10 percent to 15 percent.

Box. Selected Changes in the Tax System, 1994-98

I. Income tax	The introduction for a period of two years of a 5 percent export tax and a minimum income tax of 10 percent on the windfall profits of coffee producers.	1994
	The introduction of a 1 percent on the gross assets of firms.	
	An increase in the minimum taxable income from L 20,000 to L 50,000 per year.	1996
	A reduction in the personal income tax rates from a maximum of 42 percent to a maximum of 30 percent.	
	An increase in the minimum taxable income from L 50,000 to L 70,000 in 1998 and to L 90,000 in 1999.	1998
	A reduction in the main corporate income tax rate from 35 percent to 30 percent in 1998 and to 25 percent in 1999. The two surcharges were eliminated.	
	A gradual elimination of the Net Assets Tax from 1 percent in 1998 to 0 in 2002.	
II. Trade taxes		
a. Imports	The elimination of a 10 percent import surcharge and the reduction of a customs service charge on all imports from 5 to 3 percent.	1995
	The reduction of the import tax on capital goods from 5 percent to 3 percent, and to 1 percent as of January 1, 1997.	1996
	An increase in the import tax on petroleum derivatives from L 2.00 to L 7.00 per gallon of gasoline and from L 0.50 to L 2.10 per gallon of diesel.	1996
	The reduction in the customs service charge from 3 percent to 1.5 percent, as of December, 1996, and to 0.5 percent as of April 1, 1997.	1996
	The import tax on raw materials was reduced from 5 percent to 3 percent, as of June 1, 1997, and to 1 percent as of December, 1997.	1997
	The import tax on most consumption goods was reduced from 20 percent to 19 percent as of December, 1997. 1/	
	Elimination of the 0.5 percent customs service charge on imports of raw materials and capital goods, starting on June 1, 1998.	1998
b. Exports	The elimination as of January 1, 1995 of a 1 percent surcharge in the value of all exports. (It was estimated that the three measures implied a revenue loss of 0.7 percent of GDP.)	1994
	The introduction for a period of two years of a 5 percent export tax.	
	The elimination of the 5 percent export tax part on the windfall gains on coffee.	1995
	The elimination of the 10 percent income-tax on windfall gains on coffee.	1996
	The elimination of the exports tax on shrimp and meat.	
	An elimination of export taxes on most products (shrimp, lobster, meat, sugar, etc.) And a gradual reduction in the tax on bananas' exports to US\$0.18 per box in 1998 to US\$0.04 per box in 2000.	1998
III. Other indirect taxes		
Sales tax	The expansion in the base of the sales (value added) tax to include services.	1994
	An increase in the sales (VAT) rate from 7 percent to 12 percent starting in June 1998.	1998

1/ Excluding textiles.

smuggling as crimes that carry fines or penal sanctions that are related to the size of the crime.¹⁷ There also are provisions in the code for (i) sanctions for recidivism that may include confiscation or seizure of merchandise, temporary closure of business, and the loss of concessions and exemptions; and (ii) permitting the tax office to estimate tax liabilities through the use of third party sources of information. In the customs area, the introduction in August 1997 of the Simplified Automatic Customs System¹⁸ permitted faster processing of customs requirements and the elimination of discretion exercised by the customs agents over customs valuation and taxation. Partly reflecting these changes, customs revenue rose on average by about 30 percent in the second half of 1997,¹⁹ compared with collections in the same period in 1996.

26. Despite the progress made, a number of issues in tax policy and revenue administration remain to be addressed. These include the need to (i) reduce tax evasion and the scope of tax exemptions; (ii) strengthen further the tax office by additional training to upgrade the skills of tax collectors; and (iii) pay competitive salaries to attract and retain competent tax administrators. Regarding evasion, estimates done 3–4 years ago indicated that it accounted for about 35–40 percent of actual income tax collections. While recent improvements in tax administration (including the 1997 Tax Code) have probably led to a decline in this ratio, it remains high. Exemptions from income, trade, and the sales tax recently expanded in April, when these exemptions—previously available only to exporters in the free trade zones—were extended to all exporters.²⁰ Recent decisions by the government have also resulted in exemptions from import taxes to private generators of electricity, and from income taxes in the case of exporters. Estimates of the annual fiscal loss from these actions range from 0.3–0.7 percent of GDP.

B. Other Public Sector Reforms

27. The government's Public Sector Modernization Program (PSMP) that was initiated in 1996 with support from the World Bank and the IDB aims at (i) promoting greater private sector participation in the economy and reducing the role of the state to regulation and consumer protection; and (ii) improving public administration through greater efficiency,

¹⁷The penalties range from 1 day to 20 years of prison for smuggling, tax fraud, and tax evasion.

¹⁸A system created by the UN which is already being applied in other countries like Mexico. The system was introduced in Honduras with technical and financial assistance from IADB.

¹⁹The increases in the main customs (La Mesa, in San Pedro Sula and Toncontin), in Tegucigalpa were above 35 percent with respect to revenue during the same period in 1996.

²⁰Exemptions from the sales tax include goods comprising the basic consumer basket and certain public services, such as electricity.

transparency, and accountability, and steps to curtail current expenditure. A main objective of the reform of public administration is to reduce employment associated with nonpriority programs, and revise the salary structure by decompressing it and giving greater scope for increased salaries for technical and specialist staff.²¹

Private sector participation in the economy

28. Since 1990, governments have recognized the need for increased private sector participation in the economy, especially in the provision of basic services (telephones, electricity, and other infrastructure). The following are the main initiatives currently being pursued by the Flores administration:

- In the **telecommunications** sector, preparations are being made for the sale to the private sector of shares in the company that will be granted a long-term concession to provide all basic telephone services. In this regard, approval by congress of a proposal to launch the process leading toward the sale of shares is expected shortly. Also, the new regulatory body for the telecommunications sector is studying the adequacy of existing tariffs.
- In the **electricity** sector, the private sector already participates in generation, and a single new regulatory body has been set up. The next steps currently being worked on include putting into place a tariff system based on costs and initial steps toward separating the finances and administration of the 3–4 regional distribution companies that will be formed out of the current, single state-owned entity, in anticipation of the invitation for bidding for those companies.²²
- In **civil aviation**, international advisory firms have started work on (i) the preparation of a strategy for awarding management and concession contracts to the private sector for the operation and navigation services of all the country's main airports; and (ii) an assessment of the financial condition of the airports.
- Regarding **other sectors**, the reform program aims, inter alia, at ensuring an efficient road transportation network by continuing the system of long-term maintenance contracts with private firms; and implementing a road fund (*Fondo Vial*) to finance road maintenance—funded through proceeds from toll roads.

²¹Estimates indicate that the ratio of compression (highest salary as a multiple of lowest salary) increased from about 5 to 1 in 1994 to 7 to 1 in 1997.

²²In recent years electricity distribution has been plagued by inefficiency, and has experienced losses equivalent to about 27 percent of generation.

Reform of public administration

29. Restructuring of the key ministries and departments has focused on improving the organization of the public sector by eliminating obsolete activities and functional duplication. Some progress has been made in transferring some activities to the private sector (for example, agricultural research), reducing the number of institutions (such as the planning office), and eliminating vacancies. Also, these efforts have led to a substantial reduction of permanent **employment** since 1993. The absence of accurate coverage and accounting for positions makes it difficult to reach firm conclusions about progress in this area.²³ However, it is estimated that between end-1994 and end-1997 public sector employment (excluding personnel in the health and education areas) fell by 13.4 percent—equivalent to 6,050 positions (14.3 percent in the central government and 12.3 percent in the rest of the nonfinancial public sector).²⁴ An audit to update statistics on employment, skills, and positions in the public sector is currently being carried out with World Bank assistance, with a view toward identifying other areas of duplication. The audit will also set the basis for a comprehensive human resources policy in the public sector aimed at improving the incentive structure, reclassifying posts in order to allocate higher salaries to scarce skills, and restoring the differential between the lowest and highest salaries.²⁵

Expenditure policy and management

30. At about 26 percent of GDP, noninterest expenditure of the public sector in Honduras is high relative to the Latin American region. Efforts to rationalize spending in the central government have been hampered mainly by the high degree of inflexibility caused by the earmarking of revenues for specific spending purposes; the substantial, across-the-board wage awards in recent years that have offset the saving achieved through the reduction in employment noted above; and the still large proportion of the budget allocated to debt service. These factors have reduced the scope for discretionary expenditure policy.

31. On **earmarking**, various rules have developed, some of which are incorporated in the constitution, that allocate fixed amounts of government revenue to specific agencies or purposes. For example, transfers are earmarked to the national university (6 percent of total revenue), the supreme court (3 percent), municipalities (5 percent), and the tax administration (DEI) (2.5 percent). Most other transfers and subsidies which are not earmarked (including

²³An audit of positions in the central government is currently being carried out.

²⁴Part of that reduction was offset by an increase by about 1,700 positions in the ministry of education.

²⁵A 1994 report by the World Bank noted that in the central government administration about 30 percent of employees had, at most, a primary education, and that professional and technical staff represented only 20 percent of employees.

those to producers of coffee, basic grains, and cement) were eliminated in 1994–95. However, others have remained or increased, such as those for middle-income electricity consumers and for bus owners. Inadequate tariff policies and operational inefficiencies in the state electricity company (ENEE) have also led to the need for government support to ENEE equivalent to about 1 percent of GDP a year.

32. The **wage bill** of the central government as a proportion of total primary expenditure increased from 28 percent in 1993 to 37 percent in 1997.²⁶ Over the same period, the proportion of spending on goods and services and current transfers rose from 29 percent to 35 percent. That of capital expenditure fell from 40 percent to 24 percent, or from 5 percent of GDP to 4 percent of GDP. Toward the end of 1997, the basis was laid for a further expansion in the wage bill as a result of an agreement by the government to wage awards to physicians and teachers averaging 30 percent a year for three years beginning 1998.

33. The government recognizes that a successful fiscal policy will depend on tackling the rigidities that derive from earmarking, introducing a revised wage policy based more closely on performance, and improved financial management through greater attention to establishing expenditure priorities, centralized cash management in a single account at the central bank, and better control over the flow of spending during the fiscal year. Regarding earmarking, discussions are taking place with the university authorities with a view to improving resource use, and it is expected that tariff adjustments for electricity will reduce the scope of subsidies. As noted above, on wages, the technical assistance being provided by the World Bank will help to rationalize employment and salaries beginning in 1999. In the area of financial management, the government has begun to implement the recommendations of the Fund and the World Bank technical assistance. A single cash account has been established—with efforts being made to include all transactions under that account, and under the integrated financial administration system (SIAFI) the ministry of finance is exercising better control over budget execution and adherence to spending limits.

III. RECENT DEVELOPMENTS IN MONETARY POLICY AND BANK SUPERVISION²⁷

34. Throughout the 1990s, the government's main monetary policy objective has been to achieve rates of inflation that were much lower than the levels—ranging from 12–30 percent—that have prevailed during 1990–96. This objective was included in virtually all of the authorities' economic programs, and was to have been achieved through reducing the fiscal deficits, greater reliance on open market operations, liberalizing interest rates, and ensuring compliance with reserve requirements. In the event, despite progress in reducing fiscal

²⁶The estimate for 1998 is 40 percent.

²⁷Prepared by Carlos Piñerúa.

imbalances (the combined fiscal deficit narrowed from 9 percent of GDP in 1993 to 4 percent in 1996), inflation at end-1996 stood at 26 percent. A tightening in monetary for most of 1997 as well as a real appreciation of the exchange rate and a more restrictive fiscal policy during that year led to a marked decline in inflation to 13 percent at end-December. The inflation rate stood at 14 percent at end-July 1998. This section summarizes recent key developments relating to monetary policy instruments.

A. Indirect Instruments

35. The central bank conducts open market operations through periodic auctions of its own (90 day) paper (*certificados de absorción monetaria (CAMs)*), as well as treasury bonds of maturities ranging from 60 days to 1 year. Until early 1997, the participants in the auction presented their bids (quantity demanded and price offered) prior to the time of the auction, and the central bank pre-announced the cut-off rate—which was the same for CAMs and bonds, and the quantity to be auctioned. As a result, and due to the central bank's failure to adjust the cut-off rate to reflect seasonal changes in monetary conditions, market participants—and not the central bank—determined the amount that was effectively auctioned, which was at times well below the amount indicated in the bank's monetary program. In 1996, for example, the bank had only limited success in placing its own paper; and the stock of CAMs issued (excluding those held to meet reserve requirements) increased only by about L 150 million.²⁸

36. In January 1997, the Central Bank of Honduras (CBH) issued a resolution modifying its bond auction system. The key change consisted of terminating the pre-announcement of the cut-off rate. Instead it was decided to introduce a system in which the rate on government and central bank paper would be determined on the basis of offers received up to the amount auctioned by the bank, which itself was to be based on the authorities' monetary program. Prior to each auction, the central bank provided information to market participants on the maximum and minimum rates offered and accepted in the previous auction. As a result of these measures, as well as the introduction of limits on noncompetitive bids (including limiting the participation of government entities in the competitive bidding process), and the improvement in macroeconomic performance, the bank was able to conduct a more effective monetary policy, as reflected by an increase in the outstanding stock of CAMs from L 208 million to L 510 million (about 20 percent of currency in circulation at the end of 1996).²⁹ The improved fiscal situation and greater effectiveness in open market operations

²⁸This excludes those held by public sector entities.

²⁹The stock actually reached in excess of L 1.4 billion at end-September as the central bank made substantial efforts to sterilize the effects of inflows from higher coffee proceeds. Also, the bank was able to place in the market central government bonds in the amount of about L 700 million that were previously held by commercial banks to meet reserve requirements.

was accompanied by a notable reduction in auction rates from 36 percent in January to 22 percent in December 1997.

37. On March 5, 1998, the bank issued a resolution aimed at allowing wider participation by a larger number of financial institutions in the auction of government and central bank paper and stimulating competition and efficiency in auction. As a result, as of end-June, six commercial banks had signed agreements to participate in the auctions,³⁰ and as of end-June 1998, the stock of central bank certificates outstanding had increased by L 900 million (excluding those held by government entities), or about 11 percent of monetary base at the beginning of the year.³¹

B. Reserve Requirements

38. Since 1996, the CBH has tried to reduce the cost of financial intermediation by increasing the rate of remuneration on required reserves while reducing the nominal level of legal requirements. Prior to January 1997, reserve requirements (34 percentage points in the case of commercial banks; 21 points for development banks; and 15 percentage points for investment companies) were met by holding a combination of cash and deposits at the CBH (11 percentage points in the case of commercial banks), government bonds (bearing interest rates of 4 percent, 6 percent, and 12 percent, depending on the issue), special central bank certificates (equivalent to up to 7 percentage points of total deposits and remunerated at an interest rate equivalent to the average deposit rate),³² and government (including central bank) bonds sold at auctions (a maximum of 2 percentage points).³³ These high reserve requirements—remunerated in most cases at below-market interest rates—contributed to disintermediation, as evidenced by the growth in the number of unregulated financial institutions and in off-balance-sheet transactions.

³⁰Up to that point, stock brokers in the two existing exchange houses had exclusive rights to participate in the auctions while receiving a 0.35 percent commission from the CBH. With the new regulation, the CBH offered to pay the same commission to other financial agents willing to participate in the auctions.

³¹During the same period, the interest rate on government paper had declined from 21.9 percent to 19.4 percent.

³²This rate was adjusted every month on the basis of changes in the average deposit rate; the rate at end-1996 was 21 percent per annum.

³³This only highlights how cumbersome the reserve requirement system was before the January 1997 reform. Also, while only commercial banks had to meet their requirements by holding cash and deposits at the CBH (at least 11 percentage points), this requirement did not apply to development banks or investment companies.

39. In early 1997 the CBH introduced a major overhaul of the reserve requirement system in an effort to simplify it and reduce existing distortions. Reserve requirements were unified at 12 percent (to be met only by cash-in-vault and deposits at the CBH) for all financial institutions and across all types of financial obligations (including dollar deposits). Also, in order to limit the monetary effects of the nominal reduction in reserve requirements and reduce the implicit rate of taxation on intermediation, the CBH established that the difference between the existing rate and the new 12 percent level was to be made up by the obligatory purchase of CBH certificates remunerated at the average deposit rate.³⁴ Furthermore, in April and August 1997 the obligatory purchase requirement was reduced by 1 and 2 percentage points, respectively. In an effort to further reduce financial intermediation margins, while phasing out reserve requirements in the conduct of monetary policy, in April 1998 the CBH reduced obligatory deposits by 2 percentage points.³⁵

40. Until late 1997, the effective implementation of monetary policy had been constrained by the widespread noncompliance with and avoidance of reserve requirements by financial institutions. Avoidance took the form of the banks' conversion of deposit liabilities into other types of financial liabilities (such as bankers' acceptances), which bankers interpreted as not being subject to reserve requirements. Avoidance also occurred through the transfer of banks' deposits to their nonbank subsidiaries which were subject to lower reserve requirements and less stringent supervision.

41. On March 13, 1997 the central bank issued a regulation clarifying the nature of instruments subject to reserve requirements. The regulation restated the objective of the legislation and earlier central bank resolutions which stressed that all liability instruments of the financial institutions, including deposits and all other instruments which are part of the process of financial intermediation, are subject to reserve requirements. Beginning on April 10, the Banking Commission (CNBS) began assessing reserve requirements on a monthly basis, calculating fines for noncompliance based on this definition.

C. Other Policy Instruments

- Effective late 1997, the central bank ceased granting credit for agriculture and other productive activities and housing through its specialized development funds

³⁴Government paper (bearing below-market rates) that up to that point was used to meet reserve requirements was replaced by these CBH certificates; the CBH in turn sold the government bonds in auction after the government agreed to increase the coupon rate to that determined by the market.

³⁵Reserve requirements on both domestic and foreign currency liabilities remained at the level established in early 1997—12 percent of deposit liabilities.

FONDEPRO and FOVI.³⁶ All of the development bank activities carried out by the central bank were transferred to a second-tier bank (FONAPROVI) that was created in October 1997.

- The central bank operates a lender of last resort facility for commercial banks facing liquidity problems. These credits have a maturity of up to a year, and bear a penalty rate of interest equivalent to the average maximum lending rate in the system plus 4 percentage points. These loans are collateralized by transferring custody to the central bank of physical assets or ownership shares of the bank in question.
- Until April 1997, the central government was able to receive credit from the CBH by running overdrafts on the treasury account held at the central bank. For the first L 70 million in overdrafts, the government would pay a rate of 12 percent per annum and the latest auction rate for any amount exceeding L 70 million. The scheme was modified with the approval of the reforms to the central bank law that explicitly limit any direct credit to the government, except under emergency situations and seasonal shortfalls.³⁷

D. Banking Supervision

42. In October 1995, congress approved a law creating the National Commission for Banking and Insurance (CNBS). This commission would be responsible for issuing and enforcing all prudential regulations while absorbing all banking supervision tasks from the CBH. As such, the central bank law was modified to allow for the transfer of the superintendency of banks (SB)—up to that point a department in the CBH—to the newly created CNBS. In addition, the commission was given the jurisdictional powers to monitor compliance with reserve requirements.

43. The transfer of the SB to the CNBS was a tumultuous process. Approximately 50 percent of its personnel—mostly at a very specialized level—left the SB between May and June 1996, as they failed to get a compensation package comparable to the one they had at the CBH. As a result, the operative capacity of the new SB deteriorated and with it the level of prudential supervision in the banking system, with a parallel deterioration in the degree of monetary policy control.

44. The transition period meant a loss in monetary control given the SB's inability to enforce reserve requirements in the absence of trained personnel and the lack of credible

³⁶The credit lines were made available to banks at an interest rate of 23 percent (unchanged since December 1994), and the banks were allowed in turn to charge 28 percent to the final borrower.

³⁷The reforms to the law did not include setting a specific limit on indirect credit.

sanctions. The SB's task was further complicated by the emergence of new financial instruments and institutions in the financial market, particularly as the existing legal framework was not clear about the treatment—as regards reserve requirements—to be given to these innovations.

45. In recent months, the commission, with support from the central bank and technical assistance from the Fund, has been making more determined efforts to improve bank supervision. Recent measures taken include:

- the placement of limits in June 1997 on short-term foreign debt by commercial banks equivalent to 50 percent of capital and reserves. This regulation was modified in April 1998 to limit total foreign indebtedness to no more than three times capital and reserves;
- the issue of regulations in June 1998 on risk-weighted minimum capital requirements following Basle Committee rules (8 percent of capital to be raised to 10 percent by mid-1999);
- the minimum capital requirement for commercial banks was raised in September 1997 from L 30 to L 50 million (US\$4 million);
- publication of a new accounting manual—effective January 1998—intended to facilitate the auditing process (also helps in assessing compliance with reserve requirements);
- in October 1997 norms were issued on portfolio valuation procedures; and
- in March 1998 a specification of sanctions was issued, establishing penalties for noncompliance with prudential norms and regulations.

46. Other proposals being considered include (i) a framework for regulating connected-lending; (ii) regulations for open foreign currency position and maturity matching; (iii) establishment of a credit bureau; (iv) introduction of a CAMEL-based system for rating banks; (v) establishment of a deposit insurance scheme; and (vi) regulations over the activities of the stock exchange and pension funds.

IV. PENSION SYSTEM³⁸

A. Introduction

47. This chapter reviews the basic features of the pension system in Honduras and main elements of proposals for reform. The pension system is based on a pay-as-you-go scheme and comprises a diversity of regimes managed by the state. The main concerns facing the pension system are that it is unviable in the medium term as current contributions are insufficient to cover future benefits; dispersed benefits and contributions have led to inequities among affiliates; and other distortions have weakened the role of the system as a provider of an adequate pension for retirement.

48. The pension reforms being considered by the government are designed to strengthen the financial position of the system, unify benefits and contributions, and improve management and supervision. The proposals envisage a basic pension to be provided by a public sector scheme, supplemented by a defined-contribution scheme based on individual contribution accounts, managed by the private sector. The government is seeking support from the labor and business sectors for the proposed reform and expects to submit the proposal to congress by end-1998.

B. Features of the Present System

49. The social security system in Honduras entails the pension system (old age, disability, and survivor) and a medical program (basic health and maternity benefits). The pension system comprises (i) the pension regime of the Honduran Institute of Social Security (IHSS) which constitutes the largest component of the system;³⁹ (ii) two other regimes for basic education teachers (IMPREMA) and public sector workers (INJUPEMP); and (iii) special regimes for the army, state university, central bank, and journalists, which account for less than 1 percent of the labor force (Table 1). There are also a few small private pension funds based on individual contribution accounts that emerged in recent years to complement the pension benefits of the public sector regimes. The pension system is largely unsupervised and private pension funds are not guaranteed by the state.⁴⁰

50. **Coverage of the system** is limited to main urban centers and fails to incorporate workers in the informal sector. Coverage has expanded slowly since the pension system started operating in 1972, with the number of contributors rising from 18 percent of the labor

³⁸Prepared by Mario Garza.

³⁹IHSS is also the main provider of medical benefits in the social security and most members of the other pension regimes participate in this program.

⁴⁰Legislation is being considered to address this weakness.

force in 1989 to 22 percent in 1997. The dependency ratio (i.e., the number of contributors to retirees) was 24:1 in 1997, reflecting the short life span of the system.

51. **Pension contributions** are dispersed and rely on the share paid by the state. Contributions to the IHSS amount to 4 percent of an employee's salary (1 percent paid by the employee, 2 percent by the employer, and 1 percent by the government). For IMPREMA and INJUPEMP, contributions total 18 percent of an employee's salary (7 percent paid by the employee and 11 percent by the government). In the special regimes, contributions range from 15 to 35 percent of an employee's salary, with the treasury's share reaching up to 18 percent of an employee's salary (Table 2).

52. **Pension benefits** are also dispersed, mirroring the structure of contributions. The pension benefit from the IHSS consists of 40 percent of the basic salary (the average nominal contributory wage earned in the last 5 years) plus 1 percent of the basic salary for each year beyond 5 years of contribution. Pension benefits from IMPREMA and INJUPEMP consist of 3 percent and 2.75 percent of the basic salary (the average nominal wage earned in the last 3 years) for each year of service, respectively. Pension benefits are not adjusted by the change in consumer prices. **Eligibility for benefits** from the IHSS requires 15 years of contributions with a minimum retirement age of 65 years for men and 60 years for women. For IMPREMA and INJUPEMP, the requirement is 10 years of service with a minimum retirement age of 50 and 58 years, respectively.

C. Issues and Problems

53. On an actuarial basis, the weak financial position of the pension system stems mainly from excessive pension benefits relative to contributions. Under current life expectancy rates and eligibility rules, the (capitalized) value of contributions made to the IHSS for 20 years would only cover about half of future pension benefits paid to a male retiree (35 percent for a female due to a longer life expectancy). Despite higher contribution rates, this ratio would be about 55 percent for a retiree from IMPREMA and 85 percent from INJUPEMP. At the same time, the total reserves of the pension system (estimated at about 5 percent of GDP at end-1997) have been poorly managed over the years, as they had been used to cover the deficit of the medical program, invested in low-yield housing projects, and diverted to subsidized lending programs. Overdue employers' contributions to the system stood at 0.5 percent of GDP at end-1997.

54. Notwithstanding these problems, the operations of the social security system recorded a small cash surplus during the period 1993-97 (Table 3). Reflecting the large number of contributors relative to retirees, contribution revenue (1.7 percent of GDP per year) exceeded pension and medical benefits (0.6 percent of GDP per year) over this period. At the same time, interest earnings on the system's reserves amounted to 0.8 percent of GDP a year while wages and other current expenditure averaged 0.6 percent of GDP a year. Social security

savings (1.4 percent of GDP a year) were mostly used to cover capital outlays related to housing and lending programs to the system's affiliates.

55. The pension regime of the IHSS has been severely undermined by the use of a contributory salary ceiling, which has been fixed in nominal terms since the inception of the medical program in 1962. The contributory salary ceiling stands at L 600 per month for the two main cities where most contributors reside. To partly offset the adverse effect of inflation on contribution revenue, the IHSS broadened its affiliation base to include other urban centers and in-bond activities and set ceilings of L 1,500 and L 2,000 per month for these new affiliates. The low ceilings have effectively diluted pension benefits to a fraction of the minimum wage for many retirees and made contributions to the medical program insufficient to cover its operating costs.

56. The pension regimes of IMPREMA and INJUPEMP had engaged over the years on nonpension activities such as subsidized lending (mortgage and personal loans) and low-income housing projects for selected affiliates. This practice has not only affected the financial position of these two regimes but also constituted a source of inequity among affiliates. An additional source of inequity in the system arises from a higher state contribution to the regimes of IMPREMA and INJUPEMP which has contributed to make pension benefits from these regimes more generous relative to those from the IHSS.

57. The pension system has also discouraged labor mobility because past contributions are partly recognized when affiliates shift from one pension regime to another due to changes of employment. In the case of the IHSS, only those contributions paid by the affiliate are returned (those paid by the employer and the state are appropriated by the IHSS) while, in the case of IMPREMA and INJUPEMP, all past contributions made on behalf of the affiliate are paid back, although the value of contributions is calculated using below-market interest rates.

58. In addition, the pension system has lacked a supervisory framework to oversee its operations and suffered from deficiencies in the management of the pension regimes, which has resulted in high administrative costs. More specifically, practices for internal control and assessment of budget execution have been weak, with delays in the issue of financial statements for the various regimes. Moreover, an adequate system for monitoring and control of subsidized loans is not in place, contributing to a high share of overdue loans, while a lack of expertise and poor management in the implementation of housing projects have resulted in sizable financial losses.

D. Proposed Pension System

59. The proposed pension reform aims at establishing a defined-contribution scheme, allowing private sector participation in the provision of pensions, setting up a supervisory framework, and eliminating inequities in the structure of benefits and contributions. The main elements of the proposed reform are as follows (see Tables 2 and 4):

- **Structure:** the proposed system would comprise (i) a public sector component managed by existing pension institutions (i.e., IHSS, IMPREMA, and INJUPEMP) to provide for a basic pension (basic pillar); and (ii) a private sector component to provide a complementary pension (complementary pillar). Private pension funds would be allowed to operate the complementary pillar and individual contribution accounts would be developed for both pillars.
- **Benefits and contributions:** pension benefits from both pillars would be strictly based on capital accumulated through worker contributions and returns on those contributions. The pension contribution would be 3 percent of an employee's salary for the basic pillar, 8 percent for the complementary pillar, and 3 percent for disability and survivor insurance. The contributory salary would be subject to a ceiling of 10 times the minimum wage. The retirement age would be set up at 65 years of age for men and 60 years for women.
- **Coverage:** current affiliates to the IHSS pension regime, affiliates to other pension regimes under the age of 30 years, and new affiliates would join the new system. Other affiliates may voluntarily shift to the proposed system. Past contributions made to the present system would be shifted to the individual accounts in the proposed system.
- **Regulatory framework:** a supervisory authority would be established to oversee the operations of the existing and new pension systems. Prudential provisions would also be set up for capital requirements, investment rules, and entry/exit guidelines for private pension funds. Public pension funds would be subject to performance criteria for management and profitability of reserves, and control over administrative costs. The supervisory authority would also regulate commissions, enforce contribution collection, and assess quality of portfolio. An investment grading commission would periodically review investment guidelines and risk, while insurance companies would be allowed to offer life pension annuities to retirees in exchange of accumulated capital.
- **Overhaul of the present regimes:** the pension regime and medical program of the IHSS would be split into separate operations while the contributory ceiling would be raised to 10 times the minimum wage. The envisaged increase in contribution revenue would allow coverage of health services to expand while eliminating the deficit of the medical program. Subsidized lending and housing programs would be discontinued while the state pension contribution would also be eliminated.
- **Transitional regime:** to encourage the shift to the proposed system, pension contributions for workers that decide to remain affiliated to the IMPREMA, INJUPEMP, and the special regimes would be kept at about 18–19 percent of the workers' salary (compared with combined contributions of 14 percent under the new

system) while the retirement age in these regimes would be raised by one year per annum to the same age as in the proposed system.

60. The proposed pension system would improve the sustainability prospects of the pension system and encourage workers' affiliation, as contributions would be linked to future pension benefits. Nevertheless, the authorities would need to assess the potential fiscal cost of the reform (such as a loss of contributions from the shift of workers to the new system) and the policy response to absorb the transitional costs of the reform. To avoid delays in implementing the reform, the authorities should introduce first those measures that require no congressional approval such as the envisaged steps to overhaul the current pension regimes, together with stepwise increases in the contributory rate to the IHSS, and in the retirement ages for the other pension regimes.

Table 1. Honduras: Main Features of the Present Pension System

Features	Pay-as-you-go Scheme		
	IHSS	IMPREMA	INJUPEMP
Participants	Workers in the private sector and local governments	Teachers of primary and secondary education in the private and public sectors	Workers in the central government, legislative and judicial powers, public enterprises, and most decentralized agencies
Contributory salary ceiling	Contributory salary is subject to ceilings of L 600, L 1,500, and L 2,000 per month depending on place of residency	Actual salary	Actual salary
Basic wage	Average nominal contributory salary during last 5 working years.	Average wage during last 3 working years	Average wage during last 3 working years
Retirement age	65 years for men and 60 years for women; and 15 years of contribution	50 years and 10 years of service	58 years and 10 years of service
Benefits	40 percent of basic wage and one percent of basic wage for each year beyond 5 years of contribution	3 percent of basic wage for each year of service	2.75 percent of basic wage for each year of service

Sources: Ministry of Finance, National Institute of Social Security, and teachers and civil service pension funds.

Table 2. Honduras: Contributions to the Social Security System

(In percent of employee's salary)

	Employer	Employee	State	Total
I. Defined-benefit scheme (current system)				
Pension regimes:				
IHSS 1/	1.0	2.0	1.0	4.0
IMPREMA				
Public sector	7.0	0.0	12.0	19.0
Private sector	7.0	0.0	11.0	18.0
INJUPEMP	7.0	0.0	11.0	18.0
Special regimes 2/	3.0-9.0	0-32.0	0-18.0	15.0-35.0
Medical program:				
IHSS 1/	2.5	5.0	2.5	10.0
II. Defined-contribution scheme (proposed system)				
Pension contribution	3.0	11.0	0.0	14.0
Basic pillar	3.0	0.0	0.0	3.0
Complementary pillar	0.0	8.0	0.0	8.0
Disability and survivor	0.0	3.0	0.0	3.0
Transitional regime 3/	11.0	8.0	0.0	19.0

Sources: Ministry of Finance; and National Institute of Social Security.

1/ Contributory wage subject to a ceiling of L 600 per month in Tegucigalpa and San Pedro Sula and of L 1,500 and L 2,000 per month in other cities.

2/ For the army, state university, the central bank, and journalists.

3/ For workers that remain affiliated to the current pension regimes from IMPREMA, INJUPEMP, and special regimes.

Table 3. Honduras: Consolidated Operations of the Social Security Agencies 1/

(In percent of GDP)

	1993	1994	1995	1996	Prel. 1997
Total revenue	2.6	2.6	2.8	2.6	2.8
Current revenue	2.5	2.4	2.7	2.5	2.7
Contributions	1.9	1.8	1.7	1.4	1.6
Interest earnings	0.9	0.8	0.8	0.8	0.8
Other 2/	-0.2	-0.1	0.2	0.3	0.3
Capital revenue	0.1	0.2	0.1	0.1	0.2
Total expenditure	2.7	2.8	2.6	2.4	2.2
Current expenditure	1.3	1.3	1.2	1.1	1.0
Wages and salaries	0.4	0.4	0.3	0.3	0.3
Current transfers	0.6	0.6	0.6	0.5	0.6
Other	0.3	0.4	0.3	0.2	0.2
Capital expenditure and net lending	1.4	1.4	1.4	1.3	1.1
Fixed capital formation	1.0	1.1	1.1	0.7	0.4
Net lending	0.4	0.3	0.2	0.6	0.8
Primary balance	-0.9	-0.9	-0.6	-0.6	-0.1
Current account balance	1.3	1.1	1.5	1.5	1.7
Overall balance	-0.1	-0.2	0.2	0.2	0.7

Sources: Central Bank of Honduras; Honduran Institute Social Security; and Fund staff estimates.

1/ Comprises the National Institute of Social Security (IHSS); and the teachers and civil service pension funds.

2/ Includes changes in accounts receivable.

Table 4. Honduras: Main Features of the Proposed Pension System

Features	Basic pillar	Complementary pillar	Transitional regime
Participants	New workers, affiliates to IHSS, and affiliates to other pension regimes under 30 years of age	Same as basic pillar	Affiliates to other pension regimes over 30 years of age that did not shift to the new system
Contributory salary ceiling	10 times the minimum wage	Same as basic pillar	Actual salary
Retirement age	65 years for men and 60 years for women and 5 years of contribution	Same as basic pillar, early retirement allowed if capital accumulated in both pillars provides for a pension equivalent to 50 percent of last wage	To be raised one year per annum to the same age as in new system
Benefits	Based on capital accumulated through workers' contributions and returns to those contributions	Same as basic pillar	For unshifted affiliates, same as in present system. For shifted affiliates, benefits are an average of benefits under the present system and benefits under the new system, weighted by the years of contribution to each system.

Sources: Ministry of Finance and the Presidential Commission for State Modernization.

V. EXCHANGE SYSTEM⁴¹

A. Antecedents to the Present Exchange System

61. After the collapse of the exchange peg in 1990 that was triggered by the expansionary policies of the 1980s, the central bank initiated efforts to reform the exchange system. Under these initial reforms, a number of distortions and exchange restrictions that had been used to defend the exchange peg were eliminated. Also, all restrictions on the holdings of foreign exchange deposits in the commercial banks and on their use were removed, and most foreign exchange transactions were shifted to the commercial banks, and conducted at freely negotiated rates within a band of 2.5 percent around the official rate. In turn, the central bank set the official exchange rate on the basis of conditions prevailing in the interbank and parallel markets.

62. The exchange system was liberalized further in 1992 as the lempira was allowed to float freely in the interbank market. The central bank intervened in the foreign exchange market only to ensure that its target for net international reserves was met, but banks and exchange houses were obliged to surrender 20 percent of their foreign exchange purchases. Under the reform, the lempira depreciated substantially (50 percent in real effective terms during the period 1990–92), and helped restore external competitiveness in the face of a decline in the terms of trade (30 percent during the same period). Also, the exchange rate spread between the parallel and official markets declined to less than 2 percent from the much higher differentials (at times, as high as 70 percent) observed prior to 1990.

63. Financial policies were relaxed in the wake of a general election in November 1993, and the exchange rate depreciated further, i.e., by 17 percent in real terms in the 18-month period ended in mid-1994. Imperfections in the functioning of the interbank market amplified the volatility in the exchange rate in this period, and in June 1994 the authorities decided to suspend temporarily the exchange rate float. It was expected that an auction mechanism would be introduced as a temporary measure while weaknesses in the interbank market were addressed. Steps were identified in 1994, with the technical assistance from the Fund, to improve the infrastructure, increase supervision, and enhance transparency in the interbank market. However, progress in implementing these steps was slow and the auction has been converted into a virtually permanent arrangement.

B. The Interbank Market

64. For many years, the development of the interbank market had been inhibited by a high degree of concentration in the banking system and the active role of the central bank as a provider of short-term liquidity. These conditions changed little with the advent of floating in the context of the interbank market, with the result that the market lacked sufficiently broad

⁴¹Prepared by Mario Garza.

participation by financial institutions which led to some concerns about collusion among the main, large participants. The key problems that had impaired the functioning of the interbank market centered on the following areas:

- **Inadequate trading infrastructure:** Lack of trading desks and an underdeveloped clearing system for foreign exchange operations resulted in low trading activity among intermediaries (banks and exchange houses) and poor dissemination of data within the market. Appropriate information standards were not put in place, making it difficult to obtain a representative exchange rate used in daily operations with the public.
- **High concentration of operations in a few banks:** Six banks accounted for an estimated half of foreign exchange purchased from the public. This situation limited access to the exchange market because those banks were inclined to sell foreign exchange to their associated industrial and/or trading groups. Smaller agents usually looked to the parallel market to satisfy their foreign exchange needs.
- **Insufficient supervision and restrictive regulations:** Lack of prudential standards, including a conduct code for operators, made supervision of intermediaries weak. The central bank maintained restrictive foreign exchange regulations that resulted in high surrender requirements (up to 50 percent of purchases); purchases of exchange surrenders at below-market exchange rates; and a structure of operating fees, which did not permit intermediaries to determine their own spread.
- **Weak instruments of monetary policy:** The central bank continued to be an important source of short-term liquidity, preventing the development of an interbank market and secondary trading of open market instruments. Also, weak enforcement of existing reserve requirements, and the absence of limits on open foreign exchange positions allowed banks to satisfy their liquidity requirements without recourse to other financial intermediaries.

C. Features of the Present Exchange System

65. The exchange system is based on a daily foreign exchange auction conducted by the central bank. The supply of foreign exchange to the auction is based on the requirement for full surrender of all current proceeds, except for exports to Central America and private remittances. Currently, the central bank offers for sale in the auction a minimum of 60 percent of its purchases of foreign exchange from banks and other authorized institutions. This minimum amount, as well as the base price obtained in the previous day's auction are announced before each new auction. Prospective buyers in the auction have to make offers to purchase amounts ranging from US\$5,000 to US\$300,000, and the auction rate is determined as the

average of accepted bids on the basis of a Dutch auction, and may not exceed the base rate⁴² by +/- 7 percent. Regarding the buying and selling rate spread, current rules mandate that intermediaries sell foreign exchange with a markup of up to 1.5 percent over the auction rate and that the central bank buys foreign exchange at the auction rate of the previous day plus a commission of 0.6 percent.

D. Recent Exchange Rate Developments

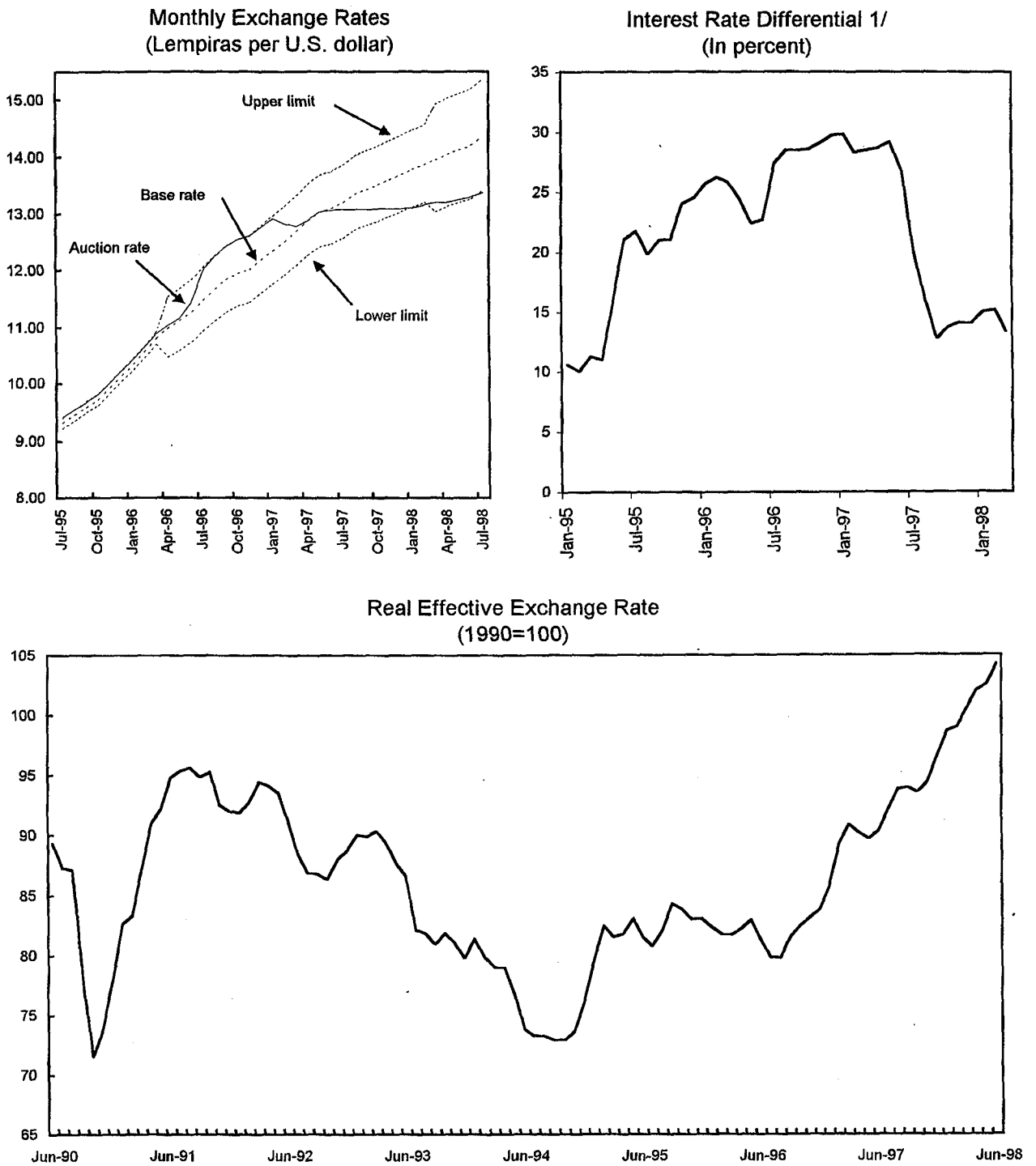
66. Over most of the period from June 1994 to December 1996, the exchange rate was at the most depreciated limit of the bidding band and, in view of the authorities' policy of maintaining unchanged the nominal exchange rate, rationing of foreign exchange had to be used as the basis for meeting demands and the real exchange rate appreciated sharply. Despite this, the spread between the parallel and auction exchange rates remained small. The net international reserves position of the central bank improved significantly during this period while short-term private capital inflows emerged, reflecting a sharp increase in domestic interest rates. The interest rate differential between central bank instruments and those available in the United States rose from about 10 percent at end-1994 to close to 30 percent at end-1996 (Figure 5).

67. The central bank continued to pursue a policy of maintaining largely fixed the nominal exchange rate during 1997 in an attempt to hold down inflationary pressures. This policy, combined with a marked inflow of short-term private capital inflows that stemmed from high interest rates and the government's exchange rate policy, led to a marked increase in net international reserves and sales of foreign exchange in the auction (Tables 1 and 2),⁴³ and the real exchange rate appreciated by almost 17 percent. The rate of appreciation slowed slightly in the first half of 1998 in line with a small decline in coffee prices and a downturn in capital inflows.

⁴²The base rate is adjusted every 5 auctions in line with the (estimated) differential in inflation rates between Honduras and its main trading partners.

⁴³Sales of foreign exchange in the auction increased markedly in the third and fourth quarters of 1997, and gross international reserves declined markedly.

Figure 5. Honduras: Exchange and Interest Rate Developments



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

1/ Spread between interest rate on 90-day central bank bonds (adjusted by the depreciation of the lempira against the U.S. dollar) and LIBOR.

Table 1. Honduras: Foreign Exchange Operations in the Auction

(Monthly average in millions of U.S. dollars)

Period	Purchases by the Central Bank	Amount Supplied 1/	Amount Sold
1994			
III	85.4	60.0	59.9
IV	120.9	65.6	64.4
1995			
I	137.5	104.8	95.1
II	104.9	73.1	73.1
III	70.3	49.3	49.2
IV	94.6	46.2	44.7
1996			
I	99.7	68.6	68.6
II	103.5	62.5	66.0
III	90.3	56.2	61.2
IV	108.4	53.7	58.5
1997			
I	148.7	52.0	87.7
II	134.6	57.2	75.7
III	131.1	62.0	98.8
IV	168.5	66.0	120.9
1998			
I	219.3	75.0	147.6
II	194.0	65.2	126.7

Source: Central Bank of Honduras.

1/ In June 1996 the amount offered became the minimum amount to be sold in the auction.

Table 2. Honduras: Net International Reserve Coverage

	Dec.		1997				1998	
	1995	1996	March	June	Sept.	Dec.	March	June
(In millions of U.S. dollars; end of period stocks)								
Net international reserves	113.2	211.0	314.1	425.6	445.6	491.5	606.0	639.8
Short-term liabilities	282.2	343.7	514.1	578.1	576.0	614.8	753.0	692.2
Currency issue	200.9	201.6	209.0	201.4	180.3	250.1	262.2	234.5
Reserve requirements	72.3	120.0	217.4	257.3	253.1	307.2	332.0	308.0
Bonds	9.0	22.1	87.7	119.4	142.6	57.5	158.9	149.7
(In percent of net international reserves)								
Short-term liabilities	249.4	162.9	163.7	135.8	129.3	125.1	124.3	108.2
Currency issue	177.5	95.6	66.5	47.3	40.5	50.9	43.3	36.7
Reserve requirements	63.9	56.9	69.2	60.5	56.8	62.5	54.8	48.1
Bonds	7.9	10.5	27.9	28.1	32.0	11.7	26.2	23.4
(In percent of liabilities)								
Short-term liabilities	40.1	61.4	61.1	73.6	77.4	79.9	80.5	92.4
Currency issue	56.3	104.6	150.3	211.3	247.2	196.5	231.1	272.8
Reserve requirements	156.5	175.8	144.5	165.4	176.1	160.0	182.6	207.7
Bonds	1,258.5	956.2	358.1	356.4	312.4	855.1	381.5	427.3
Memorandum items:								
Net foreign assets of the banking system (In millions of U.S. dollars)	19.4	63.0	38.0	73.8	55.3	8.4	1.2	...
Exchange rate (L per US\$)	10.34	12.87	12.74	13.07	13.09	13.09	13.16	13.32

Source: Central Bank of Honduras.

Table 1. Honduras: National Accounts

(In millions of current lempiras)

	1993	1994	1995	1996	Prel. 1997
Consumption	17,442	21,646	28,606	37,762	48,515
General government	2,405	2,780	3,535	4,556	5,377
Private sector	15,037	18,866	25,071	33,206	43,138
Gross domestic investment	7,614	10,861	11,836	14,510	18,318
Fixed capital formation	6,535	8,110	8,994	11,110	14,425
Public sector	2,839	3,001	3,504	3,929	4,095
Private sector	3,696	5,109	5,490	7,181	10,330
Inventory changes	1,079	2,751	2,842	3,400	3,893
Gross domestic expenditure	25,056	32,507	40,442	52,272	66,833
Exports of goods and nonfactor services	7,107	10,201	14,158	19,386	23,342
Imports of goods and nonfactor services	-9,474	-13,846	-17,094	-23,884	-29,090
GDP at market prices	22,689	28,862	37,507	47,774	61,084
Net factor payments	-906	-740	-967	-659	975
Factor receipts from abroad	673	1,232	1,799	2,755	4,467
Factor payments abroad	-1,579	-1,972	-2,767	-3,415	-3,492
GNP at market prices	21,783	28,123	36,539	47,114	62,059
Indirect taxes	3,314	4,230	4,976	6,733	8,332
Subsidies	120	138	95	130	120
GDP at factor cost	19,495	24,770	32,626	41,171	52,872
GNP at factor cost	18,589	24,031	31,658	40,511	53,847
Depreciation	-1,372	-1,707	-2,258	-2,798	-3,390
National income	17,217	22,324	29,400	37,713	50,457

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

Table 2. Honduras: National Accounts at Constant Prices

(In millions of 1978 lempiras)

	1993	1994	1995	1996	Prel. 1997
Consumption	4,495	4,506	4,843	4,940	5,148
General government	532	505	496	516	548
Private sector	3,963	4,001	4,347	4,424	4,600
Gross domestic investment	1,693	1,817	1,621	1,700	1,782
Fixed capital formation	1,516	1,514	1,312	1,387	1,502
Public sector	665	548	490	457	385
Private sector	851	966	822	930	1,117
Inventory changes	177	303	309	313	280
Gross domestic expenditure	6,188	6,323	6,463	6,640	6,930
Exports of goods and nonfactor services	1,547	1,366	1,511	1,633	1,570
Imports of goods and nonfactor services	-1,750	-1,782	-1,826	-1,899	-1,842
GDP at market prices	5,985	5,907	6,148	6,374	6,658
Net factor payments	-143	-89	-102	-39	75
Factor receipts from abroad	149	165	194	234	295
Factor payments abroad	-292	-254	-296	-273	-220
GNP at market prices	5,842	5,818	6,047	6,335	6,733
Indirect taxes	-612	-634	-576	-629	-648
Subsidies	23	21	11	12	9
GDP at factor cost	5,396	5,294	5,583	5,757	6,019
GNP at factor cost	5,253	5,205	5,482	5,718	6,094
Depreciation	-335	-343	-353	-360	-368
National income	4,918	4,862	5,129	5,358	5,726
Terms of trade effect	-259	-60	2	-107	-113
National income adjusted by terms of trade	4,659	4,802	5,131	5,251	5,613

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

Table 3. Honduras: Origin of Gross Domestic Product

	1993	1994	1995	1996	Prel. 1997
(In millions of current lempiras)					
Gross domestic product at factor cost	19,495	24,770	32,779	41,648	53,330
Primary production	4,383	6,484	7,655	9,946	12,868
Agriculture and related sectors	4,014	6,030	7,026	9,188	11,971
Mining	369	454	629	763	920
Secondary production	5,502	6,679	9,540	12,231	15,504
Manufacturing	3,456	4,275	5,818	7,455	9,535
Construction	1,457	1,465	1,791	1,900	2,268
Utilities	589	939	1,778	2,540	3,263
Services	9,610	11,607	15,584	19,471	24,958
Transport and communications	1,116	1,309	1,546	1,824	2,557
Commercial services	2,056	2,555	3,915	4,903	6,264
Financial services	1,654	2,205	3,007	3,678	5,061
Housing services	1,162	1,441	1,832	2,317	2,941
Public administration	1,509	1,547	1,912	2,429	2,896
Other services	2,113	2,550	3,372	4,174	5,196
(In millions of 1978 lempiras)					
Gross domestic product at factor cost	5,396	5,290	5,603	5,796	6,045
Primary production	1,490	1,499	1,636	1,681	1,737
Agriculture and related sectors	1,404	1,416	1,540	1,578	1,629
Mining	86	83	96	103	108
Secondary production	1,297	1,210	1,275	1,325	1,371
Manufacturing	813	798	842	881	935
Construction	344	282	264	234	240
Utilities	140	130	149	172	185
Services	2,609	2,581	2,692	2,790	2,938
Transport and communications	456	443	477	498	532
Commercial services	572	572	604	631	653
Financial services	449	479	524	555	606
Housing services	347	361	369	384	399
Public administration	334	281	269	275	273
Other services	451	449	449	446	459

Source: Central Bank of Honduras.

Table 4. Honduras: Financing of Investment

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Gross domestic investment	7,614	10,861	11,836	14,510	18,318
Fixed capital formation	6,535	8,110	8,994	11,110	14,425
Public sector	2,839	3,001	3,504	3,929	4,095
Private sector	3,696	5,109	5,490	7,181	10,330
Change in inventories	1,079	2,751	2,842	3,400	3,893
Financing of investment	7,614	10,861	11,836	14,510	18,318
Gross national savings	5,770	8,305	10,413	12,649	17,600
Public sector 1/	448	1,010	2,666	2,586	3,481
Private sector	5,322	7,295	7,747	10,063	14,119
External savings	1,844	2,556	1,423	1,861	718
(In percent of GDP)					
Gross domestic investment	33.6	37.6	31.6	30.4	30.0
Fixed capital formation	28.8	28.1	24.0	23.3	23.6
Public sector	12.5	10.4	9.3	8.2	6.7
Private sector	16.3	17.7	14.6	15.0	16.9
Change in inventories	4.8	9.5	7.6	7.1	6.4
Financing of investment	33.6	37.6	31.6	30.4	30.0
Gross national savings	25.4	28.8	27.8	26.5	28.8
Public sector 1/	2.0	3.5	7.1	5.4	5.7
Private sector	23.5	25.3	20.7	21.1	23.1
External savings	8.1	8.9	3.8	3.9	1.2
Gross national savings as percent of national disposable income	25.1	27.8	26.7	25.1	26.6
Memorandum items:					
Nominal GDP (in millions of lempiras)	22,689	28,862	37,507	47,774	61,084
Average exchange rate (lempira/U.S. dollar)	6.5	8.4	9.5	11.7	13.0
National disposable income 2/	22,988	29,917	39,026	50,391	66,113

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

1/ Equivalent to the current account balance of the nonfinancial public sector.

2/ Equivalent to the sum of GNP plus external transfers.

Table 5. Honduras: Composition of Fixed Capital Formation

(In millions of current lempiras)

	1993	1994	1995	1996	Prel. 1997
Gross fixed capital formation	6,535	8,110	8,994	11,110	14,425
Machinery and equipment	2,617	4,245	4,477	6,296	8,685
Public sector	228	700	1,646	1,567	1,473
Private sector	2,389	3,545	2,831	4,729	7,212
Construction	3,918	3,865	4,517	4,814	5,740
Public sector	2,611	2,301	1,858	2,362	2,622
Private sector	1,307	1,564	2,659	2,452	3,118

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

Table 6. Honduras: Statistics on Selected Agricultural Products

(Area in thousands of hectares; production and exports in thousands of quintals; yield in quintals per hectare; values in millions of current lempiras)

	1993	1994	1995	1996	Prel. 1997
Bananas					
Area	22	19	20	20	20
Yield	948	897	956	1,127	1,042
Volume of production	20,751	17,049	19,110	22,534	20,848
<i>Of which</i>					
Exported	14,530	10,730	12,690	15,499	13,250
Gross value of production	1,631	1,626	2,408	3,254	3,300
Value added	379	409	635	1,023	1,017
Coffee					
Area	174	181	192	202	205
Yield	15	14	15	16	16
Volume of production	2,665	2,597	2,919	3,210	3,217
<i>Of which</i>					
Exported	2,225	2,241	2,343	2,687	2,246
Gross value of production	959	2,295	3,376	3,365	5,096
Value added	908	2,270	2,136	2,827	4,281
Corn					
Area	415	382	417	386	390
Yield	32	29	36	30	34
Volume of production	13,163	11,200	14,889	11,689	13,440
Gross value of production	558	784	1,063	1,322	1,722
Value added	351	494	670	833	1,085
Beans					
Area	58	99	96	92	108
Yield	15	13	15	13	15
Volume of production	857	1,310	1,426	1,195	1,643
Gross value of production	159	287	228	556	791
Value added	63	115	91	222	317
Rice					
Area	11	12	14	17	18
Yield	77	87	88	78	62
Volume of production	852	1,047	1,238	1,318	1,109
Gross value of production	45	65	89	137	132
Value added	15	22	29	45	44
Plantains					
Area	11	8	8	8	8
Yield	346	538	527	559	567
Volume of production	3,908	4,303	4,218	4,469	4,536
<i>Of which</i>					
Exported	519	654	628	0	0
Gross value of production	172	267	299	388	495
Value added	105	180	182	222	282

Table 6. Honduras: Statistics on Selected Agricultural Products

(Area in thousands of hectares; production and exports in thousands of quintals; yield in quintals per hectare; values in millions of current lempiras)

	1993	1994	1995	1996	Prel. 1997
Sorghum					
Area	81	65	71	79	95
Yield	25	18	19	24	22
Volume of production	1,990	1,143	1,369	1,888	2,117
Gross value of production	72	65	82	196	250
Value added	39	36	45	108	137
Tobacco					
Area	9	7	7	7	7
Yield	17	19	21	14	14
Volume of production	146	136	149	99	97
<i>Of which</i>					
Exported	63	57	53	51	60
Gross value of production	66	66	78	84	114
Value added	41	36	55	46	62
Sugarcane					
Area	40	39	41	44	46
Yield	1,586	1,611	1,645	1,794	1,806
Volume of production	63,452	62,836	67,442	78,930	83,078
Gross value of production	163	242	371	443	604
Value added	118	165	211	267	364
African palm					
Area	32	25	26	27	29
Yield	264	357	393	405	434
Volume of production	8,443	8,931	10,224	10,936	12,577
Gross value of production	121	129	226	358	445
Value added	68	85	203	272	337
Melon					
Area	6	5	5	5	5
Yield	351	549	452	522	592
Volume of production	2,103	2,745	2,261	2,610	2,960
Gross value of production	61	68	81	106	137
Value added	31	37	44	56	71
Pineapple					
Area	3	3	3	3	3
Yield	452	424	455	384	367
Volume of production	1,357	1,271	1,365	1,151	1,100
Gross value of production	89	98	123	167	202
Value added	36	38	60	75	89

Source: Central Bank of Honduras.

Table 7. Honduras: Production and Prices of Basic Grains

(Production in thousands of quintals; prices in lempiras per quintal)

	Production	Wholesale Prices	Support Prices Paid to Producers
Corn			
1992-93	13,163.0	56.0	42.4
1993-94	11,200.0	95.5	70.0
1994-95	14,889.0	92.2	71.4
1995-96	11,689.0	146.1	113.1
1996-97	13,440.0	161.0	128.1
Beans			
1992-93	857.0	251.9	185.0
1993-94	1,310.0	257.4	219.0
1994-95	1,426.0	205.9	160.0
1995-96	1,195.0	597.6	464.9
1996-97	1,643.0	581.5	481.6
Rice			
1992-93	852.0	163.9	53.0
1993-94	1,047.0	257.4	62.5
1994-95	1,238.0	236.8	71.9
1995-96	1,318.0	341.8	103.9
1996-97	1,109.0	382.3	119.3
Sorghum			
1992-93	1,990.0	58.8	36.0
1993-94	1,143.0	79.0	57.0
1994-95	1,369.0	84.0	60.0
1995-96	1,888.0	140.4	104.0
1996-97	2,117.0	155.5	117.9

Sources: Honduran Institute for Agricultural Marketing (IHMA); and Central Bank of Honduras.

Table 8. Honduras: Consumer Price Index

(1978 = 100)

	Weight 1/	1993	1994	1995	1996	1997
(Period averages) 2/						
Total	100.0	451.8	550.0	712.0	881.7	1,059.6
By expenditure						
Food	41.2	439.5	559.7	718.1	895.3	1,072.4
Housing	30.6	408.2	483.2	633.5	783.7	904.7
Clothing	9.1	602.6	671.9	826.8	1,008.9	1,295.0
Health care	4.0	488.3	621.9	784.9	960.5	1,195.1
Personal care	3.0	384.4	465.5	605.6	751.3	917.0
Beverages and tobacco	3.8	631.4	740.8	914.1	1,120.5	1,322.0
Transportation	3.0	323.5	366.6	612.1	791.4	948.6
Other	5.3	494.2	610.3	830.3	1,014.9	1,308.3
By region						
Central	47.5	437.6	523.8	674.8	818.8	978.2
Northern	40.2	468.2	581.3	758.7	957.5	1,161.5
Southern	4.7	453.7	549.0	682.5	847.8	993.0
Eastern	5.9	454.3	549.4	718.5	893.9	1,059.8
Western	1.9	449.3	545.2	707.6	897.2	1,102.4
(End of period) 3/						
Total	100.0	475.7	613.2	777.5	974.3	1,098.8
By expenditure						
Food	41.2	465.6	631.6	771.2	992.6	1,083.8
Housing	30.6	427.6	537.7	699.9	849.8	944.2
Clothing	9.1	628.3	715.4	903.5	1,160.2	1,388.0
Health care	4.0	532.2	688.9	860.2	1,039.9	1,284.8
Personal care	3.0	416.3	506.7	652.9	820.9	963.2
Beverages and tobacco	3.8	653.3	869.2	1077.8	1,172.4	1,450.7
Transportation	3.0	331.0	416.9	648.2	914.0	948.5
Other	5.3	514.4	659.8	914.1	1,176.9	1,380.8
By region						
Central	47.5	458.9	577.8	735.7	901.2	1,006.0
Northern	40.2	497.1	654.0	832.9	1,066.3	1,209.4
Southern	4.7	474.2	607.0	732.3	949.5	1,059.0
Eastern	5.9	468.2	622.9	778.1	967.2	1,107.0
Western	1.9	469.8	621.0	758.6	982.1	1,149.3

Source: Central Bank of Honduras.

1/ In percent.

2/ Average over 12-month period ended in December.

3/ Data refers to the month of December.

Table 9. Honduras: Wholesale Price Index

(1978 = 100)

	Weight 1/	1991	1992	1993	1994	1995	1996	1997
(Period average) 2/								
Total	100.0	373.8	411.5	463.9	585.8	752.8	926.2	1,062.4
National	67.2	358.9	404.7	466.3	590.7	784.5	968.9	1,110.0
Agriculture and livestock	28.2	359.1	386.7	488.5	610.2	758.3	933.1	1,046.6
Agriculture	10.9	317.5	275.6	349.1	506.2	597.9	924.7	1,010.0
Livestock	10.3	364.3	378.4	416.9	537.9	691.2	783.0	950.8
Other	7.0	415.1	568.7	805.4	873.9	1,101.0	1,162.8	1,240.9
Industrial	39.1	358.8	417.7	450.2	576.6	803.4	994.7	1,155.8
Food	12.3	307.9	352.0	376.8	506.0	712.7	842.1	955.2
Beverages and tobacco	7.2	385.0	498.1	542.0	635.9	835.7	1,006.1	1,200.7
Construction material	4.0	297.9	303.6	360.7	537.5	740.6	866.2	999.4
Textile	2.9	372.6	457.1	444.2	546.4	795.1	916.3	1,105.1
Clothing	2.1	333.9	389.5	387.8	455.8	609.7	760.2	892.2
Chemical	3.3	342.4	546.8	632.0	805.8	1,249.4	1,628.7	1,924.6
Oil products	4.6	506.3	479.1	502.8	647.8	830.8	1,219.9	1,394.0
Other	2.7	384.7	404.3	415.0	521.8	786.6	951.8	1,089.3
Imported	32.8	404.4	425.5	458.4	575.8	687.7	838.6	964.6
Food	6.4	381.3	424.0	479.1	596.1	693.5	903.8	1,087.6
Beverages and tobacco	0.6	517.0	612.0	626.8	683.7	658.4	839.4	1,143.4
Textile	4.9	314.0	321.2	345.1	451.1	520.9	546.7	594.8
Chemical	9.8	477.3	474.9	503.0	603.6	731.1	903.1	965.4
Pharmaceutic	3.6	323.3	412.4	452.7	590.3	703.6	844.9	1,134.9
Other	7.5	418.0	422.0	445.8	589.5	730.0	886.3	1,003.4
(End of period) 3/								
Total	100.0	388.7	426.4	485.9	856.2	795.6	1,007.4	1,074.1
National	67.2	374.0	425.0	483.7	671.9	824.2	1,050.7	1,114.0
Agriculture and livestock	28.2	355.7	423.8	506.1	666.9	783.7	983.8	1,023.2
Agriculture	10.9	250.1	278.4	354.1	552.9	607.1	989.2	934.8
Livestock	10.3	386.9	383.2	448.6	595.9	715.2	847.6	987.4
Other	7.0	472.6	704.8	822.0	943.9	1,152.9	1,172.4	1,210.4
Industrial	39.1	387.1	425.9	467.5	675.6	853.4	1,099.1	1,179.6
Food	12.3	326.5	357.7	392.0	611.4	730.3	809.2	983.9
Beverages and tobacco	7.2	439.1	506.6	557.7	749.1	940.6	1,019.3	1,289.5
Construction material	4.0	291.4	308.8	383.1	583.8	756.5	973.3	1,008.7
Textile	2.9	439.4	462.8	467.6	609.3	816.3	1,037.1	1,103.0
Clothing	2.1	358.0	361.5	419.1	509.5	641.2	827.8	906.9
Chemical	3.3	408.4	591.0	664.8	853.1	1,391.0	1,852.6	1,947.5
Oil products	4.6	502.7	483.0	510.7	803.4	892.3	1,548.2	1,328.7
Other	2.7	410.5	405.7	417.9	870.4	802.5	1,032.9	1,126.5
Imported	32.8	418.9	429.2	490.5	624.2	736.9	918.4	992.1
Food	6.4	408.1	437.1	508.9	635.9	730.3	1,000.5	1,093.1
Beverages and tobacco	0.6	517.0	612.0	645.0	651.2	660.7	1,191.7	1,141.8
Textile	4.9	320.8	319.7	364.9	501.9	536.9	576.0	626.6
Chemical	9.8	490.8	476.2	527.0	654.3	814.1	956.1	963.2
Pharmaceutic	3.6	334.3	418.6	506.8	638.1	732.6	1,010.8	1,305.9
Other	7.5	431.3	423.1	489.1	645.9	781.0	956.1	1,019.2

Source: Central Bank of Honduras.

1/ In percent.

2/ Average over 12-month period ended in December.

3/ Data refers to the month of December.

Table 10. Honduras: Average Daily Minimum Wage by Sector

	1993	1994	1995	1996	1997
(In lempiras)					
Annual average	16.9	17.9	21.2	25.3	33.5
Agriculture and related sectors	13.1	13.7	16.7	20.3	27.5
Mining of metals	20.8	22.6	26.0	30.6	39.7
Other mining	16.1	16.9	19.5	21.9	28.5
Manufacturing	13.8	14.4	17.9	22.0	28.5
Construction	12.6	13.2	16.7	21.7	28.5
Commerce, hotels, and restaurants	14.4	15.1	18.6	22.0	28.5
Transport	15.6	16.3	19.8	24.0	30.0
Financial services	16.5	17.9	21.0	24.2	31.0
Other services	13.7	14.3	17.9	21.7	38.5
Dockage services	20.0	20.7	24.5	29.1	39.7
Petroleum refining	20.0	20.7	24.5	29.1	39.7
Railroad repairing	20.0	20.7	24.5	29.1	39.7
Banana exporting	20.0	20.7	24.5	29.1	39.7
(Annual percentage increase)					
Annual average	12.7	4.7	19.9	19.0	32.5
Agriculture and related sectors	12.3	4.4	21.9	21.4	35.6
Mining of metals	19.5	8.4	15.0	17.6	29.7
Other mining	12.0	4.5	15.8	12.4	29.9
Manufacturing	12.1	4.4	24.4	23.1	29.4
Construction	15.8	5.4	26.0	30.2	31.3
Commerce, hotels, and restaurants	12.2	4.4	23.5	18.4	29.3
Transport	11.9	4.4	21.7	21.0	25.1
Financial services	19.3	8.5	17.8	15.0	28.2
Other services	12.0	4.4	24.7	21.2	31.6
Dockage services	10.6	3.5	18.6	18.7	36.3
Petroleum refining	10.6	3.5	18.6	18.7	36.3
Railroad repairing	10.6	3.5	18.6	18.7	36.3
Banana exporting	10.6	3.5	18.6	18.7	36.3
Consumer price index	10.7	21.7	29.5	23.8	20.2
Memorandum item:					
Annual average in U.S. dollars	2.6	2.1	2.3	2.2	2.6

Source: Central Bank of Honduras.

Table 11. Honduras: Total Labor Remuneration by Sector

(In millions of current lempiras)

	1993	1994	1995	1996	1997
Total	9,197	11,036	14,304	17,708	20,352
Agriculture and related sectors	1,818	2,294	3,163	4,156	4,632
Mining	164	213	234	271	302
Manufacturing	1,683	1,840	2,356	2,733	3,098
Construction	732	743	918	1,076	1,230
Utilities	118	169	335	344	414
Transport and communication	686	726	781	860	1,009
Commercial services	682	858	1,365	1,696	1,870
Financial services	577	745	934	1,232	1,496
Housing services	141	174	206	265	289
Public administration	997	1,136	1,538	1,650	2,067
Other services	1,598	2,138	2,474	3,425	3,945
Public services	1,068	1,319	1,625	2,250	2,591
Private services	530	819	849	1,175	1,354

Source: Central Bank of Honduras.

Table 12. Honduras: Labor Force by Sector

(In percent of total labor force)

	1993	1994	1995	1996	1997
Total	100.0	100.0	100.0	100.0	100.0
Primary production	44.7	43.8	42.9	42.0	41.1
Agriculture and related sectors	44.4	43.5	42.7	41.8	40.9
Mining	0.3	0.3	0.2	0.2	0.2
Secondary production	18.7	18.9	19.2	19.4	19.6
Manufacturing	11.8	11.7	11.8	11.8	11.7
Construction	6.2	6.4	6.6	6.8	7.0
Utilities	0.7	0.8	0.8	0.8	0.9
Services	36.6	37.3	37.9	38.6	39.3
Transport and communications	2.8	2.8	2.8	2.8	2.8
Commercial services	10.5	10.7	10.8	10.9	11.0
Financial services	1.9	2.0	2.0	2.1	2.2
Other services	21.4	21.8	22.3	22.8	23.3
Memorandum item:					
Labor force as a percent of total population	31.5	31.8	32.1	32.4	32.7

Source: Central Bank of Honduras.

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector

(In millions of lempiras)

	1993	1994	1995	1996	Prel. 1997
I. Central Government					
Total revenue	3,964	4,709	6,979	8,027	10,318
Current revenue	3,847	4,589	6,952	8,006	10,305
Tax revenue	3,609	4,383	6,691	7,542	9,667
Direct taxes	1,167	1,144	1,798	2,034	2,508
Property and income	1,082	1,101	1,757	1,968	2,410
Other 1/	85	43	41	66	98
Indirect taxes	2,442	3,239	4,678	5,469	7,159
Goods and services	1,384	1,845	2,552	3,114	3,956
Sales tax	697	885	1,331	1,698	2,270
Other	687	960	1,221	1,416	1,686
International trade	1,057	1,295	1,751	1,804	2,155
Import	986	1,185	1,430	1,706	2,066
Export 2/	71	110	321	98	89
Petroleum derivatives	0	98	373	548	1,046
Other	1	1	2	3	2
Nontax revenue	70	76	107	154	226
Transfers	168	130	154	310	412
Capital revenue	117	120	27	21	13
Total primary expenditure	5,381	4,967	6,273	7,297	9,211
Current primary expenditure	3,221	3,063	3,959	5,441	6,980
Wages and salaries	1,524	1,791	2,317	2,865	3,417
Social security contributions	130	155	180	245	293
Goods and services	628	607	744	1,089	1,527
Current transfers	939	510	718	1,242	1,743
Rest of general government	343	283	530	756	951
Public enterprises	0	0	13	0	88
Private sector	572	200	141	439	631
Other	24	27	34	48	73
Capital expenditure	2,126	1,505	1,791	1,599	2,194
Fixed capital formation	1,503	995	1,218	1,114	1,608
Capital transfers	623	510	573	485	586
Rest of general government	276	319	298	308	437
Public enterprise	147	179	269	175	148
Private sector	200	12	6	2	1
Net lending	34	399	523	257	37
Rest of general government	2	30	27	25	0
Public enterprise	32	369	496	232	37
Current primary balance	626	1,526	2,993	2,565	3,325
Primary balance	-1,417	-258	706	730	1,107
Interest obligations	979	1,458	1,510	1,966	2,685
External 3/	745	1,143	1,053	1,296	1,501
Internal	233	315	457	671	1,184
Current balance	-356	45	1,196	2,565	3,325
Overall balance	-2,398	-1,776	-1,211	-1,236	-1,578

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector

(In millions of lempiras)

	1993	1994	1995	1996	Prel. 1997
II. Rest of General Government					
Total revenue	1,477	1,881	2,278	2,574	3,834
Current revenue	1,172	1,368	1,922	2,177	3,065
Tax revenue	197	212	206	283	346
Contributions to social security	433	512	624	684	979
Private sector	240	299	376	417	588
Central government	133	158	176	184	278
Rest of general government	22	18	24	27	38
Public enterprises	38	37	49	56	76
Interest earnings	195	218	308	404	570
Current transfers	302	309	508	448	692
Central government	299	306	503	448	692
Public enterprises	3	3	5	0	0
Private sector	0	0	0	0	0
Other nontax revenue	114	178	229	323	414
Change in accounts receivable (increase -)	-69	-62	47	37	64
Capital revenue	305	513	355	396	769
Central government transfers	276	466	323	360	630
Other	29	47	33	37	139
Total expenditure	1,445	1,958	2,121	2,394	3,650
Current expenditure	852	983	1,059	1,283	2,066
Wages and salaries	315	335	429	539	596
Goods and services	144	154	183	194	237
Interest payments	29	28	21	25	65
Contribution to social security	19	18	24	26	37
Current transfers	361	359	384	488	1,130
To private sector	361	354	384	480	1,123
Other	0	5	0	8	7
Change in accounts payable	-16	90	18	11	2
Capital expenditure and net lending	593	976	1,062	1,111	1,584
Fixed capital formation	484	880	968	817	1,075
Other	15	0	0	4	41
Net lending	94	95	93	291	469
Primary balance	-135	-267.7	-130.7	-199.0	-322
Current account balance	320	384.8	863.0	894.4	999
Overall balance	32	-77.4	156.6	179.9	184

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector

(In millions of lempiras)

	1993	1994	1995	1996	Prel. 1997
III. General Government					
Total primary revenue	4,375	5,212	7,404	8,633	11,153
Current primary revenue	4,229	5,045	7,345	8,575	11,001
Tax revenue	3,805	4,596	6,897	7,825	10,013
Nontax revenue	184	254	336	477	640
Contributions to social security institutions 4/	278	337	424	473	664
From state enterprises	38	37	49	56	76
From private sector	240	299	376	417	588
Current transfers	171	133	159	310	412
From state enterprises	171	133	159	310	412
Change in accounts receivables (increase -)	-69	-62	47	37	64
Capital revenue	146	167	60	58	152
Total expenditure	6,071	5,923	7,316	8,733	11,145
Current expenditure	3,596	3,540	4,290	5,980	7,960
Wages and salaries	1,839	2,126	2,746	3,404	4,013
Goods and services	772	761	927	1,283	1,764
Current transfers	957	586	572	974	1,922
To private sector	933	554	525	919	1,753
To abroad	24	32	34	56	80
Adjustment for current transfers	44	-23	27	308	259
Capital expenditure	2,349	1,919	2,437	2,230	2,679
Fixed capital formation	1,987	1,875	2,186	2,101	2,683
Inventory changes	15	0	0	4	41
Capital transfers	347	191	275	177	149
To state enterprises	147	179	269	175	148
To private sector	200	12	6	2	1
Adjustment for capital transfers	0	-147	-25	-52	-193
Net lending	126	464	589	523	506
To state enterprises	32	369	496	232	37
Pension funds lending to members	94	95	93	291	469
Primary current balance	634	1,505	3,054	2,595	3,041
Primary balance	-1,696	-711	88	-100	8
Interest revenue	195	218	308	404	570
Interest obligations	1,007	1,486	1,531	1,991	2,750
External	745	1,143	1,053	1,296	1,501
Internal	262	343	478	695	1,248
Current balance	-178	237	1,831	1,007	861
Overall balance	-2,507	-1,979	-1,135	-1,687	-2,172

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector

(In millions of lempiras)

	1993	1994	1995	1996	Prel. 1997
IV. Nonfinancial Public Enterprises					
Operating revenue	1,699	2,120	2,895	4,299	5,080
Sale of goods and services	1,703	2,126	3,144	4,267	4,986
Interest received	0	5	8	81	120
Other 5/	-4	-12	-257	-49	-26
Operating expenditure	599	1,211	2,179	2,984	2,910
Wages and salaries	262	328	456	569	651
Goods and services	245	442	1,157	1,575	1,715
Interest	284	466	537	617	440
External	225	309	488	543	418
Domestic	60	157	49	75	23
Other 6/	-192	-25	30	222	104
Operating balance	1,100	909	716	1,316	2,170
Net current transfers	-224	-196	-178	-22	-43
Transfers receipts	0	3	0	232	314
From central government	0	3	0	232	314
Transfers and tax payments	224	199	178	253	357
To central government	193	164	146	210	270
To rest of general government	16	12	11	13	17
To private sector	15	23	20	29	70
Current account balance	876	713	538	1,294	2,127
Net capital revenue	285	191	348	232	116
Capital revenue	2	75	0	70	0
Capital transfers receipts	288	116	348	161	116
From central government	288	116	253	161	116
From abroad	0	0	95	0	0
Capital transfers payments	6	0	0	0	0
Capital expenditure and net lending	968	1,244	1,287	1,611	1,280
Fixed investment	852	1,126	1,318	1,554	1,207
Other	116	118	-31	57	71
Net lending	0	0	0	0	2
Primary balance	477	121	128	450	1,283
Overall balance	193	-340	-402	-86	963

V. Consolidated Nonfinancial Public Sector

Total revenue	6,001	7,448	10,690	13,151	16,313
Current revenue	5,859	7,201	10,543	13,111	16,292
Tax revenue	3,805	4,596	6,897	7,825	10,013
Nontax revenue	115	192	383	513	704
Private sector contributions to social security institutions 4/	240	299	376	417	588
Operating revenue of public enterprises	1,699	2,114	2,887	4,356	4,987
Capital revenue	142	247	147	40	21

Table 13. Honduras: Consolidated Operations of the Nonfinancial Public Sector

(In millions of lempiras)

	1993	1994	1995	1996	Prel. 1997
Total expenditure 2/	7,299	7,602	9,816	12,089	14,422
Current primary expenditure	3,948	4,336	5,940	8,008	9,914
Wages and salaries	2,101	2,454	3,201	3,984	4,662
Goods and services	1,017	1,203	2,084	2,852	3,483
Current transfers	1,038	614	606	980	1,807
To private sector	947	575	539	927	1,817
To abroad	25	35	40	75	98
Adjustment for current transfers	66	4	27	-22	-108
Capital expenditure	3,258	3,171	3,782	3,790	4,038
Fixed capital formation	2,894	3,002	3,524	3,606	3,809
Capital transfers	59	-72	-3	-36	-160
Capital transfers to private sector	200	12	6	2	1
Adjustment for capital transfers	-141	-84	-9	-38	-161
Other capital expenditure	305	241	261	220	390
Net lending	94	95	94	291	471
Pension funds loans to members	94	95	93	291	469
Primary current balance	1,912	2,866	4,603	5,103	6,378
Primary balance	-1,298	-153	874	1,062	1,891
Interest revenue	195	213	301	340	416
Interest obligations	1,291	1,952	2,068	2,650	3,241
External	970	1,452	1,541	1,880	1,970
Internal	321	500	527	770	1,271
Current balance	816	1,127	2,835	2,793	3,553
Overall balance	-2,394	-1,893	-893	-1,249	-934
Identified financing	2,309	1,926	922	1,525	932
Net foreign financing	1,976	1,483	1,733	1,789	1,868
Net foreign borrowing	1,793	1,235	982	1,112	1,204
Disbursements	2,332	2,174	3,012	3,263	3,396
Amortization	-1,107	-1,575	-2,522	-2,151	-2,192
Debt relief	569	635	492	398	358
Change in arrears	-84	-109	501	35	-151
Foreign grants	321	352	259	244	457
Change in government bonds held by international organizations	-54	6	-9		
Net domestic financing	334	443	-811	-264	-936
Banking system	149	377	-881	-735	-1,873
Central bank	154	125	-670	-292	-604
Rest of banking system	-5	251	-210	-443	-1,269
Private sector bonds	28	7	70	221	627
Transfers from ESF and other	157	60	0	250	310
Statistical discrepancy	-113	-181	29	276	-3

Source: Ministry of Finance.

1/ Includes taxes in the revaluation of assets in 1993 and on net assets in 1994-1997.

2/ Excludes interest obligations.

3/ Estimated as total interest obligations minus interest payments by the rest of the public sector.

4/ Includes contributions to IHSS, INJUPEM, and IMPREMA.

5/ Includes change in accounts receivable.

6/ Includes change in accounts payable.

Table 14. Honduras: Central Government Revenue

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Total revenue	3,961	4,709	6,764	7,989	10,318
Current revenue	3,844	4,589	6,737	7,968	10,305
Tax revenue	3,609	4,384	6,476	7,503	9,666
Direct taxes	1,167	1,145	1,799	2,034	2,508
Income tax	1,049	1,062	1,716	1,900	2,289
Property tax	34	40	41	68	121
Asset revaluation tax	85	0	2	0	0
Net assets	0	43	40	66	98
Domestic indirect taxes	1,384	1,845	2,552	3,114	3,956
Sales tax	697	885	1,331	1,698	2,270
Petroleum derivatives	154	270	371	459	406
Alcohol and nonalcohol beverages	224	279	418	378	446
Other	309	411	432	579	834
International trade	1,057	1,295	1,751	1,804	2,154
Imports	986	1,185	1,430	1,706	2,066
Petroleum	154	251	324	405	404
Other	832	934	1,106	1,301	1,662
Exports	71	110	321	98	89
Bananas	60	67	91	82	77
Coffee 1/	0	29	215	0	0
Other	11	14	15	16	12
Petroleum derivatives	0	98	373	548	1,046
Other	1	1	2	3	2
Nontax revenue	70	76	107	155	227
Current transfers	165	130	154	310	412
Capital revenue	117	120	27	21	13
(In percent of GDP)					
Total revenue	17.5	16.3	18.0	16.7	16.9
Current revenue	16.9	15.9	18.0	16.7	16.9
Tax revenue	15.9	15.2	17.3	15.7	15.8
Direct taxes	5.1	4.0	4.8	4.3	4.1
Income tax	4.6	3.7	4.6	4.0	3.7
Property tax	0.1	0.1	0.1	0.1	0.2
Asset revaluation tax	0.4	0.0	0.0	0.0	0.0
Net assets	0.0	0.1	0.1	0.1	0.2
Domestic indirect taxes	6.1	6.4	6.8	6.5	6.5
Sales tax	3.1	3.1	3.5	3.6	3.7
Petroleum derivatives	0.7	0.9	1.0	1.0	0.7
Alcohol and nonalcohol beverages	1.0	1.0	1.1	0.8	0.7
Other	1.4	1.4	1.2	1.2	1.4
International trade	4.7	4.5	4.7	3.8	3.5
Imports	4.3	4.1	3.8	3.6	3.4
Petroleum	0.7	0.9	0.9	0.8	0.7
Other	3.7	3.2	2.9	2.7	2.7
Exports	0.3	0.4	0.9	0.2	0.1
Bananas	0.3	0.2	0.2	0.2	0.1
Coffee	0.0	0.1	0.6	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Petroleum derivatives	0.0	0.3	1.0	1.1	1.7
Other	0.0	0.0	0.0	0.0	0.0
Nontax revenue	0.3	0.3	0.3	0.3	0.4
Current transfers	0.7	0.4	0.4	0.6	0.7
Capital revenue	0.5	0.4	0.1	0.0	0.0

Source: Ministry of Finance.

Table 15. Honduras: Operations of the Social Security Institute

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Total revenue	247.0	283.2	443.3	526.5	600.6
Current revenue	247.0	283.2	443.3	526.5	600.6
Contributions from	201.6	220.1	260.1	297.0	385.3
Private sector	138.1	163.1	195.0	222.7	288.8
Central government	21.1	21.6	20.0	22.8	29.6
Social security institute	4.7	4.2	4.1	4.5	4.7
Pension funds	4.6	1.8	3.0	3.4	4.4
Local governments	6.1	4.1	5.0	5.9	8.8
Public enterprises	27.0	25.3	33.0	37.7	48.9
Interest earnings	49.6	68.6	111.0	152.4	148.3
Other	2.2	4.8	25.0	77.1	32.8
Change in accounts receivable (increase -)	-6.4	-10.3	47.2	0.0	34.2
Total expenditure	193.6	211.8	229.6	268.5	333.2
Current expenditure	176.5	196.5	225.6	228.8	298.8
Wages and salaries	75.9	84.9	100.3	131.4	146.7
Goods and services	63.6	63.9	65.0	67.2	70.6
Contribution to social security	4.7	4.2	4.1	4.5	4.7
Current transfers	32.3	50.0	56.6	25.7	78.4
To private sector (benefits)	32.2	45.0	56.6	22.5	71.0
Other	0.1	5.0	0.0	3.2	7.4
Change in accounts payable (increase -)	0.0	-65.0	-0.4	0.0	-1.6
Capital expenditure	17.1	15.3	4.0	39.7	34.4
Fixed capital formation	17.1	15.3	4.0	39.7	2.9
Inventory change	0.0	0.0	0.0	0.0	31.5
Primary current balance	20.9	18.1	106.7	145.3	153.5
Primary balance	3.8	2.8	102.7	105.6	119.1
Current account balance	70.5	86.7	217.7	297.7	301.8
Overall balance	53.4	71.4	213.7	258.0	267.4
(In percent of GDP)					
Current revenue	1.1	1.0	1.2	1.1	1.0
Contributions	0.9	0.8	0.7	0.6	0.6
Interest earnings	0.2	0.2	0.3	0.3	0.2
Other	0.0	0.0	0.2	0.2	0.1
Current expenditure	0.8	0.7	0.6	0.5	0.5
Wages and salaries	0.3	0.3	0.3	0.3	0.2
Current transfers	0.1	0.2	0.2	0.1	0.1
Other	0.3	0.2	0.2	0.1	0.1
Capital expenditure	0.1	0.1	0.0	0.1	0.1
Primary balance	0.0	0.0	0.3	0.2	0.2
Current account balance	0.3	0.3	0.6	0.6	0.5
Overall balance	0.2	0.2	0.6	0.5	0.4

Sources: Central Bank of Honduras; Honduran Institute Social Security; and Fund staff estimates.

Table 16. Honduras: Operations of INJUPEMP 1/

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Total revenue	234.0	279.9	337.0	421.7	527.6
Current revenue	209.1	244.5	310.1	401.1	527.6
Contributions	110.2	143.8	177.1	204.3	311.8
Government employees	50.9	72.3	103.1	118.9	181.5
Central government	44.1	55.1	50.6	58.4	89.1
Local governments	0.9	0.9	1.1	1.3	1.9
Decentralized agencies	3.3	3.5	6.8	7.8	12.0
Public enterprises	11.0	12.0	15.5	17.9	27.3
Interest earnings	95.6	98.3	118.0	158.0	167.8
Other revenue	9.3	2.4	15.0	4.2	46.3
Change in accounts receivable (increase -)	-6.0	0.0	0.0	34.6	1.7
Capital revenue	24.9	35.4	26.9	20.6	0.0
Total expenditure	241.2	395.4	464.5	489.5	569.2
Current expenditure	40.0	103.1	102.0	121.8	121.1
Wages and salaries	7.1	9.4	9.6	12.2	15.1
Goods and services	9.3	7.1	8.9	5.7	5.5
Contribution to social security	0.8	0.8	1.0	1.3	1.6
Current transfers	36.5	43.5	62.8	83.9	96.1
To private sector (benefits)	36.5	43.3	62.5	79.6	96.1
Other	0.0	0.2	0.3	4.3	0.0
Change in accounts payable (increase -)	-13.7	42.3	19.7	18.7	2.8
Capital expenditure and net lending	201.2	292.3	362.5	367.7	448.1
Fixed capital formation	152.2	228.4	295.1	226.4	144.2
Other	0.0	0.0	0.0	1.7	2.6
Net lending	49.0	63.9	67.4	139.6	301.3
Primary balance	-102.8	-213.8	-245.5	-225.8	-209.4
Current account balance	169.1	141.4	208.1	279.3	406.5
Overall balance	-7.2	-115.5	-127.5	-67.8	-41.6
(In percent of GDP)					
Current revenue	0.9	0.8	0.8	0.8	0.9
Contributions	0.5	0.5	0.5	0.4	0.5
Interest earnings	0.4	0.3	0.3	0.3	0.3
Other	0.0	0.0	0.0	0.1	0.1
Current expenditure	0.2	0.4	0.3	0.3	0.2
Current transfers	0.2	0.2	0.2	0.2	0.2
Other	0.0	0.2	0.1	0.1	0.0
Current account balance	0.7	0.5	0.6	0.6	0.7
Capital expenditure and net lending	0.9	1.0	1.0	0.8	0.7
Overall balance	0.0	-0.4	-0.3	-0.1	-0.1

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

1/ National Institute of Pensions for public employees.

Table 17. Honduras: Operations of INPREMA 1/

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Total revenue	119.1	176.4	270.1	295.2	620.8
Current revenue	119.1	168.5	268.5	288.3	526.8
Contributions from	120.7	148.2	186.4	182.6	282.4
Private sector	51.0	63.8	77.4	75.8	117.3
Central government	67.4	81.4	105.0	102.9	159.1
IMPREMA as employer	2.3	3.0	4.0	3.9	6.1
Interest earnings	50.1	51.0	79.5	90.0	182.9
Other	4.9	20.9	2.6	13.7	33.1
Change in accounts receivable (increase -)	-56.6	-51.6	0.0	2.0	28.4
Capital revenue	0.0	7.9	1.6	6.9	94.0
Total expenditure	180.2	186.6	291.2	384.3	435.8
Current expenditure	73.9	89.8	133.6	152.6	213.8
Wages and salaries	6.3	7.9	9.7	11.3	14.5
Goods and services	4.4	4.9	8.9	8.1	9.4
Contribution to social security	3.1	4.2	5.5	5.7	8.3
Transfers to private sector (benefits)	62.7	76.1	110.5	135.6	180.9
Change in accounts payable (increase -)	-2.6	-3.4	-1.0	-8.1	0.7
Capital expenditure and net lending	106.3	96.8	157.6	231.7	222.0
Capital expenditure	61.5	65.3	131.6	80.5	57.8
Fixed capital formation	46.1	65.2	131.3	78.6	51.4
Other	15.4	0.1	0.3	1.9	6.4
Net lending	44.8	31.5	26.0	151.2	164.2
Primary balance	-111.2	-61.2	-100.6	-179.1	2.1
Current account balance	45.2	78.8	134.9	135.7	313.0
Overall balance	-61.1	-10.2	-21.1	-89.1	185.0
(In percent of GDP)					
Current account balance	0.2	0.3	0.4	0.3	0.5
Capital expenditure and net lending	0.5	0.3	0.4	0.5	0.4
Overall balance	-0.3	0.0	-0.1	-0.2	0.3

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

1/ Pension fund for civil service and teachers.

Table 18. Honduras: Operations of the Local Governments

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Total revenue	424.4	486.9	582.2	677.6	962.5
Current revenue	306.4	375.9	446.8	520.5	655.5
Tax revenue	196.8	212.4	206.2	282.6	345.8
Nontax revenue	97.5	150.0	186.1	227.7	301.9
Current transfers from	12.1	13.5	54.5	6.8	0.0
Central government	9.1	10.3	49.5	6.8	0.0
Public enterprises	3.0	3.2	5.0	0.0	0.0
Interest earnings	0.0	0.0	0.0	3.4	7.8
Capital revenue	118.0	111.0	135.4	157.1	307.0
From central government	114.0	107.0	131.4	147.7	262.1
Other	4.0	4.0	4.0	9.4	44.9
Total expenditure	482.0	655.4	758.1	767.7	1,275.4
Current expenditures	274.0	352.4	384.1	425.9	571.5
Wages and salaries	168.0	162.4	194.9	245.9	275.6
Goods and services	66.8	78.1	100.5	113.4	151.5
Interest	28.9	27.6	21.2	24.9	62.7
Contributions to social security	7.0	5.0	6.1	7.2	10.7
Transfers to private sector	3.3	22.1	61.5	34.5	71.0
Change in accounts payables (increase -)	0.0	57.2	0.0	0.0	0.0
Capital expenditures	208.0	303.0	374.0	341.8	703.9
Fixed capital formation	208.0	303.0	374.0	341.8	700.5
Net lending	0.0	0.0	0.0	0.0	3.4
Primary current account balance	61.3	51.1	83.8	116.1	138.9
Primary balance	-28.7	-140.9	-154.8	-68.6	-258.0
Current account balance	32.4	23.5	62.7	94.6	84.0
Overall balance	-57.6	-168.5	-175.9	-90.1	-312.9
(In percent of GDP)					
Capital expenditure	0.9	1.0	1.0	0.7	1.1
Current account balance	0.1	0.1	0.2	0.2	0.1
Primary balance	-0.1	-0.5	-0.4	-0.1	-0.4
Overall balance	-0.3	-0.6	-0.5	-0.2	-0.5

Source: Central government budget.

Table 19. Honduras: Operations of the Decentralized Agencies 1/

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Total revenue	452.3	654.7	645.0	652.6	1,122.8
Current revenue	290.3	295.7	453.6	440.8	754.6
Central government transfers	290.3	295.7	453.6	440.8	691.5
Interest earnings	0.0	0.0	0.0	0.0	63.1
Capital revenue	162.0	359.0	191.4	211.8	368.2
Central government transfers	162.0	359.0	191.4	211.8	368.2
Other	0.0	0.0	0.0	0.0	0.0
Total expenditure	348.2	509.3	377.5	483.8	1,036.9
Current expenditure	287.6	241.2	213.9	353.8	861.0
Wages and salaries	58.0	70.2	114.2	138.2	143.6
Interest	0.0	0.0	0.0	0.0	1.8
Contributions to social security	3.3	3.5	6.8	7.8	12.0
Transfers to private sector	226.3	167.5	92.9	207.8	703.6
Capital expenditure	60.6	268.1	163.6	130.0	175.9
Fixed capital formation	60.6	268.1	163.6	130.0	175.9
Primary balance	104.1	145.4	267.5	168.8	24.6
Current account balance	2.7	54.5	239.7	87.0	-106.4
Overall balance	104.1	145.4	267.5	168.8	85.9
(In percent of GDP)					
Capital expenditure	0.3	0.9	0.4	0.3	0.3
Current account balance	0.0	0.2	0.6	0.2	-0.2
Primary balance	0.5	0.5	0.7	0.4	0.0
Overall balance	0.5	0.5	0.7	0.4	0.1

Source: Central government budget.

1/ Includes SID, INA, INFOP, IHADFA, IHDECOOP, JNBS, UNAH, UPN, PANI, EDUCREDITO, JOURNALISTS CORP, SPORTS FED. Excluding FHIS.

Table 20. Honduras: Operations of National Enterprise of Electricity Energy, ENEE

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Operating revenue	865.7	1,032.3	1,435.6	2,104.5	2,567.7
Sales of electricity 1/	894.0	986.7	1,542.6	2,156.9	2,525.0
Interest earnings	0.0	0.0	0.0	13.4	32.4
Other goods and services	25.8	81.8	30.4	103.7	132.9
Change in accounts receivable (increase -)	-54.1	-36.2	-137.4	-169.5	-122.6
Operating expenditure	334.4	763.3	1,544.2	2,029.7	2,035.6
Wages and salaries 2/	81.4	101.8	99.1	144.8	160.7
Severance payments	0.0	0.0	13.1	12.5	7.9
Goods and services	156.6	343.2	1,033.6	1,337.2	1,488.1
Fuels	99.9	87.1	270.5	56.9	59.4
Others including maintenance	51.7	60.6	65.8	76.8	8.3
Purchase of energy	5.0	195.5	697.3	1,203.5	1,420.4
Interest	220.6	311.4	398.4	466.0	301.9
External	163.9	187.9	364.8	412.1	286.4
Domestic	56.7	123.5	33.6	53.9	15.5
Other	8.2	6.9	0.0	42.4	161.8
Change in accounts payable (increase -)	-132.4	0.0	0.0	26.8	-84.8
Operating balance	531.3	269.0	-108.6	74.8	532.1
Net transfer payments	28.1	2.3	4.0	-224.0	-274.5
Taxes and transfer payments	28.1	5.7	4.0	7.5	39.3
To central government	25.9	3.4	0.0	0.1	0.0
To rest of general government	2.2	2.3	0.0	0.0	0.0
To private sector	0.0	0.0	4.0	7.4	39.3
Transfer receipts	0.0	3.4	0.0	231.5	313.8
From central government	0.0	3.4	0.0	231.5	313.8
Current account balance	503.2	266.6	-112.6	298.8	806.6
Net capital revenue	66.6	0.0	36.4	10.0	20.0
Capital transfers receipts	66.6	0.0	36.4	10.0	20.0
From central government	66.6	0.0	36.4	10.0	20.0
Capital expenditure	424.8	408.2	170.4	305.9	382.3
Primary balance	365.6	169.8	151.8	455.5	713.8
Overall balance	145.0	-141.6	-246.6	2.9	444.3
Financing	-145.0	141.6	246.6	-2.9	-444.3
Foreign (net)	-216.1	-308.4	-90.3	-274.8	-214.8
Drawings	310.9	232.1	246.7	7.7	15.9
Amortization payments	527.0	540.5	281.3	282.5	230.7
Payment of arrears	0.0	0.0	55.7	0.0	0.0
Domestic	71.1	450.0	336.9	271.9	-229.5
Central bank	59.3	-43.1	-34.4	27.1	-16.1
Rest of banking system	-0.2	-12.4	-3.1	7.4	-69.4
Government emergency loan	0.0	468.0	500.4	203.0	105.2
From government with foreign resources	0.0	0.0	-46.2	53.1	-183.7
Investment in securities and foreign account	0.0	0.0	16.3	16.3	-67.0
Other	12.0	37.5	-96.1	-35.0	1.5

Table 20. Honduras: Operations of National Enterprise of Electricity Energy, ENEE

	1993	1994	1995	1996	Prel. 1997
(In percent of GDP)					
Operating revenue	3.8	3.6	3.8	4.4	4.2
Operating expenditure	1.5	2.6	4.1	4.2	3.3
Net current transfer payments	0.1	0.0	0.0	-0.5	-0.4
Net capital revenue	0.3	0.0	0.1	0.0	0.0
Capital expenditure	1.9	1.4	0.5	0.6	0.6
Operating balance	2.3	0.9	-0.3	0.2	0.9
Current account balance	2.2	0.9	-0.3	0.6	1.3
Primary balance	1.6	0.6	0.4	1.0	1.2
Overall balance	0.6	-0.5	-0.7	0.0	0.7
External financing	-1.0	-1.1	-0.2	-0.6	-0.3
Domestic financing	0.3	1.6	0.9	0.6	-0.4
Memorandum items:					
Tariff in lempiras per KWH, average	0.49	0.57	0.80	0.99	1.14
Tariff in U.S. cents per KWH, average	7.53	6.79	7.82	7.76	8.70
Output sold in GW/H (in millions of lempiras)	1,820	1,730	1,586	2,193	2,828

Sources: Ministry of Finance; ENEE; Central Bank; and Fund staff estimates.

1/ On accrual basis; cash amounts obtained by deducting changes in accounts receivable.

2/ Includes employers contributions to the social security system.

Table 21. Honduras: Operations of the National Telecommunications Enterprise,
HONDUTEL

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Operating revenue	637.4	780.1	1,074.7	1,688.8	1,874.2
Sales of goods and services 1/	624.3	856.8	1,235.4	1,645.1	1,884.5
Interest earnings	0.0	5.3	7.5	50.8	51.9
Other	22.7	12.2	75.9	136.8	32.3
Change in accounts receivable (increase -)	-9.6	-94.2	-244.1	-143.9	-94.5
Operating expenditure	173.5	315.1	451.6	677.1	565.6
Wages and salaries 2/	114.3	141.5	211.9	260.1	324.0
Severance payments	0.0	0.0	29.4	29.5	7.4
Goods and services	40.7	53.6	66.9	171.3	124.4
Interest	57.0	143.5	107.6	123.2	109.8
External	57.0	111.1	94.0	111.6	103.3
Domestic	0.0	32.4	13.6	11.6	6.5
Other	8.7	16.5	8.8	0.0	0.0
Change in accounts payable (increase -)	-47.2	-40.0	27.0	93.0	0.0
Operating balance	463.9	465.0	623.1	1,011.7	1,308.6
Net transfer payments	156.8	147.2	138.4	202.7	212.3
Taxes and transfer payments	156.8	147.2	138.4	202.7	212.3
To central government	135.3	129.4	123.2	184.4	189.6
To rest of general government	11.5	0.0	0.0	0.0	0.0
To private sector	8.9	15.6	9.5	0.0	6.6
To abroad	1.1	2.2	5.7	18.3	15.9
Current account balance	307.1	317.8	484.7	809.0	1,096.3
Net capital revenue	0.0	16.9	0.0	58.0	0.0
Capital revenue	0.0	16.9	0.0	58.0	0.0
Capital expenditure	179.7	592.2	681.7	1,093.1	711.9
Fixed investment	91.8	509.9	701.6	1,078.0	724.9
Inventory changes	45.2	39.8	-21.6	14.5	-13.5
Other	42.7	42.5	1.7	0.6	0.5
Primary balance	184.4	-119.3	-96.9	-153.7	442.3
Overall balance	127.4	-257.5	-197.0	-226.1	384.4
Total financing	-127.4	257.5	197.0	226.1	-384.4
Foreign	-40.6	161.6	-39.1	-486.4	-357.9
Drawings	860.7	440.0	3.2	4.3	30.8
Amortization	102.7	80.0	42.3	490.7	388.7
Investment trust amortization	798.6	198.4	0.0	0.0	0.0
Domestic	-86.8	95.9	236.1	712.5	-26.5
Central bank	-19.9	55.2	64.0	-130.3	5.3
Rest of banking system	32.0	55.9	11.0	-9.5	-70.9
Government with foreign resources	0.0	0.0	-144.9	0.0	0.0
Investment in securities and foreign account	0.0	0.0	0.0	554.9	-22.3
Other	-98.9	-15.2	306.0	297.4	61.4

Table 21. Honduras: Operations of the National Telecommunications Enterprise,
HONDUTEL

	1993	1994	1995	1996	Prel. 1997
	(In percent of GDP)				
Operating revenue	2.8	2.7	2.9	3.5	3.1
Operating expenditure	0.8	1.1	1.2	1.4	0.9
Net current transfers payments	0.7	0.5	0.4	0.4	0.3
Net capital revenue	0.0	0.1	0.0	0.1	0.0
Capital expenditure	0.8	2.1	1.8	2.3	1.2
Operating balance	2.0	1.6	1.7	2.1	2.1
Current account balance	1.4	1.1	1.3	1.7	1.8
Primary balance	0.8	-0.4	-0.3	-0.3	0.7
Overall balance	0.6	-0.9	-0.5	-0.5	0.6
External financing	-0.2	0.6	-0.1	-1.0	-0.6
Domestic financing	-0.4	0.3	0.6	1.5	0.0

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

1/ On accrual basis; cash amounts obtained by deducting changes in accounts receivable.

2/ Includes employers contributions to the social security system.

Table 22. Honduras: Operations of the National Autonomous Water and Sewerage Service, SANAA

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Operating revenue	30.5	59.9	92.5	110.9	158.7
Sales of goods and services 1/	39.5	46.9	74.6	104.1	117.3
Interest earnings	0.0	0.0	0.0	0.0	4.2
Other	0.1	12.1	17.9	26.3	27.9
Change in accounts receivable (increase -)	-9.1	0.9	0.0	-19.5	9.3
Operating expenditure	2.8	50.5	68.5	107.9	112.5
Wages and salaries 2/	22.5	28.2	34.8	42.7	58.0
Severance payments	0.0	0.0	3.2	5.7	5.4
Goods and services	28.6	21.0	29.7	33.5	59.9
Interest	0.9	0.8	0.8	0.9	0.0
External	0.0	0.0	0.0	0.0	0.0
Domestic	0.9	0.8	0.8	0.9	0.0
Other	0.5	0.5	0.0	1.8	0.0
Change in accounts payable (increase -)	-49.7	0.0	0.0	23.3	-10.8
Operating balance	27.7	9.4	24.0	3.0	46.2
Net transfer payments	6.5	10.6	0.0	0.0	0.1
Taxes and transfer payments	6.5	10.6	0.0	0.0	0.1
To central government	5.2	5.1	0.0	0.0	0.0
To rest of general government	1.3	1.3	0.0	0.0	0.0
To private sector	0.0	4.1	0.0	0.0	0.1
Current account balance	21.2	-1.2	24.0	3.0	46.1
Net capital revenue	221.5	123.7	311.7	151.3	95.7
Capital revenue	0.0	7.3	0.0	0.0	0.0
Capital transfers receipts	221.5	116.4	311.7	151.3	95.7
From central government	221.5	116.4	216.8	151.3	95.7
From other	0.0	0.0	94.9	0.0	0.0
Capital expenditure	228.4	124.1	311.7	161.0	137.7
Fixed investment	173.3	123.7	291.4	165.4	127.6
Inventory changes	55.1	0.4	20.3	-4.4	10.1
Primary balance	15.2	-0.8	24.8	-5.8	-0.1
Overall balance	14.3	-1.6	24.0	-6.7	4.1
Financing	-14.3	1.6	-24.0	6.7	-4.1
Foreign	-0.3	-3.2	0.0	0.0	0.0
Drawings	2.1	0.0	0.0	0.0	0.0
Amortization payments	2.4	3.2	0.0	0.0	0.0
Domestic	-14.0	4.8	-24.0	6.7	-4.1
Central bank	0.0	-4.8	0.0	-0.4	-12.9
Rest of banking system	0.1	1.4	-0.1	0.0	0.0
Other	-14.1	8.2	-23.9	7.1	8.8

Table 22. Honduras: Operations of the National Autonomous Water and Sewerage Service, SANAA

	1993	1994	1995	1996	Prel. 1997
	(In percent of GDP)				
Operating revenue	0.1	0.2	0.2	0.2	0.3
Operating expenditure	0.0	0.2	0.2	0.2	0.2
Net current transfer payments	0.0	0.0	0.0	0.0	0.0
Net capital revenue	1.0	0.4	0.8	0.3	0.2
Capital expenditure	1.0	0.4	0.8	0.3	0.2
Operating balance	0.1	0.0	0.1	0.0	0.1
Current account balance	0.1	0.0	0.1	0.0	0.1
Primary balance	0.1	0.0	0.1	0.0	0.0
Overall balance	0.1	0.0	0.1	0.0	0.0

Sources: Ministry of Finance; SANAA; Central Bank; and Fund staff estimates.

1/ On accrual basis; cash amounts obtained by deducting changes in accounts receivable.

2/ Includes employers contributions to the social security system.

Table 23. Honduras: Operations of the National Ports Enterprise, ENP

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Operating revenue	165.8	247.3	291.9	394.9	479.7
Sales of goods and services 1/	145.2	235.5	291.8	360.7	459.1
Interest earnings	0.0	0.0	0.0	17.0	31.9
Other	16.0	14.1	14.7	18.1	6.7
Change in accounts receivable (increase -)	4.6	-2.3	-14.6	-0.9	-18.0
Operating expenditure	88.3	81.8	114.9	168.9	196.3
Wages and salaries	44.2	56.3	56.2	68.0	77.7
Severance payments 2/	0.0	0.0	7.9	5.7	10.0
Goods and services	18.7	23.9	26.4	33.2	42.3
Interest	5.9	10.6	30.0	27.0	28.7
External	4.0	10.2	29.2	18.8	28.0
Domestic	1.9	0.4	0.8	8.2	0.7
Other	0.0	0.3	7.6	7.1	0.0
Change in accounts payable (increase -)	19.5	-9.3	-13.2	27.9	37.6
Operating balance	77.5	165.5	177.0	226.0	283.4
Net transfer payments	32.6	35.6	35.5	42.8	105.6
Taxes and transfer payments	32.6	35.6	35.5	42.8	105.6
To central government	27.0	25.6	23.0	25.7	80.7
To rest of general government	0.7	8.7	11.3	13.4	17.1
To private sector	4.8	0.8	0.5	2.4	6.4
To abroad	0.1	0.5	0.7	1.3	1.4
Current account balance	44.9	129.9	141.5	183.2	177.8
Net capital revenue	-3.4	50.7	0.0	12.3	0.0
Capital revenue	2.2	50.7	0.0	12.3	0.0
Capital transfers payments	5.6	0.0	0.0	0.0	0.0
To rest of general government	5.6	0.0	0.0	0.0	0.0
Capital expenditure	135.2	119.5	123.4	51.1	47.8
Fixed investment	132.1	114.4	122.5	43.8	44.5
Inventory changes	2.9	2.4	0.6	7.3	1.7
Other	0.2	2.7	0.1	0.0	0.0
Net lending	0.0	0.0	0.2	0.0	1.6
Primary balance	-87.8	71.7	48.1	154.4	126.8
Overall balance	-93.7	61.1	18.1	144.4	130.0
Financing	93.7	-61.1	-18.1	-144.4	-130.0
Foreign	51.6	39.0	55.1	-115.7	-32.9
Drawings	63.3	61.8	67.0	0.0	0.0
Amortization	11.7	22.8	11.9	115.7	32.9
Domestic	42.1	-100.1	-73.2	-28.7	-97.1
Central bank	-7.8	-17.1	-73.9	-7.2	0.7
Rest of banking system	-27.9	1.0	-71.3	3.3	-20.6
Investment in securities	-19.8	1.0	-2.2	-33.6	-90.1
Other	97.6	-85.0	74.2	8.8	12.9

Table 23. Honduras: Operations of the National Ports Enterprise, ENP

	1993	1994	1995	1996	Prel. 1997
	(In percent of GDP)				
Operating revenue	0.7	0.9	0.8	0.8	0.8
Operating expenditure	0.4	0.3	0.3	0.4	0.3
Net transfer payments	0.1	0.1	0.1	0.1	0.2
Net capital revenue	0.0	0.2	0.0	0.0	0.0
Capital expenditure	0.6	0.4	0.3	0.1	0.1
Operating balance	0.3	0.6	0.5	0.5	0.5
Current account balance	0.2	0.5	0.4	0.4	0.3
Primary balance	-0.4	0.2	0.1	0.3	0.2
Overall balance	-0.4	0.2	0.0	0.3	0.2
External financing	0.2	0.1	0.1	-0.2	-0.1
Domestic financing	0.2	-0.3	-0.2	-0.1	-0.2

Sources: Ministry of Finance; Central Bank; and Fund staff estimates.

1/ On accrual basis; cash amounts obtained by deducting changes in accounts receivable.

2/ Includes employers contributions to the social security system.

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	L 10.34 = US\$1			L 13.0 = US\$1		
	1993	1994	1995	1995	1996	1997
I. Central Bank						
Net international reserves	-284.8	-27.0	1,170.4	1,471.0	2,743.1	6,388.9
Foreign assets	1,359.8	2,123.5	3,058.5	3,844.2	3,677.9	7,680.2
Net IMF position	-1,266.3	-1,099.9	-1,079.7	-1,357.0	-759.2	-601.7
Other short-term foreign liabilities	-378.3	-1,050.6	-808.4	-1,016.2	-175.6	-689.6
Domestic assets	5,647.6	6,937.1	6,439.2	6,938.8	6,351.8	1,930.8
Credit to public sector	413.9	336.6	-316.9	-459.2	-693.4	-1,610.5
Central government	481.6	424.2	-68.0	-167.5	-431.5	-1,002.0
Credit	1,974.2	1,478.4	1,250.8	1,250.8	1,138.2	1,411.3
Deposits	-1,492.6	-1,054.2	-1,318.8	-1,418.3	-1,569.7	-2,413.3
Rest of the public sector	-67.7	-87.6	-248.9	-291.7	-261.9	-608.5
Credit	164.3	137.0	140.0	140.0	173.0	99.2
Deposits	-232.0	-224.6	-388.9	-431.7	-434.9	-707.7
Government trust fund	-104.8	-130.9	-174.3	-174.3	-200.6	0.0
FHIS	-29.8	-23.7	-8.7	-8.7	-22.0	-7.5
Official capital	-925.9	-1,160.6	-1,468.5	-1,468.5	-1,577.1	-1,286.4
Credit to the private sector	59.2	58.1	63.7	63.7	57.7	5.0
Arrears deposits	-20.0	0.0	0.0	0.0	0.0	0.0
Credit to banks, net	1,017.4	894.7	429.8	429.8	-137.3	-3,820.8
Claims on banks	1,214.6	1,250.0	1,187.4	1,187.4	1,274.7	288.5
Development banks	352.6	342.8	331.3	331.3	311.9	151.1
Commercial banks	664.6	678.2	615.7	615.7	720.4	135.7
Specialized saving institutions	197.4	229.0	240.4	240.4	242.4	1.7
Liabilities to banks	-197.2	-355.3	-757.6	-757.6	-1,412.0	-4,109.3
Net unclassified assets	5,498.1	7,243.0	8,224.2	8,945.8	9,280.1	8,991.7
Exchange losses	5,818.3	6,061.7	6,006.9	6,006.9	7,220.7	5,923.8
Other 1/	-320.2	1,181.3	2,217.3	2,938.9	2,059.4	3,067.9
Allocation of SDRs	-280.5	-280.1	-310.1	-389.8	-355.6	-340.7
Medium- and long-term foreign liabilities	3,671.5	4,498.4	4,825.4	5,625.6	5,540.2	3,672.7
Private sector deposits	48.6	98.6	274.2	274.2	377.0	568.0
Money	28.7	74.3	191.4	191.4	142.6	264.2
Sight deposits	20.0	43.7	19.8	19.8	18.4	22.5
Time and savings deposits	8.7	30.6	171.6	171.6	124.2	241.7
Bonds	19.9	24.3	32.2	32.2	37.3	0.0
CAMs	0.0	0.0	50.6	50.6	197.1	303.8
Currency issue	1,642.7	2,313.1	2,510.0	2,510.0	3,177.7	4,079.0
Cash in vault	217.6	347.2	432.3	432.3	582.8	804.1
Currency in circulation	1,425.1	1,965.9	2,077.7	2,077.7	2,594.9	3,274.9

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	L 10.34 = US\$1			L 13.0 = US\$1		
	1993	1994	1995	1995	1996	1997
II. Commercial Banks						
Net international reserves	661.9	571.8	803.2	1,009.5	1,312.1	2,185.4
Foreign assets	777.7	853.2	1,262.3	1,586.5	2,079.0	3,470.3
Short-term foreign liabilities	-115.8	-281.4	-459.1	-577.0	-766.9	-1,284.9
Claims on central bank	451.8	694.5	1,145.4	1,145.4	1,993.5	4,459.4
Cash in vaults	195.1	318.3	398.9	398.9	547.4	763.9
Deposits	227.7	349.3	558.6	558.6	578.0	1,378.7
FOVI bonds 2/	29.0	26.9	27.8	27.8	27.0	0.0
CAMs 3/	0.0	0.0	160.1	160.1	841.1	2,316.8
Domestic assets	6,608.3	8,938.1	10,601.5	10,997.3	15,047.7	19,144.5
Credit to public sector (net)	464.3	798.6	651.1	641.0	193.5	-728.6
Central government	937.1	1,253.4	1,155.9	1,155.9	816.3	275.0
Credit	937.8	1,260.1	1,177.6	1,177.6	840.6	275.0
Deposits	-0.7	-6.7	-21.7	-21.7	-24.3	0.0
Rest of public sector	-472.8	-454.8	-504.8	-514.9	-622.8	-1,003.6
Credit	2.4	1.2	9.9	9.9	15.2	53.8
Deposits	-475.2	-456.0	-514.7	-524.8	-638.0	-1,057.4
Credit to rest of banking system	0.0	0.0	0.0	0.0	0.0	0.0
Credit to nonbank private financial intermediaries	0.0	0.0	0.0	0.0	0.0	0.0
FHIS	-12.8	-44.3	-13.1	-13.1	-23.4	-12.8
Credit to the private sector	5,008.5	6,363.9	7,711.4	7,711.4	10,957.8	16,744.2
Unclassified assets 1/	1,148.3	1,819.9	2,252.1	2,658.0	3,919.8	3,141.7
Medium- and long-term foreign liabilities	71.4	312.5	539.8	678.5	1,116.6	2,006.1
Liabilities to central bank	692.7	691.1	619.3	619.3	760.4	155.6
Liabilities to rest of banking system	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities to the private sector	6,957.9	9,200.8	11,391.0	11,854.4	16,476.3	23,627.6
Liquid liabilities	5,723.5	7,540.2	9,171.3	9,634.7	13,643.8	19,742.1
Sight deposits	1,804.9	2,472.3	3,077.8	3,077.8	4,427.0	5,606.1
Quasi-money	3,535.3	4,378.7	5,695.0	6,154.6	8,769.9	13,608.3
Domestic currency	2,902.8	3,183.7	3,850.1	3,850.1	4,741.1	8,389.0
Time and savings deposits	2,724.1	3,033.5	3,675.9	3,675.9	4,594.9	8,237.9
Specialized savings	103.0	91.4	102.5	102.5	98.7	111.8
Other deposits	75.7	58.8	71.7	71.7	47.5	39.3
Deposits in foreign currency	632.5	1,195.0	1,844.9	2,304.5	4,028.8	5,219.3
Bonds	16.1	13.9	29.4	29.4	33.0	60.8
Other obligations	367.2	675.3	369.1	372.9	413.9	466.9
Capital and surplus	1,234.4	1,660.6	2,219.7	2,219.7	2,832.5	3,885.5

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	L 10.34 = US\$1			L 13.0 = US\$1		
	1993	1994	1995	1995	1996	1997
III. Consolidated Development Banks						
Net international reserves	2.2	0.7	1.5	1.9	1.7	1.6
Foreign assets	2.2	0.7	2.2	2.8	2.6	4.1
Short-term foreign liabilities	0.0	0.0	-0.7	-0.9	-0.9	-2.5
Claims on central bank	26.3	61.6	35.5	35.5	34.9	207.8
Cash in vaults	10.8	13.5	14.5	14.5	13.9	20.8
Deposits	15.5	48.1	19.5	19.5	17.9	168.4
CAMs	0.0	0.0	1.5	1.5	3.1	18.6
Domestic assets	581.6	635.3	628.6	664.3	687.4	445.5
Credit to public sector (net)	28.5	9.3	15.5	15.5	32.3	-152.0
Central government	-20.7	-29.8	-34.1	-34.1	-10.9	-231.5
Credit	7.2	6.9	7.7	7.7	35.4	219.7
Deposits	-27.9	-36.7	-41.8	-41.8	-46.3	-451.2
Rest of public sector	49.2	39.1	49.6	49.6	43.2	79.5
Credit	107.1	104.7	111.9	111.9	114.2	173.1
Deposits	-57.9	-65.6	-62.3	-62.3	-71.0	-93.6
Government trust fund	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Official capital and surplus	-186.1	-263.1	-265.4	-265.4	-272.7	-1,514.7
Credit to nonbank private financial intermediaries	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the private sector	143.1	163.1	192.2	192.2	237.6	330.2
FHIS	0.0	0.0	0.0	0.0	0.0	0.0
Unclassified assets 1/	597.1	727.0	687.3	723.0	691.2	1,783.0
Medium- and long-term foreign liabilities	95.6	126.4	140.3	176.3	165.0	160.0
Liabilities to central bank	371.4	407.2	330.1	330.1	321.4	164.7
Liabilities to rest of banking system	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities to the private sector	143.1	164.0	195.2	195.3	237.6	330.2
Sight deposits	13.9	15.5	13.9	13.9	17.0	31.6
Quasi-money	76.2	77.5	89.4	89.5	99.3	117.4
Domestic currency	74.9	77.1	89.0	89.0	97.5	115.0
Time and savings deposits	73.3	75.1	85.3	85.3	91.9	106.2
Other deposits in local currency	1.6	2.0	3.7	3.7	5.6	8.8
Deposits in foreign exchange	1.3	0.4	0.4	0.5	1.8	2.4
Bonds	0.5	1.0	1.0	1.0	0.3	17.4
Other obligations	52.5	70.0	90.9	90.9	121.0	163.8

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	L 10.34 = US\$1			L 13.0 = US\$1		
	1993	1994	1995	1995	1996	1997
IV. Specialized Savings Institutions						
Net international reserves	83.6	94.7	76.0	95.5	156.7	88.3
Foreign assets	83.6	101.2	93.4	117.4	156.8	88.3
Short-term foreign liabilities	0.0	-6.5	-17.4	-21.9	-0.1	0.0
Claims on central bank	68.6	97.9	109.2	109.2	106.3	227.3
Cash in vaults	11.7	15.4	18.9	18.9	21.5	19.4
Deposits	37.4	62.0	69.7	69.7	55.2	105.3
FOVI bonds	19.5	20.5	20.6	20.6	20.1	0.0
CAMs	0.0	0.0	0.0	0.0	9.5	102.6
Domestic assets	849.5	971.8	1,434.1	1,444.0	1,506.6	1,250.7
Credit to public sector (net)	-141.3	-208.5	-90.4	-90.4	-17.8	-104.8
Central government	25.9	55.6	78.7	78.7	81.8	1.3
Credit	27.9	60.7	85.7	85.7	81.8	1.3
Deposits	-2.0	-5.1	-7.0	-7.0	0.0	0.0
Rest of public sector	-167.2	-264.1	-169.1	-169.1	-99.6	-106.1
Credit	2.5	2.5	3.6	3.6	0.0	0.0
Deposits	-169.7	-266.6	-172.7	-172.7	-99.6	-106.1
Credit to rest of banking system	0.0	0.0	0.0	0.0	0.0	0.0
Credit to the private sector	858.9	1,033.8	1,332.5	1,332.5	1,305.7	1,439.1
FHIS	-2.0	-5.1	-7.0	-7.0	0.0	0.0
Unclassified assets 1/	133.9	151.6	199.0	208.9	218.7	-83.6
Liabilities to central bank	207.9	239.9	255.4	255.4	262.3	12.3
Liabilities to rest of banking system	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities to the private sector	793.8	924.5	1,363.9	1,393.3	1,507.3	1,554.0
Liquid liabilities	678.6	781.1	1,180.8	1,210.2	1,282.9	1,358.3
Quasi-money	587.6	654.1	827.1	856.5	945.1	1,001.8
Deposits in domestic currency	526.3	552.4	712.5	712.5	766.9	908.0
Time and savings deposits	526.3	552.4	712.5	712.5	766.9	908.0
Deposits in foreign currency	61.3	101.7	114.6	144.0	178.2	93.8
Other obligations	91.0	127.0	353.7	353.7	337.8	356.5
Capital and surplus	115.2	143.4	183.1	183.1	224.4	195.7
V. Honduras: Consolidated Banking System						
Net international reserves	462.9	640.2	2,051.1	2,577.9	4,213.6	8,664.2
Foreign assets	2,223.3	3,078.6	4,416.4	5,550.9	5,916.3	11,242.9
Net IMF position	-1,266.3	-1,099.9	-1,079.7	-1,357.0	-759.2	-601.7
Short-term foreign liabilities	-494.1	-1,338.5	-1,285.6	-1,616.0	-943.5	-1,977.0

Table 24. Honduras: Detailed Accounts of the Financial System

(In millions of lempiras)

	L 10.34 = US\$1			L 13.0 = US\$1		
	1993	1994	1995	1995	1996	1997
Net domestic assets	12,744.1	16,650.9	18,756.4	19,697.4	23,801.3	26,529.3
Credit to public sector	765.4	936.0	259.3	106.9	-485.4	-2,595.9
Central government	1,423.9	1,703.4	1,132.5	1,033.0	455.7	-957.2
Credit	2,947.1	2,806.1	2,521.8	2,521.8	2,096.0	1,907.3
Deposits	-1,523.2	-1,102.7	-1,389.3	-1,488.8	-1,640.3	-2,864.5
Rest of public sector	-658.5	-767.4	-873.2	-926.1	-941.1	-1,638.7
Credit	276.3	245.4	265.4	265.4	302.4	326.1
Deposits	-934.8	-1,012.8	-1,138.6	-1,191.5	-1,243.5	-1,964.8
Government trust fund	-105.8	-131.9	-175.3	-175.3	-201.6	-1.0
Credit to nonbank private financial intermediaries	0.0	0.0	0.0	0.0	0.0	0.0
Credit to private sector	6,069.7	7,618.9	9,299.8	9,299.8	12,558.8	18,518.5
Arrears deposits	-20.0	0.0	0.0	0.0	0.0	0.0
Official capital	-1,112.0	-1,423.7	-1,733.9	-1,733.9	-1,849.8	-2,801.1
FHIS	-44.6	-73.1	-28.8	-28.8	-45.4	-20.3
Unclassified assets 1/	7,377.4	9,941.5	11,362.6	12,535.7	14,109.8	13,832.8
Allocation of SDRs	-280.5	-280.1	-310.1	-389.8	-355.6	-340.7
Interbank float	74.5	63.3	82.8	82.8	70.5	-63.0
Medium- and long-term foreign liabilities	3,838.5	4,937.3	5,505.5	6,480.4	6,821.8	5,838.8
Central bank	3,671.5	4,498.4	4,825.4	5,625.6	5,540.2	3,672.7
Rest of banking system	167.0	438.9	680.1	854.8	1,281.6	2,166.1
Liabilities to the private sector	9,368.5	12,353.8	15,302.0	15,794.9	21,193.1	29,354.7
Liquid liabilities	8,018.9	10,549.8	12,899.2	13,392.1	18,136.2	25,273.5
Money	3,263.9	4,497.4	5,189.2	5,189.2	7,057.3	8,935.1
Currency in circulation	1,425.1	1,965.9	2,077.7	2,077.7	2,594.9	3,274.9
Sight deposits	1,838.8	2,531.5	3,111.5	3,111.5	4,462.4	5,660.2
Quasi-money	4,207.8	5,140.9	6,783.1	7,272.2	9,938.5	14,969.2
Domestic currency	3,512.7	3,843.8	4,823.2	4,823.2	5,729.7	9,653.7
Time and savings deposits	3,332.4	3,691.6	4,645.3	4,645.3	5,577.9	9,493.8
Specialized savings	103.0	91.4	102.5	102.5	98.7	111.8
Other deposits in local currency	77.3	60.8	75.4	75.4	53.1	48.1
Deposits in foreign exchange	695.1	1,297.1	1,959.9	2,449.0	4,208.8	5,315.5
Bonds	36.5	39.2	62.6	62.6	70.6	78.2
Other obligations	510.7	872.3	813.7	817.5	872.7	987.2
CAMs	0.0	0.0	50.6	50.6	197.1	303.8
Capital and surplus	1,349.6	1,804.0	2,402.8	2,402.8	3,056.9	4,081.2

Source: Central Bank of Honduras.

1/ Includes valuation adjustment.

2/ Housing Fund.

3/ Open market operations.

Table 25. Honduras: Destination of Banking System Credit to the Private Sector

	1993	1994	1995	1996	Prel. 1997
(In millions of lempiras)					
Total	5,970	7,450	9,022	12,106	14,492
Agriculture and related sectors	1,199	1,480	1,576	1,938	2,208
Agriculture	883	1,093	1,104	1,333	1,484
Coffee	238	282	268	406	505
Cotton	10	9	8	11	11
Basic grains	174	212	203	239	285
Other	462	590	626	677	683
Livestock	251	348	403	484	528
Fishing	65	38	68	122	197
Mining	5	3	3	9	15
Manufacturing	1,149	1,260	1,563	2,382	2,647
Transport and communications	99	121	193	201	294
Construction and real estate	1,076	1,328	1,755	2,114	2,629
Commerce	1,664	2,124	2,786	3,923	4,762
Consumption	380	445	527	702	876
Other	399	689	620	837	1,061
(In percent of GDP)					
Total	26.3	25.8	24.0	25.3	23.6
Agriculture and related sectors	5.3	5.1	4.2	4.1	3.6
Agriculture	3.9	3.8	2.9	2.8	2.4
Coffee	1.0	1.0	0.7	0.8	0.8
Cotton	0.0	0.0	0.0	0.0	0.0
Basic grains	0.8	0.7	0.5	0.5	0.5
Other	2.0	2.0	1.7	1.4	1.1
Livestock	1.1	1.2	1.1	1.0	0.9
Fishing	0.3	0.1	0.2	0.3	0.3
Manufacturing	0.0	0.0	0.0	0.0	0.0
Transport and communications	5.1	4.4	4.2	5.0	4.3
Construction and real estate	0.4	0.4	0.5	0.4	0.5
Commerce	4.7	4.6	4.7	4.4	4.3
Consumption	7.3	7.4	7.4	8.2	7.8
Other	1.7	1.5	1.4	1.5	1.4
(In percent of total)					
Total	100.0	100.0	100.0	100.0	100.0
Agriculture and related sectors	20.1	19.9	17.5	16.0	15.2
Agriculture	14.8	14.7	12.2	11.0	10.2
Coffee	4.0	3.8	3.0	3.4	3.5
Cotton	0.2	0.1	0.1	0.1	0.1
Basic grains	2.9	2.8	2.2	2.0	2.0
Other	7.7	7.9	6.9	5.6	4.7
Livestock	4.2	4.7	4.5	4.0	3.6
Fishing	1.1	0.5	0.8	1.0	1.4
Mining	0.1	0.0	0.0	0.1	0.1
Manufacturing	19.2	16.9	17.3	19.7	18.3
Transport and communications	1.7	1.6	2.1	1.7	2.0
Construction and real estate	18.0	17.8	19.5	17.5	18.1
Commerce	27.9	28.5	30.9	32.4	32.9
Consumption	6.4	6.0	5.8	5.8	6.0
Other	6.7	9.2	6.9	6.9	7.3

Source: Central Bank of Honduras.

Table 26. Honduras: Legal Reserve Requirements, End of Period

	1993	1994	1995	1996	1997
Commercial and development banks					
Local currency deposits					
Demand, saving, and time deposits 1/	36.0	40.0	34.0	34.0	12.0
Other deposits 1/2/	36.0	40.0	34.0	34.0	12.0
Housing	10.0	10.0	15.0	15.0	15.0
"Bonos de caja" 3/	20.0	20.0	15.0	15.0	15.0
Foreign currency deposits					
Demand, saving, and time deposits 4/	100.0	100.0	100.0	100.0	12.0
Certificates of deposit 3/5/	100.0	100.0	100.0	100.0	12.0
"Free availability" deposits 4/5/	100.0	100.0	100.0	100.0	12.0
Specialized saving institutions					
Local currency deposits 6/7/	17.0	21.0	21.0	21.0	12.0
Foreign currency deposits 6/7/	100.0	100.0	100.0	100.0	12.0
Investment companies ("financieras")					
Local currency deposits 6/8/	0.0	0.0	0.0	0.0	12.0
Special requirements for agricultural banks					
Local currency deposits 9/	20-30	20-30	20-30	20-30	20-30

Source: Central Bank of Honduras.

1/ In addition, 19 percent as obligatory investment in official securities for 1997.

2/ Savings certificates and certificates of deposit.

3/ Long-term bonds issued to finance specific activities.

4/ In addition, 38 percent in foreign deposits and investments abroad for 1997.

5/ US\$25,000 minimum balance.

6/ Banks are authorized to hold these reserves in deposits abroad or in credits for exports.

7/ In addition, 9 percent as obligatory investment in official securities for 1997.

8/ In addition, 3 percent as obligatory investment in official securities for 1997.

9/ For banks lending mainly to the agricultural sector.

Table 27. Honduras: Distribution of Domestic Bonded Debt

(In millions of lempiras)

	1993	1994	1995	1996	1997
Central government bonds	3,469.0	3,587.4	3,719.6	3,875.6	3,574.1
By holder:	1,921.9	1,434.9	1,250.8	1,138.3	561.3
Central bank	938.5	1,260.2	1,177.6	840.6	575.0
Commercial banks	7.3	6.9	6.9	32.6	38.7
BANADESA	27.9	60.7	85.7	81.4	1.3
Savings and loan associations	0.0	0.0	120.8	142.7	28.9
Nonbank financial institutions	46.2	52.6	178.8	399.4	683.8
IHSS	248.6	481.1	445.9	606.8	458.4
Rest of public sector	17.8	11.7	40.8	37.5	70.6
Insurance companies	249.6	262.3	404.4	596.3	1,156.1
Private sector	11.2	17.0	7.9	0.0	0.0
International organizations					
Local government bonds	590.5	816.5	1,044.8	1,175.7	1,472.9
By holder:	63.3	59.5	63.1	50.6	116.4
Central bank	80.2	85.1	92.3	154.7	148.4
Other credit institutions	29.6	25.0	31.9	22.0	19.2
Rest of public sector	417.4	646.9	857.5	852.1	1,100.1
Central government	0.0	0.0	0.0	96.3	88.8
Other public sector bonds					
By holder:	3,735.2	4,547.8	5,441.7	7,635.0	8,139.5
Central bank	101.0	77.5	86.9	81.5	69.6
Commercial banks	4.1	2.7	3.6	0.0	0.0
BANADESA	8.5	19.0	19.0	19.0	19.0
Central government	3,620.4	4,448.6	5,295.8	7,491.5	8,023.9
Private sector	1.2	0.0	0.0	11.7	0.0
IHSS and INJUPEM	0.0	0.0	36.4	31.3	27.0
By debtor:	3,735.2	4,547.8	5,441.7	7,635.0	8,139.5
ENEE	2,269.2	2,776.3	3,506.3	5,636.2	6,501.2
SANAA	4.2	3.0	3.7	0.0	0.0
ENP	302.7	391.2	419.6	454.1	228.6
HONDUTEL	800.8	935.0	999.4	1,015.6	964.1
Others	358.3	442.3	512.7	529.1	445.6

Source: Central Bank of Honduras.

Table 28. Honduras: Weighted Interest Rates of the Banking System

(In percent, end of period)

	1993	1994	1995	1996	1997
I. Nominal Rates					
Lending rates					
Loans	23.4	26.1	28.4	29.8	32.1
Overdraft	29.7	35.3	35.6	38.1	39.6
Weighted average	23.4	30.9	37.8		
Deposit rates					
Saving deposits	9.3	9.7	10.1	10.0	12.6
Term deposits	11.4	11.1	12.6	17.4	19.3
Certificates	14.1	15.9	17.1	19.5	21.7
Annual inflation (CPI)	13.0	28.9	23.8	20.2	14.8
II. Real Rates 1/					
Lending rate					
Loans	9.2	-2.2	3.7	8.0	15.1
Overdraft	14.8	5.0	9.5	14.9	21.6
Weighted average	13.8	4.1	14.1		
Deposit rates					
Saving deposits	-3.3	-14.9	-11.1	-8.5	-1.9
Term deposits	-1.4	-13.8	-9.0	-2.3	3.9
Certificates	1.0	-10.1	-5.4	-0.6	6.0

Source: Central Bank of Honduras.

1/ Nominal rates deflated by the estimated inflation.

Table 29. Honduras: Balance of Payments, 1993-97

(In millions of U.S. dollars; unless otherwise indicated)

	1993	1994	1995	1996	Prel. 1997
Current account	-284	-349	-177	-190	-101
Trade balance	-397	-382	-273	-336	-429
Exports of goods (f.o.b.)	878	1,017	1,298	1,423	1,536
Coffee	125	200	350	279	327
Bananas and other fruit	266	199	261	334	271
Other exports	486	618	687	810	938
Imports of goods (f.o.b.)	-1,275	-1,399	-1,571	-1,759	-1,964
Services	-105	-178	-168	-130	16
<i>Of which</i>					
Interest on external debt	-188	-212	-228	-218	-195
Value added from maquila industries	114	125	163	204	308
Current transfers	218	211	264	277	312
Capital accounts	205	252	216	228	263
Foreign direct investment	56	42	69	90	114
Portfolio investment 1/	0	0	0	0	54
Medium- and long-term loans	294	112	74	-5	39
Disbursements	497	340	373	366	371
Amortizations	-203	-228	-299	-371	-332
Short-term loans	-145	99	72	142	56
Errors and Omissions	-125	94	-43	-121	62
Overall balance	-204	-3	-4	-83	224
Change in reserves (increase -)	117	-23	-90	13	-308
Exceptional financing 2/	87	26	94	71	84
Memorandum items:					
Current account (in percent of GDP)	-8.1	-10.2	-4.5	-4.7	-2.2
Overall balance (in percent of GDP)	-5.8	-0.1	-0.1	-2.0	4.8
Gross reserves	182	205	296	283	591
Reserves in months of imports 3/	1.5	1.5	2.0	1.7	3.2
Export growth	-5.9	15.9	27.6	9.6	7.9
Import growth	1.0	9.7	12.3	11.9	11.7
Outstanding debt 4/	3,629	3,752	3,952	3,767	3,643
External debt arrears 5/	205	145	127	179	120
Debt to GDP ratio	104	109	100	92	78
Debt service to exports ratio 6/	34.8	35.9	33.3	33.5	26.2
GDP	3,506	3,428	3,961	4,080	4,699
Exchange Rate (period average)	6.5	8.4	9.5	11.7	13.0

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

1/ Data on portfolio investment is not available before 1996.

2/ Imports of goods and non factor services.

2/ Includes arrears to the Paris Club.

4/ Medium and long-term public and publically guaranteed external debt.

5/ Principal and interest arrears, includes arrears to the Paris Club.

6/ Exports of goods and non factor services.

Table 30. Honduras: Exports by Product, 1993-97

	1993	1994	1995	1996	Prel. 1997
(Value in millions of dollars, unit value in dollars)					
Traditional exports	590.8	618.8	800.8	817.5	828.0
Coffee	124.6	200.1	349.3	278.9	326.3
Volume ('000 of quintals)	2,225.0	2,241.0	2,343.0	2,687.0	2,246.0
Unit Value (per 100 lb.)	56.0	89.3	149.1	103.8	145.3
Bananas	225.6	155.1	214.2	279.8	205.3
Volume (millions of 40 lb. boxes)	36.3	26.8	31.7	38.7	31.6
Unit Value (per box)	6.2	5.8	6.8	7.2	6.5
Wood	21.9	21.3	19.0	21.7	9.7
Volume ('000 cubic meters)	85.9	76.2	67.6	71.1	30.4
Unit Value (per cubic meter)	255.0	279.6	281.0	305.2	319.1
Beef	39.6	39.0	13.0	11.0	11.0
Volume (millions of kilograms)	16.9	16.2	6.0	5.8	5.5
Unit Value (per kilogram)	2.3	2.4	2.2	1.8	2.0
Lead	1.8	1.7	1.8	2.7	4.6
Volume (millions of lbs.)	7.8	6.3	5.8	7.4	13.6
Unit Value (per lb.)	0.2	0.3	0.3	0.4	0.3
Zinc	23.0	21.1	27.1	25.7	53.8
Volume (millions of lbs.)	58.5	51.4	63.2	61.5	96.6
Unit Value (per lb.)	0.4	0.4	0.4	0.4	0.6
Silver	3.5	4.4	5.5	4.7	6.5
Volume (millions troy ounces)	0.9	0.9	1.1	0.9	1.4
Unit Value (per ounce)	4.1	5.1	4.9	5.0	4.5
Shrimps	112.4	133.6	124.5	143.2	164.1
Volume (millions of kilograms)	10.2	10.3	9.2	10.7	11.4
Unit Value (per kilogram)	11.0	13.0	13.5	13.4	14.4
Lobsters	26.8	31.9	34.1	35.0	26.5
Volume (millions of kilograms)	1.2	1.0	1.1	1.1	0.8
Unit Value (per kilogram)	22.6	30.5	32.0	32.4	32.5
Sugar	5.2	4.8	6.8	9.5	12.1
Volume (millions of kilograms)	11.6	9.6	13.3	19.3	24.9
Unit Value (per kilogram)	0.4	0.5	0.5	0.5	0.5
Tobacco	6.4	5.8	5.5	5.3	8.1
Volume (millions of kilograms)	2.9	2.6	2.4	2.3	2.7
Unit Value (per kilogram)	2.2	2.3	2.3	2.3	3.0
Nontraditional exports	271.0	346.7	419.4	503.3	614.8
Total exports, customs basis	861.8	965.5	1,220.2	1,320.8	1,442.8
Adjustments	49.7	51.1	77.5	101.7	88.6
Unrecorded exports	34.0	46.1	69.1	79.2	83.1
Re-exports	15.7	5.0	5.0	5.0	5.0
Other	0.0	0.0	3.4	17.5	0.5
Total exports, BOP basis	911.5	1,016.6	1,297.7	1,422.5	1,531.4
(In percent)					
Memorandum items:					
Traditional share, customs basis	68.6	64.1	65.6	61.9	57.4
Nontraditional share, customs basis	31.4	35.9	34.4	38.1	42.6

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

Table 31. Honduras: Economic Classification of Imports, 1993-97

	1993	1994	1995	1996	Prel. 1997
(In millions of U.S. dollars)					
Total imports, c.i.f. 1/	1,290.6	1,460.3	1,642.7	1,840.0	2,048.4
Consumer goods	278.1	318.8	356.8	400.2	455.7
Durables	82.7	94.8	106.1	119.0	135.5
Nondurables	195.4	224.0	250.7	281.2	320.2
Raw materials	460.1	527.2	590.1	661.6	753.3
Agriculture	95.8	109.7	122.8	137.5	156.5
Manufacturing	364.3	417.5	467.3	524.1	596.8
Lubricants and fuels	182.7	190.6	221.6	246.2	233.7
Capital goods	344.0	393.6	440.7	494.1	561.6
Agriculture	12.8	14.6	16.4	18.4	21.0
Manufacturing	169.5	194.2	217.4	243.8	277.6
Transport	123.7	141.8	158.7	178.0	202.7
Construction	38.0	43.0	48.2	53.9	60.3
Other	25.7	30.1	33.5	37.9	44.1
(In percent of total imports)					
Consumer goods	21.5	21.8	21.7	21.8	22.2
Raw material	35.7	36.1	35.9	36.0	36.8
Lubricants and fuels	14.2	13.1	13.5	13.4	11.4
Capital goods	26.7	27.0	26.8	26.9	27.4
Other	2.0	2.1	2.0	2.1	2.2

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

1/ Customs basis.

Table 32. Honduras: Foreign Trade Indices, 1993-97 1/

	1993	1994	1995	1996	Prel. 1997
(Index 1987 = 100)					
Exports, f.o.b.					
Value	122.0	132.7	170.3	185.5	194.8
Volume	125.6	124.0	132.2	153.1	151.3
Unit value	97.2	107.0	128.8	121.2	128.7
Imports, c.i.f.					
Value	126.6	146.7	165.1	186.4	198.8
Volume	115.1	130.1	141.5	152.2	158.5
Unit value	117.9	119.4	123.3	128.9	130.2
Terms of trade	82.4	89.6	104.5	94.0	98.9
(Percentage change)					
Exports, f.o.b.					
Value	2.4	8.8	28.3	9.0	5.0
Volume	-0.5	-1.2	6.6	15.8	-1.2
Unit value	3.0	10.1	20.3	-5.9	6.3
Imports, c.i.f.					
Value	17.5	15.9	12.5	12.9	6.6
Volume	16.7	12.1	8.8	7.6	4.1
Unit value	0.8	1.3	3.2	4.6	1.0
Terms of trade	2.1	8.8	16.5	-10.0	5.2

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

1/ All indices are Laspeyres.

Table 33. Honduras: Distribution of Exports, f.o.b. by Destination, 1993-96

(As percent of total)

	1993	1994	1995	1996
Total exports	100.0	100.0	100.0	100.0
United States	50.2	48.7	48.5	44.7
Other Western Hemisphere	16.4	19.2	19.5	21.6
CACM countries 1/	12.2	14.5	14.8	15.6
Dominican Republic	0.1	0.1	0.1	0.6
Trinidad and Tobago	0.2	0.3	0.3	0.0
Venezuela	0.0	0.0	0.0	0.0
Other	3.9	4.3	4.3	5.4
Europe	27.9	24.6	24.6	24.5
Belgium	6.5	4.3	3.5	4.8
France	1.0	1.2	1.2	1.0
Germany	11.6	6.2	8.6	6.5
Italy	1.0	1.7	1.7	2.2
Netherlands	1.0	1.9	1.9	2.3
Spain	1.9	3.2	3.2	3.3
Other	4.9	6.1	4.5	4.4
Other countries	5.5	7.5	7.4	9.2
Japan	2.2	3.2	3.2	2.8
Other	3.3	4.3	4.2	6.4

Source: Central Bank of Honduras.

1/ Central American Common Market countries include Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Table 34. Honduras: Distribution of Imports, c.i.f., by Origin, 1993-96

(In percent of total)

	1993	1994	1995	1996
Total imports 1/	100.0	100.0	100.0	100.0
North America	46.7	43.8	43.6	47.3
Canada	1.1	0.9	0.7	0.7
United States	45.6	42.9	42.9	46.6
Other Western Hemisphere	35.6	34.5	34.9	36.3
CACM countries 2/	15.4	14.7	17.7	16.3
Brazil	1.9	1.8	1.6	1.1
Colombia	1.3	0.9	1.1	1.0
Mexico	2.8	3.0	4.4	4.9
Trinidad and Tobago	0.3	0.3	0.1	0.2
Venezuela	0.9	0.9	1.3	1.6
Other	13.0	12.9	8.7	11.2
Europe	9.2	12.4	11.3	8.1
Belgium	0.6	1.4	0.9	0.8
France	0.7	0.6	0.3	1.1
Germany	2.3	3.6	2.3	1.7
Italy	1.0	0.7	0.7	0.6
Netherlands	0.9	1.5	3.4	1.0
Spain	0.6	1.8	1.6	1.1
United Kingdom	0.8	0.7	0.4	0.5
Other	2.3	2.1	1.7	1.3
Other countries	8.5	9.3	10.2	8.3
Japan	4.4	4.7	3.6	4.3
Other	4.1	4.6	6.6	4.0

Source: Central Bank of Honduras.

1/ Excludes adjustments for undervaluation and coverage.

2/ Central America Common Market countries include Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

Table 35. Honduras: Visible Trade with the
Central American Common Market, 1993-97

(In millions of U.S. dollars)

	1993	1994	1995	1996	Prel. 1997
Exports, f.o.b. 1/	105.2	139.9	180.8	206.3	213.0
By destination					
Costa Rica	10.5	21.5	23.5	27.2	28.1
El Salvador	32.7	43.5	51.9	59.1	61.0
Guatemala	25.5	34.7	49.2	56.0	57.8
Nicaragua	36.5	40.2	56.2	64.0	66.1
By commodity					
Soap	3.2	2.1	2.4	...	...
Barbed wire	1.0	0.2	0.2	...	...
Natural and vulcanized rubber	0.8	0.3	0.3	...	...
Edible corn starches	0.7	0.4	0.5	...	...
Plywood	0.8	0.4	0.5	...	...
Fruit juices	0.1	0.1	0.1	...	...
Crown corks and metal stoppers	0.7	0.2	0.2	...	...
Other	44.1	43.5	49.3	...	...
Imports, c.i.f. 1/	198.8	214.2	290.2	299.6	334.5
By origin					
Costa Rica	55.3	47.9	57.4	59.3	57.4
El Salvador	50.3	59.0	83.6	89.4	115.1
Guatemala	83.0	93.7	134.4	133.5	149.5
Nicaragua	10.2	13.6	14.8	17.4	12.5
By commodity					
Foodstuff, beverages, and tobacco	25.2	24.7	35.4	...	...
Raw materials	28.9	28.3	40.7	...	...
Chemicals	47.2	46.2	66.4	...	...
Manufactures	53.3	52.2	75.0	...	...
Capital goods	12.6	12.3	17.7	...	...

Source: Central Bank of Honduras.

1/ Excludes adjustments for undervaluation and coverage.

Table 36. Honduras: Medium- and Long-term, Public and Publicly Guaranteed
External Debt and Debt Service, 1993-97

	1993	1994	1995	1996	Prel. 1997
(In millions of U.S. dollars)					
Total outstanding (end of period)	3,675.2	3,751.7	3,951.7	3,767.2	3,642.5
IMF	119.2	109.2	97.9	57.8	46.1
Multilaterals 1/ Paris Club creditors	2,013.3	2,174.6	2,296.5	2,245.2	2,227.8
Other bilaterals	1,073.0	1,125.3	1,227.3	1,170.6	1,073.7
Private creditors	256.7	173.1	201.9	195.8	225.0
	213.0	169.5	128.1	97.8	69.9
Disbursements	509.6	308.3	381.9	301.1	247.7
IMF	9.3	0.0	30.1	0.0	0.0
Multilaterals	267.4	194.1	236.2	278.3	173.5
Paris Club creditors	70.9	83.5	58.6	11.3	27.6
Other bilaterals	8.1	30.7	57.0	11.5	46.6
Private creditors	153.9	0.0	0.0	0.0	0.0
Debt service due before rescheduling	425.7	419.4	468.3	532.2	372.9
IMF	11.1	20.2	47.1	39.7	9.8
Multilaterals	234.4	273.0	282.2	347.7	232.7
Paris Club creditors	93.5	43.8	63.3	76.8	59.7
Other bilaterals	47.7	39.1	22.0	30.4	34.5
Private creditors	39.0	43.3	53.7	37.6	36.2
Debt service due after rescheduling	359.8	384.8	422.7	505.9	376.4
IMF	11.1	20.2	47.1	39.7	9.8
Multilaterals	234.4	266.1	252.2	347.7	225.4
Paris Club creditors	28.1	38.6	53.0	48.5	74.8
Other bilaterals	47.2	19.1	20.5	32.4	31.7
Private creditors	39.0	40.8	49.9	37.6	34.7
Debt service cash payments	343.2	351.2	415.5	481.5	374.0
IMF	11.1	20.2	47.0	39.7	9.8
Multilaterals	229.0	241.1	251.4	340.7	225.4
Paris Club creditors	21.7	34.3	52.6	44.4	74.6
Other bilaterals	43.4	15.6	14.6	20.9	29.5
Private creditors	38.0	40.0	49.9	35.8	34.7
Stock of arrears	149.1	111.3	114.6	166.7	109.1
Multilaterals	8.9	41.2	7.2	7.2	9.8
Paris Club creditors	6.5	6.3	34.3	91.6	52.8
Other bilaterals	98.3	41.5	38.5	33.9	33.4
Private creditors	35.4	22.3	34.6	34.0	13.1
(In percent)					
Debt to GDP ratio	104.8	109.3	99.7	92.2	77.1
Debt service ratios 2/ Before rescheduling	34.8	33.1	33.2	32.5	19.6
After rescheduling	29.2	30.3	30.0	30.9	19.8
Cash payments	28	27.7	29.5	29.4	19.7

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

1/ Including CABEL.

2/ Debt service in percent of export of goods and services.

Table 37. Honduras: Stock of Arrears, 1994-97

(In millions of U.S. dollars)

	1994	1995	1996	Prel. 1997
Stock of arrears	145	127	179	120
Multilaterals	41	7	7	10
Official bilateral	82	85	138	97
Paris Club creditors	6	34	92	53
Non-Paris Club	75	51	47	44
Commercial	22	35	34	13
Principal	99	77	118	73
Multilaterals	34	5	4	6
Official bilateral	50	51	93	60
Paris Club creditors	0	19	65	34
Non-Paris Club	50	31	29	26
Commercial	15	22	21	7
Interest	46	50	61	47
Multilaterals	7	3	3	4
Official bilateral	32	35	45	37
Paris Club creditors	6	15	27	19
Non-Paris Club	26	20	18	18
Commercial	7	13	13	7

Source: Central Bank of Honduras.

Table 38. Honduras: Nominal and Real Effective Exchange Rates, 1993-97 1/

(Period Averages; 1990 = 100)

Period	Lempiras/ U.S. Dollar	Nominal Effective Exchange Rate Index 1/	Real Effective Exchange Rate Index 1/
1993	6.5	74.1	85.2
1994	8.4	63.1	76.0
1995	9.5	56.1	82.3
1996	11.7	47.1	81.9
1997	13.0	45.0	91.7
1993			
I	5.8	78.5	90.1
II	6.1	76.7	87.9
III	6.9	70.5	81.7
IV	7.1	70.8	80.9
1994			
I	7.4	70.0	80.1
II	8.1	65.0	76.5
III	8.9	59.8	73.2
IV	9.2	57.7	74.2
1995			
I	9.2	58.9	81.2
II	9.2	56.9	82.1
III	9.5	55.5	82.4
IV	10.0	53.3	83.3
1996			
I	10.7	50.9	81.9
II	11.2	48.6	82.2
III	12.2	44.8	80.5
IV	12.6	44.0	83.2
1997			
I	12.8	44.9	88.6
II	13.0	44.6	90.0
III	13.1	45.1	93.3
IV	13.1	45.4	94.9
1997			
January	12.9	43.8	85.7
February	12.7	45.3	89.1
March	12.8	45.6	91.0
April	12.8	45.1	90.3
May	13.1	44.4	89.5
June	13.1	44.3	90.3
July	13.1	44.8	92.1
August	13.1	45.4	93.9
September	13.1	45.1	94.0
October	13.1	50.0	93.6
November	13.1	45.2	94.4
December	13.1	46.0	96.6

Sources: Central Bank of Honduras; and the Information Notice System.

1/ A decline in the index reflects depreciation.