

PD-AAM-308

2-0210/117

SN-31063

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

HONDURAS

PROJECT PAPER

ECONOMIC RECOVERY PROGRAM
(AMENDMENT)

AID/LAC/P-120/1

Project Number: 522-0230

Loan Number: 522-K-046

522-K-601

UNCLASSIFIED

AIC 1120-1 10-861	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	PROJECT NO. 522-0230
		Loan 522-K-046 Grant 522-K-601
		COUNTRY Honduras
		CATEGORY Cash Transfer
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	DATE
TO: AA/LAC: Mr. Otto Reich		1. OVB CHANGE NO.
FROM: LAC/DR: Mr. Dwight Johnson		2. OVB INCREASE
		TO BE TAKEN FROM: Economic Support Fund (ESF)
6. AMOUNT REQUESTED FOR COMMITMENT OF \$15,000,000		10. APPROPRIATION - ALLOTMENT Budget Plan Code
11. TYPE FUNDING 12. LOCAL CURRENCY ARRANGEMENT	11. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
* LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	FY 83	Date of Authorization
13. COMMODITIES FINANCED		

None

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only	U.S. 15,000,000
Limited F.W.	Industrialized Countries:
Free World	Local:
Cash: \$15,000,000	Other:

18. SUMMARY DESCRIPTION

The purposes of this program assistance are: to provide immediate balance of payments support to Honduras; to assure the allocation of urgently needed foreign exchange and credit to the private sector of Honduras; and to assure a satisfactory rate of implementation of high priority development projects in Honduras.

The \$15 million assistance (\$2,250,000 Loan; \$12,750,000 Grant) will be disbursed as a cash transfer into an account of the Government of Honduras in the Federal Reserve Bank of New York. The dollar loan will be repaid in 40 years. There will be a ten year grace period during which the interest rate will be 2%; thereafter the interest rate will be 3%.

Upon disbursement of the assistance, thirty million Lempiras will be deposited in a Special Account in the Central Bank of Honduras. These Lempiras will be used for mutually agreed development purposes which are consistent with the Foreign Assistance Act, especially Sections 103 through 106.

19. CLEARANCES	DATE	20. ACTION
LAC/DR: L. Klassen <i>UK</i>	7/27	<i>Carl H. Leonard (on)</i> July 30, 1983 AUTHORIZED SIGNATURE DATE Marshall D. Brown, AA/LAC (Acting) Agency for International Development
LAC/DP: A. Diaz (draft)		
LAC/DP: N. Billig (draft)		
LAC/DP: G. Winter (draft)		
LAC/DP: C. Zuvekas (draft)		
ARA/EGP: R. Bash (draft)		
PPC/PB: H. Handlar (draft)		
LAC/DR: S. E. Smith		
LAC/DR: I. Levy		CLASSIFICATION
DAA/LAC: C. Leonard (Acting)	7/29	
M/FM/PAD, E. S. Owens	8/1	
M/FM/LMD: H. SHROPSHIRE	7 27	

8 JUL 1983

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR (LAC)

FROM : LAC/DR, Dwight B. Johnson

SUBJECT: PAAD Amendment: Honduras Economic Recovery Program
(No. 522-0230)

Problem: Your approval is requested to authorize an amendment to the subject program of \$15.0 million, consisting of an Economic Support Fund (ESF) Grant of \$12,750,000 and an ESF Loan of \$2,250,000, which will increase the existing life-of-project funding from \$38.0 million to a new total of \$53.0 million.

Discussion: This amendment will continue to support the program's primary objectives of: (1) providing immediate balance of payments support to Honduras; (2) assuring the allocation of urgently needed foreign exchange and credit to the private sector of Honduras; and (3) assuring a satisfactory rate of implementation of high priority development projects in Honduras. This cash transfer is intended to assist the Government of Honduras (GOH) to undertake those structural adjustments necessary to maintain compliance with their International Monetary Fund (IMF) Stand-by Arrangement. This PAAD Amendment basically proposes a continuation of the program authorized in September 1982, with particular emphasis on addressing the problems of a large unprogrammed fiscal deficit in 1983 and revitalization of the economy. Disbursement of each tranche will be predicated upon separate conditions precedent which are designed to assure that the policy reforms which this program is intended to support are actually implemented. The conditionality is aimed at addressing short and long term budgetary problems as well as structural trade problems. The dollar resources will be disbursed as a cash transfer to the Central Bank of Honduras (BCH). The BCH, within a period of twelve months of this disbursement, will make an equivalent amount of dollars available to the private sector for imports of raw materials, intermediate goods, and industrial spare parts from the U.S. The cash transfer will generate an equivalent amount of local currency funds to be deposited in a GOH Special Account. An estimated half of the local currency monies will be allocated to support the GOH budget, more specifically to meet the counterpart requirements of A.I.D. and other donor projects. The second half of the local funds will be used for private sector credit needs and channeled through a BCH line of credit established through the banking system.

The PAAD Amendment also provides an updated analysis of the Honduran economic situation and a review of the GOH's efforts to deal with the increasingly serious economic problems. While the PAAD Amendment concludes that the GOH's basic economic policies are sound, exogenous factors such as falling prices for its primary exports, the world economic recession, and unsettled regional political conditions have contributed to a deteriorating economic situation. In addition, endogenous factors such as delays in undertaking strong measures to increase taxes, implementing tax administration reforms, concluding the renegotiation of the external debt, and failure to reform the current foreign exchange allocation process, have contributed to the decline. For 1982, preliminary figures indicate a balance of payments deficit of \$89.0 million and a fiscal gap of \$285.0 million. GOH performance under the IMF Stand-by Arrangement concluded in late 1982 has, thus far, been moderately successful. Central government budgetary expenditure growth has been checked, a debt renegotiation agreement with a steering committee of private banks has been initialed, and the acquisition of foreign commercial debt under ten years is substantially below the IMF ceiling. Yet, budgetary and balance of payments problems are expected to plague the Honduran economy for many years to come, with a worsening of the fiscal gap anticipated in the short term. As a result, it is expected that U.S. assistance will be needed, with ESF levels significantly above the FY 83 Congressional Presentation required in the next year or two to maintain stability.

The DAEC reviewed the PAAD Amendment on July 21, 1983 and recommended its approval subject to the following modifications as described below:

1. The Bureau concurred with the provisional 50/50 split proposed by the Mission for allocation of local currency between public and private sector financing for this tranche of ESF funding. It was agreed, however, that for any future amendments to this PAAD, the Bureau would expect a 25/75 split between public and private sector local cost financing, unless special justification for a different allocation is provided to the LAC Bureau and ARA.

2. The Mission established criteria under the first program tranche which limited the size of loans to any one company under the BCH line of credit to the private sector. The Mission should examine this criteria to determine if it is still required and the impact of removing these guidelines.

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Justification to Congress: A Congressional Notification was submitted to the Hill on July 15, 1983, and will expire on July 29, 1983.

Recommendation: That you sign the attached PAAD facesheet providing an additional \$15.0 million, consisting of a \$2,250,000 ESF Loan and a \$12,750,500 ESF Grant, for the Honduras Economic Recovery Program.

Attachment: PAAD Facesheet

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PROGRAM ASSISTANCE APPROVAL DOCUMENT
HONDURAS: ECONOMIC RECOVERY PROGRAM
522 - 0230
(Amendment No.2)

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PROGRAM ASSISTANCE APPROVAL DOCUMENT
HONDURAS: ECONOMIC RECOVERY PROGRAM AMENDMENT
522 - 0230
Amendment No. 2

I. SUMMARY AND RECOMMENDATIONS

A. Recommendation

USAID/Honduras recommends authorization of an Economic Support Fund Loan of \$8,152,500 and an Economic Support Grant of \$46,197,500. The dollar loan will be repaid in 40 years including a ten year grace period. The interest rate will be 2% during the grace period and 3% thereafter.

B. Borrower/Grantee

The Borrower/Grantee will be the Government of Honduras acting through the Ministry of Finance and Public Credit.

C. Program Summary

Honduras continues to implement a tough structural adjustment program which seeks to achieve equilibrium in the fiscal and balance of payments accounts. Results so far have been mixed. While the GOH has drawn the first three tranches under its Stand-by Arrangement with the IMF, the continued viability of the program is threatened by exogenous economic factors, and delays in undertaking strong measures to increase taxes, implementing tax administration measures, and concluding the renegotiations of part of the external debt. Lower than expected export income has resulted in reduced government revenues, and consequently a large unfinanced fiscal gap is projected for 1983. Continued political turmoil in Central America has reduced capital flows from abroad which in turn is further reducing the country's ability to import much needed raw materials and intermediate goods.

While the GOH has managed to perform adequately against IMF performance criteria in the form of limits on Central Bank credit expansion, key assumptions made under the IMF program regarding macroeconomic performance have proven optimistic. For example, although the net foreign exchange reserves target is being met, the levels of commodity imports and exports are projected at dols 703 million and dols 685 million, respectively, for 1983, instead of the levels of dols 781 million and dols 938 million that had been programmed. Obviously the effect of this situation is to reduce economic growth and employment.

The GOH's basic domestic economic policies are still sound. There are no major distortions in the country's economy except for 6 or 7 basic products, prices are not controlled; the Central Bank has ensured adequate growth of private sector credit over time (except for the 1980-81 period studied by the Ohio State University team); and formal regulation of private enterprise is quite limited. The GOH is taking steps to promote private sector development of productive activities and is actively seeking to transfer state enterprises to the private sector. The problems facing the country involve adjusting the fiscal and balance of payments accounts to take into account dislocations

caused by continued poor world market prospects for the country's principal exports, the lingering effects of previous economic mismanagement, a significant reduction of external private capital availability, and an unsettled regional political situation. The possibility of a surge in domestic inflation, while it has not yet appeared, may be added to this list soon in view of continued high deficit financing, low investment, continued compression of imports and limited domestic production of many basic consumer items.

D. AID Concerns and GOH Strategy

AID's first priority continues to be helping the GOH to maintain compliance with the IMF agreement in the short term as the best way to ensure long term economic stability and growth. However, it is also crucial that economic growth and employment be maximized within the context of implementation of that agreement. Since the last PAAD amendment, it has become clear that the Central Bank is managing the foreign exchange scarcity adequately. It has established the controls necessary to ensure the allocation of foreign exchange, in accordance with its adjustment program. However, this has led to a compressed level of imports, a reduced rate of economic growth, and lower than projected tax revenues. These factors, in turn, are the major contributors to a rising fiscal deficit which is not so susceptible to short run control. In addition to legal and administrative constraints, the dangers of the precarious state of the economy are not fully understood by key decision makers, and the political will to tackle them head on has not yet been generated.

Despite these problems, the GOH remains committed to meet its obligations under the Stand-by Arrangement; and fortunately, there is still some maneuvering room. A combination of higher tax collections, reduced expenditures, credit absorption from the Central Bank within the limits established in the IMF agreement, and additional sales of government bonds for the private sector could enable the GOH to stay near the domestic financing target established for the budget under the IMF agreement for this year. However, there is a limit to the amount of bonds that the private sector will absorb. Thus, even if the deficit is controlled this year within the limits established by the IMF agreement, it is highly doubtful that a manageable deficit could be expected next year without major budget cuts and/or tax increases. The budget deficit will undoubtedly be a major focus of the upcoming GOH/IMF negotiations for a new agreement which are scheduled for August, 1983.

This PAAD amendment proposes a continuation of the basic program set forth in the original PAAD. Based on the above recent developments, however, a slight change of emphasis has been incorporated: more concentration will be devoted to addressing the unprogrammed fiscal deficit and economic reactivation concerns. The former will be addressed by a package of administratively determined budget holds; policy changes and administrative reforms aimed at

increasing tax collections; additional bond sales; and the application of part of the local currency generations from the ESF program to selected budget items. Taken together, these measures will substantially reduce the projected fiscal gap of dols 404 million in 1983 (of which dols 209 is unprogrammed), help to lessen the probable 1984 deficit, and ensure continuity of GOH services to AID's target group. Economic reactivation will be stimulated by the provision of foreign exchange for those imported goods most necessary to economic growth, the use of part of local currency resources for private sector credit and as counterpart for internationally financed development programs whose implementation will generate additional foreign exchange. Over the longer run, the Mission's continuing policy dialogue with the GOH at the highest levels will help to effect structural changes which are expected to result in improved performance of the economy, and clearer roles for the public and private sectors.

E. Specific Objectives of the Assistance

The specific objectives of the proposed assistance are to:

- provide complementary finance to the IMF Stand-by Arrangement and support the conditionality contained therein, and support negotiations for a new arrangement when the current one expires;
- strengthen the capacity of the GOH to support key development projects, and support a strong commitment to accelerate project implementation;
- increase the flow of imports to the private sector which will directly increase production and employment;
- support the ongoing broad policy dialogue between the Mission and the GOH;
- support current efforts to conclude the renegotiations of public sector debt with foreign commercial banks, and negotiations for a Structural Adjustment Loan with the World Bank;
- support the GOH policy commitment to adopt legal and administrative measures designed to increase budget revenues;
- support the GOH policy commitment to maintain private sector credit availability in concordance with fiscal and monetary objectives of the adjustment program;

F. Implementation

The total proposed assistance of dols 54.35 million consists of an initial dols 15 million from the Mission, a FY83 OYB, dols 9.35 million which is being considered as part of a reprogramming of the LAC Bureau budget for FY 83, and

dols 30 million which is in the process of approval by Congress as part of the FY83 Government Wide Supplemental Authorization Bill. The first dols 15 million will be obligated shortly after authorization of the PAAD and the additional funds will be obligated as soon as possible after they become available. The timing of disbursements will be keyed to the achievement of specific GOH actions designed to reach the above objectives. The funds will be disbursed as cash transfers to the account of the Central Bank of Honduras (BCH) in the Federal Reserve Bank of New York. As a condition to the program, the BCH will make available, over the following 12 months, at least dols 54.35 million in dollars to private sector importers to finance the purchase of raw materials, spare parts and intermediate goods having their source and origin in the United States. The dollar resources will be allocated in accordance with the Central Bank's import priority scheme utilizing an allocation medium recently negotiated between the Central Bank and the private sector. As in the initial Economic Recovery Program, the Central Bank will maintain detailed records of all transactions involving these resources for Mission review, and will report their allocation to the Mission.

Upon each disbursement of the funds, the GOH will deposit an equivalent amount of lempiras in the Special Account established under the Economic Recovery Program. Fifty percent of local currency resources will be used as GOH counterpart contributions for externally financed development projects, thereby increasing hard currency disbursements by donor countries and institutions. AID project needs will be given top priority, followed by other high priority programs financed by other IFI's and bilateral agencies. The rest of local currency will supplement the private sector credit fund established under the original program. The detailed programming of the local currency will be subject to joint AID/GOH negotiations.

G. Rationale for Grant Financing

The recent increased U.S. economic assistance effort for key Central American governments, including Honduras, has made a significant contribution to the furtherance of economic and political stability in the area. Of the major recipients -Costa Rica, El Salvador, and Honduras- only the latter is receiving all of its ESF assistance in the form of loans. At a time when Honduras is imposing more sacrifices on its people, and being responsive to U.S. security concerns, the unequal treatment is leading Honduras to question U.S. commitment to assist the country through what promises to be an extremely difficult period, both economically and politically. It is difficult to square grant financing to countries having substantially greater incomes per capita with loan financing for Honduras.

Honduras would greatly benefit if 85% of the ESF assistance is provided in the grant mode. Any budgetary support derived thereof would assist in reducing the budget deficit without resorting to expensive credit. This would have the added benefit of assisting the GOH in complying with the IMF Stand-by Arrangement.

H. Conditions, Covenants and Negotiating Status

The disbursement of each tranche of ESF funds, in accordance with the GOH letter of request, will be conditioned upon: a) substantial compliance with the IMF Agreement; b) satisfactory progress in closing the projected fiscal gap through a combination of budget cuts and improved tax collections by compliance with specific goals established under the U.S.I.R.S./Ministry of Finance technical assistance program; c) substantial compliance with the covenants of the original loan agreement and Amendment No. 1 thereto; and d) the implementation of a moratorium on GOH guarantees to private sector firms and limiting those granted to autonomous institutions. In addition, the first tranche of dols 15 million scheduled for August 15 disbursement will be conditioned upon a) the standard conditions precedent to disbursement; and b) the cancellation of all tax amnesties for delinquent taxpayers. The second tranche of dols 9.35 million scheduled for September 30 will be conditioned upon: a) the conclusion of the renegotiation of public sector external debt; and b) the creation of GOH task force to study and provide concrete recommendations regarding the slowdown in the disbursements of external assistance. The third tranche of dols 30 million scheduled for November 30, will be conditioned upon: a) the submission of the export incentive law to the National Congress; and b) submission of an analysis of GOH subsidies for the autonomous agencies receiving the bulk of the transfers from the 1983 GOH budget, and a plan for reducing the level of transfers to those autonomous agencies. The amount of each disbursement may be evened out, should funding availabilities permit.

The covenants proposed for the use of program resources are set in Section III.C. Essentially, they provide continuity to those covenants established in the original loan agreement which are still in effect. The foreign exchange allocation mechanism and the local currency programming will continue to operate as agreed in the original agreement with minor modifications to accommodate changing conditions such as the improved foreign exchange allocation mechanism recently negotiated between the the Central Bank and the private sector.

The present economic situation and details of the implementation arrangements are discussed in Sections II and III respectively.

II. Economic Situation

Following a period of export-led economic growth in the second half of the 1970's, Honduran economic activity was adversely affected by several forces including depressed international markets for its major agricultural commodity exports, the world economic recession, high interest rates, internal economic mismanagement, and political unrest in Central America. The interplay among these forces resulted in depressed levels of trade, investment, and consumption as reflected in a sustained decline in real economic growth and serious financial imbalances in the government's fiscal accounts and the international balance of payments. The Suazo Government, which took office in early 1982, undertook a substantial adjustment effort to redress the financial imbalances and place the Honduran economy on a sound footing.

The GOH requested assistance from and entered into a Stand-by Arrangement with the International Monetary Fund (IMF). The arrangement, which has been in force since November 1982, calls for the restoration of equilibrium in the fiscal and balance of payments accounts by the end of 1983 through the implementation of contractionary fiscal and monetary policies and the renegotiation of external debt. The Stand-by will provide between inception and termination, up to dols 107 million (1 SDR=dols 1.07) of which dols 25 million is from the Compensatory Financing Facility. A dols 35 million ESF loan under the FY82 Caribbean Basin Initiative supplemental appropriation, which was disbursed in September, 1982, and an additional dols 3 million, which was disbursed in April, 1983, have reinforced the Stand-by.

Economic performance in 1982 was less satisfactory than that envisioned in the IMF program. GDP aggregates declined in excess of programmed levels. Of particular significance are the substantial declines of real imports and exports of 31 and 11.6 percent respectively, and the related decline of one percent in the overall level of economic activity. The GOH fiscal deficit continued to grow despite efforts to contain current expenditures and increase revenues. An example of the latter was the foreign trade and consumption tax packages introduced in the course of the year. In 1982, the overall fiscal deficit reached dols 285 million, well in excess of the dols 220 million projected in the Stand-by Program.

Preliminary balance of payments figures for 1982 recorded an overall deficit of dols 89 million which is dols 8 million short of the deficit programmed in mid 1982. The imbalance came about through a 75 percent decline in capital inflows with respect to 1981 levels, owing to poor investor confidence and the cancellation of most lines of credit from foreign banks.

Despite the economic growth, budgetary, and balance of payments setbacks, the GOH has managed to stay within established performance ceilings set under the Stand-by Arrangement. The GOH drew the first three tranches equivalent to approximately dols 49 million as well as dols 30 million from the Compensatory Financing Facility. Budgetary problems will, however, continue to threaten the viability of the program. Projections for 1983 point towards an unfinanced budget deficit exceeding dols 200 million. In the absence of extraordinary budget support and severe fiscal measures, domestic financing for such a deficit is beyond the GOH's ability to fill the gap without resorting to the excessive borrowing from the Central Bank. Similarly, unexpected quota reductions for coffee and hurricane-like winds which destroyed a substantial portion of this year's banana crops will undermine GOH efforts to reach budgetary and balance of payments equilibria in 1983. The effects of the recent reallocation of the Nicaragua sugar quota won't be felt until next year, and then, its impact will be moderate.

A. Overall Production Trends

The overall level of economic activity continued its downward trend in 1982. Real GDP, which grew 2.8 and 1 percent in 1980 and 1981 respectively, declined 1 percent in 1982. The GDP breakdown by sector of economic activity presented in table D-1 (Appendix D) shows that every sector's activity, with the exception of agriculture and utilities, recorded negative growth in 1982. Real value added in agriculture -the mainstay of the economy- increased only 1.1 percent reflecting government efforts to increase the production of basic grains. Earnings from major export crop production declined as a result of depressed international markets.

The real GDP breakdown by type of expenditure (Table D-2) presents the current economic decline in yet more sobering terms; every expenditure component declined at least 2.5 percent. Real private consumption declined 2.5 percent as a result of lower employment levels. Real government consumption declined 9.2 percent reflecting the GOH's austerity program in accordance with the current Stand-by Arrangement with the IMF. The rate of decline in gross capital formation has subsided from - 24.5 percent in 1981 to -4.8 percent in 1982. The foreign trade component recorded a substantial decline. Real exports fell 11.6 percent from already depressed levels, while imports declined 31 percent responding to foreign exchange scarcities and government efforts to reduce the current account deficit in the balance payments through import controls.

B. Money, Credit, and Prices

The supply of money and quasi-money (Table D-3) grew 16 percent in 1982. This figure exceeds the 6 percent growth targeted by government for its 1982 monetary program. Money (currency plus demand deposits) grew 10 percent, which exceeded the no growth target of the monetary authorities. Quasi-money grew 20 percent also exceeding a 10 percent target set for the year. The resulting liquidity can be attributed to a dramatic increase in the banking system's deposits in the second half of the year. The deposits are largely composed of lempiras which are awaiting the availability of foreign exchange.

Central bank figures for internal credit expansion (Table D-3) indicate 11 percent growth for 1982. While credit to the public sector increased 13 percent, credit to the private sector increased 11 percent. This is a result of a contractionary credit policy with respect to 1981, when public sector credit increased 29 percent and private sector credit 8 percent. The relative credit contraction corresponds to the Government's commitment to reduce net domestic asset expansion, while increasing credit to the private sector as part of its Stand-by Arrangement with the IMF.

The consumer price index (CPI) behavior (Table D-4) slightly exceeded the targeted level of 9 percent, as the CPI grew 9.4 percent in 1982. Satisfactory levels of basic grain production, which responded to government incentives assisted in holding down price growth. CPI components with high

import content such as clothing and personal care items recorded strong increases of 20 percent each already reflecting the scarcity of some imported items and higher consumption and import taxes.

C. Public Finance

The GOH continued its efforts to redress the financial imbalance in the public sector's fiscal accounts with less than satisfactory results. The official budget figures for 1982 show dols 285 million for the overall fiscal deficit (Table D-5) which is 40 percent greater than the 1981 deficit, and 29 percent greater than the deficit programmed under the Stand-by Arrangement. The fiscal deficit resulted from a disappointing revenue performance and unexpected expenditures.

As in previous years, the 1982 revenue performance fell short of projected levels; however, that year's performance must be examined against the backdrop of new taxes introduced in 1982. The dols 38 million revenue shortfall against IMF projections resulted from a combination of factors which include a 13 percent drop in foreign trade tax revenues owing to the decline in economic activity and, disappointing results from the government's weak effort to improve tax administration.

On the expenditure side, current expenditures exceeded IMF programmed levels by dols 8 million and 1981 levels by dols 19 million. The overrun represents unexpected transfers to autonomous institutions with financial problems. Capital expenditures increased 35 percent over the 1981 level and 5 percent over the amount projected by the IMF. The increase can be attributed to an improvement in the execution of IFI financed projects. Capital transfers to autonomous institutions show a 35 percent increase from the 1981 level.

The 1982 fiscal deficit of dols 285 million was financed with net external resources amounting to dols 138 million and net domestic credit of dols 147 million. The domestic credit exceeds the 1981 level by dols 57 million and the projected level by dols 42 million. As in previous years, budgetary finance requirements soaked up a substantial portion of domestic credit which cut the private sector's access to a proportional share of increased financial resources.

The latest budgetary performance projections for 1983, as presented in Table D-5, point to a very difficult year. The projected overall deficit currently stands at dols 404 million, which exceeds the programmed deficit by dols 126 million. Several factors account for the projected performance. The most important is a revenue shortfall from budgeted levels of approximately dols 120 million. The lower revenues will result from a weak revenue collection efforts in the first part of the year (in part due to continued amnesties approved by the National Congress for past due tax bills), and depressed import and export levels, which are major sources of tax revenues. The negligible economic growth will cause collections of income and sales taxes to fall below projections, even though revenues will increase due to higher tax rates approved by the GOH in 1982. On the expenditure side, current

expenditures are projected to surpass budgetted levels. This development results from requests for unbudgetted expenditures on the order of dols 48 million in the areas of defense, health, natural resources, and debt service for public obligations which the Government has had to assume. Net lending to autonomous institutions is expected to exceed its programmed levels by at least dols 53 million.

The substantial projected deviations from the 1983 budget as approved by the Congress in December 1982 shows deficit financing needs well in excess of the programmed levels in the Stand-By Arrangement, as illustrated below:

Honduras: Central Government Budget Deficit 1983
(Millions of Dollars)

	<u>Budget</u>	<u>Projected</u>
Overall Deficit	278	404
<u>Financing</u>	<u>278</u>	404
External (Net)	233	150
Internal (Net) (IMF limits)	45	45
Banking system	(25)	(25)
Bonds	(20)	(20)
Unfinanced gap	--	209

The GOH faces an unfinanced gap of approximately dols 209 million which must be filled through a combination of the following: (1) obtaining financing from the non-banking sector; (2) obtaining extraordinary assistance from international donors; (3) reducing current expenditures further; (4) raising taxes; and/or (5) exceeding IMF limits on borrowing from the Central Bank. By its letter of application, the GOH has committed itself to take the following measures to reduce the unfinanced gap:

	<u>Millions of \$</u>
(1) Finance from the sale of bonds to the non-banking sector (sale of new bonds \$30 m., rollover \$10m.)	40
(2) Reduction in expenditures	36
(3) Increased collection of taxes by implementation of I.R.S/GOH Tax Administration Program (See Annex E)	17
(4) Additional collections of CONADI's debts from the private sector	7
(5) Collection of debts owed to other autonomous institutions	5
(6) Central Bank Credit derived from foreign exchange inflows (New loans arising out of debt renegotiations)	15
(7) Application of January 1, 1983 cash balance	7
(8) Decline in petroleum import prices	<u>7</u>
Reduction in gap as a result of above	<u>134</u>
Remaining unfinanced gap	75

Additional measures under consideration include further reducing expenditures, and the passage of new taxes. The GOH has requested that the entire local currency equivalent of dols 54.35 million be applied to the reduction of the fiscal gap, which would eliminate most of the above dols 75 million. The Mission has agreed to apply 50% or dols 27.2 million for this purpose and consider the remainder once it is clear that the private sector credit needs are met, and that the GOH is making sufficient effort to carry out the above measures in accordance with the implementation plan included in Section III below.

D. The External Sector

Preliminary balance of payments figures for 1982, as presented in Table D-6, recorded a decline of net foreign exchange reserves (IMF definition) of dols 89 million which is dols 8 million less of a decline than that projected by the GOH and the IMF in mid 1982. The improvement in the overall deficit is an encouraging but small sign that an adjustment in the balance of payments is under way. However, the improvements came about through a further decline in export income and a severe reduction in imports which had serious repercussions on the country's overall economic activity. Income from export of goods and services declined 13 percent from the level reached in 1981 and fell 5 percent short of earlier estimates. The decline is mainly attributable to lower prices and export volumes for key commodities. Coffee export income declined 12 percent owing to a 16 drop in export volume. Meat export income declined 27 percent in response to a 33 percent decrease in volume exported. Average sugar prices dropped 54 percent resulting in a 47 percent decline in revenue from that crop. The only major export items recovering from 1981 are bananas with 2 percent income increase and lumber with a 3 percent income improvement.

The bill for imported goods and services dropped 16 percent below the 1981 level and 7 percent below earlier IMF estimates. The import decline reflects adjustment efforts on the part of the monetary authorities to restrict the demand for non-essential items. Among the import categories seriously affected were those with the highest impact on the country's productive apparatus: machinery and transport equipment declined 43 percent, chemicals declined 25 percent, raw materials declined 22 percent, animal and vegetable oils declined 52 percent. Restrictions on imports also affected government revenues in that higher duty import items were the most restricted, in turn causing a loss in tax revenues.

The capital account failed to recover as envisioned by the monetary program. Overall capital inflows declined 50 percent below 1981 levels and 7 percent below earlier projections. Private capital recorded the first net outflow in several decades mainly in the form of loan repayments. Long term private capital flows went from dols 33 million in 1981 to negative dols 18 million in 1982. Short term private capital flows declined from dols 11 million in 1981 to negative dols 34 million in 1982. Long term official capital inflows declined 34 percent below 1981 levels, while short term capital reached negative dols 4 million. These developments suggest that international bankers, who provided financing for both the private and public sectors, continued to red line Honduras as a high risk country.

The most recent Central Bank balance of payments projections for 1983, presented in table D-6, and summarized in column A in the table below reflect expectations for a continued economic depression. Export income is projected to remain at the same level as in 1981. This projection is based on continued weak price and low quantity assumptions for principal exports. Within the total, there is some improvement in the export of minerals, wood, and fish offset by a deterioration in bananas and coffee exports. Imports are projected to increase 1.8 percent owing to planned increases in the importation of food products, machinery and equipment, chemical products and manufactured items allowed by an expected 12% decline in the petroleum bill. Import projections constitute the only variable under the control of the monetary authorities in the balance of payments accounts. The import controls allow the government to minimize the current account deficit whenever capital flows appear insufficient to avoid a large loss in international reserves. According to Central Bank projections, capital flows are projected to increase 78% over the 1981 net inflow of dols 115 million. The recovery would result mainly from a 65% increase in the flows of long term official capital, and a slight recovery of long term banking sector capital. The private sector would continue to be in a deficit position, as long term flows would reach negative dols 7 million and short term flows negative dols 15 million. The compensatory account figures assume that dols 25 million in ESF resources will be available this year, the rest being provided by the Venezuela Investment Fund and the Bank of Mexico. The resulting net reserve loss of dols 25 million is far from the equilibrium (no reserve loss) projected under the Stand-by for 1983.

The Mission views official capital flow projections with caution since they rest on the assumption that the El Cajón hydroelectric and other projects are on stream to receive a substantial portion of hard currency disbursements. This type of assumption has usually proven optimistic in previous years. While it is true that many of these disbursements are tied to imports, there still is a portion of the foreign exchange involved of approximately 24 percent which can be construed as "free" foreign exchange. Furthermore, the renegotiation of officially guaranteed private sector debt is not likely to result in the utilization of dols 40 million in fresh capital resources included in the Central Banks balance of payments projections. Most likely dols 30 million will be disbursed. For these reasons, the Mission prepared an alternate balance of payments projections for 1983 reflecting different assumptions on the capital account: a) Official capital flows levels of dols 160 million; b) A correspondingly lower import level of dols 1,027 million; c) lower private and banking sectors capital flows; d) A new ESF assistance level of dols 54.35 million. These assumptions are reflected in alternative B in table below. Under these projections, the dols 57.35 million in ESF resources (dols 3 million from the first amendment and the rest from this request) would substantially improve the end-of-year position of the monetary authorities and bring the net reserve loss to only 5 million. If such a loss proves unsustainable the GOH still has the fallback position of attempting to cut back imports in order to reach equilibrium.

Balance of Payments Estimates - Summary
1982 - 1983
(Millions of U.S. dols)

	<u>1981</u>	<u>1982</u>	<u>1983(A)</u>	<u>1983(B)</u>
Exports (Goods and Services)	903	791	791	791
Imports (Goods and Services)	<u>-1233</u>	<u>-1033</u>	<u>-1052</u>	<u>-1027</u>
Tade Balance (Goods and Services)	-330	-242	-261	-236
Transfers	<u>27</u>	<u>30</u>	<u>32</u>	<u>32</u>
Current Account Balance	-303	-212	-229	-204
Capital Flows	<u>228</u>	<u>77</u>	<u>187</u>	<u>150</u>
Long Term (Net)	<u>222</u>	<u>114</u>	<u>202</u>	<u>165</u>
Private	33	-17	-8	-10
Official	178	117	193	160
Banking	11	14	17	15
Short Term (Net)	14	-37	-15	-15
Compensatory Finance (Net)	<u>-7</u>	<u>40</u>	<u>17</u>	<u>49</u>
Disbursements		65	48	80
Of which AID-ESF		(35)	(25)	(57)
Amortization		25	31	31
Errors & Omissions	2	6	-	-
Change in International Reserves (-increase)	72	89	25	5

E. The Stand-by Arrangement

Honduras officially entered a 14 month Stand-by Arrangement with the IMF in early November 1982. The signed letter of intent requested a financial package totalling dols 107 million or SDR 99.6 million at the current rate of dols 1.07 per SDR. Of the total, dols 25 million (SDR 23.1 million) is from the Compensatory Financing Facility (CFF) and dols 82 million (SDR 76.5 million) from the approved Stand-By Arrangement, which expires on December 31, 1983. The financial assistance is programmed for disbursement over the duration of the arrangement in six tranches. The first one of dols 25 million (SDR 23.1 million) is from the CFF, and was drawn upon IMF approval of the arrangement. The subsequent drawings of SDR 15.3 million (dols 16.4 million) each were programmed for disbursement on 11/15/82, 2/15/83, 5/15, 8/15 and 12/15 respectively.

The detailed objectives of the GOH's adjustment program under the Stand-by were documented in the original PAAD for Program 522-0230. The overall objectives can be summarized as a reduction of the overall fiscal deficit while increasing the public sector investment effort. The contractionary objective is linked with reaching an overall equilibrium in the balance of payments by the end of 1983 (i.e. no change in net official foreign exchange reserves).

Conditionality throughout the arrangement's duration is composed of limitations on net domestic asset expansion, central bank net credit to the public sector, and the amount of foreign commercial debt with maturities of 10 years or less entered into by the public sector. In addition, the GOH committed itself to submitting for legislative approval a tariff reform law that would shift the tariff structure to the Brussel's nomenclature. The tariff reform also would shift taxes to an ad valorem basis and increase the average rate of taxation.

GOH quantitative performance under the arrangement is detailed in Appendix B. Net domestic asset expansion has remained under the ceiling through the end of April. Net credit to the public sector, which represents a substantial portion of domestic finance for the central government budget deficit, created some compliance problems. In late December, the GOH was in danger of exceeding the sub-ceiling on net credit to the public sector owing to current expenditure growth in the latter part of the year. This situation caused the GOH to change the definitional treatment of interest payments on government-guaranteed private sector debt which the Central Bank had to meet, from credit to the public sector, as envisioned in the arrangement, to credit to the private sector. The rationale was that the private sector ultimately would have to pay back the Central Bank. The net result of this change was to check the growth of Central Bank credit to the public sector, maintaining it under the program's sub-ceiling without exceeding net domestic asset expansion. While the GOH's maneuver was technically acceptable, the interest payments had been programmed as credit to the government under the Arrangement, making the change programatically unacceptable to the IMF. As a result of discussions regarding this issue, the second tranche drawing programed for February 15 was delayed until the GOH could lower its use of net

credit to the public sector. By selling bonds to the non-banking sector, the GOH financed the portion of the interest payments exceeding the program's credit subceiling, thus contracting somewhat the financing available to the private sector. The second tranche drawing was not made until mid April. A third tranche was drawn on May 15, 1983.

The compliance problems, which are closely related to a larger than expected budget deficit, reflect the fact that a number of program assumptions were not met. Of particular importance is the failure of the GOH to press for legislative approval of the tariff reform. The proposal was designed primarily as a revenue instrument with little regard paid to the possible introduction of further distortions to the already protected industrial sector. Thus, when Congress and the private sector reviewed the reform proposal, its technical flaws became apparent. It is unlikely that the reform will be approved this year. This problem was compounded by the severe decline in international trade which affected overall revenue performance as government revenue depends heavily on foreign trade taxes. While the program assumed a decline of 9.5 percent for income derived from merchandise exports and 8 percent for merchandise imports, actual performance was much worse with declines of 13 percent for exports and 24 percent for imports. In addition, interest payments on government guaranteed private sector debt were underestimated by dols 12 million.

Despite these problems, GOH performance under the Stand-by can be deemed as moderately successful. The GOH continues to move ahead with the least controversial portions of its adjustment program: central government budget expenditure growth has been checked; a debt renegotiation agreement with a steering committee for private banks has been initialed; the acquisition of foreign commercial debt under ten years is substantially below the ceiling, and the GOH has begun talks with the IBRD for a dols 50 million Structural Adjustment Loan. Budgetary gap problems, however, will continue to plague the government and may well jeopardize compliance later in the year. Only strict adherence to the above program and adoption of the new tax on measures under consideration will avoid the derailment of the arrangement and ensure the IMF's willingness to discuss a new arrangement for 1984. The GOH considers the arrangement to be the cornerstone of its economic adjustment program, and is well aware of the consequences of failing to comply with the provisions therein. The prospects of having to devalue the lempira and to unleash an inflationary spiral in the absence of IMF assistance is perhaps the most powerful political argument which may nudge the government into taking the necessary steps to maintain a working relationship with the Fund. The danger with the crisis management approach taken by the GOH, as opposed to a preventive one, is that even politically unpalatable fiscal measures may prove too little too late to prevent just such a scenario.

III. Program Objectives and Rationale:

The original Economic Recovery Program (522-0230) and its first amendment played a key role in assisting Honduran attempts to redress the balance of payments and fiscal disequilibria. The dollar and local currency components of both loans enabled the monetary authorities to comply with provisions under the Stand-by Arrangement with the IMF, and facilitated disbursement of the first three tranches thereunder. The second amendment to the program requested herein, in addition to supporting the objectives of the original Economic Recovery Program, will further the policy dialogue that the program has facilitated. The policy dialogue now underway between the Suazo Administration and the Mission encompasses frank policy discussions on specific areas in the agricultural sector through the Presidential Agricultural Task Force, as well as matters relating to macroeconomic policy initiated through the Economic Recovery Program. Both initiatives have proven fruitful and worth continuing. For example, the Suazo administration recently approved a series of far reaching policy changes in the forestry area, which resulted from discussions between the Presidential Task Force and the GOH.

In the macroeconomic area, formal and informal consultations between the Mission and the monetary and fiscal authorities provided the forum to establish the objectives of this program. The attached letter of request and compliance with the original loan agreement provide clear evidence of the government's intention to continue supporting the thrust of the program and undertake the policy reforms for its implementation. Also, the GOH, despite intense political pressure to lower interest rates, has made a firm commitment to maintain flexible policies which are designed to ensure credit growth and are consistent with the monetary and balance of payments objectives of its adjustment program. Specifically the GOH has committed itself not to lower the current interest rate ceiling of 19%, and to maintain, at least the present differential between this rate and the Central Bank discount rate of 13%. This will continue to ensure adequate credit to the private sector along with upward adjustments in the ceiling if needed, and changes in the discount rate on the basis of quarterly reviews of monetary policy. New interest rate ceilings will take into account the liquidity in the banking system, the money supply, and the rate of inflation. The GOH will consult with AID prior to implementing any changes in the said policies.

The economic adjustment program which Honduras has embarked upon calls for serious sacrifices from the Government and the people. The 1982 budget austerity program had adverse effects on development programs, while import restrictions reduced the country's ability to produce with detrimental effects on employment. The situation is likely to get worse as the key assumptions of the IMF program, regarding the levels of economic activity which guide the adjustment process, have already proven invalid. Further sacrifices are thus needed which will require taxpayers to carry additional burdens while government services are reduced. These will be necessary if the economic recovery and adjustment are to be realized. The hardships involved in the adjustment program are unprecedented in Honduras' contemporary history and risky for this fledgling democracy. Honduras, with most of its citizens now

living in poverty, may have to accept an even lower standard of living in order to place the economy in a sound footing. Accomplishing this will become increasingly difficult if the increasing danger of hostilities with Nicaragua call for additional defense expenditures which have little impact on the economic welfare of the population.

The main objective of this ESF program is to assist Honduras in its structural adjustment efforts by:

- providing complementary finance to the IMF Stand-by and supporting the conditionality contained therein and support negotiations for a new arrangement with the IMF when the current one expires;
- supporting the GOH policy commitment to maintain flexible interest rate policies in concordance with fiscal and monetary objectives of the adjustment program;
- strengthening the capacity of the GOH to support key development projects and support a strong GOH commitment to accelerate project implementation;
- supporting current efforts to conclude debt renegotiation of public sector debt with foreign commercial banks, and negotiations between the GOH and the IBRD towards a dols 50 million Structural Adjustment Loan;
- increasing the flow of imports to the private sector which will directly increase production and employment;
- supporting the ongoing broad policy dialogue between the Mission and the GOH;
- supporting the GOH commitment to adopt legal and administrative measures designed to reduce the budget deficit;

The IMF program envisioned an ESF package of dols 25 million in CY83 which is just about the level for which A.I.D. has current authority and probable funds availability (dols 27.35 million) of which dols 3 million has already been disbursed. Even if the dols 30 million supplemental currently under consideration by the U.S. congress is approved, the 1983 economic picture will not reach the levels of economic activity projected in the Stand-by. The export shortfall will be over dols 100 million less than projected, and the unfinanced budget gap, even if all local currency were used for that purpose, will still be dols 21 million. Without new taxes and other measures, the 1984 fiscal gap promises to be worse.

The assistance proposed herein will help significantly in addressing Honduras' macroeconomic problems. In order to ensure the greatest impact from this assistance, the Mission and the GOH have agreed to the following implementation arrangements. The assistance will be disbursed in three tranches in order to ensure that the policy reforms supported by the program are actually implemented. The schedule and conditions for disbursement of each tranche are as follows:

<u>Amount</u>	<u>Date</u>	<u>Specific Conditions for each tranche</u>	<u>Conditions Common to all tranches</u>
1) \$15 million	Aug. 15	a) The cancellation of tax amnesty for delinquent taxpayers. b) Compliance with standard conditions precedent to disbursement	1) Substantial compliance with IMF Agreement 2) Satisfactory progress in the implementation of GOH/IRS Program designed to improve tax administration as measured by compliance with implementation targets presented in Annex E
2) \$9.35 million	Sept. 30	a) Conclude the recently initiated foreign debt renegotiation agreement. b) Complete negotiations for utilization of the L/C generated under this Amendment to the Program. c) The formation of a GOH task force created to study and offer recommendations regarding slow disbursements by IFIs	3) Compliance with all covenants of original loan agreement and Amendment No. 1 thereto 4) The implementation of a moratorium on GOH guarantees to private sector firms and limiting those granted to the autonomous agencies
3) \$30 million	Nov. 15	a) Presentation of export incentive law to the National Congress b) Submission of an analysis of GOH subsidies to autonomous agencies, receiving the bulk of the transfers from the 1983 Budget, and a plan for reducing the level of those transfers	

The conditionality of the program aims at addressing short and long term budgetary problems as well as structural trade problems. In relation to the budget, the conditionality ensures that the GOH will take the necessary and immediate administrative steps which will result in more revenues and will lay the groundwork for a more efficient tax administration in the future. At the same time, the GOH is committing itself to reduce expenditures by restricting the granting of government guarantees to the private sector. The tax administration measures were derived from the GOH/IRS workplan presented in Annex E and developed under the Mission's Development Administration Project (522-0174). The GOH estimates that L 33 million in additional revenues over the remainder of this year will result from this effort. The slow utilization of external finance is being addressed by the creation of a high level task force to study project implementation problems, and to provide the GOH with specific implementable steps to improve the utilization of these resources.

Regarding structural problems, the Program is supporting GOH efforts to submit an Export Incentive Law to the National Congress. This law will set the legal and incentive framework to encourage the diversification of the export base, to take maximum advantage of the Caribbean Basin Trade Initiative currently under consideration by the U.S. Congress. The Mission is funding a team of trade experts who are assisting the GOH in the drafting of this law.

A. Attribution of Dollar Resources

The Central Bank's (BCH) foreign exchange allocation mechanism, which was utilized to attribute the proceeds from the Economic Recovery Program resources (522-0230), has proven workable and will remain in force for this grant amendment. Despite initial problems, the system has required no additional restrictions. In fact, a BCH/private sector group have recently negotiated an allocation mechanism which establishes clear guidelines that enable the private sector to plan its foreign exchange operations more accurately. This working group has been instrumental in maintaining procedures simple and liberalizing others.

Regarding the attribution of the dollar resources under the initial dol\$ 35 portion of ESF loan (522-0230), as of April 31, 1983 the BCH had provided substantial evidence that all of the loan proceeds were attributed for the importation of raw materials, intermediate goods and spare parts from the U.S. Thus, the original dol\$ 35 million were attributed in a period of seven months against the 12 months allowed under the agreement.

The Mission believes the BCH system to be adequate for the attribution of the resources requested herein. Thus, A.I.D. will make cash transfers to the account of the BCH in the Federal Reserve Bank at New York immediately upon satisfaction of the Conditions Precedent to each disbursement. The GOH will covenant that a like amount in foreign exchange will be made available to the private sector for the importation of goods eligible under the Economic

Recovery Program. Subsequently, A.I.D. will be provided with listings of the import categories, importers, and FOB value of imports of all transactions eligible under the program. Each listing will be cross referenced with import permits and foreign exchange sale authorization on file at the BCH for A.I.D. to inspect and audit on a continuing basis.

B. Utilization of Local Currency Resources

Immediately following each disbursement of the loan/grant proceeds to the GOH's account at the Federal Reserve Bank of New York, the BCH will deposit equivalent amounts in lempiras in the Special Account established under the Economic Recovery Program. The Mission believes that an allocation which allows 50% of these resources to support the budget, and the rest to support private credit needs is an appropriate balance which will meet the objectives of the program. Budgetary support will assist the government in approaching budgetary equilibrium and at the same time increasing the flow of external financing by making adequate counterpart contributions to IFI financed projects. The Mission's top priority is to fully support the counterpart requirements of A.I.D.'s project portfolio. Once these requirements have been met, the remaining public sector funds will be utilized to provide counterpart support for projects financed by other IFI's and/or PVO's which generate foreign exchange, increase employment, support productive activities, or provide infrastructure or GOH services for AID's target group. The Mission anticipates that the current excess liquidity in the banking system will be reduced as the GOH attempts to fill the budget gap by placing a L 120 million in bonds with the non-banking sector. For this reason, one half of the local currency generated will be destined to enhance the credit fund established under the original program. The lending volume under this activity will be closely monitored to ensure that these funds will not remain idle, should the current liquidity conditions remain. In that case, the Mission will consider reprogramming this portion of the funds primarily for other private sector activities, or public sector support if substantial progress is made in filling the unfinanced gap. The specific uses of the local currency will be determined through open negotiations between A.I.D. and the GOH.

The local currency program under the original Program and Amendment No. 1 destined L 20 million to support the GOH budget with particular emphasis on the counterpart needs of A.I.D. projects, PVOs, and other IFI projects. To date, approximately L 2.1 million have been disbursed under these activities. The rest of these resources, or L 56 million, were programmed to support private sector credit needs through the establishment of Central Bank lines of credit channeled through the banking system. As of June 30, approximately L 18.7 million had been disbursed under the program. Annex F presents a detailed Status of Disbursement under the Program.

C. Conditions and Covenants

1. Conditions Precedent to Disbursement

In addition to the standard conditions precedent to disbursement, AID has established additional conditions for the disbursement of each of tranches. (See III.A. above) These special CP's will provide assurances that key policy reforms supported by the Program will be implemented.

2. Covenants

The cooperating country shall covenant that, unless A.I.D. otherwise agrees in writing, it will:

(a) continue to observe the covenants contained in the Agreement and Amendatory Agreement No. 1, providing moreover that these shall apply in like manner to the dols 54.35 million provided by Amendment No. 2 to the Program, and to the lempira resources corresponding to Amendment No. 2;

(b) control the fiscal deficit through expenditure reductions and a vigorous revenue collection effort which are to be guided and evaluated by the IRS/GOH tax administration program.

(c) conclude its renegotiations with foreign commercial debt in such a way that the best interests of Honduras are served, and that the credit worthiness of the country is maintained;

(d) assure that sufficient domestic credit and foreign exchange is available for productive activities in the private sector, and that such credit and foreign exchange will flow without undue regulatory restrictions;

(e) take legislative and/or administrative measures to promote the expansion of exports to the world market.

(f) pursue flexible interest rate policies consistent with fiscal and balance of payments objectives in the IMF program, and consult with AID prior to making any interest rate policy changes.

D. Program Committee

Luis E. Arreaga, Program Economist, PCR (Chairman)
Eric R. Zallman, Project Development Officer, PCR
Paul H. Wackerbarth, Economic Counselor, EMB
Ronald Witherell, Chief, HRD



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Tegucigalpa, D. C., 13 de julio de 1983

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Señor
ANTHONY J. CAUTERUCCI
Director
Agencia para el Desarrollo
Internacional
Presente.

Ref.: Programa de Recuperación
Económica, Programa de la
AID N°522-0230.

Estimado Sr. Cauterucci:

- Plácenos informarle que el Gobierno de Honduras al 30 de abril de 1983, ha cumplido con las metas establecidas en el Acuerdo de Crédito Contingente con el Fondo Monetario Internacional (FMI), lo cual nos ha permitido girar el 16 de mayo de 1983 el tercer tramo en moneda dura equivalente a DEG 15.3 millones (L.33 millones). Este es un paso importante para el Gobierno en su programa económico de ajuste estructural y recuperación económica, el cual tiene como propósito restaurar los equilibrios financieros en el Presupuesto Nacional y en la Balanza de Pagos. Los \$.38 millones de asistencia provenientes del Fondo de Apoyo Económico (ESF) proporcionados por el Gobierno de los Estados Unidos de América desde septiembre de 1982, han desempeñado un papel significativo para mantener la vigencia de nuestro acuerdo con el FMI, así como para sostener la ejecución de ciertos programas nacionales de desarrollo, por lo que deseamos agradecerle la cooperación brindada hasta el momento.
- Sin embargo, en tanto que hemos cumplido con el acuerdo con el FMI hasta la mitad de su vigencia, afrontamos problemas serios en lo que resta del año al tratar de satisfacer los requisitos básicos del pueblo de Honduras en lo que respecta a sus aspiraciones de mejor salud, educación, empleo e infraestructura. Nuestra preocupación se desprende de desviaciones observadas entre el programa macroeconómico del Gobierno de Honduras/Fondo Monetario Internacional y nuestras proyecciones del futuro curso de importantes variables económicas.

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3. La situación económica en 1982 se perfiló en un deterioro que excedió nuestras expectativas; el Producto Interno Bruto disminuyó el uno por ciento en términos reales, la resultante caída de los ingresos tributarios causaron un déficit presupuestario mayor al que fue programado; la Balanza de Pagos resultó en una pérdida de reservas netas equivalente a US\$.89 millones a pesar de nuestros esfuerzos para disminuir las importaciones, lo que se debió a la caída sustancial en el volumen de nuestras exportaciones y a la falta de disponibilidad de crédito comercial bancario de fuentes externas. La situación no ha mejorado en 1983, de acuerdo con la última revisión, los ingresos fiscales para este año están proyectados en L.207 millones menos que el nivel presupuestado, en tanto que existen presiones cada vez más fuertes sobre el Gobierno para aumentar el gasto público más allá del nivel presupuestado de L.1.180 millones. Las exportaciones siguen deprimidas, las líneas de crédito externas no han sido restablecidas y por consiguiente las importaciones continúan restringiéndose.
4. El plan del Gobierno para resolver estos problemas y promover la reactivación de la economía comprende una serie de medidas enérgicas para reducir el déficit fiscal, incrementar la disponibilidad de divisas para el país, y asegurar la disponibilidad de crédito para el sector privado. Las políticas de ajuste acordadas con el FMI permitirán lograr estos objetivos y para asegurar el éxito en este aspecto, se planea seguir con las medidas acordadas con el FMI y las adicionales que se describen a continuación.
5. Para reducir el déficit fiscal, el Gobierno ha emprendido desde 1982 un programa diseñado para aumentar sustancialmente los ingresos fiscales y restringir los gastos. Proyecciones para 1983 y 1984 sugieren la presencia de un déficit presupuestario global de grandes dimensiones lo que ha dado la pauta para establecer un sistema tributario enérgico y dinámico. Entre otras medidas, se proponen las siguientes: i) no conceder prórroga en los plazos para pagos de impuestos vigentes en las leyes respectivas; ii) continuar realizando e intensificar nuestros esfuerzos para recaudar durante el próximo año L.15 millones de los deudores a COADI; y iii) agilizar el sistema de

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recaudaciones mejorando la estructura administrativa de la Dirección General de Tributación, por medio de un apego estricto a una serie de metas en el plan de trabajo establecido con la colaboración del Servicio Interno de Rentas de los Estados Unidos, y expuesto en el Anexo I a esta carta. Esperamos que esas medidas resulten en un aumento de L.20 millones en las recaudaciones fiscales sobre el próximo año y medio. En materia de restricción de gastos se propone: i) no conceder más avales gubernamentales a empresas de capital mayoritario privado y limitar los concedidos a empresas autónomas para apoyo a actividades productivas; ii) mantener el gasto público dentro de los límites presupuestados de L.1.180 millones; iii) examinar alternativas para que las empresas que están en poder del Gobierno sean trasladadas al sector privado sin ocasionarle perjuicios financieros al sector público.

Para lograr el objetivo de incrementar la disponibilidad de divisas, el Gobierno Constitucional de Honduras se ha comprometido firmemente a mantener en vigencia el Acuerdo de Crédito Contingente, tomando todas las medidas necesarias. Estas medidas consisten en acciones a corto plazo para renegociar la deuda externa contraída con la Banca Privada del exterior y obtener recursos extraordinarios en moneda dura negociando un nuevo acuerdo con el FMI y un préstamo de Ajuste Estructural con el Banco Mundial, así como un crédito para financiamiento de exportaciones con el Banco Interamericano de Desarrollo y apoyo adicional para la Balanza de Pagos con la AID. A largo plazo la generación de divisas dependerá en que tomemos medidas para mantener y estimular las exportaciones, como un primer paso, el Congreso aprobó en 1982 reformas en materia fiscal al Código de Minería el cual ofrece incentivos para nuevas inversiones.

En la actualidad, estamos trabajando en un proyecto de ley de incentivos para las exportaciones, la cual proporcionaría estructuras legales e incentivos para apoyar nuestros esfuerzos en aumentar las exportaciones no tradicionales. Un equipo de asesores financiado por la AID nos está proporcionando asistencia técnica en la formulación de propuestas para armonizar nuestras leyes con la política y la legislación de Estados

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Unidos, que es nuestro mayor mercado, abriéndose nuevas posibilidades cuando la iniciativa de la Cuenca del Caribe con su legislación sean aprobadas por el Congreso Norteamericano; Proyecto al que como hemos manifestado en otras oportunidades merece nuestro decidido apoyo. El Proyecto de Ley de Incentivos para las Exportaciones será remitido al Congreso Nacional en el transcurso del mes de septiembre del corriente año y se harán todos los esfuerzos posibles para obtener su aprobación en el transcurso del mismo. Por otro lado, se ha iniciado el proceso de negociación con el Departamento de Comercio de los Estados Unidos para lograr un Tratado Bilateral de Inversiones, el que intensificará las relaciones comerciales entre nuestros países.

La renegociación de la deuda externa con un grupo de bancos extranjeros, así como con los acreedores de BANFINAN, está bastante adelantada. Esto involucrará la extensión de pagos de unos \$.121 millones de la deuda del sector privado, la cual estaba contratada o garantizada por CCNADI y otras instituciones descentralizadas del Estado; estas negociaciones concluirán a más tardar en el mes de septiembre. En el caso de BANFLNAN, se espera firmar pronto el acuerdo entre el Banco Central y los acreedores extranjeros que permitirá compartir proporcionalmente la recuperación de los activos. La resolución de estas dos negociaciones contribuirá a mantener la imagen financiera de Honduras y aliviará la presión sobre los pagos externos que actualmente tiene el país. Para establecer mejores controles sobre el endeudamiento externo, se someterá al Congreso el Proyecto de Ley de Crédito Público en el transcurso del mes de octubre.

En relación con la necesidad de crédito del sector privado, que es uno de los objetivos fundamentales de la iniciativa para la Cuenca del Caribe, hay expectativas de asegurar la adecuada disponibilidad de crédito mediante una continuación de las políticas monetarias que se han seguido, complementados con recursos adicionales proporcionados a través del Sistema Bancario Nacional. Estos recursos adicionales son para inversiones en agricultura e industria con fondos del Banco Mundial y el



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Banco Interamericano de Desarrollo, así como por los L.56 millones procedentes del Programa de Recuperación Económica proporcionados a través del Convenio firmado en septiembre de 1982. También se espera un incremento de préstamos procedentes de bancos comerciales extranjeros como resultado de la renegociación de la deuda y de los acuerdos sobre BANFINAN.

Creemos que estos factores asegurarán que habrá financiamiento adecuado para el sector privado. Para dar más seguridad en este sentido, tomaremos medidas para asegurar que la intermediación financiera opere bajo principios de libre mercado. En este sentido, el Gobierno se compromete a no bajar la actual tasa máxima de interés y a seguir una política de tasas de interés que refleje por lo menos el mismo diferencial que en el presente existe entre la tasa general de redescuento del Banco Central y la tasa máxima de interés autorizada por el Banco Central para operaciones activas del Sistema Bancario con sus propios recursos. Las autoridades monetarias continuarán con su actual política de analizar trimestralmente la tasa de redescuento y de efectuar cambios en la misma consistentes con los objetivos fiscales y de Balanza de Pagos descritos anteriormente y la variación de precios internos. Cuando el Banco Central considere necesario las modificaciones de la política de tasas de interés, el Gobierno y la AID efectuarán consultas previas sobre la materia.

En nombre del Gobierno de Honduras, solicitamos que el Gobierno de los Estados Unidos incremente su Programa 522-0230, Programa de Recuperación Económica por una cantidad de ----- US\$.52.000,000.00, lo que elevaría a \$90,000,000 el financiamiento proveniente del Fondo de Apoyo Económico (ESI). Estos recursos apoyarán el Plan Gubernamental de Ajuste Financiero que actualmente implementa el Gobierno con el propósito de solventar los problemas que plantea la crisis económica. De acuerdo a las consultas realizadas, entendemos que el desembolso de la asistencia aquí solicitada según consta en el Anexo II estará sujeta al progreso satisfactorio efectuado en la ejecución del Programa aquí descrito.

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El Gobierno está consciente que la evolución de nuestra economía y la de otros países del istmo, demanda que Honduras cambie su estrategia de crecimiento económico, reemplazando la producción basada en la sustitución de importaciones por una basada en el incremento de las exportaciones al mercado mundial. Entendemos que la política de los Estados Unidos, al hacer disponible recursos del ESF, es la de programar dichos fondos para ayudar al sector privado del país recipiente que busca el mercadeo de sus productos en el exterior. Por lo tanto, se dará prioridad al uso de la asistencia ESF en Lempiras para apoyar al sector privado en un monto equivalente a L.52 millones, los que serán destinados para crédito adicional a través del sistema bancario.

Al mismo tiempo, en este momento tan difícil por el que atraviesa Honduras, se solicita que el resto de la asistencia ESF en Lempiras, sea canalizada a través del Presupuesto Nacional, para que se pueda financiar los L.1.180 millones en gastos presupuestarios sin violar el Acuerdo de Crédito Contingente con el FMI. Esta asistencia al Presupuesto permitirá al Gobierno asegurar la rápida ejecución de proyectos de desarrollo, que de no contar con esta posibilidad tendrían que ser paralizados, especialmente aquellos que tienen un fuerte componente de financiamiento externo; las actividades financiadas por la AID recibirán la máxima prioridad. Una vez que las necesidades de contraparte hayan sido satisfechas, se le dará prioridad a otras actividades financiadas externamente y a programas nacionales de importancia como lo son los de la Reforma Agraria. Con el propósito de flexibilizar la utilización de recursos entre el sector privado y público, se solicita que por mutuo acuerdo las proporciones indicadas de financiamiento entre ambos sectores puedan ser modificadas.

La ayuda aquí solicitada viene a complementar los esfuerzos que el Gobierno está realizando, para poder atenuar el agudo déficit fiscal que por la depresión económica ha alcanzado una magnitud de L.415 millones. El financiamiento de este déficit se ha planeado en parte mediante las medidas siguientes: colocación adicional al valor presupuestado de L.60 millones de

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bonos financieros, a ser colocados fuera del Sistema Bancario, además de la recolocación de L.20 millones que fueron vendidos en 1982 como parte del financiamiento de dicho año; ahorro de L.72 millones a través de medidas de restricción en el gasto presupuestado del Gobierno Central; incremento en los ingresos corrientes del Gobierno por concepto del rendimiento de las medidas señaladas en el Anexo I, por un valor de L.33 millones; recuperación por concepto de pagos de servicio de deuda externa realizados por el Gobierno Central por cuenta de Instituciones Autónomas L.25 millones.

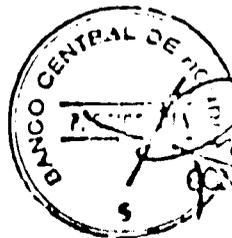
Se propone que la distribución detallada de los fondos aquí solicitados sean objeto de un entendimiento formal por escrito entre los dos Gobiernos, una vez que los arreglos del préstamo sean completados. De todas formas, el Gobierno de Honduras considera prioritario el aumento sustancial de la utilización de financiamiento externo disponible por medio de un renovado énfasis en la ejecución de proyectos para lo cual se ha establecido un grupo de trabajo AID/GdeH con el propósito de diagnosticar y recomendar soluciones a problemas de ejecución de proyectos.

Esperando su favorable consideración a esta solicitud, nos permitimos expresarle las seguridades de nuestra más alta consideración,



[Signature]
ARTURO CORLETO MOREIRA

Ministro
Hacienda y Crédito Público



[Signature]
CARLOS CARIAS PINEDA

Presidente
Banco Central de Honduras



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ANEXO I

METAS DEL "PLAN DE MEJORAMIENTO DE RECAUDACIONES TRIBUTARIAS"

	<u>Meta</u>
1. Disminuir a 60 días el atraso existente en el procesamiento de declaraciones de impuesto sobre venta.	Sept. 15
2. Preparación mensual de un listado por computación de contribuyentes omisos del impuesto sobre ventas.	Sept. 15
3. Preparación por computador de un listado de contribuyentes al impuesto sobre la renta en 1981 cuyos ingresos excedieron L.5,000 y no declararon impuesto en 1982.	Sept. 15
4. Establecer un límite de ventas anuales más alto al existente para aquellos recaudadores a impuesto sobre venta que no deben declarar sus impuestos mensualmente, sino anualmente.	Sept. 15
5. Aplicar con apego a la ley la concesión de permisos provisionales de importaciones y asegurar la liquidación al 15 de septiembre, de todos los permisos provisionales pendientes de liquidación al 30 de junio del presente año.	Sept. 15
6. Instalación de sellos de control en tanques de depósitos de alcohol.	Nov. 15
7. Disminuir a 30 días el atraso existente en el procesamiento de impuesto sobre ventas de declaraciones.	Nov. 15



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ANEXO II

PROGRAMA DE RECUPERACIONES ECONOMICA
PROGRAMACION DESEMBOLSOS
(Millones de Dólares)

<u>Fecha</u>	<u>Cantidad</u>
15 de agosto de 1982.	19
30 de septiembre de 1982.	17
30 de noviembre de 1982.	16

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Mr. Anthony J. Cauterucci
Director
Agency for International Development (UNOFFICIAL TRANSLATION)
Tegucigalpa, D.C.

RE: Economic Recovery Program
A.I.D. Program No. 522-0230

Dear Mr. Cauterucci:

1. We are pleased to advise you that the Government of Honduras has met the targets set in the IMF Stand-by Arrangement as of April 30, 1983, which has allowed us to draw down the third tranche in hard currency, equivalent to SDR 15.3 million (L 33 million), on May 16, 1983. This is an important step in our Government's program of structural adjustment and economic recovery which has as its purpose restoring the financial equilibria in the National Budget and the Balance of Payments. The \$38 million in Economic Support Fund assistance provided by the Government of the United States of America since September 1982 has played a significant role in helping us to fulfill our agreement with the IMF as well as to maintain the pace of certain domestic development programs, and we wish to thank you for your cooperation offered to date.
2. However, while we are in compliance with the Stand-by Arrangement at its mid-point, we face major problems in the remainder of the year in satisfying the basic requirements of the people of Honduras with respect to their aspirations for improved health, education, employment, and infrastructure. Our concern derives from the marked deviations that are to be observed between the GOH/IMF macroeconomic program and our projections of the future course of major economic variables.
3. The economic situation in 1982 deteriorated beyond our expectations; the Gross Domestic Product decreased one percent in real terms, and the resulting revenue shortfall caused a larger than programmed budget deficit; moreover, the balance of payments showed a net reserve loss equivalent to U.S.\$89 million in spite of our efforts to cut back imports, due to a substantial decline in the volume of our exports and the unavailability of commercial bank credit from external sources. The situation has not improved in 1983. In accordance with our latest review, revenues are now projected to be L 207 million short of the level forecast, while there are increasing pressures on the Government to increase expenditures beyond the L 1,180 million level budgeted. Exports continue to be depressed, external lines of credit have not been reestablished, and as a result, imports continue to be restricted.
4. The Government's plan for solving these problems and promoting the reactivation of the economy include a series of forceful measures to reduce the fiscal deficit, increase the availability of foreign exchange for the country, and ensure the availability of credit for the private sector. The policies of adjustment agreed to with the IMF will permit

these objectives to be achieved, and in order to ensure success in this regard, plans have been made to follow the measures agreed to with the IMF as well as additional measures which are described below.

5. In order to reduce the fiscal deficit, the Government has undertaken since 1982 a program designed to substantially increase fiscal revenues and reduce expenditures. Projections for 1983 and 1984 suggest the presence of an overall budgetary deficit of large proportions which has provided the stimulus for establishing a forceful and dynamic tax system. Among others, the following measures are proposed: i) to cancel tax amnesties for delinquent taxpayers; ii) to continue carrying out, and intensify, our efforts to collect during the coming year L 15 million from CONADI debtors; iii) to streamline the tax collection system by improving the administrative structure of the Directorate General of Taxation, by means of strictly following a series of targets in the work plan established with the cooperation of United States Internal Revenue Service, and set forth in Annex I to this letter. We hope that these measures will result in an increase of L 33 million in fiscal tax collections over the next year and a half. With regard to the restriction on expenditures, the following measures are proposed: i) to grant no more government guarantees to enterprises with a majority of private capital and to limit guarantees granted to autonomous enterprises to those for productive activities; ii) to maintain public expenditures within the budgeted limited of L 1,180 million; iii) to examine alternatives so that enterprises which are in the hands of the Government will be transferred to the private sector without causing a financial hardship to the public sector.

In order to achieve the objective of increasing the availability of foreign exchange, the Constitutional Government of Honduras has firmly committed itself to maintaining in effect the Stand-by Arrangement, by taking all necessary steps. These measures consist of short term actions to renegotiate the foreign debt contracted with the foreign commercial banks and obtain additional resources in hard currency by negotiating a new Arrangement with the IMF, and Structural Adjustment Loan with the World Bank, as well as a credit facility for export financing with the Interamerican Development Bank, and additional Balance of Payments Support from A.I.D. In the long term, the generation of foreign exchange will depend on our taking measures to maintain and stimulate exports. As a first step, the Congress approved in 1982 fiscal reforms to the Mining Code which offer incentives to new investment.

Currently, we are working on a draft law for export incentives, which will provide legal structures and incentives to support our effort to increase non-traditional exports. A team of advisors financed by A.I.D. is providing technical assistance in the development of proposals for coordinating our laws with the policies and legislation of the United States, which represents our largest market, opening new possibilities when the Caribbean Basin Initiative and its corresponding legislation are approved by the United States.

The Draft Law for Export Incentives will be sent to the National Congress during the month of September of this year and all efforts will be made to obtain its approval during the course of the year. Moreover, we are currently negotiating with the United States Department of Commerce a Bilateral Investment Treaty, which will intensify commercial relations between our countries.

The renegotiation of the foreign debt with a group of foreign banks, as well as with BANFINAN creditors, is fairly well advanced. This will involve stretching out repayment of \$121 million of private sector debt, which was contracted or guaranteed by CONADI and other decentralized institutions; these negotiations will conclude at the latest in the month of September. In the case of BANFINAN, it is expected that the agreement between the Central Bank and foreign creditors will be signed shortly, which will allow the recuperation of assets to be shared proportionately. The resolution of these two negotiations will contribute to maintaining Honduras's financial image and will release some of the pressure on external payments which currently affects the country. In order to establish better controls over foreign debt, the Draft Law for Public Credit will be submitted to the Congress during the month of October.

Regarding the credit needs of the private sector, which is one of the fundamental objectives of the Caribbean Basin Initiative, there are expectations for assuring the adequate availability of credit by means of a continuation of current monetary policies, complemented by additional resources provided through the National Banking System. These additional resources are for investment in agriculture and industry with funds from the World Bank and the Interamerican Development Bank, as well as the L 56 million from the Economic Recovery Program provided under the Agreement signed in September of 1982. An increase in loans from foreign commercial banks is also expected as a result of the renegotiation of the debt and agreements concerning BANFINAN.

We believe that these factors will ensure that there will be adequate financing for the private sector. In order to provide greater assurance in this regard, we shall take measures to insure that financial intermediation will operate under free market principles. In this regard, the Government warrants that it will not lower the current maximum interest rate and will follow an interest rate policy which will reflect at least the same differential which currently exists between the Central Bank general discount rate and the maximum rate of interest authorized by the Central Bank for active operations of the Banking System with its own resources. The monetary authorities will continue with their current policies of analyzing quarterly the discount rate and making changes in this rate which are consistent with the fiscal and Balance of Payments objectives described previously, as well as the variation of domestic prices. When the Central Bank considers it necessary to make modifications in the interest rate policy, the Government and A.I.D. will carry out prior consultations in this regard.

In the name of the Government of Honduras, we request that the United States Government increase its Program 522-0230, Economic Recovery Program, in the amount of US\$52,000,000, which would increase to US\$90,000,000 the financing provided under the Economic Support Fund (ESF). These resources will support the Government's Financial Adjustment Plan which the Government is currently implementing for the purpose of solving the problems brought about by the economic crisis. In accordance with consultations made, we understand that the disbursement of the assistance hereby requested, as set forth in Annex II, will be subject to satisfactory progress in the implementation of the Program herein described.

The Government is aware that the evolution of our economy and that of other countries of the isthmus demands that Honduras change its strategy of economic growth, by replacing production based on import substitution with one based on the increase of non-traditional exports to the world market. We understand that the policy of the United States in making available ESF resources is to program these funds to help the private sector of the recipient country which seeks to market its products abroad. Therefore, priority will be given to the use of the ESF assistance in Lempiras to support the private sector in an amount equivalent to L 52 million, which will be destined for additional credit to the banking system.

At the same time, at this difficult moment through which Honduras is passing, it is requested that the rest of the ESF assistance in Lempiras be channeled through the National Budget, in order that the L 1,180 million in budgetary expenditures can be financed without violating the Stand-by Arrangement with the IMF. This assistance to the budget will allow the Government to insure the speedy execution of development projects, which, if it were not for this possibility, would have to be paralyzed, especially those which have a strong external financing component; activities financed by A.I.D. will receive maximum priority. Once these counterpart needs have been satisfied, priority will be given to other externally financed activities and to important national programs such as those of the Agrarian Reform. In order to streamline the utilization of resources between the private and public sector, it is requested that by mutual agreement the indicated ratios for financing between both sectors may be modified.

The assistance hereby requested will complement the efforts which the Government is carrying out, in order to attenuate the acute unprogrammed fiscal deficit which as a result of the economic depression has reached L 415 million. The financing of this deficit has been programmed in part by means of the following measures: additional placement of the budgeted amount of L 60 million in financial bounds, to be placed outside of the Banking System, in addition to the replacement of L 20 million which were sold in 1982 as part of the financing for that year; savings of L 72 million through measures which restrict the expenditures budgeted by the Central Government, an increase in the current revenue of the Government

by the income to be produced as a result of the measures set forth in Annex I, in the amount of L 33 million; the recovery of foreign debt service payments made by the Central Government on behalf of autonomous institutions in the amount of L 25 million.

It is proposed that the detailed distribution of the funds hereby requested be the subject of a formal written understanding between the two Governments, once the loan arrangements have been completed. At any rate, the Government of Honduras considers as top priority the substantial increase in the utilization of the external financing available by means of a renewed emphasis on the implementation of projects for which an A.I.D./GOH working group has been established for the purpose of assessing and recommending solutions to the problems in project implementation.

In expectation of your favorable consideration to this request, we express assurances of our highest consideration,

ARTURO CORLETO MOREIRA
Minister of Finance and Public Credit

GONZALO CARIAS PINEDA
President
Central Bank of Honduras

ANNEX I
TARGETS OF THE "TAX COLLECTION IMPROVEMENT PLAN"

TARGET

- | | |
|---|--------------|
| 1. Decrease to 60 days the delay existing in the processing of sales tax returns. | September 15 |
| 2. Monthly preparation of a computer listing of taxpayers who are remiss in the payment of sales tax | September 15 |
| 3. Preparation of a computer listing of 1981 income taxpayers whose income exceeded L 5,000 and who did not declare taxes in 1982. | September 15 |
| 4. Establish a limit on annual sales which is higher than the existing limit for those collectors of sales tax which are not required to declare their taxes monthly but rather annually. | September 15 |
| 5. Apply with strict adherence to law the granting of provisional import permits and assure liquidation by September 15 of all provisional permits pending liquidation by June 30 of this year. | September 15 |
| 6. Installation of control seals on alcohol storage tanks. | November 15 |
| 7. Decrease to 30 days the existing delay in the processing of sales tax returns. | November 15 |

ANNEX II
ECONOMIC RECOVERY PROGRAM
PROGRAM DISBURSEMENTS
(MILLIONS OF DOLLARS)

<u>DATE</u>	<u>AMOUNT</u>
August 15, 1982	19
September 30, 1982	17
November 30, 1982	16

STAND-BY ARRANGEMENT SUMMARY

Amount of arrangement \$82 million (SDR 76.5 million)

Additional resources from the Compensatory Financing Facility (CFF) available upon approval of Stand-by \$25 million (SDR 23.1)

Life of arrangement 14 months (Nov. 1982 - Dec. 1983)

Schedule of Disbursement

<u>Amount</u> (millions of \$)	<u>Source</u>	<u>Target Date</u>	<u>Date of Disbursement</u>
32	CFF	Approval of Stand-by	11/05/1982
16.4	Stand-by	10/31	11/15/1982
16.4	"	2/15/83	04/15/1983
16.4	"	5/15	05/15/1983
16.4	"	8/15	
16.4	"	12/15	

Conditionality

1) Policy measures to be taken before sending signed letter of intent to Washington:

- a) Presentation of a CY83 budget to the Congress with revenue estimates based on a tariff reform.
- b) Require that all international payments in arrears have a 100% local currency deposit in the Central Bank.

Status: Both requirements have been met.

2) Policy measures to be taken before Executive Board approves Stand-by:

- a) Presentation of tariff reform package to the congress.
- b) An adjustment to SANAA's rates.
- c) A commitment on the future course of CONADI in consultation with the IBRD.
- d) Adjustments to ENP's rates for services.

Status: All requirements have been met.

3) Conditionality in force throughout duration of arrangement:

- a) Ceilings on Net Domestic Assets of the Central Bank.
Status: See Table 1
- b) Sub-Ceiling on Net Domestic Credit expansion to the public sector from the banking system.
Status: See Table 2
- c) Reduce current international transactions in arrears (the "presa") by at least \$20 million by the end of 1982. Any arrears remaining at the end of 1982 will be eliminated before the end of October 1983.
Status: See Table 3
- d) Ceilings on the country's utilization of Net External Commercial Credit.
Status: See Table 4
- e) The GOH does not intend to introduce any multiple currency practices, or to impose any new restrictions, or intensify existing restrictions on payments and transfers for current international transactions during the period of the Stand-by Arrangement. Likewise, the government does not intend to impose any new restrictions, or intensify existing restrictions on current balance of payments reasons.

Status: None of the above measures have been introduced.

TABLE 1

PERFORMANCE UNDER STAND-BY ARRANGEMENT:
NET DOMESTIC ASSET EXPANSION
(million of Lps.)

<u>Date</u>	<u>Performance</u>			<u>Ceiling</u>	<u>Period in force</u>
	<u>Currency Issue</u>	<u>+</u> <u>Net Foreign Assets</u>	<u>-</u> <u>Net Domestic Assets</u>		
10/15	271.9	(138.2)	410.1	510	9/30-12/31/82
10/31	275.8	(167.4)	443.2		
11/30	295.8	(197.7)	493.5		
12/31	343.1	(154.4)	497.5	510	
1/31	324.9	(120.8)	445.7	505	1/01/83-3/31/83
2/28	326.6	(129.9)	456.5		
3/30	333.2	(140.2)	473.4	505	
4/15	311.5	(156.9)	468.4	505	4/01 -6/30
4/29	314.3	(167.3)	481.6	505	
5/31	308.1	(155.5)	461.6	505	7/01 -9/30
				505	10/1 -12/31

TABLE 2
PERFORMANCE UNDER STAND-BY ARRANGEMENT:
NET CREDIT TO THE PUBLIC SECTOR
(millions of Lps.)

<u>Date</u>	<u>Performance</u>			<u>Ceiling</u>	<u>Period in force</u>
	<u>Central Government</u> +	<u>Rest of Public Sector</u>	<u>Public Sector</u> -		
10/15	623.4	73.5	696.9	725	9/30-12/31/82
10/31	622.4	67.2	689.6		
11/30	640.6	75.2	715.8		
12/31	716.1	68.9	785	725	
1/31	717.0	70.8	787.8	730	1/01/83 - 3/31/83
2/28	709.5	68.9	778.4	730	
3/30	651.2	67.1	718.3	735	4/01 - 6/30
4/15	653.3	67.8	721.1	735	
4/29	646.4	72.9	719.3	735	
5/31	690.2	77.2	767.4	735	
				755	7/1 - 9/30
				775	10/1 - 12/31

TABLE 3
PERFORMANCE UNDER STAND-BY ARRANGEMENT:
INTERNATIONAL PAYMENTS IN ARREARS*
(millions of \$)

<u>Date</u>	<u>Payments in Arrears</u>	<u>Remarks</u>
9/82	30	Level at time of arrangement negotiation
11/82	25	Level after meeting condition a).
12/31	-0-	

*IMF Conditions: a) Reduction of payment in arrears by \$20 million by 12/31/82
b) Elimination of Payments in arrears by 10/31/83

TABLE 4

PERFORMANCE UNDER STAND-BY ARRANGEMENT:
UTILIZATION OF NET EXTERNAL COMMERCIAL CREDIT BY THE PUBLIC SECTOR
(millions of \$)

Date

Debt Contracted

Ceilings for the period
11/82-6/30/83
75

*Information not yet available.

Best Available Document

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. Land Titling Project
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? Yes. (522-0173)

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec. 653(h)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance?

1.a. Congressional Notification submitted July 15, 1983

(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

1.b. Yes

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

2. No.

3. FAA Sec. 709, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?

3. No.

4. FAA Sec. 601(a); (and Sec. 201(f) (or development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

4. The program objectives are to provide Honduras with immediate balance of payments support and to provide credit resources to the Honduran private sector. The first objective will have a direct impact in facilitating foreign trade flows by enabling Honduras to buy imports. The second objective will provide much needed financial resources to the private sector at market interest rates. This in turn will improve the domestic allocation of financial resources and expose credit recipients to free market rates.
5. FAA Sec. 601(h). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

5. Not Applicable
6. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.

6. Not applicable
7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

7. The U.S. does not own excess Honduran currency.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Funding
 - a. FAA Sec. 531. How will this assistance support promote economic or political stability?

1. The assistance will:
 - support the GOH-IMF agreement that seeks external and internal economic balance
 - support private sector efforts to increase production through the provision of foreign exchange
 - U.S. government economic support is likely to improve the economic and political confidence on the democratically elected Guano regime.

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(c), Sec. 111, Sec. 281a. Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions? 2.a. N.A.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available? Include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source. 2.b. N.A.

(1) 103 for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; 103 A if for agricultural research, is full account taken of needs of small farmers? (1) N.A.

(2) 104 for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to inter-relationship between (A) population growth and (B) development and overall improvement (2) N.A.

in living standards in developing countries. Is activity designed to build motivation for small families in programs such as education in and out of school, maternal and child health services, agriculture production, rural development, and assistance to urban poor?

- (3) 105 for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; (3) N.A.

- (4) 106 for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (4) N.A.

(a) to help alleviate energy problems;

(b) reconstruction after natural or manmade disasters;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

- (5) 1077 by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries. (5) "
- c. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on: (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communications; planning and public administration; urban development; and modernization of existing laws; or (6) integrating women into the recipient country's national economy. c. N.A.
- d. FAA Sec. 281(h). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. d. N.A.
- e. FAA Sec. 201(b)(2)-(4) and -(R); Sec. 201(c); Sec. 211(a)(1)-(3) and -(R). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of produc-
- e. N.A.

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tive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable longrange objectives?

- f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position. f. N.A.

3. Nonproject Criteria for Development Assistance (Loans only) 3. N.A.

- a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.
- b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and United States) of lending and relending terms of the loan.
- c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID in application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

4. Additional Criteria for Alliance for Progress

4. N.A.

Note: Alliance for Progress assistance should add the following two items to a nonproject checklist.

a. FAA Sec. 251(d)(3)-(8). Does assistance take into account principles of the Act of Bogota and Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES", the Permanent Executive Committee of the OAS) in its annual review of national development activities?

TABLE D-1

ORIGEN POR SECTORES DE ACTIVIDAD DEL PRODUCTO INTERNO BRUTO
(En millones de Lempiras)

	1979	1980	1981 ^{D/}	1982 ^{D/}	Incrementos Reales		
					1980/79	1981/80	
A. PRECIOS CORRIENTES:							
Agricultura, silvicultura, caza y pesca	1,135	1,263	1,333	1,381	11.3	4.0	
Explotación de minas y canteras	104	96	101	105	-7.7	4.2	
Industrias manufactureras	602	701	751	845	16.4	8.4	
Construcción	230	257	256	271	16.1	-3.4	
Electricidad, gas y agua	72	98	103	117	36.1	10.2	
Transporte, almacenaje y comunicaciones	295	340	374	405	15.7	10.0	
Comercio al por mayor y menor, banca, seguros y bienes inmuebles	497	556	593	646	13.9	5.7	
Propiedad de viviendas	178	211	231	251	16.5	9.0	
Admón. pública y defensa	256	297	321	349	16.0	8.4	
Servicios diversos	161	197	223	244	22.4	13.2	
Servicios diversos	348	395	421	450	13.5	6.8	
Prod. Interno Bruto al c.f.	3,882	4,431	4,707	5,066	14.1	6.2	
Más: Impuestos indirectos netos	496	545	585	574	9.9	7.1	
Prod. Interno Bruto, a p.m.	4,378	4,976	5,292	5,640	13.7	6.4	
B. PRECIOS CONSTANTES DE 1966:							
Agricultura, silvicultura, caza y pesca	833	839	844	850	1.1	0.6	
Explotación de minas y canteras	42	41	41	41	-2.4	-2.4	
Industrias manufactureras	280	321	324	371	14.7	14.8	
Construcción	72	77	76	78	6.9	-7.8	
Electricidad, gas y agua	31	34	34	37	10.0	8.8	
Transporte, almacenaje y comunicaciones	120	123	123	121	2.5	-1.6	
Comercio al por mayor y menor, banca, seguros y bienes inmuebles	217	227	226	222	4.6	-3.5	
Propiedad de viviendas	73	71	72	71	-2.7	1.4	
Admón. pública y defensa	136	143	142	142	5.1	-0.7	
Servicios diversos	83	86	90	89	3.6	4.7	
Servicios diversos	202	197	201	199	-2.5	2.0	
Prod. Interno Bruto al c.f.	1,780	1,839	1,856	1,849	3.3	1.0	
Más: Impuestos indirectos netos	230	228	230	218	-0.9	0.9	
Prod. Interno Bruto, a p.m.	2,010	2,067	2,086	2,067	2.8	1.0	

D/ Preliminar

Tegucigalpa, D.C. 24 de enero de 1983

TABLE D-2

GASTOS DEDICADOS AL PRODUCTO NACIONAL BRUTO
(En millones de Lempiras)

	1979	1980	1981	1982	Incrementos Relativos		
					1980/79	1981/80	1982/81
A PRECIOS CORRIENTES							
Gastos de consumo privado	2,955	3,386	3,756	4,046	14.6	10.9	7.7
Gastos de consumo gobierno general	544	698	823	812	26.5	19.6	-1.2
Formación interna bruta de capital fijo	1,004	1,235	1,002	1,074	23.0	-18.9	7.1
a) Por el sector privado	634	758	597	650	19.6	-21.2	8.9
b) Por el sector público	370	477	405	424	28.9	-15.1	4.7
Variación de existencias	89	68	102	-176	-	-	-
Exportación de bienes y servicios	1,649	1,860	1,735	1,506	12.8	-6.6	-13.2
Importación de bienes y servicios (-)	1,863	2,261	2,126	1,622	21.4	-6.0	-23.7
Producto Interno Bruto, a p.m.	4,378	4,976	5,292	5,640	13.7	6.4	6.6
Ingresos netos por factores de producción recibidos del resto del mundo	-210	-275	-269	-381	31.0	-2.2	41.6
Producto Nacional Bruto	4,168	4,701	5,023	5,259	12.8	6.9	4.7
A PRECIOS CONSTANTES DE 1966							
Gastos de consumo privado	1,463	1,565	1,518	1,495	7.0	-3.0	-2.5
Gastos de consumo gobierno general	274	297	326	296	8.4	9.8	-9.2
Formación interna bruta de capital fijo	385	416	314	299	8.1	-24.5	-7.9
a) Por el sector privado	243	255	187	181	4.9	-26.7	-3.2
b) Por el sector público	142	161	127	118	13.4	-21.1	-7.1
Variación de existencias	41	30	41	-67	-	-	-
Exportación de bienes y servicios	637	598	621	549	-6.1	3.8	-11.6
Importación de bienes y servicios (-)	790	839	732	505	6.2	-12.8	-31.0
Producto Interno Bruto, a p.m.	2,010	2,067	2,088	2,062	2.8	1.0	-1.0
Ingresos netos por factores de producción recibidos del resto del mundo	-97	-106	-96	-119	9.3	-9.4	24.0
Producto Nacional Bruto	1,913	1,961	1,992	1,948	2.5	1.6	-2.2

TABLE D-3

PANORAMA FINANCIERO
Balance Consolidado del Sistema Bancario
(Saldo en millones de lempiras)

	1980	1981		1981	
	NOV. 1980	NOV. 1981	DIC. 1981	NOV. 1981	DIC. 1981
I. RVAS. MONETS. INTERNAC. NETAS	124.9	-8.4	-29.9	-180.2	-181.9
II. ACTIVOS NACIONALES	1,243.0	1,427.1	1,524.1	1,524.2	1,524.2
1. Crédito Interno	1,784.3	1,971.8	2,022.7	2,205.2	2,205.2
a) Sector Público Neto	319.0	412.9	412.2	472.8	472.8
Gobierno Central	285.7	401.8	412.2	466.0	466.0
Resto del Sector Pbco.	33.3	10.1	-6.1	6.8	6.8
b) Sector Privado	1,465.3	1,562.9	1,610.5	1,732.4	1,732.4
Prestos y Descuentos	1,310.8	1,390.0	1,420.9	1,566.7	1,566.7
Otros Créditos	154.5	172.9	189.6	165.7	165.7
2. Otros Activos Netos	-541.3	-548.8	-477.6	-384.0	-384.0
a) Capital y Reservas	-432.4	-516.2	-490.8	-551.9	-551.9
b) Endeudamiento Externo	-479.2	-537.4	-528.1	-510.1	-510.1
c) Flote Interbancario	-42.9	-6.0	0.9	46.3	46.3
d) No Clasificados	413.2	511.0	540.2	614.4	614.4
ACTIVOS = PASIVOS	1,243.0	1,427.1	1,524.1	1,524.2	1,524.2
III. OBLIGACIONES MONETARIAS	614.6	510.5	510.7	510.1	510.1
1. Numerario en Circulación	256.9	216.7	216.7	216.7	216.7
2. Depósitos Monetarios	357.7	293.8	294.0	293.4	293.4
IV. OBLIGACIONES CUASI-MONETARIAS	753.1	640.3	670.4	640.3	640.3
1. Céd. de Ahorro y a Plazo M/N	527.0	554.3	577.2	554.3	554.3
2. Otros Depósitos	85.8	51.9	55.1	55.1	55.1
3. Bonos y Cédulas Hipotecarias	68.5	65.9	65.1	65.1	65.1
4. Ahorro Especializado	48.0	51.8	51.4	52.2	52.2
5. Otras Obligaciones	34.0	53.4	59.5	65.1	65.1

≡/ Preliminar
≠/ Revisado

NOTA: A partir de junio de 1981 se excluye el Banco Financiera Hondureña del Sistema Bancario.

Tegucigalpa, D.C., 10 de febrero de 1983.

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Annex D
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TABLE D-4

INDICE GENERAL DE PRECIOS AL CONSUMIDOR, POR RUBROS Y MESES
(Comparado anualmente)

M E S E S	R U B R O S								Indice General
	Alimentos	Vivienda y func. del hogar	Vestuario	Cuidado de la salud	Cuidado personal	Bebidas y Tabaco	Transporte	Educación lectura y diversión	
Medio enero 1980/ diciembre 1980	130.4	132.5	145.1	125.9	124.3	146.9	128.9	125.5	132.4
Medio enero 1981/ diciembre 1981	139.9	146.1	166.9	144.3	137.5	157.4	139.4	138.7	144.8
Incremento anual	7.3	10.3	15.0	14.6	10.6	7.1	8.1	10.5	9.4
<u>1982</u>									
enero	144.3	151.3	189.4	150.4	147.3	185.8	140.6	140.7	152.0
febrero	146.5	152.4	191.6	159.7	150.9	186.6	143.0	155.4	154.8
marzo	147.5	152.4	193.5	159.8	152.3	186.6	143.0	155.7	155.5
abril	148.9	153.0	195.7	160.3	153.2	186.7	143.0	156.3	156.5
mayo	149.2	153.0	199.3	160.6	154.9	187.0	143.0	156.3	157.0
junio	149.4	153.0	201.5	160.9	156.0	187.1	153.6	158.7	157.9
julio	150.8	156.5	202.6	161.5	157.8	187.2	154.4	159.4	159.7
agosto	150.4	156.9	203.3	161.7	161.3	189.6	154.4	159.7	160.0
septiembre	150.7	157.3	204.9	162.0	163.0	191.2	154.4	159.7	160.4
octubre	150.1	160.5	205.3	162.5	164.4	191.4	154.5	159.9	161.3
noviembre	151.3	160.4	206.7	165.7	166.4	191.5	155.1	163.8	162.1
diciembre	152.5	161.3	207.2	166.1	166.6	191.7	155.1	163.8	163.1
Medio enero 82/ diciembre/82	149.3	155.7	200.1	160.9	157.8	188.5	149.5	157.5	158.4
Incremento anual	6.7	6.6	11.5	11.5	14.8	14.8	7.2	13.6	9.5

TABLE D-5

HONDURAS: CENTRAL GOVERNMENT BUDGET
(Millions of Dollars)

	1981 ACTUAL	1982 IMF PROGRAM	1982 ACTUAL	1983 BUDGET	1983 PROJECTION
Current Revenues	371	416	378	485	365
Current Expenditures	-415	-426	-433	474	472
Additional unbudgeted expenditures	--	--	--	--	48
Current Savings	-44	-10	55	11	-155
Capital Expenditures	- 84	-108	-113	-228	-130
Net Lending	- 75	-103	-117	- 61	-119
Overall Deficit	203	-221	-285	-278	-404
Financing	203	221	285	278	404
External (Net)	113	126	138	233	150
Internal (Net)	90	95	147	45	45
Banking System	(79)	(75)		(25)	(25)
Bonds	(11)	(20)		(20)	(20)
Unfinanced gap					209

Source: Ministry of Finance, IBRD, AID

HONDURAS: PROYECCION DE LAS EXPORTACIONES FOB DE LOS PRINCIPALES PRODUCTOS 1979-1983
 (Volumen en Miles y Valores en Millones)

	1979	1980	1981	1982 ^{2/}	1983 ^{1/}
CAPIVINO					
Valor	399.7	455.9	426.6	436.6	404.7
Volumen cajas 40 lbs.	49,169.0	47,450.0	42,234.0	44,736.0	39,415.0
Precio	8.13	9.61	10.10	9.76	10.27
CAFE					
Valor	393.7	408.2	345.7	306.2	281.7
Volumen sacos 60 kgs.	1,101.0	946.0	1,133.0	956.0	1,107.1
Precio	357.58	431.50	305.11	320.29	261.50
MADESA					
Valor	84.1	72.4	86.3	89.3	86.5
Volumen H ³	336.0	269.0	290.0	301.0	300.0
Precio	250.30	269.14	297.58	296.68	281.66
CACIIE					
Valor	121.5	121.5	92.9	67.4	69.0
Volumen kilos	29,980.0	28,605.0	23,846.0	16,093.0	15,500.0
Precio	4.05	4.25	3.90	4.19	4.60
PLATA					
Valor	34.3	63.5	31.5	23.0	33.3
Volumen onzas Troy	2,450.0	1,624.0	1,575.0	1,466.0	1,740.0
Precio	14.0	39.13	20.0	15.0	22.0
ORO					
Valor	33.0	20.0	16.8	9.3	20.5
Volumen Libras	43,660.0	26,863.0	26,256.0	17,881.0	34,000.0
Precio	0.76	0.74	0.64	0.52	0.60

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TABLE D-5A
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	1979	1980	1981	1982 ^{2/}	1983 ^{1/}
ZINC					
Valor	21.9	20.0	24.5	29.9	42.9
Volumen libras	36,663.0	32,347.0	33,177.0	45,844.0	50,000.0
Precio	0.60	0.62	0.74	0.65	0.71
AZUCAR					
Valor	26.6	58.7	93.1	49.0	40.4
Volumen kilos	55,223.0	81,473.0	83,053.0	96,057.0	90,909.1
Precio	0.48	0.72	1.12	0.51	0.44
CAJARONES Y LANGOSTAS					
Valor	48.5	46.8	52.5	55.9	60.7
Volumen kilos	2,684.0	3,273.0	3,645.0	3,594.0	3,700.0
Precio	18.08	14.31	14.40	15.64	16.41
TABACO					
Valor	24.2	27.4	26.7	21.5	21.1
Volumen kilos	4,493.0	4,566.0	4,487.0	3,170.0	2,821.0
Precio	5.39	5.99	5.95	6.79	7.47
SUB-TOTAL	1,187.5	1,294.4	1,196.6	1,087.1	1,014.4
OTROS PRODUCTOS	277.5	349.8	310.6	235.0	241.5
TOTAL BIENES FOB	<u>1,465.0</u>	<u>1,644.2</u>	<u>1,507.2</u>	<u>1,322.1</u>	<u>1,255.9</u>

1/ Preliminar
2/ Proyección

Tegucigalpa, D.C. 11 de mayo de 1983

IMPORTACIONES CIF DE HONDURAS POR SECCIONES NAUCA
 (Millones de lempiras)

	1979	1980	1981	1982 ^{1/}	1983 ^{2/}
0. Productos alimenticios	113.3	171.1	154.6	116.8	125.2
1. Bebidas y tabaco	10.3	8.8	14.0	8.5	9.3
2. Materiales crudos no comestibles	19.2	22.2	19.7	14.1	15.1
3. Combustibles y lubricantes	226.0	342.3	326.4	340.1	297.0
4. Aceite y manteca de origen vegetal y animal	13.7	23.3	22.7	10.8	11.6
5. Productos químicos	275.5	308.6	332.2	256.3	274.7
6. Artículos manufacturados según el material	392.2	423.8	412.0	307.6	310.3
7. Papelería y material de transporte	494.2	600.9	496.2	273.6	293.7
8. Artículos manufacturados diversos	116.3	134.8	138.1	89.4	92.6
9. Animales vivos n.p.p. y metacaderías diversas	3.2	2.8	4.1	6.6	7.0
T O T A L	<u>1,663.9</u>	<u>2,038.6</u>	<u>1,920.0</u>	<u>1,423.8</u>	<u>1,456.0</u>
Total menos sección 3	1,437.9	1,696.3	1,593.6	1,083.7	1,159.0

1/ Preliminar

2/ Proyección

12/10-1

BALANZA DE PAGOS DE HONDURAS
(Millones de Lempiras)

	1979	1980	1981	1982 ^{1/}	1983 ^{2/}
I. BALANZA DE BIENES Y SERVICIOS	-425.0	-575.6	-650.4	-483.9	-511.1
A. Export. de Mercad. y Servicios	1,713.1	1,634.9	1,805.1	1,561.3	1,511.1
1. Exportac. de Mercad. FOB b/	1,513.0	1,700.5	1,557.8	1,362.3	1,311.1
2. Flete y seguro s/mercaderías	13.0	16.1	14.8	12.9	11.1
3. Gastos de viajeros	41.7	49.0	61.0	50.0	44.1
4. Dividendos e intereses	39.4	48.5	35.8	30.1	29.2
5. Transacciones del Gobierno	13.4	16.1	17.5	18.0	17.1
6. Otros conceptos	97.9	104.7	109.7	103.0	96.1
B. Importación de Mercad. y Servicios	2,143.4	2,611.5	2,466.6	2,066.2	2,022.2
1. Importación de mercaderías FOB	1,566.8	1,908.1	1,797.2	1,361.4	1,311.1
2. Flete y seguro s/mercaderías	137.1	170	153.7	116.0	111.1
3. Gastos de viajeros	57.4	62.0	53.5	45.7	44.1
4. Retribuc. a las invers. extjs.directs.	136.2	155.4	87.3	90.0	89.1
5. Intereses s/la deuda Ext. y otros	144.0	200.1	255.0	343.6	369.1
6. Transacciones del Gobierno	6.4	7.4	7.8	8.5	8.1
7. Otros conceptos	95.5	107.6	112.3	101.0	96.1
II. TRANSFERENCIAS	40.9	43.0	55.0	50.0	41.1
III. CUENTA CAPITAL	391.8	563.1	455.7	229.5	411.1
A. Largo Plazo	372.6	541.2	428.4	304.4	411.1
1. Sector Privado	119.3	220.5	65.3	-35.0	-11.1
Inversiones directas	55.2	11.6	-7.2	-5.0	-11.1
Préstamos	62.9	208.9	33.3	-30.0	0.0
Otros	-	-	39.2	-	-
2. Sector Oficial	211.5	262.5	355.4	233.1	322.1
Préstamos	217.5	273.1	368.7	252.5	311.1
Otros	-6.0	-10.6	-13.3	-19.4	-19.1
3. Sector Bancario	-14.9	19.4	22.5	27.2	27.1
Préstamos	-23.4	10.4	13.5	27.2	27.1
Otros	-2.4	-	-	-	-
Asignación DEG	10.9	9.0	9.0	-	-
4. Créditos Extraordinarios	55.7	38.1	-14.9	-	-
B. Corto Plazo	19.2	21.9	27.3	-	-
1. Sector Privado	50.2	24.3	22.1	-66.9	-
2. Sector Oficial	-31.0	-2.4	4.9	-8.0	-
3. Sector Bancario	-	-	-	-	-
IV. ERRORES Y OMISIONES	-41.6	-37.0	4.9	17.4	-
V. CAMBIO RESERVAS INTERNACS. (-Aumento)	33.9	107.5	144.3	177.0	-

1. Preliminar

2. Proyección

3. Incluye oro no monetario

Tegucigalpa, D.C. 11 de mayo, 1983.

Implementation Schedule for Tax Administration Improvement Plan

	<u>Target Date</u>
1. Reducing to 60 days current delays in the processing of sales tax declarations.	Sept. 15
2. Preparation of monthly computer listings of all businesses which have failed to present a sales tax declaration from one month to the next.	Sept. 15
3. Preparation of a computer listing of all income taxpayers in 1981 with income in excess of L 5,000 who did not declare income in 1982.	Sept. 15
4. Raising the yearly sales ceiling for those establishments which declare sales taxes yearly instead of a monthly basis.	Sept. 15
5. Liquidate all outstanding temporary import permits as of June 30, 1983, and exercise strict controls over the issuance of such permits.	Sept. 15
6. Complete the installation of seals in at least 70% of all alcohol storage tanks in the hands of private industry.	Nov. 15
7. Reducing to 30 days current delays in the processing of sales tax declarations.	Nov. 15

ECONOMIC RECOVERY PROGRAM
Status of Local Currency Disbursements
6/30/83

The L 76 million local currency program negotiated with the GOH assigned L 20 million to support public sector activities, and L 56 million to support private sector activities. The allocation of funds for each of these activities follows:

PUBLIC SECTOR

Counterpart support for A.I.D. projects: 9,300,000

- Aguan Valley Electrification (522-0138)	416,000	
- Agricultural Research (522-0139)	400,000	
- Rural Technologies (522-0157)	2,219,000	(1,719,000 Disbursed)
- Agricultural Sector II (522-0150)	925,000	
- Rural Trails & Access Roads (522-0164)	147,000	
- Rural Water and Sanitation (522-0166)	570,000	
- Rural Primary Education (522-0167)	3,800,000	
- Rural Housing (522-0171)	35,000	
- Land Titling (522-0173)	483,000	(110,000 Disbursed)
- Small Farmer Coffee Improvement (522-0176)	200,000	
- Low Income Housing (522-0194, HG-007)	105,000	

Support for GOH financed PVO activities:

3,200,000

The GOH is disbursing these funds to PVO's to support activities included in the GOH Budget. The most important are:

<u>PVO</u>	<u>Activity</u>	
CARE	Agriculture & Health	1,580,000
Aldeas SOS	Education	300,000
Honduran Red Cross	Health	200,000
Panamerican Agric. School	Agriculture	200,000
Other PVOs		920,000
		<u>3,200,000</u> (895,500 Disbursed)

Financing of new PVO projects:

5,000,000

These funds are being administered by the Mission for new PVO activities. To date the following amounts have been allocated:

<u>Project</u>	<u>PVO</u>	<u>Amount</u>
Horizontes de Amistad	Horizontes de Amistad	100,000
Training of Migrant Youth	Aldeas S.O.S.	200,000
FACACH Credit Coop. Dev.	FACACH	282,000
ANACH Admins. Consolidation	AIFLD	200,000
Small Farmer Agric. Dev. Proj.	Partners of America	870,000
Bay Islands Dev. Proj.	PADF	470,000
Integrated Pest Management	PanAm. Agric. School	310,000
Vocational Training and Prod. Prog.	Hogar Amor y Esperanza	200,000
Environmental Education II	Hond. Ecology Assoc.	150,000

Proposals have been received for most of the remaining L 2,218,000 not yet committed.

Counterpart support for IFI financed projects:

2,500,000

2,300,000 of these funds are financing a GOH advance to the construction company building the Ceibita-Santa Barbara-San Nicholas road which is being financed by CABEI. The advance will be repaid over a 30 month period and the repayments will be used as counterpart for IFI projects to be agreed upon between A.I.D. and the GOH.

TOTAL PUBLIC SECTOR

L.20,000,000

PRIVATE SECTOR

The private sector component of the local currency program is designed to provide credit to finance working capital for various productive activities. The specific components of this activity follow:

Credit for cooperative basic grains production

3,500,000
(Disbursed)

This line of credit was established at the Central Bank to finance basic grains production through regional cooperatives. These funds are being lent at an interest rate of 16% (the going rate) through the National Bank for Agricultural Development (BANADESA).

Production Credit for Cooperatives

500,000

This line of credit was established to finance productive activities of cooperatives. It is being administered by the Workers Bank (Banco de los Trabajadores).

Mortgage credit for land sales

4,000,000

This line of credit was established at the Central Bank to provide financing to small farmers and cooperatives wishing to purchase agricultural land. The credit fund is being channeled through the private banking system.

Private sector working capital credit

48,000,000

A L 48 million line of credit has been established to finance working capital for small to medium size companies and and cooperatives working in agriculture, agro-industry, and manufacturing activities. The funds are being lent by Honduras' 15 private banks.

(15,114,700 Disbursed)

TOTAL PRIVATE SECTOR

L 56,000,000