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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 #3)

AID/LAC/P-120/2

Project Number:522-0230
Loan Number:522-K-046
Loan Number:522-K-601

UNCLASSIFIED

PDAMP-966

CLASSIFICATION:

AID 1120-1		1. PAAD NO. Program No. 522-0230 Loan 522-K-046 Grant 522-K-601	
AGENCY FOR INTERNATIONAL DEVELOPMENT		2. COUNTRY Honduras	
PROGRAM ASSISTANCE APPROVAL DOCUMENT		3. CATEGORY Cash Transfer	
PAAD		4. DATE June 27, 1984	
5. TO: A/AID: M. Peter McPherson		6. OYS CHANGE NO. N/A	
7. FROM: <i>Marshall D. Brown</i> AA/LAC (Acting): Marshall D. Brown		8. OYS INCREASE None	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 30,000,000		10. APPROPRIATION - LESA 84 35522-KG-31 \$25.5 72 1141037 LESA 84 35522-VI-31 \$4.5	
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD FY 1984	14. TRANSACTION ELIGIBILITY DATE Date of Authorization
15. COMMODITIES FINANCED			

N/A

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:		U.S.: \$30,000,000	
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash: \$30,000,000		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 ensure a satisfactory rate of implementation of high priority development projects in Honduras.

The \$30,000,000 assistance (\$4,500,000 Loan; \$25,500,000 Grant) will be disbursed as a cash transfer into the account of the Government of Honduras in the Federal Reserve Bank of New York. The dollar loan will be repaid in forty years. There will be a ten year grace period during which the interest rate on the loan will be 2% per annum; thereafter, it will be 3% per annum.

Upon disbursement of the assistance, sixty 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 LAC/CEN:P.Askin(subs) DATE GC/LAC:RMeighan <i>RM</i> 7-5-84 LAC/DP:JOlson (subs) 7-5-84 LAC/DR:D.B. Johnson <i>DBJ</i> 7-5-84 ARA/ECP:R. Bash (subs) 7/6/84 M/Fin:CChristensen (by clearance) 7/6/84 GC:H. Fry <i>H.F.</i> 7/6/84 PPC/PDPR:E.Hullander <i>EH</i> 7/6/84 AA/PPC:R.Derham <i>RD</i> 7/6/84		20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED <i>Jay F. Morris</i> _____ Jay F. Morris, Acting Administrator TITLE	
		7-6-84 DATE	

CLASSIFICATION:

CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)	1. PAAD Number	Program No. 522-0230	
		Loan 522-K-046	Grant 522-K-601
	2. Country	Honduras	
	3. Category	Cash Transfer	
	4. Date	August 30, 1984	
5. To	A/AID: M. Peter McPherson		
	6. OYB Change Number	N/A	
7.	8. OYB Increase	None	
	To be taken from: Economic Support Fund (ESF)		
9. Approval Requested for Commitment of \$ 10,000,000	10. Appropriation Budget Plan Code	72-1141037	
	LESA 84-35-522-KL-31	LESA 84 35 522 KG 31	
11. Type Funding	12. Local Currency Arrangement	13. Estimated Delivery Period	
<input checked="" type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	<input type="checkbox"/> Informal <input checked="" type="checkbox"/> Formal <input type="checkbox"/> None	FY 1984	
15. Commodities Financed	14. Transaction Eligibility Date		
N/A	Date of Authorization		

16. Permitted Source	17. Estimated Source
U.S. only	U.S. \$10,000,000
Limited F.W.	Industrialized Countries
Free World	Local
Cash \$10,000,000	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 ensure a satisfactory rate of implementation of high priority development projects in Honduras.

The \$10,000,000 assistance (\$1,500,000 Loan; \$8,500,000 Grant) will be disbursed as a cash transfer into the account of the Government of Honduras in the Federal Reserve Bank of New York. The dollar loan will be repaid in forty years. There will be a ten year grace period during which the interest rate on the loan will be 2% per annum; thereafter, it will be 3% per annum.

Upon disbursement of the assistance, twenty 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.

The GOH will agree to make available, within a period of twelve months of the disbursement, an equivalent amount of dollars to the private sector for imports of raw materials, intermediate goods, and industrial spare parts from the U.S.

LAC/DR: DBJohnson	Date: 9/26/84	20. Action
LAC/CEN: Paskin	Date: 11/13/84	
LAC/DP: Joleson		<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
GC/LAC: RMeighan	Date: 5/19/84	Authorized Signature
AA/PPC: RDerham	Date: 9/25/84	
M/FM: CChristensen	Date: 9/24/84	Date: 9/26/84
GC: HFry	Date: 9/24/84	
ARA/ECP: RBeckham	Date: 9/24/84	Title
DAA/TAC: MPherson		M. Peter McPherson, Administrator

PROGRAM ASSISTANCE APPROVAL DOCUMENT
HONDURAS: ECONOMIC RECOVERY PROGRAM
PROJECT 522-0230

AMENDMENT No. 3

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PROGRAM ASSISTANCE APPROVAL DOCUMENT
HONDURAS: ECONOMIC RECOVERY PROGRAM AMENDMENT
522-0230
Amendment No. 3

I. SUMMARY AND RECOMMENDATIONS

A. Recommendation

USAID/Honduras recommends authorization of an Economic Support Fund Loan of \$4,500,000.00 and an Economic Support Fund Grant of \$25,500,000.00. 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 on an annual basis.

B. Borrower/Grantee

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

C. Program Summary

In September 1982, the GOH and AID signed the first Program Assistance Agreement between the two countries for \$35 million of FY82 ESF funds. By providing balance of payments support to Honduras, the program aimed at: a) ensuring that Honduras would enter into and comply with an IMF agreement; b) maintaining an on-going dialogue between the GOH and the Mission; c) sustaining key portions of the GOH's public investment program; and, d) ensuring the availability of credit to private sector producers. The Program was instrumental in substantially achieving the above objectives. The Fund Agreement entered into effect in November 1982. A substantial portion of the local currency generated by the ESF program was utilized to provide much needed private sector credit, and the rest supported public investment projects financed by A.I.D. as well as those of other donors. Additional ESF funds of \$3 million were added in April 1983 and \$15 million more in July 1983 in support of the program.

The initial success of the program was reinforced by an additional agreement in September 1983 to provide \$38 million of FY83 funds. The Program continued to support the same objectives as those of the first agreement, and specific conditionality was added which tied disbursements to continued compliance with a Fund Agreement, the performance of tax administration improvements and reforms and the submission of an Export Incentives Law to the Congress.

As a result of the additional conditionality, the Program was successful in achieving the following important reforms:

a) Submission to and subsequent approval by the National Congress of an Export Incentives Law designed by an A.I.D. financed Technical Assistance Team;

b) The implementation of a moratorium on Central Government guarantees to private sector firms, and a limitation on those granted to autonomous institutions by restricting them to those which support production activities;

c) The formation of an AID/GOH task force which is currently studying impediments to A.I.D. pipeline disbursements and is recommending actions to overcome them. The GOH has expanded this effort by initiating pipeline reviews with other donors, and has already submitted reforms to the Congress which should improve project implementation.

d) The implementation of key tax administration reforms designed to streamline the processing of tax returns by eliminating some steps and redesigning others. These reforms should result in greater revenues and improved tax compliance. As part of the conditionality, the GOH undertook a self imposed moratorium on amnesties for delinquent tax payers.

The deterioration of the economic situation in 1983, particularly public finances and the balance of payments, combined with the lack of timely corrective policy reform resulted in the GOH falling into non-compliance with the Fund Agreement in early November of that year. In accordance with the terms of our bilateral ESF agreement, A.I.D. stopped disbursements of the \$38 remaining in FY83 assistance. The Mission was forced to reassess its overall strategy, particularly since the GOH's performance against the Fund Agreement fell so far short of the mutually agreed upon targets.

As a result of this reassessment, the GOH and the Mission agreeing to establish a GOH Economic Working Group, with USG participation in an advisory capacity, to develop a comprehensive economic program which could be supported on an interim basis with ESF funds and eventually lead to a new arrangement with the IMF. The program had as its aim the stabilization of the economy, which was to be achieved by arresting and reversing the balance of payments and fiscal disequilibria, and laying the basis for a resurgence in economic growth.

New conditionality for disbursement of the remaining \$38 million was agreed to in February. The principal conditions were the formation of the Joint Economic Working Group (JEWG) ^{1/}, the development of an action plan based on the analysis of the situation by the technical staff of the group, and the implementation of significant policy actions against the plan. These actions were keyed to quantifiable targets aimed at bringing overall GOH fiscal and

^{1/} The JEWG is composed of The Economic Counselor to the President, The Minister of Finance, the Minister of Economy, the president of the Central Bank, and the Executive Secretary of the Superior Planning Council. For the U.S. Government, members include the Deputy Chief of Mission, the Mission Director and the Economic Counselor.

monetary performance in line with what might be required under a 1984 Stand-By Arrangement with the IMF. Specific targets included reducing the 1984 central government's overall fiscal deficit to the equivalent of 8% of GDP, implementing monetary policy measures designed to reduce liquidity in the banking system, and limiting the net domestic banking system financing available to the consolidated public sector.

In late May 1984, the GOH obtained congressional approval for Decree Law 85-84 which constituted a comprehensive stabilization package designed in part to meet the new conditionality (See Annex C). The package aimed at reducing the central government's fiscal deficit and excess liquidity in the banking system. The first objective is to be achieved through the implementation of tax increases which should yield L37 million for the rest of 1984, administrative measures designed to increase revenues by L17.6 million and expenditure reduction measures on budgeted expenditures combined with reductions in extrabudgetary demands on the budget which should limit net expenditure increases to L24 million. Excess liquidity is to be reduced through the implementation of increases in the reserve requirement of some banking system deposits and sharply curtailing the programmed levels of credit growth for the private and public sectors. The package also contains a series of measures designed to increase central government control over the financial affairs of decentralized institutions which are in large part responsible for the fiscal disequilibria. Based on the progress the GOH made in developing and approving these measures, a decision was made to disburse the remaining \$36 million in FY83 assistance.

While the GOH package, if fully implemented, represents a substantial economic policy effort, it will not be sufficient to ensure the kind of fiscal, monetary and balance of payments performance from the Honduran economy that will bring a Fund supported stabilization program. The most glaring omission in the stabilization program is the absence of a significant effort to address the overvaluation of the Lempira and there is little likelihood of a new fund agreement without action in this area.

The progress made to date is substantial and has been made at real political costs. Although the Suazo Administration understands that further remedial action will be required, its resolve is being tested by mounting opposition to the approved reforms from important economic sectors such as labor unions and trade organizations. Already, the GOH has agreed, under the threat of a general strike from a powerful labor federation, to modify certain provisions of the stabilization program which affect labor unions. This has encouraged other sectors to press the GOH for additional reforms to which the Executive has not responded. As of the writing of this document, the Ministry of Finance had not yet analyzed in detail the fiscal impact of the changes agreed to with the unions. Nevertheless, the GOH appears to remain committed to a sound stabilization effort. The central government's fiscal deficit must be reduced further from its projected level equivalent to 7.95% of GDP to the 6.5% level reportedly requested by the IMF, while the projected balance of payments gap for 1984, estimated on the basis of "absence

of restrictions on imports", estimated at \$173 million also needs to be adjusted through exchange rate reform. These disequilibria are unsustainable in the absence of IMF help or a vastly expanded U.S. effort. The Mission working closely with the Embassy expects to play an important role in turning the GOH commitment into substantial economic reform. We plan to continue to judiciously key ESF assistance to the kinds of policy stances at the macro and microeconomic level which are likely to arrest current trends and place Honduras back in the road to economic recovery. The task will not be an easy one particularly as the Honduran election draw near. The GOH appears to believe with some justification that it has reached the realistic limits of austerity and that additional reforms could entail unacceptable political risks. These concerns require that both Embassy and Mission and both AID/W and State work closely in the development of the kind of strategy which balances the need for economic reform with the need for social stability.

II. CURRENT ECONOMIC SITUATION

Honduras has experienced negative real rates of economic growth (Table B-1 in Annex B) for the last three years. Declining export earnings as well as depressed investment levels have been largely responsible for the decline. During the same period, Honduras faced unusually large deficits in the budget and the balance of payments also, which, until this year, have been accommodated but not solved. Isolated tax measures and heavy domestic and external borrowing have financed the budget deficit. Domestic borrowing had the effect of increasing liquidity in the banking system. A combination of external borrowing, restrictions on imports and the introduction of parallel foreign exchange market covering "non-essential" imports have relieved some of the pressure on the balance of payments.

Fiscal prospects for 1984 and the domestic election year of 1985 have been improved with the recently passed stabilization package. Nevertheless, to a significant extent the complete success of the program is dependent upon the extent to which the exchange rate problem is managed. Larger foreign exchange inflows stimulated by foreign exchange reform should result in increased revenues as import restrictions are lifted. The options however for financing/accommodating the balance of payments deficit without devaluation have narrowed considerably. Over \$120 million in foreign commercial borrowing guaranteed by the GOH has been in renegotiation for the last two years. Even a successful debt renegotiation is unlikely to spur significant new loans from the foreign banking community. Thus, foreign borrowing from commercial sources for the balance of payments has completely dried up. Domestic borrowing cannot substitute for foreign borrowing to meet foreign exchange requirements.

Not surprisingly, given the duration and magnitude of its balance of payments and budget problems, Honduras has been unable to complete two IMF programs over the past five years. The 3 year Extended Fund Facility Agreement signed in 1979 and a Stand-By Agreement covering the more recent 14 month period ending in December 1983 were both eventually abandoned. Given these antecedents and the difficult current circumstances, the successful conclusion of a new IMF agreement will be difficult. The monetary overhang

created by bank financing of past fiscal deficits and the use of import restrictions in lieu of exchange rate adjustment to contain the balance of payments situation are the main points at issue from the perspective of the IMF. A further complication is that past drawings on IMF resources that have placed IMF holdings of lempiras at above 400% of Honduras IMF quota and will limit the size of a new agreement to well below those of previous years. All in all, these factors point to a "tight" program, one that will require stringent limits on overall credit creation, on the budget deficit, on credit to the public sector and, in all likelihood, action on the exchange rate.

A. Public Finance

Honduran public finances have undergone a substantial transformation over the last ten years. In 1974, before the coffee boom of the second half of the 1970s, public sector expenditures (consumption and investment) constituted only 18% of GDP. By 1978, these expenditures had grown to account for over 25% of GDP, remaining at the 23% level thereafter. The marked expansion of public sector expenditures, which can be discerned from Table B-2 in Annex B, was fueled by the sudden availability of government revenues, derived from taxes on coffee, which permitted a major expansion of public sector investment through autonomous institutions. Some of these include the National Investment Corporation (CONADI) which was created to finance the expansion of the industrial sector, the Honduran Forestry Development Corporation (COHDEFOR) which was created to handle the marketing of forestry products and the development of the paper pulp industry, the Agriculture Development Bank (BANADESA), and the Honduran Banana Corporation (COHBANA) which was created to market bananas produced by agrarian reform cooperatives. Each of these institutions was provided with either Central Government resources or was given authority to acquire debt obligations to fulfill its objectives. Encouraged by the relative independence with which the new and existing autonomous institutions such as the Electric Company (ENEE) and the Telephone Company (HONDUTEL) operated, and the willingness of foreign banks to lend their petrodollars, the whole public sector embarked upon ambitious investment programs.

As coffee prices crashed in 1979-80 followed by a decline in other export earnings, the pace of projected tax revenue growth declined (See Table B-4 in Annex B). The GOH and public sector agencies however attempted to maintain the pace of their investment program by continuing to borrow heavily from domestic sources and abroad. It was also during this period that mismanagement of the autonomous institutions began to surface as many of the investment projects undertaken by the autonomous institutions, particularly lending institutions as CONADI, became serious liabilities to the public sector. Mounting obligations resulting from poor investment decisions began to exceed the income of these institutions to the point they could no longer service their debt. Since the GOH had acted as the guarantor of debt acquired by autonomous institutions, the Central Government suddenly found itself with unplanned and onerous debt service obligations (See Table B-5 in Annex A). These developments were partly responsible for the spectacular growth of the central government's fiscal deficit which went from \$90 million in 1979 to almost \$300 million in 1983. (See Table B-3 in Annex B).

As the deficit ballooned, the mix of the sources of its financing changed as the GOH became increasingly dependent on domestic borrowing. Between 1979 and 1983, the portion of the central government's overall fiscal deficit financed from domestic sources went from 1% of GDP to almost 5% of GDP. Because of the on-sight convertibility of GOH bonds and their eligibility to be used as reserve requirements on bank deposits, GOH bond issues fueled a monetary expansion which increased the monetary mass beyond the level consistent with containing the price level and demand for imports.

The need to reduce the size of the fiscal deficit and to contract the scope of public sector intervention in the economy was recognized by the Suazo Administration when it adopted the reform package described in Annex C.

The impact of the fiscal package and the banking system credit limits established by the Central Bank, as well as other adjustments to the 1983 Budget are shown in Table 1 below. The projected 1984 Central Government Budget shows an overall deficit of Lps 513.5 million with an unfinanced projected gap of Lps 103.3 million. The gap can only be financed with measures that do not expand domestic credit if the fiscal component of the stabilization program is to reduce the expansionary impact of the fiscal deficit. These projections do not take into account possible tax reductions which may result from modifications to the package in response to labor union pressures. It is imperative that the Suazo Administration not yield to additional pressures from different interest groups to reduce the tax burden imposed by the package. The seriousness of the situation and the need to hold the line now can be illustrated by looking forward to 1985. If one projects the execution of 1985 budget on the basis of maintaining current policies as presented in Table 1 and if the GOH does not pass additional tax measures and allows moderate growth in expenditures, the overall deficit would decrease to L490 million. However, lower levels of external financing along with a continued effort to limit credit expansion to 1984 levels would still leave an unfinanced gap of L180 million.

Some of the options available to the Suazo Administration to further reduce the gap include: a) quick passage of a tariff reform which would place all import taxes on an ad valorem basis and increase the tax rate; b) raising the sales tax rate and expanding its base; c) reducing tax exemptions enjoyed by the industrial sector; d) reducing capital expenditures; and, e) making strenuous effort to collect on non-performing private sector loans guaranteed by the GOH; and e) exchange rate adjustment. All of these options have significant social and political costs. Popular reactions thus far to the package highlight the difficulties the Suazo Administration faces in attempting to impose still further austerity measures. It is clear that additional U.S. help will be essential to Honduras' efforts to put its financial house in order.

Table 1
CENTRAL GOVERNMENT BUDGET 1984 AND 1985
(Million of Lempiras)

	BUDGETED	MODIFICATIONS TO THE BUDGET	ADJUSTED BUDGET	1985 (1) PROJECTED BUDGET
I. <u>CURRENT REVENUES</u>	805.9	+61.6 (a)	867.5	904.5
Tax Revenue	751.8			
Nontax Revenue	54.1			
II. <u>CURRENT EXPENDITURES</u>	974.3	+22.8 (b)	997.4	1047.3
Consumption	867.7			
Transfers	106.6			
III. <u>CURRENT ACCT. SAVINGS</u>	-168.4		-129.9	-142.8
IV. <u>CAPITAL EXPENDITURES</u>	235.4	1.0 (b)	236.4	260.4
Direct Investment	147.7			
Indirect Investment	87.7			
Preinvestment				
V. <u>NET LENDING</u>	124.1	30.0 (b)	154.1	124.1
Net lending	124.1			
Loan Recuperation				
VI. <u>OTHER UNCLASSIFIED EXPENDITURES</u>		30.0 (b)	30.0	
1983 Budget Liquidation				
VII. <u>CAPITAL REVENUES</u>	36.9		36.9	37.0
Transfers	36.9			
VIII. <u>CURRENT ACCOUNT SURPLUS OR DEFICIT (-)</u>	-491.0		-513.5	-490.3
IX. <u>FINANCING</u>	491.0		513.5	490.3
<u>NET EXTERNAL CREDIT</u>	259.7		259.7	200.0
Utilization	302.7		302.7	
Amortization	-43.0		-43.0	
<u>EXTERNAL TRANSFERS OF CAPITAL</u>		45.5 (c)	45.5	
<u>NET INTERNAL CREDIT</u>	231.3		105.0	110.0
Banking system	231.3		50.0	50.0
Utilization	(378.5)	171.0 (d)	(207.5)	
Amortization	(-147.2)	-10.3 (b)	(-157.5)	60
Bonds		55.0 (e)		
Gap without financing			103.3	180.3

(1) Assumptions:

- No additional revenue measures and continuation of import controls.
- 10% growth in capital expenditures.
- 5% growth in current expenditures.
- Domestic credit expansion maintained at 1984 levels.

- a) See Table B-7 in Appendix B
- b) See Table B-8 in Appendix B
- c) Financing request to A.I.D.
- d) Reduction of gross credit needed to obtain net financing limits established by the Central Bank.
- e) Bonds to be placed with public sector employees and autonomous institutions.

B. The External Sector

The performance of the Honduran economy is intimately linked to its foreign trade. Exports represent the most important source of income to the economy, and one of the principal determinants of country's ability to acquire new technologies and intermediate products needed to diversify and sustain the country's productive base.

Honduras' foreign trade position, as reflected in its balance of payments accounts, has deteriorated substantially over the last four years. After maintaining an overall surplus position for the second half of the seventies, as a direct result of the coffee boom, the balance of payments recorded an overall deficit (losses in net international reserves) of \$119 million in 1980, \$164.4 million in 1981, \$36 million in 1982 and \$2 million in 1983. For the 1980-83 period, the country's net international reserves position went from \$119 million to negative \$112 million. The sharp deterioration in the balance of payments can be traced to external and internal factors. Externally, Honduras major export commodities experienced a sharp reduction in prices, while petroleum as well as other import prices increased (See tables B-10 and B-11 in Annex B). Between 1978 and 1983 Honduras' terms of trade deteriorated 17%, continuing a trend established after the second oil price shock of 1976-77 when the terms of trade deteriorated by 8%.

As discussed above, throughout the 1978-83 period, the country's debt service obligations, resulting mainly from private sector borrowings with public sector guarantees and the borrowings of autonomous institutions during the second half of the seventies, began to grow substantially. Between 1979 and 1982 interest obligations went from \$72 million to \$173 million and eventually forced the GOH to initiate discussions with private foreign banks seeking the renegotiation of a portion of the public sector debt (\$121 million) a debt which the GOH simply could not service. The year of 1980 also saw the beginning of a loss of confidence in the region by foreign bankers. As the war in El Salvador intensified, and the Sandinista Regime in Nicaragua began to show its true ideology, and the capacity of countries throughout the region to service their debt began to show signs of strain, the flow of external capital in support of the private sector began to dry up. After reaching a peak level of \$122 million in 1980, private capital inflows declined to \$19 million in 1981, became negative in 1982 and remained so in 1983. Neither growing official capital inflows nor financial system capital inflows have been able to make-up for the steady decline in the private capital account.

The monetary authorities' response to the growing balance of payments problem was not to adjust the exchange rate but to introduce, in mid-1982, an import control system whereby the Central Bank allocates foreign exchange on the basis of a priority scheme (The system is fully described in the original PAAD). This innovation was based on the belief that the current account deficit and lower capital inflows resulted from temporary phenomena (temporary low export prices, political turmoil, etc.) as distinct from structural

weaknesses. While the import control system has been effective in containing the import bill, it has done so by restricting production in those sectors heavily dependent upon imported inputs such as the industrial sector and non-traditional export sector with the resulting increase in the level of unemployment.

Internally, import demand was fueled and continues to be so by an excessive monetary expansion resulting from the continued emission of COIL bonds which financed mounting fiscal deficits. The monetary expansion has also added inflationary pressures which have resulted in the overvaluation of the Lempira, which the IMF estimates at approximately 35%, over the last 2-3 years. This is attributed to the fact that the inflation rate for Honduran major trading partners has declined to between 4% and 5% on a yearly basis, which is well below the 10% yearly inflation experienced by Honduras over the last 3 years.

The current balance of payments situation is detailed in Table 2 below. The most striking feature is the size of the unfinanced gap of \$173 million estimated on the basis of an import flow compatible with projected real GDP growth of 2% and the "absence of import restrictions" under the present exchange rate regime. This estimated gap takes into account the recently approved package of CCC credits, PL-480 and PL-416 assistance as well as an expanded line of credit from EXIMBANK. Thus, even if the \$40 million programmed in FY84 ESF assistance, the projected \$20 million from the FY84 government-wide ESF Supplemental, and the additional resources which would be linked to an IMF agreement are realized (\$40 million from private banks, \$30 million from the IBRD Structural adjustment program), the balance of payments would still face a gap of \$13 which could only be closed with: a) additional losses in net international reserves; b) the continuation of import restrictions; and/or c) the modification of the exchange rate.

A further complicating factor, which reinforces the need to adjust the exchange rate, is the accumulation of public sector external debt arrearages. As of the end of May, 1984, the GOH had accumulated arrearages in excess of 90 days as follows:

Private Banks (interest alone)	\$8,088,483.29
EXIMBANK	3,454,300.35
FMS	\$238,539.10
AID	\$474,529.86
IDB	\$664,276.65
IBRD	\$3,225,120.06
CABEI	\$2,528,944.63
	<u>\$18,674,193.94</u>

While some of the obligations to the IFIs and AID have now been paid, and arrangements were made with CABEI to defer payments, the bulk of the debt to private banks remains outstanding. This jeopardizes the willingness of

private banks to provide additional funds to Honduras in the event of an IMF agreement, and puts into question the overall efficacy of the Honduran effort to stabilize the economy. A quick solution to this issue is of utmost importance.

The situation for 1985 is even worse. Assuming the absence import restrictions, Central Bank export projections and a reduced level of capital inflows, a gap of \$266 million is foreseen. This gap, which in the absence of a Fund Agreement exchange rate adjustment, represents the amount by which import controls would restrict the import flows in order not to experience losses in net international reserves.

Table 2
BALANCE OF PAYMENTS
(Million of Dollars)

	1982 (a)	Proj 1983 (a)	Proj 1984	Proj 1985 1/
I BALANCE OF GOODS AND SERVICES	-260.4	-212.8	-430.2	456.2
A. Merchandise Trade and Services	783.4	814.9	853.6	926.5
1. Merchandise Trade				
FOB	676.5	704.1	741.6	815.0
2. Freight and Merchandise Insurance	6.4	6.3	6.7	7.0
3. Travel	25.0	22.5	23.5	25.0
4. Interest and dividends	15.0	12.1	11.0	11.0
5. Government transactions	9.0	14.0	14.3	14.5
6. Other Services	51.5	56.0	56.5	56.0
B. Import of Merchandise and Services	1043.8	1027.7	1283.8	1384.7
1. Merchandise Exports FOB	680.7	731.0	923.6	1016.0
2. Freight and Merchandise Insurance	58.0	60.5	71.4	78.0
3. Travel	22.8	20.5	20.0	20.0
4. Direct Investment Income	45.0	15.0	49.5	50.0
5. Interest on external debt and other (d)	173.6	142.2	158.6	160.0
6. Government transactions	4.2	4.5	4.7	4.7
7. Other services	59.5	54.0	56.0	56.0
II TRANSFERS	30.0	44.5	60.0	60.0
III CURRENT ACCOUNT BALANCE	-230.4	-168.3	-370.2	396.2
IV CAPITAL ACCOUNT	89.8	114.8	165.2	130.0
A. Long Term Capital	127.2	119.0	167.0	130.0
1. Private Sector	-23.7	-56.0	-22.4	-30.0
Direct Investment	13.8	5.0	7.5	10.0
Loans (f)	-37.5	-56.0	-29.9	-40.0
Others	-	-	-	-
2. Official Capital	116.5	172.3	180.3	150.0
Central Government	-	125.7	129.8	-
Rest of general government	-	0.3	-7	-
Rest of Public Sector (f)	-	46.3	51.1	-
3. Financial System	-1.2	-4.2	38.5	20.0
Central Bank of Honduras (e)	-	-	43.7	-
Other Official Banks (f)	-	-	-5.7	-
Private banks and savings institutions	-	-	0.5	-
Rest of the Financial System	-	-	-	-
4. Compensatory Credit	35.6	1.9	-29.4	-10.0
B. Short Term	-35.6	-4.2	-1.8	0
1. Private Sector	-33.4	-	-	-
2. Official Sector	-2.2	-	-	-
3. Banking System	-	-	-	-
V ERRORS AND OMISSIONS	2.8	14.2	-	-
VI OVERALL BALANCE	137.8	19.3	32.1	266.2
A. Change in official net international reserves (increase)	90.7	1.3	0	266.2
B. External debt arrears	47.1	36.0	32.1	-
VII UNFINANCED GAP IN 1984			172.9	
Contingent sources of finance			-	
IMF Funds FY84 (h)			60	73
Private Banks			40	
IBRD/SAL			30	
Gap without financing			42.9	191.2

(1) Assumptions:

- Exports will experience 10% growth based in stable price projections for major commodities, thus allowing for volume expansion.
- Imports will grow 10% compatible with similar nominal growth in GDP.
- Official and publicly guaranteed capital inflows were obtained from the IBRD's projections for debt outstanding as of Jan. 1, 1983 and upwardly adjusted to accommodate newly acquired debt.

- (a) Preliminary
- (b) Projection
- (c) Includes non monetary gold
- (d) Includes payment of debt under renegotiation
- (e) Includes L30 millions from BID for industrial reactivation
- (f) Includes liquidation payment subject to renegotiation.
- (g) Includes 30 million IMF requested herein plus \$10 million remaining in FY84 and \$20 million from FY 84 supplemental.

Source: Central Bank of Honduras and Adjustments made by A.I.D.

It is evident that demand management policies (reducing the fiscal deficit, imposing import controls, and reducing liquidity in the banking system) alone will not be sufficient to contain the balance of payments situation. The size of the fiscal adjustment necessary to reduce that gap and to reduce inflationary pressures to a level below that of the rest of the world would be extremely onerous to the country's productive apparatus and social programs. Additionally, the adjustment process would be lengthy and could be expected to drive the country into a deeper recession than the one it is now experiencing.

Honduras has begun to rethink its export and import strategies. Exports need to be expanded as well as diversified. The composition of imports must be shifted away from those needed to support an industrial sector which essentially does not generate any hard currency in favor of export diversification. Foreign borrowing, which will be probably limited over the next few years, needs to be utilized on those investments which offer the highest rate of return. There are several important policy issues which will need to be addressed before the balance of payments can improve and economic recovery begin to occur. These are:

- The overvaluation of the Lempira. Honduras needs to adjust its payments regime in order to attract investors and offer incentives for the non-traditional export sector.

- The Common External Tariff, as in other countries in the region, continues to encourage inefficiency in the industrial sector. This has resulted in production processes which rely heavily on imported inputs with final products which are saleable only to countries which also offer protection and which happen to have soft currencies (the rest of Central America).

- The import control system discourages production by adding uncertainty and additional expense to the producer. Foreign exchange needs to be allocated on the basis of market forces and not committee decisions.

- Foreign debt management in the public sector is decentralized and lacks any rationale regarding sources and uses of external debt.

- Investment procedures, particularly those for new exporters, are complicated, time consuming and expensive.

Unless these issues are addressed properly over time, the balance of payments situation will not improve.

C. Money, Credit and Prices

The country's monetary performance reflects the developments in the fiscal accounts. As the public sector deficit grew after 1980, increasing amounts of domestic credit were called forth to finance it. The resulting credit

expansion was financed mainly with a steady reduction in net international reserves as public and private sector savings declined throughout the period. Thus, the country experienced a steady increase in the money supply during a period of a steady economic decline. In 1980 when real GDP growth was 1.2% monetary and quasi-monetary assets in the banking system grew 6%. In 1982 and 1983, when real GDP growth was negative, monetary and quasi-monetary assets grew 17% on a yearly basis (See Table B-12 in Annex B). The excessive monetary expansion spilled over into excess demand for imports, which in the face of the import restrictions, may be responsible for the current 10% inflation rate. Credit availability, at least to the traditional clients of the banking system, has not been a problem over the last year and a half. The growth in liquidity has forced lending rates, which range between 14% and 17% for preferred customers, below the interest rate ceiling of 19% for lending which utilizes resources generated by the banking system. Lending rates for those activities financed out of Central Bank resources have also remained below their 17% ceiling.

The outcome of the 1984 monetary accounts is difficult to predict at this time. The unfinanced gap in the central government's budget and the way it is closed will be an important determinant. Should that gap be financed with domestic resources of the banking system, as previously done, then past expansionary trends can be expected to continue.

The behavior of domestic prices for the 1976-83 period, as reflected in the Consumer Price Index (CPI), departed from a path which closely followed the behavior of price increases experienced by Honduras' major trading partners. Since 1980, when the inflation rate exceeded 18%, Honduran inflation has remained at an average of 10% on a yearly basis. CPI behavior is heavily weighed by the prices of basic grains which have remained stable, with the exception of 1980 when domestic production fell short of domestic demand. Thus, the major cause for the recent inflationary levels can be explained by sharp increases in the tradeable component of the CPI. This is corroborated by the wholesale price index for imported goods which grew 47% between 1980 and third quarter of 1983. (See Table B-13 in Annex B)

D. Current Status of Negotiations with the IMF

As explained above, the principal points at issue between the IMF and the GOH is the exchange rate, and to a lesser degree, the magnitude of the fiscal and monetary adjustment. In early February, the GOH submitted a program to the Fund which essentially proposed to rely exclusively on demand management policies (reducing the fiscal deficit and liquidity in the banking system) as the principal instruments to stabilize the economy. The IMF responded with a counterproposal which established the following parameters, as they have been conveyed to the Mission by the GOH:

	<u>IMF Proposal</u>	<u>GOH Package 4/</u>
Central Government Deficit/GDP	6.5%	7.95%
Yearly Tax measures yield/GDP	2.0%	1.2%
Public Sector Deficit/ GDP	7.5%	<u>1/</u>
Banking System Credit to the Public Sector	Lps. 50 m	Lps. 50m <u>2/</u>
Banking System Credit Expansion	7.0%	7.4% <u>2/</u>
Private Savings Growth	7.0%	7.0% <u>2/</u>
BOP Current Account Deficit/GDP	5.0%	<u>3/</u>

-
- 1/ This amount cannot be determined yet, as the GOH is currently modifying the budget of the autonomous institutions by L110.0 million as called for in the fiscal package. (See Annex C).
- 2/ While the Central Bank has placed this limit on banking system credit to the public sector this was done unilaterally and has not been reconciled with the large unfinanced gap which remains in the central government accounts. Thus, if no additional fiscal measures are undertaken, the gap would have to be financed with domestic credit whether the Central Bank likes it or not with the obvious impact on the monetary component of the package.
- 3/ The reduction sought by the IMF is to be achieved by either a full exchange rate adjustment or the officialization of the parallel market. The GOH's and particularly the Central Bank's position is to reject either alternative.
- 4/ USAID/Honduras' analysis as of 6/22/84

Source: Conversations with GOH Officials and Mission's Analysis

The foregoing table suggests that Honduras is not very close to reaching an agreement with the Fund. The GOH has sent a team to Washington to explain the stabilization package to the Fund. However, the GOH team is technical and will not be entering into official negotiations. The Fund reportedly feels that, unless the GOH adopts a more flexible stance regarding its willingness to either alter the exchange rate or officialize the parallel market, it will not be prepared to send a negotiating team to Tegucigalpa before the routine consultations now set for late August or early September.

Prospects for an early meeting of the minds on the exchange rate issue are slim at this time. The GOH is seriously concerned about the political implications of an anticipated inflationary process in the event of a devaluation or a recognition of the parallel market. On the other hand, some elements in government recognize that inaction on the subject will bring more onerous consequences in the not too distant future. Thus far, the fear of upsetting national pride (the Lps 2 to \$1 parity of the Lempira has been in effect since 1918) has served as the most powerful argument within the GOH to support its current official position. However, as the gravity of the economic situation becomes clearer, and the fact that the current package alone will not be sufficient to reverse the disequilibria becomes more evident, the chances that the GOH will come around and effect the desired changes will be enhanced.

III. PROGRAM OBJECTIVES AND STRATEGY

Honduras shares our democratic principles and is committed to uphold them. As one of the two functioning democracies in Central America, as well as the youngest one, the country faces a formidable task in attempting to fulfill its economic aspirations within the context of threatening insurgencies in surrounding countries and severely limited financial resources at home. The classic guns and butter dilemma which has confronted the Suazo Administration from the very beginning is a perceived security threat from the outside combined with the urgent need of the Honduran people for more and higher quality of public services. This dilemma has necessitated the deferral and in some cases the reduction in social programs the government had promised to expand during the election. Because of our shared interests, as well as the unflinching Honduran support for U.S. policy initiatives in Central America, the USG decided that it is in our national interest that Honduras' young democracy be supported and be given the opportunity to demonstrate its ability to increase social and economic equity for its people.

Without significant additional structural adjustments, supported by ample financial assistance to ameliorate their impact, as well as an improved political environment in the region, the prospects that near term economic stabilization and recovery necessary will occur are poor. Given our overall political interest in the region, this is a risk which the U.S. cannot afford to take. USG resolve in this matter has been demonstrated repeatedly over the past two years, it was reiterated in the President Reagan's recent letter to President Suazo and is the basis for the President's decision to provide Honduras with an special package of assistance, which includes this \$30 million in ESF funds.

A. Overall Objectives of Economic Recovery Program

The proposed continuation of the Economic Recovery Program is a direct and appropriate U.S. response to the challenges posed by the Honduran economic situation, and fits squarely within U.S. regional interests. The objectives of the program are:

- To assist Honduras to restore economic equilibrium within the context of a Stand-By Arrangement with the IMF.
- To assist and support Honduran efforts to develop a policy base conducive to the restoration of long term economic growth within the framework of a structural adjustment program with the IBRD.
- To assist the public sector to reorient its investment program towards the achievement of economic equilibrium and self sustaining growth.
- To assist the GOH and the private sector develop an export strategy through appropriate policy reform, and investment interventions.
- To assist the GOH to restructure its decentralized public sector away from involvement in productive activities and financial intermediation.
- To support the GOH's social investment programs in those areas consistent with the United States Foreign Assistance Act.

These objectives form an integral part of the Mission's CDSS and are consistent with recommended actions of the National Bipartisan Commission on Central America (NBCCA). They also reinforce and protect the policy reforms supported by the on-going ESF and DA programs.

At the present time, the Honduran economic situation, as exemplified by the large Balance of Payments gap, requires some relief in the form of quick disbursing external assistance. It has been recognized that the GOH stabilization package in and of itself will not be enough to turn the situation around or resolve its differences with the Fund. The Assistance requested will help avoid further deterioration in the near term. This is particularly important in relation to the accumulated public sector external debt arrears to private banks as well as IFIs. Additional delays in debt service payments may alter the willingness of private banks to renew lending to Honduras when and if an IMF agreement is in place. The requested assistance will also build on the policy dialogue established within the Joint Economic Working Group, which will continue to be utilized as the principal forum in which Mission economic policy initiatives will be discussed.

B. Utilization of Dollar Resources

As described in President Reagan's letter, the proposed program consists of \$30 million disbursement (\$4.5 million ESF loan and \$25.5 million ESF grant) from the \$40 million FY84 level approved by the Congress. The assistance will be disbursed in one tranche immediately upon approval of this PAAD. The Mission proposes to continue utilizing the cash transfer mechanism for all

disbursements. There are several factors behind the Mission's position. First, there is an urgent need for foreign exchange liquidity in the banking system to finance much needed imports. Second, imports from the United States (\$300 million) far exceeds the level of ESF balance of payments assistance provided to Honduras annually. Thus a commodity import program would not assure additional expenditures on U.S. goods. Third, the Honduran private sector already has well established trade relations with their U.S. suppliers, and a CIP program would probably disrupt these relationships.

Dollar resources will be allocated utilizing the Central Bank allocation mechanism described in the original PAAD. Briefly, the Central Bank will provide documentation to the Mission which shows that amounts equivalent to the disbursed assistance were utilized to purchase raw materials, spare parts and intermediate goods from the United States. The reports are presented on a quarterly basis and are subject to audit by the Mission's Controller's Office.

D. Utilization of Local Currency Resources

As in previous arrangements, immediately upon disbursement of the assistance, the Central Bank will deposit an equivalent amount in Lempiras, in a Special Account established under the Economic Recovery Program. The Mission proposes to allocate up to 50% of local currency generated in support of the private sector, while the rest will be allocated to the public sector. A portion yet to be determined of the private sector assistance will continue supporting the credit needs of the productive sector by increasing the credit fund established at the Central Bank under the original program. The Mission expects to utilize these resources in support of the credit needs of exporters. The rest of the private sector credit resources will support PVO projects and other private sector initiatives of the Mission, as stated in the CDSS.

The public sector portion of the assistance will continue to provide financial support to A.I.D.'s projects on a priority basis, and will also support the counterpart contributions required by other high priorities projects of the GOH which are partly financed by IFIs and PVOs. A new feature of the proposed program is to utilize public sector funds to support the Mission's "first offensive" against unemployment, as stated in the CDSS. The thrust of this offensive is to finance labor intensive infrastructure improvements and repairs in the marginal communities of Honduras' major cities. These improvements will include water systems and home connections, electricity distribution systems and service drops, etc. Similar initiatives would be

supported in rural infrastructure such as water, irrigation systems and reforestation. The overriding criterion for project choice will be ensuring that each intervention generates employment in economically sound activities.

IV. CONDITIONS AND COVENANTS

A. Conditions Precedent to Disbursement

No special condition precedent is contemplated for this disbursement. However, the recent presidential decision to release this portion of the FY84 ESF was accompanied by the reiteration to President Suazo that such aid can only be useful in the context of "necessary and prudent economic policy adjustment by the GOH." Mission believes that the portion of the recently approved GOH stabilization package which establishes better controls over the financial affairs of the autonomous institutions deserves to be supported with additional funding. This met the requirements which the Mission had established for the last disbursement of FY83 funds, which occurred just 2 weeks ago.

B. Covenants

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

-- Assure the allocation of not less than \$30,000,000 in foreign exchange within a period of twelve (12) months from the date of this Amendatory Agreement No. 7 for the importation of raw materials, intermediate goods, and spare parts from the United States of America;

— Deposit in the Special Account in the Central Bank of Honduras the amount of Sixty Million Lempiras (L60,000,000) upon disbursement by A.I.D. of the Thirty Million Dollars (\$30,000,000) provided in this Amendatory Agreement No. 7, and utilize these additional Lempiras in the Special Account for such purposes as will be mutually agreed upon in writing by the Borrower/Grantee and A.I.D. within 45 days from the date of this Amendatory Agreement No. 7;

— Maintain in force the moratorium imposed on guarantees to private sector firms and the limitation on those granted to the autonomous agencies;

— Maintain current its interest payments, installments of principal, or any other payment required under any other loan, guaranty, or other agreement between the Government of Honduras or any of its agencies and the Government of the United States of America or any of its agencies; and,

— Continue to observe all the covenants contained in the Agreement.



SECRETARIA DE HACIENDA Y CREDITO PUBLICO
REPUBLICA DE HONDURAS



Tegucigalpa, D. C., 1 de junio de 1984

No. S-132-84...

w/att

AGTION	<i>PC-R</i>
No.	
INFO OFFICES	
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BXD	<input checked="" type="checkbox"/>
RLA	<input type="checkbox"/>
EGT	<input type="checkbox"/>
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CONT	<input checked="" type="checkbox"/>
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HRD	<input type="checkbox"/>
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RHDDO	<input type="checkbox"/>
JAO	<input type="checkbox"/>
CERON	<input checked="" type="checkbox"/>
READER	<input type="checkbox"/>
COMPUT	<input type="checkbox"/>
OTHER	<input type="checkbox"/>

Señor
ANTHONY J. CAUTERUCCI
Director
Agencia para el Desarrollo
Internacional (AID)
Su Oficina

Señor Director:

En la Ayuda Memoria del 22 de febrero del presente año, se establece el procedimiento para darle seguimiento a los objetivos fijados por el Grupo Económico de Trabajo que se integró con funcionarios del Gobierno de Honduras, con la asesoría de AID y con el propósito de viabilizar los desembolsos de la asistencia bajo el Programa de Recuperación Económica.

Al respecto, nos place informarle que después de haber realizado una ardua labor, se ha logrado la aprobación por parte del Congreso Nacional del Decreto 85-84, que contiene la Ley para el Ajuste Financiero del Sector Público en el que se contemplan las medidas de política fiscal que permitirán un acercamiento a los lineamientos necesarios para un acuerdo de crédito contingente con el Fondo Monetario Internacional (FMI). Asimismo, el Directorio del Banco Central de Honduras en su sesión correspondiente al día 31 de mayo del año en curso, ratificó las medidas monetarias consignadas en el Plan de Acción de Grupo Económico.

A continuación se presenta una relación de la incidencia de todas las medidas en las metas que se establecen en el Plan de Acción:

1. El déficit del Gobierno Central, con las medidas tomadas se reducirá a un 7.8% con relación al PIB, tal como se muestra en el Cuadro siguiente:





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	1 <hr/> Sin Medidas	9	8	4 <hr/> Con Medidas
Total de requerimiento de gasto con fondos internos	1359.4			1238.7
Gastos presupuestados con fondos externos	<u>339.6</u>			<u>339.6</u>
Total Gastos	1699.0			1578.3
Ingresos	806.0			882.0
Aumento por nuevos tributos				50.5
Medidas Administrativas				18.5
Aumento por transferencias				
Instituciones Autónomas				7.0
Déficit Global Bruto	893.0			696.3
Menos: Amortización	<u>190.5</u>			<u>190.5</u>
Déficit Global Neto	702.5			505.8
Déficit PIB	10.9%			7.8%

2. En cuanto a la reforma arancelaria, los avances logrados consisten en la revisión total del Proyecto de Arancel, introduciendo el cambio de tarifas específicas a tarifas ad-valorem y la conversión a la nomenclatura de Bruselas. El Proyecto de Arancel, junto con la Ley de Valoración Aduanera y la Ley de Aduanas, fueron remitidas al Congreso Nacional el 22 de mayo recién pasado.
3. En relación al techo sobre el incremento del crédito del Sector Bancario al Sector Público, "La Ley para el Ajuste Financiero del Sector Público", contiene medidas específicas para la colocación de bonos fuera del sistema bancario, además de que la reducción del déficit, tanto por el recorte de gasto como por el aumento de ingreso, reducirá el uso de crédito interno más allá del 10% del monto utilizado en 1983.
4. Las medidas de política monetaria aprobadas por el Directorio



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del Banco Central de Honduras están encaminadas a complementar las medidas de tipo fiscal y por tanto establecen límites cuantitativos al crédito del Sistema Bancario al Gobierno Central y al resto del Sector Público, consistentes con una expansión razonable de la liquidez y la elevación de los requerimientos de encaje legal en 5 puntos en términos reales.

Asimismo, el programa monetario contiene otras medidas que tienden a flexibilizar el control sobre licencias o permisos de importación y que buscan mejorar el seguimiento y control efectivo en el cumplimiento de las medidas adoptadas.

Después de expresar a usted, el esfuerzo que el Gobierno viene realizando en los campos de la política fiscal y la política monetaria, todo lo cual requiere sacrificios considerables del pueblo hondureño, cabe considerar que los mismos serán de alcance limitado, por cuanto la crisis económica que nos abate junto con la situación política que vive el área centroamericana, continuarán incidiendo negativamente en el comportamiento de nuestras variables económicas. Sin embargo, nos hemos empeñado en la búsqueda de soluciones, conscientes de que las medidas apuntadas tienen que ser complementadas, mediante la provisión de recursos del exterior que permitan conducir al país hacia un proceso de reactivación económica.

El progreso alcanzado en el cumplimiento de las metas establecidas en el Programa de Ajuste Financiero que se ha propuesto el Gobierno, constituye una base sólida para que los recursos del Programa de Recuperación Económica sean desembolsados y vengán rápidamente a contribuir para que los esfuerzos nacionales se consoliden.

En consideración a todo lo anterior, en nombre del Gobierno de Honduras solicitamos que se aceleren los trámites a fin de que los desembolsos correspondientes a los recursos aprobados para el año fiscal de 1983 y 1984 cuyo monto total es de US\$. 52.0 millones, sean efectuados. Asimismo, de acuerdo a la programación realizada, será sometido a su consideración el uso de los recursos en lempiras para apoyar programas y proyectos que de otra manera se verían seriamente afectados.

También se propone que para el desembolso de los recursos suple-

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mentarios del año fiscal 1984, el Grupo Económico Asesor continúa examinando los avances que el Gobierno está dispuesto a llevar a cabo a fin de suscribir el Convenio con el Fondo Monetario Internacional (FMI).

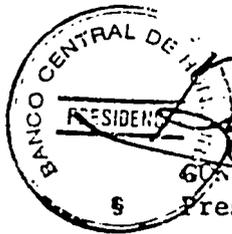
Se adjuntan como Anexos:

- 1) Decreto Ley Nº 85-84.
- 2) Dos cartas de presentación al Congreso Nacional del Arancel de Aduanas, Ley de Valoración Aduanera y Ley de Aduanas.
- 3) Programa Monetario aprobado por el Directorio del Banco Central de Honduras.

En espera de que nuestra solicitud sea acogida favorablemente, nos suscribimos de usted con toda consideración.



ARTURO CORLETO MOREIRA
Ministro de Hacienda y
Crédito Público



GONZALO CARIAS PINEDA
Presidente Banco Central
de Honduras

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Table B-1

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

	1981	1982	1983 (a)	1984 (b)
I A PRECIOS CORRIENTES				
Gastos de consumo privado	3735	4070	4263	4519
Gastos de consumo gobierno general	824	867	914	972
Formación interna bruta de				
capital fijo	1051	954	1092	1147
a) Por el sector privado	597	423	444	468
b) Por el sector público	454	431	648	679
Variación de existencias	74	-141	-166	-52
Exportación de bienes y servicios	1735	1505	1575	1656
Importación de bienes y				
servicios (-)	2126	1629	1741	1790 (1)
Producto interno bruto, a p.m.	5293	5626	5937	6452
Ingresos Netos por factores de				
producción recibidos del				
resto del mundo	-269	-393	-258	-369
Producto Nacional Bruto	5024	5233	5679	6083
II A PRECIOS CONSTANTES DE 1966				
Gastos de consumo privado	1431	1433	1374	1360
Gastos de consumo gobierno general	343	337	329	326
Formación interna bruta de				
capital fijo	411	330	352	352
a) Por el sector privado	230	146	142	143
b) Por el sector público	181	184	210	209
Variación de existencias	29	-51	-56	-16
Exportación de bienes y servicios	611	535	571	568
Importación de bienes y				
servicios (-)	736	532	532	521
Producto Interno Bruto, a p.m.	2089	2052	2038	2069
Ingresos Netos por factores de				
producción recibidos del				
resto del mundo	-93	-127	-79	-107
Producto Nacional Bruto	1996	1925	1959	1962

(a) Preliminar
(b) Proyección

(1) Este nivel de importaciones supone el mantenimiento de control de importaciones por el BCH.

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Table B-2

HONDURAS: CONSOLIDATED OPERATIONS OF THE PUBLIC SECTOR
(In Millions of Lps)

	1975	1976	1977	1978	1979	1980	1981	Prel 1982	Prel 1983
<u>Total Revenue</u>	<u>399</u>	<u>501</u>	<u>656</u>	<u>722</u>	<u>839</u>	<u>966</u>	<u>1011</u>	<u>1058</u>	<u>1352</u>
Tax Revenue	259	327	457	576	656	782	801	835	
Non Tax Revenue	125	155	195	136	169	177	200	204	
Capital Revenue and other	15	19	4	10	14	7	10	19	27
<u>Total Expenditures and Net Lending</u>	<u>498</u>	<u>668</u>	<u>855</u>	<u>956</u>	<u>1073</u>	<u>1421</u>	<u>1483</u>	<u>1687</u>	<u>2058</u>
Current Expenditure	303	410	482	523	588	822	900	969	1298
Capital Expenditure	187	242	344	413	440	517	477	533	672
Net Lending	8	16	29	20	45	82	106	185	88
<u>Overall Surplus - Deficit</u>	<u>-99</u>	<u>-167</u>	<u>-199</u>	<u>-234</u>	<u>-234</u>	<u>-455</u>	<u>-472</u>	<u>-629</u>	<u>706</u>
Foreign financing (net)	105	134	155	210	201	289	335	287	343
Domestic financing (net)	-6	33	44	24	33	166	137	342	356
Financial System	(-)	(1)	(34)	(36)	(43)	(165)	(130)	(222)	(254)
Bonds	(3)	(5)	(4)	(-5)	(-14)	(-10)	(36)	(21)	()
Other	(-9)	(27)	(6)	(-9)	(4)	(11)	(-29)	(99)	(7)

Source IMF

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Table B-3

HONDURAS: CENTRAL GOVERNMENT FINANCES
(Millions of Lps)

	1975	1976	1977	1978	1979	1980	1981	Prel 1982	Prel 1983
<u>Total Revenue</u>	304	384	482	544	632	760	741	770	778
<u>Tax Revenue</u>	247	313	425	508	574	697	695	717	712
Non Tax Revenue	35	42	36	30	42	43	34	36	51
<u>Total Expenditures and Net Lending</u>	423	508	608	764	813	1148	1153	1336	1364
<u>Current expenditures</u>	275	357	422	472	527	734	792	867	948
Capital expenditures	148	151	186	265	260	277	210	257	264
Net Lending <u>1/</u>				27	26	135	151	212	152
<u>Overall Surplus - Deficit</u>	-119	-124	-126	-220	-181	-388	-412	-566	-586
Foreign Financing net	82	77	75	160	139	252	263	269	252
Domestic Financing net	37	47	51	60	42	136	149	297	297
Other									37

Source: IMF and Mission estimates

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Table B-4

INGRESOS DEL GOBIERNO CENTRAL
(Millones de Lempiras)

	1979	1980	1981	1982	1983	1984 (a)(b)
<u>INGRESOS CORRIENTES</u>	<u>633.3</u>	<u>756.7</u>	<u>741.1</u>	<u>770.0</u>	<u>778.2</u>	<u>881.0</u>
<u>INGRESOS TRIBUTARIOS</u>	<u>573.7</u>	<u>695.6</u>	<u>694.6</u>	<u>715.4</u>	<u>711.1</u>	<u>819.9</u>
<u>Impuestos Directos</u>	<u>153.1</u>	<u>233.1</u>	<u>186.1</u>	<u>206.1</u>	<u>197.3</u>	<u>209.4</u>
Impuesto s/la Renta	148.6	228.9	179.3	198.7	190.3	202.0
Impuesto s/la Propiedad	45.0	2.2	6.8	7.4	7.0	7.4
<u>Impuestos Indirectos</u>	<u>420.3</u>	<u>459.1</u>	<u>507.9</u>	<u>508.6</u>	<u>513.1</u>	<u>609.8</u>
<u>Impuestos s/Produc.,</u>						
Consumo y Ventas	147.5	164.3	177.9	219.2	214.0	251.5
Impuestos s/Servicios						
y Actividades Espec.	15.8	16.6	17.9	17.9	19.8	34.7
Impuestos y Cargos s/						
Importación	146.0	148.7	198.5	178.2	201.5	231.7
Impuestos y Cargos s/						
Exportación	111.0	129.5	113.6	93.3	77.8	91.9
<u>Impuestos Varios</u>	<u>0.3</u>	<u>0.4</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
<u>INGRESOS NO TRIBUTARIOS</u>	<u>35.6</u>	<u>33.8</u>	<u>25.4</u>	<u>21.8</u>	<u>26.0</u>	<u>18.0</u>
<u>TRANSFERENCIAS CORRIENTES</u>	<u>17.3</u>	<u>22.0</u>	<u>14.6</u>	<u>20.9</u>	<u>16.9</u>	<u>31.0</u>
<u>OTROS INGRESOS CORRIENTES</u>	<u>6.7</u>	<u>5.3</u>	<u>6.5</u>	<u>11.9</u>	<u>24.2</u>	<u>12.1</u>

Fuente: Cifras elaboradas en base a datos proporcionados por la Dirección General de Presupuesto.

(a) Según Presupuesto Modificado, incluye:

L50.5 millones por Reforma Tributaria.

L17.6 millones por Reforma Administrativa.

L 7.0 millones por transferencias adicionales de Organismos Autónomos.

(b) Estimaciones no incluyen impacto de modificaciones a la Reforma Tributaria efectuadas por el Congreso.

Table B-5

CLASIFICACION ECONOMICA DEL GASTO DEL GOBIERNO CENTRAL
(Millones de Lps.)

	1979	1980	1981	1982	1983	1984 (a)
<u>GASTOS CORRIENTES</u>	<u>527.0</u>	<u>734.0</u>	<u>791.3</u>	<u>865.4</u>	<u>947.6</u>	<u>997.6</u>
<u>Gastos de Consumo</u>	<u>447.0</u>	<u>643.0</u>	<u>682.0</u>	<u>744.1</u>	<u>817.0</u>	<u>880.5</u>
Remuneraciones	290.0	407.0	467.6	498.2	478.3	737.4
Bienes y Servicios	99.0	182.0	150.0	165.2	223.2	
Intereses	42	54	64.4	80.7	115.5	143.1
Transferencias	86.0	91.0	109.3	121.3	130.6	117.1
<u>GASTOS DE CAPITAL</u>	<u>260.0</u>	<u>277.0</u>	<u>211.8</u>	<u>286.6</u>	<u>263.6</u>	<u>236.2</u>
<u>Inversión Directa</u>	<u>195.0</u>	<u>197.0</u>	<u>133.0</u>	<u>178.1(b)</u>	<u>167.0</u>	<u>149.1</u>
Inversión Indirecta	65.0	80.0	77.5	108.5	96.6	87.1
Preinversión	-	-	1.3	-	-	-
<u>CONCESION DE PRESTAMOS</u>	<u>26.0</u>	<u>135.0</u>	<u>147.7</u>	<u>289.9(c)</u>	<u>133.0(d)</u>	<u>124.1</u>
<u>RESCATE DEUDA PUBLICA</u>	<u>88.2</u>	<u>99.6</u>	<u>113.9</u>	<u>143.6</u>	<u>200.5</u>	<u>200.2</u>
<u>Externa</u>	<u>22.5</u>	<u>18.8</u>	<u>22.0</u>	<u>25.2</u>	<u>31.1</u>	<u>43.0</u>
<u>Interna</u>	<u>65.7</u>	<u>80.8</u>	<u>91.9</u>	<u>118.4</u>	<u>169.4</u>	<u>157.2</u>

Fuente: Cifras elaboradas en base a datos proporcionados por la Dirección General de Presupuesto.

- (a) Presupuesto modificado.
- (b) Incluye L25.1 millones de inversión financiera.
- (c) Incluye L106.8 millones por pago de intereses a nombre de Organismos Descentralizados y L70.0 traspasados al BCH (Fondos del AID-K-046) con fines de apoyo a la Balanza de Pagos.
- (d) Incluye L31.2 millones por pago de intereses a nombre de Organismos Descentralizados.

Table B-6

CENTRAL GOVERNMENT BUDGET 1984
(Million of Lempiras)

	BUDGETED	MODIFICATIONS TO THE BUDGET	ADJUSTED BUDGET
I. <u>CURRENT REVENUES</u>	805.9	+61.6 (a)	867.5
Tax Revenue	751.8		
Nontax Revenue	54.1		
II. <u>CURRENT EXPENDITURES</u>	974.3	+22.8 (b)	997.4
Consumption	867.7		
Transfers	106.6		
III. <u>CURRENT ACCT. SAVINGS</u>	-168.4		-129.9
IV. <u>CAPITAL EXPENDITURES</u>	235.4	1.0 (b)	236.4
Direct Investment	147.7		
Indirect Investment	87.7		
Preinvestment			
V. <u>NET LENDING</u>	124.1	30.0 (b)	154.1
Net lending	124.1		
Loan Recuperation			
VI. <u>OTHER UNCLASSIFIED EXPENDITURES</u>		30.0 (b)	30.0
1983 Budget Liquidation			
VII. <u>CAPITAL REVENUES</u>	36.9		36.9
Transfers	36.9		
VIII. <u>CURRENT ACCOUNT SURPLUS OR DEFICIT (-)</u>	-491.0		513.5
IX. <u>FINANCING</u>	491.0		513.5
<u>NET EXTERNAL CREDIT</u>	259.7		259.7
Utilization	302.7		302.7
Amortization	-43.0		-43.0
<u>EXTERNAL TRANSFERS OF CAPITAL</u>		45.5 (c)	45.5
<u>NET INTERNAL CREDIT</u>	231.3		105.0
Banking system	231.3		50.0
Utilization	(378.5)	171.0 (d)	(207.5)
Amortization	(-147.2)	-10.3 (b)	(-157.5)
Bonds		55.0 (e)	
Gap without financing			103.3

- a) See Table B-7
b) See Table B-8
c) Financing request to A.I.D.
d) Reduction of gross credit needed to obtain net financing limits established by the Central Bank.
e) Bonds to be placed with public sector employees and autonomous institutions.

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Table B-7
INGRESOS ADICIONALES EN 1984
(Millones de Lempiras)

I. Reforma Tributaria	<u>37.0</u>
A. <u>Modificación Impuestos de Vehículos:</u> Consiste en modificar la base y tasa de impuestos sobre vehículo. Actualmente, la tasa se basa en los años de uso. La ampliación de la base lo constituye gravar al vehículo adicionalmente sobre los centímetros cúbicos del motor.	
Ingresos Adicionales	6.1
B. <u>Modificación de Ley de Timbres y Papel Sellado:</u> Esta Ley consiste en aumentar el precio del papel sellado requerido para transacciones legales y doblar el monto requerido de timbres necesarios para transacciones fiscales.	
Ingresos Adicionales	7.3
C. <u>Modificación Ley de Impuestos Sobre Ventas:</u> Esta ley consiste en la ampliación de base e incremento en tasa de impuestos. Las adiciones a la base incluyen servicios de teléfono, aumento en la tarifa licores y cigarrillos y las transacciones de las instituciones autónomas y semiautónomas.	
Ingresos Adicionales	5.1
D. <u>Creación Tasa de Servicios Aduaneros:</u> Esta ley impondría impuestos mínimos de 5% sobre el valor CIF de importaciones <u>1/</u>	
Ingresos Adicionales	18.5
II. Transferencias de Autónomas	<u>7.0</u>
A. <u>PANI:</u> Se considerará que esta institución podría contribuir L2 millones adicionales a los presupuestados.	
B. <u>COHDEFOR:</u> Se considerará que esta institución podría contribuir L5 millones adicionales a los presupuestados.	

Para hacer efectivas estas transferencias sería necesario emitir un Acuerdo Ejecutivo.

1/ Las recaudaciones de este cargo podría ser Lps 8 millones mas alta, si el gobierno decide no ejecutar su decisión informal de excluir la gasolina de este impuesto.

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III.Reformas Administrativas	<u>17.6</u>
A. <u>Liquidación de Vehículos en Aduanas:</u> Esta reforma involucra emitir un Acuerdo de Oficio por el Ministerio de Hacienda para que aquellos vehículos en bodegas aduaneras sean tramitados rapidamente (en algunos casos sin el permiso de importación del Banco Central) para que sus respectivos impuestos sean recaudados.	
Ingresos adicionales	0.5
B. <u>Aumento de Cobertura de Sistema Tributario:</u> Esto resultaría en el establecimiento de una Oficina de Aduanas y de Administración de Rentas en las Islas de la Bahía para aumentar la cobertura del Sistema Tributario a esa zona.	
Ingresos Adicionales	2.0
C. <u>Programa de Fiscalización Impuesto sobre Ventas:</u> Esta medida constituye enviar a 50 auditores a hacer auditorías en varias empresas que se consideren que pueden generar ingresos.	
Ingresos Adicionales	10.0
D. <u>Otras importaciones pendientes de liquidación</u>	5.1

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Table B-8

MEDIDAS DE RECORTE,
AUMENTO DE GASTO Y OTROS AJUSTES
(Millones de Lempiras)

1. Reducciones de Gasto Presupuestario	
Poder Legislativo	11.0
Poder Judicial	1.0
Presidencia de la República	1.1
Gobernación y Justicia	0.2
Relaciones Exteriores	0.5
Economía y Comercio	1.0
Hacienda y Crédito Público	2.7
Educación Pública	2.6
Salud Pública	3.5
Cultura y Turismo	0.2
Trabajo y Asistencial Social	0.4
Comunicaciones, Obras Públicas y Transporte	5.8
Recursos Naturales	5.2
Total Disminuciones	L25.2
2. Ampliaciones de Presupuesto	
Registro Nacional de las Personas	15.0
Gastos de Reforma	12.5
Salario de Maestros	12.5
Salario de Enfermeras	1.5
Aeropuerto de Palmerola	1.0
Interés sobre deuda pública	5.3
Amortización sobre deuda pública	10.3
Intereses sobre giro	1.7
Total	59.3
3. Intereses Deuda en Renegociación	30.0
4. Liquidación Presupuesto 1983	30.0

Table 3-9

HONDURAS: BALANCE OF PAYMENTS, 1978-1982
(In millions of U.S. dollars)

	1978			1979			1980		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
<u>Current Account</u>			<u>-155.9</u>			<u>-192.5</u>			<u>-316.7</u>
<u>Goods and services</u>	707.9	881.1	-173.2	859.3	1,071.0	-212.5	967.7	1,305.9	-338.2
Merchandise trade f.o.b.	627.6	654.5	-26.9	756.5	783.4	-26.9	850.3	954.1	-103.4
Freight and merchandise insurance	5.3	57.0	-51.7	6.5	68.6	-62.1	8.1	85.5	-77.0
Travel	16.8	23.2	-6.4	20.9	28.7	-7.8	24.5	31.0	-6.5
Direct investment income	-	47.2	-47.2	-	68.1	-68.1	-	77.7	-77.7
Interest and dividends	17.8	56.2	-38.4	19.7	72.0	-52.3	24.3	100.1	-75.8
Other government services	6.2	3.0	3.2	6.7	3.2	3.5	8.1	3.7	4.5
Other transportation and other private services	34.2	40.0	-5.8	49.0	47.8	1.2	52.4	53.8	-1.4
<u>Unrequited transfers</u>	25.4	8.1	17.3	35.6	15.1	20.5	37.0	15.5	21.5
Private	9.4	4.2	5.2	14.4	7.3	6.9	15.0	7.3	7.5
Public	16.0	3.9	12.1	21.2	7.6	13.6	22.0	8.0	14.0
<u>Capital Account</u>			<u>165.4</u>			<u>242.8</u>			<u>402.6</u>
<u>Private capital</u>			<u>48.2</u>			<u>84.8</u>			<u>122.5</u>
Direct investment	8.2	-	8.2	28.2	-	28.2	5.8	-	5.8
Medium and long-term loans	68.0	30.7	37.3	7.7	56.2	31.5	161.4	56.9	104.5
Short-term loans	-	-	2.7	-	-	25.1	-	-	12.2
<u>Official capital</u>	126.3	21.6	104.7	135.6	35.2	100.4	169.5	25.1	144.4
Central Government 1/	91.2	11.2	80.0	81.3	11.0	69.7	136.9	11.1	125.8
Rest of general government	2.5	0.3	2.2	-	0.2	-0.2	-	0.2	-0.2
State enterprises	32.0	10.1	21.9	54.3	17.9	36.4	31.0	11.0	20.0
Short-term loans	0.6	-	0.6	-	5.5	-5.5	1.6	2.8	-1.2
<u>Financial system</u>			<u>11.3</u>			<u>62.1</u>			<u>16.1</u>
Central Bank 1/	21.6	6.9	14.7	42.3	9.1	32.9	48.0	21.1	26.9
Other official banks	18.5	4.5	-	-	-	-	-	-	-
Private banks and savings institutions	-	-	-	-	-	-	-	-	-
Rest of financial system	-	-	-	-	-	-	-	-	-
<u>Transactions with non-monetary international agencies</u>	15.3	14.1	1.2	3.0	7.5	-4.5	19.1	16.5	2.6
<u>Allocation of SDRs</u>			<u>-</u>			<u>4.9</u>			<u>4.5</u>
<u>Net errors and omissions</u>			<u>9.4</u>			<u>-29.9</u>			<u>-38.0</u>
<u>Overall balance</u>			<u>18.9</u>			<u>25.8</u>			<u>-64.6</u>
Change in net official international reserves (increase -)			-18.9			-25.8			64.6
External debt arrears			-			-			-

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Table B-9

HONDURAS: BALANCE OF PAYMENTS, 1978-1982 (Concluded)
(In millions of U.S. dollars)

	1981			1982			1983		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
Current Account			-302.9			230.1			-175.7
Goods and services	903.3	1233.7	-330.4	783.6	1043.7	-260.1	801.7	1022.2	-220.5
Merchandise trade f.o.b.	783.8	898.6	-114.8	676.5	630.7	-4.2	690.5	704.5	-14.0
Freight and merchandise insurance	7.4	76.9	-69.5	6.5	58.0	-51.5	6.3	58.5	-52.2
Travel	30.5	26.8	3.7	25.0	22.9	2.1	22.5	20.5	2.0
Direct investment income	-	43.7	-43.7	-	45.0	-45.0	-	30.0	-30.0
Interest and dividends	17.9	127.6	2/ -109.7	15.1	173.6	2/ -158.5	12.2	150.2	-138.0
Other government services	8.8	3.9	4.9	9.0	4.3	4.7	14.1	4.5	9.6
Other transportation and other private services	54.9	56.2	-1.3	51.5	59.2	-7.7	56.1	54.0	2.1
Unrequited transfers	38.0	10.5	27.5	40.0	10.0	30.0	53.8	9.0	44.8
Private	17.5	8.6	8.9	16.5	7.5	9.0	22.5	2.5	-
Public	20.5	1.9	18.6	23.5	2.5	21.0	31.3	6.5	-
Capital Account			173.9			106.4			114.1
Private capital	271.2	251.3	19.9	138.3	173.0	-34.7	-	-	-15.0
Direct investment	8.7	12.4	-3.7	13.8	-	-13.8	5.0	-	5.0
Medium and long-term loans	76.6	64.2	2/ 12.4	30.2	67.7	2/ -37.5	9.0	43.0	-34.0
Short-term loans	185.9	174.7	11.2	94.3	127.8	-33.5	-	-	14.0
Official capital	193.1	25.6	167.5	175.2	31.7	135.2	179.5	36.1	143.4
Central Government	144.3	13.0	131.3	151.6	17.3	134.6	167.2	18.7	148.5
Rest of general government	-	0.2	-0.2	-	1.1	-1.1	-	0.7	-0.7
State enterprises	45.3	11.4	33.9	22.2	16.6	2/ 5.7	12.3	16.7	-4.4
Short-term loans	3.5	1.0	2.5	1.0	5.0	-4.0	-	-	-
Financial system			-16.5			13.4	29.6	43.6	-14.0
Central Bank	37.6	31.0	6.6	42.2	25.8	16.4	26.4	29.2	-2.8
Other official banks	25.9	25.7	2/ 0.7	2.3	15.8	2/ -13.5	1.4	11.5	-10.1
Private banks and savings institutions	13.2	35.8	-22.6	5.8	2.8	3.0	1.8	2.9	-1.1
Rest of financial system			-1.2			7.5	-	-	-
Transactions with non-monetary international agencies	6.7	3.7	3.0	8.7	-6.3	15.0	-	-0.3	0.3
Allocation of SDRs			4.5			-			-3.8
Net errors and omissions			5.5			-40.7			27.3
Overall balance			-119.0			-164.4			38.4
Change in net official international reserves (increase -)			106.5			-117.3			1.4
External debt arrears			12.5			47.1			37.0

Sources: Central Bank of Honduras; IMF staff and USAID/Honduras estimates.

- 1/ Transfers of the Venezuelan Investment Fund from the Central Bank to the Central Government are recorded as drawings of the Central Government and amortization payments of the Central Bank.
2/ Adjusted upwards by estimated amount of external debt arrears (Statistical Appendix Table 49).

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Table 3-10

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

	1979	1980	1981	1982	1983	1984
BANANO						
Valor	399.7	455.9	426.6	436.6	415.3	525.9
Volumen Cajas 40 Lbs.	49,169.0	47,450.0	42,234.0	44,736.0	35,010.0	45,735.0
Precio	8.1	9.6	10.1	9.7	11.9	11.5
CAFE						
Valor	393.7	408.2	345.7	306.2	302.4	276.7
Volumen sacos 60 Kgs.	1,101.0	946.0	1,133.0	956.0	1,2328.0	1,005.0
Precio	357.6	431.5	305.1	320.3	244.3	275.3
MADERA						
Valor	84.1	72.4	86.3	89.3	79.3	90.3
Volumen M ³	336.0	269.0	290.0	301.0	257.4	291.0
Precio	250.3	269.1	297.6	296.7	308.1	310.3
CARNE						
Valor	121.5	121.5	92.9	67.4	62.6	58.8
Volumen Kilos	29,980.0	28,605.0	23,846.0	16,093.0	16,792.0	14,000.0
Precio	4.1	4.2	3.9	4.2	3.7	4.2
PLATA						
Valor	34.3	63.5	31.5	18.6	49.5	36.1
Volumen onzas troy	2,450.0	1,624.0	1,575.0	1,210.6	2,251.0	1,728.0
Precio	14.0	39.1	20.0	15.4	22.0	20.9
PLOMO						
Valor	33.0	20.0	16.8	8.5	11.9	11.2
Volumen Libras	43,660.0	26,863.0	26,256.0	19,034.3	33,022.0	27,910.0
Precio	0.7	0.7	0.6	0.4	0.4	0.4
ZINC						
Valor	21.9	20.0	24.5	23.9	46.6	43.5
Volumen Libras.	36,663.0	32,347.0	33,177.0	32,390.3	58,220.0	54,385.0
Precio	0.60	0.62	0.74	0.74	0.80	0.80
AZUCAR						
Valor	26.6	58.7	93.1	44.5	55.7	58.0
Volumen Kilos	55,223.0	81,473.0	83,053.0	87,265.4	106,165.0	101,591.0
Precio	0.48	0.72	1.12	0.51	0.52	0.57
CAMARONES Y LANGOSTAS						
Valor	24.2	27.4	26.7	21.5	22.0	23.9
Volumen Kilos	336.0	269.0	290.0	301.0	257.4	291.0
Precio	250.30	269.14	297.58	296.68	308.08	310.31
TABACO						
Valor	24.2	27.4	26.7	21.5	22.0	23.9
Volumen Kilos	4,493.0	4,566.0	4,487.0	3,170.0	3,137.0	3,447.0
Precio	5.3	5.99	5.95	6.79	7.01	6.93
SUB-TOTAL	1,187.5	1,294.4	1,196.6	1,072.4	1,113.	6,199.2
OTROS PRODUCTOS	277.5	34.8	310.6	235.0	247.0	235.5
TOTAL BIENES FOB	1,465.0	1,544.2	1,307.2	1,307.4	1,360.6	1,434.8

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Table B-11

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

	1979	1980	1981	1982	1983	Prelim 1984
0. Productos alimenticios	113.3	171.1	154.6	116.8	136.0	169.8
1. Bebidas y tabaco	10.3	8.8	14.0	8.5	4.6	5.7
2. Materiales crudos no comestibles	19.2	22.2	19.7	14.1	14.8	18.6
3. Combustibles y lubricantes	226.0	342.3	326.4	340.1	331.4	337.2
4. Aceite y manteca de origen vegetal y animal	13.7	23.3	22.7	10.8	6.9	8.6
5. Productos químicos	275.5	308.6	332.2	256.3	321.0	401.0
6. Artículos manufacturados según el material	392.2	423.8	412.0	307.6	335.9	419.6
7. Maquinaria y material de transporte	494.2	600.9	496.2	273.6	244.5	305.4
8. Artículos manufacturados diversos	116.3	134.8	138.1	89.4	72.0	89.9
9. Animales vivos n.e.p. y mercaderías diversas	3.2	2.8	4.1	6.6	6.8	8.6
TOTAL	1,663.9	2,038.6	1,920.0	1,423.8	1,473.9	1,764.4
Total menos sección 3	1,437.9	1,696.3	1,593.6	1,083.7	1,142.5	1,427.2

1/ Central Bank estimates based on the continuation of import controls.

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Table B-12
VII. CONSOLIDATED BANKING SYSTEM

	1980	1981	1982	1983
<u>International reserves (net)</u>	125.5	18.3	-205.6	-224.4
Foreign assets	345.6	266.5	285.2	285.3
Net IMF position	-30.4	-77.6	-212.6	-313.3
Short term liabilities	189.7	-207.2	-278.2	-19.4
<u>Domestic Assets</u>	1,940.2	2,289.1	2,764.2	3,096.4
Net credit on Central Government	342.4	498.6	734.4	913.0
Credit	(437.2)	(615.2)	(848.3)	(1,022.5)
Deposits	(-94.8)	(-116.6)	(113.9)	-109.5)
Central Government Trust Fund	-56.7	-78.5	160.0	188.5
Net Credit to the rest of public sector	35.5	9.2	-5.1	70.5
Credit	(154.2)	(153.7)	(159.7)	(258.2)
Deposits	(-118.7)	(-144.5)	(-164.8)	(-187.7)
Credit to nonbank private financial intermediaries	8.3	7.4	--	--
Credit to private sector	1,457.0	1,582.3	1,772.9	19,64.7
Net credit to BANFINAN ^{1/}	--	51.8	50.6	52.9
Subscription to international agencies (net)	27.2	33.1	63.1	89.1
Subscription to international agencies	(190.3)	(203.7)	(221.1)	(257.9)
Deposits of international agencies	(-163.1)	(-170.6)	(158.0)	(168.8)
Official capital and reserves	-259.6	-306.4	446.3	481.1
Unclassified assets (net)	373.5	478.1		
Interbank float	12.6	13.5		
<u>Counterpart unrequited foreign exchange</u>	38.8	48.3	44.8	51.4
Allocation of SDRs	40.4	45.7	43.0	41.3
Valuation adjustment Fund accounts	-1.6	2.6	1.8	10.1
<u>Foreign liabilities (medium and long-term)</u>	479.0	533.8	556.6	554.1
<u>Liabilities to private sector and nonbank private financial intermediaries</u>	1,547.9	1,688.7	1,957.2	2,266.5
Money	604.7	632.0	699.3	799.3
Currency in circulation	(268.9)	(297.2)	(307.2)	(354.9)
Sight deposits	(335.8)	334.8)	(392.1)	(444.4)
Quasi-money	758.6	859.8	1,047.4	1,246.8
Time and savings	(524.1)	(609.8)	(749.4)	(933.8)
Specialized savings	(48.0)	(51.4)	(52.5)	(53.7)
Other deposits in local currency	(18.9)	25.3)	(56.1)	(53.4)
Deposits in foreign exchange	(65.1)	(58.3)	(59.4)	(53.8)
Bonds	(68.6)	(68.1)	(67.1)	(74.4)
Other obligations	(33.9)	(46.9)	(62.9)	(77.7)
Capital reserves	184.6	196.9	210.5	220.4

Source: IMF and USAID/Honduras estimates

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Table B-13

INDICE DE PRECIOS LA POR MAYOR, POR ANOS Y AGRUPACIONES

AGRUPACIONES	1979	1980	1981	1982	Trimestres		PROMEDIO
					I	II	
<u>NACIONALES</u>	<u>110.3</u>	<u>130.2</u>	<u>136.7</u>	<u>147.0</u>	<u>153.1</u>	<u>154.2</u>	<u>153.7</u>
<u>Agropecuarios</u>	<u>107.6</u>	<u>126.6</u>	<u>130.5</u>	<u>133.9</u>	<u>139.6</u>	<u>141.0</u>	<u>140.3</u>
<u>Industriales</u>	<u>112.2</u>	<u>132.9</u>	<u>141.1</u>	<u>156.4</u>	<u>162.9</u>	<u>163.8</u>	<u>163.4</u>
<u>IMPORTADOS</u>	<u>108.0</u>	<u>115.4</u>	<u>134.8</u>	<u>156.0</u>	<u>167.5</u>	<u>172.3</u>	<u>169.9</u>
<u>INDICE GENERAL</u>	<u>109.6</u>	<u>125.4</u>	<u>135.0</u>	<u>150.0</u>	<u>157.9</u>	<u>160.1</u>	<u>159.0</u>
*****	*****	*****	*****	*****	*****	*****	*****

Source: Central Bank of Honduras

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Summary of GOH Stabilization Package

The objectives of the new law called "the Law for the Financial Adjustment of the Public Sector" include:

- The reduction of the fiscal deficit to a level consistent with monetary equilibrium;
- The reduction of the growth of net banking system credit to the public sector; and
- The encouragement of self-financing of the public sector.

Along with the revenue-generating measures such as additional taxes, adjustments in expenditures, financial policy reforms were made with regards to both the Central Government and the decentralized institutions such as CONADI, COHBANA, COHDEFOR, BANADESA, the National Port Authority (ENP), the National Coffee Institute (IHCAFE), the Honduran Grain Marketing Corporation (IHMA) et al.

The principal modifications to the 1984 GOH Budget Decree by the Economic Stabilization Program, and the sums they are projected to save or generate, include:

- The reduction of programmed banking system financing: \$71 million;
- The raising of current revenue through additional taxes and fees: \$19 million;
- Raising transfers from autonomous institutions: \$3.5 million
- The improvement of revenue administration: \$8.8 million;
- The issuance of bonds to public sector and decentralized institution employees: \$27.5 million;
- The reduction in expenditures from the current budget: \$12.6 million;
- The increase of other budgetary expenditures: \$29.6 million (includes over \$6 million for both defense and education, \$8.6 million for public debt, and \$7.5 million for the National Registration and Identification Program).

The decentralized, semi-autonomous institutions will undergo the following reforms:

- An overall budget reduction by all the decentralized institutions combined of \$55 million. (A special GOH commission consisting of the Ministers of Finance and Economy, the Executive Secretary of the Superior Economic Planning Council, and the President of the Central Bank would determine the breakdown of each institution's budget cutbacks);

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- A ceiling on 1985 budgets not to exceed approved 1984 levels;
- The prohibition during 1984 and 1985 of the acquisition of fixed assets, equipment, vehicles, and stocks in private companies;
- The creation by each institution of (1) a plan for recuperating debt within portfolio and (2) a permanent cost accounting system to permit budget verification;
- The suspension of the right to contract additional debt unless the institution is current on interest and principal obligations;
- The suspension of the right to grant guarantees to the private sector except those firms in which the GOH holds equity positions and have received government loans and/or guarantees; and
- The suspension of lending by any of the non-financial decentralized institutions.

A freeze effective for the rest of 1984 is to be placed upon the hiring of personnel to fill existing vacancies in the public sector.

The imposition of a moratorium on vehicle imports through the end of 1984, with limited exceptions.

On the monetary side, the Central Bank Directorate approved the following measures:

- Net domestic banking system credit to the Central government is to be limited in 1984 to \$25 million (in 1983, such credit reached \$89 million).
- Net domestic banking system credit to the rest of the public sector is to be limited in 1984 to zero. (In 1983, such credit reached \$38 million).
- The level of Central Bank credit to the Banking system is to be limited to \$214 million (this represents a 6% increase over the 1983 level).
- Legal reserve requirements (RR) on banking deposits are to be raised in the following fashion:

Deposit	Old RR (Percentage)	New RR (Percentage)
Checking and Savings accounts, time deposits, and certificates of deposit (3 to 12 months) for \$25,000 or less	30	32
Trust fund held by Private Banks	20	32

(NOTE: This provision will be implemented gradually between June 15 and November 15).

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- A 10% annual increase rate charge is to be imposed on those Central Bank advanced destined to cover reserve deficiencies arising out of higher reserve requirements, provided that affected banks are implementing a reserve adjustment plan approved by the Central Bank.
- A scheme is to be established whereby all international payment arrearages on current transactions are backed by 100% Lempira deposits.
- The Central Bank Management is to be authorized to continue until December 31, 1984 its issuance of import permits, within five days of Central Bank acceptance of permit requests, for some import transactions which are to be financed with foreign exchange obtained outside the banking system (e.g. from the parallel market). (NOTE: This extends the temporary authorization originally established by a directorate resolution of November 1983.
- The Central Bank management is to be authorized to issue import permits, within five days of Central Bank acceptance of permit requests, for import transactions to be financed by specific funding sources such as the industrial development fund (and IBRD program), the industrial reactivation program (IDB financing), Eximbank, and the GOH credit agreement with Argentina.

5C(1) - COUNTRY CHECKLIST

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country, to United States government personnel or their dependents or from entering the United States unlawfully?
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481; FY 1984 Continuing Resolution. No such determination has been made.
2. FAA Sec. 620(c). The GOH is not liable as a debtor under these conditions.

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3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?
 4. FAA Sec. 532(c), 520(a) 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provide to Afghanistan or Mozambique without a waiver?
 5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.
 6. FAA Sec. 620 (j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?
3. FAA Sec. 620(e)(1). There is no evidence of such action.
 4. FAA Sec. 532(c), 520(a) 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Honduras is not a communist country nor will any assistance be provided to any of the listed countries.
 5. ISDCA of 1981 Secs. 724, 727 and 730.
N/A.
 6. FAA Sec. 620.(j). In the past there have been incidents where the GOH was unsuccessful in containing demonstrations against the US Embassy; but this has not been the case over 14 years.

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7. FAA Sec. 620(1). Has the country failed to enter into an agreement with OPIC?
 8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

(b) If so, has any deduction required by the Fishermen's Protective Act been made?
 9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any A.I.D. loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?
 10. FAA Sec 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)
7. FAA Sec. 620(1). The OPIC Investment Guaranty Program is in effect in Honduras.
 8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. NO.

(b) N/A
 9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517.

(a) NO

(b) NO
 10. FAA Sec 620(s). Yes, taken into account by the Administrator at the time of approval of the Agency OYB.

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

11. FAA Sec. 620(t).

NO

12. FAA Sec. 620(u). Honduras is current on its U.N. obligations.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520.

N/A

14. FAA Sec. 666.

N/A

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15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing, equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)
15. FAA Sec. 669, 670.
NO
16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)
16. ISDCA of 1981 Sec. 720. This has been taken into consideration by the Administrator at the time of approval of the Agency OYB.
17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.
17. ISDCA of 1981 Sec. 721. Assistance is not to Haiti.
18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?
18. FY 1984 Continuing Resolution. No such determination has been made.

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B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvement in its human rights record that furnishing such assistance is in the national interest?

b. ISDCA of 1981, Ec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116.

N/A

2. Economic Support Fund Country Criteria

a. FAA Sec 502B. No such determination has been made.

b. ISDCA of 1981, EC. 725(b).

N/A

c. ISDC of 1981, Sec. 726(b).

N/A

significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

A. PROCUREMENT

1. FAA Sec. 602. Yes, normal A.I.D. procedures will be followed.
2. FAA Sec. 604(a).
Yes
3. FAA Sec. 604(d). Honduras does not practice such discrimination.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). No offshore procurement of agricultural commodities or products are contemplated.

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5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or more of these areas?

6. FAA Sec. 603. Is the shipping excluded from compliance with requirements in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

5. FAA Sec. 604(g). No major construction or engineering activities are contemplated.

6. FAA Sec. 603. No, shipping is not excluded from these requirements.

7. FAA Sec. 621. No technical assistance is contemplated.

8. International Air Transport. Fair Competitive Practices Act, 1974.

Yes

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9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

9. FY 1982 Appropriation Act Sec. 504.

Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used?
2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the CP)?

B. Construction

1. FAA Sec. 601(d).
N/A
2. FAA Sec. 611(c).
N/A
3. FAA Sec. 620(k).
N/A

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?
2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

C. Other Restrictions

1. FAA Sec. 122(b).
Yes
2. FAA Sec. 301(d).
N/A

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3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

3. FAA Sec. 620(h).

Yes

4. Will arrangements preclude use of financing:

4.

a. FAA Sec. 104(t); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilization as a means of family planning; (4) to lobby for abortion?

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: Arrangements preclude the use of funds of this purpose.

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property?

b. FAA Sec. 620(g). Arrangements preclude the use of funds of this purpose.

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

c. FAA Sec. 660. Arrangements preclude the use of funds of this purpose.

d. FAA Sec. 662. For CIA activities?

d. FAA Sec. 662. Arrangements preclude the use of funds of this purpose.

e. FAA Sec. 636(1). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside the U.S., unless a waiver is obtained?

f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?

g. FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments arrearage or dues?

h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?

i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?

j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

e. FAA Sec. 636(1). Arrangements preclude the use of funds for this purpose.

f. FY 1982 Appropriation Act, Sec. 503. Arrangements preclude the use of funds for this purpose.

g. FY 1982 Appropriation Act, Sec. 505. Arrangements preclude the use of funds for this purpose.

h. FY 1982 Appropriation Act, Sec. 506. Arrangements preclude the use of funds for this purpose.

i. FY 1982 Appropriation Act, Sec. 510. Arrangements preclude the use of funds for this purpose.

j. FY 1982 Appropriation Act, Sec. 511. Arrangements preclude the use of funds for this purpose.

k. FY 1982 Appropriation Act, Sec. 515. Arrangements preclude the use of funds for this purpose.

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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 sources. In Part B a distinction is made between the criteria applicable to Security 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. HAS STANDARD ITEMS CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE.

1. App. Unnumbered; FAA Sec 653-(b)

(a) Described how Committees on appropriations of Senate and House have been or will be notified concerning the nonproject assistance.

(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%)?

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?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE.

1. App. Unnumbered; FAA Sec 653-(b)

(a) Notification sent to the Congress on the 14th June.

(b) Yes

2. FAA Sec. 611(a)(2). N/A

3. FAA Sec. 209, 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?
4. FAA Sec. 601(a); (and Sec.-201(f) for 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.
5. FAA Sec. 601(b). 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).
3. FAA Sec. 209, 619. NO.
4. FAA Sec. 601(a); (and Sec.-201(f) for Development Loans). The program objectives are to provide Honduras with balance of payments support and ensure the availability of credit to the private sector. The first objective will have a direct impact on facilitating foreign trade flows by enabling Honduras to buy imports from the U.S. The second objective will provide much needed financial resources to the private sector at market interest rates. Thus in turn will improve domestic credit allocation.
5. FAA Sec. 601(b). The program requires that Honduras import an amount equivalent to the assistance in products from the U.S. One of the goals of the program is to liberalize the Honduran economy by eliminating distortions. This in turn should encourage U.S. private investment.

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. FAA Sec. 612(b); Sec 636(h).

N/A

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. FAA Sec 612(d).

N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Funding

1. Nonproject Criteria for Economic Support Funding

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year.

a. FAA Sec. 531. The Assistance will:
- Support GOH efforts to reach an IMF agreement which seeks the elimination of economic disequilibria.
- Support private sector efforts to increase production through provision of foreign exchange.
- USG economic support is likely to improve economic and political confidence on the democratically elected Suazo regime.

2. Nonproject Criteria for Development Assistance

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

a. FAA Sec. 102(c); Sec. 111; Sec. 281a.

N/A

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cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

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.)

b. FAA Sec. 103, 103A, 104, 105, 106, 107.

N/A

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 communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

c. FAA Sec. 207; Sec. 113.

N/A

d. FAA Sec. 281(b). 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.

FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211-(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources or to the increase of productive 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 reliable long-range 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-payment position.

d. FAA Sec. 281(b).

N/A

FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211-(a)(1)-(3) and -(8).

N/A

f. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6).

N/A

3. Nonproject Criteria for Development Assistance (Loans only)

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.

(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; (103A) if for agricultural research, is full account taken of needs of small farmers;

(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 interrelationship between (A) population growth and (B) development and over-all improvement 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. Nonproject Criteria for Development Assistance (Loans only)

a. FAA Sec. 201(b)(1).

N/A

(1) (103)

N/A

(2) (104)

N/A

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|---|----------------------|
| (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) (105)

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

N/A |
| (a) to help alleviate energy problem; | (a)
N/A |
| (b) reconstruction after natural or manmade disaster; | (b)
N/A |
| (c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance; | (c)
N/A |
| (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. | (d)

N/A |
| (5) (107) by grants for coordinate private effort to develop and disseminate intermediate technologies appropriate for developing countries. | (5) (107)

N/A |

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 A.I.D. an application for such funds together with assurance 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?

b. FAA Sec. 201(b)(2); 201-(d).

N/A

c. FAA Sec. 201(e).

N/A

d. FAA Sec. 202(a).

N/A

4. Additional Criteria for Alliance for Progress

(Note: Alliance for Progress assistance should add the following two items to a non-project checklist.)

4. Additional Criteria for Alliance for Progress

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a. FAA Sec. 251(b)(1)-(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?

a. FAA Sec. 251(b)(1)-(8).

N/A

b. FAA Sec. 251(b)(8); 251-(h).

N/A