PN-ACX-608

DEVELOPMENT ISSUES DISCUSSION PAPERS

No. 7 May 1995

HONDURAS: BUDGET DEFICITS AND THEIR IMPLICATIONS FOR ECONOMIC PERFORMANCE

by

Donald M. Harrison
Program Economist
USAID/Honduras

BUREAU FOR LATIN AMERICA & THE CARIBBEAN
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

A

The **Development Issues Discussion Papers** series of the Bureau for Latin America and the Caribbean provides to economists and non-economists within USAID relatively non-technical expositions of important current policy issues. We have dispensed with footnotes and bibliographies (with occasional limited exceptions) to help make these papers easy to read. Most of the papers in this series will be relatively short (fewer than 10 pages), although some may be as long as 20-25 pages. The longer papers will include a brief executive summary.

The opinions expressed in these internal discussion papers are those of the authors and should not be regarded as reflecting the position of the U.S. Agency for International Development or any other part of the U.S. government.

We welcome your comments.

PREVIOUS PAPERS IN THIS SERIES

#1 Labor Policy and Structural Adjustment in Latin America, by Mary C. Ott (February 1993)

#2 The Effects of Policy Reform on the Poor: Clarifying the Issues, by Clarence Zuvekas, Jr. (February 1993)

#3 Social Sector Investment and Social Equity, by Mary C. Ott (June 1993)

#4 Economic Change and the Poor: An Historical Perspective, by Clarence Zuvekas, Jr. (May 1994)

#5 Monopoly Regulation; Some Economic and Institutional Aspects with Particular Reference to the Electricity Sector, by Juan A. B. Belt (May 1994)

#6 The USAID/Dominican Republic NGO Experience: A Study of the Democratic Initiatives and Private Initiatives in Primary Education Projects, by Carylanna Taylor (October 1994)

b

I. INTRODUCTION AND SUMMARY

Until 1993 the budget deficit in Honduras had been trending downward since 1986, mainly because of increases in (a) tax revenues and (b) operating surpluses of the parastatal enterprises. An early success of the Callejas administration (1990-94) was the near halving of the fiscal deficit over 1989-91 to 3.6% of GDP, the lowest level since 1980. However, by 1993 the deficit had soared to 10.5%, its highest level since 1984, owing to election-year politics on the part of that administration.

The Reina administration, which took office in early 1994, is seeking to rein in the fiscal deficit. It succeeded in lowering the deficit to 7.5% of GDP in 1994, and it hopes to further reduce this figure to 4.0% in 1995.

Government expenditures -- both recurrent and capital -- as a share of GDP are high in Honduras in comparison to its Central American neighbors. A disturbing trend is the increase in the share of recurrent expenditures, which was 4 percentage points of GDP higher in 1993 than in 1980. Largely responsible for this trend are higher interest payments and current transfers. On the other hand, expenditures on wages and salaries are coming down as a share of GDP. Nonetheless, public sector employment still amounts to more than 120,000, or roughly 10% of the labor force. Tax revenues as a share of GDP also are high in Honduras compared to the rest of Central America.

Budgetary deficits can be financed (a) from abroad, (b) through printing of money by the Central Bank, or (c) via borrowing from the domestic populace -- the commercial banks and the nonbank public. Each method of financing has its problems.

Increases in capital expenditures financed by borrowing abroad were primarily responsible for the increase in the budget deficit in 1993. According to GOH officials, a number of the capital projects initiated in 1993 were not subject to proper economic evaluation and are not expected to have a rate of return that justifies the investment.

On balance, we cannot refute the thesis that government expenditures have "crowded out" private sector activity. Conversely, the evidence in support of the thesis is not especially persuasive. The housing and, to a lesser extent, manufacturing sectors appear to have been most vulnerable to "crowding out."

During the Callejas administration, inflation heated up. Consumer price increases averaged 19.2% per annum, compared to 7.4% in the previous decade. While the elimination of most price controls in the late 1980s contributed to the increase in prices, Central Bank printing of money to finance expenditures also appears to have played a role, with the country's floating exchange rate system serving as an important transmission mechanism. The printing of money, together with the continual scarcity of foreign exchange, has produced depreciation of the currency, leading to higher import costs and fueling inflation.

The Central Bank's abandonment of the free float of the exchange rate in June 1994 and its adoption of an auction-based system was an effort to contain inflation through stemming the decline in the value of the lempira.

II. THEORETICAL UNDERPINNINGS

The difficulties caused by the fiscal deficit depend on the manner in which it is financed. The deficit can be financed by government borrowing from either the Central Bank, the country's private sector, or abroad. Each method of financing has its problems.

Probably the worst method is borrowing from the Central Bank. This amounts to "printing money," contributing to inflation. The inflation tax is the poor's number-one enemy.

Borrowing from the country's private sector -- commercial banks/nonbank public -- produces the infamous "crowding out" phenomenon. The selling of government securities to the private sector reduces their price, thus increasing interest rates. Higher interest rates in turn discourage private sector activity; in effect, government activity proceeds at the expense of private sector activity.

The GOH has been borrowing abroad to finance its public sector investment program. In fact, 75% of the public investment program has been foreign-financed in recent years. Such financing can produce benefits if viable development projects are financed. However, it is not without problems for three reasons. First, such expenditures require counterpart funding for the implementation of projects and recurrent expenditures on a long-term basis, worsening the fiscal burden. Two, it adds to the public sector's indebtedness, increasing expenditures for debt servicing -- a development that Honduras can ill afford given the magnitude of its debt servicing problems. Three, a large number of projects financed by such borrowing are not subject to proper economic evaluation.

III. HISTORICAL BACKGROUND

Generally speaking, since 1986 fiscal deficits in Honduras have been going down, with 1993 serving as an aberration. For purposes of analysis, we can divide the years since 1980 into two periods, 1980-85 and 1986-92 (see Table 1). The fiscal deficit was almost halved over 1986-92, falling to an average of 5.5% of GDP. While such deficits are still on the high side, they are not excessive, especially if financing from abroad has been secured for viable investment activities.

Even though deficits have been coming down, the data mask some disturbing trends. Current expenditures as a share of GDP rose from 18.8% during 1980-85 to 21.2% in 1986-92. This increase reflects primarily the growth of interest expenditures, especially on foreign debt, and current transfers. Current transfers consist of monies provided to the country's "safety net" programs, funds allocated to the municipalities, and allocations to the parastatal enterprises that are not expected to be repaid. Conversely, capital expenditures as a share of GDP have come down since 1980 by roughly 3 percentage points -- not a propitious development -- although they picked up significantly in 1992. Capital expenditures, if subjected to rigorous evaluation, augment the productive capacity of the economy, enabling it to grow faster.

On the other hand, the GOH seems to be making some headway in curbing employee expenses. As a share of GDP, they were down from 10.2% of GDP in 1980-85 to 9.9% over 1986-92, and had fallen to 8.2% by the end of the period. Still, GOH employment constitutes a problem. To quote from the World Bank's Economic Memorandum for Honduras: "There is vast overemployment in the public sector. It employs 104,023 people, excluding the military which is believed to employ an additional 20,000. Total public employment is slightly less than 10 percent of the labor force. Public employment is concentrated in the social sectors; 78 percent of the central government's labor force are in the education and health areas. . . . As a result of a long tradition of employment-driven rather than output-driven goals under political pressures, the public sector has come to be characterized by a predominance of manual and clerical level workers with minimal education and skills. In the central government, about 60 percent of all civil service employees have completed only three years of middle school. Administrative staff and service employees account for 75 percent of total employment, while professional and technical staff represent only 25 percent. The overextension of low-level staff is particularly acute in the Ministry of Education, where much of the employment growth of the past decade has occurred. In this Ministry, only 4 percent of the non-teaching staff is professional and technical level personnel." (Over 80% of the Ministry's 42,000 employees are teachers.)

In reducing the deficit over 1986-92, the GOH has relied on the operating surpluses of the parastatals, especially the public utilities, in addition to increases in taxes. Certainly, increasing taxes is a preferred option for reducing deficits to, say, money creation. Yet, the inference is that the government can spend the money better than taxpayers, clearly a dubious proposition in the case of a not inconsequential proportion of the GOH's expenditures. This is not to argue against all taxation. Taxes are required to finance essential government services and economic and social infrastructure.

When current and capital expenditures are added up, there is no appreciable difference between the two periods in total government expenditures as a share of GDP; in both 1980-85 and 1986-92, government expenditures amounted to roughly 28% of GDP. Such spending, as well as tax revenues as a share of GDP, is high in comparison to Honduras' Central American neighbors, especially El Salvador and Guatemala. The relatively high rate of spending and taxation implies that the influence of the government on the economy is more pervasive in Honduras.

With the reduction in the deficit in 1986-92 period, the GOH was able to lower substantially the share of the deficit financed domestically through the Central Bank. On the other hand, in the 1986-92 period there was marginally greater recourse to borrowing from the commercial banks and the nonbank public. This is a development that we would not anticipate. Perhaps a preoccupation with inflation, which indeed was higher over the 1986-92 period than in 1980-85, encouraged the authorities to look more to borrowing from the commercial banks and nonbank public rather than the Central Bank to finance any deficits during the 1986-92 period.

That borrowing from the commercial banks and nonbank public was only modestly higher over 1986-92 does not give us much margin to test the "crowding out" hypothesis. This hypothesis would assert that economic growth would be lower in those periods when the GOH borrowed from the banks and nonbank public to finance budget deficits. The three sectors most likely to be affected by "crowding out" are agriculture, manufacturing, and housing. Real output growth per annum in the agricultural and manufacturing sectors was 2.0% and 0.9%, respectively, in 1980-85, but then rose to 4.0% for both sectors in 1986-92 (see Table 1). While contradicting the "crowding out" thesis, undoubtedly, the better performance in 1986-92 also reflects the improved policy environment owing to the inception of the adjustment program in 1990.

In the case of housing, real per annum growth fell from 4.8% in 1980-85 to 4.0% percent in 1986-92. While the housing sector is affected by the large component of GOH activity in the sector, which may be little influenced by interest charges and whose motivation is largely political, its behavior provides some modest support to the "crowding out" thesis. Perhaps a problem that we are running into in testing the "crowding out" thesis is the use of too aggregated data; there may be a need to focus on year-to-year performance.

Inflation was almost 4 percentage points per annum higher in 1986-92 than in 1980-85. Several factors likely contributed to the higher reported inflation in 1986-92. One is the shift from a fixed exchange rate system over the 1980-85 period to a floating exchange rate system beginning in early 1991. By preventing depreciation of the currency and thus holding import costs down, a fixed exchange rate system would limit inflationary pressures while concurrently likely contributing to repressed inflation. Two, the GOH was able to maintain a fixed exchange rate system over 1980-85 because large amounts of foreign exchange were made available through U.S. foreign assistance to finance imports. When such assistance began to decline in the early 1990s, this placed pressure on the exchange rate, which was then floating, producing higher import costs and hence higher inflation. Three, price controls which had applied to roughly 36% of all items were largely eliminated in the late 1980s. Data for the mid-1980s show rates of inflation for non-controlled items almost double those for controlled items. Finally, in several years during the 1986-92 period, money was printed to finance expenditures.

IV. RECENT PERFORMANCE

One of the early successes of Callejas' reform program was the progress in reducing the deficit. By 1991 it was down from 7.9% of GDP two years earlier to 3.6%, its lowest level since 1980. The reduction was attributable to tax rate increases, improved tax collections, and higher parastatal surpluses; tax revenues as a share of GDP rose 3 percentage points and operating surpluses of the parastatals, 2.8 percentage points. In this two-year period, the Callejas administration was able to achieve a modest one-percentage-point increase in the share of capital expenditures in GDP, while holding the line on recurrent expenditures. By 1991 the deficit was being financed primarily by borrowing from abroad and not by printing money.

In 1992 the deficit began to creep up again, reaching 4.8% of GDP. Capital spending rose as the Callejas administration began to "prime the pump" in anticipation of the next election; capital expenditures as a share of GDP went up 4 percentage points. The "pump-priming" continued in 1993. The deficit reached more than 10.5% of GDP, its highest level since 1984. Capital expenditures as a share of GDP rose an additional 3 percentage points and current expenditures, 1.5 percentage points. Sources of financing consisted of borrowing abroad (71%), foreign grants (13%), printing money (7%), and borrowing from the banking system and nonbank public (2%).

The Reina administration cut the deficit to roughly 7.5% of GDP in 1994. Central government expenditures as a share of GDP were reduced more than 5 percentage points compared to 1993, with capital expenditures falling by 3 points and recurrent expenditures by 2.5 points.

During the Callejas administration (1990-94), inflation heated up, averaging 19.2% per annum, compared to 7.4% in the previous decade. In addition to the elimination of most price controls in the late 1980s, the higher rate of inflation appears attributable to three factors, including Central Bank printing of money, the country's adoption of a liberalized exchange rate regime, and the paucity of foreign exchange.

In the first year (1990) of the Callejas administration, a wave of inflationary pressures was set off by (a) the freeing of the exchange rate in the early part of the year, (b) the concomitant adjustment in the "factor de valoración aduanera," from $1 = L2 to $1 = L5.3, (c) the elimination of most price controls, and (d) the lagged effect of Central Bank printing of money in 1989 to finance the deficit. (The "factor de valoración aduanera," which traditionally has had tremendous psychological importance within the Honduran economy, is the exchange rate used to value imports for taxation purposes.) Inflation bolted from 9.9% in 1989 to 23.3% in 1990, reaching a peak of 34% in 1991.

After falling back in 1992 to 8.8%, inflation has been surging again, hitting 10.7% on an annual average basis in 1993 and 30% on a 12-month basis in January 1995. Central Bank printing of money has played an important catalytic role in this surge.

In 1992 Central Bank printing of money to finance the budget deficit amounted to almost one percent of GDP, and this contributed to higher inflation in 1993. Seventeen percent of 1992's deficit was financed by "printing money."

In mid-1993, in order to obtain foreign exchange to make debt service payments and clear arrears, large amounts of lempiras were printed. The resulting increase in the supply of lempiras vis-à-vis U.S. dollars caused the exchange rate to fall 9% just in July. Subsequently, the exchange rate stabilized, falling only 2% in the next three months. But the damage had been done. The resulting higher import costs took their toll on inflation.

Similar difficulties befell the Reina administration after it came into office in early 1994. According to our sources, a large amount of lempiras was printed at the time, reportedly as high as L500 million (equivalent to some $65 million) to repay contractors who had not been paid for services rendered in the last year of the Callejas administration. The money creation put pressures on the exchange rate, which fell 18% in the January-June period. The country is still reeling from the impact, as witnessed by a March 1994-March 1995 inflation rate of 34%.

Sensing that speculation was playing a role in the decline of the exchange rate -- a development that real effective exchange rate data corroborated -- the Central Bank abandoned its free float in June 1994, fixing the rate at L7.6 = $1. The exchange rate, now determined by auction, cannot move up or down by more than one percentage point every 15 days. While such a system can stem speculation, during its initial months of operation it was difficult to keep the exchange rate from falling by its maximum amount, given the acute shortage of foreign exchange in the country. More recently, however, there has been some strengthening. Late in the year and early in the subsequent year are times when foreign exchange is flush in the country, owing to reduced import demand following the Christmas season and the inflow of export receipts from the coffee harvest.

On balance, the new exchange rate system seems to be working well, combining the best aspects of floating and fixed exchange regimes. It seems to control speculation, preventing wide swings while at the same time permitting the exchange rate to move to reflect market forces. Nevertheless, by limiting downward adjustments of the exchange rate, it may contribute to repressed inflation.

The country's persistent shortage of foreign exchange appears to play an important role in the inflationary process. While the shortage of foreign exchange places continual pressures on the exchange rate, those pressures become explosively destabilizing when the GOH prints money to finance the deficit. The increase in lempiras and the persistent shortage of dollars leads to significant depreciation of the currency and subsequently higher import costs and inflation. The country's foreign exchange difficulties have been worsening over time. At 35%, the country's debt service ratio is 64% higher than it was in 1980. Massive debt servicing requirements to the international financial institutions (IFIs) -- World Bank, IDB, and IMF -- in addition to problems in the banana subsector, are the main contributing factors in recent times. Debt service payments to the IFIs amount to more than $150 million per annum, accounting for roughly 50% of total debt service payments.

Is there evidence of "crowding out" over the past several years? The answer appears to be that some has occurred. After having been negative in 1988, GOH recourse to borrowing from the Honduran banking system and nonbank public to finance its deficit was not inconsequential in 1989, 1990, and 1991, amounting to 0.7%, 0.8%, and 1.2% of GDP, respectively. Such borrowing was sharply negative in 1992 and practically nil in 1993. The behavior of the manufacturing and housing sectors over this period supports the "crowding out" thesis strongly. Manufacturing grew 5.0% and housing 5.9% in 1988, when GOH borrowing from the banks and the nonbank public was negative. Performance of the two sectors fell off over 1989-91, as per annum growth averaged 2.1% and 3.9%, respectively, during a period when GOH borrowing from banks and the nonbank public was not inconsequential. Both sectors rebounded over 1992-93, two years in which borrowing from the banks and nonbank public to finance the budget deficit was negative overall. In the manufacturing sector, growth averaged 6.2%, and in housing real output growth in 1992 was higher than in 1991 and higher still in 1993.

The agricultural sector grew robustly over 1989-91, even though borrowing from the commercial banks and nonbank public was not inconsequential; per annum growth reached 5.7%. Most likely, the positive stimulus that the sector received from the country's ambitious economic reform program overrode the effects of any "crowding out." Two elements of the reform program that had an especially pronounced positive effect on the agricultural sector were the liberalization of the exchange rate regime and the removal of price controls. Thus, on balance, while the data are not wholly supportive, they would appear not to refute the "crowding out" thesis.

While external financing of fiscal deficits has advantages over financing them domestically, it is not a panacea. Borrowing abroad as a share of GDP rose during Callejas' tenure from 2.0% in 1989 to a robust 7.5% in 1993, exacerbating Honduras' severe debt servicing problems. Perhaps more disturbing is the possibility that the investment projects financed by the foreign borrowing are not viable. If they do not enhance the productive base of the economy, they will not generate the wherewithal to make the requisite debt repayments. A good portion of 1993's large budget deficit can be attributed to higher capital expenditures financed by borrowing abroad. According to GOH officials, some capital projects initiated in 1993 were not subject to proper economic evaluation and were initiated after strong lobbying from suppliers with access to foreign financing. Moreover, the GOH claims that several of the ongoing investments in transport infrastructure and telecommunications were not subjected to sufficient analysis by GOH agencies and are not expected to have a rate of return that justifies the investment. In this regard, we would note the San Pedro Sula airport project, which did not provide for an access road.

Table 1
Honduras: Selected Economic Data, 1980-1992
(percent)

	1980-85	1986-92
Total Government Expenditures as a Share of GDP	28.6	27.9
Current Expenditures as a Share of GDP	18.8	21.2
Operating Expenditures	14.9	14.1
Wages and Salaries	10.2	9.9
Goods and Services	4.7	4.1
Interest	2.9	5.6
Current Transfers	0.9	1.5
Capital Expenditures as a Share of GDP	9.8	6.7
Selected Revenue Items		
Tax Revenues as a Share of GDP	14.0	15.3
Operating Surpluses of the Parastatal Sector as a Share of GDP	2.3	3.9
Fiscal Deficit as a Share of GDP[a]	9.9	5.5
Financing of the Deficit		
Official Grants as a Share of GDP	0.6	1.4
Net External Financing as a Share of GDP	6.4	3.8
Net Domestic Financing as a Share of GDP	3.0	0.7
Central Bank Credit to the GOH/GDP	2.0	0.4
Banks and Nonbank Public/GDP	0.4	0.7
Other	0.5	-0.4
External Debt Service Arrears	0.0	-0.4
Inflation (Per Annum Rate)	8.8	12.5
Real Per Annum Growth of Manufacturing	0.9	4.0
Real Per Annum Growth of Agriculture	2.0	4.0
Real Per Annum Growth of Housing	4.8	4.0
Real Per Annum Growth of GDP	1.6	3.5

[a] While the deficit incorporates items such as net lending, non-tax revenues, current transfers, and capital revenues, these items are not reported separately in the table.

Table 2
Honduras: Consolidated Accounts of the Nonfinancial Public Sector
(percent of GDP)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	Prel. 1993
I. Current Revenues	**20.1**	**19.0**	**19.2**	**19.3**	**20.9**	**22.0**	**22.0**	**22.6**	**22.4**	**20.1**	**23.0**	**24.6**	**25.4**	**24.7**
1. Tax Revenues	14.0	12.9	12.9	13.6	15.4	15.5	14.8	15.1	14.8	13.3	15.7	16.3	17.1	16.5
2. Non-Tax Revenues	4.2	4.5	4.5	2.8	2.7	2.9	4.0	4.2	4.2	4.1	3.6	2.9	2.7	2.3
a. Central Government	1.1	0.9	0.8	0.9	0.8	0.8	1.8	1.9	2.1	1.7	1.1	1.1	0.4	0.3
b. Rest of General Government	3.1	3.6	3.7	1.9	1.9	2.1	2.2	2.4	2.1	2.4	2.5	1.8	2.3	2.0
3. Operating Surplus of NFPEs	1.7	1.6	1.7	2.7	2.6	3.5	3.2	3.2	3.3	2.6	3.7	5.4	5.7	5.9
4. Current Transfers	0.1	0.1	0.2	0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0
II. Current Expenditures	**17.4**	**17.3**	**18.5**	**19.2**	**19.4**	**20.7**	**21.3**	**21.6**	**21.5**	**20.9**	**22.1**	**21.1**	**19.7**	**21.2**
1. Operating Expenditures	14.5	14.4	15.0	15.0	15.2	15.3	15.6	15.6	15.4	14.6	14.0	11.9	11.4	11.5
a. Wages and Salaries	9.9	10.7	11.2	9.9	9.7	9.7	11.2	11.2	11.0	10.2	9.7	8.0	8.2	8.2
b. Goods and Services	4.5	3.7	3.8	5.2	5.5	5.6	4.4	4.4	4.4	4.4	4.3	3.8	3.2	3.3
2. Interest	2.2	2.1	2.9	3.0	3.2	4.0	4.4	5.1	5.2	4.7	6.3	7.0	6.5	5.7
a. Internal Debt	0.7	0.7	1.0	1.5	1.5	1.6	1.8	3.3	2.2	2.2	2.6	2.2	1.9	1.4
b. External Debt	1.4	1.4	1.9	1.5	1.7	2.4	2.6	1.8	3.0	2.5	3.7	4.8	4.6	4.3
3. Current Transfers	0.7	0.8	0.7	1.1	0.9	1.4	1.3	0.8	0.8	1.6	1.8	2.2	1.8	4.0
4. Other	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
III. Current Acct. (I-II)	**2.7**	**1.6**	**0.7**	**0.1**	**1.5**	**1.3**	**0.7**	**1.0**	**0.9**	**-0.8**	**0.8**	**3.5**	**5.7**	**3.5**
IV. Capital Revenues	**0.4**	**0.1**	**0.3**	**0.3**	**0.3**	**0.7**	**0.6**	**0.3**	**0.2**	**0.1**	**0.0**	**0.1**	**0.6**	**0.2**
1. Capital Transfers	0.4	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
2. Other Capital Revenue	0.0	0.1	0.2	0.1	0.2	0.6	0.5	0.2	0.1	0.1	0.0	0.1	0.6	0.2
V. Capital Expenditures	**10.3**	**8.3**	**9.4**	**10.7**	**11.3**	**8.9**	**6.6**	**5.1**	**5.5**	**5.9**	**6.3**	**6.6**	**10.7**	**13.8**
1. Fixed Investment	9.5	8.0	8.7	9.9	10.9	8.7	6.1	4.8	4.9	5.6	6.0	6.2	9.7	13.5
2. Capital Transfers	0.3	0.2	0.4	0.4	0.0	0.0	0.5	0.3	0.6	0.0	0.0	1.0	0.5	0.5
3. Other	0.5	0.1	0.3	0.3	0.3	0.1	0.0	0.0	0.0	0.3	0.3	-0.6	0.5	-0.2
VI. Net Lending	**1.7**	**1.9**	**3.0**	**1.6**	**1.3**	**0.9**	**0.9**	**1.0**	**0.7**	**1.2**	**0.5**	**0.6**	**0.3**	**0.4**
VII. Overall Deficit	**-9.0**	**-8.5**	**-11.4**	**-12.0**	**-10.8**	**-7.8**	**-6.2**	**-4.8**	**-5.2**	**-7.9**	**-6.0**	**-3.6**	**-4.8**	**-10.5**
VIII. Financing	**9.0**	**8.5**	**11.4**	**12.0**	**10.8**	**7.8**	**6.2**	**4.8**	**5.2**	**7.9**	**6.0**	**3.6**	**4.8**	**10.5**
1. Official Grants	0.0	0.0	0.1	0.6	1.1	1.5	1.7	1.3	1.3	0.6	2.5	0.9	1.5	1.4
2. Net External Financing	5.6	6.0	6.7	6.2	8.3	5.4	2.9	2.7	2.3	2.0	5.9	5.0	5.7	7.5
a. Disbursements	n.a.	n.a.	n.a.	7.2	9.5	6.7	4.4	3.9	5.0	3.7	11.7	9.8	10.4	11.2
b. Amortization	n.a.	n.a.	n.a.	-1.0	-1.2	-1.3	-1.5	-1.2	-2.7	-1.7	-5.8	-4.8	-4.7	-3.7
3. Net Domestic Financing	3.3	2.5	4.6	5.1	1.4	0.9	1.7	0.8	1.0	2.6	0.6	-2.1	0.2	1.8
a. Central Bank	2.1	3.5	3.8	1.5	0.5	0.7	-1.0	1.5	2.6	2.0	-0.1	-3.3	0.8	0.7
b. Banks	0.0	-0.2	1.2	1.9	0.8	-0.2	1.9	0.2	-0.4	0.4	-0.5	1.1	-1.2	0.0
b. Bonds (nonbank public)	0.4	-1.2	-2.2	0.9	0.9	0.3	1.2	0.5	0.3	0.3	1.3	0.1	0.0	0.2
c. Other	0.8	0.5	1.8	0.8	-0.8	0.0	-0.4	-1.4	-1.5	-0.1	-0.1	0.0	0.6	0.9
4. External Debt Service Arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	2.7	-3.0	-0.2	-2.6	-0.2

Table 3
Honduras: Real GDP Growth, Selected Sectors, 1980-1993
(percent)

Year	Aggregate GDP	Manu-facturing	Agri-culture	Housing
1980	0.7	-4.5	2.1	8.3
1981	2.5	-0.6	2.2	5.3
1982	-1.4	-4.6	4.5	5.5
1983	-0.9	6.4	-6.6	5.2
1984	4.3	7.7	7.4	-3.3
1985	4.2	1.2	2.3	7.6
1986	0.7	4.1	-0.7	1.6
1987	6.0	6.6	8.3	5.4
1988	4.6	5.0	-0.5	5.9
1989	4.3	3.8	10.0	4.2
1990	0.1	0.7	1.1	4.3
1991	3.3	1.7	6.1	3.2
1992	5.6	6.1	3.6	3.4
1993	6.1	6.3	1.3	3.9