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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CURRENT ECONOMIC POSITION  
AND PROSPECTS  
OF  
HONDURAS

January 17, 1964

Department of Operations  
Western Hemisphere

CURRENCY EQUIVALENTS

U.S. \$1.00 = 2 Lempiras (L)

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BASIC DATA

<u>Area:</u>	44,480 square miles
<u>Population:</u>	Estimated mid-1962: 1.95 million Rate of Growth: about 3.5 percent a year
<u>Gross National Product:</u>	1961 - 798 million lempiras 1962 - 840 million lempiras (estimated)
<u>Per Capita GNP 1962:</u>	About \$200

Origin of Gross Domestic Product  
1961:

	<u>Percent of GDP</u>
Agriculture and Forestry	49
Manufacturing	11
Transport and Commerce	19
Public Administration and Other Services	17
Other	4
	<u>100</u>

Government Finances

	<u>Million Lempiras</u>	
	<u>1961</u>	<u>1962</u>
Total Expenditures	77	83
Total Current Revenues	73	75
Deficit	5	8
Financed by:		
Net External Credit	2	3
Net Domestic Credit	3	4
Other	-	1

Balance of Payments

	<u>U.S. \$ Millions</u>	
	<u>1961</u>	<u>1962</u> (Prelim.)
Exports f.o.b.	74	82
Imports f.o.b.	66	74
Net Services and Donations	- 8	-11
Current Balance	-	-4
Capital Inflow	- 1	3
Errors and Omissions	- 1	3
Surplus/Deficit	- 2	2

Composition of Exports by Value:

	<u>Bananas</u>	<u>Coffee</u>	<u>Timber</u>
	<u>(Percent)</u>		
1961	53	12	10
1962 (prelim.)	46	14	9

Foreign Exchange Reserves

	<u>Gross (Central Bank)</u>	<u>Net</u>
	<u>(U.S. \$ millions)</u>	
December 1962	13.3	6.0
August 1962	14.0	9.3
August 1963	14.8	10.3

External Public Debt

U.S. \$ Millions

Total outstanding December 31, 1962	39.8
Disbursed	19.1
1963 Service Payments as Percentage of 1963 est. export earnings	2.9%

Cost of Living Index (1948=100)

1961	134
1962	136

## SUMMARY AND CONCLUSIONS

1. Honduras is generally considered to be the least developed of the Central American countries, both in terms of natural and human resources. The country's basic economic weaknesses have been aggravated by a turbulent political history that has been marked by frequent upheavals since it became independent in 1821. The most recent one took place in early October 1963, less than two weeks before the national elections were to have been held.

2. The democratically elected Administration that came to power in December 1957 was able to provide political stability after years of turmoil, and took a number of important steps to strengthen and diversify the economy. With substantial external assistance, roads were improved, a power development program was started, and the activities of the National Development Bank were expanded. The education system was centralized and its budget was greatly increased.

3. The Government's efforts to promote economic growth were thwarted in 1960-1961 by declining exports, and the rise in GNP during these two years barely matched population growth. Blowdowns, bad weather, and Panama disease cut down banana exports in 1960, and cotton exports fell sharply. In 1961, the recovery of banana exports was offset by lower shipments of coffee and timber, but in 1962 a marked recovery took place and GNP increased by five percent or more. This upswing has been due in large part to a record level of exports and a substantial increase in industrial investment. The upward trend continued in 1963.

4. Agricultural production has grown somewhat faster than population during the past decade, with particularly large increases in corn and beans. The chief source of this increased output has been an expansion of the area under cultivation, which should continue to provide an important source of agricultural expansion. But as the western lands become scarcer, more reliance will have to be placed on improved techniques. Developments in the last year or two suggest that this change of emphasis is beginning to take place. Among these developments are the increased lending activity of the National Development Bank, particularly for tobacco, cotton and livestock, which are produced mainly on the larger farm units.

5. Another stimulus to agricultural expansion has been the Western Highway Extension which has been partly financed by IDA. This road is almost completed and will open a large part of the western region, which should stimulate agricultural production for the local market. Highway construction and improvement in regions of high agricultural potential continue to deserve high priority. Other important developments have been the technical assistance by coffee exporters to growers, and the linking of extension activities with the National Development Bank's lending. All of these developments are of recent origin and provide the basis for a favorable outlook for Honduran agriculture.

6. Until very recently, manufacturing has grown rather slowly in Honduras. The main obstacles to industrial development were inadequate and costly transport and electric power, as well as the scarcity of entrepreneurial talent that was due in part to the persistence of the "banana republic psychosis". However, the recent expansion and improvement in the country's infrastructure has been providing the basis for accelerated industrial growth, and the production of manufactured goods has grown more rapidly than the rest of the economy, and reached an estimated eight percent in 1962. The immediate stimulus for this industrial expansion is coming mainly from the formation of the Central American Common Market which is creating conditions that are making manufacturing more profitable than importing and merchandising in certain lines.

7. The principal development in Honduras' foreign trade in recent years has been the growing diversification of exports. This trend was especially noticeable in 1962 when total exports rose by nearly \$8 million, while the recorded value of banana exports fell by \$2 million. Other exports - notably meat, cotton, corn, beans, and a growing list of manufactured products - increased by some \$10 million over 1961, or nearly one-third. While the relatively large exports of corn and beans were the result of bumper crops, the general outlook for a continued growth in other exports is favorable.

8. The Government has followed a conservative fiscal policy in recent years by limiting the budget deficit to an amount that could be financed by external credits and modest internal borrowing. Central Government expenditures have risen at a moderate rate in recent years, and have amounted to approximately ten percent of GNP. Expenditures for education, which deserve high priority, accounted for most of the increase in total expenditures between 1957 and 1962, and now absorb one-fifth of the budget. The Government has exercised commendable restraint in keeping down other outlays, notably defense and general administration. Most of the other categories of expenditure, including those for health and housing, have hardly increased at all.

9. Tax receipts, which have amounted to 9-10 percent of GNP, have risen about three percent a year in recent years. A much more rapid growth in revenues can be expected during the next few years as a consequence of an improvement in the financial condition of the banana companies (see paragraph 22) leading to higher income tax receipts, and higher import tax receipts from substantial increases in dutiable consumer imports which have lagged behind the growth in incomes in recent years. These trends should produce an average annual increase in total tax receipts of 7-8 million or ten percent a year. However, the expected increase in current expenditures will probably absorb most of this rise in revenues. The annual increase in current outlays on education alone is expected to average at least 3 million a year over the next few years. Thus, while some increase in Central Government savings can be expected, it will make only a modest contribution to the financing of public investment in the years ahead. In the longer-run, however, the public sector should be able to finance a

growing proportion of its investment requirements out of the country's own resources. However, this is likely to occur only if the tax structure is gradually modified in such a way that the growth of the economy will generate at least a corresponding growth in tax receipts, taking into account the structural changes in the economy that are already under way.

10. Because of the low level of public savings, variations in the level of public investment in recent years have reflected mainly the supply and rate of disbursement of external credits. Honduran public investment has relied heavily on external financing, which is expected to amount to about 75 percent of total public investment in 1963. This investment has been concentrated mainly on highways and electric power. The high priority given to these sectors reflects the belief of both the Honduran Government and the external financing agencies that these services were extremely inadequate and that their expansion and improvement were essential for the accelerated growth and diversification of the economy.

11. If the infrastructure projects now under way are completed as planned and the sound economic management of the recent past is continued, Honduras' growth prospects for the next few years are good. The export sector and industrial production for internal consumption are expected to be the main sources of growth. If the plans and programs now under way to expand exports are moderately successful, net export receipts could rise from \$59 million in 1962 to \$85 million in 1967 (7.5 percent a year).

12. The industrial plants recently established, under construction, and being planned will reinforce the growth trends that have been set in motion by the export sector. The pulp and paper project and the production and processing of fruits and vegetables are expected to provide some of the impetus for continued and perhaps accelerated growth in the late 1960's. Sizeable public outlays for roads, ports, and electric power will be needed to facilitate and sustain these developments. At least \$40 million of new external borrowing during the next couple of years will be needed for high priority projects in these sectors even if internal savings rise above their present level.

13. The effect of the recent political changes on business confidence is difficult to judge. Thus far, the plans of the United Fruit Company and other private investors in Honduras seem to have been unaffected. However, if the present Government fails to win popular support, there is a danger that business confidence could be damaged. At the present time, there is no evidence that either the basic trends in the economy or Honduras' creditworthiness have been or will be adversely affected by the recent political developments.

14. The external public debt totalled about \$42 million in mid-1963. Service payments in 1963 are \$2.5 million, or about four percent of expected net export receipts. Scheduled service payments average a little under \$3 million during the remaining 1960's, or less than four percent of projected net export receipts.

15. In view of its low debt-service ratio and favorable growth prospects, Honduras should be able to finance a substantial portion of its external capital requirements on conventional terms. At the same time, it would clearly be helpful if some blend of "soft" loans could be continued in order to moderate the rate of growth in the country's external debt burden. If Honduras' estimated minimum requirements of \$40 million for the next two years were supplied entirely on conventional terms, debt service would rise to some eight percent of export receipts by 1967. This would represent a doubling of the debt-service ratio within two years, and Honduras will have to continue heavy external borrowing after 1965 if it is to carry out the public investment program needed to promote a satisfactory rate of growth.

## I. THE SETTING

1. The last economic report on Honduras (WH-95a) issued in May 1960, concluded that with political stability and sound fiscal and monetary policies, the growth prospects of the Honduran economy were reasonably good. The report projected an annual increase in national income of about five percent and a minimum growth in export receipts of three percent. Recent trends in the economy tend to confirm the overall appraisal in the report. Political and economic conditions were largely fulfilled, and while the rate of growth has fallen short of the projected levels, exports have done somewhat better.

2. Honduras is generally considered to be the least developed of the Central American countries, both in terms of natural and human resources. Except for the fertile plains on the north coast, its terrain is very rugged, particularly in the western part where most of the population lives. Transport is difficult and expensive, and until recently, the western region had no road connections with the rest of the country. Even the two main economic and population centres - Tegucigalpa and San Pedro - are linked by a poor road.

3. Until recently, the two U.S.-owned banana companies played a pre-dominant and pervasive role in Honduras. They formed an economy of their own on the north coast, with San Pedro Sula as its industrial and commercial centre. The banana companies were by far the largest employers, investors, and taxpayers in the country, but their importance went beyond their direct contributions to the economy. For they were traditionally regarded as the bellwether of the economy and the business community generally took its cue from them - a condition often described as the "banana republic psychosis". However, this has been changing in recent years. As communications improve, the north coast is gradually becoming integrated with the rest of the economy and the expansion of agriculture and industry is reducing the predominance of bananas.

4. The country's basic economic weaknesses have been aggravated by a turbulent political history that has been marked by frequent upheavals since it became independent in 1821. The most recent one took place in early October 1963, less than two weeks before the national elections were to have been held.

### Recent Economic Trends

5. From 1948 to 1953, gross national product rose rapidly, with exports providing the main stimulus. Real income (which takes into account changes in the terms of trade) increased by an average of 6.5 percent per year during this period. After 1953, however, the expansion was slowed by lower coffee prices and declining banana output caused by blowdowns, Panama disease, and labor difficulties. These unfavorable developments were aggravated by political instability from 1954 to 1957. Nevertheless, the gross national product did grow at an average annual rate of about four percent during this period.

6. The democratically elected Administration that came to power in December 1957 was able to provide political stability after years of turmoil, and took a number of important steps to strengthen and diversify the economy. With substantial external assistance, roads were improved, a power development program was started, and the activities of the National Development Bank were expanded. The education system was centralized and its budget was greatly increased.

7. The Government's efforts to promote economic growth were thwarted in 1960-1961 by declining exports, and the rise in GNP during these two years barely matched population growth. Blowdowns, bad weather, and Panama disease cut down banana production in 1960, and cotton exports fell sharply. But in 1961, the recovery of banana exports was offset by lower shipments of coffee and timber. In 1962, a marked recovery took place and GNP increased by five percent or more. This upswing has been due in large part to a record level of exports and a substantial increase in industrial investment. The upward trend continued in 1963.

## II. AGRICULTURE AND FORESTRY

8. Agriculture and forestry account for nearly half the gross domestic product, produce about 90 percent of total exports, and employ about three-quarters of the labor force. As in most underdeveloped countries, agriculture is the least efficient sector of the Honduran economy; nevertheless, agricultural production grew somewhat faster than population during the past decade, with particularly large increases in corn and beans.

9. The chief source of increased production was an expansion of the area under cultivation<sup>1/</sup> rather than higher yields. This is not surprising in view of the large number of small farmers in the production of most crops, which makes it very difficult to increase yields through the use of better techniques.

10. An increase in the area under cultivation should continue to provide an important source of agricultural expansion. But as the western lands become scarcer, more reliance will have to be placed on improved techniques. Developments in the last year or two suggest that this change of emphasis is beginning to take place. Among these developments are the increased lending activity of the National Development Bank, particularly for tobacco, cotton and livestock, which are produced mainly on the larger farm units. The Bank is promoting an expansion and improvement in the output of these products which have good export markets. It is doing this by lending for seed, fertilizer, and breeding stock.

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<sup>1/</sup> The official statistics, which apparently underestimate yields (particularly in the case of grains), may also overstate the area under cultivation.

11. Another stimulus to agricultural expansion has been the Western Highway Extension which has been partly financed by IDA. This road is almost completed and will open a large part of the western region, which should stimulate agricultural production for the local market. Highway construction and improvement in regions of high agricultural potential continue to deserve high priority.

12. Other important developments have been the technical assistance by coffee exporters to growers, and the linking of extension activities with the National Development Bank's lending. All of these developments are of recent origin and provide the basis for a favorable outlook for Honduran agriculture.

#### Land Settlement and Credit

13. In order to develop the unused but accessible, arable lands, the Government created an Agrarian Institute in 1961. The Institute is responsible for implementing the Agrarian Reform Law enacted in 1962, and is financed by annual budget appropriations (L1 million in 1962). It has started a small project to settle 100 families on about 1,200 hectares of state-owned land on the south coast, but progress has been disappointingly slow on this project because of poor organization. About 10,000 hectares of additional unused state lands on the south coast could be settled, although a considerable amount of investment would be required to clear these lands. The settlement of these and other lands will require substantial financial and technical assistance from the outside and the Agrarian Institute would be well advised to use its modest appropriation to prepare a comprehensive land settlement program, with external help if necessary.

14. The National Development Bank, a state institution created in 1950, is the chief source of agricultural credit, and has provided an increasingly important stimulus to agricultural expansion. Although the commercial banks also finance agriculture, it is mostly for processing. The Bank is the only lender for agricultural investment and the only source of credit for small farmers. The latter has contributed to its financial losses because of high administrative costs and slow repayments. A new management has recently taken over the Bank, and tighter collection procedures have been introduced. In addition to its credit operations, the Bank owns and operates a rice plantation, two coffee plantations, two cotton gins, a milk products plant, storage bins, and a feed concentrate plant. Two loans from the Inter-American Bank in 1962 amounting to \$8½ million have substantially increased the Bank's lending capacity. Of the \$8½ million, \$4 million will be used for a high priority, three-year livestock program. Some of the rest will be used for investment, but most of it will be used for crop financing of tobacco, cotton, grains, sugar, and other crops. Up to a third of the IDB funds may be used to finance local costs. The terms of the National Development Bank loans vary, with amortization periods up to twelve years; the interest rate is a uniform eight percent.

15. The Development Bank's ability to make full use of the IDB loans will depend on whether it can provide the internal funds to complement these loans. In view of the limitations on the Bank's authority to issue bonds and on its ability to compete with private banks for deposits, it will have to continue to rely mainly on an annual budget appropriation of L2 million.

16. The effectiveness of the Bank's lending to small farmers will depend largely on the extension services provided by the Servicio Tecnico Interamericano de Cooperacion Agricola (STICA) which is an autonomous unit in the Ministry of Natural Resources. STICA receives financial and technical assistance from the U.S. and employs about 200 extension workers. Its efforts are being concentrated on corn, beans, and livestock. Under an agreement with the National Bank, it provides technical assistance to recipients of Bank loans, as well as farmers generally. An even closer integration between the Bank's credit operations and STICA's technical assistance would enhance the effectiveness of both.

LOANS BY THE NATIONAL DEVELOPMENT BANK, 1961-1963

	Number of Loans			Projected
	1962	1961	1962	1963
(million lempiras)				
<u>Agriculture</u>	<u>6,908</u>	<u>5.19</u>	<u>8.08</u>	<u>9.35</u>
Cotton	55	1.86	2.78	3.90
Coffee	1,894	1.12	1.24	1.60
Corn	2,008	0.33	0.47	0.55
Beans	886	0.08	0.12	0.20
Tobacco	88	0.01	0.37	2.00
Rice	497	0.06	0.08	0.10
Sugar Cane	335	0.06	0.08	0.10
Debt Extensions <u>1/</u>	n.a.	1.12	n.a.	..
<u>Cattle and Hogs</u>	<u>2,588</u>	<u>1.31</u>	<u>3.62</u>	<u>4.70</u>
Cattle Fattening	367	0.81	0.66	n.a.
<u>Industry</u>	<u>164</u>	<u>0.23</u>	<u>0.85</u>	<u>1.30</u>
<u>Discounts</u>	<u>n.a.</u>	<u>0.98</u>	<u>1.20</u>	<u>1.00</u>
Agriculture		0.53	0.49	n.a.
Industry		0.41	0.67	n.a.
TOTAL		7.70	13.75	17.15

1/ Including loans for repayment of debts to private suppliers.

Source: Banco Nacional de Fomento.

### Outlook for Major Crops

17. Corn is the most important domestic crop in Honduras. It is grown on small plots, ranging from one to eight acres. Because of these small units, there has been very little improvement in production methods and yields. Storage and distribution are highly inadequate. The storage facilities of the National Development Bank can only accommodate about ten percent of annual commercial production. But even this capacity is not always used because farmers are forced to sell their output at low prices to meet their immediate needs. In the western regions, corn is shipped by dealers to El Salvador and Guatemala for storage, and then reimported at mid-year when prices reach their peak. The National Bank has been trying to support prices in order to even out seasonal fluctuations, but it has not been successful because of inadequate storage and buying capacity. Additional storage facilities and an effective price support program with adequate crop financing would provide strong incentives for increasing production.

18. A bumper crop and the Western Highway Extension to the El Salvador border helped to produce a record volume of corn exports, mostly to El Salvador, which reached 40,000 tons in 1962 (13 percent of total production). The completion of the Western Highway, together with the feeder roads now being studied, will significantly lower transport costs to El Salvador and facilitate exports.

19. Under the stimulus of rising prices in the local and neighboring export markets, the production of beans increased rapidly in the last decade. Exports have risen sharply in the last few years: out of a total production of about 37,000 metric tons in 1962, about 13,000 with a total value of \$1.7 million were exported. Beans can be grown easily, even on poor lands. Thus, with prices in El Salvador continuing at their present level, production and exports could rise considerably during the next few years, through a moderate expansion in acreage and the use of better seed and cultivation methods.

20. Honduras is almost self-sufficient in rice, which is grown without irrigation on units which are relatively small for rice cultivation. Production increased slowly during the past decade and is unlikely to do much better in the future, unless suitable new lands are brought into production. But this will require substantial investment. Additional storage facilities, particularly in the western part of the country, would stimulate production: rice producers now sell their output to Salvadorean dealers, who store it and resell it when prices are high.

21. Honduras has traditionally been an importer of sugar, but has become self-sufficient during the past two years. Whereas imports accounted for about half of internal consumption in the early 1950's, they were less than a tenth in 1961, and in 1963 there may be a small export surplus. Imports of "panela" (brown sugar loaf) vary from year to year, but consumers are increasingly switching to granulated sugar and panela consumption seems to be falling. Virtually all the granulated sugar is produced in two mills on the north coast. Under the stimulus of protection and high internal prices,

capacity has been expanded in recent years. A substantial increase in sugar production for the internal market, partly at the expense of panela, can be expected. However, unless the abnormally high world prices continue, exports are unlikely to be significant because Honduras is a high-cost producer.

22. The production and export of bananas have not grown during the past decade because of the problems of the United Fruit Company. The recently initiated expansion programs of the two banana companies should give the economy a strong psychological lift. The Standard Fruit Company has 11,000 acres of disease-resistant varieties in production and plans to add 2,500 acres to be cultivated by independent producers. This addition, together with a very successful program to raise yields, should raise shipments from six million stems in 1962 to eight million stems (about twelve million boxes) within a few years. The United Fruit Company, which had about 14,000 acres in production at the end of 1962, has started a program to produce disease-resistant varieties and to increase total acreage to 30,000 acres over a five-year period. This should raise production above the present level of six million stems to a minimum of nine to ten million stems of the disease-resistant variety by 1967, when the \$15 million program is due to be completed. All the bananas will be boxed within a year or two. The proximity of Honduras to the United States market, the excellent banana lands, and the investments of both companies in lands, buildings, railroads, and other facilities provide a solid basis for expansion. The amendments to the land reform law that was enacted in 1963 removed a major source of uncertainty and irritation to the banana companies. Despite some difficulties in recent years, both companies signed collective bargaining contracts in 1962 with their respective unions which account for about 60 percent of total trade union membership.

23. Most of the coffee is grown in Honduras on very small plots: there are about 40,000 producers for some 100,000 hectares. The trees planted at the end of the period of high prices started to yield in 1960, and production rose from 330,000 bags (60 kg.) in 1958/59 to 415,000 bags in 1962/63. Part of this expansion was stimulated by exporters, who have financed a major share of the crop. They are also providing technical assistance and fertilizers to their producers, and have succeeded in substantially increasing yields.

24. The unadjusted basic quota for Honduras under the new International Coffee Agreement is 285,000 bags. However, increased production in 1962/63 raised exports to an estimated 340,000 bags. Part of this increase is the result of a reduction in clandestine exports through Guatemala and El Salvador (which have amounted to about 40,000 bags in recent years) because the Western Highway has given producers access to Puerto Cortes. Production can be expected to rise by 5-10 percent a year over the next few years. To export this higher output, Honduras will have to obtain a higher quota under the Agreement; otherwise, exports will have to be cut back to the level of the quota. Increased production would come from new plantings and higher yields. Technical assistance from private sources and from the Coffee Office in the National Development Bank are helping to improve quality and yields. The Office receives \$1 for each 100 lb. bag of coffee produced.

25. Cotton has been grown in Honduras on a small scale for some time. Through the encouragement of the National Development Bank, production in the Comayagua valley, north of Tegucigalpa, grew rapidly in 1956-57. But production difficulties and bad weather cut production from 11,000 tons in 1957 to less than 4,000 tons in 1960. When cotton was planted on more suitable lands in the south, production recovered to its former level in 1961. It is estimated that up to 60,000 acres can be put into cotton: plantings amounted to 10,000 acres in 1961, 15,000 in 1962, and are expected to reach 20,000 acres in 1963. The National Development Bank has been the prime mover in the growth of cotton production. If, as seems likely, the present rate at which new land is brought into cultivation continues, production could more than double in the next five years.

26. Tobacco is grown in the westernmost highlands, in the vicinity of Copan. Until 1961, it was produced almost exclusively for the local market. In the last two years, however, two projects have been started to produce Cuban-type cigar tobacco: one is sponsored by the National Development Bank and the other by a group of United States, Cuban and Honduran investors. A small but growing quantity of high-quality tobacco is being shipped to the U.S. for cigar-making. Costs of production are low, and with an expansion of acreage, exports could reach several million dollars within a few years.

27. Honduras is well suited for growing fruits and vegetables. A cucumber farm was started in 1961, but after an initial success, it ran into distribution problems in the U.S. STICA has been investigating the possibilities of exporting fresh pineapples which are now produced in abundance. The Standard Fruit Company which exports a small quantity of citrus fruits has been growing pineapples on an experimental basis, and the results are promising.

28. Meat exports have grown rapidly in recent years from \$0.5 million in 1959 to \$2.6 million in 1962. These exports have been going mainly to the United States where prices have been good. Exports of live cattle and hogs to Guatemala have been rising steadily and reached a level of about \$3 million in 1961.

29. There are 1.7-1.8 million head of cattle in Honduras. Carcass weights average about 250 lbs., and could be increased substantially. The purchases of cattle on the basis of weight rather than height by the newly established slaughterhouses is bringing heavier animals to the markets. The National Development Bank has recently begun a three-year livestock program to improve the stock through the importation of breeding cattle and to develop managed pastures.

30. The recent increase in beef exports has been achieved at the cost of lower domestic supplies which have fallen from 16 lbs. per capita in 1954 to an estimated 12 lbs. in 1962. In Honduras, there seems to be a strong preference for pork which sells for about 30 percent more than beef. With a continuation of favorable prices in the U.S. and a reasonably successful

livestock program, exports of frozen meat should rise from about 4,500 metric tons in 1962 to some 7,000 metric tons in 1967; exports of live animals are unlikely to increase. The expansion in the production of pork should be adequate to meet the growth in internal demand.

### Forestry

31. About half of Honduras is covered by forests; these include some two million hectares of pine, and about 2.5 million hectares of tropical hardwoods, particularly mahogany and cedar. Cutting has been confined almost entirely to pine. There are about 75 saw-mills, but only a few are of significant size. Although a modern Forestry Law was enacted in 1961, there is still no effective forest service because of the scarcity of funds and personnel. The FAO is carrying out a survey of forest resources, which will be completed in two years. This survey together with a previous one done in 1958, will provide a complete inventory of Honduras' pine resources, which could be the source of sizeable exports of timber products, including paper.

32. Timber exports now consist almost entirely of pine. High quality pine goes to Europe, but most of the large amount of lower quality pine is sold in neighboring countries and in the Caribbean area. The loss of the Cuban market and the very sharp drop in sales to Venezuela, due to import restrictions and the decline of construction activity, have depressed exports. While these losses have been partly offset by larger shipments of high quality timber to Britain and Germany, and by increased sales (often at unprofitable prices) to El Salvador, the future outlook for timber exports is not encouraging unless the Venezuelan market is restored or new markets are found.

### III. INDUSTRY AND MINING

33. Until very recently, manufacturing in Honduras has grown rather slowly and has been limited almost entirely to processed foods, beverages, tobacco products, textiles, and furniture. The main obstacles to industrial development were inadequate and costly transport and electric power, as well as the scarcity of entrepreneurial talent. However, in recent years, the expansion and improvement in the country's infrastructure has been providing the basis for accelerated industrial growth, and the production of manufactured goods has grown more rapidly than the rest of the economy and reached an estimated eight percent in 1962.

34. The immediate stimulus for industrial expansion is coming mainly from the formation of the Central American Common Market which is creating conditions that are making manufacturing more profitable than importing and merchandising in certain lines. Uniform Common Market tariffs on manufactured goods have in many cases been set at levels above the highest rates prevailing in any of the member countries. Tariff unification has given Honduras particularly heavy protection because its tariffs have generally been lower than those of the other Central American countries. The higher

tariffs together with free trade within the Common Market are providing much of the incentive for the recent industrial upswing in Honduras. New or greatly expanded plants are being established to produce chemicals, textiles, shoes, furniture, cement, vegetable oil, flour, and candy. In 1962, investment projects amounting to over 15 million received the benefits of the Industrial Development Law which exempts most new industrial enterprises from import duties and income taxes for specified periods of time, and industrial outlays are expected to be substantially higher in 1963.

35. The local business community seems to have overcome some of its earlier fears that Honduras would derive little or no benefit from industrial development in the Central American Common Market. Indeed, many of the Honduran importers and merchants are participating in the industrial expansion either as owners and entrepreneurs, or sizeable shareholders. A notable feature of this trend is the emergence of a small group of dynamic young entrepreneurs who are organizing and managing several of these new industrial enterprises. One of the by-products of the industrial expansion is the development of an informal capital market for the buying and selling of shares among the small group of investors. The recent industrial investments are being financed by private savings, some loans from commercial banks, and \$4 million of loans from the Central American Bank for Economic Integration (CABEI) which has been the major source of industrial credit.

36. Honduras does not have any obvious economic advantages over other Central American countries except for the transport advantage in the manufacture of certain bulky products for the local market and the opportunity for exploiting the country's abundant timber resources. But it is overcoming some of its major disadvantages, not the least of which has been the business community's feeling of inferiority vis-a-vis other Central American countries.

37. The growing entrepreneurial class is gaining more and more confidence in its ability to exploit particular economic opportunities. A case in point is the cement plant which is greatly enlarging its capacity to take advantage of the high quality, abundant, and accessible raw materials, and is selling some of its output in other Central American countries. Other important examples of entrepreneurial resourcefulness could be cited in the manufacture of textiles and chemicals. As these new and expanded industrial plants demonstrate their ability to meet the competition from other Central American producers both in the Honduran market and other common market countries, industrial expansion in Honduras will gather new momentum and should make a major contribution to over-all economic growth during the next few years.

38. Looking ahead for potential sources of industrial growth, there are under active study three large projects that would produce plywood, paper, and canned pineapple. The plywood project is the most advanced and would be a very large expansion of a small plant now operated by a U.S. plywood manufacturer under an option agreement. The results of the inventory and

testing of the timber resources are expected to be favorable. If satisfactory arrangements can be worked out with the Government on timber concessions and the construction of transport facilities which are estimated to cost approximately \$2.3 million, the company contemplates an investment of \$3-3½ million in plant, equipment, and penetration roads, and to begin full production in 1966. The project would produce net annual foreign exchange earnings of \$2-2½ million.

39. The pulp and paper project which has been studied by several prospective investors is now undergoing a "definitive" study which is expected to be completed by the end of 1963. The major new element in the picture since the previous studies were done is the decision by the banana companies to ship virtually all their bananas in boxes. The box factories in the banana-producing countries of Central America (including Panama) would provide the great bulk of the market for the project. At the present time, the boxes are either being imported or manufactured with imported paper. The pulp and paper project which would require a public outlay of about \$12 million for roads and port improvement, would provide a major new source of income and employment in northeastern Honduras, and generate tax revenue and foreign exchange.

40. Another potentially important industry is fruit-processing. A U.S. company is now growing Hawaiian-type pineapples on a pilot basis for canning, and if these experiments prove successful, the company plans to plant about 5,000 acres beginning in 1965 and to establish a plant for canning pineapples and other fruits. This project would employ well over a thousand people on the north coast and produce a significant amount of foreign exchange.

41. The only mineral being produced on a sizeable scale is silver, with lead and zinc as by-products. Annual production of silver has averaged around three million ounces during the past few years. But with the recent sharp increase in the world price, production is expected to rise substantially through an expansion in the output of existing mines and the opening of new ones.

#### IV. INTERNAL FINANCES AND PUBLIC INVESTMENT

##### A. Monetary Developments

42. The Honduras banking system consists of five private commercial banks and three savings and mortgage banks. A semi-public municipal bank was created in 1962 to give technical and financial assistance to municipalities. The National Development Bank has traditionally been the principal lender to agriculture and the Central American Bank has recently become the largest source of industrial credit. (See paragraph 14.) The nine percent ceiling on interest rates has kept the commercial banks from making risky loans. Partly as a result of this limitation, a private group is sponsoring a small industrial development bank, which would obtain most of its funds abroad and would therefore be exempt from the interest rate ceiling because it would not accept deposits.

43. The Honduran authorities have followed fairly conservative monetary policies, and since 1958 have pursued these policies in cooperation with the International Monetary Fund. From 1959 to 1961, credit to the private sector was the main source of growth in the money supply, which rose more or less pari passu with the gross national product. But in 1962, the money supply increased by 13 percent to a record level of 173 million, and quasi-money holdings (largely savings deposits) rose by 16 percent to 144 million. While there was a vigorous growth in the level of economic activity, the increase in the money supply was considerably greater than would normally be expected on the basis of the growth in the volume of business transacted. Part of the increase in the money supply may be due to the growing monetization of the economy which was not reflected in the slow growth in the money supply in earlier years. Part of it may be temporary and could lead to higher imports and capital flight, especially in view of the recent political changes. Thus, the increase in the money supply is a possible source of pressure on the country's thin foreign exchange holdings.

44. The credit expansion in 1962 originated mainly from increased borrowing by the public sector through the Central Bank and the sale of bonds to the commercial banks, and from increased lending by the National Development Bank. There has been a moderate rise in borrowing from the Central Bank to finance budgetary deficits since the first IMF standby agreement in 1959. To protect Honduras' weak foreign exchange position the credit ceiling under the most recent standby renewal that expires in mid-1964 allows for only a very modest expansion of borrowing from the Central Bank.

#### B. Fiscal Developments

45. The Government has followed a responsible fiscal policy in recent years by limiting the budget deficit to an amount that could be financed by external credits and modest internal borrowing. During the five-year period 1958-1962, the cumulative deficit was 142 million (or about ten percent of expenditures) of which 129 million was financed by net external borrowing; most of the internal borrowing was from the private sector. During the past few years, a moderate but steady rise in current expenditures without a corresponding increase in tax receipts reduced Central Government savings to less than 13 million in 1962. Thus, the level of capital outlays has come to depend mainly on the volume and rate of disbursement of external credits. The failure of revenues to keep pace with the growth in current expenditures is threatening to wipe out the very thin public savings margin.

46. The 1963 budget contemplated a 15 million increase in current expenditures which was to be accompanied by a corresponding increase in revenues. Capital outlays by the Central Government were expected to more than double, with the increase to be financed almost entirely through foreign credits. But in view of the drop in receipts from import taxes during the first half of 1963, revenues for 1963 are now expected to be only slightly higher than 1962 and capital expenditures are expected to fall considerably short of the 124 million called for in the budget. Because of this shortfall in revenues, the Government obtained a \$2 million budget support loan from AID in July 1963.

### Expenditures

47. Central Government expenditures have risen at a moderate rate in recent years, and have amounted to approximately ten percent of GNP. The year-to-year changes in the totals have been the result of a steady rise in current expenditures and fluctuations in the level of capital outlays that have been financed mostly by external credits. Expenditures for education, which deserve high priority, accounted for most of the increase in total expenditures between 1957 and 1962, and now absorb one-fifth of the budget. The Government has exercised commendable restraint in keeping down other outlays, notably defense and general administration. Most of the other categories of expenditure, including health and housing, have hardly increased at all.

48. Higher salaries for a growing number of primary school teachers have accounted for most of the increase in the education budget. Current outlays on secondary education have not grown since 1956, while expenditures for school construction have varied from year to year. A general salary increase for public school teachers will go into effect in 1964, and will increase education expenditures by L5 million in 1964. The need to accommodate the increasing flow of pupils into the secondary schools will further increase the education budget which could easily reach L25 million by 1966, compared with L16 million in 1962. Other current expenditures will almost certainly rise over the next few years, though it is hard to say how much.

### Revenues

49. Tax receipts, which have amounted to 9-10 percent of GNP, have risen about three percent a year in recent years. A much more rapid growth in revenues can be expected during the next few years as a consequence of an improvement in the financial condition of the banana companies (see paragraph 22) leading to higher income tax receipts, and higher import tax receipts from substantial increases in dutiable consumer imports which have lagged behind the growth in incomes in recent years. These trends should produce an average annual increase in total tax receipts of L7-8 million or ten percent a year. However, the expected increase in current expenditures will probably absorb most of this rise in revenues. The annual increase in current outlays on education alone is expected to average at least L3 million a year over the next few years. Thus, while some increase in Central Government savings can be expected, it will make only a modest contribution to the financing of public investment in the years ahead. In the longer-run, however, the public sector should be able to finance a growing proportion of its investment requirements out of the country's own resources. However, this is likely to occur only if the tax structure is gradually modified in such a way that the growth of the economy will generate at least a corresponding growth in tax receipts, taking into account the structural changes in the economy that are already under way.

50. Revenues from import taxes, which account for about half of total revenues, have been rising much more slowly than imports in recent years. From 1960 to 1962, the value of imports rose by 14 percent while import tax receipts increased by only three percent. Between 1961 and 1962, the relationship was 12 percent and 1.5 percent. The sluggish response of import taxes was due to the fact that virtually all of the increase in imports was in duty-free goods which comprise over half of total imports, though some of these goods are subject to an eight percent consular fee. In addition to a general duty-free list of goods whose import value was L19 million in 1962, there are several special categories of imports that are duty-free. The most important of these are the following: imports by certain firms and industries such as the banana and mining companies, and agriculture, which have received special exemptions; imports of public agencies; imports by industrial firms that are exempt from the payment of duties under the Industrial Development Law; and imports from other Central American countries that are either duty-free or subject to preferential rates. Between 1961 and 1962, the major increases in imports took place in the duty-free categories, particularly imports of official agencies which rose from L12.5 million to L20 million, accounting for half the increase in total imports.

IMPORTS AND DUTY CATEGORIES, 1961-1962  
(million lempiras)

	1961	1962
	<u>Value of Imports</u>	
<u>Imports Subject to Regular Duties</u>	<u>69.5</u>	<u>73.8</u>
<u>Imports Subject to Preferential Duties</u>	<u>4.6</u>	<u>2.6</u>
From U.S., Canada, Netherlands	3.5	-
From El Salvador, Guatemala, Nicaragua	1.1	2.6
<u>Imports Not Subject to Duty</u>	<u>69.9</u>	<u>83.2</u>
Generally Duty-Free	15.9	18.8
Treaties with U.S., Canada, Netherlands	2.5	-
Treaties with Common Market Countries	10.7	14.3
Special Concessions <sup>1/</sup>	25.6	24.8
Exemptions under Laws and Decrees <sup>2/</sup>	1.0	1.1
Imports by Official Agencies	12.5	20.0
Exemptions Under Industrial Development Law	1.6	4.2
TOTAL	<u>144.0</u>	<u>159.6</u>

<sup>1/</sup> To the banana and mining companies and others.

<sup>2/</sup> To farmers and others.

Source: Ministry of Economy and Finance.

51. While import tax receipts are expected to rise much more rapidly in the near future than they have in the recent past without significant changes in tax levels, there may be some opportunities for raising import tax rates in the longer run. Tariff unification under the Common Market prohibits unilateral changes in items having a uniform tariff. But a cursory review of selected tariffs suggests that the rates on certain consumer durables could be raised either through higher tariffs where there is no uniform rate or by introducing or increasing excise taxes, without producing significant inequities since these items are purchased almost entirely by the middle and upper income groups. A comprehensive study should therefore be undertaken as soon as possible to determine the revenue-producing possibilities of modifications in import duties and excise taxes.

52. Production and sales taxes which yield about 30 percent of total revenues, together with the income tax which yields about 15 percent are the other major sources of revenue. While production and sales tax receipts have more or less kept up with trends in production in recent years, income tax revenues have fallen since 1957 due to the financial difficulties of the fruit companies: the United Fruit Company accounted for 40 percent of total income tax payments in 1957, their last big year, while in 1962, their tax payments were negligible. Income tax rates are the same for firms and individuals, and range from three percent on incomes below L5,000 a year to a marginal rate of 15 percent on incomes from L100,000 to L200,000, and 30 percent above L1 million. About 80 percent of the taxes are paid by business firms and 20 percent by individuals. Over 13,000 individuals paid income tax in 1962, and of the approximately 1,400 firms that paid, six or seven accounted for most of the total. A 20 percent surtax (applied to the total tax bill) on all incomes above L20,000 was imposed in the spring of 1963, and is expected to yield some L0.5 million in 1964.

53. The Government has been trying to improve the administration and collection of income taxes and was considering steps to broaden the coverage to include income recipients who are now excluded, and to modify the structure, though not necessarily the level, of rates to increase the yield. But it will take some time for the higher yields to materialize. The Government was also thinking of introducing a property tax on the basis of a preliminary cadastral survey which has already been completed, and a more thorough one which is being planned. The present property tax yields little more than the cost of collecting it.

### C. Public Investment and Planning

54. Because of the low level of public savings, variations in the level of public investment in recent years have reflected mainly the supply and rate of disbursement of external credits. In 1962, public investment reached a peak of L28 million with two-thirds financed by external loans, and according to a preliminary estimate at mid-year, it was expected to reach some L43 million in 1963, but will probably be less than L40 million.

Principal External Development Loans  
To Public Sector, 1961-1963

(million dollars)

Original Amount	Lending Agency	Disbursed 1961	Disbursed 1962	Undisbursed as of Dec. 31 1962
<u>Highways</u>				
9.0	IDA	-	1.3	7.7
5.5	IBRD	1.3	0.4	0.6
5.0	DLF	1.5	1.1	0.9
2.5	IADB	-	0.3	2.2
<u>Power</u>				
1.5	IBRD	0.4	0.4	0.1
8.8	IBRD	0.3	3.3	5.2
2.8	DLF	-	1.0	1.8
<u>Agriculture (National Development Bank)</u>				
6.0	IADB	-	0.5	5.5
2.5	IADB	-	-	2.5
<u>Other</u>				
1.0 (housing)	IADB	-	-	1.0
2.2 (water)	IADB	-	-	2.2 <sup>1/</sup>
1.1 (water)	AID	-	-	1.1 <sup>1/</sup>
	TOTAL	3.5	8.3	30.8

<sup>1/</sup> Loan made in 1963.

55. Public investment has been concentrated mainly on highways and electric power. The high priority given to these sectors reflects the belief of both the Honduran Government and the external financing agencies that these services were extremely inadequate and that their expansion and improvement were essential for the accelerated growth and diversification of the economy. The major public investment projects in these sectors are the Western Highway extension to the El Salvador border, and the first stage (27 MW) of the Lake Yojoa-Rio Lindo hydroelectric power project. The cost of the Western Highway extension will total \$7.5 to \$8 million, and the hydro project will cost \$13.5 million; the completion of both projects is expected in early 1964. A \$3.5 million telecommunications project for Tegucigalpa and San Pedro will be completed in 1963.

Composition of Public Investment, 1951-1963

(million lempiras)

	1961	1962	Est. 1963
Highways	9.0	9.1	11.4
Telecommunications	-	0.4	6.5
Electric Power	3.8	13.0	16.1
Agriculture	0.4	1.1	1.6
Education	0.5	0.4	0.8
Health	0.1	0.4	0.5
Local Governments	3.0	4.0	4.3
Other	<u>4.7<sup>1/</sup></u>	<u>0.6</u>	<u>2.3</u>
Total	21.5	29.0	43.5
<u>Financed by:</u>			
Central Government Saving	5.4	2.4	- <sup>4/</sup>
Local Government Saving	1.4	1.7	
Saving of Autonomous Entities (net)+	-1.9	-3.0	- <sup>4/</sup>
Net External Credits	7.2	18.5	29.0
Net Internal Borrowing <sup>2/</sup>	8.0	10.1	
Discrepancy <sup>3/</sup>	<u>1.4</u>	<u>-0.7</u>	<u>- <sup>4/</sup></u>
Total	21.5	29.0	29.0

<sup>1/</sup> 3.6 of this accounted for by Child Welfare Agency.

<sup>2/</sup> This is an estimate based on partial data: The purchases of Central and Local Government bonds by the banking system amounted to L3.1 million in 1962.

<sup>3/</sup> Arises partly from differences in calculation of Central Government saving.

<sup>4/</sup> No estimate.

Source: Ministry of Finance, National Economic Council, and IBRD Staff.

56. Honduran public investment has relied heavily on external financing, which is expected to amount to 75 percent or more of total public investment in 1963. The telecommunications project is being entirely financed by a Japanese supplier credit for seven years at seven percent interest. The Western Highway has received about 90 percent external financing and the hydroelectric project 80 percent. The water resources agency, established in January 1962, is beginning a three-year investment program, with

about 80 percent financed by loans from the IDB and AID. The Housing Institute has started a \$1.5 million three-year project for which it has received a \$1 million loan from the IDB.

57. As noted in paragraph 49, the prospects for substantially increasing public savings during the next couple of years are not promising. Honduras will therefore have to obtain external financing for the great bulk of its public investment requirements because any more than a very modest amount of borrowing from the banking system would jeopardize monetary stability. This means that the external agencies will have to finance a substantial share of the local currency costs.

#### Investment Planning

58. The Secretariat of the National Economic Council has prepared a two-year public investment program for 1963-1964 that calls for total investment of 160 million in 1963 and 165 million in 1964, of which 145 and 146 million, respectively, would be financed abroad. About 80 percent of the 1963 program is for transport, telecommunications, and electric power, and consists almost entirely of projects that were started before 1963, and for which the external financing had already been obtained. The remaining 20 percent is divided about evenly between local government outlays and projects in agriculture, education, health, and housing. Actual investment in 1963 will fall far short of the 160 million contemplated in the program, but will still be considerably higher than the peak level of 1962.

59. With the completion of the power and telecommunications projects, and the Western Highway, public investment will probably decline in 1964 because major new projects are unlikely to get under way before the latter part of 1964. These include the highway from Tegucigalpa to Buffalo that would link the two main population and economic centers of the country. It will cost \$20 to \$25 million, depending on the specifications, and will account for about half of the proposed investment in roads during the four years that will be needed for its construction. The basic studies for the highway are under way, and if financing can be arranged, construction could begin in the latter part of 1964. The addition of two new berths to Puerto Cortes, the chief port of Honduras on the north coast, is another major project. Its total cost would be about \$6 million, and, if external and internal financing can be arranged, work could be well under way in 1964. The second stage of the Lake Yojoa-Rio Lindo hydro project will be needed earlier than had been expected in view of the contemplated energy sales to El Salvador that could begin in 1967 and reach an estimated annual value of \$3.4 million in 1972. A feasibility study of this project will be completed early in 1964; its cost is estimated at \$8.5 million, of which \$6 million would be foreign exchange. Other high priority projects looming up are roads and ports costing about \$14 million for the plywood and pulp and paper projects.

60. The above projects, which add up to some \$54 million could be started before the end of 1965. The program prepared by the Economic Council called for total investment of 164.5 million in 1964, including 112.5 million for

land reform. But the land reform program has not yet been prepared and the pulp and paper project is still under study. Public investment in 1964 will therefore be substantially below the level projected by the Council.

61. To maintain public investment during 1964-67 at the estimated 1963 level, total outlays of L160 million would be required during this period. This would not be excessive in the light of the country's needs and the present and prospective availability of high priority projects. The undisbursed external credits at the end of 1963 together with the estimated cost of the projects listed above add up to approximately L140 million which would leave a very modest L20 million for other public investment during 1964-67 if all these projects were carried out. After taking account of some \$15 million of undisbursed external credits at the end of 1963, \$40 million of new external borrowing in 1964-65, would still leave a very substantial \$25 million, or nearly one-third of the total, to be raised from internal sources and perhaps additional external borrowing. It is therefore clear that heavy external borrowing will be required to finance a reasonable public investment effort.

62. In view of Honduras' stage of development, it is reasonable to expect that a continued high level of public investment will be needed after 1967. The Secretariat of the Economic Council is working on a long-term public investment program that would begin in 1965. But its efforts seem to be unnecessarily elaborate in relation to its primary task. While the Council's two-year program has been helpful in pulling together the projects under way and in identifying those that seem to deserve high priority, it has not paid sufficient attention to the country's financial, physical, and administrative capacity to carry out the program.

63. The Council has prepared some useful material on individual sectors, but it should do more, particularly in agriculture where the lack of a land settlement program appears to be the biggest obstacle to progress in this field. In its preoccupation with the preparation of investment programs, the Council seems to have avoided the study of economic policy questions even where they directly affect the country's capacity to carry out an investment program. The most obvious example is tax policy. The need for a careful study of import taxes has already been emphasized (see paragraph 51); the Economic Council, with some assistance from outside experts, would be the appropriate agency to undertake such a study as part of an over-all tax study.

#### V. FOREIGN TRADE AND PAYMENTS

64. In recent years, the public authorities have followed internal financial policies that have helped to maintain balance of payments equilibrium and the free convertibility of the lempira. The cumulative deficit in Honduras' balance of payments during the past three years, has amounted to \$3 million. At the end of 1962, net exchange reserves were down to \$6

million or less than a month's imports. <sup>1/</sup> Even allowing for the drawing rights under a \$7.5 million standby agreement with the IMF, this low level of reserves greatly limits the flexibility of the public authorities in their fiscal and monetary policies. Efforts should therefore be made to strengthen the country's foreign exchange position.

65. The principal development in Honduras' foreign trade in recent years has been the growing diversification of exports. This trend was especially noticeable in 1962 when total exports rose by nearly \$8 million, while the recorded value of banana exports fell by \$2 million. Other exports -- notably meat, cotton, corn, beans, and a growing list of manufactured products -- increased by some \$10 million over 1961, or nearly one-third. While the relatively large exports of corn and beans were the result of bumper crops, the general outlook for a continued growth in other exports is favorable.

66. The importance of bananas in Honduras' export trade has declined in recent years as compared with the 1940's and early 1950's. But even when the value of banana exports accounted for three-quarters of total exports in the early 1950's, their direct contribution to the economy was often exaggerated, because the estimated value of banana exports is not the measure of their contribution to the economy. The sales of foreign exchange for lempiras by the banana companies to the Central Bank for the payment of wages and salaries, taxes, and local purchases of materials and services are the proper measure of the direct contribution of the banana companies to the Honduran economy. These sales of foreign exchange have amounted to a little over half of the estimated value of banana exports in recent years. The difference between export value and foreign exchange receipts is explained by the banana companies' imports of materials and equipment; depreciation; and profits.

INTERNATIONAL TRANSACTIONS OF BANANA COMPANIES  
(million dollars)

	1958	1959	1960	1961	1962
Estimated Value of Banana Exports	37.6	32.1	28.2	39.4	37.5
Sales of Foreign Exchange by Banana Cos.	18.3	16.5	18.7	18.0	18.2
Imports of Goods and Services by Banana Cos.	11.6	10.4	11.1	14.0	16.6

Source: Banco Central.

<sup>1/</sup> Gross reserves of the Central Bank were \$13.3 million, a slight increase over 1961 (see Table 17).

67. To obtain a measure of Honduras' capacity to finance its import requirements and external debt service, only the sales of foreign exchange to the Central Bank rather than the recorded value of banana exports should be included in estimating total foreign exchange receipts. This also applies to mineral exports where foreign exchange receipts are about one-third of the value of exports: in 1962, for example, \$5 million of minerals exports produced \$1.7 million of foreign exchange.

68. An estimate of Honduras' future import requirements should exclude the banana companies' imports of goods and services which are self-financed by the export proceeds. Moreover, if net export earnings are the measure of import capacity, import requirements should be limited to those imports that would have to be financed out of these earnings, and should therefore exclude imports by the banana and minerals companies. Balance of payments estimates adjusted for the transactions of the banana and minerals companies are shown on page 21.

69. Foreign exchange receipts from banana exports averaged about one-third of total export receipts during 1958-62, but the recorded value of banana exports averaged nearly one-half of the total value of exports. The former is clearly the more significant indicator of the relative importance of bananas in Honduran export trade.

70. Imports, like exports, were relatively stable from 1958 to 1961, and rose substantially in 1962. Speculative factors arising from expectations of exchange controls and tariff changes have played an important role in the year-to-year movements of imports. Nearly all the increase that took place in 1962 seems to have been the result of heavier purchases by the banana companies and imports of capital equipment for the public sector. Since the former were financed out of the receipts of the banana companies and the latter by foreign credits, these imports did not produce any direct pressure on the balance of payments.

71. Looking to the future, an appraisal of export prospects suggests that by 1967, export receipts should rise by over 40 percent as shown in the table on page 22. Bananas and coffee are expected to account for half the increase, with the rest spread among several products. The projected increase in exports should be adequate to finance the growth in imports that will be needed to produce the expected expansion of the economy and the rise in imports that will be induced by the income generated by this expansion. Virtually all of capital goods imports, whether for the public or private sector, will be financed from abroad. Thus, the bulk of the increase in export receipts will be available to finance higher imports of raw materials and consumer goods. This would allow these imports to rise at a much more rapid rate than in the recent past, when they seem to have lagged behind the growth in incomes.

BALANCE OF PAYMENTS ADJUSTED FOR THE TRANSACTIONS  
BY THE BANANA AND MINERALS COMPANIES  

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(million dollars)

	1958		1959		1960		1961		1962	
	Unad- justed	Adjus- ted								
Exports (f.o.b.) <u>1/</u>	71.4	50.3	70.3	52.5	64.4	52.5	74.1	49.0	81.8	59.2
Imports (f.o.b.) <u>2/</u>	<u>-67.6</u>	<u>-56.0</u>	<u>-63.4</u>	<u>-53.0</u>	<u>-65.5</u>	<u>-54.4</u>	<u>66.3</u>	<u>-52.3</u>	<u>-74.4</u>	<u>57.8</u>
Trade Balance	3.8	- 5.7	6.9	- 0.5	- 1.1	- 1.9	7.8	- 3.3	7.4	1.4
Other Transactions and Errors and Omissions	- 9.1	0.4	- 5.6	1.8	0.8	1.6	- 9.7	1.4	- 4.3	1.7
Surplus or Deficit	- 5.3	- 5.3	1.3	1.3	- 0.3	- 0.3	- 1.9	- 1.9	3.1	3.1

- 1/ Adjusted exports include only sales of foreign exchange by the banana and minerals companies rather than the estimated value of their exports which are included in the unadjusted exports.
- 2/ Adjusted Imports = Unadjusted Imports - Imports of Goods and Services by the banana companies. Imports by the minerals companies have not been deducted because the data are not available. The inclusion of imports of services (mainly freight and insurance) by the banana companies offsets partly or wholly the failure to deduct the imports of the minerals companies. Thus, the adjusted imports are reasonably accurate estimates of merchandise imports, excluding those of the banana and minerals companies.

Source: IBRD Staff.

PROJECTION OF EXPORT RECEIPTS, 1962-1967 <sup>1/</sup>  
(million dollars)

	Actual 1962	Projected 1967
Bananas	18.2	25.0
Coffee	11.5	17.5
Silver, lead and zinc	1.7	2.1
Timber	7.1	7.0
Plywood	"	2.0
Cattle and hogs	3.0	3.0
Meat	2.6	4.6
Cotton	2.1	4.0
Corn	3.0	2.7
Beans	1.8	3.2
Cement	0.6	1.2
Tobacco	0.6	3.0
Vegetable Oils	1.1	1.8
Others	<u>5.9</u>	<u>8.0</u>
	59.2	85.1

Note: See the section on Agriculture and Forestry for explanations of the projections of the main items.

<sup>1/</sup> For bananas, minerals, and plywood, the receipts are net export proceeds accruing to the Honduran economy.

VI. ECONOMIC PROSPECTS AND CREDITWORTHINESS

72. If the infrastructure projects now under way are completed as planned and the sound economic management of the recent past is continued, Honduras' growth prospects for the next few years are good. The export sector and industrial production for internal consumption are expected to be the main sources of growth. If the plans and programs now under way to expand exports are moderately successful, net export receipts could rise from \$59 million in 1962 to \$85 million in 1967 (7.5 percent a year).

73. The industrial plants recently established, under construction, and being planned will reinforce the growth trends that have been set in motion by the export sector. The pulp and paper project and the production and processing of fruits and vegetables are expected to provide some of the impetus for continued and perhaps accelerated growth in the late 1960's. Sizeable public outlays for roads, ports, and electric power will be needed to facilitate and sustain these developments. At least \$40 million of new external borrowing during the next couple of years will be needed for high priority projects in these sectors even if internal savings rise above their present level.

74. The effect of the recent political changes on business confidence is difficult to judge. Thus far, the plans of the United Fruit Company and other private investors in Honduras seem to have been unaffected. However, if the present Government fails to win popular support, there is a danger that business confidence could be damaged. At the present time, there is no evidence that either the basic trends in the economy or Honduras' creditworthiness have been or will be adversely affected by the recent political developments.

75. The external public debt totalled about \$42 million in mid-1963. Service payments in 1963 are \$2.5 million, or about four percent of expected net export receipts. Scheduled service payments average a little under \$3 million during the remaining 1960's, or less than four percent of projected net export receipts.

76. In view of its low debt-service ratio and favorable growth perspectives, Honduras should be able to finance a substantial portion of its external capital requirements on conventional terms. At the same time, it would clearly be helpful if some blend of "soft" loans could be continued in order to moderate the rate of growth in the country's external debt burden. If Honduras' estimated minimum requirements of \$40 million for the next two years were supplied entirely on conventional terms, debt service would rise to some eight percent of export receipts by 1967. This would represent a doubling of the debt-service ratio within two years, and Honduras will have to continue heavy external borrowing after 1965 if it is to carry out the public investment program needed to promote a satisfactory rate of growth.

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TABLE 1

HONDURAS: EXTERNAL PUBLIC DEBT OUTSTANDING INCLUDING UNDISBURSED  
AS OF DECEMBER 31, 1962 WITH MAJOR REPORTED ADDITIONS  
JANUARY 1 - JUNE 28, 1963

Debt Repayable in Foreign Currencies  
(thousands of U.S. dollar equivalents)

Item	Debt outstanding December 31, 1962		Major reported additions January 1 - June 28, 1963
	Net of undisbursed	Including undisbursed	
TOTAL EXTERNAL PUBLIC DEBT	<u>19,058</u>	<u>39,824</u>	<u>2,568</u>
Privately-placed debt	<u>4,851</u>	<u>4,851</u>	<u>569</u>
IDA loans	<u>1,335</u>	<u>9,000</u>	<u>-</u>
IBRD loans	<u>10,723</u>	<u>16,566</u>	<u>-</u>
IDB loans	<u>500</u>	<u>6,960</u>	<u>-</u>
U.S. Government loans	<u>1,649</u>	<u>2,447</u>	<u>2,000</u>
Export-Import Bank	<u>1,649</u>	<u>1,843</u>	<u>-</u>
AID	<u>-</u>	<u>604</u>	<u>2,000</u>

Source: IBRD - Economic Staff.

TABLE 2

HONDURAS: ESTIMATED CONTRACTUAL SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING UNDISBURSED  
AS OF DECEMBER 31, 1962 WITH MAJOR REPORTED ADDITIONS JANUARY 1 - JUNE 28, 1963 1/

Debt Repayable in Foreign Currencies  
(thousands of U.S. dollar equivalents)

Year	Debt out- standing plus un- disbursed January 1	Payments during year			Privately- Placed Debt	IBRD Loans	IDA Loans	IADB Loans	United States Government		
		Amorti- zation	In- terest	Total					Total	Export- Import Bank	AID
1963	38,814	1,642	859	2,501	349	1,626	10	40	476	476	-
1964	39,749	1,547	1,099	2,646	191	2,054	13	183	205	183	22
1965	38,193	1,564	1,530	3,094	1,163	1,388	17	308	218	177	41
1966	36,629	1,579	1,281	2,860	749	1,388	19	480	224	172	52
1967	35,050	1,680	1,231	2,911	633	1,389	23	636	230	166	64
1968	33,370	1,781	1,175	2,956	601	1,390	25	636	304	161	143
1969	31,589	1,787	1,103	2,890	569	1,389	29	541	362	155	207
1970	29,802	1,833	1,030	2,863	539	1,391	31	551	351	149	202
1971	27,969	2,021	942	2,963	507	1,391	80	645	340	143	197
1972	25,948	2,115	850	2,965	481	1,390	128	635	331	138	193
1973	23,833	1,713	752	2,465	-	1,388	131	625	321	132	189
1974	22,120	1,866	684	2,550	-	1,391	133	715	311	127	184
1975	20,254	1,849	599	2,448	-	1,222	135	791	300	121	179
1976	18,405	1,898	519	2,417	-	1,223	139	763	292	115	177
1977	16,507	1,895	432	2,327	-	1,224	140	735	228	55	173

1/ Includes all debts listed in Table 1 except \$1,010,000 privately-placed debt for which repayment terms are not available.

Source: IBRD Economic Staff.

TABLE 3

HONDURAS: POPULATION TRENDS 1950-1963

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Estimated mid-year population * (thousands)	1,369	1,410	1,452	1,495	1,540	1,586	1,633	1,682	1,733	1,785	1,838	1,893	1,950	2,008
Births per thou- sand inhabitants	42.1	43.2	41.8	43.9	43.8	45.1	42.8	45.4	45.3	44.2	44.7	45.3	n.a.	-
Deaths per thou- sand inhabitants	12.5	11.7	13.2	12.1	11.7	11.9	10.7	11.0	11.7	10.0	10.0	9.5	n.a.	-

\* A Census was taken in 1950, and again in 1961.

Source: Direccion General de Estadistica y Censos, Anuario Estadistico 1961.

TABLE 4

HONDURAS: GROSS NATIONAL PRODUCT, 1956-1961

(million lempiras at current prices)

	1956	1957	1958	1959	1960	1961
<u>Consumption Expenditures</u>	<u>559</u>	<u>610</u>	<u>638</u>	<u>657</u>	<u>659</u>	<u>691</u>
Private	494	547	566	587	595	615
Public	66	63	72	70	73	75
<u>Gross Capital Formation</u>	<u>84</u>	<u>94</u>	<u>92</u>	<u>89</u>	<u>96</u>	<u>101</u>
Public	19	20	17	15	20	21
Banana companies	14	15	8	8	8	8
Other private	50	59	67	66	69	72
<u>Increase in stocks</u>	<u>10</u>	<u>10</u>	<u>4</u>	<u>5</u>	<u>9</u>	<u>9</u>
<u>Net Exports of Goods and Services</u>	<u>12</u>	<u>-26</u>	<u>-9</u>	<u>-1</u>	<u>-17</u>	<u>1</u>
<u>Gross Domestic Product</u>	<u>665</u>	<u>688</u>	<u>725</u>	<u>751</u>	<u>756</u>	<u>801</u>
Less net factor income from abroad	-24	-2	-9	-2	23	-3
<u>Gross National Product</u>	<u>641</u>	<u>687</u>	<u>716</u>	<u>749</u>	<u>779</u>	<u>798</u>

Source: Banco Central.

TABLE 5

## HONDURAS: COMPOSITION OF GROSS DOMESTIC PRODUCT, 1952-1961

(million lempiras at 1948 prices)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961 <sup>1/</sup>
Agriculture and Forestry	202	209	190	193	220	225	228	245	244	268
Mining	8	10	10	6	4	5	6	5	6	6
Manufacturing	41	47	42	48	53	55	58	60	64	69
Construction	23	27	21	22	23	23	23	18	16	16
Transport, Storage & Communications	26	27	28	29	30	31	31	34	36	38
Commerce	46	51	50	52	53	56	59	62	63	67
Various Services (incl. utilities)	53	55	56	58	61	64	69	71	74	77
Public Administration and Defense	11	13	13	14	15	18	18	19	19	20
Discrepancy <sup>2/</sup>	-9	-8	-9	-8	-10	-	1	-2	-2	-9
<u>Gross Domestic Product</u>	401	430	401	413	449	477	493	517	520	552

<sup>1/</sup> Preliminary.<sup>2/</sup> The discrepancy arises because GDP is calculated from the expenditure rise, which is considered more accurate.

Source: Banco Central, IBRD Staff.

TABLE 6

## HONDURAS: AGRICULTURAL, FORESTRY, AND FOODSTUFF PRODUCTION, 1952-1962

Calendar Years	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	Est. 1962	Approx. value of production at pro- ducer level, 1961 (million lempiras)
Corn ('000 metric tons)	197	219	199	210	235	246	261	281	288	294	304	41.3
Beans ('000 metric tons)	21.6	21.3	23.3	22.8	27.0	28.4	31.3	33.6	34.8	38.2	37.3	11.7
Rice <u>1/</u> ('000 metric tons)	11.0	11.7	10.9	12.3	13.3	13.9	12.3	13.9	14.7	15.0	15.1	5.6
Yucca ('000 metric tons)	12.0	12.3	12.7	12.7	13.3	13.9	14.4	14.8	15.3	15.8	15.5	2.1
Bananas for export (million stems)	12.6	12.4	9.2	7.8	12.6	11.4	13.5	12.1	10.8	12.7	11.3	78.8
Coffee <u>2/</u> ('000 60 kg. bags)	250	300	298	294	297	308	315	386	396	397	409	28.8
Seed Cotton ('000 metric tons)	1.5	1.5	1.7	2.6	4.3	11.1	9.2	4.5	3.8	11.0	14.0	4.8
Tobacco ('000 metric tons)	3.9	4.1	4.2	3.5	4.0	4.5	3.7	3.7	3.7	4.2	4.5	3.2
Timber <u>3/</u> ('000 cubic meters)	554	535	564	587	569	641	607	676	678	658	n.a.	29.5
Milk (million liters)	97	98	99	99	102	105	108	112	115	122	124	27.0
Cheese ('000 metric tons)	8.8	9.0	9.0	9.1	9.3	9.6	9.9	10.2	10.7	10.9	n.a.	(15.0)
Eggs (million dozens)	12.2	12.5	12.5	12.0	12.9	13.3	13.5	14.2	14.7	15.1	n.a.	10.9
Beef <u>4/</u> ('000 metric tons)	10.9	11.2	11.3	11.2	11.0	11.2	11.6	12.5	13.4	15.1	n.a.	14.9

1/ Milled rice.

2/ These estimates differ from those mentioned in para. 24 of the text which refer to crop years.

3/ About 2/3 pine; does not include wood used as fuel.

4/ Carcass weight basis.

Source: Direccion General de Estadistica y Censos, Banco Central, and Banco Nacional de Fomento.

TABLE 7

HONDURAS: YIELDS OF MAJOR CROPS, 1952-1961

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
<u>Corn</u>										
A	295	292	244	278	309	323	342	357	353	356
Y	0.67	0.75	0.81	0.76	0.76	0.76	0.76	0.79	0.82	0.83
<u>Rice</u>										
A	10.3	10.9	10.0	11.3	12.3	12.7	11.0	12.6	13.2	13.3
Y	1.07	1.07	1.09	1.09	1.08	1.10	1.11	1.11	1.11	1.13
<u>Beans</u>										
A	49.4	50.6	47.1	51.3	59.8	63.3	69.7	74.8	77.1	80.2
Y	0.44	0.42	0.50	0.44	0.45	0.45	0.45	0.45	0.45	0.48
<u>Yucca</u>										
A	3.4	3.5	3.5	3.5	3.7	3.8	4.0	4.1	4.2	4.3
Y	3.56	3.57	3.59	3.60	3.60	3.61	3.62	3.63	3.64	3.65
<u>Potatoes</u>										
A	0.9	0.9	1.0	1.0	1.0	1.0	1.0	0.9	0.8	0.9
Y	2.02	2.06	2.04	2.06	2.08	2.08	2.09	2.11	2.17	2.17
<u>Coffee</u>										
A	71.8	86.2	85.8	86.1	86.4	89.3	91.0	92.3	92.7	93.0
Y	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.25	0.26	0.26
<u>Cotton</u>										
A	1.6	1.6	1.9	2.3	5.2	9.8	8.1	2.1	1.7	4.5
Y	0.93	0.91	0.91	1.11	0.82	1.13	1.13	2.20	2.16	2.42

A - Area planted in thousand hectares.

Y - Yield in metric tons per hectare.

Source: Dirección General de Estadística y Censos, Anuario Estadístico, and Banco Central.

TABLE 8

## HONDURAS: PRODUCTION OF MAJOR INDUSTRIAL GOODS, 1952-1962

(thousand metric tons unless otherwise specified)

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	Est. 1962	Approx. value of 1961 production, at producer level (million lempiras)
Flour	2.2	5.2	4.9	6.2	5.2	5.2	5.4	5.2	6.6	3.5	10.9	3.9
Granulated sugar	6.1	7.4	7.3	8.2	11.0	11.9	12.5	14.1	18.4	22.4	21.3	6.0
Panela <sup>1/</sup>	20.7	20.4	20.0	18.8	17.1	17.0	16.5	16.7	16.7	17.3	n.a.	n.a.
Soap	4.0	3.0	2.1	2.1	2.3	2.3	2.8	3.9	5.0	5.0	n.a.	3.0
Rum <sup>2/</sup> (million liters)	n.a.	n.a.	n.a.	n.a.	1.3	1.9	1.2	1.2	1.7	1.7	1.8	6.5
Beer (million 12 oz. bottles)	22.8	26.4	28.4	37.0	45.4	50.0	43.9	41.8	39.2	39.2	42.3	14.0
Soft drinks (million 6 oz. bottles)	33.8	37.5	40.1	44.5	49.9	64.9	74.0	71.5	74.5	93.5	101.7	6.2
Cigarettes (million packs)	21.3	35.8	41.8	42.0	48.9	46.4	47.4	52.0	53.2	53.4	56.2	8.6
Cloth (1000 yards)	439	603	607	769	726	656	1,630	2,341	2,471	2,737	2,638	1.7
Shirts (1000 units)	806	893	976	1,061	1,377	1,356	1,262	1,315	1,300	1,407	n.a.	4.9
Cement	-	-	-	-	-	-	-	8.1	36.8	41.7	54.3	3.2
of which exports	-	-	-	-	-	-	-	1.0	9.9	17.1	22.8	(0.8)

<sup>1/</sup> Brown sugar loaf: production data are rough estimates.<sup>2/</sup> Factory production only: there is substantial clandestine production.<sup>3/</sup> 26.2 in 1963.

Source: Dirección General de Estadística y Censos, Banco Central, Banco Nacional de Fomento, and Cementos de Honduras.

TABLE 9

HONDURAS: POWER AND TRANSPORTATION, 1956-1962

	1956	1957	1958	1959	1960	1961	1962
<u>Total Electric Power Consumption ('000 k.w.h.)</u>			69,536	76,745	88,458	93,166	101,000
Industrial			46,037	48,558	52,798	55,259	58,762
Residential and commercial			20,146	24,307	30,758	32,674	36,210
Public lighting			1,643	1,901	2,477	2,648	2,954
Government and municipalities			1,710	1,979	2,425	2,585	3,074
<u>Central District 1/</u>							
Installed capacity ('000 kw)	6.8	7.6	7.6	7.6	7.6	9.8	9.8
Peak load ('000 kw)	2.7	3.2	3.8	4.5	5.3	6.3	7.5
<u>Motor Vehicles</u>	8,188	8,568	9,940	11,656	13,481	14,000	16,255
Automobiles	3,932	4,240	4,621	5,374	6,291	n.a.	7,706
Buses and Trucks	4,224	4,304	4,842	5,793	6,686	8,290	8,488
<u>Port Traffic 2/ ('000 metric tons)</u>	909	964	1,005	1,004	1,004	1,118	1,087
Total Exports	596	592	640	664	671	734	707
Puerto Cortés	419	367	398	400	371	410	319
Total Imports	313	372	365	340	333	384	380
Puerto Cortés	123	168	161	151	154	200	176

1/ Tegucigalpa, Comayagüela and immediate surroundings.

2/ Foreign trade only.

Source: Empresa Nacional de Energía Eléctrica, Dirección General de Estadística y Censos, and Stanford Research Institute, A Ten-Year Highway Program for Honduras.

TABLE 10

HONDURAS: CONSUMER PRICE INDEX FOR TEGUCIGALPA, 1953-1962 1/

(1948=100)

	Total Index	Food	Clothing	Housing	(Electricity)	Other
1953	120	139	87	115	100	92
1954	127	155	80	117	100	90
1955	138	163	101	124	100	95
1956	133	149	104	130	66	96
1957	130	142	103	132	55	93
1958	133	146	102	133	55	94
1959	135	144	92	149	45	93
1960	132	134	104	149	45	99
1961	134	137	105	149	45	101
1962	136	139	106	150	45	101

1/ Although the overall trend is roughly similar for San Pedro Sula, the second largest city, there are numerous variations within the various categories. There is no price index for the country as a whole.

Source: Banco Central, Boletín Mensual.

TABLE 11.

HONDURAS: SUMMARY ACCOUNTS OF THE BANKING SYSTEM, 1955, 1958-1962  
(million lempiras)

	1955	1958	1959	1960	1961	1962
<u>International Reserves</u>	40.3	15.7	17.9	16.2	12.3	12.0
Assets	41.6	19.0	26.6	28.8	26.6	29.0
Liabilities	- 1.3	- 3.3	- 8.6	-12.6	-14.3	-17.0
<u>Gold and Foreign Currency Subscriptions to International Organizations</u>	1.3	3.9	4.3	6.4	7.6	8.4
<u>Domestic Credit</u>	54.3	89.0	92.5	96.1	102.8	117.5
To Public Sector (net) <sup>1/</sup>	8.4	22.6	22.2	20.9	21.4	28.6
To Private Sector	45.3	58.9	63.0	65.1	69.8	76.0
Official Capital	-10.9	-15.6	-16.6	-17.7	-18.2	-18.8
Interbank Float	0.5	1.5	1.2	- 0.3	0.9	1.0
Unclassified Assets (net)	11.1	21.6	22.6	28.1	29.8	30.7
<u>Liabilities to Private Sector</u>	95.9	108.6	114.7	118.7	122.7	137.9
Currency in Circulation	33.5	36.1	35.7	35.0	34.2	38.0
Demand Deposits	27.2	26.4	28.7	28.4	29.7	34.3
Time Deposits	5.9	9.1	11.6	17.2	18.8	22.9
Savings Deposits	5.6	6.4	6.3	4.1	4.3	6.8
Deposits in Foreign Currency	-	0.6	1.1	1.6	2.3	2.7
Specialized Savings	9.2	13.7	12.2	12.3	12.7	12.6
Capital and Reserves	14.5	16.3	19.1	20.1	20.7	20.6

<sup>1/</sup> Includes small amounts of National Development Bank securities and private sector securities.

Source: Banco Central, Boletín Mensual, and International Monetary Fund.

TABLE 12

HONDURAS: OUTSTANDING BANKING SYSTEM LOANS BY PURPOSE

(million lempiras)

	1954	1955	1956	1957	1958	1959	1960	1961	1962
<u>Agriculture</u>	4.1	6.7	8.8	13.6	14.3	12.5	10.4	11.4	11.1
BNF <u>1/</u>	2.8	4.6	5.7	8.8	9.1	7.7	5.9	6.2	8.9
<u>Cattle and Livestock</u>	1.0	1.6	2.1	2.2	2.3	2.5	2.6	3.1	5.1
BNF	0.9	1.3	1.8	1.7	1.9	1.9	1.7	1.9	3.2
<u>Industry</u>	2.1	4.2	5.1	6.4	6.1	5.2	6.4	7.4	7.1
BNF	1.0	1.6	2.1	1.8	1.8	1.3	1.0	0.9	1.4
<u>Real Estate</u>	12.9	14.6	16.8	20.1	20.2	23.2	22.9	23.1	20.3
Banco de la Propiedad	2.3	3.8	4.0	5.7	6.0	7.1	6.6	7.0	6.5
<u>Commerce</u>	14.9	14.9	15.3	12.6	10.2	13.4	16.2	17.5	20.4
<u>Consumption and Services</u>	2.9	3.3	4.5	4.6	5.8	6.2	6.5	7.1	9.3
Total	37.9	45.3	52.6	59.5	58.9	63.0	65.0	69.7	73.2

1/ Banco Nacional de Fomento.

Source: Banco Central.

TABLE 13

HONDURAS: FISCAL OPERATIONS OF THE CENTRAL GOVERNMENT, 1953-1962

(million lempiras)

	1953	1957	1958	1959	1960	1961	1962
<u>Current Revenues</u>	44.4	69.3	64.5	67.2	71.1	72.8	74.6
<u>Total Expenditures</u>	48.4	73.2	75.0	77.7	79.2	77.3	82.6
Current expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	(67.4)	(72.2)
Investment	n.a.	n.a.	n.a.	n.a.	n.a.	(9.5)	(10.4)
<u>Deficit</u>	-4.0	-3.9	-10.5	-10.5	-6.5	-4.5	-8.0
Financed by:							
Net external credit	-0.4	3.2	4.8	9.7	5.9	2.6	4.1
Utilization	-	3.7	5.8	10.8	8.4	6.0	6.7
Amortization	-0.4	-0.5	-1.0	-1.1	-2.5	-3.4	-2.6
Net domestic credit	3.2	1.4	5.1	0.6	0.8	2.3	3.3
Utilization	4.8	4.0	9.8	4.4	5.3	7.3	9.5
Amortization	-1.6	-2.6	-4.7	-3.8	-4.5	-5.0	-6.2
Use of cash balances	1.2	-0.7	0.6	0.2	-0.2	-0.4	0.6

Source: Ministerio de Economía y Hacienda; Dirección General del Presupuesto, and International Monetary Fund.

TABLE 14

HONDURAS: CENTRAL GOVERNMENT EXPENDITURES, 1953-1962

(million lempiras)

	1953	1957	1958	1959	1960	1961	1962
Defense	6.1	10.0	9.1	9.3	8.2	) 14.5	14.7
Security and justice	2.9	4.4	4.3	4.5	5.9		
General administration	8.8	14.6	13.3	13.3	12.6		
Public health	3.4	6.3	6.7	7.2	6.7	6.8	6.9
Urban services and housing	2.4	2.0	3.2	4.7	1.6	1.4	1.2
Education	5.5	8.4	11.5	13.9	14.9	15.5	16.3
Welfare and social security	0.5	0.8	0.5	0.5	1.7	2.6	2.3
Communications	2.0	1.5	1.1	1.4	1.3	1.2	3.4
Transport	11.3	14.7	16.9	15.2	17.9	13.9	14.8
Agriculture and natural resources	2.6	5.8	4.0	3.1	2.6	2.8	2.7
Other functions	3.1	3.4	3.1	2.9	2.7	2.5	2.4
Unclassified	0.3	1.3	1.3	1.7	3.1	2.9	2.9
<b>Total</b>	<b>48.4</b>	<b>73.2</b>	<b>75.0</b>	<b>77.7</b>	<b>79.2</b>	<b>77.3</b>	<b>82.6</b>

Source: International Monetary Fund, Banco Central.

TABLE 15

## HONDURAS: CENTRAL GOVERNMENT CURRENT REVENUES, 1953-1962 1/

(million lempiras)

	1953	1957	1958	1959	1960	1961	1962
<u>Direct taxes</u>	8.2	14.8	10.3	11.3	11.2	10.3	10.0
Income tax	7.8	13.7	9.4	10.7	10.4	9.5	9.2
Social security tax	-	0.1	0.1	0.1	0.1	0.1	0.1
Property tax	0.4	1.0	0.8	0.5	0.7	0.7	0.7
<u>Indirect taxes</u>	33.7	49.8	50.6	53.2	56.4	56.3	58.9
Production and sales taxes	10.7	16.3	17.5	18.0	19.1	18.9	20.6
Other indirect taxes	0.2	0.1	0.1	0.2	0.2	0.1	0.1
Import taxes	21.4	30.7	30.2	31.5	33.7	34.3	34.8
Export taxes	1.4	2.7	2.8	3.5	3.4	3.0	3.4
<u>Miscellaneous</u>	3.9	6.3	5.5	5.6	5.4	8.1	7.7
Port, airport and customs charges	1.6	2.2	2.2	2.0	2.1	2.0	2.4
Proceeds from public operations and services	2.1	3.5	2.8	2.8	2.9	2.8	3.0
Transfers from abroad	-	-	-	-	-	3.0	-
Private transfers	0.2	0.4	0.3	0.4	0.4	0.3	1.2
Adjustments	-	0.2	0.2	0.4	-	-	0.1
Total	46.3	71.8	66.7	70.1	73.5	75.2	75.6

1/ These data differ from those in Table 13, in that the miscellaneous items here are for gross revenues, some of which are returned to various semi-autonomous agencies; these revenues are excluded from Table 13.

Source: International Monetary Fund, and Banco Central.

TABLE 16

HONDURAS: BALANCE OF PAYMENTS, 1955-1962  
(million dollars)

	1955	1956	1957	1958	1959	1960	1961	1962 <sup>1/</sup>
Exports, f.o.b.	53.8	75.3	66.4	71.4	70.3	64.4	74.1	81.8
Imports, f.o.b.	<u>-55.3</u>	<u>-60.2</u>	<u>-70.2</u>	<u>-67.6</u>	<u>-63.4</u>	<u>-65.5</u>	<u>-66.3</u>	<u>-74.4</u>
Trade Balance	- 1.5	-15.2	- 3.8	3.8	6.9	- 1.1	7.8	7.4
Service transactions and private donations (net)	- 6.4	-22.3	-10.7	-13.8	- 9.2	3.6	- 7.8	-14.4
Direct Investment (net)	<u>2.1</u>	<u>0.3</u>	<u>2.9</u>	<u>- 5.0</u>	<u>- 2.6</u>	<u>- 7.6</u>	<u>- 6.2</u>	<u>- 4.8</u>
Balance on goods, services, private donations, and direct investment	- 5.8	- 6.8	-11.6	-15.0	- 4.9	- 5.1	- 6.2	-11.8
Private long-term borrowing (net)	-	-	0.8	0.9	- 0.5	-	- 0.1	-
Other private capital (net)	- 0.8	- 1.3	- 2.3	- 1.5	- 1.2	- 0.8	- 0.4	- 0.2
Loans and economic aid to the official sector (net)	1.5	1.7	3.3	4.7	8.0	6.7	7.0	9.9
Other official capital (net)	0.5	-	-	- 0.1	- 1.0	- 0.4	- 0.9	- 1.3
Errors and omissions (net)	<u>- 0.1</u>	<u>4.6</u>	<u>5.8</u>	<u>5.7</u>	<u>0.9</u>	<u>- 0.7</u>	<u>- 1.3</u>	<u>3.2</u>
Surplus or Deficit	- 4.7	- 1.8	- 4.0	- 5.3	1.3	- 0.3	- 1.9	- 0.2

<sup>1/</sup> Preliminary.

Source: International Monetary Fund and Banco Central.

TABLE 17

## HONDURAS: INTERNATIONAL RESERVES OF THE BANKING SYSTEM, 1953-1963

(million dollars)

End of Year	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	Aug. 1962	Aug. 1963
<u>Central Bank</u>												
(1) Gross Gold and Foreign Exchange <u>1/</u>	22.1	23.7	19.4	17.7	16.1	8.0	12.4	13.3	12.4	13.3	14.0	14.8
(2) Liability to IMF	-	-	-	-	3.8	-	3.8	5.0	6.3	7.5	5.0	5.0
(3) Other Liabilities	0.3	0.8	0.6	0.7	0.6	0.5	0.3	0.2	0.2	0.2	0.4	0.2
(4) Net Gold and Foreign Exchange (1-2-3=4)	21.8	22.8	18.8	17.0	11.8	7.5	8.3	8.1	5.9	5.6	8.6	9.6
<u>Other Banks</u>												
(5) Net Foreign Exchange	1.5	2.0	1.4	1.5	1.4	0.3	0.6	-	0.3	0.4	0.7	0.7
<u>Total</u>												
(6) Net International Reserves (4+5)	23.3	24.9	20.2	18.4	13.2	7.8	9.0	8.1	6.2	6.0	9.3	10.3

1/ Excluding gold subscription payment to the IMF and dollar subscription payment to the Central American Clearing House, but including credit balance with the Clearing House.

Source: International Monetary Fund.

TABLE 18

## HONDURAS: COMPOSITION OF EXPORTS 1952-1962

	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	Prelim. 1962
Value (\$ million)											
Bananas	40.6	41.1	28.3	23.2	43.9	33.7	37.6	32.1	28.2	39.4	37.5
Coffee	9.5	12.1	14.2	11.1	13.6	12.0	11.1	11.9	11.8	9.0	11.5
Silver, lead and zinc <sup>1/</sup>	2.8	4.9	3.0	3.3	2.6	3.1	3.2	3.4	3.8	5.1	5.0
Timber	3.6	3.6	3.3	5.4	4.8	7.9	6.6	8.2	8.2	7.5	7.1
Live cattle and hogs	1.5	1.7	1.6	1.9	2.3	2.4	2.5	2.5	2.4	3.0	3.2
Frozen meat	-	-	-	-	-	-	-	0.5	1.1	1.6	2.6
Cotton	0.2	0.2	0.1	0.1	0.4	0.4	2.6	2.6	0.6	0.3	2.1
Corn	n.a.	n.a.	n.a.	n.a.	0.8	0.4	0.9	1.8	1.0	0.5	3.0
Beans	n.a.	n.a.	n.a.	n.a.	0.7	0.5	0.9	1.1	0.9	1.3	1.8
Other exports (incl. re-exports)								(	(	(	(
Balance of payments adjustment	4.4	3.9	3.5	4.3	5.2	4.8	6.1	6.1	4.0	4.7	6.5
								(	2.4	1.7	1.7
<b>Total</b>	<b>62.8</b>	<b>68.1</b>	<b>54.6</b>	<b>50.5</b>	<b>75.3</b>	<b>66.4</b>	<b>71.8</b>	<b>70.2</b>	<b>64.4</b>	<b>74.1</b>	<b>81.8</b>
Volume											
Bananas (million stems)	12.6	12.4	9.2	7.8	12.6	11.5	13.5	12.1	10.8	12.7	11.3
Coffee ('000 60 kg bags)	147	189	155	149	199	174	189	255	258	210	266
Silver ('000 troy ounces)	3.7	5.6	3.4	3.8	1.9	3.0	2.8	2.8	2.6	3.3	2.9
Timber ('000 cubic meters)	137	129	110	184	171	239	202	265	258	228	204
Head of cattle ('000 units)	n.a.	n.a.	n.a.	n.a.	80	86	86	82	97	103	89
Frozen meat ('000 mt. tons)	-	-	-	-	-	-	-	0.7	1.7	2.4	4.5
Cotton ('000 metric tons)	n.a.	n.a.	n.a.						1.2	0.8	3.6
Corn ('000 metric tons)	n.a.	n.a.	n.a.	n.a.	12.7	5.5	13.2	25.2	17.5	9.4	40.2
Beans ('000 metric tons)	n.a.	n.a.	n.a.	n.a.	5.7	5.6	7.5	9.1	9.4	12.0	13.5

<sup>1/</sup> Shipments of lead and zinc arise because the silver is refined abroad.

Source: Banco Central, Banco Nacional de Fomento.

TABLE 19

HONDURAS: MINOR EXPORTS, 1959-1962

	Volume				Approx. Value (thousand US\$)			
	1959	1960	1961	1962	1959	1960	1961	1962
Cement ( '000 metric tons)	1.0	9.9	17.1	22.8	20	200	400	550
Tobacco (metric tons)	1,380	1,340	1,720	1,770	470	490	430	600
Margarine and vegetable shortening (metric tons)	470	1,050	1,890	2,230	230	530	970	1,130
Seed ( '000 metric tons)	7.2	3.2	3.0	6.9	460	260	180	370
Leather (metric tons)	200	550	750	990	50	90	210	350
Plantains ( '000 stems)	300	260	340	510	120	120	190	210
Coconuts (million units)	6.6	6.1	5.1	3.5	270	280	240	160
Fruits and vegetables ( '000 metric tons)	2.6	4.6	3.6	4.1	120	210	310	240
Cheese (metric tons)	140	200	190	250	50	80	80	160
Fish and shrimp (metric tons)	200	210	130	220	240	180	120	190
				Total Value	2,030	2,440	3,130	3,960

Source: Banco Central.

TABLE 20

## HONDURAS: DESTINATION OF EXPORTS, 1953-1962

(million dollars)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
United States	52.9	43.0	33.1	47.8	41.5	43.0	36.1	35.5	47.5	45.1
West Germany	0.3	0.4	3.2	4.3	4.3	3.7	5.8	4.5	3.9	5.7
Holland	0.7	2.3	1.3	0.5	0.6	1.3	1.6	2.0	1.3	3.0
Canada	5.4	2.2	0.8	6.7	3.2	3.4	1.8	1.5	2.8	2.2
Cuba	1.7	1.2	1.8	1.6	1.9	1.9	2.2	1.6	0.3	-
Venezuela	0.9	0.6	1.2	1.2	3.0	1.5	2.7	1.7	1.4	0.9
Central America (incl. Panama)	4.2	4.1	4.7	6.6	6.0	6.7	8.0	8.2	8.7	12.5
El Salvador	3.9	3.7	4.0	6.1	5.1	5.3	6.3	6.3	6.2	8.9
Guatemala	0.1	0.2	0.6	0.4	0.8	1.0	1.3	1.6	2.1	3.0
Other	1.1	1.8	2.0	3.7	3.4	7.2	9.0	7.4	6.4	7.8
Total <u>1/</u>	67.2	55.6	48.1	72.4	63.9	68.7	67.2	62.4	72.3	77.2

1/ Excluding re-exports and balance of payments adjustments.

Source: Dirección General de Estadística y Censos, Comercio Exterior.

TABLE 21

HONDURAS: IMPORTS, 1958-1962

(f.o.b., million dollars)

	1958	1959	1960	1961	Prelim. 1962
<u>Consumer goods</u>	<u>27.1</u>	<u>27.1</u>	<u>28.2</u>	<u>30.3</u>	<u>32.4</u>
Food	5.7	5.3	5.6	5.6	6.1
Beverages and tobacco	0.5	0.6	0.5	0.6	0.6
Clothing	10.0	10.7	10.2	12.5	13.9
Furniture and fixtures	2.9	2.8	3.8	3.7	4.1
Medicines and consumption goods for the home	3.5	3.8	4.2	3.8	3.6
Vehicles and other consumer goods	4.2	3.7	3.7	3.9	3.8
<u>Construction materials</u>	<u>4.9</u>	<u>3.8</u>	<u>4.6</u>	<u>4.0</u>	<u>5.5</u>
<u>Raw materials</u>	<u>20.7</u>	<u>19.5</u>	<u>16.0</u>	<u>17.3</u>	<u>18.3</u>
<u>Capital equipment</u>	<u>14.9</u>	<u>12.9</u>	<u>16.7</u>	<u>14.2</u>	<u>17.7</u>
Machinery and attached parts	9.4	7.7	10.4	8.4	12.0
Vehicles	3.8	3.5	3.6	3.1	3.0
Parts for vehicles	0.9	0.9	2.0	2.0	2.1
Other	0.9	0.8	0.7	0.7	0.7
 TOTAL F.O.B.	 67.6	 63.3	 65.5	 66.3	 74.4

Source: Ministry of Economy and Finance.

TABLE 22

HONDURAS: TERMS OF TRADE 1953-1962

(1958=100)

	Export Prices	(Bananas)	(Coffee)	Import Prices	Terms of Trade (E:I)
1953	104	112	121	93	112
1954	109	104	175	93	117
1955	114	106	111	94	121
1956	116	118	132	97	120
1957	n.a.	100	132	n.a.	n.a.
1958	100	100	100	100	100
1959	91	90	90	101	90
1960	90	90	88	102	88
1961	89	89	82	102	87
1962	n.a.	102	83	n.a.	n.a.

Source: International Financial Statistics.