Statement by Valeriano F. García  
Date of Meeting: December 14, 1999

Honduras: Country Assistance Strategy

We welcome the discussion on the Honduras CAS and the importance to put in practice some strategic tools of economic policy in this country, recently devastated by natural phenomena. In this regard, we are broadly in agreement with the four points of staff recommendation (Paragraph. 51).

However, we would like to add some comments. A rapid macroeconomic stabilization, which includes a strong fiscal policy and a tight monetary policy, would be the cornerstone to improve governance, and as a result, attend the social sectors appropriately. Without the basic economic foundation, the most vulnerable groups will pay permanently the high cost of stop-and-go policies and the more complex cost and impact of improvisation. The government must establish clear goals, such as reducing inflation and unemployment to acceptable levels, in order to set priorities.

Before Hurricane Mitch devastated the country at the end of October 1998, the economy was making important strides towards development. Staff ascertains, “economic growth will turn negative in 1999, with considerable social consequences, especially in terms of unemployment.” In this regard, we understand the adequate use of national and international resources to revamp production and trade is of utmost importance, as is to increase productivity and government revenues. Furthermore, the quality of expenditure has to be improved and conditions enhanced to attract national and foreign capitals. Basic conditions for stabilization have to be created in order to achieve growth, with sound policies in the human resources and social areas.

With the hurricane Honduras suffered damages amounting to 3.6 billion dollars. The backbone of the economy was affected, as the agricultural sector suffered losses of 1.6 billion...
dollars. There were also losses in housing, health centers, schools and infrastructure, as well as in the drinking water and sewage systems. The CAS puts special attention in creating the conditions to rebuild infrastructure, strengthen the financial sector and boost private sector development. We understand financial support should be opportune and appropriate to carry out the process of rebuilding the nation and its basic production, and at the same time maintain essential conditions of stability and peace.

The decision of the authorities of Honduras to encourage private investors to actively participate in the reconstruction process is promising. In this regard, the government has been authorized by the Congress to sign contracts to build and operate infrastructure projects, including roads, ports and airports, in order to attract private investors. Tourism, investment, and mining activities are being encouraged. We understand these actions could help speed up the privatization process within a whole set of structural reforms. These reforms should give more room for private activities and should also help to improve productivity, enhance market-oriented policies, open the possibility to increase revenues; in short, make a fresh start with a smaller and more efficient public sector.

The portfolio status shows that the Government has sought to maximize the effective use of resources after the hurricane. The restructuring of two projects this year according to the requirements of the country implied the prerequisite of work in the field to understand correctly the existence of ownership and refurbish the real capacity of project execution.

The Government of Honduras and staff are making significant efforts regarding loan portfolio quality. It is essential to take advantage of the external sources of finance, and in this regard, internal and donors’ coordination is fundamental to avoid leaking and overlapping.

In conclusion, the Government of Honduras needs the support of the international community to meet the challenges of delivering economic growth and development as well as to withstand present pressures and pave the way for further development.

We wish the best to the authorities of Honduras in their laudable efforts to provide the population with adequate social safety nets.