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Honduran Cabinet officials and the Central Bank president went to Washington, DC, in early April to sign a new agreement with the International Monetary Fund (IMF) that will bring in much-needed international loans. The visit was timed to coincide with the passage of a new tax code, something long sought by the IMF. Because of the economy's disappointing performance in 1996, President Carlos Roberto Reina's administration was unable to reach agreement with the IMF on a new letter of intent that would have freed up some US$350 million in new loans (see NotiCen, 03/13/97).

On April 9, however, the government announced that it had accepted an arrangement whereby the IMF will lower some of the macroeconomic targets for Honduras and monitor the economy through the remainder of 1997. According to Guillermo Bueso, advisor to the Economic Cabinet, the agreement will free US$43.2 million in loans from the World Bank earmarked for state-modernization programs and the electric-power system. In all, Bueso expects loans totalling US$146 million in 1997 as a result of the agreement.

IMF sets interim economic goals

Under the monitoring program, the IMF wants to see the economy meet goals similar to those first set by the IMF in 1994. By the end of 1997, economic growth is supposed to rise from last year's 3.5% to 4.5%, inflation should drop from 24.9% in 1996 to 15%, and the public-sector fiscal deficit should decline from 2.7% of GDP in 1996 to 2.5%.

The IMF also expects growth in gross international reserves, lower customs taxes on imported raw materials, lower corporate taxes, and a reduction in the banana export tax from the current US$0.05 per box to US$0.04. Treasury Minister Juan Ferrera said the agreement was possible because the country had made "enormous efforts to control and manage the economy," despite many social demands during 1996.

Ricardo Maduro, ex-president of the Central Bank, described the agreement as a mere "palliative," and said that a letter of intent would have been better because it carries greater credibility and allows greater access to international loans. But President Reina defended the decision to go after the monitoring program agreement. "If we had signed that letter of intent...we would have gotten ourselves in a horrible mess," said Reina. For example, he said, instead of an inflation goal of 15%, the IMF would have demanded 7%, and a fiscal deficit of 2% instead of 2.5%.

Furthermore, the IMF would have insisted on a huge increase in consumer taxes. The monitoring agreement, on the other hand, opens up access to international credit without "such strict obligations," said Reina. He predicted that the agreement would improve the economy enough this

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year to negotiate a significant reduction next year in the debt owed to the Paris Club of international creditors.

Assembly passes tough tax law

The new tax law, which was crucial in convincing IMF officials to agree on the monitoring program, was approved by the legislature on April 3 and will go into effect on June 1. Some critics called the law "Draconian" and faulted it for the harsh effect it would have on the large number of people working in the informal economy. The code sets prison terms of up to 20 years for various kinds of tax fraud, traffic in contraband, and participation in the informal economy. The government estimates the cost in lost revenue from tax evasion at more than US$77 million annually. [Sources: International Monetary Fund press release, 01/31/95; Spanish News Service EFE, 04/09/97, Inter Press Service, 04/10/97; El Tiempo (Honduras), 04/04/97, 04/07/97, 04/17/97, 04/19/97]

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