12-19-1996

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LADB Article Id: 55395
ISSN: 1089-1560

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Category/Department: Honduras
Published: 1996-12-19

Despite a few recent bilateral debt-reduction agreements, the most recent with the US, the Honduran foreign-debt picture is not likely to improve markedly in the next year. Planned negotiations with the Paris Club of bilateral creditors have been postponed until 1998 because the government has not fully carried out previous agreements with the multilateral banks. However, Treasury officials say that, by 1998, the economy may receive high enough marks from the International Monetary Fund (IMF) to permit the next administration to negotiate a better deal with the Paris Club than it could get now.

The government has been successful in whittling down the debt with the Paris Club by US$645 million in recent years, but the total is still a daunting US$1.1 billion, or approximately one-quarter of the total US$4.3 billion foreign debt. Without a significant reduction, next year's payment on the foreign debt will reach US$633 million, a sum equal to 60% of the projected export earnings for 1997 (see NotiCen, 08/29/96).

In early December, the US government agreed to restructure US$12 million of the US$160 million Honduran bilateral debt, which is payable next year. Under the agreement, US$4.4 million will be forgiven and most of the remainder refinanced at commercial interest rates over 23 years with a six-year grace period. To receive the reduction, Honduras has agreed to sign a new three-year letter of intent with the IMF on economic policy.

The key element in this and other debt-negotiation deals Honduras wants to make is the IMF's approval on the direction the economy is taking and its compliance with multilateral-bank requirements. Nothing prevents Honduras from working out arrangements for piecemeal debt reduction with bilateral creditors. But most of these creditors, members of the Paris Club, are waiting for a new letter of intent before agreeing as a group to deep across-the-board reductions. The government had intended to ask for a massive 67% reduction from the Paris Club.

By all accounts, however, the economy was too far out of compliance to get IMF approval. A crucial IMF review scheduled for October has been postponed until early next year. So too has debt renegotiation with the Paris Club, which now is not expected to take place until 1998 when the government hopes to have completed three years of IMF approval of its economic accomplishments. As a precondition for those talks, the Honduran legislature must approve a new tax code, autonomy for the Central Bank, and a system of automatic rate adjustments for electric-power usage. Meanwhile, because of the problems with the IMF, Treasury Minister Juan Ferrera could not say for certain that the World Bank and the Inter-American Development Bank (IDB) will release two US $20 million loans already approved, because these too depend on a new IMF accord.

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The funds are aimed at assisting Honduras in reaching its state-modernization goals and for agricultural development. The two banks have given the government only six months to secure IMF approval. The IDB loan is specifically contingent upon compliance with the electricity-rate reform and approval of a bill to free up petroleum-derivative pricing. The World Bank loan will not be issued until Honduras completes a program of rationalizing land titles, reforms credit policies of the National Development Bank (Banco Nacional de Desarrollo, BANDESA), and carries out agreements made with the Forest Development Corporation (Corporacion Hondurena de Desarrollo Forestal, COHDEFOR). In all, some US$250 million in loans from various sources will be freed up once a new IMF accord is signed. Ferrera was optimistic, however, that the two loans would come through and that at the 1998 Paris Club meeting the government would be in a better position with the IMF and could ask for a much greater reduction of the debt, perhaps as much as 90%.

This optimism appears to rest on his conviction that the economy is doing well this year despite a 20% inflation rate. Central Bank president Hugo Noe Pino noted that first-semester GDP grew by 3.4% and was likely to reach the 4% goal set for the year. Nevertheless, Adolfo Facusse, president of the National Association of Industrialists (Asociacion Nacional de Industriales, ANDI), blamed the IMF problem on the government's poor handling of its economic agreements and called the debt negotiation initiative a failure.

Part of the problem lies in policy disputes between Guillermo Bueso, Economic Cabinet coordinator, and Central Bank president Pino regarding basic economic policy. According to Facusse's charges, Bueso blames the government's economic failures on Pino's inability to stabilize the currency and his opposition to liberalization of fuel prices. The dilemma now facing the administration is that some key commitments made to the multilateral banks are vigorously opposed by labor unions, business, or other groups and are certain to become political issues in the 1997 presidential election. For instance, the commitment to lift government controls on fuel prices adds to the already perilously high inflation rate.

While fuel-price liberalization has support in the business sector, no one can guarantee that it will lead to price reductions. Facusse warned that "to leave [prices] entirely up to the market when there are only two petroleum importers does not really make sense." Furthermore, he and other critics argue that the long string of fuel-price increases was not really the result of market forces but was intended to raise revenue at a time when the government was supposed to be lowering the fiscal deficit through spending cuts.

Meanwhile, Honduras still needs fresh loans if it is to comply with its multilateral commitments. While it has temporarily lost the World Bank and IDB loans, it may receive bilateral loans totalling US$52 million from Venezuela and Taiwan for housing construction, tourism, and other programs. Treasury officials have indicated that they may not recommend accepting the US$17 million from the Venezuelan Investment Fund, however, because the multilateral fund is not offering preferential interest rates. [Sources: Reuter, 10/30/96; Inforpress Centroamericana (Guatemala), 08/12/96, 11/14/96; El Tiempo de Honduras, 11/15/96, 11/22/96, 11/25/96, 11/26/96, 11/27/96, 11/29/96, 12/03/96, 12/05/96]

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