73/GS/E

Honduras

August 1973

The Economy

NATIONAL INTELLIGENCE SURVEY

FOR OFFICIAL USE ONLY

NATIONAL INTELLIGENCE SURVEY PUBLICATIONS

The basic unit of the NIS is the *General Survey*, which is now published in a bound-by-chapter format so that topics of greater perishability can be updated on an individual basis. These chapters—Country Profile, The Society, Government and Politics, The Economy, Military Geography, Transportation and Telecommunications, Armed Forces, Science, and Intelligence and Security, provide the primary NIS coverage. Some chapters, particularly Science and Intelligence and Security, that are not pertinent to all countries, are produced selectively. For small countries requiring only minimal NIS treatment, the *General Survey* coverage may be bound into one volume.

Supplementing the *General Survey* is the NIS *Basic Intelligence Factbook*, a ready reference publication that semiannually updates key statistical data found in the Survey. An unclassified edition of the factbook omits some details on the economy, the defense forces, and the intelligence and security organizations.

Although detailed sections on many topics were part of the NIS Program, production of these sections has been phased out. Those previously produced will continue to be available as l g as the major portion of the study is considered valid.

A quarterly listing of all active NIS units is published in the *Inventory of Available NIS Publications*, which is also bound into the concurrent classified Factbook. The Inventory lists all NIS units by area name and number and includes classification and date of issue; it thus facilitates the ordering of NIS units as well as their filing, cataloging, and utilization.

Initial dissemination, additional copies of NIS units, or separate chapters of the *General Surveys* can be obtained directly or through liaison channels from the Central Intelligence Agency.

The *General Survey* is prepared for the NIS by the Central Intelligence Agency and the Defense Intelligence Agency under the general direction of the NIS Committee. It is coordinated, edited, published, and disseminated by the Central Intelligence Agency.

WARNING

This document contains information affecting the national defense of the United States, within the meaning of title 18, sections 793 and 794 of the US code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

CLASSIFIED BY 019641. EXEMPT FROM GENERAL DECLASSIFICATION SCHEDULE OF E. O. 11652 EXEMPTION CATEGORIES 5B (1), (2), (3). DECLASSIFIED ONLY ON APPROVAL OF THE DIRECTOR OF CENTRAL INTELLIGENCE.

WARNING

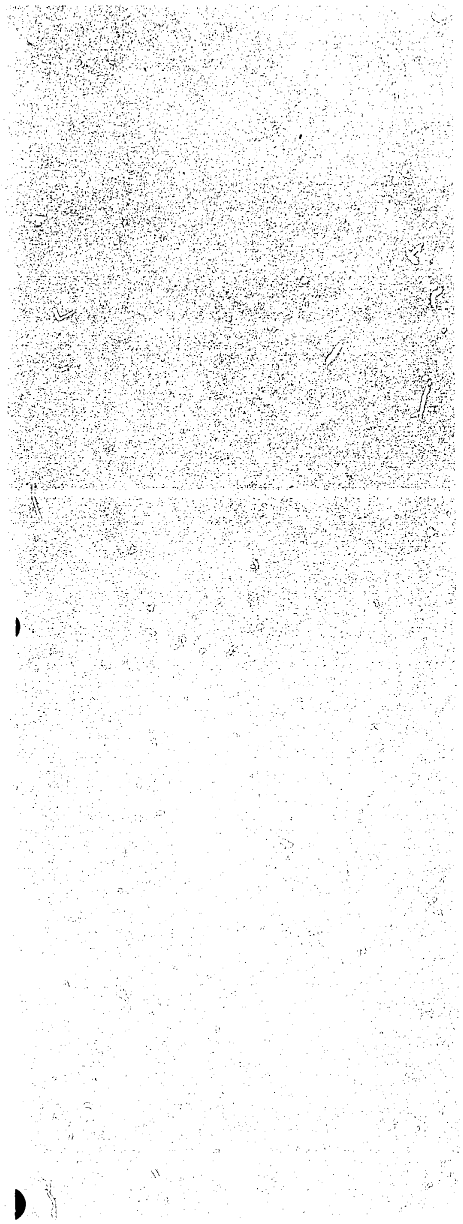
The NIS is National Intelligence and may not be released or shown to representatives of any foreign government or international body except by specific authorization of the Director of Central Intelligence in accordance with the provisions of National Security Council Intelligence Directive No. 1.

For NIS containing unclassified material, however, the portions so marked may be made available for official purposes to foreign nationals and nongovernment personnel provided no attribution is made to National Intelligence or the National Intelligence Survey.

Subsections and graphics are individually classified according to content. Classification/control designations are:

(U/OU) . . Unclassified/For Official Use Only
(C) . . . . . . Confidential
(S) . . . . . . Secret

This chapter was prepared for the NIS by the Central Intelligence Agency. Research was substantially completed by January 1973.



Honduras

CONTENTS

This chapter supersedes the economic coverage in the General Survey dated August 1969.

FOR OFFICIAL USE ONLY

FIGURES

The Economy

A. Economic appraisal

By any standard of comparison, Honduras is the poorest and least developed country in Central America. Gross domestic product (GDP) per capita was only US$260 in 1971, compared with an average of slightly more than $400 for other Central American countries and of $530 for all of Latin America. The total output of the Honduran economy is very small—approximately $740 million dollars in 1971. Rugged topography, a narrow natural resource base, and a weak institutional framework all contribute to the country's poverty and backwardness.

Because of a highly skewed distribution of income and wealth, the standard of living of most of the population, especially in the rural areas and in the rapidly growing slums around Tegucigalpa, is very low. Indicative of present deficiencies are the infant mortality rates, which are among the highest in the Western Hemisphere, the almost total lack of safe drinking water and other basic services, and the very high level of unemployment and underemployment.

Although Honduras is relatively small in both area and population, settlements are widely dispersed in scattered valleys, often connected by only the most rudimentary transportation, and the economy consequently has been fragmented. The valleys in the south and west traditionally have been more closely connected with El Salvador and Guatemala than with the rest of Honduras. The northern coastal area has been devoted largely to growing bananas for export to the United States. The capital, Tegucigalpa, has been isolated in the local economy of the central plateau.

Honduras is basically a two-level agrarian society with only a small industrial sector. Most of the 2.8 million people are peasants who eke out a subsistence living growing corn and beans on tiny plots using the most rudimentary techniques. On the other hand, Honduras also has a number of large-scale banana, coffee, and cotton plantations—many of them foreign owned—that use hired labor, apply considerably more modern techniques, and produce for the world market.

NOTE—The entire content of this chapter is UNCLASSIFIED but is FOR OFFICIAL USE ONLY.

Together the two agricultural sectors account for more than one-third of the country's gross domestic product (Figure 1). Bananas alone account for 10% of the GDP, and the health of the economy therefore depends to a great extent on this one crop.

Manufacturing, although it has been growing rapidly, contributes only a small share of total output. Most industrial enterprises are small-scale enterprises (Figure 2) serving domestic needs. Although gains have been made in developing production for export or for import substitution, progress is restricted by a lack of industrial and managerial skills and of necessary infrastructure, which has caused investment capital to be attracted to other Central American countries in preference to Honduras.

Honduras depends heavily on foreign trade, especially trade with the United States. Free trade relations with the Central American Common Market (CACM) during the 1960's enlarged the market for some industrial products whose manufacture for domestic use alone would not be economic and also provided outlets for some agricultural staples not readily marketable elsewhere. The termination of the free trade relations in January 1971 disrupted this trade, although it aided some less efficient Honduran industries that had suffered from competition within the CACM.

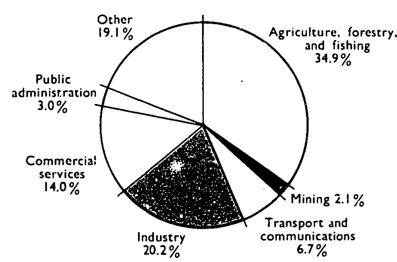
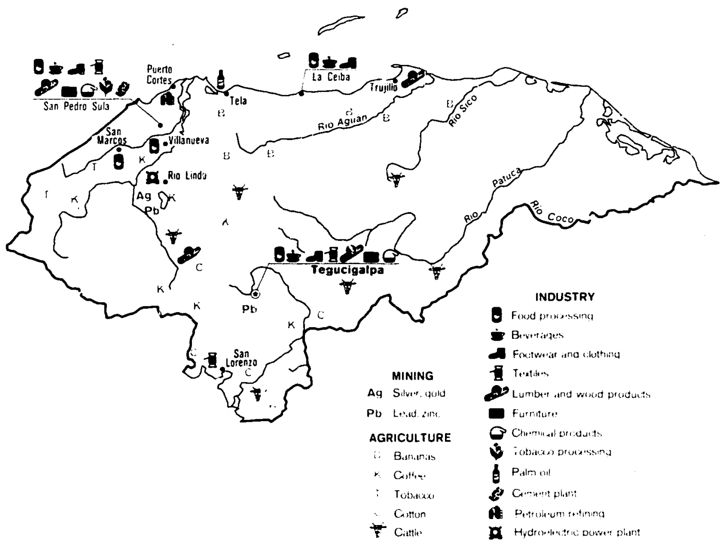


FIGURE 1. GDP by sector of origin, 1970



501788 5-73

FIGURE 2. Economic activity

1. Economic growth and government policy

The economy has grown sporadically in response to fluctuations in banana output and developments on the political scene. Real GDP per capita rose by an average of only 0.5% per year during the 1950's, from the equivalent of \$183[1] in 1950 to \$192 in 1960. Performance was more dynamic in the 1960's (Figure 3), with an average annual increase of 2.2% in real GDP per capita. Most of this growth occurred during 1964-68, when substantial investments by the banana companies led to a near doubling of merchandise exports. After 1968, economic expansion slowed sharply, and real income per capita remained almost stationary. This stagnation was due to a number of factors, including severe hurricane damage to the banana plantations in 1969 and 1972, poor market conditions for bananas, political instability and indecisiveness, and ramifications of the short war with El Salvador in mid-1969.

The Honduran Government never has been an effective force in promoting economic development. It has neither committed adequate funds and expertise to investment and economic planning, promoted legislation to encourage private investment, nor taken sufficient initiative to develop the economic infrastructure necessary to stimulate economic growth. Of great importance to Honduran development over the last decade has been the guidance and financial support (external financing accounts for approximately 40% of all public investment) of U.S. and international institutions.

[1]In 1966 Honduran prices.

2. Problem areas

Despite progress during the 1960's, Honduras still faces several obstinate problems. One of these is the need to provide employment for a growing labor force. Continued population growth at the present high rate (3.5% in the early 1970's) will severely strain an economy that is producing few new jobs in industry and has no easy access to new agricultural land. More intensive use of the potentially productive valley lands is urgently needed. Broad-based changes in the pattern of land ownership are necessary, but political, institutional, and fiscal constraints will impede such changes in the immediate future.

The need for improved social services and infrastructure is great. There are major deficiencies in education, health, and nutrition, particularly in rural areas, despite gains made in the last decade. The transportation network requires much further

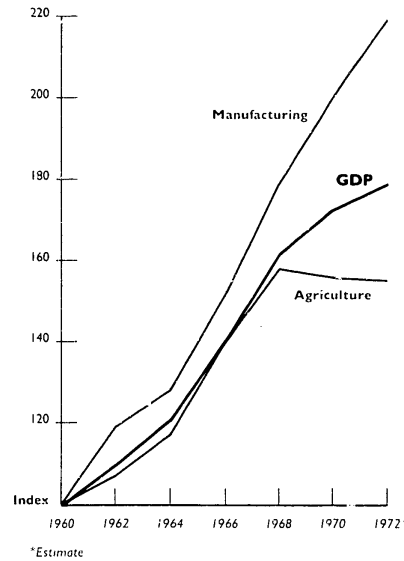


FIGURE 3. Growth of real GDP and selected components

expansion. Because government finances have deteriorated sharply since the 1969 war, the government must both increase revenues and curtail current expenditures before it can devote significant funds to developing services and infrastructure.

Another key problem is the future of Honduran relations with the CACM. This issue is highly controversial, because some elements of the business and labor community stand to lose by a return to regional free trade. There also is widespread concern over the country's trade and investment disadvantage in relation to the other members.

B. Structure of the economy

1. Agriculture

Agriculture, the mainstay of the economy, employs 65% of the labor force and accounts for about 35% of GDP and nearly 70% of export earnings. Bananas dominate the sector and consequently the entire economy, but crops such as coffee, cotton, corn, beans, and sugarcane also are grown on a significant scale (Figures 4 and 5). Livestock, particularly beef cattle, is important both for domestic consumption and for export.

Agriculture is heavily export-oriented. In 1970, approximately 63% of total production was sold abroad. Honduras also produces nearly all the food consumed domestically. Imports of food and beverages usually amount to less than 10% of all imports. Agricultural output grew steadily from 1963 through 1971, except for 1969, when there was heavy hurricane damage to crops. There was a sharp drop in output in 1972 as a result of further hurricane damage, unfavorable market conditions for bananas, and trade difficulties with neighboring countries. The following shows the values of agricultural production (in millions of U.S. dollars at 1961-65 average commodity prices).

Year	Crops	Livestock	Total agriculture
1961	101.5	22.5	124.0
1962	103.6	21.2	124.8
1963	102.4	22.1	124.5
1964	108.4	21.2	129.6
1965	124.6	21.3	145.9
1966	131.2	22.2	153.4
1967	135.4	23.2	158.6
1968	141.0	25.3	166.3
1969	135.8	25.5	161.3
1970	142.6	27.2	169.8
1971	155.4	29.2	184.6
1972*	129.8	30.4	160.2

*Preliminary data.

a. Land use and tenure

Of a total land area of 27.7 million acres, slightly more than 4 million are potentially arable, and roughly 2 million actually were under cultivation in 1971 (Figure 6). Much of Honduras is too mountainous for agriculture, and a large part of the lowlands is too hot and humid (annual rainfall usually exceeds 100 inches). In the southern and central areas, on the other hand, there are intermittent droughts. A large section of the country, extending northeast from Tegucigalpa to the sea, can support little agriculture because of poor soil, heavy forests, rugged terrain, and unfavorable climate.

The valleys of the north, south, and east are the most potentially productive areas. The northern valleys, of which Valle de Aguan,[2] Valle de Sula, and Valle de Lean are the most important, contain an estimated 1.5 million acres of productive land, but only the areas planted to bananas and sugarcane—less

[2]For diacritics on place names see the list of names on the apron of the Summary Map in the Country Profile chapter and the map itself.

FIGURE 4. Value added in agriculture
(Millions of 1966 lempiras)

	1960	1963	1966	1969	1970	ANNUAL GROWTH 1960 62 1968 70
						Percent
Bananas	52	53	109	118	120	*10.1*
Coffee	29	36	46	41	47	*6.2*
Cotton and oil crops	3	8	11	7	6	*2.1*
Tobacco and sugar cane	7	8	9	12	12	*6.1*
Corn	30	35	39	42	43	*3.7*
Other cereals	11	11	8	8	8	*-0.9*
Beans	13	16	16	18	18	*3.9*
Fruits, vegetables, and roots	29	30	30	32	36	*2.2*
Total crops	174	197	268	278	290	*5.8*
Livestock	58	66	67	77	81	*3.0*
Poultry	13	15	18	20	20	*4.9*
Forestry	38	°40	44	51	50	*3.5*
Fishing and hunting	3	2	4	5	7	*14.7*
Total ;‸riculture	286	320	401	431	418	*5.0*

FIGURE 5. Production of principal crops*
(Thousands of metric tons)

	1961	1966	1967	1968	1969	1970	1971	1972**
Bananas	959	1,270	1,281	1,351	1,280	1,442	1,623	1,220
Coffee	22	20	29	27	33	34	34	37
Cotton	4	10	8	8	3	2	2	3
Cottonseed	2	17	14	13	5	5	5	5
Sugar, raw (centrifugal)	24	37	45	54	57	53	61	62
Co‾‾	277	389	335	353	339	346	359	300
Beans	39	49	57	63	55	55	50	50
Rice	7	5	8	7	6	6	14	13
Tobacco	3	3	5	5	5	2	3	3

*Data are for calendar years.
**Preliminary data.

than 10% of the total—are used intensively. The remainder serve largely for grazing. Coffee, corn, and beans are grown on the mountain slopes throughout the northern, western, and southwestern parts of the country. Stockraising is widely distributed in the grassy upland basins and in the Pacific lowlands. Cotton plantations are found in the southern coastal plain.

Of the approximately 180,000 farms in the country (Figure 7), almost 70% are under 25 acres, and nearly half are under 10 acres. Most of these small farms are in less desirable, more mountainous terrain. Only about 6% of the farms contain more than 125 acres, but these account for 60% of all farmland. The largest single landholder is the Standard Fruit Company, whose several properties total 250,000 acres. On the large farms, which are located mainly in the Caribbean lowlands, only a small percentage of the land is cultivated. The larger part is unused or in pasture. The government is a large landholder, but only a small part of its land is being worked.

Only about 22% of all farms—mostly the larger ones—are operated by the owners under clear, individual titles. About 34% are worked by *ejidatarios* (farmers who work holdings called *ejidos*—national lands which municipalities have the right to allocate to residents for lifetime use). About 11% of all farms are operated by squatters who have no legal title to the land they are working (usually national land) and the remainder by sharecroppers or under some mixed form of tenancy.

The governments of Honduras have initiated numerous laws to encourage land ownership. The latest of these was the Agrarian Land Reform Law of 1962. Under it, the National Agrarian Institute (INA) is empowered to purchase or

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3

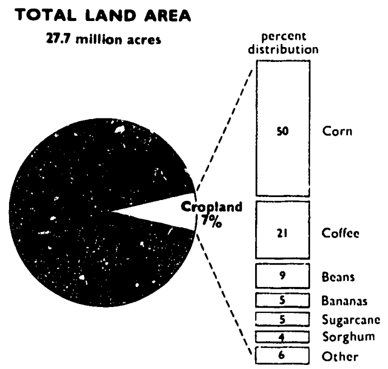


FIGURE 6. Land use, 1971 estimates

expropriate private land for distribution to the landless. The INA also has promoted new settlements on national lands and has tried to encourage cultivation of idle land. In general, however, the 1962 reform program has made little progress because of poor administration, limited financial resources, and apathetic national leadership.

The pattern of farm distribution contributes to low productivity and income. The concentration of farms on a relatively small extent of mountainous terrain while large areas of plains remain unexploited is inefficient. Moreover, insecurity of tenure is a disincentive to investment and more efficient production.

FIGURE 7. Farm units by size and area, 1965–66*

SIZE IN HECTARES**	FARM UNITS		AREA	
	Total (1,000's)	Percent of total	Total (1,000 acres)	Percent of total
0 4	81.0	*47.1*	188	*5.4*
5 9	36.4	*20.4*	240	*6.9*
10 19	27.1	*15.2*	360	*10.4*
20 49	20.0	*11.2*	589	*17.0*
50 99	6.4	*3.6*	427	*12.3*
100 199	2.5	*1.4*	321	*9.4*
200 499	1.3	*0.7*	382	*11.0*
More than 500	0.7	*0.4*	953	*27.5*
Total	178.4	*100.0*	3,463	*100.0*

*Government estimates.
**1 hectare = 2.47 acres.

b. Agricultural inputs and techniques

Agricultural productivity in Honduras, which is among the lowest in Latin America, is limited not only by problems of land tenure and by unfavorable soil and climate conditions but also by backwardness in methods of cultivation. Use of modern agricultural methods is limited almost exclusively to banana production. Imports of agricultural inputs amount to only $16 million a year, a low figure considering the importance of agriculture and the unavailability of such inputs from domestic sources.

There is very little mechanization in Honduras. The average farmer uses a machete to dig up the soil and a stick to sow the seed. In the country as a whole there is an average of one plow for every four farms.

Lack of transportation and communication and the prevalence of illiteracy hamper dissemination of information on modern farming methods. Extension services, provided mainly by the Directorate of Rural Development, are thinly spread and of limited effectiveness. The small farmer, who frequently is cultivating vulnerable mountain slopes, seldom practices soil conservation. Crops are not rotated, and only the largest farms use chemical fertilizers.

Irrigation, which could help to counter effects of irregular rainfall in several parts of the country, is limited to about 50,000 acres of banana plantations and about 25,000 acres of other crops. There are practically no drainage or flood protection works except on the banana plantations.

Agricultural credit has grown in recent years (Figure 8), but it has benefited mainly the larger commercial farmers, not the peasants. Commercial banks have extended most of the new credits. Lending for livestock development has been growing much more

FIGURE 8. Source and use of agricultural credit

	ANNUAL DISBURSEMENTS (MILLIONS OF CURRENT LEMPIRAS)		AVERAGE ANNUAL GROWTH RATE (PERCENT)
	1966	1970	1966 70
Commercial banks	19.4	80.9	*42.9*
Livestock	4.4	32.3	*64.0*
Crops	15.0	48.6	*34.2*
National Development Bank	23.2	24.5	*1.4*
Livestock	5.5	10.8	*18.4*
Crops	17.7	13.7	*-6.3*
Other institutions	6.7	10.2	*11.1*
Total agricultural lending	49.3	115.6	*23.7*
Livestock	11.3	48.1	*43.6*
Crops	38.0	67.5	*15.4*

rapidly than lending for crops. Most peasants, lacking proper land titles, find credit unavailable at reasonable rates. The government has attempted to aid small farmers through the National Development Bank (BANAFORM). Lending by this agency has stagnated in recent years, but a BANAFORM program for building grain storage facilities in Tegucigalpa and San Pedro Sula is potentially important for agricultural development. If this storage capacity leads to higher and more stable prices at the farm level, it will contribute significantly to agricultural incomes.

c. *Principal crops*

(1) *Export crops*

Bananas are by far the most important agricultural crop. Honduras is the fourth largest producer of bananas in the world and the second largest exporter, following Ecuador. Bananas are the chief source of foreign exchange earnings. Value added by the banana industry accounts for more than 25% of all agricultural production and close to 10% of GDP.

The banana industry is dominated by two large U.S.-owned companies, the Tela Railroad Company (a division of United Fruit Company) and the Standard Fruit and Steamship Company. These two firms grow or purchase nearly all the bananas exported by Honduras.

Banana production increased by 50% between 1960 and 1970 and by about 13% more in 1971. This growth was due mainly to good world market conditions that stimulated large capital investments, including the introduction of disease resistant varieties. There was a marked drop in output in 1972, as there had been in 1969, because of severe hurricane damage.

The Honduran banana industry is not in a favorable position for future expansion. World demand for the fruit has not matched increases in supply, and labor costs in the Honduran banana industry are higher than in other exporting countries.

Coffee is the second most important crop. It accounts for about 10% of the value of agricultural production, and more than 60% of output is exported. Both production and exports have grown considerably in the past decade. Although coffee is grown mainly on small- and medium-size farms, marketing is highly concentrated. Honduran coffee is of generally lower quality than that of other Central American countries because of less favorable soils and less modern processing facilities.

Tobacco, grown in the western part of the country, is raised mainly for export. Production has been stagnant in recent years, largely because of unsatisfactory marketing arrangements, but prospects for expanding output appear good. Most of the crop is a high-quality cigar leaf, for which world demand is strong.

Cotton was a major export crop in the mid-1960's, but its importance has since declined sharply because of falling world prices, weather and insect damage to crops, and the war with El Salvador, which caused the loss of thousands of skilled Salvadoran cotton workers. Honduran cotton-raising practices are crude, and the yield is low—less than 500 pounds per acre.

Honduras became self-sufficient in sugar in 1962 and began exporting in 1967. Sugarcane is grown mainly on commercial farms. The largest single producer is the Honduran Sugar Company, which has extensive fields near San Pedro Sula.

(2) *Domestic food crops*

Food crops consist mainly of corn and beans. Other cereals, including rice, sorghum, and millet, are grown in small quantities. Honduras raises almost no wheat but imports substantial amounts. Most corn and beans are consumed locally, but there usually is also a surplus for export. Export earnings from these crops have fallen sharply since the disruption of trade with El Salvador, the largest market.

About half of all cultivated land is planted to corn, the major item in the Honduran diet. This crop accounts for about 10% of the value of agricultural output. Most corn is grown on small- and medium-size farms, and modern methods of cultivation are practically unknown. Yields are low even in comparison with those of other Central American countries. Production rose by an average of 1% a year during the 1960's, only slightly faster than population.

Beans, the second basic food crop, provide most of the protein in the Honduran diet. About 40% of the bean crop is grown by primitive methods on plots of less than 10 acres.

d. *Livestock*

Beef cattle are the principal type of livestock, with herds numbering some 1.6 million head in 1970. About 80% of the cattle are raised by small farmers whose herds average less than 50 head, but there are some large producers, notably the two foreign-owned banana companies. In 1970 Honduras also had 550,000 hogs, more than any other Central American country. There are more than 180,000 horses—used both for work on farms and for transportation—as well as oxen, mules, and donkeys that are used for farmwork. Goats and sheep each number fewer than 25,000 head. Poultry flocks never have been adequate to cover domestic needs. Until the war in 1969, El

Salvador was the major source of poultry. Dairy herds also are too small to cover domestic requirements.

Honduras is self-sufficient in the major types of meat and also exports substantial quantities of both meat products and live animals. Domestic meat consumption, always low, has been declining. Meat production has been growing at an average rate of 3% a year since the early 1960's, but exports have been increasing at more than twice that rate, so that domestic supply has been reduced. Meat exports go mainly to the United States and Puerto Rico.

The livestock industry has considerable growth potential. There are vast areas of unexploited land suitable for grazing. Also, the quality of Honduran beef, which is quite low, could be improved substantially by better breeding and feeding.

e. *Fisheries*

Fishing, which is of only minor importance to the economy, is concentrated along the northeast coast. The government claims fishing rights around offshore keys and islands, in some cases as far as 100 miles out from the coast, and is trying to exercise control over the fishing fleet of approximately 150 vessels to prevent overexploitation of fish resources. It is estimated that over 6 million pounds of shrimp, the principal catch, and a half million pounds of lobster were taken in 1971. Almost all shrimp and lobster, after initial processing in Honduran plants (see Manufacturing), go to the United States and Puerto Rico.

f. *Forestry*

Honduras has the largest pine and hardwood forests in Central America, constituting a rich and relatively untouched resource. Systematic harvesting of forests has been hampered by the lack of appropriate infrastructure, especially roads and ports, and by fire, poor conservation practices, and insect damage. Most logging is done in the pine forests, but Honduras also has valuable tropical hardwoods, particularly mahogany and Spanish cedar. More than three-fourths of all wood cut is for fuel.

Major expansion of forestry operations is hampered by the Honduran Forestry Law of March 1972. This law, which requires the government to own 51% of any major new forestry enterprise, makes it difficult to obtain investment capital to launch new projects.

2. Fuels and power

Honduras has no coal, and exploration so far has failed to locate commercially exploitable deposits of petroleum, although geological conditions suggest that they may exist. Honduras imports all its crude oil, but since 1971 it has imported no refined oil. Its 14,000-barrels-per-day refinery (Figure 9), owned and operated by Texaco, began operating in August 1968. Some refined oil has been exported, especially to Panama and the Dominican Republic, but exports have dropped markedly because of rapidly growing domestic requirements.

Wood is important as fuel for household and small industry use. The projected steel plant near Tegucigalpa, if built, will use charcoal rather than coke.

Electric power capacity doubled during 1968-72 to approximately 165,000 kilowatts (kw.). Production has increased by 10% a year and amounted to 350 million kilowatt hours (kw.-hr.) in 1972, but has barely kept pace with growing demands. Per capita consumption (excluding plant use and transmission losses) averages 115 kw.-hr., one of lowest in Central America.

FIGURE 9. Texaco petroleum refinery in Puerto Cortes

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3

Industry consumes more than half of output, households nearly one-fourth. Agriculture uses only about 2%. The northern power district, including San Pedro Sula, accounts for 60% of consumption, the central district, with Tegucigalpa, for 35%. Large areas of the country have no electric power. The central and northern districts are interconnected by a 138-kv. trunk line and several 35- and 69-kv. lines. This system, comprising some 330 kilometers of lines and interconnecting about 60% of the generating capacity, is the sole transmission system.

Some 60% of installed capacity and 75% of annual output is hydroelectric, but only about 15% of the country's waterpower potential—estimated to be more than one-third of the total for Central America—has been utilized. Thermal plants are diesel-fueled.

Public utilities, mainly the government's National Enterprise for Electric Power (ENEE), generate 90% of total output. Equipment for power facilities is imported, and as of 1972 some 44% of the power industry was financed by foreign credits and loans. Additional generating capacity of 400,000 kw. and additional transmission lines are planned for the 1973-77 period.

3. Mining and minerals

The mining industry contributes only about 2% of GDP, but it is important to the economy because most of its output is exported. Mineral exports in 1971 amounted to approximately 4% of all exports.

Honduras has commercially important deposits of gold, silver, lead, and zinc and smaller deposits of cadmium, iron, tin, copper, and pitchblende. Silver is the most valuable metal, but output of both silver and gold has been declining. In 1970, Honduras mined 3.7 million troy ounces of precious metals, compared with 5.4 million in 1968. Growing production of lead and zinc has partially compensated for the decline in output of precious metals, but the rate of growth for these metals apparently has slowed since 1970.

About 35% of the value of mining comes from nonmetallic minerals, mainly building materials such as stone, sand, and limestone. Cement production has grown rapidly because of strong demand from the construction industry and the easy availability of high-grade raw materials.

Honduran mining laws are liberal and encourage private activity. Most mining is done by two U.S.-owned companies. The New York and Honduras Rosario Mining Company, the older and larger, has extensive facilities at its El Mochito mine, west of Lago de Yojoa, for producing lead and zinc concentrates. The other firm, the Mining Company of Los Angeles, produces lead and zinc in the Department of Francisco Morazan.

4. Manufacturing

Honduras is still the least industrially developed country in Central America, even though the manufacturing sector has grown rapidly during the past decade. Value added by Honduran industry increased at an average annual rate of 9% during the 1960's (Figure 10). Growth was especially vigorous between 1963 and 1968, as a result of large

FIGURE 10. Value added in manufacturing
(Value in millions of 1966 lempiras)

	VALUE		PERCENT OF TOTAL	
	1960	1970	1960	1970
Factory production:				
Food processing	12.0	36.8	*15.2*	*21.2*
Beverages and tobacco	10.1	18.0	*12.8*	*10.4*
Textiles	1.3	8.3	*1.6*	*4.8*
Shoes and clothing	4.9	7.3	*6.2*	*4.2*
Consumer chemicals	0.5	3.1	*0.6*	*1.8*
Wood products	9.5	17.9	*12.0*	*10.3*
Industrial chemicals	1.6	3.9	*2.0*	*2.2*
Petroleum	0.0	4.6	*0.0*	*2.6*
Construction materials	2.0	10.2	*2.5*	*5.9*
Metal products	0.7	5.0	*0.9*	*2.9*
Other	3.6	12.3	*4.6*	*7.1*
Total	46.2	127.4	*58.4*	*73.3*
Handicraft production	32.9	46.3	*41.6*	*26.7*
Total manufacturing	79.1	173.7	*100.0*	*100.0*

investments in the sugar industry and expanded participation in the CACM, which fostered the development of some new industries. The rate of growth slowed to about 6.5% a year between 1969 and 1971 because of the disruption of trade resulting from the war with El Salvador and uncertainty about regional prospects and government policy.

The last detailed industrial census (1967) listed 2,034 industrial enterprises. Of these, 634 had five or more employees and were classed as "factories." The remaining 1,400 were artisan shops. The contribution of the artisan sector to total industrial production declined from 41.5% in 1960 to 26.7% in 1970.

More than 90% of all industrial establishments are located in three departments—Atlantida, Cortes, and Francisco Morazan. About 75% are in San Pedro Sula, which has better power and transportation facilities than the rest of the country. Plants located in and around Tegucigalpa are mostly light industrial enterprises, such as textile plants and breweries.

a. Food products, beverages, and tobacco

Processed foods, beverages, and tobacco account for nearly one-third of value added in the Honduran manufacturing sector. Output increased at an estimated 9.5% annually during the 1960's. Much primary food processing is done on the farm or in small, antiquated mills, but an increasing number of more up-to-date plants are producing such products as sugar, flour, milled rice, dairy products, animal feed concentrates, and industrial oils. Some of the older, inefficient plants also are being modernized and expanded. In spite of its recent growth, the food-processing industry provides only the most basic processing services. Value added by the food-processing industry is only about 7.5% of the total value of Honduran food production, whereas in industrialized countries the share is 35% to 40%.

Sugarcane processing accounted for almost 30% of value added by the food-processing sector in 1970. Although Honduras has been exporting sugar since 1967, little profit is realized from sugar sales on the world market because of relatively high production costs. There are three sugar companies, which, unlike most sugar operations in Latin America, are owned by public shareholders rather than wealthy families. They are the Chambaqua Sugar Processing Company in Santa Barbara, the new Choluteca Sugar Company, and the Honduran Sugar Processing Company in San Pedro Sula—the largest—which has a capacity of 6,500 tons of cane per day.

The meat processing and packing industry grew by an average of 10% a year between 1967 and 1971, chiefly in response to a growing market for frozen boneless beef in the United States and Puerto Rico. Exports during this period grew by 20% a year and totaled some 42 million pounds in 1971, well over half of production. Five plants are certified by the U.S. Government for export to the United States, and about a dozen other slaughterhouses produce for the domestic market. Relaxation of U.S. import restrictions in 1972 will further stimulate this industry, but growth also depends on better livestock supplies.

The dairy products industry is small, though growing. There are processing plants in San Pedro Sula and Tegucigalpa. Honduras exports some milk products—especially ice cream—to Nicaragua and El Salvador, but it is a net importer of these products.

Six small fish-processing plants are in operation, and three more are planned or under construction. Only the simplest preliminary operations are performed before the fish are shipped in freezer ships to New Orleans and other southern U.S. ports.

An important new food-processing activity began with the inauguration in 1967 by the United Fruit Company of the world's largest plant for canned and frozen banana puree and banana chips. This plant, located in La Lima, can process 20 million pounds of bananas annually. It produces exclusively for export, chiefly to the United States, Canada, Western Europe, and Japan.

Other new food-processing plants produce cotton and sesame seed and citrus fruit concentrate. The vegetable oil industry, which produced enough to permit net exports of oils in the late 1960's, has been hurt by the decline in cotton production and the disruption of Central American trade. Honduras has a small tobacco industry, producing mainly cigarettes for domestic consumption but also a growing number of cigars for export.

The beverage industry, which consists almost entirely of beer brewing, is one of the oldest and largest industries in Honduras. Value added by the beverage industry in 1970 equaled 8% of total value added by the entire manufacturing sector. Honduras also has one plant producing gin and vodka for export to the United States.

b. Other manufacturing

The wood products industry, which is next in importance following the food and beverage industries, produces mainly basic lumber products. More than 100 small sawmills, using rudimentary technology, were in operation in 1971. There are also a plywood plant and a few furniture factories and cabinet shops that produce for export. Honduras has barely begun to realize the potential of its vast stands of timber, but investment restrictions on foreigners hinder the execution of new wood-processing projects such as a large planned pulp and paper mill.

Production of textiles, clothing, and shoes accounted for 9% of value added in manufacturing in 1970. Production of clothing and textiles grew vigorously during the 1960's, but the country still is a net importer of these items. Exports have dropped considerably as a result of trade difficulties with the CACM. Honduran textile products are generally unsalable outside of Central America because of high prices and low quality. Most clothing and textile enterprises are family-owned firms with low productivity, although two modern mills with somewhat better standards opened in the mid-1960's.

The footwear industry, consisting of more than 300 small shoemaking firms, increased both output and exports rapidly during the early 1960's. It was severely hurt by increased competition from more efficient producers in the other CACM countries but has revived somewhat since the recent difficulties in CACM trade.

Honduras produces only the simplest chemical products, such as soaps, dyes, cosmetics, plastic products, and some drugs. The level of technology in the chemical industry is low, but the rate of growth has been rapid. Value added increased by an average of 40% per year between 1964 and 1970. This industry has suffered from the disruption of CACM trade, because a large part of its output was exported to the CACM countries.

Metal processing and machine building are at a low level of development. Honduras must import nearly all basic metal products and machinery and equipment, as well as many consumer durables. One rolling mill, at San Pedro Sula, produces small commercial shapes from steel billets imported from Mexico. A number of small plants manufacture such items as electric household appliances and stoves, metal furniture and utensils, and industrial pipes and tubes. Construction of a $35 million-$40 million iron and steel plant near Tegucigalpa has been under consideration for more than a decade but is being delayed by financial problems and the uncertainty of economic prospects.

The construction materials industry grew by 17% annually during 1966-70, and its share in total manufacturing rose from 5.5% in 1960 to 11.5% in 1970. There is one cement plant, located in San Pedro Sula.

c. Construction

Because of rising demand for industrial installations, housing, and public works, construction activity expanded vigorously during 1966-69, growing at an average annual rate of 18% a year. The construction industry accounted for 5.3% of GDP in 1969 compared with 3.8% in 1966. Activity slowed during 1970-72, because both private and public investment slackened. Housing accounts for the largest share of construction, but its share dropped from more than one-half in 1967 to less than one-third in 1971 while the share for roads, bridges, and other public facilities rose. Large internationally financed projects usually employ foreign contractors instead of the small scale domestic construction firms.

5. Domestic trade

The market system is practically confined to the urban areas, although new roads built recently have increased commercial activity by bringing many previously isolated people into contact with the money economy. Wholesale and retail trade is dominated by Tegucigalpa, the main population and financial center. The ports of Puerto Cortes and Tela on the Caribbean coast are important distribution points for imported goods. Other centers of commerce include La Ceiba, San Pedro Sula, Choluteca, Comayagua, and El Progreso.

Most rural inhabitants produce their own food, textiles, and other basic necessities. Some products, such as coffee and native handicrafts, are sold to permit purchase of a few manufactured items. In small towns, bazaar-type markets and itinerant traders are common. In larger towns, consumer goods are sold through a variety of outlets, including small specialty shops, street stalls, and outdoor markets.

C. Government finance and economic policy

1. Economic policy and programs

The Honduran Government plays a less significant role in the economy than is usual in a developing country. It makes investments, operates public enterprises, and exercises various direct and indirect controls, but it never has been a motivating force for economic growth. Most of the development programs it has adopted have been instigated by U.S. or international financial institutions upon which Honduras depends for financial support.

The government of President Oswaldo Lopez, which was in power from late 1963 to early 1971, was committed to continuing the program of moderate economic reform begun under the preceding administration of President Ramon Villeda Morales. In 1965 it published a National Plan for Economic and Social Development (1965-69), calling for diversification of agriculture to broaden the export base, stimulation of industrial expansion, and increased public expenditure for infrastructure. It did not, however, follow through energetically on executing either this plan or the previously enacted Agrarian Reform Law of 1962, although it did launch a vigorous public investment program in 1969-70. It also failed to shift to an alternate tax base to replace revenues lost when tariff revisions in the 1960's eroded receipts from trade taxes. Consequently, financial difficulties developed that persist to the present.

The regime of President Ramon Cruz, which followed the Lopez administration, was particularly maladroit in economic administration. Although it produced two development plans little was done to promote economic development, and it allowed government finances to deteriorate further. In 1972 President Lopez returned to power confronted by a shaky financial situation which overshadowed development problems.

The government has tried to stimulate expansion of industry by granting tax concessions and by providing credit and promotional support. Since the mid-1960's, the National Development Bank has channeled funds from the Agency for International Development and the Inter-American Development Bank to manufacturing firms and also has established an Industrial Development Division to conduct feasibility studies, promote investment, and provide technical assistance. Nevertheless, Honduras has been less successful than its Central American neighbors in attracting new investment, largely because of its limited resource base, inadequate infrastructure, and relatively high wage levels but also because government leadership has been weak.

The greatest government stimulus to industrial growth in the 1960's was the association with the CACM, whose common external tariff provided protection for infant industries and increased access to markets of the other member countries. Reversal of the free trade position in January 1971—although it benefited some industries, such as the manufacture of textiles, clothing, and footwear, which had suffered from competition within the CACM—probably will damage the industrial sector as a whole by raising costs and prices and encouraging inefficiency.

2. Public finance

The public sector consists of the central government, decentralized agencies and enterprises operated by the central government, and the municipalities. Public sector revenues and expenditures (Figure 11), represented 17% and 22%, respectively, of 1970 GDP. In 1971, the public sector incurred a deficit equal to 19% of its total expenditures and to 4% of GDP. Public investment in fixed capital accounted for 5.6% of GDP 1971.

a. Central government

The central government accounts for about three-fourths of current public revenues and expenditures. It accounts directly for about two-thirds of public sector investment and indirectly for a much larger share, through capital transfers to decentralized agencies.

(1) *Revenues*—Foreign trade taxes provided half of all revenues in the early 1960's and still accounted for about 30% at the end of the decade, despite extensive substitution of domestic and free-trade goods for extraregional (revenue-producing) imports. The importance of direct taxes in total revenues has decreased because of a drop in receipts from taxes on the banana companies, but receipts from sales and luxury taxes have been increasing and provided more than one-third of the central government's revenue in 1971.

Most of the substantial increase in revenues during the 1960's (Figures 12 and 13) resulted from rising national income, improved administration, and increases in the number of taxpayers, not from new

FIGURE 11. Operations of the public sector
(Millions of current lempiras)

	1960	1965	1966	1967	1968	1969	1970	1971*
Current revenue	93.9	145.2	162.5	180.8	201.1	214.8	237.8	243.4
Current expenditure	78.0	120.6	136.5	149.1	164.1	198.1	210.5	218.5
Current surplus	15.9	24.6	26.0	31.7	37.0	16.7	27.3	24.9
Capital revenue	0.8	0.9	2.1	0.7	1.0	1.9	4.5	1.9
Investment expenditure	23.2	25.8	35.7	46.5	58.4	89.4	97.1	83.0
Overall deficit	6.5	0.3	7.6	14.1	20.4	70.8	65.3	56.2
Net external financing	8.8	6.4	6.6	10.7	18.2	33.4	44.8	38.3
Net domestic financing	-2.3	-6.1	1.0	3.4	2.2	37.4	20.5	17.9

*Preliminary data.

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3

FIGURE 12. Central government finances
(Millions of current lempiras)

	1960	1965	1966	1967	1968	1969	1970	1971*
Current revenue	73.2	110.4	123.8	128.9	146.8	155.9	173.8	177.4
Current expenditure	63.5	93.6	103.6	113.4	125.9	154.3	162.2	167.2
Current account surplus	9.7	16.8	20.2	15.5	20.9	1.6	11.6	10.2
Capital revenue	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment expenditure	16.8	17.5	26.9	31.1	35.0	50.6	63.4	55.7
Overall deficit	6.6	0.7	6.7	15.6	14.1	49.0	51.8	45.5
Net external financing	7.5	1.2	4.5	7.6	13.8	18.1	26.8	24.6
Net domestic financing	-0.9	-0.5	2.2	8.0	0.3	30.9	25.0	20.9

*Preliminary data.

FIGURE 13. Central government revenues by source, selected years

	1960-62 AVERAGE	1967	1969	1971
		Percent		
Taxes on foreign trade	*50.6*	*35.3*	*29.1*	*30.1*
Import taxes	*46.0*	*32.9*	*25.4*	*26.5*
Export taxes	*4.6*	*2.4*	*3.7*	*3.6*
Direct taxes	*15.4*	*27.4*	*28.5*	*24.1*
Taxes on banana companies	*0.5*	*9.5*	*7.1*	*3.1*
Other income tax	*14.9*	*16.7*	*20.6*	*20.0*
Property tax	*0.0*	*1.1*	*0.8*	*1.0*
Taxes on domestic transactions	*25.5*	*28.4*	*32.2*	*34.9*
Sales tax	*0.0*	*6.6*	*6.0*	*6.4*
Automobile tax	*1.1*	*1.6*	*1.7*	*1.8*
Beer tax	*10.1*	*7.1*	*6.8*	*8.1*
Other taxes	*14.3*	*13.1*	*17.7*	*18.6*
Nontax revenue	*8.5*	*8.9*	*10.2*	*10.9*

taxes. The reimposition in January 1971 of tariffs on imports from the CACM countries has failed to boost government receipts appreciably, and no new, dependable source of income has been developed.

(2) *Expenditures*—Government current expenditures grew rapidly throughout the 1960's and especially rapidly during 1969-71, when defense-related spending rose markedly. Half of the increase in current spending during the 1960's went to social services (Figure 14). The share of current expenditures going to general services and to economic services declined during the period. Public investment also rose during the 1960s, but it declined in 1971 because of deterioration of government finances and consequent cuts in spending.

In terms of total government spending—including transfers—economic services are growing in importance relative to social services. Agriculture receives only a small percentage of total government funds, but transportation receives a large and growing share. The sizable increase in public investment in the late 1960's and in 1970 resulted largely from spending in the transportation and power sectors (Figure 15), especially the expansion of the North Road and the Rio Lindo hydroelectric project.

(3) *Deficits*—With large increases in both current and investment expenditures, the government deficit rose sharply in 1969 and has remained at a high level. During 1969-71 it averaged 22% of expenditures. To cover the deficit, both external and domestic financing were considerably expanded. Before 1969, bank credit to the central government had been either negative or negligible.

b. Decentralized agencies

Decentralized agencies, which include both public enterprises and autonomous institutions account for about one-fourth of public revenues and about one-third of public spending. The difference consists largely of transfers from the central government. Public enterprises, which include four public utilities, the National Housing Institute, the National Lottery, and, since the end of 1965, the National Port Authority, expanded operations considerably in the late 1960's, but total expenditures of decentralized

FIGURE 14. Distribution of central government current expenditures
(Millions of current lempiras)

	1960	PERCENT OF TOTAL	1967	PERCENT OF TOTAL	1971*	PERCENT OF TOTAL
General services	29.0	*45.7*	41.7	*36.8*	68.5	*41.0*
Administration	12.8	*20.2*	21.1	*18.6*	33.2	*19.9*
Defense and police / Justice	14.1	*22.2*				
Defense and police			12.3	*0.8*	20.2	*12.1*
Justice			4.0	*3.5*	4.8	*2.9*
Interest on public debt	2.1	*3.3*	4.3	*3.8*	10.3	*6.2*
Social services	24.1	*38.0*	46.4	*40.9*	74.0	*44.3*
Education	14.3	*22.5*	28.4	*25.0*	47.0	*28.1*
Health	6.5	*10.2*	10.9	*9.6*	19.0	*11.4*
Social welfare	1.7	*2.7*	6.8	*6.0*	7.5	*4.5*
Other	1.6	*2.6*	0.3	*0.3*	0.5	*0.3*
Economic services	14.5	*22.8*	17.3	*15.3*	24.7	*14.8*
Agriculture	2.5	*3.9*	6.1	*5.4*	8.2	*4.9*
Communications	3.1	*4.9*	4.4	*3.9*	5.4	*3.2*
Transportation	6.2	*9.8*	5.8	*5.1*	9.6	*5.7*
Other	2.7	*4.3*	1.0	*0.9*	1.5	*0.9*
Adjustment**	-4.1	....	8.0	....	0.0	....
Total expenditure**	67.6	*100.0*	113.4	*100.0*	167.2	*100.0*

*Preliminary data.
**Figures differ from those in Figure 13 because of inconsistencies in official data.

agencies declined in 1970 and 1971 as a result of the government's fiscal difficulties.

Public enterprises generally finance current expenditures from their own revenues but rely on the central government and foreign sources fc investment financing. Most autonomous institutions depend on central government transfers for both operating and capital funds. Only the Honduran Institute of Social Security is largely self-supporting

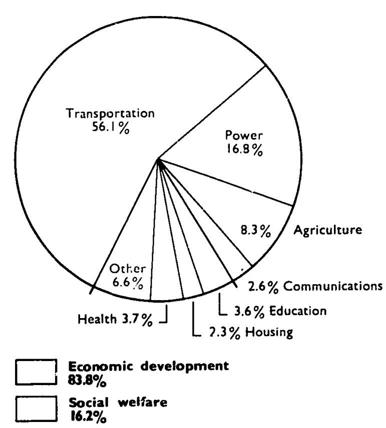


FIGURE 15. Composition of public investment, 1971

c. *Municipalities*

The municipalities are largely self-supporting and account for only about 7% of public spending. The level of spending by local governments increased only slightly between 1967 and 1971.

3. Financial institutions, money supply, and prices

a. *Financial institutions*

The banking system consists of the Central Bank of Honduras, the National Development Bank, the Municipal Development Bank, nine commercial banks (four foreign owned), several specialized credit institutions, and a number of savings and loan cooperatives. The Central Bank, founded in 1950, acts as the government's fiscal agent, issues currency, sets interest rates and reserve requirements, and controls gold and foreign exchange reserves. Monetary policy has been directed mainly toward protecting the value of the lempira within a system of free convertibility. The Bank frequently has required aid from the International Monetary Fund to maintain a sufficient level of international reserves.

The state-owned National Development Bank (BANAFORM), also dating from 1950, in addition to

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3

acting as a development bank also provides commercial banking services to parts of the country not adequately served by the commercial banks. It obtains funds mainly from the government but also from foreign banks and international financial institutions and grants credit to both industry and agriculture. It provides 60% to 65% of total bank credit to agriculture, mostly in loans to small- and medium-sized producers who cannot obtain ordinary commercial credit.

Commercial banks control about half of total banking assets, which grew by an average of 14% a year during 1966-71. At the end of 1971, the four foreign-controlled (mainly U.S.) banks held about 52% of commercial bank assets. In 1972, legislation was proposed which would require foreigners to divest themselves of holdings in Honduran banks.

Specialized credit institutions include four small savings and loan institutions, a state-owned bank for channeling funds to municipal governments, and two private investment banks, one of which, operating mainly on AID loans, is an important source of investment funds for the manufacturing sector. There are also six insurance companies and some 125 small-scale credit unions in the country.

b. *Money supply*

During the mid-1960's the banking system acquired resources rapidly, and credit expanded without causing inflation or balance of payments difficulties (Figure 16). A sharp credit expansion with a concomitant decline in net international reserves in 1967 was followed by a substantial accumulation of reserves in 1968, but further brisk expansion of credit in 1969 and 1970 led to balance of payments problems and brought foreign exchange reserves to a low level. With restrained expansion of credit, foreign exchange reserves increased again in 1971 and 1972.

c. *Prices*

Prices have been relatively stable for a number of years. The overall price level increased only negligibly during 1968-71, although consumer prices apparently rose by an average of 2% a year, with food price rises in 1970 and 1971 accounting for a large part of the increase (Figure 17).

4. Manpower

a. *Size of the labor force*

The Honduran labor force[3] numbers approximately 900,000, or approximately 32% of the total population. It grew during the 1960's, at an average annual rate of 3.2%, or slightly less rapidly than total population. In 1972, 65% of the work force was employed in agricultural activities, only 0.2% less than in 1971. Despite a decade of fairly rapid industrialization, manufacturing still accounted for only 8% of the total in 1972 and still ranked third in employment categories, behind both agriculture and financial and housing services (Figure 18). Self-employed persons and unpaid family members together make up over half of the work force (Figure 19).

The reserve of workers who might be brought into the labor force is quite large—perhaps 250,000—but is mostly female and mostly untrained. Unemployment, concentrated mainly in the urban areas, apparently

[3] The economically active population age 15 and over.

FIGURE 16. Assets and liabilities of the banking system
(Millions of current lempiras)

	1966	1967	1968	1969	1970	1971
Assets:						
Foreign assets	40.0	28.4	52.6	46.1	18.0	29.2
Domestic credit	203.4	257.2	279.7	313.8	425.5	461.5
To the public sector	10.9	13.7	8.4	22.9	53.8	77.0
To the private sector	170.1	213.8	242.6	298.7	347.3	369.1
Other assets	22.4	29.7	28.7	22.2	24.4	15.4
Total assets	243.4	285.6	332.3	389.9	443.5	490.7
Liabilities:						
Money	105.9	120.2	135.2	157.4	167.3	182.2
Quasi-money	76.6	91.8	109.4	136.6	167.4	196.2
Foreign liabilities	27.6	32.2	42.9	47.9	48.0	45.4
Other liabilities	33.3	41.4	44.8	48.0	60.8	66.9
Total liabilities	243.4	285.6	332.3	389.9	443.5	490.7

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3

FIGURE 17. Consumer prices and GDP deflator
(Percentage annual changes)

	1968	1969	1970	1971	ANNUAL AVERAGE 1968-71
Consumer prices	1.8	1.3	3.0	1.8	2.0
Of which, food	1.6	1.1	5.1	3.3	2.8
GDP deflator	-0.7	1.1	1.3	-0.3	0.3
Domestic prices	-0.2	1.0	0.2	-0.7	0.1
Export prices	-1.3	0.8	4.2	0.6	1.1

has risen in recent years to about 8%. Underemployment is widespread, especially in rural areas.

b. Levels of training

Honduran workers are poorly educated and trained. Some 84% have had no formal education at all. About 12% have had some primary schooling, but only 3% have attended secondary school and fewer than 1% of all employees have a university degree. At least two-thirds of all industrial and service workers have had no formal education, and in agriculture the proportion is higher. Vocational training is a recent innovation and has helped only a small number of workers.

Honduras suffers from a severe shortage of skilled and semiskilled craftsmen, machinery operators and mechanics, technicians, supervisory personnel, and administrators. The low quality of the labor force has handicapped the country in its efforts to attract new industry and utilize domestic resources. The low levels of skills and worker motivation, combined with poor management and low capitalization, lead to low productivity, which, in turn, makes labor in Honduras relatively expensive even though wage rates, as shown in the following schedule of average weekly earnings in various fields (in lempiras, 1970), are low:

	AVERAGE WEEKLY SALARY
Agriculture	48.66
Mining and quarrying	31.56
Manufacturing	41.76
Construction	63.30
Utilities	78.48
Commerce	62.76

NOTE—Figures are for a working week of six 8-hour days in 282 companies with 10 or more workers.

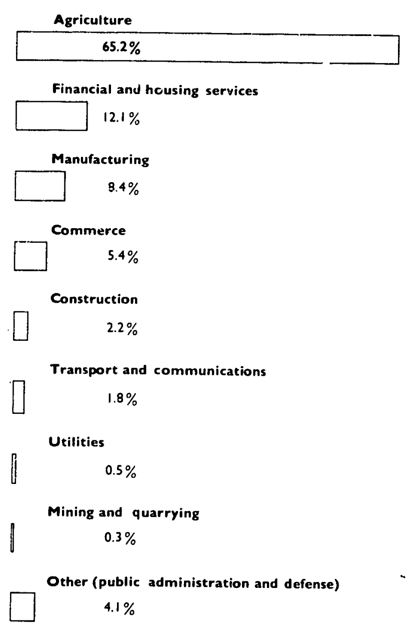
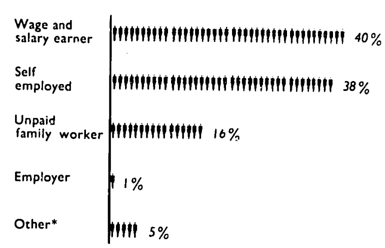


FIGURE 18. Composition of the labor force by economic activity, 1971



*Includes people not otherwise classified who were employed and also people unemployed during the year that were seeking work at the time of the census.

FIGURE 19. Labor force by class of worker, 1971

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3

c. *Labor movement*

Organized labor accounts for only a small part of the Honduran labor force, but it is of considerable and growing importance. At the end of 1969 there were 30,000 union members in a score of organizations. All main industries are organized: banana workers, refinery workers, longshoremen, and especially electric power workers. There also is a peasant organization with considerable political influence. Union militancy is high. Strikes are frequent and often cause substantial economic loss. The unions have had some success in improving wages and working conditions, particularly in the banana industry, but in general the bargaining position of Honduran workers is poor. Organized labor is a vigorous proponent of land reform, minimum wage laws, and an improved social security system.

D. Foreign trade

Foreign trade is extremely important to the economy. Export earnings regularly amount to about 30% of GDP, a high figure even for an underdeveloped country. Honduras must export extensively in order to be able to purchase needed capital goods and consumer durables not manufactured domestically.

1. Composition and direction of trade

a. *Exports*

Bananas dominate Honduran exports. They accounted for more than half the total in 1971 (Figure 20). Despite recent difficulties in both growing and marketing bananas, the value of banana exports has increased considerably. With a value of $96 million in 1971, it was 20% larger than in 1968, whereas the value of other exports was slightly smaller (Figure 21 has a breakdown of values of Honduran exports).

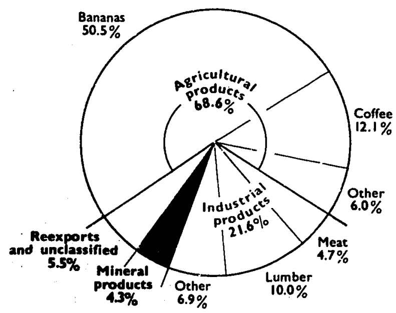


FIGURE 20. Composition of exports, 1971

Although coffee exports are limited by quotas set under the International Coffee Agreement, coffee is growing in importance and accounted for 12% of total exports in 1971. Exports of most other agricultural products have declined. The value of cotton exports in 1971 was only about 6% of their value in 1966. Exports of corn, beans, and live animals have been hurt by the disruption of CACM trade.

Until 1969, when difficulties with the CACM began, Honduras was moderately successful in diversifying exports and expanding the share of industrial goods, particularly semiprocessed agricultural and forestry products. Exports of lumber and chilled meats have grown steadily during the past 10 years and constituted about 15% of the total value of exports in 1971. Honduras also expanded exports of such manufactured goods as soaps, cosmetics, clothing, and shoes to the CACM area during 1966-70, but this trade dropped sharply in 1971. Exports of manufactured goods other than lumber and meats made up 15% of the total in 1970 but only 7% in 1971.

b. *Imports*

The ratio of imports to GDP rose from about 20% in the early 1960's to more than 30% in 1970. The structure of imports also changed considerably. Reflecting increases in fixed investment and expansion of the industrial sector, imports of capital goods and industrial raw materials grew much more rapidly than imports of consumer goods. The share of the latter in total imports declined from about 40% in 1960-62 to 30% in 1971. (Figure 22 gives a breakdown of values of Honduran imports.) Petroleum, construction materials, steel, and chemicals are the principal raw material imports. The most important consumer goods imports are wheat, pharmaceuticals, home appliances, textiles, automobiles, and automobile spare parts.

c. *Direction of trade*

Developed countries account for the bulk of Honduran trade, with the United States far in the lead (Figure 23). The United States, Western Europe, and Japan bought about 78% of Honduran exports in 1970, the United States alone taking 52%. Imports from developed countries accounted for 67% of the total (the remainder coming almost entirely from Latin America), with the U.S. share at 41%. Exports to the United States include bananas, coffee, sugar, and meat. Imports consist mainly of machinery, transport

FIGURE 21. Exports
(Millions of U.S. dollars)

	1960	1967	1968	1969	PRELIMINARY 1970	PRELIMINARY 1971
Agricultural products	47.3	112.0	121.3	107.5	111.0	130.4
Bananas	28.2	78.5	79.7	74.1	75.3	96.0
Coffee	11.8	14.0	20.8	18.5	25.8	23.0
Cotton	0.9	5.8	4.8	3.6	1.1	0.5
Tobacco	0.5	2.5	2.7	2.3	2.2	2.1
Corn	1.0	1.9	2.9	0.9	0.9	1.5
Beans	0.9	2.7	4.1	3.2	1.6	2.4
Live animals	2.4	3.3	2.8	0.9	0.5	0.3
Other	1.6	3.3	3.5	4.0	3.6	4.6
Industrial products	10.7	32.4	39.6	48.9	52.3	41.0
Meat	1 1	4.4	4.7	9.0	9.7	9.0
Lumber	8.2	11.5	14.0	15.3	16.2	19.0
Textiles	0	0.7	1.6	1.5	1.5	*
Clothing and shoes	0.2	3.2	3.4	3.4	1.8	0.2
Chemicals	0	5.3	6.9	6.0	6.5	*
Petroleum	0	0	2.1	4.8	6.2	3.2
Other	1.2	7.3	6.9	8.9	10.4	9.6
Mineral products	4.4	7.9	11.7	9.4	8.8	8.2
Silver	2.3	4.2	7.8	4.8	4.1	3.8
Lead and zinc	2.0	3.6	3.8	4.4	4.5	4.2
Gold	0.1	0.1	0.1	0.2	0.2	0.2
Reexports and unclassified exports	1.9	3.5	8.2	4.9	5.5	10.5
Total exports, f.o.b	64.3	155.8	180.8	170.7	177.6	190.1

*Included in Other.

FIGURE 22. Imports
(Millions of U.S. dollars)

	1960	1966	1967	1968	1969	1970
Consumer goods	28.6	51.0	56.2	65.0	60.3	67.7
Nondurable	21.0	37.4	40.9	47.2	43.0	45.9
Durable	7.6	13.6	15.3	17.8	17.3	21.8
Raw materials	22.6	53.7	57.8	65.3	61.3	84.8
Agriculture	18.5	5.0	5.3	5.3	5.0	7.9
Industry and mining		41.2	44.7	52.1	46.2	65.6
Construction	4.1	7.5	7.8	7.9	10.1	11.4
Lubricants and fuels	6.0	7.6	8.0	12.2	12.4	14.6
Capital goods	14.3	35.3	41.6	40.9	49.1	55.3
Agriculture	2.4	5.2	5.8	5.6	7.8	8.4
Industry	8.4	21.5	24.8	23.8	29.0	32.3
Transport	3.4	8.6	11.0	11.5	12.3	14.6
Unclassified imports and balance of payments adjustment	1.6	3.7	3.7	3.6	3.9	0.4
Total imports, c.i.f	73.1	151.3	167.3	187.0	187.0	222.8

equipment, chemicals, and consumer goods. West Germany is the second largest buyer of Honduran exports and until 1967 was also the second largest supplier, a position now held by Japan.

Trade with CACM partners grew rapidly during the late 1960's but dropped substantially in 1969 because of the war with El Salvador and declined further in 1971 as a result of continuing political difficulties with other member countries (Figure 24). In 1971, exports to CACM countries were only 23% of those in 1968, and imports from the area only 28% of the 1968 figure. Trade with El Salvador, long the major Latin American trade partner, has practically ceased. Loss of CACM markets has been particularly disadvanta-

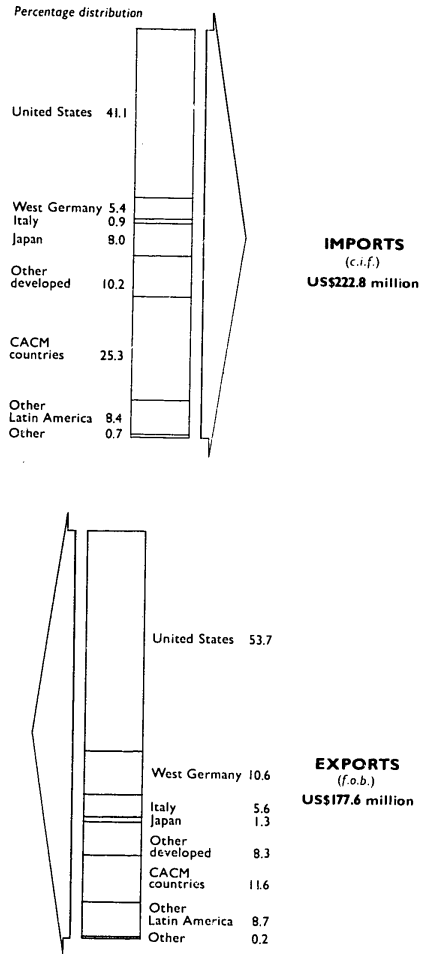


FIGURE 23. Direction of trade, 1971

geous for newly developed industrial exports such as soap, vegetable shortening, and clothing.

2. Trade regulations

All foreign exchange transactions are carried out at the official rate, set in 1946, of two lempiras to one U.S. dollar. The gold parity of the lempira was changed in May 1972 to maintain the relationship with the U.S. dollar. There are no exchange restrictions on foreign payments.

Export and import duties are a major source of government revenue and an important instrument for influencing the nature and level of trade. Steep tariff surcharges enacted in 1968 and 1970 on imports from outside the CACM boosted intraregional trade, but in January 1971 Honduras repealed the surcharges and introduced duties on CACM goods. The other CACM members then responded with import duties on Honduran products. Trade with the CACM area consequently dropped sharply.

Both exports and imports are taxed, but export duties are low. Most unprocessed agricultural export goods are taxed at specific unit rates that vary with the product. Imported food and raw materials also are taxed at specific unit rates, whereas luxury items, machinery, and transport equipment are subject to *ad valorem* rates that range from 5% on capital goods to 50% on some luxury goods.

Honduras is a member of the Central American Bank for Economic Integration (CABEI) and also is a signatory to the International Coffee Agreement. It does not participate in the General Agreement on Tariffs and Trade (GATT).

3. Balance of payments

Typically Honduras has a deficit in both foreign trade and services. Until 1969 the deficit on current account was covered by inflows of private capital (direct investment, loans, and supplier's credits) and by official capital and transfers (Figure 25). In 1970, international reserves were reduced to a dangerously low level as a result of sharply increased deficits on current accounts. The trade account deficit grew from $6 million in 1968 to $16 million in 1969 (Figure 26) because of a drop in agricultural exports, especially bananas, resulting from hurricane damage, and to $45 million in 1970 as a result of increased imports. Sizable capital inflows in 1970, resulting largely from increased foreign borrowing by the public sector, prevented the balance of payments from becoming unmanageable, and in 1971 the situation improved as imports declined substantially. The problem persisted in 1972, however, as exports remained sluggish, imports increased again, and inflows of foreign capital slowed.

4. External debt

The external public debt more than doubled between 1967 and 1971 (Figure 27) and increased from the equivalent of 11% of GDP to 19%. Most of the increase was due to borrowing by the central government. Although the level of indebtedness is

FIGURE 24. Trade with CACM countries
(Millions of U.S. dollars)

	EXPORTS*					IMPORTS**				
	1967	1968	1969	1970	1971	1967	1968	1969	1970	1971
Costa Rica	3.5	5.7	6.4	7.9	1.9	5.4	6.6	7.6	12.6	3.3
El Salvador	12.3	15.0	7.6	0	0	19.5	23.4	13.0	0	0
Guatemala	7.1	8.0	7.1	8.2	2.8	11.8	14.4	18.2	29.3	8.4
Nicaragua	3.0	4.9	5.2	4.6	1.8	3.8	4.8	6.6	14.3	5.1
Total	25.9	33.6	26.3	20.7	6.5	40.5	49.2	45.4	56.2	16.8

*f.o.b.
**c.i.f.

FIGURE 25. Balance of payments
(Millions of U.S. dollars)

	1966	1967	1968	1969	1970	1971*
Exports (f.o.b.)	141.3	155.8	180.8	170.7	177.6	190.1
Imports (c.i.f.)	151.3	167.3	187.0	187.0	222.8	197.1
Trade deficit	7.0	11.5	6.2	16.3	45.2	7.0
Net income from nonfactor services	1.0	1.1	1.6	3.0	3.1	6.7
Net factor income	-15.5	21.2	-23.1	18.6	22.5	21.2
Net transfers	4.3	4.7	6.2	7.3	6.6	6.4
Current account balance	-19.2	-29.1	24.7	-30.6	61.2	31.5
Private capital, net	9.2	10.2	19.5	9.1	18.2	9.0
Official capital, net	5.7	10.3	9.6	18.1	23.9	17.2
Banking system	4.6	2.3	5.3	2.5	0.1	1.3
Transactions with international organizations	2.9	0.9	1.4	-0.5	0.7	1.0
Allocations of SDRs	0	0	0	0	3.2	2.7
Errors and omissions	5.1	1.4	3.8	1.9	5.5	9.3
Balance of payments surplus or deficit	2.5	-5.8	12.1	-3.3	14.0	4.4
International reserve at end of year	20.0	14.2	26.3	23.0	9.0	13.4

*Preliminary.

high, repayment schedules are favorable, because most of the loans were extended by international lending agencies, particularly the World Bank and the CABEI. At the end of 1971, nearly 95% of the debt was in loans with a final maturity of 15 years or more.

Debt service is moderate, but payments doubled between 1967 and 1971. The ratio of debt service payments to exports of goods and services was expected to reach 5.8% in 1972.

Aid commitments from U.S. and international agencies—mostly long-term, low-interest development loans for schools, roads, and malaria eradication—totaled $101 million between 1968 and 1971. Nearly $90 million of contracted loans remained unused at the end of 1969, but the figure was halved by the end of 1971. Honduras typically is slow in using aid funds because of the shortage of administrative and technical personnel needed to implement projects.

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3

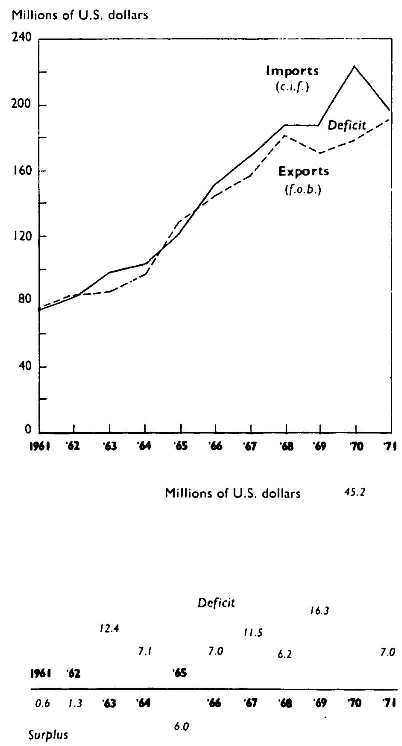


FIGURE 26. Balance of commodity trade

FIGURE 27. External public debt by borrower, lender, and maturity
(Millions of current U.S. dollars)

	DECEMBER 31					
	1966	1967	1968	1969	1970	1971
Total external public debt	55.2	62.8	78.2	100.5	129.7	138.7
By borrower:						
Central government	25.6	29.4	36.5	47.6	67.3	79.0
Rest of public sector	15.3	17.2	20.7	29.1	36.6	33.0
State financial intermediaries	9.3	10.1	14.0	15.3	15.6	17.1
Other (government guaranteed)	5.0	6.1	7.0	8.5	10.2	9.6
By lender:						
International Bank for Reconstruction and Development	21.1	22.6	25.3	33.8	44.7	46.4
Inter-American Development Bank	13.7	16.9	23.2	30.5	36.9	39.4
Central American Bank for Economic Integration	0.6	1.2	3.6	6.4	14.7	21.4
Agency for International Development	15.8	17.3	21.0	24.0	29.1	26.3
Export-Import Bank	0.9	1.1	0.9	0.7	0.5	0.3
Commercial banks	0.5	0.5	0.5	0.3	0.3	0
Suppliers	2.6	3.2	3.7	4.8	3.5	1.9
By maturity:						
1 to 5 years	0.9	0.2	0.1	0.7	0.4	0.1
6 to 10 years	0	3.9	5.1	6.1	6.5	6.3
11 to 15 years	51.3	1.3	2.0	1.8	1.8	2.2
Over 15 years	0	57.4	71.0	91.9	121.0	130.1

APPROVED FOR RELEASE: 2009/06/16: CIA-RDP01-00707R000200070014-3