Philippine government bows to the IMF

by Lydia Cherry

The government of President Corazon Aquino has caved in to pressures from the international banking community to hand the Philippines' decision-making powers in economic policy over to the International Monetary Fund. In a March 10 meeting with government officials and private sector representatives, Mrs. Aquino pressed for support for the IMF-dictated economic program and her government's Letter of Intent, stressing that without the $1.3 billion in new borrowings promised by the Fund, the country would not be able to achieve "economic recovery." She insisted that the Philippines must honor its foreign debt, which now stands at approximately $32 billion. The Letter of Intent will be signed by the President within days, according to Dr. Legarda of the Philippine Embassy in Washington, who was vague about whether any aspects of it would require congressional confirmation.

The deal was hammered out between the Philippine financial mafia that has remained intact from the Marcos years—Central Bank Gov. Jose Fernandez and Finance Secretary Vicente Jayme—and an IMF team headed by Ulrich Baumgartner of the Fund's Asian Department.

"Fiscal prudence will be maintained because this is what the country needs and this is what the country wants," Finance Secretary Jayme insisted in a March 3 interview to the *Manila Chronicle*. He noted that this "fiscal prudence" comes in answer to the Fund's demand to cut government expenditures, but insists that the provisions in the IMF program will not threaten political stability.

Although the full contents of the Letter of Intent have not yet been made public, the following framework is known: 1) The plan will force the devaluation of the Philippine peso by at least 20% (the peso stands at 21 to the dollar). 2) It will force the government to spend significantly less on infrastructure—this in a country where the morning newspaper already publishes a list of mandated electrical blackouts for sections of the nation's capital. 3) The IMF will take full control over the government's actual disbursements. 4) The plan calls for the privatization of 296 state-controlled corporations.

Underlining the desire for loot from the Philippines' creditors, the World Bank has refused to fund any further projects in the Philippines until the government manages to sell off its national public utility company, Meralco. The Philippine Senate opposes such privatization.

Progression of negotiations

An earlier round of negotiations, in late November 1988, broke up, because the Aquino administration initially rejected the Fund's terms, and, secondly, the Senate unanimously passed a bill to limit annual debt service to 20% of the country's export earnings. The bill was blocked in the House. The Philippines now pays 45% of those earnings on annual debt service. The Senate was concerned not only to decrease the annual debt service, but to ensure that the Philippines not take on new foreign loans, to pay off the old, as demanded by Fernandez. After talks began again in the new year, the IMF rejected a framework submitted by the Philippine panel Feb. 25, and the government was forced to trim further its projected annual budget deficit from now until 1992. Officials said the new framework projects a 34 billion peso consolidated budget deficit for this year, which is 8.4 billion lower than the revised projection of 42.4 billion that was part of the February submission.

Official sources noted in early March that the negotiations "appear to have accelerated. Negotiators on both sides seem to be in a rush to work out a deal," the *Manila Bulletin* reported March 3. One official speculated that "this could have something to do with the planned creation of an advisory council on foreign debt negotiations and an increase in the number of members in the negotiating team." He hinted that negotiators on both sides "are not particularly happy about this development, considering that a third party would be coming in and could complicate the talks, let alone the prospects of having politicians sitting in the panel."

This panel is the result of a bill creating a joint legislative and executive commission to monitor negotiations with foreign creditors. This bill was initially passed by both houses, vetoed by President Aquino, and then overridden by the Senate but not the House in February. Key Senate leaders, like Senators Albert Romulo, Vicente Paterno and Teofisto Guingona, have been particularly critical of the "borrowing-oriented" debt management strategy pursued by Jayme and Fernandez.

Senator Romulo, the author of the 20% debt ceiling bill, insisted that the IMF agreement, once signed by the President, be confirmed by Congress. "Any IMF agreement partakes of the nature of an international treaty and therefore is subject to confirmation by Congress as provided in the Constitution," Romulo was quoted by the newspaper *Malaya* March 10. "We would like to know before this goes any further, if there has been a change in IMF policy which gives precedence to debt service before growth," he noted in the March 10 meeting between government officials and private sector representatives. Senator Romulo had said in an interview with *EIR* Jan. 10, "There is no question" that the government of the Republic of the Philippines will be "unable to defeat the Communist insurgency of the New People's Army unless the debt burden now on the country is alleviated." Under current economic policy, per capita income is not expected to regain 1981 levels until 1996.