

AQUINO AGAIN ON DEFENSIVE AFTER HONASAN ESCAPE.By **Chaitanya Kalbag**

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MANILA, April 3, Reuter - Coup leader Colonel Gregorio Honasan's escape from captivity on Saturday has dramatically revived threats to Philippine President Corazon Aquino's power, analysts said.

"Honasan's escape couldn't have occurred at a less convenient moment for Aquino," an Asian diplomat said.

Aquino is scheduled to visit China from April 14 on her first overseas trip since November 1986.

Crucial talks on the future of the two U.S. military bases in the Philippines open on Tuesday.

The same day about 100 top-ranking Japanese businessmen are scheduled to arrive in Manila to review Tokyo's flagging investments in the cash-strapped country.

"Everything has received a setback," the diplomat said. "If the country's most wanted man can slip through the government's hands so easily, embarrassing questions about the Philippines' stability are going to be asked again."

Since August, when Honasan led the most serious of five coup attempts Aquino has faced in her two-year rule, the embattled president has moved to end unrest among her troops.

She pushed through a 60 per cent pay rise for the 160,000-strong military and replaced Armed Forces Chief Fidel Ramos in a reshuffle of top military posts.

Late last month she retired 30 generals, streamlined command structures and demanded "more soldiers behind guns and less behind desks" in the fight against communist rebels.

"I myself now feel more comfortable. I can plan now for the future," Aquino told reporters last week.

But political analysts said the future seemed clouded after Honasan's apparently easy getaway from a prison ship.

The escape soured government jubilation over last week's capture of three high-ranking communist leaders on the 19th anniversary of the insurgency.

Analysts said the grim-faced Aquino had sounded almost querulous in a televised statement on Saturday evening.

Revealing that court-martial proceedings against Honasan had been about to begin, she said the coup leader had been given humane treatment. "But what have we received in return? We have received continuing betrayal," she said.

An Asian military analyst said Aquino's warning to the military not to aid Honasan, and fears voiced by a military spokesman that Honasan and troops loyal to him might mount another revolt, had only helped to heighten public anxiety.

"The way Honasan has been handled from the beginning was so mushy," the analyst said. "He was not kept in a high-security military prison, lived in style on the prison ship at taxpayers' expense, and was allowed frequent visits by his family."

Francisco Nemenzo, a political science professor at the University of the Philippines, said young middle-ranking officers sympathetic to Honasan were unimpressed by Aquino's leadership changes.

"It's the colonels who count. They are the ones who command the troops in the field. And I'm afraid they are not Aquino's men," Nemenzo said. "No amount of reshuffling of generals will alter the balance of forces in the military."

A Western diplomat said he did not think Honasan would make any quick moves against the government.

"He will regroup his men, unleash a propaganda barrage, and choose a moment when the government makes some big mistake to strike, if at all," the diplomat said.

Nemenzo said Aquino had not yet been able to be effective.

"This government is racing against time. If it can't stabilise soon it can never prove its capacity to change people's lives," he said.

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The situation is dramatically different from 1983, when Rodrigo Aquino's administration triggered economic banks were ordered to deposit 25 pct of their loanable funds with the Central Bank to back a deposit and a security crisis.

The ratio has slowly been reduced to 21 pct, but the government continues to seriously constrain sector credit, adding to the frustration costs of converting deposits' money into bank investments.

"Reserve requirements regulations are restrictive for a significant portion of the costs of intermediation," said a recent World Bank study on the Philippines. It called for a lowering of reserve requirements to the 1982 level of 10 pct.

The World Bank noted that spreads between rates of the lending rates are extremely high in the Philippines.

Real savings deposit rates stood at a negative 1.4 pct in December 1997, compared to a positive 8.315 pct a year earlier. Real lending rates on secured loans stood at 2.4 pct in December against 12.844 pct a year earlier.

Bankers' association president Manuel Lora said the high interest rate on deposits was a big problem, receipts the high on "anti-crisis" requirement under which banks must allocate 25 pct of their net available funds for agricultural loans and the government's legal reserve against.

"Since we can't do this (fill the savings requirement) as fast as we should, we are forced to buy government paper that will be auctioned at a high price," Lora said. "The banks pay less."

The World Bank said the yield on government paper was the lowest and significantly lower than on alternative assets, sometimes even lower than the banks' cost of funds.

"The repeal of the savings requirement would help reduce lending rates without affecting the amount of funds going to agriculture," the World Bank said.

"Policy decisions that favour deregulation, competition, market orientation, and incentives to improve and increasing efficiency in the process of intermediation will be good," Central Bank Governor Jose Peralta said. Monetary policy will seek to provide positive rates to savings and to re-directing towards the flow of savings."

He noted recently that a long downturn in the banking system's growth rate began in 1985.

Central Bank figures show net domestic credits of the country's banking system shrank by more 25 pct to 130.14 billion pesos at end-1997 from 104.31 billion at end-1996.

The banking system's non perform assets rose by 22.7 pct last year, compared to a 21.5 pct increase in 1996.

At end-1997, total bank assets at 119.7 billion pesos, up from 94 billion pesos a year earlier. Deposits rose to 152.5 billion pesos from 135.7 billion at end-1996.