

**BUSINESSMEN LASH OUT AT MANILA DEBT/EQUITY PROGRAM.**By **Chaitanya Kalbag**

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Reuters News

English

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MANILA, April 18, Reuter - Filipino and foreign businessmen have launched a sharp attack on the Philippines' 20-month-old debt/equity swap program, charging it is too restrictive and arbitrary and actually deters investors.

"Disillusioned investors are the worst possible advertisement for the Philippines," said a statement issued jointly by the Philippine, American, European, Japanese and Australia-New Zealand chambers of commerce.

The statement said the country's economic recovery would not quicken unless capital formation was encouraged.

Although it is swamped with applications, the Central Bank has said it is slow in approving the conversions because of fears the additional pesos generated could add to inflation.

The swap program, launched in August 1986 and aimed at reducing Manila's 28 billion dollar foreign debt, allows investors to make government-approved investments by using the peso proceeds of Philippine debt paper purchased at a discount from the country's creditor banks.

As of March 7, the Central Bank had received 369 applications valued at 1.65 billion dollars.

The Central Bank has approved 275 applications worth 843.3 million dollars but only 110, valued at 381.3 million dollars, have been finalised. Bank officials have said approvals will be restricted to about 180 million dollars a year.

Earlier this year, Bank governor Jose Fernandez said investors would be encouraged to finance equity investment through private-sector debt paper using currency already in circulation. Such swaps would not be charged transaction fees.

Government debt is easier to sell at a discount, but processing takes longer because the Central Bank must issue new pesos, thus increasing money supply, Fernandez said.

The bulk of the debt/equity swaps -- some 358.1 million dollars worth -- has been Central Bank debt paper.

The business groups' statement said the volume of applications indicated there was keen investor interest.

"Yet, when the investor actually embarks upon this swap application, he finds the going astonishingly difficult," it said. Investors were expected to provide voluminous information attested by Philippine consulates in their home countries. But at the end of a six-month application process there was no guarantee the swap would be approved by the Central Bank's Monetary Board, the statement said.

"The situation which now prevails is one of confusion," the businessmen's statement said. "To an investor, it is unacceptable that an investment which meets all published criteria can then be rejected."

The statement added that the Central Bank's preference for investments in fixed assets over working capital to put idle plants to work was illogical.

Swap proceeds, required to be invested in special series Central Bank bills, were only released against invoices for work done -- a requirement that ignored the fact Philippine contractors often demand cash advances.

Fernandez said in a recent speech that closed debt/equity transactions had increased foreign investment by 15 million dollars in 1986 and 166 million dollars in 1987, while net direct foreign investment inflows rose from a scanty 17 million dollars in 1985 to 140 million in 1986 and 222 million in 1987.

About 281 million dollars of debt had been retired up to the end of 1987 and the country saved about 298 million dollars in interest payments, he added. But the effect on the money supply had been substantial, with reserve money, defined as currency in circulation plus reserve balances of deposit banks, expanding by 4.3 billion pesos up to the end of 1987.



"A strong argument exists that additional inflation is a price worth paying in exchange for strong investment induced growth, particularly if that growth exceeds the growth in inflation," the businessmen's statement said.

By Shantamya Kallang

"The debt conversion program needs either to be effectively and fully implemented by the Central Bank or else cancelled as its continuation at an insignificant level will have minimal economic benefit."

Reuters News

English

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MANILA, April 19, Reuters - China is negotiating with the Manila-based Asian Development Bank for six loans this year, a Chinese official said on Monday.



Li, the bank's executive director on the ADB board, told Reuters in an interview that Peking wanted to building up its borrowings.

China joined the ADB in 1986 and is the bank's newest member. The bank made its first loans to Peking in

"I think we should go step by step," Li said.

ADB loans to China began last year with 47.5 million dollars to the China Investment Bank and 33.3 million dollars for a project supporting Peking's policy of switching to coal from oil for power generation. The loans become effective this year.

"I think for the first year this is quite good," Li said.

Bank papers show four loans totaling 200.2 million dollars are under current consideration.

They include a 118 million dollar loan for steel mill expansion project, the 85.2 million dollar foreign-exchange component of a 137.2 million dollar loan project, a 40 million dollar cinnabar plant expansion and a 40 million dollar pulp mill project.

Li said two other loans for the Shanghai Investment and Trade Corporation and an area development project in Shanghai province are also being discussed with the bank, he said.

Peking has said it will borrow only ordinary capital for it at normal rates of interest and not seek loans from the Asian Development Fund, the bank's concessional window.

The declaration recognizes the fears of member nations in the 47-member ADB that China and India, which first borrowed from the bank in 1985, could swamp it with development needs.

Li said four professional staff members from China had already joined the ADB and more were being recruited.

Peking will host the ADB's 22nd annual meeting in April next year.

At last year's meeting in Osaka, China became only the third country after the United States and Japan to occupy a separate seat on the bank's 12-member board.

Li said Peking welcomed news that Taiwan, which the bank calls "Taipei, China", asked and a two-year beyond to attend the ADB's annual meeting later this month in Manila. It will be the first time both have attended the same monetary conference.

He said Peking would cooperate with Taiwan within the bank.

Li made it clear China would not support calls by the United States and other major ADB donors for the bank to link more loans to policy reforms by its members.

"The government itself should decide what kind of policy to adopt," he said. "The ADB can share the experience it has gained with other countries."

"It cannot be feasible or compulsory to adopt policy measures," he said. "Each country must be tailored to its situation."