PHILIPPINES TO MAKE PAINFUL ECONOMIC ADJUSTMENTS.

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MANILA, May 25, Reuter - The Philippine economy is growing strongly well into the third year of President Corazon Aquino's rule but growth is accompanied by painful adjustments to make up for years of depression, analysts say.

Under Aquino more than 100 state-owned firms have been approved for sale and 35 have been abolished. But privatisation is proceeding slowly and major firms such as Philipine Airlines and Petron, a subsidiary of the Philippine National Oil Corp, are not for sale.

The World Bank and the Aquino government have agreed that more than 2,000 import items will be liberalised by 1989. However, the government is resisting pressure to speed up the program because an increased flow of imports might affect the government's industrialisation plans. So far, more than 1,000 items have been liberalised.

Aurelio Periquet, President of the ASEAN (Association of South East Asian Nations) Chambers of Commerce and Industry, warned that the adjustment process will be painful.

"It would inevitably cause the dislocation of workers of government firms that are to be privatised or restructured, it would kill uncompetitive domestic companies when import liberalisation is implemented, it could also mean higher prices for commodities previously made artificially cheap by unwarranted government intervention," Periquet said.

The government said on Wednesday that gross national product, the total value of goods and services produced by the economy, grew by a real 7.6 pct in the first quarter of 1988, up from 5.5 pct a year earlier.

A Western diplomat said the Philippines' growth, while impressive, must be seen realistically as having stemmed from "an incredibly low base."

Talk among investors these days focuses not on the Communist insurgency or labour unrest, "which suddenly stepped off-stage," he said, but on the "muddles in government."

"You have politicians and congressmen shrilly playing to a vaguely-defined claque about foreign creditors milking the country dry, but you do not have the government getting its act together so that billions of dollars in committed aid is put to quick and efficient use," the diplomat said.

"The main problem is that the government is interventionist, but not where it should be," the diplomat said.

The Aquino government says it wants to reduce its role in the private sector but controls remain. Foreign equity is limited to 40 pct and investors complain about unclear investment rules.

To address waste in foreign aid, Aquino has set up a cabinet level committe. Last year she said that 70 projects involving nearly two billion dollars in official development assistance were suffering delays averaging 30 months.

The strong economic growth, driven by pent-up consumer demand, is starting to strain productive capacity. Because there had been little addition to capital stock since 1983, when the country was hit by an acute economic crisis, industries may be running out of capacity, said Peter Lee U, an economist at the independent Center for Research and Communication (CRC).

Lee said year-on-year inflation, which rose to 9.7 pct in April, "May be a signal that the economy is already beginning to strain itself" and only an investment surge could temper the trend.

Aquino told a meeting on Wednesday that, "We need long term capital. We need new instruments in the financial markets. We need liquidity for investors. We need stable interest rates."

Recently, the central planning body, the National Economic Development Authority, criticized the Central Bank, saying its borrowings in the domestic capital markets were driving up interest rates and stunting economic growth and investment.

In the past, industry turned to foreign borrowing for long term needs. The government has said domestic capital markets are badly underdeveloped and stock markets are not used enough to raise capital. Only 61 of the top 1,000 corporations are listed.

Central Bank Governor Jose Fernandez told Reuters last week he was worried the economy may be overheating, a condition in which it suffers rising inflation and imports and a drop in the value of the national currency.

"The most important thing is to manage internal liquidity. We are certainly not going to allow the boom to go to our head," Fernandez said.

But economists noted that Central Bank data nevertheless show the monetary system's total liquidity, or M3 money supply, expanded by nearly three pct in February over January, to 163.5 billion pesos.

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