

BUSINESS TODAY

Philippine debate over debt payments alarms foreign banksBy **Chaitanya Kalbag** Reuters News Agency

436 words

6 June 1988

The Toronto Star

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English

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MANILA, Philippines -- "No one's talking new money, so we must reduce external outflows," Economic Planning Secretary (Minister) Solita Monsod said in a newspaper interview.

"Confrontation is a state of mind. We're not saying that we won't pay, just that we cannot pay now - if we want to sustain a respectable rate of economic growth," Monsod added.

Finance Secretary Vicente Jayme said last week, however, that the freezing of principal payments by Manila in October, 1983, had triggered "massive capital flight."

Debt commission

The Senate passed a bill last month setting up a legislative-executive debt commission to monitor indebtedness and recommend members for the country's debt negotiating team.

A Senate majority also tabled a draft bill limiting debt servicing to 10 per cent of export receipts during the 1988-92 "critical economic recovery period."

A Senate resolution, which does not have the force of law, proposes suspending payments on \$1.2 billion outstanding on a mothballed nuclear power plant built by Westinghouse near Manila during the rule of ousted President Ferdinand Marcos.

A Western banker who represents one of Manila's major creditors said the senate was moving on a confrontational path at a "dangerous velocity."

A central bank official noted the nuclear plant loan had been largely supported by Washington-guaranteed financing from the U.S. Export-Import Bank.

He said any move to repudiate the debt might trigger harsh U.S. economic sanctions as well as Washington's withdrawal from a multibillion dollar aid package for Manila being discussed by the United States and its allies.

Jose de Venecia, chairman of the House of Representatives Subcommittee on Monetary and Credit Policy, presented a 22-point economic strategy to President Corazon Aquino last month that included an interest rate cap of 4 to 5 per cent.

The Western banker said the International Monetary Fund (IMF) was likely to approve a four-to-five year extended fund facility of "over \$800 million" for the Philippines later this year.

Radical steps

Philippine officials have already announced the country is seeking loans worth \$854.9 million from the World Bank and the Asian Development Bank this year.

"There is tremendous goodwill for the Philippines just now," the banker said, "but if they take any radical steps they will be isolated internationally."

Central Bank Governor Jose Fernandez said recently that resolving the Philippine debt problem was not simply a matter of returning to negotiations with creditors. The key, he said, was "to determine what is feasible."

Photo Corazon Aquino

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