

The Morning After: Approaches to the Debt Crises

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The country is presently confronted with an enormous debt problem. The shaping of the present debt crisis can be better understood if we review past events where several factors contributed to the exacerbation of the problem. Several lessons can be learned from this experience, foremost of which are the impositions of disadvantageous terms by creditor banks on debtor countries. A number of solutions have been considered ranging from passive acceptance of the terms to more radical approaches, such as total repudiation of debts. However, a combination of options might be necessary. Some practical considerations are emphasized including the need to strengthen our bargaining position; the debt issue being a public issue must be understood by the people; and the legislature must have a definite role in the formulation of debt policies, among others.

Introduction

On September 1983, the debt bomb exploded in the Philippines with the announcement of then Governor Laya that the Central Bank could no longer finance the massive balance of payments deficit. The announcement triggered a series of economic debacles: successive devaluations which rocked the economy, spiralling inflation, massive unemployment, and increases in electric and energy rates. Moratoria were declared one after the other while financial authorities negotiated with the World Bank (WB) and the International Monetary Fund (IMF), creditor countries and the 483 creditor banks. The Marcos administration finally collapsed amidst the ruins of the economy and further impoverishment of the Filipinos.

That was four years ago. Since then, we have had a new government and a new president, Corazon C. Aquino. She promised that every cent of debt would be paid. Negotiations for a World Bank restructuring loan of over \$300 million initiated during the Marcos regime were finally consummated. Harsh IMF conditionalities for the IMF stabilization loan negotiated by the former government were implemented by the new administration. New money amounting to \$925 million started flowing in. Last March 27, 1987, the Philippines and the advisory committee representing the 483 creditor banks finally reached agreement on the rescheduling of \$10.3 billion in external debt after long and arduous negotiations. No less than Finance Minister Jaime Ongpin

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declared that he was "delighted" with the results of the negotiations. At that time, no one in the government contradicted him.

With debt negotiations completed, the legislature in place, the economic recovery program launched, and all the promising statistical indicators happily announced by the cabinet, it appeared that the Philippines had nowhere to go but up. However on July 27, four months after the much acclaimed March 27 accord, in her state of the nation address, President Aquino assailed the terms as unfair and disadvantageous. She stated that the government was pressured into assuming private debts, particularly those of Planter Products. The presidential revelation generated cries of outrage in Congress.

Now it is all in the open. *The Philippines has not gotten out of the debt trap.* Thirty-six percent of the 1988 budget will go to servicing internal and external public debt. For 1987, the debt service burden is \$2.6 billion, or over P52 billion. Contrary to the mandate of the Constitution, the highest item of expense is not education; it is the debt service burden. It is still the morning after the night before.

The 1987 Debt Crisis: In the Beginning . . .

In order to understand the magnitude of the debt crisis currently facing the country, it is necessary to go back to the 1983 debt explosion. This is because the debt service burden the country now shoulders is a consequence of restructuring agreements related to the 1983 debt crisis.

It is fashionable nowadays to blame the Marcos administration exclusively for the gargantuan debt which it had bequeathed to the Filipino people. However, a more objective review clearly shows that the debt crisis resulted not only from overborrowing, but from overlending as well. In other words, it resulted from both exogenous and domestic factors.

International Pressure to Borrow

The Philippine debt problem is part of a worldwide debt crisis which gripped practically the entire continent of Latin America, a number of countries in Asia, Africa and even Europe. It will be recalled that the 60s and the 70s saw the growth of unregulated and uncontrolled money market which abetted and encouraged massive lending to LDCs. In the words of Roberto Ampuero Espinoza:

All this started in the seventies when conservatively dressed gentlemen with elegant briefcases hurried from country to country in the Third World, offering

inexpensive loans with five or ten year maturities. Interest rates were always just barely 2% above Libor. This generously offered ready money consisted of petrodollars which had been deposited in European and US Banks.¹

While the European and US Banks were hunting for borrowers, a related scenario was taking place among less developed countries. They were learning the concepts of "development" under the guidance of consultants, experts and academicians from the creditor countries and the international lending institutions. "Development" as taught by their mentors meant huge infrastructure projects which required importation of consultants and advisors, foreign construction companies, machineries and heavy equipment from the lending countries. The foreign exchange requirements for "development" were so overwhelming that massive borrowing had to be resorted to. Thus, the eagerness of the European and American banks to unload their excess petrodollars were matched by the propensity of the LDCs for gargantuan development projects.

While the LDCs were frenziedly putting up development projects, they were hit by a series of global economic shocks which pushed them to uncontrolled borrowing. The first of these shocks were the higher oil prices in 1973-74 and 1979-80. Cline points out that the series of oil shocks resulted in an increase of \$260 billion in the external debt of non-oil developing countries from 1974-82.²

The second global shock which hit the Philippines and other LDCs was the escalation of interest rates in the United States. At that time, it was estimated that a one percentage point increase in interest automatically resulted in an increase of \$2.5 billion in interest for LDCs. In the Philippines, at the height of the debt explosion in 1984, a one percentage point increase automatically resulted in an increase of \$159 million; in Argentina's case, it resulted in an additional \$600 million in additional interest payments alone. This is one thing which must be emphasized: if our debt has gotten out of control, it is not only because of additional loans or inflow of new money, it is also because of escalation of interest rates.³

The worldwide recession from 1980-82 provided the third shock which further drove the LDCs into the debt trap. It is estimated that in 1981 alone, the LDCs lost \$79 billion in export volume loss.⁴

Domestic Causes: The "Development" Orgy

An earlier study on the phenomenal growth of public and external debts from 1972-83 underscores at least three factors. The first was the

"development orgy" launched by the Marcos administration. A series of development plans required grandiose projects which were premised on massive and accelerated external borrowing. This propensity to borrow purportedly for development is euphemistically described by two of our mentors, the World Bank and the IMF, as "development finance." The second factor was large-scale waste and overpricing in these loan financed development projects. The foreign exchange requirements of these projects exerted heavy pressure on the external debt. Borrowed funds went to the support of big bureaucracies purportedly overseeing the development projects. The third factor was collusion between fixers and lobbyists of both the Philippines and the creditor countries. The most spectacular case of collusion in a loan-financed project is the nuclear plant which is now a \$2.3 billion albatross on backs of the suffering Filipino people.

The above combination of internal and external factors pushed our external debts from a low of \$2 billion in 1972 to an all time record-breaking high of \$28 billion in 1983. Again, it must be emphasized that the bankers are to be blamed equally for the unmanageable debt of the Philippines and other countries. When Abdulatif AlHamad of the Arab Fund for Economic and Social Development was confronted with the fact that the OPEC countries sparked the debt crisis with the oil shocks and their excess petrodollars, he answered, "It was the anxiety of the international banking community to lend, and to lend indiscriminately. We were asked to put our money back into the international financial system. But we did not tell the banks to lend this money indiscriminately to developing countries."⁵ The greed and rapacity of the borrower governments like the Marcos government was matched by the overeagerness of the lending banks, thus precipitating the 1983 debt explosion.

During the last years of the Marcos administration, desperate efforts were exerted to restructure the external debt and come to terms with the creditor institutions. These were continued and carried on by the Aquino administration, culminating in the March 27 accord. The bone of contention in the current debates in the legislature and among concerned sectors in Philippine society is whether the restructuring arrangements entered into with the creditor institutions and the Marcos and Aquino administrations are benefitting the Filipino people. A correlated issue is what alternatives and options should be explored to get out of the debt trap.

The Current International Debt Situation

The World Bank has placed the total external debt of the developing countries at an estimated \$1.035 trillion, up from \$992 billion in 1985. For the first time, developing country debt has exceeded a trillion dollars.

It is interesting to note that \$35-40 billion of the 1986 increase is due to revaluation of loans denominated in currencies other than the US dollar. In other words, total debt of the developing countries has been increasing even without new loans coming in, due to revaluation. In the Philippines for example, even without new loans, our total debt rose from \$26 billion last year to \$28 billion due to currency revaluation.

On a global scale, net transfers have been negative. This means that the developing countries are paying out more dollars than they are receiving. In Latin America, for example, the commercial banks received a net of \$4 billion between 1985 and 1986, Sub-Saharan Africa which is considered the most capital starved area on earth paid out \$400 million more to the IMF than it received. On the whole, the developing countries paid \$26.3 billion more than what they borrowed. In 1986, they paid \$29 billion more. While they received only \$72 billion in fresh outflows, they paid out \$101 billion. This state of affairs has been going on since 1983. How long can the developing countries export dollars to the developed world?

According to the World Debt Tables for 1986-1987, the following are the biggest debtor nations:

Table 1
Biggest Debtor Nations

	<i>Billion Dollars</i>
Brazil	108
Mexico	103
South Korea	57.5
Argentina	53.7
Indonesia	37.1
India	36.4
Venezuela	34.3
Egypt	31.2
Poland	29.7
Israel	28.8
Philippines	28.6
USSR	28.3
Greece	24.9
Turkey	24.5
Chile	24.4
Algeria	24.0
Yugoslavia	23.9
South Africa	22.5
Malaysia	22.0
Portugal	21.9
China	19.3

Out of the approximately 120 countries, the Philippines ranks No. 11 in size of debt. Unfortunately, the Philippines does not rank No. 11 in size of GNP. In 1983, it ranked No. 8 among developing debtor countries. Its external debt is higher than that of the superpowers USSR and China, and neighboring Malaysia.

Unveiling the Philippine External Debt

The total magnitude of the Philippine External Debt is \$28.256 billion as of the December 1986 dollar rate (See Table 2). It rose to \$28.581 billion as of the March 1987 dollar rate. Since there have been no new borrowings, the increase of \$325 million is likely due to the continuing deterioration of the peso.

Table 2
Total Foreign Exchange Liabilities (In US\$M)
As of December 31, 1986

	TOTAL FOREIGN EXCHANGE LIABILITIES (IN US\$M)			
	<i>Short Term</i>		<i>Medium & Long Term</i>	<i>Total</i>
	<i>TRADE</i>	<i>NON-TRADE</i>		
COMMERCIAL BANKS & CB	2289	299	7317	9905
1. Commercial Banks	533	277	1934	2744
1.1 Government	65	209	599	2744
% to Commercial Banks	12%	75.5%	30.1%	31.8%
1.2 Private	468	68	1335	1871
% to Commercial Banks	87.8%	24.5%	69%	68.2%
1.2.1 Branches of Foreign Banks	57	45	1042	1144
% to Private Comm'l Banks	12.2%	66.2%	78.1%	61.1%
1.2.2 Domestic	411	23	293	727
% to Private Comm'l Banks	87.8%	33.8%	21.9%	63.5%
2. Central Bank	1756	22	5383	7161

PUBLIC AND PRIVATE	1929	315	15561	17805
1. Public	417	12	13204	13633
% to Public & Private	21.6%	3.81%	84.9%	76.6%
2. Private	1512	303	2357	4172
% to Public & Private	78.4%	96.2%	15.2%	30.6%
RED CLAUSE (Export Advances)	546	0	0	546
1. Public	162	0	0	162
% to Total Red Clause	29.7%			29.7%
2. Private	384			384
% to Total Red Clause	70.3%			70.3%
GRAND TOTAL	4764	614	22878	28256

NOTE: % of Foreign Exchange Liabilities of
Branches of Foreign Banks to Grand Total 4.05%

The breakdown based on December 1986 figures as submitted by the Central Bank Governor to the Senate Committee on Banks and Financial Institutions is:

Short-term loans	- \$ 5.378 B	19%
Medium-term and Long-term loans	- \$22.878 B	80.97%

Points to Ponder on the 1987 Debt

Totals only include stock amounts of loan. It is believed that these totals actually include significant amounts for interest, penalties, fees, commissions and adjustments due to dollar revaluation.

The Public Sector debt is very much larger compared to Private Sector debt, as follows: (See Table 3)

Public Sector debt	- \$21.52 billion or 76.15%
Private Sector debt	- \$ 7.74 billion or 23.85%

Table 3
Total Foreign Exchange Liabilities (Public Sector)
(As of December 31, 1986)
(In US\$ M)

	<i>Amount</i>	<i>% To Total</i>
CENTRAL BANK	7,094.233	32.96
Direct	5,092.367	
Indirect (New money + assumed)	2,001.866	
BANKS	873.429	4.05
PNB	743.238	
Other Banks	130.191	
Non-Banks	13,554.681	62.98
DBP	911.273	
NPC	2,781.679	
PHILPHOS	432.572	
PAL	392.311	
PNOC	382.386	
Rep. of the Phil.	6,552.817	
MMIC (Acquired)	131.307	
PHILGUARANTEE	151.387	
SEMIRARA COAL (Acquired)	84.728	
OTHERS	1,734.221	
TOTAL	21,552.343	

Before 1972, private sector debt was traditionally larger than public sector debt. By 1984, the proportion was 65:35%. By 1987 it had become 76:24%.

Why? This is because government has assumed a large block of private sector debt.

Out of indirect borrowings of the Central Bank of \$2.001 billion, it is estimated that \$1.076 billion of this is for debts assumed. The latter would include largely private sector debt.

The Central Bank report to the Senate indicates that PNB, DBP, Philguarantee and the National Government assumed a total of \$3.523 billion in private debts. Thus, the PPI debt is a mere drop in the bucket and is only one on the sixteen-page list of private sector debts assumed by the government.

A significant portion of the external debt is actually accounted for by borrowings of branches of foreign banks located in the Philippines. The private sector owes a total of \$1.871 billion to commercial banks. Of this, 61.1% or \$1.144 billion is actually debts of branches of foreign banks located in the Philippines. Branches of foreign banks are among the big beneficiaries of the Philippine external debt. The mother banks are in a sense lending to themselves. This situation emphasizes the fact that our banking system is dominated by foreign transnational banks. It is a clear illustration of a fundamental defect in the monetary system.

The external debt is steadily growing even without new money coming in. This is due to changes in interest rates, for one thing. In 1984 for example, a 1% increase in interest automatically raised payments by \$160 million. Revaluation of the dollar value of the loan is another. Fees and fines is still another. From 1984 to present, there was a series of cancellation of loans resulting in the payment of commitment fees. Converting accumulated interest into principal is still another. For example, the reason why our external debt grew from \$26 billion to \$28 billion for 1986-87 is primarily due to revaluation.

Lessons from the Latest Restructuring Accord

The latest restructuring accord brings to light several lessons which our policymakers have refused to recognize for the past forty years.

Firstly, creditor banks have always imposed disadvantageous terms, especially in negotiations for restructuring of debts. This has been happening for the past forty years. The March 27 accord (or discord?) is not an isolated event.

Secondly, it cannot be said by policymakers that the true colors of creditor banks has not been exposed before. Progressives and nationalists have consistently presented facts and data belying the supposed munificence of these institutions.

Thirdly, debtor countries are not solely at fault for the debt crisis. Creditor banks are equally at fault.

Finally, the Philippine External Debt is not only the debt of the public sector. It also includes debt of private sector who should share the burden and blame.

Is the International Debt Crisis under Control?

It has been five years since the global debt explosion in 1982. Borrower countries were subjected to uniform restructuring packages, including the Philippines. Are these schemes working?

The answer is no. According to Richard Feinberg, Vice-President of the Overseas Development Council:

in terms of 1982 versus 1987, I'd say that the banks have dug out from under. But paradoxically, borrowing countries are still mired in debt.... People who look at the problem from the banker's side tend to feel that 'Well, you know, we're making gradual progress.' But people who look at it from the debtor country's point of view see unresolved problems.⁶

A communique of the Group of 24 strongly condemns the industrialized countries, thus:

Although an essential element of the strategy followed so far, recognizes the responsibilities of industrial countries to provide a stable and growth-oriented economic environment.....industrial countries have fallen short of this commitment.....the situation of indebted countries remains most fragile.....In spite of continued adjustment, the debt of developing countries has continued to increase despite very large resource outflow.⁷

The United Nations has pointed out that the transnational banks are one of the primary causes of the escalation and continuing aggravation of the global debt crisis. This was stated in a report released on March 1987.

In the case of the Philippines, the total external debt is calculated at 90% of the GNP. In peso term, this is approximately P600 billion! Obviously, it is nigh impossible for the country to be liberated from the avalanche of debts under the present arrangements.

Solutions Under Consideration

Possible solutions to the debt crisis have been proposed by various individuals and groups. The Senate is considering some of these:

Acceptance of terms of March 27 Accord. Compared to terms accorded the Marcos administration, the terms of the March 27 accord is better in the sense that the interest rate will be 7/8 point over Libor, resulting in "savings" of \$930 million. This is according to Central Bank Governor Jose Fernandez, Jr. However, these terms are not as advantageous as the terms offered earlier to Mexico and recently to Argentina where interest rate is 13/16 point over Libor.

The March 27 accord is now complicated by the assumption of the debt of Planters Products, Inc. (PPI) by the government. This is approximately \$57 million. This is the conditionality imposed by the PPI creditors who are among the group of 483 creditor banks. Barclays Bank heads the PPI creditors. The latest of this PPI controversy is that it has been elevated to the Supreme Court.

Renegotiation for terms similar to those of Mexico and Argentina. The Philippines is planning to reopen negotiations and demand terms similar to those granted to Mexico and Argentina. This is the reason why the support of the legislature was sought by the President. It must be pointed out however that the bargaining position of the Philippines is not as strong as those of Mexico and Argentina in the sense that the latter are big borrowers whose defaults could rock the international financial community. Also, creditor banks are aware that the Latin American countries have organized themselves to strengthen their negotiating position.

Refinancing of external financing gap for official development assistance. The projected external financing gap from 1987-1992 amounts to \$6.8 billion. To finance this from official development assistance (soft loans and grants) would require a 150% increase in the rate of annual official disbursements. Financing this from market loans and facilities would exacerbate the foreign exchange problem or BOP problem and create more serious debt servicing levels.

Limitation of debt service to a fixed ceiling, e.g., 10% of export earnings. This was initiated by Peru which has forbidden all private and state corporations to pay external debts with foreign currency or transfer profits abroad during the next two years. The IMF retaliated by declaring the credit unworthiness of Peru. If the Philippines will consider this option, it should consider possible alternative in case it would be declared credit unworthy.

A debtor's forum (with possible group negotiation). A forum among debtor countries has also been proposed wherein they explore common positions on terms to be negotiated with creditors. In the Philippines, this was proposed by Senator Teofisto Guingona. It will be recalled that during the Marcos administration, the Philippines was invited by Latin American countries to

join them in their efforts to unite debtor countries. At that time, the Philippines refused on the grounds that it will pay all its debt.

Moratorim on debt service payments. This is what the Philippines resorted to immediately after the balance of payments crisis in 1982. However, the country was pressured into paying part of the accumulated interest. Early in 1987, Brazil shocked the international financial community by announcing a moratorim of interest payments on \$78 billion owed to commercial banks. It is believed that Brazil's posture influenced the more considerate terms offered to Mexico and Argentina relative to the Philippines.

Selective repudiation of debts. This option has earlier been proposed by a significant number of international scholars. The assumption is that, the creditors are equally at fault as the debtors. A further assumption is that, it will be virtually impossible for debtor countries to fully pay their debts *en toto* without resorting to cancellation.

Potential areas for cancellation of interest and amortization payments are as follows:

- 1) Bad debts/fraudulent debts (both public and publicly guaranteed private debts);
- 2) Accumulated interest, penalties, other fees imposed through the course of the series of debt negotiations and restructuring from 1984-87 which were unfair/detrimental to Philippine interest;
- 3) Selected private sector debt assumed by the Central Bank, National Government or by other public institutions (especially in sugar, mining, shipping and industrial sectors);
- 4) Repudiate amounts/fees related to unfair cross-default clauses and other conditionalities; and
- 5) Selected components to loans which either did not actually accrue to Philippine accounts or eventually went out of the country.

A related proposal to selective repudiation is that, there is no recourse to the global debt problem except "forgiveness" of portions of the global debt by the banks. The plea will be made on behalf of poor countries whose debt maybe small in terms of actual size but whose impoverished economies are deteriorating further, like the poor countries in Sub-Saharan Africa.

Total repudiation or "debtor's strike." This was proposed by Cuba's Fidel Castro during the fourth convention of Felap, an association of Latin American countries. Cuba is one of the few countries which elected to repudiate its external debt. When Castro assumed the leadership of Cuba, he refused to honor the debts incurred during the Batista regime. He said that these were the debts of his predecessor, not his. Furthermore, he claimed that these debts were more than fully paid in terms of debt service, interests, and profit remittances by creditor banks covering decades of profitable operations in Cuba.

An ultimate solution like Castro's necessitates the support of the populace who must be prepared to deal with the impact of such radical solution. Castro likewise turned to the socialist countries for assistance. Thus, he was able to withstand the harsh repercussions of total repudiation with total impunity because his people rallied to his support and socialist countries rendered assistance.

Joint legislative-executive commission on the public debt and external debt. This is proposed by Senator Alberto G. Romulo which seeks to mobilize joint action on the debt problem by both the legislature and the executive. Since the former enacts policy and the executive implements it, duplication of efforts can be avoided if both branches of the government put their acts together. Likewise, it will facilitate pooling of data and consultation with concerned sectors.

Which Option is Appropriate for the Philippines?

At present, the country is faced with the difficult task of deciding the appropriate solution to its debt problems. Both Houses of Congress are currently debating over possible steps which can be undertaken to resolve the issue. A suggested step is to carefully study the external debt structure. During the Marcos regime, explicit details of our debt were available only to a select few. Even academicians and researchers encountered difficulties in gathering information. Only totals were made available. Immediately after the balance of payments crisis in 1983, even the totals could not be made available.

It is further suggested that the lawmakers consult with the public on what should be done, since in the final analysis, it is the Filipino people who will bear the full impact of the debt service and interest burdens, so they have a right to be consulted.

On the basis of extensive consultation and studies, the legislature can set guidelines or ceilings in terms which can guide our negotiating teams in

future renegotiations. They can also specify options or actions which might be undertaken. The proposed Joint Legislative-Executive Commission can be utilized as a mechanism for this.

It is now evident that a combination of solutions or options might be necessary. Dieter Bauer confirms what progressive scholars have been saying all along:

.....Fresh credits do not help ease the debt burden, they only help to augment the debt mountain. Eventually, the moment of truth will come when the countries of the Third World will openly say that they will never be able to pay these accumulated debts. In theory, fresh money is given to strengthen the productive base of the developing countries so that they will at some day in the future be able to earn enough foreign exchange to service and repay their debt. In practice, it turns out that the more the developing countries produce in terms of commodities for instance, the lower the world market prices for these goods. And when they venture into manufactures, they find industrial markets closed to their exports. Ironically, the commodity most easily exported from developing countries is hard cash: In 1986, Third World countries paid back \$29 billion more than they received in long term credits. At the moment, the South (developing countries) is financing the North (industrialized countries) not vice versa as it should be.⁸

On their own, other countries have unilaterally set ceilings on debt service payments because of the harshness of existing conditionalities. Nigeria has limited debt service ratios to 30 per cent of foreign exchange earnings. Peru has set the limit to 10 per cent. Bolivia and Brazil have decided to completely discontinue debt service payments. But will debt service ceilings reduce developing country debt?

Mathematical calculations for Latin America give a brutally precise answer: No. As one economist puts it:

If Latin America were to abstain from borrowing any further money and would pay these ten per cent of export earnings for twenty years—at stable world market prices—toward foreign interest charges of six per cent, these interest payments would amount to almost \$430 billion by the year 2005 while total debt would increase to about \$445 billion.⁹

Since present restructuring formulas are not working and debt service ceilings have little chance of succeeding, it is not surprising that international scholars and concerned Filipinos are opting for either selective repudiation or cancellation, or even total repudiation.

A final comment is that, solutions to the debt problem cannot be isolated from the problems of international trade. Debtor countries have emphasized the fact that the industrial countries are depriving them the chance to earn money for debt servicing by putting up barriers against their trade. They have

also bitterly criticized standard IMF terms which led to social crises and weakened democratic structures. In other words, solutions to the debt issue cannot work unless accompanied by tariff liberalization on the part of the industrialized countries.

Neither can the debt issue be isolated from foreign investment policy. A case in point is the recently signed Omnibus Investment Code which guarantees full repatriation of investment and full remittance of earnings. This will surely erode the foreign exchange position of the country. Congress cannot touch the debt issue without touching international trade and foreign investment.

Conclusion

As the lawmakers debate on the debt issue, some practical considerations which must be taken into account are as follows:

1) There is a real need to strengthen the bargaining position of our negotiating teams. Argentina and Mexico got better terms for two reasons: Latin American debtor countries are united and the bulk of their debt is such that they can throw the international economy into disarray if they declare a default. Support from the legislature, and even more important, all sectors of the Filipino people will surely strengthen the hand of our negotiators.

2) We should not proceed on the assumption that we will get better terms simply because we are a working democracy or that our international image is favorable. Sentiment does not count in negotiations. The records of creditor banks indicate that they will insist on what is good for themselves and not necessarily for us.

3) The mystique and aura of intellectuality surrounding the debt issue must be demolished. The public debt is not a technical, intellectual field of specialization to be understood only by the mandarins of finance. It is primarily a *public issue* affecting the lives of all Filipinos. Decisions on debt policy must be made public, and must be made understandable to the public. There must be consultations and continuous dialogue with the public on the most suitable approach to the problem.

4) The legislature must have a clear role in the formulation of debt policy. At present, it is obviously the World Bank, IMF and the creditor banks which are formulating not only debt policy, but also fiscal and monetary policies.

5) The conventional approaches are clearly not working. It is time to break free of the traditional ways of solving debt problems and chart new

paths.

6) The importance of unity cannot be overemphasized. This involves unity with all sectors of Philippine society to generate support for the Philippine position. It also involves unity with other debtor countries in order to negotiate for better terms. The creditor banks are united, therefore, the debtors must likewise be united or else get crushed under mountains of debts.

After forty-one years, the increasing numbers of Filipinos have finally awakened and recognized the awesome realities of our debt problem. They have finally unmasked the true intentions of our so-called "benevolent" creditors. It is time to act. Now.

Endnotes

¹Robert Ampuero Espinoza, "Debts for a Century," *Development and Cooperation* No. 1 (1986), p. 9.

²William R. Cline, *International Debt and the Stability of the World Economy* (Cambridge, Massachusetts: Institute of International Economics, MIT Press, 1983), pp. 23-24.

³*Ibid.*, pp. 24-25.

⁴*Ibid.*, p. 20.

⁵"Development is a Mental Process," interview with Abdulatif AlHamad, in *Development and Cooperation*, No. 5 (1986), p. 7.

⁶Hobart Owen, "Despite Loan-Loss Reserves, No Easy Debt Solutions," *The Washington Post*, as reprinted in *Manila Chronicle* (April 19, 1987), p. 8.

⁷Group of 24, "Group of 24 Communique" in *IMF Survey*, April 21, 1986.

⁸Dieter Bauer, "Deeper in Debt," *Development and Cooperation*, No. 2, (1987), p. 3.

⁹Espinoza, *op. cit.*, p. 9.

Annex A

Paris Club 1985-86 Rescheduling
As of December 31, 1986
(In US\$)

*Total Amounts of Debt With The Central Bank As Obligor
Without Peso Delivery To The Central Bank*

A. Central Bank of the Philippines	7,940,168.61
B. Other Public Debtors	122,722,106.37
DBP	15,581,878.20
MMIC	19,278,963.26
NEA	223,791.40
NPC	43,432,456.44
PHILGUARANTEE	1,517,819.34
PAL	13,401,999.44
PNB	1,494,401.38
Republic of the Philippines	1,767,583.63
SEMIRARA Coal Corporation	26,023,212.71
C. Other Private Debtors	17,633,582.29
TOTAL	148,295,857.27

Annex B

Publicly Guaranteed Private Sector Foreign Exchange Liabilities
(As of December 31, 1986)
(In \$USM)

Summary:	Total	702.086
	Short-term	1.950
	Medium & Long-term	700.136
Breakdown:		
PASAR		343.761
PNB/ADB-PDCP RELENDING LINE		88.616
PNB/ADB-PISO RELENDING LINE		30.288
PNB/ADB-PISO RELENDING LINE		30.288
BUKIDNON SUGAR MILLING CO.		39.366
CAGAYAN SUGAR CORPORATION		23.883
DB TEODORO DEVELOPMENT CORPORATION		12.423
DAVAO UNION CEMENT CORPORATION		36.938
DOMESTIC SATELLITE PHILIPPINES		11.059
GREATER MANILA LAND CORPORATION		12.108
PLDT		17.437
Subtotal		615.879
Others		86.307
TOTAL		702.086

Source: Central Bank of the Philippines

Annex C

**Publicly Guaranteed Private Sector Loans and Private
Sector Loans Financed Through the Central Bank
Consolidated Foreign Borrowing Program
(As of December 31, 1986)**

In US\$M

With Obligor as Private	696.863
Direct/Assumed	555.595
Balance Original As Public	1,015.991
FCDU	70.652
CFBP Borrowing of DBP End Users Still Being Verified	378 090
Total	3,523.337

Annex D

**Loans and Advances
Central Bank Consolidated Foreign Borrowing Program
(As of December 29, 1986)**

In US\$M

DBP	738,665,081.36
PNB	460,750,025.07
TREASURY	419,999,309.33
PCIB	8,500,000.00
RPB	42,284,333.31
PISO	323,076.90
Total	1,670,521,825.97

Source: Central Bank of the Philippines

Annex E

**Publicly Guaranteed Private Sector Loans and Private
Sector Loans Financed Through the Central Bank
Consolidated Foreign Borrowing Program
Selected Institutions
(As of December 31, 1986)**

	<i>Direct/ Assumed</i>	<i>FCDU Funded</i>	<i>CFBP Refinanced</i>	<i>Total</i>
Under DBP	252.288	24.000	347.653	623.941
Under NDC	7.334	1.000		8.334

Under NIDC	21.006	2.869		23.875
Under Philguarantee	151.387	6.250		157.637
Under PNB	117.242	36.533	416.209	569.984
Under RPB	6.338	42.284		48.622
Total	555.595	112.936	763.862	1,432.393

Source: Central Bank of the Philippines

Annex F

Private Corporate Sector Debt Covered By Public Sector Guarantee Including Loans Refinanced Thru The Central Bank Consolidated Foreign Borrowing Program

Funded Thru Direct Borrowings/Assumed By Public Financial Institutions			
From Foreign Creditors		<u>555</u>	
From FCDU of Local Banks		71	
			626
Refinanced Thru CFBP Borrowings of Public Financial Institutions			
Borrowers Indentified		<u>806</u>	
Borrowers Being Verified		378	
			1,184
Balance With Original Obligors			
Classified as Public Sector		<u>1,016</u>	
Classified as Private Sector		697	
			1,713
GRAND TOTAL			3,523

January - April