

The Futility of Debt-Reduction Schemes

Paying our foreign debts with Philippine pesos, as the Aquino government is now doing, leads to inflation or high prices. Instead of extending this scheme to benefit dollar-earning Filipino overseas workers, as a Congressional bill is now proposing, it makes more sense to first review the morality and the legality of these foreign debts. Through its debt-to-equity conversion scheme, the Aquino government, over the last few years, has in effect been buying back Philippine foreign debt papers, using Philippine currency. These debt papers (or promissory notes) are presented to the Central Bank by foreign investors who usually obtain these papers in the so-called secondary market at a discount of more than 50% of their face value. The Central Bank redeems these notes by paying their full equivalent in Philippine pesos, on the condition that the peso proceeds are to be used to buy local assets or equity in Philippine companies. In the face of the clear financial gain that the debt-equity conversion scheme brings to buyers of Philippine debt papers, a bill was recently filed in Congress that would permit overseas Filipino workers to avail themselves of more or less the same advantages. The bill aims to double the peso proceeds of the workers' dollar earnings by inviting them to pool these earnings in a common fund which will then be used to buy discounted foreign debt papers. At first blush, the proposal makes a lot of sense because it only seeks to extend to Filipinos a privilege that is being enjoyed till now only by foreign investors. But by the same token, it will make equal sense if the same scheme is made available to all Filipinos with dollar deposits in the Philippines or abroad, whether they are overseas workers or not. But does it make sense for our country to buy back discounted Philippine debt papers and pay their face value in Philippine pesos? We, in BISIG, argue that it does not.

1. The scheme is inflationary because it will flood the country's economy with cheap pesos obtained from this damaging transaction. In the face of rising prices everywhere and an economy that is unable to produce enough to satisfy existing demand, this debt-reduction measure will only fuel further price increases.

2. The scheme automatically assumes the validity, the legality, and the morality of all these debts- a position which, to all intents and purposes, the Aquino government has adopted, but which all thinking Filipinos have rejected and must continue to reject. Regardless of the currency used in paying back our foreign debts, the country must insist on a prior review of all these obligations to determine which ones are honest obligations and which ones are fraudulent.

3. The scheme is tantamount to a de facto devaluation of the peso. The huge discounts offered by sellers of Philippine debt papers (from 50%-65%) is an open admission that these debts today are worth, at the most, only half their face value. What mode of reasoning then compels the Central Bank to insist upon redeeming them at their full face value? Just because the payment will be made in pesos instead of in dollars.

4. And finally, even under existing provisions requiring buyers of Philippine debt papers to use their peso proceeds for investment purposes only, the scheme is detrimental to our country's interest in the long-term because it will only accelerate and further strengthen foreign control of our economy.

We urge the immediate suspension of the debt-equity conversion program now being enforced by the Central Bank and all similar schemes, until a careful and open review of our foreign obligations is undertaken.

We reiterate the call of the Freedom From Debt Coalition (FDC) (1) to review the entire composition of our foreign debt as a first step towards cancelling fraudulent loans, (2) to adopt a 10% (of our merchandise export earnings) limit on annual debt service payments, and (3) to declare a moratorium on all foreign debt payments pending approval of a new agreement with our creditors which respect our people's prior rights to freedom from hunger and to economic growth.

POLITICAL COUNCIL

BUKLURAN SA IKAUNLAD NG SOSYALISTANG ISIP AT GAWA

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