Statement on the Letter of Intent and the Economic Stabilization Program

Last January 24, 1991, the President and her economic managers presented to leaders of the House of Representatives and the Philippine Senate the final version of the Stabilization Program to be submitted to the International Monetary Fund. The next day, January 25, 1991, a similar presentation was made to the Senate. On January 26, 1991, the President's economic managers departed for Washington for final talks with the IMF.

Once more, the Philippine government has committed itself to a program which can only mean more economic difficulties and suffering for our people. As in the 1989 Memorandum on Economic Policy also submitted to the IMF, the legislature did not have an opportunity to examine the program in its entirety. Even more important, public consultations were minimal. The Public Consultations Committee of the Foreign Debt Council held one hearing. Obviously, the inputs from various people's organizations were not taken into consideration in the final version of the LOI.

General Features of the Stabilization Program

What does the Stabilization Program look like? The only documents which are publicly available are the series of letters of the Secretary of Finance to the President, and the all too brief briefs circulated by the National Economic and Development Authority. The program in its entirety was not made available even to the legislators. Questions are now being raised about the assumptions which were made in drawing up targets and goals.

Fiscal policy measures include reduction of government expenditures by P23 billion, plus an additional P5.1 billion to settle outstanding claims in the OPSF. Furthermore, the IMF has been insistent that P5 billion in Central Bank liabilities be transferred to the national government. At the same time, revenues are expected to be raised by P30 billion, primarily through an import levy which has been raised to 9 percent. Other revenue measures include expansion of the scope of the VAT system.

Monetary measures include a tight money policy and flexible exchange rates which might signal further devaluations, and a target of 9 percent inflation rate for 1991.

Economic policies include liberalized foreign investments, accelerated tariff liberalization, and continued privatisation of GOCCs.

The Bottom Line: Impact on the People

The Freedom from Debt Coalition is raising many issues with regard to the LOI. For us, however, the bottom line is: what will be the impact of the program on the economy and the people?

Firstly, are the targets as outlined feasible? We say, these targets are not feasible at all. This is particularly true of the fiscal targets. Under the present regime of a devaluated peso and high interest rates, it is impossible to keep the budget from increasing. This is primarily because the debt service has automatically gone up due to devaluation and high interest rates. Devaluation will also push levels of government expenditures higher. If the government insists on expenditure reductions totaling P28.1 billion (plus P5 billion for the CB deficit) basic services will surely be affected.

We are equally pessimistic with the additional revenue targets, especially since the Lower House is most reluctant to pass direct taxes.

Secondly, what will be the impact of the program on the economy? We believe that the program will not only accelerate the suffering of the people who will be deprived of basic government services even as they will be sucked dry by higher taxes: the program will result in a further slowdown of the economy and even trigger a recession.

Thirdly, can the people bear the additional burdens imposed by the stabilization program? The answer is a definite NO. At present, the people are already suffering from the effects of the slowdown in the economy: they cannot bear further reductions in government services which are insufficient in the first place: they cannot bear additional taxes and increases in cost of living due to the proposed import levy and other repressive measures.

We are concerned that the supposed "stabilization" program will not only wreak havoc on the economy, it might trigger political and social destabilization. The stabilization program merely talks about "stabilizing the economy" and does not consider how the difficulties of the people can be alleviated.

What Must Be Done?

As stated in our December 10 position paper submitted to the Foreign Debt Council, the LOI and the Stabilization Program must be subjected to public discussion and debate. It is not just the concern of the economic managers, the IMF and the legislators. The people must be consulted and asked if they are willing to bear additional tax burdens under a regime of reduced government services, a devaluated peso and higher interest rates.

It is time that the government consider other options: i.e. action on fraudulent loans, reduction of the debt service, increase in social services and safety nets, and other measures which will ensure that the people, first and foremost will be protected instead of sacrificed on the altar of international finance.

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