On the Philippine pledge to give US$1 billion more this year to the IMF to "help distressed economies" like those in the Eurozone

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FDC President Ricardo ReyesNews from the G-20 Meeting at Lagos, Mexico last June 18-19 carried an announcement from the International Monetary Fund (IMF) through IMF Managing Director Christine Lagarde that the Philippines is among the twenty countries which pledged to increase the IMF fund to assist economies going bankrupt and stabilize the world monetary system which continues to shake under the impact of the global financial and economic crisis.

The Philippine pledge amounts to US$1 billion. The announcement was immediately confirmed by Bangko Sentral ng Pilipinas (BSP) Governor Amando M. Tetangco Jr. and President Aquino's Spokesperson Edwin Lacierda. This is on top of earlier Philippine contributions which amounted to SDR 163.8 million or about US$251.5 million as of December 31, 2011. [1]

These Philippine commitments have become part of the Financial Transaction Plan (FTP) of the IMF. The FTP is the IMF's mechanism to finance its lending and repayment transactions through a transfer of foreign exchange from members with strong reserves to members which need to borrow. According to the BSP, the Philippines has contributed to the FTP since 2010. It will be recalled that the BSP prepaid all Philippine outstanding debts from the IMF in 2006, enabling it to make an early exit from the Post-Program Monitoring Arrangement and stop availing IMF loans.

By continuing to participate in the FTP and even increasing Philippine contributions to it, the BSP aims to enroll the Philippines to IMF's New Arrangements to Borrow (NAB) facility, a credit arrangement meant to forestall or cope with national or regional crisis situations which could impair the international monetary system. Normally, quota subscriptions from member countries are the IMF's main source of financing but in the wake of repeated national debt crises which triggered regional or more widespread financial contagion, the IMF set up the NAB as its main backstop or supplementary financing to quota resources in 1997, following the Mexican financial crisis. At present, thirty-eight (38) member countries and institutions are part of the IMF's NAB.

BSP's Tetangco justified the US$1 billion plus pledge to the IMF, saying that the Philippines can now join international efforts to control the global financial crisis and stabilize the world monetary system because of its strong gross foreign exchange position. The amount, he claims, will not have significant impact on the country's reserves. Moreover, all claims under NAB can be encashed fully and immediately in case of a balance of payments problems and will be treated as reserve assets, says Tetangco. The Aquino administration, through Mr. Lacierda, for its part, defended the BSP move, to quote: "We have been a recipient of IMF assistance for the past 40 years. Now that we have been considered a creditor nation, we feel it is our obligation to assist those nations who require funding from IMF."

Before going to our main issue here which is the IMF, let us first disabuse Messrs. Tetangco and Lacierda of the thought that they can mislead many of us to believing that the Philippines has now turned from a debtor country to a creditor country.

The Philippines is very much in debt. Consolidated public sector debt (debts of the national and local governments and government-owned and –controlled corporations and government financing institutions) [2] stood at P7.6 trillion as of end-2011. National Government debt is P5.07 trillion as of April this year. Of this amount, foreign debt is P2.06 trillion while domestic debt is P3.02 trillion. Of course, the Philippine debt profile has changed as to source of loans. Now, around 60 percent of foreign loans and nearly 99 percent of domestic loans incurred by the national government are sourced from the financial markets through various types of financial instruments, such as Treasury bills and bonds. Loans from international financial institutions and bilateral sources have diminished. From this debt picture we can see why the Arroyo administration and the BSP could afford to exit from the IMF in 2006, aside from other factors which strengthen the Philippine foreign reserves like the increasing remittances from overseas Filipinos and the surge of capital flows in the direction of Southeast and East Asia.

To assist other countries and peoples in need is at the heart of global human solidarity and sound international relations. Helping thy neighbors, our kapwa, is also a deep-seated Filipino trait. The big question, however, to us in the Freedom from Debt Coalition (FDC) is: BUT WHY GO THROUGH THE IMF? CONSIDERING THE IMF'S TRACK-RECORD, CAN IT REALLY HELP THE BANKRUPT ECONOMIES AND DISTRESSED PEOPLES OF THE EUROZONE GET OUT OF THE FINANCIAL AND ECONOMIC RUT THEY ARE IN?

We raise this question because of the bitter experiences of the Philippines in the hands of the IMF and its partner, the World Bank. For more than four decades, successive Philippine governments and elite classes have allowed themselves, for reasons of colonial mentality, United States' pressures and selfish gain, to accept IMF's prescriptions to chart the economic development of our country.

These IMF prescriptions, which later became impositions, took our economy down the road of a debt-driven development. The objectives and policy conditionalities of IMF loans were directed towards producing more for export markets abroad than satisfying the basic needs of our people and developing both homegrown industrial and agricultural strength and a robust domestic market. When a deep economic crisis struck in the early 80s, the IMF aggressively pushed the Philippines to adopt its structural adjustment program (SAP) which sought to remove the developmental role of the State in the economy and give the upper hand to markets and the private sector. Policies to liberalize the economy, privatize state enterprises and deregulate vital industries like oil and power were relentless pursued. Land reform was pushed aside to promote big agribusiness and real estate. Wages and job security were sacrificed through labor flexibility schemers to attract private investors. Government subsidies to basic social services and agriculture were radically cut or removed. A full-blown neo-liberal program was put into motion especially after the Philippines joined the World Trade Organization (WTO).

The effects on our national economy and the welfare of our people have been devastating. Industry and agriculture have registered very sluggish growth with many industries disappearing. From a former rice exporter, the Philippines has become one of the world's top rice importers. Unemployment and underemployment have risen under a regime of jobless growth. A large underclass of contractual and informal labor has become the majority of the working class and has given rise to huge colonies of poverty and homelessness in the cities. Poverty continues to rise in the rural areas where landlessness and lack of jobs persist, and where indigenous peoples reside. Around 22 percent of the country's labor force – the educated, skilled and enterprising, are now abroad in search of jobs and a better future.

IMF crisis interventions in other countries have been similar to the Philippine experience. The formula is to inject liquidity to troubled economies to meet their debt payments to private creditors, maintain capital account convertibility and prevent default while carrying out monetary and fiscal tightening to restore confidence. The latter becomes a procyclical policy – magnifying financial and economic fluctuations – because belt-tightening is required during a downturn thus adding to economic contractions. Debt restructuring are tied to structural adjustment programs and sustainability assessments. Sustainability is measured in terms of how much debt and debt servicing a country can absorb without regard to its effect on employment and poverty.

IMF programs have also been easily influenced by the national interests of its major shareholders like the United States, Japan and Europe as clearly shown in the South Korean crisis of 1997. Ceilings on foreign ownership of industrial assets were raised and wages were cut by half and labor flexibility schemes like contractualization were intensified. In many other cases, creditor banks and investors from these countries were not made to share part of the consequences of the risk they took in lending a troubled country. The entire burden was shifted to the debtor country, to its government, which was compelled to assume the liabilities of private investors which can no longer pay their debt.

Moreover, countries with severe balance of payments and sovereign debt difficulties are not allowed by the IMF to resort to debt standstills and exchange and capital controls which are important to arrest capital hemorrhage.

The Eurozone experience is the most recent example. The recent agreement between the Greek government on the one hand and the so-called Troika – the European Central Bank (ECB), the IMF and the European Commission (EC) prescribed the reduction of public employment by 150,000 workers by 2015, cutting of the minimum wage by 20 percent (and by 32 percent for those under age 25) and the weakening of collective bargaining – all in exchange for a 130 Billion Euro package!

The Philippines should join the growing international demand to abolish the IMF instead of prolonging its life and even expanding its exploitative operations by putting in US$1 billion plus worth of foreign exchange at its disposal.

Ricardo B. Reyes
President, Freedom from Debt Coalition

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http://fdc.ph/index.php?option=com_content&view=article&id=601:but-why-through-the-imf&catid=34:debt-campaign&Itemid=88

Footnotes

[1] SDRs (Special Drawing Rights) are supplementary foreign exchange reserve assets defined and maintained by the IMF which can be used as a claim to member countries' foreign exchange reserves in only four currencies, namely US dollars, euros, pound sterling and Japanese yen. SDRs were created in 1969 to supplement shortages of gold and US dollar as preferred foreign exchange reserve assets.

[2] These figures do not yet include loans of government financing institutions.