AN ASSESSMENT OF THE EXTERNAL DEBT MANAGEMENT IN THE PHILIPPINES, 1986-1988

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I. INTRODUCTION

One of the most debilitating problems the Aquino administration inherited from the Marcos regime was the massive external debt the latter had accumulated. Prior to the February uprising, the outstanding foreign debt stood at $26,252 million, equivalent to 81.7 percent of Gross National Product. These figures increased in 1986 and 1987 before finally declining, though slightly, in 1988 to $27,915 and 71.5 percent, respectively. Data on the Philippine external debt from 1970-1988 are shown in Table 1.

The gravity of the debt problem can be inferred from its economic ramifications. In 1986, 18.43 percent of government expenditures went to interest payments alone and this figure rose to 30.91 percent in 1987 and 33.37 percent in 1988. This reflects the fact that much of the external debt has been assumed by the government. In terms of actual dollar movements, the Philippines experienced a net resource outflow in all three years of the Aquino government. This implies that total outflows consisting of interest and amortization payments exceeded total

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*This is Chapter III of a bigger study entitled "An Assessment of the Performance of the Aquino Government in Selected Policy Areas, 1986-1988."

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Table 1: PHILIPPINE EXTERNAL DEBT
1970-1988

Year	Level ($M)	Ratio to Nominal GNP (%)	Ratio to Export of Goods and Services (%)
1970	2297	33.90	174.02
1971	2393	31.02	170.81
1972	2732	32.60	188.02
1973	2886	27.01	114.30
1974	3755	25.52	105.51
1975	4939	31.28	154.30
1976	6768	37.52	196.46
1977	8069	38.98	190.49
1978	10694	44.50	217.84
1979	13352	45.18	213.43
1980	17252	48.99	215.38
1981	20893	54.36	242.43
1982	24677	62.83	308.31
1983	24816	72.81	305.16
1984	25418	80.49	317.05
1985	26252	81.70	331.59
1986	28256	93.71	327.30
1987	28649	83.78	310.83
1988	27915	71.48	261.38

Source of Basic Data: Central Bank of the Philippines.

inflows which include assistance from official creditors, grants and concessional loans, and new money from international commercial banks.

It is not too difficult to determine the qualitative effects of the consequences of the external debt overhang. The policy of the government of automatically including appropriations for foreign debt repayment in the national budget is tantamount to socializing the external debt. The recent demonstrations and protests of the public school teachers and the inability of the government to meet their demands, only serve to underscore this point. The hemorrhage of much needed foreign resources deprives the economy of international reserves required to finance important programs mostly located in the rural areas. In the end, it is the lower income classes who tend to suffer the most.

To further stress the effects of repaying our external debt, we performed some simulations using the latest version of the PIDS-NEDA Annual Macroeconometric Model. We assumed that interest payments would be constrained to 15 percent of merchandise exports in 1986 and 1987. The results for key economic variables are presented in Table 2. As expected, a reduction in interest payments has an expansionary effect on GNP in both years. The latter would even be higher if the decrease in the interest component of government expenditures would be channeled to productive spending (e.g., higher salaries for public school teachers). This is Case 2 in the reported results. The general price level, which is modelled by the Consumer Price Index (CPI), also rises mainly because the improved Net Foreign Assets (NFA) position of the Central Bank exerts an expansionary effect on the money supply. In this simulation exercise we assumed that the Central Bank will sterilize 50 percent of the increase in NFA. If we increase this percentage in order to moderate the increase in prices, there would be a further expansion in GNP. Other results that conform to initial expectations are the improvement in the Balance-of-Payments and the narrowing of the budget deficit.

II. GOVERNMENT POLICY ON EXTERNAL DEBT

Shortly after the Aquino administration assumed power, its then Economic Planning Minister advocated for a careful evaluation of the debts incurred by the Marcos government with the view of repudiating those which were contracted under doubtful conditions. This call for selective repudiation as a strategy for handling our outstanding debt was effectively ruled out when President Aquino vowed to honor all the foreign obligations of the Philippines. Some sectors hailed this move as a victory for the more conservative members of the Philippine debt panel, referring to Central Bank governor Jose Fernandez and the late Jaime Ongpin, who was then Minister of Finance.

Table 2: EFFECT OF REDUCING INTEREST PAYMENTS

	GNP (₱B)	GNP'	% Change	CPI	CPI'	% Change	DEF (₱B)	DEF'	% Change	BOP ($M)	BOP'	TL (₱B)	TL'	% Change
Case 1 Decrease in Government Interest Payments Not Channeled to Government Spending														
1986	90.7	91.8	1.22	692	724	4.55	37.2	32.4	-12.9	1651	2250	148.1	176.0	18.8
1987	96.3	97.0	0.75	752	799	6.25	24.5	14.4	-41.2	-446	580	133.9	166.2	24.1
Case 2 Decrease in Government Interest Payments Channeled to Government Spending														
1986	90.7	92.4	1.81	692	726	4.9	37.2	35.8	-3.6	1651	2222	148.1	178.2	20.3
1987	96.3	97.8	1.56	752	804	7.0	24.5	19.3	-21.4	-446	523	133.9	169.6	26.6

Notes: The prime (') indicates the value after interest payments are reduced.
The variable definitions are as follows:

GNP - Gross National Product at Constant Prices
CPI - Consumer Price Index
DEF - National Government Deficit
BOP - Balance-of-Payments
TL - Total Money Supply (nominal)

Whatever their personal preferences for particular strategies, both groups had essentially the same basic objective which was embodied in the 1987-1992 Medium Term Economic Plan and its subsequent updates. As explicitly stated in the NEDA five-year plan: "A growth-oriented debt management strategy will continue to be adopted. Efforts shall focus on the reduction in net resource transfer to creditors in order that available foreign exchange resources are utilized for productive purposes."

The more complete program for the external sector, however, reveals a clear bias towards the more conservative stance in dealing with tne debt problem. Specifically:

> ".....Financing arrangements that will insure effective reduction of the debt burden will also be pursued. These will include multi-year rescheduling agreements, and continued negotiations for better terms and conditions. Other forms of innovative but market-dictated debt relief options shall be explored such as conversion of debt to grants and debt exchange options like debt-for-bond swap similar to the Mexican arrangement." 1/

Nowhere is there mention of the more confrontational schemes such as selective repudiation and a cap on interest payments equivalent to a small percentage of exports.

To this end, the government, mainly through the Central Bank and Department of Finance, has pursued several market oriented strategies. The bilateral agreements under the Second Round Rescheduling with the Paris Club, which cover maturities which fell due in January 1987 to August 1988 were completed. For this round, the Philippines has restructured around $1.0 billion in official obligations. Recently the Third Round Rescheduling was approved following the accord on the MEP.

A second set of possible strategies are lumped together and termed debt conversion schemes. 2/ These include straight buybacks which are purchases by the debtor country of its own debt at a discount in the secondary market using current resources, exit bonds which are exchanges of debt for new debt that is implicitly somewhat senior to the old, and debt-equity swaps, which are conversions into direct foreign investment.

1/ Quoted from the updated Medium-Term Development Plan, pages 1-13 - 1-14.

2/ See Alexander (1987) for a more detailed description of the various types of transactions listed under debt conversion.

The only option used by the government during the 1986-88 period was the debt-to-equity conversion program. This scheme was promulgated under Executive Order No. 32 and implemented through CB Circular No. 1111 last 4 August 1986. Under this program, foreign and resident investors were invited to acquire equity claims on selected priority investments in the country using funds acquired by redeeming Philippine debt bonds which they would have had purchased at a discount in the secondary market. The ultimate aim of this plan was to employ efficiently the country's limited foreign exchange for domestic utilization while gradually reducing the stock of outstanding debt. Data on the degree of debt conversion using this scheme is presented in Table 3. It is clear from the table that majority of the debt-equity transactions involved CB papers.

For reasons to be explained later, the government began to slow down the transactions involving debt-to-equity conversions that utilized CB papers. Only conversion of private debt papers was allowed to continue. However, most private obligers did not have sufficient resources to redeem these obligations not to mention the fact that some of them were not willing to prepay their debts and share the ownership of their corporations with new investors.

To the credit of our debt panel, it is worth mentioning that restrictions were placed on the investments that resulted from the debt conversions. Specifically, there would be non-repayment of the capital portion within the first three years after the investment is made. This prevented the possibility that the benefits obtained by the reduction in debt would immediately be mitigated by capital repatriations.

III. ASSESSMENT OF GOVERNMENT PERFORMANCE ON EXTERNAL DEBT

Table 4 shows that in spite of the government's efforts to reduce net resource transfers, the country still experienced increasing net outflows during the period 1986-88. Comparing our 1987 net outflows with other heavily indebted countries, the situation of the Philippines does not appear as severe (Please refer to Table 5). In fact, only Chile had a lower net resource transfer.

However, if we scale down these values by per capita GNP in order to obtain a rough affordability index, the picture changes drastically. The outflow/per capita GNP ratio for the Philippines is 3.1 which is second only to Brazil's 5.6 with Mexico a distant third (at 1.8). It must be noted that the Philippines has one of the lower outflows in terms of interest payments and that Brazil began working out an agreement with its creditors only towards the latter part of 1987.

Table 3: REPORT ON THE DEBT-EQUITY CONVERSION SCHEME AS OF NOVEMBER 1988

	1986	1987	1988 a/
Total Closed Transactions (in US $M) b/	15.227	266.441	439.728
CB Debt Papers (in US $M)	12.2	248.8	338.4
Philippine Liabilities to Foreign Creditor Banks (in US $M)	15356	14824	13488

a/ As of November 1988.
b/ Includes the portion which have been temporarily invested in CB bills as well as the fresh money.

Source: Department of Economic Research - Domestic, CB.

Table 4: EXTERNAL DEBT SERVICE BURDEN/NET RESOURCE TRANSFER TO CREDITORS, 1986-1988

	1986	1987	1988
Debt Service Burden (DSB)			
Total Outflows ($M)	2937	3005	2983
Amortization	999	1092	942
Interest Payments	1938	1913	2041
Debt Service Ratios (In Percent)			
DSB to Exports of Goods	60.6	52.5	42.2
DSB to Exports of Goods and Services	34.0	32.8	27.9
DSB to Current Account Receipts	32.3	30.8	26.0
DSB to GNP	9.6	8.8	7.7
Total Inflows a/	1710	1169	1039
Net Resource Transfer	1227	1836	1944
Percent of GNP	5.6	4.7	5.0

a/ Include MLT pipeline, IMF purchase and identified new money.

Source of basic data: Central Bank of the Philippines.
(Reproduced from page 452, 1988 Philippine Development Report)

Table 5: NET RESOURCE FLOWS FOR HEAVILY-INDEBTED COUNTRIES, 1987

	Net Disbursements a/ ($M)	Interest Payments b/ ($M)	Net Outflow ($M)	Net Flow Per Capita GNP c/ (in millions)
Argentina	2421	4599.4	2178.4	.91
Brazil	(2128)	9220.0	11348	5.6
Chile	483	1744.3	1261.3	.96
Mexico	4217	7450.6	3233.6	1.8
Peru	337	257.8	(79.2)	-
Philippines d/	77	1913.0	1836	3.1

a/ Source: World Development Report, 1989.
b/ Source: Project Link World Economic Outlook, May 1989.
c/ Per capita GNP figures are not indicated but these were obtained from the 1989 World Development Report.
d/ See Table II.3

What these figures imply is that the terms the Philippine debt panel obtained out of its negotiations with our creditors are comparatively mediocre to those granted to other debtor nations. Given that the Philippines has lower interest payments, the conclusion one arrives at is that countries like Mexico and Argentina were able to secure better arrangements in terms of debt rescheduling and new money.

Between 1986 and 1988, there was a net reduction of Philippine debt obligations to foreign creditor banks equal to $1,868 million. It would not be proper to attribute this to the debt conversion schemes as amortization payments during the same period totalled $2,034 million. What would be more accurate is to state that debt-equity swaps altered the structure of external liabilities of the Philippines. These transactions reduced the quantity of external debt and increased the quantity of foreign-owned equity on the country's external balance sheet. This transformation could have reduced the burden of servicing the external liabilities for the following reason.

In the case of equity investment, service payments or repatriations associated with equity investments should be more closely correlated with the actual return on real assets in the debtor country than scheduled interest and principal payments on external debt. This suggests that shifting from debt financing to equity financing may incorporate an element of risk sharing between debtor countries and their foreign creditors that benefits the former. Alexander (1987) contends, however, that existing debt contracts already incorporate an important degree of risk-sharing. The fact that bank loans to developing countries are regularly rescheduled and new loans extended on a concerted basis suggest that the institutional arrangements supporting the existing contracts already give debtors some flexibility to at least postpone scheduled payments when the burden of debt service is high.

The previous argument should emphasize the fact that reliance on non-confrontational schemes particularly the debt-equity swaps gives rise to several potential problems. 3/ Another matter relates to the macroeconomic impact of debt-equity conversions.

Since most of the transactions involved Central Bank obligations, many of the Philippine debt bonds obtained through the secondary loan market were redeemed by issuing new money. It is estimated that the total addition to the monetary base for the period 1986-1988 due to debt conversions is ₱9.1 billion (which

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3/ Alexander also provides an exhaustive discussion of all possible economic issues raised by debt conversions. We will analyze only the more relevant ones.

is approximately 14 percent of the monetary base). To the extent that the economy has problems with absorptive capacity and the private sector is slow to respond to the increase in domestic demand for real goods, there would be a great deal of upward pressure on the price level. If the Central Bank decides to counteract the increase in inflation with domestic open market operations then interest rates would rise which would then have a dampening effect on investment.

In fact this is actually what transpired. Inflation began to rise in 1988 which led the Central Bank to put a hold on debt-to-equity transactions; and towards the latter part of the year the Monetary Authorities began to pursue a high interest rate policy by injecting reverse repurchase agreements into the financial system. The increase in Central Bank liabilities effectively substituted foreign debt with domestic debt. If at that time, foreign interest rates adjusted for exchange rate devaluation were lower than domestic interest rates, this set of Central Bank transactions would have increased the cost of serving the government's liabilities in the short run. The net result would be an increase in the fiscal deficit. To verify the above condition we add a depreciation rate of 3.3 percent to world interest rates of about 8.5 percent that prevailed in 1988; this gives us 11.8 percent. The latter figure is lower than the average interest rate prevailing in the Philippine market at the time, which is 15 percent.

Aside from the macroeconomic impact of debt-equity swaps, one must evaluate the incentive debt conversion programs provided for net new capital inflows. One reason debt-equity swaps may generate new capital inflows is that it allows investors to purchase assets in the host country more cheaply than through normal means. This may not always be the case, however. In some cases debt-equity transactions may simply be the cheapest way to finance an investment that would have taken place with or without a debt conversion program. Clearly, to the extent that debt conversions finance capital inflows that would have taken place anyway, the subsidy for conversion is a simple transfer from the debtor country to the investor that does not benefit the former. This problem of additionality has led Dornbusch (1987) to characterize debt-equity swaps as rip-offs.

In general, it is difficult to tell whether there has been additionality, i.e., whether the foreign investments would not have taken place without the debt conversion program. Table 6 shows that foreign direct investment in the Philippines rose rapidly during the period 1986-88. Since this was the time that debt-equity swaps were introduced in the country, the kneejerk reaction would be to attribute the expansion in investments to the aforementioned program. However, this trend in investments from foreign sources was generally true for the ASEAN region. One should also remember that it was at this time that Taiwan made big strides in its external investment program. While the

Table 6: FOREIGN DIRECT INVESTMENT
IN ASEAN COUNTRIES, 1985-88 a/
(US $M)

	1985	1986	1987	1988
Indonesia	310	258	307	NA
Singapore	809	479	982	NA
Malaysia	695	489	575	611
Thailand	162	261	182	660 b/
Philippines	12	127	186	936

a/ Source: International Financial Statistics (IFS), various issues

b/ First three quarters.

evidence against additionality is not conclusive, at least it should provide cause for concern even among the most enthusiastic supporters of debt conversion programs.

A similar problem arises if capital outflows from the host country are not effectively restricted. In this case the conversion subsidy generates an arbitrage opportunity. Investors can earn a riskless profit by converting foreign exchange into assets in the debtor country at a subsidized rate through a debt conversion and then converting the domestic assets back into foreign exchange in either the official or parallel exchange markets. This is the so-called problem of round-tripping. The extent of the latter, however, is much more difficult to measure than additionality.

This analysis of the government policy and programs on the debt problem indicates that our present strategy has left much to be desired. It is true that we have at least advanced over the initial strategy of simply muddling through the problem. However, the basic objective of prioritizing growth over debt is jeopardized by continued net resource outflows. Furthermore, it seems that most of the disadvantages that are attributable to the debt conversion programs have materialized. Finally, compared to other debtor nations, the Philippines appears to have come up with deals that were not as beneficial.

The last point can be substantiated by tracing the track record of the Philippine negotiating panel. In 1985, the year in which the Baker plan was first announced, the Philippines was able to come up with a deal that provided for rescheduling but without much new money (about $925 million over a three year period). This was quite disappointing as international commercial banks at that time promised to allocate $20 billion to cash-strapped indebted countries over a three year period not to mention the fact that as early as 1982 countries like Mexico, Brazil, and Argentina were infused with heavy doses of new money. Then in 1986, the Philippines embarked on the debt-equity swap program, a development the importance of which was attenuated by the fact that this option for debt reduction had been in use as early as 1984.

In 1987, Bolivia was able to secure a deal with its commercial bank creditors that involved straight buybacks; in the same year Mexico adopted an exit-bond program. 4/ As for the Philippines, the best it could do during that year was to extend its debt-equity swap program. Hence it is not really surprising that the Philippines adopted the direct buyback scheme only

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4/ The reader could refer to Lamdany (1989) for a detailed description and comparison of these agreements.

recently (August 1989) and at a time when Mexico decided to continue with its exit-bond scheme which casts doubt over the optimality of the former strategy.

Clearly, there has been a lag on the part of the Philippine debt panel in negotiating for the best possible deal compared to other countries. This is one reason why at one time the approach of the Fernandez-Ongpin tandem was described as "gutless" and "unimaginative" by a group of professors from the U.P. School of Economics. 5/

IV. OPTIMAL VOLUNTARY DEBT REDUCTION SCHEMES

The issue of obtaining the best possible deal could be further clarified by analyzing the various schemes that have evolved. In a recent article, DiLeo and Remolona (1989) show analytically that even without incentive effects on the debtor country from debt reduction, creditor banks will gain from debt-equity swaps, including the banks not directly involved in the transactions, while the debtor country may or may not gain. This arises because greater demand for a country's debt paper will cause the market price (discount rate) to increase, benefitting the creditor banks. If the actual discount rate rises above the debtor country's perceived probability of repayment, then the country will stand to lose. In contrast, the debtor country will gain from exit-bond exchanges, while the banks may or may not gain. If this is the case, one wonders why exit-bonds were not included in the menu-of-options agreed upon in 1987.

In another recent paper, Froot (1989) compares direct buybacks, exit bonds, and outright debt relief. The idea behind his paper is to identify which schemes will be optimal for creditors and which ones will be preferred by debtors. Using an intertemporal welfare maximizing framework, he arrives at the following conclusions: 6/

1) Market-based debt relief schemes are similar to pure debt relief in the sense that they reduce the debt overhang. These plans can therefore be Pareto improving only if investment-incentive effects are sufficiently important.

5/ See Alonzo, et al. (1988). The length of time needed to conclude the recent negotiations seems to support this characterization. A local newspaper carrying a story from Reuter reported that "veterans of the three-month-long negotiations with Mexico that yielded an agreement on July 23 said they were impressed by the speed and ease of the Philippine talks" (which lasted one week). Please refer to the Manila Bulletin, 17 August 1989, p. 1.

6/ Please refer to pages 67-68 of his article.

2) Market-based plans differ from pure debt relief, and from one another, according to the source of resources used to retire old debt. Creditors' preferred market-based scheme is a buyback out of aid, followed either a buyback out of current resources or (if the country is on the back side of the Laffer curve) a buyback out of future receipts. Debtor's preferred scheme is a tie between a buyback out of aid and a buyback out of future receipts (an exit bond).

3) If investment-incentive effects are important enough to make debt reduction profitable for creditors, then debt reduction alone will not generally be optimal from the creditor's perspective. Thus neither market-based schemes nor pure debt relief will generally maximize the value of creditor claims.

4) In general, countries that are liquidity-constrained are the best candidates for an optimal relief package which includes new lending as well as partial debt forgiveness.

The more important assertion is contained in (2) where it is stated that a debtor country should be indifferent to a direct buyback out of aid and an exit bond (which is equivalent to a direct buyback out of future resources). What would make them differ would be the actual terms that would have been negotiated if a particular strategy was followed. In this light the current (October 1989) debate between former Secretary of Economic Planning Solita Monsod and Social Security System President Jose Cuisia, Jr. could be considered moot. 7/

Based on newspaper reports, however, it would seem that the scheme agreed upon with creditor banks is a direct buyback using funds that are not completely additional. In other words, aside from utilizing the funds extended by the IMF, World Bank, and the Japan Eximbank, the government has to dip into its current resources (e.g., its international reserves and ESF funds) in order to carry out its buyback program. It also has to be ascertained whether or not these funds from the aforementioned institutions would have been made available with or without the buyback scheme. Alexander argues that it is not obvious that repurchasing one's own debt at a discount makes one better-off.

7/ Their arguments and counter-arguments were reported in various dailies during the latter half of October. Monsod makes the point, however, that as a whole the debt package negotiated with the commercial bank creditors was insufficient as it did not provide enough new money to close the financing gap which is necessary in order to be able to attain our targets on growth, inflation, and employment.

If a debtor is credit constrained, then a repurchase of debt at a small discount may make a debtor worse-off. Alexander then provides an intuitive proof, thus: 8/

> "...Another way to look at this issue is to consider whether debt repurchase is the highest valued use for scarce foreign exchange. One should consider whether the debtors might benefit more by using the implicit foreign exchange inflow inherent in debt swaps for another purpose. If the only alternative use for the foreign exchange is scheduled amortization, payments of outstanding debt (or a reduction in the amount of new lending) then clearly repurchasing debt at a discount is the highest valued use for the additional foreign exchange. But if the foreign exchange can be used to finance an increase in imports, or for some other use, then it is not clear that debt repurchases is the best use for the foreign exchange that is implicitly raised by these programs."

In this respect, the buyback operation would be inferior to a scheme which involves exit bonds since use of our current foreign exchange resources to retire our debt would entail enormous opportunity costs.

In the case of Froot's analysis, he misses a crucial point. If the probability of pure debt relief is positive and increasing over time, exit bonds would be a superior strategy for debt reduction from the perspective of debtor countries. It is then left to determine whether this condition is valid.

When asked during his campaign how he will address the problem of Third World Debt, George Bush emphasized that he would adhere to the principles of the Baker plan. Then less than a year after he became U.S. president, the Brady plan was formulated which for the first time acknowledged the need for debt relief. Recently Eduard Shevardnadze, the U.S.S.R. foreign minister called for a new deal for developing countries which should include massive debt relief. These developments are indicative of the fact that developed countries are beginning to realize the bleak situation of developing countries that are mired in debt, making debt forgiveness a very distinct possibility in the future.

8/ See pages 32-33 of his article.

V. CONCLUDING REMARKS

It would be difficult to lay the blame squarely on the shoulders of the Philippine debt panel for the slow progress in solving the external debt problem. Since there is an obvious lack of transparency in the negotiating process, one cannot judge the performance of Fernandez, Jayme, et al. It may be that international creditor banks are simply intransigent and inflexible especially since the Philippines has little leverage because of the relatively small size of its debt (that is, compared to Mexico, Brazil, and Argentina). Moreover, the bargaining position of the Philippine debt panel is hampered by the existence of cross-conditionalities in the negotiating process. In this set-up, the IMF will not honor any agreement with the Philippine government unless the latter has come to terms with international creditor banks, and vice-versa. Under this arrangement, the Philippine government is effectively dealing with a creditor cartel.

Our debt panel, however, could be criticized for meekly accepting the configuration of the debt negotiation process. They could at least be vocal about this unfair arrangement. In addition, it is not a good strategy, not to mention unrealistic, to insist that the Philippines could grow out of its external debt problem once the proper market-based schemes are implemented and necessary reforms in the economy are instituted. They should comprehend the fact that the Philippine economy grew during the past three years not because of the non-confrontational approach they adopted, but rather in spite of it. If one tries to measure the success of the various market oriented strategies it would become apparent that their effects are quantitatively small. DiLeo and Remolona estimate that out of the $23 billion in face amounts of LDC debt conversions since 1981, there has been a reduction of only about $8.5 billion in foreign liabilities. In the case of the Philippines, the potential $750 million net reduction in our external debt resulting from the buyback operations is only a paltry 2.7 percent of our outstanding foreign obligations.

Lawrence Klein (1987), a Nobel laureate in Economics, puts it more succinctly when he states that it should be recognized that there is no automatic growing out of the debt problem and that all the clever/worthy proposals cannot do the job. This has also been stressed by Sachs (1989) in his most recent article on the debt problem. Both Klein and Sachs have proposed more fundamental measures to deal with the debt problem with the former advocating for an international conference that would involve both creditors and debtors simultaneously while the latter proposes relief for interest payments in addition to

reduction in principal. In addition Sachs outlines measures to minimize the free rider problem on the part of creditor banks. 9/

It would seem that some members of the Legislature are aware of the futility of market based options as there have been efforts to come up with more practical growth-oriented programs to manage the external debt problem. Senate Bill 535 seeks to limit the amount of debt service, with interest payments being constrained to 15 percent of total exports. On the other hand, Senate Bill 702 seeks to limit the applicability of the automatic appropriation clause only to foreign loans contracted by the current administration. While these proposed bills have good intentions, so far they remain as proposals. And it is expected that these bills will receive stiff opposition from the present debt panel.

However, the present debt panel need not necessarily subscribe to these confrontational schemes. At this point in time it would be a major step on their part to recognize the inadequacy of the current programs to arrive at a growth-oriented debt policy. Hopefully this would encourage them to devise schemes that would eliminate net outflows and motivate them to adopt a tougher stance at the negotiating table. Later on, this attitude would prepare them to join the bandwagon of policymakers and economists worldwide clamoring for meaningful debt forgiveness.

9/ It goes without saying that the more the views of economists like Sachs and Klein gain prominence, the higher is the likelihood of outright debt forgiveness and the greater is the preference that should be given to debt-bond swaps over direct buybacks.

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