

# IMF plots to hijack Manila central bank

by Lydia Cherry and Kathy Wolfe

Filipino patriots are protesting a self-described "scheme" by the International Monetary Fund (IMF) and World Bank to restructure the Philippines Central Bank (PCB) so as to fob off a secret 308 billion peso (about \$12 billion) debt owed by the PCB onto the national government. "This is passing the brunt to the taxpayers," House Rep. Joker Arroyo charged recently, describing bills now before Congress to do this. The debt is the size of the Filipino government's entire annual budget expenditure of some 300 billion pesos. It translates into a 5,133 peso debt for every Filipino.

These bills would hijack the nation's central bank by mandating an IMF plan to phase out the PCB, and set up a new "Central Monetary Authority" (CMA), modelled upon the usurious U.S. Federal Reserve. This new CMA would be independent from Manila's Finance Department (Treasury), as is the Fed. The Finance Department would have no control over the amount of credit issued by the CMA or the use of credit, yet it would be responsible for the old 308 billion peso Central Bank debt.

The scheme was a top demand of the six-man IMF delegation which was in Manila over Feb. 8-22 to negotiate the IMF conditionalities for the Philippines' arduous IMF program, a World Bank official said in an interview with a journalist provided to *EIR*. Manila is seeking \$800 million in a new three-year loan to replace its existing IMF Economic Stabilization Program expiring on March 31. Yet the IMF, while proposing to add a debt expenditure of this magnitude, is still demanding Manila "bring down the deficit," by cutting all other expenditures wildly.

Also tied to the Congress' passage of the scheme is a \$450 million World Bank "budgetary support" loan.

The controversy, however, presents those Filipinos with sufficient courage with the opportunity to reform the bankrupt Filipino banking system, by creating their own National Bank on the model of U.S. Treasury Secretary Alexander Hamilton's First National Bank of the United States. Filipino nationalists have for a decade been trying to wrest control of the Central Bank away from the "Council of Trent" faction, as they refer to the British- and U.S.-trained financiers who have tended to run Manila's financial policy.

Some Manila circles are discussing such a Hamiltonian plan to hijack, in effect, the IMF's hijack scheme. Under it, a truly constitutional new CMA should be put *inside* the government's Finance Department, as Hamilton placed his

National Bank inside the U.S. Treasury Department. Both the old Central Bank's 308 billion peso domestic debt, and the Philippines' \$29 billion foreign debt, would be assumed by the Finance Department, but would be restructured into long-term, low-interest bonds, as Hamilton reformed the colonial and Revolutionary War debt.

## Blame the Federal Reserve

The IMF-World Bank crowd charges that the huge debt of the Philippines Central Bank was run up by the corrupt actions of former President Ferdinand Marcos. "We have to be a bit careful how we talk about past administrations," said the World Bank source. "Nevertheless, the Central Bank under Marcos . . . was crony capitalism; the whole economy became intertwined with the government and it was all run by he and his friends, and the Central Bank was a big part of that. Then, in 1983-84, when things began to break down, something like \$1 billion disappeared from the Central Bank."

This, however, is a lie. In fact, as with the U.S. national debt, about which the world is now up in arms, the sole cause of the immense PCB debt has been the actions of the U.S. Federal Reserve in raising not only U.S. but world interest rates to 20% and above during the Carter administration. This not only forced the U.S. government to borrow from private financial sharks at outrageous rates, as economist Lyndon LaRouche has said over and over again, but forced entire nations in Asia, Africa, and Ibero-America to do so, including the PCB. To demand that Filipino taxpayers pay this debt is like asking a victim to pay the mugger for his services.

After the 1986 overthrow of Marcos, provisions were imposed upon the new Aquino administration by the IMF and international bankers as "conditionalities," which as *EIR* reported at the time, made clear that this was no people's democracy but rather a "bankers' revolution." Under IMF pressure, a new Filipino Constitution drafted by Aquino in 1987 quietly mandated the formation of a new Central Monetary Authority to replace the existing PCB.

"We like to think of ourselves as participating in the discussion rather than dictating it," the World Bank official said of this period.

When the plan was initially put forward, "nobody even dreamed that the PCB's debt was 308 billion pesos; most people thought it was 5 billion pesos or so," one angry Manila businessman told *EIR*. "When the truth came out, Congress put up resistance and tried to have the conversion take place with no losses, but the IMF demanded complete absorption of the old PCB debt by the government, or they would not give us a structural loan," then desperately needed to buy oil and food imports.

The entire impetus, the World Bank admits, behind creation of the CMA as it now stands, is a scheme to force the taxpayers to foot the bill. "Basically the scheme is to clean

up the Central Bank. . . . Outside institutions like the IMF and World Bank have encouraged them to do so; we certainly believe that the Central Bank's finances need to be cleaned up . . . and also straighten out some of the legislation they had that related to the Central Bank," the banker said.

"You take off these funny bits of debt that they've got, and just put them in the national government; it doesn't matter how you do it. The national government needs to pay them off. You shouldn't have the Central Bank being concerned with them.

"It is a scheme to improve the strength of the institution through a number of changes of how it is run," the source said, laughing at a suit once filed against a governor of the Central Bank for raising interest rates. "Obviously this is ridiculous," the banker said, and must never again be permitted to occur.

In particular, the IMF and World Bank want to create a situation where the new CMA will be happy to let the peso drop like a stone on the "free market." "One of the problems of the past is because the PCB had a high amount of foreign debt, the PCB's own losses would increase if they allowed the peso to fall. Because the things they held were basically in dollars, if the peso fell, the peso cost of servicing these dollar liabilities rose, which meant the Central Bank had an incentive, as did the rest of the government, to not allow the peso to depreciate. And having a peso that is too high, of course, is very bad for trade and exports."

### Current status

During early 1993, both the House and Senate split up the CMA bill, which the World Bank official complains is a delaying tactic. "They have split the bill in two pieces: one to establish the Central Monetary Authority as a shell, and a second to set up a commission to study restructuring the PCB," the source said. Both bills to create the new CMA become effective only upon actual restructuring of the old PCB; that is, they would establish the CMA, but it would have no power until the commission finished investigating the old PCB. As of the end February, even the forms of these bills are not final.

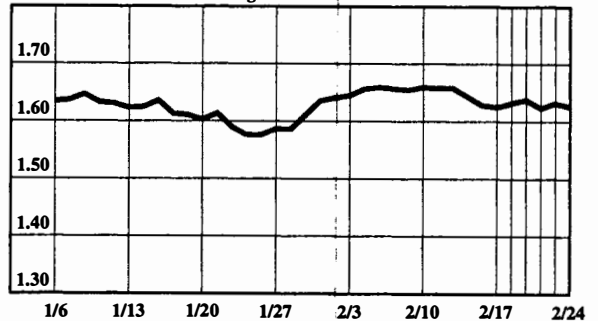
The IMF, the official said, wants the package passed by the end of March as an IMF conditionality for getting more cash, when Manila's current IMF program runs out.

Asked about the possibility of Filipino nationalists in the Congress using the move to get control of the Central Bank, the World Bank official said that that would be "messy," but that there was very little "danger" of such an event, as Filipino congressional debate is mostly "show." "Filipino politics," the source laughed, is just "a caricature of bad U.S. politics. . . . They say all kinds of things, outrageous things but they don't mean anything; it's for public consumption. . . . It doesn't worry us." Behind the scenes, the banker gloated, the Ramos administration is working to produce a perfectly reasonable bill "with which we're quite happy."

## Currency Rates

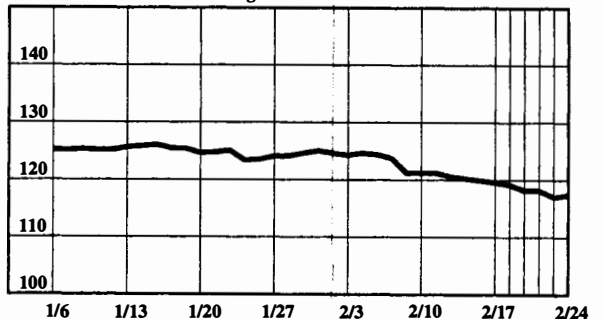
### The dollar in deutschemarks

New York late afternoon fixing



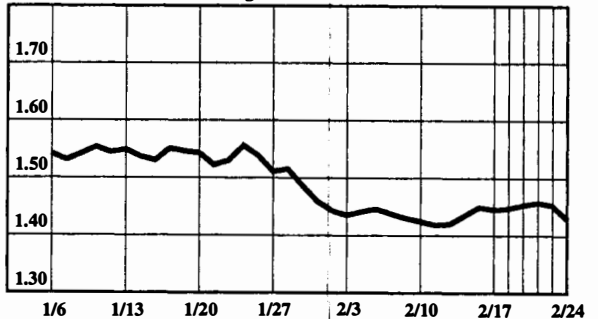
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### The British pound in dollars

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### The dollar in Swiss francs

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