S. No. 995 H. No. 22982 / 85 OG No. 22, 3599 (May 29, 1989) ; Inquirer 4/20/89 ; Globe 4/20/89

[REPUBLIC ACT NO. 6724, April 17, 1989]

AN ACT ORGANIZING A JOINT LEGISLATIVE-EXECUTIVE FOREIGN DEBT COUNCIL, DEFINING ITS OBJECTIVES, POWERS AND FUNCTIONS, APPROPRIATING FUNDS THEREFOR, AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

SECTION 1. *Principles.* — The task of solving the problem of foreign debt shall be guided by the following basic principles:

1. The foreign debt service burden should be subordinate to the national development goals of alleviation of poverty, generation of more and productive employment, enhancement of social justice and equity, and promotion of sustainable economic growth. Growth, equity and social justice should have prior claims over and above foreign debt service;
2. The Government shall take firm, innovative, responsible and pragmatic initiatives in dealing with the external debt problem;
3. Foreign loan and debt restructuring agreements should not impair our country's sovereignty; and
4. The people should be adequately informed and consulted, and their support mobilized at all levels of the policy formulation process through dialogues, public hearings and media.

SEC. 2. *Organization of Joint Legislative-Executive Foreign Debt Council.* — Within thirty (30) days after the effectivity of this Act, there shall be organized an advisory body to be known as the Joint Legislative-Executive Foreign Debt Council, hereinafter called Council.

SEC. 3. *Purposes and Objectives.* — The Council shall have the following purposes and objectives:

a. To recommend an independent and assertive policy on the country's external debt, foreign debt management and foreign debt service, which upholds the country's sovereignty and which promotes a sustained economic growth and a self-reliant economy;
b. To undertake in-depth and detailed studies oh all the policy options indicated herein and other options which the Council deems feasible or realistic;
c. To enhance and facilitate cooperation and coordination between the legislative and executive branches of government in formulating and implementing the Government's foreign debt management policy and strategy;
d. To undertake a comprehensive study of the foreign debt burden particularly the external debt and other borrowings of the public and private sectors including all policies related thereto;

e. To recommend measures that will ensure continuous and effective monitoring of the external debt of both the public and private sectors including the debt incurred by the Central Bank;
f. To study and evaluate the impact of the foreign debt and external debt policies on the national development goals, the economic programs, and the lives of the people;
g. To recommend measures for the effective collection of accounts from actual debtors whose obligations are assumed by the Government or any of its instrumentalities;
h. To facilitate nationwide consultations and public hearings on the foreign debt;
i. To conduct continuing studies and researches on policy options, strategies, and approaches to the foreign debt problem including the experiences of other debtor countries and to recommend such remedial and legislative measures as may be required.

SEC. 4. *Policy Options.* — In the discharge of its responsibilities, the Council may consider and develop the following options:

1. *Debt-to-Equity Program* — To expand the volume and coverage of the Central Bank Debt-to-Equity Swap Program by converting $5 billion, more or less, in the Philippine foreign debt instruments into equity investments in Philippine agriculture and industry under a 5-year program of $1 billion, more or less, per year with emphasis on new foreign exchange-earning and labor-intensive productive projects in various parts of the country, including factories operating below rated capacity or which have been closed down for lack of capital, under terms that will not unduly trigger inflation;.
2. *Debt-for-Bonds Swap* — To retire $1.5 billion to $2 billion, more or lese, of foreign debt by Philippine issuance of $1 billion, more or less, of Philippine dollar bonds collateralized by 20-year Zero Coupon U.S. Treasury Bonds or other suitable U.S. Government Bonds. The amount of $1 billion in Zero Coupon U.S. Treasury Bonds with twenty (20) years maturity can be purchased by using $200 million, more or less, from Philippine international reserves or anticipated inflows from foreign aid;
3. *Partial Use of U.S. Facilities Compensation* — To utilize a portion of the possible U.S. Facilities Compensation Package to acquire more U.S. Treasury Bonds or accept part-payment for the U.S. Facilities in U.S. Treasury Bonds for further exchange with Philippine debt instruments as indicated in Item (2) above;
4. *Japanese Bonds and other Foreign Currency Denominated Bonds* — To utilize a portion of Japanese and other foreign economic development assistance funds to acquire Japanese and other foreign currency denominated bonds to collateralize issuance of Philippine currency denominated bonds similar to the "US Bonds formula, as explained in Items (2) and (3) above;
5. *Use of Official Aid* — To use a portion of official aid from other sources to fund Philippine purchases of U.S. Treasury Bonds or Japanese Bonds to further enlarge the Debt-for-Bonds Swap Program;
6. *Co-Guarantors* — To request the World Bank or other official multilateral financial institutions to co-guarantee the coupon rate or interest rate of Philippine dollar bonds in support of the Debt-for-Bonds Swap Program. Foreign buyers are then assured of payments not only on the principal but also on the interest;
7. *Interest Cap* — To reduce interest rate payments to four percent (4%) to five percent (5%) of principal, more or less, per year on the loans granted by the

foreign commercial banks to the Philippines;

8. *Capitalization of Interest Balance* — Under the Interest Rate Reduction Scheme in Item (7), the unpaid interest portion, in this proposal, shall be added to the principal amount to be repaid when the loan matures. Further, the Philippines may issue to international creditors a new dollar-denominated instrument corresponding to the unpaid interest balance with incentive features;
9. *Interest Waivers* — In lieu of or complementary to Items (7) and (8), to negotiate with the foreign commercial banks for interest waivers of two percent (2%) to four percent (4%), which the World Bank is considering to endorse;
10. *Condonation of a Portion of Commercial Loan* — To request the foreign commercial banks to condone at least fifteen percent (15%) of their loans to the Philippines since some of these institutions have already announced loan-loss provisions of twenty percent (20%) to thirty-five percent (35%);
11. *Restructuring Terms of the Paris dub Debt* — To lengthen the payment period of the Paris Club debt from ten (10) years to twenty (20)years, considering that the foreign commercial banks have already agreed to restructure their loans to the Philippines to seventeen (17) years;
12. *Converting a Portion of the Paris Club Debt to Grants* — To convert a portion of the Paris Club debt to grants, considering as an example that a significant segment of the Philippine official debt to Japan was caused by Japanese yen revaluation;
13. *Conversion of Foreign Military Sales to Grants* — To convert Foreign Military Sales (FMS) credits to the Philippines under bilateral agreements, principally with the United States, integrants;
14. *Debt-for-Nature Swap Program* — To convert limited amounts of Philippine foreign debt in to grants for nature, environment and wildlife conservation projects in the Philippines lo be undertaken by international conservation groups;
15. *International Institute of Debt and Development* — To support the establishment of an International Institute of Debt and Development or any international finance organization that will acquire the debt instruments of the Philippines and other Third World countries at substantial discount, which benefits shall be shared by the debtor countries;
16. *Selective Debt Repudiation* — To consider the option of selective debt repudiation on foreign loans attended by fraud, bribery, and corruption between foreign lenders and Philippine borrowers;
17. *Moratorium* — To consider the option declaring a moratorium for a temporary and limited period of payment of principal and interest; *Provided,* That foreign exchange savings shall be utilized exclusively for productive, labor-intensive and dollar-earning export industries. Fifty percent (50%) of export earnings created by this forced savings shall be escrowed in interest-earning deposits to be earmarked for foreign debt service upon expiry of the moratorium thus increasing further the nation's debt service capability and helping project an image of a good debtor. Such options shall include selective moratorium on debts or obligations which are under litigation;
18. *Merchandise Export Receipts* — To negotiate that the debt service *per annum* shall not exceed fifteen percent (15%) of merchandise export receipts of the previous year;
19. *Repeal of Automatic Appropriations* — Repeal of automatic appropriations for foreign debt service except for new loans or other credit accommodations;