

MASTER FILES
ROOM C-525

0451

**IMMEDIATE
ATTENTION**

EBS/97/70
Supplement 3

CONFIDENTIAL

December 30, 1997

To: Members of the Executive Board

From: *The Secretary*

Subject: **Philippines—Extended Arrangement—Request for
Extension of Period**

Attached for consideration by the Executive Directors is a paper on the Philippines' request for an extension of the period of its Extended Arrangement.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Wednesday, December 31, 1997. In the absence of such a request, the draft decision that appears on page 1 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Hicklin (ext. 37137) or Mr. Weerasinghe (ext. 38413) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

PHILIPPINES

Extended Arrangement—Request for Extension of Period

Prepared by the Asia and Pacific and
Policy Development and Review Departments

(In consultation with the Legal Department)

Approved by Bijan B. Aghevli and Joaquín Ferrán

December 30, 1997

The extended arrangement for the Philippines, approved on June 24, 1994 (EBS/94/117, Sup. 2), was augmented and extended until December 31, 1997 on July 18, 1997 (EBS/97/70, Sups. 1 and 2). Discussions between the Fund staff and the Philippine authorities for the the 1997 Article IV consultation and the final review under the extended arrangement were held in Manila during November 5-20. In the context of the final review, the authorities were planning to have a new oil deregulation law in place before Congress adjourned on December 18. However, this did not take place as planned and the President has now called for a special congressional session during January 5-10, 1998 to allow for the passage of the new law. In order to provide time for the passage of the new oil deregulation law and for the two-week circulation period for papers to the Executive Board, it is recommended that the period of the present arrangement be extended by one month. Accordingly, and as requested by the Philippine authorities (see attached), it is proposed to extend the period of the extended arrangement to January 31, 1998.

The following draft decision is proposed for adoption by the Executive Board:

“Paragraph 1 of the extended arrangement for the Philippines (EBS/94/117,

Sup. 2, as amended) shall be partially amended to read:

“1. For a period from June 24, 1994 to January 31, 1998, the Philippines ...”

Attachment

ATTACHMENT

Manila, Philippines

December 29, 1997

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Camdessus:

Passage of a new oil deregulation law did not take place before Congress adjourned on December 18. President Ramos has now called for a special congressional session during January 5-10, 1998 to see through the passage of the new law.

We would like to request an extension of the extended arrangement until January 31 so as to permit time for passage of the new law and for the two-week circulation period for papers to the Executive Board.

Warm personal regards and best wishes for the season.

Very truly yours,

/s/
Gabriel C. Singson
Governor
Bangko Sentral ng Pilipinas
Manila, Philippines

MASTER FILES
ROOM C-525

0451

**IMMEDIATE
ATTENTION**

EBS/97/70
Supplement 4

CONFIDENTIAL

January 28, 1998

To: Members of the Executive Board

From: *The Secretary*

Subject: **Philippines—Extended Arrangement—Request for
Extension of Period**

Attached for consideration by the Executive Directors is a paper on the Philippines' request for an extension of the period of its Extended Arrangement.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by close of business on Friday, January 30, 1998. In the absence of such a request, the draft decision that appears on page 2 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Rodlauer (ext. 38789) or Mr. Weerasinghe (ext. 38413) is available to answer technical or factual questions relating to this paper.

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INTERNATIONAL MONETARY FUND

PHILIPPINES

Extended Arrangement—Request for Extension of Period

Prepared by the Asia and Pacific and
Policy Development and Review Departments

(In consultation with the Legal Department)

Approved by Margaret R. Kelly and Carlos G. Muñiz

January 28, 1998

The extended arrangement for the Philippines, approved on June 24, 1994 (EBS/94/117, Supplement 2) was augmented and extended until December 31, 1997 on July 18, 1997 (EBS/97/70, Supplement 1). In the context of the final review under the arrangement, the authorities were planning to have a new oil deregulation law in place before the end of 1997. Because this did not take place as planned, and to give time for the passage of a new law, the arrangement on December 31, 1997 was extended further to January 31, 1998 (EBS/97/70, Supplement 3). Although passage of a new law is now imminent, the latest version envisages a transition period of five months during which prices of domestic petroleum products would remain regulated according to a market-based pricing formula, with details to be clarified in implementing rules and regulations. Moreover, economic developments in recent months have deviated from the assumptions in November when discussions were held between the Fund staff and the Philippine authorities for the 1997 Article IV consultation and the final review under the extended arrangement. Most notably, the Peso has depreciated further in a new wave of regional currency pressures (from around P 35/US\$ in November to P 43-44/US\$ in recent days) and the fiscal position has apparently deteriorated.

In order to allow time for additional discussion with the authorities as well as clarification, and, if necessary, modification of the new regime on domestic petroleum prices, it is recommended that the period of the present arrangement be extended further. A mission is scheduled to visit Manila in February to continue the discussions for the Article IV consultation and the final review under the extended arrangement, as well as to discuss policies for an economic program that could be supported by a successor arrangement. Accordingly, and as requested by the Philippine authorities (see attached), it is proposed to extend the period of the extended arrangement to March 31, 1998.

The proposed extension through end-March 1998 would be at variance with paragraph 5 of the Guidelines on the Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements.¹ The staff believes that an exception can be justified on the basis of the short period of the proposed extension, and the fact that the remaining purchase under the arrangement is conditioned on completion of a program review.

The following draft decision is proposed for adoption by the Executive Board:

“Paragraph 1 of the extended arrangement for the Philippines (EBS/94/117, Supplement 2, as amended) shall be partially amended to read:

“1. For a period from June 24, 1994 to March 31, 1998, the Philippines...”

Attachment

¹ "The test dates for performance criteria would also be distributed as evenly as possible through the period of the arrangement. Normally the date of the first performance test would not be earlier than the date on which the arrangement becomes effective, and the date of the last performance test would not be earlier than three months from the end of the arrangement." The last test date under the extended arrangement was end-September 1997.

January 27, 1998

Mr. ALASSANE D. OUATTARA
Deputy Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431
U.S.A.

Mr. Ouattara:

Thank you for your immediate response to my letter of January 22 to the Managing Director. Unfortunately, the approval of a new oil deregulation bill has been further delayed in Congress. Passage of the new law is now imminent and there is the possibility of Congress extending to the President the authority to accelerate the transition phase. The Executive worked hard to reopen bicameral discussion to achieve this flexibility. Moreover, the Philippine economy in recent weeks has experienced further shocks, including a new round of currency turmoil in the region.

For these reasons, I agree with your suggestion to embark without delay on additional discussions with Fund staff on the outstanding review issues. To allow for this, as well as to give time for the final passage of the oil deregulation bill, I would like to request an extension of the arrangement until 31 March 1998. As we discussed earlier, we are also actively considering the option of a successor arrangement after the extended arrangement expires, and I look forward to our discussions in this regard with the forthcoming mission.

Allow me to reiterate that the Government remains fully committed to the objectives of the extended arrangement and will take the steps needed to bring it to a successful conclusion. I am confident that you appreciate the evolving situation in the Philippines and will convey to the Executive Board our efforts to protect the achievements we have made so far.

With best personal regards,

Very truly yours,

/s/

GABRIEL C. SINGSON
Governor