Philippine Journal of Public Administration, Vol. XXVII, No. 4 (October 1983)

The Debt Burden of the Philippines: Magnitudes, Costs and Problems

LEONOR M. BRIONES*

Since 1972, the government has advocated a policy of deficit financing, with public borrowing as the major tool for financing development activities and maintaining stability in the country. This has however resulted in a phenomenal growth in the levels of borrowing, with a heavy dependence on foreign debt sources, and the dominance of the United States and other international lending institutions like the World Bank-International Monetary Fund (WB-IMF) in public sector borrowing. The cost of this debt burden is enormous when seen in terms of (1) repayments, interests and amortizations; (2) instability and inflation; (3) deprivation of government services to the people; and (4) the management of the Philippine economy by the WB-IMF. There is therefore a need to reexamine who the true beneficiaries of borrowing are, to reevaluate present fiscal policies, and to look for options and alternatives which will benefit the people.

Introduction

The year 1983 has been characterized by violence in many aspects of Philippine society, not only in the streets and battlefields but also in the behavior of the balance of payments (BOP) account and the Philippine external debt. No less than the usually restrained Central Bank Governor Jaime Laya has publicly admitted the "unexpectedly violent erosion in the capital account . . . "[1]

A series of rapidly escalating interrelated financial and monetary events led to the announcement of a ninety-day moratorium on debt repayments — an event which is described by other sectors as a "technical default." This followed in the wake of two rounds of devaluation which have violently eroded the purchasing power of the peso. Hence, the growing public interest in borrowings is not merely academic.

---

*Secretary to the Commission on Audit and Associate Professor of Public Administration, College of Public Administration, University of the Philippines.

This lecture was delivered at the Second Conference on Peace and Conflict Research sponsored by the Philippine Center for Peace Research, Inc. (PCPR) in cooperation with the Friedrich Ebert Stiftung (FES), December 9-10, 1983, CFED Hostel, UP Los Banos.

The inflationary spiral which followed in the wake of the two devaluations has affected everyone where it hurts most — the stomach. The clamor of the people to know what is the real score on the issue of borrowings is part of the effort to understand the nature of the political and economic crisis which is gripping the country today.

The 1983 Financial and Monetary Scenario

A brief review of significant financial and monetary events in 1983 will serve as the backdrop for our discussion.

When we started the year 1983, the Philippines was one of the top seven debtor countries for private bank loans. The Philippine external debt totalled $16.4 billion, the balance of payments deficit reached $1.1 billion, trade deficit reached an all time high of $2.8 billion and national government operations incurred a cash deficit of ₱14.4 billion.[2]

The enormity of the $1.1 billion BOP deficit prompted Philippine officials to negotiate with the IMF and the World Bank for loans amounting to $700 million. The IMF conditions were very severe and included among others, reduction of the 1983 budget by 18%; limitation of government cash deficit to ₱9.4 billion (during the year this was further reduced to ₱8.8 billion, then to ₱8.2 billion); further liberalization of tariff rates; and continued "free float" of the peso vis-a-vis the dollar. The Philippine government acquiesced to these conditions and proceeded to reduce the 1983 budget accordingly.

Inspite of the "austerity measures" which were undertaken at the beginning of 1983, the following indicators reported by the Central Bank reflected the rapid deterioration of the economy:[3]

	March 1983	June 1983	September 1983
Cash deficit of the national government	₱ 1.7 billion	₱ 2.5 billion	₱ 3.0 billion
Balance of Payments Deficit	$343.0 million	$562.0 million	$ 1.3 billion
External debt	$ 17.8 billion	$ 18.0 billion	$18.6 billion
Trade deficit	$653.0 million	1.5 billion	2.5 billion

By October 1983, the Central Bank admitted that the external debt is not $18 billion as originally estimated but "around $25 billion." Official sources who refuse to be identified say it could be much more than $30 billion.

In June 1983, the peso was officially devalued at ₱11 to $1; on October 5, 1983 further devaluation was made at ₱14 to $1, resulting in an overall depreciation of about 34%.[4] The latter triggered an inflationary spiral officially estimated at 25%, which in turn set off panic buying of certain commodities whose prices rose by over 100%.

In the ensuing confusion amidst demands to know who is to blame for the crisis, the government and certain sectors of the public traded press releases and statements. The government position, as articulated by officials like Minister of Trade Roberto Ongpin, is that the present crisis is part of a worldwide tightness in the international capital markets. It is claimed that the Philippines is only one of many LDCs suffering from the impact of the international recession. The government has also announced that negotiations have already been concluded for a $650 million loan from the IMF. The IMF loan, it is said, is the signal for other financial institutions to follow suit and help bail the country out of its difficulties. On the other hand, certain members of the business sector are claiming that the crisis is not so much economic as political and moral. They are therefore demanding a change in political leadership. These various arguments will be analyzed in this paper.

The data used in this paper were culled from two major sources: the Central Bank for data on the Philippine external debt and the Commission on Audit for data on the Philippine public debt.

It is perhaps important at this point to clarify two terms which are often used whenever the subject of Philippine borrowing is discussed: Philippine public debt and the Philippine external debt. The term "Philippine public debt" generally refers to borrowings of the public sector which is composed of the national government, public corporations or public enterprises and local governments. It includes both internal (local) and external (foreign) borrowings of the public sector and is expressed in peso terms. On the other hand, the term "Philippine external debt" refers to foreign borrowings only of both the public and the private sector. It is generally expressed in dollar terms.

Therefore, when the word "public debt" is discussed, it refers to local and foreign borrowing of what we know as the "government." It does not include the private sector. But when the Central Bank mentions the word "external debt," it generally refers to the foreign borrowings of both public and private sectors. This is considered the external borrowing of the entire economy. The Philippine external debt has generated more interest recently because of its implications on the economy and its impact on balance of payments and monetary stability.

These two terms are often interchanged in the media, leading to situations where protagonists in spirited debates on borrowing are actually using two different sets of figures.

Magnitudes and Trends since 1972

This paper analyzes the Philippine public debt and the Philippine external debt from 1972-80, considered as the Martial Law years. The choice of the period is deliberate. It was during this period when the government launched a policy of deficit financing wherein borrowings play a crucial role in "development finance," or the financing of development programs. The policy of deficit financing was an indispensable component of the development program of the country. During the martial law period, the government embarked on a series of 5-year development plans anchored on borrowing as a major source of financing. The increased participation of international lending institutions like the World Bank, IMF and the ADB is very evident during this period.

It was also at the start of this period that a debt crisis ensued resulting in the restructuring of long-term debts and the floating of the peso. Finally, it was during this period when public borrowings accelerated at a phenomenal rate to the present levels. The three years that followed (1981-1983) merely carried on the irresistible momentum of increased borrowing.

A word of caution must be said about the Central Bank statistics which are cited for the Philippine external debt. It appears now that the figures officially released up to September 1983, as compared to the October figures, are grossly understated and do not include a significant portion of short-term private sector borrowings. For surely, the external debt did not soar from $18 billion to over $30 billion in a matter of one month, no matter how serious the crisis! Nevertheless, in the absence of any other available data on the external debt, the Central Bank figures up to September 1983 will be cited, with the observation that they are understated. Still, the data are of some usefulness since they indicate the general trends and characteristics of Philippine borrowing and help explain the debt bomb which finally exploded in October 1983.

Phenomenal Growth in Levels of Borrowing

Available figures clearly indicate phenomenal growth in levels of Philippine borrowing since 1972. This is illustrated by the fact that from 1972-73 alone, public debt increased by 81.2% with foreign public debt increasing at 129%![5] Public debt grew eight times from ₱8.3 billion in 1972 to ₱67.7 billion by 1980. By 1981, it had grown ten times, to ₱84.7 billion. At the end of 1982, it had ballooned thirteen times to ₱108.7 billion.[6] (Please refer to Table 1.) Since the conversion rates from the dollar to the peso are based on the exchange rates at the time of availment, this figure is clearly understated in terms of the current exchange rate.

A related study I made on revenue patterns from 1972-80 confirms the unusual dependence on borrowing as a source of public revenue. During the same period, borrowings accounted for an average of 30.9% of total government revenue. In 1978, the share of borrowing went as high as 34.7%.[7]

The Philippine external debt (which includes private sector borrowings) indicated similar trends. From $2.2 billion in 1972, it increased six times to the 1980 level of $12.6 billion. By the end of 1982, it had grown eight times to $16.4 billion. If the October 1983 estimate of over $30 billion is accurate, then external debt grew 15 times since 1972.

Public and Private Borrowing

Figures for the public debt and the external debt from 1972-80 both indicate aggressive and accelerated public sector borrowing during the period. This momentum was carried on to 1983 at a much faster pace. From 1972-80, the average rate of growth of domestic public debt was 20%. On the other hand, the average rate of growth during the same period for foreign debt was 27.6%. In 1975 and 1976, foreign public debt posted growth rates of 54.4% and 52.6%, respectively.[8]

The Philippine external debt indicated the same trends. Prior to 1972, private sector external debt exceeded public sector external borrowing. Since 1972, the picture has changed. By 1982, practically 60% of total fixed term external borrowing was accounted for by the public sector.[9]

Much of public sector borrowing went to public corporations. Thus, the guaranteed foreign debt of the government for 1982 is accounted for by corporations like the National Power Corporation which owes $1.8 billion, Development Bank of the Philippines with $324 million, Philippine Air Lines with $256 million and so on.[10] Interestingly, the World Bank has noted that while the government has set up an inordinately large number of public enterprises requiring massive investments (mainly borrowed), these account for as little as two or three percent of the gross domestic product.[11]

While fixed term borrowing is dominated by the public sector, short-

Table 1. Growth Rate of Public Debt Outstanding and Growths According to Source

Year	TOTAL PUBLIC DEBT Amount (Million Pesos)	TOTAL PUBLIC DEBT Rate of Growth	DOMESTIC Amount (Million Pesos)	DOMESTIC Rate of Growth	FOREIGN Amount (Million Pesos)	FOREIGN Rate of Growth
1972	8,321	12.1	6,583	11.1	1,738	16.1
1973	11,703	40.7	8,220	24.9	3,485	100.5
1974	14,787	26.3	10,184	23.9	4,603	32.1
1975	18,159	22.8	11,731	15.2	6,428	39.6
1976	26,856	47.9	15,047	28.3	11,809	83.7
1977	34,248	27.5	17,792	18.2	16,456	39.4
1978	41,546	21.3	20,777	16.8	20,709	26.2
1979	54.547	31.3	22,461	8.1	32,086	54.5
1980	67,728	24.2	26,290	17.0	41,438	29.1
1981	84,686	25.0	33,856	28.7	50,830	22.6
1982	108,733	28.3	44,105	30.2	64,627	27.1
Average:		27.9		20.2		42.8

SOURCE: COA Consolidated Financial Reports
Commission on Audit, Accountancy Office

term borrowing is mainly engaged in by the private sector. It is unofficially admitted that of the present foreign exchange liability of $30 billion, one half would be loans of the private sector.

Dominance of Foreign Borrowings

Figures on the public debt and the external debt indicate that the public sector and the private sector both rely heavily on foreign borrowings, as compared to domestic borrowing. As early as 1981 for example, the Commission on Audit (COA) Annual Financial Report already observed that out of a total public debt of ₱84.7 billion, ₱50.8 billion is from foreign borrowings.[12] At the end of 1982, out of a total public debt estimated at ₱108.7 billion, ₱64.6 billion was accounted for by foreign borrowings, or 65%.[12] or 65%.[13]

The implications of accelerated foreign borrowings on debt repayments are obvious. Pressure is brought to bear on the national budget for repayments. Devaluation increases the peso requirements for foreign debt amortizations and increases the size of the national budget without necessarily resulting in additional government services. For example, the Commission on Audit (COA) noted that in 1981, $335.7 million was spent on debt repayments. By 1982, this had increased to $413 million. This is easily over ₱3.4 billion at the old rate of ₱8.25 to the dollar.[14]

The external debt figures are even more alarming. According to Central Bank Governor Jaime Laya, during the third quarter, "expected capital inflows did not materialize and demands for net repayment of short-term obligations in the non-monetary sector accelerated." Thus, at the end of September 1983, the short-term capital account registered a deficit of $607 million due to accelerated demands for repayment of loans.[15]

The tendency is to think of foreign borrowings in terms of dollar inflows. What is neglected is that foreign borrowings also imply a larger outflow in terms of repayments and interests. When simultaneous demands for repayments are triggered, then the drain on balance of payments is enormous, as what happened in September and October. Our experience has painfully shown us the consequences of heavy reliance on foreign borrowings.

U.S. and International Lending Institutions

Since 1972, the country's dependence on the U.S. and the international lending institutions has become more and more pronounced. As of 1980, loans from the U.S. and the U.S. government, WB-IMF and ADB accounted for more than one-half of the total foreign public debt.

Total U.S. and U.S. government loans grew from $117.1 million in 1972 to $683.2 million in 1980. While IDA (World Bank) loans jumped from $6.0 million in 1972 to $34.9 million by 1980, ADB loans soared from $11.6 million to $303 million during the same period. IBRD (World Bank) loans balooned from $152.9 million in 1972 to $2.7 billion by 1980, in a matter of eight years. IMF loans increased from $336.3 million in 1972 to $841.7 million in 1980. By the end of 1982, IMF loans had further escalated to $1.6 billion.[16] (Please refer to Table 2). It is estimated that at year's end (1983), considering the fact that we have negotiated for additional IMF loans two times, IMF borrowings can easily reach $3 billion.

Concentration of borrowings on a few sources can have not only economic but political implications as well. The more a country accumulates its borrowings from a single source, the lesser its bargaining power. What is cause for alarm is the escalation of IMF loans from $336.3 million in 1972 to possibly $3 billion by year's end. IMF loans are primarily stabilization loans and are not necessarily for specific development projects. These are resorted to help meet balance of payments crises. The frequency with which we are turning to IMF is a fair indication of the instability which has consistently plagued our economy. This means we are borrowing not necessarily for development, but to solve BOP problems. This probably means too, that scrupulous adherence to IMF advice has not necessarily solved our financial and monetary problems.

Issues and Problems

Four major trends in Philippine borrowing may be identified. Since 1972 up to the present, the phenomenal growths in levels of borrowing, the aggressive role of the public sector in borrowing, increasing reliance on foreign sources, and the dominant role of the U.S. and international lending institutions, e.g., WB-IMF and ADB, have become very evident.

Borrowing, Development Finance and Stability

Public borrowing is considered an important component of public finance for less developed countries (LDCs).[17] This is a fiscal tool which LDCs, including the Philippines, are using with vigor, whether as a matter of policy or as a result of desperate circumstance. Perhaps, one can even safely

Table 2. Outstanding Foreign Debt by Institutional Sources*

End of Period	Grand Total	Total U.S. & U.S. Gov't.	U.S. Aid & U.S. Gov't.	U.S. Exim-Bank	Total International	IBRD	IMF	IDA	ADB	Total Others	Foreign Banks	Private Foreign Creditors	Foreign Gov't.	Others
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	(2+5+10)	(3+4)			(6+7+8+9)					(11+12+13+14)				
1972	$1,158.3	117.1	79.2	37.9	506.8	152.9	336.3	6.0	11.6	534.4	320.2	181.6	32.6	0
1973	1,225.6	138.7	108.4	30.3	555.6	157.8	69.5	6.5	21.8	531.3	270.3	208.9	52.1	0
1974	1,538.6	157.1	130.4	26.7	579.5	164.1	358.9	9.6	46.9	802.7	519.5	215.3	67.9	0
1975	2,205.1	242.3	172.0	70.3	819.5	236.1	469.6	22.6	91.2	1,143.3	806.3	107.3	229.7	0
1976	2,931.4	299.7	202.3	97.4	1,073.4	304.7	612.6	27.1	129.0	1,458.4	1,139.5	148.1	170.8	0
1977	3,307.4	362.6	232.3	130.3	1,281.0	384.0	709.5	31.5	156.0	1,633.6	1,005.6	330.0	298.0	0
1978	4,474.6	474.9	251.4	223.5	1,651.4	504.9	914.9	32.3	199.3	2,308.7	1,348.2	492.7	467.8	0
1979	6,488.2	602.4	320.1	282.3	2,013.0	647.4	1,087.6	33.9	244.1	3,872.9	1,892.5	556.7	416.2	1,007.5
1980	8,251.5	683.2	324.3	358.9	3,844.0	2,664.4	841.7	34.9	303.0	3,424.3	2,838.7	574.5	0	11.1

Source: CB 1979 Statistical Bulletin, Dept. of Economics Research
CB MEDIAD
*In million US dollars

say that public borrowing is the most significant activity currently pursued in public finance by most LDCs upon advice of their former colonial masters and the WB-IMF. Its significance lies in the fact that it is obviously linked to their development efforts. Borrowing is the primary tool used for financing development projects. It is also resorted to for compensatory and stabilization purposes. Ironically, even as borrowing is theoretically resorted to for development and stability, the actual experience of LDCs indicates the opposite effect.[18] Borrowings have escalated in the wake of instabilities and economic crises, not development activities.

There is a need therefore, to reexamine the theoretical foundation of borrowing, particularly public borrowing. Our present borrowing policies draw heavily from Keynesian-derived theories which advocate deficit financing and compensatory financing, and theories of development finance. Both theories consider public borrowing as integral to public finance. Our policymakers who are steeped in these theories believe that public borrowing, as presently practised, is the major tool for financing development activities and at the same time maintaining stability.

It was on the above basis that we sharply accelerated our public borrowing activities simultaneous with the launching of our massive development projects. Thus, from 1972 to 1973 alone, the public debt grew by 81.2%. How did our economy fare since then?

Borrowing as a compensatory and developmental tool has not brought relief to our economic problems. Instead of bringing stability, it has even exacerbated such instabilities. Development finance became the mechanism by which the economic instabilities of the industrialized countries were imported to the Philippines, thus wreaking havoc on our economy. When we borrowed heavily for our development projects, we were negotiating not only for foreign exchange but for goods and services as well. These were exported from the industrialized countries. When the latter were hit by inflation and later by recession, the prices of goods and services we were importing through borrowing correspondingly escalated. Our own development costs soared. Furthermore, the counterpart requirements of our foreign borrowings imposed a heavy drain on our national budget.

Borrowing has become the major mechanism whereby an LDC free enterprise economy like ours is linked with the international capitalist system. The LDC is thus exposed to its instabilities and weaknesses. It is also the mechanism wherein inflow of loans is always exceeded by outflow of loan repayments, amortization and interest. Finally, it is the medium by which the industrialized countries export goods and services to

LDCs whose economies may not necessarily have the capacity to absorb them.

It has been pointed out earlier that more than one-half or 55% of the outstanding foreign public debt as of 1980 are for loans from the United States and the U.S. government, and the international lending institutions, specifically the World Bank and the IMF. Since 1982, the figures have even gone higher with the additional loans which we are negotiating from these two institutions to stabilize our balance of payments crisis. Lending institutions do not operate as charity houses. Conditions are attached to loans ranging from the economic to the political. Such conditions do not necessarily benefit the recipient country since these are mainly from the perspective of the lender whose primary concern is to protect its own interests and expand its sphere of influence.

For example, one of our major U.S. creditors is the U.S. Eximbank, to whom we owe $358.9 million as of 1980. Aside from the usual interest and other conditions, Eximbank always insists that goods and services to be purchased from loans granted by it should be from the United States. What we therefore borrow goes back to the lending country. The latter is doubly benefited — interest payments flow back to it and profits from the sale of goods and services also pour in.

On the other hand, the World Bank and the IMF have been undergoing increasing criticism with regards to the conditions that they attach to their loans. Cheryl Payer points out that as of 1981, while five industrialized countries control 43.4% of voting power in the IBRD (with the U.S. controlling 20.8%), 49.5% of loans outstanding are borrowed by eight LDCs, among them, the Philippines.[19] The World Bank has been accused of encouraging massive borrowing for large scale projects which result in heavy export of material, expertise and technology. Critics have pointed out that its lending operations benefit more the exporting industrialized countries than the importing poor countries. Furthermore, instabilities such as inflation and recession are exported to the borrowing countries.[20]

Again, the recent decision to officially devaluate the peso was largely influenced by the IMF package of conditions which was imposed as a condition for additional stabilization and standby loans. This is not the first time that the IMF has inflicted such an imposition upon us. We devalued the peso for the first time during the Macapagal era. The effect of the devaluation was to practically wipe out, in the words of Lichauco, the nascent industries at that time.[21] Even western critics have warned against an IMF overkill in LDCs. Herbert Wilkens points out that . . . "the credit conditions of the IMF standby credits should be reviewed once again. But it would not be in the interest of the IMF member nations, neither those who pay or those who receive the loans, if too strict conditions result in overkill. Therefore, the requirements of development policy should be taken into account to a greater degree. Short-term austerity programs, which frequently are a great political burden and which hinder social reforms, should be avoided. A relaxing of loan conditions seems especially appropriate in cases where structural balance of payments deficits cannot be eliminated even through major efforts on the part of the country in question.[22]

We have been subject to the combined ministrations and advice of the United States and the World Bank and IMF for nearly three decades. The major tool through which such advice (or should we say, orders?) are transmitted is through borrowing, a situation where the borrower naturally has a weak bargaining position vis-a-vis the lender. And yet, the impact of such advice on our economy is all too obvious. Since U.S. and WB-IMF "assistance" has not worked, isn't it time to look for other options?

Impact of Borrowing on National Development

An effect of borrowing which is obvious to one who is in the field of public fiscal administration is the increased cost of development projects. Aside from increases in interest payments which are negatively affected by monetary policies like devaluation, the costs of imported goods and services tend to increase when the exporting country suffers an economic setback, as has happened with the United States. Expensive consultants, which are part and parcel of all major loans, increase costs especially if they are paid as high as $1,500 a day in some cases and $150 per hour in others. Peso counterpart requirements also constitute a heavy drain on the budget. Other costs which are required by lending institutions, like elaborate and expensive feasibility studies, monitoring mechanisms, review requirements, etc., jack up development costs. The tendency of international institutions to impose their standards of comfort and luxury wherever projects are set up also increases costs. Thus, when a nuclear plant is built, accommodations which even rival 5-star hotels are set up at the site with all conceivable luxuries which are normal in an industrialized country, but which can be considered downright immoral in a poor one. These would include luxurious living quarters for consultants and foreign workers, sports complexes, helipads, etc.

Overpricing of development projects is made possible since the borrower's options for suppliers of goods and services are limited by the conditions imposed by the lending institution. The obvious effect of overpricing is of course inflation with its attendant instability.

Even more dangerous is the tendency of the lending institution to impose its own expensive vision of development on the borrowing country, whether such vision is appropriate or responsive to the country's needs or not. This is very clear in terms of the present crisis.

Glaring Deficiencies in Monitoring Borrowings

Prior to 1972, the country underwent a financial and monetary crisis which led to the decision to float the peso. At that time, it was discovered that borrowings had not been adequately monitored. After 1972, the government launched its policy of deficit financing and development finance for its massive development projects. The public was repeatedly assured, not only in public pronouncements, but also in formal reports to the President, that this time, the external debt was carefully monitored and managed. A special office was created in the Central Bank, the Management of External Debt and Investments Accounts Department (MEDIAD), specifically for this purpose. Whenever warning voices were raised about the dangerous levels that borrowings were reaching, the same assurances of careful monitoring were repeated. The generally accepted high level of competence, integrity and technocracy in the Central Bank and the Minsitry of Finance, especially its leadership, somehow lulled the public (and even the lending institutions?) into thinking that all was well on the borrowings front. Thus, even as the warnings escalated during the last three years, these were ignored and dismissed as the rantings of ultra-nationalists and possibly communists.

However, recent events indicate that the vaunted competent monitoring and management of borrowing has not been all that efficient or effective. The best example is the calculation of the external debt service ratio. Under Republic Act No. 6142, as amended, the debt service ratio is defined as the ratio of total annual amortization and interest payments on total fixed term debt to gross foreign exchange receipts in the preceding year. Somehow, our official ratios merely teetered on the edge of the 20% ceiling, but never quite hit it. In 1982, the WB-IMF combine joined the warning voices at the other end of the political spectrum. They pointed out that the ceiling had already been overshot and that the ratio is actually 27%. A closer examination of the CB formula indicated that loan proceeds were included as part of the foreign exchange receipts in calculating the ratio. Thus, it was impossible to hit the 20% ceiling under conditions where borrowings were continually increased! To quote *A Memo for Concerned Citizens*, "In effect our ability to pay was dependent on our ability to borrow and not vice-versa."[23] The more we borrowed, the more we stayed within the debt ceiling.

Another example is the calculation of the external debt. The public has always been assured since 1972 that our loans have been restructured. Therefore, we have more long-term loans than short-term loans. The CB reports have consistently reflected this "fact." It seems however, that while the long-term loans were carefully monitored, not all short-term loans were recorded by the Central Bank. These are mainly private sector loans. Thus, during the third quarter of 1983, when creditors suddenly started collecting on their short-term loans, the pressure on available foreign exchange reserves was tremendous. Suddenly, there were varying figures for the external debt. What was announced as $18 billion turned out to be $25 billion, and perhaps even $30 billion. This is a clear case of failure in reporting and monitoring, resulting in an appalling understatement of the external debt.

The same situation exists in the calculation of the foreign component of the public debt. While the external debt is monitored by the Central Bank, the public debt (internal and external debt of the public sector) is monitored by the Ministry of Finance. Right in the Bureau of the Treasury, two divisions have *different* figures for the foreign public debt. The Debt Management Division records the peso equivalent of the foreign loans at the official exchange rate. On the other hand, the Accounting Division (also of the Bureau of the Treasury) is based on withdrawal authorizations which contain different conversion rates. At the time of repayment, the peso equivalent which is recorded by the division is again different from the exchange rate at the time of availment. Thus, at the end of 1982, the Commission on Audit noted a *discrepancy* in the figures of the two divisions amounting to *₱7.7 billion.*[24] With two drastic devaluations in 1983, one dreads to think what the figures for the year will look like.

Still another problem related to financial management is the peso counterpart for foreign loans to the government. Normally, foreign loans require peso counterpart from the Philippine government. It is not generally known that when we borrow, a corresponding pressure is exerted on our budget because of this requirement. Until last year, agencies would negotiate for loans without coordinating with the Ministry of the Budget. Counterpart funding could therefore not be included in budgetary projections. The fact remains however, that when the government contracts loans, it correspondingly increases the size of the budget due to the counterpart requirement, in addition to interest and amortization repayments. This is an aspect which has not been monitored effectively.

There are many more horror stories about financial management of borrowed funds which have, of course, exacerbated the debt problem. One letter to the editor in a newspaper plaintively asked if our authorities can please correctly calculate our external debt to the nearest million. It seems that this could be wishful thinking, considering recent events.

The Debt Crisis and the August Events

Concerned citizens are asking if the present economic crisis is a direct result of the instabilities which followed in the wake of the Aquino assassination.[25] The data presented in this paper clearly indicate that the debt problem had been building up since 1972 when a clear policy of deficit financing was launched simultaneously with ambitious development programs. Both public debt and external debt figures reveal an acceleration in levels of foreign borrowings of both the public and private sectors. At the end of 1982, the foreign debt of the government far exceeded its domestic debt. At the same time, the frequency with which we turned to the IMF for stabilization loans since 1972 shows that we were suffering from chronic balance of payments problems, especially during the last three years. In mid-1982, the signs were already very clear that a debt crisis was impending, the national government cash deficit was rapidly piling up, the BOP deficit was rising dangerously and the trade deficit was building up. These events impelled our government to negotiate with the World Bank and IMF for additional loans during the 3rd quarter of 1982. The seriousness of the 1982 crisis also pushed our government into accepting very difficult IMF conditions. In June 1983, when the BOP deficit hit the $500 million ceiling imposed by IMF for the entire year, we were constrained to devaluate the peso.

Perhaps it can be admitted that the August events accelerated the inexorable march of events toward a technical default. From July to September alone, the BOP deficit escalated by $800 million. By October 17, another $711 million raised the deficit to $2 billion. This led the Central Bank to finally admit to the President that "the Central Bank and the banking system can no longer afford to finance further deficits in the balance of payments." [26]

The Present Crisis: A Political, Moral or Economic Problem?

The government and certain sectors of the public have been exchanging pronouncements on the matter. The President insists that the country is facing an economic problem; various groups insist that the country is facing a political and moral crisis. Another related issue is whether our economic crisis is due to the worldwide recession or mainly to domestic problems.

Perhaps, the Aide Memoire of the Central Bank gives the answer: "The classical economists' concept of political economy apparently still holds true."[27] Politics and economics cannot be separated. One can neither isolate a "purely" economic problem nor a political problem. Thus, both positions are correct in that the present crisis is an economic problem aggravated by political and moral issues.

The fundamental defect is the economic system of the Philippines which is linked to the international free enterprise system. In a situation where international finance capital enters an LDC in the form of foreign investments, borrowing, capital goods and services and flows out in the form of profit remittances, interests, amortizations and loan repayments, outflow of foreign exchange is always heavier than inflow. In a situation where an LDC exports basic raw materials and imports semi-processed and processed goods and services, where the manufacturing and services sectors are controlled by transnational corporations, outflow will always exceed inflow of foreign exchange, no matter how upright the political leadership, no matter how high the level of technocracy.

However, we are not totally free from blame, especially the government sector. The government adopted a fiscal policy tool — borrowing — which, it turned out, it could neither manage nor monitor. The built-in weaknesses of development finance were exacerbated by our own incapacities. In our obsession for development, we allowed the international lending institutions to choose our development priorities for us. We allowed them to convince us to launch massive projects requiring heavy import of capital goods, foreign exchange and consultancy services. This merely gave the industrialized countries an opportunity to turn us into a huge market for their products without building up our own capabilities for self-reliance. We embarked on grand, overpriced projects we could neither afford nor maintain.

At the same time, we jacked up development costs by our own inefficiency, waste and corruption. Our bargaining power with the lending institutions is naturally low in relation to *their* bargaining power. But we increased their hold over us by our own established inability to manage borrowed funds, by our now exposed efforts to cover up errors and omissions in recording, and by our debatable sense of priorities and values. In other words, we have given the WB-IMF, especially the IMF, the very whip which they are now using on us.

Costs of the Debt Burden

The economic costs of the debt burden are not only monetary. Of course, we have the burden of repayments, interests and amortizations.

Instability and inflation is another cost. NEDA economists have calculated that with 1972 as the base year, the peso value is only ₱.16 as of September 1983.[28] Considering the inflationary spiral which accelerated in October, one fears that the peso might be in danger of annihilation. People are asking for guarantees and promises that there will be no more devaluation. However, "the CB expects the new exchange rate to hold at least up to the end of this year . . . .[29]

Pressure on the national budget is another cost. Devaluation has greatly increased the peso costs of scheduled repayments. In this manner, the people are deprived of additional government services by the mere fact that debt service costs are soaring.

A final cost is the management of our economy by the WB-IMF. We might claim to be politically independent, but right now, all the shots in the economic arena are called by the IMF. Unfortunately, their interest do not necessarily coincide with our aspirations for genuine independence and sovereignty, as indicated in the recent decisions not only to liberalize tariff but foreign investments as well.

Who are paying for our borrowings?

In the final analysis, it is our people who are suffering the ravages of borrowing as presently practiced. Considering the fact that most of our people belong to the low income groups, the suffering they have to bear is incalculable. The recent decisions to devaluate the peso are perhaps the best examples. They were arrived at as a result of borrowing and as conditions for more borrowing. While it is true that all of us suffer the effects of this admittedly bitter pill, the poor will suffer more than the rich. The rich will be deprived of their luxuries. The poor will be deprived of jobs while the manufacturing sector will cut down on employment, or worse still, shut down their plants. The poor will be deprived of basic necessities. The poor will be deprived of government services when these will have to be reduced because of higher interest requirements and budgetary cuts again imposed by the IMF. In other words, the lower income groups will suffer in terms of higher prices for basic necessities, unemployment and more expensive government services. Indeed, what price borrowing for development?

The bankruptcy of the dominant theory of development finance has been exposed by the realities of the economic crisis the country is facing today. It is time to reevaluate current fiscal policies and ask ourselves who are the true beneficiaries of borrowing, and to act, based on the lessons of the past and the harsh realities of the present. It is time to look for options and alternatives.

Endnotes

[1] Central Bank, *Report to the President on the Economic and Financial Developments*, January-September 1983, p. 1.

[2]Central Bank, *Report to the President* . . ., January-December 1982, pp. 16, 17, 27, 41.

[3]Central Bank, *Report to the President* . . ., January-September 1983; see also *Bulletin Today* (August 3, 1983), p. 12.

[4]*Bulletin Today* (October 31, 1983), p. 21.

[5]Leonor M. Briones, *Philippine Public Fiscal Administration* (Quezon City: Commission on Audit Research and Development Foundation, 1983), Chap. 19, p. 529.

[6]Briones, *Ibid.*, p. 532; "Issues and Problems in Philippine Borrowing," *Commission on Audit Journal*, Vol. 35, September 1983, p. 54.

[7]Briones, *Philippine Public Fiscal Administration, op. cit.*, p. 154.

[8]*Ibid.*, p. 542.

[9]Briones, "Issues and Problems . . . " *op. cit.*, p.52.

[10]Commission on Audit, *1982 Annual Financial Report.* See Supporting Statements and Schedules.

[11]World Bank, *World Development Report*, 1983, p. 12.

[12]Commission on Audit, *1981 Annual Financial Report.*

[13]Commission on Audit, *1982 Annual Financial Report, op. cit.*

[14]*Ibid.*

[15]Central Bank, *Report to the President* . . ., January-September 1983, *op. cit.*, pp. 1, 42.

[16]World Bank, *op. cit.*

[17]In my writings on public fiscal administration, I have emphasized this fact. See *Philippine Public Fiscal Administration, op. cit.;* See also "Financial Management in the Philippine Setting, Issues and Problems," paper delivered at the Seminar Series on Efficiency and Profitability Control sponsored by the German Foundation for International Development and the Goethe Institute, August 1-5, 1983, State Accounting and Auditing Center; and "Issues and Problems in Philippine Borrowing," *op. cit.*

[18] Briones, *Philippine Public Fiscal Administration, op. cit.*, Chap. 2.

[19]Cheryl Payer, *The World Bank: A Critical Analysis* (New York: Monthly Review Press, 1982), p. 28.

[20]Briones, *Philippine Public Fiscal Administration, op. cit.*, Chap. 3.

[21] Alejandro A. Lichauco, "The International Economic Order and the Philippine Experience," *Mortgaging the Future,* ed. Vivencio R. Jose (Quezon City: Foundation for Nationalist Studies, 1982), pp. 30-31.

[22] Herbert Wilkens, "External Debts of Developing Countries," *Development and Cooperation,* No. 2 (March-April 1983), p. 6.

[23] *A Memo for Concerned Citizens,* p. 2.

[24] Commission on Audit, *1982 Annual Financial Report, op. cit.,*

[25] Benigno S. Aquino, former Senator of the defunct Philippine Congress, was assassinated at the Manila International Airport on August 21, 1983. On exile in the United States for three years, he was returning to the Philippines to unite the fragmented opposition when he was killed. A direct result of this was the massive capital flight that ensued because of fears by foreign investors that the Philippines would become another Vietnam or Nicaragua.

[26] Letter of Deputy Governor Singson to the President dated October 5, 1983 in Central Bank, *Report. . .,* January-September 1983, p. 64.

[27] "The Philippine Economy: What Did Actually Happen?" (Central Bank Aide Memoire), *Bulletin Today* (November 15, 1983), p. 7.

[28] "Peso Buying Power Erodes Considerably," *Bulletin Today* (November 12, 1983), p. 20.

[29] Office of Media Affairs, *Metro Manila Facts and Figures,* Vol. VI, No. 10 (October 1983), p. 1.