



## Freedom from Debt Coalition (FDC) - Philippines

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### SPECIAL REPORT

SPECIAL to *The Manila Times*

## Is the debt problem over?

By The Freedom from Debt Coalition

19 January 2008

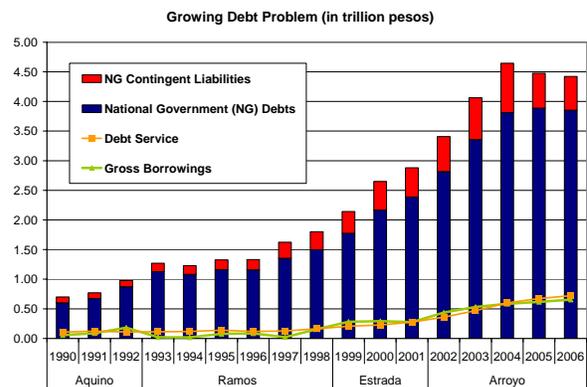
This is what Mrs. Gloria Macapagal-Arroyo and her economic managers want us to believe. In a show of absolute technocratic certainty, the administration declared that it has solved the economic and fiscal woes of the country. We, at the Freedom from Debt Coalition are completely baffled as to what she means by this claim.

### Has there been any significant reduction in the country's outstanding debt?

As of end-August 2007, the National Government (NG) Outstanding debt was pegged at P3.871 trillion pesos or US\$81.91 billion. The bigger part of this debt was acquired domestically (55.98 per cent), with Treasury Bonds debt pegged at P1.55 trillion. This is worse when Mrs. Arroyo acknowledged that the country was suffering from a fiscal crisis. In 2004, National Government debt was P 3.81 trillion.

As of mid-2007, the total National Government debt per Filipino is P 43,649.57 with each individual coughing P 7, 012.12 just to service the debt.

Our situation is rendered even more precarious with National Government contingent liabilities reported to having reached P537 billion by 2007, much of it is foreign currency denominated. Contingent liabilities are commitments by the national government, expressed or implied, to directly assume the liability of another entity should it be unable to honor its obligations. Thus, contingent liabilities are potential debts.



Sources: Bureau of Treasury for NG Debts and Contingent Liabilities, Bangko Sentral ng Pilipinas on Gross Borrowings, and Department of Budget and Management (General Appropriations Act) for Debt Service

The apparent slight decrease in our total debt stock is because of two factors:

**The weakening of the US Dollar worldwide.** The Arroyo administration keeps describing this phenomenon as the strengthening of the Philippine Peso. The more accurate term is the weakening of the US Dollar against nearly all other currencies. In fact, the Philippine peso is one of the last to appreciate against the US dollar. The change in the dollar-peso exchange rates logically resulted in a lower Peso equivalent of the country's foreign debt.

**Pre-payment of debts.** Taking advantage of the low dollar-peso rates and claiming that the country is "awash with dollars," the government prepaid at least US\$220 million of debts claimed by the International Monetary Fund (IMF) and US\$72 million claimed by the Asian Development Bank (ADB). The government alleges that this move is good because it saves the country several millions in interest payments. The irony is that the country continues to borrow in huge amounts. The truth is, the government again chose to prioritize its commitments to foreign lenders over that of its people's urgent needs. The funds used to prepay these debts could have been used to expand health services, build classrooms and low cost housing, guarantee affordable access to clean water, provide support services for our farmers and raise the efficiency and sufficiency of the country's food production.

**Are we paying significantly less for debt service?**

In truth, the total debt service is higher, not lower, contrary to the Arroyo government's claim.

A close look at the proposed 2008 budget will reveal that payments for the principal amortization of debts actually went up by 6 per cent, or P18.842 billion. Combined with the total of interest payments and principal amortization, debt expenditure actually went up by P11.296 billion, belying any claim of less expenditure for the debt.

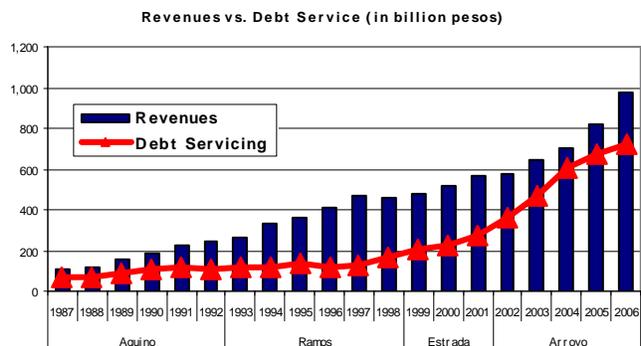
So where do we get the money for this? One of the sources is from taxes.

In principle, governments collect taxes from its constituents to generate revenues to finance its projects and programs. Yet, in the Philippines, the politics of taxation takes on a different meaning – it goes to debt service.

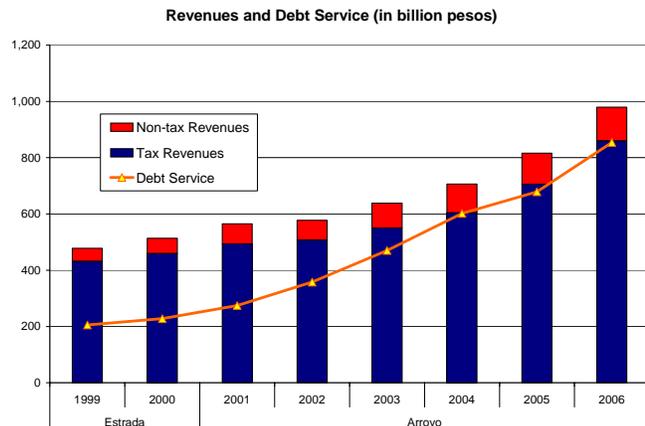
Tax measures are implemented amid strong opposition to it. People are generally suspicious where their taxes really go as succeeding governments fail not only in its responsibility to be transparent but also because our tax measures do not translate to increased social spending.

Without doubt, the real enthusiasm of the government in heavily taxing the people is to achieve fiscal balance at all cost, made more difficult by the sheer volume of onerous debts it is honoring, while maintaining our country's creditworthiness.

This is the reason why the government is hell-bent in defending an aggressive consumption tax measure (R-VAT, or Republic Act 9337) in order to beef-up revenues. The Department of Finance (DoF) itself admitted that 70 per cent of the revenues generated from R-VAT would



Source: Bureau of Treasury for Revenues data, Department of Budget and Management for Debt Service data



Sources: Bureau of Treasury, Bangko Sentral ng Pilipinas

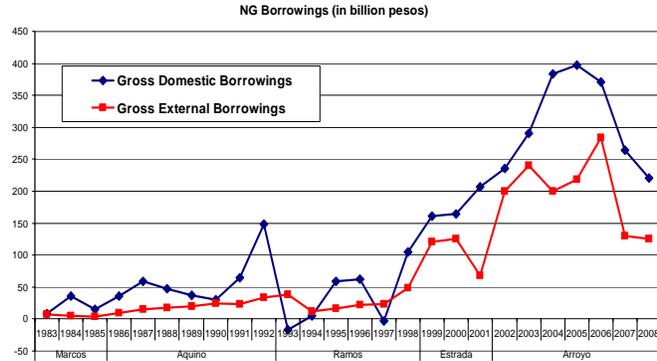
go to debt service in the first six months of implementation, with only 30 per cent going to social services and infrastructure programs.

Truly, the poor are being made to pay for our colossal debt stock. This appalling situation also reinforces the institutionalization of inter-generational suffering.

**Are we borrowing considerably less than before?**

Arroyo is proud to have “trimmed” the borrowing program, from P394 billion in 2007 to P346 billion as proposed in 2008 as her “commitment to narrow the budget gap” in order to “reduce our dependence on borrowings and reallocate more resources to the needs of the people.”

However, her borrowing program is yet to dip at the level of her predecessors:



Sources: Bureau of Treasury, Bangko Sentral ng Pilipinas

**Biggest borrower, largest payer**

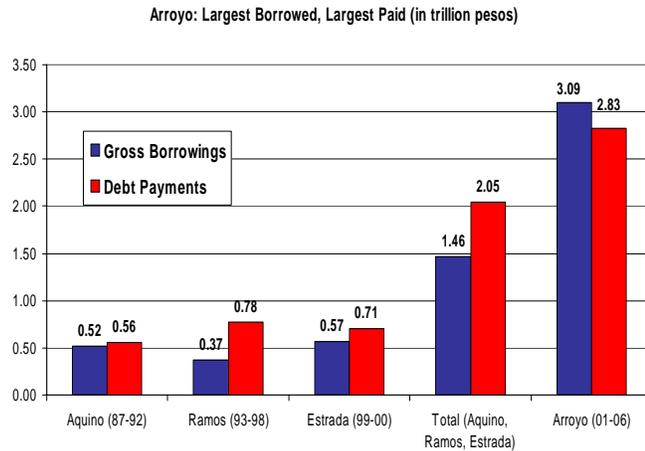
The towering declaration that the debt problem is over falls flat when one considers the Arroyo Government broke two major fiscal records – first, for being the most aggressive if not the most addictive borrower, and second, for being the largest payer of debts.

From 2001 to 2006, Mrs. Arroyo borrowed a total of P 2.83 trillion shaming the total P1.51 trillion combined borrowings of the Aquino, Ramos and Estrada administrations spanning fourteen years.

This is not surprising. Borrowings during the Arroyo administration always exceeded the budget deficits.

**Who suffers?**

Due to the government's standard policy of prioritizing debt payments, administrations have been spending much less in social services in terms of percentage. The share of its economic services allocation dropped considerably compared to that during the last years of Marcos regime.

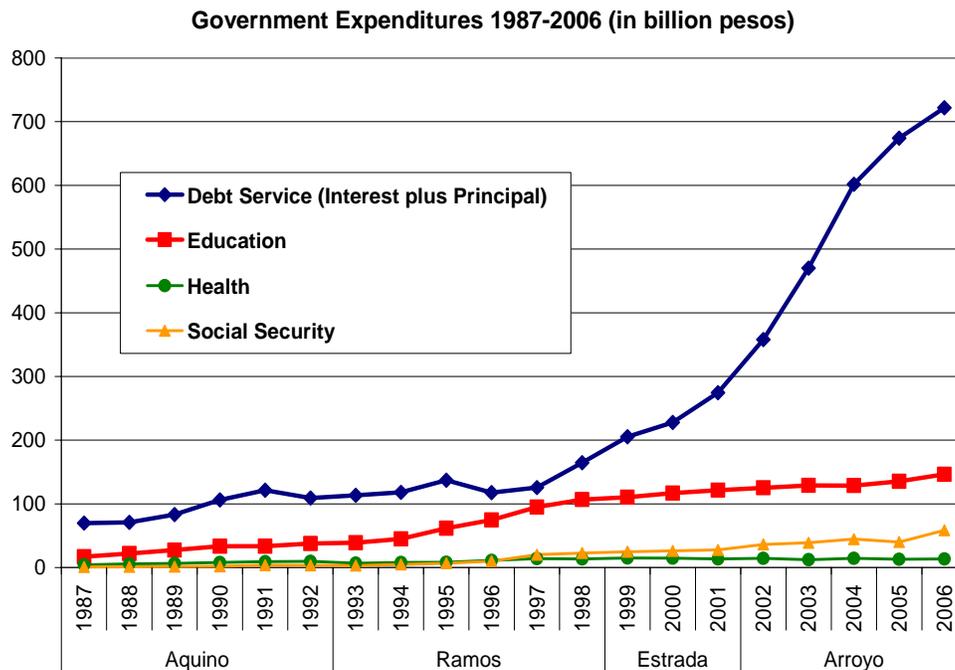


Sources: Bangko Sentral ng Pilipinas on Gross Borrowings, and Department of Budget and Management for Debt Service

In contrast, the percentage of current government's interest payment is second only to that of former President Corazon Aquino, who took it as a policy to honor and repay all debts of the dictatorship.

This decrease in allocation for social services is more evidently seen in the per capita and per student spending of the administration for health and education respectively. From the Estrada Government's P201.00 per capita on health, it radically dropped to P184.00. Furthermore, per pupil spending dropped from Estrada's P5,830 to P5,467.

Consistently, the Arroyo administration's top priority remains to be debt servicing. The sector, which is supposed to receive the highest budgetary allocation, education, is merely a third of what they will be spending on debt (P181.86 billion compared to P624.09 billion). The situation for health is much more horrendous – it is only 4 per cent of what we will be spending on debt (or P22.9 billion). Even if one total proposed spending on education, health, agriculture, agrarian reform and the environment, they will still be less than interest payments alone by as much as P39.75 billion.



*Source: Department of Budget and Management*

This nightmarish trend results in state abandonment of the disadvantaged, hungry, uneducated, homeless, and landless. Beyond doubt, this lack of concern to strategic social and human investment will fall hardest on the next generation

### **The mad dash of illegitimate debts**

The debt problem is not just a question of amounts. There are more fundamental questions to be asked. Were these loans contracted through proper procedures? Are the terms fair? Did we benefit from these loans? What was the impact of the projects and policies financed by these loans? How are the officials and corporations responsible for illegitimate and questionable loan contracts and loan-financed projects made to pay? What about lender responsibility and culpability?

Recently the government celebrated our "freedom" from almost thirty years of paying for the Bataan Nuclear Power Plant (BNPP). However, the staggering payments made to the loans that

financed the onerous and fraudulent contract to build the unsafe and useless plant is just the tip of the iceberg. The problem of illegitimate debts definitely did not end with the Marcos regime.

We define illegitimate debt as "obligations," claimed to us by lending institutions and northern countries, which only managed to finance flawed and anti-people development projects and programs. Loans conceived by illegitimate regimes to further their rule and debts that undermine genuine social, economic and ecological development are also considered illegitimate.

Two examples of illegitimate debts contracted in recent years are the Austrian Medical Incinerator project and the \$100 million World Bank-funded textbook project.

In 1997, the Austrian government inked an ATS199.96 million (equivalent to P 503.65 million) loan agreement with the Philippine government for the purchase of Austrian medical waste incinerators for the use of 26 government hospitals under the control of the Department of Health (DoH) in the Philippines.

Yet, the incinerators brought to the Philippines were substandard, not even measuring up to the emission levels the supplier guaranteed. In 2003, all 26 incinerators were mothballed to comply with the provision of the Philippine Clean Air Act of 1999 against dirty technologies. Despite this, the Philippine government continues to pay US\$2 million (P100 million) a year to the Austrian government for the medical waste project.

On the other hand, the World Bank Textbook project meant to fund 17.5 million educational textbooks and teachers' manuals have been allegedly riddled with accusations of high-profile fraud and power play issues involving rigged bidding processes and corporate-government collusion if not manipulation involving the World Bank and a monopolistic publishing group.

However, the most ominous thing about the project was that it produced defective textbooks. Senator Panfilo Lacson during a legislative inquiry exposed that at least 60,000 textbooks funded by the project were found to have serious errors and inverted pages.

As if these were not enough, the anomalous \$329 million ZTE National Broadband Network (NBN), an expensive and ill-conceived project of supposedly providing government with an alternative communications infrastructure burst out in the open. The project would have led to another illegitimate debt if not due to the strong public outcry that eventually sealed its coffin.

Then again, the government is now training its eyes in pursuing the equally controversial \$500 million Cyber Education Project (CEP).

Truly, the stampede of illegitimate loan agreements dwarfed to the point of embarrassment the original poster boy of illegitimate debt—the BNPP.

### **Freedom from Debt**

This debt dilemma forced to us by foreign lenders in tandem with our past leaders should end now. However, while resolving the debt problem will involve wholesale restructuring of our economic framework, we can begin introducing pockets of important progressive reforms to give our people palpable gains.

Fortunately, things are slowly turning around. Due to the strong campaigning of social movements, the 14<sup>th</sup> House of Representatives reduced debt payments by suspending interest payments to loans challenged to be anomalous while pegging the foreign exchange rate at a

more realistic level resulting to the augmentation of important expenditures like education and health.

These initiatives however, while commendable, are not enough. Decisive steps must be undertaken to free the people from their long incarceration to illegitimate debt.

### **The Call for Comprehensive Investigation of Public Debts**

First, there is a need to audit all our debts to have an accurate, comprehensive picture of all our debt to promote critical study, analysis and exchanges on the problem. The auditing must go beyond amounts in order to decipher the web of illegitimacy surrounding unwanted debt by identifying and correcting the flaws and weaknesses in the structures, policies and processes related to borrowings, payments, guarantees and contingent liabilities.

This can be done by pushing for a Congressional Investigation and Audit of Public Debt and Contingent Liabilities and by initiating a parallel, independent Citizens' Debt Audit process involving social movements, civil society leaders, political analysts and respected economists.

### **Why the Automatic Debt Service Provision must be repealed**

Second, the real culprit here is not only our government's addiction to debt, but also the institutional mechanisms that dictate and aggravate our reliance to more borrowings to pay our debts. Section 26 (B) Book 6 of the Revised Administrative Code of 1987 is the mother of all these debt-creating laws.

Because of the automatic debt servicing provisions, payments for both principal and interest on public debt are automatically appropriated. This is done without the benefit of a comprehensive review or at least public scrutiny which resulted in paying dubious if not illegitimate debts while sacrificing social spending.

While some argue that automatic debt appropriation enhances the country's creditworthiness, it nevertheless creates a huge democratic deficit by limiting the participation of the greater public. Not only does it take away the Congressional power of the purse, but also transforms the Executive Department into an authoritative institution wielding enormous fiscal powers particularly in managing the country's debt payments.

Furthermore, it opens the floodgates to corrupt public officials to borrow on behalf of the government, use the loans unproductively and/or re-channel the funds to their private businesses, and eventually pass the debt burden to the people. This was grossly evident during the time of Marcos, then taken to new heights by succeeding corrupt government officials.

Yet, despite the populist noise and rhetoric of our politicians and sometimes even by our government regarding the debt problem, the automatic debt servicing law is still in full effect.

This must stop.

This early, we are entering a fiercely contested electoral contest. We say, the debt problem and its resolution must become a central issue in deciding who will be the worthy leaders of this country. Our aspiring national leaders must go beyond lip service and political posturing. The time to act is now.

In the final analysis, if there is something we truly owe, that is, we owe it to the next generation this paramount task of liberating ourselves from debt domination.