

Overview of the Philippine Debt Situation

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Freedom from Debt Coalition

April 29, 2008

Outline (1)

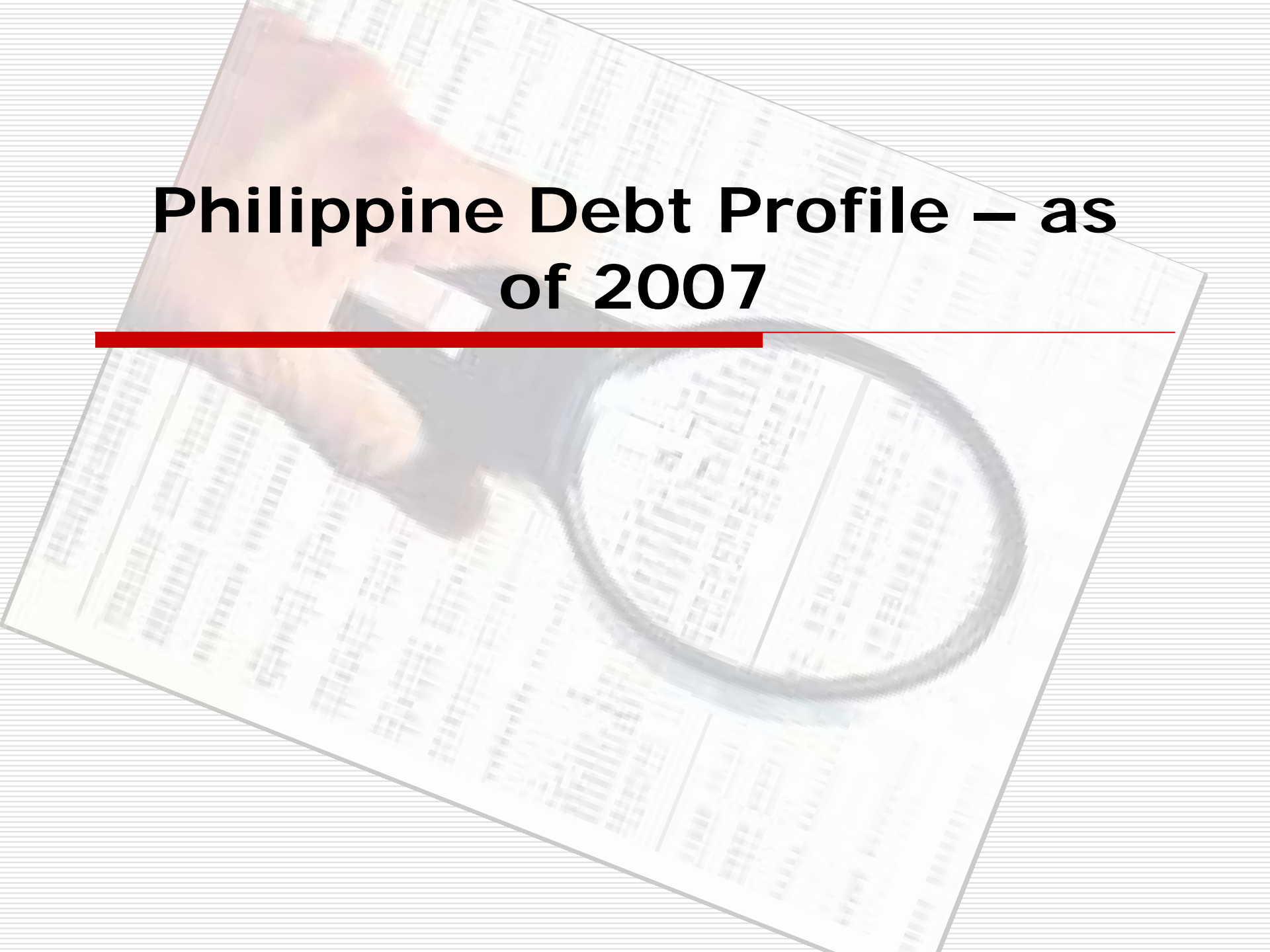
- Philippine Debt Profile – 2007
 - Snapshot of Total Philippine Debt
 - Public Debt - Focus on National Government External Debt
 - NG Debt External

(to be added later: Closer look at Domestic Debt; Breakdown of GOCC Debts and GFI Debts)
 - Philippine Debt Through the Years
 - Consolidated Public Sector Debt
 - National Government Debt
 - NG Debt External
 - Fiscal Situation and Fiscal Impact of the Debt
 - Arroyo, Debt and the Fiscal Crisis
 - National Government Contingent Liabilities
-

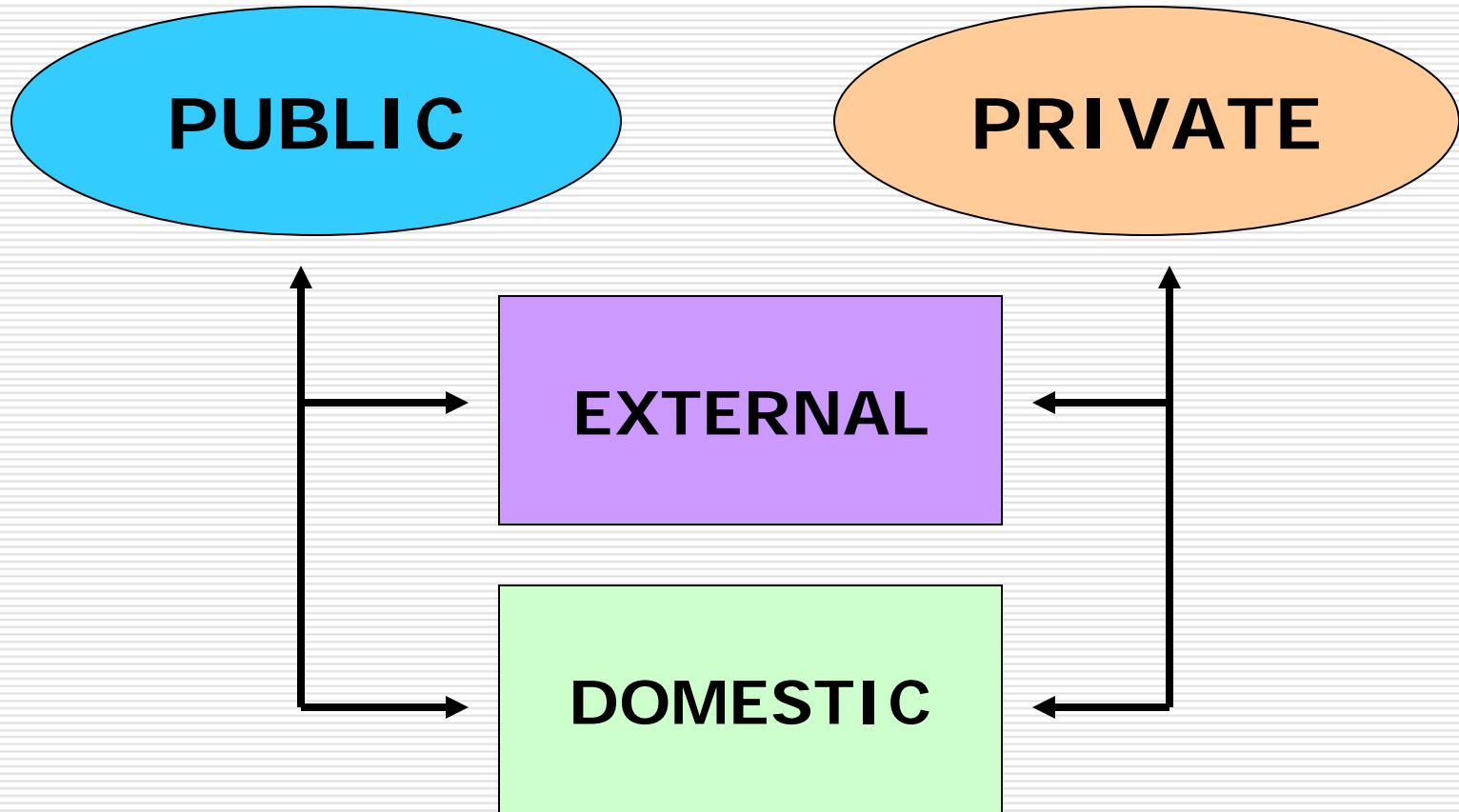
Outline (2)

- Brief History of Debt Restructuring and Debt “Relief” Schemes
 - Relevant Laws on the Debt and Borrowings
 - Relevant Policies
 - Relevant Laws
-

Philippine Debt Profile – as of 2007



Philippine Debt



Philippine Debt (end-Q3, 2007)

in trillion pesos, billion dollars

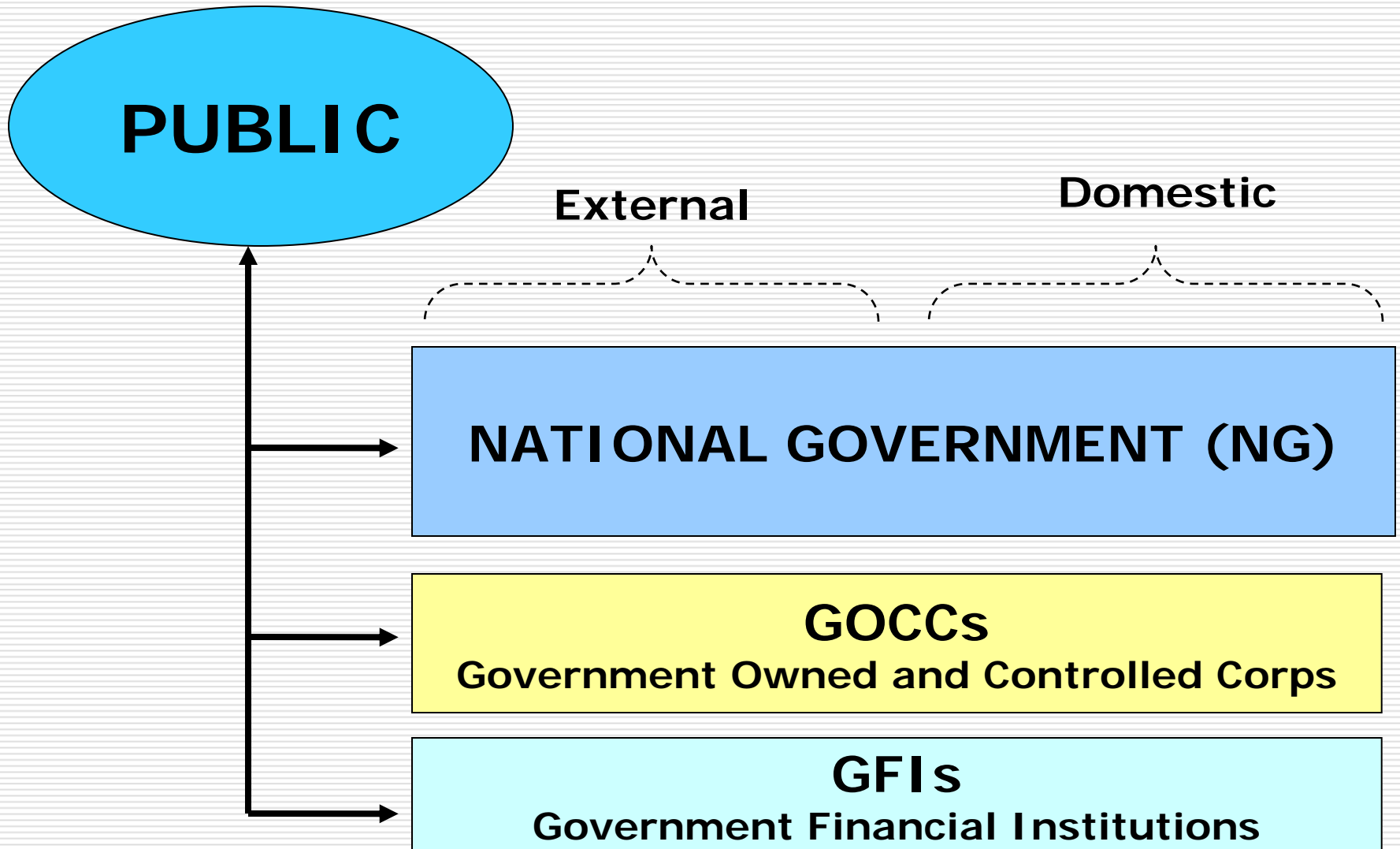
<u>TOTAL</u>	<u>Domestic Debt</u>	<u>Foreign Debt</u>
Php 5.144 T US\$ 111.51 B	Php 3.335 T US\$ 72.30 B	Php 1.809 T US\$ 39.21 B
<u>Public Debt</u> Php 4.219 T US\$ 91.47 B	PhP 2.540 T	PhP 1.679 T
	US\$ 55.07 B	US\$ 36.40 B
<u>Private Debt</u> Php 0.925 T US\$ 20.04 B	PhP 0.795 T	PhP 0.13 T
	US\$ 17.23 B	US\$ 2.81 B

- ❑ Public Debt taken from DoF's Consolidated Public Sector Debt
- ❑ Private Foreign Debt was taken from BSP's Private External Debt
- ❑ Private Domestic Debt was taken from BSP's FCDU loans of private residents
- ❑ Foreign Exchange Rate was pegged at BSP's end-September 2007 rate:
US\$1=PhP46.1315

Public Debt



Public Debt





National Government Debt (NG)

(in trillion pesos, billion US dollars, using US\$1 = PhP41.6)

NG Outstanding

end 2007

Php 3.712 T

US\$ 89.24 B

Domestic (by instruments)

Php 2.201 T

US\$ 52.91 B

<i>Treasury Bills</i>	0.614	14.76
<i>Treasury Bonds/Notes</i>	1.565	37.61
<i>Loans</i>	0.022	0.54
<i>Others</i>	0	0.00

Foreign (by creditors)

Php 1.511 T

US\$ 36.33 B

<i>Multilateral</i>	0.226	5.44
<i>Bilateral</i>	0.354	8.51
<i>Commercial</i>	0.033	0.80
<i>Foreign Denominated Securities</i>	0.898	21.58

NG Contingent Liabilities

0.484

11.64

Domestic Debt	0.065	1.56
Foreign Debt	0.419	10.08

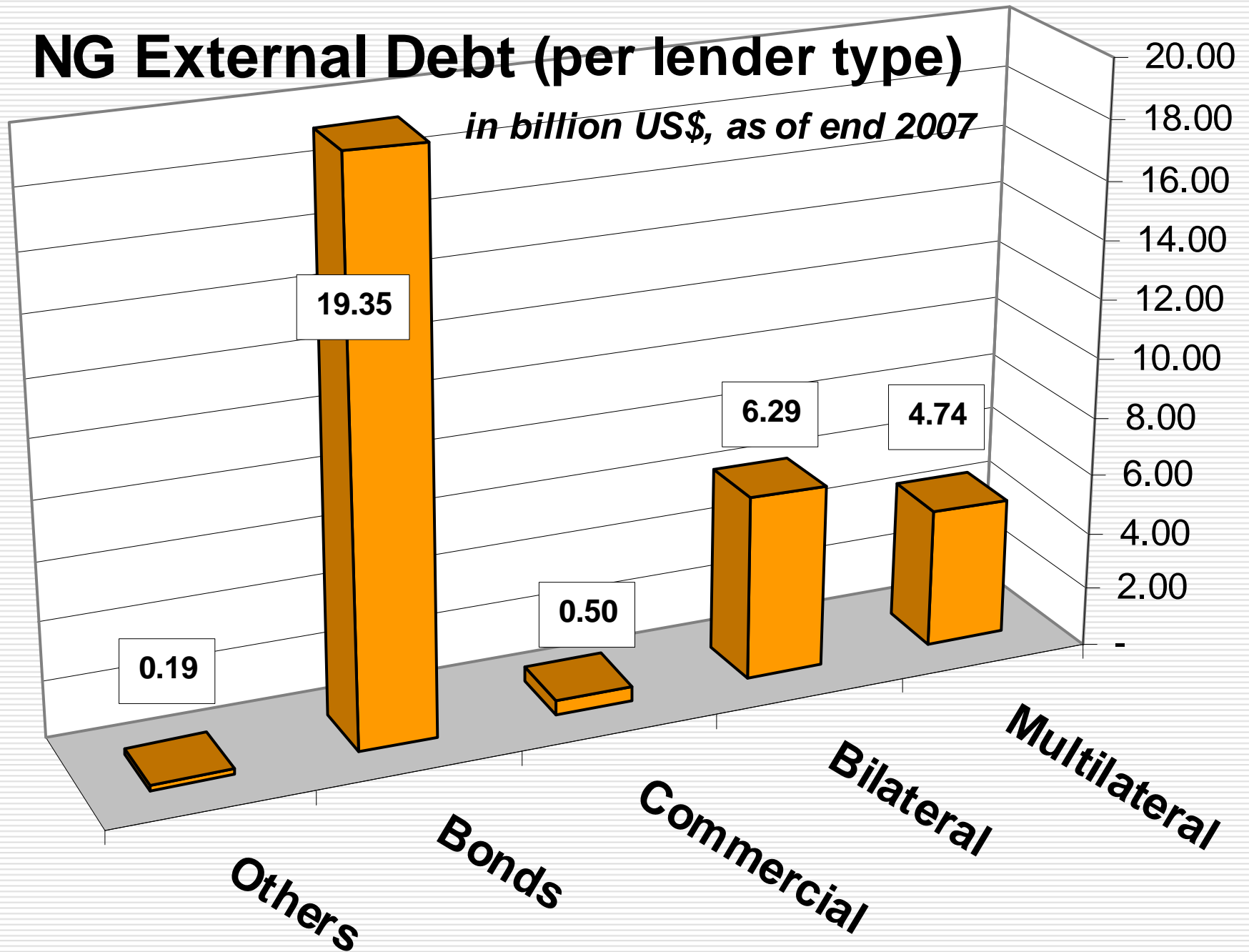
Source:
Bureau
of
Treasury
SDAD
Note:
Break-
down of
totals
may not
add up
due to
rounding
of digits



National Government Debt (NG) - External

NG External Debt (per lender type)

in billion US\$, as of end 2007

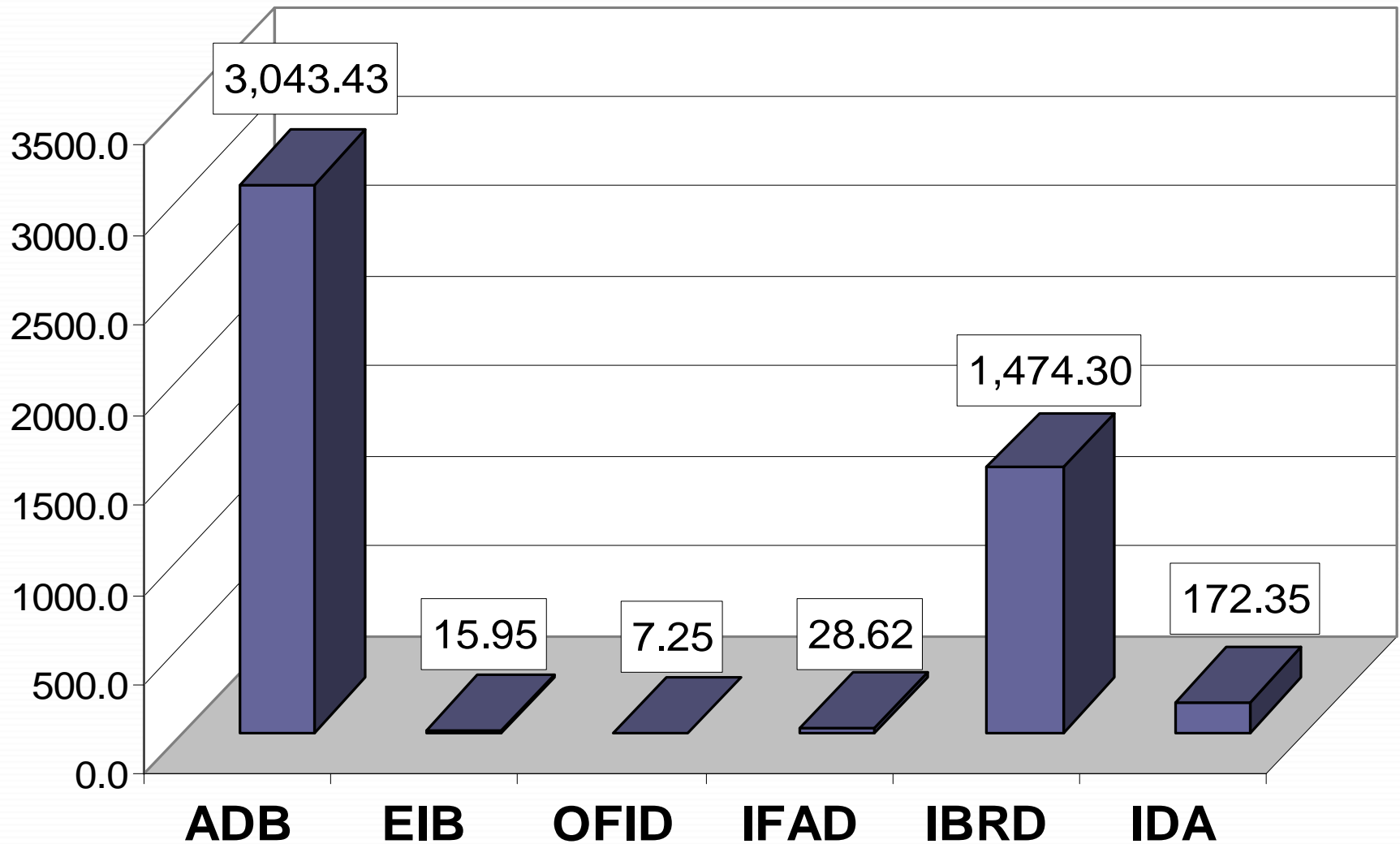


NG External Lenders - Multilateral

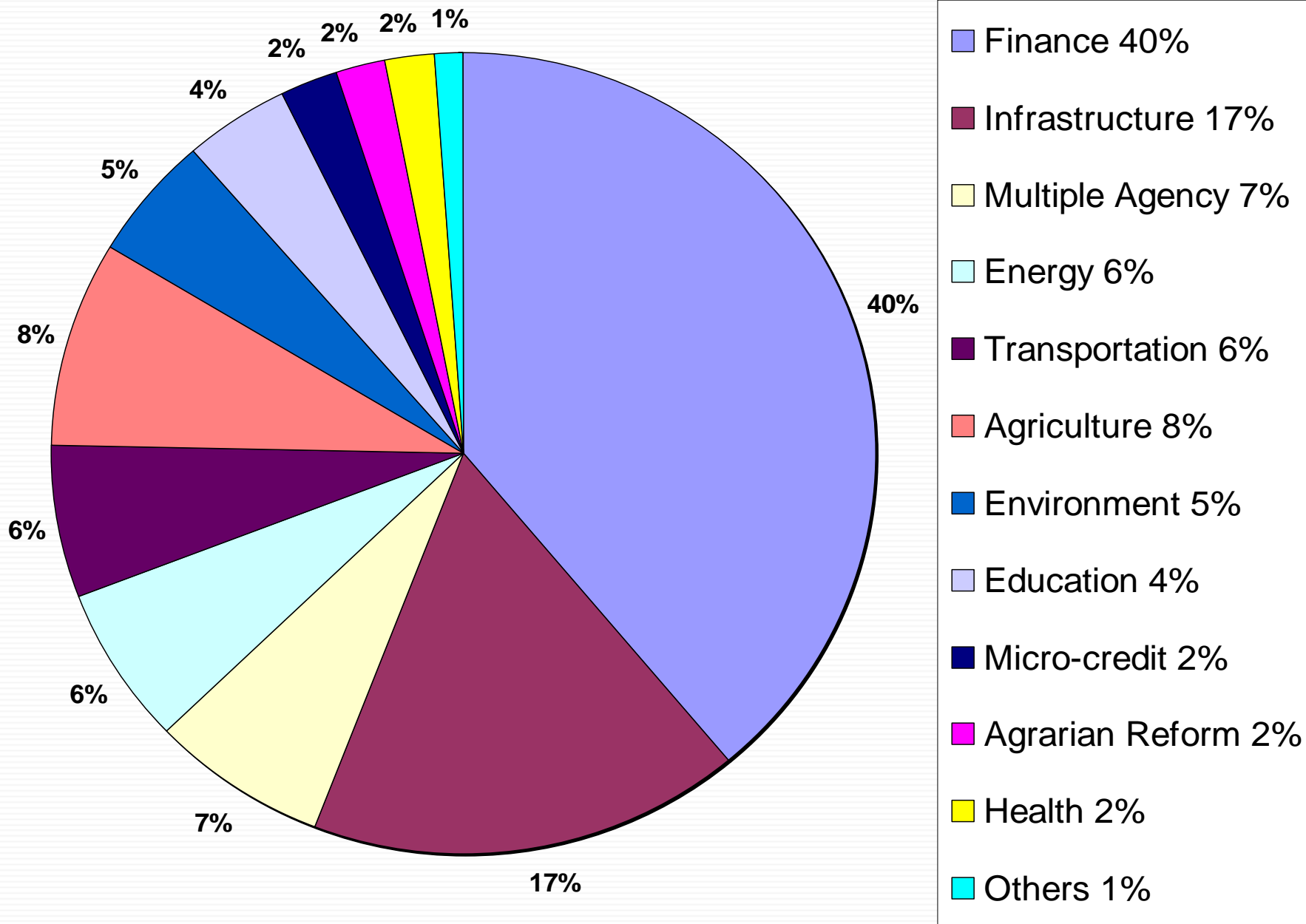
Asian Development Bank (ADB)	
European Union (EU)	<i>European Investment Bank (EIB)</i>
OPEC - Organization of Petroleum Exporting Countries	<i>OPEC Fund for International Development (OFID)</i>
United Nations (UN)	<i>International Fund for Agricultural Development (IFAD)</i>
World Bank (WB)	<i>International Bank for Reconstruction and Development (IBRD)</i>
	<i>International Development Association (IDA)</i>

NG Multilateral Debt by Lenders

in million US dollars, as of end 2007



Debts claimed by ADB in percentage



NG Debt External Lenders - Bilateral

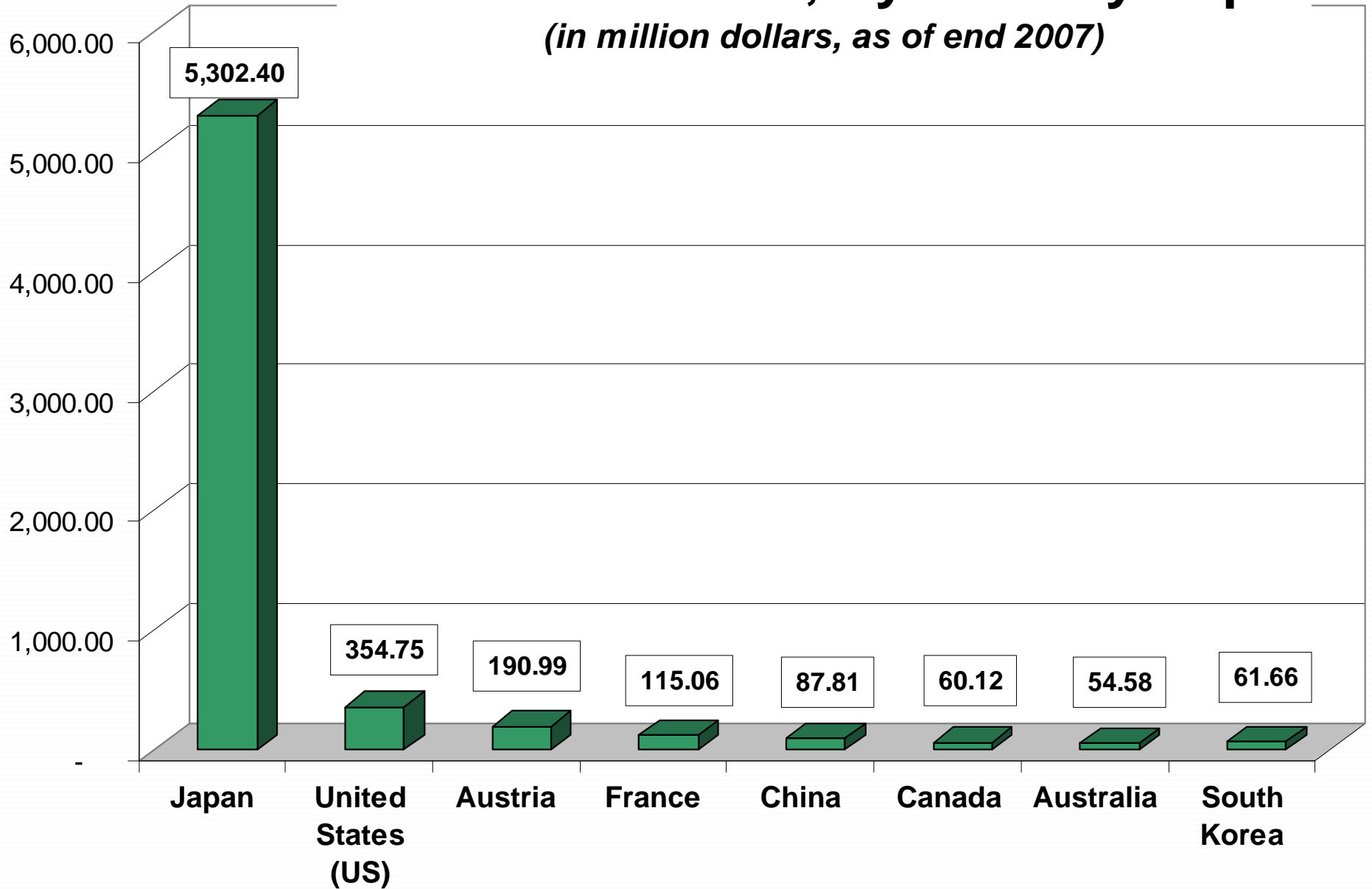
Australia	Export Finance and Insurance Corporation (EFIC)
Austria	Bank Austria AG
Belgium	Government of Belgium
Belgium (via Paris Club)	Paris Club Account without Peso Blocked Deposit w/ BSP
Brunei	Brunei Investment Agency
Canada	Canadian Agency for International Development (CIDA)
	Export Development Corporation (EDC)
China	China Export Import (EXIM) Bank
	China National Constructional & Agricultural Machinery import & Export Corporation (CAMC)
Denmark	Danish International Development Agency (DANIDA)
France	French Protocol Loans
Germany	Kreditanstalt fuer Wiederaufbau (KfW)

NG Debt External Lenders – Bilateral p2

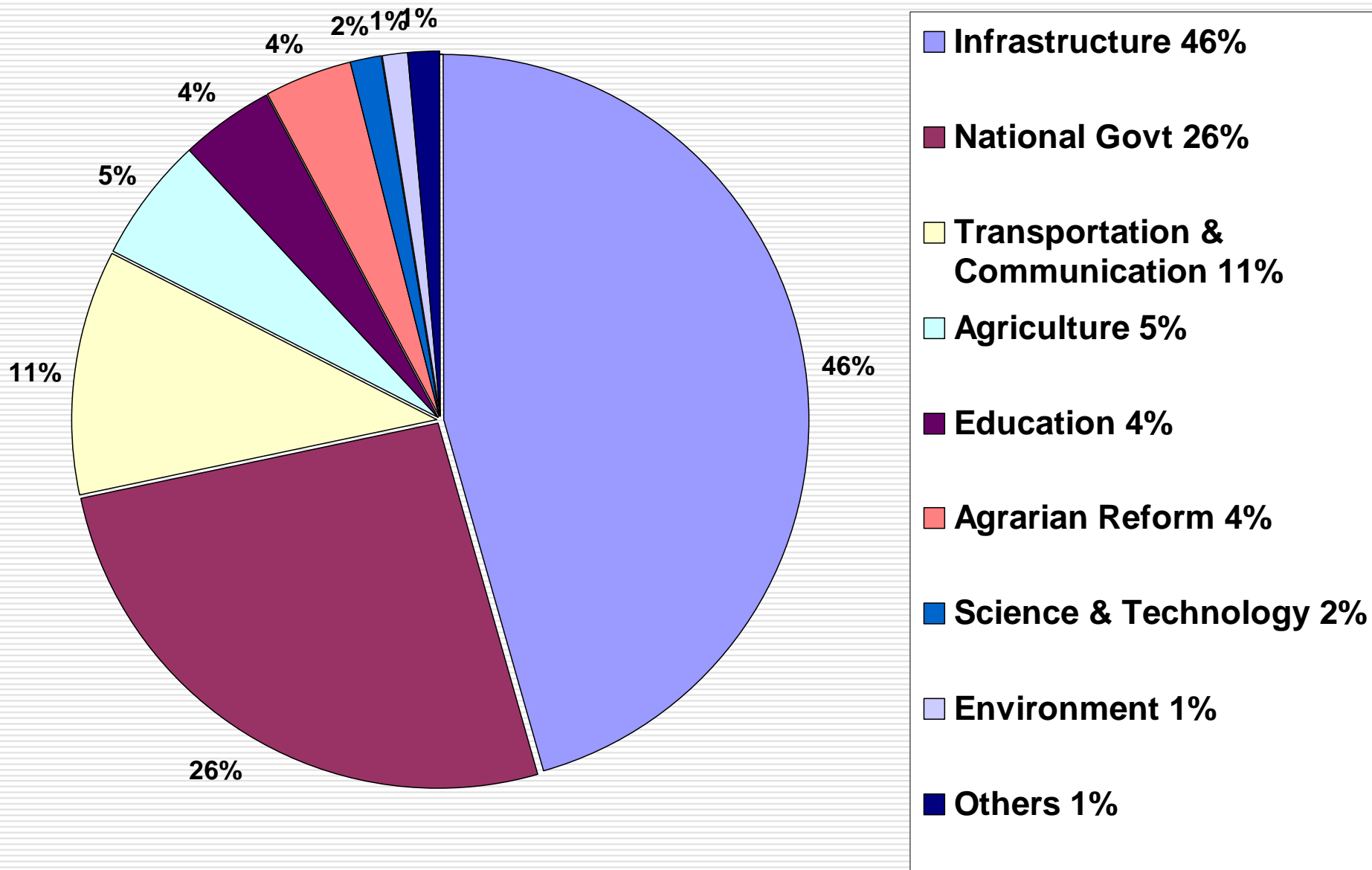
Italy	Italian Protocol Loans
	Mediocredito Centrale (MCC)
Japan	Japan Bank for International Cooperation (Japan EXIMBANK and OECF, and via Paris Club)
Kuwait	Kuwait Fund for Arab and Economic Development (KFAED)
Paris Club	Paris Club Account without Peso Blocked Deposit w/ BSP
Saudi Arabia	Saudi Fund for Development (SFD)
South Korea	Korean Export-Import (KEXIM) Bank
Sweden	Swedish International Development Cooperation Agency (SIDA)
United States (US)	Public Law 480
	United States Agency for International Development (USAID)

NG Bilateral Debt, By Country Top 8

(in million dollars, as of end 2007)



Debts Claimed by Japan in %, end year 2007

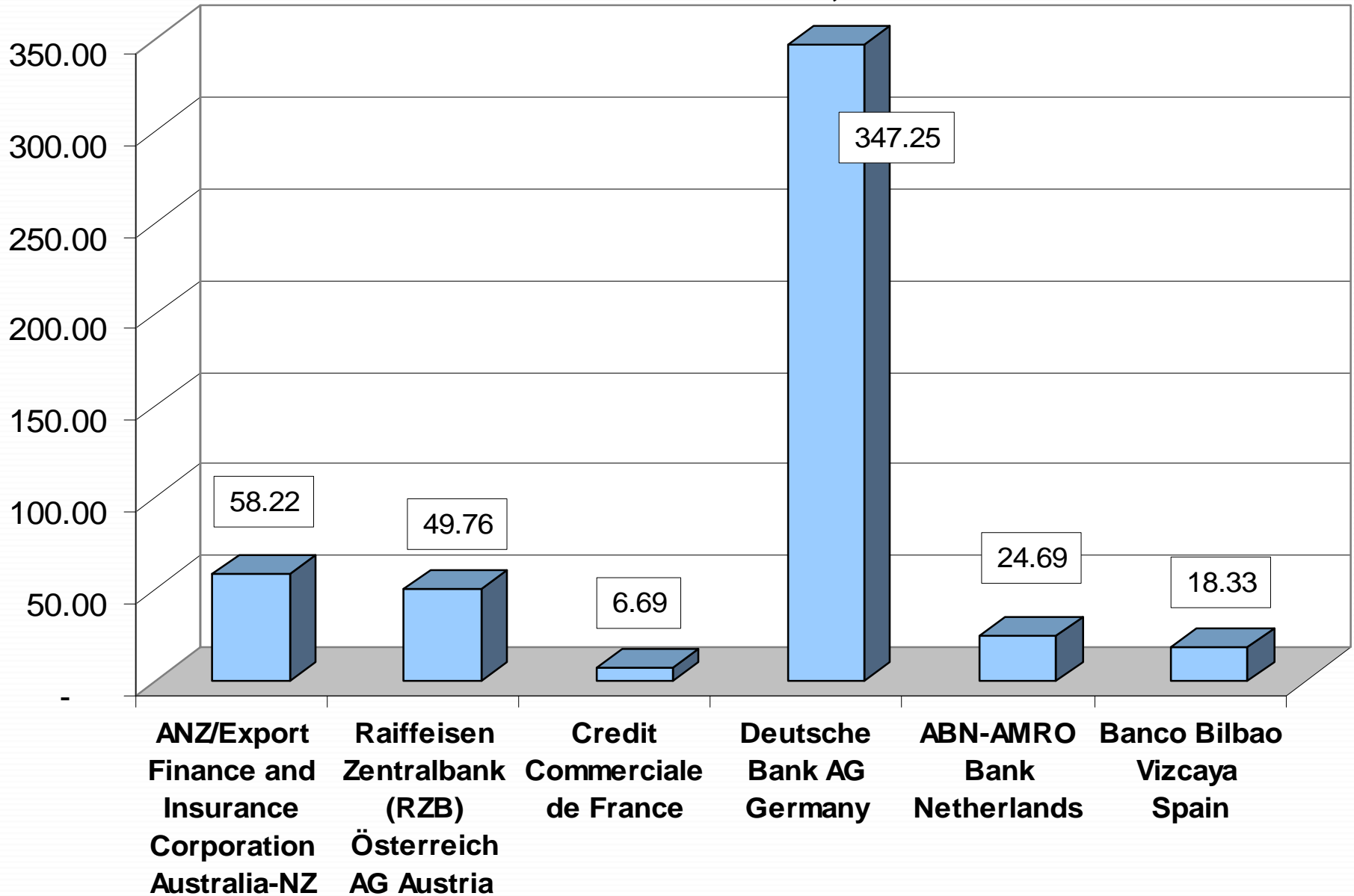


NG External Lenders - Commercial

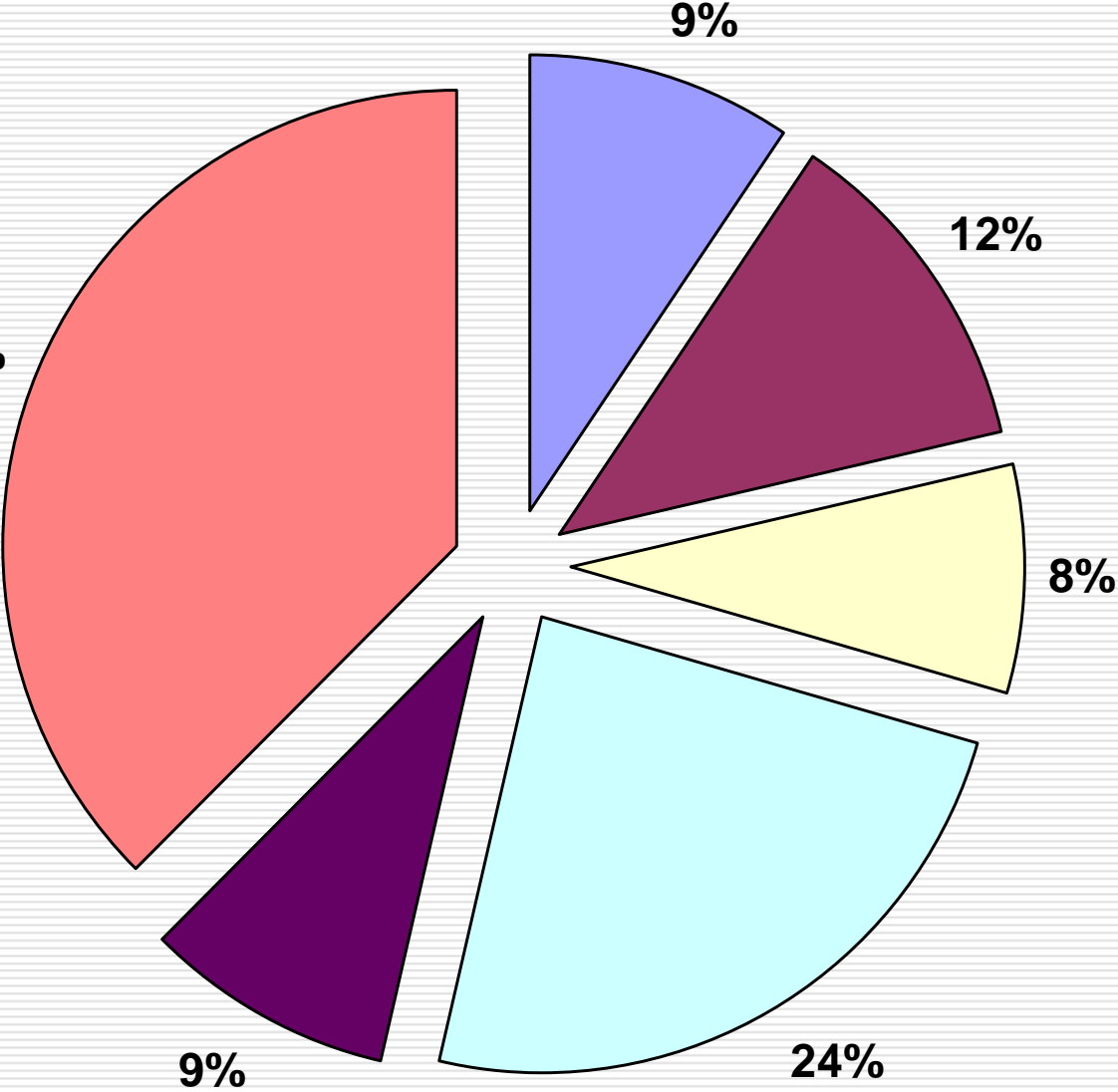
Australia New Zealand	ANZ/Export Finance and Insurance Corporation
Austria	Raiffeisen Zentralbank (RZB) Österreich AG
France	Credit Commerciale de France
Germany	Deutsche Bank AG
Netherlands	ABN-AMRO Bank
Spain	Banco Bilbao Vizcaya
	Banco Santander
United States (US)	Bank of America Corporation (BAC)







NG External Debt Commercial Banks, Top 6

in million US dollars, as of end 2007



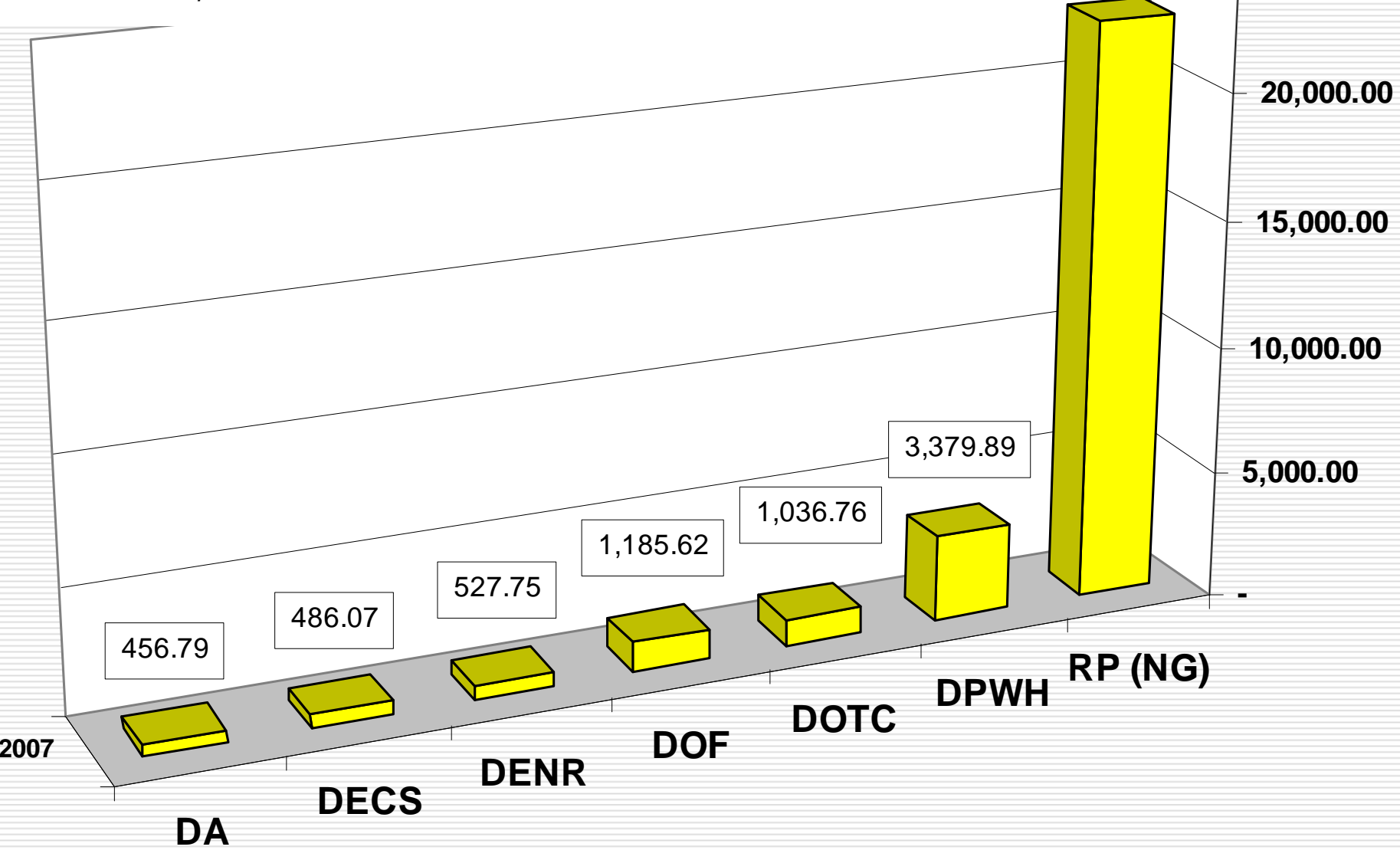
Debt Claimed by Deutsche Bank, in %



-  Salam Bridge 9%
-  Tulay Pangulo Magsasaka Project 12%
-  Tulay Pangulo para sa Magsasaka 8%
-  Tulay ni Erap sa Barangay 24%
-  Tulay ng Pangulo sa Kaunlaran 9%
-  Tulay sa Szopad 38%

NG External Debt by Agencies, Top 6

in million US\$ as of end 2007

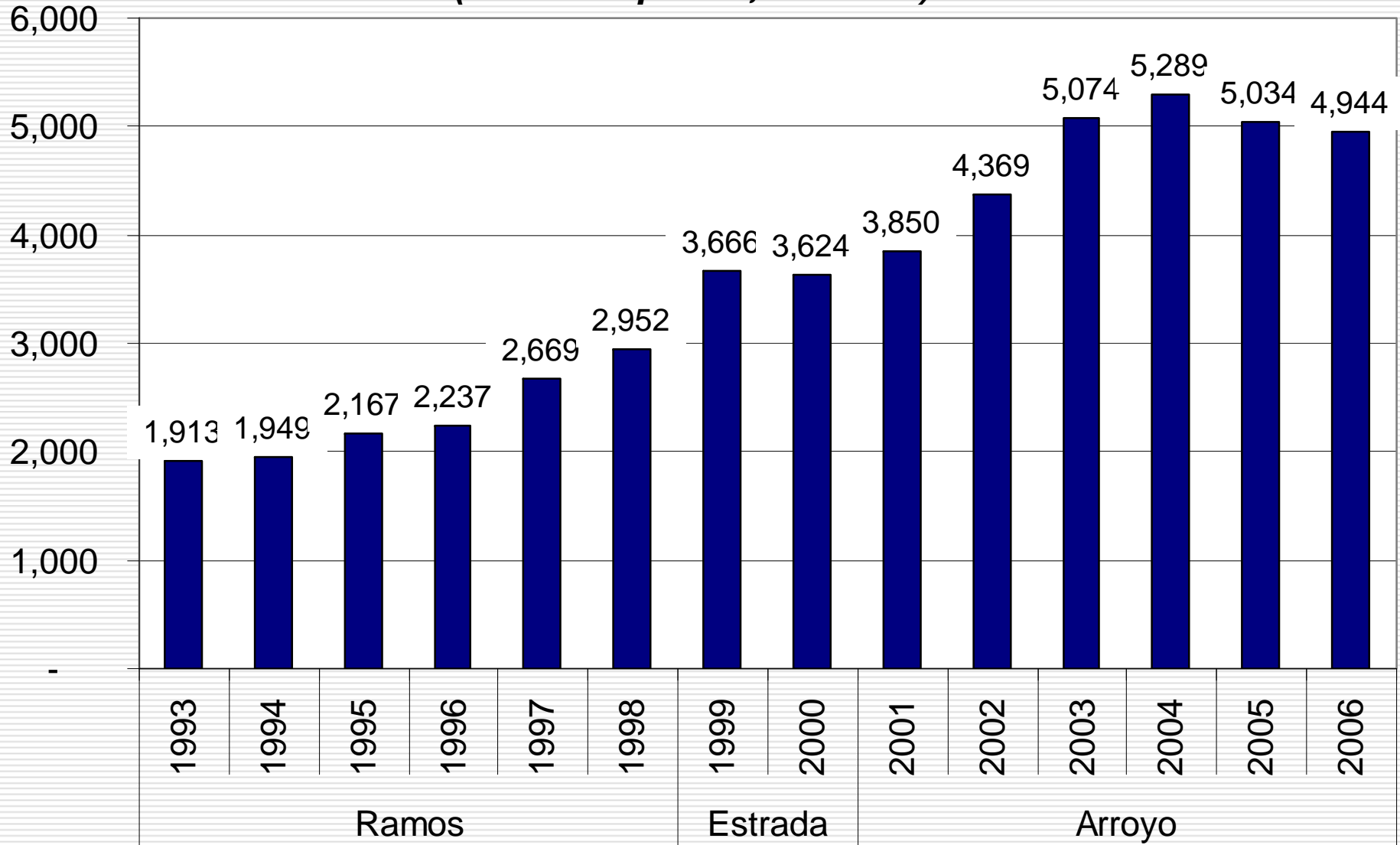


Philippine Debt Through the Years

Consolidated Public Sector Debt – through the years

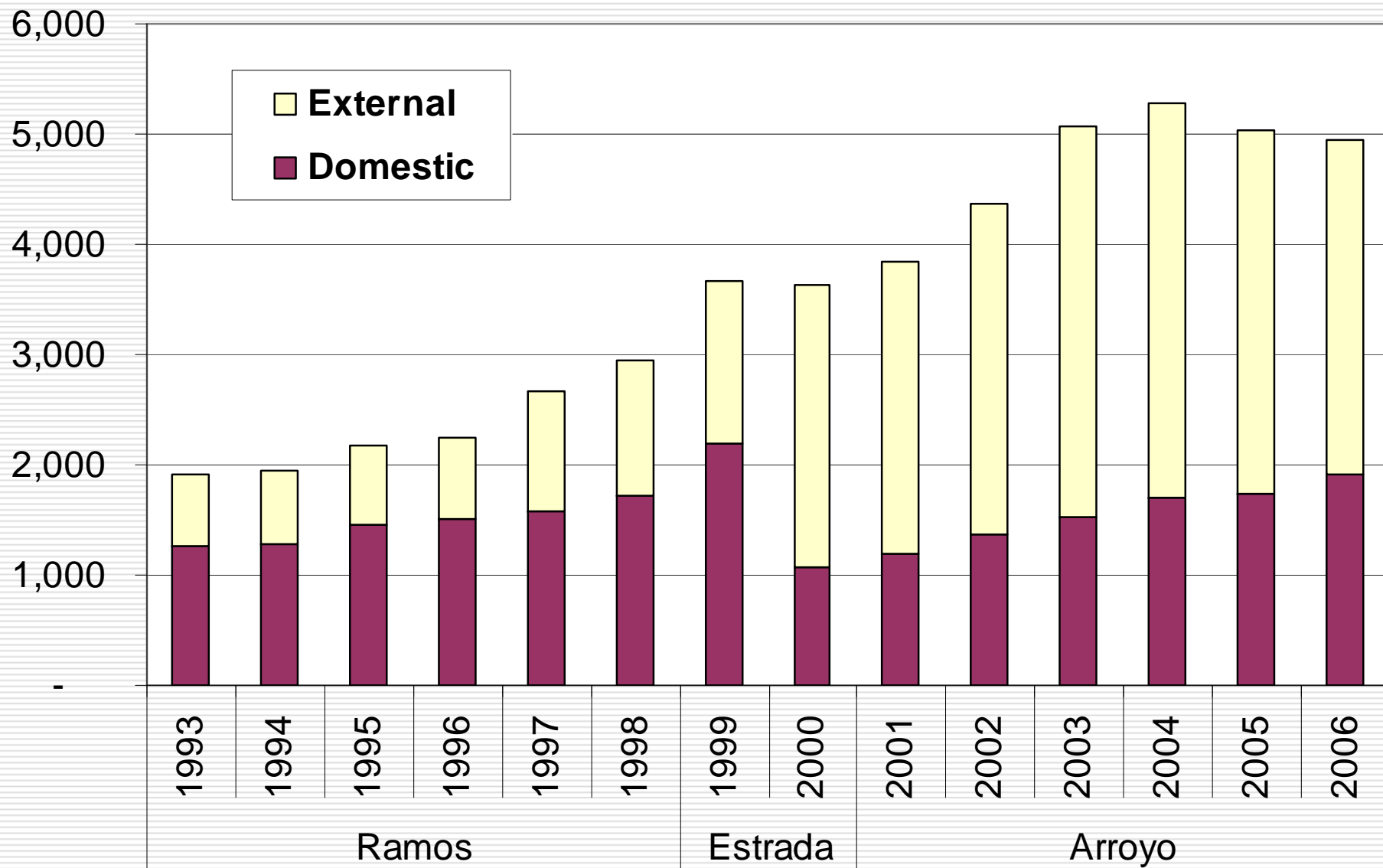
Public Sector Debt

(in billion pesos, nominal)



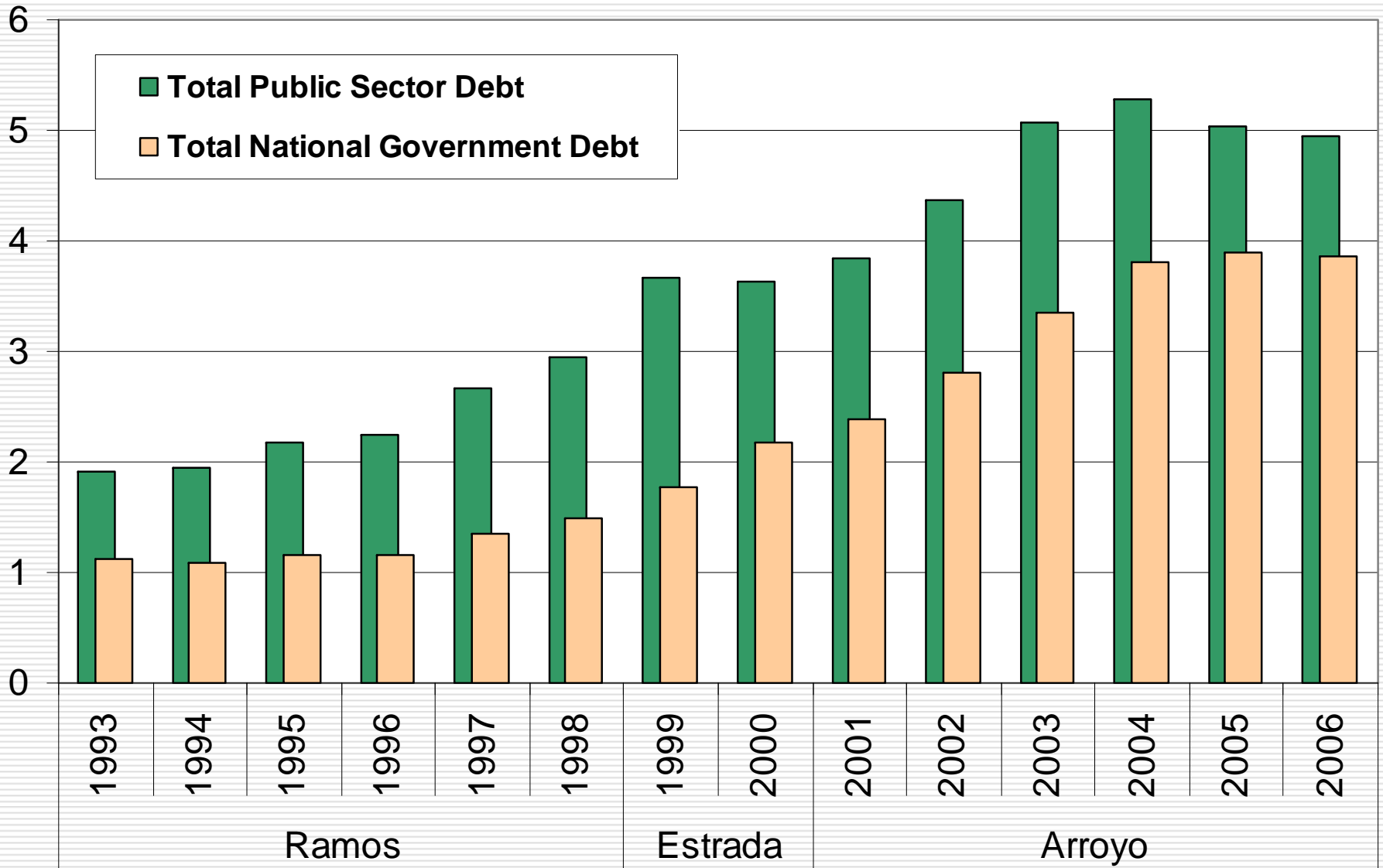
Public Sector Debt

(in billion pesos, nominal)

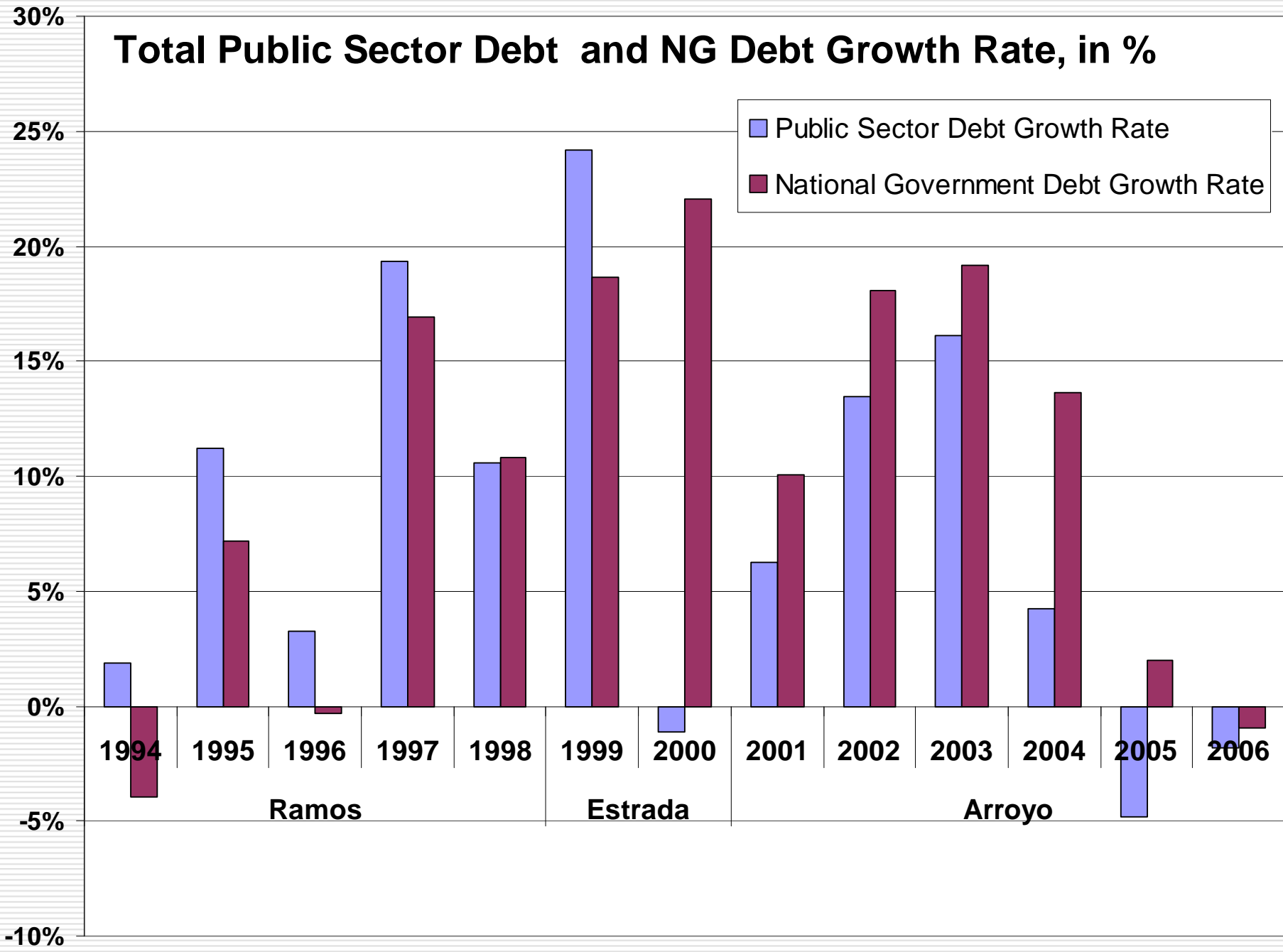


Public Sector and National Government Debt

(in trillion pesos)



Total Public Sector Debt and NG Debt Growth Rate, in %



- Growth rate of CPS – steep rise in recent years under GMA

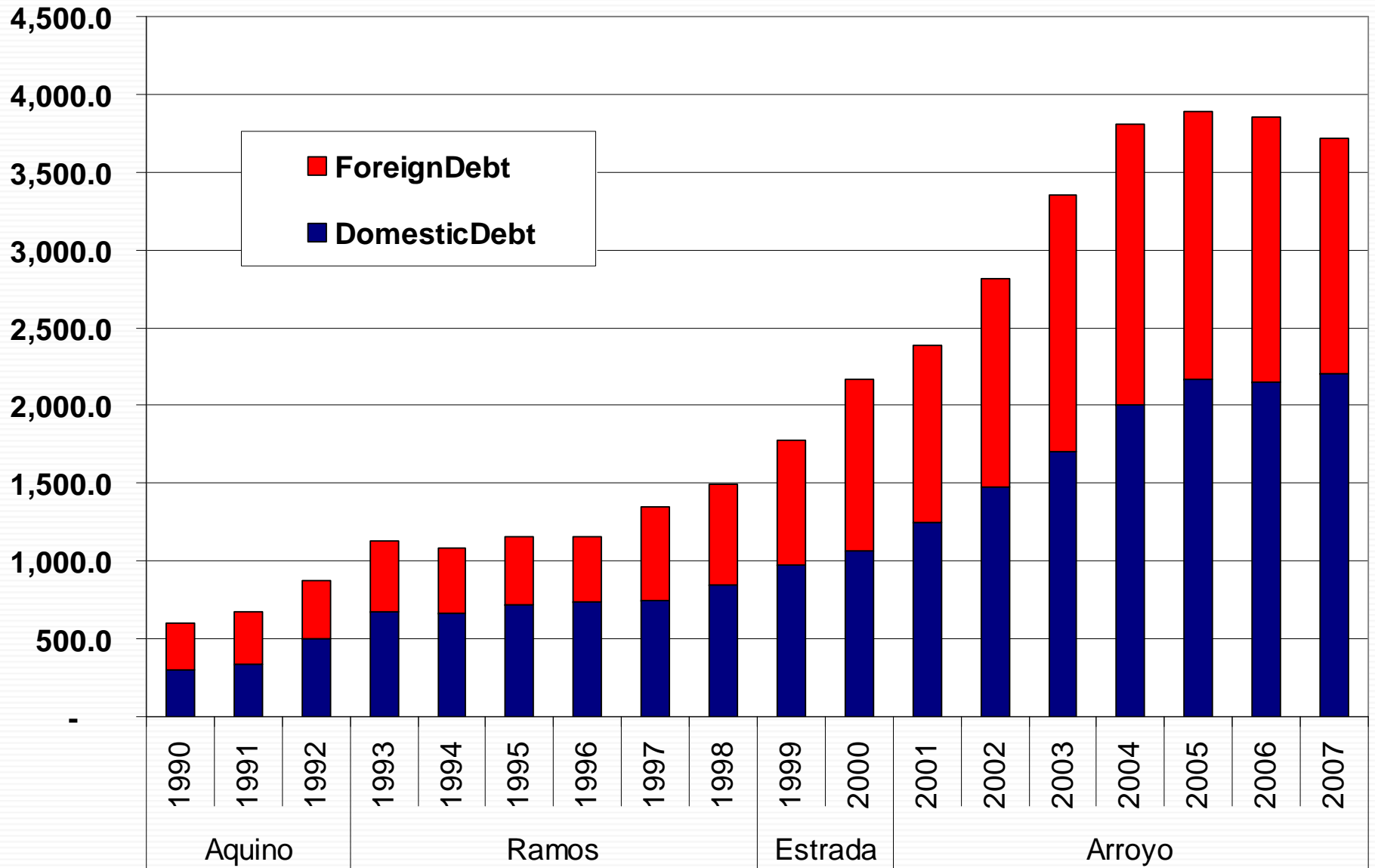
- Decrease from 2004 to present – factors:
 - Forex Rate
 - Pre-payment
 - Less Borrowings

- Relevant Developments:
 - NPC Borrowings (account for big part of GOCC debt) – impact on ratio of NG and Non NG debt; Assumption of NPC liabilities after privatization – must take a look at impact
 - From 1999 to 2000: Huge drop in domestic debt and increase in external conflict with data released earlier – changes in recording system?

NG Debt through the years

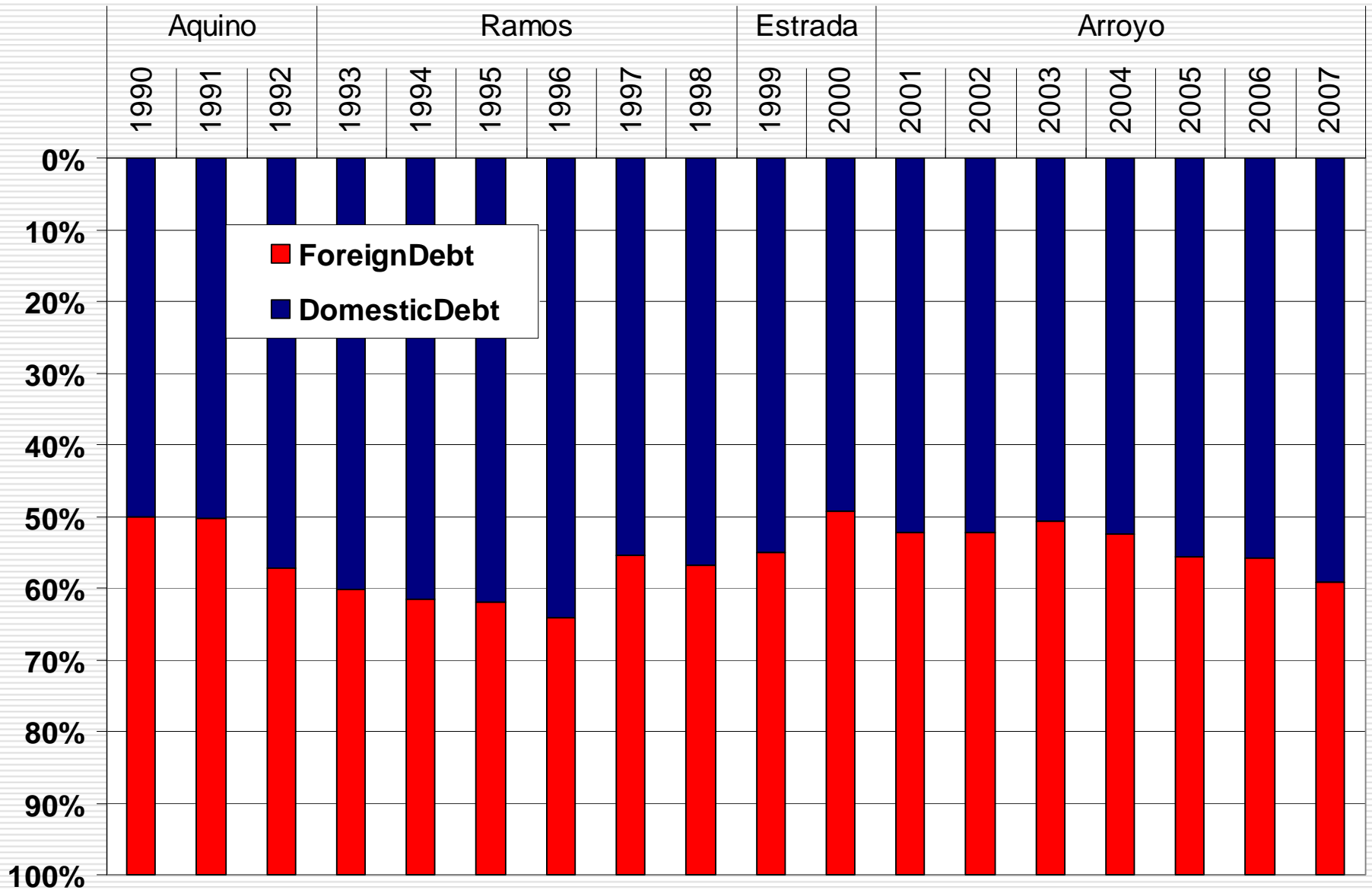
Outstanding Debt of the National Government

(in billion pesos, nominal)



Outstanding Debt of the National Government

(in percentages)

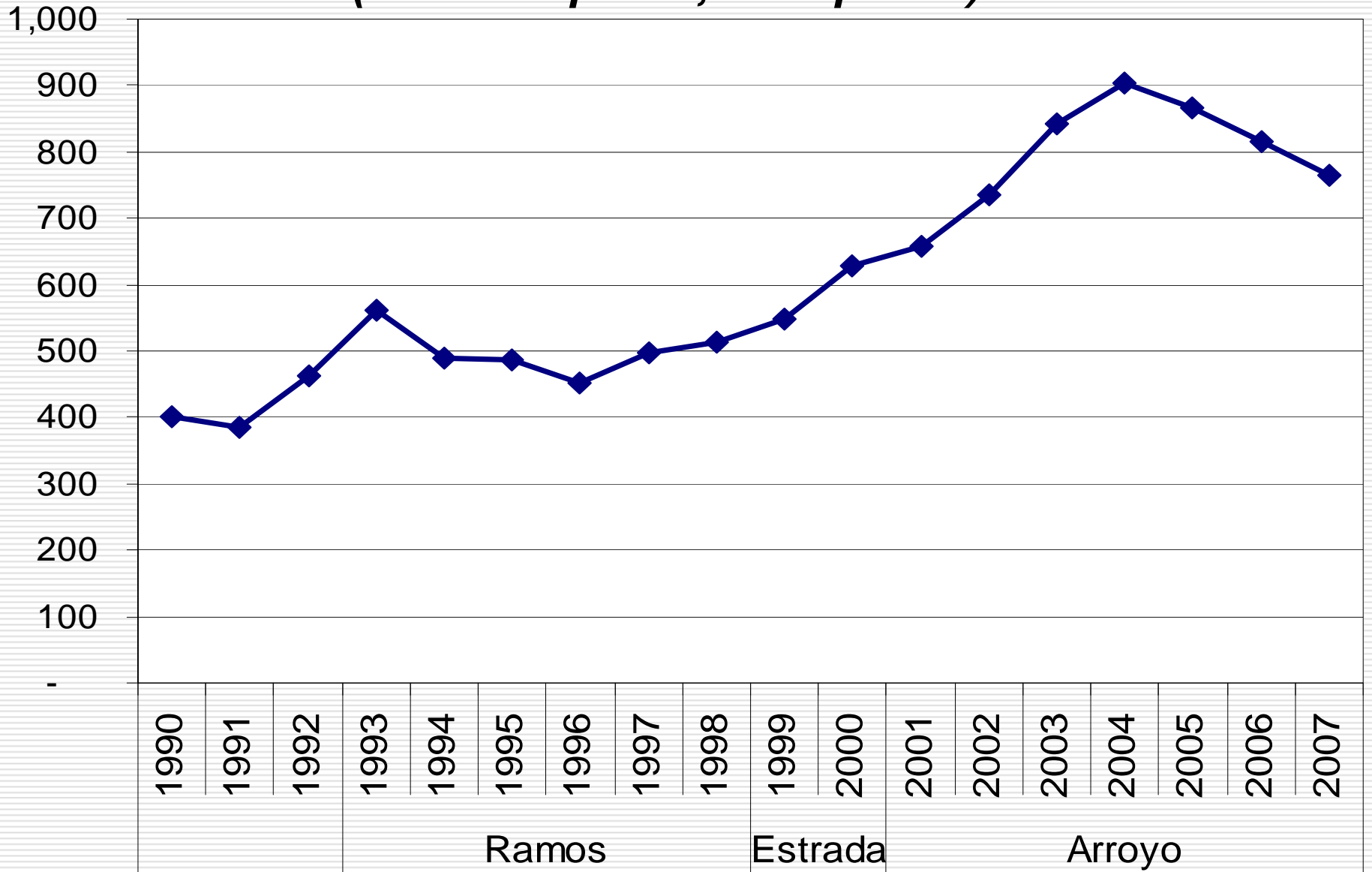


- After 1986 (post Marcos period) – increase in domestic debt vs external

- Factors:
 - During Aquino period, more difficult to borrow from external sources than borrowing domestically;
 - Eventually, restoration of credit rating, hence heavy external borrowing; but also heavy domestic borrowing – capital available
 - ?? Buyers of domestic bonds may also be subsidiaries of foreign banks

NG Outstanding Debt

(in billion pesos, 1985 prices)



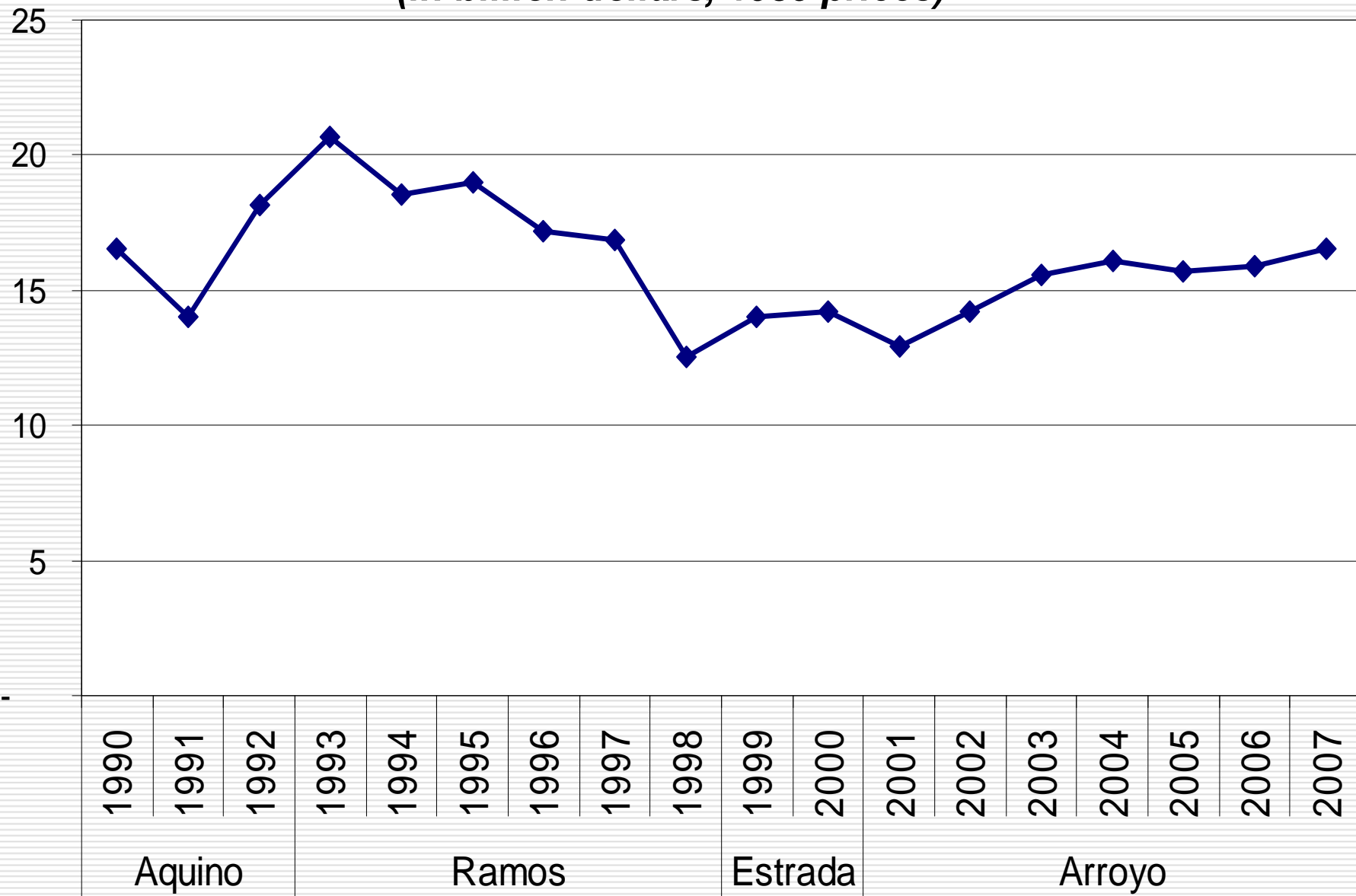
- Sharp increase in first 3 years under GMA

- Decrease from 2004:
 - Foreign Exchange rate – peso value of US Dollar denominated debts are lower

- Lets look at trend if denominated in US Dollars

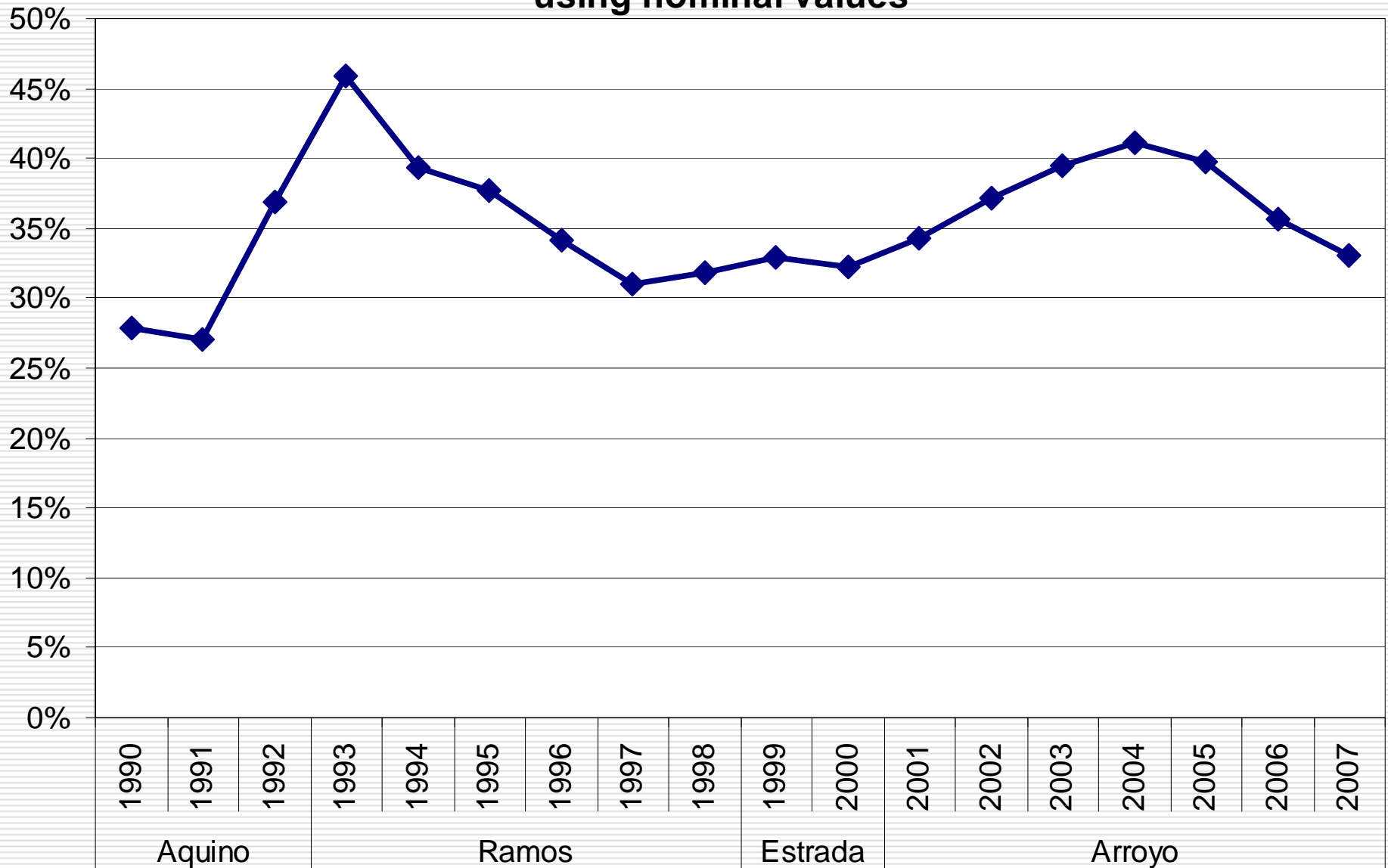
NG Outstanding Debt

(in billion dollars, 1985 prices)



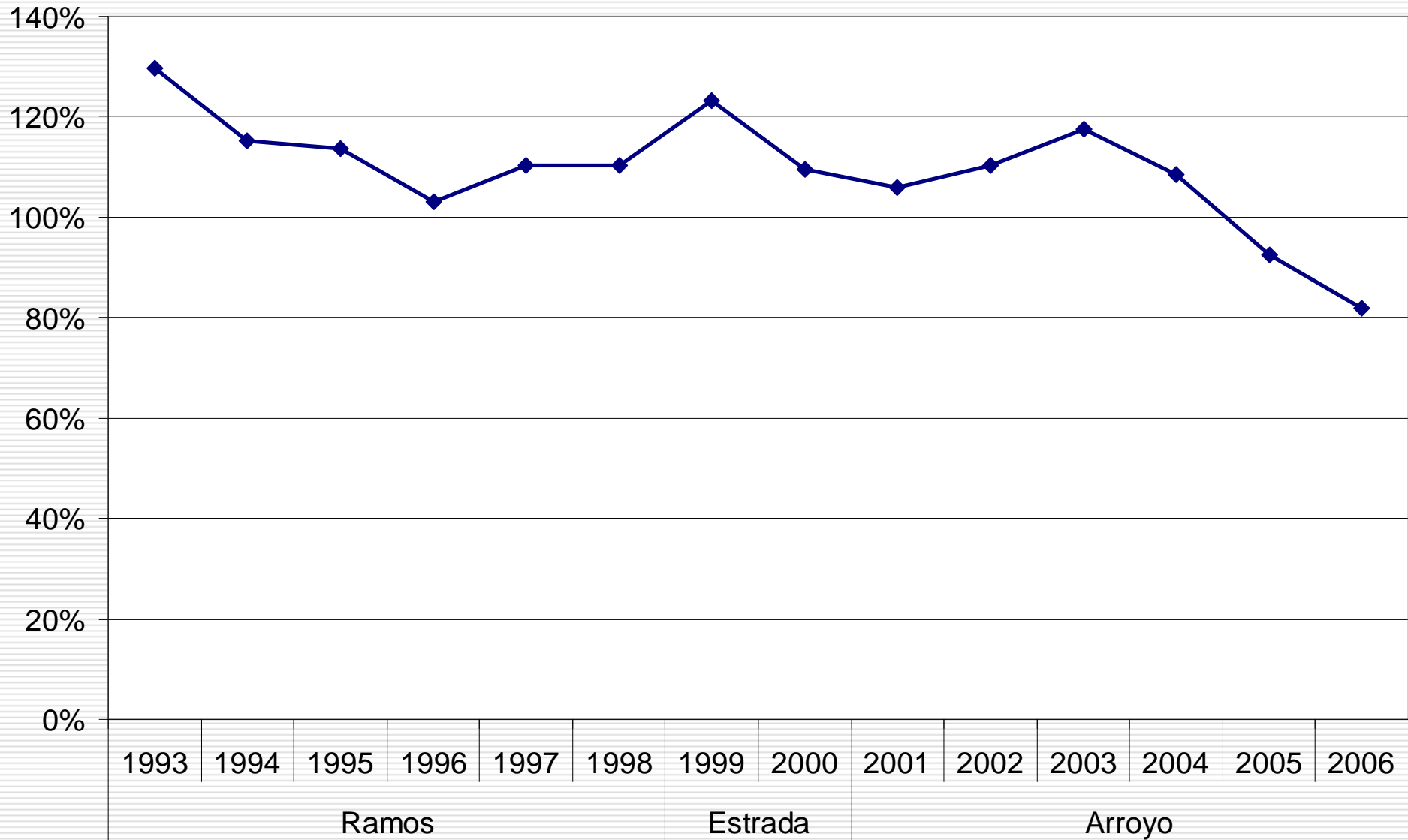
Outstanding NG Debt as % of GDP

using nominal values



Outstanding Public Sector Debt as % of GDP

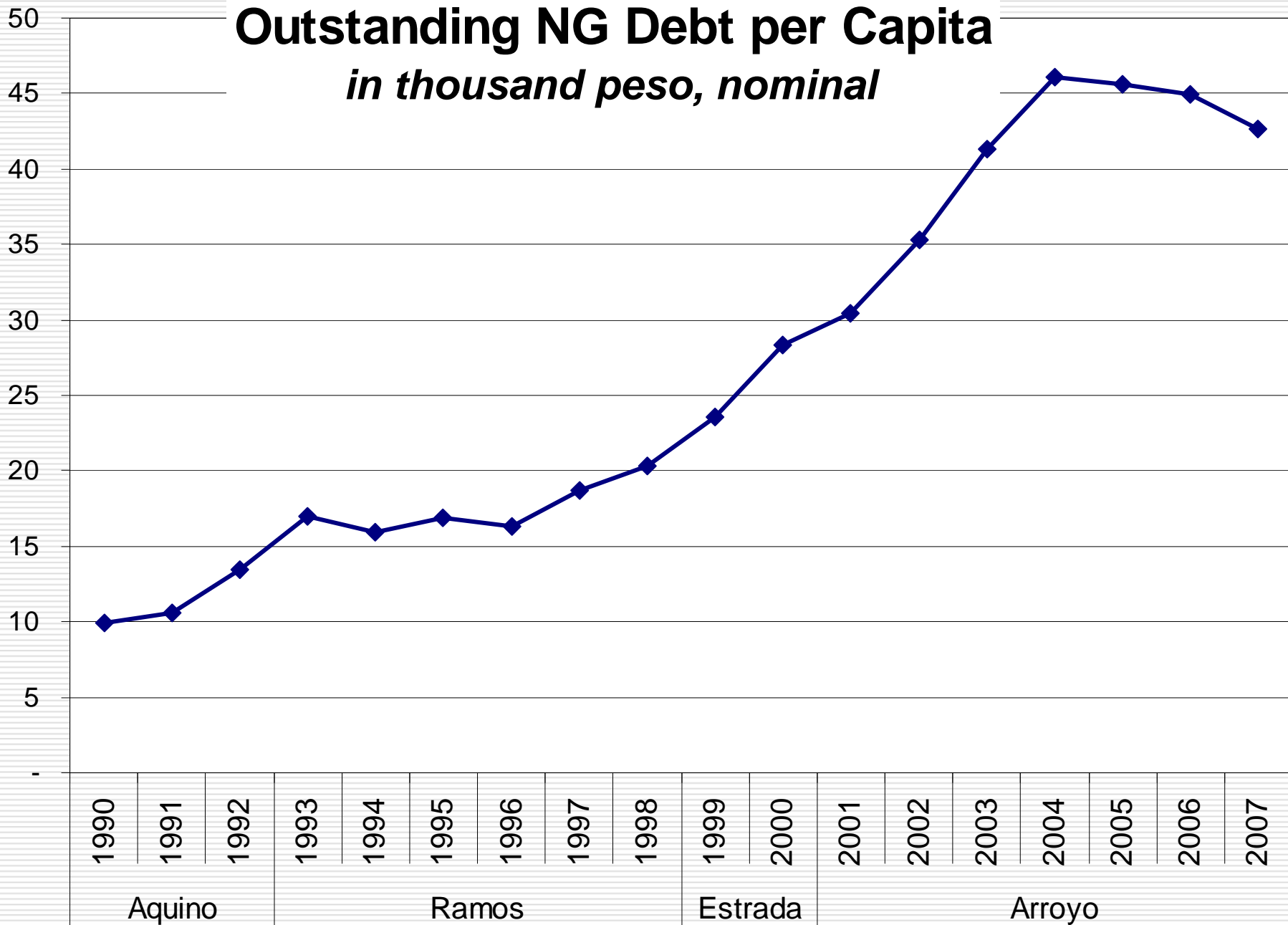
using nominal values



- NG Debt to GDP from 2004 seem to indicate improvement – as GDP has been increasing....
- NG debt per capita – very steep rise, and only small decrease since 2004

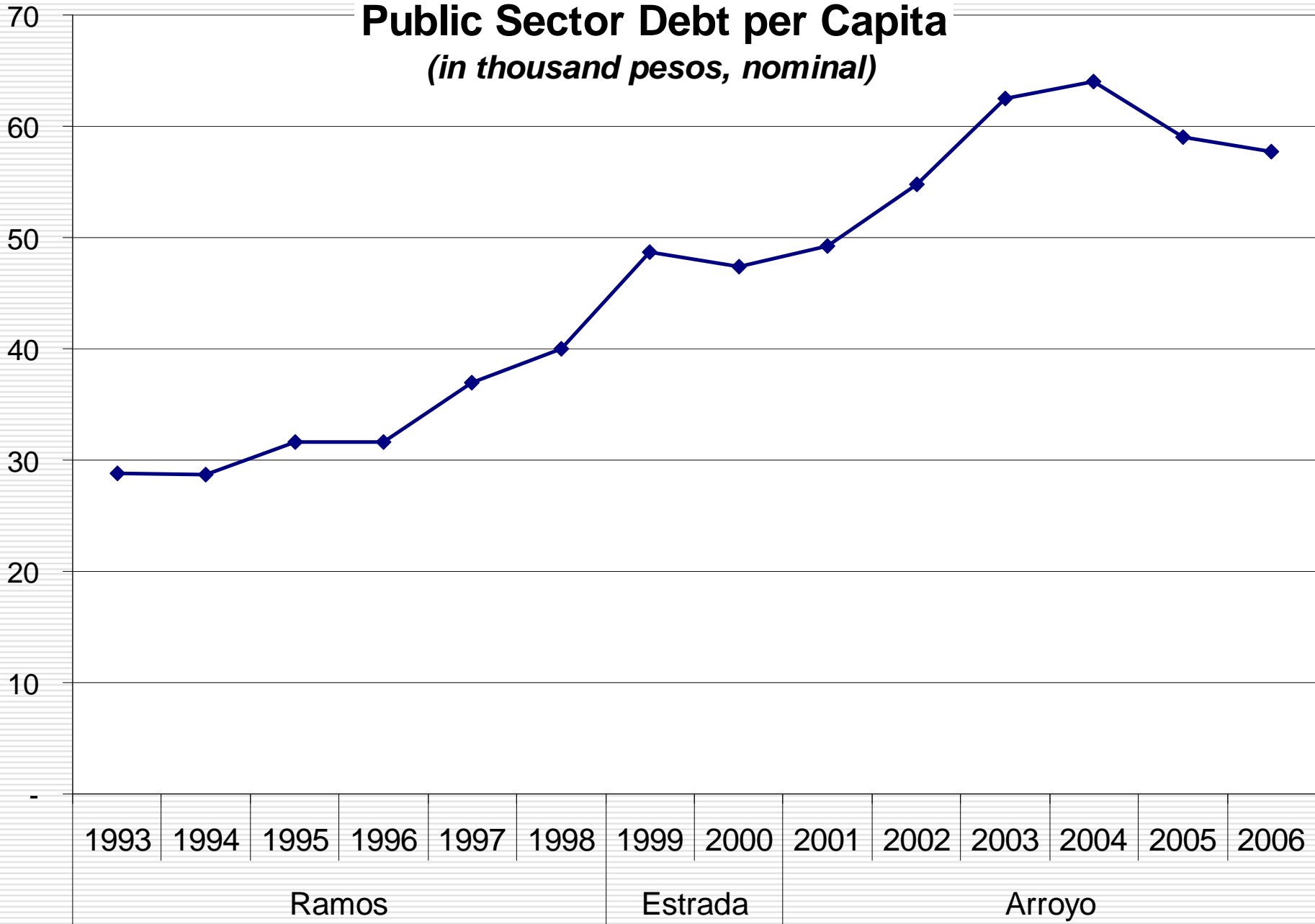
Outstanding NG Debt per Capita

in thousand peso, nominal



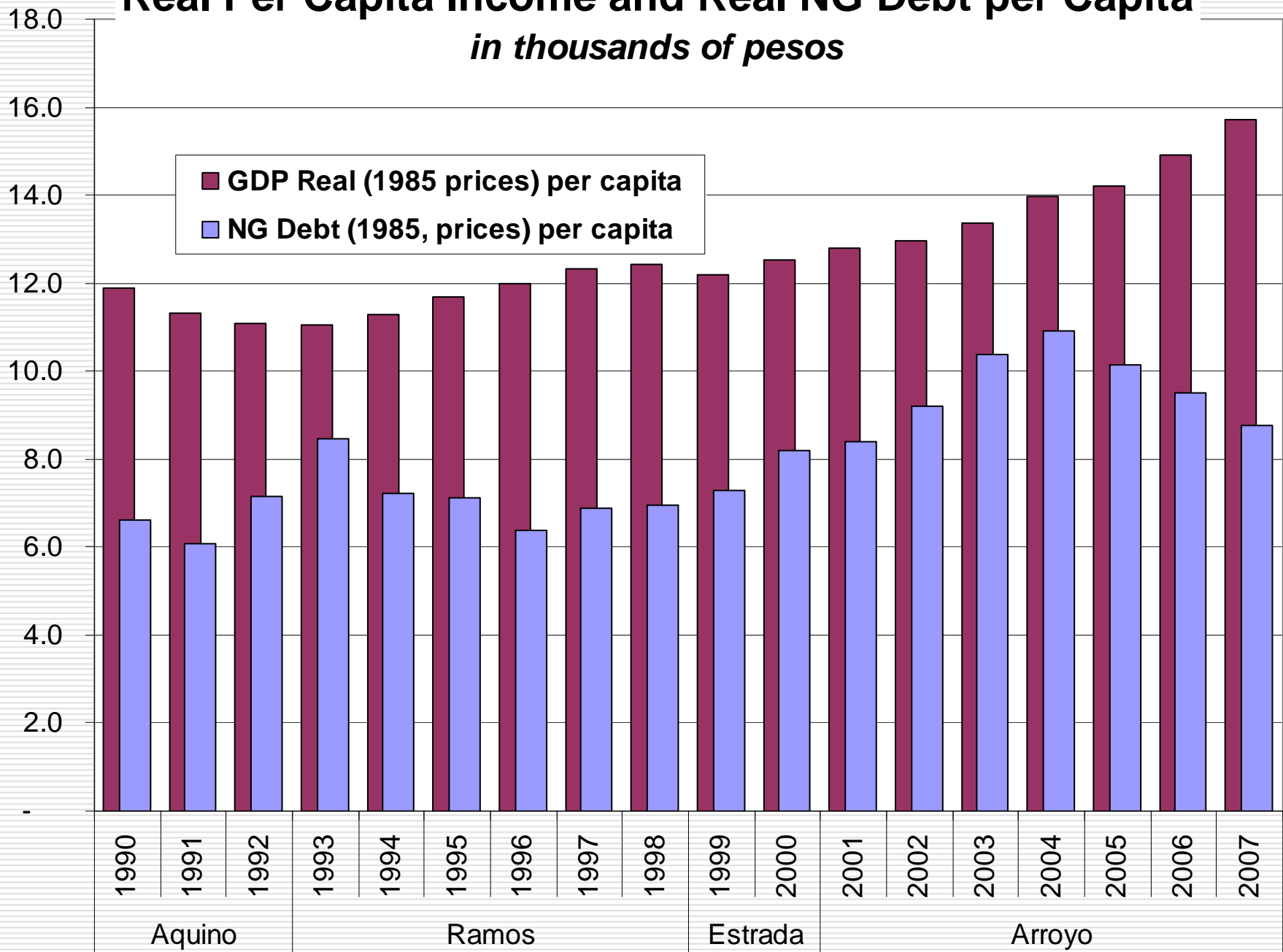
Public Sector Debt per Capita

(in thousand pesos, nominal)



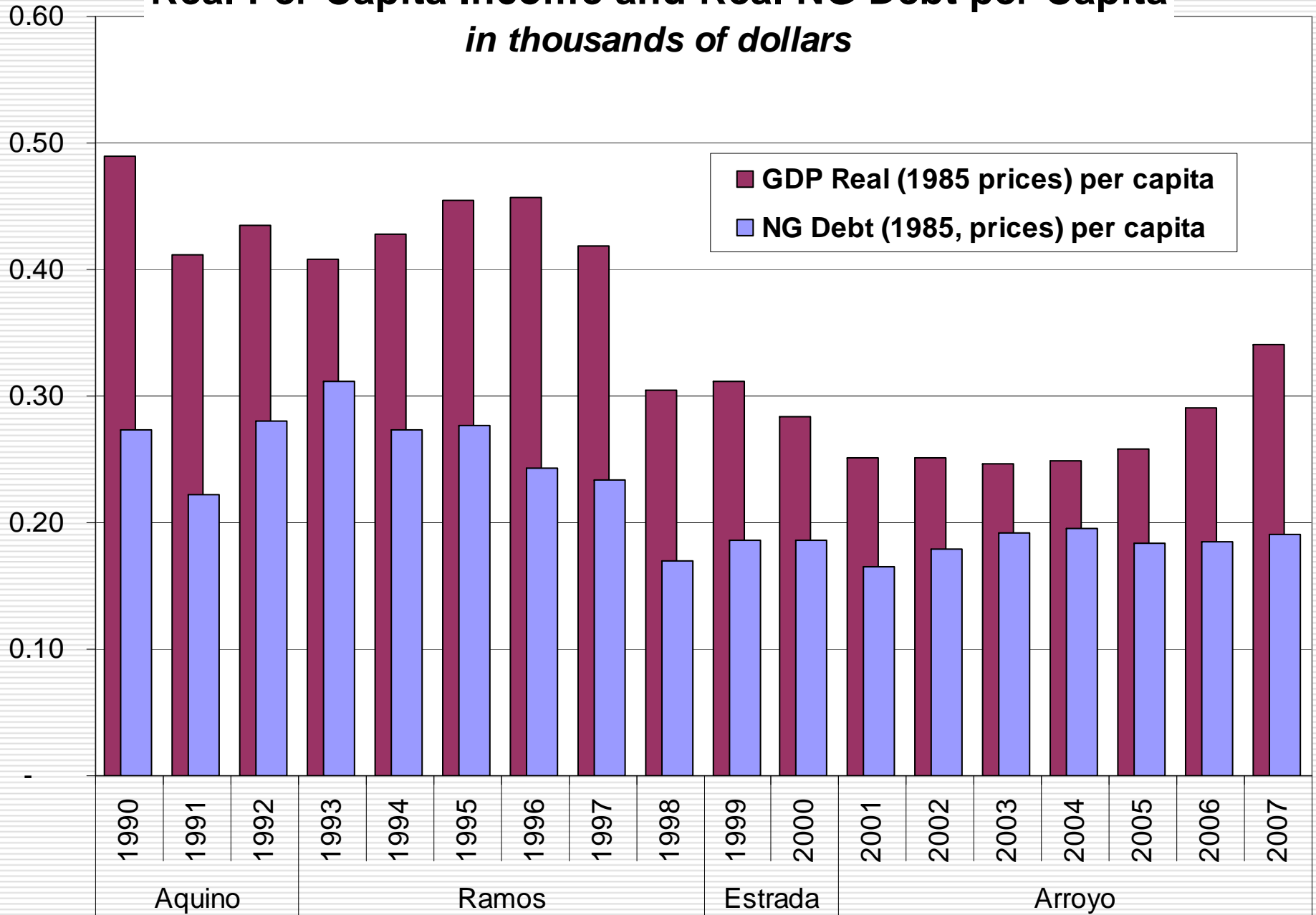
Real Per Capita Income and Real NG Debt per Capita

in thousands of pesos

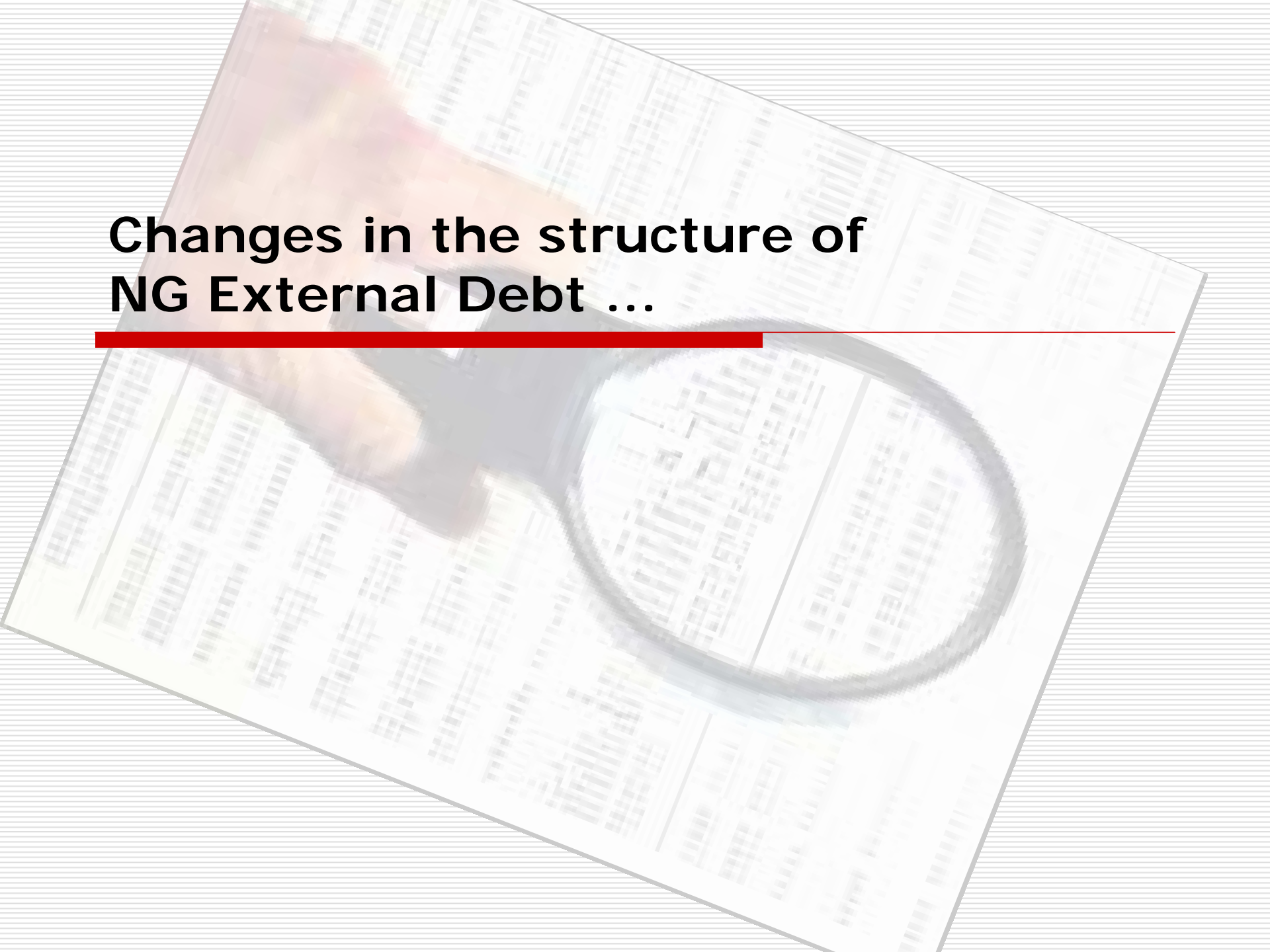


Real Per Capita Income and Real NG Debt per Capita

in thousands of dollars



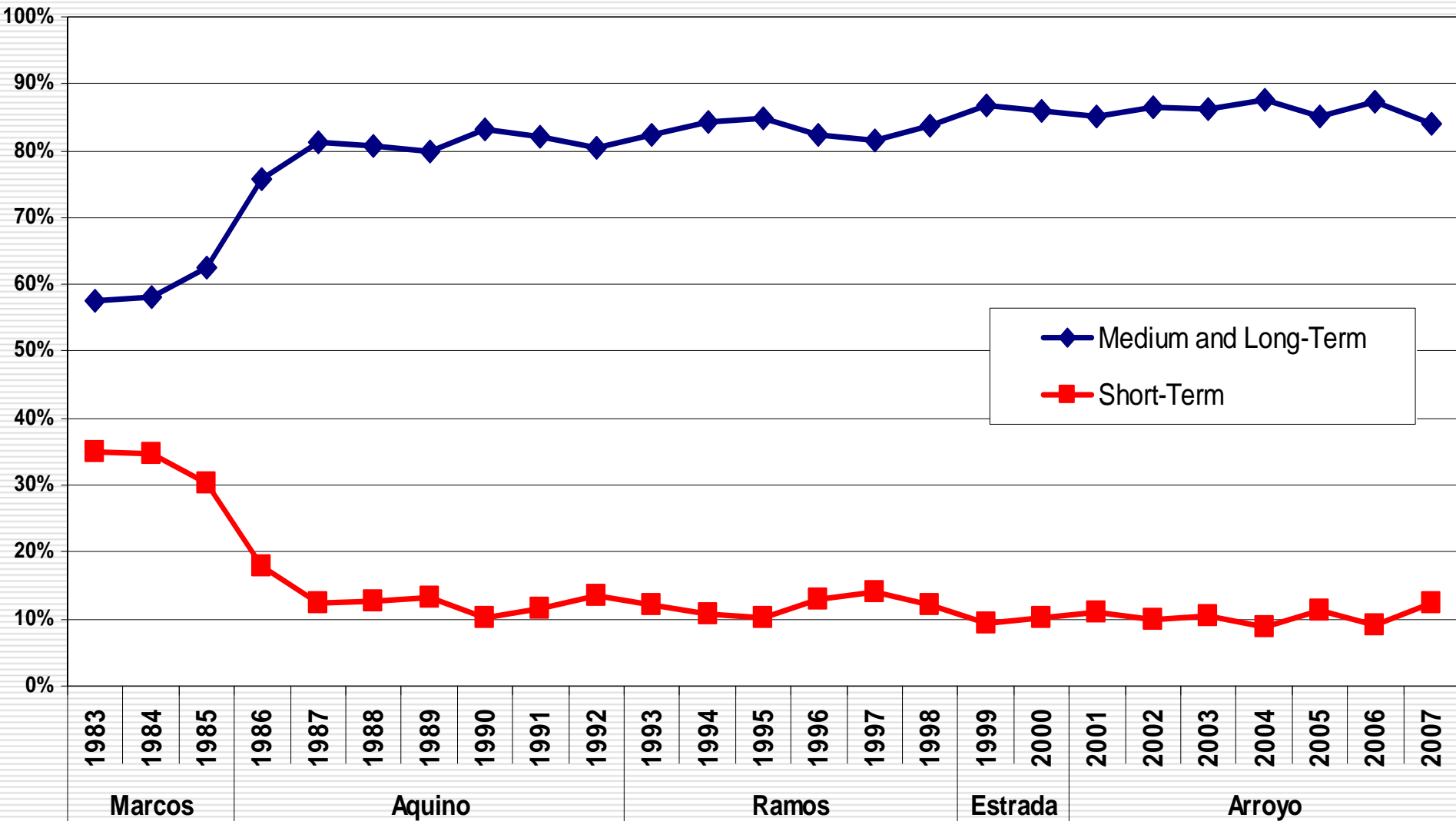
Changes in the structure of NG External Debt ...



Short term debt vs medium and long term debt; Rise of bonds and financial instruments

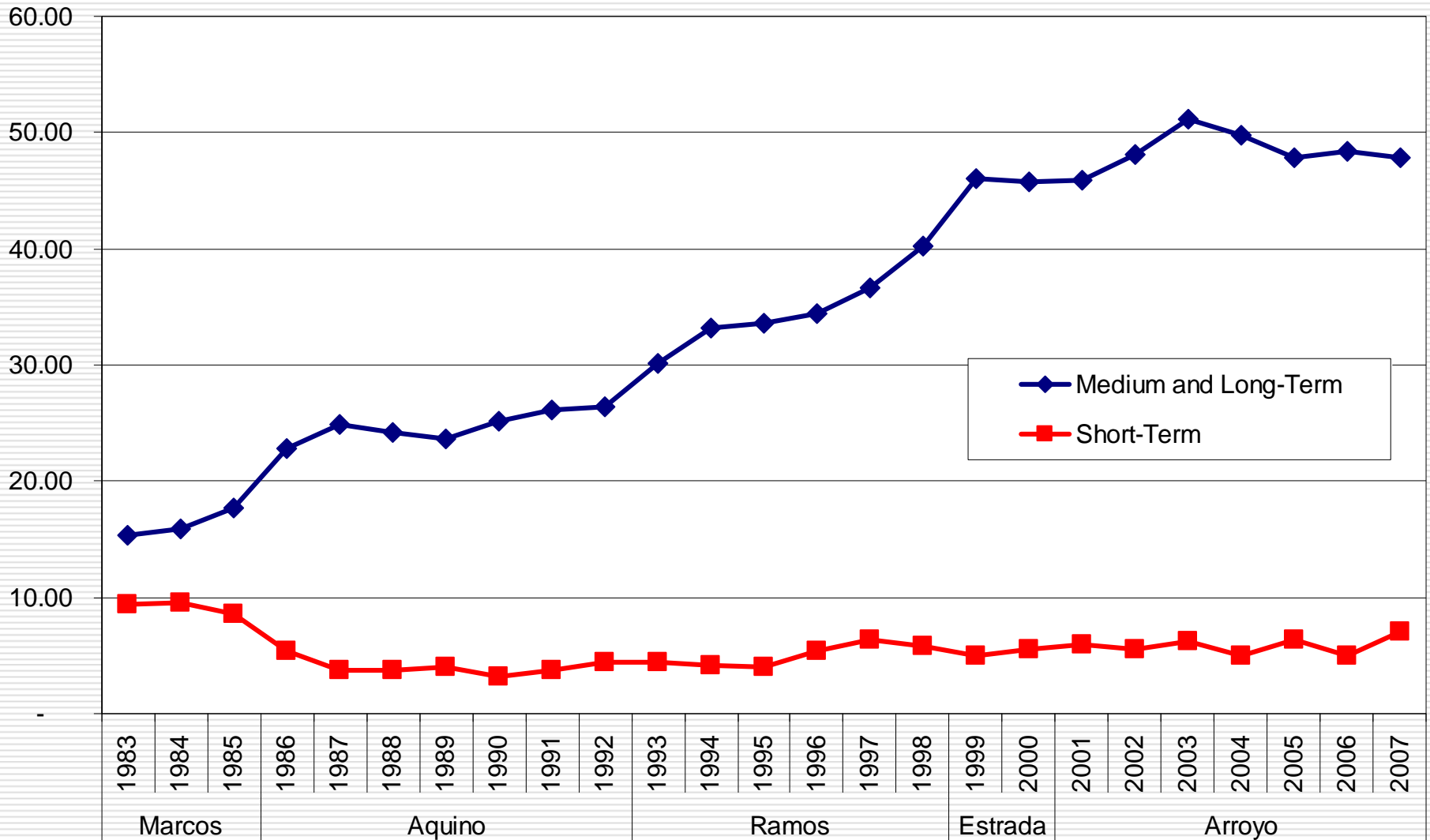
- The government is on a drive to restructure old debts, and “improve debt manageability”.
- Continuing the post-Marcos policy and IMF-WB prescription of
 - preferring medium-to-long term debts over short-term debts,
 - preferring financial market instruments such as bonds over other forms of loans.

Short, Medium and Long Term Debt as % of External Debt



Source: Bangko Sentral ng Pilipinas

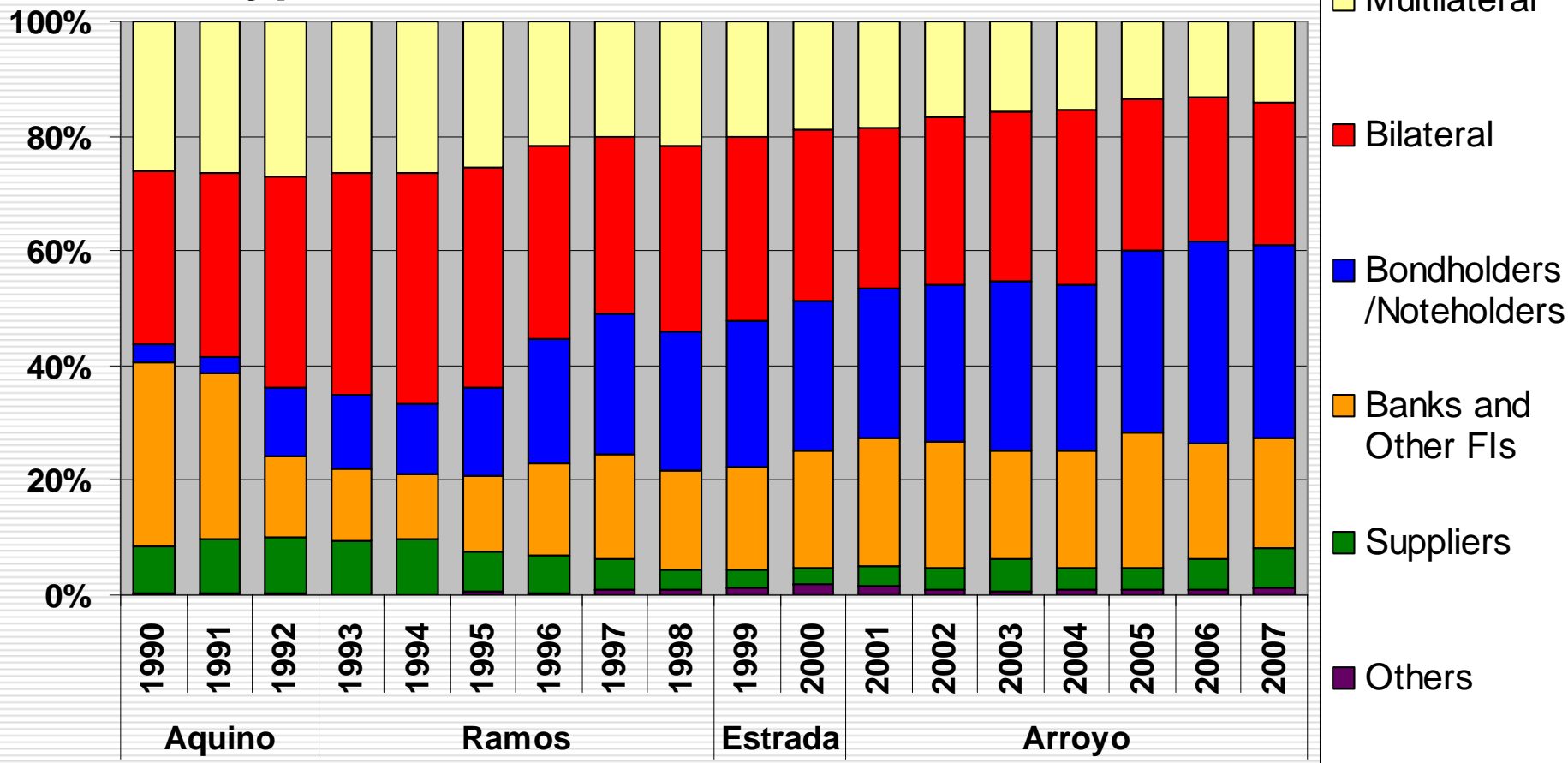
NG External - Short, Medium and Long Term Debt, in billion dollars



Source: Bangko Sentral ng Pilipinas

Changes in Creditor Profile

Types of Debt as % of Total External Debt

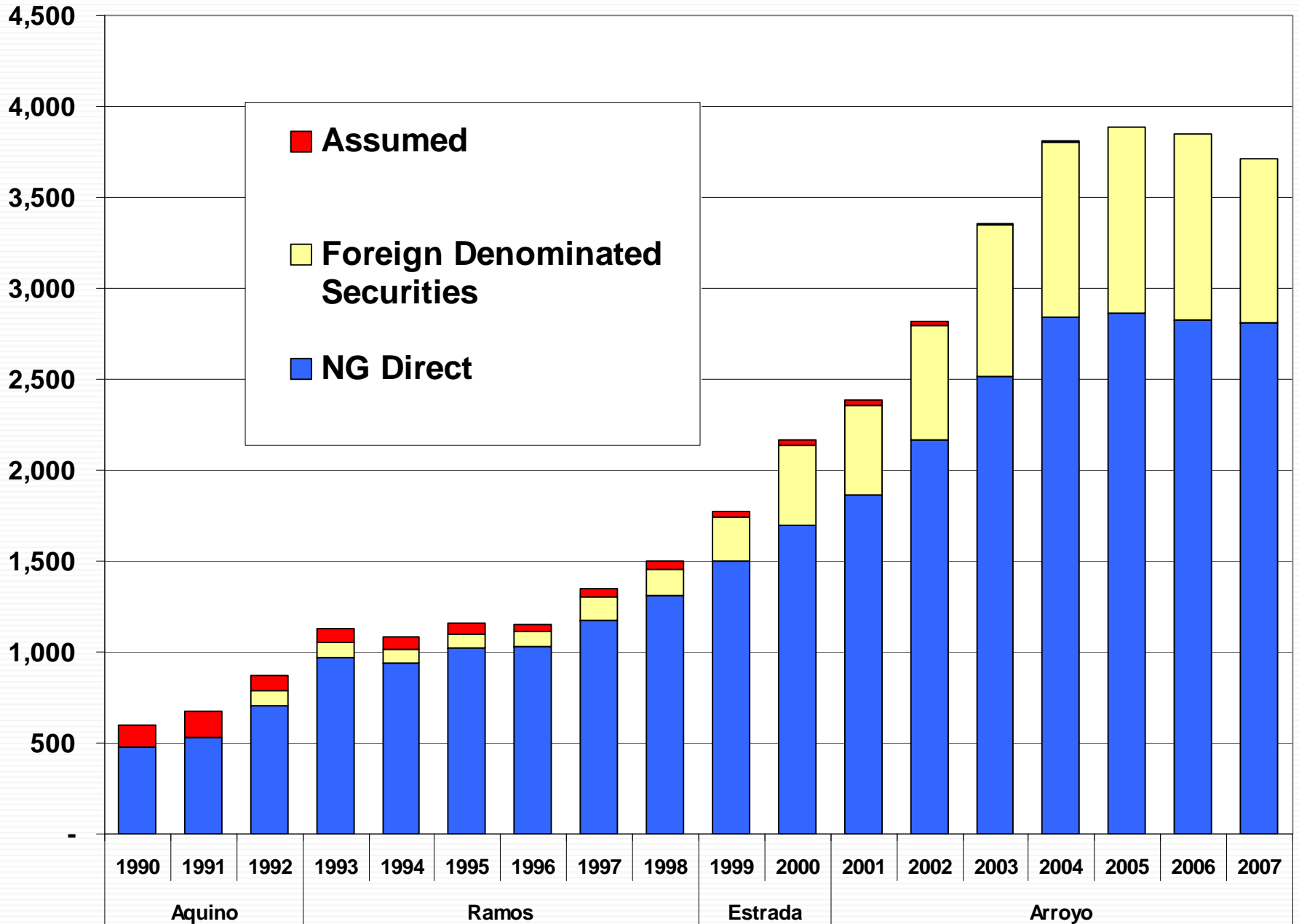


National Government External Debt:

- NG Direct
 - Foreign Denominated Securities

- NG Assumed Liabilities

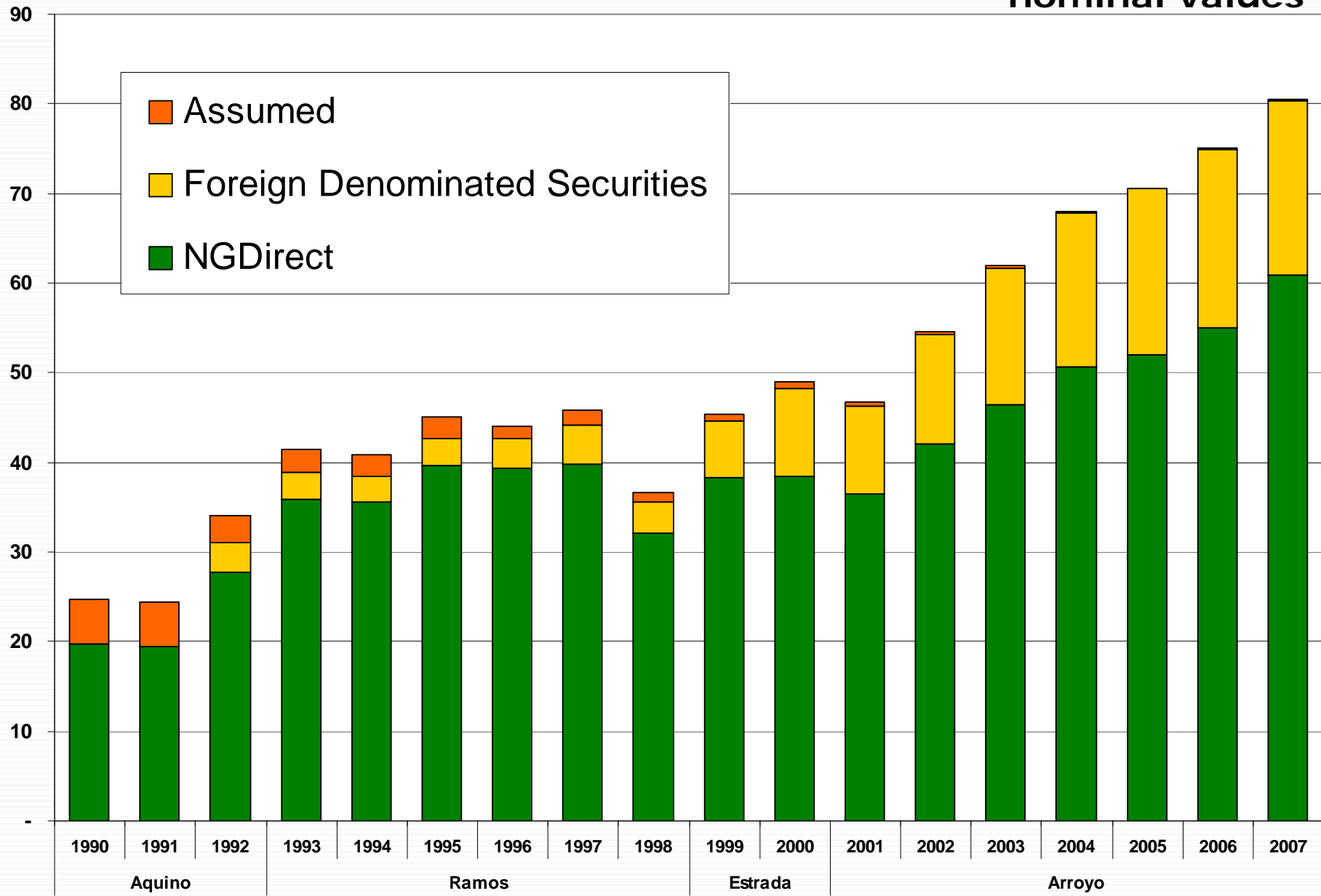
NG EXTERNAL DEBT OUTSTANDING, in billion pesos, nominal values



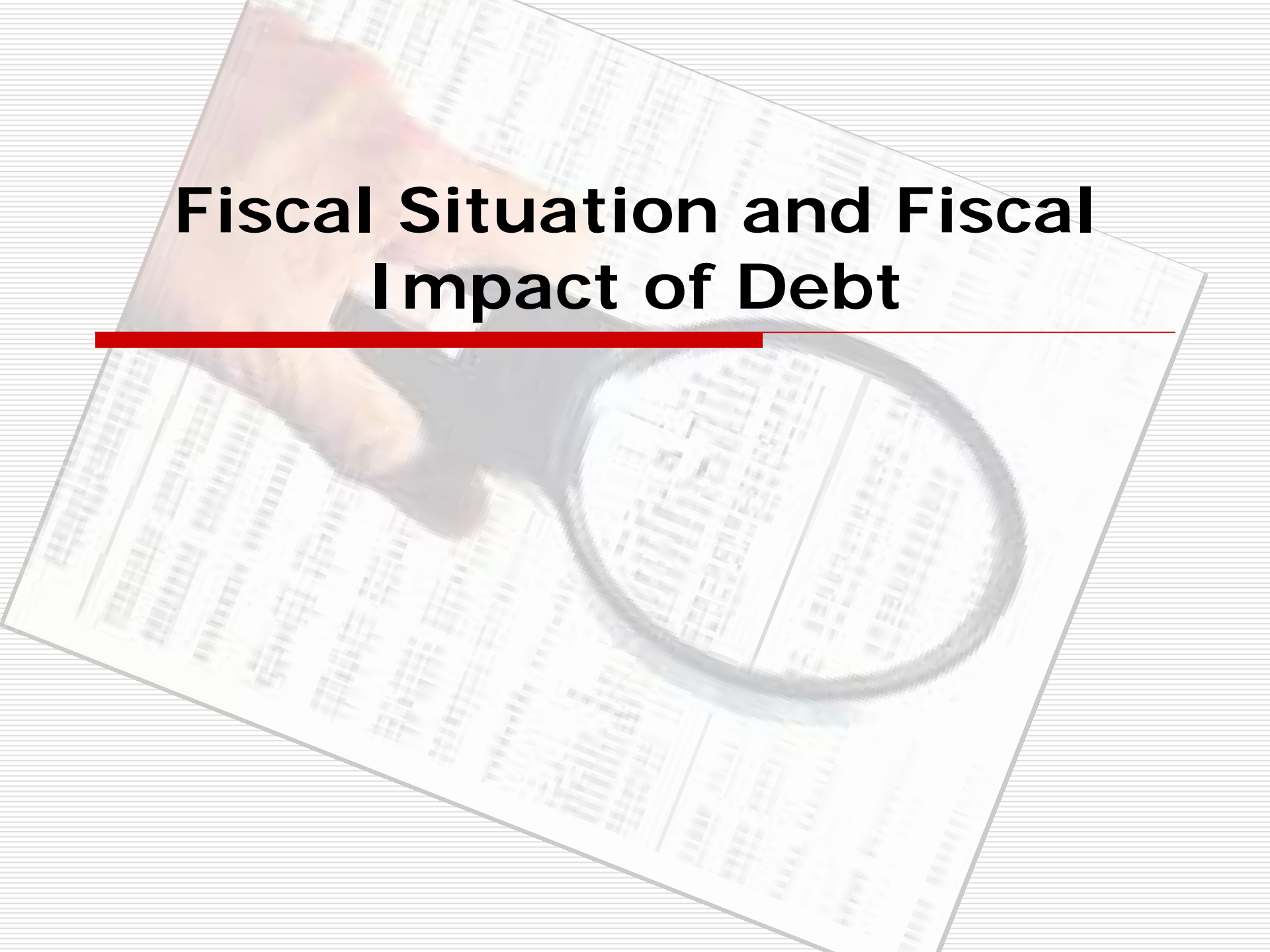
Assumed Liabilities of the NG

- ❑ Significant portion – immediately after the Marcos years (large part of it is assumed liabilities of private sector, based on sovereign guarantees of private debts)
- ❑ Have been reduced over the years
- ❑ Public guarantees of private risks, liabilities and profits are taken on different forms

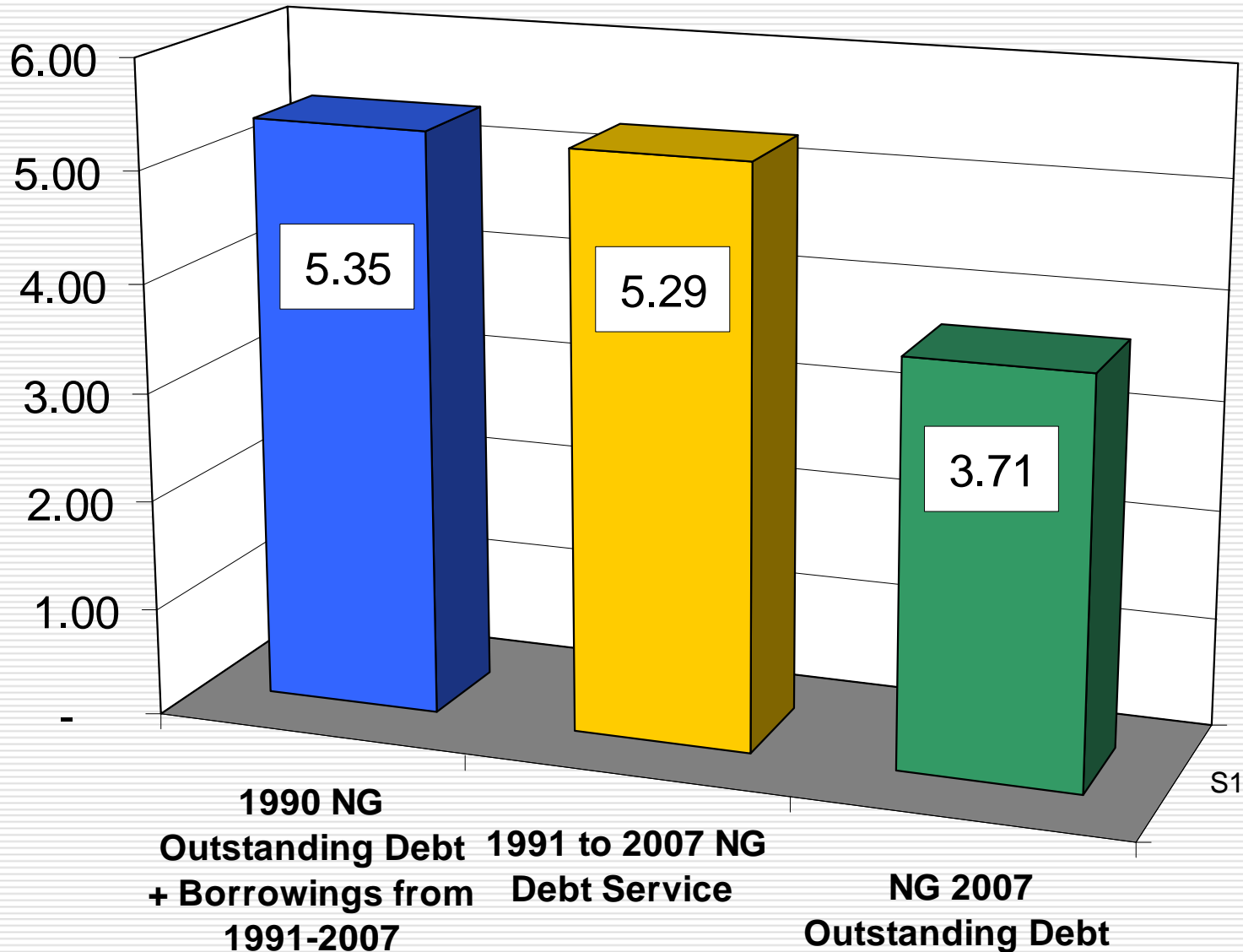
NG EXTERNAL DEBT OUTSTANDING, in billion US\$, nominal values



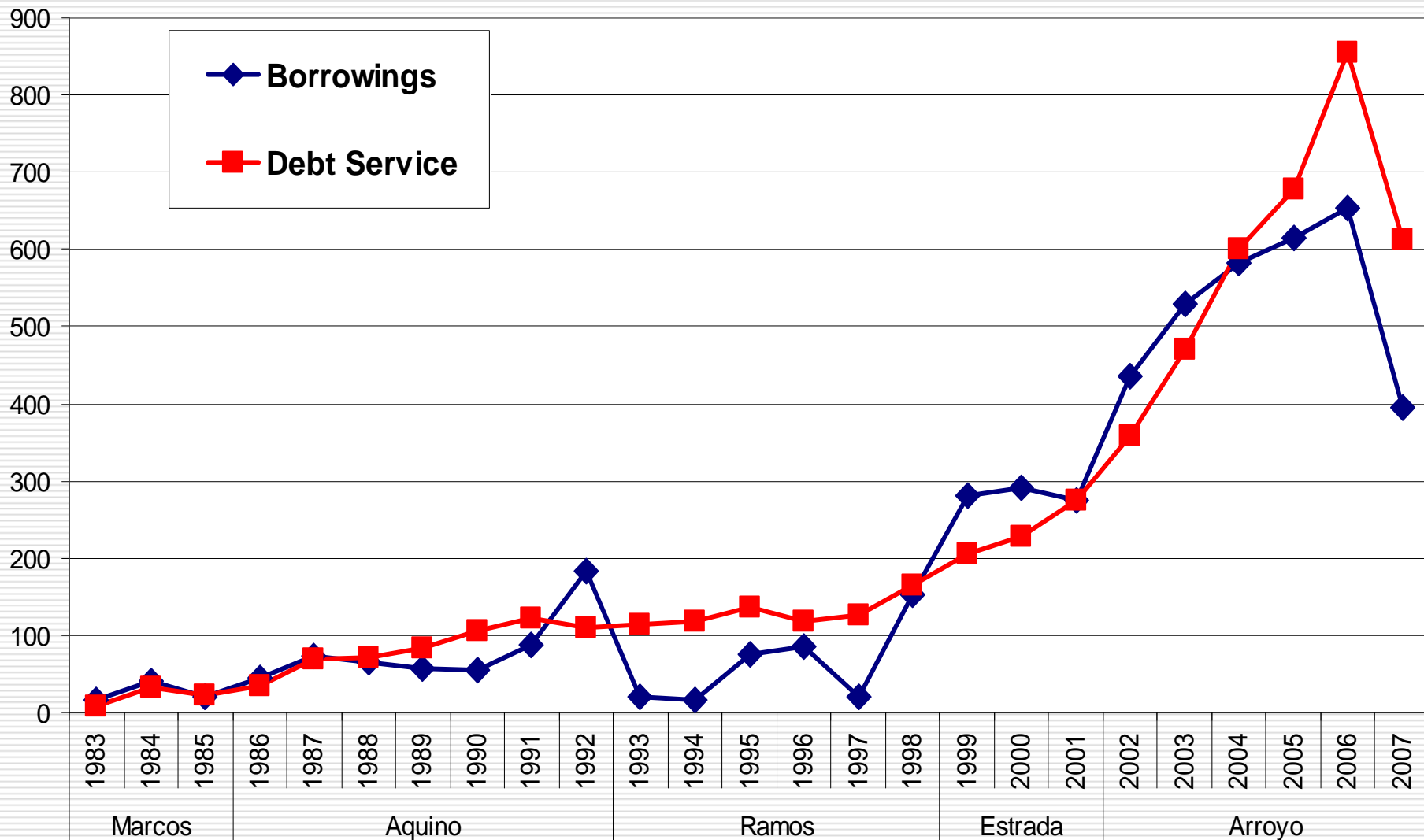
Fiscal Situation and Fiscal Impact of Debt



Inexhaustible Debt NG External & Domestic, *in billion pesos*



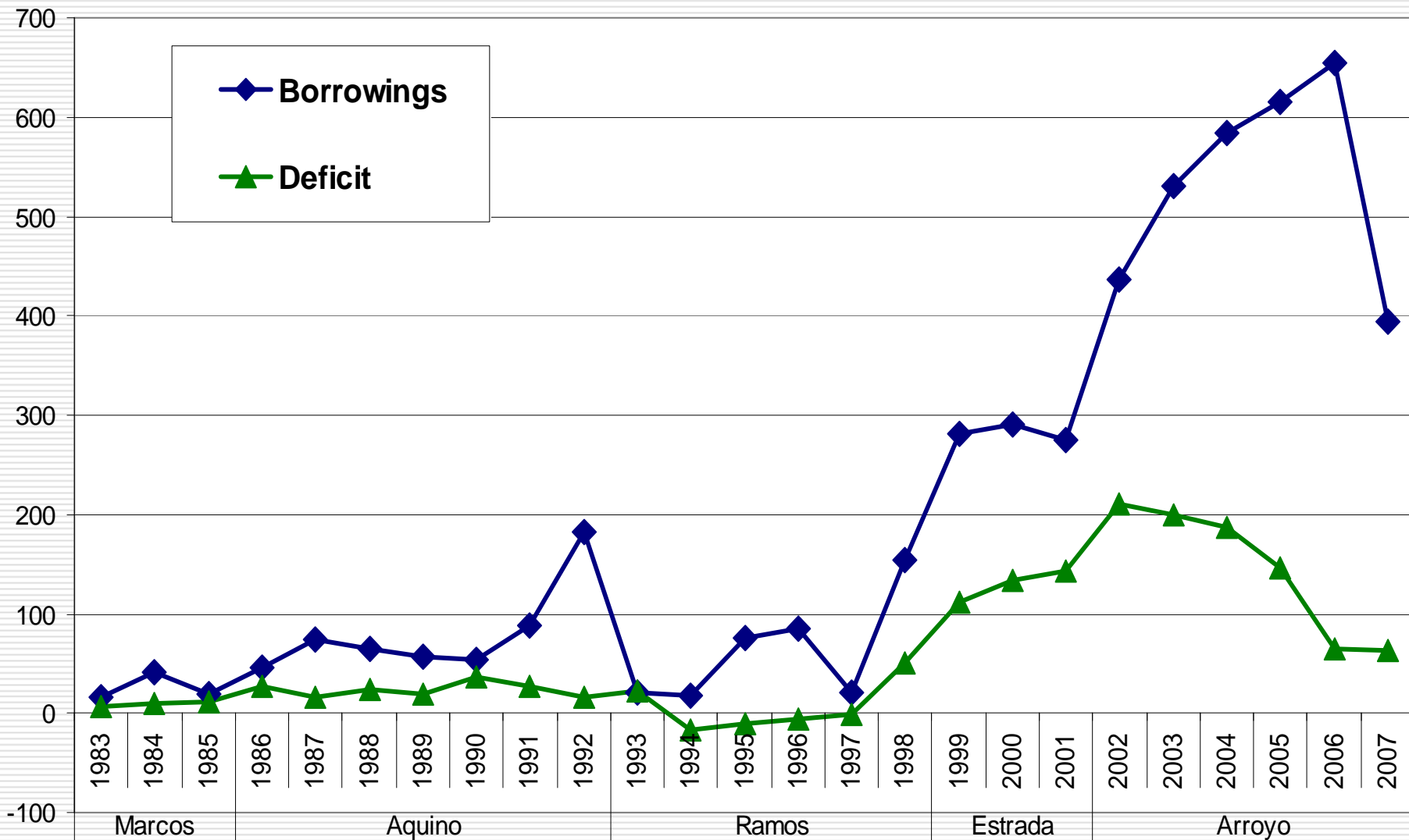
National Government Borrowings, Debt Service (principal and interest) in billion pesos, nominal



Source: Bangko Sentral ng Pilipinas

- Our gross borrowings and our total debt servicing (interest plus principal) are almost at par with each other.
- The government is borrowing more than its deficit because it has to cover for the principal amortization of debts which is an off-budget expenditure.

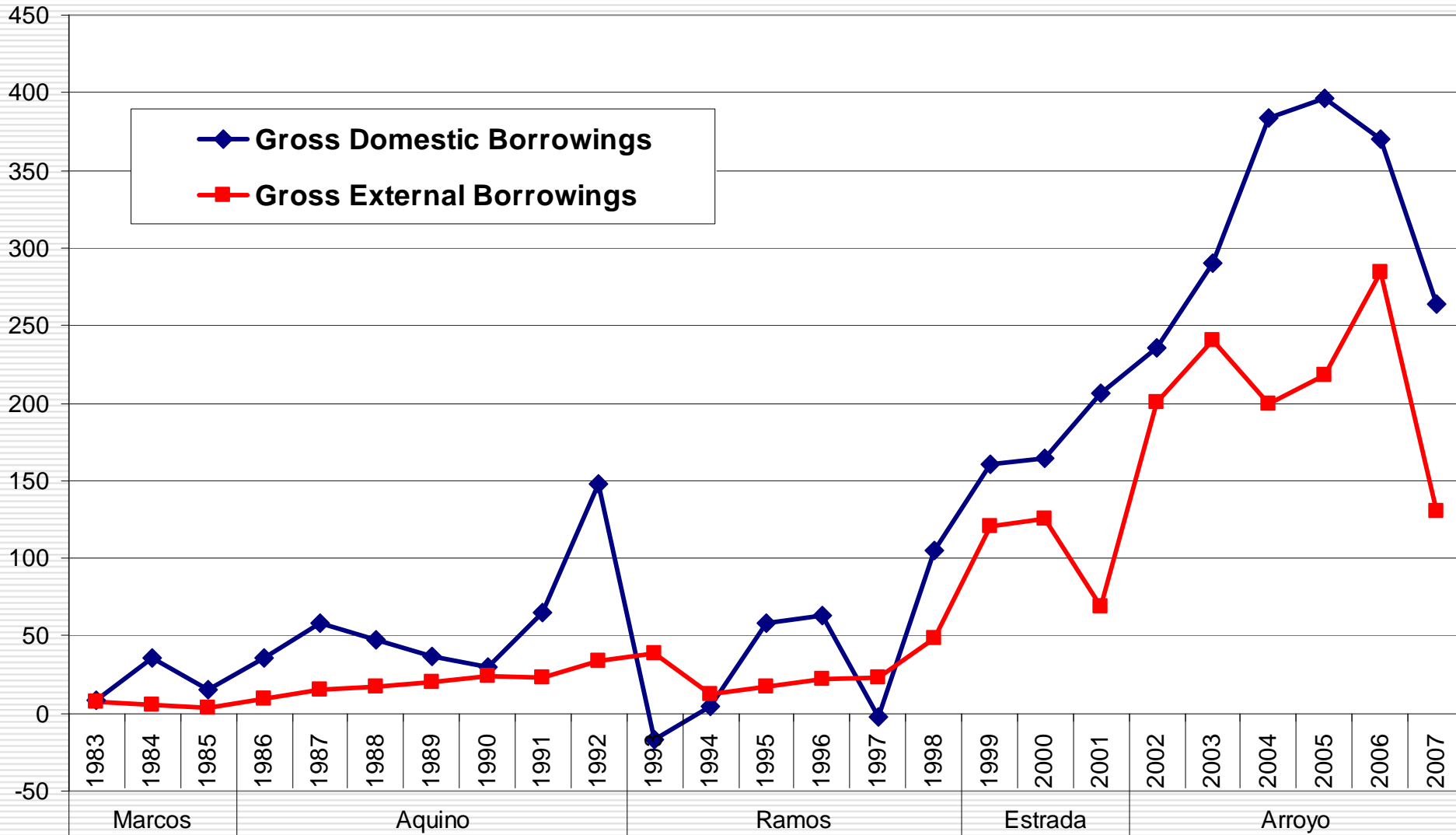
National Government Borrowings & the Budget Deficit, in billion pesos, nominal



Source: Bangko Sentral ng Pilipinas

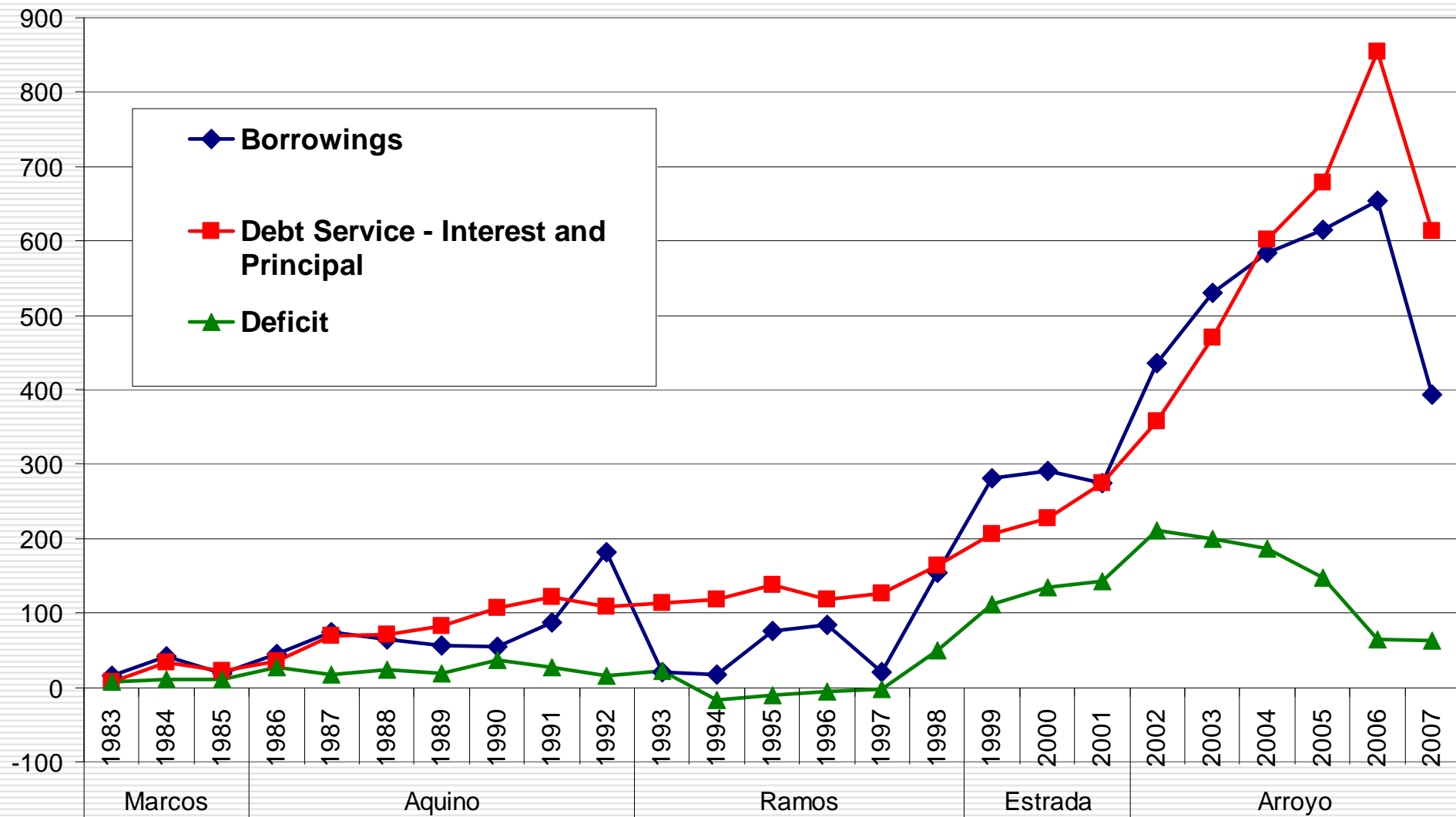
National Government Borrowings

NG Borrowings (in billion pesos, nominal)



Source: Bangko Sentral ng Pilipinas

National Government Borrowings, Debt Service, Budget Deficit, in billion pesos, nominal



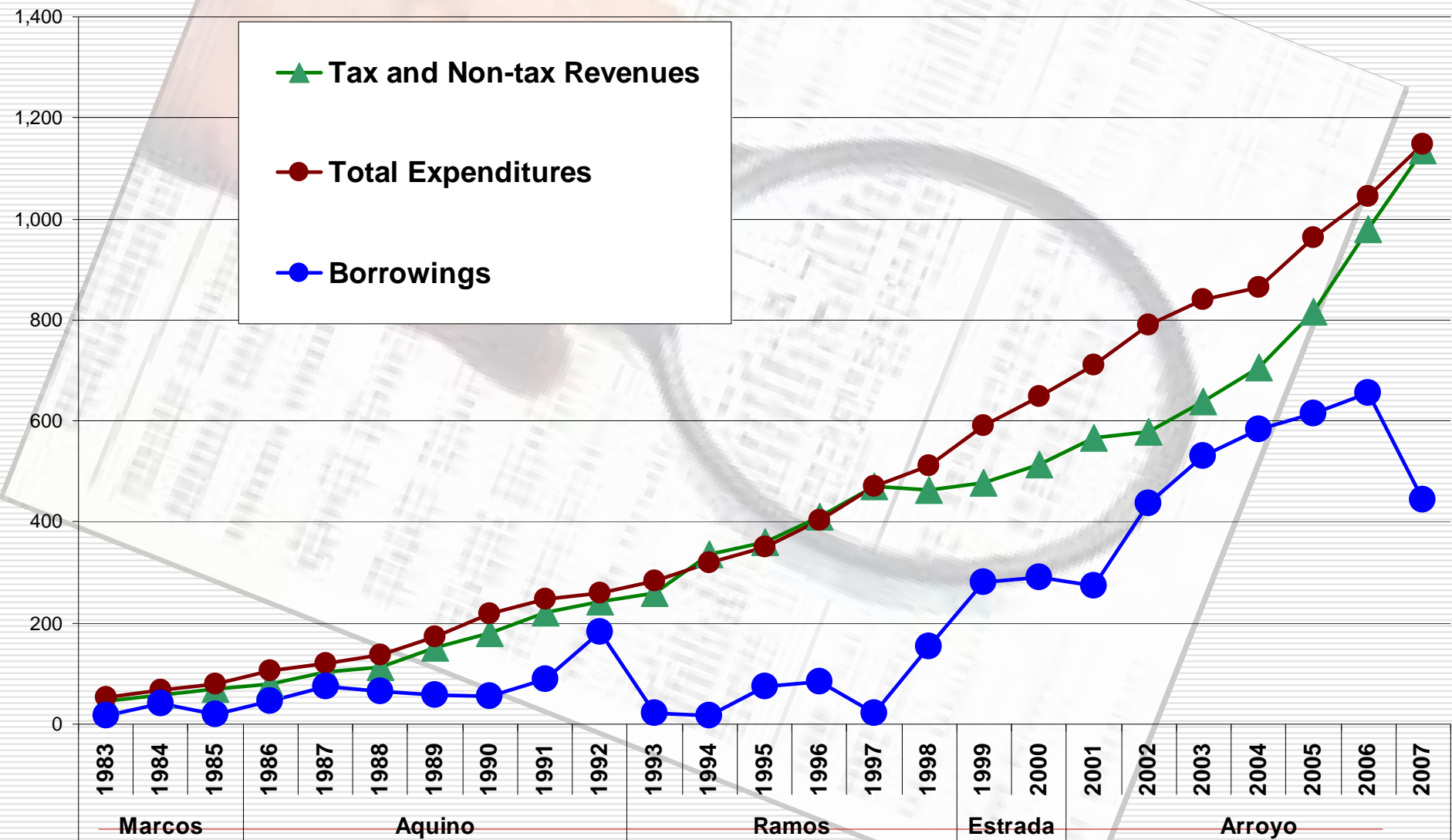
Source: Bangko Sentral ng Pilipinas

Debt Service and Borrowings Drop

- ❑ The debt to tax ratio became almost 1:1 in 2006.
- ❑ But there was a drop of debt payments and borrowings from 2006 to 2007 due to the ff:
 - 1. Less Debts to Pay:**
 - ❑ Pre-payment of Debts: Last 2006, our Government pre-paid \$220 million worth of obligations to the IMF - Note spike in debt service in 2006
 - 2. The further weakening of the US Dollar.**
 - 3. More Revenues to Burn**
 - ❑ Implementation of the 2% increase in RVAT
 - ❑ Privatization of Assets
 - ❑ GDP increase leading to increase in taxes

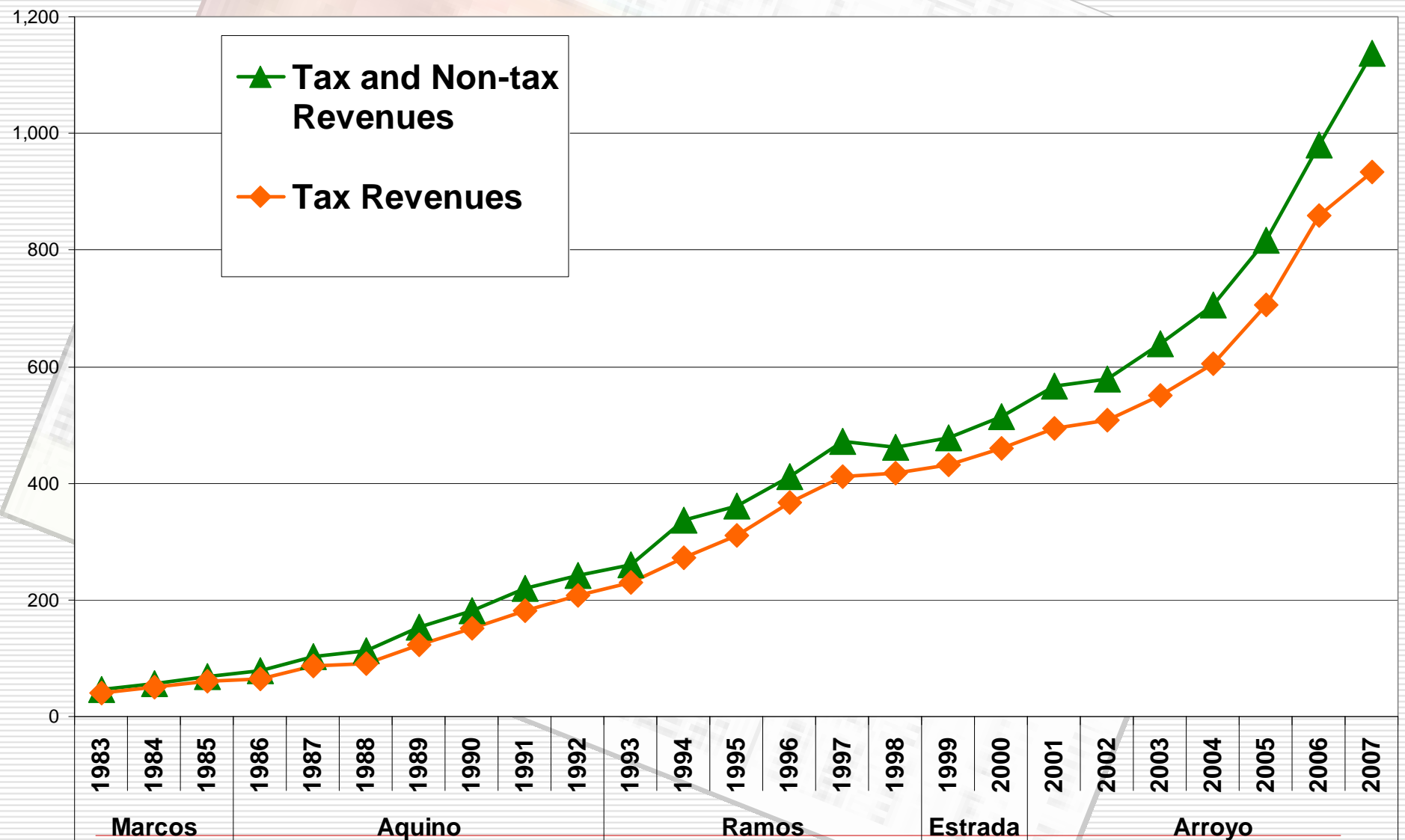
NG Expenditures vs Revenues vs Borrowings

in billion pesos, nominal

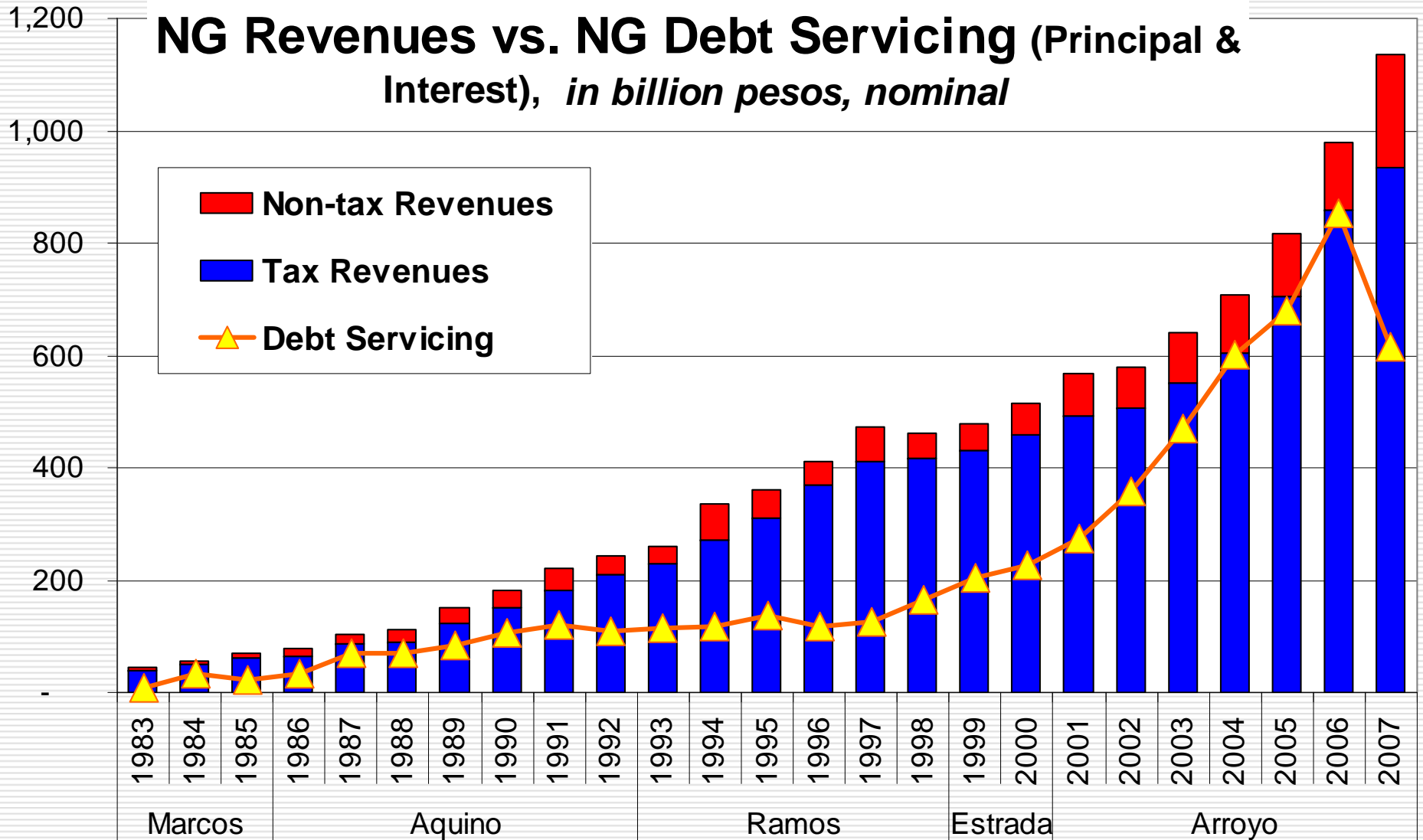


NG Tax & Non Tax Revenues vs Tax Revenues

in billion pesos, nominal

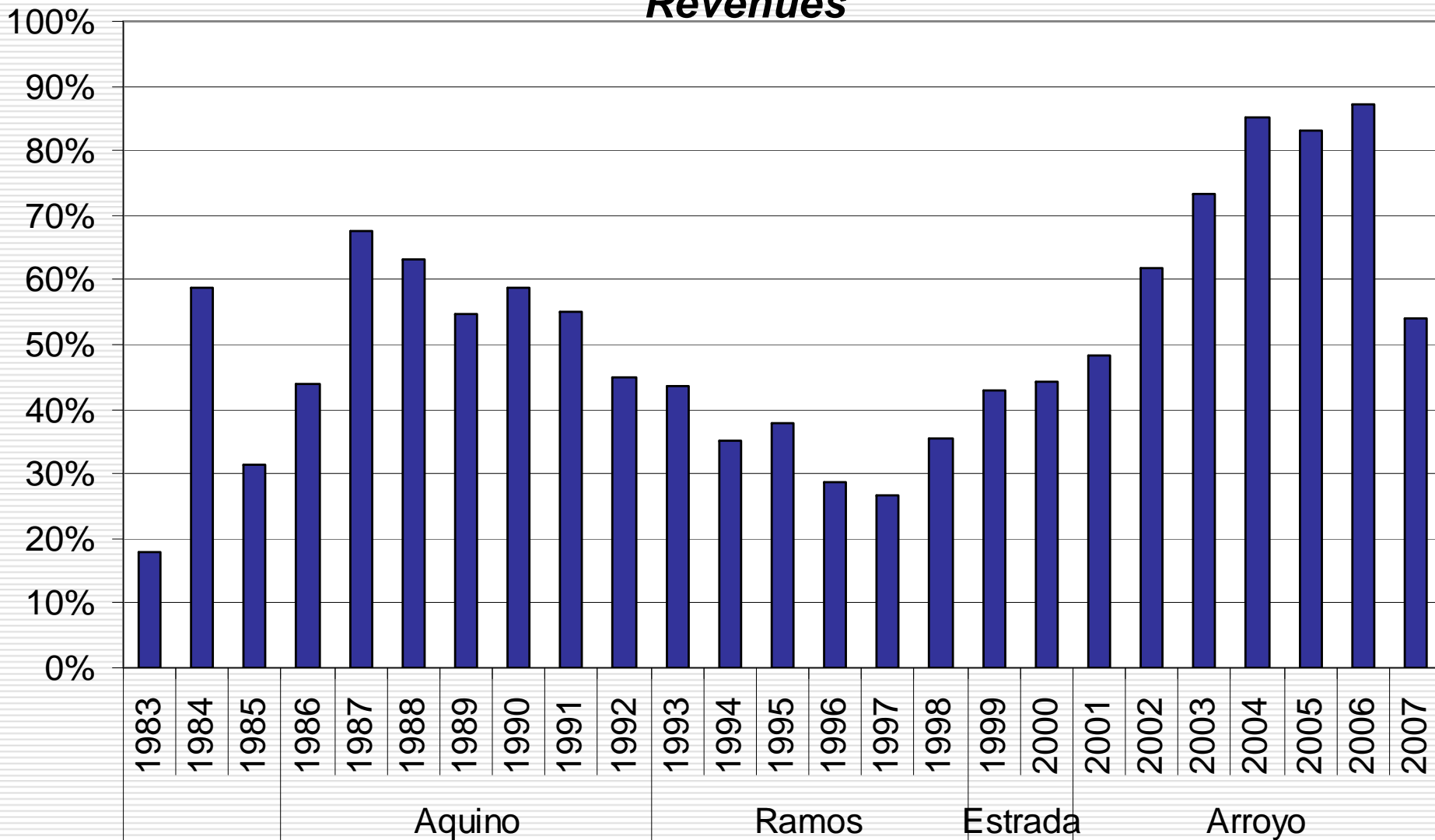


The Tax Crunch



The Tax Crunch

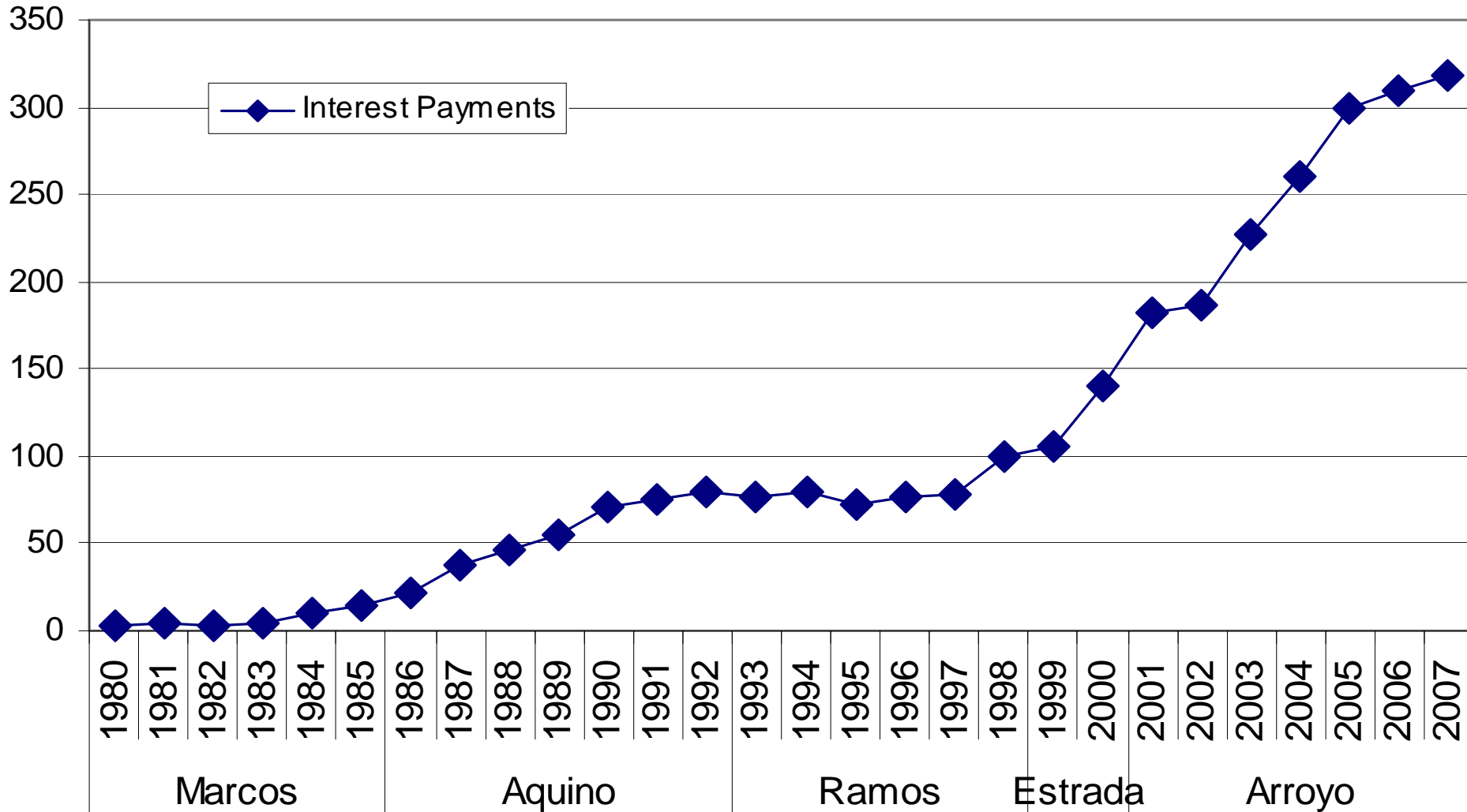
NG Debt Payments (Principal & Interest) as % of Revenues



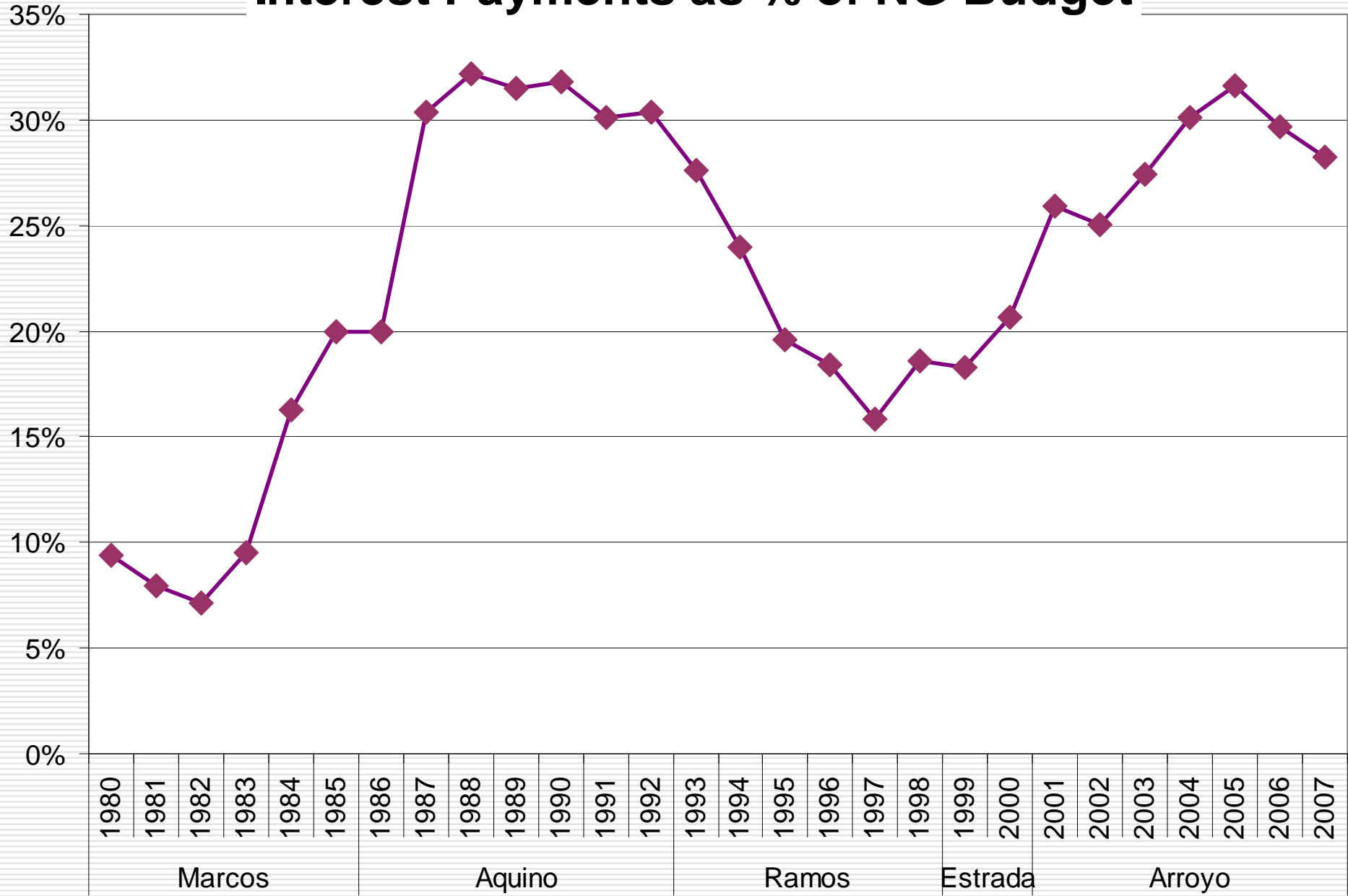
A hand holding a magnifying glass over a document with a red underline. The document contains text and a table with columns and rows. The magnifying glass is positioned over a section of the document, highlighting it. The red underline is positioned below the title text.

Fiscal Impact of NG Interest Payments

National Government Interest Payments from 1980-2007 in billion pesos, nominal

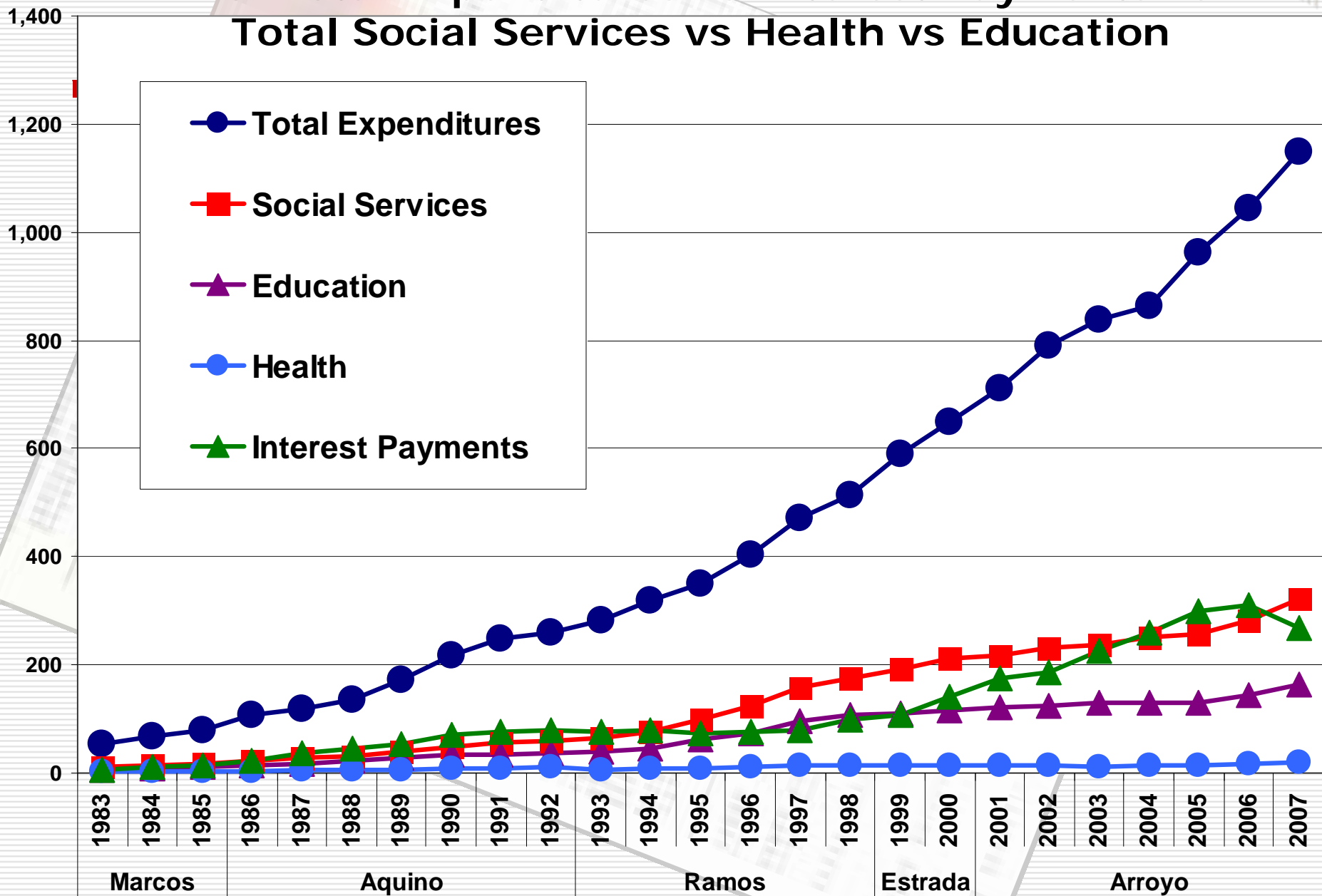


Interest Payments as % of NG Budget

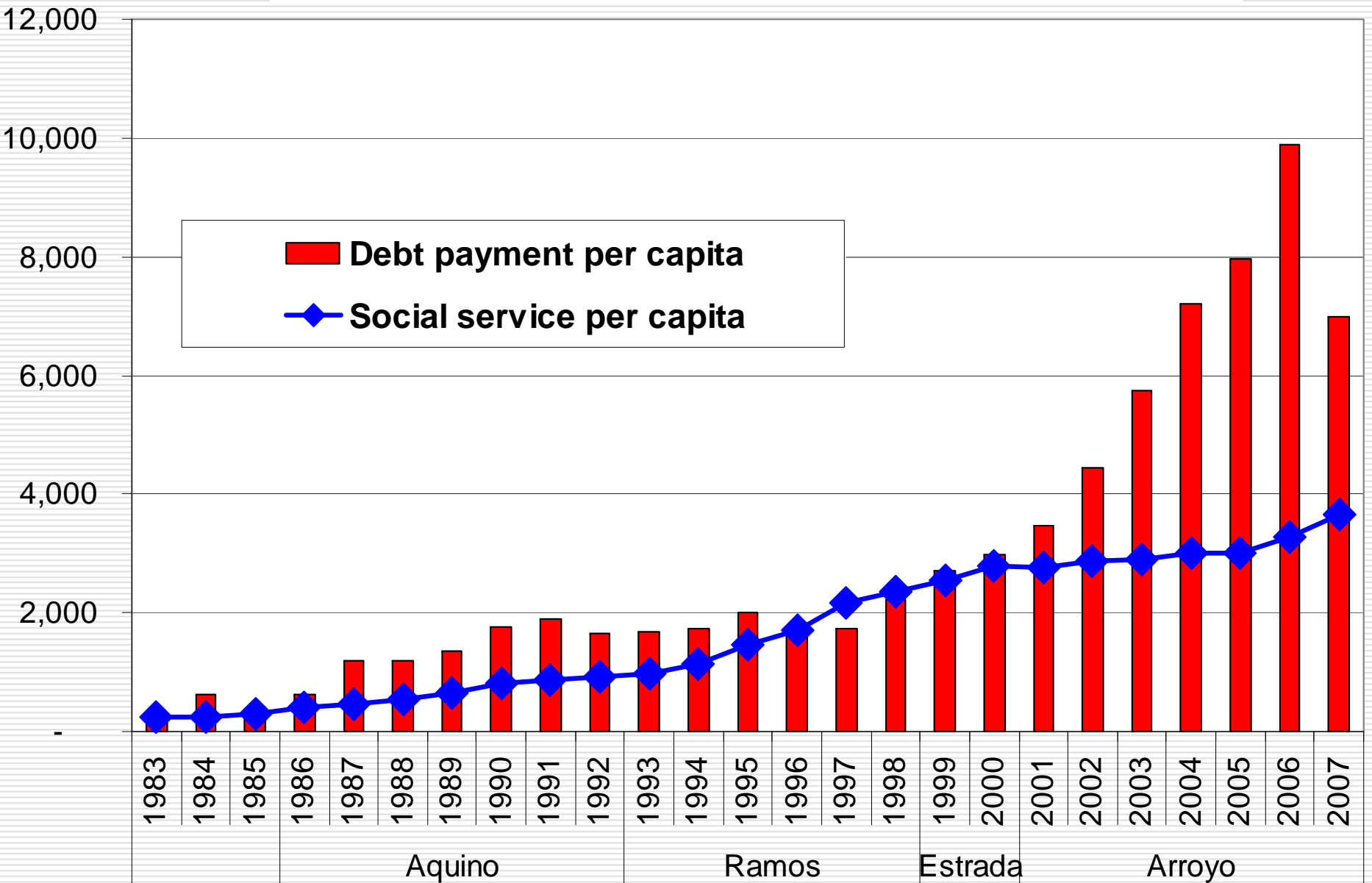


- Interest payments have been increasing in nominal terms
- Interest payments as percentage of budget – improved since 2005 but has not gone below the levels during the 1980's debt crisis.
- Crisis for the lenders – not in terms of the impact on spending – but whether you can pay, in full, on time

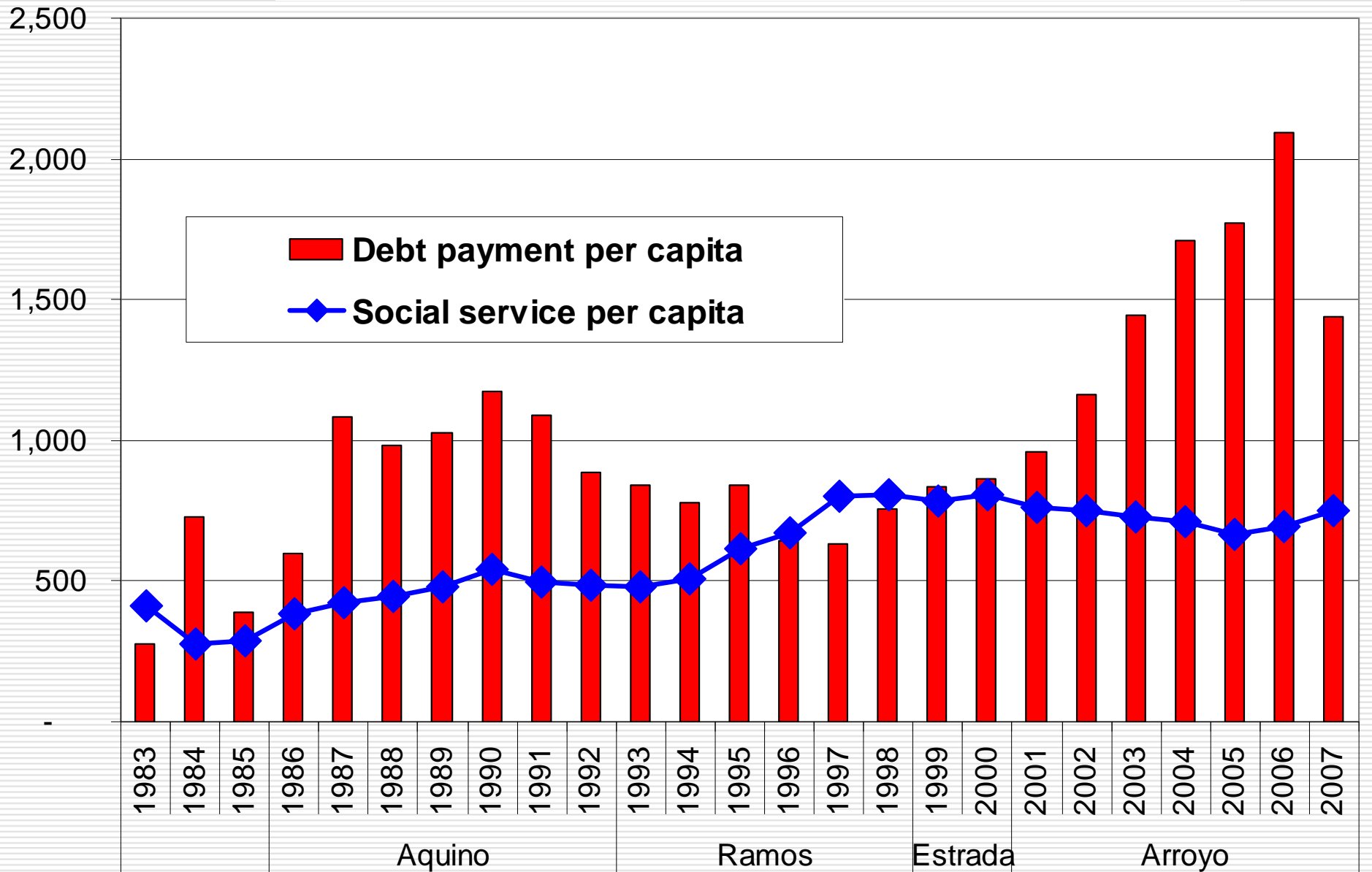
NG: Total Expenditures vs Interest Payments vs Total Social Services vs Health vs Education



Debt per capita vs. Social Services per Capita *in pesos - nominal terms*



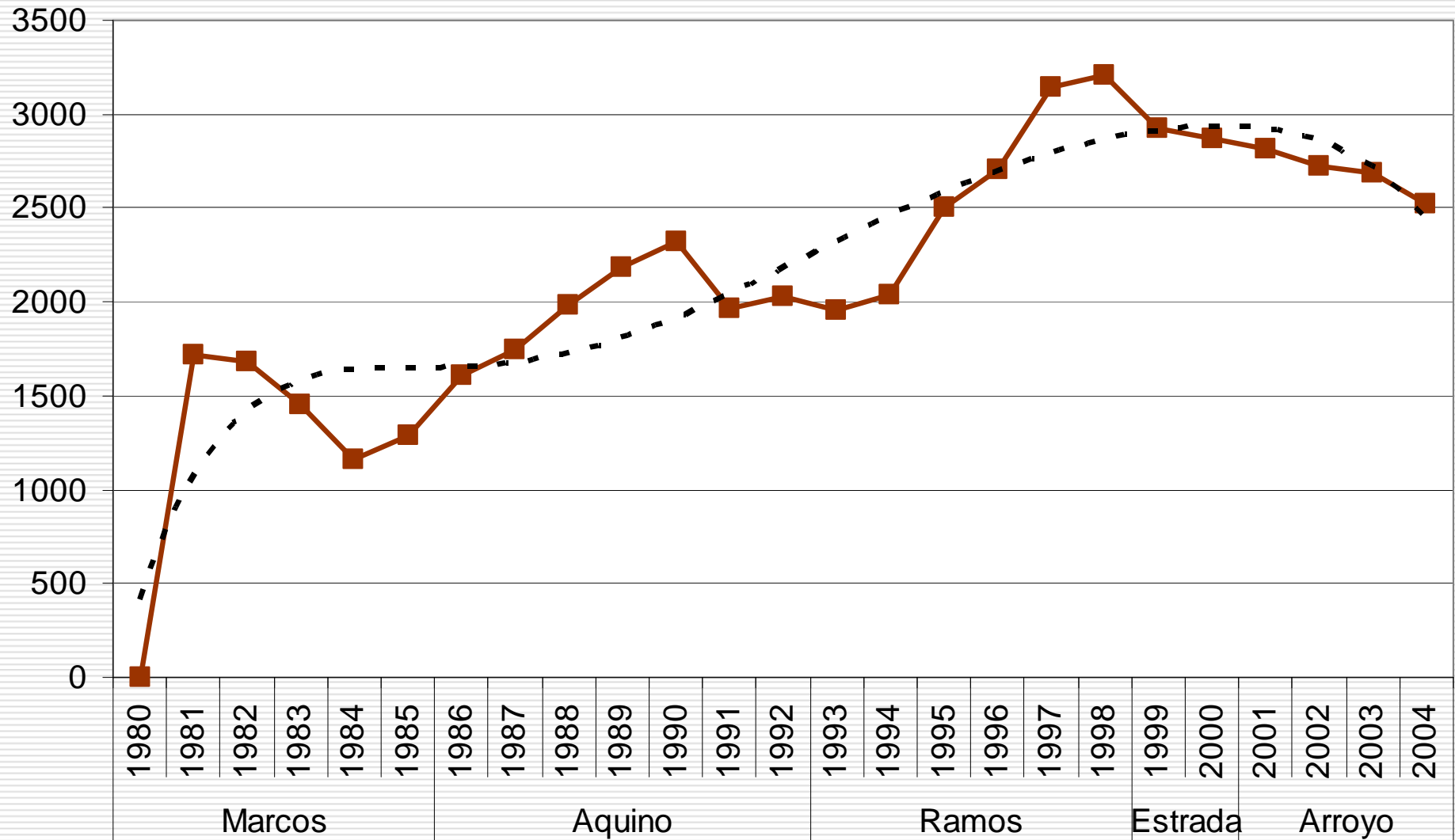
Debt per capita vs. Social Services per Capita *in pesos - real terms (1985 prices)*



- Figures show that the drop in debt payments from 2006 to 2007 did not translate into a proportional increase in social spending.

Neglecting Education

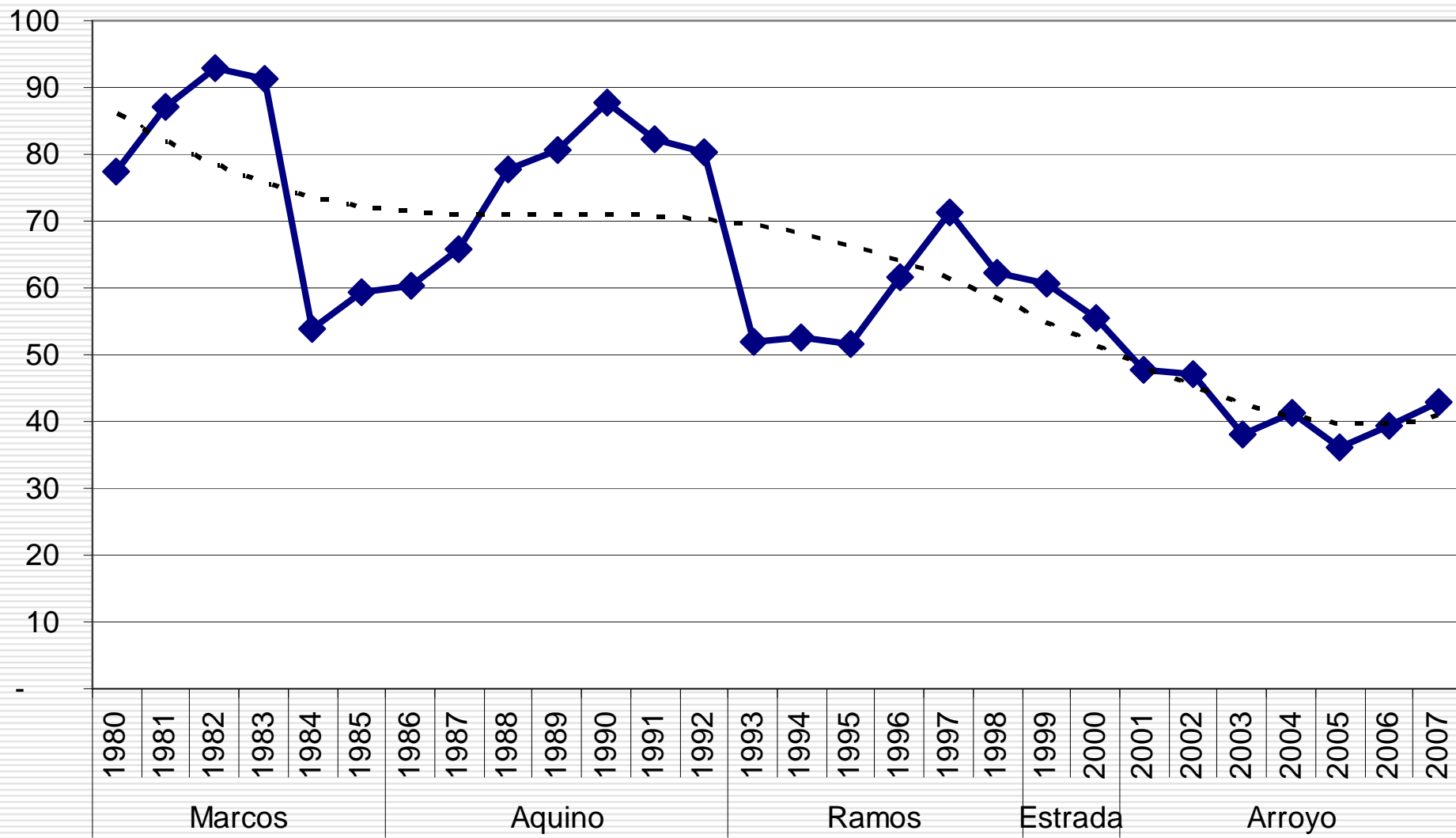
Basic Education Spending per pupil (deflated)



Source: NSCB Philippine Statistical Yearbook 2005

Neglecting Health

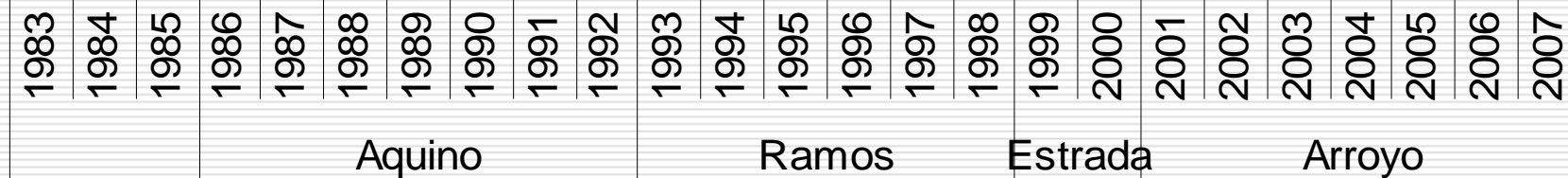
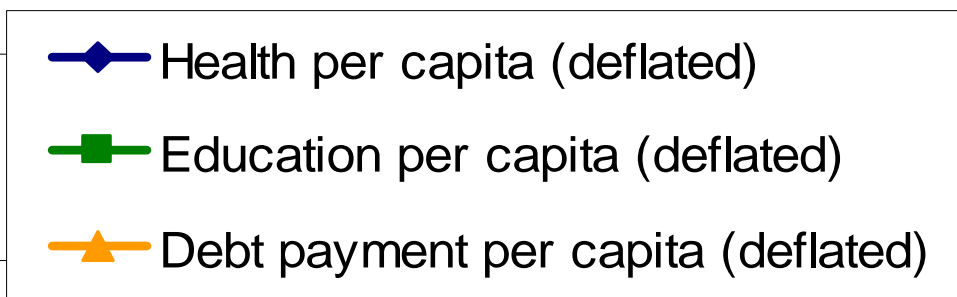
Health per capita (deflated)



Source: NSCB Philippine Statistical Yearbook 2005

Suffer the Future

Debt per capita vs. Health, Education per capita
1985 prices



The Burden of Debt

- **National Government Debt per Filipino** (using 2007 NG Debt and NSCB projected 2007 population) **P 42,819.42**

- **Debt Servicing per minute** (using data on Interest and Principal payments on 2007) **P 1,165,898.02**

- **External Debt as % of GDP** (using NSCB 2007GDP data and external debt data as of Sep 2007 from BSP) **34.51%**

The Suffering Continues

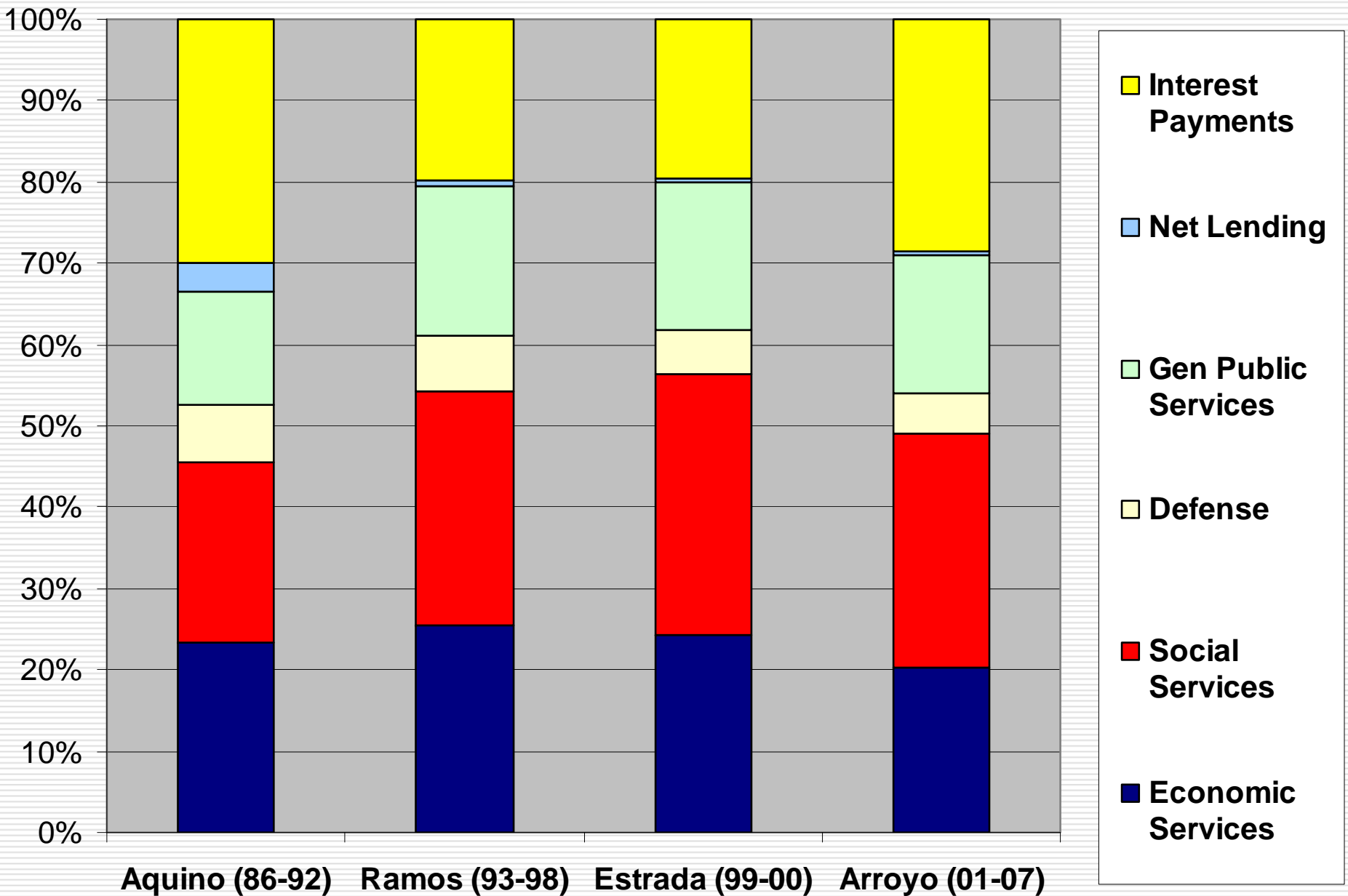
DBM Proposed Spending for 2008 (in billion pesos)

Debt Service	624.09		Education	181.86
<i>Interest Payments</i>	295.75		Health	22.90
<i>Principal Amortization</i>	328.34		Agriculture and Agrarian Reform	41.18
			Environment	10.06
			Military	61.42

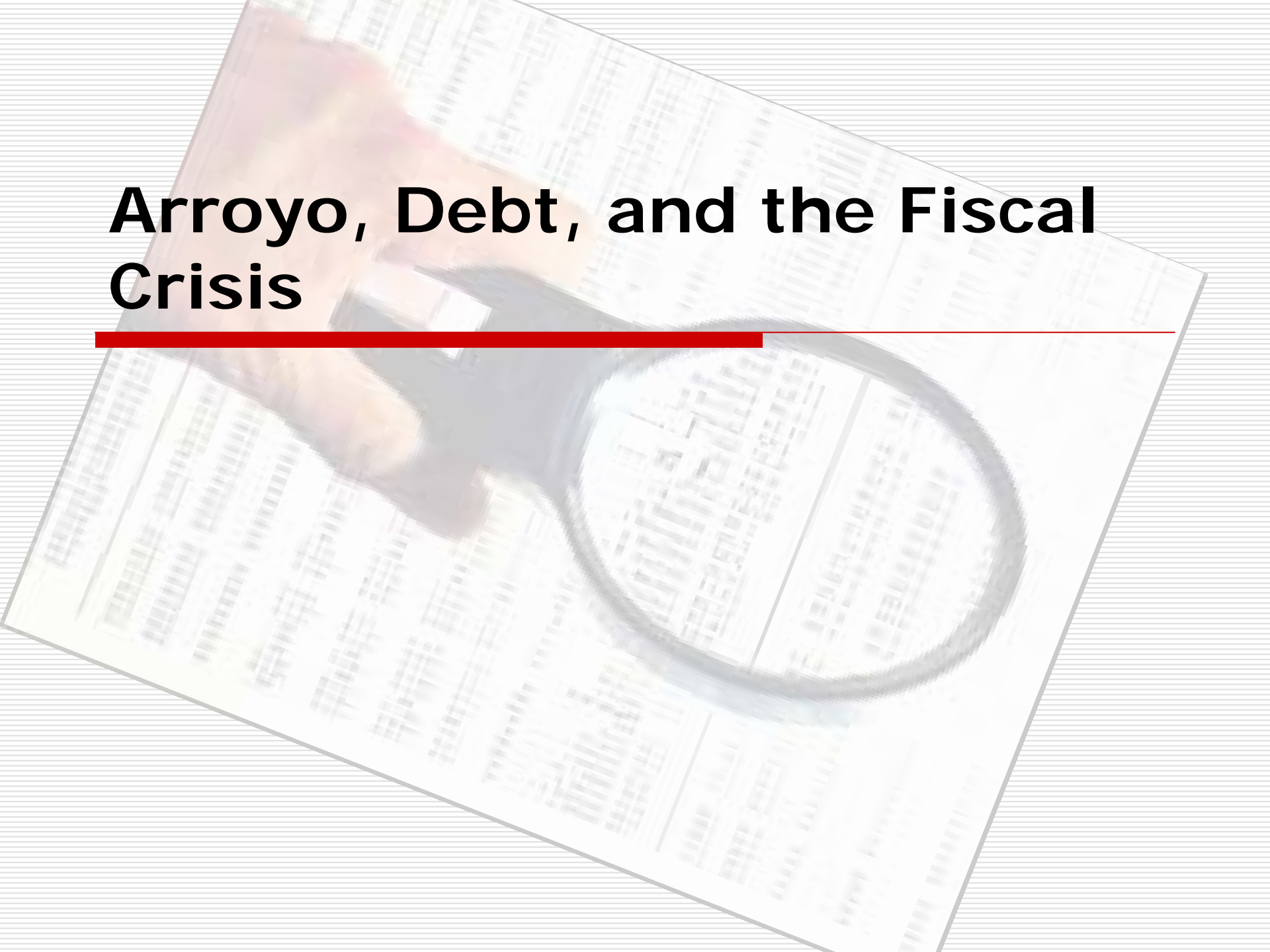
Note: Breakdown of totals may not sum up due to rounding of digits.

Distribution of Total Spending, per Administration

in percentages



Arroyo, Debt, and the Fiscal Crisis



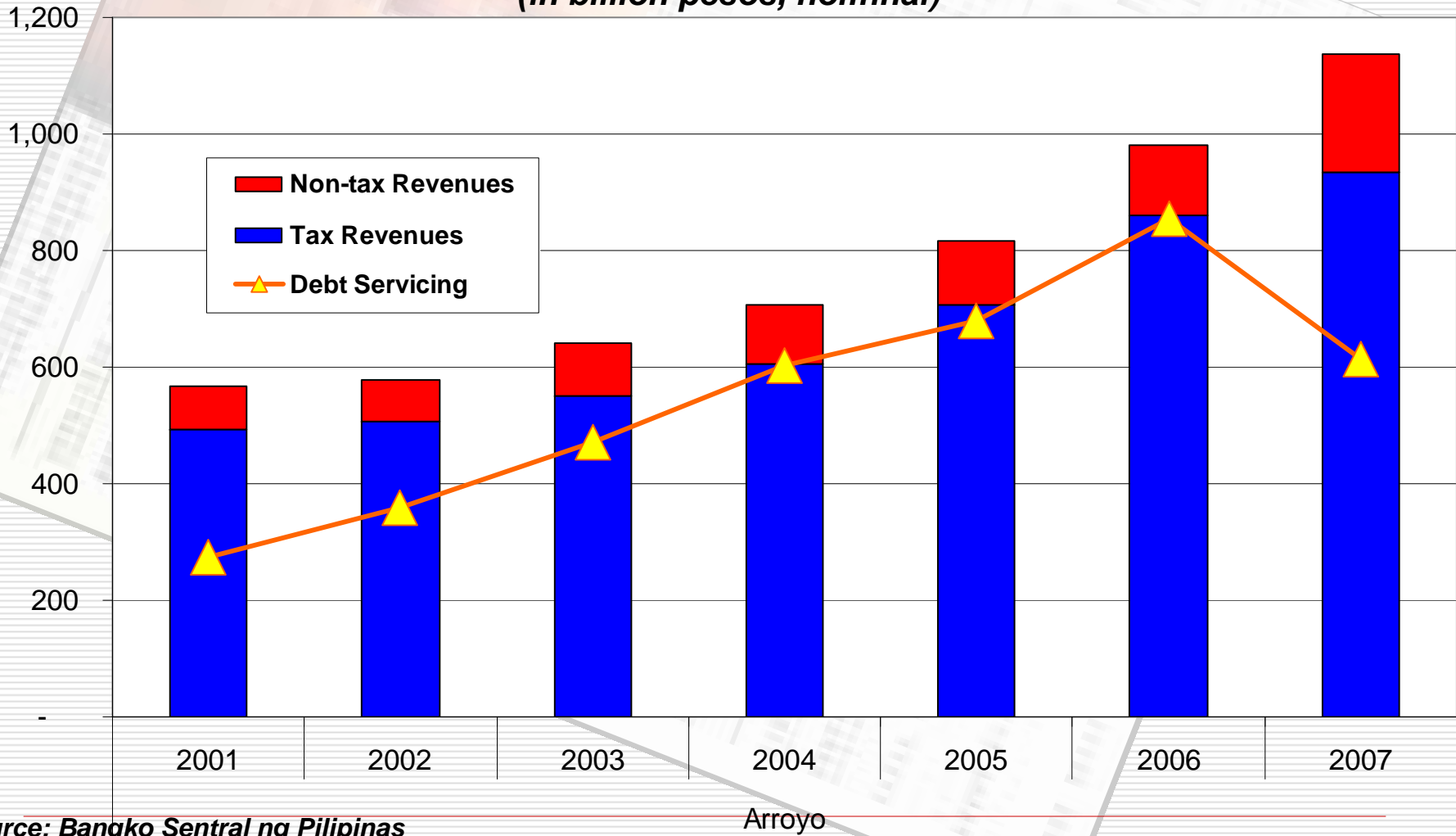
The 2004 Fiscal Crisis

- In 2004, the Arroyo administration finally admitted and declared a fiscal crisis, after it incurred huge amounts of deficits year after year.
 - It survived the crisis and reduced the deficit mainly through
 - Further increasing its borrowings up to 2006
 - Aggressive indirect taxation schemes like E-VAT
 - Spending cuts
 - Increasing non-tax revenues, mainly through privatization
 - Increase in GDP/GNP – translating to increase also in other tax revenues – have to check figures for direct taxes
-

Beefing-up Revenues to Survive

Revenues vs. Debt Servicing - Arroyo

(in billion pesos, nominal)

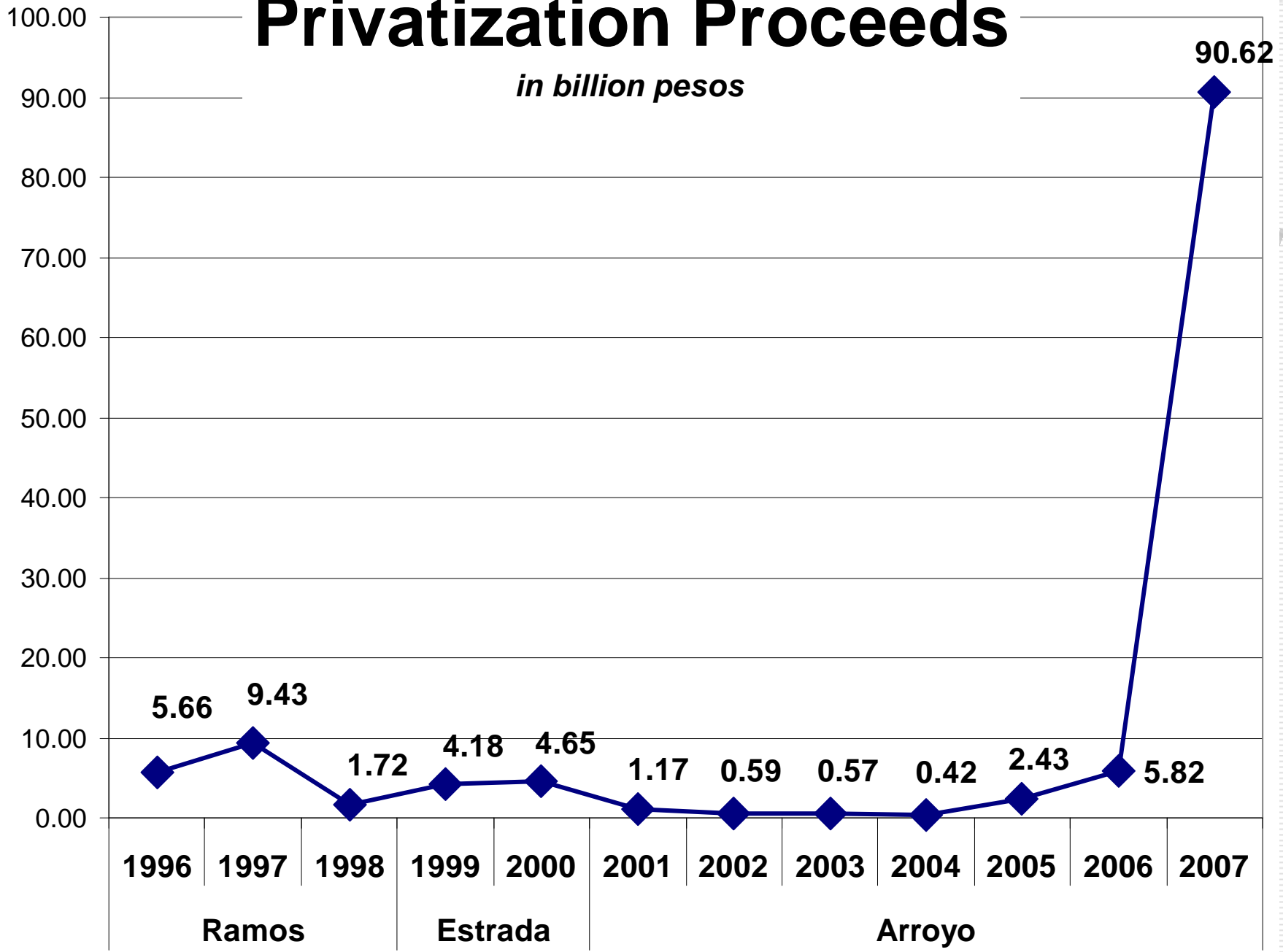


Source: Bangko Sentral ng Pilipinas



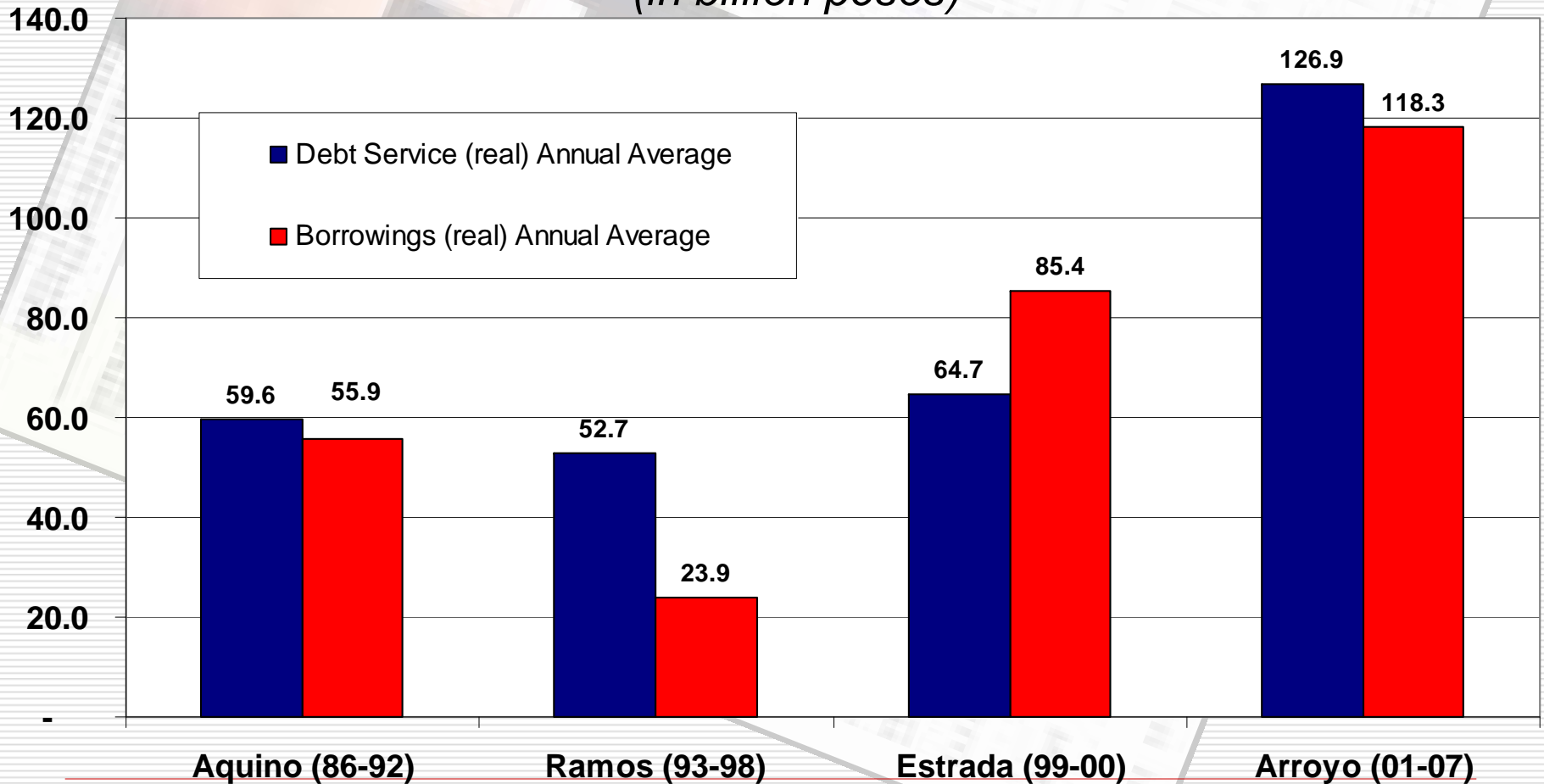
Privatization Proceeds

in billion pesos

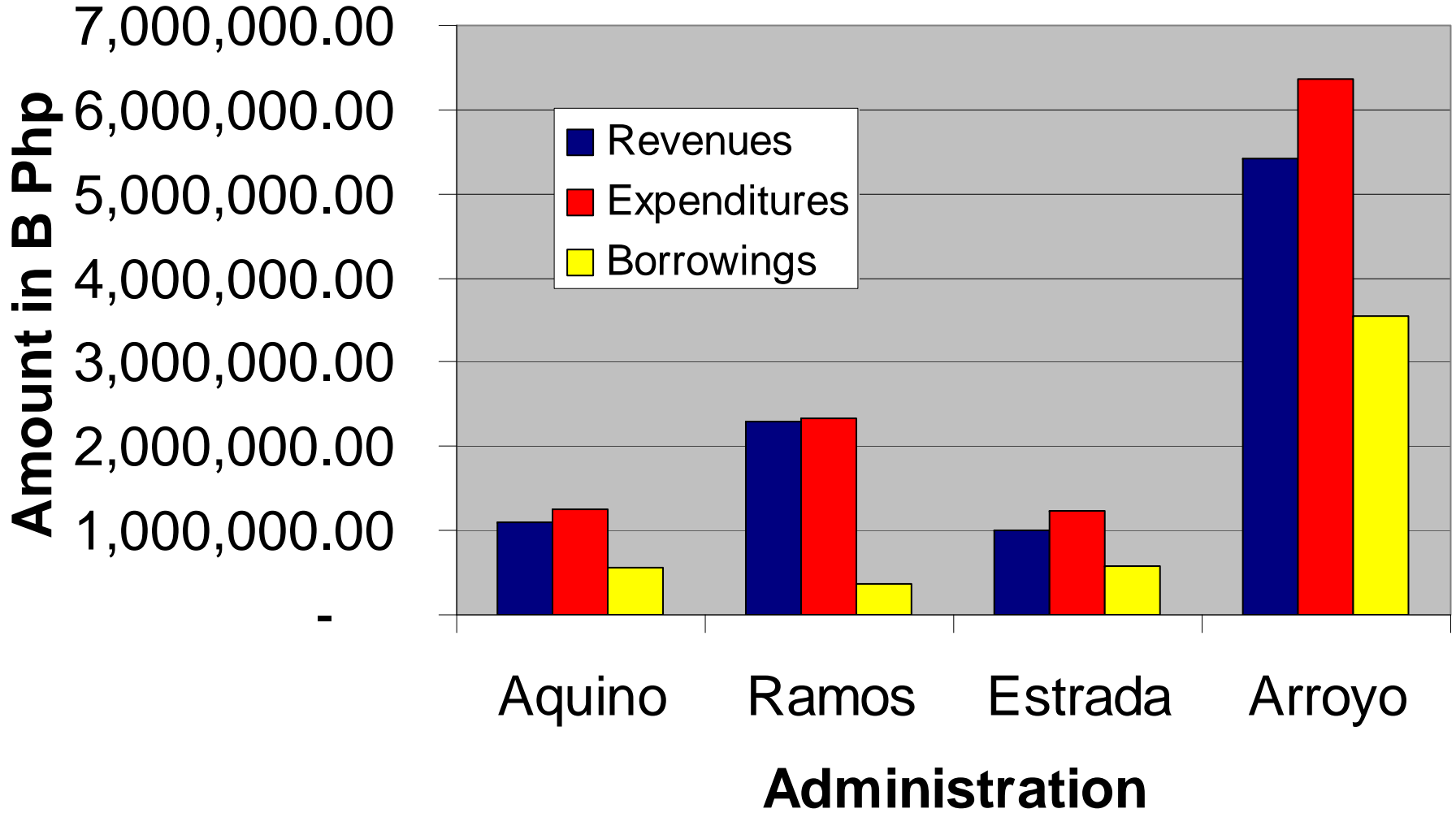


Arroyo Regime - Still Biggest Borrowings, Largest Debt Payments

Debt Service and Borrowings, in real (1985) prices, Annual Average
(in billion pesos)



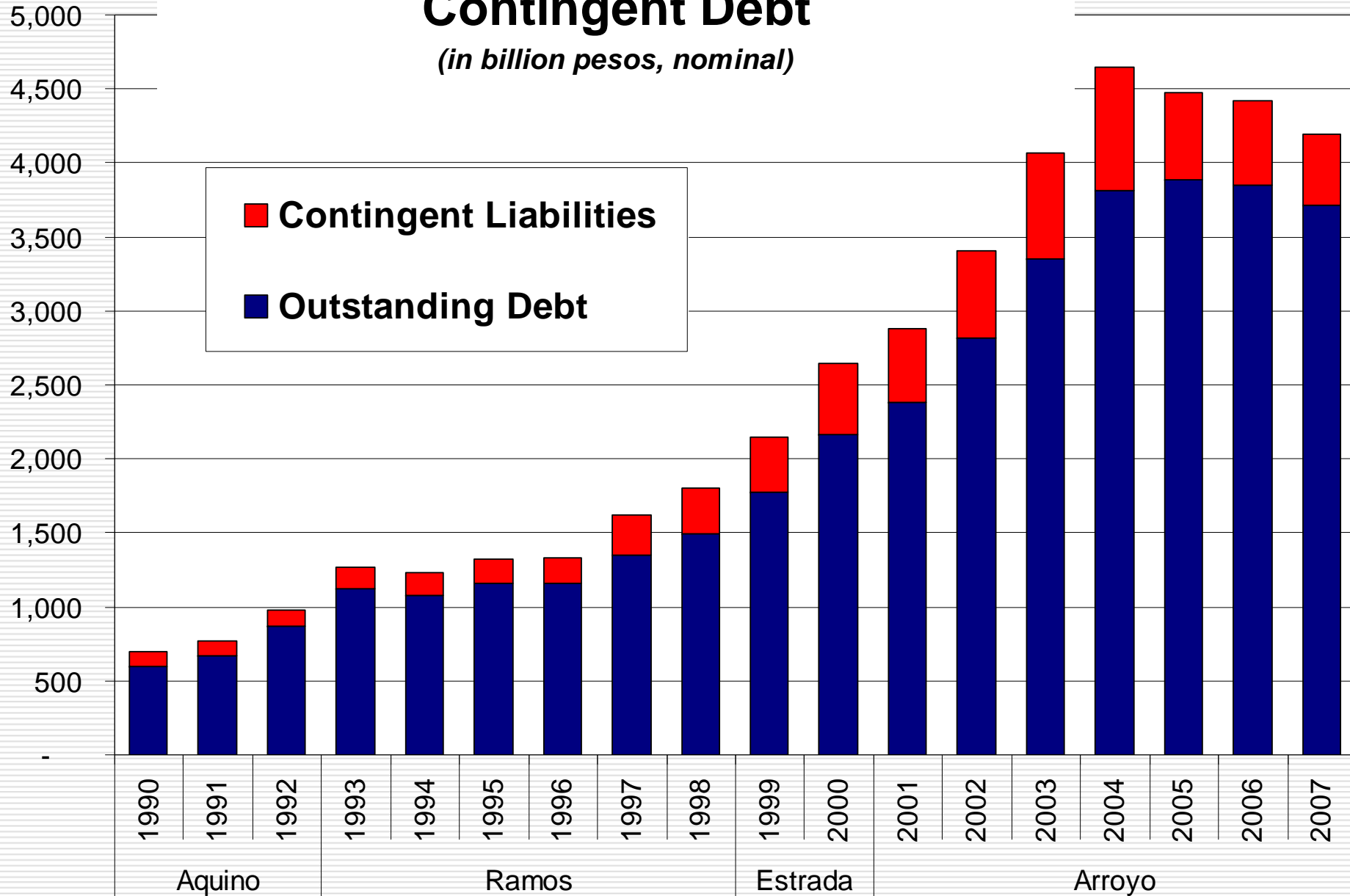
Comparing Aquino's, Ramos', Estrada's and Arroyo's Revenues, Expenditures and Borrowings



National Government Contingent Liabilities

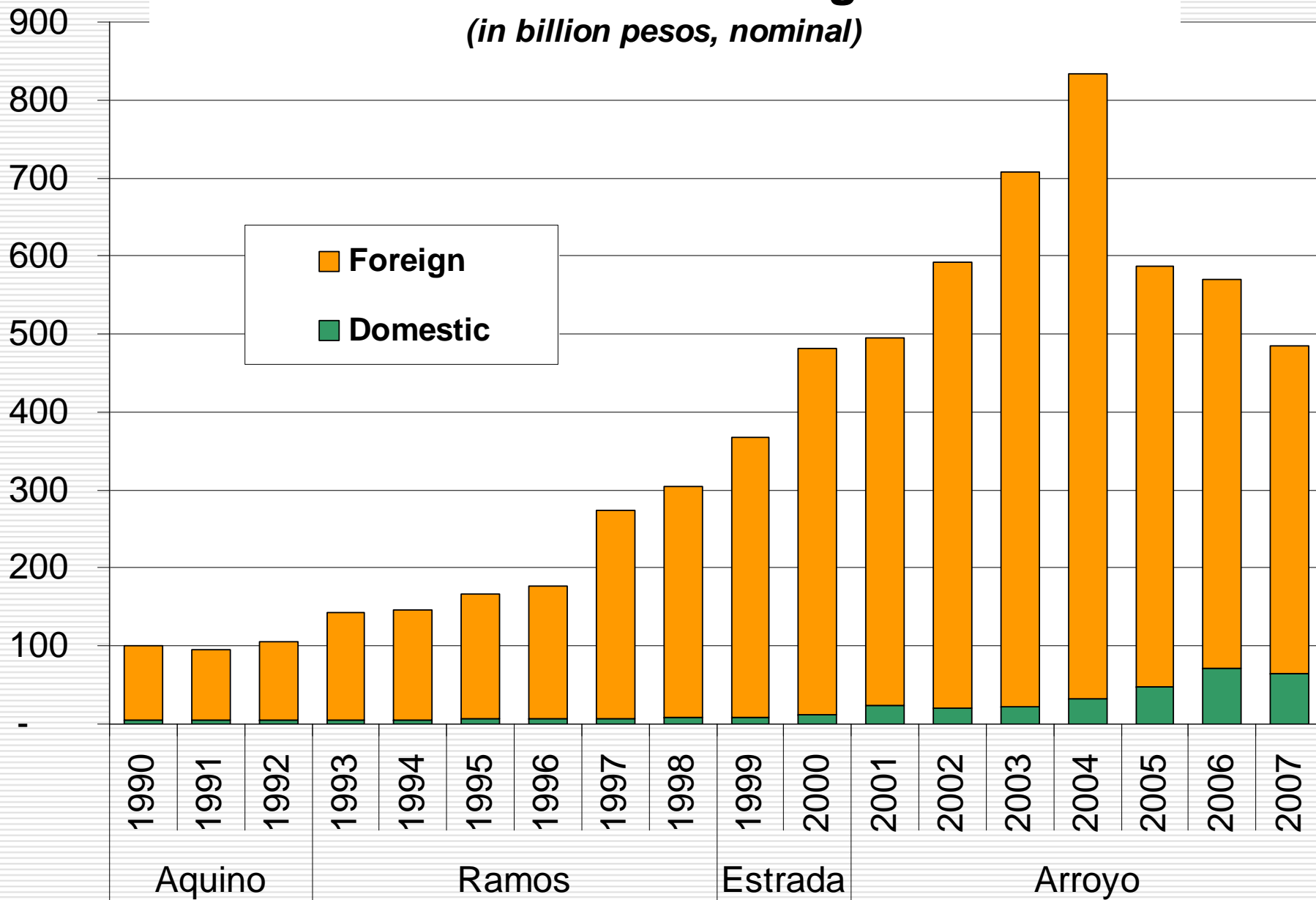
National Government Outstanding and Contingent Debt

(in billion pesos, nominal)



National Government Contingent Liabilities

(in billion pesos, nominal)



Contingent Liabilities and the Prepayment of NPC Debts

- The Philippine Government guaranteed some of NPC's debt to its lenders. Some of its debts thus reflect in the Contingent Liabilities
- The sharp decrease in contingent liabilities may have been because of the pre-payment of the debts of National Power Corporation (NPC).
- In December 2004, the Power Sector Assets and Liabilities Management Corporation (PSALM), in accordance with the Electric Power Industry Reform Act of 2001 (EPIRA), pre-paid up to US\$1 billion of the National Power Corporation's (NPC) debt or about 14% of total NPC debt.

A hand holding a magnifying glass over a document with a red underline.

**BRIEF HISTORY OF DEBT
RESTRUCTURING / RESCHEDULING /
DEBT "RELIEF" for the PHILIPPINES**

- **1960s – 70's** - the Philippines was unable to service a significant portion of its private debt. Negotiations for debt service rescheduling with the London Club resulted in new loans for the Philippines as part of the debt rescheduling package.

- **1983** - The Philippines defaulted on its foreign obligations in 1983 and negotiated for a moratorium on debt service payments in 1984.

- **1985** - Philippines underwent a debt rescheduling measure thru the Baker Plan which involved increased bank lending for the implementation of the adjustment program under the IMF.

Sources : US Department of State, "1993 Country Reports on Economic Practice and Trade Reports"; www.rojasdtatabank.org; Training Package 9 - Commercial Debt Chapter IX.3.a: The London Club , The London Bank; World Bank Operations Evaluation Department, 2001;

- **1986** - There was a gradual shift towards longer-term and more concessional sources of financing, away from short-term, commercial debts.
- **1989** - The **Brady Plan** initiated for the Philippines, culminating in the signing of the 1992 Securitization Deal. Loans were “converted” into Brady Bonds.
- **1990** – World Bank financed the Debt Management Program Loan to the Philippines.

- **March 1993** – Paris Club and IMF arrangements ended with the Philippines generally in compliance with the IMF targets.
- **1994-1997** – The Philippines started its IMF Exit Program last 1994 and ended in 1997.

- **1996 – 1997** - the Philippines swapped \$4.4 billion of Brady bonds for uncollateralized long-term bonds as a form of debt reduction. Because the swap was effected at a discount based on secondary market prices, debt outstanding commensurately reduced.
- **2000's** – Pre-payment (2006), Privatization and Regressive Taxation were implemented as policies.

Relevant National Laws and Policies on the Debt & Borrowings

RELEVANT LAWS	AMENDMENTS	DESCRIPTION
FOREIGN BORROWINGS ACT (R.A. 4860) dated September 8, 1966	AS AMENDED BY PRESIDENTIAL DECREE NO. 1939	This law authorizes the President to obtain foreign loans for economic development as well as to guarantee foreign loans and/or bonds incurred by government owned and controlled corporations.
P.D. No. 1177, Section 31 Automatic Appropriations (July 30, 1977) Now incorporated in Article VI. Section 24. of the 1987 Administrative Code		A Presidential Decree that prioritizes debt servicing which assures creditors of regular and updated debt payments at all times.

**Philippine Constitution
Section 20, Article VII**

This law gives authority to the President to contract or guarantee foreign loans on behalf of the Republic of the Philippines with the prior concurrence of the Monetary Board, and subject to such limitations as may be provided by law.

**Philippine Constitution
Section 21, Article XII**

Aside from ensuring that Foreign loans can only be incurred through monetary authority, this Constitutional provision also gives prime importance on public access to information on these loans.

**BSP CIRCULAR NO. 1389
DATED 13 APRIL 1993, AS
AMENDED (PART TWO,
CHAPTER I)**

**A Bangko Sentral ng
Pilipinas circular which
states that Foreign
borrowings of the public
sector need prior BSP
approval except short term
Foreign Currency Deposit
Unit (FCDU) loans specified
under Section 24.4 of
Circular No. 1389.**

The Philippine BOT Law (Republic Act No. 7718), July 26, 1993

AMMENDMENTS:

“An Act amending certain Sections of Republic Act No. 6957, entitled “An Act Authorizing the Financing, Construction, Operation and Maintenance of Infrastructure Projects by the Private Sector, and for other Purposes”.

This provision allows private sectors to finance, construct, operate and maintain priority projects included in the development programs of all concerned government agencies including government-owned and controlled corporations and local government units.

Official Development Assistance (ODA) Act of 1996

AMMENDMENT

REPUBLIC ACT 8182 AS AMENDED BY REPUBLIC ACT 8555, OFFICIAL DEVELOPMENT ASSISTANCE ACT OF 1996

AN ACT EXCLUDING OFFICIAL DEVELOPMENT ASSISTANCE FROM THE FOREIGN DEBT LIMIT IN ORDER TO FACILITATE THE ABSORPTION AND OPTIMIZE THE UTILIZATION OF ODA RESOURCES, AMENDING FOR THE PURPOSE PARAGRAPH 1, SECTION 2 OF REPUBLIC ACT NO. 4860, AS AMENDED

The ODA Act of 1996 states that it will finance only projects that promote economic development and welfare of developing countries and that it is concessional in character and which contains a grant element of at least 25 percent (calculated at a rate of discount of 10 per cent).”