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Questions and Answers on the Foreign Debt

FREEDOM FROM DEBT COALITION

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1. How much is the Philippine external debt?

$28.2 billion as of the end of 1986. This means that every Filipino owes $503.54 to the country's creditors. At the present exchange rate, the total external debt amounts to P564 billion or 4.4 times our national budget for 1987, or 81 percent of the expected gross national product (GNP) for 1987.

If a person were to drop a P100 bill into a pit every second, it will take 179 years to drop P564 billion worth of bills into the pit.

2. How do we rank among the world's heaviest debtor-countries?

We are among the world's top 10 borrowers. In 1985, the Philippines was number nine among World Bank borrowers, with a cumulative loan of $4.5 billion. It is number four among the top recipients of Asian Development Bank (ADB) loans, with $2.1 billion in cumulative loans. It has also entered into 17 standby-arrangements for a total of Special Drawing Rights (SDR) 2.1 billion and one extended fund facility (SDR 217 million) with the International Monetary Fund (IMF).

3. Was it always this big?

No. It ballooned during the martial law years of Marcos. As of the end of 1986, the external debt was 47 times that of 1965. The present government development program which plans to continue borrowing expects this to grow 55 times. In the next five years, external debt will grow by an average rate of 4 percent a year (while GNP is expected to grow by 6.8 percent each year).

4. How did it pile up?

Heavy borrowing took place during the Marcos martial law years. Data from the Central Bank show that from 1972 to 1980, Philippine foreign loans totaled $33.4 billion.

Borrowing was part and parcel of the Marcos strategy for "development", a strategy strongly encouraged by the World Bank.

5. Whose debts are these?

At the end of 1986, $22 billion or 78 percent was owed by government, and $6 billion or 22 percent by the private sector.

6. Was the government always a heavy borrower?

In 1965, the external debt of the public sector stood at only $359 million. On Oct. 17, 1983, when the Marcos government announced that it was seeking debt rescheduling, the foreign indebtedness of the government had expanded to $15 billion. Since then, the country's creditors have compelled government to guarantee private sector loans. Subsequently, government has been assuming these guaranteed loans.

In 1986, the government accounted for 78 percent of the country's total external debt.

7. What are some of the debts assumed by government?

CDCP (Rodolfo Cuenca), $556 m; Planters' Products (Alfredo Montelibano), $159 m; Nasutra and Philsucom (Roberto Benedicto), $265 m; Landoil Group (Marcos & Jose de Venecia), $165 m.

Meralco/First Holdings Group (Kokoy Romualdez), $317 m; PNOC (Geronimo Velasco), $123 m; Nobel Philippines (Geronimo Velasco), $14 m; Republic Glass Corp. (Geronimo Velasco), $2 m; NPC (Herminio Disini), $795 m; NIDC (Roberto Ongpin), $157 m; PAL (Roman Cruz), $321 m; PLDT (Cojuangcos), $654 m; Bataan Nuclear Power Plant (Geronimo Velasco) $1,200 m.

The Philippine government also assumed the debts for the nuclear power plant in Bataan in November 1986.

8. Who are our creditors?

Multilateral banks such as the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB), foreign governments as well as their lending institutions (Export-Import Bank of the US, of Japan, USAID, OECF, etc.), and over 450 private foreign banks are the country's creditors.

According to some estimates, the 12 banks with the largest exposure to the Philippines, accounting for as much as 40 percent of the $14.4 billion outstanding commercial loans, are as follows: Citibank, $1.802.9 m; Manufacturers Hanover Trust, $488.9 m; Bank of America, $487.4 m; Chemical Bank, $433.2 m; Chase Manhattan Bank, $427.3 m; Bank of Tokyo, $404.3 m; Barclays Bank, $386.1 m; Bank of Montreal, $361.9 m; Banque Nationale de Paris, $284.5 m; Morgan Guaranty, $251.8 m; Fuji Bank, $250.7 m; Dresdner Bank, $146.2 m.

The 12 banks listed above comprise the Advisory Committee with which the Philippine government negotiates on matters dealing with the commercial bank debt. The World Bank, IMF, and other official lending institutions form a Consultative Group with whom the government deals with not only for debts but also for the financial and other economic policies they require the government to adopt. To restructure commercial bank debt, the government talks with the Advisory Committee. To restructure official debt (not all of which can be restructured), the government deals with the Paris Club.

9. How much interest are we paying on the external debt?

During the period 1970-75, we were paying an average of $134.8 million in interest each year. From 1976-1980, the average yearly interest burden rose to $511.6 million. This went up further to $1,591.8 million in the four-year period from 1981-85 (average per year). Last year, the country paid $1,589 million in interest alone.

10. How much of our export earnings goes to paying these debts?

From January to September 1986, interest and principal payment hit 83.2 percent of our total export earning.

11. How much of the national budget goes to debt repayment?

Since 1983, debt service has increasingly taken a bigger share of the national budget: 15.7 percent in 1983, 23.6 percent in 1984, 23.7 percent in 1985 and 46.6 percent in 1986.

This year, P49.7 billion, or 38.5 percent of the national budget, will be used to service the government's debts. This means that at least 38 centavos of every tax peso will be used for debt service.

The national budget tables for 1987 enumerated a few of the government corporations whose debts will be paid out of this budget, and they are:

Light Rail Transit Authority, P373,900,000; National Development Co., P159,900,000; National Electrification Adm., P92,000,000; National Food Authority, P1,328,500,000; National Power Corp, P4,814,000,000; Farm Systems Development Corp., P6,381,000

12. How much of the country's GNP goes to debt service?

Debt service as percentage of GNP — 1970, 11.4; 1972, 9.9; 1975, 13.0; 1980, 18.8; 1985, 9.8

As the above shows, easily 10 percent of the gross national product or GNP goes to debt service. This means that out of every 100 cavans of palay produced by our farmers, 10 will go to pay for the external debt. The same is true for the seafood harvested by our fishermen, the manufactured goods produced by factory workers, etc.

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