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The Philippines
A Review of External Debt

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ABBREVIATIONS

BOP - Balance of Payments
CFBP - Consolidated Foreign Borrowing Program
D/As - Documents Against Acceptance
DBP - Development Bank of the Philippines
DOD - Debt Outstanding and Disbursed
DRS - Debtor Reporting System (World Bank)
DSC - Debt Servicing Capacity
DSR - Debt Service Ratio
FCDU - Foreign Currency Deposit Unit
ICC - Investment Cordination Committee
ICOR - Incremental Capital-Output Ratio
IMF - International Monetary Fund
MEDIAD - Management of External Debt and Investment Accounts Department, Central Bank
MLT - Medium- and Long-term
MUV - Manufacturing Unit Value
NEDA - National Economic and Development Authority
NIDC - National Industrial Development Corporation
O/As - Open Accounts
OBU - Offshore Banking Unit
OIDC - Oil Importing Developing Country
PDCP - Private Development Corporation of the Philippines
PNB - Philippine National Bank
SAL - Structural Adjustment Loan
SMNP - Subcommittee on Major National Projects

PREFACE

This report presents the findings of a mission which visited Manila in April 1983 to study the size, structure, and policy implications of the country's rapidly growing external debt. The mission consisted of Sarshar Khan (Chief), Jayati Datta Mitra, Beatriz Florendo (Bank staff), and Christopher Browne (IMF).

The study was originally designed for the internal use of the Government and the Bank to provide policy guidance. The analysis for the study was, therefore, completed in mid-1983 and its results were discussed with Government officials in September. Subsequently, because of the balance of payments crisis in late 1983 and wider interest in the study, it was agreed with the Government that the study may be finalized and circulated more widely. The full report was discussed with Government officials in March 1984 and the final draft shown to them in July-August 1984.

The economic situation has changed considerably since the completion of the major part of the analysis in 1983. First, the balance of payments crisis occurred in October 1983 and attempts to resolve it are still continuing. Second, the data on the balance of payments, reserves, and debt came under closer scrutiny and are being revised; some revised data have recently become available. The economic situation is still fluid and economic prospects not yet clear. These developments are being covered in detail in the Bank's Country Economic Memorandum currently under preparation. As such, a complete revision of this report has not been attempted; its focus remains on he analysis of developments from mid-1970s through 1982. However, revised data (as of August 1984) have been used wherever possible, and the 1983 crisis, together with its policy implications, has been discussed briefly.

The report consists of summary and conclusions and the main report. Chapter 1 of the main report reviews the economic background and the emergence of current account deficits in the mid-1970s. Chapter 2 analyses the growth and structure of external debt and the resulting debt service burden. Chapter 3 relates the external borrowing of the public and private sectors to their pattern of investment and savings. Chapter 4 reviews the institutional framework and performance of the country's debt management system. Chapter 5 draws implications of the debt analysis and recent economic events and suggests policy and institutional improvements.

TABLE OF CONTENTS

Page No.

LIST OF TEXT TABLES

SUMMARY AND CONCLUSIONS

In recent years, the Philippine economy has had to weather a number of adverse exogenous developments: the second round of oil price increases of 1979-80, a sharp deterioration in the terms of trade, international recession, and an associated drop in the demand for Philippine exports. These developments, combined with expansionary demand policies, led to an increase in the country's current account deficit and a rapid accumulation of external debt. Recognizing the emerging problems, the Philippine Government invited a World Bank mission to examine the growth and structure of the Philippine debt, analyze the policy implications of the country's debt burden, and assess the institutional framework for debt management.

Growth and Structure of External Debt

The Philippine external debt has grown tremendously since the early 1970s. Medium- and long-term (MLT) debt increased six times during 1970-82. Its ratio to GNP increased from 26% to 33%. During the period 1976-82 (for which the relevant data are available) the ratio of total debt (including all IMF obligations and net external liabilities of the banking system) to GNP increased from 24% to 49%, and the ratio of this debt to exports increased from 123% to 239%. Both of the end-period ratios were too high and affected outside perceptions of the country's creditworthiness.

At the same time, the country's debt structure became increasingly skewed toward short-term debt, and the share of financial institutions in the credit mix rose markedly. By 1982, the share of short-term debt and gross banking system liabilities had risen to nearly 47% of the total, and about 68% of total obligations were owed to banks and financial institutions. This greatly increased the vulnerability of the country to short-run international market developments. In addition, the Philippines' dependence on credit rollovers increased at a time when international banks became increasingly concerned about their exposure in developing country borrowers, including the Philippines. Two implications of the above are noteworthy. The predominance of financial institutions in the creditor mix led to a rise in the share of non-concessional debt in total commitments with the consequent rise in the country's interest service obligations. Moreover, the continuing use of some of the short-term credit for financing working capital needs, normally not a cause for undue alarm, rendered non-bank Philippine borrowers vulnerable to dislocations in productive activity in the face of possible disruptions in credit rollovers.

The rapid growth of total external debt in recent years, the preponderance of financial institutions in the credit mix, and the deceleration in export growth led to a sharp deterioration in the debt service ratio (DSR). Between 1977 and 1982, the DSR for MLT debt increased from 12% to 27% and for the total debt from 15% to 38% (the latter DSR includes MLT debt service, IMF repurchases and charges, and interest payments on revolving short-term debt and on gross banking system liabilities).

Macroeconomic Aspects of Debt

The underlying reasons for the massive growth of the Philippine external debt can be traced partly to external factors and partly to domestic policies.

After the payments crisis of 1969-70, and the corrective measures taken in the form of devaluation and an improved debt management system, the country's current account deficit was roughly in balance during 1970-74. Helped by the improved terms of trade, the country even ran a current account surplus in 1973. However, the account became negative in 1974, and the deficit quickly expanded, reaching 6% of GNP in 1980-81 and over 8% in 1982. On the external side, the most immediate cause for these large deficits was a loss in the terms of trade of 60% during 1974-77 and (after a gain of 15% in the next two years) 39% in 1979-82. In the latter period alone, this loss accounted for about $1.4 billion increase out of a total of $2.4 billion increase in the current account deficit.1/ Another $1.7 billion was accounted for by increased interest payments. Thus, it appears that the external factors were mainly responsible for the increase in the current account deficit (and consequent debt accumulation) in recent years. However, a closer examination shows that domestic policy variables, besides the longstanding structural problems of the economy, also contributed to these deficits. First, the import volume increased substantially during 1978-82, contributing about $1.8 billion to the increase in the current account deficit and offsetting an otherwise good performance of exports (whose volume increase had a positive contribution of nearly $1.3 billion). This increase in imports was due to a number of factors, including the easy availability of private foreign credit, appreciation (by about 20%) of real effective exchange rate, and maintenance of relatively high investment and consumption levels.

The domestic investment level 2/ has remained high relative to both GNP and national savings (and relative to the rates in other countries). The investment/GNP 3/ ratio, which had remained around 21% during 1970-73, jumped

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1/ The various components of the increase in the current account deficit discussed here do not add up to $2.4 billion because of the small surplus experienced on account of services (excluding interest payments) and transfers.

2/ Refers to total investment. The fixed investment ratio shows a similar trend.

3/ It is believed that the investment and savings data are overstated in the Philippines. We understand that these are being scrutinized and might be revised downwards. The gap is, however, not likely to be significantly affected.

to 27% in 1974 and to over 30% in subsequent years. But the national savings rate lagged behind and the investment-savings gap expanded from less than 1% to 5% or more, translating into the current account deficits discussed above.

A major part of this investment-savings gap was attributable to the public sector (in fact, to public corporations) which ran increasingly large deficits during the period. The external debt data show that the national government and public corporations were also expanding their share in the use of foreign funds during 1978-82.

Although investment rates had been reasonably high in the early 1970s and jumped up significantly in the mid-1970s, they do not appear to have contributed sufficienty to higher growth rates towards the end of the 1970s. This was at least partly due to the long gestation periods of a large number of infrastructure projects undertaken during the 1970s. The ICOR has remained high, growth rates have dropped (in part on account of the international recession and low export demand), and debt servicing capacity expanded insufficiently, contributing to the current payments crisis. These issues involve macroeconomic policies beyond the scope of this study, but they underscore the need for the Government to reexamine the pattern and efficiency of investment, and the relationship between debt management and economic management.

Even if investment efficiency had been higher, the country could still run into difficulty for lack of appropriate response to the worsened international financial climate. The sizeable domestic resource gap discussed above continued to be filled in by foreign resources at an increasing cost and risk. With the decline in international inflation rates during the 1980s, real interest rates became positive and high, and the country could no longer benefit from the eroding real burden of foreign debt. Simultaneously, because of the changed external environment, the country had to depend increasingly on commercial loans, variable interest loans, and short-term financing. Their combined effect was that the total debt service increased dramatically and the country became increasingly dependent on credit rollovers and vulnerable to short-term changes in international financial markets.

Under the prevailing external economic conditions, more active and stronger domestic adjustment policies were needed. Some adjustment took place during 1980-82 when the growth rates of GNP, investment, and consumption fell. But the adjustment was not sufficient to prevent an expanding current account deficit. The public sector remained largely unresponsive to the changed situation, failing to curtail investment sufficiently or generate adequate resources.

Debt Management

Following the 1969-70 crisis, the Philippines had established a competent institutional framework for external borrowing and debt management. In fact, this framework is considered to be among the better ones in LDCs. The Management of External Debt and Investment Accounts Department (MEDIAD) in the Central Bank collected and categorized data for both MLT and short-term debt. It was also responsible for screening applications for foreign borrowing, determining borrowing terms, monitoring debt service liability (as defined by law), and formulating future borrowing strategies. Many of these functions, especially regarding data management, were performed competently. But the system proved to be inadequate in the changed circumstances of the early 1980s. It was especially inadequate in exercising control on foreign borrowing (particularly, the short-term and public sector borrowing), in signalling emerging debt service problems (partly because of the inadequacy of the official debt service ratio), and in failing to take into account the burden of banking system liabilities. The latter are supervised by a different department of the central Bank. Discrepancies between the MEDIAD and BOP data on both MLT and short-term capital flows and uncertainty about the banking system's external liabilities created doubts about the reliability of the debt data and affected the country's creditworthiness. More importantly, the system was not closely linked to the broader tasks of macroeconomic management. It performed only a limited role in assessing the full implications of the magnitude and structure of private borrowing, monitoring the public sector's access to foreign resources, highlighting potential problems (such as those stemming from relatively high foreign bank exposure and a large share of the short-term debt), and in charting foreign borrowing options and strategies.

Implications for the Future

Recent Developments and the 1983 Crisis. Drawing policy implications for the future needs to take into account not only the longstanding problems but also the more recent developments. As mentioned above, the current account deficit had expanded substantially in 1982. Because of the constraints on the availability of MLT funds, the country relied on short-term credit lines, and the net international reserve position became negative. In 1983, despite some additional restrictive policies adopted towards the middle of the year, the balance of payments position worsened. The public sector demand (primarily investment outlays of public sector corporations) remained strong, generating pressures for imports. Export performance, however, remained weak. The current account deficit expanded from 8.1% of GNP in 1982 to 8.2% in 1983. Furthermore, due to both political and economic uncertainties, capital flight increased, foreign credit availability decreased, and international reserves fell sharply. Consequently, the Government sought a moratorium on debt repayments to commercial banks, further devalued the peso, reimposed foreign exchange controls, reduced public investment program, increased import duties, and opened discussions with the commercial banks for debt rescheduling. At the end of 1983, gross external obligations had increased to $25 billion, up from $24.3 billion in 1982, and the total debt service ratio (on the basis of scheduled payments) remained high at 36%.

Implications for Macroeconomic Policy. In the context of this study, one of the main objectives of the Government's adjustment efforts will have to be to improve the country's creditworthiness: for example, the net official reserves need to be built up to cover about three months of imports, the short-term debt and commercial banks' liabilities need to be reduced, and the ratios of debt and debt service to exports need to drop significantly. This, in turn, would imply adoption of policies (with somewhat different policy mix for the short- and medium-term) to curtail current account deficits and arrange requisite capital inflows at reasonable terms.

In the short-term, the country will need to restrain domestic demand sufficiently to limit the annual current account deficit to about $1-1.5 billion. This would imply increased domestic savings, lower public sector deficits, a tight monetary policy, continued price corrections, and little or no growth during 1984-85.

The demands of medium-term adjustment would be somewhat different. In view of the high level of country's indebtedness and debt service payments, the scope for additional borrowing will remain limited through the early 1990s. The proposed rescheduling of debt will ease the immediate payments problem but will necessarily cause a hump in the late 1980s and stretch out the debt service payments into the 1990s. The country will, therefore, have to follow a very careful course of macroeconomic (including debt) management. First, domestic absorption will have to remain constrained and savings increased. Second, a delicate balance will have to be maintained in external borrowing. Sufficient capital inflows (foreign savings) will be needed to resume growth, but too much borrowing (given the existing large debt), if available, could damage creditworthiness. On the other hand, lack of access to foreign capital could reduce investment levels, constrain growth of output and exports, and prevent a long-term resolution of the debt problem. Third, as a corollary of the above, investment efficiency will need to be improved, import growth restrained, and determined efforts made to expand exports. Export growth will play an especially crucial role in the economic recovery by facilitating necessary growth in imports and investment. Continuation of structural reforms and of the recent movement towards flexible exchange rate should facilitate achievement of these objectives. Simultaneously, the Government will need to tighten its debt management and utilize foreign savings efficiently as discussed below.

Implications for Debt Management. Several steps appear to be needed for improving the country's debt management to face the challenges of the late 1980s. First, the Central Bank will need expanded capacity and facilities for data management and forecasting and more adequate control over all debt data: MLT debt, short-term debt, and the banking system's liabilities and assets. Some improvements in this area were initiated in 1983. The Central Bank should also adopt more appropriate tools of analysis (e.g., a comprehensive debt service ratio and other debt indicators) to help chart future borrowing policies. Second, to perform the enhanced debt management functions, MEDIAD's status may have to be upgraded and its coordination activities vis-a-vis other agencies more firmly defined. Third, the country's debt and debt service burden relative to its GNP and exports is too high. Debt managers, therefore, need to plan to reduce the level of this exposure over time. Fourth, debt management needs to be fully integrated with macroeconomic management within a framework of multiyear programming. The system of public sector project approval, and consideration of their foreign exchange requirements, needs to be streamlined and strengthened. The present system, focused on the Investment Coordination Committee (ICC), was intended to take hold of the overall process of resource budgeting but has not been able to do so. It needs to be made more effective and linked to the budgetary process. The task of debt management, being closely linked to macroeconomic management, needs political commitment and support of the highest levels of the Government.

1. SETTING THE STAGE

Economic Background

1.01 The size and pattern of external borrowing essentially reflects developments elsewhere in the economy. Therefore, to put external debt issues in perspective, it is best to begin by reviewing the relevant economic trends and policy responses.[1/]

1.02 The acute balance of payments difficulties of 1968-69 (characterized by a rapid growth of external debt, particularly short-term debt) were followed by an initial period of modest recovery and subsequently by a sharp increase in the level of economic activity in the Philippines in 1973-74. The strong recovery in 1973 was led by an international commodity boom. The consequent improvement (28%) in the Philippines' external terms of trade boosted its export earnings and led to expansion in domestic output and in public and private investment. The growth in real GNP, which had been about 5% a year in 1970-72, nearly doubled in 1973.

1.03 This situation was soon reversed, however. There was an abrupt deterioration in the country's terms of trade as recession hit the Philippines' key trading partners. The Government responded by using the strong balance of payments position of 1973 to maintain the flow of imports and the momentum of growth. Though the growth rate dropped from the peak registered in 1973, a 6% growth rate was maintained during 1974-79, partly through increasing recourse to foreign savings.

1.04 The external accounts of the economy had been kept roughly in balance during 1970-72; in contrast, the sizable current account surplus of 1973 was followed by a continuous series of current account deficits, ranging around 5% of GNP and reaching 8.1% in 1982. Moreover, despite the fairly high overall growth rate sustained by the economy in the second half of the 1970s, the pattern of growth was marked by certain structural rigidities and inefficiencies: the relatively slow growth of the manufacturing sector (at about the same rate as GNP), its pronounced orientation toward the domestic market, the relatively low efficiency of investment, reduced but still heavy reliance on primary exports and on energy imports, and inadequate domestic resource mobilization.

1.05 These structural inadequacies left the Philippine economy somewhat ill-prepared for the adverse external developments that marked the post-1979 period: the oil price increases of 1979-80, the accompanying recession in the OECD countries, a sharp deterioration in the terms of trade, and disruptions

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1/ For a more detailed account of earlier years, see The Philippines: Priorities and Prospects for Development, Report No. 1095a-PH, Vol. I, World Bank, Washington, D.C., 1975, and The Philippines: Selected Issues for the 1983-87 Plan Period, Report No. 3861-PH, World Bank, Washington, D.C., 1982.

in the demand for the Philippine exports. Moreover, the domestic policy adjustments undertaken in response to these changes proved inadequate. The consequent widening of the current account deficit led to a rapid growth in the country's external debt. The rapidity of this growth, the renewed recourse to short-term loans, the growing reliance on commercial bank credits, and the persistence of high interest rates in the international financial markets caused Philippine debt indicators to deteriorate markedly during 1980-82.

1.06 Before proceeding to analyze the growth and structure of debt (see Chapter 2), it would be useful to examine more closely the factors that were responsible for the persistent current account deficits in the post-1970 period and the macroeconomic policies that influenced the evolution of the Philippine external debt.

Sources of Change in Current Account Deficits

1.07 The current account was roughly in balance during the period 1970-74 when rising export volumes, export prices, or transfers tended to offset other adverse developments (see Tables A.1 and A.2, Statistical Appendix). The real effective exchange rate was also fairly stable except in 1974 when it appreciated, and the country experienced a significant deficit in trade and current accounts (both import volume and import price indices increased sharply). The current account deficit increased to nearly 6% of GNP during 1975-76, largely due to the terms of trade loss, before declining to 3.6% of GNP in 1977.

1.08 The current account deficit shifted up in 1978 and continued to increase in successive years, reaching over 8% of GNP in 1982. Whereas the average current account deficit to GNP ratio was 1.5% in 1970-77, it nearly quadrupled to 6.1% during 1978-82. There appear to be three main reasons for this sharp deterioration in the current account deficit during the latter period. First, the real effective exchange rate appreciated by about 20% which tended to encourage imports and reduce the profitability of exports. Second, the terms of trade deteriorated by about 32%. Third, the nominal (and real) interest rates on foreign loans increased sharply.

1.09 Table 1.1 provides a decomposition of the sources of increase in the current accunt deficit for the period 1978-82. Out of the total increase in the deficit, $1.4 billion was accounted for by the decline in the terms of trade and $1.7 billion by increased interest payments.[2/] The changes in trade

2/ These figures add up to more than the total change of $2.4 billion in the deficit due to the surplus on account of the remainder of services and net transfers.

volume accounted for only $0.5 billion. This, however, masks the fact that import volume increases were substantial, but were largely offset by increases in export volume. [3/]

1.10 Overall, it appears that the external factors (the terms of trade loss and higher interest payments) were mainly responsible for expanding the current account deficits and the consequent accumulation of debt. The sharply increasing debt burden (analyzed in the next Chapter) was having a snow-balling effect: interest payments due on the previous debt were contributing to the further expansion of the debt. However, domestic factors also contributed to these deficits. The domestic demand continued to grow at a relatively high rate despite worsened external environment which resulted in substantial import volume increases. This was partly due to the fact that sufficiently strong corrective measures were not adopted in terms of controlling public sector deficits (discussed in Chapter 3), adjusting exchange rates, and responding to the harder terms of foreign loans. The following section sheds further light on the macroeconomic changes during 1978-82.

3/ The largest single increase (of over $1.0 billion) in the current account deficit occurred in 1982. The major changes in this year were increases in import volume and interest payments, and a drop in service receipts. The import volume increase occurred mainly in intermediate goods and food: fertilizer, iron and steel, iron ore, wheat, and corn (see Table A.27, Statistical Appendix). The drop in service receipts was mainly on account of a drop in interest receipts. Thus, the change in the current account deficit during 1982 was spread over a number of items, partly reflecting the cumulative debt service burden and partly increased imports to maintain consumption and (agricultural) growth.

Table 1.1: SOURCES OF CHANGE IN CURRENT ACCOUNT DEFICITS, 1977-82

	US$ millions 1977-82	% share 1977-82
Increase in the Current Account Deficit	2,448	100.0
A. Price Effects	1,388	56.7
Import Price Effect	1,974	80.7
Export Price Effect	-586	-23.9
B. Volume Effects	494	20.2
Import Volume	1,778	72.6
Export Volume	-1,284	-52.4
C. Interest Payments	1,719	70.2
D. Service Payments Excluding Interest	971	39.7
E. Service Receipts	-1,898	-77.5
F. Net Transfers	-226.0	-9.2

Note: Changes in the current account, services and transfers were calculated in nominal terms relative to 1977. Price and volume effects for exports and imports were calculated by distributing the value increase in proportion to the increases in price and volume indexes.

Source: Central Bank; mission estimates.

Macroeconomic Adjustments

1.11 The large and persistent current account deficits raise questions about the nature of macroeconomic adjustments undertaken during the late 1970s and early 1980s. In such an adjustment process, economic growth may need to be curtailed while investment may need to be protected to some extent to protect future growth. This would, in turn, imply greater restraints on consumption. As Table 1.2 shows, the GNP growth rate dropped only moderately, and the burden of this adjustment was borne unequally by consumption and investment. Though the growth rate of personal consumption fell steadily in 1980-82, it remained higher than the growth rate of GNP. The growth of government consumption actually accelerated towards the end of the period.[4/] On the other hand, the growth rate of total fixed capital formation dropped sharply during 1979-82 and was significantly lower than that of consumption. Furthermore, almost all of the increase in investment occurred in the public sector (see Chapter 3). Thus, it appears that the magnitude and mode of adjustments undertaken in the face of persistent and rising current account deficits were inadequate.

Table 1.2: GROWTH RATES OF CONSUMPTION, INVESTMENT, AND GNP [a/]
(% per annum)

	1978	1979	1980	1981	1982
Total Consumption	4.9	4.4	4.8	3.8	3.6
Personal Consumption	5.1	4.6	5.0	3.9	3.1
Government Consumption	4.0	2.6	3.8	3.6	7.0
Total Fixed Capital Formation	11.7	15.7	2.7	3.1	1.3
GNP	6.8	6.7	4.4	3.7	2.8

/a At 1972 prices.

Source: National Economic and Development Authority; mission estimates.

Financing the Current Account Deficit

1.12 The expanding current account deficit was financed by foreign borrowings, drawing down of reserves, and monetization of gold. All these sources of finance increased steadily (see Table A.3, Statistical Appendix), but the largest increases occurred in foreign loans and banking system liabilities which are discussed in the next chapter.

4/ This was mainly due to increased interest payments.

2. TRENDS IN EXTERNAL DEBT

An Overview

2.01 A number of conclusions emerge from a review of the growth and structure of the Philippine external debt during 1970-82. First, the country's total debt had reached $24.4 billion at the end of 1982,5/ amounting to about 62% of GNP. Second, the rapid expansion of this debt during 1979-82 suggests that the Philippine authorities were not sufficiently responsive to the sharp rise in real interest rates in the international markets in the post-1978 period. Third, beginning in 1979, the country's debt structure became increasingly skewed toward short-term maturities, rendering the economy particularly dependent on credit rollovers. Fourth, the share of financial institutions in the credit mix increased substantially. This was responsible, in part, for the rise in the share of non-concessional funds in total commitments. Fifth, a review of the borrower structure suggests that the public sector has been claiming an increasing share of foreign resources, particularly since 1979. Finally, these changes in the size and structure of debt have resulted in a sharp increase in the debt service ratio particularly in the last three years. The service obligations on MLT, IMF, and fixed short-term debt, interest obligations on short-term revolving credits, and interest obligations on net banking system liabilities yields a debt service ratio of 38% in 1982. The share of the public sector, both a major borrower and a major end user of foreign resources, in the total debt service obligations reached about 50% in 1982.

The Evolution of External Debt

2.02 Following the balance of payments crisis of 1968-69, MLT and official short-term debt grew at fairly modest rates during 1970-74. The pace of growth of total debt, and of short-term debt in particular, quickened after the first oil crisis of 1973-74 (see Table 2.1). Though the growth rate slackened thereafter, it was obvious that by 1980-82 the debt had become very large in relation to the size of the economy. In absolute terms, total MLT debt, 6/ which stood at only $2.3 billion in 1974, jumped almost five-fold to $12 billion in 1982. During the period 1974-82, the growth rate of official short-term debt was even higher than that of medium- and long-term debt. Consequently, aggregate MLT and official short-term debt grew about six-fold since 1974 to $16 billion in 1982.

5/ Includes gross short-term liabilities of the Central Bank and of commercial banks. The total debt had reached $25 billion by the end of 1983.

6/ Including the IMF's Trust Fund, but excluding all other IMF obligations which are included in the net international reserves of the banking system.

Table 2.1: STRUCTURE OF DEBT, 1970-82
(US$ million)

	1970	1974	1980	1981	1982	Annual growth rate (%) 1970-74	1974-80	1980-82
Medium- and Long-Term (MLT) /a	1,671	2,264	8,746	10,204	12,103	7.9	26.0	17.6
Total Public and Publicly Guaranteed Debt	n.a.	1,456	6,776	8,049	9,757	n.a.	29.0	20.0
Public Debt /a	631	1,051	6,292	7,443	8,874	13.6	35.0	18.8
Publicly Guaranteed Private Debt	1,040	405	484	606	883	3.9	3.0	35.0
Private Nonguaranteed Debt		808	1,970	2,155	2,346		16.0	9.1
Official Short-Term Debt /b	309	331	2,548	3,664	3,993	2.3	40.0	25.0
Revolving	255	324	2,477	3,552	3,919	6.2	40.0	26.0
Fixed Term	54	7	71	112	74	-65.0	47.0	2.1
Total MLT /a and Official Short-Term Debt	1,980	2,595	11,294	13,868	16,096	7.0	28.0	19.4
Memorandum Items								
Other IMF Obligations	108	131	936	1,030	908	4.9	39.0	-1.5
Total MLT Debt Including IMF Obligations	1,778	2,395	9,682	11,233	13,010	7.7	26.0	15.9
Total MLT Debt, All IMF Obligations and Official Short-Term Debt	2,087	2,726	12,330	14,898	17,004	6.9	29.0	17.4

/a Including IMF Trust Fund, but excluding other IMF obligations.
/b Excluding International Reserve Liabilities.

Source: Statistical Appendix, Table A.4.

2.03 These figures, since they exclude IMF obligations other than the Trust Fund and the short-term external liabilities of the banking system, present only part of the picture. From a "purist" point of view, there may be grounds for excluding IMF obligations and the banking system's short-term external liabilities from the capital account.7/ However, to gain a comprehensive view of the country's external debt, both of these obligations should be taken into account.

2.04 At the end of 1982, the gross external liabilities of the country's banking system stood at $7.3 billion and its obligations to the IMF (excluding those to the Trust Fund) totalled nearly $1 billion (see Table 2.2). This brings the country's total gross external obligations to about $24.3 billion in December 1982. Netting out the external assets of the banking system reduces the banking system's liabilities to $2.1 billion and brings the total net external obligations of the Philippines at the end of 1982 to about $19.0 billion.8/

7/ The rationale for omitting banking system liabilities from the debt statistics is simple. In countries where the banking system's foreign exchange position is under the Central Bank control, changes in the short-term external liabilities of commercial banks are considered as monetary movements and are recorded as changes in international reserve liabilities. Similarly, IMF obligations other than the Trust Fund are not considered debt, since the Fund borrower "purchases" foreign exchange with its own currency.

8/ An alternative measure of the short-term liabilities of the banking system would comprise the net external liabilities of the commercial banks ($2,233 million in 1982) and the gross external liabilities of the Central Bank, ($2,214 million in 1982) on the assumption that Central Bank assets should be available to cover imports. According to this measure, the short-term liabilities of the banking system totalled $4,447 million in 1982, implying that total external debt in 1982 amounted to $21,451 million.

Table 2.2: EXTERNAL DEBT AND BANKING SYSTEM LIABILITIES, 1976-82
(US$ millions, end of period)

	1976	1977	1978	1979	1980	1981	1982
External Debt & Gross Banking System Liabilities	6,745	8,048	10,772	13,314	17,238	20,655	24,336
Medium- & Long-Term	4,382	5,580	6,910	8,001	9,682	11,234	13,011
Debt	(3,932)	(5,024)	(6,283)	(7,283)	(8,746)	(10,204)	(12,103)
IMF obligations	(450)	(556)	(626)	(718)	(936)	(1,030)	(908)
Short-Term	2,363	2,468	3,863	5,313	7,556	9,421	11,325
Official short-term	(715)	(1,009)	(1,357)	(1,813)	(2,548)	(3,664)	(3,993)
Center Bank	(566)	(40)	(153)	(522)	(1,321)	(1,575)	(2,214)
Commercial banks	(1,082)	(1,419)	(2,353)	(2,978)	(3,687)	(4,182)	(5,118)
Short-Term as percent of Total	35.0	30.7	35.9	39.9	43.8	45.6	46.5
External Debt and Net Banking System Liabilities	4,225	5,784	7,577	9,583	12,179	15,329	19,113
Medium- & Long-Term	4,382	5,580	6,909	8,001	9,682	11,234	13,011
Debt	(3,932)	(5,024)	(6,283)	(7,283)	(8,746)	(10,204)	(12,103)
IMF obligations	(450)	(556)	(626)	(718)	(936)	(1,030)	(908)
Short-Term	-157	204	668	1,582	2,497	4,095	6,102
Official short-term	(715)	(1,009)	(1,357)	(1,813)	(2,548)	(3,664)	(3,993)
Central Bank	(-1,076)	(-1,485)	(-1,730)	(-1,901)	(-1,834)	(-1,132)	(-124)
Commercial banks	(518)	(680)	(1,041)	(1,670)	(1,783)	(1,563)	(2,233)
Short-Term as Percent of Total	-3.7	3.5	8.8	16.5	20.5	26.7	32.1

Source: DRS; Central Bank.

Assessing Debt Levels

2.05 A convenient method of assessing the growth of debt burden is to compare debt magnitudes to GNP. Since GNP provides a convenient measure of the country size, the ratio of debt outstanding and disbursed (DOD) to GNP provides a neat summary indicator of the economy's debt-carrying capacity.

2.06 In the Philippines the ratios of DOD/GNP shifted up significantly during the late 1970s (see Table 2.3). Before 1978, the ratios of both MLT debt 9/ to GNP and of MLT and total short-term 10/ debt to GNP were below 25%. After 1978, the ratios were consistently above this level. Moreover, between 1981 and 1982, due partly to the decline in the growth rate of GNP, both ratios increased sharply, reaching their highest point since the start of the 1970s. In 1982, the ratio of total MLT DOD/GNP 11/ was 33% and that of the aggregate of MLT and short-term debt to GNP 12/ was 49%.

2.07 The ratios of debt to an alternative scalar - exports of goods and services - further illustrate the critically high levels of debt reached by 1982 (see Table 2.3). The ratio of the aggregate of MLT debt, IMF obligations, official short-term debt, and the banking system's net external liabilities to export earnings had reached the high level of 239% and affected outside perceptions of the country's creditworthiness.

9/ Including total IMF obligations.

10/ Including the net liabilities of the banking system.

11/ Including total IMF obligations.

12/ Including the net liabilities of the banking system.

Table 2.3: DEBT INDICATORS
(%)

	1970	1974	1976	1978	1979	1980	1981	1982
DOD/GNP								
Total MLT Debt and IMF Obligations /a	25.7	16.3	24.6	28.6	26.7	27.4	29.2	33.1
Total MLT Debt, IMF Obligations,/a Official Short-term Debt, Net Banking System Liabilities	NA	NA	23.7	31.4	32.0	34.5	39.9	48.6
DOD/Exports of Goods and Services								
Total MLT Debt and IMF Obligations /a	132.6	67.3	127.2	140.7	127.9	120.9	130.4	162.5
Total MLT Debt, IMF Obligations,/a Official Short-Term Debt, Net Banking System Liabilities	NA	NA	122.6	154.3	153.2	152.0	177.9	238.8

/a Including all IMF obligations.

Source: Statistical Appendix, Table A.18.

Interpreting the Trends in Philippine Exposure

2.08 Given the fairly high inflation rates that characterized the 1970s,13/ the Philippine recourse to heavy external borrowing had its benefits. Developing countries which accumulated debt during the inflationary period of the 1970s were able to receive a sizable transfer of resources with only modest acceleration in their real debt burdens.14/ Their borrowing capacities were obviously supported by the high nominal growth rates for their exports. The Philippines falls in this category, and, like other major developing country borrowers, it was able to increase its growth rate by borrowing abroad during 1970-78 when real interest rates were relatively low or even negative.

2.09 This position, however, reversed starting in the late 1970s and the Philippine debt indicators worsened substantially. After 1978, the international financial markets entered a period of rising real interest rates. Some developing countries which had borrowed heavily in the early 1970s, when international liquidity was ample and real interest rates were low, had to adopt adjustment measures and restrain foreign borrowing after the second oil shock. The Philippines, however, continued to expand its foreign debt at a relatively high rate despite high real interest rates and shortening maturities of foreign loans.15/

2.10 The pronounced growth of short-term maturities in the Philippine debt structure is especially noteworthy. The share of short-term debt and gross liabilities in the total debt of the Philippines rose from 35% in 1976 to 47% in 1982 (see Table 2.2 above). In general, the financial markets interpret a sudden accretion of short-term debt as a sign of reduced creditworthiness.16/ At this stage, a debtor is often faced with restrictions on the type of credits available, with creditors showing a preference for short-term rather than medium-term commitments. Thus, a country with an increasing share of short-term borrowings in its debt portfolio faces a serious dilemma: lenders' perceptions of its creditworthiness erode as the weight of short-term borrowings increases; on the other hand, in order to service the

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13/ The MUV index (the unit value of manufactured exports from developed to developing countries) rose almost three-fold between 1970 and 1979.

14/ The growth rate of "real" debt during the 1970s turns out to have been quite modest, when debt outstanding and disbursed is deflated by any of three major price indicators. See Table A.17, Statistical Appendix.

15/ The Philippine was by no means alone in this category. Other East Asian countries, such as Korea and Thailand, also continued to borrow heavily abroad.

16/ IMF, "Fund Policies and External Debt Servicing Problems," SM/83/45, March 1983, Washington, D.C., p.4.

debt and thereby maintain creditworthiness, the borrowing country's dependence on short-term rollovers continues to grow.

2.11 In the Philippines in 1982, foreign financial institutions appeared to be cutting back on new commitments of MLT loans and increasing short-term lines of credit. New commitments of MLT loans from financial institutions had increased fairly steadily during 1977-79, exceeding $1 billion in 1978. During 1980-82, however, commitments fluctuated, dropping from $1.1 billion to $0.9 billion in 1982. Over this same three-year period, short-term debt from banks and financial institutions registered a phenomenal rise in terms of both absolute amounts and shares in (a rapidly expanding) total official short-term debt (Table 2.4). This expansion of the share of financial institutions in short-term debt increased the country's dependence on credit rollovers and made the country seriously vulnerable to international financial market fluctuations.

Table 2.4: SHARE OF BANKS AND OTHER FINANCIAL INSTITUTIONS IN OFFICIAL SHORT-TERM DOD /a

	1979	1980	1981	1982
Absolute Amounts (US$ millions)	819	1,494	2,628	3,449
Shares in Total Short-Term Debt (%)	45.2	58.6	73.7	77.3

/a Export credits account for the remainder of official short-term DOD.

Source: MEDIAD

2.12 The utilization pattern of the short-term debt has also added to the economy's vulnerability. Prior to 1979, oil imports had been financed primarily by trade credits (O/As and D/As) 17/ extended by the major oil suppliers. However, following the second oil crisis, the Philippine oil importers were obliged to turn to financial institutions to refinance outstanding trade liabilities. In 1982, approximately 40% of official short-term credit was used to finance oil imports. In fact, about 85% of oil imports in that year were financed by short-term credits. The excessive use of financial intermediaries in oil financing could potentially subject the Philippines to the uncertainties of the international financial markets.

2.13 Certain weaknesses are also apparent in the Philippine short-term borrowings to finance non-oil imports. While official approval for short-term borrowings is granted mainly for trade credits, it appears that, particularly

17/ Open Accounts and Documents Against Acceptance.

in 1981-82, some short-term credits were not trade-related, but were obtained to replace maturing longer term debts, and that some producers in both the public and private sectors used short-term credits to continually finance their working capital needs. Under normal circumstances, and if short-term exposure were low, this would not be a cause for alarm. But the country's (and some firms') creditworthiness had already worsened, making it difficult to obtain rollovers; moreover, when short-term credits are locked up in longer term investments, they render firms doubly vulnerable.

Financing Patterns

2.14 The mix of creditors has varied substantially over time. In part because of heavy borrowing in the private financial markets in the late 1960s and the resulting debt crisis of 1969, the Philippine authorities tried, in subsequent years, to retain the bulk of foreign borrowing in public hands to control the credit mix and the terms of foreign borrowing. In addition, with public enterprises controlling major capital intensive industries, the share of debt directly incurred by the public sector (general government and public sector entities) increased substantially. This share rose from 38% in 1970 to 50% in 1975, reaching the level of about 74% between 1979 and 1982 (see Table 2.5).

2.15 The government control strengthened in part because of the high and steady contribution of foreign official debt to the Philippine public and total MLT debt. Throughout the 1970s, the Government made assiduous efforts to tap official sources, and the share of official debt in total MLT debt was consistently above 31% since 1975. Within the official source debt, the multilateral debt grew the fastest, its share in the total increasing from 8% in 1970 to nearly 20% in 1980-82. This was partly due to the overall expansion of multilateral lending during the 1970s and partly due to the slowdown of bilateral lending.

2.16 The Philippines also began testing the international bond market in the early 1970s. By 1979-80, it had begun to draw about 10% of total MLT resources in the form of bonds. [18/]

18/ Smaller institutional lenders less well-equipped with country research facilities than the major commercial banks interpreted the Philippines' penetration of bond markets as recognition by the international financial markets of the country's growing creditworthiness.

Table 2.5: STRUCTURE OF MLT DEBT BY CREDITOR

A. Share in percent

	1970	1975	1979	1980	1981	1982
Total MLT Debt	100.0	100.0	100.0	100.0	100.0	100.0
Public Sector /a	38.3	50.2	71.4	72.5	73.3	73.7
Official Source	15.5	31.5	31.9	31.1	33.6	32.1
Multilateral	8.1	12.2	16.3	16.8	19.4	19.2
Bilateral	7.4	19.3	15.6	14.3	14.2	12.9
Private Source	22.8	17.9	39.4	41.3	39.7	41.6
Bonds	0.7	0.8	10.8	10.1	8.2	7.3
Financial Institutions	17.9	14.6	25.1	28.0	28.5	31.6
Suppliers' Credits	4.2	2.5	3.5	3.2	2.9	2.7
Publicly Guaranteed Private Debt	20.6	17.1	5.7	5.4	6.6	7.7
Private Non-Guaranteed /b	41.1	33.5	23.0	22.1	20.1	18.6
Memorandum Item:						
Public and Publicly Guaranteed	58.9	66.05	77.0	77.9	79.9	81.4
Private Non-Guaranteed	41.1	33.5	23.0	22.1	20.1	18.6
Banks/Financial Institutions	n.a.	41.3/c	50.3	50.9	50.3	51.8

B. Average Nominal Growth Rates (% p.a.)

	1970-75	1975-80	1980-82
Total MLT Debt	13.3	26.2	16.0
Public Sector /a	19.2	36.2	16.9
Official Source	30.6	25.9	17.7
Multilateral	23.0	102.4	23.8
Bilateral	37.2	18.8	10.2
Private Source	8.0	49.2	16.3
Bonds	15.7	109.2	-1.4
Financial Institutions	8.8	43.8	23.1
Suppliers Credits	2.4	32.7	6.3
Publicly Guaranteed Private Debt	9.2	0.3	38.0
Private Non-Guaranteed /b	8.8	16.1	6.6
Public and Publicly Guaranteed	16.1	30.2	18.4
Memorandum Item:			
Total MLT and Official Short Term Debt	11.8	28.9	19.8

/a Including IMF Trust Fund, but excluding other IMF obligations.
/b Information on the creditor structure of private guaranteed and non-guaranteed debt is not available in the DRS.
/c Data relate to 1976.

Source: Table A.8, Statistical Appendix.

2.17 Despite the expansion of direct foreign borrowing by the public sector and the fairly large share of official source debt, the Philippine credit mix has some worrying features. In terms of the sources of debt, by far the fastest growing debt category has been that of banks and other financial institutions whose share in total outstanding MLT debt had reached about 32% in 1982 (Table 2.5). If both the officially recorded short-term borrowing and the net external liabilities of the banking system are taken into account, the share of banks and other financial institutions was almost three-fifths of the total outstanding external obligations of the Philippines in 1982.

2.18 This situation is of concern for several reasons. As mentioned earlier, the increase in the dependence on financial institutions has coincided with the rise in nominal and real interest rates in the international markets that began in 1978. This, in turn, led to a rise in the share of non-concessional funds in the Philippines' public debt (see Table 2.6), as well as in the interest service ratio. The share of non-concessional debt, which was already very high, rose to about 87% in 1982, precisely the period of the Philippines' switch to a heavier reliance on financial institutions.

Table 2.6: DISTRIBUTION OF PUBLIC SECTOR DEBT BY CONCESSIONAL/NON-CONCESSIONAL CATEGORIES
(percent)

	1975	1979	1980	1981	1982
Concessional	16.5	14.6	15.3	10.5	12.6
Official	16.5	14.6	13.9	10.5	12.6
Private Source	-	0.1	1.4	-	-
Non-Concessional	83.5	85.4	84.7	89.5	87.4
Official	35.8	23.0	43.4	38.9	38.9
Private	47.7	62.3	41.3	50.7	48.5
Total Public Sector Debt	100.0	100.0	100.0	100.0	100.0

Source: DRS.

2.19 During the last few years, some countries have tried to counteract the impact of higher interest rates by switching to credits denominated in the currencies of countries with low inflation and consequently low interest rates.[19/] Although there is some evidence that the Philippines may have done this during 1979-81, when the share of borrowings in currencies with low interest rates almost doubled, the share of borrowings in currencies with high interest rates has remained fairly large and increased dramatically in 1982 (see Table 2.7). Obviously, the interest rate is only one of a number of determinants of the currency mix of a country's borrowing program. Others are the rates of change in the exchange rates of specific currencies, the currency composition of the import basket and of debt service obligations, the currency composition of export earnings, [20/] and the market receptivity (e.g., lenders' considerations of country exposure and creditworthiness).

19/ This appeared to be the case in Thailand. See World Bank, "Public Foreign Borrowing in Thailand," mimeo, April 30, 1983, Washington, D.C., p. 8.

20/ See Donogh C. McDonald, "Debt Capacity and Developing Country Borrowings: A Survey of the Literature," IMF, Washington, D.C., August 17, 1982. The theoretical literature has tended to concentrate on the currency composition of reserves. In applying optimizing principles to the currency composition of debt, a number of factors need to be borne in mind: (1) the past portfolio is not necessarily a good guide to the present; (2) the net position in different currencies is more important than the gross; (3) at the short end of the spectrum, it is important to focus on the combined currency composition of reserves and credits; and (4) the literature on the optimum composition of reserves tends to focus on the interest rate, changes in exchange rates and the import currency basket. Obviously, the range and complexity of the variables does not allow simple qualitative judgments. An adequate treatment of the problem requires a properly specified model for optimizing behavior and the existence of computer simulation capabilities.

Table 2.7: CURRENCY DISTRIBUTION OF PUBLIC SECTOR COMMITMENTS
(in percent)

	1975	1976	1977	1978	1979	1980	1981	1982
Low Interest Rate	29.4	27.7	58.9	25.8	44.8	55.0	46.4	21.5
French Franc /a	14.6	1.1	0.2	-	2.3	-	-	-
Deutsche Mark	-	0.1	3.0	2.3	1.5	-	1.6	0.7
Yen	14.8	8.1	6.4	23.5	21.3	14.5	19.6	20.8
Multiple /b	-	18.4	-	-	19.7	39.5	25.2	-
High Interest Rate	70.1	69.9	35.8	72.9	54.7	40.0	51.9	75.1
US Dollar	44.8	69.9	(49.3)/c	49.0	54.7	40.0	51.9	46.6
Multiple /b	25.3	-	35.8	21.6	-	-	-	25.9
TOTAL /d	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

/a Subsidized French credits.

/b Includes commitments denominated in multiple currencies. Note that in some years this category is in the Low Interest Rate group and in other years in the High Interest Rate Group. This classification was based on a comparison of the average interest rate associated with loans denominated in multiple currencies, with the average interest rate characteristic of the specific year's total commitments.

/c Figures in parentheses denote loans for which average interest rates were lower than on total commitments. Totals in the second category have been adjusted to exclude them.

/d The sum of the two main categories does not add up to 100% due to the exclusion of a few small loans.

Source: DRS

2.20 Finally, although the high share of financial institutions in the creditor structure of the Philippines' external debt has had little or no adverse effect on the average maturity of public MLT debt, 21/ it has affected the maturity structure of overall debt via a change in the mix of MLT and short-term debt. As was pointed out before, this trend has greatly increased the economy's vulnerability to developments in international markets which have become particularly sensitive to creditworthiness issues on account of their recent experiences in other debtor LDCs.

The Structure of Borrowers

2.21 External debt data, broken down by major borrowers (see Table 2.8), show that the principal borrowers have been public sector institutions. During 1970-75, the debt of official development banks 22/ grew the fastest (40% per annum). 23/ In the next five-year period, government corporations, as several of them became increasingly better known, took the lead in borrowing abroad and doubled their share of MLT debt. By 1980, they accounted for a little under a third of the total MLT debt. By contrast, in the following two years, 1980-82, the public corporations were induced to rein in their direct borrowing activities, as the central government and the Central Bank took the lead in foreign borrowing. These two institutions, which had themselves engaged in fairly heavy borrowing abroad during the 1975-80 period, expanded their activities as intermediaries for channelling foreign funds to domestic users. Even the role of the official development banks as purveyors of foreign funds was severely curtailed - the growth rate of their debt in 1980-82 was down to about 9% per annum while the public sector borrowing as a whole was still growing at about 17% per annum during the same period.

21/ With the exception of 1977, the average maturity of total public debt commitments has been in excess of 15 years throughout the period 1975-82. Indeed, the average maturity period of commitments made in 1982 almost equalled the peak maturity registered in 1975. Even the average maturities obtained from financial institutions were confined to the narrow band of 10-11 years all through the 5-year period 1978-82.

22/ The Philippine National Bank (PNB), the Development Bank of the Philippines (DBP), and their subsidiaries.

23/ Their low base of debt in 1970 was, of course, a contributing factor.

Table 2.8 STRUCTURE OF MLT DEBT BY BORROWER

A. STRUCTURE
(%)

	1970	1975	1978	1979	1980	1982
Total	100.0	100.0	100.0	100.0	100.0	100.0
Public Sector	38.3	49.3	66.9	71.4	72.5	73.7
Total Government	26.9	26.5	31.0	32.2	34.4	39.1
Central Government	(10.8)	(13.8)	(19.3)	(19.6)	(21.6)	(23.7)
Local Government	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Central Bank	(16.0)	(12.7)	(11.6)	(12.5)	(12.7)	(15.4)
Public Corporations	9.0	16.1	29.8	32.9	32.7	29.9
Official Development Banks	2.4	6.8	6.2	6.4	5.4	4.7
Private Sector	61.7	50.6	33.1	28.6	27.5	26.3
Publicly Guaranteed Debt	20.6	17.1	6.8	5.7	5.4	7.7
Private Non-guaranteed Debt	41.1	33.5	26.3	23.0	22.1	18.6

B. GROWTH RATES
(% p.a.)

	1970-75	1975-80	1980-82
Public Sector /a	19.2	36.2	16.9
Total Government	13.0	33.0	23.6
Central Government	18.9	38.1	21.4
Local Government	-	-	- /b
Central Bank	8.2	26.4	27.3
Public Corporations	27.2	45.4	10.8
Official Development Banks	40.0	20.4	8.8
Private Sector	8.9	11.7	13.4
Publicly Guaranteed Debt	9.2	0.3	38.0
Private Non-guaranteed Debt	8.8	16.1	6.6

/a Includes IMF Trust Fund but excludes other IMF obligations.

/b Calculated at 56.4% per annum for 1980-1982, but the amounts are insignificant.

Note: This table is based on the old (1983) debt data series. For details see footnote to Table A.8, Statistical Appendix.

Source: DRS and MEDIAD.

2.22 Compared to the public sector borrowing, the private sector's direct access to foreign funds remained modest. The Central Bank's approval process combined with the Government's role as an intermediary for foreign funds constrained direct borrowing by the private sector.

The Structure of End-Users

2.23 The structure of major borrowers described above does not reflect the ultimate pattern of use of MLT funds. Since the Government is empowered by the Foreign Borrowing Act of 1970 to undertake foreign borrowing to lend to the private sector, the direct borrowings of the private sector do not fully reflect its access to foreign finance.

2.24 The Government's on-lending program has taken three forms: first, the official development banks have been a major vehicle for channelling foreign funds to private sector end-users; second, the central government and Central Bank have, from time to time, channelled concessional funds from bilateral and multilateral donors, as well as long-term export credits, to private entrepreneurs; and, finally, the Central Bank in 1978 expanded its on-lending activities through the Consolidated Foreign Borrowing Program (CFBP).

2.25 The CFBP was established by Presidential Decree No. 1309 of March 1978. It enabled the Central Bank to on-lend foreign funds to banking institutions either to finance development projects which had not obtained concessionary financing or to refinance existing debt. Since the Central Bank was the direct borrower, the amounts involved were large. By pooling demands in the "jumbo loans," the Central Bank was able to reduce the number of competitive and simultaneous approaches to the market by individual Philippine borrowers and obtain better terms than would be available otherwise.

2.26 The total funds raised under the CFBP through 14 loans amounted to \$1.9 billion during the period 1978-82. (An additional \$300 million was raised in early 1983.) Over 50% of these funds were re-lent to private sector borrowers (See Table 2.9).

Table 2.9: TOTAL OUTSTANDING BORROWINGS UNDER THE CFBP
(US $ millions)

	1978	1979	1980	1981	1982
Total	384.0	680.0	937.0	1,198.3	1,848.6
By type					
Revolving	100.0	100.0	100.0	100.0	100
Fixed Term	284.0	580.0	837.2	1,098.3	1,748.6
Loans from FCDUs /a	16.8	18.7	33.3	44.1	78.8
Loans from Foreign Banks/OBUs /b	267.2	561.3	803.9	1,054.2	1,669.8
CFBP Loans Included in Fixed Term External Debt, by Sector					
Loans from Foreign Banks/ OBUs	267.2	561.3	803.9	1,054.2	1,669.8
Add (Deduct) Currency Revaluation Adjustments	-	(8.8)	4.3	(2.4)	(6.6)
Adjusted Total	267.2	552.5	808.2	1,051.8	1,663.2
Not On-Lent	-	-	0.3	5.6	-
Re-Lent	267.2	552.5	807.9	1,046.2	1,663.2
Private Sector	180.8	327 .3	505.0	725.3	961.9
Public Sector	86.4	225.2	302.9	320.9	701.3

/a Foreign currency deposit units of the local commercial banks.

/b Offshore banking units.

/c The figures in parentheses refer to the share of the private sector in relent CFBP funds.

Source: MEDIAD.

2.27 Despite the onlending activities of the public sector described above, the share of the private sector as end-user in total MLT debt has dropped over the years. As Table 2.10 shows, this share (which includes direct borrowing and funds on-lent by the Central Bank, the central government, and official development banks) averaged about 43.8% during 1979-82 compared to 56% during 1976-77. This reflects the increasing involvement of public enterprises in capital investment financed by foreign borrowing.

2.28 A similar picture emerges in the area of short-term debt. Abstracting from the short-term debt incurred by the oil companies, the data on the non-oil sector (Table 2.11) indicate that the private sector's share of short-term foreign borrowing has been sharply curtailed as the public sector's recourse to foreign finance has risen. While performance in individual years tends to fluctuate, the private sector's share shows an overall downward trend.

Table 2.10: SHARE OF THE PRIVATE SECTOR AS AN END-USER IN MLT DEBT
(percent)

	1976	1977	1978	1979	1980	1981	1982
Funds Re-Lent by Public Sector	46.1	43.1	14.3	14.6	16.0	16.8	17.6
Direct Borrowing by Private Sector	10.9	13.8	33.3	28.5	28.1	27.0	26.4
Total Private Sector /a Use of Foreign Funds	57.0	56.9	47.6	43.1	44.1	43.8	44.0

Source: MEDIAD.

/a Includes funds relent in addition to CFBP (Table 2.9) the breakdown of which was not available.

Table 2.11: OFFICIAL NON-OIL SHORT-TERM DEBT
(percent; US$ million)

	1976	1977	1978	1979	1980	1981	1982
Non-Oil Sector	463	759	1,313	1,563	1,838	2,144	2,411
Share of:							
Public Sector(%)	10.8	18.2	21.8	20.2	12.9	31.7	36.0
Private Sector(%)	89.2	81.8	78.2	79.8	87.1	68.3	64.0

Source: MEDIAD.

2.29 Data on loans extended by the foreign currency deposit units (FCDU) to Philippine borrowers are not available on an end-user basis. Interviews with FCDU banks reveal, however, that a large part of their lending has been directed to private sector units in the mining and manufacturing sectors. The published data also reveal that the growth of the FCDU system has slowed in recent years. Assuming that relative public/private sector access to FCDU lending has not changed drastically in the recent period, the slower growth of the system would imply that private sector borrowing from the FCDUs has also slowed.

2.30 In terms of the use of all three types of foreign finance - medium- and long-term funds, short-term credits and foreign loans intermediated through the FCDU system - it is evident that the private sector demand for foreign funds slowed down considerably. This perhaps reflected the combined effect of domestic recession, increased government use of foreign funds, take-over of private concerns by public enterprises, and the private sector's response to hardening of loan terms. It would be useful in this context to further investigate if the private sector was really responsive to the changed economic and financial conditions and whether the public sector failed to do so.

Debt Service Obligations

2.31 The rapid growth of the Philippine foreign debt and the changes in its structure have led to a steep rise in the country's debt service obligations during the last few years. Although deficient in several respects, the debt service ratio (DSR), especially its trend over time, serves as a good indicator of the country's ability to service its debt. Combined with an analysis of export trends, import needs, and level of reserves, it can serve as a reliable indicator of emerging payments difficulties.

2.32 Table 2.12 presents alternative DSRs (see footnotes to the Table for their definitions). The top row presents the official Philippine DSR using a statutory definition laid down in 1970. The second block of DSRs gives alternative definitions used in the World Bank which are increasingly comprehensive in descending order. An examination of the various DRSs, especially the more comprehensive ones, leads to the following conclusions. First, the burden of debt shows an upward trend during 1977-82. This trend reflects the increasing share of commercial debt mitigatged by a moderately high growth rate of foreign exchange earnings/receipts through 1980. Second, the debt service burden rose sharply starting in 1981 (the Bank DSRs are more indicative here). This was both due to a continued rise in the debt service payments for the reasons given earlier and a slow-down of export receipts in 1981 and a drop in 1982. The DSRs thus clearly show that the economy had become vulnerable towards the end of the period on account of the increased debt service burden.

2.33 Here, it would be useful to discuss the relative merits of various definitions of DSR. It is worth noting, for example, that the divergence among various DSRs increases substantially between 1977 and 1982. Although the trends of the Bank DSRs are similar (and therefore anyone of them could have indicated the increasing debt service burden), alternative IIc appears to be the most comprehensive which captures all service liabilities and shows how much of export receipts would be pre-empted by them.[24] In retrospect, we could say that this definition was the most relevant to the Philippine situation in the last few years and could have signaled the emerging payments difficulties of the country. By the same measure, the official definition (see Table 2.12, footnote /a) was the least satisfactory. The official DSR did not show any significant rise even in the critical years of 1981-82 when the other DSRs increased sharply. Even conceptually, debt service obligations should be related to current receipts (which are used to discharge them) rather than to the last year's, and to export earnings rather than to all receipts. The official DSR also does not include interest payments on short-term revolving debt and banking system liabilities which have clearly become important in recent years. In view of these shortcomings, the Philippine Government should reexamine the use of this definition. Even if the legal requirement were to remain the same, at least for analytical and policy purposes the Central Bank should use the more commonly accepted definitions, such as those given in block II, Table 2.12.

24/ An even more stringent definition would be if the reduction in short-term debt or banking liabilities, forced or discretionary, were to be included in the debt service.

Table 2.12: EXTERNAL DEBT SERVICE RATIOS, 1977-82
(%)

	1977	1978	1979	1980	1981	1982
I. Philippines debt service ratio as statutorily defined /a	13.8	18.0	18.6	18.7	19.1	19.4
II. World Bank debt service ratios /b						
a. MLT debt	12.1	16.0	16.1	14.6	18.3	27.0
b. MLT debt, IMF obligations, official short-term debt, and net banking system liabilities /c	14.6	19.0	19.4	18.2	20.0	32.8
c. Same as b. but based on gross banking system liabilities /c	15.3	20.0	20.1	20.9	25.2	38.1

/a Ratio of interest and principal payments on MLT debt, IMF obligations and fixed short-term debt (primarily bridge financing of development projects) to the previous year's total foreign exchange receipts.

/b Ratio of principal and interest payments to exports of goods and services. Prepayments are excluded.

/c Only interest payments have been included for revolving credits (other than D/As and O/As) and banking system liabilities.

Source: Table A.21, Statistical Appendix.

2.34 The preceding sections have pointed to the large role played by the public sector both as a borrower and as an ultimate user of foreign resources. Reflecting this position, Table 2.13 shows that the public sector's share in debt service payments [25/] has generally been above 45% during 1977-82 and that the trend has been sharply upward during the last three years.

Table 2.13: PUBLIC SECTOR DEBT SERVICE PAYMENTS
(US$ millions percent)

Alternative IIb /a	1977	1978	1979	1980	1981	1982
Total Debt Service Payments	324.4	681.3	766.0	720.7	1,029.0	1,479.6
MLT Debt Principal and Interest	315.7	644.7	805.4	585.3	850.3	1,029.0
IMF Obligations	48.3	92.2	91.5	194.9	123.1	148.7
Official Short-Term Debt	51.4	94.4	85.1	179.5	231.6	319.9
Interest Payments /b	6.0	14.5	18.0	63.4	146.1	239.2
Principal Payments on Fixed Short-Term Debt	45.4	79.9	67.1	116.1	85.5	80.7
Net Liabilities of the Central Bank	-91.0	-150.0	-216.0	-239.0	-176.0	18.0
Public Sector Debt Service Ratio (%)	7.7	13.9	12.2	9.0	11.9	18.5
Share of Public Sector Debt Service in Total Debt Service (%)	47.1	46.2	44.3	43.0	47.8	49.8
Memo: Public Sector's Share of Official Short-Term Debt (%)	28.6	42.6	52.8	58.2	59.4	60.7

/a See Table 2.12 for the explanation of components of Alternative IIb. Prepayments could not be excluded for this table. Therefore, the debt service payments and ratios are overstated especially for 1978 and 1979.

/b Determined on the basis of the public sector's share in short-term debt.

Source: DRS, MEDIAD, IMF.

25/ Calculated according to Alternative IIb.

3. INVESTMENT AND SAVINGS

Investment and Savings Behavior

3.01 A fuller analysis of recent trends in the Philippine debt needs to take into account the behavior of investment and savings in the economy. Table 3.1 presents the investment and savings data for the Philippines for recent years and for the middle income oil-importing developing countries (OIDCs) for 1979. These data show that compared to the middle income OIDCs, the Philippines sustained a significantly higher investment/GNP ratio during 1978-82. Even the oil crisis of 1979/80 and subsequent recession does not appear to have affected this ratio.[26/] At the same time, the share of gross national savings in GNP has been declining since 1979. Consequently, the gap between gross domestic investment and gross national savings (i.e., the current account deficit) has been met by an expanding inflow of foreign resources. Whereas in 1978 the share of foreign resources in GNP was 4.5%, by 1982 it was over 8%.[27/]

26/ The decline in the rates of gross domestic investment of 2 percentage points during 1979-82 was primarily due to the decline in stock accumulation rates. The stock figures, as well as overall investment figures which are considered to be somewhat overstated, are being scrutinized by NEDA. Even if the investment series is revised downwards, its trend is likely to remain unaffected. Similarly, the investment-savings gap may remain unaffected since savings are a residual and will also have to be revised downwards.

27/ The investment-savings gap predates the period discussed here. The investment/GNP ratio (including changes in stocks) had increased from 21.5% in 1973 to 26.9% in 1974 and then settled around 30% for the remainder of the period. National savings also increased but not sufficiently to offset the increase in investment. (These sharp jumps in investment and savings may partly be a statistical phenomenon.) The result was that the domestic investment and savings gap which was negligible during 1970-74, expanded to over 5% of GNP in subsequent years. Thus, the investment-savings gap had become significant starting in 1974 which ties in with the analysis of Chapters 1 and 2 showing that the sizable capital inflows and the build-up of the external debt had started in the mid-1970s. However, this Chapter focuses on the period 1978-82 because adequate breakdown of the macro data was not available for the earlier years and the major build-up of the external debt occurred in these years.

Table 3.1: INVESTMENT AND SAVINGS
(% of GNP)

	Middle-Income OIDCs /a 1979	Philippines 1978	1979	1980	1981	1982
Gross Domestic Investment	25.0	29.0	31.1	30.7	30.7	28.9
Total Fixed Investments	NA	23.8	26.0	25.7	26.1	25.8
Public Fixed Investment	NA	6.3	6.4	7.2	8.4	8.2
National Government Capital Expenditures	NA	2.5	2.3	3.2	4.2	3.0
Local Government Capital Expenditures	NA	0.2	0.2	0.2	0.2	0.2
Government Corporation Capital Expenditures	NA	3.6	3.9	3.8	4.0	5.0
Private Fixed Investment	NA	17.8	19.6	18.5	17.8	17.6
Increase in Stocks	NA	5.2	5.2	5.0	4.6	3.1
Gross Savings	25.0	29.0	31.1	30.7	30.7	28.9
Foreign Savings	3.0	4.6	5.0	5.4	5.4	8.1
Gross National Savings	22.0	24.4	26.1	25.3	25.3	20.8
Total Government Savings	NA	4.2	5.7	5.8	5.0	3.6
National Government Savings	NA	2.9	4.2	4.0	3.2	2.1
Local Government Current Surpluses	NA	0.1	0.2	0.3	0.2	0.2
Social Security Surpluses	NA	0.6	0.8	0.8	0.9	0.7
Government Corporation Savings	NA	0.5	0.5	0.8	0.7	0.6
Total Private Savings	NA	20.2	20.4	19.5	20.3	17.2

/a Middle income oil-importing developing countries.

Note: The data on investment and savings are being scrutinized by NEDA and may have to be revised.

Source: NEDA and mission estimates.

3.02 To identify the sources of investment-savings gap, we have decomposed it into sectoral investment-savings deficits: those of the private sector (an amalgam of the household and the private corporate sectors);[28/] the government sector (comprising national government, local government, and the Social Security Administration); and the government corporations sector (see Table 3.2).

3.03 Several conclusions emerge from the decomposition of the investment-savings gap. First, the public sector gap was relatively high (especially if some increases in stocks were to be attributed to the public sector) throughout the period 1978-82 and more than tripled by the end of the period. Second, the major increase in the public sector gap occurred on account of government corporations whose investment growth was not matched by their savings growth. Third, the private sector gap was relatively low during the period. Overall, we could say that, during 1978-82, the major source of the country's investment-savings gap was the public sector. This corroborates the findings of Chapter 2 that the share of public sector as an end-user of foreign resources increased during 1978-82.

Resource Use by the Public Sector

3.04 We have seen above that the public sector investment-savings gap was the main source of the national gap. A further analysis of this gap points towards some other weaknesses of the public sector program in the context of external debt and debt service capacity.

28/ Although investment data for the Philippines do not permit the private sector to be disaggregated into households and corporations, it is expected (as is generally true of other countries) that the Philippine household sector is a net saver and that there is a net demand for savings originating from the private corporate sector.

Table 3.2: INVESTMENT AND SAVINGS BY SECTORS
(billion pesos)

	1978	1979	1980	1981	1982
Public Sector					
General Government					
Surplus (- deficit)	1.4	5.7	4.0	-0.6	-0.3
Investment	4.7	5.4	8.9	13.4	10.7
Savings	6.1	11.1	12.9	12.8	10.4
Government Corporations					
Surplus (- deficit)	-6.9	-8.7	-11.9	-14.9	-19.3
Investment	7.8	9.8	13.5	16.8	21.3
Savings	0.9	1.1	1.6	1.9	2.0
Total Public Sector					
Surplus (- deficit)	-5.5	-3.0	-7.9	-15.5	-19.6
Investment	12.5	15.2	22.4	30.2	32.0
Savings	7.0	12.2	14.5	14.7	12.4
Private Sector /a					
Surplus (- deficit)	-4.7	-8.1	-8.4	-2.6	-7.9
Investment/b	39.2	53.6	58.7	63.1	65.2
Savings	34.5	45.5	50.3	60.5	57.3
Total					
Surplus (- deficit)	-10.2	-11.1	-16.3	-18.1	-27.5
Investment	51.7	68.8	81.1	93.3	97.2
Gross national savings	41.5	57.7	64.8	75.2	69.7

/a It is assumed that no investment is undertaken by the household sector.

/b Increases in stocks were not available separately for the public and private sectors. Therefore, all increases in stocks have been included here. Obviously, proper attribution of increases in stocks would lower private sector deficits and increase public sector deficits.

Source: World Bank, Public Expenditures and their Financing, 1984, Report No. 4919-PH, Table I.2.

3.05 National Government. According to the government budget, capital expenditures include capital outlays for infrastructure and non-infrastructure as well as for capitalization (equity contributions). Another element of expenditure which is similar to capital expenditure is net lending or advances to special funds such as the Industrial Rehabilitation Fund. The task at hand is to assess the relative importance of these capital expenditure categories, and to examine their financing with the object of identifying the respective roles of the current cash surplus, net foreign borrowings, and domestic financing.

3.06 Table 3.3 shows that during 1978-82 the share of direct capital outlays had declined while the shares of equity contributions and net lending had increased significantly. In 1978, the latter categories accounted for 37% of the aggregate of capital expenditures; by 1982 their share had risen to about 54%.

3.07 Among the financing sources, the contribution of the cash surplus, which in the initial years was well in excess of the total of equity contributions and net lending, declined over the period: by 1982 the latter had outstripped the former. The sharp decline of the cash surplus in 1981-82 was attributable in large part to the sluggish growth of tax revenues.

3.08 Thus, over the last three years, capitalization and net lending has acquired greater share in government capital expenditures, and the latter have been increasingly financed by foreign and domestic borrowing. The share of foreign borrowing was sizable; in 1978-79, it financed about a third of the total capital expenditures and net lending. Domestic financing assumed greater importance in 1981-82.[29/] The banking system's contributions were particularly large in the same two-year period. The non-bank sector's contribution rose to a substantial level by 1982 owing to its increased absorption of Treasury bills, which was related to the Government's continuing efforts to develop the securities market as a tool of open market operations.[30/]

29/ The year 1981 was to some extent an exception: a small spurt in foreign borrowing occurred in tandem with increasing recourse to domestic resources.

30/ In 1981-82, more Treasury bills were issued to the public and the terms and yields of government securities were rationalized. During the last quarter of 1982, dollar-denominated Treasury bills were floated to help finance government projects.

Table 3.3: FINANCING OF NATIONAL GOVERNMENT CAPITAL EXPENDITURES, EQUITY CONTRIBUTIONS AND NET LENDING

	Share in Total (in %)				
	1978	1979	1980	1981	1982
Capital Expenditures and Net Lending					
Infrastructure and noninfrastructure capital outlays	62.9	54.3	61.8	58.5	46.3
Capitalization/equity contributions	34.3	37.0	33.1	37.3	43.5
Net lending	2.9	8.7	5.1	4.1	10.2
Total	100.0	100.0	100.0	100.0	100.0
Financing					
Current cash surplus	62.6	94.6	77.9	46.0	33.3
Foreign borrowing, net	27.1	34.7	15.4	27.6	13.0
Domestic financing	10.0	-29.4	7.3	26.8	53.7
Banking system	n.a.	n.a.	7.3	22.1	32.9
Nonbank system	n.a.	n.a.	0.7	4.1	20.8
Total	100.0	100.0	100.0	100.0	100.0

Source: Statistical Appendix, Table A.25.

3.09 Resource Mobilization by Public Corporations. We have seen earlier (Table 3.2) that public corporations accounted for the bulk of the investment undertaken by the public sector. Here we examine in greater detail the investment financing of 12 major non-financial public corporations, which constitute the overwhelming share of the government corporate sector. As Table 3.4 shows, investments of these corporations more than doubled during 1978-82.[31/] However, the increase in the internal cash generated by them was insufficient. Consequently, their investment-savings gap, which was already sizable in 1978, more than doubled by 1982.

Table 3.4: MAJOR NON-FINANCIAL PUBLIC CORPORATIONS
SUMMARY OF OPERATIONS

	1978	1979	1980	1981	1982
			(million pesos)		
Investment outlays	7,086	8,543	10,146	12,776	15,157
Internal cash generation /a	896	1,065	1,631	1,879	2,041
Investment-savings gap	6,190	7,479	8,515	10,897	13,116
Government contributions (Net)	3,545	4,331	4,282	4,458	6,414
Other domestic financing /b	-334	-3,588	-1,931	-1,128	-570
Foreign financing (net)	2,979	6,735	6,164	7,567	7,272
			(percent of investment outlays)		
Internal cash generation	12.6	12.5	16.1	14.7	13.5
Government contribution	50.0	50.7	42.2	35.0	42.3
Other domestic financing	-4.7	-42.0	-19.0	-8.9	-3.8
Foreign financing	42.0	78.8	60.7	59.2	48.0

Source: Ministry of Budget; World Bank, Public Expenditures and Their Financing, 1984, Report No. 4919-PH, Table 1.9.

/a Depreciation plus net income.
/b Treated as the residual and includes changes in working capital.

31/ Table 3.4 focuses on fixed capital formation. Table 3.2 takes into account changes in stocks also.

3.10 The major source of domestic funding for the investments of the public corporations were government contributions which remained above 40% for all but one year during 1978-82 and, in turn, required financing by foreign and domestic credit discussed earlier. However, the bulk of the investments was financed through foreign funds, averaging nearly 60% for the whole five-year period.

3.11 Investment Pattern and Debt Servicing Capacity. The discussion of investment-savings gap, combined with the analysis of the preceding Chapters, sheds light on the sectoral sources of demand and use of foreign funds. However, the utilization pattern of these resources is important from the point of view of not only the overall growth performance but also the economy's debt servicing capacity (DSC). In aggregate terms, DSC depends on national savings and foreign exchange earnings. If, however, the share of foreign funds in investment is large, the allocation of these funds has direct implications for the future DSC. The DSC generated by these funds (as by domestic funds) depends on the rate of return of the investments undertaken, the time profile of these returns, the foreign exchange savings/earnings generated, and the impact on marginal savings rate (including taxability of the returns). We cannot here go into the details of the disaggregated data on the use of foreign resources, but a few indicators show that the investment pattern was not especially geared to expanding the DSC. As Table 3.5 shows, the economy-wide ICOR has considerably increased during 1978-82. This may in part reflect the increased idle capacity on account of the recent domestic recession and declining growth rate. But the ICOR was relatively high even in pre-recession years and had increased to 6.0 by 1980. This was partly a result of the large weight of public sector infrastructure projects in total investment with relatively long gestation periods.[32/] During the second half of the 1970s, close to 40% of public sector expenditures consisted of investment in infrastructure. Such investment may be highly desirable for future growth, but its direct impact on savings and exports is likely to be small and/or lagged with the result that it may not contribute sufficiently to DSC in the immediate future. That is, the time profile of the benefits may be quite different from DSC needs. This problem is compounded if investments have been financed by shorter maturity, high interest commercial loans, as they were in the Philippines.

32/ The relatively high ICOR has also been interpreted to reflect investment inefficiency in the economy.

Table 3.5: GDP GROWTH RATES AND ECONOMY-WIDE ICORs /a

	1978	1979	1980	1981	1982
GDP Growth (%)	6.2	6.6	4.9	3.8	2.9
ICOR	4.3	4.2	6.0	7.6	9.5

/a ICORS have been calculated with a one year-lag in 1972 prices. As was pointed out above, the Philippines data on investment are being scrutinized by NEDA. The level of the ICORs may therefore be revised downward.

Source: NEDA; World Bank, The Philippines: Selected Issues for the 1983-87 Plan Period, 1982, Report No. 3861-PH.

4. DEBT MANAGEMENT

The Institutional Framework

4.01 In the Philippines, the Central Bank has the responsibility for matters relating to external borrowing and balance of payments. Within the Central Bank, the Management of External Debt and Investment Accounts Department (MEDIAD) is responsible for external borrowing and debt data collection and classification. The genesis of MEDIAD's responsibilities lies in the payments crisis that occurred in the Philippines toward the end of 1969, which prompted the authorities to introduce a comprehensive system of controls over foreign capital inflow and non-monetary debt servicing. The major instrument of control was a statistical system established early in 1971 for maintaining an accurate and up-to-date record of the country's external debt.

4.02 An effective debt management system must deal with three essential and inter-related processes: knowing the debt size, deciding how much to borrow, and selecting appropriate financing techniques.[33/] The first and third are related specifically to debt but the second (how much to borrow) is related to the country's macroeconomic management decisions regarding investment, savings, and the size of the current account deficit.

4.03 An adequate debt management system must therefore have three identifiable foci: (1) the management of debt statistics; (2) the articulation of foreign borrowing strategies, or the management of debt *per se*; and (3) macroeconomic management. MEDIAD has primarily dealt with the first two tasks, focusing on the non-monetary sector borrowing. It has been involved only peripherally with the third. The decision as to how much to borrow flows, as mentioned earlier, from the macromanagement goals of the economy. This, in turn, is a composite of two factors: how much capital an economy can efficiently absorb, and how much debt it can service without risking external payments problems. MEDIAD has been concerned only with the second factor, that is, to alert the Government to potential payments problems based on certain indicators, such as the statutorily defined DSR.

4.04 The more crucial links between macroeconomic management and borrowing decisions have been weak in the past. Although an Investment Coordination Committee (ICC) was set up in 1978, it does not yet play an effective role in coordinating investment allocation and foreign borrowing. The following sections describe the roles of MEDIAD and ICC and examine the country's debt management record.

33/ See Nicholas Hope, "Loan Capital in Development Finance, the Role of Banks, and Some Implications for Managing Debt," EPDED Division Working Paper No. 1182-5, September, 1983; and Nicholas Hope and Thomas Klein, "Issues in Debt Management," *Finance and Development*, September 1983, Vol. 20, No. 3.

MEDIAD's Functions

4.05 The Management of Debt Statistics. MEDIAD debt statistics are built up with the help of a monthly reporting system. All borrowing firms, financial institutions, offshore banking units and authorized agent banks are required to report on individual loan drawdowns, repayments of the principal, interest payments, cancellations and outstanding amounts. An additional responsibility which has been vested in the Central Bank since 1970 is the recording of short-term debt. This follows from MEDIAD's responsibilities for evaluating and monitoring applications for short-term credit, reinforced in February 1983, by a new set of guidelines on the approval and detailed monitoring and recording of such debt. This is discussed more fully in the following section.

4.06 Foreign Borrowing Strategy and the Management of Debt. MEDIAD plays a major role in determining the financing techniques used by the borrowers. Applications for foreign borrowing must include details of the proposed project as well as on the type of financing envisaged to ensure that the financing technique is compatible with the needs of the project.[34/] These requirements apply uniformly to public and private sector borrowers. Borrowers are also asked to state whether they wish to receive funds from the CFBP.

4.07 MEDIAD also plays an active part in determining the terms of borrowing. As market conditions change, the Central Bank modifies the prescribed minimum acceptable terms and conditions for approving foreign borrowing.[35/] The positive effect of such interventions on the maturity distribution of outstanding public MLT debt has already been noted. The other objective is to keep the debt servicing capacity within the statutory limit.

4.08 For the last two years, MEDIAD has also enforced a queueing system on the major foreign borrowers (those with loan demands in excess of $20 million) seeking to tap the international financial markets. The objective has been to reduce competition among individual Philippine borrowers and to prevent "confusion" in the international markets.

4.09 MEDIAD has also monitored the nature and extent of prepayments of loans and has encouraged refinancing and restructuring, particularly in 1978-79, to induce borrowers to take advantage of changed market conditions, reduced interest costs, or improvements in the maturity structure. The record

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34/ The information on financing must include details on amounts, the financing source, type of loan, and terms (maturity, grace period, repayment dates, and interest rate or spread). Project details must include the total financing requirements, sources of domestic financing, project timetable, and potential economic benefits.

35/ Although no absolute ceiling is placed on the share of floating rate debt in total MLT debt, minimum maturities, grace periods, maximum interest rate spreads and other fees have been specified since 1970.

on prepayments since 1978 and on the pattern of approvals of external borrowing intended for refinancing and restructuring is set out in Table 4.1.

4.10 A major instrument used by the Central Bank, if not MEDIAD itself, to influence financing techniques is the CFBP program. The objective was to improve the terms available to Philippine borrowers, particularly those who would experience difficulty in arranging loans on their own account, by borrowing in the name of the Central Bank in relatively large amounts, and by reducing the number of times approaches were made to the market. An explicit objective of the CFBP is to refinance foreign obligations obtained at relatively hard terms. As of the end of December 1982, of the $1.966 billion on-lent to sub-borrowers under the CFBP, 63% was for refinancing the foreign obligations of both the public (41%) and the private (22%) sectors.[36/]

4.11 The Central Bank and MEDIAD have also sought to influence the term structure of foreign finance by monitoring and enforcing government policy with respect to short-term debt. Historically, the control system was somewhat flexible since approvals were granted to individual entities (rather than to individual loans) to borrow short, subject to specific ceilings and for specified purposes. The guidelines were, however, tightened in February 1983 which required approval for each individual credit if end-1982 balances of individual borrowers were exceeded.[37/] By way of reinforcement, a Presidential letter of instruction was issued in April 1983 that stressed that short-term commercial borrowing by public sector enterprises should be strictly limited to that needed for use in trade-related transactions and should not exceed the end of 1982 limit.

4.12 In addition, in recent years the Central Bank has taken steps to control the exposure of Philippine residents under the foreign currency deposit system, by specifying the purposes for which lending is allowed. The authorities have also taken steps to limit the availability of peso swap facilities.

4.13 The most recent measure adopted by MEDIAD to monitor and influence the financing mix is the establishment of a Committee to Monitor Foreign Bank Exposure.[38/] An attempt is also being made to provide systematic information

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36/ Central Bank of the Philippines. The Philippine Economy: Policies and Developments, 1975 - 1982.

37/ Also, eligibility rules for the use of D/As and O/As were tightened, regulations on the opening of import letters of credit were revised, advance payment of import duties and taxes was required, an import surcharge was imposed, and action was taken to reduce the petroleum stocks held by oil companies.

38/ Its duties comprise the following: establishment of Creditor Data Banks; generation of reports for information release; establishment of files on direct borrowing of banks; establishment of files on foreign equity investments; and interpretation of the Creditor Banks Corporate Profiles.

on the foreign exchange liabilities of the Philippine banking system and on the net reserves of the Central Bank, the commercial banks and the banking system as a whole. MEDIAD is also trying to prepare regular reports on the share of total MLT debt and short-term debt attributable to banks and other financial institutions and to monitor the exposure of Philippine residents with individual foreign commercial banks.

4.14 Most of the measures adopted in early 1983 to improve the debt data and approval system were in response to the deteriorating debt indicators and growing realization that certain aspects of the system, especially relating to the short-term borrowing, were too weak. It is still too early to assess the effectiveness of these measures; but, considering the rapid expansion of short-term debt in recent years and the resulting crisis, they came too late.

Table 4.1: REFINANCING, RESTRUCTURING AND REPAYMENT OF PRINCIPAL, 1976-82
(US$ millions)

	1976	1977	1978	1979	1980	1981	1982
Principal prepayments	-	-	505.7	492.3	91.7	24.1	96.0
Approvals Subject to Limits /a							
Initial maturity of more than one year, and up to and including 12 years: Actuals	792	860	1,128	975	1,800	1,481	1,016
Of which							
Refinancing and restructuring	-	-	-	-	152	508	
Approvals Not Subject to Limits							
Initial maturity exceeding 12 yrs	1,263	640	2,405	1,665	2,185	1,451	1,671
Of Which							
Refinancing loans	52	19	782	481	26	75	234
Restructuring loans	-	3	323	91	6	2	40
Total approvals	2,055	1,500	3,533	2,640	3,385	2,932	2,687

/a IMF or CB limits.

Source: MEDIAD.

4.15 Macroeconomic Management and the Borrowing Strategy. MEDIAD's input into government decisions regarding how much to borrow follows from its responsibilities under the "Foreign Borrowings Act," formally known as

Republic Act 4860 of September 1966.[39/] This Act, which authorizes the President to undertake and regulate foreign borrowing, specifies MEDIAD's means of control.

4.16 The first instrument of control is the statutory DSR. The law specifies that the size of foreign borrowing is to be determined with reference to the debt service burden, which may not, in any given year, exceed 20% of the foreign exchange receipts (including capital inflows) of the immediately preceding year. A second tool is the foreign borrowing approval system: guidelines on permissible end-uses and the terms of foreign borrowing enable MEDIAD to influence the total amounts borrowed each year. Third, MEDIAD plays a valuable role in keeping the Central Bank, in its capacity as the sole borrower under the Consolidated Foreign Borrowing Program, apprised of the total demand for foreign funds emanating from public or private sector units which either fall outside the purview of concessional assistance or are unable to raise foreign funds at appropriate terms under their own names. This responsibility follows from MEDIAD's role as the recordkeeper of the *ex ante* demands for foreign funds projected by individual borrowers. Fourth, while the Investment Coordination Committee (ICC)[40/] has recently been given the task of preparing an annual foreign resources budget for the economy, and while the Monetary Board determines the limits on foreign borrowing approvals for MLT loans, MEDIAD keeps actual demands below the stipulated annual ceiling. It is MEDIAD, for example, that is responsible for ensuring that the IMF limits on external borrowing approvals are observed in practice.[41/] As noted before, this is done by restricting the queueing of borrowers. Finally, MEDIAD is also responsible for maintaining a tally of the public/private sector distribution of foreign funds. The CFBP explicitly stipulates that the proceeds of jumbo loans are to be divided equally between the private and public sectors.

4.17 There has been a loose relationship between approvals, commitments and disbursements in the past. Now the Central Bank is attempting to determine the reasons for the long commitment-disbursement lags being recorded by

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39/ Amended by Republic Act 6142 of November 1970 and other Presidential Decrees.

40/ Specifically, the Foreign Resources Subcommittee of the ICC.

41/ The Fund ceilings have associated sub-ceilings. Under the 1976-78 extended and the 1979 stand-by arrangements, ceilings were placed on borrowings with an initial maturity of more than 1 year up to and including 15 years, with sub-ceilings on borrowings of 1 to 10 years and 1 to 5 years. In the 1980-81 and 1983 stand-by arrangements, ceilings were placed on borrowings with an initial maturity of more than 1 year up to and including 12 years, with a sub-ceiling on borrowings of 1 to 5 years. In 1982, when no Fund arrangement was in effect, the authorities applied a limit on borrowing of 1 to 12 years, and for 1983 the authorities have announced limits on the volume of total borrowing that are lower than those specified in the stand-by arrangement.

MEDIAD, with the purpose of stepping up disbursements as well as reducing borrowing costs in the form of the commitment fees associated with undisbursed loans.

4.18 In the past, strictly speaking, MEDIAD did not determine how much short-term debt ought to be contracted. However, because of its monitoring and its day-to-day contacts with the users of short-term facilities, it could provide, together with the BOP division, necessary information on prospective total demand and the nature of the short-term credit being sought. In February 1983, a new set of terms of reference were issued for the borrowers of short-term loans; MEDIAD monitors their implementation.

ICC and Macroeconomic Management

4.19 The analysis of the evolution and structure of the Philippine external debt suggests that the deterioration of the country's debt indicators is in large part a result of deceleration of export receipts, a large public sector investment program, inadequate internal savings, and excessive reliance on commercial sources of foreign capital. The timely identification of these problems requires a systematic assessment of export performance, public sector investment, sectoral distribution of domestic and foreign resources, efficiency of resource use, domestic credit expansion, foreign borrowing, and domestic savings generation.

4.20 Although the Government recognizes the need for such an assessment, and has a number of agencies involved in various tasks, it does not yet have a sufficiently integrated institutional framework for this purpose. In 1978, the Government had established the ICC,[42/] which, if effective, could adequately perform several of the relevant functions. The ICC is an interagency body composed of the Minister of Finance (Chairman), Director-General, NEDA, Chairman, Board of Investments, Minister of the Budget, Governor, Central Bank, and heads of six public financial institutions. The main responsibilities of the committee are approving projects and setting up project priorities within the context of the national development plans.

4.21 At present, the ICC reviews new project proposals (including private sector projects costing 300 million pesos or more), which are submitted to it annually. The first step is to evaluate projects in terms of their fiscal, monetary, and foreign exchange earning/savings potential. The next step is to match the resource demand and availability (both domestic and foreign) of "approved" project list. The assessment of resource availability for major projects in the public sector is linked to an assessment of their impact on the national budget and/or on the resource positions of the major public sector entities. To complete the appraisal of the peso requirements of a project, the analysis next addresses the implications for domestic credit and monetary policies. The analysis of foreign resource demand and availability

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42/ Investment Coordinating Committee. Its precursor was the Committee on Foreign Assisted Projects, which was part of the Ministry of Finance, but its purview was more restricted.

builds on the assessment of the country's export prospects, repayment obligations, and foreign borrowing potential.

4.22 All applications are initially considered by a subcommittee of the ICC, called the Subcommittee on Major National Projects (SMNP). In the past, various working groups were responsible for project evaluation, assessment of resource demands against budgetary and foreign exchange availabilities, and programming and monitoring. These functions have now been absorbed by NEDA. The assessment of projects is next submitted to a Technical Board composed of senior officials from the same institutions as are represented on the ICC and the SMNP. The Technical Board then forwards its re-evaluated project assessments to the SMNP. Following a further round of evaluation, the SMNP submits the list of approved and non-approved projects to the ICC for its approval. Final approval of projects with foreign financing must come from the NEDA Board, which is a ministerial group chaired by the President.

4.23 Although the ICC and its sub-groups have existed for a few years, they do not appear to have been very effective at least until recently. They are also not sufficiently integrated into other economic management decisions. The ICC is currently attempting to mesh the project approval process and the national budgetary cycle by imposing appropriate deadlines for project submission, and coordinating these with the corresponding deadlines for the foreign borrowing approval process at the Central Bank.[43/] It will take some time before these procedures become fully effective.

Debt Management: Scrutinizing the Record

4.24 From the Bank's cross-country perspective, the Philippines already has in MEDIAD an institutional structure which should be adequate for debt data management; the statistical system established early in 1971 to provide up-to-date data on debt is one of the best in Asia and the Far East. However, debt data management suffers from a number of weaknesses. MEDIAD has the capability to generate from its External Debt Transactions Registers a matrix of information on private sector debt broken down into guaranteed and nonguaranteed, with the latter categorized by borrower, terms, sources of finance, etc. However, for want of adequate computing facilities, much of these data cannot be generated accurately or on time. A quarterly report to the Governor

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43/ Effective 1983, the deadline for submissions is January 15; applications filed later in the year have a low priority or are not allowed access to foreign borrowing in that year. Borrowers who fulfill MEDIAD guidelines regarding purpose, source of financing, legal and financial conditions for borrowing, terms and potential benefits, receive preliminary authority to negotiate with foreign creditors. Generally, in part because of the Central Bank's policy of queueing for entry into the international markets, the period between the granting of formal approval to borrow by the Central Bank and the finalization of a commitment to borrow in the form of a loan agreement is relatively short. Again, the first drawing must commence within 90 days of the finalization of a loan commitment. No controls are exercised for subsequent drawings.

on all fixed term debt (including private sector debt), which covers composition, sources, maturity structure, terms of debt, currency of repayment and purpose is currently being prepared manually. However, the data on private debt need to be carefully checked and to be readily accessible in terms of the requisite detail and time series. Similar problems do not exist in the public debt data series because of the reporting requirements of the World Bank's debtor reporting system (DRS).

4.25 Another relatively simple problem that has generated confusion among outside analysts of the Philippines' debt is the discrepancy between MEDIAD's figures on capital flows (both short-term and MLT) and flows entering the capital account of the balance of payments (BOP). In recent years, the increase in MLT debt recorded by MEDIAD has normally been higher than the net long-term borrowing shown in the BOP statistics. The main reasons for the difference have been late reporting by borrowers and valuation adjustments resulting from differences in the exchange rates used for computations at the beginning and end of the year. The capital account in the balance of payments statistics is generally not corrected for these changes. Rather, adjustments are entered in the errors and omissions line. MEDIAD, on the other hand, while it keeps an accurate record of all adjustments, does not correct the historical data to reflect them. The consequent inconsistency in the numbers has given rise to doubts about the accuracy of Philippine debt data.

4.26 Similar problems exist in the official short-term debt data. In recent years, the increase in official short-term debt as recorded by MEDIAD has been slightly higher than the net change in short-term lending identified in the balance of payments. Significant discrepancies between the two sets of data emerged in 1981 and 1982. One source of the difficulty has been the recording of trade credits in the form of O/As and D/As. In particular, it was discovered in mid-1982 that large repayments of these credits by oil companies had not been recorded for several years, leading to an overstatement of outstanding debt. Part of the discrepancy during 1976-79 was traced to some Central Bank transactions that had been classified as capital movements in the BOP but which should have been recorded as net monetary movements. A further source of discrepancy is that the BOP statistics are not adjusted to reflect late reporting by borrowers or changes in their outstanding debt.

4.27 In the area of short-term debt, MEDIAD's data suffer from an additional limitation--they are internally consistent starting only in 1980, since MEDIAD's responsibilities for monitoring short-term debt data were not as clear prior to that year. To outsiders with no information or access to the historical data on adjustments, the discrepancies raise the question of which debt series should be used to represent the country's foreign obligations and for debt service calculations.

4.28 A further source of uncertainty about the size of the Philippine debt in the past has been due to the exclusion of the banking system's short-term foreign exchange liabilities from the official debt statistics.[44/] Controversy has surrounded the treatment of the assets and liabilities of the Central Bank and of commercial banks operating under the foreign currency deposit system. Even if obligations to the IMF are excluded from the Central Bank's short term external liabilities, there is still considerable room for argument about the components of the banking system's gross and net external liabilities. Problems regarding the gross liabilities relate to the degree of doublecounting which needs to be removed in consolidating the banking system's liabilities; problems relating to the estimate of net liabilities relate to the appropriate identification of the assets available to cover the banking system's liabilities, as distinct from the reserves available as import cover. The figures for the banking system's external liabilities are

44/ The external debt contracted by the Offshore Banking Units (OBUs) and the external liabilities of the banking system with an initial maturity exceeding 1 year are included in MEDIAD's MLT debt statistics.

5. IMPLICATIONS FOR THE FUTURE

5.01 The previous chapters have reviewed the sources, growth, and management of the external debt of the Philippines. This chapter draws the policy implications of this review. The first section of the chapter briefly updates the economic and debt situation and indicates the nature of policy response required in the context of foreign borrowing needs.45/ The second section suggests institutional improvements to deal with the existing debt problems and future issues. Some of these improvements have already been initiated by the Government.

Macroeconomic Policy and Foreign Borrowing

5.02 Recent Developments and the 1983 Crisis. The economic conditions in the Philippines, which had weakened in 1980-81, deteriorated significantly in 1982. The domestic recession continued and the growth rate of GNP dropped to 2.8%. The authorities had continued to follow expansionary policies in the expectation that a quick and strong world economic recovery would sufficiently boost export earnings. But the international recession deepened, export growth slowed down, and interest rates remained at record levels. Because of the domestic recession, the government revenues continued to fall, expanding the budgetary deficit to 4.3% of GNP. Simultaneously, the deficit of the public sector corporations remained high at 5.6% of GNP. These factors contributed to domestic demand pressures and expanded the current account deficit to 8.1% of GNP. Because of the constraints on the availability of MLT funds, the country relied on short-term credit lines and the net international reserve position worsened to negative $3.7 billion.

5.03 In 1983, the Government was able to reduce the budgetary deficit to 2% of GNP. But the investment outlays of public sector corporations continued to increase as did the net domestic assets. This exerted strong pressures on domestic demand and imports while export performance remained weak. Consequently, the current account deficit, expanded further from 8.1% of GNP in 1982 to 8.2% in 1983. The Government strengthened the policies towards the middle of the year through further fiscal restraint and a 7% devaluation of the peso. These measures did not, however, prove to be adequate. Furthermore, due to both political and economic uncertainties, capital flight increased, foreign credit availability decreased, and international reserves fell sharply. Consequently, the Government sought a moratorium on debt repayments to commercial banks, further devalued the peso, reimposed foreign exchange controls, reduced public investment program, increased import duties, and opened discussions with the commercial banks for debt rescheduling. At the end of 1983, gross external obligations had increased to $25 billion, up

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45/ These developments are being dealt with in detail in the Bank's Country Economic memorandum currently under preparation.

from $24.3 billion in 1982. The total debt service ratio (on the basis of scheduled payments) remained high at 36% although it was down from 38% in 1982.

5.04 Policy Implications. To deal with the crisis, the Government is following a three-pronged strategy. First, it has adopted short-term stabilization measures. Second, it has requested rescheduling of the country's commercial debt falling due between October 17, 1983 and end-1986. Third, it is continuing with most of its structural adjustment program designed to improve allocation and efficiency of investment, current account balance, and resource mobilization in the energy sector.

5.05 In the context of this study, one of the main objectives of the Government's adjustment efforts will have to be to improve the country's creditworthiness: for example, net official reserves need to be built up to equal the value of about three months of imports, the short-term debt and commercial banks' liabilities need to be reduced, and the ratios of debt and debt service to exports need to drop significantly. This, in turn, would imply adoption of policies (with somewhat different policy mix for the short- and medium-term) to curtail current account deficits and arrange requisite capital inflows at reasonable terms.

5.06 In the short-term, the country will need to restrain domestic demand sufficiently to limit the annual current account deficit to about $1-1.5 billion. This would imply increased domestic savings, lower public sector deficits, a tight monetary policy, and continued price corrections. Because of the disruptions in economic activity on account of foreign exchange constraints and the consequent policy steps, the country will probably experience little or no growth during 1984-85. The adjustment would be facilitated if improvement in the external environment continues: at least a moderate growth rate in the OECD countries to allow expansion in the Philippine exports, availability of sufficient funds, and a moderate rate of interest.

5.07 The demands of medium-term adjustment would be somewhat different. In view of the high level of country's indebtedness and debt service payments, the scope for additional borrowing will remain limited through the early 1990s. The proposed rescheduling of debt will ease the immediate payments problem but will necessarily cause a hump in the late 1980s and stretch out the debt service payments into the 1990s. The country will, therefore, need to follow a very careful course of macroeconomic (including debt) management. First, domestic absorption will need to remain constrained and savings increased. Second, a delicate balance will need to be maintained in external borrowing. Sufficient capital inflows (foreign savings) will be needed to resume growth, but too much borrowing (given the existing large debt), if available, could damage creditworthiness. On the other hand, lack of access to foreign capital could reduce investment levels, constrain growth of output and exports, and prevent a long-term resolution of the debt problem. Thus, the country might be able to run only small deficits on the current account during the next few years to permit some net additional capital inflow. Third, as a corollary of the above, investment efficiency will need to be improved, import growth restrained, and determined efforts made to expand exports. Continuation of the reforms in industrial, trade, and energy policies initiated under the structural adjustment program should help improve resource allocation, investment efficiency, export growth, and domestic energy supply. The recent adoption of a floating exchange rate will greatly help in narrowing the import-export gap. The Government will also need to emphasize increased efficiency in the use of imported inputs and increased value added in exports. Export growth will play an especially crucial role in the country's economic recovery by facilitating necessary growth in imports and investment. Simultaneously, the Government will need to tighten its debt management and utilize foreign savings efficiently as discussed below.

Institutional Framework

5.08 The Philippines has a relatively good system in place for external borrowing and data management. However, as discussed in Chapter 4, the system has suffered from some limitations in the past: its monitoring of short-term debt, especially commercial bank liabilities, has remained weak; debt management is not sufficiently integrated with economic management; and the system did not adequately provide for forecasting debt servicing problems. The result was that although danger signals of an emerging debt and balance of payments crisis were present, the system did not sufficiently highlight them or the economic management did not act on them. These signals were the dramatic rise in short-term debt and banking liabilities with the associated vulnerability of the economy to a failure to rollover the debt, an increasing debt service ratio, a relatively high ratio of debt to GNP and exports, a high share of debt on commercial and variable interest rate terms, persistence of high real interest rates, and a high share of interest payments in debt service. When all of these indicators are poor or worsening, as they were in the Philippines, the country needs to take strong and immediate action to correct the situation. In retrospect, it appears that the Philippines should have adopted adjustment measures in time to prevent the large current account deficits in the early 1980s and the resultant expansion in external debt. The following paragraphs summarize the main weaknesses in the present system and suggest possible corrective steps.

5.09 Clarifying the Size of Debt. In recent years, uncertainty about the size and structure of foreign debt had affected the country's creditworthiness. Establishing the size of the total debt, building up a consistent time series of debt and its components, and removing any remaining gaps and inconsistencies are important steps in improving debt management. The Central Bank has appointed a task force which is currently engaged in this work.

5.10 Clarification of the debt data would aid the debt management process in several ways. It would alert the Government to the magnitude and timing of the rollovers required if payments problems are to be avoided. By educating government agencies outside the Central Bank on this account, it could help curb demand for public expenditure programs intensive in the use of foreign finance. It could identify the purposes for which short-term debt is being used: currently gross short-term debt outstanding, including banking system liabilities, is well in excess of the total annual import bill, suggesting that some amount of short-term debt may be financing working capital or long-term needs.

5.11 Improved Retrieval of Debt Data. Although MEDIAD's performance in the collection and maintenance of debt data (especially MLT debt data) has been impressive, the Department is currently handicapped by inadequate computational facilities. It is unable to retrieve debt information or to monitor trends with sufficient speed. The country has been borrowing a large part of its debt at variable interest rates;46/ the currency composition of debt is also fairly diverse. As the discussion in Chapter 2 implies, these developments especially require a high degree of market and technical sophistication on the part of debt managers. MEDIAD will, therefore, need substantial augmentation of technical and computational staff to enable it to keep track of all foreign exchange liabilities, to simulate various scenarios involving changes in debt structure, terms, and exchange rates, to formulate alternative borrowing strategies, and to interpret them for the management.

5.12 Reducing the Exposure to Foreign Banks. About 68% of the total external debt of the Philippines (including MLT debt, IMF obligations, official short-term debt, and the banking system's gross liabilities) was owed to foreign banks in 1982.47/ The country's increased dependence on commercial short-term debt especially made it vulnerable to the volatile short-term banking flows (particularly inter-bank lines of credit). Commercial banks' exposure with respect to their capital was also high in the Philipines.48/ Debt managers need to plan a smooth reduction in the level of the country's exposure and keep it at a manageable level.

5.13 Improved Debt Management. Although MEDIAD has performed well in managing some aspects of debt management (for example, in record keeping, constraining the terms of MLT debt, and regulating entry into foreign financial markets through queuing), it has been somewhat ineffectual or constrained in fulfilling other requirements of debt management. It was unable to fully enforce public sector approval limits. The country's vulnerability on account of expanding debt and debt service was not sufficiently highlighted. Part of the problem lies in the limited concept of debt management applied to MEDIAD: namely, debt data management. This concept needs to be expanded and

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46/ About 36% of total public sector debt in 1982 carried variable interest rates.

47/ See Statistical Appendix, Table A.14.

48/ As of June 1982, the Philippines ranked sixth among developing countries with respect to the US bank exposure. The exposure was 8% for all U.S. banks, 14% for the 9 largest banks, and about 8% for the next 15 banks. For banks other than the 15 largest, the exposure was 2%. Data was obtained from the U.S. Federal Reserve Board, semi-annual "Country Exposure Reports," Washingtn, D.C.

linked to overall macroeconomic policy. This would be especially important in the context of the recovery from the present crisis. As discussed earlier, capital inflows will have to be kept in a very narrow range. Debt managers will, therefore, need to be properly equipped to perform the tasks of limiting the demand for foreign resources, arranging the best possible terms for new loans, reducing the country's exposure, drawing the implications of debt rescheduling, and alerting to any emerging problems. They should also have adequate control over total debt transactions, including banking system liabilities. This would probably require vesting the overall responsibility for debt management in an upgraded organizational level in the Central Bank. In addition, the institutional arrangements which are currently being put in place to integrate macroeconomic and debt management need to be strengthened. The Government, probably through ICC, needs to establish strong links between the project approval process, the budget exercise, and the process of foreign exchange budgeting, possibly on a multiyear basis. ICC also needs to exercise sufficient authority on decisions affecting foreign (and, implicitly, domestic) resource allocation.

5.14 The primary tool used by the Government for debt management, the statutorily defined DSR, is inadequate. A comparison of trends in the Philippine DSR with the Bank's DSR (Chapter 2) suggests that the former may have created an unwarranted sense of complacency among debt managers. The exclusion of interest on all short-term liabilities (other than fixed short-term debt) from the numerator of the DSR and the inclusion of capital flows in the denominator understated the debt service burden. The result was that the risks of rapid debt expansion were not fully recognized and sufficient policy adjustments were not made. The Central Bank should, therefore, use an appropriate DSR at least for analytical purposes and policy guidance. Since any DSR suffers from some limitations, the authorities should also use other indicators of the exposure level of the country discussed in this report.

STATISTICAL APPENDIX

Table of Contents

Table A.1: PHILIPPINES: EXTERNAL CURRENT ACCOUNT INDICATORS, 1970-82

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Exports /a	1,062	1,136	1,106	1,886	2,725	2,295	2,574	3,151	3,425	4,601	5,788	5,722	5,021
(Annual % change)	-	(7)	(-3)	(71)	(44)	(-16)	(12)	(22)	(9)	(34)	(26)	(-1)	(-12)
Volume index (1972=100)	88	96	100	108	96	102	131	157	153	167	201	204	215
Price indices (1972=100)	111	106	100	146	242	193	169	171	192	236	246	241	200
Composition of exports (% of total)													
Sugar	18	19	19	15	27	25	17	16	6	5	11	10	8
Coconut products	20	22	21	20	22	20	21	24	26	22	14	13	12
Lumber, plywood, logs	25	16	19	21	10	9	10	8	9	10	7	5	5
Copper	17	22	17	15	14	9	10	8	7	10	9	7	6
Semiconductors	-	-	-	1	1	2	3	3	5	6	9	11	15
Garments	-	-	-	3	3	4	7	8	10	9	9	11	11
Imports /a	1,090	1,186	1,230	1,597	3,143	3,459	3,634	3,915	4,732	6,142	7,727	7,946	7,667
(Annual % change)	-	(9)	(4)	(30)	(97)	(10)	(5)	(8)	(21)	(30)	(26)	(3)	(-4)
Volume index (1972=100)	93	99	100	94	110	116	123	119	141	154	156	143	163
Price index (1972=100)	94	96	100	129	212	220	217	241	246	289	359	399	341
Composition of imports (% of total)													
Mineral fuels & lubricants	11	12	12	12	21	22	24	25	22	23	29	31	27
Machinery	27	27	24	23	17	23	22	19	20	22	17	17	18
Road vehicles	7	8	8	6	5	6	5	5	6	5	4	3	3
Terms of trade (1972=100)	119	111	100	113	115	88	78	71	78	82	69	60	59
₱/US$	5.90	6.43	6.67	6.76	6.79	7.25	7.44	7.40	7.37	7.38	7.51	7.90	8.54
REER /b	96.35	100.32	93.45	93.25	111.20	102.28	100.27	97.63	88.10	95.94	100.95	101.33	105.18

/a In US$ million.
/b Trade-weighted real effective exchange rate index with December 1980 = 100; increase in the index indicates appreciation of the peso.

Source: Central Bank; IMF, International Financial Statistics.

Table A.2: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS, 1970-83 /a
(In US$ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 /p
Trade balance	-28	-50	-124	290	-418	-1.165	-1,060	-764	-1,307	-1,541	-1,939	-2,224	-2,646	-2,482
(% of GNP)	(0.4)	(0.6)	(1.5)	(2.7)	(2.8)	(7.4)	(5.9)	(3.7)	(5.4)	(5.1)	(5.5)	(5.8)	(6.7)	(7.3)
Exports	1,062	1,136	1,106	1,886	2,725	2,294	2,574	3,151	3,425	4,601	5,788	5,722	5,021	5,005
Imports	-1,090	-1,186	-1,230	-1,596	-3,143	-3,459	-3,634	-3,915	-4,732	-6,142	-7,727	-7,946	-7,667	-7,487
Net services	-142	-87	-55	-	-34	-45	-259	-248	-107	-311	-399	-309	-1,040	-700
(% of GNP)	(2.0)	(1.1)	(0.7)	(-)	(0.2)	(0.3)	(1.5)	(1.2)	(0.4)	(1.0)	(1.1)	(0.8)	(2.6)	(2.1)
Inflow /a	258	265	347	639	834	907	871	1,085	1,484	1,655	2,222	2,896	2,983	3,127
Outflow	-400	-352	-402	-639	-868	-952	-1,130	-1,333	-1,591	-1,966	-2,621	-3,205	-4,023	-3,827
Net transfers	119	134	188	246	276	318	269	260	312	355	434	472	486	396
(% of GNP)	(1.7)	(1.7)	(2.3)	(2.3)	(1.9)	(2.0)	(1.5)	(1.2)	(1.3)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Inflow	124	144	198	256	284	329	280	273	322	369	451	485	498	407
Outflow	-5	-10	-10	-10	-8	-11	-11	-13	-10	-14	-17	-13	-12	-11
Current account	-51	-3	9	536	-176	-892	-1,050	-752	-1,102	-1,497	-1,904	-2,061	-3,200	-2,786
(% of GNP)	(0.7)	(-)	(0.1)	(5.1)	(1.2)	(5.7)	(5.9)	(3.6)	(4.6)	(5.0)	(5.4)	(5.4)	(8.1)	(8.2)
Memorandum items:														
GNP (₱)	41,751	49,599	55,526	71,616	99,948	114,265	132,712	152,771	177,670	220,957	265,078	303,644	336,097	377,371
GNP (US$) /b	6,930	7,712	8,319	10,600	14,724	15,765	17,837	20,637	24,121	29,950	35,290	38,438	39,356	33,959

/a Adjusted to reclassify withdrawals of 343/547 deposits in pesos from direct investment inflows to other services.

/b Converted into dollars by using annual average exchange rates.

/p Preliminary, adjusted for arrears.

Source: Central Bank and NEDA.

Table A.3 : BALANCE OF PAYMENTS, 1972-83
(US$ million)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 /p
Current Account												
Merchandise trade (net)	-124	290	-418	-1,165	-1,060	-764	-1,307	-1,541	-1,939	-2,224	-2,646	-2,482
Exports	1,106	1,886	2,725	2,294	2,574	3,151	3,425	4,601	5,788	5,722	5,021	5,005
Imports	1,230	1,596	3,143	3,459	3,634	3,915	4,732	6,142	7,727	7,946	7,667	7,487
Services (net)	-55	-	-34	-45	-259	-248	-107	-311	-399	-309	-1,040	-700
Receipts /a	347	639	834	907	871	1,085	1,484	1,655	2,222	2,896	2,983	3,127
Payments	402	639	868	952	1,130	1,333	1,591	1,966	2,621	3,205	4,023	3,827
Private transfers (net)	152	169	201	252	237	240	283	229	300	325	322	237
Receipts	158	172	202	255	239	244	286	234	305	328	324	242
Payments	6	3	1	3	2	4	3	5	5	3	2	5
Official transfers (net)	36	77	75	66	32	20	29	126	134	147	164	159
Receipts	40	84	82	74	41	29	36	135	146	157	174	165
Payments	4	7	7	8	9	9	7	9	12	10	10	6
Current account balance	9	536	-176	-892	-1,050	-752	-1,102	-1,497	-1,904	-2,061	-3,200	-2,786
Capital account												
Directive investments (net) /a	-22	64	28	125	144	216	100	20	-102	175	17	39
Private MLT loan capital (net)	-17	-5	33	126	336	101	209	163	496 }			
Disbursements	137	196	276	331	538	476	905	790	870 }			
Repayments	154	201	243	205	202	375	696	627	374 }	1,332/d	1,548/d	1,316/d
									}	2,072	2,533	2,231
Public MLT loan capital (net)	157	76	112	231	704	561	682	988	536 }	740	985	915
Disbursements	235	184	180	346	869	766	945	1,320	709 }			
Repayments	78	108	68	115	165	205	263	332	173 }			
Short-term capital (net) /c	37	-64	79	70	-332	-172	-90	-458	310	-219	-56	-755
Inflows /b	579	657	1,138	1,283	1,381	2,475	3,442	4,265	7,537	8,767	12,127	13,670
Outflows /b	542	721	1,059	1,213	1,713	2,647	3,532	4,723	7,227	8,986	12,183	14,425
Capital account balance	155	71	252	552	852	706	901	713	1,240	1,288	1,509	600
Errors and omissions /b	-93	57	34	-181	37	210	115	145	126	-214	-207	-71
Allocation of SDRs	16	-	-	-	-	-	-	28	29	27	-	-
Monetization of gold	7	-	-	-	-	-	32	41	128	400	277	183
Overall Balance	94	664	110	-521	-161	164	-54	-570	-381	-560	-1,621	-2,074

/a Adjusted to reclassify withdrawals of 343/547 deposits in pesos from direct investments to other services (inflows).
/b Adjusted to relcassify constructive outward remittances, which represents the difference between export shipments and receipts arising mainly from lag in remittances of export receipts, from errors and omissions to short-term capital.
/c original maturity up to and including one year.
/d Total medium and long-term loans.
/p Preliminary; adjusted for arrears.

Source: Central Bank of the Philippines.

Table A.4: TOTAL DEBT, OUSTANDING AND DISBURSED, 1970-82
(US$ million)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Medium and long-term (MLT) /a	1,670.7	1,619.4	1,756.4	1,886.2	2,264.1	2,726.4	3,931.7	5,023.7	6,283.3	7,283.4	8,746.1	10,203.7	12,102.9
Public and Publicly Guaranteed Debt	n.a.	979.5	1,110.4	1,177.3	1,456.2	1,791.4	2,668.7	3,409.0	4,620.0	5,624.0	6,775.8	8,049.0	9,756.8
Public debt /a	630.9	639.7	773.2	845.3	1,051.0	1,315.2	2,119.4	2,858.9	4,192.7	5,212.1	6,291.8	7,443.0	8,873.7
Publicly guaranteed private debt }	1,039.8	339.8	337.2	332.0	405.2	476.2	549.3	550.1	427.3	411.9	484.0	606.0	883.1
Private Nonguaranteed Debt }		639.9	646.0	708.9	807.9	935.0	1,263.0	1,614.7	1,663.3	1,659.4	1,970.3	2,154.7	2,346.1
Official short-term debt /b	309.0	301.1	292.5	281.1	331.0	437.5	715.0	1,008.5	1,357.1	1,813.3	2,547.9	3,664.4	3,993.1
Revolving	255.3	276.6	266.1	272.6	324.0	312.0	571.0	928.1	1,196.7	1,618.4	2,477.1	3,552.1	3,919.4
Fixed term	53.7	24.5	26.4	8.5	7.0	125.5	144.0	80.4	160.4	194.9	70.8	112.3	73.7
Total MLT /a and Official Short-term Debt	1,979.7	1,920.5	2,048.9	2,167.3	2,595.1	3,163.9	4,646.7	6,032.2	7,640.4	9,096.7	11,294.0	13,868.1	16,096.0
Memorandum Item													
MLT debt	1,670.7	1,619.4	1,756.4	1,886.2	2,264.1	2,726.4	3,931.7	5,023.7	6,283.3	7,283.4	8,746.1	10,203.7	12,102.9
Other IMF obligations /c	107.5	128.5	145.5	138.7	130.5	238.2	450.0	555.0	625.6	718.5	935.9	1,029.6	907.5
Total MLT debt including IMF Obligations	1,778.2	1,747.9	1,901.9	2,024.9	2,394.6	2,964.6	4,381.7	5,579.2	6,908.9	8,001.9	9,682.0	11,233.3	13,010.4
Total MLT Debt, all IMF Obligations & Official Short-term Debt	2,087.2	2,049.0	2,194.4	2,306.0	2,725.6	3,402.1	5,096.7	6,587.7	8,266.0	9,815.2	12,229.9	14,897.7	17,003.7

/a Including IMF Trust Fund as revalued, but excluding other IMF obligations.
/b Excluding International Reserve Liabilities.
/c Revalued at year-end exchange rates.

Source: The World Bank's Debtor Reporting System (DRS); Management of External Debt and Investment Accounts Department (MEDIAD) of the Philippine Central Bank.

Table A.5: EXTERNAL MEDIUM- AND LONG-TERM LOAN COMMITMENTS, CLASSIFIED BY TYPE OF BORROWER /a
(In millions of US$)

Year	New loan commitments	Total commitments /b (end-year)	Disbursed /c (end-year)	Undisbursed (end-year)
Public				
1972	455	1,346	919	427
1973	369	1,552	984	568
1974	739	2,134	1,182	952
1975	803	2,844	1,554	1,290
1976	1,709	4,520	2,570	1,950
1977	1,160	5,699	3,415	2,284
1978	2,649	8,336	4,818	3,518
1979	1,954	9,483	5,930	3,553
1980	2,070	11,600	7,228	4,372
1981	1,884	12,843	8,473	4,370
1982	2,062	14,650	9,782	4,868
Private				
1972	130	1,304	983	321
1973	128	1,299	1,041	258
1974	206	1,456	1,213	243
1975	283	1,676	1,411	265
1976	472	2,295	1,812	483
1977	347	2,482	2,165	317
1978	682	2,590	2,091	499
1979	583	2,823	2,071	752
1980	863	3,558	2,454	1,104
1981	515	3,931	2,761	1,170
1982	333	3,916	3,229	687
Total				
1972	585	2,650	1,902	748
1973	497	2,851	2,025	826
1974	945	3,590	2,395	1,195
1975	1,086	4,520	2,965	1,555
1976	2,181	6,815	4,382	2,433
1977	1,507	8,181	5,580	2,601
1978	3,331	10,926	6,909	4,017
1979	2,537	12,306	8,001	4,305
1980	2,933	15,158	9,682	5,476
1981	2,399	16,774	11,234	5,540
1982	2,395	18,566	13,011	5,555

/a Revised series as of April 1984. Excludes revolving credits and fixed-term credits with maturities under one year.
/b Net of payments and cancellations.
/c Includes IMF credits, revalued at year-end exchange rates.

Source: Central Bank of the Philippines.

Table A.6: EXTERNAL MEDIUM- AND LONG-TERM DEBT TRANSACTIONS, CLASSIFIED BY TYPE OF BORROWER /a
(In millions of US$)

Year	Disbursements	Debt service: Amortization	Debt service: Interest	Debt service: Total	Net disbursements	Adjustments /b	Debt outstanding & disbursed at end-year
Public							
1972	269	125	37	162	144	+7	919
1973	228	198	61	259	30	+35	984
1974	300	186	58	244	114	+84	1,182
1975	572	182	77	259	390	-18	1,554
1976	1,125	178	75	253	947	+69	2,570
1977	900	190	96	286	710	+135	3,415
1978	1,479	547	131	678	932	+471	4,818
1979	1,916	639	300	939	1,277	-165	5,930
1980	1,502	372	420	792	1,130	+168	7,228
1981	1,700	406	596	1,002	1,294	-49	8,473
1982	1,966	613	803	1,416	1,353	-44	9,782
Private							
1972	180	154	46	201	25	-22	983
1973	191	200	56	256	-9	+67	1,041
1974	276	178	54	232	98	+74	1,213
1975	307	134	65	199	173	+25	1,411
1976	538	190	77	267	348	+53	1,812
1977	476	188	87	275	288	+65	2,165
1978	489	501	139	640	-12	-62	2,091
1979	468	487	186	673	-19	-1	2,071
1980	472	320	239	559	152	+231	2,454
1981	607	387	299	686	220	+87	2,761
1982	567	447	384	831	120	+348	3,229
Total							
1972	449	279	83	363	170	-16	1,902
1973	419	398	117	515	21	+102	2,025
1974	576	364	112	476	212	+158	2,395
1975	879	316	142	458	563	+7	2,965
1976	1,663	368	152	520	1,295	+122	4,382
1977	1,376	378	183	561	998	+200	5,580
1978	1,968/c	1,048/c	270	1,318/c	920	+409	6,909
1979	2,384/c	1,126/c	486	1,612/c	1,258	-166	8,001
1980	1,974/c	692/c	659	1,351/c	1,282	+399	9,682
1981	2,307/c	793/c	895	1,688/c	1,514	+38	11,234
1982	2,533/c	1,060/c	1,187	2,247/c	1,473	+304	13,011

/a Revised series as of April 1984. Excludes revolving credits and fixed-term credits with maturities of one year or less.
/b Currency revaluation adjustments and audit adjustments.
/c Amortization and debt service include prepayments of $506 million in 1978, $492 million in 1979, $92 million in 1980, $24 million in 1981, and $20 million in 1982; disbursement includes financing of these prepayments.

Source: Central Bank of the Philippines.

Table A.7: EXTERNAL DEBT AND BANKING SYSTEM LIABILITIES, 1976-82
(US$ millions, end of period)

	1976	1977	1978	1979	1980	1981	1982
External Debt & Gross Banking System Liabilities	6,745	8,048	10,772	13,314	17,238	20,655	24,336
Medium- & Long-Term	4,382	5,580	6,910	8,001	9,682	11,234	13,011
Debt	(3,932)	(5,024)	(6,283)	(7,283)	(8,746)	(10,204)	(12,103)
IMF obligations	(450)	(556)	(626)	(718)	(936)	(1,030)	(908)
Short-Term	2,363	2,468	3,863	5,313	7,556	9,421	11,325
Official short-term	(715)	(1,009)	(1,357)	(1,813)	(2,548)	(3,664)	(3,993)
Center Bank	(566)	(40)	(153)	(522)	(1,321)	(1,575)	(2,214)
Commercial banks	(1,082)	(1,419)	(2,353)	(2,978)	(3,687)	(4,182)	(5,118)
Short-Term as percent of Total	35.0	30.7	35.9	39.9	43.8	45.6	46.5
External Debt and Net Banking System Liabilities	4,225	5,784	7,577	9,583	12,179	15,329	19,113
Medium- & Long-Term	4,382	5,580	6,909	8,001	9,682	11,234	13,011
Debt	(3,932)	(5,024)	(6,283)	(7,283)	(8,746)	(10,204)	(12,103)
IMF obligations	(450)	(556)	(626)	(718)	(936)	(1,030)	(908)
Short-Term	-157	204	668	1,582	2,497	4,095	6,102
Official short-term	(715)	(1,009)	(1,357)	(1,813)	(2,548)	(3,664)	(3,993)
Central Bank	(-1,076)	(-1,485)	(-1,730)	(-1,901)	(-1,834)	(-1,132)	(-124)
Commercial banks	(518)	(680)	(1,041)	(1,670)	(1,783)	(1,563)	(2,233)
Short-Term as Percent of Total	-3.7	3.5	8.8	16.5	20.5	26.7	32.1

Source: DRS; Central Bank.

Table A.8: STRUCTURE OF MLT DEBT BY CREDITOR, 1970-82
(US$ million)

	1970	1975	1979	1980	1981	1982
Total MLT Debt	1,490.8	2,788.5	7,230.3	8,918.2	10,338.3	11,992.4
Public Sector /a	571.5	1.377.3	5,159.0	6,463.9	7,577.6	8,836.0
Official Source	231.3	877.9	2,307.4	2,776.9	3,470.6	3,847.5
Multilateral	120.3	338.9	1,179.9	1,501.4	2,005.9	2,299.6
Bilateral	111.0	539.0	1,127.5	1,275.5	1,464.7	1,547.9
Private Source	340.2	499.4	2,851.5	3,687.0	4,107.0	4,988.4
Bonds	10.8	22.4	783.4	896.6	852.3	872.4
Financial institutions	267.0	406.8	1,817.6	2,501.5	2,951.4	3,789.7
Suppliers credits	62.4	70.2	250.5	288.9	303.3	326.3
Public Guaranteed Private Debt	306.4	476.2	411.9	484.0	687.4	920.8
Private Nonguaranteed	612.9	935.0	1,659.4	1,970.3	2,073.3	2,235.6
Public and Publicly Guaranteed	877.9	1,853.5	5,570.9	6,947.9	8,265.0	9,756.8
Memorandum Item:						
Total MLT & Official Short-Term DOD	1,849.8	3,226.0	9,043.6	11,466.1	13,904.8	16,452.4

/a Including IMF Trust Fund, but excluding other IMF obligations.

Note: The data series on debt has been revised since the preparation of this table in 1983, but the appropriate break down of the data was not available. The differences between this table and the revised data used elsewhere in the report are small except in 1970, for which the total debt shown here is $150 million less; the components also have similar differences. These qualifications also apply to Table 2.8 in the text.

Source: DRS (World Bank); MEDIAD

Table A.9: PATTERN OF PRIVATE SECTOR MLT DEBT
(US$ millions, end of period)

	1976	1977	1978	1979	1980	1981	1982
Funds relent by public sector	427	691	901	1,066	1,400	1,723	2,108
Direct borrowing by private sector	1,812	2,165	2,091	2,071	2,454	2,761	3,229
Total Private Sector Use of Foreign Sector	2,239	2,856	2,992	3,137	3,854	4,484	5,337

Source: MEDIAD.

Table A.10: NON-OIL SHORT-TERM DEBT /a
(US$ millions, end of period)

	1976	1977	1978	1979	1980	1981	1982
Non-oil sector	463	759	1,313	1,563	1,838	2,144	2,411
Public	50	38	286	316	237	680	891
Private	413	621	1,027	1,247	1,601	1,464	1,520

/a Includes OA/DA credits.

Source: MEDIAD.

Table A.11: STRUCTURE OF MLT DEBT BY CREDITOR, 1976-82 /a
(US$ Millions; end of period)

	1976	1977	1978	1979	1980	1981	1982
Creditors	3,932	5,024	6,283	7,283	8,746	10,204	12,103
Multilateral institutions (excluding IMF)	410	599	844	1,105	1,414	1,927	2,309
Governments	280	605	801	763	820	1,069	1,229
Bonds	371	501	777	890	966	1,014	1,099
Banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5,792
Other financial institutions /b	1,622	2,116	2,689	3,663	4,457	5,138	503
Exporters (suppliers' credits)	1,249	1,203	1,172	862	1,089	1,056	1,261

/a Revised data as of April 1984.

/b Banks and/or other financial institutions for 1976-81.

Source: MEDIAD.

Table A.12: PUBLIC SECTOR DEBT COMMITMENTS BY CONCESSIONAL/NONCONCESSIONAL CATEGORIES
(US$ million)

	1975	1979	1980	1981	1982
Concessional	127	300	318	248	268
Official	127	298	288	248	268
Private source	-	2	30	-	-
Nonconcessional	642	1,745	1,755	2,121	1,789
Official	275	471	900	921	824
Private	367	1,274	855	1,200	965
Total Public Sector Debt	769	2,045	2,073	2,369	2,057

Source: DRS.

Table A.13: PUBLIC SECTOR COMMITMENTS BY CURRENCY
(in percent)

	1975	1976	1977	1978	1979	1980	1981	1982
Low Interest Rate	29.4	27.7	58.9	25.8	44.8	55.0	46.4	21.5
French franc /a	14.6	1.1	0.2	-	2.3	-	-	-
Deutsche mark	-	0.1	3.0	2.3	1.5	-	1.6	0.7
Yen	14.8	8.1	6.4	23.5	21.3	14.5	19.6	20.8
Multiple /b	-	18.4	-	-	19.7	39.5	25.2	-
High Interest Rate	70.1	69.9	35.8	72.9	54.7	40.0	51.9	75.1
US dollar	44.8	69.9	(49.3)/c	49.0	54.7	40.0	51.9	46.6
Multiple /b	25.3	-	35.8	21.6	-	-	-	25.9
Total /d	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum Item: (Total in US$ million)	(770)	(1,578)	(1,445)	(2,470)	(2,044)	(2,073)	(2,369)	(2,057)

/a Subsidized French credits.
/b Includes commitments denominated in multiple currencies. Note that in some years this category is in the Low Interest Rate group and in other years in the High Interest Rate group. This classification was based on a comparison of the average interest rate associate with loans denominatd in multiple currencies, average interest rate associated with loans denominated in multiple currencies, with the average interest rate characteristic of the specific year's total commitments.
/c Figures in parentheses denote loans for which average interest rates were lower than on total commitments. Totals have been adjusted to exclude them.
/d The sum of the two categories does not equal 100% due to the exclusion of a few small loans.

Source: DRS.

Table A.14: STRUCTURE OF EXTERNAL OBLIGATIONS /a, 1981-82
(US$ millions)

	1981	1982
Creditors	14,898	17,004
Multilateral agencies (including Trust Fund)	1,927	2,309
IMF (other)	1,030	908
Governments	1,069	1,229
Bonds	1,014	1,009
Bank and other financial institutions	7,823	9,244
Exporters (suppliers' credits)	2,035	2,305

/a Includes official short-term debt.

Source: MEDIAD.

Table A.15: OUTSTANDING BORROWINGS UNDER THE CFBP
(US$ millions)

	1978	1979	1980	1981	1982
By Type					
Revolving	100.0	100.0	100.0	100.0	100.0
Fixed Term	284.0	580.0	837.2	1,098.3	1,748.6
Loans from FCDUs /a	16.8	18.7	33.3	44.1	78.8
Loans from foreign banks/OBUS /b	267.2	561.3	803.9	1,054.2	1,669.8
CFBP Loans Included in Fixed Term External Debt, by Sector					
Loans from foreign banks/OBUs	267.2	561.3	803.9	1,054.2	1,669.8
Add (deduct) currency revaluation adjustments	-	(8.8)	4.3	(2.4)	(6.6)
Adjusted Total	267.2	552.5	808.2	1,051.8	1,663.2
Not onlent	-	-	0.3	5.6	-
Relent	267.2	552.5	807.9	1,046.2	1,663.2
Private sector	180.8	327.3	505.0	725.3	961.9
Share % /c	(67.6)	(59.2)	(62.5)	(68.9)	(57.8)
Public Sector	86.4	225.2	302.9	320.9	701.3
Total	384.0	680.0	937.2	1,198.3	1,848.6

/a Foreign currency deposit units of the local commercial banks.

/b Offshore banking units.

/c The figures in parentheses refer to the share of the private sector in relent CFBP funds.

Source: Central Bank

Table A.16: COMMITMENTS AND APPROVALS OF MLT DEBT, /a 1978-82
(US$ millions)

	1978	1979	1980	1981	1982
Commitments					
Total MLT: MEDIAD	3,331	2,537	2,933	2,399	2,395
Public Debt: DRS	2,649	1,954	2,070	1,884	2,062
Implied private debt	682	583	863	515	333
Approvals /b					
Total MLT	3,533	2,640	3,386	3,002	2,638
Public debt	2,383	1,685	1,988	1,985	2,203
Private debt	1,150	955	1,398	1,017	435
Commitments/Approvals					
Total Debt	94.3	96.1	86.6	79.9	90.8
Public debt	111.2	116.0	104.1	94.9	93.6
Implied private debt	59.3	61.0	61.7	50.6	76.6

/a By primary borrower; loans for relending by the National Government/government corporations to the private sector are classified as public debt.

/b Includes prepayment, restructuring/financing loans not covered under the IMF/indicative ceilings.

Source: MEDIAD and DRS.

Note: Data on 1982 approvals still tentative.

Table A.17: REAL INCREASE IN DEBT, 1970-82
(million dollars)

	1970	1979	1982	Annual average growth rates (%) 1970-79	1979-82
DOD/Export Unit Value					
Total MLT, IMF obligations	1,475	3,389	6,507	9.7	24.0
Total MLT, IMF obligations, official short-term debt, net banking system liabilities	NA	4,058	9,560	NA	33.0
DOD/Import Unit Value					
Total MLT, IMF Obligations	1,630	2,764	3,820	6.1	11.4
Total MLT, IMF obligations, official short-term debt, net banking system liabilities	NA	3,312	5,613	NA	19.2
DOD/MUV /a					
Total MLT, IMF obligations	2,116	3,242	5,084	5.0	16.2
Total MLT, IMF obligations, official short-term debt net banking system liabilities	NA	3,882	7,468	NA	24.0

/a Unit value index for manufactured exports from developed to developing countries used as a proxy for the international inflation rate.

Source: DRS; MEDIAD; IBRD internal documents for MUV.

Table A.18: DEBT INDICATORS
(US$ million)

	1970	1974	1976	1978	1979	1980	1981	1982
Total MLT debt and IMF Obligations /a	1,778	2,395	4,382	6,909	8,002	9,682	11,233	13,010
Total MLT debt and IMF obligations, /a official short-term Debt, net banking system liabilities	NA	NA	4,225	7,577	9,583	12,179	15,329	19,113
GNP (billion pesos)	41.8	99.9	132.7	178.1	220.9	265.1	303.6	336.1
GNP (US$ million)	6,930	14,724	17,837	24,121	29,950	35,290	38,438	39,356
Exports of goods and services	1,341	3,559	3,446	4,909	6,256	8,010	8,617	8,004

/a Including all IMF obligations.

Source: Tables A.4 and A.7; World Bank, The Philippines: Selected Issues for the 1983-87 Plan Period, Washington, D.C., June 1, 1982.

Table A.19: FOREIGN EXCHANGE RESERVES /a
(US$ million)

Year	Gross reserves: Central bank	Gross reserves: Commercial banks	Foreign exchange liabilities: Central bank /b	Foreign exchange liabilities: Commercial banks	Net central bank reserves /b	Net total reserves
1970	251	128	435	160	-184	-216
1971	375	149	396	280	-21	-152
1972	549	186	399	453	150	-117
1973	1,037	379	314	540	723	562
1974	1,503	475	418	812	1,085	748
1975	1,361	718	792	990	569	297
1976	1,642	564	1,017	1,082	625	107
1977	1,525	739	601	1,419	924	244
1978	1,883	1,312	689	2,353	1,194	153
1979	2,423	1,309	1,179	2,978	1,244	-425
1980	3,155	1,903	2,149	3,687	1,006	-778
1981	2,707	2,619	2,407	4,182	300	-1,263
1982 /c	1,711	2,540	3,114	4,870	-829	-3,733
1983 /c	865	1,576	3,803 /d	4,495	-2,938/d	-5,857

/a Inclusive of revaluation adjustments

/b The net total reserves for 1970-81 are computed based on the old concept where CB liabilities are already net of certain long-term liabilities (IBRD rural credit liabilities, long-term yen liabilities to OECF and concessional loans) agreed with the IMF. The NIR for 1982-83 uses the new concept of NIR computation under the 1983 Standby Agreement where only short-term and IMF credits are included as CB liabilities.

/c Revised to reflect adjustment.

/d Inclusive of arrears.

Source: Central Bank.

Table A.20: STRUCTURE OF EXTERNAL DEBT, 1976-82
(US$ Million)

	1976	1977	1978	1979	1980	1981	1982
Total Debt /a	5,097	6,589	8,266	9,814	12,230	14,898	17,004
Medium- & long-term (incl. Trust Fund)	3,932	5,024	6,283	7,283	8,746	10,204	12,103
IMF obligations (excl. Trust Fund) /b	450	556	626	718	936	1,030	908
Short-term debt	715	1,009	1,357	1,813	2,548	3,664	3,993
Medium- & Long-Term Debt							
Creditors	3,932	5,024	6,283	7,283	8,746	10,204	12,103/d
Multilateral institutions (excl. IMF)	410	599	844	1,105	1,414	1,927	2,309
Governments	280	605	801	763	820	1,069	1,229
Bonds	371	501	777	890	966	1,014	1,009
Banks	1,622	2,116	2,689	3,663	4,457	5,138	5,792
Other financial institutions							503
Exporters (suppliers' credits)	1,249	1,203	1,172	862	1,089	1,056	1,261
Borrowers	3,932	5,024	6,283	7,283	8,746	10,204	12,103
Public sector (including relent to other sectors)	2,120	2,859	4,192	5,212	6,292	7,443	8,874
Central Bank (including relent to other sectors)	350	355	803	1,110	1,141	1,355	1,998
National Government	528	2,504	3,389	4,102	5,151	6,088	6,876
Other public	1,242						
Private sector (direct)	1,812	2,165	2,091	2,071	2,454	2,761	3,229
End-Users/Purposes	3,932	5,024	6,283	7,283	8,746	10,204	12,103
Public	1,693	2,168	3,291	4,146	4,892	5,720	6,766/d
Power & electrification	800	977	1,343	1,810	1,865	2,221	2,434
Transport	200	298	428	507	550	843	855
Agriculture	100	117	187	267	340	456	589
Industry	-	7	25	108	187	353	394
Other	593	769	1,308	1,454	1,950	1,847	2,494
Private relent by public sector	427	691	901	1,066	1,400	1,723	2,108
Private (direct)	1,812	2,165	2,091	2,071	2,454	2,761	3,229/d
Manufacturing	752	936	944	957	1,090	1,041	1,204
Transport, utilities	491	515	508	459	726	858	889
Mining	321	451	379	422	417	580	843
Other	248	263	260	233	221	282	293

Table A.20: (continued)

	1976	1977	1978	1979	1980	1981	1982
Maturities	3,932	5,024	6,283	7,283	8,746	10,204	12,103
Over 1-5 years	284	308	258	181	168	113	169
Over 5-12 years	2,097	2,922	3,593	4,124	4,993	5,488	6,240
Over 12 years	1,551	1,794	2,432	2,978	3,585	4,603	5,694
Interest Rate	3,932	5,024	6,283	7,283	8,746	10,204	12,103
Floating	675	1,263	1,690	2,302	3,203	3,982	5,252
Fixed	3,257	3,761	4,593	4,982	5,543	6,222	6,851
Short-Term Debt							
Composition	715	1,009	1,357	1,813	2,548	3,664	3,993
Fixed-term	144	80	160	195	71	112	74
Revolving	177	337	454	624	1,532	2,605	2,914
O/As and D/As	394	592	743	994	945	947	1,005
Creditors /c	715	1,009	1,357	1,813	2,548	3,664	3,993
Banks } Other financial institutions }	321	417	614	819	1,603	2,685	2,949
Exporters	394	592	743	994	945	979	1,044
Borrowers	715	1,009	1,357	1,813	2,548	3,664	3,993
Oil companies	252	350	44	250	1,710	1,520	1,582
Public sector	50	38	286	316	237	680	891
Private sector	413	621	1,027	1,247	1,601	1,464	1,520
Purposes	715	1,009	1,357	1,813	2,548	3,664	3,993
Oil import financing	252	350	44	250	1,710	1,520	1,582
Nonoil import financing	413	622	1,217	1,422	1,786	1,875	2,184
Export financing (NASUTRA)	-	-	87	132	-	66	-
Nontrade /d	50	37	9	8	52	203	227

/a Excluding short-term monetary liabilities.
/b Revalued at current SDR rate.
/c Mainly private sources.
/d Prorated based on the same.

Source: Central Bank.

Table A.21: EXTERNAL DEBT SERVICE PAYMENTS, 1977-82
(US$ millions)

	1977	1978	1979	1980	1981	1982
I. Philippines Debt Service as Statutorily Defined /a	726	1,006	1,253	1,472	1,758	2,249
II. Debt Service /b (World Bank definitions) on:						
(a) MLT debt	513	786	1,009	1,166	1,580	2,159
(b) MLT debt, IMF obligations, official short-term debt, and net banking system liabilities /c	618	935	1,216	1,457	1,721	2,627
(c) MLT debt, IMF obligations, short-term debt and gross banking system liabilities /c	649	985	1,259	1,672	2,168	3,049
Memo:						
Exports of goods and services	4,236	4,909	6,256	8,010	8,617	8,004

/a Interest and principal payments on MLT debt, IMF obligations and fixed short-term debt.
/b Excluding prepayments
/c Only interest payments have been included for Revolving Credits (other than D/As and O/As) and banking system liabilities.

Source: MEDIAD, Mission estimates, and IMF.

Table A.22: EXTERNAL DEBT SERVICE, AS STATUTORILY DEFINED /a, 1977-82
(US$ millions)

	1977	1978	1979	1980	1981	1982
Debt Service Payments	726	1,006	1,253	1,472	1,758	2,249
Principal	537	730	761	799	855	1,052
Medium- & Long-term	(330)	(958)	(1,035)	(547)	(739)	(985)
IMF obligations	(48)	(90)	(91)	(145)	(54)	(75)
Short-term /b	(159)	(188)	(127)	(199)	(86)	(112)
Prepayments	(-)	(-506)	(-492)	(-92)	(-24)	(-120)
Interest	189	276	492	673	903	1,197
Medium- & long-term	(183)	(270)	(486)	(609)	(825)	(1,097)
IMF obligations	(-)	(-)	(-)	(50)	(70)	(90)
Short-term /b	(6)	(6)	(6)	(14)	(8)	(10)
External Receipts /c	5,242	5,593	6,741	7,874	9,227	11,617
Current receipts	3,259	3,814	4,471	5,562	7,093	8,085
Capital receipts	1,983	1,779	2,270	2,312	2,134	3,532
Debt service ratio /d (in percent)	13.8	18.0	18.6	18.7	19.1	19.4

/a In accordance with Republic Act Number 6142 of November 1970. Revised data.

/b Principal and interest on short-term fixed debt only.

/c On cash basis, excluding trade-related short-term loans.

/d The maximum permitted debt service ratio is 20%.

Source: Data provided by the Philippine authorities.

Table A.23: PUBLIC SECTOR DEBT SERVICE PAYMENTS
(US$ millions)

Alternative IIb /a	1977	1978	1979	1980	1981	1982
MLT Debt	315.7	644.7	805.4	585.3	850.3	1,029.0
IMF obligations	48.3	92.2	91.5	194.9	123.1	148.7
Official Short-Term Debt	51.4	94.4	85.1	179.5	231.6	319.9
Interest payments /b	6.0	14.5	18.0	63.4	146.1	239.2
Principal payments on fixed short-term debt	45.4	79.9	67.1	116.1	85.5	80.7
Net Liabilities of the Central Bank	-91.0	-150.0	-216.0	-239.0	-176.0	18.0
Total Debt Service Payments	324.4	681.3	766.0	720.7	1,029.0	1,479.6
Public Sector Debt Service Ratio (%)	7.7	14.1	12.4	9.2	12.3	19.1
Share of Public Sector Debt Service in Total Debt Service	47.1	46.2	44.3	43.0	47.8	49.8
Memo:						
Public sector's share of Official short-term debt	28.6	42.6	52.8	58.2	59.4	60.7

/a See Table A.21 for explanation of components of Alternative IIb.

/b Determined on the basis of the public sector's share in short-term debt.

Source: DRS, MEDIAD, IMF.

Table A.24: CONSOLIDATED PUBLIC EXPENDITURES
BY SECTOR ON AN OBLIBATION BASIS
(Million Pesos)

	1978	1979	1980	1981	1982
Economic Services	13.7	18.1	23.2	27.7	31.7
Noninfrastructure	4.5	4.3	4.7	6.6	7.6
Agriculture, forestry, fishery	3.9	3.5	3.3	4.7	5.3
Industry, trade, labor and tourism	0.6	0.8	1.4	1.9	2.3
Total Infrastructure	9.2	13.8	18.5	21.4	24.0
Energy, water supply	4.3	7.3	10.3	11.1	12.1
Transportation, telecommunications, other infrastructure	4.9	6.5	8.2	10.3	11.9
Social Services	5.4	6.7	7.4	10.5	12.7
Defense	4.4	4.7	4.8	4.7	7.5
General Public Administration	2.7	3.5	5.0	3.8	4.9
Debt Service	2.1	2.5	3.6	4.0	5.2
Total (in billion pesos)	28.3	35.5	44.0	50.2	61.9

Source: Ministry of Finance.

Table A.25: FINANCING OF NATIONAL GOVERNMENT CAPITAL EXPENDITURES, EQUITY CONTRIBUTIONS AND NET LENDING
(Amounts in billion pesos)

	1978	1979	1980	1981	1982
Capital Expenditures and Net Lending					
Infrastructure and noninfrastructure capital outlays	4.4	5.0	8.4	12.7	10.0
Capitalization/equity contributions	2.4	3.4	4.5	8.1	9.4
Net lending	0.2	0.8	0.7	0.9	2.2
Total	7.0	9.2	13.6	21.7	21.6
Financing					
Current cash surplus	4.4	8.7	10.6	10.0	7.2
Foreign borrowing, net	1.9	3.2	2.0	6.0	2.8
Domestic financing /a	0.7	-2.7	1.0	5.7	11.6
Banking system	n.a.	n.a.	1.0	4.8	7.1
Nonbank system	n.a.	n.a.	n.a.	0.9	4.5
Total	7.0	9.2	13.6	21.7	21.6

/a The sum of net domestic borrowing and changes in cash balances, as follows (in billion pesos):

	1978	1979	1980	1981	1982
Domestic borrowing, net	0.0	-0.2	1.2	6.1	11.6
Changes in cash balances	0.7	-2.5	-0.2	-0.4	0.0

Source: Ministry of Finance.

Table A.26: TRADE INDEXES /a
(1972 = 100)

	Quantum index		Price index		Value index		Net terms of trade
	Imports	Exports	Imports	Exports	Imports	Exports	
1972	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1973	93.6	107.7	128.8	145.9	120.5	157.2	113.3
1974	110.3	96.2	211.6	242.3	233.5	233.2	114.5
1975	115.8	101.9	219.6	192.8	254.2	196.4	87.8
1976	122.6	130.5	217.2	168.8	266.2	220.3	77.7
1977	119.2	157.4	241.1	171.3	287.5	269.7	71.0
1978	140.9	152.6	245.8	192.1	346.3	293.1	78.2
1979	153.8	166.8	289.4	236.1	445.2	393.8	81.6
1980	155.8	201.3	358.6	246.0	558.5	495.4	68.6
1981	143.2	203.5	398.6	240.6	570.8	489.7	60.4
1982	163.4	215.0	340.5	199.9	556.3	429.7	58.7

/a Unit values of imports are based on c.i.f. value, while those for exports are based on f.o.b. value.

Source: Central Bank of the Philippines.

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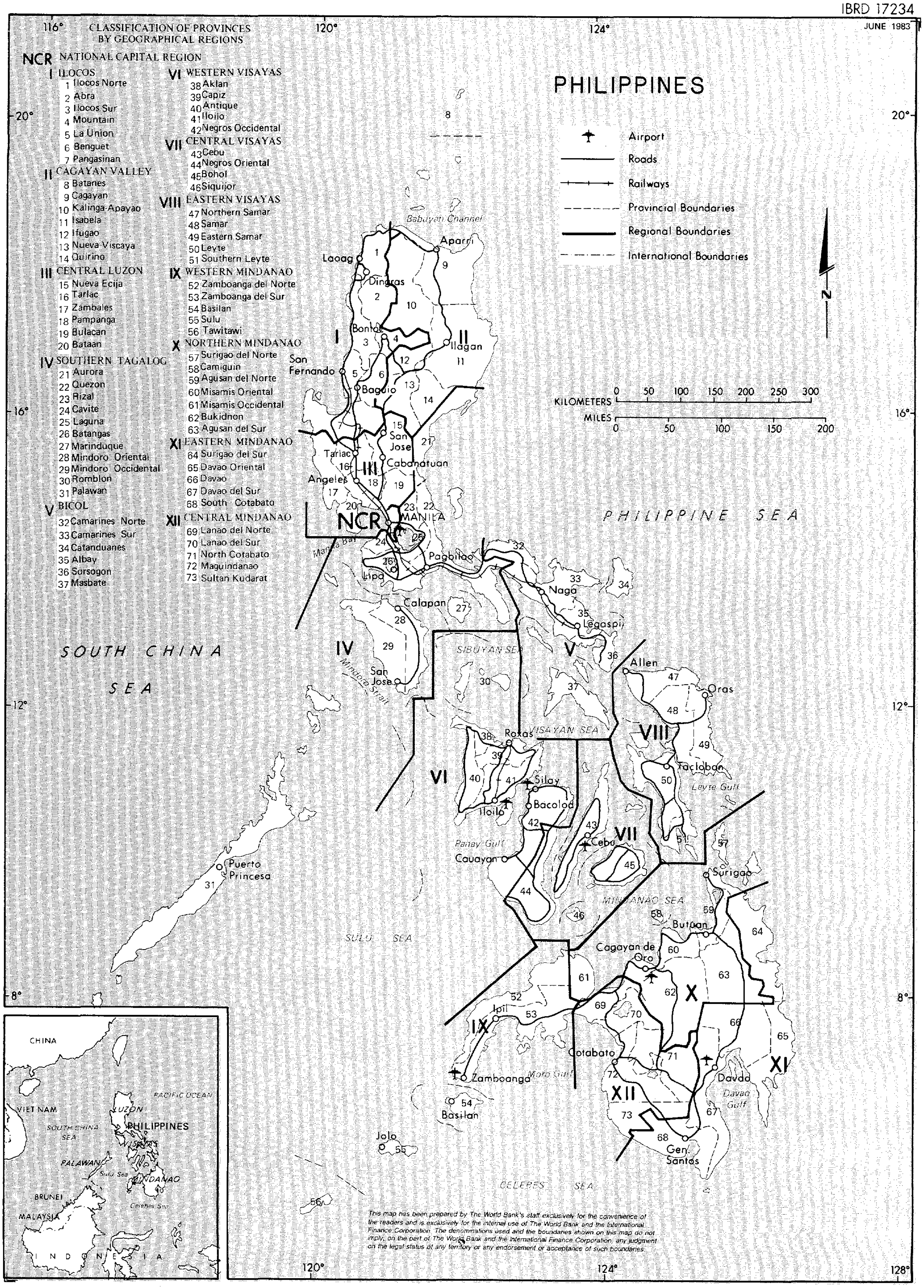
JUNE 1983
PHILIPPINES
CLASSIFICATION OF PROVINCES BY GEOGRAPHICAL REGIONS
NCR NATIONAL CAPITAL REGION
I ILOCOS
1 Ilocos Norte
2 Abra
3 Ilocos Sur
4 Mountain
5 La Union
6 Benguet
7 Pangasinan
II CAGAYAN VALLEY
8 Batanes
9 Cagayan
10 Kalinga-Apayao
11 Isabela
12 Ifugao
13 Nueva Viscaya
14 Quirino
III CENTRAL LUZON
15 Nueva Ecija
16 Tarlac
17 Zambales
18 Pampanga
19 Bulacan
20 Bataan
IV SOUTHERN TAGALOG
21 Aurora
22 Quezon
23 Rizal
24 Cavite
25 Laguna
26 Batangas
27 Marinduque
28 Mindoro Oriental
29 Mindoro Occidental
30 Romblon
31 Palawan
V BICOL
32 Camarines Norte
33 Camarines Sur
34 Catanduanes
35 Albay
36 Sorsogon
37 Masbate
VI WESTERN VISAYAS
38 Aklan
39 Capiz
40 Antique
41 Iloilo
42 Negros Occidental
VII CENTRAL VISAYAS
43 Cebu
44 Negros Oriental
45 Bohol
46 Siquijor
VIII EASTERN VISAYAS
47 Northern Samar
48 Samar
49 Eastern Samar
50 Leyte
51 Southern Leyte
IX WESTERN MINDANAO
52 Zamboanga del Norte
53 Zamboanga del Sur
54 Basilan
55 Sulu
56 Tawitawi
X NORTHERN MINDANAO
57 Surigao del Norte
58 Camiguin
59 Agusan del Norte
60 Misamis Oriental
61 Misamis Occidental
62 Bukidnon
63 Agusan del Sur
XI EASTERN MINDANAO
64 Surigao del Sur
65 Davao Oriental
66 Davao
67 Davao del Sur
68 South Cotabato
XII CENTRAL MINDANAO
69 Lanao del Norte
70 Lanao del Sur
71 North Cotabato
72 Maguindanao
73 Sultan Kudarat
Airport
Roads
Railways
Provincial Boundaries
Regional Boundaries
International Boundaries
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MILES 0 50 100 150 200
116°
120°
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SOUTH CHINA SEA
PHILIPPINE SEA
SULU SEA
CELEBES SEA
SIBUYAN SEA
VISAYAN SEA
MINDANAO SEA
Babuyan Channel
Manila Bay
Mindoro Strait
Panay Gulf
Moro Gulf
Davao Gulf
Leyte Gulf
Laoag
Aparri
Dingras
Bontoc
Ilagan
San Fernando
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San Jose
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