



**EXTERNAL DEBT MANAGEMENT
IN THE PHILIPPINES**



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EXTERNAL DEBT MANAGEMENT IN THE PHILIPPINES

DEBT MANAGEMENT FROM A MACRO PERSPECTIVE

- Identification of priority areas for foreign financing
- Determination of project viability and borrower's capacity to pay
- Assessment of country's debt servicing capability



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INSTITUTIONAL ARRANGEMENTS FOR DEBT MANAGEMENT

- Bangko Sentral ng Pilipinas
- Department of Finance
- Investment Coordination Committee
- Inter-agency Committee for Review of Foreign Loan Documents
- National Economic Development Authority
- Development Budget Coordination Committee
- Board of Investments



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LEGAL BASES

- The Philippine Constitution – 15 October 1986
- Letter of Instructions No. 158 – 21 January 1974
- Foreign Borrowings Act (Republic Act 4860)
– 8 September 1966
- New Central Bank Act (Republic Act 7653)
– 10 June 1993



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BSP DEBT MANAGEMENT RESPONSIBILITIES

- Monitoring the level of external debt
- Keeping outstanding debt and debt burden
at manageable levels
- Obtaining the best available terms and conditions
for foreign financing and avoid bunching of
maturities



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BSP DEBT MANAGEMENT TOOLS

- Regulatory issuances (policies and procedures)
- Administrative mechanisms (approval and registration process; reporting system)
- Observance of ceilings on new commercial MLT loans and outstanding ST public sector debt
- Debt Strategies



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REGULATORY & ADMINISTRATIVE FRAMEWORK

- **Public Sector Borrowings –**
 - All loans of the government, its instrumentalities and agencies (e.g., LGUs, GFIs & GOCCs) require prior BSP approval
- **Private Sector Borrowings**
 - Loans which carry public or banking sector guarantee or which will be serviced with foreign exchange purchased from the banking system require prior BSP approval

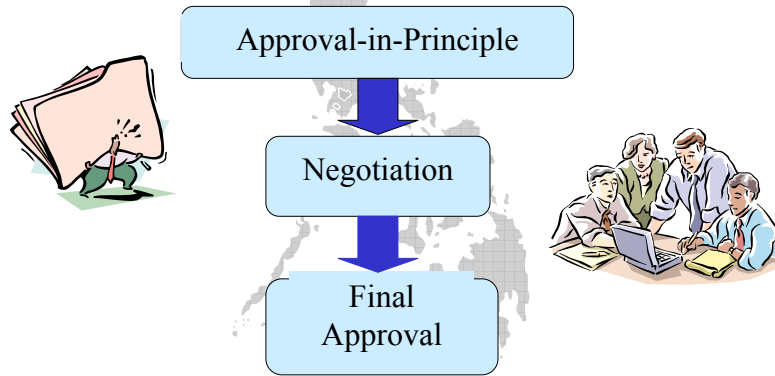


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PUBLIC SECTOR BORROWINGS

Evaluation stages:



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PUBLIC SECTOR BORROWINGS

- **Approval-in-Principle** – gives the borrower clearance to negotiate with the creditor
- **Negotiation** – borrower may proceed to negotiate with creditor
The Inter-Agency Committee for Review of Foreign Loan Documents (IAC-RFLD) serves as a forum in reviewing the covering agreements.
- **Final Approval** – the terms as finally negotiated are compared with the terms as approved-in-principle to determine consistency with &/or deviations therefrom.



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PRIVATE SECTOR BORROWINGS

Evaluation stages:



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PRIVATE SECTOR BORROWINGS

- **Approval** – gives the borrower clearance to conclude negotiations & finalize/sign loan documents
- **Registration** – the borrower is given authority to purchase foreign exchange from the banking system to cover payment of principal, interest, and other charges

BSP reviews copies of signed loan agreements for compliance with approved terms and conditions, and determines whether funds were actually disbursed & utilized.



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DEBT MONITORING

SYSTEM

- The Philippine external debt monitoring system covers all data categories such as:
 - by borrower (public, private, bank and non-bank);
 - by original and residual maturity (short-term, medium- and long-term);
 - by creditor type;
 - by currency; and
 - by country



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DEBT MONITORING

SYSTEM

- Principal data sources include regular reports from borrowers, banks and other financial institutions and selected creditors plus news articles in local and international publications
- BSP requires submission of monthly reports on the status of BSP-approved loans and transactions
- BSP also requires borrowers that did not seek prior approval of their loans to submit monthly reports for statistical purposes to allow compilation of comprehensive debt statistics



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DEBT STRATEGY

- Optimization of available foreign financing by –
- Identifying projects eligible for financing
 - encouraging credits with longer tenor and lower cost
 - encouraging private sector participation in development efforts through BOT and other new financing schemes
 - closely coordinating approaches to international capital markets to avoid competition among Philippine borrowers



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DEBT STRATEGY

FX Liberalization

- Lifting of BSP approval and registration requirement for Private sector provided loan –
 - Is not guaranteed by public sector/banks
 - Will not be serviced with FX from banking system
- Full discretion for disposition of residents' FX receipts
BUT
BSP Reporting requirement maintained



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DEBT STRATEGY

Diversification of Funding Mode and Source Tapping Private Sector as Partner for Development

- BOT Law
- Deregulation of key industries



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POST 1983 DEBT SITUATION

Measures to manage capital surge

- Reserve build up
- Limits on bank's FX position
- Liberal rules on outward investments and capital withdrawal for investments under debt to equity conversion program
- Allowed residents to (a) retain FX receipts and (b) open/maintain FX deposit accounts onshore and offshore



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THE 1997 ASIAN CRISIS

- Widening of spreads on debt papers
- Volatile Peso/Dollar exchange rate

Confidence in Philippine Debt Monitoring System

- Well managed and provides up-to-date data
- Allows comparisons with other statistics
- Inclusion in new international debt guide:
Philippine monitoring system for private sector
as example of best country practices



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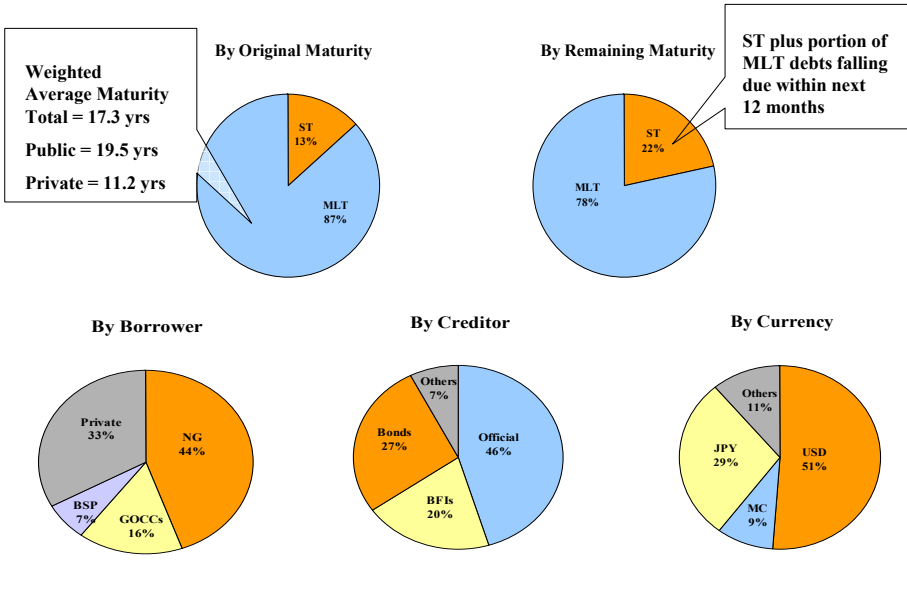
Policy Initiatives

- Amortizing versus bullet payment terms
- Staggered purchase of FX for debt servicing
- Hedging mechanism for FX obligations
- Documentation of FX sales by banks
- Alignment of rules for bank-affiliated Forex Corporations

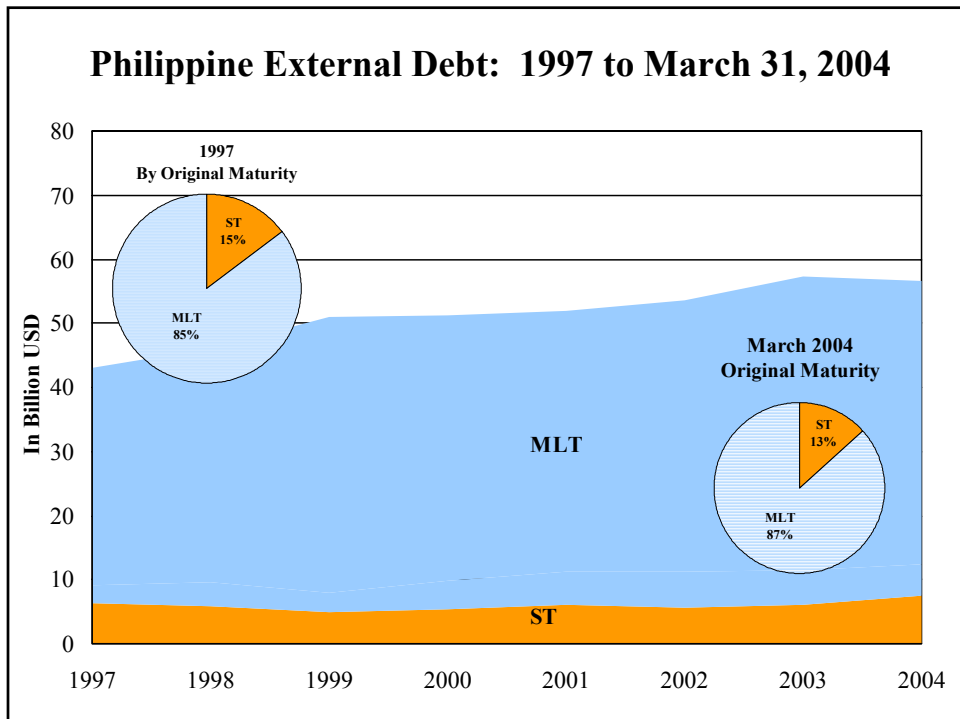


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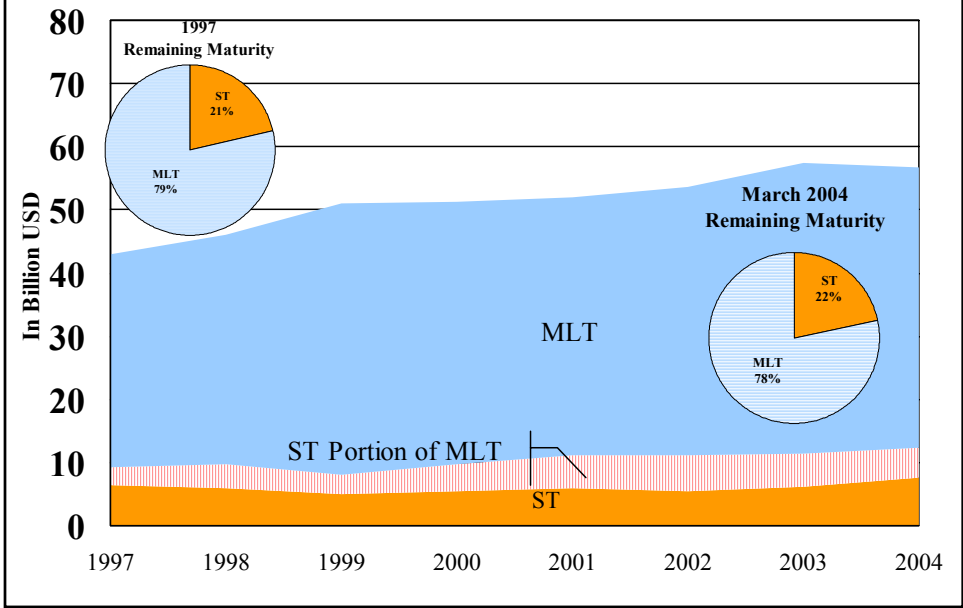
Philippine External Debt: Profile as of March 31, 2004



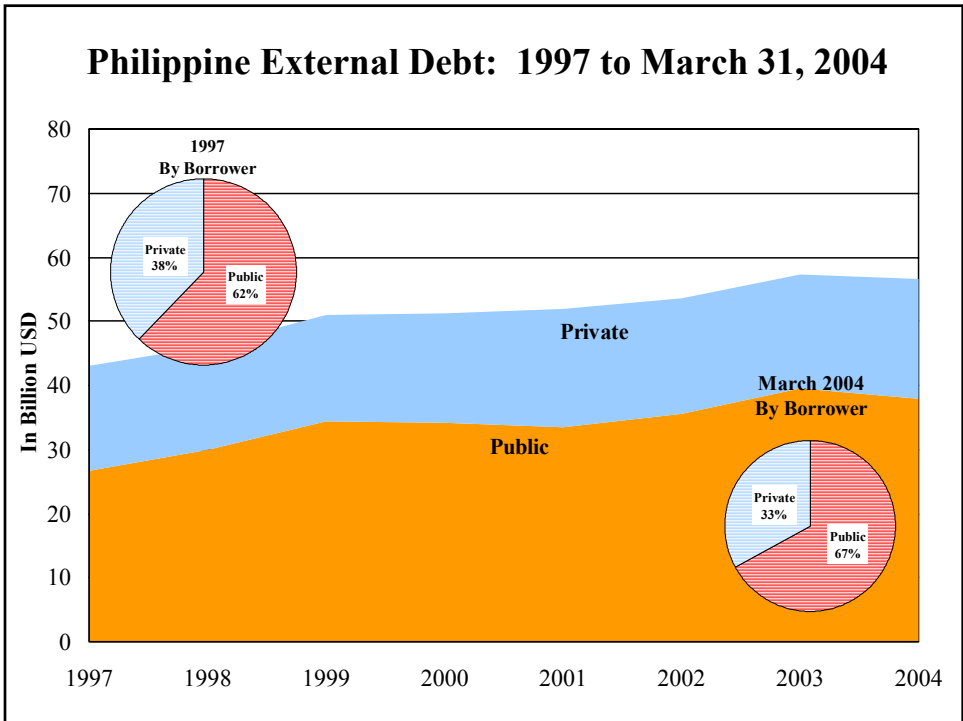
Philippine External Debt: 1997 to March 31, 2004



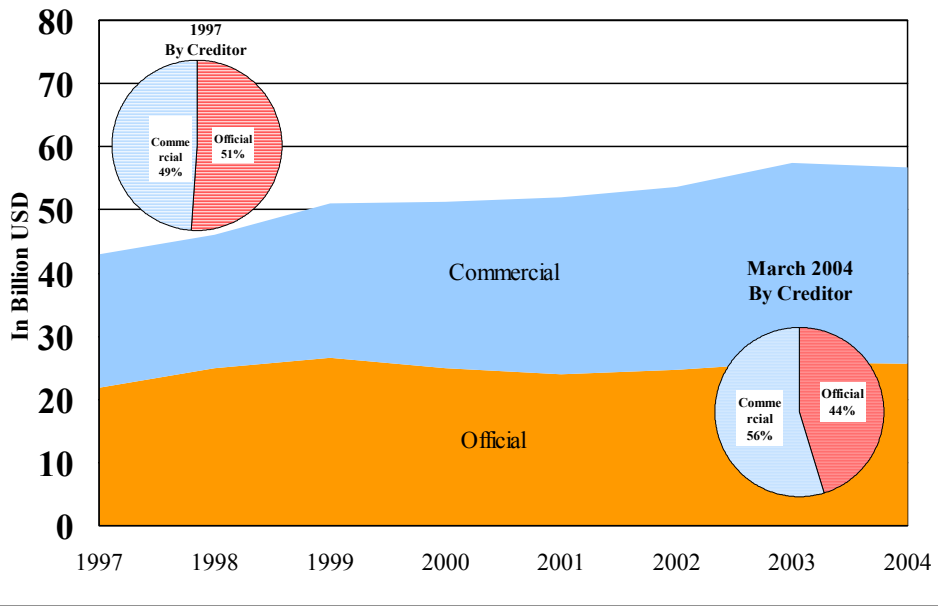
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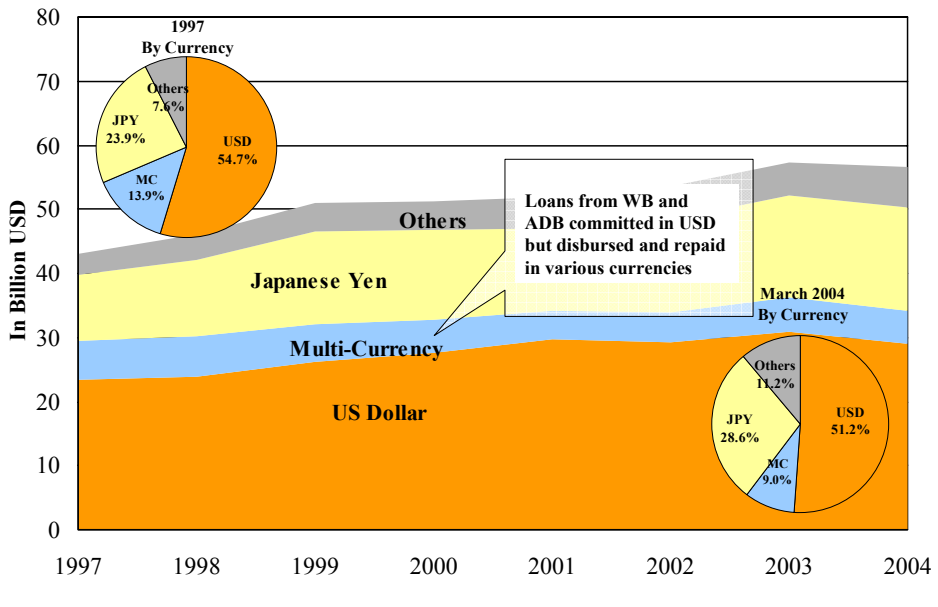
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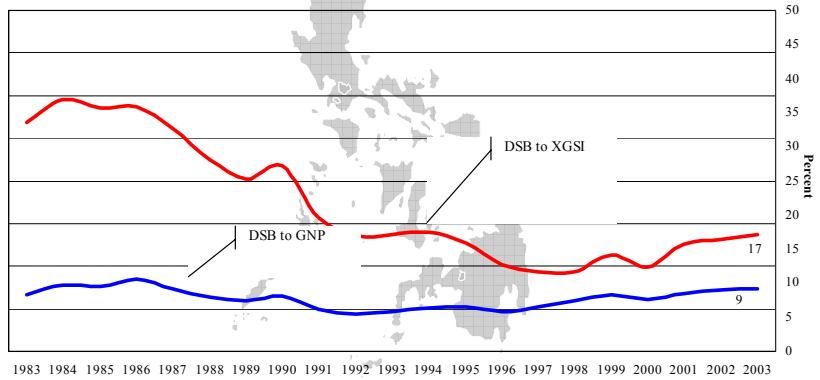


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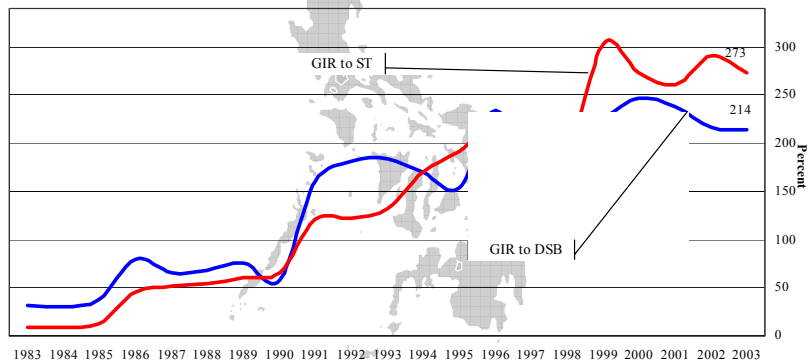
Ratio of Debt Service Burden to GNP and XGSI 1983 to 2003



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Ratio of Reserves to DSB and ST Debt 1983 to 2003



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CONCLUSION

- Encouraging developments
- Reliance on external financing to continue
- Policies will continue to be proactive and market-oriented but consistent with regulatory concerns
- Continuing review and improvement of debt monitoring system



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End of Presentation

Thank you!