Review of the Philippine Debt Indicators*

I. INTRODUCTION

Almost all governments incur debts and the Philippines is no exception. The build-up of debt is caused by the persistence of budget deficit. Budget deficit is viewed in two ways: one, a case where the government is not earning enough to sustain its expenses and two, where it is spending more than what it has been earning. As a result, the government borrows either through foreign or local sources. Whichever way, the debt has to be paid. Thus, the government allots a portion of its budget to pay for the debt and interest incurred, also referred to as debt service.

Over the years, more loans are acquired by every administration and passed on to the next administration. However, the Philippines under President Aquino III's administration is committed to undertake sound debt management measures to make national government (NG) debts stay within sustainable levels, thus, reduce deficit and improve the overall fiscal health of the country.

This paper reviews the country's debt profile from 2000-2012 and examines its leading debt indicators to serve as inputs to fiscal policymakers.

II. NG DEBT PROFILE: 2000-2012

The Philippines, like other developing countries, relies on borrowings to augment its meager resources. The country's total NG debt denotes all debts incurred not only by the national government but also by government-owned and controlled corporations (GOCCs). It also includes all debt instruments (treasury bills/bonds and notes) issued by the Bureau of Treasury (BTr) and the Bangko Sentral ng Pilipinas (BSP) as well as loans in the form of Official Development Assistance (ODA) entered into by the Philippine government. It is composed of domestic and foreign borrowings with short, medium and long-term maturities.

The country's NG debt portfolio reached PhP5.4 trillion in 2012 from PhP2.2 trillion in 2000. It is mainly long-term in tenor. As can be seen in Table 1, while short-term debt

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accounted for over a fifth of total NG debt in 2000, its share was remarkably reduced to 5% in 2012. Similarly, medium-term loans which represented over 16% in 2000 contributed only 9% in 2012. On the other hand, the share of long-term loans increased from 62% in 2000 to 86% in 2012. It is noted that it was during the term of President Aquino III that the country managed to reduce significantly holdings of short- and medium-term loans with high interests in favor of those with longer maturities and low interests. The shift from short and medium term debts to longer maturities helped the government managed the country's debt payments.

Table 1. NG DEBT BY MATURITY: 2000-2012

Year	NG Debt (In TrillionPhP)	% Distribution		
		Short-Term	Medium-Term	Long-Term
2000	2.2	21.6	16.2	62.2
2001	2.4	17.9	22.5	59.6
2002	2.8	14.4	26.1	59.5
2003	3.4	14.8	27.4	57.8
2004	3.8	15.6	25.8	58.6
2005	3.9	16.4	24.6	59.0
2006	3.9	17.2	20.6	62.2
2007	3.7	16.5	23.3	60.2
2008	4.2	18.3	19.2	62.6
2009	4.4	14.1	17.3	68.6
2010	4.7	11.2	15.2	73.6
2011	5.0	6.0	11.4	82.6
2012	5.4	5.0	8.8	86.2

Source of basic data: Bureau of Treasury (BTr).

In 2000, about half of the NG debt was sourced from domestic lenders and the other half from foreign creditors. During the term of President Aquino III, the ratio of the country's debt reached a comfortable level of 64:36 in favor of domestic debt, limiting the build-up of foreign-currency denominated debt as well as mitigating the risks of exchange rate devaluations. It was more favorable to borrow from the domestic market since the economy was performing well and there was strong support from local creditors of NG endeavors. (Table 2)

Table 2. DOMESTIC VIS-A-VIS FOREIGN DEBT: 2000-2012
(In Trillion PhP)

Year	Domestic Debt	Foreign Debt	% Share	
			Domestic	Foreign
2000	1.1	1.1	49.3	50.7
2001	1.3	1.1	52.3	47.7
2002	1.5	1.3	52.3	47.7
2003	1.7	1.7	50.8	49.2
2004	2.0	1.8	52.5	47.5
2005	2.2	1.7	55.7	44.3
2006	2.2	1.7	55.9	44.1
2007	2.2	1.5	59.3	40.7
2008	2.4	1.8	57.2	42.8
2009	2.5	1.9	56.2	43.8
2010	2.7	2.0	57.6	42.4
2011	2.9	2.1	58.0	42.0
2012	3.5	2.0	63.8	36.2

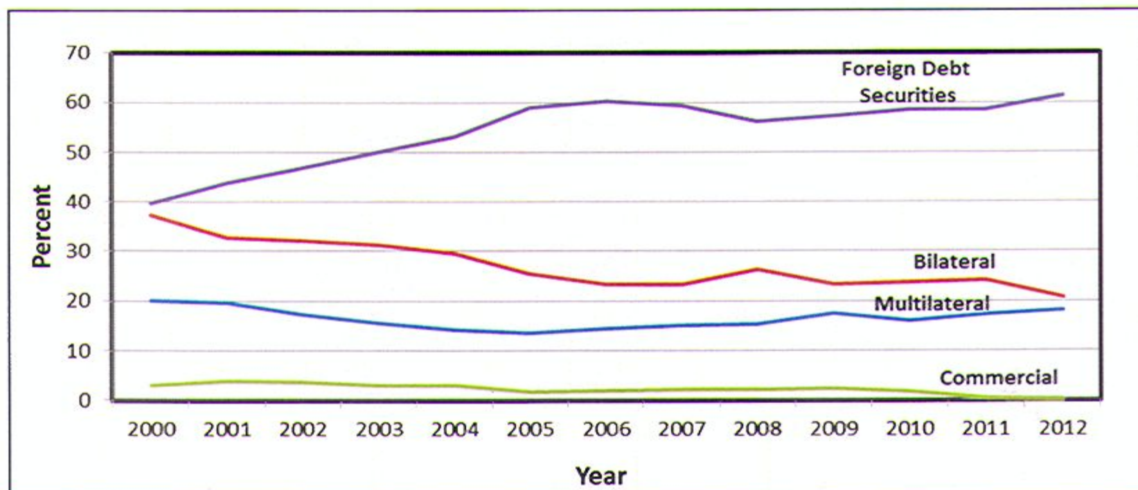
Source of basic data: BTr

The country's foreign debt is mainly composed of debt securities, like bonds and notes, with an average annual share of 54% of total foreign loans from 2000-2012. (Figure 1) The country's official creditors are multilateral and bilateral funders. Bilateral creditors are sovereign governments or their aid development policy agencies, which generally provide concessional loans or grants. From 2000-2012, bilateral creditors of the country such as the Japan International Cooperation Agency (JICA), and the governments of United States of America (USA), and France, registered an average annual share of 27% of the total foreign debt. Multilateral lenders, on the other hand, such as the Asian Development Bank (ADB), World Bank-International Bank for Reconstruction and Development (WB-IBRD), International Fund for Agricultural Development (IFAD), and Japan Bank for International Development (JBID), recorded an average annual share of 16% for the period under review. It may be worth mentioning that the maturity of IFAD loans typically reaches 50 years with grace period of 10 years, at an interest rate of 1.0%. The ADB loan has a maturity of 32 years and a grace period of 10 years, at interest rates ranging from 1.0-4.0%.[1] Commercial creditors, on the other hand, are foreign banks and other financial institutions, with an average annual share of 2.0% of the total foreign debt.

Foreign debt securities incurred from 2000-2012 were solely utilized for budgetary support while loans borrowed from multilateral, bilateral and commercial lending institutions were used for the implementation of programs of leading national government agencies.

[1] For some creditors, lending terms vary depending on the borrower country and/or the project being financed. For simplicity, the examples represented the "softest" loan term. (Source: A Guide to Low-Income Countries (LIC) Debt Sustainability Analysis, p. 33)

Figure 1. NG EXTERNAL DEBT, BY TYPE OF CREDITOR: 2000-2011
(In Percent)

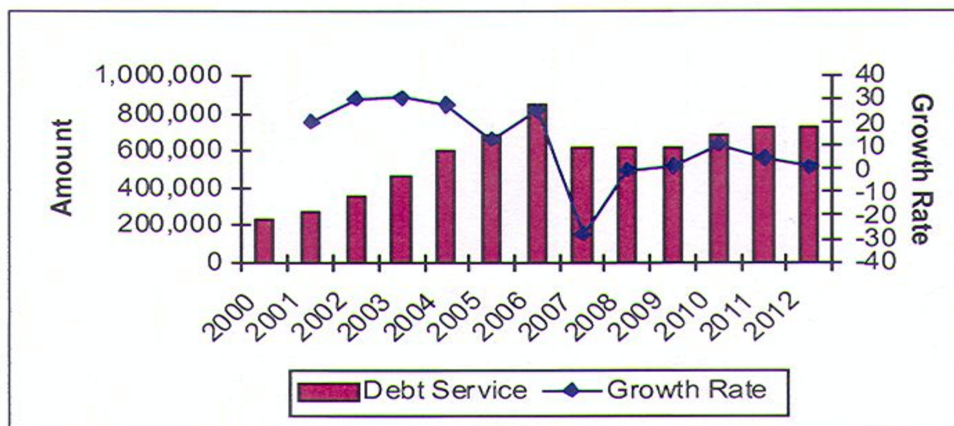


Source of basic data: BTr.

III. DEBT SERVICE

The country's total debt service went up from PhP227.84 billion in 2000 to PhP854.37 billion in 2006, then declined to PhP614.07 billion in 2007 and rose again to PhP622.29 billion in 2009. In 2012, debt service reached PhP729.77 billion. As observed, debt service was highest in 2006 with PhP854.37 billion. This was due to the government's pre-payments of its obligation to the IMF amounting to US$220 million, which resulted to the country's exiting from the IMF Post-Program Monitoring Arrangement and the ADB loan of US$72 million. (Figure 2)

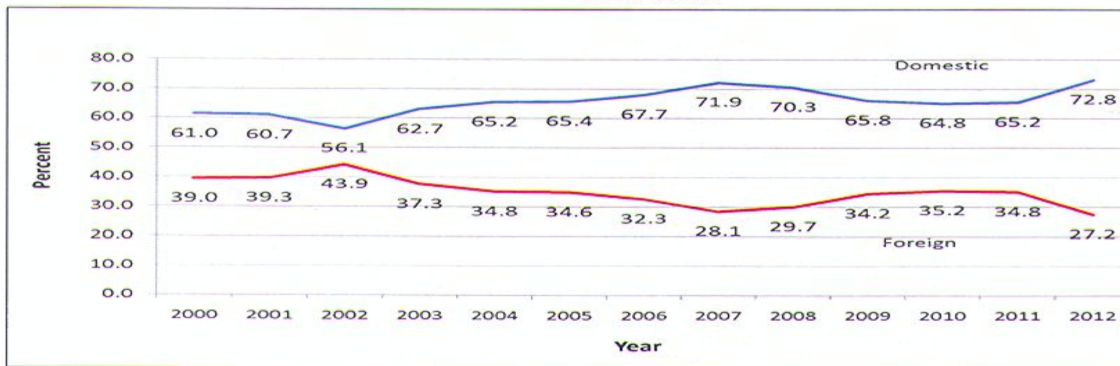
Figure 2. PHILIPPINE DEBT SERVICES: 2000-2012
(Amounts in Million PhP)



Source of basic data: BTr.

Domestic debt payments shared more than half of the country's total debt servicing peaking at 71.9% in 2007 and its lowest at 56.1% in 2002. Foreign debt servicing was generally on a downward trend with its highest recorded in 2002 at 43.9%. It then slipped continuously for six years and went up again in 2009-2010 at 34.2% and 35.2%, respectively, until it dropped to 27.2% in 2012. (Figure 3) During these years, the government bought back (repurchased) foreign-denominated bonds and exchanged them for peso-denominated debt as part of its liability management which lengthened maturity and reduced foreign-currency risk.

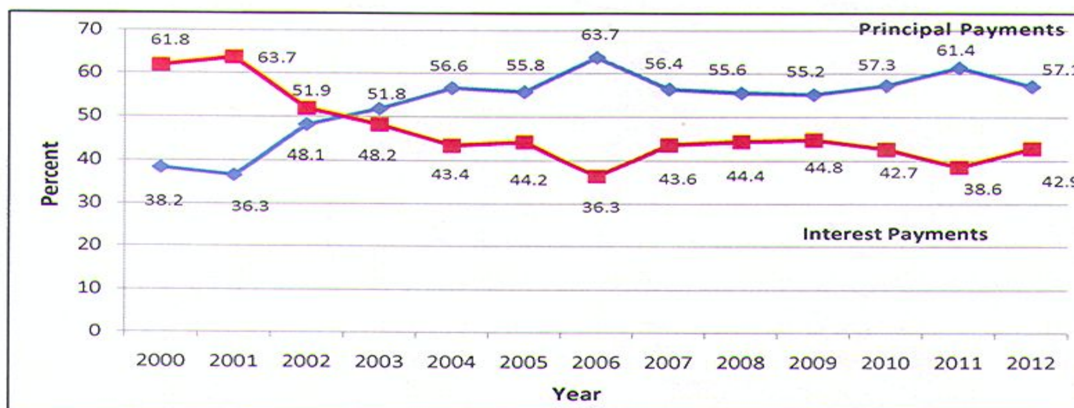
Figure 3. DOMESTIC VIS-A-VIS FOREIGN DEBT SERVICE PAYMENTS: 2000-2012



Source of basic data: BTr.

Figure 4 shows that the government paid more than 50% of the country's total debt servicing on interest payments from 2000 to 2012. Starting 2003, however, the country began to service more of its principal loans. In particular, principal amortization went up to 63.7% of total debt servicing in 2006 while interest payments fell to 36.3%. Similarly, principal payments reached 61.4% of total debt service in 2011 while interest payments went down to 38.6%.

Figure 4. DEBT SERVICE RATIO: 2000-2012



Source of basic data: BTr.

IV. DEBT INDICATORS

Debt indicators are important tools to determine the impact of government borrowing on its budget and expenditures. Examples of these indicators are the ratio of debt-to-Gross Domestic Product (GDP), the relationship between debt and revenue, and debt service as a percentage of revenue or expenditure, among others.

The debt-to-GDP ratio measures the indebtedness level that indicates the country's ability to pay back its debt. It is one of the closely watched indicators used by investors and credit rating firms in evaluating a government's credit worthiness and solvency capability. It is simply the size of a country's debt divided by the size of its economy. The ratio is generally viewed as a signal of whether a country's finances are sound, or its debt burden is reaching dangerous levels. The lower the debt-to-GDP ratio, the healthier the country's fiscal outlook. Generally, a ratio below 50% is seen as being healthy while a ratio over 90% is generally regarded as a danger zone. However, a country can support higher debt with a robust economic growth. Conversely, slow-growing countries can run into trouble at much lower debt-to-GDP ratios than faster-growing nations.[2]

On the other hand, debt-to-revenue ratio is an important calculation in evaluating the government's ability to manage its debt. It measures the percentage of total revenue that is allocated to debt principal and interest payments. With the constant increase in the debt to revenue ratio, it becomes more difficult for the government to handle its national debt.

The debt-to-GDP ratio of the country increased from 60.5% in 2000 to 74.4% in 2004 but started to decline since then until it reached 50.9% in 2011 and 51.4% in 2012. (Figure 5) It is observed that countries with debt-to-GDP ratio of 40% to 75% are mostly belonging to the developing countries and a 50% debt-to-GDP ratio is a level considered by the market as sustainable. The rising ratio of the country's debt-to-GDP from 2000-2004 was attributed to the shortfall in tax collection that affected the fiscal position of the country. The implementation of Reformed Value Added Tax (R-VAT) as well as high remittances from privatized government assets worth PhP90.6 billion helped boost government's revenue collection in 2007[3] that resulted to a lower NG debt. Aside from the government's effective debt management, the improvement in debt-to-GDP ratios from 2010-2012 was likewise due to the country's strong economic growth and increase in revenue collection.

The country's debt-to-revenue ratio, on the other hand, shows erratic movements. From almost a steady ratio of 420% in 2000-2001, it went down to 364% and 354% in 2011 and 2012, respectively. However, ratio started to soar to as high as 539% in 2004. Between 2005-2007, the ratio slipped to as low as 327% then rose again to 391% in 2010.

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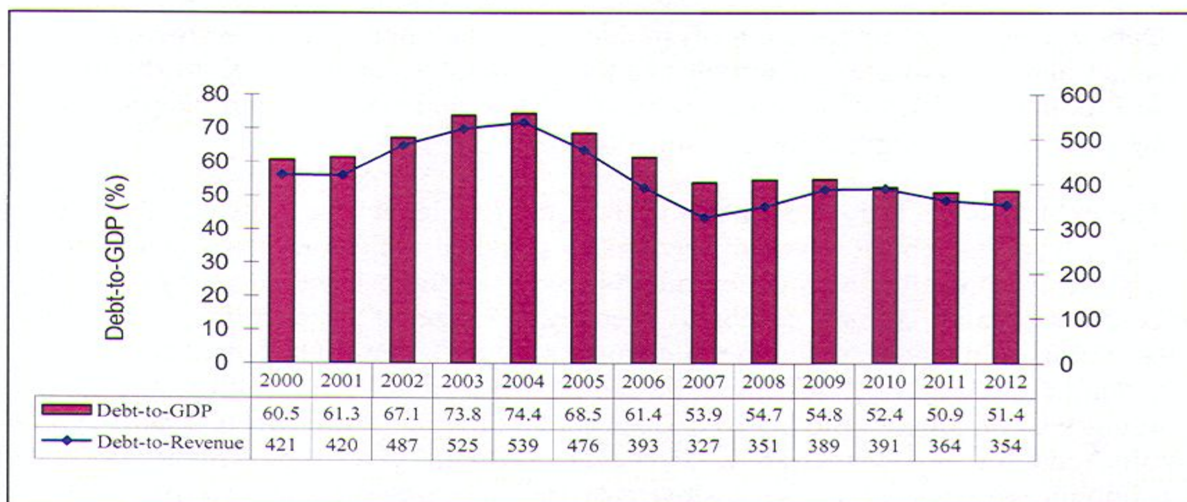
[2] Thomas Kenny, "What is the Debt to GDP Ratio?", accessed 07 November 2012.

[3] DOF 2010 Annual Report.

Figure 5. Philippine Debt Indicators: 2000-2012

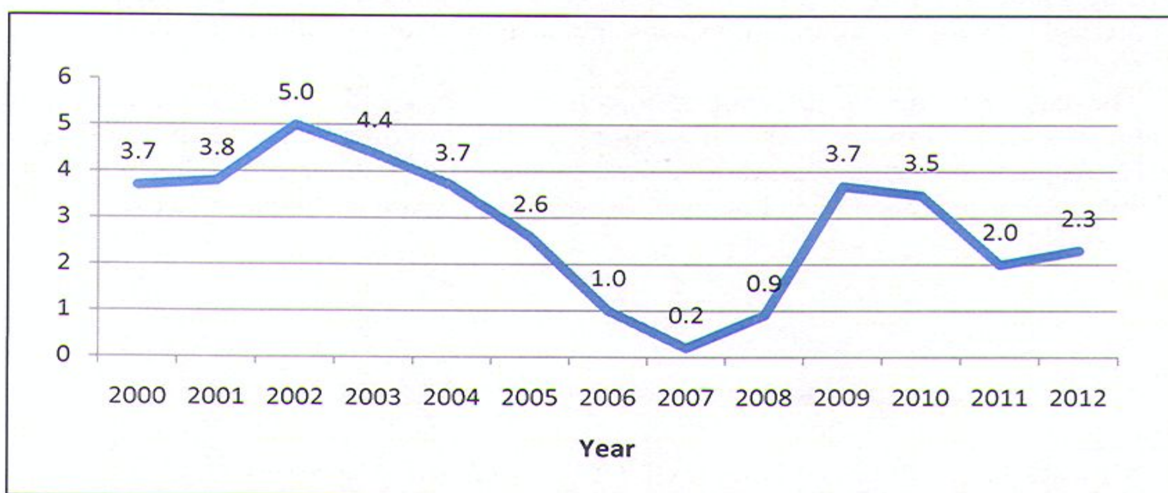


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt-to-GDP	60.5	61.3	67.1	73.8	74.4	68.5	61.4	53.9	54.7	54.8	52.4	50.9	51.4
Debt-to-Revenue	421	420	487	525	539	476	393	327	351	389	391	364	354

Source: BTr.

In order to lower debt-to-GDP and debt-to-revenue ratios, the country should reduce fiscal deficit. The persistence of budget deficit leads to an accumulation of debts. Likewise, with the constant increase in the debt-to-revenue ratio, it becomes more difficult to handle the increasing national debt as interest payment also grow, thus, putting an increasingly larger pressure on government's income and worsening the fiscal deficit. It is, however, important to note that the fiscal performance of the country has shown progress over the past decade as fiscal deficit was trimmed down from 3.5% in 2010 to an almost balanced budget in 2006 to 2008 although this was not sustained and rose again to 2.0% and 2.3% of GDP in 2011 and 2012, respectively. (Figure 6)

Figure 6. FISCAL DEFICIT-TO-GDP: 2001-2012
(In Percent)



Source: BTr.

Another option to trim down the country's debt-to-GDP ratio is to increase taxes. However, since President Aquino III has a Social Contract with the Filipinos that no new tax measures will be passed under his administration, it is imperative for the present government to concentrate on intensifying tax collection as well as plugging tax leakages/loopholes in tax collection. It may be worth mentioning that the country's revenue collection effort rose from 13.4% in 2010 to 14% and 14.5% in 2011 and 2012, respectively.

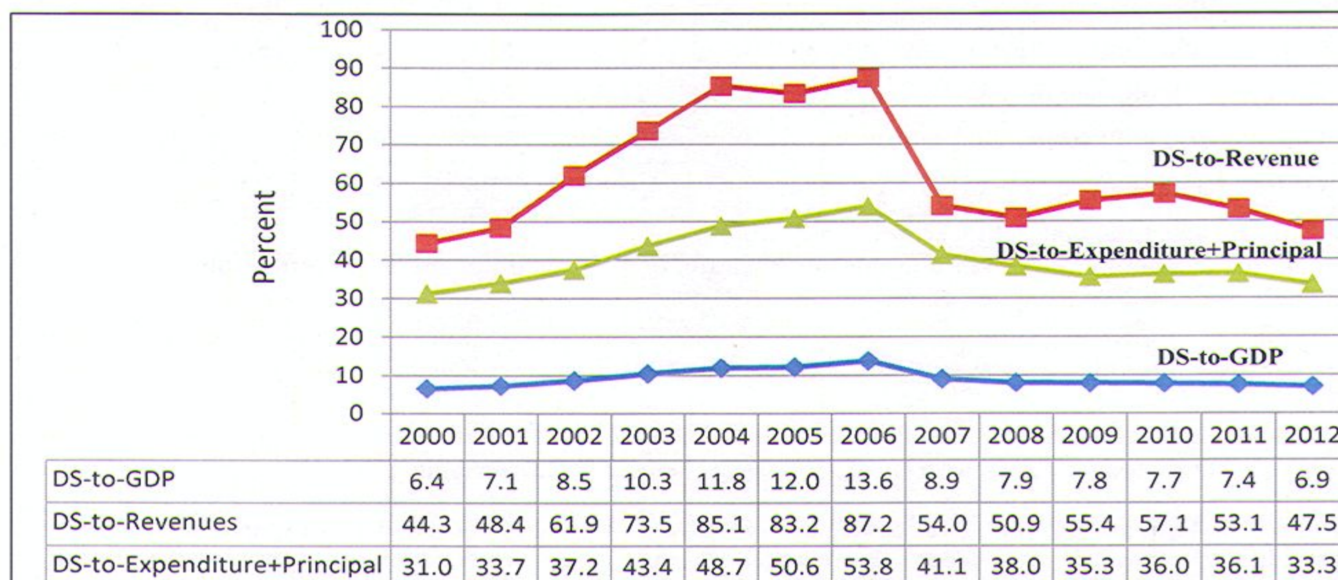
IV. DEBT SERVICE INDICATORS

The country's debt service-to-GDP ratio moved from a low of 6.4% in 2000 to its peak at 13.6% in 2006. The said indicator went down to 8.9% in 2007 after which it slowly declined year by year until it settled to a more comfortable level of 6.9% in 2012.

Meanwhile, debt payments as a ratio of NG revenue registered a generally increasing trend from 44% in 2000 to 87.2% in 2006 but since then dropped significantly to 54% in 2008 and 47.5% in 2012. One of the reasons for the decrease in the said ratio was the move of the government to buy back some of its foreign currency bonds to help reduce interest payments.

The debt service-to-expenditure ratio also increased from 31% in 2000 to 53.8% in 2006. Since then, from 41.1% in 2007, said ratio was reduced to 33.3% in 2012. (Figure 7)

Figure 7. DEBT SERVICE INDICATORS: 2000-2012
(In Percentage)



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
DS-to-GDP	6.4	7.1	8.5	10.3	11.8	12.0	13.6	8.9	7.9	7.8	7.7	7.4	6.9
DS-to-Revenues	44.3	48.4	61.9	73.5	85.1	83.2	87.2	54.0	50.9	55.4	57.1	53.1	47.5
DS-to-Expenditure+Principal	31.0	33.7	37.2	43.4	48.7	50.6	53.8	41.1	38.0	35.3	36.0	36.1	33.3

Source: BTr.

V. PHILIPPINE DEBT SUSTAINABILITY: 2012-2017

There have been wide concerns on whether or not the Philippines has attained an acceptable level of debt sustainability. It is obvious that the country's GDP does not grow as fast as the buildup of the NG debt. There are international standards employed to determine a country's debt sustainability in terms of its liquidity and solvency capacity with respect to its public sector debt accumulation. Likewise, credit rating agencies (CRAs) stress the need for every country to have an appropriate system of debt sustainability assessment that serves as an important tool to efficient public debt management and building financing strategy, aligned to economic growth of a country.[4]

The Debt Sustainability Analysis (DSA) is a study of a country's medium- to long-term debt situation, jointly undertaken by the International Monetary Fund (IMF), the World Bank (WB),[5] and the country concerned and is used as the basis for a country's eligibility for support.[6] The DSA uses debt burden indicators that are compared to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. Based on the report of the IMF on the country's projected public sector debt sustainability for 2012-2017, the outlook is favorable with debt-to-GDP and debt-to-revenue ratios consistently showing improvements. (Table 4)

Table 4. HIGHLIGHTS OF THE PROJECTED PHILIPPINE PUBLIC SECTOR DEBT SUSTAINABILITY FRAMEWORK, 2012-2017 (In Percent)[7]

	2012	2013	2014	2015	2016	2017
Public sector debt-to-GDP [1]	54.5	51.3	48.7	46.3	44.1	41.8
Of which: foreign-currency denominated	23.3	20.6	19.3	18.3	16.9	16.3
Change in public sector debt	-1.3	-3.2	-2.6	-2.4	-2.2	-2.3
Public sector debt-to-revenue ratio [1]	294.3	268.6	250.8	237.4	224.3	212.9
Gross financing need [2] (% of GDP)	8.1	7.6	7.9	7.9	8.6	8.5

[1] Covers non-financial public sector gross debt.

[2] Defined as public sector deficit, plus amortization of short medium and long-term public sector debt at the end of previous period.

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[4] http://www.oxbridgewriters.com/essays/economics/debt-sustainability.php.

[5] The joint WB-IMF Debt Sustainability Framework (DSF) was introduced in April 2005, and is periodically reviewed, to reduce the chances of an excessive build-up of debt in the future. (https://www.imf.org/external/np/exr/facts/jdsf.htm)

[6] <http://stats.oecd.org/glossary/detail.asp?ID=5928>, date accessed October 2, 2012.

[7] IMF Country Report No. 13/102, "The Philippines 2031 Article IV Consultation", April 2013.

It is said that a high debt level could be perceived as sustainable by investors if it is decreasing.[8] The country's projected debt sustainability from 2012-2017 depicts downward trends in debt-to-GDP and debt-to-revenue that lead to further improvement in market perceptions. Public sector debt-to-GDP is projected to decline from 55% in 2012 to 42% in 2017. The ratio indicates that for every PhP100 worth of goods and services the country produces in the economy between the years 2012-2017, the country must use around PhP42 to PhP55 for debt repayment. During the period under consideration, the government would still have funds to use for productive investments in vital areas such as health, education and infrastructure since projected debt stock of the country would not exceed its future capacity to repay it. Dependence on external debt is likewise projected to be reduced from a high of 23% in 2012 to 16% in 2017, which is still within the international benchmark of 20-25% limit.

Moreover, the country's gross financing need as a fraction of GDP from 2012-2015 is declining thereby showing positive signs that the country will continue to grow and reduce fiscal deficit. Since gross financing need is the sum of budget deficit and funds required to service maturing debts, it is important for the government to manage its deficits otherwise it needs to issue new debt (debt securities) based on the maturity structure of outstanding debts.

It is worthy to note that the country's actual debt-to-GDP ratio stood at 51.4% which was lower than the 54.5% projected by the IMF. Based on the evaluation made by the WB on the country's key economic and social developments in 2012, the trajectory of the NG debt exhibits a downward trend, with the debt ratio falling from 51.4% of GDP in 2012 to 48% in 2015. Further, the WB also calculates the country's NG debt ratio to between 47.2% and 51.1% of GDP, a level that is still manageable. Total debt service still accounts for 48% of total revenues. However, the WB highlights the need for the government to increase revenue collection in the medium-term to ensure the sustainability of the country's fiscal stance.[9]

In addition, the country's projected debt ratios for the coming years show a positive economic outlook as the same are sustainable. In fact, the Philippines has earned investment-grade ratings from CRAs[10] for the first time since the country began receiving ratings in the early 1990s. It shows that the present administration was able to maintain fiscal discipline and instituted the necessary economic reforms that are recognized by the international community.

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[8] Dubrako Mihaljek and Bruno Tissot, "Fiscal positions in emerging economies: central banks' perspective", BIS Papers No. 20.

[9] WB, "Philippine Economic Update: Accelerating Reforms to Meet the Job Challenges", May 2013.

[10] There are three (3) known CRAs that dominate the global market: Standard and Poor's (S&P), London's Fitch Ratings and Moody's Investor Service of New York. Their ratings are based on letters. Triple A or AAA, AA, A and triple B or BBB are considered as investment grade, which means little to no risk of default, and non-investment grade or speculative grade starts from BB to C. Modifiers or numerical ratings indicate higher standing within the same rating category. For example, in S&P and Fitch Ratings, the plus sign "+" modifier indicates higher standing within the group. In Moody's, the numerical modifier number one "1" means that the rating is in the higher-end of the same rating category. Moreover, S&P and Fitch Ratings assign D for default while Moody's assigns C.

V. CONCLUSION

The Philippines, like any other developing countries, has relied mostly on borrowings to augment its meager resources. However, with the assumption to office of President Benigno C. Aquino III, leading debt indicators of the country have improved dramatically. Favorable scenarios were likewise recorded in debt service indicators in relation to revenue and expenditures which were products of sound debt management measures undertaken to make NG debts stay within sustainable levels.

The country's debt sustainability assessment for 2012-2017 shows that investors have positive outlook on the country's economy. The recent investment-grade status given by CRAs is a concrete evidence that the Philippines has become a major force to reckon with in the international community. However, it is still fundamental for the government to practice proper debt management to avoid payment defaults and/or debt service eating up much of the revenues of the government (debt overhang). It is also important to consider other economic factors such as stable exchange rate, a well- planned debt payment profile, among others, in order to maintain a manageable debt level. In addition, the government should continue to provide impetus to generate higher, sustained income and more inclusive growth so as to shield the country from debt trap. Lastly, the preservation of the good credit standing of the country is likewise significant in order to protect the economy and encourage foreign investors to put up their businesses and resources in the Philippines thereby, producing more economic activities and higher revenues that would eventually lead to the country's less dependence on borrowings.