DOF Economic Bulletin on Transparent Debt Reporting

Transparent debt reporting, as proposed in the G-20, will be beneficial to the Philippines. The main reason is that the country's external debt is low and declining – plunging from 66.6% of GDP in 2005 to 22.5% as of end-June 2018. (Figure 1.) Compared with the country's Asian peers, the country's debt ratios have dropped below the Asian average of 30.9% of GDP in June 2018. (Table 1)

The main reason for this favorable debt outlook is that the country has a prudent debt strategy.

First, it keeps its fiscal deficit within the targeted level. In 2017, the fiscal deficit was 2.2% of GDP, below the 3% target. In 2018, despite resolving the decades-old problem of low absorptive capacity, it has stayed within the 3% deficit target.

Second, borrowing is used to finance productive capital expenditures. This ensures that future servicing streams can be financed by revenues collected from a growing economy. In formulating the Public Investment Program (PIP), the economic internal rate of return (EIRR) of each project should at least be equal to 15%. Almost all projects approved have EIRRs exceeding 20% since most of these projects will be operating at full capacity once they are finished. Even with the rise in interest rates arising from the Fed normalization, the projects will still be economically viable.

Third, external borrowings tapped for infrastructure have soft terms---low interest rates and long maturities. The average interest rate on external borrowing by the National Government (NG) is 4.3% as of July 2018 and average maturity is 22.6 years, longer than the economic life of most projects.

Fourth, the country has been moving toward domestic debt in funding its deficit financing to reduce exchange risks. The share of external debt in total NG debt dropped from 47.4% to 36.1%.

Figure 1. External Debt as % of GDP, 2005-2018

Table 1. EXTERNAL DEBT RATIO

Percent of GDP		
	2017	**2018**
		June
Philippines	23.3%	22.5%
Indonesia	41.4%	..

Malaysia	68.7%	67.8%
Thailand	34.0%	31.4%
China	13.9%	14.1%
South Korea	27.3%	27.5%
Taiwan	31.8%	33.7%
India	20.4%	19.3%
Vietnam	43.9%	..
AVERAGE	**33.9%**	**30.9%**

Source: World Bank & Bangko Sentral ng Pilipinas

Table 2. Gross National Government Debt Profile

	Level (PHP Trillions)			% Share	% Share	Debt in % of GDP		
	2004	2017	2018Q3	2004	2018Q3	2004	2017	2018Q3
Gross NG Debt	3.8	6.7	7.2	100.0%	100.0%	74.4	42.1	42.3
Domestic	2	4.4	4.6	52.6%	63.9%	39.1	28.1	27.1
External	1.8	2.2	2.6	47.4%	36.1%	35.4	14	15.2
Sources of Basic Data: DOF, PSA								

· Over the period 2004 to 2018, the country's capacity to pay has actually improved, despite the rise in the stock of debt. That is because the economy has been outgrowing the accumulation of both domestic and external debt. By 2017, nominal GDP was PHP15.8 trillion, more than three times the 2004 nominal GDP of PHP5.1 trillion.

DOF View

· A transparent debt reporting proposed in the G-20 will benefit the Philippines. To begin with, it is among the economies with low and declining debt ratios.

· Furthermore, all the projects being financed by external funds are subject to multiple-agency evaluations such that only those projects with the highest economic rates of return are selected.

- Transparent debt reporting will facilitate the decision-making of investors and lenders and will shift attention to those economies that do their homework such as the Philippines.
- The Philippines has been prudent in tapping external sources and transparent in its external debt reporting. Indeed, the IMF, in its Article IV Consultations, assessed that total external debt in the Philippines is "sustainable."

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