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FOREIGN LOANS AND ECONOMIC DEVELOPMENT:  
A STUDY OF THE PHILIPPINES: 1906-1963\*

by  
Gonzalo M. Jurado, 1931

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✓ The purpose for which foreign loans are incurred and the ease or difficulty with which they are serviced by developing countries are of vital interest to both borrowing and lending countries and institutions. The interest of borrowing countries springs from a desire to benefit from external capital in terms of economic development. On their part, lending countries and institutions, aside from hoping to help accelerate the growth process of developing nations, are naturally concerned that they are paid the opportunity cost as well as the replacement of the resources that they lend out. ✓

Three questions related to Philippine borrowing abroad will be discussed in this paper. These are: (1) what purpose have external loans served in the Philippines, (2) has

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the burden imposed by them been within the country's capacity to shoulder, and (3) what has been the effect of external loans on Philippine economic growth?

In the first section of this paper an attempt will be made, first, to identify the economic areas in which foreign loans have been utilized and then to survey the borrowing and servicing record of the country in the years before and after World War II. The second section will try to weigh the Philippine foreign debt burden and estimate the debt service ratio. The third section will explore some considerations bearing on the connection between external capital and economic development. The findings are summarized in the conclusion.

As used in this study, foreign loans refer to all loans contracted abroad and payable abroad by the Philippine government directly and those obtained by the private sector with the guarantee of the government. Obviously, they do not include direct or equity investments, capital which came into the country on the expectation of making a profit or taking advantage of a business opportunity.

The period under study runs from 1906 to 1963. The year 1906 marked the historical beginning of Philippine borrowing from the United States, while the year 1963, at the time this

study was made (1964-65), represented the last year when relatively detailed data on the country's foreign borrowings were available.

## I

### A. Foreign Loans in the Prewar Period.

1. Composition. From 1906, when the first Iloilo Public Improvement Bonds amounting to ₱2 million were sold in New York by the civil government, to the end of 1941, when World War II broke out, the Philippines borrowed a total of ₱172.26 million, of which ₱19.06 million came from domestic sources and the large component of ₱153.20 million came from the United States.

The composition and terms of these loans are shown in Table I. All bonds had a maturity period of 30 years, except those of 1921 which had a due date of 20 years. Interest rates varied from 4 to 5 per cent.

2. Uses. How were these loans utilized? What purpose were they put into? Unfortunately, most of the data on hand is so aggregative it can permit only a macro-economic classification. Accordingly, and following the general practice in the literature, foreign loans will be classified into "economic overhead capital," "social overhead capital," "directly productive enterprises," and "consumption."<sup>1</sup> The

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<sup>1</sup>For example, see Charles P. Kindleberger, Economic

TABLE I

## COMPOSITION AND TERMS OF BONDED INDEBTEDNESS

Year Issued	Description (2)	Amount		Rate of Interest		Date of Maturity		Retired : Repurchased		Outstanding	
		Issued (millions)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1906	NCB: Iloilo Public Improvement Bonds	2.00	P	4%	1936	--	--	--	P	2.00	
1907	NCB: Manila Sewer & Waterworks Bonds	4.00		4%	1937	--	--	--		4.00	
1908	NCB: Manila Sewer & Waterworks Bonds	2.00		4%	1938	--	--	--		2.00	
1909	NB: Public Improvement Bonds	3.00		4%	1939	--	--	--		3.00	
1911	NCB: Cebu Sewer & Waterworks Bonds	.25		4%	1941	--	--	--		.25	
1916	NB: Manila RR Co. Purchase Bonds	8.00		4%	1946	3.51	.69			3.80	
1919	BDI a) Sta. Cruz, Laguna Sewer & Waterworks Bonds	.09		5%	1949	--	--	--			
	BDI b) Majayjay, Laguna Sewer & Waterworks Bonds	.04		5%	1949	--	--	--			
	BDI c) Bangued, Abra Sewer & Waterworks Bonds	.04		5%	1949	--	--	--			
		<u>.17</u> <sup>a</sup>								.17	
1921	NB: Public Improvement Bonds	20.00		4%	1941	--	--	--		20.00	
1922	NCB: Manila Public Improvement Bonds	5.50		4.5%	1950	2.06	1.13			2.31	
	NB: a) Financial Interest Protection Bonds	10.00		5%	1952	3.48	3.66			2.86	
	NB: b) Sundry Purposes Bonds	23.60		5%	1952	9.72	6.08			7.80	
	NB: c) Currency Bonds	46.00		5%	1952	20.89	7.50			17.61	
		<u>79.60</u>				<u>34.09</u>	<u>17.24</u>			<u>28.27</u>	

TABLE I (Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1925	NB: Metropolitan Water District Bonds	P6.00	5%	1955	P1.35	P3.09	P1.56
1926	NCB: Prov. & 9 Muns. of Iloilo Public Improvement Bonds	1.95	4.5%	1956	.35	1.60	
	NCB:b) Pangasinan Imp. Bonds	.86	4.5%	1956	.16	.70	
	NCB:c) Occ. Negros Imp. Bonds	.80	4.5%	1956	.08	.72	
	NCB:d) Prov. & 3 Muns. of Ilocos North Improvement Bonds	.55	4.5%	1956	.84	.46	
	NCB:e) Marinduque Imp. Bonds	<u>.11</u> 4.27	4.5%	1956	<u>.04</u> .67	<u>.11</u> 3.59	
	NB: Metropolitan Water District Bonds	.50 <sup>b</sup>	5%	1956	--	--	.50
1927	NCB: a) Laguna Improvement Bonds	.20	4.5%	1957	.01	.01	1.72
	NCB: b) Prov. & Muns. of Ilocos Sur Improvement Bonds	.35	4.5%	1957	.06		
	NCB: c) Bulacan Improvement Bonds	.47	4.5%	1957	.12		
	NCB: d) Nueva Ecija Improvement Bonds	.69	4.5%	1957	.27		
	NCB: e) Pampanga Improvement Bonds	.95	4.5%	1957	.24		
	NCB: f) Tarlac Improvement Bonds	.34	4.5%	1957	.08	.77	1.25
	NCB: g) Prov. & 4 Muns. of Camarines Sur Improvement Bonds	<u>.22</u> 3.22	4.5%	1957	<u>.02</u> .82	<u>.12</u> .98	<u>1.42</u>
1928	NB: a) Cebu Port Works Bonds	1.50	4.5%	1958	.33	1.04	.12
	NB: b) Iloilo Port Works Bonds	1.50	4.5%	1958	.33	.71	.47
	NCB:c) City of Manila Imp. Bonds	1.00	4.5%	1958	.12	.88	
	NCB:d) La Union Improvement Bonds	<u>.22</u> 4.22	4.5%	1958	<u>--</u> .77	<u>--</u> 2.64	<u>.22</u> .81
1929	NB: a) Cebu Port Works Bonds	1.50	4.5%	1959	.14	.85	.51
	NB: b) MWD Bonds	3.00	4.5%	1959	.32	.83	1.85
	NB: c) Iloilo Port Works Bonds	1.00	4.5%	1959	.05	.04	.91
	BDI:d) City of Manila Imp. Bonds	<u>1.00</u> 6.5	4.5%	1959	<u>.06</u> .57	<u>.78</u> 2.51	<u>1.15</u> 3.42



TABLE I (Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1930	NB: a) Cebu Port Works Bonds NB: b) Iloilo Port Works Bonds	P 1.00 1.85	4.5% 4.5%	1960 1960	P -- --	P -- --	1.00 1.85
1933	NCB: Occ. Negros Improvement Bonds	1.28	5.5%	1963	--	--	1.28
1935 <sup>c</sup>	NB: a) MWD Bonds NB: b) MWD Bonds BDI: c) City of Manila Pub. Imp. Bonds	.50 .50 .50 <u>1.50</u>	5% 5% 5%	1965 1965 1965	-- -- --	-- -- --	.50 .50 .50 <u>1.50</u>
1936	NCB: a) Occ. Negros Improvement Bonds NCB: b) Cebu Improvement Bonds NCB: c) City of Iloilo Imp. Bonds	.22 .50 .35 <u>1.07</u>	5% 5% 5%	1966 1966 1966	-- -- --	-- -- --	.22 .50 .35 <u>1.07</u>
1937	NB: Metropolitan Water District Bonds	.50	5%	1967	--	--	.50
1938	NB: Metropolitan Water District Bonds	.50	5%	1968	--	--	.50
1939	NCB: City of Bacolod Sewer & WW Bonds	.12	5%	1969	--	--	.12
1940	NB: a) MWD Bonds NB: b) MWD Bonds NCB: c) Cebu Sewer & Waterworks Bonds NCB: d) Davao " " BDI: e) City of Manila Imp. Bonds NB: f) NPC Bonds	.50 .50 .35 .35 1.00 9.00	5% 4% 4.5% 4.5% 4.5% 4.5%	1970 1970 1970 1970 1970 1970	-- -- -- -- -- --	-- -- -- -- -- --	.50 .50 .35 .35 1.00 9.00
1941	BDI: a) Manila Improvement Bonds NB: b) Public Works Bonds	1.00 <u>2.50</u>	4.5% 4%	1971 1971	-- --	-- --	1.00 2.50
T O T A L		172.26			43.85	31.87	96.53

TABLE I (Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
S u m m a r y:							
National Bonds		P142.97			P40.12	P24.50	P78.33
National Collateral Bonds		25.09			3.67	6.59	15.38
Bonds of Direct Issue		<u>4.20</u>			<u>.06</u>	<u>.78</u>	<u>2.82</u>
T o t a l s		P172.26			P43.85	P31.87	P96.53

## Sources of data:

Message from the President of the United States Transmitting the First Report of the United States High Commissioner to the Philippine Islands Covering the Period from November 15, 1925 to December 31, 1936 (Washington: U.S. Government Printing Office, 1937); and Second, Third, Fourth, Fifth, Sixth and Seventh and Final Annual Report of the United States High Commissioner to the Philippine Islands to the President and Congress of the United States, (Washington: U.S. Government Printing Office, 1943, 1947).

<sup>a</sup>Bonds issued in Manila in peso denominations; interest and principal payable in pesos at Philippine Treasury.

<sup>b</sup>This debt of P500,000 (Metropolitan Water District Bond, 2nd Series) appears in the year 1931 in the U.S. High Commissioner's Reports.

<sup>c</sup>All bonds issued after May 1, 1934, were issued and sold in peso denominations in Manila; interest and principal payable in peso at Philippine Treasury.

## Abbreviations:

NB - National Bonds  
 NCB - National Collateral Bonds  
 NDI - Bonds of Direct Issue



classification is a harsh one. It cannot explicitly reflect leakages, if there are any, of investment loans into consumption. Nor can it show a situation where loans earmarked for consumption in reality performed the function of capital loans, as when consumption loans make possible the release of domestic resources from production of consumption goods to production of capital goods. But it is not without merit, since it makes possible the establishment of a relation between external loans and economic development.

Table II shows this classification. Out of the ₦153.20 million external debt, ₦77.20 million representing 50.2 per cent of the total, went into economic overhead capital, and the remaining ₦76 million, composing 49.8 per cent, was absorbed in consumption. A word should be said about the loans

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Development (New York: McGraw Hill Book Co., 1958), p. 36; and Albert O. Hirschman, The Strategy of Economic Development (New Haven: Yale University Press, 1958), pp. 83-86. The definitions are the generally accepted ones. "Economic overhead" covers public works such as roads, bridges, canals, harbors, and similar infrastructural facilities. "Social overhead" refers to investments in public health and sanitation, housing, public administration. "Directly productive enterprises" include enterprises such as factories, shops, producers' equipment in industry, agriculture, the instruments by which material objects that satisfy human wants are produced. Finally, "consumption" items are aimed at the satisfaction directly of some passing consumers' want, with the attainment of such a satisfaction being the end itself.

TABLE II

THE BONDED DEBT ACCORDING TO ECONOMIC FUNCTION  
(In Million Pesos)

Source/Purpose	Economic Over-head Capital	Social Over-head Capital	Directly Productive Enterprises	Consumption
1906: PIB, <sup>1</sup> Iloilo	2.00	--	--	--
1907: S & W B, Manila	4.00	--	--	--
1908: S & W B, Manila	2.00	--	--	--
1909: PIB	3.00	--	--	--
1911: S & W B, Cebu	.25	--	--	--
1916: MRR Purchase B	8.00	--	--	--
1919: (P.17 -- Domestic)	--	--	--	--
1921: PIB	--	--	--	20.00
1922: PIB, Manila	5.50	--	--	--
Financial Interest Protection B	--	--	--	10.00
Sundry Purposes B	23.60	--	--	--
Currency B	--	--	--	46.00
1925: Metropolitan Water District B	6.00	--	--	--
1926: PIB, Iloilo, Pangasinan, Negros Occ., Ilocos Norte, Marinduque	4.27	--	--	--
MWD B	.50	--	--	--
1927: PIB, Laguna, Ilocos Sur, Bulacan, Nueva Ecija, Pampanga, Tarlac, Camarines Sur	3.22	--	--	--
1928: Port Works B, Cebu, Iloilo and PIB, Manila, La Union	4.22	--	--	--
1929: Port Works, Cebu, Iloilo, and MWD B, and PIB, Manila	6.50	--	--	--
1930: Port Works B, Cebu, Iloilo	1.00	--	--	--
Port Works B, Iloilo	1.85	--	--	--
1933: PIB, Occ. Negros	1.28	--	--	--
1935: (P1.50 -- Domestic)	--	--	--	--
1936: (P1.07 -- Domestic)	--	--	--	--
1937: (P .50 -- Domestic)	--	--	--	--
1938: (P .50 -- Domestic)	--	--	--	--
1939: (P .12 -- Domestic)	--	--	--	--
1940: (P11.70 -- Domestic)	--	--	--	--
1941: (P3.50 -- Domestic)	--	--	--	--
TOTAL	P 77.20	--	--	P 76.00
PERCENTAGE OF TOTAL	50.2	--	--	49.8

Abbreviations used:

PIB = Public Improvement Bonds  
S & W B = Sewer and Waterworks Bonds  
MWD = Metropolitan Water District  
B = Bonds

classified under consumption. These were the ₱20 million Public Improvement Bonds of 1921, and the ₱10 million Financial Interest Protection Bonds and ₱46 million Currency Bonds of 1922. Intended for the purpose specified by their name, the 1921 Bonds were used instead for the financing of local businessmen's production and importation activities, in order to save the currency from the crisis that undermined it in 1918-1921. The other two Bonds were used to rehabilitate the currency after that crisis.<sup>2</sup> Even if undoubtedly portions of the proceeds of these bonds were utilized for investment purposes, in the absence of specific information all three have been classified under consumption in order to avoid any possibility of distorting the classification.

\* From these percentages, the conclusion is difficult to avoid that the prewar debt could have been more productively utilized. Consumption took clearly too large a part and the infrastructure could have absorbed a much larger share than it actually did.

3. The Redemption and Servicing of Bonds. The first redemption of bonds was made in 1936 when the issues of 1906

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<sup>2</sup>See George F. Luthringer, The Gold Exchange Standard in the Philippines (Princeton: Princeton University Press, 1934), pp. 96-214, for an account of this event.

fell due. Succeeding maturities were also promptly redeemed. See Table III.

It should be noted that the peak of foreign borrowing was attained in 1935 after which, as no more borrowings were incurred and as redemption of maturing bonds was made, the volume of loans outstanding began to decline. At the end of 1941, a total of P31.25 million had been redeemed of principal and only P121.94 million was outstanding.

After the War, in 1946, it was found that of the debts shown in the books to be outstanding, P43.85 million and P31.82 million had in fact been previously retired or cancelled and repurchased, respectively, by the government. This left only the amount of P38.27 million actually outstanding in the hands of the American public. President Roxas conferred with the Treasurer of the United States for the settlement of that amount and agreement was reached that the entire debt should be retired no later than 1952.

In accordance with the agreement, the Philippine Government made contributions to a sinking fund held in a Special Trust Account with the Treasurer of the United States beginning 1947. By October 31, 1951, the entire debt had been extinguished.

TABLE III

REPAYMENT AND SERVICING OF PRE-WAR FOREIGN LOANS  
(In Million Pesos)

Year	Borrowings	Amortization	Interest <sup>a</sup>	Outstanding
1906	2.00	---	---	2.00
1907	4.00	---	.08	6.00
1908	2.00	---	.24	8.00
1909	3.00	---	.32	11.00
1910	---	---	.44	11.00
1911	.25	---	.44	11.25
1912	---	---	.45	11.25
1913	---	---	.45	11.25
1914	---	---	.45	11.25
1915	---	---	.45	11.25
1916	8.00	---	.45	19.25
1917	---	---	.77	19.25
1918	---	---	.77	19.25
1919	.17 <sup>b</sup>	---	.77	19.25
1920	---	---	.77	19.25
1921	20.00	---	.77	39.25
1922	5.50	---		
	79.60	---	1.57	124.35
1923	---	---	3.29 <sup>o</sup>	124.35
1924	---	---	3.29	124.35
1925	6.00	---	3.29	130.35
1926	4.27	---		
	.50 <sup>d</sup>	---	3.59	135.12
1927	3.23	---	3.46	138.35
1928	4.22	---	3.60	142.57
1929	6.50	---	3.77	149.07
1930	2.85	---	4.06	151.92
1931	---	---	4.21	151.92
1932	---	---	4.21	151.92
1933	1.28	---	3.21	153.19
1934	---	---	3.27	153.19
1935 <sup>e</sup>	1.50 <sup>b</sup>	---	3.27	153.19
1936	1.07 <sup>b</sup>	2.00	3.28	151.19
1937	.50 <sup>b</sup>	4.00	3.20	147.19
1938	.50 <sup>b</sup>	2.00	3.03	145.19
1939	.12 <sup>b</sup>	3.00	2.95	142.19
1940	11.70 <sup>b</sup>	---	2.85	142.19
1941	3.50 <sup>b</sup>	20.25	2.77	121.94
1942	---	---	1.81	121.94
1944	---	---	1.81	121.94
1945	---	---	1.81	121.94
1946	---	8.00	1.81	113.94

TABLE III (Continued)

Year	:	Borrowings	:	Amortization	:	Interest	:	Outstanding
Less:								
		Retired by the Government		43.85				
		Repurchased by the Government		31.82				
								38.27
1947	--			7.75		1.49		30.47
1948	--			7.75		1.22		22.72
1949	--			7.75		.91		14.97
1950	--			7.75		.60		7.22
1951	--			7.22		.29		--
Total:								
Domestic		P 19.06						
Foreign		153.20		153.14 P153.20		P87.38		
Grand Total P172.26								

Sources of data:

Message from the President of the United States Transmitting the First Report of the United States High Commissioner to the Philippine Islands Covering the Period from November 15, 1925 to December 31, 1936 (Washington: U.S. Government Printing Office, 1937); and Second, Third, Fourth, Fifth, Sixth, and Seventh and Final Annual Report of the United States High Commissioner to the Philippine Islands to the President and Congress of the United States (Washington: U.S. Government Printing Office, 1943, 1947).

<sup>a</sup>Estimates.

<sup>b</sup>Bonds issued in Manila in peso denominations; interest and principal payable in pesos at the Philippine Treasury.

<sup>c</sup>For the purpose of estimating interest payments, it was assumed the P75.67 million worth of bonds cancelled or repurchased and reported in 1946 were cancelled or repurchased as follows: P50 million in 1922, P5 million in 1926, and P20.67 million in 1932.

<sup>d</sup>This amount (Metropolitan Water District Bond, 2nd Series) appears in the year 1931 in the U.S. High Commissioner's Reports.

<sup>e</sup>All bonds issued after May 1, 1934, were issued and sold in peso denominations in Manila; interest and principal payable in pesos at the Philippine Treasury.



In the absence of official figures, payments for interest of prewar foreign bonds have been estimated. These estimates are also shown in Table III. Over the more than half century under consideration, about ₪87.38 million accrued as interest to foreign lenders.

B. Foreign Loans in the Postwar Period.

1. Composition. Borrowing in the postwar period started in 1947 to meet the budgetary needs of the newly established Republic. These borrowings, together with the unliquidated balance of the prewar bonds, made up the total of the foreign debt up to the end of 1951. Borrowings from abroad by the government from 1947 to 1963 amounted to \$462.88 million.

In addition, loans were obtained by the private sector for various purposes with the guarantee of the government. By the end of 1963, these loans had run up to \$302.56 million.

The composition, terms, sources, and purposes of these loans, public and private, are shown in Table IV.

It should be observed that loans did not necessarily come into the country in full amounts in the year they were constructed for. Rather, they flowed in staggered amounts over a period of time. For instance, the International Monetary Fund - Central Bank budgetary loan of \$43.3 million

TABLE IV *Cont*  
COMPOSITION AND TERMS OF POSTWAR FOREIGN LOANS, PUBLIC AND PRIVATE

Source	Total in mil as of 1963	Date Contracted	Terms*	Rate		Purpose
				:	:	
				:	of	
				:	in-	
				:	terest	
<b>Public</b>						
<b>Long Term</b>						
1) US RFC	\$ 60.00	1947	20 SAI beginning 1951	2.5		Budgetary
2) US CSA	1.02	1947	12 AI beginning 1951	3		Purchase of surplus goods
3) US Govt. (Romulo-Snyder)	33.44	1950	10 AI beginning 1951	2.5		Budgetary
4) IMF-CB	43.30	1950	Payable upon call	nil		Budgetary
5) -Phil.	11.00	1950	Payable upon call	nil		Budgetary
6) IBRD-DPWC	5.35	-1962-	31 SAI beginning 1963	5.75		For dredging equipment
7) -NPC Binga	18.36	-1958-	SAI for 20 years	6		For hydro project
8) -NPC Angat	9.77	-1962	22 SAI beginning 1965	5.75		For Angat Dam
9) -NPC Ma. Cris	.20	-1963	32 SAI beginning 1965	5.5		For Ma. Cristina Project
10) EIB-CB	23.00	-1957-	10 equal SAI	4.5		For capital goods
1) -DPWC: Ports	2.88	-1962-	30 equal SAI beginning Sept. 30, 1964	5.75		For ports, harbors
2) -MIA	3.06	-1962-	30 equal SAI beginning June 30, 1963	5.75		For airport const.
3) -NPC Ambuklao	20.00	-1953	40 beginning 1955	4		Ambuklao project
4) -ICA-NEC (FY 56)	9.71	-1956-	73 beginning Sept. 1, 1960	3-4		goods, services
5) -ICA-NEC (FY 57)	10.00	-1957	73 SAI beginning July 1, 1961	3-4		goods, services
6) -PL 480	4.97	-1960	33 SAI beginning Sept. 1, 1963	3-4		agr. commodities
7) GE MRR	4.76	-1955	23 unequal instalments	4-5		MRR rolling stock
8) DLF-CB	1.73	-1960-	SAI for 10 years	3.5		capital goods for small industries
9) -DPWC	6.49	-1961-	14 equal SAI	3.5		for public works

*original plan*

TABLE IV (Continued)

Source	Total in mil as of 1963	Date Con- tracted	Terms	Rate of in- terest	Purpose
20) Deferred Payments	65.43	1959-	10 per cent down; 90 per cent in 10 SAI 6 months after complete shipment	6	for capital goods
21) US comm'l Banks-DBP	78.00**	1961-	10 SAI or 5 AI	1.12	for dollar support to new peso issuances
Short-Term:	\$ 51.00				
22) US Banks-CB	29.00**	1963	Payable in 120 days	5	for support of int'l reserves
23) US Banks-PNB	22.00	1963	Payable in 120 days		
Private (Long Term)	\$ 302.56				
24) US Banks-Oil companies	44.04	1951-	6-10 AI beginning 1951	4-6	for equipment of oil companies
25) EIB-Direct Private Loans	33.02	1955-	12-24 SAI	5.5	for capital goods
26) EIB-PI Comm'l Banks	9.63	1958-	8 SAI	5	for capital goods
27) DLF-Direct Private Loans	9.37	1961-	10-15 SAI	6	for capital goods
28) Non-Resident Assets	65.53	1954-	5-10 equal AI	6	for repatriation of capi
29) Deferred Payments	108.04	1959-4	10 per cent down; 90 per cent in 10 SAI 6 months after complete shipment	6	for capital goods
30) Export Deductions	32.94	1959-4	6-10 per cent deduction from export proceeds until full payment of loan	6	for capital goods
TOTAL	\$ 765.44				

TABLE IV (Continued)

Source of data: Central Bank of the Philippines, Department of Economic Research

\*Abbreviations used:

US RPC	- United States Reconstruction Finance Corporation
US GSA	- United States General Services Administration
IMF	- International Monetary Fund
IBRD	- International Bank for Reconstruction and Development
CB	- Central Bank of the Philippines
DPWC	- Department of Public Works and Communications
NPC	- National Power Corporation
EIB	- Export-Import Bank
MIA	- Manila International Airport
ICA	- International Cooperation Administration (US)
NEC	- National Economic Council (PI)
GE	- General Electric (US)
MRR	- Manila Railroad Company
DLF	- Development Loan Fund
SAI	- semi-annual instalments
AI	- annual instalments

The dash (-) after a year means that the loan flowed into the country over a period of several years starting from the year indicated.

\*\* Not included in the public debt.

negotiated for in 1955 come in five installments running over a period of eight years duration. The same thing is true of most of the loans of the private sector.

The public loans from the IMF obtained for budgetary objectives carried no interest. The others stipulated interest ranging from 2.5 to 8 per cent. On the other hand, interest on private loans were higher: 4 to 6 per cent generally.

2. Uses. As with prewar bonds, loans in the postwar years have been classified according to the economic function to which they were channeled. Table V makes this classification. Of the combined loans of the public and private sectors amounting to \$765.44 million, \$69.86 million, equal to 9.1 per cent of the loans, went into economic overhead, \$19.71 million or 2.6 per cent went into social overhead, \$492.72 million or 64.4 per cent went into directly productive activities, and the remaining \$182.73 million equal to 23.9 per cent was absorbed in consumption.

The classification notwithstanding, a part of the loans of the private sector on the "deferred payments" arrangement classified under "directly productive activities" definitely went into consumption while another part is suspected to have

TABLE V

POSTWAR FOREIGN LOANS ACCORDING TO ECONOMIC FUNCTION  
AS OF END OF 1963  
(In Million U.S. Dollars)

Source/Purpose	Economic: Overhead: Capital :	Social : Overhead: Capital :	Directly : Produc- : tive : Activities :	Consump- tion :
<b>Public</b>	<b>69.86</b>	<b>19.71</b>	<b>190.16</b>	<b>182.73</b>
US RFC				60.00 <sup>a</sup>
US GSA				1.02
US Government				33.44 <sup>a</sup>
IMF-Philippine Government				11.00 <sup>a</sup>
-CB				43.30 <sup>a</sup>
IBRD-DPWC	5.39			
-NPC -Binga	15.36			
-Angat	9.77			
-Maria Cristina	.20			
EIB-CB			23.00	
-DPWC	2.88			
-MIA	3.06			
-NPC-Ambuklao	20.00			
-ICA-NEC (FY 1956)		9.71		
(FY 1957)		10.00		
-PL 480				4.97
GE-MRR	4.75			
DLF-CB			1.73	
-DPWC	6.49			
Deferred Payments			65.43	
US Commercial Banks-DBP			78.00	
US Commercial Banks-CB				29.00 <sup>b</sup>
US Commercial Banks-PNB			22.00	
<b>Private</b>			<b>302.56</b>	
Various US Banks-PI Oil Companies			44.04	
EIB-Direct Private Loans			33.02	
-Commercial Banks			9.63	
DLF-Direct Private Loans			9.37	
Non-Resident Repatriation of Capital			65.53	
Deferred Payments			108.04	
Export Deductions			32.93	
<b>TOTAL</b>	<b>69.86</b>	<b>19.71</b>	<b>492.72</b>	<b>182.73</b>
<b>PERCENTAGE OF TOTAL</b>	<b>9.1</b>	<b>2.6</b>	<b>64.4</b>	<b>23.9</b>

Source: Central Bank of the Philippines.



been used to finance a similar purpose. The known part includes, for example, the "knocked down" cars imported by several car assembly firms under the scheme. The unknown portion refers to the various goods brought in under the arrangement by some importers and suspected to have been misdeclared as capital goods, for the purpose of enabling their importers to evade the payment of high duties on low-priority items.

One more qualification should be made. Actually, out of the \$182.73 million classified as consumption loans, \$147.74 million was incurred to meet deficits in the budget and \$29 million (acquired by the Central Bank from various American banks) was some kind of stabilization loan. Only the \$1.02 million obtained from the U.S. General Services Administration in 1947 and the \$4.97 million loan taken on under U.S. Public Law 480 in 1960 may be classified properly as consumption loans.

3. The Repayment and Servicing of Postwar Loans. Tables VI and VII show the repayment and servicing record of the public and private sectors for their postwar borrowings. From 1951 to 1954, all matured loans on the public account were repaid on schedule. Then beginning 1955 to the end of 1963,

TABLE VI

THE REPAYMENT AND SERVICING OF POSTWAR FOREIGN PUBLIC LOANS  
(In Million U.S. Dollars)

Year	Borrowings	Amortization	Interest	Outstanding at End of Year
1947	61.02	--	--	61.02
1948	--	--	1.53	61.02
1949	--	--	1.53	61.02
1950	44.44	--	1.53	105.46
1951	--	6.64	2.36	98.82
1952	--	9.58	2.21	89.24
1953	20.00	9.58	1.96	99.66
1954	--	9.58	2.87	90.08
1955	14.76	6.42	2.64	98.42
1956	8.66	7.02	2.68	100.06
1957	21.74	7.83	2.59	113.97
1958	7.97	7.84	3.18	114.10
1959	13.45	9.67	3.40	117.88
1960	57.17	23.58	3.84	151.47
1961	53.92 <sup>a</sup>	34.62	6.38	165.77
1962	73.15 <sup>b</sup>	53.47	5.81	185.45
1963	86.60 <sup>c</sup>	46.60	5.54	225.45
TOTALS	462.88	237.43	50.05	225.45

Source:

Department of Economic Research, Central Bank of the Philippines.

Notes:

<sup>a</sup>Includes the \$40 million medium term loan (Cuaderno-type) of the Development Bank of the Philippines from various U.S. commercial banks. The funds were used for relending within the Philippines.

<sup>b</sup>Includes the \$20 million medium term loan (Cuaderno-type) of the DBP from various U.S. commercial banks. The funds were used for relending within the Philippines.

<sup>c</sup>Includes the \$18 million medium term loan of the DBP, and the \$29 million and \$22 million short term loans of the Central Bank of the Philippines and the Philippine National Bank, respectively, from various U.S. commercial banks.

TABLE VII

THE REPAYMENT AND SERVICING OF POSTWAR FOREIGN PRIVATE LOANS  
(In Million U.S. Dollars)

Year	Borrowings	Amortization	Interest	Outstanding at End of Year
1951	11.25	--	--	11.25
1952	--	--	.56	11.25
1953	--	--	.56	11.25
1954	.83	--	.56	12.08
1955	1.44	1.12	.56	12.40
1956	8.49	1.13	.56	19.76
1957	9.16	1.12	.60	27.80
1958	7.22	2.69	.86	32.33
1959	43.50	23.90	2.20	51.93
1960	45.53	15.77	3.83	81.69
1961	132.64	25.03	6.74	189.30
1962	28.22	44.79	12.13	172.75
1963	14.28	36.48	11.09	150.53
TOTALS	<u>302.56</u>	<u>152.03</u>	<u>40.24</u>	<u>150.53</u>

Source:

Department of Economic Research, Central Bank of the Philippines.

except only in 1961 and 1962, repayments fell short of amounts due.

✓ The deficiencies in the years 1955 to 1960 were caused by the postponement of the \$3.50 million annual amortization on the Romulo-Snyder loans from the United States Government. On the other hand, the excess of repayment over maturities in 1961 was caused by the settlement of this loan in full, and the repayment excess in 1962 was the result of the liquidation of the amounts in arrears on the "deferred payments" on public account. Finally, the deficiency in 1963 arose from the non-settlement of the ICA-NEC and U.S. Public Law 480 loans as well as the incomplete payment made by the Central Bank on its short-term obligations.

✓ In the other account, the private sector was abreast of its obligations from 1955, when the first maturities fell, to 1958. In 1959 it repaid a big portion of its "deferred payments", only to fall behind from 1960 to 1963. This lag in the recent period was caused by deficiencies in the settlement of the "deferred payments."

Also shown in Tables VI and VII are the estimated interest payments on the public and private accounts, respectively. By 1963, more than \$50 million had been paid for interest on the

public loans and more than \$40 million on the private borrowings. In both accounts, the trend of the aggregate interest payments has been upward, reflecting the increase in external indebtedness during the period.

## II

### A. The Foreign Debt in the Context of the Public Debt.

Important as the absolute values of the payments are, they do not provide any measure as to the ease or difficulty of actually transferring resources from home to lending countries and institutions. For this there is need to relate payments to some other economic variables.

1. Public Debt/National Income. In Table VIII, the public debt as a whole and the external public debt as a sector are compared with the national income. ✓ The percentage of the public debt to the national income ranged from 15.4 per cent in 1954 to the peak 22 per cent in 1959-1960 and to 19.3 per cent in 1963.

Is this ratio high or low? Unfortunately, no one has yet come up with an estimate of the critical value of this ratio, as well as of two others that are to be introduced presently. In the absence of such an estimate, some other way of making national income as a measuring rod for the size of the debt must be found.

TABLE VIII

RATIO OF PUBLIC DEBT TO NATIONAL INCOME

Year	Total Public Debt (in million pesos)	Foreign Public Debt	National Income*	Total Public Debt as Per Cent of National Income	Foreign Debt as Per Cent of National Income
1954	1,100.6	180.12	7,145.0	15.4	2.5
1955	1,258.1	196.80	7,624.0	16.6	2.5
1956	1,514.9	200.08	8,288.0	18.4	2.4
1957	1,564.6	227.90	8,764.0	17.8	2.6
1958	1,926.8	228.16	9,436.0	20.4	2.4
1959	2,200.6	235.72	10,008.0	22.0	2.2
1960	2,321.3	302.90	10,604.0	22.0	2.9
1961	2,525.6	251.46	11,737.0	21.5	2.1
1962	2,713.0	330.90	12,959.0	21.0	2.5
1963	2,814.0	312.90	14,577.0	19.3	2.1

Source:

National Income figures from the National Economic Council, Office of Statistical Coordination and Standards.

\* At current prices.



✓ In Table X, an international comparison is made. It can be seen that among nine countries, with the exception of two -- Thailand and Turkey -- the Philippines had the lowest ratio. The industrially advanced countries in fact had high ratios: between 67 and 78 per cent and, in the case of the United Kingdom, more than 131 per cent. In the perspective of this setting, it can only be concluded that Philippine borrowings are not large. They may even be considered small.

The same thing may be said of the external loans. Over the 10-year period from 1954 to 1963 the percentage of the external public debt to the national income never went beyond 2.9 per cent. In 1963, it was down to 2.1 per cent. This is definitely not a high rate.

✓ 2. Public Debt/Population. There is yet another way by which the size of the debt and its external component may be measured. From Table IX it is seen that in the 10-year period of 1954 to 1963, the burden per capita of the total public debt steadily increased from P48.07 to P93.17. Is this burden weighty?

Again an international comparison will be helpful. Table X shows that in regard to the less developed countries

TABLE IX

THE DEBT BURDEN PER CAPITA

Year	Total	Foreign	Population	Per Capita Debt Burden	
	Public	Public		Total	Foreign
	Debt	Debt		Public	Public
	(in million pesos)	(in millions)		Debt	Debt
				(in pesos)	
1954	1,100.6	180.12	22.868	48.07	7.90
1955	1,258.1	196.80	23.568	53.53	8.35
1956	1,514.9	200.08	24.288	62.34	8.65
1957	1,564.0	227.90	25.030	62.54	9.10
1958	1,926.8	228.16	25.795	74.70	8.84
1959	2,200.6	235.72	26.584	82.75	8.86
1960	2,321.3	302.90	27.410	85.10	11.05
1961	2,525.6	251.46	28.313	89.24	8.88
1962	2,713.0	330.90	29.257	92.01	11.31
1963	2,814.0	312.90	30.241	93.17	10.34

Source:

For population figures: Bureau of the Census and Statistics, 1964 (Mimeographed).

TABLE X

*June*

RATIO OF PUBLIC DEBT TO NATIONAL INCOME, AND DEBT  
BURDEN PER CAPITA OF SELECTED COUNTRIES (1961)

C o u n t r y	: : Ratio of : Public Debt : to National : Income	: : Debt : Burden : Per Capita : (in U.S. dollars)
Ceylon	44.93	55.67
India	42.64	29.00 /
Thailand	11.79	10.50 /
Turkey	20.35	36.22 /
Australia	76.16	943.00
Canada	77.63	1,187.00
United Kingdom	131.37	1,495.00
United States	67.80	1,554.00
PHILIPPINES	21.50	44.62

Source:

United Nations, Statistical Yearbook 1962 (New York: 1963).

of India, Thailand, and Turkey, the Philippines had a higher debt burden per capita. However, in relation to the advanced countries of Australia, Canada, the United Kingdom, and the United States, it had a much lower per capita debt load. The last four countries in fact had enormously heavy debt burden per person -- in the neighborhood of \$1,400. Obviously, the debt load per individual in the Philippines is not heavy.

The per capita burden of the external public debt, ranging from ₱7.90 to ₱11.31 to ₱10.34 over the 10-year period, can also be considered well within the capacity of the population to shoulder.

✓ B. The Debt Service Ratio.

The mildness or severity of the transfer problem involved in the payment of amortization and interest on external obligations still remains to be considered. To do this, the concept of the "debt service ratio" will be employed.<sup>3</sup> This is the percentage of interest and amortization payments on foreign loans to current foreign exchange receipts, exclusive

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<sup>3</sup>This is a modification of "investment service ratio" in David Finch, "Investment Service of Underdeveloped Countries," International Monetary Fund, Staff Papers, Vol. II, No. 1 (September 1951), p. 60. Finch was dealing with foreign capital as a whole and not solely with the public or publicly guaranteed private component of it.

of compensatory financing. ("Compensatory financing cannot be regarded as part of the receipts normally available for the servicing of debts. (It) comes into being only because the normal receipts are insufficient and the authorities take action to meet the situation."<sup>4</sup>)

1. The Debt Service Ratio Over 33 Years. Table XI shows the debt service ratio for eleven years preceding World War II, Table XII that for the postwar period. Tables XIII and XIV are a separate representation of the ratio for the postwar public and private loans.

From 1932 to 1940, the ratio was below 2 per cent. Only in 1941 when the amortization for principal was almost 10 times the payment for interest did the ratio exceed that level, i.e., by jumping to 7.1 per cent.

After the war the ratio started off at a high level: 7.6 per cent. But this is because of a fall in the value of current receipts as a result of the war and not because of any increase in the amount of payments, since these remained

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<sup>4</sup>Ibid.

TABLE XI

THE FOREIGN DEBT SERVICE RATIO, PRE-WAR

Year	Current Receipts	Total Payments	Total Payments as Per Cent of Current Receipts
	(in million pesos)		
1931	207.94*	4.21	2.0
1932	258.60	4.22	1.6
1933	266.60	3.21	1.2
1934	285.00	3.27	1.1
1935	282.20	3.27	1.1
1936	376.00	5.27	1.4
1937	500.00	7.20	1.4
1938	389.00	5.03	1.3
1939	400.20	5.95	1.5
1940	409.40	2.86	.7
1941	322.27*	23.02	7.1

Sources of data on receipts:

1932-1940: Amado A. Castro, The Philippines: A Study in Economic Dependence (Unpublished Ph.D. dissertation, Harvard University, 1953), p. 324.

1931, 1941: Department of Commerce and Industry, Bureau of Commerce, Summaries of Philippine Foreign Trade (Manila, 1961).

1946-1949: Central Bank of the Philippines, First Annual Report, 1949 (Manila, 1950).

1950-1951: International Monetary Fund, Balance of Payments Yearbook, Vol. 8, 1950-1954 (Washington, D.C.: 1957).

\* Receipts from merchandise exports only.



TABLE XII

THE AGGREGATE DEBT SERVICE RATIO, POSTWAR

Year	Current Receipts (in million U.S. dollars)	Total Payments	Total Payments as Per Cent of Current Receipts
1946	64.20	4.90	7.6
1947	264.55	4.62	1.7
1948	317.75	6.01	1.7
1949	260.00	5.86	2.3
1950	322.50	5.71	1.8
1951	566.00	12.76	2.3
1952	497.00	12.35	2.5
1953	575.00	12.10	2.1
1954	539.00	13.01	2.4
1955	545.00	10.74	2.0
1956	628.00	11.39	1.8
1957	620.30	12.14	2.0
1958	647.50	14.53	2.2
1959	662.60	39.17	5.9
1960	701.74	47.00	6.7
1961	645.82	77.77	12.0
1962	749.58	116.20	15.5
1963	919.96	99.71	10.8

2.2%

2.0%

6.7%

13%

TABLE XIII

THE FOREIGN PUBLIC DEBT SERVICE RATIO, POSTWAR

Year	Current Receipts <sup>a</sup> (in million U.S. dollars)	Total Payments	Total Payments as Per Cent of Current Receipts
1948	317.75	1.53	.5
1949	260.00	1.53	.6
1950	322.50	1.53	.5
1951	566.00	9.00	1.6
1952	497.00	11.79	2.3
1953	575.00	11.54	2.0
1954	539.00	12.45	2.3
1955	545.00	9.06	1.6
1956	628.00	9.70	1.5
1957	620.30	10.42	1.6
1958	647.50	11.02	1.7
1959	662.60	13.07	1.9
1960	701.74	27.42	3.9
1961	645.82	46.00	7.1
1962	749.58	59.28	7.9
1963	919.96	52.12	5.6

Sources of data on current receipts:

From 1947 to 1949: Central Bank of the Philippines, First Annual Report, 1949 (Manila: 1950).

From 1950 to 1954: International Monetary Fund, Balance of Payments Yearbook, Vol. 8, 1950-1954 (Washington, D.C.: 1957).

From 1955 to 1963: Central Bank of the Philippines, Annual Reports, 1955 to 1963 (Manila: 1956-1964).

<sup>a</sup>1947-1949 receipts are from merchandise exports only.

TABLE XIV

THE FOREIGN PRIVATE DEBT SERVICE RATIO, POSTWAR

Year	Current Receipts (in million U.S. dollars)	Total Payments	Total Payments as Per Cent of Current Receipts
1952	497.00	.56	.11%
1953	575.00	.56	.1%
1954	539.00	.56	.1%
1955	545.00	1.68	.3% 2.5%
1956	628.00	1.69	.3%
1957	620.30	1.72	.3%
1958	647.50	3.55	.5%
1959	662.60	26.10	3.9% 3%
1960	701.74	19.60	2.8%
1961	645.82	31.77	4.9%
1962	749.58	56.92	7.6%
1963	919.96	47.57	5.1% 6.3%

Sources of data on current receipts:

From 1952 to 1954: International Monetary Fund, Balance of Payments Yearbook, Vol. 8, 1950-1954 (Washington, D.C.: 1957).

From 1955 to 1963: Central Bank of the Philippines, Annual Reports, 1955 to 1963 (Manila: 1956-1964).

52 12  
47 57  
101 69

more or less at the same level. From 1947 on to 1958, it went along at less than 2.6 per cent, rising to about 6 per cent in 1959, then shooting up to a peak 15.5 per cent in 1962, and turning down to 10.8 per cent at the end of the period being studied.

✓ It should be noted that the denominator for the years 1946 to 1949 represents receipts from merchandise exports only, thereby overstating the ratio. Moreover, the numerator from 1948 to 1951 embodies payments for both prewar and postwar loans. From 1952 to 1963, the ratio covers the postwar borrowings of both public and private sectors.

✓ What caused the radical movement upward of the ratio beginning 1959? An examination of Tables XIII and XIV reveals that payments for both public and private loans increased greatly during the period, particularly the latter in 1959-62 and the former in 1961-63. These increases were caused by the bunching of amortization dues on both accounts.

2. An International Comparison. Failure to determine the critical value of the debt service ratio dictates a less satisfactory way of determining whether borrowings are large or small: again an international comparison. In Table XV

TABLE XV

RATIO OF PUBLIC DEBT SERVICE TO EXPORT OF GOODS AND SERVICES

	<u>1961</u>		<u>1962</u>
Israel	27	Israel	29
Chile	23	Chile	25
Turkey	20	Argentina	22
Argentina	20	Brazil	20
Brazil	17	Turkey	17
Colombia	13	Mexico	16
Philippines	12	Philippines	15
Mexico	11	Yugoslavia	14
Yugoslavia	9	Guatemala	12
Ecuador	8	Colombia	11
Iran	8	India	9
Paraguay	7	Iran	9
India	6	Costa Rica	9
Costa Rica	6	Sudan	9
Pakistan	5	Ecuador	8
Sudan	5	Pakistan	7
Nicaragua	5	Paraguay	6
Uruguay	5	Nicaragua	5
Honduras	4	Uruguay	5
Venezuela	4	China	5
Spain	3	Venezuela	4
Guatemala	3	Ethiopia	4
China	3	Honduras	3
Thailand	3	El Salvador	3
Ethiopia	3	Thailand	3
El Salvador	2	Spain	2
Panama	1	Panama	2
Nigeria	1	Nigeria	2

Source:

Dragoslav Avramovic, et al., Economic Growth and External Debt (Baltimore: The Johns Hopkins University Press, 1964), p. 44.

Note:

Public debt includes external obligations of all levels of government as well as private debt guaranteed by public agencies. Debt with an original maturity of less than 1 year is excluded. For all countries EXCEPT the Philippines, commercial arrears are also excluded. The numerator includes interest and amortization on all such debt. Again, for all countries EXCEPT the Philippines, the denominator is annual average exports of goods and services during 1960-62 or in some cases 1960-61. For these reasons, the Philippine ratio is overstated relative to that of the other countries.

such a comparison is made. It can be seen that the Philippines stands at the upper part of the list in both 1961 and 1962. These are the two years, incidentally, when the Philippine debt service ratio was highest.

A few points should be taken into account in the appreciation of the Table. For all countries except the Philippines, the numerator excludes commercial arrears and the denominator is the annual average of exports of goods and services during 1960-62 or in some cases 1960-61. Applying the same definitions to the Philippines as applied to the other countries, the Philippine ratio would have been 7 and 3 per cent for the two years, respectively, as shown in the IBRD study from which this Table was taken, as against the 12 and 15.5 per cent actually used in this paper.

Is the debt service ratio of the country high? There seems to be no question that, in the years previous and up to 1958, at no more than 2.5 per cent the ratio was relatively low. In 1960-63, at more than 10 per cent it seemed at a moderate level.



### III

The inadequacy of the debt service ratio for measuring debt servicing capacity is well known and should be noted. The ratio relates only two variables -- out-payments and current receipts -- out of many. It reflects the extent of the cash squeeze that borrowing countries experience when they begin servicing and settling their obligations. It is a short-run indicator of the transfer problem.<sup>5</sup>

\* But the most serious shortcoming of the ratio is that it does not take into account the impact of the foreign loan upon economic growth and, in particular, upon debt servicing capacity. In other words, it does not encompass changes of a profound, long-run character.

✓ For long-run analysis, the use pattern of foreign loans in the borrowing country is crucial. Whether a loan can be serviced and repaid in the long-run critically

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<sup>5</sup>As a short-run index, it is used in Dragoslav Avramovic and Ravi Gulhati, Debt Servicing Problems of Low Income Countries, 1956-1958 (Baltimore: The Johns Hopkins Press, 1960); and by the same authors, Debt Servicing Capacity and Postwar Growth in Indebtedness (Baltimore: The Johns Hopkins Press, 1958).

hinges upon how it has been used, what purpose it has served. In macro-economic terms, it is necessary to know whether the loan had any effect upon savings, investment, income, and the balance of trade.

The use pattern of foreign loans in the Philippines has been drawn in the first section of this paper. There it was found that, in respect at least of the postwar loans, most had gone into economic and social overhead and directly productive enterprise -- investments, in other words -- and only a relatively small portion went into consumption. What have been their effects, if any, upon income, saving, and capacity to repay?

At this point, because of the inadequacy of the data and the near impossibility of computing the direct and indirect effects of each investment project financed by foreign loans upon the economy, much of the discussion becomes somewhat theoretical.<sup>6</sup>

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<sup>6</sup>This analysis draws on Dragoslav Avramotic, et. al., Economic Growth and External Debt (Baltimore: The Johns Hopkins Press, 1964). Other principal references are R.F. Harrod, "Desirable International Movements of Capital in Relation to Growth of Borrowers and Lenders and Growth of Markets," in Roy Harrod and Douglas Hague, eds., International Trade Theory in a Developing World (New York: St. Martin's Press, 1963), pp. 113-141; and Gerald M. Alter, "The Servicing of Foreign Capital Inflows by Underdeveloped Countries," in Howard S. Ellis, eds., Economic Development

✓ The first impact of foreign capital is to the average rate of saving in the economy, making possible a higher rate of investment. Given the capital-output ratio, its next effect is to increase the rate of growth of national income.

The succeeding effect then depends upon what portion of the additional income generated is plowed back into production, that is to say, upon the marginal rate of saving. To the extent that the marginal rate of saving is high, the average rate of saving is increased, the rate of growth of national income is increased, and the need for further external capital is reduced. The need for foreign capital to supplement domestic savings stops when the domestic average rate of saving is enough to sustain the desired rate of investment and therefore achieve the target rate of income growth.

*DRS = DSI = DYG*

Borrowing does not necessarily cease at this point, however. Resources from abroad are still borrowed, but for paying wholly or partly amortization and interest on previous

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for Latin America (London: Macmillan & Co., 1961), pp. 139-167; and J.J. Polak, "Balance of Payments Problems of Countries Reconstructing with the Help of Foreign Loans," Quarterly Journal of Economics (February 1943), reprinted in American Economic Association, Readings in the Theory of International Trade (London: George Allen & Unwin, 1950), pp. 458-493.

loans and not to add to domestic savings. At a point in time, even this stops as the country accumulates an excess of savings over investment and with it is able to make a net repayment of its maturing obligations.

While this is taking place, something is happening to the balance of payments which bears the brunt of the actual transfer of resources. By definition, as long as savings are less than investment, the balance of payments will be unfavorable (since  $S - I_d = X - M$ ). The balance will become favorable only when savings exceed investment.

In the real world, a more vital matter is the behaviour of imports and exports. We can assume that both imports and exports are increasing, but which are increasing faster? In respect of imports, they are susceptible of manipulation by domestic policy and under some extreme necessity can be brought into line, assuming they are compressible, i.e., they include items not necessary to the execution of economic development. The growth of exports will depend upon their composition and the character of the demand for them abroad, specifically their price and income elasticities. In any case, historical evidence support the proposition that the problem of paying and servicing external obligations becomes insignificant as the economy achieves self-sustaining growth.

(x-m)  
S + E = Y  
4/5

The conclusions of this paper may be summarized.

✓ A major portion of prewar loans went into economic projects of a productive kind but the percentage could have been higher. Most loans of the postwar period were channeled to economically productive enterprises, with only a relatively small portion going to consumption. On the whole, it can be said that postwar loans were more productively utilized than those of prewar ~~years~~.

The country has not defaulted in its commitments at any time. The burden of foreign loans has been relatively light and the country has transferred resources for their payment with relative ease. Viewed in the long-run context, foreign loans in the Philippines may be said to have been utilized for speeding the rate of growth of the economy.

Quezon City  
August 5, 1966