

# Philippines: The dubious legacy of the Marcos debt

Wednesday 21 September 2022, by [TADEM Eduardo C.](#) (Date first published: 21 September 2022).

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*Filipino campaigners demand an audit of foreign borrowings in the Philippines. —FREEDOM FROM DEBT COALITION PHOTO*

As the nation marks the 50<sup>th</sup> year of the declaration of martial law on Sept. 21, 1972, it is relevant to recall how that chapter in Philippine history has affected the country and its people.

Three months after the ouster of the Marcos regime in February 1986, a group of 16 economists from the University of the Philippines issued a report titled “Economic Recovery and Long-Run Growth: Agenda and Reforms.” The report evaluated the economic performance of the martial law years and proposed a set of recommendations. The section on the Marcos debt is particularly revealing.

The evaluation began by stating that: “The foreign debt incurred by the old regime is one of the biggest obstacles to Philippine economic recovery. The Philippines is one of the most heavily indebted countries in the world: seventh in size of debt, sixth in debt to exports ratio, fourth in debt to GDP ratio, and ninth in debt service ratio.”

But the size of the debt and related indicators were just the tip of the iceberg. The UP report went on to say that “most of the projects financed by the foreign loans were unproductive; ... not well chosen or were probably chosen precisely to finance capital flight through the overpricing of projects.” So-called “official development assistance” was “generally tied to projects that were not very high in the country’s priorities or were tied to sources of imports and equipment that are more expensive than competitive suppliers.”

To make matters worse, projects that were financed by the debt were found to be “overpriced, mismanaged, not viable to begin with, or made unviable by changes in exchange rate and the international environment.”

## Bataan Nuclear Power Plant

The most notorious case of debt misuse concerned the Bataan Nuclear Power Plant. Construction

began in 1973 and was completed in 1984. But the plant was never operated due to natural hazards at the site and corruption issues even as the original project cost of \$700 million ballooned to \$2.2 billion. The debt service on a syndicated loan from the US Export Import Bank, Citicorp, and Swiss and Japanese banks amounted to \$140 million a year, \$12 million a month, and \$388,000 a day. Total repayments ended only in 2007 and reached \$22 billion, or 900%, over the original project cost.

Additionally, the government continues to spend P40 million a year in maintenance costs for the mothballed plant.

A Marcos crony, Herminio Disini, brokered the project construction deal with Westinghouse Electric. In 2012, the Sandiganbayan antigrift court ordered Disini to return \$50 million he had received as “commission” from Westinghouse. In addition, the Supreme Court in June 2021 ordered Disini to pay the Philippine government P1.1 billion in damages for “influence peddling” (i.e., using his ties to Marcos to get the power plant’s construction contract awarded to Westinghouse).

A 1986 research study by Japanese scholars Mamoru Tsuda and Gus Yokoyama uncovered proceedings of hearings by the US House subcommittee on Asia-Pacific affairs showing that “Japanese corporations had paid rebates to Marcos and his cronies, as well as to financial groups allied with the former President, in connection with Japanese yen loans to the Philippines.”

On the home front, the Commission on Audit in April 1986 accused Marcos of issuing a memorandum that illegally diverted millions of dollars in US aid from the Economic Support Fund (ESF) which were then camouflaged as a “confidential fund.” Also irregularly diverted was P35 million to the “confidential fund” of the ESF Council which was chaired by Imelda Marcos.

### **Automatic debt appropriation law**

Upon the declaration of martial law in September 1972, Marcos went on an unprecedented borrowing spree. To gain the confidence of potential creditors and assure them of debt repayments, he issued in 1977 Presidential Decree No. 1177 mandating the automatic appropriation for debt service as the No. 1 priority of the government budget over and above social and economic services.

The Philippines is thought to be the only country in the world with such an automatic debt appropriation law.

By the early 1980s, the government had become aware that it could no longer service its foreign debt. To cover this up, Marcos technocrats falsified official records by “window dressing” the Gross International Reserves account which overstated foreign reserves by \$600 million, or 43% of declared reserves. In a 1985 paper, political scientist Teresa S. Encarnacion wrote that “window dressing was a scheme used by the technocracy to prevent the IMF/WB (International Monetary Fund/World Bank) group from seeing that the level of international reserves had reached a dangerously low level.”

Encarnacion quoted a Far Eastern Economic Review article in describing the process: “The PNB (Philippine National Bank) branches overseas ostensibly lent money to its non-bank affiliates in the Philippines which deposited the foreign exchange proceeds with the PNB head office which in turn sold the foreign exchange to the Central Bank. The Central Bank to whose books these were credited as part of reserves (because they were treated as capital inflow) deposited the funds with the same PNB branches overseas. Such arrangements are called ‘back to back’ transactions.”

The economy, however, was quickly deteriorating beyond repair. Economic growth contracted, exports fell, workers' incomes were reduced, and unemployment rocketed. By 1983, the peso had depreciated relative to the dollar by 120% compared to the 1970s. Record-high oil prices and the political fallout from the assassination in August 1983 of returning opposition leader Benigno Aquino Jr. worsened the situation.

### **Debt relief**

Marcos virtually declared bankruptcy in October 1983 as he sought debt relief from foreign creditors via a three-month moratorium on principal debt payments. Debt rescheduling amounting to \$6.3 billion was secured but only until 1986, thus assuring even larger debt service payments afterward.

Nevertheless, Marcos cronies and business associates were privileged in the distribution of generous bailout funds. These same cronies had earlier made use of behest loans that were provided with sovereign guarantees reportedly without compliance with standard banking rules.

The UP economists argued that the Philippine economy failed to benefit from the large inflow of debt funds due to mismanagement and misuse. Debt repayments drained the country's foreign reserves, which could not be replenished due to low export prices and a higher import bill.

Worse for the average Filipino family, expenditures for social services and basic maintenance suffered. To service the debt, taxes and user fees for services were raised even as the government "had to resort to short-term and non-concessional borrowing as the country's credit rating worsened and the international credit rating tightened."

The UP group lamented the government's tendency "to subordinate growth to an overly burdensome debt service" and called for a more self-reliant economy (i.e., "paying for imports with exports rather than by foreign borrowing"). Foreign financial assistance was to be welcomed so long as "the terms of assistance are favorable" with preference for grants and soft loans, while "hard loans should be examined very carefully."

### **4,300% rise**

#### ***External debt of the Philippines since 1965 —GRAPH BY INSTITUTE FOR NATIONALIST STUDIES***

When Marcos first assumed the presidency in 1965, the Philippines' total foreign debt was \$600 million. When he was forced out of power in February 1986, the debt had risen by 4,300% to \$26.25 billion.

The 1977 automatic debt appropriation law, unfortunately, remains in place to this day and repeatedly constrains the government from substantially increasing appropriations for essential social and economic services. Between 2020 and 2022, debt service payments accounted for a yearly average of P1.32 trillion, or 28.95% of the government budget. The 2023 budget proposal of President Ferdinand Marcos Jr. consists of P1.631 trillion in debt service, or 31% of the budget.

As of the end of July 2022, the country's total debt amounted to P12.89 trillion (\$226 billion). More than half, or P7 trillion, was accumulated during the term of President Rodrigo Duterte alone. Of this amount, P1.4 trillion (20%) was for Covid-19 expenditures. The latter debt could have been avoided

had Duterte heeded the call of civil society organizations and workers' groups for alternative ways of raising revenue, such as imposing a wealth tax on the richest Filipinos, auditing and canceling illegitimate debts, and collecting the unpaid taxes of the Marcos family.

The worst part of the Covid-19 loans was that a significant part was unused and irregularities in the procurement of health equipment were exposed.

According to the Economic Intelligence Unit, the Philippine debt level is now 62.1% of the gross domestic product, breaching the internationally accepted level of 60 percent. Marcos Jr.'s administration plans to borrow P2.21 trillion more in 2023, P2.418 trillion in 2024, and P2.1 trillion in 2025.

### **'Debt bomb'**

The civil society watchdog Freedom from Debt Coalition (FDC) doubts whether the overblown Philippine debt has actually benefited the people. It warns of an impending "debt bomb" and calls for a citizens debt audit to uncover what the group calls "illegitimate and onerous debts."

FDC president Rene Ofreneo questions if the current debt is sustainable and whether the nation can avoid the scenario of a "lost development" of the 1980s decade. To avert a 1980s-type crisis, Ofreneo calls for the cancellation of debts, especially those that aggravate the climate crisis via fossil-fuel-dependent projects that, at the same time, displace communities and deprive them of livelihoods.

If the government's debt is distributed among Filipino families, each household will owe P495,769. Ibon Foundation says that new taxes will be mainly used to repay the debt which, given the regressive tax system, will be borne disproportionately by the poor and the middle classes.

Thirty-six years after the end of the first Marcos regime, the dictator's dubious legacy of a debilitating debt crisis and accompanying economic breakdown looms as a potentially calamitous storm cloud on the horizon.

**Ed Tadem**

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• CoverStory. SEPTEMBER 21, 2022:  
<https://coverstory.ph/the-dubious-legacy-of-the-marcos-debt/>