



What Is This Module About?

There are many issues today that are mostly taken for granted, and which many Filipinos are not aware of. Among these is our country's foreign debt.

What are debts for? Do you think it is important for a country to obtain loans from foreign banks and agencies? Why do you think countries all over the world borrow money from international sources? Who are these foreign creditors?

Has the money acquired from foreign debt been beneficial to our lives and our country? How does our government pay for our country's foreign debts? Can we afford to pay for all of it?

Supporters of foreign loans claim that we need to borrow money to support important national and community projects and to improve the lives of all Filipinos. Other people, however, think that foreign loans are ultimately bad for the Philippines. They argue that our country has to use its limited resources to pay for interest charges that it cannot afford. This has resulted in budget cuts to social services like health and education.

There are so many questions about our country's debts that we need to be aware of. This module will help you understand more about the issue of foreign debt. It will discuss the reasons why we have debts, why other countries have debts, and how our lives, family, community and country are affected by our country's debts. Finally, the module will discuss how our government is paying for our debts.

This module is divided into three lessons, namely:

Lesson 1 — *Why Do We Need to Borrow Money?*

Lesson 2 — *The Foreign Creditors*

Lesson 3 — *The Cost of Debt*



What Will You Learn From This Module?

After studying this module, you should be able to:

- ◆ identify the reasons why a country borrows money from foreign creditors and lenders;
- ◆ discuss the role played by foreign creditors in a country's economy;
- ◆ identify how our country's foreign debt is used;
- ◆ explain how our country's foreign debts affect your life, family, community and country;
- ◆ explain how our government is paying for our debts; and
- ◆ state your personal stand about our country's foreign debts.



Let's See What You Already Know

Before you start studying this module, take the test below to find out what you already know about the topic.

Read each sentence below. If you agree with what it says, put a check mark (✓) under the column marked *Agree*. If you disagree with it, put the mark under the *Disagree* column. If you are not sure about your answer, put the mark under *Not Sure*. You should check only one column for each sentence.

| | <i>Agree</i> | <i>Not Sure</i> | <i>Disagree</i> |
|--|--------------|-----------------|-----------------|
| 1. The government borrows money from foreign institutions to serve the people better. | | | |
| 2. The Philippines has developed because of foreign loans. | | | |
| 3. The Philippines is no longer poor. It is already a rich nation. | | | |
| 4. The government pays our debts with new debts. | | | |
| 5. Many Filipinos are protesting against debt servicing. They believe that basic social services like health and education should be the priority of the government. | | | |
| 6. We should be thankful to the late President Marcos for introducing the practice of obtaining foreign debts. | | | |
| 7. There are more classrooms and teachers because of the foreign loans obtained by the government. | | | |
| 8. The majority of Filipinos are still poor despite the large loans obtained by the government from foreign creditors. | | | |
| 9. Without the foreign loans of the government, our country will remain backward and poor. | | | |

| | <i>Agree</i> | <i>Not Sure</i> | <i>Disagree</i> |
|--|--------------|-----------------|-----------------|
| 10. We should not blame our government for having foreign debt. We should blame the corrupt officials who benefit from these loans that are supposed to be for the people. | | | |

Have you finished answering the test? In this test, there really is no wrong answer. This test is conducted to encourage you to think about our country's debt situation. You may compare your answers with those found in the *Answer Key* on pages 52–53 for some feedback.

You may now go to the next page to begin Lesson 1.

Why Do We Need To Borrow Money?

What comes to your mind when you hear the word “debt”? Something owed to another, to borrow money, an obligation, interest, a bank, money—what else? There could be many answers, right? But the most common is that debt pertains to money. It is something that is borrowed. It is something that must be paid.

Do you know that our country borrows money from foreign creditors and lenders?

Our country’s foreign debt—or money borrowed from foreign creditors—stands at US\$52.415 billion as of March 2000. If we convert it to pesos, with an exchange rate of ₱48 to every US\$1, our country’s total debt would be ₱2,515.92 trillion. Whew! It is hard to imagine such an amount, right? However, do not let this amount baffle you. Study this lesson and you will understand why our country has debts and why it still keeps on borrowing more.

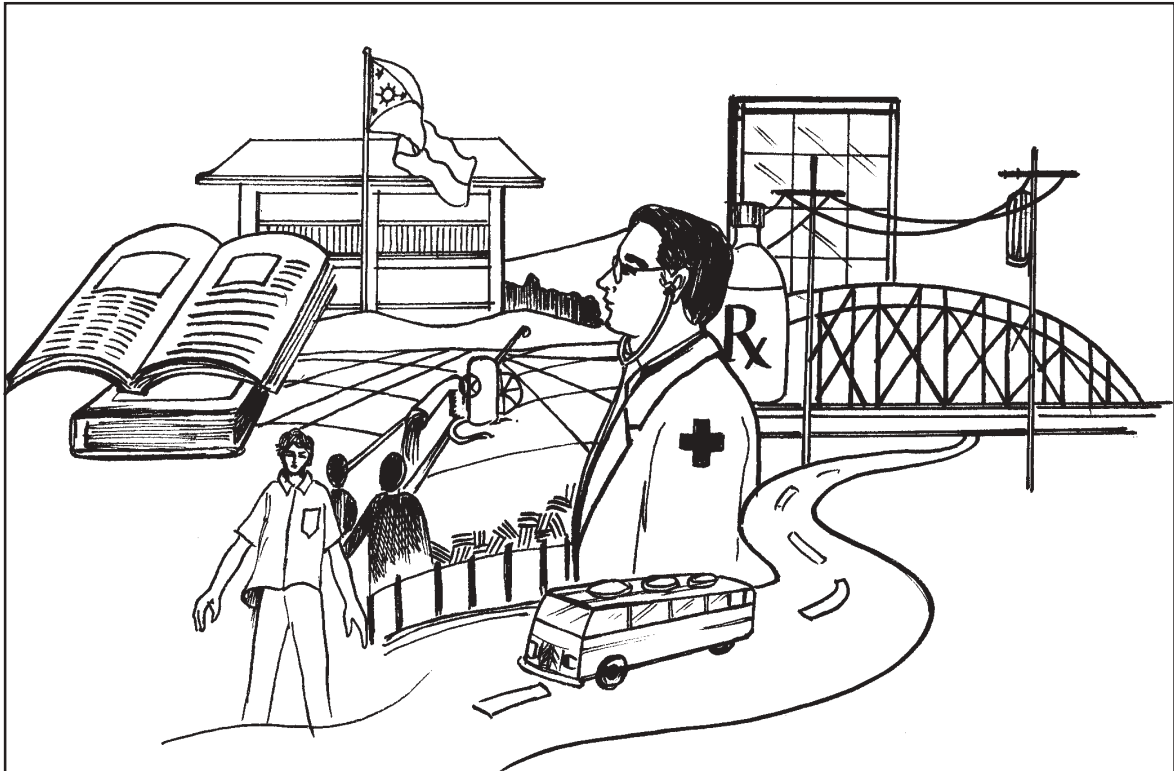
This lesson will discuss the needs our country has to spend for (like education and health). It will also discuss whether or not our country has a capacity to generate its own resources to pay for its debts. Study this lesson and you will know what our government does to augment its income in order to finance the needs of our country.

After completing this lesson, you should be able to:

- ◆ identify the needs our country has to spend for;
- ◆ explain whether our country is capable of generating its own income or not; and
- ◆ explain the reasons behind our country’s foreign borrowings.



Let's Study and Analyze



What do you think are the needs of our country that our government has to spend for? Look at the picture above to get some ideas. Write your answers below.

Mostly, countries borrow large amounts of money from foreign creditors to fund projects and programs that will improve the lives of the people. These include projects designed to provide irrigation services for farmers, build schools, purchase textbooks, train local officials, provide medical supplies and health services, improve electricity generation, build roads, etc. All of these projects aim to improve the living conditions of the people. Besides, who would ever think of a project that would harm the people in the first place?



Let's Read

You will learn more of these needs as you read the story below. It revolves around a conversation among four friends.

Delia: Whew! I'm so tired. We've been walking for hours. Is the market still far? My vegetables are really heavy.



Lilia: *Hay naku!* Maybe a few more kilometers. The local government should finish this road project soon so that jeepneys and tricycles can pass this way. It will make it easier for all of us because we will not have to walk this far to the market each week.

Along the way, two farmers planting rice and corn at the side of the road are talking.

Juanito: *Pare,* you have been working too much. I think you should take a rest for a while.



Pedro: I'm okay, *pare.* I have to work really hard to have enough harvest to support my growing family. My wife will give birth soon and my eldest son is about to enter college at the start of the school year. For sure, the expenses of my family will increase when school opens and when my wife gives birth.

I think the government should build a hospital and a university nearby so that it will not be very difficult for us to send our children to school and to care for our health.

Juanito: You're right, *pare.* It is very difficult to send a child to college. Imagine the transportation and food allowance. By the way, how is your wife?

Pedro: I am very worried because I have not yet saved enough for the hospital expenses. Besides, the hospital is too far. I do not want her to give birth at the health center because just last month, Gorio lost his child. The health center lacks equipment and medicine. I want my baby and wife to be healthy.

Juanito: I know what you mean, *pare*. Things are getting rough these days. Many people are getting sick, especially the children, and the health center lacks medicines. Also, according to the health nurse, the reason why many of us are getting sick is because of the water we are drinking. She said that our source of water should be cleaned. We need a water treatment machine and some chemicals. And you know how much all that will cost? Almost a million pesos!

Pedro: *Asus!* Where are we going to get that amount?

Juanito: According to Mayor Santos, he already asked help from the central government and they are planning to obtain a loan from an international organization.

Delia and Lilia pass by Pedro and Juanito and saw them talking. They decided to stop for a while and greet the two men.

Delia: *Uy,* Juanito, Pedro, how are you? How is your planting?

Pedro: *Haay!* Nothing has changed. Our harvest is still low. My carabao is getting weak because of too much work. Also, the fertilizer that I used was not that effective.

Juanito: *Pare,* you know what? In other countries everything is mechanical. They use huge machines for planting. They use the newest technologies and the best fertilizers. With these modern technologies they always have a good harvest. Maybe if we also had those new technologies, we might always have a good harvest, too.

Lilia: You are right, Juanito. We are so backward. And our technology is so primitive.

Delia: But where can we get the money needed to buy these machines?

Lilia: Okay, enough of this. I think Delia and I should continue walking to the market because it is getting late already. The vegetables are not fresh anymore. Ah, Pedro, please extend our wishes to your wife, okay?



Let's Try This

Did you understand the story? Well, let's see. Can you identify some of the needs our country has to spend for?

A. Given below are statements that pertain to the needs of our country. Read the statements carefully and describe what particular need it is referring to. Write the needs of our country in the spaces below each statement.

1. "In other countries, everything is mechanical. They use huge machines for planting."

2. "Many people are getting sick, especially the children ..."

3. "We are so backward and our technologies are so primitive."

4. "She said that our source of water should be cleaned."

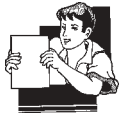
5. "I do not want her to give birth at the health center because just last month, Gorio lost his child there."

6. "We've been walking for hours. Is the market still far?"

7. "It is very difficult to send a child to college."

B. Financially speaking, how do you think the government can meet all these needs?

Have you finished answering the exercise? If so, compare your answers with those found in the *Answer Key* on page 53.

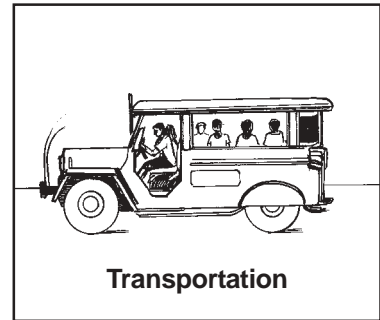


Let's Learn

Our country has so many needs to spend for. These include roads for efficient transportation, communication, education, health, agriculture, water supply and sanitation, industry, energy, social infrastructure and military expenditures.

Why does our country need all these? Basically, all of these are the needs of the people and a country that hopes to develop itself.

Efficient transportation and communication, for example, hasten economic growth. How? Going back to the story, Lilia and Delia could have reached the market earlier and they could have sold more of their products if only the road was completed and transportation was available. Our country needs to develop efficient transportation and communication so as not to lag behind in the global scene.

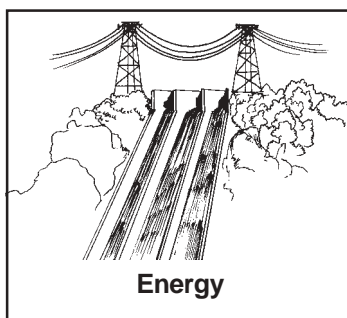
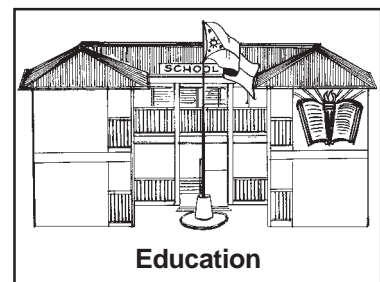


Education and health services, on the other hand, are important because a developing country needs intelligent and healthy citizens to support its growth.

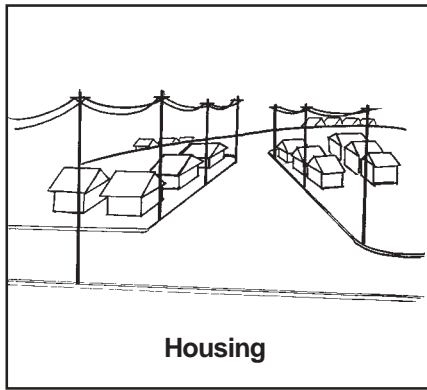
Do you have an idea why? If you do, write it below.

According to the Asian Development Bank (ADB), one of the world's top creditors, "No country or region has done well in reducing poverty without first providing widespread basic education and health services."

Education helps to empower the poor, enhance their income-earning potential and improve the quality of their lives. It is believed that without basic education, basic skills and knowledge, the poor lack the tools essential for freeing themselves from poverty. People with basic education are more productive and more likely to earn higher incomes.

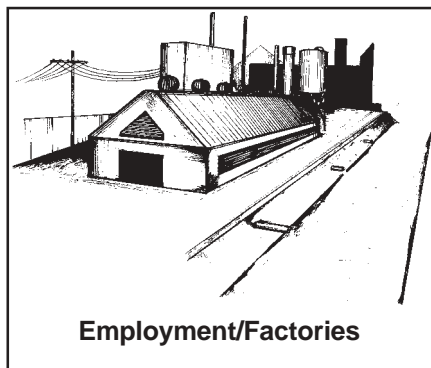


Now, imagine yourself living in a world without electricity. Do you think you would be able to do the things that you normally do, like watching television? Electricity is a very important part of our lives, especially now that we are used to it. Since it is almost impossible for us to live without it, it becomes a necessity to us and our country. Our country has to ensure that we have an efficient source of electricity in order to have enough supply of it.



Meanwhile, the Philippines is an agricultural country. Yet, we are not producing enough for our own consumption. We are far behind our Asian neighbors, who produce more. What could be the reason for this? Write your ideas in the spaces provided below.

We don't produce enough harvest because we lack the technology to do so. The low production of agricultural products forces many rural farmers to go to the cities and work at construction sites or do other menial jobs. This migration of farmers or peasants from rural to urban areas leads to another need that must be met — housing.



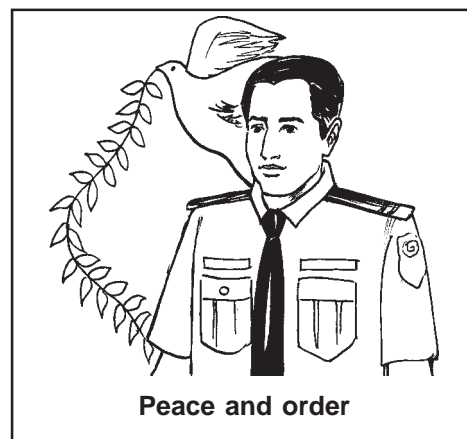
A lot of people, especially those in the cities, do not have decent houses to live in. Poor children sleep on cardboard and newspapers on the streets. Many poor families live under bridges and in squatter areas.

It is said that it is the government's responsibility to look after its people. However, because of our limited resources it has become difficult for the government to provide decent houses for its people.

For the country to be developed, it needs a lot of industries. Industries like the manufacturing of garments or electronics help increase the income of the country. These also provide employment for the people.

Another important need that the government must spend for is the preservation of peace and order. The government has to spend millions of pesos on military equipment, supplies, and personnel in order to achieve and maintain peace and order.

All these needs are very important for our country's development and well-being. Because of these needs, the government has to find ways to meet these needs. Among the solutions of the government is to borrow money from foreign creditors. You will learn more about our country's foreign debt as you continue with this module.





Let's Think About This

Lucio is a construction worker in one of the busiest areas in Metro Manila. He is married and has three children. He earns ₱200.00 a day or ₱4,800 a month.

Every end of the month he gives his salary to his wife, Nena, who patiently budgets the money to cover for all their needs. Most of the time she struggles to augment the meager income of her husband in order to meet all their needs.



Let's help Nena budget their family's needs. Add the expenses of their family shown in the table below and tell whether Lucio's salary is enough to cover all their household expenses. The table of weekly expenses has been done for you.

| Weekly Needs | Price | Total |
|--|----------------|------------------|
| <i>Food</i> | | |
| 6 kilos rice | ₱28.00/2 kilos | ₱84.00 |
| 20 packs of noodles | ₱4.50/pack | ₱90.00 |
| 1/2 kilo dried fish | ₱120.00/kilo | ₱60.00 |
| 2 kilos mixed vegetables | ₱75.00/kilo | ₱150.00 |
| <i>Transportation and school allowance</i> | | |
| Lucio | ₱50.00/day | ₱250.00 |
| 3 children | ₱20/each/day | ₱300.00 |
| <i>Others</i> | | ₱135.00 |
| TOTAL | | ₱1,069.00 |

The total weekly expenses of Lucio's family is ₱1,069.00. However, this amount is the food, school and transportation allowances of Lucio's family for only one week. To get the total monthly expenses on food, school and transportation allowances of Lucio's family, multiply ₱1,069.00 four times (there are four weeks in one month).

$$\text{₱1,069} \times 4 \text{ weeks} = \text{₱4,276.00}$$

What does this amount refer to?

If you answered that the amount shows that Lucio's family is spending ₱4,276.00 a month for food, school and transportation allowances, you are correct!

Now below are additional expenses of Lucio's family each month. Add the figures to get the total expenses per month.

| Monthly needs | Price |
|-----------------------------|--------|
| Room rental | 800.00 |
| Electricity | 100.00 |
| Water | 90.00 |
| Clothing (approximately) | 250.00 |
| Coffee, sugar, milk | 150.00 |
| Bath soap and shampoo | 100.00 |
| Laundry soap | 50.00 |
| TOTAL | |

- ◆ To get the total expenses of Lucio's family for one month, add the total you got above and ₱4,276 (the total monthly expenses for food and allowances).
- ◆ Next compare the monthly income of Lucio with his family's total monthly expenses.

If the amount of Lucio's monthly *income* is the same as or more than his family's monthly *expenses*, this simply means that Lucio earns just enough to support his family's needs. However, if his family's monthly expenses are greater than the amount he earns, this means his salary is not enough to support the needs of his family. When one's expenses are more than one's income, we call this situation a **budget deficit**.

- ◆ To get the budget deficit of Lucio's family, subtract the monthly income of Lucio from the total monthly expenses of his family.

[Total monthly expenses — Total monthly income = monthly budget deficit]

Answer the following questions.

1. How much are the total monthly expenses of Lucio's family?

2. Is Lucio's salary enough to support the needs of his family? ___ Yes ___ No
Why do you say so?

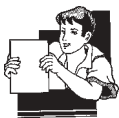
3. Is there a budget deficit? ___ Yes ___ No

If so, how much? _____

4. Do you think Lucio's family will have extra money to spend just in case they have emergency needs that they have to spend for? Explain your answer.

5. If you were Lucio, what would you do to meet the needs of your family? Would you borrow money from your friends and relatives? Why?

After you finish answering the questions, compare your answers with those found in the *Answer Key* on pages 53–54.



Let's Learn

Our country, just like Lucio's family, has needs it must spend for. Most of the time—if not always—our country's needs exceed its income or revenue. Thus, we have a shortage or budget deficit.

What are the similarities between Lucio's situation and our government's?

Lucio works to earn a salary. His job as a construction worker is the main source of his family's income. Our government, on the other hand, generates income or revenue mainly from the taxes it collects. This income is called **tax revenue**. Tax revenues come from the personal income tax of the citizens and corporate profits tax or the tax paid by businesses and corporations. Another form of tax is the value added tax (VAT) that we pay every time we eat in restaurants and buy our groceries.

If you found out that Lucio has a budget deficit, you are correct. He spends more than what he earns. In the same way, a government's budget deficit is the difference between what it spends (expenditures) and what it collects in taxes (revenues) in a given period. If expenditures exceed revenues, the government has to borrow money from lending and funding institutions to finance the deficit. When the government runs a deficit, it borrows money to cover the difference between its expenditures and revenues.

If we look closely at our government's revenue from January to September in the year 2000, it stood at ₱376.459 billion. Its expenditures, however, reached ₱459.442 billion for the same period.

Can you compute the budget deficit of the government? How much is it?

$$\begin{array}{r} \text{₱}459.442 \\ - 376.459 \\ \hline ? \end{array}$$

If you answered ₱82.983 billion, very good!

What does this figure show?

This only shows that the government had a budget deficit amounting to ₱82.983 billion in the first nine months of the year 2000.

Just like Lucio, the government resorted to borrowing money to support the needs of the country. Lucio might borrow money from his friends and relatives. Where will the government borrow the money it needs?

To finance many of its important development projects, the government borrows from international sources such as the World Bank and the Asian Development Bank.

It is also important to note that even developed countries have budget deficits and foreign debt. Among these countries are the United States of America, United Kingdom, Germany, Canada, France and Japan.

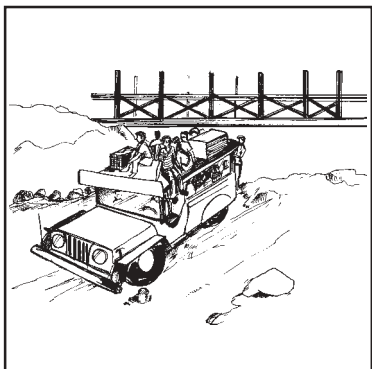
We will look in more detail at the international sources of our government's loans in Lesson 2.

In Lesson 3, we will look at the consequences and costs of our government obtaining loans from international sources.

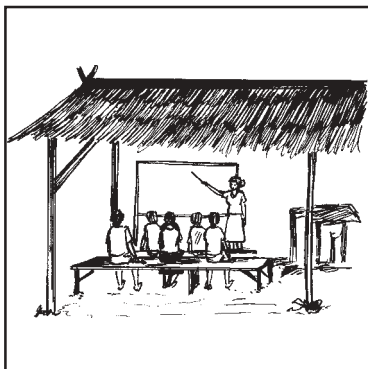


Let's See What You Have Learned

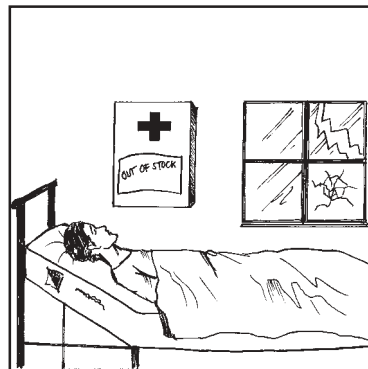
- A. You learned in this lesson that our country incurs loans to pay for the different needs of our country. From the illustrations below, identify the different needs of our country as illustrated in the boxes. Write your answers in the blanks provided.



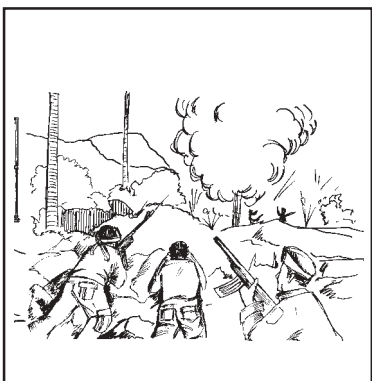
1. _____



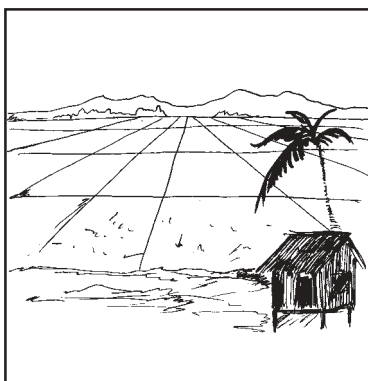
2. _____



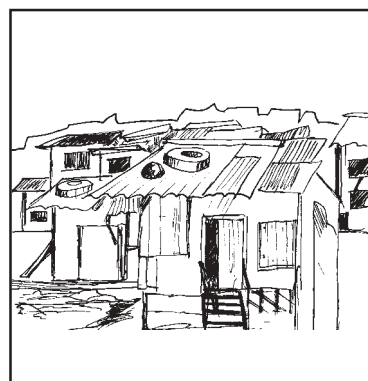
3. _____



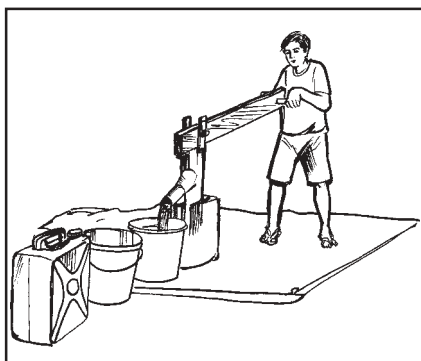
4. _____



5. _____



6. _____



7. _____

- B. If you were the president of the Philippines, what would you do to meet the needs of our country? Be sure to include in your explanation the relationship between the needs of our country and the income the government earns from taxes.

- C. Explain the meaning of the term “budget deficit.”

1. For a family

2. For a government

Compare your answers with those found in the *Answer Key* on pages 54–55.



Let's Remember

Congratulations! You have reached the end of Lesson 1. Are you ready to continue with the next lesson? But before you turn to the next page, read some important points to remember below.

- ◆ Our country has so many needs to spend for. These include roads for efficient transportation and communication, education, health, agriculture, water supply and sanitation, industry, energy, social infrastructure and military expenditures.
- ◆ Our government, on the other hand, generates income or revenue mainly from the taxes it collects.
- ◆ A government's **budget deficit** is the difference between what it spends (expenditures) and what it collects in taxes (revenues) in a given period.
- ◆ When the government runs a deficit, it borrows money to cover the difference between expenditures and income.

The Foreign Creditors

In Lesson 1, you learned about the needs of our country that the government has to spend money for. You also learned that the government borrows money to help augment its income so that it will be able to finance our needs.

Maybe you are wondering right now where our government borrows money. The government can borrow money from local banks and foreign creditors.

In this lesson you will learn more about the role of three major international funding agencies — the World Bank (WB or IBRD), the International Monetary Fund (IMF) and the Asian Development Bank (ADB) — from which the government borrows money.

You will analyze some projects funded by foreign loans to learn how they affect our life, community and country.

After studying this lesson, you should be able to:

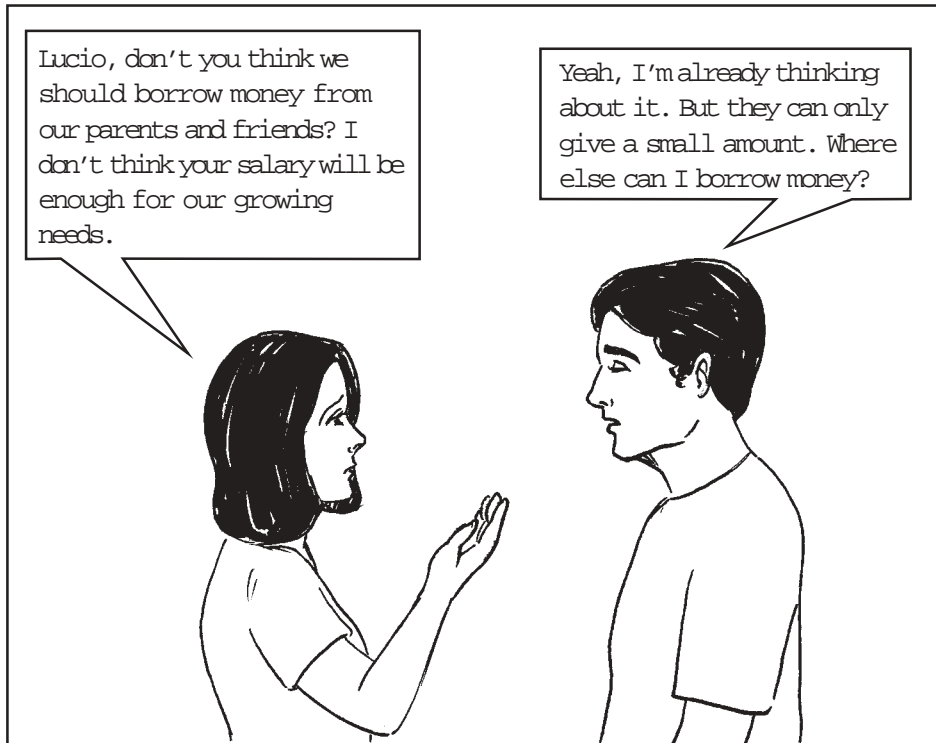
- ◆ identify various international funding agencies and how they work; and
- ◆ explain the relationship of our country's foreign debt and its involvement in the global community.



Let's Study and Analyze

You learned in Lesson 1 that the government borrows money because it has to finance the needs of the country. Ideally, the government's income should be enough for its expenditures. However, that is not usually the case. Thus, there is a need to borrow the money to be used for these expenditures. You also learned that the government has simply been spending a lot more than it has been collecting in taxes and other revenues. Thus, when the government runs a deficit, it must borrow to finance it.

Now, let us study more about those who lend money to our country—the foreign creditors. To start the lesson let us return to the story of Lucio and Nena in Lesson 1. You will recall that Lucio's salary as a construction worker was insufficient to cover all the monthly expenses of his family, leaving him with a budget deficit.



Let's Try This

Answer the following questions.

1. What are Lucio and Nena talking about?

2. What are Lucio's possible sources for borrowing money?

3. Why do you think Lucio has to borrow from different sources?

4. Where do you think Lucio and our government can borrow money to cover their budget deficits?

| Lucio | Government |
|-------|------------|
| | |
| | |
| | |

5. What do you think are the functions of international financial institutions?

After you finish answering the questions, compare your answers with those found in the *Answer Key* on page 55.



Let's Think About This

Lucio and Nena are talking about their financial problem. That is, they are discussing where to borrow money in order to cover their budget deficit.

There are many sources from which Lucio can borrow money. He can borrow money from his relatives, friends, neighbors, a bank or a cooperative.

Lucio has to borrow from different sources because his family has so many needs that he has to spend for. These needs cannot be shouldered by only one source. Thus, he has to borrow from several sources to meet their needs. For example, Lucio has to pay for his apartment so he will borrow money from one of his friends, but Lucio still has to provide allowances for his children, and there is a possibility that his friend won't be able to lend him money for both his apartment rent and the allowances of his children. Lucio has to find other sources for his other needs.

What do you think the condition of Lucio implies about our government and our country's debt?

Just like Lucio, our government has to borrow from different sources in order to meet the different needs of our country (as discussed in Lesson 1). Let's use the EDSA MRT in Manila as an example. The government cannot just get money from its income because it also has to think about the other needs of our country. The government then has to borrow money from local and international banks and funding agencies to help fund the transportation project. If the government still has other projects in mind, it cannot just go to the same creditor over and over again. It has to find another source that is willing to fund the projects that the government is planning to implement.

Can you identify some of the international organizations that our government can borrow money from?

Various international financial institutions are formed to support the needs of countries around the world, especially those that are poor and underdeveloped. Some organizations offer technical and financial assistance to countries that are in need of them—even developed ones. Some of these organizations are the World Bank, the International Monetary Fund and the Asian Development Bank.

Let's take a closer look at each of these international financial institutions . . .



Let's Study and Analyze



Have you heard of the World Bank? If you have, why do you think it is called the World Bank?

The **World Bank**, like the United Nations, is composed of member countries. Presently, the World Bank has 183 member countries, including the Philippines. It is called the World Bank because it is not owned by one country alone. A majority of the countries all over the world are members of the World Bank. It is the world's largest source of financial assistance for its member countries' needs, especially those countries that are poor.

Do you know how much money the World Bank lent to its member countries in 1999? In 1999 it provided US\$15.3 billion in loans to its client countries. Since its foundation in 1944, the World Bank provides loans and technical assistance to its member countries that are in need.

The World Bank is now working with more than 100 developing economies. Its mission is to reduce poverty and improve the living standards of the people. That is, to help people from poor and developing countries live a comfortable and decent life.

With the World Bank's support—both in lending and advice—governments are reforming their economies. Governments are now investing more in social services, social infrastructure and environmental protection.

The World Bank is committed to helping the Philippines carry out its development programs. Through its financial and technical assistance programs, the World Bank aims to work with our government to help reduce the incidence of poverty in our country.

Do you know of any projects of the government that are financed by the World Bank? If so, list them below.

Below are some projects implemented in our country in the year 2000. These projects have been funded by the World Bank.

| Some of the present poverty reduction projects funded by the World Bank in the Philippines for the year 2000 | | | | |
|---|---------------------------------------|---|-----------------------|---------------------|
| Project | Net Loan Amount (US\$ million) | Project Description | Effective Date | Closing Date |
| Women's Health and Safe Motherhood | 13.70 | The project's overall objective is to improve the health status of women with particular focus on women of reproductive age. The project aims to support the government's long term goals of reducing female fertility, diseases of women (breast cancer), and death rates due to pregnancy and childbirth. | July 1995 | December 2000 |
| Urban Health and Nutrition | 70.00 | The project aims to improve the health and nutrition status of slum dwellers in the project cities. The project also aims to help local government units (LGUs) plan, finance, and implement cost-effective health and nutrition programs. | April 1994 | December 2000 |
| Agrarian Reform Communities Development | 50.00 | The project will assist the government in strengthening peasant organizations in Agrarian Reform Communities. It also aims to help these organizations plan and undertake development activities, which would raise farmers' incomes. | April 1997 | December 2003 |
| LGU Urban Water and Sanitation (APL) | 23.30 | The project will assist selected LGUs to provide sustainable water and sanitation services to the local communities. | May 1999 | September 2002 |

Source: www.worldbank.org



Let's Try This

Answer the following questions. Refer to the table on page 23 to give your answers.

1. How do you think the poverty reduction projects shown in the table will help meet the needs of Filipinos?

2. How much money in US dollars has the Philippine government borrowed from the World Bank to fund the poverty reduction projects in the table?

3. When the Philippine government signed the contract with the World Bank, the exchange rate was close to ₱40.00 per US\$1.00. How much, in pesos, is the amount of money borrowed by the government from the World Bank?

Note: Amount of loan (in dollars) \times Value of pesos per dollar = Value of the loan in pesos

4. How much, in pesos, must the Philippine government repay if the exchange rate has increased from ₱40:US\$1 to ₱48:US\$1? (To solve this, refer to number 3.)

5. What are the implications of this situation for the Philippines?

Compare your answers with those found in the *Answer Key* on pages 56–57.



Let's Read

Have you heard about the International Monetary Fund? Do you think IMF is also a bank? ___ Yes ___ No

How about monetary cooperation? Do you know what it means? If you do, that's good. You can write your answer below.

If you do not know about monetary cooperation, read the dialogue below.

Huy! Arlene, look at this sweater. It is cheap, isn't it? Only \$25.

Hay naku, Liza, don't you know that \$25 is not cheap? It is dollars we're talking about here, not pesos. Do not confuse yourself, ok?

How much will this sweater cost in pesos?

Let us say that the current exchange rate for dollars and pesos is \$1 to P48. If we multiply P48 by 25 . . . well, where's my calculator? . . . I got it! Wait, it is P1,200.00.

Arlene, how did that happen? I mean, how do we know the equivalent of dollars in pesos or in yen? Is there some sort of a mutual agreement between countries?

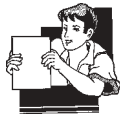
You're right, Liza. There's what is called **monetary cooperation** or an agreement between countries on the equivalent amount of their money against the money of other countries. This monetary cooperation is facilitated by the International Monetary Fund. The member countries of the IMF have agreed that there should be a stable system of converting the value of their money to other currencies. By doing so, it becomes easier for the member countries to transact business with each other.



Let's Review

From the dialogue that you have just read, how does monetary cooperation work and what is its relationship with the International Monetary Fund?

Monetary cooperation is the mutual agreement between member countries that there should be a stable system of buying and selling of their currencies so that payments in foreign money can take place between different countries smoothly.



Let's Learn

The **International Monetary Fund (IMF)** was established because different countries around the world realized that they have to have a standard system of exchanging money among themselves.

The IMF is a cooperative institution of 182 countries. The Philippines is a part of this institution. The IMF lends money to the participating nations with the condition that they will use the borrowed money in constructive programs that will benefit their country.

Like a local cooperative, each member country contributes a certain sum of money. All the contributions form the pool of money that the IMF can draw from to lend to its members who are experiencing financial difficulty. Also, the amount of money a member contributes will be the basis in determining how much the contributing member can borrow from the IMF and how much its voting power will be. The more a member contributes, the more it can borrow in times of need and the more its voting power will be (in terms of decision-making).



Let's Read

The IMF and the Philippines

To better understand the role played by the IMF as a financial institution, and, specifically, its work here in the Philippines, let's read the news article below.

IMF to delay \$314 million loan release

The IMF might delay the release of the remaining \$314 million loan due to the government's increasing budget deficit.

Our country's budget deficit for the first nine months of the year amounted to ₱82.983 billion. This amount has exceeded the budget deficit targeted by the government.

The government was under pressure to keep the deficit within the ₱62.5 billion ceiling, which was the limit agreed upon by our government and the IMF.

The widening of the country's budget deficit threatens to delay the release of the last of the three-part \$1-billion IMF loan that amounts to \$314 million.

Due to the government's failure to meet the agreed deficit with the IMF, Budget Secretary Benjamin Diokno said the Development Budget Coordinating Council is trying to keep this year's deficit below ₱90 billion and is still requesting the IMF to raise the deficit ceiling.

Finance Secretary Jose Pardo said that the government is looking forward to reduce the deficit by the end of the year.

He said the government would hasten privatization efforts to increase the government's revenues.

The government is still counting on the sale of its 30% share in the Philippine National Bank, as a major source of revenue.

(Information Source: Philippine Daily Inquirer, Oct. 14, 2000)



Let's Try This

Answer the following questions.

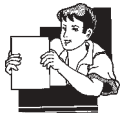
1. What is the article about?

2. What is the reason of the possible delay in the release of the IMF loan?

3. What do you think is the relationship between budget deficits and IMF loans?

4. What do you think will happen to our country if the IMF does not release the remaining \$314 million loan?

Have you finished answering the questions? If so, you may compare your answers with those found in the *Answer Key* on pages 57–58.



Let's Learn

As stated earlier, the IMF provides loans to member countries that are in need. However, it will only lend money to borrowing countries if they undertake economic reforms.

Examples of the economic reforms that our country has undertaken are the privatization of government assets, deregulation of basic services like the oil and telecommunications industry, liberalization of the trade industry, increase in taxes and reduction of government expenditures. You will learn more about these economic reforms in Lesson 3.

All of these economic reforms are being undertaken by our government to increase its revenues and reduce the budget deficit.

The IMF recommends these economic reforms to our government in order to stabilize our economy. Economic reforms somehow assure the IMF that the government is capable of repaying its loans.

So our country's budget deficit should meet the budget deficit set by the IMF. The budget deficit set by the IMF is called the **budget deficit ceiling**.

From the news article that you read on page 27, what would happen to the loans applied for by our government if our country's budget deficit exceeds the ceiling or limit set by the IMF?

If the country's budget deficit exceeds the ceiling, the loans applied for by our government might not be granted or released.

Going back to the news article, the Philippines has a growing budget deficit and it exceeded the budget deficit ceiling that the IMF and our government has agreed upon. Because our government's budget deficit has exceeded the limit, which is ₱62.5 billion, the IMF might not release the remaining loan that our government has applied for.

The IMF loan is very important for our government because it will help our country provide for its needs. \$314 million is such a huge amount and it can finance many projects for our country's development.



Let's Read

Do you know who funded the NFE A&E Project, of which you are now a part?

The NFE A&E Project is funded by the Asian Development Bank (ADB).

Have you ever heard of the Asian Development Bank? Do you know what it does and how it is different from the World Bank and the International Monetary Fund?

You can learn the answers as you study the explanations below.



Hi! I'm from the Asian Development Bank (ADB). ADB's principal goal is to reduce poverty. How? It provides loans, grants and technical assistance to governments of Asian countries for specific projects and programs.

The **Asian Development Bank (ADB)** was established in 1966. It is a cooperative finance institution. Like the World Bank and the IMF, it does not have a single owner. The ADB is owned by 59 members mostly from Asia and the Pacific that focuses on the development needs of the region. Its central office is located here in our country, right in Metro Manila.

ADB provides loans and technical assistance to countries that are in need. In 1999, it has granted loans amounting to US\$5 billion in total.

The Philippines is one of the ADB's largest borrowers with loans amounting to \$7.5 billion since 1968. The ADB is the country's second largest source of funds.

Among the government's present projects funded by the ADB is the "Clean Air" project. The project aims to reduce air pollution in Metro Manila since the city is among the top five most polluted cities in the world. The ADB is also helping to improve the technical skills of Filipinos by providing both financial and technical assistance to the Technical Education and Skills Development Authority or TESDA, a government agency set up in 1994 to ensure quality vocational education. As stated earlier, this module you are studying is part of the NFE A&E Project that the ADB has also funded.

Let us take a closer look at one of the projects ADB has supported for our country.

20 July 2000

Clean-up for Manila's Pasig River

Manila's highly polluted Pasig River will be cleaned up with the help of a financial assistance package totaling \$176 million, approved by the Asian Development Bank. The program aims to bring marine life back to the river and make it useful again by 2014.

The Pasig River Environmental Management and Rehabilitation Sector Development Program (SDP) will support the government's first five-year phase (2000–2004) of its US\$750 million Pasig River Development Plan.

The Pasig River is a waterway of historical, social, cultural and commercial significance, but has been seriously polluted by indiscriminate discharge of untreated municipal and industrial wastes and solid waste.

To restore the environment and realize the river's socioeconomic development potential, it is necessary to rehabilitate that river system, restore water quality, control wasteland discharges and promote urban renewal along the river banks.

Source: Asian Development Outlook 2000 (www.adb.org)



Let's Try This

1. What is the article about?

2. Do you think rehabilitating the Pasig River is important? Why?

3. How much will it cost to clean the Pasig River in US dollars and in Philippine pesos (assuming that US\$1 = ₱48)? Who will fund the project?

Have you finished answering the questions? If so, compare your answers with those found in the *Answer Key* on page 58.



Let's Think About This

Do you agree or disagree with the government's plan to borrow \$176 million to rehabilitate the Pasig River? Explain your answer.

Compare your answer with the appropriate ones provided below.

Agree. I agree with the government's plan to borrow \$176 million from the ADB to rehabilitate the Pasig River. The Pasig River is very important because of its historical, social, cultural and commercial significance to our country. It played a major part in our nation's history. Can you still remember Rizal's novel, *El Filibusterismo*? The river Rizal was describing was really the Pasig River.

Many years have passed, and today, we can no longer swim in the river. It has been polluted by factories and the people living along the river bank. People and factories deliberately throw their wastes in the river. In order to bring back its importance to our country it is necessary to protect the Pasig River and the environment. Since the government is experiencing budget deficits, it will not be able to save the river unless it borrows money.

Disagree. I do not agree with the government's plan to borrow \$176 million to clean the Pasig River because we have more important concerns that we should attend to and more important needs we must spend for. We should be very critical in applying for loans. We should prioritize the needs we should spend for. I do not think cleaning the Pasig River should be prioritized over the other expenses of our government.



Let's Study and Analyze

Are you familiar with the Bataan Nuclear Power Plant? What's the first thing that comes to your mind when you hear those words?

The issue of the Bataan Nuclear Power Plant angered many Filipinos. Many felt cheated because the country borrowed money for something that did not benefit them. This is really a terrible burden for all Filipinos because we have been paying for a debt that was not properly utilized.

Let's compare the excerpts of two articles about the Bataan Nuclear Power Plant. The two excerpts presented below show opposing views about the nuclear power plant.

Bataan Nuclear Power Plant

Article 1: **Against**

The Philippines borrowed a total of \$2.3 billion from five British banks to build the Bataan nuclear power station. But it was built on an earthquake fault and has never produced a single watt of electricity. Construction began in 1975 and it was completed in the mid-80s, but after Ferdinand Marcos's downfall in 1986, a team of international inspectors visited the site and declared it unsafe and inoperable. Since that time the government has spent \$1.2 billion — \$100,000 a day — servicing the plant's debts.

Article 2: **Agree**

Nuclear energy is a cheap and, to a certain extent, renewable source of energy. Using nuclear energy can decrease the country's dependence on imported oil. The Bataan Nuclear Power Plant is safe. It is protected from any lava flows that may come from a dormant, but maybe active, volcano, Mt. Natib because it sits on high ground (18 meters above sea level) and is surrounded by deep valleys. Furthermore, its location protects it from tidal waves. The highest one to hit the area was only 16 meters in height.



Let's Try This

Answer the following questions.

1. How much did our country borrow to build the Bataan Nuclear Power Plant?

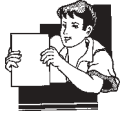
2. How much has our country already spent since 1986 in order to pay for our debt for the Bataan Nuclear Power Plant?

3. Why was the Bataan Nuclear Power Plant not used?

4. What are the possible advantages of the Bataan Nuclear Power Plant if it were to be used?

5. After reading the two articles, do you agree or disagree with the decision to borrow \$2.3 billion for the Bataan Nuclear Power Plant? Explain your answer.

After you finish answering the test, compare your answers with those found in the *Answer Key* on pages 58–59.



Let's Learn

Borrowing money to fund government projects that aim to meet our people's needs does not necessarily result in terrible burdens such as the Bataan Nuclear Power Plant.

Foreign loans have played an important role in helping our government meet the many needs of our country. Without these loans, the implementation of many important projects would not have been possible. Imagine our country without roads, electricity, education, hospitals or medicine. As the list goes on, you will realize that we have so many needs and we have to spend huge amounts of money to meet those needs.

From the long list of projects funded by the World Bank, we can see that we are very fortunate to have someone to turn to, to help us finance our nation's needs. Another important project that is fueled by foreign loans is the "Clean-up the Pasig River Project" funded by the ADB. In addition, the International Monetary Fund provides loans and assistance to our country to lessen the difficulties in repaying our debts.

Because of our country's foreign loans, many schools and hospitals have been built. The new EDSA Metro Rail Transit (MRT) would not be completed if not for foreign loans, as well as the agreements our government had with multinational corporations and funding institutions. The NFE A&E system, of which you are a part, and the development of the various parts of the learning modules, for example, were funded by loan proceeds from the ADB. Indeed, without our foreign loans, it will be difficult to imagine what kind of life we would have.

It is important, however, for our government officials to be responsible in handling our loans because the consequences of irresponsible borrowing could be damaging to the country and to the people. These damaging effects can be felt for generations. The Bataan Nuclear Power Plant is an example of how irresponsible borrowing has forced our country to pay millions of dollars for a loan that has not benefited us.



Let's See What You Have Learned

- A. How do international loans benefit our country's economy?

B. How do the World Bank, the International Monetary Fund and the Asian Development Bank provide assistance and support to the Philippines?

1. The World Bank

2. The International Monetary Fund

3. The Asian Development Bank

After you finish answering the test, compare your answers with those found in the *Answer Key* on pages 59–60.



Let's Remember

Congratulations! This is the end of Lesson 2. Before you turn to the next lesson, let's review what you have learned.

- ◆ Various international financial organizations are formed to support the needs of countries all over the world, especially those that are poor and still developing. Some organizations offer technical and financial assistance to countries that need them.
- ◆ The World Bank (WB or IBRD) provides loans and technical assistance to developing countries that aim to reduce poverty.
- ◆ The International Monetary Fund (IMF) facilitates international monetary cooperation and stability.
- ◆ Asian Development Bank's (ADB) principal goal is to reduce poverty. It provides technical assistance, grants and loans to governments for specific projects and programs.

The Cost of Debt

Have you ever borrowed something—be it money, a personal item or a book—from your friend or any of your family members?

You learned in the previous lessons that our government has been borrowing money from foreign creditors to fund projects that aim to improve the lives of the Filipinos and develop our country.

In this lesson, you will learn how foreign debt repayments, or **debt service**, affect our lives and country as a whole. This lesson will focus on the consequences of having incurred a huge foreign debt and having the responsibility of repaying it.

After studying this lesson, you should be able to:

- ◆ discuss the methods that our government uses to repay our debts;
- ◆ explain the impact of foreign debt repayments or debt servicing on other government expenditures; and
- ◆ discuss the need for careful planning of the projects the government plans to undertake before incurring loans.



Let's Think About This

Can you still remember the sample answer on page 31 of the previous lesson about whether you agree or disagree with the government's plan to borrow \$176 million to clean the Pasig River? One of the arguments of the *disagree* point of view was that *we should be very critical in making loans*. This argument is very important.

The Bataan Nuclear Power Plant is one clear example of why our government should be careful in applying for loans. Many people who opposed its construction say that the people were cheated. The Filipino people have been paying a loan for a project that was not used. The issue concerning the Bataan Nuclear Power Plant clearly illustrates the need for careful planning before applying for any loans, be it by you, your family, or the government.

Why is it important to be careful in incurring loans?

It is important to be careful in incurring loans because loans or debts must be paid. It is the responsibility of the one who is borrowing to return what he/she borrowed. Thus, if a person or a country has to borrow money, that person or country should make sure that they can repay the amount borrowed.



Let's Read

How does our government repay its foreign loans? Read the dialog below to find out.

Nena, we have a very big problem.

What is it, Lucio?

I have to pay all of our debts or else we can no longer borrow money. Much worse, we might even lose everything that we have. And if that happens . . . I don't even want to think of what could happen to us. All I want is for us to have a better life, Nena, and for our children to finish their education.

A black and white illustration of a man (Lucio) and a woman (Nena) in profile, facing each other. Lucio is on the left, looking distressed with his hand on his forehead. Nena is on the right, looking at him with a questioning expression.

Do not worry, Lucio, there could still be some way. We could sell some of our assets. We could move to a smaller and cheaper apartment. There's still a way, Lucio. Do not give up. You can also look for another job with a higher salary. I can also work. That's it! Let's sell some of our things so we could put up a store. It would be difficult at first because we really have to cut our spending, but we will get over this problem, you'll see.

Oh, Nena, thank you very much for your understanding. Thank you very much for giving me hope.

A black and white illustration of the same man and woman. Nena is on the left, gesturing with her hands as she speaks. Lucio is on the right, looking relieved and touching his face with his hands.



Let's Try This

Answer the following questions.

1. What had happened to Lucio after he borrowed money from different people?

2. If you were Lucio or Nena, what would you do to repay your loans? Write your answers inside the table. You may use extra paper if you need to.

| Lucio or Nena | Government |
|---------------|------------|
| | |
| | |
| | |
| | |

3. If you were the president of the Philippines, what would you do to repay the country's loans? Write your answers inside the table above. You may use extra paper if you need to.

After answering the questions, compare your answers with those found in the *Answer Key* on pages 60–61.



Let's Think About This

In Lesson 2 you learned that for our country's loans to be granted by funding institutions, it should show its capability of repaying the loans.

A sound and stable economy is the major indicator of a country's capacity to repay its loans. The IMF recommends some economic measures that our country should implement to strengthen its economy. These recommendations also serve as the conditions of the funding organizations that must be met before they grant the loans that our country is applying for.

Do you remember the conditions of the IMF that our government must achieve before it grants the loans applied for by our government? List them below.

If you answered trade liberalization, deregulation of basic services, privatization of government assets, reduction of government expenditures, and increases in taxes, you are correct! This shows that you have a very good memory and that you have a good idea of what these conditions are.



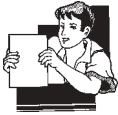
Let's Try This

Answer the exercise using the choices found in the box. Write your answers in the blanks provided in each sentence.

| | |
|---------------|--------------|
| Privatization | Deregulation |
| Taxes | Reduce |
| Revenues | Trade |

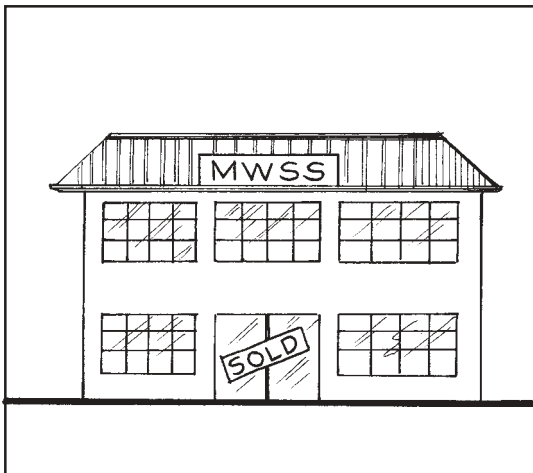
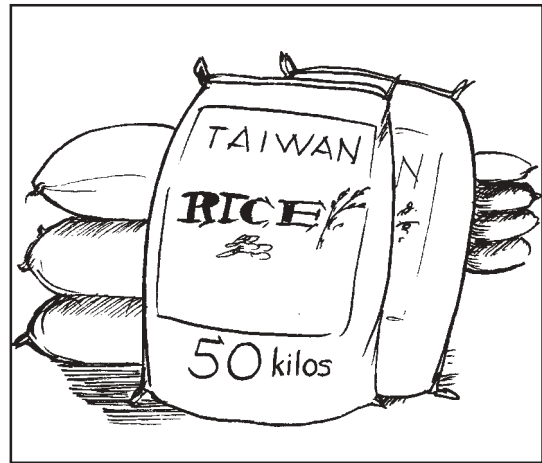
1. _____ means the transfer of government assets to private hands.
2. The reason why PLDT now has competitors like BAYANTEL and PILTEL is because of the _____ of the telecommunications industry.
3. To increase the income of the government, it has to prioritize the needs that it should spend for. The government has to _____ its expenses.
4. Opening up our economy to the world is called _____ liberalization.
5. Another way to increase the income of the government is to increase the _____ it collects.
6. The advice and recommendations of the IMF aim to help its member countries increase their _____.

Have you finished answering the test? If so, compare your answers with those found in the *Answer Key* on page 61.



Let's Learn

- ◆ **Trade Liberalization.** It is the opening up of our economy to world trade. This means that each country should specialize in producing the goods and services it produces best. For example, if Vietnam produces better quality rice at a much cheaper price, then we would just import rice from them instead of competing.

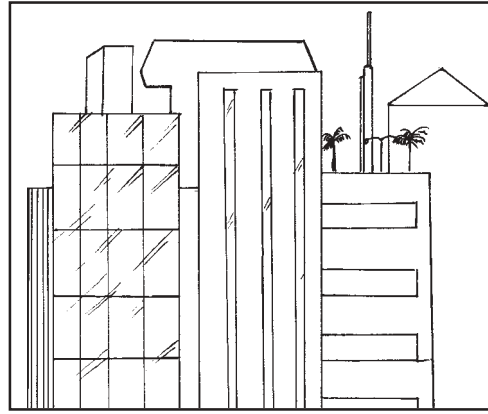


- ◆ **Privatization of Government Assets.** Privatization means that the government sells its properties to the private sector or private corporations and businesses. For example, the Metropolitan Waterworks and Sewerage System was privatized. Previously, it was owned by the government. Now it is owned by the Lopez (Maynilad Waterworks), and the Ayalas (the Manila Water Corporation).

What are the advantages of privatizing government assets?

Not only does the government increase its revenues by selling its assets and properties, it also reduces its expenditures. For example, the government is selling its 45 percent share in the Philippine Phosphate Fertilizer Corporation (Philphos) and its 80 percent share in the Philippine National Construction Corporation (PNCC). It is said that the government hopes to generate at least ₱10 billion from these asset sales. Not only will the government earn from selling its assets, it is also relieved of its financial obligation to pay for their loans and maintain their operations. It has been said that the PNCC has loans of ₱32 billion and Philphos has loans of ₱42 billion.

- ◆ ***Deregulation of Basic Services.*** A regulated industry is a government-controlled industry, especially an industry that provides basic services like telecommunications and transportation. The government controls an industry by enacting laws that protect and balance the prices of the products and services of these industries to make them affordable to the people.



Therefore, to say that an industry is deregulated would mean that the government has removed its control over that industry. By doing so, it is hoped that the government has encouraged increased competition.

How can increased competition be beneficial to the people?

It is believed that increased competition would lower the prices of products and services. For example, the government controlled the telecommunications industry, which was monopolized by the Philippine Long Distance Company. The government enacted laws that protected the prices of its products and services. Because of this, PLDT enjoyed its reign as the sole provider of telecommunication services. This resulted in inefficient service. Today, since the government has removed its control over the industry, other private corporations entered the telecommunications industry, such as BAYANTEL and PILTEL. Some may argue that the government is escaping from its responsibility of ensuring that the prices of the services of telecommunication companies remain affordable to the people. Others believe, however, that telecommunication companies would improve their services and lower their prices because of increased competition.

More players in a particular industry should result in increased revenues that come from the taxes the government collects from these businesses.

- ◆ ***Increase in Taxes.*** Increase in taxes would mean increase in government's income. Example of an increase in tax is the value-added tax or VAT, which is collected whenever we pay for certain products (like our groceries).



- ◆ **Reduce Government Spending.** This means that the government is reducing its expenses. The government carefully prioritizes the projects it can afford to spend for. Example of this is the government's prohibition on the attendance by public employees at international conferences or gatherings, unless this is official business.



Let's Review

In your opinion, what are these economic recommendations of the IMF for? How do they help our country repay its loans?

After you finish answering the question, you may compare your answer with the explanation in the next part of this lesson.



Let's Study and Analyze

All of these recommendations of foreign creditors, especially the IMF, aim to increase our country's income and at the same time strengthen our economy. It is hoped that by doing so, our country will be able to reduce poverty and pay for its debts. Besides, who would lend money to someone who would not be able to pay his/her debt?

All of these efforts and loans, however, will not produce favorable results if there is corruption in the government. Our country may increase its revenues from the sale of its assets. However, if these additional revenues will be used irresponsibly, no projects will be completed. The money should be handled responsibly. It should go to the needs of the people and the repayment of the country's loans.



Let's Read

The following is an excerpt of a magazine article that deals with the indebtedness of the third world or the poor countries. After you read the article, answer the questions that follow.

- ◆ In Mozambique, only 3 in 10 people have access to health services, the adult illiteracy rate is nearly 60%, and the infant mortality [or death] rate is 130 per 1,000 live births. But nearly a fifth of Mozambique's export earnings are spent on debt repayment.
- ◆ In Bangladesh, over 1 in 10 children die under the age of 5, and less than half of the population have access to sanitation. But over 10% of the country's earnings go to debt repayment. And in 1996, Bangladesh paid out \$1.12 in debt service for every dollar received in aid grants.
- ◆ In Tanzania, almost half of the population live on less than \$2 a day, only 67% of primary-school-age children have access to education, and there are approximately 8,000 cases of malaria per 100,000 people. But almost 13% of export earnings disappear in debt repayments.
- ◆ In Guyana, the infant mortality rate is 60 per 1,000, and there are fewer than 250 trained doctors in the country. While less than 15% of its total budget is spent on health, education and welfare, Guyana has been obliged to spend 45% of its total revenues on servicing its external debt.



Source: Lutheran World Foundation



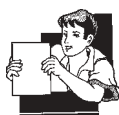
Let's Try This

1. Do you think the basic social services of the countries presented were sacrificed to give way for debt repayments? Explain your answer.

2. In your opinion, why did the governments of these countries prioritize debt servicing?

3. Would the situation of these countries be worse if their governments did not take out loans to fund projects that would meet the needs of the people?

Compare your answers with the sample answers found in the *Answer Key* on pages 61–62. You may also discuss your answers with your Instructional Manager or Facilitator. You may also discuss this with your family, friend or co-learner. Do they agree or disagree with your answers? Why or why not?



Let's Learn

Prioritizing Debt Servicing: Good or Bad?

To further assure foreign creditors that our government is sincere in repaying its debts, our government is doing everything it can to repay these loans. It is implementing an “honor all debts” policy or the “Automatic Appropriations Law.”

Section 26 Book VI of the Revised Administrative Code of 1987 or the “Automatic Appropriations Law” states that; “All expenditures for... (2) principal and interest on public debt,... are automatically appropriated: provided, that no obligations shall be incurred or payments made from funds thus automatically appropriated except as issued in the form of regular budgetary allotments.”

The law gives the government an authority to prioritize the payment for our country’s debts or debt service above all spending. Past and present administrations have put a greater priority on debt servicing than basic social services like health and education.

In the 1980s, the government allotted 40% of the country’s annual budget to debt servicing. In 1999 alone, 20% of the national budget was spent for debt servicing and interest payments. If, for example, the government’s annual budget is ₱650 billion, the government is allocating ₱130 billion for debt servicing.

Also, it is important to take note that our government has been borrowing money to pay for our debts. The Ramos administration, for instance, borrowed ₱103.3 billion in 1997 just to be able to pay its debts. This is because the government has no intention of quitting on its debt payments.

In order to have funds for debt service, the government has limited its spending on some of our basic services. An example of this is a budget cut in education. The government has also increased taxation and privatized its assets.

What do you think will happen if the government does not prioritize debt servicing over its other expenses?

Have you finished answering the question? If so, compare your answers with the list of possible answers below. You might find an answer similar to yours.

If the government will not prioritize debt servicing over its other expenses...

Good points:

- ◆ We could spend more for basic services like health and education.
- ◆ We could use the budget allotted for debt servicing for more productive and income-generating projects.

Examples:

- ◆ building of livelihood projects in urban poor communities
- ◆ improving the irrigation system of agricultural lands

Bad Points:

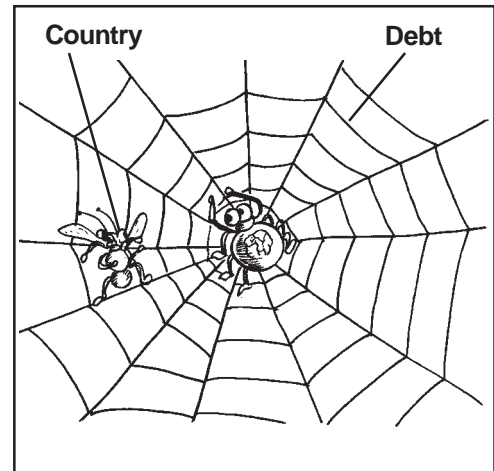
- ◆ Foreign creditors will think twice before they will lend us money again. Much worse, they might not lend us money at all. If they don't grant us loans, many projects will not be completed.
- ◆ The interests of the loans will increase, adding to our country's total debt. This will make us more indebted.



Let's Review

Have you ever heard of a “debt trap”? If so, what is it?

Debt trap is the term usually used to describe countries that have difficulty paying their debt obligations. In short, these countries are undergoing a debt crisis. Thus, they resort to more borrowing, making them more indebted.

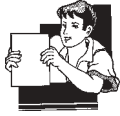


Do you think our country is already caught in a debt trap? ___ Yes ___ No

1. If your answer is yes, what do you think our government should do in order to save our country from the trap?

2. If your answer is no, explain your answer.

After you finish answering the questions, compare your answers with those found in the *Answer Key* on page 62.



Let's Learn

Being trapped in debt can be avoided if our government is careful about planning the projects it intends to undertake. The government should learn from the lessons of the past. For example, we can learn from the Bataan Nuclear Power Plant that the safety of the people should be one of the top concerns of the project. Here are some guide questions that should be considered in making projects that involve huge amounts of money:

- ◆ Will the project be beneficial to the people?
- ◆ Is the project safe? Is its location safe?
- ◆ Will it threaten the environment?
- ◆ Are the people who are handling the money responsible?
- ◆ Will it generate revenues in the future?



Let's See What You Have Learned

A. Write **T** if the statement is true and **F** if the statement is false. If the statement is false, modify the sentence to make it right. Write your answers in the spaces provided.

_____ 1. Many poor countries are caught in a debt trap because they are having difficulty paying their debts.

_____ 2. Our country's debts are not our concern. We are not affected at all.

_____ 3. Our country's debts made our country rich.

_____ 4. The government has to find ways to increase its revenues so that it can pay for our country's loans.

_____ 5. When you borrow money to pay for your debt, you will have no more debt.

B. Answer the following questions. Write your answers in the spaces provided.

1. How do the IMF recommendations affect our foreign loans? Do they help solve our problem of indebtedness?

2. What would happen if we do not pay our debts?

Compare your answers with those found in the *Answer Key* on page 63.



Let's Remember

- ◆ Privatization, deregulation, trade liberalization, reduction of government expenditures and increases in taxes are some of the recommendations of the IMF that aim to increase our country's income and at the same time strengthen our economy. It is hoped that by doing so, our country would be able to reduce poverty and pay for its debts.
- ◆ The "Automatic Appropriations Law" gives authority to the government to prioritize debt servicing over other things, including basic services such as health and education.
- ◆ Debt trap is the term usually used to describe countries that have difficulty in paying their debt obligations. In short, these countries are undergoing a debt crisis. Thus, they resort to more borrowing, making them more indebted.
- ◆ It is the responsibility of the debtor, the one who borrows money, to repay the amount he borrowed. Thus, it is the responsibility of our government to pay for the debt it incurred, be it foreign or domestic.

Congratulations! This is the end of the module. Did you like the module? A summary of its main points is given on the next page to help you remember them better.



Let's Sum Up

This module tells us that:

- ◆ The government borrows money because it has to finance the needs of the country, which it cannot do by using the country's revenue alone.
- ◆ International funding agencies and foreign creditors provide loans and technical assistance to developing countries to reduce poverty and advance sustainable economic growth and development.
- ◆ A debtor country (the country that acquired debts) has a responsibility to pay for its loans, therefore it is a must that the loans acquired by the country be spent wisely and responsibly on the real needs of the country.
- ◆ Irresponsible spending should be avoided so that our country will not suffer from paying debts that are not beneficial to the people.
- ◆ Certain requirements of foreign creditors should be met before financial assistance will be granted. These include: privatization, deregulation, trade liberalization, increase in taxes and reduction of government spending.



What Have You Learned?

Read the sentences carefully and write what you think about them. Write your answers in the spaces provided.

1. How does corruption in the government affect our country's indebtedness?

2. The government has to borrow money from foreign creditors to develop our country.

3. A debt is a debt. It must be paid.

4. List down the consequences of incurring foreign loans.

5. Do you agree that careful planning and being responsible in making loans are important so as to avoid making unnecessary loans and payments?

6. What are the lessons that you learned about foreign debt which you can apply in your personal life?

Compare your answers with those found in the *Answer Key* on pages 64–65.



Answer Key

A. Let's See What You Already Know (pages 2–3)

1. *Agree.* The government will have more money to fund developmental projects.

Disagree. The government is becoming dependent on foreign funds. It should maximize its resources first before it seeks international help.

2. *Agree.* The government has completed many projects because of the loans. Examples of these are the LRT and MRT, which makes public transportation more convenient.

Disagree. Maybe some projects have been completed because of the loans our government obtained, but I still do not consider our country to be developed because majority of Filipinos are still poor.

3. *Agree.* There are so many rich people in our country. There are so many cars, which cause heavy traffic.

Disagree. Many Filipinos are still poor. Many are jobless and homeless.

4. *Agree.* Our government is not capable of paying our debts with its income. It has to apply for new loans just to pay our old debts.

Disagree. Our government can pay our country's debts with its income alone.

5. *Agree.* If the government is really for the people, it should prioritize the needs of its people before anything else.

Disagree. Our government has an obligation to pay for our country's debts. Besides, how can we borrow again if we still have a lot of unpaid debts?

6. *Agree.* If it were not for Marcos, we would not be introduced to borrowing money from international sources.

Disagree. It is Marcos' fault why we have so much debt today.

7. *Agree.* The government spent the money it borrowed to improve school facilities and hire more teachers.

Disagree. Most public schools are ill-equipped and lack teachers.

8. *Agree.* The poor did not benefit from the loans of the government. It is only the rich and corrupt government officials who benefited from the loans.

Disagree. Everyone benefited from the loans of the government.

9. *Agree.* We have developed because of the loans obtained by our government. Our lives have improved because of the projects of our government.

Disagree. It is because of our debt that our country remains backward and poor.

10. *Agree.* We still have loans because of corrupt government officials. If they used the money properly, our society could be more productive. If that were so, our country would be able to pay for its debts.

Disagree. Our corrupt officials comprise our government, making our government corrupt.

B. Lesson 1

Let's Try This (page 8)

- A. 1. Agricultural equipment/technology
2. Health services/hospitals
3. Agricultural equipment/technology
4. Adequate and safe water supply
5. Health services/hospitals
6. Transportation/roads
7. Education/schools

B. The government can meet our country's needs through:

1. the taxes it collects from its citizens and business corporations
2. its earnings from its assets
3. borrowing money from domestic and foreign banks and institutions

Let's Think About This (pages 11–13)

1. The total monthly expenses of Lucio's family amounts to ₱5,816.00. We got this by adding ₱4,276 and ₱1,540.
2. No, because Lucio's family needs cost more than his monthly income. Lucio only earns ₱4,800.00 a month, while their weekly expenses amount to ₱1,069.00. If we multiply this by 4 weeks (1 month is composed of 4 weeks) we get: $1,069 \times 4 = 4,276$, if we add their monthly expenses (electricity, apartment rent, etc.) we get: $1,540 + 4,276 = 5,816$.

The figures just show that Lucio's salary is not enough to meet all his family's needs.

3. Yes. Lucio's family has a budget deficit amounting to ₱1,016.00. We got this figure by subtracting Lucio's income from his family's total monthly needs ($5,816 - 4,800 = 1,016$).
4. I do not think they will still have some money left for emergency purposes because what Lucio earns is not even enough to support all the needs of his family.
5. Yes. Borrowing money from my friends and relatives would be one of my options because I would really need to raise money to support the needs of my family. I would do everything just to support my family.

No. I would not borrow money from my relatives and friends because repaying them would be very difficult due to my meager income. What I would do is look for another job where I could earn more. I would also try to reduce my family's expenses. Selling some of our appliances would also be one of my options.

Let's See What You Have Learned (pages 15–16)

- A.
 1. Transportation/roads
 2. Education/schools
 3. Health/hospitals
 4. Military/peace and order
 5. Agricultural supplies/technology
 6. Housing
 7. Water supply and sanitation

- B. Sample answer:

If I were the president of the Philippines, I would also borrow money to support the needs of my country. It is my primary concern to provide for the needs of my people and if I have to resort to borrowing money from foreign sources, I would do that to improve the lives of my people. Since our country's income is not enough to support our needs, I would also have to look for other means of increasing our country's budget.

- C.
 1. For a family

A budget deficit for a family means that their main source of income is not enough to meet all their needs. For example, Lucio is not earning enough to meet his family's needs, like food, allowances for school and work, monthly rent for their apartment, monthly electricity and water bills, etc.

2. For a government

A budget deficit for a government is almost the same as the budget deficit of a family. This means that the government's revenue from the taxes it collects and from the earnings of its assets are not enough to meet the needs of the country. Among a country's needs that the government should spend for are education, health services, transportation and communication, food supply, peace and order, energy, etc. Ideally, the government should be capable of generating revenues that are enough for its expenditures. However, that is hardly the case in the Philippines.

C. Lesson 2

Let's Try This (pages 19–20)

1. Lucio and Nena are talking about their financial problems. They are talking about where to borrow money to cover their budget deficit.
2. Lucio can borrow money from his relatives, friends, neighbors, banks or a cooperative.
3. Lucio has to borrow from different sources because his family has so many needs to spend for. Such an amount cannot be shouldered by only one source. Thus, he has to borrow from several sources to meet their financial needs.

4.

| Lucio | Government |
|--------------|--------------------------------------|
| Relatives | Domestic/Local Banks |
| Friends | Foreign Banks |
| Co-workers | World Bank |
| Banks | Asian Development Bank |
| Cooperatives | International Monetary Fund |
| Pawnshops | Other foreign financial institutions |

5. International financial institutions are formed so as to support the needs of countries around the world, especially those that are poor and still developing. Some organizations offer technical and financial assistance to the countries that are in need of them.

Let's Try This (page 24)

1. These various poverty reduction projects will surely help meet the needs of Filipinos because they aim to improve the condition of the peoples lives.

Examples:

- ◆ The Women's Health and Safe Motherhood project will help the government reduce the death rate of women who are giving birth or even during the time of pregnancy.
- ◆ The Urban Health Nutrition and the Early Childhood Development Projects, on the other hand, will improve the health conditions of slum dwellers—especially the children.
- ◆ The Agrarian Reform Communities Development project will help the farmers increase their income.
- ◆ The Community-Based Resource Management project will support projects for environmental protection, by doing so, people can improve their lives because they will benefit from the preservation and fruits of nature.
- ◆ The Local Government Unit Urban Water and Sanitation project will help give people clean and safe water. The project will also assist in implementing sanitation or waste disposal projects.

All of these projects are helpful because they are aimed at improving the health and productivity of the people. Not only will the people have an awareness about their health and environment, they will also be given the opportunity to start some income-generating projects. This will help increase the income of the poor, especially the farmers.

2. Based on the information in the table, the Philippine government has borrowed US\$157 million to fund all the projects mentioned.
3. We can get the answer by converting US dollars to Philippine pesos. We just have to multiply the total value of the projects (\$157 million) with the peso-dollar exchange rate, or the value of one dollar in pesos. Since we already know the value in pesos of every dollar (₱40.00), we can already solve the problem.

Let's solve:

$$\begin{array}{r} 157,000,000 \\ \times \quad 40 \\ \hline 6,280,000,000 \end{array}$$

The figure shows that the total amount of the projects that the government borrowed from the World Bank, in pesos, is ₱6,280,000,000 or six billion and two hundred eighty million pesos. That is if the value of pesos to one US dollar at that time was ₱40.00.

4. If the exchange rate has increased from ₱40 for every dollar to ₱48, the amount that the government has to repay the World Bank would be:

Let's solve: 157,000,000

$$\begin{array}{r} \times \quad 48 \\ \hline \end{array}$$

7,536,000,000 or seven billion, five hundred thirty-six million pesos.

5. The figures show us that when the value of the Philippine peso weakens against the US dollar, the amount of our loan, in pesos, increases. According to Leonor Briones, former National Treasurer, for every one peso fall of the local currency against the US dollar, it is estimated that debt servicing may increase by an additional ₱1 to ₱2 billion.

Let's Try This (pages 27–28)

1. The article is about the possible delay in the release of IMF loans worth \$314 million or, if we convert it to pesos (at ₱48 per US\$1), ₱15,072,000,000 (fifteen billion, seventy-two million pesos.)
2. The reason of the possible delay in the release of the IMF loan is the increasing budget deficit of the government. It is said that for the first nine months of the year 2000, the amount of the government's budget deficit stood at ₱82.983 billion. The budget deficit targeted by the government as agreed upon by the government and the IMF was only ₱62.5 billion. The present budget deficit has exceeded the target by ₱20.483 billion.
3. Any creditor will not lend money to someone who is incapable of repaying his or her loans. This is also true for the IMF. Our country's budget deficit should meet the budget deficit set by the IMF. This will provide an assurance to the IMF that our country is capable of repaying its debts. The IMF sets a limit or a budget ceiling. If our budget deficit does not exceed that limit, then the loans our government has applied for from the IMF will be released. But if our country's budget deficit exceeds the limit set by the IMF, there might be a possible delay in the release of the loan. The IMF might still release the loan, but it would probably wait for our government to meet the budget deficit limit they agreed upon.

4. If the IMF does not release the \$314 million loan, the country might be in trouble. From what we have learned in the previous discussions, our government is experiencing an increasing budget deficit. The value of the peso is likewise weakening against the US dollar. This means that our government cannot support our country's needs with its income alone. Besides, if it could provide for our needs, it wouldn't have to borrow money anymore, right? But that is not the case. \$314 million is such a huge amount. With this money, the government can fund many projects for our country. We can do so much with that amount. Without it, many projects will not push through. The government must then find a way to meet our country's needs. It might sell all its assets or cut abruptly the budget allocated for our other needs such as health and education.

Let's Try This (page 31)

1. The article is about a project that aims to clean-up the Pasig River. The project aims to restore the river's beauty and significance in our history to make it useful for our present and future needs.
2. Yes. I think rehabilitating the Pasig River is important because it played a major role in our history. Before, it was very beautiful and clean, and people used to swim in the river. But now it is very polluted. I think it is dying—unless we do something to revive it.

No. I do not think rehabilitating the Pasig River is that important because I think we have other more important needs to attend to. We will just be wasting the money on a not-so-important project. What our country needs are more schools and industries that can provide employment to the majority of Filipinos. I think the government should really think about this project carefully. It should ask itself if this is what our country really needs at this time.

3. The project will cost \$750 million, of which \$176 million will be provided by the ADB. If we convert the amount in pesos, the project will cost ₱36 billion. The ADB will help the project by shouldering ₱8.448 billion of the project's total cost. The project is being initiated by the Pasig River Environmental Project and Rehabilitation Sector Development Program of the government.

Let's Try This (page 33)

1. Our country borrowed a total of \$2.3 billion from five British banks to build the Bataan Nuclear Power Plant.
2. Our country has already spent \$1.2 billion since 1986 in order to pay for our debt for the Bataan Nuclear Power Plant.

3. The Bataan Nuclear Power Plant was not used because it was said to be unsafe. It was built on an earthquake fault.
4. Nuclear energy is a cheaper source of energy compared to crude oil. Using nuclear energy can decrease the country's dependence on imported oil. It is also a powerful source of energy.
5. *Agree.* I am not against it. The Bataan Nuclear Power Plant should be utilized because it was very expensive, and we must use it so that it will not be a total waste. Second, according to some reports, it is safe to use the plant. Third, it will be a good source of energy—electricity will be cheaper. Fourth, it has not yet been proven that Marcos really engaged in corruption. Finally, it was built to help Filipinos, why not fulfill its purpose?

Disagree. I am against the use of the Bataan Nuclear Power Plant because it was a very expensive project and was not used at all. Also, the nuclear plant is dangerous. It was not built in a safe location. It is harmful not only to the people but to the environment, too. We've been paying for a loan that funded a project that cannot and must never be used.

Let's See What You Have Learned (pages 34–35)

- A. International loans benefit our country's economy by providing the financial assistance our government can use in productive and useful projects. Many of these projects are undertaken to meet the needs of the people and country. These loans can supplement the budget deficit of our government. Loans could be used to spend for the needs of the country. Without loans, these needs might not be met due to the increasing budget deficit of the government and the continuous depreciation of the Philippine peso.

B. 1. The World Bank

The World Bank provides loans and technical assistance that aim to reduce poverty in our country. It funds projects that help in improving the health and lives of many Filipinos, especially women and children from the urban poor (slum dwellers) and rural communities.

2. The International Monetary Fund

The International Monetary Fund facilitates international monetary cooperation among its member countries, including the Philippines. It provides us with loans that help strengthen our economy and funds projects for our country's development. It also gives advice and recommendations on how we should address our economic problems.

3. The Asian Development Bank

The Asian Development Bank provides financial and technical assistance to its member countries in the Asia and the Pacific region, including the Philippines. This assistance helps reduce poverty in these countries. The ADB concentrates on the protection of the environment and improvement of the skills of Filipinos. Some examples of projects it has funded for our country are the technical skills program of TESDA, the non-formal education project or this NFE A&E project, and the “Clean-Up the Pasig River” project that aims to protect and improve our environment. That is investing in human and natural resources.

D. Lesson 3

Let's Try This (page 39)

1. The dialogue is about the problem of Lucio and Nena on how they could repay their debts.

After Lucio borrowed money from different sources, he had enough money to spend for his family's needs. However, he only had that money for a short time. He became heavily indebted and when the deadline of payments for these loans came, he was worried about how he was going to repay his debts.

2. Lucio or Nena

- ◆ I will sell our furniture and appliances.
- ◆ I will ask my family to move to a smaller and cheaper apartment; or if we have an extra room, I will ask permission from my family to rent the room to someone else for additional income.
- ◆ I will tell my family members to conserve water and electricity so that we could reduce our water and electricity bills.
- ◆ I will ask my family members not to spend for something that we do not really need—like new shoes and clothes—if we can still use our old ones.
- ◆ If I were Lucio, I would start looking for a new job where I could earn a higher salary.
- ◆ If I were Nena, I would think of a small business that I and the children could handle to contribute additional income to the family. A small *sari-sari* store could be one such possibility.

3. Government

- ◆ If I were the president of the Philippines, I would sell some of the government's assets, especially those that are not generating much income but consuming a lot from the national budget in terms of their maintenance and operation.
- ◆ I will make the economy conducive for investment by opening the trade industry. That is, I will deregulate government-controlled industries, like what has been done in the telecommunications industry, so as to attract more investors. By doing so, I will earn from the taxes collected from businesses and corporations.
- ◆ I will suggest to my department secretaries to limit their expenses. I will also encourage Congress to review the budget. Maybe we could cut the budget allotted to some departments or sectors—like the military—and rechannel this to social services such as education. By doing so, we hope to address the problem with a long-term solution.

Let's Try This (page 40)

1. Privatization
2. deregulation
3. reduce
4. trade
5. taxes
6. revenues

Let's Try This (pages 44–45)

1. Yes. I think the basic social services of the countries presented on page 44 were sacrificed to give way for debt repayments. You can see this, for example, in the story about Mozambique. Only 3 in 10 people in that country have access to health services. This only shows that their government is prioritizing debt servicing rather than providing better health services for the people.

No. I don't think that the basic social services of the countries presented were sacrificed to give way for debt repayments. The figures shown were just an exaggeration of the real conditions of the countries presented.

2. The governments of these countries prioritized debt servicing over the basic needs of the people because it is the responsibility of these governments to pay for their debts. It is only right to allot a percentage of a government's budget to repay its debts.
3. Yes. The situation of these countries would have been worse if their government did not take out loans to fund projects that would meet the needs of the people. Without the loans of these countries, their governments would really have a difficult time looking for possible financial sources other than loans. The loans can be used in many productive and useful ways. Indeed, by obtaining loans, it always follows that the person or government that incurred the loans should repay them. It is the risk a country takes to support the needs of its people.

No. The situation of these countries would not have been worse if their government did not take loans to fund projects that would meet the needs of the people. The governments of these countries should have looked for other ways of generating income rather than depending too much on loans. It is because of these loans that the people are suffering. The government of countries who have incurred loans have to fulfill their obligation of repaying their loans. Such a responsibility urges the government of these countries to prioritize debt servicing rather than spending for the immediate needs of their people. In the end, the people suffer from lack of basic services because of the debts that their government has been trying to repay.

Let's Review (page 47)

1. Yes. I think our country is already in a debt trap. We have become overly dependent on foreign loans that every time our country encounters financial difficulties we always borrow money from foreign creditors. We even repay our debts by incurring new loans.

I think our government should be really careful in planning and undertaking projects that require huge amounts of money. The government should undertake income-generating projects so that even though our government borrows money to finance the projects, the government can assure the people and creditors that it can repay the amount it borrowed using the income of the project itself. By doing so, not only will our country become self-sufficient, we can also reduce, if not totally avoid, obtaining loans.

2. No. We are not caught in a debt trap yet. Our country can still pay its debts because our economy is improving.

Let's See What You Have Learned (pages 48–49)

- A. 1. **T.**
2. **F.** Our country's debts are our concern because we are affected by these debts. It is important to know where all the money from these debts go because it is not the government alone who pays for our debts, but all of us. As citizens, we pay our government taxes. These taxes, in turn, pay for our country's debts. It is the citizens who really pay for our country's debts. Thus, it should be our concern.
3. **F.** Our country's debts did not make our country rich. Many Filipinos are still poor and we still have huge loans to pay.
4. **T.**
5. **F.** When you borrow money to pay for your debt it does not mean that you will no longer have debt. You might have paid your old debt, but by borrowing money to pay for it, you have incurred a new debt.
- B. 1. The IMF recommendations—privatization, deregulation, trade liberalization, reduction of government expenditures and increase in taxes—aim to strengthen our economy. That serves as an assurance to foreign creditors that our government is capable of repaying its loans. If our government does not implement these recommendations, the IMF might not release the loans our country is applying for because it might doubt our country's capability or capacity to pay.

The IMF's recommendations, if taken properly, could help solve our country's problem of indebtedness. For indeed, if our economy sails smoothly and the debts our government incurs are used properly for projects that are carefully planned, our country can solve its problem of indebtedness.

2. If we do not pay our debts, foreign creditors will not lend us money anymore. If foreign creditors lose their trust in us and withdraw all the funding for projects that our government plans to undertake, the government will not be able to push through with these projects. Also, as was discussed in Lesson 1, our country has been borrowing money to meet the needs of the people because our government is incurring budget deficits. If creditors will not lend us money anymore, the government might not be able to provide and even improve the basic needs of the people and country.

E. What Have You Learned? (pages 50–51)

1. Corruption in the government greatly affects our country's indebtedness. Our government has been borrowing a lot of money from foreign creditors. Sad to say, it is possible that some portions of this borrowed money do not go to the projects but to the officials who are handling the projects. How will this affect our country's indebtedness? Corruption affects our indebtedness simply because we may have been repaying a huge debt, of which only a portion of the money really benefited us. Also, many projects will not be completed due to insufficient funding because part of it was spent on something else. The government would then borrow money again in order to complete the project and pay for the previous loan it incurred.
2. I think our government has its own reasons for doing this. For one, our government might be thinking that by borrowing money from foreign creditors, it could provide the needs of our country. Our country has so many needs but its resources are not enough. In this regard, I agree with the government.

However, because our government has been borrowing money often, it seems that our country is becoming dependent on foreign loans. Our country's dependence on foreign loans has put our country in more debt. Sad to say, some of the borrowed money goes to the government officials themselves and not to the projects they were meant for.

3. It is the responsibility of the one who borrowed to return what he/she borrowed. The same thing applies to borrowing money. When we borrow money from someone, we must repay him/her with the same amount he/she lent us, plus any agreed interest.
4. **Good:**
 - a. Foreign loans can provide for our country's needs, which the government cannot afford because of its huge budget deficit.
 - b. Foreign loans help fund projects that help improve the lives of Filipinos, such as livelihood and irrigation projects for farmers.
 - c. Foreign loans help improve the quality of education. An example of projects that improve the quality of education is the NFE A&E project, of which you are a part.
 - d. Foreign loans help our government stabilize its economy by providing financial assistance that the government can use in times of emergency.

- e. Foreign loans can help our government pay for its old loans.

Bad:

- a. Because of too much loans incurred by our government, it is having a difficult time paying for its loans.
 - b. The government has been prioritizing debt servicing more than the basic needs of the people. This has resulted in cuts to the education budget.
 - c. Due to irresponsible borrowing of our government and ill-planned projects, our government has been repaying huge loans that were not entirely used for the benefit of the people. An example of this is the Bataan Nuclear Power Plant.
 - d. Because our government needs to gain the trust of foreign creditors, and show that it is capable of repaying the loans it plans to take, our government has been following most, if not all, the recommendations of the IMF.
5. Yes. I agree that in making loans, we should think about whether the project will really be beneficial to us. Let us avoid committing the same mistake that the government has committed when it built the Bataan Nuclear Power Plant. Also, we should learn how to prioritize our expenses and the projects we plan to undertake. Let us avoid investing in a project that we do not really need. To sum it all up, we should handle the borrowed money responsibly.
6. Among the lessons I have learned about foreign debt are:
- a. We should think carefully about the projects that we plan to undertake before making loans. These projects should be safe not only for humans but also for the environment. As much as possible, these projects should be income-generating so that we could earn profits from the projects. That income can then be used to repay the debts that funded the projects.
 - b. In incurring loans, be it in small or huge amounts, we must handle the money responsibly.
 - c. It is our responsibility, being the ones who borrowed money, to repay the amount we borrowed.



Glossary

Budget deficit A condition where a person or country is spending more than what it earns; the difference between what the government spends and what it collects in a given period

Budget deficit ceiling The highest possible amount of budget deficit that a government can have in order for its loans to be granted

Competition Many producers try to attract consumers (customers) by lowering their prices and offering better quality goods or services

Corrupt-borrowing Borrowing money (especially of people with power and authority) for one's own benefit

Creditor An individual or institution that lends money and gives the borrower the ability to use the money for some important things with the promise to pay in the future

Currencies The system of money used in a country, example: Philippines = Peso, United States of America = Dollar

Debt crisis Having a difficulty in paying one's debt

Debt servicing Debt repayment

Debt trap Term usually used to refer to countries that are experiencing debt crises and are trapped in the cycle of borrowing and paying; countries make new loans to pay for their old loans

Deregulation Removal of government restrictions on companies' behavior to encourage competition; under deregulation, industries such as telecommunications and airlines are allowed to make their own decisions on prices, regardless of the effect on the people

Developing countries Countries which are undergoing economic progress and development

Economic reform Change in economic policies

Exchange rate Value of domestic currency against a foreign currency

Expenditures Expenses; amount of money spent

Financial assistance Giving help financially; financial support; funding projects

Honor all debts policy/Automatic Appropriations Law The law that gives top priority on debt servicing over other government expenditures

Indebted Deep in debt; burdened with debt

Loan Debt; money borrowed

Monetary cooperation Mutual agreement between countries that there should be a stable system of buying and selling currencies so that payments in foreign money can take place between countries smoothly

Mortality rate The number of deaths in a specified period of time

Poverty A condition of being poor; condition of not having enough money to acquire ones' basic needs

Poverty reduction projects Projects that aim to improve the lives of the poor

Privatization Selling of government or public assets to the private sector

Revenue Income

Tax Money that has to be paid to the government; people pay tax according to their income and business corporations pay tax according to their profit

Trade liberalization Free trade; opening up of one's economy to the world market



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