The Impact of International Monetary Fund (IMF) Structural Adjustment Policies (SAP) on the Philippines

Ferdinand T. Abocejo

Abstract

This paper investigated the impact of IMF structural adjustment policies (SAPs) on the Philippine economic performance. The study utilized critical analysis approach to evaluate secondary data from government statistics, the Bangko Sentral ng Pilipinas (BSP), World Bank, IMF and articles from online refereed journals. Analyses were focused on IMF prescribed SAP loan conditionalities pertaining to liberalization, export-oriented economic efficiency, privatization of estate owned assets, reducing government expenditures, and streamlining the bureaucracy. Findings revealed that trade liberalization implemented through stripping off restrictions of more than 900 items and reduction in nominal tariff protection fell short from the onset of global recession. Apparently, aggregate exports contracted instead of expanding while imports disproportionately increased when importers took advantage of the liberalized regime. This resulted to severe erosion of the Philippine industries which were left unable to compete in the open market. Government revenues, generated from the SAP driven privatization policy were redirected for debt servicing rather than being invested on productive programs and projects for economic development. This privatization policy even created local monopolies in the country's capital market. Reduction in government expenditures through tightening of government budget, cuts in government subsidies and freezing the filling up of government vacant positions, failed to significantly impact on poverty alleviations and underpinned the much needed resources for basic health, education and social services delivery programs. In conclusion, the adherence by the Philippines to IMF loan conditionalities did not significantly benefit the country as manifested by the country's sluggish economic development. The Philippines should never go back to the IMF loan portfolio, it should find other resources to propel growth and development away from IMF borrowing. Prudently however, it may continue to avail the Fund's technical assistance program on monetary and international banking expertise without incurring external debt obligations from the Fund.

Keywords: Structural Adjustment Policies (SAPs), International Monetary Fund (IMF), economic growth and development, loan conditionalities

1.0 Introduction

For several decades, the Philippines has been enchained to IMF(or the Fund) and World Bank (WB or the Bank) loans. The country, since the 1950s, has been largely borrowing from these two International Financial Institutions (IFIs) in the form of stabilization loans, export financing facility (EFF), sectoral and project loans, standby arrangements

and structural adjustment program (SAP) loans. The IMF granted its first structural adjustment loan of US$200 million to the Philippines in 1980 to help the government meet its budgetary requirements and in view of attaining economic growth and development (Simbulan, 2002). Since then, the Philippines has never been out of the debt roster of the IMF until 2006 when the Philippine government pre-paid its remaining obligations to the Fund and exited a post-program monitoring agreement (an arrangement for countries whose borrowings scheme has expired but still owe the Fund money).

Loan Conditionalities

The Philippines had its first loan from the IMF in 1962 (Orbeta, 1996). The condition which came with the loan was the removal of foreign exchange controls which resulted to abrupt Philippine peso devaluation vis-à-vis the US dollar. In the years that followed until early 2000, the country availed 24 IMF loans amounting to more than US$3.0 billion and about special drawing rights (SDR) 3.1 billion (Bello, 2006). Each of these loans were contained under the standard "stabilization program" of the IMF bearing tight monetary and fiscal policy measures. One specific IFM loan in the amount of US1.4 billion granted to the Philippines under stand-by arrangement for the period 1998-2000 had 110 conditionalities dubbed as "structural reform measures" (Lim & Montes, 2001).

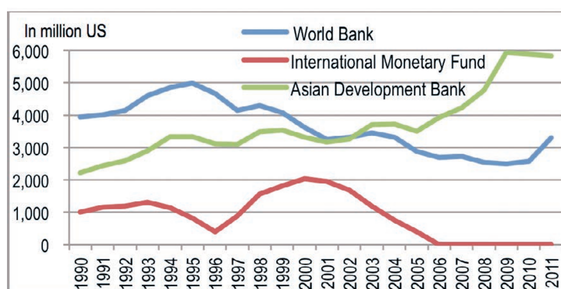

FIGURE 1: Philippines' External Loan from WB, IMF and ADB, 1990-2011
Data source: Bangko Sentral ng Pilipinas, 2012

Operationally, IMF loans (in the same way as WB loans) come with policy conditionalities and performance target for the borrowing country – for this paper, the Philippines. Some of IMF prescribed SAP loans for the country include conditionalities on liberalization, export-oriented economic efficiency, privatization of estate owned assets, reducing government expenditures particularly in view of burgeoning annual budget deficits, bureaucratic streamlining, taxation reforms and imposition of new taxes, currency devaluation and increasing domestic interest rates, among others (Lim & Montes, 2001). Basically, the policy roads pursued by successive Philippine presidents from Cory Aquino until the Gloria Arroyo government are all SAP-driven (IMF Country Report - Philippines, 2006). This is understandable because the IMF had been extending huge amounts of loans to the country since the Marcos regime. It is therefore not surprising that the need for IMF continued loan commitments influenced the national government leaderships for many decades as manifested by the country's faithful adherence to IMF's prescribed conditionalities.

Under SAPs, the increased role of the market is viewed to benefit both the poor and the rich countries in a fair liberalization network between trading partners. Objectively, free market economic development, which puts emphasis on the greater role of the private sector, was envisioned as the primary stimulus for sustainable economic growth and development (Bello, 2005). Although the Philippines has considerably embarked on these free-market inspired approaches to economic growth, evidences on favourable outcomes are seen far from reality relative to the country's sluggish economic development. Obviously, the faithful adherence to loan IMF conditionalities did not benefit the borrowing country – the Philippines – since the results were more favorable and advantageous to the IMF whose loan policies

are influenced by the big player countries of the Fund.

2.0 Country Program Assessment and Analysis

In the early 1980s, the Philippines' structural adjustment programs were focused on trade liberalization by way of stripping off restrictions of more than 900 items and significant reduction in nominal tariff protection (Bello, 2006). However, liberalization mechanism efforts failed to consider the onset of global recession in that period, thus aggregate exports contracted instead of expanding while imports disproportionately increased as importers took advantage of the liberalized regime causing severe erosion on the country's industries which were left unable to compete in the open market. Moreover, there was a weak, if not negative, impact of actual employment and output levels in some sectors which were projected to favourably respond to the import liberalization program (Lim &Montes, 2001). These unexpected effects resulted from the incomplete and politically sequenced approach of the policy reforms such as exchange rate overvaluation and some forms of policy inconsistencies. There were also evidences of weak responses in some sectors which were viewed to benefit from the reforms like those sectors which registered investment declines (compared with the period before liberalization), and even those sectors having natural comparative advantage in the Philippine context (Chung, 2006).

Notably, the period 1984-1993 witnessed the Philippines receiving 15 structural adjustment and stabilization loans from both IMF and WB. Instead of utilizing the loans for productive investments, said loans were redirected to service the government US$26 billion debt at that time, mainly as interest payments to Japan, USA and European international creditor banks. In addition, about 50 per cent of government budget had been allocated to debt servicing through the 1980s representing about 7-10 per cent of the Philippines' annual GDP (Bello, 2005). As a result, there was a shift in the national policy directions to debt repayment rather than mobilizing the economy back on its growth path. This led to significant losses in financial resources accompanied by the recessionary effects of much reduced government spending and the continued peso devaluation as mandated by SAPs doctrine (Simbulan, 2002).

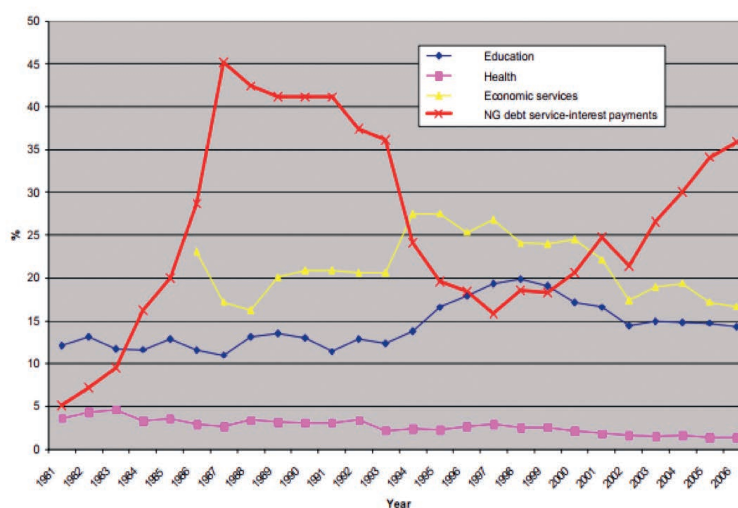

FIGURE 1: Selected Philippine gov't. spending, 1981-2006 (% of Nat'l.Budget) Data sources: Bangko Sentral ng Pilipinas and Dep't. of Budget and Management, 2010 African Forum and Network on Debt and Development (AFRODAD)`

Privatization, as one of IMF SAP-prescribed policies, is contained in the Philippine Medium-Term Development Plans (MTPDP) since the presidency of Corazon Aquino, Fidel Ramos and Joseph Estrada and Gloria Arroyo (Bello, 2005). As a SAP-driven policy, it envisioned to widen the participation of private sector in public services, hence allow business initiatives taking over privatized government functions. Particularly the Ramos regime opened public assets and governmental functions to foreign investors offering a wide-range of agencies to be privatized including those sectors mandated to deliver social services like electricity and water. For the first time in 1995 since many years, the Ramos government was able to realize budget savings from sales of public assets (Flecther, 2005).

Ironically, while privatization has ensured the government with more available funds for foreign debt servicing, the amount of foreign debts continued to increase rather than diminish. The much needed government revenues, generated from privatization thrust, have been redirected for debt servicing rather than being invested on productive use for economic development programs. In part, the privatization has led to the creation of local monopolies in the country's capital market. Operationally, there was a transfer of control from government ownership to few elite-rich-business magnets who purchased (in partnership with foreign investors) government assets (Lim and Montes, 2001).

In general, the IMF prescribed privatization policy had been carried out but the outcome it was intended to bring the country back on its economic growth track did not materialized (Simbulan, 2002). The previous Philippine President Gloria Arroyo reported, in her state of the nation address - SONA on 25 July 2005, that the Philippine economy is back on track. All she asked from the Filipino people, especially from the country's political leaders and the opposition group, is to work together for economic development of the country (Arroyo, 2005). But her critics both in and outside the government remain sceptical. The continued Arroyo government's reliance on IMF and WB loans, upon which government economic policies are strongly influenced, remain one of the controversial issues affecting the country's economic development.

3.0 Conclusion

As a whole, the impact of IMF's prescribed SAPs on the Philippine development has been mixed. The adherence by the government to SAP-driven policies and programs have narrowed down the national government's budget deficit but has never drive the Philippines out from higher expenditures than revenues. In particular, the SAPs conditionality on reducing government expenditures (while faithfully responding to debt servicing) resulted to a decline in the share of national expenditures on social services (e.g. education and health services). This made the poor, whose share in the population pie comprises the largest, suffers the disproportionate cost of adjustments when public spending on social services was greatly reduced.

Indeed, the IMF's prescribed structural adjustment policy implementation did not bring favourable developments on the Philippines' economic endeavours. The country has not gained with its short-term stabilization measures of government expenditures cutbacks, increased interest rates and currency devaluation. The delivery of basic social services has been severely sacrificed especially on health and education programs. Another pull factor is the political climate of the country where government leaderships lack the political will to implement real and long term reforms since their priority focus is limited over the medium term because of vested political interests.

Finally, the key issue about SAP is whether they

are undertaken through building the country's capacity to recover and whether they promote long-term and sustainable economic development. In the case of the Philippines, succumbing to IMF prescribed SAPs need real transformation of policies and programs coupled with strong political will to bring the economy back on stable and high growth path. Even at present, when the Philippines no longer gets loan from the IMF, somehow the Fund still has a say on the government's policy directions because of its technical assistance being extended to the country over monetary stance and international banking and investment directions, all in the guise of poverty alleviation over the long term.

4.0 Policy Recommendations

From the foregoing presented facts and arguments, it is high time that the Philippines should keep the status quo of not going back to the IMF loan portfolio. The country can find other resources to propel growth and development away from IMF borrowing. Prudently however, it may continue to engage and avail of the Fund's expertise on monetary and international banking practices on consultation basis. In other words, the country may well continue exploiting the Fund's technical assistance program without being put to disadvantage and never incur external debt obligations from the Fund.

SAP reforms may be pursued with the end goal of realizing a positive impact on poverty alleviations and without underpinning the much needed resources for basic health, education and social services delivery programs beneficial to the large and vulnerable groups of the populace. Tax collections efficiency has to be improved and sustained especially for the high income groups which oftentimes manipulate and lobby the government for their own benefits instead of focusing on the lower income majority sectors of the society.

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