

# THE PHILIPPINES COUNTRY REPORT

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## 1. Economic and Financial Background.

**A. Interest Rates.** Philippine interest rates declined during the period July 1, 2006 to June 30, 2007, with the benchmark 91-day Treasury Bill auction rate dropping from 6.074% to 3.477%. The downtrend in interest rates was a result of excess liquidity in the global and domestic financial systems and mild inflation due mainly to lower oil prices.

**B. U.S. Dollar : Philippine Peso Exchange Rate.** The US\$ : Philippine Peso exchange rate appreciated by 13.2%, from PhP 53.22 to PhP 46.195 to the U.S. Dollar, as Asian currencies, in general, strengthened against the greenback. The U.S. Dollar likewise remained weak during this period mainly due to U.S. economic imbalances such as its large budget deficit, trade deficit, and current account deficit. The improving fiscal conditions in the Philippines likewise supported the Peso, thus supporting foreign exchange inflows. Lastly, the buoyant stock market also supported the Peso.

**C. Stock Market.** The Philippine Stock Exchange Composite Index or "PSEi" jumped by 68%, from 2,178.79 points to 3,660.86 points, on account of a liquidity driven global equities rally. Low interest rates, strong corporate earnings, and a strong fiscal position likewise supported Philippine equities.

**D. GDP.** Philippine GDP rose from 5.8% in the first quarter of 2006 to 6.9% in the first quarter of 2007 on account of strong consumption spending, government expenditures, and real estate and construction activities. The low interest rates scenario likewise supported GDP growth.

**E. Inflation.** Inflation for the period declined from 6.4% to 2.3%. The lower inflation rate stemmed from the strong Peso plus lower average oil prices. Strong agricultural production likewise contributed to lower inflation.

## 2. Data on Funds Under Management.

No.	Type of Fund	June 30, 2007		June 30, 2006	
		Number of Funds	Net Assets under Management (in US\$)	Number of Funds	Net Assets under Management (in US\$)
1	Equity Funds	8	261,413,341.69	7	66,165,099.15
2	Bond Funds	20	1,293,875,434.01	18	955,602,191.67
3	Balanced Funds	8	330,963,286.10	7	80,259,983.86
4	Money Market Funds	3	15,991,384.50	2	12,553,527.83
	Grand Total	39	1,902,243,446.30	34	1,114,580,802.51

Note: US\$:Philippine Peso exchange rate on June 30, 2007: PhP 46.25  
US\$:Philippine Peso exchange rate on June 30, 2006: PhP 53.22

## 3. Key Trends in Flows and Assets Under Management.

During the year ended June 30, 2007, the Philippine mutual fund industry grew by 71%, from US\$ 1.11 Bn. to US\$ 1.90 Bn. Part of this growth is attributable to the 13.2% appreciation of the Philippine Peso vs. the U.S. Dollar during the year. But the bulk of the growth was fueled by the resurgence of the Philippine stock market, resulting in the Balanced Funds segment growing by 312%, and the Equity Funds segment by 295%. In contrast, the Bond Funds and Money Market Funds grew by a more modest 35% and 27%, respectively. The number of mutual funds grew by 15% to 39.

## 4. Regulatory and Self-Regulatory Developments.

A Technical Working Group (TWG) constituted by the Senate Committee on Banks, Financial Institutions, and Currencies is currently drafting a new law to replace the Investment Company Act (ICA) of 1960. The ICA covers only the corporate (investment company) structure of funds. The contractual structures (unit investment trust funds of banks and the unit-linked assurance schemes of insurance companies) are covered by separate regulations, namely, the *Bangko Sentral ng Pilipinas* (BSP) Circular No. 447 and the Insurance Code of 1978, respectively. It is the intention of the new funds law to cover both the corporate and contractual structures of funds under the same law.

The Philippine mutual fund industry association, called the "Investment Company Association of the Philippines," does not have SRO status. The mutual fund industry is regulated by the SEC.

**5. Corporate Governance.** (Use the term "corporate governance" to refer to the governance by funds of companies in which the funds invest, such as the exercise of a fund's voting rights in a portfolio company.)

There is no significant development in the area of corporate governance by the funds. The Philippine mutual funds have an exposure of only US\$ 398.0 Mn. (combined figure for equity funds' and balanced funds' investment in listed companies) as of June 30, 2007.

**6. Fund Governance.** (Use the term "fund governance" to refer to developments in the governance of funds, such as a change in the requirements for independence on a fund's board.)

There is no new development in the area of fund governance. Under the Philippine Investment Company Act of 1960, not more than 50% of the directors on a fund's Board may be affiliated with the fund manager.

**7. Product Developments.**

There were no new mutual fund products introduced to the market during the year.

**8. Other Major Issues and Developments.**

The Philippine Securities and Exchange Commission (SEC) has required the mutual fund companies to adopt the International Accounting Standards (IAS) of valuation effective September 30, 2006. Prior to this, the SEC has allowed the mutual funds to adopt IAS valuation on a voluntary basis effective September 30, 2005.

Prepared by: Investment Company Association of the Philippines (ICAP)