Policy and Regulatory Developments

People's Republic of China

Taxes on Local Government Bonds Eliminated

On 26 April, the Ministry of Finance (MOF) and the State Administration of Taxation announced that interest received on local government bonds issued in 2012 by the MOF on behalf of local government units will no longer be subject to personal or corporate income taxes.

Hong Kong, China

RQFII Program List of Participants Expanded

On 7 March, the PRC expanded the list of allowable institutions participating in the Renminbi Qualified Foreign Institutional Investor (RQFII) program to include financial institutions registered in Hong Kong, China and Hong Kong, China units of PRC banks and insurance companies.

CNH HIBOR Fixing Launched

On 25 April, the Treasury Markets Association announced that it will launch the CNH Hong Kong Interbank Offer Rate (HIBOR) fixing in June. The fixing will provide an interest rate benchmark for financial contracts and will have tenors of overnight; 1 and 2 weeks; 1, 2, 3, and 6 months; and 1 year. The rates will be calculated based on the contributions of between 15 and 18 banks.

HKMA Removes Net Open Position and Liquidity Ratio Requirements for CNH

On 25 April, the Hong Kong Monetary Authority (HKMA) removed the net open position and liquidity ratio requirements for the CNH positions of authorized institutions. HKMA also said that despite the removal of these requirements, it expects authorized institutions to manage their foreign exchange and liquidity risks prudently.

Indonesia

Bank Indonesia Keeps Policy Rate Steady at 5.75%

Bank Indonesia's (BI) Board of Governors decided on 14 May to keep its benchmark interest rate steady at a record-low level of 5.75%. Based on its assessment, the BI rate remains consistent with an annual inflation target of between 3.5% and 5.5%. BI said it will closely monitor inflation risks emanating from rising inflation expectations as the government has yet to decide whether or not to make any changes to its policy on fuel subsidies. Also, BI will continue to strengthen monetary operations through the absorption of excess liquidity using its longer-term instruments.

Indonesian Government Plans Debt Switch for US$ Global Bonds and Issuance of US$ Bonds Onshore

In May, the Indonesian government disclosed plans to conduct a debt switch of US$-denominated bonds for longer-term maturities as part of its liability management program. The government has been conducting debt switches since 2005 as a strategy to reduce refinancing risk for its local currency (LCY)-denominated bonds. However, it will be the first time that Indonesia conducts a debt switch for US$ global bonds. In the second half of the year, the government plans to issue US$ bonds onshore to target domestic investors.

Republic of Korea

National Assembly Committee Approves Revision of FSCMA

On 4 March, the Legislation and Judiciary Committee of the National Assembly approved revision of the Financial Investment Services and Capital Markets Act (FSCMA), according to the Financial Services Commission. The key contents of the revision include establishing a central counterparty clearinghouse for over-the-counter (OTC) derivatives transactions and related amendments to the Commercial Act.

MOSF Introduces 2013 Supplementary Budget

The Ministry of Strategy and Finance (MOSF) reported in April that a supplementary budget of KRW17.3 trillion will be utilized to help stimulate the domestic economy throughout the remainder of the year. Of the amount, KRW12.0 trillion will be used to finance government revenue shortfalls and the remaining KRW5.3 trillion will be spent to supplement the government's budget expenditure. Under the 2013 supplementary budget, the government's total expenditure will amount to KRW349.0 trillion, an increase of KRW7.0 trillion over the original 2013 budget. Government revenue in the 2013 supplementary budget is projected to reach KRW360.8 trillion, which is KRW11.8 trillion less than the original budget.

MOSF Introduces KTB Market Stabilization Measures

MOSF introduced Korea Treasury Bond (KTB) market stabilization measures in April in light of the 2013 supplementary budget, which called for a net increase in KTB issuance of KRW15.8 trillion. MOSF will reduce the issue amount for buy-backs since the net increase in KTB issuance will likely trigger upward pressure on interest rates, thereby imposing a burden on the market. Against this backdrop, total issuance of KTBs is projected to reach KRW88.5 trillion (instead of KRW95.5 trillion), which is KRW8.8 trillion higher than the previous estimate of KRW79.7 trillion. In addition, MOSF reported that it will (i) continue with the monthly issuance of KTBs at a steady level each month; (ii) continue to optimize the mix of KTBs by maturity (3, 5, 10, 20, and 30 years), with plans to increase the issuance of on-the-run KTBs; (iii) conduct flexible application of partial knock-down rates; and (iv) ensure that primary dealers' obligations are strengthened.

The Bank of Korea Lowers Policy Rate in May

The Bank of Korea's Monetary Policy Committee decided on 9 May to lower the base rate by 25 basis points (bps) to 2.50%, marking the first policy rate cut of the year. In its monetary policy decision, the committee noted (i) the Republic of Korea's weak economic growth, (ii) a forecast showing a negative output gap in the domestic economy amid a slow recovery in the global economy, (iii) the impact of the weakening Japanese yen, (iv) the country's geopolitical risks, and (v) the expectation that inflationary pressures will remain low.

Malaysia

BNM and the Central Bank of Myanmar sign MoU on Regional Economic and Financial Development

In April, BNM and the Central Bank of Myanmar signed a Memorandum of Understanding (MoU) to promote greater regional economic and financial integration. The MoU establishes a framework of cooperation for capacity building and human capital development with the support of the Malaysian Technical Cooperation Programme.

BNM Holds Policy Rates Steady at 3.0%

On 9 May, Bank Negara Malaysia (BNM) decided in its Monetary Policy Committee meeting to leave the overnight policy rate unchanged at 3.0%. BNM has kept its benchmark interest rate at the same level since May 2011 and considers its current monetary policy to be appropriate, given the outlook for inflation and growth. Inflation in 1Q13 was subdued at 1.5% and is expected to remain modest. The economy is expected to sustain steady growth, driven by strong investment in domestic-oriented sectors and infrastructure, as well as robust private consumption.

Philippines

BSP Approves New Foreign Exchange Rules

On 18 April, the Monetary Board of Bangko Sentral ng Pilipinas (BSP) released new rules to further liberalize existing foreign exchange regulations, the sixth in a series of reforms initiated by BSP since 2007. The new rules further simplify the foreign exchange transactions of residents and non-residents with banks and increase residents' OTC foreign currency purchase limit per transaction to US$120,000 from US$60,000. Tourists and Filipino migrant workers will be allowed to purchase as much as US$10,000—up from the previous US$5,000 limit—when they leave the country. BSP retained the US$60 million limit on what residents can purchase per year for investments abroad, but it expanded the list of allowed investment outlets. Non-residents will also be allowed to create onshore peso deposit accounts for purposes other than those previously permitted.

BSP Keeps Its Key Policy Rates Unchanged

On 25 April, the Monetary Board of the BSP decided to keep its key policy rates—the overnight borrowing and lending rates—steady at 3.5% and 5.5%, respectively. The reserve requirement ratios were also held steady. The decision to hold the policy rates at their current levels reflected the Monetary Board's assessment that the inflation environment was likely to remain manageable, with inflation in 2013 expected to be within BSP's target rate of 3.0%–5.0%. Downside risks to the outlook include uncertainty over the strength of the global economy and the peso, power rate adjustments, and a continued increase in liquidity due to capital inflows. However, the Monetary Board also cited the benign inflation environment and strong domestic growth prospects as balancing out these risks. The Monetary Board lowered interest rates on the Special Deposit Account (SDA) facility by an additional 50 bps to 2.0% across all tenors.

PSE and PDS Group Renew Talks on Merger

In April, the Philippine Stock Exchange (PSE) and Philippine Dealing System Holdings Corp. (PDS Group) agreed to renew discussions on a possible merger. Both parties aim to create a workable framework and sign an MoU within 90 days. PSE has mandated JP Morgan as its financial adviser on the proposed transaction, while PDS Group engaged Maybank ATR Kim Eng Financial Corporation to provide valuation and advisory services. The transaction could lead to a merger between the two exchanges or the acquisition by PSE of the Philippine Dealing and Exchange Corp. (PDEX), which is the fixed-income trading platform of PDS Group. The relevant regulators—the Department of Finance, Securities and Exchange Commission, and BSP—will monitor progress of the merger talks.

Singapore

MAS and the PBOC Sign MoU

On 2 April, MAS and the People's Bank of China (PBOC) signed an MoU pledging close cooperation in reviewing the conduct of RMB business and clearing arrangements in Singapore. MAS and the PBOC agreed to establish a regular dialogue to review RMB liquidity conditions and discuss issues concerning the stability of the RMB market in Singapore.

MAS Joins Implementation of ASEAN Disclosure Standards

Effective 2 April, MAS joined securities regulators in Malaysia and Thailand in the implementation of the ASEAN Disclosure Standards Scheme covering multi-jurisdiction offerings of equity and plain debt securities. The scheme aims to facilitate fundraising activities and enhance investment opportunities in ASEAN capital markets. Issuers offering equity and plain debt securities in multiple jurisdictions within ASEAN will only need to comply with one set of disclosure standards for prospectuses, thereby delivering time and cost savings to issuers.

Thailand

BOT Lowers Policy Interest Rate in May

The Bank of Thailand's (BOT) Monetary Policy Committee decided to lower the policy interest rate—the 1-day repurchase rate—by 25 basis points to 2.50% during its meetings held on 28–29 May. The Committee reported that Thailand's GDP growth in 1Q13 was less-than-expected and that inflationary pressures have eased further. During this year's previous monetary policy meetings—on 9 January, 20 February, and 3 April—the central bank kept the policy interest rate unchanged.

Government Plans THB2 Trillion Investment in Infrastructure

The government of Thailand has announced plans to carry out an infrastructure investment program worth THB2 trillion that will be financed by bank loans. The program aims to reduce transportation costs by 2%, raise gross domestic product (GDP) growth by 1 percentage point annually, and generate 500,000 jobs. The program also seeks to enhance the country's competitiveness, improve connectivity with fellow ASEAN members, and link domestic tourist attractions.

Viet Nam

SBV Cuts Key Rates an Additional 100 bps

On 13 May, the State Bank of Viet Nam (SBV) cut its key interest rates for the second time this year, following six cuts in 2012, in a continuation of efforts to help firms expand production. The refinance rate, discount rate, and overnight inter-bank lending rate were reduced 100 bps each to 7.0%, 5.0%, and 8.0%, respectively. The cap on the VND short-term lending rate of credit institutions was also set at 10.0% for borrowers and 11.0% for people's credit funds and micro-financial institutions.