Policy and Regulatory Developments

People's Republic of China

National People's Congress Annual Session Held in March

On 5 March, the Government of the People's Republic of China held its annual session of the National People's Congress. During the meeting, the government adjusted its annual gross domestic product (GDP) target for 2019 to 6.0%–6.5%, down from its previous target of 6.5%. According to Premier Li Keqiang, the lower growth target takes into account economic challenges such as the ongoing trade dispute with the United States (US) and credit risks in the domestic economy. The inflation target was set at 3.0% year-on-year for full-year 2019.

To meet the GDP growth target, Premier Li Keqiang said the government would utilize fiscal measures. A budget deficit target of 2.8% of GDP was set for 2019, up from the previous year's 2.6% target, reflecting an increase in planned infrastructure spending and a reduction in taxes. The government said that it would cut business and personal taxes by CNY1.3 trillion, up from the previous year's CNY1.1 trillion tax reduction. The government also announced that the value-added tax rate would be reduced from 16% to 13% for manufacturing firms and from 10% to 9% for transport and construction firms. The threshold for the application for the value-added system and the contribution rate for government pensions were also adjusted.

People's Bank of China Reduces Reserve Requirement Ratio for Rural Banks

On 5 May, the People's Bank of China (PBOC) announced that it would reduce the reserve requirement ratios for certain small and medium-sized banks that meet specified criteria. The PBOC said that rural commercial banks with a presence in rural counties and total assets of less than CNY10 billion will have their reserve requirement ratios set at 8%, the same level as credit cooperatives. The PBOC estimates that roughly 1,000 rural commercial banks will qualify for the reduced reserve requirement ratios and that a total of CNY280 billion will be released into the banking system.

Hong Kong, China

Hong Kong Monetary Authority Maintains Countercyclical Capital Buffer at 2.5%

In April, the Hong Kong Monetary Authority (HKMA) maintained its countercyclical capital buffer (CcyB) at 2.5%. The decision to keep the CcyB at its current rate was based on the significantly high level of credit to GDP gap of 12%, despite the indicative buffer guide signaling a lower CCyB of 0.75%. This resulted from a recent narrowing of the property price-to-rental gap to slightly below 3% from more than 10% in the previous quarter. The CCyB, as an integral part of the Basel III regulatory capital framework, was designed to increase the resilience of the banking sector in periods of excess credit growth allowing the latter to act as a "shock absorber" in times of stress.

Hong Kong Monetary Authority Launches Key Sustainable Banking and Green Finance Measures

In May, the HKMA launched three sets of measures to support and promote Hong Kong, China's green finance development at the HKMA Green Finance Forum. These measures include (i) green and sustainable banking, (ii) responsible investment, and (iii) a Centre for Green Finance. Green and sustainable banking involves developing a common framework to assess the "greenness baseline" of banks, engaging relevant stakeholders in consultations, and monitoring and evaluating banks' progress in meeting targets. Responsible investment implies that the HKMA will adopt a principle to give priority to green and environmental investments and social and governance investments for which long-term returns are comparable to other investments on a risk-adjusted basis. The HKMA already supports responsible investment, including investing in the Managed Co-Lending Portfolio Programme of the International Finance Corporation, with a substantial part of this initiative targeting sustainable investments across emerging markets. The third measure involves the establishment of the Centre for Green Finance under the HKMA Infrastructure Financing Facilitation Office to serve as a platform for technical support and experience sharing for the green development of Hong Kong, China's banking and finance industry.

Hong Kong, China Joins Green Bond Pledge

In May, Hong Kong, China became the first Asian signatory to the Green Bond Pledge, a pledge that calls on signatories to support long-term infrastructure and capital projects that address environmental impact and climate risk, and issue green bonds to finance a low-carbon transition. In line with the objectives of the pledge, the government stated that its Climate Action Plan 2030+ is targeted to reduce Hong Kong, China's carbon intensity by 65%–70% below its 2005 level by 2030. This bond program encourages issuers to arrange financing for their green projects through capital markets in Hong Kong, China. Signing the pledge is among several ongoing efforts of the government to turn Hong Kong, China into a regional hub for green finance. The Green Bond Pledge is a joint initiative developed by international climate finance and sustainability groups including the Climate Bonds Initiative, Mission2020, Ceres, Cassa De Possiti e Prestiti, Citizens' Climate Lobby, California Governor's Office, California Treasurer's Office, Global Optimism, Natural Resources Defense Council, and The Climate Group. It was launched by former United Nations climate chief Christiana Figueres at the Climate Bonds Annual Conference in March 2018.

Cambodia

LOLC Lists Bonds on the Cambodia Securities Exchange

In May, microfinance firm LOLC (Cambodia) became the second corporate issuer to list bonds on the Cambodia Securities Exchange (CSX). The bonds amounted to an aggregate of KHR80 billion (USD20 million), comprising (i) a foreign-exchange-indexed bond with a coupon of 8.0%, and (ii) a 3-year bond with a fixed coupon of 9.0%. The bonds, which were mostly sold to institutional investors, were oversubscribed. The issuance is expected to encourage other corporate institutions to tap the bond market and take advantage of tax perks for bond issuers.

Prior to LOLC's issuance, Hattha Kaksekar Limited raised KHR120 billion from the sale of 3-year bonds in November. The bonds carried a coupon rate of 8.5% and was listed on the CSX in December. It was the first corporate bond to be listed on the CSX.

Indonesia

Bank Indonesia Announces Policy to Help Boost Domestic Demand

In April, Bank Indonesia expanded its accommodative policy to boost domestic demand by (i) increasing liquidity through monetary operations, (ii) enhancing retail payment efficiency, (iii) increasing the supply of nondeliverable forwards, (iv) improving regulation in the money market and foreign exchange market, (v) developing the commercial paper market, and (vi) expanding electronification of social programs.

Indonesia Launches Shariah Economy Masterplan, 2019–2024

In May, the Government of Indonesia launched the Shariah Economy Masterplan, 2019–2014, which highlights strategies to strengthen shariah finance; support micro, small, and medium-sized enterprises; and optimize the digital economy.

Republic of Korea

Financial Services Commission Releases Financial Policy Road Map for 2019

The Republic of Korea's Financial Services Commission (FSC) announced in March its 2019 financial policy aimed at promoting financial innovation, ensuring trust in finance, and securing financial stability. Financial innovation will be accelerated as the newly enacted laws for online banking and financial regulatory sandbox will take effect this year. The government will provide financial support to small and medium-sized enterprises and start-ups to boost economic vitality. The government will continue its policy efforts to curb household debt, keeping its growth between 5% and 6%, and will preemptively manage corporate debt risk with an enhanced evaluation system. The FSC will enact a comprehensive bill for better consumer information and protection. To ensure fairness and transparency in order to protect investors and shareholders, the FSC will remain vigilant against potential risks through the close monitoring of financial markets and active policy responses.

Republic of Korea to Cut Stock Transaction Tax

The Government of the Republic of Korea will cut taxes on stock transactions effective 3 June to support the secondary market for venture firms and promote venture capital. The trading tax for stocks listed on the Korea Composite Stock Price Index and Korea Securities Dealers Automated Quotation markets will be reduced by 0.05 percentage points each, for unlisted stocks by 0.05 percentage points, and for Korean New Exchange stocks by 0.2 percentage points to promote venture capital. A special tax for rural development of 0.15%, levied on Korea Composite Stock Price Index transactions, will remain unchanged.

Starting 1 January 2020, the government will change capital gains taxes on stock transactions to allow the transfer of losses between domestic and foreign stock transactions. Taxes will also only be imposed on net gains that are earned throughout the year.

Malaysia

Bank Negara Malaysia Liberalizes Foreign Exchange Policies

On 27 March, Bank Negara Malaysia liberalized its foreign exchange administration framework to allow investors to hedge their foreign exchange risks more effectively. Residents are now allowed to hedge their foreign exchange obligations for up to 12 months. Approval must be obtained from the central bank for obligations with a tenor of more than 1 year. To help small and medium-sized enterprises hedge their foreign currency risk, net importers are allowed to receive foreign currency payments for their domestic goods and services from resident exporters.

Philippines

Bangko Sentral ng Pilipinas Loosens Restrictions on Foreign Exchange Transactions

On 10 January, the Bangko Sentral ng Pilipinas (BSP) liberalized its rules governing the foreign exchange regulatory framework in order to encourage development and innovation in the country's capital market. Concerning investments in foreign currencies, the BSP allowed banks to register beyond the prescribed period. It also streamlined its requirements and expanded the number of banks eligible to register for investing in foreign currencies. If a bank desires to purchase foreign currencies beyond its threshold amount, it does not need prior approval from the central bank. It just needs to notify the BSP about its activities. Lastly, the liberalized framework allows banks to submit supporting documents electronically.

Bangko Sentral ng Pilipinas Eases Financial Services Licensing Requirements

On 22 February, the BSP relaxed its rules governing BSP-supervised financial institutions wanting to offer electronic payment and financial services. A financial institution simply needs to notify the BSP within 30 days of its launch of financial activities. However, services allowing clients to transfer funds and initiate other financial transactions require prior BSP approval. Furthermore, institutions with services with fund transfer capability must participate in automated clearing houses. The streamlined process for acquiring electronic payment and a financial services license is as follows: the financial institution conducts a self-assessment of its capabilities to offer such services; the BSP evaluates the institutions and provides a certificate of compliance; finally, the central bank issues the license to the financial institution. The licensed financial institution is required to provide periodic reports to the BSP. The new rules aim to promote digital innovation and efficiency in payments and remittances, paving the way for the smoother flow of funds in the Philippine financial system. They also promote interoperability between financial institutions.

Bangko Sentral ng Pilipinas Reduces Reserve Requirement Ratio of Big Banks

On 16 May, the BSP announced that it will cut the reserve requirement ratio of universal and commercial banks from 18% to 16%. The decrease will come in three phases: 100 basis points (bps) will be cut on 31 May, 50 bps on 28 June, and 50 bps on 26 July. The decision was made amid the Philippines' low inflation environment and lower-than-expected economic growth. Every 1 percentage point decrease in the reserve requirement ratio is expected to release about PHP90 billion–PHP100 billion into the economy. The announced cut was timely as the Philippine economy is experiencing tightening liquidity conditions, as evidenced by single-digit money supply growth, and high time-deposit rates. A decision on the reserve requirement ratio of smaller banks is subject to discussion during the next monetary board meeting. The BSP plans to gradually decrease the reserve requirement ratio for big banks to the single-digit level by 2023.

Singapore

Monetary Authority of Singapore and the European Commission Agree on Common Approach to Trading Derivatives

On 20 February, the Monetary Authority of Singapore and the European Commission agreed to support reforms allowing derivatives to be traded between Singapore and the European Union through each other's trading platforms. The agreement specifies that participants must comply with both European Union and Singaporean regulations when they trade derivatives in each other's markets. The common approach aims to strengthen inter-regional connections and provides investors from Singapore and the European Union with options to hedge financial risks.

Thailand

Bank of Thailand and Bank Indonesia Sign Memorandum of Understanding on Payment Systems and Financial Innovation

The Bank of Thailand and Bank Indonesia signed a memorandum of understanding on 4 April to strengthen payment systems and financial innovation cooperation between Thailand and Indonesia. The agreement also aims to strengthen the implementation of central bank policies and address the increasingly complex challenges in payments between the two economies. It will also reinforce the implementation of policies against money laundering and terrorism financing.

Viet Nam

State Treasury to Sell VND80 Trillion Worth of Bonds in the Second Quarter of 2019

In April, the State Treasury announced that it plans to issue VND80 trillion bonds in the second quarter of 2019. The issuance plan is as follows: (i) 5-year Treasury bonds worth VND10 trillion, (ii) 7-year Treasury bonds worth VND5 trillion, (iii) 10-year Treasury bonds worth VND26 trillion, (iv) 15-year Treasury bonds worth VND30 trillion, (v) 20-year Treasury bonds worth VND5 trillion, and (vi) 30-year Treasury bonds worth VND4 trillion. For 2019 as a whole, the government is targeting to issue VND200 trillion.

Regional

Asian Bond Markets Initiative Launches Medium-Term Road Map for 2019–2022

In May, a new Asian Bond Markets Initiative road map was launched covering the period 2019–2022. The road map outlines the directions and major activities of the Asian Bond Markets Initiative for the next 4 years, including (i) deepening support for infrastructure finance, (ii) promoting green bonds and bonds issued via the ASEAN+3 Multi-Currency Bond Issuance Framework, (iii) fostering standardization and harmonization of bond market regulations, (iv) improving bond market infrastructure to facilitate cross-border transactions, and (v) enhancing collaboration among regional initiatives.