Policy and Regulatory Developments

People's Republic of China

National Development and Reform Commission Eases Bond Issuance Regulations

In March, the National Development and Reform Commission launched a registration-based system for the public issuance of enterprise and corporate bonds to replace the previous approval-based corporate and enterprise bond issuance system. Starting 1 March, the National Development and Reform Commission began registering the issuance of enterprise bonds if a firm's average distributable profits over the last 3 years were enough to cover 1 year of interest. The new system was expected to reduce the issuance period of enterprise bonds to 2 weeks from 2–6 months.

People's Bank of China Reduces Reserve Requirement Ratios for Small Banks

In April, the People's Bank of China announced a reduction in the reserve requirement ratio for small banks by a total of 100 basis points (bps), a 50-bps cut each on 15 April and 15 May. The reductions released a total of around CNY400 billion into the domestic economy, which has been negatively impacted by the outbreak of COVID-19. The People's Bank of China has stepped up its policy easing measures since February, cutting the benchmark leading rate and encouraging banks to offer cheap loans to firms hit hardest by the pandemic.

Hong Kong, China

Hong Kong Monetary Authority Reduces Countercyclical Capital Buffer to 1.0%

On 16 March, the Hong Kong Monetary Authority (HKMA) reduced its countercyclical buffer to 1.0% from 2.0% amid worsening economic conditions brought about by the coronavirus disease (COVID-19) outbreak. The move was intended to release additional funds that would allow banks to extend credit to support financing needs in the domestic economy, particularly for sectors and individuals affected by the downturn. The countercyclical buffer is an integral part of the Basel III regulatory capital framework designed to increase the resilience of the banking sector during periods of excess credit growth.

Hong Kong Monetary Authority Reduces Issuance of Exchange Fund Bills by HKD20.0 billion in April–May

On 9 April, the HKMA announced a reduction in the issuance of Exchange Fund Bills (EFBs), which was aimed at raising Hong Kong dollar liquidity in the interbank market. The HKMA reduced the issue size of 91-day EFBs by HKD5.0 billion in each of the tenders held on 21 April, 28 April, 5 May, and 12 May. The combined reduction lowered the issuance of EFBs by a total of HKD20.0 billion.

Hong Kong Monetary Authority Introduces a Temporary US Dollar Liquidity Facility

On 22 April, the HKMA announced the introduction of a temporary US dollar liquidity facility that will provide US dollar liquidity assistance to licensed banks through competitive tenders of 7-day repurchase transactions. Starting 6 May, the HKMA began conducting a tender once per week. Eligible banks can submit a bid of at least USD100 million or multiples thereof. The HKMA intends to maintain the facility, which currently has USD10.0 billion of available funds, until 30 September. It will also consider market conditions and revise arrangements as necessary.

Indonesia

Otoritas Jasa Keuangan Issues Regulations for the Issuance of Debt Securities Through Private Placements

In March, Otoritas Jasa Keuangan (OJK) issued regulations for the issuance of debt instruments, including *sukuk*, through private placements. The regulations, which are set to became effective in June, placed the legality of instruments issued through private placements similar to that of bonds and provide investor protections. Under the regulations, firms that undertake issuance of debt securities—in particular, medium-term notes or *sukuk*—through a private placement will be required to (i) file for registration with OJK, (ii) obtain an investment grade from an OJK-certified credit rating agency for persons outside the scope of public companies, (iii) avail the services of an arranger and monitoring agent, and (iv) limit the buying of medium-term notes to professional investors.

Bank Indonesia Lowers Reserve Requirement Ratios

In April, Bank Indonesia announced a 200-bps reduction in the rupiah reserve requirement ratio for conventional commercial banks and a 50-bps cut for Islamic banks and Islamic business units. The adjustment in reserve requirement ratios took effect in May and formed part of Bank Indonesia's accommodative macroprudential policy stance to stimulate bank intermediation and mitigate the economic impact of COVID-19.

Bank Indonesia to Purchase Government Bonds in the Primary Market

In April, Bank Indonesia commenced its participation in the weekly auctions of the government to purchase Treasury instruments. Previously, Bank Indonesia was only allowed to purchase bonds from the secondary market. The regulation, in lieu of Law 1/2020 that was passed in March, allows the central bank to participate in the weekly auctions as a noncompetitive bidder. Bank Indonesia and the Ministry of Finance set a limit on the central bank's bond purchases at 30% for Shari'ah Treasury auctions and 25% for conventional Treasury auctions. Bank Indonesia's purchase of government bonds in the primary market is only allowed when the market is unable to absorb the offers.

Republic of Korea

The Bank of Korea Announces Measures to Boost Market Liquidity

On 26 March, the Bank of Korea announced measures to support market liquidity and stabilize financial markets. This included the conduct of weekly repo auctions for a period of 3 months. It also expanded the range of institutions eligible for the auctions from five to 16 nonbanks, eligible securities will now include eight bonds issued by public organizations, and eligible collateral has been extended to eight bonds issued by public organizations and bank debentures.

The Bank of Korea Launches Corporate Bond-Backed Lending Facility

On 16 April, the Bank of Korea launched the Corporate Bond-Backed Lending Facility to allow banks and non-bank financial institutions that can provide high-rated corporate bonds as collateral to access credit from the central bank. The facility will have a ceiling of KRW10 trillion and a term of 3 months; this can be adjusted after an assessment of financial market conditions.

National Assembly Passes KRW12.2 Trillion Supplementary Budget

On 30 April, the National Assembly passed the government's second supplementary budget, which was revised upward to KRW12.2 trillion from KRW7.6 trillion. As part of the government's financial support package, funds will be used to aid sectors affected by the COVID-19 pandemic, particularly financing of the household emergency relief program. KRW8.8 trillion will be sourced from spending restructuring, and the remaining KRW3.4 trillion will be raised via debt issuance.

Malaysia

Bank Negara Malaysia Decreases Statutory Reserve Requirement

On 19 March, Bank Negara Malaysia decreased the statutory reserve requirement ratio from 3.0% to 2.0%. Principal dealers can now include up to a total of MYR1.0 billion worth of Malaysian Government Securities and Government Investment Issues in the computation of their reserves. On 5 May, the central bank allowed all banking institutions to do the same, although no cap on the total amount was mentioned. The measures are expected to release MYR46.0 billion worth of liquidity into Malaysia's banking system to support financial activities in the market.

FTSE Russell Keeps Malaysia on Its Watchlist

On 2 April, FTSE Russell decided to keep Malaysia on its watchlist during its interim March review, saying it would continue to monitor Malaysia for a possible downgrade. To avoid being removed from the FTSE Russell World Government Bond Index, Malaysia has been given 6 months to improve its market conditions. Since its placement on the watchlist last year, Malaysia has implemented regulations to improve bond and foreign exchange liquidity conditions. The decision on whether or not to exclude Malaysia from the benchmark index is expected during FTSE Russell's annual review in September.

Philippines

Bangko Sentral ng Pilipinas Cuts Reserve Requirement Ratio to Support the Economy amid COVID-19

The Bangko Sentral ng Pilipinas (BSP) announced a cut to the reserve requirement ratio (RRR) of universal and commercial banks by 200 bps on 24 March, effective on 3 April. According to the central bank, the RRR cut was intended to encourage banks to lend to the retail and corporate sectors, and to ensure that there is enough liquidity to support economic activities amid the COVID-19 pandemic. The Monetary Board has authorized the Governor of the BSP to reduce the RRR by as much as 400 bps in 2020. The BSP will assess the pandemic's ongoing impact on the domestic economy to determine the timing and extent of possible further reductions. The possibility of extending the RRR cut to other types of banks and non-bank financial institutions is being explored.

Bangko Sentral ng Pilipinas Announces Measures to Support Domestic Liquidity

On 10 April, the BSP announced measures to support domestic liquidity to ensure stability and the proper functioning of the financial market. Based on the BSP's statement, the measures include (i) purchases of government securities in the secondary market, (ii) a reduction of overnight reverse repurchase volumes to encourage counterparties to lend in the interbank market or to rechannel their funds into other assets such as government securities or loans, and (iii) a repurchase agreement with the government where the BSP shall purchase government securities worth up to PHP300 billion from the Bureau of the Treasury.

Singapore

Monetary Authority of Singapore and Federal Reserve Establish Swap Facility

On 19 March, the Monetary Authority of Singapore (MAS) and the United States Federal Reserve established a USD60.0 billion swap facility to address liquidity concerns amid the COVID-19 pandemic. In place for at least 6 months, the swap facility provides stable liquidity conditions in the US dollar funding market in Singapore. It also complements MAS' management of the Singapore dollar market. Together, these measures reinforce the robustness and efficiency of Singapore's financial market.

Monetary Authority of Singapore Adjusts Regulations to Support Financial Institutions

On 7 April, MAS adjusted regulatory and supervisory measures to support financial institutions as they deal with the impact of the COVID-19 pandemic. To help financial institutions sustain their lending activities, MAS adjusted downward the net stable funding ratio requirement to 25% from 50%. It will also allow financial institutions to factor in the government's fiscal assistance and banks' relief measures in accounting loan loss allowances. As businesses focus on managing the impact of COVID-19, the implementation of Basel III reforms for Singaporean banks has been deferred for 1 year. MAS will coordinate with financial institutions for revised timelines for the submission of regulatory reports. Regular on-site inspections and supervisory visits will be suspended indefinitely; MAS assessments will focus instead on how financial institutions handle the impacts of COVID-19 on their businesses.

Thailand

Public Debt Management Office to Issue Shorter-Dated Bonds

In March, the Public Debt Management Office (PDMO) announced that it will adjust its bond issuance plan to include shorter-dated bonds amid weak demand for government bonds due to heightened uncertainties caused by the COVID-19 pandemic. The PDMO announcement came after a wave of fixed-income redemptions as alarm over COVID-19 drove investors to switch from debt instruments to cash.

Bank of Thailand Implements Measures to Stabilize Bond Market

In March, the Bank of Thailand (BOT) implemented several measures to alleviate the impact of COVID-19 on the Thai bond market. It established a mutual fund liquidity facility to provide liquidity for mutual funds through commercial banks. The BOT promised to inject about THB1.0 trillion into the bond market through the facility, which will be available until market conditions normalize. Commercial banks that buy investment units of high-quality mutual funds in money market and daily fixed-income funds can apply for liquidity support and use the underlying investment assets as collateral.

Along with the Thai Bankers' Association, the Government Savings Bank, Thai insurance providers, and the Government Pension Fund, the BOT also launched a Corporate Bond Stabilization Fund amounting to THB70 billion–THB100 billion. The fund will be used to inject liquidity into the corporate bond market by buying newly issued investment-grade bonds by corporates that cannot fully rollover maturing debt. The BOT will also continue to purchase government bonds to ensure stability in the government bond market.

Bank of Thailand Revises Bond Issuance Program

On 11 May, the BOT launched a revised bond issuance program for 2020 to accommodate the government's financing needs to fund relief measures and respond to changes in investor sentiment amid the COVID-19 pandemic. The auction days and frequency will remain as announced at the beginning of the year, but the BOT may adjust the issue sizes and will notify market participants of relevant changes at least 2 days before the auction dates. If necessary, the BOT will adjust the auction frequency of 3-month and 6-month BOT bills and of fixed-coupon bonds to accommodate the issuance schedule of Treasury bills and government bonds of comparable tenors. The ranges and minimum issue size per auction were expanded to between TH10.0 billion and THB60.0 billion for all maturities of BOT bills. The BOT will closely coordinate with the PDMO and take into consideration domestic and global market conditions in setting the issue sizes of BOT bills and bonds.

Viet Nam

State Bank of Vietnam Issues Circular on Reserve Requirements

In December, the State Bank of Vietnam issued a circular that grants credit institutions either a lower reserve requirement ratio or a reserve requirement waiver. Circular 30/2019/TT-NHNN identified cases where credit institutions would be granted a reserve requirement waiver: (i) the credit institution is placed under special control; (ii) the credit institution has not yet started its business; and (iii) the credit institution is given an approval for dissolution, issued a decision to institute bankruptcy proceedings, or issued a decision on the revocation of a business license by a competent authority. The circular also granted credit institutions that support the system restructuring a 50% reduction in the reserve requirement rate. The new circular took effect on 1 March 2020.[9]

[9] *Hanoi Times*. 2020. Vietnam C. Bank's New Circular to Turn USD1.73 Billion Required Reserves to Loans. 4 January.