Policy and Regulatory Developments

People's Republic of China

Southbound Trading of Bond Connect Launched

In September, the Hong Kong Monetary Authority (HKMA) and the People's Bank of China jointly announced the opening of the southbound leg of the Bond Connect scheme. This will allow residents in the People's Republic of China (PRC) to buy bonds in Hong Kong, China, thereby facilitating outward investment flows. The People's Bank of China said that total transactions reached CNY4 billion during the first day of the launch.

Tax Incentives for Foreign Investors Extended

In October, the PRC extended tax exemptions for foreign investors in the PRC's domestic bond market, which was set to expire in November. The incentives exempt foreign investors from corporate income taxes and value-added taxes on bond investments. Exemptions were extended until the end of 2025.

Hong Kong, China

Hong Kong Monetary Authority Increases Issuance of Exchange Fund Bills

To meet the rise in demand for Exchange Fund Bills (EFB) amid excess liquidity in the financial system, the HKMA increased its issuance of 91-day EFBs starting in September. The HKMA increased the planned issuance size of 91-day EFBs by HKD5 billion in each of the tenders scheduled from 7 September to 21 December. The HKMA will monitor market conditions during the period and maintain the flexibility of adjusting or not executing the increases if deemed necessary.

Indonesia

Tax Cuts on Bond Investments for Domestic Investors

On 30 August, the Government of Indonesia reduced the tax on interest income on bond investments for domestic investors. The tax rate was lowered to 10% from the previous 15% to align the tax rate with that of foreign investors. (In February, the government reduced the tax on interest income for foreign bond investors from 20% to 10%.) The move is expected to further deepen the local currency bond market, encourage greater participation from domestic investors, and enhance liquidity. The tax cut applies to investments in both government bonds and corporate bonds, including *sukuk*.

Parliament Approves 2022 State Budget

In September, the Indonesian Parliament approved the 2022 state budget, which programs a lower budget deficit equivalent to 4.9% of gross domestic product (GDP) versus 5.8% in the 2021 state budget. The 2022 state budget sets the state revenue at IDR1,846.1 trillion, while state spending is estimated at IDR2,714.2 trillion. Macroeconomic assumptions used for the 2022 state budget include (i) economic growth of 5.2%, (ii) average consumer price inflation of 3.0%, (iii) an exchange rate of IDR14,350.0 per USD1.0, (iv) an average 10-year bond yield of 6.8%, and (v) an Indonesian crude oil price of USD63.0 per barrel.

Republic of Korea

The Government of the Republic of Korea Passes 2022 Budget Proposal

On 3 September, the Government of the Republic of Korea passed for approval to the National Assembly its 2022 budget proposal of KRW604.4 trillion. The proposed budget is 8.3% higher than the original 2021 budget of KRW558.0 trillion, and almost at par with the revised KRW604.9 trillion budget that includes all supplementary budgets passed during the year. The budget aims to aid citizens and society in the recovery from the pandemic, promote inclusive growth, and prepare for a post-pandemic economy. The 2022 budget is also expected to reduce the fiscal deficit by KRW20.0 trillion as tax revenues are expected to improve on the back of the continued economic recovery. The fiscal deficit as a percentage of gross domestic product is forecast to decline to 2.6% in 2022 from 4.4% in 2021.

Malaysia

Bank Negara Malaysia Launches Malaysia Overnight Rate

On 24 September, Bank Negara Malaysia (BNM) announced that the Malaysia overnight rate (MYOR) will be the new alternative reference rate for Malaysia. MYOR will be based on transactions in liquid markets, reflecting accurately Malaysia's financial environment. BNM clarified that the Kuala Lumpur interbank offered rate (KLIBOR) will still be used for other financial transactions. Periodic reviews will be conducted, however, to ensure that MYOR and KLIBOR are reflective of current market conditions. These benchmarks allow consumers to have the flexibility of choosing whichever rate suits their needs. The introduction of MYOR also broadens investors' risk management strategies. BNM also announced the discontinuation of the 2-month and 12-month KLIBOR starting 1 January 2023, as these rates are not used much in the financial market. Efforts are ongoing to develop a new Islamic benchmark rate to replace the Kuala Lumpur Islamic Reference Rate by the first half of 2022.

Philippines

Bureau of the Treasury Sets Borrowing Program to PHP400 Billion in October and November

The Bureau of the Treasury (BTr) which sets its borrowing plan on a monthly basis, planned to borrow PHP200 billion each in the months of October and November. The monthly amount is lower compared with the borrowing program in September, which was set at PHP250 billion. The planned monthly debt sale is composed of PHP60 billion of Treasury bills and PHP140 billion of Treasury bonds. It remained focused on longer-term debt as the BTr wanted to extend the debt maturity profile.

Bureau of the Treasury Issues Its First Onshore Retail Dollar Bonds

On 15 September, the BTr launched its maiden issuance of Retail Dollar Bonds (RDBs). The BTr stated that the RDB offer aimed to further advance financial inclusion in the Philippines by diversifying the investor portfolio. At the same time, the RDBs also diversified the government's funding types and sources. The RDB issuance comprised 5-year and 10-year tenors with coupon rates of 1.375% and 2.250%, respectively. The BTr issued a total of USD1.59 billion: USD1.11 billion of 5-year bonds and USD0.48 billion of 10-year bonds. The last time the BTr issued onshore USD-denominated bonds was in December 2012, when they were offered to institutional investors only.

Singapore

Monetary Authority of Singapore Issues Cash Management Treasury Bills

On 3 November, Monetary Authority of Singapore (MAS) issued a 7-day Cash Management Treasury Bill (CMTB) under the Local Treasury Bills Act to test the operational preparedness of the issuance. CMTBs are MAS's new financial instruments that are Singapore Government Securities bills with tenors of less than 6 months. CMTBs will be issued as a cash management instrument to allow the government to manage its short-term cashflows. MAS will not adhere to a schedule for the issuance of CMTBs, which will be issued on an ad hoc basis.

Thailand

Thai Government Raises Debt Ceiling

On 20 September, the Government of Thailand increased the debt ceiling from 60% to 70% of GDP to allow the government to raise more funds for its economic recovery efforts. The government had earlier issued an emergency loan decree in 2020 that authorized the Ministry of Finance to borrow THB1 trillion for economic stimulus measures. A second decree was issued in June 2021 allowing the government to borrow an additional THB500 billion to fund relief measures to combat the impacts of the prolonged pandemic. Thailand's public debt-to-GDP ratio stood at 57% as of September 2021.

Thailand to Issue More Long-Term Government Bonds

On 1 October, Thailand's Public Debt Management Office announced its plan to increase the share of long-dated bonds to finance the government's economic stimulus programs. Government bonds will comprise 48%–56% of total borrowing in fiscal year 2021–2022. In the previous fiscal year, government bonds comprised 31% of total borrowing as the government relied more on short-term instruments such as promissory notes and Treasury bills. For fiscal year 2021–2022, Treasury bills will comprise 23% of total borrowing, while promissory notes will comprise a 16%–25% share. Savings bonds and bond switching will each account for a 6% share of the total borrowing.

Viet Nam

State Treasury Implements Multiple Price Auction for 5-Year Treasury Bonds

On 6 October, the State Treasury implemented a pilot auction using a multiple price method for 5-year Treasury bonds. In a multiple price auction, the successful bidders pay the price stated in their respective bids for the allotted quantity of securities. The expected offering volume for the 5-year Treasury bond auctions was VND1,000–VND2,000 billion per session. For the rest of the tenors, the auction followed the uniform price method.[7]

[7] *Vietnam Bond Market Association*. 2021. "The State Treasury to Implement Pilot Auctions of Government Bonds by Multi-Price Method." 21 September. https://vbma.org.vn/en/activities/kho-bac-nha-nuoc-thi-diem-trien-khai-phat-hanh-trai-phieu-chinh-phu-theo-phuong-thuc-dau-thau-da-gia.