Policy and Regulatory Developments

People's Republic of China

People's Bank of China Expands Collateral Usage

On 1 June, the People's Bank of China (PBOC) issued guidelines expanding the types of collateral that banks can use for the central bank's medium-term lending facility. The expanded collateral coverage will include bonds issued by small- and micro-sized institutions, green and agricultural financial bonds rated AA and above, corporate bonds rated AA+ or AA, and high-quality small- and micro-sized loans and green loans.

People's Bank of China Reduces Reserve Requirement Ratio

On 24 June, the PBOC reduced the reserve requirement ratio of some banks by 50 basis points. Specifically, the following larger banks and 12 joint-stock commercial banks, must use freed-up funds to carry out debt–equity swap programs: Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications. In addition, Postal Savings Bank of China, city commercial banks, non-county rural banks, and foreign-funded banks must use funds freed up by the reduction to support lending to small- and micro-sized enterprises.

Hong Kong, China

People's Bank of China Enhances Cross-Border Fund Flow Management

In May, the PBOC announced a series of measures to enhance cross-border fund flow management. These include enhancing the existing policy framework to allow offshore renminbi business-clearing banks and participating banks to tap renminbi liquidity from the onshore market to support offshore renminbi business development, implementing the central bank's bilateral currency swap agreements, adjusting the required reserve ratio of renminbi deposits placed by Hong Kong, China's renminbi business-clearing bank in the settlement account in PBOC's Shenzhen subbranch to 0%, and further enhancing the currency conversion mechanism for Shanghai–Hong Kong Stock Connect and Shenzhen–Hong Kong Stock Connect to facilitate overseas investors' use of renminbi and foreign currencies for investments. The changes were well received by the Hong Kong Monetary Authority, which believes the new measures will ensure smooth offshore market operations and support Hong Kong, China's development as the global offshore renminbi business hub.

Indonesia

Bank Indonesia Resumes Issuance of 9-Month and 12-Month Conventional SBI

On 23 July, Bank Indonesia resumed issuance of 9-month and 12-month Sertifikat Bank Indonesia (SBI). The central bank sold IDR4.2 trillion of 9-month SBI and IDR1.8 trillion of 12-month SBI during the auction. The issuance of conventional SBI is expected to help attract foreign portfolio investment into the Indonesian market and provide more diversity in the instruments being issued by the central bank. Since December 2016, only Sharia-compliant SBI had been issued on a monthly basis.

Bank Indonesia Introduces New Overnight Reference Rate

On 1 August, Bank Indonesia launched a new interbank overnight reference rate called the Indonesia Overnight Index Average (IndONIA). This new rate replaces the overnight Jakarta Interbank Offered Rate (JIBOR). However, JIBOR remains as a pricing reference for longer tenors. Bank Indonesia will continue to provide overnight JIBOR rates until the end of year as the market transitions to using the IndONIA. The shift to a new overnight reference rate will provide a more reliable market-based reference pricing for loan rates and financial instruments. IndONIA is based on the weighted average of all transactions in the interbank lending market by all banks during the day. JIBOR is based on the average loan rates quoted by banks. The new rate will be published by Bank Indonesia at 7:30 p.m. each day (local time).

Republic of Korea

Ministry of Economy and Finance Announces Economic Policies for Second Half of 2018

In July, the Ministry of Economy and Finance (MEF) released its assessment of economic policies implemented in the first half of 2018 and the planned program for the second half. The MEF reiterated its focus on consumption as a driver of growth through improved employment, wages, and innovation. For the first half of the year, the MEF described positive trends in exports and consumption, but noted risks such as the trade conflict between the People's Republic of China and the United States, rising oil prices, and financial market volatility in some emerging markets. Employment growth has been slowing in major industries amid a decline in the working-age population. Improvements are expected in the second half of the year with the implementation of the supplementary budget. For the remainder of the year, policies will continue to focus on creating new jobs and improving (and working on passage of) new regulations promoting innovation. To continue with an expansionary fiscal policy, the government will increase spending by around KRW4 trillion.

Malaysia

Malaysia's New Administration Scraps Goods and Services Tax

Malaysia scrapped the 6% goods and services tax (GST), effective 1 June, as a fulfillment of Prime Minister Mahathir Mohamad's campaign promise after his unexpected victory in the general election on 9 May. The abolition of the GST aimed to spur spending in Malaysia and address the rising costs of living. The new administration plans to replace the abolished GST with a sales and services tax (SST). Under the SST, the provision of services will be taxed at 6%, while the sale of goods will incur a 10% tax. The Ministry of Finance stated that the SST system would benefit Malaysia's low-income earners in the long run. The new tax system is expected to be implemented beginning 1 September after the necessary laws have been passed in Parliament.

Philippines

BSP Relaxes Rules on Foreign Exchange

On 18 May, the Bangko Sentral ng Pilipinas announced that the conversion of foreign currency loans to pesos and the transfer of such loans to regular banking unit books no longer requires prior central bank approval, provided that the concerned bank understands the risks inherent in such actions. It must have proper risk management policies in place to mitigate risks in managing such transactions. The move is part of the central bank's efforts to liberalize foreign exchange rules.

Singapore

International Finance Corporation and Monetary Authority of Singapore Work Together to Promote Green Bonds in Asia

On 7 June, the International Finance Corporation and Monetary Authority of Singapore signed a memorandum of understanding to promote green bonds in Asia and the Pacific. They will hold capacity building programs to improve awareness and knowledge of green financing issuances, and will promote international best practices and frameworks related to green bonds. Through the partnership, they hope to address climate change through the financing of low-carbon investments in the region.

Thailand

Thailand's Cabinet Approves Medium-Term Fiscal Plan, 2019–2020

Thailand's cabinet approved the medium-term fiscal plan for 2019-2020 in accordance with the Fiscal Responsibility Act, which seeks to maximize the effectiveness of budget spending and prevent pork barrel schemes. Under the approved plan, the government is set to increase tax collections and reduce infrastructure expenditures through public–private partnerships and the Thailand Future Fund. In addition, the government will run a budget deficit of THB450 billion in 2018–2019, THB452 billion in 2020, and THB524 billion in 2021.

Viet Nam

State Bank of Vietnam Issues Regulation Governing Purchase of Corporate Bonds by Banking Institutions

In June, the State Bank of Vietnam issued a regulation that restricts the purchase of corporate bonds by banking institutions, including foreign banks. Under the regulation, credit institutions and foreign bank branches are required to conduct an internal credit scoring and rating of corporate bonds that they plan to purchase. Also, internal management regulations are required to be made for evaluating bond investments, particularly for corporate bonds issued to finance projects in potentially risky areas. Credit institutions and foreign bank branches are also prohibited from purchasing corporate bonds that are issued to fund corporate debt restructuring. This law came into effect in August.