Policy and Regulatory Developments

People's Republic of China

People's Bank of China Reduces Reserve Requirement Ratios

Effective 15 July, the People's Bank of China (PBOC) reduced the reserve requirement ratio of financial institutions by 50 basis points (excluding institutions with an existing 5% reserve requirement ratio). The PBOC estimated that the move would reduce the weighted average reserve requirement ratios of financial institutions to 8.9%. The PBOC's stated goal was to reduce borrowing costs and support the economy.

Hong Kong, China

Hong Kong Monetary Authority Holds Countercyclical Capital Buffer at 1.0%

On 5 August, the Hong Kong Monetary Authority announced that the countercyclical buffer (CCyB) would remain unchanged at 1.0%. The Hong Kong Monetary Authority noted that while there have been initial signs of recovery, the economy continued to face uncertainties driven by the global pandemic. Thus, holding the CCyB steady and monitoring the economic situation for a few more quarters was deemed more appropriate. The CCyB 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. A lower CCyB releases additional liquidity into the banking system by raising banks' lending capacity to support the economy.

Indonesia

Bank Indonesia Broadens Local Currency Settlement Framework with Bank Negara Malaysia and the Ministry of Finance, Japan

Effective 2 August, Bank Indonesia and Bank Negara Malaysia expanded their local currency settlement framework to encourage the use of Indonesian rupiah and Malaysian ringgit for the settlement of trade and direct investment transactions between Indonesia and Malaysia. The new policies in the expanded settlement framework are as follows: (i) inclusion of direct investments, income, and transfers as eligible transactions; (ii) inclusion of individuals as eligible participants; and (iii) simplified documentary requirements for tapping the framework. Both central banks also appointed additional banks to facilitate the local currency settlement framework.

Effective 5 August, Bank Indonesia and the Ministry of Finance, Japan relaxed some policies related to their existing Indonesian rupiah and Japanese yen settlement framework. This move was made to further support trade and investment activities between Indonesia and Japan. The policies that were relaxed include the (i) use of cross-currency swap and domestic nondeliverable forward transactions as hedging tools, (ii) removal of underlying documents for transactions of up to USD500,000 from the previous USD25,000, and (iii) expansion of eligible criteria for hedging transactions and extension of hedging maturities to more than 1 year.

Republic of Korea

National Assembly Passes Second Supplementary Budget

On 24 July, the National Assembly passed the second supplementary budget for 2021 worth KRW34.9 trillion, which was KRW1.9 trillion higher than the proposed amount. This was the sixth supplementary budget related to the government's response to the pandemic since 2020: KRW14.9 trillion was allotted for pandemic relief packages, KRW12.6 trillion for local economic support and subsidies to local governments, KRW4.9 trillion for vaccine purchases and disease prevention efforts, and KRW2.5 trillion for employment support and low-income household aid. The supplementary budget brought the overall budget for 2021 to KRW604.9 trillion from an original amount of KRW558.0 trillion. The new 2021 budget is expected to produce a fiscal deficit equal to 4.4% of GDP and cumulative government debt equal to 47.2% of GDP.

The Bank of Korea Announces Changes to Monetary Stabilization Bonds Issuance System

On 2 August, the Bank of Korea announced changes to the issuance system of Monetary Stabilization Bonds (MSBs) to enhance liquidity management efficiency. Regular auctions of 182-day MSBs will be suspended given the introduction of 3-year MSBs. Meanwhile, the issuance of 1-year, 2-year, and 3-year MSBs will be held once a month. Issuance of 91-day MSBs—at auctions to be held once a week—will be slightly expanded to around KRW1 trillion. Finally, the issuance of 1-year and 2-year MSBs will be significantly reduced due to the issuance of 3-year MSBs. The new system will be implemented effective 1 September.

Malaysia

Bank Negara Malaysia Revises Reference Rate Framework

On 11 August, Bank Negara Malaysia released its revised Reference Rate Framework, effective 1 August 2022. In the revised version, all financial institutions will use a common rate, the standardized base rate, as the reference rate for new issuances of floating-rate notes and refinancing of existing loans in Malaysia. This replaces the current use of a base rate that differs across financial institutions. Furthermore, the standardized base rate will be linked to the overnight policy rate. The revision allows consumers to understand better the changes in their loan repayments. This will also facilitate the transmission of the policy rate to the broader economy.

Philippines

Bureau of the Treasury Plans to Borrow PHP685 Billion in the Third Quarter of 2021

The Bureau of the Treasury planned to borrow PHP235 billion from the domestic debt market in July, comprising PHP60 billion of Treasury bills and PHP175 billion of Treasury bonds. Less borrowing was set for August at PHP200 billion: PHP60 billion of Treasury bills and PHP140 billion of Treasury bonds. In September, the borrowing plan was set to PHP250 billion, comprising PHP75 billion of Treasury bills and PHP175 billion of Treasury bonds. The borrowing program in Q3 2021, totaling PHP685 billion, upsized the offer volume for longer-tenor securities, as the Bureau of the Treasury tried to extend its maturity profile amid strong market liquidity and low interest rates.

Bangko Sentral ng Pilipinas Eases Foreign Exchange Regulations

On 10 August, the Bangko Sentral ng Pilipinas (BSP) amended the foreign exchange (FX) regulations to allow access to FX without prior BSP approval in select trade and nontrade current account transactions. According to the BSP, the amendment will promote ease of use of FX resources of the banking system and further simplify procedures and documentary requirements for FX transactions. These transactions include (i) the sale of FX by banks without prior BSP approval involving payments for e-commerce; living allowance and medical expenses of dependents abroad; and importation of goods with services covered by engineering, procurement, and construction contracts among others; (ii) FX derivatives transactions to be entered into by nonbank government entities; and (iii) use of peso receipts relating to trade transactions to fund the peso deposit accounts of nonresidents. The reform took effect 15 banking days after its publication.

Singapore

Monetary Authority of Singapore to Issue Infrastructure Bonds in October

Monetary Authority of Singapore announced on 3 August that it would issue infrastructure bonds called Singapore Government Securities (Infrastructure) beginning 1 October. The first issuance of this kind will be a 30-year benchmark bond and the maiden issuance under the Significant Infrastructure Government Loan Act, which was passed by Singapore's Parliament on 10 May to fund major long-term infrastructure projects.

Thailand

Cabinet Approves Emergency Decree for Additional THB500 Billion of Borrowing

In June, Thailand's House of Representatives approved an executive decree authorizing the Ministry of Finance to borrow up to an additional THB500 billion for relief measures in response to the impacts of COVID-19. Up to THB30 billion will be allocated for the Ministry of Public Health. The rest of the loan amount was earmarked for assistance to individuals (THB300 billion) and businesses (THB170 billion) affected by the pandemic.

Viet Nam

Hanoi Stock Exchange Launches 10-Year Government Bond Futures

On 28 June, the Hanoi Stock Exchange launched the 10-year government bond futures, which will be traded on the exchange's derivatives market. The base asset of the derivatives product is a 10-year government bond issued by the State Treasury of Viet Nam amounting to VND100,000 and with an annual interest rate of 5.0%. According to the Hanoi Stock Exchange, the new bond futures product aims to diversify derivatives securities in the market and provide more risk prevention tools for long-term government bonds. The 10-year government bond futures is the third derivatives product in the Vietnamese bond market, following the VN30 Index and 5-year government bond futures.