

# Extension of Pre-approved Principal Payment Holiday Scheme for another six months

The following is issued on behalf of the Hong Kong Monetary Authority:

The Hong Kong Monetary Authority (HKMA) together with the Banking Sector SME Lending Coordination Mechanism (Mechanism) today (September 21) announced that the Pre-approved Principal Payment Holiday Scheme (Scheme) will be extended for another six months to end-April 2022.

The Hong Kong economy is recovering steadily from the shock brought by the COVID-19 pandemic. Hong Kong's gross domestic product rebounded by 7.8 per cent in the first half of the year and the latest unemployment rate eased to 4.7 per cent. The external trade and retail sales figures have also been recovering gradually to pre-pandemic levels. However, the HKMA and the Mechanism note that some economic sectors are still hard-pressed by the lingering pandemic and may not have fully benefited from the recent economic recovery yet. They may still face cash-flow pressure and are in need of continued credit relief. The spread of the virus variant in various places around the world also poses uncertainties for the economic recovery.

Taking into account the views of different stakeholders, the HKMA and the Mechanism have decided to extend the Scheme for another six months. All principal payments of loans falling due between November 2021 and April 2022 by eligible corporate customers will be deferred by six months except for repayments of trade loans, which will be deferred by 90 days. For loans which have been extended for 540 days or more successively since first drawdown (or trade loans which have been extended for 270 days or more successively since first drawdown), banks have the flexibility to offer different forms of suitable credit relief to help the customers ride out the current difficulties, subject to prudent risk management principles. Banks will not issue individual notifications to eligible customers regarding the deferment arrangement. Interested corporate customers may contact their banks. Deferment requests will be handled on a "pre-approved" basis.

The Financial Secretary, Mr Paul Chan, said, "Even as the Hong Kong economy is regaining momentum, some sectors remain beset by the pandemic and face difficult operating environment. I am pleased that the banking sector joins hands with the Government to support corporates in need by responding positively to the request by the commercial sectors to once again extend the Pre-approved Principal Payment Holiday Scheme."

The HKMA and the Mechanism note that corporates requiring loan extension under the Scheme have dropped to 2.7 per cent of all eligible corporates, from 16 per cent when the Scheme was first introduced. On the other hand, with the cumulative principal repayment holiday for borrowers under the

Scheme reaching two years, the challenge for banks' risk management is increasing. Many overseas jurisdictions have started to unwind the relief measures introduced during the pandemic. The HKMA and the Mechanism therefore consider it necessary to start exploring plans for the discontinuation of the Scheme. In the coming months, the HKMA will engage the banking industry to discuss the appropriate exit arrangements, with a view to ensuring that corporate customers in need will continue to receive appropriate credit support. Further details will be shared with the relevant customers once we are in a position to do so.

As the pandemic continues to exact its toll on the transportation sector, the HKMA and Mechanism, in consultation with the transportation sector, agree that banks should exercise greater flexibility in handling new financing applications from taxi operators for replacing older vehicles. Banks do not need to rigidly adhere to the 85 per cent loan-to-value ratio cap, provided that prudent risk management principles are observed and new loans are only used for the purchase of new vehicles. In order to further alleviate the cash-flow pressure faced by customers in the transportation sector, the Mechanism encourages banks to actively consider extending the maximum loan tenors for existing taxi and public light bus loans from 25 years to 30 years, and for non-franchised buses from seven years to 10 years, having regard to the circumstances of individual borrowers. In response to suggestions from the sector, the HKMA and the Mechanism have agreed to consider the option of allowing partial repayment of principal over a longer period as an alternative to the Scheme when planning for the exit from the Scheme.

If corporate customers have enquiries about the above arrangement, please contact the HKMA via the dedicated email account ([ppphs@hkma.gov.hk](mailto:ppphs@hkma.gov.hk)) or enquiry hotline (2878 1199).

## Background

The Banking Sector SME Lending Coordination Mechanism was established by the HKMA in October 2019. Participants include 11 banks that are most active in SME lending. The Hong Kong Association of Banks and the Hong Kong Mortgage Corporation Insurance Limited are also represented in the Mechanism. Since its establishment, the Mechanism has rolled out several rounds of relief measures for corporate customers, including the Scheme, loan tenor extensions, and the conversion of trade financing lines into overdraft facilities. At the end of August 2021, banks had granted over 76 000 cases of loan tenor extension and other forms of relief, involving an aggregate amount of HK\$870 billion.

The Scheme covers all corporate customers that have an annual sales turnover below HK\$800 million and that have no seriously overdue loan payments. The Scheme took effect in May 2020 with around 100 participating banks and covers around 120 000 eligible corporate customers. The Scheme had been extended twice in November 2020 and May 2021, for six months each time, to end-October 2021. From May to October 2020, 19 000 eligible corporate customers participated in the Scheme (participation rate of 16 per cent).

Following the Scheme's extension in May 2021, the number of participating corporate customers has dropped to 3 100 (participation rate of 2.7 per cent). All corporate loans including mortgages, vehicle loans and trade facilities are covered by the Scheme. The HKMA has reminded banks to be sympathetic to customers who are not eligible for the Scheme and to help tide them over this difficult time as long as it is consistent with prudent risk management principles to do so.