

HKMA and banking sector join forces to help Hong Kong's economy overcome outbreak of COVID-19

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

The Hong Kong Monetary Authority (HKMA) together with the major banks and Hong Kong Mortgage Corporation Insurance Limited (HKMCI) met representatives from the commercial sector (including Members of the Legislative Council) today (March 3) to exchange views on the effectiveness of banks' measures to support SMEs and discuss future follow up work in this regard.

At the meeting, the HKMA reported that, since the establishment of the Banking Sector SME Lending Coordination Mechanism in October 2019, the banking industry has introduced several rounds of measures to help corporate and retail customers. Nearly 9 000 applications from SMEs involving principal repayment holidays, loan extensions and relief loans have been approved thus far, involving over HK\$57 billion. This has helped reduce the cash-flow pressure on customers and lessen the impact of the outbreak of COVID-19 on the local economy.

As the outbreak continues, the HKMA and the HKMCI put forward today another round of five initiatives to further support SMEs in addressing cash-flow pressure:

1. The HKMA will introduce a series of measures aimed at increasing the banking sector's liquidity so that banks will have ample liquidity to support local economic activities. These include obtaining US dollars through repo transactions with the U.S. Federal Reserve for lending to local banks, clarifying aspects of the HKMA's Liquidity Facilities Framework to make it easier to use by banks, and further explaining HKMA's supervisory expectations on liquidity regulatory requirements so as to encourage banks to deploy their liquidity buffers more flexibly to support lending and other business activities. For details, please refer to the [circular](#) issued today.
2. The current level of regulatory reserves [Note 1] will be reduced by half to release a total of HK\$200 billion of lending capacity, providing banks with more room on their balance sheets to cater for future financing needs.
3. The HKMA has asked banks to consider arrangements to automatically offer extensions of loan tenor or principal repayment holidays to qualified SMEs without requiring them to make an application. Borrowers just need to indicate whether they will accept the offer or not.
4. Preparatory work by HKMCI and banks for the special 100 per cent Loan Guarantee under the SME Financing Guarantee Scheme announced in the Budget

has entered an advanced stage. The date for banks to receive applications from qualified SMEs will be announced shortly.

5. Banks said that they will allow SME customers in the import-export and manufacturing sectors facing cash-flow pressure due to delays in shipments to further extend the repayment period of trade financing facilities. They will also consider allowing more customers to apply to convert trade financing lines into temporary overdraft facilities so that customers can manage their cash flow more flexibly.

Since the beginning of the outbreak, the banking industry has responded positively to HKMA's call to introduce various measures to help relieve customers' cash-flow pressure. The key points are:

1. Using the Banking Sector SME Lending Coordination Mechanism, the HKMA has clarified various regulatory requirements, allowing banks to more effectively support SMEs.
2. The banking industry has introduced measures to help SME and retail customers, including principal repayment holidays for SME loans and residential mortgages, extension of loan tenors for SME borrowers, conversion of trade financing lines into temporary overdraft facilities and special loans to customers engaging in sectors affected by the outbreak.
3. The measures have worked as intended. As at the end of March, nearly 9 000 applications have been approved by 16 banks active in SME financing, amounting to over HK\$57 billion. As for personal customers, banks have approved 2 800 applications of principal repayment holidays for residential mortgages and emergency loans, amounting to over HK\$8 billion.
4. Amongst the approved SME cases, around HK\$32 billion relate to the granting of principal repayment holidays and over HK\$20 billion to extension of loan tenors.
5. Sectors such as transportation, import and export, retail and tourism that are hard hit by the outbreak have benefited most from these measures. Nearly 7,800 applications from SMEs engaging in these sectors have been approved with total loans exceeding HK\$40 billion.

In addition, the HKMA has made adjustments to regulatory requirements in a timely way to allow banks more flexibility to provide credit and support the local economy:

1. The HKMA has lowered the Countercyclical Capital Buffer (CCyB) ratio twice by a total of 1.5 percentage points since October last year, releasing around HK\$700-800 billion of lending capacity, enabling banks to provide more credit.
2. Despite the deteriorating economic environment, total loans granted by the banking sector increased by HK\$192 billion during the five months from end-September 2019 to end-February 2020. Overall credit line granted by banks to

SMEs in the fourth quarter of last year also grew by HK\$6.9 billion, indicating that lowering the CCyB ratio had a positive impact on banks' ability to support their customers.

3. The HKMA issued a guideline to banks in March this year, deferring the implementation of the various requirements under the Basel III framework so that banks can focus on addressing the challenges brought about by the coronavirus outbreak.

The HKMA will work closely with the banking industry to actively implement the above measures through the Banking Sector SME Lending Coordination Mechanism and other channels so as to help our society to ride out these difficult times.

[Note 1] Regulatory reserve means that portion of a bank's retained earnings earmarked for the purpose of maintaining adequate provision for possible credit losses.