

Monetary Authority Announces Countercyclical Capital Buffer for Hong Kong

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

The Monetary Authority announced today (July 9) that the countercyclical capital buffer (CCyB) for Hong Kong will remain at 2.5 per cent.

"System-wide risks in Hong Kong associated with a period of excessive credit growth have not subsided. Housing affordability remains highly stretched and household debt-to-GDP ratio has risen to a new high," the Monetary Authority, Mr Norman Chan said. "It is therefore appropriate to maintain the CCyB at 2.5% at this juncture, providing additional buffer to shock should systemic risks crystallise."

Further details of the decision may be found in the [Announcement of the CCyB to Authorized Institutions](#) on the HKMA website.

Background

In setting the CCyB rate the Monetary Authority considered a series of quantitative indicators and qualitative information including an "indicative buffer guide" (which is a metric providing a guide for CCyB rates based on the gap between the ratio of credit to GDP and its long term trend, and between the ratio of residential property prices to rentals and its long term trend). The latest indicative buffer guide, calculated based on 2019 Q1 data, signals a lower than current CCyB of 1.75 per cent mostly due to the recent narrowing of the credit to GDP gap from more than 12 per cent in the previous quarter to about 9 per cent, reflecting the recent slowdown in loan growth. The property price to rental gap, however, has widened again, reflecting the recent recovery of residential property prices.

Whilst the indicative buffer guide, as its name suggests, provides only a "guide" for CCyB decisions, the determination of a CCyB ratio is not a mechanical exercise and, in addition to the indicative buffer guide, the Monetary Authority also reviewed a range of other reference indicators. These included measures of: bank, corporate and household leverage; debt servicing capacity; profitability and funding conditions within the banking sector and macroeconomic imbalances. The information drawn from these sources suggests that a CCyB of 2.5 per cent would be more appropriate at this stage.

The CCyB is an integral part of the Basel 3 regulatory capital framework and is being implemented in parallel by Basel Committee member jurisdictions worldwide. The CCyB has been designed by the Basel Committee to increase the resilience of the banking sector in periods of excess credit growth. The banking sector can then act as a "shock absorber" in times of stress, rather

than as an amplifier of risk to the broader economy.

The specific CCyB requirement applicable to a given authorised institution (AI) is expressed as a percentage of its CET1 capital to its total risk-weighted assets. Each AI's CCyB requirement may vary depending on the geographic mix of its private sector credit exposures and the CCyB rate applicable in each jurisdiction where it has such exposures.

The power to implement the CCyB in Hong Kong is provided by the Banking (Capital) Rules, which enable the Monetary Authority to announce a CCyB rate for Hong Kong if the Monetary Authority considers that a period of excessive credit growth in Hong Kong is leading to a build-up of system-wide risks in the financial system of Hong Kong.