

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 (March 16) that the countercyclical capital buffer (CCyB) for Hong Kong is reduced from 2.0% to 1.0% with immediate effect.

"Economic indicators and other relevant evidence have signaled that the economic environment in Hong Kong has deteriorated further since the novel coronavirus outbreak. The HKMA has been taking actions, including the establishment of the Banking Sector SME Lending Coordination Mechanism, to encourage the banking sector to continue supporting the financing need of SMEs in Hong Kong." Mr. Eddie Yue, the Monetary Authority, said. "Lowering the countercyclical capital buffer at this juncture will allow banks to be more supportive to the domestic economy, in particular those sectors and individuals that are expected to experience additional short-term stress due to the impact arising from the outbreak."

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 ratio 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 ratio 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 Q4 data, signals a CCyB of 1.75%. The projection based on all available data however suggests that the indicative buffer guide would very likely signal a lower CCyB than this when all relevant 2020 Q1 data become available.

Whilst the indicative buffer guide, as its name suggests, provides only a "guide" for CCyB decisions, the determination of the jurisdictional CCyB ratio for Hong Kong is not a mechanical exercise and, in addition to the indicative buffer guide, the Monetary Authority also reviewed a range of other reference indicators. The information drawn from all these sources suggests that the economic environment in Hong Kong has deteriorated further since the novel coronavirus outbreak. It is therefore appropriate to reduce the CCyB ratio further from 2.0% to 1.0% 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 power to implement the CCyB in Hong Kong is provided by the Banking (Capital) Rules, which enable the Monetary Authority to announce a CCyB ratio for Hong Kong. The specific CCyB requirement applicable to a given Authorized Institution (AI) is expressed as a percentage of its CET1 capital to its total risk-weighted assets (RWA). Each AI's CCyB requirement may vary depending on the geographic mix of its private sector credit exposures and the CCyB applicable in each jurisdiction where it has such exposures.