

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 (April 16) 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 there have been signs that the residential property prices have been recovering," the Monetary Authority, Mr Norman Chan, said. "It is therefore appropriate to maintain the CCyB at 2.5 per cent 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 authorised institutions](#) on the Hong Kong Monetary Authority's 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 2018 Q4 data, signals a lower CCyB of 0.75 per cent mostly due to the recent narrowing of the property price to rental gap from more than 10 per cent in the previous quarter to slightly below 3 per cent, partly reflecting the correction in the residential property prices after mid-2018. The credit to GDP gap, however, remains at significantly elevated level of over 12 per cent.

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 Common Equity Tier 1 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.