[Orderly exit from the banking sector Pre-approved Principal Payment Holiday Scheme]

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), announced today (July 11) the commencement of an orderly exit from the Pre-approved Principal Payment Holiday Scheme (Scheme) when it expires at the end of July 2023. The focus of the Scheme will move from tiding corporates over the pandemic to facilitating their return to normal repayment.

The Scheme was extended six times during the pandemic and has been running for more than three years. The participation rate has declined to 1 per cent of eligible corporates from 16 per cent at the initial stage while the number of corporates opting for partial principal repayment has steadily increased, indicating that the repayment ability of some corporates has improved. As the pandemic has passed and the local economy is recovering, the Mechanism considers that the Scheme has fulfilled its purpose and an orderly exit should commence. Given that the cash flow conditions of some corporates have yet to fully recover, and taking into account the views of the commercial sectors, the Mechanism considers it appropriate to further enhance the existing partial principal repayment options to facilitate a gradual transition to normal repayment for corporates currently participating in the principal moratorium under the Scheme. The specific arrangements are set out below:

- For instalment loans, including mortgage loans and commercial vehicle loans, corporates may choose to repay 20 per cent of the original principal repayment amount, with the duration extended from 12 to 18 months; or 50 per cent of the original principal repayment amount, with the duration extended from 24 to 30 months. Referencing past practice, the loan tenor should generally be extended correspondingly. Banks should apply the same treatment to commercial vehicle loans taken out by personal customers.
- For trade facilities, loans with bullet payment falling due within 12 months and outstanding balances of revolving facilities, banks may discuss with corporates having regard to the actual circumstances and allow them to repay the amount due by regular instalments over 24 months.

Banks will contact corporates which are currently participating in the Scheme to enquire if they will opt for the above partial principal repayment arrangement. Noting that the principal moratorium periods of some corporates are due to end shortly after the Scheme's expiry at the end of July, banks will allow these corporates to continue to defer their principal repayments between August and October 2023 to facilitate their transition to partial principal repayment. Corporates wishing to opt for partial principal repayment should inform their banks by the end of October 2023, or they will in principle need to resume normal repayment from the end of October 2023. Corporates which have had their principal repayments deferred to after the end of October 2023 should advise the banks of their decisions before the expiry of the principal moratorium period. Corporates which are currently making partial principal repayments may also choose to transition to the new partial principal repayment options before the end of October 2023.

Apart from the 20 per cent and 50 per cent partial principal repayment options, corporate customers and banks which are currently participating in the Scheme may discuss the possibility of adjusting the proportion and duration of the partial principal repayment or negotiate other repayment arrangements, taking into account the customers' individual circumstances. Unless requested by the customers, the terms of the alternative repayment arrangement should be no less favourable than the partial principal repayment options set out above. In addition, banks may consider offering interest rate or other incentives to encourage customers to choose a higher principal repayment proportion.

Where sectors or individual borrowers are still facing challenges despite the end of the pandemic, banks may consider, on a case-by-case basis, continuing to offer principal moratorium or assisting customers with debt restructuring if they are not financially able to transition to the partial principal repayment options. The earlier relief measures for the transport sector, which include extending the maximum loan tenors for taxi, public light bus (PLB) and non-franchised bus operators and greater flexibility in handling new financing applications for taxi and PLB operators to upgrade their vehicles, should remain unchanged until the end of 2025.

To facilitate an orderly exit from the Scheme, the above arrangements apply only to corporates currently participating in the Scheme. Nevertheless, the HKMA calls on banks to continue to be sympathetic in handling the funding needs of corporates which have not participated in the Scheme but are facing cash flow pressure due to individual circumstances, subject to prudent risk-management principles. For example, banks may consider the above partial principal repayment arrangement as a reference for providing suitable relief to these corporate customers.

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 HKMC Insurance Limited are also represented in the Mechanism. Since its establishment, the Mechanism has rolled out several rounds of relief measures for corporates, including the Pre-approved Principal Payment Holiday Scheme, loan tenor extensions, and the conversion of trade financing lines into temporary overdraft facilities. At the end of June 2023, banks had granted over 118 000 applications for loan tenor extension and other forms of relief, involving an aggregate amount of HK$1.2 trillion.

The Scheme took effect in May 2020 with around 100 participating banks and covers around 120 000 eligible corporates. Since its launch, the Scheme has been extended six times to the end of July 2023. Between November 2022 and January 2023, the number of participating corporates declined to 1 300 (participation rate of 1 per cent), significantly lower than 19 000 (participation rate of 16 per cent) when the Scheme was launched. To facilitate corporates to prepare for an eventual resumption of normal repayment, the Mechanism introduced in May 2022 a one-year 20 per cent principal repayment option and in October 2022 a two-year 50 per cent principal repayment option under the Scheme for corporates to take up on a voluntary basis.