

**Measures adopted in response to the Financial Tsunami
(as at 28 November 2008)**

- Sept-27 Nov **Hong Kong Monetary Authority (HKMA)** actively injected HK\$24.8 billion, and passively injected HK\$54.8 billion after the strong-side Convertibility Undertaking was triggered, into the banking system.
- 2 Oct **HKMA** provided liquidity assistance, from 2 October 2008 until the end of March 2009, to licensed banks on their request through a number of temporary measures.
- 9 Oct **HKMA** adjusted the formula in determining the base rate by lowering the spread of the base rate over the Fed Funds Target Rate by 1 ppt to 0.5 ppt.
- 14 Oct **The Financial Secretary (FS)** announced two pre-emptive measures –
- (a) use of Exchange Fund to guarantee repayment of all HK\$ and foreign-currency deposits held with all authorized institutions in Hong Kong, including branches of overseas institutions; and
 - (b) establishment of a Contingent Bank Capital Facility for the purpose of making available additional capital to locally incorporated licensed banks, should this become necessary.
- 23 Oct **Secretary for Commerce and Economic Development** convened an SME Summit.
- 28 Oct **Finance Committee of LegCo** approved enhancement to SME Funding Schemes -
- (a) ceilings for the Business Installations & Equipment Loans (\$5 m) and Working Capital Loans (\$1 m) removed; overall maximum guarantee for each SME remains at \$6 m. Guarantee period for Working Capital Loans extended from two to five years. Each SME allowed to recycle the guarantee once after it has fully repaid the loan; and

- (b) Export Marketing Fund grant ceiling for each SME raised from \$100,000 to \$150,000, and sub-ceiling for each application raised from \$30,000 to \$50,000. Scope of funding expanded.
- 29 Oct **HKMA** issued a circular, urging banks to be more accommodating in lending to SMEs within the bounds of prudent risk management.
- 30 Oct **HKMA** announced that the Base Rate was adjusted downward to 1.5% with immediate effect.
- 3 Nov **Task Force on Economic Challenges (TFEC)** first met.
- 6 Nov **HKMA** further refined the term money facility by extending the tenor from one month to three months, and setting a lower lending rate compared with the relevant inter-bank interest rate for this facility.
- 10 Nov **FS** announced two further support measures -
- (a) Trade and Industry Department (TID) to launch a time-limited Special Loan Guarantee Scheme to provide \$10 billion liquidity to SMEs. The Government guarantee ratio will be 70% as compared with 50% under the existing scheme; and
- (b) Export Credit Insurance Corporation (ECIC) to launch new enhanced measures including provision of higher cover for exports generally and in particular for six emerging markets (i.e. UAE, Kuwait, Chile, Brazil, the Czech Republic and Malaysia). The statutory maximum liability will be correspondingly increased from \$15 billion to \$30 billion.
- 19 Nov **HKMA** issued a circular on “Hong Kong Approach to Corporate Difficulties” to banks emphasizing that when dealing with corporate borrowers in financial difficulties, banks should remain supportive and should not hastily put them into receivership or issue writs demanding repayment if they have a reasonable chance of survival.
- 20 Nov **Secretary for Home Affairs (SHA)** announced after a meeting with the chairmen and vice-chairmen of the Districts Councils (DCs) that together with the DCs, the Government would work

out ways to speed up district minor works projects to create more jobs.

21 Nov **HKMA** announced adoption of a flexible approach towards the premium on capital adequacy ratio of individual banks and an arrangement with the People's Bank of China to allow Hong Kong banks operating on the Mainland to approach the People's Bank of China if they need liquidity support.

25 Nov **Secretary for Development** announced three measures to assist construction contractors undertaking government works projects, in particular small and medium sized companies, to resolve their cashflow difficulties. These relate to interim payments and speeding up of valuation of variation orders for making payments, early finalisation of accounts and partial release of retention money before expiry of works maintenance period.

Housing Authority (HA) announced that the Commercial Properties Committee under HA decided that shops, markets and factory units, except supermarkets, superstores and banks, under HA would enjoy a 50%-cut in rent for two months with effect from January 2009.

27 Nov **SHA** announced that the redevelopment of the Hong Kong Sports Institute would create 1000 jobs while the construction and upgrading of various sports venues for the East Asian Games have created another 1000 jobs.

2 Dec **HKMA** will offer additional Exchange Fund Bills, totalling HK\$8 billion, to meet the demand for the paper from banks for liquidity management purpose.

ECIC will waive a fixed annual policy fee of \$1,500 for new and existing policyholders for one year with effect from 1 January 2009. Around 3,000 policyholders will benefit from this initiative.

Other On-going Efforts

2. The **Labour Department (LD)** has -
 - (a) kept certain sectors and certain companies under close vigilance and would intervene early should it be aware of cases of wage

arrears, under-payment of wages or likely cases of bankruptcy/winding-up;

- (b) continued to provide conciliation service, facilitate resort to the Labour Tribunal, facilitate employees to apply for ex-gratia payment from the Protection of Wages on Insolvency Fund (PWIF) for disputes involve bankruptcy and winding-up;
- (c) appealed to prospective employers to solicit suitable vacancies; and
- (d) refined and enhanced employment support services for youths and those with greater placement difficulty while continuing to review and identify possible improvements generally and for specific vulnerable groups.

3. The **HA** is actively considering accelerating some of its maintenance and improvement (M&I) programmes (including in-flat inspection and repair under the Total Maintenance Scheme of some 20 estates, improvement to pedestrian access by adding escalators and lifts, and other redecoration and improvement works). These would help create about 940 job opportunities in each of the coming two years.

4. The **HA** has accelerated the construction of an Amenity and Community Building at Tin Ching Estate in Tin Shui Wai Area 104, with a total gross floor area of about 10 000 m² by about 15 months. This would provide around 200 construction jobs from end 2008 to end 2010. After its completion, it would provide further long term job opportunities in Tin Shui Wai when the Community Help Centre, Employment and Training Centre and the social welfare facilities are put into operation. HA has also accelerated the construction of a large public rental housing estate at Kai Tak Site 1B by about 3 months, so as to enable earlier employment of about 800 construction workers and 80 professionals.

5. The **Environment Bureau** would continue to allocate resources to implement various environmental infrastructure projects, and to subsidize companies to implement clean production and enhance energy efficiency to promote green business opportunities.

6. Details of measures relating to the financial services sector and SMEs are set out in **Annex 1** and **Annex 2** respectively.

Measures relating to the Financial Services Sector

Securities Sector

1. The Securities and Futures Commission (SFC) has been keeping a close eye on our derivatives market, exchanges and clearing houses. While the short selling regulations in Hong Kong are stricter than those in place in many of the overseas markets¹, the SFC has made the preparatory work to facilitate the introduction of market-wide control measures during contingencies or when there is evidence of abusive short selling activities. SFC will continue to monitor market developments and our short selling regime.

2. The SFC has stepped up its efforts, including intensified stress tests, to assess the financial exposure that brokers can withstand in adverse market conditions. The SFC has also formed a dedicated team to centralize prudential supervision of high impact retail brokers and have further tightened regulatory oversight over these firms through more onsite inspections.

Banking Sector

3. With effect from 2 October 2008 until the end of March 2009, liquidity assistance is being provided to licensed banks on their request through a number of temporary measures that involve the expansion of eligible collateral for access to, and the extension of the duration of, liquidity assistance through the Discount Window, and conduct of foreign exchange swaps and term money lending by the HKMA. On 9 October the HKMA adjusted the formula in determining the base rate by lowering the spread of the base rate over the Fed Funds Target Rate by 1 ppt to 0.5 ppt to further ease tensions in the money market. The HKMA announced on 6 November refinements to the temporary measures. First, the maximum tenor of collateralised term lending was extended from one month to three months. Secondly, the HKMA would set a lower lending rate for the term lending facility compared with the relevant interbank interest rate.

¹ For example, naked short selling has been prohibited in Hong Kong since short selling was first introduced.

4. The FS announced two pre-emptive measures on 14 October, which included –

- (a) the use of Exchange Fund to guarantee the repayment of all HK\$ and foreign-currency deposits held with all authorized institutions in Hong Kong, including branches of overseas institutions; and
- (b) the establishment of a Contingent Bank Capital Facility for the purpose of making available additional capital to locally incorporated licensed banks, should this become necessary.

5. In response to SMEs' concern about the recent credit squeeze by banks, HKMA issued a circular on 29 October, urging banks to be more accommodating in lending to SMEs within the bounds of prudent risk management.

6. On 30 October, the HKMA announced that the Base Rate was adjusted downward to 1.5% with immediate effect according to the new pre-set formula and the decision of the US Federal Reserve on 29 October (US time) where the US federal funds target rate was reduced by 50 basis points.

7. The HKMA issued a circular on 19 November on Hong Kong Approach to Corporate Difficulties to banks emphasising that when dealing with corporate borrowers in financial difficulties, banks should remain supportive and not hastily put them into receivership or issue writs demanding repayment if they have a reasonable chance of survival.

8. On 21 November, in order to encourage banks to continue providing credit to better support economic activity, the HKMA announced a new temporary measure about a flexible approach towards the premium on capital adequacy ratio of individual banks. Besides, the HKMA has worked out an arrangement with the People's Bank of China to allow Hong Kong banks operating on the Mainland to approach the People's Bank of China, if they need liquidity support. This arrangement can help Hong Kong corporations operating on the Mainland continue to obtain financing from Hong Kong banks on the Mainland in the face of a worsening credit environment.

9. The HKMA offered additional Exchange Fund Bills, totalling HK\$8,000 million, in a tender on 2 December to meet increased demand for the paper from

banks for liquidity management purposes due to heightened credit and liquidity concerns, and strong liquidity needs near the end of the year.

10. As of 27 November 2008, the Hong Kong Monetary Authority (HKMA) passively purchased a total of US\$7.1 billion after the strong-side Convertibility Undertaking was triggered and injected a total of HK\$54.8 billion into the banking system. The Aggregate Balance reached HK\$84.3 billion on 1 December, exceeding the record high of around HK\$55.0 billion in 2004. The strengthening of the Hong Kong dollar to the strong-side Convertibility Undertaking level reflected the continued strong demand for the Hong Kong dollar amid the deleveraging of previously long US dollar positions and repatriation of funds by corporations or investors probably to meet their commercial needs or upon liquidation of overseas investments.

Insurance Sector

11. In view of the possible spillover effect of the current financial turmoil to other financial/insurance groups, the Insurance Authority (“IA”) has stepped up monitoring the financial and solvency position of all authorized insurers in Hong Kong. Where necessary, IA will exercise his statutory power to take appropriate interventionary actions against insurer for the protection of policyholders.

Mandatory Provident Fund (MPF) Sector

12. The Mandatory Provident Fund Schemes Authority (MPFA) has been closely monitoring any unusual price movements of MPF constituent funds. It has also stepped up the supervision of MPF trustees by requiring them to increase reporting on operational matters and financial positions, in order to assess the potential impact of the financial crisis on their financial soundness and operations.

Support Measures for Small and Medium Enterprises (SMEs)

SME Funding Schemes

The following enhancement measures have been implemented from early November 2008 -

- (a) Under the SME Loan Guarantee Scheme, the ceilings for the Business Installations & Equipment Loans (\$5m) and Working Capital Loans (\$1m) are removed, while the overall maximum guarantee for each SME remains at \$6m. The guarantee period for Working Capital Loans is extended from two years to five years. Each SME is also allowed to recycle the guarantee once after it has fully repaid the loan.
- (b) For the Export Marketing Fund, the grant ceiling for each SME is raised from \$100,000 to \$150,000, and the sub-ceiling for each application is raised from \$30,000 to \$50,000. The scope of funding is also expanded.

Special Loan Guarantee Scheme

2. LegCo approved on 14 November a Special Loan Guarantee Scheme to provide \$10 billion in liquidity to the commercial lending markets for SMEs. The Government will provide 70% guarantee to the loans granted by the participating lending institutions (PLIs) and its guarantee commitment will be \$7 billion. The maximum amount of loan that each SME may obtain from a PLI is \$1 million. Within the \$1 million credit facility, up to \$500,000 can be used as revolving credit. The scheme will be implemented in December upon completion of necessary procedures and legal documentation.

Enhanced Services of the Export Credit Insurance Corporation (ECIC)

3. To assist our SMEs in their efforts in maintaining their business and developing new markets in face of the current financial crisis, ECIC has launched the enhanced measures set out below.

- (a) *Higher cover for exports*

To offer better protection for exporters and assist them to acquire funding from the banks during the current credit crisis, ECIC has agreed to be as accommodating and flexible as possible to the

SMEs' requests for export credit insurance and increase the cover, within the bounds of prudent credit assessment and risk management. ECIC has introduced a mechanism under which deductibles for claims and lower-than-usual indemnity ratios for the insurable exports (the usual indemnity ratio being 90%) will apply, if necessary, for sharing out the risks.

(b) *Higher cover for emerging markets*

To assist Hong Kong exporters to develop emerging markets, ECIC has reviewed its country/market ratings of 15 emerging markets and upgraded six of them, namely the United Arab Emirates, Kuwait, Chile, Brazil, the Czech Republic and Malaysia. ECIC will provide more country cover for the six markets and will, where risks allow, provide higher credit limits for exporters to these markets. The premium rates for the upgraded markets will also be lowered.

(c) *Expediting and facilitating the processing of small credit limit applications*

ECIC has expedited the processing of applications for small credit limit of \$0.5 million or below to two to three days upon the receipt of adequate information (normal processing time is currently four days and was five days before 1 October).

4. In addition, the following new initiatives are in the pipeline for strengthening ECIC's support for SMEs -

(a) *Increase in Statutory Maximum Liability*

ECIC's aggregate maximum liability arising from its insurance business currently amounts to \$13.52 billion. To strengthen ECIC's underwriting capacity, the Government will introduce a motion into the Legislative Council in early 2009 for passing a resolution to increase the Statutory Maximum Liability² from \$15 billion to \$30 billion; and

(b) *Waiver of annual policy fee*

The Advisory Board of ECIC has agreed to waive a fixed annual policy fee of \$1,500 for new and existing policyholders for one

² The SML is the maximum amount which the ECIC can be contractually liable to indemnify its policyholders if all risks materialize at the same time.

year with effect from 1 January 2009. It is expected that around 3,000 policyholders will benefit from this initiative.

5. As regards its ongoing measures, ECIC will step up its efforts in the following areas –

- (a) continue to provide cover for the payment risks arising from buyers' failure to take delivery of goods which are generally not insurable in the market;
- (b) not to increase the premiums for its insurance facilities;
- (c) offer each exporter a certain number of free buyer credit assessment service; and
- (d) organize more seminars/forums to share with the industry experiences in risk management, enhance their knowledge on the latest developments in overseas markets and understand the needs of exporters.

6. Since 1 October 2008, the processing time for exporters' credit limit applications has been shortened to four days from five days upon receipt of adequate information. In urgent situation, ECIC will further speed up the process.

Measures provided by major trade and tourism promotion agencies and convention and exhibition venue providers

Hong Kong Trade Development Council (TDC)

7. TDC has launched a \$120 million SME assistance package to help Hong Kong companies during the current financial turmoil by bringing more trade buyers to Hong Kong and helping SMEs strengthen their marketing efforts. The special initiatives include –

- (a) sponsorship to new overseas buyers, particularly from the emerging markets and the Mainland, to visit TDC's trade fairs in Hong Kong from January 2009;
- (b) subsidies to all Hong Kong companies participating in TDC's trade fairs in 2009. Irrespective of its scale of participation, each Hong Kong company will receive \$2,000 cash coupon redeemable for

TDC services such as additional facilities for booths at trade fairs;
and

- (c) special offers to help SMEs market their products and services through TDC's online platform and product magazines.

Hong Kong Tourism Board (HKTB)

8. HKTB has introduced a \$21 million package of support measures to assist HKTB's trade partners, including travel agents, MICE event organizers and the retail sector, to tide over current economic difficulties, generate new business opportunities, and lower their costs of participating in HKTB's promotional activities. These measures include –

- (a) a fixed amount waiver (over 50%) of participation fees for all HKTB-led trade shows and travel missions in 2009, while every dollar of participation fee collected will be re-invested in destination marketing. This measure will benefit the leisure travel trade and MICE Sector; and
- (b) one-off 'support' to Quality Tourism Services Scheme (QTS) merchants in 2009 by waiving all renewal application fees under the QTS for one year, while 50% of the application fees for all successful new applications will be waived. This will benefit some 1 300 existing QTS merchants representing 6 600 outlets mainly in the retail and catering business, and is expected to recruit an additional 500 outlets to the Scheme.

Asia-World Expo (AWE)

9. AWE has unveiled the following initiatives to help the industry during the current economic distress –

- (a) 35% off on rental of conference facilities offered to all Hong Kong SMEs during July, August and December 2009;
- (b) 25% off on rentals for meeting room facilities offered to all Hong Kong SMEs during 2009 and 2010;
- (c) 15% off on rentals for exhibition halls for the areas occupied by Hong Kong SMEs, offered to exhibition organisers for all new bookings for any trade exhibitions to be held during 2009-2010

(AWE will work with the respective organisers to ensure that the incentives will be passed on to SME exhibitors); and

- (d) additional complimentary transportation for Hong Kong SME exhibitors to and from AWE as appropriate on top of the transportation services provided by the trade exhibition organisers.

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