

Survey on Small and Medium-Sized Enterprises' Credit Conditions for First Quarter 2020

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

The Hong Kong Monetary Authority (HKMA) published today (May 4) the results of Survey on Small and Medium-Sized Enterprises (SMEs)' Credit Conditions for the first quarter of 2020.

Regarding SMEs' perception of banks' credit approval stance relative to 6 months ago, 69 per cent of the respondents perceived similar or easier credit approval stance in the first quarter of 2020, compared with 73 per cent in the previous quarter. 31 per cent of the respondents perceived more difficult credit approval stance, compared with 27 per cent in the previous quarter (Chart 1 in the Annex). While a higher percentage of the respondents perceived more difficult credit approval stance relative to 6 months ago in the first quarter of 2020 than in the previous quarter, the situation was broadly the same as the average results in the second half of 2016. It should also be noted that most respondents did not apply for new credit from banks during the quarter, and SMEs' perception of banks' credit approval stance could be subject to a number of factors. Therefore, the perception of more difficult credit stance may not necessarily reflect any actual difficulties faced by SMEs in obtaining bank credit.

Of those respondents with existing credit lines, 83 per cent reported that banks' stance on existing credit lines was easier or unchanged in the first quarter of 2020, down from 86 per cent in the previous quarter (Chart 2 in the Annex). 17 per cent of the respondents reported tightened banks' stance on existing credit lines in the first quarter of 2020, compared with 14 per cent in the previous quarter. In this survey, tightened stance on existing credit lines denotes a range of possible measures or arrangements, such as reducing unused and used credit lines, raising the interest rate, imposing additional collateral requirements, or shortening loan tenor. Therefore, respondents' indication of banks' stance on existing credit lines may not directly reflect banks' supply of credit to SMEs.

The survey also gauged the results of new credit applications from SMEs. 7 per cent of the respondents reported that they had applied for new bank credit during the first quarter of 2020. Among the respondents who had already known their application outcomes, 84 per cent reported fully or partially successful applications while 16 per cent reported unsuccessful application, similar to the results recorded in the second to the fourth quarters of 2019 (Chart 3 in the Annex).

Owing to small sample sizes of SMEs with existing credit lines (20 per cent of surveyed SMEs) and with new credit applications (7 per cent of

surveyed SMEs) during the quarter, the results could be prone to large fluctuations, and hence should be interpreted with care.

About Survey on SMEs' Credit Conditions

In light of the importance of SMEs to the Hong Kong economy and concerns about potential funding difficulties facing SMEs over the past few years, the HKMA has appointed the Hong Kong Productivity Council (HKPC) to carry out this survey, starting from the third quarter of 2016. This survey is conducted on a quarterly basis, covering about 2 500 SMEs from different economic sectors each time. The results of this survey can help monitor the development of SMEs' access to bank credit from a demand-side perspective.

The results of this survey should be interpreted with caution. Similar to other opinion surveys, views collected in this survey may be affected by changes in sentiment due to idiosyncratic events that occurred over the survey period, which can make the results prone to fluctuations. Readers are advised to interpret the results together with other economic and financial information. In addition, views collected are limited to the expected direction of inter-quarter changes (e.g. "tighter", "similar" or "easier") without providing information about the magnitude of these changes.

Detailed tables and technical information of this survey are published on the website of the HKPC (<https://www.hkpc.org>).

Advance estimates on Gross Domestic Product for first quarter of 2020

The Census and Statistics Department (C&SD) released today (May 4) the advance estimates on Gross Domestic Product (GDP) for the first quarter of 2020.

According to the advance estimates, GDP decreased by 8.9% in real terms in the first quarter of 2020 from a year earlier, compared with the decrease of 3.0% in the fourth quarter of 2019. This was the largest decline on record since the reference period of the first quarter of 1974. The decline of GDP was mainly attributable to the continued weak performance in both domestic and external demand, as affected by the COVID-19 pandemic.

Analysed by major GDP component, private consumption expenditure decreased by 10.2% in real terms in the first quarter of 2020 from a year earlier, deteriorating from the 2.9% decline in the fourth quarter of 2019.

Government consumption expenditure measured in national accounts terms grew by 8.3% in real terms in the first quarter of 2020 over a year earlier,

after the increase of 6.1% in the fourth quarter of 2019.

Gross domestic fixed capital formation decreased by 13.9% in real terms in the first quarter of 2020 from a year earlier, compared with the decrease of 16.8% in the fourth quarter of 2019.

Over the same period, total exports of goods measured in national accounts terms recorded a decline of 9.7% in real terms from a year earlier, compared with the decrease of 2.5% in the fourth quarter of 2019. Imports of goods measured in national accounts terms dropped by 10.9% in real terms in the first quarter of 2020, compared with the decline of 7.0% in the fourth quarter of 2019.

Exports of services fell significantly by 37.8% in real terms in the first quarter of 2020 from a year earlier, compared with the decrease of 24.2% in the fourth quarter of 2019. Imports of services decreased by 25.4% in real terms in the first quarter of 2020, compared with the decrease of 5.2% in the fourth quarter of 2019.

On a seasonally adjusted quarter-to-quarter comparison basis, GDP decreased by 5.3% in real terms in the first quarter of 2020 when compared with the fourth quarter of 2019.

Commentary

A Government spokesman said that the economic recession deepened in Hong Kong in the first quarter of 2020, as the threat of COVID-19 seriously disrupted a wide range of local economic activities and supply chains in the region. With the disease evolving into a pandemic in March, the economic fallout became even more severe. According to the advance estimates, GDP contracted sharply by 8.9% in real terms in the first quarter from a year earlier, the steepest for a single quarter on record. On a seasonally adjusted quarter-to-quarter comparison, the fall in real GDP widened markedly to 5.3% in the first quarter, also the steepest on record.

Analysed by major component, Hong Kong's total exports of goods saw a visibly enlarged year-on-year fall in the first quarter, mainly weighed by the serious disruptions to the regional supply chains and related trading activities amid the threat of COVID-19. Exports of services posted the biggest fall for a single quarter on record, partly reflecting the drastic setback in inbound tourism. As regards domestic demand, the fall in private consumption expenditure widened sharply, as the threat of COVID-19 and resulting social distancing measures seriously disrupted consumption-related activities, while austere labour market conditions dealt a heavy blow to consumer sentiment. Overall investment expenditure continued to show a sharp contraction amid pessimistic business sentiment and sluggish construction activity.

Looking ahead, with the COVID-19 pandemic causing a severe contraction of global economic activity, Hong Kong's exports will remain under notable pressure in the near term. Besides, the developments in US-Mainland economic

and trade relations, geopolitical tensions and global financial market volatility continue to warrant attention. Locally, economic activities are likely to stay subdued in the near term if the threat of the pandemic continues. The Government has rolled out relief measures of unprecedented scale, including the two rounds of measures under the Anti-epidemic Fund and the massive package of countercyclical measures in the 2020-21 Budget, which should provide some cushioning effects to the economy and the labour market.

Hong Kong's near-term economic outlook is subject to very high uncertainties, hinging crucially on the evolving global public health and economic situations. In view of the severe global economic impact of the COVID-19 pandemic, the real GDP growth forecast for 2020 was revised to -4% to -7%, as announced by the Financial Secretary on April 29. The Government will continue to monitor the situation closely.

Further information

The year-on-year percentage changes of GDP and selected major expenditure components in real terms from the first quarter of 2019 to the first quarter of 2020 are shown in Table 1.

When more data become available, the C&SD will compile revised figures on GDP. The revised figures on GDP and more detailed statistics for the first quarter of 2020 will be released at the C&SD website (www.censtatd.gov.hk/hkstat/sub/sp250.jsp) and the Gross Domestic Product (Quarterly) Report (www.censtatd.gov.hk/hkstat/sub/sp250.jsp?productCode=B1030001) on May 15, 2020.

For enquiries about statistics on GDP by expenditure component, please contact the National Income Branch (1) of the C&SD (Tel: 2582 5077 or email: gdp-e@censtatd.gov.hk).

Transcript of remarks by SCS

Following is the transcript of remarks by the Secretary for the Civil Service, Mr Patrick Nip, at a media session after the meeting of the Legislative Council's Panel on Public Service today (May 4):

Reporter: Mr Nip, can you answer one question? Would your bureau investigate some police officers who are accused of ... (inaudible)?

Secretary for the Civil Service: There are established mechanisms to investigate every complaint in accordance with the procedures and rules. Depending on the circumstances and the case details, some are being handled by departments and bureaux. Some may be handled by the Civil Service Bureau.

So there are established mechanisms in dealing with that. Of course we would handle each and every complaint in a very serious and impartial manner. Thank you very much.

(Please also refer to the Chinese portion of the transcript.)

Transcript of remarks by LegCo President on delay in election of House Committee Chairman

The following is issued on behalf of the Legislative Council Secretariat:

Following is the transcript of remarks by the President of the Legislative Council (LegCo), Mr Andrew Leung, on the delay in the election of the House Committee (HC) Chairman at a media briefing at the LegCo Complex today (May 4):

As the HC has yet to elect its chairman, and this has impeded the proper exercise of the constitutional functions of the LegCo, I have sought the advice from outside Senior Counsel on the relevant issues with a view to resolving the current deadlock as early as possible.

HC is the most important committee of the Council, preparing for business on the agenda of the Council and considering matters referred by the Council. From the past experience, HC can usually conclude the election of its chairman and deputy chairman in one meeting. But what has happened in this session is unprecedented.

HC has begun the process of the election of the chairman since October 15 last year and still failed to elect its chairman and deputy chairman by the end of the month. As early as October last year, the Secretariat's Legal Adviser had explained in detail the implications on the operation of HC pending the election of its chairman. The legal analysis made at the time was based on the ordinary course of events envisaged in HC. As before, it is anticipated that HC could complete the election of chairman within a short time.

Regrettably, after quite some time since last October, HC has not yet been able to elect its chairman as at early this year. I have monitored the developments closely and made repeated appeals in public, urging Members to put aside their political differences and complete the election of the HC Chairman as soon as possible, so that the Council can resume normal functioning. I notice that the incumbent HC Chairman, Hon Starry Lee, had arranged special meetings to speed up the election of the chairman for the current session. However, the meetings were cancelled eventually due to the

severe situation of the COVID-19 outbreak. When the outbreak eased off, the incumbent HC Chairman called another meeting on March 13, but HC still could not have its chairman elected at that meeting.

The failure of HC to function normally has rendered the Council unable to properly perform its functions as stipulated in Article 73 of the Basic Law. In the face of this novel problem to LegCo, it is incumbent on me, as the President, to identify a solution so as to ensure that the Council can fulfil its constitutional duties effectively.

Therefore, in late March I have sought, through the Secretariat, the legal advice from outside Senior Counsel on how to resolve the issues relating to HC.

I have now received the advice from outside Senior Counsel. In summary, pending the election of a new chairman, while the incumbent HC Chairman should have all the usual powers to conduct the business of HC, the exercise of such powers is subject to certain caveats and he/she should exercise caution as to whether to exercise the powers as HC Chairman. In this regard, Senior Counsel's advice is no different from that provided by the Secretariat earlier. Since October last year, the incumbent HC Chairman has prudently exercised her powers as the chairman in office only to call meetings for the purpose of electing the new chairman.

In the ordinary course of events, the election of the HC Chairman for the new session should be the first item of business ahead of any business to be transacted in a new session. Senior Counsel said that the way Hon Dennis Kwok has conducted the election of chairman is inconsistent with the powers and functions of the presiding Member. He allowed HC members to have discussions on a number of issues and motions covering the security arrangements and their implementation in the LegCo Complex, matters under the purview of the Legislative Council Commission, as well as a number of non-binding motions. In Senior Counsel's view, it is difficult to see how such discussions could be relevant to the election of the HC Chairman. The Secretariat has also expressed similar views to the presiding Member.

Both the Secretariat and outside Senior Counsel are of the view that, as in the present situation, the incumbent HC Chairman, Hon Starry Lee, has the responsibility and authority to deal with the problems caused by the inordinate delay in the election of the chairman, and make sure that there is no undue disruption to the work of HC and its normal or proper functioning, especially transacting the urgent or essential business.

Therefore, in the present situation, the incumbent HC Chairman, Hon Starry Lee, has both responsibility and authority to deal with HC's heavy backlog of work.

Effective Exchange Rate Index

The effective exchange rate index for the Hong Kong dollar on Monday, May 4, 2020 is 108.9 (up 0.1 against last Saturday's index).

The effective exchange rate index for the Hong Kong dollar on Saturday, May 2, 2020 was 108.8 (up 0.3 against last Wednesday's index).