

Monetary Authority Announces Countercyclical Capital Buffer Ratio for Hong Kong

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

The Monetary Authority announced today (July 7) that the countercyclical capital buffer (CCyB) for Hong Kong remains unchanged at 1.0%.

"While some local economic activities are showing signs of picking up, economic recovery will take time and many small and medium-sized enterprises are still under stress." Mr. Eddie Yue, the Monetary Authority, said. "The economic environment in Hong Kong is subject to a high level of uncertainty at the moment. It is therefore appropriate to keep the CCyB ratio unchanged and continue to monitor the situation for the time being."

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 2020 Q1 data, signals a CCyB of 2.25%. The projection based on all available data suggests that the indicative buffer guide would very likely signal a higher CCyB than this when all relevant 2020 Q2 data will be 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 is subject to a high level of uncertainty at the moment. It is therefore more appropriate to keep the CCyB ratio unchanged at 1.0% and continue to monitor the situation for the time being.

The CCyB is an integral part of the Basel III 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.