

**Supplementary information in relation to the meeting of the  
Legislative Council Panel on Financial Affairs  
held on 1 February 2021**

**Agenda Item III –  
Briefing on the work of Hong Kong Monetary Authority**

The Hong Kong Monetary Authority (HKMA) sets out below supplementary information as requested by the Legislative Council (LegCo) Panel on Financial Affairs —

**Number of financial institutions entering and leaving Hong Kong**

During the period from 2018 to 2020, the number of banking licences remained stable. 15 authorized institutions revoked their authorizations, while the HKMA granted 14 banking licences and upgraded one restricted banking licence to a banking licence during that period.

According to the Securities and Futures Commission, during that period there was a net increase of about 360 firms newly granted with a Type 9 licence or registration under the Securities and Futures Ordinance to carry on asset management business in Hong Kong. About 130 firms previously licensed or registered for Type 9 regulated activity (asset management) had their licence or registration revoked, while about 490 firms were newly granted a licence or registration for the same type of regulated activity in the same period.

Banks and fund companies come and go for various business reasons. Some of them departed for reason of shifting business focus while some were results of consolidation at group level. New ones come in at the same time, bringing with them new business and expansion plans. These are very common movements for any international financial centre.

## **Hong Kong's household debt**

The household debt-to-gross domestic product ratio has followed an increasing trend from its trough in 2009. The ratio has experienced a faster increase amid the weakening of the Hong Kong economy since 2019, rising from 72.4% at end-2018 to 80.8% at end-2019, and further to 87.7% in the third quarter of 2020.

More recently, the ratio rose more significantly mainly reflecting the decline in the nominal gross domestic product (GDP) since the social incidents in 2019 and more significantly amid the COVID-19 pandemic. As a result, despite the moderated growth in household debt in 2020, the decline in nominal GDP still boosted the household debt-to-GDP ratio further (Please see the table below for details). It is worth noting that while economic activities will slow down sharply during recessions, households do not usually make early repayment of their debt within a short period of time. As such, the adjustment of household debt is usually slower than that of GDP during an economic downturn. We expect household debt-to-GDP ratio may thus stay at a high level in the near term.

Although the household debt-to-GDP ratio has been a widely-used indicator in evaluating household financial position, a full assessment requires the consideration of the entire household balance sheet, including the amount of assets and the composition of assets and liabilities. In our assessment, we find that in Hong Kong, the household net worth-to-liabilities ratio remained high at 11.2 times in 2019 (UK: 5 times, Singapore: 6 times, US: 7 times, Japan: 8 times). Also, the safe assets-to-liabilities ratio for Hong Kong's household sector stayed high at 2.88 times (US: 1 time; UK: 1 time; Singapore: 1 time, Japan: 3 times). Both ratios are at high levels and also higher than most other developed economies, suggesting that Hong Kong's households, on aggregate, are financially sound and have a strong buffer to cushion potential financial and economic shocks.

Given the prudent risk management and sound credit quality of these loans, the HKMA considered the associated credit risk as manageable. More than 90% of household debt were collateralised loans, mainly including residential mortgages and personal loans secured by financial assets.

- Regarding residential mortgages, following several rounds of counter-cyclical macro-prudential measures introduced by the HKMA since 2009, the average loan-to-value ratio and average debt servicing ratio of new mortgage loans approved have stayed at healthy levels.
- For personal loans secured by financial assets, the HKMA requires banks to adopt prudent and effective credit risk management measures on this type of business. These include imposing a cap on loan-to-value ratios for financial assets pledged as collateral, prompt margin call and forced liquidation mechanisms.
- Besides, the HKMA also requires banks to have prudent operations on credit card advance and unsecured personal loan businesses. In reviewing credit applications, banks should understand borrowers' credit and financial conditions and carefully assess their repayment abilities. Meanwhile, banks should implement effective post-lending monitoring, which includes regular assessment on asset quality of loan portfolios.

The HKMA will continue to closely monitor changes in banks' loan quality.

	End-2018		End-2019		Q3 2020	
	Amount (HK\$ bn)	Growth since end- 2017 (%)	Amount (HK\$ bn)	Growth since end- 2018 (%)	Amount (HK\$ bn)	Growth since end- 2019 (%)
<b>Household debt</b>	<b>2,053.9</b>	<b>9.1</b>	<b>2,316.6</b>	<b>12.8</b>	<b>2,405.0</b>	<b>3.8</b>
Of which:						
Residential mortgages	1,398.0	7.4	1,544.3	10.5	1,640.4	6.2
Credit card advances	130.0	5.1	130.1	0.1	114.9	-11.7
Loans for other private purposes	526.0	14.8	642.2	22.1	649.7	1.2
<b>Nominal GDP</b>	<b>2,835.2*</b>	<b>6.6</b>	<b>2,865.7*</b>	<b>1.1</b>	<b>2,741.0<sup>#</sup></b>	<b>-4.4</b>
<b>Household debt-to- GDP ratio</b>	<b>72.4%</b>	<b>N.A.</b>	<b>80.8%</b>	<b>N.A.</b>	<b>87.7%</b>	<b>N.A.</b>

\* Annual GDP figures.

# Sum of quarterly GDP in the trailing four quarters.

## **Hong Kong's household debt amid COVID-19**

The growth of household debt has moderated from 12.8% in 2019 to 5.5% in 2020. Of the household debt, the annual growth of residential mortgage loans slowed to 8.4%, while growth of loans for other private purposes slowed to 1.5%. Credit card advances recorded a decline of 9% in 2020.

The increase in household debt in recent years was mainly driven by growth in residential mortgages and loans for other private purposes. Residential mortgage loans accounted for the majority of the household debt, around 68% as at end-2020. They have grown by about 8% yearly on average over the past ten years, which was slower than the growth rate of property prices. Loans for other private purposes represented around 27% of household debt as at end-2020, with the majority being secured loans to banks' wealth management customers. Unsecured loans, including personal loans and credit card advances, accounted for less than 10% of household debt. The HKMA does not have statistics on credit applications made by the unemployed.

The asset quality of all relevant loans remains sound in recent years, and the associated credit risk is manageable. On residential mortgage loans, as of end-2020, the delinquency ratio stayed at 0.04% and the rescheduled loan ratio stayed at nearly 0%. On credit card advances, the combined delinquent and rescheduled ratio increased slightly to 0.35% at end-2020 from 0.33% at end-2019, while the charge-off ratio increased to 0.54% from 0.41%. Both ratios remain at a healthy level.

## **Support schemes during the COVID-19 pandemic**

The HKMA is aware of the significant financial pressure facing a broad array of economic sectors amid the COVID-19 pandemic. We have been maintaining close dialogues with banks and the commercial sectors. We have also reminded banks to be sympathetic to customers and tide them over this difficult time as long as it is consistent with their credit policies and prudent risk management principles to do so. The banking sector has been responding positively to the HKMA's call. Most of the banks have introduced as early as in February and March

2020 various relief measures for SME customers, including relief loans offered to borrowers in the hard hit sectors.

### Pre-approved Principal Payment Holiday Scheme (PPPHS)

In view of the worsening pandemic situation, the HKMA together with the Banking Sector SME Lending Coordination Mechanism launched the Pre-approved Principal Payment Holiday Scheme (PPPHS) in May 2020. Under the Scheme, all principal payments by eligible corporates of loans falling due between May and October 2020 have been pre-approved for automatic deferment by 6 months. The PPPHS was extended by 6 months in November 2020 to April 2021. Under the PPPHS, trade loans, which have been granted 90-day extension respectively in May, August and November 2020, have been further extended by 90 days in January 2021.

Around 100 banks participate in the PPPHS, which covers around 120,000 eligible corporate customers. From May to October 2020, 19,000 eligible corporate customers participated in the PPPHS, representing a participation rate of 16%. Following the Scheme's extension in November 2020, the number of participating corporate customers has dropped to 5,100, representing a participation rate of 4%.

In addition to the PPPHS, banks have rolled out different relief initiatives to support corporate and personal customers, such as loan tenor extension, principal payment holiday for residential mortgage loans and relief loans to employees in hard hit sectors.

Up to end-January 2021, a total of over 59,000 cases of credit relief have been granted to corporate customers under the PPPHS and other initiatives rolled out by banks after the pandemic, involving an aggregate amount of HK\$750 billion. For personal customers, banks have granted 30,000 cases of principal payment holiday for residential mortgage loans and other personal relief loans, amounting to HK\$44 billion.

### Special 100% Loan Guarantee of the SME Financing Guarantee Scheme (SFGS)

Since the product's launch in April 2020, over 27,000 applications involving a total loan amount of HK\$42.7 billion have been approved as of end-January 2021, benefitting more than 20,000 SMEs and over 260,000 employees. Among the approved applications, about 10,000 were made after the product was enhanced in September 2020 with an increased maximum loan amount per enterprise and increased maximum repayment period.

	<b>No. of applications approved</b>	<b>Amount of loans</b>
Jan 2021	1,743	HK\$3,049 million
Q4 2020	8,365	HK\$12,421 million
Q3 2020	6,793	HK\$9,225 million
Q2 2020 (Scheme started on 20 Apr 2020)	10,170	HK\$18,012 million

*\* Of the above approved applications, 10,828 involving a loan amount of HK\$16,390 million were made after the product enhancements in September 2020.*

### 80% and 90% Guarantee Products of the SFGS

Since the introduction of the products, over 22,300 applications involving a total loan amount of HK\$88.2 billion have been approved as of end-January 2021, benefitting more than 12,000 SMEs and almost 290,000 employees. In May 2020, enhancements were made to raise the maximum loan amount of the products and extend the eligibility coverage to listed companies in Hong Kong. In addition, both the existing guaranteed loans and new applications are eligible for an interest subsidy for a maximum period of 12 months.

**90% Guarantee Product**

	<b>No. of applications approved</b>	<b>Amount of loans</b>
Jan 2021	195	HK\$391 million
Q4 2020	549	HK\$1,173 million
Q3 2020	607	HK\$1,170 million
Q2 2020	900	HK\$1,551 million
Q1 2020	599	HK\$986 million

*\* Of the above approved applications, 1,845 involving a loan amount of HK\$3,340 million were made after the product enhancements in May 2020.*

**80% Guarantee Product**

	<b>No. of applications approved</b>	<b>Amount of loans</b>
Jan 2021	142	HK\$728 million
Q4 2020	422	HK\$2,420 million
Q3 2020	493	HK\$2,419 million
Q2 2020	590	HK\$2,589 million
Q1 2020	575	HK\$2,514 million

*\* Of the above approved applications, 1,274 involving a loan amount of HK\$6,527 million were made after the product enhancements in May 2020.*