

Box 4.1

HKMA's measures to provide liquidity assistance to licensed banks in Hong Kong

The Hong Kong Monetary Authority (HKMA) announced on 30 September five temporary measures for providing liquidity assistance to licensed banks in Hong Kong. With effect from 2 October for a period of six months until the end of March 2009, the HKMA will provide liquidity assistance, on request from licensed banks, through the following five measures:

First, the eligible securities, for access by individual licensed banks to liquidity assistance through the Discount Window, will be expanded to include US dollar assets of credit quality acceptable to the HKMA.

Second, the duration of liquidity assistance provided to individual licensed banks through the Discount Window will be extended, at the request of individual licensed banks and on a case-by-case basis, from overnight money only to maturities of up to three months.

Third, the 50% threshold for the use of Exchange Fund paper as collateral for borrowing through the Discount Window at the HKMA Base Rate will be raised to 100%. In other words, the 5% premium (or penalty) over the Base Rate for the use of Exchange Fund paper beyond the 50% threshold, as collateral for borrowing through the Discount Window, will be waived.

Fourth, the HKMA will, in response to requests from individual licensed banks and when it considers necessary, conduct foreign exchange swaps (between the US dollar and the Hong Kong dollar) of various durations with licensed banks.

Fifth, the HKMA will, in response to requests from individual licensed banks and when it considers necessary, lend term money of up to one month to individual licensed banks against collateral of credit quality acceptable to the HKMA.

The existing framework for maintaining banking stability – including the prudential supervision of banks and the arrangements for providing liquidity both at the systemic and institutional levels – have ensured that the banking system of Hong Kong is well prepared for turbulent conditions. The five additional measures are intended to reinforce this framework at a time of instability and stress in the world financial system, providing further tools for the HKMA to help ensure the effective functioning of Hong Kong's banking system.