

**Box 5.1**

**Major financial measures undertaken since September 2008**

- 18 and 25 Sep, 23 and 27 Oct 2008      A total of \$24.8 billion was injected into the banking system through within-zone foreign exchange operations.
- Purpose : To address the credit crunch in the interbank market and the rising demand for Hong Kong dollar funds.
- 30 Sep 2008      HKMA announced five temporary measures to provide liquidity assistance to licensed banks in Hong Kong upon request, effective from 2 Oct 2008 to 31 Mar 2009:
- 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.
- Purpose : To provide term liquidity to licensed banks upon request, against a range of collateral of acceptable quality, through or outside the Discount Window.
- 8 Oct 2008      HKMA announced an adjustment in the methodology for determining the Base Rate, effective from 9 Oct 2008 to 31 Mar 2009.
- Purpose : To lower the cost for banks to obtain liquidity through the Discount Window.

**Box 5.1 (Cont'd)**

14 Oct 2008 The Financial Secretary announced two pre-emptive measures to strengthen confidence in Hong Kong's banking system, namely a temporary 100% deposit guarantee and a Contingent Bank Capital Facility. The measures will remain in place until end-2010.

Purpose : To help stabilise banks' deposit base as a source of funding and provide comfort to banks on the availability of additional capital, thereby guarding against systemic failures in the financial sector, enhancing confidence in the local banking system and maintaining banking stability.

20 Oct and The Exchange Fund Bills and Notes Programme was expanded.

24 Nov 2008,

6 Jan 2009 Purpose : To meet the increased demand for Exchange Fund paper by banks for liquidity management purposes and to improve banks' access to the Discount Window and other liquidity facilities introduced by the HKMA, thereby enhancing banks' liquidity management capability.

6 Nov 2008 The measure of lending term money to individual licensed banks against collateral of acceptable credit quality, which was introduced on 30 September 2008, was further refined:

- First, the maximum tenor will be extended from one month to three months.
- Second, the HKMA will take into account the fact that such lending is secured by collateral in setting the applicable interest rate although the rate will continue to be determined with reference to market interest rates.

Purpose : To help banks to meet their demand for additional funding towards the year end, ensure adequate liquidity within the banking system and further ease pressures in the interbank market.

20 Jan 2009 The People's Bank of China and the HKMA signed an agreement for a RMB 200 billion (\$227 billion) currency swap facility.

Purpose : To provide short-term liquidity support to the Mainland operations of Hong Kong banks and the Hong Kong operations of Mainland banks in case of need, shoring up Hong Kong's financial stability.