



HONG KONG MONETARY AUTHORITY
香港金融管理局

Press Releases

26 Mar 2009

HKMA to continue the provision of liquidity assistance to banks (Lender of Last Resort)

The Hong Kong Monetary Authority (HKMA) announced today (Thursday) that it will continue to conduct foreign-exchange swap and term repo under its market operations to provide Hong Kong-dollar liquidity assistance to licensed banks, if needed, after the five temporary measures for providing liquidity assistance, which were introduced on 30 September 2008, expire on 31 March 2009.

At the same time, arrangements for obtaining liquidity at the Discount Window will return to the position that applied before the introduction of the five temporary measures, including reinstatement of the HIBOR leg to the calculation of the Base Rate. The narrower 50-basis point spread over the federal funds target rate will be retained, compared with the previous spread of 150 basis points.

An HKMA spokesperson said that the announcement was designed to provide assurance about the availability of liquidity to banks in case of need after the expiry of the temporary measures. Utilisation of the five temporary measures was mainly confined to the fourth and fifth measures (i.e. forex swap and term repo with the HKMA). Against this background, and taking into account market views, the HKMA has decided to incorporate the forex swap and term repo (against securities of acceptable quality to the HKMA) into its ongoing market operations to offer Hong Kong-dollar liquidity assistance to banks, if needed, on a case-by-case basis. The HKMA has also decided to resume the previous arrangements for the Discount Window (that is, using only Exchange Fund paper for overnight repo) so as to safeguard exchange rate stability under the Currency Board system.

"The five temporary measures have been effective in relieving the stress in the local interbank market through the turbulent times since September last year. Although utilisation of these temporary measures has declined in recent months with the stabilisation of the local market, we believe that it is important that continued assurance should be given to banks that liquidity will be available to them in case of need, in view of the fact that international financial markets have not yet completely returned to normal," the spokesperson said.

The five temporary measures were introduced on 30 September 2008 to expand the scope for providing liquidity assistance to licensed banks as a precaution in the light of the global financial conditions at that time. The measures were intended to last for six months, after which a review would be conducted.

Another arrangement for providing liquidity assistance to licensed banks, introduced on 8 October 2008, is the adjustment to the methodology for determination of the Base Rate. Prior to the adjustment, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. After the adjustment, the spread of 150 basis points above the prevailing FFTR was reduced to 50 basis points. In addition, the other leg relating to the moving averages of the relevant interbank interest rates (the "HIBOR leg") was removed from the formula with effect from 9 October 2008 until the end of March 2009.

The HKMA has reviewed the appropriateness of these adjustments and has decided that the smaller spread of 50 basis points will be retained, and that the HIBOR leg will be reinstated after the end of March 2009 to allow the functioning of interest rate adjustment under the Currency Board system as necessary.

Meanwhile, the HKMA has taken the opportunity of the current review to strengthen the Lender of Last Resort (LOLR) framework for individual banks under liquidity stress. As a result of this review, the LOLR Policy Statement has been amended to expand the types of assets and facilities eligible for obtaining Hong Kong dollar liquidity. In particular, foreign exchange swaps have been included among the basic instruments to be used by the HKMA to provide LOLR support, and the definition of eligible securities for repos has also been expanded to include securities in foreign currencies with acceptable ratings. The [revised LOLR Policy Statement](#) is available on the HKMA website for public access.

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