

## **Norman T L Chan: SME Financing Guarantee Scheme**

Opening address by Mr Norman T L Chan, Chief Executive of Hong Kong Monetary Authority and Deputy Chairman of the Hong Kong Mortgage Corporation Limited, at the SME Financing Guarantee Scheme signing ceremony, Hong Kong SAR, 13 December 2010.

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Good morning, I am very pleased to welcome all of you to today's Letter of Intent Signing Ceremony for the launch of the SME (small to medium-sized enterprise) Financing Guarantee Scheme by the Hong Kong Mortgage Corporation ("HKMC").

SMEs are an important pillar of the Hong Kong economy and employment. In 2008, the collapse of Lehman Brothers caused credit crunch and market dislocation around the world. To mitigate the impact of the global financial crisis, the Hong Kong SAR Government swiftly rolled out a series of measures to "stabilise the financial system, support enterprises and preserve employment". A key measure to help the SMEs was the launch of the \$100 billion Special Loan Guarantee Scheme in December 2008. By October this year, the scheme has helped more than 20,000 companies, with the approved loan amount exceeding \$98 billion, and helping to secure more than 330,000 jobs.

With the recovery of the local economy and the improved financing and cash flows for SMEs, the Special Loan Guarantee Scheme will cease to receive applications from early next year.

Since May this year, many SMEs and think-tanks suggested that Hong Kong should develop a market-oriented platform to guarantee SME loans upon the phasing out of the Special Loan Guarantee Scheme. This suggestion has gained a good measure of support from the market and society at large. The HKMC therefore immediately launched an in-depth study and market consultation exercise. In mid-November, the HKMC announced that it will launch the SME Financing Guarantee Scheme on 1 January next year.

The Scheme will offer extensive and flexible guarantee coverage to help the SMEs in Hong Kong obtain more sustainable bank financing for their daily operations or purchase of equipment etc. Also, this Scheme will help banks manage their lending risks more effectively – the banks can meet the financing needs of the SMEs without having to warehouse excessive credit risks. Undoubtedly, the Scheme will bring benefits for the SMEs, banks, economy and employment in Hong Kong.

We do not expect an overwhelming demand for the new Scheme initially. However, the global market conditions change and turn all the time. There is a high degree of volatility and uncertainty in the future. The business and financing environments for the enterprises could easily come under stress and the SME Financing Guarantee Scheme will then play an important role to help banks maintain a steady and sustainable flow of financing to the SMEs.

To promote the launch of this new Scheme, the HKMC will offer a special discount for applications filed on or before 30 June 2011. There will be a waiver of three months' guarantee fee for loans with tenor of one to three years and a waiver of six months' guarantee fee for loans with tenor of more than three years.

Lastly, let me thank once again the senior representatives of the 21 banks for participating in today's Signing Ceremony. We stand ready to work with the banking industry to jointly promote this project which is so meaningful for the SMEs and the local economy.

Thank you!