Peter Pang: The SME sector – an important pillar of many economies

Statement by Mr Peter Pang, Deputy Chief Executive of the Hong Kong Monetary and Head of Delegation, at the 44th Asian Development Bank Annual Meeting, Hanoi, 5 May 2011.

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I would like to thank the Government and the people of Viet Nam for their warm hospitality in hosting this year's Annual Meeting of the Asian Development Bank. I would also like to take this opportunity to express my deepest condolences to the people of Japan affected by the recent tragic events.

The global recovery has gained traction, with emerging Asia in particular rebounding strongly from the global financial crisis. Compared with the last Asian financial crisis, the damage to the real economy of the region was much more contained this time. This is in large part attributable to the reforms taken by regional economies over the years to strengthen economic fundamentals and improve the resilience of their banking and financial systems. In addition, a number of regional economies have also promptly taken temporary extraordinary measures to support their economies and cushion the impact on employment. A number of these supportive measures were targeted at assisting the small and medium-sized enterprise (SME) sector, which is an important pillar of many economies.

SMEs play a crucial role in the economic growth and job creation of both developing and advanced economies. In Hong Kong, China, for instance, SMEs account for 98% of business establishments and employ nearly half of the total workforce. They provide a broad range of employment opportunities and play an important role in reducing urban poverty. It is no exaggeration to say that when SMEs thrive, the economy prospers. This is also true vice versa.

SMEs are particularly vulnerable to economic downturns, as banks often reduce their lending to the SME sector due to credit concerns. The exceptional severity of the credit crunch during the global financial crisis has therefore posed great challenges to the SMEs. In response, the Government of Hong Kong, China swiftly rolled out a temporary HK$100 bn Special Loan Guarantee Scheme (SLGS) in December 2008 to alleviate the difficulty of SMEs in obtaining bank finance and the potential surge in unemployment due to the closing down of SMEs. Together with other short-term government stimulus measures, the SLGS has been successful in supporting the SMEs to sail through this once-in-a-century crisis and limit the potential knock-on impact on the economy. Unemployment rate increased by a modest 2.3 percentage point to peak at 5.5% in September 2009. This compares with the 4.3 percentage-point increase during the Asian financial crisis when no such temporary SME support measures were available. The economy contracted briefly by 2.7% in 2009 and rebounded strongly the following year to achieve 6.8% growth.

As economic conditions improved and market liquidity normalised, the Government exited from this emergency measure and ceased to receive new applications of SLGS after end-2010. In the meantime, the success of the SLGS has garnered a consensus to develop a sustainable, market-oriented platform to cater for the ongoing SME financing needs upon the phasing out of SLGS. Taking this opportunity, the Government-owned Hong Kong Mortgage Corporation launched a new SME Financing Guarantee Scheme (SFGS) on 1 January 2011 to facilitate a smooth transition from the temporary SLGS to a sustainable market-based mechanism.

Operating based on prudent commercial principles, the SFGS does not require government subsidy and the scheme size can be flexibly adjusted to respond to changes in market demand. The SFGS also provides a broad range of options on the product features such as tenor, facility type, loan amount and guarantee coverage to fit the different needs of banks and SMEs. Initial market response to the SFGS has been positive, with a good participation rate from banks and an encouraging number of applications received from a broad variety of SMEs. It is expected that the SFGS will over time play an important role in helping SMEs obtain stable and sustainable financing while assisting banks in managing their risks, in particular when market conditions become volatile and uncertain.

I am happy to share this experience of Hong Kong, China of how the “exit” of an extraordinary government measure has facilitated the “entry” of a long-term market-based solution for sustainable SME financing. I am also pleased to see that, among other priorities, ADB has put more emphasis to private sector development including promoting the SME sector in recent years. A vibrant SME sector will create jobs, improve productivity and expand opportunities for the poor in developed and developing economies alike. We hope to see the Bank continue with its efforts on this front, along with its other equally important priorities in promoting the development of the region.