

**Business Facilitation Advisory Committee
Wholesale and Retail Task Force**

New Loan Guarantee Product under the SME Financing Guarantee Scheme

Purpose

This paper briefs Members on the Government's proposal to introduce a new 90% loan guarantee product under the SME Financing Guarantee Scheme (SFGS) administered by the HKMC Insurance Limited (HKMCI).

Proposal

2. The Hong Kong economy is facing significant downward pressure in 2019. Gross Domestic Product (GDP) fell by 2.9% in the third quarter from a year earlier, compared with an increase of 0.4% in the second quarter. For the first three quarters of 2019 as a whole, the economy contracted by 0.6% over a year earlier. Considering the actual outturn of a 0.6% contraction in the first three quarters of 2019 and the persistent notable downward pressures, the real GDP growth forecast for the year as a whole is revised downwards from 0-1% as announced in the August round of review to -1.3% in the current round. This would be the first annual decline since 2009.

3. In order to tide enterprises over potential financing difficulties amidst the economic downturn, and provide additional support to smaller-sized enterprises and businesses with relatively less operating experience, as well as professionals seeking to set up their own practices, which/who often have limited credit history and lack the expertise or resources to produce financial statements, we will introduce a new loan guarantee product under the SFGS through which the HKMCI will provide 90% guarantee for approved commercial loans to these target beneficiaries. The application period will last until 30 June 2022. Major features of this new loan guarantee product (90% guarantee product) are set out below.

Eligibility

4. Under the existing special concessionary measures of the SFGS (80% guarantee product), applicants must have at least one year of business operation in Hong Kong on the date of guarantee application. Some smaller-sized enterprises and enterprises with less operating experience not meeting this requirement are not eligible for this product. Nor are professionals seeking to set up their own practices. In order to bridge this gap, the proposed 90% guarantee product will lift the requirement on the

one year's minimum operation of applicants, and accordingly, also the requirement on submission of financial statements by applicants to that effect.

Low Guarantee Fee

5. The SFGS is a market-based and sustainable loan guarantee scheme. Under the existing 80% guarantee product, lending institutions/enterprises have to pay a guarantee fee, the rate of which is linked to the annual interest rate of the loan and the loan guarantee ratio offered. We consider that a limited guarantee fee payable is in line with the market-based principle of the SFGS and will help share the default risks amongst participating lending institutions, enterprises and the Government.

6. The rate of annual guarantee fee of approved loans under the 90% guarantee product will be set at the same level as the 80% guarantee product, which has been reduced to 0.045 to 0.054 of the annual loan interest rate since November 2018. For example, for a loan of \$1 million at an annual interest rate of 5%, the annual guarantee fee under the new loan guarantee product will be \$2,250.

Maximum Loan Guarantee Period and Loan Ceiling

7. The maximum loan guarantee period for each approved loan under the 90% guarantee product is proposed to be five years from the first drawdown of the facility.

8. Having regard to the needs of smaller-sized enterprises which often have relatively limited credit history and resources to produce financial statements, and those of professionals striking out to set up their own practices, as well as the need to control risk exposure of the Government, the maximum amount of loans each enterprise can obtain guarantee under the 90% guarantee product will be set at \$6 million at any point in time.

Implementation Timetable

9. Subject to the approval of the Finance Committee of the Legislative Council, we plan to launch the 90% guarantee product in the first quarter of 2020.

Other Enhancement Measures

10. Apart from the proposal to introduce the new 90% guarantee product, the Government has also announced in the past months a series of measures to assist enterprises, in particular SMEs, in embracing the challenge of the external economic environment and enhancing the resilience in the prevailing economic environment, including-

- (a) injecting \$2 billion¹ into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) for extending the geographical coverage of the funding scheme to all economies with which Hong Kong has signed free trade agreements (FTAs), and increasing substantially the cumulative funding ceiling per enterprise to \$4 million to support enterprises in exploring the development opportunities in the Mainland and FTA partners;
- (b) injecting \$1 billion into the Export Marketing and Trade and Industrial Organisation Support Fund to double the cumulative funding ceiling for each enterprise under the SME Export Marketing Fund (EMF) to \$800,000;
- (c) extending the application period of the 80% guarantee product and the validity period of the three enhancement measures² introduced in 2018 to 30 June 2022; and
- (d) introducing a new relief measure under the SFGS and the SME Loan Guarantee Scheme where enterprises may apply for principal moratorium for a maximum of 12 months, during which only interest payments have to be made.

Background

11. The Hong Kong Mortgage Corporation Limited³ (HKMC) launched the market-based SFGS on 1 January 2011 with a view to helping Hong Kong enterprises, particularly SMEs, to obtain financing to meet their needs. In May 2012, to tide enterprises over financing difficulties as a result of possible credit crunch, the Government provided a total loan guarantee commitment of \$100 billion for the HKMC to launch the 80% guarantee product to provide 80% guarantee on loans at a substantially reduced guarantee fee. The expected maximum expenditure to be incurred by the Government under the 80% guarantee product is \$11 billion. The application period of the 80% guarantee product was initially nine months, which was then extended several times to 30 June 2022.

12. As at end-September 2019, a total of 16 712 applications have been approved, involving a total loan amount of about \$69.6 billion and a total guarantee amount of \$55.7 billion, benefitting more than 9 300 enterprises.

¹ Including injection of \$1 billion into the BUD fund announced in the Budget in February 2019 and injection of another \$1 billion announced on 15 August 2019 by the Financial Secretary.

² Including (a) reducing the guarantee fee rates by 50%; (b) increasing the maximum facility amount from \$12 million to \$15 million; and (c) lengthening the maximum loan guarantee period from five years to seven years.

³ To cope with the business development of HKMC, effective from 1 May 2018, the SFGS business has been transferred to and carried out by HKMCI, a wholly owned subsidiary of the HKMC.

Advice sought

13. Members are invited to note the content of the paper.

**Commerce and Economic Development Bureau
November 2019**