HONG KONG MONETARY AUTHORITY
香港金融管理局

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6 November 2008

To : All Licensed Banks
(Attention : Treasurer)

Dear Sir/Madam,

Refinements to the measures for providing liquidity assistance to licensed banks in Hong Kong

I am writing to inform you that the HKMA has introduced two refinements to the fifth of the five measures introduced on 30 September for providing liquidity assistance to licensed banks in Hong Kong.

These refinements are designed for further easing term funding pressures faced by licensed banks in Hong Kong and at providing assurances to the market about the availability of liquidity in anticipation of banks' greater demand for funding towards the year end. The refinements take immediate effect and will remain in force until the end of March 2009.

The press release is attached for your reference. If you have any questions about these refinements, please do not hesitate to contact Ms Kitty Lai, Head, Monetary Operations Division at 2878 1961 or Mr Barry Yip, Senior Manager, Monetary Operations Division at 2878 8104.

Yours faithfully,

(Edmond Lau)
Executive Director
Monetary Management Department

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Press Release

Refinements to the measures for providing liquidity assistance to licensed banks in Hong Kong

The Hong Kong Monetary Authority (HKMA) announced today (Thursday) two refinements to the fifth of the five measures introduced on 30 September for providing liquidity assistance to licensed banks in Hong Kong.

The two refinements are aimed at further easing term funding pressures faced by licensed banks in Hong Kong and at providing assurances to the market about the availability of liquidity in anticipation of banks' greater demand for funding towards the year end. The refinements take immediate effect and will remain in force until the end of March 2009.

As announced on 30 September, under the fifth measure 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. Together with the other measures, and the recent actions taken by the HKMA to inject more liquidity into the banking system, this measure has helped encourage lending in the interbank market. Interbank rates have, in consequence, been gradually easing. However, concerns about counterparty risk persist, and the liquidity in the longer end of the interbank market, especially beyond one month, remains tight.

The HKMA has therefore decided to introduce two refinements to the fifth measure on term lending against collateral.

First, the maximum tenor of such collateralised term lending will be extended from one month to three months. This will better enable banks to secure term money beyond one month and hence reduce funding pressures as the year end approaches.

Secondly, while the interest rate for such lending continues to be determined with reference to market interest rates, the HKMA will take into account the fact that such lending is secured by collateral in determining the applicable interest rate. The HKMA considers that there is scope for setting a lower lending rate for the term lending facility compared with the relevant interbank interest rate in view of the secured nature of such lending and the current distortions and frictions in the term interbank market.

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The Chief Executive of the HKMA, Mr Joseph Yam, said that the refinements were designed to help banks meet their year-end liquidity needs. "The two refinements to the fifth measure, together with the other four measures introduced on 30 September, will help ensure adequate liquidity within the banking system and further ease pressures in the interbank market," Mr Yam said.

For further enquiries, please contact:
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Peggy Lo, Manager (Communications), at 2878 1687

Hong Kong Monetary Authority
6 November 2008