



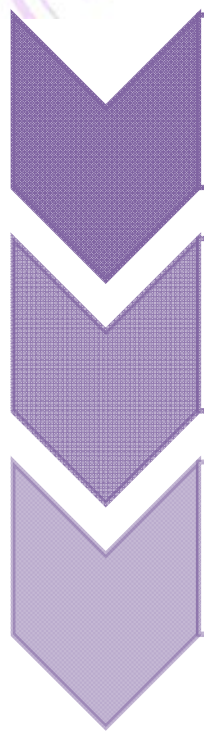
CCBS Workshop for Heads of Financial Stability  
15-16 February 2017

# Operationalising the Counter Cyclical Capital Buffer in Hong Kong

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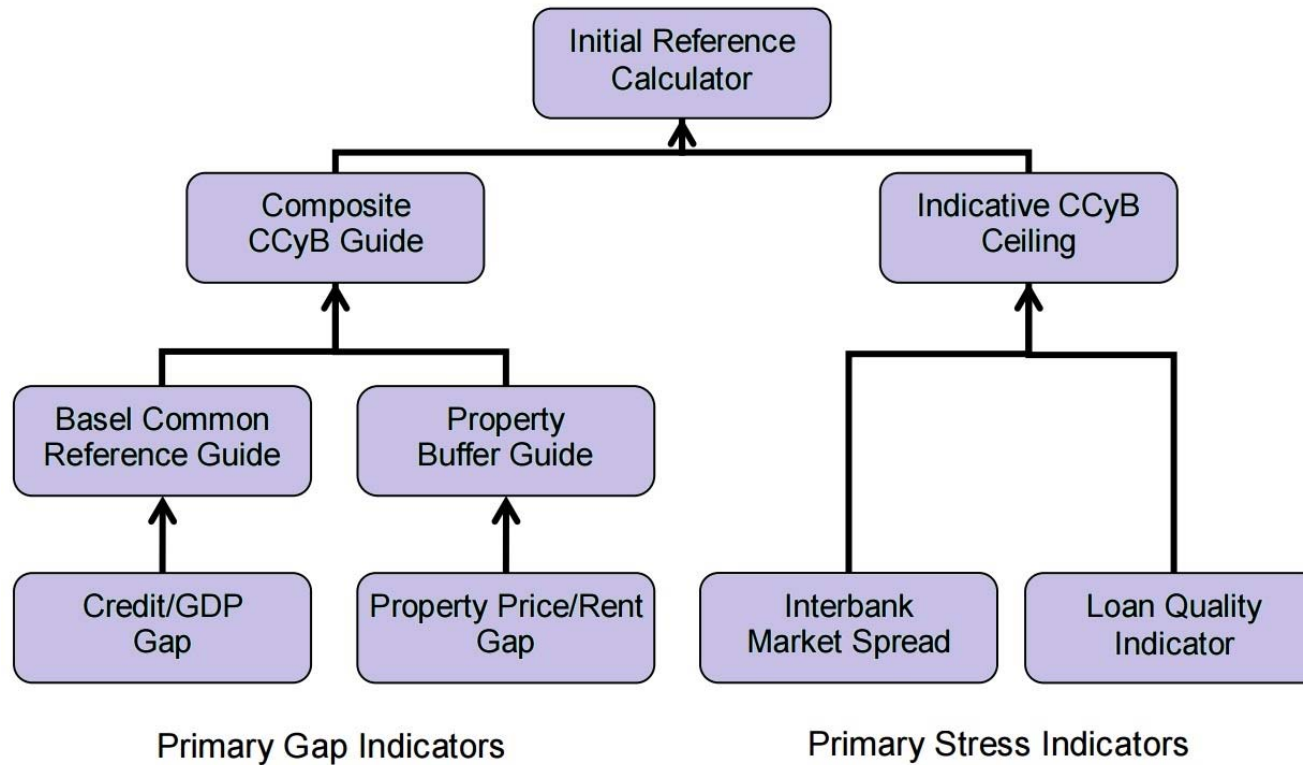


## HKMA's “guided discretion” approach

- 
- Calculate “Initial Reference Calculator” (IRC)
  - Incorporate information from “Comprehensive Reference Indicators” and other sources
  - Final policy decision



# Initial Reference Calculator (IRC)



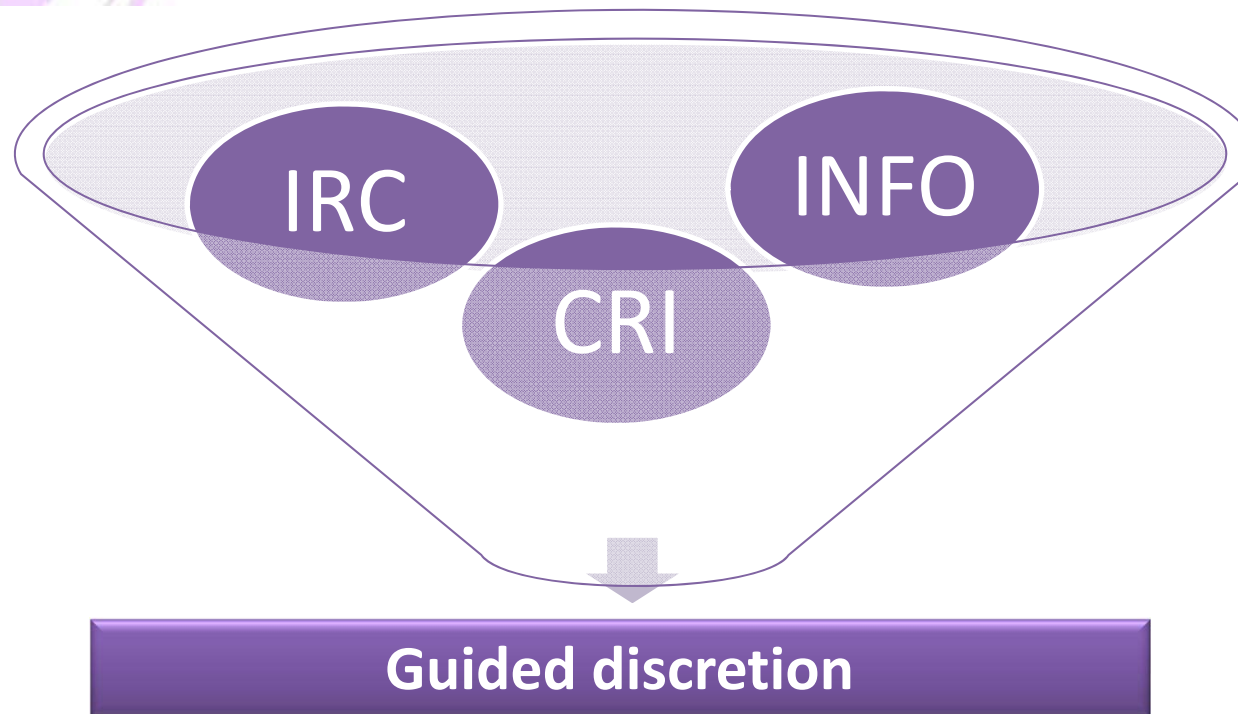


# Comprehensive Reference Indicators

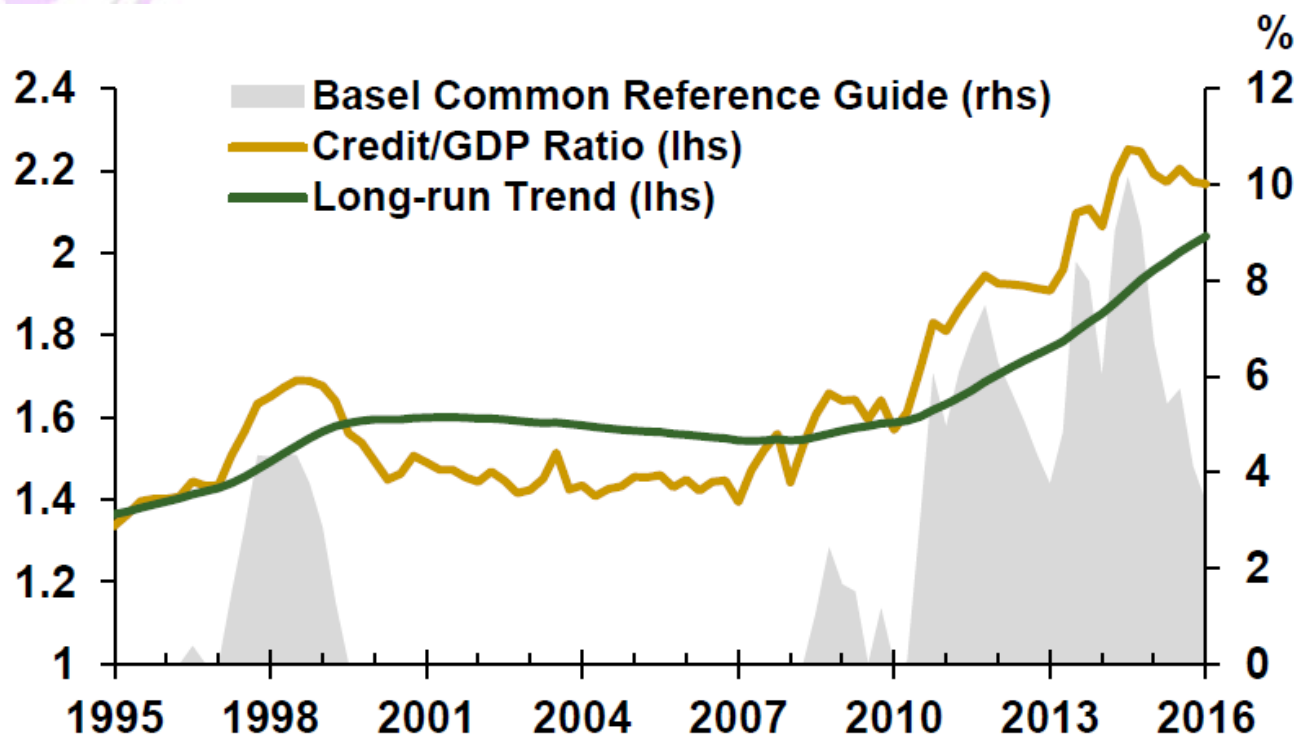
- Banking indicators, for example
  - Bank leverage: Basel III Leverage Ratio, CET1/RWA
  - Bank maturity mismatch: Net Stable Funding Ratio, loan/deposit ratio
- Hong Kong property sector indicators, for example
  - Real mortgage interest rate
  - Average LTV, DSR
- Non-financial sector leverage, for example
  - Household debt/GDP ratio
  - Financial leverage of listed local corporations: debt/equity, debt/EBITDA
- Macroeconomic imbalances, for example
  - Current account deficit/GDP
- External factors, for example
  - Credit/GDP gap in globally/regionally important economies



## Final policy decision with guided discretion

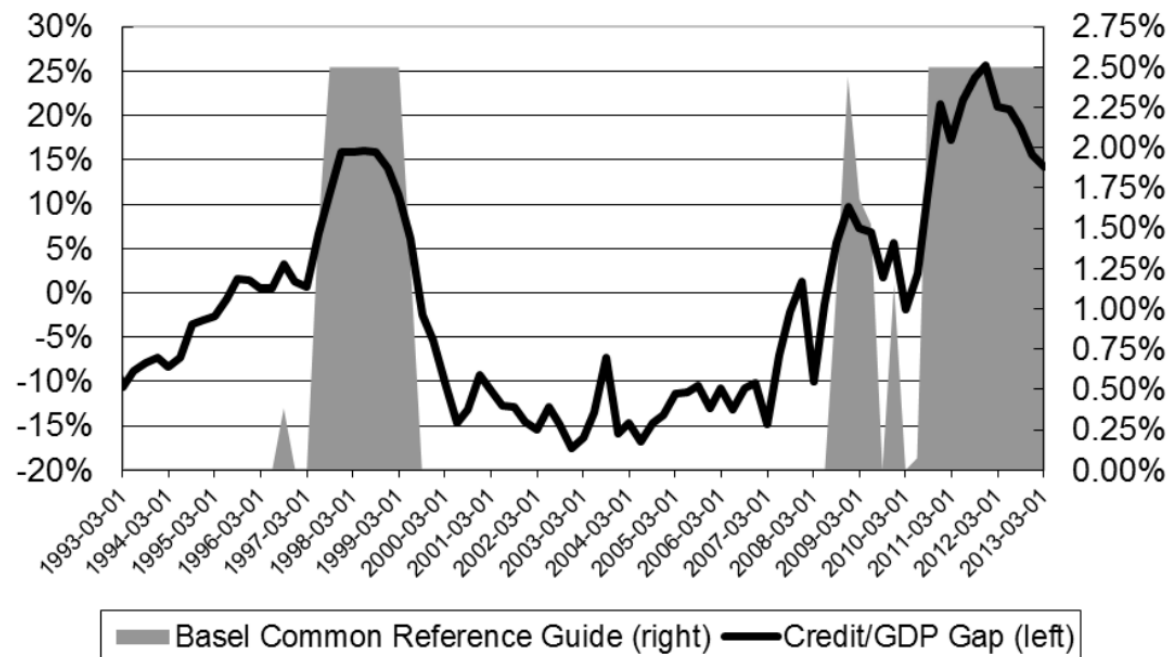


# Expert judgement required at inflexion points



# Expert judgement required for volatile “guide”

Credit/GDP Gap and Basel Common Reference Guide





## Policy considerations under high uncertainties

- Asymmetry in time required to raise and cut CCyB
  - HK: Raising CCyB needs at least 6 months, while cutting CCyB is effective immediately
  - CCyB decision should err on the side of tightening when faced with high uncertainties
- Sufficiency of existing CCyB to deal with a possible disruptive downturn
  - Err on the side of tightening when existing CCyB does not seem to be sufficient for such
- How binding the CCyB requirement is on the banking sector
  - Err on the side of tightening when additional CCyB requirement is not that binding
- Adopt the option that minimises policy error given all possible scenarios
  - Type I error: Inaction or late actions to deal with adverse outcome
  - Type II error: Unnecessary actions leading to adverse outcome
  - Some scenario analysis with expert judgement would be needed





## Summary of Hong Kong's CCyB experience

- A comprehensible CCyB reference guide may help improve transparency
- The reference guide results should always be checked against a much broader set of relevant information
- Decision on the CCyB can never be a mechanical process – expert judgement is always essential
- Expert judgement is particularly important
  - Near inflexion points
  - When the CCyB reference guide is volatile
- Some additional policy considerations may be needed when faced with high uncertainties in order to minimise policy error