

## Box

## The Bank's Special Accommodation Facility to Help SMEs Affected by the Pandemic

As the COVID-19 outbreak quickly spread worldwide in the first few months of 2020 and battered the global economy, some industry sectors in Taiwan also took a hit from the impact. Given the importance of SMEs, which made up 98% of enterprises nationwide and 80% of the employed population,<sup>1</sup> their financial distress could have had adverse implications for the domestic economy and the labor market.

In order to help them stay afloat, the Bank implemented the Special Accommodation Facility to Support Bank Credit to SMEs ("the Facility"), effective April 1, 2020. The Facility would provide banks with additional funds so that they may, via secured loans backed by the government's Small and Medium Enterprise Credit Guarantee Fund of Taiwan (Taiwan SMEG), support the credit needs of the SMEs.

### I. Introduction to the Facility

#### 1. The legal foundation

- (1) Pursuant to Article 19 of *The Central Bank of the Republic of China (Taiwan) Act*, the Bank may provide accommodations to banks. Accordingly, the *Directions for the Central Bank of the Republic of China (Taiwan) Accommodations to Banks* (hereinafter the *Directions*) were promulgated.
- (2) With the aim of mitigating the pandemic-induced impacts on the macro-economy, the Bank considered it an imperative to help the SMEs through the difficulties by facilitating their access to funds under more preferential terms. Therefore, the *Directions* were also amended as follows, effective April 1:
  - A. Regarding Direction 14: The scope of the Bank's refinancing of secured loans for banks is expanded;
  - B. Regarding Direction 15: A set of operating rules are formulated in regard to banks' applications for the Bank's refinancing of secured loans;
  - C. Regarding Direction 17: The Facility's interest rate may be marked down from the Bank's interest rate on secured loan refinancing.

#### 2. Key points of the Facility

The Bank's Facility provides banks with low-interest accommodations charged at 0.1% to help them offer SMEs loans under preferential terms. Then, based on the classes of collateral

<sup>1</sup> Small and Medium Enterprise Administration, Ministry of Economic Affairs, R.O.C. (2019), *White Paper on Small and Medium Enterprises in Taiwan, 2019*.

and types of applicants, the Facility offers three programs of different credit lines and durations for loans extended by financial institutions to applicable businesses.

### The Bank's Special Accommodation Facility to Support Bank Credit to SMEs

Interest rate	The Bank's rate on refinancing of secured loans (1.5%) minus 1.4 percentage points; currently at 0.1%
Total amount	NT\$300 billion
Expiry date (with duration up to 360 days)	For applications prior to Aug. 9, 2020: until Mar. 27, 2021
	For applications between Aug. 10, 2020 and January 4, 2021: until June 30, 2021
	For applications after January 5, 2021: until Dec. 30, 2021

Source: Department of Banking, CBC.

### SME Relief Lending under the Bank's Special Accommodation Facility

Loan type	Secured loans to the SMEs affected by the COVID-19 pandemic as assessed by banks receiving applications			
Loan purpose	To support business operations of the SMEs affected by the pandemic			
Eligible borrowers and loan terms	Program	A	B	C
	Borrower	SME*	SME*	Small-scale business entity**
	Guarantee/ Collateral	At least 90% guarantees covered by Taiwan SMEG	Other collateral (including at least 80% guarantees covered by Taiwan SMEG)	100% guarantees covered by Taiwan SMEG
	Amount	Up to NT\$4 million	Up to NT\$16 million	Up to NT\$0.5 million
	Interest rate	Capped at 1%	Capped at 1.5%	Capped at 1%
	Application time frame	2020.4.1-2021.6.30	2020.4.1-2021.6.30	2020.4.20-2021.6.30
	*SME: A domestic business entity with proper company registration, business registration, limited partnership registration, or taxation registration, and whose paid-in capital is no more than NT\$100 million or which hires fewer than 200 regular employees may apply for loans under Program A or B. **Small-scale business entity: A business entity with proper taxation registration and whose monthly sales amount (in any month since from January 2020) does not reach the threshold for using uniform invoices may apply for loans under Program A, B or C.			
Others	SMEs which take out loans under this Facility could also apply for other credit support measures implemented by the government.			

Source: Department of Banking, CBC.

## II. Implementation of the Facility

### 1. Number and loan amount of applications

Between April 1, 2020 and December 31, 2020, banks have received more than 190 thousand applications, with 97.5% of them approved, and the total amount of applications exceeded

NT\$240 billion, with 95.8% of them granted, representing an effective effort to help the affected SMEs obtain the needed working capital.

### Implementation of the Special Accommodation Facility (As of Dec. 31, 2020)

		Program A	Program B	Program C	Total
Applications	Number of cases	42,592	29,745	122,738	<b>195,075</b>
	Amount (NT\$ billion)	75.1	115.1	58.6	<b>248.8</b>
Cases approved	Number of cases	41,493	28,887	119,883	<b>190,263</b>
	Amount (NT\$ billion)	72.3	109.3	56.7	<b>238.3</b>

Source: Department of Banking, CBC.

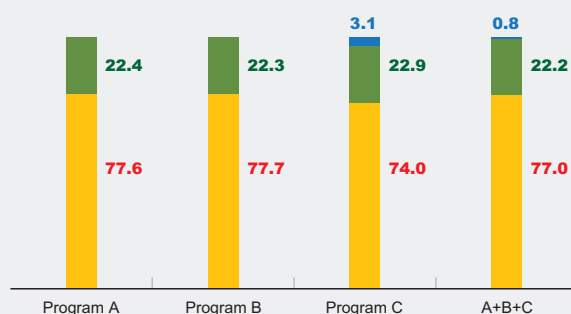
#### 2. Implementation by type of financial institution

Among the applications, 77% of the amount went to government-owned banks<sup>2</sup> and 22.2% to private banks, while community financial institutions, extending such loans only via program C, made up a relatively small share of 0.8%.

#### Facility Implementation by type of financial institution (as of 2020/12/31)

##### Amount of loan applications

■ government-owned banks
 ■ private banks
 ■ community fin. institutions
 Unit: %

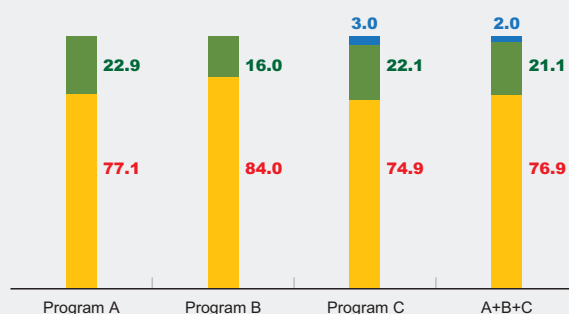


Note: The respective shares represent the amount of applications received by that type of financial institutions as a percentage of the total amount of applications to all financial institutions.

Source: Department of Banking, CBC.

##### Number of applications

■ government-owned banks
 ■ private banks
 ■ community fin. institutions
 Unit: %



Note: The respective shares represent the number of applications received by that type of financial institutions as a percentage of the total number of applications to all financial institutions.

Source: Department of Banking, CBC.

<sup>2</sup> Referring to domestic banks with full or partial government ownership.

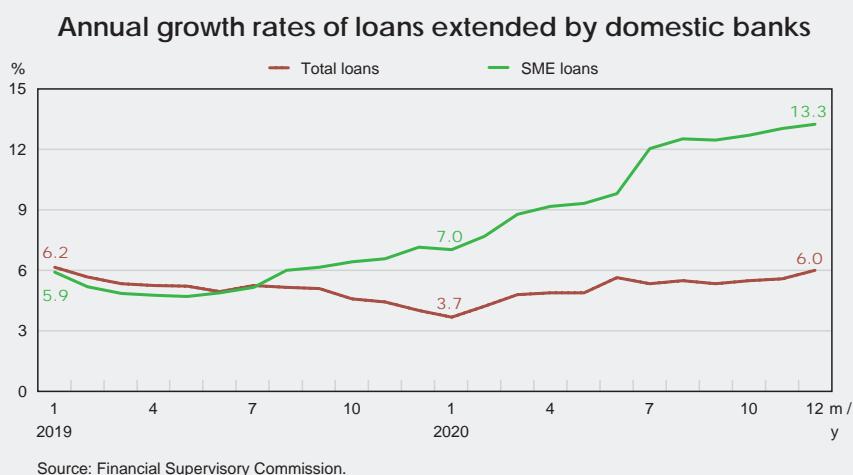
### III. The Bank conducts a rolling review of the Facility as warranted by pandemic developments and corporate needs

When carrying out the Facility, the Bank has kept a close watch on the pandemic and the funding needs of SMEs. With a rolling review, the Bank made the following adjustments to the Facility: the amount of the Facility's accommodations was expanded from a total of NT\$200 billion to NT\$300 billion; the deadline for SMEs to apply for credit support was extended from Dec. 31, 2020 to June 30, 2021, and such loans that lenders approved on or after January 5, 2021 would continue to enjoy the facility's preferential interest rates until December 31, 2021. A longer duration for SMEs in need of assistance to enjoy the Facility's preferential interest rates would help lower the funding cost and support them in overcoming financial difficulties.

### IV. Effective implementation of the Facility has helped ease the pandemic's economic impact and stabilize the financial system

#### 1. SME lending rose markedly

As of the end of December 2020, domestic banks' lending to SMEs increased by 13.3% year on year, higher than the 6.0% annual increase of total lending. The Bank continued urging banks to reinforce their SME support under the Facility, thus effectively reducing the pandemic's impact on employment and the economy.



#### 2. SMEG guarantee supported banks' role as financial intermediaries and buttressed asset quality

Loans extended by banks under the Facility are backed by the government's Taiwan SMEG. This not only boosts banks' confidence and interest in lending to SMEs but also could mitigate credit risk to banks. As of the end of December 2020, the non-performing ratio of SME loans extended by domestic banks stood at 0.34%, lower than the average ratio of 0.41% of the previous year.

3. By incorporating community financial institutions, the Facility is able to increase its reach and help more businesses

Some small businesses mostly go to credit cooperatives or credit departments of farmers' and fishermen's associations for banking services. By incorporating these community financial institutions, the Facility could also provide working capital assistance to this swath of business entities affected by the pandemic, helping 3,818 of them via this channel and a total of more than 190 thousand small-scale business entities through Program C, as of December 31, 2020.