

Box

The Bank's Special Accommodation Facility to Help SMEs

As the COVID-19 pandemic quickly spread worldwide at the start of 2020, Taiwan, like many other economies, was hit by the resultant economic and financial impacts. In a bid to help the affected SMEs stay on track, the Bank launched the Special Accommodation Facility to Support Bank Credit to SMEs (hereinafter "the Facility"), under which banks could obtain additional funds to offer concessional loans to those SMEs in distress because of the pandemic.

I. Introduction to the Facility

The Bank's Facility provided banks with accommodations at low interest rates so that banks would in turn support SMEs by offering concessional loans guaranteed by the government's Small and Medium Enterprise Credit Guarantee Fund of Taiwan (Taiwan SMEG). In addition, different programs were designed featuring various credit lines and rate ranges for firms of different sizes. To better support SME credit needs during the pandemic, the Bank has made 15 adjustments to

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 meet funding needs of the affected SMEs in order to continue business operations			
Eligible borrowers and loan terms	Program	A	B	C
	Borrower	SME*	SME*	Small-scale business entity**
	Guarantee/ Collateral	At least 90% of guarantees covered by Taiwan SMEG	Other collateral (including at least 80% of guarantees covered by Taiwan SMEG)	100% of guarantees covered by Taiwan SMEG
	Credit line	Up to NT\$4 million	Up to NT\$16 million	Up to NT\$1 million
	Interest rate	Capped at 1%	Capped at 1.5%	Capped at 1%
	Application schedule	2020.4.1 – 2021.12.31		2020.4.20 – 2021.12.31
	<p>* 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.</p> <p>** Small-scale business entity: A business entity with proper taxation registration and whose monthly sales amount (in any month since January 2020) does not reach the threshold for using uniform invoices may apply for loans under Program A, B or C.</p>			
Applicable time frame	April 1, 2020 to June 30, 2022 (*preferential interest rates would be applicable during this period)			
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.

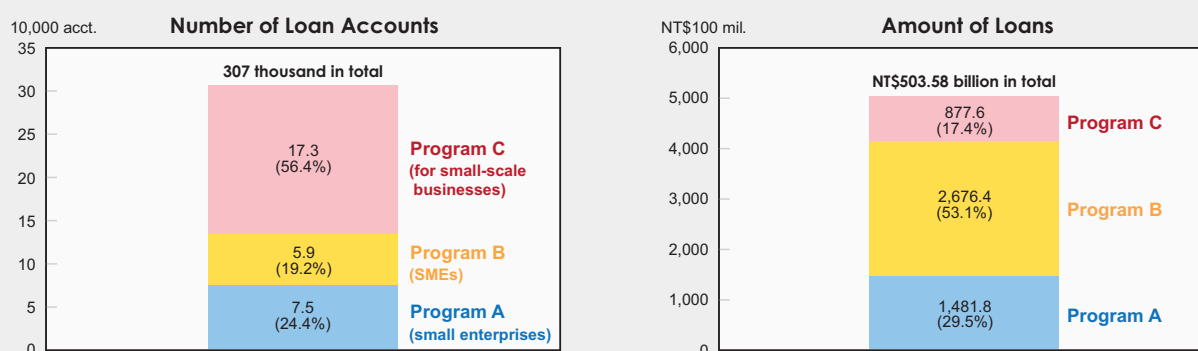
the Facility, including increasing the total amount, lowering the interest rates on accommodations, raising the ceiling for available loans, and extending the Facility's implementation duration.¹

II. Implementation of the Facility

In sum, bank credit extended under the Facility reached 307 thousand loan accounts with a total amount of NT\$503.58 billion.

1. In terms of approved cases, Program C, which had a lower approval threshold, recorded the highest number with 173 thousand loan cases approved (making up 56.4% of the total).
2. In terms of loan amount, Program B had the highest accumulated amount with NT\$267.64 billion (53.1%) given that borrowers under this Program were mostly mid-sized enterprises and thus eligible for larger loans.

Implementation Results of the Facility (2020.4.1 - 2022.6.30)



Source: Department of Banking CBC.

III. Effectiveness of the Facility

1. SME lending expanded markedly, which was seen to have helped the affected SMEs through the pandemic, thereby buttressing employment and economic growth

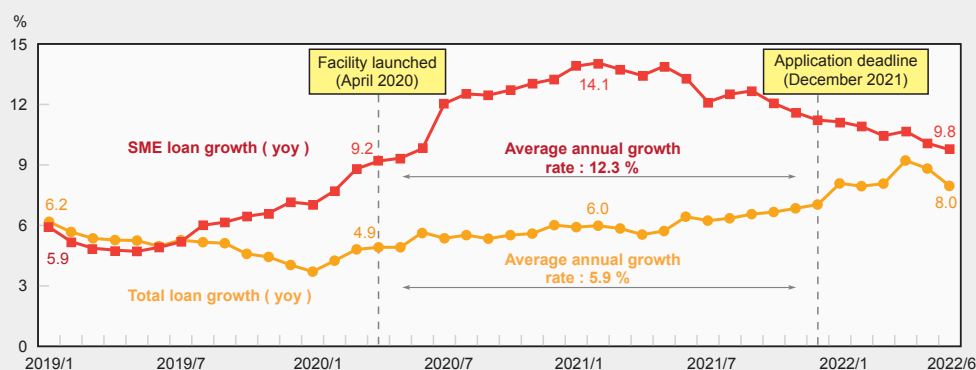
Over the course since the launch of the Facility, SME lending by domestic banks has risen markedly. The combined effect from not only the Bank's Facility but also the government's credit support measures and relief loans initiated by banks themselves helped Taiwan's banking sector to well serve its role of financial intermediation. In addition, by providing the SMEs with funds to stay afloat, the Facility contributed to stabilizing the labor market² and the financial system, as well as keeping the economy on its growth path.³

¹ The total accommodation amount was increased from NT\$200 billion to NT\$400 billion; the Facility's interest rate was cut from 0.25% to 0.1%; and the maximum loan amount allowed per borrower under Programs A, B, and C was raised from NT\$2 million, NT\$6 million, and NT\$0.5 million to NT\$4 million, NT\$16 million, and NT\$1 million, respectively.

² Taiwan's unemployment rate decreased steadily from a peak of 4.8% in June 2021 to 3.61% in January 2022.

³ With an annual GDP growth rate of 3.39% in 2020, Taiwan ranked among the few economies to record positive economic growth that year. Furthermore, the economy expanded remarkably at an 11-year record pace of 6.53% in 2021 and continued to post healthy growth of 3.41% in the first half of 2022.

Total Lending and SME Loans by Domestic Banks (Growth Rates, yoy)

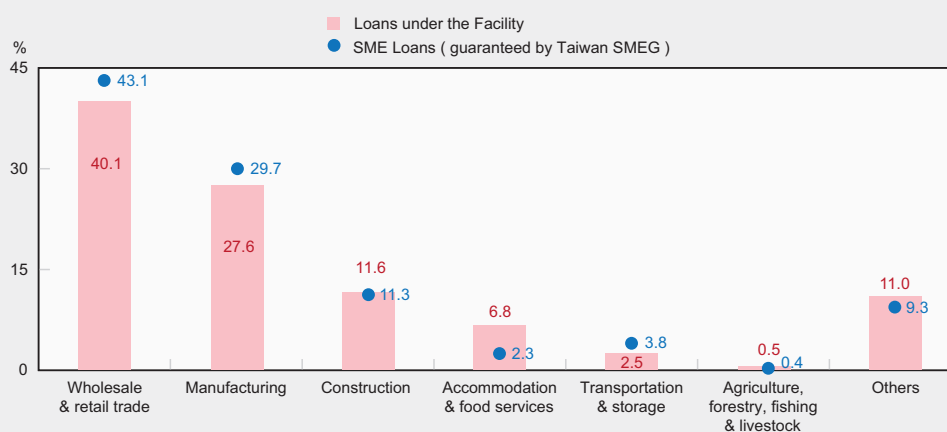


Source: FSC.

2. With credit support tailored to the needs of the affected industries, the Facility was able to help local SMEs obtain crucial financial resources, thereby bridging the rural-urban development divide and promoting financial inclusion

The Facility was aimed at facilitating loans to micro-sized firms or small-scale businesses. As the Facility streamlined underwriting processes such as credit verification and loan approval, banks were more willing to lend, thus fulfilling their role as financial intermediaries while financing the affected industries⁴ for business continuity. In addition, a regional breakdown analysis of domestic banks' SME lending showed that, in central and southern Taiwan and in Hualien, Taitung, and offshore islands, the Facility's SME credit support made up a larger share compared to total SME credit to these areas. This reflected the Facility's effect on such areas, which helped balance credit resource allocation across regions and foster financial inclusion.

SME Loans, by Industry

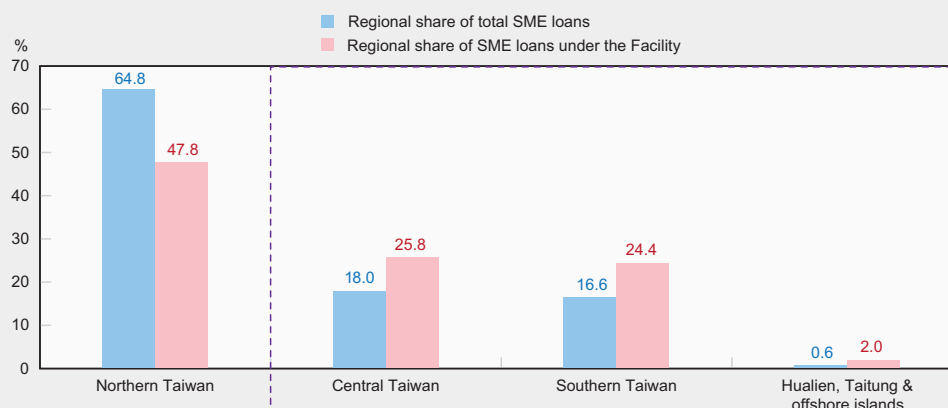


Note: SME loans refer to those underwritten by financial institutions and covered by Taiwan SMEG guarantees.

Source: Taiwan SMEG, respective lenders, and Department of Banking, CBC.

⁴ Industries hit hardest by the pandemic included wholesale and retail trade, accommodation and food services, and transportation and storage.

Facility's SME Loans and All SME Loans, by Region (of Domestic Banks)



Note: Shares of total SME loans by domestic banks are calculated using FSC statistics as of end-June 2022; shares of the Facility's SME loans are calculated using the accumulated amount of the Facility since implementation.

Source: Respective lenders, FSC, and Department of banking, CBC.

IV. Conclusion

After implementation, the Facility effectively boosted banks' willingness to underwrite SME loans as it provided banks with additional funds at very low interest rates, while also bolstering SME credit worthiness via the guarantee mechanism of Taiwan SMEG. Furthermore, the Bank conducted a rolling review to make timely adjustments as warranted and incorporated community financial institutions as part of the lenders, so as to reflect the actual lending practice and answer the needs of the pandemic-hit SMEs. Overall, the Facility brought about satisfactory outcomes, including helping SMEs ride out the storm of the pandemic, and, as a result, sustaining stable employment, fostering steady economic growth, balancing regional development, and promoting financial inclusion.