

Box 2

Loans to small and medium enterprises

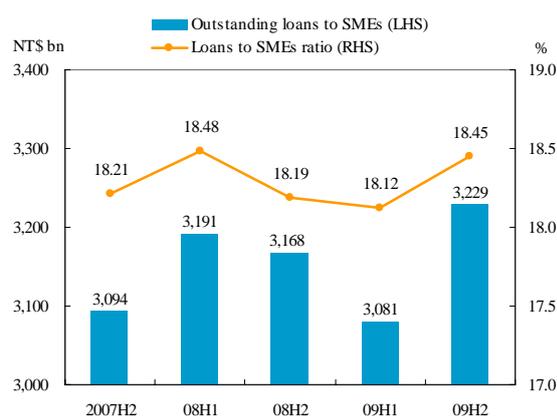
Small and medium enterprises (SMEs) play an important role in Taiwan's economic development and have far-reaching impacts on economic growth and social stability. The total number of SMEs registered 1.235 million, accounting for 97.70% of the total number of corporations at the end of 2008. In terms of number of workers, 7.966 million workers worked for SMEs, which was equivalent to 76.58% of national employment that year. The total sales revenues for SMEs amounted to NT\$10.46 trillion, or 29.69% of the corporate sector as a whole¹. Their main source of funding is loans from banks². Nevertheless, compared to large corporations, SMEs encounter more difficulties in obtaining loans from banks because of a lack of transparency, relatively unsound financial structures and insufficient collateral. In view of the pro-cyclical nature of banks' lending behavior³ and that currently the economy has not yet fully recovered, the relevant government authorities would actively adopt measures so as to increase banks' incentives for extending loans to SMEs.

1. Loans to SMEs

The outstanding amount of total loans to SMEs granted by banks amounted to NT\$3,229.4 billion as of the end of 2009, increasing by NT\$61.6 billion, or 1.94%, year on year, representing an increase of NT\$ 38.3 billion, or 1.2%, when compared with that of June 2008 before the onset of the global financial crisis. Loans to SMEs accounted for 18.54% of total loans as of the end of 2009, up by 0.26 percentage points from that of the previous year-end, but slightly down by 0.03 percentage points from that of the end of June 2008⁴. In general, loans to SMEs have returned to the level they were at before the financial crisis struck (Chart B2.1).

Most loans to SMEs were granted by state banks, in line with government policies. Loans to SMEs granted by the 8 widely-defined state banks⁵ reported NT\$2,261.4 billion, with a market share of

Chart B2.1 Outstanding and ratio of Loans to SMEs in Banks



Notes: 1. The term "banks" here refers to domestic banks and local branches of foreign banks.
2. End-of-period figures.

Source: FSC.

70.03%, which was relatively concentrated; loans extended to SMEs by the local branches of foreign banks was merely NT\$37.5 billion or 1.16% of the market.

2. Measures Adopted by the Government to Assist SMEs

Considering the current economic environment's impacts on corporate finances, the CBC continued to adopt easy monetary policies to lower banks' costs of funding and inject ample liquidity into the market so as to increase the lending capacity of the banking sector. Other relevant government agencies also took the following responses to assist SMEs in obtaining operation funds:

2.1 The Small and Medium Enterprise Credit Guarantee Fund of Taiwan (SMEG) adopted several measures to increase banks' incentives to extend loans to SMEs

In view of full compliance with the government's policy, the SMEG launched a new Special Guarantee Program to Promote Employment and Funding. Under the Program, credit lines were increased and restrictions on credit guarantees that enterprises can utilize to apply for loans were relaxed, guarantee fee rates were lowered, and both guarantee coverage percentages and the standard payment rate after claims for loans under the Package Credit Guarantees were increased. Through the credit guarantees of this program, credit risks faced by banks were largely reduced, and as a consequence, banks' incentives to extend loans to SMEs were increased significantly. In 2009, the SMEG helped SMEs obtain financing of NT\$613.1 billion (of which NT\$462.0 billion was guaranteed by the SMEG), an increase of NT\$94.2 billion from NT\$518.9 billion (where SMEG guarantees amounted to NT\$327.3 billion) extended in 2008.

2.2 The government and contracted financial institutions donated more to expand the capacity of the SMEG

In 2009, donations from the government and contracted financial institutions increased to NT\$6 billion and NT\$2 billion, respectively. As a result, the net worth of the SMEG registered NT\$27.7 billion as of the end of 2009, representing a ceiling of credit guarantees of NT\$554.0 billion. When compared with outstanding credit guarantees of NT\$393.9 billion granted by the SMEG⁶ in the same year, there was still ample capacity for guarantees available.

2.3 The FSC required domestic banks to extend more loans to SMEs

Domestic banks' loans to SMEs have increased gradually since the Domestic Banks Loans to SMEs Enhancement Project was initiated by the Financial Supervisory

Commission (FSC) in July 2005. As of the end of 2009, loans to SMEs granted by domestic banks stood at NT\$3.19 trillion, increasing by NT\$73.1 billion from the previous year. The ratio of their loans to SMEs to their overall corporate loans reached 43.66%, an increase of 2.07 percentage points from the previous year. To help SMEs obtain operation funds, the FSC continued to promote the Project, and loans to SMEs granted by domestic banks were expected to increase by NT\$100 billion by the end of 2010.

- Notes:
1. SMEs Outlook 2009, issued by Small and Medium Enterprise Administration, Ministry of Economic Affairs (MOEA).
 2. Sources from the Department of Statistics, MOEA.
 3. Loans granted by banks increase during economic expansions while they decrease markedly during contractions, which may worsen the volatility and instability of the macro-economy.
 4. Figures are taken from the Banking Bureau, Financial Supervisory Commission.
 5. These banks here refer to the Bank of Taiwan, Land Bank of Taiwan, Taiwan Cooperative Bank, First Commercial Bank, Hua Nan Commercial Bank, Chang Hwa Commercial Bank, Taiwan Business Bank and Mega International Commercial Bank.
 6. Including NT\$21 billion of government project finance.