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Press Release

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Restructuring Plan for SMEs

Background

Together with large companies with debts of more than KRW50 billion, the companies in construction, shipbuilding and shipping industries are now under a full-fledged restructuring process as credit risk assessment have wrapped up on them. SMEs will also be subjected to restructuring programs through creditor bank-led credit risk assessment.

Restructuring Schedule

The credit risk assessment will be conducted on SMEs in order according to the size of their debts given a large number of firms involved and limited information available for them.

The first round of credit assessment will be completed by July 15 on SMEs which have KRW5.0 billion or more in borrowing and are required to have external audit. This includes 5,214 basic assessment target companies out of a total of 10,738 SMEs, excluding public and special purpose corporations, and confirmed 861 companies as detailed assessment target companies according to the following financial factors; 3-year operating cash flow deficit, 3-year interest coverage ratio below 1, precautionary and below companies.

The second round of credit risk assessment, which will be finished by the end of September, will center on SMEs that have between KRW3.0 billion and KRW5.0 billion in borrowing and are subject to external audit. Unlike the first round of assessment where only financial factors were considered, the second round is expected to include qualitative factors such as the level of delinquencies, discounted bills, and uncommitted overdraft rates. Qualitative factors will also be applied to companies that underwent the first round of assessment for inclusion in the in-depth assessment.

The third round of credit risk assessment is due to be completed by the end of November this year. The assessment will include companies that are not subject to external audit or sole proprietorships with more than KRW 3.0 billion in debt, and those that have between KRW1.0-3.0 billion in debt and are subject to external audit.

Each creditor bank's branch will exercise their discretion to select the companies with high risk of insolvency for inclusion in the credit risk assessment.

Small businesses that are not included in the above categories are expected to be exempted from the mandatory credit risk assessment although restructuring steps will be promptly undertaken upon some peculiar signs such as increasing delinquency ratio or distress.

Expected Outcome & Future Policy Direction

Through these efforts to weed out non-viable companies, it is expected that banks would promote their asset soundness, and support policies for SMEs would be pursued effectively. Companies that are rated A and B would continue to receive financial support while those that are rated C would be given all possible support to normalize through debt restructuring. For those rated D, additional financial supports will be ceased to funnel more money into financially healthier SMEs.

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