

FSC CHAIRMAN HOLDS MEETING TO REVIEW DEBT RISKS OF SMALL MERCHANTS

FSC Chairman Koh Seungbeom held a meeting with officials from the Bank of Korea, Financial Supervisory Service, research institutions and local banks on January 19 to check business conditions of small-scale businesses and their debt risks as the loan maturity extension and payment deferment program is set to expire at the end of March 2022.¹ The following is a summary of Chairman Koh's keynote address.

CHAIRMAN'S REMARKS

Self-employed small businesses make up about 87 percent of all businesses and 21 percent of economically active population in Korea. However, these businesses have suffered greatly in the past two years amid the COVID-19 pandemic crisis. The financial sector has provided them with loan maturity extensions and deferment on interest payments and it has helped to ease small merchants' payment burdens on some KRW272.2 trillion worth of business loans between April 2020 and November 2021. In addition, the small merchant lending support programs made available low interest rate business loans to those facing liquidity problems. From the end of this month, adjustments made to the card processing fee rates will also help ease small merchants' fee burdens.² The prolonged pandemic situation, however, has raised concerns about a spread of potential risks to the financial system. For the past two years, the speed of debt growth for the self-employed has exceeded that of the household sector. An accumulation of bad debts can threaten stability in the financial system. In particular, delays in business recovery coupled with interest rate hikes can lead to a credit crunch and pose greater problems for small businesses.

The loan maturity extensions and payment deferments for small merchants and SMEs are set to expire at the end of March 2022. Although it is difficult to predict events two months ahead, it is certain that there will be contradictory policy tasks between ensuring the risk handling capacity of small businesses and strengthening risk management in the financial system amid a monetary policy tightening. In this regard, the authorities will closely monitor situations as the maturity extensions and payment deferments are coming to an end. The authorities are currently working on tailored measures for small merchants to ensure adequate safeguards to prevent abrupt payment burdens. To work for an orderly exit from the pandemic-era policy, financial companies will also need to maintain a sufficient level of loss absorbing capacity.

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¹ Please click [here](#) to see the press release dated September 29, 2021.

² Please click [here](#) to see the press release dated December 23, 2021.