

## GOVERNMENT PREPARES KRW80 TRILLION FINANCIAL SUPPORT PROGRAMS TO HELP SMES OVERCOME CRISIS

The FSC and the Ministry of SMEs and Startups (MSS) held talks with policy financial institutions, the Korea Federation of Banks and major industry groups representing SMEs<sup>1</sup> on January 11 and announced their joint plans to provide financial support for SMEs to help them overcome the complex crisis situation they face currently. A total of KRW80 trillion of policy financial supports (KRW50 trillion from the FSC and KRW30 trillion from the MSS) will be newly supplied.

This KRW80 trillion financial supports are designed to help them overcome the current triple-highs (interest rate, inflation and USD to KRW exchange rate) risky situation, to support growth of innovative businesses and to assist the recovery or re-start of vulnerable firms. After the announcement, the FSC and the MSS listened to complaints and suggestions from field industry groups for SMEs.

### **FINANCIAL SUPPORT FOR SMES (KRW80 TRILLION)**

#### **I. BACKGROUND**

High interest rates and concerns about a global recession rapidly increase managerial burdens on SMEs, and this condition is expected to continue for some time in the near future. With the increase in loan balances, SMEs face added burdens for interest expenses due to rate hikes, and there are more SMEs struggling with increased production costs following rising in raw materials prices and global supply chain reshuffles.

To improve the potential growth in our economy, SMEs need to get into the new growth sectors and secure their own competitiveness through business conversion. However, with the challenging economic situation recently, it is necessary to support the growth of innovative businesses and the resurgence or re-start efforts of vulnerable SMEs through policy finance.

#### **II. OVERALL DIRECTION**

The government will supply a total of KRW80 trillion via policy funds (KRW50 trillion from the FSC and KRW30 trillion from the MSS) and seek system improvements in diverse areas to bolster the crisis-response capacity and growth potential of SMEs, and to expedite normalization of business management.

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<sup>1</sup> Participants: (Government) Minister of SMEs and Startups and Chairman of the Financial Services Commission; (policy financial institutions) representatives from Industrial Bank of Korea, Korea Credit Guarantee Fund and Korea SMEs and Startups Agency; (banking sector) representative from Korea Federation of Banks; and (SMEs) representatives from Korea Federation of SMEs, Korea SMEs Convergence Agency, Innobiz association, Mainbiz association, Korea Women Entrepreneurs Association, Korea Venture Business Women's Association and Korea Startup Forum

### III. MEASURES IN DETAIL

	Policy Tasks	Details
Responding to triple-highs (KRW22.8 trillion)	Respond to high interest rates	<ul style="list-style-type: none"> <li>▶ Provide low fixed-rate loans(KRW6 trillion)</li> <li>▶ Provide loans with reduced interest rate(KRW8.5 trillion)</li> <li>▶ Support financing through direct financial market (KRW0.9 trillion)</li> </ul>
	Respond to high prices	<ul style="list-style-type: none"> <li>▶ Extend a unit price adjustment system(KRW1 trillion) for delivered goods</li> <li>▶ Provide business stabilization loans with preferential terms (KRW5.5 trillion)</li> </ul>
	Respond to high exchange rates and support export sector	<ul style="list-style-type: none"> <li>▶ Reduce FX hedging costs and ease requirements for extension of maturity on import L/C</li> <li>▶ Financial support for export companies with preferential terms (KRW0.9 trillion)</li> </ul>
Supporting growth of innovative businesses (KRW52.3 trillion)	Foster new industries	<ul style="list-style-type: none"> <li>▶ Support for future-oriented innovation industries, corporate restructuring, ESG-related facility investments (KRW16.5 trillion)</li> </ul>
	Nurture startups and venture businesses	<ul style="list-style-type: none"> <li>▶ Provide customized support for startups and venture businesses at each of growth stages (KRW4.7 trillion)</li> <li>▶ Supply long-term investment funds through innovation-based growth fund and fund of funds(KRW25 trillion)</li> </ul>
	Provide funds based on firms' capacity to innovate	<ul style="list-style-type: none"> <li>▶ Offer funds to innovative industry fields (KRW4.8 trillion)</li> <li>▶ Provide funds based on a business' commercial activities (KRW0.4 trillion)</li> <li>▶ Encourage technology finance, IP finance and asset-backed lending (KRW0.8 trillion)</li> </ul>
Supporting the resurgence and re-start of vulnerable businesses (KRW8.9 trillion)	Promote fast-track financial support	<ul style="list-style-type: none"> <li>▶ Implement the fast-track financial support on a constant basis and substantialize the support programs</li> </ul>
	Provide new funds to restructuring companies	<ul style="list-style-type: none"> <li>▶ Connect fund support programs of KOSME or KAMCO for restructuring SMEs(KRW0.1 trillion)</li> <li>▶ Add more budget on Corporate Restructuring Fund (KRW4 trillion)</li> </ul>
	Support for small-enterprises	<ul style="list-style-type: none"> <li>▶ Boost financial aids for small-sized vulnerable businesses (KRW4.8 trillion)</li> </ul>

a) Responding to triple-highs situation

- ▶ *Authorities will ease the borrowing cost burdens of SMEs for which interest payment burdens have been increasing due to high interest rates.*
  - (i) Reduce the guarantee fee temporarily in the first half of 2023 by 0.2% for new guarantees issued by public guarantee institutions<sup>2</sup>, expecting that 300,000 businesses would get benefit from this
  - (ii) Offer low interest rate fund with LCGF guarantees and municipal authorities' interest subsidies (1-3%p) to small businesses that have difficulties in raising new funds, and reduce interest rates for early-stage businesses (established after January 2021) by up to 1.5% through preferential guarantee program
- ▶ *Authorities will help alleviate cost burdens related to increases in raw materials prices and labor costs.*
  - (i) Provide special loans with lower interest rates<sup>3</sup> to businesses that have adopted a unit price adjustment system for delivered goods, which eases the burden on subcontractors by allowing increases in raw material prices to be reflected in the supply unit price
  - (ii) Allow SMEs to utilize funds with preferential terms, such as interest rate reduction of 1% or more, if they require additional funding due to rising raw material prices or labor costs
- ▶ *Authorities will help reduce the payment burdens of import businesses and the production cost burdens of export businesses resulting from depreciation in the value of the KRW.*
  - (i) Enable SMEs, whose actual exports in the preceding year were less than USD10 million, to use export-related working capital at reduced interest rates (up to 2.7%p)
  - (ii) Make loans with currency conversion options available, allowing businesses to alter the loans' currency denomination until one month before the loan maturity
  - (iii) Provide low interest rate loans (3.2%) or interest subsidies (up to 3%p) for existing loans to export-oriented SMEs, depending on their export performance

b) Supporting growth of innovative businesses

- ▶ *Authorities will strengthen the competitiveness of SMEs in future innovation industry sectors to prepare for changes in economic environment.*
  - (i) Preferential loans such as low-rate (ranging from 3.2 to 3.7 percent) business loans to be made available to SMEs in future innovation industry sectors such as 10 super gap areas and 12 national strategic technologies or seeking commercialization based on research and development projects

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<sup>2</sup> Korea Credit Guarantee Fund(KoDIT), Korea Technology Finance Corporation(Kibo), Local Credit Guarantee Foundation(LCGF)

<sup>3</sup> Up to 0.3%p for large companies, up to 0.7%p for SMEs

- (ii) Preferential funds such as low-rate (3.2 percent) loans to be available to SMEs that fulfill one of the following conditions: (a) seeking business conversion or restructuring of existing business sectors toward more competitive areas, (b) willing to reshore back from foreign countries, and (c) working to introduce smart technologies such as transition to contactless services or digitalization of the manufacturing process

► *Authorities will support innovation efforts of startups and venture businesses.*

- (i) Provide low interest rate loans (2.5% fixed rate) and preferential guarantee fee rate (0.3% fixed rate) to young startup entrepreneurs (aged 39 years or younger) and startups in innovation industry to facilitate business startups amid sluggish investment market
- (ii) Increase the maximum amount of guarantees significantly (up to KRW15 billion) to ensure 'scale-up' of companies with higher chance of growth
- (iii) Make available lending services and investment-linked guarantee for venture companies which already secured early-stage investment even in times of funding drought
- (iv) Channel the adequate size of long-term investment funds through the innovation-based growth fund (KRW 15 trillion over five years) and fund of funds (KRW10 trillion over five years), which are essential to foster the growth of companies and enhance their competitiveness, such as cultivating businesses in innovation industries, giving tailored support measures at each growth stage from starting a business, to becoming unicorns, and helping corporate restructuring

► *Authorities will facilitate financing mechanisms based on a business' innovation capacity by complementing the credit assessment model based on financial performance and collaterals.*

- (i) Provide interest rate reduction (up to 3%p) to businesses that have high technological prowess and growth potential even when they have weak financial performance and insufficient assets for collateral
- (ii) Provide about KRW0.1 trillion of accounts receivable factoring to facilitate product or service providing firms to quickly liquidate their accounts receivable, and strengthen accounts receivable insurance by (a) expanding total insured amount and (b) increasing the maximum insurance coverage for businesses legally subject to external audit
- (iii) Strengthen efforts to facilitate SMEs-financing based on their technological competency assessment and intellectual property valuation and to promote movable asset-based lending<sup>4</sup> for SMEs

c) Providing assistance for the resurgence and re-start of vulnerable businesses

As SMEs' efforts to perform structural innovation and bolster competitiveness were sluggish and financial difficulties such as high interest rates, economic slowdown, and others were aggravated, the number of vulnerable small and medium-sized

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<sup>4</sup> Expand the type of movable assets eligible to be purchased by the movable asset registry to secured loans of inventory assets and credit sales.

enterprises is on the rise. Creditor banks conduct credit risk assessments and provide differently customized supports according to different credit risk grades.

Building upon the results of the credit risk assessment<sup>5</sup>, the authorities will substantialize the operation of immediate financial support programs for B-rated companies that fall into businesses experiencing a temporary liquidity shortage. Although the support programs have thus far been put into operation in accordance with the sunset clause, the programs will be implemented on a constant basis.

Initially, SMEs that borrowed money from more than two financial institutions (banking industry, KoDIT, and Kibo) were eligible to apply for this support scheme. This application requirement will be eased to allow SMEs that borrowed money from a single financial institution to apply for the programs. Furthermore, as SMEs whose total amount of credit granted valued at less than KRW1 billion will be allowed to apply for the programs without taking the credit risk assessment, the programs will be accessible to more small-sized businesses.

For companies undergoing corporate restructuring such as immediate financial support, workout and rehabilitation, they need new funds to keep up with business activities as well as debt adjustment. This year, the Korea SMEs and Startups Agency (KOSME) will provide financial support of a total of KRW45 billion, up by KRW10 billion from a year ago, to SMEs that are given B or C grades as a result of the credit risk assessment, but highly likely to get back to normal. New working capital will be injected to businesses going through workout and rehabilitation processes.

In order to help resurgent entrepreneurs to get back on their feet, the government will actively prepare debt adjustment for debts issued by policy financial institutions. To ensure their re-start such as giving them a second chance to start businesses despite their past failures like business closures, the policy financial institutions (KoDIT, Kibo, LCGF, and KOSME) will write off roughly KRW2.2 trillion of non-performing loans with little chance of being repaid for a variety of reasons, including closure, and reduce outstanding loan balances by up to 90 percent after carrying out thorough reviews on borrower entrepreneurs' property and payment capabilities, and other criteria.

## **FURTHER PLAN**

Authorities will launch most of the programs in January to ensure prompt supply of funding support to SMEs, and consider whether to make additional support after taking into account economic situation, the amount of policy funds left, etc.

The banking sector is also currently preparing its own support measures for SMEs to help lower their financing costs amid the complex crisis situation in recent days. Despite their own difficulties with borrowing, the banking sector plans to keep the level of new funding supply at the same level as previous years, while refraining from

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<sup>5</sup> A credit risk rating system is composed of four grades: A (normal), B (temporary liquidity crisis), C (credit rehabilitation is possible despite presence of structural liquidity problems), and D (liquidation).

making debt collections as much as possible. In addition, considering the recent trend of interest rate hikes, banks are preparing to launch a special program designed to help alleviate high-interest burdens of businesses as well as fixed-rate business loan products. To facilitate the resurgence and re-start efforts of businesses undergoing managerial crisis, support for business reshuffling and restructuring will also be made available by each individual bank.

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