

# Agricultural Credit Rationing: Status, Causes and Solutions

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**Abstract.** Financial repression has long been a problem of China's rural financial market, and the main manifestation of financial repression is credit rationing. On one hand, it is based on control policy of China's interest rate and the development degree of credit market. On the other hand, it is also the result of non market clearing. Based on the theory of economics principle of the existence of credit rationing, the paper tries to redefine the definition of credit rationing, summarized the development history and current situation of rural credit rationing, analysis the causes with the actual financial institutions lending process and the play in the role of credit rationing from collateral angle. Finally proposed that through the relationship between the type and credit rating credit supplement to traditional collateral function, combined with the innovation of agricultural production structure and product setting. Reduce credit rationing barriers and other ways to alleviate rural credit rationing suggestions.

**Keywords:** credit rationing; collateral; optimal path.

## 1. Introduction

Credit rationing is an objective supply choice based on price rigidity or price equilibrium in the non-clearing state of credit market[1]. The origin of the research on credit rationing has been controversial. Some scholars believe that credit rationing, as the main manifestation of financial repression in the rural financial market, is the fundamental reason why the capital endowment in agricultural production and operation demand cannot be satisfied and the agriculture cannot get healthy development. Some scholars believe that credit rationing, as an objective phenomenon that exists and will continue to exist in the credit market, has its inevitability. Banks select relatively high-quality customers' subjective behaviors scientifically and reasonably based on various factors of credit supply. In order to clarify the essence of credit rationing, this paper intends to explore the reasons for the existence of credit rationing from the perspective of collateral, the core control element of credit rationing, and combining the development history and current situation of credit rationing, and then give the solution path accordingly.

## 2. Agricultural Credit Market Rationing Process, Status Quo and Reasons

### 2.1 Rationing Process and Current Situation of Agricultural Credit Market

Agricultural loan market has gone through three development stages: passive rationing, institutional adjustment and active rationing[2]. (1) passive rationing. The so-called passive rationing stage refers to the development strategy of "agriculture supporting industry" advocated by the state in the early stage of industrialization, and the tendency of "non-agricultural" rural finance has become an important means for the state to extract agricultural funds. According to statistics, from 1953 to 1978, the total amount of deposit and loan of rural credit cooperatives was 172.55 billion yuan and 48.21 billion yuan respectively, with the ratio of deposit and loan reaching 3.58 :1, of which the ratio reached the highest 5.5:1 in 1974. Because the financial institution obeys the national strategic development key consideration under the planned economy system, formed the rural credit market actually the fund short supply passive allocation. Mainly based on the rigid credit interest rate, financial institutions by setting strict product system to realize the ration of this period, any form of credit loan stock in rural areas is extremely low, the convenience of the people's communes use of rural organizations at the grass-roots level to obtain credit capital the main support, farmers because

of the lack of effective and, in fact the curative financing needs difficult to satisfy, missed the rare opportunity of agriculture and rural development. (2) institutional adjustment. After the reform and opening up, great changes have taken place in the rural financial system. The reform of the formal financial system and the emergence of informal financial institutions have greatly improved the performance of rural finance in supporting agriculture. First, the speed and scale of rural capital outflows have been curbed. Although rural credit cooperatives still have loan balance and the trend of rural capital outflow has not been fundamentally changed, the situation has been much better than before and the absolute number of credit funds issued by rural credit cooperatives to agriculture and rural areas has increased significantly. According to statistics, from 1978 to 1994, the total amount of deposits and loans of rural credit cooperatives was 2670.627 billion yuan and 1762.976 billion yuan, respectively, with the ratio of deposits and loans falling to 1,52:1. Although the supply and demand of funds in this period has been alleviated to a certain extent, as the main body of supporting agriculture, rural credit cooperatives are still the tools of national policies to support agriculture and have not been commercialized. Especially in the later stage, the national strategic focus has returned to the industrial sector again, which leads to the ineffective progress of rural financial support for agriculture in this adjustment. (3) active allocation. In the first half of the 1990s, industry fed back agriculture as a new national strategic orientation. The central government has decided to separate agricultural policy-based financial services from commercial financial services and separate rural credit cooperatives from agricultural Banks. China's rural finance has formed a rural financial system that combines cooperative finance, policy-based finance and commercial finance. However, due to the rapid development of rural economy and the increase of capital demand, financial institutions have entered the stage of active rationing. At this stage, the main consideration of credit rationing of financial institutions is based on the effective utilization of funds and the effective prevention and control of risks under commercial operation. Through more standardized credit process and more reasonable collateral setting, low-quality borrowers are excluded from the supply range to ensure the safety of credit assets.

## **2.2 Reasons for Rural Credit Rationing**

According to the development process and current situation of credit rationing, credit rationing has gone through the development stage from passive rationing to active rationing.

The shortage of funds in the passive rationing period is the objective reason for the existence of credit rationing. As a typical phenomenon in the credit market, the traditional definition holds that the root cause of credit rationing lies in the shortage of funds in the credit market. According to the RMB credit balance sheet of financial institutions in the China financial yearbook 2007-2015, although the absolute amount of capital supply at the social level of China is not less than the demand, the priority development strategy of industry makes a large number of funds for agricultural development flow to industrial areas[3]. Before 2013, the people's bank of China implemented the interest rate control policy, limiting the lower limit of the floating rate of loan interest rate to 0.7 times of the benchmark interest rate, but did not set the upper limit. It can be seen that the control of loan interest rate is to prevent commercial Banks from blindly lowering credit interest rate for malicious competition through "price war", rather than prevent commercial Banks from restraining excess demand by raising money price. Therefore, the premise of credit rationing in the traditional sense is not accurate. To be exact, from a macro perspective, credit rationing occurs when the demand for funds exceeds the supply on the basis of a certain monetary price level. Commercial Banks take non-price measures to eliminate some excess demand to achieve equilibrium in the inter-bank credit market based on the consideration of reducing risks and improving returns. On the micro level, it is embodied in two aspects: one is that among all borrowers, some of them accept the loan application from others, while for others, even if they are willing to pay higher interest, the bank will not lend money to them. Second, the lender's loan application can only be partially satisfied. But the bank usually USES the non-price means, mainly manifests for "sets the pledge".

### 3. The Crack Path of Rural Credit Rationing

We focus on the use of tools by financial institutions in the active allocation phase. As can be seen from the foregoing, collateral cannot fully relieve the risk of bank fund allocation. It cannot realize the symmetry of information beforehand. The less the bank knows the credit information of the borrower or the cost of obtaining the information is too high, the more inclined it is required. The borrower provides a higher value mortgage; since the existence of the collateral cannot completely eliminate the post-lending risk, the bank generally only accepts financing projects with a positive net present value and rejects some financing projects with a small net present value. . This prompted us to seek ways to effectively optimize the financial institution's set of collateral for asset security, profit maximization and inclusive agricultural support, so that the role of collateral should satisfy the identification and safety requirements of financial institutions on the one hand. On the one hand, it releases the financing needs of high-quality borrowers who have the ability to repay but do not have the traditional collateral requirements.

#### 3.1 Supplement to the Collateral Function

Four complementary means. There are flaws in the accurate identification and procedural execution of collateral beforehand. The resulting adverse selection and the moral hazard afterwards are difficult to circumvent. How to improve and supplement the above-mentioned deficiencies is the key to the optimization. There is a complementary relationship between relational credit, secured credit, credit-rated credit, and financial statement-type credit and collateral (Behretal, 2011; Altman & Kalotay, 2010). Behretal (2011) proves that the relationship between enterprises and banks in the lending process proves that with the improvement of the relationship between banks and enterprises, it helps banks to accurately identify beforehand, understand the operation of corporate funds, borrowing investment and risk appetite, and avoid ex ante risks. There is a certain degree of substitution between the collateral and the collateral. The borrower will initially accept a higher loan interest rate and provide collateral. As the relationship between the bank and the enterprise develops, the loan interest rate will gradually decrease and no collateral will be provided. More empirical studies have also confirmed the alternative relationship between relational loan technology and collateral[4]. The collateralized credit and the custodial credit have similarities and differences. The process of the guarantor's choice of the guarantor is similar to the bank lending process. Borrowers who are difficult to obtain the favor of the bank are not easily guaranteed by the guarantee institution. Credit rating credit is a credit rating model that measures the borrower's credit rating and repayment ability, with the aim of reducing pre-information asymmetry. Financial statement-type credit is limited to qualified legal borrowers. The information reflected in the financial statements of the legal entity is used to judge the cash flow, operating status and asset size of the borrowing enterprise to reduce the asymmetry of prior information.

#### 3.2 Settlement of Collateral in Rural Credit Market

The status quo of collateral. According to the function of collateral in the credit process, factors such as sufficient value, easy realization, and stable value are mainly considered when setting collateral. The pledge loan products generally use deposit certificates, land certificates, housing property certificates, automobile property certificates and various transferable rights certificates when setting up collateral. However, the same collateral setting method is slightly more critical for rural areas. Although the land management rights and housing property rights owned by the farmers have the right to pledge financing, after the two rights financing, the two-funded financing is still in the pilot period, and the coverage area is limited. Moreover, the relevant loan products in the pilot area are also in the stage of trying to explore, the loan stock is small, and the loan method is generally inclined to attach a combination guarantee method with other guarantee conditions, and the capital rights of the two rights have not been completely released. Other inherent collateral requirements form a natural barrier to the credit needs of farmers.

## 4. Conclusion

This paper starts with the connotation of credit rationing, summarizes the history, current situation and reasons of credit rationing development, and analyzes the operation principle of credit rationing from the perspective of its core element, collateral, and proposes to optimize the pledge and innovation. Product setting and an alternative means of seeking its main function to crack credit rationing that has always hindered rural economic development. The article breaks the traditional definition of credit rationing. From the relationship between capital supply and demand and interest rate policy, the credit rationing is divided into two stages: passive rationing and active rationing. It is considered that credit rationing will be an objective phenomenon in the financial market. According to the analysis of the reasons for credit rationing, collateral is the main tool for financial institutions to carry out credit rationing, and it functions to alleviate prior information asymmetry and compensate for possible risks afterwards. However, financial institutions have certain drawbacks in the requirements for the setting of collateral. Not only can they not fully realize the ideal function of collateral, but they also reject some high-quality customers and reduce the efficiency of capital use. Therefore, based on the consideration of credit rationing, from the perspective of optimizing the function of collateral, this paper proposes to supplement the defects of traditional collateral function through relational and credit rating credits; combined with the establishment of agricultural production structure innovation collateral, lower the threshold of credit rationing, Provide financial support for more effective needs.

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