



## Original Research Article

# A Study on the Credit Scale of Commercial Banks

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### ABSTRACT

In recent years, with the rapid development of China's economy and the trend of economic globalization, China's financial market development momentum is good. Commercial banks and other financial institutions, the rapid growth of credit scale, the development of the national economy has played a catalytic role. But the credit changes will affect the investment changes, which led to increased money supply, but also increase the credit risk, commercial bank credit expansion caused by a series of problems also exposed: exacerbate inflation, resulting in overcapacity, causing economic structural imbalance, accumulate the risk of the financial system, and increase the bank's bad assets. The scale of credit has become a hot topic of concern at home and abroad, research and grasp the rational growth of commercial bank credit to achieve the best size of the problem is urgent. This paper analyzes the reasons for the increasing credit scale of commercial banks, analyzes the harm of excessive expansion of credit scale, explains the necessity of rational expansion of credit scale, and puts forward some suggestions on the credit development of commercial banks in the future.

**KEYWORDS:** commercial banks; credit scale; excessive expansion; reasonable growth

## 1. Status of China's commercial banks credit scale

As we all know, with the rapid development of China's economic development level, people's quality of life increased year by year, social security gradually improved, people gradually change the concept of consumption in the past, began to accept the 'first consumption, after the repayment' concept. Car loans, mortgage demand increased, at the same time, for low-income groups and micro-enterprises are gradually developing a small loan mature, in the credit market occupies a point cannot be underestimated. As well as unemployment insurance loans, student loans, poverty alleviation loans came into being, so that China's credit demand continues to increase.

According to the data released by the central bank, at the end of October 2008, the balance of loans from Chinese financial institutions was 29.83 trillion yuan, up 14.58 percent year on year, up 0.1 percentage points from the previous month. The RMB loans increased by RMB181.9 billion yuan in the same month, an increase of 45.7 billion yuan. 2008 to January to increase the total loans of 3.66 trillion yuan, has exceeded the expected annual full-year amount.

In 2009, China's credit growth rate of more than 30%, new loans of nearly 10 trillion yuan, is the extraordinary growth of the year. In the context of the impact of the international financial crisis, the extraordinary growth in credit size has played a decisive role in promoting a steady recovery in China's economic growth. However, the rapid growth of loans has to worry about, may lead to inflation expectations and exacerbate excess capacity and so on.

According to the People's Bank of China published '2011 financial statistics report' shows that in 2011 China's loans increased by 7.47 trillion yuan. At the end of 2011, the balance of broad money (M2) was RMB85.16 trillion, up 13.6 percent year on year, down from the 16 percent target scheduled at the beginning of the year.

Analysis of the calendar year data can be found in 2011, China's new loans in 2010 compared with 7.95 trillion yuan less 3901 billion yuan, which is since the 2009 Bank of China new loans hit nearly 9.6 trillion yuan of credit, China new credit for the second consecutive year of decline.

At the beginning of 2011, the People's Bank of China made clear that the target for the year's broad money (M2) was 16%, but not as clear as the previous year.

Since 2011, the stable price level has become the primary task of China's macro-control. Under the sound tone, the monetary policy from the previous three quarters of the real tight to the fourth quarter of the directional easing, a total of three interest rates raised, six deposit reserve ratio and a deposit reserve ratio cut.

It can be seen that although the growth rate of credit growth of Chinese commercial banks has begun to show a downward trend, but still maintained at a high level, the steady operation of the macroeconomic will still have some negative impact.

## 2. The state to determine the size of commercial banks to consider the factors of credit

### (A) Capital adequacy ratio

Capital adequacy ratio is also called the capital risk asset rate, which is the ratio of the bank's total assets to the weighted total amount of the risk assets. It is an important reference for a country to determine the reasonable scale of its commercial bank loans. To ensure a reasonable increase in credit size, capital adequacy ratio should be greater than or equal to 8%.

### (B) The proportion of deposit and loan

To determine the size of a reasonable credit, the central bank should also be the commercial banks to monitor the deposit and loan ratio, and through the statutory deposit reserve and other means to be appropriate adjustments. Reasonable credit size requires less than or equal to 75% of the loan balance at the end of the period.

### (C) The proportion of borrowing funds

The proportion of borrowing funds refers to the proportion of borrowing and borrowing in a certain period of time. In order to maintain a reasonable credit scale, commercial banks should ensure that the ratio of disbursement to deposits is less than or equal to 4%, and the ratio of demolished funds to deposits is less than or equal to 8%.

### (D) The proportion of long-term loans

The ratio of medium to long term loans is the ratio of the balance of medium and long term loans issued by banks for more than one year and the balance of deposits for more than one year. This indicator can effectively reflect the liquidity of bank loans. The higher the proportion of medium and long-term loans, the worse the liquidity; the lower the proportion of long-term loans, liquidity is stronger. This is also an important factor that a government needs to consider when determining the scale of credit for commercial banks. In order to keep China's credit scale at a reasonable level, the central bank has stipulated that the ratio should be less than or equal to 120%.

### (5) The proportion of loans decentralized

The proportion of loans to decentralization, also known as the proportion of individual loans, is to limit the proportion of commercial banks to individual borrowers and the number of loans to prevent excessive concentration of concentrated in some enterprises or industry indicators. Decentralized loans can reduce credit risk, which is a reasonable scale of credit growth. The standard set by the Central Bank of China is that the ratio of the loan balance of the same borrower to the total capital is not more than 15%; the maximum ten customer loan balance is less than 50% of the total capital.

## 3. The commercial bank credit scale excessive expansion of the harm

In addition to exacerbating inflation, causing overcapacity, causing economic structural imbalances, the accumulation of financial system risk, increase the bank's adverse effects of non-performing assets, the commercial bank's excessive expansion of credit scale will cause other hazards.

### (A) Intensify the contradiction between social supply and demand

Excessive credit expansion may exacerbate the future total supply of society is greater than the aggregate demand of contradictions, so that China's economic development is facing long-term deflation situation. The excessive supply of commercial bank loans will obviously lead to an increase in total supply. Due to the impact of changes in the international development environment and the role of various institutional and structural factors, the pressure on future aggregate demand will be relatively large and may show long-term Lack of demand, not only the current external demand is significantly increased, the future growth of consumer demand will be significantly slowed down, thus increasing the contradiction between oversupply, the Chinese economy may be long-term into a deflationary situation.

### (B) Is not conducive to economic restructuring

Excessive credit supply delays the internal structural adjustment of economic growth, delaying the timing of structural adjustment and industrial upgrading. The global financial crisis, despite the enormous pressure on China's export growth, is also a good opportunity for China to adjust its economic structure under external forces. Now the Chinese economy has gradually stabilized and rebounded, is a good opportunity to shrink credit growth, financial and monetary policy should also be from the previous 'nominal fluency is actually very loose' into 'the actual moderately loose', cannot make money loans a substantial increase in monetary policy should be tightened.

(C) The impact of the real estate market

Excessive credit expansion will delay the rational adjustment of the real estate market, exacerbate the bubble of China's real estate, so that China is facing the risk of economic bubble from the bubble into the bubble from the asset price from the intrinsic value of assets to asset value beyond the real economy. If the real estate market does not make full adjustments to curb excessive speculation in the real estate market, China's economy will be difficult to get rid of long-term growth imbalances, economic structural contradictions cannot be resolved.

(D) Lead to virtual inflation

In the case of real economic adjustment is not yet in place, demand is still under great pressure, a substantial increase in the supply of money, although it will not lead to inflation, but will be transformed into a virtual economy over-expansion and asset bubbles, the result is a serious consequence of society Capital and human resources will tend to even rely heavily on speculation, and industrial upgrading, independent innovation investment will show a clear lack of motivation, in addition to exacerbate the imbalance in economic structure, so that lack of economic growth potential.

## **4. The reasons for the excessive growth of credit in commercial banks**

Commercial bank credit growth too fast both the external environment of the macro, but also the inherent reasons for commercial banks themselves.

(A) The external growth of credit growth in commercial banks

1. There is a large deposit and lending gap

The existence of large deposit and loan spreads makes the idea of commercial bank initiation credit expansion. The level of deposit and loan spreads is the result of the comprehensive balance of the external economic environment and self-development of the commercial banking system. Under the effect of interest rate marketization, deposit and loan spread mainly depends on the operating efficiency of the banking system, the commercial bank competition status, the level of loan risk and the supply and demand of social funds and other factors. However, under the conditions of China's interest rate control, deposit and lending spreads are influenced by the central bank's interest rate policy. After 1996, in order to change the long-term real negative interest rate situation, improve the business environment of commercial banks, China began to gradually raise the level of deposit and lending spreads. The deposit structure of commercial banks is developing, and demand deposits account for more than 40% of the total deposits, while the interest rate is only 0.50%, only 14.3% of the one-year time deposit interest rate, the comprehensive cost of deposits is very low. Therefore, the actual formation of new loans to the average gross margin calculated more comprehensive, through the new loans to increase the effect of profit is very significant, which is in recent years, commercial banks generally increase the scale of lending an important reason.

2. Commercial banks are highly competitive and chaotic

Competition of incandescent and disorder is the important reason for the rapid expansion of commercial bank credit. Since the promulgation of the Commercial Bank Law of the People's Republic of China, the original regional joint-stock commercial banks such as Industrial Bank and Shanghai Pudong Development Bank and Shenzhen Development Bank have expanded their business to large-scale commercial banks in the country. After the opening of the market, foreign banks have expanded their scale of operation in China, and the rural credit cooperatives have been directly managed by the local governments, giving them more political missions to promote local economic development, plus their own multi-level legal person system, all levels of credit cooperatives have greater autonomy, with the strengthening of their scale expansion of the power and ability. In order to seize the market share, the original regional banks, emerging banks and rural credit cooperatives generally adopted the development mode of the scale expansion of credit and loan, and the credit growth level generally exceeded the state-owned commercial banks. In recent years, when the supervisory department conducts external supervision, it mainly strengthens the supervision of state-owned commercial banks, weakened the credit control of small banks, and encouraged the incandescent and disorderly state of credit competition to a certain extent. Under the pressure of multiple competition of emerging joint-stock banks, foreign banks and rural credit cooperatives, the scale of credit decline after the devaluation of non-performing assets is relatively large. In order to make up the market share, state-owned commercial banks have adopted positive credit expansion policies. The rapid expansion of credit scale has played a common role in promoting.

### 3. Economic development of the objective needs

Since the 16th National Congress of the Communist Party of China, all the governments at all levels across the country have made great plans for the development of the local economy and a new round of economic construction has flourished. At the same time, a few years ago, the role of government bonds to stimulate the economy has begun to show. Economic construction needs more investment, and in recent years, the stock market continued to slump, the direct financing of the way does not work, bank loans to become the main channel of investment, which objectively promoted the commercial bank credit expansion.

#### (2) The internal growth of credit growth in commercial banks

##### 1. The Main Position of Commercial Bank 's Profit

The expansion of credit is still the main way to increase the profit of Chinese commercial banks. As the business model has been implemented over the years, the commercial bank's business scope is relatively narrow, the product of the singularity, homogeneity is strong, the middle business is not very developed. In recent years, although the domestic commercial banks have increased the pace of business transformation, in accelerating the development of investment banking business, the establishment of fund companies have made a lot of efforts to a certain extent, breaking the business model has been shackles, but because of the start Later, the bank's profit source is still mainly dependent on the deposit and loan business, interest income in the overall operating income of the pillar position has not changed.

##### 2. Ample liquidity

Abundant liquidity is an important factor in promoting the expansion of credit scale of Chinese commercial banks. As China's rapid economic growth trend continues for many years, the balance of payments imbalance led to a large number of foreign capital inflows, China's current emergence of the phenomenon of excess liquidity. At the same time, most of the state-owned commercial banks have completed the joint-stock reform and successfully listed, huge non-performing assets divested, the state funds into place, many small and medium-sized joint-stock banks also raised funds through the listing of large amounts of capital, China's commercial banks overall capital adequacy ratio increase. Although the central bank have taken to raise interest rates and deposit reserve ratio, issuing notes and other macro-control measures, but the liquidity of financial institutions are still maintained at a relatively abundant level. In the profit-dependent mode of interest-based income, the high capital reserves will bring operating pressure, but also cause waste of funds, to get rid of these two points, banks have to fall into the vicious cycle of loan growth.

##### 3. Traditional way of doing business

The traditional way of doing business makes the commercial banks form the inertia of credit expansion. Although part of the state-owned commercial banks as a representative of the domestic banks have been listed, but in the risk management, performance inspection, credit culture and other aspects of the reform is not complete, or follow the traditional mode of operation. In the performance study, many banks are still focused on measuring short-term performance, the scale of expansion or the established size of the profit maximization as a core task. After the listing of shares, banks began to pay attention to the company's performance and shareholder returns, to some extent even strengthened the pursuit of short-term profits to maximize the tendency. At the same time, after the listing of commercial banks, there is no strict risk control system, and the combination of income judgment and risk identification is not very close. Banks have short-term benefits, and risk-taking is inevitable.

##### 4. The enhancement of risk management capabilities and the need to accelerate business development

All along, the credit risk management of commercial banks and commercial banks are closely related to the scale of credit. In recent years, commercial banks have done a lot of work in strengthening internal management, especially in credit risk management, risk management and awareness of prevention have been significantly improved, and the establishment of a series of practical tests to make effective rules system. The quality of loans issued by commercial banks has been continuously improved, the number of cases of violation of discipline has been reduced, and the professional standards and professional ethics of the relevant practitioners have also been greatly improved. Therefore, many people think that as long as the effective control of risk, business development as soon as possible. Under the influence of this idea, the banks have to seize the opportunity provided by the current macro environment to accelerate the development of the mainstream business, which promoted the rapid growth of commercial bank loans.

##### 5. Profit-centered assessment mechanism

Commercial banks to profit as the center of the assessment mechanism to drive loans to increase. In recent years, the commercial banks, including state-owned commercial banks have established a cost-effective performance appraisal mechanism, in the assessment index system, profits occupy a very important position. At the same time, the commercial banks want to join the WTO after the transition period as soon as possible to throw away the burden of history, bigger and stronger to cope with more powerful challenges. Therefore, the banks to their own set of profit targets are required to be able to achieve, all levels of banks and their employees have completed and exceeded the external plan of the external pressure and internal power. From the bank's income structure, the bank's income mainly from the loan interest

income, accounting for more than 90%. As the competition between the industries is escalating, the interest rates on deposits are generally floating and the costs are getting higher and higher. The interest rates on loans are generally declining and the spreads are getting smaller and smaller. In order to achieve the profit target, the bank only the implementation of small profits, the number of loans bigger.

## **5. The rational growth of commercial banks credit scale countermeasures and suggestions**

In view of the problem of excessive credit growth in recent years, China has adopted a series of control policies such as raising the deposit reserve ratio and interest rate, issuing central bank bills and strictly controlling the credit scale. These with a certain administrative governance has achieved some success, but also bring many drawbacks.

On the one hand, under the control of the total amount of credit, the weak industry and small and medium-sized enterprises are increasingly favored by the bank credit, and the deposit reserve ratio is greatly increased, which leads to the increase of the liquidity risk of some small and medium-sized commercial banks. As a result, the deep-seated causes of excessive credit expansion have not yet been eradicated, and the impulse to over-lending remains, and the growth is not diminishing. For the phenomenon of over-supply of money caused by inflation, China insisted on the use of administrative control means at the same time, it is necessary to learn from the experience of Western monetary policy practice. Western countries in recent years, most of the use of interest rate leverage and other market adjustment means, rarely used in China, such as the implementation of the impact of monetary multiplier and administrative means of intervention. We should also change the way of 'blocking' the way to 'ease' the way, the comprehensive utilization of interest rate marketization and raised the deposit reserve ratio and other market-oriented means to guide the commercial banks to promote the scale of credit to promote sustainable economic development.

To control the rapid growth of credit for commercial banks to make it sound business, and thus promote the healthy, sustained and rapid development of the national economy, the following measures can be taken:

(1) To appropriately reduce the level of deposit and loan spreads, to speed up the market-oriented interest rate reform

China's current deposit and lending spread in the international level on the side, but also the highest level in 20 years. In 2007, China Commercial Bank generally achieved a high level of profitability, in January 2008, 'Enterprise Income Tax Law' promulgated after the implementation of bank and other corporate income tax from 33% to 25%, which are to reduce the spread of spreads the favorable conditions. The current timing is appropriate, narrowing the deposit and loan spreads, will not have a significant impact on the level of commercial banks' net profit, but also help to ease the excessive expansion of credit impulse to promote commercial banks to accelerate the pace of business transformation.

To narrow the deposit and lending spreads can start from the following two aspects. On the one hand, the central bank to adjust the interest rate differences, gradually narrowing the deposit and lending spreads, on the other hand, to speed up the pace of market-oriented interest rate reform, continue to expand the rate of decline in lending rates, while long-term large deposit interest rates allowed Commercial banks and customers negotiate pricing, the two-way adjustment of interest rates. However, it should be noted that the level of savings and spreads should also be moderate, not in exchange for economic prosperity and excessive sacrifice the interests of commercial banks, commercial banks must be healthy business to maintain the appropriate net interest margin conditions, or ultimately only damage the economic development.

(B) Adjust the liquidity management policy, and guide the commercial banks to scale a reasonable increase in loans

In order to prevent commercial banks from making money quickly, the central bank frequently uses the deposit rate to increase the policy. Since 2007, the deposit reserve ratio, although occasionally down, but the overall has been on the rise. To June 2011, the deposit reserve ratio has increased to 21.50% of the highest level in history. In the practice of Western money, economists have been the deposit reserve ratio as a 'giant ax' type of monetary policy tool, the regulation of commercial banks than the interest rate is more targeted, it can not only reduce the bank credit function, but also reduce the profit margins of commercial banks, commercial banks have a significant impact on profitability. If you continue to use this monetary means frequently, although it can be a certain degree of commercial bank credit expansion behavior constraints, but the effect of binding to what extent, will not have a negative impact, but also doubt.

In order to avoid excessive use of the deposit reserve ratio, we can learn from the Federal Reserve's control method, set the federal funds rate target (FFR), through the overnight inter- transactions to form short-term interest rates, with the discount window of the loan interest rate constitutes a short-term interest rate cap, and then form a modest money supply and short-term interest rate benchmarks, daily liquidity and liquidity prices to regulate and intervention, the use of market mechanisms to achieve currency Policy control effect.

(C) The implementation of industry and regional tilt of the fiscal policy to guide the bank credit equalization.

There are well-known international economists said that China's current most important issue is not credit growth too fast, but the credit too cold and credit over the coexist both. In recent years, China's credit industry and the rapid development of regional concentration, so that the phenomenon of financial diversification, loan resources to the financial rich areas, high-income industries and large customers more and more concentrated in the accumulation of risk, some long-term effective financial support for industries such as agriculture, services, science and technology, and other industries that have long payback, low yield or high risk. For a long time, the problem of financing difficulties of small and medium-sized enterprises is the irrational outstanding performance of credit structure. Too much credit, it means that the funds are abundant, but if we can reasonably ease the funds, while strengthening the total credit control at the same time, continue to optimize the credit structure, more funds to guide the weak socio-economic development, you can effectively eliminate the current economic part of the phenomenon of overheating, to promote the economy to achieve long-term sustainable development.

Guide the bank credit, but also to meet the economic market development law, cannot take mandatory administrative measures. First, the establishment of regional financial institutions. Although this initiative may affect the efficiency of capital utilization to a certain extent, it will help improve the regional credit structure and promote the balanced development of China's regional economy. Second, the implementation of the support of the financial and financial policies. To solve the problem of insufficient credit support in weak industry and small and medium-sized enterprises, to achieve risk-sharing, innovative loan guarantee is the key to guide the credit. It is proposed to finance funds, at the same time to absorb funds in the community, set up special risk funds in various places, in order to meet the conditions to support the industry and SME loans to provide security. At the same time, it should also increase the financial support for rural and backward financial institutions, the implementation of income tax relief, and enhance its ability to make up for the risk. Third, the implementation of a different financial regulatory policy. For the weak links of financial institutions, you can implement differentiated banking regulatory policies and even monetary policy, fully embodies the policy intent.

#### (4) To strengthen the supervision of liquidity indicators, strengthen the guidance of credit window

As part of the small and medium-sized commercial banks in recent years due to excessive credit, has repeatedly hit the deposit and loan ratio of the red line, although the 'Commercial Bank Law' provides that non-compliance with the provisions of the deposit and loan ratio, the circumstances are serious or overdue correction, suspend business for rectification or even revoke the business license, but because the punishment measures are too harsh, almost never used, which is led to some commercial banks dare to repeatedly call the deposit and loan than the red line of the important reasons. In order to curb the excessive expansion of credit for commercial banks, it is necessary to strengthen the disposal and serious business order of commercial banks. Only in this way can we effectively control the impulses of some joint-stock banks regardless of their strength and blindly expand their credit, but they can be changed in the way of handling, more likely to take a more moderate approach such as fines, control of credit scale or suspension of credit operations. In order to avoid the excessive concentration of credit, it is necessary to strengthen the information disclosure, strengthen and improve the guidance system of the credit window of the industry in certain specific industries where the excessive credit is put out in some areas, and strictly restrict some of the poor quality of high-emission, high energy consumption and overcapacity business credit.

#### (5) Self-reform and improvement within commercial banks

In order to achieve the purpose of effectively controlling the expansion of credit, commercial banks should also improve their own management mechanism and mode of operation. Commercial banks should further improve the internal evaluation system, the assessment of profits to a comprehensive, multi-level, multi-angle, not only to assess the absolute number, but also the relative number of assessment. Increase the assessment of the profitability of assets and the assessment of per capita profits, to avoid small profits, promote efficiency, reduce costs and achieve the control of asset loans, excessive growth.

Commercial banks should also take the initiative to prepare the implementation of the Basel Capital Accord, to the international advanced financial institutions in line, establish a sound management information system, adjust the capital structure and customer structure, control the growth of bank risk assets. Commercial banks have to change their ideas, to play the advantages of the banking industry, the use of modern scientific and technological means, according to the needs of the market continue to develop some new service products, to provide customers with more quality services to increase the middle business non-profit income, overly dependent on the situation of interest income.

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