The Analysis on the Difficult and Expensive of Linyi’s Real Economy’s Financing Problem

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Abstract. This paper analyzes the financing situation of Linyi’s real economy based on the statistical data of Linyi from 2010 to 2018 and the results of the questionnaire on foreign trade, logistics, and financing of merchants in Linyi Mall. First, it analyzes the financing present status of Linyi’s real economy, including the continuous increase in real economic financing, real economy credit growth rate is higher than Linyi’s GDP growth rate, and Linyi’s real economy bank loans have a relatively high proportion of medium and short-term loans. Secondly, it analyzes the problems existing in Linyi’s real economy financing. These problems includes: some real economy’s financing needs are not satisfied, some real economy’s financing cannot meet the business needs, and some real economy need financing but didn’t do it. Then it discusses the reasons for the difficulty and expensive of financing in the real economy. The main reasons are: the real economy’s financing channels are very seldom, the main method of financing is bank loans. The banks are unwilling to lend to the real economy because the real economy’s credit financing threshold is high and the increased in production costs, reduced in profit margins, as well as the higher operating risks. Finally, we put forward the suggested policy to improve the efficiency of credit supply in Linyi City.

1. Introduction

For a long time, the problem of difficult and expensive of the real economy’s financing has been an important factor that restricting economic growth⁴. Especially in recent years, for China government has implemented policies e.g. 2007 National Action on Energy Conservation and Emission Reduction, Supply-side Reform, and Economic Restructuring, which have made it more difficult for enterprises to obtain financing. The 2008 Asian financial crisis and the subprime mortgage crisis caused great damage to the development of the real economy⁵. We should learn from the experiences and lessons of the above-mentioned events, and encourage the internal funds of the financial system enter the real field, so as to effectively promote the stable, healthy and orderly development of economy.

The financing for real enterprises during the economic boom is relatively more difficult than virtual economy, and it is even more difficult during the economic recession⁶. How to promote the better development of the real economy and provide better credit support for the real economy has an important role in the development of Linyi City’s economy development. In order to gain insight into the financing situation of Linyi’s real economy, we carried out a questionnaire survey on the financing situation of 123 logistics companies, 139 foreign trade companies and 1,036 merchants in Linyi City. According to the survey results, we analyzed the problems encountered in the financing of Linyi’s real economy and the reasons for financing difficulties and expenses.
The real economy refers to the total value of commodities produced in a country or a region\textsuperscript{[4]}. It includes the economic activities such as physical production, spiritual products and services. The virtual economy is contributed by economic organization that provides financial services and its main business scope is serves the real economy. Financing refers to a business activity in which companies use various methods to raise funds from financial institutions or financial intermediaries\textsuperscript{[5]}.

The data used in this paper is composed of two parts: one part is the Linyi’s Statistical Yearbook from 2010 to 2019, the other part is derived from actual survey data on the real economy. We mainly distributed questionnaires to three types of real economies, and received 1,298 valid answers. It includes 123 answers from logistics companies, 139 from foreign trade companies, and 1,036 from merchants in Linyi Mall.

2. The Present Situation of Linyi’s Real Economy Financing

2.1. The Linyi’s Real Economy Financing Amount Continues to Increase

With the development of the economy, Linyi's real economy loans continue to increase. In 2010, the total amount of group loans from non-financial enterprises and institutions was 89.437 billion yuan. In 2011, it exceeded to 100 billion yuan. In 2017, it reached 266.357 billion yuan, an increase of 2.98 times over 2010.

Linyi’s GDP was 240 billion yuan in 2010 and exceeded to 301.28 billion yuan. In 2017, the GDP was 434.54 billion yuan, 1.8 times that of 2010. The detail amount changes as shown in the Figure 2-1.

![Figure 2-1. The Linyi City’s 2010-2017 GDP and non-financial and Institutional Group Loans.](image)

2.2. The Growth Rate of Linyi’s Real Economy Credit is Higher than the Growth Rate of Linyi’s GDP

Although Linyi’s GDP and the amount of loans from non-financial enterprises and institutions have increased year by year, the rate of increase is different. As shown in Figure 2-2, except year 2011, the growth rate of group loans of non-financial enterprises was higher than that of Linyi City's GDP, and the gap between the growth rates of the two was the largest in 2015. Specifically, the trend of changes in real economy loans is basically the same as the changes in Linyi’s GDP, but the increase is different. The average growth rate of loans to non-financial enterprises and government agencies is 16.91\%, and the average growth rate of Linyi's GDP is 8.89\%.
2.3. Linyi Real Economy Bank Loans Have a High Proportion of Short-term Loans

Group loans of non-financial enterprises in Linyi City are mainly composed of short-term loans, medium- and long-term loans and bill financing. Among them, short-term loans are the main form of loans. As shown in Figure 2-3, the proportion of short-term loans in the loan structure of non-financial enterprises and institutions in Linyi is more than half, while the relative share of long-term loans and bill financing is relatively small. Short-term loan interest rates are high and the repayment time is tight, which increases the operating costs of the real economy and increases repayment pressure, which is not conducive to long-term development.

![Figure 2-3. Linyi City's non-financial enterprise and government agency group loan amount and main composition.](image)

2.4. Different Types of Real Economy Have Different Main Financing Methods

The questionnaire survey results show that the main financing method of foreign trade companies is bank loans. Among the 63 foreign trade companies that participated in the survey, 51 were mainly financed by bank loans, accounting for 80.95%. There are 3 companies that use non-bank financial institution loans, bond leasing, and stock financing as their main financing methods, accounting for 4.76%. The main financing method of 4 companies is commercial credit loans, accounting for 6.35%. The proportion of foreign trade companies that rely mainly on certain financing methods is shown in Figure 2-4.

![Figure 2-4. Comparison of the growth rate of Linyi's GDP and group loans of non-financial enterprises.](image)
The proportion of bank loans in the financing methods of logistics companies is lower than that of foreign trade companies. Among the 123 logistics companies participating in the survey, 54 logistics companies’ main financing method is bank loans, accounting for 43.9%. There are 15 companies’ main financing methods are capital reserves, surplus reserves, undistributed profits, depreciation funds, etc., accounting for 12.2%. 14 enterprises was loans from non-bank financial institutions, accounting for 11.38%, and 13 enterprises was commercial credit loans, accounting for 10.57%. As is shown in Figure 2-5.

Among the logistics companies, 38 companies participated in the investigation of the reasons for the shortage of corporate funds, and 10 companies believed that the reason was the need to expand investment, accounting for 26.32%; The remaining 6 companies considered financing difficulties, accounting for 15.79%; 4 companies considered their own deficiencies, accounting for 10.53%; 5 companies considered accounts receivable to account for a large proportion, accounting for 13.16%.

Among the foreign trade companies, 47 companies participated in the investigation of the reasons for the shortage of corporate funds. 13 companies believed that the reason for the shortage of funds...
corporate funds was the need to expand investment, accounting for 27.66%; The remaining 8 companies considered financing difficulties, accounting for 17.02%; 14 companies considered their own funds insufficient, accounting for 29.79% (in Table 2-1).

### Table 2-1. Reasons for the shortage of corporate funds.

| Reasons for the shortage of corporate funds          | Number of logistics companies | proportion | Number of foreign trade companies | proportion |
|-----------------------------------------------------|-----------------------------|------------|-----------------------------------|------------|
| Financing Difficulties                              | 6                           | 15.79%     | 8                                 | 17.02%     |
| Companies need to expand investment                 | 10                          | 26.32%     | 13                                | 27.66%     |
| Insufficient own funds                              | 4                           | 10.53%     | 14                                | 29.79%     |
| Large proportion of accounts receivable             | 5                           | 13.16%     | 4                                 | 8.51%      |
| Serious inventory squeeze                           | 0                           | 0          | 3                                 | 6.38%      |
| others                                              | 13                          | 34.21%     | 5                                 | 10.64%     |

3. Problems in Financing of Linyi’s Real Economy

In order to understand the financing situation of Linyi’s real economy, we conducted a questionnaire survey on 123 logistics companies, 139 foreign trade companies, and 1,036 merchants in Linyi City. We also conducted actual visits to some companies and found that Linyi’s real economy financing has the following problems.

3.1. Part of the Real Economy’s Financing Needs Have not been Met

Among the 123 logistics companies surveyed, 38 companies have not met their financing needs in the past three years, accounting for 30.89% of the total; 45 of the 138 foreign trade companies have not met their financing needs in the past three years, accounting for 32.61%; The financing situation of logistics and foreign trade enterprises is shown in Figure 3-1.

![Figure 3-1. Satisfaction of financing needs of logistics companies and foreign trade companies.](image-url)
3.2. Part of the Financing of the Real Economy Cannot Meet the Business Needs of Enterprises

When investigating whether the financing of entity enterprises can meet the business needs of enterprises, less than half of the enterprises can meet the business needs. Among the 123 logistics companies, 55 companies have financing conditions that can meet business needs, accounting for 44.72%; 11 companies cannot meet business needs, accounting for 8.94%; and 5 companies have not obtained credit lines, accounting for 4.07%.

Among the 1036 merchants in Linyi Mall, 431 merchants can meet their business needs with financing, accounting for 41.6%; 96 merchants cannot meet their business needs, accounting for 9.27%; 58 merchants have not obtained credit lines, accounting for 5.6%.

Among the 139 foreign trade companies, only 44 companies have financing to meet their operating needs, accounting for 31.65%; 19 foreign trade companies financing cannot meet their operating needs, accounting for 13.67%; 9 companies have not obtained credit lines, accounting for 6.47%.

The proportion of foreign trade enterprises financing to meet business needs is lower than that of logistics enterprises and mall merchants, and the proportion of foreign trade enterprises that cannot meet business needs or have not obtained credit lines is higher than that of logistics enterprises and mall merchants. This may be because the proportion of fixed assets of foreign trade companies is relatively low, while foreign trade requires higher liquidity. The survey results are shown in Figure 3-2.

3.3. Part of the Real Economy Needs Financing but not Financing

Financing is needed in the course of business operations, but some companies need but not financing. Among the 123 logistics companies, 56 companies need financing, accounting for 45.53% of the total. Among them, 30 logistics companies need financing, but there is no financing, accounting for 53.57% of the logistics companies that need financing.

Among the 1,036 merchants, 431 companies need financing, accounting for 41.6% of the merchants. Among them, there are 287 merchants that need financing but not financing, accounting for 66.59% of the merchants that need financing.
Of the 139 foreign trade companies, 75 companies need financing, accounting for 53.95%. Among them, 46 foreign trade companies need financing but have not done so, accounting for 61.33% of foreign trade companies that need financing.

Whether logistics companies, mall merchants, and foreign trade companies financing information in the course of their operations is shown in Figure 3-3.

![Figure 3-3. The demand for financing in the three types of real economy operations.](image-url)

### 3.4. Part of the Real Economy has Higher Financing Costs

Among the 78 logistics companies that participated in the survey, there are 67 companies’ bank had loans, 21 companies’ bank loan interest rates were higher than the benchmark interest rate within one month, accounting for 31.34%. Among the 63 foreign trade companies participating in the survey, 49 companies had bank loans, and 17 companies have bank loan interest rates higher than the benchmark interest rate within one month, accounting for 34.69%.

There are 66 logistics companies participated in the survey of average financing costs, of which 9 companies had an average financing cost higher than 10%, accounting for 13.64%; and 5 companies had an average financing cost higher than 30%, accounting for 7.58%. There are 63 foreign trade companies participating in the survey on this issue, of which the average financing cost of 5 companies is higher than 10%, the average financing cost of 4 companies is higher than 20%, and the average financing cost of 4 companies is higher than 30%.

Logistics and foreign trade enterprise bank loan interest rates and average financing costs are shown in Table 3-1.

| Average interest rate of bank loans | Number of logistics companies | Percentage | Number of foreign trade companies | Percentage |
|-----------------------------------|-----------------------------|------------|-----------------------------------|------------|
| Lower than the bank's benchmark interest rate within one month | 22 | 28.21% | 13 | 20.63% |
| Implement benchmark interest rate within one month | 24 | 30.77% | 19 | 30.16% |
| interest rate rises within 10% on benchmark within a month | 14 | 17.95% | 10 | 15.87% |
interest rate rises 10%-20% on benchmark within a month
4 5.13% 6 9.52%
interest rate rises 20%-30% on benchmark within a month
3 3.85% 0 0
interest rate rises more than 30% on benchmark within a month
0 0 1 1.59%
No bank loan
11 14.1% 14 22.22%

| Average financing cost | Number of logistics companies | Percentage | Number of foreign trade companies | Percentage |
|------------------------|-------------------------------|------------|-----------------------------------|------------|
| Less than 5%           | 22                            | 28.21%     | 13                                | 20.63%     |
| 5%-10%                 | 24                            | 30.77%     | 19                                | 30.16%     |
| 10%-20%                | 14                            | 17.95%     | 10                                | 15.87%     |
| 20%-30%                | 4                             | 5.13%      | 6                                 | 9.52%      |
| More than 30%          | 3                             | 3.85%      | 0                                 | 0          |

3.5. The Mortgage Rate of Tangible Assets for Corporate Bank Loans is Low, and the Guarantee Cost is High

Among the 38 logistics companies that participated in the survey, 6 believed that the reason for the high financing of enterprises was the low mortgage rate of tangible assets, accounting for 15.79%; 5 companies believed that the reason was the higher guarantee cost, accounting for 13.16%. Among the 47 foreign trade companies that participated in the survey, 8 believed that the high financing was due to the low mortgage rate of tangible assets, accounting for 17.02%; 9 companies believed that the reason was the higher guarantee cost, accounting for 19.15%. As shown in Table 3-2:

Table 3-2. Reasons for corporate financing expensive.

| Reasons for corporate financing expensive | Number of logistics companies | Percentage | Number of foreign trade companies | Percentage |
|------------------------------------------|------------------------------|------------|-----------------------------------|------------|
| Low tangible assets mortgage rate        | 6                            |            | 8                                 |            |
| Higher guarantee costs                   | 5                            | 13.16%     | 9                                 | 19.15%     |
| Narrow financing channels                | 11                           | 28.95%     | 15                                | 31.91%     |
| Higher business risks                    | 0                            |            | 4                                 | 8.51%      |
| other                                    | 16                           | 42.11%     | 11                                | 23.4%      |

4. Policy Recommendations for Improving the Efficiency of Credit Supply in Linyi City

In order to guide financial system funds to effectively enter the real economy, the Government should actively develop a multi-channel financing model for the real economy; improve the financial attractiveness of the real economy, and comprehensively use fiscal and tax policies and
improve relevant laws and regulations to improve the level of comparative benefits of the real economy. At the same time, the government should continue to improve the loan rating and service mechanisms for SME banks, and use stimulus monetary policies cautiously.

4.1. The Government Develops Incentive Policies

The Linyi Municipal Government has always attached great importance to the problem of enterprises’ difficulty and expensive of financing. In June 2015, the Linyi Municipal People’s Government Office issued a file "Guiding Opinions of the Office of the People's Government of Linyi City on Doing a Good Job in the Prevention and Resolution of Enterprise Credit Risk". The government wanted to Construct a scientific and effective risk prevention and control system based on the principles of territorial management and hierarchical responsibility, in order to properly handle corporate credit risks, and provide a loose policy environment for financial financing of entities.

The Government released another file in September 2018, that is / Notice of the People's Government of Shandong Province on Issuing Several Policies to Support the High-quality Development of the Real Economy/. The document proposes to effectively resolve outstanding contradictions and problems in the development of the real economy, and formulate policies such as "industrial upgrading" and "financial support".

But up to now, the financing difficulties of Linyi enterprises, especially small and micro enterprises and private enterprises, are still relatively prominent. The root causes and response policies need to be systematically and thoroughly analyzed.

4.2. Improve the Credit Rating and Service Mechanism of Real Economy Loans

At present, the main financing channels of the real economy are still bank loans. Therefore, the key to alleviating the problem of high financing and difficult financing in the real economy is to reduce the difficulty of bank loans.

The government can formulate policies to help the credit of financial institutions to the real economy. At the same time, banks should improve their own credit mechanism and formulate practical and feasible real economy credit rating standard.

In addition to large commercial banks, Linshang Bank and private banks are relatively weak, but they play a higher role in the loans of small and micro enterprises. The government should provide certain support in terms of economic policies such as taxation and interest rates to increase their access to small and micro enterprises.

4.3. The Real Economy Work More Hard to Improve its Profitability

One of the reasons for the financing difficulties of the real economy is the high default risk and insufficient solvency, which greatly reduces its financial attractiveness. Therefore, companies should strive to improve their own profitability. Entity enterprises should strengthen technological innovation, make full use of advanced technologies, improve the technical content of their products, and produce more high-value-added products. Entity enterprises improve production and operation efficiency when producing products, do a good job in supply chain management, and establish effective control over logistics, information flow, and capital flow. Maximize inventory reduction, reduce product defect rates, implement mass production, reduce production losses, and improve the
company's logistics and distribution efficiency. Two-pronged approach, on the one hand, physical enterprises reduce costs and increase input-output ratios on the other, thereby increasing the company's profit margins and financial attractiveness, which naturally improves financing capabilities

4.4. Enterprises Expand Financing Channels

At present, the financing method of the real economy is relatively simple, mainly through bank loans. To alleviate the difficulties and expensive financing of the real economy, it is also important to start with financing channels and actively develop multi-channel financing methods. In addition to obtaining loans from financial institutions, companies can also promote companies to raise funds through the bond market, issue corporate bonds and corporate bonds in a reasonable manner, and at the same time expand the scale of inter-bank bond issuance, and enhance the bond financing capacity of the real economy.

Entity enterprises can also make rational use of private capital. For example, they can issue corporate stocks or bonds to encourage employees to invest their spare funds in their own enterprises. On the one hand, this can alleviate the financial difficulties of the enterprise, and on the other hand, it can improve the enthusiasm of employees. After investing, employees will be more concerned about the business situation of the company, and their enthusiasm for work will also increase, which is a more feasible and profitable method for the company.

4.5. Improve Financing Management of the Real Economy

The improvement of real economy financing management requires scientific financial resource management organizations. An important factor in improving the financial management capabilities of the real economy is the combination of the strategy of using financial resources and the action plan for a certain period of time. Good financial management measures will enable the company to achieve long-term positive results and obtain stable financial support.

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