

Research on the Factors Influencing the Credit Risk of Commercial Banks under the New Normal of Economy

Yuxia Wang^a, Mengting Zhu^{b,*}

School of Economics and Management, Jiangsu University of Science and Technology, Zhenjiang, 212114, China

^awyxzj@just.edu.cn, ^b952394504@qq.com

*Corresponding author

Keywords: New Normal of economy, Commercial banks, Non performing loan ratio, influence factor

Abstract: In the context of the new economic normal, the problems covered up in the past high-speed development process have gradually emerged: a large number of enterprises have suffered heavy losses in their operations, leading to the rapid increase in credit risks of commercial banks. In view of this special economic development stage and the situation of commercial banks themselves, it is worth studying what effective measures should be taken to prevent the credit risks faced by commercial bank

1. Introduction

Since 2012, China's economic growth has not maintained a high growth rate as before, but gradually stabilized, and the overall economic development has entered a new stage, namely the "New normal". With the slowing down of economic growth, transformation of development mode, and adjustment of industrial structure, the problems accumulated during the rapid development of the past few decades have also begun to be exposed. ^[1]

2. Overview of the Concept and Related Theories of Credit Risk in Commercial Banks

Credit risk refers to the factors that may cause borrowers to be unable to carry out credit business normally during the process of conducting credit business, while non-performing loans may arise due to the inability to carry out credit business normally. Therefore, non-performing loans are the most concentrated form of credit risk.

Non performing loans usually refer to extraordinary or problematic loans. Generally speaking, if the principal and interest payments are delayed for three months or after evaluation by a commercial bank, the loan cannot be recovered at a rate exceeding 20%, it is recognized as non-performing loans. The People's Bank of China classifies loans into five categories based on the repayment ability of the borrower and the degree of credit risk involved, and identifies subprime, suspicious, and loss loans as non-performing loans.

The Relevant Theory of Credit Risk in Commercial Banks are as follows.

Credit theory. Credit refers to a special economic activity in which payment or delivery is delayed in currency loans and goods transactions. ^[2] Credit theory believes that credit is the foundation for establishing the entire financial system and the concentrated manifestation of its process is financial activities. As one of the main entities covered by the financial system and an important participant in financial activities, commercial banks mainly engage in lending business, which is a concentrated reflection of the characteristics of credit as an economic behavior. Given the separation of loan fund usage and repayment time, it is inevitable for commercial banks to form a certain number of non-performing loans, and there is always a risk of default. ^[3]

Financial fragility theory. Money itself has a certain degree of vulnerability. The emergence of the banking system has accelerated the transfer of private capital to highly concentrated social

capital, which has greatly increased the probability of Systematic risk, providing conditions for the collapse of bank credit.

Bank Behavior Theory. Taking banks as a whole, in order to maintain their relationship with customers and ensure their existing credit business share, or to compete with other banks and strive for a larger business share, banks usually adopt aggressive loan strategies such as relaxing loan standards and lowering loan interest rates to expand their credit business volume. As a result, the quality of credit assets and profit margins of banks decrease, increasing their own credit risk.

3. Analysis on the Mechanism of Factors Influencing Non Performing Loans

Credit risk should be a gradual process that arises from the beginning and subsequent stages of credit business, and 14.32% of this risk is mainly reflected in the non-performing loan limit and non-performing loan rate. Therefore, the current analysis of credit risk can start with non-performing loans.

3.1. The Impact of Economic Growth on Non-Performing Loans

The GDP growth rate to some extent reflects the economic growth rate of a country (region). The rapid economic growth rate means that the overall economic environment is relatively optimistic, the market is relatively prosperous, the business operation is good, and the company has good repayment ability. Therefore, in times of rapid economic growth, commercial banks are more willing to lend funds to enterprises, and enterprises are also willing to borrow funds from commercial banks to expand their business scale and obtain higher profits. At the same time, due to the good operation of the enterprise, it is able to repay the principal and interest to the commercial bank in full and on time. Given the good credit record of the enterprise, the commercial bank will increase the credit limit for the enterprise. In such a virtuous cycle, due to the good repayment ability of enterprises, commercial banks grant higher credit limits to enterprises, which will correspondingly reduce the non-performing loans of commercial banks.

3.2. The Impact of Economic Structure Optimization and Upgrading on Non-Performing Loans

With the gradual entry into the economic New normal, the overall industrial structure has to face upgrading, especially for industries with low technical level. However, in the process of transformation and upgrading, these enterprises are prone to the pain of transformation and upgrading, facing operational difficulties. Once they fall into operational difficulties, their existing economic profits will be difficult to maintain their previous aggressive financing strategies, and non-performing loans will correspondingly arise. After entering the New normal of economy, the non-performing loan rate of manufacturing industry is still at a high level.

Secondly, due to the optimization and upgrading of the economic structure, the financial services industry has made significant progress. The financing methods of enterprises are no longer limited to RMB loans from commercial banks. In China's financial system, although the total amount of bank credit in China is increasing every year, the proportion of RMB in the entire financial system has decreased by 10% in the past nine years; The debt of listed companies and the equity investment of non Moneylender are increasing year by year, and the development of direct financing is also fast.^[4] Financial disintermediation provides a more convenient financing method for enterprises with certain operating conditions, thus causing commercial banks to lose this high-quality credit asset, and thus the non-performing loan ratio will correspondingly increase.

Finally, the biggest embodiment of the optimization and upgrading of the economic structure is the rapid development of the service industry as a Tertiary sector of the economy. With the continuous development of economy and the transformation of social contradictions, the Tertiary sector of the economy, which is directly related to the development of people's daily life, has begun to expand and develop rapidly. Typical of these industries are retail and wholesale industry, as well as accommodation and catering industry. These two industries have always had the problem of high amount of bad loans and high non-performing loan rate.

3.3. The Impact of Internet Finance on Non-Performing Loans

Nowadays, internet platforms, especially related e-commerce platforms, rely on their own platform advantages to directly provide credit services to individual consumers and some small and micro enterprises in various stages of transactions. At the same time, relying on internet technology can greatly reduce approval materials and time, optimize credit business to a certain extent, and provide great convenience for individual consumers and small and micro enterprises, This poses a threat to the credit business launched by commercial banks targeting relevant groups. At the same time, considering the loan amount and non-performing loan ratio of personal credit business, it can be seen that personal credit business is a relatively high-quality credit asset of commercial banks, and the loss of this part of credit assets will inevitably lead to an increase in non-performing loan ratios of commercial banks.

4. Preventive Countermeasures

Based on the above research, Emphasis should be placed on macroeconomic forecasting from two perspectives: the ideological level and the specific action level. At the ideological level, it means paying attention to the role of predicting the macroeconomic situation in stabilizing the development of the market economy, guiding enterprise production, and promoting economic system reform, as well as actively predicting the macroeconomic situation. At the action level, it includes strengthening the ability to predict macroeconomic situations. To strengthen the ability of macroeconomic prediction, it is necessary to improve the relevant theoretical basis of financial trend prediction, make full use of today's computer technology and Big data algorithm, adopt a combination of qualitative and quantitative methods, and establish a corresponding prediction system, so that the prediction results of the macroeconomic situation should be dynamic and forward-looking.

Commercial banks should first face industrial upgrading at the ideological level. Secondly, in terms of specific measures, it is necessary to combine relevant government policies and appropriately relax credit review standards for traditional enterprises and start-ups in emerging strategic industries that are actively upgrading their industries, increase credit limits, and fully leverage the role of commercial banks as financial service institutions in promoting market economy development. Take the "the Belt and Road" as the main line, and transfer overcapacity through international cooperation and assistance. At the same time, the government should introduce corresponding support policies to help enterprises control overseas investment risks to the maximum extent possible. This can not only alleviate domestic supply and demand conflicts, reduce the possibility of domestic overcapacity, control the increase in non-performing loans, but also expand the international market for enterprises.^[5]

5. Conclusion

During the New normal period of economy, the demand of enterprises for funds has increased significantly, and the development of the real economy has also been blocked. By strengthening the management of credit risks in commercial banks, it is beneficial to fully leverage their positive role in promoting the development of the real economy, and has a certain positive effect on further enhancing the standardization of commercial banks and enhancing their risk management level.

References

- [1] Lu Liu. Research on the Marketing Strategy of Y Bank's Community Finance Business [D]. Shenyang University, 2020.
- [2] Chuan Shao. Research on the Construction of China's Social Credit System Based on Social Governance. *Social Science Dynamics*, no.06, pp.42-47, 2021.
- [3] Shujuan Wang, Jinze Li. Theoretical Study on the Causes of Non performing Loans in Banks

Taxation, no.08, pp.183, 2018.

[4] Kun Chen, Yanjie Xu. The impact of financial disintermediation on the operational performance of commercial banks: based on data analysis of 13 listed banks. *Journal of Anqing Normal University (Social Science Edition)*, Vol.40, no.06, pp.67-77, 2021.

[5] Chengmei Guan. Research on the influencing factors and countermeasures of non-performing loans of commercial banks under the New normal of economy [D]. Capital University of Economics and Business, 2019.