

Research on Evaluation of De-Leverage Effect of Chinese Enterprises in the New Era

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Abstract

As an indicator of corporate solvency and debt risk, corporate leverage has always been a concern of enterprises. In China, the leverage ratio has remained high since 2009, and the high leverage of enterprises has always been a difficult problem. This paper deeply studies the leverage ratio of the industrial sector of China's enterprises, mainly based on the data of the industrial sector as the support for analysis, and all the leverage ratios in the later period are all drawn according to the formula, to analyze the leverage of China's state-owned enterprises and private enterprises. Rate and direction of reform. At the same time, according to the current status quo, some constructive opinions are put forward. It is intended to demonstrate the feasibility of "structural leverage" in Chinese enterprises through the evaluation of the de-leverage effect of enterprises. It is hoped that the "structural leverage" can be implemented through reforms. Thereby promoting the better development of China's corporate economy.

Keywords

Corporate Leverage; Reform Direction; State-owned Enterprises; Private Enterprises.

1. Introduction

The financial leverage of the enterprise can reflect the solvency of the enterprise to a certain extent. When the high leverage of the enterprise is not necessarily a good phenomenon, it indicates that the interest expense of the enterprise is very high, and the direct result is the impact of credit balance. The financial crisis of the year is a good example. In July 2017, President Xi Jinping emphasized the goal of reducing the leverage ratio of enterprises at the National Financial Work Conference. It is necessary to reduce the leverage ratio of enterprises as the top priority. In April 2018, China put forward new ideas for corporate deleveraging. For the first time in the convening of the Central Financial and Economic Committee, it proposed "structural de-leveraging". In the latest data of 2018, China's non-financial enterprise sector leverage ratio For 151.60%, the leverage ratios of non-financial corporate sectors in the United States, Japan, and South Korea were 74.40%, 102.60%, and 101.70%, respectively. Through the release of China's leverage report by the Chinese Academy of Social Sciences, we can understand that the leverage ratio of China's non-financial enterprise sector has risen well, reaching 156.88% as of March 2019. However, from this point of view, Chinese companies still need a series of reform measures to deleverage.

2. Analysis of Enterprise Leverage Ratio

2.1 Current Level of Corporate Leverage

According to the situation of China's current level of leverage ratio of enterprises, taking industrial enterprises as an example, the performance charts of industrial enterprises in the past five years are represented by charts. From Figure 1, many information can be obtained, first from 2009 to 2013. During the four years of the year, it was relatively stable. From 2013 to 2016, there was a big fluctuation, which fell directly from 0.58 to 0.56. However, there was an upward trend in the next two years, but there was no breakthrough until 2018. The highest point. By comparing the leverage ratios of different sectors of industrial enterprises from 2015 to 2017, it is not difficult to find that the leverage ratio of industrial enterprises has not been effectively reduced after the clear reform plan proposed in 2017, but it is getting higher and higher, so the structure The introduction of the theory of sexual leverage has a certain impact on the adjustment of the leverage ratio of industrial enterprises.

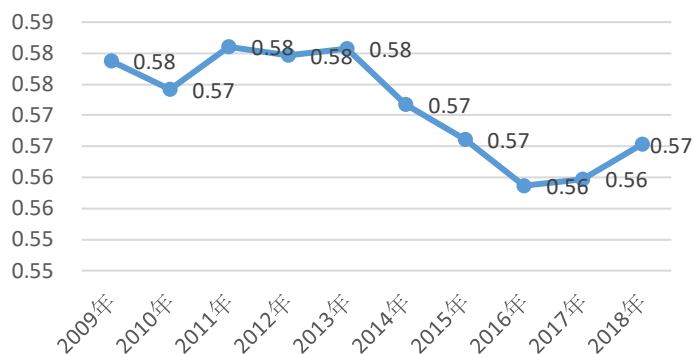


Figure 1 National enterprise leverage ratio chart for 2009-2018

2.2 State-owned Enterprise Leverage Ratio

In view of the state-owned enterprises as the key targets of reform, we have carefully analyzed the current status of state-owned enterprises to understand the results of China's reforms. According to the chart, we can see the recent development trend of state-owned enterprises and find that their leverage has been steadily decreasing. Since there are no annual data on the assets and liabilities of state-owned enterprises in 2018, the data from 2012 to 2017 and February to May 2019 were selected for analysis as the picture shows:

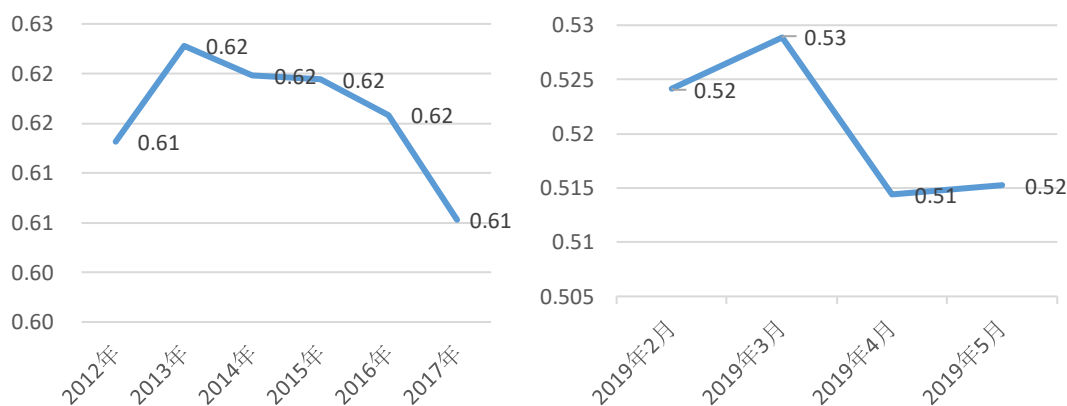


Figure 2 Annual and monthly leverage of state-owned enterprises

Figure China's corporate leverage has been declining. According to the monthly data, the leverage ratio first declined and then rose, but the general trend is indeed down. It is undeniable that state-owned enterprises account for a large proportion of the entire enterprise.

As far as the industry is concerned, by the end of 2017, waste utilization, furniture manufacturing, electrical machinery and equipment manufacturing, non-ferrous metal smelting and rolling processing, coal mining and washing, wood processing and wood, bamboo, rattan, brown The asset-liability ratio of state-controlled industrial enterprises in the grass products industry is close to or even exceeds 70%, which is high in various sectors of the industrial sector.

Table 1 Asset-liability ratio of different industries

2017	Assets and liabilities
Waste resource comprehensive utilization industry	
Furniture manufacturing	0.75
Electrical machinery and equipment manufacturing	0.72
Non-ferrous metal smelting and rolling processing	0.70
Industry	0.69
Coal mining and washing industry	0.69
Wood processing and wood, bamboo, rattan, palm,	0.69
Grass products industry	

3. Enterprise Reform Direction and Development Proposals

3.1 Private Enterprise Reform Direction

Contrary to the situation of state-owned enterprises, the leverage of private enterprises has been rising for the past two years.

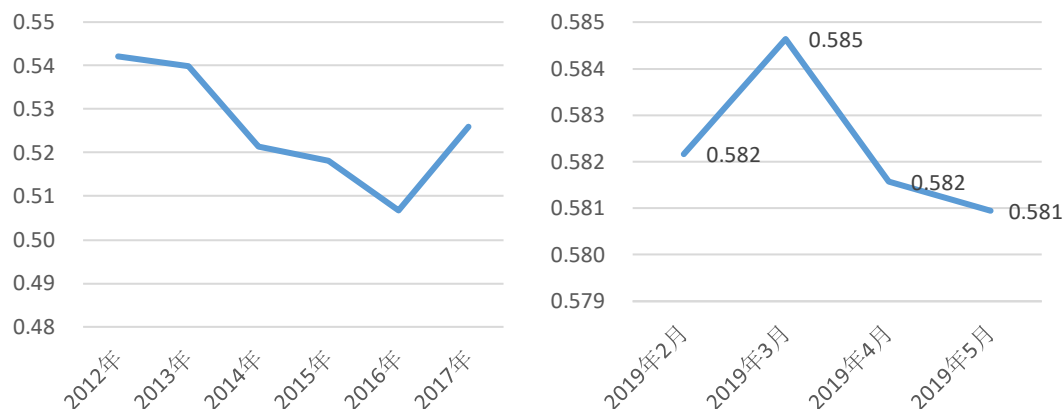


Figure 3 Annual and monthly leverage of private industrial enterprises

The problem of rising leverage of private enterprises may not be due to changes in the operating conditions of their own companies, but because of the improvement in the operating conditions of state-owned enterprises. Because state-owned enterprises and private enterprises are in the same market, the market of one party will definitely lead to the decline of assets of the other party. Secondly, due to the strong financing constraints of private enterprises, in the process of de-leveraging, they have encountered more difficulties in financing. It is difficult for funds to flow effectively, debts are difficult to repay on time, and a new round of funds cannot be paid on time. All of this has led to an increase in the leverage ratio of private enterprises.

In addition, the business of the company stems from people's consumption. In recent years, the problem of real estate speculation in China has been serious. Residents have squandered a large amount of funds on housing debts, which has greatly squeezed the consumption space. This makes it difficult for private enterprises to accept the diminishing problem of the main business when it is difficult to expand and maintain basic operations. In 2017, the nominal growth rate of disposable income of Chinese residents was 9%, but the proportion of funds used for debt service in disposable income reached 10.6%, which proved that the normal investment and normal consumption of residents were greatly reduced.

For private enterprises, first of all, given certain policy support, so that enterprises can borrow enough funds to use. Second, reduce resident loans. 60% of China's resident debt comes from mortgages. Only by cracking down on these loans will the residents have sufficient funds to trade and consume. This will also enable the direct loan market proposed above to be carried out in China.

3.2 Suggestions for the Development of State-owned Enterprises

Speed up the cleanup of zombie companies. Zombie companies are those that have lost their ability to develop themselves and must rely on government subsidies or bank loans to maintain operations. These enterprises should actually be eliminated by the society, but because they are state-owned enterprises, the state has given too much subsidies and policy support, so that it has been able to survive. But the existence of such companies does not bring any benefits to society. They often occupy a lot of capital, labor, and land, but they cannot give the same return to society. Dealing with zombie companies is a dilemma. Therefore, it is possible to carry out rectification from the sources of funds such as credit, and cut off their unique interest rates in the banks, and gradually no longer provide them with subsidies for funds.

Vigorously promote the transfer of state-owned enterprises' debts. Debt transfer is the establishment of a financial asset management company by the state. The acquisition of non-performing assets of

the bank means that the debtor of many bad assets of the bank can become another way of repayment, that is, it does not need to repay the principal and interest, but pay dividends on schedule. Greatly reduce the burden on enterprises, facilitate enterprises to obtain new financing channels, help enterprises improve governance structure, promote enterprise transformation and upgrading as soon as possible, and establish a new management system. Through the market, the bank's debt to the bank is transformed into a new channel for people's investment, which can de-leverage from the true sense of reduction.

Restricting the behavior of state-owned enterprises. Because the country's policy bias and its own credibility guarantees are high, state-owned enterprises often do not consider the issue of their leverage. Next, we must strongly restrain the state-owned enterprises from borrowing, forcing them to transform and upgrade themselves to improve their competitiveness, so that enterprises can truly realize that they need to adjust their own corporate leverage.

4. Conclusion

Historical experience shows that the initial stage of de-leveraging will lead to violent economic fluctuations and a series of problems. China's current leverage ratio is not normal, and the road to reform still has a long way to go. China's implementation of "structural de-leveraging" can see that the leverage ratio of state-owned enterprises has dropped significantly, and the downward trend in the future can be seen. However, private enterprises have been relatively affected. On the one hand, there is no support from too many policies, and on the other hand, they have to be squeezed from state-owned enterprises. Of course, the state has also actively taken some measures to solve the problem of rising private leverage. In the new economic growth phase, we do not seek the economy to grow as fast, violent but unhealthy as before, but strive for steady, stable, healthy and sustainable growth. The initial overall economy of de-leveraging may be affected in the short term, but it is conducive to the development of "high quality" in the long run. In short, China's leverage has reached its peak and reforms are bound to continue.

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