# Research on the Current Situation, Problems and Countermeasures of Low Loan-to-Deposit Ratio in Chaozhou City

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**Abstract: In 2015, our county canceled the stipulation that the loan-to-deposit ratio of commercial banks should not exceed 75%, and adjusted the loan-to-deposit ratio from a statutory regulatory indicator to a liquidity risk monitoring indicator. The move gives the autonomy in operation of the banking institutions more, actively promote the reform of the banking industry innovation, to create better financial environment. This article takes the issue of the low loan-to-deposit ratio in Chaozhou City as the research object. By analyzing the current situation of the loan-to-deposit ratio and the flow of loans in Chaozhou City, it deeply dissects the impacts brought by the low loan-to-deposit ratio. On the basis of this research, this paper puts forward countermeasures and suggestions such as financial capital anchoring the "local circulation of funds", doing a good job in matching the financing demand and supply of smes, strengthening the effect of "economic and financial linkage", cultivating high-quality loan scenes, and promoting the "transformation of bank credit culture", so as to provide reference for improving the deposit and loan ratio of Chaozhou and promoting the development of local economy.**

**Keywords: Loan-to-Deposit Ratio; Loan Status; Impact Analysis; Countermeasure Research**

## 1. Introduction

Loan-deposit ratio, also known as loan-deposit ratio, is the ratio between total loans and total deposits of commercial banks. This indicator is an important indicator to measure the utilization efficiency of financial resources in a region and reflects the liquidity risk of financial institutions. In 1994, the People's Bank of China for the first time established that the loan-to-deposit ratio should not exceed 75% as a regulatory target. The following year, the loan-to-deposit ratio was written into the Commercial Bank Law of the People's Republic of China (hereinafter referred to as the "Commercial Bank Law"), officially becoming one of the regulatory indicators for commercial banks. In August 2015, our county revised Commercial Bank Law, officially abolishing the regulation that the ratio of loan balance to deposit balance of commercial banks shall not exceed 75%. The loan-to-deposit ratio was adjusted from a legal regulatory indicator to a liquidity risk monitoring indicator. This measure has enabled banking institutions to gain more operational autonomy, effectively promoted the deepening and solid reform and innovation of the banking industry, and created a more perfect financial ecology for economic development. In this context, this paper analyzes the changes of loan-to-deposit ratio data in Chaozhou City in the past five years, points out the impact of low loan-to-deposit ratio in Chaozhou City, and provides reference for improving the regulatory policy of loan-to-deposit ratio and maintaining financial stability.

## 2. Research Review

### 2.1 Research on the Impact of the Loan-to-Deposit Ratio

In terms of bank risk control, an increase in the loan-to-deposit ratio can effectively enhance the profitability of banks, prevent regulatory arbitrage, and thereby curb bank risks. Ma Jun et al. and Zhang Hui et al. pointed out that on the one hand, a reasonable increase in the loan-to-deposit ratio helps to reduce the financing costs of enterprises and creates conditions for banks to expand the scale of credit supply to enterprises. This process can not only promote the more efficient and optimized allocation of bank credit resources, but also further enhance the profitability of the banks themselves [1-2]. Jin Zhao et al. as a classic evaluation index in the banking industry, the value of the loan-to-deposit ratio in reflecting the efficiency of bank capital allocation and the level of risk control remains irreplaceable. Its core advantage lies in its clear logic, ease of understanding and calculation, which can precisely adapt to the current business pattern of China's commercial banks dominated by deposit and loan business. In the short term, its function of regulating and controlling the scale of bank credit remains effective [3]. Chen Guoxu pointed out that setting the regulatory red line of the loan-deposit ratio and restricting the increase of the loan-deposit ratio could easily cause banks to transform the loan business into inter-bank business or bank financial management and other regulatory arbitrage behaviors, resulting in unreasonable asset and liability structure of banks, resulting in maturity mismatch and aggravating the risk bearing of banks [4].

### 2.2 The Impact of the Cancellation of the loan-to-deposit ratio indicator on Commercial Banks

In October 2015, China abolished the legal supervision index of the loan-deposit ratio and replaced it with a liquidity monitoring index. From the perspective of loan-to-deposit ratio as a liquidity detection index, Yin et al. pointed out that after the regulatory reform of loan-to-deposit ratio, banks no longer face the hard constraints of the regulatory red line of loan-to-deposit ratio, and are willing to increase the loan-to-deposit ratio driven by the motive of seeking profits [5]. Shi Jun believes that the low LDR of banks is a common feature in economically underdeveloped regions [6]. Lv Fengyong believes that the loan-deposit ratio is a comprehensive index to measure the raising and utilization of regional financial resources, which can reflect the level of county financial development [7]. Han Xianfeng found that the loan-to-deposit ratio regulatory reform will significantly increase banks' non-performing loans in the short term, with a more pronounced impact on regional small and medium-sized banks [8]. From the perspective of the positive impact of the cancellation of the loan-to-deposit ratio on commercial banks, Dang et al. (2015) pointed out that the cancellation of the regulatory index of the loan-to-deposit ratio met the needs of the changes in China's financial environment, helped to optimize the regulatory framework of monetary policy and improve the transmission mechanism of monetary policy. The abolition of the deposit-loan ratio regulatory indicator is conducive to promoting commercial banks to gradually shift off-balance sheet financing business to on-balance sheet, encouraging commercial banks to rely on the inter-bank market to cover capital positions, and improving the formation mechanism of money market interest rates. This will have a positive and extensive impact on the balance sheet behavior of commercial banks in China [9]. Ding Ning and Wu Xiao (2023) hold that the reform of deposit and loan supervision not only promotes regional economic development but also reduces the risk-taking of the banking industry [10]. Li Yuan and Wang Qing believe that liquidity constraint policies represented by the loan-deposit ratio constraint have a significant inhibitory effect on the credit release of financial institutions, and suggest to enrich the liquidity monitoring tools of banks [11]. Zhong studied the impact of the cancellation of loan-to-deposit ratio regulation on local small and medium-sized commercial banks, and found that the measure effectively released the space for banks to supply credit, increased the initiative of asset business, and reduced the pressure of banks to obtain deposits [12]. Ma Jingyu suggested establishing a broad financing statistics system to incorporate loans from financial institutions in other regions into the statistics, which would facilitate a clearer understanding of the flow of enterprise loans and timely adjustments to industrial development policies [13].

### 2.3 Research on the Loan-to-Deposit Ratio of the Financial Industry in Chaozhou City

In terms of the level of the loan-to-deposit ratio, Li Ming found that according to recent data, the loan-to-deposit ratio of Chaozhou fluctuates between 30-45%, which is lower than the national average level (usually 75%-95%), indicating that the banking system of Chaozhou is relatively stable [14]. In terms of changing trends, Zhang Hua found that the loan-deposit ratio of Chaozhou showed an upward trend from 2015 to 2020, mainly affected by economic growth and financial policy relaxation. However, after 2020, due to the impact of epidemic prevention and control and the downward pressure on the economy, the loan-to-deposit ratio slightly declined [15]. Regarding the differences between urban areas and county districts, Wang Qiang pointed out that in Chaozhou urban area, due to frequent economic activities, the deposit and loan rates are relatively high. However, the economies of counties and districts are relatively backward, and the deposit and loan rates are relatively low [16]. In terms of urban-rural differences, Chen Xiao believes that the uneven distribution of financial resources between urban and rural areas leads to significant differences in the loan-deposit ratio, and the low loan-deposit ratio in rural areas reflects the problem of insufficient financial services [17]. Liu Wei found that compared with other prefecture-level cities in Guangdong Province, the loan-to-deposit ratio in Chaozhou City is at a medium level, lower than that of economically developed cities such as Shenzhen and Guangzhou, but higher than that of some less developed areas in eastern and western Guangdong [18].

## 3. The Current Situation of low Loan-to-Deposit Ratio in Chaozhou City

### 3.1 Current Status of Deposit and Loan Balances

From the time axis of deposits and loans, from 2020 to 2024, the balance of deposits and loans of financial institutions in Chaozhou will increase year by year; Deposit balance increased from 162.168 billion yuan in 2020 to 218.321 billion yuan in 2024, and loan balance increased from 54.947 billion yuan in 2020 to 93.962 billion yuan in 2024.The loan-to-deposit ratio of local and foreign currency was 33.88% in 2020 and 43.04% in 2024, the highest in the past five years. As can be seen from Table 1, the growth rate of deposits from 2021 to 2024 is approximately within the range of 6% to 10%, and the growth rate of loans is approximately within the range of 11% to 20%. In the same year, the growth rate of loans was higher than that of deposits.

**Table 1. Balance of Domestic and Foreign Currency Deposits and Loans of Financial Institutions in Chaozhou City from 2020 to the end of 2024 (in billions of yuan)**

| Year | Deposit | Deposit growth rate(%) | Loan | Loan growth rate(%) | Loan-to-deposit ratio(%) |
|---|---|---|---|---|---|
| 2020 | 1621.68 | - | 549.47 | - | 33.88 |
| 2021 | 1735.33 | 7.01 | 657.41 | 19.64 | 37.88 |
| 2022 | 1895.52 | 9.23 | 738.59 | 12.35 | 38.97 |
| 2023 | 2059.58 | 8.66 | 844.63 | 14.36 | 41.01 |
| 2024 | 2183.21 | 6.00 | 939.62 | 11.25 | 43.04 |

Although the loan-to-deposit ratio of Chaozhou has shown an upward trend in the past five years, it is still far below the average level of Guangdong Province in the same period. As shown in Figure 1 below, the average loan-to-deposit ratio in Guangdong Province will be between 73% and 90% from 2020 to 2024. Except for 2022, there has been a slight increase every year. During the same period of time, the loan-deposit ratio of Chaozhou City was between 33-44%, which was much lower than the average value of Guangdong Province. Although deposits and loans in Chaozhou increase year by year from 2020 to 2024, the proportion of financial lending is still relatively small, and a large amount of funds are deposited in the banking system.

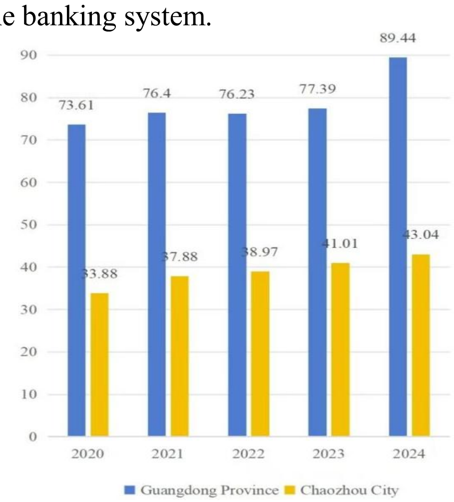


**Figure 1. Comparison chart of loan-to-deposit rations between Guangdong Province and Chaozhou City from 2020-2024(%)**

### 3.2 Main Flow of Loans

At present, the core direction of loan disbursement is the real economy and manufacturing. Chaozhou, as a city with distinct characteristic industries, has seen a high concentration of loan investment in its pillar industries. The first is the ceramic industry: Chaozhou is known as the "Porcelain Capital of China", and a large amount of loans have been invested in the technological transformation, equipment renewal, introduction of automated production lines, upgrading of environmental protection facilities (such as "coal-to-gas"), and brand building of ceramic enterprises. According to public data statistics, the total loans by the end of 2024 were approximately 3.65 billion yuan. In particular, large-scale enterprises and ceramic enterprises with export business are key customers for bank loans. The second is the food industry: represented by "Chaozhou Time-honored brands" and modern food processing enterprises, such as beef balls, preserved fruits, and ready-to-eat meals. According to public data statistics, the total loans by the end of 2024 were approximately 2.5 billion yuan. The loan is mainly used for expanding production scale, building modern workshops, cold chain logistics and marketing. The third is the stainless steel industry: Chaozhou is an important production base for stainless steel products. Loans are provided to support enterprises in their transformation and upgrading from raw material processing to high-end kitchenware manufacturing. The Chaozhou Branch of the People's Bank of China has guided financial institutions to innovatively launch exclusive credit products such as the “Stainless Steel Loan”. As of January 14, 2025, a total of over 8.5 billion yuan in loans have been issued. Fourth, financing for small and medium-sized enterprises: For a large number of small, medium and micro enterprises in the above-mentioned industries, banks have solved the problem of shortage of working capital for a large number of enterprises through “inclusive finance” products, such as credit loans, accounts receivable pledges, and intellectual property pledges.

Secondly, the government drives loans to be directed towards infrastructure and major project construction. In the past five years, the Chaozhou Municipal Government has vigorously promoted the work deployment of “one major guidance, three major campaigns, and six major improvements”, and a series of major projects and infrastructure construction have become important carriers of credit funds. The first is transportation construction: The development and construction of Chaozhou Port is of Paramount importance. A large number of medium - and long-term loans have been obtained for related port, logistics, and port access railway projects. In addition, the renovation of roads and the construction of Bridges within the city also require huge amounts of credit funds for support. The second is the construction of industrial parks: The infrastructure investment of “seven utilities and one leveling” (land leveling, road access, water supply, electricity supply, etc.) in large industrial parks such as Fengquan Lake High-tech Zone and Fujian-Guangdong Economic Cooperation Zone mainly relies on loans obtained by government platform companies from banks. The third category is energy and water conservancy: New energy projects such as wind power and photovoltaic power, as well as the management of the Han River and water conservancy projects, are also areas supported by loans.

Thirdly, real estate and personal loans are important components of loans. Loans in this sector account for a considerable proportion of the total, but the structure has changed in the past two years due to macro policy adjustment. The first is real estate development loans: They have supported the development of numerous commercial residential projects and commercial complexes in the early stage. However, with the deepening of the policy of “housing, not speculation”, the bank's approval of such loans becomes stricter, the growth rate slows down, and it is more inclined to support strong developers and “guarantee the delivery of buildings” projects; As of the end of June 2024, banking institutions in Chaozhou District have approved three batches of financing demands for seven real estate projects on the “white list”, totaling 696.5 million yuan. They have signed loan contracts worth 542.5 million yuan and disbursed 176.5 million yuan. The second type is personal housing loans (mortgage loans): the main body of loans for the resident sector. Despite the overall cooling of the real estate market, the demand for both first-time and improving-oriented housing remains a stable component of banks' retail business. By the end of December 2024, a total of 21,400 personal housing loans had been issued, with a cumulative amount of 8.846 billion yuan. Third, personal business and consumption loans: With the development of digital finance, loans used by individuals for production and operation (such as purchasing goods and decorating stores for individual business owners) and consumption (buying cars, decoration, education) have also shown an increasing trend.

## 4. The Impact of a Low Loan-to-Deposit Ratio

In recent years, the financial industry in Chaozhou City has achieved certain accomplishments, but it also faces some challenges, among which the problem of a low loan-to-deposit ratio is particularly prominent. The deposits absorbed by financial institutions in Chaozhou City have not been fully and effectively converted into local loans. A large amount of funds have flowed out or been idle, seriously affecting the utilization efficiency of financial resources. In China's financial system dominated by indirect financing from national large banks, the loan-to-deposit ratio of regional financial institutions has the function of reflecting the utilization degree of loanable funds in the region or their outflow situation. Among them, many scholars such as Yang Guozhong, Li Muxiang and Wang Yang have expressed the view that "the loan-to-deposit ratio can reflect the certain support that financial institutions have for the regional economy"[19-20]. The potential challenges brought by the low loan-to-deposit ratio in Chaozhou City include the following aspects:

### 4.1 Idle Bank Funds, "Accumulation" and Capital Outflow

In the financial system, deposits have not been fully and effectively converted into loans, resulting in a large amount of idle funds. Financial institutions deposit a large amount of their deposits with the central bank in the form of excess reserves to obtain low-interest returns. Insufficient loan volume has led to an increase in the proportion of interbank assets in financial institutions, and funds have flowed to other regions through inter-bank lending or purchasing interbank wealth management products. For instance, in 2022, the interbank asset scale of Chaozhou Rural Commercial Bank increased by 15% year-on-year, far exceeding the loan growth rate of 6%. At the same time, credit resources will also form a cross-regional flow pattern. Bank branches will deposit deposits with provincial branches, and the superior banks will uniformly allocate them to economically active regions such as the Pearl River Delta. Local enterprises, due to insufficient financing quotas, have turned to Shantou or Xiamen to apply for loans, and some have even relocated their headquarters.

### 4.2 It Restricts the Development of Enterprises, Especially Small and Medium-Sized Ones

Although the total amount of funds (deposits) in the city is considerable, Chaozhou is dominated by small and medium-sized enterprises. These enterprises are mainly concentrated in small and medium-sized micro enterprises and start-ups that lack collateral and credit records. They do not meet the traditional risk control requirements of banking institutions and it is very difficult for them to obtain loans from bank channels. Based on risk considerations, banks are more inclined to invest funds in large-scale projects that are more "safe" in other places, thereby squeezing credit for small and medium-sized enterprises. The characteristic industries of Chaozhou (such as ceramics, food, stainless steel, etc.) require continuous capital investment for technological upgrading, brand building and market expansion. A low loan-to-deposit ratio means that there is insufficient "fresh water" output by financial institutions, and the pace of transformation and upgrading of small and medium-sized enterprises is hindered, making it difficult for them to grow bigger and stronger.

### 4.3 Insufficient Impetus for Economic Growth

The low loan-to-deposit ratio results in relatively less loan funds that banks can provide to local enterprises and projects. As a result, enterprises cannot obtain sufficient financial support to expand production, carry out technological innovation, etc., which hinders the upgrading and development of industries and is not conducive to attracting more investment and talents, thus having a certain negative impact on the growth of the local economy. Compared with the average loan-to-deposit ratio of 78.61% in Guangdong Province over the past five years, the low loan-to-deposit ratio in Chaozhou City has led to a lack of strength in using financial funds to promote economic development. Among the "three horses" driving economic growth, investment lacks momentum. The low loan-to-deposit ratio directly leads to tight sources of funds for local fixed asset investment, infrastructure renewal and new project construction, which affects the potential for economic development. However, due to the lack of high-quality loan projects in Chaozhou City itself, financial institutions are more strict in lending, and would rather lend less or no than take risks. This conservative lending behavior will intensify capital outflow and further weaken economic vitality.

### 4.4 The Inadaptability of Bank Credit Culture and the Decline in Profitability

There is a mismatch between the risk control model of traditional banks and the actual situation of Chaozhou's characteristic industries. As an important characteristic industry in Chaozhou City, the ceramic industry has a large number of ceramic masters and private ceramic workshops in the market. The value generated by the craftsmanship and technology (intangible assets) of such units and individuals is hard to measure and even more difficult to be used as collateral. The measurement of individual craftsmanship and technical value has non-standardized and personalized characteristics, and the traditional risk control models of financial institutions are not suitable. At the same time, in order to control their own stability goals, financial institutions would rather lend less or not lend at all. Chaozhou City's own industrial culture attracts talents, but it is difficult for small and medium-sized enterprises to raise funds and develop. From another perspective, a low loan-to-deposit ratio indicates that a small proportion of the deposits absorbed by banks are used for lending, and a large amount of funds are held in the form of low returns. For financial institutions in remote cities, the income from the loan-to-deposit ratio remains the main source of their profits. With insufficient loan issuance, the income generated by the unit's capital operation within the same period is not high, and the profitability of financial institutions is facing challenges. In 2022, Chaoyang Rural Commercial Bank's total deposits reached 31.429 billion yuan, but its total loans were only 7.538 billion yuan, with a loan-to-deposit ratio of merely 23.99%, which was lower than the 50% break-even point of commercial banks. The net loss for that year was 68.4692 million yuan, a sharp decline of 2,215.99% year-on-year, and the profitability was severely affected.

## 5. Research on Countermeasures for the Low Loan-to-Deposit Ratio in Chaozhou City

From the above analysis, it can be seen that to increase the loan-to-deposit ratio of banks in Chaozhou City is a comprehensive and overall task. Governments at all levels, enterprises and relevant departments need to focus on the following aspects of work.

### 5.1 Focus on “Local Circulation of Funds”, Curb Outflows and Activate Existing Funds

Establish a regional fund orientation guidance mechanism and an inter-bank business supervision mechanism at the financial institution level. Actively promote the introduction of policies at the provincial branch or sub-branch level to set a minimum requirement for the local loan allocation ratio of bank branches. Require the local loan-to-deposit ratio of major state-owned banks in Chaozhou to be gradually increased to the corresponding standard. For institutions that fail to meet the standard, appropriately reduce the fund allocation quota of their superior banks. Restrict financial institutions from over-engaging in cross-regional interbank wealth management and lending business. For institutions that use idle funds for local small and micro enterprise loans, offer rewards such as an increase in the interest rate on excess reserves and tax reduction or exemption from the central bank, guiding funds to shift from “interbank idle circulation” to “real economy investment”. Build a high-quality local asset trading platform in Chaozhou from the industry level, integrate investment targets such as characteristic industry projects and urban renewal funds, and attract high-net-worth clients to shift their funds from real estate and trust in Guangzhou and Shenzhen to the local area through tax incentives.

### 5.2 Solving the Problem of “Difficult Financing for Small and Medium-Sized Enterprises” and Matching Demand with Supply

From the perspective of financial institutions, innovate exclusive risk control credit products for characteristic industries. For industries such as ceramics and food, jointly establish a “process value assessment system” with industry associations, incorporate the technical patents of ceramic masters and the order flow of private workshops into the scope of collateral, and launch products such as “process loans” and “order loans” to solve the problem of no collateral for light-asset enterprises. At the government level, a government-backed financing guarantee fund should be established. The Chaozhou government, in collaboration with the provincial finance, will contribute funds to set up a special guarantee fund to provide risk-sharing for loans to small and medium-sized enterprises, reduce the lending risks of banks, and at the same time, require cooperative banks to offer lower loan interest rates to enterprises guaranteed by the fund. Build a precise platform for bank-enterprise matching, sort out the situation of enterprises by industry classification (such as ceramics, e-commerce), conduct on-site investigations of the financing needs of enterprises, and include enterprises that meet the standards in the government's “key support list” to provide subsequent policy subsidy preferences.

### 5.3 Strengthen the "Interaction between Economy and Finance" and Cultivate High-Quality Loan Scenarios Led by the Municipal Government

Efforts will be focused on increasing local infrastructure and project investment. Key projects such as urban transportation hubs and rural revitalization will be sorted out and updated. Funds will be supplemented through the issuance of local government special bonds and the introduction of social capital. At the same time, banks participating in the projects are required to give priority to using local deposits for loans to enhance the projects' capacity to absorb local funds. To attract enterprises and talents from other places to settle down, a "headquarters return" policy has been introduced. For enterprises that relocate their headquarters from Shantou and Xiamen back to Chaozhou, they will be granted three years of tax reduction and factory subsidies. At the same time, improve the supporting facilities such as talent apartments and children's education to attract technical talents to return, inject vitality into the local economy, and thereby create more high-quality loan demands.

### 5.4 "Transformation of Bank Credit Culture" to Enhance Service Capabilities and Profitability

Optimize the risk control model and assessment mechanism of banks, shape the local bank risk control system, and increase the weight of non-collateral indicators such as "business operation flow, industry reputation, and tax payment records". At the same time, the internal assessment will be adjusted, incorporating "the number of local small and micro enterprise loan accounts and the amount" into the core assessment indicators. Support banks in expanding their intermediary business, encourage them to carry out intermediary business such as supply chain finance, bill discounting and financial advisory services based on the demands of local enterprises, and reduce their reliance on traditional deposit and loan interest spreads. Promote the establishment of a "paired assistance" mechanism between provincial large banks (such as the Guangdong Branches of ICBC and CCB) and small and medium-sized banks in Chaozhou, sharing risk control technologies. At the same time, support small and medium-sized banks in replenishing their capital through measures such as issuing secondary capital bonds and introducing strategic investors, enhancing their lending capacity and improving their profit conditions.

## 6. Summary

To sum up, the balance of deposits and loans in Chaozhou City has been increasing year by year from 2020 to 2024, and the loan-to-deposit ratio has also been steadily rising. However, compared with the same period, it is still far lower than the average level of Guangdong Province. This paper analyzes the situation of low loan-to-deposit ratio in Chaozhou City, and points out the impact of low loan-to-deposit ratio, such as inefficient use of funds, idle or outflow of bank funds, insufficient circulation of local funds; the development of enterprises is restricted. Small and medium-sized enterprises find it difficult to obtain loans due to the lack of qualified collateral. Insufficient financial support for the upgrading of characteristic industries makes it hard for them to grow bigger and stronger. Weakening economic momentum, local investment, infrastructure and new project funds are tight, affecting the potential for economic growth and the attractiveness of talent and investment. The operation of banks is under pressure, the traditional risk control is not suitable for the local industry, the limited lending scale leads to a decline in profitability, and some institutions suffer losses. Ultimately, the following key solutions were presented. First, it is necessary to activate local funds: set a minimum requirement for local loan issuance by banks, restrict cross-regional interbank business, and guide funds to flow to the real economy through policy rewards. Second, solve the financing problem: Innovate credit products for characteristic industries, establish a government financing guarantee fund, and build a precise matching platform between banks and enterprises. The third is to cultivate loan scenarios: Increase local infrastructure and project investment, introduce the "headquarters return" policy, and attract enterprises and talents to settle down to create high-quality loan demands. Fourth, optimize financial services: Adjust the risk control and assessment mechanisms of banks, expand intermediary business, and enhance the lending capacity of banks through paired assistance and capital replenishment. The issue of the low loan-to-deposit ratio in Chaozhou City has certain practical significance and can provide reference opinions for policy-making and economic development for other similar prefecture-level cities in the future.

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