

Summary of Rural Credit and Rural Residents' Consumption

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Abstract: Rural finance can not only provide credit services for agricultural production, but also increase the rural residents circulation of funds, stimulate rural residents to invest and consumption, the total consumption of this group can effectively drive China's economic growth, and the main form of rural finance is rural credit. China's economy has entered the new normal development stage, and the economic construction has shifted from "quantity" to "quality", and China's rural residents account for a large proportion of the consumer groups, and the consumption level of rural residents is related to the overall consumption level of China. Therefore, the credit business in rural finance should be valued, and this paper tries to explore the relationship between rural credit and rural residents' consumption.

Keywords: Rural Credit, Farmers' Consumption, Summary.

1. Introduction

At present, China's economy has entered a new normal development stage, and the focus of economic construction has shifted from high-speed growth to high-quality development. The important policy goal of this economic transition stage is to expand domestic demand, and one way to expand domestic demand is to stimulate consumption. Consumption growth is related to fostering new growth drivers. In addition, the 19th National Congress also put forward the rural revitalization strategy, and the development of rural finance is the focus of rural revitalization. In our country, rural residents this consumer group is very large, affecting the development of rural economy. The level of farmers' consumption is related to economic growth and promoting consumption upgrading. Agricultural credit funds at the same time occupies a pivotal position in the rural economic development, the core elements of rural economic resource allocation is rural credit funds, rural credit funds allocation quantity and allocation mode directly affects the benefit distribution between different economic subjects in rural areas, production decisions, consumption spending and economic opportunities, etc., agricultural credit funds to directly control the development direction of the rural real economy. Therefore, this paper examines the existing literature, trying to explore the role of rural credit on the consumption of rural residents, whether it will affect the consumption and consumption structure of rural residents in China, and further promote the consumption upgrading. Although the past research focusing on rural credit on rural residents is uncommon, and a small number of literature on rural finance and rural consumption, the number of literature clarifying the impact of rural finance on the consumption structure of rural residents is small. In this regard, this paper starts from the actual credit situation of rural China, and explores the influence of the development of rural finance on the consumption of rural residents in detail.

2. Foreign Literature Review

Domestic and foreign scholars have different views on the impact of credit on consumption. Poor and backward

developing countries show the economic structure of urban and rural segmentation, the overall economic development level is low, the rural financial system is imperfect, the rural consumption market is narrow, and farmers' consumption ability is low. In contrast, the general economic development of developed countries is relatively balanced, and there is no obvious economic structure of urban and rural fragmentation. Therefore, foreign scholars rarely study the financial system of rural and urban areas respectively, and they usually explore the impact of finance on consumption from the overall perspective. Existing exploration of credit has formed some more mature research results, early explore rural finance and rural economy, rural finance the relationship between farmers' income is more, but early foreign scholars think that credit promotes consumption is relatively weak, but since the 1930s, foreign scholars have changed the view of credit, that credit can promote the consumption ability, promote the economic development of a country.

Throughout the existing research results of the relationship between rural credit and farmers' consumption, it can be roughly divided into the following two levels:

First, the development of rural finance can lower the credit threshold, consumer credit can be more used by farmers, increase the use of funds for rural residents, and effectively improve the consumption level of rural residents. Martinson (2020) studied the effect of credit acquisition on clean energy consumption in rural household cooking. It is found that the amount of credit obtained will promote the increased consumption expenditure of clean cooking energy and increase the consumption level of rural households.

Second, the development of rural finance indirectly affects the consumption level of farmers. The development of rural finance can increase the use of funds for rural residents with borrowing needs, reduce the uncertainty of rural residents in the future, indirectly improve their consumption power tendency, release their consumption potential, and finally improve the consumption level. X.Y. Hu (2020) starts from the problems existing in financial services in the process of rural revitalization in ethnic minority areas, and enters rural ethnic minority areas through financial services, so as to achieve the goal of rural revitalization in rural ethnic minority areas and improve the consumption level of its rural residents.

3. Domestic Literature Review

In China, since the reform and opening up, the economy has achieved rapid development, but restricted by historical reasons, household registration system and other factors, the rural development lags backward. Starting from the rural market, domestic scholars analyze the influence of various factors on farmers' consumption, in order to drive farmers' consumption and promote the development of rural economy. About the study of farmers' consumption, the current domestic empirical research is focused on the test of income uncertainty, liquidity constraints, infrastructure, unemployment and income risk on the influence of farmers' consumption and welfare loss is significant research credit constraints on the consumption structure is rarely appear, this is the purpose of this paper.

3.1. The Impact of Rural Finance on Farmers' Consumption

It is mainly divided into two aspects: financial deepening (also known as "financial liberalization") and financial suppression. From the perspective of financial deepening, developing countries should pay attention to the core role of finance in the national economy if they want to develop their economy, reduce the introduction of "financial suppression" policies, and implement "financial deepening". Y. Shang(2016) studied the influence of rural financial contribution, rural financial efficiency on farmers' consumption level and their consumption structure in Hebei Province, and found that the development of rural finance can promote the improvement of farmers' consumption level. X.L. Li(2020) used the inter-provincial panel data of China from 2008 to 2017 based on the theory of financial deepening. The results show that the deepening of rural finance has a significant positive effect on the integrated development of China's rural industries in China. The development of rural industries is conducive to increasing the income of rural residents, thus affecting their consumption.

Due to the financial inhibition effect of the rural financial system, H.W. Liao proposed measures to reform the rural financial system from the perspective of saving transaction costs, guiding financial resources to flow to rural areas, helping rural revitalization, and further improving the consumption level of rural residents. X. Dai(2019) to establish a starting model to explore the relationship between rural financial development and rural residents' consumption, found that rural finance can effectively increase the income of rural residents, also established the corresponding security mechanism to improve their consumption environment, stimulate rural residents' consumption, but it is undeniable that the current rural financial development on rural residents' consumption still exists. Rural financial suppression is mainly reflected in these aspects:

First, the rural financial market has suffered from financial repression. The empirical study of L. Zhang(2019) shows that on the whole, rural financial development under institutional constraints and agricultural economic growth show negative correlation: the higher the monthly agricultural economic development degree, the more the rural financial development without institutional constraints is not conducive to agricultural economic growth.

Second, the allocation of rural financial resources is inhibitory. J. Yang(2015) believe that a large number of farmers who work in cities rent houses in the cities, and the

education expenses of supporting their children and various daily living expenses keep the rural funds stranded in the cities. With the increase of income, farmers with higher income in developed areas may have diversified financial needs such as investment and financial management, but the rural financial trading market is not sound, and rural residents may invest idle funds in urban financial institutions, aggravating the outflow of rural funds.

Third, high transaction costs to reduce the operation efficiency of rural finance. Rural residents' production characteristics is decentralized management, and agricultural vulnerability is affected by climate such as natural factors, in addition to those who have specialized and technical management of large-scale farmers, overall, farmers' income has instability, due to the low added value of agricultural products, farmers' income is generally low, commercial bank lending tends to have stable income cash flow, and often loan default rate is higher. At the same time, farmers lack valuable collateral, which makes it more difficult for farmers to seek loans from financial institutions such as commercial banks. S.C. Li(2020) saw the rise of private lending characterized by high interest rates. This method not only greatly increases the financing costs of farmers, but also makes some usury lenders use illegal and violent means to threaten social security in order to recover their debts.

In addition, due to the uncertainty of farmers' income, farmers' low ability to resist risks, in order to do a good job in loan risk control, rural financial institutions will carefully investigate farmers' repayment ability, credit status, review collateral and so on before formally signing the loan agreement. The complicated loan approval procedures will spend a lot of time. In order to ensure the security of the loans, the rural financial institutions should conduct post-loan supervision to the lending farmers. These management links virtually increase the transaction cost, reduce the efficiency of rural finance, and limit the development of rural finance.

Fourth, the lack of rural financial institutions. G.H. Shao, Y.Y. Wu(2015) believe that the cause of rural financial suppression is the lack of financial supply and financial demand. The lack of financial supply is reflected in the lack of rural financial institutions, and the lack of financial demand is reflected in the high loan cost for farmers. X.Z. Liang(2018) pointed out that the rural financial supply side still has the main problems: state-owned commercial bank credit threshold is high, not well expanded the rural financial supply: rural cooperative financial has a certain financial supply, but does not meet the demand of farmers' income is not high: policy financial institutions' financial service supply range is small, less private lending and high transaction costs cause rural resource financial supply shortage, must urgently deepen the rural financial reform, release the rural residents' consumption potential.

3.2. The Impact of Rural Credit on Farmers' Consumption

This paper mainly considers it from the following three perspectives:

First, directly consider the impact of rural credit on farmers' consumption. First, the impact of formal credit and informal credit on farmers' consumption. G.W. He (2018) concluded from the data sample of 1730 peasant households that farmers have low financing availability from formal credit channels, but the overall credit demand of farmers is strong, and informal credit has become an important way to meet the

credit needs of farmers. Secondly, there are two kinds of farmer credit, production credit and consumer credit. J. Wang(2018) used the endogenous conversion regression model to process the grain planting data of the four provinces in 2015, and found that about 30% of the rural households in the rural areas of the province were subject to formal credit constraints, and also predicted that the grain output would increase to 14.6% after meeting their credit demand.

Second, analyze the influence of rural credit rationing on farmers' consumption. The meaning of credit rationing means that when commercial banks face the excess demand for loans, they do not increase the supply of deposits and restrain the loan demand to achieve the balance of loans market. It is a financial phenomenon that implements credit rationing to meet the credit demand of some borrowers. Y.H. Liu(2016) found that the rationing of agricultural credit will be relatively high to inhibit the consumption of farmers at low-income level: while the law of diminishing margin weakens the inhibitory effect of agricultural credit rationing on the consumption of farmers at high-income level. D. Ding(2018) found through the VAR model analysis that the lack of efficient agricultural credit allocation in Liaoning Province is not conducive to rural economic development. There are two types of credit rationing: one is quantity rationing, which means that the number of loans provided by banks to farmers cannot meet the demand scale of farmers. M.H. Cao(2019) combined with interviews and investigations and found that in order to expand the scale and develop production and operation, the financing demand will also increase. However, the amount of agriculture-related loans provided by financial institutions is limited, which aggravates the problem of productive financing difficulties. Another is the service rationing, refers to the bank refused to provide credit services to farmers with loan demand, Q. Li, L.S. Yang(2019) analyzed the Henan and Shaanxi provinces after real research data that whether enjoy government subsidies, default attitude, service content, asset scale is the main factors affecting the farmers' professional cooperatives credit financing availability. L.B. Yang(2016) believes that the reasonable layout of financial outlets can effectively stimulate consumption in a region. However, the lack of rural financial outlets affects the orderly circulation of regional funds, reduces the operation efficiency of financial institutions, reduces the sources of funds for the expansion scale of enterprises, and reduces the consumption enthusiasm of rural areas.

Third, to study the impact of rural credit constraints on farmers' consumption. J. Wang, R. Li(2016) established a dynamic model to estimate the degree of consumer credit constraints based on the data of 1000 sample households. It shows that more than 80% of sample households were constrained by consumer credit, and the net income and consumption expenditure of sample farmers were reduced by 13.7% and 25.6% respectively due to the impact of credit constraints. L.Y. Qiu, X.P. Hu(2018) examined the credit constraint intensity on the influence of farmers consumption structure optimization found to enhance credit constraint degree significantly reduces the total consumption of farmers, reduce farmers in productive consumption and developmental consumption, hinder the farmers of the consumption structure optimization, otherwise can effectively improve farmers consumption, optimize the consumption structure.

4. Research Outlook

To sum up, although the existing literature on farmers consumption research results are relatively rich, the author thinks that the influence of farmers consumption research can investigate from these aspects: first, the existing literature from the overall analysis of the rural credit on rural residents consumption effect, but no detailed investigation of the influence of rural credit on farmers' consumption structure. Secondly, most of the literature directly examines the impact of credit on farmers' consumption, and only a few literature will explore the impact of rural credit on farmers' consumption by regional heterogeneity. For example, there may be a large gap in the economic situation of eastern and western rural areas, leading to large regional differences in the effect of rural credit. Future research from these directions: first, in addition to examine the influence of rural credit on farmers' consumption, can also analyze the impact of rural credit on farmers' life, because consumption is just one of the forms of farmers' life situation, pay attention to farmers' life situation may more comprehensively reflect the farmers' reality, more accurately evaluate the role of rural credit in rural development; Second, we can investigate the credit supply of major rural credit institutions such as rural credit cooperatives and the impact on rural residents' consumption, which will help the state to formulate special policies to regulate the major rural credit institutions, and then promote the improvement of farmers' consumption level.

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