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The Alleviating Effect of No-Repayment Loan Renewal on the Financing Predicament of Micro and Small Enterprises

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Abstract

The financing predicament of micro and small enterprises (MSEs) is disproportionately concentrated at the loan renewal stage. Under the conventional "repay-before-renew" model, MSEs are compelled to resort to high-cost bridge financing, which, coupled with the uncertainty of renewal approval, exposes them to soaring costs and the risk of capital chain rupture. The no-repayment renewal policy aims to fundamentally sever the liquidity risk and cost spiral triggered by bridge financing. On the theoretical basis of information asymmetry and credit rationing, this paper reveals the specific mechanism through which the renewal stage amplifies financing distress, and systematically examines the policy's alleviating effects through three

pathways: bridge cost elimination, liquidity risk mitigation, and bank-enterprise relationship stabilization with expectation improvement. The study finds that the three mechanisms form a positive feedback loop, yet obstacles including banks' risk preference constraints, persistent information asymmetry, structural coverage gaps, and lagging supporting institutions continue to restrict the policy's full effectiveness. Accordingly, this paper proposes optimization paths encompassing incentive-compatible regulatory design, fintech-enabled information sharing, expanded and targeted coverage, and a collaborative risk prevention system.

Keywords: No Principal Repayment Rollover, Small and Micro Enterprises, Financing Difficulties, Credit Rationing, Financial Repression

1. Introduction

The financing difficulties of small and micro enterprises are concentrated in the process of loan renewal upon maturity. Under the traditional "pay first, loan later" model, the high cost of bridging funds combined with the uncertainty of loan renewal approval has put enterprises at risk of a broken capital chain at any time. The "seamless renewal" institutionalization of the no-repayment renewal model cuts off the double pressure of cost and liquidity caused by the "bridge loan". Existing research still lacks a systematic examination of whether the system can simultaneously alleviate both "expensive financing" and "difficult financing", how its transmission mechanism plays a deep role through reshaping the relationship between banks and enterprises, and how practical obstacles restrict the effect. This paper dissects the mechanism of action from the three-dimensional path of "bridge cost elimination - liquidity risk mitigation - bank-enterprise relationship and expectation improvement", examines policy boundary constraints and proposes optimization paths.

2. The theoretical basis of the financing dilemma of small and micro enterprises and the particularity of the loan renewal process

2.1 Information Asymmetry and credit rationing theory

The root cause of the financing predicament of small and micro enterprises lies in credit rationing caused by information asymmetry between lenders and borrowers. It is difficult for banks to accurately identify the true risk types of small and micro enterprises. Simply raising interest rates would induce adverse selection and moral hazard, leading to a decline in expected returns for banks, and thus they would choose rates lower than the market clearing level and actively exclude some borrowers. Boiquaye *et al.* (2026) analyzed the repayment behavior of microcredit under the joint liability mechanism based on the Markov process model, revealing the complexity ^[1] of credit contract design under the condition of information asymmetry. Phogella and Anbaw (2024) also pointed out in their review of the determinants of formal credit access for rural youth that

information asymmetry is a core obstacle ^[2] to the access of vulnerable groups to the formal credit market. Small and micro enterprises have low financial transparency and insufficient collateral, making them the primary targets of credit rationing.

2.2 Multi-dimensional manifestations of the financing predicament of small and micro enterprises

The financing predicament is characterized by the coexistence of "difficult financing" and "expensive financing". "Difficult financing" is characterized by high formal credit access thresholds, insufficient credit lines, and a large number of small and micro enterprises being excluded from the banking system. Charoensirisatien (2026), based on an 18-year field prototype study in emerging economies, proposed that non-debt financial architectures help drive structural transformation at the household level, indirectly confirming the exclusion ^[3] of small and micro entities by traditional debt financing models. Hamouda *et al.* (2025) also emphasized that the lack of financing channels is a key bottleneck ^[4] restricting the expansion of household production scale when discussing the micro-business model of rural households. "High financing costs" are reflected in the high pricing of loans, coupled with non-interest expenses such as guarantee fees and assessment fees, and the combined financing costs far exceed the affordability of enterprises. Sahoo and Thakur (2023) found that high financing costs are a key obstacle ^[5] to the integration of small, medium and micro enterprises into the supply chain finance system when analyzing supply chain finance solutions for small, medium and micro enterprises in India using TISM and MICMAC methods. The two reinforce each other, creating a double squeeze on credit access and cost burden. An empirical study by Duan Sheng *et al.* (2025) shows that the policy of deferred principal and interest repayment can significantly enhance the viability of micro and small enterprises, providing a policy basis ^[6] for alleviating the above double predicament.

2.3 Special Contradictions in the renewal process: Bridge loans and the risk of capital chain breakage

The renewal process pushes the financing predicament to the extreme. The traditional "pay first, lend later" approach has forced companies to use high-interest bridge funds to repay their principal, and the cost of refinancing has risen sharply. Ye *et al.* (2023) found through a quasi-natural experiment based on the Loan Risk Classification guidelines that restrictions on loan renewals would significantly intensify liquidity constraints for enterprises and have a negative impact on employment stability ^[7]. Zhang *et al.* (2022) further confirmed that the renewal restrictions not only affect the day-to-day operations of enterprises, but also suppress their outward direct investment behavior ^[8]. The uncertainty of loan renewal approval poses a fatal risk - if the new loan is not issued on schedule, the enterprise will be burdened with both bank loans and bridge debts, directly triggering a break in the capital chain. Pan Shiyuan (2025) pointed out that promoting high-quality development of the private economy requires a solid institutional foundation, and the improvement of the loan renewal system is an important part of it ^[9]. When analyzing the key and difficult points of promoting the development of the private economy, Dan Ning (2025) also emphasized that the smooth operation of the financing succession mechanism is the key

^[10] to solving the capital predicament of private enterprises. The rollover node thus becomes an amplifier of the predicament, transforming liquidity mismatch into a survival crisis. Zhang Ming *et al.* (2025) proposed that fiscal and financial synergy is an effective way to support financing for small and medium-sized enterprises based on an investigation and research in a border province in the west ^[11]. Zhang Jie and Yang Fujun (2026) revealed the inherent characteristics of the debt cycle mechanism of "government - state-owned enterprises - private enterprises" and pointed out that private enterprises are in a structurally weak position ^[12] in the debt chain. Wang Guogang and Zhao Weilin (2023) emphasize from the macro perspective of the construction of the modern financial system that the improvement of the inclusive finance system has systemic significance ^[13] for alleviating the financing difficulties of small and micro enterprises. Bai Zhonglin *et al.* (2025) evaluated the economic cycle effects of three credit expansion policies, providing mechanism-level evidence ^[14] for understanding the transmission mechanism of credit policies. Liu Wei *et al.* (2022), when explaining the economic connotation of Chinese-style modernization, pointed out that a sound financial support system is the fundamental guarantee ^[15] for high-quality development. Li Nengli and Wang Lin (2022)'s analysis based on the VAR model indicates that external policy shocks can have a significant impact ^[16] on the real economy through credit channels. The study by Yang Xilei and Huang Xingzi (2023) reveals the inhibitory effect of informal employment on household income mobility from the perspective of employment patterns, indirectly reflecting the deep connection ^[17] between the operational stability of micro and small enterprises and the financing environment.

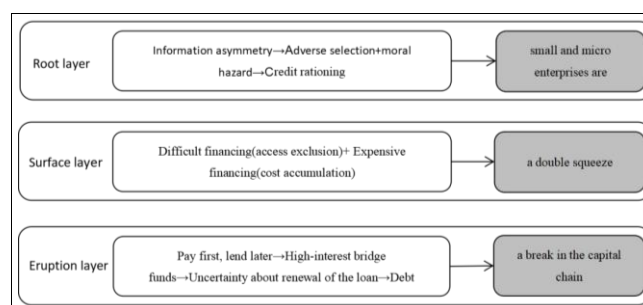


Fig 1: The three-tier transmission mechanism of the financing predicament of small and micro enterprises

3. The mechanism by which loan rollover without principal repayment alleviates the financing difficulties of small and micro enterprises

The loan renewal without principal repayment works in synergy through three paths: eliminating bridge costs, mitigating liquidity risks, and reshaping the relationship between banks and enterprises. These three paths respectively address the three pain points of "expensive financing", "broken capital chain", and "difficult financing", creating a multi-level relief effect.

3.1 Bridge cost elimination mechanism

1. Eliminate the burden of high-interest bridge funds

Under the traditional loan renewal model, enterprises have to rely on high-interest bridge funds with an annualized rate of more than 36% to repay their loans before borrowing. In the case of non-repayment loan renewal, banks directly

renew new loans instead of relying on bridge funds, cutting off the cost chain of "reverse loans" from the source.

2. Cut non-interest expenses

Non-interest expenses in the renewal process are further reduced by waiving additional fees such as repeated asset evaluation and mortgage registration.

Table 1: Comparison of weighted interest rates and bridge financing costs for inclusive small and micro enterprise loans

Time	Weighted interest rates for inclusive small and micro business loans	Average monthly rate of bridge financing
2021	5.69%	3 percent per month, about 36 percent annualized
2022	4.83%	3 percent per month, about 36 percent annualized
2023	4.78%	3 percent per month, about 36 percent annualized
2024	3.90%	3 percent per month, about 36 percent annualized

Data source: Weighted interest rates on inclusive loans to small and micro enterprises are derived from disclosures at regulatory work conferences over the years; The average monthly rate of bridge financing is based on industry research data from Caixin reporters.

Table 1 reveals the structural contradiction between the continuous decline in bank lending rates and the high cost of bridge financing, with a difference of about 10 times. The non-repayment rollover eliminates the need for bridge funding and additional costs such as repeated assessment and mortgage registration, exempting businesses from the exploitation of high interest rates and directly reducing the overall financing cost of the rollover process.

3.2 Liquidity risk mitigation mechanism

1. Reduce the pressure of concentrated repayments

The traditional "pay first, borrow later" approach forces businesses to raise a large amount of principal repayment funds all at once on the due date of the loan, and the no-repayment rollover turns "repayment at maturity" into "renewal at maturity", eliminating the rigid constraints of concentrated repayments on the timeline.

2. Ensure the continuity of the operating capital chain

Enterprises do not need to reserve high amounts of precautionary cash for repayment, and the operating cash flow remains intact, and the capital chain is seamlessly connected at the loan renewal node.

Table 2: Changes in the balance of loans to inclusive small and micro enterprises and the non-performing loan ratio nationwide

Time	Loan balance (trillion yuan)	Non-performing loan ratio of commercial banks
At the end of 2020	15.3	1.84%
Late 2021	19.1	1.73%
Late 2022	23.6	1.63%
At the end of 2023	29.1	1.59%
Late 2024	33.3	1.50%
Late 2025	37	1.50%

Data source: Loan balance and non-performing loan ratio are derived from the quarterly and annual disclosures of the State Financial Supervision and Administration Commission.

The loan balance has increased by more than 140% over six years, and the non-performing loan ratio has continued to decline, indicating that credit expansion has improved in tandem with asset quality. The rolled-up loan without principal repayment has spared enterprises from the pressure of concentrated principal repayment, maintained continuous operating cash flow, and reversed the rolled-up loan node from a liquidity risk "amplifier" to a "buffer".

3.3 Mechanism for stabilizing bank-enterprise relations and improving expectations

1. Advance and regularized approval of loan renewals

The advancement of loan renewal approval enables banks to shift from passive review after the fact to continuous monitoring during the process, to assess the operating conditions of enterprises in advance, and to eliminate the uncertainty and reluctance to lend in the traditional model of re-evaluation upon maturity.

2. Strengthen the willingness of banks to cooperate in the long term

Regular loan renewal arrangements convey stable policy expectations to enterprises. Banks accumulate credit judgments through continuous tracking. The relationship between banks and enterprises shifts from successive games to long-term cooperation, and credit allocation is substantially alleviated in the loan renewal process.

3.4 Interactive logic of the three-dimensional mechanism

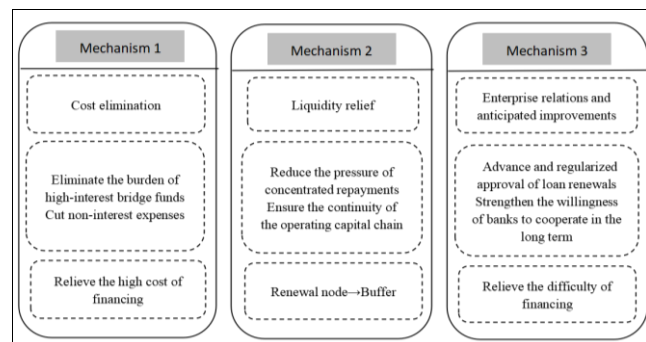


Fig 2: Three-dimensional mechanism of action for loan rollover without repayment

The three mechanisms are progressive: cost elimination is the prerequisite for liquidity relief, liquidity relief is the basis for expected improvement, and expected improvement in turn prompts banks to expand the coverage of loan renewals, forming a positive feedback loop. The three-dimensional mechanisms work together to make the no-repayment rolled-up loan go beyond the attribute of a single financing tool and become a systematic institutional arrangement for reshaping the credit ecosystem of small and micro enterprises.

4. The real obstacles to alleviating the financing predicament of small and micro enterprises through loan renewal without repayment

1. Asymmetry between bank risk appetite and incentives and constraints

Although regulatory authorities have explicitly demanded the improvement of the due diligence exemption mechanism, in practice, the boundaries of due diligence

exemption are still not clear enough, and it is often difficult to quantitatively assess whether credit personnel have fully performed their duties. Moreover, the internal assessment of banks is still centered on asset quality, and there is no effective connection between bad tolerance and performance assessment. Under the ambiguous criteria for determining responsibility, grassroots credit officers would rather adopt a conservative attitude to avoid risks and still lack the intrinsic motivation to "dare to lend and be willing to lend".

2. The persistence of information asymmetry and technical shortcomings

Small and micro enterprises generally have problems such as incomplete financial systems and non-standard information disclosure. Their key data such as business operations, tax payments, and performance records are scattered among multiple departments such as taxation, industry and commerce, and social security. Financial institutions have high data acquisition costs and unsmooth connection channels, making it difficult to accurately assess

the real business conditions and debt-paying ability of enterprises. Although some banks have developed risk warning platforms, the lack of multi-dimensional data integration capabilities still restricts risk pricing and precise allocation of loan renewals.

3. Structural blind spots in policy coverage

Even after the policy was extended to medium-sized enterprises, the actual scale of investment remained limited. In the case of Qingdao, banking institutions have cumulatively renewed loans for only 34 medium-sized enterprises, with a total amount of only 867 million yuan, and the overall market supply and demand matching is insufficient. Some banks have set differentiated additional conditions such as the duration of business cooperation and asset-liability ratio for the renewal of loans for medium-sized enterprises, artificially raising the entry threshold, making it difficult for truly cash-strapped enterprises to enter the policy coverage, creating a structural blind spot.

Table 3: Coverage after the expansion of the no-repayment renewal policy

Region/Tier	Time nodes	Policy expansion practice	Coverage effect
Nationwide	September 2025	The renewal policy will be temporarily extended to medium-sized enterprises until September 30, 2027	9.4 trillion yuan of loans will benefit
Nationwide	February 2025	Promotion Meeting of the Coordination Working Mechanism for Financing of Small and Micro Enterprises	The balance of loan renewals without principal repayment was nearly 7 trillion yuan
Jiangsu	End of 2025	Launch the "Renewal Product Convenience Pass" featuring 177 products and issue phased renewal notices for medium-sized enterprises	The balance of loans for micro, small and medium-sized enterprises without principal repayment was 1.11 trillion yuan
Henan	Since October 2025	A total of 290.3 billion yuan of unrepaid rolled-up loans have been issued	Compared with the same period last year, an additional 155.7 billion yuan was issued, solving the problem of loan renewal for 27,000 enterprises
Jiujiang	Late 2025	The balance of unrepaid rolled-up loans for micro, small and medium-sized enterprises was 29.635 billion yuan	The balance increased by 95.97 percent from the beginning of the year, and the number of accounts increased by 122.79 percent

Data sources: National data from the September 2025 State Council Information Office Press Conference and the February 2025 Promotion meeting of the Financial Regulatory Commission; Jiangsu data from the Jiangsu Financial Regulatory Bureau; Henan data from the Henan Provincial Government Press Conference; Jiujiang data from the Jiujiang Municipal Government Notification on the Special Action for Improving the quality and efficiency of Financing for Enterprises.

The above table shows the multi-level advancement pattern of the no-repayment rolled-up loan policy from the national level to local practice. At the national level, the loan coverage reached 9.4 trillion yuan, with significant efforts in various regions. However, the distribution of policy resources remains uneven among regions and among different types of enterprises. Medium-sized enterprises are included in the policy coverage, but in practice, some banks have set additional conditions to raise the entry threshold, making it difficult for enterprises with real financial

difficulties to enter the coverage, creating a structural blind spot of "having policies but hard to implement".

4. Lag in the coordination of supporting systems and regulation

When enterprises handle the business of mortgage renewal without principal repayment involving real estate mortgage, they still face problems such as multiple procedures, complicated formalities and slow time for mortgage cancellation registration and establishment registration, and there is a risk of a "gap period" between the new and old mortgage rights. In addition, the synergy between the renewal policy and the supporting mechanisms such as fiscal interest subsidies, risk compensation, and credit guarantees is still insufficient. Banks still bear the vast majority of credit risks, and the fiscal compensation mechanism often remains at the stage of providing a safety net after the fact, and the implementation speed lags behind the business demand.

Table 4: Practices of the reform of the Supporting system for Real estate mortgage registration

Region	Innovation model	Reform effects
Weinan	Three combined registration models: "mortgage cancellation + establishment", "mortgage establishment + cancellation in order", and "mortgage change"	The processing time has been reduced from 3 working days to 1 working day, with efficiency increased by more than 85%; It has financed 130 million yuan for 9 enterprises and saved 11 million yuan in bridge costs
Zhengzhou Airport Economic Zone	New model of "no principal repayment rollover" by directly converting land mortgage to mortgage on existing property	The first company to handle it (Jigang Smart Logistics) saved 169 million yuan in bridge funds at one time
Taicang	The mortgage registration service of "no repayment renewal" extends "transfer with mortgage" to the transfer of real estate between enterprises	A total of 370 cases were handled in 2025, involving an amount of 23.502 billion yuan

Data source: Weinan Data from Weinan Real Estate Registration Center and Weinan Daily reports; Data from Zhengzhou Airport Economic Zone is from Zhengzhou Airport Economic Zone Real Estate Transaction and Registration Center; Taicang data is from Taicang Municipal Bureau of Natural Resources and Planning.

The table above shows the active explorations in the reform of the supporting system for real estate mortgage registration in some areas. In places like Weinan and Zhengzhou Airport Economic Zone, by innovating registration models, the processing time has been effectively shortened and the risk of the "gap period" of mortgage rights has been eliminated, significantly reducing the bridge capital cost for enterprises. However, these practices are still local pilot projects, and the system connection between real estate mortgage registration and loan renewal business has not been standardized and fully covered nationwide, and there is still a significant gap between the promotion of supporting reforms and the progress of policy expansion.

5. The path to optimizing the no-repayment rollover policy for small and micro enterprises facing financing difficulties

1. Improve incentive-compatible regulatory system design
The criteria and operational procedures for recognizing due diligence exemption should be refined, and the results of such recognition should be substantially linked to performance assessment and job promotion to fundamentally eliminate the risk aversion concerns of grassroots credit personnel. At the same time, moderately increase the tolerance for non-performing loans in non-repayment rolled-in business and establish a differentiated assessment mechanism that matches policy goals to make "daring to lend and willing to lend" an operational institutional arrangement.
2. Strengthen fintech empowerment and information sharing
To address information asymmetry, it is necessary to integrate multi-dimensional data such as tax, social security, water and electricity, and cash flow, and shift credit decision-making from "looking at assets" to "looking at cash flow" and "looking at credit". The capital flow credit information sharing platform provides the technical basis for precise risk control. Banks should build big data risk control models and deeply apply credit information throughout the entire process from pre-loan review, renewal approval to post-loan monitoring.
3. Expand policy coverage and precise identification
Further efforts should be made to extend policies to a wider range of market entities. While expanding coverage, the precision of demand identification and supply matching should be enhanced to avoid structural blind spots where policies are available but difficult to implement. Banks should proactively investigate the maturity of loans, communicate with enterprises in advance about loan

renewals, provide differentiated loan renewal plans for different types of enterprises, and effectively lower the entry threshold.

4. Build a post-loan risk prevention and control system
A balance should be struck between the facilitation of loan renewal and the controllability of risks, and a post-loan risk prevention and control system involving multiple parties such as the government, banks and enterprises should be established. On the one hand, accelerate the reform of supporting systems such as real estate mortgage registration, shorten processing time and eliminate the risk of the "gap period" of mortgage rights; On the other hand, a risk monitoring and early warning mechanism for loan renewal business should be established to prevent the disguise of non-performing loans through loan renewal without repayment, and to achieve a long-term balance between policy dividends and financial security.

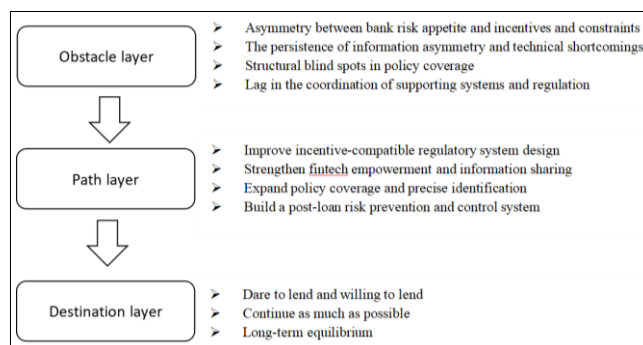


Fig 3: Framework for Optimizing the policy of no-repayment rollover

6. Conclusions

This paper focuses on the mitigation effect of non-repayment rolled-up loans on the financing predicament of small and micro enterprises, and the following conclusions are drawn: First, the root cause of the financing predicament of small and micro enterprises lies in credit rationing caused by information asymmetry, and the "repayment first, loan later" system in the rolled-up loan process pushes the predicament to the extreme and constitutes an amplifier of the financing problem. Second, no repayment rollover works in synergy through three paths: eliminating bridge costs, mitigating liquidity risks, and reshaping bank-enterprise relationships to form a positive feedback loop of "cost elimination - liquidity mitigation - expectation

improvement", effectively alleviating the dual predicaments of difficult and expensive financing. Third, there are still practical obstacles in policy practice, such as asymmetry in bank incentives and constraints, technical shortcomings in information sharing, blind spots in policy coverage and lagging supporting systems. This paper suggests deepening institutional optimization in four aspects: improving incentive-compatible regulation, strengthening fintech empowerment, expanding precise coverage, and building a coordinated risk control system, to upgrade the loan renewal without repayment from a policy tool to a systematic institutional arrangement for reshaping the credit ecosystem of small and micro enterprises.

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