Proceedings of ICEMGD 2024 Workshop: Decoupling Corporate Finance Implications of Firm Climate Action
DOI: 10.54254/2754-1169/110/2024ED0149

Problems and Strategies of Financial Services Supporting the Real Economy

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Abstract: With the rapid development of China's economy, the status and role of the financial industry in the national economy have become increasingly prominent. The healthy development of the financial industry is of great significance for promoting the development of the real economy, adjusting the economic structure, and upgrading the economy. However, there are still some problems with financial services supporting the real economy in China, such as the misallocation of financial resources, high financing costs, and rising financial risks. These issues limit the support financial services can provide to the real economy. This paper analyzes the main problems currently existing in financial services supporting the real economy and proposes countermeasures from optimizing the allocation of financial resources, reducing financing costs for the real economy, preventing and resolving financial risks, and deepening the structural reform of the financial supply side. The aim is to provide references for relevant personnel.

Keywords: Financial services, Real economy, Financing difficulties, Financial risks, Supply-side reform.

1. Introduction

The real economy is the foundation of the national economy, the source of wealth creation, and an important reflection of a country's comprehensive strength. Financial services are a critical driver of the development of the real economy. The actual state of financial services supporting the development of the real economy not only affects the healthy development of the financial industry itself but also concerns the stable operation of the national economy. Since the reform and opening up, China's financial industry has made significant progress, continuously improving its capacity to serve the real economy and strongly supporting the sustained and rapid growth of the national economy. Particularly since the 2008 international financial crisis, facing a complex and severe domestic and international situation, China's financial industry has actively responded and taken initiatives, maintaining overall stability in the financial market and the stable operation of the financial system, providing strong support for the sustained healthy development of China's economy.

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2. Main Problems in Financial Services Supporting the Real Economy

2.1. Misallocation of Financial Resources and Low Efficiency in Serving the Real Economy

For a long time, the efficiency of financial resource allocation in China has been low, with a large amount of financial resources allocated to sectors with overcapacity, while strategic emerging industries and modern service industries suffer from insufficient financial supply. Bank credit is mainly directed towards state-owned enterprises, making it difficult for private enterprises to obtain loans. In direct financing, some "zombie enterprises" receive financing support through various channels, while high-quality small and medium-sized enterprises (SMEs) and innovative companies find it challenging to issue stocks and bonds. Some financial institutions, driven by blind pursuit of profits, invest large amounts of funds in real estate and local government financing platforms, fueling economic bubbles [1]. Overall, the mismatch between financial resource allocation and economic structure and the inadequacy of financial supply to meet the demands of the real economy remain prominent issues.

2.2. High Financing Costs for the Real Economy and Heavy Corporate Burdens

Currently, the overall financing cost for the real economy in China is relatively high, increasing the production and operating costs for enterprises. On one hand, the transmission of monetary policy is not smooth, and the effects of the central bank's interest rate cuts and reserve requirement ratio reductions have not been fully transmitted to the real economy. On the other hand, financial institutions are reluctant to lend, and their risk pricing capabilities are insufficient, limiting the extent of loan interest rate reductions. Usurious interest rates in private lending increase corporate financing costs. Some local governments, in pursuit of political achievements, pressure banks to lend, pushing up financing costs. Multi-level nesting and multiple financing channels keep corporate financing costs high. High financing costs not only increase the operating burden on real enterprises but also weaken their market competitiveness.

2.3. Accumulation of Financial Risks and Severe Risk Prevention and Control Situation

In recent years, China's macro leverage ratio has continued to rise, with high corporate leverage ratios. Risks associated with local government hidden debts and state-owned enterprise debts cannot be ignored. The real estate market bubble is evident, and the leverage ratio of the household sector is rapidly increasing. Against this backdrop, the balance of non-performing loans and the non-performing loan ratio of Chinese banks have continued to rise, increasing pressure on asset quality. Illegal fundraising and internet financial risks occur frequently, with clear cross-market and cross-industry risk transmission. Risks in interbank business, shadow banking, and local financial organizations are accumulating [2]. These risks not only affect the stable operation of the financial system but also increase the difficulty of financial services supporting the real economy.

2.4. Lagging Financial Innovation and Inadequate Financial Supply to Meet the Diverse Needs of the Real Economy

Currently, the breadth and depth of financial innovation in China are insufficient, and the development of direct financing is lagging, making it difficult to meet the financing needs of many emerging industries. Some traditional industries face financing bottlenecks in their transformation and upgrading and technological renovation. Financial products and services are monotonous, unable to meet the differentiated and personalized financing needs of the real economy. The financial market system is imperfect, making it difficult to provide rich and efficient financial services for the

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development of the real economy. Inclusive financial services for small and micro enterprises, agriculture, rural areas, and entrepreneurial innovation are insufficient. Overall, the structural contradictions in financial supply are prominent, and transitioning from ineffective supply to effective supply remains a long way to go.

3. Countermeasures to Promote Better Financial Services for the Real Economy

3.1. Optimize Financial Resource Allocation and Guide Funds to the Real Economy

To optimize financial resource allocation, we must first accelerate the development of a multi-level capital market and broaden financing channels for the real economy. We should vigorously develop the stock market and support qualified real enterprises in going public for financing. It is also necessary to standardize the development of the bond market and encourage real enterprises to issue corporate bonds and medium-term notes for financing. Additionally, we should actively develop and standardize private equity and venture capital funds to provide equity financing support for innovative enterprises. Secondly, we need to innovate financial products that match the characteristics of the real economy and increase the proportion of direct financing. For key areas such as strategic emerging industries and high-end manufacturing, we should vigorously develop specialized financial products and services such as green finance and supply chain finance. For private enterprises, we can establish bond financing support tools to help them raise funds by issuing bonds. For example, in 2020, banking financial institutions worked hard to overcome the impact of the pandemic and increased their support for the real economy. They provided funding sources by issuing special financial bonds for small and micro enterprises and private enterprises, and developed online products such as "Xinyi Loan" and "Bank-Tax Interaction" to lower financing thresholds. From January to November, RMB loans increased by 18.69 trillion yuan, a year-on-year increase of 2.64 trillion yuan, effectively supporting the development of the real economy.

3.2. Take Multiple Measures to Reduce Financing Costs and Alleviate Corporate Burdens

Reducing financing costs for the real economy requires a multi-pronged approach and comprehensive measures. First, we need to smooth the transmission mechanism of monetary policy and push financial institutions to lower loan interest rates. The central bank can guide financial institutions' funding costs downward through tools such as lowering reserve requirement ratios, interest rate cuts, and re-lending, creating conditions for reducing loan interest rates. At the same time, financial institutions should be urged to control interest rate spreads and improve the quality of loan market quotation rates (LPR) quotations, using market-based methods to push corporate loan interest rates down. Secondly, we need to reform and improve the LPR formation mechanism. Further expanding the application range of LPR, linking more loan interest rates with LPR pricing, and gradually making LPR the main reference benchmark for bank loan interest rates. Linking LPR with market interest rate changes and guiding actual loan interest rates to adjust with market interest rate changes. On February 20, 2024, the People's Bank of China authorized the National Interbank Funding Center to announce that the one-year LPR was 3.45%, unchanged; the five-year LPR was 3.95%, down 25 basis points from the previous value. This significant reduction in the long-term LPR and the narrowing of the spread between the one-year and five-year LPR to 0.5 percentage points help improve the coordination of interest rate policies and enhance the efficiency of financial resource allocation.

3.3. Strengthening Financial Supervision to Ensure No Systemic Risks Occur

To prevent and resolve financial risks, it is necessary to adhere to bottom-line thinking and strengthen financial supervision [3]. First, enhance macro-prudential management and strengthen the ability to

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prevent and control systemic financial risks. Focus on systemically important financial institutions, financial holding companies, and financial infrastructure, strengthening prudential supervision, holding shareholders and management accountable, improving corporate governance, and enhancing risk resistance. Build a macro-prudential policy framework covering various financial institutions and conduct counter-cyclical adjustments to systemic risks. Secondly, strengthen the supervision of shadow banking and cross-financial products. Clarify the risk base of shadow banking and establish long-term mechanisms for functional and behavioral regulation. Strictly regulate cross-financial products, eliminate multi-layer nesting and regulatory gaps, and prevent cross-market and cross-industry risk contagion. Implement thorough supervision and strengthen the management of qualified investors in financial products. In 2017, Chinese financial regulatory authorities introduced a series of regulatory measures to crack down on illegal financial activities. The China Banking and Insurance Regulatory Commission (CBIRC) issued a series of regulatory documents, including the "Three-Year Action Plan," to rectify market chaos in the banking industry. The China Securities Regulatory Commission (CSRC) continuously cracked down on illegal activities, with fines and forfeitures reaching record highs. The CBIRC strengthened the supervision of insurance fund utilization, curbing the tendency of funds to flow away from the real economy. Under the strict regulatory environment, the financial market order has significantly improved.

3.4. Deepening Supply-Side Structural Reform to Match Financial Supply with the Needs of the Real Economy

To meet the needs of the real economy's transformation and upgrading, it is essential to deepen supply-side structural reforms in finance and improve the quality and efficiency of financial services. First, encourage financial institutions to increase innovation efforts and optimize the structure of financial supply. Guide banks, securities, and insurance companies to focus on their core businesses, strengthen innovation in financial products and service models, and develop financial products that meet the needs of the real economy, providing efficient and convenient financial services for production, consumption, and investment. Second, vigorously promote direct financing and broaden financing channels for the real economy. Comprehensively deepen capital market reforms, optimize basic market systems, and actively cultivate various institutional investors. Accelerate the development of multi-level equity markets, deepen the reform of the New Third Board, and regulate regional equity markets. Vigorously develop the bond market, diversify bond types, optimize issuance management, and encourage real businesses to raise funds through bond financing. Third, innovate inclusive financial service methods and increase support for the weak links in the real economy. Use big data, cloud computing, and other technologies to improve the accessibility and convenience of financing for small and micro enterprises. Improve the construction of the social credit system and establish a credit database for small and micro enterprises. Vigorously develop supply chain finance, activate accounts receivable, and alleviate the financing difficulties of small and micro enterprises. Innovate financing models combining equity and debt for advanced manufacturing industries [4]. For example, on June 24, 2024, Chongqing Bank Co., Ltd. planned to issue the first tranche of special financial bonds for small and micro enterprise loans in the national interbank bond market, with a bond term of three years and an issuance scale of 4 billion yuan [5]. After deducting issuance costs, all funds will be used to issue loans to small and micro enterprises, providing financial services to small and micro enterprises. The funds raised from this bond issuance will prioritize loan projects for technology innovation enterprises, increasing support for technological innovation [6].

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4. Conclusion

Finance is regarded as the lifeblood of the real economy, and only with financial stability can the real economy remain stable. Faced with the complex domestic and international economic and financial situations, it is crucial to pay close attention to the prominent issues in financial services for the real economy. To address these issues, various measures must be taken in a comprehensive manner. While preventing and resolving financial risks, it is necessary to continuously deepen supply-side structural reforms in finance. Optimizing the financing structure and credit structure is a current priority. Through these measures, the efficiency of financial resource allocation can be improved, better addressing the difficulties and high costs of financing for the real economy. For instance, innovating financial products and services to support small and medium-sized enterprises, and guiding policies to reduce corporate.

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