

The Current Situation and Problems of Commercial Banks Serving the Real Economy

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Abstract: Under the background of the 19th National Congress of 2017 and the Central Economic Conference and supply-side structural reform, China is also facing the impact of market factors such as the global economic pressure and the slowdown of domestic economic growth. Therefore, the real economy as the pillar of the national economy must bear the role of “stabilizer”, while the financial industry dominated by commercial banks should also return to the original work of serving the real economy, thereby helping the national economy to make progress while maintaining stability and healthy sustainable development. On the theoretical level, this paper will explore the current situation of commercial banks serving the real economy in the past three years, and on the basis of the overall good situation of the national economy analyze the data of a series of problems such as single financing structure, high financing cost, and commercial bank's own barriers in the development of the real economy. Finally, the corresponding measures will be proposed based on the problem.

1. Introduction

In the 19th National Congress of the Communist Party of 2017, Comrade Xi Jinping clearly stated that the financial industry must focus on the development of the real economy, deepen the reform of the “financial system, enhance the financial services, and increase the proportion of direct financing. [1]”, that is, the requirement for commercial banks to actively return to the service of the real economy. However, in the implementation of the policy of the real economy, especially small and low-profits businesses have long-term problems such as small proportion of credit, high LPR, long lending time, and short time limit for credit use, and it is difficult to effectively cure. Therefore, this paper will analyze the internal mechanism of commercial banking servicing entity economy, define the remaining problems and provide solutions to provide some help for the solution of related problems.

2. Concept Definition - Real Economy and Virtual Economy

The real economy refers to the total value of goods, which is composed of the production and management of material and spiritual products and services. Its essence is an economic activity. It includes not only industrial production, circulation and other economic activities of production and services such as industry, transportation and communication, but also economic activities such as spiritual education, culture, knowledge, information etc..

Corresponding to this is the virtual economy, which is based on the capitalization of credit and the capitalization of money, and carries out a series of economic activities in which virtual capital is held or traded. It can also be understood as an economic activity of “money making money” [2]. Its specific manifestations include, for example, economic activities carried out after the virtualization

of various capitals such as securities, futures, and options. In fact, the bubble economy mentioned at present is also a virtual economy. It is a special manifestation of the virtual economy. It is the rapid expansion of long-term asset prices such as stocks and real estate caused by the excessive expansion of the virtual economy.

Among them, the real economy has always been the foundation of social survival and development.

3. Overview of the Current Status of the Overall Economic Operation of Society

3.1 The Total Amount of Social Financing Has Increased

(Unit: billions of yuan)

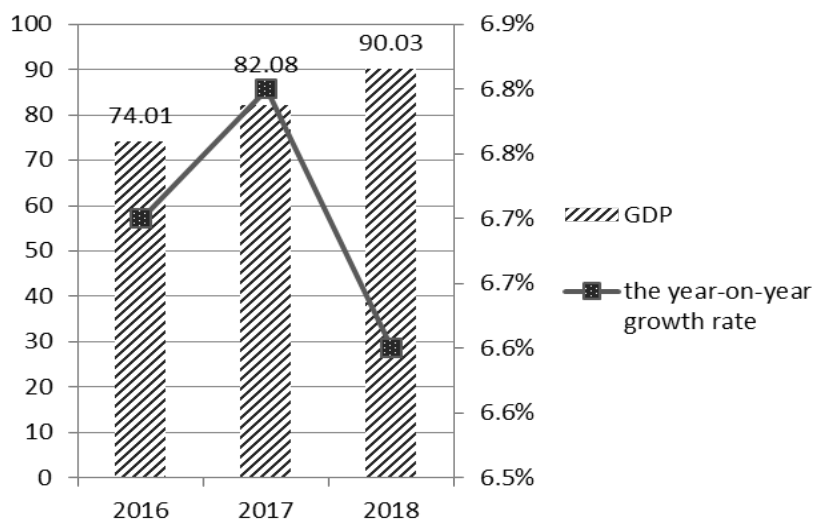


Figure 1 2016-2018 China Social Financing Scale Stock Map

Data from The People's Bank of China

(Unit: billions of yuan)

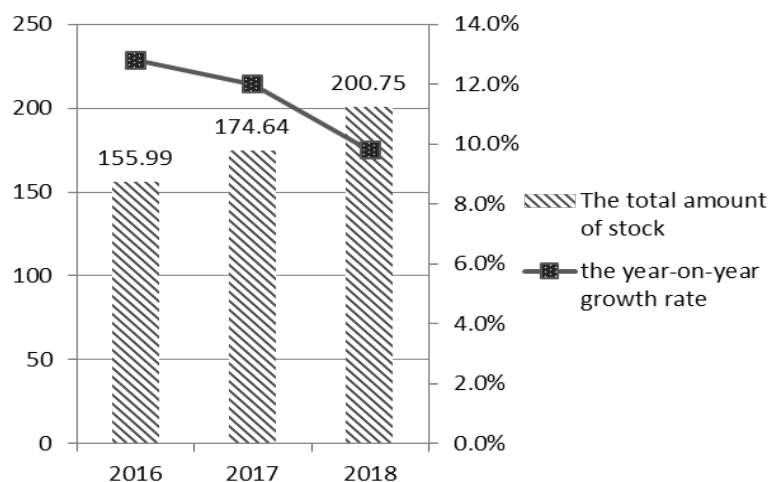


Figure 2 China's Gdp and Year-on-Year Growth Rate for 2016-2018

Data from The People's Bank of China

As can be seen from Figure 1, in the past three years, the scale of social financing in China has grown steadily, from 155.99 trillion yuan in 2016 to 200.75 trillion yuan in 2018. And as can be seen from Figure 2, China's GDP increased from 74.01 trillion yuan in 2016 to 90.03 trillion yuan in 2018. Whether it is from the annual growth rate of financing or the growth of the scale of social financing, it is higher than GDP growth. This shows that the overall financial market environment

in China is generally stable and positive. In the past three years, the balance of RMB loans issued to the real economy was 105.19 trillion yuan, 111.93 trillion yuan, and 134.69 trillion yuan, up 13.4%, 13.2%, and 13.2%, respectively, which means a stable economic environment to provide a good source of funds and development momentum for the development of the real economy.

3.2 Commercial Bank-Based Financing to Help the Real Economy

According to the statistics of the People's Bank of China, it can be seen from Figure 3 that the percentage of RMB loans issued to the real economy from 2016 to 2018 accounted for 67.4%, 68.2%, and 67.1% of the total social financing scale in the same period. Renminbi loans accounted for the largest proportion of social financing in all stocks, and the proportion of the total amount of RMB loans in the real economy was close to 70% in the past three years. Moreover, on the basis of a stable ratio of the real economy, the year-on-year growth rate of the total amount has also increased significantly. Therefore, it can be explained that the financial industry, which is dominated by commercial banks, has played an active role in helping the development of the real economy.

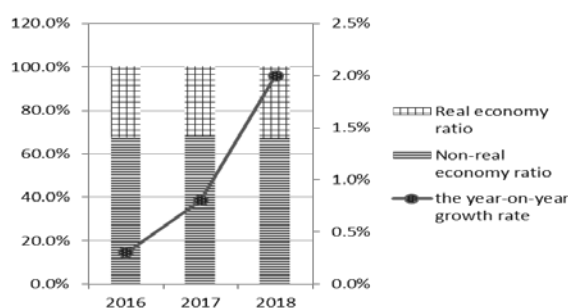


Figure 3 The Proportion of Rmb Loan Balance in the Amount of Social Financing Scale in 2016-2018

Data from The People's Bank of China

In the direct financing method, the size of corporate bond stocks increased from 5.77 trillion yuan in 2016 to 7.01 trillion yuan in 2018, and increased by 41.33% in three years, with an average annual growth rate of 13.78%. In 2016, 17.92 trillion yuan increased to 20.13 trillion yuan in 2018, an increase of 73.67% in three years, with an average annual growth rate of 24.56%. It can be seen that direct financing has developed rapidly in the past five years, and its growth rate is not only higher than the growth rate of RMB loans, but also higher than the overall growth rate of social financing scale stocks. This reflects the increasing recognition of direct financing by the society, and the role of direct financing in supporting the development of the real economy is growing.

4. The Problems of Commercial Banks Serving the Real Economy in the Current Economic Background

4.1 Conflict between a Single Financing Structure and Diversified Needs of the Real Economy

The financing methods of the real economy mainly include direct financing and indirect financing. These two financing methods constitute the most basic social financing structure [3]. Among them, the financing method of issuing stocks, bond financing and bills is called direct financing; correspondingly, the loans of banking financial institutions with commercial banks as the main body are indirect financing. In the real economy, especially small and low-profits businesses, due to their small scale and high risk, their financing is still based on the credit of commercial banks. As shown in Figure 4 and Figure 5. Undoubtedly, the overall direct financing ratio of the real economy is around 15%, which is far lower than the average proportion of 50% in developed countries. If the scope is reduced to small and low-profits businesses, the proportion will undoubtedly be lower.

As an important financing method of the modern economic system, direct financing can effectively convert social savings funds into long-term investments, promote the formation of

corporate capital, and promote the sustainable development of enterprises. Direct financing has become a corporate financing method that countries all over the world are eager to develop vigorously [4]. Under the background of supply-side structural reform, China's real economy will inevitably diversify its financing needs. However, the current single financing structure that is highly dependent on commercial banks will hinder the development of the real economy.

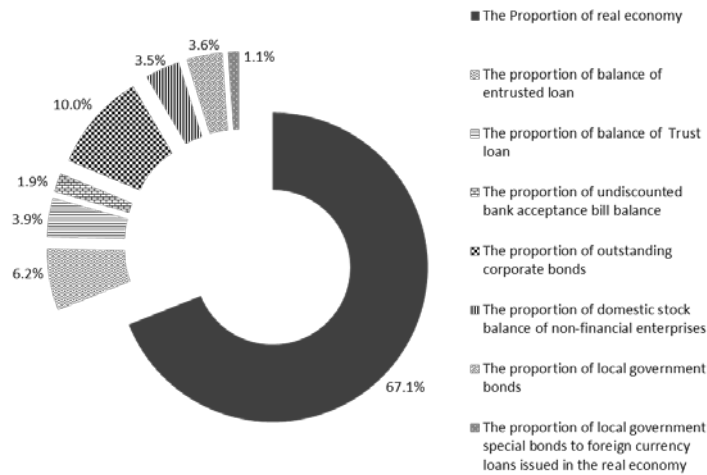


Figure 4 2016 Annual Income of Different Types of Social Financing Stocks

Data from The People's Bank of China

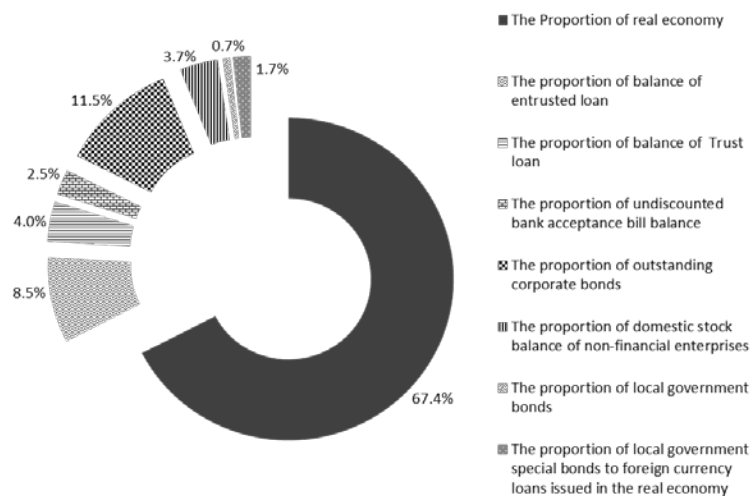


Figure 5 The Proportion of Different Types of Social Financing Stocks in 2018

Data from The People's Bank of China

4.2 Entity Small and Low-Profits Business Financing Costs Slowing Down

The current commercial bank-to-business lending benchmark interest rate was issued by the People's Bank of China in October 2015, with 4.35% in one year, 4.75% in one to three years, 4.75% in three to five years, and 4.9% more than five years. As shown in Figure 6, the benchmark interest rates for different term loans of major commercial banks in China, including the local commercial banks represented by Harbin Bank and Hang Seng Bank, have a rise in the benchmark interest rate.

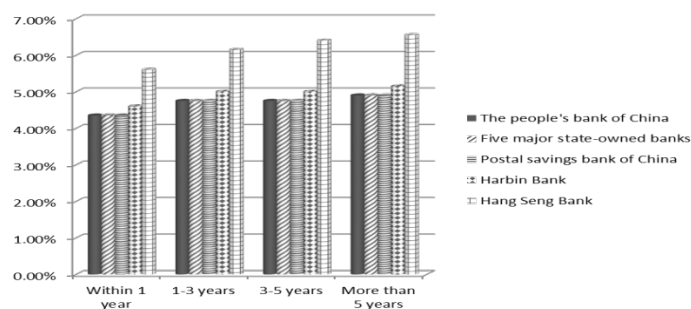


Figure 6 Central Bank and Representative Commercial Banks' Benchmark Interest Rate Chart for Corporate Loans

Data from China Bank Insurance Supervision and Administration Commission

The actual loan cost of the entity is high, and it is subject to subjective factors in addition to the objective market and policy influencing factors. On the one hand, from the perspective of commercial banks, the purpose of lending loans is to obtain benefits, and avoiding lending risks is an important consideration for achieving profit. Therefore, in actual loans, due to the uncontrollable factors such as low credit value of SMEs, small scale lending, and bankruptcy, commercial banks are lending to large enterprises and state-owned enterprises at the time of loans, and their proportion can even reach above 80%. Even if lending to SMEs, commercial banks will reduce their lending risks by raising lending rates, increasing guarantees and pledges. The costs incurred by these have increased the actual loan costs incurred by small and low-profits businesses [5]. On the other hand, from the perspective of SMEs, it is difficult to borrow from commercial banks due to factors such as their own credit, scale, and risks. These enterprises have to borrow from small loan companies and social non-government organizations for their own development, and this loan interest rate can be as high as 24% and 36% respectively.

4.3 Difficult to Break Commercial Bank Monopoly Barrier

The monopoly of commercial banks is not defined by administrative monopoly, or judged by the nature of natural monopoly. As a product of the market economy, commercial banks have obvious market characteristics, so they are naturally highly competitive. When the commercial banks in China emerged due to the lack of competition due to institutional mechanisms, they also created market monopolies rather than natural monopolies caused by administrative monopolies [6]. At present, the loan balance of commercial banks to state-owned enterprises has accounted for about 50% of the total loan amount of commercial banks, which does not match the current situation that output accounts for less than 30% of total social output. However, at present, the leverage ratio of non-financial enterprises in China is 156%, and the liabilities of Chinese-owned enterprises account for 70% of the total liabilities of non-financial enterprises. This undoubtedly aggravated the financing costs of the real economy and the difficulty of financing, which hindered the development of the real economy.

5. Policy Recommendations for Further Improving the Economic Efficiency of Commercial Banking Services

5.1 Accelerating the Reform of Financing Structure and Increasing the Proportion of Direct Financing

First, we accelerate the diversification of investment entities, transform the financing platform under the premise of compliance, and introduce market financing channels to introduce social financing channels and optimize financing solutions.

Secondly, the government took the lead in advancing the establishment of multi-type and multi-type funds, implementing counterpart financing for industrial division funds, and forming government endorsements to reduce risks and reduce financing barriers for the real economy.

Thirdly, the securities business will be promoted into the real economy financing link to form asset securitization; the use of low-cost securities, economies of scale and multi-purpose and high efficiency will drive the securitization of traditional businesses such as liabilities, custody and settlement. In turn, the non-traditional credit business will increase the proportion of direct financing of the real economy and promote the development of the real economy.

5.2 Strengthening Risk Prevention and Control, Effectively Reducing the Financing Costs of Small and Low-Profits Businesses

Actively implement the supply-side structural reforms, and take the “five priority tasks” as the guide, and focus on controlling the financing scale of overcapacity enterprises. At the same time, truthfully count and identify enterprises that occupy credit loss production losses, and retreat according to regulations. . Ensure that the credit is reasonably and efficiently supplied to the entity that is in compliance with risk management. At the same time, strengthen the information review and credit review of enterprises, thereby reducing the risk of non-performing loans, forming a benign development environment for the credit environment of the entire entity, and promoting the reduction of the risk cost caused by poor credit, especially for small and micro enterprises, and increasing the loan lending rate.

5.3 Accelerating Anti-Monopoly and Helping to “Strengthen Real Economy and Suppress Virtual Economy”

First of all, it must be clear that anti-monopoly is an inevitable requirement of the reform of the socialist market economic system. Under the premise that public ownership is the mainstay and the state-owned economy controls the economic lifeline and plays a leading role, the existing commercial banking industry with state-owned commercial banks as the main body must have regulatory problems caused by institutional mechanisms. Therefore, it is necessary to speed up the construction of the supervision system of “One bank and three commissions”, strengthen the adjustment and improvement of relevant laws and regulations on the main body of commercial banks in the Anti-Monopoly Law, implement and implement them in a timely manner, and strengthen their restraint from the institutional level. We integrate the anti-monopoly agencies of the functional departments such as the China Insurance Regulatory Commission, the National Development and Reform Commission, and the Ministry of Industry and Commerce to form an anti-monopoly and inter-departmental joint supervision team for the commercial banking industry, establish and improve the supervision team, and promote commercial banks to better serve the real economy.

6. Conclusion

This article is a theoretical exploration of the status and problems of Chinese commercial banking service entity economy in the past three years from four aspects, three perspectives and two subjects. From the perspective of the research process, the two main institutions that promote economic growth, the banking industry and the real economy, are interdependent with, however, complex contradictions between them among which the structural problems of the real economy financing and the institutional barriers of commercial banks are particularly prominent. Therefore, in the research, this paper puts forward some other solutions for the outstanding problems based on the existing definitions of related issues and the current policy background, for example, the establishment of entity counterpart funds, speeding up the improvement of the securities market; other proposals to solve the problem of financing structure; strengthen the joint enforcement of various government departments, reform relevant provisions and other recommendations to promote the solution of commercial banks’ institutional problems. However, with the continuous deepening of economic reforms such as supply-side structural reforms in China, new problems will certainly arise during the mitigation or complete resolution of the above problems. Therefore, the recommendations given in this article are phased and limited. To this end, the author will continue to pay attention to the latest developments in related researches.

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(2) Research planning project on Innovation and Entrepreneurship training Program for College students in Heilongjiang Province in 2019 (201910245010).

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