

Study on the Mechanism of Systemic Financial Risk Caused by the Kinetic Energy Conversion of Economic Growth

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Abstract: Economic growth must be supported by specific kinetic energy objectively. After entering the new period, the growth kinetic energy that the economic growth relies on is gradually converted, which will have great potential to trigger prominent financial risks. In some cases, the capital market fluctuations will also bury the deep economic loss threat to enterprises. Therefore, in order to properly deal with all kinds of financial risks caused by the conversion of kinetic energy, it is necessary to build a risk resolution mechanism corresponding to it, so as to ensure that various systematic risks can be mitigated in time.

1. Introduction

It must be fully dependent on the appropriate economic policies if macro economic growth needs to be sustained over the long term,. However, facing the new transition trend of marketization, the current economy is gradually presenting the new demand environment and supply environment^[1]. Therefore, if we just rely on traditional kinetic energy of economic growth, we will eventually be exposed to some significant structural contradictions, which will gather stronger financial risks. Under this premise, we should try to find the way to resolve them and use the way to solve and eliminate risks to push the current economy forward steadily, aimed to systemic financial risks,.

2. Kinetic energy conversion in economic growth

In terms of economic growth, kinetic energy conversion means that the new growth kinetic energy replaces the original growth kinetic energy and continues to serve the existing economic growth. Therefore, the key point of kinetic energy conversion is the driving force of economic growth. In many cases, once kinetic energy of economic growth presents itself as a state of change, other market factors related to it will also change accordingly. It can be seen that the kinetic energy of economic growth constitutes the core and premise of the current market economy. Therefore, more attention should be paid to kinetic energy conversion.

Under the current situation, kinetic energy of economic growth should mainly include demographic dividend, market demand and consumption factors. On the surface, economic growth does not depend on consumption, and take it as the driving force. In essence, however, it is still necessary to rely on the improvement of consumption level to drive the current economic growth. After entering the period of all-round reform, many supply-side investments cannot objectively provide necessary support for residents' consumption, which gradually expands the existing investment space. For example, according to the demand of home appliances, most rural families and urban families need to change home appliances objectively, which drives the industry growth.

3. The current systemic financial risks

In recent years, the domestic economy as a whole has presented a good state of continuous growth. However, it should not be ignored that economic growth presents the state of falling investment and structural distortions at this stage.

Specifically, as a pillar industry, the real estate industry is increasingly showing the trend of bubbling, thus supporting the multi-level infrastructure investment. From the perspective of economic leverage, the current economic leverage is mainly reflected in commercial bank credit and land finance as the necessary guarantee. However, from the status quo, shadow banking gradually has an increasing trend, and main bodies of the market in this kind even constitute the most crucial force necessary for steady growth. Shadow banking realizes the escape from financial regulation by related approaches and means, and gradually creates a higher leverage ratio. It can be seen that all of the above situations may lead to serious financial risk agglomeration.

As explored its roots, the existing economic system has caused a variety of risk accumulation problems. That is to say, the economic system itself constitutes a deep root of financial risks. This main reason is that the soft budget constraint gradually extends to the local financing platforms and some state-owned enterprises, which leads to the development of frothy real estate^[4]. In addition, the investment sector has lost its due price sensitivity as a result of the impact of rigid payment and implicit guarantees, which show up as chaotic market price signals. In this state, if the authorities only push forward the interest rate liberalization, it will be difficult for them to cope with the existing financial resource allocation, and it may also hinder the development of healthy financing methods.

In addition, the current market is also the lagging equity financing mechanism, which contains a variety of short-term manipulation. However, equity financing doesn't rely more on long-term investment at the same time. Therefore, the above situation is likely to create some obstacles for the current economic transformation service. Faced to the high industry rate of return, the current virtual economy shows the overall trend of rapid development, so that it realizes and develops the bubble economy automatically. For the virtual economy, such economic model has accumulated more precious market financial resources, but the proper development resources cannot be obtained by other fields.

In some cases, the virtual economy can reap additional speculative profits. Because some of the investments that the real economy was supposed to be making have been diverted, allowing the virtual economy to capture those investments. As a result of the above investment transfer, many real economies are now facing difficult financing conditions. Thus, it can be seen that financial risks in the market have shown the degree of urgent need to be solved up to now. If the authorities do not pay attention to financial risks, such risks may lead to a systemic market financial crisis, and various industries will suffer significant losses.

4. The mechanism for resolving systemic financial risks

Under the current situation, relevant departments are focusing on gradually promoting the supply-side reform and comprehensively boosting the existing supply-side reform in accordance with the structural approaches and methods. In the detailed practice, the key measures should include getting rid of excess inventory and remaining capacity completely, and focus on the adjustment of the existing overall industrial structure. Authorities need to rely on financial leverage to prevent and control potential financial risks. That is to say, it is necessary to closely combine structural adjustment and stable growth for the entire financial system at this stage, and to seek the best balance between asset appreciation and asset preservation. Therefore, for the time being, the existing systemic financial risks should be addressed with the following measures:

4.1 Transfer labour force in modern agriculture orderly

In recent years, the original rural population in various regions is transferring which has boosted the current peasant citizenization and agricultural modernization. In order to cope with the current situation, the current supply level of medical products, education products and pension products should be improved, so as to gradually create equal public products in urban and rural areas and comprehensively guarantee the overall social mobility. Faced with the current situation of population transfer, the value of market mechanism itself should be highlighted, and a comprehensive introduction of market should be made for management elements, capital elements, science and

technology elements and knowledge elements, so as to promote the current agricultural growth ^[5].

For example, it seems that many supermarkets have introduced new high-end organic agricultural products, and those agricultural products are also reflected in relatively high prices. It can be seen that organic agricultural products and green produces will be able to have better development potentials compared to the traditional modes. At the same time, the rural population is gradually realizing the overall transformation of citizenization and urbanization at the present stage, and the above situation is accompanied by broader growth space of GDP, and has gradually improved the current labor productivity and the living standard of farmers.

As to the above transformation status, the key is to focus on reconstructing existing agricultural production organizations and reorganizing land property rights, as well as closely connecting social public health care, land property rights reorganization and pension security transformation. By means of applying the above transformation measures, a new inclusive economic model should be created, so that farmers can have more land dividends truly.

4.2 Create a new type of service industry

Entering the new era, the current services industry is gradually committed to deleveraging in various regions. At the same time, the overall economic growth at this stage still needs the wholly new kinetic energy as the necessary support. Under the current trends, the traditional growth kinetic energy like real estate industry, heavy industry and infrastructure is in the state of gradual decrease as a whole, and the new economic modes of new type of business and new industry have been emerged at the same time. Last year, for example, the fastest-growing innovation sectors are included optoelectronic devices, industrial robots and photovoltaic cells. Therefore, a new service industry mode driven by consumption is shifted. As for the current service industry, the current economic growth is objectively dependent on the new service industry as the driving force, while it is necessary for the traditional industry to maintain good industrial production efficiency.

However, it should not be neglected that the service industry has been a short board industry for a long time, especially the public medical service, education service and pension service, and a variety of production services. This is mainly because some public institutions and state-owned enterprises occupy a high proportion of the service industry, then the service industry has not yet reached a high level of internal and external openness. In the meantime, if private enterprises want to enter the above service industries smoothly, it will be relatively difficult. Lacking of the required competitiveness and openness, the service industry is limited to the industry of less efficient and narrower scale. In order to achieve the overall industrial transformation, it is urgent to break through monopoly at this stage, so as to comprehensively expand the service sector and release a wider industrial space.

4.3 Implement measures to deleverage fully

If we want to eliminate the underlying financial risks, we need to not only rely on the real economy with higher growth rate, but also use corresponding measures to deal with deleveraging. Specifically, the leverage ratio can be defined as the existing ratio of liabilities in the whole GDP, which namely is the existing ratio of liabilities in the total assets. Under this premise, the most basic asset value should be fully maintained to ensure that the corresponding financial measures can be used to achieve the goal of deleveraging. For example, in the face of increasingly prominent asset bubbles, it is necessary to maintain a prudent attitude towards the real estate sector, and the speed of crowding out asset bubbles should not be too slow or too fast, so as to avoid bad phenomena such as bad debts rising or financial shrinkage.

In addition, authorities need to pay close attention to the overall debt control. In the detailed practice, it is necessary to focus on reducing the current level of assets and liabilities gradually, and the speed of reducing liabilities should be controlled within a certain limit and not exceed the maximum speed that can be borne. From the point of view of deleveraging, there are usually two different ways to choose between macro and micro. In the above two types of methods, enterprises themselves can use direct micro means to achieve deleveraging goals, such as bankruptcy write-off, corporate debt reconstruction, asset securitization and debt-to-equity conversion. Also, banks should

focus on proper disposal of all kinds of current non-performing assets.

The macro approach is more relevant to the current overall economic structure than the micro deleveraging approach, and therefore the macro policies must be relied on. In the current situation, for example, authorities can resort to quantitative easing or mild inflation to maintain asset prices in order to boost GDP growth and ensure reasonable asset returns. Meanwhile, enterprises should focus on improving the existing debt situation, which involves flexible adjustment of debt structure, adjustment of asset space and short-term avoidance of large-scale default. On this basis, enterprises will avoid the deep-level systemic financial risks, which guarantees the excellent return ratio of capital. With the promotion and impetus of macro policies, the current GDP growth rate will be significantly improved. While conversing to the existing structure, it is also necessary to transform the growth point effectively, so as to form a new growth point gradually.

5. Build a layout for global manufacturing industries

The comprehensive transformation of existing manufacturing industries through the use of a global layout will help to achieve the deleveraging goal properly and improve the return on assets appropriately. Because it is often difficult for companies to maintain their superior market position if they are currently limited to rely on the traditional labor advantages of processing and assembly. Therefore, in order to achieve the comprehensive transformation, enterprises should devote themselves to obtaining the new industrial chain distributed worldwide, so as to achieve the reallocation of multi-level resources and elements. For example, in the current situation, if domestic enterprises want to create an open new business model, they need to rely on the Belt and Road initiative. For some low-end links, they should rely on overseas investment to transfer orderly.

At the same time, enterprises also need to pay attention to the higher-value R&D and innovation link as well as the manufacturing of high-end parts link, which thus gradually turns to the new high-end industrial model. In the entire process of the above transformation, the current excess domestic production capacity demand should be properly pulled, and the pipeline, port and plant facilities should be optimized. Therefore, if financial risks are to be fully resolved, it is necessary to rely on adequate real economic growth. On the contrary, if the real economy is not strong enough, the existing financial risks cannot be eliminated and resolved.

6. Summary

As analyzed, the kinetic energy conversion of economic growth will lead to some potential financial crises as well as systemic financial risks. At present, it seems necessary to deal with the above financial risks and avoid financial risks properly by taking measures such as deleveraging and industrial structure optimizing, which can create a more stable market operating environment.

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