

Equilibrium Analysis for the Supply and Demand of the Rural Financial Service System in China

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Abstract: The paper used the idea of dynamic equilibrium and qualitative approach to explain supply and demand balance and suggested some policy recommendations to the problem. First, it introduced the research theory of rural financial service system at home and abroad, and then drew the diagram of pull and thrust. After that the paper analyzed the impact factors with Chinese characteristics for the equilibrium of supply and demand, discussing the contradictions which were disturbing the system balance. Finally, we provided policy recommendations for promoting the equilibrium of China's rural financial service system.

Key words: Rural financial service; Equilibrium analysis; Imbalance between supply and demand; Policy recommendations

1 Introduction

China's rural financial service system is considered to be an entirety which includes financial institutions in vast rural areas of China including using monetary transactions to exchange valued goods, and providing satisfactory activities to financial participants and customers and so on. We have known that the balance of supply and demand was very important in rural financial service. And only if we made it into balance, can we make a better development.

Many professors have researched the problem. The foreign rural finance theory's formation and the development have influenced by the modern finance development theory and the policy position. There are three main schools: subsidized credit paradigm, rural financial systems paradigm, and imperfect competition market theory. The subsidized credit paradigm holds the point that the government should put large numbers of low interested credit into the rural areas. However, the rural financial systems paradigm gave the opposite advice. This theory is entirely dependent on the market mechanism, strongly opposed the policy financial market distortion. The third theory, that's to say, the imperfect competition market theory get the conclusion that developing countries should implement selective government intervention. The viewpoints of Chinese scholars can be divided into three: the first one is that rural financial should stick to cooperation basis; the second one is that the rural financial should adhere to the commercial basis; the third one is that the rural financial should adhere to the diversified development.

2 Equilibrium Analysis for the Supply and Demand in China's Rural Financial Service System

In this part, we made an equilibrium analysis for the supply and demand of China's rural financial service system. We considered about the Chinese characteristic factors, drew a diagram about the equilibrium relationship of the supply and demand in China's rural financial service system, and then analyzed the problem involved in.

2.1 Chinese characteristic factors of supply and demand balance

The Chinese characteristic factors in rural financial service system are the macro guidance and policies of Chinese government. China implements multi-elemental participation in macroeconomic control of the socialist market economy. In other words, the development and expansion of rural financial market cannot be realized without national fiscal policies and tax preference. It also depended on preferential policies and measures issued by the ministry of finance, the central bank and the banking regulatory commission.

The Chinese government has issued many relevant policies. For example, the CBRC, in companied with the PBC, issued The Opinion about Accelerated Promoting the Rural Financial Products and Services' Innovation in 2008. The CPC central committee pointed out in The Several Recommendations about Promoting Stable Agricultural Development and Continuously Increasing Peasants' Income in 2009. The ministry of finance issued The Interim Measures for Directional Expenses, Subsidies, Capital Management of Rural Financial Institutions Charged by the Central Finance in 2010 and so on.

2.2 Diagram of the supply and demand balance of China's rural financial service system

We used the idea of dynamic equilibrium and qualitative approach to explain supply and demand balance. If we see the supply as the thrust, the demand for rural financial service system as the pull, then the supply and demand balance of China rural financial service system is a dynamic equilibrium in which the thrust is equal to the pull. As shown in Figure 1.

When pull and push reaches equilibrium, China's rural financial service system achieves the balanced state. Factors that represent pull and push are briefly presented in the above diagram. That is, when the supply of agricultural credit and the coverage of rural financial services meet the demand for loans, intermediate business needs, insurance needs, and public policy demand for financial services, China rural financial service system will achieve a balanced supply and demand.

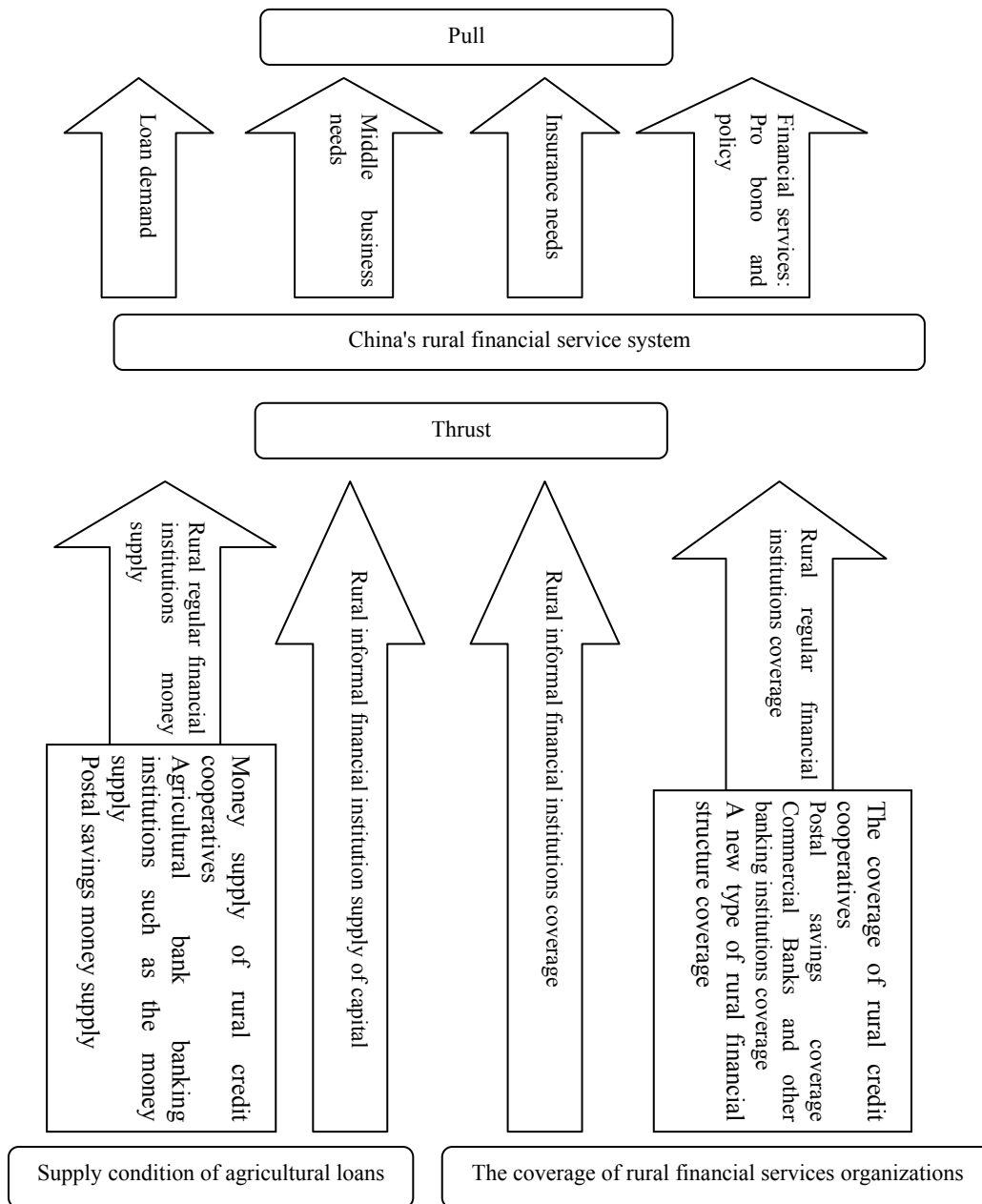


Figure 1 Chinese Rural Financial Service System Power Schemes

2.3 The imbalance between supply and demand in China's rural financial service system

The government has issued many policies which opened the rural financial market, developed the

new rural financial institutions, and started the overall system with coverage of multi-level. However, the government still cannot solve the contradiction between the huge credit funds hunger for high-speeding developing rural economy and relatively weak rural finance. China's rural finance is still in the state of anemia.

In 2004 the total amount of the rural financial needs of the narrow diameter was 1.5684 trillion CNY, the board diameter was 1.7048 trillion CNY, but the rural formal financial channels supplied about 1 trillion CNY to rural finance. The gap between them was very obvious. The gap growing trended of China's rural financial between supply and demand has reflected the increasing gap between China's rural economy and the national economy.

3 Policy Recommendations for Promoting China's Rural Financial Balance Between Supply and Demand

The reasons for the existence of supply and demand gap of rural financial service system are varied. However, the economic reason of the gap's existence cannot change fundamentally in short term. Therefore, it is wise to focus on institutional and structural reforms.

3.1 Accelerate the formation of a diversified rural financial service system

At present, the rural credit cooperatives are in a monopoly position in rural credit market. This is neither conducive to the healthy development of rural finance and the economy, nor to the prudent operation of rural credit cooperatives themselves. Rural financial service system should take account of both demand and the ability to provide financial services, and to establish a new diversified financial network, including policy banks, commercial banks, rural credit cooperatives, securities and insurance institutions, which provides a variety of intermediary business tools to farmers, like deposits and loans, Securities trading and insurance services, payment and settlement services.

3.2 Accomplish the mechanisms of rural financial service system for reasonable division and complementary advantages

From the current situation, several large rural financial institutions have a large overlap on the business scope and nature. Hence, it should focus on the demands for the multilevel of rural finance and should make a clear division of functions in various financial institutions.

The rural credit cooperatives mainly play the role in community or local rural financial institutions. Agricultural Development Bank should be established as a more comprehensive policy bank, which needs to expand business scope appropriately, reverse the tendency of "leave the farm" which occurred recently in Agricultural Bank of China, and to effectively reinforce the support degree to agriculture and the rural economy. The deposits that Agricultural Bank of China absorbed from rural areas require being adopted a suitable percentage on agricultural credit. The country should lead commercial banks to use a certain percentage of funds upon agriculture through tax policies. Simultaneously, it must select the appropriate restructuring approach to coordinate the surplus constitutions and talent resources of agricultural banks in rural areas.

3.3 Promote remanufacture of financial institutions and the establishment of settlement system in rural to raise agricultural returns ratio

We should promote the remanufacture of financial institutions in the country, making it fully comply with the characteristics of local agricultural production and financial service demands. We should also diversify credit products and establish a smooth and efficient settlement system which is adapted to the modern financial development and can overlay all the national level and regional level.

Meanwhile, adjust the deadline of the loan according to the characteristics of local agricultural and set the deadline after the agricultural products' sale season. In the fact that the sales of agricultural products need a period of time, so we can give the peasant a certain repayments permission period in which they can accrue interest as usual, and adopt the ten-day and monthly installment repayment pattern to reduce the pressure of lump-sum cash. For farmers, as their productive capital demand is urgent, higher frequencies and small amount, we should fully simplify the lending procedures and improve the lending efficiency, so as to increase the agricultural returns ratio.

3.4 Establish and perfect the relevant system and mechanism and improve the efficiency and applicability of rural financial supply

Formulate implementation measures which can encourage the new deposits absorbed by country financial institutions mainly use for the local lending and establish an independent evaluation mechanism, so as to improve the efficiency of rural financial supply. At the same time, we should establish an agriculture loan mechanism to guarantee the rural economic development to acquire

abundant capital support. According to the national conditions, we should gradually develop an agricultural insurance market and improve the establishment and consummation of national agricultural insurance system. Besides, promote to establish the national agriculture reinsurance system and the diversification mechanism which supported by national finance. Meanwhile, encourage to carry out the risk mutual cooperation and commercial insurance business in rural area.

3.5 Increase the rural policy-based loans and promote the rural financial product innovations

Due to the high hurdle of regular financial institutions and the low ability to pay debt of country poverty, the regular loaning channel for peasant household and the rural enterprises is narrow. Therefore, the government should increase the rural policy-based loans to help the poor peasant household and the township enterprises in starting stage. Meanwhile, it should ensure a long-term powerful support of the policy-based finance for agriculture. In addition, it needs to pay attention to financial innovations on rural financial service, extend its scope of services of assisting agriculture through financial innovations, improve servicing way, and promote the quality of service while loan summation increasing. Financial innovations also will bring financial risks, thus, it must accelerate development of the various forms of the new-type rural financial organization and the new-type financial products centering on serving the countryside, on the premise of that enhance supervision and prevent risks.

3.6 Take account of the difference between space and time when reforming the China rural financial supply system

In the vast territory of China, eastern coastal areas are developed in overall economic conditions, while middle-west regions are underdeveloped. The financial serving demands in regions are different with their different economic development levels in space. The rural financial serving demands also change in time with the development of society, the process of urbanization and the gradually increasing level of integration of city and countryside. The two gradients, time and space, must be consider properly when making financial decision for the construction of rural financial service system.

4 Conclusion

From the research, we know that the supply and demand of China's rural financial service system has not get into balance. We should try to follow the policies to make it better. First, accelerate the formation of a diversified rural financial service system. Second, accomplish the mechanisms of rural financial service system for reasonable division and complementary advantages. Third, promote remanufacture of financial institutions and the establishment of settlement system in rural to raise agricultural returns ratio. Forth, establish and perfect the relevant system and mechanism and improve the efficiency and applicability of rural financial supply. Fifth, increase the rural policy-based loans and promote the rural financial product innovations. Sixth, take account of the difference between space and time when reforming the China rural financial supply system. Maybe the suggestions cannot solve the problem absolutely, but it is supposed to be good to promote the rural financial service system in China.

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