

China is Deepening its Rural Financial Reform

Zhen Zhong

Assistant Professor

School of Agricultural Economics and Rural Development

Renmin University of China

Background and main content of policy

The CPC Central Committee's Document No.1 in 2012 asked to provide more policy support to the rural financial system, increase the investment into rural credit and ensure that the growth of agriculture-related loans from banking financial institutions would be higher than that of all loans from those institutions. Policies of tax incentives for agriculture-related loans would be improved. Method for examining and evaluating financial institutions' services at county level or below would be perfected. Banking financial institutions at county level or below would be guided to strengthen services for rural credit.

Development of the rural credit system would be vigorously carried forward to improve the mechanism for evaluating households' credits. Reform of rural credit cooperatives would be deepened to stabilize the status of legal persons of rural credit cooperatives at the county level. Diversified rural financial institutions would be developed through encouraging private capital to enter the field of rural financial service and supporting commercial banks to set up township and village banks in counties in the central and western regions of China. Rural financial mutual-aid societies would be developed in an orderly way through guiding specialized farmers, cooperatives to carry out credit cooperation according to related standards.

Supervision of rural banking financial institutions in such a different way as to consider characteristics of their business would be improved through properly raising the tolerance for risks of agriculture-related loans and implementing a moderately easy market access and elastic loan-to-deposit ratio. Microcredit for rural households would be developed continuously. More loans would be made available to large-scale farmers, specialized farmers, cooperatives, small and micro businesses at county level.

More credit aid would be made available to rural technology-oriented enterprises and members of technical task force to start business in rural areas. Financing by pledging agricultural technological patents would be explored actively. Agricultural Development Bank of China would be supported to supply more loans to programs related to agricultural technologies. Qualified agriculture-related enterprises would be encouraged to carry out direct financing and develop agriculture-related financial leases.

More agricultural insurance products would be made available and agricultural insurance

would cover more farm products. Pilot programs on subsidies for insurance expenses in facility agriculture would be launched. Pilot programs on subsidies for forest insurance expenses would be carried out in more regions. Support would be given to fishery mutual insurance. Local authorities would be encouraged to carry out insurance for the production of their advantageous farm products. The regime for agricultural reinsurance would be improved; and a step by step mechanism with support from the central finances for transfer and diffusion of risks of major agricultural disasters would be established.

Implementation of policy and evaluation

As of the end of 2012, the combined balance of agriculture-related loans in domestic and foreign currency of all financial institutions (at the county level or below) stood at 14.5 trillion yuan, up 19.7% from the previous year and accounting for 21.6% of all loan balances. Rural households, loan balances amounted to 3.6 trillion yuan, up 15.9% from the previous year and accounting for 5.4% of all loan balances. The balance of those for farming, forestry, husbandry and fishery rose by 11.6% to 2.7 trillion yuan, accounting for 4.1% of the total loan balance. The combined balance of agriculture-related loans of all financial institutions stood at 17.6 trillion yuan, which made up 26.2% of their total loan balance and marked an increase of 20.7%, with 5.1 percentage points higher than the average growth rate of all loans in domestic and foreign currency.

1) Financial and tax incentives for agriculture-related loans were strengthened continuously. In 2012, the central finances allocated 2,327 billion yuan to specially subsidize rural financial institutions, rising 125% on year-on-year basis. The central finances allocated 2.353 billion yuan to reward the increases in agriculture-related loans from financial institutions at the county level or below.

By the end of 2013, sales tax would be exempted for rural household's small loans below 50,000 yuan with interest income included in taxable income at a reduced rate of 90%. By the end of 2015, sales tax would be collected at a reduced rate of 3% for rural cooperative financial institutions and new-type rural financial institutions at the county level or below. For three new-type rural financial institutions, namely rural credit cooperative, rural cooperative bank and rural commercial bank, and the Financial Department of Agriculture, Countryside and Farmers of the Agricultural Bank of China, the supervision fee of the banking industry would be exempted.

2) The rural credit system was constantly improved. Under the arrangement of the People's Bank of China, nearly all financial institutions engaged in credit operations have been covered by the national credit reporting system built by commercial banks. The business network built among all rural banking financial institutions has included information of most inhabitants and enterprises in rural areas.

As of the end of 2012, credit files had been created for over 148 million rural households, among which 97.84 million had been rated. Among rural households with their credit files created, about 85.24 million had got credit aid with loan balances of 1.76 trillion

yuan. Construction of pilot zones for the rural credit system was carried out in more than 50 regions (cities and counties) all over the country.

3) Reform of rural credit cooperatives was carried forward continuously. In 2012, 125 rural commercial banks were found following restructuring of rural credit cooperatives and rural cooperative banks.

As of the end of 2012, there were 2 411 rural credit cooperatives as total, including 337 rural commercial banks and 147 rural banks Rural households loan balances credit cooperatives amounted to 2.64 trillion yuan accounting for 33.7% of all of their loan balances and 72.96% of rural households' loan balances of all financial institutions. Loan balances for farming, forestry, husbandry and fishery and rural loan balances from rural credit cooperatives (at the county level or below) were 1.94 trillion yuan and 4.73 trillion yuan respectively, accounting for 24.8% and 60.3% of all loan balances of those two types, or respectively accounting for 71.29% and 32.55% of the combined loans for fanning, forestry, husbandry, and fishery and all rural loans from all financial institutions (at the county level or below).

4) New-type rural financial institutions were developing rapidly. As of the end of 2012, 250 banking financial institutions nationwide set up 939 new-type of rural financial institutions as total, including 876 township and village banks (800 open for business and 76 under preparations for foundation, or 340 in the eastern region, 268 in the middle region and 268 in the western region), 14 finance corporations (14 open for business), and 49 rural financial mutual-aid societies.

4) New-type rural financial institutions attracted accumulated 57.1 billion yuan in various forms. Their outstanding of deposits was 306.6 billion yuan. Various loan balances totaled 234.7 billion yuan, with those for small businesses amounting to 112.1 billion yuan, those for rural households amounting to 86 billion yuan, and the total of both of them accounting for 84.4% of various loan balances.

5) More efforts were carried out to guide private capital into the field of rural financial service. In 2012, relevant departments guided banking financial institutions to introduce more private capital. They explicitly supported private capital to enter the banking in various ways through supporting private enterprises to join the reform of rural credit cooperatives according to the joint system, encouraging and guiding private capital to join the restructuring of rural financial supporting private enterprises to join the initiation, foundation, increasing of capital and share, and reducing the minimum shareholding ratio of the bank that would play a main role in initiating a township or village bank from 20% to 15%.

As of the end of 2012, the private capital exceeded 90% in the capital stock of rural financial institutions and accounted for 73.3% in the Capital Stock of township and village banks.

6) Direct financing of agriculture-related enterprises was developing fast. As of 2012, in agriculture-related industries, 180 enterprises issued 449 debt financing instruments of non-financial business in the inter-bank bond market, involving 397.315 billion yuan as total. In 2012, debt financing instruments, involving 129.334 billion yuan as accumulated, were

issued with a balance of 197.071 billion yuan by the end of 2012. As of the end of 2012, agriculture-related enterprises issued 27 bonds of various kinds in the exchange bond market, totaling 14.717 billion yuan.

7) Agricultural insurance was developing rapidly. In 2012, income of agricultural insurance premium reached 24.013 billion yuan, rising 38% on year-on-year basis. Risk guarantees amounting to 900.6 billion yuan were provided in 183 million times of rural households, with covered households rising 8% on year-on-year basis and the insured amount rising 38% on year-on-year basis. Compensation amounting to 14.82 billion yuan was paid to 28.18 million rural households, rising 67% on year-on-year basis.

The coverage was expanded rapidly to cover main crops in an area of 6,466,667 million hectares, accounting for 40% of the national total sown land. Insurances covered 748 million hectares of forest tree and 675 million live stocks (poultry) including 32.76 million fertile sows, accounting for 70 percent of all live pigs on hand. Pilot programs on insurance for rural houses, agricultural implements and fishery were earned forward steadily. Among them, insurances for rural houses were carried out in nearly 20 provinces and the insurance was basically available everywhere in provinces including Zhejiang, Fujian and Guangxi.

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