# The Impact of Financial Development on China's Economic Growth - An Empirical Study

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## Abstract

*Through employing financial and economic growth theories and adopting the panel Data of 27 provinces from 1995 to 2010, this paper uses the panel data model to measure the influence of two different organizations on economic growth: banks and non-bank financial institutions. Results show that there is a significant and economic correlation between economic growth and banks instead of non-bank financial institutions. On this basis, this paper further examines the reform of financial institutions. Final\y, a conclusion is drawn that large state-owned banks should be commercialized and a new financial system composed of medium and smal\ banks should be established.*

**Keywords**

Financial development; banks; non-bank financial institutions; economic growth; panel data model.

## I. Introduction

Finance is the core of the modem economy. Global economic development history has repeatedly proven that both financial depression and overheated finance can undermine economic growth. Under the circumstance of the global financial crisis, it is especial\y vital to recognize the relationship between financial development and economic growth and establish a modem financial system in conformity to rapid economic growth so as to ensure consistent, healthy and rapid economic growth. Since the Reform and Opening Up, China's finance has experienced a deepening and progressive phase. During this process, banks occupy the leading position in the financial system, and play an increasingly prominent role in social capital allocation and economic growth. Nevertheless, the state-owned economy is overprotected, and loan risks of state- owned enterprises aredeliberately lowered, consequently, more credit funds flow into inefficient sectors and the economy becomes inefficient. Therefore, it can be il\ustrated that the national financial system is weak and it needs further reform to adapt to the demands of economic growth.

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On the premise that future economic growth can response to financial development, namely, financial institutions can offer necessary funds to relevant projects and enterprises which enjoy promising prospects, this paper adopts the panel data of 27 provinces from 1995 to 2010 to examine the relationship between financial growth and high economic growth rate as well as compare banks and non-bank financial institutions in terms of their impact on economic growth.

## 2. LITERATURE REVIEW

There is undoubtedly a close relationship between financial development and economic growth in the modern economy. Overseas scholars have deepened their studies to cover the micro-levels including the region, industry and enterprise. Goldsmith (1969) [1] creatively put forward stock and flow indexes to measure the financial structure and development level, and the financial interrelations ratio (FIR) is the most significant index. Mckinnon and Shaw (1973) [2] cooperated in studying economic growth from the financial development perspective and advocated the financial repression theory in respective works. They held that ―price distortions and other financial instruments of the interest rate and exchange rate can lead to a decrease of the actual economic growth rate and financial system scale and that ―new strategies like financial liberalization strategy which can deepen the financial effect (or exert other effects) are vital to the liberalization of economic development.

Cheng and Degryse (2006)[3] came to a conclusion that banking financial development played a significant role in promoting regional economic growth through the empirical study of the panel data model. Guariglia and Poncet (2008)[4] made a parameter estimation of financial development and economic growth through the systematic generalized matrix, and concluded that financial distortions can finally impede economic growth. Sassi and Goaied (2012) [5] focused on the study of the impact of financial development and information and communication technology on economic growth, and reached a conclusion that information and communication technology played a prominent role in stimulating financial development and economic growth whereas it took place only when the development level of information and communication technology reached a threshold value. Ayadi and Arbak (2013)[6] studied the relationship between financial sector development and economic growth through the analysis of the panel data of northern and southern Mediterranean countries from 1985 to 2009, and draw a conclusion that there was a negative correlation between private loans, banking deposits and economic growth. Moreover, they also elaborated the defects of loan allocation and financial surveillance as well as the importance of the stock market scale and mobility to economic growth.

Domestically, there are also rich studies in this regard. Zhang Lina and Wang Jing (2013)[7] examined the relationship between rural financial development and economic growth through the use of Pagano model and the analysis of and rural financial data. Zhang Qian (2012)[8] applied the co-integration analysis, error correction model (ECM) and Granger causality test into the research, and proved that there was a long-term and equilibrium relationship between rural loans and rural economic growth, and loans played an important role in stimulating agricultural development. Yu Li and Zhao Xinwei (2012)[9] used the VAR model and relevant data concerning financial development,

divided research indexes into the trend variable and volatile variable, then reached a conclusion that there was a co-integration relationship between financial development and economic growth, namely a long-term and equilibrium relationship. Yin Zongcheng and Li Xiangjun (2012)[10] carried out an empirical study on the relationship between the financial development scale, entrepreneurial spirit and economic growth through the generalized least squares estimation method. Results showed that it was through enterprising that capital support could be guaranteed for economic growth. Lin Yifu (2007)[11] analyzed the financial structure, with the banking structure included, and its significance to economic development. He reached a conclusion that the situation when a financial structure and a banking structure matched the economic one was favorable to economic growth, and vice versa. Xu Lili and Hu Jie (2012)[12] made a quantitative analysis of the domestic transmission channel through which financial deepening influences economic growth with five indexes (loan balance, GDP, consumption rate, investment rate, ring growth rate of GDP per capita) and held that the consumption rate and the investment rate were two significant and stable transmission channels (the former one was the major one) between financial deepening and economic growth.

To sum up, we have in practice explored the significance of financial development in economic growth. Due to financial liberalization to some extent, some developing countries had to suffer from the financial crisis, but they learned to develop the economy through financial constraint in a meticulous way under the guidance of the financial repression theory. Nevertheless, current studies are limited to the role that financial institutions as a whole play in economic growth and the causality relationship between them. Two problems remain unsolved here: there is a relatively big gap among various regions in terms of financial development in our country; and the whole financial system consists of two different organizations: banks and non-banking financial institutions. Do these two types of financial institutions differ greatly in their role in promoting economic growth and which type is more influential? Therefore, a clear understanding of the relationship between these two types of financial institutions and economic growth is favorable to the improvement of the financial institutional reform and thus the economic development.

## 3. RESEARCH DESIGN

This paper bases on the theoretical model of the relationship between financial development and economic growth advocated by King Levine, and develops it into a detailed empirical model. Through establishing a fixed effect panel data regression model with the panel data of 27 provinces from 1995 to 2004, this paper examines the internal relationship between financial development and economic growth, and specifically discusses and compares the role that banks and non-bank financial institutions play in stimulating economic growth respectively.

### 3.1 The Design of the Panel Data Model

To overcome the limitations of traditional studies which deal with the impact of the overall development of financial institutions on economic growth and the causality relationship between them, and in light of the disparity of financial development among various provinces and regions as well as different roles of banks and non-bank financial

institutions in economic growth, this paper adopts the extended Cobb-Douglas production function (C-D production function) and establishes the fixed effect panel data economic quantitative model as follows.

$$GYP_{i,t} = \alpha_0 GDP_{i,t} + \alpha_1 GK_{i,t} + \alpha_2 FI_{i,t} + \alpha_3 CON_{i,t} + \sum_{i=1}^{I} \delta_i U_i + \sum_{t=1}^{T} \phi_t V + \varepsilon_{i,t} \quad (1)$$

$GYP_{i,t}$ is the actual growth rate of GDP per capita at t o'clock, i,t 1 $GDP_{i,t-1}$ is the actualinitial GDP value per capita, *GK* is the actual growth rate of capital stock per capita, and $FI_{i,t}$ is the financial development index of either the bank or the non-bank financial institution at t o'clock in the province i. *U* refers to a series of dummy variables, $V_t$ refers to temporal dummy variables which have already been set, and both δ, and φ, are regression coefficients. $CON_{i,t}$ refers to the control variable information set which includes foreign direct investment (FDI), the ratio between FDI and GDP, fixed asset investment and the ratio between fixed asset investment and GDP. To guarantee the stability of variables, variables in this model have been calculated through the first difference method. This paper adopts the panel data of 27 provinces from 1995 to 2004, the advantage of which lies in the fact that the relationship between variables can be estimated even in a short period of time and the model is free from the influence of temporal variables.

To discover the relationship between financial development and future economic growth, outdated financial development indicators are introduced in the panel regression.

$$GYP_{i,t} = \alpha_0 GDP_{i,t-1} + \alpha_1 GK_{i,t} + \alpha_2 FI_{i,t-1} + \alpha_3 CON_{i,t} + \sum_{i=1}^{I} \delta_i U_i + \sum_{t=1}^{T} \phi_t V + \varepsilon_{i,t} \quad (2)$$

Generally, the Ordinary Least Squares (OLS) is adopted in the Model (2). Suppose the outdated FI is an exogenous variable and there is no heteroscedasticity or autocorrelation, but problems will arise when these assumptions are interfered. For instance, heteroscedastic or auto-correlation errors are usually found in the panel analysis, nevertheless, this problem can be resolved through introducing an exogenous standard error or first difference data. According to the analysis, heteroscedasticity can be detected. And the Model (2) adopts the robust standard error. The analysis of a country's fixed samples can help decrease potential endogenous problems. Another issue worthy of paying attention to is the reverse causality relationship. The significant correlation between financial development and economic growth does not necessarily demonstr that financial development can contribute to economic growth. But just as what has been assumed, this paper only discusses the impact of financial development on economic growth.

### 3.2 Index Selection

To have a better understanding of the relationship between financial development and economic growth in each province, this paper adopts the actual GDP growth rate per capita instead of the economic growth index. According to the economic growth accounting equation, economic growth can be divided into capital growth, labor growth, and the improvement of the total factor productivity (TFP) growth rate. Concerning that financial

development reflects the factor productivity, this paper will regard capital as the control variable which can directly stimulate economic growth (and the factor labor is temporarily not discussed here). Because fixed asset investment and material and capital stock are effective data to measure the capital amount, they are chosen to be explanatory variables. Moreover, the impact of FDI on economic growth is also taken into consideration. Major economic growth indexes are illustrated in the Table 1.

**Table 1: Major Economic Growth Indexes**

| Major index | Explanation |
|---|---|
| AGDPGROWTH | GDP Growth Rate |
| IAGDP | Initial GDP |
| GDPGROWTH | GDP Growth Rate Per Capita |
| IGDP | Initial GDP Per Capita |
| ACAPITAL | Total Capital Stock Growth Rate |
| CAPITALGROWTH | Growth Rate of Capital Stock Per Capita |
| FDI | Foreign Direct Investment/Provincial GDP |
| INVEST | Fixed Asset Investment/Provincial GDP |

In terms of financial development indexes, Levine made a comprehensive classification and analysis of them. Domestic scholars also put forward new indexes to measure China's financial development. Internationally, McClellan Index and Eugene Index are generally adopted. McClellan Index refers to the ratio between broad money stock and GDP (M 2/GDP) whereas Eugene Index (Financial Interrelations ratio) refers to the ratio between a nation's total financial assets and GDP/GNP. Because of the annual growth of household savings in China and a big proportion of M2-type foreign currencies, FIR is preferred by more experts. However, Levine (1993) also pointed out that bank current liabilities can better reflect financial depth than GDP. The author also holds that this index can reflect the bank scale enlargement as well as bank's activity level of capital allocation in national economy. Thus, this paper adopts four indexes to measure financial development in the following Table 2.

**Table 2: Major Financial Development Indexes**

| Major index | Explanation |
|---|---|
| BANKD | The ratio between provincial GDP and local bank deposits, serving to measure the financial depth of local banks |
| BANKC | The ratio between provincial GDP and local bank loans, serving to measure financial resources provided by banks |
| NBANKD | The ratio between provincial GDP and the deposits of local non-bank financial institutions |
| NBANKC | The ratio between provincial GDP and the loans of local non-bank financial institutions |

### 3.3 Data Sources

This article selects the panel data of 27 provinces from 1995 to 2004(except Tibet, Qinghai and Ningxia. And Chongqing is merged into Sichuan). Relevant data are estimated and obtained mainly based on the China Finance Yearbook and China Statistical Yearbook from 1995 to 2010 and China's provincial capital stock from 1995 to 2010 provided by Zhang Jun et al.

In our research, financial development indicators mainly employ the data from the Statistical Report of the China Finance Yearbook and bank financial institutions adopt the annual deposits and loan data from the Yearbook related with Five Banks in various provinces including four state-owned commercial banks and the Bank of Communications. By the end of 1994, these Five Banks had accounted for 96% of the total assets of bank financial institutions. Beginning from 1995, the China Finance Yearbook documented savings and credit data of rural credit cooperatives, certain selected trust and investment companies, financial companies and other non-bank financial institutions from various provinces. Only those that are considered as sufficiently large non-bank financial institutions can be recorded in the Statistical Yearbook, which may become the limitation of this article. As we failed to collect valid data in the provinces with a number of small institutions, the overall scale of non-bank financial institutions might be underestimated. So far, we assume that the sample error structure remains unchanged in the sample period.

Non-bank financial institution development indicators established in this article derive from rural credit cooperatives and other relevant non-banking financial institutions of various provinces. Although rural credit cooperatives are secluded like other non-banking financial institutions, aggregated data for all rural credit cooperatives of each province are documented in the China Finance Yearbook. However, in reality, instead of being —integrated into one entity, rural credit cooperatives are composed of .a number of small-scale ones in a particular province. Therefore, to some extent, it is likely that development Indicators of non-banking financial institutions are incorrectly estimated, which brings about unavoidable constraints to our data.

## 4. EMPIRICAL RESULT AND ANALYSIS

### 4.1 Descriptive statistics analysis

There are 243 variable samples. The result of descriptive statistics is as follows:

**Table 3: Descriptive Statistics**

| Variable | Sample size | Mean | Standard deviation | Maximum | Minimum |
|---|---|---|---|---|---|
| GDPGROWTH | 243 | 0.077 | 0.013 | 0.102 | 0.057 |
| IGDP[a] | 243 | 0.0471 | 0.313 | 3.390 | 0.302 |
| CAPITAL | 243 | 0.114 | 0.020 | 0.072 | 0.145 |
| AGDPGWORTH | 243 | 0.088 | 0.013 | 0.067 | 0.111 |
| IAGDP[b] | 243 | 1854.933 | 1397.122 | 141.774 | 5353.567 |
| IAGDP[b] | 243 | 0.121 | 0.080 | 0.080 | 0.158 |
| BANKD | 243 | 0.843 | 0.467 | 0.477 | 2.936 |
| BANKC | 243 | 0.683 | 0.224 | 0.402 | 1.223 |
| NBANKD | 243 | 0.141 | 0.053 | 0.049 | 0.268 |
| NBANKC | 243 | 0.109 | 0.041 | 0.038 | 0.224 |
| INVEST | 243 | 0.455 | 0.087 | 0.337 | 0.683 |
| FDI | 243 | 0.031 | 0.033 | 0.002 | 0.110 |

Table 3 conducts a simple description on main statistics with an emphasis on the huge differences between provinces. Among these provinces, Shanghai, as one of China's economically developed cities, achieved GDP per capita of 73297.48 Yuan in 2010 while Gui Zhou Province only reached GDP per capita of 13024 Yuan that year, merely accounting for 17% of Shanghai's. Among all provinces, the average ratio of bank deposits to GDP and that of bank loans to GDP are 0.843 and 0.683 respectively in bank financial institutions whereas the average ratio of deposits to GDP and that of loans to GDP are merely 0.141 and 0.109 in non-bank financial institutions. Thus, bank deposits and bank loans are more important than deposits and loans in non-bank financial institutions. The average ratio of bank deposits and loans is highest in Beijing and lowest in Shandong Province. Non-bank financial institutions develop most slowly in Qinghai Province and the proportions of non-bank deposits and of non-bank loans are highest in Shanxi Province and Guangdong Province respectively.

### 4.2 The Estimate of Fixed Effect Regression Model

**Table 4: Fixed Effect Regression Model**

Explained variables: **GDP GROWTH**

| Variable | Model A | Model B | Model C | Model D | Model E | Model F |
|---|---|---|---|---|---|---|
| IGDP (Initial GDP per capita) | -0.334*** (0.000) | -0.331*** (0.000) | -0.342*** (0.000) | -0.343*** (0.000) | -0.334*** (0.000) | -0.330*** (0.000) |
| CAPITALGROWTH (Growth rate of capital stock per capita) | 0.013 (0.840) | 0.044 (0.510) | 0.010 (0.882) | 0.014 (0.827) | 0.007 (0.912) | 0.039 (0.562) |
| BANKD (Bank deposit/GDP) | 0.070** (0.013) | | | | 0.062** (0.024) | |
| BANKC (Bank loan/GDP) | | 0.083*** (0.007) | | | | 0.084*** (0.006) |
| NBANKD (Non-bank deposit /GDP) | | | 0.030 (0.121) | | 0.022 (0.157) | |
| NBANKC (Non-bank loan /GDP) | | | | 0.006 (0.667) | | 0.007 (0.521) |
| INVEST (Fixed asset investment /GDP) | 0.044 (0.183) | 0.046 (0.156) | 0.025 (0.454) | 0.031 (0.405) | 0.036 (0.237) | 0.043 (0.168) |
| FDI (Foreign direct investment/GDP | -0.001 (0.887) | -0.001 (0.992) | -0.000 (0.932) | -0.001 (0.992) | -0.001 (0.811) | -0.001 (0.854) |
| 0bs Adjusted R2 | 243 0.922 | 243 0.927 | 243 0.937 | 243 0.921 | 243 0.932 | 243 0.930 |

Note: (1) * represents the passing of the 10% significance level,
** the passing of the 5% significance level and
*** the passing of the 1% significance level.
(2) What's shown in parentheses is the small probability P.

Table 4 shows the regression result of Equation (2) under different conditions with the initial GDP per capita and the capital stock growth rate per capita being the explanatory variables and the GDP growth rate per capita being the explained variable. What model A and model B display is the regression result including the development indicators of bank financial institutions. Bank deposits and loans pass the inspection at the significance level of 5% respectively and their coefficients are both positive. This demonstrates that the development of bank financial institutions has a significant impact on economic growth and that bank credit can effectively stimulate economic growth. Model C and model D include the financial development indicators of non-bank financial institutions in the

regression model. These indicators all fail to pass the inspection at the significance level of 10% and the development indicator in none of the non-bank financial institutions has a significant impact on economic growth. This shows that the financial development of non-bank financial institutions does not have a significant role in promoting local economic growth.

In the regression results presented in model E and model F, we can find that the financial development indicators of bank financial institutions and those of non-bank financial institutions are in the same model, which can illustrate the impacts of the entire financial institutions on economic growth and also show that the promoting effect of bank financial institution development on economic growth is obviously greater than that of non-bank financial institutions. The financial development indicators of banks and those of non-banks exhibit significant different impacts on economic growth. As has been mentioned above, with bank credits mainly concentrated in the state sector and non-bank credits primarily concentrated in the non-state sector, the loans of non-bank financial institutions have an estranged relationship with local economic growth while the loans of bank financial institutions play a key role in boosting local economic growth. The significant difference between bank financial institutions and non-bank financial institutions demonstrates that financial sector credit does not simply develop along with economic growth. On the contrary, bank financial institutions have higher-quality borrowers than do non-bank financial institutions and are superior to them in the evaluation of loan credit and loan repayment. Thus, bank financial development plays a critical role in promoting China's regional economic growth. Additionally, bank financial institutions also benefit a lot from financial deregulation.

Table 4 shows that FDI and fixed asset investment have an insignificant impact on economic growth. On the one hand, such result may mainly derive from the internal fixed effects of each province. Therefore, it is unlikely that FDI and fixed asset investment show great time sequence variation. On the other hand, as FDI is mainly focused in particular industry, the impacts of FDI increase in local economic growth may not necessarily be obtained through observation. That initial GDP per capita is negative in all models demonstrates that economic growth in China's provinces has a trend of convergence. Due to the influence of rapid population growth and population flows between regions, the growth rate of capital stock per capita has an insignificant impact on local economic growth.

## Table 5: Fixed effect model

Explained variables : **AGDPGROWTH**

| Variable | a | b | c | d | e | f |
|---|---|---|---|---|---|---|
| IAGDP (Initial GDP) | -0.253*** (0.000) | -0.257*** (0.000) | -0.264*** (0.000) | -0.265*** (0.000) | -0.256*** (0.000) | -0.259*** (0.000) |
| ACAPITAL (Growth rate of total capital stock) | 0.346*** (0.007) | 0.379** (0.011) | 0.386 *** (0.003) | 0.388*** (0.002) | 0.356*** (0.006) | 0.384*** (0.008) |
| BANKD (Bank deposits/GDP) | 0.027 (0.375) | | — | — | 0.028 (0.372) | |
| BANKC (Bank loans/GDP) | 0.052* (0.093) | | — | — | 0.053* (0.096) | |
| NBANKD(Non-bank deposits/GDP) | — | — | -0.002 (0.853) | — | -0.004 (0.724) | |
| NBANKC (Non-bank loans /GDP) | — | — | -0.003 (0.647) | | -0.002 (0.750) | |
| INVEST (Investment/GDP) | -0.043 (0.224) | -0.039 (0.302) | -0.051 (0.134) | -0.050 (0.163) | -0.043 (0.227) | -0.038 (0.327) |
| FDI (Foreign Direct Investment /GDP) | -0.001 (0.998) | -0.001 (0.954) | -0.000 (0.960) | -0.001 (0.942) | -0.001 (0.985) | -0.001 (0.967) |
| 0bs Adjusted R2 | 243 0.932 | 243 0.929 | 243 0.927 | 243 0.932 | 243 0.933 | 243 0.937 |

Note: (1) * represents the passing of the 10% significance level,
** the passing of the 5% significance level and
*** the passing of the 1% significance level.
(2) What's shown in parentheses is the small probability P.

Based on the total GDP and total capital stock of each province, table 5 conducts a research on financial development indicators and obtains the regression result with the GDP growth rate of each province being the explained variable. Without taking into account the population flows between provinces, the total capital stock of each province undergoes little change within a certain time and the total capital growth rate of each province has a significant positive impact on local GDP. Although the financial development indicators of bank financial institutions still keep increasing, bank deposits have been unable to pass examination and even become negligible at the 10% significance level; and though bank loans can pass the examination at the 10% significance level, they have a significantly weakened impact on local economy. Financial development indicators of non-bank financial institutions have insignificant and even negative influence on economic growth. As for other control variables of table 5, the coefficient of initial GDP is negative in all models, which further shows that China's regional economic growth exhibits a trend of convergence. That the impacts of FDI on economic growth are still hard to observe and fixed asset investment has a negative effect on economic growth is probably due to the fact that China's provinces have varying degrees of digesting the economic growth brought about by fixed asset investment. Developed provinces can translate fixed asset investment into productive forces and create national wealth while less developed provinces fail to make good use of fixed asset investment which after offsetting with that in developed provinces exhibits negative impacts on economic growth on the whole.

## 5. CONCLUSIONS AND POLICY RECOMMENDATIONS

Through employing the regional panel data in China's 27 provinces from 1995 to 2010, this paper conducts an empirical research, investigates the relationship between financial development and economic growth, verifies the relationship of ―financial development-high growth and further explores the impacts of financial development on economic growth from two different types of institutions - banks and non-bank financial institutions. Ultimately, we arrive at the conclusion that only the development of financial institutions has a significant role in promoting regional economic growth between provinces.

To better bring into play the role that financial development plays in promoting economic growth, we propose the following financial system reform recommendations based on our research findings.

### 5.1 Perfect the Transformation of State-Owned Commercial Banks and Play its Central Role in Financial Markets

Bank financial institutions, especially China's five commercial banks dominate China's entire financial system and play a key role in distributing funds. To improve China's financial system reform requires that first and foremost large state-owned banks must undergo commercial reforms to enable them to play their due parts, especially the critical role in supporting China's indispensable large and medium-sized investment projects.

### 5.2 Establish and Perfect the System of Small and Medium-Sized Banks as the Main Direction of China's Current Financial Reform

It is necessary not only to conduct commercial transformations on China's state-owned large banks but also to establish and perfect small and medium-sized banks, which is the correct direction of China's current financial reform. As the nerve center of the modern economy, a healthy financial system should be able to operate efficiently to meet various financial demands of economic development and also effectively guard against and defuse risks. However, generally speaking, small and medium-sized banks are more vulnerable to crisis than large state-owned banks and their dispersal renders it hard to supervise them. Therefore, it is all the more urgent to strengthen financial regulation and establish and improve mechanisms for risk prevention and mitigation. Of course, we shouldn't be put off easily by a slight risk and treat small and medium-sized banks passively because of risk issues. The successful development experience of foreign countries shows that small and medium-sized banks bear an irreplaceable important role in economic operation. Particularly, in the lower level of development in each country, small and medium-sized banks have more obvious effects. Even if the economy has developed quite mature, small and medium-sized banks with a reasonable mix of big banks also constitute a significant part of the bank system.

### 5.3 Treat State-Owned Economy and Non-State-Owned Economy Fairly as the Supporting Reform of the Financial System

The success of financial system reform entails reforms in other areas. In particular, it is necessary to continue to increase the intensity of financial reform to eliminate ownership discrimination in a commitment to equaling the status of the state-owned economy and

non-state-owned economy in the process of financing and fully satisfying the investment demands of non-state-owned economy, thereby playing the huge potential of non-state economy to the utmost and the tremendous impetus on economic growth.

On the whole, China's financial system is compatible with its market status and current development stage. Still, there are deficiencies. After all, the financial system reform is a very complex and hard systematic project which still has a long way to go.

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