

Original Research Article

Problems existing in the financial system's service to the real economy and optimized path

Wanning Li

Tourism College of Changchun University, Changchun, Jilin, 130000, China

Abstract: Finance serves as the lifeblood of a national economy, and supporting the real economy constitutes the fundamental mission of the financial sector. A thriving real economy is a core driver of national competitiveness. This paper first elaborates on the necessity of the financial system serving the real economy, then analyzes prominent bottlenecks restricting effective financial support for the real economy in China. On this basis, it proposes systematic optimization strategies for the financial system to back the real economy, so as to facilitate high-quality development of the real economy.

Keywords: financial system; real economy; high-quality development

1. Introduction

The real economy lays the foundation for a country's economic growth and underpins national prosperity. Amid ongoing financial system reforms, the value of financial services for the real economy has become increasingly prominent. To advance high-quality growth of the real economy, it is critical to explore viable approaches for financial services to serve the real sector. Therefore, research on practical constraints and forward-looking solutions for financial support to the real economy is not only a mandatory requirement for implementing major national strategic arrangements, but also an urgent priority for sustaining long-term stable economic growth in China.

2. The necessity of the financial system supporting the real economy

2.1. Real economic growth relies on backing from the financial system

Core financial functions including capital intermediation, risk management, payment and settlement, and information screening play an irreplaceable role in sustaining steady expansion of the real economy. As the bedrock of national and regional economic activity, the real economy covers all sectors generating tangible goods and providing productive services, whose robust growth directly boosts national competitive strength.

Every stage of real economic operations—Production, circulation, distribution and consumption—Requires substantial capital input to maintain regular operations and expansion. During production, enterprises need funds to purchase raw materials, upgrade equipment, fund research and development (R&D), and pay employee wages. Without sufficient financial backing, businesses may face output cuts or even bankruptcy due to capital shortages. In circulation, capital funds logistics, warehousing and marketing activities; through credit and settlement services, the financial system smoothes commodity circulation and energizes market activity. In distribution, savings, investment, insurance and other financial products help residents preserve and increase their wealth, balance income distribution and promote social equity. As the terminal link of the real economy, consumption vitality shapes overall economic performance. Consumer credit, credit cards and other financial tools stimulate household consumption demand and fuel aggregate economic expansion.

2.2. The financial system mitigates risks for real economic entities

The financial sector delivers critical risk management solutions for the real economy. Real economic operations are exposed to various uncertainties such as market risk, credit risk, operational risk and liquidity risk. Uncontrolled risks will severely destabilize real economic development.

Financial institutions possess professional risk evaluation and management capabilities. They assess project risks of real economy participants and deliver tailored financing and risk mitigation plans to reduce operational volatility for market entities. Meanwhile, the information intermediary function of the financial system empowers real economic operators: Financial institutions collect, organize and analyze massive economic data covering market supply and demand, corporate financial conditions and industrial trends, and transmit such information to market participants in a timely manner. This enables enterprises to grasp market dynamics, make data-driven operational decisions, improve resource allocation efficiency and foster sound development of the real economy.

3. Current challenges facing China's financial system in serving the real economy

3.1. Imbalanced allocation of financial resources

Severe mismatches persist between capital supply and demand. On one hand, massive capital remains concentrated in traditional sectors including real estate and local government financing vehicles (LGFVs). Excessive capital inflows into these areas amplify asset bubble risks, push up overall economic leverage ratios and weaken the stability of the financial system. On the other hand, key and vulnerable sectors of the national economy—Manufacturing, micro, small and medium-sized enterprises (MSMEs), and agriculture—Have long suffered from financing difficulties and high financing costs. Capital shortages severely restrain their sustainable growth.

3.2. Distorted financing structure

China's financing structure suffers from marked imbalance, with indirect financing accounting for roughly 70% of total financing and direct financing only 30%. The country's bank-dominated indirect financing framework has long held a dominant position. Under this structure, corporate financing relies heavily on physical collateral and historical credit records. This model fails to deliver effective financial support for asset-light, high-risk and high-growth tech innovation enterprises.

3.3. Insufficient core competitiveness of financial institutions

China has established a multi-tiered modern financial system covering banking, securities, insurance, trust, funds and futures. Nevertheless, financial institutions still face uneven development and weak core competitiveness. Many financial players lag behind in product innovation and cannot meet diversified financial demands from the real economy. For instance, financing products and dedicated services for tech startups remain scarce, failing to provide full-lifecycle financial support for innovative firms.

3.4. Homogenized financial services

Homogenization represents a widespread issue in financial services. Financial institutions offer largely identical products and services with limited innovation and differentiated positioning, which cannot match the increasingly diverse market demands. Most financial players adopt similar business models and product lines, failing to design customized financial solutions catering to enterprises of different types and growth stages.

4. Optimization paths for the financial system to better support the real economy

4.1. Optimize the allocation of financial resources

Efficient allocation of financial resources hinges on building a multi-layered, wide-reaching financial market system. First, policy guidance and market mechanisms should jointly divert capital away from overcrowded traditional sectors toward manufacturing, MSMEs, agriculture and other priority and vulnerable industries. Targeted special funds and preferential tax policies can attract social capital to these sectors and ease their financing constraints.

4.2. Improve the financing structure

Channels for direct financing shall be expanded to offer more inclusive and flexible funding options for real economic entities. Eligible enterprises should be encouraged to raise capital via equity and

bond issuances in capital markets, lowering overreliance on bank loans. For tech innovation enterprises, dedicated boards including the STAR Market and ChiNext shall maintain streamlined listing channels and customized financing support to meet capital demands across different growth phases.

4.3. Deepen reform of financial institutions

Strengthening financial institutions' core competitiveness centers on developing modern financial institutions and market systems while clarifying institutional positioning. Financial institutions need to accelerate product innovation and launch targeted, flexible financial products responding to diverse real economy needs. For tech firms, full-lifecycle financial packages covering seed, growth and maturity stages should be developed, including R&D loans, intellectual property (IP) collateral financing and equity financing to address capital requirements at every development stage.

4.4. Upgrade specialized financial service capacity

Financial institutions shall prioritize unique demands of enterprises across different industries and growth stages by delivering customized, specialized services. When serving tech innovation firms, financial institutions need to strengthen internal governance and talent development: Dedicated tech finance teams can be established to boost service efficiency and risk control capacity. Cultivating a high-caliber, specialized financial workforce provides solid human capital support for better real economy services.

5. Conclusion

China's financial system must adhere to its core mission of serving the real economy. Taking supply-side structural reform in the financial sector as the main thread and supporting vulnerable links of the real economy as the core orientation, the financial sector shall continuously optimize financial resource allocation, restructure financing channels, advance institutional reforms and upgrade service professionalism. These efforts will deliver higher-quality, more efficient financial services to fuel robust development of the real economy.

Fundings

This paper is supported by the General Program of the 2025 Innovation and Entrepreneurship Development Fund (Special Research Fund) of Changchun University of Tourism. Project Title: Research on Paths for the Financial System to Serve the Real Economy; Project No.: JS2025009.

About the author

Wanning Li (1996.04-), female, lecturer.

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