

Researcher says Chinese credit market remains underdeveloped

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The Chinese government has made several reforms to its economic policies in recent years. Despite these reforms, a new study shows that Chinese households are not utilizing their credit market to its fullest extent. Rui Yao, a researcher in the department of Personal Financial Planning in the College of Human Environmental Sciences at the University of Missouri, says a recent survey of urban Chinese households shows that the Chinese credit market remains underdeveloped.

"On average, Chinese urban households own very little [debt](#), which indicates that they are not utilizing debt to level their life-cycle consumption," Yao said. "While it is good that Chinese households aren't overspending, refraining from taking advantage of the credit market is slowing the Chinese economy."

Yao studied the data collected by researchers at Tsinghua University in Beijing, during a 2008 survey of urban Chinese households. The survey showed that only 11 percent of Chinese urban households held any kind of debt, compared to nearly 80 percent of U.S. households. The survey also revealed that while more than 85 percent of Chinese households owned residential properties, less than 10 percent hold a mortgage on their property. This is compared to the U.S., where more than 70 percent of households have a current mortgage on their homes.

The study reveals one possible explanation for the low debt rate in urban China. It shows that Chinese households, on average, display a 50

percent saving rate, meaning they only spend half of their annual after-tax income. Yao attributes this trend to the lack of knowledge and experience on investments and debts.

"Credit and debt are still fairly new concepts to Chinese households," Yao said. "The [Chinese government](#) should play an active and leading role in supporting [financial education](#) to the general public. The government has made economic progress through reform in recent years, but it still needs to further develop the [Chinese market](#) by teaching households the benefits of utilizing credit."

More information: This study was published in the Journal of Family and Economic Issues.

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