Rates of Interest, Credit Supply and China’s Rural Development*

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Abstract

By analyzing the data on the supply of rural credit, we find that the official statistics have overstated the actual supply of institutional credit in rural China, and after 1996 the supply of institutional credit as a proportion of rural deposits in China has plummeted. Using the findings from field investigations in China, we argue that the current official lending rate is unsustainable and that state regulation over interest rates and subsequent market distortions has contributed to the even-growing non-performing loans and financial losses of rural financial institutions, and hence to the declines in the supply of rural credit.