

Analysis of the Impact of the New Crown Epidemic on My Country's Economy and How to Use Monetary Policy

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Abstract

The outbreak of the new crown epidemic in early 2020 will have a certain impact on the economy of my country and the world. This article uses this as a background to analyze the specific impact of the epidemic on my country's economy and how my country's monetary policy can be regulated and effectively exerted under this impact. The article is divided into three parts. The first part discusses the impact of the new coronavirus on my country's economy from three aspects: external demand, price, and GDP. The second part analyzes the characteristics of my country's monetary policy and the research on the monetary policy adopted by China under the epidemic. The third part introduces the changes in my country's monetary policy under the epidemic from the policy objectives and policy stances, and explores how my country's monetary policy should be effectively used to fully realize the monetary policy objectives. Finally, summarize the article and outline the main points.

Keywords

COVID-19; Monetary Policy; Economic Fluctuations.

1. The Impact of the New Crown Epidemic on My Country's Economy

(1) There is a certain degree of uncertainty in my country's external demand

① The novel coronavirus epidemic constitutes an international public health emergency. Other countries may be taboo against China, and China's third-party industry and export trade are affected. In the first quarter of 2020, my country's export of goods trade was 3.33 trillion yuan, down 11.4%.

② With the global spread of the new crown epidemic, the increase in externally imported risks will further impact international trade, and China's foreign demand will decline, and economic growth will be slowed down. As of June 1, Beijing time, at least 11 countries, including the United States, Russia, and India, have newly confirmed more than 1,000 new cases in a single day. Currently, there are more than 6.18 million confirmed cases of new coronary pneumonia worldwide. The further development of the domestic epidemic has aggravated the decline in China's foreign demand. In the first quarter, my country's imports of goods were 3.24 trillion yuan, a decrease of 0.7%, and the trade surplus was 98.33 billion yuan, a decrease of 80.6%. At the same time, the development of the epidemic is also impacting my country's industrial chain at both ends of supply and demand.

(2) The price level fluctuates in the short and medium term, showing a trend of regression in the long term.

① Short-term inflation continues to be high. The epidemic broke out during the Spring Festival. The dual effects of the festival and the virus triggered a panic buying boom, and the national price level rose more than expected. In the short term, major companies do not meet the

conditions for resumption of work and logistics costs are at a high level, so the short-term price level (PPI) is still rising.

② Mean-term demand and supply indicators have slowed year-on-year. Due to the fear of virus infection, restrictions on the movement of people have brought a decline in demand. At the same time, the epidemic has restricted many companies from resuming work or being forced to work from home, reducing production efficiency and interrupting the production of many products, resulting in supply. The end is blocked. However, my country has introduced policies rapidly, the prevention and control of the epidemic has gradually improved in the medium term, enterprises have resumed work one after another, and the price level has fallen compared with the short term.

③ The long-term epidemic has been effectively controlled, all enterprises have basically resumed work, students have returned to school, and social behavior has returned to stability. At the same time, with the support of various national policies such as finance, currency, and industry, prices will be in a trend of regression.

(3) The impact of the new crown epidemic on my country's GDP

Our country's real GDP growth rate has fallen, and the industrial added value in the first quarter of 2020 will drop by 13.4% year-on-year. In the GDP composition, final consumption fell by about 15% to about 1.8 trillion, total capital formation fell by about 10% to about 1 trillion, and the net outflow of goods and services fell by 0.4 trillion, a total decrease of 3.2 trillion from the same period last year, accounting for approximately 15% of GDP (2.1 trillion) in the same period last year. On the whole, China's nominal GDP in the first quarter fell by about 15% year-on-year, and its real GDP fell by about 16% year-on-year. The average global agency's forecast of China's DGP growth rate in 2020 reached 5.44%.

2. My Country's Current Monetary Policy

(1) Features of my country's monetary policy

① my country's monetary policy is characterized by a quantitative monetary policy as the mainstay and a price-based monetary policy as a supplement.

The main difference between a quantitative monetary policy and a price-based monetary policy, which is based on the adjustment of the deposit reserve ratio and supplemented by repurchase and loans to financial institutions, is reflected in the choice of intermediary indicators. Usually in the implementation of quantitative monetary policy, the cost of funds of financial institutions and the nominal interest rate will change correspondingly. When bank deposit reserves decrease, banks can lend more funds, and the increase in the frequency of deposit usage will correspondingly reduce the average cost of funds for banks.

② The main intermediary indicator of my country's monetary policy is money supply rather than interest rates.

Looking at the development of the Chinese economy in the past, it can be seen that the growth of the real economy is not sensitive to interest rate policies. The growth of my country's economy mainly depends on the government's intervention in the financial system. Through government credit guarantees, private funds can be effectively used to ensure the rapid development of the economy with the stability of the financial system. However, because government intervention and control affect interest rate transmission to a certain extent, banks still have a "dual track system" of interest rates. The market interest rate of money is determined by the market, and the central bank cannot fully grasp the intermediate information. When interest rate regulation is carried out, it will result in the equilibrium of the credit market, insensitivity to the interest rate of the money market, and the situation that the credit market is not dominated by interest rates. From the perspective of credit supply, the

central bank uses credit limit control tools to stabilize the money supply, which makes bank credit free from the influence of interest rate factors. From a demand perspective, excess liquidity in the financial system brings speculative demand that is not sensitive to market interest rates. Normal speculative demand that is sensitive to interest rates cannot be met.

③ my country's monetary policy targets are diversified, mainly including economic growth, stock market, exchange rate stability, inclusive finance, real estate regulation and other targets.

(2) In order to alleviate the impact of the epidemic, the monetary policy formulated by my country

The new crown epidemic has caused a certain impact on the economy and financial system, and it has also brought challenges to the formulation of my country's monetary policy. In order to alleviate the negative effects of the epidemic, the central bank has adopted a variety of monetary policies.

Maintain the liquidity of the financial system and the stability of the stock market through targeted RRR cuts, medium-term lending facilities, and reverse repurchase agreements.

In order to support the production of key medical prevention and control materials and daily necessities, and to provide preferential loans for transportation and sales companies, the central bank has established a special re-lending policy and used financial discounts to further reduce the financing costs of companies that produce epidemic prevention and control materials.

Carry out the central bank bill swap operation, exchange into the perpetual bonds issued by commercial banks, enhance the risk tolerance of commercial banks, and supplement the cost of perpetual bonds issued by commercial banks.

In order to support the financing of small and medium-sized enterprises and support inclusive finance, the central bank has put a large amount of long-term funds into the market through targeted RRR cuts and medium-term lending facilitation policies to increase credit supply and reduce financing costs.

The central bank lowered the interest rate on excess deposit reserves, increased the bank's fund surplus, and increased the frequency of fund use. Strengthen its willingness to lend so as to better serve the development of the real economy.

3. How should My Country's Monetary Policy be Exerted under the Impact of the New Crown Epidemic?

(1) Changes in my country's monetary policy

① In terms of policy

Under the impact of the new crown epidemic, the Central Economic Work Conference adjusted the monetary policy to "flexible and appropriate", which indicates that my country's monetary policy will maintain a loose position in 2020, and the pace will be advanced and the intensity will be increased.

Reviewing the monetary policy stance in 2019

In the first quarter of 2019, the 7-day repo rate (DR007) of inter-bank deposit financial institutions pledged by interest rate bonds fell from 2.65% at the end of 2018 to 2.59%, and the monetary policy was in a moderately loose position. In January 2020, interest rates were reduced across the board, and the amount of new social financing in the first quarter increased significantly compared with the same period last year. At the same time, due to the impact of the epidemic, the government's efforts have increased, adding 717.2 billion yuan of local government special bonds, which is 9.3 times the issuance in 2018. The full coordination of fiscal policies promoted economic development in the first quarter, and the development of the financial market exceeded market expectations.

In the second quarter of 2019, the monetary policy returned to be prudent, and the policy positioning was changed by sudden incidents in the middle of the year. The economy was relatively stable in April 2019, the monetary policy tended to be stable, and the marginal easing positioning tended to shrink. In May, Baoshang Bank suffered a serious risk crisis and was subsequently taken over. Since then, monetary policy has quickly returned to marginal easing, and the central bank has begun to implement a lower deposit reserve ratio for small and medium-sized banks, releasing a total of about 280 billion yuan in long-term bank funds. In order to stabilize market confidence, the Central Bank and the China Banking and Insurance Regulatory Commission have issued policies such as issuing certificates of deposit business for some small and medium-sized banks and increasing the rediscount quota of small and medium-sized banks, effectively restoring market confidence in the financial system.

In the third quarter, economic development tended to be stable, and the positioning of monetary policy was again stable. Among them, the increase rate of DR007 increased by 0.23%. In August, the Sino-US trade war escalated. The United States announced an increase of 10% tariffs on 300 billion goods coming to China. The renminbi further depreciated and the exchange rate broke "7" for the first time. At the same time, the central bank launched a reform strategy to deepen the market-oriented reform of interest rates, and targeted commercial banks to reduce the RRR by 1 percentage point.

In the fourth quarter of 2019, monetary policy once again returned to a moderately loose trend. From the perspective of quantitative monetary policy, a total of 833 billion yuan of net liquidity was released in November and December 2019, and interest rates were reduced by 0.5% at the beginning of 2020; from the perspective of price-based monetary policies, the policy interest rate curve was fully moved downward, 14 days The reverse repurchase interest rate and the 7-day reverse repurchase interest rate were lowered compared with February 2020, and the funds were loose in the fourth quarter.

On the whole, the monetary policy in 2019 will be sound. The monetary policy will remain tight and moderate and liquidity will be reasonably sufficient, while increasing the proportion of direct financing and improving the monetary policy transmission mechanism.

Under the impact of the epidemic, my country's monetary policy has changed from "moderately tight" to "moderately flexible".

Under the impact of the epidemic, monetary policy must implement discretionary decisions and increase counter-cyclical adjustments. It is necessary to promote the reasonable growth of social financing scale and maintain reasonable and sufficient liquidity. At the same time, it is necessary to solve structural problems. Therefore, in 2020, the monetary policy should be flexible and appropriate while maintaining stability. While deepening the reform of the financial supply side, it should increase the long-term financing of the manufacturing industry. Monetary policy must maintain sufficient liquidity, increase the scale of credit, reduce the cost of social financing, and allow the scale of social financing to correspond to economic development.

② In terms of policy objectives

my country's monetary target is a multi-target system, which specifically includes promoting economic growth ("stabilizing growth"), maintaining full employment ("stabilizing employment"), maintaining price stability ("stabilizing inflation"), and maintaining the balance of international payments ("stabilizing exchange rate").), promote the five main aspects of the financial system and financial reforms ("preventing risks", "stabilizing leverage", and "adjusting institutions"). Economic changes will affect the weight of policy objectives. Among them, the monetary policies implemented to maintain full employment and promote economic growth are very similar. The two are merged below to analyze the weight of my country's four main monetary policy objectives under the impact of the new crown epidemic. change.

Overall analysis of changes in the four major policy objectives

Looking back at the economic development in 2019, the global currency is loose and the domestic economic pressure is increasing. Monetary policy needs to stabilize the economy, stabilize prices, and stabilize the exchange rate. Looking at the monetary policy goals in 2019, "stabilizing growth" and "stabilizing employment" have the highest weights, "structure adjustment" and "risk prevention" are in the second place, price stability is the third, and the goal of "stabilizing exchange rate" is due to loose international currencies. Positioning and realization is easier to be in the fourth place. In 2020, the policy goal of "economic growth and full employment" is still in the first place, but the weight is further increased, and the weights of the remaining three policy goals of "price stabilization", "structure adjustment and stabilization risk", and "exchange rate stabilization" have all declined to a certain extent.

Under the impact of the new crown epidemic, the weight of "stabilized growth and stable employment" in my country's monetary policy will continue to rise in 2020.

Since 2019, the Sino-U.S. trade war has continued to heat up and intensified. The U.S. tariffs imposed on China have increased significantly. Trade frictions have had a serious negative impact on the global economy. In addition to the outbreak of the 2020 raid, restrictions on personnel movement and extended holidays have affected the normal production and marketing of enterprises. According to the survey, more than 80% of small and medium-sized enterprises are facing serious difficulties. Under the internal and external organization, my country's economy has been severely affected, and the unemployment rate has also risen sharply. In this context, the policy goals of stabilizing economic growth and maintaining full employment have become top priorities.

Under the major goals of financial stability and financial reform, the goal of "preventing risks" has weakened, and the goals of "adjusting structure" and "reducing costs" still need to be exerted.

Financial stability is the prerequisite for financial development and reform, and financial reform is the fundamental driving force and means for financial development. Financial stability is based on the absence of financial risks, and changes in the macro leverage ratio are used as a measurement indicator. With the spread of the epidemic, the net interest margin of most banks in my country has increased, the non-performing loan rate has increased, and the risk has increased slightly. At the same time, the development of small and medium-sized enterprises in my country has been hindered. As the times require, the weight of the policy objectives of "adjusting structure" and "reducing costs" has risen. Although the epidemic has aggravated the risks of banks, in order to achieve the goal of economic growth, the liquidity risk of small and medium-sized banks will be reduced under the cooperation of monetary policy and financial supervision. Related monetary policies will curb the fluctuation of funds and maintain sufficient liquidity of financial assets. , Financial supervision replenishes capital for banks and recommends banking reforms, so the goal of "preventing risks" is weakened to a certain extent.

"Exchange rate stabilization" target weight decreased

As the monetary policy is flexible and moderate, the room for easing is open, and the pressure to achieve the policy goal of stabilizing the exchange rate is weakened. During the epidemic, the renminbi depreciated slightly, and then appeared at the turning point of the epidemic, and the personal name currency rebounded. The easing of the Sino-US trade war will also support the RMB exchange rate, and the resilience of the U.S. dollar to RMB exchange rate will increase.

(2) Regulation of my country's monetary policy

Looking forward to 2020, in response to the economic downturn crisis and banking liquidity risks, the central bank will continue to implement loose monetary policy, the policy interest rate curve will be lowered in an all-round way, and the RRR cut will ensure that the financial

system maintains sufficient liquidity and reduce the cost of debt for commercial banks. Enhance the bank's credit incentives for SMEs and support the expansion of bank loans.

① Strengthen the bank's credit incentives for small and medium-sized enterprises

At present, my country's statutory deposit reserve accounts for a relatively high proportion and there is still room from the historical low point. Therefore, my country's reserve ratio has room for adjustment. The central bank can reduce the deposit reserve ratio to increase the motivation of banks to provide loans to endangered small and medium-sized enterprises. At the same time, the central bank can adopt measures such as accepting bank loans as collateral, waiving risk recourse, and purchasing higher-risk loans to reduce bank risks and increase exposure to banks. Incentives for lending.

② Cooperate with a proactive fiscal policy

Monetary policy needs to work together with fiscal policy to solve the problem more accurately. Pure monetary policy will exacerbate market imbalances. Therefore, the government needs to cooperate with monetary policy through fiscal means such as taxation and guarantee to ensure the smooth operation of the economy and the realization of monetary policy goals.

③ Optimize the flow of international capital

The global spread of the epidemic has caused major economies to implement a "quantitative easing" monetary policy, and global capital is changing. my country's monetary policy must pay attention to international developments, alleviate the lack of global liquidity caused by the epidemic, and actively participate in international capital flows. For example, based on its strong economic strength, China can provide the country with an ideal and safe currency, provide RMB liquidity support for some international markets, and actively expand the overseas scale of RMB.

④ Poverty alleviation through enterprises increases employment rate

Many companies are layoffs under the influence of the epidemic, especially the income of staff in the service industry has dropped sharply. This has led to an increase in the unemployment rate of social groups, and a decline in the happiness and quality of life. Financial institutions can provide loans for the payment of employee salaries in some companies to ensure that companies will not be forced to lay off employees if they cannot pay wages. At the same time, the central bank can also accept such loan collaterals from financial institutions, indirectly providing liquidity for wages paid to employees.

4. Conclusion

The new crown epidemic has a negative impact on my country's economy, mainly manifested in the reduction of external demand, short-term price fluctuations, and the decline in GDP growth. In response to economic and financial system shocks, the central bank formulated monetary policies under the epidemic, including targeted RRR cuts, the establishment of special re-lending policies, and the development of central bank bills based on the diversification of my country's monetary policy objectives and the use of money supply as the main intermediary indicator. Swap operations, targeted RRR cuts and medium-term lending facilitation policies, lowering the interest rate of excess deposit reserves to promote bank loans, etc. While the new crown epidemic has caused economic fluctuations, it also has an impact on the size of the monetary policy target weight and policy stance. Among them, the weight of the goal of "stabilizing growth and stabilizing employment" in monetary policy has been further increased, and the position of monetary policy has changed from "moderate looseness" to "moderate looseness". The formulation of my country's monetary policy should play a role in coordinating with fiscal policy, incentivize banks to lend to small and medium-sized enterprises, optimize international capital flows, and implement poverty alleviation through enterprises. The goals

of growth, full employment, price stability, balance of international payments, financial system and financial reform have been assisted.

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