

Adaptive Financial Policies and Economic Resilience: China's Response to COVID-19 Pandemic Disruptions and Market Stability

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ABSTRACT

The COVID-19 pandemic has had profound economic consequences globally, and China's response to the crisis, through strict public health measures and adaptive financial policies, offers valuable insights into managing market instability. This article examines the financial and economic disruptions caused by the pandemic in China, with a focus on the stock market, bond market, SMEs, and commodity prices. While the stringent lockdowns, particularly in Shanghai, exacerbated market volatility, China's proactive fiscal and monetary measures, including liquidity injections and targeted fiscal relief, helped mitigate some of the economic fallout. The article also contrasts China's accommodative stance with more aggressive austerity measures in other parts of the world, highlighting the implications for long-term economic stability. The findings emphasize the importance of adaptive, forward-thinking monetary policies in responding to global crises and fostering resilience in national economies. Moving forward, the focus on sustainable economic growth and financial system stability will be essential for post-pandemic recovery.

KEYWORDS

COVID-19 Pandemic; Economic Resilience; Financial Stability; Monetary Policy; Small and Medium Enterprises.

1. INTRODUCTION

Since the emergence of COVID-19 in late 2019, the pandemic has rapidly spread across the globe, resulting in an alarming increase in both confirmed cases and fatalities. The pervasive nature of the virus has instilled widespread fear, leading to significant disruptions across various economic sectors, including the stock market, bond market, commodities market, and foreign exchange markets. Among the countries most affected, China's approach to controlling the epidemic has been notably more effective compared to many European and American nations, whose responses have been characterized by a greater degree of uncertainty and inconsistency.

To mitigate the economic repercussions of the pandemic, the formulation and implementation of appropriate monetary and financial policies have been pivotal. In particular, China's response to the health crisis, which involved strict lockdown measures and significant containment strategies, has directly impacted the stability of its financial system [1]. These measures, while necessary for public health protection, have induced considerable volatility and instability in the country's financial landscape, affecting everything from investor confidence to liquidity levels in various sectors. As

such, the role of adaptive financial policies in ensuring economic resilience during such crises cannot be overstated, particularly in the face of uncertainties introduced by the ongoing health emergency.

2. ECONOMIC AND FINANCIAL IMPACT OF THE COVID-19 PANDEMIC ON CHINA'S MARKET STABILITY

The COVID-19 pandemic has significantly exacerbated uncertainty in global equity markets, with China being no exception. In particular, recent outbreaks in Shanghai have amplified market volatility, as the city has experienced a notable surge in cases compared to other regions in China. Consequently, Shanghai has been placed under stringent lockdown measures, disrupting transport and logistics networks, and severely affecting the supply chains of numerous businesses. As China's financial hub, the lockdown in Shanghai has had a direct impact on the performance of the Chinese stock market, leading to declines in market indices [2].

One of the most pressing issues faced by China during the pandemic is the difficulty of financing small and medium-sized enterprises (SMEs). SMEs, which contribute around 60% to China's GDP, have been hit particularly hard by the economic disruptions caused by the pandemic [3]. The heightened uncertainty in the market has exacerbated the financial strain on these businesses. During the pandemic, over half of Chinese SMEs reported facing significant cash flow problems, urgently requiring financial support to maintain operations. However, financial institutions, including banks, have been hesitant to lend to SMEs due to the increased risks. Lending to micro and small enterprises poses a dual threat to financial institutions: a higher likelihood of non-performing loans and the challenge of narrowing net interest margins [4]. This has created a precarious situation for both SMEs and the financial institutions that are critical to their survival.

In the commodities market, price fluctuations have also been observed as a direct consequence of the pandemic, though the changes have not been as severe as some initially anticipated. For example, commodity prices, including oil, dropped dramatically in response to fears of economic slowdowns in China due to the Delta variant of the coronavirus. However, in July 2020, after China reported zero new local COVID-19 cases, the prices of oil and iron ore rebounded. Similarly, in April 2022, when new outbreaks of COVID-19 were reported in major cities like Shenzhen and Shanghai, commodity prices experienced renewed fluctuations [5]. Despite these variations, the Chinese government's strict control measures have led to a prevailing belief that the impacts of the pandemic on commodity prices will be short-lived, and therefore, prices may not experience drastic movements in the long term.

In addition to the domestic challenges, the pandemic's effects have been compounded by global economic conditions. For instance, the U.S. Federal Reserve's interest rate hikes, in conjunction with China's city lockdowns, led to significant depreciation of the Chinese yuan. In April 2022, the yuan fell by 4.6% against the U.S. dollar, reaching a rate of RMB 6.63 to USD 1 [6]. This depreciation further added to the pressure on China's financial markets and exacerbated the financial challenges faced by businesses and individuals alike.

In response to these economic disruptions, the Chinese government has introduced a series of policy measures aimed at mitigating the negative impacts of COVID-19. These include policies to stabilize the financial markets, support the supply of money, and provide financial relief to affected sectors [7]. By implementing targeted fiscal and monetary interventions, the government aims to stabilize the economy, support SMEs, and reduce the broader economic fallout from the pandemic's ongoing effects.

3. GLOBAL AND NATIONAL RESPONSES TO ECONOMIC PRESSURES INDUCED BY THE COVID-19 PANDEMIC

The global economy has experienced significant disruptions due to the effects of the COVID-19 pandemic, which has led to widespread bottlenecks in global supply chains. These supply chain disruptions have not only slowed down economic activities but also contributed to rising inflation, which has placed considerable strain on households around the world. Increased prices for essential goods such as food and energy have further exacerbated the financial difficulties faced by individuals, making it more difficult for people to maintain their standard of living [8]. In response to these challenges, global financial institutions, including the World Bank, the International Monetary Fund (IMF), and central banks in various countries, have taken swift and coordinated actions to address the economic fallout [9].

In Europe and the United States, as inflation rates deviated from the targets set by central banks, many nations responded by implementing more aggressive austerity measures. One common strategy has been the raising of interest rates, a move designed to curb inflation by making borrowing more expensive [10]. However, while this policy can help reduce inflationary pressures, it simultaneously poses the risk of further suppressing economic growth by discouraging investment and consumption, which could lead to a contraction in overall economic activity.

In contrast to the austerity measures seen in other parts of the world, China has taken a more accommodative stance in response to the inflationary pressures caused by the pandemic. In an effort to stabilize the economy, the People's Bank of China (PBOC) lowered the reserve requirement ratio for banks by 25 basis points, which theoretically could inject more than RMB 500 billion in new loans into the economy [11]. However, the Chinese central bank did not implement a reduction in key interest rates at this time. This decision was primarily aimed at addressing the reluctance of banks to lend to businesses and individuals amidst the uncertainties caused by the pandemic. In January 2022, the PBOC also made slight reductions to the one-year and five-year prime lending rates, which are commonly used for setting mortgage rates [12]. Such accommodative policies were intended to encourage borrowing and investment, especially if economic conditions improved as the pandemic receded.

Further steps were taken in May 2022, when the PBOC held a meeting focused on efficiently matching credit supply with demand. The PBOC also allowed the yuan to fluctuate within a 2% daily band, aiming to stem the currency's downward slide caused by market sentiment and capital outflows [13]. However, in late April 2022, the PBOC refrained from further interventions to stabilize the yuan, as the depreciation of the currency had the unintended benefit of boosting China's export economy by making Chinese goods more competitively priced on the global market.

In June 2022, a suite of additional monetary measures was introduced to further support China's economy. Notably, the central government allocated an additional RMB 142 billion to supplement the initially planned RMB 150 billion tax credit rebates [14]. This initiative aimed to provide relief to small and micro enterprises, as well as individual entrepreneurs, who had been severely impacted by the pandemic. These businesses were particularly vulnerable to cash flow issues, and the tax rebates were designed to alleviate some of the financial burdens they faced during this challenging period.

In addition to these monetary measures, the Chinese government directed financial institutions to prioritize lending for infrastructure development. This policy was coupled with an increase in the issuance of special local government bonds. In May 2022, local governments issued a total of RMB 2.03 trillion in new special bonds, with additional bond issuances planned for June [15]. The government encouraged local authorities to expedite the utilization of these funds by August 2022. These measures were designed to stimulate economic growth through investment in infrastructure

projects, which would not only improve long-term economic prospects but also provide immediate employment opportunities and bolster financial stability in key sectors.

Overall, the Chinese government's response to the economic challenges posed by the COVID-19 pandemic has been focused on maintaining economic stability, ensuring liquidity, and supporting key sectors, particularly small businesses and infrastructure development. These measures are aimed at mitigating the short-term impacts of the pandemic while laying the groundwork for sustainable long-term economic growth.

4. CONCLUSION

The sudden onset of the COVID-19 pandemic has profoundly disrupted the global economy, breaking a period of relative stability that had persisted for over a decade. This unprecedented crisis has led to widespread economic weakness, inflationary pressures, and other challenging phenomena across various nations. In response to these disruptions, governments and financial institutions worldwide have employed a range of measures aimed at mitigating the immediate economic fallout and fostering recovery.

Focusing on China, this article has explored the country's response to the pandemic, highlighting the unique challenges faced by the Chinese economy and the policy measures implemented to navigate these turbulent times. While the direct impacts of the COVID-19 crisis are likely to be short-term, the path to global economic recovery will undoubtedly be prolonged. The pandemic has underscored the need for countries to craft robust, forward-thinking economic strategies that are tailored to their specific national contexts.

To ensure long-term economic stability and resilience, it is crucial for governments to develop and implement clear, adaptive monetary policies that can respond to both immediate and long-term challenges. This requires not only a flexible approach to policy-making but also decisive action to adjust existing frameworks in response to evolving economic conditions. As the world slowly emerges from the pandemic, the importance of fostering sustainable economic growth, reducing vulnerabilities, and building more resilient financial systems will be paramount for ensuring a stable and prosperous future for all nations.

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