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Study on the Influence of Macroeconomic Policy for Financial Market

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Abstract: ***The government has issued many macroeconomic policies aimed at the development of financial market, which has exercised a great influence on the development of financial market nationwide. The article intends to explore the influence of macroeconomic policies for financial market.***

Keywords: Macroeconomic policy, Financial market, Stock market，Influence, Fiscal Policy, Monetary Policy

1. Introduction

At present, our country is still in a crucial period of economic development. To combine the role of state and market should be adhered to so as to withstand the negative impact of financial crisis to our economy and promote the healthy development of financial market. The perfection of financial market requires not only the prosperity and development of market economy, but also related flexible governmental policies aimed at current international and national economic situation to guarantee the stable development of financial market.

2. Status Quo of Chinese Macroeconomic Policy

2.1 Steady Monetary Policy

In 2014, liquidity in banking system is relatively rational in China. It remains stable in the variation and development of monetary and credit policy, and social financing scale, which establishes a reliable monetary environment for the adjustment and transition of economic institutions. Credit structure, as a result can be further optimized. In July, 2014, loans of small and micro enterprises increased by 14.6%, 1.2% more than that of total loans. Market interest rate has dropped and RMB exchange rate has moved in both ways with improved flexibility. 2015 witnessed a complicated economic situation. As a response, in January, the government improved granting terms for agricultural and small businesses supporting relenting. Specifically, the terms specified the amount and interest rate of small and micro businesses loans, and increased relevant credit policy and loan limit of 50 billion RMB. In February, the central bank cut the bank reserve requirement ratio by 0.5%. Judged from the monetary policy implemented at the beginning of the year 2015, confronted with complicated economic condition, central bank will still carry out steady monetary policy, and take measures in accordance with market environment so as to realize a steady economic increase in 2015 and create a neutral monetary and financial environment for the adjustment and transition of economic structure.

2.2 Proactive Fiscal Policy

In 2015, Chinese government will continue to implement proactive fiscal policy. First, financial deficit will be properly enlarged so as to improve expenditure by using previous annual "carried over" money. Second, support for entity economy will be strengthened. It is required to carry out the tax reform of "business tax to value added tax" so as to avoid double imposition. It is further planned to implement cost reduction measures, especially to reduce or relieve the administrative or governmental funds of small and micro businesses so as to radically alleviate their burden. Third, service efficiency of financial fund is expected to increase in order to invest invigorated fiscal capital into the construction of national public service infrastructure. In order to prevent new funds precipitation, it is required to establish three-year rolling fiscal planning. Four, Investment scale of the government should be guaranteed and the guiding role of government should be given full play. By 2015, central authorities have spent 477.6 billion RMB on infrastructure construction, an increase of 20 billion year-on-year. The funds will be mainly used for national trans-regional and cross-basin major projects. By contrast, funds on competitive fields and small and scattered projects will be continuously reduced.

2.3 Financial Market

Financial market is a market in which capital supply and demand main body can trade and circulate funds by means of credit instrument. Actually, in social living environment, financial market equals with commodity and labor market. The distinction is that financial market is where accommodation of funds can be carried out. In financial market, concentration and allocation of capital supply and demand can be realized, and interest rate forms in accordance with capital supply and demand. Trading in financial market includes stocks and bonds, etc..

3. Influence of Macroeconomic Policy for Financial Market

3.1 From the Perspective of Macroeconomic Policy

3.1.1 Monetary Policy

Monetary policy is a macroeconomic policy by which the government conducts economic intervention through the control of money supply and financial market. Overall, monetary policy mainly includes interest rate policy, foreign exchange policy and credit policy. Based on the influence on money supply and interest rate, monetary policy is referred to as either being expansionary or contractionary, namely, proactive or steady. When in a recession, the government reduces interest rate to stimulate consumption and investment, and increases the total supply of money by way of lowering deposit reserve rate of financial institutions, reducing RMB loan interest rate of commercial bank, increasing money amount, and recycling bonds so as to propel domestic economic growth. Expansionary policy is traditionally used to try to combat unemployment in a recession, while contractionary policy is generally carried out in an economic boom. When the economy is overheated and commodity price continues to rise, the government will adopt contractionary monetary policy by way of increasing the deposit and loan interest rate of commercial banks, decreasing money supply, issuing open market bonds in order to restrain investment and consumption, slow down the economy growth, control the domestic commodity price and market environment within rational level, for the sake of ensuring the development of economy in a long and stable way.

3.1.2 Fiscal Policy

Fiscal policy is the use of macroeconomic policy to adjust the market failure by way of revenue collection and government spending to influence the national total demand, so as to influence the overall policy of gross national product. Generally speaking, the two main instruments of fiscal policy are changes in the level and composition of taxation and government spending in various sectors. Government spending includes government purchase and transfer expenditure. The same as monetary policy, fiscal policy mainly has two kinds of policies to adapt to different domestic economic environment. When the economy is in a recession, the government will adopt expansionary policy, and when the economy is overheated, government will choose contractionary policy.

When financial market remains stagnant, the government can use expansionary fiscal policy to expand total demand, so as to adjust national income and employment. From the perspective of taxation, government can lower individual income tax rate and income tax rate to stimulate consumption and investment. As for government purchase, the authority can renovate infrastructure, purchase government facilities, and expense the salary of governmental institutions and public institutions to promote the development of relevant industries and provide employment opportunities. Taking government transfer expenditure as example, intensifying transfer expenditure confronted with economic recession shall not only alleviate the living pressure of low-income groups, but also drive the increase of national economy and safeguard social stability. By contrast, government can restrain the overheated economy by reducing government purchase and transfer expenditure, and increasing deposit tax rate of commercial banks to ensure the healthy and continuous development of national economy.

3.2 From the Perspective of Financial Market—e.g. Stock Market

3.2.1 Monetary Policy

The influence of monetary policy for stock market can be shown in the following aspects. 1) The change of deposit reserve rate will set an impact on stock market, for it may lead to the change of money supply, which will impact the tendency of stock market. 2) Open-market operation may set an impact on stock market. When the government adopts expansionary policy, central bank will purchase plentiful bonds so as to increase money supply in the market, promote interest rate reduction, lower capital cost and motivate the enthusiasm of companies and individuals for investment and consumption. When production expands and profits increase, share prices will increase. In the contrary, share prices will drop. 3) Interest rate will impact stock market. The variation of interest rate will set a direct impact on the deposit yield rate, resulting in the change of capital flow direction and quantity, so as to impact the fund demand and stock prices. Moreover, the change of interest rate will affect the earnings of enterprises, so it may lead to the variation of share prices. Generally, when interest rate reduces, share prices will increase, and when interest rate increases, share prices will decrease.

3.2.2 Fiscal Policy

The influence of fiscal policy for stock market can be shown in the following aspects. 1) The change of revenue will set impact on stock market. 2) National debt will have impact on stock market. 1) Variation in revenue will affect stock market. The adjustment of overall taxation amount and structure can be effective for the change of securities investment and actual investment, in order to alleviate demand inflation of social investment. High tax rate will influence the investment of market for stock, and further reduce the enthusiasm of investors. Low tax rate or tax relief will stimulate the potential of investment and consumption capability of enterprises and individuals, so as to propel the development of market economy. 2) National bond will influence stock market. When national bond bears high credibility, investment risk will reduce. Therefore, a mass-circulation of national bond will lower the earnings and level of securities market. When national bond rate rises, investors will transfer the investment funds for stock to national bonds. National bonds and shares belong to competitive financial assets. Therefore, when the capital in securities market is limited, too much national bonds will definitely lead to the change of the shares issuing and trading volume, so as to reduce share prices.

3.2.3 Income Policy

Rapid increase of the income of urban-rural residents has greatly promoted the development of civil financial assets. As social accumulative capital disperses in the society, investment and saving are the only two choices for the outlet of capital. Since it is difficult to conduct direct investment due to diversification of capital, most investments are conducted by way of stock market. Overall, the gross of civil financial assets rises, and the social distribution of social gross accumulation tends to be saving, which intensifies the demand for securities market so as to promote the development of securities market.

3.2.4 Industrial Policy

Based on industry policy, stock issue should give priority to the industry of energy, transportation and raw material, etc.. Listed enterprises in those industries generally have a bright development prospect and are easy to win over preferential policy. When given preferential policy and support, the enterprises will obtain good economic profit and therefore, they will easily draw attention of investors so as to prompt the rise of share prices. Bond prices can also rise due to the low risk of industrial operation and high profit on operation. Even tightening fiscal and monetary policies can not hinder those industries from receiving special treatment. It comes to the conclusion that industrial policy can set a far-reaching influence on stock market.

4. Conclusion

At present, the healthy and normal function of financial market in our country requires the regulation and control of national macroeconomic policy. The stable development of financial market can only be realized by the administration of monetary and financial policies. Both proactive and stable financial policy and monetary policy can be effective for the regulation of financial market. The related governmental departments should be aware of the function of policies and adopt appropriate macroeconomic policies to adjust financial market so as to ensure the steady and healthy development of financial market.

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