

The Impacts of Covid-19 on Chinese Financial Sector

Wen Yuan¹, Luo Geng²

¹ Guizhou Minzu University, Guiyang City, Guizhou Province, China

² Vilnius University, Vilnius, Lithuania, LT-06134

Keywords: Covid-19, Financial sector, Impact

Abstract: The outbreak of the Covid-19 epidemic has had a profound impact on various industries in China. This paper will provide a basic analysis of the impact of the Covid-19 epidemic on China's financial sector from the perspective of behavioral economics, as well as suggest solutions to related issues.

1. Introduction

Following the outbreak of the Covid-19, which quickly and profoundly affected various industries around the world. The Covid-19 has had a certain degree of impact on China's economic and social stability. With reference to the experience gained during the SARS period in 2003, the negative impact of the Covid-19 on China's economy and financial markets depends on its durability and breadth of scope. The following sections analyze the impact of the Covid-19 on China's financial sector in terms of the stock market, the bond market, the foreign exchange market (RMB exchange rate) and the Shanghai Financial Centre.

2. The Stock Market

●The impact of market linkages on China's stock market Firstly, in terms of short-term correlation, the market linkage effect of the outbreak on the stock market is significant. Secondly, in the long term, the correlation between A-shares (RMB ordinary stocks) and stocks in other regions is not high and the increase in correlation caused by the outbreak will decrease in the coming period. Finally, the weak correlation between the US and Chinese stock markets is conducive to asset diversification. The Chinese stock market is expected to attract more foreign investors in the face of heightened uncertainty over expected returns from US and other stock markets.

●How physical risks from a damaged industrial chain affect China's stock market

a) Performance of industries with a damaged industrial chain As Japan, South Korea, Italy and Iran occupy important positions in the global industrial chain, the outbreak of the disease in these countries has had a relatively serious negative impact on China's new materials industry, auto manufacturing industry and semiconductor industry. Outbreaks in economies such as the EU and the US have had a generally more serious impact on China's electromechanical, transport, chemical, furniture and toys, optical and watchmaking, medical equipment, and textile industries.

b) Damage to the real economy and long-term stock market development Due to the continued

easing by central banks, the correlation between stock market development and economic development will further weaken in the future. This discrepancy will continue for a long time to come before a critical point is reached.

- Influence of foreign capital on China's stock market

a) The volatility of foreign capital flows and stock movements during the epidemic period has a certain correlation, and the net inflow of foreign capital has a certain predictive effect on A-shares (RMB ordinary shares).

b) Foreign investors tend to operate in swing mode, buying at low prices and selling at high prices. This practice of providing liquidity to the market has a positive effect in easing market volatility.

c) Foreign investors tend to buy the core assets of the region, highlighting the nature of value investing.

3. The Bond Market

- Overall credit market risks are manageable in the industry sectors related to the outbreak.

- Foreign investors may increase their allocation to the Chinese bond assets.

4. The Rmb Exchange Rate

- Analysis of factors influencing the RMB exchange rate

Long-term factors will not lead to significant fluctuations of the RMB in the short term, and short-term movements of the RMB exchange rate are mainly determined by market expectations. At present, both appreciation and depreciation expectations exist. The former includes the conclusion of the China-US trade agreement, the increase in the interest rate differential between China and the US and the increase in the RMB's hedging function; the latter includes the expected increase in the fiscal deficit.

- RMB exchange rate movements under the impact of the epidemic The RMB exchange rate (offshore spot) depreciated to 7.0132 on 3rd February 2020 and has not deteriorated further since then. It appreciated for risk aversion reasons after the global spread of the epidemic. The future trend of the RMB will depend on the economic recovery, the implementation of monetary policy (US-China interest rate differential) and fiscal policy (fiscal deficit), as well as the development of the US-China trade game.

5. The Impact on the Shanghai International Financial Centre

The Covid-19 will not have a direct impact on most of the indicators in the assessment of international financial centers. Some financial industries will be negatively affected to a certain extent, but the insurance and fintech sectors will see new opportunities for development. In addition, the neo-crowning outbreak has also brought more opportunities for the construction of six major centers in Shanghai, in particular the Financial Technology Centre, the International Insurance Centre and the Financial Risk Management and Stress Testing Centre. In the event of a global outbreak, the construction of Shanghai as an international financial center will be positively affected in the following ways:

- Shanghai's city brand and reputation will be significantly enhanced as a result of proper risk prevention.

- Foreign investors will increase their allocation of RMB assets, and the internationalization of the RMB is expected to be further advanced.

- It will be conducive to the construction of a multi-level capital market.

●It is conducive to the export of the financial technology industry (mobile payment, contactless payment, internet banking, etc.)

6. Reducing the Negative Impact of the Pandemic on Financial Sector

Widespread outbreaks are part of human history, and while the positive impact of the Covid-19 would be actively harnessed, effective measures should also be taken to reduce its negative impact. There are some suggestions of six different aspects may be helpful.

7. Prepare for Imported Risks of Epidemics.

a)Prepare for epidemic prevention and control for people coming to China from infected areas of the epidemic, including response plans, testing procedures, information handling, preparation of sites and materials and emergency plans.

b)Strengthen international epidemic information exchange and research cooperation to fight the epidemic together.

c)Ensure the smooth flow of logistics, improve the strategic reserve of supplies, and overcome market failures.

2. Fiscal policy is supposed to be more proactive, monetary policy will be prudent and moderately relaxed, regulatory policy will be continuous and flexible, and institutional reform will be deepened in the long term.

a) Proactive fiscal policy should be more proactive, with more emphasis on incentivizing consumption and reducing taxes and fees, rather than just investment promotion, to improve the efficiency of using funds. Optimize the structure of spending, and shift more towards education, healthcare, pensions, and new infrastructure.

b) Monetary policy should be prudent and moderately relaxed, with close attention paid to the risk of stagflation and the prevention of systemic financial risks.

8. Industry Development Measures.

a) Provide targeted support to industries (e.g. tourism services, transportation) that are hard hit by the global spread of the neo-crown epidemic and have weak risk-resilient capacity of their enterprises.

b) Support the development of innovative enterprises and support Chinese information service enterprises to expand their service output in the face of the global spread of the neo-crown epidemic.

9. Take More Active Measures to Deal with the Impact of the International Spread of the Disease on the Industrial Chain.

a)Guarantee the resumption of work and production in industries that have a significant impact on the international industrial chain, so as to reduce our influence on the international industrial chain and improve the trust and reliability of the upstream and downstream industries.

b)Make a commitment to the international community to ensure the stability of the supply chain of some products of global security and provide additional support to produce epidemic prevention materials.

c)Actively support the fight against epidemics in Japan and South Korea to reduce the impact of epidemics in these two countries on the upstream and downstream of the industrial chain in China.

d)Strengthen the independent supply chain support, promote the aggregation and promotion of

advantageous industries, and facilitate the absorption of manufacturing industries from the central and western regions to the east and south.

10. To Ensure the Stable Operation of the Financial Market, Expand the Opening of the Financial Sector to the Outside World.

a) Under the circumstances of the global spread of the epidemic, take active measures to address possible risks in the three markets of stocks, bonds and foreign exchange to prevent excessive disruption to the market in case of panic and ensure the stable operation of the market.

b) Actively attract foreign hedge funds to the market and attract foreign investors and international financial institutions to stay in China for the long term by expanding the opening of the financial sector.

c) Take the spread of overseas epidemics as an opportunity and risk scenario to promote cooperation between the government and financial institutions and between the government and the government to strengthen financial risk management.

11. Coping with the Effects of Anti-Globalization with the Concept of a Community of Human Destiny.

a) In the situation of the global spread of the new crown epidemic, adhere more actively to the concept of opening up and globalization, strengthen international exchanges, make full use of China's experience in the fight against epidemics and provide assistance to key areas in the fight against epidemics.

b) Strengthen international cooperation and provide capacity support and reasonably priced supplies for the global fight against the epidemic.

c) Encourage Chinese companies and institutions abroad to actively participate in the prevention and control of local epidemics.

d) Actively promote the information management tools developed in the fight against epidemics in China to help overseas countries in their fight against epidemics and at the same time boost the internationalization of the information service industry.

e) Make full use of the Internet and other platforms and channels to strengthen communication between people of different countries and enhance understanding and mutual trust between China and other countries.

12. Summary

2020 is a year of even more profound economic change, with the Covid-19 disrupting the trajectory of our economic growth and financial market development in the short term, but with temporary difficulties. The progression of the Covid-19 from outbreak to control to gradual overcome has its own pattern, for which we need to have enough patience and confidence. This crisis in the public health sector also has deeper implications for all sectors of the economy and deserves further reflection. For example, is there a similarity between the outbreak, spread and control of the pandemic and the systemic risks in the financial system? Financial institutions, especially risk prevention and control departments, should also learn from these experiences and lessons, take precautions, and build a more effective information transmission and early warning mechanism to ensure the stable and sound operation of the industry.

References

- [1] Bansal, Tanmay, *Behavioral Finance and COVID-19: Cognitive Errors that Determine the Financial Future* (May 7, 2020). Available at SSRN: <https://ssrn.com/abstract=3595749> or <http://dx.doi.org/10.2139/ssrn.3595749>
- [2] <https://www.researchgate.net/publication/341056233> *The Financial Pandemic COVID-19 and Policy Interventions on Rational and Irrational Markets*
- [3] http://www3.weforum.org/docs/WEF_Impact_of_COVID_19_on_the_Global_Financial_System_2020.pdf
- [4] Dhar B K . *Impact of COVID-19 on Chinese Economy*[J]. *Economic Affairs*, 2020, 9(3/4):23-26.