A PERSPECTIVE OF MONETARY POLICIES WITHIN CHINA AND EU TOWARDS COVID-19

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DOI: https://doi.org/10.31410/ERAZ.2020.15

Abstract: *COVID-19 has shut down the real economy since its outbreak by assaulting the society and its system, which was affected directly or indirectly, including the significant decrease of demand, huge shock of supplies, highly nervous and volatile of the financial market and the overall deterioration of the economic index. With the spread of the epidemic around the world, major economies have continuously introduced extraordinary economic policies to respond. This paper attempts to systematically sort out and analyze the characteristics and development of the epidemic, its impact mechanism, transmission path and actual impact on the global economy, as well as the response models, main goals and measures of macroeconomic policies of EU and China. It compares the macroeconomic policies by China and EU fighting against the COVID-19 and promoting the economy horizontally and vertically.*

Keywords: *COVID-19, EU, China, Macroeconomic policy, Monetary policy.*

1. INTRODUCTION

The prevention and control of the Covid-19 epidemic situation by major economies around the world has rapidly changed from „normal management" with stable finance and economy as the main line, to the primary task of anti-epidemic relief, while maintaining the „abnormal response" of financial and economic stability. From the macroeconomic perspective, the monetary policies of the major economies closely surround the goal of „1 + 5". That is, the primary goal is to support anti-epidemic relief, and then add five secondary economic goals: protect people's livelihood, bail out companies, stabilize finance, reduce the risk of economic crisis, guide market expectations and prepare for economic recovery. These policies have the following characteristics of „global emergency management": continuous introduction and clear objectives, unprecedented efforts, rich tools, comprehensive coverage, and national policy linkage.

As of the first quarter in 2020, the economic and financial policies of the major economies have contributed a certain impact in stabilizing the expected policies. It is foreseeable that as the epidemic has been dealt under control, the economic policies of various countries will enter the third stage, which is to stabilize the economy and promote recovery. Corresponding policy goals will shift to normal goals, namely employment and economic growth, and their models will gradually become normal management. It needs to be emphasized that economic stability and recovery can only be achieved after the epidemic is completely controlled and become the main goal of the policy.

In the following steps to recover the economy, the policy direction of each country depends on four factors: one is the development of the country 's epidemic situation and the effectiveness of epidemic prevention and control; the second is the effect of current policies; the third is the development of the economic situation; In the face of the New Coronary Pneumonia epidemic, a common crisis for all mankind, countries must cooperate in epidemic prevention and actively

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support international organizations to play a role. On this basis, we must strengthen international macro-policy coordination and jointly maintain the stability of the global industrial chain supply chain, so as to stabilize the development of the world economy.

This paper mainly focusses on the monetary policies taken by EU and China during the Covid-19. The first chapter characterizes the macroeconomic policies within these countries. The second chapter talks about the methods and methodologies, also the hypothesis around the studying topics. The following chapter illustrates the current analysis of the epidemic by the authors, provides a comprehensive comparison of the policies, which in detail gives a horizontal review among countries in EU and China, and a vertical see sight through the timeline of the policies. We also concern about the important global emergencies in the past, which had a destroyable impact to the world's economy, and try to figure out the common parts and differences.

2. METHODS AND METHODOLOGIES

To write this paper we are using various of research methods. We apply an inductive and comparative study to analyze these main objectives, including the impact to the economy of such global emergencies, and the macroeconomic policies taken by different type of government. We choose the European Union as a whole asset, and in Data collected since past 10-20 years given out by the international monetary organization, the European Central bank and the China National bureau of statistics.

Based on our current analysis, we have brought the following hypothesis, which could map the research objectives:

H1: Covid-19 has destroyed rapidly, especially the 3rd Industry in China.

H2: Countries with reserve currencies are more likely to get out of the trouble caused by the pandemic through borrowing heavily.

3. COMPARISON OF MACROECONOMIC POLICIES

3.1. Current situation of the COVID-19 epidemic

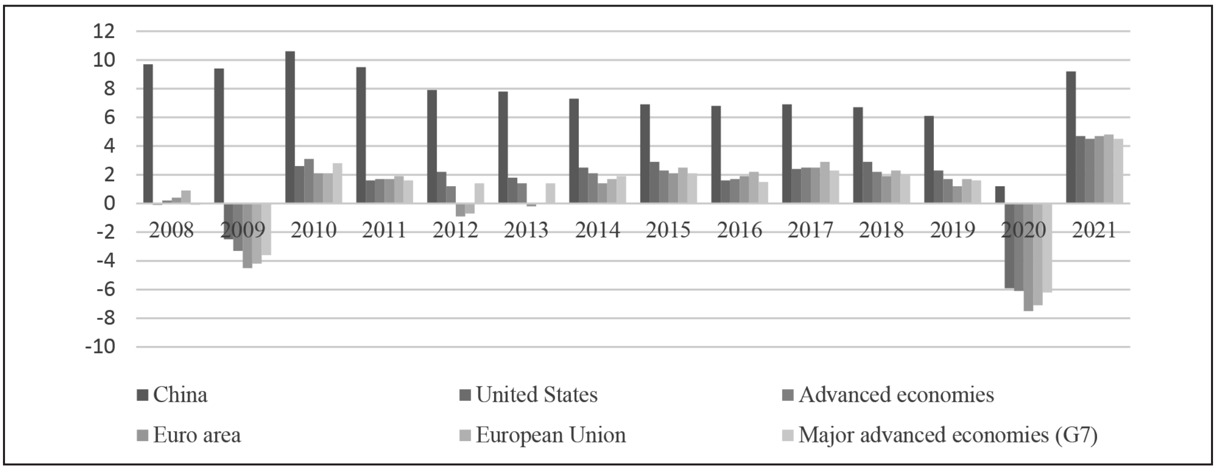

Figure 1. Existing and estimated GDP real growth of selected countries and regions since 2008 (Annual percent change)

Source: IMF, made by author.

According to the estimated statistics of gross domestic product from IMF, shown in figure 1, the real annual GDP of United States, EU, and Major advanced economies (G7) is tend to drop below the zero line, reached even -7%. Neither the eurozone will survive COVID-19, even for action taken against the epidemic as a whole institution, based on the fear of the break-up. However, even the IMF's forecast may be very optimistic, China's economic growth has also decreased heavily compared to its previous 6-7 percent increase, is not estimated minus though. And the year 2021 will get recovered. Such globally decrease in GDP annual growth appeared between 2008 to 2009, when the outbreak of the mortgage crisis in America hit the global financial market.

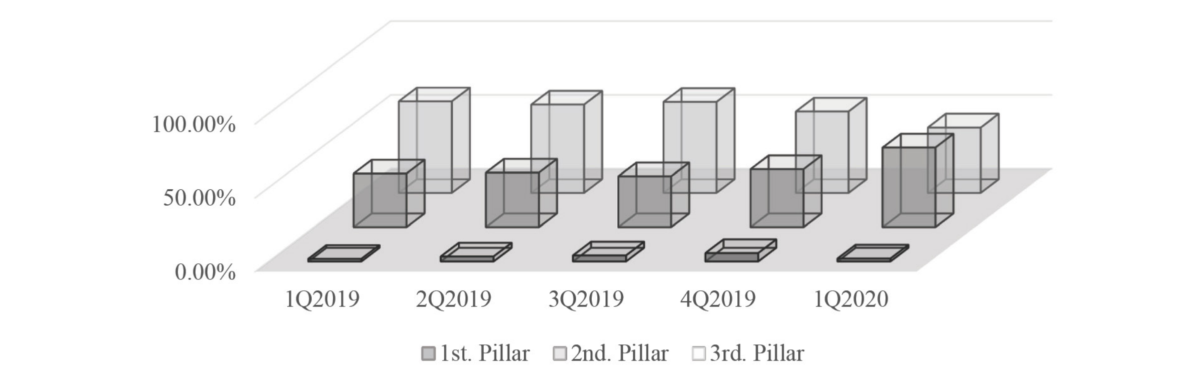

Figure 2. The contribution rate according to the industry of GDP in China (in %)

Source: The China's national bureau, made by author.

As shown in figure 2, the proportion of the third pillar of GDP, which is now the most important part in China's GDP, has shrinked from the end of the 3rd quarter in 2019 to the 1st quarter in 2020 compared to the previous construction. In the 1st quarter in 2020, it has decreased by almost 20% compared to the last quarter; however, less than the falling value of the first pillar, which has relatively decreased by 65%. Therefore, H1 was rejected.

3.2. Monetary policy during global major emergencies

Historical experience shows that major emergencies such as terrorist attacks, natural disasters, and infectious diseases often cause short-term fluctuations in the financial market, which in turn affects economic growth and social development. Therefore, in the face of the rush of major emergencies, the central banks generally take strong countermeasures, such as the FED after the incident happened on September 11, 2001, the Chinese central bank after the SARS epidemic in 2003, and The Bank of Japan after the „11th. Mar „earthquake in 2011. Though, the policy measures adopted by various countries have their own phases in term of direction and application of tools. For instance, the United States had injected huge liquidity into the market while continuing to cut interest rates; China was in an economic upturn at that time, and its monetary policy remained basically stable except for emergency measures; while Japan mainly adopted quantitative easing (QE) policy, it did not Cut interest rates. The reason why Japan has not cut interest rates is mainly because of insufficient monetary policy space. After the economic crisis in 2008, Japan 's monetary policy was close to zero interest rates, when the policy rate was always maintained at 0.1%. After the earthquake, the Japanese government had no room to lower interest rates, so it had to adopt an overweight QE policy.

Financial policies are important tools dealing with the shock of emergencies and promoting the economy. The common characteristics of the policies taken by China and EU are mainly: quick react during the emergencies, quickly inject above-expected funds into the market, increase the monetary and credit investment to stabilize the confidence and the expectations of the financial markets.

The financial crisis in 2008 was caused by the US subprime mortgage crisis, and then spread to the whole world. According to the statistics from the China National Bureau of Statistics, the average value of stock market in China shrinked by 65% in 2008. Twelve years later, the Covid-19 has simultaneously erupted in multiple countries around the world, cracking down on economic recovery and causing huge market shocks.

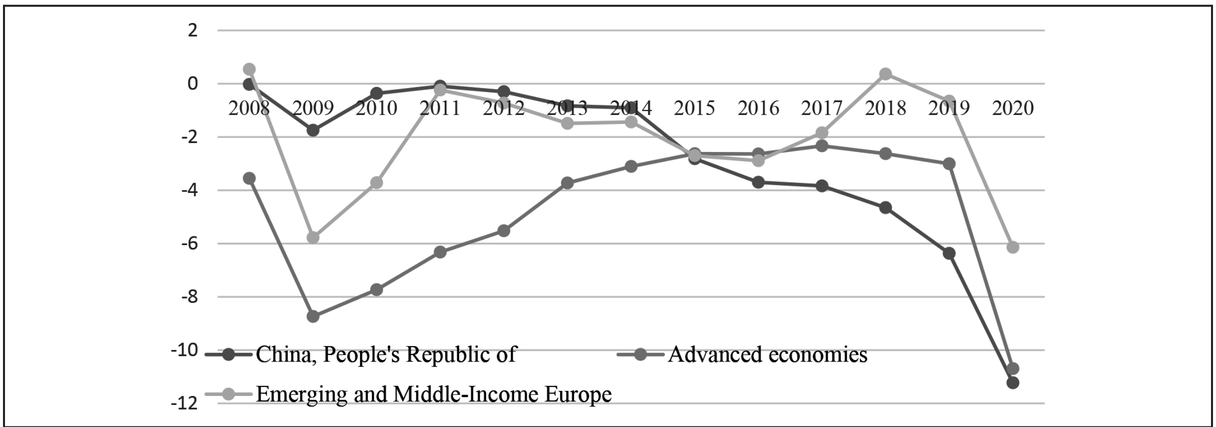

Figure 3. Net lending/borrowing (also referred as overall balance) (% of GDP) in the selected regions from 2008 to 2020

Source: IMF, made by author.

The percentage value of Net lending/borrowing is known as the difference between revenue and total expenditure, In figure 3, we could find that during 2008 to 2020, the overall balance, or debt had twice significant shrink, which was in 2009, affected by the global financial crisis, and another in 2020, which the debt of China and other regions reached a milestone highest point.

3.3. Comparison of the monetary policies taken within China and EU

A basic goal of macroeconomic policy is to guide enterprises, residents, and markets to form reasonable and stable expectations, reduce panic in the face of major uncertainties, and thus stabilize the market and economy. All aspects of the economic policies of the epidemic prevention and control in various countries have played the role of expected management. In response to the epidemic, major economies (except China) have cut interest rates substantially, and interest rates have reached historical lows.

CONCLUSION

Since the outbreak of the Covid-19 epidemic, the People's Bank of China has adopted a series of measures. The monetary policy has increased counter-cyclical adjustment to provide strong support for the prevention and control of the epidemic and resumption of production. Since March, major economies such as the European Union have taken measures such as cutting the interest rate, and the monetary policy environment has tended to be loose. In the following further step, each country 's monetary policy should be more flexible and appropriate to create a more suitable monetary and financial environment for stabilizing growth, preventing risks, controlling inflation, and adjusting structure.

Table 1. Monetary policies review in eurozone and China since the outbreak of the Covid-19 pandemic

Country	Date	Measurements	Amount
China	15 Jan. 2020	The People's bank (Chinese Central bank) put a one-year medium-term lending facility at 3.25% for national banks and local banks operating in Wuhan.	€39.2 bln.
	1 Feb. 2020	China's banking and insurance regulators extended the deadline beyond the end of 2020 for entrepreneurs to follow the new asset management rules. These regulations were part of government effort to decrease exposure to shadow lending.	-
	2 Feb. 2020	The People's bank of China lowered the interest rate on reverse repo operations by 10 basis points, bringing the 7-day facility from 2.5% to 2.4% and the 14-day facility from 2.65% to 2.55%.	-
	3 Feb. 2020	The People's bank of China provided an additional liquidity to money markets via open market operations to maintain adequate liquidity in the banking system and sound operations of the money market.	€157 bln
	13 Mar. 2020	The People's bank of China cut reserve requirements ratio for banks by 0.5%-1.0%.	Freeing up around €72 bln. that the authorities want banks to lend to businesses hit by the pandemic.
	16 Mar. 2020	The People's bank of China applied a medium-term lending facility into the financial system using open market operations at an interest rate of 3.15%.	€13.08 bln.
	31 Mar. 2020	The People's bank of China announced to cut the interest rate it charges to banks on 7-day reverse repurchase agreements from 2.4% to a record low of 2.20%, which was the biggest cut since 2015.	-
	3 Apr. 2020	The People's bank of China announced a 1% cut in smaller banks required reserve ratio, which would be delivered in 2 stages: 50 bp on 15 Apr. And another 50 bp on 15 May.	It is expected to free €52.2 bln. for the banking sector.
	20 Apr. 2020	The People's bank of China cut the one-year prime rate from 4.05% to 3.85% and the five-year prime rate from 4.75% to 4.65%.	-
Eurozone	12 Mar. 2020	The ECB pledged to increase its asset purchase program in 2020 from its prior commitment of €20 bln. per month.	€120 bln. (approximately €13 bln. per month)
		In order to promote banks to keep lending to companies, the ECB change 3 parameters of its Targeted Longer-Term Refinancing Operation (TLTRO-III).	-
		The ECB provided temporary capital and operational relief by allowing banks to fully use it and liquidity buffers and relax capital requirements.	-
	18 Mar. 2020	At an emergency ECB meeting, a „pandemic emergency purchase program" has announced in which the ECB would purchase all assets eligible under the current QE program as well as commercial paper and Greek government bonds until at least the end of 2020.	€750 bln.
	27 Mar. 2020	The ECB recommended eurozone banks to freeze dividend payments and share buybacks until at least 1st. Oct.	Extra €30 bln.
	30 Apr. 2020	Kept its main deposit rate unchanged at -0.5% but tweaked the terms of its targeted long-term refinancing operations (TLTROs) scheme. Under the new rules, banks that meet certain lending criteria will be able to borrow from the ECB at an interest rate equal to the deposit rate minus 0.5% (-1.0%). This represents a 25 bp discount from previously-announced terms. Also, the ECB introduced a new lending program called the non-targeted pandemic emergency longer-term refinancing operations (PELTROs) which will offer unconditional financing to banks at a rate of -0.25%. Starting in May, the ECB will conduct seven separate PELTROs operations which will come to maturity between July and September 2021.	-

Source: The European Central Bank, 2020. The People's bank of China, 2020. Made by author.

In the modern world, the dominant reserve currency is the US dollar, issued by the Federal Reserve, which accounts for 55% of all international transactions. The other dominant currency is the Euro, issued by the European Central Bank, which accounts for 25% of all international transactions. Besides the Japanese yen, renminbi, and sterling are relatively small reserve currencies, although the importance of the renminbi is rapidly increasing. That is the reason why those countries with own reserve currencies are more likely get out of the risks caused by such global emergencies. The other countries in the world tend to hold these debts and currencies because they can be used for consumption around the world. Therefore, countries with reserve currencies can issue large amounts of credit / debt denominated in reserve currencies, especially in the current shortage of reserve currencies. In contrast, countries with no reserve currency have no such option. They particularly need these reserve currencies (such as the euro) in the following situations: (1) They have many debts (such as in euro) denominated in reserve currencies that they cannot print; (2) They do not have much savings in these reserve currencies; (3) Their ability to obtain the required currency is reduced. H2 seems to be confirmed.

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