Universe Scientific Publishing Volume 7 Issue 07

# An inquiry into the role of macroeconomic policy in financial market development

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**Abstract:** This paper mainly explores the role of macroeconomic policies on the development of financial markets, and analyzes the status quo of financial markets in 2022. First of all, it introduces the overview of macroeconomic policies and financial markets, and then systematically analyzes the role of monetary policy and fiscal policy on the development of financial markets, and further discusses its role in improving the efficiency of financial resources allocation and the ability to serve the real economy. Through the study of this paper, we can better understand the importance of macroeconomic policies to the development of financial markets, and provide references for future policy making.

**Key words:** macroeconomic policy; Financial market; Monetary policy; Fiscal policy

## 1. Current situation of financial market development in 2022

1. Rapid development of digital financial market. Digital currency, digital renminbi and other new financial products will be further popularized, and the number of digital finance-related enterprises will continue to grow. At the same time, the deep application of digital technologies will bring more development opportunities for businesses such as supply chain finance. 2. Green finance has become a development priority. At present, the balance of green loans has increased by 27.9 percent year on year, and the scale of the green finance market is expanding, which provides a broad financing channel for environmental protection companies and projects, while also helping to promote the country's ecological civilization construction. 3. There is a high demand for technical talents. With the increasing role of technology in finance, fintech talents will become a group in high demand. This also means that financial institutions need to strengthen the training and introduction of talents to meet the needs of business development. 4. Major reforms are coming to the financial sector. With economic development and changes in market demand, the financial sector will continue to promote standardization and reform and innovation. This will help enhance the vitality and competitiveness of the country's financial market.

## 2. 2022 Macroeconomic Review

**Table (1) Quarterly analysis of China's GDP in 2022 (Basic data: National Bureau of Statistics)**

| Indicators/Quarters | 1 quarter 2022 | 2 quarter 2022 | 3 quarter 2022 | 4 quarter 2022 |
|---|---|---|---|---|
| Current quarter value (trillion yuan) | 27.02 | 29.25 | 30.76 | 33.99 |
| Cumulative value (trillion yuan) | 27.02 | 56.26 | 87.03 | 121.02 |
| Quarter year-on-year % | 4.8% | 0.40% | 3.90% | 2.90% |

China's GDP reached 121.02 trillion yuan in 2022, up 3.0 percent year on year, according to the latest data from the National Bureau of Statistics, the central bank, the Customs and the Ministry of Commerce. The investment in fixed assets (excluding rural households) reached 57.21 trillion yuan, up by 5.1% year on year; The investment in fixed assets (excluding rural households) reached 57.21 trillion yuan, up by 5.1% year on year; Total retail sales of consumer goods were 43.97 trillion yuan, down 0.2% year on year, of which retail sales excluding automobiles were 39.40 trillion yuan, down 0.4% year on year; Per capita consumer spending was 24,500 yuan, down 0.2 percent in real terms after deducting price factors. The total import and export volume reached US $6.31 trillion, up 4.4% year-on-year, and the trade surplus reached US $877.603 billion, up 29.8% year-on-year. In the financial market, the scale of social financing increased by 32.01 trillion yuan, up by 9.6 percent year on year; Bonds of all kinds were issued 14.30 trillion yuan, up 2.7 percent year on year; And in terms of stock market financing, 1.08 trillion yuan was raised from stocks, down 26.5 percent year on year.

(1) Investment

In 2022, China's investment in fixed assets (excluding rural households) reached 57.21 trillion yuan, up by 5.1% year on year; However, private investment in fixed assets was relatively small, with a year-on-year growth of only 0.9 percent. This shows that China's fiscal and state-owned capital played an important role in stabilizing the overall economic market last year. From the perspective of the three industries, all achieved growth, but among the major industries, real estate has declined significantly.

(2) Consumption data

From the point of view of consumption data, the overall show a downward trend, may be affected by the market situation, the overall situation of consumption is relatively depressed. As can be seen directly from the chart of household deposits from January to October, the "net deposit" in 2022 exceeds the total of the three years from 2019 to 2021, which fully demonstrates that people are cautious in consumption.

## 3. Overview of macroeconomic policies and financial markets

(1) Macroeconomic Policies

Macroeconomic policies are designed to promote the steady development of the Chinese economy, promote the orderly development of social construction projects, and use macroeconomic strategies to regulate the indicators of the social economy, so that the social economy can operate normally and effectively. Macroeconomic policies include fiscal policy, monetary policy, industrial policy, etc. Macroeconomic policies can have a positive effect on the development of financial markets in the following ways: First, macroeconomic policies regulate market liquidity and affect the interest rate level of financial markets by means of monetary policies and fiscal policies. This will directly affect the investment and financing costs of the financial market, thus affecting the development of the financial market. For example, if the central bank implements tight monetary policies and increases the deposit reserve ratio, it will restrain monetary liquidity and raise interest rates, which will have an impact on both the stock market and the bond market. Secondly, macroeconomic policies affect the infrastructure construction of the financial market and the environment of the financial market, including the formulation of laws and regulations, the supervision of the financial market and the operation efficiency of the financial market, through the macro-tax and fiscal policies. These policies directly affect the development environment and atmosphere of the financial market and promote the development and growth of the financial market. Finally, macroeconomic policies have an impact on financial markets by regulating real economic issues such as economic growth and employment. For example, economic growth is essential to the development of both stock and bond markets, so promoting economic growth through macroeconomic policies also promotes the development of financial markets.

(2) Financial markets

Generally speaking, financial market is capital trading market, which is an important way to realize capital circulation, such as commodity trading market, capital trading market and technology market. The basic characteristics of financial markets include: high liquidity, high information transparency, frequent price changes, diverse participants and large market size. In the modern market economy, the development of the financial market is becoming more and more mature, and its contribution to the economic development is increasing. Financial markets can be divided into long-term capital markets and short-term money markets based on the maturity of capital circulation. Long-term capital market mainly refers to those markets with longer trading maturities, such as the stock market and bond market. In this kind of market, the trading is fixed term, so the price change is relatively slow, but there is also a large room for investment returns. The short-term money market refers to those markets with short maturities, such as money market and short-term debt market. The trading cycle of such markets is usually less than one year, and the price changes are very frequent.

## 3. Analysis of the role and influence of macroeconomic policies on financial markets

(1) The role of monetary policy on the development of financial markets

In the financial market, monetary policy plays an important role in the development of the market. First of all, monetary policy can have a direct impact on the development of financial markets. By controlling the circulation of money, monetary policy can affect the liquidity and cost of funds in the market, thus affecting the market interest rate and the development trend of the stock market. When monetary policy is too tight, money supply will decrease, market interest rate will rise, capital cost will increase, investment cost in the stock market will increase, and then affect investors' investment decisions, resulting in a downward trend in the stock market. On the contrary, when the monetary policy is too loose, the money supply is excessive, the market interest rate will fall, the cost of capital will decrease, the investment cost of the stock market will decrease, investors will choose to invest in the stock market more strongly, and promote the stable growth of the stock market. Secondly, monetary policy can also promote the efficiency of resource allocation in the financial market. By regulating the amount of money issued, monetary policy can guide the allocation of resources in financial markets, shifting capital from inefficient and ineffective industries and sectors to efficient and profitable ones. This can help improve the efficiency of financial markets and enhance their competitiveness and vitality. Finally, monetary policy also has a guarantee effect on the development of financial markets. With the continuous development of the financial market, more and more financial risks appear in the market. Monetary policy helps to detect and prevent financial risks in time, control market risks through reasonable monetary policy means, and maintain the stability and healthy development of financial markets.

(2) The role of fiscal policy in the development of financial markets

As a core means of macroeconomic policy, fiscal policy has played a crucial role in the development of financial markets. Among them, national debt policy and tax policy are both important components of fiscal policy. National debt policy is an important means to regulate the national credit and realize the national financial credit, through the issuance of national debt to adjust the degree of stock or security issuance risk, and then affect the economic benefits of the stock market. The larger the issuance of national debt, the smaller the risk of the stock market, and the more stable the development of the stock market. Therefore, the national debt policy has a positive role in promoting the development of the financial market; Tax policy is also one of the important ways to implement fiscal policy, through reasonable control of tax types and tax rates, to achieve macro control of investors' returns, thus affecting the development of the stock market. Tax policy is directly related to the economic interests of investors. If the tax rate is too high, it will directly affect the enthusiasm of investors to buy stocks, which will lead to the abnormal development of the stock market. Therefore, the tax policy should strictly control the reasonable range of tax interest rate, and constantly strengthen investors' capital investment, so as to play a positive role in promoting the long-term development of the stock or securities market.

(3) Help to improve the efficiency of financial resource allocation

The effective application of macroeconomic policies can effectively improve the efficiency of financial resource allocation and create an environment conducive to the stable development of financial markets. Take the recent reform of LPR, the quoted lending rate, as an example. It aims to better optimize the relationship between lending rate and market rate, and further improve the efficiency of financial resource allocation. The goal of the reform is to further lower the real interest rate on loans and provide more favorable financing costs for enterprises and individuals, so as to stimulate the enthusiasm of social investment and promote the development of the real economy.

Specifically, the central bank has optimized the LPR as follows: 1. In terms of quotation method, the past loan quotation for the best customers has been effectively transformed into a quotation with a point on the open market operation rate. In this way, not only can various customers be treated fairly and openly, but also can avoid the formation of unreasonable preferential treatment for high-quality customers, thus improving the efficiency of financial resource allocation. 2. In terms of the quoted commercial banks, the Central bank added 8 banks, including private banks, city commercial banks, rural commercial banks and other different forms of banks, so as to expand the reference objects of LPR, more comprehensively reflect the changes of market interest rates and improve the allocation efficiency of financial resources. 3. In terms of the quotation period, the Central bank added the 5-year loan quotation, which made up the shortage of the previous quotation which only focused on 1-year loan, improved the scope of application of LPR, expanded the scope of financial resources allocation, and promoted the long-term stable development of the financial market. Through the reform and improvement of LPR by the central bank, the efficiency of financial resource allocation can be better optimized and the stability and healthy development of the financial market can be promoted. At the same time, through the application of rational and reasonable macroeconomic policies, the efficiency of financial resource allocation has also been effectively improved, providing better financial services for the real economy.

## 4. It is conducive to enhancing the ability to serve the real economy

The role of macroeconomic policies in enhancing the financial market's ability to serve the real economy is mainly reflected in helping to improve the financing capacity of micro, small and medium-sized enterprises and optimize the allocation of financial resources. First of all, the central bank's RRR reduction policy is conducive to reducing the actual financing costs of smes and improving their financing ability. Before that, Msmes often faced high financing costs and difficulty, limiting their space for development. Funds released by the central bank's RRR cut can flow more to the real economy and provide more financing support for micro, small and medium-sized enterprises, which is conducive to their development and growth. Second, macroeconomic policies can also optimize the allocation of financial resources. In a market economy, the efficiency of financial resource allocation is one of the important factors affecting the development of the real economy. The central bank's policy of lowering reserve ratio can increase liquidity and make it easier for financial institutions to obtain funds, so as to reduce the investment in high-risk assets and increase the investment in the real economy. This will help optimize the allocation of financial resources and promote the development of the real economy.

Conclusion: To sum up, this paper studies the effect of macroeconomic policies on the development of financial markets and believes that macroeconomic policies play an important role in the development of financial markets. In particular, the regulatory role of monetary policy and fiscal policy can not be ignored. In future policy making, the government should pay more attention to the research and practice of macroeconomic policies, so as to promote the stable development of the financial market, improve the efficiency of financial resources allocation and the ability to serve the real economy, and provide a strong guarantee for economic development.

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