How the Financial Policies of China can Mitigate the Impact of the Novel Coronavirus?

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Introduction

The outbreak of the coronavirus not only posed a threat to human lives but it also severely impacted the market at a global level. It still continues to sabotage the growth of the economy which has put policymaker under a great dilemma and forced them to come up with unprecedented ways to combat the ongoing and upcoming economic crisis. The first country where this fatal virus emerged is China and hence, we decided to shed light upon the experiences of this country in terms of implementing policies to effectively cope with the problem and to mitigate its impact. The steps taken by China can be a useful tool or medium for other countries to learn and accordingly make changes or implement new financial policies to tackle the aftermath of the crisis.

Difficult Choices

To curtail the infection of the virus, the government had to take tough decisions such as reduced mobility and social distancing both at national as well as local levels. The sudden stop on the trade practices and cash flow in the market caused great suffering to the economy. In the first half of 2020, the slowdown of China is going to be significant. The sudden block in the momentum of economic activity led to the major disturbance in the chain of supply and demand, weakening of industrial production and retail sales. The repercussions are believed to be even more severe than the Great Financial Crisis in 2007-2008 with acute damage done to businesses, households and financial institutions.

Implementation of Monetary Policies during Outbreak

In order to alleviate the impact of this massive shock, the policymakers of China have targeted the most vulnerable households and have found new ways to extend solutions to smaller firms by turning down utility bills, social security fees and conducting credit through fintech firms. To keep the production of the health equipment steady, they swiftly arranged subsidized credit.

To ensure financial stability, the decision-makers are required to take well-communicated and reliable action especially during the times of constantly amplifying market distortion and liquidity shortages. In China, the governing bodies stepped in early to take emergency precautions for the interbank markets and provide financial help to firms that were most affected. Apart from these measures, they also implemented the following:

[illegible] China's Central Bank.

However, the state-owned enterprises, as well as large firms, have access to stable credit throughout because the large state banks of China continued to lend abundantly to them.

Probable Setbacks

Of course, these policies will have their own issues. For instance, giving a huge number of debtors more time to fulfill their financial commitment can negatively affect financial soundness in the coming days. The subsidized credit can be mismanaged and keeping non-feasible firms alive can hinder productivity growth in the future. However, to tackle improbable circumstances, the only way to go is well-targeted decisions and instruments.

Conclusion

While there are favorable signs of economic stability in China, various larger firms have resumed their operations and many employees have gotten back to their jobs- although, the risks are still there. There are chances of the reemergence of infections if the national or international travel begins again. As more countries are getting hit by this pandemic, the global financial markets may move in circles, consumers and firms may remain alert, which may lead to reduced demand for Chinese goods. Therefore, the policymakers of China will have to conduct a proper strategy and stay ready to maintain financial stability and support growth if needed.