

# The Relevance Theory between China's Financial System and Macro Economy

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**Abstract:** in the process of China's development, it is the financial system that determines the trend of economic development. At the same time, the financial system itself is closely related to the macro-economy. Therefore, we must deeply analyze the correlation theory between the financial system and the macro-economy. Through the in-depth research and analysis of this paper, it can be further found that in the financial system, stability and specific pressure will well predict the trend of China's macroeconomic development. At the same time, if the international economic and trade order is disordered or the risk of external input is further increased, active and effective fiscal policies will be effectively implemented, It can play an effective guiding role in the good operation of the financial system and macro-economy in the national economy. Only in this way can China's economy truly achieve sustainable development and ensure the further development of the financial system structure in the direction of standardization and rationalization.

## 1. Introduction

In the process of national development, macroeconomic policymakers will focus on maintaining price stability and economic growth in the process of setting decision-making objectives. From the overall point of view, the core of China's economic development is the equilibrium level, and then fluctuates up and down, which requires relevant policy makers to accurately predict the dynamic trend of macro-economy and then choose favorable policies. With the continuous development of China's social economy, the factors affecting the dynamic development of China's macro-economy are becoming more and more complex. In order to further promote the deepening reform of China's market economy, further strengthen and improve the social attention to the modern economic system, accurately grasp the trend of the market economy, and understand the relevance of finance itself to the macro-economy, it is necessary to accurately grasp the development trend of various structures and factors at the macro-economic level. Generally speaking, in-depth study of the correlation theory between the financial system and macro-economy has strategic and forward-looking practical significance for China's overall economic explosion.

## 2. Analysis on the Relationship between Financial System and Macro Economy

### 2.1 Relationship between Financial Stability and Macro Economy

#### 2.1.1 Connotation of Financial Stability

In the process of China's development, the earliest definition of financial stability is the people's Bank of China law, which fully recognizes the importance of financial stability and promotes in-depth research in the financial academic and macroeconomic fields. However, from the perspective of China's law, there is no clear definition of financial stability. Moreover, the bank for International Settlements only explains the driving factors of financial instability, and artificially, for financial stability itself, it mainly refers to the situation that there is no fluctuation state in the economic curve, resulting in the impact on the macro-economy. For the International Monetary Fund, it also describes financial stability accordingly, and believes that financial stability belongs to the best ideal state of the operation of the financial system. Whether finance is in a stable state can be measured from multiple angles. For example, the balanced and reasonable distribution and

damage of financial resources. When the finance is in the best stable state, the corresponding economic cycle performance is relatively good, and the overall anti risk ability is relatively strong.

In the world, China's largest developing country attaches great importance to financial stability. Therefore, a special institution, namely the financial stability and Development Commission of the State Council, was established to focus on the research and regulation of financial stability in various fields and levels throughout the country. It mainly includes many contents, including not only the study and judgment of the financial industry situation, but also the dredging of the transmission mechanism of monetary policy. In addition, it also serves the market economy. Usually, the worst-case estimation will be carried out, based on which various means will be fully used to achieve the best effect. The main purpose of applying the basic principles of Marx's political economy is to resolve the long-term accumulated financial risk points that may exist in the period of the transformation of old and new kinetic energy, and actively respond to the challenges of external uncertain factors, so as to fundamentally maintain the overall stability of China's financial industry. At present, the development of any country is mainly based on maintaining the stability of the whole macro financial system. By grasping the operation situation of the financial industry at all times, we can fully bring the specific changes in the fields of insurance and securities into the scope of monitoring, and focus on the operation of key financial institutions and society as a whole. At the same time, we should pay special attention to the response of the public opinion market, especially the cross industry and cross regional situation of financial risks, so as to maintain the stability of the financial system. Of course, from the perspective of full significance, financial stability is not a static operation state, but needs to be maintained according to the continuous improvement of benefits. In short, it is to ensure financial stability, mainly for the sake of more comprehensive economic development. In such an economic field, to ensure the high quality of financial stability is to form a new financial system on the basis of improving effectiveness and enhancing the ability to resist risks.

Generally, finance itself will be greatly affected by financial stability, which can be discussed and analyzed from the following three points: first, for financial stability itself, price stability is the most important foundation. The inflation rate is relatively low and stable, which can provide greater confidence and help for the market development of various industries, Ensure the operation and development of the overall economy, which has laid a good foundation for sustainable economic development and growth. If the price stability cannot be guaranteed, the uncontrollable factors faced by the market will further increase, and the costs of corresponding financial transactions, specific credit and other institutional guarantees will also increase rapidly in a short time. At the same time, it will not be possible to transform the savings of the public into investment, which will further aggravate the ecological vulnerability of the whole financial system, Financial stability cannot be maintained, but from a certain point of view, price stability does not mean absolute financial stability; Second, the key point of financial stability is that all market financial institutions, especially banks, belong to the natural attribute of money operation. The banking industry belongs to an ancient industry and plays an important intermediary role in the whole financial industry based on money and credit; The third point is the foundation of financial security, that is, financial stability. In any case, the most important security core of the national economic system is financial security. Therefore, the basic essence of ensuring financial security is financial stability. If there are relatively large fluctuations and other unstable situations in the development of the financial market, the absolute security of finance cannot be realized.

### **2.1.2 Correlation Analysis**

For the correlation analysis between financial stability and macro-economy, there are mainly two theories: the first is the financial instability hypothesis, and the second is the bank run model.

For the theory of financial instability hypothesis, it is mainly believed that the current social debt is too large and cash flow is tight, which is common. At the same time, banks themselves have great financing pressure, resulting in further imbalance of the financial system. Based on different financial characteristics, enterprises are divided into the following three types in detail. The first

type, The second is the investment type, and the third is the Ponzi type. Among these three enterprises, the most promising is the Chong enterprise. At the same time, the scale of the overall market is also developing, and then the rising income expectation can be met. Because giant companies are flush companies in the initial stage, the prospect is relatively good, and ordinary commercial banks will relax their vigilance. However, if there is a problem of poor management for a long time, the development difficulty of the company will be further increased. At the same time, it will also increase the corresponding repayment risk, and the commercial banks themselves can not find this risk in time, which will make the whole system completely deviate from the original standard track. In order to develop itself, commercial banks will raise the threshold of loans, and for the company itself, the interruption of its funds will seriously affect its normal operation and lead to the bankruptcy of the company. A large number of companies go bankrupt, which will further depress the whole macroeconomic market. Compared with Chong enterprises, the characteristics of investment enterprises are relatively similar. In short, the actual financing cost will be less than the benefit. For Ponzi enterprises, it mainly refers to that in the process of specific production, the actual income is relatively small compared with the principal and interest repaid to banks and other financial institutions. However, in the process of expanding the economic scale, many unstable factors will increase, which will affect the economic development.

The theory of bank run model is mainly based on sunspot theory. According to the corresponding research results, it is found that in the financial system, many participants have mass psychology, and their emotions are not stable. Therefore, it will lead to the expected results of the market, which are not completely combined with the actual results. If consumers think the market is in a downturn, they will have panic psychology, and most consumers, The clause of ending the deposit contract will be selected, and the principal and interest income obtained by actual consumers will obviously exceed the total of bank deposits, resulting in bank runs. Therefore, it can be considered that the necessary condition for the existence of banks is liquidity, but this is also the root cause of financial instability. The internal unstable impression factors generated by borrowers and depositors affect the stability of the financial system, and then lead to the instability of the whole macro-economy.

## **2.2 Correlation between Financial Pressure and Macro Economy**

### **2.2.1 Connotation of Financial Pressure**

Compared with the scope of financial stability, the financial pressure is relatively narrow. It can be further considered that it belongs to all negative indicators in the financial market. It will further reduce the anti risk ability of the financial system and increase the instability of the whole financial market, which is mainly reflected in the large-scale reduction of current currency and the high leverage of specific liabilities. With the further increase of financial pressure, there may be a financial crisis, which comes from multiple directions. However, we can make further judgment through five aspects of financial pressure: first, the increase of asset risk will further deviate the original asset price from the standard curve. At the same time, it can fully reflect the uncertainty of investors on the financial market and macro-economy; The second point is that investors' confidence will be seriously frustrated, and when investors themselves believe that the internal value of the overall investment project is completely unstable, the corresponding asset price will further deviate greatly; The third point is that the actual asset information of the borrower is not right. Based on the background of severe market fluctuations, the economic information actually mastered by both sides of the transaction can not be completely consistent with the actual situation, resulting in frequent moral hazard and adverse selection; The fourth point is that it is closely related to the risk awareness of investors themselves. In most cases, when the economic cycle is unstable, investors will transfer investment capital, which is bound to reduce the demand of investors for venture capital products, further increase the asset risk in the financial investment market and lead to the instability of the financial market; The fifth point is that compared with the previous cycle, the flow rate of fixed assets is relatively low, or the actual expected income is uncertain, which leads to the further increase of the liquidity of fixed assets.

Usually, when the normal operation of the financial system is threatened, there will be financial

pressure, and the root cause of this situation is the impact of domestic or foreign economy. It should be clearly pointed out that when measuring the worldwide financial situation, compared with financial stability itself, the actual financial pressure is mainly based on the following aspects: first, the current situation of the banking industry, which involves many factors, such as bank bond yield, and the higher the actual capital adequacy ratio, The better it represents the current situation of the financial industry. From the overall point of view, China's financial pressure is relatively stable; Second, in the foreign exchange capital market, if the foreign exchange reserves can basically maintain a stable state and rise steadily, they can fully withstand the financial pressure of the market; The third point is the bond market, which actually involves the rating and establishment of information system. The higher, the more complete and the better; The fourth point is the financial pressure of the stock market itself. It will mainly find specific problems through factors such as margin and stock market flow, so that it can ensure normalization and ensure the stability of the stock market.

### **2.2.2 Correlation Analysis**

For financial pressure, there are many reasons. Usually, it comes from one department. At the same time, it can be further extended to the whole financial system in a very short time, and then the whole macro-economy will be affected.

The first point is the pressure transmission mechanism within the financial system. It mainly refers to the transmission between the bank itself and the securities department, as well as the transmission between the foreign exchange department and the capital market. For banks and securities departments, the main indirect transmission mode is to take asset allocation as the main bridge. The two are not directly related. However, for many countries, their own financial systems are based on the mixed operation of different industries. If there is a great risk in the capital market, the relevant banking departments of securities financial activities will be directly hit, and the bank's own resource allocation to the securities market will be reduced. For banks and foreign exchange departments, the two are more close and very easy, which will worsen the government finance. Based on the conduction between departments, it will react on banks. For the capital market and foreign exchange department, the degree of freedom of financial pressure transmission between them is relatively high, and the main channel is the high flow between them.

The second point is the pressure transmission mechanism to the macro economy. For the internal pressure of the financial system, its actual macroeconomic transmission is mainly divided into the following three types. First, asset price fluctuation; The second is the financing cost of enterprises and individuals; The third is bank credit. According to the relevant analysis, it can be found that in the domestic economic development, if the asset price of real estate fluctuates relatively violently, it represents the maintenance of market economy in this region, abnormal situations will occur, and the corresponding uncertain risk will further increase. In the process of enterprise investment, the confidence of investors and asset prices is affected. Therefore, they are more inclined to return to the safe zone. Moreover, whether it is the use of funds or the allocation of human resources, they will be more cautious. Individual investors will control investment costs and consumption for various considerations. Therefore, based on investment and consumption, financial pressure will be comprehensively transmitted to all levels of macro-economy. When the overall finance is in a period of pressure, the risks gathered in the financial market are very large, and the investors' expectations for the expected benefits of investment activities will further increase, so as to increase the costs of enterprises and residents themselves and reduce investment and consumption funds. Such financial pressure will further lead to a slowdown in the macro economy. According to the analysis of the corresponding bank credit information, it is further concluded that the accelerator leading to the collapse of the financial system is the financial market or the credit market. In this sensitive stage, the hidden danger will adjust the loan interest rate or improve the credit standard. In the whole process, whether there is any credit contraction or financial pressure, Will make the macro-economy fluctuate greatly, and then lead to the credit standard of social investors, which will be affected laterally. Moreover, starting from the actual situation of China, the impact of financial

pressure on macroeconomic trend is reverse. Specifically, the pressure of China's financial system shows an increasing trend, and the corresponding macroeconomic trend will be worse.

## 2Conclusions and recommendations

### 2.3 Conclusion

Through in-depth analysis, we can further find that when China's finance is in a stable state, the corresponding macro-economy is also in a relatively stable state of development; When the pressure of the financial system tends to increase, the overall macroeconomic fluctuation will further increase, which can further prove that it is feasible to take the two perspectives of financial stability and financial pressure as the starting point in the process of qualitative analysis of the correlation between the financial system and macroeconomic. According to the performance of the early financial system, the actual operation of the macro economy in the next stage can be predicted. In recent years, China has achieved a maintenance state of rapid growth based on the asset prices of investment flows. In particular, the current main means of regulation and control is supply side reform, or through the “three purchases”, China has achieved a state of strong support for economic development, so as to comprehensively improve the operation quality of the financial system, Ensure the efficiency and rapidity of macroeconomic regulation and control. At present, domestic PPP projects are gradually implemented and the corresponding landing rate is further improved, which can effectively drive the healthy development of the economy and effectively balance the relationship between supply and demand. In the next stage, China should do a good job in the links of financial pressure and comprehensively maintain the stability of China's financial system.

### 2.4 Policy Suggestion

In the stage of China's financial and economic transformation, we will encounter all kinds of problems. First, we should implement active and effective fiscal policies. Based on the new achievements of the Sinicization of Marx's political economy, this paper comprehensively considers the factors such as fiscal revenue and expenditure balance and local transfer payment, and increases the tax reduction in the field of new industries, so as to further enhance the financial elasticity of the market. The second point is that in the process of implementing a prudent monetary policy, we should follow the principle of appropriate tightness, fully coordinate the relationship between M1, M2 and M3, and ensure the controllability of total amount and operation. We should also make active use of a variety of monetary policy tools to further promote the internationalization of RMB.

## 3. Conclusion

In a word, this paper makes an in-depth analysis and Discussion on the correlation theory between China's financial system and macro-economy. In the future development process, China needs to implement more policies and reforms to ensure that the financial system can really develop in the direction of internationalization, digitization and intensification, ensure that the economic growth rate is more rational and solid, and improve the speed of macroeconomic development.

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