The Impact of the COVID-19 on the International Financial Market

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Abstract. In early 2020, a rampant coronavirus posed a global health threat, endangering lives and economies. The pandemic struck a severe blow to the world's financial markets, exacerbating the vulnerabilities inherent in the interconnected global economy. Economic globalization facilitated swift cross-border transmission of financial risks. Beyond 2021, recurring waves of the pandemic continued to reshape the financial landscape. The ensuing dangers had varying impacts on global trade, currency and interest rate markets, and stocks, as outlined in this article. However, experts generally agree that while anomalies and short-term volatility may arise, they are unlikely to trigger widespread financial collapse. To mitigate potential issues, governments should strategically employ monetary and fiscal policies. These measures can include coordinated macroeconomic regulation to aid business resumption and stability reinforcement for national currencies, such as the RMB. These actions aim to support overall financial market recovery. In conclusion, the year 2020 marked the onset of a global pandemic that endangered lives and disrupted economies worldwide. The ensuing financial repercussions were amplified by the interconnectedness of the global economic system. Although subsequent years witnessed recurrent pandemic challenges, experts believe that while risks are real, they aren't expected to culminate in systemic financial crises. Governments are advised to implement well-calibrated monetary and fiscal strategies to navigate these challenges, fostering business recovery and safeguarding currency stability for the ultimate revival of national financial markets.

Keywords: Epidemic, International financial market, Countermeasure analysis.

1. Introduction

In addition to harming people's health, COVID-19 has a significant negative impact on global financial and economic growth. Financial globalization on the one hand has quickly dispersed financial risks across the global financial market; on the other hand, investors' investment confidence and popularity have dropped, which is detrimental to the health of the financial market.

This paper takes the COVID-19 as the research background and analyzes it in combination with the current actual situation, which has strong practical significance.

In response to the above background, the arrangement of the following content in this article is as follows: The second part describes the current situation of the international financial market, analyzes possible problems and reasons that may arise; The third section discusses the effects of the COVID-19 pandemic on import and export trade, the global stock market, the global interest rate market, and other global financial markets before analyzing whether these market fluctuations will cause a global financial crisis; The final section proposes corresponding countermeasures and suggestions based on the current situation and problems of the international financial market.

2. Import and Export

Overall, the COVID-19 outbreak resulted in a major shift in the volume of imports and exports. Using China as an example, its overall import and export volume from January to February 2020 was $580.65 billion US, an 12% decline from the same period last year. Exports totaled 283.54 billion US dollars, down 19.2% from the previous year; imports and exports together totaled 290.85 billion US dollars, down 5% from the previous year; and the trade deficit totaled $8.87 billion US dollars [1].
Due to the extension of the ship and the worldwide pandemic, there has been a cliff-like decline in foreign flights and transaction logistics. Global flights have decreased, according to the National Bureau of Statistics' report on route and flight management [2].

The trend of changes in import and export trade after the normalization of the epidemic is improving. In 2021, China's total import of goods was $268.7529 billion, a year-on-year increase of 30.7% [3]. With the progress made by countries all over the world in the governance of the COVID-19 epidemic, the production of countries all over the world has been on the right track, and the partial rupture of the global industrial chain and supply chain has also been well repaired. With a population of 1/5 of the world and rapidly growing economic strength, the demand in the Chinese market is also increasing day by day [4].

In addition, although the global current account balance is approaching balance, capital flows are intensifying. Compared with 2005, both creditor and debtor countries have shown an increasing trend in their international net positions, with their share of GDP increasing from 10% to 22% [5]. The root cause of this phenomenon is related to the significant release of liquidity by the Federal Reserve, ultimately leading to global capital account imbalances.

3. Foreign Exchange Market

The COVID-19 caused significant fluctuations in exchange rates and increased systemic risks. Taking the exchange rate of the Chinese yuan against the US dollar as an example, the exchange rate in January showed a phenomenon of first appreciation and then depreciation: from January 1 to January 20, 2023, the spot exchange rate of the Chinese yuan against the US dollar increased from 5.9 to 6.9; Afterwards, RMB depreciated by 2% [6].

![Figure 1. USD to RMB from 2020 to 2023](Photo credit: Original)

In the medium to long term, in fact, since the outbreak of the epidemic, the actual effective exchange rate of the Chinese yuan has appreciated slightly (please see Figure 1), and among many exchange rates, it has shown relatively stable performance. Changes in the current account will bring depreciation pressure to the Chinese yuan, mainly manifested in the current account deficit. At the same time, due to the highly sensitive nature of the foreign exchange market, the risk of exchange rate fluctuations will be transmitted to the foreign exchange market, which in turn will impact the currency performance of various countries. On the one hand, the COVID-19 caused fear among investors, which made them lose confidence in the prospects of economic development. Affected by this negative sentiment, the country's currency tends to depreciate; On the other hand, as the COVID-
19 continues to recur, investors have more obvious motives for prevention, and some currencies with strong risk aversion have increased investors' demand.

4. Money Market

Many nations, particularly those in Europe, have implemented successive negative interest rate regimes as a result of the pandemic. After the 2008 subprime crisis, nations all over the world embraced the unusual negative interest rate policy to lessen the effects of the financial catastrophe. In response to the dual impact of the 2008 financial crisis and the 2009 European debt crisis, the European Central Bank has lowered its dominant interest rate to 0.23% and the overnight deposit rate to -0.2% through nearly 10 interest rate cuts; In September 2019, the deposit convenience rate decreased to -0.5%. In January 2015, the European Central Bank announced an asset purchase plan of over 2 trillion euros between 2014 and 2017, covering member state bonds, asset-backed bonds, and collateralized bonds [7]. On the surface, negative interest rate policies may seem contrary to universal logic, but they can play a certain role amid the epidemic-related economic downturn. In general, individuals have a habit of keeping too much cash during an economic downturn, yet this conduct may worsen the economy, raise unemployment, diminish company earnings, and encourage expansion by promoting consumer spending, thereby forming a vicious contraction. On April 10th, the central bank released the "2020 First Quarter Financial Statistical Data Report" on its official website. The data showed that in the first quarter, RMB deposits increased by a total of 8.07 billion yuan, an increase of 1.76-billion-yuan year-on-year. Among them, household deposits increased by 6.47 trillion yuan, and non-financial enterprise deposits increased by 1.86 billion yuan. If calculated in this way, the Chinese people saved 70 billion yuan per day in the first quarter. In March alone, RMB deposits increased by 4.16 trillion yuan, an increase of 2.44 trillion yuan compared to the same period [8]. In order to stimulate economic recovery, banks implement a negative interest rate policy, which will result in depositors paying exorbitant costs if they deposit, leading to a reduction in deposit size. While lower rates would deter some foreign investors, negative interest rate policies might encourage currency depreciation, reducing domestic currency demand and boosting exports.

5. Stock Market

Since the COVID-19 epidemic, the stock markets in many countries around the world have made "circuit breakers". Taking the United States as an example (see Figure 2 for details), before February 2020, US stocks had shown a continuous upward trend on both the Dow Jones and NASDAQ indices [9], even reaching new highs, just one step away from historical highs. In the short term, the NASDAQ index showed a slight increase from 9000 to 9500 from January to February 2020, followed by a significant decline to the lowest point of 6600 in early April 2020, and then remained stable and continued to rise until reaching 13000 by the end of 2020. In the medium to long term, the growth rate of the entire stock market in 2020 is very impressive. In 2020, several major indices in the A-share market achieved varying degrees of growth, with the Shanghai Composite Index rising by 13.87% and the Shenzhen Composite Index rising by 38.73%, achieving positive returns annually. In 2020, the US stock market performed relatively well. As of the close on December 30th local time, the Dow Jones Industrial Average rose 6.56% for the year, while the S&P 500 Index rose 15.52% [10]. The best performing US stock market was the NASDAQ Index, which has a concentration of technology stocks, with a 40% increase for the year.
6. Conclusion

To sum up, the COVID-19 epidemic has hit the world very hard, in particular for the global stock market, global interest rate market, global exchange rate market, and global import and export trade market. Unusual financial events have occurred along with extremely significant developments in the last year. Many academicians think that the COVID-19 will not trigger a new round of financial crisis in the immediate term despite the fact that it will have a significant impact and that the epidemic is being effectively controlled in a wide area, despite the fact that it will trigger a number of chain reactions in the global economy and finance. However, in the long run, there will still be possible financial instability if financial degradation is not successfully managed and governments throughout the world fail to avert a number of systemic and non-systemic dangers. In order to promote the stability of China's domestic financial industry, the authorities currently need to develop a bottom-line thinking. On the basis of preventing significant domestic fluctuations, industry and regional policy support, as well as funding support from financial institutions at all levels, fully reflects the responsibility of a major country and upholds the stability and harmony of the global financial market. Finally, from a financial standpoint, we should improve the relationship between the macro and micro levels and contribute significantly to the actual economy while reducing financial risks. First and foremost, the actual economy's growth has to be stabilized. On the one hand, China's economy depends heavily on the real economy, and the government should actively encourage the start-up of work and production by lowering taxes and opening up new funding sources. On the other hand, Chinese financial institutions must collaborate with one another and work together to achieve the objective of stabilizing the economy because of China's largely independent monetary policy. Second, resuming employment and output is still essential to fostering regular economic development. To ensure that businesses can successfully navigate development challenges, bank should implement differentiated services in the credit business, offer varying degrees of financial support for different industry characteristics, and grant concessions to businesses that must postpone principal and interest repayment during the epidemic. Commercial banks can also take advantage of their informational advantages and make use of Small and micro enterprises can benefit from consulting services provided by massive information and professional capabilities, which can help them rebuild their industrial chain. Thirdly, on the basis of financial risk prevention, promote multi-level financial policies, institutions and ways to serve the economic recovery.
References


