ISSN: 2688-8653

The Monetary and Fiscal Countermeasures under the Impact of the COVID-19

Hongye Xing

School of North China Electric Power University, Baoding, China

Abstract

The outbreak of the COVID-19 has brought severe challenges and far-reaching effects to the Chinese economy, and has also caused turmoil in the global economic structure again. Based on that, this paper analyzes the impact of COVID-19 on China macroeconomic and industrial structure, explains the superiority of the monetary and fiscal coordination mechanism under China's economic system to public crisis events, and finally proposes fiscal countermeasures to boost the economy.

Keywords

COVID-19; economic impact; fiscal and monetary policy.

1. Introduction

The suddenly COVID-19 at the end of 2019 has had a serious impact on our country's national economy and social order. As the epidemic spreads rapidly abroad, confirmed cases have appeared in nearly two hundred countries around the world, and the World Health Organization has officially confirmed it as a global "pandemic" .Through the unremitting efforts of the people across the country, the epidemic was effectively controlled in late March, and economic and social order was gradually restored. However, China paid the painful price of historically negative GDP growth in the first quarter. In the face of the menacing epidemic, whether it is short-term epidemic prevention and control or economic recovery after the epidemic, fiscal and taxation policies must do something to support the survival of enterprises and encourage the resumption of work and production.

2. The Economic Impact of COVID-19

From a macroeconomic perspective, China is the second largest economy in the world. After the global epidemic, market demand has shrunk sharply. Although China's domestic online shopping and online entertainment industries have experienced increasingly growth, offline industries have been greatly affected. According to data from the National Bureau of Statistics, the gross domestic product in the first quarter of this year was 20,650.4 billion yuan, a year-on-year decrease of 6.8% at comparable prices; fiscal revenue was 4.5984 billion yuan, a year-on-year decrease of 14.3%. The direct impact of the epidemic has caused a sharp drop in the output and connections of the three major production networks in East Asia, Europe and North America, which has had a huge impact on the world economy and China's economy from both the demand and supply ends. Under the current situation, China's economic growth must rely on domestic market demand. When responding to the economic crisis, investment stimulus is a very important countermeasure, but this time it is also necessary to protect families and protect consumption at the same time to help companies overcome difficulties.

Meanwhile, the impact of the epidemic on China's service industry is the first to bear the brunt. Since the activities of the service industry, especially the traditional consumer service industry, must be based on increasing communication and agglomeration between people, the "epidemic" orientation of this isolation-based war will first impact service economic activities.

ISSN: 2688-8653

The service industry in our country is almost shut down, especially for service companies in the transportation, catering, hotel, tourism, store and entertainment industries. The plan to resume work and production depends entirely on the cycle of epidemic control and spread. Secondly, the impact on the producer service industry may be more far-reaching and devastating.,which could even be greater than Chinese services. The main impact of the epidemic on the manufacturing industry lies in the shortage of labor supply during the epidemic period and the rapid price increase of intermediate inputs, as well as the resulting disruption of the industrial system and division of labor, and the possibility of temporary breaks in the modern industrial chain (Wang kun 2019). For China, a world factory that is deeply embedded in the global value chain from the perspective of the correlation response.Because the industrial chain of the service industry is shorter than that of the manufacturing industry, the shrinking change in the final demand of the service industry has a much smaller negative impact on the national economy through endogenous reactions than the shrinkage of certain links in the modern manufacturing industry chain.

3. Fiscal and Currency Coordination Mechanism

The classic dynamic economic theory's analysis of finance and currency is based on the Ramsey framework. Because the economic growth rate in the Ramsey economy will eventually converge to zero, fiscal and monetary policies have no growth effect (Zhu jun 2020). In terms of fiscal policy, a one-time tax adjustment will not lead to growth; in the growth theory, fiscal expenditure has basically no effect on the steady-state growth rate. In terms of currency economic research, credit currency is neutral in a dynamic environment and does not change the configuration of the Ramsey economy itself. Therefore, in the classical theory, fiscal and monetary policies have no growth effects, only distribution effects. In the real economy, economic growth is not only ubiquitous, the fiscal and monetary authorities are often not independent of each other. Economic planners can use fiscal and monetary policies to influence economic growth at the same time. When finance has public characteristics, fiscal policy can lead to economic growth; when currency is issued in the form of a fiscal deficit, the monetary authority's currency issuance needs to cooperate with the fiscal authority.

After the reform and opening up, the reform of China's economic system has continued to change from a planned economy to a market economy. The essence is the market's allocation of factors. Although both are market allocation factors, there are essential differences in economic growth between China and the United States. China is essentially a planner economy, Central planners have a strong preference for economic growth, which formulate national development strategies and dominate local governments. The regional economic development and local governance are evaluated, and corresponding promotion is carried out based on the performance of local officials, so that the central-local entrusted agency and promotion system promotes local economic development. In addition, under the condition of continuous economic system reform, market-regulated production has been formed in the United States, the federal government is generally unable to actively intervene in the country's long-term economic development. Businesses and households make economic decisions based on the information and resource constraints they obtain. Many scattered companies and households form a market.

Finance is the foundation and important pillar of national governance. In times of crisis, the government should use financial tools to perform its function of redistributing social resources to ensure that resources can be used in crisis response adequately and efficiently. From the perspective of taxation, taxation policies will not directly increase the pressure on national fiscal expenditures, and can also play a role by influencing individual behavior choices, guiding the flow of social resources in an indirect way. Fiscal and taxation policies are an important tool

ISSN: 2688-8653

for the state to carry out macro-control.Through the organic combination of financial subsidies, transfer payments, tax cuts and fee reductions, it has an unparalleled advantage in responding to public crises. During the epidemic, the Ministry of Finance, the Health Commission, the State Administration of Taxation, the National Development and Reform Commission and other departments have continuously introduced various policies, with unprecedented efforts in direct financial subsidies, tax reductions and fee reductions, and the scale of financial expenditures at all levels has far exceeded the SARS epidemic. The current expenditures and the tax and fee reduction measures adopted are more comprehensive than those during the SARS epidemic.

4. Financial Response to the Epidemic

4.1. Rapid Overall Planning and Reasonable Allocation of Financial Funds

The financial department provides financial guarantees for the fight against the epidemic by coordinating funds and rationally deploying funds to play its due role. Issuing national debt to raise funds is the most efficient way for the central government to raise government financial resources in a short period of time(Li Wei'an 2020). The fiscal pressure on the central government should be resolved by increasing the fiscal deficit rate and further expanding the scale of national debt issuance. The fiscal deficit rate in 2020 should not be constrained by 3%. If it is increased to about 3.2%, this will not only affect the prevention of fiscal risks, but also the release of more fiscal funds can better guarantee the improvement of public services. Under conditions of uncertainty, the challenge of expanding the scale of the national debt should depend on the duration and degree of impact of the epidemic.

4.2. Helping Small and Medium-sized Enterprises to Overcome Difficulties through Tax Cuts and Fee Reductions

Market pressure ultimately needs market forces to resolve. Enterprises, especially small and medium-sized enterprises, are weak in resisting pressure. If due to the epidemic, once the capital chain breaks, they may withdraw from the industrial chain where the enterprise is located, and there is no chance to re-enter in the future (Zhu Wuxiang 2020). Therefore, corporate income tax can be reduced or exempted for a quarter or longer, and other taxes and fees can be reduced or exempted simultaneously. For companies, the latter is even more important, because if there is no profit, there is no corporate income tax, and profitable companies have a strong ability to withstand risks. The proportion of taxes and fees provided by small and medium-sized enterprises is relatively low, but the effect of tax reduction and exemption on them is more significant(Shen Guangjun 2016) .

4.3. Multiple Measures to Boost Household Consumption

Consumption is the ballast stone of China's economy, and boosting residents' consumption should be the focus of current economic work(Li Liuying 2020).First of all, guiding the decline of deposit interest rates is essential for slowing down household savings, reducing the substitution effect of stimulus policies in the short term, and promoting household consumption in the long term. Second, cash is issued to low-income groups and consumer vouchers are issued to middle-income groups. Low-income groups have a higher marginal propensity to consume. Cashing them will not only help boost consumption, but also help achieve the goal of poverty alleviation this year; issuing consumer vouchers to middle-income groups on a larger scale can directly drive real consumption and also conducive to the recovery of the corresponding industries as soon as possible with an immediate effect. Third, due to the large scale of China’s housing provident fund and social security fund, it is possible to increase the “exemption, reduction and slowdown” of the “two funds”, expand the scope of application

ISSN: 2688-8653

of the “two funds”, shorten the withdrawal frequency, stimulate residents’ consumption, and help Short-term economic recovery.

References

[1] Xiao Shaoming. Re-analysis of the social and economic factors of the SARS epidemic[J]. China National Conditions and National Power, 2003.(12):24-26.

[2] Wang Kun, Mao Ayan, Meng Yueli, et al. The development process, status quo, problems and strategies of my country's public health system construction[J]. Chinese Public Health, 2019, (7): 801-805.

[3] Zhu Wuxiang, Zhang Ping, Li Pengfei, Wang Ziyang. The plight of small, medium and micro enterprises and the improvement of policy efficiency under the impact of the epidemic——Based on the analysis of two national questionnaire surveys [J]. Management World, 2020, (4): 13- 26.

[4] Li Liuying, Wu Jiateng. Analysis of the impact of the new crown pneumonia epidemic on residents’ consumption behavior and its formation mechanism [J/OL]. Consumer economy, http:// kns. cnki. net/kcms/detail/43.1022.F.20200424.1341.002 .html,2020-04-24/ 2020-05-10.

[5] Shen Guangjun, Chen Binkai, Yang Rudai. Can tax cuts boost China's economy?——An empirical study based on China's value-added tax reform[J]. Economic Research, 2016, (11): 70-82.

[6] Zhu Jun, Zhang Shucui, Li Jianqiang. The economic impact of the outbreak and the evaluation of fiscal intervention policies [J]. Economic and Management Review, 2020, (3): 21-32.

[7] Li Wei'an, Zhang Yaowei, Meng Qiankun. Urgent problems and countermeasures for emergency management under sudden epidemics [J]. Chinese Science Academic Journal, 2020, (02).