

Macro-research on the Financialization of Economy

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Abstract

This paper mainly describes the fluctuation characteristics of China's financialization by analyzing the comprehensive index of economy financialization, and studies its impact on China's macro-economy. The research results show that the fluctuation of financialization has obvious regional characteristics and asymmetry. The impact of financialization affects both the output gap and inflation. The short-term impact of financialization will cause the product gap to increase and the inflation to increase, which will have a certain inhibitory effect in the long term. The price impact is even more pronounced.

Keywords

Economic Financialization; Inflation; Output gap.

1. Introduction

Since the emergence of currency credit, the financial activities generated by currency have begun to develop towards multi-levels, and the boundary between finance and real economy has been continuously blurred. The development of finance has gradually integrated into the overall development of society. The oil crisis occurred in the early 20th century. At that time, the related profits of the industrial sector continued to decline, and capital gradually began to flow from the real economy to the financial sector with higher profit margins. The financial sector needed to continue to expand and achieve related independence, calling this development "financialization". The development of financial industry has led to the common development of finance and its derivatives. At the same time, the real economy and industry also have similar phenomena. Once the country has a high dependence on the high profit of financial capital expansion, it may have certain impact on the overall efficiency of the market and the financial stability of the economy. In our country, the government mainly uses the means of macro-control to control. At present, the feature of gold melting in economic development is becoming more and more obvious. With the continuous development of the economy, new financial instruments are also emerging. Under the accelerated development of finance, the feature of financialization has changed the overall operation law of the macro-economy and brought new challenges to the macro-control and system reform of the economy. According to the documentary records of these years, financial impact on macro-economy is becoming more and more important both from the theoretical perspective and from the empirical perspective. At the beginning of the 21st century, China's financial regulatory system has become more stringent. The exchange rate system and financial market have also undergone many major reforms. The policy and regulatory instruments have also undergone long-term continuous updates. At different stages of development, China's financial environment has also undergone different changes. The impact of financialization has had different effects on the overall operation of the economy. From this perspective, this paper analyzes China's economic financialization from the basic indicators, analyzes the fluctuation of China's financialization, discusses the impact of finance on the macro economy, and provides experience and enlightenment for the future development of China's finance.

2. The Financial Cyclical Fluctuations

Firstly, this paper selects landmark indicators in the financial field to indicate China's financial index, which is used to describe China's overall level of financialization. Such as the growth of financial indicators, the degree of monetization, financial structure indicators, etc. The data in this paper are mainly from Wande database and BIS database. Zhu Aiyo uses standardized data for analysis, and uses principal component analysis (PCA) to calculate the financialized composite index (Figure 1, source network) to separate the development trend and cyclical requirements of the index.

In this paper, it is necessary to further analyze whether the cyclical fluctuations in financialization will have an impact on the macro-economy. By comparing the financialization index with the macro-economic index, it can be found that the changes of the two indexes are almost synchronous. The trough points of financialization and economy almost appear one after the other, which also reflects the correlation analysis of time difference. According to the results, the index correlation of the first phase is the highest, and the correlation coefficient of time difference reaches around 0.7. It also shows that the financialization cycle precedes the macro-economic cycle by about one quarter. Through the illustrations, we can easily find that there is a strong relationship between China's financialization fluctuations and the macro-economy, and there is often a mutually reinforcing relationship.

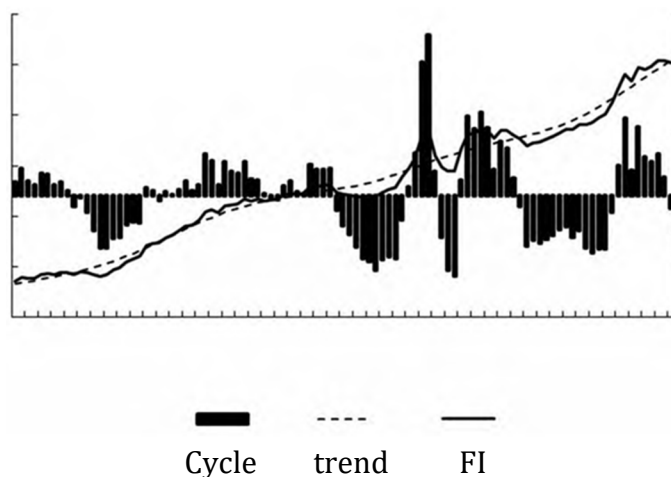


Figure 1. Financialization Index

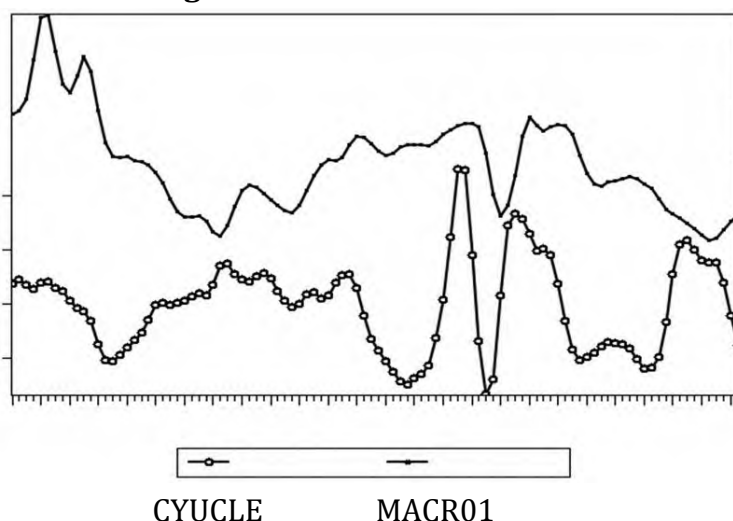


Figure 2. Macroeconomic Index and Financialization trend

In different periods of development, the types and sizes of financial shocks and the changes in the overall macro-control policies will have a certain impact on the financialization of the economy. There are also certain structural changes in the financialization of the economy. Traditional measurement methods cannot explain the characteristics of linearity and asymmetry. A smooth probability map is obtained by dividing the financialization period into two zones.

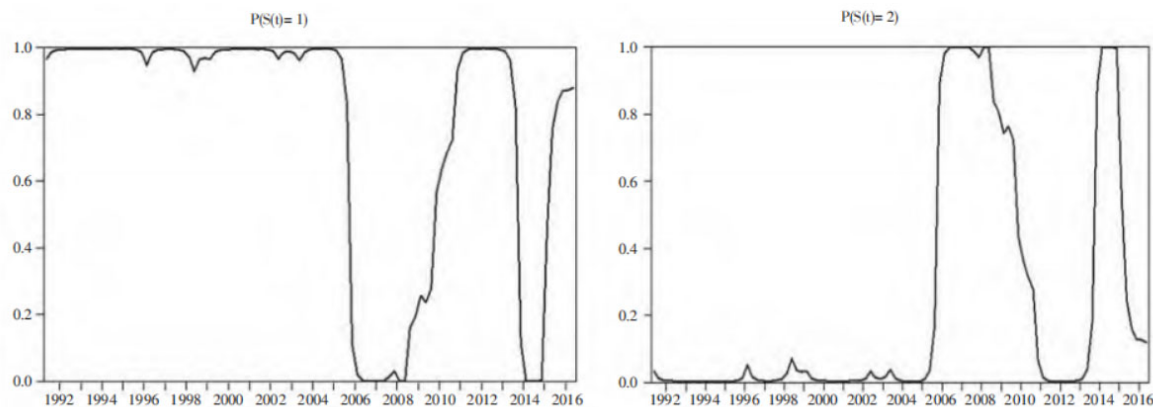


Figure 3. Smoothing Probability of Financialization Trend Division

The smoothing probability is divided according to 0.5 as the limit, with the high interval of 2006-2010 and 2014-2016. It can be seen from the figure that the trend of financialization in our country has the degree of scrapping, and the probability of low volatility stage is much higher than that of high volatility stage, indicating that our country has higher adhesion to low volatility.

From 2016 to 2017, China has also been in a low volatility range. From 2006 to the third quarter of 2010, China's financialization was in a range of high volatility, mainly due to the financial crisis around 2008, China's financialization volatility is the strongest at the moment. After 2012, China's macro policies gradually stabilized the development of finance, the liquidity of the financial system also flowed within a reasonable range, and financialization returned to the development of low volatility. This was an important period in China's financial reform, not only the cancellation of the downward adjustment of borrowing interest rates, but also the continuous promotion of measures such as securitization, which played a very important leading role in China's financialization reform. The fluctuations from 2014 to 2016 are still caused by the large fluctuations in our country's stock market, and have also caused a large impact in the short term. It can be seen that the cyclical development of our country's finance is in a low volatility development in the long term, which is not only beneficial to the long-term stable development of the economy, but also one of the prerequisites for deepening the reform.

3. Time-varying Effects of Volatility from Financialization

This paper mainly analyzes the relationship among financialization, output gap and inflation, using TVP-VAR model and Bayesian algorithm.

Financialization is mainly the serialization of financialization index after castration. The output gap data is the gap level data adjusted by the CPI index after the seasonal adjustment. The inflation rate uses CPI as the proxy variable and has been adjusted and processed using X12 and HP filters since 1992 as the benchmark.

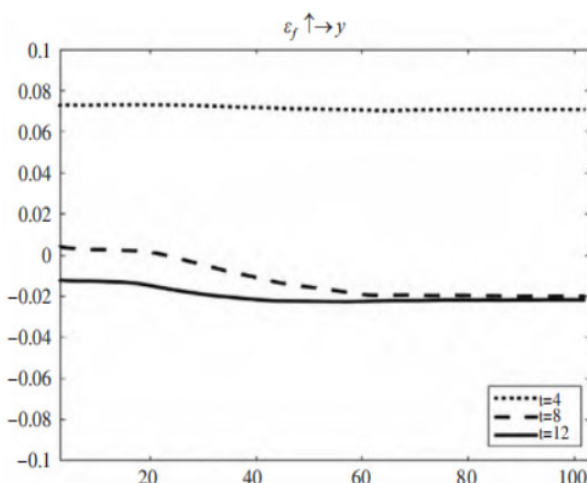


Figure 4. Equispaced Impulse Response of y Shock

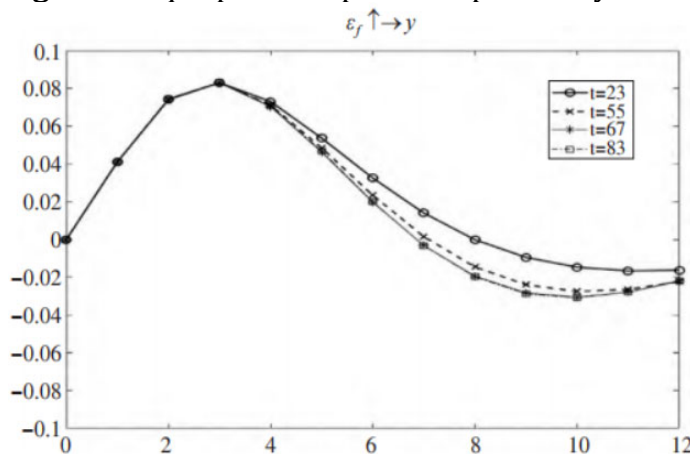


Figure 5. Time Point Impulse Response of y Shock

From Figure 4, the trend of the three curves is basically the same, showing a relatively weak trend. Too, this indicates that the impact of product gap on financialization is not very strong in the interval, and the three curves are also in different positions of the up and down trend, indicating that the effect of gap has some structural changes with the passage of time. Financialization is positively related to the product gap. The short-term financial expansion will also drive the capital flow in our country's capital market to a certain extent. It will make the real economy develop and improve to a certain extent. From the interval of 12 periods, we can see that there is a negative correlation between financialization and the output gap. From the perspective of long-term development, China's finance can effectively allocate resources, correctly guide the development of funds, disperse some risks existing in the financial market, and promote the development of the real economy. Similarly, a mature financial system can strengthen the low level of some unfavorable external information and mitigate the impact of adverse effects on the development of China's financial market. Judging from the pulse curve in the figure, the short-term fluctuation of China's financialization is often greater than the long-term impact.

As can be seen from Figure 5, the curve trend at different time points is basically the same. The impact of China's economic melting on the output gap is basically stable. The positive impact on the financial unit will also widen the gap, but in the long run this expansion will be smoothed out over time. From the point of view of time and speed, the curves are somewhat different, which indicates that the impact of output gap on financialization is time-varying. In the third

quarter of 2008, there was a rapid decline in the third quarter of 12 years, which was also the first slight negative effect.

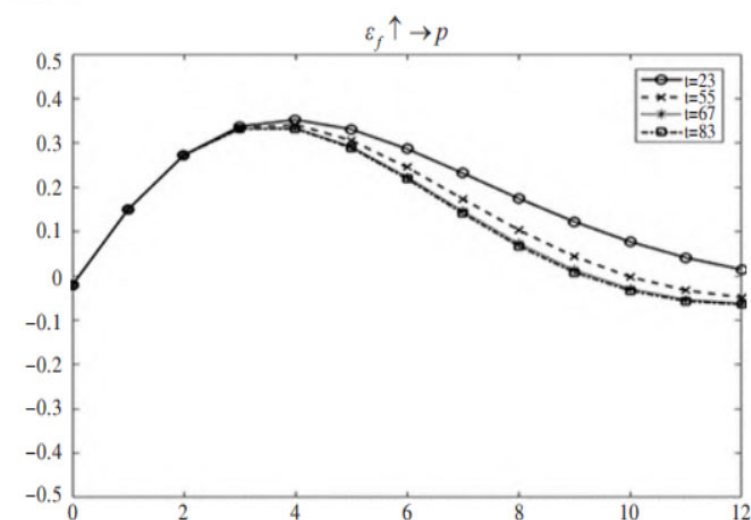


Figure 6. p Impulse Response at Time of Impact

From Figure 6, we can see that the impact of inflation P on financialization F is basically the same as the gap trend response in Figure 5. From the overall impact angle of financialization, the impact of inflation may be relatively larger, and the impact of price is relatively more obvious than the efficiency of output. On the one hand, China will also regard price stabilization as the main means of macro-control, on the other hand, it also shows that the transmission process of price information from the financial system will be faster and more influential than the actual economy. The impact of the financial system on the country will also continue to grow.

4. Summary

This paper mainly uses the component analysis method to analyze, obtains some basic comprehensive indexes of financialization, applies the TVP-VAR model to analyze, and mainly analyzes the macro indexes of financialization in China. First of all, the fluctuation of financialization is always linear compared with the fluctuation of macroeconomy. It has obvious regional characteristics and asymmetry. In the overall process of China's development, most of the time it is in a state of low fluctuation, which is the main characteristic of China's economic development. It is in a state of high fluctuation for a few periods of time, and there is a relative improvement in stability and sustainability. Secondly, for the relative state of financialization, its stability and sustainability are also on the rise. The output gap and inflation have time-varying effects, and the mechanism of action will change in different time stages due to the changes in time. Finally, we conclude that the relative price effect is more obvious by comparison.

From the conclusion of this article, I get some enlightenment for the future development of our country. First of all, we can judge the current macro-economic development from the overall financialization index. It is helpful to use financialization to promote the improvement of the economic situation during the period of economic recession. In the case of excessive economic prosperity, it is helpful to tighten the economic situation and avoid overheating. To strengthen the cyclical adjustment, on the one hand, the adjustment function of the market mechanism can improve the smoothness of the financial system to a certain extent, on the other hand, the forward-looking ability of macro-control can be improved. On the other hand, although the

price effect is more obvious by comparison, the impact of output cannot be ignored. The formulation of policies needs to be closely monitored in economic development to avoid damaging effects under rapid deterioration. We should further strengthen the regulatory role of the market and the analysis and control of risks, realize the rational development of finance, and ensure the sustained, healthy and stable development of the basic economy. We also hope that China's future economic development can be more smooth.

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