

Analysis on the Impact of Monetary Policy on Corporate Financial Development

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ABSTRACT

The monetary policy can affect the corporate financial development to achieve the prospective intervention effect through the adjustment of market financing and other ways. However, on account of the close connection process between the two, it is easy to arise structural deviation. This text, based on the references, analyzing the impact of monetary policy on the financial development of domestic companies, stating the mechanism of the policy influence, analyzes its association with the company's financial development from macroscopic perspective. The research first analyzes the macro impact of domestic monetary policy on corporate finance at the present stage, including the influence context of monetary policy fluctuations as well as the corresponding characteristics of corporate financial behavior changes; on this basis summarizing and sorting changes in corporate financial behavior under monetary policy, including changes in capital structure adjustment and changes in investment behavior. The study shows that the operation of domestic listed companies needs a stable financial environment, while the effectiveness and stability of monetary policy can greatly improve the financial development of companies, and the two need to be coordinated and mutually reinforced.

Keywords: *monetary policy; financial development; corporate behavior*

1. INTRODUCTION

At the present stage, the monetary policy generally affecting market financial companies, implement own policy expectations through microeconomic conditions. As a result the detailed analysis of the correlation between monetary policy and the development of financial companies has always been the core problem studied in China's financial policy departments and the financial academic circle in recent years.[1] In recent years, with the continuous development and change of the international market environment, the domestic financial environment has also major fluctuations greatly, resulting in frequent monetary policy adjustment. Its core trend is the reduction of the adjustment of interest rate, and more adjustments of bank reserve ratio. Banks, which act as the guiding medium of financial adjustment policy in the development of the financial market, have specific financial service characteristics, which leads to the structural deviation of the domestic financial macro, and it is difficult to produce obvious differentiated impact on financial enterprises under different characteristics, but to a certain extent aggravate the economic imbalance.[2]

For this, domestic financial scholars also analyze the financial logic after monetary policy from different perspectives. Some people believe that the current domestic monetary policy generally affects economies through monetary channels, credit channels and other different mechanisms. When the interest rate under the monetary channel changes, the capital and cost of domestic financial enterprises will be a certain change fluctuations, thus affecting the marginal investment conditions and promoting the change of investment behavior. The credit channel mainly summarizes the characteristics of the capital market, and believes that the market under the capital market is not a perfect market, requiring to further improve market access. Either of the above views can reach the common conclusion, that is the monetary policy will affect the development of financial companies not only through interest rates and capital, but also through bank credit. In other words, the influence of monetary policy on corporate finance is generally divided into two kinds: the influence of corporate capital supply and the impact of credit relationship. The two effects also backfire on the expected effect of monetary policy, and then play a

certain role on the development of domestic financial enterprises.[3]

In order to deeper analysis of the impact of monetary policy on the company's financial development, this paper detailedly analyzes the changes of the financial behavior under the influence of external factor of financial monetary policy from the company level based on the existing financial enterprise development research report and the capital demand control, aiming to reveal the development core of financial macro policy and provide a certain theoretical reference for relevant financial decisions.

2. THE IMPACT OF DOMESTIC MONETARY POLICY ON THE COMPANY'S FINANCIAL BEHAVIOR AT THE PRESENT STAGE

2.1. Fluctuation analysis of monetary policy

The monetary policy mainly refers to economic measures proposed by the government or state banks in order to regulate the financial market and improve economic activities. It is generally dominated by

Table 1 Statistical analysis of domestic M2 values and GDP values

Year	M2 growth ratio	GDP growth ratio	M2/DGP
2010	0.164	0.090	1.421
2011	0.169	0.092	1.539
2012	0.195	0.122	1.621
2013	0.143	0.175	1.611
2014	0.167	0.229	1.159
2014	0.194	0.190	1.525
2016	0.207	0.088	1.795
2017	0.230	0.175	1.513
2018	0.231	0.195	1.798
2019	0.283	0.081	1.820
2020	0.195	0.175	1.809
2021	0.175	0.172	1.920

In response, the state is also constantly introducing new monetary policies to improve the problem. According to the existing research data, we can see that the impact of domestic monetary policy, having a direct impact on financial enterprises, affecting the interests of the company in all aspects, promotes it to make corresponding financial monetary behaviors.

2.2. Changes in corporate financial behavior under monetary policy

Through the above content, we understood the essence of financial monetary policy and the impact of its fluctuations. Then we will focus on analyzing the

monetary aggregates control and interest rate adjustment. At the present stage, the types of domestic monetary policy adjustment mainly include adjustment of marketing functions and benchmark interest rate, central loans, etc. Different market environments result in different monetary policy guidance introduced by the country. By taking the United States as the example, the current monetary policy of the United States relies largely on interest-rate leverage. In recent years, the rates of central bank have fallen to 0.75% from 1.73%, with a peak of 5.15% and 0.11%, respectively.

China has formed a central banking system since 1984, and its modern monetary policy has been constantly improved. For many years, the adjustment of domestic monetary policy has become more and more scientific, and the market control has been significantly improved. However, in recent years the national central bank has had some problems with its control of the total currency. Domestic monetary aggregates has maintained a momentum of rapid development, its growth is much higher than GDP, resulting in the increasing ratio of observed target (M2) to GDP, as shown in Table 1. It did not fully play the regulatory role of economic counterwind regulation.

changes of the company's financial behavior under the following monetary policy.[4]

2.2.1. Changes in company financing under monetary policy

The core problem of the company's financing rests with that it needs to consider the current macro environment and its own conditions, including the choice between equity financing and bond financing. Only by taking full consideration of various factors can the best company capital structure be formed.[5]

First, the current domestic listed companies are generally more inclined to equity financing. There has

long been a financing order of "first outside and then inside, first equity and then bonds" in the industry. Table 2 provides data on equity financing and bond financing of listed companies from 2012 to 2021. According to the data in the table, it can be clearly

found that equity financing of 2015, 2018 and 2021 are relatively small, while debt financing behavior of 2019 is relatively increased, and 2021 quantity of debt financing exceeds equity financing for the first time, showing a new momentum of development.

Table 2. Data table of creditor's rights and equity financing of listed companies

	Financing (IPO)	Financing (refinancing)	Financing (total)	Debt financing
2012	780.95	721.15	1523.98	-
2013	812.55	744.85	1565.52	-
2014	834.75	731.25	1588.52	-
2015	335.15	335.75	675.85	-
2016	2458.75	2485.95	4982.58	-
2017	7722.85	7452.21	15215.8	-
2018	3455.52	3395.85	6768.95	995
2019	5007.85	4895.52	9952.85	815
2020	9805.21	8146.85	17775.95	965
2021	775.51	725.15	1508.98	1795

Note: the equity financing in the above table specifically refers to A-share financing. All data are from the China Statistical Yearbook, and debt financing data are from the Statistical Bulletin of National Economic and Social Development

On the whole, the reason why domestic listed companies preferring equity financing is mainly low domestic equity financing cost, higher capital amount obtained by the company, and no much restrictions on refinancing. Moreover, because of the high listing threshold of domestic companies, domestic investors have a strong speculative stocks and willing to buy additional shares; and because excessive load will increase the risk of bankruptcy, professional managers are more willing to choose equity financing for their own interests. In addition to the above reasons, there is another reason is that the domestic loan approval is relatively strict, and the large-scale capital expenditure has high capital constraints, which will increase the company's operating cost to a certain extent, so some companies are unwilling to carry out debt financing.

Next, domestic creditor's rights financing is mainly based on bank loans and commercial credit, while the creditor's rights financing of domestic listed companies is mainly based on bank loans. The research is impossible to obtain the latest specific bank loan data of domestic listed companies. According to previous data, domestic enterprises have a strong dependence on bank credit loans, and some enterprises cannot resist the financial impact brought by bank credit on the company through equity financing, credit financing and other means. As a result once bank credit supply policy changes after adjusting national currency policy, the company's financing scale and cost will also fluctuate significantly.

Finally, in terms of the company's creditor's rights structure, the current domestic core financing method of

listed companies takes short-term liabilities as the core. It can be seen from the data sample that the domestic overall profitability of the listed companies is weak, so the cash flow is insufficient, and the short-term liabilities can be used as the lowest cost financing method. However, its risk is huge, and it can easily affect the value of the company. Once the central bank raises interest rates, it will directly increase capital turnover. The long-term liabilities can effectively make up for the pressure of short-term liabilities, which is beneficial to the company's long-term planning.

2.2.2. Changes in corporate governance under monetary policy

The primary content of corporate governance change is the company's financial control and the corresponding checks and balance mechanism. Only by coordination between the two can the benefit maximization be guaranteed. Due to the reasons for the development of domestic economic system and political culture result in the governance model of domestic companies is different at the current stage, which can be divided into Anglo-American model and Japanese-German model. The Anglo-American model is originated in the securities market, its equity has high liquidity, and the company pays attention to high-level incentives. The Japanese-German model relies more on banks, emphasizing the cross-shareholding and interest checks and balances of legal persons.

No matter which of the above models, the governance of the company will change significantly under the change of monetary policy. In order to

conduct deeper research, we choose the period of monetary contraction, and intuitively investigate the changes of corporate governance. According to the data, corporate stock price volatility during the monetary easing period is significantly lower than the austerity period, with general volatility figures of 0.045, while the monetary deflation period was 0.075.

Since the data cover companies with different characteristics, so it can further supplement and divide samples according to the company's scale and product competition and financing constraints, so as to investigate the changes in corporate governance under monetary policy. It is certain that the company's excess value will be significantly increased compared with the monetary deflation period. To a certain extent, this affects the direction of senior management of the company, especially in private holding enterprises, and the excess value will be significantly higher than that of state holding companies.

3. CORPORATE CAPITAL STRUCTURE AND INVESTMENT BEHAVIOR CHANGE UNDER MONETARY POLICY

3.1. Changes in the corporate capital structure under monetary policy

The capital structure of Chinese companies is not only determined by their own characteristics, but also is affected by monetary policy. On the one hand, monetary policy will directly affect the capital structure of the company's capital structure through financing and other means. On the other hand, it can also affect the market operation of the company through market feedback, thus changing the company's capital structure. In summary, monetary policy can realize the adjustment of the company's capital structure through the top financing and the lower product market, and further affect the excess value of the company. Fig. 1 shows the impact of the company's capital structure under monetary policy.



Fig 1. Analysis on the impact of monetary policy on the corporate capital structure

In addition, according to the data, different sizes of companies compete with the market, the difference in their corporate capital structure is the more obvious under different monetary policies. After completing the adjustment of the capital structure, the company is more of the adaptation to the market competition, greatly deepened the market value of the company. It can be sure to say that the adjustment of the company's capital structure has a positive effect in the developed market economy environment, and the adjustment of debt will also bring excess value to the company.

Because monetary policy leads to the difference in the financial market environment, the adjustment of capital structure is also diversified. Generally speaking, as long as the market and financial environment is relatively perfect, the company's capital structure adjustment has obvious coordination in the financial market environment. However, in addition to conventional factors, we also need to consider the characteristics of the company system in our country, that is, the difference between state-owned and private enterprises. Differences in ownership characteristics also often determine the support of national banks. For private enterprises, only when the monetary policy is relatively loose, the company's capital structure adjustment can be calmly conducted, on the contrary, once monetary policy has contracted, the capital structure of these companies is often a forced

adjustment in the financial difficulties, and it is difficult to take into account long-term interests. For state-owned enterprises, on the one hand, because of their own characteristics, it is easier to obtain bank loans, and there is a large space for capital structure adjustment. On the other hand, even if monetary tightening, because the company has an obvious capital monopoly, its value will not appear too much losses, can also achieve positive adjustment.

3.2. Corporate investment behavior change under monetary policy

According to the traditional financial concept, it is certain that the company's investment behavior generally depends on the positive growth of cash reserves, and the development of both will be directly affected by monetary policy. In essence, the impact of monetary policy on corporate investment is more manifested in financing decisions and financing results. Because financing is the absolute guarantee of the company's cash flow, and it will also affect the company's decisions. Under different monetary policy environments, the company's external financing capacity will vary significantly. Generally speaking, under the conditions of monetary easing, the company has a strong external financing ability, and it is easier to obtain financing, and its investment behavior will be

more frequent. On the contrary, under the conditions of tightening, the company's external financing ability is poor, and the investment behavior will tend to be conservative. This leads to significant differences in corporate investment behavior in different monetary policy environments. Because the internal management of the company is different, there will also be certain differences in the face of funds. Generally speaking, the higher the management level of the company, the more frequent its investment behavior, and once the cash flow fluctuations, its cash sensitivity will directly affect the effect of the company's investment behavior.

In the domestic real market, because the company service financial system is generally dominated by national banks, the symmetry of service is relatively weak. Although some companies have financing needs, they cannot get the financing market due to policy reasons. In the future, China's financial policy and monetary policy adjustment also need to consider this part of the content.

4. CONCLUSION

This paper, combining theoretical research and data research, depending on the real data and theory, embracing the correlation between monetary policy and corporate financial behavior, carries out analysis and discussion. Its contents include the macro analysis of the impact of domestic monetary policy on the company's financial development, as well as the capital structure adjustment and investment behavior adjustment under its jurisdiction.

From the company level, the government behavior belongs to an exogenous factor during monetary policy

adjustment. In order to effectively reduce the negative effects brought about by monetary policy adjustment, domestic listed enterprises should formulate long-term planning and development goals in advance, pay attention to the international market such as the external environment, improve their financing ability of enterprises, improve the internal management level, and improve the value of the company.

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