



Comparison of the Impact of Macroeconomic Policies in China and the United States on Financial Markets

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Abstract. This article focuses on the key issue of macroeconomic policy adjustment, and deeply analyzes its multidimensional impact on the financial markets of China and the United States. In the global economic landscape, China and the United States occupy a pivotal position, and every change in their macroeconomic policies is like a giant stone thrown into the financial market, causing ripples and having a significant and far-reaching impact on domestic and international financial markets. The study carefully sorted out important policy tools such as currency, fiscal, and industrial policies of the two countries, focusing on how these policies affect market stability mechanisms, reshape investor behavior patterns, and promote the development of the financial sector. Through comparative analysis, the differences in the transmission efficiency of different policies and market feedback have been revealed, highlighting the uniqueness and commonality of macroeconomic governance between China and the United States. This provides valuable reference for optimizing macroeconomic strategies and helps to enhance the resilience of financial markets and investor confidence.

Keywords: China, United States, Financial Market, Macroeconomic Policy, Monetary Policy.

1 Introduction

China and the United States are key in shaping global economic trends and financial market dynamics as the world's two largest economies. The macroeconomic policies implemented in both countries affect domestic economic performance and have ripple effects in the international monetary system. In an increasingly interconnected world, the interaction between macroeconomic strategies and financial market responses is of great concern to economists, policymakers, and investors. Given the global spillover effects of China and the United States' economic policies, a systematic comparison of the similarities and differences between their policy tools and market reactions is of great theoretical and practical significance.

Macroeconomic policy, often distinguished as monetary, fiscal and industrial policy [1], is one of the ways through which governments regulate economic cycles, keep inflation in check, and provide employment, among other objectives. In this case, monetary policy involves manipulating the money market by setting interest rates, requiring reserves, and opening market operations that determine market liquidity and credit instruments. Fiscal policy refers to the government expenditure, revenue, and borrowing to affect the economy by increasing its growth when sluggish or slowing it down when it is overheating. Industrial policy is usually not considered by many in comparative politics. Still, it is significant in creating long-term development and competitiveness strategies by allocating resources to relevant sectors. China and the United States also have some differences and variations in their methods of utilizing these policy tools, and these differences primarily relate to their policy objectives, institutional setting, and sensitivity of their respective financial markets.

In recent years, China and the United States have made significant policy adjustments to address challenges, including the aftermath of the 2008 global financial crisis, escalating trade tensions, technological competition, and economic disruptions caused by the COVID-19 pandemic. For example, China has increasingly emphasized dual-cycle and supply-side structural reforms [2] while the United States has pursued aggressive monetary easing and broad fiscal stimulus to support economic recovery. These approaches reflect different financial structures and policy philosophies in each country's institutional framework and development priorities.

Looking at the financial markets in these two countries, there has been quite a shift due to these macroeconomic policy changes. In this case, financial markets mainly comprise the share market, the bond market and the forex market and are the most volatile to policy changes in macroeconomic factors. In the US, investor behavior depends significantly on the interest rates, inflation and the Fed's forward guidance [3]. In China, government policy direction, administrative measures, and industry interferences significantly impact the movement of the financial markets. This indicates that such reactions should be used to assess the macroeconomic policies' effects and can be used to identify trends and threats in the financial industry quickly.

This study aims to compare and contrast the macroeconomic policies of China and the United States concerning their countries and their influence towards the operation of the financial markets. By examining transmission mechanisms and market responses to monetary, fiscal, and industrial policy adjustments, this paper provides valuable insights into national policy frameworks' strengths, limitations, and implications. Ultimately, this study contributes to a deeper understanding of how macroeconomic governance affects financial market performance and informs future policy design in advanced and emerging economies.

2 Chinese Macroeconomic Policies

To revitalize the Chinese economy after the COVID-19 pandemic, the Chinese government has imposed a series of financial policies, including fiscal and monetary policies.

2.1 Chinese Fiscal Policies

The three main fiscal policy channels in China consist of public infrastructure spending to stabilize economic growth, tax benefits for market actors, and emergency assistance for industries to avoid systemic problems.

The Chinese government has selected infrastructure expansion as its central stabilizing approach since 2022. The 2022 fiscal stimulus package introduced a 1 trillion RMB initiative that targeted transportation and energy sectors and urban development projects, with a total value of around \$140 billion [4]. The government announced additional fiscal measures targeting the property sector and private enterprise support through planned bond issuance of approximately 2 trillion RMB during 2025 [5,6]. The policy transmission mechanism functions through infrastructure investment, which causes rising material needs and subsequently enhances related listed firms that influence stock market sector changes. The stock market demonstrated support for construction materials sectors because of persistent weaknesses in property and consumer confidence perceptions. The evidence shows that fiscal stimulus measures failed to build market confidence to a healthy level.

After VAT cuts and SME tax deferral programs started in 2022, China extended this tax relief support until 2024. Such tax relief measures totaled more than 4 trillion RMB throughout implementation. China devoted approximately 1% of its annual GDP to tax relief measures in three years, totaling 1.33 trillion RMB, which shows a substantial investment in fiscal support [7,8]. Targeted financial incentives were later provided to high-tech and green energy industries in 2023 [9]. Particular industry segments received an investor market sentiment boost from these strategic policies, which resulted in technology and renewable energy stocks surpassing broader market performance as observed through the CSI 300 index returns of 5–10% during 2023–2024. Locally successful outcomes could not hide the impacts from external U.S. trade barriers and a slipping global market demand, which resulted in subdued stock market performance. The implemented measures did not address fundamental issues regarding China's production capacity and consumer consumption.

China's real estate rescue policy aimed to resolve risks in the market rather than follow the countercyclical infrastructure investment regulation. Special loans of 300 billion RMB went to unfinished housing projects, while first-time homebuyers received government subsidies between 2023 and 2024 as part of the property sector support initiatives. The administration declared its plan to buy public sector residential properties for inventory reduction in the autumn of 2024. The measures prevented an absolute failure, but failed to rebuild investor trust completely. During this period, the financial market showcased enduring uncertainty as real estate stocks and bonds sustained below their pre-2022 market performance.

2.2 Chinese Monetary Policies

China applies dual monetary policy measures involving interest rates alongside a reserve requirement ratio and employs innovative methods like stock-backed loans to

accomplish specific objectives. The dual-track monetary policy system allows the People's Bank of China (PBOC) to adapt to changing macroeconomic conditions.

During the previous three years, the People's Bank of China performed multiple interest rate reductions through its price-based tools. China's Policy Bank and significant financial institutions cut the prime loan rate by 15 basis points in 2022. In contrast, medium-term lending facility rates experienced a reduction of between 20 and 30 basis points in 2024 [10]. The direct effects of this policy implementation consist of the following stages: PBOC decreases the Medium-term Lending Facility rate, followed by Loan Prime Rate reduction, which reduces corporate financing expenses, allowing listed companies to exhibit improved earning potential and increasing stock market valuation. The goal was to reduce costs for borrowers and motivate economic investment within the real sector.

The PBOC launched a significant easing package in September 2024, emphasizing a 50-basis-point RRR cut that put 1 trillion RMB into circulation [11]. Total monetary easing amounted to over 2 trillion RMB during 2023–2025 because of the September 2024 fifty-basis point reduction and earlier twenty-five-basis point reductions. The policy framework presents an essential condition because bank lending hesitance and low market demand caused newly freed money to remain stuck within interbank markets, thus creating more significant declines in interest rates than in credit financing rates. The restricted capability of this policy demonstrated its reduced ability to generate larger-scale lending activities.

The PBOC used innovative structural tools in 2024 to support capital market operations directly. The policy implemented a 500 billion RMB fund, which permitted financial institutions to purchase stocks and provided listed companies access to 300 billion RMB low-interest loans for share buyback programs [12]. The authorities implemented these measures to drive equity market price growth and reinforce investor faith. During the month following September 2024, public information about the PBOC initiatives' margin trading balances expanded by roughly 150 billion RMB, evidence of institutional investors returning to risk-taking behavior. These policies' effects on the market structure remained relatively limited in the long run. Fourth-quarter 2024 share repurchase practices reflected a volume representing merely 1.2% of market capitalization, indicating that major investors' worries about economic uncertainty and deflation remained unchanged.

These monetary intervention programs contributed positively to enhancing financial markets' sentiment levels. From September 2024 to March 2025, the CSI 300 index achieved a technical bull market, increasing by more than 20%. Financial and technological industries demonstrated maximum growth through reduced borrowing prices and better market liquidity conditions. The effectiveness of China's monetary policy faces uncertainty in the long run as persistent structural weaknesses between deflationary pressures and suppressed private sector demand continue to affect investor confidence.

3 U.S. Macroeconomic Policies

To stabilize the economy's sustainable growth and recover from COVID, the United States has also established many financial policies in recent years.

3.1 U.S. Fiscal Policies

Fiscal policies during this period included significant legislative actions to address inflation, boost domestic manufacturing, and manage government spending. The key policies identified are the Inflation Reduction Act (IRA) announced in August 2022, which marked a significant investment in clean energy, healthcare, and deficit reduction, with provisions for tax credits and spending on climate initiatives [13]. CHIPS and Science Act established in July 2022, which allocated nearly \$53 billion to bolster domestic semiconductor manufacturing, research, and workforce development [14]; and Fiscal Responsibility Act signed on June 2023, aimed to lower inflation, reduce healthcare costs, and mobilize private capital for clean energy, with an estimated impact on reducing the deficit through enhanced IRS tax enforcement [15].

The IRA was aimed at reducing inflation and investing in clean energy. Inflation decreased from 9% in June 2022 to 2.8% by February 2025, which suggested a partial success. Besides, clean energy investments led to over 45,500 projects registered by 2024, indicating a strong market response. For the CHIPS and Science Act policy that targeted domestic semiconductor production, by August 2024, over \$30 billion in investments and 115,000 jobs were created, with facilities like TSMC's Arizona fab producing chips by September 2024, presenting a high effectiveness. The Fiscal Responsibility Act has controlled nondefense discretionary spending and reformed social safety net programs, stabilizing fiscal policy. This act suspended the debt ceiling until January 1, 2025, and imposed spending caps for fiscal years 2024 and 2025, saving over \$200 billion in the first two years.

3.2 U.S. Monetary Policies

In monetary policies, during the last 3 years, the Federal Reserve has proclaimed the adjustment of federal funds rates with four processes. Including a rate hike which starting with a 0.25% increase on March 16, 2022, the federal funds rate rose from 0.25-0.50% to 5.25-5.50% by July 26, 2023, in response to high inflation, peaking at 9% in June 2022; a rate holds, rates remained at 5.25-5.50% from July 2023 to May 2024, reflecting a pause as inflation began to moderate, with no changes in meetings from September 2023 to March 2024; a rate cuts starting on May 1, 2024, the Fed cut rates by 0.25% to 5.00-5.25%, followed by cuts on June 12, July 31, and September 18, 2024, reducing the rate to 4.25-4.50% by September, aiming to stimulate growth as inflation eased; and a rate holds until now, rates were held steady at 4.25-4.50% from November 6, 2024, to the latest, with projections for two additional cuts in 2025, reflecting caution amid economic uncertainty, as shown in table 1.

Table 1. U.S. Monetary Policy and S&P 500 Timeline (2022–2025).

Date	Event	Federal Funds Rate (%)	S&P 500 Index
2022-03-01	Pre-hike level	0.25–0.50	4314.61
2022-03-16	First rate hike (+0.25%)	0.50–0.75	—
2022-10-13	Market bottom during hikes	3.00–3.25	3577.03
2023-07-26	Rate hike peak (5.25–5.50%)	5.25–5.50	4588.96
2024-05-01	First rate cut (-0.25%)	5.00–5.25	—
2024-06-12	Second rate cut	4.75–5.00	—
2024-07-31	Third-rate cut	4.50–4.75	—
2024-09-18	Fourth-rate cut	4.25–4.50	—
2024-11-06	Rate hold	4.25–4.50	—
2025-03-25	Post-cut rally	4.25–4.50	5776.62

These policies have effectively affected the U.S. financial market and empowered it to respond to different economic cycles and circumstances. The occurrence of rises has an impact on the S&P 500, which falls to 3577.03 on October 13, 2022, from 4314.61 on March 1, 2022, before rebounding to 4588.96 on July 27, 2023, suggesting that the volatility is in an adjustment period. The market may have reacted positively to the rate reduction from May to September 2024, causing growth stocks to reach 5776.62 on March 25, 2025. The S&P 500 varied during the rate hike, falling to 3577.03 on October 13, 2022, from 4314.61 on March 1, 2022, but rising to 4588.96 on July 27, 2023, indicating that the markets adjusted. Market confidence helped the index increase to 5776.62 between May and September 2024, as did the growth stock created by rate decreases.

4 Comparison

China and the United States' macroeconomic strategies from 2022 to 2025 are drastically opposed if assessed using three categories related to policies, monetary tools, and market tendencies. China's economic strategy focused on a short-term response and stabilization of the economy during the real estate issues and weak consumer demand. The United States aimed at enhancing structural changes that were medium—to long-term oriented by enhancing industrial advancement and technological advancements, as well as managing inflation.

Therefore, while the two countries had different approaches to the financial markets from 2022 to 2025, the composition and situation of China and the United States' economies differed significantly. Due to the lingering problems of real estate, the weak consumption sector, and deflationary pressures, it enacted fiscal policies including infrastructure expenditure, especially the 1 trillion RMB plan for 2022 and tax expenditure to businesses, as well as monetary policies, including the reduction of interest rates and provision of liquidity. These were intended to steady an economy shaken by a real estate slump and volatility in world trade. According to official sources, the GDP is expected to reach 5.2 in 2023; however, the experts' forecast of about 2.4 to 2.8 in 2024

assumes that there are significant structural issues. Financial markets reflected this caution: the Shanghai Composite Index rose a mere 0.4% over the period, signaling limited investor confidence despite temporary stock rallies.

Conversely, the United States tackled high inflation and post-COVID recovery with fiscal initiatives like the Inflation Reduction Act and CHIPS and Science Act, which spurred clean energy and semiconductor industries, and monetary policy via Federal Reserve rate hikes peaking at 5.25-5.50% by July 2023, followed by cuts to 4.25-4.50% by March 2025. These policies successfully reduced inflation from 9% in 2022 to 2.8% by February 2025, sustained GDP growth at 2.5% in 2023, and drove a robust 30% rise in the S&P 500 over the three years.

The differences in policy approaches stem from contrasting economic frameworks. China operates a state-controlled, export-driven economy with heavy reliance on real estate and infrastructure, which accounted for nearly 30% of GDP before the crisis. This structure required emergency-like measures to support these sectors, especially in a property market decline and deflation threats. The American economy is market-oriented, consumption-driven, and has a growing influence on the service sector and technological industry, accounting for over 70% of the GDP. It uses monetary measures to tame inflation and selective fiscal stimulus to pamper specific sectors. Whereas China has used policies to remedy the current instabilities, the US hopes to achieve long-term competitiveness and a stable inflation rate.

Thus, the presence of these countries' two different social environments could be touched on. All the countries were in post-COVID recovery crises resulting in substantial fiscal and monetary policies. Their economic background called for different approaches: China continued state-led economic activities and attempted to fix its property markets, and the US tried to contain inflation by working through market forces and increasing growth. Comparing the effectiveness: The US policies seem more effective in the financial market aspect, with significant S&P 500 indicating greater investor confidence towards inflation stability and economic recovery. China managed to mitigate the collapse but failed to address structural problems, hence poor performance in the stock market.

Finally, the US, having market-oriented policies, was consistent with the country's capacities and led to sound stock market returns. On the other hand, despite getting some strength from its model, China's control and state development initiatives delivered stability but no impressive growth. These outcomes show that economic factors and conditions defined the policy efficiency of each country from 2022 to 2025.

5 Conclusion

This paper focuses on determining the impact of monetary, fiscal and industrial policies in China and the United States of America, especially concerning their financial markets. The world's two biggest economies have their political systems, institutional structures and growth phases, which have shaped the policy environments. Each country aims to achieve economic growth and wellbeing, although their policy implementation vectors, and market responses vary.

China has more centralized and state-led policies at the macroeconomic level, which makes it easier to respond and address the needs of each sector quickly. Nevertheless, this technique may distort capital distribution and affect market transparency. On the contrary, the US is now said to have a policy-sensitive market structure within which institutions such as the Federal Reserve might directly influence investment decisions as well as the prices of the assets.

Consequently, both countries may learn from one another in terms of policy. This indicates that China needs to enhance market openness and regulatory coordination to increase investors' confidence. The United States may also cultivate its long-term industrial policy that would help it sustain its economy when some factors, such as technological advancements or supply shocks, occur.

Geopolitical conflicts, climate change, and the digitized world of finance will probably play the most significant roles in shaping macroeconomics in the future. Therefore, the paper's executive summary proposes that CBDC, green finance, and financial services AI will likely alter how governments formulate their macroeconomic frameworks in the future. Future research can investigate more information about present policy trends and other sources of financial market stability instruments. Policy linkages between different countries have to be better understood to ensure international coordination of economic regulation and, thus, to minimize potential financial risks on the global level.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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