Research on Financial and Economic Risk Analysis and Preventive Measures

Xige Wei[1]

College of International Business, Shenyang Normal University
Shenyang 110034 China
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Abstract. This article conducts an in-depth exploration of the current situation, causes and potential impacts on the economic system of financial and economic risks, and puts forward corresponding preventive measures. Through the analysis of the current financial market, it is found that financial and economic risks mainly come from aspects such as market fluctuations, credit defaults, policy uncertainties, and poor internal management of financial institutions. The article points out that these risks will not only weaken the profitability of financial institutions, but also may trigger systemic financial risks, thereby causing an impact on the entire economic system. To effectively prevent financial and economic risks, this article suggests starting from multiple aspects such as strengthening financial supervision, improving the risk early warning mechanism, optimizing the internal governance structure of financial institutions, and promoting financial innovation. Meanwhile, emphasis is placed on the coordination and cooperation of macro policies to enhance the stability and risk-resistance capacity of the financial system. The research aims to provide theoretical support and practical guidance for financial institutions and regulatory authorities, promote the healthy and stable development of the financial market, and ensure the sustainable growth of the economy.

Keywords: Financial economy, Risk analysis, Preventive measures, Stable development.

1. Introduction

In the current wave of global economic integration, the complexity and vulnerability of the financial and economic system are increasingly prominent. Financial and economic risks are like reefs hidden beneath undercurrents, constantly threatening the stable operation and sustainable development of the economy. From the outbreak of the global financial crisis in 2008 to the turbulence and ups and downs of local financial markets in recent years, a series of events have profoundly warned us that the prevention of financial and economic risks is by no means an optional option, but a key issue concerning national economic security, social well-being and the stability of the global economic order [1,2].

The causes of financial and economic risks are multifaceted. Under the backdrop of economic globalization, the rapid flow of international capital has made the connections among financial markets of various countries increasingly close. Economic fluctuations in one country can easily be transmitted to other countries through channels such as trade and investment, triggering a chain reaction. Meanwhile, the vigorous development of financial innovation, while bringing convenience and efficiency improvements, has also given rise to new forms of risks [3,4]. Complex financial derivatives, highly leveraged financial operations and constantly evolving financial business models have significantly increased the difficulty of risk identification, assessment and control. Furthermore, internal factors such as the imbalance of the domestic economic structure, the adjustment of macroeconomic policies, and the irrational behaviors of market entities have also, to a certain extent, exacerbated the accumulation and outbreak of financial and economic risks [5].

The types of financial and economic risks also present diverse characteristics. Various risks such as market risk, credit risk, liquidity risk and operational risk are intertwined and influence each other, constituting a complex financial risk ecosystem. Market risks mainly stem from fluctuations in financial market prices, such as significant declines in the stock market, sharp fluctuations in exchange rates, and rapid changes in interest rates. These fluctuations not only cause direct economic losses to investors but also trigger panic in the market, further exacerbating market instability [6]. Credit risk involves the possibility of debtors defaulting. When enterprises, individuals or financial institutions fail to repay debts on time and in full, it not only harms the interests of creditors, but may also trigger a credit crisis for financial institutions and even lead to a partial collapse of the financial system. Liquidity risk refers to the risk that financial institutions cannot quickly liquidate assets or obtain funds at reasonable prices when they need funds. This risk is particularly prominent when market confidence is insufficient and funds are tight. Operational risks, on the other hand, encompass those caused by poor internal management, personnel errors, system malfunctions, and external fraud within financial institutions. Their hazards should not be underestimated either.

Facing such complex and volatile financial and economic risks, in-depth analysis of their causes, characteristics and transmission mechanisms, and exploration of effective preventive measures, are not only important topics in financial theoretical research, but also urgent needs in the field of financial practice. For financial institutions, accurately identifying and assessing risks and establishing a sound risk management system are the keys to achieving stable operation and enhancing competitiveness. By optimizing asset allocation and strengthening risk early warning and disposal mechanisms, financial institutions can effectively avoid risks in the complex and volatile market environment and achieve sustainable development. For regulatory authorities, improving the financial regulatory system and strengthening macroprudential management are important guarantees for preventing systemic financial risks and maintaining the stability of the financial market. By formulating scientific and reasonable regulatory policies and strengthening cross-departmental coordination and international cooperation, regulatory authorities can promptly identify and defuse potential financial risks, avoiding excessive accumulation and outbreak of risks. For investors and ordinary people, enhancing financial risk awareness and improving risk prevention capabilities are also necessary measures to protect their own interests in financial and economic activities. Only through the joint efforts of all parties and the formation of a risk prevention mechanism with the participation of the whole society can we effectively respond to the challenges of financial and economic risks and ensure the healthy and stable development of the economy [7,8].

This study aims to conduct a comprehensive analysis of financial and economic risks, deeply explore their formation mechanisms, transmission paths and impacts on the economic system, and then put forward targeted preventive measures and policy suggestions. Through the analysis of domestic and international financial and economic risk cases, combined with the latest dynamics and development trends of the current financial market, this research will strive to provide useful references and lessons for financial institutions, regulatory authorities, and the vast number of market participants, and contribute to building a more stable and secure financial and economic environment.

1.1. The Current Situation and Challenges of Financial and Economic Risks

1. The international environment is complex and changeable.
   Geopolitical conflicts intensify. The tense geopolitical situation has disrupted the global economic and trade order and supply chain security. For instance, the persistence of the Russia-Ukraine conflict not only affects the energy market but also spreads to the global economic and financial sectors through trade and investment channels.
   Global economic growth is slowing down. The International Monetary Fund (IMF) predicts that the global economic growth rate will be 3.0% in 2023 and 2.9% in 2024. The growth rates of developed economies will be 1.5% and 1.4% respectively, while those of emerging markets and developing economies will be 4.0% and 4.0% respectively [9,10].
   Financial market turmoil intensifies. Since March 2023, frequent risk events in the banking sector of Europe and the United States have occurred, such as the bankruptcy of Silicon Valley Bank and the acquisition of Credit Suisse, exposing the vulnerability of financial institutions in a high-interest-rate environment.
2. The domestic economy is facing new challenges.
   The foundation for economic recovery is still not solid. After a smooth transition from epidemic prevention and control, China's economy has shown a wavy development trend, with relatively insufficient demand and potential risks in some areas.
   The real estate market is under pressure. The tightening of global financial conditions has significantly affected the real estate market. Mortgage loan interest rates have risen, housing purchase demand has cooled, and the risk of household debt default in some economies has increased.
   Debt risks in some emerging markets are on the rise. Against the backdrop of tightened global financial conditions and insufficient economic growth momentum, emerging market and developing economies such as Argentina, Sri Lanka and Ghana have successively experienced debt risks.
3. Internal problems of the financial system [11].
   Imperfect governance of financial institutions. Small and medium-sized financial institutions have problems such as incomplete corporate governance, manipulation by major shareholders, and insider control. The transparency of the financial market is low, and the risk pricing mechanism is not perfect.
   There are weak links in financial regulation. regulatory arbitrage is widespread, the supervision of corporate governance of small and medium-sized financial institutions is weak, and the early warning and disposal mechanism for real estate financial risks is lacking.

The challenges of financial and economic risks are as follows.

1. Prevent systemic financial risks.
   Banking risk transmission. The banking risk events in Europe and the United States indicate that in a high-interest-rate environment, the asset quality of banks deteriorates and financing costs rise, and small risk events may rapidly evolve into liquidity shocks. For instance, small and medium-sized banks in the United States face considerable operational pressure during the interest rate hike cycle due to their single customer structure.
   Real estate market risks. The real estate market is an important channel for the transmission of financial risks. Fluctuations in housing prices may trigger the risk of household debt default, and the commercial real estate market is also facing the pressure of financing succession.
2. Balance against the risk and steady growth [12].
   The dilemma of policy adjustment. Developed economies face a difficult trade-off between curbing high inflation and maintaining financial stability. For instance, the Federal Reserve adopted an aggressive interest rate hike policy to curb high inflation, but this move had a negative impact on the vulnerability of the financial system.
   Emerging market debt risks. Emerging markets and developing economies are confronted with issues such as slowing economic growth, loss of foreign exchange reserves, high debt levels, and insufficient policy space, raising concerns about debt sustainability.
3. Financial innovation and regulation lag behind.
   New risks brought about by financial innovation. Financial innovations keep emerging. While various complex financial products enhance market efficiency, they also hide risks that are difficult to predict. For instance, hedge funds have relatively high leverage ratios, and some money market funds and stablecoins have structural vulnerabilities.
   The regulatory system urgently needs improvement. Financial regulation has failed to keep pace with the innovation of the financial market and the development of fintech. The phenomenon of regulatory arbitrage still exists, and the problems of information disclosure and investor protection in the financial market are prominent.
4. The uncertainty of the international financial market.
   Global inflation and interest rate fluctuations. Global inflation remains at a high level. The spillover effects of interest rate hikes in major developed economies continue to emerge, and international financial market volatility intensifies.
   Credit cycle changes. The global credit cycle has begun to show changes. Borrowers' debt-paying ability has declined and the credit growth rate has slowed down. This will once again test the risk-resistance capacity of the global financial system.

1.2. Analysis of the Causes of Financial and Economic Risks

The emergence of financial and economic risks is the result of the interaction of multiple factors, involving multiple aspects such as the macroeconomic environment, the structure of the financial market, the behavior of financial institutions, policy regulation and control, and external shocks. The following is an analysis of the causes of financial and economic risks from different dimensions [13,14].

1. Economic fluctuation.
   Recession risk. During an economic recession, corporate profitability declines, the unemployment rate rises, and residents' income decreases, leading to a contraction in consumption and investment demand. Enterprises have tight cash flow, declining debt-paying ability and rising default risk, which in turn triggers credit risk. For instance, during the global financial crisis in 2008, the real estate market bubble in the United States burst, a large number of subprime loans defaulted, financial institutions were severely hit, and eventually led to the turmoil in the global financial market.
   Recovery period risks. During the economic recovery stage, if policy adjustments are made too quickly or too abruptly, it may lead to an increase in inflation, interest rates, and the financing costs for enterprises, which will also trigger financial risks.
2. Inflation and deflation.
   Inflation risk. High inflation can erode the actual purchasing power of currency, leading to asset price bubbles. For instance, when the inflation rate is too high, the real yield of fixed-income assets such as bonds will drop significantly, and investors may face the risk of asset depreciation. Meanwhile, high inflation may also trigger monetary policy tightening, leading to rising interest rates, increased financing costs for enterprises, and thereby affecting economic growth.
   Deflation risk. Deflation can lead to a continuous decline in prices, a reduction in corporate sales revenue, a decline in profits, and even possible losses. The debt-paying ability of enterprises has declined, the non-performing loan ratio of banks has risen, and the stability of the financial system is threatened.

3. Fluctuations in interest rates and exchange rates.
   Interest rate risk. Interest rate is the price of funds, and its fluctuations have a profound impact on the financial market. When interest rates rise, bond prices fall and fixed-income investors face the risk of asset impairment. The increase in the financing costs of enterprises may lead to a rise in the risk of debt default. For instance, since 2022, the Federal Reserve has adopted an aggressive interest rate hike policy to curb high inflation, leading to a significant increase in global financial market interest rates and causing many emerging market countries to face debt crises.
   Exchange rate risk. Exchange rate fluctuations can affect international trade and cross-border investment. The appreciation of the domestic currency may weaken the competitiveness of domestic export enterprises, leading to a decline in their profits. The depreciation of the domestic currency may increase the cost of imports and trigger inflation. Furthermore, exchange rate fluctuations may also lead to imbalances in the balance sheets of multinational enterprises and increase their exposure to exchange rate risks.
4. Market structure and efficiency.
   Market concentration. When the concentration of the financial market is relatively high, a few large financial institutions or market participants may play a dominant role in market pricing and trading behaviors. For instance, in the stock market, if a few large institutional investors hold a large number of shares, they can manipulate stock prices jointly to influence the fairness and stability of the market.
   Market segmentation and arbitrage. There is a phenomenon of segmentation in the financial market, with information asymmetry between different markets, which leads to the emergence of arbitrage opportunities. Although arbitrage activities can promote the improvement of market efficiency to a certain extent, if the scale of arbitrage is too large or the operation is improper, it may also cause market fluctuations. For instance, during the European debt crisis in 2010, international speculators exacerbated the turmoil in the eurozone bond market through arbitrage transactions.
5. Financial innovation and complexity.
   Financial product innovation. Financial innovation continuously introduces new financial products and trading tools, such as financial derivatives and structured products. These products have complex structures and their risk characteristics are difficult to assess accurately. For instance, during the global financial crisis in 2008, the excessive packaging and sale of complex financial derivatives such as subprime mortgage-backed securities (Cdos) masked their high-risk nature and eventually led to the outbreak of systemic risks.
   The development of fintech. The rapid development of fintech has changed the traditional financial business model, but it has also brought new risks. For example, the emergence of digital currency may impact to the traditional monetary policy transmission mechanism; The rise of lending to network platform, due to the lack of effective supervision, lead to some platforms such as fraud, run risk events.
6. Market participant behavior.
   Investor irrational behavior. Investors in the financial market are often influenced by factors such as emotions and cognitive biases, and thus exhibit irrational behavior. For instance, the herd effect can lead investors to blindly follow the trend and intensify market fluctuations. Overconfidence may lead investors to trade excessively and increase market risks.
   Profit-driven behavior of financial institutions. In the process of pursuing maximum profits, financial institutions may take excessive risks and neglect risk control. For instance, some banks, in order to obtain higher returns, over-issue high-risk loans or engage in highly leveraged financial speculation activities, eventually leading to their own risk exposure [15,16].
7. Corporate governance and internal control.
   Governance structure deficiency. The imperfect corporate governance structure of financial institutions may lead to the failure of the internal checks and balances mechanism. For example, major shareholders or management may use their power to manipulate the company's decisions, harming the interests of minority shareholders and creditors. Small and medium-sized financial institutions often have the problem of weak corporate governance, such as complex equity structure and insider control, which increases financial risks.
   Internal control failure. The internal control mechanism of financial institutions is not sound, which may lead to an increase in operational risks. For instance, if the internal credit approval process of banks is not standardized, it may lead to an increase in the non-performing loan ratio. The internal trading monitoring mechanism of securities companies is not perfect, which may lead to illegal and irregular behaviors such as insider trading.
8. Insufficient risk management ability.
   Risk identification and assessment: Financial institutions lack the ability to identify and assess risks, making it difficult for them to accurately grasp market risks, credit risks, liquidity risks, etc. For instance, some financial institutions do not conduct sufficient investigations into the credit status of borrowers when granting loans, resulting in an increase in the risk of loan default.

Risk control and disposal. The risk control measures of financial institutions are not perfect, making it difficult to effectively deal with risks. For instance, when the market experiences significant fluctuations, financial institutions may lack effective risk hedging tools, resulting in a substantial decline in asset values. When a liquidity crisis occurs, financial institutions may fail to raise funds in time, leading to bankruptcy and closure.

9. Competition and expansion of financial institutions.
   Excessive competition. Excessive competition among financial institutions may lead to intensified competition for market share. Some institutions, in order to gain a competitive edge, lower their risk control standards and overly expand their business. For instance, some banks, in order to expand the scale of loans, lower loan interest rates and relax credit conditions, have increased credit risks.
   Blind expansion. The blind expansion of business scope and scale by financial institutions may lead to unreasonable resource allocation and excessive risk concentration. For instance, some financial institutions overly rely on the business of a certain industry or region. When an economic recession occurs in that industry or region, the risks faced by financial institutions will increase significantly.
10. Macroeconomic policy adjustment.
   Monetary policy. The adjustment of monetary policy has a profound impact on the financial market. For instance, a loose monetary policy may lead to an increase in the money supply, a decline in market interest rates, and stimulate investment and consumption. However, if it is overly loose, it may cause inflation to rise and asset price bubbles to form. Tight monetary policy may lead to an increase in market interest rates, a rise in corporate financing costs, and a slowdown in economic growth.
   Fiscal policy. The adjustment of fiscal policy will also have an impact on the financial market. For instance, large-scale fiscal stimulus policies may lead to an increase in government debt and an expansion of the fiscal deficit, thereby affecting market confidence and financial stability. Fiscal austerity policies may lead to a slowdown in economic growth, a decline in corporate profits and an increase in financial risks.
11. Insufficient financial supervision.
   Regulatory gaps and arbitrage. The existence of gaps in the financial regulatory system has led to some financial businesses and institutions operating outside the regulatory framework, creating space for regulatory arbitrage. For instance, some Internet finance platforms lacked effective supervision in their early stages of development, which led to some of them engaging in illegal fundraising, fraud and other illegal and non-compliant activities.
   Regulatory lag and incoordination. The pace of financial innovation is relatively fast, and the regulatory system is difficult to keep up with market changes in a timely manner, resulting in regulatory lag. Meanwhile, poor coordination among different regulatory authorities may lead to regulatory overlap or regulatory gaps. For instance, during the global financial crisis in 2008, the incoordination of the US financial regulatory system was regarded as one of the significant reasons leading to the outbreak of the crisis.
12. Policy uncertainty.
   Expectation of policy adjustment. The uncertainty of policy adjustment may lead to unstable expectations of market participants and trigger market fluctuations. For instance, investors' expectations of monetary policy adjustments may lead to significant fluctuations in the bond market; Enterprises' expectations of tax policy adjustments may lead to changes in investment and production decisions.
   Policy implementation deviation. During the policy implementation process, due to reasons such as information asymmetry and insufficient implementation efforts, there may be a deviation between the policy effect and the expected goal. For instance, when some local governments implement macro-control policies, there may be situations where the implementation is inadequate or excessive, affecting the effectiveness of the policies.
13. Geopolitical conflict.
   War and Conflict. Geopolitical conflicts may lead to disorder in the global economic order and turmoil in financial markets. For instance, after the outbreak of the Russia-Ukraine conflict, the global energy market, grain market and financial market were all severely impacted. International oil and natural gas prices fluctuated significantly, the exchange rate of the Russian ruble plummeted, and the global stock and bond markets also experienced substantial adjustments.
   Trade frictions. Trade frictions may lead to a contraction in international trade and disruptions in global industrial and supply chains. For instance, during the trade friction between China and the United States, the trade volume between the two countries dropped significantly. The global industrial chain was impacted. Many multinational enterprises faced problems such as disruptions in raw material supply and rising production costs. The financial market was also affected to varying degrees [17].
14. Public health event.
   The impact of the epidemic. The impact of public health events on the economy and financial markets is huge. For instance, after the outbreak of the COVID-19 pandemic, global economic growth slowed down, enterprises suspended operations, residents' consumption and investment dropped significantly, and financial

markets experienced severe fluctuations. Stock markets, bond markets and foreign exchange markets in many countries have undergone significant adjustments, and some financial institutions are facing liquidity crises.
The impact of epidemic prevention and control policies. Adjustments to epidemic prevention and control policies will also have an impact on the financial market. For instance, some countries have adopted strict lockdown measures, resulting in the stagnation of economic activities and the spread of panic in financial markets. However, some countries have adopted relatively lenient prevention and control policies, which may lead to repeated outbreaks of the epidemic and hinder the process of economic recovery.

15. Natural disasters and climate change.
Natural disasters. Natural disasters such as earthquakes, floods, hurricanes, etc. can have a direct impact on the local economy and financial market. For instance, the 2011 major earthquake in Japan led to a significant drop in the Japanese stock market, intensified fluctuations in the yen exchange rate, disrupted production in many enterprises, and caused heavy economic losses [18].
Climate change. The long-term impact of climate change on the economy and financial markets.

2. The Purpose and Significance of Research on Financial and Economic Risk Analysis and Preventive Measures

The purposes of the research on financial and economic risk analysis and preventive measures are as follows.

1. The system identifies the causes of risks.
By conducting in-depth analysis of the various causes of financial and economic risks, including macroeconomic factors, the structure of financial markets, the behavior of financial institutions, policy and regulatory environments, as well as external shocks, etc., the sources and transmission paths of risks can be clarified, providing a scientific basis for subsequent risk assessment and management.
Establish a comprehensive framework for the causes of risks to help financial institutions, enterprises and policymakers better understand the complexity and diversity of financial and economic risks.
2. Assess the impact of risks.
Study the specific impact mechanisms of financial and economic risks on financial markets, financial institutions, the real economy and macroeconomic stability. Through quantitative and qualitative analysis, the potential degree of harm of different types of risks is evaluated to provide a reference for the ranking of risk priorities.
Identify the key nodes of systemic financial risks, analyze their propagation paths and amplification mechanisms in the financial system, and provide theoretical support for preventing systemic risks [19].
3. Propose effective preventive measures.
Based on the analysis of the causes and impacts of risks, targeted preventive measures and policy suggestions are proposed. These measures are aimed at enhancing the stability of the financial system, reducing the probability of risks occurring, and mitigating the negative impact of risks on the economy.
Provide optimized solutions for risk management and internal control for financial institutions; Provide suggestions for regulatory agencies to improve the regulatory framework and policy tools; Provide strategies and tools for risk prevention for enterprises and investors.
4. Establish a risk early warning mechanism.
Design a scientific and reasonable early warning indicator system for financial and economic risks. By monitoring the changes of key indicators, the accumulation and outbreak signals of potential risks can be detected in a timely manner, providing a basis for taking preventive measures in advance.
Explore the use of big data, artificial intelligence and other technological means to enhance the accuracy and timeliness of risk early warning, and provide forward-looking risk warnings for participants in the financial market.

The research significance of this article is as follows.

1. Enrich the theory of financial risks.
The research on financial and economic risks is conducive to improving the theoretical system of financial risks, especially in terms of the causes of risks, transmission mechanisms and prevention strategies. Through in-depth analysis of different types of risks, further deepen the understanding of the complexity of the financial and economic system.
Provide new empirical research and theoretical expansion for financial economics, risk management and macro-financial theory, and promote the development of related disciplines.

2. Optimize the theory of financial supervision.
   By studying the regulatory insufficiency of financial and economic risks and the lag of policy adjustments, suggestions for improving the regulatory framework and policy tools are put forward, providing new perspectives and methods for the development of financial regulatory theory [20].
   Explore how to achieve a balance between effective supervision and market efficiency in the context of financial innovation and rapid market changes, and provide theoretical support for modern financial supervision theories.
3. Improve the stability theory of the financial system.
   Studying the impact of financial and economic risks on the stability of the financial system is conducive to improving the theory of the stability of the financial system. By analyzing the formation and dissemination mechanisms of systemic risks, a theoretical framework for enhancing the resilience of the financial system is proposed, providing a theoretical basis for the formulation of financial stability policies.
4. Enhance the risk-resistance capacity of financial institutions.
   Financial institutions are the main bearers of financial and economic risks. By studying the causes of risks and preventive measures, financial institutions can optimize their internal governance structure, improve risk management systems, and enhance their capabilities in risk identification, assessment and control.
   Provide scientific risk management tools and strategies for financial institutions to help them operate stably in the complex and volatile market environment, reduce operational risks and credit risks, and enhance market competitiveness.
5. Enhance the effectiveness of financial supervision.
   Provide a systematic risk analysis framework and policy recommendations for financial regulatory authorities to help them improve the regulatory system, fill regulatory gaps, and reduce regulatory arbitrage behaviors.
   Enhance the monitoring and early warning capabilities of regulatory authorities for systemic financial risks, enabling them to take timely measures at the initial stage of risk accumulation, prevent the outbreak of systemic risks, and maintain the stable operation of the financial market.
6. Promote the stable development of the real economy.
   The prevention of financial and economic risks not only contributes to the stability of the financial system, but also enhances the support of finance for the real economy by reducing the volatility of the financial market. By studying risk prevention measures, the negative impact of financial risks on the real economy can be reduced and the sustainable development of the economy can be promoted.
   Provide references for risk management for real economy enterprises, help them rationally arrange financing structures, optimize investment decisions, and reduce operational risks brought about by fluctuations in the financial market.
7. Ensure national financial security.
   The prevention of financial and economic risks is an important part of national financial security. Through in-depth research on the causes of risks and preventive measures, it is possible to effectively identify and defuse systemic financial risks and avoid the damage of financial crises to the national economy and social stability.
   Provide a scientific basis for the formulation of national macro policies, assist policymakers in achieving a balance among goals such as economic growth, inflation, and financial stability, and safeguard national financial security and economic sovereignty.
8. Enhance the overall risk awareness of society.
   By widely disseminating the research results on financial and economic risks, enhance the risk awareness of the public, enterprises and financial institutions, and promote the formation of a scientific risk management culture and concept throughout society.
   Enhance investors' risk identification ability and self-protection awareness, reduce financial risks caused by blind investment and irrational behavior, and promote the healthy and stable development of the financial market.

3. Measures for Preventing Financial and Economic Risks

Financial and economic risk prevention measures are a systematic project that requires comprehensive measures from multiple levels. The following are some of the main prevention measures.

3.1. Strengthen Financial Supervision

Improve the regulatory system. Adhere to bringing all financial activities under regulatory jurisdiction in accordance with laws and regulations [21], and resolutely eliminate regulatory blind spots and dead zones. Strengthen institutional supervision, behavioral supervision, functional supervision, penetrative supervision and continuous supervision to ensure strict law enforcement in various supervision processes such as administrative approval, off-site supervision, on-site inspection and administrative penalties.

Strengthening macroprudential management. Establish and improve the macroprudential policy framework, and through counter-cyclical adjustment, curb the pro-cyclical nature of the financial system and reduce the accumulation of systemic risks [22].

Promote the digital transformation of regulation. Improve the governance of financial regulatory data, accelerate the construction of a financial regulatory big data platform, develop intelligent risk analysis tools, and enhance the standardization and online level of financial regulatory processes.

3.2. Improve the Risk Monitoring and Early Warning Mechanism

Establish a risk monitoring system. Continuously improve the framework for monitoring and assessing systemic financial risks, carry out systemic financial risk assessments in a solid manner, and regularly release the ”China Financial Stability Report” to comprehensively assess the stability of the financial system.

Strengthen early warning and correction. Conduct early warning of risks for banks with good ratings, promote the authenticity of risks for banks on the verge of risks, and classify and orderly reduce the existing stock of high-risk banks. Improve the early correction mechanism for financial risks with hard constraints, and set clear rectification deadlines and specific rectification requirements [23,24].

Pay close attention to risks in key areas. Closely monitor the development trends of the financial market, with a focus on potential risks brought about by fluctuations in the RMB exchange rate, local government debts, liquidity of small and medium-sized financial institutions, and the digital transformation of the financial industry.

3.3. Optimize the Internal Governance of Financial Institutions

Improve the corporate governance structure. Strengthen the internal risk management of financial institutions, establish a scientific risk assessment and control system, cultivate professional risk management talents, and enhance the ability to identify and respond to risks.

Regulating financial innovation. Define the boundaries of financial innovation within the framework of the rule of law, make up for the regulatory shortcomings of emerging financial business forms, and avoid regulatory arbitrage and potential risks brought about by financial innovation [25].

Strengthen the incentive and restraint mechanism. Establish a scientific decision-making mechanism and incentive and restraint mechanism to ensure the stable operation of financial institutions

3.4. Build a Financial Stability Guarantee System

Promote the construction of financial rule of law. Improve the mechanism for preventing, early warning and handling financial risks, and promote the establishment of a complete financial legal and market rule system. Accelerate the formulation of laws and regulations such as the Financial Stability Law to provide a solid institutional guarantee for preventing and defusing financial risks.

Improve the deposit insurance system. Continuously improve the deposit insurance system and give full play to its core functions such as preventing bank runs, differential rates, early correction and risk disposal.

Establish a financial stability guarantee fund. Accelerate the establishment of a financial stability guarantee fund, which will operate in a dual-level and coordinated manner with the deposit insurance fund and related industry guarantee funds.

3.5. Promote the Diversified Development of the Financial Market

Promote balanced development of the financial system. Encourage the common development of different types of financial institutions and financial products, avoid excessive reliance on a certain type of financial institution or financial product, and reduce the concentration of systemic risks.

Guide the rational allocation of financial resources. Adopt differentiated policies based on different risks, promptly defuse risks, unblock the ”blood vessels” of finance, and guide financial resources to exit in an orderly manner from low-efficiency and high-risk areas, so as to better flow into the country’s strategic emerging industries, the forefront of scientific and technological innovation, and small, medium and micro enterprises in need of financial support.

3.6. Strengthen Financial Consumer Education

Enhance investors’ risk awareness and financial literacy, and avoid blind investment and herd speculation. Reduce the risks brought by irrational investment behaviors by strengthening financial consumer education.

4. Conclusion

Through in-depth analysis of financial and economic risks and research on preventive measures, this paper systematically explores the current situation, causes and impacts on the economic system of financial and economic risks, and proposes targeted preventive measures. The research finds that the formation of financial and economic risks is a complex process, involving multiple factors such as the macroeconomic environment, policy uncertainty, internal governance of financial institutions, and the behaviors of market participants. These risks not only pose a threat to the stability of financial institutions themselves, but also may be transmitted to the real economy through complex financial networks, triggering systemic crises, and thereby having a serious impact on the stability and sustainable development of the social economy.

At the macro policy level, strengthening the financial regulatory system, preventing risks in key areas and establishing a long-term mechanism are the keys to preventing financial and economic risks. By improving the regulatory framework, promoting the digital transformation of financial regulation, and strengthening macroprudential management, the efficiency and accuracy of financial regulation can be effectively enhanced, ensuring the stable operation of the financial system. Meanwhile, for key areas such as the real estate market, local government debts, and small and medium-sized financial institutions, measures such as optimizing financial policies, establishing a comprehensive debt monitoring system, and replenishing capital can effectively defuse potential risks and maintain the stability of the financial market. In addition, promoting long-term mechanisms such as legislative guarantees and establishing a financial stability guarantee fund have provided a solid institutional foundation for the prevention of financial and economic risks.

At the level of financial institutions, strengthening internal risk management and optimizing business structure are important ways to enhance the risk-resistance capacity of financial institutions. Financial institutions should improve the comprehensive risk management system to ensure coverage of all types of businesses, institutions, positions and risk types, and enhance the effectiveness of risk management. Meanwhile, through measures such as strengthening the construction of the ”three lines of defense”, optimizing the governance of affiliated institutions, and supporting the real economy, financial institutions can effectively enhance their own risk resistance capabilities and achieve sustainable development.

At the market and social levels, enhancing market confidence and promoting financial innovation and transformation are equally of great significance for preventing financial and economic risks. By stabilizing market expectations, cracking down on illegal financial activities, supporting the development of financial technology and promoting the transformation of financial institutions, the stability of the financial market can be effectively enhanced, the confidence of market entities can be strengthened, and the healthy development of the financial system can be promoted.

In conclusion, the prevention of financial and economic risks requires coordinated efforts from multiple levels, including macro policies, financial institutions, as well as the market and society. Through efforts in multiple aspects such as improving the financial regulatory system, optimizing the internal governance of financial institutions, enhancing market confidence, and promoting financial innovation and transformation, the stability and resilience of the financial system can be effectively enhanced, providing a strong guarantee for the sustainable development of the economy. In the future, with the continuous changes in the global economic situation and the sustained development of the financial market, the prevention of financial and economic risks still needs to remain highly vigilant, and relevant measures should be constantly optimized and improved to deal with possible new challenges and problems.

5. Conflict of Interest

The authors declare that there are no conflict of interests, we do not have any possible conflicts of interest.

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Biography

Xige Wei is with the College of International Business Shenyang Normal University. Research direction is finance.