Economic Watch

China | Understanding policy signals of the December CPC Poliburo meeting

Jinyue Dong
December 14th, 2020

The meeting of the Political Bureau of the Communist Party of China Central Committee (CPCCC) presided by President Xi concluded on December 11, 2020, emphasizing the recent economic policy focus and pointing the direction of the next year's policy stance. The meeting is also normally redeemed as the prelude for the next Central Economic Work Conference going forward.

2021 marks the first year of China's new five-year plan that it sees as most essential to confront the "middle income trap" and to construct a "modest advanced economy". From the policy perspective, better settle in for a long-haul. The December Politburo meeting mostly focus on supporting ongoing economic recovery and curbing the recent rising financial risks. It is set to maintain the policy continuity while keep the economy's performance in a "reasonable range" in the next year. In addition, the policy focus will continue to be on stimulating domestic demand, and providing stronger strategic support to the science and technology sector to upgrade China's self-sufficiency supply chain. More importantly, the meeting also vowed to strengthen anti-monopoly efforts next year as it seeks to rein in the so-called "disorderly capital expansion." We summarize and analyze four important policy signals from the perspective of economic growth, demand-side reform, anti-monopoly and financial regulation, as well as supply chain upgrading:

Maintain the policy continuity while keep the economy's performance in a "reasonable range" in 2021. Due to the statistical low base effect, we expect the next year's growth will reach 7.5% from this year's 2.2%, supported by the consumption and manufacturing investment recovery, as well as the continuing momentum of exports. Under this circumstance, the authorities still emphasize the policy continuity, suggesting that the neutral and accommodative monetary policy will be the main stance of the next year to take care of the ongoing recovery, amid the normalization of fiscal and monetary policy from the pandemic period. (see our recent China Economic Watch: China | What will be the monetary policy stance in 2021?) In addition, the authorities continue to concentrate on the "six stability" (ensure stability in employment, financial operations, foreign trade, foreign investment, domestic investment, and expectations) and " six protection" (ensure security in job, basic living needs, operations of market entities, food and energy security, stable industrial and supply chains, and the normal functioning of primary-level governments), indicating the concern of the future uncertainties surrounding China-US relation, the pandemic-led global recession and rising domestic financial instabilities, etc.

Promote the demand-side reform. The government will press ahead the so-called "demand-side reform", with the concept first being raised in the high-level Poliburo meeting. Straightforwardly, the demand-side reform definitely includes the implication of stimulating domestic demand. But beyond that, it also indicates quite a lot of long-term structural reforms to achieve the growth engine transformation from the export-driven to consumption-driven, including (i) the income distribution reform and social insurance policy adjustment to increase the willingness of consumption of low-income groups and (ii) the "new infrastructure" investment such as 5G, AI, Block Chain, Cloud computing etc. to move ahead with the traditional infrastructure investment. In addition, the authorities will also foster the dynamic equilibrium of China's supply and demand side recovery in the post-pandemic time, mitigating the uneven recovery feature, thus further implementing the newly mentioned "internal circulation" and "dual circulation" growth model.

Implement Anti-monopoly measures and curb financial risks. In order to prevent the disorderly expansion of capital, the authorities recently unveiled draft regulations aimed at rooting out monopolistic practices in the internet industry, seeking to curtail the growing influence of corporations such as e-commerce giant Alibaba Group and Tencent Holdings etc. The new rules establish a framework for curbing anti-competitive behavior such as colluding on sharing sensitive consumer data, alliances that squeeze out smaller rivals and subsidizing services at below cost to eliminate competitors. In addition, the suspension of Ant Financial Group IPO which is the sub-group of Alibaba Group also gave an alarm of rising shadow banking expansion. Beyond that, the recent wave of zombie SOE bond default and overheating housing market in tier-1 cities also raised the authorities' concern. That means, although the monetary policy will remain neutral and accommodative, financial regulation will be certainly further strengthened in 2021.

Boost technology innovation and upgrade self-sufficient supply-chain. No matter who is going to the White House, China-US tech war will be long-lasting in the future. (see our recent China Economic Watch: China | The impact of Biden's victory on Chinese economy and the Sino-US relationship.) By realizing this, and based on the experience of US's sanctions on large amount of Chinese tech companies, China will boost its ability to ensure control over and self-sufficiency in its industrial chains and supply chains, particularly to improve science and technology innovation.

In sum, after a rough start of the year due to the outbreak of Covid-19 in China, V-shape economic recovery has set in across China and it is leading the way currently for the global recovery. China's GDP growth will appear strong next year, but that's the easiest part. After the plunge in 2020, statistical base effect will flatter readings everywhere in the world. The true difficult part is, it is still not a genuine V-shape recovery with private sector and demand side continue to lag behind. At the same time, quite a bit of financial risks are on the rise, including zombie SOE bond defaults, overheating housing markets as well as expansion of giant internet monopolies etc. All of these issues have given the authorities a lot of challenges in balancing between stimulating growth and curbing financial instabilities, between the short-term growth recovery and long-term structural reforms. Thus, perseverance is indeed needed to regain all of the lost ground, together with the still accommodative monetary policy stance, to get the economy back to the pre-Covid growth.

DISCLAIMER

This document has been prepared by BBVA Research. It is provided for information purposes only and expresses data, opinions or estimations as of the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, which have not been independently verified by BBVA. As such, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Any estimations this document may contain have been made according to generally accepted methodologies, and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

With regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. Reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process is prohibited, except in cases where it is legally permitted or expressly authorized by BBVA.

CONTACT DETAILS:
BBVA Research: Azul Street. 4. La Vela Building – 4th and 5th floor. 28050 Madrid (Spain).
Tel. +34 91 374 60 00 y +34 91 537 70 00 / Fax (+34) 91 374 30 25
bbvaresearch@bbva.com www.bbvaresearch.com