China | What do we expect for the 2024 Third Plenary Session?

Jinyue Dong and Le Xia
July 8, 2024

The once-every-five-years Third Plenary Session of 20th Central Committee of Chinese Communist Party (CCP) always has a potential to become a milestone moment in China's recent history. For instance, the Third Plenary Session of the CCP's 11th Central Committee meeting convened in 1978 marked the beginning of the "Reform and Opening Up" policy, and a decisive repudiation of Chairman Mao's "Cultural Revolution". And at the Third Plenary Session of its 18th Central Committee meeting in 2013 the CCP authorities vowed to push forward a comprehensive plan of structural reforms to achieve "socialist modernization". Both of them have had a far-reaching impact on China's economic and social development in the following decades.

The Third Plenary Session of the CCP's 20th Central Committee meeting is to be held in Beijing during July 15-18. According to the announced agenda, President Xi Jinping, who is also the General Secretary of the CCP, will make an important work report speech to several hundreds of Central Committee members at the meeting, outlining the key reforms to be implemented in the next 10 years. The reform plan will be widely discussed among the participants and then be concluded at the Session.

It is reported that this year's Third Plenary Session will primarily study issues concerning further comprehensively deepening reforms and advancing Chinese modernization. It has especially attracted global attention given that the country is facing a number of grave challenges, including the ongoing economic slowdown, deteriorating imbalance of its economic structure, the housing market crash, global economic deceleration, as well as the rising geopolitical tensions. The market anticipates the Session to conclude with a stimulus package powerful enough to lift China's economy out of secular slowdown.

In addition, the market also concerns about China's long-term development strategy. Recently, a new term was coined by the authorities as "new quality productive forces". Centering around it, the authorities will develop a policy framework to advance China's science and technology, promote high-end manufacturing, facilitate green economy transformation and enhance national security.

Overall, we expect that 2024 Third Plenary Session will unveil more pro-growth strategies and policies so as to boost investors and consumers' confidence. The deepening of the "Reform and Opening Up" policy is to be iterated at the meeting. Moreover, the authorities are likely to extend the olive branch to private enterprises and foreign capital to anchor their expectations. However, the observers expecting a big bang stimulus package might be disappointed, as the authorities already indicated that it's not on the top of the list.

The emphasis of "new quality productive forces" raised peoples concerns that the authorities will double down on their industrial policy, which could escalate tension with the country's important trade partners. More importantly, the authorities need to show to the public that its long-term plan is able to endure potential external shocks amid an increasingly complex international environment, in particular as the chance of seeing a second Trump administration has substantially increased.

Below are the highlights of what we expect of 2024 Third Plenary Session of CCCCP in more details:

- **To promote "new quality productivity" and "Chinese style modernization" will be the concentration.** In our opinion, "new quality productivity" and "Chinese style modernization" are the new political slogans but intrinsically it means to promote technology advancement, high-end manufacturing, national security and green economic transformation. It is to some extent similar to the previous slogan such as "Chinese new growth model" which was raised in 2021. (see our previous Economic Watch | Understanding China's new growth model) In particular, the authorities are promoting China's economic transformation from previous real estate and "old" infrastructure driven economy to the "new economy" featured by green economy, high-end manufacturing and technology advancement; and also the transformation from export and investment driven economy to consumption driven economy. Beyond the economic implications, "Chinese style modernization" will also consider common prosperity of the people, balanced regional development and increasing people's happiness, etc.

  The meeting is also anticipated to call for efforts to develop "new quality productivity" according to local conditions, cultivate and strengthen emerging industries, proactively plan and build future strategically important industries, make use of advanced technologies to empower the transformation and upgrading of traditional sectors, as well as actively develop venture capital, etc.

- **The session is also anticipated to call for a more balanced economic structure and to stimulate domestic consumption and investment.** Chinese economy has displayed a very unbalanced structure in the aftermath of Covid-19 pandemic. In particular, the supply side has been much stronger than the demand side such as fixed asset investment and retail sales. However, one issue we need to clarify is that, there are many reports surging from western media blaming Chinese government does not support domestic consumption but only focus on production side stimulus, which leads to overcapacity for Chinese products that eventually creates large trade imbalance with advanced economies. We agree some certain sectors exist overcapacity in China, but we cannot agree the authorities do not prioritize consumption recovery. By sharp contrast, Chinese government indeed plans to foster the economic model transformation from investment and exports driven to consumption driven and emphasized this strategy in various circumstances high-level meetings. (see our previous Economic Watch: China | Understanding China's new growth model). Thus, we expect that the Session will call for a more balanced view on why Chinese economy is still investment driven but not consumption driven and what is the difference between Chinese-style consumption stimulus and western style cash injection stimulus. (More detailed analysis could be found in our recent internal notes: China | Do Chinese authorities not intent to prioritize consumption stimulus?)

  To stimulate the demand side of the economy, we expect the session will assess the monetary and fiscal policy to support consumption recovery, advance large-scale equipment renewals and trade-ins of consumer goods, introduce more consumption scenarios, promote people-centered new urbanization, and implement a new mechanism for cooperation between the government and private capital while fully stimulating private investment.

- **Expansionary fiscal policy and prudent monetary policy to stimulate growth and rebuild market sentiments.** We expect that the 3nd plenary session will call for front-load efforts to effectively put the established monetary and fiscal policies in place, and continue the implement a proactive fiscal policy and a prudent monetary policy. From the fiscal policy perspective, ultra-long special treasury bonds at the central government level will be issued every year in the future (RMB 1 trillion this year) and should be issued at an early stage and put in efficient use, while the issuance and utilization of special-purpose bonds should be expedited.

From the monetary policy perspective, it is necessary to flexibly employ policy tools such as interest rates and reserve requirement ratios to increase support for the real economy and reduce the overall financing cost of the society. Regarding the recent total credit growth shrinking, the intrinsic problem of weak monetary policy transmission mechanism is the weak market sentiments after Covid-19 pandemic. Thus, we call for a stronger stimulus at the central government level to help rebuild the sentiments. Under this circumstance, we anticipate 1-2 more LPR cuts in 2024 and another 2 RRR cuts this year, on top of the recent RRR cut and asymmetric 5-year LPR cut at the beginning of the year. The authorities are also anticipated to emphasize the targeted easing measures, particularly to SMEs and agricultural sector as well as more structural and quantitative monetary policy tools.

- **To reiterate the continuation of the "reform and opening-up" policy and guide the FDI inflows to the high-end manufacturing and green economy sectors.** We anticipate the meeting will re-emphasize on the importance of persisting reform and opening-up policy, such as to actively expand trade in intermediate goods, service trade, digital trade, and cross-border e-commerce exports, support private enterprises in expanding overseas markets and intensify efforts to attract foreign direct investment.

  Regarding the recent historical low of FDI inflows, China's authorities should deliver the message to the world that they are still growth oriented and know how to balance growth and national securities. First, Chinese government is expected to announce to persist reform and opening up policy and enhance foreign investor's sentiments to invest in China by promulgating more preferential policies on FDI. Second, Chinese government needs to continue to support Chinese economic growth and to avoid systemic financial risks, as the stable domestic environment is the prerequisite of foreign FDI. Third, Chinese government needs to stabilize China-US relationship as well as to establish deeper investment and trade relationship with One Belt One Road (OBOR) and RCEP countries. Although the China-US long-term trade war, technology war and finance war will persist in the future, Chinese government could still seek some marginal improvement of bilateral relationship with the US. (see our recent Economic Watch: China | Should we worry about the falling FDI?)

- **To deal with China's medium and long-term challenges.** These potential medium-to-long risks chiefly include real estate market risk, local government debt and small financial institutions risk, as mentioned and emphasized in the previous Central Government Economic Conference in December 2023. Among all these risks, real estate remains the top priority at the current stage. We anticipate there will be more easing measures on housing market both for the supply and demand side, such as to lower the first house purchase down payment ratio, to move the lower bound of mortgage rate for home buyers, set re-lending pool, and to encourage local SOEs and government to purchase unsold houses as low-income housing. In addition, government could get back the land that sold to real estate developers to increase its fiscal ability. Other housing policies, such as promoting "three large projects" of housing sector-to construct indemnificatory housing, "village in the city" reconstruction and public facilities under both normal conditions and in emergencies will persist will also be implemented. Beyond the real estate risk, the authorities will also promulgate the plans to deal with the long-term issues, such as aging, debt overhang, urbanization and common prosperity etc.

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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