



website to discuss vulnerabilities in the financial sector, and needed policy actions to help prevent any systemic financial breakdown.

- Deputy head of the State Council's Research Office Han Wenxiu suggested that 6.3% growth is enough for the government to reach its 2020 growth target. He published this statement as a member of an official group to "promote messages from the party congress".

It makes sense for the government to tighten policies. Economic growth surprised to the upside; meanwhile macro risks remain alarming. In this context, we expect a tightening bias on both fiscal and monetary policies for the next 6 months.

The tight policy bias has been verified by a series of new policies after the party congress. On fiscal front, the MoF further tightened its guidelines on PPPs. The new guidelines asked for removal of noncomplying PPP projects, so as to prevent PPPs from becoming "a new form of financing platforms". Already a big subway project in Baotou, an inland industrial city, was called off. Fiscal spending growth in October was negative for the first time this year.

On monetary and financial policies, the PBOC and financial regulators jointly issued a draft guideline on the asset management business aimed at limiting credit circling and ending regulatory arbitrage. This guideline will further tighten credit growth and constrain the shadow banking sector. Credit growth continued to moderate, and interest rates rose across the spectrum.

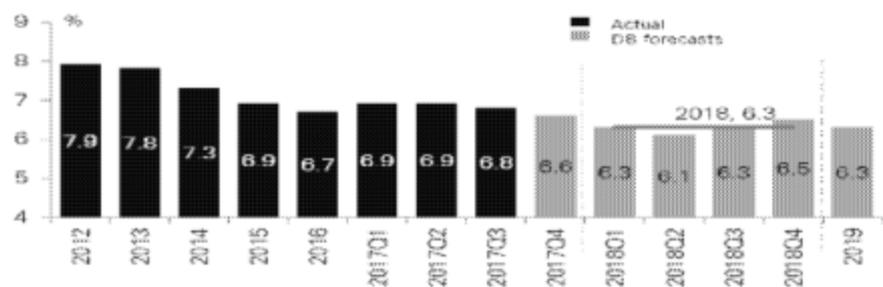
In the property market, a new round of policy tightening in tier 3 cities started in Sep. In Nov, the Ministry of Housing (MoH) further emphasized on "no change in policy goal" and "no relaxation in policy strength" for property market tightening, despite that growth of property sales turned negative yoy in Oct the first time since 2015.

We expect growth to slow to 6.3% in 2018

We expect headline GDP growth to slow to 6.3% in 2018. Our forecast is based on two key assumptions: (1) fiscal and monetary policy will remain tight in H1; and (2) investment will continue trending down under tight policies and financial conditions. FAI growth is expected to drop to 6.8% from 7.5%. At the same time, consumption growth will hold up, supported by sustained wage growth. Retail sales is expected to grow by 10.5% in 2018, same as in 2017.

Looking at the quarterly path, we expect growth at 6.3% and 6.1%, respectively, in Q1 and Q2. By Q2 there should be room for the government to loosen property market policies. Growth should rebound to 6.3% and 6.5% in Q3 and Q4 (Figure 44).

Figure 44: Real GDP growth forecast



Source: Deutsche Bank, WIND

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