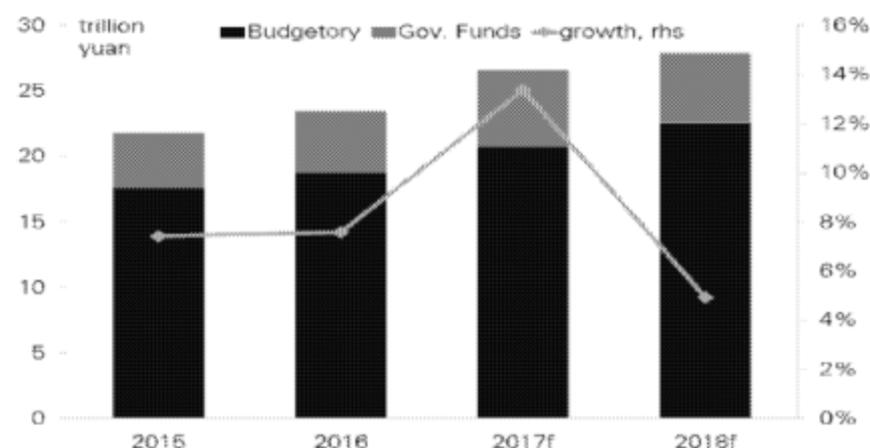




We expect the government to keep the official deficit target at 3% of GDP. Meanwhile, total fiscal spending including budgetary spending and government funds is expected to slow to 5% in 2018 from 13% in 2017. This is mainly due to an expected slowdown in land sales. Fiscal spending in 2017 was supported by strong land sales revenue (35% yoy ytd) from the land market boom in tier 3 cities. As property market cools down in 2018, we expect a -10% negative growth on such spending. The expected decline is smaller than in previous property cycles (-15% to -20%) as local governments may issue special land development bonds to mitigate the revenue shortfall.

Figure 45: Fiscal expenditure will slow in 2018



Source: Deutsche Bank, WIND

On the monetary front, we expect M2 to grow at slightly below 10%, in line with nominal GDP growth. Credit demand will moderate, owing to slower growth and financial sector deleveraging. Meanwhile, tighter regulations will crowd in part of the shadow banking sector onto banks' balance sheets, squeezing liquidity of the smaller banks who rely on wholesale funding. We expect the PBoC to cut RRR twice later in 2018 to help alleviate liquidity shortages. Despite lower growth, we expect the PBoC policy rates to remain unchanged as global interest rates rise.

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Driven by strong consumption, growth of imports (10%) will continue to outpace that of exports (7%). Current account surplus is expected to narrow to 0.8% of GDP in 2018. We expect the Renminbi to stay stable relative to trade partners. This will put the RMB/USD exchange rate at 6.7 by end-2018. We see pressure on RMB to depreciate in 2019 as current account surplus will likely shrink further.

Figure 46: Key macro indicator forecasts, China

	Real GDP, yoy%	CPI, yoy% period avg.	M2, yoy% eop	Fixed asset inv nominal, yoy%	Retail sales, nominal, yoy%	Indust prod, real yoy%	Current account balance, % of GDP	USDCNY, eop	Deposit rate (1-yr)	RRR
2015	6.9	1.4	13.3	10.0	10.7	6.1	3.0	6.49	1.50	17.5
2016	6.9	2.0	11.3	8.1	10.4	6.0	1.8	6.94	1.50	17.0
2017F	6.8	1.7	8.8	7.5	10.5	6.7	1.2	6.65	1.50	17.0
2018F	6.3	2.7	9.7	6.8	10.5	6.0	0.8	6.70	1.50	16.0

Source: Deutsche Bank, WIND