

China: Largely stable fiscal revenue and expenditure in March; we expect more fiscal easing ahead

Bottom line:

China's on-budget fiscal revenue and expenditure growth both improved in March on a year-on-year basis, although their sequential changes (after seasonal adjustments) were negligible. Off-budget land sales revenue maintained its double-digit year-on-year contraction in March, suggesting the ongoing property downturn remains a drag for local government funding conditions. Our proprietary "augmented fiscal deficit" (AFD) metric narrowed in March vs. February on a 3-month moving average (3mma) basis, but widened marginally on a 12mma basis. Given significant challenges from US tariffs to the Chinese economy, we maintain our forecast for our AFD metric to widen by 4.1pp of GDP to 14.5% in 2025, and expect policymakers to double down on their easing rhetoric in the upcoming April Politburo meeting.

Key numbers:

Fiscal revenue growth: +0.3% yoy in March (-0.1% mom sa non-annualized, estimated by GS), vs. -1.6% yoy in January-February (-13.8% mom sa non-annualized, estimated by GS).

Fiscal expenditure growth: +5.7% yoy in March (+0.2% mom sa non-annualized), vs. +3.4% yoy in January-February (-7.8% mom sa non-annualized).

Land sales revenue growth: -16.3% yoy in March (-3.1% mom sa non-annualized), vs. -15.7% yoy in January-February (-12.2% mom sa non-annualized).

Property-related tax revenue growth: -0.1% yoy in March, vs. -11.4% yoy in January-February.

Effective fiscal deficit ratio (after GS seasonal adjustment): -6.1% of GDP 3mma and -4.9% 12mma as of March, vs. -5.5% of GDP 3mma and -4.9% 12mma as of February.

Augmented fiscal deficit (AFD) ratio (after GS seasonal adjustment): -10.9% of GDP 3mma and -10.8% 12mma as of March, vs. -11.6% of GDP 3mma and -10.7% 12mma as of February.¹

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¹ Our measure of augmented fiscal deficit is a sum of effective on-budget fiscal deficit and off-budget fiscal deficit. We estimate the off-budget spending by major channels that finance quasi-fiscal activities, which includes new local government special bonds (LGSB), land sales revenue, local government financing vehicle (LGFB) bonds, policy banks support, shadow banking loans, etc.

Main points:

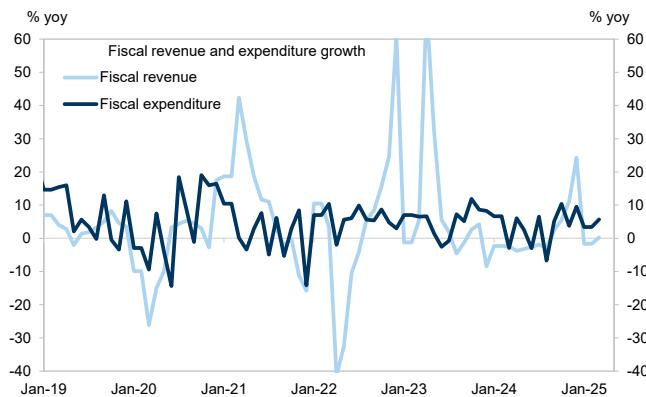
1. On the budget, fiscal revenue growth rose modestly to +0.3% yoy in March from -1.6% yoy in January-February ([Exhibit 1](#)), on the back of stronger-than-expected activity data. Year-on-year contraction in tax revenue narrowed to -2.2% in March from -3.9% yoy in January-February, thanks mainly to the improvement in VAT, consumption tax and corporate income tax revenue growth, more than offsetting the deceleration in individual income tax revenue. Non-tax revenue growth declined further to +5.9% yoy in March from +11.0% yoy in January-February. Note in the budget report released during the March "Two Sessions", the MOF projected non-tax revenue growth to slump to -14.2% yoy in 2025 from +25.4% yoy in 2024.
2. Fiscal expenditure growth rose to 5.7% yoy in March from 3.4% yoy in January-February, driven mainly by faster spending growth for energy saving & environmental protection, agriculture & water conservancy and urban & rural community affairs, more than offsetting the slowdown in spending growth for science & technology and transportation.
3. Property-related government revenue remained subdued in March. Off-budget, land sales revenue growth declined further to -16.3% yoy in March from -15.7% yoy in January-February, although recent media reports pointed to higher price premium during the land auctions in some large cities ([Exhibit 2](#)). On-budget, year-on-year contraction in property-related tax revenue narrowed significantly to -0.1% in March from -11.4% in January-February.² Combining these two items, we estimate that government revenue directly from the property sector contracted by 8.8% yoy in March (vs. -14.1% yoy in January-February), suggesting the ongoing property downturn remains a drag for local government funding conditions.
4. Taking into consideration the on-budget fiscal budget and the government-managed fund budget, we estimate that year-on-year growth in total government revenue and expenditure both increased in March, to -1.7% and +10.1%, respectively, from -2.9% and +2.9% in January-February. Combining on- and off-budget channels, we estimate our proprietary “augmented fiscal deficit” (AFD) metric narrowed to -10.9% of GDP in March from -11.6% of GDP in February on a 3-month moving average (3mma) basis, while it widened marginally to -10.8% from -10.7% on a 12mma basis ([Exhibit 3](#)).
5. Given significant challenges from US tariffs to the Chinese economy, we maintain our forecast for our AFD metric to widen by 4.1pp of GDP to 14.5% in 2025, following a 0.9pp narrowing in 2024. This suggests fiscal policy will turn from a growth drag last year to a major driver this year, although it should be still insufficient to fully offset the impact of external shocks. We expect the government to accelerate bond issuance and the spending of proceeds in coming months (implying a more frontloaded fiscal easing this year), top leadership to strengthen the easing rhetoric in the April and July Politburo meetings, and the NPC to approve an extra-budget bond issuance quota later this year. We expect the PBOC to accommodate the ongoing fiscal expansion through RRR cuts,

² Property-related taxes include property tax, deed tax, land appreciation tax, urban and town land use tax and farmland occupation tax.

policy rate cuts and CGB purchases.

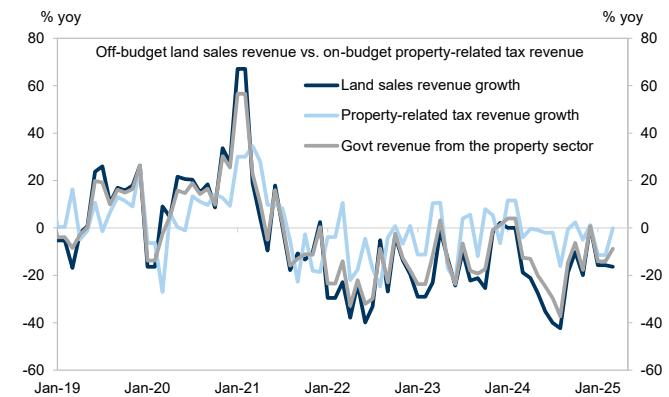
Lisheng Wang

Exhibit 1: Year-on-year growth in on-budget fiscal revenue and spending both increased in March



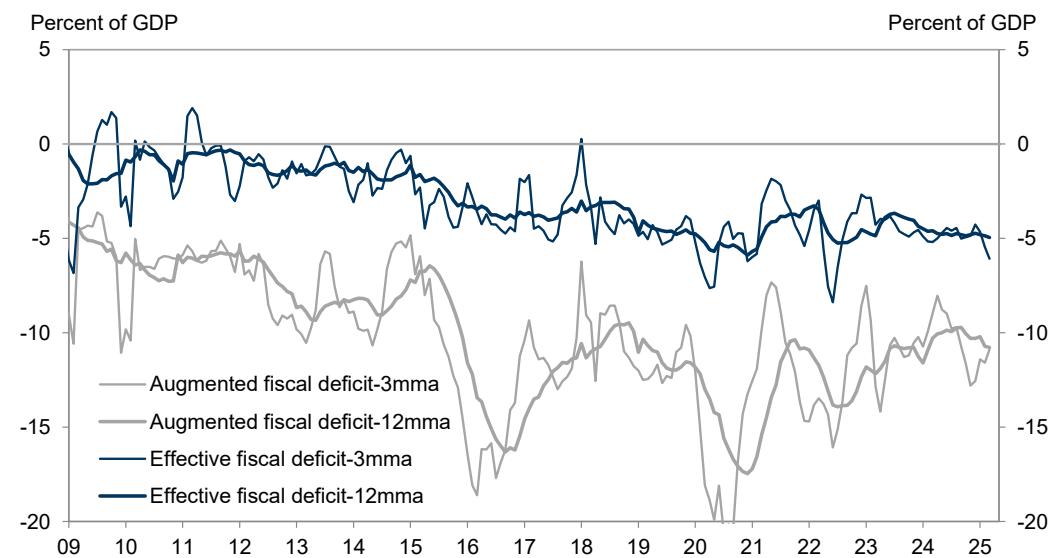
Source: Wind, Data compiled by Goldman Sachs Global Investment Research

Exhibit 2: Government revenue from land sales maintained its double-digit year-on-year contraction in March



Source: Wind, Data compiled by Goldman Sachs Global Investment Research

Exhibit 3: Our augmented fiscal deficit (AFD) metric narrowed in March vs. February on a 3mma basis but widened marginally on a 12mma basis



Source: Wind, CEIC, Goldman Sachs Global Investment Research

Disclosure Appendix

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