China: Fiscal revenue growth slowed in September, while spending remained subdued; lowering our 2026 full-year AFD forecast

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Bottom line:

On-budget fiscal revenue growth fell to -0.1% yoy in September from +4.7% yoy in August, driven mainly by slower tax revenue growth. On-budget fiscal expenditure growth remained subdued at 0% yoy in September (vs. -0.1% yoy in August), although it improved modestly in sequential terms. Property-related government revenue worsened in September, with land sales revenue contracting 23.5% yoy. Combining on-budget and off-budget financing channels, our proprietary "augmented fiscal deficit" (AFD) metric narrowed further in September on both a 3-month and 12-month moving average basis, suggesting that fiscal policy remained a growth drag despite recent modest easing measures introduced since end-September. After flagging downside risk for several months, we lower our 2026 AFD forecast to 10.0% of GDP from 11.5% previously, reflecting year-to-date fiscal data and delayed easing this year.

Key numbers:

Fiscal revenue growth: -0.1% yoy in September (-2.1% mom sa non-annualized, estimated by GS), vs. +4.7% yoy in August (-5.6% mom sa non-annualized).

Fiscal expenditure growth: +0% yoy in September (+3.4% mom sa non-annualized), vs. -0.1% yoy in August (-2.3% mom sa non-annualized).

Land sales revenue growth: -23.5% yoy in September (-9.8% mom sa non-annualized), vs. -12.3% yoy in August (+4.9% mom sa non-annualized).

Property-related tax revenue growth: -14.6% yoy in September, vs. -1.9% yoy in August.

Effective fiscal deficit ratio (after GS seasonal adjustment): -3.8% of GDP 3mma and -4.4% 12mma as of September, vs. -3.7% of GDP 3mma and -4.5% 12mma as of August.

Augmented fiscal deficit (AFD) ratio (after GS seasonal adjustment): -7.1% of GDP 3mma and -9.4% 12mma as of September, vs. -7.8% of GDP 3mma and -9.9% 12mma as of August.[1]

Main points:

[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 include new local government special bonds (LGSB), land sales revenue, local government financing vehicle (LGFV) bonds, policy banks support, shadow banking loans, etc.

Investors should consider this report as only a single factor in making their investment decision. For Reg AC certification and other important disclosures, see the Disclosure Appendix, or go to www.gs.com/research/hedge.html.

1. On-budget fiscal revenue growth fell to -0.1% yoy in September from +4.7% yoy in August (Exhibit 1), driven mainly by tax revenue growth which slowed to +0.2% yoy from +5.6% yoy. Non-tax revenue growth remained subdued at -1.0% yoy in September (vs. +0.3% yoy in August). The August-to-September deceleration in year-on-year tax revenue growth was led by corporate income tax and property-related taxes, more than offsetting faster VAT revenue growth. On a quarterly basis, individual income tax revenue growth remained elevated at +16.3% yoy in Q3 (vs. +16.4% yoy in Q2), whereas growth in household disposable income per capita moderated to +5.4% yoy from +5.6% yoy (Exhibit 2). This disconnect may partly reflect tighter tax collection in recent quarters, including taxes on offshore trusts and insurance products, in our view.

2. On-budget fiscal expenditure growth remained weak at 0% yoy in September (vs. -0.1% yoy in August), as faster spending growth in urban & rural community affairs, and energy saving & environmental protection largely offset slower spending growth in social security & employment, healthcare, and transportation. Based on our estimates, growth in infrastructure-related on-budget fiscal spending[2] rose modestly to -1.3% yoy in September from -3.7% yoy in August, broadly consistent with the modest improvement in infrastructure investment growth (rising to -11.6% yoy in September from -16.8% yoy in August, based on GS definition and estimates).

3. Property-related government revenue worsened in September — year-on-year contraction in off-budget land sales revenue widened to -23.5% in September from -12.3% in August, and on-budget property-related tax revenue growth dropped to -14.6% yoy from -1.9% yoy (Exhibit 3).[3] Combining these two items, we estimate that government revenue directly from the property sector contracted 21.1% yoy in September (vs. -9.7% yoy in August). Despite recent green shoots in home prices in some large cities, most property activity indicators such as land sales, new home starts and property investment were weaker than market expectations so far this year. We maintain our forecast that land sales revenue will fall by 30% yoy or more this year, as recent property policies accelerating the shift to a completed-home sales model may further strain developers' cash flows amid the prolonged property downturn.

4. Taking into consideration the general public budget and government-managed fund budget, we estimate year-on-year growth in total government revenue slowed to -3.5% in September from +3.0% in August, while the year-on-year contraction in total government expenditure narrowed to -3.6% from -6.6%. Further incorporating more off-budget financing channels, our proprietary "augmented fiscal deficit" (AFD) metric continued to narrow in September on both a 3-month and 12-month moving average (12mma) basis, suggesting that fiscal policy remained a growth drag despite recent modest easing measures introduced since end-September (Exhibit 4).

5. In the first nine months of this year, on-budget fiscal revenue grew 5.1% yoy (vs. -1.7% yoy in 2025), exceeding the MOF's full-year budget projection of a 2.2% yoy gain thanks to a notable improvement in tax revenue growth amid higher global energy prices and domestic PPI inflation, while anecdotal evidence suggests that some local governments, under financial strain, have collected tax revenues more aggressively. Specifically, tax

[2] We define infrastructure-related fiscal spending as fiscal spending on energy saving & environment protection, agriculture & water conservancy, transportation, and urban & rural community affairs.

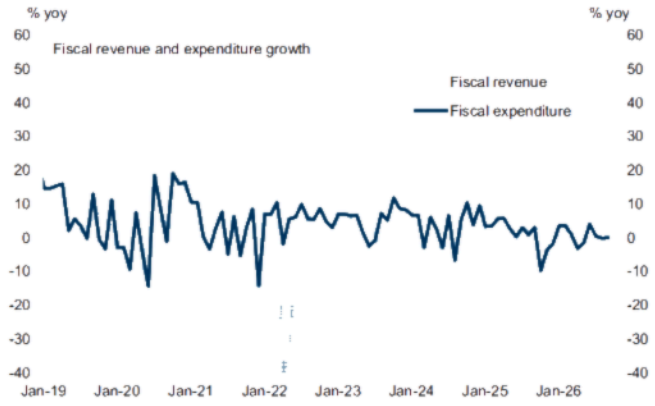
[3] Property-related taxes include property tax, deed tax, land appreciation tax, urban and town land use tax and farmland occupation tax.

revenue grew 6.1% yoy (vs. +0.8% yoy in 2025), beating the MOF's full-year budget projection of a 2.9% yoy increase. By comparison, on-budget fiscal expenditure only rose by 1.0% yoy during January-September 2026 (vs. +1.0% yoy in 2025), well below the budget projection for full-year 2026 of a 4.4% yoy increase. Off the budget, government-managed fund revenue declined by 18.6% yoy during the first nine months of this year (vs. -7.0% yoy in 2025), mainly weighed on by the 27.9% yoy contraction in land sales revenue (-14.7% yoy in 2025) and implying the budget projection of a 0.6% yoy gain this year will likely be missed. Accordingly, government-managed fund expenditure also declined by 16.2% yoy during January-August 2026 (vs. +11.3% yoy in 2025), with year-on-year growth slowed meaningfully after Q1.

6. We view the modest easing since end-September as an effort to reverse earlier tightening and secure this year's "4.5-5.0%" growth target, rather than the start of a sustained, significant easing cycle. Assuming the announced fiscal measures are deployed by year-end, we expect China's augmented fiscal deficit (AFD) to widen modestly from its recent trough in the coming months. However, after flagging downside risk for several months, we lower our 2026 AFD forecast to 10.0% of GDP from 11.5% previously (vs. 11.4% in 2025),[4] reflecting year-to-date fiscal data and delayed easing this year. We also adjust the level of 2027-2029 AFD to keep the broad trajectory unchanged from over the next few years. With stronger-than-expected Q3 GDP leaving this year's growth target largely secured, we see a possibility that some proceeds from this year's government bond issuance may remain unspent until early next year. Fiscal policy would thus still tighten relative to last year and weigh on growth this year on an annual basis, although the quarterly fiscal drag should narrow modestly in Q4 versus Q3 (Exhibit 6).

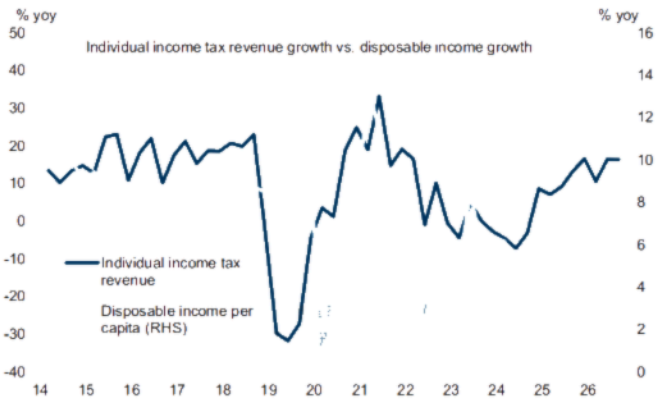
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Exhibit 1: Year-on-year growth in on-budget fiscal revenue declined in September, while fiscal spending growth remained subdued



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

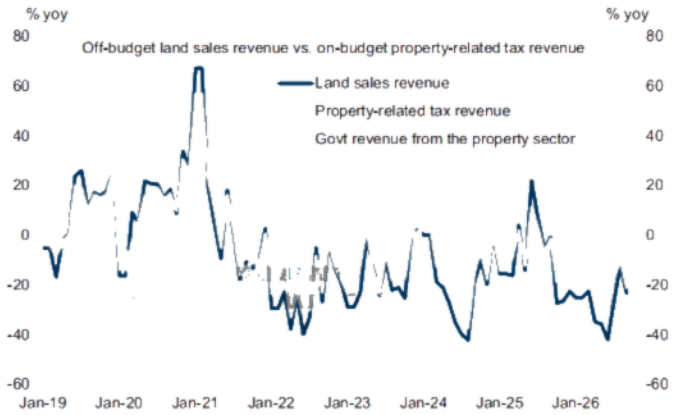
Exhibit 2: Individual income tax revenue maintained its double-digit year-on-year gain in Q3, while household disposable income growth moderated



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

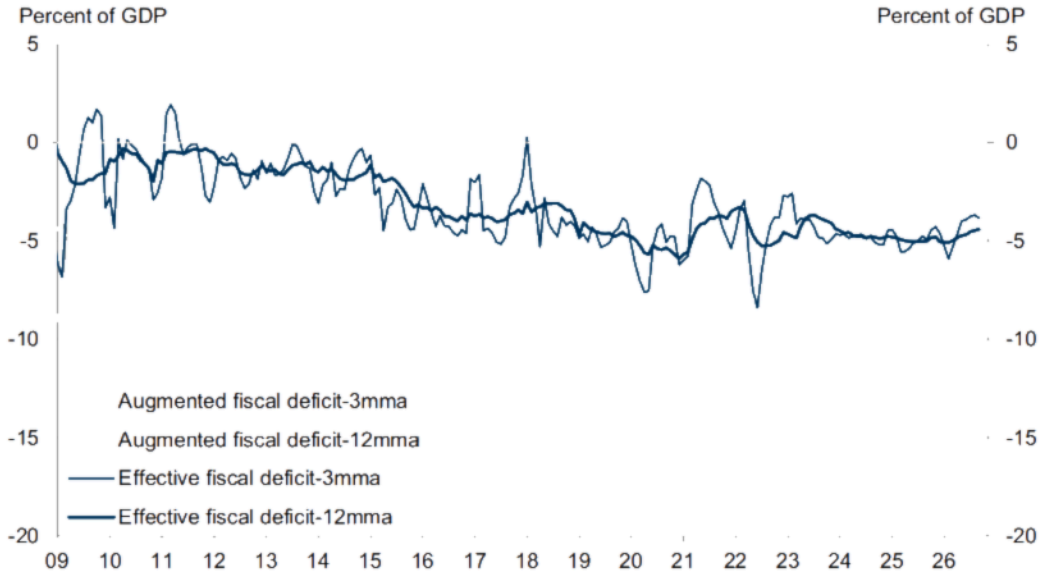
[4] China Central Depository & Clearing data may understate both the outstanding stock of policy bank bonds and changes in that stock in recent years, as some bonds have been transferred to China Securities Depository & Clearing for custody. To avoid potentially understating policy bank support, our latest AFD update instead uses policy bank bond issuance data from Wind's bottom-up estimates. This methodological change resulted in minor revisions to our historical AFD estimates.

Exhibit 3: Year-on-year contraction in property-related government revenue widened in September



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

Exhibit 4: Our augmented fiscal deficit (AFD) metric narrowed further in September on both a 3-month and 12-month moving average basis



Source: Wind, CEIC, Goldman Sachs Global Investment Research

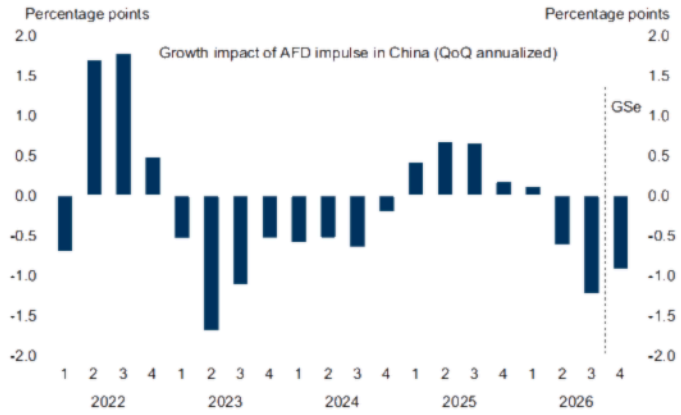
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Exhibit 5: Onboarding Q3 fiscal data, we lower our 2026 AFD forecast to 10.0% of GDP from 11.5% previously

		Percent of GDP	2019	2020	2021	2022	2023	2024	2025	*2026F*	*Change in 2026F*
1	**=3-(2+4)**	**Official on-budget deficit**	**2.8**	**3.6**	**3.2**	**2.8**	**3.8**	**3.0**	**4.0**	**4.0**	***0.0***
2		Budget revenue	18.9	17.7	17.3	16.5	16.8	16.3	15.4	15.3	*-0.1*
3		Budget expenditure	23.7	23.7	20.9	21.1	21.2	21.1	20.5	19.6	*-0.9*
4		Net drawdown of fiscal deposit and transfer from other fiscal accounts	2.0	2.5	0.5	1.8	0.7	1.8	1.1	0.3	*-0.8*
5	**=3-2**	**Effective on-budget deficit**	**4.8**	**6.1**	**3.7**	**4.6**	**4.5**	**4.8**	**5.1**	**4.3**	***-0.8***
6		Local government special bond (LGSB)	2.1	3.5	2.8	3.6	3.0	3.0	3.1	3.2	*0.1*
7	=8+9	LGFV bond and railway construction bond net issuance	1.3	2.2	2.1	1.0	1.0	-0.1	0.0	0.2	*0.2*
8		LGFV bond net issuance	1.2	2.2	2.0	1.0	1.0	0.0	0.0	0.2	*0.2*
9		Railway construction bond net issuance	0.0	0.1	0.1	0.0	-0.1	-0.1	0.0	0.0	*0.1*
10	=11+12	Policy bank support (including PSL)	1.5	2.2	1.5	2.0	1.5	0.5	0.6	0.2	*-0.4*
11		Policy bank bond issuance	1.4	2.5	1.8	1.7	1.4	1.2	1.5	0.2	*-1.3*
12		PSL	0.2	-0.3	-0.4	0.3	0.1	-0.7	-1.0	0.0	*1.0*
13		Trust loans	-0.2	-0.5	-0.9	-0.2	0.1	0.1	0.1	-0.1	*-0.2*
14		Net financing via land sales	2.1	2.4	2.2	1.6	1.3	1.1	0.9	0.6	*-0.3*
15		Central government special bond (CGSB)	0.0	1.0	0.0	0.0	0.0	0.7	1.3	1.1	*-0.2*
16		Local government debt resolution (swap / refinancing / special-purpose refinancing bond)	0.1	0.0	0.2	0.1	0.4	0.7	0.5	0.6	*0.1*
17	**=5+6+7+10 +13+14+15 +16**	**Augmented fiscal deficit (AFD)**	**11.8**	**16.8**	**11.5**	**12.6**	**11.8**	**10.9**	**11.4**	**10.0**	***-1.5***

Source: MOF, CEIC, Haver Analytics, Wind, Goldman Sachs Global Investment Research

Exhibit 6: We expect the fiscal impulse to be less negative in Q4 vs. Q3, given the ongoing modest easing



Source: Goldman Sachs Global Investment Research