

China's budget deficit nears a record \$1 trillion as economy slows

BLOOMBERG
October 25

CHINA'S BROAD FISCAL deficit hit an all-time high in the first nine months of the year as Covid outbreaks and a housing market slump continue to erode government income.

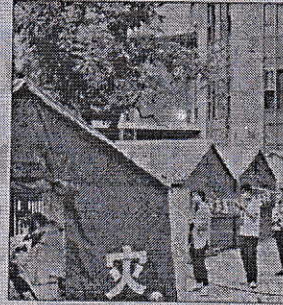
The deficit in the budgets for all levels of government was 7.16 trillion yuan (\$980 billion), according to *Bloomberg* calculations based on data released by the ministry of finance on Tuesday. That is a record for any comparable period and is almost three times the 2.6 trillion yuan shortfall in January-September last year.

Chinese authorities have struggled to make ends meet this year as massive tax rebates and the persistent housing market crisis have cut government income sharply. However repeated lockdowns of major cities to contain Covid outbreaks have meant more spending on controlling and testing people, while there's been demands to spend more on infrastructure to spur economic growth.

Economic growth rebounded to 3.9% in the third quarter, after the lockdown of Shanghai and other cities earlier in the year pushed gross domestic product to near stagnation in the second quarter. The pickup was fueled by increasing investment in infrastructure, though retail sales weakened and unemployment increased.

Activity in the services sector, which accounts for more than half of the Chinese economy, contracted last month for the first time since May as big cities including Chengdu were locked down to contain virus flareups, keeping consumers at home, shuttering shops and restaurants, and stopping people from traveling around the country.

Total income from the general public and government fund budgets was 19.9 trillion yuan in the first nine months of this year. General public revenue fell 6.6% from a year earlier, slowing from an 8% drop in the first eight months. It would have risen 4.1% had it not been for the tax rebates, the finance ministry said.



WOES PILE UP

- According to Bloomberg, the deficit in the budgets for all levels of government was \$980 billion
- Chinese authorities have struggled to make ends meet this year as massive tax rebates
- Economic growth rebounded to 3.9% in the Q3, after the lockdown of Shanghai and other cities

Most of the tax breaks were doled out in April-June, which has led to an improvement in revenue in recent months. For September alone, income rose 8.4% from a year ago to 1.5 trillion yuan. Revenue from the sale of land declined 28.3% on year in the first nine months of this year to 3.85 trillion yuan, compared with a 28.5% plunge in January-August.

Property developers have been unwilling to buy land as they are grappling with an ongoing liquidity crunch and this has driven some local governments to sell land to state-owned enterprises to try and generate some immediate revenue, even if this is effectively selling to themselves. This practice prompted MOF to issue a statement earlier this month banning local governments from buying land with borrowed money or "inflating" their land-sale revenues through purchases by SOEs.

Total government spending in