STRENGTHENING FISCAL MANAGEMENT AMID EMERGING HEADWINDS

(ASEAN+3 FISCAL POLICY REPORT 2026)

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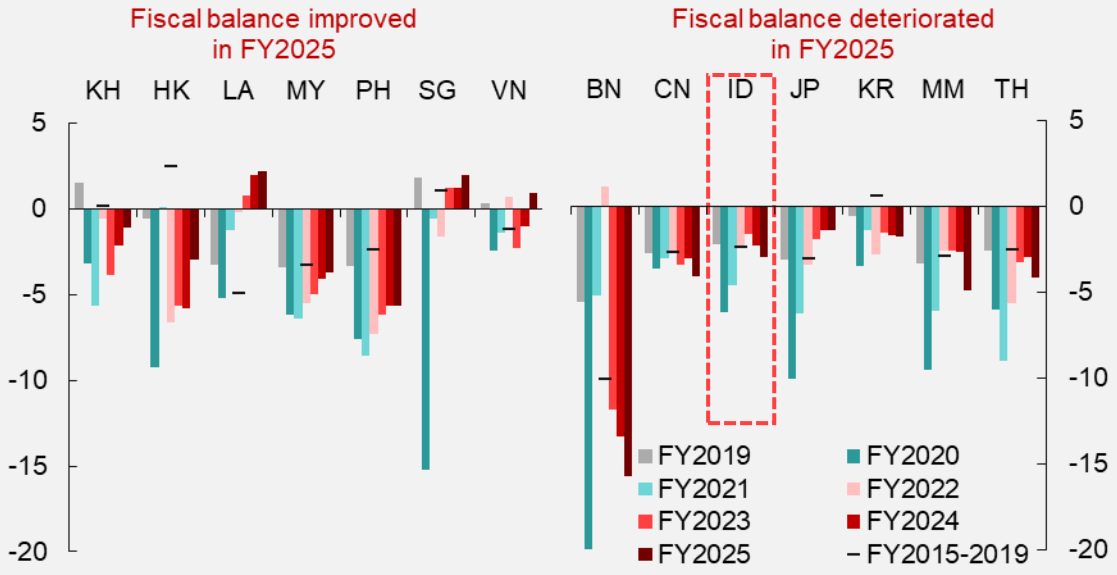
With active fiscal policy in FY2025, fiscal positions in ASEAN+3 remained weak.

- *Member economies implemented active fiscal policy in FY2025 to boost domestic demand, mitigate cost-of-living pressures, and address trade shocks. Consequently, fiscal balances remain weaker than pre-pandemic.*
- *While the government debt-to-GDP ratio is expected to gradually stabilize or decline over the medium term, financing needs are expected to remain elevated due to heightened debt service burden.*
- *Continued policy efforts to ensure fiscal sustainability are therefore warranted.*

Fiscal Balance, FY2019-2025

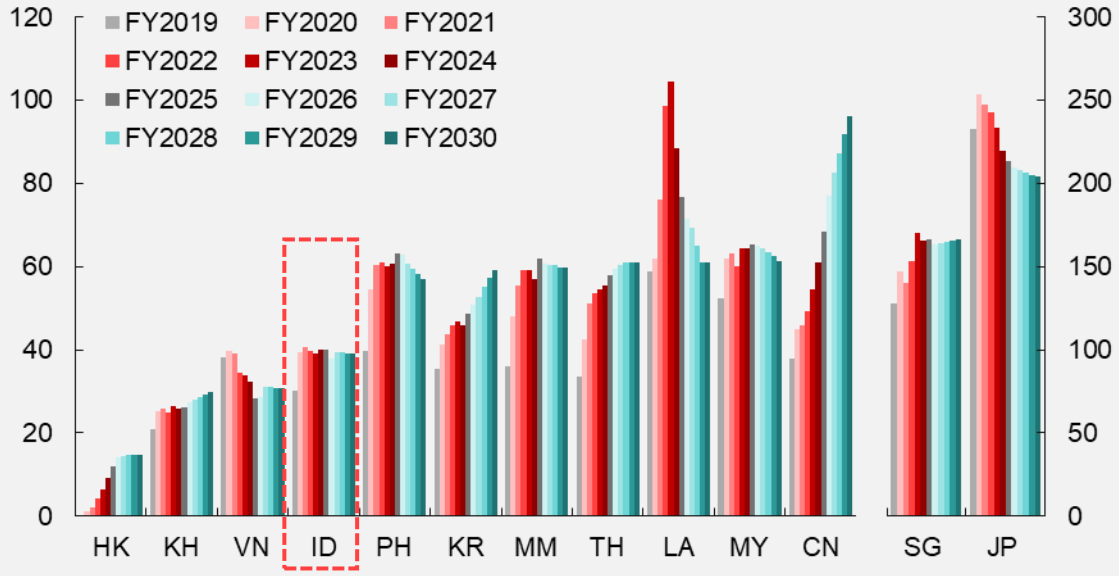
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates

Gross Government Debt, FY2019-2030

(percent of GDP)

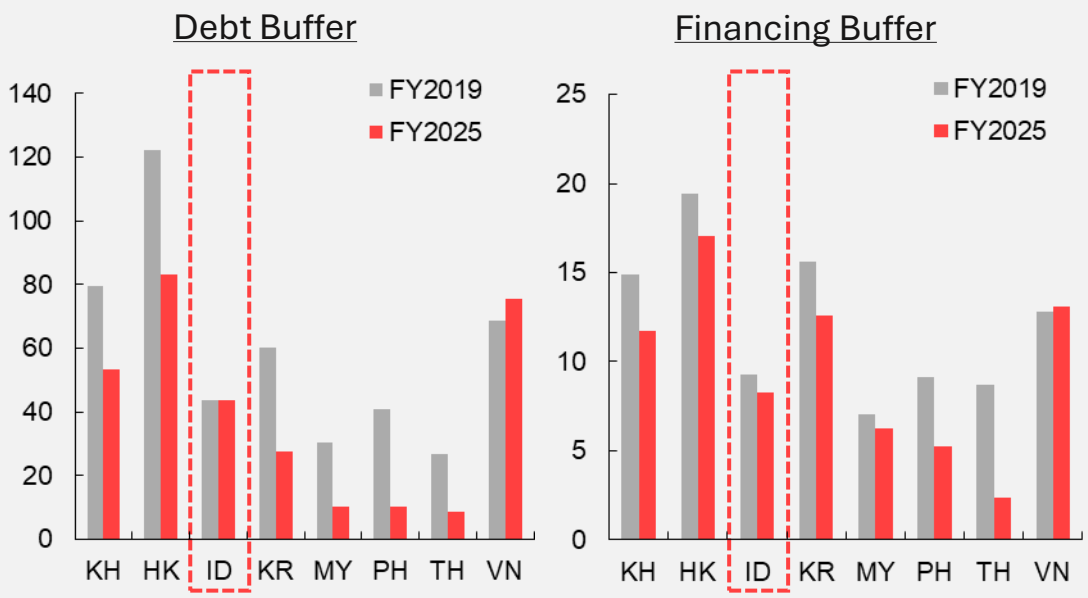


Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Brunei Darussalam is not shown as it has virtually zero government debt; 2) Debt-to-GDP ratio projections over FY2025-2030 are based on AMRO staff.

Near-term economic uncertainty remains persistent and elevated.

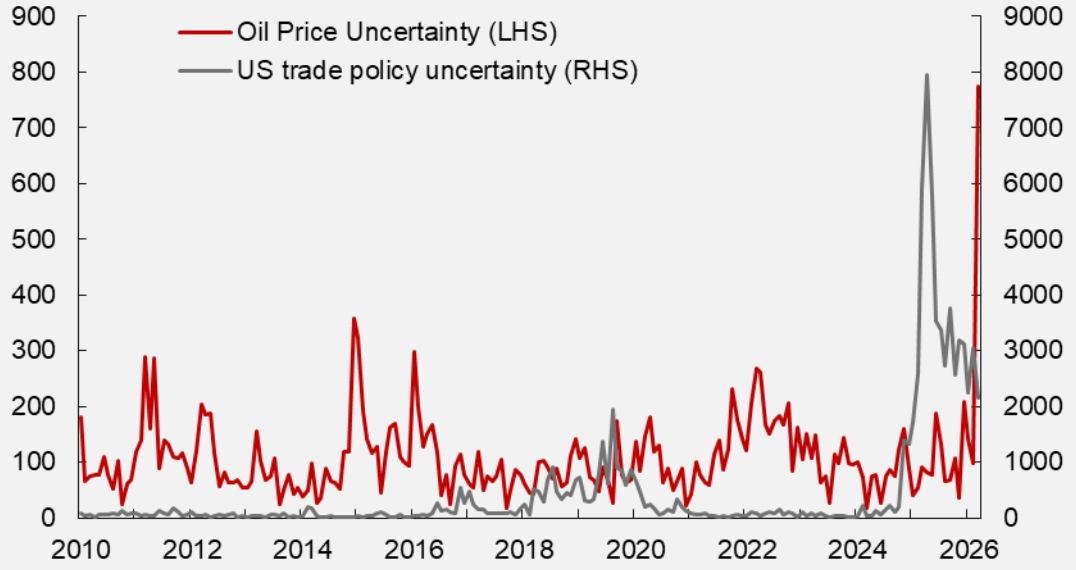
- *ASEAN+3 economies were able to respond effectively to successive economic shocks since the pandemic by leveraging the fiscal space accumulated in the past. As a result, fiscal space has narrowed substantially.*
  → Sustaining efforts to rebuild fiscal buffers remains critical to ensure sufficient capacity for policy actions.
- *Economic policy uncertainty remains elevated, with substantial downside risks.*
  → Should downside risks materialize, fiscal policy should remain agile and flexible to respond to shocks.

Fiscal Space (percent of GDP)



Source: AMRO staff estimates.
Note: 1) Debt buffer is defined as the maximum stimulus that would not exceed the debt-to-GDP threshold, suggested by IMF's MAC DSA and LIC DSA, over the medium term; 2) Financing buffer is defined as the maximum stimulus size that would not exceed the GFN-to-GDP threshold, suggested by IMF's MAC DSA and LIC DSA.

Global Economic Policy Uncertainty (index)



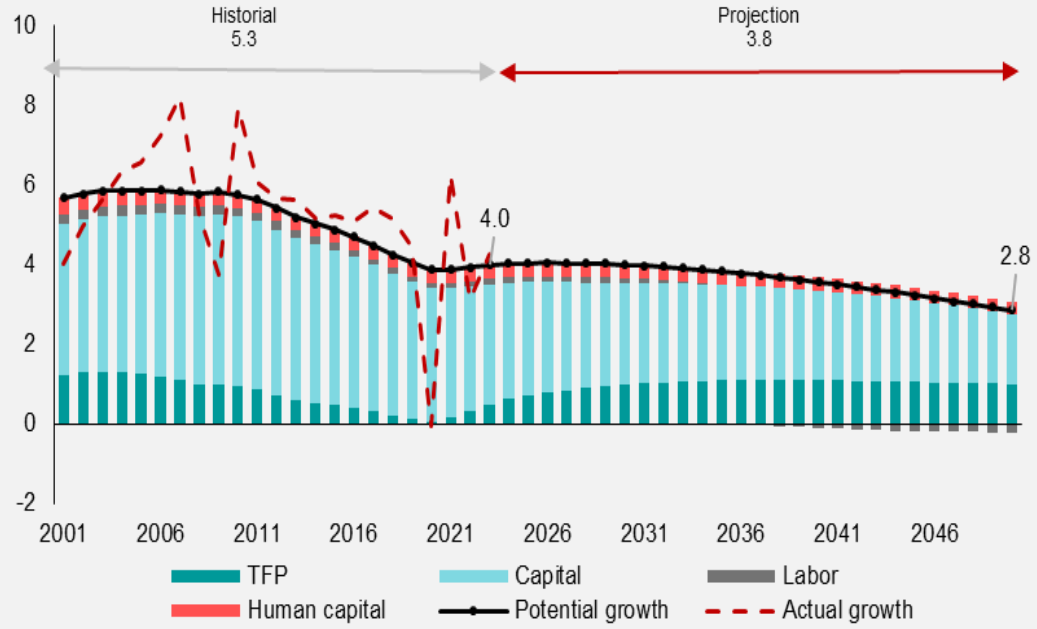
Source: Economic Policy Uncertainty
Note: 1) These indices are constructed based on frequency counts of newspaper articles, following the methods in "Measuring Economic Policy Uncertainty" by Baker, Bloom and Davis (2016). 2) The oil price uncertainty index value is normalized to a mean of 100 from 1969 to 2019, while the US trade policy uncertainty index value is normalized to a mean of 100 from 1985 to 2010.

Authorities face growing demands on fiscal policy to fulfill its core functions —promoting growth and reducing poverty and inequality.

- *Potential growth has slowed due to weak capital accumulation and sluggish total factor productivity, compounded by slow human capital development and a shrinking labor force in some economies.*
- *While extreme poverty has fallen markedly, income inequality remains wide across the region.*
- *Greater fiscal resources are needed to support pro-growth initiatives, redistributive measures.*

Potential Growth Projections, by Factor Input

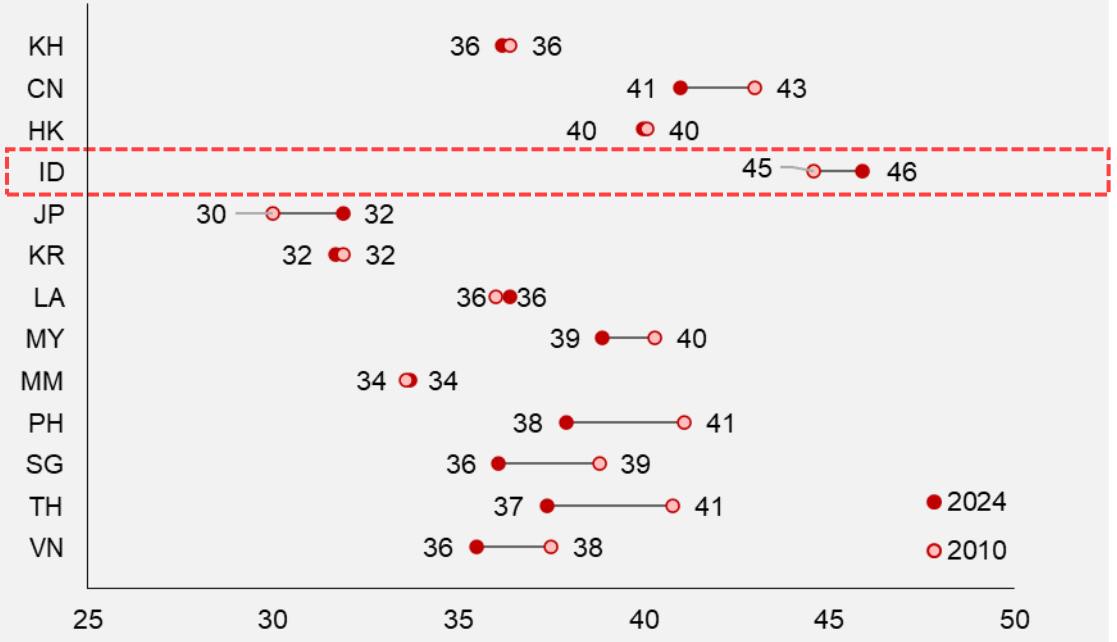
(percent)



Source: AREO 2025, Chapter 3. Long-term Growth of ASEAN+3: Prospects and Policies

Disposable Income Gini Index

(0-100 scale)

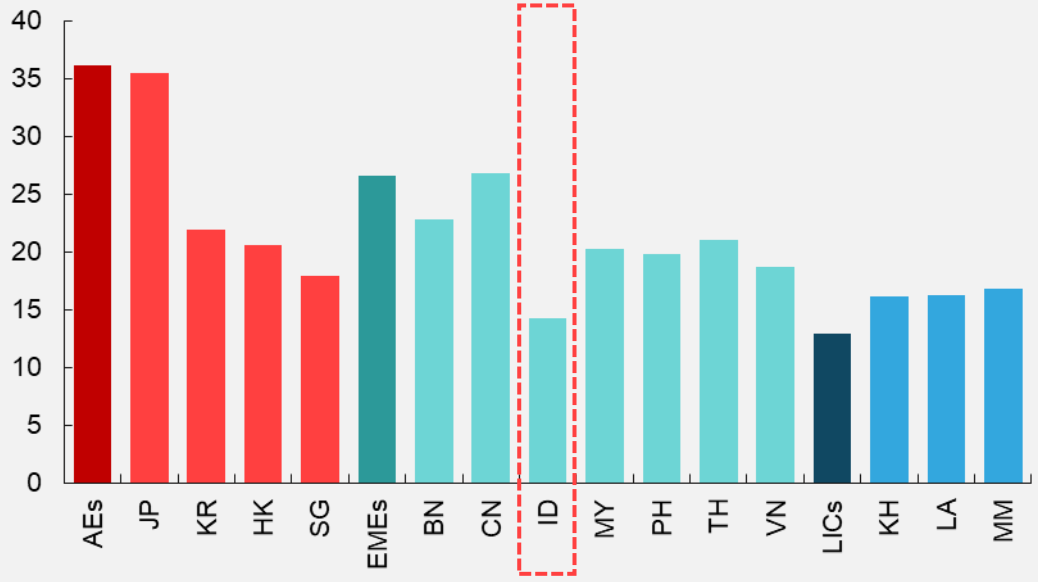


Source: The Standardized World Income Inequality Database (SWIID)

Fiscal revenue growth remains insufficient, while budget structures have become increasingly rigid.

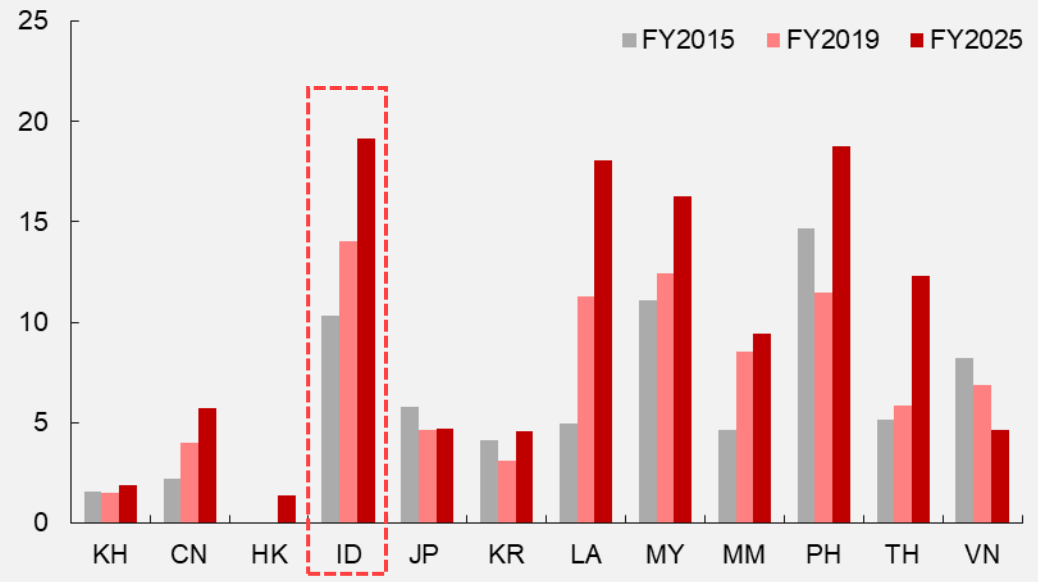
- *Compared with peer income groups, revenue as a share of GDP remains relatively low.*
- *Budget structures have become more rigid due to rising public-sector wages, expanding social security payments, and increasing interest payments alongside government debt accumulation.*
- *Enhancing revenue mobilization and improving spending efficiency are therefore essential.*

General Government Revenue, FY2015-2025 average (percent of GDP)



Source: IMF Fiscal Monitor database; AMRO staff estimates

Interest Payments As a Share of Revenue, FY2015-2025 (Percent)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) For Brunei Darussalam, there is no issuance of debt to finance fiscal needs; 2) For Singapore, there are no publicly available data on the government's interest payments.

ASEAN+3 member authorities should strengthen fiscal management amid mounting structural pressures, while remaining agile and flexible to shocks.

Strengthen fiscal aggregate management, with credible fiscal anchors supported by fiscal rules or MTFF.

- *Establish credible fiscal anchors to steer medium- to long-term fiscal aggregates onto a sustainable path.*
- *Refine/introduce **fiscal rules** by incorporating key characteristics—simplicity, flexibility, and enforceability.*
- *Use the **MTFF** to translate fiscal anchors into operational medium-term targets for key fiscal aggregates.*

Fiscal Rules in Selected ASEAN+3

	Numerical Fiscal Rules	Legal Basis	Flexibility, Enforcement	
			Escape clauses	Automatic Correction
Cambodia	Debt, Balance	Plan		
Hong Kong	Balance	Constitution		
Indonesia	Debt, Balance, Expenditure	Constitution, Law		
Japan	Balance	Law		
Malaysia	Debt, Balance, Expenditure	Law	O	O
Philippines	Debt, Balance	Plan		
Singapore	Debt. Balance, Expenditure	Constitution	O	
Thailand	Debt, Expenditure	Law, Plan	O	O
Vietnam	Debt, Balance, Expenditure, Revenue	Plan	O	

Source: IMF Fiscal Rules Dataset; National authorities; AMRO staff compilation
Note: In Korea, fiscal rules (balance rule with escape clauses and automatic correction mechanisms) are under discussion at the National Assembly

MTFF and MTBF in Selected ASEAN+3

	Time Horizon	Frequency	Legal Basis	Contents		
				Macro	Fiscal Aggregates	Expenditure Plan
Indonesia	5 years	Rolling	Law	O	O	O
Japan	10 years	Rolling, biannual update	-	O	O	
Korea	5 years	Rolling	Law	O	O	O
Lao PDR	5 years	Fixed	Law	O	O	
Malaysia	3 years	Rolling	Law	O	O	O
Philippines	6 years	Fixed, annual update	-	O	O	O
Singapore	2023-2030	Occasional	-		O	O
Thailand	5 years	Fixed, annual update	Law	O	O	
Vietnam	5 years	Fixed	-	O	O	O

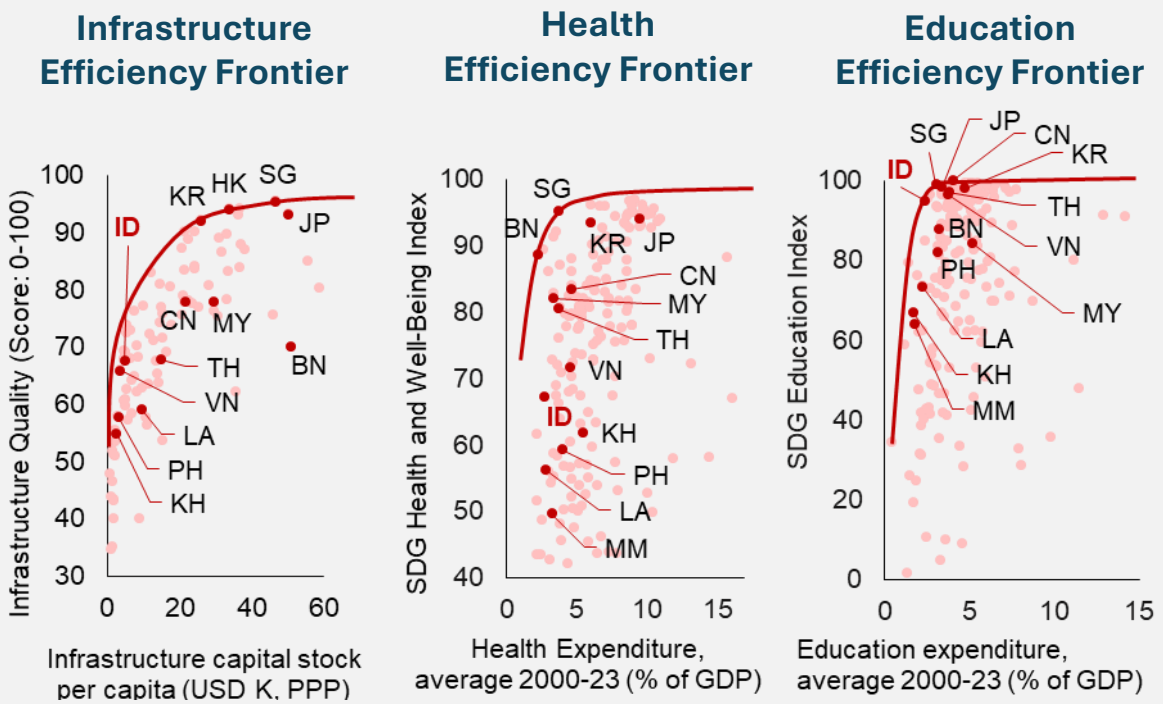
Source: National authorities; AMRO staff compilation

Enhance strategic resource allocation

toward resilient, sustainable, and inclusive growth within the fiscal envelope through MTFF/MTBF and annual budget.

Improve spending efficiency to enhance the

impact of limited fiscal resources, through performance management, PIM, and institutional strengthening.

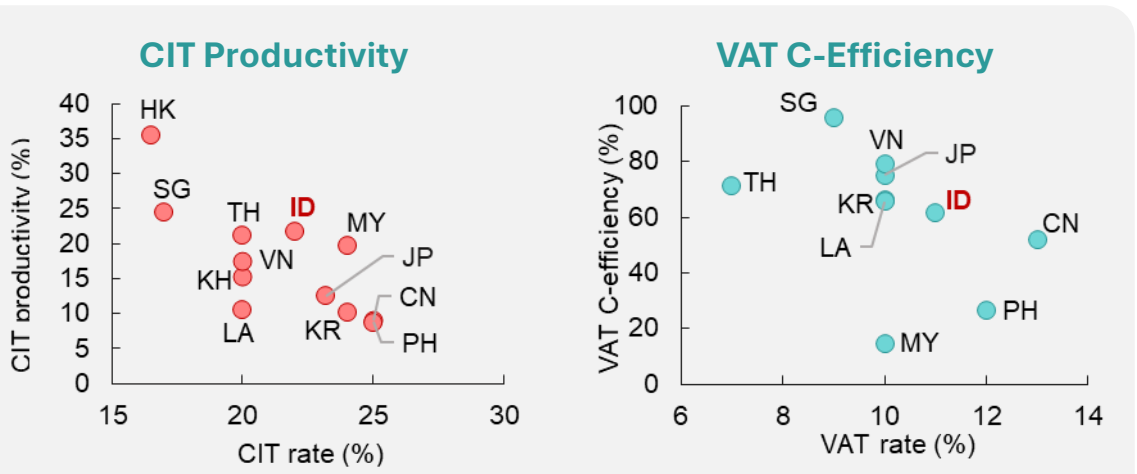


Source: IMF ICSD; WEF GCI 2019; : Sustainable Development Report 2025; World Bank; World Health Organization (WHO); UNESCO Institute for Statistics; AMRO staff estimates

Note: The Expenditure Assessment Tool emphasizes benchmarking and efficiency frontiers to gauge how far countries are from best practice.

Pursue comprehensive and durable revenue-enhancing measures

- *Strengthen **tax administration** to narrow compliance gaps, leveraging digital technologies.*
- *Manage **tax expenditures** rigorously, given generous exemptions/incentives in the region.*
- *Advance **structural reforms to major taxes**, aligning with evolving global standards.*



Source: National authorities via CEIC and Haver Analytics; PwC; AMRO staff estimates
Note: 1) CIT productivity is defined as actual CIT revenue divided by the product of the standard CIT rate and nominal GDP; 2) For Korea, which applies a progressive CIT structure, the top marginal statutory rate is used for simplicity; 3) VAT C-efficiency is defined as actual VAT revenue divided by the product of the standard VAT rate and final private consumption.

Systemically manage macroeconomic and fiscal risks

- ***Macroeconomic risks**: Strengthen systematic frameworks for fiscal responses to emerging shocks*
  - *Contingency planning*
  - *Stakeholder engagement*
  - *Transparent communication*

- ***Fiscal risks**: Manage fiscal risks comprehensively to safeguard fiscal sustainability.*
  - *Fiscal risk identification, assessment, and disclosure*
  - *Oversight of liabilities arising outside budget coverage (e.g., subnational, off-budget)*
  - *Contingent liabilities (guarantees, PPP, SOE debt)*

Thank you.

Contact Us

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