Box 1.5:

Fiscal Policy: Recent Developments and Outlook

Most regional authorities shifted to consolidate their fiscal positions in 2023, although at different paces, leading to some variations in fiscal outcomes. In Indonesia, Lao PDR, Malaysia, the Philippines, and Thailand, the fiscal balances continued to improve as the deficit narrowed in FY2023. Similarly, the improvement in fiscal balances resumed in China and Hong Kong, benefiting from the economic reopening. In Korea, the withdrawal of temporary income support measures contributed to better fiscal outcomes. Despite these positive developments, fiscal deficits across most regional economies are still bigger than pre-pandemic levels. In contrast, falling oil and gas revenue in Brunei and the expansion of capital spending in Cambodia and Myanmar resulted in a worsening of their fiscal deficits in FY2023 (Figure 1.5.1).

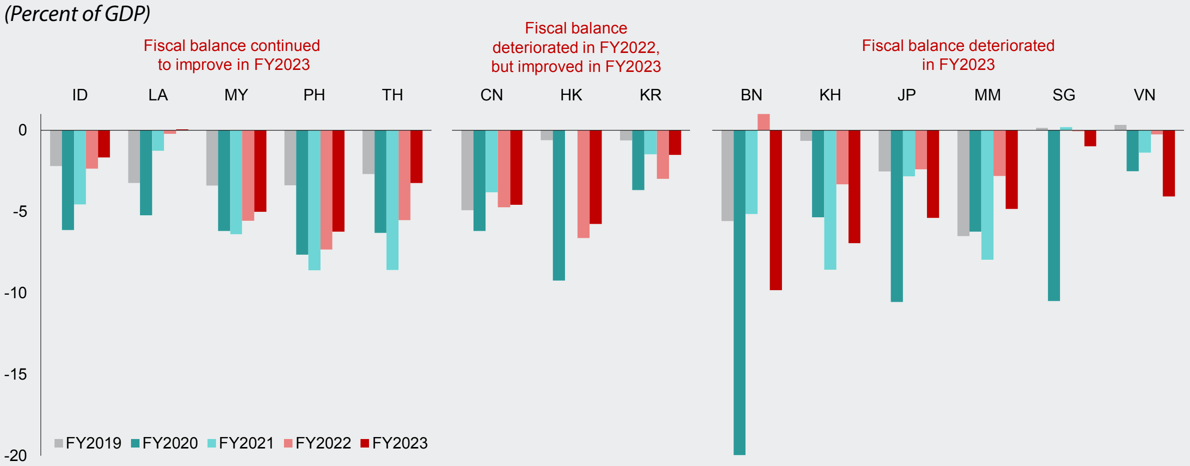
Regional authorities are seeking to further improve their fiscal positions in FY2024. Based on announced budgets for FY2024, fiscal deficits are expected to narrow in most regional economies (Figure 1.5.2). Stronger economic activities will contribute to robust revenue growth, supported by digitalizing tax administration and payments. Expenditure is also planned to increase, albeit to a lesser extent, in order to address post-pandemic spending priorities. As a result, the fiscal stance in FY2024 is assessed as contractionary or neutral, except in Brunei and Lao PDR (Table 1.5.1).

ASEAN+3 member authorities should strike a careful balance between restoring fiscal buffers and carrying out active fiscal policy in the near term. Deteriorated fiscal position due to unprecedented fiscal stimulus and sizable revenue shortfalls during the pandemic underscore the urgent need to rebuild policy space. Delays in fiscal consolidation amid higher financing costs could heighten concerns about debt sustainability, as government debt-to-GDP ratios and debt service burden have increased sharply in some regional economies, subjecting them to market scrutiny (Figure 1.5.3). While fiscal policy should transition from its extended crisis mode to its fundamental role in promoting growth and fostering inclusiveness, continuing uncertainties in the near term calls for a flexible and agile fiscal policy response.

Strengthening fiscal consolidation over the medium term would be crucial to safeguard fiscal sustainability. Establishing clear fiscal consolidation targets and schedules, coupled with a strong commitment, would be crucial in guiding medium-term fiscal consolidation plans. In formulating policy measures for fiscal consolidation, the authorities should not only focus on reducing the primary deficit through revenue-enhancing measures and expenditure restructuring or reform, but also implement initiatives to enhance growth potential to achieve more favorable debt dynamics. For economies with a high share of foreign currency debt, policies to maintain exchange rate stability, such as tight monetary and fiscal policies, are particularly important. In addition, addressing long-term structural challenges calls for more pre-emptive roles of fiscal policy, including in preparing for the aged and post-aged populations in ASEAN+3 in the next 10 to 20 years, and tackling critical climate change adaptation and mitigation needs of the region.

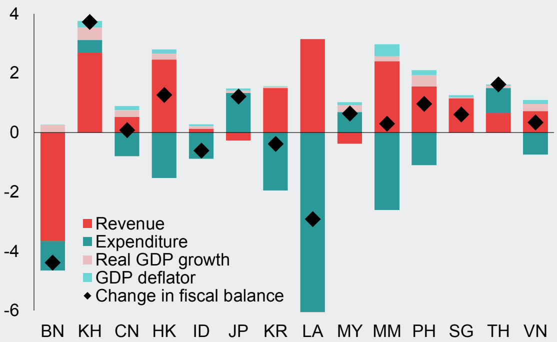
This box was written by Byunghoon Nam and Seung Hyun (Luke) Hong.

Figure 1.5.1. ASEAN+3: Fiscal Balance, FY2019–2023
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: BN = Brunei; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. (1) Fiscal balance for Korea represents the fiscal balance including social security funds; (2) Fiscal balance for Singapore is based on the overall budget surplus/deficit, excluding capitalization and depreciation of nationally significant infrastructure from the overall fiscal position.

Figure 1.5.2. ASEAN+3: Contribution to the Change in Fiscal Balance, FY2024
(Percent of GDP)



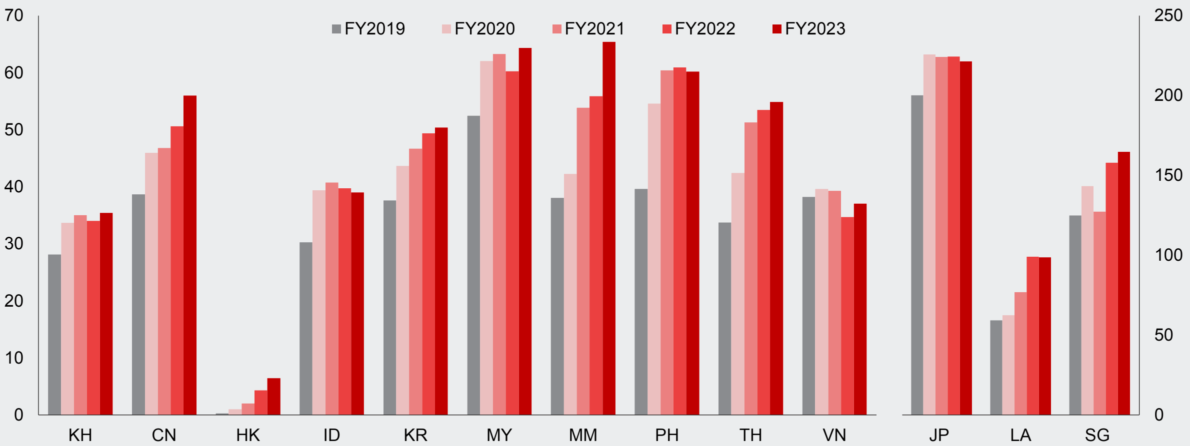
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: BN = Brunei; CN = China; FY = fiscal year; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. The FY2024 budget is not available for Myanmar.

Table 1.5.1. ASEAN+3: Fiscal Stance, FY2023–2024

		FY2024		
		Expansionary	Neutral	Contractionary
FY2023	Expansionary	BN	SG, VN	KH, JP, MM
	Neutral		CN	
	Contractionary	LA	ID, KR, MY	HK, PH, TH

Source: AMRO staff assessment.
Note: FY = fiscal year. AMRO assesses the fiscal stance by fiscal impulse, measured by the changes in structural primary balance. The fiscal stance of Brunei is assessed by the change in primary expenditure as its revenue is heavily dependent on oil and gas prices. The FY2024 budget is not available for Myanmar. Data are up to 26 March 2024.

Figure 1.5.3. ASEAN+3: Gross Government Debt, FY2019–2023
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: CN = China; FY = fiscal year; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Brunei is not shown as it has almost zero government debt.