ASEAN+3 Fiscal Policy Report 2025:
Navigating Fiscal Strategy Through Uncertainty

April 2025

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ASEAN+3 Fiscal Policy Report 2025

Prepared under the supervision of Seung Hyun (Luke) Hong by Fiscal Surveillance Group led by Byunghoon Nam, and comprising Ravisara Hataiseree, Dek Joe Sum, Koon Hui Tee, Ginanjar Wibowo, and Chaeyeon Song.[1 2]

Approved by Abdurohman (Deputy Director for Functional Surveillance and Research)

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Executive Summary

The fiscal positions of ASEAN+3 economies in FY2024 remained weaker than pre-pandemic levels as the pace of fiscal consolidation slowed. Fiscal developments in FY2024 presented a mixed picture, with nine economies improving and the other five deteriorating. While both revenue and expenditure increased as a percentage of GDP, the impact on fiscal balance varied depending on their relative magnitudes. Revenue performance was generally positive, driven by growth in both income-based and consumption-based taxes reflecting robust economic growth, with additional support from nontax revenue. On the expenditure side, while capital expenditure continued to increase to promote growth and support national development, the rise in primary current expenditure outpaced that of capex in many economies.

Diverging fiscal developments across ASEAN+3 economies are expected to continue in FY2025. Resilient economic growth, supported by the pick-up in domestic demand along with easing inflation, is anticipated to drive robust tax revenue growth in most economies. Additionally, economies that experienced revenue shortfalls in FY2024 due to country-specific factors expect a revenue rebound as these factors are resolved. Expenditure is also set to rise, focusing on promoting growth and strengthening social welfare. While member economies under a positive or near-zero output gap plan a contractionary or neutral fiscal stance in FY2025, some will adopt an expansionary fiscal stance to support the recovering economy.

Despite signs of debt stabilization in some economies, government debt and gross financing needs are expected to remain elevated. In FY2024, the debt-to-GDP ratio began to decline or stabilize in more economies, while others saw a slower rise. Robust economic growth and high inflation helped stabilize or lower debt ratios, but high effective interest rates exerted upward pressures. Additionally, large currency depreciation inflated the nominal value of outstanding debt in the economies with substantial share of foreign currency denominated debt. Looking ahead, debt ratios are projected to rise in half of the member economies in FY2025, where the budgeted primary balance remains below the debt-stabilizing level. Gross financing needs will also remain elevated over the medium term due to increased principal payments of maturing debts across various tenors and a steadily rising interest burden.

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[1] Authors' e-mails: Luke.Hong@amro-asia.org, Byunghoon.nam@amro-asia.org, Ravisara.Hataiseree@amro-asia.org, Sum.DekJoe@amro-asia.org, Koonhui.Tee@amro-asia.org, Wibowo.Ginanjar@amro-asia.org, and Chaeyeon.Song@amro-asia.org.

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ASEAN+3 member authorities should navigate fiscal strategy through uncertainties by adopting flexible responses while remaining committed to fiscal prudence. Fiscal authorities should maintain agility and flexibility to respond swiftly to emerging shocks, particularly those arising from heightened risks such as more aggressive protectionist policies and escalated geopolitical tensions. In the event of imminent or materializing downside risks, fiscal responses should be implemented promptly in close coordination with monetary policy. At the same time, given weakened fiscal position and narrower fiscal space, sustained efforts to implement fiscal consolidation and rebuild fiscal buffers over the medium term are essential. Achieving sustainable and inclusive growth while addressing structural challenges requires a comprehensive policy framework—encompassing industrial, labor, welfare, financial, and fiscal policies—so that targeted policies for addressing structural challenges can be taken while alleviating the fiscal burden.

Given heightened near-term risks, fiscal policy should proactively prepare fiscal measures to respond swiftly to emerging shocks. Authorities should conduct thorough risk assessments, identify vulnerable sectors, and evaluate potential disruptions. Establishing contingency plans with scenario-specific policy actions will enable timely responses, while engaging key stakeholders on flexible fiscal measures—such as the formulation of supplementary budgets and the use of fiscal reserves—will enhance readiness and accountability. Should downside risks materialize or become imminent, swift and well-coordinated fiscal responses will be crucial. Once risk factors subside and economic stability is restored, authorities should return to the medium-term fiscal consolidation path, adjusting the pace as needed. Clear communication of the rationale, scope, and duration of fiscal responses will help keep such measures targeted, time-bound, and effective.

Steadfast fiscal consolidation over the medium term should be guided by carefully calibrated targets, with a combination of revenue-enhancing measures and spending rationalization. For an effective consolidation plan, the size and pace of fiscal adjustments should consider the interplay between economic conditions and fiscal policy, as well as the need for political and public support. Well-designed fiscal rules can serve as anchors for predictable and credible fiscal targets, and a medium-term fiscal framework can underpin realistic fiscal trajectories based on feasible macroeconomic projections. While the revenue-spending mix should be country-specific, key priorities include phasing out temporary support measures, improving tax administration, streamlining tax expenditures, realigning tax policies with structural shifts, and enhancing spending efficiency through continuous review and reallocation. Additionally, public debt management should expand its scope to incorporate risks associated with broader public sector and financing instruments, and extend its time horizon beyond the medium term.

Comprehensive policy packages supported by structural reforms are essential for achieving sustainable and inclusive growth while addressing structural challenges. Declining growth potential and stagnant poverty rates amid rising income inequality pose complex, interlinked policy challenges. A holistic approach, leveraging various policy tools beyond fiscal policy and supported by structural reforms—such as deregulation, active labor market policies, education reforms, and public-private partnerships—is essential. Addressing population aging and ensuring old-age income security also requires integrated welfare (social assistance, private pension layers), employment (senior job creation, reskilling and upskilling), and financial measures (reverse mortgage). To manage the fiscal pressures from aging population, regular actuarial assessments of public pension and health insurance systems are needed so that early reforms can be taken to prevent drastic future adjustments. Climate change mitigation and adaptation demand a comprehensive approach, with fiscal policy playing a pivotal yet complementary role. Supporting efficient market mechanisms through transparent green taxonomies and robust carbon pricing, alongside private sector collaboration, will drive investment, innovation, and the expansion of sustainable solutions.

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Abbreviations

AAM	automatic adjustment mechanisms
ADB	Asian Development Bank
AE	advanced economy
AI	artificial intelligence
AIPI	AI preparedness index
ALMP	active labor market policies
ASEAN	Association of South-East Asian Nations
ASEAN+3	ASEAN plus China; Hong Kong, China; Japan; Korea
ASEAN-5	Indonesia, Malaysia, the Philippines, Singapore, Thailand
BCLMV	Brunei Darussalam, Cambodia, Lao PDR, Myanmar and Vietnam
BOJ	Bank of Japan
CbCR	country-by-country reporting
CLMV	Cambodia, Lao PDR, Myanmar and Vietnam
CIT	corporate income tax
COVID-19	coronavirus disease 2019
CREATE	Corporate Recovery Tax Incentives for Enterprises
CTRP	Comprehensive Tax Reform Program
DMTT	domestic minimum top-up tax
DSA	debt sustainability analysis
DST	digital services tax
EMBI	emerging markets bond index
EME	emerging market economy
ETR	effective tax rate
FY	fiscal year
FCY	foreign currency
FTE	full-time equivalence
GDP	gross domestic product
GFN	gross financing needs
GIC	Government of Singapore Investment Corporation
GLC	government-linked companies
GloBE	global anti-base erosion
GST	goods and services tax
G20	Group of Twenty
GX	Green Transformation
ICR	interest coverage ratio
IDS	international debt statistics
IF	inclusive framework
IIR	income inclusion rule
IFMIS	integrated financial management information system
ILO	International Labour Organization

IMF	International Monetary Fund
ISORA	International Survey on Revenue Administration
JGB	Japanese Government Bonds
LGFV	local government financing vehicles
LIDC	low-income developing country
LTC	long-term care
MCAA	multilateral competent authority agreement
MNE	multinational enterprise
MOH	Ministry of Health
MSME	micro, small and medium enterprise
MTFF	medium-term fiscal framework
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PDM	public debt management
PFM	public financial management
PIT	personal income tax
Plus-3	China; Hong Kong, China; Japan; Korea
PPP	public-private partnership
QDMTT	qualified domestic minimum top-up tax
R&D	research and development
RMS	revenue mobilization strategies
SDG	Sustainable Development Goals
SINGA	Significant Infrastructure Government Loan Act
SME	small and medium enterprise
SOE	state-owned enterprise
TIN	tax identification number
TRAIN	Tax Reform for Acceleration and Inclusion
UTPR	undertaxed profits rule
WEO	World Economic Outlook
VAT	value-added tax

BN	Brunei Darussalam
KH	Cambodia
CN	China
HK	Hong Kong, China
ID	Indonesia
JP	Japan
KR	Korea
LA	Lao People’s Democratic Republic
MM	Myanmar
MY	Malaysia

PH	the Philippines
SG	Singapore
TH	Thailand
US	United States
VN	Vietnam

BND	Brunei dollar
KHR	Cambodian riel
CNY	Chinese yuan
EUR	Euro
HKD	Hong Kong dollar
IDR	Indonesian rupiah
JPY	Japanese yen
KRW	Korean won
LAK	Lao kip
MMK	Myanmar kyat
MYR	Malaysian ringgit
PHP	Philippine peso
SGD	Singapore dollar
THB	Thai baht
USD	US dollar
VND	Vietnamese dong

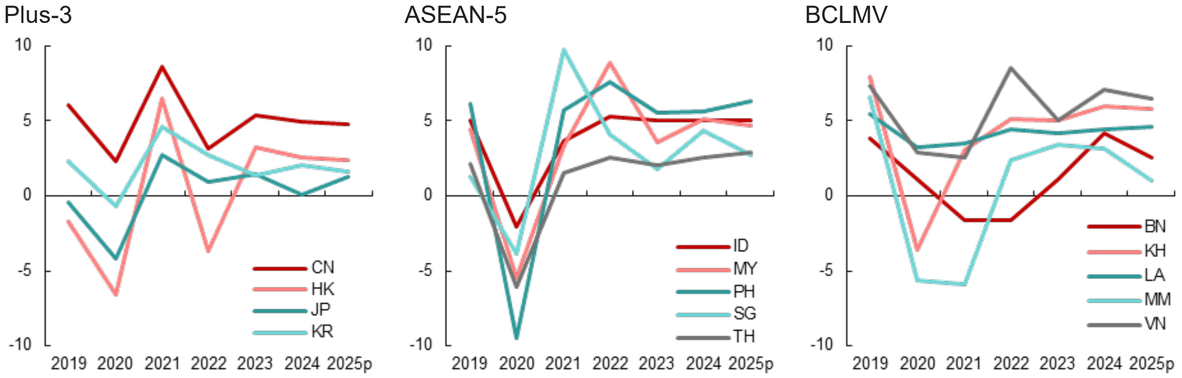
I. Introduction

1. **Despite resilient economic performance, the fiscal positions of ASEAN+3 economies in FY2024 remained weaker than pre-pandemic levels as the pace of fiscal consolidation slowed.** Member economies registered stable growth in 2024 driven by robust domestic demand supported by strong labor market conditions and a recovery in investment, with additional momentum from a rebound in exports (AMRO, 2025a). Inflation continued to moderate despite periodic disruptions from supply-driven price spikes in energy and shipping costs. While firm economic growth boosted revenues in most economies, fiscal outcomes depended on the extent of spending increases—resulting in improvements in some economies and deterioration in others. Lower-than-expected revenue collection and higher-than-planned spending further slowed fiscal consolidation, leaving fiscal balances in most economies still below pre-pandemic levels. Meanwhile, government debt-to-GDP ratios have begun to decline in more economies, while the pace of increase has slowed in others. However, gross financing needs are expected to remain elevated due to maturing government bonds and persistent interest burden.

2. **The region is expected to maintain steady growth with stable inflation in 2025, but heightened uncertainty remains** (Figure 1) (AMRO, 2025a). Domestic demand will continue to be a key growth driver, supported by strengthening investment activity, while external demand—particularly from the technology sector and tourism—will provide additional support. Inflation in ASEAN+3 is projected to rise slightly but remain stable. However, near-term prospects are subject to significant risks, including more aggressive protectionist policies from the US, tighter global financial conditions, slower growth in major economies, and potential commodity price spikes driven by geopolitical tensions. Over the longer term, structural challenges such as population aging and climate change continue to pose risks to macrofinancial stability.

3. **Fiscal policy should remain responsive to near-term risks, while continued fiscal consolidation over the medium term is essential**. While resilient macroeconomic prospects offer an opportunity to advance fiscal consolidation, heightened uncertainty requires fiscal policy to remain agile and flexible to swiftly respond to imminent or materializing downside risks. At the same time, elevated fiscal deficits and accumulated debt, with increased debt service burden, underscore the need for sustained fiscal consolidation to restore fiscal buffers over the medium term. Meanwhile, addressing long-term structural challenges requires a comprehensive policy approach that extends beyond fiscal measures alone, enhancing overall policy effectiveness.

Figure 1. ASEAN+3 Economic Growth Outlook: AMRO Forecasts (Percent)



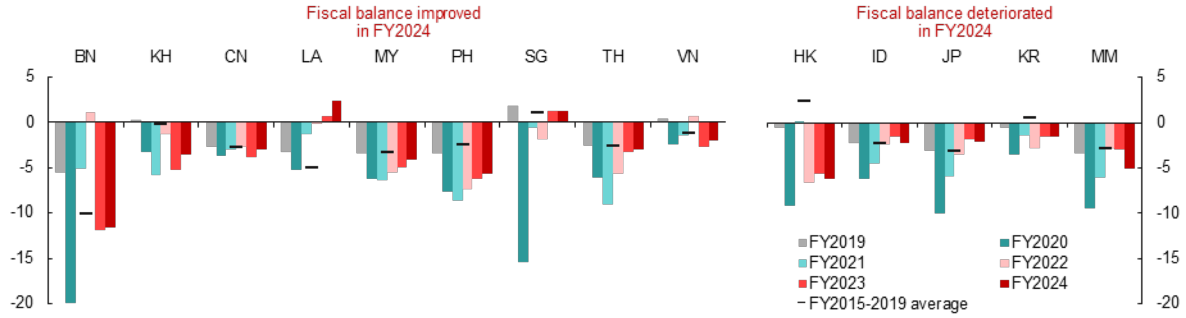
Source: AMRO (2025a)

II. Recent Fiscal Developments and Outlook

A. Fiscal Balance

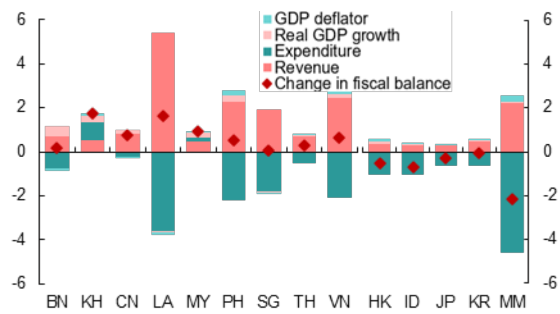
4. **Fiscal developments in FY2024 presented a mixed picture, with the fiscal balance in most member economies remaining below pre-pandemic levels** (Figure 2). Both revenue and expenditure increased as a percentage of GDP, but the impact on fiscal balance varied depending on the relative magnitude of these changes (Figure 3). Exceptions were Cambodia and Malaysia, where the fiscal balance improved by both revenue increase and spending cut. Compared to the initial plan outlined in the FY2024 budget, the pace of improvement in fiscal position generally slowed, with eight economies reporting a lower-than-planned fiscal balance (Figure 4). This was largely due to higher-than-budgeted fiscal spending to support economic recovery and revenue shortfalls caused by unexpected economic developments. Expenditure in FY2024 exceeded initial budget plan due to a supplementary budget in Japan aimed at mitigating the impact of rising living costs and bolstering growth and security; a digital wallet program in Thailand; and a government officials' salary increase in Vietnam, partially funded by a set-aside fund. Revenue in FY2024 fell short of the budget due to an extended semiconductor downcycle in Korea; a slower recovery in domestic activities in Cambodia; and a weaker property market in Hong Kong, China.

Figure 2. ASEAN+3: Fiscal Balance, FY2019-2024 (Percent of GDP)



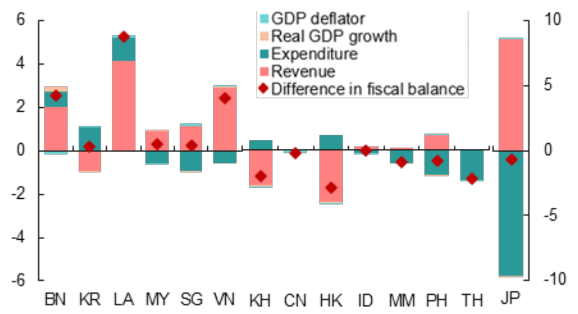
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: See the notes in Appendix I for the coverage of fiscal balance in ASEAN+3 member economies.

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



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) A positive (negative) change in the fiscal balance implies the fiscal balance in FY2024 improved (deteriorated) compared to FY2023. A positive contribution of revenue implies the revenue in FY2024 was larger than the revenue in FY2023, while a positive contribution of expenditure implies the expenditure in FY2024 was lower than the expenditure in FY2023; 2) See Appendix IV for the decomposition methodology.

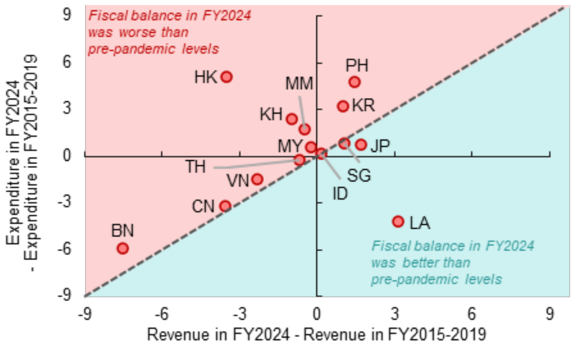
Figure 4. ASEAN+3: Contribution to Difference between Budget and Outturn, FY2024
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) A positive (negative) difference in the fiscal balance implies the actual fiscal balance improved (deteriorated) compared to the budgeted balance. A positive contribution of revenue implies the actual revenue collection exceeded the budgeted revenue, while a positive contribution of expenditure implies the actual expenditure was lower than the budgeted expenditure; 2) See Appendix IV for the decomposition methodology.

Compared to FY2015-2019 average, the fiscal balance in FY2024 improved only in Indonesia, Japan, Lao PDR, and Singapore (Figure 5). Despite a gradual recovery in revenue over the past years, the revenue-to-GDP ratio remained below pre-pandemic levels in many economies, due to weaker tax buoyancy and prolonged tax relief measures. Expenditure as a percentage of GDP also remained elevated compared to pre-pandemic levels, driven by extended support measures aimed at mitigating the impact of high inflation, as well as growing spending needs for social protection and infrastructure investments.

Figure 5. ASEAN+3: Differences in Revenue and Expenditure between FY2015-2019 and FY2024 (Percent of GDP)

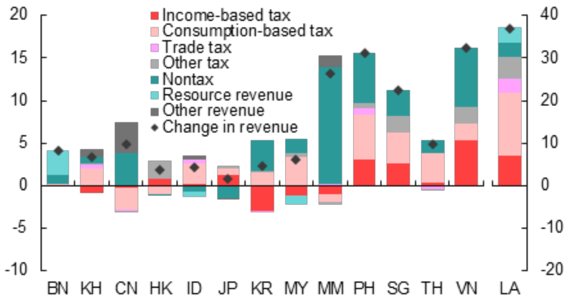


Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates

5. **Revenue performance in FY2024 was generally positive** (Figure 6). Both income-based and consumption-based taxes increased in most economies, driven by continued economic growth. However, corporate income tax (CIT) revenue in Korea declined due to the prolonged semiconductor downcycle in 2023, and value-added tax (VAT) fell in China due to subdued domestic consumption and continued tax relief measures. Despite stabilizing global commodity prices, resource revenue in Brunei Darussalam increased, benefiting from the commencement of production of a new offshore oil field in late 2023. In most member economies, growth in nontax revenue further supported overall revenue performance.

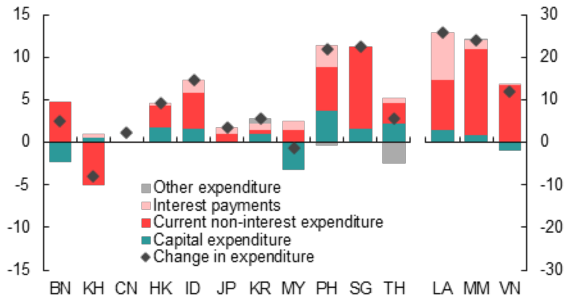
6. **Expenditure picked up in FY2024** (Figure 7). While capital expenditure continued to increase to promote growth and support national development, the rise in primary current expenditure outpaced that of capex in many economies. Supportive measures to alleviate living costs amid high inflation were either sustained or partially withdrawn, while country-specific factors also contributed to the growth in current expenditure, such as an increase in government officials' salary in the Philippines and Vietnam, an increase in allowance subsidies for government officials and retired staffs in Myanmar, the targeted financial assistance for retirement and healthcare needs through Majulah Package in Singapore, and the additional social assistance and election-related spending in Indonesia. Meanwhile, interest payments rose significantly in Lao PDR as the country fully repaid the scheduled amount in FY2024, following a partial suspension in FY2023.

Figure 6. ASEAN+3: Contribution to Change in Revenue, FY2024 (Percent, Percentage points)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Income-based tax includes corporate income tax (CIT), personal income tax (PIT), capital gains tax; 2) Consumption-based tax includes value-added tax (VAT), excise tax, and taxes on goods and services; 3) Trade tax includes customs duties, and export and import taxes; 4). Resource revenue refers to oil and gas revenue in Brunei Darussalam; income tax from oil and gas, nontax revenue from oil, gas and mining in Indonesia; royalties from mining and hydropower sector in Lao PDR; and income tax from petroleum, export duties from crude oil, petroleum royalties, and Petronas dividend in Malaysia.

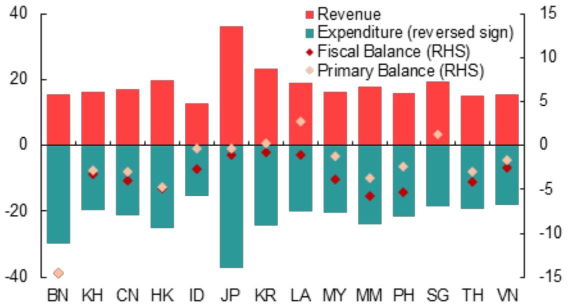
Figure 7. ASEAN+3: Contribution to Change in Expenditure, FY2024 (Percent, Percentage points)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Economic classification of expenditure is unavailable for China; 2) Other expenditure includes the COVID-19 fund in Malaysia, emergency loans in Thailand, and net-lending in other economies.

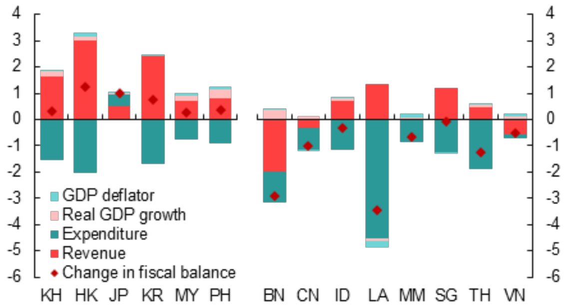
7. **Diverging fiscal developments across ASEAN+3 economies are expected to continue in FY2025**. According to the FY2025 budgets, fiscal deficits are planned to narrow in six member economies while widening in the other eight economies (Figures 8 and 9). Resilient economic growth, supported by the pick-up in domestic demand along with easing inflation, is anticipated to drive robust tax revenue growth in most economies.[3] Additionally, countries that experienced revenue shortfalls in FY2024 due to country-specific factors expect a revenue rebound as these factors are resolved. Meanwhile, expenditure is also set to rise, with more than half of the member economies prioritizing current expenditure.[4] Notably, the introduction of Free Nutritious Meal Program in Indonesia and the expansion of digital wallet program in Thailand will further increase current expenditure. In Korea, mandatory transfers to local governments and education, which declined in FY2024 due to reduced tax revenue, are expected to pick up in FY2025.[5] Lao PDR plans to settle previously suspended interest payments in addition to the already scheduled amount.

Figure 8. ASEAN+3: Budgeted Fiscal Balance, FY2025 (Percent of GDP)



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

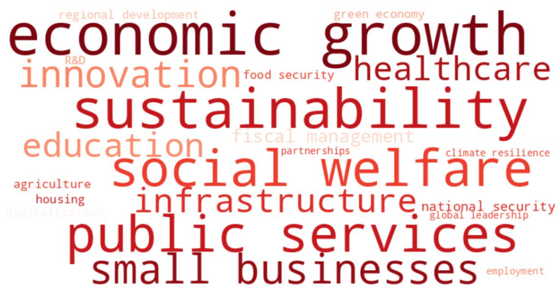
Figure 9. ASEAN+3: Contribution to Change in Fiscal Balance, FY2025 (Percent of GDP)



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

8. **The FY2025 budgets focus on promoting economic growth and strengthening social welfare, while maintaining fiscal sustainability and continuing fiscal reforms** (Figure 10 and Table 1). Most member economies prioritize boosting growth through targeted investments in infrastructure, technology, and innovation. Key priorities include green transformation, digitalization, and high-growth industries such as semiconductors and artificial intelligence (AI). Support for small and medium-sized businesses (SMEs) and the promotion of research and development (R&D) remain central to strengthening economic resilience and competitiveness. Enhancing social protection and human capital development is another key focus. Common priorities include improving healthcare, education, and income support systems to reduce inequalities and protect vulnerable groups. Some economies also aim to address demographic challenges by supporting aging populations, enhancing childcare services, and expanding social welfare

Figure 10. ASEAN+3: Keywords of the FY2025 Budgets



Source: National authorities; AMRO staff compilation

[3] In Vietnam, revenue in FY2025 is budgeted to increase by 15.6 percent compared to the FY2024 budget. However, it remains lower than the estimated revenue in FY2024, mainly due to higher-than-expected revenue collection in FY2024.
[4] In 10 economies (Brunei Darussalam, Cambodia, Hong Kong China, Indonesia, Korea, Malaysia, Myanmar, the Philippines, Singapore, and Vietnam), the contribution of current non-interest expenditure to total expenditure growth is budgeted to outpace that of capital expenditure.
[5] The allotment to local government units (LGUs) in the Philippines is also expected to continue to increase in FY2025, reflecting the robust tax revenue growth in FY2022 which is the basis for the allotment in FY2025.

coverage. At the same time, fiscal sustainability remains a core objective. Efforts to strengthen fiscal frameworks and mobilize innovative financing mechanisms are underway, with a growing adoption of public-private partnerships (PPPs) in several economies.[6] Structural reforms in public administration, regulatory streamlining, and digital transformation are planned to modernize governance, improve efficiency, and foster a more business-friendly environment.

Table 1. Selected ASEAN+3: Highlights of FY2025 Budgets

	Key Objectives	Budget Priorities
Brunei Darussalam	• Build a prosperous future together, fostering a strong, united, and forward-looking nation, as envisioned in Brunei vision 2035 • Prioritize investments in welfare and industrial development to promote sustainable economic growth • Balance immediate priorities with long-term goals	• Develop robust infrastructure and healthcare systems • Drive digital transformation and technological advancement • Promote the green economy • Strengthen support for agriculture and fisheries sectors, ensuring food security and effective disaster management • Improve productivity through partnerships with local enterprises and GLCs, and attract high-quality investments • Assist MSMEs, diversifying into non-oil & gas sectors • Enhance competitiveness in the global market and build strong relationships with international partners • Improve the skills and employability of youth
Cambodia	• Achieve resilient, flexible, inclusive, and sustainable economic growth • Support the sustainability of state institutions' operations through efficient governance and reforms • Prioritize people's living standards and infrastructure development	• Promote SMEs, improving the business environment • Diversify into new sectors and enhance competitiveness • Expand financing mechanisms • Promote institutional reforms to improve fiscal efficiency • Ensure inclusive social welfare by strengthening education and health system, with the improvement of public service • Develop hard and soft infrastructure • Strengthen global cooperation and autonomy • Increase agricultural output for food and income security • Drive the digital and green revolution through investment
China	• Drive economic growth and recovery with implementation of proactive fiscal policy • Prioritize spending on public welfare and consumption to stimulate economy • Enhance policy coordination and advance reforms	• Stimulate domestic demand with stronger consumption, strategic investment, and stable foreign trade and investment • Promote emerging industries (AI, 6G, bio and quantum technology) and SMEs, advancing industrial modernization • Invest in high-quality education, science, and technology • Advance structural reforms and regulatory frameworks • Promote regional balance and rural revitalization • Support ecological sustainability • Address risks such as real estate market and local government debt, reinforcing risk prevention mechanisms • Improve public well-being by expanding social services and security, while developing the silver economy
Hong Kong, China	• Ensure long-term development with technological advancements, infrastructural investment, and promotion of emerging industries • Address challenges from global geopolitical shifts, high interest rates, and evolving consumption patterns • Implement fiscal consolidation while safeguarding key public services	• Drive innovation and technology prioritizing AI through strategic funding and policy incentives • Accelerate the development of the Northern Metropolis • Promote competitive industries to position as a global hub • Attract global talent and enterprises with incentives • Accelerate green development for sustainable growth • Secure steady land and housing supply while upgrading transport networks and construction industry capacity • Enhance social welfare, healthcare, jobs, and elderly care • Reduce recurrent expenditure and expand strategic bond issuance while maintaining fiscal discipline
Indonesia	• Accelerate stable, inclusive, and sustainable economic growth to enhance welfare and equality • Optimize resources with strategic spending and innovative financing solutions	• Ensure equitable welfare by improving nutrition, education, healthcare, housing, and social protection systems • Empower MSMEs with increased access to capital • Boost high-value and export-oriented economic activities by advancing green transformation and downstreaming • Achieve affordable food prices • Continue infrastructure development • Streamline bureaucratic processes and regulations • Ensure security in food, energy, and national affairs • Promote public-private partnership scheme

[6] The Philippines implemented the PPP Code in 2024 which harmonized the numerous regulations that govern the country's PPP regime into one legal framework

	Key Objectives	Budget Priorities
Japan	• Promote transition to a growth-oriented economy fueled by wage increases and investment • Address key policy issues and develop a budget that aligns with economic and price trends • Balance and achieve both economic revitalization and fiscal consolidation	• Accelerate Green Transformation (GX), AI and semiconductor industries under public-private partnerships • Improve national security, disaster prevention and recovery • Advance all-generation social security reform covering child rearing support, medical, pension, and education services • Double the local revitalization grant • Promote the fiscal consolidation of local governments • Improve wages and labor unit prices • Facilitate fair transactions and pass-through of prices in public procurement by local governments • Implement ODA to resolve global issues
Korea	• Prioritize the working and middle classes by stabilizing livelihoods and driving economic dynamism • Direct national finances toward addressing public priorities • Strengthen economic competitiveness and advance social structural reforms • Ensure sustainable public finances by adopting innovative fiscal management	• Expand welfare for vulnerable groups, especially healthcare • Stabilize food prices and incomes in volatile sectors • Support MSMEs, regional, and venture businesses with financial assistance and debt restructuring • Boost R&D in semiconductors and key technologies such as AI, biotech, and quantum technology • Improve parental leave, childcare, and housing benefits • Empower youth with job programs, loans, and training • Invest in regional development • Enhance national security and disaster/climate resilience • Promote global leadership through diplomacy and ODA
Malaysia	• Drive reforms to advance Ekonomi MADANI (Empowering the People) framework • Promote sustainable, inclusive growth nourished by the continuous flow of knowledge and development • Uplift people's quality of life	• Drive fiscal reforms and improve public services • Strengthen public-private partnerships • Attract high-value investments through new incentives • Support MSMEs, start-ups, and technology (AI) adoption • Boost tourism development • Advance energy transition for net-zero goals • Enhance cost-of-living measures and income support • Expand social protection, education, healthcare, and housing • Ensure food and national security • Upgrade rural infrastructure and digital connectivity
Philippines	• Address the needs and aspirations of the Filipino people • Advance socioeconomic reforms for a prosperous, inclusive, and resilient nation • Support the President's 8-Point Socioeconomic Agenda and the Philippine Development Plan 2023-2028	• Invest in infrastructure, prioritizing ongoing projects • Develop human capital with better education, healthcare, social protection, labor and employment, and housing • Support the development of enterprises, including MSMEs • Advance R&D and innovation • Promote digital transformation • Ensure food security and modernize agriculture • Expediate climate action and strengthen disaster resilience • Implement a comprehensive devolution strategy • Improve bureaucratic efficiency and governance
Singapore	• Promote growth while addressing cost pressures • Empower workers with future-ready skills and opportunities • Ensure sustainability and inclusiveness	• Provide financial support to manage rising costs • Drive R&D in key industries like biotech and semiconductors • Strengthen enterprise development and infrastructure • Enhance lifelong learning, workforce transformation, and job support schemes • Invest in clean energy and decarbonization • Expand social support for vulnerable groups • Maintain fair, progressive taxation and fiscal prudence
Thailand	• Align national strategies, development plans, and key policies for cohesive development • Promote economic recovery, growth, and competitiveness • Implement policies to boost income, expand opportunities, improve quality of life and efficiency • Maintain fiscal sustainability with optimization and prioritization	• Boost income generation in the future industries, agriculture, and tourism sectors • Develop special economic zones and support SMEs • Encourage R&D in science, technology, and innovation • Advance global leadership and regional influence • Ensure inclusive education, public health, and social welfare • Build smart cities with improved infrastructure • Promote green and marine economies • Enhance digitalization and strategy in the public sector • Strengthen national security
Vietnam	• Support macroeconomic and financial stability by aligning fiscal policy with monetary policy • Facilitate socio-economic development and welfare programs • Enhance financial and budgetary discipline, ensuring efficient use of state resources and mobilizing social resources • Advance administrative reforms	• Prioritize the development of key industries • Foster fair competition across all economic sectors • Reduce and balance state ownership in enterprises • Enhance investment and business environment • Improve connectivity with key infrastructure projects • Drive national digital transformation • Ensure stability and security in the financial sector • Restructure organization and innovate financial mechanisms for public service units • Strengthen state revenue collection and management

Source: National authorities' websites; AMRO staff compilation.

B. Fiscal Stance

9. **Fiscal stance in FY2025 varies significantly, reflecting the diverse economic and fiscal situations across economies** (Table 2). A contractionary policy bias is observed in four economies: from expansionary to neutral in Indonesia; from expansionary to contractionary in Hong Kong, China; and from neutral to contractionary in Japan and Korea. Conversely, the fiscal stance shifts from neutral to expansionary in Thailand and Vietnam; from contractionary to expansionary in Lao PDR; and from contractionary to neutral in Cambodia and the Philippines.[7] The remaining economies maintain either a neutral or expansionary fiscal stance. Although fiscal impulse suggests a contractionary fiscal stance in Korea and Hong Kong, China, their primary expenditure as a percentage of GDP is planned to increase, implying that the contraction mainly reflects substantial enhancements in projected revenue (Figure 11).[8] Among economies where the fiscal impulse signals a neutral stance, a decline in the primary expenditure-to-GDP ratio suggests a contractionary effect from spending in Malaysia and the Philippines, whereas an increase in this ratio suggests an expansionary effect in Singapore.

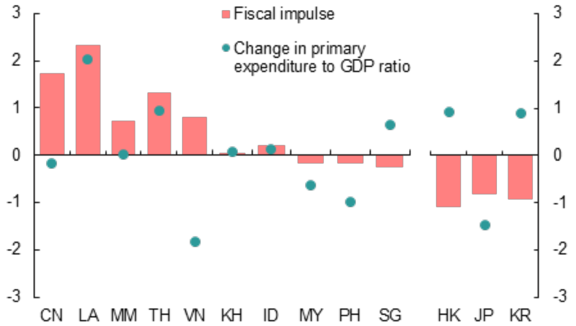
Table 2. ASEAN+3: Fiscal Stance, FY2024-2025

		FY2025		
		Expansionary	Neutral	Contractionary
FY2024	Expansionary	BN, CN, MM	ID	HK
	Neutral	TH, VN	MY, SG	JP, KR
	Contractionary	LA	KH, PH	

Source: National authorities; AMRO staff compilation
Note: Fiscal stance is assessed primarily by fiscal impulse—measured by changes in structural primary balance estimated by AMRO—and secondarily by changes in primary expenditure as a percentage of GDP, except for Brunei Darussalam, where the change in expenditure growth is used instead due to volatile macroeconomic and fiscal indicators driven by oil and gas sector.

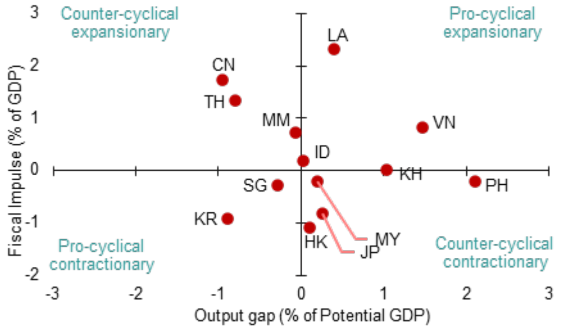
10. **Considering the macroeconomic conditions, the FY2025 fiscal stance is broadly assessed as appropriate** (Figure 12). In economies with a positive or near-zero output gap, fiscal tightening will help improve the fiscal positions and stabilize the economy, particularly for those facing a high debt burden. In contrast, China and Thailand adopt a counter-cyclically expansionary fiscal stance to support their economies, which have yet to fully recover. In Korea, the fiscal stance is assessed as contractionary despite a slightly negative output gap, indicating potential room for more expansionary policy if economic conditions worsen.

Figure 11. ASEAN+3: Fiscal Impulse and Change in Primary Expenditure, FY2025 (Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Fiscal impulse is based on the change in the structural primary balance as a percentage of GDP, estimated by AMRO. A negative fiscal impulse implies a contractionary fiscal stance; 2) The change in primary expenditure is defined as the yearly difference in the ratio of primary expenditure (excluding interest payments) to GDP. A negative change implies primary expenditure grows slower than nominal GDP.

Figure 12. Selected ASEAN+3: Fiscal Impulse and Output Gap, FY2025 (Percent of GDP)



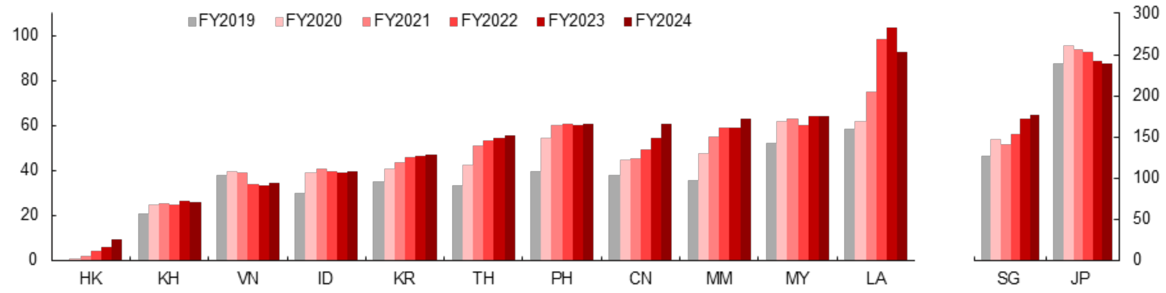
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Output gap is computed based on the potential GDP estimated by AMRO using Hodrick-Prescott filter.

[7] Despite the continued robust increase in primary expenditure, Lao PDR's fiscal stance shifts from contractionary in FY2024 to expansionary in FY2025, primarily driven by stronger-than-expected revenue performance in FY2024.
[8] In contrast, Vietnam exhibits a positive fiscal impulse despite a decline in primary expenditure as a percentage of GDP. This positive fiscal impulse in FY2025 is mainly driven by the strong revenue performance in FY2024, as the budgeted revenue in FY2025 is lower than the FY2024 outturn which more than offsets the decline in the primary expenditure-to-GDP ratio.

C. Government Debt and Gross Financing Needs

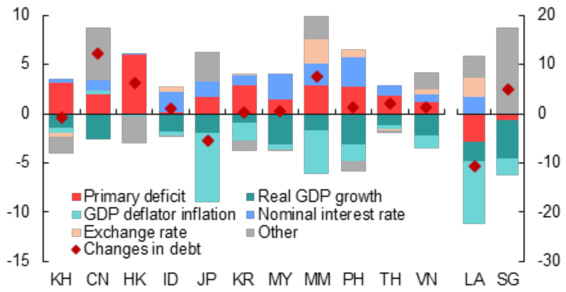
11. **The government debt-to-GDP ratio has begun to decline or stabilize in more economies,** including Indonesia, Japan, Lao PDR, Malaysia, the Philippines, and Vietnam (Figure 13).[9] In other economies, the debt ratio continued to rise, at a slower rate, except for China and Hong Kong, China, where debt ratio continued to mount. Implementing fiscal stimulus and expanding local government financing capacity through special bond issuance led to debt accumulation in China.[10] In Hong Kong, China, debt accumulated due to persistently large primary deficits, but the reliance on fiscal reserves for deficit financing helped mitigate the increase in debt. In general, robust economic growth and high inflation generally helped stabilize or lower debt ratios, while high effective interest rates exerted upward pressures (Figure 14). Additionally, significant currency depreciation in Lao PDR and Myanmar inflated the nominal value of their foreign currency (FCY) denominated debt, though high inflation partially offset these effects. Looking ahead, the debt ratio is projected to rise further in FY2025 in half of the member economies, where the budgeted primary balance remains below the debt-stabilizing primary balance (Figure 15).

Figure 13. Selected ASEAN+3: Gross Government Debt, FY2019-2024 (Percent of GDP)



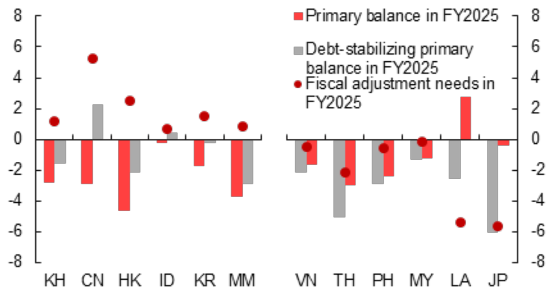
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Brunei Darussalam is not shown as it has virtually zero government debt.

Figure 14. Selected ASEAN+3: Contribution to Change in Debt-to-GDP Ratio, FY2024
(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) See Appendix IV for the decomposition methodology.

Figure 15. Selected ASEAN+3: Debt-stabilizing Primary Balance and Fiscal Adjustment Needs
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: The debt-stabilizing primary balance in FY2025 is the primary balance required to maintain the debt ratio at its end-FY2024 level. Fiscal adjustment needs are the difference between the budgeted and debt-stabilizing primary balance. Positive values indicate the required improvement to prevent debt ratio increases, while negative values show how much the balance can worsen without raising the debt ratio.

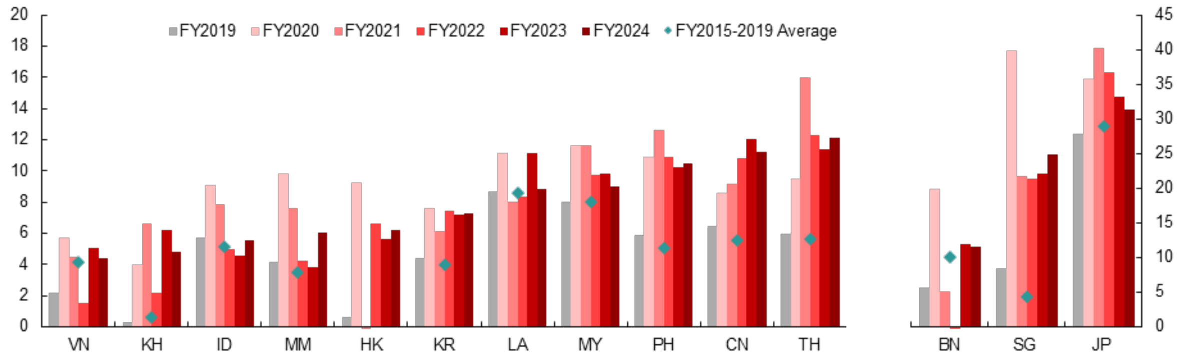
---

[9] The government debt in Singapore has been issued primarily for non-spending purposes, aimed at developing the domestic bond market and providing investment options to the public. Debt issued for spending purposes, i.e. under the Significant Infrastructure Government Loan Act (SINGA), amounted to SGD 15.2 billion (2.1% of GDP) as of December 2024.

[10] In China, debt accumulation was primarily driven by: (i) special sovereign bond issuances by the central government, aimed at recapitalizing banks, financing strategic projects, and stimulating private consumption through trade-in programs for durable goods; and (ii) special bond issuances by local governments, intended to strengthen their capacity to support the economy through increased infrastructure investment and a debt swap program that shifts local government financing vehicle (LGFV) debt onto local government balance sheets. These special bond issuances are recorded under the government funds budget and classified as other flows in debt dynamics.

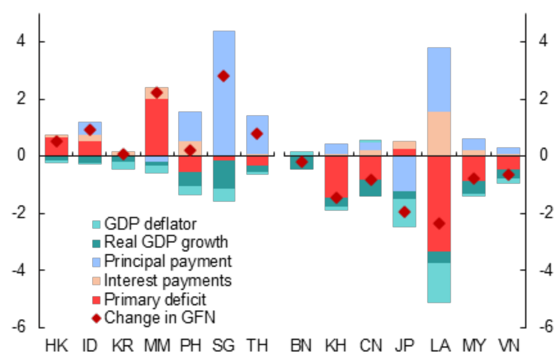
12. **The gross financing needs (GFN) to GDP ratio remained elevated** (Figure 16). The increase in the GFN ratio in FY2024 was mainly driven by higher primary deficits in China; Hong Kong, China; Indonesia; and Myanmar, and by rising amortization needs in Lao PDR, the Philippines, Singapore, and Thailand (Figure 17). Looking ahead, increased principal payments on maturing debts across various tenors are anticipated to keep GFNs elevated over the medium term in most member economies (Figure 18).[11] The interest burden is also expected to remain high due to accumulated debt, as policy rate cuts may have only a gradual impact on new borrowing costs due to other risks factors affecting the pass-through to sovereign bond coupon rates and on the average borrowing costs given the medium- to long-term debt maturity structure with fixed coupon rates (Box A).

Figure 16. Selected ASEAN+3: Gross Financing Needs, FY2019-2024 (Percent of GDP)



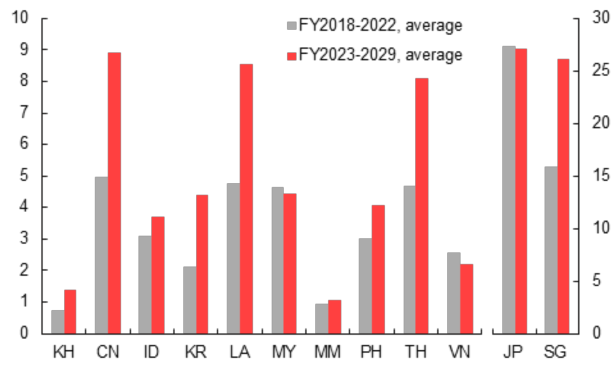
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Debt service in Lao PDR is based on its original amount, including debt restructuring under negotiation; 2) Amortization in the Philippines includes the redemption by the bond sinking fund; 3) Amortization in Singapore includes the redemption of publicly-held Singapore government securities and Treasury bills; 4) For Brunei Darussalam, GFN is equivalent to fiscal deficit given its virtually zero government debt.

Figure 17. Selected ASEAN+3: Contribution to Change in GFN-to-GDP Ratio, FY2024
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Debt service in Lao PDR is based on its original amount, including debt restructuring under negotiation; 2) Amortization in the Philippines includes redemptions by the bond sinking fund; 3) Amortization in Singapore includes the redemption of publicly-held Singapore government securities and Treasury bills; 4) For Brunei Darussalam, there is no issuance of debt to finance fiscal needs; 5) See Appendix IV for the decomposition methodology.

Figure 18. Selected ASEAN+3: Amortization Needs, FY2018-2029
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Amortization needs over the medium term are projected, based on AMRO staff's debt projections, assuming the same average maturity of government debt outstanding as of 2025.

[11] While most member economies are expected to face elevated amortization needs over the medium term, the implications for financing risks vary by source. Maturing bonds pose refinancing and interest rate risks, as they depend on market conditions. In contrast, due loans carry repayment and liquidity risks, requiring sufficient cash flow for scheduled obligations.

Box A. What Caused the Increase in Interest-to-Revenue Ratio? [12]

The interest-to-revenue ratio has increased in ASEAN+3 economies (Figure A.1). This ratio measures the share of government revenue allocated to interest payments on debt and serves as one of the key fiscal indicators of fiscal sustainability, helping assess debt affordability and policy flexibility. A rising ratio signals increasing debt-servicing pressure, which may limit fiscal space for additional public investment and social spending.[13] This box examines the key drivers behind the recent increase in the interest-to-revenue ratio and explores its potential implications for the future interest burden.

The change in interest-to-revenue ratio is decomposed using total differentiation to identify the contributions of key factors: interest rates, debt levels, and revenue. The decomposition equation is as follows:

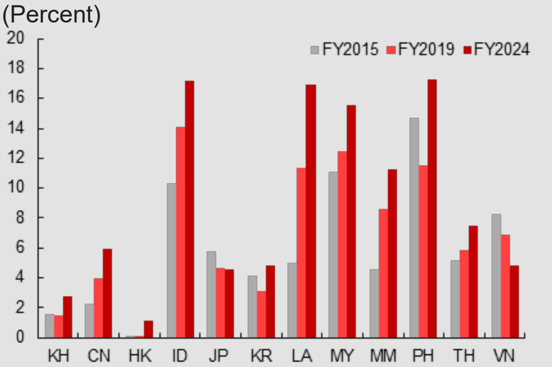
$$\Delta\left(\frac{I}{R}\right) = \Delta\left(\frac{i \cdot D}{R}\right) = \underbrace{\frac{D}{R}\Delta i}_{\substack{interest\ rate\\ effect}} \underbrace{+\frac{i}{R}\Delta D}_{\substack{debt\ level\\ effect}} \underbrace{-\frac{i \cdot D}{R^2}\Delta R}_{\substack{Revenue\\ effect}}$$

where I: interest payments; i: effective interest rate; D: government debt; and R: revenue.

For simplicity, the effective interest rate is calculated as the ratio of current-year interest payments to the previous year-end's outstanding debt. Given the sensitivity of total differentiation to the evaluation point, the midpoints between two periods are used for estimation, i.e. $D = \frac{D_t + D_{t-1}}{2}$, $R = \frac{R_t + R_{t-1}}{2}$, and $i = \frac{i_t + i_{t-1}}{2}$. The annual contributions to changes in the interest-to-revenue ratio from each factor were cumulatively summed to determine their overall impact from FY2019 to FY2024.

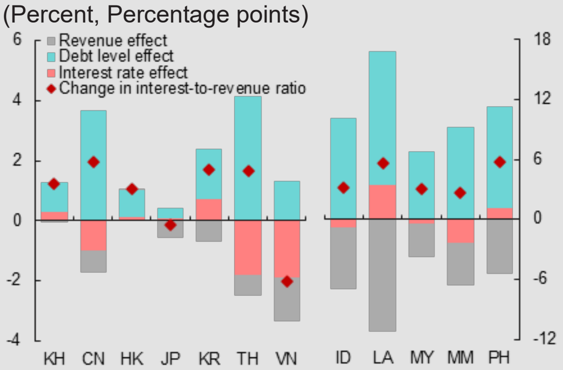
The decomposition results indicate that the interest-to-revenue ratio has increased in ASEAN+3 economies, primarily due to debt accumulation (Figure A.2). From FY2019 to FY2024, changes in effective interest rates had a minor impact on the ratio. This is because member economies initially lowered policy rates during the pandemic before raising them later, causing interest rate effects to be negative initially but turning positive more recently, offsetting the initial decrease. More importantly, the medium- to long-term maturity structure of debt with fixed coupon rates causes changes in overall effective interest rates to lag behind coupon rate changes and adjust gradually.[14] Meanwhile, a strong recovery in revenue collection has improved debt-servicing capacity but has not been sufficient to fully offset the increase in interest payments, keeping the ratio elevated.

Figure A.1. Selected ASEAN+3: Interest-to-Revenue Ratio, FY2015, 2019, 2024
(Percent)



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

Figure A.2. Contribution to Change in Interest-to-Revenue Ratio, FY2019-2024
(Percent, Percentage points)



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

[12] Prepared by Byunghoon Nam.

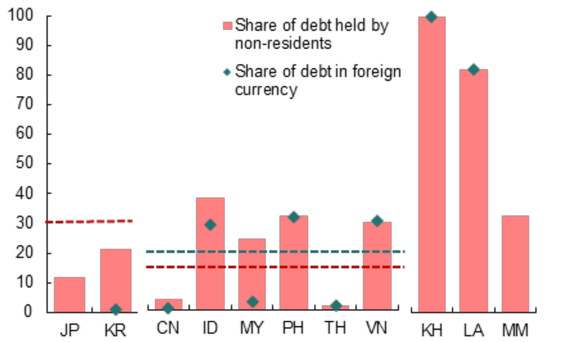
[13] This ratio is conceptually similar to the interest coverage ratio (ICR) for private firms, which measures a company's ability to cover interest payments with its earnings. Just as a low ICR indicates financial strain for businesses, a high interest-to-revenue ratio suggests greater fiscal vulnerability.

[14] For instance, the average share of rollover and new deficit financing out of total debt ranges between 10–25 percent among member economies. Since only this fraction of debt is exposed to new borrowing costs, the effective interest rate on total debt adjusts gradually over time.

The interest burden is expected to persist in the near term, despite central banks' policy rate cuts. Due to the fixed coupon structure of most government debt, the immediate impact of lower policy rates on relieving debt servicing costs will be limited as only a fraction of total debt refinanced or newly financed is subject to lower policy rates. Additionally, the pass-through to sovereign bond yields remains uncertain, as they are influenced by broader risk factors, including investor sentiment, inflation expectations, fiscal credibility, and global financial conditions. To effectively reduce the interest-to-revenue ratio and address concerns over debt serviceability and policy flexibility, authorities should prioritize containing debt accumulation and strengthening revenue generation capacity.

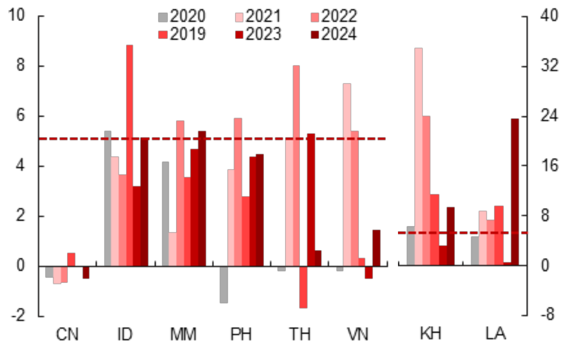
13. **The debt profile of member economies generally remains sound, though pockets of vulnerabilities persist.** In some emerging market economies (EMEs), the share of government debt held by nonresidents and denominated in FCY exceeded early-warning thresholds suggested by the IMF (Figure 19).[15] However, a substantial portion of their external debt stock originates from past official borrowings, mitigating rollover and exchange rate risks.[16] Additionally, the external debt of Cambodia, Lao PDR, and Myanmar is primarily concessional, reducing immediate repayment pressures. Meanwhile, external financing requirement, measured as the sum of current account deficits and amortization of public and private external debt, increased substantially during the pandemic but stabilized in 2023 and 2024, except in Cambodia and Lao PDR (Figure 20). Overall, market risk perception, reflected in the EMBI global spread, indicates stable investor sentiment toward EMEs in the region (Figure 21). Nevertheless, economies with a significant share of FCY-denominated debt remain vulnerable to rising nominal debt values and debt service burdens in the event of currency depreciation, as observed in recent years (Figure 22).

Figure 19. Selected ASEAN+3: Share of Debt Held by Nonresidents and in FCY (Percent of total)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Red dotted lines indicate the lower early warning threshold for public debt held by nonresidents, suggested by the IMF; Green dotted line indicates the lower early warning threshold for public debt denominated in FCY.

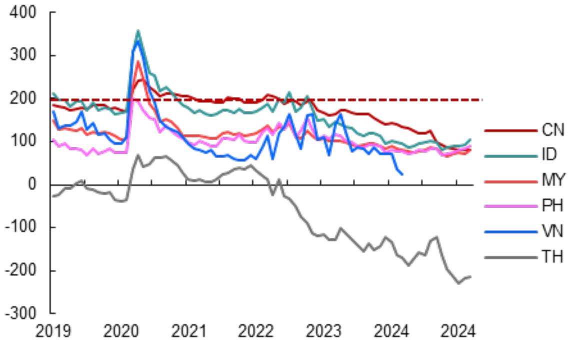
Figure 20. Selected ASEAN+3: External Financing Requirement (Percent of GDP)



Source: World Bank International Debt Statistics (IDS); National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) External financing requirement is measured as the sum of current account deficit and amortization of public and private external debt; 2) Red dotted lines indicate the lower early warning threshold for external financial requirements for EMEs, suggested by the IMF.

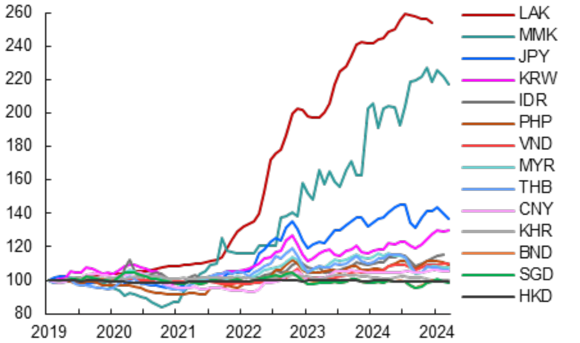
[15] According to IMF (2013), lower/upper early warning thresholds for the share of public debt held by nonresidents are 15/45 percent for EMEs and 30/45 percent for AEs. Lower/upper early warning thresholds for the share of public debt in FCY are 20/60 percent for EMEs.
[16] According to the World Bank International Debt Statistics (IDS), as of end-2023, the share of official creditors in external debt outstanding was 100 percent in Cambodia, 10.5 percent in China, 24.0 percent in Indonesia, 86.7 percent in Lao PDR, 84.2 percent in Myanmar, 57.3 percent in the Philippines, 13.1 percent in Thailand, and 90.5 percent in Vietnam.

Figure 21. Selected ASEAN+3: EMBI Global Spread (Basis point)



Source: JP Morgan vie Haver Analytics
Note: Red dotted lines indicate the lower early warning threshold for EMBI spread, suggested by the IMF

Figure 22. ASEAN+3: Exchange Rates against USD (Index, 1 January 2019 = 100)



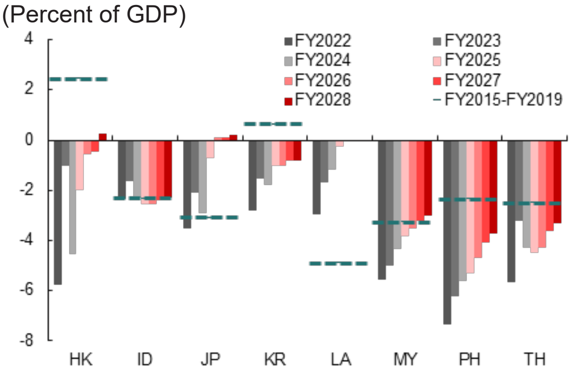
Source: National authorities via CEIC and Haver Analytics; AMRO staff calculation
Note: USD/LAK represents the commercial bank rates and USD/MMK represents the bank customer market rate.

III. Policy Discussion

A. Key Factors for Consideration

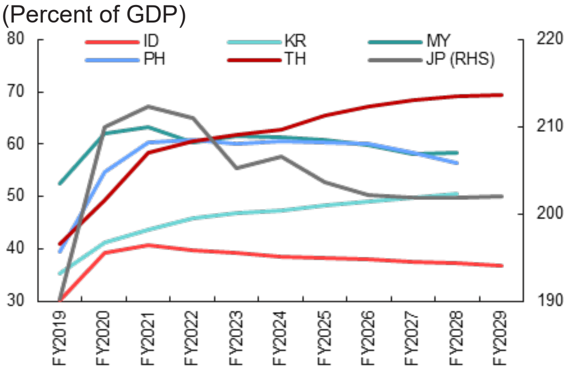
14. **The substantially reduced fiscal space and elevated debt service burden underscore the need for continued fiscal consolidation efforts**. Over the past years, the fiscal space has significantly narrowed from the expansionary fiscal policies to combat the pandemic due to accumulated debt and the resulting increase in debt service burden (Box B). Restoring fiscal buffer is essential to ensure the government's ability to implement countercyclical fiscal policy during economic downturns, as demonstrated in past crises. Therefore, fiscal consolidation is crucial for strengthening the government's preparedness for future economic shocks and maintaining macroeconomic and financial stability while improving debt sustainability. A successful fiscal consolidation, coupled with transparent communication with markets, helps mitigate risks related to higher borrowing costs, exchange rate volatility, and potential credit rating downgrades, which could otherwise strain government financing and disrupt financial markets. In most ASEAN+3 economies, fiscal consolidation efforts to reduce fiscal deficits and stabilize debt-to-GDP ratio are underway, though the pace of fiscal adjustment remains gradual (Figures 23 and 24).

Figure 23. Selected ASEAN+3: Medium-term Fiscal Balance Projection by the Authorities
(Percent of GDP)



Source: National authorities; AMRO staff estimates.
Note: Fiscal balance projections are as announced by authorities.

Figure 24. Selected ASEAN+3: Medium-term Government Debt Projection by the Authorities
(Percent of GDP)



Source: National authorities; AMRO staff estimates.
Note: Debt ratio projections are as announced by authorities.

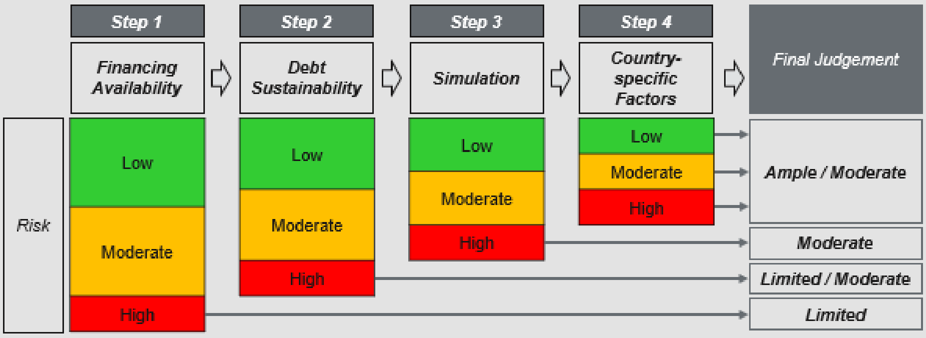
Box B. Fiscal Space in the ASEAN+3 Economies: Assessment Based on AMRO's New Fiscal Space Assessment Framework[17]

AMRO's new fiscal space assessment framework provides a comprehensive operational definition of fiscal space, integrating both qualitative and quantitative approaches. While there is no clear consensus on the definition of fiscal space, key elements from various definitions have been used to define it as "the room for a government to implement discretionary fiscal policy relative to the baseline, with available financing, without compromising debt sustainability." [18] By closely following this definition, AMRO has refined its previous framework to ensure a more precise and practical assessment of fiscal space.[19]

Qualitative Assessment of Fiscal Space

The qualitative assessment of fiscal space follows a four-step approach to determine whether fiscal space is ample, moderate, or limited (Figure B.1). Adopting the IMF's hierarchical approach (IMF, 2016), the approach sequentially evaluates financing availability, debt sustainability, simulation scenarios, and country-specific factors.

Figure B.1. AMRO's Four-step Approach to Fiscal Space Assessment



Source: AMRO staff illustration

- **Step 1. Financing availability.** Financing availability is the primary determinant of fiscal space, as countries without access to funding sources at reasonable costs face significant challenges in implementing discretionary fiscal policies, regardless of their debt levels or financing needs. Financing availability is assessed through market perception of risk and debt profile vulnerability indicators with the respective thresholds suggested by the IMF (2013).[20] In addition, the availability of liquid public financial assets, such as fiscal reserves, should be taken into account as additional financing sources.
- **Step 2. Debt sustainability.** For economies deemed to have financing availability, the risks of debt and gross financing needs (GFNs) are then assessed. Specifically, this step analyzes whether the projected debt-to-GDP and GFN-to-GDP ratios breach the respective thresholds suggested by the IMF (2013) under baseline and standard stress test scenarios over the medium term.[21]

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[17] Prepared by Byunghoon Nam and Chaeyeon Song. This box is based on Nam and Song (2025, forthcoming).

[18] See Botev et al. (2016), Heller (2005), IMF (2016, 2018), Kose et al. (2017), Romer and Romer (2019), and Roy et al. (2009) for various definitions.

[19] See Poonpatpibul et al. (2020) for the AMRO's previous fiscal space assessment framework.

[20] The lower/upper early warning thresholds of market perception of risk and debt profile vulnerability indicators for advanced economies (AEs) and emerging market economies (EMEs), suggested by the IMF (2013), are presented in the table below. If any indicator breaches the respective upper threshold, the financing risk is assessed to be at most moderate.

	Bond/ EMBI spread (bp)	External financing requirements (% of GDP)	Government debt denominated in FCY (% of total)	Government debt held by non-residents (% of total)	Change in short-term government debt (% of total)
AEs	400/600	17/25	-	30/45	1.0/1.5
EMEs	200/600	5/15	20/60	15/45	0.5/1.0

[21] The indicative thresholds of government debt-to-GDP and GFN-to-GDP ratios for AEs and EMEs, suggested by the IMF (2013), are as follows: (i) debt-to-GDP ratio: 85 percent for AEs and 70 percent for EMEs; (ii) GFN-to-GDP ratio: 20 percent for AEs and

- **Step 3. Simulation.** The impact of discretionary fiscal policy on debt and GFN ratios is simulated with a stimulus of two standard deviations of the primary balance. Assuming the expansion of fiscal spending, its effects on macroeconomic fiscal indicators are analyzed, applying fiscal multipliers, debt dynamics equations, and the interactions among variables.

- **Step 4. Country-specific factors.** Before a final judgment, country-specific factors affecting financing availability and debt sustainability are considered, refining the fiscal space assessment derived from the previous three steps. These include long-term fiscal costs (e.g., population aging), the fiscal framework (e.g., fiscal rules and discipline), additional contingent liabilities (e.g., SOE debt, pension liabilities), and the composition of government debt (e.g., asset-linked debt).

AMRO's qualitative assessment finds fiscal space in most ASEAN+3 economies to be moderate or ample, except for Lao PDR, Myanmar, and Japan (Table B.1).

- Lao PDR and Myanmar have limited fiscal space due to constrained financing availability, driven by high external financing needs and limited access to concessional loans or market financing. Japan's fiscal space is also assessed to be limited, primarily due to high debt sustainability risks, as its debt and GFN ratios are way beyond thresholds under baseline projections. While Japan's financing availability risks have been low−evidenced by a strong debt profile and market confidence−it is expected to face financing pressure due to the Bank of Japan (BOJ)'s tapering of Japanese government bond (JGB) and rising interest rates.

- Despite high debt sustainability risks due to debt and GFN exceeding thresholds, China's fiscal space is assessed as moderate, given its strong domestic financing capacity, including large and liquid public financial assets relative to its liabilities. Malaysia, the Philippines, Vietnam, Cambodia, and Indonesia also have moderate fiscal space, primarily due to financing risks from a high share of foreign currency-denominated debt, non-resident-held debt, or external financing requirement. Additionally, the debt-to-GDP ratios in Malaysia and Thailand are projected to exceed thresholds under at least one stress test scenario. Despite low risks in standard assessments, Korea's fiscal space is considered moderate due to its continuously rising debt-to-GDP ratio and long-term fiscal burden from rapid population aging.

- Lastly, Singapore, Brunei Darussalam, and Hong Kong, China have ample fiscal space, underpinned by substantial fiscal reserves, low external vulnerabilities, and strong debt profiles.[22]

Table B.1. ASEAN+3: Qualitative Assessment of Fiscal Space

	Step 1	Step 2	Step 3	Step 4	Final Judgement
	Financing availability	Debt sustainability	Simulation	Country-specific factors	
Lao PDR					*Limited*
Myanmar					*Limited*
Japan					*Limited*
China					*Moderate*
Malaysia					*Moderate*
Philippines					*Moderate*
Vietnam					*Moderate*
Cambodia					*Moderate*
Indonesia					*Moderate*
Thailand					*Moderate*
Korea					*Moderate*
Singapore					*Ample*
Brunei					*Ample*
Hong Kong					*Ample*

Source: AMRO staff illustration

15 percent for EMEs. If any indicator breaches the respective threshold under the baseline (the stress test scenarios), the debt sustainability risk is assessed to be high (moderate).

[22] Although the debt and GFN ratios in Singapore exceed respective thresholds under the baseline projections, the government has issued debt primarily to develop domestic bond market and provide investment options to the public. The government debt issued for spending purposes, i.e. SINGA, stood at SGD 15.2 billion (2.1 percent of GDP) as of December 2024.

Quantitative Measure of Fiscal Space

Fiscal space is quantitatively measured by the maximum amount of discretionary fiscal expansion relative to the baseline that would not endanger debt sustainability. Two measures – debt sustainability buffer and financing sustainability buffer – are constructed to capture two important aspects of debt sustainability – solvency and liquidity.

- **Measure 1. Debt sustainability buffer.** Defined as the maximum stimulus that would not exceed the debt-to-GDP threshold over the medium term, the debt sustainability buffer is derived using the standard debt dynamics equation:

$$c_t^{D*} = \underbrace{\frac{1}{\delta_{t:t+n}} d^* - \varphi_t d_{t-1}}_{\substack{Initial \\ debt\ sustainability\ buffer}} \underbrace{+ \frac{\sum_{i=0}^{n} pb_{t+i}\delta_{t+i:t+n}}{\delta_{t:t+n}}}_{\substack{Primary\ balance \\ in\ the\ medium\ term}} \underbrace{- \frac{\sum_{i=0}^{n} o_{t+i}\delta_{t+i:t+n}}{\delta_{t:t+n}}}_{\substack{Other\ flows \\ in\ the\ medium\ term}} \qquad \text{(Equation 1)}$$

where c_t^{D*}: debt sustainability buffer, d^*: debt ratio threshold, d_t: debt ratio at year t, pb_t: primary balance-to-GDP at year t, o_t: other flows at year t, and $\delta_{t:t+k} = \varphi_{t+1}\, \varphi_{t+2} \cdots \varphi_{t+k}$, $\varphi_t = \frac{1+i_t^w+\alpha_{t-1}\varepsilon_t(1+i_t^f)}{(1+g_t)(1+\pi_t)}$, where i_t^w: effective interest rate of total debt, i_t^f: effective interest rate of FCY debt, ε_t: exchange rate, α_t: share of FCY debt, g_t: real growth, π_t: GDP deflator inflation

  Equation 1 suggests that the debt sustainability buffer is determined by: (i) the initial buffer between the debt threshold and the current debt ratio; (ii) the primary balance over the medium term; (iii) other flows over the medium term; and (iv) macroeconomic developments**.**

- **Measure 2. Financing sustainability buffer**. The financing sustainability buffer, defined as the maximum stimulus size that would not exceed the GFN-to-GDP threshold, is computed by:

$$c_t^{F*} = gfn^* + pb_t - ip_t - pp_t^d - pp_t^f \qquad \text{(Equation 2)}$$

where c_t^{F*}: financing sustainability buffer, gfn^*: GFN ratio threshold, pb_t: primary balance-to-GDP at year t, ip_t: interest payment-to-GDP at year t, pp_t^d: domestic amortization-to-GDP at year t, pp_t^f: foreign amortization-to-GDP at year t.

  Unlike the debt sustainability buffer, the financing sustainability buffer does not require medium-term projections because the increase in debt services over the medium term will generally be smaller than the initial stimulus, unless the stimulus is entirely financed by short-term borrowing.

- **Fiscal space size**. To ensure debt sustainability, the stimulus should not raise either the debt-to-GDP or GFN-to-GDP ratio beyond their thresholds. Thus, the size of fiscal space is determined by the minimum of debt sustainability buffer and financing sustainability buffer.

$$fs_t = min(c_t^{d*}, c_t^{f*}) \qquad \text{(Equation 3)}$$

According to AMRO's quantitative measures, the fiscal space in ASEAN+3 economies for FY2024 has significantly narrowed compared to pre-pandemic levels (Figures B.2 and B.3.).[23] [24] On average, the debt sustainability buffer declined by 19.0 percent of GDP, while the financing

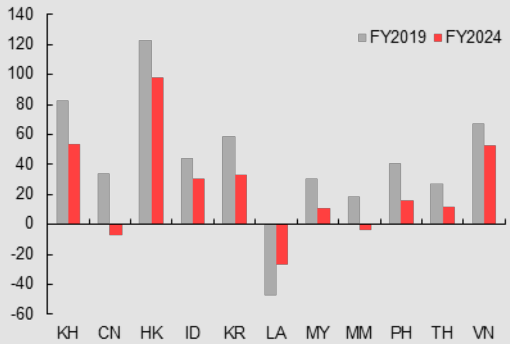
[23] Fiscal space is calculated on an ex-ante basis, meaning the debt sustainability buffer in year t is derived from expected values of macroeconomic and fiscal variables for year t, $t+1$, $t+2$, ..., $t+n$ that are projected in year t under the baseline scenario. This forward-looking approach ensures fiscal space is assessed based on projections rather than retrospective computation using realized outturns, aligning with its definition. Macroeconomic and fiscal projections are sourced from the debt sustainability analysis (DSA) in AMRO's Annual Consultation Reports. For earlier years, when AMRO DSA results are unavailable, projections are obtained from the IMF WEO database (April vintage).

[24] The quantitative measure of fiscal space is not applicable to Brunei Darussalam, Japan, and Singapore due to their unique fiscal and financing conditions. Brunei Darussalam has virtually zero government debt, and fiscal stimulus is funded by fiscal reserves, the exact amount of which is publicly unknown. Japan has negative debt and financing sustainability buffers, as its debt and GFN ratios exceeded respective thresholds long ago. However, it has continued financing successfully, due to a large domestic investor base, low interest rates, and deep liquidity in the government bond market. Given this unique financing situation,

sustainability buffer fell by 3.1 percent of GDP.

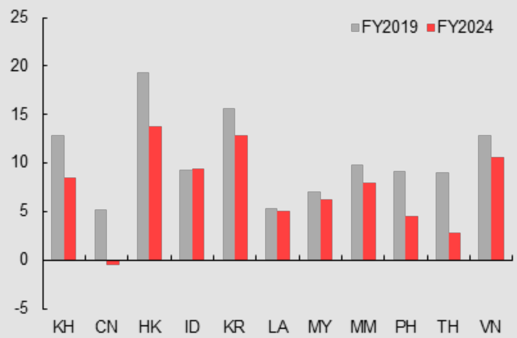
- The decline in the debt sustainability buffer was primarily driven by the narrowed initial debt buffer, reflecting the sharp rise in debt levels following the pandemic (Figure B.4). As initial debt ratio approaches its threshold for potential debt stress, the fiscal room for fiscal expansion in times of need is reduced. Additionally, the discounted sum of primary balance over the medium term further reduced the fiscal space, implying the primary deficit is expected to remain elevated under the baseline, even without additional fiscal stimulus. Other irregular flows also added pressure to fiscal space in some economies.[25]
- The financing sustainability buffer declined significantly, driven by different factors across economies (Figure B.5). In China, Korea, Lao PDR, the Philippines, and Thailand, the primary driver was amortization needs, as accumulated debt has led to increased repayments depending on the maturities. In Cambodia; Hong Kong, China; Myanmar; and Vietnam, primary deficits played a dominant role, reflecting elevated deficits compared to pre-pandemic levels. Additionally, interest payments further strained financing buffers, driven by a combination of high debt levels and rising borrowing costs.

Figure B.2. Selected ASEAN+3: Debt Sustainability Buffer, FY2019, 2024 (Percent of GDP)



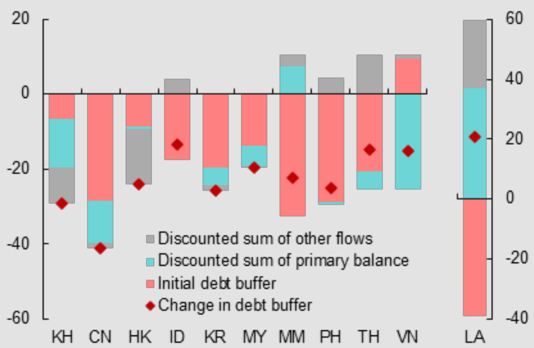
Source: IMF; National authorities via CEIC and Haver Analytics; AMRO staff calculation

Figure B.3. Selected ASEAN+3: Financing Sustainability Buffer, FY2019, 2024 (Percent of GDP)



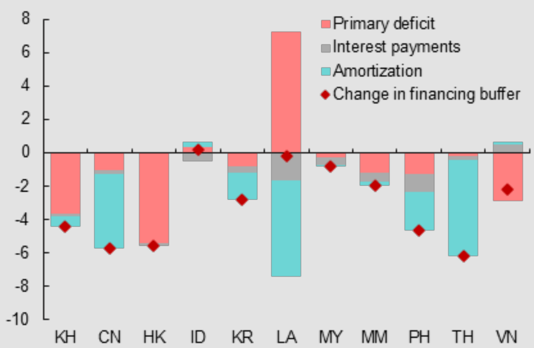
Source: IMF; National authorities via CEIC and Haver Analytics; AMRO staff calculation

Figure B.4. Selected ASEAN+3: Contribution to the Change in Debt Sustainability Buffer, FY2019-2024 (Percent of GDP)



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

Figure B.5. Selected ASEAN+3: Contribution to the Change in Financing Sustainability Buffer, FY2019-2024 (Percent of GDP)



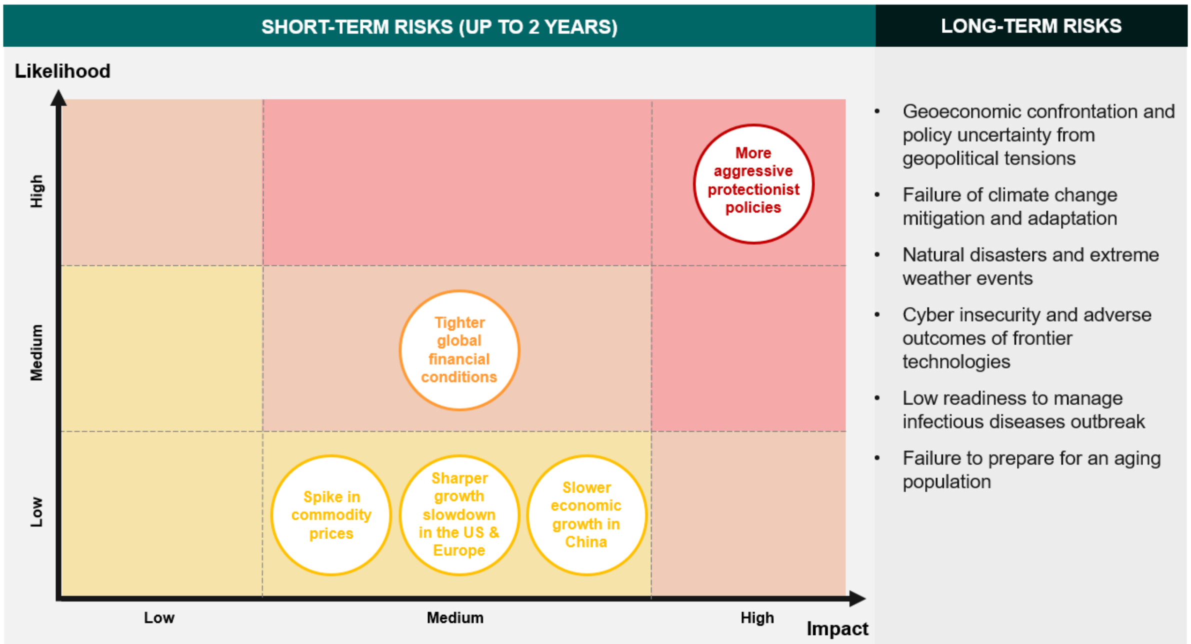
Source: IMF; National authorities via CEIC and Haver Analytics; AMRO staff calculation

an alternative methodology for estimating its debt threshold has been proposed. See AMRO (2025c): Selected Issue 4. Singapore also has debt and GFN ratios exceeding thresholds, but its debt accumulation primarily aims to develop domestic bond market and offer investment options, rather than funding fiscal deficits. Additionally, through the Net Investment Returns Contribution (NIRC), close to 20% of its Budget is funded by the investment returns on reserves managed by Temasek, Government of Singapore Investment Corporation (GIC), and the Monetary Authority of Singapore (MAS).

[25] Cambodia and Hong Kong, China deployed fiscal stimulus during the pandemic using their accumulated fiscal reserves, reducing their available resources at present.

15. **A resilient macroeconomic outlook with significant uncertainties requires a calibrated fiscal policy approach.**[26] The ASEAN+3 region is expected to maintain steady growth in 2025, underpinned by strong domestic demand and supported by firm exports—driven by continued semiconductor demand and the expansion of the tourism sector. As a result, the output gap is anticipated to remain near zero or turn positive in most member economies. Headline inflation is projected to remain low, supported by stabilizing global commodity prices and well-anchored inflation expectations, despite some upward pressures from planned subsidy rationalization. Given this backdrop, the environment of resilient growth and stable inflation under the baseline scenario provides an opportunity to advance fiscal consolidation efforts.[27] However, the macroeconomic outlook remains highly uncertain, with key downside risks including aggressive protectionist policies, tighter global financial conditions, and spikes in commodity prices (Figure 25). Should these risks materialize, fiscal policy should remain responsive to mitigate adverse impacts and support economic stability.

Figure 25. Regional Risk Map, April 2025



Source: AMRO staff.
Note: The Regional Risk Map captures those risks and challenges that could derail the region's macro-stability. These are in relation to (1) growth and inflation outlook, (2) financial stability concerns, and (3) other key long-term challenges. The risks and challenges are divided into two categories; (1) short-term risks (these are conjunctural risks, up to two years, where the risks represent scenarios that could materially alter the baseline path), and (2) long-term risks (these are more persistent or secular trends and/or challenges, including perennial risks).

16. **Addressing structural challenges requires significant fiscal resource commitments and proactive fiscal policy responses**. In the ASEAN+3 region, potential growth has been on a downward trajectory, constrained by sluggish capital accumulation, weakening total factor productivity growth, and the lingering scarring effects of the pandemic (AMRO, 2025b). This slowdown is further exacerbated by demographic headwinds, dampening long-term growth prospects. While policy measures to revive growth momentum and ensure long-term sustainable growth may vary across economies, they must be supported by substantial resource allocation. Moreover, widening income disparities and stagnant poverty reduction in many countries —both exacerbated by the uneven post-pandemic recovery—underscore the urgency of fostering inclusive growth. This requires more active

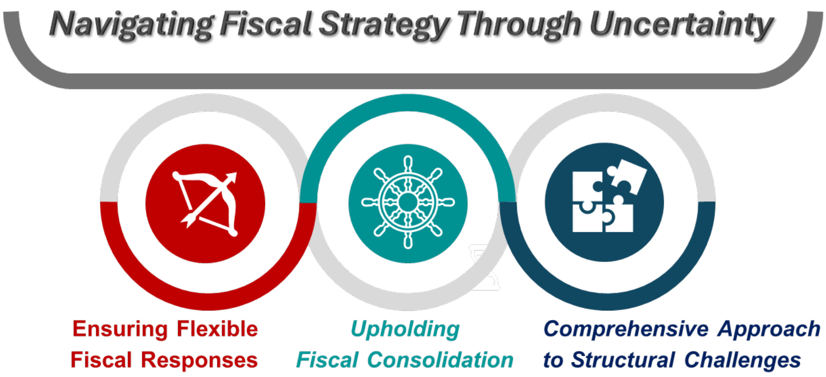
[26] See AMRO (2025a) for the detailed discussion on the outlook of the region.
[27] According to McManus et al. (2021), implementing fiscal consolidation during favorable cyclical upswings may have lower adverse growth impact and less detrimental to inequality.

fiscal policy measures, particularly strengthening social safety nets to protect vulnerable groups and foster their economic mobility. As part of the broader pursuit of sustainable and inclusive growth, two key structural issues—population aging and climate change—demand heightened policy attention. An aging population exerts considerable fiscal pressure, leading to revenue losses due to slower economic growth while increasing expenditures on social protection and healthcare.[28] In some member economies, including Korea, the Philippines, and Thailand, concerns over pension sustainability are already mounting. Climate change presents another critical challenge in the region, particularly for members vulnerable to frequent and severe natural disasters. Addressing climate change is no longer an option but a necessity, requiring sustained fiscal investment and policy coordination aligned with global initiatives. Both adaptation and mitigation require a proactive fiscal policy role to enhance resilience, support sustainable development, and safeguard long-term economic stability.

B. Fiscal Policy Discussion

17. **ASEAN+3 member authorities should navigate fiscal strategy through uncertainties by prioritizing flexible fiscal responses, while preserving their commitment to fiscal prudence** (Figure 26). Amid heightened uncertainties, particularly in the face of shifts in US trade policies and escalated geopolitical tensions, fiscal policy should remain agile and flexible to respond swiftly to emerging shocks. In the event of imminent or materializing downside risks, fiscal responses should be implemented promptly—and, if necessary, preemptively—in close coordination with monetary policy. The role of active fiscal policy is particularly crucial in economies where monetary policy is constrained by concerns over capital outflows and exchange rate volatility. At the same time, given weakened fiscal position and narrowed fiscal space, sustained efforts to implement fiscal consolidation and rebuild fiscal buffers over the medium term are essential. Achieving sustainable and inclusive growth while addressing structural challenges requires substantial fiscal resources. Revenue-enhancing measures and spending rationalization to ensure fiscal sustainability should be complemented by efforts to enhance fiscal efficiency, which will not only support fiscal consolidation but also enhance overall policy outcomes. Additionally, a comprehensive policy framework—encompassing industrial, labor, welfare, and financial policies—will be essential for effectively addressing structural challenges while alleviating the fiscal burden. This approach balances long-term fiscal stability with short-term flexibility, enabling economies to address immediate challenges while strengthening resilience for the future.

Figure 26. Fiscal Policy Directions



Source: AMRO staff illustration

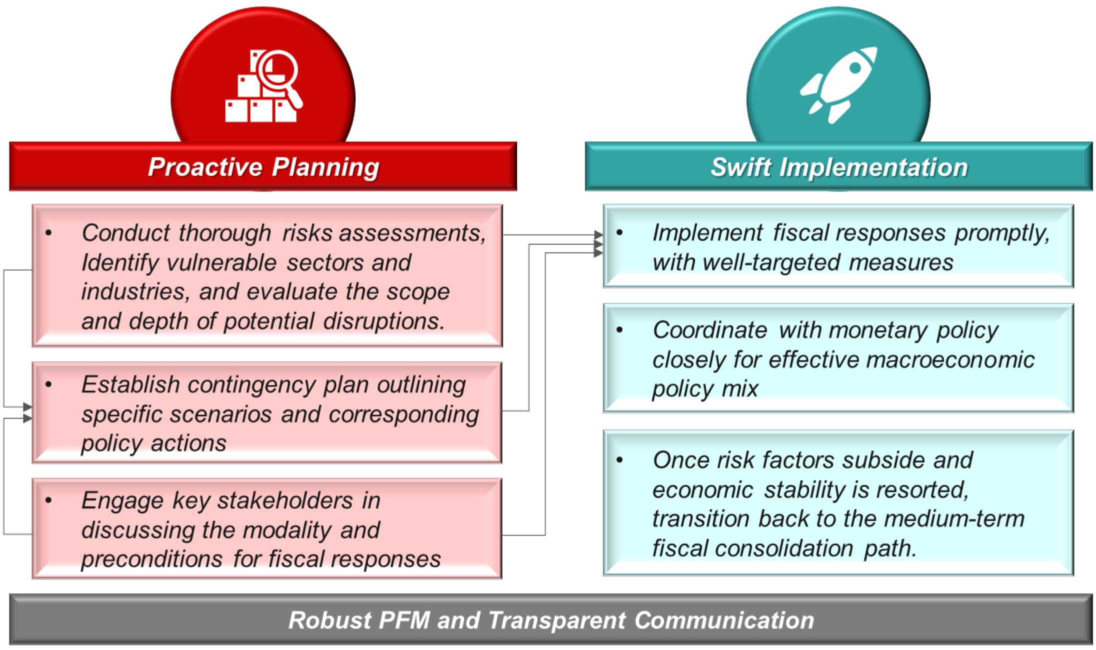
[28] See AMRO (2024b) for the estimates of additional fiscal needs for social protection and health in the selected ASEAN+3 economies (Box C).

Ensuring flexible fiscal responses

18. **Authorities should remain vigilant and proactively prepare well-calibrated fiscal policy measures**. With steady growth and a positive or near-zero output gap expected in 2025 under the AMRO's baseline projections, there is no immediate need for an expansionary fiscal shift. However, given heightened uncertainties with key downside risk factors —such as shifts in US trade policies and potential retaliatory measures—that could have significant economic impact, authorities should conduct thorough risk assessments, identify vulnerable sectors and industries, and evaluate the scope and depth of potential disruptions. Establishing contingency plans that outline specific scenarios and corresponding policy actions across relevant government agencies will enable timely and effective responses. Additionally, engaging key stakeholders in discussing the modality and preconditions for flexible fiscal responses —such as revised or supplementary budgets and the use of fiscal reserves—will enhance readiness and ensure accountability. Transparent communication on these preparedness measures will further facilitate smooth and effective policy implementation when necessary.

19. **Should downside risks materialize or become imminent, swift and well-coordinated fiscal responses are crucial.** Pre-established contingency plans tailored to specific risk events will allow for rapid intervention, ensuring that fiscal measures are well-targeted to affected sectors and industries. Close coordination with monetary policy will further strengthen the macroeconomic response, enhancing policy effectiveness and market confidence. However, once risk factors subside and economic stability is restored, authorities should phase out temporary measures and revert to the medium-term fiscal consolidation path, adjusting the pace as needed to align with updated fiscal targets. Clear communication of the rationale, scope, and duration of fiscal responses will help keep such measures targeted, time-bound, and effective. Furthermore, transparent exit strategies, supported by a robust PFM framework, will facilitate a smooth transition back to the fiscal consolidation path.

Figure 27. Proactive Planning and Swift Implementation



Source: AMRO staff illustration

Upholding fiscal consolidation

20. **Steadfast fiscal consolidation over the medium term should be guided by carefully calibrated targets.** For an effective consolidation plan, the size and pace of fiscal adjustments should consider the interplay between economic conditions and fiscal policy, as well as the need for political and public support. Well-designed fiscal rules can serve as anchors for predictable and credible fiscal targets, and a medium-term fiscal framework (MTFF) can underpin realistic fiscal trajectories aligning with macroeconomic projections.

- **Impact of fiscal consolidation on growth.** While fiscal consolidation tends to dampen economic growth, its adverse effects on growth and inequality tend to be lower during favorable cyclical upswings and when supported by accommodative monetary policy.[29] Economies with steady growth under a positive output gap should pursue fiscal consolidation while carefully mitigating potential adverse effects. However, economies with weak growth momentum and heightened vulnerability to global uncertainties could finetune the pace of fiscal consolidation, unless debt sustainability concerns are high, to mitigate the short-term contractionary impact of fiscal tightening while ensuring sustained improvements in fiscal position. Notably, strengthening structural reforms and fiscal institutions could alleviate negative growth impact and facilitate fiscal consolidation (Box C).

- **Debt dynamics from macroeconomic prospects**. Medium-term fiscal consolidation targets should, at a minimum, aim to achieve a debt stabilizing primary balance, which is projected to rise gradually as the real interest rate and growth rate differential widens. While real GDP growth is expected to moderate in line with the declining potential growth, real interest rates are likely to increase in the medium-term due to a staggered decline in the nominal effective interest rate—reflecting the medium- to long-term maturity structure of bonds and fixed coupon rates—compared to the immediate decline in inflation.

- **Political and social considerations**. Gradual fiscal adjustments, particularly for large-scale consolidations, are often more politically and socially feasible than front-loaded approaches, hence providing a higher likelihood of successful consolidation. In addition, gradual consolidation allows for the implementation of fiscal reforms, which can strengthen fiscal institutions and enhance public trust in the fiscal adjustments.[30] However, excessively stretched adjustments may lead to fiscal consolidation fatigue and increasing public resistance over time and front-loaded adjustment is inevitable for economies facing heightened debt and financing pressures.

Box C. Enhancing Structural Reforms and Fiscal Institutions to Support Fiscal Consolidation [31]

To facilitate successful fiscal consolidation, it is important to complement fiscal consolidation plans with strengthening structural reforms and fiscal institutions. Structural reforms, which bolster growth and productivity, could alleviate the trade-offs between multiple policy priorities, such as consolidation, equity, and long-term growth objectives (Cournède et al, 2013). In particular, labor and product market reforms could positively impact the supply side of the economy and help offset some of the contractionary effects of fiscal adjustments (Alesina and Ardagna, 2013). Moreover, in ASEAN+3 economies with aging population, structural reforms in the healthcare sector, such as reforms in long-term care (LTC) and enhancing preventive care, could help to alleviate

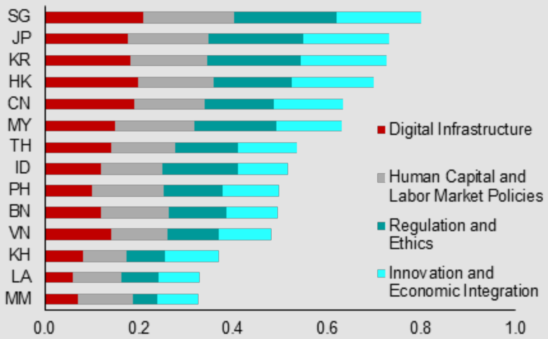
[29] See McManus et al. (2021) and IMF (2021) for the discussion on the impact of fiscal consolidation depending on the economic and monetary situations.
[30] See Mauro and Villafuerte (2013) for the benefit of gradual consolidation in fiscal reform implementation.
[31] Prepared by Koon Hui Tee.

healthcare cost pressures. For example, LTC reforms could include expanding financing mechanism and leveraging on digital healthcare records for better targeting of those in need of LTC.[32]

Structural reforms are also crucial to enhance productive capacity and resilience. In particular, structural reforms should focus on promoting efficient resource allocation to spur productivity and long-term growth potential—for example, by enhancing competition, easing regulatory burdens, and establishing industry standards and guidelines to bolster the adoption of new technologies—while mitigating negative side effects. For instance, facilitating AI adoption may lead to productivity growth and boosting investment and labor demand, but it could also result in decline in labor income caused by AI-induced labor displacement. Structural reforms are critical to enhance preparedness for AI adoption in order to harness the positive growth impacts of AI, while mitigating the risks of job displacement (Cazzaniga et al, 2024). For economies already well-prepared for AI adoption, reform efforts could focus on enhancing regulatory frameworks and fostering innovation and integration. On the other hand, other economies should prioritize building up digital infrastructure and strengthening human capital (Figure C.1). At the same time, the impact of AI-induced job displacement requires strengthening social protection systems, while enhancing active labor market policies to bolster skills and employability of the workforce, amid technological change.

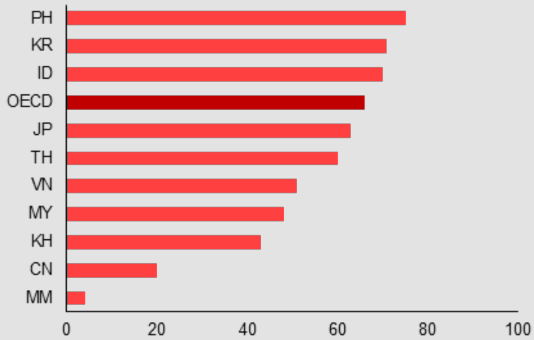
Additionally, although not a necessary condition, robust fiscal institutions can play a pivotal role for successful fiscal consolidation. Specifically, a credible MTFF with fiscal targets anchored by well-designed fiscal rules, along with clear communication of the implementation plan and support from sound public financial management, can effectively facilitate fiscal consolidation (Curristine et al, 2024; Mauro and Villafuerte, 2013).[33] Dabla-Norris et al. (2010) find that improvements in fiscal transparency and institutions are particularly critical for successful fiscal consolidations among low-income countries, where weak fiscal institutions are often linked to higher levels of corruption. In this regard, ASEAN+3 economies should complement fiscal consolidation efforts with the strengthening of fiscal institutions for a better fiscal consolidation outcome. Stronger fiscal institutions enable the fiscal authorities to draft a robust fiscal consolidation plan, implement it accountably with greater flexibility, and provide credible fiscal reporting with transparent assessment of fiscal risks, while better communication enhances higher public acceptance of necessary fiscal adjustment measures (Figure C.2).

Figure C.1. Preparedness of AI Adoption (Index, 0-1)



Source: Cazzaniga et. al (2024)
Note: The AI Preparedness Index (AIPI) is rated on a scale from 0 to 1, with higher values representing more favorable AI preparedness. The figure shows the contribution of digital infrastructure, innovation and integration, human capital and policies, and regulation and ethics to AI preparedness.

Figure C.2. Budget Transparency (Index, 0-100)



Source: Open Budget Survey 2023 (Budget Transparency)

[32] In Singapore, the Ministry of Health (MOH) launched Healthier SG in July 2023 as a major transformation of the healthcare system, to strengthen the focus on preventive care and affordability of primary care. Enhancing preventive care will help to moderate the rising demand and costs for long-term care services by keeping people healthy. Additionally, to contain cost and encourage right-siting of care, MOH has expanded hospital-level acute care in patients' homes and facilitate the transition to step-down and rehabilitative care.
[33] Establishment of a MTFF would help to provide top-down targets on total government expenditure, which would be used to guide the preparation of the annual budget for each year of the MTFF. This encourages fiscal discipline and accountability of fiscal performance.

21. **Fiscal consolidation should involve a combination of revenue-enhancing measures and spending rationalization measures**. There is no consensus on the most effective revenue-expenditure mix for a successful consolidation, and the choice of fiscal adjustment instruments should depend on country-specific context.

- **Phasing out temporary support measures.** Temporary support measures introduced during and after the pandemic, such as tax incentives and energy subsidies, should be withdrawn as their immediate necessity wanes (AMRO, 2024b). However, this seemingly straightforward process often encountered significant political and public resistance, prolonging reliance on temporary support measures. Continuous and transparent communication, backed by a comprehensive assessment of these measures, is crucial to facilitating a smooth transition. Additionally, selected temporary programs can be modified and merged into formalized social protection systems, designed with greater sophistication and precision, guided by thorough analysis of their economic and fiscal implications.

- **Revenue-enhancing measures.** Declining tax buoyancy in many member economies poses structural challenges, exacerbated by large informal sectors, generous tax incentives, and misaligned tax structures (Box D). Member economies—particularly EMEs and LIDCs—should prioritize improving tax administration, strengthening compliance, and reducing tax evasion by leveraging digitalization. Tax expenditure should be streamlined and restructured by rigorous effectiveness and efficiency assessments.[34] The implementation of global tax reforms offers not only revenue opportunities—such as taxes on digital services and top-up taxes—but also a chance to review and restructure tax incentives and exemptions based on comprehensive impact assessments (Box E). A regular reassessment and alignment of tax policies are necessary to prevent them from lagging behind structural shifts in the economy, such as industrial transformation, digitalization, and demographic changes. Over the medium- to long-term, adjusting tax rates and strengthening corrective and less distortive taxes (e.g., property tax, sin tax, environmental tax) can be explored, with due consideration of their potential impact on the economy. Meanwhile, given the tax system's critical role in redistribution, revenue-enhancing reforms should undergo thorough distributional impact assessments, with appropriate mitigating measures to ensure fairness, sustainability, and public support.[35]

- **Spending rationalization.** A continuous process of reviewing, restructuring, and reallocation of resources is essential to ensuring fiscal consolidation while safeguarding priority expenditures. Restructuring efforts should focus on rationalizing expenditure, particularly by phasing out universal and untargeted transfers, such as blanket energy subsidies, and improving expenditure efficiency for better policy outcomes. Reallocation priorities should be closely aligned with national development objectives and strategically guided by a MTFF. Programs and projects should be selected based on objective, rigorous analysis and evaluation to ensure the efficient and effective use of resources. In the course of consolidation, however, key policy priorities, such as public investment and social safety nets, should be preserved, to

[34] See Andriansyah et al. (2021) for the approaches in assessing effectiveness and efficiency of tax incentives.

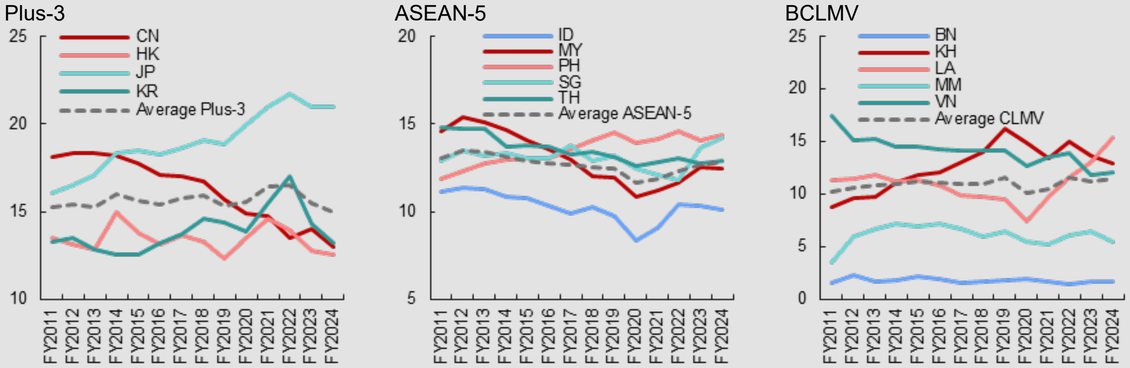
[35] For example, raising the value-added-tax (VAT) rate tends to reduce consumers' purchasing power and is often accompanied by measures to support vulnerable households. In 2019, Japan raised the VAT rate from 8 percent to 10 percent. FY2019 budget contained support measures for families and the elderly, including free early childhood education and childcare, benefits for supporting low-income pensioners and reduction of long-term care insurance contributions for low-income elderly (https://warp.da.ndl.go.jp/info:ndljp/pid/11424711/www.mof.go.jp/english/budget/budget/fy2019/01.pdf). Singapore raised its goods and services tax (GST) rate in two steps: (i) 7 percent to 8 percent on 1 Jan 2023; and (ii) 8 percent to 9 percent on 1 Jan 2024. To cushion the impact on Singaporean households, the government expanded the Assurance Package from SGD$6.6 billion in Budget FY2022 to over SGD $10 billion in Budget FY2024 to offsets additional GST expenses for majority of Singaporean households for at least 5 years. For lower-income households, the Assurance Package can cover additional GST expenses for around 10 years (https://www.gov.sg/explainers/what-you-need-to-know-the-gst-rate-from-1-january-2024).

support long-term growth and distributional equity, which in turn reinforces fiscal sustainability. At the same time, authorities should continue to enhance spending efficiency by strengthening public financial management (PFM), including performance(-based) budgeting, feasibility study, transparency frameworks, and audit process. Fiscal digitalization—such as an integrated financial management information system (IFMIS)—can further enhance spending efficiency throughout the budget process, from planning and disbursement to monitoring, auditing, and performance evaluation.

Box D. Discussion on the Tax Revenue Trend in ASEAN+3 Economies [36]

The ASEAN+3 economies have exhibited diverse trends in their tax-to-GDP ratio over the past decade (Figure D.1). Among the ASEAN-5 countries, Indonesia, Malaysia, and Singapore recorded a decline in their tax ratios, followed by a rebound in recent years. The Philippines[37] has shown a gradual and sustained increase, while Thailand has maintained a continued downward trend. Among the Plus-3 economies, China's tax-to-GDP ratio has gradually declined with minor fluctuations, whereas Japan[38] experienced a steady rise until peaking in FY2022, after which it reversed. Meanwhile, Korea's tax ratio remained relatively stable, with a brief peak in FY2022 before declining in recent years. The BCLMV countries exhibited more varied trends, with Cambodia experiencing steady growth in its tax-to-GDP ratio until 2019, followed by a decline, while Lao PDR showed the opposite trend – an initial decline followed by a strong recovery in recent years. Vietnam experienced a steady downward trend of tax ratio until recently, and Myanmar's tax ratio gradually decreased after peaking in mid-2010s. Meanwhile, Brunei Darussalam maintained a low and stable tax ratio.

Figure D.1. ASEAN+3: Tax-to-GDP ratio trend



Source: National authorities via CEIC and Haver analytics; AMRO staff calculations

While consumption-based tax as a percentage of GDP generally declined, income-based tax revenue has been stronger in AEs (Figure D.2). In AEs, income-based tax as a percentage of GDP increased while consumption-based tax as a percentage of GDP declined, except in Japan where both increased. Most EMEs, including China, Indonesia, Malaysia, Thailand, and Vietnam, experienced a drop in either income-based tax, consumption-based tax, or both as a percentage of

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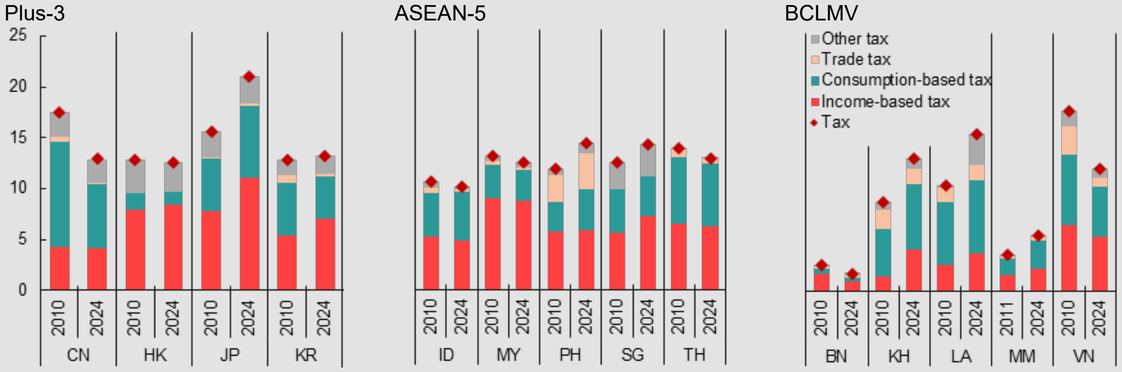
[36] Prepared by Byunghoon Nam and Ginanjar Wibowo.
[37] The Philippines government has implemented a series of tax reform initiatives. For example, it introduced the Comprehensive Tax Reform Program (CTRP) with the enactment of the Tax Reform for Acceleration and Inclusion (TRAIN) Law in 2017. This reform package included adjustments to personal income tax (PIT), VAT, and excise taxes (refer to Box 1 in AMRO (2019) for details). This was followed by an increase in sin taxes including the introduction of e-cigarette excise in 2019 as part of the CTRP. More recently, the government implemented VAT on digital services in October 2024, and other tax revisions are currently under discussion in the Senate (see AMRO (2024c)). However, the CIT reforms have limited the overall increasing trend of tax revenue due to the implementation of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act in 2021, which lowered the CIT rates from 30 to 25 percent, and CREATE MORE Act in November 2024, which further reduced the CIT rates from 25 to 20 percent for registered business enterprises (RBEs) under the enhanced deductions regime (EDR).
[38] The steady rise in tax-to-GDP ratio in Japan before FY2022 is attributable to consumption tax rate hikes (from 3 to 5 percent in 1997, from 5 to 8 percent in 2014, and from 8 to 10 percent in 2019) and strong tax administration contributing robust tax buoyancy

GDP.[39] [40] Cambodia recorded notable growth in tax revenue across most tax categories, driven by strong revenue-enhancing measures in the past decade.[41] Meanwhile, the Philippines and Myanmar benefited from the increase in consumption-based tax, while Lao PDR benefited from fast-track mining scheme and taxes on cryptocurrency mining companies in recent years.

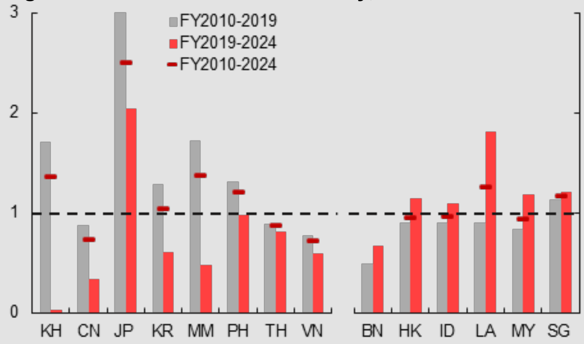
Figure D.2. ASEAN+3: Components of Tax-to-GDP ratio



Source: National authorities via CEIC and Haver analytics; AMRO staff calculations

Changes in tax buoyancy reflect varying structural shifts across member economies since the pandemic (Figure D.3). Comparing the average tax elasticity from 2019 to 2024 with that from 2010 to 2019, more than half of the economies experienced a decline in tax buoyancy after the pandemic, while the rest saw an increase.[42] These findings align with the long-term trend of the tax-to-GDP ratio while offering additional insights. Tax elasticity in China, Thailand, and Vietnam was below one before the pandemic and has declined further thereafter, indicating a continued downward trend in the tax-to-GDP ratio. Conversely, in Japan and the Philippines, tax elasticity remained above one, though to a lesser extent after the pandemic. Meanwhile, Indonesia, Malaysia, and Lao PDR had tax elasticity below one before FY2019 but saw an increase above one after FY2019, driven by various tax reform measures.[43] Weak tax buoyancy can result from various factors, including misalignment between tax system and economic structure, narrow tax bases (low registration rate, large informal sector, high levels of exemptions or significant incentives), and weak tax administration (complex compliance requirements, poor risk management, ineffective service and enforcement) (Chongvilaivan and Chooi, 2021).

Figure D.3. ASEAN+3: Tax Elasticity, FY2010-2024



Source: National authorities via CEIC and Haver analytics; AMRO staff calculations

[39] China's tax-to-GDP ratio has been declining mainly due to a downward trend in consumption-based tax revenue. Key changes include lowering the VAT rate on imported cosmetics from 30 percent to 15 percent in October 2016, raising the VAT threshold by 50 percent in 2018, and lowering the top-tier VAT rate from 16 percent to 13 percent in 2019, along with additional VAT deductions for certain industries (such as postal, telecommunication, and sports services).

[40] The decline in Vietnam's tax-to-GDP ratio is primarily due to reductions in income-based taxes. In 2013, the government significantly increased income tax deductions by 125 percent, followed by an additional 22 percent increase in 2020. CIT rates have also been gradually reduced over time, dropping from 28 percent in 2009 to 20 percent since 2016.

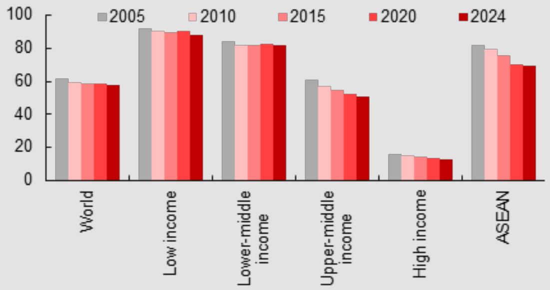
[41] Cambodia has implemented a series of Revenue Mobilization Strategies (RMS). RMS-I (2014–2018) focused on strengthening tax administration, expanding the tax base, and improving compliance. RMS-II (2019–2023) emphasized modernizing tax systems, increasing revenue collection efficiency, and enhancing service quality. RMS-III (2024–2028) aims to introduce new tax policies, strengthen subnational revenue mobilization, and ensure long-term fiscal resilience.

[42] The average tax elasticity is defined as the ratio of average tax revenue growth to average nominal GDP growth. The average growth rates are calculated using the geometrical mean method. To account for the sharp decline during the pandemic and the subsequent strong rebound, the average tax elasticity from 2019 to 2024 is compared with the pre-2019 period, providing a more balanced assessment of long-term trends.

[43] Tax reform measures contributed to the increase in tax revenue include, but are not limited to: VAT rate increase from 10 to 11 percent in 2022 and digital service tax imposition in 2020 in Indonesia; digital service tax introduction in 2020 in Malaysia; and increase in excise tax rates, fast-track mining scheme, and taxes on cryptocurrency mining companies in Lao PDR.

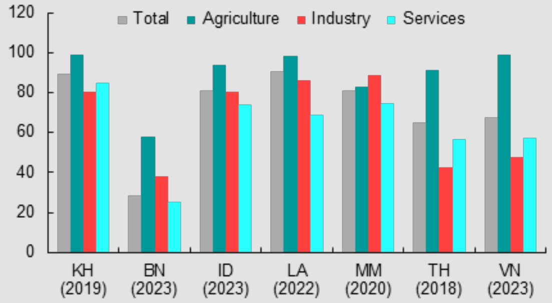
Widespread informality in employment and business operations poses significant challenges in broadening tax bases. In ASEAN countries, informal employment remains prevalent, although its share of total employment has steadily declined over the past two decades (Figure D.4). By sector, agriculture sector has the highest share of informal employment, followed by services in Cambodia, Thailand, and Vietnam; or by industry in Brunei Darussalam, Indonesia, Lao PDR, and Myanmar (Figure D.5). The large informal sector reflects the evolution of the business environment and industrial structure, where small businesses and self-employed individuals often operate outside formal tax systems. The decline in income-based tax as a percentage of GDP, particularly in EMEs, may be attributed to the wide-spread presence of informality, leading to a divergence between economic growth and tax revenue growth. In the BCLMV economies, despite recent improvements—particularly in Cambodia, Lao PDR, and Myanmar--income-based tax revenues remain low, suggesting limited tax collection from corporate and individual incomes.

Figure D.4. World: Proportion of Informal Employment in Total Employment (Percent)



Source: International Labour Organization

Figure D.5. Selected ASEAN+3: Proportion of Informal Employment in Total Employment by Sector (Percent)



Source: International Labour Organization

The informal nature of businesses and the rise of digital platform-based work further complicate tax administration. Small enterprises, particularly in low-income developing countries, often lack proper financial records, making it difficult for tax authorities to assess tax liabilities accurately and raise enforcement costs. According to the World Bank, firms in high-informality economies spend an average of 37 hours per year complying with VAT refund requirements, compared to 17 hours in economies with lower informality (Ohnsorge and Yu, 2022). An increasing number of gig workers and freelancers operating through digital platforms presents a new challenge for tax authorities. As they can easily shift between platforms and jurisdictions, their earnings tend to be more difficult to track, even for tax authorities of advanced economies. As a result, income-based tax revenues from these workers are often underreported. Without proper regulatory frameworks, platform-based employment could exacerbate tax base erosion, particularly in economies where traditional labor markets are shrinking.

The extensive use of tax incentives has further constrained tax revenue recovery across ASEAN+3 economies. During the COVID-19 pandemic and following high-inflation period, governments in this region implemented various temporary tax reductions, deferrals, and exemptions—including corporate and personal income tax cuts, VAT reductions, and customs/import tax reliefs on essential goods—to support businesses and households.[44] While economic conditions have since improved, many economies have repeatedly extended these temporary measures.[45] In addition, various tax exemptions have been constraining the expansion of the tax base. Most ASEAN+3 economies exempt a variety of goods and services from VAT to support consumption, particularly for low-income households (Table D.1). Some economies also implement multi-tier VAT rates, which further complicate tax collection. Indonesia's VAT rate increase to 12 percent in January 2025 applies only to luxury goods, while general goods remain taxed at a lower rate. Japan maintains

[44] For more details, see AMRO (2022).

[45] Vietnam has extended its 2 percent VAT reduction until mid-2025, while Thailand has maintained its VAT rate at 7 percent instead of 10 percent until September 2025. Indonesia continues to offer income tax exemptions for MSMEs with businesses earning below IDR 500 million per year fully exempt and those with revenue up to IDR 4.8 billion subject to a final tax rate of 0.5 percent. Similarly, China has lowered the VAT rate for small-scale taxpayers from 3 to 1 percent until December 2027, while the Philippines has permanently reduced its CIT rate from 25 to 20 percent starting in November 2024 for registered business enterprises under the Enhanced Deductions Regime.

a dual VAT structure, taxing food and beverages at 8 percent while applying a 10 percent standard rate to other goods. Similarly, China and Vietnam implement differentiated VAT rates across sectors.

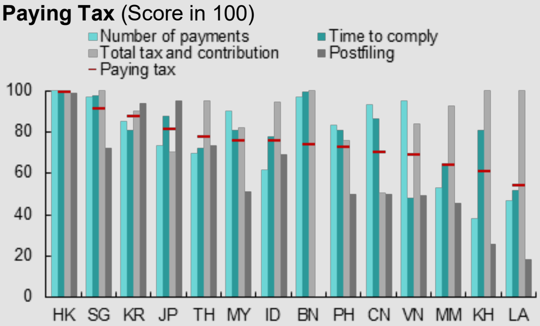
Table D.1. Selected ASEAN+3: Goods and Services Exempted from VAT/Sales Tax[46]

	KH	ID	JP	KR	LA	MY	PH	SG		TH
Basic foods		o		o	o	o	o			o
Financial services	o		o	o				o		
Insurance services	o		o	o	o		o			
Agriculture sectors					o	o	o			o
Property sectors			o					o		
Public transportation	o	o			o	o				o
Health services	o	o	o	o	o	o	o			o
Education services		o	o		o	o	o			o
Utilities (electricity, water)	o					o				

Source: National authorities; PwC; AMRO staff compilation

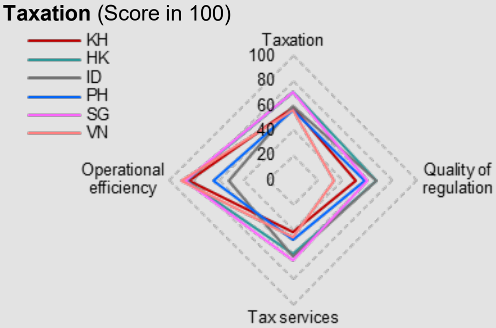
Tax administration in EMEs and LIDCs remains weak. According to the World bank's *Ease of Doing Business 2020*, EMEs and LIDCs received low "Paying tax" scores, particularly in time to comply and post-filing processes related to VAT refunds and CIT audits (Figure D.6). In some economies, the number of required tax payments was deemed excessive, reaching up to 40 times per year. A similar assessment was conducted for selected ASEAN+3 economies in the first *Business Ready 2024* report by the World Bank (Figure D.7), where Cambodia, Indonesia, the Philippines, and Vietnam scored relatively low in tax administration related indicators. In the category "Public services provided by the tax administration," Cambodia, the Philippines, and Vietnam scored poorly due to weak data management, lack of system integration for tax registration/deregistration, issues with taxpayer databases (e.g., tax identification number - TIN), and weak transparency. Indonesia ranked low in "Operational efficiency of tax systems in practice," mainly due to long tax dispute resolution times and delays in obtaining VAT refunds. Meanwhile, Vietnam received a low score in "Quality of regulations on taxation," attributed to unclear tax guidelines, lack of binding rulings, and poor transparency in tax regulation changes. Additionally, tax office staffing levels were found to be insufficient in Cambodia, the Philippines, and Indonesia, reflecting administrative capacity challenges.[47]

Figure D.6. ASEAN+3: Ease of Doing Business 2020, Paying Tax (Score in 100)



Source: World Bank

Figure D.7. Selected ASEAN+3: Business Ready 2024, Taxation (Score in 100)



Source: World Bank

Strengthening tax revenue mobilization in ASEAN+3 economies requires a comprehensive approach that enhances tax administration, broadens the tax base, and improves policy design. Governments should leverage digitalization to simplify tax compliance, improve taxpayer tracking, and establish data-sharing frameworks with digital platforms to capture emerging informal work.[48] Additionally, streamlining VAT exemptions and phasing out prolonged tax incentives would help prevent excessive revenue losses. To enhance fiscal consolidation and maintain fiscal sustainability, tax incentives should be subject to regular evaluation and sunset clauses, preventing indefinite tax erosion.

[46] In Singapore, GST exemptions are only provided for specific goods/services within the financial/ property sectors, in line with the intent for GST to be a broad-based consumption tax.
[47] According to the International Survey on Revenue Administration (ISORA), the number of labor force per FTE of revenue staff in Cambodia, the Philippine, and Indonesia is three time more than that in China, Japan, and Korea.
[48] For instance, Indonesia has integrated the tax identification number into the national identification registration. The national ID will serve as the primary means of identification within the core tax administration system, enabling tax authorities to trace the financial transactions of taxpayers, as transactions linked to the national ID will be accessible to the tax administration system.

Box E. Pillar Two Implementation of the Global Minimum Tax in ASEAN+3: Progress and Path Forward [49]

The Pillar Two framework establishes transformative global tax standards for large multinational enterprises (MNEs). Initiated by the Organisation for Economic Co-operation and Development and the Group of Twenty (OECD/G20), the framework introduces a global minimum corporate tax rate of 15 percent to ensure that large MNEs contribute a fair share of taxes. The initiative tackles key challenges such as tax base erosion and profit shifting, which have significant policy implications for ASEAN+3 economies as they rely heavily on various tax incentives to attract foreign investment. As global tax rules continue to evolve, the region faces increasing pressure to adapt its tax strategies to remain competitive while aligning with international standards.

ASEAN+3 jurisdictions are strengthening their tax systems to meet evolving global standards. Although member economies are progressing at different stages in implementing the global minimum tax, efforts to comply with the Domestic Minimum Top-Up Tax (DMTT), Income Inclusion Rule (IIR), and Undertaxed Profits Rule (UTPR) are well underway.[50] Achieving thorough compliance requires not only coordinated legislative adjustments but also enhanced administrative capacity and robust cross-jurisdiction collaboration. This box reviews the ASEAN+3's progress in adopting the Pillar Two framework and highlights the key next steps necessary to ensure compliance while safeguarding fiscal sovereignty.

Current Status of Pillar Two Implementation in ASEAN+3

ASEAN+3 economies are progressing in Pillar Two implementation, demonstrating their commitment to aligning with the OECD framework. Among the 14 members, 11 have adopted the framework, excluding Cambodia, Lao PDR, and Myanmar, and are in the process of amending or have already amended domestic tax laws to integrate top-up tax mechanisms. Pillar Two took effect in Japan and Korea, and Vietnam on 1 January 2024. As of 1 January 2025, the global minimum tax has come into force in Hong Kong, China; Indonesia; Malaysia; Singapore; and Thailand (Table E.1).[51]

Table E.1: Progress Towards the Implementation of Pillar Two in ASEAN+3

	DMTT	IIR	UTPR	Status
China	Awaiting details	Awaiting details	Awaiting details	Commentary
Hong Kong, China	1 January 2025	1 January 2025	Subject to further studies	Being examined by legislature
Indonesia	1 January 2025	1 January 2025	1 January 2026	Legislation enacted
Japan	1 April 2026	1 April 2024	1 April 2026	Legislation enacted
Korea	Uncertain	1 January 2024	1 January 2025	Legislation enacted
Malaysia	1 January 2025	1 January 2025	Uncertain	Legislation enacted
Philippines	Awaiting details	Awaiting details	Awaiting details	Commentary
Singapore	1 January 2025	1 January 2025	Subject to further studies	Legislation enacted
Thailand	1 January 2025	1 January 2025	1 January 2025	Legislation enacted
Vietnam	1 January 2024	1 January 2024	Uncertain	Legislation enacted

Source: KPMG; PwC; AMRO staff compilation
Note: 1) 'Awaiting details' means specific implementation plans are expected but not available yet; 'Uncertain' refers to the absence of a clear decision or indication on implementation; 'Commentary' refers to a review of domestic tax law from a Pillar Two perspective; 2) The dates in the table represent (anticipated) implementation dates; 3) The table presents data as of 27 March 2025.

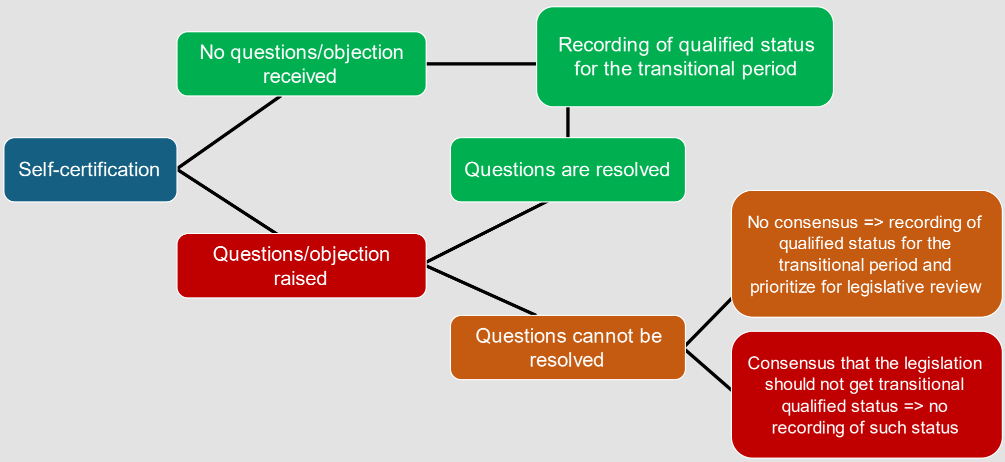
[49] Prepared by Ravisara Hataiseree.
[50] The DMTT enables jurisdictions to collect top-up taxes locally; the IIR ensures that parent companies pay top-up taxes when local jurisdictions impose a tax rate below the minimum 15 percent threshold; and the UTPR allocates residual top-up taxes to jurisdictions where an MNE operates when neither the DMTT nor the IIR is applied.
[51] Hong Kong, China has published a draft bill to amend the Inland Revenue Ordinance to implement the DMTT and IIR, which will apply retroactively from 1 January 2025. Indonesia's Ministry of Finance issued Regulation No. 136/2024 to enforce the DMTT, IIR, and UTPR, also effective from early 2025. In Malaysia, the Finance (No. 2) Bill 2023 (Finance Act) incorporated the OECD Pillar Two Model Rules into domestic tax laws and took effect at the beginning of 2025. Singapore's Multinational Enterprise (Minimum Tax) Act 2024 implemented the DMTT and IIR for in-scope MNEs for financial years beginning on or after 1 January 2025. Thailand enacted the Emergency Decree on Top-up Tax, B.E. 2567, to implement Pillar Two, including the DMTT, IIR and UTPR, which also became effective at the start of 2025.

Future Compliance and Emerging Challenges

Participating jurisdictions are encouraged to obtain qualified rule status of DMTT, IIR, and UTRP to ensure thorough compliance with Pillar Two. The qualified status process, introduced in the OECD's Global Anti-Base Erosion (GloBE) Model Rules, is a key requirement for ensuring that domestic tax laws conform to international standards for the global minimum tax. The purpose of this standardized and coordinated mechanism is to determine the qualified status of implementing jurisdictions and ensure the proper application of top-up taxes under the Qualified DMTT (QDMTT), IIR, and UTPR.[52] This mechanism enhances certainty to both implementing jurisdictions and MNEs, allowing them to anticipate where top-up taxes will apply. In addition, achieving qualified rule status strengthens fiscal sovereignty by safeguarding domestic tax revenues and reducing the risk of double taxation, as profits taxed locally cannot be subjected to additional levies by other jurisdictions.

Achieving qualified status requires a structured approach that encompasses self-certification and legislative alignment. The process begins with self-certification, where jurisdictions submit transitional declarations to the OECD Secretariat, demonstrating that their domestic tax frameworks align with the GloBE Model Rules (Figure E.1). The information is then shared with all members of the Inclusive Framework (IF), the OECD body overseeing the implementation of the GloBE Model Rules, for review. IF members can raise questions regarding self-certification. If no questions arise or all concerns are resolved, the jurisdiction is granted transitional qualified status. Jurisdictions with this status can continue refining their tax frameworks to achieve compliance with Pillar Two, while those failing to qualify are expected to proactively address inconsistencies and outline concrete alignment plans within timelines agreed upon with the OECD Secretariat. The transitional qualification mechanism helps mitigate peer review challenges and facilitates a smoother transition to full compliance. This is because the transitional qualified status serves as a starting point for the peer review process, which includes a comprehensive legislative review and ongoing monitoring by the IF. This legislative review begins within two years after the effective date of the legislation, and the transitional qualified status ends upon its completion.

Figure E1: An Overview of Qualified Status Process



Source: OECD; AMRO staff illustration

Implementing Country-by-Country Reporting (CbCR) is a critical component of Pillar Two compliance. Unlike traditional effective tax rate (ETR) calculations, ETR under the GloBE Model Rules require numerous adjustments to align financial accounting income with the GloBE tax base.[53] Additionally, the GloBE Model Rules mandate that ETR be determined separately for each jurisdiction where an MNE operates, preventing high-taxed income in one jurisdiction from offsetting low-taxed income in another and ensuring that the minimum tax rate is met in each location. Recognizing these compliance challenges, the OECD introduced the Transitional CbCR Safe Harbor

[52] See AMRO (2024d) for an explanation of the agreed rule order for the application of the top-up tax under Pillar Two principles.
[53] See AMRO (2024d) for an explanation of the calculation of ETR and the top-up tax under Pillar Two.

to ease the administrative burden on MNEs. This measure grants MNEs additional time to develop technologies and data strategies for computing the ETR under Pillar Two by allowing them to use CbCR data, which consists of tax reports exchanged among authorities, as a provisional substitute during the initial phases of Pillar Two implementation.

Most ASEAN+3 economies have adopted CbCR through the Multilateral Competent Authority Agreement (MCAA), requiring MNEs to disclose key financial and tax data. However, Brunei Darussalam, Cambodia, Lao PDR, and Myanmar have yet to adopt CbCR standards, making them vulnerable to profit shifting and tax base erosion. The transitional CbCR therefore presents an opportunity for these countries to strengthen tax reporting frameworks, prevent revenue losses from top-up taxes, and align with Pillar Two requirements. To achieve compliance with CbCR exchanging standard, they can enact CbCR legislation for MNEs with revenues exceeding EUR 750 million, the revenue threshold for in-scope MNEs under Pillar Two, and join the MCAA to facilitate cross-border tax data exchange.

The U.S. withdrawal from Pillar Two signals a major policy shift, indicating potential countermeasures against extraterritorial taxes in the future. In January 2025, the United States withdrew from the OECD's Pillar Two, with the Trump administration issuing an executive order on the Global Tax Deal. The order has two main elements: (1) policy commitments made by the Biden administration's Treasury officials carry no legal effect unless backed by congressional legislation, and (2) the U.S. may retaliate against extraterritorial taxes imposed on U.S. companies (The White House, 2025). This marks a significant shift from previous U.S. engagement in Pillar Two, where the country had collaborated with others to advance its adoption. A key concern is the enforcement of the UTPR, which allows jurisdictions to impose top-up taxes on MNEs with an effective tax rate below 15 percent, even if they are not based within those jurisdictions. The UTPR is widely seen as an unprecedented extraterritorial mechanism, potentially affecting U.S. firms, particularly those relying heavily on research and development (R&D) expenditures (Cole, 2025). The executive order suggests the U.S. could respond with tariffs, as it did in 2020 against France's digital services tax (DST), or through retaliatory legislative measures if jurisdictions do not adjust their Pillar Two rules (Rajathurai et al. 2025). However, speculation remains that under a Trump administration, jurisdictions may hesitate to apply the UTPR to U.S. firms due to concerns over potential retaliation (Sallabank et el. 2025). While the U.S. has withdrawn from Pillar Two, the executive order does not rule out future congressional efforts to align certain aspects of U.S. tax law with global standards (Cole, 2025).

22. **Public debt management (PDM) should expand its scope and extend its time horizon**. Authorities should pay additional attention to long-term fiscal risks, particularly those arising from population aging and sustainable development goals (SDGs), which are often insufficiently reflected in medium-term debt sustainability analysis (DSA). At the same time, PDM should expand its scope to incorporate risks associated with the broader public sector and financing instruments, such as local government financing vehicles (LGFVs) in China, energy state-owned enterprises (SOEs) in Korea, Malaysia, and Lao PDR, as well as quasi-fiscal spending in Thailand. These risks, if unaccounted for, could pose significant fiscal challenges in the future. With rapid demographic shifts and continued expansion of social protection, pension liabilities should also be recognized as a key fiscal risk, given their potential to exert fiscal pressure over time. To effectively integrate long-term risks and off-balance-sheet liabilities, PDM frameworks and tools should be strengthened, incorporating long-term fiscal projections, robust contingent liability management, and enhanced public debt transparency.

Addressing structural challenges with comprehensive packages

23. **ASEAN+3 economies should pursue sustainable and inclusive growth with comprehensive policy measures and structural reforms**. Declining growth potential and stagnant poverty rates amid rising income inequality pose significant policy challenges for authorities in striving to achieve high-quality, sustainable and inclusive growth (AMRO, 2025b). These challenges stem from deeply interlinked issues across various parts of economic system, which reinforce each other over time, making them difficult to address with fiscal policy alone or a limited set of policy tools. A comprehensive approach encompassing all available and relevant policy instruments and enforced by structural reforms is essential for tackling these complex structural challenges and forging new pathways.[54] Each country should carefully consider all available policy tools and structural reform options within fiscal constraints—such as deregulation, active labor market policies (ALMPs), education reforms, and public-private partnerships (PPPs). While public resource allocation aligned with national development priorities should support various fiscal measures—including direct investments, subsidies, and tax incentives— the policy responses can be further enhanced through structural reforms that facilitate private sector participation, which can efficiently complement government policies to promote inclusive growth.

24. **Addressing the challenges of population aging and ensuring old-age income security requires a holistic approach**—integrating welfare, employment, and financial policy measures. In addition to income support rendered by pension and social protection schemes, efforts should focus on ALMPs that create employment opportunities and offer reskilling and upskilling programs for retirees and near-retirees. Furthermore, better utilization of illiquid assets, such as through reverse mortgages, can enhance cash flow for elderly individuals whose wealth is primarily tied up in real estate. While a national pension system provides a basic foundation for senior income security, leveraging private sector to additional pension layers, including occupational and personal pension schemes, should be promoted to strengthen supplementary income streams. Recognizing that pension benefits are largely proportional to subscriber contributions, strengthening social assistance programs and expanding social insurance coverage are equally important to support low-income elderly individuals, helping to reduce old-age poverty and promote a more equitable income distribution. To manage the fiscal challenges arising from population aging, the financial sustainability of public pension and health insurance should be regularly assessed through actuarial studies that reflect demographic and economic projections. Strengthening social safety nets in line with demographic and socioeconomic trends is crucial, but policymakers should carefully evaluate their fiscal implications, given the long-term rigidity of these programs (Box F). Necessary reforms should be undertaken early to prevent the need for more drastic adjustments in the future. Additionally, tax systems should be regularly reassessed and adjusted to ensure sustainable financing of government programs, as demographic shifts are likely to change the composition of income (e.g., pension benefits, capital gains income) and consumption patterns (e.g., healthcare spending).

25. **Effectively addressing climate change requires a comprehensive policy approach, with fiscal policy playing a pivotal yet complementary role**. Climate change adaptation measures necessitates substantial public investment, particularly in countries highly vulnerable to natural disasters, while fiscal measures—such as direct investments, incentives, and subsidies (or less energy subsidies)—can contribute to climate change mitigation and help countries meet their national commitments to global initiatives. The

[54] See AMRO (2025b) for discussions on five key policy themes that can guide policymakers in the region as they craft new growth pathways for the future.

modalities of these interventions should align with each country's strategic priorities and climate action plans. However, fiscal policy alone is insufficient to tackle the complexities of climate change. A multi-faceted approach that includes well-defined green taxonomies and robust carbon pricing systems is needed to ensure transparent and efficient market mechanisms. Equally crucial is collaboration with the private sector, as private investment and innovation play a key role in scaling up green initiatives and fostering sustainable solutions. By aligning public and private efforts within a coherent policy framework, countries can accelerate progress in both climate mitigation and adaptation, ensuring long-term environmental and economic resilience.

Box F. Sustainable Development of Social Protection Systems [55]

Rapid demographic shifts and the need to close coverage gaps present significant challenges to the sustainable development of social protection systems. Aging populations in the ASEAN+3 region, driven by increasing longevity and declining birth rates, are expected to strain public finances as revenue declines and social protection spending rises. By the end of this decade, all but two ASEAN+3 economies will be classified as "aging societies" (AMRO, 2024a). Depending on the pace of aging, projections by AMRO (2024b) indicate that additional fiscal costs related to aging are projected to range from 0.9 percent of GDP in Indonesia to as much as 9.3 percent in Korea. However, these estimates may understate the fiscal burden in emerging economies, many of which still struggle with low social protection coverage and are actively working to strengthen their social protection systems. Expanding social protection systems requires significant investments in ensuring adequate benefits and building efficient infrastructure. Sustainably financing these systems is often complicated by the prevalence of large informal labor markets, particularly in emerging economies, where limited payroll contributions necessitate higher government subsidies or alternative revenue sources. Beyond financing challenges, weak administrative capacity and inefficient public service delivery could further increase costs and undermine structural reform, posing risks to the sustainable development of social protection systems.

Adding to these challenges is the fiscal rigidity of social protection programs which presents unique obstacles for fiscal management. Unlike other areas of government spending, social protection expenditures are often long-term commitments that cannot be easily adjusted. Many of these programs are viewed as fundamental rights, providing basic economic security and dignity, making it politically and socially difficult to scale back benefits. This rigidity is particularly problematic in economies experiencing rising demand for pensions and healthcare in response to rapid demographic shifts. Moreover, an increasing number of non-contributory social assistance programs are being enshrined in legislation, alongside existing social insurance schemes, to ensure a minimum level of protection for the population (ILO, 2022). These legal commitments bind governments to provide adequate funding in the medium-term regardless of fiscal conditions, resulting in a growing share of predetermined spending. As social protection needs continue to rise, this rigidity limits policymakers' ability to reallocate resources, forcing difficult trade-offs between sustaining these programs and funding other priorities.

The political landscape further exacerbates the difficulty of reforming or scaling back social protection programs. Once social protection programs are introduced, rolling them back becomes exceedingly difficult without triggering public opposition. Structural reforms—particularly in social insurance programs—tend to be politically sensitive, as they often involve raising contributions, adjusting benefits, or extending the retirement age (OECD, 2019). As a result, governments seeking re-election and wary of potential electoral backlash often opt to delay, weaken, or even reverse necessary reforms, even when fiscal sustainability is at risk. Instead, they tend to resort to short-term measures, such as deficit financing, rather than undertaking difficult but necessary adjustments. Short political cycles further worsen this challenge, as governments may prioritize immediate electoral gains over long-term fiscal stability. With a growing elderly population sensitive to social

[55] Prepared by Dek Joe Sum.

protection reforms, rapid population aging will lead to a rising share of predetermined spending and the debt burden, heightening risks to long-term fiscal sustainability.

A robust public financial management (PFM) framework is essential for mitigating political risks and ensuring the sustainability of social protection systems. PFM innovations, such as fiscal rules and medium-term fiscal framework (MTFF)[56] ,can help enhance discipline in budget planning and ensure that public expenditure commitments remain sustainable over time. A growing number of ASEAN+3 economies have adopted fiscal rules and MTFF, though their legal foundations, designs and monitoring mechanism vary considerably (AMRO, 2024b; OECD/ADB, 2019). Fiscal rules, such as expenditure ceilings, debt limits, and balanced budget requirements, can help curb excessive spending spree driven by political cycles and enable governments to avoid overcommitting resources. Meanwhile, MTFF can effectively complement fiscal rules by providing a structured, multi-year approach to budget planning, facilitating alignment between expenditure plans, revenue projections, and macroeconomic forecasts. This is particularly important for social protection spending, which is largely non-discretionary, governed by legal entitlements and political commitments, and difficult to adjust in the short term. Additionally, MTFF can help deter fiscal rule evasions, such as shifting the recognition of revenues, expenditures, or debt across fiscal periods—a practice often employed by governments to circumvent spending limits (Schick, 2013).

Medium-term perspective alone, however, is insufficient to ensure the long-term fiscal sustainability of the expanding social protection programs amid rapid demographic aging. While extending policy planning horizon three to five years beyond the annual budget represents a significant PFM accomplishment, it remains too short to fully assess the sustainability of pension systems, healthcare, and elderly care. These programs require a policy planning horizon spanning decades, as policy adjustments—such as changes in contribution rates, retirement ages, or benefit structures—often take years to yield meaningful fiscal effects (Schick, 2013). Without an extended planning horizon, governments risk underestimating long-term liabilities and overcommitting limited resources. To ensure sustainable expansion of social protection programs, fiscal planning must integrate long-term assessments that consider key long-term drivers such as demographic projections, along with program-specific refined methodologies, such as actuarial models for pension. This approach enables policymakers to better anticipate funding shortfalls and make gradual, proactive adjustments. Moreover, public consultation based on long-term fiscal assessments can facilitate gradual structural reforms—such as parametric adjustments and automatic stabilizers—which politicians rarely advocate due to short-term political cycles. Institutionalizing these mechanisms will not only enhance fiscal discipline but also help build public confidence in the sustainability of social protection programs. Without such a forward-looking approach, social protection systems will face risks of fiscal instability, ultimately jeopardizing their ability to provide adequate support for future generations.

Few economies in the ASEAN+3 region systematically factor in medium- to long-term fiscal considerations when introducing or modifying social protection programs. AMRO (Fiscal Management of Social Protection in Selected ASEAN+3 Countries, forthcoming) found that while most ASEAN+3 economies prioritize addressing immediate social protection needs, they often lack well-established PFM frameworks to adequately assess the long-term fiscal implications of these initiatives. While the development of new social protection programs typically involves coordination between line ministries and fiscal authorities and is subject to parliamentary review, discussions rarely include comprehensive evaluations of their medium- or long-term fiscal implications or corresponding financing plans. Instead, programs are often initiated or expand using temporary revenue surpluses or short-term fiscal space, making them vulnerable to economic downturns or shifts in fiscal priorities. While many economies have contingency funding mechanisms to manage short-term fiscal shocks—such as unexpected budget shortfalls or sudden expenditure increases—few have institutionalized frameworks for systematically evaluating the long-term fiscal sustainability and integrating these assessments into policymaking. Korea serves as a notable example of good practice, embedding fiscal sustainability into the design of its social protection system. The 2012

[56] An MTFF formalizes medium-term fiscal planning by integrating multiyear macroeconomic projections, fiscal targets, and concrete policy measures into the budget process. It serves as a mechanism for setting fiscal objectives and ensuring cabinet decisions align with these targets throughout budget formulation, approval, and execution (Van Eden, Khemani, & Enery Hr , 2013).

amendment to the Basic Act of Social Security mandates the government to conduct and publish medium- and long-term projections of the overall social protection system biennially. Subsequently, long-term fiscal projections covering the government's overall fiscal position were institutionalized, assessing the resource needs of government commitments and available financing resources over time, enabling governments to implement proactive measures to ensure long-term sustainability.[57] This forward-looking approach helps prevent overcommitment and aligns policy goals with available resources.

Another innovative PFM mechanism for enhancing the fiscal sustainability of social protection systems is the use of automatic adjustment mechanisms (AAMs). The political cost of regulatory changes often leads to delays, reversals, or diluted reforms, which, over time, exacerbate fiscal pressures and necessitate more drastic corrective measures in the future. AAMs help mitigate these risks by automating parametric adjustments, thereby reducing the need for politically contentious policy decisions (Arbatli et al. 2016). Within this framework, governments are required to intervene only if they wish to override the default adjustments, rather than to implement changes proactively. This shift in decision-making dynamics can make reforms more politically viable while minimizing political complexities. For instance, Japan's macroeconomic slide for pension benefits illustrates how fiscal reforms can be depoliticized by linking policy adjustments to objective demographic and economic indicators. By automatically adjusting benefit levels and contribution rates in response to changes in life expectancy and workforce size, Japan has strengthened intergenerational equity in its pension system. Such mechanisms not only reduce the risk of politically driven reforms but also enhance the long-term sustainability of social protection systems.

[57] In addition, The National Finance Act requires feasibility studies for new social protection initiatives exceeding KRW50 billion, ensuring that long-term fiscal sustainability is a central consideration before implementation.

Appendix I. Key Fiscal Indicators

(Percent of GDP)

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025p
Brunei Darussalam							
Revenue	26.4	12.6	24.3	27.7	17.4	17.7	15.4
Expenditure	31.9	32.6	29.4	26.6	29.2	29.4	30.0
Fiscal balance	-5.6	-20.0	-5.2	1.1	-11.9	-11.7	-14.6
Government debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	5.6	20.0	5.2	-1.1	11.9	11.7	14.6
Cambodia							
Revenue	20.1	18.1	16.2	18.4	16.7	16.0	16.4
Expenditure	19.8	21.4	22.1	19.7	22.0	19.6	19.6
Fiscal balance	0.3	-3.3	-5.8	-1.3	-5.3	-3.6	-3.2
Government debt	20.8	25.0	25.6	25.0	26.6	26.1	27.3
Gross financing needs	0.3	4.0	6.6	2.1	6.2	4.8	4.6
China							
Revenue	21.1	20.2	18.2	18.5	18.1	18.2	17.0
Expenditure	23.9	23.9	21.2	21.2	21.8	21.2	21.0
Fiscal balance	-2.7	-3.6	-3.0	-2.7	-3.8	-3.0	-4.0
Government debt	37.9	45.0	45.8	49.4	54.7	60.9	66.1
Gross financing needs	6.5	8.6	9.1	10.9	12.0	11.2	12.3
Hong Kong, China							
Revenue	21.1	20.7	24.4	21.9	18.1	17.7	20.0
Expenditure	21.7	29.9	24.3	28.5	23.8	23.9	24.9
Fiscal balance	-0.6	-9.2	0.0	-6.6	-5.7	-6.2	-4.9
Government debt	0.3	1.0	2.0	4.3	6.4	9.5	12.0
Gross financing needs	0.6	9.2	0.0	6.6	5.7	6.2	4.9
Indonesia							
Revenue	12.4	10.7	11.8	13.5	13.3	12.8	12.8
Expenditure	14.6	16.8	16.4	15.8	14.9	15.1	15.4
Fiscal balance	-2.2	-6.1	-4.6	-2.4	-1.6	-2.3	-2.6
Government debt	30.2	39.4	40.7	39.7	39.2	39.8	40.5
Gross financing needs	5.8	9.1	7.9	5.0	4.6	5.5	6.6
Japan							
Revenue	35.4	36.7	37.7	38.7	37.8	36.7	36.3
Expenditure	38.6	46.7	43.6	42.3	39.7	38.9	37.4
Fiscal balance	-3.1	-10.0	-5.9	-3.5	-1.9	-2.1	-1.1
Government debt	238.7	261.0	256.9	253.0	242.0	239.3	233.6
Gross financing needs	27.7	35.8	40.1	36.7	33.2	31.3	28.8
Korea							
Revenue	21.8	21.7	24.2	25.3	22.6	21.8	23.5
Expenditure	22.3	25.2	25.6	28.1	24.2	23.4	24.3
Fiscal balance	-0.6	-3.5	-1.4	-2.8	-1.5	-1.6	-0.8
Government debt	35.4	41.1	43.7	45.9	46.9	47.1	48.6
Gross financing needs	4.4	7.6	6.1	7.5	7.2	7.3	7.3
Lao PDR							
Revenue	15.6	12.7	14.7	14.8	17.4	20.0	19.0
Expenditure	18.8	17.9	16.0	15.0	16.6	17.6	20.1
Fiscal balance	-3.2	-5.2	-1.3	-0.2	0.7	2.4	-1.1
Government debt	58.8	61.9	75.1	98.8	103.4	92.8	87.5
Gross financing needs	8.7	10.1	5.9	4.4	6.5	9.1	0.0

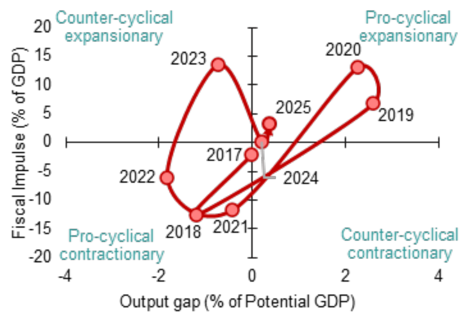
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025p
Malaysia							
Revenue	17.5	15.9	15.1	16.4	17.3	16.8	16.5
Expenditure	21.0	22.1	21.5	22.0	22.3	20.9	20.3
Fiscal balance	-3.4	-6.2	-6.4	-5.5	-5.0	-4.1	-3.8
Government debt	52.4	62.0	63.3	60.2	64.3	64.6	64.5
Gross financing needs	8.0	11.6	11.6	9.7	9.8	9.0	8.3
Myanmar							
Revenue	18.7	17.3	18.3	19.5	18.5	18.8	18.0
Expenditure	22.0	26.8	24.3	22.3	21.5	23.9	23.8
Fiscal balance	-3.4	-9.5	-6.1	-2.8	-2.9	-5.1	-5.7
Government debt	35.9	48.0	55.4	59.3	59.3	63.1	63.9
Gross financing needs	4.1	9.8	7.6	4.2	3.8	6.0	7.0
Philippines							
Revenue	16.1	15.9	15.5	16.1	15.7	16.7	16.1
Expenditure	19.5	23.5	24.1	23.4	21.9	22.4	21.5
Fiscal balance	-3.4	-7.6	-8.6	-7.3	-6.2	-5.7	-5.3
Government debt	39.6	54.6	60.4	60.9	60.1	60.7	60.2
Gross financing needs	5.9	10.9	12.6	10.9	10.2	10.5	9.5
Singapore							
Revenue	17.8	17.4	16.7	16.2	18.3	19.1	19.6
Expenditure	16.0	32.8	17.3	16.4	17.1	17.7	18.4
Fiscal balance	1.8	-15.4	-0.6	-0.2	1.3	1.3	1.3
Government debt	127.9	148.2	141.7	154.1	172.9	177.8	175.0
Gross financing needs	8.3	39.9	21.7	21.3	22.1	25.0	26.2
Thailand							
Revenue	15.3	15.0	14.8	14.8	14.9	15.2	15.0
Expenditure	17.8	21.1	23.9	20.4	18.2	18.1	19.2
Fiscal balance	-2.5	-6.0	-9.0	-5.6	-3.2	-2.9	-4.2
Government debt	33.7	42.4	51.3	53.5	54.8	55.8	53.6
Gross financing needs	6.0	9.5	16.0	12.3	11.4	12.1	12.1
Vietnam							
Revenue	20.2	18.8	18.8	18.9	17.0	17.7	15.4
Expenditure	19.8	21.3	20.1	18.2	19.7	19.7	17.9
Fiscal balance	0.3	-2.5	-1.4	0.7	-2.7	-2.0	-2.5
Government debt	38.2	39.6	39.3	34.3	33.8	34.5	34.0
Gross financing needs	2.2	5.7	4.5	1.5	5.0	4.4	4.8

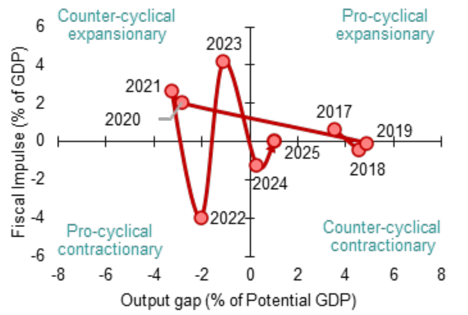
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimate

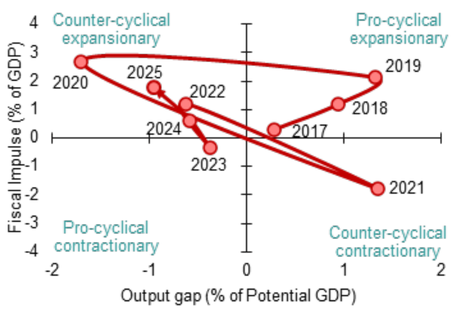
Note: 1) Fiscal indicators for FY2024 are based on AMRO staff estimates, except for Thailand; 2) Revenue, expenditure, and fiscal balance for FY2025 are based on the authorities' budgets, scaled by nominal GDP projected by AMRO staff. Government debt and gross financing needs for FY2025 are AMRO staff projections; 3) Fiscal indicators closely follow the authorities' published data except for the followings: a) Hong Kong, China: Fiscal balance excludes net issuance and repayment of government bonds and notes; b) Lao PDR: Gross financing needs include debt services under negotiation and government debt include the suspended interest payments as payables. The government external debt is evaluated by using commercial bank exchange rates; c) Myanmar: Revenue excludes borrowing and expenditure excludes principal repayments. While the fiscal year was from October to September in FY2018-2021, all macroeconomic and fiscal indicators are converted for April to March using quarterly data for consistent analysis. The government external debt is evaluated by using bank customer exchange rates; d) Philippines: Gross financing needs include the redemption by the bond sinking fund; e) Singapore: Fiscal balance is based on the overall budget surplus/deficit, which excludes capitalization and depreciation of nationally significant infrastructure from the overall fiscal position. From the overall budget surplus/deficit, it further excludes top-ups to endowment and trust funds, while including spending from these funds. Gross financing needs include the redemption of publicly held Singapore government securities and Treasury bills; f) Thailand: Expenditure includes off-budget emergency loans; g) Vietnam: Expenditure for the FY2025 budget includes the estimated carry-over from FY2024 and excludes the estimated carry-over to FY2026; 4) For fiscal year and coverage, please see Appendix III.

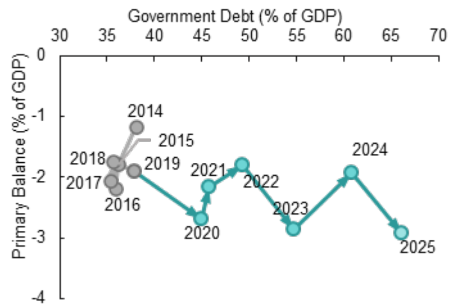
Appendix II. Fiscal Stance and Fiscal Position

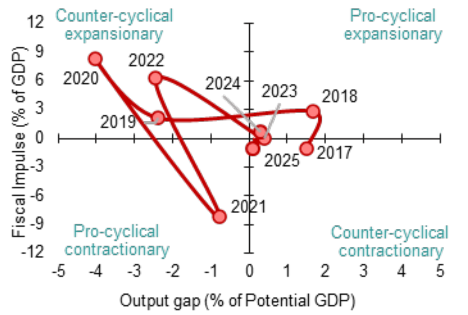
	Fiscal Impulse and Output Gap (Percent of GDP; Percent of potential GDP)	Government Debt and Primary Balance (Percent of GDP)
Brunei Darussalam	Chart 1	N/A
Cambodia	Chart 2	Chart 3
China	Chart 4	Chart 5
Hong Kong, China	Chart 6	Chart 7
Indonesia	Chart 8	Chart 9

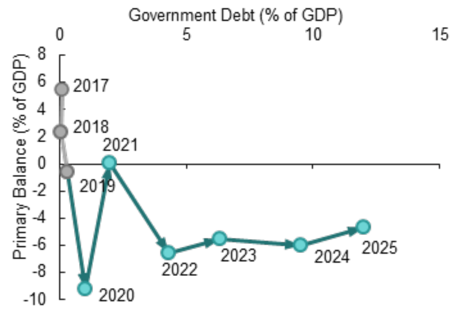


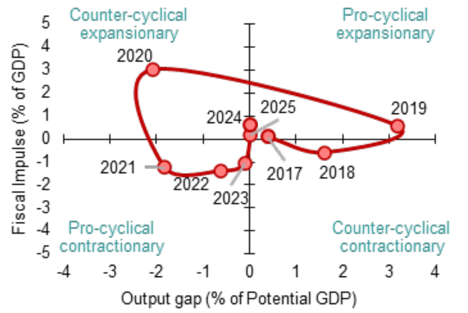


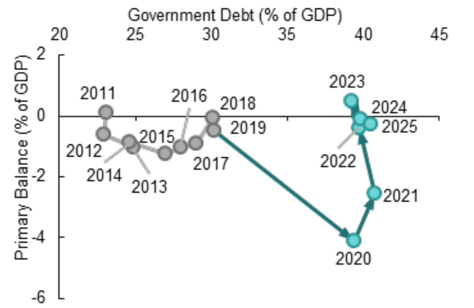












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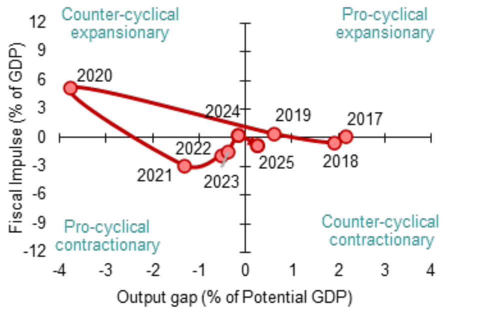
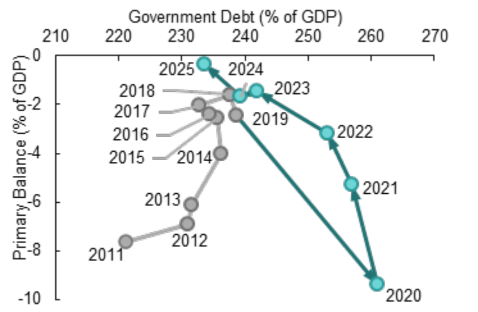
<tr><td>Japan</td><td>
</td><td>
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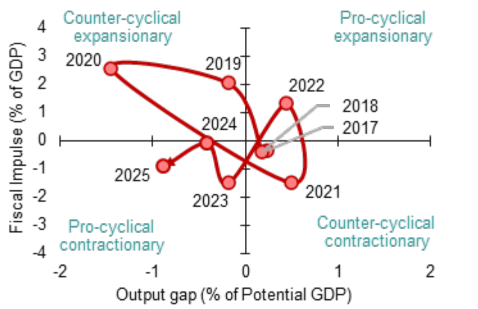
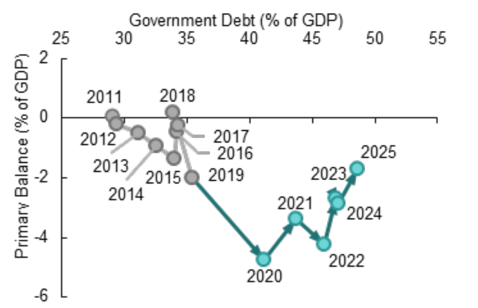
<tr><td>Korea</td><td>
</td><td>
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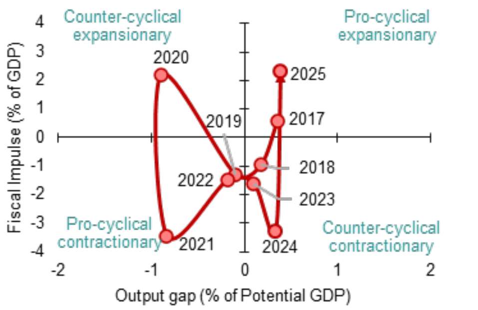
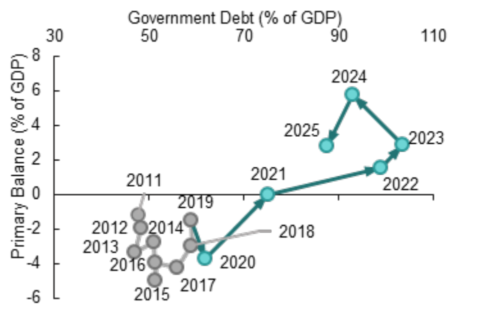
<tr><td>Lao PDR</td><td>
</td><td>
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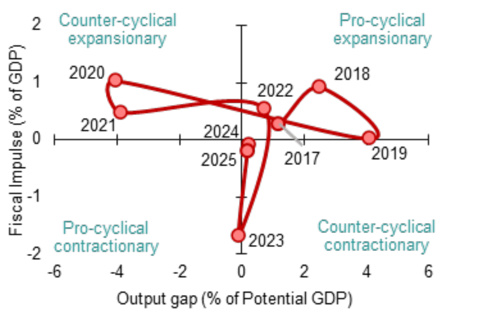
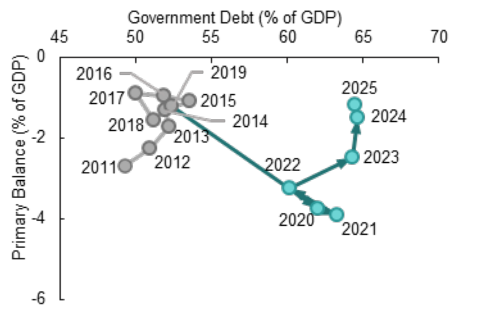
<tr><td>Malaysia</td><td>
</td><td>
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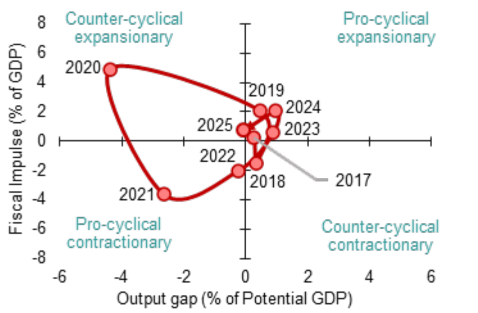
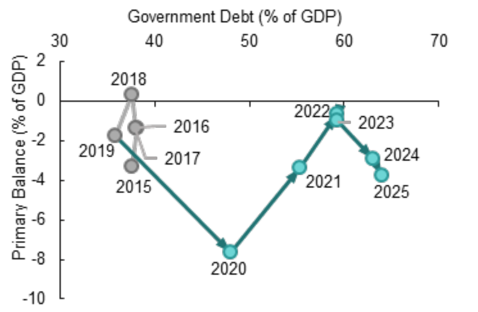
<tr><td>Myanmar</td><td>
</td><td>
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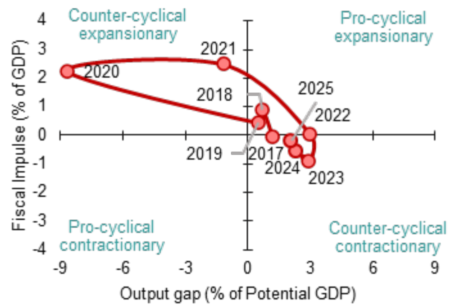
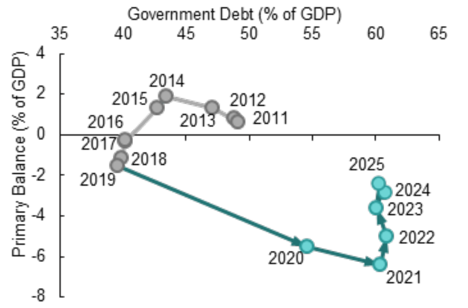
<tr><td>Philippines</td><td>
</td><td>
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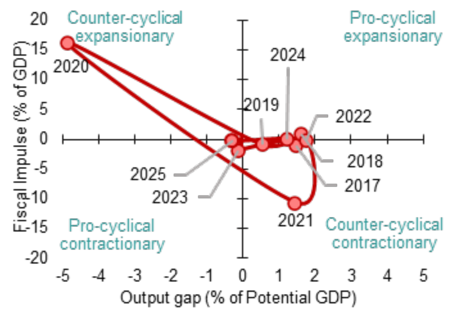
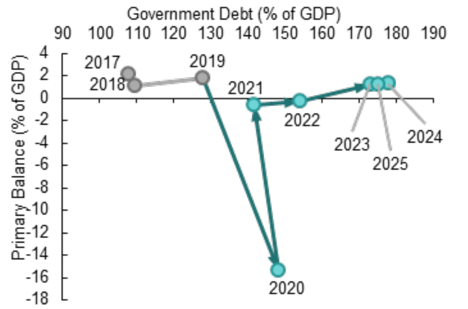
<tr><td>Singapore</td><td>
</td><td>
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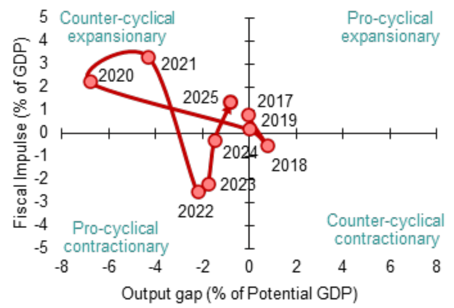
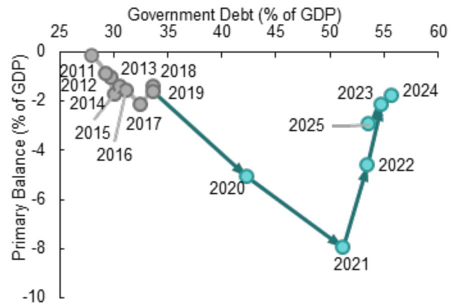
<tr><td>Thailand</td><td>
</td><td>
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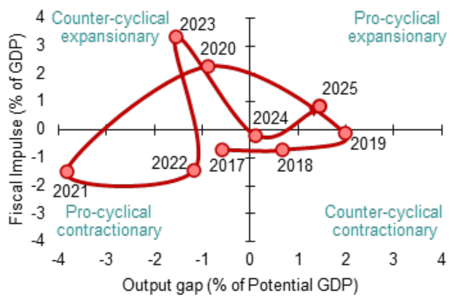
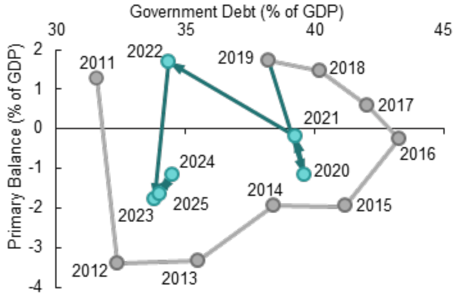
<tr><td>Vietnam</td><td>
</td><td>
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Source: National authorities via CEIC and Haver Analytics; AMRO staff estimate

Note: 1) Fiscal impulse is based on the change in the structural primary balance in a percentage of GDP, estimated by AMRO. A negative fiscal impulse implies a contractionary fiscal stance; 2) Output gap is computed based on the potential GDP estimated by AMRO; 3) Government debt for Brunei Darussalam is not shown as it has virtually zero government debt; 4) Indicators for FY2024 are based on AMRO staff estimates except for Thailand; 5) Fiscal impulse and primary balance for FY2025 is based on the authorities' budgets, scaled by nominal GDP projected by AMRO staff. Government debt for FY2025 is AMRO staff projections; 6) The fiscal impulse of Brunei Darussalam is for the consistency and completeness in presentation. Its fiscal stance assessment in AMRO's analysis relies more on the change in expenditure growth, as its macroeconomic and fiscal indicators are heavily dependent on oil and gas sector, and the fiscal impulse, adjusting only the business cycle, is likely to mislead the fiscal stance assessment. 7) For fiscal year and coverage, please see appendix III.

Appendix III. Fiscal Year, Coverage, Classification

	Fiscal Year	Coverage	
		Budget	Government Debt
Brunei Darussalam	April-March	Central government	Central government
Cambodia	January-December	Central government + Local government	Central government + Local government
China	January-December	Central government + Local government	Central government + Local government
Hong Kong, China	April-March	Central government	Central government
Indonesia	January-December	Central government	Central government
Japan	April-March	General government	General government
Korea	January-December	Central government + Social security funds	Central government + Local government
Lao PDR	January-December	Central government	Central government
Malaysia	January-December	Central government	Central government
Myanmar	April-March	Central government	Central government
Philippines	January-December	Central government	Central government
Singapore	April-March	Central government	Central government
Thailand	October-September	Central government	Central government
Vietnam	January-December	Central government + Local government	Central government + Local government

Source: National authorities; AMRO staff compilation
Note: Myanmar's fiscal year was from October to September in FY2018-2021. However, all macroeconomic and fiscal indicators are converted for April to March using quarterly data for consistent analysis.

Appendix IV. Decomposition Methodologies

Change in fiscal balance in FY t compared to fiscal balance in FY t-1 (Figure 3)

$$fb_t - fb_{t-1} = \underbrace{\Delta r_t}_{\substack{contribution\ of \\ revenue\ change}} \underbrace{- \Delta e_t}_{\substack{contribution\ of \\ expenditure\ change}} \underbrace{- \frac{fb_{t-1}}{(1+g_t)(1+\pi_t)} g_t}_{\substack{contribution\ of \\ real\ GDP\ growth}} \underbrace{- \frac{(1+g_t) fb_{t-1}}{(1+g_t)(1+\pi_t)} \pi_t}_{\substack{contribution\ of \\ GDP\ deflator\ inflation}}$$

where $\Delta r_t = \frac{R_t - R_{t-1}}{P_t Y_t}$, $\Delta e_t = \frac{E_t - E_{t-1}}{P_t Y_t}$, and fb=fiscal balance as a percentage of GDP, R=revenue, E=expenditure, P=GDP deflator, Y=real GDP, g=real GDP growth, π=GDP deflator inflation.

Difference between actual fiscal balance and budgeted fiscal balance (Figure 4)

$$fb_t^a - fb_t^b = \underbrace{\Delta r_t^{ab}}_{\substack{contribution\ of \\ revenue\ difference}} \underbrace{- \Delta e_t^{ab}}_{\substack{contribution\ of \\ expenditure\ difference}}$$

$$\underbrace{- \frac{fb_t^b}{(1+g_t^a)(1+\pi_t^a)} (g_t^a - g_t^b)}_{\substack{contribution\ of \\ real\ GDP\ growth\ difference}} \underbrace{- \frac{fb_t^b}{(1+g_t)(1+\pi_t)} [\pi_t^a (1 + g_t^a) - \pi_t^b (1 + g_t^b)]}_{\substack{contribution\ of \\ GDP\ deflator\ inflation\ difference}}$$

where $\Delta r_t^{ab} = \frac{R_t^a - R_t^b}{P_t Y_t}$, $\Delta e_t^{ab} = \frac{E_t^a - E_t^b}{P_t Y_t}$, and fb^a=actual fiscal balance as a percentage of GDP, fb^b=budgeted fiscal balance as a percentage of GDP, R=revenue, E=expenditure, P=GDP deflator, Y=real GDP, g=real GDP growth, π=GDP deflator inflation.

Change in government debt-to-GDP ratio (Figure 14)

$$d_t - d_{t-1} = \underbrace{\left[\frac{i_t^w}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\substack{contribution\ of \\ nominal\ interest\ rate}} \underbrace{- \left[\frac{\pi_t (1+g_t)}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\substack{contribution\ of \\ GDP\ deflator\ inflation}} \underbrace{- \left[\frac{g_t}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\substack{contribution\ of \\ real\ GDP\ growth}}$$

$$\underbrace{+ \left[\frac{\varepsilon_t \alpha_{t-1} (1+i_t^f)}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\substack{contribution\ of \\ exchange\ rate}} \underbrace{- pb_t}_{\substack{contribution\ of \\ primary\ deficit}} \underbrace{+ o_t}_{\substack{contribution\ of \\ other\ flows}}$$

where d=debt to GDP ratio, pb=primary balance to GDP ratio, o=other flows, i^w=effective nominal interest rate of total debt, i^f=effective nominal interest rate of external debt, g=real GDP growth, π=GDP deflator inflation, ε=exchange rate against USD, and α=share of external debt.

Change in GFN-to-GDP ratio (Figure 17)

$$gfn_t - gfn_{t-1} = \underbrace{\Delta pd_t}_{\substack{contribution\ of \\ primary\ deficit}} \underbrace{+ \Delta ip_t}_{\substack{contribution\ of \\ interest\ payment}} \underbrace{+ \Delta pp_t}_{\substack{contribution\ of \\ principal\ payment}} \underbrace{- \frac{gfn_{t-1}}{(1+g_t)(1+\pi_t)} g_t}_{\substack{contribution\ of \\ real\ GDP\ growth}} \underbrace{- \frac{(1+g_t) gfn_{t-1}}{(1+g_t)(1+\pi_t)} \pi_t}_{\substack{contribution\ of \\ GDP\ deflator\ inflation}}$$

where $\Delta pd_t = \frac{PD_t - PD_{t-1}}{P_t Y_t}$, $\Delta ip_t = \frac{IP_t - IP_{t-1}}{P_t Y_t}$, $\Delta pp_t = \frac{PP_t - PP_{t-1}}{P_t Y_t}$, and gfn=gross financing needs as a percentage of GDP, PD=primary deficit, IP=interest payment, PP=principal payment, P=GDP deflator, Y=real GDP, g=real GDP growth, π=GDP deflator inflation.

Glossary

Active labor market policy (ALMP)
Government intervention in the labor market to help the unemployed find work, improve labor market functioning, and promote productive employment—including employment services and job search assistance; training and skills development; employment incentives; entrepreneurship and self-employment support; and direct job creation and public employment programs.

Automatic stabilizers
Budget items that adjust automatically with economic cycle—for example, during economic downturns, tax revenues decline while unemployment benefits rise, providing demand support without new policy actions.

Capital expenditure (Capex)
Expenditure for acquisition of nonfinancial assets—such as fixed assets, inventories, valuables, and nonproduced assets (e.g., land, mineral and energy resources).

Contingent liabilities
Potential obligations that materialize only if specific future events occur, such as government guarantees on loans.

Counter-cyclical fiscal policy
Discretionary changes in expenditure and tax policies that mitigate economic fluctuations—for example, by increasing spending or cutting taxes during economic downturns.

Current expenditure
Expenditure on goods and services consumed within a fiscal year—including compensation of employees, use of goods and services, consumption of fixed capital, interest payment, subsidies, grants, and social benefits.

Cyclically-adjusted balance (CAB)
The fiscal balance adjusted for economic cycles by removing the automatic stabilizer components, providing clearer measure of underlying fiscal policy.

Cyclically-adjusted primary balance (CAPB)
Cyclical adjusted balance excluding interest payments. See also ***Cyclically-adjusted balance.***

Debt restructuring
An arrangement involving both the creditor and the debtor that alters the terms established for servicing an existing debt, involving forgiveness, rescheduling or refinancing, conversion, and assumption.

Debt-stabilizing primary balance
The level of primary balance required to keep the debt-to-GDP ratio unchanged, given the current state of economic condition (e.g., real interest rate, real GDP growth rate).

Debt sustainability analysis
A set of methodologies used to assess a country's ability to meet its current and future debt service obligations without requiring debt restructuring or accumulating arrears.

EMBI spread
Difference in yield, measured in basis points, between USD-denominated sovereign bonds issued by emerging market countries and comparable US Treasury bonds. It quantifies the additional returns investors demand to compensate for the higher credit risks associated with emerging market debt relative to the virtually risk-free US Treasury bonds.

External financing requirement
Total amount of external financing sources a country needs to meet its current account deficit and amortization of external debt of both public and private sectors.

Fiscal consolidation
Fiscal policy measures aimed at reducing government deficits and debt—including revenue-enhancing measures and spending rationalization.

Fiscal impulse
A measure of change in fiscal balance resulting from discretionary fiscal policy, assessing the government's fiscal stance and its potential impact on the economy. It is calculated as the change in structural primary balance (SPB) with negative sign, implying a positive (negative) fiscal impulse indicates an expansionary (contractionary) fiscal policy. See also ***Structural primary balance.***

Fiscal institution
A set of laws, regulations, organizations, systems, frameworks, procedures, and governance that shape and oversee a government's fiscal policies—including taxation, expenditure, budgeting, and debt management.

Fiscal multipliers
A measure of the impact of discretionary fiscal policy on output, calculated as the ratio of a change in output to a change in discretionary fiscal measure.

Fiscal reserve
Funds accumulated by governments from budget surpluses or investment returns, set aside to manage economic and financial stability, address unforeseen expenses, and support economic objectives.

Fiscal rule
Legally or administratively imposed numerical limits on key fiscal indicators, such as fiscal balance, government debt, public expenditure, or long-term fiscal objectives

Fiscal space
The room for a government to undertake discretionary fiscal policy relative to the baseline with the availability of financing and without jeopardizing debt sustainability.

Fiscal stance
An assessment of whether fiscal policy is expansionary, neutral, or contractionary, based on changes in discretionary government spending and taxation relative to macroeconomic conditions.

Green taxonomy
A classification system that defines criteria for economic activities and assets considered environmentally sustainable or green, aiming to guide investments toward activities that contribute positively to environmental objectives.

Gross financing needs (GFN)
Total amount of funds a government needs to finance to meet its financial obligations. It is calculated as the sum of primary deficit, interest payments, and principal payments (amortizations) due on existing government debt.

Integrated financial management information system (IFMIS)
A comprehensive, computerized system that automates and integrates public financial management processes—including budget formulation, execution, accounting, reporting, cash management, procurement management, and payroll management—within government entities.

Medium-term fiscal framework (MTFF)
A set of institutional arrangements for prioritizing, presenting, reporting, and managing fiscal aggregates—revenue, expenditure, balance, and debt—over a medium-term horizon. It incorporates a fiscal strategy, medium-term projections of key macroeconomic variables and fiscal aggregates, and ceilings on total expenditure to guide subsequent annual budgets.

Primary balance
Overall fiscal balance excluding interest payment.

Primary current expenditure
Current expenditure excluding interest payment. See also ***Current expenditure.***

Primary expenditure
Total expenditure excluding interest payment.

Procyclical fiscal policy
Discretionary changes in expenditure and tax policies that amplify economic fluctuations—for example, by increasing spending or cutting taxes during economic expansions.

Public debt management (PDM)
The process of establishing and executing a strategy for managing the government's debt to raise the required amount of funding, achieve its risk and cost objectives, and meet any other debt management goals, such as developing and maintaining an efficient market for government securities.

Public financial management (PFM)
The institutions concerned with the laws, organizations, systems, and procedures available to governments wanting to secure and use resources effectively, efficiently and transparently.

Public-private partnership (PPP)
Long-term contracts between a government entity and a private party, whereby the private party acquires or builds an asset or set of assets, operates it for a period, and then hands the asset over to the government entity.

Social assistance
Non-contributory programs designed to provide financial or in-kind support to individuals or households to reduce poverty and vulnerability and ensure a basic standard of living.

Social insurance
Contributory programs designed to protect individuals against risks by providing income support in the event of illness, disability, work injury, maternity, unemployment, old age, and death.

Social protection
A set of policies and programs designed to reduce and prevent poverty and vulnerability throughout the life cycle, by reducing exposure to risks, enhancing capacity to manage negative shocks, and promoting efficient labor markets. Social protection comprises social insurance, social assistance, and labor market programs.

Social safety net
Used interchangeably with ***Social assistance.***

Structural primary balance (SPB)
Cyclically-adjusted primary balance excluding one-off temporary factors - such as exceptional and irregular fiscal transactions (e.g., revenue windfalls, large reparations). See also ***Cyclically-adjusted primary balance*** and ***Cyclically-adjusted balance.***

Supplementary budget
An additional budget introduced by the government to adjust expenditures and/or revenues after the approval of the initial budget due to unexpected economic and policy changes.

Tax buoyancy
The responsiveness of tax revenue to changes in GDP, measured as a percentage change in tax revenue relative to the percentage change in nominal GDP.

Tax elasticity
The responsiveness of tax revenue (excluding the changes due to discretionary tax policy changes) to changes in GDP, calculated as the percentage change in tax revenue (excluding the discretionary tax policy changes) relative to the percentage change in nominal GDP.

Tax expenditure
Provisions in tax laws that reduce the tax liability of specific groups or activities. Tax expenditure includes exemptions, deductions, credits, deferrals, and preferential rates that deviate from a standard tax structure.

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Address: 10 Shenton Way, #15-08
MAS Building, Singapore 079117
Website: www.amro-asia.org
Tel: +65 6323 9844
Email: enquiry@amro-asia.org