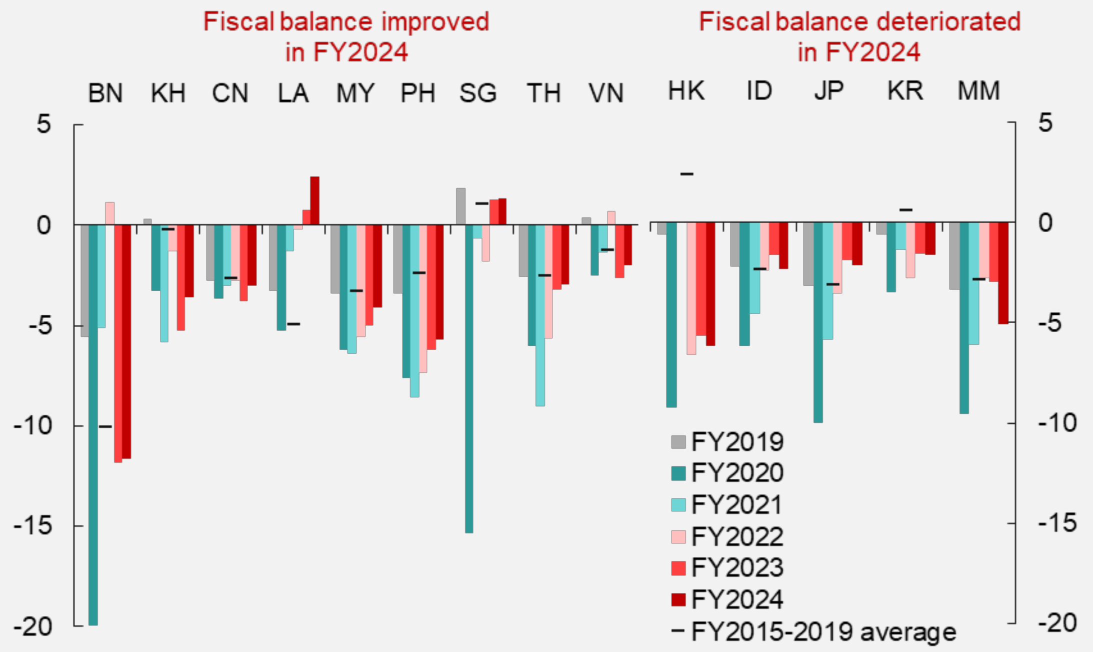
Fiscal positions remained weaker than pre-pandemic levels.

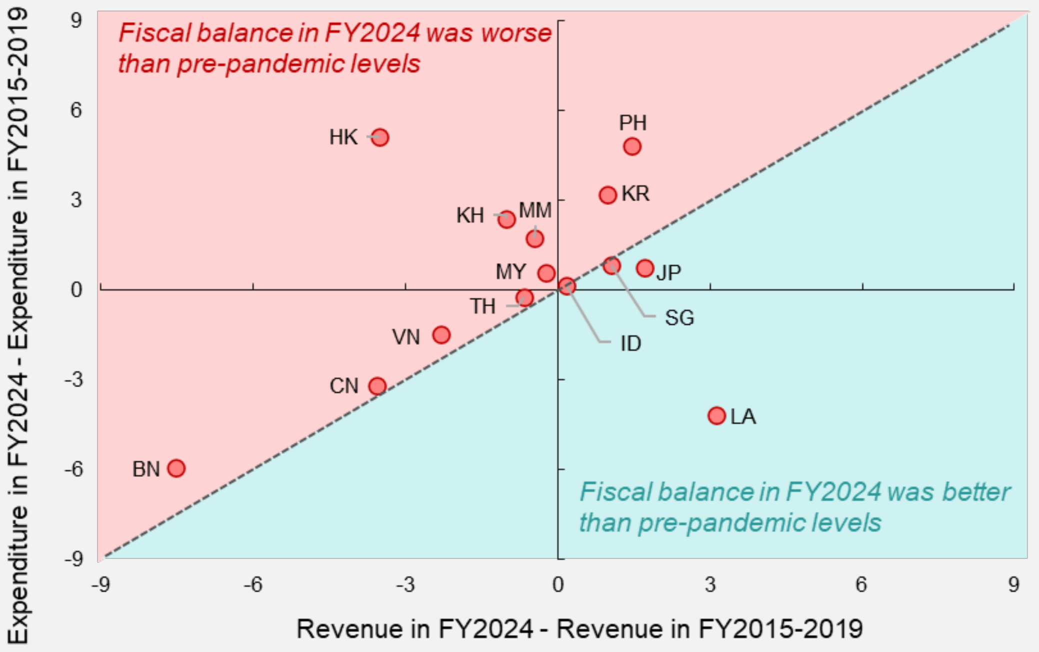
- *Following a sharp deterioration of fiscal balance during the pandemic, most economies have improved their fiscal balance, albeit at varying magnitudes, speeds and timings.*
- *However, their fiscal balances have not yet returned to pre-pandemic levels, mainly due to yet-to-recover revenue and partly owing to elevated spending needs.*

Fiscal Balance, FY2019-2024
(Percent of GDP)



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

Revenue and Expenditure Compared to Pre-Pandemic Levels (Percent of GDP)

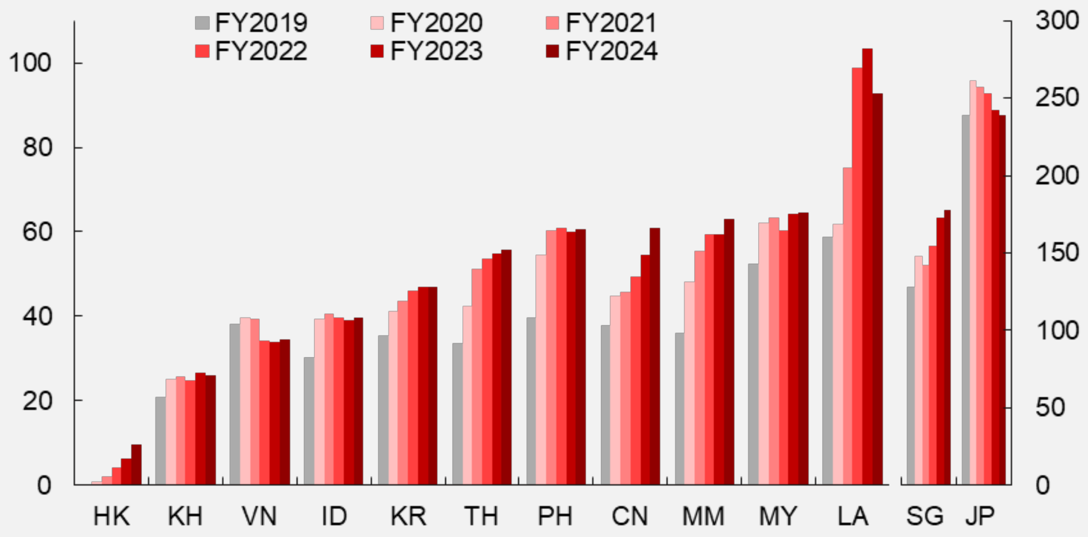


Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates

Fiscal space narrowed substantially due to high debt and financing needs.

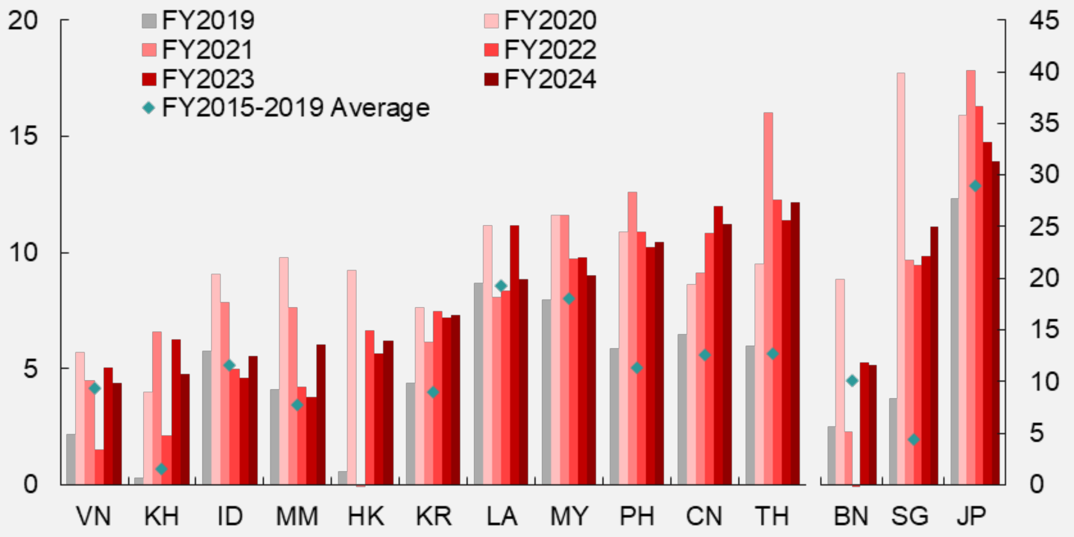
- *Despite the signs of stabilization, the government debt-to-GDP and the GFN-to-GDP ratios have risen significantly and are expected to remain high over the medium term.*
- *As a result, fiscal space has narrowed substantially, highlighting the need for continued fiscal consolidation efforts to rebuild fiscal buffers for future economic shocks and improve debt sustainability.*

Gross Government Debt, FY2019-2024
(percent of GDP)



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

Gross Financing Needs, FY2019-2024
(percent of GDP)

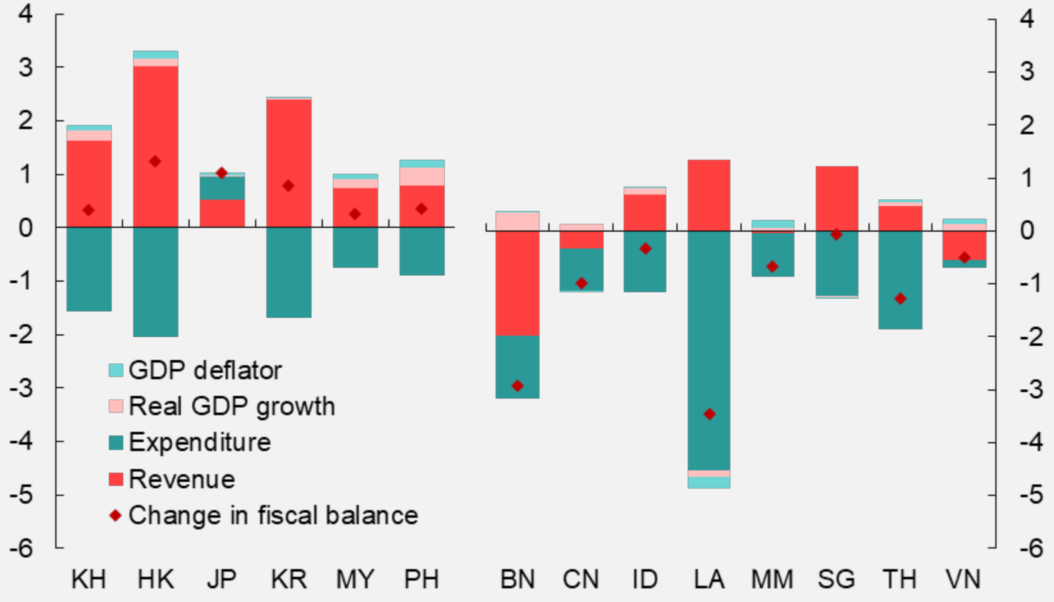


Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note : 1) Debt service in Lao PDR is based on its original amount, including debt restructuring under negotiation; 2) Amortization in the Philippines includes the redemption by the bond sinking fund; 3) Amortization in Singapore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

A resilient macroeconomic outlook with significant uncertainties requires a calibrated fiscal policy approach.

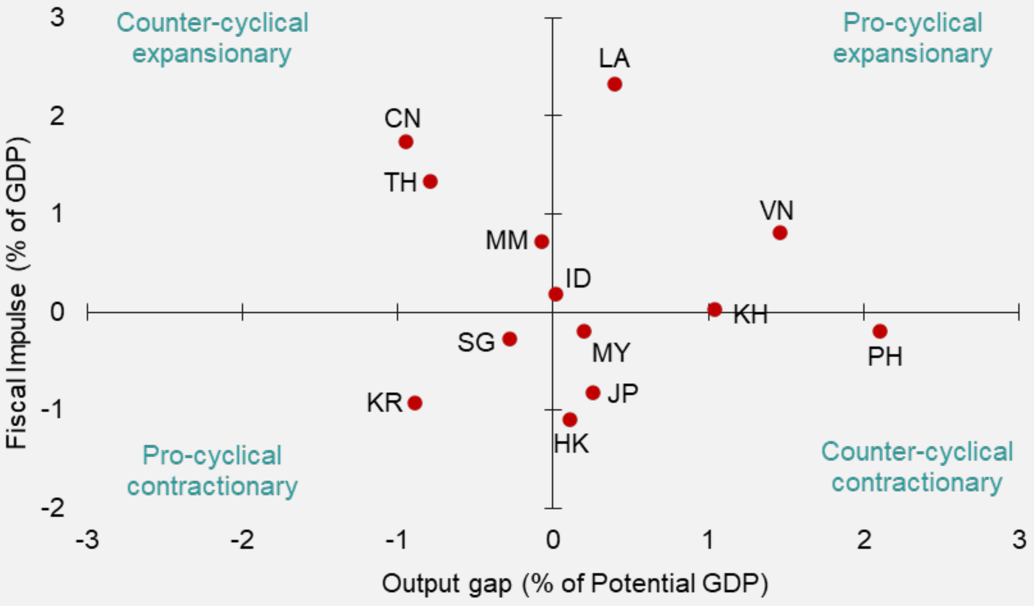
- *ASEAN+3 region is expected to maintain generally steady growth in 2025, but varying underlying economic and fiscal conditions are likely to result in diverging fiscal developments and stances.*
- *Amid heightened uncertainties, particularly from more aggressive protectionist policies, fiscal policy should remain adaptable to mitigate adverse impacts and support economic stability.*

Contribution to Change in Fiscal Balance, FY2025
(percent of GDP)



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

Fiscal Impulse and Output Gap, FY2025
(percent of potential GDP; percent of GDP)

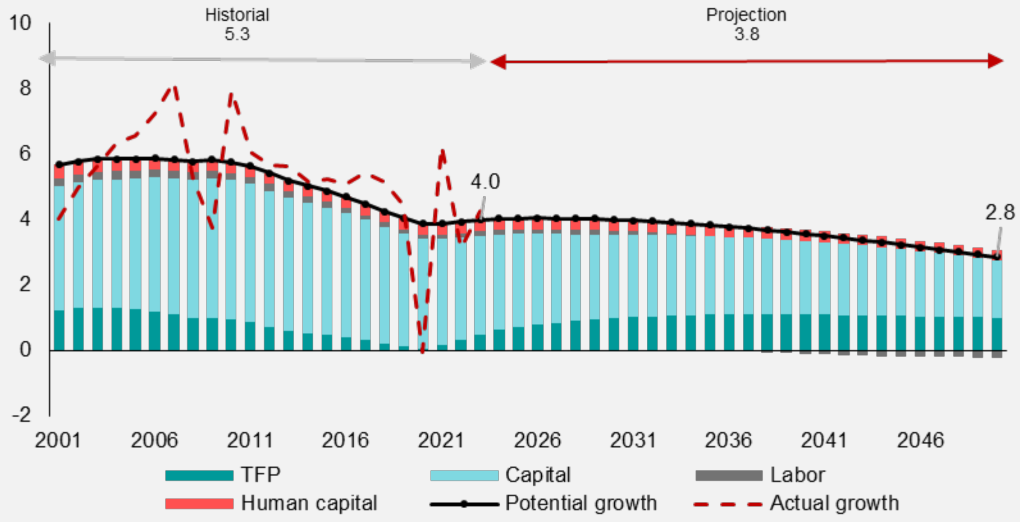


Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Output gap is computed based on the potential GDP estimated by AMRO.

Addressing structural challenges requires significant fiscal resource commitments and proactive fiscal policy responses.

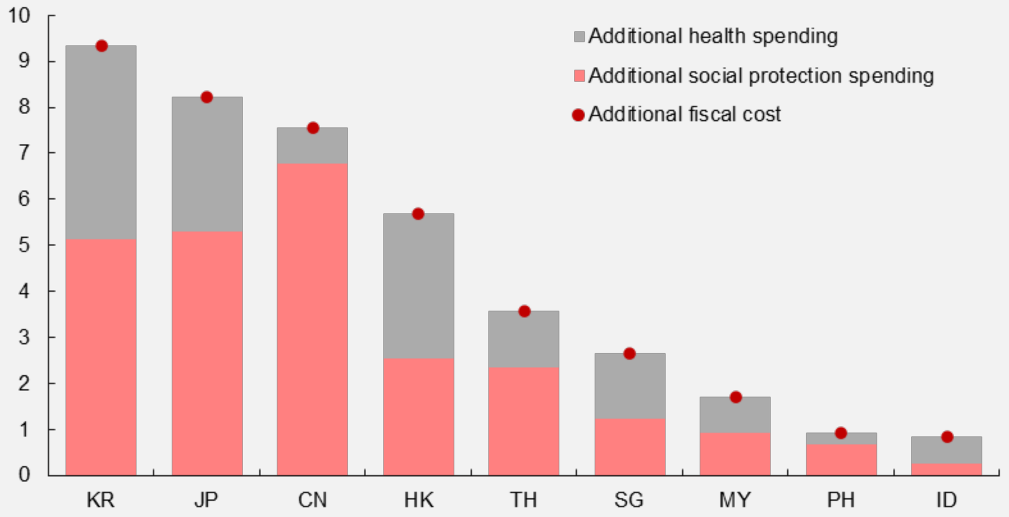
- *Amid trending down of potential growth, widening income disparities, and stagnant poverty reduction, policy measures to achieve sustainable and inclusive growth require substantial fiscal resources.*
- *While population aging will exert considerable fiscal pressure, addressing the issues related population aging (e.g., income security) and climate change (e.g., adaptation, mitigation) requires proactive responses.*

Potential Growth Projections, by Factor Input
(percent)



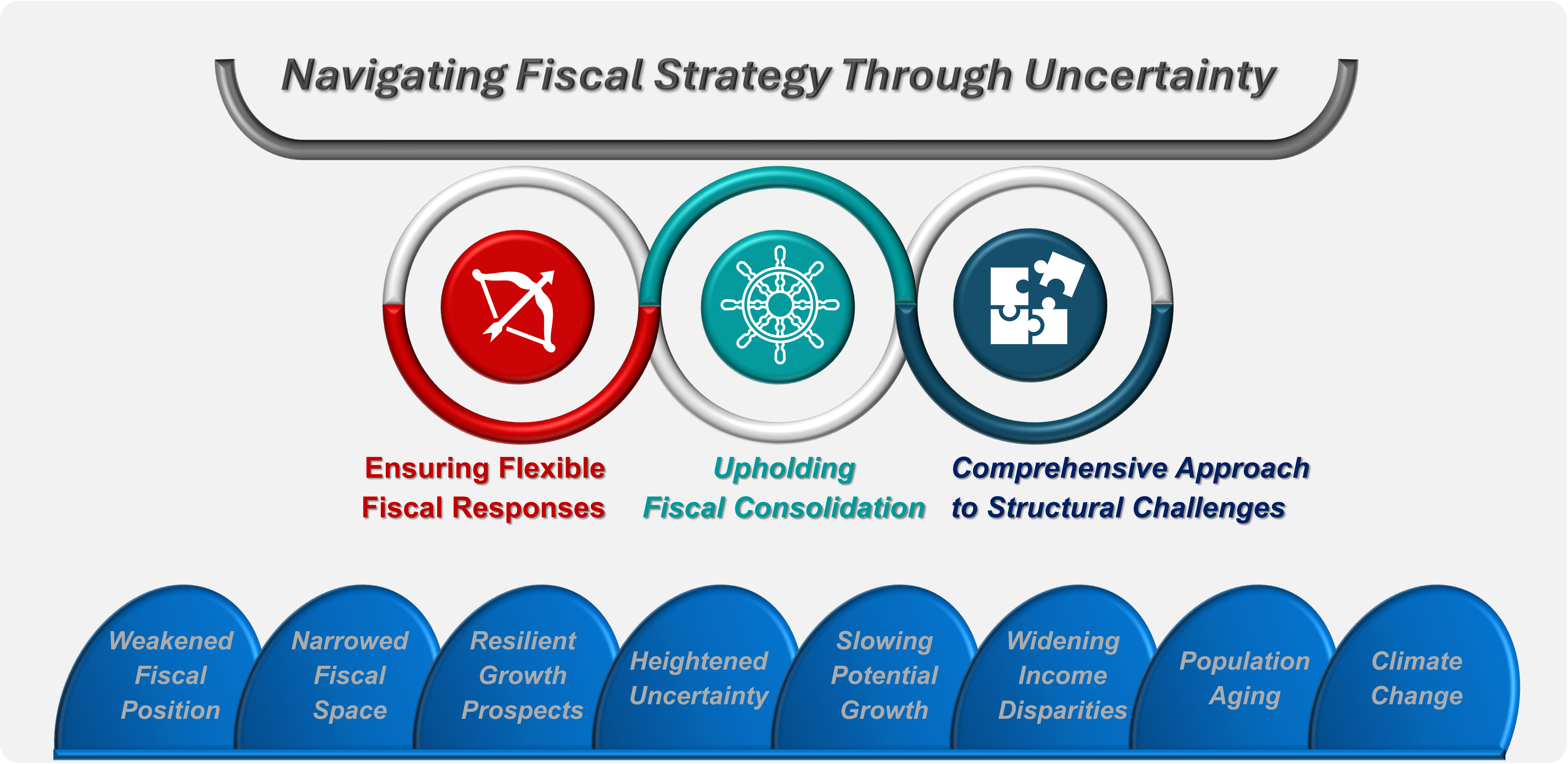
Source: AREO 2025, Chapter 3. Long-term Growth of ASEAN+3: Prospects and Policies
Note: 1) Long-term growth projections combine two key assumptions: i) historical growth trends continue; and ii) ASEAN+3 economies will be able to catch up over time, which means that their TFP, capital stock (per capita), and human capital will gradually converge with levels in more advanced peers; 2) The aggregate growth and components are weighted by purchasing power parity-adjusted GDP.

Additional Fiscal Costs from Social Protection and Health Expenditure
(percent of GDP)



Source: AMRO staff estimates
Note: Additional fiscal costs in 2050 are computed by subtracting social protection and health expenditures in percent of GDP in 2019 from those in 2050.

ASEAN+3 member authorities should navigate fiscal strategy through uncertainty with flexible fiscal responses and commitment to fiscal prudence.



Ensure flexible fiscal responses, by preemptively preparing fiscal measures and implementing prompt and well-coordinated fiscal responses when needed.

Proactive Planning

- *Conduct thorough risks assessments, Identify vulnerable sectors and industries, and evaluate the scope and depth of potential disruptions.*
- *Establish contingency plan outlining specific scenarios and corresponding policy actions*
- *Engage key stakeholders in discussing the modality and preconditions for fiscal responses*

Swift Implementation

- *Implement fiscal responses promptly, with well-targeted measures*
- *Coordinate with monetary policy closely for effective macroeconomic policy mix*
- *Once risk factors subside and economic stability is restored, transition back to the medium-term fiscal consolidation path.*

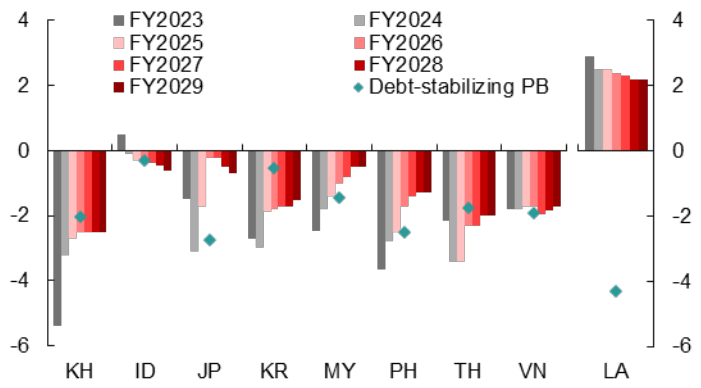
Robust PFM and Transparent Communication

Uphold fiscal consolidation, with carefully calibrated targets and a mix of revenue-expenditure measures, while broadening the scope of PDM

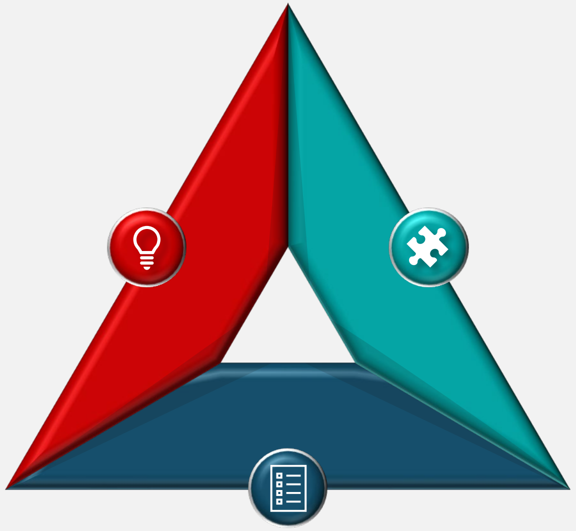
Carefully calibrate targets

- *Impact of fiscal consolidation on growth*
- *Debt dynamics*
  - *Debt-stabilizing primary balance*
  - *Real interest rate – real growth rate*
- *Political and Social considerations*
- *Fiscal rules and MTFF*

PB and Debt-stabilizing PB (percent of GDP)



Source: AMRO staff estimates
Note: 1) Primary balances of each economy is based on the latest AMRO DSA; 2) Debt-stabilizing primary balance represents the average over FY2025-2029.



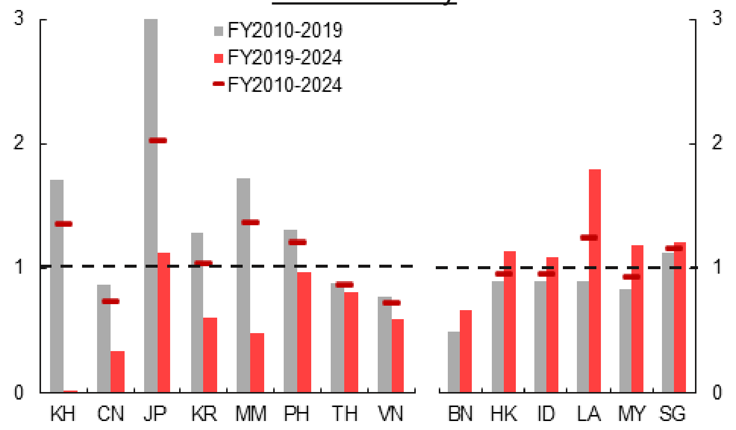
Broadening the scope of PDM

- *Long-term fiscal risks*
- *Public sector*
- *Financing instruments*

A mix of revenue-expenditure measures

- *Phasing out temporary measures*
- *Revenue-enhancing measures*
  - *Improving tax administration*
  - *Streamlining tax expenditure*
  - *Realigning tax policy*
- *Spending rationalization (PFM)*

Tax Elasticity



Source: AMRO staff estimates
Note: 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.

Address structural challenges with comprehensive policy packages