AMRO
ASEAN +3 MACROECONOMIC RESEARCH OFFICE

ASEAN+3 Fiscal Policy Report 2026:

Strengthening Fiscal Management Amid Emerging Headwinds

April 2026

The factual information covers data for the period up to March 13, 2026.

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ASEAN+3 Fiscal Policy Report 2026

Prepared by the Fiscal Surveillance Group led by Seung Hyun (Luke) Hong.
Contributors to the report are Ravisara Hataiseree, Guohua Huang, Byunghoon Nam (lead), Sekar Utami Setiastuti, Chaeyeon (Olivia) Song, Dek Joe Sum, Koon Hui Tee, Yiwei Wang, and Ginanjar Wibowo.[1,2]

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

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Executive Summary

Fiscal developments in FY2025 reflected active fiscal policy, characterized primarily by spending expansion. Fiscal balances deteriorated in half of ASEAN+3 economies and improved in the other half. Expenditure rose across all economies, while revenue performance remained generally strong, though expenditure growth outpaced revenue gains in many cases. Tax revenue increased across major categories, supported by resilient economic activity. Spending growth was concentrated in primary current expenditure, reflecting continued efforts to support recovery, strengthen social welfare, and protect vulnerable groups.

The fiscal stance in FY2026 is assessed as expansionary or broadly neutral, with continued expenditure expansion supported by robust revenue growth. Resilient—though moderating—economic growth is anticipated to underpin solid tax revenue performance. Primary current expenditure is projected to continue driving overall spending growth in most economies, as authorities prioritize strengthening social welfare systems and advancing strategic investments to support resilient, inclusive, and sustainable growth. While the fiscal stance is assessed broadly appropriate, economies with positive output gaps may consider accelerating fiscal tightening to rebuild fiscal buffers, while those facing negative output gaps may adopt a more expansionary stance should economic conditions weaken.

Government debt remains elevated, with gradual stabilization expected over the medium term. The debt-to-GDP ratio increased in most member economies in FY2025 after showing signs of stabilization in previous years. Primary deficits and higher effective interest rates were the main drivers, outweighing downward contributions from real growth and inflation. Over the medium term, the debt ratio is projected to gradually stabilize or decline in most economies, except China and Korea, where it is expected to continue rising. Gross financing needs (GFN) are also forecast to remain elevated, reflecting the heightened debt service burden associated with accumulated debt despite stabilization of sovereign yields.

ASEAN+3 authorities should strengthen fiscal management amid structural and fiscal pressures, while remaining flexible in responding to shocks. Despite the improvement in fiscal positions in recent years, they remained weaker than pre-pandemic levels—reflected in wider deficits and higher debt and financing needs. Continued efforts to safeguard fiscal sustainability and rebuild buffers are therefore warranted. At the same time, fiscal policy should remain flexible to respond to shocks amid elevated uncertainty, while advancing its core functions of promoting growth, facilitating structural transformation, and reducing poverty and inequality despite limited revenue buoyancy and rigid budget structures. Addressing these structural and fiscal pressures requires strengthening fiscal management by reinforcing fiscal

[1] Authors' e-mail addresses: Luke.Hong@amro-asia.org, Ravisara.Hataiseree@amro-asia.org, Guohua.Huang@amro-asia.org, Byunghoon.Nam@amro-asia.org, SekarUtami.Setiastuti@amro-asia.org, Chaeyeon.Song@amro-asia.org, Sum.DekJoe@amro-asia.org, Koonhui.Tee@amro-asia.org, Yiwei.Wang@amro-asia.org, and Wibowo.Ginanjar@amro-asia.org.
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aggregate management, enhancing both allocative and implementation efficiency, pursuing comprehensive and durable revenue-enhancing measures, and improving systematic management of macroeconomic and fiscal risks.

Establishing credible fiscal anchors is critical to guide medium- to long-term fiscal aggregates onto a sustainable path, particularly in member economies where debt ratios are projected to continue rising and where fiscal operations are susceptible to political pressures. Fiscal rules and/or medium-term fiscal frameworks (MTFFs) can help define and operationalize such anchors. Where refined or introduced, fiscal rules should incorporate desirable characteristics—simplicity, flexibility, and enforceability—to ensure operational feasibility and resilience to economic shocks. MTFFs can further translate long-term fiscal anchors—potentially set by fiscal rules—into medium-term targets for key fiscal aggregates, including revenue, expenditure, fiscal balances, and public debt.

Strategic resource allocation should be strengthened to support resilient, inclusive, and sustainable growth. Once aggregate targets are set under fiscal rules and/or the MTFF, medium-term budget or expenditure frameworks (MTBFs/MTEFs) can operationalize these targets by allocating resources across sectors and programs in line with national priorities and long-term strategic objectives. Fiscal frameworks should also support economic stability and resilience by transforming economic structure more shock-resilient, and reinforcing effective automatic stabilizers. Forward-looking spending priorities—such as active labor market policies (ALMPs) and investment in climate-resilient infrastructure and renewable energy—can help turn structural challenges into opportunities for long-term growth.

Improving spending efficiency is pivotal to enhancing the impact of limited fiscal resources. A performance-based budgeting (PBB) links resource allocation to clearly defined objectives and measurable results, supported by well-defined key performance indicators (KPIs), spending reviews, and effective feedback into the annual budget process. In economies facing infrastructure gaps, strengthening public investment management (PIM)—including rigorous cost-benefit analysis and robust project monitoring—is particularly important. Strong institutional foundations across procurement, cash management, accounting, and oversight are also essential to reduce waste and improve accountability.

Revenue-enhancing measures should be comprehensive and durable to address persistently weak revenue generation in many ASEAN+3 economies. Strengthening tax administration is central to closing compliance gaps through reinforcing core functions—taxpayer registration, audit capacity, arrears management, dispute resolution, taxpayer services—and reducing compliance costs by leveraging digital technologies. More rigorous management of tax expenditures is equally important, as generous exemptions and incentives remain prevalent across the region and have eroded the tax base. Broader tax policy reforms—such as appropriate rate adjustments, base broadening, improved progressivity, and the introduction of new taxes—can further bolster sustainable revenue mobilization.

Macroeconomic and fiscal risks should be managed systematically. Amid persistent uncertainty, fiscal responses to emerging shocks should be grounded in clear and well-defined frameworks, including contingency planning, stakeholder engagement, and transparent communication. Authorities should also strengthen fiscal risk identification, assessment, and disclosure. Transparent reporting and legislative scrutiny can enhance accountability and reinforce fiscal credibility. Particular attention should be given to liabilities arising outside official budget coverage, including subnational borrowing and off-budget entities. Contingent liabilities—such as government guarantees, public-private partnership (PPP) obligations, and risks related to state-owned enterprises (SOEs) and social security systems—require systematic monitoring and prudent management.

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Abbreviations

AE	advanced economy
AI	artificial intelligence
ALMP	active labor market policy
ASEAN	Association of Southeast 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, Vietnam
CIT	corporate income tax
COVID-19	coronavirus disease 2019
CRI	Commitment to Reducing Inequality
DB	defined benefit
DC	defined contribution
DMTT	Domestic Minimum Top-Up Tax
DSA	debt sustainability analysis
EMBI	Emerging Markets Bond Index
EME	emerging market economy
ETS	Emissions Trading System
FCY	foreign currency
FDI	foreign direct investment
FMIS	financial management information system
FY	fiscal year
G20	Group of Twenty
GDP	gross domestic product
GFN	gross financing needs
GMT	global minimum tax
GST	goods and services tax
GTED	Global Tax Expenditures Database
GTETI	Global Tax Expenditures Transparency Index
GX	Green Transformation
HDI	Human Development Index
HR	human resources
ICT	information and communications technology
IDS	International Debt Statistics
IIR	Income Inclusion Rule
ILO	International Labour Organization
IMF	International Monetary Fund
ISSA	International Social Security Association
KPI	key performance indicator
LGFV	local government financing vehicle
LIC	low-income country

MSME	micro, small and medium enterprise
MTBF	medium-term budget framework
MTEF	medium-term expenditure framework
MTFF	medium-term fiscal framework
NK-DSGE	New Keynesian Dynamic Stochastic General Equilibrium
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OSA	official security assistance
PBB	performance-based budgeting
PFM	public financial management
PIM	public investment management
PIMA	Public Investment Management Assessment
PIP	Poverty and Inequality Platform
PISA	Programme for International Student Assessment
PIT	personal income tax
Plus-3	China; Hong Kong, China; Japan; Korea
PPP	public-private partnership
QEDS	Quarterly External Debt Statistics
R&D	research and development
SDG	Sustainable Development Goal
SEE	state-owned economic enterprise
SEZ	special economic zone
SME	small and medium enterprise
SOE	state-owned enterprise
SST	sales and service tax
SVAR	structural vector-autoregression
SWIID	Standardized World Income Inequality Database
TE	tax expenditure
TSA	treasury single account
UN	United Nations
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNIDO	United Nations Industrial Development Organization
UTPR	Undertaxed Profits Rule
VAT	value-added tax
WEO	World Economic Outlook
WHO	World Health Organization

BN	Brunei Darussalam[3]
KH	Cambodia
CN	China
HK	Hong Kong, China[4]
ID	Indonesia
JP	Japan
KR	Korea
LA	Lao People's Democratic Republic[5]
MM	Myanmar
MY	Malaysia
PH	Philippines
SG	Singapore
TH	Thailand
US	United States
VN	Vietnam

BND	Bruneian 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

[3] For brevity, "Brunei Darussalam" is referred to as "Brunei" in the text.
[4] For brevity, "Hong Kong, China" is referred to as "Hong Kong" in the text.
[5] For brevity, "Lao People's Democratic Republic" is referred to as "Lao PDR" in the text.

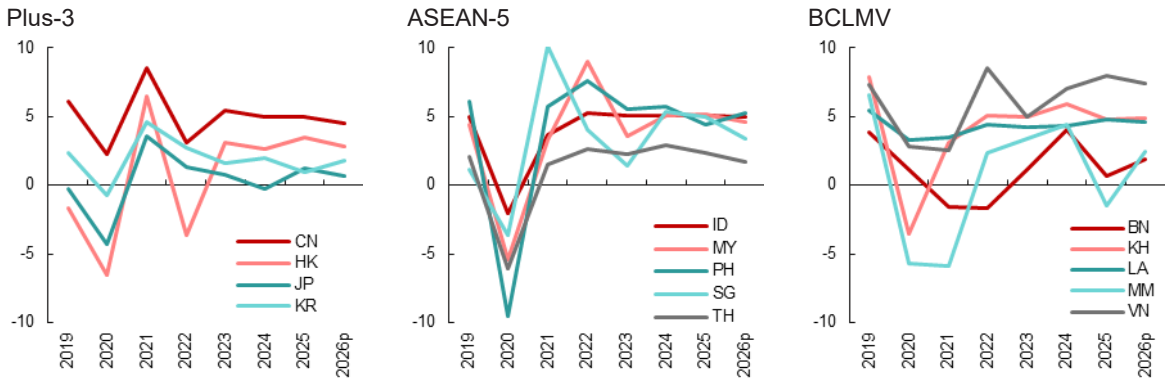
I. Introduction

1. **ASEAN+3 economies implemented active fiscal policy in FY2025 to support economic recovery**. Despite the significant shift in global trade conditions triggered by U.S. tariff measures, the region maintained resilient growth in 2025, underpinned by firm domestic demand and strong export momentum—driven by robust AI-related semiconductor demand—strengthened intraregional trade, and timely policy support that helped cushion domestic activity (AMRO, 2026). Fiscal policy played a central role in boosting domestic demand, mitigating cost-of-living pressures, protecting vulnerable groups, and responding to trade shocks through fiscal and quasi-fiscal measures. While revenue performance remained broadly favorable alongside resilient growth, expenditure expansion outpaced revenue gains in many economies, resulting in wider fiscal deficits. Consequently, government debt-to-GDP ratios increased in most member economies—after showing signs of stabilization in previous years—and financing needs remained elevated.

2. **Regional economic growth is expected to moderate in 2026, with inflation rising and uncertainty remaining elevated** (Figure 1; AMRO, 2026). Higher U.S. tariffs are likely to weigh on external demand, making domestic demand the main growth driver—supported by investment, foreign direct investment (FDI) inflows, and resilient consumption. Technology-related exports, particularly AI-driven semiconductor demand, are expected to partially offset weaker external demand. Inflation is projected to increase, mainly reflecting higher global energy prices and subsidy rationalization in several economies. Overall risks are tilted to the downside amid elevated uncertainty. Stronger AI investment could lift growth, whereas setbacks in the technological cycle or renewed tariff escalation could dampen activity. Elevated global energy prices and the potential disruption to energy supply pose additional risk, weighing on growth while adding to inflationary pressures. Financial market volatility and weaker global growth also continue to pose downside risks to growth.

3. **Authorities face mounting structural and fiscal challenges at the current juncture**. Given successive support measures to address various shocks and economic fallouts since the pandemic, fiscal positions remain weaker than the pre-pandemic levels despite some improvement in recent years, while economic uncertainty still remains persistent and elevated. Sustained efforts to safeguard fiscal sustainability and rebuild buffers are therefore warranted. At the same time, fiscal policy should fulfill its core functions of promoting growth, supporting structural transformation, and reducing poverty and inequality amid weak revenue buoyancy and rigid budget structures. Addressing these structural and fiscal pressures requires strengthening fiscal management.

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



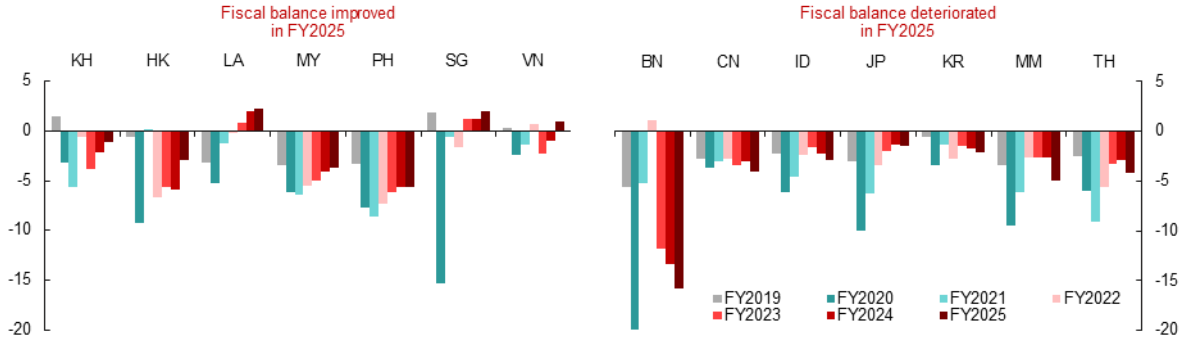
Source: AMRO (2026)

II. Recent Fiscal Developments and Outlook

A. Fiscal Balance

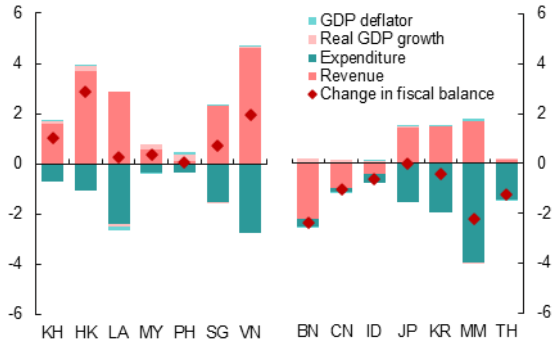
4. **Fiscal developments in FY2025 reflected active fiscal policy, characterized primarily by spending expansion**. Fiscal balances deteriorated in half of the member economies and improved in the other half (Figure 2). Expenditure increased in all economies, while revenue performance was generally strong across most cases. In several economies, revenue growth more than offset expenditure increases, leading to improved fiscal balances, whereas in others, expenditure growth outpaced revenue gains, resulting in fiscal deterioration (Figure 3). Notable exceptions were Brunei, China, and Indonesia, where declining revenues alongside rising expenditures led to a further widening of fiscal deficits.

Figure 2. ASEAN+3: Fiscal Balance, FY2019-2025 (Percent of GDP)



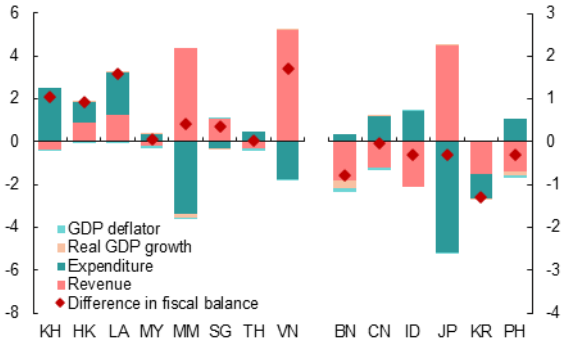
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: See Appendix I for the fiscal year, coverage, and data notes for ASEAN+3 member economies.

Figure 3. ASEAN+3: Contribution to Change in Fiscal Balance, FY2025
(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 FY2025 fiscal balance improved (deteriorated) compared with FY2024. A positive contribution of revenue implies the FY2025 revenue was larger than FY2024, while a positive contribution of expenditure implies the FY2025 expenditure was lower than FY2024; 2) See Appendix IV for the decomposition methodology.

Figure 4. ASEAN+3: Contribution to Difference between Budget and Outturn, FY2025
(Percent of GDP)



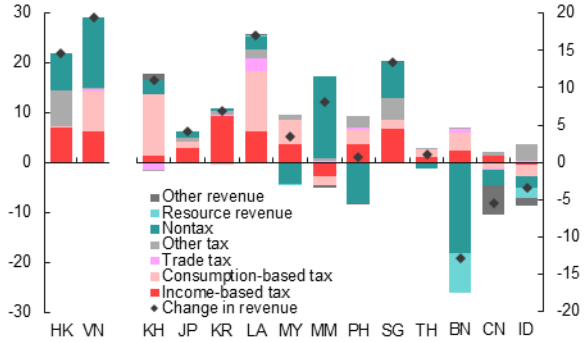
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) A positive (negative) difference in the fiscal balance implies the actual fiscal balance improved (deteriorated) compared with the budgeted balance. A positive contribution of revenue implies the actual revenue collection 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 with initial FY2025 budget plans, fiscal balances turned out better than budgeted in eight member economies and worse in six (Figure 4). Deviations from budget forecasts were most pronounced in Vietnam and Myanmar. In Vietnam, revenue outturns significantly exceeded projections due to a surge in land-use transactions, more than offsetting higher spending related to government restructuring. Similarly, in Myanmar, higher revenue receipts

from state-owned economic enterprises (SEEs) outpaced earthquake-related expenditure increases, resulting in narrower fiscal deficit. Elsewhere, stronger-than-expected revenue supported improved fiscal balances in Hong Kong—reflecting robust growth—and in Lao PDR, partly due to front-loaded resource-related receipts. Lower-than-planned capital spending, reflecting implementation bottlenecks, also contributed to stronger fiscal balances in Cambodia, Lao PDR, and Thailand. In comparison, revenue performance was weaker in Brunei and Indonesia due to lower commodity prices, and in the Philippines due to the delays in implementing key tax reform measures. Japan and Korea expanded spending through supplementary budgets—aimed at easing inflationary pressures or supporting domestic demand.

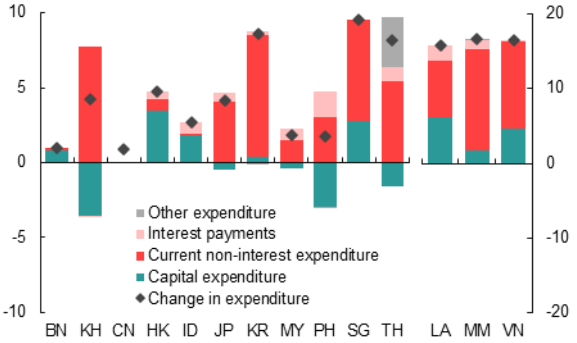
5. **Revenue performance in FY2025 was generally positive** (Figure 5). Tax revenue increased across all major categories, reflecting broad-based and resilient economic growth. Nontax revenue rose substantially in Myanmar, driven by higher profit transfers from SEEs; in Vietnam, mainly due to land-related receipts; and in Singapore, largely reflecting a surge in vehicle quota premiums.[6] In Hong Kong, transfers from endowment funds and university reserves also contributed to higher other revenue. By contrast, resource-related revenue declined in Brunei, Indonesia, and Malaysia, reflecting weaker global commodity prices. In Indonesia, income- and consumption-based tax revenues also declined, partly due to exemptions from personal income tax (PIT) on workers in labor-intensive industries and from value-added tax (VAT) on housing transactions.[7] Nontax revenue declined in Brunei, reflecting lower returns on government domestic investments and savings as well as reduced excess revenue from public entities. In the Philippines and China, nontax revenue fell mainly due to base effects following large one-off increases in FY2024.

Figure 5. ASEAN+3: Contribution to Change in Revenue, FY2025 (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), and 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; income tax from oil and gas, and nontax revenue from oil, gas and mining in Indonesia; royalties from the mining and hydropower sector in Lao PDR; and income tax from petroleum, export duties from crude oil, petroleum royalties, and Petronas dividends in Malaysia.

Figure 6. ASEAN+3: Contribution to Change in Expenditure, FY2025 (Percent, percentage points)



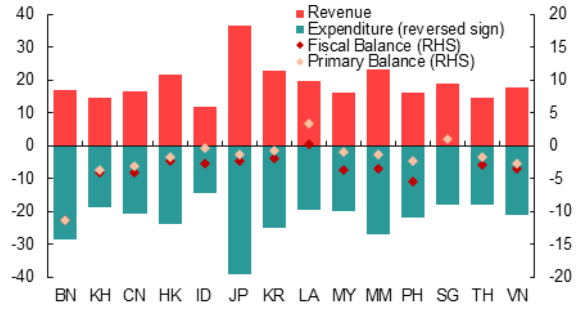
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Economic classification of expenditure is unavailable for China; 2) Other expenditure includes the COVID-19 fund in Malaysia, carryover expenditure in Thailand, and net lending in Korea, Myanmar, and the Philippines.

[6] In Singapore, the government collects vehicle quota premiums from Certificate of Entitlement (COE), which is a permit required to own and use a vehicle for ten years. This is part of the Vehicle Quota System (VQS) designed to control the number of cars in the country.
[7] While total tax in Indonesia declined slightly, other tax category increased amid the overall decline of major tax items due to the introduction of a tax deposit system. This deposit system allows taxpayers to make advance payments into a tax deposit account before final tax liabilities are assessed. Deposited amounts are credited upon payment but are allocated to specific taxes (e.g., income tax or VAT) only after the tax returns are filed and reconciled. This system is intended to facilitate timely payment, reduce late-payment risks, and improve cash-flow management, while temporarily affecting the timing and classification of recorded tax revenues.

6. **Expenditure increased significantly in FY2025** (Figure 6). While capital expenditure continued to rise to promote growth and support national development, increases in primary current expenditure outpaced those of capital spending in many economies. The expansion in primary current expenditure reflected continued policy efforts to support economic recovery, strengthen social welfare systems, and protect vulnerable groups. While many member economies had already introduced or expanded various forms of transfers and vouchers in the original FY2025 budgets to mitigate cost-of-living pressures, boost domestic consumption, and support low-income groups, Japan and Korea further increased spending through supplementary budgets, while Indonesia accommodated the provision of additional support via budget reallocation (*Box A*). In response to trade shocks triggered by the U.S. tariff hikes, many member economies also introduced fiscal and quasi-fiscal measures—such as loan guarantee, interest rate subsidy, and tax reduction—to support affected or at-risk industries and firms (*Box B*). The higher primary current spending also reflected the normalization of public-sector expenditure in Cambodia following a sharp cut in FY2024, increased base salary and allowances for government officials in Lao PDR, recovery support from an earthquake in Myanmar, and spending associated with government restructuring in Vietnam.[8]

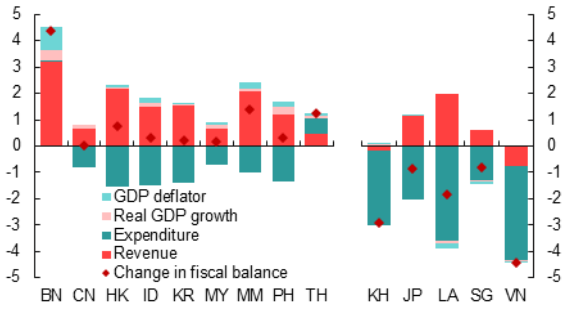
7. **Continued expenditure expansion supported by robust revenue growth is expected in most ASEAN+3 economies in FY2026**. According to FY2026 budget plans, fiscal deficits are projected to narrow in nine member economies and to widen in the other five (Figures 7, 8). Resilient—though moderating—economic growth is expected to underpin solid tax revenue performance across the region. Among resource-exporting economies, the rebound in global oil prices may support resource-related revenues in Brunei and Malaysia, while increased hydropower generation is expected to boost resource-related receipts in Lao PDR. In Vietnam, revenue is forecast to decline mainly due to base effects following large land-related receipts in the previous fiscal year. On the expenditure side, primary current expenditure is expected to continue driving overall spending growth in most economies, as FY2026 budgets prioritize supportive measures for resilient and inclusive growth. Country-specific initiatives—including free nutritious meal programs in Indonesia, household price-relief measures in Japan, and public-sector wage adjustments in Lao PDR—are expected to raise primary current expenditure. By contrast, the end of short-term cash transfer programs in Thailand is expected to contribute to an overall contraction in spending.

Figure 7. ASEAN+3: Budgeted Fiscal Balance, FY2026 (Percent of GDP)



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

Figure 8. ASEAN+3: Contribution to Change in Fiscal Balance, FY2026 (Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Changes compare the FY2026 budgeted revenue, expenditure, and fiscal balance with the estimated outturns for FY2025.

[8] In 2025, Vietnam implemented a major government and administrative restructuring aimed at streamlining the state apparatus and improving efficiency. The reform involved the consolidation and reorganization of central government ministries and agencies, as well as changes to subnational administrative structures, to reduce institutional overlap, strengthen coordination, and improve public service delivery.

8. **The FY2026 budgets across the region focus on strengthening social welfare and advancing strategic investments to achieve resilient and inclusive growth, while maintaining fiscal sustainability and pursuing fiscal reforms** (Figure 9, Table 1). Most member economies prioritize enhancing social protection programs to provide adequate safety nets and safeguard vulnerable groups. At the same time, governments aim to foster robust and sustainable growth through targeted investments in high-value industries and human capital, while reinforcing broader national security encompassing food, energy, water, defense, and disaster resilience. Efforts to preserve fiscal sustainability are also underway, with a focus on improving expenditure efficiency and expanding performance-based budgeting and allocation frameworks.

Figure 9. ASEAN+3: Keywords of FY2026 Budgets

Source: National authorities; AMRO staff compilation

Table 1. Selected ASEAN+3: Highlights of FY2026 Budgets

	Key Objective	Budget Priority
Brunei	• Strengthen fiscal stability and financial governance • Empower the economy through transformation and innovation • Ensure social sustainability and future development	• Strengthen the fiscal framework and management in support of consolidation while improving public sector efficiency • Advance economic diversification and attract both domestic and foreign investment • Support MSMEs while enhancing the business environment • Drive digital transformation and innovation through AI adoption • Promote R&D and commercialization to create economic value • Upgrade core infrastructure and improve connectivity • Address labor market challenges and enhance workforce skills • Strengthen targeted social protection for vulnerable groups while expanding essential services including health and education • Support youth and families while expanding access to housing • Promote green transition and reinforce climate commitments • Ensure food and energy security while enhancing disaster preparedness and emergency response
Cambodia	• Progress toward achieving upper-middle-income country status while safeguarding national sovereignty and territorial integrity • Implement policies aligned with government's priority measures and Pentagonal Strategy–Phase I to deliver outcomes that meet public needs and expectations • Advance economic development while ensuring fiscal sustainability	• Strengthen national defense, security and state continuity • Enhance coverage and quality of public services, including education and health • Invest in infrastructure development and maintenance • Drive economic diversification with emphasis on value addition in high-potential sectors • Promote investment, particularly in agriculture • Advance digital economy and technology adoption • Drive governance reforms at national and subnational levels • Enhance fiscal management through performance-linked allocation, revenue mobilization and expenditure control
China	• Pursue high-quality, stable economic development by balancing domestic and international imperatives, aligning growth with security • Implement a more proactive and effective fiscal policy by optimizing resource allocations and expanding domestic demand • Stabilize employment, enterprise, markets and expectations while boosting new growth drivers and improving public well-being. • Advance reform and manage risk prudently, and enhance governance to safeguard social harmony and stability.	• Supporting the development of a robust domestic market • Supporting faster development of new drivers of growth • Achieving greater self-reliance and strength in science and technology • Ensuring and improving public wellbeing • Promoting all-around rural revitalization • Advancing new urbanization and coordinated regional development • Accelerating the green transition across all sectors • Ensuring necessary funding support for national defense, diplomacy, and judicial and law enforcement work

	Key Objective	Budget Priority
Hong Kong	• Drive high-quality, inclusive growth with innovation and finance, proactively aligning with the 15th Five-Year Plan	• Invest in innovation hubs and infrastructure, expanding public-private partnership (PPP) • Promote wide adoption of AI and advance R&D in biomedical technology, semiconductors and other strategic industries • Support local SMEs, mainland enterprises and emerging sectors while attracting frontier technology firms and patient capital • Deepen capital market reforms and development • Attract global talent and support youth development • Advance green development through green technology, green finance and sustainable urban initiatives • Develop Northern Metropolis and expand housing supply • Enhance health services and expand targeted social support for vulnerable and priority groups • Continue fiscal consolidation with expenditure control, tax rate stability and adherence to user-pays principle
Indonesia	• Build resilient, self-sufficient and prosperous national economy • Provide optimal social welfare, protecting the underprivileged and ensuring safety for all citizens • Maintain sound and credible fiscal position	• Achieve food and energy security while ensuring price stability • Expediate clean energy transition • Develop human capital by expanding Free Nutritious Meals program and improving education quality • Ensure equitable health care through improved facilities, coverage and disease prevention • Increase supply of liveable and affordable housing • Revive local economies through MSME financing and support • Build modern and self-reliant defence system • Boost global investment and trade with downstream industries • Enhance revenue mobilization, spending efficiency and SOE management while promoting innovative financing
Japan	• Achieve strong economy • Promote multi-year initiatives by increasing budget allocations to key policy measures • Normalize expenditure structure	• Strengthen social security support while advancing reforms • Mitigate cost-of-living pressures and support wage growth • Expand free education and R&D in key technology fields • Invest in green transformation (GX) and advanced technologies, including AI and next-generation semiconductors • Reinforce national defense and disaster resilience • Accelerate agricultural restructuring through land consolidation, smart farming and export orientation • Enhance diplomacy and economic security by expanding official security assistance (OSA), official development assistance (ODA) and overseas investment • Stabilize and support local public finance through transfers
Korea	• Build ultra-innovative, technology-driven economy • Foster resilient and inclusive society • Ensure public safety and strengthen diplomacy and security guided by national interests • Implement proactive fiscal policy through strategic investment and performance-based fiscal restructuring	• Accelerate AI transformation, foster new industries and expand high-tech R&D investment • Strengthen trade competitiveness and export resilience • Advance energy transition and carbon neutrality • Promote tourism and creative industries • Foster balanced regional development through infrastructure investment and local innovation • Address low birth rates and population aging via strengthened childcare, youth savings and elderly support • Reinforce social safety net with expanded welfare, livelihood assistance and labor protection • Enhance defense and disaster management systems • Realign ODA with national interests and expand Inter-Korean Cooperation Fund
Malaysia	• Drive reform and good governance • Raise ceiling of national growth • Raise floor of people's living standards, all under the framework Ekonomi MADANI: Memperkasa Rakyat (Economy MADANI: Empowering the People)	• Support export and high-value industries (semiconductors, energy, digital, AI), SMEs and startups with R&D and financing • Strengthen investment climate • Boost employability of women and youth with childcare support and skills training • Deepen regional economic integration with special economic zone and tourism development • Improve social welfare and promote balanced regional development. • Upgrade health and education facilities while expanding affordable housing • Ease cost-of-living pressures and eradicate poverty • Advance energy transition, sustainability and food security

	Key Objective	Budget Priority
		• Modernize national defense and strengthen disaster resilience • Maintain fiscal discipline while enhancing public service efficiency and integrity, alongside improving civil service welfare
Philippines	• Achieve full potential of nation by nurturing future-ready generations in line with Philippines Development Plan 2023-2028 • Develop and protect capabilities of individuals and families • Transform production sectors to generate more quality jobs and competitive products • Create an enabling environment	• Strengthen human capital through expanded education, health care and social protection • Boost employment and trade by supporting MSMEs, tourism, exports and skills development • Ensure food security and rural growth with agricultural reforms • Advance science, technology and digital innovation through R&D investment and expansion of information and communications technology (ICT) • Expand infrastructure for regional development and connectivity • Modernize defense system and support post-conflict recovery • Enhance governance through digital reforms, anti-corruption initiatives and local capacity building • Accelerate climate action through reforestation, renewable energy and disaster resilience programs
Singapore	• Advance refreshed economic strategies to secure Singapore's future in fundamentally changed global environment • Leverage AI as strategic driver while building resilient and skilled workforce • Provide families with more support and greater assurance • Safeguard national security and sustainability while strengthening the Singapore spirit	• Ease cost-of-living pressures and strengthen support for households, families with children, and seniors such as through time-bound transfers and other structural subsidies and grants • Accelerate AI adoption and drive nationwide transformation • Improve wage protection and skills upgrading for lower-wage, mid-career and senior workers • Support enterprise competitiveness by easing business costs and expanding access to financing • Enhance defense and cybersecurity capabilities • Advance climate resilience and long-term sustainability • Reinforce social cohesion through investment in sports, culture and community engagement
Thailand	• Maintain economic stability and support growth while ensuring fiscal discipline • Implement key policies aligned with national strategies and development plans for cohesive development • Prioritize high-impact and necessary projects based on value-for-money principles and efficiency • Strengthen area-based budgeting aligned with local needs and central-local coordination	• Strengthen tourism and agriculture through downstream industries • Advance future industries, including high-tech, bio and medical sectors, through R&D support and workforce development • Support competitive SMEs through training, financing and PPP • Advance nationwide development through infrastructure • Ensure food, energy and water security • Develop SEZs and Eastern Economic Corridor (EEC) • Promote lifelong human development through stronger education, health, and elderly support • Strengthen climate resilience and environmental protection • Modernize public administration through digitalization and stronger fiscal and financial management • Reinforce national defense and governance while strengthening disaster management • Promote balanced international relations and global engagement
Vietnam	• Implement proactive and flexible fiscal policy with clear priorities • Allocate resources to support double-digit economic growth and to implement priorities of Party and State, and Politburo's resolutions • Enhance efficiency of fiscal management system while safeguarding stability and security of financial system	• Develop high-quality human resources and strengthen social welfare, providing support for education and health care • Invest in infrastructure aligned with development needs • Maintain national defense and security • Promote science and technology, innovation and digital transformation • Reinforce fiscal discipline and compliance while accelerating administrative reform and modernization

Source: National authorities' websites; AMRO staff compilation

B. Fiscal Stance

9. **The fiscal stance in FY2026 is assessed as either expansionary or broadly neutral in most member economies** (Table 2). Japan, Brunei, Cambodia, Lao PDR, Singapore, and Vietnam are projected to shift from a neutral or contractionary stance in FY2025 to an expansionary stance in FY2026, reflected in both a positive fiscal impulse and increases in primary expenditure (Figure 10). By contrast, Hong Kong is expected to maintain a contractionary fiscal stance, while Myanmar and Thailand are projected to shift from an expansionary stance in FY2025 to a contractionary stance in FY2026. The remaining economies are assessed as maintaining a broadly neutral fiscal stance.[9] Among economies where the fiscal impulse indicates to neutrality, increases in the primary expenditure-to-GDP ratio suggest an expansionary spending effect in Korea, although this is more than offset by stronger revenue growth.

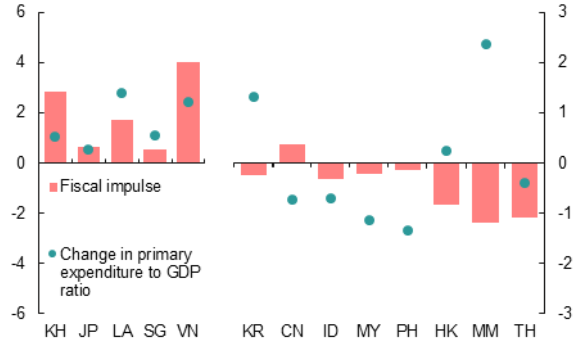
Table 2. ASEAN+3: Fiscal Stance, FY2025-2026

		FY2026		
		Expansionary	Neutral	Contractionary
FY2025	Expansionary		CN, ID	MM, TH
	Neutral	JP	KR, MY, PH	
	Contractionary	BN, KH, LA, SG, VN		HK

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

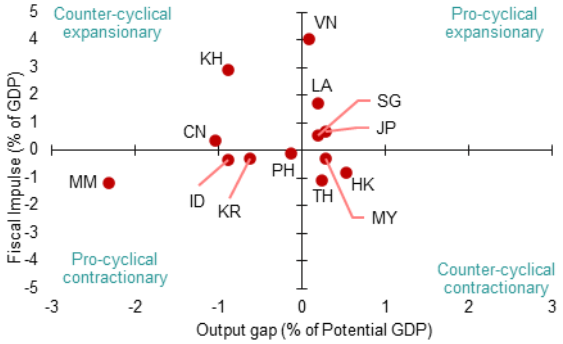
10. **Considering the prevailing macroeconomic conditions, the FY2026 fiscal stance is assessed as broadly appropriate, although some economies have room for adjustment** (Figure 11). Economies operating with positive output gaps may consider accelerating fiscal tightening to help stabilize economic activity and rebuild fiscal buffers. Conversely, economies facing negative output gaps—particularly where the gaps are projected to widen in FY2026—may consider adopting a more expansionary stance should economic conditions weaken.

Figure 10. ASEAN+3: Fiscal Impulse and Change in Primary Expenditure, FY2026 (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 11. Selected ASEAN+3: Fiscal Impulse and Output Gap, FY2026 (Percent of GDP)



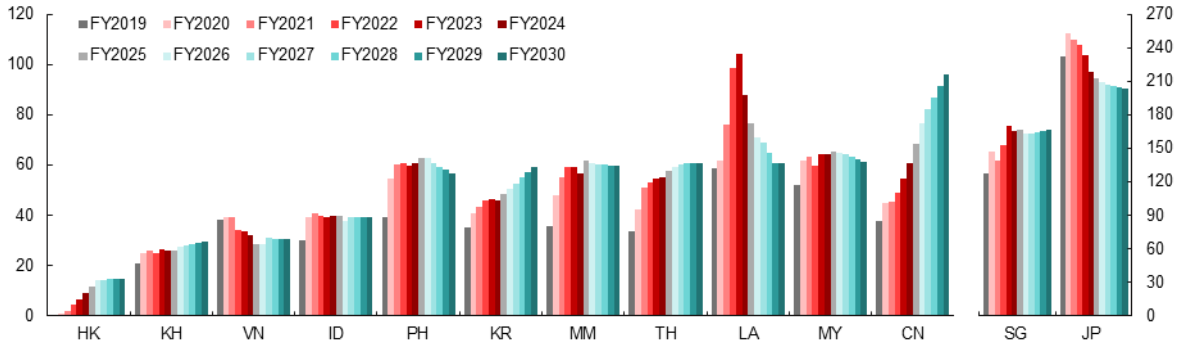
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Output gap is computed based on the potential GDP estimated by AMRO.

[9] Although China's fiscal stance is assessed as broadly neutral, its fiscal impulse is slightly positive, as the official fiscal deficit in FY2026 is budgeted to remain high at around 4 percent of GDP, reflecting the authorities' continued proactive fiscal policy direction.

C. Government Debt and Gross Financing Needs

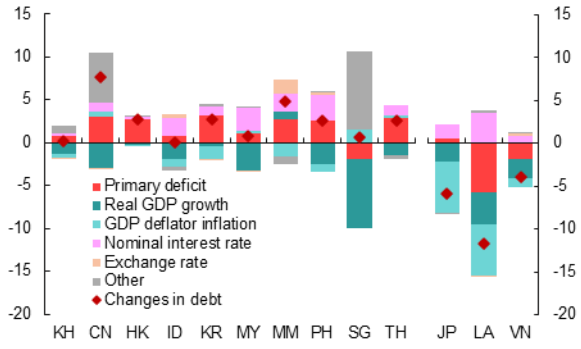
11. **The government debt-to-GDP ratio increased in most ASEAN+3 economies in FY2025** (Figure 12). With the exception of Japan, Lao PDR, and Vietnam—where debt ratios continued to decline—most member economies recorded higher debt ratio in FY2025 after showing signs of stabilization in previous years. In several other economies, the upward trend persisted, with increases observed in China, Korea, Myanmar, the Philippines, and Thailand. Primary deficits and higher effective interest rates were the main drivers of rising debt ratios, while real GDP growth and inflation exerted downward contributions (Figure 13). In particular, high inflation helped reduce the debt ratio in Lao PDR and contain the increase in Japan. In China, additional borrowing under government fund budgets and the hidden debt-swap program—introduced to bring local governments' off-budget liabilities onto the budget—further contributed to the rise in public debt. In Singapore, bond issuances for non-spending purposes—such as developing the domestic debt market and providing long-term savings instruments for individuals—continued to add to headline debt stock, but strong economic growth helped offset this effect. Meanwhile, currency depreciation in Myanmar inflated the nominal value of debt denominated in foreign currency (FCY), although these effects were partially offset by high inflation.

Figure 12. Selected ASEAN+3: Gross Government Debt, FY2019-2030 (Percent of GDP)



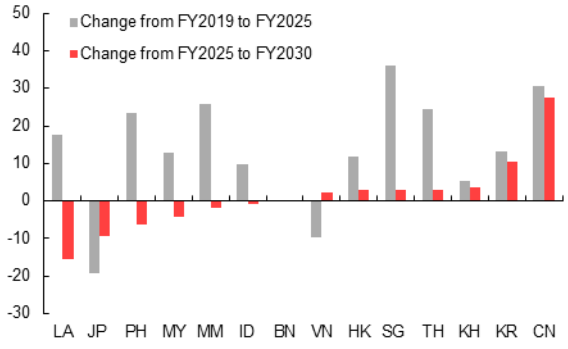
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Brunei is not shown as it has virtually zero government debt; 2) Debt-to-GDP ratios over FY2025-2030 are AMRO staff projections.

Figure 13. Selected ASEAN+3: Contribution to Change in Debt-to-GDP Ratio, FY2025
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Brunei is not shown as it has virtually zero government debt; 2) See Appendix IV for the decomposition methodology.

Figure 14. Selected ASEAN+3: Change in Debt-to-GDP Ratio, FY2019-2030
(Percent of GDP)

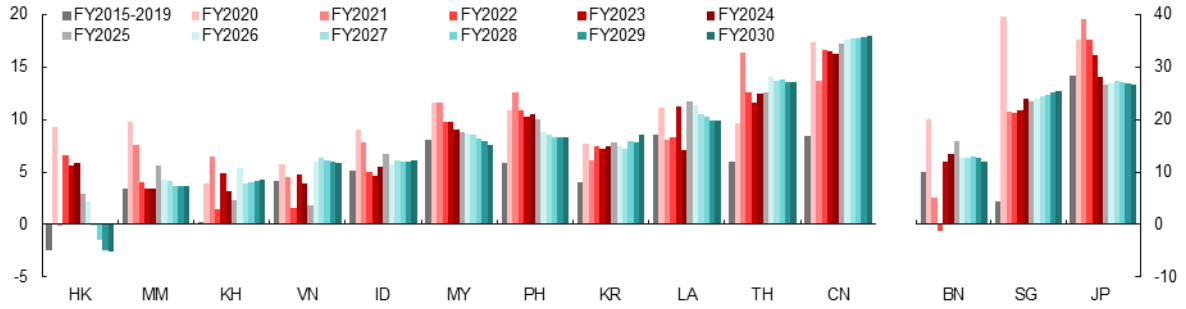


Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Brunei is not shown as it has virtually zero government debt; 2) Debt-to-GDP ratios over FY2025-2030 are AMRO staff projections.

12. **Over the medium term, the government debt-to-GDP ratio is expected to gradually stabilize or decline in most ASEAN+3 economies, except in China and Korea** (Figures 12, 14). In both economies, debt ratios are expected to continue rising at a pace similar to that observed over the past five years, reflecting persistently high primary deficits and, in China's case, the continuation of the hidden debt-swap program through 2028. By contrast, the debt ratio is projected to decline in Indonesia, Japan, Lao PDR, Malaysia and the Philippines. In the remaining economies, debt ratios are expected to increase only moderately compared with the previous five-year period, suggesting gradual fiscal consolidation and progress toward debt stabilization.

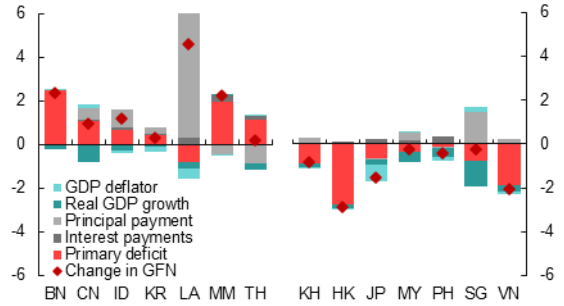
13. **The gross financing needs (GFN) to GDP ratio is expected to remain elevated** (Figure 15). The GFN-to-GDP ratio increased in seven member economies in FY2025, driven mainly by wider primary deficits—particularly in Brunei, Myanmar, and Thailand—and by rising amortization requirements in several other economies (Figure 16). Notably, amortization needs surged in Lao PDR, reflecting the maturity of a large volume of bonds issued in the Thai market and the country's heavy reliance on short-term borrowing in FY2024. By contrast, the GFN ratio declined in seven economies in FY2025, supported by an improved primary balance and higher economic growth. Looking ahead, despite the government debt-to-GDP ratio stabilizing or declining, higher principal repayments on maturing debt across various tenors are expected to keep GFNs elevated over the medium term in most member economies (Figures 15, 17). In addition, the interest burden is projected to remain high, reflecting the legacy effects of accumulated public debt.

Figure 15. Selected ASEAN+3: Gross Financing Needs, FY2015-2030 (Percent of GDP)



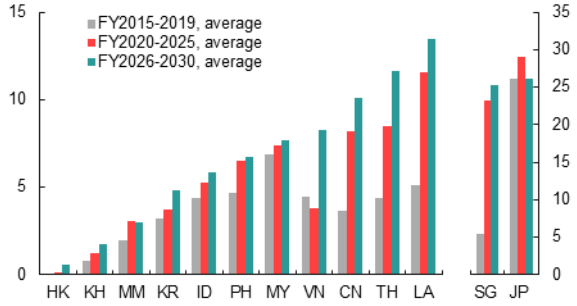
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) For Brunei, GFN is equivalent to the fiscal deficit given its virtually zero government debt; 2) GFN-to-GDP ratios over FY2025-2030 are AMRO staff projections.

Figure 16. Selected ASEAN+3: Contribution to Change in GFN-to-GDP Ratio, FY2025
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) For Brunei, there is no debt issuance to finance fiscal needs; 2) See Appendix IV for the decomposition methodology.

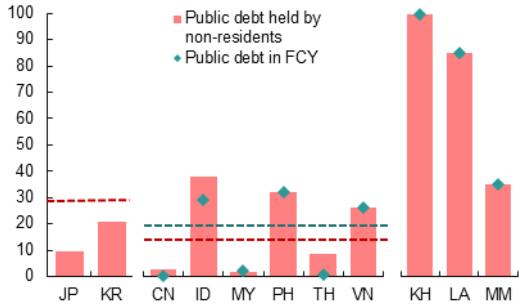
Figure 17. Selected ASEAN+3: Debt Service, FY2015-2030
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) For Brunei, there is no debt issuance to finance fiscal needs; 2) Amortization needs and interest payments over FY2025-2030 are AMRO staff projections.

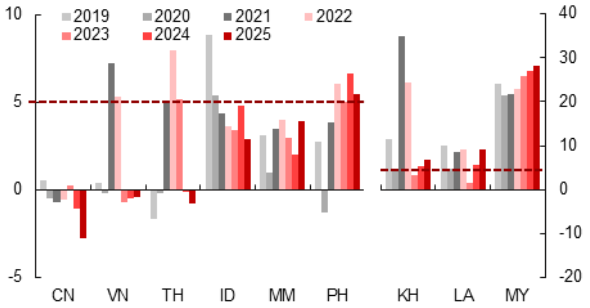
14. **Debt profiles in most ASEAN+3 economies remain generally sound, although sovereign bond yields have increased in some economies.** In several emerging market economies (EMEs), the share of government debt held by nonresidents and denominated in foreign currency (FCY) exceeds IMF early-warning thresholds (Figure 18).[10] However, a substantial portion of external public debt in these economies reflects past official borrowings, which helps mitigate rollover and exchange rate risks.[11] In addition, external debt in Cambodia, Lao PDR, and Myanmar is largely concessional or semi-concessional, easing near-term repayment pressures. External financing requirements—defined as the sum of current account deficits and amortization of public and private external debt—rose sharply during the pandemic but have since stabilized in most economies, with the notable exception of Lao PDR and Malaysia (Figure 19). In Lao PDR, external financing needs have increased since 2024, reflecting the maturity of bonds issued in the Thai market by both the government and state-owned enterprises (SOEs). In Malaysia, elevated short-term external debt mainly reflects intragroup and interbank borrowing by the banking sector for liquidity management, driven by the operations of foreign banks domestically and Malaysian banks' overseas subsidiaries.

Figure 18. Selected ASEAN+3: Share of Debt Held by Nonresidents and in FCY, FY2024
(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; the green dotted line indicates the lower early warning threshold for public debt denominated in FCY.

Figure 19. Selected ASEAN+3: External Financing Requirement, 2019-2025 (Percent of GDP)

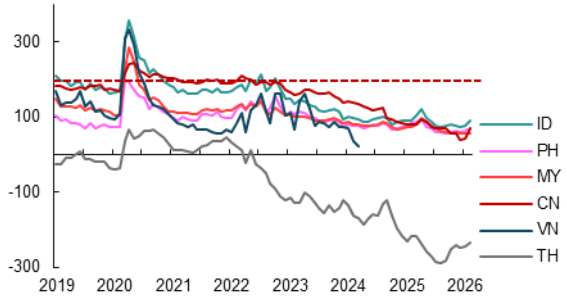


Source: World Bank International Debt Statistics (IDS) and Quarterly External Debt Statistics (QEDS); national authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) External financing requirement is measured as the sum of current account deficit and amortization of public and private external debt; 2) For Malaysia, amortization of external debt is proxied by the short-term external debt of the previous year; 3) Red dotted lines indicate the lower early warning threshold for external financial requirements for EMEs, suggested by the IMF.

Meanwhile, market risk perceptions—as measured by Emerging Markets Bond Index (EMBI) Global spreads—continue to indicate broadly stable investor sentiment toward regional EMEs (Figure 20). Nonetheless, sovereign bond yields have risen in Japan, reflecting reduced central bank purchases of government bonds and heightened fiscal risk concerns, and in Korea, partly due to a reassessment of monetary-easing expectations alongside increased government bond issuance (Figure 21).

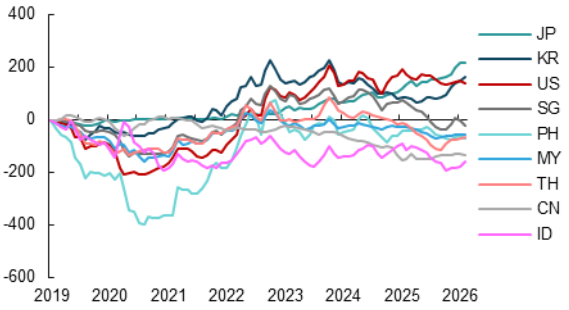
[10] According to IMF (2013), lower/upper early warning thresholds for the share of public debt held by nonresidents are 15/45 percent for EMEs and 30/45 percent for advanced economies (AEs). Lower/upper early warning thresholds for the share of public debt in FCY are 20/60 percent for EMEs.
[11] According to the World Bank IDS, as of end-2024, the share of official creditors in external debt outstanding was 100 percent in Cambodia, 94.0 percent in Vietnam, 87.7 percent in Lao PDR, 85.6 percent in Myanmar, 53.7 percent in the Philippines, 22.9 percent in Indonesia, 10.0 percent in Thailand, and 8.7 percent in China.

Figure 20. Selected ASEAN+3: EMBI Global Spread (Basis point)



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

Figure 21. Selected ASEAN+3: 10-year Sovereign Bond Yield (Basis point, Difference from Jan 2019)



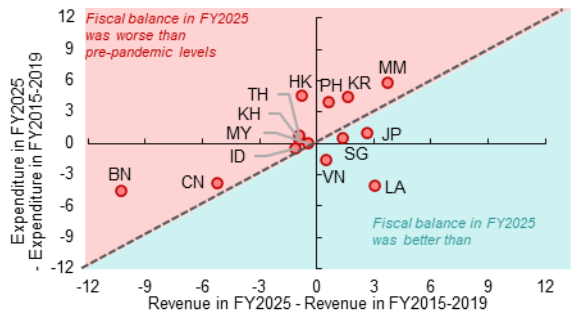
Source: Haver Analytics; AMRO staff calculations

III. Policy Discussion

A. Key Factors for Consideration

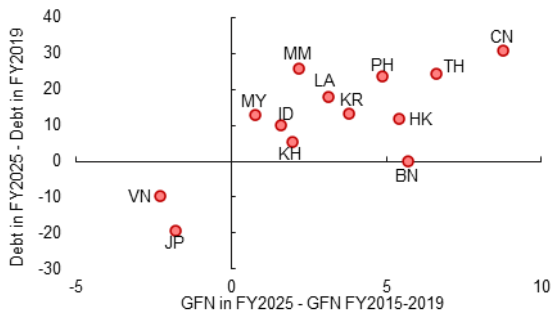
15. **Fiscal positions in ASEAN+3 economies have yet to fully normalize as the pace of fiscal consolidation has moderated**. Compared with the FY2015-2019 averages, FY2025 fiscal balances improved only in Japan, Lao PDR, Singapore, and Vietnam (Figure 22). Revenue remained below the pre-pandemic levels in six member economies despite gradual improvement, while expenditure continues to stay elevated in more than half of the region. This reflects successive support measures introduced after the pandemic, initially aimed at mitigating inflationary pressures and later expanded to sustain economic growth and strengthen social welfare. Together, these measures slowed the fiscal consolidation that had been envisaged as pandemic-related programs were phased out. As a result, government debt-to-GDP ratios have risen substantially, leading to elevated financing needs (Figure 23). Although debt ratios in most member economies are projected to remain below levels associated with fiscal distress over the medium term under the baseline scenario, persistently rising debt ratios in some economies raise concerns about fiscal sustainability in the longer term. Moreover, even economies with broadly stable medium-term debt trajectories could face slower debt stabilization—or renewed upward pressure—if downside risks materialize, such as an unexpected economic slowdown or higher-than-planned fiscal spending. In addition, continued high financing needs arising from the amortization of legacy debt stock could further heighten liquidity risks, depending on financial market conditions. Continued policy efforts to safeguard fiscal sustainability therefore remain warranted.

Figure 22. ASEAN+3: Differences in Revenue and Expenditure between Pre-pandemic Period and FY2025 (Percent of GDP)



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

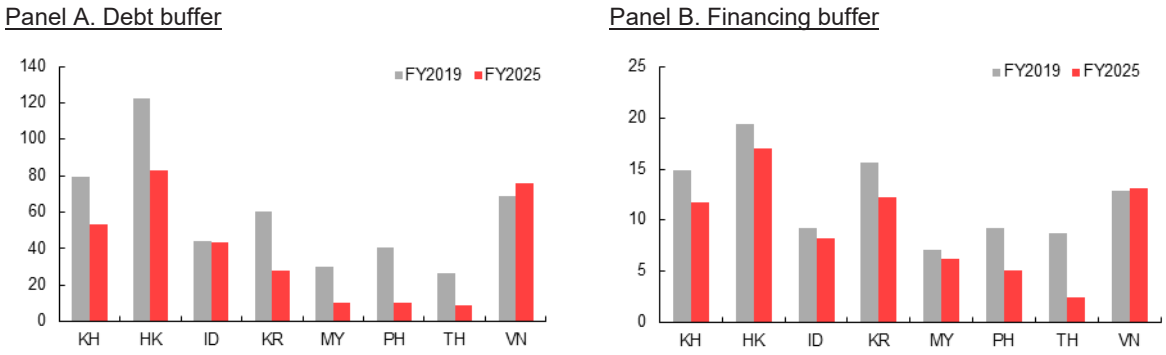
Figure 23. ASEAN+3: Differences in Government Debt and GFN between Pre-pandemic Period and FY2025 (Percent of GDP)



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

16. **Near-term economic uncertainty remains persistent and elevated.** ASEAN+3 member economies successfully implemented responsive fiscal measures to mitigate the health and economic crises caused by the COVID-19 pandemic and to curb the high inflation thereafter, leveraging the fiscal space accumulated through prudent policies in the past.[12] As a result, fiscal space has narrowed substantially compared with pre-pandemic levels (Figure 24). Sustaining efforts to rebuild fiscal buffers therefore remains critical to ensure that authorities retain sufficient capacity to respond decisively to emerging shocks, while continuing to support the structural transformation to strengthen resilience. Nevertheless, ASEAN+3 economies continue to face elevated uncertainty and downside risks that could trigger renewed economic fallout requiring fiscal intervention. In 2026, regional growth is projected to moderate and headline inflation is forecast to increase, with risks tilted to the downside amid elevated uncertainty (AMRO, 2026). Potential setbacks in the technological cycle or renewed tariff escalation—particularly if extended to currently exempt sectors such as semiconductors—could weigh materially on regional activity. Elevated global energy prices, reflecting geopolitical developments in the Middle East, and potential disruption to energy supply pose risks to both growth and inflation across the region. Additional risks include financial market volatility and weaker-than-expected growth in major economies, which could compound external and domestic headwinds. Should downside risks materialize, fiscal policy should remain agile and flexible to mitigate adverse impacts and support economic stability—in close coordination with monetary policy. Fiscal responses may be particularly relevant in economies where monetary policy dynamics have become more complex, requiring careful calibration given potential implications for financial market stability and capital flow volatility.

Figure 24. Selected ASEAN+3: Quantitative Measures of Fiscal Space, FY2019 and FY2025
(Percent of GDP)



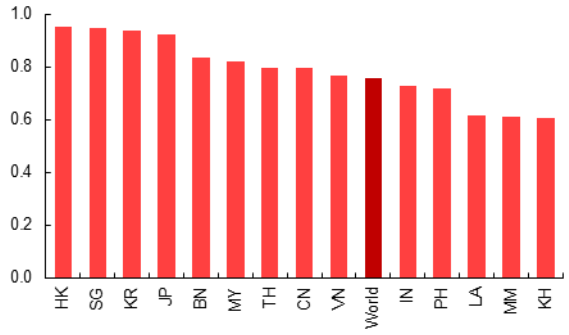
Source: IMF; national authorities via CEIC and Haver Analytics; AMRO staff calculations
Note: 1) The debt buffer is defined as the maximum fiscal stimulus that would not endanger debt sustainability—operationalized as not exceeding the debt-to-GDP threshold suggested by IMF (2013, 2018), over the medium term. Similarly, the financing buffer is defined as the maximum stimulus size that would not exceed the gross financing needs (GFN)-to-GDP threshold suggested by IMF (2013, 2018), over the medium term. See AMRO (2025a) Box B for the detailed methodology used to estimate quantitative measures of fiscal space; 2) This quantitative measure of fiscal space is not applicable to Brunei, China, Japan, and Singapore due to their unique fiscal and financing conditions. Brunei has virtually no government debt, and fiscal stimulus is financed from fiscal reserves. For China and Japan, given their strong domestic financing capacity—including large and liquid public financial assets, broad domestic investor bases, and deep government bond markets—it may be inappropriate to apply the standard thresholds. Singapore's debt accumulation primarily aims to develop the domestic bond market and provide investment instruments, rather than to finance fiscal deficits; 3) The absence of debt and financing buffers should be interpreted with caution. It does not necessarily mean that economies are unable to finance discretionary fiscal stimulus; rather, it implies that implementing discretionary fiscal expansion relative to the baseline could raise risks to debt sustainability.

17. **Authorities face growing demands on fiscal policy to fulfill its core functions—promoting growth and reducing poverty and inequality**. Potential growth in the ASEAN+3 region has slowed due to weak capital accumulation and sluggish total factor productivity growth, compounded by slow human capital development and a shrinking labor force in some

[12] Under AMRO's fiscal space assessment framework, fiscal space refers to the room for a government to undertake discretionary fiscal policy relative to the baseline, with available financing. See AMRO (2025a) Box B.

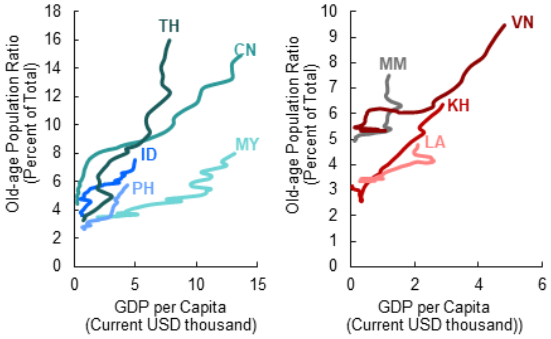
economies (AMRO, 2025b). Growth potential is projected to decline further over the medium to long term, underscoring the need for fiscal policy to take a more active role in revitalizing growth. EMEs and low-income countries (LICs) in the region continue to face substantial infrastructure gaps in both quantity and quality, necessitating sustained public investment.[13] Economies with relatively advanced infrastructure should also continue investing to maintain quality and meet evolving socioeconomic demands. Health and education investment remain critical to strengthening human capital, particularly where development outcomes lag (Figure 25). Amid rapid technological innovation and ongoing reconfiguration of global value chain, fiscal policy can further facilitate industrial upgrading and structural transformation through targeted measures, including well-designed incentives. While extreme poverty has declined, income inequality remains wide, warranting more effective redistributive measures (*Box C*). At the same time, rapid population aging poses significant challenges to both growth and fiscal sustainability—by reducing labor supply and productivity while increasing spending on social protection and health. EMEs and LICs facing the risk of growing old before becoming rich should proactively implement fiscal and structural reforms to address the economic and fiscal implications of aging (Figure 26). Amid intensifying climate change, mitigation and adaptation efforts will require proactive fiscal intervention. In addition, persistent geopolitical tensions have led some member economies to allocate greater public resources to defense spending.

Figure 25. ASEAN+3: Human Development Index, 2023 (Index, 0-1)



Source: United Nations Development Program (UNDP)
Note: The Human Development Index (HDI) is a composite measure summarizing average achievement across key dimensions of human development: a long and healthy life, knowledge, and a decent standard of living. It is calculated as the geometric mean of normalized indices for each of these three dimensions.

Figure 26. Selected ASEAN+3: GDP per Capita vs. Old-age Population Ratio, 1980-2025 (Current USD; Percent of Total)



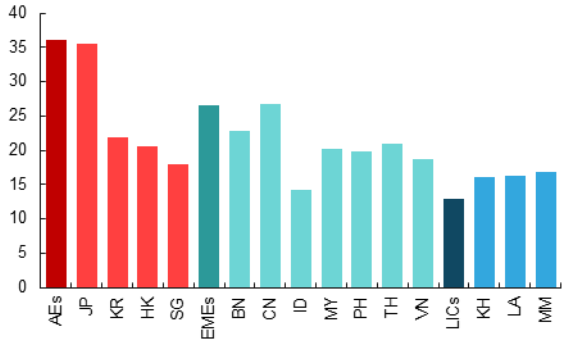
Source: IMF World Economic Outlook (WEO) database; United Nations via Haver Analytics; AMRO staff estimates
Note: 1) Old-age population refers to people aged 65 and above; 2) A steeper slope indicates a higher risk of growing old before becoming rich.

18. **Fiscal revenue growth remains insufficient, while budget structures have become increasingly rigid**. Compared with peer income groups, revenue as a share of GDP remains relatively low across most ASEAN+3 economies, with exception of some LICs (Figure 27). Over the past 25 years, tax-to-GDP ratios have stagnated or declined in more than half of the member economies (Figure 28). Many EMEs have experienced a decline in either income-based taxes, consumption-based taxes, or both, as a share of GDP. Relatively weak revenue performance reflects challenges in both tax policy design and tax administration. Meanwhile, budget structures have become more rigid due to rising public-sector wage bills associated with income growth and inflation, expanding social security payments amid rapid population aging, and increasing interest payments alongside government debt accumulation. Such rigidities constrain policy maneuverability by limiting the ability to reallocate resources toward emerging priorities. Over time, persistent budget rigidities can heighten fiscal

[13] See AMRO (2024a) Box E for a discussion on infrastructure quantity and quality in ASEAN+3 economies.

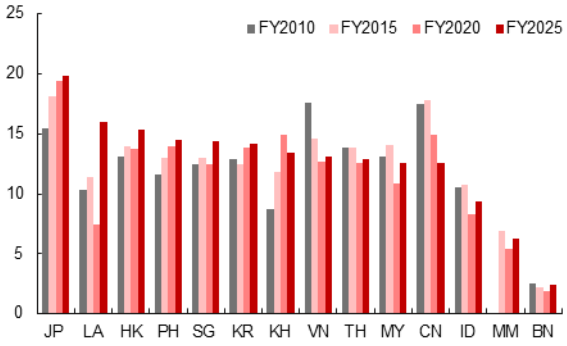
vulnerability and raise the risk of fiscal distress by pushing public debt onto an unsustainable path (Muñoz and Olaberria, 2019).

Figure 27. ASEAN+3: General Government Revenue, FY2015-2025 Average (Percent of GDP)



Source: IMF Fiscal Monitor database; AMRO staff estimates

Figure 28. ASEAN+3: Tax Revenue, FY2010, 2015, 2020, 2025 (Percent of GDP)



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

B. Fiscal Policy Discussion

19. **ASEAN+3 authorities should strengthen fiscal management amid mounting structural and fiscal pressures, while remaining agile and flexible to emerging shocks** (Figure 29). With fiscal positions remaining weak in many economies, continued efforts to enhance fiscal sustainability and rebuild fiscal buffers are warranted. At the same time, fiscal policy should retain flexibility to respond swiftly and decisively to shocks amid persistent and elevated uncertainty, while continuing to play a key role in promoting growth, facilitating structural transformation, and reducing poverty and inequality. However, the fiscal policy landscape has become increasingly constrained by limited revenue buoyancy and rigid budget structures. These structural and fiscal pressures underscore the urgency of reinforcing fiscal management across five key dimensions: fiscal aggregate management, strategic resource allocation, efficient spending, revenue mobilization, and systematic management of risk.

Figure 29. Fiscal Policy Directions

Source: AMRO staff illustration

Strengthening Fiscal Aggregate Management

20. **Establishing credible fiscal anchors is critical for guiding medium to long-term fiscal aggregates onto a sustainable path**. Strong commitment to such anchors is

particularly important in member economies where debt ratios are projected to continue rising or where fiscal operations are susceptible to political initiatives. Fiscal rules and/or MTFFs can help define and operationalize such anchors. While institutionalizing fiscal rules is neither a necessary nor a sufficient condition for maintaining fiscal sustainability, they can support more predictable and credible management of fiscal aggregates. Many member economies have already adopted fiscal rules—most commonly in the form of explicit debt-to-GDP ceilings—often complemented by budget balance rules (Table 3). Authorities contemplating the refinement or introduction of fiscal rules should consider key desirable features—simplicity, flexibility, and enforceability—to ensure operational feasibility and resilience to economic shocks.[14] Importantly, consistent implementation matters more than ambitious rule design. Repeated breaches of stringent rules can undermine fiscal credibility and may ultimately be more damaging than the absence of formal rules. MTFFs can further translate long-term fiscal anchors—potentially set by fiscal rules—into operational medium-term targets for key fiscal aggregates, including revenue, expenditure, fiscal balances, and public debt. Several member economies operate MTFFs, most of which present fiscal aggregate targets consistent with macroeconomic projections, while some also incorporate sectoral resource allocation and medium-term program plans (Table 4).[15]

Table 3: Selected ASEAN+3: Fiscal Rules

Economy	*Numerical Fiscal Rule*	*Legal Basis*	Flexibility and Enforcement Mechanism	
			Escape Clauses	*Automatic Correction*
Cambodia	Debt, Balance	Plan		
Hong Kong	Balance	Constitution		
Indonesia	Debt, Balance, Expenditure	Constitution, Law		
Japan	Balance	Law		
Malaysia	Debt, Balance, Expenditure	Law	O	O
Philippines	Debt, Balance	Plan		
Singapore	Debt, Balance, Expenditure	Constitution	O	
Thailand	Debt, Expenditure	Law, Plan	O	O
Vietnam	Debt, Balance, Expenditure, Revenue	Plan	O	

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

Table 4. Selected ASEAN+3: Medium-term Fiscal Framework and Medium-term Budget Framework

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

Source: National authorities; AMRO staff compilation

[14] See AMRO (2024a) Box D for a discussion on fiscal rules in ASEAN+3 economies.
[15] Conceptually, the MTFF focuses on fiscal aggregate management by setting medium-term targets for key fiscal aggregates based on macroeconomic projections, while the medium-term budget framework (MTBF)—often referred to as a medium-term expenditure framework (MTEF)—operationalizes resource allocation across sectors and programs within the fiscal envelope defined by the MTFF. In practice, however, member economies that operate MTFFs or MTBFs do not always distinguish between these frameworks clearly, and the published framework may encompass both aggregate fiscal planning and sectoral resource allocation.

21. **Fiscal aggregate management should combine credible anchors with flexibility to allow orderly adjustments to evolving macroeconomic conditions**. Fiscal frameworks—such as systematic adjustment mechanisms and contingency buffers—can support flexible operations within fiscal aggregates set by fiscal rules and MTFF. Systematic adjustment mechanisms may include built-in flexibility in fiscal rules or expenditure ceilings (e.g., escape clauses) and the annual or rolling update of MTFFs to recalibrate fiscal aggregates and resource allocation in response to changing macroeconomic conditions and national priorities. Contingency buffers may take the form of explicit contingency reserves embedded in annual budgets (e.g., Japan, Korea, and Singapore) or dedicated disaster funds (e.g., Indonesia, Philippines) that provide space for rapid countercyclical intervention without disrupting planned expenditures. When properly designed and implemented, such mechanisms enhance fiscal flexibility while preserving economic stability, policy credibility, and medium-term fiscal discipline.

Enhancing Strategic Resource Allocation

22. **Strategic resource allocation should be strengthened to support sustainable and inclusive growth within the fiscal envelope.** Once fiscal aggregate targets are set under fiscal rules and/or the MTFF, medium-term budget frameworks (MTBFs) or medium-term expenditure frameworks (MTEFs) can operationalize these targets by allocating resources across sectors and programs in line with national priorities and long-term strategic objectives. By embedding multi-year sectoral ceilings and adopting a more top-down approach to the budget process, MTBFs can help curb incrementalism and short-term political pressures, thereby enabling more deliberate and forward-looking allocation decisions. Across the ASEAN+3 region, governments employ institutional frameworks to align fiscal policy with national development priorities.[16] These frameworks guide medium-term fiscal planning, enhance policy coordination, and ensure that fiscal resources are allocated to support strategic national objectives.

- In particular, greater priority could be accorded to pro-growth sectors—such as infrastructure, education, and R&D—given their critical role in revitalizing productivity and catalyzing private investment, especially in economies with substantial infrastructure gaps and weak human capital outcomes.

- Where policy priorities include strengthening social safety nets and reducing poverty and income inequality, medium-term resource allocation should also adjust accordingly, including by expanding the social protection system—comprising social assistance, insurance, and services—while giving due consideration to its fiscal implications and administrative/delivery constraints.

- Under persistent uncertainty, resource allocation should also strengthen economic stability and resilience. This includes supporting structural transformation and economic diversification, thereby enhancing resilience to shocks, as well as reinforcing effective automatic stabilizers.

[16] For example, Brunei integrates fiscal planning into its National Development Plan (RKN), which supports the country's long-term vision, Wawasan Brunei 2035. China aligns fiscal policy with national priorities through its Five-Year Plan framework, which serves as the central mechanism for setting medium-term development goals. Indonesia links fiscal policy to its National Medium-Term Development Plan (RPJMN), which articulates the country's strategic development priorities over a five-year horizon. In the Philippines, fiscal programming is coordinated by the Development Budget Coordination Committee (DBCC), an inter-agency body responsible for approving macroeconomic assumptions and government fiscal targets. Thailand aligns fiscal policy with national priorities through its MTFF, formulated under the oversight of the Fiscal Policy Committee (FPC). Vietnam integrates fiscal planning into a Five-Year National Financial Plan, complemented by the Financial Strategy to 2030.

23. **Forward-looking spending priorities are essential to address structural challenges and unlock long-term growth opportunities**. Fiscal programs supporting active labor market policies (ALMPs)—such as job provision and matching services tailored to older workers, alongside lifelong upskilling and reskilling initiatives—can mitigate the adverse effects of population aging while harnessing potential gains from healthier and more productive aging populations. Similarly, sustained investment in disaster prevention, climate-resilient infrastructure, and renewable energy can foster green growth while strengthening economic and fiscal resilience to climate-related risks. Integrating thematic budgeting approaches—such as climate- and gender-responsive budgeting—into MTBFs and annual budget processes can further ensure that resource allocation decisions systematically reflect long-term sustainability and development goals.

Enhancing Spending Efficiency

24. **Raising spending efficiency is pivotal to enhancing the impact of limited fiscal resources**. Significant efficiency gaps persist across ASEAN+3 economies, as suggested by an assessment based on efficiency frontier methodology (*Box D*). The assessment result indicates scope to achieve better outcomes in infrastructure, education, health, and other public services without commensurate increases in spending. Evidence from fiscal multiplier analysis further shows that the growth impact of fiscal stimulus varies markedly across spending categories and countries (*Box E*). Government investment generally yields higher multipliers than government consumption or untargeted transfers, particularly in economies with strong public financial management (PFM) systems and high project execution quality. Conversely, weak institutional capacity, implementation bottlenecks, or poor targeting can substantially dampen multiplier effects. These findings underscore that the effectiveness of fiscal policy depends not only on the size of spending, but also on how efficiently resources are allocated and executed.

25. **Embedding performance orientation throughout the budget process is key to ensuring value-for-money in public programs.** A performance-based budgeting (PBB) framework links resource allocation to clearly defined policy objectives and measurable results. Establishing well-defined key performance indicators (KPIs) for each program, combined with systematic and institutionalized spending reviews and—most importantly—effective feedback mechanism into the annual budget process, can facilitate spending reprioritization by redirecting resources from low-impact or underperforming programs toward priority sectors. Given varying institutional capacities across member economies, a phased approach to strengthening performance management systems—which underpin effective performance-based budgeting—may be appropriate. For economies with limited administrative and data capacity, initial efforts may focus on establishing a clear program classification structure, defining a limited set of measurable KPIs, and conducting streamlined spending reviews, rather than introducing a comprehensive government-wide performance management system. In particular, such reviews may concentrate on the largest spending areas, examine expenditure trends, assess persistent over- or under-execution relative to budget plans, and undertake simplified cross-country benchmarking. Authorities may also introduce selected elements of spending review frameworks, such as developing high-level performance indicators in major spending categories (e.g., public wage bill) and strengthening basic monitoring and reporting systems. Where necessary, external technical assistance can help guide the process while preserving strong ownership. Over time, as monitoring systems, evaluation capacity, and data quality improve, economies can progressively institutionalize more comprehensive and systematic spending reviews and fully integrate performance considerations into MTFF and annual budget decisions.[17]

[17] See Doherty and Sayegh (2022) for details on how to design and institutionalize spending reviews.

26. **Improving investment quality is particularly important in the ASEAN+3 region, where infrastructure gaps remain substantial**. Strengthening public investment management (PIM) can enhance efficiency by ensuring that project appraisal and selection are grounded in rigorous cost-benefit analysis and supported by appropriate technical independence, thereby reducing the risk of politically driven or low-return investments.[18] Equally important is strengthening monitoring and evaluation mechanisms to ensure timely identification of implementation bottlenecks and to maintain investment quality throughout the project cycle.[19] PPPs can also help mobilize private-sector expertise and financing for infrastructure development. However, PPPs should be designed and managed within robust legal and policy frameworks—including feasibility studies, public-private suitability assessments, and sound risk-sharing arrangements—to prevent hidden fiscal costs and the buildup of excessive contingent liabilities.[20]

27. **Robust institutional foundations are necessary to ensure that fiscal plans are executed effectively, efficiently and transparently**. First, strengthening public procurement systems—through professionalization, clear regulatory frameworks, and digital platforms—can enhance competition, improve transparency, and reduce costs. Transparent and competitive procurement processes are central for minimizing leakages and corruption risks. Second, strengthening commitment controls and improving treasury cash management, including treasury single accounts (TSAs) and sound cash forecasting, is critical to prevent the accumulation of arrears, reduce idle balances, and minimize costly implementation delays. Third, reinforcing independent oversight mechanisms—including supreme audit institutions, internal audit functions, and legislative scrutiny— reinforce accountability and fiscal discipline. Fourth, improving coordination across ministries and between central and subnational governments is essential to reduce fragmentation and duplication. In social sectors in particular, enhanced beneficiary identification systems and integrated payment mechanisms can improve targeting accuracy and delivery efficiency, ensuring that support reaches intended beneficiaries. Finally, advancing digitalization and data integration—particularly through strengthened financial management information systems (FMIS)—can improve control and transparency across the entire budget cycle, support real-time monitoring, and enable more evidence-based policymaking.

Pursuing Revenue-enhancing Measures

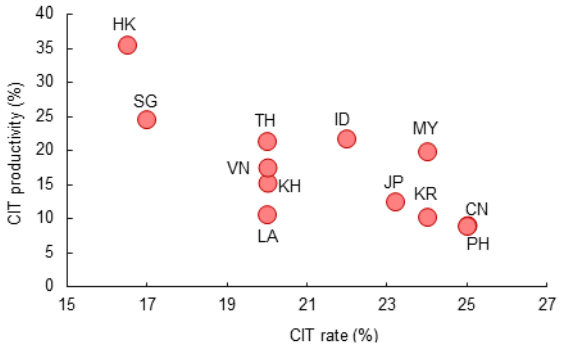
28. **Revenue-enhancing measures should be comprehensive and durable to address persistently weak revenue generation in many ASEAN+3 economies**. Structurally weak revenue performance partly reflects low tax productivity in addition to underlying tax system choices—including statutory rates and the selection of tax instruments. For major taxes, such as CIT and VAT, tax productivity varies widely across economies, indicating sizable gaps relative to efficiency frontiers—and, correspondingly, significant untapped potential for revenue mobilization (Figure 30). Tax gaps arise from both policy and compliance factors. Policy gaps reflect legal and design choices, including high registration thresholds and extensive exemptions or incentives, while compliance gaps stem from structural and institutional weaknesses, such as large informal sectors, low taxpayer registration, complex compliance requirements, weak risk management, and limited enforcement capacity. Closing these gaps requires a comprehensive approach grounded in systematic diagnostics of existing tax policy and administration environment. Reforms should

[18] Some public investment projects may reflect broader policy objectives—such as balanced regional development or social inclusion—that may not be fully captured by conventional cost-benefit analysis. If these projects are explicitly assessed within a transparent and disciplined appraisal framework, such considerations need not undermine investment quality.
[19] The Public Investment Management Assessment (PIMA), conducted by the IMF, provides a structured diagnostic framework to identify weaknesses across the public investment cycle and prioritize reform efforts. It assesses the strength of institutions governing the planning, allocation and implementation of public investment. By highlighting gaps in project appraisal, selection, procurement, and monitoring, PIMA supports efforts to reduce inefficiencies and enhance the effectiveness of capital spending.
[20] See AMRO (2024a) Box E for a discussion on the design and management of PPP projects.

be designed to be durable and institutionalized, focusing on strengthening revenue generation capacity on a sustained basis rather than relying on one-off or temporary measures, and supported by stronger PFM frameworks for revenue mobilization.

Figure 30. Selected ASEAN+3: CIT Productivity and VAT C-efficiency, FY2024

Panel A. CIT Productivity



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

Panel B. VAT C-efficiency

Source: National authorities via CEIC and Haver Analytics; PwC; AMRO staff estimates
Note: VAT C-efficiency is defined as actual VAT revenue divided by the product of the standard VAT rate and final private consumption.

29. **Strengthening tax administration is central to closing compliance gaps and sustaining revenue mobilization**.[21] Administrative reforms should focus on reinforcing core functions—taxpayer registration, audit capacity, arrears management, dispute resolution, and taxpayer services—while simplifying procedures to reduce compliance costs and promote voluntary compliance. Risk-based compliance management should be further developed, with tools and techniques calibrated to administrative capacity and data availability, to better allocate resources toward high-risk taxpayers and sectors and improve enforcement. Leveraging digital technologies, where feasible, can support these efforts by streamlining filing and payment processes, improving taxpayer identification systems, and enabling more timely data analytics to detect underreporting and non-compliance. As institutional and technological readiness improves, more advanced analytics and AI-supported tools can be progressively integrated—particularly in risk profiling and audit selection—to enhance the efficiency and effectiveness of compliance management. Establishing data-sharing frameworks with digital platforms, financial intermediaries, and other government databases can further help capture emerging income sources, especially from the digital economy, and facilitate the gradual formalization of informal activities.

30. **Managing tax expenditures more rigorously is equally important, given that widespread exemptions and incentives have weakened tax bases across the region**. A comprehensive tax expenditure management framework should encompass three core dimensions—design, management, and governance (*Box F*). Sound design requires that tax incentives be grounded in a comprehensive national strategy, use appropriate instruments, and clearly define eligibility criteria for targeted sectors and activities. Systematic management calls for implementation within a life-cycle framework, supported by cost–benefit analysis, regular monitoring and evaluation, and pre-determined sunset provisions. Strong governance underpins both the design and management of tax incentives by ensuring clear institutional responsibilities, accountability, and effective oversight. Beyond these principles, integration of

[21] See AMRO (2025a) Box D for a discussion on the widespread informality and weak tax administration in selected ASEAN+3 economies.

tax expenditures into the budget process should be considered. In many economies, tax incentives are treated separately from direct expenditure programs, weakening fiscal oversight and obscuring their budgetary impact. Embedding tax expenditures within the annual budget process and MTFF/MTBF—including systematic reporting of revenue forgone by sector, instrument, and beneficiary group—would ensure that they are considered alongside spending programs in assessing the allocation of fiscal resources across priorities. Moreover, establishing aggregate and/or sectoral ceilings on tax expenditures, aligned with fiscal anchors, can help contain their expansion and safeguard the tax base over time.

31. Durable revenue mobilization requires structural reforms to major taxes, supported by alignment with evolving global standards. Reforms to tax instruments—such as VAT, excise, CIT, PIT, and property taxes—should consider making appropriate rate adjustments, broadening bases, improving progressivity where warranted, and reducing economic distortions while safeguarding competitiveness and equity. In recent years, several ASEAN+3 economies have adjusted VAT rates, expanded excise coverage, reformed property taxation, recalibrated CIT frameworks, and introduced higher PIT brackets for top-income earners.[22] Member economies should also ensure consistency with ongoing global tax reforms. Many are preparing for or implementing the OECD/G20 Inclusive Framework (IF), particularly Pillar Two's global minimum tax (GMT), including through domestic minimum top-up taxes to protect their tax bases.[23] In addition, governments may consider introducing less-distortive and corrective taxes to support both revenue and broader policy objectives. Environmental fiscal reforms—such as carbon taxes and emissions trading systems (ETS)—are gaining momentum in the region.[24]

Managing Macroeconomic and Fiscal Risks

32. **Given persistent and elevated economic uncertainty, systematic frameworks for fiscal responses to emerging macroeconomic risks are essential**. While the sources of uncertainty have evolved—such as tariff escalation and volatile global energy prices associated with geopolitical conflicts—new risks may continue to arise. In this environment, fiscal policy should remain agile and flexible to respond swiftly and decisively, while ensuring that policy actions are grounded in clear and well-defined frameworks. Such frameworks may include contingency plans that outline potential risk scenarios, identify sectors and groups most vulnerable to shocks, assess the economic impacts, and prepare corresponding targeted policy responses. Institutional arrangements of early engagement of key stakeholders to discuss modalities for flexible fiscal responses—such as supplementary budgets or the use of fiscal reserves—can further strengthen policy readiness and accountability. Equally important is ensuring that emergency fiscal measures are clearly time-bound and phased out once risks subside and economic stability is restored, so as not to undermine the medium-term fiscal path. Transparent communication of fiscal responses and exit strategies will also help strengthen fiscal credibility.

33. **Comprehensive fiscal risk management is important to safeguarding fiscal sustainability amid weakened fiscal positions**. Authorities should strengthen fiscal risk

[22] Recent examples include Singapore raising its goods and services tax (GST) rate from seven percent to eight percent in 2023 and to nine percent in 2024; Indonesia increasing its VAT rate from 10 percent to 11 percent in 2022 and expanding VAT coverage for digital services, alongside higher excise taxes on tobacco products; and Lao PDR restoring the VAT rate from seven percent to 10 percent in 2024 following a temporary reduction. Singapore also increased property tax rates for higher-value residential properties and introduced a higher top marginal PIT rate, while Indonesia introduced a new 35 percent PIT bracket for high-income earners. Korea reinstated higher CIT and securities transaction tax rates in 2026 after several years of reductions and has been discussing further reforms to property taxation.

[23] See AMRO (2025a) Box E for Pillar Two implementation of the global minimum tax in ASEAN+3.

[24] Examples include Singapore's increase in its carbon tax (raised to SGD 45 per tCO_2e in 2026 with further increases scheduled), China's nationwide Emissions Trading System (ETS), and Korea's established ETS. Japan has announced plans under its Green Transformation (GX) strategy to introduce carbon pricing, while several ASEAN economies are exploring similar instruments.

identification, assessment, and disclosure, and ensure that identified risks are systematically incorporated into fiscal planning, including through formal fiscal risk statements attached to budget documents or MTFFs. Transparent reporting and parliamentary discussion of fiscal risks can enhance accountability, strengthen market confidence, and reinforce fiscal credibility. Particular attention should be given to liabilities arising outside official budget coverage—such as borrowing by off-budget public entities and government arrears. Notable examples include China's local government financing vehicle (LGFV) debt, which has been gradually recognized through debt-swap programs, and Lao PDR's accumulation of arrears related to public investment and electricity tariffs, which have been subsequently addressed through bond issuance. Bringing such liabilities into formal fiscal and debt management frameworks is critical not only to improving transparency, but also to enabling effective mitigation and control of fiscal risk over the medium-term.

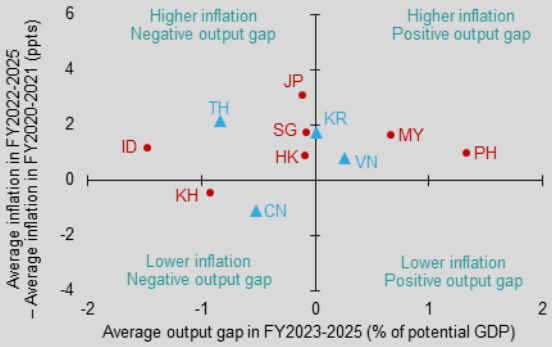
34. **Contingent liabilities require systematic monitoring and proactive risk management**. Explicit contingent liabilities—such as government guarantees—should be transparently reported, closely monitored, and managed within clearly defined quantitative limits and qualification criteria, supported by appropriate parliamentary oversight, to prevent excessive fiscal exposure. PPP-related commitments represent a significant source of such risks and should be integrated into fiscal risk assessment and debt sustainability analysis (DSA), supported by robust appraisal, appropriate risk-sharing arrangements, and strong contract management frameworks. Regular reporting to parliament on the stock, flows, and risk profile of government guarantees and PPP commitments can further strengthen fiscal discipline and accountability. Implicit contingent liabilities—such as potential obligations arising from social security system, bailout of banks and SOEs, and natural disaster response—pose additional fiscal risks. Monitoring and managing the financial health of SOEs is especially critical in economies where SOEs provide essential public services under regulated pricing structures, which may impair cost recovery and create fiscal vulnerabilities, warranting enhanced transparency and legislative scrutiny.

Social insurance systems represent a major source of long-term fiscal risk in several member economies amid rapid population aging and rising benefit obligations. Early, well-communicated, and credible reforms are needed to strengthen long-term sustainability while preserving adequacy. For pension systems, long-term viability can be strengthened through parametric adjustments—such as raising contribution rates, increasing the retirement age and modifying benefit formulas—and via structural reforms—including automatic adjustment mechanisms or transitions toward defined contribution systems. At the same time, providing tax-financed social pensions and promoting the development of occupational and personal pension schemes can complement mandatory contributory system and strengthen old-age income security, but also give rise to additional long-term fiscal obligations that need to be carefully calibrated and incorporated into medium-term fiscal planning. In health insurance systems, improving service delivery efficiency and enhancing the cost-effectiveness of benefit design, alongside demand-side measures—such as preventive care, cost-sharing mechanism and referral systems—are essential to contain expenditure growth while maintaining service quality and access. Several member economies have initiated reforms along these lines to address demographic pressures and reinforce fiscal sustainability (*Box G*).

Box A. Key Features of Cash Transfer Programs During 2023-2025[25]

Elevated cost-of-living pressures and weaker domestic demand prompted most ASEAN+3 member economies to expand fiscal support, particularly cash transfers, during 2023-2025. [26] Measures were predominantly temporary or one-off, and often involved top-ups to existing social assistance schemes, aimed at cushioning inflationary pressures or supporting domestic consumption. In the post-pandemic period, economies facing cost-of-living pressures (such as Hong Kong, Indonesia, Japan, Malaysia, the Philippines and Singapore) primarily relied on targeted cash transfers to protect vulnerable groups from rising inflationary pressures. On the other hand, economies experiencing more subdued growth (such as China, Korea, Thailand and Vietnam) deployed demand-supporting fiscal measures, notably consumption vouchers and cash transfers often designed to channel spending toward selected sectors or local businesses, thereby supporting near-term activity among targeted groups while also boosting aggregate consumption. Notably, the fiscal policy objectives of cash transfers in these ASEAN+3 economies were broadly in line with the macroeconomic context (Figure A.1).

Figure A.1. Selected ASEAN+3: Inflationary Pressure and Output Gap



Source: IMF and national authorities via CEIC; AMRO staff estimates
Note: Blue triangles represent economies that implemented cash transfer programs primarily to bolster consumption, while red circles represent economies where cash transfers were mainly aimed at alleviating inflationary pressures. The analysis excludes Brunei, Lao PDR and Myanmar as they did not introduce new cash transfer measures explicitly linked to growth and inflation considerations during the period under review.

Targeted measures dominated across economies, primarily addressing cost-of-living concerns and largely leveraging established social welfare frameworks and databases. In Indonesia, the authorities implemented short-term, large-scale targeted cash transfers (BLT Kesra) aimed at protecting households' purchasing power amid inflationary pressures, covering around 35 million low-income households identified through the National Socioeconomic Database. Malaysia provided targeted cash assistance under its Sumbangan Tunai Rahmah (STR) program, introduced in 2023 and expanded in 2024-2025, to address rising living costs, benefiting around 9 million low- and moderate--income recipients, including children and senior citizens. The Philippines delivered temporary cash support through the Targeted Cash Transfer (TCT) program to mitigate the impact of higher commodity prices, reaching around 7.5 million of the poorest and most vulnerable individuals identified by the Department of Social Welfare and Development using existing social protection databases. Hong Kong also distributed several one-off extra cash allowances during 2023-2025 to recipients of social security payments (such as the Comprehensive Social Security Assistance) or Working Family Allowance, delivered through existing welfare systems to alleviate cost-of-living pressures. In Singapore, the 2023 Cost-of-Living (COL) Special Payment was targeted at Singaporeans aged 21 and above who earned up to SGD100,000 in assessable income and did not own more than one property. Thailand rolled out phased targeted cash transfers starting in 2024 under the first phase of its Digital Wallet scheme, covering around 17.5 million low-income beneficiaries, persons with disabilities, and the elderly, to stimulate domestic consumption amid subdued demand.

Broad-based measures were selectively used across economies, mainly through cash-equivalent vouchers, to stimulate domestic demand while also alleviating cost-of-living pressures and supporting local businesses. In China, local governments implemented consumption voucher programs that were broad in eligibility but subject to usage restrictions, targeting selected service sectors to develop new service growth drivers—particularly in catering,

[25] Prepared by Ravisara Hataiseree and Koon Hui Tee.
[26] In this analysis, cash transfers include direct monetary support to households and cash-equivalent consumption vouchers. In-kind support and supplier-based subsidies, such as electricity bill support, fuel price subsidies, are excluded. These transfers refer to additional, temporary support provided on top of existing social protection programs, primarily aimed at alleviating inflation pressures and stimulating domestic demand.

tourism, sports events and performances—while stimulating domestic consumption. In Singapore, Community Development Council (CDC) vouchers, expanded during 2023-2025, were broad-based in household coverage but restricted to spending at participating local businesses. Additionally, in Hong Kong, consumption vouchers were issued in 2023 to support the general public and small and medium-sized enterprises during the early recovery stage, and when the economy had become relatively stable. By stimulating consumption, the Consumption Voucher Scheme aimed to sustain momentum in economic recovery while also promoting the wider use of electronic payment. Similarly, Korea's consumption voucher program in 2025 was broad-based in eligibility and designed to boost domestic demand and support local economies, with progressive top-ups for low-income residents and those in nonmetropolitan areas to enhance distributional equity. The vouchers were usable only at small businesses (annual revenue under about KRW 3 billion) and could not be spent at large retailers, department stores, or entertainment establishments. Although these programs were broad-based in eligibility, the associated usage restrictions reflected deliberate policy efforts to support priority sectors and local regions while advancing domestic demand.

Table A.1. ASEAN+3: Key Characteristics of Cash Transfers Measures During 2023-2025

Economy	Key Measure	Type		Main Objective		Scope[1)]		Duration	
		Cash Transfer	Consumption Voucher	Mitigate Inflation	Stimulate Consumption	Broad-based	Targeted	Permanent	Time-bound
Cambodia	National Social Assistance Family Package	O		O			O	O	
China	Consumption Voucher Program[1)]		O		O	O			O
Hong Kong	One-off Extra Allowance for Recipients of Social Security Payments and Working Family Allowance	O		O			O		O
	Consumption Voucher Scheme		O		O	O			O
Indonesia	Direct Cash Assistance for People's Welfare (BLT Kesra)	O		O			O		O
Japan	Cash Benefits Provided to Households Exempt from Resident Tax	O		O			O		O
Korea	People's Livelihood Recovery Consumption Coupons		O		O	O			O
Malaysia	Sumbangan Tunai Rahmah (STR)	O		O			O		O
Philippines	Targeted Cash Transfer (TCT) Program	O		O			O		O
Singapore	Assurance Package (AP): Includes AP Cash, COL Special Payment and CDC vouchers[2)]	O	O	O		O	O		O
Thailand	Digital Wallet Scheme	O			O		O		O
Vietnam	National Day Cash Handouts[3)]	O			O	O			O

Source: National authorities; media reports; AMRO staff compilation
Note: 1) In this analysis, targeted measures refer to programs with restricted eligibility, such as specific income groups and vulnerable populations including the elderly, persons with disabilities, and children. Broad-based measures are universal in eligibility. Separately, usage restrictions are often imposed, as observed in the consumption voucher schemes in China, Korea, and Singapore; 2) In Singapore, Assurance Package (AP) cash is provided broadly to all Singaporeans aged 21 years and above, with payment amounts depending on assessable income and property ownership. Similarly, the Community Development Council (CDC) vouchers are widely disbursed to Singaporean households, but are subject to usage restrictions as they can be redeemed only at participating local businesses, comprising supermarkets and heartland (neighborhood) merchants. By contrast, the COL Special Payment is targeted at eligible adult Singaporean citizens who are aged 21 years and above, earn an assessable income not more than SGD100,000 and do not own more than one property; 3) Vietnam announced a one-off universal cash handout to boost household demand during the National Day holiday.

With respect to duration, most measures were time-bound or one-off to contain medium-term fiscal pressures. For example, Japan provided one-off cash benefits in 2023 to low-income households that were exempted from resident tax, with additional payments for household with children. Singapore's Assurance Package (AP), introduced in 2022 with support extending into 2026 and expanded through 2024, remains time-bound and closely linked to defraying living expenses. By contrast, some programs have been institutionalized as part of broader social protection reforms. Cambodia institutionalized its pandemic-era cash transfer programs under the National Social Assistance Family Package, launched in 2024, to continue supporting vulnerable households and to

enable scalable responses during shocks. While such institutionalization strengthens the overall social safety net, it may entail sustained budgetary pressures, requiring careful anchoring within medium-term fiscal frameworks (MTFFs) and expenditure controls.

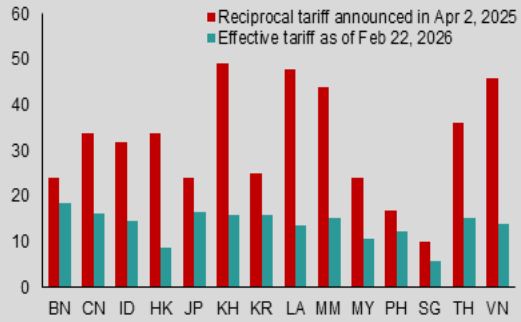
From a policy perspective, targeted and time-bound measures tend to be associated with higher spending efficiency, stronger growth impact, and more manageable fiscal risks. While broad-based measures can play an important role in short-term macroeconomic stabilization, targeted temporary fiscal transfers—particularly to liquidity-constrained households—are generally more cost-effective and better aligned with fiscal management, and can support growth through higher fiscal multipliers than untargeted measures. Additionally, timely evaluation of such programs is essential to enhance program efficiency by enabling appropriate recalibration and informing future resource reallocation, including decisions on whether and how programs should be institutionalized within credible MTFFs.[27]

[27] For example, Singapore's Ministry of Trade and Industry conducted an impact evaluation study on the effectiveness of the CDC vouchers (Chia and Tham, 2024).

Box B. Policy Measures to Mitigate Trade Shocks[28]

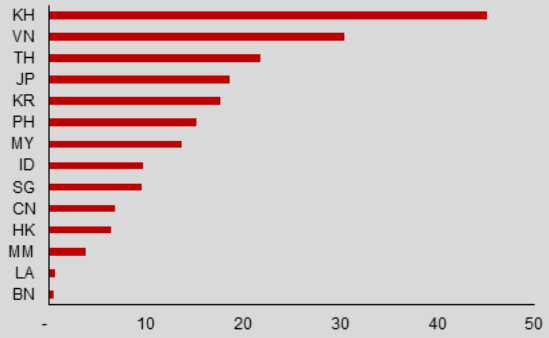
Although ASEAN+3 economies generally faced lower effective U.S. reciprocal tariffs than those announced on "Liberation Day," the trade shock remains significant across the region (Figure B.1). Trade exposure is particularly significant for economies where exports to the U.S. account for a large share of total exports, such as Cambodia and Vietnam (Figure B.2). In addition, several economies in the region rank among the top exporters to the U.S., including China (2nd), Japan (5th), Vietnam (6th), and Korea (7th). Notably, Vietnam stands out with its strong export growth to the U.S. in 2025, driven largely by machinery and electrical equipment.

Figure B.1. ASEAN+3: US Trade Tariffs on Regional Economies (Percent)



Source: Whitehouse.gov; S&P Connect Global Trade Analytics; AMRO staff compilation
Note: The US tariffs were announced on April 2, 2025, known as "Liberation Day". The effective tariffs as of Feb 22, 2026, are tariff rates following the US Supreme Court ruling.

Figure B.2. ASEAN+3: Share of Exports to the US in 2025 (Percent)



Source: S&P Connect Global Trade Analytics; Haver Analytics, AMRO staff compilation

In response, authorities in the region have prioritized credit support to preserve business continuity amid the trade pressures. Loan guarantees remain the most common instrument across ASEAN+3 economies--except in Brunei, Lao PDR and Myanmar--helping firms maintain access to bank financing amid the heightened uncertainty. While some economies maintained the regular loan guarantee schemes, others provided additional measures on top of existing arrangements. In July 2025, Cambodia launched the Economic Stimulus Guarantee Scheme (ESGS), worth USD200 million, with guarantee coverage up to 90 percent of principal amounts. Korea increased credit guarantees and export insurance support by KRW10.2 trillion, supported by supplementary budget funding to policy financial institutions. Hong Kong extended its temporary guarantee scheme to March 2028, after initially planned to terminate in March 2026.

Complementing guarantee schemes, many economies have introduced measures to reduce borrowing costs for affected firms. These measures include interest rate subsidies, loan restructuring, and liquidity support for banks. Korea introduced temporary interest subsidies for affected sectors, and Indonesia expanded its interest rate subsidy coverage to include selected labor-intensive industries in addition to the existing scheme for small and medium enterprises (SMEs).[29] Thailand announced a one-year loan repayment extension alongside a 20 percent cut in loan interest rates for affected industries. In Hong Kong, eligible firms could apply for a principal moratorium arrangement, allowing them to defer principal repayments for one year. Meanwhile, Malaysia provided additional allocation to the Malaysia External Trade Development Corporation (MATRADE)[30] to provide financial support to SMEs in exploring new markets.

Tax relief and operating-cost measures have also been implemented to protect SMEs' cash flow. Many ASEAN+3 economies have introduced preferential corporate income tax (CIT) rates to

[28] Prepared by Ginanjar Wibowo.
[29] In Indonesia, the government covers five percentage points of interest costs for eligible industries, including garments, textiles, furniture, leather and footwear, food and beverages, and children's toys. SMEs pay an effective interest rate of six percent, with the government subsidizing the difference from the market lending rates.
[30] MATRADE is the national trade promotion agency which facilitates Malaysian companies to seamless access into the international market, such as through product advisory services and grant provisions.

support SME liquidity. Indonesia and Japan extended their temporary preferential CIT rate for SMEs,[31] while Vietnam introduced a lower CIT rate linked to firms' annual income under the 2025 CIT Law (replacing the 2008 CIT Law). Vietnam also raised the value-added tax (VAT) exemption threshold for small businesses from VND100 million to VND500 million, effective January 2026. With regard to operating-cost measures, Korea has implemented a temporary, voucher-based, cost-sharing program to support international logistics services for firms facing export-related difficulties, with the overall support ceiling increased from KRW 30 million to KRW 60 million. Hong Kong halved SME water and sewage bills over 12 months, subject to a monthly ceiling.

Recent trade disruptions have reinforced the importance of export market diversification supported by tax incentives and targeted enterprise-development programs. Many authorities continue to apply VAT exemptions on exports as a structural feature that supports competitiveness. Hong Kong and Singapore provided capital injections to funds that offered grants for market development and business upgrading.[32] Korea raised the ceiling for special guarantees supporting export diversification from KRW300 billion to KRW500 billion, while Cambodia committed to a three-year fiscal stimulus of around USD35 billion to provide concessional loans until 2027 for modernizing agricultural production.

ASEAN+3 economies have also increasingly emphasized technological upgrading and AI adoption as part of their medium-term resilience strategies. Many economies, including China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, provide CIT deductibility for research and development (R&D) expenditures to encourage innovation. Several economies complement tax incentives with dedicated innovation-related funds to accelerate technological upgrading and AI adoption. China established an RMB60 billion AI Industry Investment Fund in 2025, complementing the semiconductor-focused Integrated Circuit Industry Investment Fund created in 2024. Hong Kong formed an AI Research and Development Institute with HKD1 billion in budget support, and also launched a Manufacturing+ scheme to support firms' adoption of advanced production technologies. Indonesia's R&D Endowment Fund (established in 2021) has continued to grow, reaching IDR13 trillion in 2025, funded mainly through the government's capital injections. Meanwhile, in Vietnam, the Science, Technology, and Innovation Law (enacted in June 2025) mandates the government to allocate three percent of the state budget to R&D. In September 2025, Korea announced plans to establish a KRW150 trillion National Growth Fund [33] over the next five years to strengthen strategic industries such as semiconductors, AI, robotics, and other advanced technologies. In January 2026, the Singaporean government committed more than SGD1 billion in additional investment until 2030 under the National AI Research and Development (NAIRD) plan, focusing on three key pillars: fundamental AI, applied AI, and talent development. The plan aims to support Singapore's ambitions under National AI Strategy (NAIS) 2.0 to become a global AI research hub.

Overall, ASEAN+3 economies have combined targeted near-term stabilization measures with selective medium-term investments in response to the U.S. tariff shock. These policies aim particularly to safeguard business continuity, while strengthening economic resilience against future global trade uncertainty. However, rising contingent liabilities from expanded government-backed credit guarantees and persistent revenue foregone highlight the need for time-bound, well-targeted interventions and transparent fiscal risk reporting and management to safeguard fiscal sustainability.

[31] Japan extended temporary reduction of CIT rate for SMEs until 2027, lowering the rate from 19 percent to 15 percent for firms with annual income below JPY8 million and to 17 percent for SMEs above this threshold. Indonesia also extended its 0.5 percent CIT rate for SMEs with annual turnover up to IDR4.8 billion until 2029, while those earning less than IDR500 million are exempted.
[32] Hong Kong injected HKD1.43 billion into the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund), which provides financial support of up to HKD7 million per enterprise for developing brands, upgrading and restructuring their business operations, and exploring markets in 40 targeted economies. Malaysia injected RM500 billion to the Market Development Grant, which provides grants of RM300,000 to eligible SMEs, depending on business type. Singapore launched a two-year Business Adaptation Grant (BizAdapt), providing grants of up to SGD100,000 per firm to strengthen their business operations, covering up to 70 percent of eligible costs for SMEs (and 50 percent for non-SMEs).
[33] Korean authorities plan to finance half of the fund through the government budget, and to mobilize the remaining KRW75 trillion from private and public financial institutions, including pension funds. The country is pursuing a nationwide AI transformation under its National AI Strategy Policy Directions, with the aim of raising AI adoption to 70 percent in industries and 95 percent in the public sector by 2030.

Table B.1. ASEAN+3: Selected Trade-related Policy Measures during 2025-2026

Economy	Measures for Enterprises			Measures for Economic Resilience	
	Loan guarantee	Lower borrowing cost	Operating cost measure	Market Expansion	Technological advancement
Brunei				VAT exemption on exports	
Cambodia	Up to 90%			VAT exemption on exports; concessional loan for agriculture	
China	Up to 80%	Interest rate subsidy	Preferential CIT rate for SMEs	VAT exemption on exports	Tax credit on R&D expenses; specific fund for R&D
Hong Kong, China	Up to 90%	Principal payment moratorium	Preferential CIT rate for SMEs; water and sewage subsidy	Export-oriented grant	Tax credit on R&D expenses; specific fund for R&D
Indonesia	Up to 80%	Liquidity injection; interest rate subsidy	Preferential CIT rate for SMEs	VAT exemption on exports; export-oriented grant	Tax credit on R&D expenses; specific fund for R&D
Japan	Up to 80%	Concessional loan	Preferential CIT rate for SMEs	VAT exemption on exports	Tax credit on R&D expenses; specific fund for R&D
Korea	Up to 85%	Interest rate subsidy	Preferential CIT rate for SMEs; increased logistic subsidies	VAT exemption on exports; increased credit ceiling	Tax credit on R&D expenses; specific fund for R&D
Lao PDR				VAT exemption on exports	
Malaysia	Up to 70%	Concessional loan; liquidity injection	Preferential CIT rate for SMEs	SST exemption on exports; export-oriented grant	Tax incentive for R&D expenses; specific fund for R&D
Myanmar				VAT exemption on exports	
Philippines	Up to 80%	Concessional loan		VAT exemption on exports	Tax credit on R&D expenses
Singapore	Up to 50%	Concessional loan	Preferential CIT rate for SMEs	VAT exemption on exports; export-oriented grant	Tax credit on R&D expenses; specific fund for R&D
Thailand	Up to 30%	Concessional loan; loan repayment extension; interest rate subsidy	Preferential CIT rate for SMEs	VAT exemption on exports; concessional loan	Tax credit on R&D expenses; specific fund for R&D
Vietnam	Up to 80%	Concessional loan	Preferential CIT rate; higher VAT exemption threshold	VAT exemption on exports	Tax credit on R&D expenses; mandatory 3% of budget for R&D

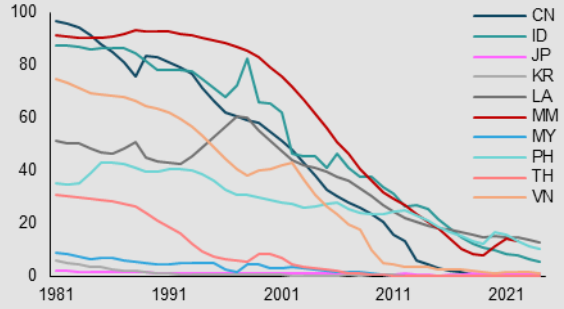
Source: National authorities; PwC; AMRO staff compilation
Note: Some policy measures, such as credit guarantees and tax incentives, are implemented on a regular basis (time inbound).

Box C. Poverty and Income Inequality in ASEAN+3 Region[34]

Sustained rapid economic growth has driven a sharp decline in poverty across the ASEAN+3 region over recent decades. Rapid growth, relatively stable inflation, and broadly sound macroeconomic management—supported by market-oriented reforms have facilitated structural transformation in developing ASEAN+3 economies. The transition from low-productivity agriculture toward higher value-added manufacturing and services has progressed alongside deeper global trade integration and technological progress, albeit to varying degrees and at different speeds. Steady job creation and rising real income lifted more than half of the region's population above the internationally defined poverty line (Figure C.1). While poverty remains a key challenge in Indonesia, Lao PDR, Myanmar, and the Philippines, meaningful progress has been made relative to earlier decades, and the downward trend resumed following a brief pandemic-related setback. Meanwhile, several developing ASEAN+3 economies have reduced the respective national poverty to zero or near zero levels.

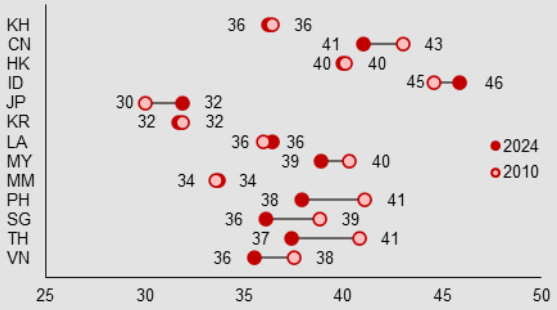
Despite large gains in poverty reduction, income inequality remains relatively high in the region (Figure C.2). Unlike the marked decline in poverty, progress in reducing the income inequality has been less visible. Inequality trends also diverged across economies. In 2024, China, Hong Kong, and Indonesia continued to record elevated disposable income Gini coefficients (post-tax and post-transfer, 0-100 scale) above 40, indicating persistent income disparities. Several economies registered meaningful declines in disposable income inequality relative to 2010, including the Philippines, Singapore, and Thailand, while China, Malaysia, and Vietnam recorded more modest improvements. In contrast, Indonesia and Japan recorded slight increases, while changes were limited in Cambodia, Hong Kong, Korea, Lao PDR, and Myanmar, underscoring the pace of improvement remains uneven across the region.

Figure C.1. Selected ASEAN+3: Poverty Rate
(Percent of population)



Source: World Bank Poverty and Inequality Platform (PIP) Database June 2025 Update
Note: The data is extracted from the PIP database using the international poverty rate of USD3 per capita per day in 2021 PPP terms, expressed as a share of population, with values interpolated where necessary. Data on Brunei, Cambodia, Hong Kong and Singapore is unavailable and is therefore omitted from the chart. Data is displayed based on the latest available year.

Figure C.2: Selected ASEAN+3: Disposable Income Gini Coefficient (0-100 scale)



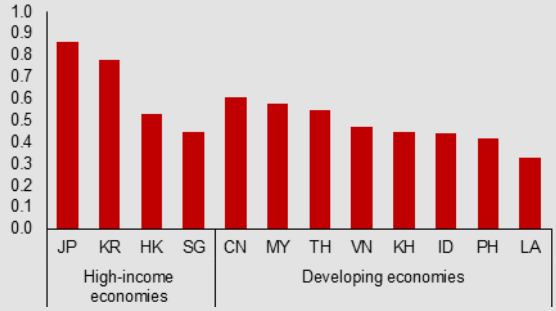
Source: Standardized World Income Inequality Database (SWIID)
Note: The disposable income Gini coefficient measures income inequality after taxes and transfers, with a value of 0 representing perfect equality and a value of 100 representing maximum inequality. Data on Brunei is unavailable. Data for 2024 is not available for every economy, and the latest available data is used instead.

Cross-economy differences in inequality are partly attributable to variations in the redistributive impact of fiscal policy. High-income economies such as Japan and Korea exhibit lower Gini coefficients with a more equal income distribution. This partly reflects stronger social protection systems with longer institutional histories than in developing peers (Park et al., 2015), as well as a greater emphasis on redistribution-oriented fiscal policy, as reflected in higher scores on the governments' Commitment to Reducing Inequality (CRI) assessment (Figure C.3).[35] Hong Kong and Singapore are notable exceptions, reflecting policy trade-offs associated with their roles as regional financial hubs. Fiscal policy can influence inequality through taxes and transfers, with the

[34] Prepared by Dek Joe Sum and Yiwei Wang.
[35] Oxfam's CRI Index assesses governments' policy efforts to reduce inequality across three equally weighted pillars: public services, progressive taxation and labor rights. Within each pillar, countries are scored on policy commitment, coverage or implementation, and impact indicators. Each indicator is normalized to a scale of 0-1 relative to the best performing country and then aggregated to yield pillar-level and overall scores.

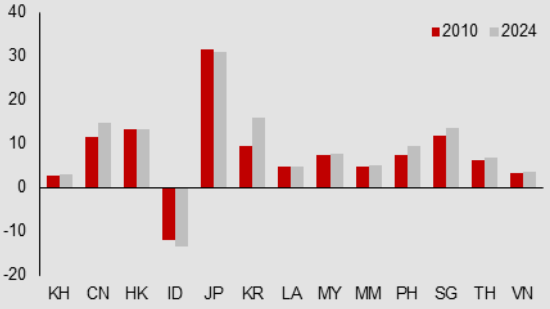
revenues raised used to finance spending and transfer programs that support lower-income groups. Its redistributive impact is commonly assessed through relative redistribution, measured as the reduction in Gini coefficient between market income (pre-tax and pre-transfer) and disposable income (post-tax and post-transfer). A larger decline indicates stronger redistribution through progressive taxation, transfers and social spending. In this regard, Japan records the strongest relative redistribution, while China, Korea, the Philippines, and Singapore have strengthened redistributive measures relative to 2010 (Figure C.4). However, redistribution remains modest in most developing ASEAN+3 economies, where fiscal capacity, policy instruments, and coverage are still evolving.

Figure C.3. Selected ASEAN+3: Commitment to Reducing Inequality (CRI) Index



Source: Oxfam CRI Index
Note: The CRI Index is calculated using 19 indicators under three pillars. Scores from the three pillars are combined using the arithmetic mean and re-standardized to construct the final CRI Index score on a scale of 0-1, with 0 indicating the lowest score and 1 the highest. Data on Brunei and Myanmar is unavailable.

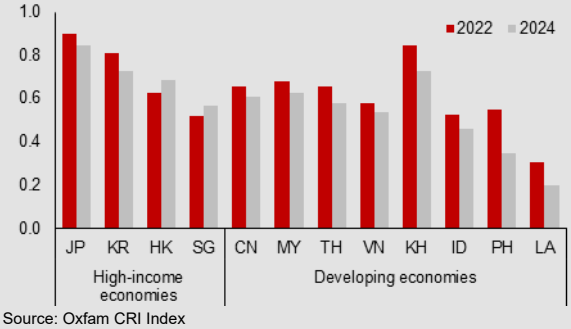
Figure C.4: Selected ASEAN+3: Relative Redistribution of Gini Coefficient



Source: SWIID
Note: Relative redistribution is measured as the reduction in Gini coefficient between market income (pre-tax and pre-transfer) and disposable income (post tax and post-transfer), reported as a percentage of the market income Gini; a larger reduction indicates a stronger redistributive impact of taxes and transfers. Data on Brunei is unavailable. Data for 2024 is not available for every economy, and the latest available data is used instead.

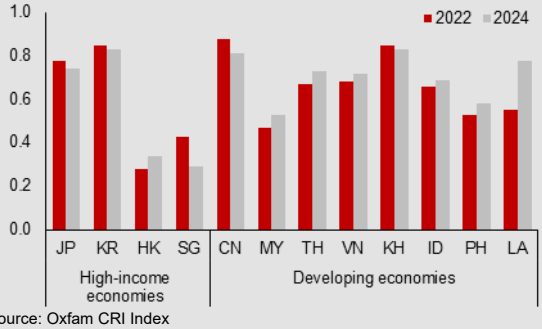
Trade-offs in policy priorities and multiple binding constraints tend to limit the redistributive role of fiscal policy, especially in developing ASEAN+3 economies, although it has improved in recent years. Many developing economies have historically prioritized growth-oriented public investment and broad-based spending, constrained by narrow revenue bases and capacity limitations, while balancing large infrastructure and basic service gaps against the need to preserve fiscal sustainability. Capacity constraints have also limited the expansion of social protection mechanisms, while concerns about policy design and incentives have influenced policy choices. Against this backdrop, fiscal policy is often framed as involving a trade-off between growth and equity that emphasizes growth and macroeconomic stability over distributional objectives (Heshmati et al., 2014). Within ASEAN+3, this pattern is more evident on the spending side: developing economies generally allocate a smaller share of their budgets to education, health, and social protection—proxies for pro-poor spending—than higher-income economies (Figure C.5). At the same time, many have improved the progressivity of tax systems, with some even outperforming higher-income peers (Figure C.6), indicating a gradual shift toward a more redistributive fiscal policy mix in the region.

Figure C.5. Selected ASEAN+3: Government Spending on Progressive Sectors (Score)



Source: Oxfam CRI Index
Note: This indicator measures the share of total government spending allocated to education, health and social protection, as a percentage of government budget. The indicator is standardized to a scale of 0-1, with 0 being the lowest score and 1 the highest. Data on Brunei and Myanmar is unavailable.

Figure C.6: Selected ASEAN+3: Tax Structure Progressivity (Score)



Source: Oxfam CRI Index
Note: This indicator measures the progressivity of tax structures, focusing on personal income tax (PIT), corporate income tax (CIT) and value-added tax (VAT). The indicator is standardized to a scale of 0-1, with 0 being the lowest score and 1 the highest. Data on Brunei and Myanmar is unavailable.

Fiscal policy will increasingly need to complement growth objectives with a stronger focus on inclusion and distribution. Developing ASEAN+3 economies, at earlier stages of development, understandably prioritized macroeconomic stability and growth-enhancing public investment over redistribution. As income levels rise, however, widening disparities and slower progress in poverty reduction have increased public expectations for more equal opportunities and stronger social protection. This shift in public interest has begun to reorient policy priorities toward improving the distributive impact of fiscal policy by strengthening progressive revenue mobilization and rebalancing spending toward more targeted transfers and higher quality social outlays in education, health, and social protection. As fiscal institutions and administrative capacity improve, governments can also move from broad-based and often regressive support toward more targeted measures that allow more effective and cost-efficient protection of vulnerable groups. Over time, a policy mix which supports inclusive growth would help ensure that development gains are more broadly shared, while reinforcing social cohesion and more durable growth.

Box D. Public Spending Efficiency in ASEAN+3[36]

Improving spending efficiency is central to balancing fiscal consolidation with growth and socio-economic priorities. This box builds on approaches applied in the IMF's Expenditure Assessment Tool (Garcia-Escribano and Liu 2017) to benchmark efficiency in major spending areas that underpin human capital, inclusion and public service delivery in ASEAN+3 economies—namely health, education, social assistance, and government compensation and employment—complementing a previous analysis of public investment efficiency (AMRO, 2024a).[37]

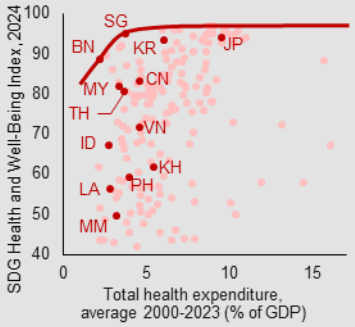
Health expenditure

ASEAN+3 economies, on average, achieve relatively strong health outcomes with lower spending than the world average, although with wide variation across members. Over 2000-2023, total health spending averaged 4.3 percent of GDP in ASEAN+3, compared with 6.2 percent globally, while its average Sustainable Development Goal (SDG) Health and Well-Being Index score was higher.[38] Cross-country differences in health outcomes are not fully explained by spending levels alone. Health outcomes generally improve as income levels rise, reflected in higher SDG Health Index scores and longer healthy life expectancy among richer members. However, differences also reflect institutional factors, including system design and service delivery effectiveness. More broadly, socioeconomic and demographic factors shape both outcomes and spending needs, underscoring the need for country-specific diagnostics especially for economies with large efficiency gaps.[39]

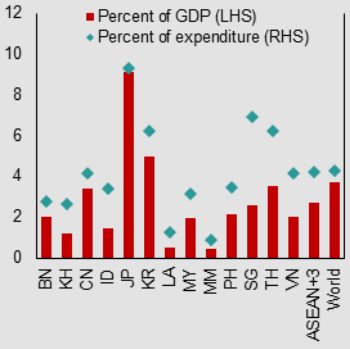
Enhancing health spending efficiency and outcomes requires proactive and sustained reform effort over the medium and long term. In particular, member authorities should strengthen medium to long-term fiscal planning for health spending, especially where public health systems are expanding and population aging pressures are accelerating, by integrating demographic and policy scenarios, sustainability assessments, and sectoral cost drivers into fiscal frameworks. This approach can help anticipate aging-related pressures, assess the affordability and effectiveness of new or expanded programs, and guide gradual reforms that improve risk pooling and coverage, particularly in economies where out-of-pocket (OOP) burdens are high.

Figure D.1. Selected ASEAN+3: Health Expenditures and Outcomes

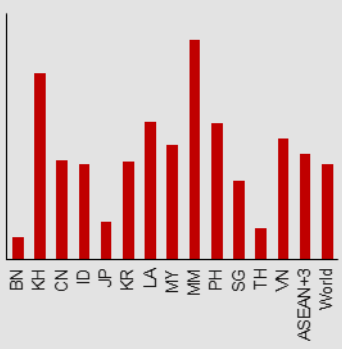
Panel A. Health Efficiency Frontier



Panel B. Government Health Expenditure (Percent of GDP, percent of expenditure)



Panel C. Share of Out-of-Pocket Expenditure (Percent of total health expenditure)



Source: Sustainable Development Report 2025; World Bank; World Health Organization (WHO); AMRO staff estimates
Note: Data on government health expenditure and out-of-pocket expenditure is from 2023.

[36] Prepared by Guohua Huang.
[37] The Expenditure Assessment Tool emphasizes benchmarking and "efficiency frontiers" to gauge how far countries are from best practice, and highlights that reducing inefficiencies can improve outcomes even without increasing spending.
[38] As the SDG Health Index (covering life expectancy at birth and other health indicators) is persistent and partly reflects past health spending in addition to current expenditures, average health expenditures over the past two decades are used instead of single-year expenditures. Total health expenditure covers both public and private expenditures.
[39] Cross-economy comparisons should be interpreted with caution, as the mix of public financing, social health insurance and private insurance differs across systems and may affect the split between government spending and OOP payments. For example, ASEAN+3's average OOP share is almost double the global average, ranging from 7.4 percent in Brunei to 71.1 percent in Myanmar.

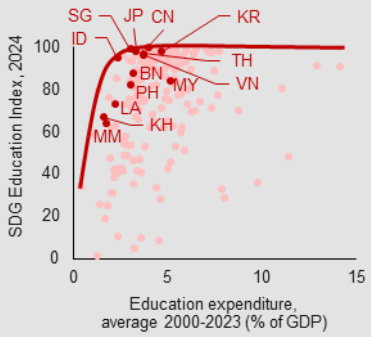
Education expenditure

Overall, ASEAN+3 delivers strong education outcomes with slightly lower education spending as a share of GDP than the world average, although performance differs widely across members. Over 2000-2023, ASEAN+3 economies spent about 3.3 percent of GDP on education, compared with a global average of 4.4 percent, yet the average SDG Education Index score was higher, at 88 versus 79. Education outcomes differ markedly across ASEAN+3 economies, even at similar spending levels: some economies spend around the regional average but post lower SDG Education Index scores, while others achieve comparable outcomes with much higher spending.[40] In addition, ASEAN+3 members vary limitedly in terms of primary and lower-secondary completion, reflecting broad progress in basic education, whereas dispersion is much wider for upper-secondary completion and especially tertiary enrollment.

Enhancing PFM, such as via performance-informed budgeting, could contribute to improving the efficiency of education spending. Economies with limited capacity can introduce a small set of measurable output and outcome indicators for major education programs, strengthen monitoring and evaluation arrangements, and use this performance information to inform budget decisions and medium-term resource allocations. Member economies can also consider comprehensive spending reviews to reallocate resources from low-impact uses toward higher-value interventions that improve learning quality and outcomes.

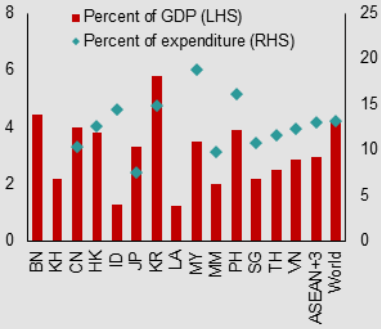
Figure D.2. Selected ASEAN+3: Education Expenditures and Outcomes

Panel A. Education Efficiency Frontier



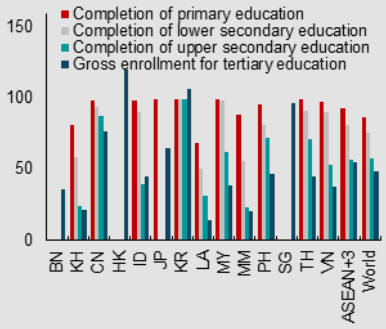
Source: Sustainable Development Report 2025; UNESCO Institute for Statistics; AMRO staff estimates
Note: Education expenditures are government expenditure on education.

Panel B. Government Education Expenditure (Percent of GDP, percent of expenditure)



Source: UNESCO Institute for Statistics; AMRO staff estimates
Note: Government education expenditure data for most ASEAN+3 economies covers 2022-2024, while the remainder reflects the most recent observations prior to 2022. ASEAN+3 and world averages are calculated as the average of annual simple averages over 2020-2024, with each year based on available data given uneven country coverage.

Panel C. Education Participation and Completion (Percent)



Source: UNESCO Institute for Statistics; AMRO staff estimates
Note: 1) Data on completion rates for primary, lower secondary and upper secondary education is from 2024; 2) Tertiary enrollment ratio refers to 2023 or 2024, depending on country data availability; 3) ASEAN+3 and world averages for tertiary enrollment are calculated as the average of annual simple averages over 2023-2024, using available data for each year.

Social benefit expenditure

Within the region, differences in income inequality and the redistributive impact of social benefits are sizable. Income inequality across ASEAN+3 remains high (Box C). However, dispersion is large, implying that the scope and urgency of redistribution measures may differ across members. In terms of social benefits spending as a share of GDP, most economies in the region are lower than the world average.[41] The reduction in the Gini index from social assistance is also

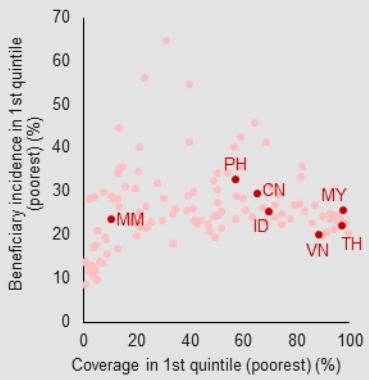
[40] Cross-country comparisons of education spending should be analyzed carefully as outcomes reflect not only spending efforts and efficiency but also differences in system structures and the share of public and private financing. The SDG Education Index mainly reflects progress in basic education and may not fully capture differences in higher-level skills; other indicators, such as tertiary enrollment rates and completion of upper secondary education, are therefore used to complement the analysis.
[41] Data for Brunei, China, Lao, Malaysia, and Vietnam is unavailable.

generally smaller than the global average. The resulting coverage indicator of social assistance for the poorest quintile varies markedly across members, indicating that some systems continue to face challenges in reaching vulnerable households. Beneficiary incidence for the poorest quintile among members is broadly similar but slightly lower than the global average.

Strengthening program coherence, targeting, and delivery systems could further improve social assistance efficiency. Priorities include reducing fragmentation and overlaps across different schemes, tightening eligibility and recertification processes, improving data integration and social registries, and expanding the use of well-governed digital payments. These steps can expand coverage of the poor, reduce leakage, and support a rapid scale-up during shocks, while remaining consistent with fiscal constraints.

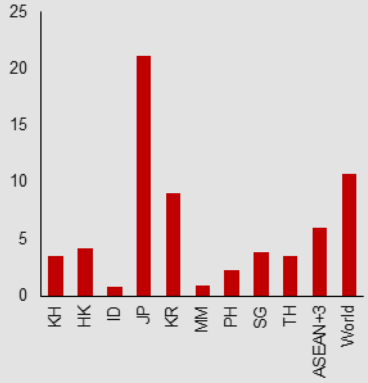
Figure D.3. Selected ASEAN+3: Social Benefits Expenditures and Outcomes

Panel A. Coverage and Benefit Share of Poorest 20 percent Population (Percent)



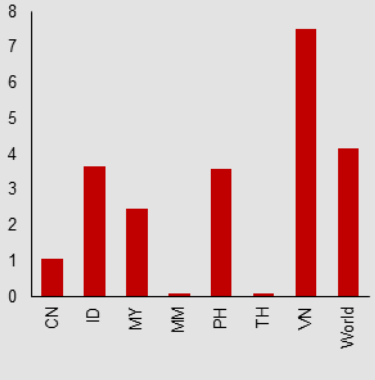
Source: World Bank; AMRO staff estimates
Note: 1) Coverage in the first quintile (poorest) (%) measures the share of the poorest 20 percent of the population receiving social assistance benefits; 2) Beneficiary incidence in the first quintile (poorest) (%) measures the share of total social assistance benefits received by the poorest 20 percent of the population; 3) More than half of the observations are from 2018-2022; one observation is from 2023; and the remainder is from before 2018, depending on country data availability.

Panel B. Government Social Benefits Expenditure (Percent of GDP)



Source: IMF; AMRO staff estimates
Note: 1) Data years are as follows: KH, HK, ID, JP, KR, PH, SG, and TH data is from 2023; and MM data is from 2019; 2) ASEAN+3 and world averages are from 2023. Data for 2024 is not available.

Panel C. Gini Inequality Index Reduction



Source: World Bank; AMRO staff estimates
Note: 1) Gini inequality index reduction measures the change in the Gini index attributable to social assistance programs, expressed as a percentage of the pre-transfer Gini index; 2) Data years are as follows: CN (2013), ID (2022), MY (2016), MM (2017), PH (2018), TH (2021), and VN (2020); 3) The world average reflects the average of annual simple averages over 2022-2023. Data for 2024 is not available.

Compensation expenditure and employment

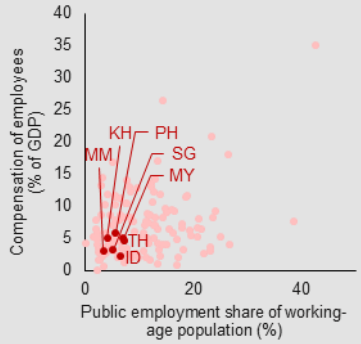
On average, wage bills and public employment levels in ASEAN+3 are lower than global averages, although variation across member economies and across indicators is sizable. Within ASEAN+3, compensation of public employees ranges from roughly 2.3 percent of GDP in Indonesia to about 5.9 percent in the Philippines, while public employment shares span from about 3.4 percent of the working-age population in Myanmar to about 20.2 percent in Brunei.[42]

Members could strengthen the efficiency of wage-bill and public employment management with relevant public financial management (PFM) tools. These can include improving medium-term forecasting and integrating it into budget frameworks, reinforcing transparent wage-setting arrangements, and upgrading payroll/HR information systems to support workforce planning and controls. Where wage bills are large and rigid, periodic spending reviews can help align staffing and pay structures with priority functions and service needs (IMF, 2016).

[42] Cross-country variation reflects national policy choices and capacity constraints. The differences should be interpreted in light of service delivery needs and institutional settings.

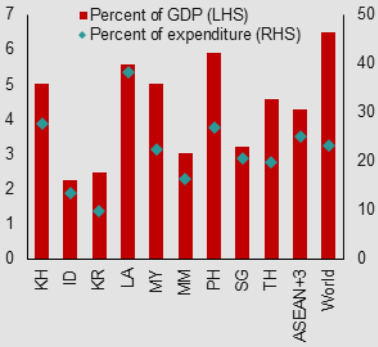
Figure D.4. Selected ASEAN+3: Government Compensation and Employment

Panel A. Government Compensation Expenditure and Employment



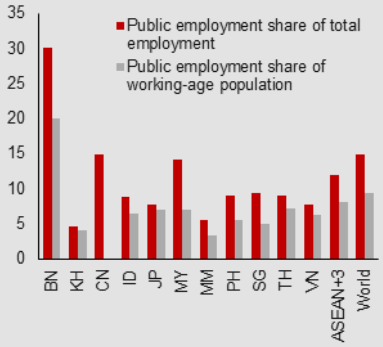
Source: IMF; International Labour Organization (ILO); UN; AMRO staff estimates
Note: For most countries, the latest available data is from 2020-2024; the remainder reflects the most recent observations prior to 2020, depending on country data availability.

Panel B. Government Compensation Expenditure (Percent of GDP, percent of expenditure)



Source: IMF; AMRO staff estimates
Note: For most countries, the latest available data is from 2022-2024; the remainder reflects the most recent observations prior to 2022, depending on country data availability. ASEAN+3 and world averages are calculated as the average of annual simple averages over 2022-2024, with each year based on available data given uneven coverage across economies.

Panel C. Share of Public Employment (Percent of total employment, percent of working-age population)



Source: ILO; UN; AMRO staff estimates
Note: For most countries, the latest available data is from 2022-2024; the remainder reflects the most recent observations prior to 2022, depending on country data availability. ASEAN+3 and world averages are calculated as the average of annual simple averages over 2022-2024, with each year based on available data given uneven coverage across economies.

Box E. Effectiveness of Fiscal Spending: Evidence from Fiscal Multipliers[43]

Amid weakened fiscal positions in many ASEAN+3 economies and rising spending pressures, ensuring the effectiveness of fiscal expenditure has become increasingly critical to maximizing the impact of limited public resources. Fiscal multipliers—which measure the impact of discretionary fiscal policy changes on economic output—provide an important gauge of such effectiveness. While both expenditure and revenue policies influence economic activity, this box focuses specifically on government spending multipliers. It examines the size and persistence of government spending multipliers across ASEAN-5, Japan, and Korea, and discusses key factors underlying cross-country differences in the macroeconomic effects of fiscal interventions.

Fiscal multipliers are shaped by a range of structural and policy-related factors, including economic characteristics, fiscal conditions, spending efficiency, and macroeconomic circumstances. Greater trade openness tends to reduce multipliers through import leakages, while less flexible exchange rate regimes are generally associated with larger multipliers because limited exchange rate movements following fiscal expansion reduce external crowding-out (Ilzetzki et al., 2013; Gonzalez-Garcia et al., 2013).[44] Fiscal conditions also matter; lower public debt level is often linked to larger multipliers, reflecting stronger policy credibility and fewer concerns about future fiscal adjustment (Kirchner et al., 2010; Huidrom et al., 2019). The composition of fiscal instruments and automatic stabilizers further influences transmission. Spending efficiency is particularly important for public investment, as weak public financial management, poor project selection, or institutional constraints can dampen output effects (Leeper et al., 2010; Cavallo and Daude, 2011; Furceri and Li, 2017; Avellán et al., 2020). Finally, multipliers tend to be larger during a recession and when monetary policy is accommodative or constrained by the effective lower bound (Auerbach and Gorodnichenko, 2012; Christiano et al., 2011; Coenen et al., 2013; Riera-Crichton et al., 2015).

To quantify the spending multipliers, this box employs an open-economy New Keynesian Dynamic Stochastic General Equilibrium (NK-DSGE) framework that captures key structural features shaping fiscal transmission. The NK-DSGE model incorporates three main fiscal spending instruments—government consumption, government investment, and government transfers to liquidity-constrained households—allowing their transmission channels and persistence to be assessed separately.[45] The model explicitly incorporates trade openness through import leakages, fiscal debt dynamics that influence government spending behavior, monetary policy reactions to inflation and output conditions, and the presence of liquidity-constrained households affecting consumption responses.[46] Compared with reduced-form time-series approaches such as structural vector-autoregression (SVAR) or local projections, DSGE models provide a structural framework that explicitly models transmission channels, incorporates forward-looking behavior of households and firms, and enables counterfactual policy simulations, making them well-suited for cross-country fiscal policy analysis.

Government investment multipliers are generally larger and more persistent than government consumption multipliers, while transfer multipliers remain the smallest.[47] While government

[43] Prepared by Sekar Utami Setiastuti.
[44] In general, fiscal expansion raises domestic demand and may lead to tighter—or anticipated tightening of—monetary policy. These impacts can in turn trigger larger capital inflows and currency appreciation, which weaken exports and increase imports, resulting in external crowding-out. Under less flexible exchange rate regimes, however, this adjustment channel is more constrained, allowing fiscal stimulus to transmit more strongly to domestic output.
[45] In the NK-DSGE model, government consumption refers to current public expenditure on goods, services, and public-sector wages that primarily affect aggregate demand without directly adding to productive public capital. Government investment comprises public capital expenditure, including infrastructure and other capital formation, which augments the public capital stock and may enhance productivity over time. Government transfers include payments to households—such as social assistance and cash transfers—that raise disposable income but do not involve direct government purchases of goods or services.
[46] The framework follows established open-economy NK-DSGE convention (Forni et al., 2009; Erceg and Lindé, 2012; Born et al., 2013; Corsetti and Müller, 2015; Clancy et al., 2014; Sin, 2016). Country-specific models are calibrated and estimated to incorporate key structural features affecting fiscal transmission. For each economy, the model is estimated using annual data for 2006-2019 under a Bayesian estimation framework.
[47] These findings should be interpreted in light of limitations, as the structural open-economy NK-DSGE framework relies on simplifying assumptions, calibrated parameters, and stylized policy rules. While it captures key fiscal transmission channels, country-specific institutional features remain only partially represented. Future work could explore richer structural specifications, and complement it with empirical approaches, such as SVARs or local projections to assess robustness.

consumption multipliers range between 0.5 and 0.9 for both impact (first-year) and cumulative three-year multipliers, government investment multipliers are consistently higher across economies, with cumulative three-year multipliers often approaching or exceeding unity. This finding is consistent with broad literature showing that public investment can generate stronger medium-term output effects by augmenting productive capacity and crowding in private investment (Cavallo and Daude, 2011; Abiad et al., 2016; Furceri and Li, 2017). In case of transfers to liquidity-constrained households, impact multipliers remain modest, suggesting limited aggregate demand amplification. Indonesia stands out with relatively larger impact and cumulative three-year multipliers, although these remain much smaller than those associated with government consumption and investment spending.

These findings are broadly consistent with the literature—modest spending multipliers of Asian economies and less persistent transfer shocks. Regional empirical evidence suggests that fiscal multipliers in Asian economies tend to be moderate yet economically meaningful, despite relatively high openness. Dime et al. (2021), for example, report government spending multipliers typically in the range of about 0.7-0.9 over a medium-term horizon.[48] Cross-country differences also reflect fiscal and monetary policy conditions as well as spending efficiency. Korea's relatively stronger fiscal effects may partly reflect a healthier fiscal position compared with Japan's high public debt, while Japan's prolonged period of accommodative monetary policy and near-zero interest rates may have supported fiscal transmission by limiting monetary offset (Goode et al., 2021). Meanwhile, the effectiveness of transfer measures depends on labor supply responses, household saving behavior, fiscal financing constraints, trade openness, and monetary policy conditions (Giambattista and Pennings, 2017; MAS, 2023; Ramey, 2025). Targeted transfers to liquidity-constrained households can provide a similar boost to aggregate demand in a manner comparable to government purchases, but income effects may reduce labor supply and contribute to higher inflation, weakening output gains.[49] Financing considerations can also offset part of the initial demand impulse over time, with tax-financed transfers offsetting demand effects more quickly.[50] These mechanisms limit multiplier persistence, particularly in highly open economies where import leakages are significant. In addition, within the NK-DSGE framework, the relatively small size of transfer programs relative to GDP and the modest share of liquidity-constrained households further constrain aggregate effects.

The results highlight the importance of the composition of fiscal spending in designing policy responses. Public investment tends to generate larger and more persistent output effects, while government consumption generally produces more immediate demand effects but with less persistence. Transfers, particularly to liquidity-constrained households, play an important role in supporting household welfare, but their aggregate growth effects are more limited and depend on household behavior and fiscal financing constraints. Accordingly, measures aimed at supporting near-term domestic demand may focus on demand-oriented instruments, such as government consumption, complemented where appropriate by public investment with shorter implementation lags. At the same time, transfers to liquidity-constrained households remain essential for social protection and equity objectives and, when well targeted and efficiently implemented, can also support aggregate demand. Over a longer horizon, public investment is more likely to sustain growth, by expanding productive capacity, supporting private-sector activity, and addressing infrastructure gaps. In addition, improving spending efficiency, strengthening PFM and maintaining fiscal policy credibility are key to enhancing fiscal effectiveness across spending categories. Policy design should also take into account structural factors shaping fiscal multipliers, such as trade openness, exchange rate regimes, and labor market conditions.

[48] Estimates for Singapore differ somewhat from several VAR-based studies (e.g., Eskesen, 2009; Tang et al., 2013), which often find relatively small or even negative government consumption multipliers, reflecting the economy's high trade openness, substantial import leakages, and strong household saving behavior. By contrast, structural DSGE models may generate more persistent positive effects because they explicitly incorporate forward-looking behavior, intertemporal consumption smoothing, and policy reaction mechanisms that are less easily captured in a reduced-form approach. These methodological differences, together with variations in fiscal composition and policy regimes, can contribute to dispersion in multiplier estimates across studies.
[49] When monetary policy is constrained by the effective lower bound, such inflation is less likely to trigger offsetting interest rate increases and may even lower real interest rates, allowing transfer multipliers to become relatively larger.
[50] Alternatively, if transfers are financed through higher borrowing, households and firms may see future tax increases or fiscal consolidation, which can dampen consumption and investment.

Box F. Policy Considerations for Effective and Efficient Tax Expenditure[51]

Tax incentives are widely used across ASEAN+3 economies to promote investment and support specific policy objectives (Table F.1). Most economies provide CIT incentives to attract investment—particularly foreign direct investment (FDI)—into priority sectors and regions (particularly special economic zones, SEZs), or to support specific activities (such as R&D, innovation, employment) and targeted segments (notably SMEs). Common CIT incentive instruments include tax exemptions (tax holidays), reduced tax rates(often applied after the expiration of tax exemptions), tax allowances (e.g., for R&D expenses or capital investment), accelerated depreciation, and tax credits (e.g., for training, logistics, intangible assets, or financing costs). PIT incentives are also prevalent. These mainly take the form of tax allowances, including for dependents and selected expenses, often aimed at supporting households or specific social objectives. In addition, VAT or sales tax incentives are widely applied through exemptions or zero-rating for selected goods and services, such as basic consumer goods, education services, and agricultural products. Customs duty exemptions further complement the incentive landscape in some economies, particularly for priority sectors, activities, or regions (including SEZs), as well as for imports of capital equipment, raw materials, and parts.

Table F.1. ASEAN+3: Tax Incentive Instruments

		BN	KH	CN	HK	ID	JP	KR	LA	MY	MM	PH	SG	TH	VN
CIT	Tax exemption	O	O	O	O	O			O	O	O	O	O	O	O
	Reduced tax rate		O	O	O	O	O	O	O		O	O	O	O	O
	Tax allowance	O	O	O	O	O	O	O		O		O	O		
	Tax credit	O		O	O		O	O					O		
	Accelerated depreciation		O	O		O	O	O		O		O	O		O
PIT	Tax allowance	O	O	O	O	O	O	O	O	O	O	O	O	O	O
	Tax credit						O	O					O		
VAT	Tax exemption		O	O		O	O	O	O	O	O	O		O	O
	Reduced tax rate		O	O		O	O	O	O			O		O	O

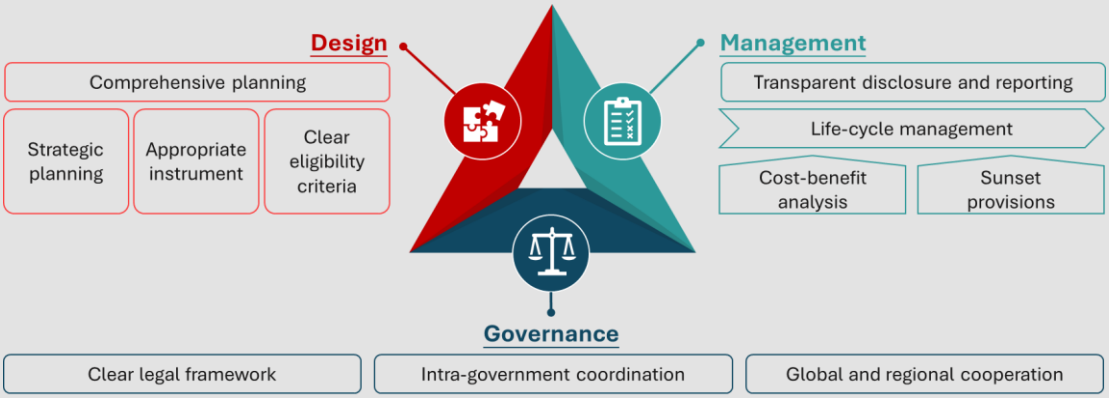
Source: PwC; Deloitte (2025); EY (2025); AMRO (2025a) Box D; national authorities; AMRO staff compilation
Note: 1) Tax exemption refers to the exclusion of income, transactions, or activities from the tax base and is often implemented in the form of tax holidays; 2) Reduced VAT rates include the application of a zero rate; 3) Tax allowances refer to the deduction of specified expenses from the tax base; 4) Tax credits refer to the deduction of specified expenses directly from tax liability; 5) Accelerated depreciation allows capital assets to be depreciated at a faster rate than under the standard depreciation method.

While tax incentives may generate economic benefits, they are inevitably associated with significant costs. If well designed, tax incentives may induce activities that would not otherwise occur, such as attracting new investment, promoting priority sectors, and supporting households and SMEs. They can also generate indirect spillovers through supply-side channels—by strengthening backward and forward linkages and enhancing productivity—and via demand-side channels—by raising income, employment, and consumption. However, these potential benefits must be weighed against substantial costs. The most direct cost is forgone revenue, reflecting the tax revenue sacrificed as part of the policy trade-off to encourage specific activities. In addition, redundant revenue loss arises when tax incentives are granted to activities that would have been undertaken even in the absence of incentives. Tax incentives can also lead to revenue loss due to tax avoidance and evasion, as complex and preferential tax regimes create opportunities for non-compliance, rent-seeking, and corruption. These fiscal costs are often compounded by higher administrative and compliance burdens and by distorted resource allocation, as preferential tax treatment may divert capital and labor toward incentivized sectors at the expense of other productive activities, potentially reducing overall economic efficiency.

[51] Prepared by Byunghoon Nam. This box is based on Andriansyah, Hong, and Nam (2021).

To maximize the benefits while minimizing the costs of tax incentives, key elements of effective and efficient tax incentives should be considered around three pillars: design, management, and governance (Figure F.1).

Figure F.1. Key Elements of Effective and Efficient Tax Incentives



Source: Andriansyah, Hong, and Nam (2021)

Design. Sound design requires that tax incentives be grounded in a comprehensive national strategy, employ appropriate policy instruments, and clearly define eligibility criteria for targeted sectors and activities.

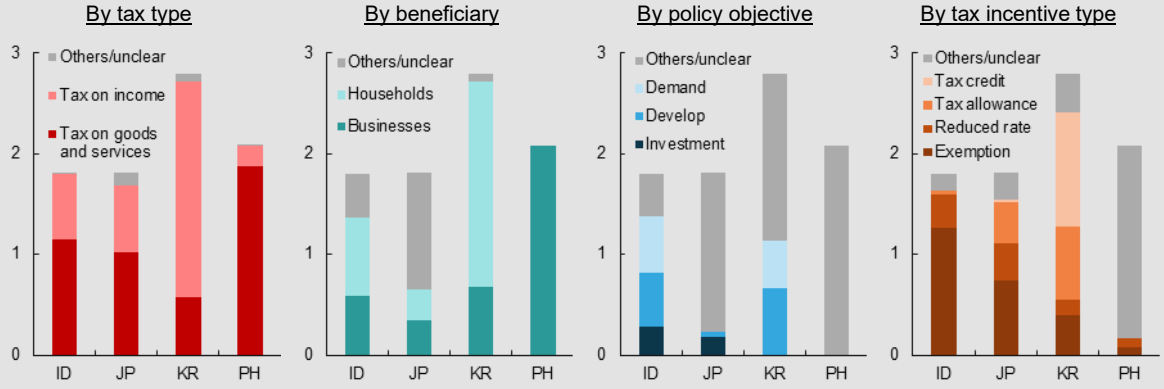
- **Comprehensive planning**. Tax incentives should be anchored in a coherent national development strategy and integrated with broader economic, social, and structural policies, rather than implemented in isolation.[52] Assessing tax incentives alongside alternative policy tools helps ensure that they are used only where they are the most appropriate and cost-effective instruments for achieving intended objectives.
- **Strategic targeting**. Tax incentives should have clearly defined targets that reflect a country's endowments and strategic priorities. Given their fiscal costs, tax incentives should be used selectively and directed toward sectors, activities, regions, or beneficiary groups that align with the national agenda and generate positive externalities. In practice, ASEAN+3 economies target a wide range of sectors, activities, and regions—often with additional qualification requirements—though the scope and intensity of targeting vary across economies.[53]
- **Appropriate instruments**. The choice of incentive instruments should be guided by their relative effectiveness and efficiency, considering the capacity constraints and policy environment. Cost-based instruments (such as tax allowances and tax credits) are generally more effective and efficient than profit-based instruments (such as tax exemptions and reduced tax rates), and a. A gradual shift toward cost-based incentives is often recommended as administration capacity improves.[54] Nevertheless, in economies with limited capacity or facing strong tax competition, profit-based instruments could be used, provided that the associated risks—such as excessive revenue loss due to redundancy and vulnerability to tax avoidance and evasion—are mitigated through stronger management and governance frameworks.
- **Clear eligibility criteria**. Eligibility criteria for tax incentives should be clearly defined in law to provide certainty and predictability, limit ad hoc changes or discretionary implementation, and reduce rent-seeking and corruption risks. The scope of eligibility should be carefully calibrated to avoid unnecessary revenue losses while supporting intended policy objectives. Implementation and verification of eligibility requirements should be clearly assigned to appropriate government agencies through legal provisions.

[52] According to UNIDO (2011), and World Bank (2017), tax incentives are not among the top factors influencing investment decisions. Instead, economic and political stability, transparency of regulations and the legal framework, and ease of doing business matter more to investors, implying that tax incentives alone cannot attract investments and cannot compensate for deficiencies in infrastructure and investment climates.
[53] National authorities responsible for investment promotion provide details about the sectors, industries, activities, and regions applicable for tax incentives. See Andriansyah, Hong, and Nam (2021).
[54] See IMF-OECD-UN-World Bank (2015), World Bank (2017) and OECD (2019).

Management. Systematic management of tax incentives should ensure transparent implementation within a life-cycle framework, supported by cost–benefit analysis, regular monitoring and evaluation, and pre-specified sunset provisions.

- **Transparent disclosure and reporting**. Tax incentives should be administered transparently to enhance predictability for taxpayers and accountability of the government. A centralized and comprehensive inventory of tax incentives should be maintained and regularly updated, covering their legal basis, eligibility criteria, beneficiaries, and administrative procedures. In addition, tax authorities should prepare tax expenditure (TE) statements as part of the budgetary process to assess revenue forgone due to tax incentives and publish these reports to strengthen transparency and accountability in the use of public resources. Where administrative capacity is constrained, a gradual approach can be adopted—starting with compiling tax benefits granted to large beneficiaries and expanding coverage over time. Among ASEAN+3 economies, Indonesia, Japan, Korea, and the Philippines have published TE reports (Figure F.2), with Korea and Indonesia ranking high in TE transparency, while Japan and the Philippines lag behind.[55]

Figure F.2. Selected ASEAN+3: Tax Expenditure (Percent of GDP)



Source: Global Tax Expenditures Database (GTED)
Note: 1) The TE figures are the averages of 2021-2025 for Indonesia and Korea, 2021-2023 averages for the Philippines, and 2018 for Japan; 2) Regarding policy objectives, "investment" refers to attracting or promoting investment; "develop" refers to developing priority sectors or activities; and "demand" represents increasing access to, or demand for, goods and services; 3) Regarding tax incentive type, "reduced rate" includes a zero rate.

- **Life-cycle management**. Tax incentives should be managed throughout their full life cycle, from introduction to termination. New incentives should be granted based on clearly defined eligibility criteria, while existing incentives should be reviewed regularly to assess their continued relevance and effectiveness. Ineffective or inefficient incentives should be modified or discontinued, while those that have achieved their intended objectives should be repealed. Projects receiving tax incentives should also be subject to life-cycle oversight. Eligibility and qualification requirements should be thoroughly examined at the approval stage, and beneficiaries should be monitored periodically to prevent abuse and evasion.
- **Cost–benefit analysis**. Rigorous cost–benefit analysis should underpin both the introduction of new incentives and the review of existing ones, comparing the economic benefits of incentives with the opportunity cost of forgone revenue. While comprehensive evaluations can be challenging—particularly in countries with limited administrative capacity—simplified approaches, such as beneficiary surveys or partial evaluations focused on major incentives, can still provide valuable input for policy decisions until more sophisticated methods become feasible.
- **Sunset provisions**. Predetermined sunset clauses should be embedded in tax incentive legislation to ensure that incentives remain temporary exceptions to the standard tax system. Sunset provisions mandate periodic reassessment and help prevent automatic or discretionary

[55] The Global Tax Expenditures Transparency Index (GTETI) assesses the quality of tax expenditure (TE) reporting across countries along five dimensions: (i) public availability, (ii) institutional framework, (iii) methodology and scope, (iv) descriptive TE data, and (v) TE assessment. In GTETI 2025, Korea and Indonesia ranked first and second, respectively, while the Philippines and Japan ranked 79th and 81st out of 116 countries. See GTETI for the detailed methodology and data.

extensions, thereby strengthening discipline in incentive use while providing clarity and predictability for taxpayers. Decisions to continue, revise, or terminate incentives should be based on objective evaluation, including cost–benefit analysis.

Governance. Strong governance underpins both the design and management of tax incentives by ensuring clear institutional responsibilities, accountability, and effective oversight.

- **Clear legal framework**. Tax incentives should be clearly prescribed and governed by law to enhance predictability, consistency, and accountability. Key elements of incentive design and management—including eligibility criteria, reporting requirements, cost–benefit analysis, and sunset provisions—should be embedded in legislation rather than implemented through ad hoc regulations or discretionary practices. Consolidating tax incentives within tax laws helps reduce overlapping or conflicting provisions, limits unintended revenue losses, and improves traceability, enforcement, and compliance.
- **Intra-government coordination**. Effective governance requires close coordination among ministries and agencies involved in tax incentive policy, including those responsible for economic and social development, sectoral and industrial policy, and fiscal management. Given its mandate to safeguard fiscal sustainability, the Ministry of Finance should play a central role in assessing the fiscal implications of tax incentives and approving major incentive decisions, while line ministries provide technical expertise on sectoral conditions and policy objectives. Coordinated decision-making mechanisms—such as inter-agency committees or approval boards—can help balance development objectives with revenue considerations and reduce the risk of overlapping, conflicting, or duplicative incentives.
- **Global and regional cooperation**. Global cooperation is important for addressing revenue erosion arising from tax competition and profit shifting. In this context, engagement with the OECD/G20 Inclusive Framework is critical. In particular, Pillar Two—the global minimum tax—can help safeguard domestic tax bases by limiting profit shifting and the effectiveness of profit-based tax incentives. Member economies should closely follow developments in these initiatives and prepare domestic legal frameworks, institutions, and administrative systems to ensure timely and effective implementation.[56] At regional level, cooperation can further mitigate harmful tax competition and promoting good practices. ASEAN+3 economies could develop common frameworks for reporting tax incentives and exchanging information to enhance transparency, peer learning, and ex-post evaluation. Over time, such cooperation could be deepened through non-binding agreements or codes of conduct to discourage particularly distortive or ineffective incentives, drawing on international experience.

While tax incentive reforms may be warranted across member authorities, there is no one-size-fits-all approach. Key elements of effective and efficient tax incentives—spanning design, management, and governance—provide useful guidance. That said, the scope, modality, and pace of their application should be tailored to country-specific circumstances, reflecting differences in economic structures, institutional capacity, and policy constraints.

[56] Although member economies are progressing at different stages in implementing the GMT, efforts are well underway to implement the Domestic Minimum Top-Up Tax (DMTT), Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR). See AMRO (2025a) Box E.

Box G. ASEAN+3 Social Insurance Reforms in Recent Years[57,58]

Efforts to reform social insurance schemes have accelerated across the ASEAN+3 region in recent years. Most ASEAN+3 economies are confronting rapid population aging driven by longer life expectancy and persistently low birth rates. By 2030, all but two ASEAN+3 economies are projected to be "aging societies" at least (AMRO, 2024b).[59] The demographic shifts are expected to strain public finances, as revenue growth slows while aging-related spending rises, particularly for pensions, health and long-term care. Additional aging-related fiscal costs are estimated to range from 0.9 percent of GDP in Indonesia to 9.3 percent in Korea by 2050, depending on the pace of aging (AMRO 2024a). While social insurance schemes in the region vary widely in design and maturity—from a fully funded defined contribution (DC) provident fund to pay-as-you-go defined benefit (DB) pensions, and from social health insurance-based schemes to fully tax-financed health systems[60]—reforms in recent years have broadly converged on four objectives: strengthening pension sustainability, improving old-age benefit adequacy, expanding pension coverage, and enhancing the sustainability and affordability of the health system.

The region has seen a series of parametric pension reforms focusing on raising the retirement age, tightening qualifying rules, and increasing contribution rates (Table G.1). Parametric reform is crucial because it directly affects the pension fund balance by expanding revenues through longer contribution periods and higher rates, while improving the alignment between benefit commitments and demographic trends as populations age, helping stabilize long-term fund positions. China's reform package in late 2024 is among the most notable, marking the first adjustment to the statutory retirement age in decades and raising the minimum qualifying period for pension benefits from 15 to 20 years. Similar objectives underpin scheduled increases in the retirement age in Indonesia and Singapore under reform paths announced in advance, as well as tighter eligibility in Lao PDR through a higher minimum qualifying period for full pension benefits. On the revenue side, Korea and the Philippines have adopted phased increases in contribution rates to strengthen pension fund balances while managing near-term burdens on workers and employers. Brunei stood out with a structural reform in 2023, consolidating the separate pension schemes into a hybrid DB and DC framework, aimed at strengthening governance and long-term pension sustainability.

Reducing disincentives to work at an older age has also become an increasingly important reform priority. Several economies have undertaken measures to lower implicit penalties on working at an older age by refining work-pension interaction rules, so that pension payouts are not reduced or suspended as quickly when beneficiaries continue working. This measure supports labor supply and helps sustain contribution revenues and the contributor base. Japan and Korea, for instance, have raised the income threshold at which pension benefits begin to be reduced or suspended for working pensioners, in order to lower the disincentive to stay employed after claiming benefits.

Old-age income adequacy and more inclusive social pension benefits have also been a central focus of reforms (Table G.2). In recent years, several ASEAN+3 economies have raised non-contributory benefit floors to reduce poverty risks among seniors, especially those with limited contribution histories. Korea and the Philippines have increased social pension benefit levels, with Korea phasing in higher payments through 2027. Vietnam has also introduced a tax-financed social pension for poor and near poor households, complementing an existing elderly social assistance program that mainly supports individuals aged 80 and above without pensions. In DC provident fund-based retirement systems, adequacy reforms have instead focused on increasing lifetime

[57] Prepared by Dek Joe Sum

[58] Recent reforms documented in this box are not intended to be exhaustive. They cover selected measures introduced during 2023-2026 that may have implications for countries' fiscal positions. The box focuses on structural or major policy changes rather than regular or periodic adjustments. For conciseness, it discusses only each economy's main old-age social insurance and health system; other schemes, including civil service and military or uniformed personnel systems, are excluded.

[59] Based on UN classification using the share of the population aged 65 and above, an economy is considered an aging society when the share of the population aged 65 and above reaches 7 percent or more, an aged society at 14 percent or more, and a post-aged or super aged society at 21 percent or more. By 2030, Hong Kong, Japan, Korea and Singapore are projected to be post-aged societies; China and Thailand are projected to be aged societies; and Brunei, Cambodia, Indonesia, Malaysia, Myanmar, and Vietnam are projected to be aging societies.

[60] See AMRO (2024b) Box 2.3 for a breakdown of old-age and health social insurance systems in the ASEAN+3 region.

accumulation and improving the conversion of savings into more stable retirement income. This is reflected in Singapore's higher Enhanced Retirement Sum ceiling, which increased the maximum amount that can be set aside in the Retirement Account to secure higher lifelong payouts. Meanwhile, Malaysia's revised Retirement Income Framework raised the withdrawal limit and strengthened matching incentives for voluntary contributions.

Efforts to expand pension coverage have also accelerated, particularly for hard-to-cover groups (Table G.3). One strand of reform has sought to improve the effective benefit coverage by making contributory pension benefits more accessible to workers with fragmented careers. In this context, Vietnam has lowered the minimum contribution period, making monthly pensions more attainable for workers with intermittent employment or late entry into formal work. Another strand has extended mandatory participation to groups previously outside the system, including informal workers, platform workers, migrants, and non-regular employees. Malaysia has extended mandatory coverage of its Employees Provident Fund (EPF) to foreign employees, Singapore has included platform workers in the Central Provident Fund (CPF) through mandatory contribution deduction and remittance by platform operators, and Japan has introduced a phased expansion of Employees' Pension coverage to more part-time workers and smaller firms through lower eligibility thresholds.

Recent health system reforms have increasingly been shaped by fiscal considerations, as governments seek to preserve affordability while maintaining service quality and long-term sustainability (Table G.4). Differences in health financing models across the region have also shaped reform priorities and the underlying policy rationale. In social health insurance-based systems with large risk pools, sustainability is often supported through periodic scheme recalibration, including adjustments to benefits, claims limits, and premiums to keep pace with rising costs. Singapore's MediShield Life 2024 Review reflects this approach, updating coverage and premiums with phased implementation to strengthen protection while managing affordability. In mixed financing systems, where private medical coverage plays a sizable role, sharp repricing cycles in private insurance premiums can spill over to the public health system. In Malaysia, prolonged medical cost inflation contributed to steep premium increases in private health insurance, raising discontinuation risks and increasing pressure on the public health system. This in turn motivated authorities' efforts to pilot a voluntary, standardized private health insurance (MHIT) option to improve affordability and reduce repricing volatility. In public schemes, cost control has also been pursued by standardizing entitlements and service delivery conditions to reduce fragmentation and support spending discipline. Indonesia's move toward a standard inpatient class framework, replacing the previous class-based structure, aims to reduce benefit fragmentation and support more disciplined expenditure management.

Administrative and legal reforms to strengthen the foundations of health financing have also gained prominence across the region. These reforms reflect a growing recognition that sustainability depends not only on benefit design, but also on safeguarding the revenue base and limiting leakages arising from weaknesses in eligibility and claims management. The policy rationale is to improve scheme integrity and value for money, so that health-related spending pressure is contained. Recent reforms have therefore prioritized clearer legal obligations and enforcement mechanisms, stronger entitlement verification, and more systematic claims review and fraud detection. Vietnam's 2024 amendments to the Health Insurance Law reinforced the statutory basis for scheme administration and compliance. As of December 1, 2025, Japan has transitioned from conventional health insurance certificates to a system centered on the My Number Health Insurance Certificate, enabling data-informed medical care with user consent.

Overall, ASEAN+3 social insurance reforms in recent years underscore a pragmatic shift toward enhancing protection in aging societies while containing fiscal risk. Across diverse pension and health system designs, policymakers have implemented parametric pension reforms to stabilize financing, strengthened adequacy through higher non-contributory benefit floors and improved retirement savings outcomes, and pursued more targeted coverage expansion for hard-to-cover groups. Health reforms have similarly prioritized affordability and sustainability by strengthening scheme governance, standardizing entitlements and service delivery, and upgrading administration to protect the revenue base and lessen leakages.

Table G.1. Selected ASEAN+3: Reforms of Old-age Pension in Recent Years

	Program	Retirement age	Qualifying rule	Contribution rate	Incentive for continued employment	Others
Brunei *Introduced in 2023*	National Retirement Scheme (SPK)					Consolidated Employee Trust Fund Scheme and Supplemental Contributory Scheme
China *Introduced in 2024 and 2025*	Basic Pension Insurance	Increased qualifying age from 60 to 63 for men; from 50 to 55 for white-collar women; and from 55 to 58 for blue-collar women	Increased minimum qualifying period from 15 to 20 years.		Allowed employees to continue working for additional three years after reaching retirement age	Allowed employees to retire up to three years early upon meeting minimum qualifying period of 20 years
Japan *Introduced in 2025.*	Public Pension				Increased benefit-suspension threshold in phases to JPY650,000 from April 2026	Increased ceiling of wages used to calculate contribution and pension amount
Korea *Introduced in 2025.*	National Pension Scheme			Increased from 9 percent in 2026 until 13 percent in 2033	Increased pension benefit reduction threshold by KRW2 million	Raised target income replacement rate to 43 percent
Lao PDR *Introduced in 2025.*	National Social Security Fund	Adjusted retirement age to 57-60 for men and to 55-60 for women	Increased minimum qualifying period from 15 to 25 years.			
Malaysia *Introduced in 2025*	Employees Provident Fund					Increased withdrawal limit from MYR1 mn to MYR1.3 mn by 2028
Philippines *Introduced in 2025.*	Social Security System			Increased from 14 percent to 15 percent		Increases annual pension by 10 percent from 2025 to 2027
Singapore *Introduced in 2026*	Central Provident Fund (CPF)	Increased retirement age from 63 to 64; and reemployment age from 68 to 69		Increased by 1.5 ppts for age 55 to 65		
Thailand *Introduced in 2026*	Social Security Fund (SSF)					Increased wage ceiling used to calculate SSF contributions

Source: International Social Security Association (ISSA); national authorities; ILO; AMRO staff compilation

Table G.2. Selected ASEAN+3: Reforms of Social Pension and Pension Coverage in Recent Years

	Program	Benefit Amount	Coverage
New social pension schemes			
Vietnam *Introduced in 2024.*	Social retirement benefits/social pension	VND500,000 per person per month (nationwide base level)	Citizens aged 75 and above, or aged 70 to 75 if poor/near-poor and not receiving a pension or monthly social insurance allowance. Fully financed by state taxes while provinces may provide top-ups subject to local fiscal capacity
Existing social pension schemes			
Philippines *Introduced in 2024*	Social Pension for Indigent Senior Citizen	Doubled benefit amount from PHP500 to PHP1,000 a month	Changed schedule of payments from every six months to monthly, bimonthly or quarterly depending on geographical location
Thailand *Introduced in 2023*	Old age allowance		Introduced poverty-targeting mechanism, limiting previously universal benefits to needy households (new recipients only).
Korea *Introduced in 2026*	Basic Pension	Plan to increase Basic Pension to KRW400,000 by 2027 in phases, starting with lower-income seniors in 2026	

Source: ISSA; national authorities; ILO; AMRO staff compilation

Table G.3. Selected ASEAN+3: Reforms on Expanding Pension Coverage in Recent Years		
	Targeted Group	**Details**
Japan *Introduced in 2025*	Non-regular workers, especially part-time workers; employees in smaller firms	Ongoing phased reforms to reduce threshold barriers (notably related to firm size and part time coverage criteria) so more part time and non-regular workers are enrolled in Employees' Pension Insurance, narrowing persistent coverage gaps in a dualized labor market
Malaysia *Introduced in 2025*	Migrant and foreign employees	Mandatory EPF contributions for non-Malaysian citizen employees apply from October 2025 wages, narrowing a long-standing coverage gap for migrant workers previously outside mandatory EPF coverage
Singapore *Introduced in 2025*	Platform workers in ride hailing and food delivery	From 1 January 2025, platform operators must deduct and remit CPF contributions for platform workers, extending retirement coverage beyond the traditional employer employee model
Vietnam *Introduced in 2024*	Workers with fragmented careers; late entrants to formal employment; newly covered worker categories	The 2024 Social Insurance Law, effective 1 July 2025, reduces the minimum contribution period for pension eligibility from 20 to 15 years (improves effective coverage). The same law also extends compulsory coverage to additional groups, broadening the contributory base
Source: ISSA; national authorities; ILO;, AMRO staff compilation		

Table G.4. Selected ASEAN+3: Reforms of Health System in Recent Years			
Country	**Program**	**Reform measure**	**Details**
Indonesia *Introduced in 2024*	JKN (BPJS Kesehatan) Standard Inpatient Class (KRIS)	Standardized benefits and services to achieve cost discipline	Set KRIS as the minimum standard for inpatient services, moving away from the class-based structure to reduce fragmentation and support expenditure discipline
Japan *Introduced in 2024*	Transition to a system centered on the use of the My Number Card as a Health Insurance Certificate	Abolition of conventional Health Insurance Certificates	New issuance of Health Insurance Certificates discontinued on December 2, 2024, and the transition to the use of the My Number Card as a Health Insurance Certificate ("My Number Health Insurance Certificate") is ongoing. Conventional Health Insurance Certificates remain valid until December 1, 2025, at the latest.
Malaysia *Introduced in 2026*	Base Medical and Health Insurance/ Takaful (MHIT) Plan	Standardized voluntary private medical insurance option to reduce repricing volatility and affordability shocks	Developed standardized base MHIT plan to improve transparency and affordability and reduce sharp repricing cycles that can spill over to public system
Singapore *Introduced in 2024*	MediShield Life (MSHL) 2024 Review	Recalibrated scheme for sustainability and adequacy	Updated benefits/claim limits and premium payment schedule, with phased implementation from April 2025 and accompanying support measures to manage affordability
Vietnam *Introduced in 2024*	Amendments to Health Insurance Law	Strengthened legal and institutional provisions to protect financing base	Updated statutory framework governing scheme administration, participation and compliance
Source: ISSA; national authorities; ILO; AMRO staff compilation			

Appendix I. Fiscal Year, Coverage, and Data Notes

	Fiscal Year	Budget Coverage	Notes (Key differences from authorities' data)
Brunei Darussalam	April-March	Central government	
Cambodia	January-December	Central government	
China	January-December	Central + local governments [2)]	
Hong Kong, China	April-March	Central government	Fiscal balance excludes net issuance and repayment of government bonds and notes.
Indonesia	January-December	Central government	
Japan	April-March	General government	
Korea	January-December	Central government + social security funds [3)]	
Lao PDR	January-December	Central government	1) Gross financing needs include debt service obligations under negotiation; 2) Government debt includes suspended interest payments as payables. Government external debt is evaluated using commercial bank exchange rates.
Malaysia	January-December	Central government	
Myanmar	April-March [1)]	Central government	1) Revenue excludes borrowing and expenditure excludes principal repayments; 2) Government external debt is evaluated using bank customer exchange rates.
Philippines	January-December	Central government	Gross financing needs include redemptions by bond sinking fund.
Singapore	April-March	Central government	1) Fiscal balance is based on overall budget surplus/deficit, which excludes capitalization and depreciation of nationally significant infrastructure from overall fiscal position. From the overall budget surplus/deficit, it further excludes top-ups to statutory and trust funds, while including spending from these funds; 2) Gross financing needs include redemption of publicly held Singapore government securities and Treasury bills.
Thailand	October-September	Central government	Expenditure includes off-budget emergency loans.
Vietnam	January-December	Central + Local governments	1) From the settlement, revenue excludes carry-over revenue from the previous year, collection from financial reserve funds, and collection from local government budget surpluses of the previous year, while expenditure excludes carry-over spending to the following year; 2) From the budget, expenditure includes estimated carry-over spending from the previous year and excludes estimated carry-over spending to the following year.

Source: National authorities; AMRO staff compilation
Note: 1) Myanmar's fiscal year followed an October-September cycle during FY2018-2021. For consistency, all macroeconomic and fiscal indicators of the country are converted to an April-March fiscal year using quarterly data; 2) For China, fiscal data coverage refers to the general public budget account; 3) For Korea, government debt comprises both central and local government debt.

Appendix II. Key Fiscal Indicators

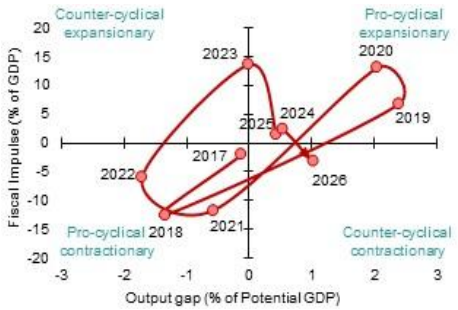
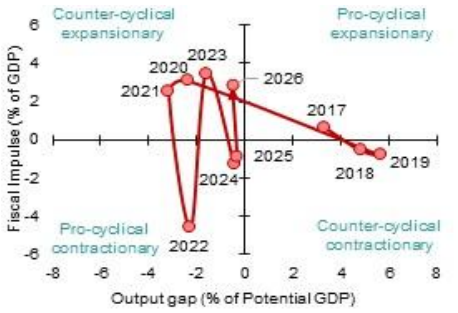
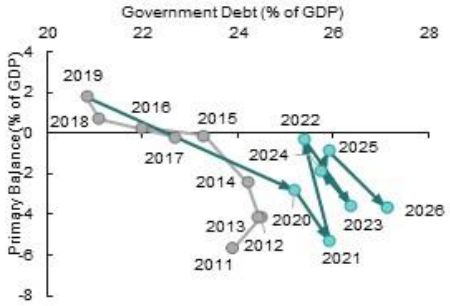
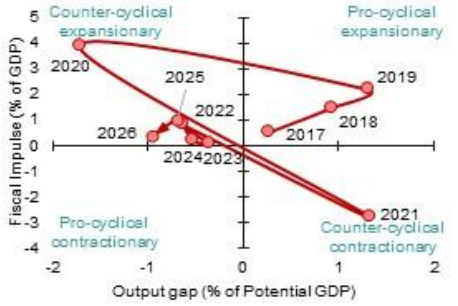
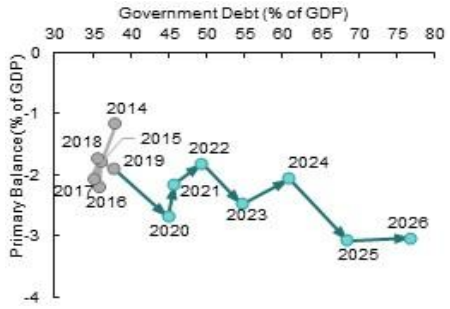
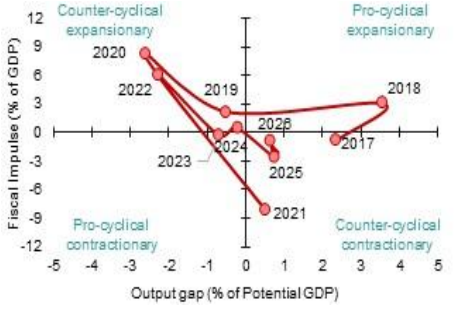
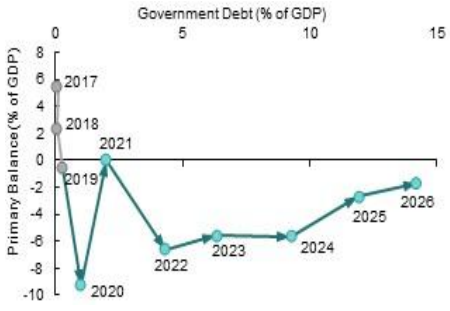
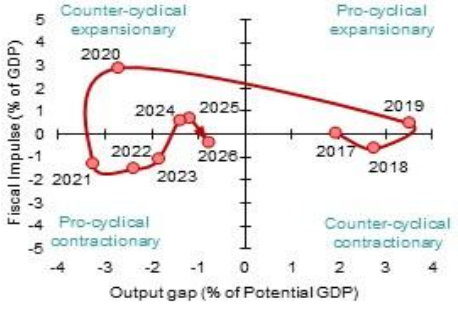
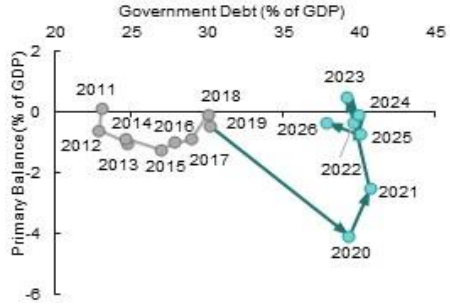
(Percent of GDP)

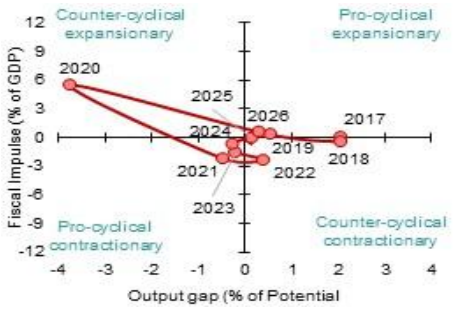
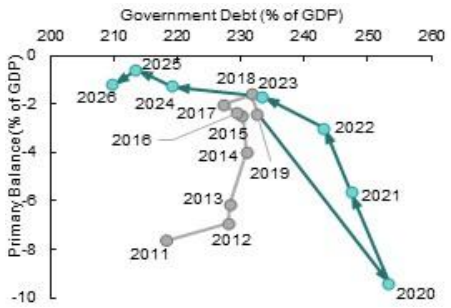
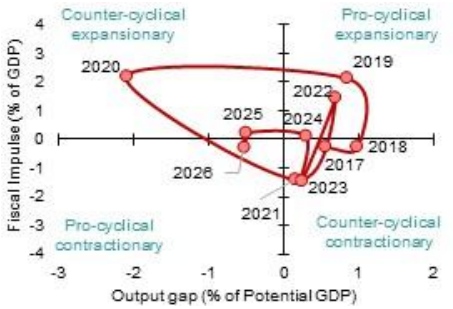
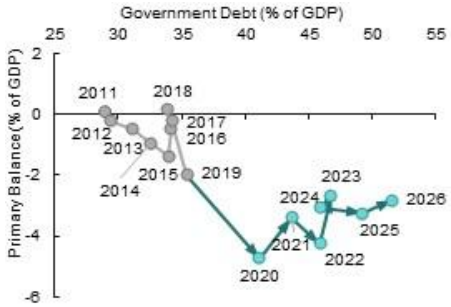
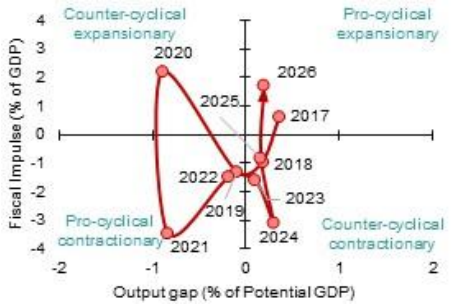
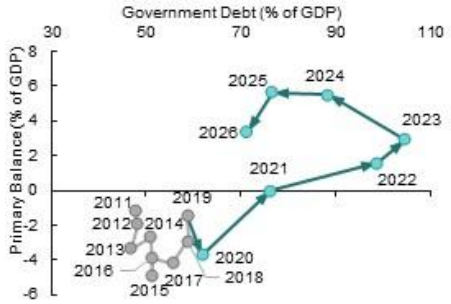
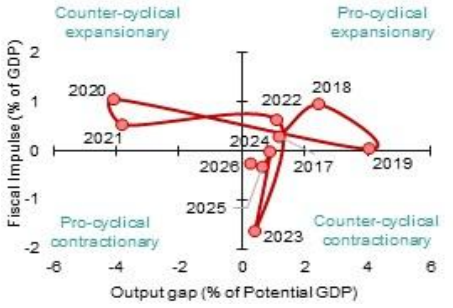
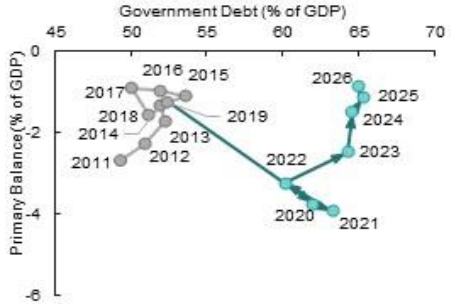
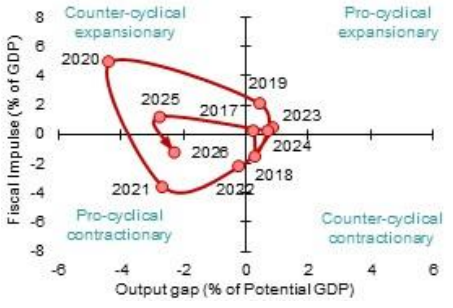
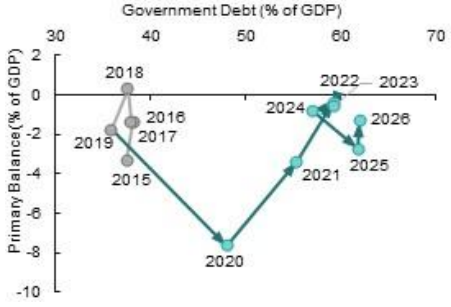
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026p
Brunei Darussalam							
Revenue	12.6	24.3	27.7	18.1	17.4	15.0	17.2
Expenditure	32.6	29.4	26.6	30.0	30.8	30.8	28.5
Fiscal balance	-20.0	-5.2	1.1	-11.9	-13.4	-15.8	-11.4
Government debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	20.0	5.2	-1.1	11.9	13.4	15.8	11.4
Cambodia							
Revenue	18.1	16.2	18.6	16.7	15.5	16.0	14.7
Expenditure	21.3	21.9	19.2	20.5	17.7	17.1	18.8
Fiscal balance	-3.2	-5.6	-0.6	-3.9	-2.1	-1.1	-4.0
Government debt	25.2	25.9	25.4	26.4	25.7	25.9	27.1
Gross financing needs	3.9	6.4	1.5	4.9	3.1	2.3	5.3
China							
Revenue	20.2	18.2	18.5	18.1	18.2	16.5	16.5
Expenditure	23.9	21.2	21.2	21.4	21.2	20.6	20.5
Fiscal balance	-3.6	-3.0	-2.7	-3.4	-3.0	-4.0	-4.0
Government debt	45.0	45.8	49.4	54.7	60.9	68.5	76.9
Gross financing needs	17.3	13.6	16.6	16.5	16.2	17.2	17.6
Hong Kong, China							
Revenue	20.7	24.4	21.9	18.1	17.5	20.5	21.7
Expenditure	29.9	24.3	28.5	23.8	23.4	23.4	23.9
Fiscal balance	-9.2	0.0	-6.6	-5.7	-5.8	-3.0	-2.2
Government debt	1.0	2.0	4.3	6.4	9.3	12.0	14.3
Gross financing needs	9.2	0.0	6.6	5.7	5.8	3.0	2.2
Indonesia							
Revenue	10.7	11.8	13.5	13.3	12.9	11.6	11.9
Expenditure	16.8	16.4	15.8	14.9	15.2	14.5	14.5
Fiscal balance	-6.1	-4.6	-2.4	-1.6	-2.3	-2.9	-2.6
Government debt	39.4	40.7	39.7	39.2	40.0	40.1	37.9
Gross financing needs	9.1	7.9	5.0	4.6	5.5	6.8	5.8
Japan							
Revenue	35.6	36.2	37.0	36.3	36.7	36.8	36.8
Expenditure	45.6	42.4	40.4	38.2	38.1	38.2	39.1
Fiscal balance	-10.0	-6.2	-3.4	-1.9	-1.4	-1.4	-2.3
Government debt	253.4	247.4	243.2	233.5	219.3	213.5	209.9
Gross financing needs	35.1	39.2	35.1	32.3	28.0	26.5	26.9
Korea							
Revenue	21.7	24.2	25.3	22.6	21.9	22.5	23.1
Expenditure	25.2	25.6	28.1	24.1	23.6	24.6	25.0
Fiscal balance	-3.5	-1.4	-2.8	-1.5	-1.7	-2.1	-1.9
Government debt	41.1	43.7	45.9	46.8	46.0	48.7	50.8
Gross financing needs	7.6	6.1	7.5	7.2	7.4	7.8	7.4
Lao PDR							
Revenue	12.7	14.7	14.8	17.4	19.1	19.9	19.7
Expenditure	17.9	16.0	15.0	16.6	17.1	17.7	19.4
Fiscal balance	-5.2	-1.3	-0.2	0.7	1.9	2.2	0.3
Government debt	61.9	76.2	98.8	104.6	88.3	76.6	71.4
Gross financing needs	10.1	5.9	4.4	6.5	4.2	11.7	11.4

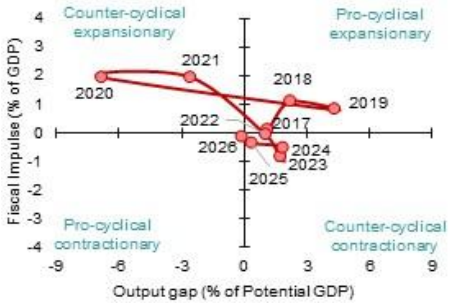
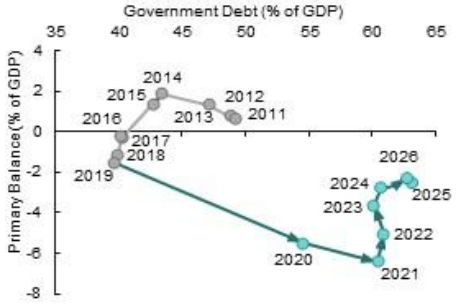
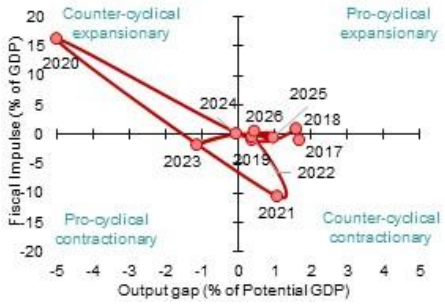
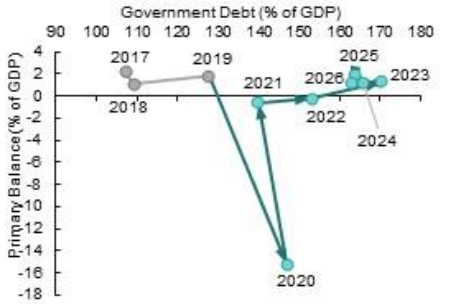
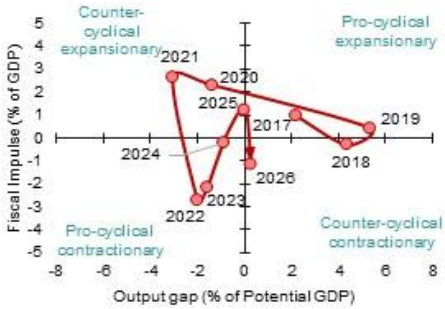
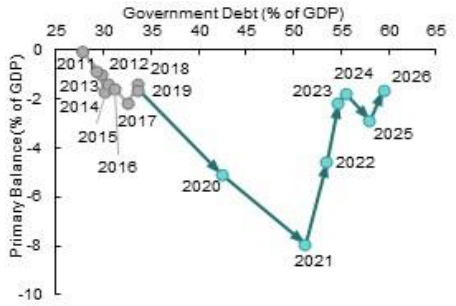
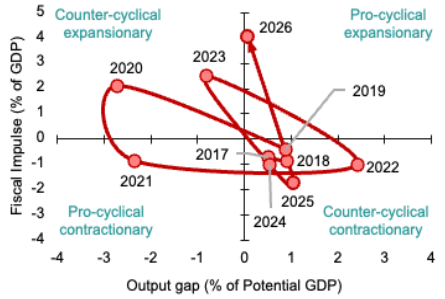
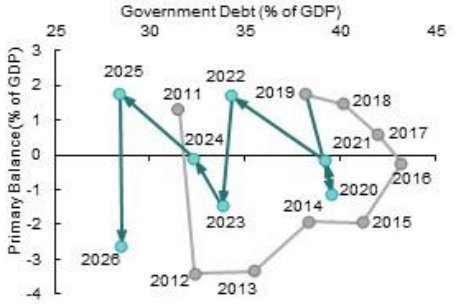
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026p
Malaysia							
Revenue	15.9	15.1	16.4	17.3	16.8	16.6	16.3
Expenditure	22.1	21.5	22.0	22.3	21.0	20.4	19.9
Fiscal balance	-6.2	-6.4	-5.5	-5.0	-4.1	-3.7	-3.6
Government debt	62.0	63.3	60.1	64.3	64.6	65.3	65.0
Gross financing needs	11.6	11.6	9.7	9.8	9.0	8.8	8.6
Myanmar							
Revenue	17.3	18.3	20.0	19.3	21.6	23.0	23.4
Expenditure	26.8	24.3	22.6	21.8	24.2	27.9	26.9
Fiscal balance	-9.5	-6.1	-2.6	-2.6	-2.7	-4.9	-3.5
Government debt	48.0	55.4	59.3	59.3	57.0	61.9	60.8
Gross financing needs	9.8	7.6	4.0	3.5	3.4	5.7	4.3
Philippines							
Revenue	15.9	15.5	16.1	15.7	16.7	15.9	15.9
Expenditure	23.5	24.1	23.4	21.9	22.4	21.5	21.2
Fiscal balance	-7.6	-8.6	-7.3	-6.2	-5.7	-5.6	-5.3
Government debt	54.6	60.4	60.9	60.1	60.7	63.2	62.8
Gross financing needs	10.9	12.6	10.9	10.2	10.5	10.1	8.8
Singapore							
Revenue	17.3	16.5	16.1	18.1	18.0	19.7	19.1
Expenditure	32.5	17.1	16.3	16.8	16.8	17.7	17.9
Fiscal balance	-15.3	-0.6	-0.2	1.2	1.2	1.9	1.1
Government debt	147.1	139.9	153.2	170.5	165.9	166.6	163.1
Gross financing needs	39.6	21.4	21.2	21.8	23.8	23.6	23.9
Thailand							
Revenue	15.0	14.8	14.8	14.9	15.1	15.0	14.9
Expenditure	21.1	23.9	20.4	18.1	18.0	19.1	17.8
Fiscal balance	-6.0	-9.0	-5.6	-3.2	-2.9	-4.1	-2.9
Government debt	42.4	51.3	53.5	54.7	55.5	58.0	59.6
Gross financing needs	9.7	16.4	12.6	11.7	12.4	12.6	10.8
Vietnam							
Revenue	18.8	18.8	18.9	17.0	17.8	20.5	17.7
Expenditure	21.3	20.1	18.2	19.3	18.8	19.6	21.2
Fiscal balance	-2.5	-1.4	0.7	-2.3	-1.0	0.9	-3.5
Government debt	39.6	39.3	34.3	33.8	32.3	28.4	28.5
Gross financing needs	5.7	4.5	1.5	4.7	3.9	1.9	6.0

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: 1) Revenue, expenditure, and fiscal balance for FY2025 are based on AMRO staff estimates, except for Indonesia, Malaysia, the Philippines, and Thailand; 2) Revenue, expenditure, and fiscal balance for FY2026 are based on the authorities' budgets, scaled by nominal GDP in the respective fiscal year, projected by AMRO staff; 3) Government debt and gross financing needs for FY2025 are based on AMRO staff estimates, except for Malaysia, the Philippines, and Thailand; 3) Government debt and gross financing needs for FY2026 are AMRO staff projections; 4) Government external debts in Lao PDR and Myanmar are evaluated using market exchange rates.

Appendix III. 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		N/A
Cambodia		
China		
Hong Kong, China		
Indonesia		

	Fiscal Impulse and Output Gap (Percent of GDP; percent of potential GDP)	Government Debt and Primary Balance (Percent of GDP)
Japan		
Korea		
Lao PDR		
Malaysia		
Myanmar		

	Fiscal Impulse and Output Gap (Percent of GDP; percent of potential GDP)	Government Debt and Primary Balance (Percent of GDP)
Philippines		
Singapore		
Thailand		
Vietnam		

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) Output gap is computed using the potential GDP estimated by AMRO; 3) Government debt for Brunei Darussalam is not shown as it has virtually zero government debt; 4) FY2025 indicators are based on AMRO staff estimates except for Thailand; 5) FY2026 fiscal impulse and primary balance are based on the authorities' budgets, scaled by nominal GDP projected by AMRO staff. FY2026 government debt data comes from AMRO staff projections; 6) The fiscal impulse of Brunei Darussalam is for consistency and completeness in presentation. The country's fiscal stance assessment in AMRO's analysis relies more on changes in expenditure growth as its macroeconomic and fiscal indicators are heavily dependent on the 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, see appendix I.

Appendix IV. Decomposition Methodologies

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

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

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, and π=GDP deflator inflation.

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

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

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

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, and π=GDP deflator inflation.

Change in government debt-to-GDP ratio (Figure 13)

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

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

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 16)

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

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, and 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.

Amortization
The repayment of the principal amount of outstanding debt over time.

Arrears
The total outstanding payment obligations of the government that remain unpaid beyond their contractual or statutory due date.

Automatic stabilizers
Budget items that adjust automatically with the 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 non-produced assets such as 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 such as the real interest rate and real GDP growth rate.

Debt sustainability analysis (DSA)
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.

Emerging Markets Bond Index (EMBI) spread
Difference in yield, measured in basis points, between U.S. dollar-denominated sovereign bonds issued by emerging market countries and comparable U.S. Treasury bonds. It quantifies the additional returns that investors demand to compensate for the higher credit risks associated with emerging market debt relative to the virtually risk-free U.S. Treasury bonds.

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

Fiscal aggregate
Key summary indicators of government finances used to assess the overall fiscal position and fiscal developments.

Fiscal anchor
A quantitative benchmark that provides a long-term guide for fiscal policy and helps maintain fiscal sustainability.

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

Fiscal distress
A condition in which a government experiences severe pressure on its public finances and faces challenges in meeting its financial obligations.

Fiscal impulse
A measure of change in the 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 a 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 shapes and oversees 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 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
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
Assessment of whether fiscal policy is expansionary, neutral, or contractionary, based on changes in discretionary government spending and taxation relative to macroeconomic conditions.

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.

Financial management information system (FMIS)
A computerized system that automates and supports 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.

Output gap
The difference between actual GDP and potential GDP, represented as a percentage of potential.

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 financial management (PFM)
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 a 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.

Revenue buoyancy
Responsiveness of revenue to changes in GDP, measured as a percentage change in revenue 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.

Treasury Single Account (TSA)
A system that consolidates government cash balances across multiple accounts into a single framework to strengthen cash management and oversight of public funds.

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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
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