Mizuho Brief: EM-Asia Risks

Economics & Strategy | Asia ex-Japan

26 March 2026 |
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EM-Asia Fiscal Fallout: Black Gold, Red Ink

In a nutshell:

- The energy shocks emanating from the Israel/US-Iran war have necessitated EM-Asia's anti-inflationary responses which inevitably worsens pre-existing post pandemic fiscal vulnerabilities and accentuate divergent rates and FX outcomes. As such, an examination of upside fiscal risks which utilises the experience of the 2022 Russian-Ukraine war is imperative as governments contemplate policy reactions.
- Resource Buffer: Malaysia could potentially see some marginal fiscal tailwinds from petroleum related revenues offsetting outsized expenditure to sustain their price controls and potential cost of living transfers to households.
- Flexible Prices, Consumers Burden: With flexible prices in Singapore and Australia, fiscal impact is likely restrained amid still contained transfers. This though portends stronger inflation passthrough and lend a more hawkish bias toward central bank policy calculus (RBA and MAS) to tighten policy settings.
- Meanwhile, **Vietnam's** fiscal position while unlikely to be severely compromised necessitates delicate balancing with petrol price stabilisation fund kicking in while **allowing lagged CPI upside**. Low FX reserves, potential VND weakness amid resilient growth warrant watching for tail risks of an SBV rate hike.
- Off Fiscal Balance Sheets: Price controls being initiated in Taiwan and Korea could squeeze margins and worsen SOE's balance sheet positions and set the stage for yield curve bear steepening. Furthermore, Korea's rare price ceiling for petrol could threaten their relatively fragile fiscal consolidation path. To a lesser extent, India's OMC will see the same fate though their current account deficit status, implies that INR see little relief.
- Direct, Accentuated Fiscal Risks: Direct fiscal **vulnerabilities** are **acute for the Philippines, Thailand and Indonesia as** worries about deficit and debt **ceilings** in Indonesia and Thailand respectively are renewed with 'default' price controls come under stress while Philippines' tax cuts derail them from medium term framework. Indonesia's resource revenue advantage will unfortunately be eclipsed by fuel subsidies should there be no further upward adjustments, though the potential trade-off of social unrest is also an unenviable one.
- **On balance, for FX,** the oil price shock amplifies fiscal vulnerabilities and exacerbates the current account deficit woes of the IDR and to lesser extent the INR and PHP. The THB's current account surplus is unlikely to be sufficient to buffer the fiscal headwinds should PM Anutin's government proceed with tax cuts. Highly rated North Asia sovereigns (KRW, TWD) will also count the cost from steeper yield curves as SOEs bear the cost of higher energy prices. AUD, SGD may see modest backstop on hawkish central bank stance while MYR see less headwinds with resource advantage aiding fiscal consolidation.

Table: Potential Fiscal Impact of a rise in oil prices to $100/barrel from $65/barrel

	Revenue	Expenditure		Overall Fiscal Impact	Current Fiscal Deficit Deviation from Pre-Covid (Negative Implies Wider Deficit/Narrower Surplus)
	Direct	Direct	Implicit		
Philippines	-0.5%	-0.1%	N.A.	-0.6%	-87%
Indonesia	0.3%	-1.0%	N.A.	-0.7%	-19%
Malaysia	1.6%	-1.2%	N.A.	0.4%	-6.8%
Singapore	N.A.	0.02%	N.A.	0.0%	-6.9%
Thailand	-0.51%	N.A	-0.7%	-1.2%	-52%
Vietnam	-0.08%	N.A	0.0%	-0.1%	-47%
Taiwan	-0.14%	N.A	-1.8%	-2.0%	--
Korea	N.A	-0.7%	-1.8%	-2.5%	-197%
Australia	-0.60%	-0.14%	N.A	-0.7%	16.7%
India	-0.47%	-0.02%	-0.17%	-0.7%	-14%

Source: CEIC; Bloomberg, Government Speeches, Mizuho
Note:
1.This table predominantly reflect **the impact of measures adopted in 2022** and account for announced measures in 2026 for the purpose of highlight upside risks to fiscal postion.
2. Implicit Impact of Expenditure largely refers to off balance sheets items or losses incurred by State Owned Enterprises.
3. Taiwan's fiscal position comparison ommited due to highly sensitive base effects from extremely small deficit in the pre-pandemic period.

Restraining Economic Impact

With Brent crude oil prices staying elevated in the US$90-100/barrel range, governments across the region have stepped up with various measures to alleviate economic stress. Discretionary measures such as lowering fuel duties were implemented in Vietnam and Philippines, caps on prices or the rate of increase in petrol prices were announced in Korea and Taiwan. “Automatic” measures such as already fixed price mechanisms in Indonesia and Malaysia also imply that subsidy costs have risen substantially. Meanwhile, free floating prices in Australia and Singapore imply that consumer are bearing the brunt of higher energy costs rather than adding to fiscal burdens.

Counting Fiscal Costs

Even as governments aim to restrain the impact of higher energy prices, there is still delicate balance to strike in deciding on the amount of burden shifting from households and industries onto fiscal balance sheets. Given the wide-reaching impact of oil and gas prices on the economy, we utilise the 2022 Russia-Ukraine war and on-going measures to **gauge the potential fiscal implications** on various economies should oil price remain elevated to average around US$100 till the end of this year. Revenue impact pertains to revenue foregone should tax cuts be implemented. Direct expenditure refers to subsidies given to households or fiscal costs of price controls while implicit expenditures consist largely of losses to State Owned Enterprises to keep electricity or fuel prices below market rates.

Imported Vulnerabilities

As evidenced in our update on current account weakness, EM-Asia’s need to import energy also implies that higher international energy cost passthrough will need to be absorbed onto fiscal account, industrial profits or household budgets with very minimal revenue tailwinds, potential widening of fiscal deficits could exceed the 1% of GDP mark.

Resource Buffer

A potential exception though may be present in **Malaysia** with its fiscal consolidation credential boosting by windfall in oil and gas revenues. Their overall marginal net exporter status puts them in a position to capture significant fiscal upside from petroleum-linked receipts, particularly from Petronas dividends, mirroring the 2022 energy crisis when average crude prices approached US$100/barrel. Although the government’s commitment to maintaining the prices of subsidised fuel will result in outsized fiscal cost of RM25b (~1.2% GDP), it is likely to be more than offset by the petroleum-linked revenues. With the additional revenues potentially reaching 1.7% of GDP, there is room for fiscal consolidation though potential cash transfers to alleviate cost of living pressures may diminish some tailwinds. To be clear, supportive one off special revenue flows from SOEs typically flow through much later in the fiscal year.

Pain Transfers

With market-based fuel pricing mechanisms in **Singapore and Australia**, worries over fiscal costs are transferred via substantial **headline inflation upside** to consumers. Accordingly, this imparts a **hawkish bias onto monetary policy calculus** which has led to the RBA's rate hike in March and also sets the stage for the **MAS to tighten monetary policy** at their April meeting. In Australia, we remain watchful of a return of the excise tax cut which was implemented though the potential 0.3% of GDP addition to the fiscal deficit may imply that implementation may be more contingent on the duration of elevated oil prices which is increasing looking to be a rather extended one given the shock to logistics and insurance costs filtering to energy prices. In Singapore, the MAS look towards a double barrelled tightening move via an upward re-centering of the S$NEER midpoint and a S$NEER slope increment to buffer against imported inflationary pressures.

Delicate Fragilities

Meanwhile, **Vietnam** stands in the middle of the EM-Asia pack in terms of fiscal implications. Upward petrol price adjustments are likely but to a much smaller extent relative to the increase in crude prices as was the case in 2022 due to subsidies provided by their oil price stabilisation fund. That said, the extent of deficit to the oil fuel fund is relatively contained. While the environmental protection tax cuts are set to dent revenue collections by about 0.3% of GDP, oil related revenues have tended to provide partial offsets during such price spikes. Even though fiscal concerns may not be apparent, the bout of USD strength will still be a setback for the VND and higher oil prices will also strain already **low FX reserves cover** which hover at around 2 months of import expenditures. Should substantial pressure on the VND set in as higher inflation erode real returns, we watch for **tail risks** of an **SBV hike.**

Off Balance

In North Asia, **Korea and Taiwan's state-owned enterprises** are likely to bear the brunt of the energy price shock. The implicit expenditures could amount to 1.8% of GDP in Taiwan as SOEs such as the CPC absorbs 60% of the price increase while electricity company Taipower keeps a lid on electricity prices. That said, the government provides strong credit and loan support via state-owned banks as well as capital injections and partial subsidies to these SOEs.

Similarly, in Korea, SOEs such as KEPCO and KOGAS are yet again likely to shoulder the adverse impact. Furthermore, the implementation of **price cap on gasoline and diesel**, the first since 1997, point to potential for outsized expenditures on the subsidy front which could reach 0.7% of GDP. On the whole, **rates curve bear steepening** is par for the course given renewed need for upsized issuances as both corporate and fiscal balance sheets takes a hit from outsized losses.

To a lesser extent in India, Oil Marketing Companies (OMCs) are also likely to see damaged balance sheets as they are only likely to receive compensation for LPG rather than the entire petrol product complex. The government remains wary of worsening fiscal position from a repeat of the excise tax cut implementation in 2022. Nonetheless, there is little relief from the relatively "smaller" fiscal burden as the current account deficit position will continue to dominate and pressure the INR.

Direct Fiscal Damage

On that note, **fiscal strains are direct and especially acute in Thailand, Indonesia and the Philippines. In Thailand,** the **diesel price cap was removed at 30THB and adjusted two times this week by a staggering 30% to about 39THB** as their Oil Fuel Fund faces a large deficit from providing subsidies. With a potential 0.7% of GDP hit to the Oil Fuel Fund, consideration for further borrowing is already being contemplated. The **implementation of an excise tax cut** while being considered would be **a significant loss of revenue** and could potentially expand the fiscal deficit to 4.8% of GDP from earlier estimates of 4.2-4.4% of GDP. This would also accelerate the climb in the public debt towards the ceiling of 70%. The **risks of potential downgrade in crediting rating in H2 2026** is only perhaps partially alleviated by the fact that comparable peers may also be subjected to sharp fiscal pressures.

In **Indonesia**, even as higher energy prices boost fiscal revenues through royalties, export taxes and profit-sharing from natural resources, the aggregate effect after accounting for fuel subsidies due to their fixed price regime could reach up to 0.7% of GDP. With the fiscal deficit ceiling of 3% under threat. there may be manoeuvres such as raising taxes or cutting spending in other areas. For now, President Prabowo approved export taxes on coal and nickel this week, with discussions ongoing on the specific rates. Admittedly the price inelastic nature of these commodities coupled with Indonesia's large market share, additional revenue could provide discernible relief but still fall short of turning the tide. For spending cuts, the government has announced budget cuts of up to IDR$120 trillion (~3% of Budget 2026 or 0.5% of GDP) with IDR$80 trillion to be achieved through efficiency measures, and a IDR$40 trillion cut via scaling back the flagship free school lunch programme. The latter reflect the gravity of the situation and remains subject to President Prabowo's approval. These proposed cuts though run the risks of social dissatisfaction amid possible energy crunch ahead. Compensation payments to Pertamina which bears the initial cost of subsidised fuel may also be delayed, deviating from their currently monthly compensation mechanism which was just initiated in 2026. Such deferred arrangements which happened in 2017-19 could be utilised to provide fiscal room for Indonesia.

In contrast, despite having market-determined fuel prices in the **Philippines**, their significant dependence on energy imports exacerbates the fiscal cost of supporting households and businesses. President Marcos has signed a law to reduce excise taxes on fuel which will result in revenue losses of around 0.4% of GDP. Additionally, automatic subsidies for oil intensive sectors such as transport and agriculture, are projected to cost 0.1% of GDP. The government has tried to reduce the expenditure of non-essential spending such as travel alongside their four-day work week implementation. These policies are aimed at containing the upside risk of fiscal slippage but does not provide much relief to an already strained fiscal deficit which is set to deviate from their 5.3% target and remain at 5.6% similar to 2025 which may then necessitate a revision of their medium-term fiscal framework.

Double Troubles, Flying Solo

On balance, on the FX front, oil price shock amplifies fiscal vulnerabilities and exacerbates the current account deficit woes and weigh on the **IDR, INR and PHP**. Intervention is par for the course for the respective central banks though they will remain wary of depleting FX reserves especially when it is increasingly crucial to secure energy needs. The THB's current account surplus is unlikely to be sufficient to buffer the fiscal headwinds should PM Anutin's government proceed with excise tax cuts. THB volatility is especially accentuated with gold prices swinging in a wild manner. Highly rated North Asia sovereigns (KRW, TWD) will also face depreciation pressures in the risk off environment and count the cost of steeper yield curves as SOEs bear the cost of the energy price hit. At the other end, AUD and SGD may see modest backstop on hawkish central bank stance supported by firmer economic growth while the MYR may be subject to lesser headwinds with resource advantage aiding fiscal consolidation.