

THE IMPACT OF THE ENERGY CRISIS ON PUBLIC FINANCES IN EMERGING ASIA

Johanna Melka

Rising subsidies should moderately widen fiscal deficits

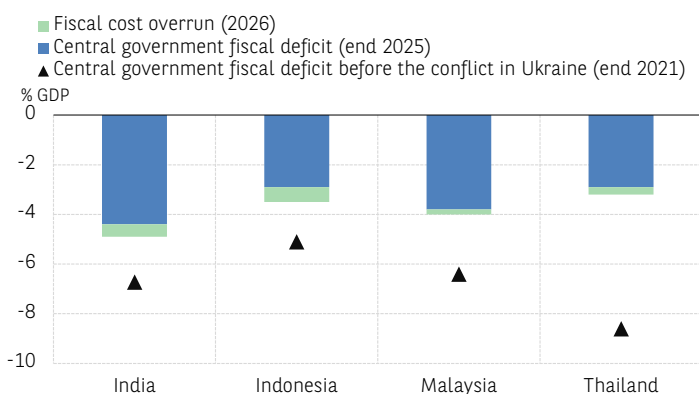


CHART 1

SOURCE: MOF, BNP PARIBAS

Emerging Asian countries are particularly vulnerable to the energy shock caused by the conflict in the Middle East. Beyond supply issues, rising prices pose a significant risk to these countries, where domestic demand is a major driver of economic growth. To limit the impact, some Asian countries (notably India, Indonesia, Malaysia and Thailand) have opted to partially subsidise energy and fertilisers. The additional cost to their public finances is expected to remain manageable provided that the average crude oil price does not exceed USD 100 per barrel over the year. However, this subsidy policy poses risks to their public finances, particularly if external financing conditions tighten. Indonesia is the country most exposed to a rise in US long-term interest rates.

Increased subsidies to contain the cost borne by households

In response to the sharp rise in international energy prices, India and Indonesia (whose growth is mainly driven by domestic demand) have kept pump prices fixed since the start of the conflict in the Middle East. Malaysia has chosen to exclusively keep stable the price of the fuel mainly used by households (RON 95). Meanwhile, Thailand, after leaving its prices unchanged in the early weeks of the conflict, has ultimately decided to target only the most vulnerable households and businesses by providing them with partial direct subsidies. India has also increased its fertiliser subsidies so as not to increase significantly production costs for farmers, at a time when a number of elections were taking place in states where the ruling party historically did not hold a majority.

Such a strategy will undermine the ongoing fiscal consolidation.

What would be the fiscal cost if the price of a barrel of Brent crude averaged USD 92 in 2026?

Asian countries are in a much more comfortable fiscal position than they were on the eve of the energy crisis triggered by the war in Ukraine in early 2022. At that time, they were just emerging from the pandemic and their fiscal deficits had reached unprecedented levels.

The impact on public finances of the increased subsidies introduced since the start of the conflict in the Middle East is expected to remain modest (see Chart 1) as long as the average crude oil price does not exceed USD 100 per barrel over the year. The cost is estimated at between 0.2% of GDP in Malaysia and 0.6% of GDP in Indonesia, assuming that currencies stabilise at current levels, as any further depreciation against the dollar would automatically increase the cost incurred. In India, the resulting cost from increased fertiliser subsidies and the loss of fiscal revenue caused by the reduced excise duties on petroleum products is estimated at 0.5% of GDP. India, like Indonesia, Malaysia and Thailand, has the capacity to absorb this new shock to its public finances. Nevertheless, the increase in subsidies will delay their fiscal consolidation. Indonesia's fiscal deficit could exceed the 3% of GDP threshold set by parliament in 2026 (unless the government reduces significantly other kind of expenditures), which would cause significant concern among foreign investors.

Indonesia: more vulnerable to rising US long-term yields

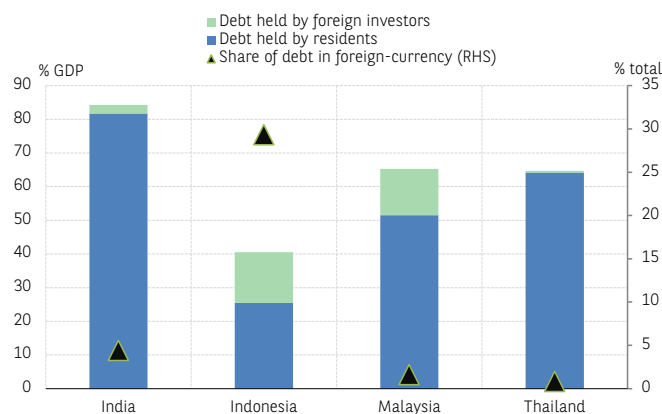


CHART 2

SOURCE: MOF, BNP PARIBAS

Which countries would be most vulnerable to a rise in US long-term interest rates?

Rising bond yields are another source of risk for these countries. So far, central banks have kept their key policy rates unchanged and the rise in long-term rates has remained contained. However, a significant rise in US bond yields could change the situation. The most exposed country would be Indonesia, whose domestic market is too small to cover the government's financing needs and offset any tightening of financing conditions on international markets.

Since the start of the conflict in the Middle East, ten-year bond yields in emerging Asia have risen less than during the war in Ukraine. The increase ranged from 0 bps in Malaysia to 49 bps in Thailand (compared with an average of +65 bps in 2022). However, this trend could intensify should there be a rise in US long-term rates, which would weigh on these economies via three channels: i) capital outflows ii) downward pressure on currencies and iii) an increase in debt servicing costs. The most exposed countries would be those with the highest interest burdens (India), with short maturities, debt held more widely by foreign residents (Indonesia and Malaysia) and denominated more widely in foreign currencies (Indonesia).

The country whose government is least exposed to these risks is Thailand, as its debt (64.2% of GDP) is almost exclusively denominated in domestic currency and held by residents, whilst its interest burden is low (6% of revenue).

By contrast, although modest (40.5% of GDP), the structure of the Indonesian government's debt is viewed as the most fragile among the countries studied. Over 37% is held by foreign investors and more than 29% is denominated in foreign currency (see Chart 2). Furthermore, interest payments on its debt are already high (17.1% of its fiscal revenue in 2025), and higher than the level recorded in other countries, with the exception of India.

In Malaysia, although a significant proportion of government debt (65.3% of GDP) is also held by foreign investors (21.1% of the total), this debt has long maturities, which reduces its vulnerability to volatility in international financial markets. Furthermore, the domestic capital markets and the local investor base are sufficiently developed to finance the government's needs.

Finally, although the Indian government's debt is the highest (84.3% of GDP), its structure is risk-free, as it is almost exclusively denominated in local currency and held by residents. On the other hand, the interest burden on the debt is already very high (37.1% of its budget revenue), which severely constrains its investment spending. A significant rise in (domestic) interest rates represents the main risk.

Johanna Melka

johanna.melka@bnpparibas.com



GROUP ECONOMIC RESEARCH

ECOINSIGHT

Structural or thematic topics

ECOPERSPECTIVES

Analyses and forecasts with a focus on developed and emerging economies.

ECOFLASH

Data releases, major economic events

ECOPULSE

Easy-to-read monthly overview of inflation dynamics

ECOCHARTS

Monthly barometer of key economic indicators of the main OECD countries.

ECOTV

What is the key event of the month?
You will find the answer in our economy broadcast.

MACROWAVES

Our economic podcast

The information and opinions contained in this document have been obtained from, or are based on, public sources believed to be reliable, but there is no guarantee of the accuracy, completeness or fitness for any particular purpose of such information and such information may not have been independently verified by BNPP or by any person. None of BNPP, any of its subsidiary undertakings or affiliates or its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy and completeness of the information or any opinions based thereon and contained in this document and it should not be relied upon as such. This document does not constitute research, as defined under MIFID II, or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on, in connection with any contract or investment decision. Information and opinions contained in this document are published for the information of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient, are subject to change without notice. In providing this document, BNPP does not offer investment, financial, legal, tax or any other type of advice to, nor has any fiduciary duties towards, recipients. Any reference to past performance is not indicative of future performance, which may be better or worse than prior results. Any hypothetical, past performance simulations are the result of estimates made by BNPP, as of a given moment, on the basis of parameters, market conditions, and historical data selected by BNPP, and should not be used as guidance, in any way, of future performance. To the fullest extent permitted by law, no BNPP group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this document even when advised of the possibility of such losses. All estimates and opinions included in this document are made as of the date of this document. Unless otherwise indicated in this document there is no intention to update this document. BNPP may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this document or derivatives thereon. Prices, yields and other similar information included in this document are included for information purposes however numerous factors will affect market pricing at any particular time, such information may be subject to rapid change and there is no certainty that transactions could be executed at any specified price. BNPP may have a financial interest in any issuer or person mentioned in this document, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa. BNPP, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this document. BNPP may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this document. BNPP may be a party to an agreement with any person relating to the production of this document. BNPP may to the extent permitted by law, have acted upon or used the information contained herein or in the document, or the analysis on which it was based, before the document was published. BNPP may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this document. Any person mentioned in this document may have been provided with relevant sections of this document prior to its publication in order to verify its factual accuracy.

This document was produced by a BNPP group company. This document is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNPP. By accepting or accessing this document you agree to this.

BNP Paribas is a société anonyme incorporated in France, licensed and supervised as a credit institution by the European Central Bank (ECB) and as an investment services provider by the Autorité de contrôle prudentiel et de résolution (ACPR) and Autorité des marchés financiers (AMF), and having its registered office at 16, boulevard des Italiens, 75009 Paris, France.

Some or all of the information contained in this document may already have been published on <https://globalmarkets.bnpparibas.com>.

For country-specific disclaimers (United States, Canada, United Kingdom, Germany, Belgium, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland, Brazil, Turkey, Israel, Bahrain, South Africa, Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, Vietnam) please type the following URL to access the applicable legal notices: https://globalmarkets.bnpparibas.com/gm/home/Markets_360_Country_Specific_Notices.pdf

© BNP Paribas (2025). All rights reserved.

Subscribe to our publications:

ECONOMIC RESEARCH



HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the Economic Research website

&

FOLLOW US ON LINKEDIN
see the Economic Research linkedin page

OR TWITTER
see the Economic Research Twitter page



Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre
Chief editor: Isabelle Mateos y Lago



BNP PARIBAS

La banque
d'un monde
qui change