

ABSTRACT

The COVID–19 pandemic and subsequent global monetary tightening have substantially increased public debt across emerging economies, raising concerns regarding fiscal sustainability. Although previous studies emphasize the importance of monetary–fiscal policy interactions, limited evidence exists on how alternative monetary–fiscal policy configurations are associated with public debt adjustment processes in emerging ASEAN economies. This study examines the relationship between monetary–fiscal policy interactions, debt dynamics, and fiscal sustainability in Indonesia, the Philippines, and Thailand during 2010Q1–2025Q4. The study employs a two–stage empirical framework. First, separate Markov-switching monetary and fiscal policy reaction functions based on the Taylor Rule and Fiscal Reaction Function are estimated to identify time–varying policy regimes. These regimes are then combined into monetary–fiscal policy configurations following Leeper's policy regime framework. Second, fiscal sustainability is assessed using the debt dynamics framework through debt trajectories, debt–stabilizing primary balances, and debt decomposition. The findings reveal distinct time–varying monetary and fiscal regimes across the three countries. Monetary policy remains within the passive monetary policy domain, although inflation responsiveness, exchange–rate sensitivity, and policy persistence differ across regimes. Fiscal policy exhibits greater heterogeneity, with Indonesia alternating between fiscal passive and fiscal active regimes, whereas the Philippines and Thailand remain predominantly under fiscal active regimes. Consequently, Indonesia is mainly characterized by a Passive Monetary–Passive Fiscal (PM–FP) configuration, while the Philippines and Thailand are dominated by the Passive Monetary–Active Fiscal (PM–FA) configuration. These policy configurations are associated with different debt adjustment processes and fiscal sustainability outcomes. Indonesia demonstrates the strongest post–pandemic fiscal correction, whereas the Philippines and Thailand rely more heavily on economic growth to stabilize public debt. Overall, the findings underscore the importance of credible fiscal adjustment and effective monetary–fiscal policy coordination in supporting long–run debt sustainability in emerging ASEAN economies.

Keywords: Monetary–Fiscal Policy Interaction, Markov Switching; Debt Dynamics; Fiscal Sustainability; Monetary–Fiscal Policy Regimes

JEL Classification: C24, E52, E62, H63.