IEO

Independent Evaluation Office
of the International Monetary Fund

IMF ADVICE ON FISCAL POLICY

EVALUATION REPORT 2025

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BP/25-01/03 – The IMF's Fiscal Policy Advice to Low-Income Countries
BP/25-01/04 – IMF Advice on Fiscal Policy—Selected Issues
BP/25-01/05 – Reading the Fund: A Systematic Analysis of IMF Fiscal Advice Using Large Language Models

The following conventions are used in this publication:

- An en-dash (–) between years or months (e.g., 2023–24 or January–June) indicates the years or months covered, including the beginning or ending years or months.
- The abbreviation FY (e.g., FY2023 or FY23) indicates a fiscal or financial year.

FOREWORD

This evaluation reviews the evolution of fiscal advice by the International Monetary Fund (IMF) from 2008 to 2023, analyzing its responsiveness to shifting economic conditions and changing member priorities. Its findings highlight the IMF's prominent role in shaping global fiscal policy by advocating renewed fiscal activism.

During this period, the Fund transitioned from a pre-Global Financial Crisis (GFC) approach that was primarily centered on fiscal sustainability concerns to a more multidimensional approach. This new approach places greater emphasis on output stabilization over the economic cycle and also addresses longer-term needs. The Fund's proactive support for countercyclical fiscal measures was especially evident during the GFC and the COVID-19 pandemic. It was also reflected in the emphasis on fiscal policy's role in supporting potential growth and providing public goods, especially when monetary policy options are constrained.

The fiscal advice had to navigate difficult trade-offs among expanding fiscal objectives, including longer-term challenges related to aging populations, climate change, social inequalities, and, more recently, changing geopolitical scenarios. Balancing these trade-offs requires an in-depth understanding of each country's unique circumstances and fiscal capacity. In this respect, extensive fiscal policy research has underpinned the Fund's adaptation. This research includes work on fiscal multipliers, fiscal risk analysis, fiscal rules design, enhanced data collection, greater integration of climate and distributional analysis, and the development and refinement of new tools such as the Fiscal Space Framework, Debt Sustainability Analysis, and the Medium-term Debt Management Strategy.

However, the rapid change in the IMF's fiscal advice and its expanded scope—with respect to both issue range and time frame—has led to uneven adaptation across periods and countries. This variability has led to differing levels of clarity and depth in fiscal advice and its justification, which at times has raised concerns about evenhandedness. Clear progress was made in addressing the trade-off between fiscal sustainability and output stabilization, particularly in advanced economies and, to a lesser extent, in emerging market and middle-income economies. Nonetheless, there remains scope to strengthen the analysis of distributional aspects and financing risks and to better integrate fiscal sustainability considerations with longer-term economic sustainability objectives.

The evaluation identifies four areas for further progress to strengthen the quality and traction of the Fund's fiscal advice: (i) provide clearer and more specific advice on the fiscal stance, policy mix, and rationale and macroeconomic impact of

recommended fiscal policies, including trade-offs and alternative revenue and spending composition scenarios; (ii) make fuller use of analytical tools and deepen research on debt data, liquidity risks, medium-term anchors, and distributional impacts; (iii) foster proactive advice on debt management, fiscal rules, frameworks, and risk mitigation strategies; and (iv) better articulate the trade-offs between long-term development objectives and fiscal sustainability, highlighting their effects on long-term growth, debt dynamics, and distributional outcomes.

I am encouraged by the positive response of the Managing Director and Executive Directors to this evaluation and their support of its recommendations and look forward to their implementation to further enhance the Fund's fiscal policy advice.

PABLO MORENO
Director, Independent Evaluation Office

CONTRIBUTORS

This report was prepared by an IEO team led by Hélène Poirson, and including Jérémie Cohen-Setton, Anthony De Lannoy, Edda Zoli, Jantsankhorloo Amgalan, and Lukasz Jannils. The team was assisted by contributions from Dawis Kim during his summer internship at IEO.

The external consultants were José Antonio Ocampo, Barry Eichengreen, Poonam Gupta, Sanjeev Gupta, Anton Korinek, Chris Lane, and Peter Montiel.

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The evaluation benefited from discussions and interviews with current and former IMF Executive Directors, management, and staff, as well as member country officials and experts from academia, civil service organizations, and think tanks. The evaluation also benefited from comments provided by Barry Eichengreen, Peter Montiel, and Christopher Towe on the report and/or selected background papers. The final judgments are the responsibility of the IEO alone.

The report was approved by Pablo Moreno.

ABBREVIATIONS

AE	Advanced Economy
CD	Capacity Development
CSO	Civil Society Organization
CSR	Comprehensive Surveillance Review
DRM	Domestic Revenue Mobilization
DSA	Debt Sustainability Analysis
ELB	Effective Lower Bound
EMDEs	Emerging Market and Developing Economies
EMMIEs	Emerging Market and Middle-Income Economies
FAD	Fiscal Affairs Department (IMF)
FCS	Fragile and Conflict-Affected State
FM	Fiscal Monitor
FSF	Fiscal Space Framework
G-20	Group of Twenty
GFC	Global Financial Crisis
ISD	Integrated Surveillance Decision
IPF	Integrated Policy Framework
LIC-DSF	Debt Sustainability Framework for Low-Income Countries
LIC	Low-Income Country
LLM	Large Language Model
MAC	Market Access Country
MCM	Monetary and Capital Markets Department (IMF)
MTDS	Medium-Term Debt Management Strategy
PSIA	Poverty and Social Impact Analysis
RAM	Risk Assessment Matrix
REO	Regional Economic Outlook
RES	Research Department (IMF)
SDG	Sustainable Development Goal
SDG-FiT	SDG Financing Tool
SFA	Stock-Flow Adjustment
SPLAT	Social Protection and Labor Assessment Tool
SRDSF	Sovereign Risk and Debt Sustainability Framework
TA	Technical Assistance
TSR	Triennial Surveillance Review
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook

EXECUTIVE SUMMARY

This evaluation assesses the fiscal policy advice of the International Monetary Fund (IMF) from 2008 to 2023, provided as part of its surveillance responsibility. It covers the responsiveness of the Fund's fiscal policy framework to global priorities and shifting views on fiscal policy; the application of this framework to multilateral and bilateral advice in the context of surveillance activities; and the incorporation of the institutional objective of economic sustainability into the advice. The evaluation assesses the fiscal advice against the IMF's surveillance framework, and it focuses on the macro-fiscal dimension of the three main objectives of output stabilization, fiscal sustainability, and longer-term economic sustainability through raising potential growth and providing public goods.

The IMF adapted its multilateral surveillance and research well in response to changing global economic circumstances. The Fund played a leading role in advocating for fiscal activism, particularly during the Global Financial Crisis (GFC) and the COVID-19 pandemic. This proactive stance was evident not only in the Fund's push for countercyclical fiscal measures but also in its emphasis on the role of fiscal policy in supporting potential growth and the provision of public goods, in the post-GFC exceptional environment of persistently low interest rates. The IMF also made important progress in acknowledging the trade-offs between fiscal consolidation and short-term growth, bringing greater realism to its advice and often, but not always, flagged spillovers and imbalances in the policy mix. Debt Sustainability

Analysis (DSA) tools usefully evolved to place greater emphasis on liquidity risks and vulnerabilities from debt composition and contingent liabilities. The Fund was seen as being at the frontier of how to account for distributional impacts of fiscal policy and produced valuable work on the design and impact of fiscal policies aimed at supporting public investment and other spending priorities. However, the feedback effects of these policies on fiscal sustainability—through higher growth, fiscal revenues, or expenditures—were rarely quantified. There also remains room for improvement in debt data, integration of liquidity risks, approaches to medium-term anchors, and broader distributional analysis.

In bilateral surveillance, the IMF's fiscal advice has also evolved to place greater emphasis on countercyclical fiscal policy, but staff reports did not always provide clear and explicit advice on the fiscal stance. Overall, bilateral advice tended to be more cautious than high-level recommendations during global crises, driven by fiscal sustainability and market access concerns. Recommendations for tightening fiscal policy continued to dominate, especially outside of advanced economies (AEs). On average, staff recommendations responded more strongly to measures of economic slack in AEs than in emerging market and middle-income economies (EMMIEs) and low-income countries (LICs). External imbalances also influenced the recommended fiscal stance, though more so for countries with current account deficits than for those with surpluses. The assessment of fiscal space and the analysis of trade-offs varied in depth and quality and the quantification of the macroeconomic impact of the recommended fiscal policy was rare in EMMIEs and LICs, where it can be challenging to estimate multipliers given data constraints and informality, but fairly common in AEs. Variations in the analytical depth of staff reports were largely driven by data availability, existing research, and the specific priorities tied to IMF program engagement. Policy mix coverage was uneven and focused mostly on the fiscal-monetary dimension. Few reports discussed how the overall policy mix could deliver a more countercyclical stance and the level of candor of spillover discussion has fluctuated over time.

In terms of debt accumulation and fiscal sustainability, bilateral recommendations have consistently highlighted the importance of medium-term fiscal consolidation; however, debt vulnerabilities continued to increase. While an increasing number of staff reports clearly identified a medium-term policy anchor, the clarity of the explanations for the recommended fiscal targets was mixed, leading to perceptions of lack of evenhandedness. The reliance on expenditure cuts decreased during the period and staff reports generally discussed the composition of fiscal packages, but the depth of the analysis varied considerably. DSA tools did not always appear to inform staff advice and while the recommendations on debt management increased, the main focus of reports remained on "above-the-line" assumptions. Fiscal risks were typically addressed, though recommendations for mitigating them were not consistently articulated. Appropriately, staff reports paid increasing attention to fiscal rules and councils but coverage was uneven.

In addition to long-term growth, staff reports have placed growing emphasis on social spending and other public goods though the depth and quality of discussion have varied. While advice was typically framed in a way that emphasized support to long-term growth, coverage of public investment and structural reforms often lacked depth, including the quantification of the long-term growth impacts of policy recommendations or the pace and phasing of implementation. This partly reflects the inherent difficulty of estimating long-term effects. The period also saw an expanded focus on social spending. Even in fragile and conflict-affected states where fiscal space was extremely constrained, staff provided advice on addressing social needs and some AE reports advised against fiscal stances that were unnecessarily contractionary. However, in other cases, social spending measures were merely listed without discussing their implications for fiscal sustainability, missing an opportunity to clarify trade-offs and enhance the realism of the advice. Staff reports increasingly analyzed the distributional impact of fiscal policy changes, though with varying depth and specificity. IMF advice on countries' Sustainable Development Goals (SDGs) remained limited, reflecting among other factors the inherent ambition of the SDGs, inadequate available resources, and the need for Fund staff to develop new expertise. Over the evaluation period, staff reports have increasingly focused on other aspects of economic sustainability, especially following Fund strategies on climate change and gender.

The evaluation proposes four recommendations:

Recommendation 1. Output Stabilization

The IMF should ensure that staff reports typically include clear and specific advice on the fiscal stance, the macroeconomic impact of the recommended fiscal policy, and the policy mix.

Recommendation 2. Analytical Toolkit

The IMF should make more use of existing analytical tools and conduct further research on debt data, liquidity risks, medium-term anchors and paths, and distributional effects.

Recommendation 3. Fiscal Sustainability

The IMF should enhance the provision of proactive and specific advice on debt and fiscal risks, including debt management and fiscal rules and frameworks.

Recommendation 4. Potential Growth and the Provision of Public Goods

The IMF should strengthen the articulation of trade-offs between competing long-term spending needs and fiscal sustainability, highlighting their effects on long-term growth, debt dynamics, and distributional outcomes. When financing constraints are binding, it should identify the financing gap and propose options to generate fiscal space.

INTRODUCTION

This evaluation analyzes the fiscal policy advice of the International Monetary Fund (hereafter IMF or Fund) from 2008 to 2023. This period has been marked by exceptionally large global shocks and persistently lower interest rates, which together gave rise to a more proactive use of fiscal policy. The Fund was an early advocate for a strong fiscal response to the Global Financial Crisis (GFC) and COVID-19 pandemic and of withdrawing stimulus in ways that would not disrupt recoveries while preserving longer-term debt sustainability. The IMF also provided detailed advice on specific fiscal measures to help achieve durable improvements in potential growth and address broader longer-term economic sustainability priorities. Overall, this evolution in the Fund's advice can be characterized as a shift from a pre-GFC unidimensional approach centered mainly on fiscal sustainability to a multidimensional one, with greater weights placed on other objectives of fiscal policy.

During this period, the perimeter of IMF's fiscal surveillance framework has widened significantly. The Fund's advice on fiscal policy is grounded in its Articles of Agreement, with fiscal policy established as one of the four key areas of surveillance, together with exchange rate, monetary, and financial policies, in the 2007 Bilateral Surveillance Decision (IMF 2007). Since then, the Fund has undertaken a number of surveillance and operational decisions that have enlarged the perimeter, in terms of both the range and time horizon, of the issues that fiscal surveillance could cover—notably, the 2012 Integrated Surveillance Decision (ISD) (IMF 2012d), the Triennial Surveillance Review (TSR) and Comprehensive Surveillance Review (CSR) (IMF 2014a; 2021e), and Fund's institutional strategies on social spending, climate, and gender (IMF 2019b; 2021c; 2022d). These successive decisions and the accompanying guidance notes have translated into a surveillance framework that can be summarized around three main objectives of fiscal policy advice: stabilizing output over the cycle; maintaining fiscal sustainability; and longer-term economic sustainability through raising potential growth and providing public goods.

The evaluation focuses on the macro-fiscal dimensions of the IMF's fiscal surveillance. The evaluation's scope is delimited by its focus on the fiscal advice under Fund surveillance,[1] centering on the macro-fiscal dimension of the three main objectives of fiscal policy advice—output stabilization, fiscal sustainability, and economic sustainability,[2] and the trade-offs among them. The evaluation assesses the fiscal advice against the IMF's surveillance framework. It is guided by the interrelation of three main evaluation criteria—relevance,

[1] The evaluation is also informed by fiscal advice in Fund's lending and capacity development, especially in low-income countries, given their high intensity of program engagement during the evaluation period.

[2] The latter examines whether Fund advice promoted conditions that, under realistic assumptions, would "support sustained, balanced, and inclusive economic growth without requiring large or disruptive adjustments to domestic or balance of payments stability" (IMF 2021e).

consistency, and evenhandedness[3]—and three overarching evaluation questions: (i) the responsiveness of the Fund's high-level fiscal advice—surveillance framework, research tools, and multilateral advice—to global priorities and shifting views on fiscal policy; (ii) the application of this framework to bilateral advice and its tailoring to country-specific circumstances; and (iii) the incorporation of the objective of longer-term economic sustainability into fiscal advice.

Sources of evidence and background papers. Evidence for the evaluation was drawn from multiple sources, including a literature review of selected IMF and external publications, quantitative and qualitative analysis of different Fund and external databases, and an in-depth desk review of 35 focus countries and 2 currency unions in 6 different time periods. The findings were triangulated with evidence from interviews with Fund staff, Executive Directors, national authorities, experts from academia and think tanks, and civil society organizations (CSOs), and surveys of member country authorities and IMF mission chiefs (see Online Appendixes). The evaluation also draws on findings from previous IEO evaluations (Annex 1) and five background papers (Annex 2). Three papers review Fund's fiscal advice to advanced economies (AEs), emerging market and middle-income economies (EMMIEs), and low-income countries (LICs), respectively, both at the multilateral and country level. A fourth paper focuses on four selected issues: (i) the Fund's analytical contributions and tools developed to inform fiscal policy advice; and its advice on (ii) fiscal rules and institutions; (iii) public debt management; and (iv) military spending. A fifth cross-cutting thematic paper applies a novel large language model (LLM) methodology to classify staff advice on the near- and medium-term fiscal stance in all Article IV reports from 1998 to 2023.

Structure of the report. Section 2 focuses on the evolution of objectives and priorities of fiscal policy advice and the tools developed by the Fund to support it. Sections 3 and 4 outline and assess, respectively, the Fund's multilateral and bilateral surveillance fiscal policy advice for its three main objectives: output stabilization, fiscal sustainability, and potential growth and the provision of public goods. Sections 5 and 6 provide the evaluation's main findings and recommendations.

[3] That is, the relevance of the advice in relation to members' needs, policies, and priorities, as circumstances changed; the consistency between the multilateral and bilateral advice; and the evenhandedness of advice among countries (similar advice under similar circumstances).

2

EVOLUTION OF THE IMF'S INSTITUTIONAL APPROACH TO FISCAL POLICY ADVICE

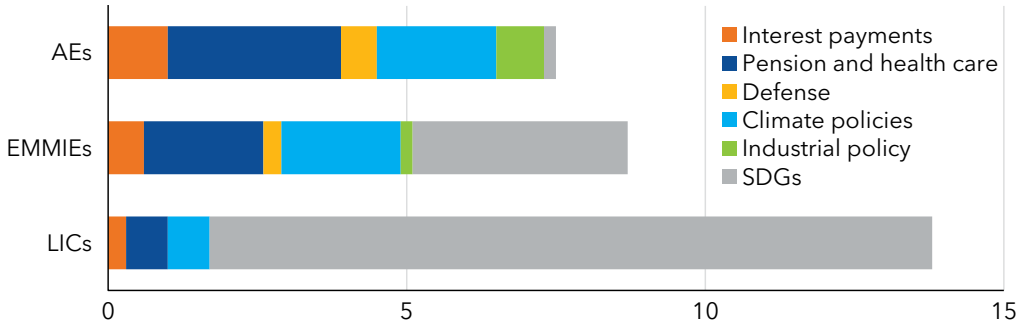
The IMF's approach to fiscal policy advice has undergone significant changes from 2008 to 2023, influenced both by evolving economic challenges and by shifts in its institutional priorities. The pre-GFC fiscal advice was primarily driven by fiscal sustainability concerns. This approach has significantly evolved during the evaluation period and IMF fiscal advice now takes a more multidimensional perspective assigning higher weights to other objectives of fiscal policy. After discussing the global context of the Fund's fiscal policy advice during the evaluation period, this section summarizes the evolution of the IMF's fiscal policy priorities and the adaptation of the tools and analytical underpinnings to this new approach.

CONTEXT OF THE IMF'S ADVICE DURING THE EVALUATION PERIOD

The IMF's fiscal policy advice has been shaped by global shocks and macroeconomic developments that altered the landscape for fiscal policymaking. The GFC and the prolonged period of weak demand and low inflation that followed, large swings in commodity prices, the COVID-19 pandemic, Russia's war in Ukraine, and the subsequent inflation surge all required urgent fiscal responses. At the same time, AEs, EMMIEs, and LICs with market access were all affected by shifts in sovereign borrowing costs and capital flows. With interest rates at the effective lower bound (ELB) for much of the evaluation period, monetary policy space was constrained, enhancing the role of fiscal policy in macroeconomic stabilization. Across all income groups, public finances deteriorated sharply during downturns as countries deployed discretionary fiscal support and allowed automatic stabilizers to operate. Yet this countercyclical support was often not offset by sufficient rebuilding of fiscal buffers during good times, leaving many countries with elevated debt levels and ongoing challenges in restoring resilience under heightened uncertainty.

Countries also faced common structural pressures that increasingly influenced IMF fiscal policy advice. The need to create space for medium-term spending became more pressing as longstanding challenges—such as population aging in AEs and some EMMIEs and persistent development gaps in LICs—were compounded by new emerging priorities. These included the fiscal costs of climate change mitigation and adaptation, the imperative to strengthen safety nets in EMMIEs and LICs, and, more recently, growing demands for industrial policies and military spending (Figure 1). Altogether, these factors required a reassessment of fiscal priorities and underlined the importance of fiscal frameworks capable of balancing short-term output stabilization, fiscal sustainability, and longer-term investment needs.

FIGURE 1. MEDIUM-TERM SPENDING PRESSURES
(Percent of 2030 GDP, relative to 2023 levels)



Source: IMF, *Fiscal Monitor*, April 2024 (IMF 2024a).

Note: Medium-term spending pressures reflect assumed costs from population aging, climate action, higher defense needs, and development spending to achieve the SDGs. Climate-related spending assumes a high-investment scenario, with carbon prices capped at USD 75 per ton for AEs and USD 45 for EMMIEs, covering both mitigation and adaptation for AEs and EMMIEs and adaptation only (fully public) for LICs. Estimates for pension and health care spending pressures are derived from aging and long-run cost drivers obtained from the IMF's April 2023 *Fiscal Monitor* (IMF 2023a). Defense spending pressures are calculated as the difference between 2024 defense expenditures and the NATO 2 percent of GDP spending benchmark and thus do not capture new additional commitments to raise spending (to 5 percent of GDP). Spending pressure from industrial policy reflects the size of recent packages enacted.

AEs = advanced economies; EMMIEs = emerging market and middle-income economies; LICs = low-income countries; SDGs = Sustainable Development Goals.

Fiscal policy advice was further shaped by specific challenges by income grouping.

- **AEs:** The GFC was a particularly severe shock for AEs, exposing deep financial vulnerabilities and triggering a sharp collapse in demand. Estimates suggest that a policy interest rate of –6 percent would have been needed to stabilize output, underscoring the limits of monetary policy (Rudebusch 2010). The crisis originated in the financial sector, generating large contingent liabilities, paralyzing credit channels, and forcing households and firms into a prolonged deleveraging process. In Europe, these pressures were compounded by doubts over debt sustainability and the viability of the euro, leading to a sovereign debt crisis and a double-dip recession. Even after the acute phase had passed, many AEs showed persistent signs of insufficient demand—negative output gaps, inflation below target, and low interest rates—prompting concerns about "secular stagnation" amid rising inequalities. The crisis revealed a greater tolerance for higher public debt, especially in countries with monetary autonomy. Recent increases in interest rates and medium-term spending pressures, however, imply that more ambitious fiscal adjustments will be needed to stabilize debt going forward and rebuild buffers.
- **EMMIEs:** A key challenge for this country group was to manage fiscal policy in a countercyclical way, notwithstanding a gradual trend toward more countercyclical policies since early 2000s—largely due to the establishment of commodity stabilization funds in commodity-exporting countries and to the implementation of countercyclical fiscal rules and long-term debt targets. Different factors have contributed to procyclicality, including, compared to AEs: weaker automatic stabilizers;[4] greater capital flow volatility affecting the availability of external financing; tighter financing constraints and shallower and less liquid bond markets; and vulnerabilities to spillovers from AEs. Primary deficits, along with exchange rate depreciation and

[4] Automatic stabilizers are restricted by limited unemployment insurance in the context of high informality rates in the labor market, as well as less progressive income taxation and generally smaller public sectors.

other stock-flow adjustments (SFAs), contributed to rising public debt to GDP ratios since 2008. Furthermore, domestic revenue mobilization (DRM) was relatively weak, with no progress since the GFC (almost constant revenue-to-GDP ratios throughout the period). A median revenue-to-GDP ratio of around 27 percent of GDP from 2008 to 2023, compared to 40 percent for AEs, limited EMMIEs' ability to finance development spending and/or manage growing interest payments to GDP ratios.

- **LICs:** Fiscal policy advice in LICs was significantly influenced by the interaction of three main challenges: low DRM, substantial spending needs, and renewed concerns over debt sustainability. LICs have coped with weak DRM due to high levels of informality[5] and obstacles in revenue collection and administration. From 2008 to 2023, median revenues as a share of GDP were only around 18 percent, considerably lower than those in EMMIEs and AEs, and less than 45 percent of LICs were successful in enhancing DRM by more than 1 percentage point of GDP. Similar to EMMIEs, low revenues in LICs significantly restricted their ability to finance development spending and/or service high debt levels. Although LICs began the evaluation period with greater fiscal space following significant debt relief, the emergence of new creditors, and strengthened macroeconomic fundamentals (IMF 2006), they encountered a resurgence of debt sustainability concerns since 2012. These reflected a combination of multiple shocks, slow growth, large fiscal deficits, exchange rate depreciation, and other SFAs, contributing to a notable increase in the ratio of gross public debt to GDP and interest payments across all LICs.

EVOLUTION OF THE FUND'S INSTITUTIONAL APPROACH TO FISCAL POLICY ADVICE

Prior to the GFC, IMF advice primarily focused on debt sustainability. The Fund emphasized structural reforms, such as broadening tax bases, reforming pensions, and improving expenditure efficiency. In downturns, it generally recommended allowing automatic stabilizers to operate—such as falling tax revenues and higher welfare spending—provided deficits remained financeable on reasonable terms. Output stabilization, however, was largely delegated to monetary policy, reflecting prevailing skepticism in the economics profession about the timeliness and effectiveness of discretionary fiscal interventions (Taylor 2000).

The GFC and subsequent crises underscored the need for a more active use of fiscal policy and reshaped the Fund's perspective. From 2008 onward, almost all AEs and several EMMIEs made greater use of fiscal policy (Figure 2).[6] Early in 2008, at the annual World Economic Forum in Davos, the IMF's Managing Director emphasized the need for a more proactive fiscal stance during economic downturns.[7] Key aspects of this "new fiscalism" were already laid out in the April 2008 *World Economic Outlook* (WEO), according to which fiscal stimulus ought to be "timely, temporary, and targeted" (IMF 2008b). By 2010, the Fund reverted to a more traditional stance, before shifting again in 2013 to become "a prudent advocate of fiscal stimulus policies" (Fiebiger and Lavoie 2017). The Fund's leadership played an important role in this process. Staff interviews stressed the key role played by Managing Director Strauss-Kahn, and the Directors of the Fiscal Affairs (FAD) and Research (RES) Departments, Olivier Blanchard and Carlo Cottarelli, respectively, in reframing the Fund's fiscal approach, overcoming previous institutional inertia both by building internal consensus and introducing new ideas. The "new fiscalism" was shaped largely through the Fund's multilateral advice (see Section 3), which subsequently percolated into bilateral advice (see Section 4).[8]

[5] Estimates of the size of the informal economy in LICs range from 36–41 percent of GDP (Delechat and Medina 2021) to 50–60 percent of GDP (Yao 2024).

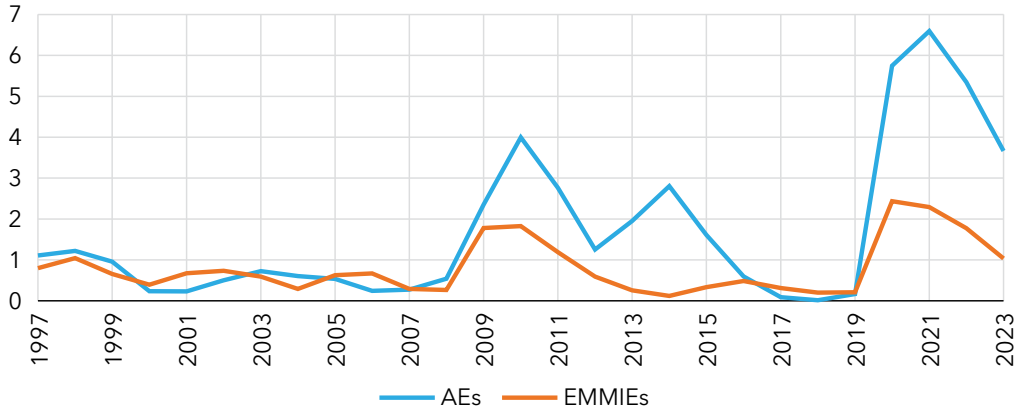
[6] During that period, the median countercyclicality of fiscal policy also continued to rise, a trend that started in the early 2000s (Jalles and others 2023).

[7] As reported in *The New York Times* (January 28, 2008).

[8] Parallel to advising countries to loosen fiscal policy during downturns, the Fund's lending also contributed to financing wider deficits in some cases, for example, through higher emergency disbursements during the COVID-19 pandemic.

FIGURE 2. VOLATILITY OF GENERAL GOVERNMENT CYCLICALLY ADJUSTED PRIMARY BALANCE, 1997–2023

(Percent of potential GDP, rolling variance past 5 years)



Sources: Fiscal Monitor database (October 2024); IEO calculations.

This new fiscal approach was supported by a series of surveillance and operational decisions that have expanded the range of issues that the IMF's fiscal policy advice could cover (Figure 3). The 2007 and 2012 surveillance decisions, the TSR and CSR, and the social spending, climate, and gender strategies are particularly relevant decisions on the evolution of the Fund's fiscal policy advice.

- **The 2007 Decision on Bilateral Surveillance (hereafter 2007 Decision) and the 2012 ISD established, respectively, the centrality of fiscal advice and the longer-term scope of surveillance.** While fiscal policy has been a key focus of Fund surveillance for decades stemming from the Articles of Agreement, it was only explicitly recognized as one of the four key policy areas for Fund surveillance in the 2007 Decision together with exchange rate, monetary, and financial sector policies, both in their "macroeconomic aspects and macroeconomically relevant structural aspects" (IMF 2007).[9]

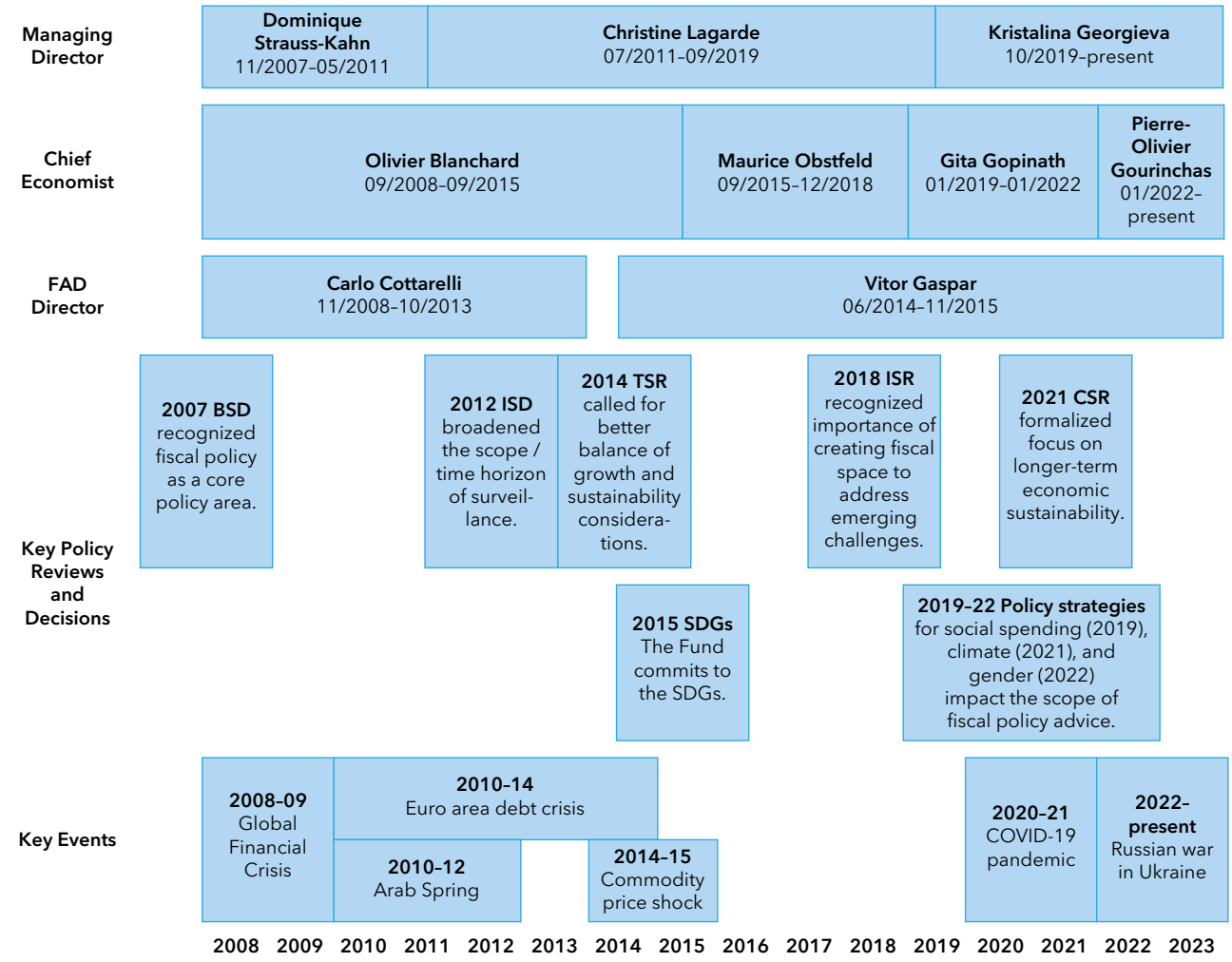
  The 2012 ISD opened the door for surveillance to tackle longer-term challenges beyond the Fund's typical surveillance or program engagement time frame of one to five years, by extending the temporal focus of surveillance to policies "that can significantly influence present or prospective balance of payments and domestic stability," which has come to be known as the "macrocriticality" criterion (IMF 2012d).[10]

- **The 2014 TSR recognized the substantial shift in the Fund's fiscal approach.** The TSR emphasized the active contribution of multilateral surveillance and the Fund's policy research "in reorienting policy frameworks, particularly in the areas of fiscal policy, capital flow management and macroprudential policies." The TSR also highlighted that fiscal advice had become "more pragmatic and flexible, better balancing short- and long-term considerations" and that there was "more attention to the pace and composition

[9] Prior to the 2007 Decision, the Fund's surveillance responsibility over fiscal policy had only been implicit and deriving from the Articles of Agreement, which assign a responsibility to the Fund to exercise surveillance of members' "economic and financial policies" to ensure that they foster "orderly economic growth with reasonable price stability" (IMF 2007).

[10] The 2012 ISD also established Article IV consultations as a vehicle for multilateral surveillance by covering policies of individual members that might significantly influence the effective operation of the international monetary system. The IEO evaluation on the *Evolving Application of the IMF's Mandate* provides a detailed discussion on the macrocriticality criterion and the principles of engagement of Fund surveillance (IEO 2024a).

FIGURE 3. KEY MILESTONES THAT SHAPED FISCAL POLICY OBJECTIVES AND PRIORITIES, 2008–23



Sources: IMF (2007, 2012d, 2014a, 2018c, 2019b, 2021c, 2021e, 2022d).

Note: Simon Johnson preceded Olivier Blanchard as Chief Economist until August 2008. Teresa Ter-Minassian was FAD Director until October 2008.

of adjustment (including the implications for sustainability, growth, efficiency, and equity) and a renewed focus on the design of institutional frameworks to underpin effective policies." Against this backdrop, it called for "fiscal policy advice through a new lens," including continuation of the "balancing act" between growth and sustainability considerations and "continued progress toward a more comprehensive assessment of fiscal risks" (IMF 2014a).[11]

- **The social spending, climate, and gender strategies institutionalized the increased focus on longer-term issues.** Managing Director Lagarde championed the importance of addressing longer-term economic policies, such as climate change and social spending not just on the grounds of sustainable development but also to foster global economic stability. During her tenure, the Fund committed to supporting the implementation of the Sustainable Development

[11] The TSR also noted that stakeholders saw the Fund's propensity to recommend more gradual fiscal adjustment attuned to the pace of recovery and financing constraints as a positive development.

Goals (SDGs)[12] and reinforced its economic sustainability agenda with the Executive Board's approval of a social spending strategy (IMF 2019b). Under the leadership of Managing Director Georgieva, the Fund further defined this agenda through specific strategies for climate (IMF 2021c) and gender (IMF 2022d), which formalized the integration of these policies into IMF surveillance and fiscal policy advice.

- **The 2021 CSR further deepened this agenda, integrating economic sustainability into Fund surveillance, alongside output stabilization and fiscal sustainability.** Prompted by the post-COVID-19 landscape and broader structural challenges, the CSR emphasized that short- or medium-term macroeconomic stability does not ensure long-term economic sustainability (IMF 2021e). This shift broadened the scope of fiscal policy advice to assess not only immediate or medium-term stability concerns, but also the longer-term social, climate, and gender impacts of fiscal measures.[13]

The successive surveillance decisions and guidance notes have translated into a more multidimensional fiscal surveillance framework. The Fund has progressively moved from a pre-GFC fiscal surveillance mainly centered around fiscal sustainability to a more comprehensive fiscal approach that can be summarized around three main objectives of fiscal policy advice:

(i) *Stabilizing output over the cycle*—advising effective and practical countercyclical policies that interact well with other macroeconomic policies (monetary, financial, external, and structural).

(ii) *Maintaining fiscal sustainability*, including in terms of solvency (public debt sustainability) and liquidity (ability to meet its gross financing needs on a routine basis).[14]

(iii) *Raising potential growth and providing public goods*—investing in public infrastructure, health and education, social protection and assistance, and institution building; and supporting longer-term strategies on climate, gender equality or the SDGs.

Balancing the three core objectives of fiscal policy—output stabilization, fiscal sustainability, and long-term economic sustainability—inevitably involves trade-offs that vary by country circumstances and policy preferences. Fiscal stimulus can help close output gaps, but by raising financing needs it may increase rollover risks and result in higher interest rates. Conversely, fiscal consolidation can improve debt dynamics but may depress output in the short term, especially when implemented during periods of slack that monetary policy cannot offset. Long-term objectives introduce further complexities. Public investment in infrastructure or human capital, for example, can raise potential growth and strengthen debt sustainability over time by boosting growth and revenues, creating synergies rather than trade-offs. Yet because the financial returns to such investments may fall short of their social returns, they can still add to liquidity pressures and solvency concerns. Similarly, fiscal measures designed to advance redistributive or environmental goals may conflict with fiscal sustainability if not paired with adequate revenue measures or offsetting expenditure adjustments. The timing, composition, and credibility of fiscal measures are therefore critical to managing these tensions effectively.

[12] Since 2015, the Fund has been assisting its member countries in progressing toward the SDGs through five areas aligned with its mandate: (i) fostering inclusion by reducing inequality and gender disparities; (ii) supporting growth, jobs, and poverty reduction; (iii) engaging in climate action; (iv) strengthening governance and tackling corruption; and (v) assessing financing needs and addressing financing gaps. For a more detailed discussion on the Fund's role in the SDGs, see De Lannoy and Lane (2025).

[13] The economic sustainability agenda was further strengthened in 2022 with the approval of the Resilience and Sustainability Trust (RST), designed to offer LICs and vulnerable EMMIEs access to longer-term, affordable financing to address longer-term challenges, including climate change and pandemic preparedness.

[14] Fiscal policy sustainability and debt sustainability are two inter-related concepts. In the Fund's conceptual framework, the "fiscal policy stance can be regarded as unsustainable if, in the absence of adjustment, sooner or later the government would not be able to service its debt" (IMF 2011a). If no realistic adjustment can stabilize the debt ratio, debt is also considered to be unsustainable.

ADAPTATION OF THE TOOLS AND ANALYTICAL UNDERPINNINGS OF THE NEW APPROACH[15]

The shift in orientation of fiscal advice was supported by extensive analytical work. The TSR stressed that "Fund-wide efforts have helped new thinking gain ground and better supported bilateral advice" (IMF 2014a). Indeed, the Fund's analytical work evolved in tandem with advancements in the economics profession, occasionally positioning the IMF as an intellectual leader, and surprising its critics with a reconsideration of its research and advice on fiscal policy (Ban 2015). IMF publications and research played an important role in overcoming resistance in academic and policy circles to the Fund's post-GFC shift toward fiscal activism, recognizing the critical role of fiscal policy in stabilizing output, especially when monetary policy was becalmed at the lower bound, and supporting long-term objectives.[16] Its analytical work, including on fiscal multipliers has played a key role in challenging earlier assumptions that consolidation could occur without economic costs, and its investment in data collection has significantly enhanced fiscal policy analysis and facilitated tailored understanding of macroeconomic effects and cross-country comparisons.[17] The Fund has also made significant progress on its analytical work on macro-fiscal issues like the design of fiscal rules (Eichengreen and Gupta 2025), the analysis of fiscal risks and accompanying Fiscal Risk Toolkit (IMF 2016a), and climate (IEO 2024b). Further, the Fund's public sector balance sheet workstream (IMF 2018b) consolidates contingent liabilities and offers a comprehensive approach for assessing them.

The refinement and increasing prominence of Debt Sustainability Analyses (DSAs) have helped the IMF move toward more differentiated policy recommendations although opportunities remain for improvement. Notable progress was made in the addition of realism tools to assess the credibility of baseline projections and in the integration of liquidity considerations into DSA frameworks (Box 1). While there have been several revisions of the DSAs for market access countries (MACs) and LICs, they nonetheless appeared to warrant: (i) further updating and better data on debt, especially in light of the emergence of new creditor classes (Eichengreen and Zoli 2025); (ii) ensuring that staff are paying sufficient attention to realism checks; and (iii) further addressing over-optimism bias in both growth and public debt forecasts (IEO 2023). Despite recent progress, a related concern is the incomplete integration of liquidity considerations into the DSA frameworks, which can overestimate the available fiscal space.

Another key enabler of this recalibrated approach was the development and operationalization of a Fiscal Space Framework (FSF), which allowed the Fund to tailor its advice to country-specific circumstances. Analytical work by Ostry and others (2010) helped shape the Fund's position on how to measure fiscal space, culminating in 2016 in the development of the FSF applied since 2019 to 69 member countries (though only few LICs were included). By assessing countries' capacity to borrow without jeopardizing market access or debt sustainability—taking into account debt levels, financing conditions, institutional strength, and investor confidence—the framework enabled more differentiated advice. It justified delaying fiscal consolidation or pursuing expansion in countries with ample space, such as Germany, and the United States, while maintaining a more cautious stance in countries facing tighter constraints.

The IMF's analytical work on the importance of accounting for the distributional impacts of fiscal policy helped move positions on this issue. The Fund had long addressed distributional issues in its capacity development (CD) work and, from the start of the assessment period, had relevant tools and internal capacity (Box 1),

[15] This subsection draws on the evaluation background paper by Cohen-Setton, Montiel, and Zoli (2025).

[16] The Fund also organized a series of "Rethinking Macro Policy" conferences from 2011 to 2015 to distill the policy lessons of the GFC, which brought together leading academics and policymakers from around the globe, as well as representatives from civil society, the private sector, and the media.

[17] While earlier analysis was AE-driven, more recent studies at the regional level and a forthcoming study by the IMF's Fiscal Affairs and Research Departments are helping to underpin the size of multipliers in more countries. Narrative approaches have deepened understanding of macroeconomic effects, while, more recently, trackers on pandemic and cost-of-living crisis measures have provided valuable insights for country authorities. The IMF also produced an extensive series of "How-To" notes, offering practical policy guidance to help countries navigate the pandemic crisis (IEO 2023). Strong demand for these datasets underscores their high value to researchers and policymakers.

though these were underutilized and not systematically integrated into operations (IEO 2017). In 2013, inequality, which had been rising in AEs and some large EMMIEs, emerged as a macrocritical issue with the Fund's research seen as playing a leading role in this evolution. Studies by Ball and others (2013) and Furceri and Loungani (2013) demonstrated that adjustment strategies disproportionately burdening low-income households could backfire politically and economically. Complementary work by Berg and Ostry (2011) and Ostry, Berg, and Tsangarides (2014) showed that well-designed redistribution could support both inclusion and performance. However, more recently, important feedback loops through political economy channels (e.g., between distributional aspects of fiscal policy and the sustainability and credibility of future fiscal adjustments) have received limited attention.[18]

BOX 1. THE IMF'S ANALYTICAL UNDERPINNINGS TO AND TOOLS FOR FISCAL POLICY ADVICE

The IMF has produced research and developed analytical tools to help staff operationalize the trade-offs involved in fiscal policy advice. Some tools, such as Debt Sustainability Analyses (DSAs), are embedded in policy frameworks and required in all cases; others are applied depending on country context and data availability.

1. Fiscal Sustainability: Solvency and Liquidity

Solvency. DSAs for market access countries (MACs) and low-income countries (LICs) are the Fund's primary tools for assessing whether a country's debt is sustainable, i.e., whether it can remain on a stable or declining path without requiring unrealistic fiscal adjustments. These analyses are mandatory in surveillance and program work. The MAC-DSA, now called the Sovereign Risk and Debt Sustainability Framework (SRDSF), includes realism checks, fan charts, and diagnostic flags to assess the credibility of baseline projections and vulnerability to shocks. The Fisal Space Framework (FSF) also considers solvency by evaluating whether countries have room to undertake additional fiscal measures without jeopardizing debt sustainability (IMF 2018a).

Liquidity. Liquidity risks are assessed through several elements of the SRDSF, LIC-DSF, and FSF. For MACs, the SRDSF evaluates medium-term risks through the Gross Financing Needs module, which examines financing needs, creditor composition, and the domestic banking system's capacity to absorb shocks. The financing terms realism tool tests the plausibility of borrowing assumptions by comparing projected maturities and spreads with historical patterns, flagging cases where overly favorable terms could understate financing risks. The long-term debt amortization module extends the analysis to a 25-year horizon to identify rollover pressures from large amortization peaks and assesses whether they can be mitigated through proactive debt management—particularly relevant for post-restructuring and frontier economies. The FSF provides a complementary perspective by gauging room for additional fiscal measures without endangering market access though its use remains limited to 69 countries. The LIC-DSF has also made progress in capturing liquidity pressures, mainly through the Market Financing Pressures Tool, which monitors gross financing needs and market spreads against critical thresholds, and an optional stress test simulating adverse shifts in global risk sentiment, exchange rates, or maturities. However, it still lacks a systematic integration of maturity and currency composition into baseline assessments, even as rising refinancing needs and growing creditor fragmentation heighten rollover risks.

[18] For example, failure to address the distributional consequences of trade globalization, climate change policies, and technological progress (and disruptions) may be factors behind weakness in private demand and lower growth potential.

BOX 1 (CONTINUED).

2. Trade-offs Between Fiscal Sustainability and Output Stabilization

Optimal Fiscal Path Toolkit. To help countries navigate the trade-offs between output stabilization and fiscal sustainability, the IMF's Fiscal Affairs Department (FAD) developed an optimizing framework that determines the optimal fiscal stance based on key factors, such as the output gap, debt level, and interest-growth differential (Fournier 2019; Fournier and Lieberknecht 2020). The toolkit assesses whether it is desirable to expand or contract fiscal policy and at what pace, balancing the short-term benefits of stimulus against the long-term costs of higher debt and market-access risks. A foreign currency extension has been developed for emerging market and developing economies (EMDEs), and a regional dashboard is used by the IMF's European Department (EUR) to generate country-specific fiscal paths. While useful in guiding the direction and timing of fiscal adjustment, the model is less suited to identifying medium-term fiscal anchors that also consider the role of borrowing to finance growth-enhancing investments and priority expenditures.

Fiscal multipliers. The Fund has developed and applied several macroeconomic models—including the Global Integrated Monetary and Fiscal Model (GIMF), the Flexible System of Global Models (FSGM), and Debt, Investment, Growth, and Natural Resources (DIGNAR)—to simulate the effects of fiscal policy across different economic environments. Empirical research has shown that fiscal consolidations typically entail output costs, especially during downturns. The WEO chapter "Will It Hurt?" (IMF 2010) and Blanchard and Leigh (2013) challenged the expansionary austerity hypothesis and revealed systematic underestimation of multipliers in 2009–12. In response, the SRDSF introduced a Fiscal Multiplier Realism Tool to flag implausible assumptions about fiscal multipliers. While guidance on multipliers is well developed for AEs and some EMMIEs, it remains limited for many EMMIEs and LICs.

3. Long-Term Growth and Public Goods

Public investment and structural reforms. Empirical work has emphasized the growth benefits of allocating fiscal space for infrastructure spending and structural reforms, especially in low-rate environments (e.g., IMF 2014b, 2019a; Gaspar, Obstfeld, and Sahay 2016), underpinning advice to protect or expand investment, and enhance safety nets to support labor market reforms. However, work on long-term effects of investment remains limited (e.g., Abiad, Furceri, and Topalova 2015).

Social spending and inequality. IMF research has shown that well-designed redistribution can promote both equity and growth (Berg and Ostry 2011; Ostry, Berg, and Tsangarides 2014). To better assess the distributional effects of fiscal measures, the Fund has used Poverty and Social Impact Analysis (PSIA) methods. This work complements that of the World Bank and other donors, which lead PSIA efforts in LICs. In addition, the Social Protection and Labor Assessment Tool (SPLAT), developed by FAD, allows for cross-country comparisons of social protection and labor systems.

Climate and Sustainable Development Goals. The Fund has produced tools, such as the Climate Policy Assessment Tool (CPAT) with the World Bank to evaluate the macroeconomic impact of mitigation policies and has proposed costing methods for achieving the Sustainable Development Goals (SDGs) (e.g., Gaspar and others 2019). In April 2023, the Fund launched the online SDG Financing Tool (SDG-FiT), a tool designed to assess countries' financing requirements for the SDGs.

While these tools provide useful insights into the social returns of public policies, they generally do not account for the extent to which financial returns to the public sector may diverge from broader social returns.

Source: Cohen-Setton, Montiel, and Zoli (2025).

Research on the analytical underpinnings of country-specific debt anchors, spending efficiency, and strategic financing aspects has been relatively limited. Much of the analytical work on debt anchors—such as Eyraud and others (2018) and Akitoby, Honda, and Miyamoto (2019)—has focused on calibrating medium-term debt targets based on debt-servicing capacity and safety buffers. There is scope to improve the framework for setting medium-term debt anchors to also consider the implications of such targets for priority expenditures, potential growth, and development objectives when debt sustainability is not an immediate concern.

Additionally, think tanks contended that the IMF should focus more on issues like spending efficiency and strategic financing aspects, especially given the more fiscal-space-constrained environment and more difficult access to financing.[19] In the LIC context, where countries also borrowed to finance current spending, they emphasized that the Fund could pay more attention to the issues of (i) current versus investment spending; (ii) returns versus cost of financing; and (iii) borrowing maturity structure. Some EMMIE officials and staff similarly emphasized the importance of more timely and strategic Fund advice on debt management and market access issues.

[19] For a discussion on lending by LICs, see De Lannoy and Lane (2025), as well as the Draft Issues Paper for the forthcoming IEO evaluation on IMF Engagement on Debt Issues in Low-Income Countries (IEO 2025).

MULTILATERAL SURVEILLANCE[20]

EVOLUTION OF MULTILATERAL ADVICE

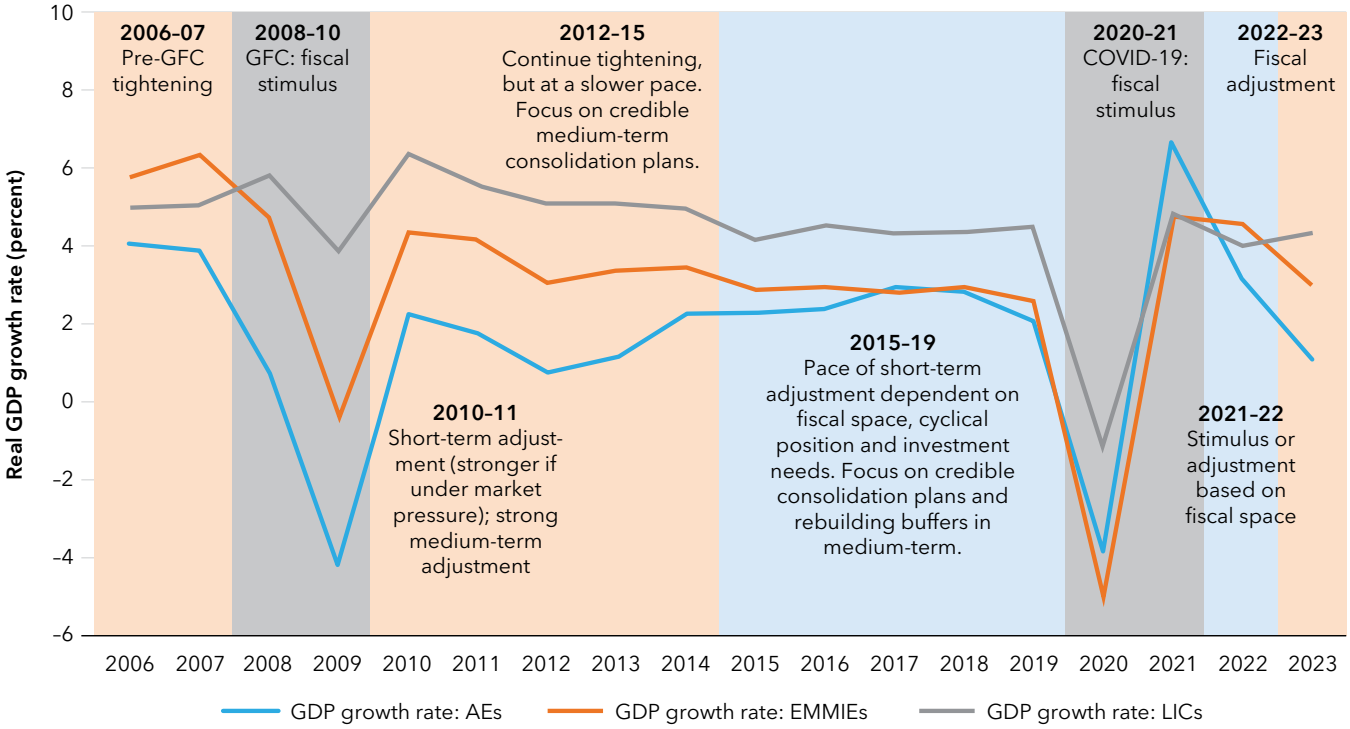
The IMF deserves credit for adapting its multilateral fiscal policy advice promptly in response to the 2008 GFC. The IMF's endorsement of fiscal stimulus in response to the GFC marked a significant departure from earlier skepticism toward discretionary fiscal policy due to concerns about market confidence. Its early and vocal advocacy for fiscal stimulus in its flagship publications acknowledged that monetary policy alone was insufficient in the face of large output gaps, the ELB on nominal interest rates, and a disrupted credit channel (Figure 4). This conjuncture was exceptional: rarely before had AEs faced such deep demand shortfalls alongside binding monetary constraints, which made fiscal activism not only desirable but indispensable. From the outset, this stance was paired with strong messaging on the importance of maintaining medium-term fiscal credibility. Staff emphasized that fiscal stimulus should be temporary, targeted, and reversible, and embedded within credible medium-term consolidation plans (Spilimbergo and others 2008). The November 2009 *Fiscal Monitor* stressed that exit strategies should not only stabilize but also reduce debt ratios over time (IMF 2009a). By anchoring short-term stimulus in credible fiscal frameworks, the Fund sought to balance the urgency of countercyclical support with fiscal sustainability concerns, an approach that would remain central to its evolving fiscal advice following the crisis.

In the wake of the euro area sovereign debt crisis, the IMF shifted toward recommending fiscal consolidation but also sought to distance itself intellectually from the broader austerity consensus. While some observers (e.g., Blyth 2013; Gamble 2014) argued that the Fund embraced the dominant narrative of the crisis as a result of excessive public debt, others (e.g., Clift 2018) contended that the IMF continued to view the crisis primarily as a crisis of insufficient demand and used its intellectual weight to temper the G-20's "growth-friendly consolidation" agenda. This more nuanced stance was reflected in the October 2010 WEO (IMF 2010), which challenged the expansionary austerity hypothesis, and in repeated public warnings against premature and synchronized fiscal tightening.[21] The Fund advocated credible medium-term commitments, for example, via parametric reforms of pension and healthcare systems, that could reassure markets and improve debt trajectories without undermining near-term demand (Blanchard and Cottarelli 2010).

[20] This section draws on the evaluation background papers by Cohen-Setton and Montiel (2025), De Lannoy and Lane (2025), and Ocampo and Zoli (2025).

[21] Prior to the GFC, the view described as "expansionary austerity" held that frontloaded fiscal consolidations—even during recessions—could bolster investor, consumer, and business confidence and thus support output (de Rato 2004; Daniel and others 2006; Tsibouris and others 2006). The post-GFC orthodoxy moved away from both the earlier belief that discretionary fiscal policy had little role in macroeconomic stabilization and the thesis that austerity itself could be expansionary, instead emphasizing the recessionary effects of consolidation (Clift 2018).

FIGURE 4. EVOLUTION OF GDP GROWTH AND IMF FISCAL POLICY ADVICE IN FLAGSHIP REPORTS



Sources: WEO; Fiscal Monitor; IEO staff calculations.
Note: Gray shading indicates that the dominant fiscal policy advice was fiscal stimulus; orange shading signifies that the dominant advice was fiscal adjustment; and blue shading indicates that the dominant advice was qualified fiscal adjustment.

The IMF increasingly supported a more active fiscal role even outside recessions to promote potential growth and the provision of public goods. In response to growing concerns over secular stagnation and persistent demand shortfalls, and repeated downside shocks, the Fund emphasized investment in infrastructure and human capital to boost both aggregate demand and potential growth. It also increasingly emphasized the distributional consequences of fiscal policy, stressing that adjustment should be "fair" to garner social and political support (Lipton 2013). Equity considerations gained prominence in Fund discourse, most notably through calls to protect the most vulnerable (IMF 2013a), reflecting both legitimacy concerns and emerging research showing that high inequality can hinder growth and macroeconomic stability. In this context, medium-term fiscal advice was not only designed to ensure debt sustainability, but also to enable infrastructure investment, support structural reforms, expand social safety nets, and address macroeconomic imbalances.

As the global economy gained momentum in 2017, the Fund emphasized the need to rebuild fiscal buffers, while continuing to advocate for supportive fiscal policies in countries where demand remained weak. The October 2017 WEO underscored the importance of aligning fiscal policy with cyclical conditions, advising countries with excess current account deficits and unsustainable fiscal positions to consolidate (IMF 2017b). By October 2018, the Fund reinforced this message in countries operating at or near full employment, urging governments to prepare for future downturns and reduce the long-term tax burden of high debt (IMF 2018d). These recommendations were broadly in line with the Organisation for Economic Co-operation and Development (OECD) advice, which warned that AEs should not waste the favorable upswing of 2017–19 by delaying necessary fiscal adjustments. However, the Fund also continued to advocate for expanding public investment in countries with weak demand and ample fiscal space, emphasizing its role in stimulating long-term growth and correcting external imbalances.

The IMF promoted a bold fiscal response to the pandemic, pivoting back to fiscal consolidation by late 2021. The Fund urged countries to "do whatever it takes to

save lives and protect livelihoods" (IMF 2020b) and "spend as much as you can, but keep the receipts,"[22] temporarily setting aside debt concerns in light of the unprecedented health and economic crisis. As the situation evolved, the Fund cautioned against prematurely withdrawing support and advocated for continued but more targeted fiscal measures during the reopening phase (IMF 2020a), and subsequently shifted its focus to structural transformation, recommending multiyear plans prioritizing public investment, stronger social safety nets, climate action, and crisis resilience, contingent on fiscal space (IMF 2021a; 2021b). In the post-pandemic environment—marked by higher long-term rates, rising debt levels, and growing structural spending pressures—Fund advice pivoted toward fiscal consolidation by late 2021. As inflation pressures rose in 2022, the Fund advocated fiscal consolidation to aid disinflation and reduce the burden on monetary policy. Since then, Fund advice has focused on a gradual but resolute fiscal consolidation and addressing growing debts in a less favorable macroeconomic environment (Adrian, Gaspar, and Gourinchas 2024), while safeguarding productive public investment (Gopinath 2024).

OUTPUT STABILIZATION AND FISCAL SUSTAINABILITY

The IMF has made important progress in acknowledging the trade-offs between fiscal consolidation and short-term growth. This is reflected for example in Chapter 2 of the October 2021 *Fiscal Monitor*, "Strengthening the Credibility of Public Finances" (IMF 2021b). By emphasizing the tension between output stabilization and fiscal sustainability, the Fund has brought greater realism to its advice. Nonetheless, interviewees pointed to remaining gaps in the ability to operationalize that trade-off in different contexts, particularly in accounting for how multipliers vary across levels of development and by types of instrument. Likewise, the advice on mitigating the impact of consolidation on vulnerable groups has at times overlooked implementation capacity constraints, the importance of sequencing measures, and the availability of data needed to assess the incidence of alternative policy measures.

The IMF's advice often, though not consistently, flagged imbalances in the policy mix and spillovers. It warned, for instance, of the risks of withdrawing fiscal support prematurely during periods of weak demand (IEO 2019; 2023) or of adopting overly expansionary fiscal policies in inflationary episodes, both of which could heighten volatility and trigger cross-border spillovers. However, its post-GFC preference for an "easy money/tight fiscal" policy mix underestimated the weakened transmission of monetary policy and the heightened effectiveness of fiscal policy in a context of widespread deleveraging in the private sector and exposed emerging market and developing economies (EMDEs) to greater capital flow volatility (IEO 2019). The Fund was similarly reserved in assessing the size of consolidation packages during the European debt crisis and the scale of fiscal packages during the pandemic and failed to anticipate the surge in inflation in 2021 (IEO 2023). It also did not fully consider how the sharp rise in interest rates needed to curb inflation could erode fiscal space in some EMMIEs and LICs. Country officials and several think tanks highlighted the lack of systematic analysis of the policy mix, the interaction between central bank and public sector, and the limited integration of fiscal policy in the Fund's Integrated Policy Framework (IPF).[23] More broadly, attention to the role of fiscal policy in addressing global imbalances in the WEO and the FM has waned in recent years, with neither of the flagships sustaining focus on this issue.[24]

Fiscal advice was quicker to respond to downside risks to global growth than to rising debt vulnerabilities. In EMMIEs, explicit warnings about debt risks came relatively late: despite facing growing debt burdens similar to those in LICs, the Fund did not issue strong cautions until 2016—later than the World Bank (2015) and roughly four years

[22] IMF Managing Director Georgieva, speaking at the opening conference of the IMF–World Bank's Spring Meetings in April 2020.

[23] The IPF was rolled out in 2020 but has been utilized principally to provide guidance on the use of capital flow measures and exchange rate intervention rather than on the monetary and fiscal policy mix. A recent exception is Basu and Gopinath (2024). By contrast, the Bank for International Settlements (BIS) has written more extensively on this subject (e.g., BIS 2022; 2023).

[24] The WEO dedicated a series of analytical chapters to global imbalances in the early 2000s (April 2005; September 2005; April 2006), but presented sporadic analytical work subsequently (April 2011, October 2014). The External Sector Report, first introduced in 2012, regularly analyzes global imbalances, but the depth of its discussion on fiscal policies to address them has varied.

after it had raised similar concerns for LICs. More recently, the global implications of new fiscal risks—stemming from the recent surge in industrial policy and defense spending, the adoption of large unfunded fiscal packages, and the potential spillovers from disorderly fiscal adjustments in systemically important countries—have received limited analysis.[25] Some authorities also viewed the Fund's recent emphasis in the WEO on sovereign debt risks in EMMIEs and LICs rather than in AEs as not being evenhanded, given high debt levels and medium-term spending pressures in AEs, though staff maintained that the focus reflected structural differences between income groups (Table 1).

The IMF missed an opportunity to use country-level DSAs and fiscal space assessments more systematically to enrich its messaging in flagship reports. Several staff and Executive Directors noted that bilateral surveillance was not sufficiently leveraged to bring specificity to its messages in flagships. Although flagships frequently urged country authorities to consider fiscal space when assessing the scope for additional spending or the need for consolidation, they rarely indicated where individual countries stood along this spectrum. Even less often did they reference the results of country-specific DSAs, despite these being a standard output of bilateral consultations. Some staff suggested that there was room to better inform and differentiate multilateral surveillance drawing from key issues arising on the ground in area departments.

TABLE 1. RISKS HIGHLIGHTED IN THE WORLD ECONOMIC OUTLOOK, 2019–24

RISK	APR 19	OCT 19	APR 20	OCT 20	APR 21	OCT 21	APR 22	OCT 22	APR 23	OCT 23	APR 24	OCT 24
Geopolitics	●	●		●	●		●	●	●	●	●	●
Climate change	●	●		●	●	●	●			●		
Pandemic			●	● ●	● ●	● ●	●	●				
Protectionism	●	●		●	●	●						●
Social unrest				●	●	●	●			●		●
Financial market vulnerability	●	●				●				●	●	●
Sovereign debt distress							●	■	■	■	●	■
Economic slowdown in China							■	■	■	■	■	■
Inflation		●					●	●	●	● ●	●	
Monetary policy						●		●	●	●	●	●
Impact of fiscal policy				● ●	●	▲					● ●	▲
Financial conditions tightening				●					●			
Cyber security	●	●				●						
TFP and technological change				●		●					●	

Note: The table categorizes the risks identified in the dedicated "Risks to the Outlook" section of the WEO reports. Circles (●) indicate that a risk was not specifically attributed to a country group or applied to both advanced economies (AEs) and emerging market and developing economies (EMDEs); triangles (▲) indicate that risk was attributed specifically to AEs; and squares (■) indicate attribution to EMDEs. Upside risks are denoted by green markers, whereas downside risks are indicated by red markers. The table includes only the key risks outlined in the sections dedicated to risks to projections. The April 2020 WEO focused exclusively on the COVID-19 pandemic and examined a multitude of risks associated with it. Impact of fiscal policy in October 2020 refers to possible extension of fiscal countermeasures (upside risk) and possible premature withdrawal of policy support (downside risk). TFP = total factor productivity.

[25] The Fund has produced some specific studies and background papers (including a series of Spillover Reports, now discontinued) that have dealt with fiscal spillovers, including from government spending shocks in major AEs (Blagrave and others 2017; Popescu and Shibata 2017; Chapter 4 in IMF 2017b), policy uncertainty (IMF 2013b; 2024a), and fiscal packages (IMF 2021a). Despite concerns about fiscal dominance (Aizenmann and others 2024; Buiter 2025), multilateral surveillance has not considered its spillovers.

More broadly, concerns continued to be raised about the asymmetry over time and the sometimes insufficiently differentiated and broad-brush nature of the Fund's multilateral advice. Authorities and staff interviewed noted, for example, that the IMF's strong calls for stimulus during the GFC and the pandemic inevitably overshadowed its calls for gradual consolidations during recovery periods and its warnings about debt vulnerabilities. External observers and staff raised concerns about such asymmetry—while appropriate for cyclical conditions—creating over time a "ratchet" effect contributing to debt build-up. They suggested that multilateral advice could have been more nuanced by acknowledging the political challenges of unwinding stimulus and tempering calls for higher spending with greater emphasis on alternatives such as reprioritization. This was especially relevant for LICs, which faced much tighter financing constraints and, even before the pandemic, were already at significant risk of debt distress (IMF 2020b).[26] More generally, there remains a concern about the sometimes insufficiently differentiated and broad-brush nature of multilateral advice (IEO 2023). Some Executive Directors and staff noted the outsized influence on country authorities and the public debate of the WEO and management communications relative to Article IV reports and Regional Economic Outlooks (REOs), which can result in misinterpretation or "cherry-picking" of messages when there are differences among them.[27]

LONG-TERM GROWTH AND THE PROVISION OF PUBLIC GOODS

The IMF has appropriately emphasized using fiscal space to boost growth potential and provide public goods. Since the GFC, the Fund has advocated high-quality public investments and structural reforms that can generate powerful synergies in an environment of low growth and low equilibrium interest rates. Well-designed investments in infrastructure, green energy, and human capital not only address long-term spending needs but also raise potential growth and, in the short run, support aggregate demand. These themes, first highlighted in flagship reports, gained prominence as the Fund adopted strategies on social spending, climate change, and gender. Reflecting these commitments, attention to such issues has become a routine part of the conjunctural discussions of fiscal policy in the WEO and the FM, often reinforced by analytical chapters that have been widely viewed as useful contributions to policy debates.[28]

However, the integration of fiscal sustainability analysis with long-term policy objectives remained partial. Fund staff have produced valuable work on the design and impact of fiscal policies aimed at supporting public investment, inclusion, and climate adaptation. However, the feedback effects of these policies on fiscal sustainability—through channels such as higher growth, stronger fiscal revenues, or permanently higher expenditures—are rarely quantified.[29] Ultimately, fiscal implications depend not only on social returns but also on the share of returns that accrue to the public sector. Interviewees noted that strengthening the coverage of structural issues in the Fund's advice would require more systematic internal analysis and guidance notes to better inform flagship publications—similar to the recent note on IMF engagement in social spending (IMF 2024b). Such work could help address key trade-offs, including how different types of public investment affect long-term growth, how poverty-related and distributional issues influence fiscal sustainability, and how to model new structural risks. Some interviewees attributed weaknesses in these areas to data gaps, while others emphasized the need for deeper analytical models and tools to support consistent, evidence-based advice on these trade-offs. Observers also argued that structural issues evolve slowly and would benefit from annual flagship coverage with deeper analysis than is possible in Article IV consultations.

[26] For example, Baffes and others (2020) struck a more cautionary note.

[27] As a complement to the WEO, the REOs provide greater differentiation on the Fund's regional advice. Their impact varies across regions, with the traction of the Sub-Saharan Africa and Middle East and Central Asia REOs (measured by the ratio of press references to REOs relative to WEO) generally higher during 2007–24 than those on other regions.

[28] In some instances, the contributions have been subject to controversy. For instance, as the Fund's multilateral advice became more vocal on climate-related issues in recent years, views differed on its emphasis on prioritizing carbon taxes relative to "green supply policies" and subsidy cuts. The forthcoming IEO evaluation on the IMF and climate change will cover IMF advice, including in the multilateral context (IEO 2024b).

[29] A recent example of staff analysis of the fiscal sustainability implications of policy choices is IMF (2023b), which examined the fiscal implications of emissions reduction strategies.

BILATERAL SURVEILLANCE[30]

The delivery of bilateral fiscal policy advice faced the challenges of the growing perimeter of fiscal surveillance, which led to substantial variability in the issues covered across reports driven by country-specific circumstances. Over time, various surveillance decisions, reviews, and guidance notes have expanded the scope and time horizon of what the Fund's fiscal policy advice could cover (see Annex 3). This has left country teams with considerable flexibility in determining which fiscal issues to address and the relative emphasis on the core fiscal objectives of output stabilization, fiscal sustainability, and long-term growth and development given each country's unique circumstances. This flexibility is opportune to ensure prioritization and tailoring but led to substantial variability in the fiscal issues covered in staff reports across different countries and income groups and to perceptions of lack of evenhandedness. Importantly, the Fund's internal review process protects the quality of staff analysis and the consistency and evenhandedness of advice across member countries—during the evaluation period, FAD review coverage of Article IV reports has trended down on average, though remaining focused on LICs and higher-risk AEs and EMMIEs (Annex 4).

Additionally, the variations in the analytical depth of staff reports across different country groupings were largely driven by data availability, existing research, and the specific priorities tied to IMF program engagement. In most AEs and larger EMMIEs, the wealth of national data and research from central banks and other institutions supported Fund staff analysis. Conversely, in many LICs and smaller EMMIEs, the scarcity and lower quality of data and research sources, combined with a high level of program engagement that directed fiscal policy advice toward meeting program goals, along with relatively small country teams and frequent turnover of team members (IEO 2022b), made the assessment of the macroeconomic impact of the recommended fiscal policies more challenging.[31] Nonetheless, there are good examples of Fund staff analyzing how multipliers vary by instrument and country grouping and estimating multipliers in some small economies.[32]

[30] This section draws on the evaluation background papers by Amgalan, Cohen-Setton, and Korinek (2025); Cohen-Setton and Montiel (2025); Cohen-Setton, Montiel, and Zoli (2025); De Lannoy and Lane (2025); Eichengreen and Gupta (2025); Eichengreen and Zoli (2025); Gupta (2025); and Ocampo and Zoli (2025).

[31] For example, many EMMIEs and particularly LICs are compiling and reporting data only for the central government, and fiscal data omits the operations of subnational governments, extrabudgetary operations, or social security funds. The timeliness and comprehensiveness of the wider set of macroeconomic statistics also varies significantly, with significant shortcomings in national accounts in some cases, and many countries reporting data on a cash, rather than accrual, basis, thereby limiting the timeliness of the information provided by "above-the-line" expenditure items.

[32] See, for example, Geli and Mourra (2023) for three income groups using a uniform methodological framework and Gonzalez-Garcia, Lemus, and Mrkaic (2013) for the Eastern Caribbean Economic and Currency Union.

ADVICE ON FISCAL POLICY FOR OUTPUT STABILIZATION

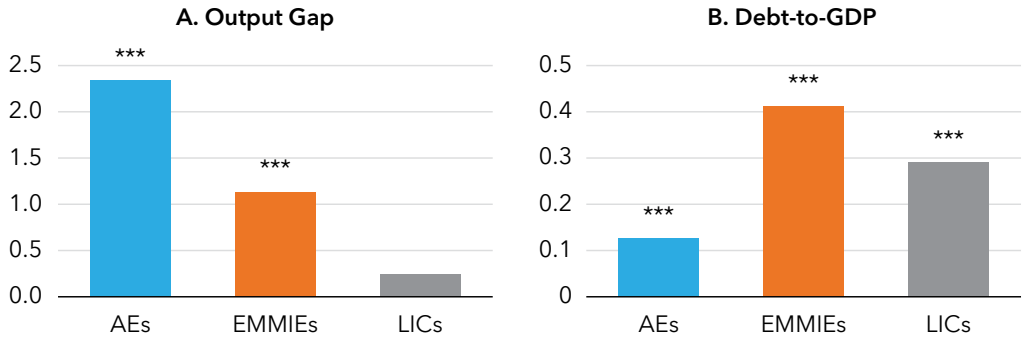
Fiscal Space and Fiscal Stance

The IMF's bilateral fiscal advice has evolved to place greater emphasis on countercyclical fiscal policy, broadly consistent with high-level messaging. A quantitative assessment of all Article IV reports from 1998 to 2023, along with the review of focus countries, revealed that an expansionary near-term fiscal stance was recommended across all income groups, in response to significant global headwinds and increasingly under more conventional cyclical pressures. For example, bilateral advice advocated short-term stimulus in Japan following the 2011 earthquake and tsunami and, after 2014, in countries like Germany where weak demand, large infrastructure gaps, and sizable current account surpluses underscored the case for fiscal support. The Fund also advocated fiscal support in 2022 in Bangladesh and Cambodia, where the post-COVID-19 pandemic recovery was offset by commodity shocks.

IMF advice tended to be more countercyclical in AEs, with the strength of the response diminishing at lower income levels. On average, fiscal advice was countercyclical in AEs and EMMIEs, although with less sensitivity to measures of economic slack in EMMIEs—in LICs, the sensitivity of advice to cyclical conditions was small and generally insignificant (Figure 5A). For these two latter groups, bilateral advice on short-term fiscal stance was driven mainly by the assessment of the implications of countries' debt-to-GDP ratios for debt sustainability (Figure 5B). The desk review of focus countries confirmed these patterns and revealed that the magnitude and direction of recommended short-term fiscal actions were primarily influenced by fiscal sustainability and market access in EMMIEs and LICs. External imbalances also influenced the fiscal stance recommendations; however, their impact was asymmetric, as countries with current account deficits were more likely to receive advice to tighten, while those with surpluses were only somewhat more likely to be advised to ease.[33] Notable examples in which Article IV reports called for a fiscal expansion, including to support external rebalancing in countries with large current account surpluses include China (e.g., 2009, 2010) and Germany (e.g., 2016).

Moreover, staff reports did not always provide clear and explicit advice on the appropriate fiscal stance, and recommendations for fiscal tightening continued to dominate driven by fiscal sustainability

FIGURE 5. MARGINAL IMPACT ON PROBABILITY OF RECEIVING ADVICE TO TIGHTEN THE FISCAL STANCE
(Percentage points)



Source: Amgalan, Cohen-Setton, and Korinek (2025).

Note: The figure reports the average marginal effect of each covariate, expressed as the change (in percentage points) in the probability of receiving advice to tighten the fiscal stance associated with a one-percentage-point increase in that covariate. The figure is based on the estimates presented in Column 1 of Table 5 in Amgalan, Cohen-Setton, and Korinek (2025). Significance levels are *p<0.1; **p<0.05; ***p<0.01.

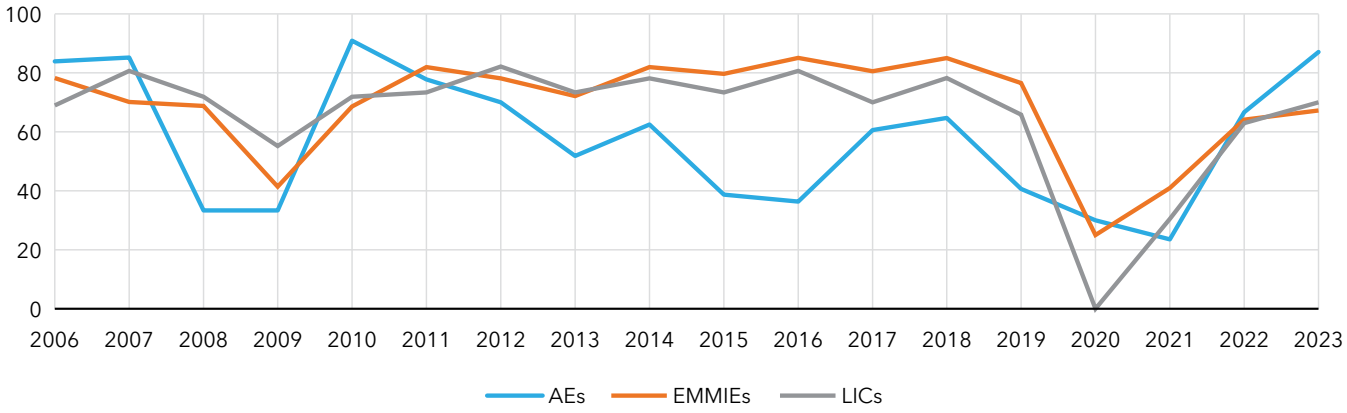
[33] Article IV reports include an external sector assessment that links the current account imbalance with the fiscal balance focusing on whether current account positions deviate from levels justified by economic fundamentals and appropriate policies. Results from Amgalan, Cohen-Setton, and Korinek (2025)—based on the subsample of countries and years with available policy gap variables—confirm this asymmetry using current account balances rather than policy gaps to ensure broader country and time coverage. The result remains qualitatively unchanged when using policy gaps of a subsample of countries and years with available policy gap variables.

concerns, especially in EMMIEs and LICs. Within focus countries, the direction of near-term fiscal advice in AEs was generally clear, even if the recommended size of adjustment was not always specified or clearly contrasted with the authorities' views. In EMMIEs, ere more transparent when framed in terms of structural or cyclically adjusted balances but often lacked precise guidance. In about half of the focus countries (and in almost two-thirds of the middle-income focus countries), the rationale for the direction and size of short-term fiscal recommendations was missing or limited in recent years. In LICs, staff advice often included detailed expenditure and revenue measures, simultaneously recommending increasing development spending and strengthening DRM, but the net effect on the fiscal stance was frequently ambiguous. Overall, bilateral advice tended to be more cautious than high-level recommendations during global crises, with 40–60 percent of staff reports for EMMIEs and LICs advocating for fiscal tightening in 2009, despite the multilateral message promoting a more supportive fiscal approach. Between 2010 and 2019, 70–80 percent of staff reports for these country groups recommended fiscal tightening (Figure 6), driven by concerns regarding limited financing, debt sustainability, and, in some instances, the belief that consolidation could aid output stabilization through confidence building effects.

The assessment of fiscal space and the analysis of trade-offs between output stabilization and fiscal sustainability varied in depth and quality. In focus AEs, the quality of justifications improved significantly over time. In the early post-GFC years, some reports offered limited or unconvincing rationales about the lack of fiscal space and recommending fiscal tightening, often overlooking the output costs of consolidation or making unconvincing statements about the lack of fiscal space. For example, the 2010 New Zealand report recommended front-loaded adjustment without discussing growth implications, while the 2012 Japan report asserted limited fiscal space without substantiating the claim. By contrast, reports from 2014–15 and 2022–23 provided more disciplined, country-specific assessments likely reflecting the influence of the FSF. Among focus EMMIEs, only a few staff reports elaborated on the trade-offs between output stabilization and debt sustainability. For example, the 2014 Costa Rica report provided estimates of growth implications under the recommended fiscal path, cautioning that postponing fiscal retrenchment would require a larger adjustment later to stabilize the debt.[34] Conversely, the 2010 Namibia report, for instance, highlighted the need for fiscal consolidation starting in 2011/12, due to the widening of the deficit and the debt increase, without elaborating

FIGURE 6. SHARE OF NEAR-TERM TIGHTENING ADVICE, 2006–23

(Percent)



Source: Amgalan, Cohen-Setton, and Korinek (2025).

Note: The percentages are calculated as the share of reports recommending near-term tightening advice relative to the total number of Article IV reports published in that year for that income group.

[34] The 2014 and some more recent Costa Rica reports presented itemized consolidation measures as well.

on the output implications. In about half of the focus EMMIEs, the justifications used to determine the direction and size of short-term fiscal measures were faint or absent. LIC reports typically pointed to the lack of fiscal space and financing.

Fiscal advice focused primarily on discretionary policy, with limited attention to automatic stabilizers, especially in EMMIEs and LICs. Advice in focus countries focused exclusively on discretionary policy in about 72 percent and 91 percent in EMMIEs and LICs, respectively, compared with 55 percent in AEs. While this difference reflects that, unlike AEs, EMMIEs and LICs typically do not have well-developed automatic countercyclical expenditures such as unemployment benefits (IMF 2015b), automatic stabilizers can also operate on the revenue side, depending on the elasticity of revenues to GDP growth. Although high-level advice and Fund work have emphasized the role of automatic stabilizers (IMF 2015a; Baunsgaard and Symansky 2009), analyses on improving the design of stabilizers received limited attention in focus countries' staff reports.

Macroeconomic Impact of Fiscal Recommendations

As fiscal policy advice has become more attuned to the economic cycle, recommendations on the pace and phasing of fiscal actions have grown more explicit; however, staff often failed to address warnings from realism tools. Clear recommendations on phasing of fiscal measures were made for nearly all focus AEs and were present in about 60 percent to 80 percent of the most recent reports of the other country groups. However, staff often failed to address warnings from the Fiscal Multiplier Realism Tool embedded in the SRDSF—in more than half of the focus AEs using it in 2022–23, the tool flagged realism issues related to assumed multipliers. For instance, in six AEs—France and the United States (2022); Germany, Italy, Japan, and New Zealand (2023)—baseline projections appeared to have implicitly assumed zero or negative multipliers, yet staff provided no explanation to justify that choice. Similar issues arose in some focus EMMIEs, notably Namibia (2023), and, to a lesser extent, Botswana (2023). This lack of explanation raises concerns about overly optimistic projections—a recurring weakness in the Fund's work (IEO 2014a; Flores and others 2023; Rehbein 2022, 2023a, 2023b), echoed in interviews and reminiscent of the mistakes identified by Blanchard and Leigh (2013) following the GFC.

The quantification of the macroeconomic impact of the recommended fiscal policy was rare for EMMIEs and LICs, but fairly common in AEs. Among focus countries, multipliers were rarely mentioned or made explicit in EMMIEs and LICs, despite some Fund research and staff guidance in this area. This finding is consistent with results from IEO (2021) in the program context. In a few EMMIEs and LICs within the analyzed sample, multipliers of different types of fiscal measures were quantified (e.g., China 2015 and 2022; Costa Rica 2014; Nigeria 2014; Philippines 2009; St. Lucia 2015; and Timor Leste 2022 and 2023). High levels of informal economic activity and difficulties in comprehensively measuring and including it in GDP imply that parts of countries' economic activity may not be well captured in the data, which impacted the calculation of fiscal multipliers. Among AEs, the 2022 Japan report included a table with multiplier estimates for different fiscal measures and the rationale behind them. Similarly, the 2023 New Zealand report employed state-dependent multipliers to substantiate its recommendations.

Policy Mix and Spillovers

Coverage of the policy mix was uneven across country groupings and focused mostly on the fiscal-monetary dimension. Among focus countries, the policy mix for virtually all AEs, 70 percent of EMMIEs, and around half of LICs, was explicitly discussed, at least partially. For example, the 2022 and 2023 Philippines reports emphasized that fiscal consolidation complemented monetary policy in the tightening of the overall macroeconomic policy stance to help reduce inflationary pressures and maintain external and domestic balance. Various staff reports on Senegal discussed the link between fiscal and monetary policy in the context of West African Economic and Monetary Union (WAEMU) convergence criteria. The 2023 New Zealand report warned that insufficient fiscal consolidation would call for a further tightening of monetary policy. Econometric analysis on all staff reports between 1998 and 2023 found strong evidence that fiscal and monetary policies were treated as complements in IMF bilateral surveillance; fiscal loosening advice was more likely when

monetary policy advice was also expansionary. Moreover, fiscal recommendations became significantly more accommodative when monetary policy was constrained by the ELB, consistent with the view that fiscal policy should play a greater stabilization role when monetary space was limited.

At the same time, few focus country reports discussed how the overall macroeconomic policy mix could be better coordinated to deliver a more countercyclical stance. Article IV reports rarely assessed how fiscal policy recommendations interacted with monetary and macroprudential measures, or how exchange rate flexibility and capital flow management tools might be combined to smooth the cycle. This gap is particularly relevant for EMMIEs, where large and often procyclical swings in capital flows can amplify domestic financial cycles and complicate monetary policy implementation. In such contexts, fiscal policy could play a more active stabilization role, for example by leaning against credit booms fueled by capital inflows or providing more support when capital reversals tighten financial conditions. An exception was the 2022 Philippines report, which provided a particularly good example of addressing the role of fiscal policy in the context of a quantitative IPF (IMF 2023b). Econometric evidence from all staff reports between 1998 and 2023 found no systematic relationship between fiscal and macroprudential advice, suggesting limited coordination between these two instruments in practice.

The IMF generally examined the spillover effects of fiscal policy, particularly for major AEs, but coverage was uneven. Among focus country reports, Fund staff highlighted problematic fiscal policies in AEs, especially those that posed significant spillover risks. However, the level of candor in this discussion has fluctuated over time. While the Fund was outspoken in critiquing policies with substantial spillover risks, such as the 2017 tax cuts in the United States and 2022 fiscal strategy in the United Kingdom, its cautions regarding the dangers of excessively large fiscal packages during the pandemic were notably less pronounced. Some officials interviewed indicated that the Fund's guidance to EMMIEs during the COVID-19 pandemic could have been more effectively tailored to consider the spillover effects on trade partners from stimulus measures in AEs.

DEBT ACCUMULATION AND FISCAL SUSTAINABILITY

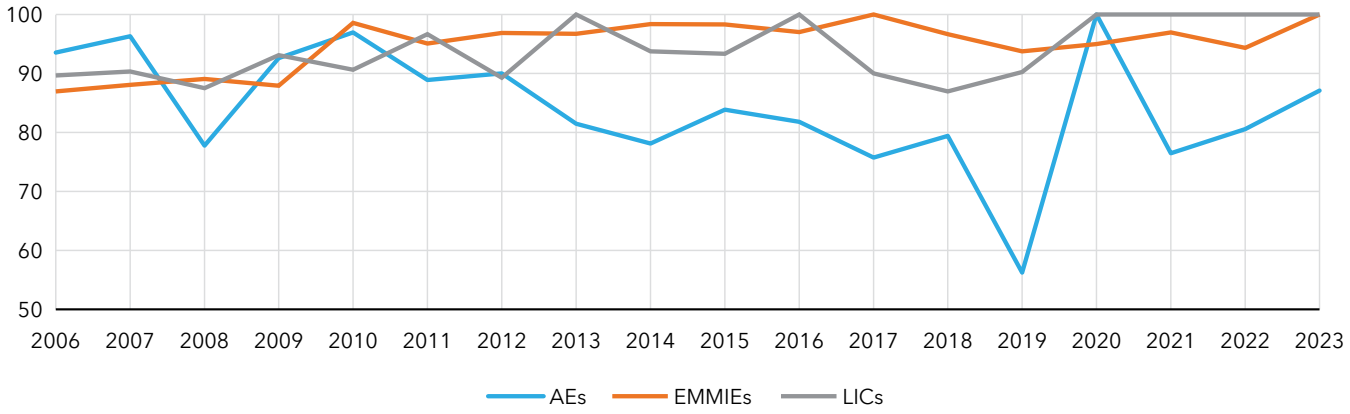
Medium-Term Anchor

The IMF has consistently highlighted the importance of medium-term fiscal consolidation. This emphasis was particularly strong for EMMIEs and LICs, where staff typically advised that increases in spending for long-term priorities—such as infrastructure, health, and education—should be accompanied by efforts to broaden the tax base and strengthen DRM. In contrast, for AEs, staff increasingly advised that high-priority spending, often focused on infrastructure or climate investment, could be accommodated by relaxing medium-term fiscal paths where fiscal space was available. This differentiated approach (Figure 7) reflected the Fund's judgment that many AEs could sustain somewhat higher debt levels, especially in periods of weak demand and persistent external surpluses, while EMMIEs and LICs faced tighter financing constraints and greater vulnerability to debt sustainability risks.

There seemed to be no major disagreement between staff and authorities on the need for medium-term consolidation; however, debt vulnerabilities continued to increase. While 73 percent of the country authorities surveyed either fully agreed or agreed more than half the time with staff's medium-term fiscal recommendations, public debt has persistently risen. Step increases around the time of the GFC and COVID-19 are clear for AEs and EMMIEs, while in LICs debt ratios have increased steadily since 2012.[35] For instance, this trend was notable in the WAEMU, where public debt steadily increased from 2013 to 2022, despite the Fund's annual projections of fiscal consolidation. For LICs more generally, the upward drift in debt reflected different factors, including multiple shocks, slow growth, low levels of DRM, and declining budget support and overall aid levels, resulting in large fiscal deficits, exchange rate depreciation, and other SFAs.

[35] The average increase in public debt-to-GDP ratios for AEs was mainly driven by primary deficits, while for EMMIEs, exchange rate depreciation and especially other SFAs played the most important role (Figure 2, Eichengreen and Zoli 2025).

FIGURE 7. SHARE OF MEDIUM-TERM TIGHTENING ADVICE, 2006–23
(Percent)



Source: Amgalan, Cohen-Setton, and Korinek (2025).

Note: The percentages are calculated as the share of reports recommending medium-term tightening advice relative to the total number of Article IV reports published in that year for that income group.

Over time, an increasing number of staff reports clearly identified or quantified a country-specific medium-term anchor for fiscal policy. In earlier sample years, focus country reports often did not specify a medium-term anchor, especially in EMMIEs, despite institutional guidance in this regard (IMF 2009b, 2014a; Villafuerte and others 2010). In AEs, recommendations for medium-term fiscal consolidation were generally anchored by targets for the primary surplus or the debt-to-GDP ratio over a 4–5-year period. For instance, the 2014 staff report on Japan specified the necessary adjustments to stabilize the debt-to-GDP ratio and outlined concrete measures to achieve this objective. The most recent focus EMMIE reports framed their policy advice against a medium-term policy anchor. For some commodity-exporting countries in the sample, advice in recent staff reports (Azerbaijan 2023, Botswana 2023, and the UAE 2022) was based on the Fund's tailored analytical framework on macro-fiscal stability and intergenerational equity (IMF 2012b, 2012c; Basdevant, Hooley, and Imamoglu 2021). In LICs, the medium-term anchor for fiscal policy was discussed in cases such as Senegal in the context of the WAEMU.

However, the clarity and depth of the explanations for the recommended medium-term targets across staff reports was mixed. While some reports offered clear explanations, others lacked explicit rationales. For instance, the 2013 Korea, 2022 Switzerland, and several Singapore reports stand out for explicitly weighing the costs and benefits of alternative fiscal trajectories and discussing the implications for growth, investment, and fiscal buffers. In other cases, however, staff did not explain why a particular path was preferred among other feasible options. Such differences may lead to perceptions of a lack of evenhandedness and point to the need for a more structured approach to presenting the rationale for medium-term fiscal recommendations.

Composition of Fiscal Policy

Most staff reports across all income groups recommended a combination of expenditure and revenue measures. When providing advice on the composition of fiscal policy, the reliance on expenditure cuts decreased over the evaluation period in most focus country reports. For instance, in the sample years 2022–23, most staff reports advocated both revenue and expenditure measures. For example, the reports on Japan, the Philippines, St. Lucia, and the United States suggested specific tax revenue policies alongside spending measures. In LICs, consistent with the relatively lower revenue base, revenue mobilization was prioritized in 40 percent of the country cases, while a third of the country cases focused on expenditure measures. For AEs and EMMIES, only about one-third of the reports placed greater emphasis on expenditure measures to achieve fiscal consolidation compared to revenue measures, such in the cases of Brazil and France (in the Brazil case alongside advice to broaden the tax base).

While staff reports generally discussed the composition of fiscal packages, the depth of the analysis varied considerably. In some cases, multiple policy options were presented. The 2009 Germany report is a notable example in this regard, ranking proposed stimulus measures by cost effectiveness, uncertainty, and speed of impact and outlining their advantages and disadvantages. Other examples include the 2014 Japan report, which provided granular advice on the expenditure and revenue measures needed to stabilize the debt-to-GDP ratio, and the 2023 reports on China and India, which included detailed assessments of fiscal adjustment strategies, recommending specific combinations of spending and tax measures. However, most focus country reports lacked this level of specificity and offered little rationale for the selection of particular measures or for excluding potentially more feasible alternatives. As a result, it was often unclear whether the choices reflected the authorities' preferences, the Fund's analytical judgment, or practical constraints related to implementation capacity or political economy considerations (Box 2).

BOX 2. POLITICAL ECONOMY AND CAPACITY CONSIDERATIONS IN IMF FISCAL POLICY ADVICE

An unresolved issue is the extent to which staff should incorporate political economy constraints and the preferences of country authorities into fiscal policy advice. Should recommendations be based on the most economically desirable course of action, or be prioritized depending on political feasibility and institutional capacity? Emphasizing feasibility may improve traction, but it risks entrenching low-ambition strategies and gives the impression that advice is overly shaped by the authorities' preferences. Conversely, focusing on the best policy from a purely economic standpoint may be dismissed as poorly tailored to country realities, and ultimately jeopardize implementation.

Against this backdrop, standardized information in IMF staff reports suggests that fiscal policy advice is implemented to a reasonably high degree. Analysis of Article IV appendix tables on the implementation of past policy recommendations indicates that roughly 61 percent of recommendations were partially implemented and 16 percent, fully implemented, leaving nearly one-quarter unimplemented. Authorities' responses to the survey suggest a lower implementation rate of less than 60 percent (Figure B2.1.A). Interviews with Executive Directors pointed to political realities and capacity constraints as key obstacles for advice implementation, echoing previous IEO findings that capacity constraints hindered the effectiveness of Fund work on fiscal issues (IEO 2022b). Likewise, 85 percent of mission chiefs surveyed identified political issues as the principal barrier to implementation.

Views differed on whether staff adequately factored in political-economy and capacity constraints. While less than half of the respondents in the authorities' survey felt the advice accounted for political economy and capacity constraints, 90 percent of mission chiefs believed it did (Figure B2.1.B). In the staff reports of the focus countries, coverage of political economy factors improved over the evaluation period but remained uneven. Reports rarely reflected how advice was tailored to such challenges, and they seldom captured administrative or capacity limitations. Some reports laid out the pros and cons of alternative fiscal measures that could deliver the same adjustment (or stimulus), allowing policymakers to choose. Others, instead, focused narrowly on a preferred set of measures, not reflecting alternatives that might have been more feasible. These shortcomings were most evident in LICs, where political-economy, capacity, and operational constraints frequently stalled implementation.

Views also differed on the extent to which staff should internalize capacity and political economy constraints. In interviews, country authorities valued tailored advice that reflected their capacity and political economy constraints. Conversely, mission chiefs emphasized that the Fund was uniquely positioned to provide authorities with guidance grounded in rigorous and independent macroeconomic analysis and cautioned that recommending less-effective options from a purely macroeconomic standpoint could ultimately undermine the credibility of the Fund's analysis and fiscal policy advice.

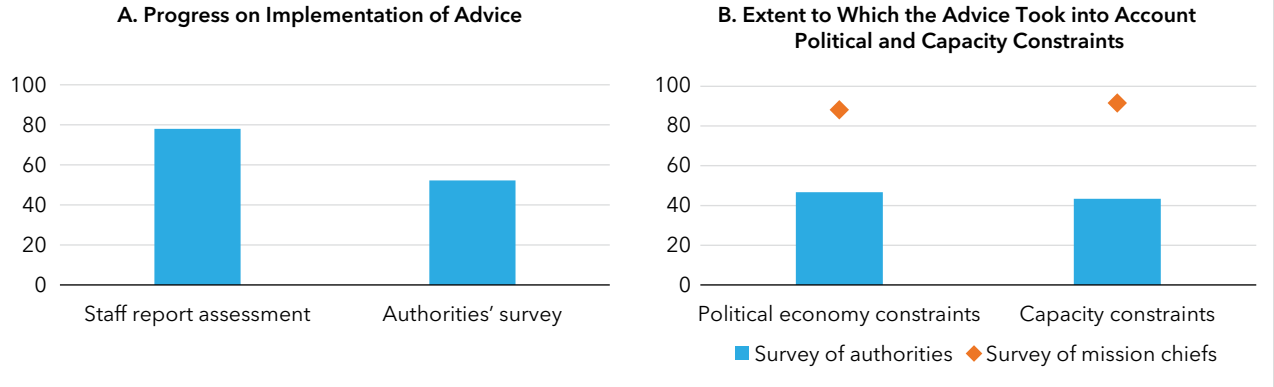
In practice, the consideration of political economy factors was largely left to the decision of the mission chief. Staff pointed out that the analysis of political economy issues was typically assigned to area departments, which could result in significant variations depending on the mission chief and, where applicable, the resident representative. In this respect, empirical work by Amgalan, Cohen-Setton, and Korinek (2025) finds that, even after controlling for macroeconomic and

BOX 2 (CONTINUED).

fiscal conditions, the educational background of mission chiefs significantly influenced the fiscal stance recommended in surveillance. Moreover, mobility of IMF staff and mission chiefs, while enabling staff to draw on experience from multiple countries and environments, may conflict with the objective of tailored and realistic advice because acquiring in-depth country knowledge takes time.

FIGURE B2.1. RESPONSE TO IMF FISCAL ADVICE

(Percent)



Sources: IEO staff calculations; and survey results presented in the Methodological and Statistical Online Appendix.

Note: For Figure B2.1.A, "staff report assessment" shows the combined answers "some progress" or "major progress" on implementation of advice from the past Article IV consultations based on a large language model classification, for all staff reports during the evaluation period that included this table (representing about 80 percent of staff reports by end-period). "Authorities' survey" shows the sum of "Yes, always" and "50 percent of the time or more" responses to the question "Was the IMF staff fiscal policy advice acted upon by the authorities in your country?"

Sources: Amgalan, Cohen-Setton, and Korinek (2025); survey results presented in the Methodological and Statistical Online Appendix; interviews.

Debt and Fiscal Risks

While DSAs are included as an annex in staff reports, these did not always appear to inform staff advice.[36] In several cases, the DSA annex was referenced largely in passing in the main text, without reference to the risk analysis vis-à-vis the baseline or its policy implications (e.g., 2022 Hungary report), suggesting that it might have been considered a formal requirement rather than a useful instrument to shape the policy discussion. At the other extreme, the 2021 staff report on Montenegro drew upon the DSA to support the recommendation to defer a large infrastructure project and advocated for the development of the domestic debt market to mitigate refinancing risks. In LICs, medium-term fiscal consolidation was generally suggested, including in instances where debt risks were considered low—two-thirds of the 24 low-risk cases among the low-income focus countries were advised to consolidate. However, in the majority of these cases (20 out of 24), the proposed fiscal consolidation did not lead to a reduction in the projected debt-to-GDP ratio, indicating that staff advocated only slightly tighter policies, acknowledging the low levels of debt vulnerabilities.[37]

[36] The Fund's DSA methodology differs for MACs and LICs. The MAC-DSA, now called the Sovereign Risk and Debt Sustainability Framework (SRDSF), was last extensively reviewed in 2021 and the new SRDSF tool rolled out in late 2022. The Debt Sustainability Framework for LICs (LIC-DSF) was launched in 2005 and is currently undergoing a fifth review, which is expected to be completed in 2026 (see Box 1).

[37] Use of the LIC-DSF will be assessed in the forthcoming IEO evaluation of IMF engagement on debt issues in low-income countries (IEO 2025).

Staff reports have usefully evolved to place greater emphasis on liquidity risks and vulnerabilities from debt composition and contingent liabilities. A review of a sample of recent staff reports of EMMIEs with elevated debt obligations revealed that bilateral surveillance and TA have increased the coverage and recommendations on debt management paying attention to debt maturity profiles and instruments, creditor composition, and contingent liabilities, while mainly focusing on "above-the-line" assumptions (see Box 3). By contrast, guidance on debt profile issues emerging from the DSA in focus AEs was often absent or belated—the 2022 Article IV report for Italy is a recent example where staff noted that debt maturity had not been extended despite favorable conditions. Interviewed staff see merit in further deepening the expertise of country teams on financing aspects to inform medium-term fiscal advice.

Staff reports typically addressed medium-term fiscal risks, either in the main text or utilizing the Risk Assessment Matrix (RAM). Drawing from the country authorities' survey, authorities broadly agreed that fiscal advice generally highlighted the key trends and risks, and medium-term fiscal challenges. In AE focus country reports, the most frequently cited fiscal risks included inadequate implementation of medium-term consolidation plans, increased market pressures, policy uncertainty and reversals, delays in investment expenditures, and revenue losses due to cross-border corporate income tax competition. In EMMIEs, the primary concerns were macroeconomic uncertainty and contingent liabilities arising from public-private partnerships, public sector banks, other state-owned enterprises, and local governments. For LICs, the most commonly discussed fiscal risks included losses from state-owned enterprises—often associated with fuel price subsidies, policy implementation risks, contingent liabilities, and climate-related risks. Notably, LICs' staff reports emphasized that liabilities incurred outside the fiscal perimeter can lead to significant SFAs—for example, in 2022 and 2023, staff reports on common policies for WAEMU member countries underscored the role of SFAs in public debt accumulation, noting that they represented 1.5 percent of regional GDP annually from 2013 to 2021.

However, recommendations to mitigate identified fiscal risks and challenges were unevenly articulated. For instance, in staff reports on low-income focus countries, only about half included recommended actions to mitigate identified risks. When mitigation measures were articulated, it was often in broad terms rather than specific and prioritized policy actions. However, fiscal risks were more articulated in recent years in some focus countries. In the staff reports on Germany (2022 and 2023), specific reforms were highlighted to expedite public investment execution, such as enhancing planning and approval procedures, streamlining public procurement, and addressing staff shortages at the municipal level. In Rwanda (2022), several measures were introduced to enhance the depth and breadth of fiscal risk assessments, including a long-term climate risk assessment as part of the reform measures under the Resilience and Sustainability Facility (RSF). Conversely, in Haiti (2022), the main fiscal risk identified was the burden of costly fuel subsidies amid very low tax revenues, yet no risk mitigation strategies were proposed within the Staff-Monitored Program.

Fiscal Frameworks

Appropriately, staff reports paid increasing attention to fiscal frameworks in supporting fiscal sustainability, but coverage was uneven (Box 4). The frequency of references to fiscal rules in the Fund's Article IV reports rose sharply during the evaluation period, from 16 percent to 70 percent, with the Fund stressing its key role in supporting fiscal sustainability. However, in many cases, fiscal frameworks were not discussed, and sometimes, the Fund's engagement on these issues came at a relatively late stage, which restricted its ability to influence the initial conception and formulation of these frameworks.[38] For instance, the 2023 New Zealand report delivered a detailed assessment of the government's new fiscal rules, which previous reports had largely ignored. In certain cases (e.g., Germany), the Fund has endorsed fiscal rules that have proven to have design flaws and has been slow to adjust its advice accordingly. Additionally, where TA on fiscal rules and institutions has been provided, recommendations were not always reflected in Article IV reports.

[38] The review conducted by Eichengreen and Gupta (2025) suggests that Article IV reports appear to devote more attention to how members might strengthen and refine existing rules than to how members lacking such rules might design and implement them, though TA supported adoption of fiscal rules in some cases.

BOX 3. ADVICE ON DEBT MANAGEMENT

The IMF has conducted substantive work on public debt management, often in collaboration with the World Bank. The Fund has significantly enhanced its analysis on debt management including through its lending (where such advice has played a key role), research, bilateral, and multilateral surveillance. Key initiatives, often in collaboration with the World Bank, included the development of comprehensive guidelines for public debt management, a framework for medium-term debt strategies (MTDS) and its accompanying tool, and efforts to promote and improve debt transparency and fiscal data reporting. Additionally, capacity development has been a key vehicle for the Fund's bilateral engagement on public debt management with LICs and EMMIEs. These activities are well valued by national authorities (IMF 2017a; Universalia 2013; World Bank 2021).

DSA tools have been periodically updated, placing increasing attention on the liquidity risks derived from debt composition and contingent liabilities. The Fund's analysis has followed market developments and authorities' preferences, incorporating emerging issues in public debt management, such as the growing importance of new lenders and climate finance. Notably, the most recent version of the debt assessment framework for MACs, rolled out in late 2022, includes one module to assess liquidity risk at a medium-term horizon, focusing on the creditor composition and debt structure (IMF 2021e). Moreover, a tool on the realism of financing terms scrutinizes assumptions on new private borrowing and financing terms. For LICs, the ongoing revision of the framework will put more emphasis on domestic public debt vulnerabilities and the consistency of the domestic public borrowing plan with maintaining macroeconomic and financial stability.

Article IV reports have increased the coverage of vulnerabilities arising from debt structure and contingent liabilities, while mainly focusing on "above-the-line" assumptions. Based on a focused analysis of 12 reports of EMMIEs with government debt above 70 percent of GDP, generally the DSAs clearly discussed implications for debt risks from debt profiles and gross financing needs. However, the extent to which those DSAs were integrated into the staff reports and led to substantive discussion and advice on debt management was uneven, including among countries flagged by the DSA as being at high risk of sovereign stress or debt distress. Furthermore, Article IV reports tended to focus more heavily on "above-the-line" assumptions, such as the sustainability of a given deficit under different scenarios, and less on "below-the-line" aspects. Staff reports typically did not discuss assumptions regarding the financing of deficits and maturing debt. Fund staff interviewed for this evaluation indicated that this reflected the predominantly macroeconomic training of country teams and suggested that enhancing expertise and attention to countries' financing conditions and circumstances, namely, the availability of external and domestic funding sources, the composition of the investor base and their capacity to absorb additional government debt would be beneficial when evaluating the feasibility of fiscal aggregates and formulating medium-term fiscal policy.

Surveillance reports have paid relatively less attention to institutional frameworks for debt management. In particular, despite the attention paid to these elements in the Fund-World Bank guidelines on public debt management, there were relatively limited references to Debt Management Offices and related institutions in Article IV reports. More broadly, debt management TA programs and tools are only partially echoed in surveillance, and TA insights are not systematically integrated; they would benefit from more visibility and accessibility among country authorities and the Fund's country teams.

Source: Eichengreen and Zoli (2025).

BOX 4. ADVICE ON FISCAL RULES AND COUNCILS

The IMF has played a significant role in shaping the discourse on fiscal rules and fiscal councils, which have become an increasingly important component of the fiscal policy landscape. The Fund's advice evolved in tandem with academic research. Initially focused on simple numerical rules, the Fund now stresses the importance of balancing simplicity, flexibility, and enforceability. Recent advice stresses countercyclical flexibility, advocating expenditure rules and fiscal anchors adjusted for economic cycles. A strong legal framework and institutional support are emphasized as key for enforcement of fiscal rules. Fiscal councils are increasingly recognized as an important part of institutional support, promoting adherence to fiscal rules and forecast accuracy. The Fund has developed comprehensive databases on fiscal rules and councils that have been vital for analysis (Davoodi and others 2022a; 2022b), but these should be updated more regularly.

Attention to fiscal rules and councils in the IMF's bilateral surveillance has increased since 2008, though coverage varies across and within country groups. The frequency of references to fiscal rules and councils in the Fund's Article IV reports rose sharply during the evaluation period, from 16 percent to 70 percent in the case of rules, and from 1 percent to 23 percent in the case of councils. There has been an increasing shift of focus from AEs to EMMIEs, but LICs still received limited attention. Advice to LICs mainly reflected commentary on existing measures rather than proactive encouragement for adoption, which may reflect assumptions about political will or capacity constraints in this country group. This presents an opportunity to enhance proactive advice for LICs.

Discussions of existing fiscal rules in Article IV reports have been uneven. There has been uneven coverage of existing fiscal rules, ranging from detailed recommendations for refinement of the rules to no mention at all. In addition, in a sample of AEs, EMMIEs, and LICs that repeatedly breached their national fiscal rules starting in 2015, the staff reports pointed to violations of the fiscal rules in some cases but not in others. Further, in some instances where relevant analysis was available, coverage was lenient or omitted. For instance, the Fund has at times backed rigid fiscal rule proposals that allowed only minimal cyclical adjustment and failed to carve out high-return expenditures—such as infrastructure or defense—as in Germany's 2009 debt brake and Japan's 2010 debt cap proposal. Although outside experts raised concerns early on, the Fund was slow to recognize these shortcomings. In Germany's case, the Fund's subsequent acknowledgment of the need for reform came late.

TA has been a key channel for delivering the IMF's bilateral guidance on fiscal rules and institutions. The Fund's TA evolved to endorse clearer operational guidance, ultimately resulting in high-quality fiscal rules that serve as a model for other countries. LICs received considerably less TA in this area compared to EMMIEs, which may stem from perceptions about enforcement challenges, staffing constraints for fiscal councils, or a lack of donor interest in funding such TA for LICs. Nevertheless, this imbalance raises questions about whether support should be more evenly distributed. Evidence regarding the impact of TA in the reforms implemented is mixed. For example, in Uganda, a Charter for Fiscal Responsibility was introduced in 2013 and amended in 2021–22 after four rounds of TA provided by the Fund. In Jamaica, TA provided from 2010 to 2014 supported the successful implementation of a Fiscal Responsibility Framework. In the Bahamas, the legislation that was adopted differed from TA-based staff recommendations, and in Sierra Leone, which received four TA reports on PFM issues and fiscal rules in 2012–14, the subsequent reform did not meet the criteria for formal fiscal rules, as identified by the IMF Fiscal Rules Dataset.

Source: Eichengreen and Gupta (2025).

ADVICE ON POTENTIAL GROWTH AND PUBLIC GOODS

In line with institutional guidance, bilateral fiscal surveillance broadly advised countries to protect public investment to support potential growth. In an environment characterized by economic slack, below-target inflation, and low interest rates, staff encouraged AEs with ample fiscal space, such as Germany and Korea, to undertake infrastructure investment and labor market measures, that would both support aggregate demand in the short term and raise potential output over time, thereby contributing to fiscal sustainability. In countries with more limited fiscal space, such as Costa Rica, France, Italy, Namibia, and the Philippines, staff often recommended adjustment paths that protected public investment. However, Article IV reports frequently lacked quantitative assessments of the long-term growth impacts of such investments, making it difficult to judge whether they would eventually be self-financing or add to future debt burdens.

Fiscal advice also placed growing emphasis on social spending, though the depth and quality of the discussion have varied. The desk review of staff reports and responses from country authorities and mission chiefs in the survey confirmed that social spending—and the need to protect the most vulnerable—featured prominently in discussions with country authorities during the evaluation period. The focus on social spending was further enhanced with the endorsement by the Executive Board of the Fund's social spending strategy (IEO 2017; IMF 2019b). Notably, even in fragile and conflict-affected states (FCSs), such as Afghanistan, Haiti, and Somalia, where fiscal space was extremely constrained and sustainability concerns were acute, staff provided advice on addressing social needs, often by improving the efficiency of existing programs or leveraging donor funding to expand the spending envelope. Some AE reports, such as Korea (2013), explicitly advised against medium-term fiscal plans that were unnecessarily contractionary and argued that more gradual adjustment could free up resources for higher social spending. However, in other cases, reports merely listed social spending measures without discussing their implications for fiscal sustainability, missing an opportunity to clarify trade-offs and enhance the realism of the advice.

Additionally, staff reports have increasingly addressed the distributional impact of fiscal policy changes, though with uneven coverage and detail. For example, the 2022 and 2023 New Zealand reports analyzed inequality trends and noted that capital gains disproportionately benefit wealthier households. Reports for the United Kingdom (2021) and Italy (2022 and 2023) similarly criticized fiscal measures that favored higher-income groups. Among focus EMMIEs, some reports, such as those on China, offered detailed advice on reforming tax, pension, and health systems to promote more inclusive growth. However, in many reports across AEs, EMMIEs, and LICs, distributional considerations were either absent or narrowly focused on the bottom decile, without assessing broader effects across the income distribution or their intergenerational impact. Expanding the analysis beyond the bottom decile to examine the impact of fiscal measures on the middle class—often key to political and social feasibility—would provide a more comprehensive picture of burden-sharing and could strengthen implementation and reduce the risk of policy reversals.

Development CSOs and think tanks noted that the Fund's advice on social spending was not fully aligned with the SDGs. They argued that, while the World Bank and other United Nations agencies increasingly supported universal social protection systems consistent with the SDG agenda, the Fund has continued to emphasize targeted (means-tested) approaches, which, in practice, resulted in significant exclusions in social spending policies, particularly in countries where large populations live in poverty. They also stressed that the Fund's reliance on indicative targets for social spending was insufficient and emphasized the importance of gathering more comprehensive data to understand the implications of fiscal policies on the poor. More broadly, explicit actionable bilateral fiscal policy advice for advancing the SDGs was limited. Among the low-income focus countries, only 9 out of 63 staff reports explicitly addressed how fiscal policy could support the achievement of the SDGs (or the Millennium Development Goals prior to 2015). Some examples of coverage include the 2023 Namibia staff report, which included an annex estimating the additional spending needed to achieve strong performance on selected SDGs; and among EMMIEs, the 2021 UAE staff report, which mentioned that medium-term fiscal consolidation could create

space for progress toward the country's SDGs but lacked specific analysis.

The limited IMF advice on the SDGs appeared to have reflected several factors. These included the inherent ambition of the SDGs themselves, the sheer number of SDGs, the significant costs of achieving them, inadequate available resources (whether from DRM or donor financing), authorities' preferences influenced by electoral cycles, and the need for Fund staff to develop new expertise. Recent Fund analysis estimated that additional financing needs for 2025–29 to meet the SDGs by 2040 would require a median of 2.6 percent and 4 percent of GDP annually for EMMIEs and LICs, respectively (IMF 2025b). Consequently, due to concerns about debt sustainability and limited fiscal space in both cases, staff deemed it imprudent to suggest increasing development spending without first securing the necessary financing. Staff also argued that choices between targeted and universal transfers depend on country-specific factors such as fiscal space, administrative capacity, and social preferences. However, they acknowledged that capacity limitations may have hindered effective targeting, potentially reducing the reach and impact of these programs.

Over the evaluation period, staff reports have also increasingly focused on other public goods or societal goals, especially following the Fund's strategies on climate change and gender. The analysis of staff reports on focus countries across all income groups confirmed the expanded coverage of fiscal advice in these policy areas. This observation aligns closely with the conclusions drawn from the IEO's evaluation on *The Evolving Application of the IMF's Mandate* (IEO 2024a).[39] The Fund has also addressed military spending, particularly in FCS in the Sahel region, with wider and increased attention following the start of the war in Ukraine. More recently, reflecting the growing significance of industrial policies, there has been a notable rise in the scrutiny of such policies within both bilateral and multilateral surveillance, which was supported by improved data and clearer guidance.[40]

Staff reports across all income levels have increasingly incorporated climate considerations into their fiscal policy recommendations.[41] Following the adoption of the Fund's climate strategy in 2021, most focus country reports addressed climate-related fiscal challenges in some form. For instance, the 2022 U.S. report outlined specific fiscal measures to facilitate climate investments—such as carbon pricing, phasing out fuel subsidies, and reprioritizing public expenditures. The 2022 St. Lucia report presented estimates of the long-term returns from public investment aimed at enhancing resilience to natural disasters.[42] In LICs, the focus on climate resilience within the RSF programs in Bangladesh, Madagascar, Rwanda, and Senegal has significantly shaped climate-related fiscal reforms, including green PFM and investment guidelines, and climate risk management.

References to fiscal policies aimed at supporting their gender objectives remained relatively limited in the focus countries, even after the adoption of the Fund's gender strategy. Notably, gender budgeting was included in the staff reports on Costa Rica (2023) and the UAE (2021). In the case of Bangladesh (2023), a Selected Issues Paper was prepared to assess the macrocriticality of gender equality, developed in partnership with UN Women. Additionally, the 2023 staff report on Madagascar highlighted the economic benefits of closing gender gaps and outlined ongoing initiatives, including the implementation of a gender and climate strategy. Nevertheless, feedback from country authorities' and mission chiefs' surveys, along with interviews with CSOs, indicated that discussions regarding fiscal policies for achieving improved gender outcomes and the impact of IMF fiscal recommendations on gender objectives remained limited.

[39] This evaluation found that between 2008 and 2022, the coverage of climate change in Article IV reports increased from 4 percent to 95 percent. The coverage of gender-related issues increased from 12 percent to 28 percent (De Lannoy 2024; IEO 2024a).

[40] The 2022 Guidance Note for Surveillance under Article IV consultations calls for coverage of industrial policies when they are macrocritical or carry significant cross-border spillovers. Their coverage in Article IV consultations and multilateral reports rose significantly by the end of the evaluation period, supported by improved data and clearer guidance (see Cohen-Setton and Montiel 2025). Text analysis indicates that in 2023, references to industrial policies in Article IV reports increased nearly tenfold relative to the average over the period 2018–22.

[41] The advice of the Fund on climate change will be addressed further in the forthcoming IEO evaluation of the IMF and climate change (IEO 2024b).

[42] The analysis drew on a framework developed for small developing states (Fernandez-Corugedo, Gonzalez-Gomez, and Guerson 2023).

During 2008–23, military spending was covered in staff reports covering about one-third of the IMF's membership.[43] Staff discussed military spending in Article IV reports and/or program documents for 63 countries with a particular focus on FCSs—while they represented approximately 20 percent of the Fund's membership, they accounted for around 30 percent of countries where such spending was discussed in staff reports between 2008 and 2023. Attention to military spending increased further following the start of Russia's war in Ukraine. When it was discussed, the Fund's approach varied significantly among countries, primarily reflecting country-specific contexts, including financing constraints and concerns about debt sustainability. However, uneven coverage across countries has created the perception of a lack of evenhandedness. In this respect, it remained unclear why Fund staff explicitly addressed such spending in some countries with above-average military expenditures in their budgets, alongside high fiscal deficits and debt-to-GDP ratios, while not doing so in others with similar or even more constrained fiscal situations.[44]

Trade-offs between competing spending needs and vis-à-vis fiscal sustainability were not always clearly articulated. In the case of climate, while most focus country staff reports included dedicated sections on climate measures, they often lacked clear discussion of how these initiatives would be financed in a fiscally sustainable way or of their impact on near-term growth. Over half of respondents to the surveys of country authorities and mission chiefs indicated that Article IV consultations addressed the creation of fiscal space for climate action only partially or not at all—a view echoed by CSOs. This issue also emerged in discussions regarding social spending in staff reports. When it comes to military spending, fewer than 30 percent of staff reports that examined these expenditures included discussions of the macroeconomic trade-offs linked to such spending, despite its correlation with rising government deficits and debt, particularly in FCSs.

Furthermore, the inconsistent implementation of IMF strategies amid differing views among stakeholders on how bold the IMF should be in its approach to economic sustainability seem to have resulted in an "expectations gap." External stakeholders, particularly development CSOs and think tanks, have pointed out that Fund advice, especially to LICs and EMMIEs, has met the expectations of the Fund's own strategies, such as on climate and gender, and its endorsement of the SDGs. They contended that the Fund's focus on fiscal sustainability had not been sufficiently adapted to national contexts, often overshadowing or neglecting the longer-term goal of sustainable development, which should be prioritized and could be achieved through innovative financing solutions to expand fiscal space, advocating for debt restructuring, and greater debt transparency.[45]

[43] Military spending has been minimally addressed in the Fund's multilateral surveillance reports, such as the WEO, GFSR, and the Fiscal Monitor. Military spending analysis has been relatively more prevalent in the REO reports, particularly in the Sub-Saharan Africa REO. For a more detailed discussion on the Fund's fiscal policy advice related to military spending, see Gupta (2025).

[44] A policy shift in March 2023—permitting Fund support for countries facing "exceptionally high uncertainty" due to external shocks—further complicated comparisons between recent cases, like that of Ukraine, with those prior to 2023.

[45] For a more detailed discussion of the views of CSOs and think tanks, see De Lannoy and Lane (2025) and Ocampo and Zoli (2025).

5 MAIN FINDINGS

The IMF played a leading role in advocating for greater fiscal activism, driven by evolving economic realities, new research, and decisive internal leadership. Following the onset of the GFC, the Fund embraced a more active stance on fiscal policy. Without abandoning the pre-GFC concern for fiscal sustainability, the Fund emerged as a strong advocate of fiscal activism, recognizing the role of fiscal policy as an essential tool of macroeconomic stabilization and of support to potential growth and provision of public goods. This change resulted from several factors, notably the limitations of monetary policy under the ELB and the understanding that fiscal policy can be rapidly effective, particularly during sudden crises like the GFC and the COVID-19 pandemic. Through research, commentary, and active participation in global forums, the Fund also played an important role in a broader rethinking of fiscal space, increasingly legitimizing higher deficits in low-interest rate environments, not only for countercyclical support, but also to finance long-term priorities such as infrastructure investment, the green transition, and social protection. The Fund's reframing of its fiscal approach was facilitated by a clear direction from its management and by its intellectual leadership, who helped challenge entrenched views and overcome institutional inertia. In this respect, staff interviews particularly underscored the role of strong and independent Economic Counselors.

The fiscal policy advice responded well to the multiple and unprecedented shocks that hit the global economy during the evaluation period. The Fund's early call for global stimulus in 2008–09 was both timely and influential, and while the shift in emphasis in 2010–11 toward consolidation was recognized as premature in the face of persistent growth weaknesses and low public borrowing costs (IEO 2014b), this soon led the Fund to appropriately adopt more nuanced approaches. The Fund's fiscal advice during the COVID-19 pandemic was bold and accompanied by detailed guidance on specific measures. However, there were caveats to this adaptation; in particular, the greater reliance on fiscal policy implied that as fiscal space was used, public debt levels and sustainability concerns have also risen.

However, the profound and rapid change of the IMF's fiscal advice has added layers of complexity and uneven adaptation. Within a broad positive assessment of the Fund's fiscal advice, the following paragraphs focus on ongoing challenges mainly derived from the added complexity of the advice and the adaptation challenges of the Fund's multilateral and bilateral advice.

Complexity of the New Multidimensional Advice

The shift from a unidimensional to a more multidimensional fiscal approach added layers of complexity in forming the recommendations. The Fund shifted from a pre-GFC advice that was primarily driven by fiscal sustainability concerns, to a more multidimensional approach assigning higher weights to the objectives of output stabilization over the cycle, fostering potential growth, and provision of public goods. As countries faced an array of challenges, such as aging populations, climate change, social inequalities, and,

more recently, geopolitical realities, the Fund's advice had to navigate difficult trade-offs among competing and expanding priorities. This challenged staff to deliver sufficiently specific and actionable advice and to remain evenhanded across the membership, while catching up with evolving expertise needs.

Balancing these trade-offs required an in-depth understanding of each country's unique circumstances and fiscal space. The Fund sought to achieve this with increasingly complex toolkits for assessing fiscal space and debt sustainability. Yet, managing the trade-offs proved difficult in practice. Staff emphasized that the interaction between the normative advice—such as countercyclical fiscal policy targeting social expenditure and infrastructure investment—and the constraints imposed by markets or the availability of official financing was not sufficiently incorporated in the Fund's framework. In situations where fiscal space was at risk or the long-term payoffs of higher expenditures were uncertain, mission chiefs emphasized that these constraints limited the feasible set of options and tended to prioritize fiscal discipline as the foundation for sustainable growth.

Adaptation of Tools and Analytical Underpinnings

The IMF has made significant progress in adapting its tools and analytical frameworks in line with the new fiscal policy approach. The Fund's comprehensive reevaluation of its fiscal policy research—including on the macroeconomic effects of adjustments, design of fiscal rules, analysis of fiscal risks, and integration of issues related to climate—has been instrumental in this transition to a new fiscal approach. Enhanced data collection and the development of refined concepts, such as FSF, DSAs, the MTDS tool, FAD's Fiscal Risk Toolkit, and FAD's buffer-stock model have served as valuable tools for identifying risks and informing medium-term recommendations and provided a structured basis for integrating output stabilization and fiscal sustainability objectives. The Fund was also seen at the frontier of fiscal policy in how to account for the distributional impacts of fiscal policy.

Despite these improvements, there remain areas for further work. Among these were further integration of liquidity considerations in DSAs (especially for LICs), and efforts to address a bias toward over-optimism and strengthen debt databases, including on contingent liabilities. Another priority is to refine the analytical basis for medium-term fiscal anchors. Existing methodologies have focused mainly on debt-servicing capacity and safety buffers but there remains limited understanding of how to adequately balance fiscal sustainability considerations with the financing of priority expenditures, potential growth, and development objectives. Political economy channels, such as credibility gains from more inclusive fiscal adjustments and feedback loops between distributional aspects of fiscal policy and macroeconomic stability, would strengthen the Fund's capacity to better factor in these issues in its advice. In an environment of great fiscal space constraint, it would be important for the Fund to provide more advice on spending efficiency and strategic financing aspects.

Furthermore, there is also room for better utilization of IMF research and tools in bilateral advice. Fund staff have extensively used available toolkits and IMF analytical work to inform bilateral advice. Forthcoming research by FAD and RES is expected to provide guidance on the size of country-specific multipliers. However, the application of the DSA tools and new fiscal space metrics was uneven, particularly in linking baseline advice to identified debt risks. Some relevant Fund studies (e.g., on the role of automatic stabilizers) and tools (e.g., PSIA, MTDS tool, buffer-stock model) have been underutilized and could be better integrated into the advice.

Multilateral Advice

While the IMF acted fast to address downside risks to growth, concerns were raised about the asymmetric and broad-brush nature of its fiscal advice, limited attention to the policy mix, cross-border spillovers, and new fiscal risks. By highlighting the tension between stabilization and sustainability, the Fund has brought greater realism to its advice which reflected—and at times led—the now commonly held view that the desirable fiscal reaction function should be asymmetric, with stimulus deployed quickly when the economy weakens, whereas consolidations should be gradual when it recovers. Nonetheless, some external observers and staff have raised concerns about such asymmetry creating over time a "ratchet" effect contributing to debt build-up. Executive Directors and mission chiefs also noted a tendency toward "broad-brush"

recommendations during crises, often lacking country-specific indicators of fiscal space or DSA, as well as insufficient consideration of political economy constraints. Similarly, advice on mitigating the social impact of fiscal consolidation was sometimes too generic, not fully accounting for implementation constraints or the importance of sequencing reforms. Other gaps remained, including limited integration of fiscal, monetary, financial, external, and structural policies, insufficient analysis of cross-border spillovers and new fiscal risks from industrial policies and defense spending, and occasional delays in flagging debt and inflation risks.

Furthermore, there is scope to enhance the coverage of structural issues. While the Fund has made useful contributions in the areas of social spending, climate, and gender in line with its own strategies, the multilateral advice often fell short in analyzing the trade-offs and complementarities between fiscal sustainability and long-term objectives, such as inclusive growth and climate resilience. In particular, there was limited discussion of how different types of public investment affect long-term growth, insufficient analytical support for fiscal advice on poverty reduction, education, and social spending—areas that were critical for shaping long-term outcomes—and limited analysis of emerging global spending pressures, such as industrial policies and military spending. Strengthening internal guidance and analytical frameworks, as seen in recent work on social spending,[46] and sharing coverage of topics with other institutions such as the World Bank could help address these gaps.

Bilateral Advice

Overall, the IMF's bilateral fiscal policy advice adapted well to major developments in the global economy and domestic circumstances impacting individual member countries, while facing three broad challenges:

(i) **Scope**. The expanded scope of the Fund's fiscal policy advice, in terms of both the range of issues and the time frame considered, led to inconsistent coverage of fiscal issues over different periods and across countries. Current guidance asks staff to exercise flexibility in prioritizing topics for deeper analysis following a risk-based approach and, when appropriate, drawing on the expertise of other institutions. While this flexible approach avoids box-ticking and overly lengthy fiscal sections in staff reports, it has led to variation in clarity and rigor of the advice on core macro-fiscal questions and their justifications, leading also to perceptions of lack of evenhandedness.

(ii) **Trade-offs**. The depth of analysis for short- to medium-term fiscal issues was generally stronger than that for long-term economic sustainability issues. Clear progress was made in addressing the tradeoff between fiscal sustainability and output stabilization, particularly in AEs and, to a lesser extent, in some EMMIEs. The Fund also adapted its analysis to account for the implications of a prolonged low-interest rate environment, which eased fiscal sustainability constraints and allowed greater space to pursue longer-term priorities. However, there remains scope to strengthen how fiscal sustainability considerations are integrated with longer-term economic sustainability objectives, which became an explicit surveillance priority following the 2021 CSR, in terms of both the trade-offs and the positive synergies involved.

(iii) **Operational and political economy constraints.** Variations in the analytical depth of staff reports across different country groupings were largely determined by data availability and existing research with surveillance in most AEs and larger EMMIEs, benefiting from the wealth of available national analysis and from often larger country teams. While staff reports increasingly covered institutional and political economy challenges, coverage was uneven and it was often unclear to what extent the fiscal advice factored in political economy constraints, leading to perceptions that these were not sufficiently integrated—over half of the authorities surveyed considered that reports still paid insufficient attention to their implementation challenges.

[46] The Fund's social spending strategy's implementation was supported by a staff guidance note (IMF 2024b) and "How-To" technical notes on pensions (IMF 2022b), social safety nets (IMF 2022c), health (Soto and others 2023), and education (Soto and others 2025).

Since the GFC, the IMF's bilateral fiscal policy advice has increasingly focused on countercyclical fiscal measures. Expansionary fiscal policies have been advocated for all income groups during major global downturns and country-specific crises. However, these recommendations were more attuned to economic conditions in AEs compared to EMMIEs and LICs, where concerns over debt sustainability played a larger role and a substantial majority of staff reports for these groups advocated fiscal consolidation from 2010 to 2019.

However, policy advice often lacked clarity, notably on the fiscal stance, and the depth of the analysis varied. Staff reports during the evaluation period often did not clearly articulate the magnitude and direction of the recommended stance, or the rationale underpinning it. In several EMMIEs and LICs, the net effect of proposed measures remained ambiguous, due to data uncertainties as well as limited analytical assessment of their combined fiscal impact. Furthermore, in certain instances, it was unclear whether the reports reflected the actions of the authorities or the staff's advice. When details were provided, they frequently lacked substantial analytical backing, such as references to fiscal multipliers. Despite available Fund research, reports for all three income groups only offered limited guidance to enhance the effectiveness of automatic stabilizers. Nonetheless, by the end of the evaluation period, staff reports became more specific and offered improved analytical support, especially for AEs.

Additionally, there is scope to enhance the policy mix advice between the recommended fiscal stance and other monetary, financial, external, and structural policies and objectives. A notable improvement has been the enhanced articulation of the policy mix between fiscal and monetary policy, including quantification efforts, particularly in AEs. There is however room to enhance the broader interaction of fiscal policy with monetary, exchange rate and macro-prudential and capital flow management measures in the context of an IPF, which would help underpin the Fund's advocacy of countercyclical macroeconomic policies specially for EMMIEs. The Fund has examined the spillover effects of fiscal policy, particularly in major AEs. That said, during the COVID-19 pandemic, the Fund's advice fell short, as it largely avoided commenting on the size of fiscal packages so long as countries moved decisively to expand fiscal support—even when the scale of some packages risked overshooting what was needed.

The IMF consistently emphasized the importance of medium-term fiscal consolidation but often lacked clarity on the recommended composition of the adjustment and rationale of the recommended fiscal targets. Overall, the advice for EMMIEs and LICs centered on medium-term consolidation, while for AEs with available fiscal space, the focus shifted to relaxing medium-term fiscal paths, especially in contexts of weak domestic demand and large external surpluses. Medium-term anchors were usually included but the depth of coverage was uneven, with many reports not providing a clear discussion of the trade-offs among alternative fiscal paths. On the composition of the adjustment, the reliance on expenditure cuts decreased and staff frequently advised a combination of spending and revenue measures. However, in many cases there was limited information on the rationale of the measures chosen, including their impacts on growth, whether they had been shaped by political economy or social considerations, or what potential (more feasible) alternatives could be considered. Presenting a menu of alternative revenue and spending options could help insulate staff from political pressures, improve the quality of policy dialogue, and allow governments to reflect their social preferences more transparently.

While Article IV reports have shown an increased focus on fiscal risks, there is room to enhance the coverage of liquidity risks and to better articulate mitigating strategies. The DSAs have served as a valuable tool to identify risks and have adequately addressed the implications of debt profiles and gross financing needs. However, their application was uneven, particularly in linking baseline advice to identified debt risks, even for countries identified as being at high risk for sovereign stress or debt distress. Moreover, DSAs predominantly concentrated on "above-the-line" aspects, such as the sustainability of deficits under various scenarios, and there is scope to better integrate "below-the-line" considerations, such as assumptions related to the financing of deficits and maturing debt. Fund staff indicated that this oversight stemmed from the macroeconomic background of country teams and signaled the importance of developing new expertise on financing issues. Additionally, while staff reports typically addressed fiscal risks, including through

the RAM, mitigating measures were not consistently articulated and, in cases when they were, there is room to enhance the specificity and prioritization of recommended policy actions.

There is also room for enhancing the coverage of fiscal rules and frameworks. The Fund has significantly stepped up its coverage of fiscal rules and procedures in Article IV reports, more consistently for AEs and, more recently, also for EMMIEs. However, country cases suggest that treatment was uneven and, in some instances, more reactive than proactive. For LICs, coverage remains limited, in part because of capacity constraints and data adequacy issues. Here, there is an opportunity to provide proactive advice, building on Curristine and others (2024), which also covers LIC issues. For all country groups, where TA on fiscal rules and institutions has been provided, its recommendations could be more routinely incorporated in Article IV reviews.

The quality and depth of coverage of longer-term fiscal policy challenges was uneven across topics and countries. Recommendations related to long-term growth typically emphasized the importance of public investment and structural reforms. However, coverage of these issues often lacked depth, including regarding the quantification of the long-term growth impacts of policy recommendations, or the pace and phasing of implementation. Bilateral surveillance increasingly incorporated social spending considerations, though the depth of the discussion varied across reports and, driven by financing constraints, the Fund continued to focus on targeted (means-tested) social spending schemes, unlike the World Bank and other United Nations agencies, which focus on universal social protection, in line with the SDGs. The coverage of fiscal policies supporting climate objectives has expanded significantly, both in multilateral and bilateral advice at the end of the evaluation period following the adoption of the climate strategy in 2021. Similarly, references to fiscal policies aligned with the Fund's gender strategy began to emerge in 2022, though coverage remains limited.

Furthermore, the macroeconomic trade-offs linked to long-term spending and reform priorities were not always clearly articulated. While underscoring the importance of spending on essential public goods, staff reports typically did not provide explicit recommendations on how such initiatives would be financed in a fiscally sustainable way, the trade-offs among them and vis-à-vis fiscal sustainability, and which concrete reforms to prioritize. Staff recognized that these issues were often treated in an "aspirational" way. Particularly in the case of LICs, there was often an unresolved tension between staff's recommendations for fiscal consolidation in the short- to medium-term and their calls for country authorities to address their development objectives over the longer term. As a result, in most cases, the Fund's advice provided limited value added in support of meeting countries' SDGs. At least in part, this reflected the inherent ambition of the SDGs and the substantial costs associated with achieving them; the shortfall in available resources; authorities' preferences often being influenced by electoral cycles; and the need for Fund staff to develop new expertise.

RECOMMENDATIONS

The four proposed recommendations aim to improve the consistency and value added of IMF fiscal advice while preserving the selectivity and flexibility for staff when engaging with the membership. Recommendation 1 would ensure more specific advice on stabilization and the policy mix, with clear explanation of the macroeconomic impact and the trade-offs of the advised policy measures. Recommendation 2 proposes enhanced use and greater country-specific calibration of analytical tools. Recommendations 3 and 4 aim to strengthen advice on fiscal risks, fiscal rules, and debt management and on long-term spending priorities, respectively.

Recommendation 1. Output Stabilization:
The IMF should ensure that staff reports typically include clear and specific advice on the fiscal stance, the macroeconomic impact of the recommended fiscal policy, and the policy mix.

Some suggestions include the following:

- *Fiscal stance.* There should be an expectation for staff reports to include clear and specific advice on the recommended short- to medium-term fiscal stance in the staff appraisal, including the indicators used to assess the stance (e.g., primary or overall balance where structural primary balance is not available), and uncertainty caveats (e.g., growth and fiscal forecasts, fiscal multipliers, and data adequacy).
- *Composition*. Staff reports should typically be explicit about the trade-offs in fiscal policy advice between sustainability and stabilization, including a clear rationale for the staff recommendations (e.g., impact of fiscal measures on growth, costs and benefits of medium-term policy anchors, and why measures were chosen when they appear at odds with Fund strategies or multilateral assessments). To address political economy considerations, the reports could provide alternative revenue and spending options reflecting social preferences and political realities that would still deliver the recommended stance).
- *Policy mix and spillovers.* Where relevant, there should be an articulation of the relationship of the recommended fiscal stance with other monetary, financial, external, and structural policies and objectives. For EMMIEs, better coverage of the interaction of fiscal policy recommendations with monetary and macroprudential policy and debt management strategies is warranted to deliver a more countercyclical stance. Strengthening attention to the role of fiscal policies in shaping inflation and external developments in the WEO and FM would usefully complement the coverage of cross-border spillovers in Article IV reports of systemically important countries and analyses in the External Sector Reports.

Recommendation 2. Analytical Toolkit: The IMF should make more use of existing analytical tools and conduct further research on debt data, liquidity risks, medium-term anchors and paths, and distributional effects.

Some suggestions include the following:

- *Use of existing tools: realism, cyclically adjusted balance, multiplier, "Optimal Fiscal Paths Dashboard," PSIA, and MTDS tools.* Article IV reports should meet the same requirements as those of Fund-supported programs for incorporating realism tools. Additionally, different tools such as FAD's calculations of cyclically adjusted balance, the upcoming country-specific multiplier, the "Optimal Fiscal Paths Dashboard," PSIA, and MTDS should be made more broadly available to country teams to inform the recommended fiscal tightening or stimulus and align medium-term fiscal policy with debt management strategies. The IMF could also investigate how to improve the review process to enhance the consistency of analysis and use of tools.
- *Further research: debt data, liquidity risks, medium-term anchors and paths, and distributional effects.* Given rising debt vulnerabilities, more comprehensive debt databases, including contingent liabilities, are warranted. In particular, the encouraged public sector and external debt indicators introduced in the 10th Review of the IMF's Data Standards Initiatives could help to close these gaps. Liquidity risks remain insufficiently integrated into IMF debt sustainability frameworks, particularly in the LIC context, underscoring the importance of the LIC-DSF review to strengthen the analysis of rollover and market-access risks. Other priority areas include developing approaches for analyzing medium-term fiscal anchors and paths that better articulate the trade-offs with long-term priorities and better assessing the distributional effects of fiscal measures and their feedback loops to the sustainability and credibility of future fiscal adjustments.

Recommendation 3. Fiscal Sustainability: The IMF should enhance the provision of proactive and specific advice on debt and fiscal risks, including debt management and fiscal rules and frameworks.

Some suggestions include the following:

- *Debt and fiscal risks.* DSA findings could be more consistently used to link baseline advice with identified debt risks. Article IV reports could more regularly discuss options to mitigate fiscal risks, including those emerging from off-balance-sheet operations, such as strengthening PFM systems and budget institutions. The IMF could investigate how to improve the review process to ensure more typical coverage of mitigation options, including to address implementation risks. Additionally, multilateral surveillance should mainstream the fiscal risks from emerging global spending pressures, currently including industrial policies and defense.
- *Debt management.* There is scope in Article IV reports to make more reference to the Fund's substantial institutional work and TA advice on institutional aspects of debt management, in response to new creditors and financial instruments. More attention to "below-the-line" aspects (how a deficit—and inherited debt—should be financed) and enhancing the staff's debt financing expertise are also warranted.
- *Fiscal rules and frameworks.* Leveraging on its cross-country and in-house expertise, the Fund could deliver more proactive and specific advice on fiscal frameworks (including the limitations of existing fiscal rules or institutions) and expand its coverage on LICs, to promote the rebuilding of buffers in favorable economic conditions. The use of TA can help overcome capacity constraints and customize the advice.

Recommendation 4. Potential Growth and the Provision of Public Goods: The IMF should strengthen the articulation of trade-offs between competing long-term spending needs and fiscal sustainability, highlighting their effects on long-term growth, debt dynamics, and distributional outcomes. When financing constraints are binding, it should identify the financing gap and propose options to generate fiscal space.

Some suggestions include the following:

- *Trade-offs.* The Fund could more effectively leverage its inter-departmental surveillance meeting to enhance the focus of multilateral surveillance on structural issues and to conduct analysis surpassing what country teams can achieve. This includes examining the likely macro-fiscal impact of long-term spending priorities on growth potential (building on IMF 2025a), debt sustainability, and their distributional effects. Such efforts would subsequently bolster bilateral advice by enabling staff to more explicitly articulate the trade-offs between competing long-term spending needs.
- *Coverage.* In line with the IEO evaluation on *The Evolving Application of the IMF's Mandate* (IEO 2024a), fiscal policy advice related to long-term spending needs would benefit from setting guidelines of frequency and depth of coverage—ranging from signaling to in-depth analysis (e.g., every 3–5 years). For instance, to help LICs achieve the select SDG(s) that they have identified as priorities, the Fund could undertake periodic assessments of the resources required to make meaningful progress toward these objectives, making use of its SDG Financing Tool (see case studies of Cambodia, Mexico, Nigeria, Pakistan, and Rwanda) and present options to create fiscal space.

Budgetary Implications and Enterprise Risk Management

These recommendations address reputational, business, and strategic risks, and may require either resource reallocation or additional resources (Annex 5). Overall, the recommendations if implemented as a package contribute to a more robust and consistent framework for the Fund's fiscal policy advice. Depending on how the recommendations are implemented, either additional resources or reallocation of existing resources are required. Research priorities, such as those suggested in Recommendation 2, should be subject to cost-benefit analysis and available resources. Other elements of Recommendation 2 can be undertaken in the LIC-DSF review and the 10th Review of the IMF's Data Standards Initiatives. Elements of the other recommendations could be taken up in existing workstreams. The 2026 CSR provides a good opportunity to provide strategic guidance on the Fund's macro-fiscal surveillance activities drawing on key elements of Recommendations 1, 3, and 4, such as better explaining the rationale for recommended policies or deepening the discussion of trade-offs of alternative options, financing aspects, and macro-fiscal impact of long-term spending priorities. To mitigate the need for additional resources, the CSR could also clarify which issues should be covered in depth during the (bi)annual Article IV cycle and which should only be signaled or reviewed in detail at specific intervals, as suggested in Recommendation 4. Additionally, it would be useful to unify the currently dispersed guidance across different surveillance decisions and clarify what elements of fiscal policy should typically be covered.

ANNEX 1

FISCAL-RELATED FINDINGS FROM PREVIOUS IEO EVALUATIONS

EVALUATION	FINDINGS
The IMF's Emergency Response to the COVID-19 Pandemic (2023)[1]	The IMF's fiscal advice at the pandemic's outset was appropriate for the circumstances, was clearly communicated, avoided past mistakes, and acknowledged future risks. The IMF also effectively adapted its advice as conditions evolved, gradually shifting toward a less expansionary fiscal policy and rebuilding fiscal space through credible medium-term fiscal frameworks. However, the Fund's advice on "keeping receipts" was initially imprecise, and while staff emphasized that fiscal support should be temporary and targeted, some authorities found the Fund's overall message too broad-brush. This did not always account for different country situations and possibly encouraged excessive fiscal support in countries with inadequate fiscal and governance frameworks.
IMF Engagement with Small Developing States (2022b)[2]	The Fund's fiscal policy advice added considerable value, especially post-2014, including through efforts to enhance fiscal resilience and debt sustainability. Reforms to the debt sustainability assessment methodology provided greater sensitivity to climate-related risks, though there remained limitations in the methodology that remain to be addressed. The effectiveness of IMF work on fiscal issues was handicapped among the small developing states due to their limited capacity to absorb and advance initiatives. Further work by the Fund is needed in the areas of budgeting for natural disaster risks and managing finances in countries with significant sovereign wealth funds and natural resources.
Growth and Adjustment in IMF-Supported Programs (2021)	Analysis of the growth impact of fiscal adjustment in IMF programs was often ad hoc and limited, and greater attention was needed to improving fiscal multiplier assumptions. The Fund made limited progress in raising social spending, especially on education and health care, and was hampered by the limited monitoring of distributional impacts. While fiscal conditionality played a major role in IMF-supported programs, only a small fraction of conditions required permanent institutional change.
IMF Advice on Unconventional Monetary Policies (2019)	The Fund's early preference for an "easy money/tight fiscal" policy mix did not fully consider that monetary policy was nearing its limits, nor did it fully account for the adverse spillovers through exchange rate and capital flow channels. But in the face of sluggish recoveries, the Fund recognized the merits of gradual and growth-friendly fiscal consolidations, based on credible adjustment frameworks.

EVALUATION	FINDINGS
The IMF and Social Protection (2017)	The IMF's approach to social protection was largely through the lens of fiscal policy, which means that budgetary implications and cost-effectiveness are prioritized. The Fund's Poverty and Social Impact Analysis (PSIA) improved its ability to assess the distributional impacts of fiscal policy reforms. Social protection issues were dealt with inconsistently, and greater effort was needed to ensure that recommendations—when viewed as macrocritical—were based on in-depth analysis and aligned with local needs and capacities.
The IMF and the Crises in Greece, Ireland, and Portugal (2016)[3]	IMF's pre-crisis fiscal surveillance in the euro area was largely ineffective, reflecting a belief that external and budget imbalances were not significant and would not lead to a debt crisis in a currency area. Lessons from these programs included the need for realistic public debt sustainability analysis, avoiding excessively procyclical fiscal adjustments, prioritizing expenditure cuts over tax increases, and ensuring well-paced structural fiscal conditionality.
Recurring Issues from a Decade of Evaluation: Lessons for the IMF (2014c)	Program documentation often lacked in-depth justifications for the magnitude and pace of fiscal adjustment that clearly linked fiscal adjustments to realistic assumptions about the recovery of private sector activity and growth.
IMF Response to the Financial and Economic Crisis (2014b)[4]	The IMF's calls for global stimulus in 2008–09 were timely and influential, but its subsequent calls for a shift to consolidation in some of the largest advanced economies was premature, including because of an underestimation of the impact of fiscal multipliers. The IMF faced challenges in effectively integrating fiscal and monetary policies, including by not recognizing sufficiently that monetary expansion is relatively ineffective in boosting private demand following a financial crisis, nor that the policy mix pursued by advanced economies had destabilizing spillover effects on emerging markets, exacerbating volatility in capital flows and exchange rates. The IMF's fiscal policy advice was insufficiently tailored to take account of individual country circumstances and access to financing.
Fiscal Adjustment in IMF-Supported Programs (2013)	Despite progress, discussion and analysis of the pace and magnitude of adjustment was unsatisfactory. Fiscal stances targeted in programs were at times too contractionary, and the arguments justifying the fiscal targets were often not clear. A more thorough analysis of structural reform priorities in the fiscal arena, for example in the context of Article IV surveillance, would enhance the ability of IMF-supported programs to foster more durable improvements to fiscal policy.
IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004–07 (2011)	There were significant gaps in the IMF's surveillance approach, including with the integration of its macroeconomic and financial sector analysis and the integration of its multilateral and bilateral surveillance.

Sources: IEO (2011, 2013, 2014b, 2014c, 2016, 2017, 2019, 2021, 2022b, 2023).

[1] Loungani and others (2023).

[2] Heller (2022).

[3] Kopits (2016).

[4] Dhar (2014).

ANNEX 2

LIST OF BACKGROUND PAPERS

- **IMF Fiscal Policy Advice to Advanced Economies**
  Jérémie Cohen-Setton and Peter Montiel
- **The IMF's Fiscal Policy Advice to Emerging Market and Middle-Income Economies**
  José Antonio Ocampo and Edda Zoli
- **The IMF's Fiscal Policy Advice to Low-Income Countries**
  Anthony De Lannoy and Chris Lane
- **IMF Advice on Fiscal Policy—Selected Issues**
  - IMF Tools and Analysis Underpinning Fiscal Policy Advice, 2008–23
    Jérémie Cohen-Setton, Peter Montiel, and Edda Zoli
  - The IMF's Advice on Fiscal Rules and Institutions
    Barry Eichengreen and Poonam Gupta
  - The IMF's Advice on Public Debt Management
    Barry Eichengreen and Edda Zoli
  - Military Spending in IMF Fiscal Policy Advice
    Sanjeev Gupta
- **Reading the Fund: A Systematic Analysis of IMF Fiscal Advice Using Large Language Models**
  Jantsankhorloo Amgalan, Jérémie Cohen-Setton, and Anton Korinek

ANNEX 3

KEY POLICY REVIEWS AND GUIDANCE NOTES THAT DETERMINED THE PERIMETER OF THE FUND'S FISCAL POLICY ADVICE[1]

Regular reviews of IMF surveillance are typically used to define shifts in the focus of Fund surveillance over fiscal (and other) policies. These reviews draw lessons from recent experience and define in broad terms the themes for surveillance in coming years. These themes are then operationalized in the form of a guidance note, which defines specifically the issues and manner in which staff teams provide their advice on fiscal and other policies.

The 2008 Triennial Surveillance Review (TSR) was issued following the 2007 Bilateral Surveillance Decision, in the midst of the Global Financial Crisis (GFC) but also as the Fund was downsizing. Accordingly, it emphasized both the need to improve the focus of surveillance, but also to improve its ability to identify emerging risks. In line with the global focus on threats to financial stability sector issues at that time, the 2009 Bilateral Surveillance Guidance Note that followed included only passing reference to the specifics of fiscal policy advice. However, a significant new development was presentation of debt sustainability analyses, using tools that had been developed in recent years.

The 2011 TSR continued to emphasize the importance of risk assessment but also the need to take account of cross-border spillovers. However, the TSR did not call for significant shifts in the Fund's fiscal policy advice, nor were fiscal issues dealt with in detail in the 2012 Guidance Note for Article IV Consultations.

The 2014 TSR introduced a substantive shift in the Fund's approach to its fiscal policy advice. In response to the sluggish recovery from the GFC and rapid increases in public debt, the follow-up Action Plan called for fiscal policy advice that "articulates more clearly the balance of growth and sustainability considerations," framed within an explicit fiscal anchor. These principles were codified in the 2015 Guidance Note for Surveillance under Article IV Consultation, which gave detailed instructions to surveillance teams on how these issues should be dealt with. In 2016, the Fund also introduced the Fiscal Space Framework (FSF) to help assess whether countries had room to promote growth without jeopardizing longer-run debt sustainability. The FSF was further updated in 2018.

Although the subsequent surveillance review was delayed owing to the pandemic, the scope of IMF fiscal policy advice broadened as Fund activities extended into newer policy areas. In support of the UN's SDGs, the Fund's work on social spending programs had scaled up, and the 2019 Social Spending Strategy formalized work on their effectiveness and implications for fiscal sustainability. The 2021 Climate Strategy reiterated that macroeconomically relevant climate aspects of fiscal policies will always be the subject of the Fund's bilateral surveillance. The 2022 Surveillance Guidance Note then clarified the coverage, including aspects such as relevant

[1] Based on IMF (2008b, 2009b, 2011b, 2012a, 2014a, 2015a, 2016b, 2018c, 2021a, 2021e, 2022a, 2022d) and staff interviews.

trade-offs among broader policy objectives, including those related to climate, the financing needs to address climate-related issues, fiscal policy advice on ways to fill any financing gaps and, when relevant, policies to minimize the impact on vulnerable populations. The 2022 Gender Strategy similarly expanded the scope of IMF surveillance to call for granular and tailored advice in the IMF's areas of expertise (including fiscal policies) to address gender gaps and promote women's economic empowerment, where these issues were seen as macro-critical. If recommended or implemented measures widen gender disparities or lead to other adverse distributional effects, a comprehensive policy package should include an assessment of the gender or distributional impact of these policies and mitigating measures (such as social spending) targeting the most vulnerable.

The fiscal implications of these new themes were further reinforced in the 2021 Comprehensive Surveillance Review (CSR). In this context, the CSR emphasized the need for the Fund's fiscal policy advice to take greater account of its implications for potential growth and growth-supporting structural reforms and consider other new issues including inequality and demographics. The accompanying 2022 Guidance Note for Surveillance under Article IV Consultations integrated these themes and confirmed the earlier requirement of an assessment of fiscal space.

Over time, these successive surveillance decisions, reviews, and guidance notes have widened the perimeter, both in terms of range of issues and the time horizon, of what the Fund's fiscal policy advice could cover. Where relevant, fiscal policy advice is expected to reflect on:

- The fiscal policy stance (expansionary, neutral, or contractionary) along the cycle (procyclical or countercyclical), with a discussion of its appropriateness.
- The impact of fiscal policy on growth and the role of multipliers.
- The role of automatic stabilizers and discretionary measures.
- Fiscal space.
- The composition of expenditures and revenues.
- Financing needs, accounting notably for the fiscal position, debt service, market access, and risks.
- Fiscal sustainability, informed by a public debt sustainability analysis.
- Fiscal risks, including contingent liabilities from public sector enterprises.
- Spillovers.
- Political and social developments, where relevant, for the analysis of fiscal policies.
- Structural issues related to economic sustainability and their impact on fiscal policy advice, including (but not limited to) social spending (particularly when poorly targeted, inefficiently managed, or underfunded), climate change, and gender (particularly when fiscal policy negatively impacts gender equity).
- The implementation of past fiscal policy advice given and in case the authorities did not follow past advice, the reasons why they did not.

In addition, fiscal policy advice should be guided by the following principles:

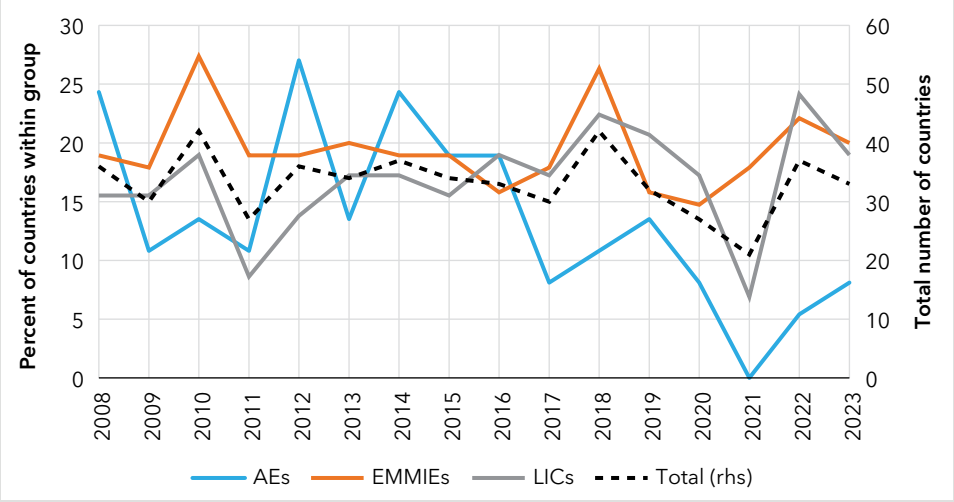
- Be candid, both in discussions with the authorities and in staff reports.
- Be tailored to country-specific circumstances.
- Be clear and as specific as possible, providing a clear bottom line on the state of public finances and fiscal policies, and policy advice.
- Be timely.
- Be articulated around a clear, well-justified anchor.
- Determine the size and pace of proposed fiscal measures.
- Focus on stability.
- Foster economic sustainability.
- Consider political economy considerations.
- Consider operational and implementation constraints.
- Draw from lessons from other countries and/or cross-regional policy-relevant issues.
- Be evenhanded.

ANNEX 4

FAD SUPPORT TO SURVEILLANCE AND REVIEW

In addition to TA, FAD provides highly valuable bilateral surveillance and review of fiscal policy issues, especially for EMMIEs and LICs. FAD participation in Article IV mission was sustained during 2008–23. Around a fifth of Article IV missions to EMMIEs have benefited from FAD expertise since 2008 on average, and only slightly less for LICs (Figure A4.1). FAD participation in missions to AEs with high fiscal risks was also relatively high, approaching 15 percent of countries in that grouping, on average (Figure A4.2). In contrast, FAD review coverage has trended down during 2008–23 on average (Figure A4.3), though remaining focused on LICs and on higher-risk AEs and EMMIEs (Figure A4.4).

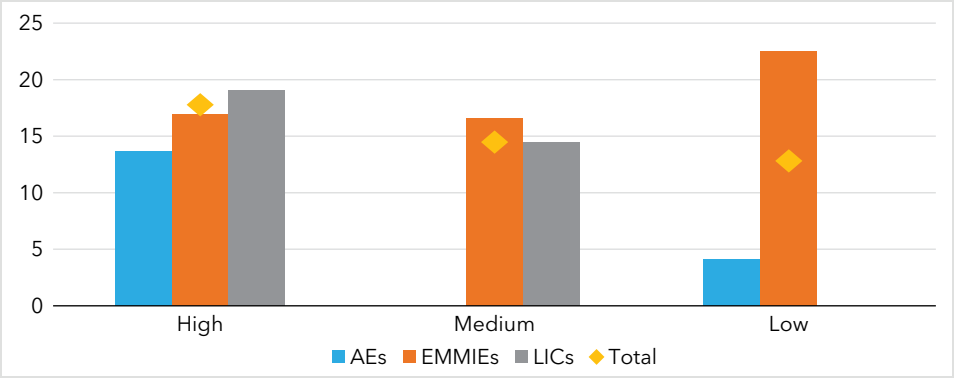
FIGURE A4.1. ARTICLE IV MISSIONS WITH FAD PARTICIPATION, 2008–23



Sources: FAD data; IEO calculations.

FIGURE A4.2. ARTICLE IV MISSIONS WITH FAD PARTICIPATION BY VULNERABILITY EXERCISE FISCAL RISK LEVEL AND INCOME GROUP, FY2020–23

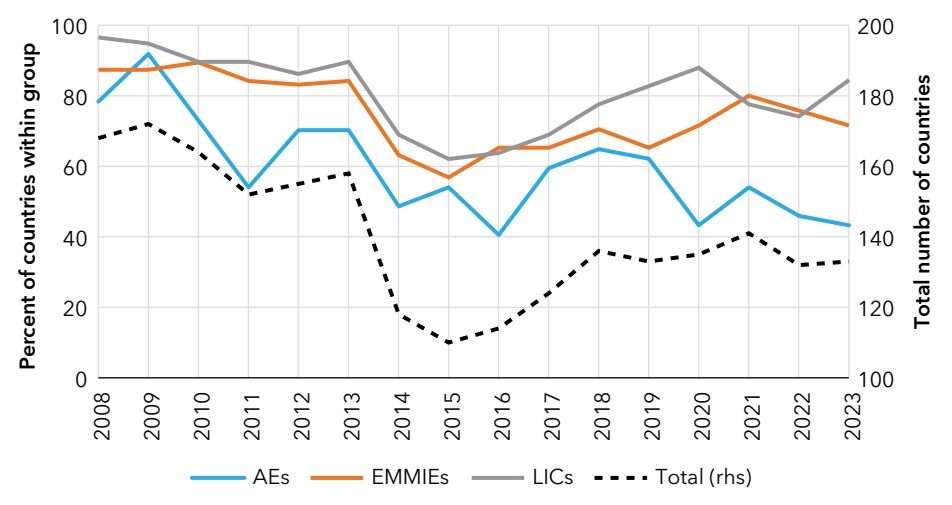
(Percent of countries within group)



Sources: FAD, Vulnerability Exercise (VE) data; IEO calculations.

Note: No observations with medium VE fiscal risk among advanced economies and low VE fiscal risk among low-income countries.

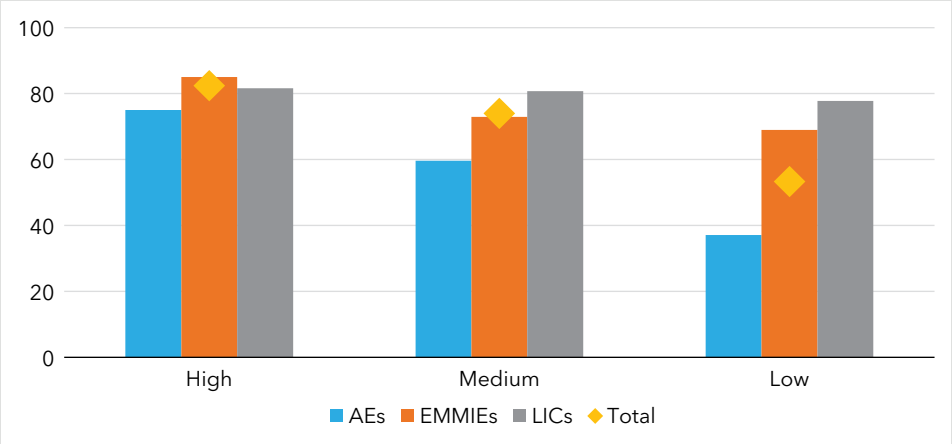
FIGURE A4.3. COUNTRIES REVIEWED BY FAD, 2008–23



Sources: FAD data; IEO calculations.

FIGURE A4.4. COUNTRIES REVIEWED BY FAD BY VULNERABILITY EXERCISE FISCAL RISK LEVEL AND INCOME GROUP, FY2020–23

(Percent of countries within group)



Sources: FAD, VE data; IEO calculations.

ANNEX 5

ENTERPRISE RISK ASSESSMENT

RISKS TO THE IMF WITHOUT THE PROPOSED POLICY CHANGES

Overall, the IMF's bilateral fiscal policy advice and its overarching fiscal messages within the framework of multilateral surveillance have effectively adapted to the evolving global economic landscape from 2008 to 2023. The Fund transitioned from a pre-GFC approach that primarily focused on fiscal sustainability to a more multidimensional strategy that places greater emphasis on output stabilization over economic cycles, potential output, and the provision of public goods. As member countries confronted various challenges—including aging populations, climate change, social inequalities, and, more recently, geopolitical shifts—the Fund's fiscal policy advice had to navigate complex trade-offs among competing and increasingly diverse priorities. Throughout this evolution, the Fund successfully preserved intellectual coherence. However, the shift to a more multidimensional fiscal perspective introduced additional complexity to its recommendations.

Assessment

Over time, successive surveillance decisions, reviews, and guidance notes have widened the perimeter, both in terms of range of issues and the time horizon, of what the IMF's fiscal policy advice could cover (Annex 3). The existing guidance mitigates a checkbox approach and provides mission chiefs with considerable flexibility to determine which fiscal topics are most relevant, taking into account country-specific circumstances and the fiscal goals established by the authorities. However, the range and depth of fiscal topics that country teams can address during (bi)annual Article IV consultations is also limited by the resources and expertise available within area and functional departments, the availability and accessibility of data and information, and word count restrictions for staff reports. This led to four key challenges that posed reputational risks and affected the credibility of the Fund's fiscal policy advice:

- **Inconsistent coverage of fiscal issues**: There was a lack of uniformity in the coverage of core macro-fiscal issues across member countries and over time. Various staff reports did not consistently cover the macro-fiscal topics, such as the fiscal stance, the pace and scale of adjustments, or offer rationales for the medium-term anchor.
- **Varied depth of coverage and analysis of trade-offs**: The depth of analysis for short- to medium-term fiscal issues—aligned with the Fund's traditional stabilizing mandate—was generally stronger than that for long-term economic sustainability issues. Discussions around trade-offs were particularly inconsistent, limiting the relevance and value of the Fund's advice on long-term sustainability challenges, including climate change and the SDGs.
- **Inconsistent justifications**: The justifications of fiscal policy recommendations in staff reports varied across member countries and over time.

- **Perceptions of lack of uniformity of treatment**: The differences in covered fiscal topics, the extent of that coverage, how political economy considerations were taken into account, and the justification of fiscal policy recommendations contributed to perceptions of a lack of evenhandedness in the Fund's approach.

Risk Mitigation

The four recommendations address three level-1 risks, namely, reputational risks, business risks, and strategic risks associated with the status quo (Table A5.1).

Recommendation 1 mitigates reputational and business risks. It aims to enhance the relevance, consistency, and country-specificity of the Fund's fiscal policy advice. Offering clear and specific recommendations regarding the short- to medium-term fiscal stance, along with consistent justifications, discussing trade-offs, and more effectively integrating bilateral and multilateral advice, would strengthen the credibility and added value of the Fund's fiscal policy advice.

Recommendation 2 mitigates reputational and business risks. It seeks to better underpin fiscal policy recommendations—and enhance their analytical accuracy and credibility—through a more consistent and tailored application of existing tools and conducting further research on critical aspects of fiscal policy relevant to the Fund's membership.

Recommendation 3 mitigates business and strategic risks. More consistently using DSA findings to link baseline advice with identified debt risks; offering timely, specific, and tailored advice on fiscal frameworks; and improving debt data while addressing institutional aspects would significantly strengthen the analytical accuracy and utility of the Fund's recommendations.

TABLE A5.1. RISKS TO THE FUND *WITHOUT* THE PROPOSED RECOMMENDATIONS

RISK NAME AND DESCRIPTION	RISK TIMEFRAME	LIKELIHOOD	IMPACT	RATING
Reputational Risks: Inconsistent coverage of fiscal policy issues, inconsistent justifications underpinning fiscal policy recommendations, varied depth of coverage and trade-offs, reducing the consistency, credibility, and value of fiscal policy advice, and leading to perceptions of lack of evenhandedness. **Risk treatment: Recommendations 1 and 2**	Current (0–1 yrs)	Likely	Somewhat major	Major
Business Risk: Inconsistent coverage of fiscal policy issues, inconsistent justifications underpinning fiscal policy recommendations, varied depth of coverage and trade-offs, reducing the consistency, credibility, and value of fiscal policy advice. **Risk treatment: Recommendations 1, 2, 3, and 4**	Current (0–1 yrs)	Likely	Somewhat major	Major
Strategic Risk: Inconsistent coverage of fiscal policy issues, inconsistent justifications underpinning fiscal policy recommendations, varied depth of coverage and trade-offs, reducing the consistency, credibility, and value of fiscal policy advice. **Risk treatment: Recommendations 3 and 4**	Current (0–1 yrs)	Likely	Somewhat major	Major

Recommendation 4 mitigates business and strategic risks. It seeks to bridge the expectation gap between the Fund's articulated fiscal policy objectives concerning long-term economic sustainability and its actual implementation of these objectives. By clarifying the trade-offs between funding long-term spending needs and upholding fiscal sustainability, the relevance of the Fund's recommendations for policymakers would be enhanced, as would their alignment with the high-level messages conveyed by the Fund in its multilateral surveillance.

RISKS ASSOCIATED WITH IMPLEMENTING THE RECOMMENDATIONS

Implementing the IEO recommendations would require managing budget, human capital, and process risks (Table A5.2). Depending on how the recommendations are implemented, either additional resources or a reallocation of existing resources is required. However, the need for additional resources may be mitigated by clarifying which elements of fiscal policy advice should normally be covered in depth during (bi)annual Article IV consultations and which should only be signaled or reviewed in detail at specific intervals. For example, fiscal policy guidance concerning long-term issues such as climate change or the SDGs could be reviewed comprehensively every three to five years, possibly through a Selected Issues Paper, instead of in every Article IV report.

RESIDUAL RISKS

The IMF must maintain a careful balance between offering comprehensive guidance on what fiscal policy advice should typically cover—aimed at ensuring consistency across member countries and over time—and allowing mission chiefs the flexibility to focus on fiscal topics they consider most pertinent based on the unique circumstances of each country and the fiscal objectives set by their authorities. Furthermore, providing fiscal policy advice will always involve a degree of judgment, including considerations regarding the impact of the advice and the operational and political economy constraints that may apply. Consequently, the Fund will continue to encounter reputational risks related to the consistency in its coverage of fiscal policy issues and the uniformity of treatment of its members. Furthermore, failure to (re)allocate the required resources to implement the recommendations and consider tradeoffs in terms of depth and frequency of coverage of fiscal policy issues would result in business and reputational risks.

TABLE A5.2. RISKS ASSOCIATED *WITH* IMPLEMENTING THE PROPOSED RECOMMENDATIONS

RISK NAME AND DESCRIPTION	RISK TIMEFRAME	LIKELIHOOD	IMPACT	RATING
Reputational Risks: Increased workload for Area Departments, FAD, RES, SPR. Failure to (re)allocate the required resources to implement the recommendations and consider tradeoffs in terms of depth and frequency of coverage of fiscal policy issues would result in reputational risks.	Emerging (1–3 yrs)	Possible	Moderate	Moderate
Business Risk: Increased workload for Area Departments, FAD, RES, SPR. Failure to (re)allocate the required resources to implement the recommendations and consider tradeoffs in terms of depth and frequency of coverage of fiscal policy issues would result in business risks.	Emerging (1–3 yrs)	Possible	Moderate	Moderate

ONLINE APPENDIXES

I. METHODOLOGICAL AND STATISTICAL ONLINE APPENDIX

The Methodological and Statistical Online Appendix provides information on the evaluation methodology and the collected data. Section I offers a discussion of the evaluation methodology and sources of evidence, including literature reviews, desk reviews, the use of Large Language Models (LLMs), interviews, surveys, and data analysis. It also describes the multi-level evaluation review process. Sections II and III present results from the Authorities and Mission Chiefs surveys, respectively. Section IV presents granular data from a desk review of over 200 Article IV reports, covering a sample of 35 focus countries and two currency unions across three time periods: 2009–10, 2014–15, and 2022–23.

II. READING THE FUND ONLINE APPENDIX

The Reading the Fund Online Appendix provides supplementary material for Background Paper BP/25-01/05, "Reading the Fund: A Systematic Analysis of IMF Fiscal Advice Using Large Language Models." It presents robustness analyses using alternative indicators of macroeconomic stabilization needs and fiscal sustainability. It also provides full documentation of the LLM-based classification, data construction, and baseline results obtained when using the classification from a single LLM model (rather than the one obtained from majority-voting) and from alternative WEO vintages. The Appendix also details the ordered logit estimation framework, including diagnostic tests, and reports the complete set of regression tables referenced in the main text.

These Online Appendixes are available at the IEO's website: IEO.IMF.org.

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STATEMENT BY THE MANAGING DIRECTOR

ON THE INDEPENDENT EVALUATION OFFICE REPORT ON IMF ADVICE ON FISCAL POLICY EXECUTIVE BOARD MEETING, DECEMBER 4, 2025

I welcome the IEO's evaluation as an opportunity to enhance the IMF's fiscal policy advice. The report provides a wide-ranging review of the evolution of our fiscal policy advice over the 2008– 2023 period, documenting the shift towards greater active fiscal policy for both short-run stabilization and long-term goals. The evaluation highlights the greater complexity of this more multi-dimensional approach and the importance of articulating trade-offs amid competing objectives. I largely agree with the evaluation and its generally positive assessment of the Fund's fiscal policy advice. Implementation of the IEO's recommendations will be developed in the Management Implementation Plan (MIP), which will be guided by the Fund's surveillance principles of macro-criticality, selectivity, and providing tailored policy advice to address our members' unique challenges. We will also take a holistic approach in our response, incorporating findings and recommendations from the upcoming 2026 Comprehensive Surveillance Review (CSR), the Review of Program Design and Conditionality (ROC), and other institutional reviews, for which this IEO report will be an important input. The MIP will also prioritize and sequence our response to the IEO's recommendations, leveraging existing workstreams to the extent possible, and considering resource requirements and the risks associated with non-implementation.

FINDINGS

I welcome the IEO's generally positive assessment of the Fund's recent fiscal policy advice, marked by exceptional circumstances including the Global Financial Crisis and the global pandemic. These times required immediate policy responses, which were further complicated by the changing relationship between monetary and fiscal policies. I should also caution that this experience may not always be the best basis to guide policies in "normal" times. We may face new and evolving challenges, which may require a different response, a perspective reflected in ongoing institutional reviews. These caveats aside, I am confident that the IEO's findings offer valuable guidance for these future challenges.

While the IEO's evaluation is broad, it did not examine the full range of our fiscal policy advice, which we communicate through a number of channels. Given its focus on surveillance, the evaluation placed less emphasis on advice in Fund-supported programs through capacity development (CD) and research. These regularly include country-specific guidance on the fiscal stance, tax policy, revenue administration, expenditure policy, and issues of public financial management. Also, the Fund's broader thematic analytical work has provided detailed advice on the VAT and other aspects of tax policy, energy subsidy reform, and spending pressures, among others.

RECOMMENDATIONS

I broadly support the report's key recommendations, albeit with some qualifications regarding specific suggestions to ensure that our advice remains consistent with the Fund's mandate, expertise, surveillance principles to tailor our policy advice to our members' needs, and appropriately prioritized given institutional budget constraints.

Below is my proposed response to each of the IEO's four recommendations.

Recommendation 1. Output Stabilization: The IMF should ensure that staff reports typically include clear and specific advice on the fiscal stance, the macroeconomic impact of the recommended fiscal policy, and the policy mix.

Recommendation 1: Specific Suggestions

- **Fiscal stance.** There should be an expectation for staff reports to include clear and specific advice on the recommended short- to medium-term fiscal stance in the staff appraisal, including the indicators used to assess the stance (e.g., primary or overall balance where structural primary balance is not available), and uncertainty caveats (e.g., growth and fiscal forecasts, fiscal multipliers, and data adequacy).
- **Composition.** Staff reports should typically be explicit about the trade-offs in fiscal policy advice between sustainability and stabilization, including a clear rationale for the staff recommendations (e.g., impact of fiscal measures on growth, costs and benefits of medium-term policy anchors, and why measures were chosen when they appear at odds with Fund strategies or multilateral assessments). To address political economy considerations, the reports could provide alternative revenue and spending options reflecting social preferences and political realities that would still deliver the recommended stance.
- **Policy mix and spillovers.** Where relevant, there should be an articulation of the relationship of the recommended fiscal stance with other monetary, financial, external, and structural policies and objectives. For EMMIEs, better coverage of the interaction of fiscal policy recommendations with monetary and macroprudential policy and debt management strategies is warranted to deliver a more countercyclical stance. Strengthening attention to the role of fiscal policies in shaping inflation and external developments in the WEO and FM would usefully complement the coverage of cross-border spillovers in Article IV reports of systemically important countries and analyses in the External Sector Reports.

I support this recommendation. I believe that most Article IV staff reports meet this requirement, per our Surveillance Guidance Note. However, given the IEO's concerns, it is important to ensure that this requirement is met consistently. Staff reports should present the authorities' fiscal plans together with the staff's assessment of the plans. That said, implementation of this recommendation may need to reflect cross-country differences, including data limitations in emerging markets and in low-income countries (LICs).

Debt and financing considerations are often binding, and many LICs and fragile and conflict-affected states may not have much space for countercyclical fiscal stimulus. For countries with high debt and where market access is in question, the notion of a trade-off between fiscal sustainability and output stabilization may not be helpful, as the latter will not be possible without the former. And, while it might be helpful in some cases to present a menu of policy options taking account of political feasibility, these should always remain firmly anchored in their economic merits to promote present and prospective domestic and balance of payments stability.

Finally, I agree with the need to continue improving our analysis of the policy mix and fiscal spillovers, including on inflation and external developments, in Article IV and flagship reports. The upcoming External Balance Assessment Review and the 2026 CSR will further detail these aspects.

Recommendation 2. Analytical Toolkit: The IMF should make more use of existing analytical tools and conduct further research on debt data, liquidity risks, medium-term anchors and paths, and distributional effects.

Recommendation 2: Specific Suggestions

- **Use of existing tools: realism, cyclically adjusted balance, multiplier, "Optimal Fiscal Paths Dashboard," PSIA, and MTDS tools.** Article IV reports should meet the same requirements as those of Fund-supported programs for incorporating realism tools.

  Additionally, different tools such as FAD's calculations of cyclically adjusted balance, the upcoming country-specific multiplier, the "Optimal Fiscal Paths Dashboard," PSIA, and MTDS should be made more broadly available to country teams to inform the recommended fiscal tightening or stimulus and align medium-term fiscal policy with debt management strategies. The IMF could also investigate how to improve the review process to enhance the consistency of analysis and use of tools.

- **Further research: debt data, liquidity risks, medium-term anchors and paths, and distributional effects.** Given rising debt vulnerabilities, more comprehensive debt databases, including contingent liabilities, are warranted. In particular, the encouraged public sector and external debt indicators introduced in the 10th Review of the IMF's Data Standards Initiatives could help to close these gaps. Liquidity risks remain insufficiently integrated into IMF debt sustainability frameworks, particularly in the LIC context, underscoring the importance of the LIC-DSF review to strengthen the analysis of rollover and market-access risks. Other priority areas include developing approaches for analyzing medium-term fiscal anchors and paths that better articulate the trade-offs with long-term priorities and better assessing the distributional effects of fiscal measures and their feedback loops to the sustainability and credibility of future fiscal adjustments.

I support this recommendation. First, I agree with the need for country teams to make greater use of the Fund's existing analytical toolkit, but we need to look at ways to encourage further take-up. However, while analytical tools can inform economists' judgment they should not replace it. We should avoid taking an overly mechanical approach when giving policy advice. Article IV reports themselves should focus more on the policy discussions, with technical details, if needed, included in the annexes.

Second, the IEO's proposed agenda for our policy research is welcome, but some elements may be challenging to implement. For instance, producing more comprehensive debt databases, including contingent liabilities, is often difficult due to data availability and confidentiality issues and the considerable costs involved in accessing alternative sources.

Third, better assessing the distributional effects of fiscal measures will need to be subject to cost- benefit analysis, given their significant resource implications. These aspects will also be articulated more comprehensively in the upcoming CSR. I also note the significant advances we have already made in analyzing liquidity risks raised in this recommendation. The Sovereign Risk and Debt Sustainability Analysis for Market Access Countries and the Debt Sustainability Framework for Low-Income Countries now include stronger treatment of liquidity risks and contingent liabilities, more robust data requirements, and more granular analyses of domestic debt, contingent liabilities, and rollover risks.

Recommendation 3. Fiscal Sustainability: The IMF should enhance the provision of proactive and specific advice on debt and fiscal risks, including debt management and fiscal rules and frameworks.

Recommendation 3: Specific Suggestions

- **Debt and fiscal risks.** DSA findings could be more consistently used to link baseline advice with identified debt risks. Article IV reports could more regularly discuss options to mitigate fiscal risks, including those emerging from off-balance-sheet operations, such as strengthening PFM systems and budget institutions. The IMF could investigate how to improve the review process to ensure more typical coverage of mitigation options, including to address implementation risks. Additionally, multilateral surveillance should mainstream the fiscal risks from emerging global spending pressures, currently including industrial policies and defense.
- **Debt management.** There is scope in Article IV reports to make more reference to the Fund's substantial institutional work and TA advice on institutional aspects of debt management, in response to new creditors and financial instruments. More attention to "below-the-line" aspects (how a deficit—and inherited debt—should be financed) and enhancing the staff's debt financing expertise are also warranted.
- **Fiscal rules and frameworks.** Leveraging on its cross-country and in-house expertise, the Fund could deliver more proactive and specific advice on fiscal frameworks (including the limitations of existing fiscal rules or institutions) and expand its coverage on LICs, to promote the rebuilding of buffers in favorable economic conditions. The use of TA can help overcome capacity constraints and customize the advice.

I support this recommendation, with some qualifications. It is important to link DSA findings to our baseline policy advice in staff reports. I also agree with the need to identify and mitigate fiscal risks, including recommending preemptive measures and contingency planning. However, the analysis of fiscal risks—together with reforms to strengthen PFM systems and budget institutions, and the development of Medium-Term Fiscal Frameworks and their alignment with the budget process—features quite regularly in our Fund-supported programs and in our CD. I also see visible progress towards addressing fiscal risks in our surveillance. We have developed a suite of tools for assessing countries' fiscal risks, supported by global risk scenarios and work in our flagships (e.g., Growth-at-Risk, Debt-at-Risk). We are also examining fiscal risks from emerging global spending pressures, including through multilateral surveillance.

I endorse the recommendation for Article IV reports to pay more attention to questions of how deficits and debts are financed, in cases where this is a concern. Developing further staff's expertise in debt financing should also be considered but doing so would have resource implications.

Concerning fiscal rules, there has been a significant increase in their adoption in recent years (IMF 2025).[1] The Fund has published detailed guidance on the selection and calibration of fiscal rules, regular working papers, and discussion notes, and maintains and updates a dataset on fiscal rules and fiscal councils, which is used widely. While the topic of fiscal rules may not feature in every Article IV report, the Fund has provided detailed advice on fiscal rules through CD to many of our members and has helped in their implementation, including drafting of legislation and recommendations for establishing fiscal councils. While fiscal rules clearly have benefits, I should stress that the decision to implement them is a prerogative of a member state, and their effectiveness ultimately depends on societal consensus on the country's public finances. Our role is to engage with authorities to advise and help them strengthen their public finance management and medium-term fiscal frameworks, which may include fiscal rules, if appropriate for the member and subject to the Fund's resource constraints.

[1] Acalin, Julien, Virginia Alonso, Clara Arroyo, Raphael Lam, Leonardo Martinez, Anh Dinh Minh Nguyen, and others. 2025. "Fiscal Guardrails against Rising Debt and Looming Spending Pressures." IMF Staff Discussion Note, SDN/2025/004, International Monetary Fund.

Recommendation 4. Potential Growth and the Provision of Public Goods: The IMF should strengthen the articulation of trade-offs between competing long-term spending needs and fiscal sustainability, highlighting their effects on long-term growth, debt dynamics, and distributional outcomes. When financing constraints are binding, it should identify the financing gap and propose options to generate fiscal space.

Recommendation 4: Specific Suggestions

- **Trade-offs.** The Fund could more effectively leverage its inter-departmental surveillance meeting to enhance the focus of multilateral surveillance on structural issues and to conduct analysis surpassing what country teams can achieve. This includes examining the likely macro-fiscal impact of long-term spending priorities on growth potential (building on IMF 2025c), debt sustainability, and their distributional effects. Such efforts would subsequently bolster bilateral advice by enabling staff to more explicitly articulate the trade-offs between competing long-term spending needs.
- **Coverage.** In line with the IEO evaluation on The Evolving Application of the IMF's Mandate (IEO 2024a), fiscal policy advice related to long-term spending needs would benefit from setting guidelines of frequency and depth of coverage—ranging from signaling to in-depth analysis (e.g., every 3–5 years). For instance, to help LICs achieve the select SDG(s) that they have identified as priorities, the Fund could undertake periodic assessments of the resources required to make meaningful progress toward these objectives, making use of its SDG Financing Tool (see case studies of Cambodia, Mexico, Nigeria, Pakistan, and Rwanda) and present options to create fiscal space.

I support this recommendation, with some qualifications. I agree with the importance of articulating these long-run trade-offs, but I should also note constraints faced by our members and Fund staff.

First, our multilateral surveillance regularly focuses on long-term spending pressures and their implications for growth and debt sustainability. Our existing work has also shown that well-designed redistribution policies can support both inclusion and economic performance. I agree that increased provision of public goods should boost growth and that this effect should be considered in the Fund's policy advice, but it is unlikely that this aspect on its own would be sufficient to make debt more sustainable. I should also note that estimating the growth and distributional implications of long-term spending pressures, such as defense, energy security, digitalization, or healthcare, would require support from RES and FAD to area departments and has substantial resource implications that would need to be considered.

Second, I note that in our bilateral surveillance, the depth and frequency of coverage of such long-term topics follow the principles of macro-criticality and selectivity. However, given the IEO's concerns, it is important that we provide more precision on these aspects. Our ongoing CSR will aim at further clarifying the operational application of the macro-criticality criteria, while preserving flexibility in the depth and breadth of coverage, in line with the 2012 Integrated Surveillance Decision.

Finally, I should note that many long-term spending needs (such as meeting the SDGs) overlap with development issues and fall outside the Fund's direct mandate. The Fund's role is to analyze their fiscal and macroeconomic implications. While our tools can provide broad estimates, the Fund lacks the expertise to conduct detailed costing and financing assessments. In such cases, we need to rely on the work of our partner organizations, with whom we have collaborated extensively on developmental and structural issues.

RECOMMENDATION	POSITION
Recommendation 1: The IMF should ensure that staff reports typically include clear and specific advice on the fiscal stance, the macroeconomic impact of the recommended fiscal policy, and the policy mix.	Support
Recommendation 2: The IMF should make more use of existing analytical tools and conduct further research on debt data, liquidity risks, medium-term anchors and paths, and distributional effects.	Support
Recommendation 3: The IMF should enhance the provision of proactive and specific advice on debt and fiscal risks, including debt management and fiscal rules and frameworks.	Qualified Support
Recommendation 4: The IMF should strengthen the articulation of trade-offs between competing long-term spending needs and fiscal sustainability, highlighting their effects on long-term growth, debt dynamics, and distributional outcomes. When financing constraints are binding, it should identify the financing gap and propose options to generate fiscal space.	Qualified Support

THE CHAIR'S SUMMING UP

INDEPENDENT EVALUATION OFFICE–IMF ADVICE ON FISCAL POLICY EXECUTIVE BOARD MEETING 25/100, DECEMBER 4, 2025

Executive Directors welcomed the IEO's report covering fiscal advice provided as part of the Fund's surveillance responsibility during the 2008–23 period that was marked by exceptional circumstances, including the Global Financial Crisis and the global pandemic. They noted that the shift experienced in this period toward greater fiscal activism for both short-run stabilization and long-term goals increased the need for clearer articulation of trade-offs amid competing objectives. Against this background, Directors welcomed the generally positive assessment of the Fund's recent fiscal policy advice and looked forward to the implementation of the IEO's key recommendations.

Directors broadly supported Recommendation 1 to typically include in bilateral surveillance clear, specific, and well-communicated advice on the fiscal stance, the macroeconomic impact of the recommended fiscal policy, the policy mix, and spillovers, while ensuring the Fund's role as a trusted advisor. Directors agreed on the importance of consistency and evenhandedness in providing tailored advice, including to emerging and low-income countries, taking due account of data limitations and binding debt and financing considerations. Directors also generally noted the importance of considering elements of political economy and capacity constraints to increase traction of Fund advice, presenting where appropriate for the authorities' consideration a menu of sound policy options, including in the critical area of domestic revenue mobilization. Pointing to the elevated debt levels in many countries, a number of Directors stressed the need for greater focus of the Fund's advice on fiscal sustainability. Some Directors also underscored the importance of better integration of advice on fiscal policy and external and exchange rate policies.

Directors supported Recommendation 2 to make more use of existing analytical tools and conduct further research on debt data, liquidity risks, medium-term anchors and paths, and distributional effects. While agreeing on the need to find ways to increase staff take-up of existing tools, including realism tools, properly calibrated multipliers, and scenario analysis, they also stressed that these should inform rather than replace economists' judgment. Directors underscored the importance of continuously assessing and aiming to enhance data availability, supported by technical assistance. They welcomed the IEO's acknowledgement that research priorities should also be guided by cost-benefit and budget considerations. Directors also noted the significant advances already made in analyzing liquidity risks.

Directors supported, some of them with some qualifications, Recommendation 3 to enhance the provision of proactive and specific advice on debt and fiscal risks, debt management, and institutional frameworks, including fiscal rules. They stressed the importance of linking findings from debt sustainability analysis to the baseline policy advice, identifying and

mitigating fiscal risks, including through preemptive measures and contingency planning, making more reference to the Fund's work on debt management, and supporting the adoption of fiscal rules. Directors were also mindful of the resource implications of the recommendation, including developing staff expertise on debt financing, and noted that decisions on adopting certain institutional arrangements are ultimately the prerogative of member states.

Directors supported, some of them with some qualifications, Recommendation 4 to strengthen the articulation of trade-offs between competing long-term spending needs and fiscal sustainability, highlighting their effects on long-term growth, debt dynamics, and distributional outcomes, and propose options to generate fiscal space when financing constraints are binding. While welcoming the progress already made in the coverage of long-term spending needs, they looked forward to adequate consideration of the IEO's recommendations in the Comprehensive Surveillance Review (CSR) to further refine the guidance on coverage of long-term issues guided by the principles of macrocriticality and selectivity. Directors generally emphasized the need for continued and enhanced collaboration with other IFIs in areas with limited Fund expertise, including the detailed costing and financing assessments of long-term development spending pressures.

In line with established practice, Management and staff will give careful consideration to today's discussion in formulating the Management Implementation Plan (MIP) for Board-endorsed recommendations, drawing on the IEO's specific suggestions to enhance fiscal advice in a pragmatic, holistic and efficient manner. The MIP will prioritize and sequence the response to the IEO's recommendations, leveraging key existing workstreams including the CSR, Review of Conditionality and LIC-DSF review to the extent possible, and also considering resource requirements and the risks associated with non-implementation. Management will also reflect on the call of some Directors for early implementation of recommendations on operational aspects that do not require a policy change. Directors generally emphasized the important role of technical assistance in supporting the consistent implementation of the IEO's recommendations.

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