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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.

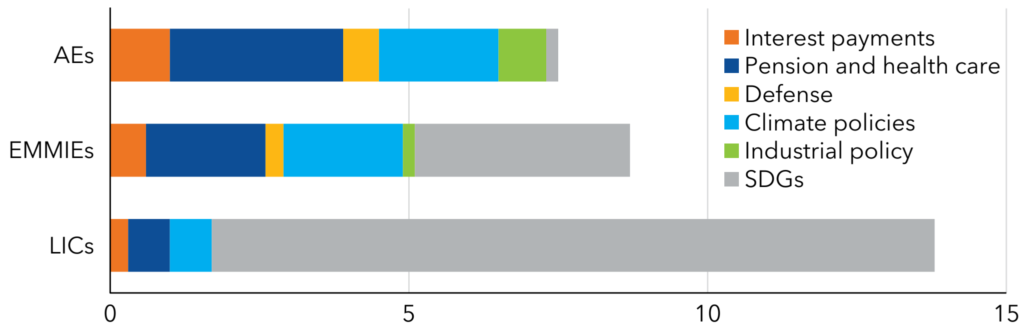
CONTEXT OF THE IMF'S ADVICE DURING THE EVALUATION PERIOD

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).

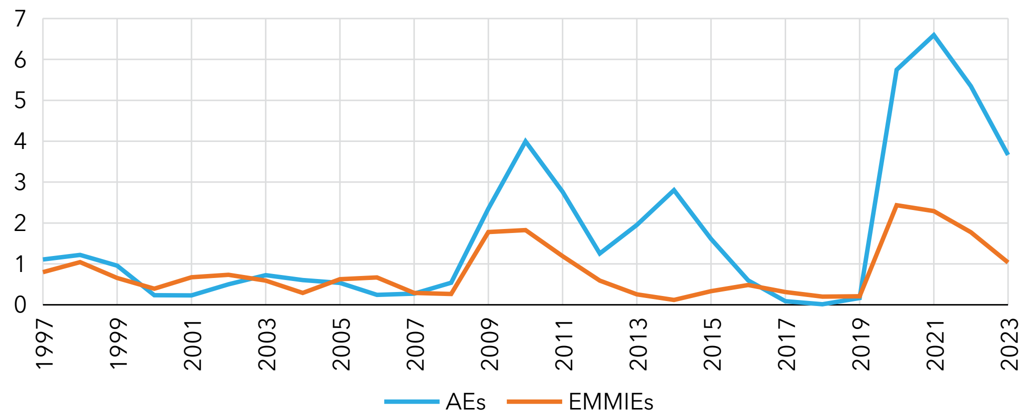
[6] During that period, the median countercyclicality of fiscal policy also continued to rise, a trend that started in the early 2000s (Jalles and others 2023).

[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]

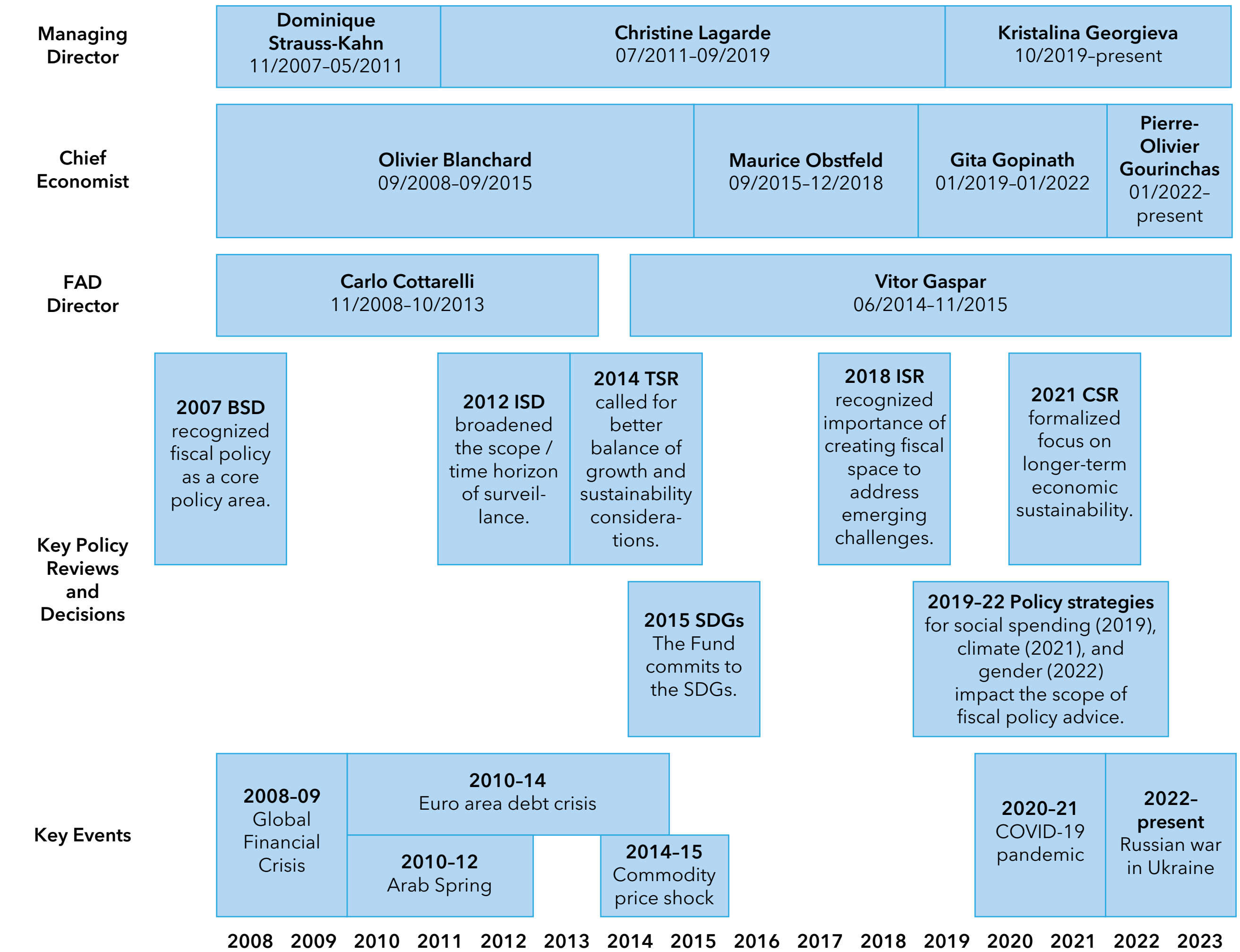
  The 2012 ISD opened the door for surveillance to tackle longer-term challenges beyond the Fund's typical surveillance or program engagement time frame of one to five years, by extending the temporal focus of surveillance to policies "that can significantly influence present or prospective balance of 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),

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[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).