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.