

KEY POLICY REVIEWS AND GUIDANCE NOTES THAT DETERMINED THE PERIMETER OF THE FUND'S FISCAL POLICY ADVICE¹

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.