

## EXECUTIVE SUMMARY

**T**his 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.