

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