4 BILATERAL SURVEILLANCE[30]

The delivery of bilateral fiscal policy advice faced the challenges of the growing perimeter of fiscal surveillance, which led to substantial variability in the issues covered across reports driven by country-specific circumstances. Over time, various surveillance decisions, reviews, and guidance notes have expanded the scope and time horizon of what the Fund's fiscal policy advice could cover (see Annex 3). This has left country teams with considerable flexibility in determining which fiscal issues to address and the relative emphasis on the core fiscal objectives of output stabilization, fiscal sustainability, and long-term growth and development given each country's unique circumstances. This flexibility is opportune to ensure prioritization and tailoring but led to substantial variability in the fiscal issues covered in staff reports across different countries and income groups and to perceptions of lack of evenhandedness. Importantly, the Fund's internal review process protects the quality of staff analysis and the consistency and evenhandedness of advice across member countries—during the evaluation period, FAD review coverage of Article IV reports has trended down on average, though remaining focused on LICs and higher-risk AEs and EMMIEs (Annex 4).

Additionally, the variations in the analytical depth of staff reports across different country groupings were largely driven by data availability, existing research, and the specific priorities tied to IMF program engagement. In most AEs and larger EMMIEs, the wealth of national data and research from central banks and other institutions supported Fund staff analysis. Conversely, in many LICs and smaller EMMIEs, the scarcity and lower quality of data and research sources, combined with a high level of program engagement that directed fiscal policy advice toward meeting program goals, along with relatively small country teams and frequent turnover of team members (IEO 2022b), made the assessment of the macroeconomic impact of the recommended fiscal policies more challenging.[31] Nonetheless, there are good examples of Fund staff analyzing how multipliers vary by instrument and country grouping and estimating multipliers in some small economies.[32]

[30] This section draws on the evaluation background papers by Amgalan, Cohen-Setton, and Korinek (2025); Cohen-Setton and Montiel (2025); Cohen-Setton, Montiel, and Zoli (2025); De Lannoy and Lane (2025); Eichengreen and Gupta (2025); Eichengreen and Zoli (2025); Gupta (2025); and Ocampo and Zoli (2025).

[31] For example, many EMMIEs and particularly LICs are compiling and reporting data only for the central government, and fiscal data omits the operations of subnational governments, extrabudgetary operations, or social security funds. The timeliness and comprehensiveness of the wider set of macroeconomic statistics also varies significantly, with significant shortcomings in national accounts in some cases, and many countries reporting data on a cash, rather than accrual, basis, thereby limiting the timeliness of the information provided by "above-the-line" expenditure items.

[32] See, for example, Geli and Mourra (2023) for three income groups using a uniform methodological framework and Gonzalez-Garcia, Lemus, and Mrkaic (2013) for the Eastern Caribbean Economic and Currency Union.

ADVICE ON FISCAL POLICY FOR OUTPUT STABILIZATION

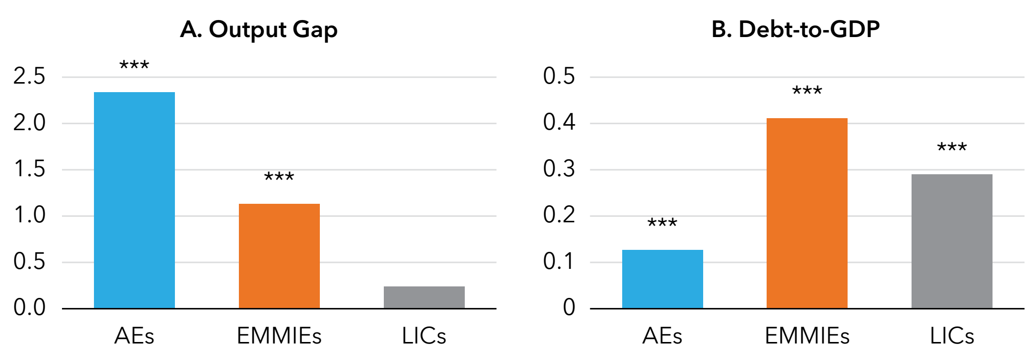
Fiscal Space and Fiscal Stance

The IMF's bilateral fiscal advice has evolved to place greater emphasis on countercyclical fiscal policy, broadly consistent with high-level messaging. A quantitative assessment of all Article IV reports from 1998 to 2023, along with the review of focus countries, revealed that an expansionary near-term fiscal stance was recommended across all income groups, in response to significant global headwinds and increasingly under more conventional cyclical pressures. For example, bilateral advice advocated short-term stimulus in Japan following the 2011 earthquake and tsunami and, after 2014, in countries like Germany where weak demand, large infrastructure gaps, and sizable current account surpluses underscored the case for fiscal support. The Fund also advocated fiscal support in 2022 in Bangladesh and Cambodia, where the post-COVID-19 pandemic recovery was offset by commodity shocks.

IMF advice tended to be more countercyclical in AEs, with the strength of the response diminishing at lower income levels. On average, fiscal advice was countercyclical in AEs and EMMIEs, although with less sensitivity to measures of economic slack in EMMIEs—in LICs, the sensitivity of advice to cyclical conditions was small and generally insignificant (Figure 5A). For these two latter groups, bilateral advice on short-term fiscal stance was driven mainly by the assessment of the implications of countries' debt-to-GDP ratios for debt sustainability (Figure 5B). The desk review of focus countries confirmed these patterns and revealed that the magnitude and direction of recommended short-term fiscal actions were primarily influenced by fiscal sustainability and market access in EMMIEs and LICs. External imbalances also influenced the fiscal stance recommendations; however, their impact was asymmetric, as countries with current account deficits were more likely to receive advice to tighten, while those with surpluses were only somewhat more likely to be advised to ease.[33] Notable examples in which Article IV reports called for a fiscal expansion, including to support external rebalancing in countries with large current account surpluses include China (e.g., 2009, 2010) and Germany (e.g., 2016).

Moreover, staff reports did not always provide clear and explicit advice on the appropriate fiscal stance, and recommendations for fiscal tightening continued to dominate driven by fiscal sustainability

FIGURE 5. MARGINAL IMPACT ON PROBABILITY OF RECEIVING ADVICE TO TIGHTEN THE FISCAL STANCE
(Percentage points)



Source: Amgalan, Cohen-Setton, and Korinek (2025).

Note: The figure reports the average marginal effect of each covariate, expressed as the change (in percentage points) in the probability of receiving advice to tighten the fiscal stance associated with a one-percentage-point increase in that covariate. The figure is based on the estimates presented in Column 1 of Table 5 in Amgalan, Cohen-Setton, and Korinek (2025). Significance levels are *p<0.1; **p<0.05; ***p<0.01.

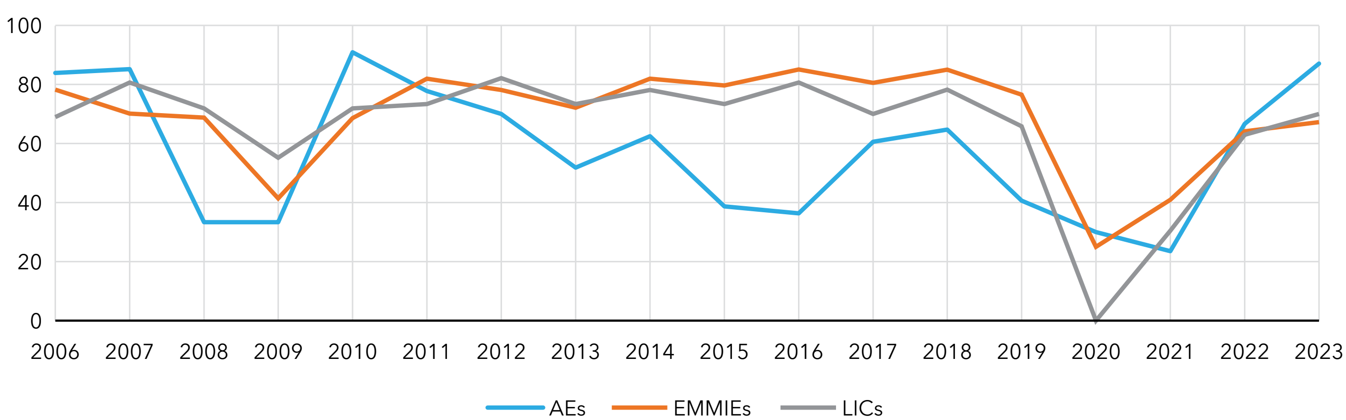
[33] Article IV reports include an external sector assessment that links the current account imbalance with the fiscal balance focusing on whether current account positions deviate from levels justified by economic fundamentals and appropriate policies. Results from Amgalan, Cohen-Setton, and Korinek (2025)—based on the subsample of countries and years with available policy gap variables—confirm this asymmetry using current account balances rather than policy gaps to ensure broader country and time coverage. The result remains qualitatively unchanged when using policy gaps of a subsample of countries and years with available policy gap variables.

concerns, especially in EMMIEs and LICs. Within focus countries, the direction of near-term fiscal advice in AEs was generally clear, even if the recommended size of adjustment was not always specified or clearly contrasted with the authorities' views. In EMMIEs, ere more transparent when framed in terms of structural or cyclically adjusted balances but often lacked precise guidance. In about half of the focus countries (and in almost two-thirds of the middle-income focus countries), the rationale for the direction and size of short-term fiscal recommendations was missing or limited in recent years. In LICs, staff advice often included detailed expenditure and revenue measures, simultaneously recommending increasing development spending and strengthening DRM, but the net effect on the fiscal stance was frequently ambiguous. Overall, bilateral advice tended to be more cautious than high-level recommendations during global crises, with 40–60 percent of staff reports for EMMIEs and LICs advocating for fiscal tightening in 2009, despite the multilateral message promoting a more supportive fiscal approach. Between 2010 and 2019, 70–80 percent of staff reports for these country groups recommended fiscal tightening (Figure 6), driven by concerns regarding limited financing, debt sustainability, and, in some instances, the belief that consolidation could aid output stabilization through confidence building effects.

The assessment of fiscal space and the analysis of trade-offs between output stabilization and fiscal sustainability varied in depth and quality. In focus AEs, the quality of justifications improved significantly over time. In the early post-GFC years, some reports offered limited or unconvincing rationales about the lack of fiscal space and recommending fiscal tightening, often overlooking the output costs of consolidation or making unconvincing statements about the lack of fiscal space. For example, the 2010 New Zealand report recommended front-loaded adjustment without discussing growth implications, while the 2012 Japan report asserted limited fiscal space without substantiating the claim. By contrast, reports from 2014–15 and 2022–23 provided more disciplined, country-specific assessments likely reflecting the influence of the FSF. Among focus EMMIEs, only a few staff reports elaborated on the trade-offs between output stabilization and debt sustainability. For example, the 2014 Costa Rica report provided estimates of growth implications under the recommended fiscal path, cautioning that postponing fiscal retrenchment would require a larger adjustment later to stabilize the debt.[34] Conversely, the 2010 Namibia report, for instance, highlighted the need for fiscal consolidation starting in 2011/12, due to the widening of the deficit and the debt increase, without elaborating

FIGURE 6. SHARE OF NEAR-TERM TIGHTENING ADVICE, 2006–23

(Percent)



Source: Amgalan, Cohen-Setton, and Korinek (2025).

Note: The percentages are calculated as the share of reports recommending near-term tightening advice relative to the total number of Article IV reports published in that year for that income group.

[34] The 2014 and some more recent Costa Rica reports presented itemized consolidation measures as well.

on the output implications. In about half of the focus EMMIEs, the justifications used to determine the direction and size of short-term fiscal measures were faint or absent. LIC reports typically pointed to the lack of fiscal space and financing.

Fiscal advice focused primarily on discretionary policy, with limited attention to automatic stabilizers, especially in EMMIEs and LICs. Advice in focus countries focused exclusively on discretionary policy in about 72 percent and 91 percent in EMMIEs and LICs, respectively, compared with 55 percent in AEs. While this difference reflects that, unlike AEs, EMMIEs and LICs typically do not have well-developed automatic countercyclical expenditures such as unemployment benefits (IMF 2015b), automatic stabilizers can also operate on the revenue side, depending on the elasticity of revenues to GDP growth. Although high-level advice and Fund work have emphasized the role of automatic stabilizers (IMF 2015a; Baunsgaard and Symansky 2009), analyses on improving the design of stabilizers received limited attention in focus countries' staff reports.

Macroeconomic Impact of Fiscal Recommendations

As fiscal policy advice has become more attuned to the economic cycle, recommendations on the pace and phasing of fiscal actions have grown more explicit; however, staff often failed to address warnings from realism tools. Clear recommendations on phasing of fiscal measures were made for nearly all focus AEs and were present in about 60 percent to 80 percent of the most recent reports of the other country groups. However, staff often failed to address warnings from the Fiscal Multiplier Realism Tool embedded in the SRDSF—in more than half of the focus AEs using it in 2022–23, the tool flagged realism issues related to assumed multipliers. For instance, in six AEs—France and the United States (2022); Germany, Italy, Japan, and New Zealand (2023)—baseline projections appeared to have implicitly assumed zero or negative multipliers, yet staff provided no explanation to justify that choice. Similar issues arose in some focus EMMIEs, notably Namibia (2023), and, to a lesser extent, Botswana (2023). This lack of explanation raises concerns about overly optimistic projections—a recurring weakness in the Fund's work (IEO 2014a; Flores and others 2023; Rehbein 2022, 2023a, 2023b), echoed in interviews and reminiscent of the mistakes identified by Blanchard and Leigh (2013) following the GFC.

The quantification of the macroeconomic impact of the recommended fiscal policy was rare for EMMIEs and LICs, but fairly common in AEs. Among focus countries, multipliers were rarely mentioned or made explicit in EMMIEs and LICs, despite some Fund research and staff guidance in this area. This finding is consistent with results from IEO (2021) in the program context. In a few EMMIEs and LICs within the analyzed sample, multipliers of different types of fiscal measures were quantified (e.g., China 2015 and 2022; Costa Rica 2014; Nigeria 2014; Philippines 2009; St. Lucia 2015; and Timor Leste 2022 and 2023). High levels of informal economic activity and difficulties in comprehensively measuring and including it in GDP imply that parts of countries' economic activity may not be well captured in the data, which impacted the calculation of fiscal multipliers. Among AEs, the 2022 Japan report included a table with multiplier estimates for different fiscal measures and the rationale behind them. Similarly, the 2023 New Zealand report employed state-dependent multipliers to substantiate its recommendations.

Policy Mix and Spillovers

Coverage of the policy mix was uneven across country groupings and focused mostly on the fiscal-monetary dimension. Among focus countries, the policy mix for virtually all AEs, 70 percent of EMMIEs, and around half of LICs, was explicitly discussed, at least partially. For example, the 2022 and 2023 Philippines reports emphasized that fiscal consolidation complemented monetary policy in the tightening of the overall macroeconomic policy stance to help reduce inflationary pressures and maintain external and domestic balance. Various staff reports on Senegal discussed the link between fiscal and monetary policy in the context of West African Economic and Monetary Union (WAEMU) convergence criteria. The 2023 New Zealand report warned that insufficient fiscal consolidation would call for a further tightening of monetary policy. Econometric analysis on all staff reports between 1998 and 2023 found strong evidence that fiscal and monetary policies were treated as complements in IMF bilateral surveillance; fiscal loosening advice was more likely when monetary policy advice was also expansionary. Moreover, fiscal recommendations became significantly more accommodative when monetary policy was constrained by the ELB, consistent with the view that fiscal policy should play a greater stabilization role when monetary space was limited.

At the same time, few focus country reports discussed how the overall macroeconomic policy mix could be better coordinated to deliver a more countercyclical stance. Article IV reports rarely assessed how fiscal policy recommendations interacted with monetary and macroprudential measures, or how exchange rate flexibility and capital flow management tools might be combined to smooth the cycle. This gap is particularly relevant for EMMIEs, where large and often procyclical swings in capital flows can amplify domestic financial cycles and complicate monetary policy implementation. In such contexts, fiscal policy could play a more active stabilization role, for example by leaning against credit booms fueled by capital inflows or providing more support when capital reversals tighten financial conditions. An exception was the 2022 Philippines report, which provided a particularly good example of addressing the role of fiscal policy in the context of a quantitative IPF (IMF 2023b). Econometric evidence from all staff reports between 1998 and 2023 found no systematic relationship between fiscal and macroprudential advice, suggesting limited coordination between these two instruments in practice.

The IMF generally examined the spillover effects of fiscal policy, particularly for major AEs, but coverage was uneven. Among focus country reports, Fund staff highlighted problematic fiscal policies in AEs, especially those that posed significant spillover risks. However, the level of candor in this discussion has fluctuated over time. While the Fund was outspoken in critiquing policies with substantial spillover risks, such as the 2017 tax cuts in the United States and 2022 fiscal strategy in the United Kingdom, its cautions regarding the dangers of excessively large fiscal packages during the pandemic were notably less pronounced. Some officials interviewed indicated that the Fund's guidance to EMMIEs during the COVID-19 pandemic could have been more effectively tailored to consider the spillover effects on trade partners from stimulus measures in AEs.

DEBT ACCUMULATION AND FISCAL SUSTAINABILITY

Medium-Term Anchor

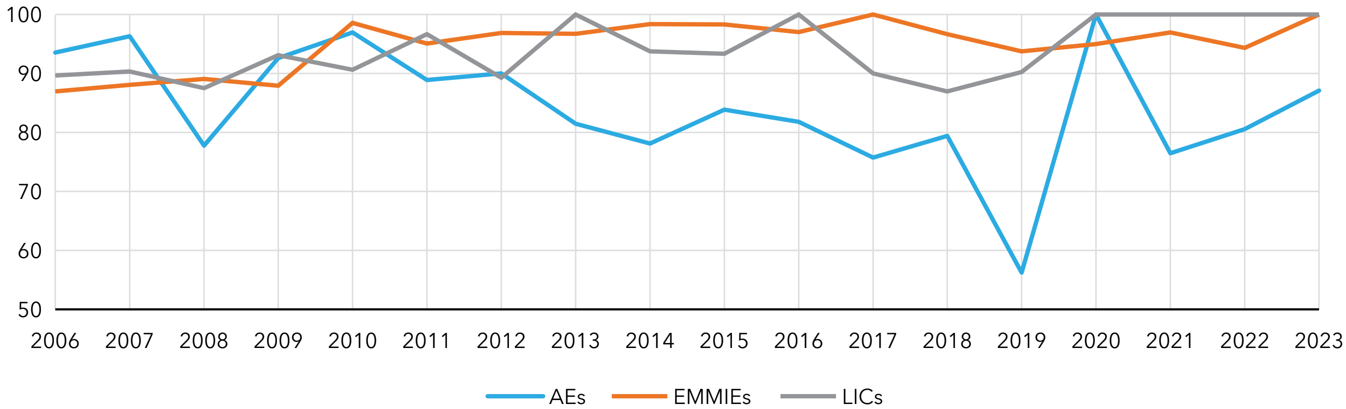
The IMF has consistently highlighted the importance of medium-term fiscal consolidation. This emphasis was particularly strong for EMMIEs and LICs, where staff typically advised that increases in spending for long-term priorities—such as infrastructure, health, and education—should be accompanied by efforts to broaden the tax base and strengthen DRM. In contrast, for AEs, staff increasingly advised that high-priority spending, often focused on infrastructure or climate investment, could be accommodated by relaxing medium-term fiscal paths where fiscal space was available. This differentiated approach (Figure 7) reflected the Fund's judgment that many AEs could sustain somewhat higher debt levels, especially in periods of weak demand and persistent external surpluses, while EMMIEs and LICs faced tighter financing constraints and greater vulnerability to debt sustainability risks.

There seemed to be no major disagreement between staff and authorities on the need for medium-term consolidation; however, debt vulnerabilities continued to increase. While 73 percent of the country authorities surveyed either fully agreed or agreed more than half the time with staff's medium-term fiscal recommendations, public debt has persistently risen. Step increases around the time of the GFC and COVID-19 are clear for AEs and EMMIEs, while in LICs debt ratios have increased steadily since 2012.[35] For instance, this trend was notable in the WAEMU, where public debt steadily increased from 2013 to 2022, despite the Fund's annual projections of fiscal consolidation. For LICs more generally, the upward drift in debt reflected different factors, including multiple shocks, slow growth, low levels of DRM, and declining budget support and overall aid levels, resulting in large fiscal deficits, exchange rate depreciation, and other SFAs.

[35] The average increase in public debt-to-GDP ratios for AEs was mainly driven by primary deficits, while for EMMIEs, exchange rate depreciation and especially other SFAs played the most important role (Figure 2, Eichengreen and Zoli 2025).

FIGURE 7. SHARE OF MEDIUM-TERM TIGHTENING ADVICE, 2006–23

(Percent)



Source: Amgalan, Cohen-Setton, and Korinek (2025).

Note: The percentages are calculated as the share of reports recommending medium-term tightening advice relative to the total number of Article IV reports published in that year for that income group.

Over time, an increasing number of staff reports clearly identified or quantified a country-specific medium-term anchor for fiscal policy. In earlier sample years, focus country reports often did not specify a medium-term anchor, especially in EMMIEs, despite institutional guidance in this regard (IMF 2009b, 2014a; Villafuerte and others 2010). In AEs, recommendations for medium-term fiscal consolidation were generally anchored by targets for the primary surplus or the debt-to-GDP ratio over a 4–5-year period. For instance, the 2014 staff report on Japan specified the necessary adjustments to stabilize the debt-to-GDP ratio and outlined concrete measures to achieve this objective. The most recent focus EMMIE reports framed their policy advice against a medium-term policy anchor. For some commodity-exporting countries in the sample, advice in recent staff reports (Azerbaijan 2023, Botswana 2023, and the UAE 2022) was based on the Fund's tailored analytical framework on macro-fiscal stability and intergenerational equity (IMF 2012b, 2012c; Basdevant, Hooley, and Imamoglu 2021). In LICs, the medium-term anchor for fiscal policy was discussed in cases such as Senegal in the context of the WAEMU.

However, the clarity and depth of the explanations for the recommended medium-term targets across staff reports was mixed. While some reports offered clear explanations, others lacked explicit rationales. For instance, the 2013 Korea, 2022 Switzerland, and several Singapore reports stand out for explicitly weighing the costs and benefits of alternative fiscal trajectories and discussing the implications for growth, investment, and fiscal buffers. In other cases, however, staff did not explain why a particular path was preferred among other feasible options. Such differences may lead to perceptions of a lack of evenhandedness and point to the need for a more structured approach to presenting the rationale for medium-term fiscal recommendations.

Composition of Fiscal Policy

Most staff reports across all income groups recommended a combination of expenditure and revenue measures. When providing advice on the composition of fiscal policy, the reliance on expenditure cuts decreased over the evaluation period in most focus country reports. For instance, in the sample years 2022–23, most staff reports advocated both revenue and expenditure measures. For example, the reports on Japan, the Philippines, St. Lucia, and the United States suggested specific tax revenue policies alongside spending measures. In LICs, consistent with the relatively lower revenue base, revenue mobilization was prioritized in 40 percent of the country cases, while a third of the country cases focused on expenditure measures. For AEs and EMMIES, only about one-third of the reports placed greater emphasis on expenditure measures to achieve fiscal consolidation compared to revenue measures, such in the cases of Brazil and France (in the Brazil case alongside advice to broaden the tax base).

While staff reports generally discussed the composition of fiscal packages, the depth of the analysis varied considerably. In some cases, multiple policy options were presented. The 2009 Germany report is a notable example in this regard, ranking proposed stimulus measures by cost effectiveness, uncertainty, and speed of impact and outlining their advantages and disadvantages. Other examples include the 2014 Japan report, which provided granular advice on the expenditure and revenue measures needed to stabilize the debt-to-GDP ratio, and the 2023 reports on China and India, which included detailed assessments of fiscal adjustment strategies, recommending specific combinations of spending and tax measures. However, most focus country reports lacked this level of specificity and offered little rationale for the selection of particular measures or for excluding potentially more feasible alternatives. As a result, it was often unclear whether the choices reflected the authorities' preferences, the Fund's analytical judgment, or practical constraints related to implementation capacity or political economy considerations (Box 2).

BOX 2. POLITICAL ECONOMY AND CAPACITY CONSIDERATIONS IN IMF FISCAL POLICY ADVICE

An unresolved issue is the extent to which staff should incorporate political economy constraints and the preferences of country authorities into fiscal policy advice. Should recommendations be based on the most economically desirable course of action, or be prioritized depending on political feasibility and institutional capacity? Emphasizing feasibility may improve traction, but it risks entrenching low-ambition strategies and gives the impression that advice is overly shaped by the authorities' preferences. Conversely, focusing on the best policy from a purely economic standpoint may be dismissed as poorly tailored to country realities, and ultimately jeopardize implementation.

Against this backdrop, standardized information in IMF staff reports suggests that fiscal policy advice is implemented to a reasonably high degree. Analysis of Article IV appendix tables on the implementation of past policy recommendations indicates that roughly 61 percent of recommendations were partially implemented and 16 percent, fully implemented, leaving nearly one-quarter unimplemented. Authorities' responses to the survey suggest a lower implementation rate of less than 60 percent (Figure B2.1.A). Interviews with Executive Directors pointed to political realities and capacity constraints as key obstacles for advice implementation, echoing previous IEO findings that capacity constraints hindered the effectiveness of Fund work on fiscal issues (IEO 2022b). Likewise, 85 percent of mission chiefs surveyed identified political issues as the principal barrier to implementation.

Views differed on whether staff adequately factored in political-economy and capacity constraints. While less than half of the respondents in the authorities' survey felt the advice accounted for political economy and capacity constraints, 90 percent of mission chiefs believed it did (Figure B2.1.B). In the staff reports of the focus countries, coverage of political economy factors improved over the evaluation period but remained uneven. Reports rarely reflected how advice was tailored to such challenges, and they seldom captured administrative or capacity limitations. Some reports laid out the pros and cons of alternative fiscal measures that could deliver the same adjustment (or stimulus), allowing policymakers to choose. Others, instead, focused narrowly on a preferred set of measures, not reflecting alternatives that might have been more feasible. These shortcomings were most evident in LICs, where political-economy, capacity, and operational constraints frequently stalled implementation.

Views also differed on the extent to which staff should internalize capacity and political economy constraints. In interviews, country authorities valued tailored advice that reflected their capacity and political economy constraints. Conversely, mission chiefs emphasized that the Fund was uniquely positioned to provide authorities with guidance grounded in rigorous and independent macroeconomic analysis and cautioned that recommending less-effective options from a purely macroeconomic standpoint could ultimately undermine the credibility of the Fund's analysis and fiscal policy advice.

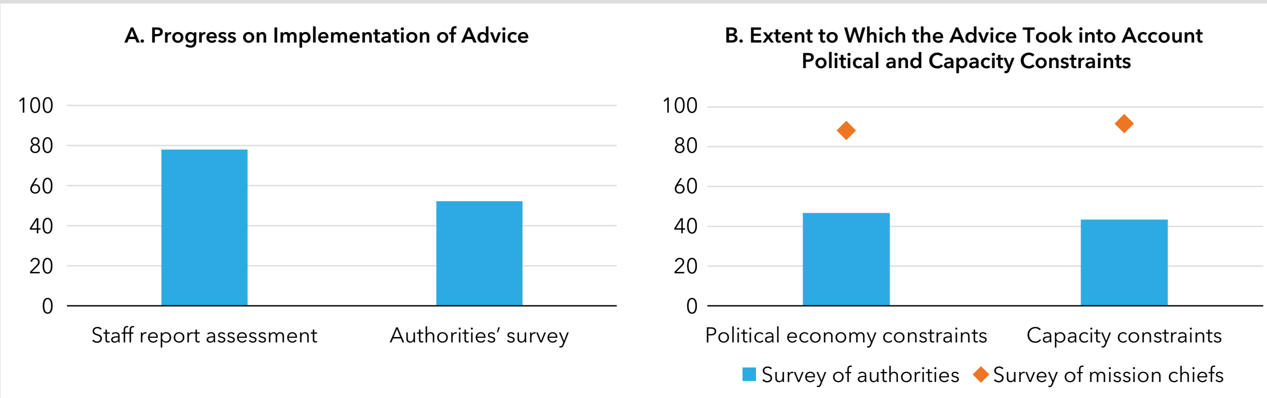
In practice, the consideration of political economy factors was largely left to the decision of the mission chief. Staff pointed out that the analysis of political economy issues was typically assigned to area departments, which could result in significant variations depending on the mission chief and, where applicable, the resident representative. In this respect, empirical work by Amgalan, Cohen-Setton, and Korinek (2025) finds that, even after controlling for macroeconomic and

BOX 2 (CONTINUED).

fiscal conditions, the educational background of mission chiefs significantly influenced the fiscal stance recommended in surveillance. Moreover, mobility of IMF staff and mission chiefs, while enabling staff to draw on experience from multiple countries and environments, may conflict with the objective of tailored and realistic advice because acquiring in-depth country knowledge takes time.

FIGURE B2.1. RESPONSE TO IMF FISCAL ADVICE

(Percent)



Sources: IEO staff calculations; and survey results presented in the Methodological and Statistical Online Appendix.

Note: For Figure B2.1.A, "staff report assessment" shows the combined answers "some progress" or "major progress" on implementation of advice from the past Article IV consultations based on a large language model classification, for all staff reports during the evaluation period that included this table (representing about 80 percent of staff reports by end-period). "Authorities' survey" shows the sum of "Yes, always" and "50 percent of the time or more" responses to the question "Was the IMF staff fiscal policy advice acted upon by the authorities in your country?"

Sources: Amgalan, Cohen-Setton, and Korinek (2025); survey results presented in the Methodological and Statistical Online Appendix; interviews.

Debt and Fiscal Risks

While DSAs are included as an annex in staff reports, these did not always appear to inform staff advice.[36] In several cases, the DSA annex was referenced largely in passing in the main text, without reference to the risk analysis vis-à-vis the baseline or its policy implications (e.g., 2022 Hungary report), suggesting that it might have been considered a formal requirement rather than a useful instrument to shape the policy discussion. At the other extreme, the 2021 staff report on Montenegro drew upon the DSA to support the recommendation to defer a large infrastructure project and advocated for the development of the domestic debt market to mitigate refinancing risks. In LICs, medium-term fiscal consolidation was generally suggested, including in instances where debt risks were considered low—two-thirds of the 24 low-risk cases among the low-income focus countries were advised to consolidate. However, in the majority of these cases (20 out of 24), the proposed fiscal consolidation did not lead to a reduction in the projected debt-to-GDP ratio, indicating that staff advocated only slightly tighter policies, acknowledging the low levels of debt vulnerabilities.[37]

[36] The Fund's DSA methodology differs for MACs and LICs. The MAC-DSA, now called the Sovereign Risk and Debt Sustainability Framework (SRDSF), was last extensively reviewed in 2021 and the new SRDSF tool rolled out in late 2022. The Debt Sustainability Framework for LICs (LIC-DSF) was launched in 2005 and is currently undergoing a fifth review, which is expected to be completed in 2026 (see Box 1).

[37] Use of the LIC-DSF will be assessed in the forthcoming IEO evaluation of IMF engagement on debt issues in low-income countries (IEO 2025).

Staff reports have usefully evolved to place greater emphasis on liquidity risks and vulnerabilities from debt composition and contingent liabilities. A review of a sample of recent staff reports of EMMIEs with elevated debt obligations revealed that bilateral surveillance and TA have increased the coverage and recommendations on debt management paying attention to debt maturity profiles and instruments, creditor composition, and contingent liabilities, while mainly focusing on "above-the-line" assumptions (see Box 3). By contrast, guidance on debt profile issues emerging from the DSA in focus AEs was often absent or belated—the 2022 Article IV report for Italy is a recent example where staff noted that debt maturity had not been extended despite favorable conditions. Interviewed staff see merit in further deepening the expertise of country teams on financing aspects to inform medium-term fiscal advice.

Staff reports typically addressed medium-term fiscal risks, either in the main text or utilizing the Risk Assessment Matrix (RAM). Drawing from the country authorities' survey, authorities broadly agreed that fiscal advice generally highlighted the key trends and risks, and medium-term fiscal challenges. In AE focus country reports, the most frequently cited fiscal risks included inadequate implementation of medium-term consolidation plans, increased market pressures, policy uncertainty and reversals, delays in investment expenditures, and revenue losses due to cross-border corporate income tax competition. In EMMIEs, the primary concerns were macroeconomic uncertainty and contingent liabilities arising from public-private partnerships, public sector banks, other state-owned enterprises, and local governments. For LICs, the most commonly discussed fiscal risks included losses from state-owned enterprises—often associated with fuel price subsidies, policy implementation risks, contingent liabilities, and climate-related risks. Notably, LICs' staff reports emphasized that liabilities incurred outside the fiscal perimeter can lead to significant SFAs—for example, in 2022 and 2023, staff reports on common policies for WAEMU member countries underscored the role of SFAs in public debt accumulation, noting that they represented 1.5 percent of regional GDP annually from 2013 to 2021.

However, recommendations to mitigate identified fiscal risks and challenges were unevenly articulated. For instance, in staff reports on low-income focus countries, only about half included recommended actions to mitigate identified risks. When mitigation measures were articulated, it was often in broad terms rather than specific and prioritized policy actions. However, fiscal risks were more articulated in recent years in some focus countries. In the staff reports on Germany (2022 and 2023), specific reforms were highlighted to expedite public investment execution, such as enhancing planning and approval procedures, streamlining public procurement, and addressing staff shortages at the municipal level. In Rwanda (2022), several measures were introduced to enhance the depth and breadth of fiscal risk assessments, including a long-term climate risk assessment as part of the reform measures under the Resilience and Sustainability Facility (RSF). Conversely, in Haiti (2022), the main fiscal risk identified was the burden of costly fuel subsidies amid very low tax revenues, yet no risk mitigation strategies were proposed within the Staff-Monitored Program.

Fiscal Frameworks

Appropriately, staff reports paid increasing attention to fiscal frameworks in supporting fiscal sustainability, but coverage was uneven (Box 4). The frequency of references to fiscal rules in the Fund's Article IV reports rose sharply during the evaluation period, from 16 percent to 70 percent, with the Fund stressing its key role in supporting fiscal sustainability. However, in many cases, fiscal frameworks were not discussed, and sometimes, the Fund's engagement on these issues came at a relatively late stage, which restricted its ability to influence the initial conception and formulation of these frameworks.[38] For instance, the 2023 New Zealand report delivered a detailed assessment of the government's new fiscal rules, which previous reports had largely ignored. In certain cases (e.g., Germany), the Fund has endorsed fiscal rules that have proven to have design flaws and has been slow to adjust its advice accordingly. Additionally, where TA on fiscal rules and institutions has been provided, recommendations were not always reflected in Article IV reports.

[38] The review conducted by Eichengreen and Gupta (2025) suggests that Article IV reports appear to devote more attention to how members might strengthen and refine existing rules than to how members lacking such rules might design and implement them, though TA supported adoption of fiscal rules in some cases.

BOX 3. ADVICE ON DEBT MANAGEMENT

The IMF has conducted substantive work on public debt management, often in collaboration with the World Bank. The Fund has significantly enhanced its analysis on debt management including through its lending (where such advice has played a key role), research, bilateral, and multilateral surveillance. Key initiatives, often in collaboration with the World Bank, included the development of comprehensive guidelines for public debt management, a framework for medium-term debt strategies (MTDS) and its accompanying tool, and efforts to promote and improve debt transparency and fiscal data reporting. Additionally, capacity development has been a key vehicle for the Fund's bilateral engagement on public debt management with LICs and EMMIEs. These activities are well valued by national authorities (IMF 2017a; Universalia 2013; World Bank 2021).

DSA tools have been periodically updated, placing increasing attention on the liquidity risks derived from debt composition and contingent liabilities. The Fund's analysis has followed market developments and authorities' preferences, incorporating emerging issues in public debt management, such as the growing importance of new lenders and climate finance. Notably, the most recent version of the debt assessment framework for MACs, rolled out in late 2022, includes one module to assess liquidity risk at a medium-term horizon, focusing on the creditor composition and debt structure (IMF 2021e). Moreover, a tool on the realism of financing terms scrutinizes assumptions on new private borrowing and financing terms. For LICs, the ongoing revision of the framework will put more emphasis on domestic public debt vulnerabilities and the consistency of the domestic public borrowing plan with maintaining macroeconomic and financial stability.

Article IV reports have increased the coverage of vulnerabilities arising from debt structure and contingent liabilities, while mainly focusing on "above-the-line" assumptions. Based on a focused analysis of 12 reports of EMMIEs with government debt above 70 percent of GDP, generally the DSAs clearly discussed implications for debt risks from debt profiles and gross financing needs. However, the extent to which those DSAs were integrated into the staff reports and led to substantive discussion and advice on debt management was uneven, including among countries flagged by the DSA as being at high risk of sovereign stress or debt distress. Furthermore, Article IV reports tended to focus more heavily on "above-the-line" assumptions, such as the sustainability of a given deficit under different scenarios, and less on "below-the-line" aspects. Staff reports typically did not discuss assumptions regarding the financing of deficits and maturing debt. Fund staff interviewed for this evaluation indicated that this reflected the predominantly macroeconomic training of country teams and suggested that enhancing expertise and attention to countries' financing conditions and circumstances, namely, the availability of external and domestic funding sources, the composition of the investor base and their capacity to absorb additional government debt would be beneficial when evaluating the feasibility of fiscal aggregates and formulating medium-term fiscal policy.

Surveillance reports have paid relatively less attention to institutional frameworks for debt management. In particular, despite the attention paid to these elements in the Fund-World Bank guidelines on public debt management, there were relatively limited references to Debt Management Offices and related institutions in Article IV reports. More broadly, debt management TA programs and tools are only partially echoed in surveillance, and TA insights are not systematically integrated; they would benefit from more visibility and accessibility among country authorities and the Fund's country teams.

Source: Eichengreen and Zoli (2025).

BOX 4. ADVICE ON FISCAL RULES AND COUNCILS

The IMF has played a significant role in shaping the discourse on fiscal rules and fiscal councils, which have become an increasingly important component of the fiscal policy landscape. The Fund's advice evolved in tandem with academic research. Initially focused on simple numerical rules, the Fund now stresses the importance of balancing simplicity, flexibility, and enforceability. Recent advice stresses countercyclical flexibility, advocating expenditure rules and fiscal anchors adjusted for economic cycles. A strong legal framework and institutional support are emphasized as key for enforcement of fiscal rules. Fiscal councils are increasingly recognized as an important part of institutional support, promoting adherence to fiscal rules and forecast accuracy. The Fund has developed comprehensive databases on fiscal rules and councils that have been vital for analysis (Davoodi and others 2022a; 2022b), but these should be updated more regularly.

Attention to fiscal rules and councils in the IMF's bilateral surveillance has increased since 2008, though coverage varies across and within country groups. The frequency of references to fiscal rules and councils in the Fund's Article IV reports rose sharply during the evaluation period, from 16 percent to 70 percent in the case of rules, and from 1 percent to 23 percent in the case of councils. There has been an increasing shift of focus from AEs to EMMIEs, but LICs still received limited attention. Advice to LICs mainly reflected commentary on existing measures rather than proactive encouragement for adoption, which may reflect assumptions about political will or capacity constraints in this country group. This presents an opportunity to enhance proactive advice for LICs.

Discussions of existing fiscal rules in Article IV reports have been uneven. There has been uneven coverage of existing fiscal rules, ranging from detailed recommendations for refinement of the rules to no mention at all. In addition, in a sample of AEs, EMMIEs, and LICs that repeatedly breached their national fiscal rules starting in 2015, the staff reports pointed to violations of the fiscal rules in some cases but not in others. Further, in some instances where relevant analysis was available, coverage was lenient or omitted. For instance, the Fund has at times backed rigid fiscal rule proposals that allowed only minimal cyclical adjustment and failed to carve out high-return expenditures—such as infrastructure or defense—as in Germany's 2009 debt brake and Japan's 2010 debt cap proposal. Although outside experts raised concerns early on, the Fund was slow to recognize these shortcomings. In Germany's case, the Fund's subsequent acknowledgment of the need for reform came late.

TA has been a key channel for delivering the IMF's bilateral guidance on fiscal rules and institutions. The Fund's TA evolved to endorse clearer operational guidance, ultimately resulting in high-quality fiscal rules that serve as a model for other countries. LICs received considerably less TA in this area compared to EMMIEs, which may stem from perceptions about enforcement challenges, staffing constraints for fiscal councils, or a lack of donor interest in funding such TA for LICs. Nevertheless, this imbalance raises questions about whether support should be more evenly distributed. Evidence regarding the impact of TA in the reforms implemented is mixed. For example, in Uganda, a Charter for Fiscal Responsibility was introduced in 2013 and amended in 2021–22 after four rounds of TA provided by the Fund. In Jamaica, TA provided from 2010 to 2014 supported the successful implementation of a Fiscal Responsibility Framework. In the Bahamas, the legislation that was adopted differed from TA-based staff recommendations, and in Sierra Leone, which received four TA reports on PFM issues and fiscal rules in 2012–14, the subsequent reform did not meet the criteria for formal fiscal rules, as identified by the IMF Fiscal Rules Dataset.

Source: Eichengreen and Gupta (2025).

ADVICE ON POTENTIAL GROWTH AND PUBLIC GOODS

In line with institutional guidance, bilateral fiscal surveillance broadly advised countries to protect public investment to support potential growth. In an environment characterized by economic slack, below-target inflation, and low interest rates, staff encouraged AEs with ample fiscal space, such as Germany and Korea, to undertake infrastructure investment and labor market measures, that would both support aggregate demand in the short term and raise potential output over time, thereby contributing to fiscal sustainability. In countries with more limited fiscal space, such as Costa Rica, France, Italy, Namibia, and the Philippines, staff often recommended adjustment paths that protected public investment. However, Article IV reports frequently lacked quantitative assessments of the long-term growth impacts of such investments, making it difficult to judge whether they would eventually be self-financing or add to future debt burdens.

Fiscal advice also placed growing emphasis on social spending, though the depth and quality of the discussion have varied. The desk review of staff reports and responses from country authorities and mission chiefs in the survey confirmed that social spending—and the need to protect the most vulnerable—featured prominently in discussions with country authorities during the evaluation period. The focus on social spending was further enhanced with the endorsement by the Executive Board of the Fund's social spending strategy (IEO 2017; IMF 2019b). Notably, even in fragile and conflict-affected states (FCSs), such as Afghanistan, Haiti, and Somalia, where fiscal space was extremely constrained and sustainability concerns were acute, staff provided advice on addressing social needs, often by improving the efficiency of existing programs or leveraging donor funding to expand the spending envelope. Some AE reports, such as Korea (2013), explicitly advised against medium-term fiscal plans that were unnecessarily contractionary and argued that more gradual adjustment could free up resources for higher social spending. However, in other cases, reports merely listed social spending measures without discussing their implications for fiscal sustainability, missing an opportunity to clarify trade-offs and enhance the realism of the advice.

Additionally, staff reports have increasingly addressed the distributional impact of fiscal policy changes, though with uneven coverage and detail. For example, the 2022 and 2023 New Zealand reports analyzed inequality trends and noted that capital gains disproportionately benefit wealthier households. Reports for the United Kingdom (2021) and Italy (2022 and 2023) similarly criticized fiscal measures that favored higher-income groups. Among focus EMMIEs, some reports, such as those on China, offered detailed advice on reforming tax, pension, and health systems to promote more inclusive growth. However, in many reports across AEs, EMMIEs, and LICs, distributional considerations were either absent or narrowly focused on the bottom decile, without assessing broader effects across the income distribution or their intergenerational impact. Expanding the analysis beyond the bottom decile to examine the impact of fiscal measures on the middle class—often key to political and social feasibility—would provide a more comprehensive picture of burden-sharing and could strengthen implementation and reduce the risk of policy reversals.

Development CSOs and think tanks noted that the Fund's advice on social spending was not fully aligned with the SDGs. They argued that, while the World Bank and other United Nations agencies increasingly supported universal social protection systems consistent with the SDG agenda, the Fund has continued to emphasize targeted (means-tested) approaches, which, in practice, resulted in significant exclusions in social spending policies, particularly in countries where large populations live in poverty. They also stressed that the Fund's reliance on indicative targets for social spending was insufficient and emphasized the importance of gathering more comprehensive data to understand the implications of fiscal policies on the poor. More broadly, explicit actionable bilateral fiscal policy advice for advancing the SDGs was limited. Among the low-income focus countries, only 9 out of 63 staff reports explicitly addressed how fiscal policy could support the achievement of the SDGs (or the Millennium Development Goals prior to 2015). Some examples of coverage include the 2023 Namibia staff report, which included an annex estimating the additional spending needed to achieve strong performance on selected SDGs; and among EMMIEs, the 2021 UAE staff report, which mentioned that medium-term fiscal consolidation could create space for progress toward the country's SDGs but lacked specific analysis.

The limited IMF advice on the SDGs appeared to have reflected several factors. These included the inherent ambition of the SDGs themselves, the sheer number of SDGs, the significant costs of achieving them, inadequate available resources (whether from DRM or donor financing), authorities' preferences influenced by electoral cycles, and the need for Fund staff to develop new expertise. Recent Fund analysis estimated that additional financing needs for 2025–29 to meet the SDGs by 2040 would require a median of 2.6 percent and 4 percent of GDP annually for EMMIEs and LICs, respectively (IMF 2025b). Consequently, due to concerns about debt sustainability and limited fiscal space in both cases, staff deemed it imprudent to suggest increasing development spending without first securing the necessary financing. Staff also argued that choices between targeted and universal transfers depend on country-specific factors such as fiscal space, administrative capacity, and social preferences. However, they acknowledged that capacity limitations may have hindered effective targeting, potentially reducing the reach and impact of these programs.

Over the evaluation period, staff reports have also increasingly focused on other public goods or societal goals, especially following the Fund's strategies on climate change and gender. The analysis of staff reports on focus countries across all income groups confirmed the expanded coverage of fiscal advice in these policy areas. This observation aligns closely with the conclusions drawn from the IEO's evaluation on *The Evolving Application of the IMF's Mandate* (IEO 2024a).[39] The Fund has also addressed military spending, particularly in FCS in the Sahel region, with wider and increased attention following the start of the war in Ukraine. More recently, reflecting the growing significance of industrial policies, there has been a notable rise in the scrutiny of such policies within both bilateral and multilateral surveillance, which was supported by improved data and clearer guidance.[40]

Staff reports across all income levels have increasingly incorporated climate considerations into their fiscal policy recommendations.[41] Following the adoption of the Fund's climate strategy in 2021, most focus country reports addressed climate-related fiscal challenges in some form. For instance, the 2022 U.S. report outlined specific fiscal measures to facilitate climate investments—such as carbon pricing, phasing out fuel subsidies, and reprioritizing public expenditures. The 2022 St. Lucia report presented estimates of the long-term returns from public investment aimed at enhancing resilience to natural disasters.[42] In LICs, the focus on climate resilience within the RSF programs in Bangladesh, Madagascar, Rwanda, and Senegal has significantly shaped climate-related fiscal reforms, including green PFM and investment guidelines, and climate risk management.

References to fiscal policies aimed at supporting their gender objectives remained relatively limited in the focus countries, even after the adoption of the Fund's gender strategy. Notably, gender budgeting was included in the staff reports on Costa Rica (2023) and the UAE (2021). In the case of Bangladesh (2023), a Selected Issues Paper was prepared to assess the macrocriticality of gender equality, developed in partnership with UN Women. Additionally, the 2023 staff report on Madagascar highlighted the economic benefits of closing gender gaps and outlined ongoing initiatives, including the implementation of a gender and climate strategy. Nevertheless, feedback from country authorities' and mission chiefs' surveys, along with interviews with CSOs, indicated that discussions regarding fiscal policies for achieving improved gender outcomes and the impact of IMF fiscal recommendations on gender objectives remained limited.

[39] This evaluation found that between 2008 and 2022, the coverage of climate change in Article IV reports increased from 4 percent to 95 percent. The coverage of gender-related issues increased from 12 percent to 28 percent (De Lannoy 2024; IEO 2024a).

[40] The 2022 Guidance Note for Surveillance under Article IV consultations calls for coverage of industrial policies when they are macrocritical or carry significant cross-border spillovers. Their coverage in Article IV consultations and multilateral reports rose significantly by the end of the evaluation period, supported by improved data and clearer guidance (see Cohen-Setton and Montiel 2025). Text analysis indicates that in 2023, references to industrial policies in Article IV reports increased nearly tenfold relative to the average over the period 2018–22.

[41] The advice of the Fund on climate change will be addressed further in the forthcoming IEO evaluation of the IMF and climate change (IEO 2024b).

[42] The analysis drew on a framework developed for small developing states (Fernandez-Corugedo, Gonzalez-Gomez, and Guerson 2023).

During 2008–23, military spending was covered in staff reports covering about one-third of the IMF's membership.[43] Staff discussed military spending in Article IV reports and/or program documents for 63 countries with a particular focus on FCSs—while they represented approximately 20 percent of the Fund's membership, they accounted for around 30 percent of countries where such spending was discussed in staff reports between 2008 and 2023. Attention to military spending increased further following the start of Russia's war in Ukraine. When it was discussed, the Fund's approach varied significantly among countries, primarily reflecting country-specific contexts, including financing constraints and concerns about debt sustainability. However, uneven coverage across countries has created the perception of a lack of evenhandedness. In this respect, it remained unclear why Fund staff explicitly addressed such spending in some countries with above-average military expenditures in their budgets, alongside high fiscal deficits and debt-to-GDP ratios, while not doing so in others with similar or even more constrained fiscal situations.[44]

Trade-offs between competing spending needs and vis-à-vis fiscal sustainability were not always clearly articulated. In the case of climate, while most focus country staff reports included dedicated sections on climate measures, they often lacked clear discussion of how these initiatives would be financed in a fiscally sustainable way or of their impact on near-term growth. Over half of respondents to the surveys of country authorities and mission chiefs indicated that Article IV consultations addressed the creation of fiscal space for climate action only partially or not at all—a view echoed by CSOs. This issue also emerged in discussions regarding social spending in staff reports. When it comes to military spending, fewer than 30 percent of staff reports that examined these expenditures included discussions of the macroeconomic trade-offs linked to such spending, despite its correlation with rising government deficits and debt, particularly in FCSs.

Furthermore, the inconsistent implementation of IMF strategies amid differing views among stakeholders on how bold the IMF should be in its approach to economic sustainability seem to have resulted in an "expectations gap." External stakeholders, particularly development CSOs and think tanks, have pointed out that Fund advice, especially to LICs and EMMIEs, has met the expectations of the Fund's own strategies, such as on climate and gender, and its endorsement of the SDGs. They contended that the Fund's focus on fiscal sustainability had not been sufficiently adapted to national contexts, often overshadowing or neglecting the longer-term goal of sustainable development, which should be prioritized and could be achieved through innovative financing solutions to expand fiscal space, advocating for debt restructuring, and greater debt transparency.[45]

[43] Military spending has been minimally addressed in the Fund's multilateral surveillance reports, such as the WEO, GFSR, and the Fiscal Monitor. Military spending analysis has been relatively more prevalent in the REO reports, particularly in the Sub-Saharan Africa REO. For a more detailed discussion on the Fund's fiscal policy advice related to military spending, see Gupta (2025).

[44] A policy shift in March 2023—permitting Fund support for countries facing "exceptionally high uncertainty" due to external shocks—further complicated comparisons between recent cases, like that of Ukraine, with those prior to 2023.

[45] For a more detailed discussion of the views of CSOs and think tanks, see De Lannoy and Lane (2025) and Ocampo and Zoli (2025).