6 RECOMMENDATIONS

The four proposed recommendations aim to improve the consistency and value added of IMF fiscal advice while preserving the selectivity and flexibility for staff when engaging with the membership. Recommendation 1 would ensure more specific advice on stabilization and the policy mix, with clear explanation of the macroeconomic impact and the trade-offs of the advised policy measures. Recommendation 2 proposes enhanced use and greater country-specific calibration of analytical tools. Recommendations 3 and 4 aim to strengthen advice on fiscal risks, fiscal rules, and debt management and on long-term spending priorities, respectively.

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.

Some suggestions include the following:

- *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.

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.

Some suggestions include the following:

- *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.

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.

Some suggestions include the following:

- *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.

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.

Some suggestions include the following:

- *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 2025a), 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.

Budgetary Implications and Enterprise Risk Management

These recommendations address reputational, business, and strategic risks, and may require either resource reallocation or additional resources (Annex 5). Overall, the recommendations if implemented as a package contribute to a more robust and consistent framework for the Fund's fiscal policy advice. Depending on how the recommendations are implemented, either additional resources or reallocation of existing resources are required. Research priorities, such as those suggested in Recommendation 2, should be subject to cost-benefit analysis and available resources. Other elements of Recommendation 2 can be undertaken in the LIC-DSF review and the 10th Review of the IMF's Data Standards Initiatives. Elements of the other recommendations could be taken up in existing workstreams. The 2026 CSR provides a good opportunity to provide strategic guidance on the Fund's macro-fiscal surveillance activities drawing on key elements of Recommendations 1, 3, and 4, such as better explaining the rationale for recommended policies or deepening the discussion of trade-offs of alternative options, financing aspects, and macro-fiscal impact of long-term spending priorities. To mitigate the need for additional resources, the CSR could also clarify which issues should be covered in depth during the (bi)annual Article IV cycle and which should only be signaled or reviewed in detail at specific intervals, as suggested in Recommendation 4. Additionally, it would be useful to unify the currently dispersed guidance across different surveillance decisions and clarify what elements of fiscal policy should typically be covered.