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BACKGROUND PAPER

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IMF Fiscal Policy Advice to Advanced Economies

Jérémie Cohen-Setton and Peter Montiel

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IMF Fiscal Policy Advice to Advanced Economies

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Contents Page

ABBREVIATIONS

AE	Advanced Economy
DSA	Debt Sustainability Analysis
FAD	Fiscal Affairs Department (IMF)
FM	Fiscal Monitor
G20	Group of Twenty
GDP	Gross Domestic Product
GFC	Global Financial Crisis
OECD	Organization for Economic Co-operation and Development
RAM	Risk-Assessment Matrix
SRDSF	Sovereign Risk and Debt Sustainability Framework
VAT	Value-Added Tax
WEO	World Economic Outlook
ZLB	Zero Lower Bound

EXECUTIVE SUMMARY

The Fund deserves credit for adapting its fiscal policy advice promptly and pragmatically to an extraordinary macroeconomic environment. In the aftermath of the Global Financial Crisis, exceptional economic slack, disinflationary pressures, and historically low interest rates led the Fund to reassess its long-standing emphasis on fiscal prudence. Without abandoning its focus on sustainability, it became a strong advocate of countercyclical fiscal support—promoting expansionary measures anchored in credible medium-term consolidation plans and underpinned by strong fiscal institutions. The Fund also showed greater willingness to relax medium-term spending plans to accommodate priority investments in infrastructure, social protection, and climate transition, especially when such measures could both sustain demand and strengthen the foundations for future growth. This reorientation reflected new research findings and strong intellectual leadership, which helped challenge entrenched views. As output gaps closed, inflation returned, and interest rates rose, the Fund appropriately re-emphasized the underlying trade-offs among fiscal objectives.

Over time, bilateral surveillance became more attuned to fiscal trade-offs, with advice increasingly differentiated across countries according to fiscal space and cyclical conditions. Analytical work on the costs of consolidation improved realism, but the operational use of diagnostic tools remain uneven. Greater and more systematic use of these tools—alongside stronger analysis of automatic stabilizers and clearer justification of fiscal package size—would further enhance the quality of advice.

The Fund's coverage of fiscal risks, institutions, and distributional issues has expanded, but mitigation advice is often generic. Engagement on fiscal rules has also tended to be reactive, limiting influence at the design stage. While the Fund rightly focuses on protecting the poorest—who are least represented in the policy process—it could gain traction by also considering effects on middle-income groups, whose perceptions of fairness shape reform acceptance. Similarly, although advice on the composition of fiscal adjustment has become more nuanced, staff often converge on a narrow set of preferred measures rather than presenting alternative policy options. Offering such menus, outlining the main pros and cons of each, would strengthen policy debate and help authorities select measures consistent with their social preferences and political realities.

Finally, the integration of long-term policy objectives into fiscal advice remains incomplete, weakening both the articulation of trade-offs and the rationale for medium-term debt targets. Staff increasingly acknowledge that there may be valid reasons to temporarily relax medium-term spending plans to accommodate essential public goods—such as climate mitigation, defense, or social spending—but these considerations are treated unevenly across reports. Strengthening the analytical basis for these recommendations—by grounding fiscal advice in transparent assessments of costs and benefits and by applying a clearer framework for choosing among feasible medium-term debt anchors—would enhance the coherence and evenhandedness of the Fund's fiscal advice.

I. INTRODUCTION

1. **This paper examines the IMF's fiscal policy advice to advanced economies (AEs) from 2008 to 2023**, with a focus on the macro-fiscal dimensions of the advice, including the size, pace, and composition of the fiscal stance in the near and medium-term. The paper does not evaluate the Fund's advice on structural fiscal issues—such as public financial management, expenditure policy, revenue administration, and tax policy—except where these areas directly affect the fiscal stance. Instead, it focuses on whether the advice appropriately captured key trade-offs between output stabilization, fiscal sustainability, and the pursuit of long-term growth and public goods provision. The evaluation is framed against the prevailing professional consensus on the expected effects of fiscal policy in different contexts and the IMF's own guidance (Annex III of IEO, 2025a).

2. **The analysis draws on multiple sources, including reviews of the Fund's top-line advice in flagship publications and a detailed examination of bilateral advice in Article IV reports for 11 countries and one currency union.**[1] It also incorporates findings from the academic literature, empirical analyses using public and internal datasets, earlier IEO evaluations, surveys of IMF staff and national authorities, and interviews with Executive Board members, IMF staff, and external stakeholders, including think tanks, academics, and civil society organizations.

3. **The paper is structured as follows:** Section II reviews changes in the macroeconomic environment and the evolving objectives of fiscal policy. Section III summarizes the Fund's high-level fiscal policy recommendations from 2008 to 2023 and examines how they translated into country-specific advice for major advanced economies. Section IV analyzes bilateral fiscal advice through a desk review of Article IV reports. Section V presents the overall assessment.

II. EVOLVING MACROECONOMIC CONDITIONS AND THE REASSESSMENT OF FISCAL POLICY OBJECTIVES

4. **Perspectives on the role of fiscal policy have evolved over the 2008–23 period, shaped by macroeconomic developments, new research findings, and shifting policy priorities.** This section provides background on how these changes have prompted a reassessment of fiscal policy's objectives and effectiveness. Cohen-Setton, Montiel, and Zoli (2025) examine the role of IMF analytical contributions in this reassessment, including the refinement of frameworks and tools to better address emerging challenges.

[1] The sample includes France, the Euro Area, Germany, Italy, Japan, New Zealand, Singapore, Sweden, South Korea, Switzerland, the U.K., and the U.S.. It was selected to encompass both major and smaller advanced economies, representing a range of fiscal positions, growth challenges, and external imbalances.

A. Macroeconomic Developments

5. **During the Great Moderation,[2] fiscal policy in AEs was primarily viewed as a tool for ensuring fiscal sustainability, with cyclical stabilization left largely to monetary policy.** This stance was predicated on skepticism about the effectiveness and timeliness of discretionary fiscal expansions (Taylor, 2000) and the potential negative impact of high public debt on interest rates and long-term growth. Fiscal advice emphasized structural reforms, such as broadening tax bases, reforming pensions, and enhancing expenditure efficiency to ensure sustainable public finances, particularly in light of the fiscal pressures from aging populations and rising healthcare costs. During downturns, fiscal policy was expected to operate primarily through automatic stabilizers, rather than through discretionary stimulus measures. There was little support for an activist fiscal approach, as concerns persisted that temporary stimulus could be politically difficult to unwind, potentially leading to a permanent rise in debt levels (IMF, 2013a).

6. **The Global Financial Crisis (GFC) marked a turning point, reestablishing fiscal policy as a central instrument of macroeconomic stabilization**. Several factors justified this shift, including the severity and persistence of the demand shortfall, the zero lower bound (ZLB) on interest rates, which limited the effectiveness of conventional monetary policy, and a sluggish credit channel that restricted private sector borrowing and investment (IMF, 2013a). At the same time, empirical research increasingly supported a more active fiscal policy role. Studies began challenging the idea of a strict fiscal cliff linked to specific debt-to-GDP thresholds, while empirical studies pointed to larger fiscal multipliers, suggesting that fiscal stimulus could have stronger-than-expected effects in certain conditions. As shown in Figure 1, the more active use of discretionary fiscal policy became particularly evident during the GFC and again during the COVID-19 pandemic.

7. **Persistent aggregate demand weakness—often characterized as "secular stagnation"—underscored the need for sustained fiscal support**.[3] AEs faced large and persistent shortfalls in both real GDP and inflation relative to pre-GFC trends (Figure 2). Real GDP not only failed to return to its pre-crisis trajectory but has also posted weak growth rates, signaling prolonged economic underperformance and the possibility of lower potential growth rates. Similarly, core inflation remained below target, reflecting subdued aggregate demand. In this context, calls for continued fiscal support grew louder (Summers, 2015; IMF, 2016).

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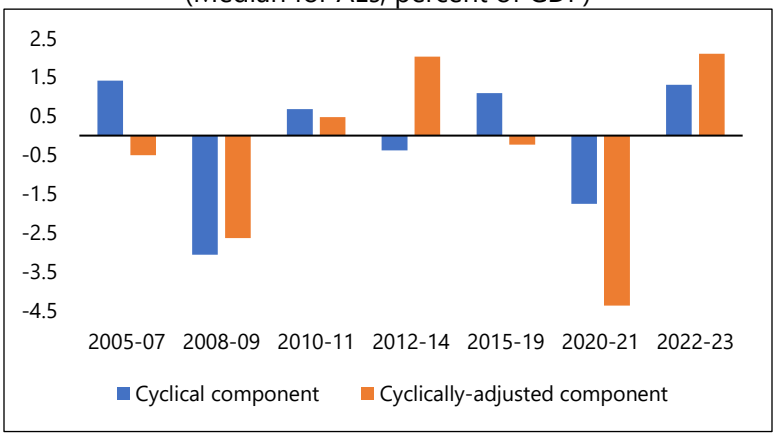
[2] The Great Moderation refers to the period of sustained economic stability from the mid-1980s to 2007, marked by reduced volatility in growth, inflation, and unemployment. It followed the high inflation and economic turbulence of the Great Inflation and preceded the Global Financial Crisis, which led to a deep recession and a sluggish recovery, often referred to as the Great Recession.

[3] The concept of secular stagnation, first introduced by economist Alvin Hansen in 1939, describes economies experiencing persistently low private demand, necessitating exceptionally low interest rates to maintain adequate demand and achieve potential output. This idea gained renewed attention in 2013 when economist Lawrence Summers re-popularized it during a speech at the IMF Annual Research Conference, asserting that AEs were in a state of secular stagnation (Summers, 2015).

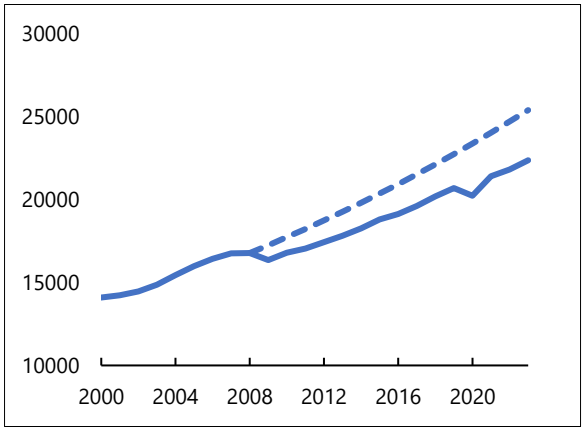
Figure 1. Changes in Primary Balances, 2005–23
(Median for AEs, percent of GDP)



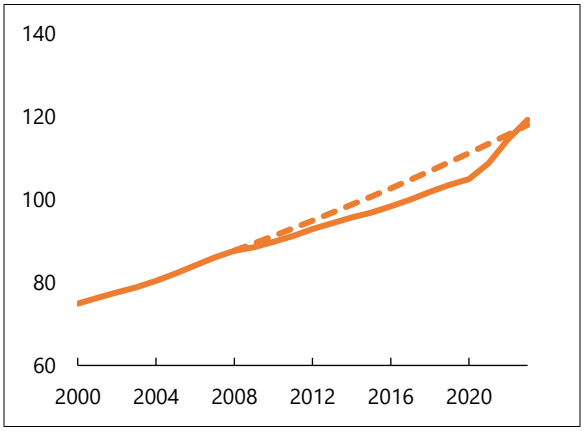
Sources: IMF WEO; IEO calculations.

Figure 2. U.S. Real GDP and Price Level Gaps, 2000–23

A. Real GDP Level
(Actual and Pre-GFC trend; in 2012 USD billions)



B. Price Level
(Actual Core PCE and Pre-GFC trend; Index 2017=100)

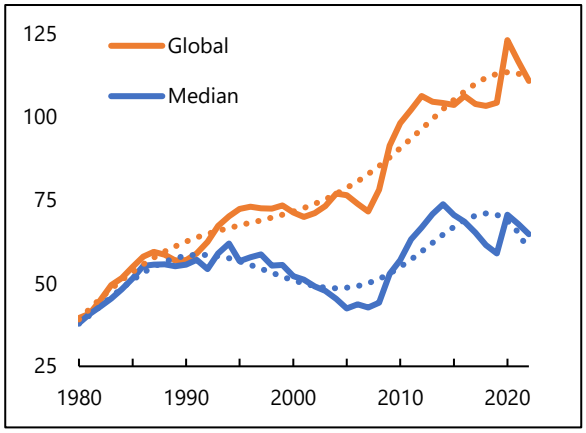


Sources: IMF WEO; IEO calculations.
Note: The real GDP trend is projected by applying the 10-year geometric average growth rate prior to the Global Financial Crisis (GFC) to the 2008 peak. The Core PCE trend assumes a steady 2 percent annual growth rate after 2008.

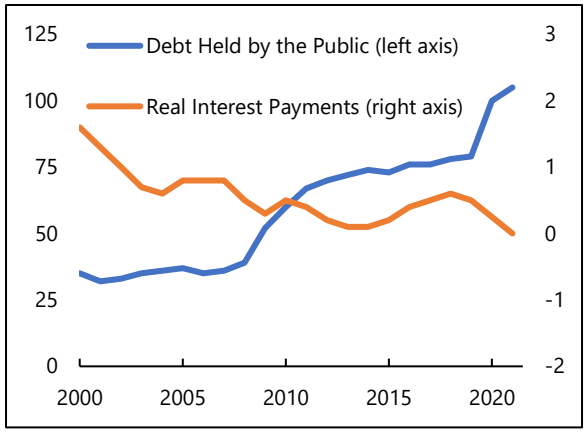
8. **Debt increased more than was thought possible** (Figure 3.A). During the GFC, debt levels in AEs rose far beyond what was previously considered possible, challenging traditional notions of "safe" debt thresholds (IMF, 2013a). On one hand, the crisis showed that even debt levels deemed prudent before the GFC could become unsustainable when large contingent liabilities materialize. In smaller AEs with large financial sectors, bank rescues alone drove debt-to-GDP ratio increases of approximately 40 percentage points. On the other hand, the crisis underscored that in many AEs—particularly those with their own central banks and greater monetary autonomy—markets can tolerate much higher debt-to-GDP ratios than previously anticipated.

Figure 3. Debt and Interest Payments

A. Public Debt-to-GDP ratios, 2000–23
(Percent of GDP)



B. U.S. Federal Debt Held by the Public and Real Net Interest Payments, 2000–21
(Percent of GDP)



Sources: Bolhuis, Koosakul, Shenai (2024); Furman and Summers (2020).
Note: Global variables are weighted by nominal GDP expressed in current USD. Trendlines are sixth-order polynomial. According to the IMF's Public Finances in Modern History Database, U.S. gross interest paid on public debt increased by 1.3 percent of GDP between 2020 and 2023.

9. **A key factor supporting higher debt levels in AEs has been the decline in the cost of debt servicing, even as borrowing rose substantially** (Blanchard, 2019; Furman and Summers, 2020). This reflected both deep structural forces—such as slower productivity growth, population aging, higher global savings, and stronger demand for safe assets—and an extended period of accommodative monetary policy that reinforced the downward trend in real interest rates. In the U.S., for example, debt help by the public rose from about 25 percent to 100 percent of GDP between 2000 and 2020, yet real net interest payments as a share of GDP declined by about 2 percentage points (Figure 3.B). Looking ahead, the ability of AEs to manage large debt burdens with relative ease will depend on the persistence of a favorable interest-growth differential.

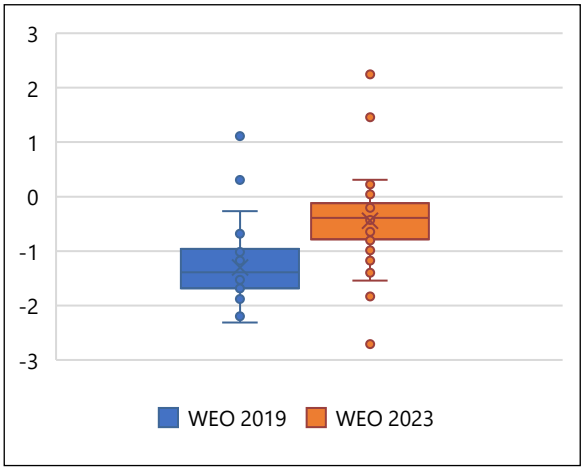
10. **Recent increases in long-term interest rates will necessitate larger fiscal adjustments to stabilize debt** (Figure 4.A). For AE countries, Darvas, Welslau, and Zettelmeyer (2024) estimate that shifts in the macroeconomic environment between 2019 and 2023—where expected long-term interest rates have risen more than expected growth rates—will necessitate additional consolidation efforts of about 1 percent of GDP. In practical terms, an economy that could previously stabilize its debt-to-GDP ratio while running a primary deficit of around 1 percent of GDP—thanks to interest rates remaining below growth rates—would now need to maintain a roughly balanced primary budget.

11. **Fiscal adjustments will also be needed to address significant medium-term spending pressures arising from both longstanding and emerging challenges.** Population aging and climate change continue to demand substantial fiscal resources, while new priorities—such as

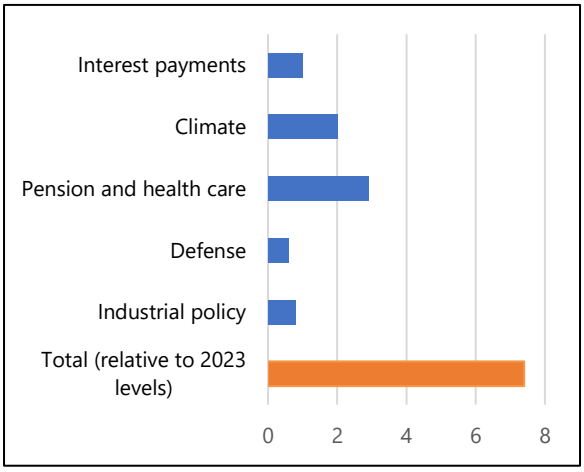
industrial policy initiatives and higher defense spending—are adding to the burden.[4] According to the April 2024 Fiscal Monitor, these combined pressures could raise public expenditures by around 7 percent of GDP in AEs by 2030 (Figure 4B). This substantial increase will intensify pressures on public finances, underscoring the importance of credible multi-year planning and efficient resource allocation to meet these growing demands.

Figure 4. Debt-Stabilizing Primary Balances and Medium-Term Spending Pressures

A. Expected Debt-Stabilizing Primary Balance in AEs
(Percent of GDP)



B. Medium-Term Spending Pressures in AEs
(Percent of 2030 GDP; relative to 2023 levels)



Sources: Darvas, Welslau, and Zettelmeyer (2024); April 2024 Fiscal Monitor.
Note: Figure A shows the distribution of the steady state debt-stabilizing primary balance expected in five years, computed as pb=(d×(r-g))/((1+g)), where d is the five-year ahead expected debt, g is the five-year ahead expected growth rate, and r is the long-term expected real interest rate. In Figure B, climate spending pressure estimates assume ample scaling up of green investment and subsidies to reach net zero, capping the carbon price at USD 75 a ton. Estimates for pension and health care spending pressures are derived from aging and long-run cost drivers obtained from the April 2023 FM. Defense spending pressures are calculated as the difference between current defense expenditures and the NATO 2 percent of GDP spending benchmark. Spending pressure from industrial policy reflects the size of recent packages enacted.

[4] Appendix II reviews how the return of industrial policy in AEs has been covered in both bilateral and multilateral surveillance. Military spending has risen markedly across AEs in response to heightened geopolitical tensions, notably following Russia's invasion of Ukraine. In the U.S., the 2025 defense budget is projected to be 20 percent higher relative to pre-war levels. In Europe, EU Member States have collectively increased defense spending by over 31 percent since 2021, reaching 1.9 percent of the Union's combined GDP in 2024. In recent discussions, NATO members have committed to spending 3.5-5 percent of GDP on defense. Even predating this commitment, the European Commission had proposed a coordinated activation of the Stability and Growth Pact's general escape clause, allowing Member States to deviate from their fiscal adjustment paths by up to 1.5 percent of GDP over a four-year period to reflect the increase in defense-related spending since 2021. If implemented, the projected additional substantial increase in defense spending would significantly raise future spending pressures (European Commission, 2025; Ilzetzki 2025).

B. Fiscal Policy Objectives

12. **The IMF's fiscal advice is anchored in three fundamental objectives: maintaining fiscal sustainability, stabilizing economic output over the cycle, and supporting the provision of public goods, including those that foster long-term growth**. Fiscal sustainability encompasses both solvency—ensuring debt levels remain manageable in the long run—and liquidity—meeting short-term gross financing needs. Output stabilization focuses on the use of countercyclical fiscal policy, when feasible, to smooth economic fluctuations in coordination with monetary, financial, and external policies. Finally, investment in public goods—such as infrastructure, social services, and emerging priorities like the green transition—is essential to fostering long-term economic resilience and productivity.

13. **These three objectives are closely linked to theoretical considerations of debt accumulation.** IMF staff assess whether a government can take on additional debt using tools such as Debt Sustainability Analyses (DSA) and Fiscal Space Assessments (FSA). The question of whether a country should expand debt when it has the capacity to do so is more complex: it requires weighing the benefits of addressing demand shortfalls, preventing economic scarring, and financing investments or other priority expenditures against the risks of rising borrowing costs, loss of market confidence, and reduced fiscal buffers. IMF staff seek to balance these gains and costs in their policy advice, increasingly relying on structured analytical models to guide their assessments (see Box 1).

14. **Recognizing the long-term consequences of fiscal choices, the 2021 Comprehensive Surveillance Review introduced the concept of economic sustainability as a guiding principle for IMF surveillance**. This perspective underscores that fiscal policy is not only about managing debt and deficits, but also about ensuring sustainable and inclusive economic growth in the face of global challenges such as climate change, population aging, and rising inequality. Integrating sustainability into fiscal policy frameworks has led the Fund to place greater emphasis on the resilience of public finances over longer horizons—covering both the capacity to meet future spending needs and the underlying economic and institutional foundations of fiscal stability.

15. **The IMF provides guidance to country teams to ensure that fiscal policy advice remains consistent with these core objectives.** As set out in Annex III of IEO (2025a), staff are expected to address key dimensions of fiscal sustainability, output stabilization, and long-term growth. Fiscal recommendations should be concrete, country-specific, and actionable, reflecting political economy constraints, implementation capacity, and past policy performance.

Box 1. The Costs and Benefits of Debt-Financed Fiscal Measures

For countries with fiscal space, the decision to increase public debt requires balancing its potential benefits against the associated risks.

Potential Gains

- Output Stabilization: Borrowing can help close output gaps, prevent economic scarring, and mitigate disinflation risks.
- Long-Term Growth and Public Goods: Borrowing can finance public investments and help offset the short-term costs of structural reforms that raise potential growth.

Potential Costs

- Higher Interest Rates: Additional borrowing can raise debt-servicing costs and crowd out private demand.
- Market Access Risks: Excessive debt can reduce investor confidence and constrain future borrowing capacity.
- Reduced Fiscal Buffers: Elevated debt levels limit room for countercyclical policy responses to future shocks.

Balancing Gains and Costs

Determining the appropriate fiscal stance requires weighting these benefits and costs, which depend on factors such as initial debt levels, cyclical conditions, the interest-growth differential, and the availability of other policy instruments.

Recent efforts have sought to operationalize these trade-offs. For instance, the European Commission (2015) assesses the euro area fiscal stance by evaluating whether fiscal plans are expected to close the output and sustainability gaps at an adequate pace. Similarly, economists in the Fiscal Affairs Department (FAD) have an optimizing framework that weighs the short-term stabilization benefits of fiscal support against long-term sustainability risks, calibrated to country-specific economic and fiscal characteristics (see Cohen-Setton, Montiel, and Zoli, 2025 for more explanations). While the use of this tool is not mandatory, it has informed fiscal policy advice in several AEs.

Sources: Cohen-Setton, Li, and Montiel (2024); Cohen-Setton, Montiel, and Zoli (2025).

III. Multilateral Advice

16. **This section traces the evolution of the IMF's top-line fiscal policy advice to AEs between 2008 and 2023, as articulated in key multilateral surveillance reports, and examines how this guidance translated into bilateral advice for major AEs.** It explores how the Fund's multilateral fiscal policy advice was shaped by policy debates and research both within and outside the institution, and how internal analytical work and leadership dynamics influenced the evolution of its fiscal policy perspectives. The review covers the WEO and the FM—which underpin the Fund's policy messages to the G-7, G-20, and the International Monetary and Financial Committee (IMFC)—as well as Board presentations and interviews with current and former IMF staff to identify key turning points. It also draws on Article IV staff reports for five major AEs—the U.S., France, Germany, the U.K., and Japan—to evaluate how multilateral guidance was reflected in country-specific advice. Figure 5 summarizes the phases of fiscal stance advice in multilateral surveillance, while Figure 6 presents the corresponding evolution of fiscal advice for these economies in bilateral surveillance.

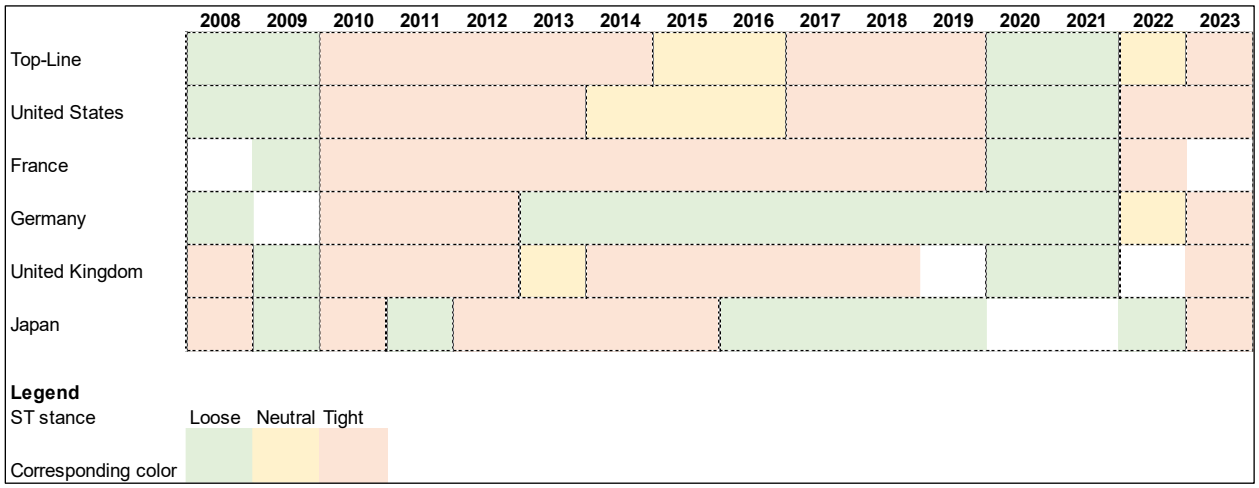
Figure 5. Advanced Economies—Evolution of the Top-Line Advice

	Apr 2008 to Mar 2010		Apr 2010 to Mar 2012		Apr 2012 to Mar 2015			Apr 2015 to Mar 2020					Apr 2020 to Sep 2021		Oct 2021 to Sep 2022	Oct 2022 to end 2023
AEs	Fiscal stimulus during and post GFC		Tighten in 2010 for countries under market pressure; in 2011, otherwise	ST adjustment, strong MT adjustment	Continue tightening but at slower pace, especially where private demand has been chronically disappointing. Improve design and implementation of credible MT consolidation plans			Stimulus or adjustment based on cyclical position, investment needs, fiscal space, and debt concerns			Adjustment to rebuild buffers		Fiscal stimulus during COVID-19		Stimulus or adjustment based on fiscal space	Fiscal adjustment
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Macroeconomic Conditions	**Great Recession**				**Secular Stagnation**						**Growth Upswing**		**Pandemic**		**Inflation**	
Managing Director	D. Strauss-Kahn				C. Lagarde								K. Georgieva			
Chief Economist	S. Johnson	O. Blanchard						M. Obstfeld			G. Gopinah		P.O. Gourcinhas			
FAD Director	C. Cottarelli						Acting	V. Gaspar								

Sources: IMF WEO.

Note: The cells display the Fund's recommendations regarding the appropriate fiscal stance in the near-term from the flagships published that year. For example, the 2010 cell reflects advice that generally applies to the following year. The first row displays the top-line advice to AEs.

Figure 6. Advice on Near-Term Fiscal Stance for Major Advanced Economies



Source: Article IV Reports.
Note: The cells for each country display the Fund's recommendations regarding the appropriate fiscal stance in the near-term from the Article IV published that year. For example, the 2010 cell reflects advice that generally applies to the following year. The first row reproduces the top-line advice to AEs of Figure 5 for convenience.

IMF Perspectives on Fiscal Policy During the Great Moderation

17. **The IMF's pre-crisis fiscal policy advice prioritized sustainability and placed relatively little weight on active output stabilization.** This reflected concerns about deficit and debt bias in member countries and the profession's skepticism toward discretionary countercyclical fiscal policy. High public debt was thought to dampen long-term growth, lift interest rates, and as a key source of vulnerability to crises.[5] At the same time, many economists doubted the effectiveness of discretionary fiscal policy—seeing fluctuations as largely self-correcting (Clift, 2018, p. 19), preferring monetary policy for stabilization, and emphasizing decision/implementation lags, and the risk of entrenching debt biases (Blanchard, 2025).

18. **Consistent with this view, during the Great Moderation the IMF advised AEs to keep debt low and rely on monetary policy and automatic stabilizers for cyclical management.** Fiscal policy was to focus on structural reforms—broadening tax bases, reforming pensions, and enhancing expenditure efficiency—to ensure long-term sustainability amid demographic pressures and rising health costs. In downturns, the Fund generally recommended letting automatic stabilizers operate, provided financing conditions remained reasonable (Heller, 2002; IMF, 2013a). Front-loaded consolidations—even during recessions—were at times justified on output-stabilization grounds, reflecting the belief that confidence effects could offset, and even outweigh, the contractionary impact of reduced fiscal support on aggregate demand (De Rato, 2004; Daniel and others, 2006; Tsibouris and others, 2006).

[5] See Box 2 in Cohen-Setton, Montiel, and Zoli (2025) for an overview of the IMF's evolving assessment of the interplay between public debt, interest rates, and economic growth.

19. **Pre-crisis views were also shaped by skepticism toward high taxation and government spending**. High tax burdens—particularly on income—were seen as discouraging work and investment. There was little support for progressive income taxation as an instrument to advance fiscal sustainability or equity objectives (Tanzi and Zee, 2000; Daniel and others, 2006). On the spending side, the Fund's default stance leaned against encouraging government expenditure, its default stance was cautious toward expanding government spending, which was seen as difficult to reverse and prone to inefficiency.

Responding to the Global Financial Crisis (2008–10): The Stimulus Push

20. **The GFC triggered a rapid intellectual and policy shift.**[6] The depth of the recession and the ZLB forced a broad reconsideration—both within the economics profession and inside the IMF—of fiscal policy's role in macroeconomic stabilization during deep recessions. As early as April 2008—before the full impact of the crisis had materialized—the WEO began laying the groundwork for a new stance with a box titled "When Does Fiscal Stimulus Work?" By October, it featured a full chapter advocating the use of fiscal policy as a countercyclical tool. With monetary policy constrained and financial markets seizing up, the Fund recognized that the post-crisis environment was fundamentally different from the Great Moderation and that its longstanding skepticism toward discretionary fiscal measures no longer fit the moment.

21. **Senior leadership played a pivotal role in driving the IMF's intellectual and policy shift.** Managing Director Dominique Strauss-Kahn, Chief Economist Olivier Blanchard, and FAD Director Carlo Cottarelli encouraged a re-examination of pre-crisis orthodoxy and lent strong support toward expansionary fiscal policy (Figure 5). Interviews with staff consistently underscored Blanchard's influence: his stature as a widely respected academic was instrumental in challenging entrenched views and overcoming institutional inertia. More broadly, senior leadership's capacity to steer Fund's research agenda—facilitated by its hierarchical culture and centralized decision-making—enabled a rapid redeployment of internal expertise toward developing new analytical contributions and operational tools. This ensured that the Fund's evolving fiscal stance carried both intellectual authority and practical traction (Clift, 2018; p.117).

22. **The result was an extraordinary call for globally coordinated stimulus.** In November 2008, the IMF helped broker a G-20 agreement for fiscal support of 2 about percent of GDP—an unprecedented recommendation that, as Clift (2018, pp. 118–19) notes, deliberately omitted the usual caveats regarding countries' fiscal positions to deliver a clear and unambiguous message. While this approach ensured strong and coordinated action, it also drew criticism from some national authorities, who viewed the uniform 2 percent target as too blunt and insufficiently tailored to countries with tighter financing constraints (IEO, 2014; Ghosh, forthcoming). The intellectual underpinnings of this new stance were formalized soon after: the December 2008 Staff Position Note "Fiscal Policy for the Crisis" laid out the principles for an effective fiscal

[6] See, also, Ban (2015) on the evolution of Fund's fiscal policy views after the GFC.

response in the current environment—timely, large, lasting, and well-targeted. A follow-up note in March 2009 (The Case for Global Fiscal Stimulus) called for additional stimulus measures, cementing the Fund's role as a leading voice advocating expansionary fiscal policy at a time of exceptional global uncertainty.

23. **From the outset, however, the Fund sought to pair near-term stimulus with reinforced medium-term credibility**. Staff emphasized that expansionary measures should be reversible and embedded within credible fiscal frameworks outlining a clear path to future consolidation (Spilimbergo and others, 2008). The November 2009 FM stressed that exit strategies should not only stabilize but also gradually reduce debt ratios over time. To strengthen credibility further, the Fund encouraged countries to underpin these medium-term strategies with concrete policy measures and, where possible, by reinforcing fiscal institutions—such as fiscal rules and independent fiscal councils—that could help anchor expectations and sustain confidence. By explicitly linking short-term support to medium-term discipline, the Fund sought to balance the urgency of countercyclical stimulus with the credibility needed to preserve fiscal sustainability—an argument that would remain central to its fiscal advice in the years that followed.

Responding to the European Debt Crisis (2010–12): The Austerity Turn

24. **By late 2009, European authorities—particularly the European Commission and the European Central Bank (ECB)—were pressing for the withdrawal of fiscal stimulus**. The Fund, by contrast, used the September 2009 G20 summit and the October WEO to caution against "premature and incoherent exit," emphasizing that consolidation should begin only once recovery was firmly established (Clift, 2018, p.126). As the euro area crisis intensified, however, the policy debate shifted. By the June 2010 Toronto G20 summit, concerns over rising public debt had come to dominate the global agenda, and members committed to halving fiscal deficits by 2013.

25. **Against this backdrop, the IMF's advice eventually pivoted toward fiscal consolidation**. The Spring 2010 FM recommended calibrating the timing of stimulus withdrawal by country-specific conditions—tightening immediately in economies where fiscal credibility was fragile or recoveries were stronger, while allowing others to delay adjustment until 2011. By October, the WEO had adopted a firmer tone, declaring that "fiscal consolidation needs to start in 2011." The September 2011 FM went further, warning that the speed and severity with which financial pressures spread across the euro area should "serve as a cautionary tale" for Japan and the U.S. whose "credibility could suddenly weaken" (quoted in Ghosh, forthcoming, p. 222).

26. **The shift toward consolidation reflected a confluence of political, analytical, and institutional factors rather than a change in the underlying professional consensus.** Although most economists continued to view fiscal support as appropriate in the presence of slack, the Fund nonetheless moved to endorse widespread adjustment. One interpretation attributes this shift to political pressure from key shareholders—particularly surplus countries in Europe—whose domestic debates increasingly favored austerity (Ban, 2020). A second

interpretation highlights analytical concerns: the sharp rise in debt-to-GDP ratios and heightened market sensitivities after the crisis led both IMF staff and national authorities to judge that the risks of inaction outweighed the costs of potentially premature tightening. A third explanation points to institutional dynamics within the Fund itself (James, 2024, p. 228), notably tensions between functional and area departments that differed in how they prioritized growth support versus deficit reduction. Interviews with staff suggest that the Fund's stance was ultimately shaped by all three influences—external political pressures, analytical risk assessments, and internal organizational divisions.

27. **Even as the Fund joined the global turn toward consolidation, it sought to distinguish its stance from the prevailing orthodoxy by warning that premature and synchronized tightening would likely undermine growth.** While Blyth (2013) and Gamble (2014) argue that the IMF largely embraced the dominant austerity narrative—which reframed the crisis as one of excessive public debt—Clift (2018, p. 129–30) contends that the Fund continued to view it primarily as a crisis of growth and used its intellectual authority to moderate the pace of fiscal adjustment. This perspective was reflected in the October 2010 WEO Chapter "Will It Hurt?," which challenged the then-popular expansionary austerity hypothesis, as well as in repeated public warnings against premature and synchronized consolidations. The Fund also underscored the importance of credible medium-term commitments—such as parametric changes to pension and healthcare systems—that could strengthen debt trajectories without undermining near-term demand (Blanchard and Cottarelli, 2010).

28. **A second area in which the Fund sought to differentiate its stance was its renewed attention to the distributional consequences of fiscal adjustment.** The Fund emphasized that fiscal consolidation needed to be fair to secure the social and political support essential for durable adjustment (Lipton, 2013). This shift reflected not only concerns about maintaining public and political support for fiscal adjustment, but also new IMF research showing that high inequality could undermine both growth and macroeconomic stability. Studies by Ball and others (2013) and Furceri and Loungani (2013) found that adjustment strategies placing a disproportionate burden on low-income households could be economically counterproductive. Complementary work by Berg and Ostry (2011) and Ostry, Berg, and Tsangarides (2014) demonstrated that well-designed redistribution could promote both equity and stronger macroeconomic performance. Under Lagarde's leadership, equity considerations gained increasing prominence in Fund discourse—notably through calls to protect the most vulnerable and support for targeted taxation of higher-income groups (IMF, 2013).

29. **Despite qualifications regarding the pace and composition of adjustment, the Fund's advice to AEs in the early 2010s was broadly procyclical.** By 2011, it was uniformly recommending fiscal consolidation across major AEs (Figure 6)—including those facing no market pressure, operating with historically low borrowing costs, and supported by central banks capable of acting as lenders of last resort. Yet macroeconomic conditions at the time—characterized by large output gaps, deleveraging by the private sector, and policy rates

constrained by the ZLB—implied that fiscal large fiscal multipliers were likely elevated, making consolidation especially costly. In this environment, the contractionary effects of synchronized tightening outweighed the support provided by monetary policy, contributing to sluggish recoveries and adverse capital flow spillovers to emerging markets, as later highlighted by the IEO (2014) evaluation.

Responding to Secular Stagnation (2012–17): Recalibrating Fiscal Policy

30. **Disappointing economic outcomes in 2011–12 prompted the IMF to reassess its fiscal stance.** As growth repeatedly fell short of expectations and inflation remained below target, the Fund acknowledged that fiscal consolidation had proceeded too quickly in many AEs. Blanchard and Leigh (2013) provided empirical evidence that staff had systematically underestimated fiscal multipliers during this period, reinforcing the case for a more gradual pace of adjustment.[7] The October 2011 WEO and subsequent flagships began to draw clearer distinctions between countries facing market pressures and those with fiscal space, urging the latter to allow automatic stabilizers to operate (April 2012 FM) and to avoid excessive front-loading of consolidation efforts.

31. **By 2014, weak growth and low inflation reinforced the Fund's advocacy of fiscal activism, with renewed emphasis on supporting demand and investment amid secular stagnation risks.** Drawing on Summers (2013), the IMF warned that AEs could struggle to generate sufficient demand to achieve full employment without sustained policy support (April 2014 WEO). The Fund argued that the potential cost of becoming trapped in a low-growth, low-inflation equilibrium warranted a more pre-emptive use of fiscal policy than would appropriate in a normal cyclical context. Against a backdrop of historically low interest rates and years of underinvestment, higher public investment—particularly in infrastructure—was viewed as a particularly effective way to boost short-term activity while strengthening long-term supply capacity (Gaspar, Obstfeld, and Sahay, 2016).[8] The OECD echoed these concerns, urging countries with fiscal space to "go for growth" through greater public investment.[9]

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[7] Appendix I replicates the analysis of Blanchard and Leigh (2013) and extends it to more recent years. The results confirm their original finding for 2009–12 but show no evidence that IMF staff continued to underestimate fiscal multipliers thereafter.

[8] The McKinsey Global Institute (2016), for example, estimated a 20 percent rate of return on infrastructure investments. Summers (2016) further observed that even with a modest return of 6 percent, if the government collects approximately 25 cents on every dollar of GDP, it would generate a 1.5 percent return on investments. This rate of return significantly exceeds the real borrowing costs of most AEs, even over a 30-year horizon, making a compelling case for infrastructure investments in a low-interest rate environment.

[9] The Fund played a central role in advancing the macroeconomic policy debate under the post-crisis conditions known as the "new normal," particularly through the Research Department's Annual Research Conferences and the Rethinking Macroeconomic Policy series. These initiatives led to several influential volumes co-edited by the Chief Economist, including "In the Wake of the Crisis: Leading Economists Reassess Economic Policy" (Blanchard and others, 2012) and "What Have We Learned? Macroeconomic Policy after the Crisis" (Akerlof and others, 2014), as well as "Post-Crisis Fiscal Policy" (Cottarelli, Gerson, and Senhadji, 2014), co-edited by the former Director of the Fiscal Affairs Department.

32. **In this context, the Fund increasingly advocated for looser medium-term fiscal plans in countries with ample fiscal space, recognizing that more accommodative stances could support structural transformation and long-term objectives.** Medium-term fiscal objectives were progressively framed not only around debt sustainability, but also around enabling high-return investment, facilitating structural reforms, and addressing macroeconomic imbalances. Consistent with this shift, Amgalan, Cohen-Setton, and Korinek (2025) find that the share of AEs for which the Fund recommended tightening their medium-term fiscal stance declined steadily between 2010 and 2019, reflecting greater differentiation across country circumstances. Examples include Denmark, Estonia, Finland, Germany, Hong Kong, Korea, Latvia, the Netherlands, New Zealand, Singapore, Sweden, and Switzerland—countries where IMF advice generally supported more neutral or expansionary fiscal trajectories in light of strong fundamentals and ample fiscal space.

33. **A key enabler of this recalibration was the concept of fiscal space, which allowed the Fund to tailor its advice to country-specific circumstances.** First introduced by Heller (2005) and refined by Ostry and others (2010), the fiscal space framework gained traction after the crisis as a tool to assess whether countries could afford to delay adjustment or expand fiscal support.[10] Although definitions varied, fiscal space was generally understood as the capacity to borrow without undermining market access or debt sustainability, taking into account factors such as debt levels, financing conditions, institutional strength, and investor confidence. This framework enabled Fund staff to differentiate their recommendations—supporting delayed consolidation or stimulus in countries like Germany, while calling for sustained adjustment in those facing tighter constraints. The greater emphasis on differentiation marked a key evolution in the Fund's post-crisis approach, offering staff more flexibility to balance debt reduction against other priorities, such as supporting aggregate demand and fostering long-term sustainable growth.

34. **This differentiated approach became increasingly evident in country-level surveillance (Figure 8).** In the U.S., after initially advocating frontloaded spending cuts in 2010–11, the IMF reversed course by 2012–13, urging Congress to adopt a more gradual, back-loaded fiscal adjustment to avoid exacerbating persistently high unemployment. In the U.K., while the Fund continued to support medium-term consolidation, it warned in April 2013 that the government was "playing with fire" by failing to recalibrate its strategy in the face of weak growth. The absence of market pressures suggested sufficient fiscal space to adjust the pace and composition of consolidation, reducing its drag on activity and limiting long-term scarring. In Germany, where fiscal space was ample, the Fund advocated a more expansionary stance and higher public investment to stimulate domestic demand and reduce external imbalances. Elsewhere, the shift in advice was more cautious. In Japan, the IMF was initially skeptical of Abenomics' fiscal expansion, warning that without consolidation, interest rates could rise sharply (by up to four percentage points according to staff). Only gradually did it align with the authorities' focus on reflation and

[10] See Cohen-Setton, Montiel, and Zoli (2025) for more details on the IMF's fiscal space framework.

near-term growth. In France, the Fund maintained its call for consolidation but increasingly advocated an expenditure-based approach, aiming to strengthen spending efficiency and mitigate adverse effects on growth, given the already high tax-to-GDP ratio (2022, 2024).

Fixing the Roof While the Sun is Shining (2017–20): Rebuilding Fiscal Buffers

35. **As global growth strengthened in 2017, the IMF's flagship reports increasingly emphasized the importance of rebuilding fiscal buffers in countries operating at or near full employment, while maintaining supportive policies where slack persisted.** The October 2017 WEO underscored the need to align fiscal policy with cyclical conditions, advising consolidation in countries with large current account deficits and elevated fiscal risks. This message was reinforced in the October 2018 WEO, which urged governments to prepare for future downturns and reduce the long-term tax burden associated with high debt. The OECD echoed this guidance, cautioning AEs against "squandering the upswing" of 2017–19 by delaying necessary fiscal adjustments. At the same time, the IMF continued to advocate for higher public investment in countries with fiscal space and weak demand, emphasizing its dual role in supporting long-term growth and mitigating external imbalances.

36. **IMF bilateral surveillance broadly reflected these principles.** In the U.S.—where the economy was operating at full capacity—the Fund strongly criticized the procyclical fiscal expansion enacted under the 2017 Tax Cuts and Jobs Act, warning that widening deficits would intensify monetary tightening and increase global financial risks. In contrast, Germany and Japan continued to face demand shortfalls, low inflation, and chronic underinvestment. In these cases, the IMF recommended a more expansionary stance: in Germany, to spur domestic demand and reduce external surpluses; and in Japan, to reinforce a coordinated policy mix of fiscal, monetary, and income measures aimed at boosting inflation and wage growth. In the U.K., the Fund maintained its focus on fiscal consolidation, viewing the government's adjustment plans as appropriate given heightened uncertainty surrounding Brexit and persistent structural pressures on public finances.

37. **While the Fund's post-2017 emphasis on rebuilding fiscal buffers was broadly aligned with cyclical conditions, some interviewees argued that this shift came too late, missing an opportunity to consolidate earlier during the upswing.** Critics maintained that timelier action could have eased future adjustment pressures and signaled greater fiscal discipline. Senior IMF staff, however, countered that earlier consolidation would likely have had limited impact on debt sustainability and could have undermined still-fragile recoveries. This perspective is supported by theoretical and empirical research showing that fiscal consolidations are less effective at reducing debt ratios—and may even be counterproductive—when undertaken in the presence of weak demand and limited monetary offset (Eyraud and Weber, 2013). In this light, the Fund's more gradual and differentiated approach reflected a pragmatic balancing of stabilization and sustainability objectives, tailored to country-specific conditions and the evolving global environment.

Responding to the Pandemic (2020–21): "Whatever it Takes"

38. **The IMF strongly endorsed a bold fiscal response to the pandemic.** Under Managing Director Georgieva's leadership, the Fund backed this message with unprecedented emergency financing to EMDEs, while shaping the global policy debate around the need for fast, flexible, and coordinated action. Together with Chief Economist Gopinath, Georgieva quickly recognized the distinctive nature of the crisis—a simultaneous supply, demand, and financial shock—and articulated a strategy that prioritized containment and protection first, followed by recovery and transformation (IEO, 2023).[11] The April 2020 FM urged countries to "do whatever it takes to save lives and protect livelihoods," temporarily setting aside fiscal sustainability concerns in light of the unprecedented health and economic shock. As conditions evolved, the Fund cautioned against a premature withdrawal of support and recommended continued but better-targeted fiscal measures during the reopening phase (October 2020 FM).[12] The Fund's focus then shifted toward structural transformation, encouraging "build back better" fiscal strategies that emphasized scaling up public investment, advancing climate action, and enhancing resilience to future crises—provided fiscal space allowed (Spring 2021 FM, April 2021 WEO).

39. **The Fund's inflation outlook and policy advice during the pandemic reflected its evolving assessment of the relative strength of demand and supply forces.** In 2020, the IMF correctly projected subdued inflation, attributing it to collapsing demand outweighing supply constraints (IEO, 2023). As the recovery gathered pace in 2021, however, the Fund underestimated the inflationary impact of exceptionally large fiscal packages and persistent supply bottlenecks. Its baseline projections assumed that output gaps would remain open through 2022 and that the Phillips curve relationship had weakened (April 2021 WEO), reinforcing its emphasis on downside risks and cautioning against early withdrawal of fiscal support. This stance was increasingly challenged by external observers—most notably Blanchard (2021) and Summers (2021)—who that the scale of stimulus risked fueling inflation. By October 2021, the Fund had revised its assessment, acknowledging that inflation risks had shifted to the upside due to demand-supply mismatches, though it remained hesitant to attribute these pressures directly to fiscal policy.[13]

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[11] Gopinath also contributed to the global debate by advocating coordinated vaccination efforts as the most efficient recovery strategy (Agarwal and Gopinath, 2021).

[12] The IMF received significant credit for its efforts in tracking and disseminating policy responses during the pandemic. It launched a widely praised policy tracker, providing real-time information on government measures worldwide, and produced an extensive series of "How-To" notes, offering practical policy guidance to help countries navigate the crisis. These initiatives were particularly valuable amid high uncertainty and limited opportunities for in-person engagement (IEO, 2023).

[13] Later editions of the WEO, particularly the October 2022 WEO, recognized the link between fiscal stimulus and inflation, identifying a positive relationship between inflation forecast errors and the size of COVID-19-related fiscal stimulus packages in AEs. This analysis suggested that larger stimulus measures contributed to greater-than-anticipated inflationary pressures, reinforcing the view that both demand and supply factors played a role in the inflation surge.

40. **During the pandemic, the Fund adopted a uniformly expansionary stance but generally refrained from commenting on the size or composition of national fiscal packages, provided they were sufficiently ambitious to address the crisis**. According to staff interviews, this approach reflected a deliberate choice to prioritize urgency and flexibility over detailed scrutiny at a time of exceptional uncertainty. In several major AEs, staff explicitly praised exceptionally large stimulus efforts and were slow to recalibrate their advice as conditions normalized. In several major AEs, staff explicitly praised large stimulus efforts—such as the unprecedented fiscal expansion in the U.S.—and emphasized the importance of erring on the side of doing too much rather than too little, as in Germany and other European countries. Similar advice prevailed elsewhere, with staff continuing to support accommodative fiscal stances well into 2021. Only later, as recoveries and inflation surprised on the upside, did the Fund's messaging shift toward recalibration, calling for a gradual withdrawal of pandemic-related support and renewed efforts to rebuild fiscal buffers.

Responding to Inflation: Consolidation and Targeted Support (2022–23)

41. **Beginning in 2022, the IMF shifted its fiscal advice toward consolidation, emphasizing the need to curb demand pressures and anchor inflation expectations.** pandemic-related fiscal stimulus, lingering supply disruptions, and surging food and energy prices following Russia's invasion of Ukraine generated widespread inflationary pressures across AEs. In response, the April 2022 WEO and October 2022 FM called for a gradual withdrawal of pandemic-era stimulus while maintaining targeted support for vulnerable households. By October 2022, the WEO recommended steady fiscal tightening in economies facing persistent inflation, arguing that reduced fiscal support would ease the burden on monetary policy and mitigate risks to financial stability. The April 2023 FM reinforced this stance, contending that fiscal consolidation—when combined with well-targeted transfers—could aid disinflation while limiting the adverse distributional effects often associated with monetary tightening. The overarching message was clear: fiscal policy should complement, not counteract, monetary efforts to contain inflation and rebuild buffers to prepare for future shocks.

42. **In addressing cost-of-living pressures, the Fund cautioned against broad-based subsidies and blanket price controls, warning that such measures risked distorting price signals and straining public finances.** Instead, it advocated for time-bound, targeted interventions—such as income transfers or energy rebates directed at low-income households—while allowing relative prices to adjust to encourage energy conservation.[14] This guidance aimed to balance immediate relief with fiscal sustainability, ensuring that support measures did not undermine broader stabilization efforts. The OECD's 2022 Economic Outlook echoed this approach, urging that energy-relief policies remain "targeted, temporary, and preserved

[14] A survey of 174 countries in the October 2022 FM found that many measures implemented to protect households and firms against price increases—such as price subsidies and energy caps—were poorly targeted, disproportionately benefiting higher-income groups.

incentives to reduce consumption." Some interviewees, however, noted that the Fund's messaging was muddled by a working paper coauthored by the Chief Economist (Dao and others, 2023), which found that European measures such as price subsidies, tax reductions, and energy price caps had effectively limited the passthrough from energy to core inflation—potentially undermining the clarity of the Fund's public stance.

43. **In the post-pandemic environment—marked by higher long-term interest rates, elevated debt levels, and growing medium-term spending needs—the Fund has called for a "strategic pivot in global fiscal policy."** It has warned that the factors that once kept borrowing costs low—such as the global savings glut and large-scale central bank bond purchases—can no longer be taken for granted. As Gopinath (2024) noted, "in the world we are now, loose fiscal policy can increase term premia on government bonds as long-term debt sustainability comes into question." Chief Economist Gourinchas (2025) echoed these concerns, emphasizing that recent experience has shown that "it is easier to open the tap of fiscal support than to close it." With debt already high, growth slowing, and financing costs rising, the Fund has underscored that fiscal authorities now face sharper trade-offs. Most countries, it argued, have limited fiscal space and should pursue gradual but credible consolidation plans. As new spending pressures emerge—notably in defense—lasting increases should be offset by expenditure cuts or new revenue sources to avoid compounding fiscal vulnerabilities. Only in countries with ample fiscal space should temporary components, such as transitional support or initial rearmament costs, be financed through borrowing.

44. **Despite the overall appropriateness of the Fund's call for fiscal restraint, some staff and external observers criticized its advice for sufficient differentiation across countries with distinct inflation drivers.** While the IMF maintained that tighter fiscal policy would complement monetary tightening and support disinflation, critics argued that this uniform message overlooked important cross-country differences. In the U.S., strong demand pressures—fueled by large-scale pandemic stimulus and a tight labor market—were key sources of inflation. In contrast, much of Europe faced weaker recoveries and sharper energy supply shocks following Russia's invasion of Ukraine (Blanchard and Bernanke, 2024). As a net energy exporter, the U.S. was relatively insulated from these disruptions, whereas European countries experienced severe terms-of-trade shocks and supply constraints. A more differentiated approach—recognizing the varying balance between demand- and supply-driven inflation across regions—could have improved the quality of the Fund's fiscal advice.

IV. Advice to Individual Countries

45. **This section examines IMF fiscal policy advice in bilateral surveillance for a sample of 11 AEs and 1 currency union**, drawing on Article IV staff reports covering three distinct periods: (i) the immediate aftermath of the GFC (2009–10); (ii) a period of relative stability marked by debates on secular stagnation (2014–15); and (iii) the post-COVID-19 recovery (2022–23). The analysis considers: (i) medium-term guidance—debt-to-GDP anchors in

light of sustainability and long-term spending needs, the role of fiscal policy in external rebalancing, and fiscal risk management; (ii) near-term stance—timing, phasing, and composition of adjustment measures and the fiscal–monetary policy mix; and (iii) how country advice seeks to align short-, medium-, and long-term objectives through fiscal frameworks and institutions and attention to distributional issues.

Medium-Term: Fiscal Sustainability, Fiscal Risks and Institutions, and External Imbalances

46. **The quality of staff justifications for assessing the existence—or lack—of fiscal space has improved markedly over time.** During 2008–12, Article IV reports often contained strong assertions about limited fiscal space that appeared, if not exaggerated, at least weakly substantiated. For instance, the 2009 New Zealand report stated that the country had "very limited scope for additional fiscal stimulus" without providing a convincing rationale—a notable omission given its low debt-to-GDP ratio and favorable financing conditions. Similarly, the 2009 France report stated that "all key indicators [of the Stability and Growth Pact] indicate that France has no additional fiscal space," without clarifying whether these metrics were appropriate. Japan's 2012 report adopted a comparable stance, asserting that "there is little room for further fiscal stimulus" without explaining why its financing capacity was constrained. In later periods (2014–15 and 2022–23) such unqualified statements largely disappeared, suggesting that analytical efforts associated with the introduction of the Fiscal Space Framework helped discipline staff judgments and reduce subjectivity. More recent reports not only provided clearer explanations when fiscal space was deemed limited but also articulated reasons why, even when fiscal space existed, countries should refrain from using it.

47. **The quality of staff justifications for recommended medium-term debt targets varied widely across reports.** Some Article IVs offered only cursory explanations for why a country should converge to a particular debt ratio,[15] providing little analytical basis for the chosen target. Others were more detailed, often arguing that debt should be reduced to mitigate risks of market distress or to rebuild buffers for future shocks. Even in these more comprehensive cases, however, the discussion typically focused narrowly on debt sustainability, without systematically weighting broader policy trade-offs—such as the implications of alternative debt paths for growth, investment, or social spending.[16] As a result, while many reports presented well-structured projections of debt dynamics, they offered limited insight into the rationale for selecting one medium-term debt target over another. In several cases, large shifts in

[15] When authorities articulated their medium-term consolidation strategy in terms of achieving a certain level of the primary balance by a specific date, staff reports often suggested reframing the strategy around the primary balance consistent with reaching a particular medium-term debt-to-GDP target—thereby providing greater clarity and flexibility for fiscal planning. This was, for example, the case in Japan (2014).

[16] Exceptions include Korea (2013), Singapore (2014, 2015, 2022), and Switzerland (2022).

recommended medium-term fiscal paths were introduced without clear justifications. Sweden provides a particularly instructive example. The Fund's advice on Sweden's medium-term fiscal target underwent a major shift between 2014 and 2015—one that was ultimately warranted and better aligned with the country's ample fiscal space, yet occurred despite relatively little change in underlying fiscal, macroeconomic, or financial conditions.[17] In 2014, staff supported maintaining the long-standing fiscal target of a 1 percent of GDP surplus over the cycle, which would have reduced public debt by about 10 percentage points despite its already low level (around 40 percent of GDP). This stance, justified by aging pressures and contingent liabilities from a large financial sector, aligned with the Riksbank's hawkish monetary policy, which sought a tight macroeconomic stance amid concerns over rapid credit growth and a potential housing bubble. The following year, staff endorsed the authorities' proposal to lower the target by one percent of GDP over the cycle, concluding that "maintaining balance over the cycle is sufficient to safeguard Sweden's fiscal buffers."

48. **A key marker of high-quality IMF fiscal advice is the extent to which staff provide alternative, quantified measures for achieving medium-term fiscal adjustment.** On this dimension, the level of specificity varied considerably across reports. Some offered only broad guidance, while others presented detailed, costed policy options. For example, the 2009 Korea report emphasized that consolidation should rely on revenue-raising measures, streamlining non-age-related expenditures, and pension reform. The 2014 Italy report went further, identifying concrete savings from reducing tax expenditures, conducting expenditure reviews, and introducing wealth taxes, while the 2023 U.S. report quantified potential revenue gains from corporate tax increases and scaling back tax expenditures. The 2014 Japan report stood out for its depth, presenting both the authorities' planned measures and additional options developed by staff to achieve a stronger fiscal adjustment (Table 1). According to staff interviews, offering alternative measures is especially valuable because the final policy mix reflects social choices and helps secure public acceptance. While a few Executive Directors cautioned that listing options not endorsed by the authorities could pose communication challenges, most viewed the discussion of quantified alternatives as essential for enhancing the transparency, credibility, and usefulness of IMF advice.

[17] Honohan and Everaert (2019) document a similar turnaround in the Fund's advice on Sweden's monetary policy. During 2010–13, the Riksbank maintained an unusually hawkish stance compared with other advanced-economy central banks, tightening policy despite below-target inflation and high unemployment—an approach justified by concerns over rising household debt and a potential housing bubble. As euro area weakness and krona appreciation weighed on activity, inflation fell well further below target and expectations drifted down. The Riksbank then executed a sharp reversal, cutting its policy rate by 50 basis points in July 2014 and moving into negative territory in early 2015. Honohan and Everaert (2019) conclude that the Fund was not influential in this shift and that IMF staff consistently endorsed the authorities' preferred policy approach, even as that approach moved from one extreme to another.

Table 1. Possible Fiscal Adjustment Measures for Japan in 2014
(In percentage points of GDP)

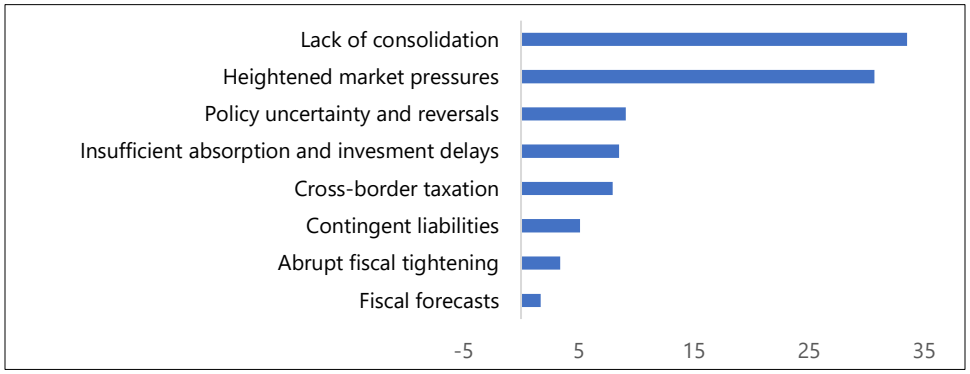
Category	Estimates of Authorities' Current Plan	IMF's Additional Adjustment Options
Total Savings	**2½**	**6½**
Revenue	**1**	**2.5**
Increase consumption tax rate from 8 to 10	1	
Increase consumption tax rate from 10 to 15		2.5
Cut corporate tax rate (details unknown)	-	
Cut corporate tax rate (from 35.6 percent to 25–30 percent)		-0.5 to -1.0
Broaden corporate income tax base	+	+
Broaden personal income tax base (including a reduction of the wage deduction)		0.5 to 1.0
Eliminate preferential tax treatment for pension benefit income		¼
Collect pension contributions from dependent spouses of workers covered by the employees' insurance		¼
Collect health insurance premiums from dependent spouses of workers covered by the employees' insurance		+
Reduce pension payroll tax		-0.5
Introduce carbon tax	+	+
Raise inheritance tax further	+	
Expenditure	**1½**	**3½**
Withdraw the recent stimulus	¾	
Curb growth rate of nominal non-social security spending (excluding interest payments)	¾	1.5
Limit annual nominal growth in social security spending (excluding the items below)	-¼	1¼
Raise pension eligibility age to 67 or higher		¼
Reduce benefits for wealthy retirees		¼

Source: 2014 Japan Article IV.
Note: Staff estimates; "-" and "+" refer to unidentified costs or savings.

49. **The Fund's coverage of fiscal risks in staff reports has been systematic but uneven in depth, with many assessments identifying vulnerabilities clearly yet offering limited guidance on how to mitigate them.** IMF reports typically use a Risk Assessment Matrix (RAM) to classify macroeconomic and fiscal risks by likelihood, impact, and recommended response—ranging from market pressures and policy uncertainty to delays in investment and overly optimistic forecasts (Figure 7). According to a survey of SPR's Reviewers, 74 percent of respondents agreed that fiscal risks were adequately identified, and staff interviews confirmed that fiscal slippages are typically flagged early, allowing for timely policy advice. However, the depth and specificity of accompanying recommendations have varied widely. Many reports provided only general prescriptions—calling for credible medium-term strategies, stronger fiscal frameworks, or precautionary savings—without offering actionable steps for implementation. Several reports, however, stood out for greater specificity: the 2010 Italy report critiqued the authorities' medium-term plan as unrealistic, citing overoptimistic assumptions about spending efficiency and tax compliance; the 2014 and 2015 U.S. reports proposed measures to address debt-ceiling risks; and the 2022–23 Germany reports recommended detailed reforms to

accelerate public investment, including streamlined approval procedures and procurement reforms. Moreover, while fiscal risks are often well diagnosed, their presentation is sometimes fragmented across different sections of reports, reducing visibility and policy traction. Consolidating key risks and mitigation strategies into a dedicated section could enhance clarity and help authorities better incorporate them into decision-making.

Figure 7. Fiscal Risks Identified in Country Staff Reports
(Percentage of Fiscal Risks)



Source: Staff Reports.
Note: Information from Appendix Table Risk Assessment Matrix (RAM), which shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff).

50. **While the new Sovereign Risk and Debt Sustainability Framework for Market Access Countries (MAC SRDSF) has strengthened the assessment of debt risks, staff reports often provide limited operational guidance on debt management strategies.** The case of Italy illustrates this gap. The 2022 Article IV report observed that debt maturity had not been extended despite a prolonged period of exceptionally favorable financing conditions—an important point, since longer maturities would have reduced refinancing risks. However, earlier Article IV consultations had not offered concrete advice on this issue, even though they could have identified the opportunity for Italy to take advantage of low interest rates to lengthen maturities and strengthen debt resilience. Similarly, the 2010 U.S. report acknowledged efforts to lengthen debt maturity amid low interest rates but offered little analysis of whether further action was warranted. More systematic use of existing IMF tools—such as the Medium-Term Debt Management Strategy (MTDS) framework—could help translate debt risk diagnostics into more concrete, policy-relevant recommendations, thereby enhancing the practical value of Fund surveillance.

51. **The integration of external balance considerations into fiscal advice has been uneven—systematic in deficit countries but less consistent and less well-justified in surplus economies.** In deficit countries, IMF staff generally leveraged external sector analytical tools to align fiscal policy with external adjustment objectives, often recommending fiscal consolidation to support external rebalancing—as in the U.K. (2015) and the U.S. (2010). Similarly, the 2010 and 2014 New Zealand reports noted that fiscal consolidation could ease pressure on interest rates

and facilitate exchange rate adjustment. In surplus countries, by contrast, advice was more mixed and at times insufficiently grounded in external sector analysis. Staff often called for more expansionary fiscal policies to stimulate domestic demand and reduce external surpluses, as in recent reports for Germany and Singapore and in the 2013 and 2015 reports for Korea. Yet other reports overlooked how restrictive fiscal policies might hinder external rebalancing in surplus countries. For example, both the endorsement of Germany's debt brake and the support for Japan's VAT hikes were presented with limited discussion of their potential impact on external rebalancing. In such cases, staff rarely justify why specific fiscal recommendations are appropriate despite potential adverse external effects.

Near-Term: Discretionary Measures, Automatic Stabilizers, and Policy Mix

52. **The Fund's advice on the near-term fiscal stance has grown more nuanced, as staff increasingly acknowledged and articulated the trade-off between supporting activity and safeguarding fiscal sustainability.** Early in the period, some staff reports failed to acknowledge this trade-off or assess the potential procyclicality of recommended measures. The 2010 New Zealand report, for instance, called for front-loaded consolidation without discussing its likely drag on activity, while the 2009 France report justified tightening with the unsubstantiated claim that "successful consolidations were often initiated during downturns." Over time, however, staff advice articulated this trade-off more explicitly and with greater analytical depth.[18] Fund advice has recognized that the severity of this trade-off depends on countries' debt levels and output gaps; that delaying fiscal adjustment during periods of slack may be appropriate when fiscal space is available; that credible medium-term strategies and stronger fiscal institutions can bolster sustainability while creating room for near-term support (Box 2);[19] and that structural measures—such as parametric pension and healthcare reforms—can strengthen fiscal sustainability without weighing on short-term demand. Relatedly, discussions of the phasing and sequencing of fiscal measures also became more sophisticated, with some reports—such as the 2021 U.K. and 2022 Singapore Article IVs—differentiating between near-term revenue actions and longer-term investment priorities to align fiscal policy with evolving macroeconomic conditions, and others—such as Japan (2022) and New Zealand (2023)—using state-dependent multipliers to calibrate the timing of policy recommendations.

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[18] Several country teams have drawn on the optimizing framework developed by FAD economists (Fournier, 2019; Fournier and Lieberknecht, 2020) to inform their advice, using it to weigh the short-term benefits of countercyclical fiscal support against the long-term costs of higher debt. See Cohen-Setton, Montiel, and Zoli (2025) for further discussion of Fund toolkits.

[19] The 2010 U.S. Article IV report noted that "there exists some room to trade off a lower upfront adjustment with measures to strengthen medium-term credibility," while the 2015 report argued that addressing long-term fiscal challenges could create space to expand the near-term budget envelope by about 0.25 percent of GDP.

Box 2. IMF Advice on Fiscal Institutions

Strong fiscal institutions are essential not only for ensuring fiscal sustainability but also for creating the fiscal space needed to support output stabilization and long-term policy objectives. Well-designed frameworks—such as credible medium-term budget frameworks (MTBFs), fiscal rules, and independent fiscal councils—can strengthen confidence in public finances and, by anchoring expectations, create space for higher temporary spending. This space can be used not only for countercyclical purposes, such as supporting output during downturns, but also to finance investments and long-term priorities. In this sense, robust fiscal institutions are not merely instruments of fiscal discipline but also enablers of strategic and well-timed fiscal expansion.

Over the evaluation period, the IMF has increasingly underscored the importance of fiscal institutions as a way to reconcile short-term stabilization with long-term sustainability. Staff have emphasized that credible medium-term frameworks and fiscal rules can enable countries to postpone front-loaded fiscal consolidation without undermining market confidence, provided these frameworks clearly articulate a credible path back to sustainability. This approach was evident in many of the Article IV reports reviewed in our desk analysis. Moreover, Amgalan, Cohen-Setton, and Korinek (2025) find that this pattern extends beyond our sample: across a broader set of countries, Fund fiscal advice has tended to be more countercyclical where fiscal institutions are stronger.

Examples from the desk review illustrate how this approach was operationalized in practice. In the U.S. (2010, 2015), staff suggested that tackling long-term entitlement and revenue challenges would allow for greater near-term fiscal support. In Italy (2014), they recommended institutionalizing spending reviews to improve prioritization and accountability, while in France (2015, 2022), they urged curbing the proliferation of tax expenditures outside the budget process and conducting systematic expenditure reviews. In Germany (2022), the Fund advised integrating structural increases in strategic spending—such as on infrastructure and defense—into the core budget, even if that implied reassessing the fiscal rule itself. Similarly, Switzerland's 2022 consultation called for greater flexibility in applying its debt brake to accommodate rising spending needs.

Despite these positive contributions, the Fund's engagement on fiscal rules has often been reactive, limiting its influence at the design stage. In several cases, IMF staff provided detailed ex post assessments and useful technical refinements but offered only limited analysis or recommendations while new frameworks were being formulated. The 2023 New Zealand Article IV report illustrates this tendency: while it contained a precise assessment of the government's new fiscal rules—including constructive proposals such as incorporating natural-disaster costs into the budget framework—earlier consultations had offered only cursory discussion of institutional reforms. As a result, the Fund's potential influence on the original conception of these rules was constrained. One notable exception was the Fund's engagement on the reform of euro area fiscal rules, which was highlighted in interviews as particularly impactful. Staff actively contributed to the policy debate on increasing the flexibility of the Stability and Growth Pact and strengthening its national implementation frameworks, demonstrating how early and well-targeted analytical input can shape reform outcomes (Eichengreen and Gupta, 2025).

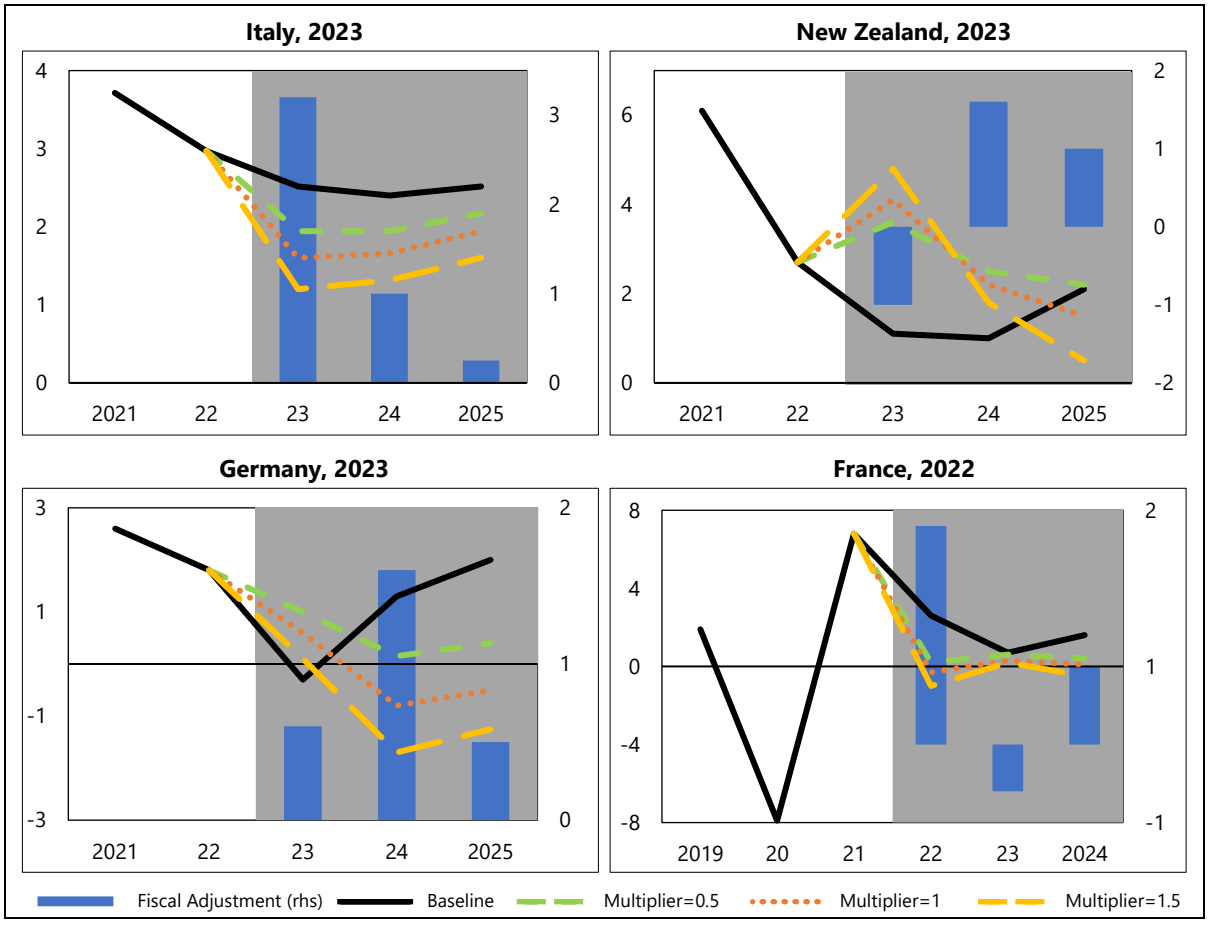
At the same time, the Fund has occasionally endorsed fiscal rules that later proved overly rigid. Germany's 2009 debt brake—initially welcomed by the IMF as a benchmark of prudence—was later criticized for its excessive rigidity, allowing only minimal countercyclical adjustment and insufficient flexibility to accommodate public investment in areas such as infrastructure and defense. In the 2010 and 2011 Article IV consultations, the Fund did not raise concerns about these design shortcomings and even encouraged other euro-area members to adopt similar frameworks. While the adoption of strict rules can strengthen fiscal credibility, it is unclear in Germany's case whether the marginal reputational gains justified the loss of fiscal flexibility. The Fund's subsequent acknowledgment in 2022–23 of the need to reform the rule came late, revealing missed opportunities for earlier engagement. A comparable pattern emerged in Japan (2010), where the IMF supported a rigid debt cap and primary-surplus target despite limited flexibility to respond to shocks.

Source: Authors.

53. **Despite progress in articulating fiscal trade-offs, IMF country teams have often overlooked signals from the Fiscal Multiplier Realism Tool.** While Article IV reports routinely discuss findings from the Fiscal Adjustment Realism Tool—which benchmarks projected fiscal

adjustments against historical experience—they rarely address results from the Multiplier Tool. This omission is noteworthy, as more than half of the 2022–23 staff reports in our sample that transitioned from the MAC-DSA to the SRDSF flagged realism concerns related to assumed multipliers. Figure 8 highlights four of these cases, yet the accompanying staff reports did not explain why the projected fiscal adjustments were expected to have a smaller impact on growth than conventional multipliers would imply.[20] The 2023 Italy and Japan reports, for instance, acknowledged that large fiscal adjustments reflected the unwinding of pandemic support but did not clarify whether the muted growth effects stemmed from the nature of these measures or other factors. Providing explicit explanations for deviations from tool-based benchmarks would be a useful disciplining device and would enhance the transparency and credibility of fiscal projections.

Figure 8. Examples of the Fiscal Multiplier Realism Tool
(Possible growth paths (LHS, percent) and fiscal adjustment (RHS, percentage points))



Sources: IMF Article IV Staff Reports.
Note: Green, orange, and yellow dotted lines show scenarios for multipliers at 0.5, 1, and 1.5, respectively.

[20] The two others were Japan (2023) and U.S. (2022).

54. **Some of the strongest Article IV reports went beyond multiplier analysis, offering clear assessments of alternative fiscal measures that weighed macroeconomic effects, implementation lags, and political feasibility.** When staff presented multiple policy options, the analysis often included explicit comparisons of fiscal multipliers across instruments. A few reports went further, extending the analysis beyond macroeconomic effects to examine cost effectiveness, distributional consequences, and vulnerability to political pressures. The 2009 Germany report, for example, provided a detailed list of stimulus measures (Table 2), evaluating each not only by its macroeconomic impact but also by its cost effectiveness, implementation time, distributional implications, and political feasibility—including the risk that some measures could prove difficult to unwind.[21] Similarly, the 2022 Japan report presented a table comparing multiplier estimates across measures and explaining their underlying rationale. Such examples illustrate how transparent and well-structured discussions of alternative measures can help authorities select a policy mix that best reflects national priorities and social preferences.

Table 2. Staff-Proposed Fiscal Stimulus Measures for Germany in 2009

Measure	Cost-Effectiveness	Lag from Enactment*	Uncertainty About Effects	Comments
Expenditures				
One-off transfers to low-income households via social benefits	Large	Short	Small	**Advantage:** Targets low-income households with high multipliers.
				Disadvantage: Political pressures to continue payments.
Targeted transfers to cash-strapped state and local governments	Large	Short	Small	**Advantage:** Likely to be spent rapidly given fiscal pressures.
				Disadvantage: Political pressures to continue payments.
Targeted public investment projects (quick rollout)	Large	Medium	Small	**Advantage:** Mitigates delays by prioritizing advanced projects.
				Disadvantage: 2-3 years to enact; may miss upswing.
Incentives for new investment	Small	Medium	Large	**Advantage:** Can encourage private-sector activity.
				Disadvantage: Lags in program development.
Revenues				
Reduce social security contributions by raising federal transfers	Large	Small	Small	**Advantage:** Boosts take-home pay for lower-income households.
				Disadvantage: Benefit skewed to higher incomes.
Withholding holiday for employee social security contributions	Medium	Medium	Large	**Advantage:** Immediate increase in take-home pay.
				Disadvantage: Households may adjust behavior.
Income tax rebate	Large	Medium	Large	**Advantage:** Boosts disposable income temporarily.
				Disadvantage: Less effective than uniform rebates; processing delays.
Extend operating loss and carry-back provisions	Small	Medium	Large	**Advantage:** Eases cash constraints for businesses.
				Disadvantage: Provisions have limited direct economic effect.

Source: Germany 2009 report.
Note: *Lag refers to the time required for the policy to achieve most of its effect on aggregate demand: Short = less than six months; Medium = 6 months to 1 year; Long = more than 1 year.

[21] The 2009 France report prioritized high-multiplier stimulus, while the 2010 U.S. and U.K. reports—focused on consolidation—recommended protecting investment and front-loading low-multiplier measures such as VAT hikes. The 2022 France report similarly advised cutting current spending while safeguarding public investment.

55. **In contrast, the Fund's advice on the scale of discretionary fiscal packages has at times been overly timid or insufficiently substantiated relative to economic conditions.** While several reports provided a clear analytical basis for their advice—such as Germany (2009), which quantified the fiscal impulse needed to restore growth—others offered little explanation for the magnitude of stimulus or consolidation proposed. In some cases, staff endorsed neutral fiscal stances despite weak recoveries, as in the 2014 euro area consultation, without clarifying why stronger support was unwarranted. Similarly, Germany's 2020–21 consultations provided limited justification for the scale of pandemic-related measures. Interviews suggest that, during crises, staff deliberately avoided debates over the size or composition of packages to preserve a unified message of strong support for policy action. While this approach ensured clear communication, it also risked overlooking whether packages were too small to restore output to potential—or, conversely, too large and potentially inflationary. Overall, staff were generally effective in warning against excessive stimulus when fiscal space was constrained, but less consistent in judging when stronger or more restrained action was appropriate in countries facing no immediate financing pressures.

56. **Despite frequent references to the importance of allowing automatic stabilizers to operate freely, staff reports have rarely examined how their design could be improved.** Staff reports frequently note that stabilizers should be allowed to operate freely—either to cushion downturns or rebuild buffers during expansions—they seldom propose ways to enhance their effectiveness. Singapore's 2009 consultation was an early exception, suggesting that basing taxes on current rather than prior-year income could make the tax system more responsive to fluctuations in income. Yet, systematic discussions of how to improve stabilizers remained scarce for much of the period. More recently, a few reports—such as Italy (2022), Korea (2022), the U.K. (2021), and the U.S. (2022, 2023)—have begun to address this gap, exploring ways to adapt pandemic-era programs for future use and incorporating lessons on tapering and sunset provisions to ensure timely withdrawal of support. Nonetheless, beyond these isolated cases, the Fund's bilateral surveillance has offered little operational guidance on how countries could strengthen automatic stabilizers to make fiscal policy more resilient—better able to absorb shocks without abrupt policy changes—and more self-stabilizing, by automatically moderating economic fluctuations without the need for new discretionary measures.

57. **IMF advice on the near-term fiscal stance has generally been framed in relation to monetary policy, assessing how the burden of macroeconomic adjustment should be shared between the two.** In the aftermath of the GFC, staff emphasized the central stabilization role of fiscal policy when monetary policy was constrained by the zero lower bound. As conditions normalized, the focus shifted toward the appropriate pace of withdrawal: for example, the 2010 Korea report noted that "the short transmission lags of fiscal policy […] when weighed against the longer lags of monetary policy, suggest that the policy mix could have been tilted more toward monetary tightening and less toward fiscal withdrawal." During the secular-stagnation phase, with policy rates again at the ZLB, staff advocated a looser fiscal stance to avoid overburdening monetary policy—emphasizing, for instance, in the 2015 euro area and

Switzerland consultations that fiscal restraint risked being overly contractionary, and in Singapore (2014) that a loose fiscal–tight monetary mix could accommodate high-priority public investment. Following the pandemic, as inflationary pressures rose, Article IV advice shifted toward fiscal consolidation to complement monetary tightening and reduce spillovers. The 2023 New Zealand report warned that "insufficient fiscal consolidation […] would call for further monetary tightening," while the 2022 France report urged "tighter fiscal and macroprudential policies" to support disinflation.[22]

Longer-Term: Fiscal Pressures, Economic Sustainability, and Redistribution

58. **In the exceptional macroeconomic environment of the 2010s—characterized by secular stagnation—IMF advice became increasingly open to looser medium-term fiscal stances, particularly for countries with ample fiscal space.** Amgalan, Cohen-Setton, and Korinek (2025) show that the share of AEs for which the Fund recommended tightening their medium-term fiscal stance declined steadily between 2010 and 2019. Two main rationales underpinned this evolution. First, staff emphasized that well-targeted fiscal measures—such as public investment in infrastructure—could simultaneously support demand, lift potential output, and thereby strengthen fiscal sustainability.[23] This reasoning motivated recommendations in Germany (2014), the euro area (2014), the U.S. (2014), and Sweden (2021), among others. Second, in some countries, staff advocated higher spending to reinforce social safety nets that could also help increase public acceptance of future structural reforms aimed at boosting long-term growth.[24] The 2013 Korea and 2014 Singapore reports, for example, argued that both countries could safely lower their medium-term fiscal targets to create space for additional social spending.

59. **IMF surveillance has increasingly broadened and deepened its coverage of long-term fiscal pressures, going beyond traditional concerns such as population aging and healthcare to include newer challenges like climate transition, energy security, and defense needs.** Article IV reports have generally identified these pressures early and assessed their fiscal

[22] The 2014 Germany report also considered how the authorities could prepare their macroprudential toolkit to counteract potential risks if ECB monetary policy became too expansionary for Germany, rather than using the fiscal lever.

[23] Another advantage of such measures is that they can raise the neutral interest rate, thereby expanding monetary policy space for future downturns. However, the synergy between stimulating demand and supporting long-term growth turns into a tension once the economy operates above potential. In such circumstances, public investment aimed at boosting demand becomes procyclical, forcing policymakers to balance output stabilization against long-term growth objectives. This tension is especially acute when fiscal credibility is weak, as procyclical stimulus can amplify market concerns and erode confidence. By contrast, in countries with strong fiscal credibility, these risks are far lower. In the unusual case of Singapore—where credibility is exceptionally high—IMF staff supported a moderate expansion in public investment in the 2014 Article IV consultation, justifying it on long-term grounds despite a positive output gap.

[24] Staff also pointed out that stronger safety nets would decrease households' precautionary savings and thus help rebalance growth from exports to domestic consumption.

implications with growing sophistication. Similarly, climate-related issues have received more systematic attention: the 2022 U.S. consultation detailed concrete fiscal instruments such as carbon pricing, the elimination of fuel subsidies, and the reprioritization of public spending to create space for green investment, while New Zealand (2022) and Japan (2022) explored ways to combine fiscal responsibility with ambitious climate goals. This expansion of scope and analytical depth represents a clear improvement in the Fund's treatment of emerging structural spending pressures.

60. **While coverage of long-term fiscal challenges has improved, staff advice often falls short in articulating the associated trade-offs and prioritizing concrete reforms.** Staff reports frequently underscore the importance of spending on essential public goods—such as climate adaptation and defense modernization—but do not always acknowledge that these objectives can entail near-term efficiency and output costs or may fail to generate growth dividends sufficient to offset their fiscal burden. In the case of decarbonization, for example, the transition effectively puts a price on a resource that was previously free—whether explicitly through carbon taxation or implicitly through regulation—thereby accelerating the obsolescence of existing capital stock. This process therefore operates as an adverse supply shock, temporarily lowering potential output even as it strengthens long-term resilience (Pisani-Ferry, 2021).[25] This does not imply that such investments should be avoided; rather, a more explicit articulation of the underlying trade-offs and potential synergies is precisely where the Fund's analysis can add the greatest value. Many reports identify broad reform needs but offer limited guidance on which measures should take precedence. Recent IMF Technical Guidance Notes on pensions (2022a) and health spending (2023a) have begun to fill this gap by providing structured frameworks to assess reforms along fiscal sustainability, adequacy, and efficiency dimensions. Yet, a more systematic integration of these frameworks into Article IV analysis would enhance the rigor, prioritization, and operational relevance of the Fund's long-term fiscal advice.

61. **The Fund has increasingly recognized the distributional implications of fiscal policy, reflecting a welcome shift toward viewing equity not only as a social objective but also as a condition for durable fiscal adjustment.** Greater attention to how the burden of consolidation is shared is important to enhance the likelihood that reforms will be sustained. However, distributional analysis in staff reports often remains narrowly focused on the bottom decile. While this focus is important for protecting the most vulnerable—who also tend to have the least political voice—it is insufficient for assessing political feasibility, as reform acceptance often hinges on perceptions of fairness among middle- and upper-middle-income groups, who wield greater political influence and can block or delay adjustment efforts. Broadening analysis to a quintile-based approach and explicitly assessing how fiscal measures affect middle-income

[25] Several recent Article IV reports, including for the U.S. (2022) and Japan (2022), underscored the importance of achieving climate and energy transition goals, but were less explicit about their implications for debt sustainability.

households—through taxes, transfers, and public services—would provide a more complete view of burden-sharing and strengthen the traction of the Fund's advice.[26]

62. **Implementations of fiscal recommendations ultimately depends on how well the political economy of reform is understood.** IEO analysis of Article IV tables documenting authorities' responses to past recommendations indicates that implementation progress was limited: only 15 percent of Fund recommendations to AEs were fully or largely implemented, 62 percent showed partial progress, and 23 percent saw little or none. Interviews with Executive Directors, staff and country authorities suggest that these gaps rarely stem from disagreement with the Fund's technical advice. Rather, they reflect domestic political constraints and communication challenges that complicate the translation of sound analysis into policy action. While staff have traditionally been reluctant to engage deeply in political economy discussions—viewing this as an area beyond their comparative advantage—coverage of these factors has improved over the evaluation period, with more recent reports acknowledging the role of social consensus, institutional capacity, and political feasibility in shaping fiscal outcomes. A pragmatic approach that has gained traction involves providing authorities with a menu of quantified fiscal options—outlining the trade-offs among them—rather than prescribing a single preferred course of action (see Tables 1 and 2 for examples). This approach allows governments to choose measures best suited to their political constraints while reinforcing the IMF's neutrality and shielding staff from perceptions of ideological bias.

V. ASSESSMENT

63. **The Fund deserves credit for adapting its fiscal policy advice promptly and pragmatically to an extraordinary macroeconomic environment.** In the aftermath of the Global Financial Crisis, unprecedented economic slack, disinflationary pressures, and historically low interest rates fundamentally altered the trade-offs among fiscal objectives. Without abandoning its focus on fiscal sustainability, the Fund became a strong advocate of countercyclical fiscal support and sought ways to reconcile traditional prudence with the need for stimulus.[27] It encouraged expansionary measures anchored in credible medium-term consolidation plans and supported by stronger fiscal institutions to preserve confidence while sustaining demand. The Fund also emphasized that, in this context, public investment could simultaneously boost demand, raise potential output, and thereby reinforce fiscal sustainability. This reorientation was driven by exceptional macroeconomic circumstances, new empirical

[26] Some reports already do that. For example, the 2023 New Zealand and 2022 U.S. reports examined how fiscal policy could better support middle-income households through targeted tax and transfer reforms. In Italy, the 2022 and 2023 reports scrutinized the Superbonus tax credit and the proposed flat tax, arguing that both disproportionately benefited higher-income households while placing pressure on public finances.

[27] Our assessment in this respect aligns with the IEO (2014) evaluation, which recognized the IMF's extensive work in 2008–09 in establishing it as a credible proponent of global coordinated fiscal expansion, despite its traditional tendency to err on the side of fiscal caution.

evidence on fiscal multipliers, and decisive internal leadership. The evolving understanding of fiscal effectiveness prompted a reassessment of fiscal activism, but it was the leadership of successive Economic Counselors—whose professional authority and independence enabled them to challenge entrenched views and drive organizational change—that ensured this intellectual shift translated into institutional practice. As the environment evolved—with output gaps closing, inflation returning, and interest rates rising—the Fund appropriately re-emphasized the underlying trade-offs among stabilization, sustainability, and long-term growth.

64. **The post-crisis shift toward greater fiscal activism prompted clearer recognition in bilateral surveillance of the trade-offs between supporting activity and safeguarding fiscal sustainability.**[28] Its analytical work—especially on the macroeconomic effects of fiscal consolidation—was instrumental in dispelling the once-common belief that fiscal adjustment could be achieved without economic cost.[29] By explicitly recognizing that the appropriate fiscal stance depends on countries' cyclical conditions and fiscal space, the Fund's advice gained in realism. This evolution is evident not only in analytical work and flagship publications, but also in bilateral surveillance, where justifications for the assessed fiscal space have become more rigorous and discussions of the near-term fiscal stance now routinely address the balance between supporting activity and safeguarding sustainability—something that was not always the case early in the period.[30] The sequencing and composition of fiscal measures have also been treated with greater sophistication, as reflected in recent Article IV reports that employed state-dependent or instrument-specific multipliers to calibrate the timing and design of policy recommendations.

65. **The quality of near-term fiscal advice in bilateral surveillance could be strengthened through more systematic use of realism tools, fuller consideration of the role of automatic stabilizers, and more consistent discussion of the appropriate size of fiscal packages.** Assessments of the pace and scale of fiscal adjustment hinge on assumptions about fiscal multipliers, yet results from the Fund's fiscal-multiplier realism tool are often overlooked—even when they flag overly optimistic growth projections. Consistent with program practices,

[28] Overall, the Fund's flagship and bilateral messages were broadly consistent, with the possible exception of the 2010–12 period, when Article IV reports were notably more hawkish—emphasizing front-loaded fiscal consolidation across virtually all advanced economies—whereas the flagship publications placed greater emphasis on sustaining demand and avoiding premature or synchronized tightening.

[29] Academics and policymakers have highlighted IMF staff's role in developing cross-country datasets on fiscal measures, which proved instrumental in assessing the impact of fiscal policy. See Cohen-Setton, Montiel, and Zoli (2025) for more details on the Fund's analytical contributions.

[30] It is worth noting, nonetheless, that the term "*growth-friendly fiscal consolidation*" remains widely used. While it usefully underscores the importance of minimizing the adverse impact of adjustment—for example, by shifting the composition of taxes and expenditures toward measures with higher multipliers or lower distortions—it also risks conveying the misleading impression that fiscal consolidation can be achieved without economic costs.

staff should systematically discuss the reasons why such flags may not signal over-optimism.[31] Similarly, Article IV reports seldom analyze how automatic stabilizers could be strengthened to deliver timelier and more reversible fiscal responses. Doing so would reduce reliance on discretionary interventions that are often difficult to calibrate and unwind, while helping to rebuild fiscal buffers and contain debt accumulation during upswings. Finally, while the Fund was candid in criticizing excessive stimulus under conditions of full employment or high inflation, its restrained assessment of fiscal packages early in the pandemic led it to overlook the excessive size and weak targeting of some measures, which contributed to persistent fiscal deficits.

66. **IMF fiscal surveillance has provided broad and generally sound coverage of medium- and long-term fiscal challenges.** Article IV consultations for AEs typically include well-developed analyses of age-related spending pressures, health-care costs, and, more recently, climate-related expenditures.[32] Fiscal risks are now systematically flagged through the Risk Assessment Matrix, and staff have promoted institutional reforms—such as stronger medium-term budget frameworks, independent fiscal councils, and more credible fiscal rules—to enhance policy credibility. The Fund has also broadened its lens to encompass distributional issues, with advice increasingly addressing the equity implications of fiscal measures and emphasizing the need to protect the most vulnerable. Together, these advances have strengthened the analytical foundations and policy relevance of the Fund's medium- to long-term fiscal advice.

67. **The Fund's analysis of fiscal risks and institutions has become more systematic and sophisticated over the evaluation period, but its operational application and forward-looking relevance remain uneven.** Fiscal risks are now routinely identified and flagged. Nevertheless, advice on mitigation measures often remains general and insufficiently prioritized. Reports frequently stop short of detailing how to manage contingent liabilities, strengthen debt-management strategies, or build fiscal buffers in ways tailored to country-specific institutional and market conditions. A more systematic and timely use of the SRDSF's risk-analysis tools could help translate diagnostics into concrete policy actions and enhance the early-warning value of advice. On fiscal institutions, the Fund has played a constructive role in promoting credible frameworks—such as independent fiscal councils, expenditure reviews, and medium-term budget frameworks—and in disseminating good practices across members. These efforts have strengthened fiscal

[31] The 2024 Operational Guidance Note on Program Design and Conditionality emphasizes that "staff should discuss prominently in program documents the realism of baseline growth projections by leveraging, at a minimum, (i) the fiscal adjustment and growth realism tool under the SRDSF and LIC DSF; (ii) the real GDP growth and output gap realism tools under the SRDSF; and (iii) the realism tool assessing the consistency between public investment and growth under the LIC DSF. In cases where the tools flag large differences from cross-country or the country's historical experience, staff should systematically provide explanations as to why the flags triggered do not signal overoptimism."

[32] Looking ahead, it will be important for the Fund to reinforce its coverage of emerging sources of fiscal pressure, particularly the rising costs associated with industrial policies and efforts to increase defense spending.

credibility and, in some cases, expanded the scope for countercyclical policy. Yet engagement has often been reactive rather than proactive, limiting the Fund's influence at the design stage. In some cases, the Fund also endorsed fiscal rules that later proved excessively rigid.

68. **The Fund's advice on the composition of fiscal adjustment and its distributional implications could also be more systematic and transparent.** While many Article IV reports now discuss the growth and equity effects of recommended fiscal measures, staff generally focus on a narrow set of preferred options rather than presenting alternative policy packages that could achieve similar adjustment objectives through different combinations of revenue and expenditure measures. Providing such a menu—already practiced in a few cases—and discussing the trade-offs, distributional impacts, and administrative feasibility of each option would not only enhance national ownership and political traction but also help dispel perceptions of staff bias or undue influence from the authorities. Moreover, the Fund's distributional analysis remains too narrowly focused on the bottom decile of the income distribution. While this focus is important for protecting the most vulnerable—who also tend to have the least political voice—it is insufficient for assessing political feasibility, as reform acceptance often depends on perceptions of fairness among middle-income groups, who wield greater political influence and can impede adjustment efforts. Expanding the analysis to a broader range of income groups, for instance through quintile-based assessments, would offer a more comprehensive view of burden-sharing and better connect fiscal recommendations to the political economy of implementation.

69. **Finally, the integration of long-term policy objectives into fiscal advice remains incomplete, affecting both the articulation of trade-offs and the rationale for medium-term debt targets.** Although staff reports increasingly acknowledge that there may be valid reasons to temporarily relax medium-term spending plans to accommodate the provision of essential public goods—such as climate mitigation, defense, or social spending—these considerations are not articulated in a systematic way, and their treatment vary widely across reports. A clearer and more consistent integration of these long-term objectives, alongside an explicit discussion of the associated trade-offs, would strengthen the operational relevance of the Fund's advice. Likewise, while Article IVs present detailed projections of debt dynamics, the justification for specific medium-term debt-to-GDP targets is often confined to fiscal sustainability arguments, without assessing how alternative debt paths might better support other long-term goals. An actionable strategy to make explicit and strengthen the rationale for selecting one target among the set of feasible medium-term debt anchors would enhance the coherence, transparency, and evenhandedness of the Fund's fiscal advice. One way forward would be to establish a common template for assessing the desirability of alternative medium-term debt targets on the basis of a clearly identified set of costs and benefits applicable across member countries.[33]

[33] The relevant set of cost/benefit criteria would evolve over time with staff experience and findings from the academic literature.

APPENDIX I. DOES IMF STAFF UNDERESTIMATE FISCAL MULTIPLIERS IN SURVEILLANCE?

This appendix applies the Blanchard-Leigh (2013) methodology to assess whether IMF staff underestimated fiscal multipliers by examining the relationship between growth forecast errors and planned fiscal consolidations.[1] In their original work, Blanchard and Leigh regressed real GDP growth forecast errors on projected fiscal consolidations and found that for 2010–11, a 1 percentage point increase in projected consolidation was associated with a 1 percentage point overestimation of growth. When extended to 2009–12, the estimated coefficient β was approximately -0.65.

$$\text{Forecast Error of Growth}_{i,t} = \alpha + \beta \cdot \text{Forecast of Fiscal Consolidation}_{i,t} + \epsilon_{i,t}$$

We replicate and update their analysis using the April 2024 IMF WEO database. The first three columns of the table below present results for the original sample of 26 European countries. For 2009–12, our findings broadly confirm Blanchard and Leigh's results, with an even larger coefficient in absolute terms—possibly due to data revisions or missing values for some countries (e.g., Malta, Bulgaria, Czech Republic, Slovak Republic, Hungary, and Poland). However, when the analysis is extended to more recent periods, the relationship weakens considerably.

Table AI.1. Regression Results

	European Countries			Advanced Countries		
	2010–12	2013–19	2021–23	2010–12	2013–19	2021–23
β	-0.870***	0.212	0.266	-0.632*	0.197	0.123
	(0.305)	(0.546)	(0.270)	(0.390)	(0.356)	(0.159)
Observations	96	177	78	119	250	148
R-squared	0.598	0.133	0.191	0.547	0.0843	0.278

Source: IMF WEO; IEO calculations.
Note: ***, **, * denotes, respectively, 1, 5, and 10 percent statistical significance.

This finding aligns with other studies, such as Suyker and Mohlmann (2015) and Cronin and McQuinn (2020), which also found little evidence of multiplier underestimation post-GFC. The final three columns extend the analysis to a broader sample of 41 advanced economies and reveal a similar pattern. The weaker relationship in later periods may reflect both staff learning and smaller multipliers outside crisis conditions. It remains too early to assess whether growth forecasts for the large consolidations planned in 2023–25 (Figure 7) were similarly optimistic.

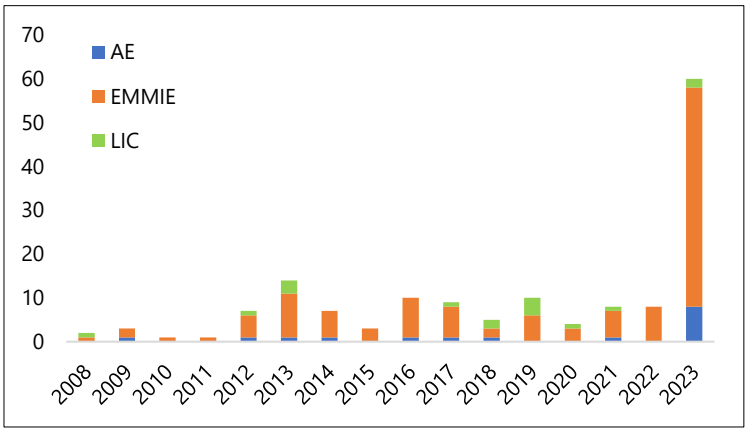
[1] This appendix was prepared with Dawis Kim, PhD Candidate at University of Virginia, during his summer internship at IEO.

APPENDIX II. INDUSTRIAL POLICY IN IMF SURVEILLANCE

After declining in the 1990s, industrial policies (IPs) have reemerged since the mid-2010s.[1] Defined as targeted government interventions—such as subsidies, tax incentives, or trade measures—IPs aim to promote specific sectors or firms to enhance competitiveness, foster reindustrialization, or address national security concerns. These policies often entail significant fiscal costs. For nine advanced economies, OECD data show average annual spending of about 1.4 percent of GDP through grants and tax expenditures, 0.7 percent through financial instruments (such as loans and guarantees), and 1.1 percent on export finance schemes.[2]

Reflecting their growing importance, IPs have received increased attention in IMF surveillance. The 2022 Guidance Note for Article IV (IMF, 2022b) consultations called for their coverage when macro-critical or likely to generate significant cross-border spillovers, and the 2024 staff guidance (IMF, 2024a) provided a fuller conceptual framework and practical principles for assessing them—covering justification, design, cost-benefit analysis, and implementation. As shown in Figure II.A, coverage of IPs in Article IV reports rose sharply in 2023. Recent multilateral surveillance has examined industrial policies in varied contexts—ranging from climate policy (IMF, 2023b) and trade fragmentation (McDonald, Ruta, and Van Heuvelen, 2024) to surveillance principles (IMF, 2024a) and innovation (IMF, 2024b)—drawing on new data sources, including a dataset of industrial policy announcements developed with the Global Trade Alert. The October 2025 WEO (IMF 2025) also features an analytical chapter devoted to this topic.

Figure II.A. Coverage of IPs in Art. IV Reports, 2008–23
(Number of paragraphs)



Source: IEO staff calculations based on FDET data.

[1] This appendix was prepared with Lukasz Jannils.

[2] OECD data covers the following countries: Canada, Denmark, France, Ireland, Israel, Italy, Sweden, The Netherlands, and the United Kingdom. See https://www.oecd.org/en/topics/sub-issues/quantifying-industrial-strategies.html.

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