IEO
Independent Evaluation Office
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BACKGROUND PAPER

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The IMF's Fiscal Policy Advice to Emerging Market and Middle-Income Economies

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The IMF's Fiscal Policy Advice to Emerging Market and Middle-Income Economies[*]

Prepared by José Antonio Ocampo[†] and Edda Zoli[‡]

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Contents Page

Tables

Annexes

ABBREVIATIONS

AE	Advanced Economy
CPA	Consistent Policy Assessment
CSO	Civil Society Organization
DSA	Debt Sustainability Analysis
ECCU	Eastern Caribbean Currency Union
EM	Emerging Market
EMMIE	Emerging Market and Middle-Income Economy
FAD	Fiscal Affairs Department (IMF)
FCS	Fragile and Conflict-Affected States
FM	Fiscal Monitor
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GFSR	Global Financial Stability Report
GIMF	Global Integrated Monetary and Fiscal Model
IPF	Integrated Policy Framework
MAC	Market Access Country
PIH	Permanent Income Hypothesis
REO	Regional Economic Outlook
RES	Research Department (IMF)
SDS	Small Developing States
SDG	Sustainable Development Goals
SFA	Stock-Flow Adjustment
SPN	Staff Position Note
SRDSF	Sovereign Risk and Debt Sustainability Analysis Framework
SOE	State-Owned Enterprise
TA	Technical Assistance
TSR	Triennial Surveillance Review (IMF)
VE	Vulnerability Exercise (IMF)
WEO	World Economic Outlook

EXECUTIVE SUMMARY

This paper evaluates the IMF's macro-fiscal policy advice to emerging market and middle-income economies (EMMIEs) between 2008 and 2023. Fiscal policy, which in these economies had been typically marked by procyclicality, shifted toward a more countercyclical stance, with most countries deploying discretionary stimulus measures in response to the Global Financial Crisis (GFC) and the COVID-19 pandemic. However, fiscal buffers were not rebuilt after the GFC, and EMMIES experienced a significant deterioration in fiscal positions since 2008. They also face long-term challenges, including growing demands for social protection and climate-related expenditures, as well as mounting age-related spending and slowing potential growth in some cases. Some also need to boost spending to achieve the Sustainable Development Goals (SDGs).

The Fund has adapted its macro-fiscal advice to address EMMIEs' evolving challenges. The Fund's top-line advice was relevant and timely, and supported a shift toward more countercyclical fiscal policies. The IMF's multilateral messages advocating active fiscal policy in response to the GFC, the COVID-19 pandemic, and periods of economic slack included caveats reflecting fiscal space, but were sometimes misinterpreted or misused. Although appropriate, top-line advice to implement rapid stimulus during downturns followed by gradual consolidation during recoveries was seen, over time, as creating a 'ratchet effect'—contributing to a gradual rise in debt and raising concerns about fiscal sustainability. Moreover, top-line advice might have underestimated the difficulties of reversing discretionary stimulus in some EMMIEs due to political and other institutional constraints. Notwithstanding, the top-line advice has increasingly emphasized fiscal risks, with a focus on contingent liabilities starting in 2013, and more prominently since 2016. Since 2018, and particularly after the pandemic, the Fund has advocated for stronger fiscal buffers, highlighting risks in EMMIEs, especially frontier markets.

Bilateral surveillance was generally consistent with the Fund's top-line advice on fiscal stance, though it was at times more cautious. Short-term fiscal policy advice generally aligned with countries' cyclical conditions and public sector vulnerabilities, though it sometimes exhibited a bias toward tightening. Article IV consultation reports often provided sound analysis for short-term fiscal recommendations, but some lacked clear guidance on fiscal stance, had limited justifications for recommended measures, and failed to quantify macroeconomic impacts or discuss fiscal multipliers. Trade-offs between output stabilization and fiscal sustainability were rarely addressed. Additionally, the role of automatic stabilizers was underemphasized in bilateral surveillance. The reviewed staff reports typically provided detailed and relevant recommendations on the composition of the advocated fiscal action. They generally addressed both expenditure and revenue measures, with growing emphasis on the latter in recent years. The advice on the policy mix was limited.

The Fund still faces challenges with optimism in forecasts. The latest revision of the debt sustainability assessment framework for market access countries (SRDSF) introduced new tools to address these issues, but staff did not always fully utilize them in the reviewed reports. There was variation in how the results of the Debt Sustainability Assessment were discussed in the staff reports. Reviewed reports frequently identified fiscal risks and, in recent years, offered more guidance on mitigation strategies. The depth of the discussion on medium-term challenges varied, though it showed improvement over time. Advice on fiscal frameworks was generally of good quality, though not always consistent for individual countries. The most recent reports presented fiscal advice with a clear medium-term anchor.

Since 2016, the top-line Fund's fiscal advice has increasingly considered the medium-term growth implications of fiscal measures. Consistently, staff reports increasingly emphasized fiscal measures aimed at supporting medium-term growth; but they generally did not quantify the expected growth impact. Staff reports have also focused more on social protection, in several cases offering detailed advice on creating fiscal space for social spending, though the distributional impact of measures was generally not assessed. Fiscal advice has paid more attention to climate-related policies but has provided limited guidance on gender strategy and SDG achievement. While the Fund has developed valuable tools for climate analysis, the trade-offs between various spending priorities and consolidation needs were not always addressed. Staff reports made progress in considering political factors, but explicit discussions on how political constraints were reflected in staff advice remain limited.

I. INTRODUCTION

1. **The 97 economies classified as Emerging Market and Middle-Income Economies (EMMIEs) by the Fund face several fiscal challenges.** While they are a diverse group—including 20 more established emerging markets (EMs) and 32 considered commodity exporters (Annex I)—common challenges include managing fiscal policy in a countercyclical way, rebuilding fiscal buffers, where necessary, and creating fiscal space for additional spending for climate change mitigation and/or adaptation. Other priorities vary ranging from raising tax capacity for spending on public services where safety nets are weak, to fiscal consolidation where the sovereign debt burden is high (Duttagupta and Pazarbasioglu, 2021). In some cases, looming pressures from age related spending and a decline in potential growth, possibly impacting debt sustainability, are impending challenges. The 11 EMMIEs classified as Fragile and Conflict-Affected States (FCS) and 23 classified as Small Developing States (SDS) confront additional distinct fiscal challenges, including capacity constraints and frequent and unanticipated fiscal shocks.

2. **The IMF's fiscal surveillance advice to EMMIEs from 2008 to 2023 seeks to balance three primary objectives, which generally entail trade-offs.** These are stabilizing economic output over the cycle, maintaining fiscal sustainability, and raising potential growth and providing public goods. This paper focuses on macro-fiscal aspects of the advice, including the size, pace, and composition of the fiscal stance in the short and medium term, and its interactions with other policies. It examines whether the advice adequately took into consideration policy trade-offs between supporting output and maintaining debt sustainability, while meeting financing needs regularly.[1] It evaluates whether the IMF timely flagged contingent fiscal risks and provided recommendations to mitigate them. It also considers to what extent advice was tailored to the country-specific circumstances including the political economy realities, consistent between multilateral and bilateral surveillance, and evenhanded. While not the main focus, the paper also considers whether fiscal policy advice took into enough consideration critical social spending and green transition or climate adaptation and was consistent with the Fund's strategies in the areas of social protection, climate change, and gender mainstreaming (IMF, 2019a; 2021a; 2022a).[2] These aspects are related to the role of fiscal policy in supporting longer-term economic sustainability.[3] This paper focuses on the fiscal policy advice the Fund provides through its surveillance activities, though the IMF also delivers extensive and valuable guidance to its members through capacity development initiatives.[4]

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[1] IMF advice on sovereign debt management in EMMIEs, more closely related to the objective of meeting financing needs regularly in a cost-effective manner, while minimizing risks, is assessed in Eichengreen and Zoli (2025).

[2] Fund work is expected to focus on these areas when and where they are macro critical.

[3] Other structural fiscal issues—such as public financial management, expenditure policy, revenue administration, and tax policy—are not evaluated except where they directly impact the fiscal stance.

[4] According to the authorities' survey conducted for the evaluation, nearly 80 percent of EMMIEs felt that training and/or technical assistance on fiscal policy was well- or partially-integrated with the fiscal policy advice under surveillance. See IEO (2022a) for an evaluation of the Fund's capacity development activities.

3. **The analysis is mainly based on a variety of sources.** They include the IMF's flagship documents (the World Economic Outlook (WEO), the Global Financial Stability Report (GFSR), and the Fiscal Monitor (FM)) and published Article IV consultation staff reports for a sample of thirteen EMMIEs.[5] It is also informed by analytical IMF studies that have supported fiscal advice, cross-country analyses based on public and internal databases, earlier IEO evaluations, targeted surveys,[6] and interviews with Executive Board members, Fund staff, and external stakeholders including think tanks and academics.

4. **The paper is structured as follows**. Section II focuses on the fiscal policy challenges in EMMIEs over the past two decades and reviews the evolutions of areas of Fund's fiscal policy advice to EMMIEs. Section III examines the Fund's "top-line" fiscal policy advice to EMMIEs (i.e., the main messages that the IMF conveyed to EMMIEs in multilateral surveillance documents and communications by Management), while Section IV focuses on bilateral surveillance advice. Section V provides our key findings.

II. Fiscal Challenges of EMMIEs and IMF Policy Guidelines

5. **The Fund's advice to EMMIEs responded to the macroeconomic developments and challenges these countries faced during the evaluation period**. The surveillance guidance and the advice adapted over time to these challenges but was also shaped by the evolution of the economic profession's views on fiscal policy in EMMIEs and IMF analytical work and tools. This section reviews the literature and fiscal developments in EMMIEs and assesses how well the IMF guidelines and analytical toolkit on EMMIEs evolved to ensure effective surveillance.

A. Macroeconomic Developments and Fiscal Policy Challenges in EMMIEs

6. **The academic literature on fiscal policy in EMMIEs traditionally highlights its typically procyclical nature, in contrast with the practices of advanced economies (AEs).** A landmark in this regard was the analysis of cyclical patterns of spending in more than one hundred countries between 1960 and 2003 by Kaminsky, Reinhart, and Végh (2004), which showed that fiscal policies tend to be procyclical in emerging economies and developing countries, particularly in Africa and Latin America, in contrast to the experience of the AEs. A key factor contributing to procyclicality was "balance-of-payments dominance," whereby the short-term macroeconomic dynamics is essentially determined by external shocks, positive or negative (Ocampo, 2016). Commodity prices shocks played an important role in this regard, especially for commodity-dependent economies (Figure 1).[7] But, more crucially, capital flows movements generated significant cyclical shocks since the mid-1970s in EMMIEs with access to capital markets. EMMIEs faced constraints on expansionary

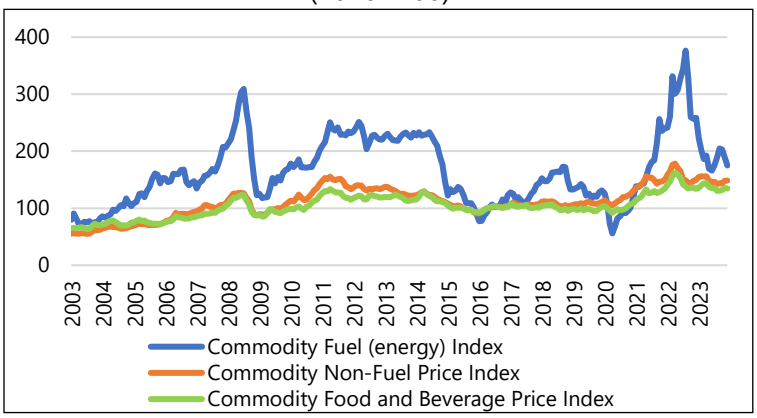
[5] For the two economies in the sample that were briefly under a Fund arrangement over the evaluation period, program documents were also considered (see Annex I).

[6] IEO conducted a survey of country authorities and IMF mission chiefs. Results are presented in the online methodological and statistical appendix of the main report of the evaluation.

[7] For a review of the academic literature of fiscal procyclicality in commodity exporting economies, see Marioli and Vegh (2023).

fiscal policy during downturns given capital flow volatility stemming from debt sustainability concerns (Kaminsky, Reinhart, and Végh, 2004) and also tended to experience boom-bust financial cycles, independently of their macroeconomic fundamentals (Calvo and Talvi, 2008).[8] After the global financial crisis (GFC), cycles of risk appetite and flight to quality were driven by AEs' monetary policy. The prolonged low-interest-rate environment, coupled with investor search for yield, drove substantial net portfolio inflows to EMMIEs from 2009 to 2019, with only brief disruption periods.[9] These flows sharply reversed since the early 2020s as AEs aggressively tightened monetary policy (Figures 2.A and 2.B and Eichengreen and Zoli, 2025).[10] Political economy factors also contributed to EMMIEs' procyclical policies. The abundance of resources during economic expansions created strong pressure on governments to increase spending. Conversely, austerity measures during crises led to political demands for fiscal expansion in the following boom.

Figure 1. Commodity Prices
(2016=100)



Sources: WEO; IEO staff calculations.

7. **However, the literature also points to a gradual shift toward more countercyclical policy in several EMMIEs since early 2000s, including thanks to the adoption of relevant instruments.** The latter include commodity stabilization funds—critical for commodity-exporting economies—and fiscal rules incorporating countercyclical tax and spending features, as well as long-term debt targets. According to Frankel and others (2013), about 35 percent of analyzed

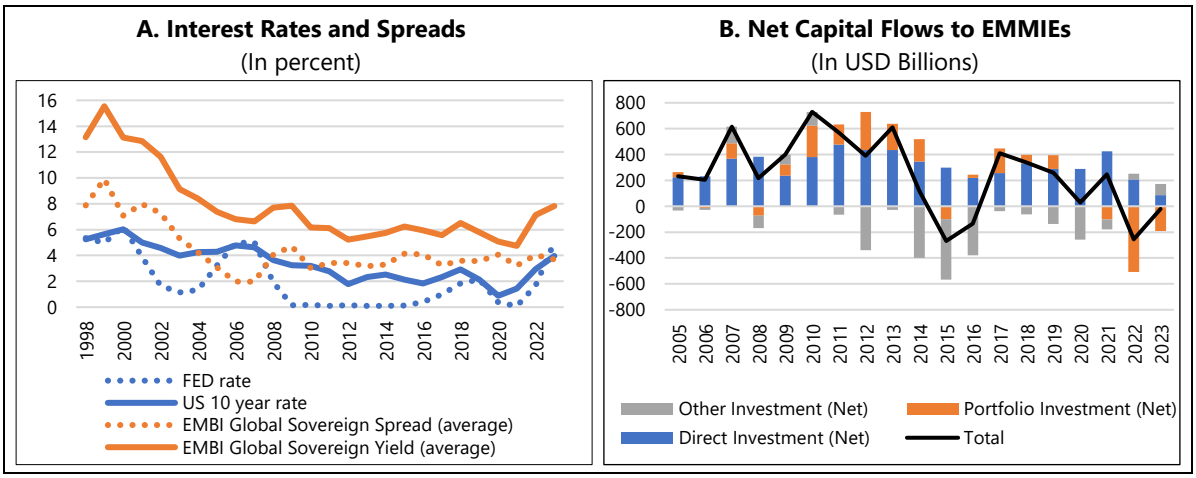
[8] In addition, Cuadra, Sánchez, and Sapriza (2010) show how borrowing constraints tighten during recessions due to rising default risk, thereby driving a structural bias toward procyclical fiscal policy in EMMIEs. A follow-up study finds that this result holds mostly when fiscal policy is itself useful for stabilization, i.e. with nominal rigidities (Bianchi, Ottonello, and Presno, 2023).

[9] Periods of capital flows volatility between 2009 and 2019 included the "taper tantrum" in the spring-summer 2013 following the Federal Reserve Chairman's testimony to Congress about the potential reduction of the Fed's bond-buying program; the "Renminbi shock" in the summer of 2015, triggered by a significant and unexpected devaluation of China's currency; and in the summer 2018 when market participants revised upward their expectations on the path of interest rates in the U.S. Higher levels of foreign reserves and more flexible exchange rate regimes mitigated the effects of these episodes of capital flow volatility (IMF, 2016a).

[10] Overall, EMMIEs have remained largely resilient, despite capital flows volatility in the face of global monetary tightening (Allen and Bems, 2024).

EMMIEs adopted countercyclical policies since the 2000s. Carneiro and Garrido (2015) found that in some EMMIEs fiscal policy was countercyclical in 1990–2011 and that a sizable number of them were graduating from fiscal policy pro-cyclicality. Vegh and Vuletin (2014) concluded that, on average, Latin American economies graduated from procyclical to countercyclical policy responses by 2013. Marioli and Vegh (2023) found that in non-commodity exporters procyclicality had declined since 2007, and fiscal policy was, on average, acyclical by 2020. In commodity exporters procyclicality also fell but remained a very significant phenomenon. Riera-Crichton and Vuletin (2024) showed that a large share of the cyclical increases in public consumption achieved during good times was typically downwardly rigid, so EMMIES in the period 1980–2019 had been semi-procyclical, i.e., spending on public salaries and goods and services increased in good times while remaining downwardly rigid during recessions.

Figure 2. Interest Rates and Capital Flows



Sources: JPMorgan; EDI; WEO; IEO staff calculations.
Note: EMBI = Emerging Market Bond Index; EMMIE = emerging market and middle-income economy; FED = Federal.

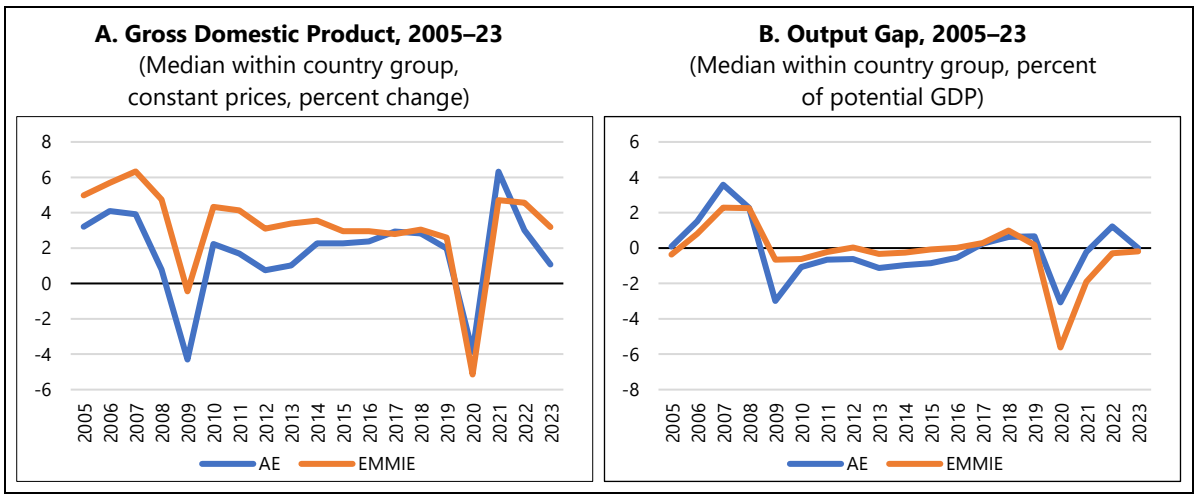
8. **In response to the GFC and the COVID-19 pandemic most EMMIEs carried out countercyclical discretionary fiscal policies, which, however, were not fully reversed.** Thanks to the fiscal and external buffers accumulated during the early 2000s, EMMIEs were typically able to implement a sizeable discretionary stimulus in 2008–09 in the face of the output contraction (Ghosh, 2019; IMF, 2010a; Figures 3 and 5.A),[11] but fiscal space was not maintained post-GFC (Huidrom, Kose and Ohnsorge, 2016; Figure 6). Countercyclical discretionary fiscal measures were adopted also during the pandemic, marking a significant shift from historical patterns (Bechchani, 2024; Figures 5.A and 6.A).

9. **A challenge that raised to prominence in EMMIEs since 2008 was the deterioration in their fiscal position (Figures 6).** Because of the limited fiscal adjustment following the GFC, despite the reversal of COVID-19 primary deficits, EMMIEs' median primary balances in 2023 remained weaker than in 2007 (Figure 6.A). Within EMMIEs, primary balance movements in

[11] See, for instance, IMF (2009a) and IMF (2015a) for a discussion of stimulus measures implemented in the Asia and Latin America, respectively.

commodity exporters largely reflected the commodity price cycles (Figure 1). Median debt to GDP rose from 31 percent in 2008 to nearly 55 percent in 2023 (Figure 6C), and debt-to-tax revenue ratios also soared (Figure 6D). The debt increase, together with the surge in interest rates in 2022 resulted in growing interest payments to GDP ratios (Figures 6.B). Debt decomposition analysis indicates that the average increase in public debt to GDP ratios was mainly driven by primary deficits, while the interest rate-growth differential mitigated debt accumulation. Exchange rate depreciation and other stock-flow adjustments (SFAs) were other contributing factors (Eichengreen and Zoli, 2025). The IMF's Fall 2023 Vulnerability Exercise (VE) pointed to persisting significant fiscal risks. The share of EMMIEs assessed at high or medium fiscal risks was over 60 percent, broadly unchanged since the pre-pandemic period (Figure 7). The share of EMMIEs where a combination of fiscal, real, and financial risks, were considered medium or high increased from 49 percent to 62 percent compared to before the pandemic.

Figure 3. Economic Activity



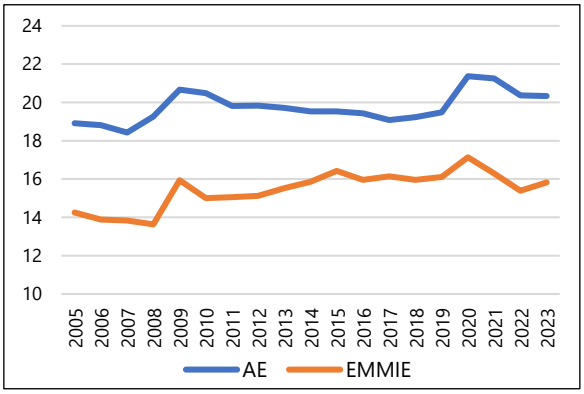
Sources: WEO; IEO staff calculations.

10. **Other more structural and longer-term issues also emerged over the evaluation period.** These include impending pressures from age-related spending and a decline in potential growth in some EMMIEs. All EMMIEs also face the necessity of creating fiscal space for climate change related spending, and many the need to enhance social protection. Some also need to increase spending to meet Sustainable Development Goals (SDG). Relatively weak revenue mobilization is a structural feature of many EMMIEs, with the median tax revenue-to-GDP ratio at around 15 percent, nearly 8 percentage points less than in AEs (Figure 4B). Other long-standing issues are large informality in the labor market, that, for instance, makes it more difficult to utilize unemployment benefits as automatic stabilizers; often weaker fiscal institutions, less deep and liquid bond markets, and tighter financing constraints than AEs; and vulnerabilities to spillovers from AEs. A subset of EMMIEs, most notably FCS and SDS, also face substantial capacity constraints and significant exposure to shocks.

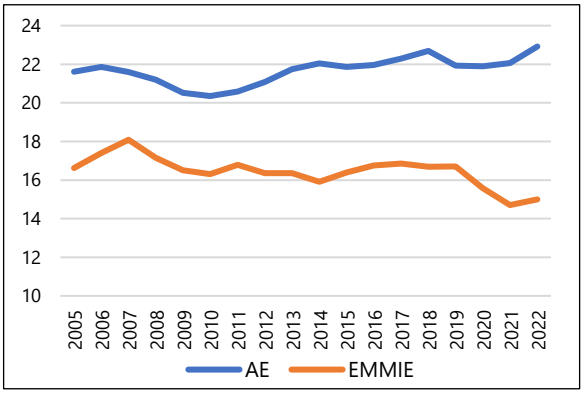
11. **Another aspect of EMMIEs' fiscal policy, also contributing to procyclicality, are weaker automatic stabilizers than in AEs (IMF, 2015b).** This is due to limited unemployment insurance in the context of high informality rates, less progressive income taxes and smaller public sectors (Figures 4.A and 4.B; Riera-Crichton and Vuletin, 2024). Indeed, in response to the output shocks since 2008 the stimulus provided by automatic stabilizers was much weaker in EMMIEs than in AEs, as indicated by the smaller change in the cyclical component of primary balances (calculated as primary balances minus cyclically-adjusted primary balances (Figure 5.B)).

Figure 4. General Government Tax Revenue and Consumption

A. General Government Final Consumption Expenditure, 2005–23
(Median within country group, percent of GDP)



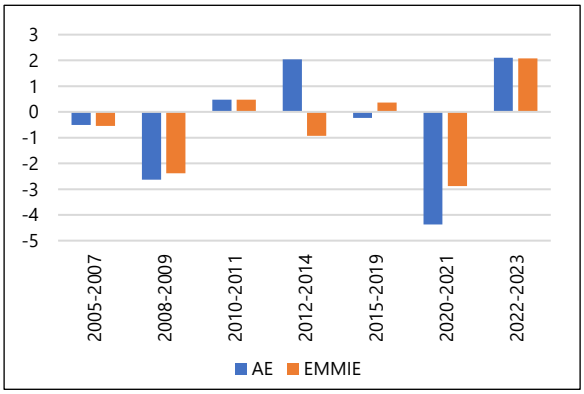
B. Tax Revenue, 2005–22
(Median within country group, percent of GDP)



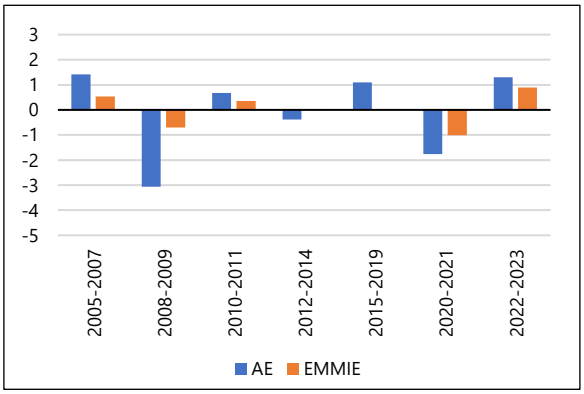
Sources: IEO staff calculations based on IMF data.

Figure 5. Fiscal Policy in AEs and EMMIEs

A. Change in Cyclically Adjusted Primary Balances, 2005–23
(Median within country group, percent of GDP)



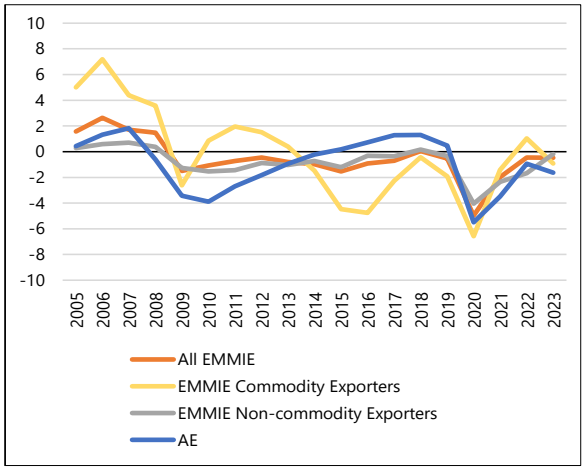
B. Changes in Cyclical Component of Primary Balances, 2005–23
(Median within country group, percent of GDP)



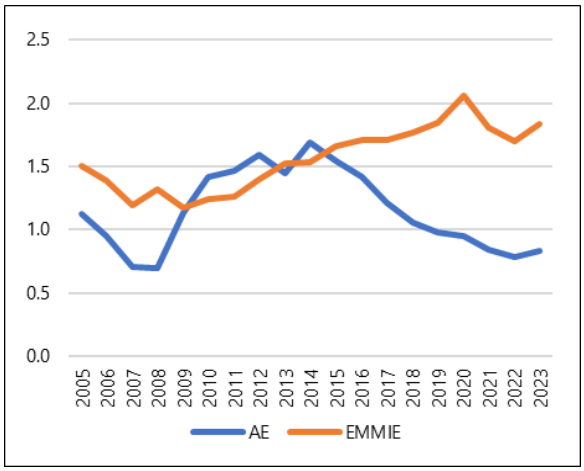
Sources: WEO; IEO staff calculations.
Note: The cyclical component of primary balance is calculated as fiscal primary balance minus cyclically adjusted primary balance. A negative number is indicative of stimulus provided by automatic stabilizers. A negative number for the change in the cyclically adjusted primary balances is indicative of discretionary fiscal stimulus. Similar charts are obtained if structural adjusted primary balances are used instead of the cyclically adjusted primary balances.

Figure 6. Fiscal Performance Indicators

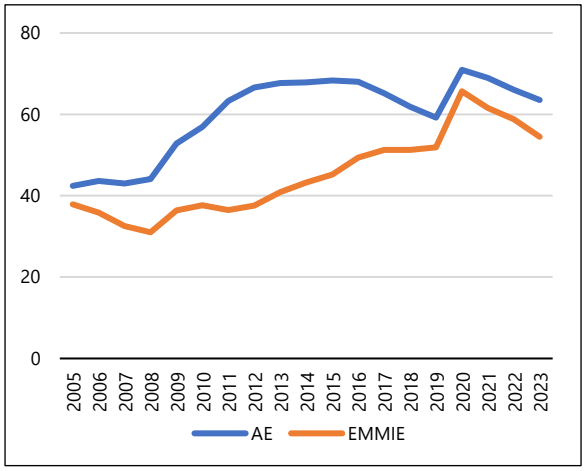
A. General Government Primary Balance, 2005–23
(Median within country group, in percent of GDP)



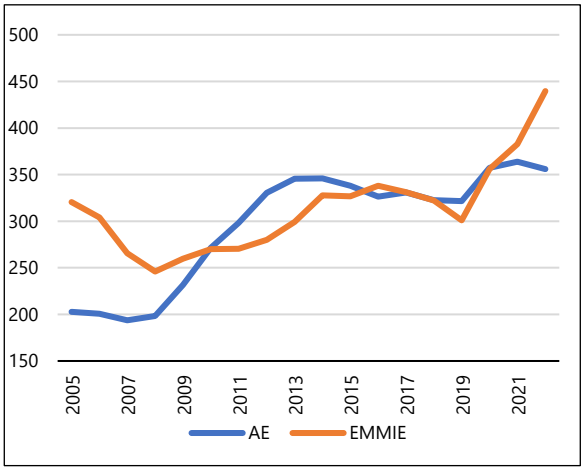
B. Interest Payments on Public Debt, 2005–23
(Median, percent of GDP)



C. General Government Gross Debt, 2005–23
(Median within Group, percent of GDP)

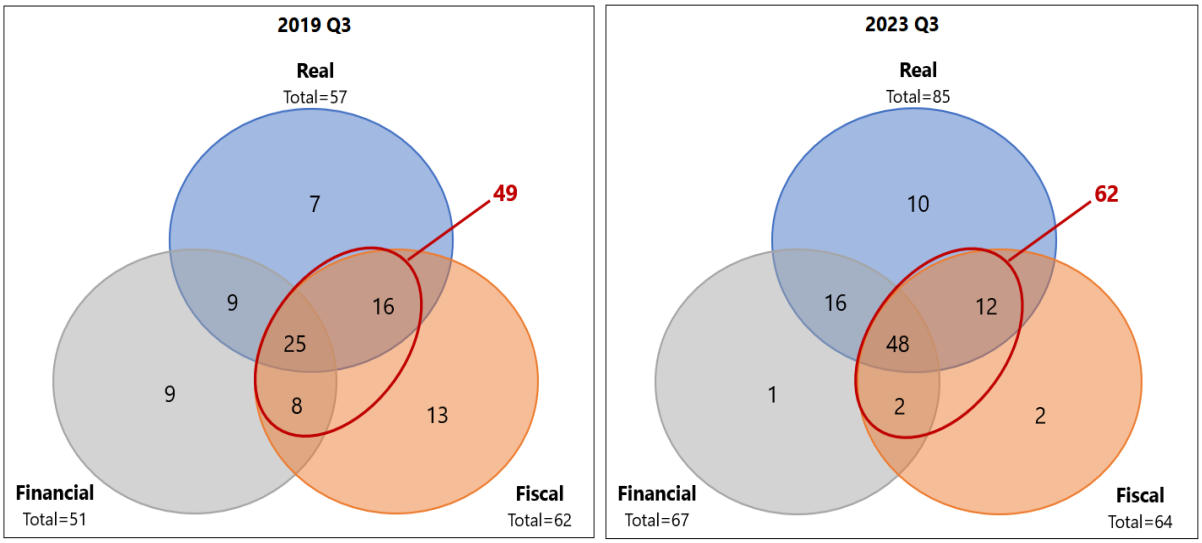


D. General Government Gross Debt to Tax Revenue Ratio, 2005–22
(Median within country group, percent)



Sources: WEO; IEO staff calculations.
Note: In Panel D, the denominator is the 3-year moving average of tax revenues.

Figure 7. Growth, Financial, and Fiscal Risks: Pre- vs. Post-COVID-19
(Percent of EMMIEs assessed at high or medium risk)



Sources: Vulnerability Exercise (VE) indicators; IEO calculations.
Note: Blue indicates medium or high growth risks, orange indicates medium or high fiscal risks, and grey indicates medium or high financial risks.

B. Objectives and Areas of the Fund's Fiscal Policy Advice

12. **The Fund's fiscal advice is anchored in three fundamental objectives: maintaining fiscal sustainability, stabilizing economic output over the cycle, and provisioning 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 countercyclical fiscal policy, when feasible, to mitigate economic fluctuations, working in coordination with monetary, financial, and external policies. Finally, investment in public goods, including infrastructure, social services, and priorities such as the green transition, is essential for fostering long-term economic resilience and productivity.

13. **Since 2008, the IMF has adapted its fiscal advice to meet the evolving challenges faced by EMMIEs.**[12] This evolution reflects a response to changing economic conditions, views in the profession, and lessons learned from past crises. Regular reviews of IMF surveillance have been used to define shifts in the focus of Fund surveillance over fiscal (and other) policies. The 2011 Triennial Surveillance Review (TSR), drawing lessons from the Arab Spring, emphasized the need for more tailored policy advice, in particular for EMMIEs. This included fiscal policy advice that reflects their specific circumstances and macro-social challenges, such as unemployment, inequality, and other aspects that could influence stability (IMF, 2011a). The 2014 TSR recognized

[12] For a broader discussion of the evolution of IMF's institutional approach to fiscal policy advice, see the Overview Paper to this evaluation (IEO, 2025).

a paradigm shift in the Fund's fiscal policy compass in the aftermath of the GFC, whereby the Fund encouraged policies to mitigate economic fluctuations—a sharp and timely change from previous advice to EMMIEs that often leaned towards austerity during downturns (IMF, 2014a). The 2014 TSR noted that this development reflected both changing economic conditions and emerging evidence that fiscal policy could be an appropriate countercyclical tool in severe downturns (IEO, 2025; Cohen-Setton, Montiel, and Zoli, 2025).

14. **Strengthening fiscal resilience became a priority of IMF fiscal surveillance in a more "shock-prone" world (including due to spillovers from AEs)**. Post-2008, the focus on enhancing the ability of EMMIEs to withstand economic shocks shifted from short-term stabilization to long-term resilience. In response to the sluggish recovery from the GFC and rapid increases in public debt, the follow up Action Plan to the 2014 TSR called for fiscal policy advice that "articulates more clearly the balance of growth and sustainability consideration" framed within an explicit fiscal anchor (IMF, 2014a). It advocated for fiscal policy advice to incorporate a more holistic evaluation of fiscal risks, including contingent liabilities, cross-sectoral threats, and long-term fiscal challenges. The 2014 TSR also called for more attention "to intersectoral connections and the interaction of policies, with a view to providing advice on a well-integrated and comprehensive policy mix." Later on, taking a longer-term perspective, the 2021 Comprehensive Surveillance Review emphasized the need for the Fund's fiscal policy advice to take greater account of its implications for potential growth, social protection, climate, and gender.

15. **Broad directions from Surveillance Reviews have been operationalized in "Guidance Notes" to country teams to help them focus their advice on priority areas.** The 2022 Guidance Note for Surveillance under Article IV Consultations provides the most recent operational guidelines for fiscal policy advice (IMF, 2022b, Annex II). While staff retains flexibility in selecting topics for in-depth analysis, the 2022 Guidance Note stresses that "staff reports should include a clear bottom-line assessment of public finances and fiscal policies and provide concrete policy advice," and emphasizes that policy advice should be practical and implementable. Following up on the IMF Strategy on Fragile and Conflict-Affected States (IMF, 2022c), the associated Guidance Note rightly stresses that "policy advice in the context of Article IV consultations should consider capacity constraints that may limit the traction and feasibility of policy implementation" (IMF, 2023c).

16. **Some officials interviewed felt that trade-offs and interactions of fiscal policy with other policies were not fully considered in the Fund's institutional view.** They expressed the view that the Fund's advice to EMMIEs during the GFC and COVID-19 pandemic could have been better calibrated to account for fiscal space, spillover effects to trade partners of stimulus in AEs, and fiscal sustainability. Others stressed the importance of integrating fiscal policy more fully into the Integrated Policy Framework (IPF) analysis, a view to which some of the staff interviewed

concurred with.[13] They noted that, fiscal policy initially was left out of the IPF as it was thought to have long lags in implementation, but that the Fund later realized the need to analyze fiscal policy's role on the external side and fiscal-monetary policy coordination. They also stressed the role of fiscal policy to address financial sector or structural problems (e.g., recapitalize banks or unlock structural reforms by making them more socially acceptable, and foster innovation) and respond to external shocks.

17. **The objective of ensuring that debt levels remained sustainable directly competed with IMF engagement in newer areas of application of the IMF mandate.** Following the surge in public debt levels globally (Figures 6.C and 6.D), IMF surveillance has intensified its focus on debt management strategies and development of debt sustainability frameworks to help countries assess and manage their debt levels effectively (Eichengreen and Zoli, 2025; Cohen-Setton, Montiel, and Zoli, 2025).[14] At the same time, other newer objectives of IMF advice—integrating climate risks into fiscal policy frameworks, ensuring fiscal policies contribute to equitable economic growth, assisting members towards the achievement of SDGs, as relevant—rose to prominence.[15] The Fund adopted strategies on social protection, climate change, and gender mainstreaming (IMF, 2019a; 2021a; 2022a) which expanded the scope of its fiscal advice. The recognition of climate change impact on fiscal sustainability especially for the SDS in the Caribbean Region and the Pacific was reflected in the Guidance Note for SDS (IMF, 2017), emphasizing the policy objective of building resilience and supporting growth. Interviewees viewed as essential that the Fund grapple with the new trade-offs between fiscal and social or environmental sustainability, for its own legitimacy and credibility. Civil society organizations (CSOs) noted that trade-offs were especially salient for climate and gender (e.g., between balance of payment concerns and long-term climate risks and financing needs). They felt that the Fund should focus its advice to EMMIEs on policy space not just for "countercyclical measures," but also for investment in climate and SDGs.

[13] The IMF has developed an Integrated Policy Framework to guide policymakers in EMMIEs and other open economies on how to use tools, such as intervention in the currency markets and macroprudential and capital flow management measures in an integrated way. (Basu and others, 2020; IMF, 2020a, 2023b). The IMF Board endorsed the IPF outlined in IMF (2020a). Recently, analytical work has started integrating fiscal policy in the IPF (Basu and Gopinath, 2024).

[14] The 2009 Bilateral Surveillance Guidance Note that followed the 2008 Triennial Surveillance Review introduced new requirements for the presentation of debt sustainability analyses, using recently developed tools (see Cohen-Setton, Montiel, and Zoli, 2025).

[15] In 2015, UN member states adopted a set of 17 SDGs to be achieved by 2030. Since then, the Fund has been assisting member countries in progressing towards the SDGs through five areas aligned with its mandate: (i) fostering inclusion by reducing inequality and gender disparities; (ii) supporting growth, jobs, and poverty reduction; (iii) engaging in climate action; (iv) strengthening governance and tackling corruption; and (v) assessing financing needs and addressing financing gaps (for a more detailed discussion, see De Lannoy and Lane, 2025).

18. **Observers typically felt that the emphasis on promoting inclusive growth was a "sea change" in the right direction but sometimes suffered from a "one-size-fits-all" or ineffective approach.** Interviewees recognized the increased emphasis of Fund surveillance on social protection measures and targeted spending to support vulnerable populations and noted the evolution of the advice to emphasize the importance of social spending as a fiscal tool for stability and growth. This was seen as relevant given the pressing need in most EMMIEs to strengthen safety nets and given external commitments toward the SDGs. But some officials noted that the Fund's emphasis on targeting (e.g., removing general subsidies) was at times misplaced given the second-order nature of savings generated, the political cost of these measures, and the higher importance of structural reforms with greater fiscal or growth impact. Many officials also thought that the traction of the advice in this area was undermined by the lack of quantitative analyses of the distributional effects of the fiscal recommendations and limited efforts at data collection. CSOs stressed that the phasing and timing of reforms has been a particular concern in the context of eliminating energy subsidy reforms and other universal benefits and replacing them with not-yet-set-up targeting schemes, leading to time lags and backlash.[16]

19. **The shift in orientation of fiscal advice was supported by extensive analytical work, including on EMMIEs.[17]** The development of the new datasets, macro-fiscal models, and tools to scrutinize the assumptions on fiscal multipliers in the assessment of debt sustainability have provided IMF staff with enhanced instruments to assess the macroeconomic impact of fiscal measures and their interactions with monetary policy in EMMIEs. Nonetheless, interviews confirmed that the IMF needs a more structured data-based, country-specific discussion and guidance about fiscal multipliers in EMMIEs. The Fund has provided some relevant analytical contributions to the understanding and design of automatic stabilizers in EMMIEs and strengthened the framework to assess the sustainability of a member country's debt and debt financing strategies. The Fund has created a useful framework to provide tailored advice on a medium-term fiscal anchor for commodity exporting economies. It has also conducted analytical work on how fiscal policy can support potential output, including in EMMIEs and has undertaken useful analysis of fiscal policies to strengthen social protection, support climate change adaptation and mitigation, as well as promote more gender equality.

[16] Civil society research has also demonstrated that social spending floors in IMF lending programs have been ineffective and insufficient, undermining more universal social protection systems and failing to protect even the poorest adequately (e.g., Oxfam, 2023; Human Rights Watch, 2023).

[17] See Cohen-Setton, Montiel, and Zoli (2025) for a comprehensive review the Fund's analytical work and tools underpinning fiscal policy advice over 2008–23.

III. Top-Line Fiscal Advice on EMMIEs

20. **The IMF provides relevant and influential top-line advice on fiscal policies through its flagship publications, policy papers, speeches, and blogs, though not always sufficiently nuanced for EMMIEs.** Flagships include the WEO, FM, and GFSR;[18] additional and more targeted guidance is provided by REOs. The Fund's advice on fiscal policy has evolved since the GFC in distinct phases (Table 1).[19] Nearly 70 percent of EMMIE authorities responding to the IEO survey for this evaluation indicated that Fund's multilateral advice identified key issues, trends and risks relevant for their countries. Some of the staff interviewed noted that flagships generally led the policy line, and in the event of inconsistencies between the top-line and the bilateral advice, in some cases authorities paid relatively more attention to the former. REOs provided more granular advice than the flagships but staff interviewed recognized that these publications were not as influential.

Table 1. The Evolution of Top-Line Fiscal Policy Advice to EMMIEs

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
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fiscal stimulus during and post-GFC		Limited ST adjustment, strong MT adjustment		Strong ST adjustment, strong MT adjustment. Starting October 2013, increasing emphasis on fiscal risks and the need to rebuild buffers			Stimulus or adjustment based on fiscal space			Adjust to rebuild buffers. Heightened risks from contingent liabilities from SOEs		Fiscal stimulus during COVID-19		Stimulus or adjustment based on fiscal space	Fiscal adjustment

Sources: WEO, GFSR, and Fiscal Monitor (all October and April issues from April 2008 to October 2023).
Note: The colors green (fiscal stimulus), yellow (qualified fiscal adjustment or stimulus), and red (fiscal adjustment) represent the prevailing fiscal advice in flagship. Publications at the time. ST= short term; MT= medium term.

From Fiscal Stimulus During the GFC to Call of Exit (April 2008–March 2012)

21. **The Fund's call for a stimulus during 2008–09 was timely and appropriate.** As the economic crisis worsened, a Staff Position Note (SPN) advised EMMIEs to use countercyclical fiscal policies, while recognizing that most of them faced "far stricter constraints on their fiscal space [than AEs], which limited them to pursuing a smaller (if any) fiscal expansion" (Ghosh and others, 2009).[20] The SPN also detailed which measures could be more effective. Overall, the Fund pushed for a coordinated 2 percent of GDP discretionary stimulus for G-20 countries including large EMMIEs (IMF, 2009c). To mitigate the impact on fiscal sustainability, the April 2009 WEO emphasized that short-term measures needed to be temporary and complemented with reforms

[18] The flagships typically use the terms "Emerging Markets" or "Emerging Market and Developing Economies" to refer to economies in the EMMIEs group. Throughout the paper we use instead the term "EMMIEs" consistently.

[19] Cohen-Setton and Montiel (2025) provides an analysis of how the thinking about the role of fiscal policy evolved since the GFC among economists within and outside the Fund.

[20] Ghosh and others (2009) defined fiscal space as "the scope for financing a deficit without undue crowding out of private activity, sharp increases in funding costs, or undermining debt sustainability." The October 2009 REO of the Middle East and Central Asia assessed fiscal space for countries in that region based on this definition (IMF, 2009b).

to strengthen medium-term fiscal frameworks. In a similar vein, the 2009 FMs emphasized the need to develop strategies for preserving fiscal solvency and provided estimates of the medium-term fiscal adjustments required to reduce large EMMIEs' public debt to 40 percent of GDP or maintain it at that level.[21]

22. **However, the Fund's subtle message of short-term stimulus and subsequent medium-term consolidation may have been misinterpreted or misused**. A 2014 IEO evaluation found that several country authorities considered the Fund's advocacy for fiscal expansion following the Lehman collapse not sufficiently tailored and risky for EMMIEs facing financing and other constraints. They noted that in the months after the Lehman bankruptcy, IMF management signaled support for fiscal stimulus, at times in contrast with the more prudent tone of Article IV consultation advice (IEO, 2014b; Dhar, 2014;).[22] Some Fund staff interviewed for this paper expressed the view that the call for a fiscal stimulus contributed to an increase in fiscal vulnerabilities in countries that were later penalized by markets (e.g., India and Brazil during the "Taper Tantrum"). Some staff interviewed also noted that while the "2 percent fiscal stimulus" message was "spot on" in view of the impending global recession, it made it more difficult for country teams and more fiscally prudent policymakers to be influential in countries where multilateral messages suited political purposes.

23. **As the crisis wound down in 2010, the recommendation to begin implementing exit strategies from stimulus was mostly warranted considering the growth forecasts available at the time and the need to address fiscal sustainability risks.** The April 2010 WEO pointed out that, with the exception of China, other large EMMIEs could not afford to maintain an expansionary fiscal policy. The theme of the November 2010 FM was indeed "from strategy to implementation." Some fiscal consolidation started in most EMMIEs during this period (Figures 5.A and 6.A above). As output recovered toward pre-crisis trends, the April 2011 WEO recommended that EMMIEs with high public debt take advantage of favorable cyclical conditions to improve their public balance sheets. For EMMIEs experiencing a surge in capital inflows, the WEO advocated countercyclical domestic policies, including fiscal tightening. As commodity prices started to surge, REOs emphasized that commodity exporters needed to avoid the "perils of procyclicality" and countries had to move away from universal price subsidies (IMF, 2010b; 2011b; 2011c).

[21] The March 2009 FM was issued as Fiscal Affairs Department Paper; the July and the November 2009 FMs were issued as IMF Staff Position Note. The 2009 and May 2010, FM editions focused exclusively on G-20 economies.

[22] Article IV reports for other large EMMIEs tended to support stimulus programs that had already been undertaken following the Lehman collapse, while highlighting the risks of ongoing fiscal or credit expansions, and often urged an exit from such expansions with greater emphasis on fiscal sustainability (Dhar, 2014).

From Caution Against Premature Consolidation to Emphasis on Rebuilding Buffers (April 2012–March 2015)

24. **After the recovery weakened in 2011, the Fund's caution against the risk of premature consolidation might have contributed to the perception that Fund's messages endorsed a long-term deterioration in EMMIEs' fiscal positions.** Before the GFC, the IMF's approach was narrowly focused on managing debt levels and tended to underestimate the negative impact of fiscal adjustment on growth. The October 2012 WEO (IMF, 2012d) and subsequent work by the Chief Economist (Blanchard and Leigh, 2013) for AEs pointed out that short-term fiscal multipliers were significantly higher than previously believed, a result confirmed by new IEO analysis for a sample of 35 EMMIEs over 2010–12 (Annex III). As the recovery was stalling, the October 2012 FM advised that most EMMIEs could "afford to pause their adjustment efforts to await a more hospitable growth outlook" (Executive Summary, p. IX), while emphasizing that some EMMIEs needed "continued but gradual consolidation to restore the fiscal margins they used in response to the 2009 slowdown." The Fund's move to a more nuanced view according to which higher debt levels could be accommodated under certain circumstances was well substantiated, but some interviewees thought the asymmetric nature of the advice (decisive calls for stimulus during recessions, followed by nuanced, medium-term, conditional consolidation during upturns) caused a "ratchet effect" resulting in rising debt vulnerabilities. Others underlined political resistance to consolidation as a factor underestimated by the Fund.[23]

25. **In 2013, the advice was geared again toward fiscal sustainability, due to deteriorating fiscal fundamentals, the impending monetary policy normalization in the U.S., and risks from contingent liabilities.** The advice for EMMIEs that had experienced a deterioration in fiscal space was to start building fiscal margins. Subsidy reforms, together with revenue mobilization, were among the measures advocated to help consolidation efforts. Following the "Taper Tantrum," the April 2014 WEO and GFSR stressed that unexpectedly rapid normalization of U.S. monetary policy could result in further capital outflows. On the fiscal front, the WEO advised EMMIEs to lower budget deficits, with greater urgency in those economies with higher contingent risks. The WEO also recognized that potential growth had declined in several EMMIEs and that in many EMMIEs there was a pressing need for additional infrastructure spending but cautioned that negative fiscal consequences from increased public investment needed to be carefully weighed against the broader social gains. REOs included more tailored messages. For example, the April 2013 REO for Asia and the Pacific advocated scaling up public investment and spending on health and education, partly financed by reducing complex and poorly targeted tax incentives (IMF, 2013a).

[23] The 2015 SDN (IMF, 2015a) highlighted that after the GFC, most Latin American countries had missed the chance to restore fiscal space, partly due to the political difficulty in unwinding spending increases, and that a pernicious legacy of the crisis was the weakening of fiscal institutions and called for the restoration of pre-crisis fiscal frameworks.

Increased Focus on Fiscal Space and Fiscal Risks (April 2015–March 2020)

26. **As EMMIEs faced weakening growth along with rising vulnerabilities, the Fund's policy advice became appropriately differentiated depending on fiscal space.** An April 2015 FM chapter advocated to "use fiscal policy flexibly to support growth, while mitigating risks and ensuring medium-term debt sustainability. The degree and type of flexibility will depend on individual countries' fiscal positions, macroeconomic conditions, and relevant fiscal risks."[24] The Fund's recommendations also paid increasing attention to the composition of policy packages, calling for a comprehensive, consistent, and coordinated approach to policymaking to maximize the chances for achieving lasting improvements in growth and sustainable public debt (Gaspar, Obstfeld, and Sahay, 2016).[25] The October 2016 WEO stressed that, even where fiscal space was limited, there was scope to change the composition of spending and revenues to support near-term growth and future productive capacity.

27. **The Fund increased its warnings about debt vulnerabilities starting in 2016, though later than some other voices.** Despite EMMIEs facing similar fiscal challenges as LICs, including revenue ratios declining to 14 percent of GDP and debt rising to around 50–60 percent of GDP, Fund's top-line advice on EMMIEs was aligned more with advice to AEs than to LICs (De Lannoy and Lane, 2025; Figure 4). Other voices called for fiscal caution before the IMF did in its multilateral advice (e.g., World Bank, 2015).

28. **The focus on identifying and managing fiscal risks in the multilateral advice (IMF, 2016c) was timely and relevant as many EMMIEs face elevated fiscal vulnerabilities from contingent liabilities.** The April 2016 GFSR and FM as well as the October 2019 GFSR pointed out the heightened fiscal risks from contingent liabilities of overindebted SOEs. Building on previous work (G-20, 2018; IMF 2014b), both the October 2019 GFSR and the April 2020 FM stressed the need to enhance debt transparency by publishing regular debt reports, broadening the coverage of debt statistics, and disclosing fiscal spending and guarantees related to SOEs.[26] As global growth picked up starting in 2017, and with debt at historical highs, in 2018-19 the flagships advocated decisive action to strengthen fiscal buffers.

[24] As mentioned in Section II.C, the IMF introduced a formal framework to assess countries fiscal space (IMF, 2016b; 2018a).

[25] Comprehensive policy actions entail the use of the three policy prongs—monetary, fiscal, and structural—in a mutually supportive way, tailored to specific country circumstances. Consistent policy frameworks anchor long-term expectations while allowing decisive short- to medium-term accommodation whenever necessary. Coordinated policies across major economies amplify the helpful effects of individual policy actions through positive cross-border spillovers.

[26] Eichengreen and Zoli (2025) discusses various Fund's initiative to strengthen members' debt transparency. Examples of Fund work focusing on contingent liabilities, including from SOE, in EMMIEs are IMF (2021d, 2023d).

29. **Multilateral advice during this period was appropriately tailored to commodity exporters and importers.** Following an over 50 percent fall in oil prices since early 2014, the WEO advised commodity exporting EMMIEs to realign spending with tighter resources, implement subsidy reforms, and devise long-term strategies to protect against volatile revenues.[27] For oil importers with oil subsidies, the WEO recommended implementing energy subsidy reforms and considering using windfall gains to finance infrastructure spending.

Fiscal Response During the Pandemic and its Aftermath (April 2020–September 2021)

30. **At the onset of the pandemic the IMF's call for strong fiscal policy action, while emphasizing accountability and transparency for all country groupings, was very different from the one during the GFC reflecting the different nature of the two shocks.** To support social distancing, mitigate its adverse impact on livelihood, and preserve households' and firms' balance sheets, the April 2020 FM advocated "large, timely, temporary, and targeted fiscal measures." At the same time, the Fund recommended to "keep the receipts," emphasizing the need for ex post evaluation of accountability. The October 2020 FM and April 2021 WEO recommendation, common to all country groupings, was to calibrate fiscal policy to the different phases of the pandemic, "adapting to evolving needs to protect people, support demand, facilitate the transformation to the post-pandemic economy, and ensure debt sustainability." The October 2021 FM discussed the tradeoff between rebuilding fiscal space and protecting the pandemic recovery.

31. **While the Fund was right in calling for a strong fiscal support at the time of the pandemic, similar concerns were expressed as during the GFC.** A number of country authorities felt that the message, which they characterized as "spend, spend, spend," was too broad-brushed and overshadowed the need for more differentiated advice to reflect difficult political economy and debt positions faced by many countries (IEO, 2023). For instance, some EMMIEs were more cautious to take expansive fiscal measures than the Fund was recommending (e.g., Mexico), indicating possible future adverse market reaction and arguing that the Fund was underestimating the impact of AEs' expansionary policies. Conversely, some staff interviewed for this evaluation indicated that occasionally some members seemed to have used Fund's messaging as an argument for an undesirable fiscal expansion (e.g., Brazil).

32. **Civil society participants were supportive of the Fund's top-line message but felt that it was not reflected in bilateral advice.** Razavi and others (2021) acknowledged that the flagships called for higher expenditure on health care and targeted cash transfer programs, even when it meant larger fiscal deficits and debt. However, their analysis of 148 IMF country reports issued in 2020 (including on nearly 70 EMMIEs), reveals that the Fund supported fiscal consolidation in about 87 percent of the cases, either during or after the pandemic. This appears to corroborate the long-standing view of civil society organizations that the Fund's recommendations most frequently involve fiscal austerity (e.g., Blyth, 2013; Ortiz and Cummins, 2019; Stuckler and Basu, 2013).

[27] More specific advice for building fiscal buffers in the Caucasus and Central Asia was presented in IMF (2018c).

33. **While supporting a fiscal response to the pandemic, the flagships also promptly recognized increasing vulnerabilities in EMMIEs though they missed the surge in 2021 inflation.** The April 2020 GFSR stressed that these economies, especially frontier markets, were vulnerable to a shift in foreign investor sentiment, in the context of heightened capital flow volatility associated with the COVID-19 pandemic and higher nonresident participation in local government debt markets. Several country authorities, however, noted that the Fund failed to anticipate and address the effects of AEs' fiscal policy spillovers to smaller countries including the sustained surge in inflation, fueled by the robust policy support to demand amid lingering supply chain issues, that outside experts flagged as a concern by spring 2021 (IEO, 2023).

Fiscal Policy Response to the Inflation Shock and Warnings of Elevated Fiscal Risks (October 2021–end 2023)

34. **Top-line advice in late 2021 to 2023 timely focused on the fiscal policy response to the inflation surge, while mitigating sovereign debt vulnerabilities.** The April 2022 and April 2023 FMs, as well as associated blogs (Gaspar and others, 2023), stressed that fiscal policy could help curb inflation with fiscal restraints mitigated by targeted transfers. The FM also encouraged commodity exporters to take advantage of high commodity prices to rebuild buffers.[28]

35. **Over that period, the flagships appropriately continued to warn about elevated risks to the fiscal outlook and sovereign bond markets in EMMIEs.** After the pandemic situation stabilized, the Fund quickly adjusted its advice to rebuilding fiscal buffers, which was appropriate and done in a timely manner. The GFSR highlighted rollover risks, due to a combination of tightening global financial conditions, deterioration of fiscal positions, and high exposure to commodity price volatility. The October 2022 GFSR recognized that many frontier markets were facing potential loss of market access and a high probability of sovereign default. Amid capital flows reversal and widening spreads in some EMMIEs, the April 2023 WEO explicitly recognized that debt restructuring could be necessary in certain cases, pointing out that the benefits of preemptive debt restructuring. This recommendation is in contrast with the criticism from some CSOs that the IMF is hesitant in recommending debt restructuring (Rehbein, 2023b).

IV. FUND'S BILATERAL FISCAL POLICY ADVICE

36. **As the IMF's overarching guidance has evolved, its bilateral surveillance has likewise adjusted to the shifting circumstances of individual countries and to changing economic and policy perspectives on fiscal matters.** This section analyses the Fund's bilateral macro fiscal advice on output stabilization, fiscal sustainability, and on potential growth and longer term objectives. It draws from different sources of evidence, including bilateral interviews,

[28] Policies to support revenue mobilization in the Middle East and Central Asia were discussed in an IMF Departmental Paper (IMF, 2022d).

surveys of authorities and mission chiefs, and an assessment of published staff reports for Article IV consultations, in a sample of thirteen countries ("focus countries"), over three time periods: 2009–10, 2014–15, 2022–23.[29] The analysis of Article IV consultation staff reports is carried out with reference to the direction offered to country teams in surveillance decisions, guidance notes, and Fund strategies. This section is also informed by the analysis of fiscal stance advice in all EMMIEs' Article IV consultation reports from 1998 to 2023 presented in Amgalan, Cohen-Setton, and Korinek (2025).

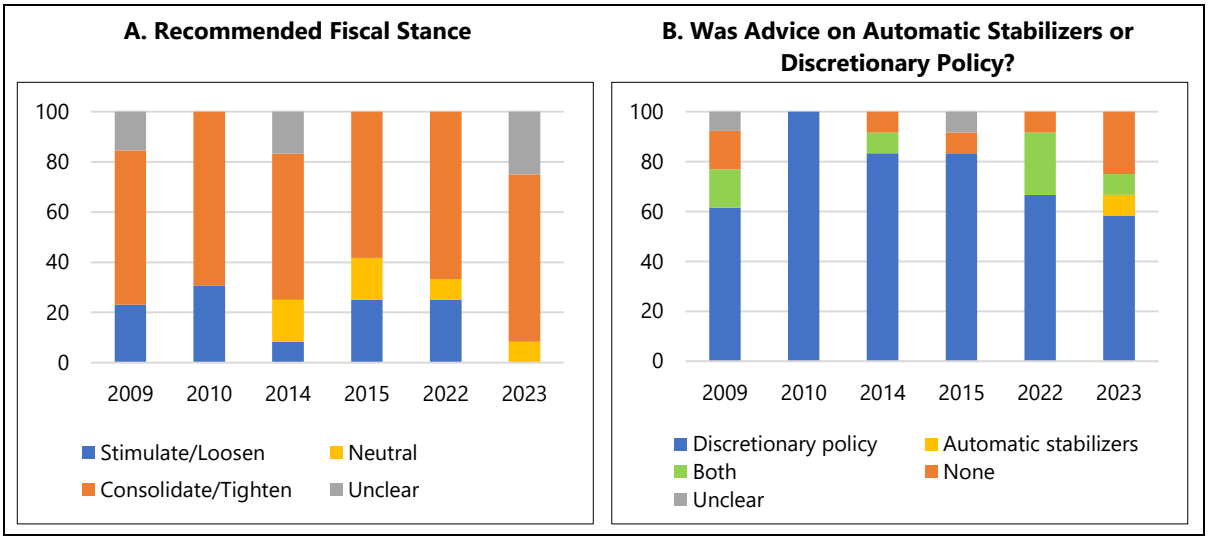
A. Advice on Stabilization

37. **Bilateral advice on the short-term fiscal stance was broadly consistent with top-line recommendations, with greater emphasis on countercyclical fiscal policy than pre-GFC, but somewhat more prudent.** In the focus countries the recommendation for supportive fiscal policies was more common during the GFC (2009–10), in 2015, and in 2022 following the COVID-19 pandemic, aligning with the high-level messaging for EMMIEs (Figure 8.A). Nevertheless, staff reports of some focus countries (e.g., Botswana, India, Montenegro) advocated fiscal tightening already in 2009, even though the multilateral message called for a more supportive fiscal stance. Overall, about 40 percent of all staff reports for EMMIEs advocated fiscal tightening in 2009 (Amgalan, Cohen-Setton, and Korinek, 2025; IEO, 2025). More generally, recommendations for tightening fiscal policy continued to dominate, with 70 percent to 80 percent of all EMMIE's staff reports between 2010 and 2019 recommending fiscal tightening.

38. **In the staff reports from the focus countries, fiscal stance advice emphasized most frequently discretionary policy, with less attention given to automatic stabilizers (Figure 8.B).** In fact, the advice considered explicitly both automatic stabilizers and discretionary policy in less than 10 percent of the reviewed staff reports. In some cases, the report did not make a clear distinction between the two. When staff reports offered advice on automatic stabilizers it was almost exclusively about letting them operate. Only one staff report explicitly discussed the effectiveness of automatic stabilizers and provided advice on how to strengthen them (2022 China staff report). Based on the staff reports reviewed, bilateral surveillance does not appear to have placed strong emphasis on strengthening automatic stabilizers, despite some top-line recommendations in this area (Cohen-Setton, Montiel, and Zoli, 2025). Authorities interviewed for this evaluation acknowledged the value of enhancing automatic stabilizers but noted that doing so would require institutional and administrative capacities that are often limited in EMMIEs.

[29] The 13 countries were chosen for their diversity in terms on geographic location, size, income level, socio-economic circumstances to be broadly representative of the larger EMMIEs group, and the periods broadly correspond to the GFC period, the commodity price collapse in 2014–15, and the inflation shock in 2022–23. The sample size is comparable to the one used for the analysis of the Fund's bilateral fiscal policy advice in the 2014 TSR (IMF, 2014a). Annex I provides details on country sample and methodology.

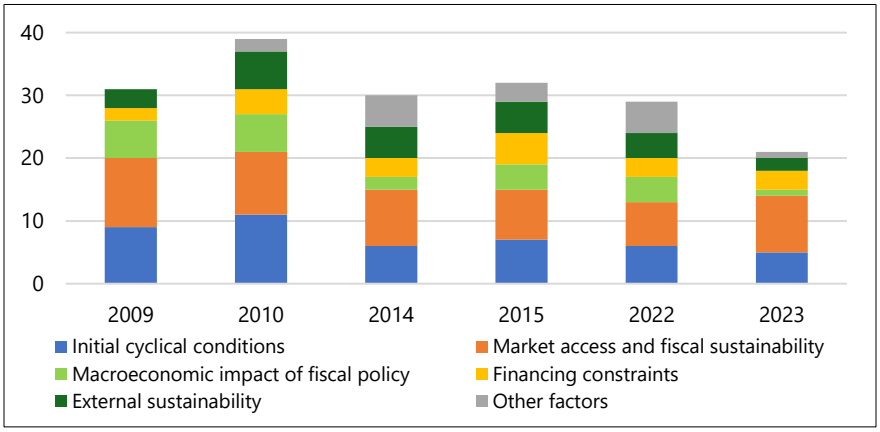
Figure 8. Short-Term Fiscal Policy Advice to EMMIEs
(In percent)



Source: IEO staff calculations.
Note: In case data for the year 2009 were not available, the year 2008 was used instead.

39. **The size of the recommended stimulus and timing of withdrawal depended on several factors, but most prominently on market access and fiscal sustainability.** Initial cyclical conditions were also a key driver of the advice in staff reports (Figure 9) and also according to the mission chiefs' survey. On the other hand, the emphasis on initial cyclical conditions as well as external sustainability has been declining over time. The macroeconomic impact of fiscal policy was a more important criterion during downturns, when fiscal loosening was advised more frequently (2009, 2010, 2015, 2022), but it was not given large consideration when the main recommendation was fiscal consolidation (2014, 2023), raising the question of whether Fund staff fully took into account the output costs of fiscal adjustment. The authorities' survey indicated market access and sustainability, together with the macro impact of fiscal policy and financing constraints, as the most important factors in shaping recommendations on direction, size, and pace of fiscal policy measures. Fiscal space, fiscal risks, and the policy mix were key drivers of the advice according to the Fund's mission chiefs survey. Some specific examples illustrate the drivers of Fund's fiscal advice for output stabilization. For China, in 2009–10, the Fund advocated a strong-short term fiscal stimulus, and gradual withdrawal once the recovery would take hold. This advice was based on the arguments that the country had the space for a large fiscal expansion, and that it needed to use fiscal policy to support a structural rebalancing of its economy away from exports and investment-led growth toward private consumption. Article IV consultation staff reports argued for beginning a withdrawal of the fiscal stimulus starting in 2011. In contrast, in India, which already had high level of debt in 2007, the Fund recommended to begin fiscal consolidation already in 2009, as the economy started to rebound. In about half of the focus country reports (and in 65 percent of the MI focus country reports), the justifications used to determine the direction and size of short-term fiscal measures were missing or limited in recent years.

Figure 9. Factors Considered for Short-Term Fiscal Advice
(Number of countries)



Source: IEO staff calculations.
Note: Other factors mya include, for instance, interactions with other policies and political economy considerations.

40. **In some staff reports, including recent ones, the advice on short-term fiscal stance was not fully clear or explicit.** Advice was more ambiguous when not framed in terms of structural or cyclically adjusted fiscal balances.[30] For example, in the 2009 Botswana staff report the discussion of advice in the short-term was framed as welcoming "the authorities' intention to reduce expenditures from the original budget," without a clear indication on the implied fiscal stance. Similarly, the 2010 Azerbaijan staff report "welcomed the conservative 2010 budget" but was not explicit on the recommended fiscal balance. Even some recent staff reports were vague about the advised short-term stance. For instance, the 2022 UAE report only indicated that in the short-term "overall fiscal stance should remain prudent" but did not provide a precise recommendation.

41. **Staff reports seldom provided an explicit quantification of the macroeconomic impact of the advised fiscal policy.** Multipliers were rarely mentioned or made explicit, partly because of the significant uncertainty about their size, especially for economies with weak data. IMF research and staff guidance in this area for EMMIEs has been somewhat limited, as discussed in Cohen-Setton, Montiel, and Zoli (2025). This finding is consistent with those of a previous IEO evaluation indicating that analysis of the growth implications of fiscal adjustments has been quite limited in the program context (IEO, 2021). In few cases, multipliers of different types of fiscal measures were quantified (e.g., Philippines, 2009; China, 2015 and 2022; and St. Lucia, 2015; Costa Rica, 2014). The St. Lucia (2015) staff report, for instance, usefully relied on Fund's estimates of multipliers for the ECCU members (Gonzalez-Garcia, Lemus, and Mrkaic, 2013) to assess the macro impact of fiscal adjustment.

[30] See Amgalan, Cohen-Setton, and Korinek (2025) for a discussion of how the IMF measures fiscal stance. In the 13 most recent staff reports reviewed, 7 framed recommendations with reference to changes in the cyclically adjusted or structural primary balance. Two of the commodity exporting countries used changes in non-oil primary balance or non-hydrocarbon primary balance as main indicator of fiscal stance. The remaining four countries used overall balance or primary balance to frame fiscal stance recommendations.

42. **Only few staff reports elaborated on the tradeoffs between output stabilization and debt sustainability.** An example of a staff report articulating relevant policy trade-offs was the 2014 Brazil report that outlined the trade-off between using fiscal policy to support demand versus front-loaded fiscal adjustment to boost policy credibility. Similarly, the 2014 Costa Rica staff report provided estimates of growth implications both under the baseline and under the recommended fiscal path, cautioning that postponing fiscal retrenchment would require a larger adjustment later to stabilize the debt. Conversely, the 2010 Namibia Article IV, for instance, highlighted the need for fiscal consolidation starting in 2011/12, due the widening of the deficit and the debt increase, but did not elaborate on the output implications. Of the seven countries in the sample that were required to conduct a fiscal space assessment, three made relatively detailed references to it as part of their advice (Azerbaijan, 2023; Brazil, 2021; India, 2022, 2023).[31]

43. **Evidence from the full group of EMMIEs suggests that short-term fiscal policy advice was consistent with countries' cyclical position and public sector vulnerabilities, but with some tightening bias.** According to data from the Consistent Policy Assessment (CPA) toolkit,[32] in 92 percent of the instances of weak public balance sheet and strong domestic economy, Fund staff appropriately called for fiscal tightening. However, bilateral advice exhibited a tightening bias since in 40 percent of cases of slack in the domestic economy and strong balance sheet the Fund advocated tighter fiscal policy (Figure 10). Moreover, econometric analysis based on staff reports for all EMMIEs over 1998–2023 indicates that while fiscal advice was countercyclical, staff recommendations responded less strongly and consistently to measures of economic slack than in AEs (Amgalan, Cohen-Setton, and Korinek, 2025).

44. **Fiscal consolidation was the predominant advice for the medium term in the sample staff reports, consistent with top-line messaging (Figure 11).** Even in periods when the bilateral advice for short-term stimulus was the most frequent (2009, 2010, 2015, 2022—see Figure 8.A above), reports overwhelmingly advocated medium-term consolidation. This is consistent with the top-line advice that typically emphasized the need for medium-term adjustment when it was recommending countercyclical short-term fiscal stimulus. Medium-term consolidation was advocated in nearly 90 percent of the focus country staff reports, and even more frequently in all the 1998–2023 staff reports on EMMIEs (Amgalan, Cohen-Setton, and Korinek, 2025).[33] While this advice might reflect some tightening bias, it also rightly stemmed from staff recognition that fiscal space had been eroded and sustainability was more at risk. The need to rebuild buffers was the factor mentioned most frequently among the medium-term fiscal challenges in the sample staff reports, especially in the latter part of the sample. The contrast

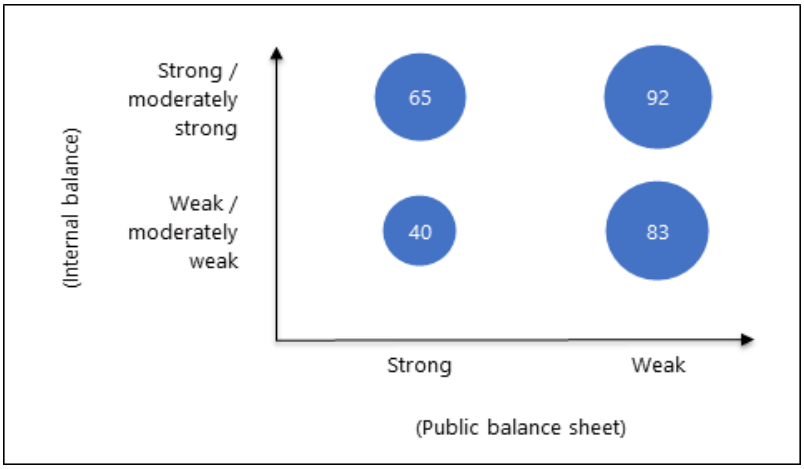
[31] Since 2018, 41 EMMIEs have been required to prepare a fiscal space assessment, with this requirement temporarily suspended from 2020 to early 2023 due to the pandemic (see Cohen-Setton, Montiel, and Zoli, 2025). Countries in the sample subject to this requirement include Azerbaijan, Botswana, Brazil, Costa Rica, Hungary, India, and Philippines.

[32] The CPA toolkit is a Fund's database, introduced in 2018, that collects policy stance and advice across all member countries, using inputs from country desks. Submissions are made by country desks twice a year (Spring and Fall).

[33] Occasionally, the Fund advocated a slower adjustment than planned by the authorities (UAE, 2015).

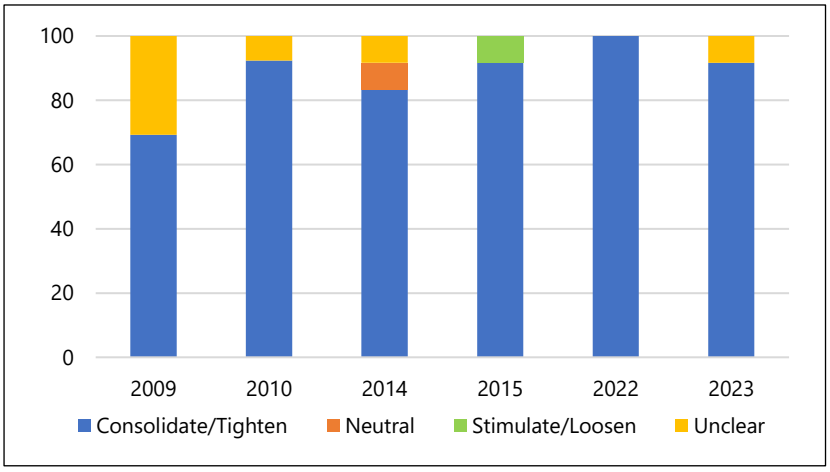
between the Fund advice to China and India is again interesting in this regard. The medium-term fiscal path was a subject of attention in all reports for China, but the need to engage in a strategy to reduce the primary deficit to stabilize the public debt was only emphasized in the 2022 and 2023 Article IV consultations. In contrast, in the case of India, the need for a medium-term fiscal consolidation was highlighted in all reports.[34]

Figure 10. Advice to Tighten Fiscal Policy in the Short-Term, 2018–23
(Percent of EMMIEs)



Sources: CPA data; IEO staff calculations.
Note: Advice to tighten fiscal policy is defined as a recommended reduction of the cyclically adjusted primary balance by at least 0.1 percent in a year.

Figure 11. Medium-Term Advice on Fiscal Stance
(In percent)



Source: IEO staff calculations.

[34] Subramanian (2021) challenged the view that fiscal austerity is essential for debt sustainability in fast growing EMMIEs like India, as the interest rate growth rate differential is typically negative because of high growth rates.

Pace and Composition of Fiscal Measures

45. **Advice on pace and phasing of fiscal actions has become more frequent in recent years, but was still missing in about 40 percent of the most recent staff reports.** For example, in the case of Hungary, the 2014 report simply advocated balancing the need to support a growth recovery with a decisive reduction in the debt to GDP ratio, and in the 2015 report staff's recommendation was a generic reference to a gradual and growth-friendly adjustment. On the other hand, some staff reports provided a clearer explanation. For instance, the 2021 Montenegro report called for a frontloading of adjustment measures principally with reference to the risk that fiscal discipline would be eroded by pending parliamentary elections. The 2016 Namibia report utilized a dynamic, stochastic model of a small economy (DIGNAR) to assess the growth impact of more or less backloaded fiscal consolidations.

46. **Nearly all focus country reports offered advice on the composition of the recommended fiscal adjustment, although the specificity of the recommendations varied.** For example, the 2023 China staff report presented a detailed analysis of the proposed composition of the fiscal adjustment, arguing for a combination of specific spending cuts, as well as short-term labor taxes relief and temporary higher transfers to vulnerable households (Table 2). The Hungary staff reports also typically contained a specific menu of spending and revenue measures (e.g. the 2010 report, which usefully referred to supporting IMF Technical Assistance (TA)). The 2023 India report also included a detailed consolidation scenario with itemized revenue and expenditure measures and briefly discussed alternative consolidation options. The 2014 Costa Rica report presented itemized consolidation measures as well. The Montenegro staff reports (2009, 2010, 2021) provided considerable detail about the specific measures recommended and helpfully referred to TA as the basis for the composition of adjustment measures. All respondents to the authorities' survey for EMMIEs indicated that bilateral surveillance provided advice on the composition of fiscal adjustment.

47. **When providing advice on composition of fiscal adjustment, the reliance on expenditure cuts decreased over the evaluation period (Figure 12).** For instance, for Brazil, a consistent recommendation has been that fiscal consolidation efforts place emphasis on curbing expenditure (alongside broadening the tax base), which would require constitutional reforms given the inflexibilities in certain inflation-indexed items, such as pensions and wages.[35] Many staff reports, though, advocated both revenue and expenditure measures. For example, several India reports emphasized the need to combine spending with a diversification of revenue sources, while underscoring also the need to avoid negative effects on vulnerable groups and maintain the gains in the fight against poverty. Philippines staff reports recommended detailed tax revenue measures. The 2008 St. Lucia staff report also quantified the impact of specific revenue measures on the overall balance.

[35] The Brazil 2023 staff report used the IMF Global Integrated Monetary and Fiscal model (discussed in Cohen-Setton and Zoli, 2025) to assess the benefits of fiscal consolidation supported by reforms that tackle spending rigidities and bolster policy credibility.

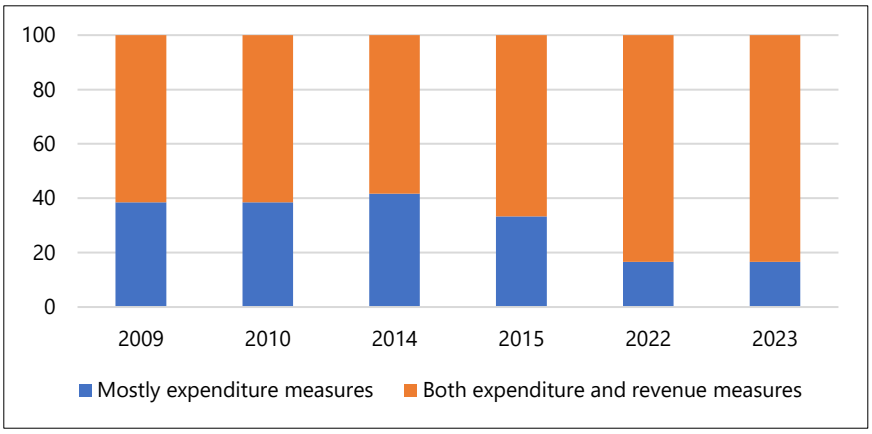
Table 2. Example of Detailed Advice on Fiscal Measure Composition in Article IV Consultation Staff Report

Category	Implementation Horizon	Measure Details	Impact on CAPB (% GDP by year 5)	Benefits
		Expenditures		
Public Investment	ST	reduce off-budget investment	2.5	allocative efficiency, rebalancing
Pensions	ST MT	increase Resident Pension Plan	-0.1	boost consumption, rebalancing
		replacement rate set retirement age at 65 gradually	0.8	labor force participation, rebalancing
Third Pillar Pension	MT	expand voluntary pensions saving program	>0	reduce investment-driven demand for housing
Medical Insurance	ST MT	increase expense coverage	-0.8	rebalancing, health rebalancing,
		establish voluntary supplementary insurance plan	~0	health
Unemployment Insurance	ST MT	improve adequacy improve coverage	-1.5	boost consumption, equity rebalancing, equity, cyclical stabilization
Social Assistance	ST MT	increase adequacy of Dibao program introduce national child assistance	-0.6 -0.25	boost consumption, equity rebalancing, equity, demographics
Other	MT	abolish Hukou registration system	<0	labor mobility, equity, rebalancing
		advance unification of social security system	~0	LG fiscal gaps
		Tax Revenues		
Personal Income Tax	MT	lower PIT thresholds, increase PIT	2.7	equity, cyclical stabilization
Social Security		rates reduce social security	-1.3	
Capital Income Tax		contributions		
Wealth Taxation	ST	raise tax rate to 25%, reduce	0.3	equity, efficiency, rebalancing, LG
Corporate Tax		mortgage deductibility		fiscal
VAT	MT	introduce property tax	0.9	gaps
Excise Taxes	MT	streamline incentive regime,	0.4	efficiency, cyclical stabilization
Carbon Pricing		introduce minimum tax in line with Pillar 2, introduce excess profit tax		
	MT	withdraw Covid measures reduce	1	efficiency, simplicity, cyclical
		number of rates and exemptions	0.4	stabilization
	MT	increase specific rates on tobacco, alcohol, and fuel	0.4	health, LG fiscal gaps
	MT	expand ETS pricing	0.6	decarbonization, health, rebalancing
Total CAPB impact			***5.5***	

Source: 2023 China Staff Report for the Article IV consultation.

48. **Reports often justified these recommendations with reference to the initial conditions (e.g., high spending or low tax revenue in relation to GDP), as well as their implications for efficiency.** Calls for cutting untargeted subsidies were justified on the ground of efficiency and equity considerations (e.g., 2009–15 India reports, 2023 Libya report). The 2013 Namibia staff report advocated reducing public sector wages to boost spending efficiency. The 2023 Libya report called for a reduction in public sector wages to improve the climate for private investment and employment growth.

Figure 12. Advice on Composition of Fiscal Adjustment
(In percent)



Source: IEO staff calculations.

Policy Mix

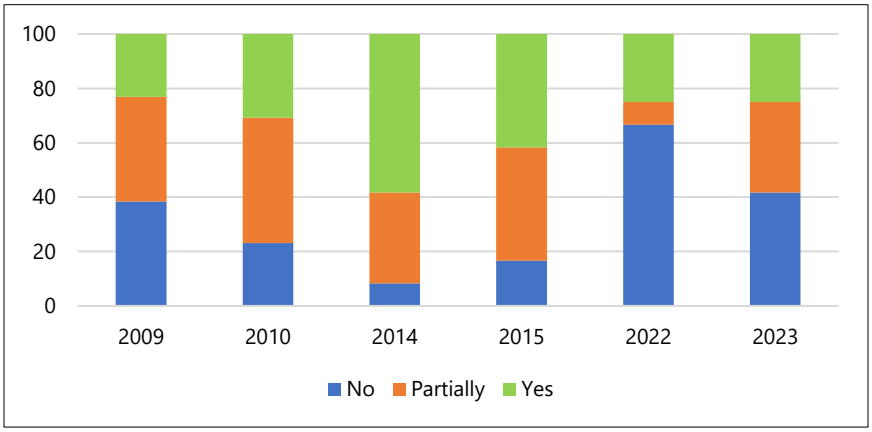
49. **About 70 percent of the focus country reports explicitly discussed the policy mix between fiscal and monetary, exchange rate, financial, and structural policies at least partially (Figure 13).** Monetary policy was the policy most frequently discussed in relation to fiscal policy. For example, the 2022 and 2023 Philippines staff reports emphasized that fiscal consolidation complemented monetary policy in the tightening of the overall macroeconomic policy stance to help reduce inflationary pressures and maintain external and domestic balance. The 2023 Azerbaijan staff report noted that fiscal adjustment would be appropriate from a cyclical perspective, supporting the Central Bank efforts to keep inflation within the target band. The 2023 Hungary report pointed out that the recommended front-loaded fiscal adjustment would complement monetary policy in dampening demand and inflation. In India, Article IV consultations highlighted the need for a strong coordination of fiscal and monetary policy, as the country had to deal with a persistent high inflation. In contrast, in the case of China, IMF staff did not consider monetary policy prominently in their assessment of fiscal policy. Instead, they emphasized the role of fiscal policy in promoting economic rebalancing by boosting domestic consumption.

50. **Only few focus country reports discussed the connection between fiscal policy and the exchange rate regime and the role of fiscal policy to manage capital flows.** For instance, for Montenegro, the 2010 staff report noted that Euroization posed "greater demands on fiscal policy" which was "de facto the only tool for macroeconomic management." However, staff reports for the U.A.E, which maintains a peg to the U.S. dollar, typically did not reflect the implications for the short-term fiscal advice. Some Article IVs discussed the role fiscal policy also in relation with financial and capital account issues. The 2022 Philippines staff report addressed the role of fiscal policy in the context of a quantitative IPF (IMF, 2023b).[36] In the case of India, the

[36] Examples of staff reports of other countries, outside the focus group, that discussed the relationship between fiscal policy and external sector policies include Colombia (2023), Romania (2023), and Vietnam (2024).

IMF staff considered that there was the need to reform financial regulation policy to increase access to capital markets, but also to create better countercyclical buffers. Conversely, the interaction between fiscal and structural policies was not discussed, except for SOE reforms that would support both product market efficiency as well as mitigate fiscal risks.

Figure 13. Does the Report Explicitly Discuss the Policy Mix?
(In percent)



Source: IEO staff calculations.

B. Debt Accumulation and Fiscal Sustainability

Debt Sustainability and Fiscal Risks

51. **A Debt Sustainability Analysis (DSA), based on the relevant framework, was included as an annex in all staff reports, but there was variability in how the tool informed the advice in the main text.**[37] In several cases, the DSA annex was referenced largely in passing in the main text, without reference to the risk analysis vis-à-vis the baseline or its policy implications (e.g., 2022 Hungary report). Other staff reports used the results from the debt sustainability analysis to better support their policy recommendations. For example, the 2021 Montenegro reports relied on the debt sustainability framework to reinforce the staff's views regarding the need to postpone a large infrastructure project, and to argue for developing the domestic debt market to reduce refinancing risks.

52. **Occasionally staff reports of the focus countries overlooked some of the realism signals that are part of the most recent MAC debt sustainability framework and aim at enhancing transparency and addressing the optimism bias of growth and debt forecasts.**

[37] The Fund uses different sustainability analysis frameworks for market access countries (MACs), and low-income countries (LICs). Most EMMIEs use the former, while a few SDS and FCS that are eligible for concessional lending use the latter. These tools have evolved over time and the current versions incorporate a variety of analytical modules to assess debt risks over different time horizons. See Cohen-Setton, Montiel, and Zoli (2025) and Eichengreen and Zoli (2025) for a broader discussion of these frameworks.

The SRDSF annex of the staff reports typically discussed briefly whether the size of projected fiscal adjustments aligned with historical norms using the results of the Fiscal Adjustment Realism Tool. However, they rarely elaborated on the results of the Fiscal Multiplier Tool, although in some cases it flagged realism issues. Consider, for instance, the case of Namibia—one of the sample countries where debt to GDP has increased most rapidly in recent years, reaching about 66 percent of GDP in 2023. In the SRDSF of the 2023 staff report the realism analysis pointed to optimism bias in the projected improvement in primary balance and debt reduction; the annex provided a brief justification, without any discussion in the main text on the report. The fiscal Multiplier Realism Tool indicated that the baseline projections effectively assumed zero or negative fiscal multipliers, but the report did not justify the use of such unconventional multipliers. The same issue was present, to some extent, also in the Botswana's (2023) and Philippines's (2023) SRDSF. Desk economists' attention to assumptions about fiscal multipliers is essential to avoid the underestimation of multipliers identified by Blanchard and Leigh (2013) following the GFC and address the optimism of debt forecasts (Annex III).[38]

53. **Reports for the focus countries often identified fiscal risks and recently provided more advice on policies to mitigate them (Figure 15), but "stock-flow adjustments" (SFAs) remained the main contributor to the upward drift of EMMIEs' public debt.** Those highlighted more prominently were macroeconomic uncertainty and contingent liabilities stemming either from public-private partnerships (e.g., Botswana 2022; India 2010; Philippines 2009, 2014, 2023; St. Lucia 2010), or public sector banks and other SOEs (e.g., Brazil 2014; Costa Rica 2021; India 2014, 2015, 2022, 2023), or local governments (China). Similarly to the results from our review of staff reports, the survey of EMMIEs' authorities as well as the mission chiefs' survey also pointed to macroeconomic uncertainty and contingent liabilities as the most frequently discussed fiscal risks. Recommendations to mitigate identified fiscal risks were more articulated in recent years (Figure 16B). Those focused most frequently on improving medium-term frameworks (43 percent of instances), improving transparency (28 percent of cases), and strengthening debt management (20 percent of cases). Notwithstanding efforts to more comprehensively assess fiscal and debt risks undertaken in recent years (IMF, 2018b), concerns remain about their underestimation: SFAs remained the main driver of debt accumulation in EMMIEs during the evaluation period (Eichengreen and Zoli, 2025; Figure 2).[39]

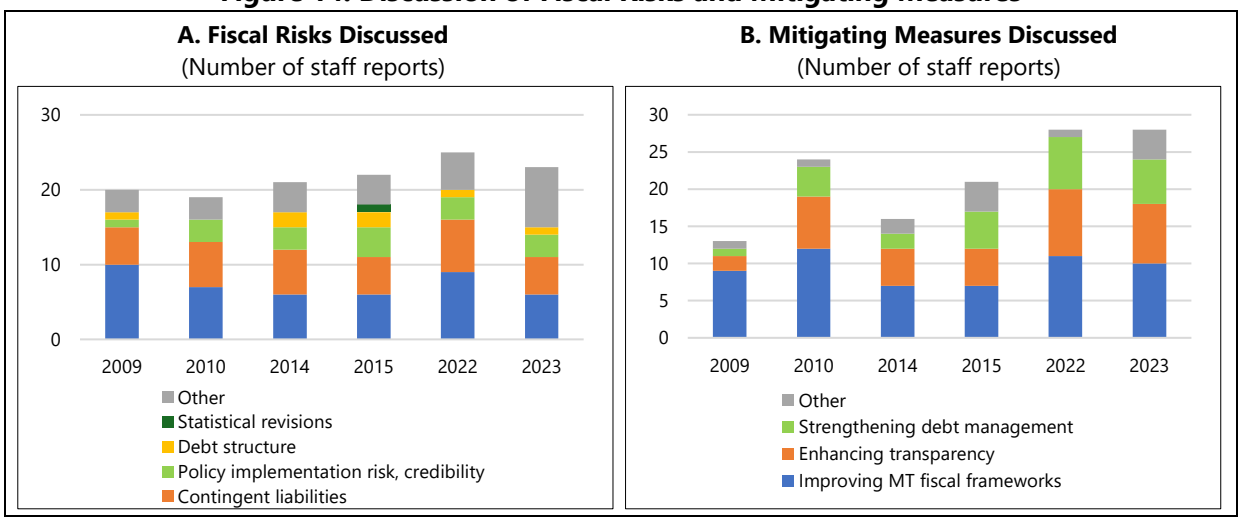
54. **The depth of discussion on medium-term challenges varied but improved over time**. We found the discussion of medium-term challenges limited or missing in 25 percent of the reviewed staff reports in 2023, compared to roughly 60 percent in the reviewed staff reports in 2009. In the authorities' and mission chiefs' surveys, 64 percent and 91 percent of respondents felt that bilateral surveillance provided an assessment and detailed advice of the medium-term

[38] External viewers have criticized the IMF for repeatedly underestimating fiscal and debt risks and more generally for optimism of debt forecasts (IEO, 2014a; Flores and others, 2023; Rehbein, 2022, 2023a, 2023b).

[39] In addition to liabilities incurred outside the fiscal perimeter, such as the central or general government, these adjustments also encompass valuation effects, timing discrepancies, and other below-the-line transactions.

fiscal challenges, respectively. While 88 percent of mission chiefs believed that this advice was very well integrated with short-term recommendations, only 37 percent of the responding authorities agreed with that view.

Figure 14. Discussion of Fiscal Risks and Mitigating Measures



Source: IEO staff calculations.

Fiscal Anchors, Frameworks, and Institutions

55. **Most staff reports framed their policy advice against a medium-term policy anchor in recent years.**[40] For some commodity-exporting counties, staff advice in recent staff reports (Azerbaijan 2023, Botswana 2023, and the UAE 2022) was based on the analytical framework developed by the Fund with the objective of supporting macro-fiscal stability and intergenerational equity (Paragraph 26). Recent staff reports on China, Costa Rica, India, Montenegro, and St. Lucia framed the advice with reference to a medium-term anchor, consistent with the 2014 TSR indication. However, in a couple of cases, including recent ones, the objective of medium-term fiscal adjustment was generically framed as placing debt on a downward path, without a clearer medium-term anchor. The authorities' survey responses align with these somewhat mixed findings: 40 percent believed that medium-term fiscal anchors were extensively discussed, and 34 percent felt that they were partially addressed. On the other hand, in the mission chiefs' survey, 73 percent of respondents believed medium-term fiscal anchors were discussed extensively, 27 percent felt they were discussed partially.

56. **Analysis of fiscal frameworks was very frequent and often detailed.** Fiscal frameworks were discussed in about 90 percent of the staff reports. Medium-term budget frameworks and transparency were the issues covered most frequently. For example, 2009 Brazil

[40] The 2014 TSR highlighted that "a credible medium-term fiscal plan with a visible anchor should underpin a fiscal strategy" to support confidence. "The anchor could be specified in terms of either an average pace of adjustment or of a fiscal target to be achieved within four-five years" (IMF, 2014b).

staff report recommended developing a medium-term budgetary framework to guide fiscal policy. The 2023 Philippines staff report had a detailed discussion on the medium-term fiscal framework. Some staff reports covered multiple aspects related to fiscal frameworks and institutions. For example, the 2008 Hungary staff report included detailed recommendations for a fiscal rule, improvements in the medium-term budgeting framework, and independent oversight of compliance. And the 2023 Libya report also offered a wide range of recommendations for budgetary reforms and steps to improve the oversight of SOEs. The 2021 Montenegro report included a detailed call for improvements in revenue administration and the adoption of program-based budget, and linked weakness in public investment management to fiscal risks.[41] An example is the 2021 Brazil staff report that highlighted the role of the new constitutional ceiling on spending to guarantee the fiscal adjustment in the medium term.

C. Potential Output and Other Longer-Term Issues

57. **Consistent with the Fund's top-line guidance, staff reports gave increasing attention to fiscal measures that would support medium-term growth.** For example, the 2014 Namibia and 2016 Costa Rica staff reports advocated reducing current spending but preserving investment spending. The 2022 Philippines report argued that the advocated fiscal adjustment should not sacrifice infrastructure spending and proposed revenue measures to finance critical spending. As noted above, staff paid attention to the efficiency of the recommended tax policies. However, reports typically did not quantify the medium-term growth impact of proposed measures.

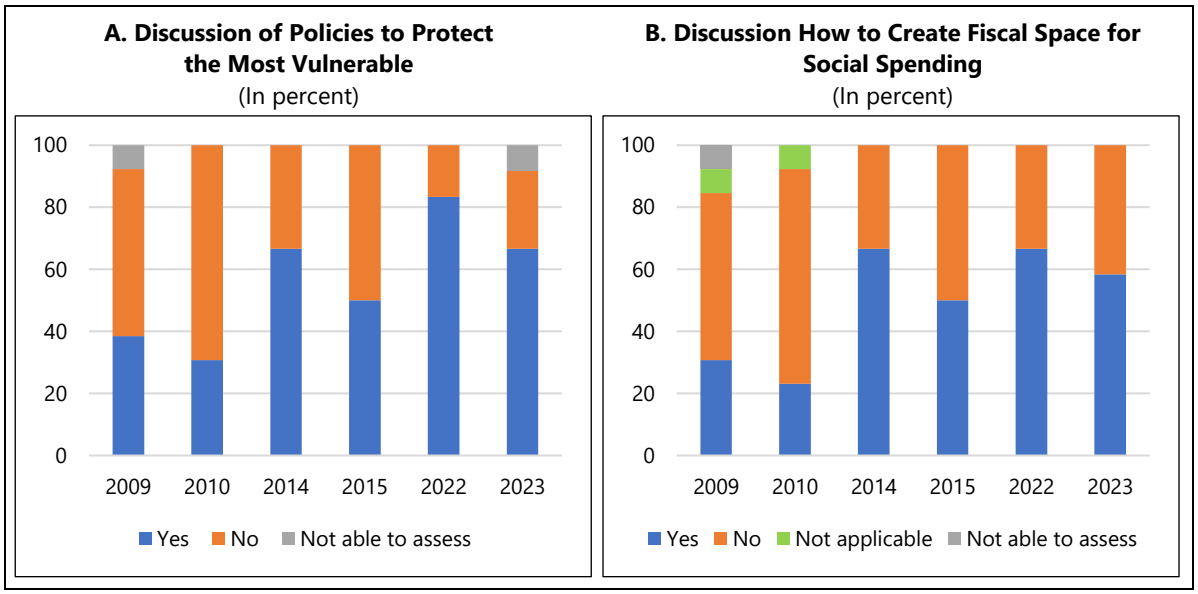
58. **The reviewed staff reports have paid increasing attention to social protection but the depth of the discussion of this aspect varied.** In 2022–23, 75 percent of the analyzed staff reports covered social spending issues and emphasized the need to protect the most vulnerable, and over 60 percent of them, recognized the need to create fiscal space for social spending (Figure 17). In some cases, though the analysis was limited. For example, the 2023 Hungary report titled its section on fiscal policy "Consolidating While Protecting the Vulnerable," but only provided a passing reference to the latter. Similarly, the 2023 Namibia report emphasized the importance of protecting the vulnerable against food insecurity, but then just welcomed the drought relief package, without offering additional policy advice. The 2022 Botswana staff report included a general statement recommended using abundant mining revenues from improved terms of trade to cushion the vulnerable from rising inflation.

59. **Several staff reports offered extensive and specific advice on social protection, as confirmed also by the authorities' and mission chiefs' surveys (Figure 15).** For example, China staff reports provided advice on tax reforms and pensions and health systems to promote more inclusive growth. The 2014 and 2015 Philippines reports supported widening the deficit to the authorities' medium-term deficit target of 2 percent of GDP to boost social spending. The 2022 and 2023 Philippine reports advocated specific measures for revenue mobilization to

[41] Eichengreen and Gupta (2025) provides a comprehensive analysis of Fund's extensive work and advice on fiscal rules and fiscal councils from 2008 to 2023.

finance more social expenditure. The distributional impact of recommended measures was typically not quantified but discussed qualitatively. Fifty-nine percent and 72 percent of the respondents to the authorities' and mission chiefs' survey, respectively, felt that the discussion of fiscal measures to protect the most vulnerable in Article IVs was extensive.

Figure 15. Coverage of Social Spending



Source: IEO staff calculations.

60. **References to fiscal policies that could support the Fund's climate strategy took a relatively prominent role more recently, though relevant trade-offs were not always well discussed.** China (2014, 2015) and St. Lucia (2015) staff reports were the only ones in the sample that discussed fiscal policy issues related to climate—actually several years before the Fund developed a strategy on climate. China (2014) staff reports included a box detailing tax policy instruments to support decarbonization. St. Lucia (2015) staff report advocated calibrating fiscal adjustment in anticipation of future natural disasters—whose cost for the public was estimated based on relevant cross-countries experiences since 1990. On the other hand, in 2022 and 2023, 80 percent of the staff reports in the sample discussed fiscal issues related to climate. Reports started making use of more sophisticated analytical tools to incorporate the impact of climate change on fiscal policy. For example, the 2022 St. Lucia staff report provided estimates of the long-term return from public investment spending that would increase resilience to natural disasters, based on an IMF model designed for SDS (Fernandez-Corugedo, Gonzalez-Gomez, and Guerson, 2023). In other cases, though, trade-offs among competing spending needs for climate mitigation and other priorities were not always well articulated. In authorities' and mission chief' surveys, only 29 percent and 36 percent were of the view that fiscal policy advice in Article IV consultations extensively discussed how to create fiscal space for climate change mitigation and/or adaptation, respectively.

61. **Limited references to fiscal policies that could support the members' gender objectives appeared after the adoption of the Fund strategy on gender.**[42] Gender budgeting was mentioned in UAE (2021) and Costa Rica (2023) staff reports, but only in passing. An annex to India 2023 staff reports advocated enhancing access to childcare and investing in time-saving infrastructure to support female labor force participation, but it did not provide an indication of the fiscal implications of such recommendation. Responses from the authorities' and mission chiefs' surveys also point to limited discussion of fiscal policies to achieve better gender outcomes.

62. **Specific discussion of SDGs costing was nearly absent in relevant countries in the sample.**[43] The only staff report providing analysis on this issue was the Namibia 2023 document which included an annex estimating potential additional spending that would be required to achieve strong performance in selected SDGs, based on the Fund's costing methodology (Carapella and others, 2023). The 2021 UAE report pointed out that medium-term fiscal consolidation would help provide room to make progress toward achieving the country's SDGs, but did not provide specific analysis. Both the authorities' and missions' surveys also indicated that SDGs were typically not extensively discussed in bilateral surveillance.

63. **Some perception of lack of evenhandedness in Fund's fiscal advice remain**. Officials interviewed for this evaluation pointed out some instances when Fund's fiscal advice was uneven across countries in similar circumstances, including the focus of recent WEOs on sovereign debt risks for EMMIEs. The authorities' survey reflects that 44 percent of the respondents felt that fiscal policy advice was consistent with advice to other similar countries and presented in a fair and balanced way, while 54 percent of respondents did not have a strong or clear view on it. One factor that has contributed to perception of lack of evenhandedness was the variability in the fiscal issues covered in staff reports across different countries, reflecting the discretion left to country team.

D. Implementation of Fund's Advice on Fiscal Policy

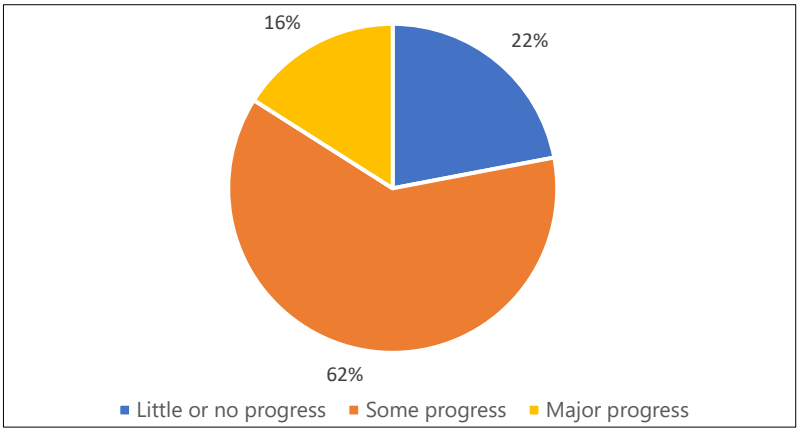
64. **Although member countries typically agreed with the Fund's advice, implementation was mixed.** Sixty-four percent of EMMIEs' authorities and nearly 82 percent of the Fund's mission chiefs survey respondents stated that the authorities agreed with Fund's fiscal policy advice for the medium term either always or the majority of the time. However, among the authorities, only 53 percent believed that advice was acted upon either always or at least half of the time. Analysis of the standard appendices in staff reports using Large Language Model indicated that recommendations were partially implemented ("some" progress) in 62 percent of

[42] While the strategy was adopted in 2022, high-level corporate messages and work on gender related issues had started earlier. For example, a Fund's conference on "Fiscal Policies and Gender Equality" was held in 2016.

[43] Countries in the sample for which SDGs are particularly relevant are Botswana, India, Namibia, and UAE.

cases and fully implemented ("major" progress) in another 16 percent of cases (Figure 16).[44] Authorities' officials interviewed for this evaluation pointed to capacity constraints and political constraints are the main deterrents of implementation.

Figure 16. Implementation of Fiscal Policy Advice, 2008–23
(Percent of Fiscal Advice)



Sources: Article IV Consultation Staff Reports; IEO staff calculations.
Note: Information from the Staff Report Appendix Tables, which detail authorities' responses to past policy advice, was assessed for implementation progress using OpenAI's o1 model. The analysis covered 81 EMMIEs, and 319 Staff Reports.

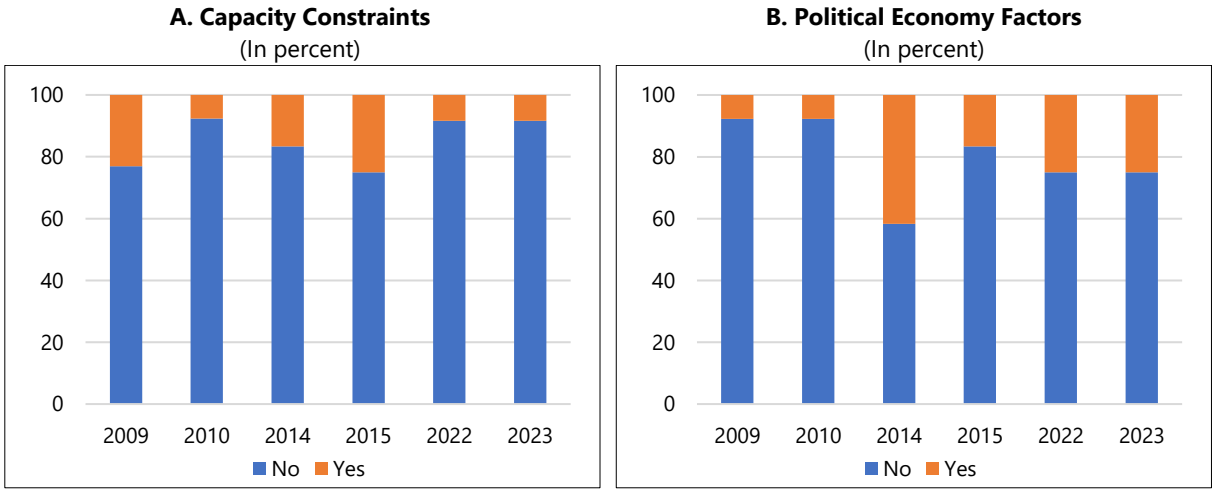
65. **The reviewed Article IV consultation reports did not fully discuss capacity constraints that could affect policy implementation.**[45] Few reports pointed out capacity constraints in fiscal policy and public financial management (Figure 17A). For example, the 2015 Botswana staff report recognized capacity constraints in public investment planning and implementation and advised the authorities to undertake a Public Investment Management Assessment. The Libya staff reports (2009, 2010, 2013) indicated that strengthening of public financial management was crucial to enhance expenditure control and efficiency and highlighted vast TA and training needs in that area. According to the authorities' survey, about 40 percent of the respondents felt that surveillance fiscal policy advice took into consideration administrative and other capacity constraints. Nevertheless, the key role of Fund's capacity development in supporting policy implementations was stressed both in interviews with the authorities conducted for this evaluation and in the authorities' survey. In the latter nearly 40 percent of respondents indicated that the Fund's follow-up support for major fiscal policy measures (e.g., through TA) was instrumental for implementation, pointing to the key role of TA for many EMMIEs.

[44] The analysis is based on information presented as table in the Annex or Appendix of Staff reports for the Article IV consultation over 2008–23. Another analysis, based on data from the Consistency Policy Assessment, suggest that implementation of Fund's short-term has somewhat increased over time: the share of EMMIEs that implemented near-term fiscal stance advocated by staff increased from 43 percent in 2018 to 66 percent in 2023.

[45] Among the SDS, in particular, IEO (2022b) finds that the effectiveness of IMF work on fiscal issues was handicapped due to their limited capacity to absorb and advance initiatives.

66. **The analyzed staff reports of the focus countries indicated some progress in taking into account political economy factors, but they did not always address potential policy tradeoffs (Figure 17B).** For example, as noted above, the recommended pace of adjustment in the 2021 Montenegro report was designed taking into consideration the forthcoming elections—an instance of tailoring of advice to mitigate political risks. The 2023 Libya report recognized that internal conflict had constrained policy making but did not provide information on whether the staff's policy recommendations had been tailored to take that into consideration. The Brazil 2016 report included a useful Annex discussing the impact of political fragmentation on public debt, highlighting the importance of institutional frameworks in mitigating its effects on public finances. However, it was not clear whether fiscal adjustment advocated by staff had taken into account the political realities. Authorities and external observers interviewed for this evaluation noted that the often Fund failed to adequately consider countries' political constraints. These include, for instance, fragmentation and polarization in parliament that made more challenging the approval of fiscal measures. The authorities' survey also suggests that policy implementation risks were discussed less frequently than other fiscal risks. Only 47 percent of the respondents were of the view that fiscal policy advice took into consideration political economy constraints, and 32 percent felt that Fund's fiscal policy advice considered trade-offs between first-best and second-best approaches. Nearly 90 percent of the respondents to the Fund mission chiefs' survey indicated political realities as the main impediment to advice implementation, but only 60 percent listed policy implementation risk among the fiscal risks discussed in bilateral surveillance.

Figure 17. Does the FP Advice Discuss Capacity Constraints and Political Economy Factors?



Source: IEO staff calculations.

V. ASSESSMENT

A. Advice on Fiscal Policy for Output Stabilization

67. **The Fund offered EMMIEs relevant macro-fiscal advice and adapted to their evolving policy needs and circumstances, but multilateral advice was sometimes too broad-brushed.** The Fund proactively advocated policies to mitigate economic fluctuations, marking a timely change from previous advice to EMMIEs, that contributed to the shift toward more countercyclical fiscal policy in this country group. Fund's advice aimed to take into account countries' fiscal space, but it did not fully consider political economy and other institutional constraints. To balance the trade-offs between output stabilization and fiscal sustainability in the face of shocks, top-line advice generally included appropriate caveats. However, advice supporting a fiscal stimulus may not have fully anticipated the challenges of unwinding a large discretionary fiscal expansion in some EMMIEs, due to political constraints and weaker fiscal frameworks, especially after the GFC. This points to the need for more institutional work on designing reversible fiscal packages. Moreover, during the pandemic the Fund's multilateral advice was insufficiently differentiated (IEO, 2023). While broad advice can be in some cases effective in communicating relevant message concisely, it can be misinterpreted. Indeed, Fund's top-line message was occasionally misread or misused by member countries as a justification to loosen fiscal discipline.

68. **The Fund has conducted useful analytical work on EMMIEs to provide more rigorous foundations of the fiscal policy advice, but not as extensively as for AEs.** Flagships chapters, SDNs, SPNs, departmental papers, and REOs, as well as hands-on tools created by functional departments offer relevant analytical instruments for fiscal advice. However, the Fund needs a more comprehensive, data-driven, and country-specific approach to discussing and guiding fiscal multipliers in EMMIEs. Well-grounded estimates of multipliers of the different fiscal instruments would support staff advice on overall fiscal stance and the composition of fiscal packages. While data limitation makes this type of analysis challenging, more systematic research in this area would strengthen the analytical underpinnings to Fund's advice.

69. **Our review of staff reports found strong analytical foundations and policy discussions in many staff reports, including in midsize EMs that rely on smaller staff country teams.** Often staff reports used advanced analytical tools to ground their policy advice. This was the case for large EMs with larger country teams, but also the case for some middle-income (MI) economies, including SDS, reports, as they took full advantage of the analytical tools provided to staff (e.g., Costa Rica and St. Lucia). Moreover, recommended measures were particularly well articulated and granular in reports reflecting insights from TA (e.g., some of Montenegro's reports).

70. **Advice on fiscal stance in bilateral surveillance was mostly consistent with top-line advice, though sometimes more prudent.** In Article IV reports the recommendation for supportive fiscal policies was frequent at the time of the GFC and in the aftermath of the COVID-19 pandemic, and to a lesser extent in 2015, consistent with the high-level messaging for

EMMIEs. Nevertheless, bilateral advice advocated fiscal tightening in many cases already in 2009, even though the multilateral message called for a more supportive fiscal stance. While the more cautious tone of bilateral advice reflected valid concerns over debt sustainability and market access, evidence also indicates a degree of short-term tightening bias in the Fund's country-specific guidance. Both bilateral and multilateral surveillance predominantly emphasized the importance of medium-term fiscal consolidation and strengthening fiscal frameworks.

71. **Article IV reports of focus countries often grounded their short-term fiscal recommendations in clear and reasoned analysis; nonetheless, we identified the following shortcomings:**

- Certain staff reports, including recent examples, did not provide fully clear or explicit recommendations regarding the short-term fiscal stance.
- In about half of the staff reports, the justifications used to determine the direction and size of short-term fiscal measures were missing or limited.
- Often quantification of the macroeconomic impact of the recommended fiscal policies was missing, and multipliers were not made explicit.
- Explicit discussion of the tradeoffs between output stabilization and fiscal sustainability was infrequent.

72. **Bilateral advice could have given more emphasis on the role of automatic stabilizers and how to enhance them, especially in EMs.** While flagships and other analytical publications discussed automatic stabilizers, typically staff reports did not cover them and often failed to make a clear distinction between discretionary fiscal policy and automatic stabilizers. Given that the latter tend to be small in EMMIEs and the challenges of unwinding discretionary stimulus in recent years, bilateral surveillance could have focused more on policies to strengthen automatic stabilizers. Moreover, staff reports could have discussed whether some of the recommended measures, e.g., change in tax policy and safety nets, would have implications for the strength of automatic stabilizers and, hence, the conduct of fiscal policy for output stabilization in the future.

73. **The reviewed staff reports typically provided detailed and relevant recommendations on the composition of the advocated fiscal action**. We assessed the quality of the discussion used to justify the composition of fiscal adjustment good or very good in over 60 percent of the analyzed staff reports. In most cases, recommendations were well-justified and they were balanced in terms of revenue and expenditure measures, but in few instances, expenditure measures were the prevailing advice. Conversely, we found the justifications for the pace of fiscal adjustment adequately discussed in only one-third of the analyzed staff reports.

74. **The role of fiscal policy within the policy mix was not always considered in a well-integrated way in the reviewed staff reports.** Monetary policy was the policy most frequently discussed in relation with fiscal policy. But the connection between the fiscal policy and the exchange rate policies or fiscal and structural policy was rarely analyzed. Staff reports of the analyzed sample countries typically did not discuss in an integrated manner the role of fiscal policy within the context of policy responses to manage capital flows. Fiscal policy was initially left out of the IPF endorsed by the Executive Board in 2020, although subsequent analytical work has started to extend the original IPF to include fiscal policy. It would be useful to fully integrate it in the policy advice framework.

B. Debt Accumulation and Fiscal Sustainability

75. **The Fund's top-line advice rightly stepped-up warnings and analysis of fiscal risks, while in staff reports the quality of the discussion in this area was somewhat mixed.** The flagships highlighted fiscal risks stemming from contingent liabilities starting in 2013, and most prominently from 2016 and subsequent work. The Fund undertook valuable initiatives to strengthen fiscal data transparency. Since 2018, and more forcefully after the pandemic, with debt at historical highs, the flagships have been advocating decisive action to strengthen fiscal buffers, highlighting rollover risks for EMMIEs and especially frontier market economies with elevated debt vulnerabilities. In 2023, the WEO explicitly recognized that debt restructuring might be needed in certain cases, emphasizing the advantages of preemptive debt restructuring. In the sample staff reports the depth of the discussion on fiscal risks was uneven but improved somewhat over time. Overall, in about half of the reviewed reports the discussion of fiscal risks and its integration in the fiscal policy analysis and recommendation was of high quality, while it was limited in the other cases. We also noticed more thorough analysis in later years, consistent with multilateral advice that put increased emphasis on fiscal risks since 2016.

76. **Persisting optimism of WEO debt forecast remains a concerning issue that the Fund itself is trying to mitigate with new tools.** While debt forecast errors have been somewhat smaller in more recent years, their magnitude is worrisome. Accurate forecasts are crucial to plan fiscal policies consistent with debt sustainability. Surprises about debt realizations following optimistic projections may lead to rapid shifts in market sentiment and changes in borrowing costs, especially in EMMIEs where fiscal frameworks and credibility are weaker. The recently introduced MAC SRDSF framework provides more binding tools to analyze plausibility of baseline growth forecasts and recommended fiscal adjustment, which should help country teams to address optimism bias. However, staff appear not to make full use of them or give them due consideration. In fact, insights from the Multiplier Realism Tool were occasionally disregarded in the staff reports we reviewed. While this is a somewhat recent feature of the DSA framework, it is important that country teams step up their attention to this aspect. More thorough discussion of findings from the debt sustainability annex into the main text of the staff report would also provide more support for the fiscal advice.

77. **Advice on fiscal frameworks was generally of good quality.**[46] We assessed the discussion and integration of the related recommendations as satisfactory or excellent in over three-quarters of the reports that covered this area. However, coverage of fiscal frameworks was not always consistent over time for a given country. Nearly all the recent staff reports reviewed presented fiscal advice with reference to a clear quantitative medium-term anchor.

C. Potential Output and Other Longer-Term Issues

78. **Consistent with the Fund's top-line fiscal advice since 2016, advice on the composition of fiscal measures typically took more into consideration their implications for medium-term growth.** However, the impact was rarely explicitly quantified. Both the flagship and staff reports emphasized preserving or creating room for public investment and advocated tax policy that would be efficient and less harmful to growth.

79. **Bilateral surveillance has placed greater emphasis on social protection, in line with the 2019 Fund's strategy.** While the depth of the discussion was somewhat uneven across staff reports, some provided granular advice on policies to protect the most vulnerable and articulated how to create fiscal space for social spending, especially in the later years of the evaluation period. This increased attention represents an improvement compared to the assessment from the 2017 IEO evaluation that had found that social protection was "treated as a routine or formalistic part of the surveillance process" (IEO, 2017). Staff reports, though, generally did not quantify the distributional impact of advocated fiscal measures but discussed them only qualitatively.

80. **Fiscal advice has recently stepped-up attention to climate-related fiscal policies, although without a significant discussion of the trade-offs with fiscal sustainability or among the different long-term priorities, and articulation of policies to support the Fund's gender strategy and the achievement of SDGs has been limited in the reviewed staff reports.** The IMF has already created valuable analytical tools and conducted helpful studies on climate in EMMIEs, including SDS, and bilateral surveillance has placed greater emphasis on this aspect. However, the discussion generally did not explicitly recognize relevant trade-offs among multiple spending priorities and consolidation needs. A forthcoming IEO Evaluation of *The IMF and Climate Change* will provide deeper insights into these issues. Conversely, the discussion of how fiscal policy could help achieve SDGs and gender equity has been nearly absent from the reports. Going forward, they should be a subject of attention, where relevant, including by leveraging the costing tool and directing more efforts to analyzing policy space top for spending on SDGs.

[46] For an assessment of Fund advice on fiscal rules and institutions, specifically, see Eichengreen and Gupta (2025).

81. **The shortcomings in fiscal policy advice to EMMIEs identified above stem from several factors.** The IMF's broadened approach—covering a wider range of issues and longer time frames and with guidance notes that leave a lot of discretion to country teams—led to inconsistent attention to core fiscal matters across countries and periods. Additionally, staff or authority capacity constraints and data limitations and the lack of user-friendly tools to evaluate the balance between stabilization and sustainability and to quantify the impact of fiscal measures on medium-term growth at times undermined the depth of analysis and coverage of key issues.

D. Implementation of Fund's Advice on Fiscal Policy

82. **Reviewed staff reports did not clearly identify political economy constraints that obstructed policy implementation.** Staff reports made progress in considering political factors, but explicit discussions on how political constraints were reflected in staff advice remain limited. This issue could lead to perceptions of the Fund being disconnected from the country realities, given that both the authorities and respondents to the Fund mission chiefs' survey identified political realities as the primary barrier to implementing advice.[47]

E. Suggestions for Next Steps

83. **Based on the assessment in the previous sections, this paper offers the following suggestions to enhance the relevance of fiscal policy advice to EMMIEs:**

- The Fund could better clarify the core elements that should be systematically addressed in staff reports. At a minimum, reports should include: (i) clear, explicit, and specific recommendations on the short- and medium-term fiscal stance—whether expansionary, neutral, or contractionary—and its alignment with the economic cycle (procyclical or countercyclical); and (ii) a well-reasoned justification for the fiscal advice. In this context, it may be necessary to strengthen the capacity of Fund country teams to assess an economy's cyclical position—a particularly challenging task in case of frequent structural breaks or poor data.

- The Fund would benefit from further research on analyzing and estimating fiscal multipliers in EMMIEs. An ongoing IMF Fiscal Affairs Department and Research Department research project on estimating country-specific fiscal multipliers will significantly strengthen the analytical foundation of the Fund's fiscal policy recommendations. Moreover, staff reports could leverage more systematically the Fiscal Multiplier Tool of the SRDSF.

[47] It has to be recognized, however, that while policies do need to consider who supports and who opposes them, governments can and do overcome political hurdles, particularly in times of crisis.

- Bilateral advice could place greater emphasis on the role of automatic stabilizers (and semi-automatic stabilizers)[48] and strategies to strengthen them, particularly in EMs. Surveillance advice in this area could be strengthened through further analytical work on this structural fiscal issue and complemented by targeted capacity development support, possibly in cooperation with the World Bank, in countries lacking the capacity to build and utilize effective automatic stabilizers.

- Staff reports should clearly articulate the trade-offs between, on one side, reducing debt and strengthening buffers to address future shocks, and, on the other, meeting urgent spending needs and fostering growth, while providing a clear rationale for the recommendations. Also, bilateral advice could more explicitly outline the trade-offs between alternative policy options (e.g., different consolidation policies and paths) thus fostering more informed policy debates within countries and strengthening the perception of Fund's impartiality.

- Staff reports should also analyze in greater detail the fiscal effects and management of the balance of payments shocks and constraints, both those associated with fluctuations of commodity prices for commodity-dependent countries, and of the external private financing cycles, both in terms of availability and costs.

- SRDSF tools should be utilized more consistently, with their findings fully incorporated to ensure that fiscal policy advice is aligned with identified debt risks. Staff reports could more systematically outline mitigation options for fiscal risks (e.g., enhancing PFM systems and budget institutions, and improving oversight of off-balance-sheet operations).

- To enhance the integration between bilateral and multilateral advice, the flagships could report on underlying indicators of fiscal space by country to prevent misinterpretation of the broader policy messages and provide more tailored advice. More broadly, messages could be better tailored by incorporating additional country-specific considerations.

[48] Semi-automatic stabilizers are pre-legislated increases in benefits or eligibility with previously agreed triggers, such as a decline in employment beyond a threshold.

ANNEX I. EMERGING MARKET AND MIDDLE-INCOME ECONOMIES LIST, SUBGROUP DEFINITIONS, AND SAMPLE FOR THE REVIEW OF ARTICLE IV CONSULTATION STAFF REPORTS

Table AI.1. List of Emerging Market and Middle-Income Economies

Emerging Markets	Middle-Income Economies			
Argentina[c, p]	Albania[p]	Dominican Republic[p]	Marshall Islands*, **, [c]	Sri Lanka[p]
Brazil	Algeria[c]	Ecuador[c, p]	Mauritius*	St. Kitts and Nevis*, [p]
Chile[c, p]	Angola[c, p]	El Salvador[p]	Micronesia*, **	**St. Lucia***
China	Antigua and Barbuda*, [p]	Equatorial Guinea[c, p]	Mongolia[c, p]	St. Vincent and the Grenadines*
Colombia[p]	Armenia[p]	Eswatini*	**Montenegro***	Suriname*, [c, p]
Egypt[p]	Aruba	Fiji*	Morocco[p]	Syria**
Hungary[p]	**Azerbaijan[c]**	Gabon[c, p]	**Namibia**	Tonga*
India	Bahamas, The*	Georgia[p]	Nauru*	Trinidad and Tobago*
Indonesia	Bahrain[c]	Grenada*, [p]	North Macedonia[p]	Tunisia[p]
Iran[c]	Barbados*, [p]	Guatemala[p]	Oman[c]	Turkmenistan[c]
Malaysia	Belarus[p]	Guyana*,[c]	Pakistan[p]	Tuvalu*, **, [c]
Mexico[p]	Belize*	Iraq**, [c, p]	Palau*	Ukraine**, [p]
Philippines	Bolivia[c]	Jamaica[p]	Panama[p]	Uruguay[c]
Poland[p]	Bosnia and Herzegovina[p]	Jordan[p]	Paraguay[c, p]	Vanuatu*
Russia	**Botswana[c]**	Kazakhstan[c]	Peru[c, p]	Venezuela**, [c]
Saudi Arabia[c]	Brunei Darussalam[c]	Kosovo**, [p]	Qatar[c]	Vietnam
South Africa[c]	Bulgaria	Kuwait[c]	Romania[p]	West Bank and Gaza**
Thailand	Cabo Verde*, [p]	Lebanon**	Samoa*	
Türkiye[p]	**Costa Rica[p]**	**Libya**, [c]**	Serbia[p]	
United Arab Emirates[c]	Dominica*	Maldives*, [p]	Seychelles*, [p]	

Sources: Fiscal Monitor, October 2024; Duttagupta and Pazarbasioglu (2021).
* indicates Small Developing States.
** indicates Fragile and Conflict-Affected States.
[c] indicates commodity exporters.
[p] indicates that a country had an active Fund supported arrangement at any time during the evaluation period (2008–23), as indicated in the Monitoring of Fund Arrangements (MONA) database.
Countries in bold are those included in the focus group sample for the review of Article IV Consultation Staff Reports of this paper.

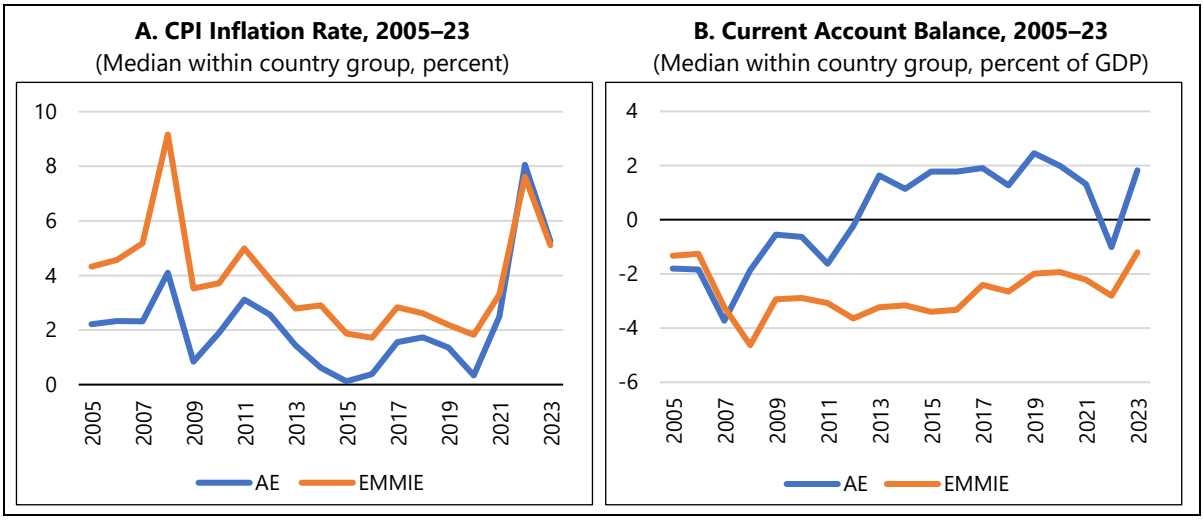
Emerging Market and Middle-income Economies (EMMIEs) are all emerging market and developing economies, as listed in April 2024 WEO (Statistical Appendix, Table D), excluding low-income economies, defined and listed in Background Paper 3. The Fund does not have a formal definition of emerging markets. The distinction between emerging market (EMs) and middle-income economies is based on Duttagupta and Pazarbasioglu (2021).

Fragile and Conflict-Affected States (FCS): 39 IMF member countries were considered as FCS in FY2024, 8 of which were EMMIEs, as indicated in Table AI.1 (IMF, 2023a)

Small Developing States (SDS): The Fund classifies as SDS those members with populations under 1.5 million, excluding advanced economies and high-income fuel-exporting countries as listed by the WEO (IMF, 2024).

Commodity Exporters (CEX): The analytical criterion source of export earnings distinguishes between the categories fuel (Standard International Trade Classification [SITC] 3) and nonfuel and then focuses on nonfuel primary products (SITCs 0, 1, 2, 4, and 68). Economies are categorized into one of these groups if their main source of export earnings exceeded 50 percent of total exports on average between 2018 and 2022 (Source: WEO, April 2024 Statistical Appendix, Table D).

Figure AI.1. Additional Selected Macroeconomic Indicators



Sources: WEO, and IEO staff calculations.

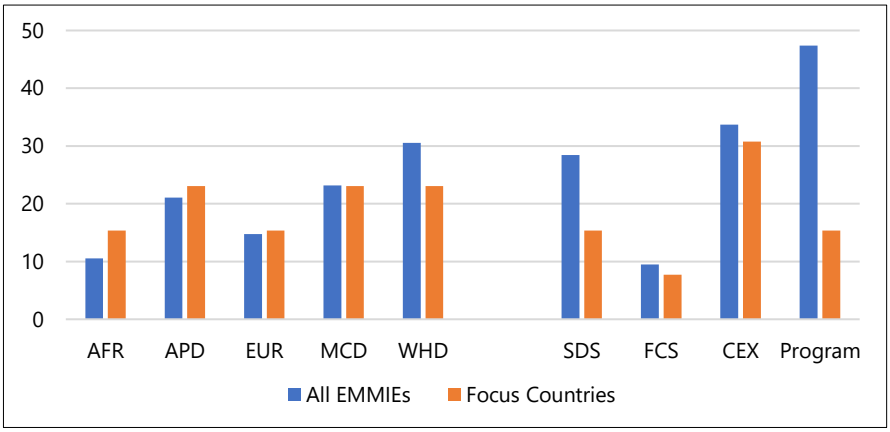
Review of a Sample of Article IV Consultation Reports

To examine the Fund's bilateral advice on fiscal policy more thoroughly, we analyzed staff reports for Article IV consultations, in a sample of 13 focus countries, over three time periods: 2009–10, 2014–15, 2022–23. The sample was chosen to cover, to the extent possible, countries with varying income levels, representing all geographical regions, and differing significantly in size, economic characteristics, and fiscal challenges. Sample characteristics are depicted in Figure AI.2.

The 13 countries were Botswana, Namibia (AFR), China, India and Philippines (APD); Hungary and Montenegro (EUR); Azerbaijan, Libya, and United Arab Emirates (MCD); Costa Rica, Brazil, and St. Lucia (WHD). The sample includes two SDS (Montenegro and St. Lucia); four commodity exporters (Azerbaijan, Botswana, Libya, and United Arab Emirates); and one FCS (Libya). The sample size is comparable to the one used for the analysis of Fund's bilateral fiscal policy advice in the 2014 TSR (IMF, 2014a). It comprises six EMs (Brazil, China, Hungary, India, Philippines and the United Arab Emirates); and seven middle-income economies (Botswana, Namibia, Montenegro, Azerbaijan, Libya, Costa Rica, and St. Lucia). The list of EMs is based on Duttagupta and Pazarbasioglu (2021).[1]

[1] Two recent IEO evaluations focus on issues specific to fragile states and small developing states, respectively (IEO, 2018; 2022b).

Figure AI.2. Analytical Characteristics of Focus Countries Compared to EMMIEs Overall
(Percentage of total)



Source: IEO staff calculations.
Note: CEX = Commodity Exporters; FCS = Fragile and Conflict-Affected States; SDS = Small Developing States. "Program" refers to a country having a Fund-supported arrangement at any time during the evaluation period (2008–23), as indicated in the MONA database.

Hungary and Costa Rica were the only focus countries under a Fund supported arrangement (other than a Rapid Financing Instrument or Rapid Credit Facility) during part of the evaluation period.[2] The sample of countries comprises a limited number of cases with IMF-supported arrangements, reflecting a deliberate selection given that the evaluation primarily focuses on surveillance activities.

In cases where an Article IV consultation was not completed in one of the sample years, the staff report of the closest year was used instead. So, six staff reports were analyzed for each sample country, with the exception of few cases (Libya, Montenegro, and St. Lucia) for which only less than six staff reports were available over the relevant period. Overall, 74 staff reports were reviewed.

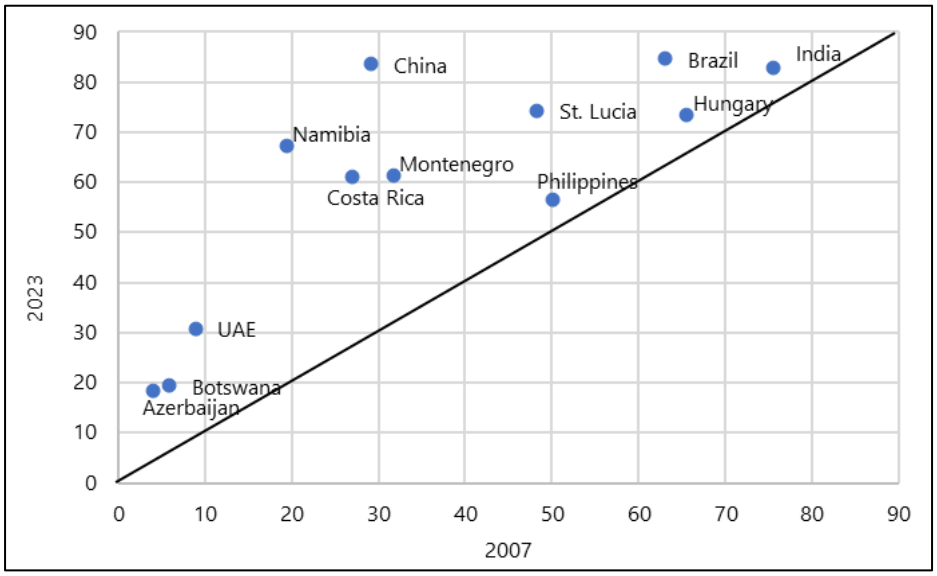
To guide the assessment and maximize consistency across countries and country groupings, the review followed a structured set of questions, uniform across countries in the sample (Methodological and Statistical Appendix). Some of the questions used in our framework are similar to those used in IMF (2014a).

Macroeconomic and fiscal development in the sample economies were generally consistent with those of the EMMIEs group described in Section II. During part of the period the 13 countries conducted countercyclical fiscal policy. In 2008–10 and, particularly, in 2019–23 public spending as a proportion of GDP had a negative correlation with GDP growth. The correlation of the fiscal balance with commodity price changes was positive only for the three oil and gas-exporting countries in the sample (United Arab Emirates, Azerbaijan, and Libya).

[2] Costa Rica implemented an Extended Arrangement under the Extended Fund Facility in 2021–24. Hungary was under a Stand-By Arrangement in 2008–10.

For all sample countries the ratio of debt to GDP was higher in 2023 than in 2007, though the magnitude of this rise varied (Figure AI.3). Azerbaijan, Botswana, and the UAE maintained relatively low debt levels, despite some increase. In turn, India, Hungary and the Philippines, which had high debt ratios in 2007 saw a moderate further increase. All the other countries experienced a significant surge in debt, most notably China (with a rise of 55 percentage points), which together with Brazil and India had the highest debt ratios in 2023. Costa Rica, Montenegro, Namibia, and St. Lucia experienced also sizable increases in debt-to-GDP, by over 25 percentage points. In some cases—such as Costa Rica and the Philippines—the debt-to-GDP ratio did not rise steadily over 2007–23 but declined over certain subperiods within this time frame.

Figure AI.3. General Government Gross Debt, 2007–23
(Percent of GDP)



Source: IEO staff calculations based on WEO data.
Note: Data for Libya are not available.

ANNEX II. COVERAGE AND GUIDING PRINCIPLES FOR FISCAL POLICY ADVICE

Over time, successive surveillance decisions, reviews, and guidance notes have widened the perimeter, both in terms of range of issues and the time horizon, of what the Fund's fiscal policy advice could cover. As in previous versions, the 2022 Guidance Note emphasizes the importance of delivering "a clear bottom-line assessment of public finances and fiscal policies and provide concrete policy advice" (IMF, 2022b). The 2022 Guidance Note for Surveillance under the Article IV Consultation states:

The assessment of public finances is encouraged to be comprehensive. Staff is encouraged to use the broadest definition of government available and can focus on the general government or an even broader perimeter of the public sector where feasible. Where quasi-fiscal operations are significant, related fiscal costs should be included in the measure of the deficit. Staff should consider contingent liabilities as relevant. The following elements could be considered in the assessment, where relevant:

- *Fiscal policy stance along the cycle*, with a discussion of its appropriateness. It is often useful to look at a measure of the fiscal balance that removes cyclical and one-off factors (e.g., structural balance), in addition to the overall fiscal balance.

- *Composition of fiscal expenditure and revenue*, including discussions of the efficiency of public expenditure and the design of tax policy.

- *Sovereign assets and liabilities*, including identifying and mitigating sovereign risk exposures, and presenting data on sovereign assets and liabilities (broader coverage than the central government given data availability), to have comprehensive understanding on the public sector.

- *Financing needs and financing sources*, and possible economic and financial implications. Staff can also monitor arrears and their impact on the economy and the financial sector.

- *Fiscal sustainability*. The debt sustainability analysis provides a useful framework. When data are available, balance sheet analysis could be used to assess fiscal sustainability more broadly. In resource-rich economies, analyzing the impact of commodity prices is important.

- *Fiscal risks*, associated with macroeconomic outlook, policy implementations, and contingent liabilities (from public and publicly-guaranteed loans, public-private partnerships), as well as broader risks such as those from state-owned enterprises, natural disasters, and pandemics. Staff can consider feedback loops between the public, private, and financial sectors where relevant.

- *Fiscal space*—the ability to provide fiscal stimulus without jeopardizing the sustainability of the financial position or the stability of the economy—based on the Fund's fiscal space framework and including a bottom-line assessment in the staff report.

Fiscal policy advice is expected to be concrete and specific, reflecting country circumstances. The following elements could be considered in providing policy advice, as relevant:

- Policy anchor, which can be specified in terms of levels (e.g., fiscal balance, debt stock) or changes (e.g., size of fiscal adjustment). Cyclically-adjusted indicators could be used, where useful.

- *Size and pace of proposed fiscal measures*, which will depend on initial conditions including the state and composition of public finances, available fiscal space, fiscal risks, and inter-temporal policy tradeoffs (e.g., between short-term cyclical conditions and medium-term sustainability objectives), and the size of fiscal multipliers.

- *Role of automatic stabilizers and the composition of discretionary measures,* including whether automatic stabilizers are to be allowed to operate freely or modified, the balance between revenue and expenditure measures, and the mix of temporary and permanent measures.

- *Consistency with the overall policy mix*, considering complementarity and tradeoffs with other policies (e.g., the pace to withdraw fiscal support in the recovery phase, given the stance of monetary policy and economic conditions such as inflation and debt sustainability risks).

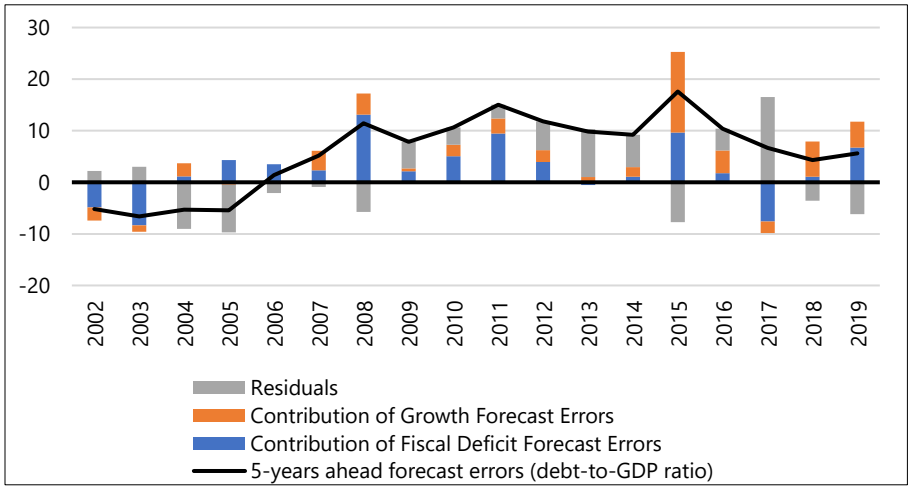
- *Institutions, political economy, and implementation constraints.* Policy advice is expected to be practical and implementable. Appropriate timing and sequencing of policies, as well as consideration of mitigating measures, can help to reduce the negative impact of certain fiscal policies such as subsidy reforms and tax increase on the economy and to gain public support for those policies. Well-designed fiscal institutions and frameworks can enhance fiscal policy credibility and transparency. Advice on how to strengthen the effectiveness of fiscal institutions could build on TA findings, where relevant.

Policy advice can reflect the role of fiscal policies in achieving broader public policy objectives, including the sustainable development goals, environmental, social and governance ambitions in public investment decisions; climate objectives (e.g., net-zero emissions) in designing carbon taxation and revenue mobilization for green investments; and designing the tax system to enhance gender equality and boost female labor force participation (e.g., eliminating tax-induced disincentives for spousal work). More broadly, staff could provide granular fiscal policy advice in areas of the Fund's expertise, building on capacity development activities where appropriate, including public financial management, tax policy and revenue administration, natural resource management, energy reforms, pension reforms, and public health care.

ANNEX III. IS THERE AN OPTIMISM BIAS IN FUND'S DEBT FORECASTS AND MULTIPLIER ESTIMATES?[1]

External viewers have criticized the Fund for overoptimism of fiscal and growth forecasts, and for repeatedly underestimating debt sustainability risks, including in EMMIEs (IEO, 2014a; Rehbein, 2022, 2023). The IMF itself has recognized this optimism in its periodic reviews of debt sustainability frameworks (e.g., IMF 2011d; 2013c, 2021b). To unveil evidence on this, WEO forecasts of general government debt at 5-year horizon, produced from 2002 to 2019 for the period 2007–24, were collected for 96 EMMIEs. Using the approach proposed in Flores and others (2023), 5-years ahead forecast errors (defined as the difference between realized debt-to-GDP ratios and the corresponding forecasts) were decomposed into (i) the contribution of fiscal deficit forecast errors; (ii) the contribution of growth forecast errors; and (iii) the residuals.[2] The analysis indicates that the forecast error for 5-year ahead debt-to-GDP ratios was positive and large: realized debt ratios were, on average, about 12 percent in 2008–16 higher than forecast, with the error narrowing to around 6 percent in 2017–19 (Figure AIII.1). Both fiscal deficit and growth forecast errors have played a role in the positive forecast error in debt projections. These results are broadly in line with the estimated forecast error of about 10 percent of GDP, on average, in Flores and others (2023) for the period 1995–2020.

Figure AIII.1. What Drives Debt-to-GDP 5-year Ahead Forecasts Errors in EMMIEs?



Sources: WEO data; IEO calculations.
These forecast errors are calculated as the difference between the realized debt-to-GDP ratio and the forecasted debt-to-GDP ratio over a 5-year horizon. The realized data is sourced from the April 2024 World Economic Outlook (WEO); the forecasts are collected from the April WEO vintages spanning 2002 to 2019. For example, the 5-year ahead forecast error for 2008 represents the difference between the realized debt-to-GDP ratio for 2013, as published in the April 2024 WEO, and the forecast for 2013 made in the April 2008 WEO vintage.

[1] This Annex is based on analytical work conducted by Dawis Kim and Jeremie Cohen-Setton.

[2] Residual category likely includes forecast errors related to interest rates, exchange rates, and stock-flow adjustments. See Eichengreen and Zoli (2025), figure 2, for a historical decomposition of public debt changes.

The analysis of Fund's forecasts has also focused on whether the Fund underestimated the size of fiscal multipliers after the GFC. Blanchard and Leigh (IMF, 2012) estimated the following regression:

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

Using Fund's forecast on European countries over 2010-11, they obtained a statistically significant coefficient β of approximately -1, indicating that for every percentage point of fiscal consolidation, growth was overestimated by roughly the same. For the sample period 2009–12 they estimated a value for β around -0.65 (Blanchard and Leigh, 2013). The table below summarizes the results of re-estimating the Blanchard and Leigh's regression model on 35 EMMIEs over the 2010–24 period, using Fund's WEO forecasts.[3] The estimated beta coefficient is statistically significant over 2010–12, indicating that in that period that for every percentage point of fiscal consolidation, Fund staff overestimated projected growth by nearly 0.7 percentage points (Figure AIII.2). However, the beta coefficient is not statistically significant in the following subperiods. Overall, these results imply that the Fund underestimated the size of fiscal multipliers in EMMIEs immediately after the GFC, but not in later periods.

Figure AIII.2 Growth Forecast Errors and Fiscal Consolidations in EMMIEs

Estimated regression:
$\text{Forecast Error of Growth} = \alpha + \beta \cdot \text{Forecast of Fiscal Consolidation} + \varepsilon$

	Entire period	Sub-periods		
	2010–24	2010–12	2013–19	2021–23
β	0.0328	-0.680***	-0.124	0.142
	(0.126)	(0.319)	(0.126)	(0.241)
Observations	318	39	171	79
R-squared	0.145	0.197	0.0618	0.118
Year FE	Yes	Yes	Yes	Yes

Source: WEO and IEO staff estimates.
Note: OLS estimates regressions, and the numbers in parentheses are heteroskedastic-consistent robust standard errors. *p<0.1, **p<0.05, ***p<0.01. Time-fixed effects and constant terms are included in all panel regressions but estimated are not reported. Fiscal consolidation is assessed using cyclically adjusted primary balance (CAPB) data. Data for 2020 is not included due to the potential outliers.

[3] The sample includes the following economies: Sample countries: Algeria, Angola, Argentina, Belarus, Brazil, Bulgaria, Chile, China, Colombia, Croatia, the Dominican Republic, Ecuador, Egypt, Hungary, India, Indonesia, Jordan, Kazakhstan, Latvia, Lebanon, Lithuania, Malaysia, Mexico, Morocco, Peru, the Philippines, Poland, Qatar, Romania, Russia, South Africa, Thailand, Türkiye, Ukraine, and Uruguay.

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