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The IMF's Fiscal Policy Advice to Low-Income Countries

Anthony De Lannoy and Chris Lane

Address. 700 19th Street, N.W., Washington, D.C. 20431, U.S.A. Telephone. +1 202 623 8623 Fax. +1 202 623 9990 Email. ieo@imf.org Website. ieo.imf.org

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The IMF's Fiscal Policy Advice to Low-Income Countries

Prepared by Anthony De Lannoy* and Chris Lane†

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* Senior Economist, Independent Evaluation Office of the IMF.

† Consultant, Independent Evaluation Office of the IMF.

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ABBREVIATIONS

AE	Advanced Economy
AFR	African Department (IMF)
APD	Asia and Pacific Department (IMF)
BOP	Balance of Payments
CD	Capacity Development
CEX	Commodity Exporters
CMAP	Climate Macroeconomic Assessment Program
C-PIMA	Climate Public Investment Management Assessment
CSO	Civil Society Organization
DRM	Domestic Revenue Mobilization
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EMMIE	Emerging Market and Middle-Income Economies
ESI	Estimated Sustainable Income
EUR	European Department (IMF)
FCS	Fragile and Conflict-affected States
FM	Fiscal Monitor
FSF	Fiscal Space Framework
GFC	Global Financial Crisis
GPA	Global Policy Agenda
HIPC	Heavily Indebted Poor Country
HIPC-PC	Post-Completion Point HIPC
LIC	Low-Income Country
MCD	Middle East and Central Asia Department (IMF)
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
PF	Petroleum Fund
PFM	Public Financial Management
PPP	Public-Private Partnership
PRGT	Poverty Reduction and Growth Trust
RCDC	Regional Capacity Development Center
REO	Regional Economic Outlook
RSF	Resilience and Sustainability Facility
SDG	Sustainable Development Goal
SDG-FiT	SDG Financing Tool
SDS	Small Developing State
SFA	Stock-Flow Adjustment
SGN	Surveillance Guidance Note
SIP	Selected Issues Paper
SOE	State-Owned Enterprise

SPR	Strategy, Policy, and Review Department (IMF)
UN	United Nations
VAT	Value-Added Tax
WAEMU	West African Economic and Monetary Union
WEO	World Economic Outlook
WHD	Western Hemisphere Department (IMF)

EXECUTIVE SUMMARY

This paper examines the fiscal policy advice provided by the IMF to low-income countries (LICs) in the context of the Fund's bilateral and multilateral surveillance during the period from 2008 to 2023. Almost all LICs experienced significant fiscal risks during this timeframe, facing three major challenges. The first challenge was weak domestic revenue mobilization (DRM), exacerbated by high levels of informality and obstacles in revenue collection and administration. The second challenge involved pressures to increase spending to achieve critical development objectives, including the Sustainable Development Goals (SDGs), while also addressing the impacts of climate change. Lastly, despite prior debt relief efforts, LICs encountered a resurgence of debt sustainability concerns, complicating the fiscal landscape further.

In its bilateral fiscal policy advice, staff successfully addressed short- to medium-term issues, aligning with the Fund's traditional stabilization mandate. This was achieved despite facing various constraints and challenges, including limited access to high quality data, the demands associated with extensive program engagement, implementation and political economy limitations, and the need to customize advice to the specific conditions of each country. While longer-term economic sustainability increasingly gained attention during the evaluation period and became an explicit surveillance priority following the 2021 Comprehensive Surveillance Review, the added value of staff's fiscal policy advice in achieving longer-term economic sustainability goals was more limited.

In general, bilateral fiscal policy recommendations tended to be broad, often lacking clarity on the pace and sequencing of medium-term measures. Additionally, the advice on the policy mix was limited, and the Fund generally did not systematically evaluate the impact of its fiscal policy recommendations on the development goals of LICs. This resulted in limited discussions regarding the distributional effects and growth impacts of fiscal consolidation. While the Fund's frameworks and toolkits typically led to high-quality analyses, challenges remain, particularly concerning the availability and reliability of data for LICs. Overall, this paper did not reveal evenhandedness concerns between LICs.

In its multilateral fiscal policy advice, the individual World Economic Outlook and Fiscal Monitor reports, along with the Global Policy Agenda, often failed to deliver clear and specific fiscal policy recommendations tailored for LICs. However, the "top-line" messages conveyed regarding fiscal policy advice for LICs from both bilateral and multilateral surveillance were largely consistent, emphasizing the importance of medium-term fiscal consolidation throughout much of the evaluation period.

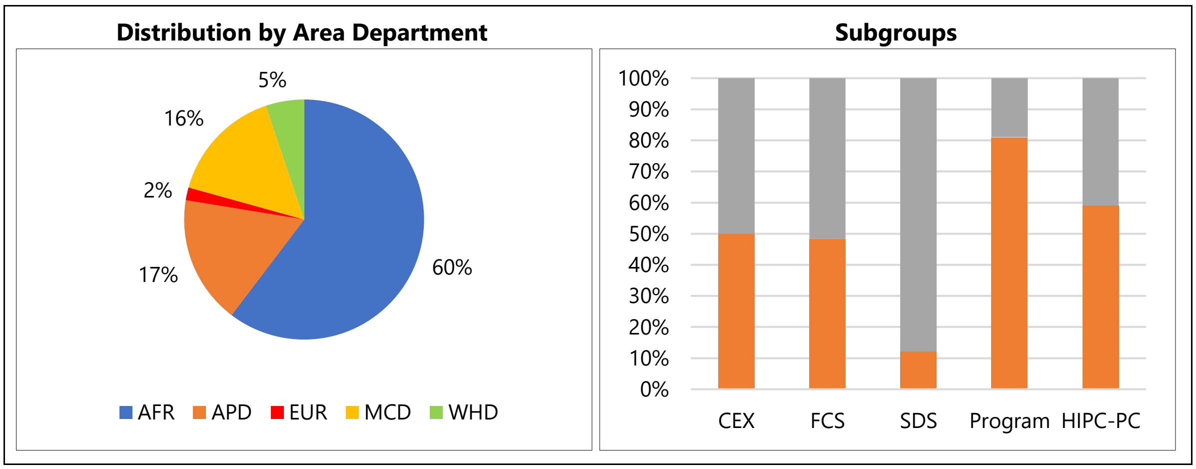
Concerning debt and fiscal sustainability, the fiscal policy advice on the medium-term stance has been effectively aligned with the assessment of debt vulnerabilities. However, the differences between staff recommendations and the authorities' fiscal baseline were not always made explicit or clear. There has been a more systematic and consistent evaluation of fiscal risks, though there is still room for improvement. Additionally, there has been a mostly overlooked opportunity to acknowledge and address the growing debt vulnerabilities linked to stock-flow adjustments. Policy advice related to fiscal rules and institutions, including medium-term budgetary frameworks, has become more detailed and prevalent. Despite DRM being a key focus in both surveillance and program engagement, the progress in increasing general government revenues as a percentage of GDP has been mixed.

In the implementation of the Fund's fiscal policy advice, LICs often faced various constraints related to political economy, capacity, and operational challenges. The coverage of these constraints in staff reports has been inconsistent, with some staff reports focusing mostly on a single preferred approach, rather than considering alternative policy options.

I. INTRODUCTION

1. **This paper discusses the IMF's fiscal policy advice in low-income countries (LICs) for the period from 2008 to 2023.** Of the Fund's 190 member countries at the end of 2023, 58 were categorized as LICs.[1] LICs were highly heterogeneous and further characterized based on analytical criteria—29 LICs were considered as commodity exporters (CEX), 28 as fragile and conflict-affected states (FCS), and 7 as small developing states (SDS) (Figure 1). Many LICs fell in two or three of these subgroups.[2] They were also characterized by high program and capacity development (CD) engagement.[3] Four out of every five LICs participated in some program engagement, with a median duration of 50.5 percent of this period under a Fund program. Consequently, most LICs found themselves in a semi-continuous program status.[4]

Figure 1. Low-Income Countries, December 31, 2023
(Percentage of total LICs)



Sources: World Economic Outlook (WEO); IMF Strategy and Policy Review Department (SPR); IEO (2018; 2022a); www.imf.org.
Note: LICs can fall in multiple subgroups. AFR = African Department; APD = Asia and Pacific Department; CEX = Commodity Exporter; EUR = European Department; FCS = Fragile and Conflict-Affected State; HIPC = Heavily Indebted Poor Country; MCD = Middle East and Central Asia Department; SDS = Small Developing State; WHD = Western Hemisphere Department.

2. **The majority of LICs benefited from significant debt relief, primarily before the evaluation period started.** The Heavily Indebted Poor Countries (HIPC) Initiative was launched by the Fund and the World Bank in 1996 and supplemented by the Multilateral Debt Relief Initiative (MDRI) in 2005. A total of 34 LICs reached their completion point (HIPC-PC), qualifying them for debt relief from the Fund, the International Development Association of the World

[1] This evaluation adheres to the economy grouping classification used in the Fund's Fiscal Monitor. For more information, please refer to Annex I.

[2] For instance, Timor-Leste was considered a CEX, a FCS, as well as an SDS. For a more detailed breakdown, including the definitions used, see Annex I.

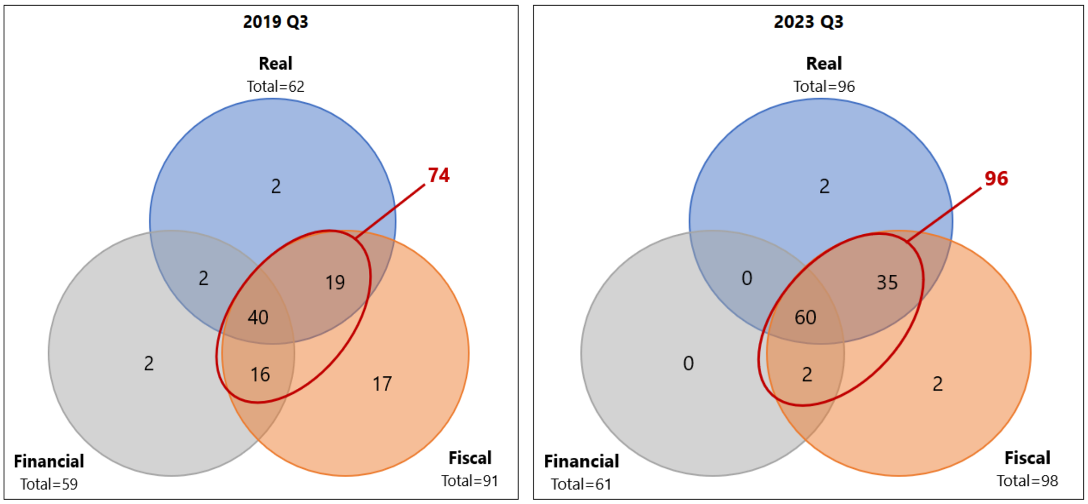
[3] See Annex VI on Fiscal Policy Advice and Capacity Development in LICs.

[4] For more detailed information, see Annex II.

Bank, and the African Development Fund under both initiatives.[5] Despite the fact that many LICs have benefited from debt relief, by the end of 2023, nearly half of LICs were either experiencing external debt distress or were at a high risk of external debt distress.[6]

3. **Almost all LICs faced significant fiscal risks between 2008–23.** Towards the end of the evaluation period, 98 percent of LICs were assessed to be at medium or high fiscal risk, often in combination with growth and financial risks (Figure 2).

Figure 2. Growth, Financial, and Fiscal Risks: Pre- vs. Post-COVID-19
(Percentage of LICs assessed at high or medium risk)



Sources: Vulnerability Exercise 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. The sum of individual numbers may not equal the total shown in the chart due to rounding.

4. **Past IEO evaluations have highlighted several key findings related to the IMF's fiscal policy advice to LICs.** These evaluations indicated that fiscal policy recommendations were frequently broad and lacked clear implementation guidelines. Significant challenges to reform efforts included limited institutional capacity and political resistance, emphasizing the need to consider political economy constraints. Furthermore, unexpected events, such as natural disasters, frequently disrupted fiscal consolidation initiatives. Debt sustainability reemerged as a critical concern, particularly for LICs that received HIPC/MDRI debt relief, revealing tensions between short- to medium-term stabilization and longer-term developmental goals. The analysis of the growth implications of fiscal adjustments was generally insufficient and ad hoc. Staff increasingly considered key fiscal challenges, such as domestic revenue mobilization (DRM), public financial management (PFM) to ensure effective resource mobilization and aid utilization,

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[5] For more detailed information on the HIPC status of LICs, the HIPC Initiative and the MDRI, see https://www.imf.org/en/About/Factsheets/Sheets/2023/Debt-relief-under-the-heavily-indebted-poor-countries-initiative-HIPC.

[6] See http://www.imf.org/external/pubs/ft/dsa/dsalist.pdf for more details.

social protection, and later climate. However, social protection considerations remained primarily macroeconomic, and efforts to protect vulnerable populations had mixed outcomes, with fiscal space for social protection often being minimal. While the World Bank joined United Nations (UN) agencies in support of universal social protection in line with the Sustainable Development Goals (SDGs), the Fund continued to focus on targeted (means-tested) social spending schemes. Moreover, the Fund often lacked or underutilized mechanisms to monitor the social and distributional effects of fiscal policies, complicating efforts to foster inclusive growth and identify emerging risks (IEO, 2008; 2011; 2014a; 2014b; 2017; 2018; 2021; 2022a; 2022b; 2023).

5. **Scope, methodology, and structure of the paper**. This paper has four broad objectives, namely, to: (i) review the key challenges facing fiscal policy advice to LICs (Section II.A); (ii) examine the Fund's stated objectives and priorities, as well as the main frameworks and tools used, for fiscal policy advice (Sections II.B and II.C); (iii) assess the Fund's fiscal policy messages in multilateral surveillance (Section III); and (iv) evaluate the Fund's fiscal policy advice in bilateral surveillance (Section IV). While the evaluation focuses primarily on the Fund's fiscal policy advice in the context of surveillance, where relevant, this paper will also consider staff recommendations in the context of program engagement given the high intensity of program engagement in LICs. The Fund's CD engagement was covered extensively in the 2022 IEO evaluation of *The IMF and Capacity Development* (IEO, 2022b), and therefore falls outside the scope of this paper.[7] This paper uses various sources of evidence[8] and examines, for the period 2008–23, a range of multilateral surveillance products and Article IV consultation reports and program documents (hereafter, staff reports) for 11 focus countries[9] and 1 currency union,[10] selected for their geographic diversity and their representativeness across the various analytical criteria.[11] Section V summarizes the findings, reflecting on the lessons learned.

6. **Evaluation criteria**. This paper uses four evaluation criteria, namely, consistency, relevance, sustainability, and evenhandedness, and assesses the findings related to fiscal policy advice to LICs against the Fund's mandate and the overarching surveillance and fiscal policy objectives and priorities endorsed by the Executive Board. In terms of consistency, the paper

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[7] See Annex VI for a discussion of fiscal policy advice and CD in LICs.

[8] These include interviews with former and current Executive Board members, staff, and country authorities, alongside a number of external stakeholders, predominantly development Civil Society Organizations (CSOs). Additional sources include Fund documents and datasets, quantitative and empirical analyses, targeted surveys, and a review of relevant literature. An annex with survey and desk review results is available online as part of the evaluation (IEO, 2025c).

[9] Afghanistan, Bangladesh, Cambodia, Haiti, Madagascar, Nigeria, Rwanda, Senegal, Somalia, Timor-Leste, and Zambia.

[10] The West African Economic and Monetary Union (WAEMU). All eight WAEMU member countries are LICs: Benin, Burkina Faso, Côte D'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

[11] See Annex IV.

assesses whether the Fund's fiscal policy advice to LICs was consistent with its mandate, objectives, and priorities, and whether bilateral fiscal policy advice was consistent with messages voiced as part of the Fund's multilateral surveillance. Regarding relevance, the paper assesses whether the Fund's fiscal policy advice identified the key issues, trends, and risks facing LICs, and whether recommendations provided value added. Relevance should not be confused with traction: for instance, for LICs facing immediate to medium-term stability issues, staff's focus on fiscal adjustment can be considered relevant, regardless of whether the authorities choose to follow that advice or not. In terms of sustainability, the paper focuses on whether the Fund's fiscal policy advice supported sustained, balanced, and inclusive economic growth. In practice, for LICs, this means to what extent the Fund's fiscal policy advice was in line with the Fund's commitment to the SDGs in those areas aligned with its mandate (Box 2). Regarding evenhandedness, the paper considers whether the Fund provided similar fiscal policy advice in similar circumstances.

II. MACROECONOMIC DEVELOPMENTS AND INSTITUTIONAL VIEW

A. Fiscal Indicators and Key Challenges

7. **LICs have faced three difficult fiscal challenges, specifically DRM, substantial spending needs, and debt sustainability concerns.** All country authorities surveyed for this evaluation[12] deemed these challenges to be the most significant for fiscal policy and they were prominently discussed with staff. These challenges were exacerbated by a succession of shocks, including the Global Financial Crisis (GFC) and its aftermath, the 2014–15 commodity price shock, the COVID-19 Pandemic, Russia's invasion of Ukraine, and the subsequent spike in inflation. As a consequence, growth stalled and the earlier progress toward poverty reduction was eroded,[13] which further intensified the pressure on fiscal positions and policies (Figure 3). This section briefly reviews fiscal developments among these countries to provide the backdrop for the subsequent discussion of the Fund's policy advice, while Annex III provides additional details for the various analytical subgroups.

8. **Throughout 2008–23, GDP growth trended down and there was a notable deterioration in the overall fiscal balance among LICs.** The median value for the overall fiscal balance weakened from -1 percent to -4.5 percent of GDP between 2008 and 2023 (Figure 3), with this negative trend being relatively consistent across various subgroups. Although primary fiscal

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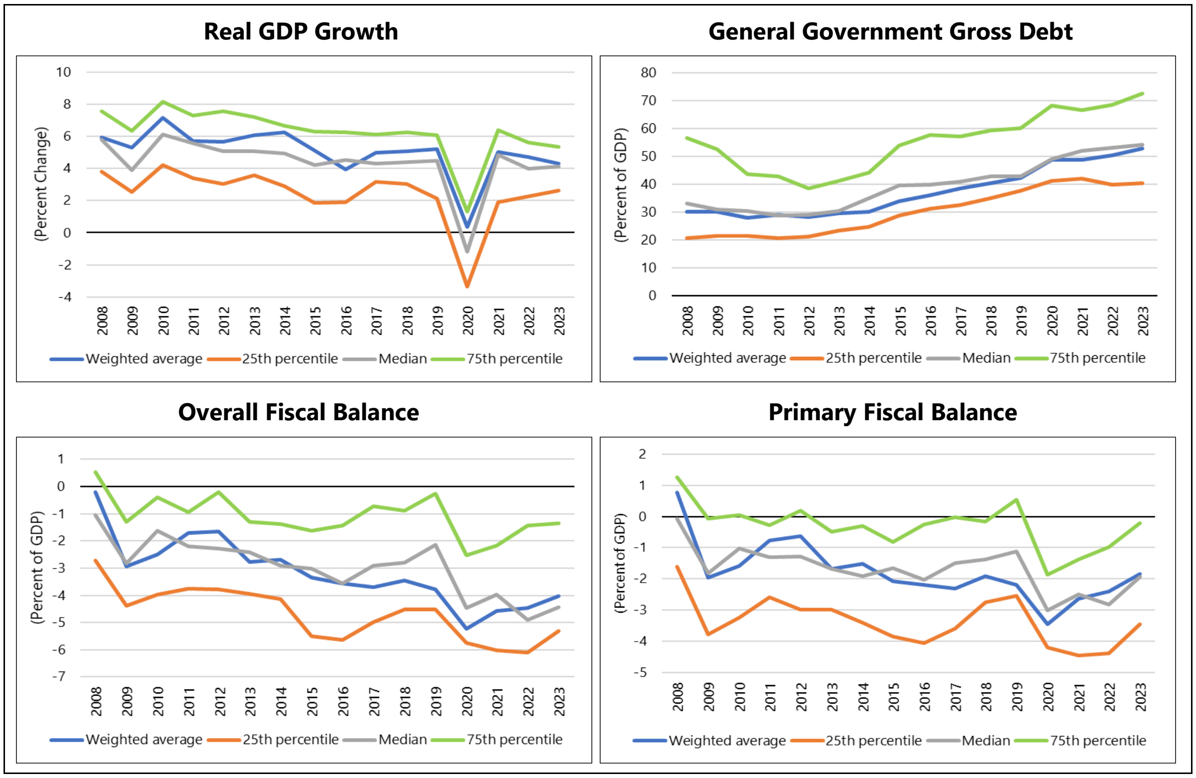
[12] Thirteen authorities from 12 out of 58 LICs participated in the survey conducted for this evaluation, resulting in a response rate of 20.7 percent of all LICs. Eight out of 13 responses came from ministries of finance/treasuries, 4 from central banks, and 1 from a tax/revenue authority (IEO, 2025c).

[13] Recent data from the World Bank indicates that the COVID-19 Pandemic represented the most significant regression in global poverty reduction efforts seen in at least the last thirty years. Extreme poverty remains stubbornly high, with an upward trend especially noticeable in LICs and FCS, which have not only failed to revert to pre-COVID-19 poverty rates but have also experienced a slight rise in poverty rates from 2022 to 2023 (Yonshant and others, 2023).

balances were volatile, they generally weakened as well, falling from -0.1 percent of GDP to -1.9 percent of GDP. The increase in fiscal deficits led to a marked increase in the public debt-to-GDP ratio, which also rose owing to off-budget transactions, or "stock-flow adjustments" (SFAs).[14]

Figure 3. Fiscal Indicators in LICs, 2008–23



Source: IEO staff calculations based on WEO data.

9. **The first major fiscal challenge was that LICs suffered from weak DRM (Box 1), including as a result of high levels of informality[15] and obstacles in revenue collection and administration.** Median revenues as a share of GDP represented only around 18 percent from 2008 to 2023, and the weighted average declined 1.6 percentage points to 14.4 percent of GDP over the period, primarily due to poor revenue performance of Bangladesh and Nigeria. Median revenues as a share of GDP among LICs fell well short of the levels achieved among emerging market and middle-income economies (EMMIEs; 26.8 percent) and advanced economies (AEs; 40 percent). Also in absolute numbers, revenues in LICs were low. For instance, in the Democratic Republic of the Congo, a country with a population estimated at over 100 million and slightly less

[14] For example, the 2023 Selected Issues Paper (SIP) for the WAEMU emphasizes the importance of capturing the extensive extra-budgetary and below-the-line operations and discusses SFAs related to extra-budgetary funds, public sector finances outside of the general government, valuation effects, changes in financial assets, arrears, carryovers, government guarantees, accounts payable, and debt relief (Sever and Laws, 2023).

[15] Estimates of the size of the informal economy in LICs range from 36–41 percent of GDP (Delechat and Medina, 2021) to 50–60 percent of GDP (Yao, 2024).

than one-fourth the size of the United States, revenues amounted to around USD 10.2 billion in 2023, or only around USD 100 per capita. This severely limited LICs' ability to finance development spending and/or to service high levels of debt. Fund research suggests considerable potential to raise revenues in LICs, with estimates indicating possible increases in the tax-to-GDP ratio ranging from 3 percentage points to 7 percentage points (Comelli and others, 2023).

Box 1. Fiscal Space and Domestic Revenue Mobilization

Domestic Revenue Mobilization (DRM) plays a vital role in the fiscal policy of LICs. The level of general government revenue continues to fall short of covering current expenditures, achieving longer-term priorities, and building buffers to withstand the shocks that LICs often face.

HIPC/MDRI debt relief helped reduce debt levels, enabling LICs to borrow again as they became more financially sustainable. The extent to which debt relief released resources for current or development spending, however, depended on how much debt was being serviced before the relief. Overall, the expansion in borrowing capacity following debt relief has been linked to a rise in both capital and current spending.

A significant portion of LICs' budgets is allocated to current spending for essential government operations. Around the year 2000, some donors promoted direct budget support to enhance government ownership and accountability in recipient countries. However, by the late 2000s, rising concerns over its effectiveness, coupled with austerity measures enacted in many European countries in response to the GFC, led to a decline in budget support and overall aid globally. Consequently, many LICs began to increase their borrowing, not only for investment spending, but also to finance current expenditures.

Progress in increasing general government revenues as a share of GDP over the evaluation period was mixed. DRM was a key focus both in surveillance and program engagement with LICs. Nevertheless, less than 45 percent of LICs were successful in enhancing DRM by more than 1 percentage point of GDP between 2008 and 2023. It was unclear what drove success in enhancing DRM. Program engagement by itself did not necessarily result in improved outcomes for enhancing DRM. Some LICs with frequent program engagement experienced only minimal progress in this area, while others did advance. In contrast, certain LICs with less intensive program engagement were able to make significant strides in enhancing their DRM.

For example, DRM was the focal point of Rwanda's Policy Support Instrument (PSI) in 2010 and remained a key topic in subsequent surveillance and program discussions between 2010 and 2023. Nevertheless, the average general government revenue as a share of GDP remained relatively stable at 23.7 percent during the period 2021–23, compared to 23 percent from 2008–10, although it was considerably higher than the weighted average and median for LICs. In talks with authorities in 2023, staff highlighted that bolder DRM strategies were essential for meeting fiscal goals under the program (IMF, 2023e).

Seven LICs—The Gambia, Mauritania, Mozambique, Myanmar, Nepal, Nicaragua, and Zimbabwe—enhanced DRM between 6 percentage points to 8 percentage points. In Nepal, general government revenue as a share of GDP rose to 21.9 percent for the period 2021–23, up from 14.5 percent in 2008–10. Its tax base expanded notably as a result of policy and structural changes, such as sustained efforts to strengthen and modernize the tax and custom administration, alongside a significant rise in imports driven by increased remittances and capital expenditures. Further efforts are underway to strengthen the tax base by implementing the adopted DRM strategy (IMF, 2019a; 2022a; 2025a). Mauritania's DRM improved by 7.1 percentage points (5.4 percentage points excluding grants), reaching 23.6 percent for the period 2021–23, due to reforms in tax and customs codes and enhancements in tax administration (IMF, 2019c).

DRM will remain a key focus for fiscal policy advice to LICs. In June 2024, the Fund and the World Bank launched a joint initiative aimed at further improving fiscal policy guidance and CD around DRM (IMF, 2024d).

Sources: Authors' calculations based on WEO data; Essl and others (2019); IMF (2015c; 2024e); Swedlund and Lierl (2020); interviews with staff.

10. **The second key fiscal challenge in LICs were the pressures to boost spending in order to meet key development objectives, including the SDGs (Box 2), and to tackle the implications of climate change.** Recent research by the Fund estimates that the additional spending by LICs that is needed on health, education, and physical infrastructure (e.g., water and sanitation, electricity, and roads) is equivalent to 16 percent of their GDP in 2030. Sub-Saharan Africa faces the most significant additional expenditure burden, requiring 19.4 percentage points of GDP in additional spending (Carapella and others, 2023). However, reflecting the effects of weak revenues and rising debt burdens, noninterest outlays remained stagnant or declined among LICs, except among those that benefited from debt relief.

Box 2. The Sustainable Development Goals and Fiscal Policy Advice

In September 2000, UN Member States unanimously adopted the Millennium Declaration during the Millennium Summit in New York. This agreement laid the groundwork for the elaboration of eight Millennium Development Goals (MDGs) to reduce extreme poverty by 2015. In June 2012, at the UN Conference on Sustainable Development held in Rio de Janeiro, UN Member States, among other decisions, agreed to initiate the process of formulating a set of Sustainable Development Goals (SDGs) to build upon the MDGs. This set of 17 SDGs, with each goal having several targets and indicators, was adopted in September 2015.

Since 2015, the Fund has been assisting its 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, including through the SDG Financing Tool (SDG-FiT). In pursuit of these objectives, the Fund has formulated specific strategies on governance and anti-corruption (IMF, 2018d), social spending (IMF, 2019b), climate (IMF, 2021c), and gender (IMF, 2022e), as well as to support FCS (IMF, 2022b). Additionally, it established the Resilience and Sustainability Trust (RST), designed to offer LICs and vulnerable EMMIEs access to longer-term, affordable financing to address longer-term challenges, including climate change and pandemic preparedness.

Staff identified two key challenges for the Fund in helping countries operationalize the 17 high-level SDGs. First, the extensive array of goals, targets, and indicators could prove overwhelming for countries that are already facing limited fiscal space and significant operational and implementation hurdles. Second, although the SDGs lack specific guidance on how to conduct fiscal policy, fiscal policy plays a crucial role in influencing socio-economic outcomes essential for achieving the SDGs. In scenarios where priorities either compete or clash, the SDGs offer no advice on how to manage trade-offs (see Section II.B).

Every year, the UN Secretary General delivers a report detailing the progress made towards the SDGs. The 2024 progress report highlighted that achieving the SDGs by 2030 is increasingly unlikely, with progress not keeping pace with expectations. Among the 135 targets for which trend data and supplementary information are available, merely 17 percent are on track to be achieved by 2030.

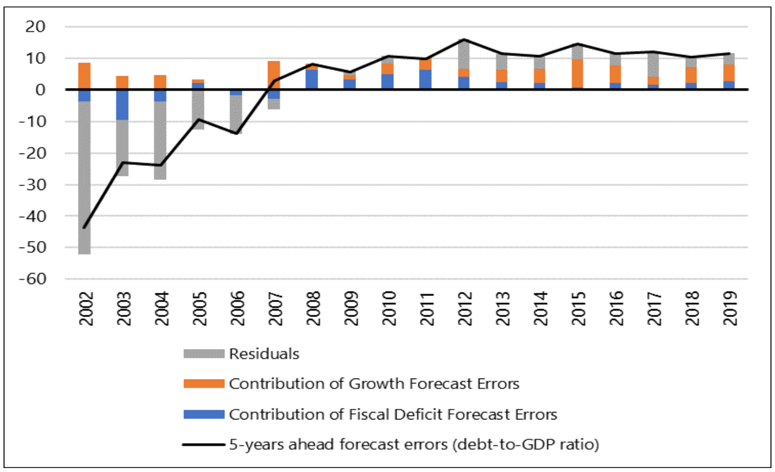
Sources: https://sdgs.un.org/goals; https://www.imf.org/en/Topics/SDG; UN (2024); staff interviews.

11. **The third key fiscal challenge in LICs was that—following significant debt relief largely delivered before the evaluation period—LICs faced a resurgence of debt sustainability concerns.** This was the result of a significant increase in debt levels, as well as weaknesses in strategic debt management. Multiple shocks; slow growth; low levels of DRM, declining budget support and overall aid levels, resulting in large fiscal deficits; exchange rate depreciation; and SFAs helped cause a marked increase in both the ratio of gross public debt-to-GDP (Figure 3) and interest payments since 2012 across all LICs and LIC subgroups. Additionally,

after adjustments to the Fund's debt limits policy post-GFC, the Fund showed increased support for infrastructure spending funded by debt. This, combined with forecasting inaccuracies (Figure 4), resulted in debt levels in LICs being higher than initially anticipated from 2012 onwards. The most notable increase was among the recipients of debt relief. Rising debt levels were coupled with a shift in the creditor landscape, as the traditional Paris Club creditors[16] pulled back after providing debt relief, and LICs began to rely more heavily on domestic debt markets, commercial external borrowing, and non-Paris Club bilateral lenders. Borrowing for current spending and investment spending required different debt management strategies, but in practice most debt was short- to medium-term debt, resulting in significant refinancing challenges.[17]

Figure 4. What Drives Debt-to-GDP Ratio 5-Year Ahead Forecast Errors in LICs?

(Percentage of GDP)



Source: IEO staff calculations based on WEO data.
Note: Residuals include stock flow adjustments and debt relief, which explains the downward impact of residuals debt-to-GDP ratios between 2002–07.

12. **The interplay of low DRM, substantial spending needs, and renewed concerns over debt sustainability has significantly shaped the IMF's fiscal policy advice to LICs.** The manner in which policymakers have tackled this complex set of challenges, including their responses to Fund recommendations, is of paramount importance for LICs. This predicament is succinctly encapsulated in the following observation by the Director of AFR: "*efforts to address one element will inevitably come at the expense of the other two. Higher spending, for example, will require that the authorities either take on more debt or increase taxes. Or both. On the other hand, efforts to boost tax revenues—although politically and socially challenging—would provide much-needed resources to either increase spending or contain debt. Or both*" (Selassie and Tiffin, 2021).

[16] The Paris Club, established in 1956, is an informal group of 22 official creditors (permanent members). Its role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries. For more information, see www.clubdeparis.org.

[17] For a more detailed discussion on debt challenges in LICs, see the upcoming IEO evaluation of IMF engagement on debt issues in low-income countries (IEO, 2025a).

13. **Furthermore, providing fiscal policy advice to LICs has been challenging due to the lack of high-quality data and constraints associated with extensive program engagement.** The data available for LICs were often characterized by frequent revisions, poor accuracy, delays, and low frequency, which constituted an important impediment to evidence-based fiscal policy recommendations. Surveillance-only engagement allows for a much broader discussion of fiscal policy challenges and the different options to address them, as well as differences in views between member country authorities and staff. However, most LICs found themselves in a semi-continuous program status. As a result, fiscal policy recommendations were more constrained in terms of scope, time horizon, and the capacity to implement them, concentrating primarily on restoring medium-term external viability and reflecting the consensus between the member country and the Fund regarding the preferred path forward. LICs were also heavy users of extensive Fund fiscal CD, including detailed guidance on implementation, sequencing, and follow-up support.[18] However, CD is voluntary and therefore not a substitute for fiscal policy advice provided in the context of mandatory surveillance.

B. Fiscal Policy Objectives and Institutional View

14. **The IMF defines the objective of fiscal policy as a combination of immediate to medium-term balance of payments (BOP) and domestic stability and longer-term economic sustainability goals.** Staff is tasked with exercising discretion in prioritizing certain topics for more detailed analysis, adopting a risk-based approach, and drawing upon the expertise of other institutions where appropriate. However, as explained in IEO (2025b), the expansion of the Fund's fiscal policy advice's scope—both in the breadth of issues addressed[19] and the extension of its temporal focus—has heightened the likelihood of encountering competing or even conflicting priorities, necessitating the consideration of trade-offs. One should also note that there is a distinction in terms of fiscal policy objectives between surveillance and lending situations. In the former, conventional surveillance priorities prevail. In the latter, fiscal policy objectives are focused on macroeconomic adjustment within the program framework.

15. **External commitments and specific IMF strategies have shaped fiscal policy advice objectives and priorities.** Notably, the Fund's commitment to the SDGs and the Executive Board's endorsement of targeted strategies for governance and anti-corruption, social spending, climate, and gender, influenced fiscal policy recommendations. For instance, the Fund's 2021 Climate Strategy highlighted that LICs tend to be disproportionately affected by climate change, which poses significant challenges to their fiscal positions and public debt trajectories. The Fund has further enhanced its engagement on climate-related issues in LICs through the introduction of the Resilience and Sustainability Trust (RST).[20]

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[18] See also Annex VI. For a detailed discussion of the Fund's CD activities, see the 2022 IEO evaluation of *The IMF and Capacity Development* (IEO, 2022b).

[19] See Annexes V and VII.

[20] The Fund's climate strategy and the Resilience and Sustainability Trust (RST) will be assessed in the forthcoming IEO evaluation on the IMF and climate change (IEO, 2024).

16. **Fiscal policy advice related to social spending gained greater prominence following the GFC.** As noted in the 2017 IEO evaluation of *The IMF and Social Protection* (IEO, 2017), the Fund's involvement in social issues had been relatively modest, but in the aftermath of the GFC, and at the urging of Fund management, Fund Surveillance Guidance Notes (SGNs)[21] encouraged attention to a wider spectrum of "macro-critical issues," such as inequality and social spending. Conditionality guidelines were also revised in 2014 to integrate a stronger focus on social spending as part of the Fund's lending operations (IMF, 2014b). As social protection initiatives generally imply public spending, the Fund's approach in this area was primarily devised by the Fund's Fiscal Affairs Department (FAD), and prioritized efficiency, the minimization of distortions, and fiscal sustainability.

17. **Following the IEO's Social Protection evaluation, the Executive Board endorsed a Social Spending Strategy in 2019.** This strategy delineates the scope, aims, and limits of the Fund's involvement in social spending and offers guidelines on the appropriate circumstances and methods for engagement. In recognition of the macro-criticality of social spending in LICs, the strategy encourages staff to discuss how social expenditures affect fiscal sustainability, the availability of fiscal space and funding for such expenditures, and the efficiency and adequacy of social spending in improving social outcomes. In addition, when fiscal adjustment is needed, staff are asked to discuss how to alleviate the adverse effects on vulnerable groups and to provide a clear explanation of Fund policy advice. This explanation should reflect the broader macro-fiscal context and strategy, while also clarifying the limitations of the Fund's engagement (IMF, 2019b). The strategy's implementation was further supported by a staff guidance note (IMF, 2024c) and "how-to" technical notes on pensions (IMF, 2022d), social safety nets (IMF, 2022f), health (IMF, 2023d), and education (IMF, 2025b).

18. **The IMF's Social Spending Strategy clarified its institutional view on targeted spending versus universal social protection and the taxes that finance social spending.** While the World Bank moved towards supporting universal social protection,[22] the Fund continued to support targeted social spending. The strategy notes that targeted social spending tends to be more efficient and fiscally viable in environments with limited fiscal space.[23] It acknowledges the challenges of implementing means-tested social assistance in LICs with large informal sectors and limited administrative capabilities, and that targeted social transfers could result in the exclusion of poor people (undercoverage) and the inclusion of non-poor (leakage). It concludes that: "*The appropriate mix of universal and targeted transfers depends on country preferences and circumstances, including administrative, financing, social, and political constraints. For instance, administrative constraints and a desire to build middle-class policy support may make*

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[21] During the evaluation period, the Fund published four SGNs, in 2009, 2012, 2015, and 2022.

[22] Following the adoption of the SDGs in 2015, the World Bank and the International Labor Organization announced a new partnership in 2016 to achieve social protection for all. The World Bank's support for universal social protection was reconfirmed in its universal social protection strategy published in 2022 (World Bank, 2016; 2022).

[23] See, for example, Hanna and Olken (2018) and Pennings (2021).

targeting of transfers just to the poor undesirable" (IMF, 2019b). The strategy also argues that what ultimately matters is the combined distributional impact of transfer policies and their financing mechanisms, and that an efficient and progressive social spending strategy requires effective strategies to improve tax compliance, adopting progressive personal income taxes for higher-income groups, ensuring effective corporate income taxation, applying a broad-based consumption tax, efficiently taxing goods that produce negative externalities, and fighting tax evasion and avoidance.

19. **Concerns by country authorities and development Civil Society Organizations (CSOs) regarding the relevance of the IMF's bilateral fiscal policy advice to LICs centered on several key points.** First, throughout the evaluation period, they viewed the Fund's fiscal policy advice as having predominantly emphasized fiscal consolidation without adequately considering the adverse effects of such consolidation on domestic demand, inflation, investment, private sector activity, and poverty levels. Second, they felt that the Fund's advice paid insufficient attention to strategies for expanding fiscal space to support development and climate-related needs. Third, they perceived that Fund staff lacked country expertise and understanding of local contexts, leading to advice that was not adequately tailored or was incorrect for specific situations. For instance, Ortiz and Cummins (2022) highlighted that during 2020–22, the Fund's recommendation to at least 34 LICs—nearly 60 percent of all LICs—was to target social spending. With large sections of the population living in poverty, targeting, rather than implementing universal social protection policies, effectively excludes many vulnerable households by design for budgetary reasons.

20. **Country authorities and development CSOs also argued that the IMF's bilateral fiscal policy advice to LICs was not always consistent with the IMF's own commitments to the SDGs.** Their concerns were twofold: first, they perceived a disconnect between the Fund's bilateral fiscal policy advice, which often emphasized fiscal consolidation, with the Fund's broader support for the SDGs, as well as its social spending, climate, and gender strategies. This discrepancy created the impression that the Fund's bilateral advice and its broader high-level advocacy for social spending, climate action, and gender equality were compartmentalized into distinct silos. Second, they believed that the Fund failed to adequately assess the adverse effects of its country-specific recommendations on social, climate, and gender outcomes within countries. For example, Ortiz and Cummins (2022) noted that between 2020–22, in at least 29 LICs—or half of all LICs—the Fund encouraged increases in consumption taxes, such as Value-Added Tax (VAT). They viewed this instrument as a regressive tax, in contrast to progressive personal income taxes or corporate taxes, since it disproportionately burdened the poorest segments of the population, especially poor women.

21. **Most staff, however, explained that their fiscal policy advice considered the available fiscal space, political economy constraints, and practical implementation challenges, based on extensive internal guidance.** For example, in many LICs it would be impossible to establish a universal social safety net since their tax bases are too narrow to fund such a program. Consumption taxes were often easier to implement than personal or corporate

income taxes in LICs, since high levels of informality meant that few entities or individuals pay income taxes. Although consumption taxes may seem regressive in theory, staff advice often was to mitigate or offset the impacts by including exemptions on food or related items, and to utilize the additional revenue for pro-poor programs. For example, during Nigeria's 2023 Article IV consultation, staff advised eliminating fuel subsidies, which mainly benefit the well-off, while proposing an increase in social spending by up to 1.7 percent of GDP over 2023–27 through targeted programs. Staff proposed financing these measures by raising the VAT rate to at least 10 percent by 2023 and 15 percent by 2027, along with higher excise rates on alcohol and tobacco products and a streamlining of exemptions (IMF, 2023a).

C. Frameworks and Tools

22. **The IMF’s fiscal policy advice is underpinned by extensive datasets, analytical work, frameworks, and toolkits developed across various departments.[24]** While some of these frameworks and toolkits were developed specifically with LICs in mind, such as the joint IMF and World Bank framework for Debt Sustainability Analysis (DSA) in LICs, some of the Fund’s models and methodologies, like the Fiscal Space Framework (FSF), cannot be fully applied to LICs.

23. **The concept of fiscal space has long been important for framing the IMF’s engagement with LICs.** It was formalized more recently in the context of the 2018 FSF, which defines fiscal space as “*the room to raise spending or lower taxes relative to a pre-existing baseline, without endangering market access and debt sustainability*” (IMF, 2018c). Although the formal requirements of an FSF assessment only apply to five LICs that have market access, the concept of fiscal space predates the FSF and has been a longstanding component of the Fund’s fiscal analysis and discussions with authorities on financing socio-economic policy choices beyond the very basic operations of the state and debt service obligations. Considering the three key fiscal policy challenges outlined in Section II.A, understanding the availability—or absence—of fiscal space is crucial for determining whether an LIC can boost its expenditure without compromising its current and future debt servicing capabilities. The FSF update (IMF, 2018c) also highlighted that LICs’ higher susceptibility and vulnerability to external shocks (compared to AEs and EMMIEs), suggests the need for a buffer in evaluating fiscal space and debt sustainability.

24. **The IMF’s LIC Debt Sustainability Framework (DSF) and accompanying DSAs have played a crucial role in shaping the discussions on fiscal space within LICs.[25]** In April 2005, the Fund and the World Bank launched the DSF for conducting DSAs in LICs, which underwent significant revision and enhancement in 2017. The LIC-DSF's core objective is to inform the borrowing decisions of LICs in a manner that aligns their financing needs with their current and

[24] For a more detailed discussion of the Fund’s datasets, analytical work, frameworks, and toolkits, see Cohen-Setton, Montiel, and Zoli (2025).

[25] For a more detailed assessment of the LIC-DFS, see the upcoming IEO evaluation of IMF engagement on debt issues in low-income countries (IEO, 2025a).

future debt servicing capabilities.[26] It involves the use of a standardized template for analyzing both external and public sector debt that calculate the present value of debt, given the importance of concessional financing for LICs. The LIC-DSF also considers countries' debt-carrying capacity, based on the quality of their policies and institutions, available assets, and their macroeconomic outlook. DSAs conducted under the LIC-DSF feature a comprehensive, forward-looking examination of debt and debt service dynamics against a baseline scenario, alongside the potential impact of credible shocks. These analyses also include tailored stress tests to take account of risks associated with contingent liabilities, natural disasters, fluctuations in commodity prices, and shocks from market financing. An important limitation, however, is that DSAs do not consider development spending needs, such as for education, health, and climate change. The LIC-DSF is currently under review to enhance the assessment of risk vulnerabilities, including those coming from domestic debt vulnerabilities. The outcomes of DSAs under the LIC-DSF categorize a country's risk of external and overall debt distress into four levels, ranging from low risk to being in debt distress.[27]

25. **Another valuable tool for LICs is the SDG Financing Tool (SDG-FiT).** Achieving the SDGs requires substantial resources, and the Fund has estimated the additional funding needed across five key sectors: health, education, water and sanitation, roads, and electricity (IMF, 2021b). In April 2023, the Fund launched the online SDG-FiT,[28] a tool designed to assess countries' financing requirements for the SDGs. This interactive digital platform aids stakeholders in formulating long-term comprehensive strategies, assessing the feasibility and impact of policies, and reliably comparing alternative plans. However, since this tool was introduced at the end of the evaluation period, it was not possible to determine the extent of its use by staff in their fiscal policy advice.

26. **The IMF has often focused its advice to LICs on the need to achieve debt sustainability, as maintaining a sustainable debt position is a precondition for longer-term economic sustainability and achieving development objectives.** As noted earlier, the majority of LICs engaged in some form of Fund program during the review period from 2008 to 2023. Since one of the principal goals of Fund-supported programs is to help the member achieve medium-term external viability, the associated policy advice was predominantly focused on ensuring immediate to medium-term stability. The trade-offs are illustrated by the Fund's own strategy for mainstreaming gender issues in its operations: "*This approach envisages integrating gender issues that are relevant for macroeconomic outcomes in exchange rate, monetary, fiscal, financial, and structural policy discussions with member countries. At the same time, staff policy advice must prioritize domestic and external stability*" (IMF, 2022e).

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[26] DSAs use a 20-year time horizon, so they analyze short, medium, and longer-term debt dynamics.

[27] Low risk, when there are no breaches of thresholds; moderate risk, when thresholds are breached in risk scenarios; high risk, when thresholds are breached in the baseline scenario; and in debt distress, when a distress event, like arrears or a restructuring, has occurred or is considered imminent (IMF, 2018a). See http://www.imf.org/external/pubs/ft/dsa/dsalist.pdf for more details.

[28] For further details on the SDG-FiT, see https://sdgfit.imf.org/sdginfopages/index.html.

27. **Interviews with staff highlighted that their policy advice had to be tailored to account for limited fiscal space, alongside political economy, operational, and implementation constraints in LICs.** In particular, staff's discussions with authorities often required settling on sequenced or second-best fiscal policy strategies. Staff also noted that the decision on which fiscal policies to adopt and their timing ultimately rested with the national authorities, especially in a surveillance context. For instance, staff research suggests that in LICs, revenue-based consolidation (for example, through higher taxes) is more advisable than reducing expenditures (such as cutting spending), given the low revenue levels relative to GDP and the constraints to investment and social spending (Comelli and others, 2023). However, staff also recognized that opting for revenue-based consolidation over expenditure cuts is to an extent "aspirational," as authorities in LICs may find it politically easier to reduce, say, capital spending—which is already minimal—rather than to increase taxes. In such cases, staff is encouraged to provide a clear explanation of the Fund's policy recommendations and to clarify the limitations of what the Fund can do.[29]

28. **Opinions varied on whether the IMF could or should assess the impact of its bilateral fiscal policy advice on longer-term economic sustainability objectives.** The majority of authorities surveyed argued that the Fund did not take into account longer-term spending pressures, nor distributional effects or the impact on growth, in its recommendations on the composition of the adjustment. For instance, the Fund's gender strategy notes that "*If recommended or implemented measures (for example, eliminating fuel subsidies, cutting other public expenditure, introducing a value-added tax) widen gender disparities or lead to other adverse distributional effects, a comprehensive policy package should include an assessment of the gender and distributional impacts of these policies and mitigating measures (such as social spending) targeting the most vulnerable*" (IMF, 2022e). Most staff, however, argued that although surveillance requires an assessment of the implementation of previous surveillance advice,[30] systematically conducting an assessment of the impact of the Fund's fiscal policy advice on, for example, LICs' longer-term development priorities, would not be feasible due the scarcity of reliable data in LICs and/or the lack of expertise and resources among the country team. At the same time, they noted that the distributional effects of fuel subsidy reforms and the decline in Official Development Assistance (ODA) has been repeatedly discussed in several Regional Economic Outlooks (REOs). Overall, however, existing tools to monitor the social and distributional effects of fiscal policies were underutilized and not systematically integrated into operations.[31]

29. **Think tanks concurred with country authorities and development CSOs that the IMF could do more to prioritize LICs' longer-term socio-economic development goals by shifting its emphasis away from immediate fiscal stability towards sustainable economic development.** Like Fund staff, think tanks emphasized the three main challenges confronting LICs as outlined in

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[29] See also IEO (2021) for a broader discussion on the composition of fiscal adjustment.

[30] See Annex V for the coverage and guiding principles for fiscal policy advice.

[31] See also IEO (2017).

Section II.A. They acknowledged that the conflicting priorities between immediate economic stability and longer-term development objectives complicate fiscal policy advice in these countries. At the same time, they expressed concerns that the Fund's reliance on indicative targets for cash transfers and social program spending is inadequate. There is a pressing need for more extensive data and analysis to assess the actual effects of fiscal policy advice on the poor. They argued that the Fund should aim to design and implement fiscal policies that effectively reduce income inequality and foster sustainable development, including by strengthening collaboration with local governments and civil society to ensure policies are inclusive and equitable. They also highlighted the role of fiscal multipliers in LICs and recommended that the Fund enhance data collection on these multipliers specific to LICs to better inform policy decisions (Kharas, 2024; Granger and others, 2022; Raga, 2022; Gupta, 2021; McKechnie and others, 2021; Birdsall and Lustig, 2017).

30. **Furthermore, think tanks suggested that the IMF explore innovative financing solutions to help LICs broaden their fiscal space, enabling investments in social infrastructure, climate initiatives, and other vital sectors.** They argued that the Fund should also advocate for debt restructuring or even debt relief, as many LICs encounter genuine structural issues that necessitate systemic solutions. In this context, promoting greater transparency in debt reporting and restructuring processes will be essential for building trust and accountability between creditors and borrowers (Kharas and Rivard, 2024; Granger and others, 2022; Kharas and Dooley, 2021).

III. THE IMF'S FISCAL POLICY ADVICE IN MULTILATERAL SURVEILLANCE

31. **This section reviews the IMF's key global "top-line" fiscal policy messages and recommendations, as well as those specifically addressed to LICs.** The Fund's main multilateral surveillance instruments are the World Economic Outlook (WEO), the Fiscal Monitor (FM), the Managing Director's Global Policy Agenda (GPA), the REOs, and the reports on Macroeconomic Developments and Prospects in Low-Income Countries.

32. **Coverage of specific fiscal policy recommendations for LICs in multilateral surveillance reports was mixed.** In several instances, the individual WEO and/or FM reports did not consistently provide clear and specific fiscal policy recommendations for the different income categories (AEs, EMMIEs, and LICs). FM reports did regularly address issues highly relevant to LICs, such as fiscal policy in commodity exporters and the political economy of subsidy reform. Typically, GPAs included a paragraph on fiscal policy advice, along with a section addressing LICs, or a mix of LICs and EMMIEs. REOs and the reports on Macroeconomic Developments and Prospects in Low-Income Countries provided more targeted advice for LICs, while maintaining the overall emphasis on fiscal adjustment in LICs. For instance, the October 2015 REO for Sub-Saharan Africa featured a dedicated section on fiscal policies aimed at reducing income and gender inequality. Subsequent special sections addressed various fiscal issues, such as the effects of climate change, DRM, and the ramifications of conflicts. The Macroeconomic Developments and Prospects in Low-Income Countries reports considered fiscal adjustment and rebuilding fiscal buffers a priority in many countries through a tailored mix of enhanced revenue mobilization and improved public

expenditure prioritization, alongside efforts to strengthen fiscal institutions, including public administration. Despite mixed coverage of specific fiscal policy recommendations for LICs in multilateral surveillance reports, most authorities believed that they identified the key issues, trends, and risks relevant for their countries.

33. **Except for the years during the GFC and the COVID-19 Pandemic, messages related to fiscal policy in LICs in the context of multilateral surveillance mostly emphasized the importance of medium-term fiscal consolidation (Figure 5).** The primary driver for the focus on fiscal adjustment in LICs was the erosion of fiscal space caused by rising debt levels and debt service payments. Key phases in the Fund's key global fiscal messages were:

- **Debt Relief (pre-2008).** As noted earlier, during the years prior to the evaluation period, the majority of LICs benefited from significant debt relief. HIPC/MDRI debt relief aimed to reduce debt burdens to sustainable levels and create fiscal space to meet the developmental needs of LICs. By 2008, these initiatives had led to a significant decrease in public debt levels and debt service payments among LICs.

- **Global Financial Crisis (2008–12).** During the GFC, the Fund's global fiscal policy recommendations in multilateral surveillance reports concentrated on mitigating the repercussions of the crisis by advocating for a coordinated fiscal stimulus until early 2010, after which the messages started focusing on formulating an exit strategy from intervention policies.

  In LICs, the combination of reduced debt burdens and debt service payments, alongside sound policies and a more favorable global environment, created space for countercyclical fiscal policies, a first compared to previous crises (IMF, 2010). While the immediate fiscal impact of the crisis was manageable for most LICs, it revealed their susceptibility to shocks and fluctuating Official Development Assistance (ODA). The Fund encouraged LICs to enhance fiscal revenues and redirect spending towards investment and social programs, while also improving the efficiency of public investment and implementing better targeted social protection systems. As Paris Club creditors became hesitant to lend following debt relief, LICs increasingly turned to domestic debt, commercial external debt, and non-Paris Club bilateral debt financing.

- **Post-GFC to Pre-Pandemic (2012–20).** From 2012 to 2017, amid disappointing recoveries, the Fund's global fiscal policy messages emphasized the need to recalibrate fiscal support. They highlighted the risks of abrupt fiscal consolidation and advocated for a more gradual approach. As global growth picked up in 2017, the Fund's fiscal guidance transitioned towards rebuilding fiscal buffers, encapsulated in the advice to "*fix the roof while the sun is shining*."

In LICs, starting in 2012, both public debt levels and debt service payments as a percentage of GDP began to rise again. The Fund grew increasingly vocal about debt vulnerabilities as widening fiscal imbalances drove rising debt levels, with severe financing stress emerging in some cases. While new financing sources helped offset the decline in lending from the Paris Club, they also resulted in a greater dependence on non-concessional financing. The Fund consistently cautioned against insufficient fiscal discipline amid less favorable external conditions, stressing the importance of prudent fiscal policies and improved debt management. Rising debt service burdens were reducing fiscal space, limiting the capacity to implement countercyclical fiscal policies or finance development goals, while heightening vulnerability to domestic and external shocks. There were repeated upward SFAs to debt trajectories, as well as deficiencies in debt management and transparency, including external debt associated with state-owned enterprises (SOEs), collateralized debt, and increased risks from contingent liabilities, particularly in public-private partnerships (PPPs). The Fund also pointed to weaknesses in debt resolution frameworks, particularly due to the involvement of non-Paris Club creditors and more diverse debt instruments, which led to protracted restructuring processes. The overarching message was that reinforcing fiscal positions was essential to mitigate debt vulnerabilities.

- **COVID-19 Pandemic (2020–21).** During the pandemic, the Fund urged countries to do whatever they can to support the economy, but "*keep the receipts*."

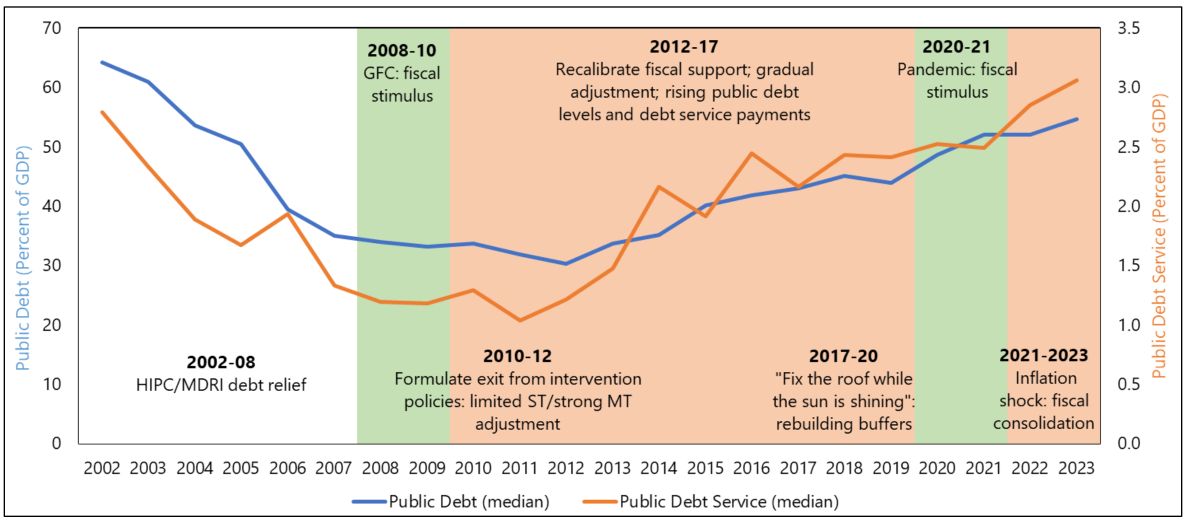
  LICs entered the pandemic with high debt levels and constrained fiscal space, thereby facing a greater adverse impact than during the GFC. Despite international efforts to ease financing constraints, considerable financing gaps remained.[32] Concerns were raised by staff that the Fund's messaging around the pandemic was not sufficiently mindful of debt vulnerabilities and fiscal challenges in LICs. Country authorities use "top-line" messages in the context of multilateral surveillance to justify some of their decisions. The Fund's message to do whatever countries can to support the economy had raised spending levels beyond levels that could be sustained and once the crisis abated these programs proved difficult to unwind.

- **Post-Pandemic (2021–23).** Following the pandemic, the tightening of international financial conditions and escalating geopolitical tensions impacted the global environment. In its global fiscal policy communications, the Fund shifted focus to fiscal consolidation again to address the rapid rise in inflation and cost-of-living pressures.

[32] The Fund took several initiatives to support LICs in addressing financing gaps, including by providing emergency financing under the Rapid Credit Facility (RCF); raising the normal annual/cumulative limits on access to Poverty Reduction and Growth Trust (PRGT) resources to 145/435 percent of quota, the same thresholds for normal access in the GRA; eliminating the hard limits on exceptional access to PRGT resources for the poorest LICs, enabling them to obtain all financing on concessional terms if the criteria are met; and retaining zero interest rates on PRGT loans.

In many LICs, political instability and extreme weather events exacerbated the impact of global shocks. To address these challenges, the Fund's recommendations included further policy tightening, accelerated domestic revenue mobilization, and more efficient fiscal spending to create space for urgent development needs. Research from the World Bank on public spending policies in Latin America and the Caribbean supported staff's concern that during economic downturns, the absence of automatic stabilizers in LICs results in increased entitlement spending that is difficult to subsequently scale back. The high levels of informality in the labor market render automatic stabilizers, such as unemployment insurance, impractical. Consequently, during downturns, governments in LICs tend to resort to public employment and social transfer programs, which are inherently rigid and difficult to scale back once the economy begins to recover, complicating the resolution of fiscal imbalances (Riera-Crichton and Vuletin, 2024).

Figure 5. Key Phases in the Fund's Global Fiscal Messages for LICs, 2008–23



Sources: FM; WEO; IEO staff calculations.
Note: Public debt and public debt service represent the median for LICs. Green indicates that the dominant fiscal policy advice to LICs was fiscal stimulus, while red signifies that the dominant advice was fiscal adjustment.

34. **The emphasis on fiscal adjustment for LICs for most of the evaluation period in multilateral surveillance broadly aligned with the main message conveyed in bilateral surveillance.** Ninety-four percent of the surveyed staff[33] reported that they verify, either to a significant extent (44 percent) or to some degree (50 percent), whether the bilateral fiscal policy advice provided aligns with the messages conveyed in the context of multilateral surveillance. In instances where inconsistencies arose, the majority of staff discussed these with the country authorities. Research conducted by Amgalan, Cohen-Setton, and Korinek (2025) indicates that the recommended fiscal stance for the short and medium term in bilateral surveillance for LICs, except for the period during the GFC and the COVID-19 Pandemic, was broadly consistent with

[33] Sixteen mission chiefs working on 14 different LICs participated in the survey conducted for this evaluation.

the emphasis on fiscal adjustment found in the Fund's multilateral surveillance reports. This alignment is further supported by findings from the Fund's own Consistent Policy Assessment (CPA). Slightly over half of authorities surveyed agreed that bilateral fiscal policy advice was consistent with multilateral surveillance messages.

IV. THE IMF'S BILATERAL FISCAL POLICY ADVICE TO LICS

35. **This section offers an analysis of the IMF's bilateral fiscal policy advice in the 11 focus countries and 1 currency union, chosen for their geographic diversity and representativeness according to various analytical criteria.[34]** The analysis centers on fiscal policy recommendations delivered through surveillance and, where applicable, program engagement across three distinct sub-periods during the evaluation: (i) after the GFC, 2009–10; (ii) during a period of commodity price weakness, 2014–15; and (iii) following the COVID-19 Pandemic, 2022–23. This results in 63 country-year observations during the evaluation period, excluding 9 country-year observations that lack sufficient documentation.

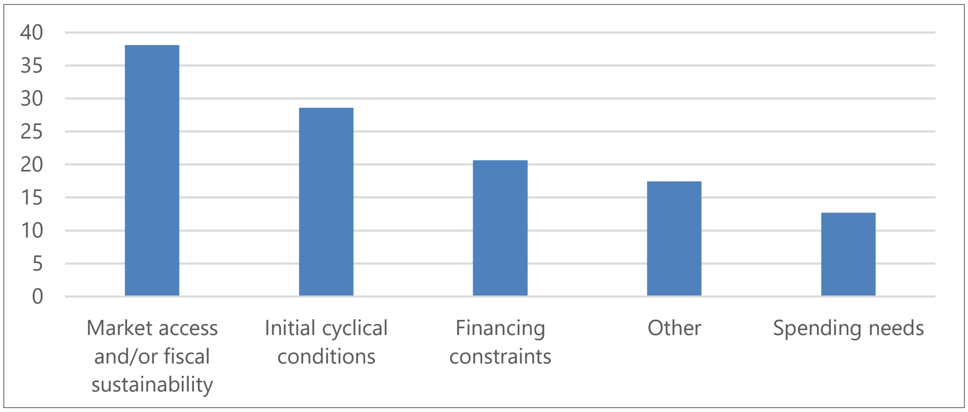
A. Advice on Adjustment to Shocks

36. **Staff advice on the short-term fiscal stance was almost entirely discretionary and did not rely on letting automatic stabilizers play out.** References to allowing automatic stabilizers to work as a counter-cyclical fiscal policy were found in only 10 percent of country cases. Few LICs have well-developed automatic countercyclical expenditures such as unemployment benefits and, as governments are typically small as a share of GDP, the impact of stabilizers will be correspondingly small. Nonetheless, automatic stabilizers can operate on the revenue side, depending on the elasticity of revenues to GDP growth. One focus country case that referenced automatic stabilizers in fiscal policy advice is Cambodia, as noted in the 2023 Article IV consultation report where "*the fiscal position should be allowed to improve in 2024 as the economy and revenue continue to expand*" (IMF, 2024a). Similarly, in Nigeria a decline in oil prices typically leads to a countercyclical fiscal expansion as oil revenue declines.

37. **In a significant number of cases the availability of financing determines the advice on the short-term fiscal stance, which can be procyclical**. In 20 percent of country cases, financing constraints were seen as a factor justifying the recommended fiscal stance (Figure 6). As noted in interviews with some staff, fiscal policies tended to be procyclical in aid-dependent FCS, as poor economic policies and prospects often correlate with reduced aid. However, this procyclicality can be partially mitigated by building on-budget government deposits to help smooth out cyclical fluctuations, a practice that has been long established in Cambodia. For instance, in 2014, staff recommended a fiscal consolidation of ¼ percentage point of GDP to maintain the government deposit buffer at a constant share of GDP.

[34] See Annex IV.

Figure 6. Criteria Used to Justify the Short-Term Fiscal Stance
(Percentage of focus country staff reports)



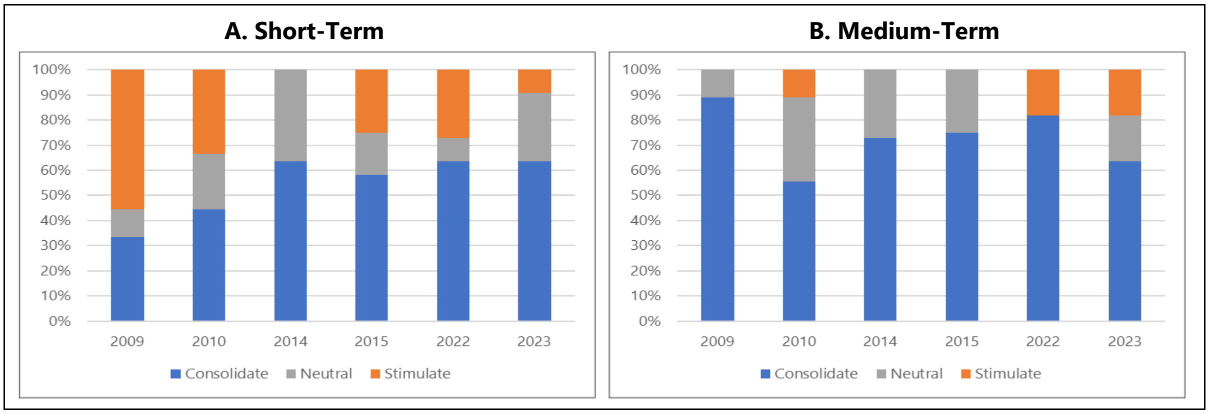
Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.
Note: Other covers: arrears, commodity prices, budget parameters, external sustainability, macroeconomic impact of fiscal policy, risk of spending pressure, and signaling.

38. **Advice on the short-term fiscal stance was consistent with high-level messaging supporting discretionary stimulative fiscal policies in the wake of the GFC in 2009–10 and the COVID-19 Pandemic in 2022.** There was a significant tilt toward discretionary stimulus in 2009 and to a lesser extent in 2010 and 2022 (Figure 7, Panel A). In 2009, the rationale for fiscal stimulus, where specified, was to counter or accommodate lower growth (Nigeria, Rwanda, and Senegal) and lower commodity revenue (Haiti). In 2010, the rationale for stimulus was more idiosyncratic due to security spending needs in Afghanistan, the impact of a large natural disaster in Haiti, and a continued large countercyclical stimulus in Rwanda. In 2015, temporary short-term stimulus was projected in Cambodia (public wage adjustment), Madagascar (commercial borrowing), and Nigeria (due to falling oil revenues). Short-term stimulus in 2022 was recommended for Bangladesh and Cambodia, where the post-COVID-19 Pandemic recovery was offset by commodity shocks related to Russia's war in Ukraine and in Somalia due to the timing of grant disbursements. Nonetheless, the trend over the entire evaluation period leaned towards short-term consolidation, which was recommended in two-thirds of focus countries in 2022 and 2023, in part due to elevated debt vulnerabilities.

39. **There were frequent instances where staff recommended a tighter short-term fiscal stance compared to the authorities' baseline.** Generally, this difference appeared in cases that did not have a Fund-supported program, since Fund programs typically result in an agreed policy stance. In Nigeria, staff put forward an alternative fiscal scenario with less stimulus than the authorities' draft budget (2015), while staff also presented Nigeria a reform scenario that embarked on fiscal consolidation in the short and medium term (2022). In Cambodia (2015), staff argued for a smaller deficit "*more consistent with the economy's cyclical position*" (IMF, 2015b). In WAEMU (2022), staff pointed to the risks arising from delays in starting fiscal consolidation, while in Timor-Leste (2010, 2015, 2022, and 2023) staff proposed lower capital spending to ensure better spending efficiency and gradually reducing recurrent spending in order to limit the drawdown from the sovereign wealth fund to a sustainable level (Box 3).

Figure 7. Recommended Discretionary Fiscal Stance

(Percentage of focus country staff reports)



Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.

40. **There was a general preference toward advising fiscal consolidation over the medium term.** Consolidation was advised in 70 percent of all focus country cases, while only 8 percent of country-year observations recommended stimulus over the medium term (compared to 25 percent for short-term stimulus) (Figure 7, Panel B). The drivers for this policy advice were concerns either over fiscal sustainability or initial cyclical conditions (discussed further in Section IV.B). The few instances where fiscal stimulus was advised were linked to the expectation of an increase in the availability of external financing in FCS, such as Somalia (2022 and 2023 post-HIPC completion point) and Haiti (2010, 2022, and 2023).

41. **Staff advice on the pace and phasing of actions to implement medium-term fiscal stance policy advice was often missing**. In the focus country reports there was no advice provided on pace and phasing of fiscal actions in 44 percent of cases (Figure 8). Removing country cases that are stand-alone program reviews and would not repeat previous medium-term advice, cases where the fiscal advice is neutral over the medium term, and WAEMU reports where the composition of fiscal adjustment is the responsibility of country teams still leaves one quarter of country cases with no advice on pace and phasing of fiscal adjustment during the evaluation period.

42. **There were instances where staff recommendations for medium-term consolidation did not align with the authorities' fiscal baseline.** An example is Timor-Leste, where the authorities consistently planned and budgeted for higher investment spending and a consequently lower fiscal balance than what staff advised in order to align spending with absorptive capacity. As discussed in Box 3, this did result in a partial depletion of the sovereign wealth fund. However, the lack of alignment on the fiscal stance also reflected differing views on long-term potential hydrocarbon revenues with the authorities in the more optimistic camp. Other countries where the authorities had a more expansionary baseline than the staff's recommended fiscal path include Cambodia (2009 and 2015), Haiti (2009 and 2014), and Madagascar (2015).

Box 3. Fiscal Policy Stance in Timor-Leste: Managing Petroleum Wealth

Timor-Leste gained independence in 2002 and is classified as a CEX, an FCS, and an SDS. Offshore oil production started in 2004. By 2009, Timor-Leste was heavily dependent on petroleum which provided 95 percent of government revenues and 80 percent of gross national income.

A sovereign wealth fund, the Petroleum Fund (PF), was created in 2005, in part with IMF technical assistance, to manage petroleum revenues in accordance with a constitutional requirement to establish a mandatory financial reserve. The PF account is held in the Central Bank of Timor-Leste. All petroleum income initially enters the PF before any income is transferred to the budget. The PF operates like an endowment fund. It is only invested in international financial assets aiming to achieve a 3 percent real return over the long run. Transfers to the budget are guided by the Estimated Sustainable Income (ESI) which is 3 percent of the PF balance and the net present value of expected future petroleum revenue. The ESI is intended to shield against volatility of petroleum inflows and enable a smooth path for government spending, although provisions exist to transfer more than the ESI under certain conditions. In the long run, withdrawals from the PF would equal investment income.

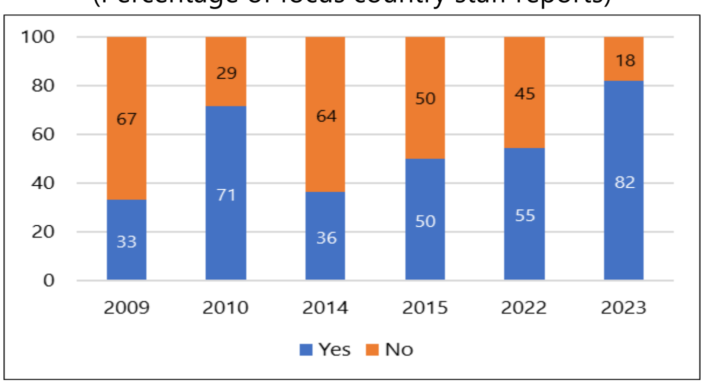
Starting in 2014, budgeted withdrawals in excess of the ESI began alongside some limited concessional external financing with the objective of expanding capital expenditure. By 2016, staff projected net transfers to the PF to become negative. Regarding fiscal policy advice, from 2014 onwards, staff advocated for a significant tightening of fiscal policy relative to the authorities' budgetary plans by arguing that domestic investment returns would be higher if spending was increased more slowly, and the PF would be protected if withdrawals were guided by the ESI. Subsequently, as PF net transfers became negative, staff projected the eventual exhaustion of the PF by the late-2030s unless fiscal policy was significantly tightened, which would result in a destabilizing fiscal and BOP crisis. In addition, in 2022 and 2023, staff suggested the adoption of a fiscal responsibility law (modelled on legislation in the Maldives) to strengthen fiscal discipline which the authorities agreed to consider.

While staff and authorities have had longstanding differences on the amount of withdrawals, the PF has nonetheless served to build a substantial financial cushion in an institutionally weak environment, amounting to over 100 percent of GDP (and over 1,000 percent of non-oil GDP), and to smooth the effects of considerable volatility in petroleum revenues. These achievements provide some reassurance of the possibility of strengthening the management of sizeable resource revenues in other FCS. Timor-Leste also provides a useful reminder that, if the rate of return on domestic public investment is less than the international rate of return, fiscal prudence is called for even when there is ample fiscal space available.

Sources: Official description of the PF available at https://www.ifswf.org/members/timor-leste; staff reports (multiple years); and interviews with staff.

Figure 8. Provision of Advice on Pace/Phasing of Medium-Term Fiscal Adjustment

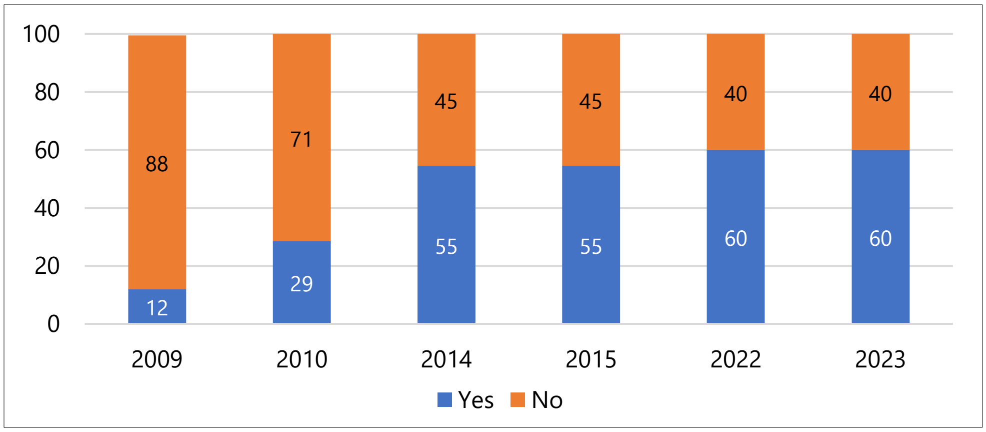
(Percentage of focus country staff reports)



Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.

43. **One area of noticeable improvement in the provision of fiscal policy advice is the increasing candor on political economy factors.** The share of staff reports taking political economy factors into account has risen from 20 percent to 60 percent between 2009–10 and 2022–23 (Figure 9). Good examples include incorporating risks of social discontent and mitigating actions in the Risk Assessment Matrix (RAM) (Madagascar, Zambia) or in the text (Senegal). The Country Engagement Strategy[35] in FCS can also be used as a vehicle to discuss political economy issues (Somalia).

Figure 9. Incorporation of Political Economy Factors in Fiscal Policy Advice
(Percentage of focus country staff reports)



Source: Authors' analysis of focus country staff reports for the periods 2009-10, 2014-15, and 2022-23.

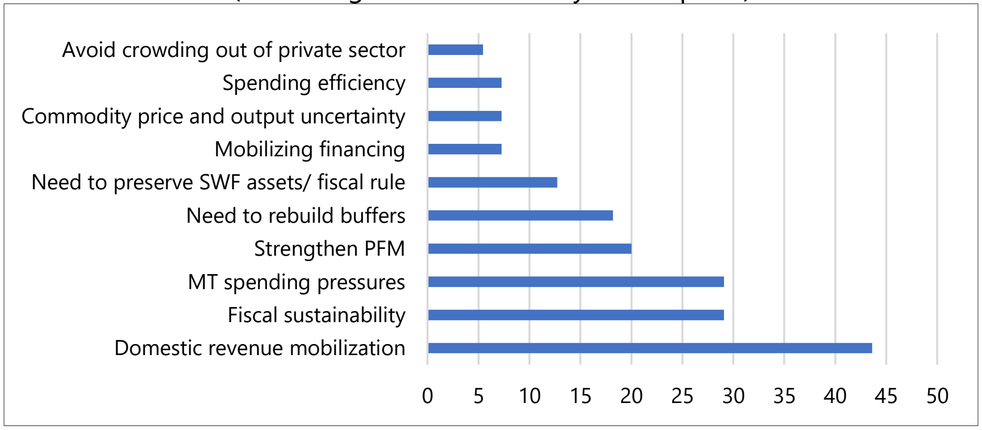
B. Debt Accumulation and Fiscal Sustainability

44. **Authorities surveyed for the evaluation confirmed that in three quarters of cases medium-term fiscal challenges were discussed in detail.** DRM, medium-term spending pressures, and fiscal sustainability challenges were at the top of medium-term fiscal policy advice priorities mentioned in focus countries. DRM, which is largely outside the scope of this evaluation, is specifically identified as a challenge in nearly 45 percent of the reports and both fiscal sustainability and spending pressures were challenges in 29 percent of reports (most reports consider multiple fiscal challenges) (Figure 10).

45. **This emphasis on DRM is also evident in the fiscal policy advice regarding the composition of adjustments recommended for medium-term consolidation.** Out of 42 country-year cases analyzed with a medium-term fiscal consolidation, 40 percent prioritize revenue mobilization, while 33 percent focus on expenditure measures, with the remainder 26 percent either a balanced combination of both or unreported. This emphasis on revenue mobilization is somewhat consistent with research that finds consolidation based on revenue mobilization is less harmful to growth in low-income settings (Arizala and others, 2021).

[35] As part of the Fund's Strategy for FCS, Country Engagement Strategies are developed for FCS to better tailor Fund engagement, support the integration of surveillance, lending, and CD (IMF, 2022b).

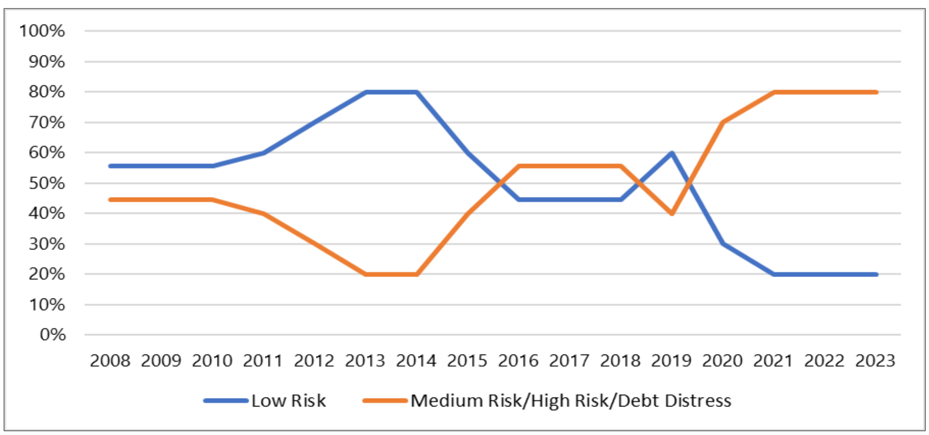
Figure 10. Medium-Term Fiscal Challenges
(Percentage of focus country staff reports)



Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.
Note: Based on a total of 56 staff reports discussing medium-term fiscal policy challenges. Omits results <5 percent.

46. **A large proportion of LICs' debt vulnerabilities increased during the evaluation period.** Debt vulnerabilities initially lessened in focus countries during 2009–14, as assessed by DSAs, including because of debt relief for Haiti (2009) and Afghanistan (2010). Since 2014, however, more than half of the focus countries moved from being at low risk of debt distress to being at medium or high risk of debt distress or into debt distress (Figure 11).

Figure 11. DSA External Risk Ratings of Focus Countries, 2008–23
(Percentage of focus countries)



Source: IEO staff calculations based on IMF Strategy and Policy Review Department (SPR) data.

47. **Medium-term fiscal consolidation is routinely advised when debt risks are low although this needs some careful interpretation (Table 1).** Two-thirds of 24 low-risk cases in focus countries are advised to consolidate. However, in most of these cases (20 out of 24) the envisaged fiscal consolidation did not reduce the projected debt-to-GDP ratio, i.e., staff called for only slightly tighter policies, respecting the fact that debt vulnerabilities were low.

48. **In three cases, staff called for increasing fiscal space (or reducing the debt-to-GDP ratio) over the medium-term in countries assessed at low risk of debt distress (Table 1).** In two of the three cases (both relating to Cambodia), the presence of contingent liabilities motivated a 3 percent of GDP reduction in public debt over the medium-term. In the remaining case (Senegal, 2015), fiscal adjustment was driven by the need to meet the regional convergence criteria for the fiscal deficit, set at 3 percent overall, which resulted in a projected decline of the debt-to-GDP ratio of close to 5 percent of GDP. One additional case is likely Timor-Leste (2014), although in this case the staff report was not authorized for publication.

Table 1. Risk of Debt Distress and Medium-Term Fiscal Policy Advice
(Focus countries, selected years)

		Staff MT Fiscal advice (Percent of cases)		
	Observations	Consolidate	Neutral	Stimulate
Low risk	24	67	33	0
Moderate risk	19	84	5	11
High risk	7	43	29	29
In debt distress	4	50	25	25

Source: Focus country staff reports and DSAs for the periods 2009–10, 2014–15, and 2022–23 (54 observations).

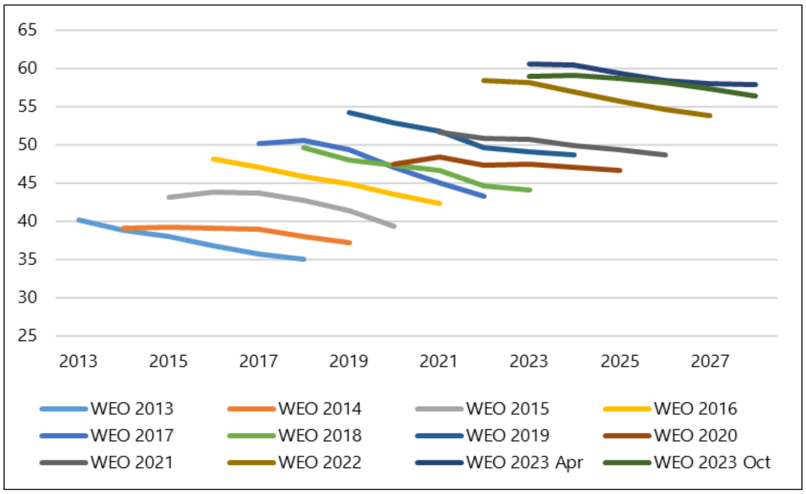
49. **In most cases where debt vulnerabilities were assessed as medium or high, staff typically advised medium-term consolidation to mitigate or diminish these vulnerabilities.** Notably, significant reductions in public debt were anticipated in the recent program cases for Senegal and Zambia, which indicate planned fiscal adjustments (with debt restructuring occurring only for Zambia). There are two country cases where risks were assessed as high, Afghanistan and Haiti, mainly because revenues are critically low, and in these cases debt vulnerabilities are best tackled by raising revenue rather than debt restructuring. There are also several instances where the staff called for substantially tighter fiscal policies than in the baseline (Haiti, Nigeria, Timor-Leste) resulting in projected debt to GDP being 10 to 30 percent lower than in the authorities' baseline.

50. **In the two country cases that were in debt distress, staff provided analytical support for debt restructuring requested by country authorities in line with multilateral debt resolution frameworks**. In the case of Somalia, debt reduction was achieved through the HIPC process and in the case of Zambia, debt restructuring was approached through the G-20 Common Framework.

51. **A significant issue arises in cases where there appears to be no significant difference of views between staff and the authorities regarding the necessity for medium-term consolidation, as reflected in the fiscal baseline, but debt vulnerabilities continue to rise.** Over 80 percent of authorities surveyed fully agreed or agreed more than half the time with staff's medium-term fiscal recommendations. Yet differing outcomes reflect both adverse shocks as well as policy inaction or backsliding. Examples include repeated delays in achieving the

recommended and desired fiscal consolidation in countries, including in surveillance (Nigeria and Zambia) and in non-financial programs (Policy Support Instrument (PSI)/Policy Coordination Instrument (PCI) for Rwanda and Senegal). This was also evident in WAEMU (with surveillance and program engagement), where public debt has continued to rise steadily from 2013 to 2022, despite annual Fund projections of fiscal consolidation (Figure 12). In these cases, repeated projection bias in Fund projections reduced their credibility, while the apparent agreement and subsequent repeated amendment of medium-term objectives may, counterproductively, serve to delay policy action.

Figure 12. Public Debt Projections in the WAEMU, 2013–22
(Annual vintages, percentage of GDP)

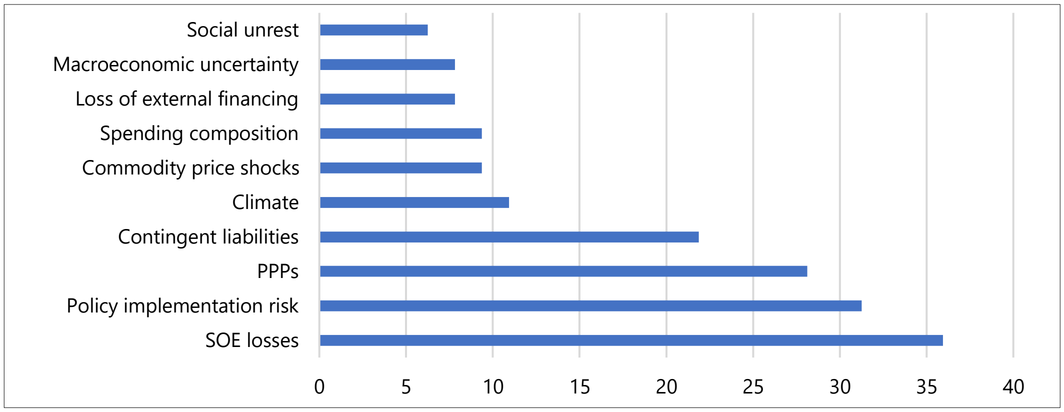


Source: IEO staff calculations based on WEO data.

52. **In the context of rising fiscal vulnerabilities, the advice on fiscal risks evolved over the evaluation period in focus country staff reports.** These reports discussed a wide range of baseline and tail fiscal risks reflecting diverse country circumstances. This was done in a stand-alone discussion of risks, as required by the 2012 SGN, and/or through a Risk Assessment Matrix (RAM).[36] In some instances, recommendations were also provided to mitigate the identified risks. The most commonly discussed fiscal risks included losses from SOEs, often linked to fuel price subsidies; policy implementation risks; PPPs; contingent liabilities; and climate-related risks (Figure 13). Generally, the analysis was more detailed in Article IV consultation reports compared to stand-alone program requests or program reviews. This may reflect a tension in programs where staff have to express confidence that the program will be implemented which provides an incentive to downplay or under-emphasize risks that could threaten satisfactory program implementation.

[36] Although not required, the 2012 SGN encouraged staff to use a Risk Assessment Matrix (RAM), as it provides a structured framework for analyzing risks and their possible impact (IMF, 2012).

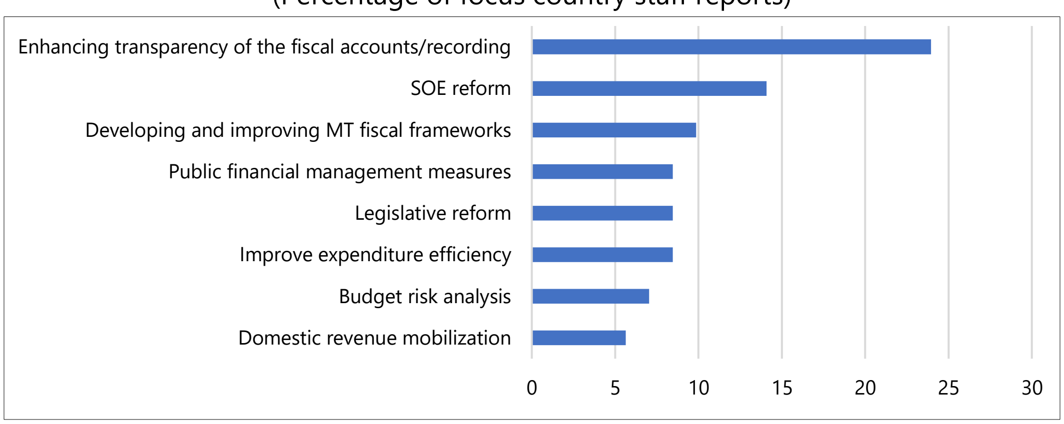
Figure 13. Fiscal Risks Identified
(Percentage of focus country staff reports)



Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.
Note: Based on a total of 63 staff reports discussing fiscal risks. Omits results <5 percent.

53. **Recommendations to mitigate identified fiscal risks were not always articulated.** Of the 126 fiscal risks identified in focus country staff reports only 71 (56 percent) had actions recommended to mitigate the risks. The discussion of fiscal risks tended to be strongest in circumstances where the authorities were more capable of taking risk-mitigating actions, i.e., in non-FCS situations. For example, in Rwanda (2022), there were a series of measures to improve the depth and breadth of the fiscal risk assessment, including a long-term climate risk assessment which was a reform measure under the Resilience and Sustainability Facility (RSF). By contrast, in Haiti (2022), the principal fiscal risk was seen as costly fuel subsidies in the context of very low tax revenues. However, no risk mitigation was proposed as part of the Staff-Monitored Program. Staff explained that this reflected previous unsuccessful fuel tax reforms that had been associated with a Fund program, so Fund pressure would be counter-productive. Staff reported that the authorities had subsequently been able to eliminate the fuel subsidies. The most frequent recommended mitigating actions are shown in Figure 14.

Figure 14. Actions Recommended to Mitigate Fiscal Risks
(Percentage of focus country staff reports)



Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.
Note: Based on a total of 63 staff reports discussing actions to mitigate fiscal risks. Omits results <5 percent.

54. **The identification of fiscal risks and actions to mitigate fiscal risks underscores that significant vulnerabilities often stem from outside the fiscal perimeter, particularly in SOEs and PPPs, and a lack of fiscal transparency.** Liabilities incurred outside the fiscal perimeter, such as the central government or general government, can create discrepancies between the overall fiscal deficit and the changes in public debt, a phenomenon referred to as SFAs. These adjustments also encompass valuation effects, timing discrepancies, and other below-the-line transactions. SFAs were notably addressed in the September 2011 and October 2024 FM reports and a related working paper (Weber, 2012), which highlighted that SFAs tend to be more pronounced in LICs and countries with weaker fiscal transparency.

55. **Rising debt vulnerabilities have led to a renewed emphasis on SFAs in fiscal policy advice in focus countries.** In 2022 and 2023, the reports on common policies for WAEMU member countries highlighted the importance of SFAs in public debt accumulation, indicating that they accounted for 1.5 percent of regional GDP annually from 2013 to 2021. As a result, SFAs were a significant contributor to the upward drift of WAEMU public debt, despite repeated projections that debt would decline over the medium term. The report on Senegal (2023) also focused on SFAs in an annex, indicating that they accounted for half of the increase of public debt and that more work is needed to explain SFAs.

56. **There has been a broad-based expansion in the use of fiscal rules over the past two decades, including in LICs (Davoodi and others, 2022).** Authorities surveyed indicated that in all cases staff discussed fiscal anchors fully or partially. In the focus countries, Rwanda adopted the East African Community fiscal convergence criteria in 2013, while Cambodia introduced national fiscal rules in 2018, which creates space for policy advice on how to strengthen or modify existing fiscal rules. Staff also provided advice when existing fiscal rules or institutions were under pressure, as seen in Senegal (Box 4) and Timor-Leste starting in 2014. Also, in response to rising debt vulnerabilities, surveillance and programs have increasingly emphasized the need for a medium-term budgetary framework for countries lacking a fiscal rule framework, such as in Bangladesh and Zambia.

57. **Staff provided at least some advice on the appropriate mix between fiscal and other policies in almost half of the focus country cases (Figure 15).** Overall, there were fewer references to the appropriate policy mix in FCS than non-FCS, reflecting a more limited choice of policy variables in FCS, such as full dollarization and little or no scope for discretionary fiscal policy. One notable exception was Timor-Leste, where the scope for fiscal policy to affect the external position and structural reforms was significant. Most of the policy mix discussion was in relation to external and monetary policies that account for three quarters of policy mix advice provided. There was no trend change in the frequency of policy mix advice during the evaluation period with about one-half of cases having no discussion or only a very cursory discussion of the policy mix which may also reflect pegged exchange rates where monetary policy autonomy may be quite limited (Senegal and other WAEMU members).

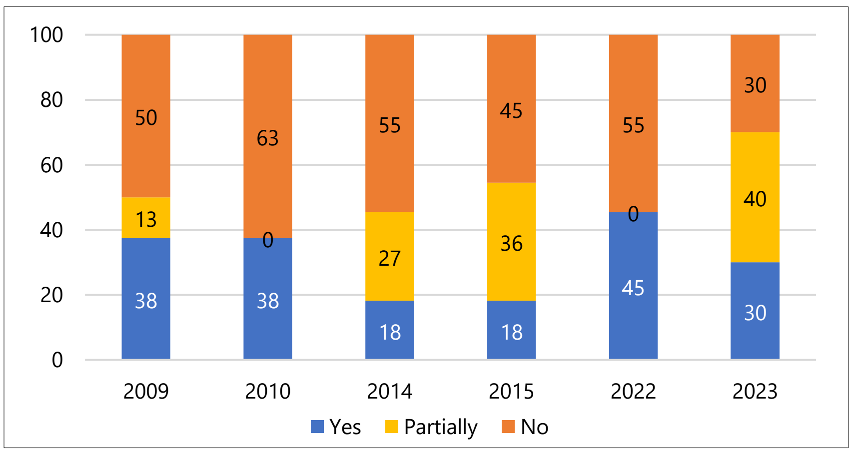
Box 4. Senegal and WAEMU Fiscal Convergence Criteria

While supranational fiscal rules have applied in WAEMU since 2000, they often received relatively little scrutiny from staff. For instance, in the 2010 Common Policies for WAEMU member countries, staff noted that compliance with the fiscal convergence criterion of maintaining the basic balance or surplus as a fiscal anchor was poor (the basic balance being defined as revenue excluding grants less expenditure excluding foreign financed investment). The report suggested that "*Refinements in the definition of the convergence criteria to make them less sensitive to the business cycle may help*" but did not elaborate.

With the fiscal rules under review, staff provided more extensive advice during the WAEMU consultation in 2014. New rules were adopted in 2015, including a 3 percent overall fiscal deficit limit and 70 percent debt-to-GDP limit. These rules became a key medium-term focus for program objectives in WAEMU member countries. In Senegal, the 2015 staff report for a Policy Support Instrument (PSI) Request aimed to meet the 3 percent deficit criterion by 2018 or 2019. In April 2020, in the context of the COVID-19 Pandemic, the WAEMU fiscal rules were suspended, as there were no escape clauses to activate. By 2023, the Senegal staff report for an Extended Credit Facility (ECF)/RSF request aimed to reach the convergence criterion by 2025, a decade after the rule was implemented.

Sources: Eyraud and others (2018); Comelli and others (2023); Flores and others (2024); Staff Report on Common Policies for WAEMU Member Countries (multiple years); and interviews with staff.

Figure 15. Explicit Discussion of the Policy Mix
(Percentage of focus country staff reports)



Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.

C. Raising Potential Output and Providing Public Goods

58. **The IMF's explicit bilateral advice on the MDGs (until 2015) and the SDGs (from 2015 onwards) has been limited.** Among the focus countries, only 9 out of 63 staff reports (14 percent) explicitly discussed how fiscal policy might help achieve the MDGs/SDGs. However, nearly all reports provided recommendations on DRM, which could implicitly support the achievement of development targets. Prior to 2015, most staff reports featured an MDG table summarizing progress toward MDG targets (based on input from the World Bank) but lacked in-depth discussion or analysis. After 2015, a major initiative was launched to assess the costs of

SDG spending needs, spearheaded by the Fund's Fiscal Affairs Department (FAD). A methodology was developed to calculate additional spending requirements necessary to achieve outcomes comparable to well-performing peers for selected SDG targets for human capital development (health and education) and physical capital development (infrastructure, in particular, water and sanitation, electricity, and roads). In-depth studies undertaken on a dozen countries highlighted the high costs of achieving these SDGs, including in some of the focus countries: 7.4 percent of projected 2030 GDP in Cambodia, 18 percent of GDP in Nigeria, and 19.5 percent of GDP in Rwanda (Carapella and others, 2023). During interviews, staff indicated that the SDG costing exercise revealed a lack of available funding, complicating the provision of fiscal policy advice. The financing gap also led staff to concentrate on social spending—a long-standing priority—and, more recently, on climate-related issues.

59. **Social spending has often been a central focus of the IMF's fiscal policy advice in bilateral surveillance and program engagement.** For the focus countries, 80 percent of staff reports discussed how to create fiscal space for social spending (48 out of 60 cases). In 62 percent of cases, staff articulated a need for measures to support the vulnerable or to protect spending on the vulnerable (43 out of 59), which increased to 82 percent in countries with a baseline of short-term fiscal consolidation (23 out of 28) and 75 percent in those with medium-term fiscal consolidation (28 out of 37). These relatively high proportions in part reflect the policy of setting a floor on social and other priority spending in programs with concessional Poverty Reduction and Growth Trust (PRGT) financing. In interviews, staff emphasized that targeted social spending is more efficient and preferable given the limited fiscal space and is often favored by the authorities as well. However, they also recognized that capacity constraints might hinder the effectiveness of targeting, while more recently noting efforts to support targeting, such as the establishment of social registries in Rwanda (2022–23) and Madagascar (2023) and a Single National Register (RNU) in Senegal.

60. **Even in FCS with severely constrained DRM, staff provided advice on social spending, despite debt vulnerability concerns.** For example, discussions with authorities in Afghanistan, Haiti, and Somalia, addressed social spending issues, which were integrated into surveillance and program documents. In Haiti, the 2019 Article IV consultation report included dedicated sections on social spending, safety nets, and related indicators, along with a SIP on combating inequality, including income disparities between rural and urban areas and gender inequality (IMF, 2020a; 2020b). The 2023 Joint Staff Advisory Note[37] for Somalia reviewed progress under Somalia's Ninth National Development Plan, aimed at poverty reduction and inclusive growth (IMF, 2023f). At the same time, the limited fiscal space in all three FCS greatly restricted the options for fiscal policy advice to improving the efficiency of existing social spending or leveraging donor funding to increase the spending envelope.

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[37] Joint Staff Advisor Notes are prepared by the staffs of the Fund and the World Bank and provide feedback to the country on progress in implementing its Poverty Reduction Strategy.

61. **While staff reports frequently address the need for poverty mitigation measures, they generally overlook the broader distributional or welfare effects of fiscal consolidation or stimulus.** This aligns with observations from development CSOs. Staff cited two main reasons for this analytical gap during interviews. First, the absence of sufficiently comprehensive and timely tax and spending incidence data necessary for such assessments and/or estimates of fiscal multipliers. Staff typically acknowledged that multipliers in LICs are lower than those in EMMIEs or AEs. For instance, an estimate of 0.4 for Nigeria (2014) was derived from input-output tables and estimates of 0.1 to 0.2 for Timor-Leste (2022 and 2023) stemmed from high import dependence and low-quality spending—though such examples are relatively uncommon in staff reports. Second, there is a longstanding formal agreement between the World Bank and the Fund that assigns primary responsibility for development strategies to the World Bank, and provides guidance on how differences of view, including in adjustment programs, should be resolved.[38]

62. **Climate issues have gained recent prominence across the IMF's surveillance, lending, and CD engagement.** Thirteen staff reports from 7 focus countries, primarily from 2022 and 2023, addressed how to create fiscal space for climate adaptation and related fiscal reforms. Importantly, this fiscal policy advice built on the Fund's CD initiatives, including the Climate Macroeconomic Assessment Program (CMAP), which was piloted in Madagascar in 2022, the climate module of the Public Investment Management Assessment (C-PIMA) implemented in Senegal, and Green PFM. The emphasis on climate resilience within RSF programs in Bangladesh, Madagascar, Rwanda, and Senegal has also significantly influenced climate-related fiscal reforms, such as Green PFM, green investment guidelines, and climate risk management. The scope and content of bilateral climate-related fiscal policy advice in focus countries is concentrated on several key areas: climate risk assessment, climate and disaster risk management and financing, guidance on resilient investment, and mapping climate spending (Table 2).

63. **A few recent staff reports and authorities' memoranda of economic policies have considered how fiscal policy can promote gender equality to improve macroeconomic outcomes.** These developments reflect the Fund's 2022 Gender Strategy which sought to ensure that macrocritical aspects of gender are integrated in country work as part of an ambitious long-term strategy (IMF, 2022e). For example, for Bangladesh (2023), staff prepared a SIP to examine the macro-criticality of gender equality, developed in collaboration with UN-Women. The paper discusses in depth the scope to improve the existing system of Gender-Responsive Budgeting and more broadly assesses that the Fund-supported program "*aims to help Bangladesh create the necessary fiscal space to invest in social programs and development infrastructure, which in turn is expected to improve women's access to education, healthcare and economic opportunities*" (IMF, 2023c). In Senegal (2023), key reform commitments in the Fund-supported program are expected to address gender inequality,

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[38] The IMF-World Bank Concordat on Collaboration in Assisting Member Countries (1989) available at: https://www.imf.org/en/publications/selected-decisions/description?decision=sm%2F89%2F54.

including increasing social spending on programs targeted to young girls and women, as well as by providing training and credit to female entrepreneurs. Madagascar (2023) recognized the economic gains from reducing gender gaps and outlines ongoing efforts, such as implementing a gender and climate strategy.

Table 2. Summary of Climate-Related Fiscal Policy Advice in Focus Countries

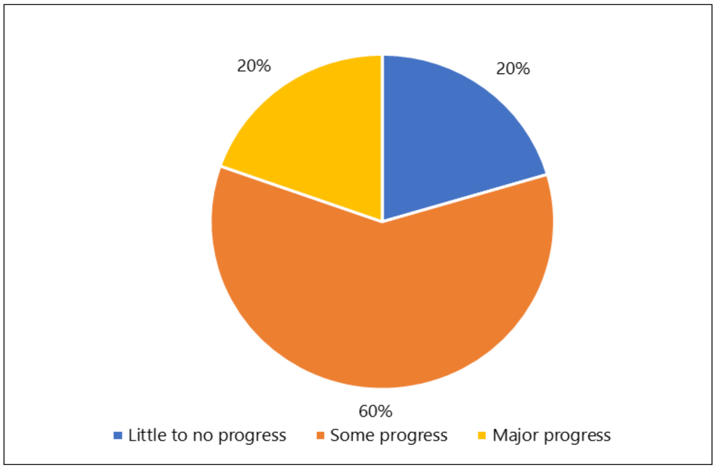
Bangladesh (2015, 2022, 2023)	Wide-ranging recommendations to enhance resilience against flooding and tropical cyclones, as well as to implement mitigation measures such as carbon taxes (2015). Reform measures as part of the RSF program aim to create a green and resilient infrastructure and improve climate fiscal management (2022 and 2023). This includes a disaster risk financing strategy designed to bolster resilience for the most vulnerable populations.
Madagascar (2023)	CMAP recommendations: 1.7 percent GDP of fiscal gains from emissions-reducing policy measures; strengthen the disaster risk management strategy; budgetary provisioning for climate risks; and expand the beneficiary registry to facilitate scaling up social protection.
Rwanda (2022, 2023)	The RSF program supports fiscal policy reform in several areas: climate spending reporting; climate risk assessment; climate in the national investment policy; green finance market; updating the disaster risk reduction and management policy. Macroeconomic modelling of climate investments using the Fund's Debt-Investment-Growth and Natural Disasters model (DIGNAD) model. Estimates of financing needs for adaptation and mitigation.
Senegal (2023)	C-PIMA recommendations to strengthen climate considerations in the budget process: include disaster-related risks in the budget Risk Statement Annex; adopt Public Investment Management decree integrating climate considerations at each step of project development.
Somalia (2022, 2023)	Assessment of climate risks. Acknowledged that domestic revenues need to increase to create fiscal space to help mitigate shocks.
Timor-Leste (2022)	SIP discussed the implementation of the National Adaptation Plan in budgetary planning and identifying concessional or grant financing sources for green infrastructure and to strengthen climate adaptation capacity.
Zambia (2023)	Advice on setting up a Climate Change Fund.

Source: Authors' analysis of focus country staff reports for the periods 2009–10, 2014–15, and 2022–23.

D. Implementation

64. **Implementation of the IMF's fiscal policy advice to LICs was mixed.** In the absence of a Fund program or fiscal conditionality, authorities may choose not to follow the Fund's recommendations. This is not necessarily a reflection of the quality of the Fund's advice, but may stem from political economy, operational, and implementation challenges. A survey conducted for this evaluation revealed that 92 percent of the authorities agreed with the Fund's fiscal policy advice, with 23 percent expressing complete agreement and 69 percent agreeing at least half the time. Furthermore, 77 percent of the authorities reported that they either always acted upon the advice (15 percent) or acted on it at least half the time (54 percent), with similar responses noted for the Fund's medium-term fiscal policy advice. An analysis of Article IV consultation reports for LICs from 2008 to 2023 indicated that for 20 percent of the Fund's fiscal policy advice there was significant progress in implementing the Fund's recommendations, while for 60 percent of the Fund's fiscal policy advice there was some progress (Figure 16).

Figure 16. Implementation of Fund Fiscal Policy Advice to LICs, 2008–23
(Percentage of Fund Fiscal Policy Advice to LICs)



Sources: Article IV consultation reports; IEO calculations.
Note: Information from the Article IV Appendix Tables, which detail authorities' responses to past policy advice, was assessed for implementation progress using OpenAI's o1 model.

65. **Despite the general agreement on the IMF's advice, the implementation of these recommendations has been inconsistent, primarily due to political economy constraints.** Executive Directors highlighted that the relevance and effectiveness of the Fund's fiscal policy advice could be enhanced by providing more targeted recommendations that clarify the "why" and "how" of the advice, rather than merely stating the "what." They emphasized the importance of considering the time required for reforms to achieve political consensus, ensuring social acceptability, articulating trade-offs, and offering multiple reform options instead of a single ideal approach. Additionally, engaging authorities in the selection of issues to address during Article IV consultations can further improve the traction of the Fund's advice, although staff note that agreeing the analytical agenda in advance is standard practice. Some Executive Directors have also pointed out that, considering the Fund's extensive experience among its members, there is potential for greater knowledge sharing regarding the experiences of countries that have effectively carried out challenging reforms.

V. Assessment and Lessons Learned

A. Advice on Adjustment to Shocks

Bilateral Fiscal Policy Advice

66. **Staff successfully addressed short- to medium-term issues, aligning with the IMF's traditional stabilization mandate.** Whether the Fund's fiscal policy advice to LICs was relevant depends on the stated objectives of fiscal policy against which it is evaluated. The Fund's short-to medium-term fiscal policy advice to LICs was relevant and in line with the Fund's stabilization

mandate. For countries experiencing a BOP or debt crisis, or those at medium to high risk of debt distress, the bilateral fiscal advice aimed to mitigate these vulnerabilities and ensure (in surveillance cases) or restore (in program cases) stability through a combination of expenditure cuts and DRM. As a result, apart from the periods of the GFC and the pandemic, the Fund's fiscal policy advice to LICs mostly emphasized the importance of medium-term fiscal consolidation.

67. **However, fiscal policy recommendations were frequently broad and lacked clarity regarding the pace and sequencing of medium-term fiscal measures.** As noted above, in the focus country reports, there was no advice provided on the pace and phasing of fiscal actions in 44 percent of cases. Removing country cases that are stand-alone program reviews, cases where the fiscal advice is a neutral stance over the medium term, and WAEMU reports where the composition of fiscal adjustment is the responsibility of country teams, still leaves one-quarter of country cases with no advice on pace and phasing of fiscal adjustment during the evaluation period. Additionally, there is scope for staff to provide more frequent policy mix advice on the relationship between the recommended fiscal stance and other monetary, external, and structural policies and objectives.

68. **Staff was less effective at addressing challenges related to longer-term economic sustainability.** The added value of fiscal policy advice in achieving longer-term economic sustainability, which increasingly gained attention during the evaluation period and became an explicit surveillance priority following the 2021 CSR, was more limited. This can be attributed to the sheer number of SDGs, the substantial costs associated with achieving them and available resources falling short, authorities' preferences often being influenced by electoral cycles, as well as lack of expertise in Fund staff. Particularly the resources required to make progress towards the SDGs posed challenges for providing fiscal policy advice, as the resources, either because of insufficient DRM or donor financing, were simply not there. Consequently, given the concerns surrounding debt sustainability, the Fund considered it imprudent to recommend that countries raise development spending without first ensuring the availability of necessary financing.

69. **The IMF typically did not assess the impact of its fiscal policy advice on attaining LICs' development goals.** Staff lacked some of the data and did not fully use or systematically integrate into its operations the tools to monitor the social and distributional effects of fiscal policies. As a result, discussion on the distributional effects and the growth impact of fiscal consolidation was limited, complicating efforts to foster inclusive growth and identify emerging risks.

70. **The IMF's frameworks and toolkits generally resulted in high-quality analysis, but there are some challenges, mainly related to data for LICs.** High levels of informal economic activity and difficulties to comprehensively measure and include it in GDP imply that parts of countries' economic activity may not be well captured in the data, which impacts inter alia the calculation of fiscal multipliers. Additionally, commodity prices play a crucial role in influencing the cyclical nature of fiscal policy. Finally, projection bias, particularly related to growth and the fiscal deficit, resulted in debt levels in LICs being higher than initially anticipated.

71. **Analysis of the IMF's fiscal policy advice in the 11 focus countries and 1 currency union, as well as the results of a survey conducted with mission chiefs and country authorities, did not reveal evenhandedness concerns between LICs.**[39] This is illustrated by the consistency of advice across the evaluation period on the medium-term fiscal stance for countries at low risk of debt distress, where staff called for only slightly tighter policies, respecting the fact that debt vulnerabilities were low, compared to those with medium or high risks, where staff typically advised medium-term consolidation. Exceptions were justified by country-specific circumstances.

Multilateral Fiscal Policy Advice

72. **Individual WEO and FM reports, as well as the GPA, did not consistently provide clear and specific fiscal policy recommendations for LICs.** Messages in the context of multilateral surveillance have an important impact, as country authorities use such messages to justify some of their policy decisions. Given the heterogeneity across LICs, it may be difficult to produce a single cross-cutting message, but the reports could do better in considering what the fiscal policy messages for LICs could be. While the REOs and the reports on Macroeconomic Developments and Prospects in LICs tried to fill the gap, they were less frequent, and their profile was lower than that of other flagship reports.

73. **Messages related to fiscal policy advice to LICs from both bilateral and multilateral surveillance were broadly consistent.** During the GFC and the COVID-19 Pandemic, both bilateral and multilateral messages mostly encouraged LICs to support the economy through fiscal stimulus. Outside these years, messages related to fiscal policy in LICs in the context of both bilateral and multilateral surveillance mostly emphasized the importance of medium-term fiscal consolidation.

B. Debt Accumulation and Fiscal Sustainability

74. **Fiscal policy advice on the medium-term stance was well calibrated to the assessment of debt vulnerabilities.** The Fund started warning about debt vulnerabilities relatively early on, as of 2012, when public debt levels and debt service payments relative to GDP were still low but started rising again. In doing so, it made use of the data and toolkits at its disposal, including the LIC-DSF.[40] Fiscal consolidation was frequently recommended in contexts where debt risks were considered low, reflecting a bias in favor of fiscal tightening. However, this advice, appropriately, did not aim to further increase fiscal space or reduce the public debt-to-GDP ratio. Staff consistently advocated for medium-term consolidation in countries assessed at higher than low debt risks, and debt restructuring in cases of debt distress.

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[39] For a discussion related to evenhandedness between income groups, see IEO (2025b). For more details on the treatment of military spending in fiscal policy advice, including in LICs, see Gupta (2025).

[40] Data issues, as well as an assessment of the LIC-DFS, will be addressed in the upcoming IEO evaluation of IMF engagement on debt issues in low-income countries (IEO, 2025a).

75. **Differences between staff's recommendation and the fiscal baseline were not always explicit or clear.** In both surveillance and program contexts there have been cases of agreement on the need for medium-term consolidation and subsequent repeated amendment of medium-term objectives due to shocks and/or policy inaction. This may either obscure the need for fiscal action or serve to delay action to reduce debt vulnerabilities. Fixing this issue would likely require staff being more explicit on the specific measures needed to achieve the proposed adjustment in surveillance and programs, including in the context of one-off or multiple shocks. In the surveillance context, it could be useful to explicitly highlight differences between staff's recommendation and the fiscal baseline, for example, using the historical adjustment scenario from the LIC-DSF.

76. **The assessment of fiscal rules and institutions, including medium-term budgetary frameworks, and fiscal risks appears to have become more prevalent and detailed.** There has been a more systematic and consistent assessment of fiscal risks since 2014 compared to the period 2009–10 although scope for improvement remains.[41] On average, one-third of staff reports provided a highly satisfactory assessment of fiscal risks and mitigating actions, one-half provided a satisfactory assessment, without recommending mitigating actions, and a small percentage either missed a discussion or paid limited attention to fiscal risks. By comparison, in 2009 and 2010, only 1 out of 17 cases provided a highly satisfactory discussion of fiscal risks.

77. **There has been a mostly overlooked opportunity in recognizing and addressing SFAs and the increasing debt vulnerabilities associated with them.** Over a decade ago, SFAs were already identified as particularly significant for LICs in the FM. However, it is only in recent times that SFAs have been acknowledged as a key factor contributing to the rise in debt vulnerabilities.

78. **Progress in increasing general government revenues as a share of GDP was mixed.** DRM was a key focus both in surveillance and program engagement with LICs. Nevertheless, less than 45 percent of LICs were successful in enhancing DRM by more than 1 percentage point of GDP between 2008 and 2023. The intensity of program engagement during 2008–23 did not explain why some LICs were successful in increasing DRM, while others were not.

C. Potential Output and Providing Public Goods

79. **While there was an increasing emphasis on social spending, the effects of climate change, gender inequality, and the broader SDGs, there is a disconnect between calling for fiscal consolidation in the short to medium term and adding new longer-term economic sustainability issues to the agenda.** At the same time that debt vulnerabilities increased, and fiscal policy advice tilted decisively toward fiscal consolidation, the Fund widened the scope of

[41] Advice given in focus country staff reports was rated as "excellent" if fiscal risks were identified and staff discussed mitigating policy responses, "satisfactory" if fiscal risks were solely identified, "limited" when the risk assessment was vague or lacked depth, or "missing" when there was no discussion of fiscal risks.

fiscal policy advice, both in terms of range of issues and the time horizon, which in the case of social spending and climate adaptation requires substantially more resources in most, if not all, LICs. It was not clear from staff's fiscal policy advice how LICs were supposed to achieve their longer-term development goals. Furthermore, staff reports did not systematically assess the impact of the Fund's fiscal policy advice on, for instance, countries' ability to achieve the SDGs.

80. **The IMF's perspective on critical issues concerning fiscal policy advice to LICs has gradually adapted over time, reflecting changes in fiscal indicators and existing research, with one notable exception.** While the World Bank has transitioned towards advocating for universal social protection in alignment with the views of other UN agencies and the SDGs, the Fund has continued to emphasize targeted social spending.

81. **Focusing on creating fiscal space for new outlays represented a pragmatic choice for staff although this advice could be enhanced. Advice on the need for fiscal space for social spending is commonplace in programs and surveillance but lacks a robust justification in terms of outcomes.** This advice would be amplified if there was enhanced collaboration with the World Bank to enable an analysis of the broader distributional and welfare effects of additional social spending wherever possible.

82. **The IMF increasingly deepened its integration of climate change and gender considerations into surveillance and fiscal policy advice.** As the IMF gains experience in incorporating climate change considerations into surveillance and lending, its comparative advantages are likely to become more apparent, as suggested by a recent review of the CMAP (IMF, 2023b). A forthcoming IEO evaluation of the IMF and climate change (IEO, 2024) will provide deeper insights into this issue. A more deliberate and consistent integration of gender considerations in fiscal policy advice, where relevant, would significantly enhance the depth and impact of the IMF's engagement. Overall, the collaborative approach taken in the case of Bangladesh may serve as an effective model for leveraging expertise from other international agencies where it is judged that promoting gender equality could improve macroeconomic outcomes.

D. Implementation

83. **In implementing the IMF's fiscal policy advice, LICs frequently encountered political economy, capacity, and operational constraints.** The coverage of these constraints in staff reports has been inconsistent, but improvements are anticipated as the recommendations of the 2022 IEO evaluation on *The IMF and Capacity Development* (IEO, 2022b) are being implemented. This includes better integration of CD within staff reports and aligning it more closely with the Fund's surveillance and lending operations. However, explicit discussions on how political economy constraints are reflected in staff advice remain limited, which can lead to perceptions of the Fund being disconnected from the realities faced by these countries.

84. **Some staff reports tend to focus too narrowly on a single preferred approach, often overlooking alternative policy options.** By explicitly articulating the trade-offs between different policy options, staff can promote a more informed policy discussion within countries and enhance the perception of impartiality in the Fund's advice. To improve the relevance and traction of fiscal policy advice, it is essential to provide more targeted recommendations that clarify the "why" and "how," rather than simply stating the "what." Additionally, considering the time required for reforms to achieve political consensus, ensuring social acceptability, and presenting multiple reform options instead of a single ideal approach can further strengthen the traction of the Fund's advice. Engaging authorities in selecting issues to address during Article IV Consultations is also crucial for enhancing the impact of the recommendations.

E. Suggestions for Next Steps

85. **Based on the assessment in the previous sections, this paper offers the following suggestions to enhance the consistency, relevance, and sustainability of fiscal policy advice to LICs:**

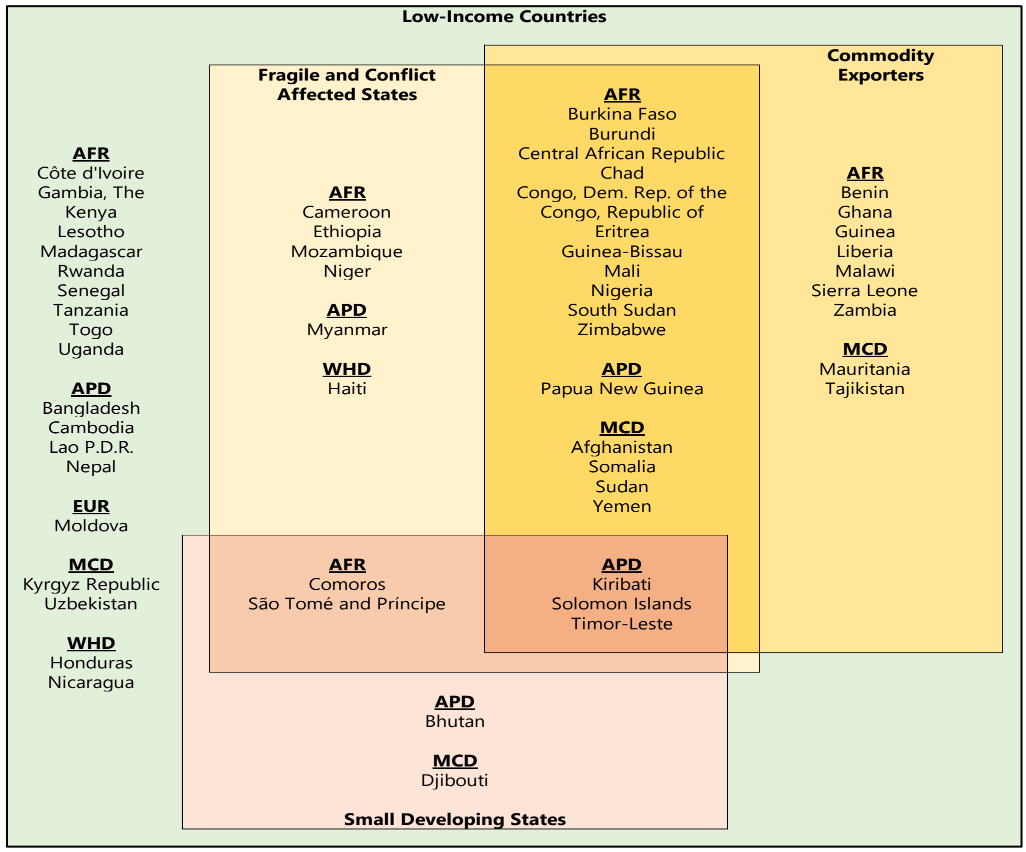
- **Bilateral fiscal policy advice.** Given the range of issues and the time horizon of what fiscal policy advice could cover, the Fund could consider clarifying what should always be covered in staff reports in a systematic way. This should include: (i) clear and specific advice on the short- and medium-term fiscal stance (expansionary, neutral, or contractionary) along the cycle (procyclical or countercyclical); and (ii) a justification for the fiscal advice provided in each staff report. If data on the fiscal stance is unavailable, staff should clarify the fiscal objective guiding their policy advice, such as stabilizing public debt levels. Furthermore, fiscal policy advice could be strengthened in some areas drawing on existing good practice in a few countries: (i) consistently providing advice on the pace and phasing of recommended fiscal adjustment based on staff's assessment of feasible options available; (ii) while advice on the fiscal policy stance is largely discretionary in LICs, the relatively few references made to automatic stabilizers suggests an opportunity to benefit from research and analysis on revenue and expenditure elasticity to growth in LICs; (iii) to reduce procyclicality of fiscal policy advice to LICs with limited financing options, particularly in FCS, more attention could be focused on building, where possible, an on-budget government deposit buffer to smooth spending over the cycle and in response to shocks with appropriate oversight and safeguards; (iv) more consistently including mitigating actions would further strengthen the assessment of fiscal risks; and (v) more analysis of SFAs and policy options to strengthen transparency and accountability in public finances by reducing them would enhance analysis of debt sustainability.

- **Longer-term economic sustainability issues.** There is a perceived inconsistency between the Fund's bilateral fiscal policy advice, which often emphasized short- to medium-term fiscal consolidation in LICs, with the Fund's broader support for spending more to achieve the SDGs, including for social spending, climate, and gender strategies.

This perceived inconsistency could be addressed in staff reports by (i) better justifying the rationale for the short- to medium focus on fiscal adjustment; (ii) assessing the impact of its short- to medium-term fiscal policy recommendations on LICs' development objectives, including by engaging with external stakeholders to better understand the social landscape and gauge the likely social and distributional impacts of fiscal reforms; (iii) indicating the resources needed to make progress towards the SDGs; and (iv) providing clearer and more specific advice on what is needed for countries to get from stabilization through consolidation in the short to medium term to creating fiscal space to help achieve their development objectives in the longer term.

- **Multilateral surveillance.** The Fund could consider more systematically covering fiscal policy challenges in LICs and providing clear and specific fiscal policy advice for LICs in multilateral surveillance products, such as the WEO, FM, and GPA.

ANNEX I. LIC SUBGROUPS, DECEMBER 31, 2023



Note: AFR = African Department; APD = Asia and Pacific Department; EUR = European Department; MCD = Middle East and Central Asia Department; WHD = Western Hemisphere Department.

Low-Income Countries (LICs): This evaluation adheres to the economy grouping classification used in the Fund's Fiscal Monitor. The use of the terms "Low-Income Countries" and "LICs" refer to the 58 IMF member countries at the end of 2023 that were categorized as "Low-Income Developing Countries" in Table A of the Definition and Coverage of Fiscal Data. Source: Fiscal Monitor, April 2024.

Fragile and Conflict-affected States (FCS): Thirty-nine IMF member countries were considered FCS in FY2024, of which 28 were LICs. Source: https://www.imf.org/-/media/Files/Publications/PP/2023/English/PPEA2023010-S002.ashx.

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.

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. Sources: SPR, and IEO (2022a).

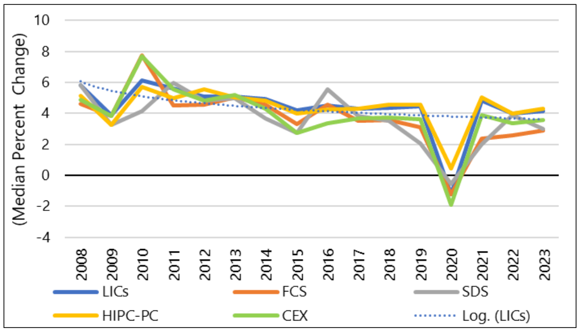
ANNEX II. LIC PROGRAM ENGAGEMENT, 2008–23

Country	Region	All Programs	Financial Programs	Non-Financial Pograms	RSF	Share of 2008-23 in Program
Rwanda	AFR	8	3	4	1	99.5%
Senegal	AFR	7	2	4	1	98.4%
Sierra Leone	AFR	5	5			92.2%
Niger	AFR	6	5		1	85.9%
Liberia	AFR	3	3			81.3%
São Tomé and Príncipe	AFR	5	5			81.3%
Mali	AFR	4	4			77.1%
Burkina Faso	AFR	5	5			76.0%
Uganda	AFR	4	1	3		75.0%
Tanzania	AFR	5	2	3		74.5%
Mozambique	AFR	5	2	3		70.8%
Malawi	AFR	6	6			70.3%
Central African Republic	AFR	5	5			67.7%
Afghanistan	MCD	4	4			67.7%
Côte d'Ivoire	AFR	4	4			67.2%
Guinea	AFR	3	3			65.6%
Benin	AFR	5	4		1	62.0%
Moldova	EUR	5	4		1	62.0%
Mauritania	MCD	5	4		1	57.8%
Gambia, The	AFR	3	3			57.3%
Kenya	AFR	5	4		1	56.8%
Chad	AFR	4	4			51.0%
Haiti	WHD	3	3			51.0%
Burundi	AFR	4	4			50.5%
Honduras	WHD	5	5			49.5%
Guinea-Bissau	AFR	3	3			48.4%
Madagascar	AFR	3	3			48.4%
Kyrgyz Republic	MCD	4	4			48.4%
Ghana	AFR	3	3			46.9%
Cameroon	AFR	3	3			41.7%
Congo, Republic of	AFR	4	4			41.1%
Togo	AFR	2	2			39.1%
Solomon Islands	APD	3	3			34.9%
Congo, Democratic Republic of the	AFR	2	2			33.3%
Comoros	AFR	2	2			29.7%
Bangladesh	APD	3	2		1	27.6%
Zambia	AFR	2	2			27.1%
Ethiopia	AFR	2	2			25.5%
Nicaragua	WHD	1	1			24.5%
Djibouti	MCD	1	1			22.9%
Somalia	MCD	2	2			22.9%
Lesotho	AFR	1	1			20.3%
Yemen	MCD	2	2			19.8%
Tajikistan	MCD	1	1			18.8%
Nepal	APD	1	1			12.0%
Sudan	MCD	1	1			8.9%
Papua New Guinea	APD	1	1			4.7%
Average						**51.0%**
Median						**50.5%**

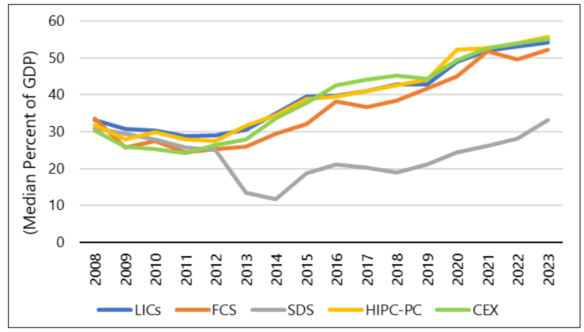
Sources: Authors' calculations based on the IMF's Monitoring of Fund Arrangements (MONA) database and RSF data.
Note: Program engagement includes all types of Fund arrangements, excluding emergency financing under the Rapid Financing Instrument/Rapid Credit Facility. For more details about the different types of Fund instruments, see https://www.imf.org/en/About/Factsheets/IMF-Lending. A breakdown of program engagement by country can be found at https://www.imf.org/external/np/fin/tad/extarr1.aspx.
The share of 2008–23 in a program was calculated by dividing the number of months between January 1, 2008, and December 31, 2023, a country was in a Fund program, by the total number of months in the period 2008–23.

ANNEX III. FISCAL INDICATORS IN LIC SUBGROUPS

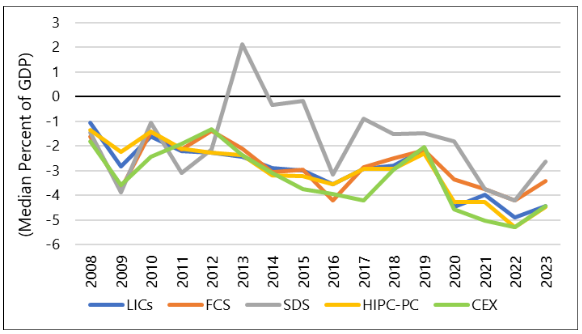
Real GDP Growth



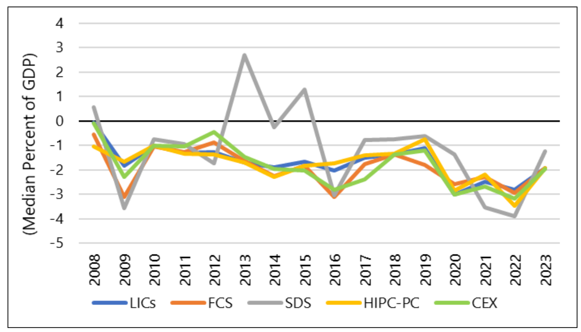
General Government Gross Debt



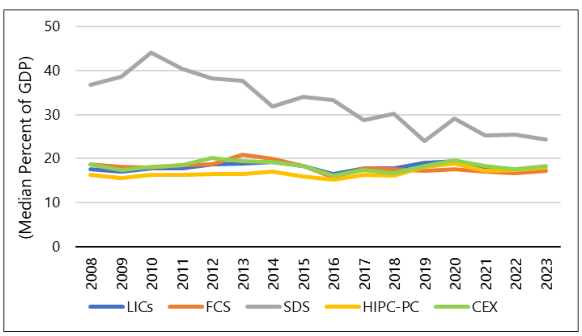
Overall Fiscal Balance



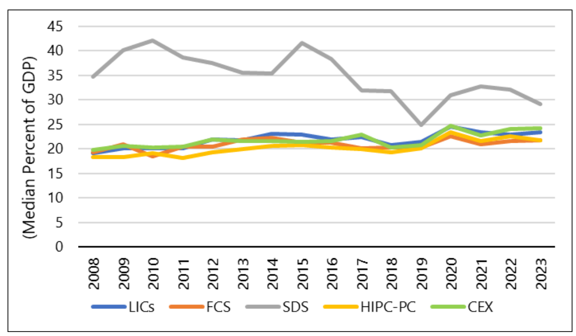
Primary Fiscal Balance



General Government Revenues



General Government Expenditures



Source: IEO staff calculations based on WEO data.

ANNEX IV. FOCUS COUNTRIES

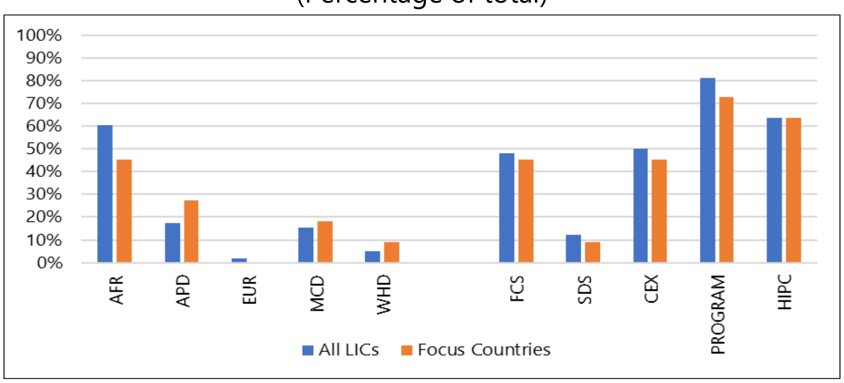
Section IV on the IMF's bilateral fiscal policy advice to LICs focused on a sample of 11 LICs with geographical location and analytical characteristics broadly representative of the larger LIC group. These countries cover a broad spectrum of socio-economic circumstances, from FCS facing very difficult crises (Afghanistan, Haiti, and Somalia) to countries considered "success stories" (Rwanda, Senegal). In addition, there is a focus on fiscal policy advice to the West African Economic and Monetary Union (WAEMU) in the context of the annual Report on Common Policies for WAEMU Member Countries. All eight WAEMU member countries (Benin, Burkina Faso, Côte D'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo) are LICs.

Table AIV.1. Analytical Characteristics of Focus Countries

LICs	REGION	CEX	FCS	SDS	PROGRAM	HIPC
Afghanistan	MCD	x	x		x	x
Bangladesh	APD				x	
Cambodia	APD					
Haiti	WHD		x		x	x
Madagascar	AFR				x	x
Nigeria	AFR	x	x			
Rwanda	AFR				x	x
Senegal	AFR				x	x
Somalia	MCD	x	x		x	x
Timor Leste	APD	x	x	x		
Zambia	AFR	x			x	x
Total	**11**	**5**	**5**	**1**	**8**	**7**

Sources: WEO; SPR; IEO (2018; 2022a); www.imf.org.
Note: AFR = African Department; APD = Asia and Pacific Department; MCD = Middle East and Central Asia Department; WHD = Western Hemisphere Department.

Figure AIV.1. Analytical Characteristics of Focus Countries Compared to LICs Overall
(Percentage of total)



Source: Authors' calculations.
Note: AFR = African Department; APD = Asia and Pacific Department; CEX = Commodity Exporter; EUR = European Department; FCS = Fragile and Conflict-Affected State; HIPC = Heavily Indebted Poor Country; MCD = Middle East and Central Asia Department; WHD = Western Hemisphere Department.

ANNEX V. COVERAGE AND GUIDING PRINCIPLES FOR FISCAL POLICY ADVICE

Box AV.1. 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. Where relevant, fiscal policy advice is expected to reflect on:

- The fiscal policy stance (expansionary, neutral, or contractionary) along the cycle (procyclical or countercyclical), with a discussion of its appropriateness.
- The impact of fiscal policy on growth and the role of multipliers.
- The role of automatic stabilizers and discretionary measures.
- Fiscal space.
- The composition of expenditures and revenues.
- Financing needs, accounting notably for the fiscal position, debt service, market access, and risks.
- Fiscal sustainability, informed by a public debt sustainability analysis.
- Fiscal risks, including contingent liabilities from public sector enterprises.
- Spillovers.
- Political and social developments where relevant for the analysis of fiscal policies.
- Structural issues related to economic sustainability and their impact on fiscal policy advice, including (but not limited to) social spending (particularly when poorly targeted, inefficiently managed, or underfunded), climate change, and gender (particularly when fiscal policy negatively impacts gender equity).
- The implementation of past fiscal policy advice given, and in case the authorities did not follow past advice, the reasons why they did not.

In addition, fiscal policy advice should be guided by the following principles:

- Be candid, both in discussions with the authorities and in staff reports.
- Be tailored to country-specific circumstances.
- Be clear and as specific as possible, providing a clear bottom line on the state of public finances and fiscal policies, and policy advice.
- Be timely.
- Be articulated around a clear, well-justified anchor.
- Determine the size and pace of proposed fiscal measures.
- Focus on stability.
- Foster economic sustainability.
- Consider political economy considerations.
- Consider operational and implementation constraints.
- Draw from lessons from other countries and/or cross-regional policy-relevant issues.
- Be evenhanded.

Sources: IMF (2008, 2009, 2011, 2012, 2014a, 2015a, 2018b, 2021a, 2022c) and staff interviews.

ANNEX VI. CAPACITY DEVELOPMENT

Box AVI.1. Fiscal Policy Advice and Capacity Development in LICs

A large majority of authorities surveyed deemed follow-up support for major fiscal policy decisions, including through the provision of CD, to be instrumental for implementation. Over the past two decades, the Fund's CD activities have expanded significantly, placing greater emphasis on fiscal issues and LICs, and becoming increasingly field based. CD in the fiscal area emerged as the largest topical area, growing from 29 percent in FY2002 to 51 percent of total delivery in FY2023. It has also evolved, adapting to the growing demand for climate-related CD. This includes identifying fiscal risks associated with climate change, conducting climate-responsive PFM assessments, utilizing the C-PIMA, and employing various other analytical tools. The proportion of field-based delivery, either in-country or though one of the Fund's Regional Capacity Development Centers (RCDCs), rose consistently, from around 35 percent in 2003 to about 60 percent of total delivery in 2023.[1]

Earlier IEO evaluations[2] addressed, among other issues, the integration of surveillance and CD. They found that CD plays a critical role in supporting LICs, and in particular FCS and SDS. However, the effectiveness of CD is largely contingent upon country ownership and the tailoring of CD to the specific needs and circumstances of the recipient countries. To enhance the impact of the Fund's fiscal policy advice and its implementation, it is essential to integrate surveillance, program work, and CD. These evaluations indicated that this integration is most effectively achieved within the framework of program engagement. The integration of CD with surveillance remains uneven both between and within the Fund's area departments, influenced by various factors such as resource constraints, behavioral inertia, operational and institutional challenges, and inadequate coverage of CD in staff reports.

Interviews and surveys conducted for this evaluation suggest that these findings continue to be pertinent for the integration of fiscal policy advice within surveillance, program, and CD engagement. Staff observed that in most program cases, the integration of fiscal policy advice and CD activities was highly effective, characterized by strong coordination between the country team and the fiscal CD experts. Conversely, in non-program cases, the integration of fiscal policy advice within surveillance and CD activities was uneven but improving. Slightly over half of authorities surveyed indicated that CD related to fiscal policy advice in the context of surveillance was well integrated. Staff noted that this issue did not stem from the CD not being relevant—given that it was requested by the authorities—but rather from (i) internal institutional constraints, such as the country team's lack of awareness regarding all the CD being provided, or (ii) country-specific political economy constraints.

Institutional constraints. According to the Fund's organizational structure, country teams, which are part of the area departments, are responsible for surveillance and program work. Fiscal experts, who are typically technical specialists in their respective fields, report to their RCDC and Fiscal Affairs Department (FAD), rather than to the country team. Although fiscal experts can offer valuable insights for fiscal policy advice during the surveillance process or program development and reviews, they are not tasked with conducting surveillance or program operations.

The effective integration of fiscal policy advice and fiscal CD therefore relies on the collaboration between the country team and fiscal experts through formal prioritization and planning processes, informal consultations, and the participation of fiscal experts in surveillance or program negotiation missions. Staff believed that the presence of a resident representative significantly enhanced the integration of surveillance and CD. However, not all LICs have a resident representative, and some only have access to a regional resident representative covering multiple countries, who may not always be present in-country with the CD experts.

Box AVI.1. Fiscal Policy Advice and Capacity Development in LICs (concluded)

Political economy constraints. Political economy constraints occasionally hampered the effective integration of fiscal policy advice and CD. For instance, during several years of the evaluation period, CD represented the sole mode of Fund engagement with the Democratic Republic of the Congo. The Fund delivered substantial fiscal CD, focusing on tax policy, revenue administration, and addressing governance and transparency issues in the extractive industries. However, the lack of surveillance—no Article IV consultations were conducted between 2015 and mid-2019—and the absence of program engagement, limited CD effectiveness in surmounting the political economy constraints that hindered reform implementation. CD nevertheless permitted to maintain country engagement and helped set the next CD and program phase on a firmer footing. In Nigeria, without program engagement, the country's size and systemic importance led to ongoing significant commitments of CD resources, despite notable differences of views between the Fund and the authorities on some issues. For instance, staff determined that DRM is too critical to consider disengagement, even in the face of limited evidence indicating traction of the Fund's fiscal policy advice on revenue policy. Consequently, staff need to evaluate the advantages of integrating fiscal CD into surveillance and program engagement, while also considering the potential risks that including fiscal CD recommendations in surveillance reports or program conditionality might pose to the credibility of CD experts as trusted advisors.

Sources: Chopra (2022); Citrin and Legg (2022); IEO (2018; 2022a; 2022b); IMF (2024b); Legg and Sembene (2022); and staff interviews.

[1] By the end of 2023, the Fund operated 17 RCDCs around the world. For a more detailed discussion on the evolution and role of the RCDCs, see De Lannoy (2022).

[2] For instance, *The IMF and Fragile States* (IEO, 2018), *IMF Engagement with Small Developing States* (IEO, 2022a), and *The IMF and Capacity Development* (IEO, 2022b).

ANNEX VII. KEY CONCLUSIONS FROM OTHER REPORTS

Box AVII.1. Fiscal Policy Advice to LICs: Key Conclusions from Other Reports

IMF Triennial Surveillance Review (2011). IMF surveillance must be comprehensive, i.e., should cover all policies that may impact members' stability. The report noted that surveillance in LICs would generally be broader in scope, cover progress in poverty reduction, and, on occasion, income distribution issues.

IMF Triennial Surveillance Review (2014). Policy issues that are of particular importance in surveillance of LICs include growth promotion, poverty reduction and economic inclusion, effective management of natural resource wealth, financial deepening, and economic diversification and structural transformation.

IEO Evaluation of *The IMF and Social Protection* (2017). Points to the mixed implementation record of social protection policy measures in the face of capacity constraints and political obstacles and suggests that the IMF needs to be more realistic in assessing implementation constraints (all countries).

IMF Interim Surveillance Review (2018). Discussions on fiscal space have underpinned fiscal policy advice. Since the 2014 Triennial Surveillance Review, emerging challenges for LICs have included managing the economic fallout from the sharp decline in commodity prices as well as rising debt vulnerabilities, related to higher debt levels and increasing complexity of their debt.

IEO Evaluation of *Growth and Adjustment in IMF-Supported Programs* (2021). Particular attention should be paid in program documents to discussion of fiscal multiplier assumptions, especially where available country-specific modeling is limited.

IMF Comprehensive Surveillance Review (2021). With binding financing constraints and rising debt vulnerabilities in many LICs, raising fiscal capacity and securing access to financing on sustainable terms will be critical for these members in the period ahead. The assessment of risks, including fiscal risks, in Article IV consultation surveillance can be somewhat narrow and is often not fully integrated into the outlook and policy advice (all members). Fostering economic sustainability was introduced as an explicit priority, to have a broader understanding of sustainability to better account for the impact of economic and non-economic developments, such as digital technology, climate, inequality, demographics, and geopolitics, on stability. The report noted that the coverage of these issues may require a broader perspective and longer time horizon than is typical for Fund surveillance, particularly in Article IV consultations (i.e., 5 years).

Sources: IEO (2017; 2021); IMF (2011; 2014a; 2018b; 2021a).

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