FISCAL AFFAIRS

Fiscal Policy Around the World

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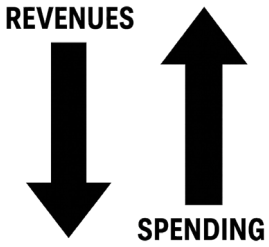
Three Main Messages



The War in Middle East can further deteriorate the overall fiscal situation, both through direct and indirect channels.

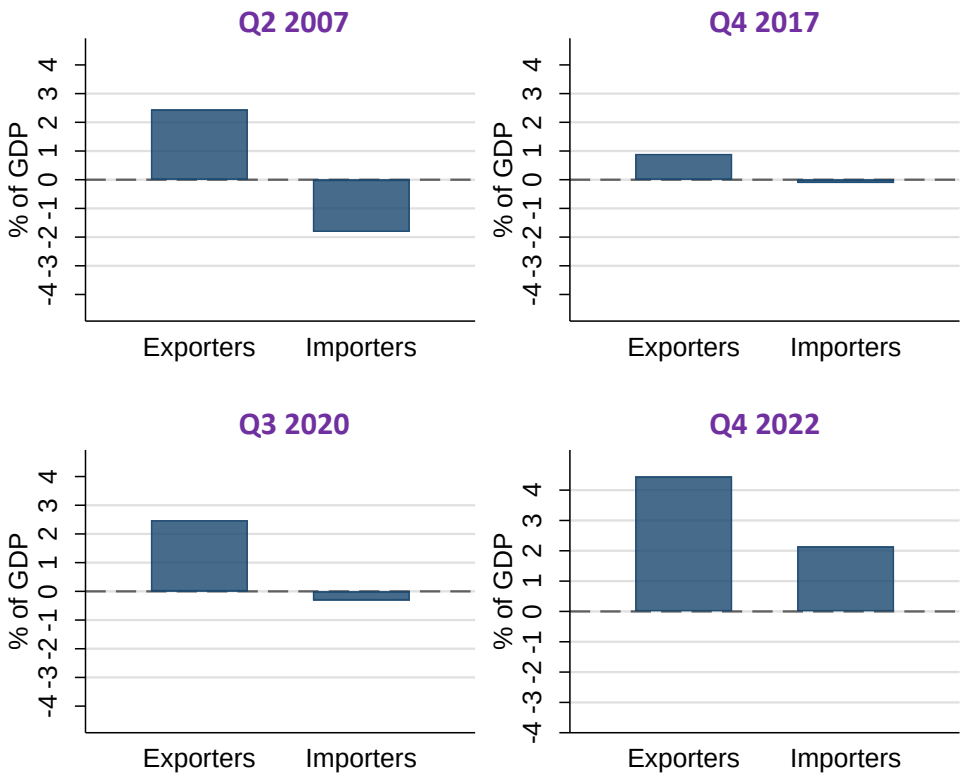
Beyond the effects of the war, even though the global economy was quite resilient in 2025, we saw **no tangible progress in debt dynamics**.

Risks interact with ongoing changes in the **structure of public debt markets** and in the **political economy** of fiscal reform that make the situation **more fragile and more challenging to manage**.

Energy and Food Price Shocks Have Potentially Large Fiscal Impacts

Change of Cyclically-Adjusted Primary Fiscal Balance of Selected Countries during the Major Oil Price Shocks

(Percent of GDP)



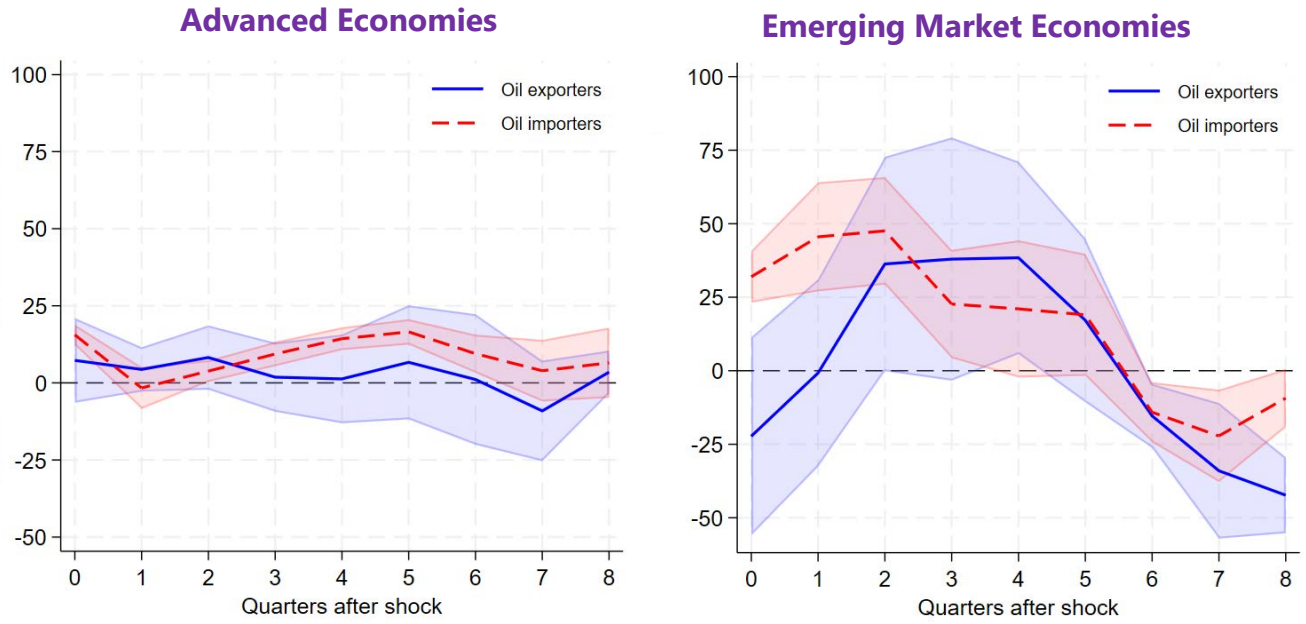
Oil Exporters: Canada, Colombia, Indonesia, Mexico, Norway, Russia
Oil Importers: China, Germany, Greece, Italy, Japan, Korea, Philippines, Spain, Thailand

Sources: IMF staff calculations.

Note: Four oil price shock episodes are identified as periods in which oil prices rose by at least 30 percent from trough to peak. The fiscal balance change is measured as the difference between the average over the four quarters following the shock and the average over the four quarters preceding it.

Sovereign Bond Spread Response to Oil Price Shock

(Basis points after about 10 percent Oil Price Increase)

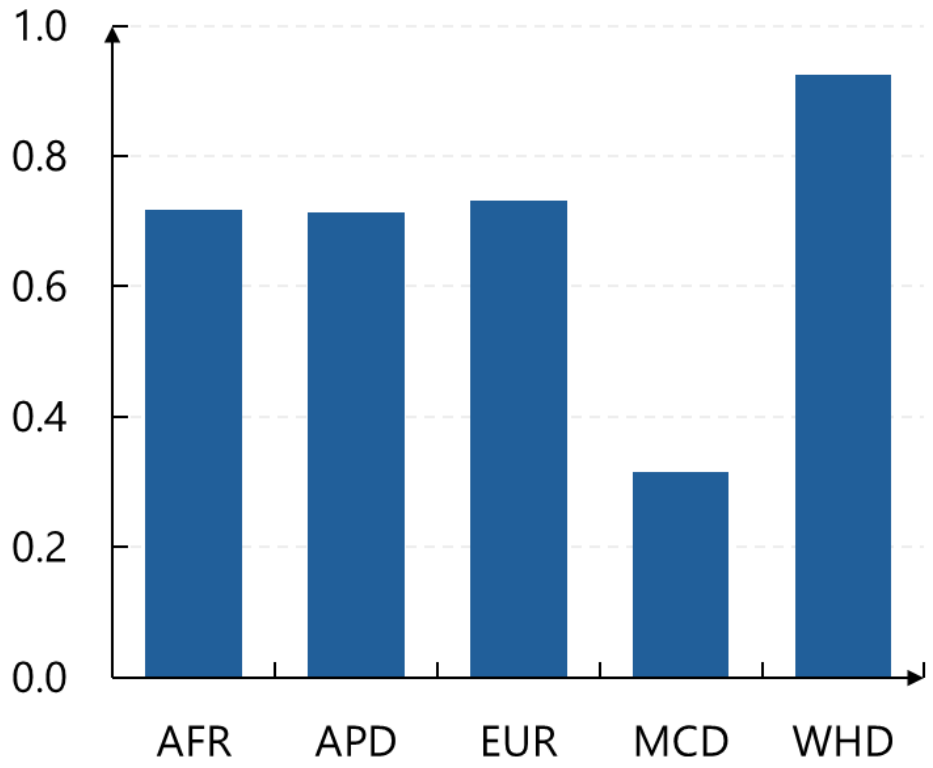


Sources: IMF staff calculations.

Note: The figure uses Local Projections with Ordinary Least Square regression, with Känzig (2021) oil news shock as instrument, to estimate the impact of oil supply shock on sovereign spreads over time. The Impulse Response Functions are normalized to a one standard deviation oil news shock, which corresponds to a rise in actual West Texas Intermediate oil prices of about 10 percent. The sovereign spreads shown are measured as the difference between 10-year interest rates and US Treasury Bonds of the same maturity. In this chart, oil exporters are Brazil, Canada, Colombia, Indonesia, Malaysia, Mexico, Nigeria, Norway, Russia and Saudia Arabia. Oil importers are Chile, China, France, Germany, India, Italy, Japan, Netherlands, South Korea, Spain, Thailand, Turkey and United Kingdom.

Fiscal Support Response to Energy and Food Shocks

Gasoline Price Pass-through during the Current Energy Supply Shock (Percent)



Source: IMF staff calculation.
Note: The current energy supply shock covers the period between January 30th to May 26th. GDP-weighted average passthrough for each regional group. Country-level pass-through is capped between 1 and 0.

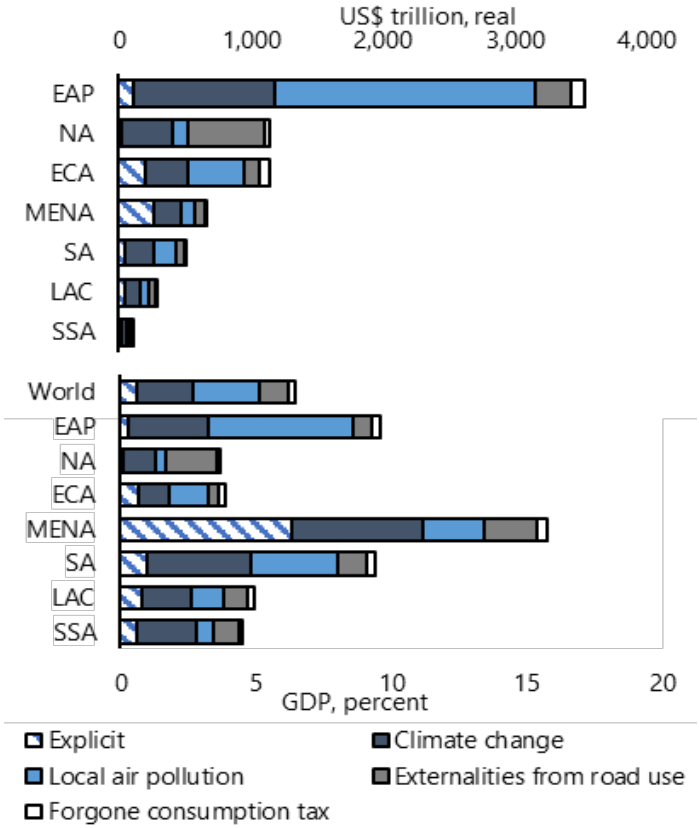
Pecking Order of Fiscal Support Measures

Shock severity	For households	For businesses
Low severity	Expand existing programs focused on vulnerable people	
	Targeted, temporary (lump sum) ease of regulated fares and fees for basic goods	Partially compensate affected firms for regulated fares and fees
	One-time cash payments, including, potentially, to affected middle-class	
	Smooth energy bills or temporary bill discounts with significant initial adjustment	Temporary government-guaranteed loans for viable firms
	If food security at risk or social-safety net is limited: subsidies such as price caps or reduced taxes with sunset clauses and initial adjustment	Temporary credit lines; deferred tax and social security payments
High severity	Under exceptional conditions, price subsidies to help smooth inflation	

Sources: IMF Note (2022) "Fiscal Policy for Mitigating the Social Impact of High Energy and Food Prices", IMF Special Series on COVID 19 (2020) "Considerations for Designing Temporary Liquidity Support to Businesses", and IMF Working Paper WP/25/270 (2025) "Unconventional Fiscal Policy in Times of High Inflation" by Mai Dao, Allan Dizioli, Chris Jackson, Pierre-Olivier Gourinchas, and Daniel Leigh.

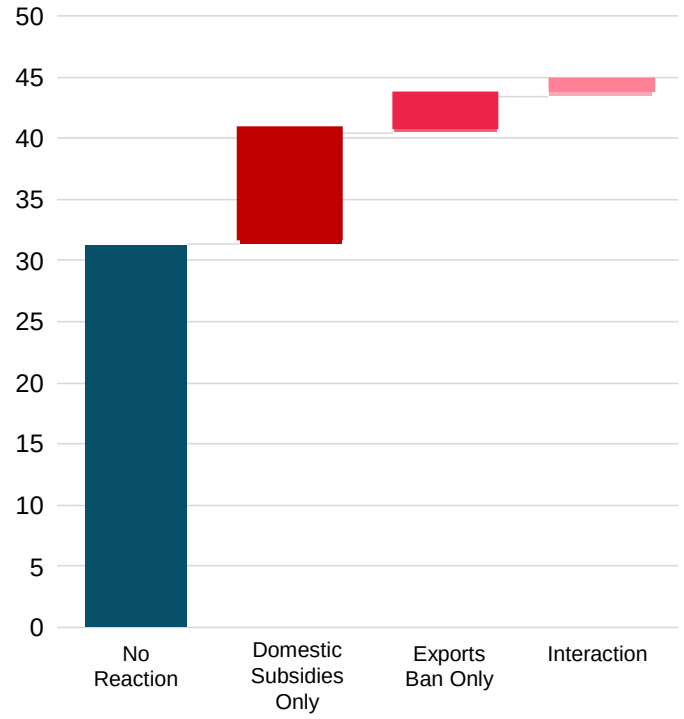
Fuel Subsidies: Local and Global Externalities and Global Spillovers

Decomposition of total global fossil fuel subsidies by region in 2024



Source: Underpriced and overused: Fossil fuel subsidies data 2025, WP/25/270, IMF
Note: SA=South Asia, EAP=East Asia and the Pacific, NA=North Note: America, LAC=Latin America and Caribbean, SSA=Sub-Saharan African, ECA= Europe and Central Asia

Estimated Decomposition of Global Fuel Price Increase after the Current Energy Supply Shock (Percent)

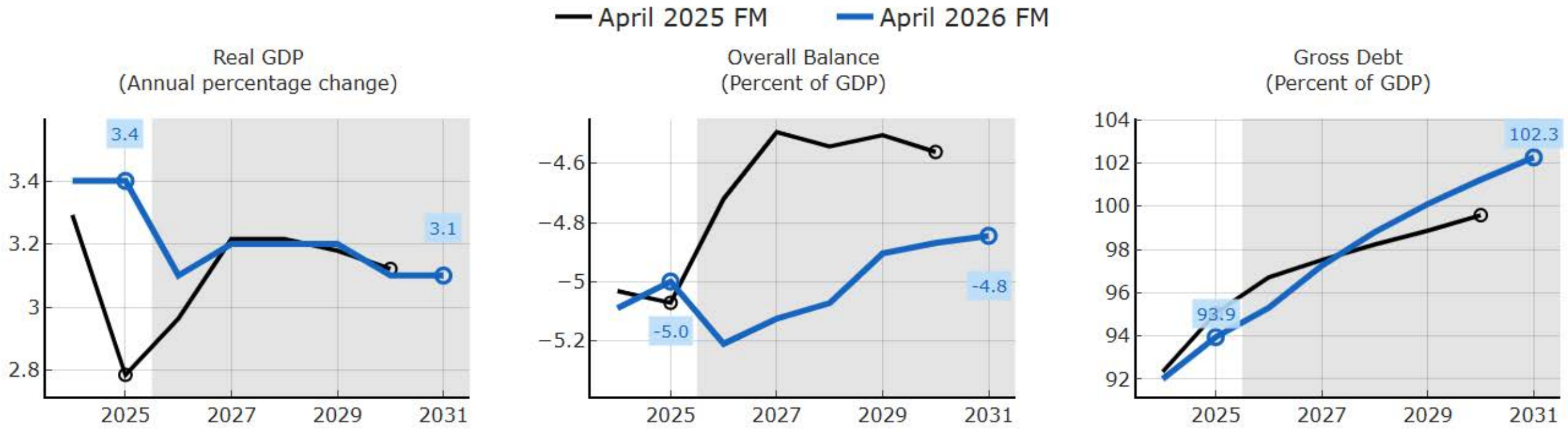


Source: IMF staff calculations.
Note: The current energy supply shock covers the period between January 30th to April 17th. Two policy responses: (i) fuel subsidies or exercise cuts; and (ii) export controls. The chart shows the resulting overall global price increase, including negative spillovers from both responses and their interaction. It is assumed that the decrease of oil supply = 9.18%, the global average subsidy rate = 0.28, the short-run supply elasticity = 0.05, the share of global production withheld via export controls = 1%, and the implicit demand elasticity = 0.285.

Beyond the effects of the war, problematic fiscal dynamics

Despite Global Economic Resilience in 2025, the Fiscal Outlook has not improved

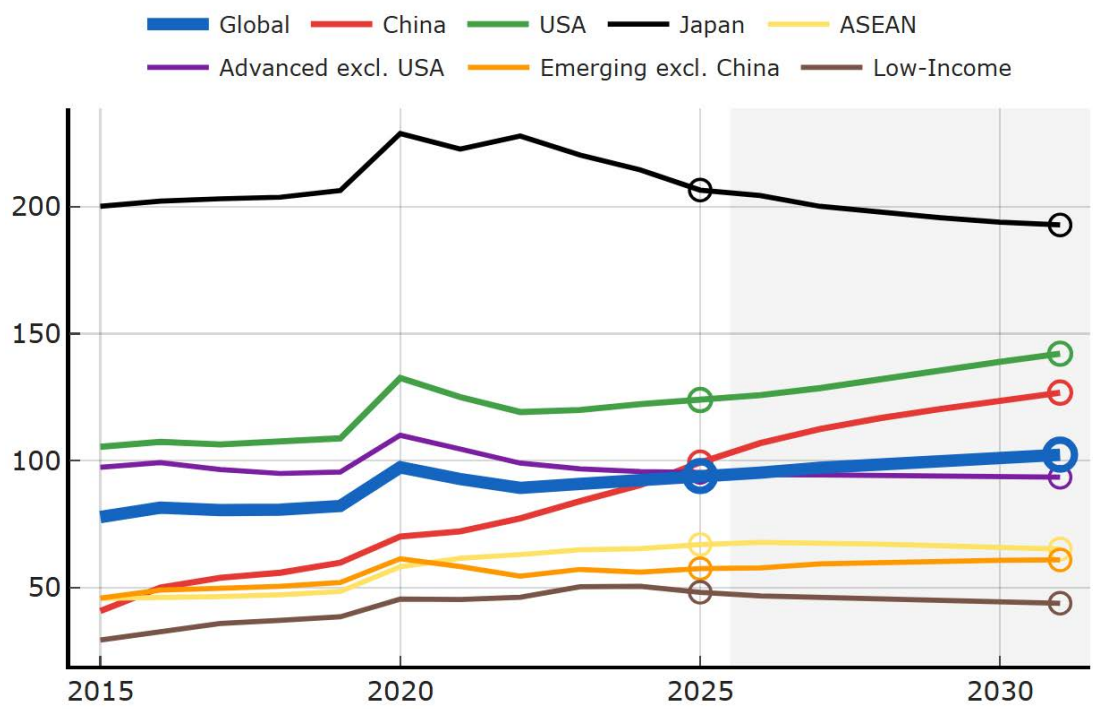
Global Macroeconomic and Fiscal Outlook



Sources: WEO (April 2026 and April 2025); and IMF staff calculations.
Note: The shaded values indicate projection horizons. The circle markers indicate last historical observations and end-horizon forecasts.

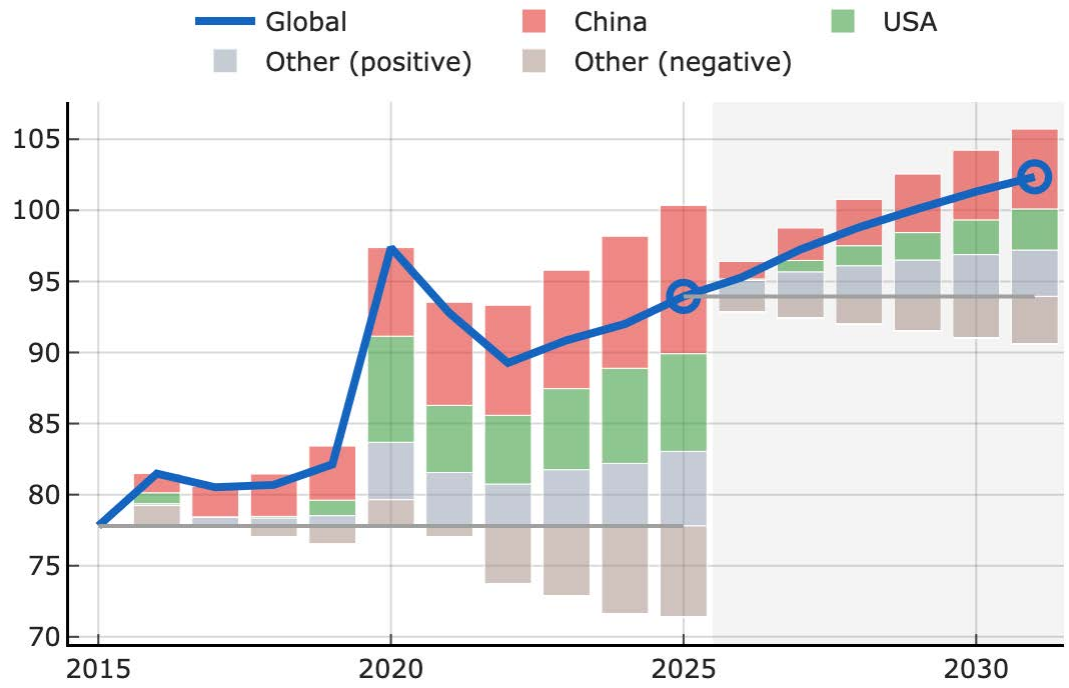
Plenty of Country Heterogeneity, but Global Fiscal Dynamics Remain Overwhelmingly Dominated by the US and China

Government Debt Across FM Groups
(Percent of GDP)



Sources: WEO (April 2026).
Note: The shaded values indicate projection horizons. The circle markers indicate last historical observations and end-horizon forecasts. ASEAN group includes Indonesia, Malaysia, Philippines, Thailand, Vietnam, Singapore, Cambodia, Laos, Myanmar and Brunei.

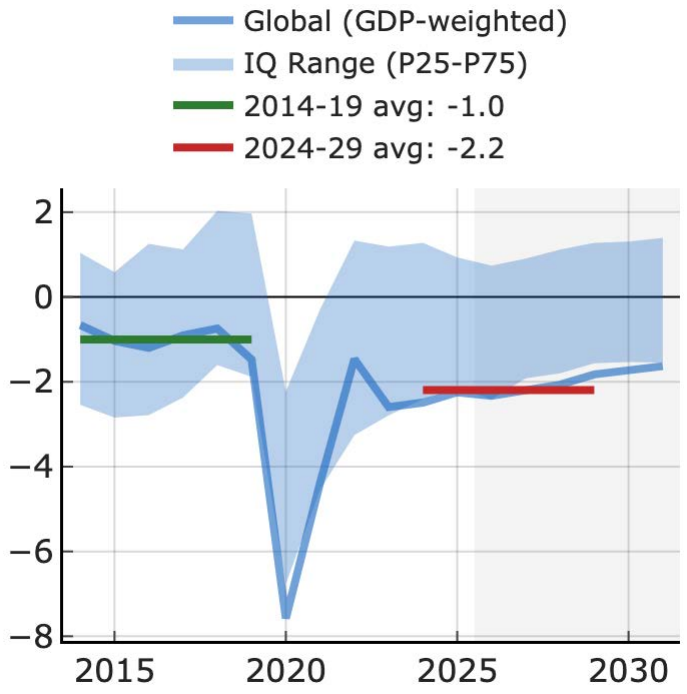
Global Government Debt Evolution
(Percent of Global GDP)



Sources: WEO (April 2026); and IMF staff calculations.
Note: Each bar shows the contribution to the global debt-to-GDP ratio, expressed as the change from its 2015 or 2025 level. "Other Positive (Negative)" includes countries which contribute to an increase (decrease) in the global Debt-to-GDP ratio between 2015 and 2025 and between 2025 and 2030. Therefore, countries in "Others" remain unchanged between 2015 and 2025 and between 2025 and 2030. The shaded values indicate projection horizons. The circle markers indicate last historical observations and end-horizon forecasts.

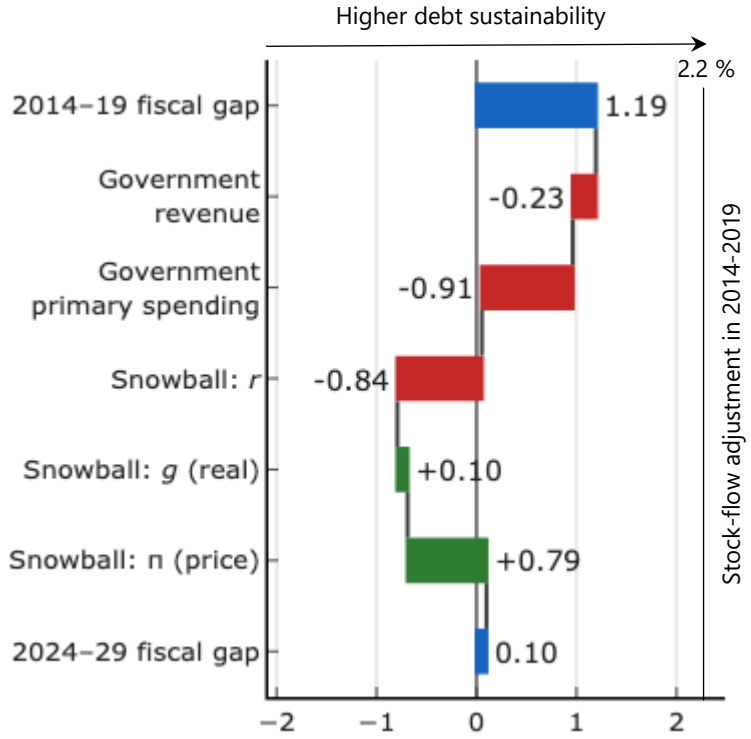
Looking Ahead, Global Primary Balances Are Insufficient to Stabilize Public Debt

Primary Balance
(Percent of GDP)



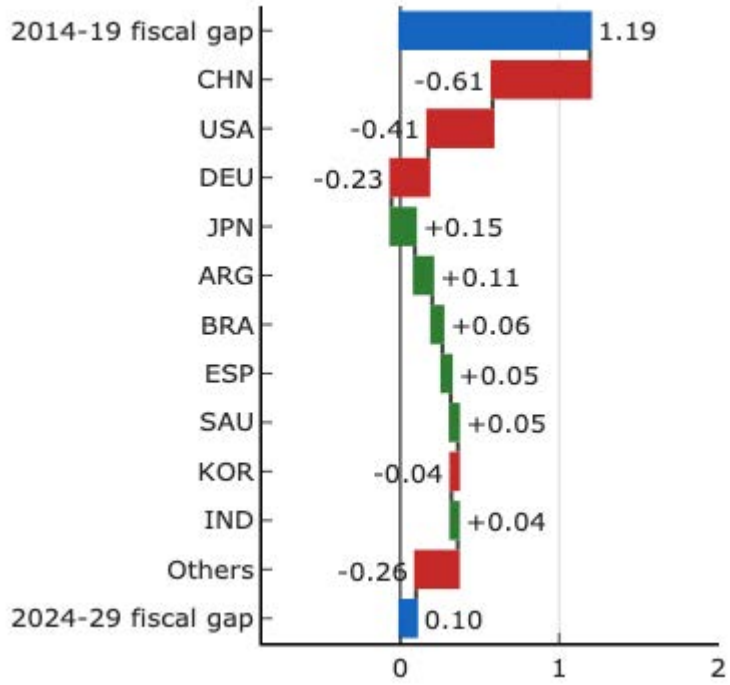
Sources: WEO (April 2026) ; and IMF staff calculations.
Note: The shaded values indicate projection horizons. The circle markers indicate last historical observations and end-horizon forecasts.

Change in Global Fiscal Gap: Driving Forces
(Percent of Global GDP)

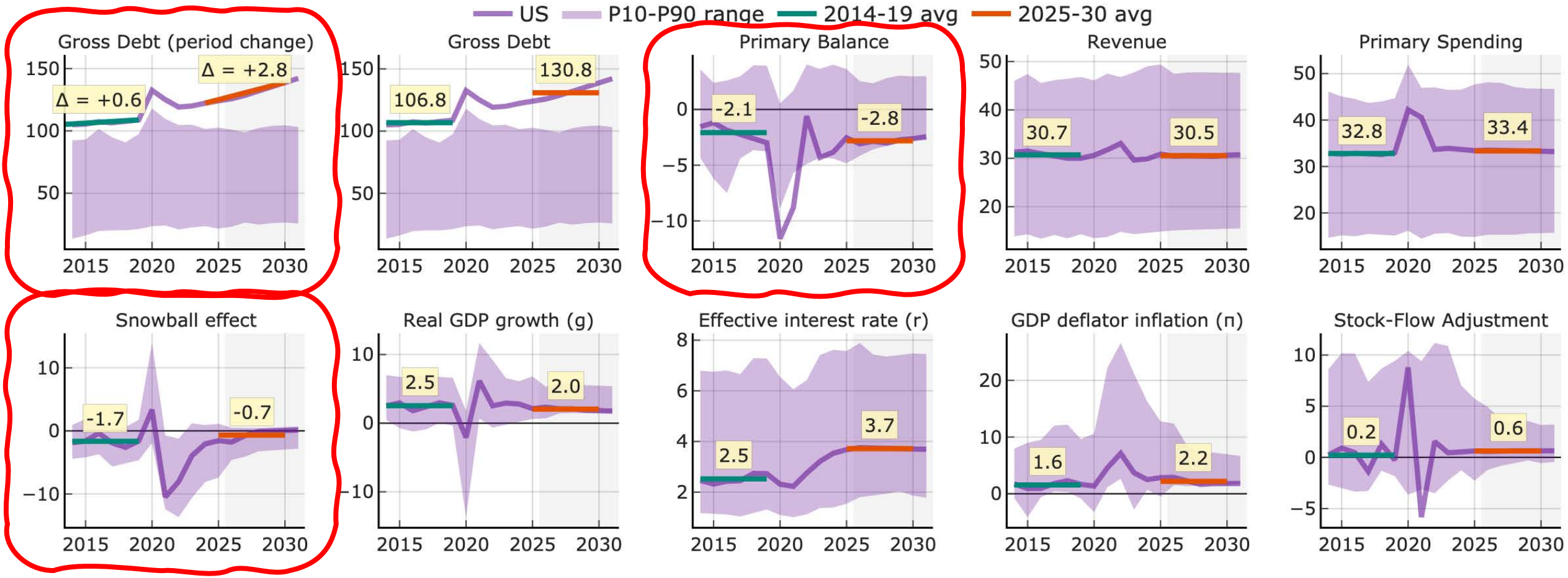


Sources: WEO (April 2026); and IMF staff calculations.
Note: The fiscal gap is defined as the primary balance minus the debt-stabilizing primary balance (with a positive gap indicating that the primary balance is above the level needed to stabilize debt). Positive bars indicate factors that increase the fiscal gap (increasing debt sustainability), and negative bars indicate factors that reduce it. "Snowball" effects represent the contribution of changes in real interest rates, real GDP growth, and the GDP deflator to the debt-stabilizing primary balance. Data labels in the figure use International Organization for Standardization (ISO) country codes. Gov. = government; Prim. = primary.

Change in Global Fiscal Gap: Country Contributions
(Percent of Global GDP)



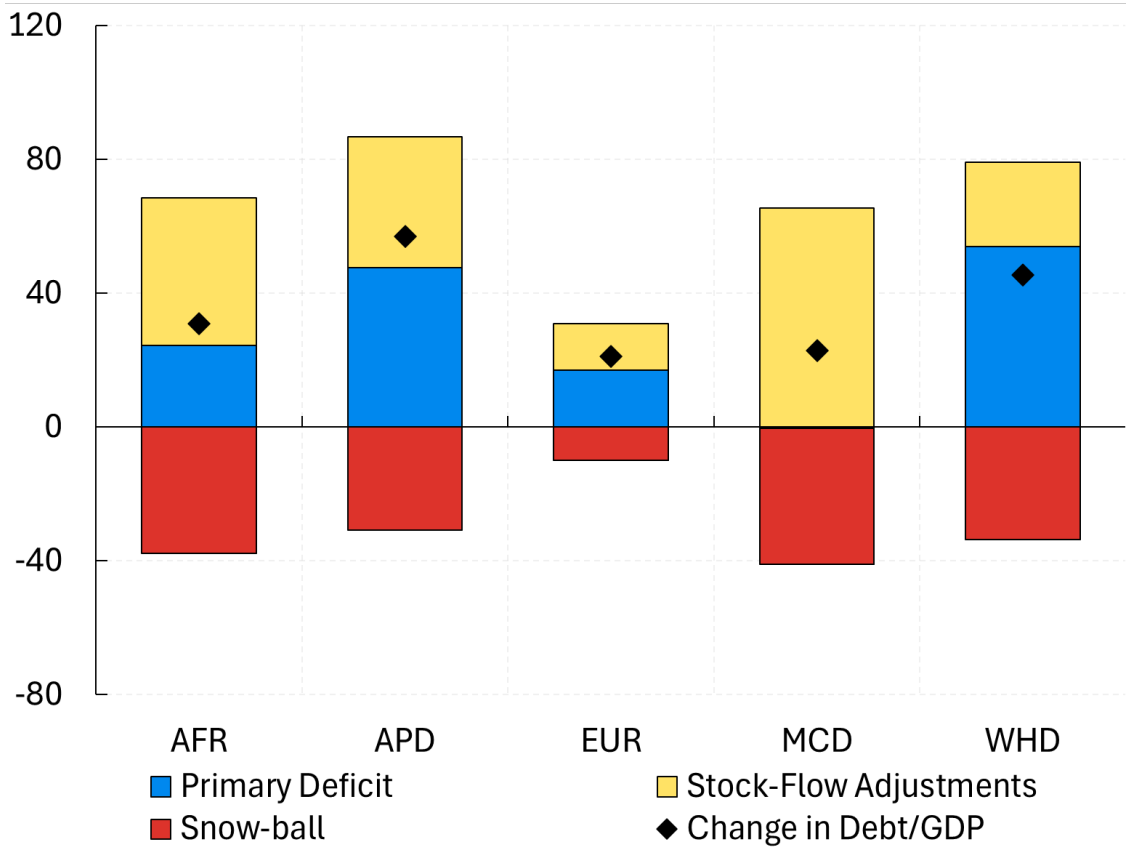
US: All Debt Dynamics Determinants Moving against D/Y Stabilization



Note: The purple area indicates the world's P10-P90 range. The gray shade indicates the project horizon.

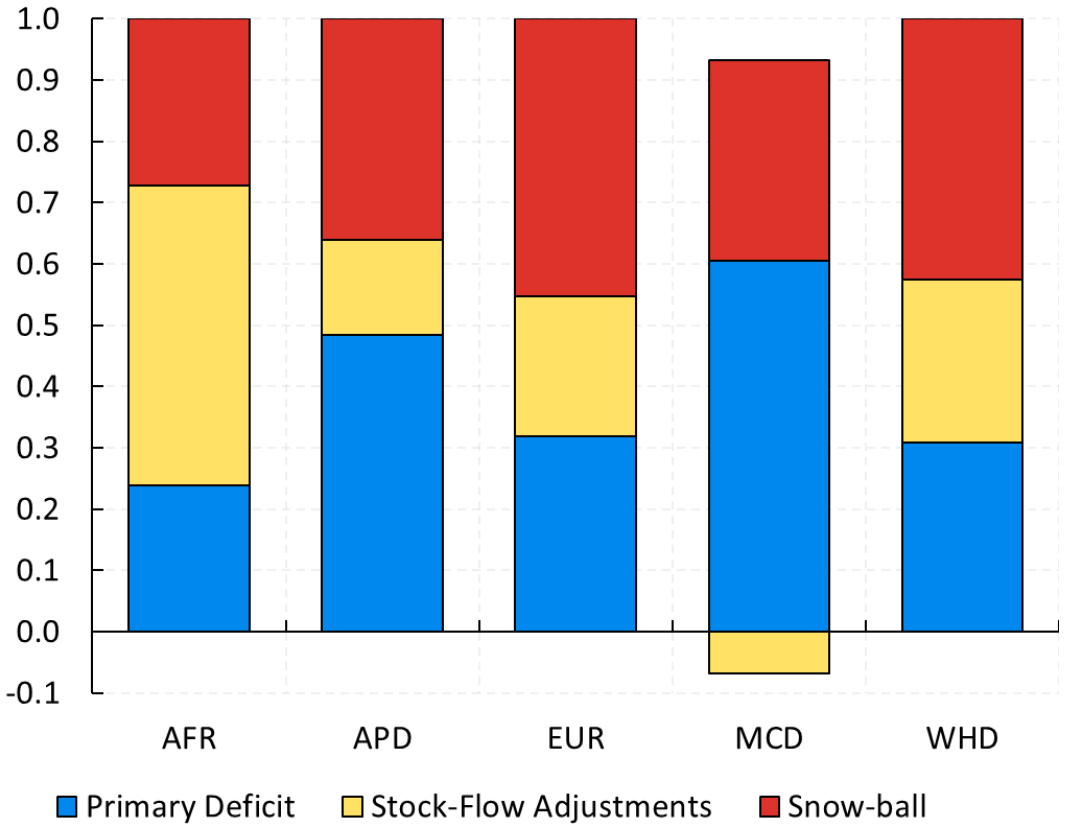
Behind Public Debt Changes

Drivers of Gross Debt Changes
(Cumulative in the period of 2008-2025, percent of GDP)



Source: IMF World Economic Outlook (WEO) April 2026 and IMF staff calculations.
Note: Figure shows the accumulation of annual changes in debt dynamics from 2008 to 2025 in percent of GDP. Regional aggregation was obtained using GDP weights of each year.

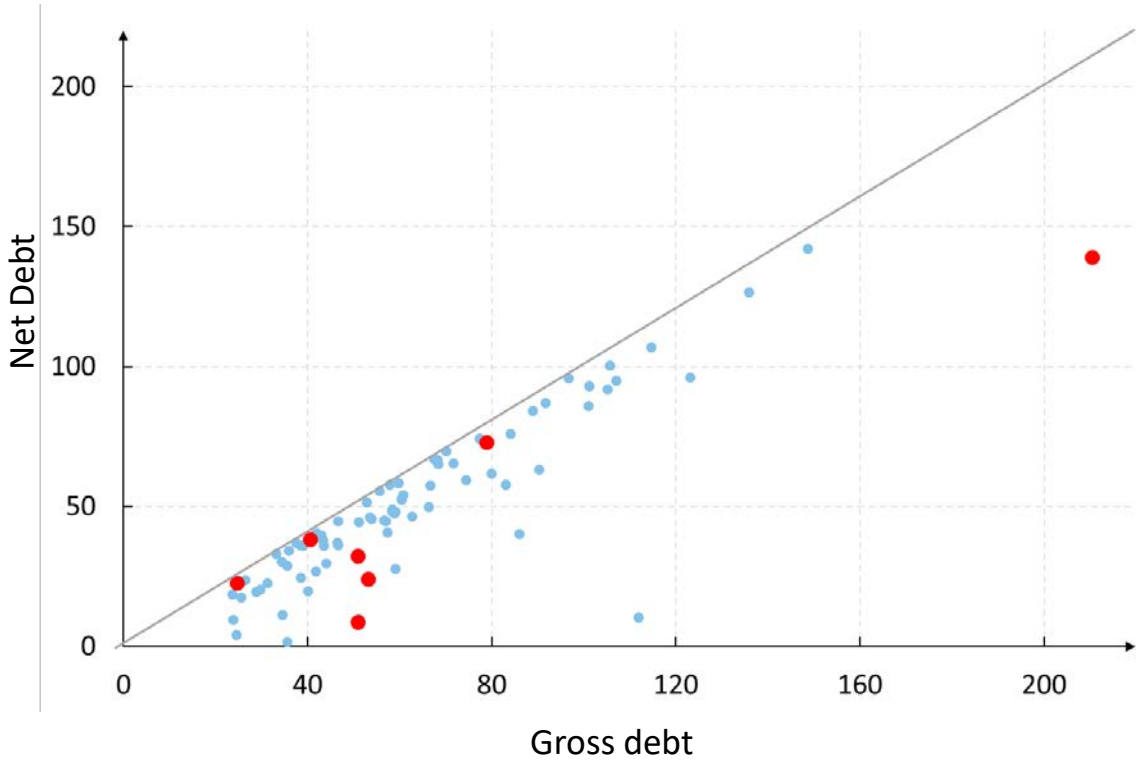
Variance Decomposition of Gross Debt
(Yearly Percent Change of GDP)



Source: IMF World Economic Outlook (WEO) April 2026 and IMF staff calculations.
Note: Bars report the contribution of each component to the variance in the yearly change of debt-to-GDP ratio over 2008–2025. Regional group aggregation was obtained using 2025 GDP weights.

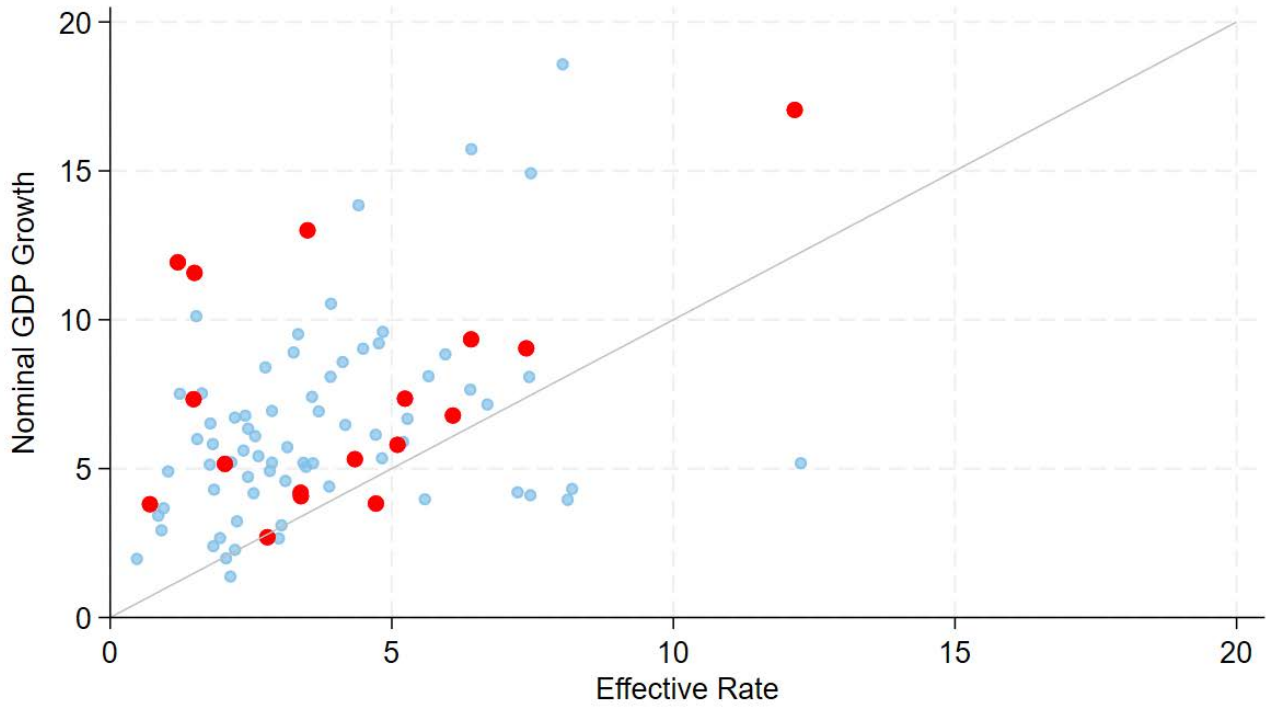
Gross and Net Debt and r - g

Net Debt and Gross Debt in 2024-2025
(Percent of GDP)



Source: IMF World Economic Outlook (WEO) April 2026 vintage and IMF staff calculations.
Note: Red dots indicate Asia and Pacific countries.

Nominal GDP Growth and Effective Interest Rate in 2024-2025 (Percent)

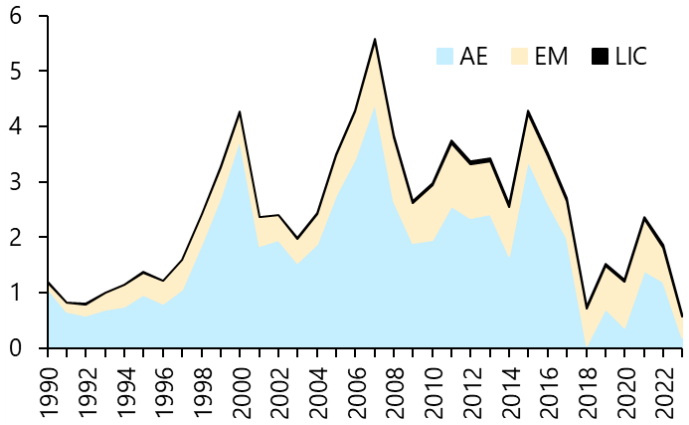


Source: IMF Debt Sustainability Analysis Database.
Note: Red dots indicate Asia and Pacific countries.

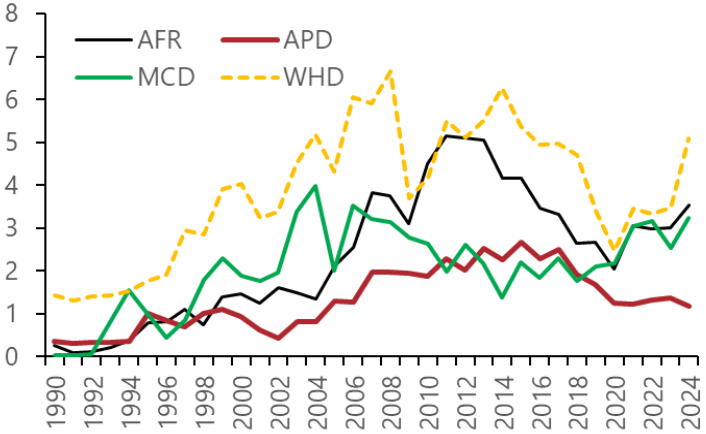
FDI in LICs Remains Limited and Skewed Toward Low R&D Sectors

FDI Inflows

Global FDI Inflow by Income Group (Percent of Global GDP)



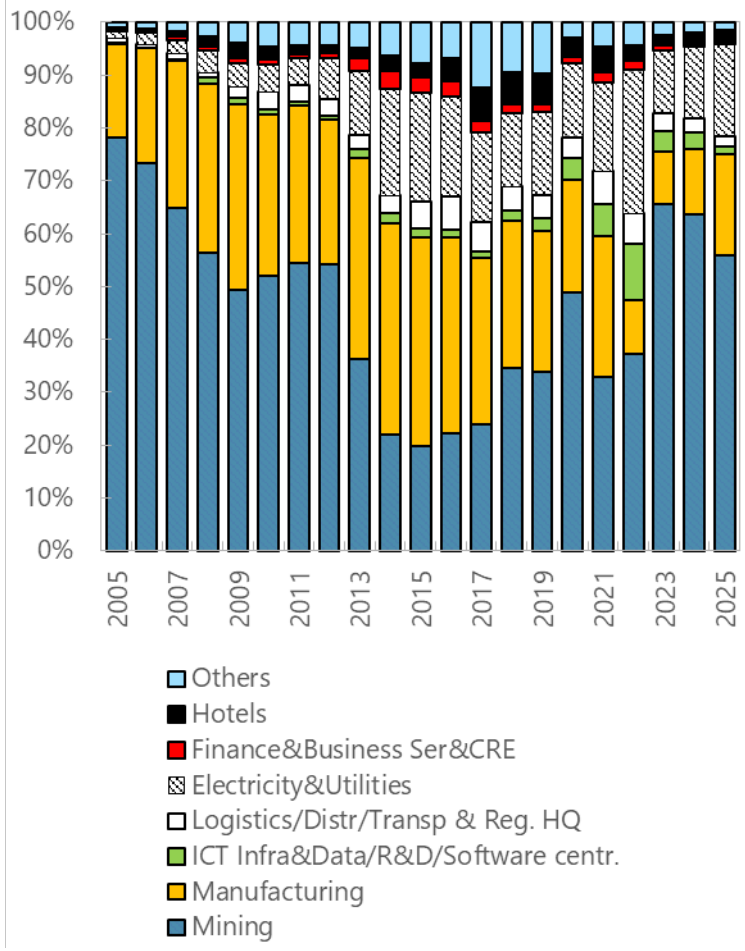
LICs: FDI Inflows by Regional Group (Percent of GDP)



Note: Bottom figure excludes EUR because there is only one LIC (Moldova).
Sources: IMF Balance of Payment Statistics, World Economic Outlook, and IMF staff calculations.

LICs: FDI Inflows by Sector

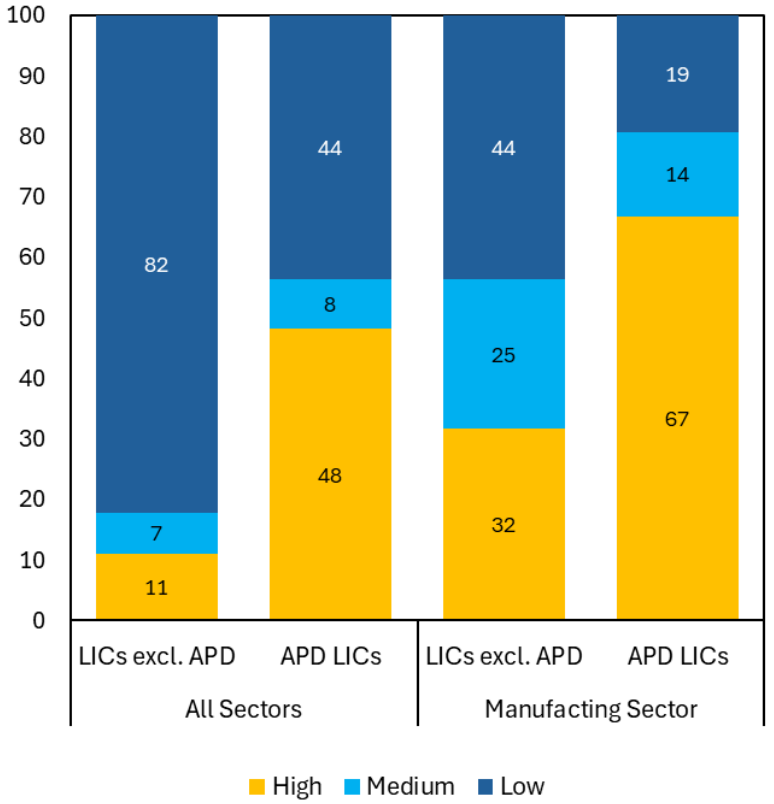
(Percent of GDP)



Sources: Orbis Cross-border Investment and IMF staff calculations.

FDI Projects by R&D Intensity

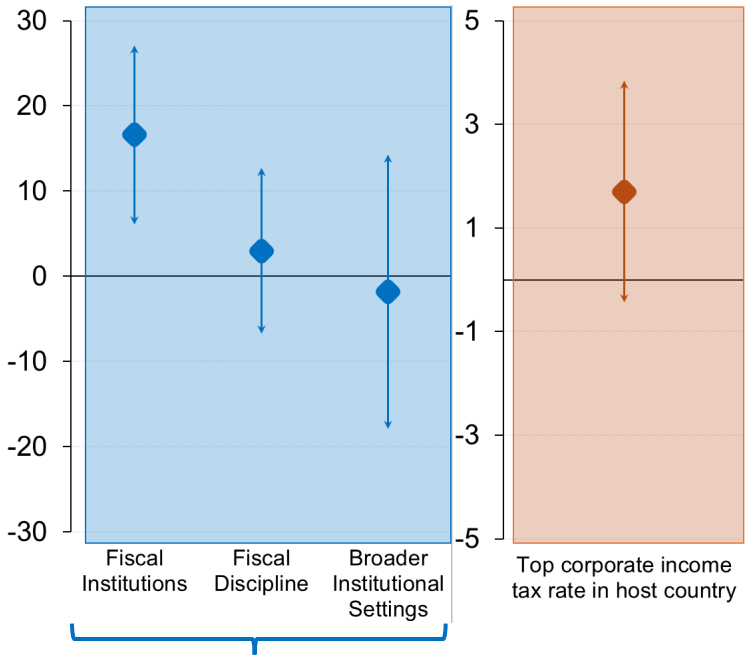
(Percent)



Note: The figure uses project-level greenfield FDI data from the Orbis Cross-border Investment database. Projects are classified into high-, medium-, and low-R&D-intensity groups based on the OECD taxonomy of economic activities.
Sources: Orbis Cross-border Investment and IMF staff calculations.

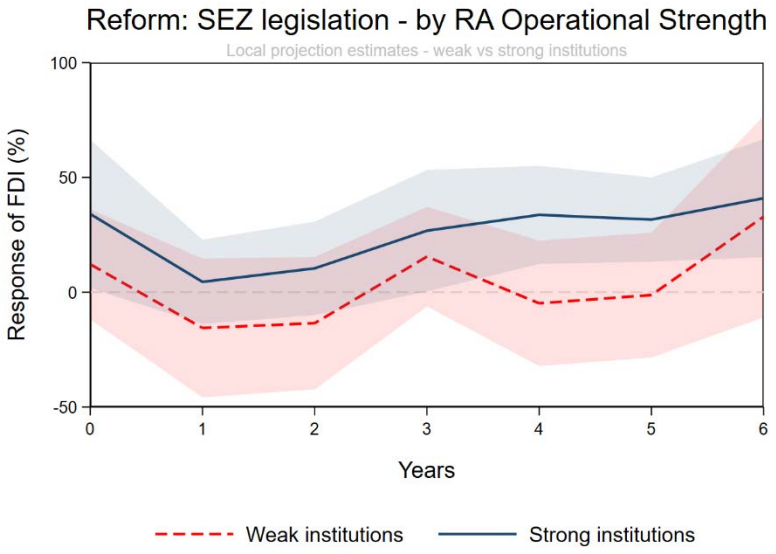
Stronger Fiscal Institutions Attract FDI

LICs: Relative Importance of Fiscal Drivers of FDI (Percent changes in expected FDI in 2017 US$)



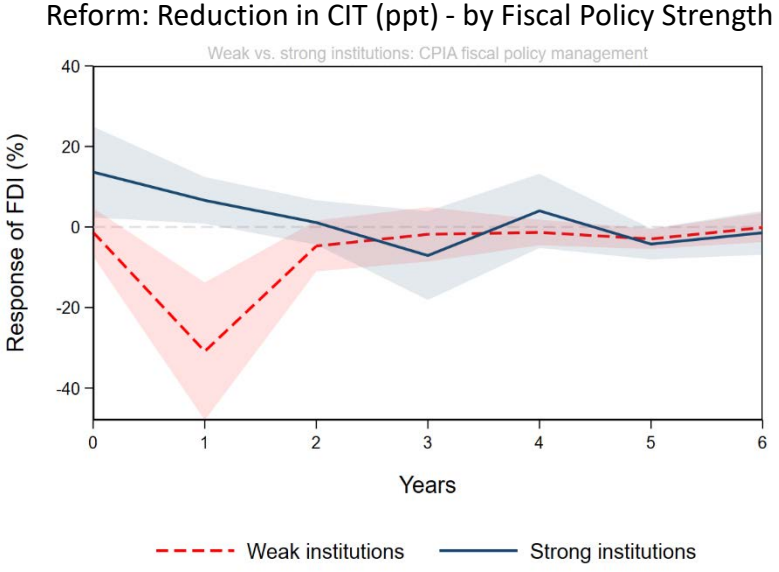
Source: "Macroeconomic developments and prospects in low-income countries", February 2026, IMF.
Note: The figure reports gravity estimates using principal component analysis (PCA) for three institutional buckets—fiscal institutions, fiscal discipline, and broader institutional settings — and the top corporate tax rate in host country. Estimates for the three institutional buckets are reported as percent changes in expected FDI (in 2017US$) for a one-standard-deviation increase in each variable. The estimate for the top corporate tax rate is reported as the percent change in expected FDI (in 2017US$) for a one-percentage-point increase in the tax rate.

LICs: FDI Response to SEZ Legislation (Percent)



Source: "Macroeconomic developments and prospects in low-income countries", February 2026, IMF.
Note: The figure shows local projection estimates of the response of FDI to SEZ legislation shocks for countries with weak and strong revenue administration (RA) operational strength, proxied by the ISORA operational strength indicator. Countries are classified into weak and strong institution groups based on the median average value of the indicator over the sample period. The dependent variable is the log of FDI liabilities, and responses are expressed as percent changes following a one-percentage-point policy shock. Regressions include country and year fixed effects, lagged FDI, and standard macroeconomic controls. Shaded areas denote 90 percent confidence intervals based on standard errors clustered at the country level.

LICs: FDI Response to CIT METR Reduction (Percent)



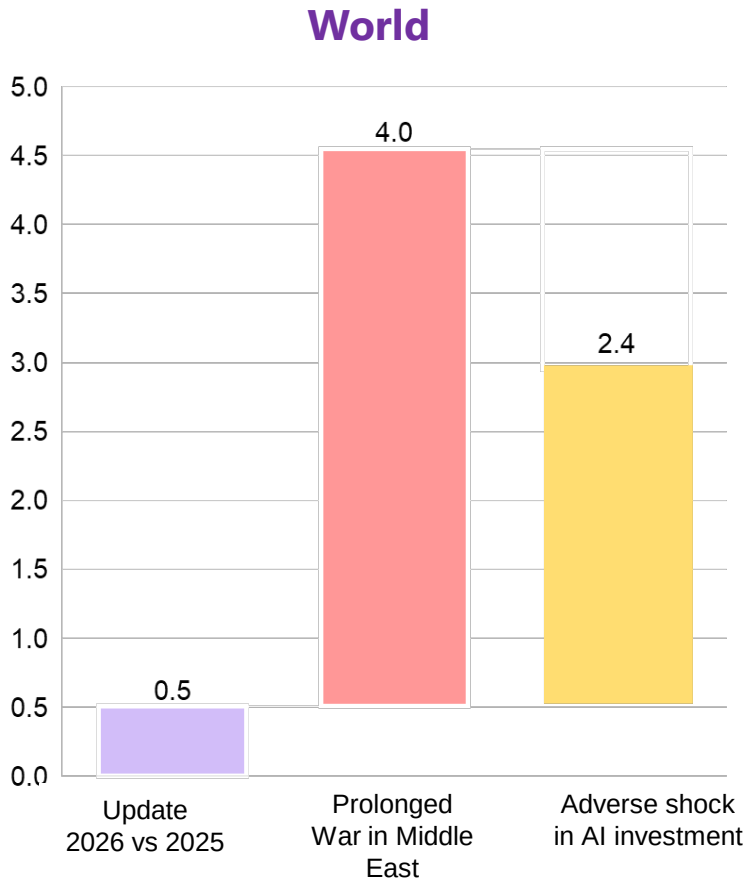
Source: "Macroeconomic developments and prospects in low-income countries", February 2026, IMF.
Note: The figure shows local projection estimates of the response of FDI to reductions in the corporate income tax (CIT) marginal effective tax rate (METR) for countries with weak and strong fiscal policy management, proxied by the CPIA fiscal policy management indicator. Countries are classified into weak and strong institution groups based on the median average value of the indicator over the sample period. The shock is defined as a one-percentage-point reduction in the METR. The dependent variable is the log of FDI liabilities, and responses are expressed as percent changes. Regressions include country and year fixed effects, lagged FDI, lagged levels of effective tax rates, and standard macroeconomic controls. Shaded areas denote 90 percent confidence intervals based on standard errors clustered at the country level.

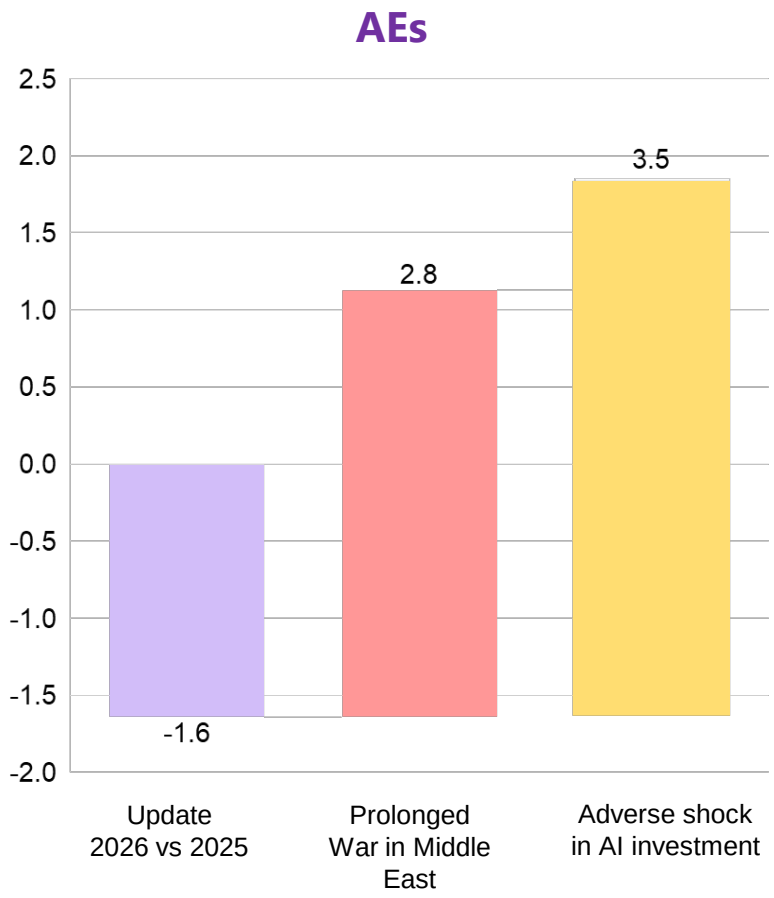
Several global risks need attention

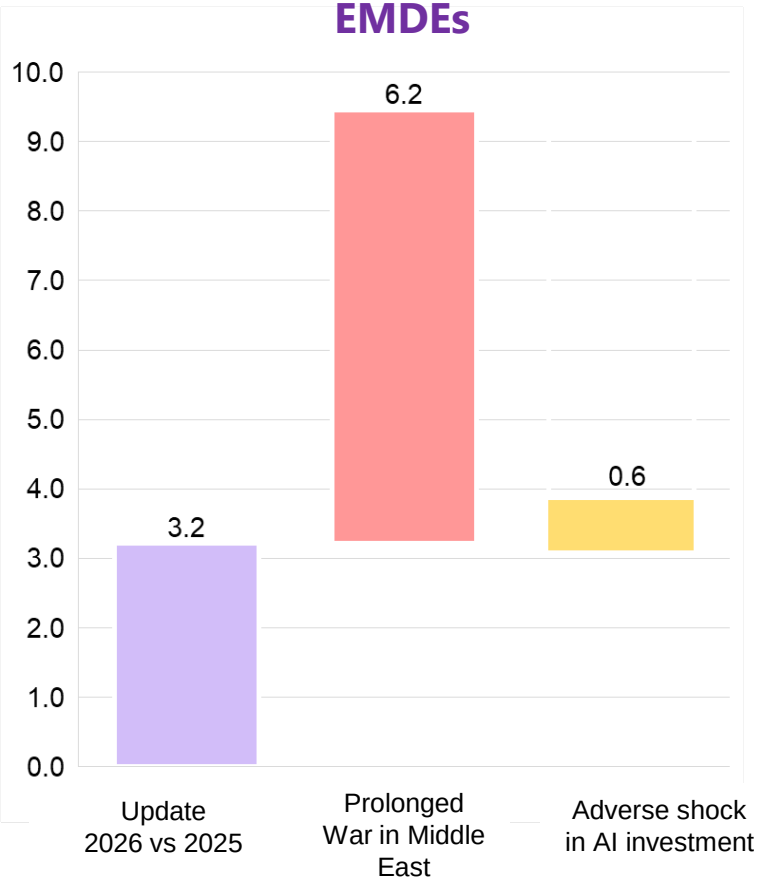
Geopolitical Disruptions and AI-Driven Market Correction Could Worsen Debt Risk

Evolution of the Debt-at-Risk under Shock Scenarios

(Three year ahead, percentage points of GDP)





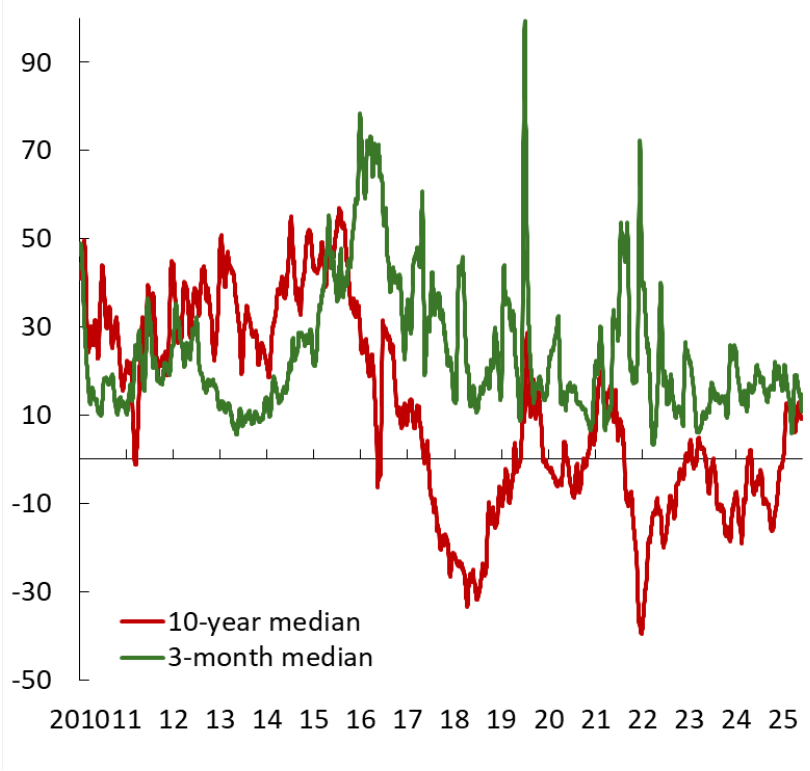


Source: IMF staff calculation.

Note: The figure shows the change of the 95th percentile level of predicted debt-to-GDP in deb-at-risk exercise under different scenarios. The blue bar show the revision of the 95th level in a three-year horizon between April 2025 WEO and April 2026 WEO in the baseline scenario. The red and yellow bars show the change of the 95th percentile level under the shock scenarios from the baseline. The prolonged war scenario assume 2.5 percentage point annualized decline in global GDP and 2.45 percentage point annualized increase in global inflation by 2027. The AI scenario assumes an increase in the Index of Financial Stress (Ahir and others 2023) by one standard deviation in all economies. For more details, see the April 2026 WEO.

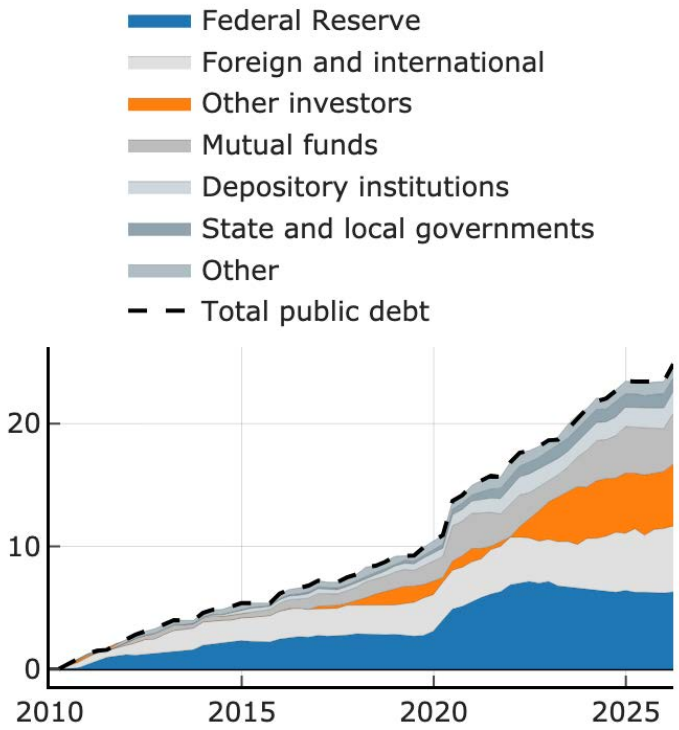
Changes in Sovereign Debt Markets Structure Introduce New Fragility

Convenience Yield of US Treasuries against G10 Sovereign Bonds (Basis points)

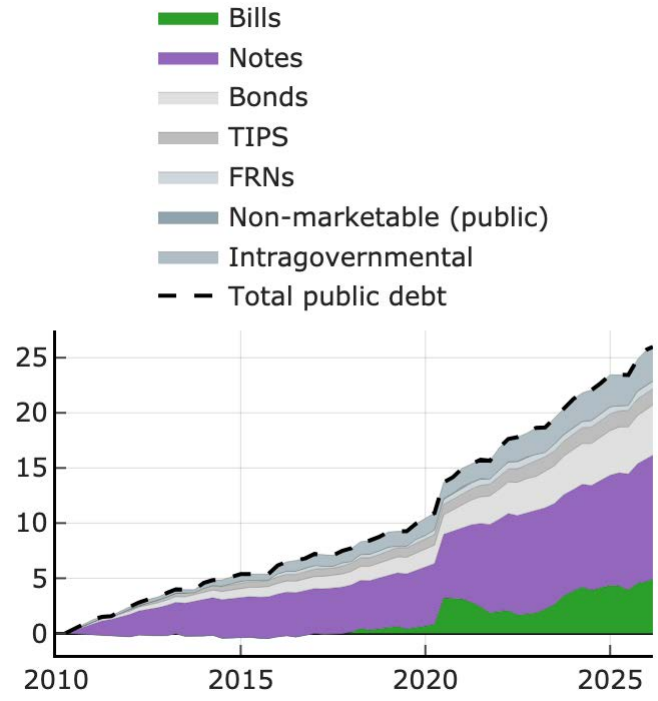


Sources: Bloomberg Finance L.P.; Federal Reserve Bank of St. Louis, Federal Reserve Economic Data; LSEG DataStream; and IMF staff calculations.
Note: The chart defines the international convenience yield as the difference in the deviation from covered interest parity between Group of 10 (G10) sovereign bonds and US Treasuries. The daily spread is calculated as $(y_{For} - \rho) - y_{UST}$, in which y_{For} is the yield for foreign government bonds, y_{UST} is the yield for US Treasuries, and ρ is the market-implied forward premium (the cost of hedging foreign currency back to US dollars via swaps). The data is up to May 5, 2026.

Cumulative Change in Holders of US Public Debt (Trillions of US dollars)



Cumulative Change in US Public Debt by Instrument (Trillions of US dollars)

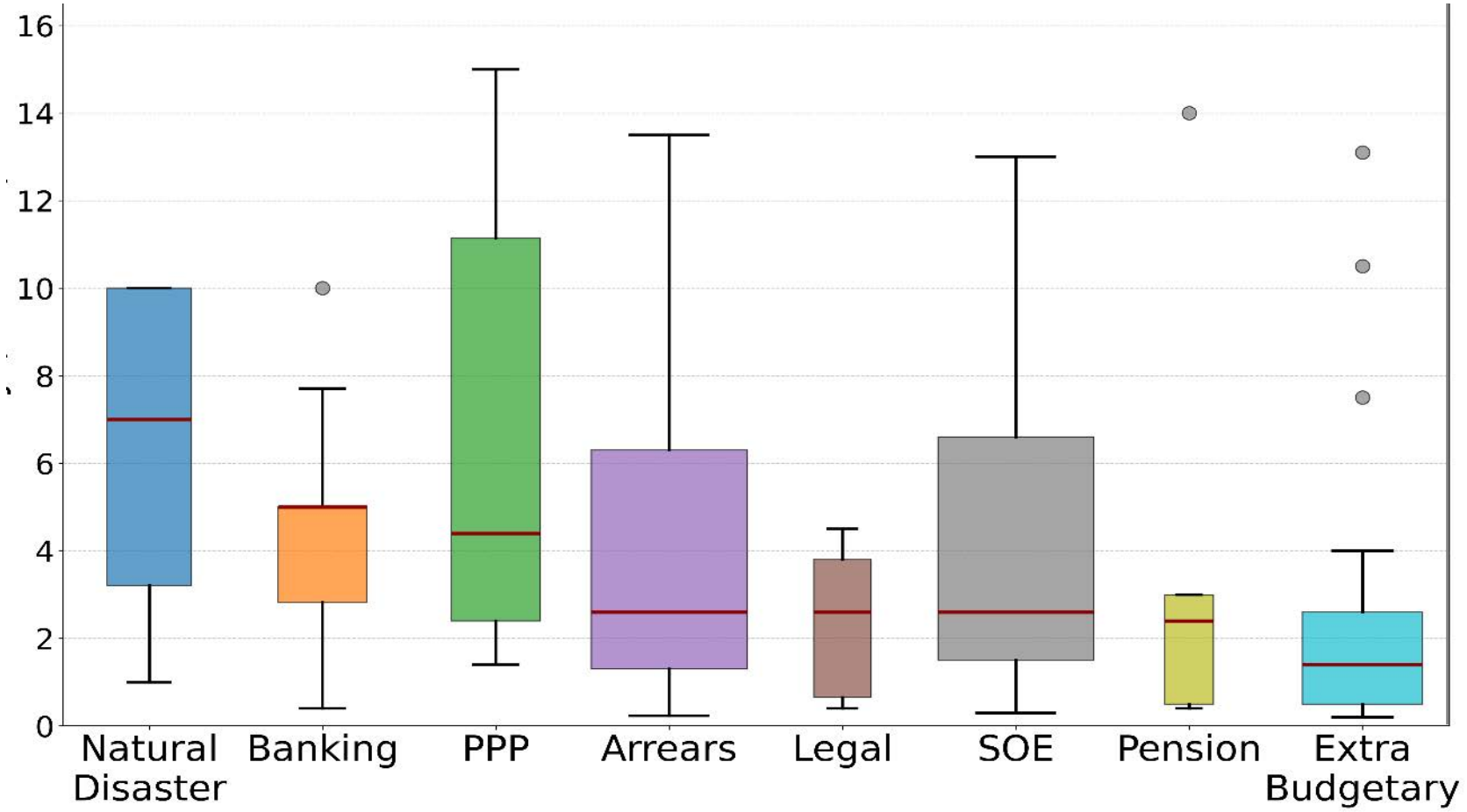


Sources: US Department of the Treasury, Monthly Statement of the Public Debt, and Treasury Bulletin, Table OFS-2.
Note: Public debt in the first quarter of 2025 totaled $36.21 trillion. In panel 1, "Other investors" includes individuals, government-sponsored enterprises, brokers and dealers, and corporate and noncorporate businesses; "Other" comprises savings bonds, insurance companies, and pension funds. In Panel 2, "Bills" have maturities of 1 year or less; "Notes" have maturities of 2–10 years; "Bonds" have maturities greater than 10 years; "Nonmarketable" refers to savings bonds and other nontraded public debt; and "Intragovernmental" covers debt held by federal trust funds and other government accounts. FRNs = floating-rate notes; TIPS = Treasury Inflation-Protected Securities.

Potential Risk for EMDEs

Potential Impact of Structural Fiscal Risks on EMDE Debt

(Percent of GDP)

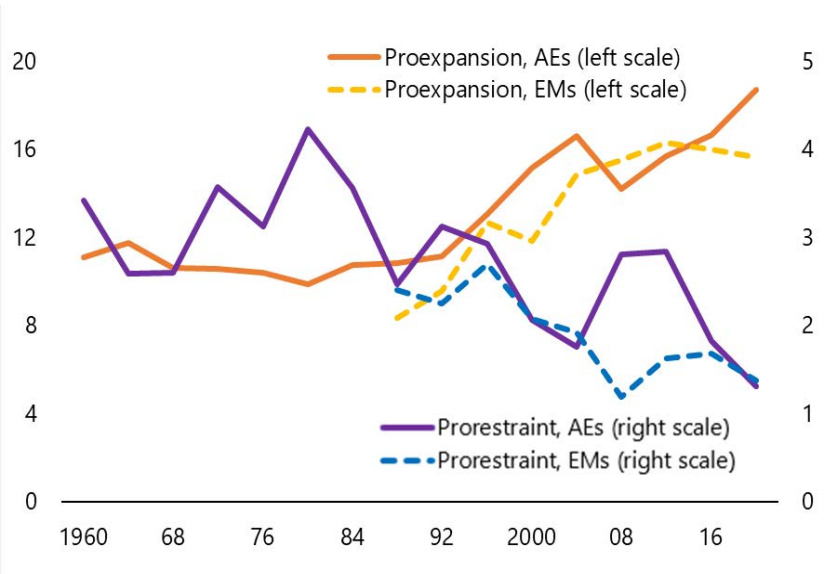


Source: IMF staff estimates, based on data—from 176 IMF staff reports on emerging markets and developing economies (EMDEs)—published in 2025 using the Fiscal Monitor AI Analyst, a custom large language model pipeline.

Note: Categories are sorted by median value, box widths are proportional to the number of available estimates, and outliers exceeding 17.5 percent of GDP are excluded for readability. The gray dots show observations beyond 1.5 interquartile range. PPP = purchasing power parity; SOEs = state-owned enterprises.

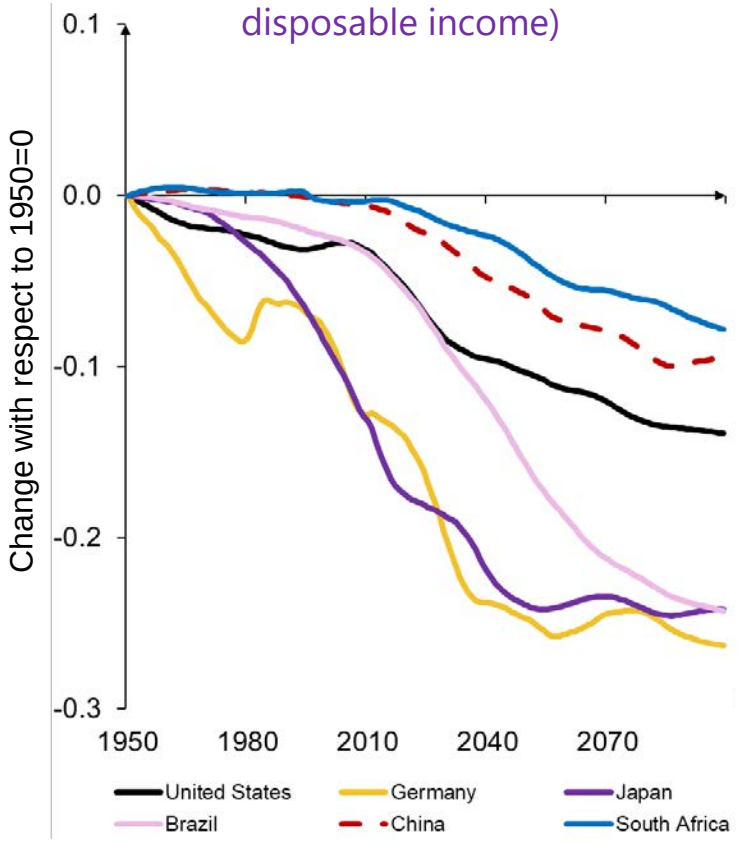
Expansionary Fiscal Discourse and Greying Population

Rise of Expansionary Fiscal Discourse
(Percent)



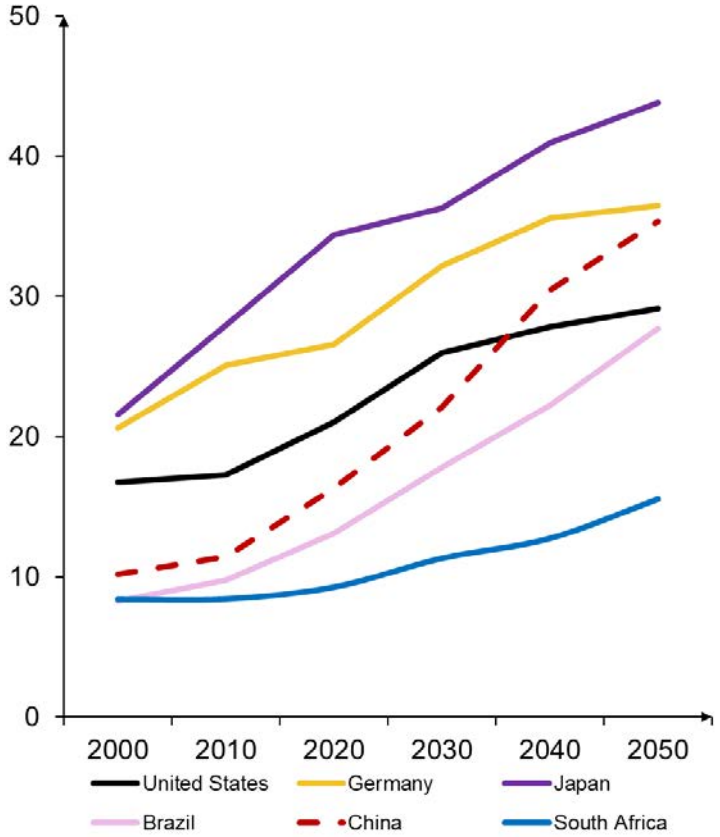
Sources: Cao, Dabla-Norris, and Di Gregorio (2024); Manifesto Project Database; and IMF staff calculations.
Note: The analysis relies on Manifesto Project data, which capture both spending intentions and value judgments. For each year in the figure, the year associated with the data refers to the first of four years the data cover. In panel 1, platform data are first averaged at the country-election level, then by country-year, and finally by four-year period. The vertical axes shows the mean outcomes across all country-years in each four-year period. In panel 2, the top red line sums the shares of all categories below it. The vertical axis reports the mean share of platform statements by policy realm in which a party potentially advocates for more government spending or support. "Social" includes support for the welfare state (for example, health, child, and elder care; pensions; and social housing) and education.

Population Age-weighted Net Fiscal Contribution by Households
(As a share of median workers' disposable income)



Sources: UN Population Prospects, OECD Income Distribution Database, IMF staff calculations.
Note: The chart shows net fiscal contribution by households (= taxes paid - transfers received by households) as a share of median workers' disposable income, weighted by the population shares of workers and retirees.

Share of Grey Voters
(Share of population aged 65+ to population aged 18+, in percent)



Sources: UN Population Prospects and IMF staff calculation.
Note: Population excluding net immigration.

POLICY RECOMMENDATIONS

Policies with near-term impact

- While retaining flexibility to look through temporary shocks, clearly communicate monetary policy intent.
- Stand ready to tighten monetary policy in a timely way to anchor inflation expectations, restoring price stability over the policy horizon.
- If needed, deploy targeted and temporary support, focusing on the most vulnerable, with minimal price distortions, and preserving fiscal sustainability.
- Ensure consistent fiscal and monetary policy mix with the priority of bringing inflation back to target in a timely manner.
- Ensure that liquidity and funding facilities are fully operational and ready to deploy if market functioning deteriorates.
- Exchange rates should adjust flexibly to absorb shocks; the IPF offers guidance on FXI and CFM in specific circumstances.

Policies with medium-term impact

- Accelerate structural reforms to lift growth, harnessing technological progress including digitalization and AI.
- Invest and cooperate in building resilience and energy security, including through investing in renewable energy sources.
- Swiftly address domestic imbalances which will also help correct external imbalances.
- Rebuild fiscal buffers gradually, underpinned by credible medium-term plans.
- Align fiscal policy to debt challenges, anchoring it to strong institutional frameworks and enhanced transparency.
- For banks, strengthen systemwide surveillance and robust stress-testing to explicitly capture sovereign risks.
- Enhance oversight, improve cross-jurisdictional data-sharing, and stress-testing of NBFIs for more effective systemic risk management.