



**FISCAL AFFAIRS**

# **Fiscal Policy under Uncertainty**

**April 2025 Fiscal Monitor Conjunctural Chapter**

**APRIL, 2025**

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# Recent Fiscal Monitors ...

## *FM Oct 2024 – Putting a Lid on Public Debt*

<https://www.imf.org/en/Publications/FM/Issues/2024/10/23/fiscal-monitor-october-2024>

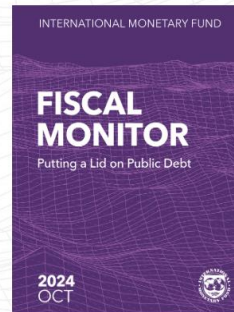
### Overview

## Putting a Lid on Public Debt

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0:00

0:35

Global public debt is elevated. It is projected to exceed US\$100 trillion in 2024 and will rise over the medium term. This chapter shows that risks to the debt outlook are heavily tilted to the upside. In a severely adverse scenario, global debt is estimated to be nearly 20 percentage points of GDP higher three years ahead than the baseline projection, reaching 115 percent of GDP. Much larger fiscal adjustments than currently planned are required to stabilize (or reduce) debt with high probability. Now is an opportune time for rebuilding fiscal buffers and delaying is costly. Rebuilding fiscal buffers in a growth-friendly manner and strengthening fiscal governance is essential to ensure sustainable public finances and financial stability.



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## *FM April 2025 – Fiscal Policy under Uncertainty*

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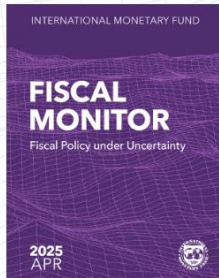
### Overview

## Fiscal Policy under Uncertainty

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Escalating uncertainty and policy shifts are reshaping the fiscal outlook. Global public debt projections have been revised upwards, while tariffs, uncertainty and market volatility, increased defense spending, and challenging foreign aid are intensifying risks. Countries must implement gradual fiscal adjustments within credible medium-term frameworks to reduce debt and build buffers against heightened uncertainty. Reforms to major expenditure programs, such as energy subsidies and pensions, are crucial to reducing fiscal vulnerabilities while fostering growth. Stakeholder acceptance is critical for advancing such reforms. Shoring up public support requires strategic design, effective communication, robust safety nets, and trust in governance.



*\*The estimates and projections are based on statistical information available through April 14, 2025, but may not reflect the latest published data in all cases. For the date of the last data update for each economy, please refer to the notes provided in the online WEO database.*

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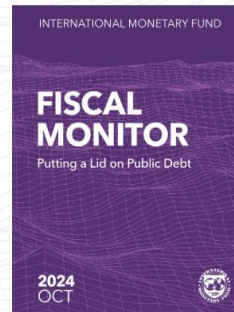
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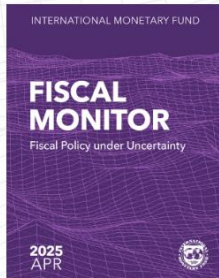
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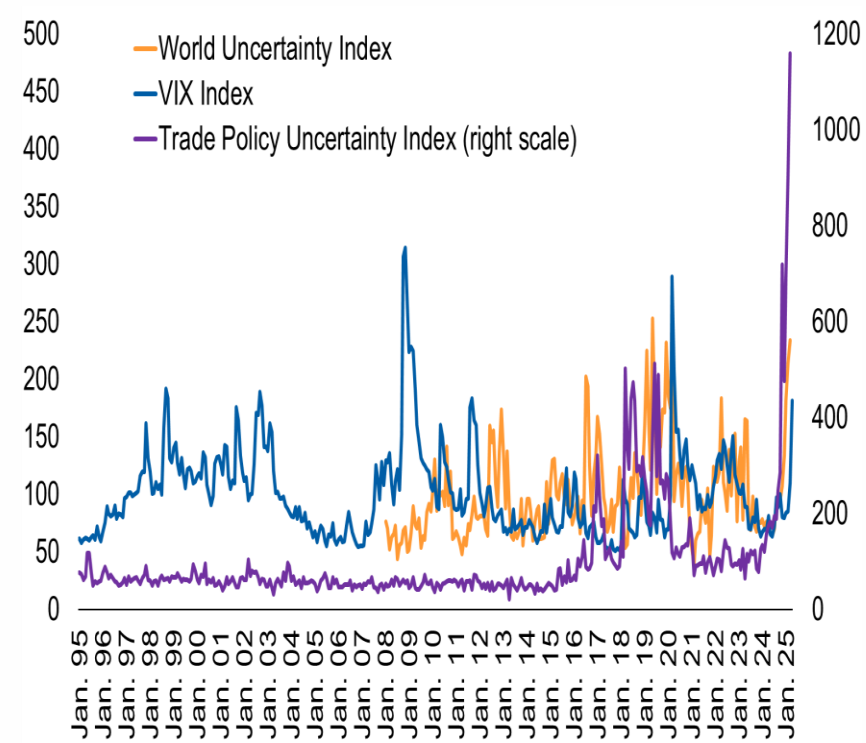
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# Major policy shifts are reshaping the fiscal outlook...

## Multidimensional uncertainty

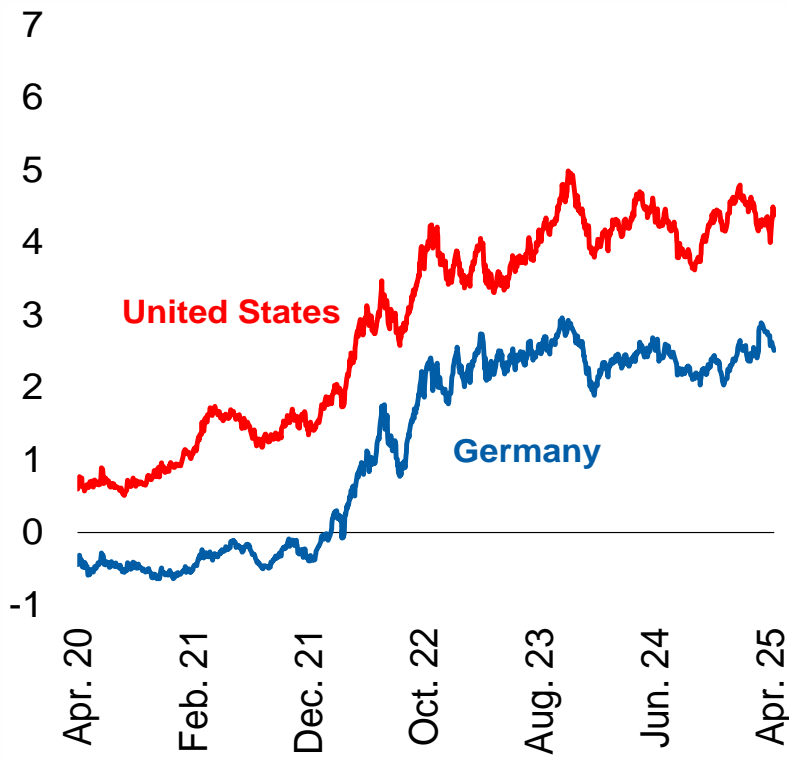
### Uncertainty Indices



Source: Trade Policy Uncertainty Index : Caldara and others (2020); World Uncertainty Index: Ahir, Bloom, and Furceri (2022); Fiscal Policy Uncertainty Index: Hong, Nguyen, and Ke (2024); and Global Economic Policy Uncertainty Index: Davis (2016).  
Note: The series are standardized with mean of 100 and standard deviation of 1.

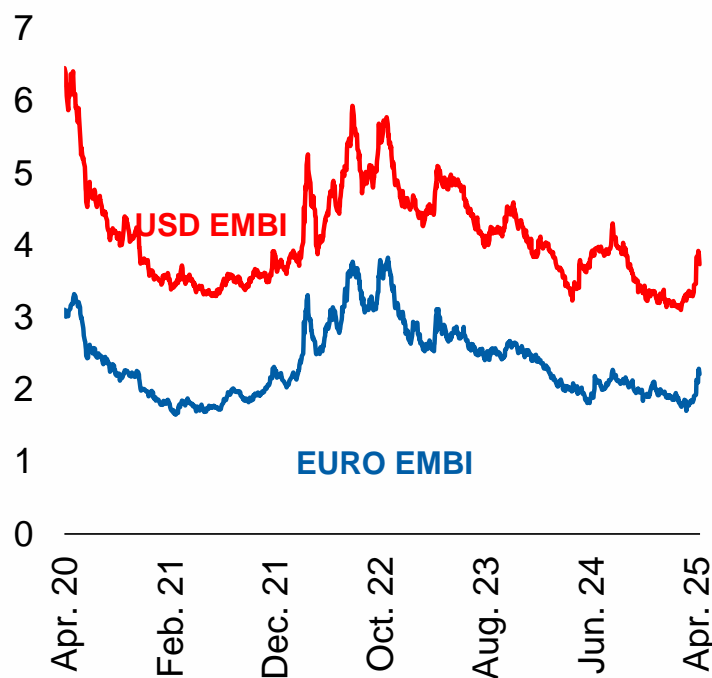
## Tighter and more volatile financial conditions

### 10-year Bond Yields (Percent)



Sources: Bloomberg Finance L.P.  
Note: The data for panels 3 have April 14, 2025, as cutoff date. EMBI = Emerging Market Bond Index; USD = US dollars.

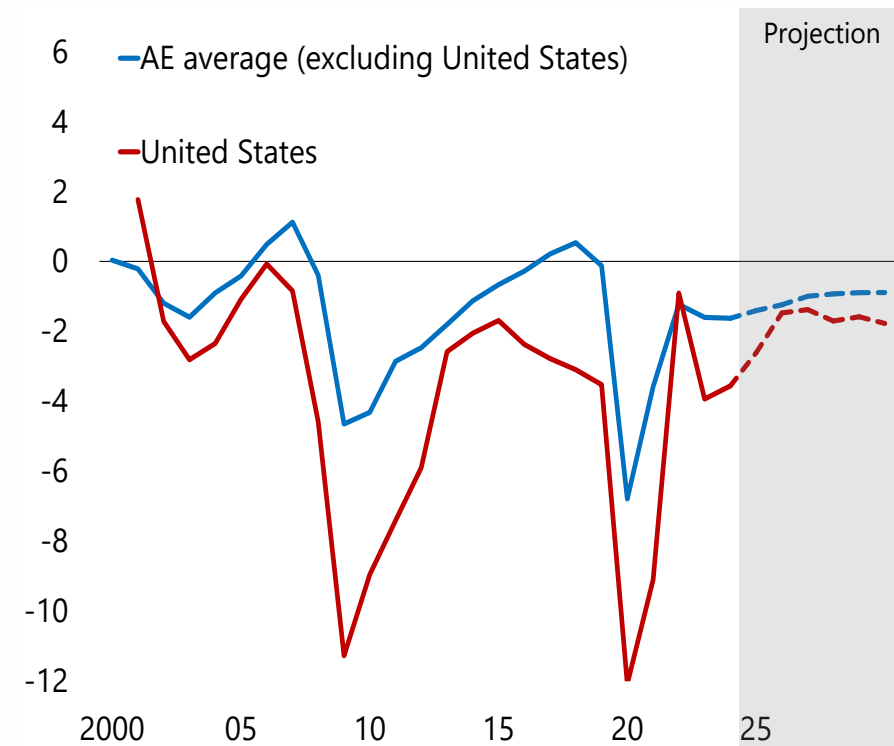
### EMBI Spread (Percent)



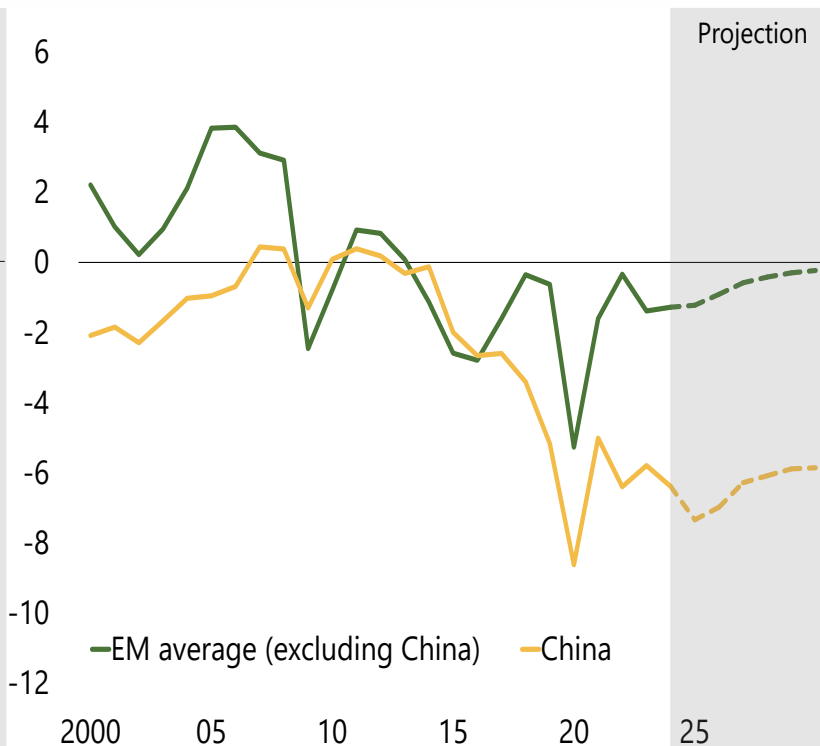
# ... with marked slowdown in fiscal adjustments...

## Primary Balances (Percent of GDP)

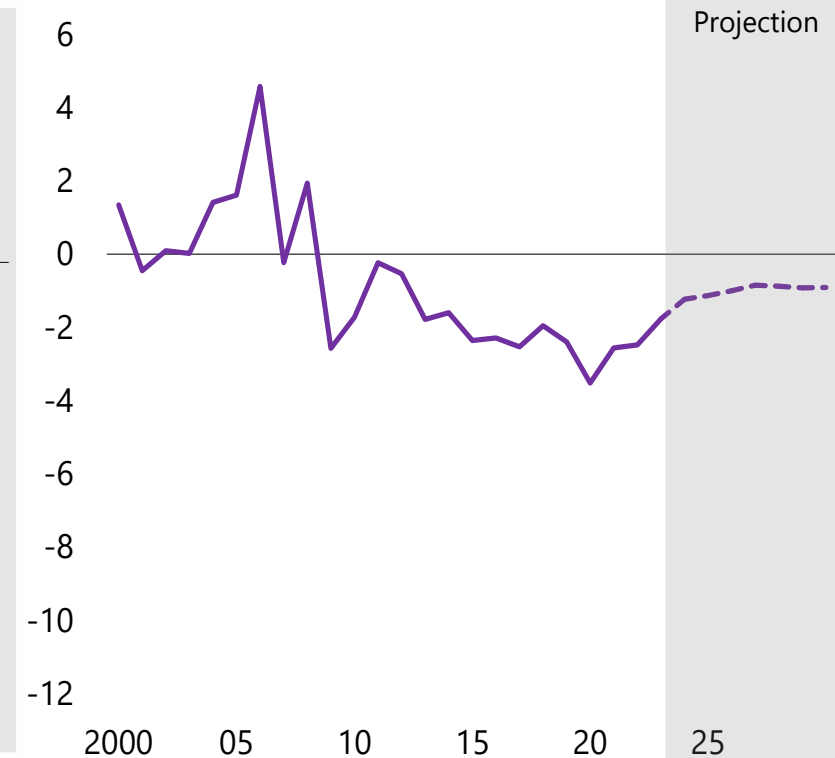
### Advanced economies



### Emerging Market Economies



### Low-income Developing Countries

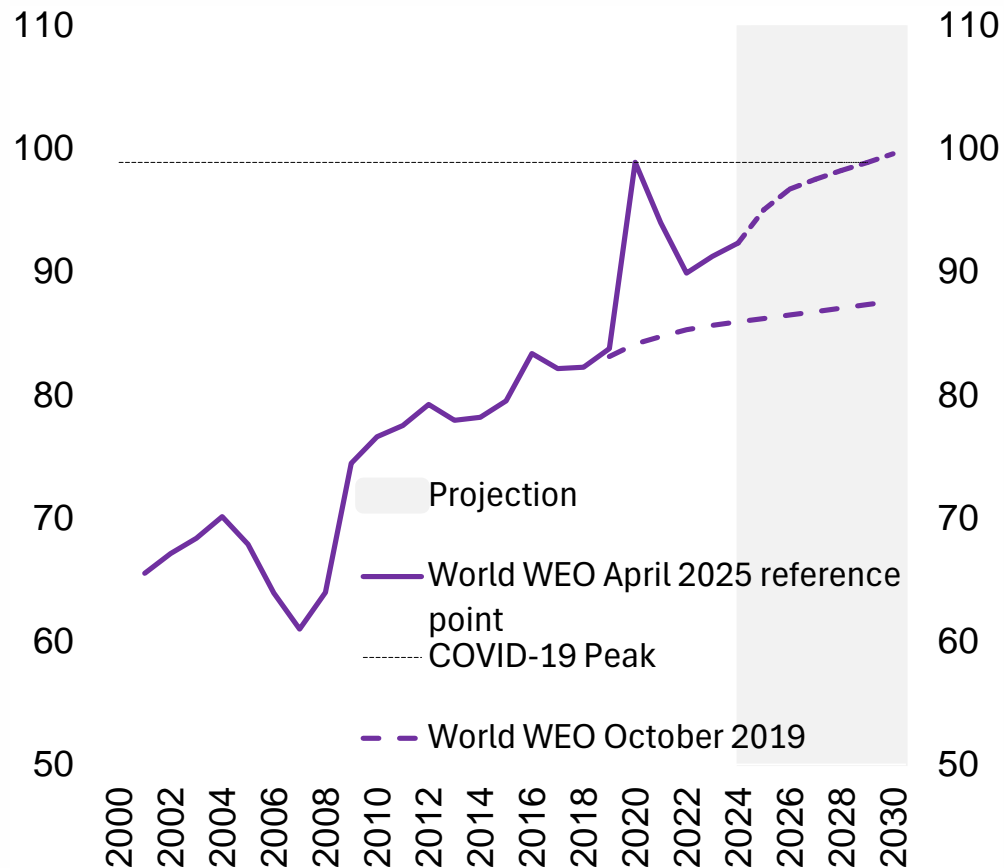


Sources: IMF World Economic Outlook database; and IMF staff calculations.

Note: Afghanistan and Sudan are excluded from the sample of low-income developing countries. AE = advanced economy; EM = emerging market; LIDC = low-income developing country.

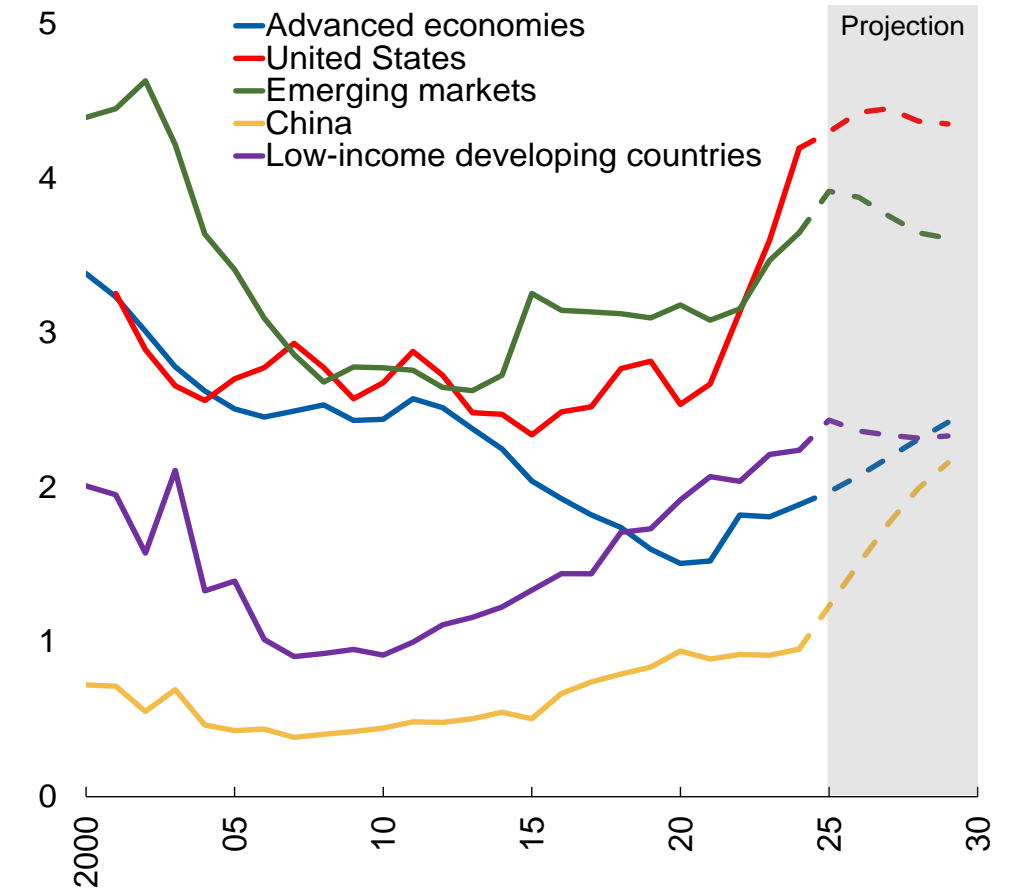
# ... leading public debt close to 100 percent of GDP also given the projected rise in interest expenses

## Global Public Debt-to-GDP Ratios (Percent of GDP)



Sources: IMF, April 2025 World Economic Outlook (WEO); and IMF staff calculations.  
Note: Dashed lines are 2018 projections extended to 2024. The projection for 2024 is based on the October 2018 World Economic Outlook vintage.

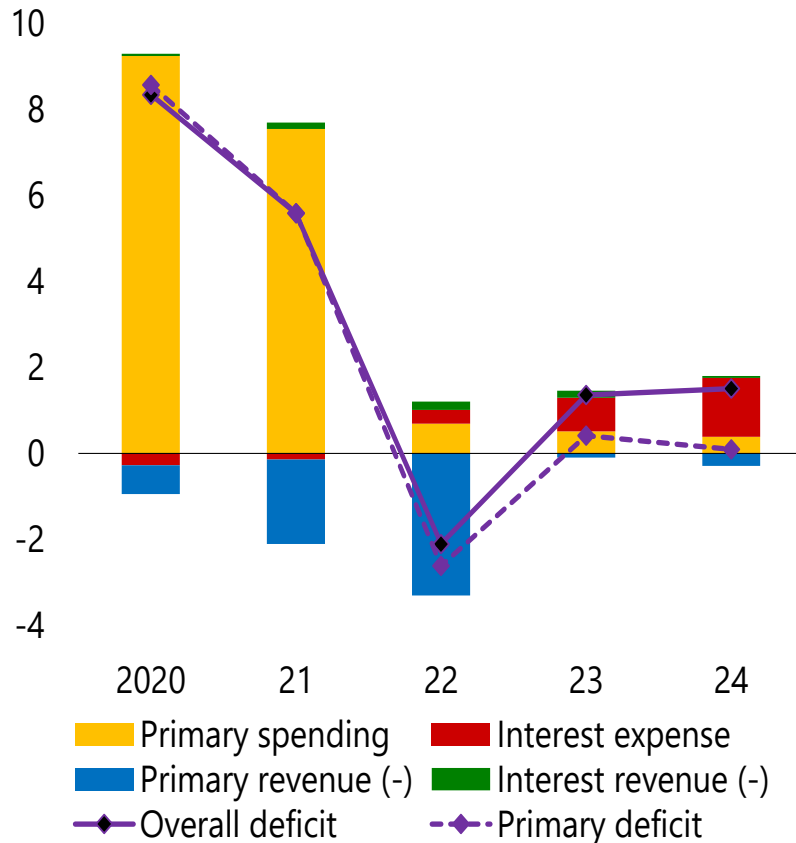
## General Government Interest Expense (Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

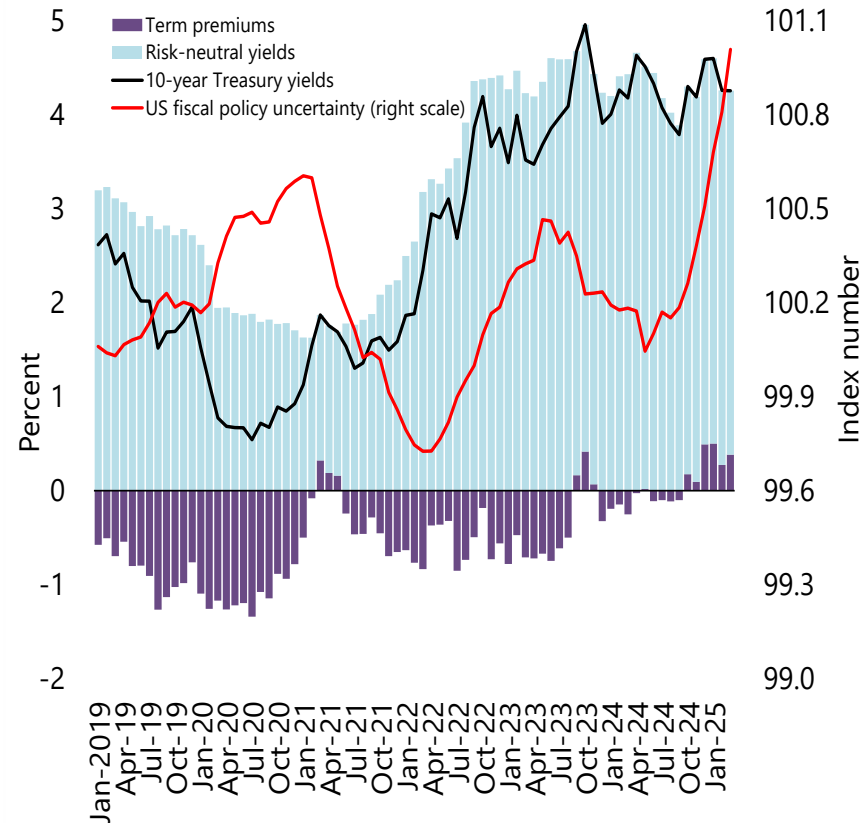
# United States: uncertain deficit path amid high tariffs

**Drivers of Changes US Fiscal Deficit Relative to Prepandemic  
(Percent of GDP)**



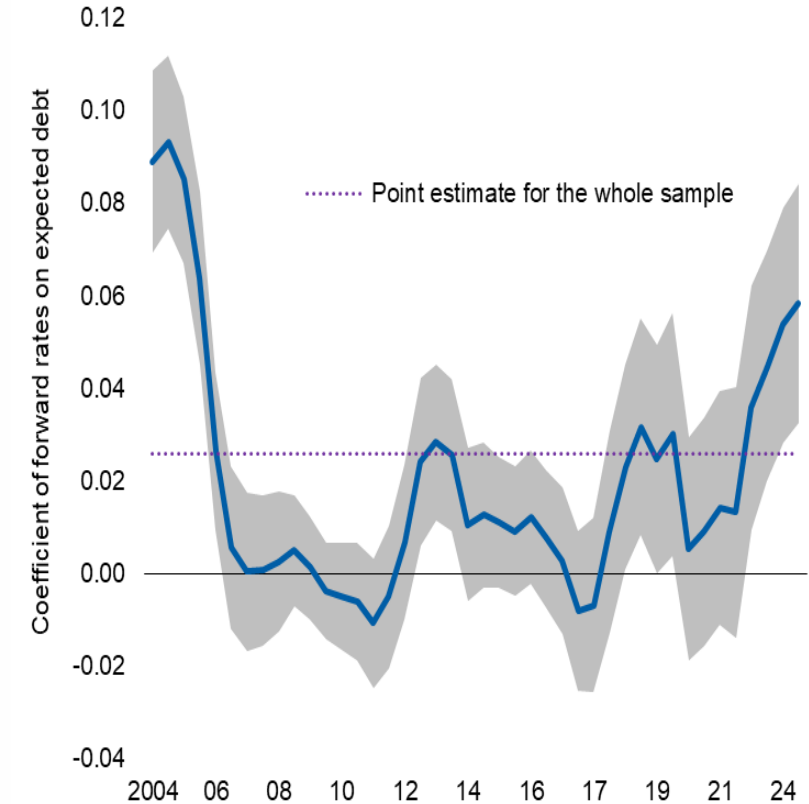
Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: The figure shows changes in the general government overall deficit-to-GDP ratio and its components for the United States relative to 2019. Changes in the primary-revenue-to-GDP ratio contribute negatively to changes in the overall deficit.

**US 10-Year Treasury Nominal Yields and Fiscal Uncertainty**



Sources: Federal Reserve Bank of New York; Hong, Nguyen, and Ke 2024; and IMF staff calculations.  
Note: The data in the figure have the cutoff date of April 10, 2025. The decomposition into monthly risk-neutral yields and term premiums is based on Adrian, Crump, and Moench (2013). Fiscal policy uncertainty is reported as a 12-month moving average.

**Expected Public Debt and Forward Interest Rates**

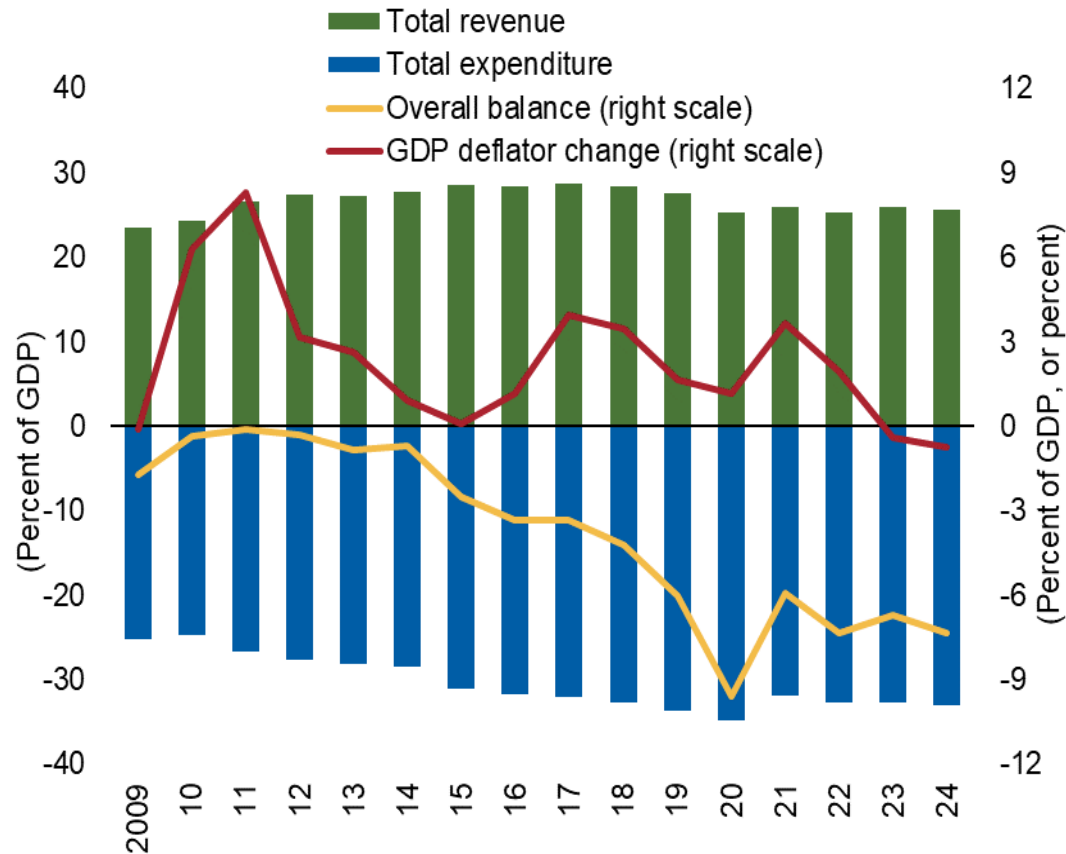


Sources: Furceri, Gonçalves, and Li forthcoming.  
Note: Shaded area represents the 90 percent confidence interval. See Online Annex 1.2 for details.



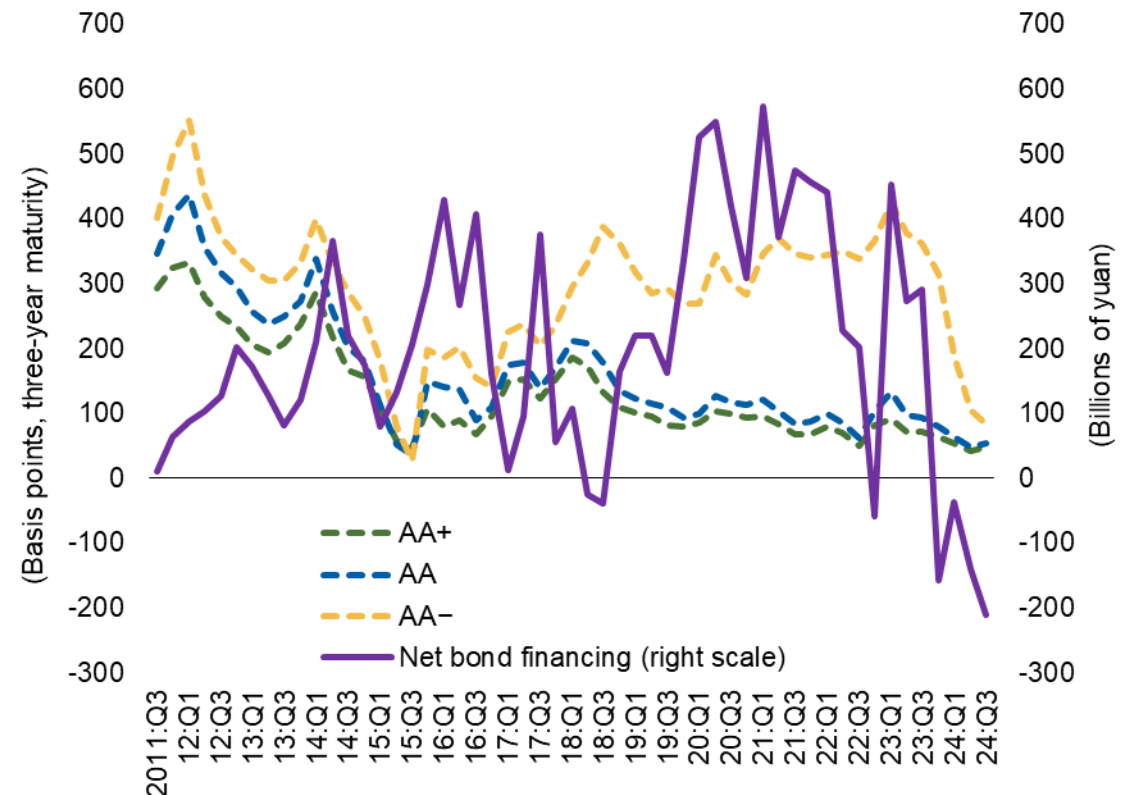
# China: expansionary fiscal policy in the face of growth headwinds

## General Government Fiscal Variables and GDP deflator



Sources: IMF, World Economic Outlook database; Wind; and IMF staff calculations.  
Note: AA+, AA, and AA- denote the credit rating.

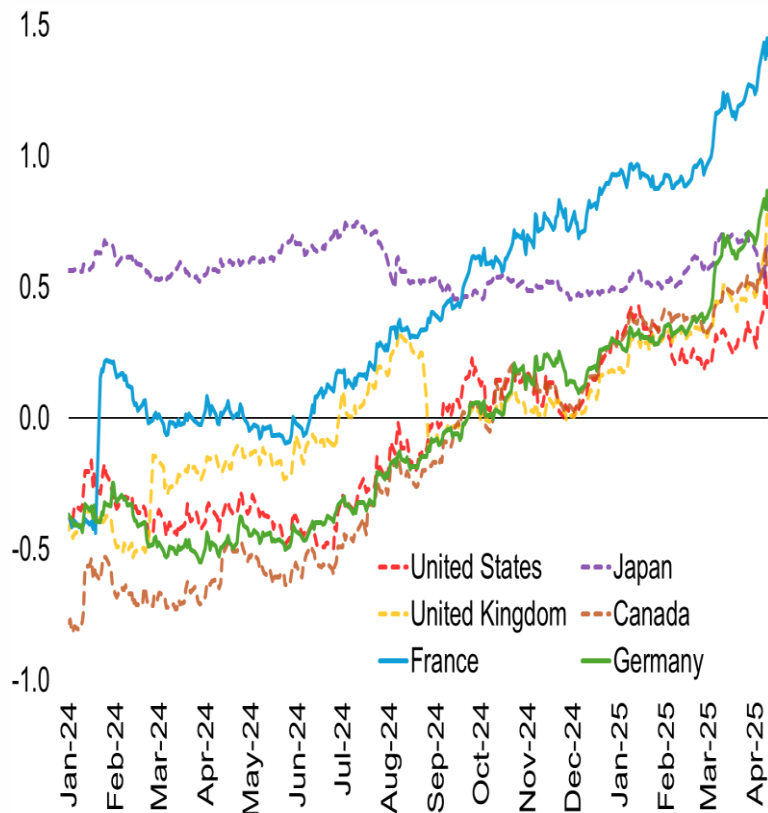
## Local Government Financial Vehicle Net Bond Financing and Credit Spread of Bonds by Credit Rating



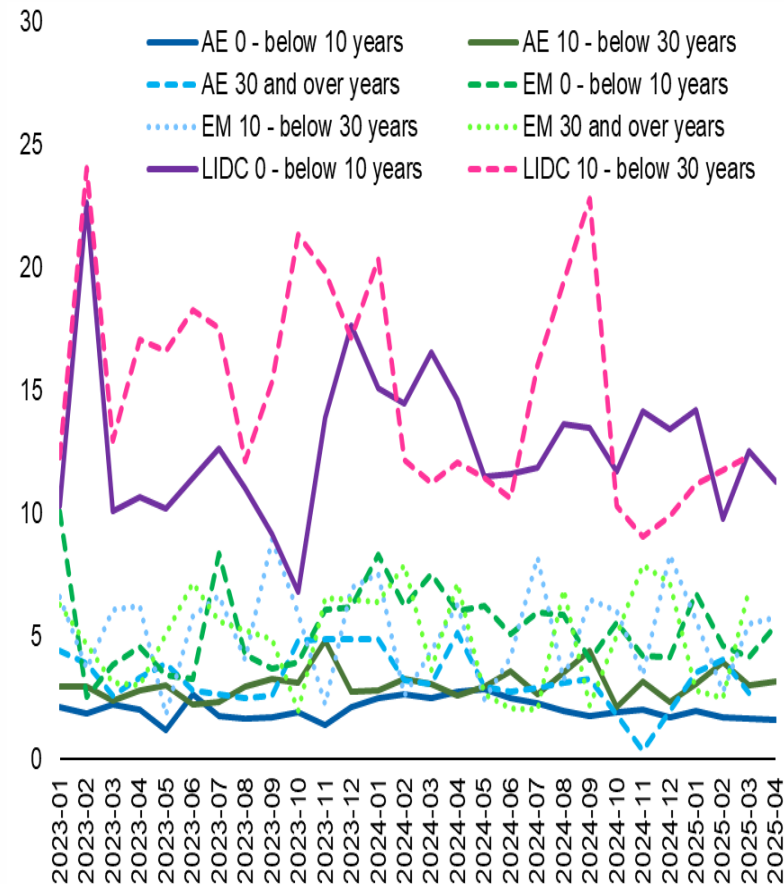


# AEs (excluding US): debt is stabilizing but with significant heterogeneity

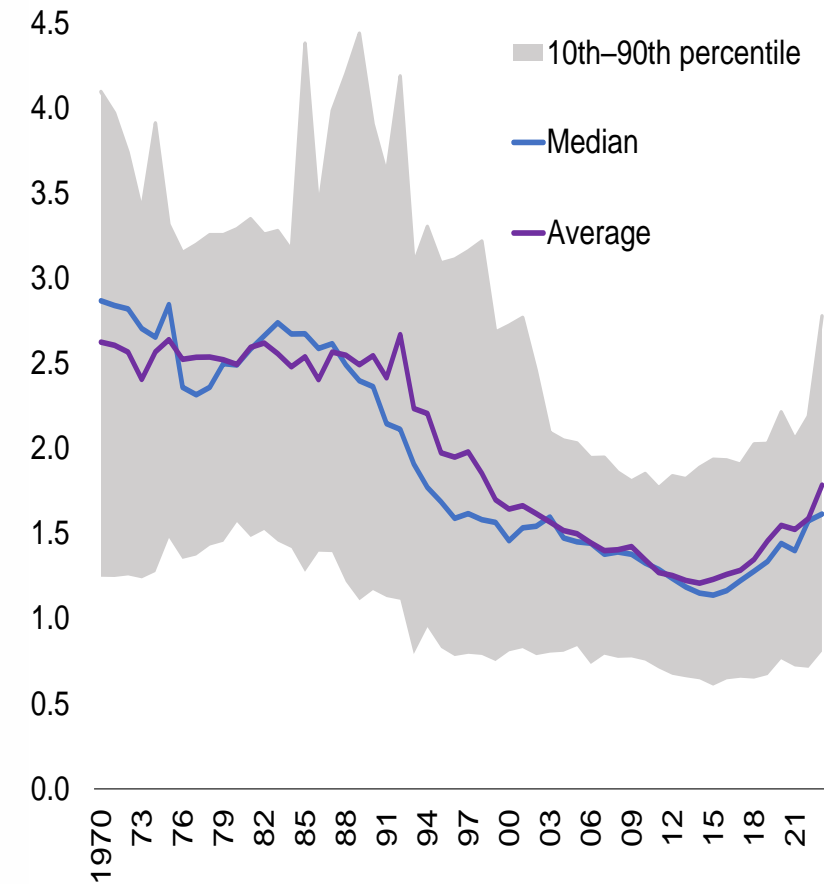
**Evolution of Term Spreads for Select Advanced Economies**  
(Percent)



**Weighted Average of Yield to Maturity of Recent Government Bond Issuances** (Percent)



**Military Spending Overtime in Europe**  
(Percent of GDP)



Sources: Bloomberg Finance L.P.; and IMF staff calculations.

Note: The data in the figure have the cutoff date of April 10, 2025. Lines in panel 1 show the difference between the 10- and 2-year yields for each selected advanced economy. Lines in panel 2 show the weighted average for all primary domestic and external debt issuance yield to maturities for distinct country groups across different maturity categories.

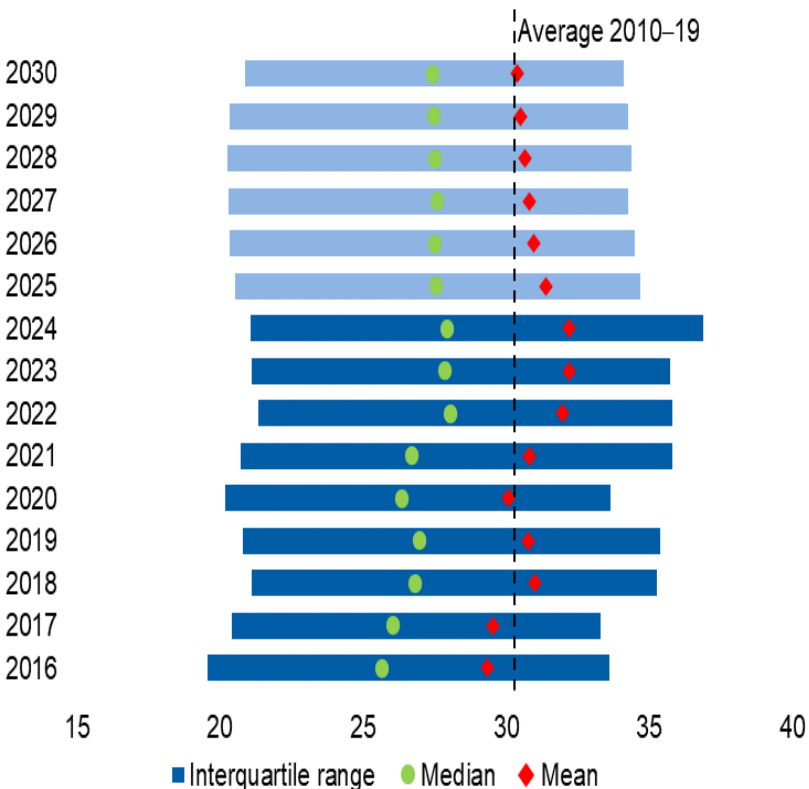
AE = advanced economy; EM = emerging economy; LIDC = low-income developing country.

Source: SIPRI and IMF staff estimates.

Note: The figure excludes military and defense spending of Russia, Ukraine, and Israel, but include other non-EU countries.

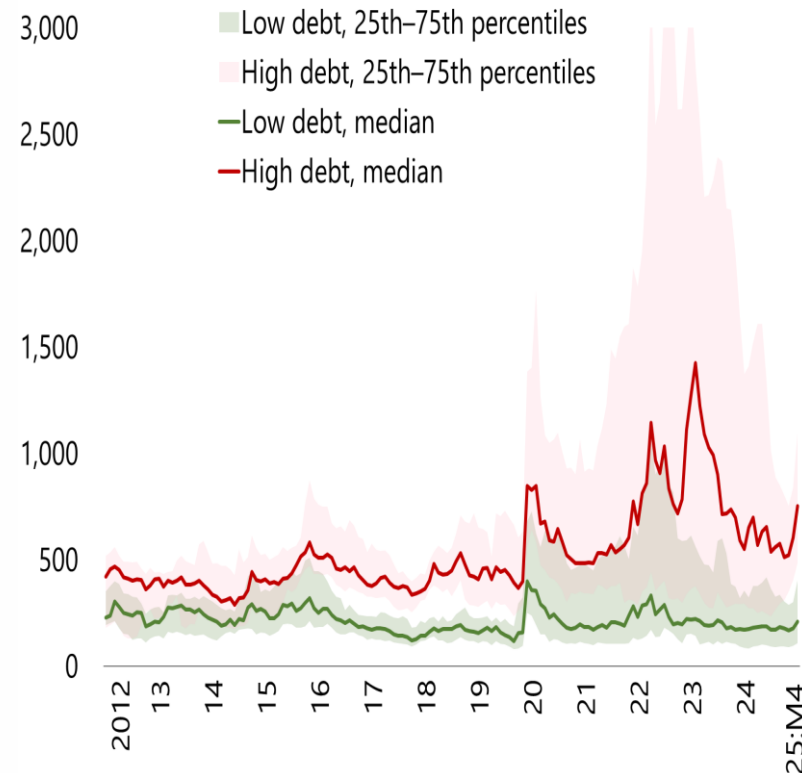
# EMDEs (exc. China): tighter financial conditions, challenging aid landscape

**Fiscal Revenues in Emerging Markets (exc. China) per Year**  
(Percent of GDP)



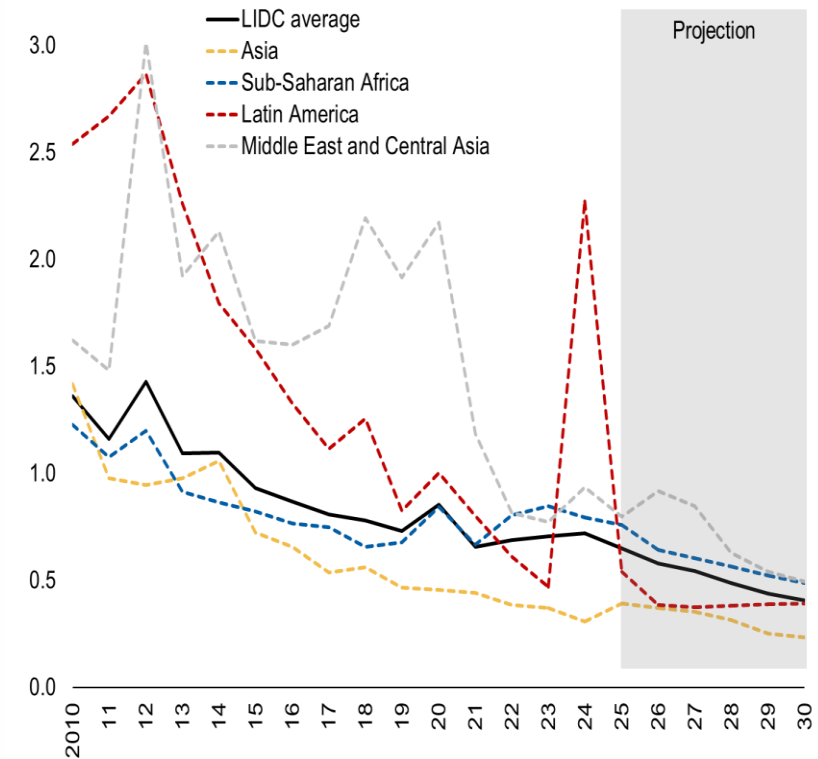
Sources: IMF, World Economic Outlook database; and IMF staff calculations.  
Note: Light-toned blocks indicate projections.

**Foreign-Currency Sovereign Spreads in EMDEs**  
(Basis points, monthly)



Sources: Haver Analytics; and IMF staff calculations.  
Note: The data in the figure have the cutoff date of April 10, 2025. “Low debt” refers to countries whose public debt levels are in the bottom third of the sample; “High debt” refers to countries whose public debt levels are in the top third. Solid lines correspond to the median distribution of foreign-currency spreads, whereas shaded areas correspond to the interquartile range.

**Foreign Grants in LIDCs**  
(Percent of GDP)

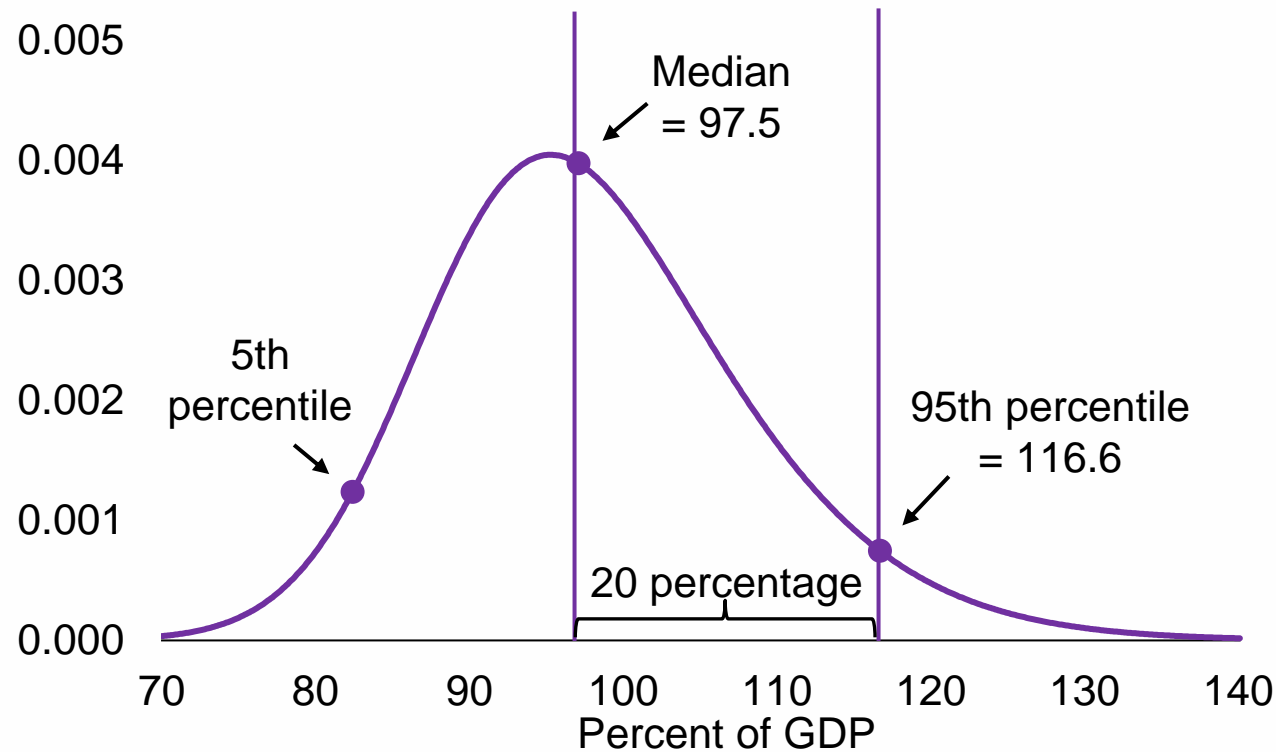


Sources: IMF, World Economic Outlook (WEO) database; and IMF staff calculations.  
Note: The spike in 2024 for the Latin American regional average reflects a sharp increase for Haiti, where grants in 2024 include debt forgiveness granted by Venezuela for USD 1.7 billion in exchange for a lump-sum payment of USD 500 million.

# Debt risks tilted to the upside

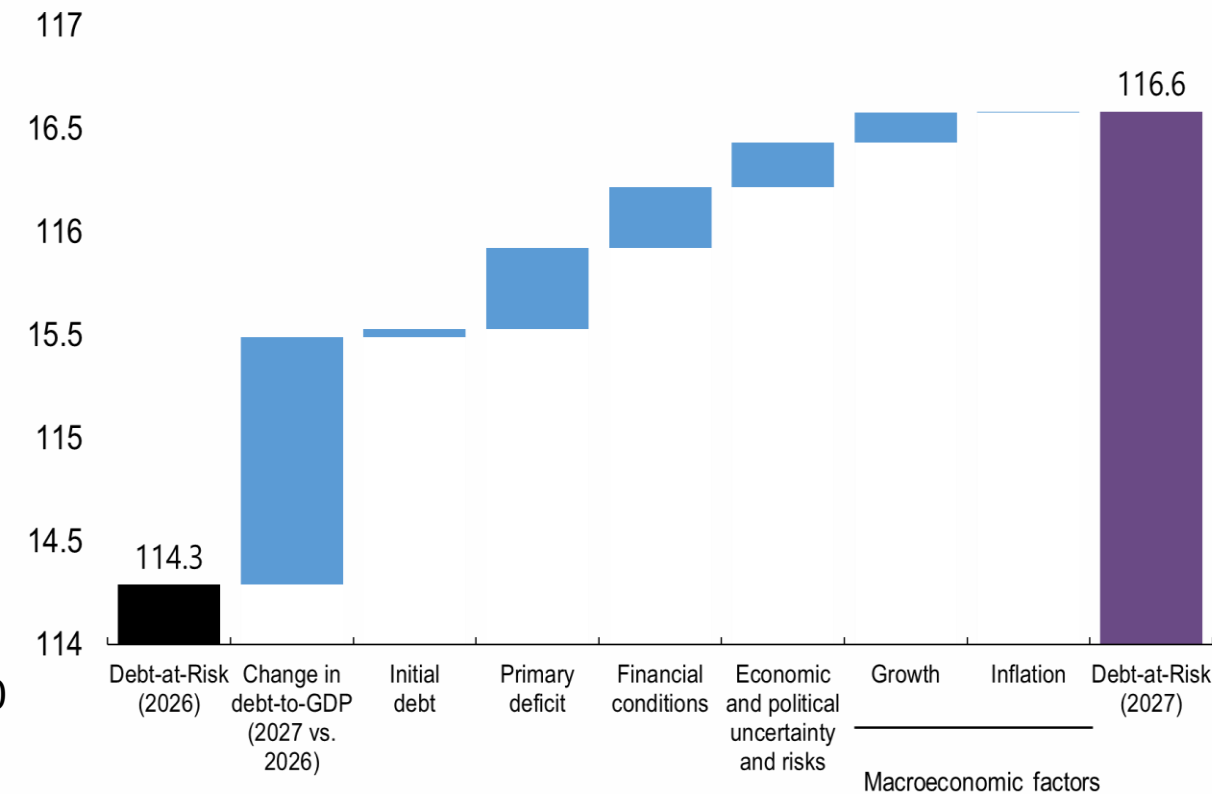
## Global Public Debt-at-Risk 2027

(Probability density of the debt-to-GDP ratio forecast three years ahead)



## Drivers of the Change in Global Debt -at-Risk between 2026 and 2027

(Percentage points)

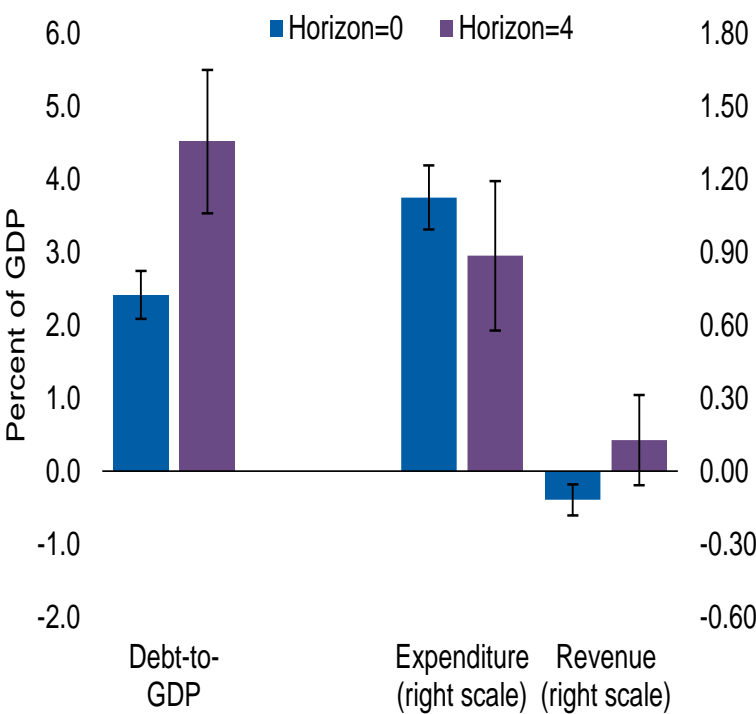


Sources: IMF World Economic Outlook database; and IMF staff calculations.

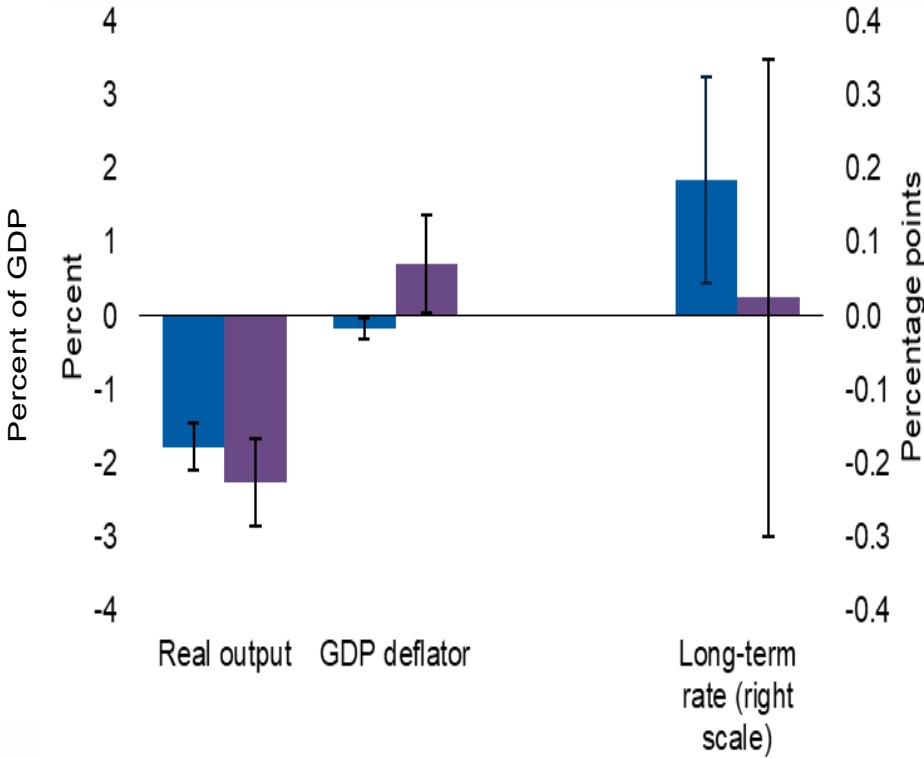
Note: Figure 1 displays the probability density function, which is estimated using panel quantile regressions of the debt-to-GDP ratio on various political, economic, and financial variables. The global sample is comprised of 47 countries, accounting for more than 90 percent of global debt. Dots indicate the predicted 5th, 50th (median), and 95th percentiles of the debt-to-GDP ratio (October 2024 Fiscal Monitor, Online Annex 1.2). Figure 2 plots the contributions from the conditioning variables used for the debt-at-risk model to the estimated level of debt-at-risk. The black bar denotes the debt reference point from the April 2025 World Economic Outlook. Blue bars refer to contribution from the conditioning variables. The purple bar indicates the value of the global debt-at-risk.

# Escalating geoeconomic uncertainty could further amplify debt risks

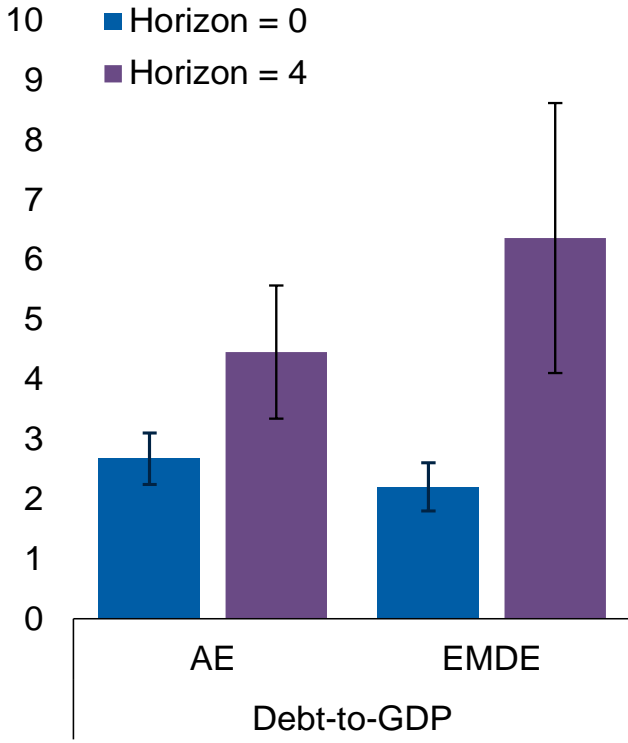
**Fiscal Effects of Geoeconomic Uncertainty**  
*(Percentage points of GDP)*



**Macro Effects of Geoeconomic Uncertainty**



**Effects of Geoeconomic Uncertainty by Income Level**  
*(Percentage points of GDP)*

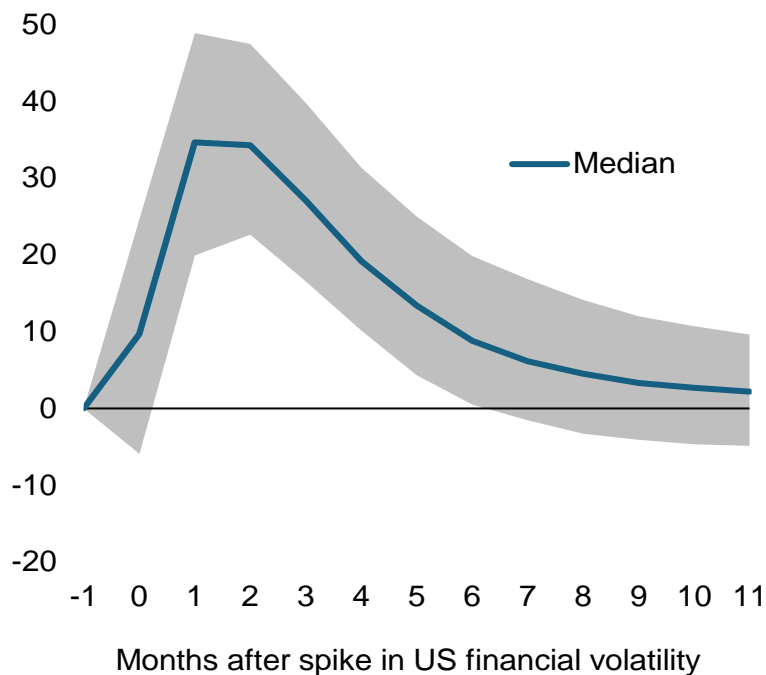


Sources: Fernández-Villaverde, Mineyama, and Song (2024); IMF, World Economic Outlook database; and IMF staff calculations.  
Note: The bars indicate the response to a one standard deviation increase in the Geopolitical Fragmentation Index (Fernández-Villaverde, Mineyama, and Song 2024). The lines represent the 90 percent confidence band. Horizons denote the years after the shock. AE = advanced economy; EMDE = emerging market and developing economy.

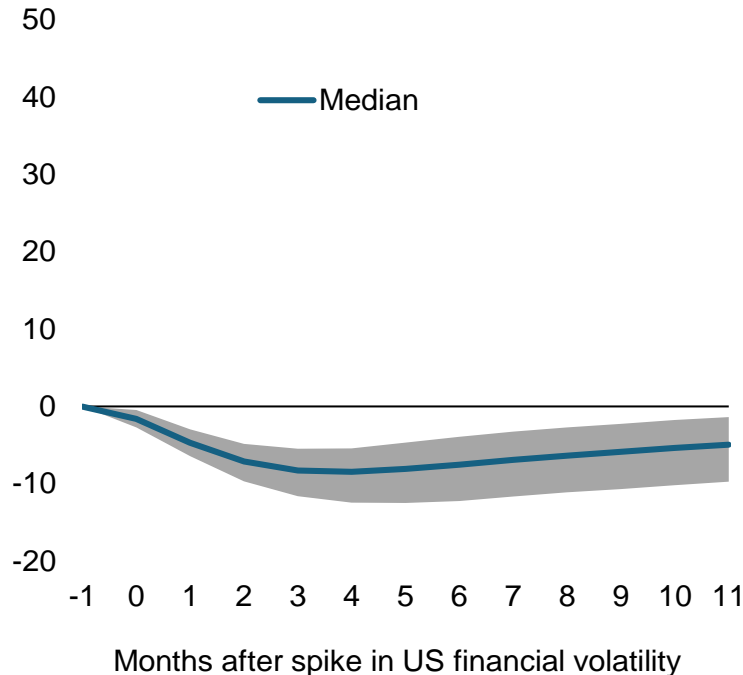


# Potential spillovers from more volatile US financial conditions

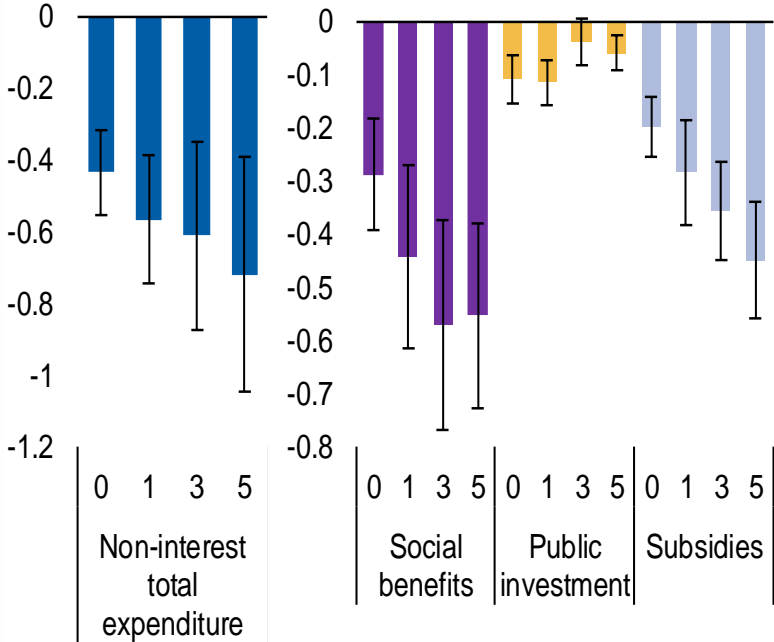
Effect of US Financial Volatility on EMs Bond Yield Volatility (Percent)



Effect of US Financial Volatility on Global Commodity Prices (Percent)



Crowding-Out Effects of Interest Expenses on Other Public Spending (Percent of potential GDP)

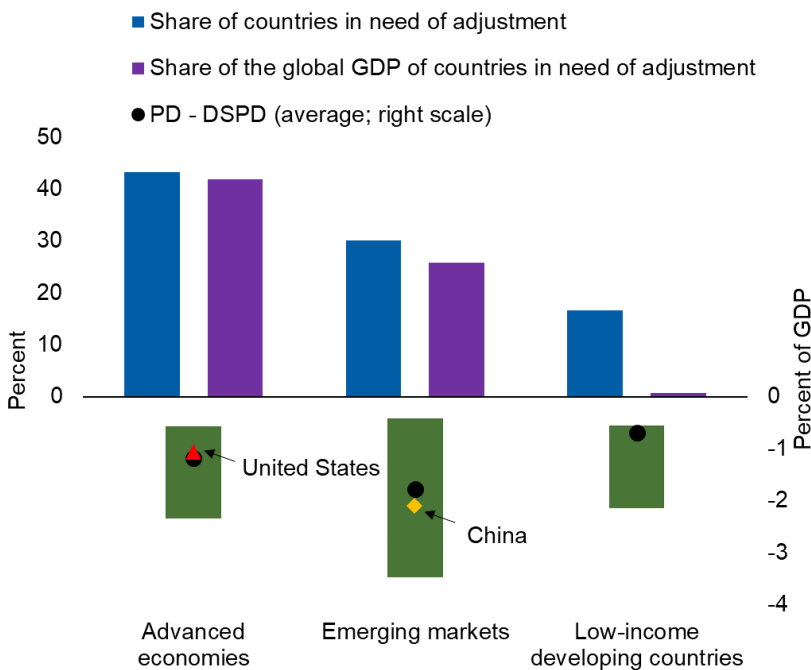


Sources: Federal Reserve Economic Data; JPMorgan; Ludvigson, Ma, and Ng (2021); and IMF staff calculations.  
Note: The figure shows the impulse response functions from a Bayesian Vector Autoregressive model including U.S. financial volatility, commodity price, the Chicago Board Options Exchange (CBOE) gold volatility, CBOE crude oil volatility, the volatility of sovereign bond yields in advanced economies (excluding the United States), and the volatility of sovereign bond yields in emerging market economies. The sample is from June 2008 to December 2024. The advanced economies and emerging market sovereign bond yield volatility is the standard deviation of daily Global Bond Index yields and Emerging Market Bond Index yield in the month, respectively. The US financial volatility is from Ludvigson, Ma, and Ng (2021). The financial volatility shock is scaled to be about two standard deviations. Shaded areas represent the 90th confidence interval.

Sources: IMF, Global Debt Database; IMF, Government Finance Statistics, IMF, World Economic Outlook; and IMF staff calculations.  
Note: The figure shows the effect of a 1 percent of potential GDP increase in interest expenditures on selected budget categories 0, 1, 3, and 5 years ahead. The vertical lines show 68 percent confidence intervals (see Online Annex 1.5).

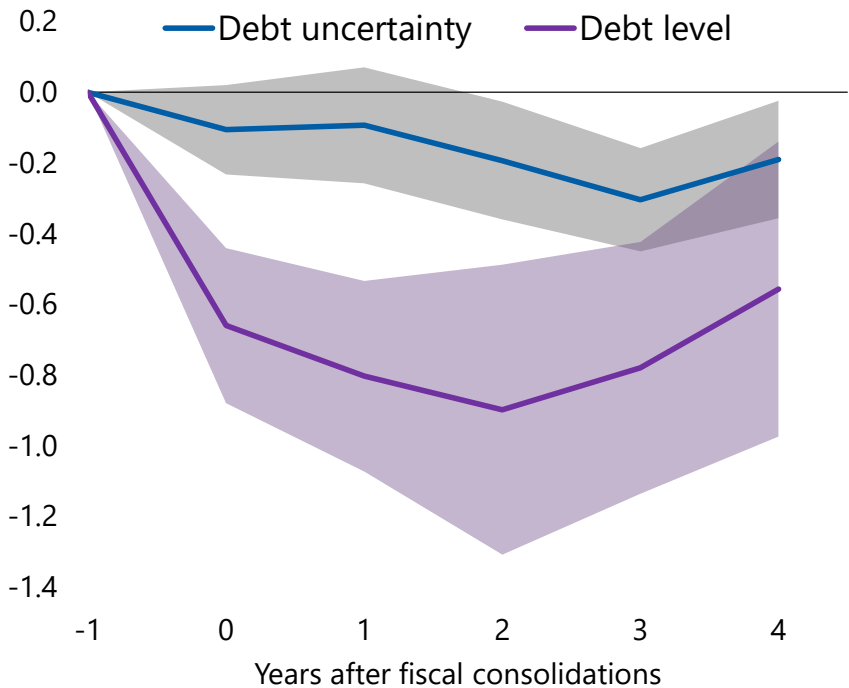
# Needed fiscal adjustment reduces debt risks

Share of Economies with PB above the Debt-Stabilizing Level in 2030, and the Adjustment Required in the PB



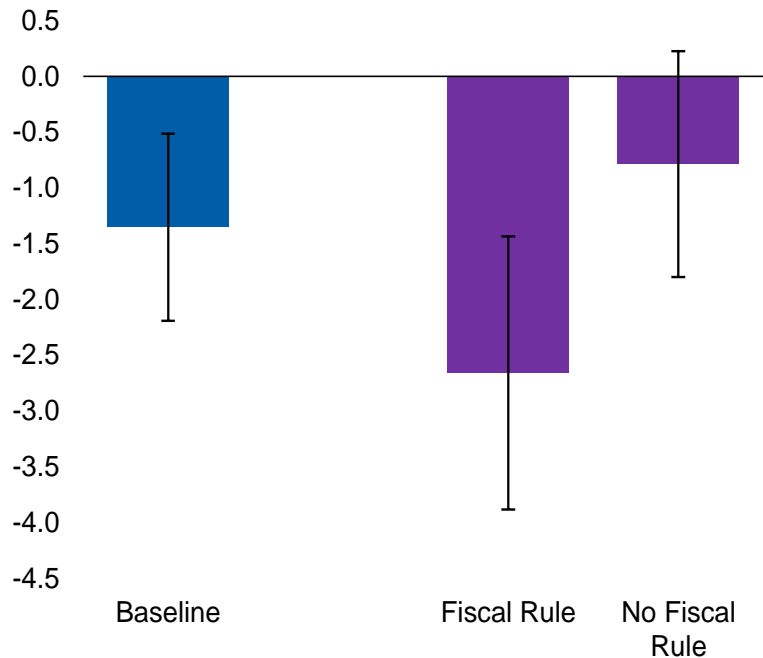
Sources: World Economic Outlook database; and IMF staff calculations.  
Note: Values in the bars indicate the share of economies with PB < DSPB in 2030. Adjustment needs (yellow dots for the average for the income group, unless stated otherwise) indicate the necessary change in primary deficits to stabilize debt for economies with PD < DSPD in 2030.

Average Effect of Fiscal Adjustment on the Level and Uncertainty about Debt (Percent of GDP)



Sources: Frangiamore, Furceri, and Pizzuto (forthcoming); World Economic Outlook database; and IMF staff calculations.  
Notes: Shaded areas represent the 90 percent confidence interval. impulse response functions of debt-at-risk to fiscal consolidation over time.

Average Effect of Fiscal Adjustment on Debt-at-Risk in the Baseline and in the Presence of Fiscal Rule (Percent of GDP)



Sources: Frangiamore, Furceri, and Pizzuto (forthcoming); World Economic Outlook database; and IMF staff calculations.  
Notes: Bars represent the point estimate and lines the confidence intervals.

# Build fiscal buffers against new risks

- **Fiscal policy faces pronounced trade-offs among four key objectives:** reducing debt; building and expanding buffers to address future shocks; meeting urgent spending needs; and enhancing growth prospects.
- **Gradual fiscal adjustment within a credible medium-term framework remains essential in most countries,** balancing the pace and timing of debt reductions with economic growth and using a country-specific design.
- **Advanced economies** should reprioritize expenditures, advance pension, health care, and tax reforms, and pursue active labor policies for their working-wage labor force.
- **Emerging markets and developing economies** should reform tax systems, broaden tax bases, improve revenue administration, while phasing out energy subsidies and rationalizing the wage bill.
- **If necessary, offer timely, targeted, and temporary support to communities** affected by trade disruptions.
- **Advancing fiscal and structural reforms is crucial** to reignite growth and mitigate debt-growth trade-offs.





# Thank you