FISCAL AFFAIRS

The IMF's Key Fiscal Insights—Fiscal Monitor

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SUERF BAFFI Bocconi e-lecture
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Outline and main messages

1. **Global Fiscal Outlook.** Global deficits stay near 5% of GDP and debt is on track to exceed 100% of GDP. Going forward, mounting aging, defense and development needs will add further pressures.

2. **Higher Long-Term Rates.** Long-term yields are at their highest in nearly two decades and more sensitive to debt. With less favorable interest-growth differential, interest bills are becoming a larger burden on public resources.

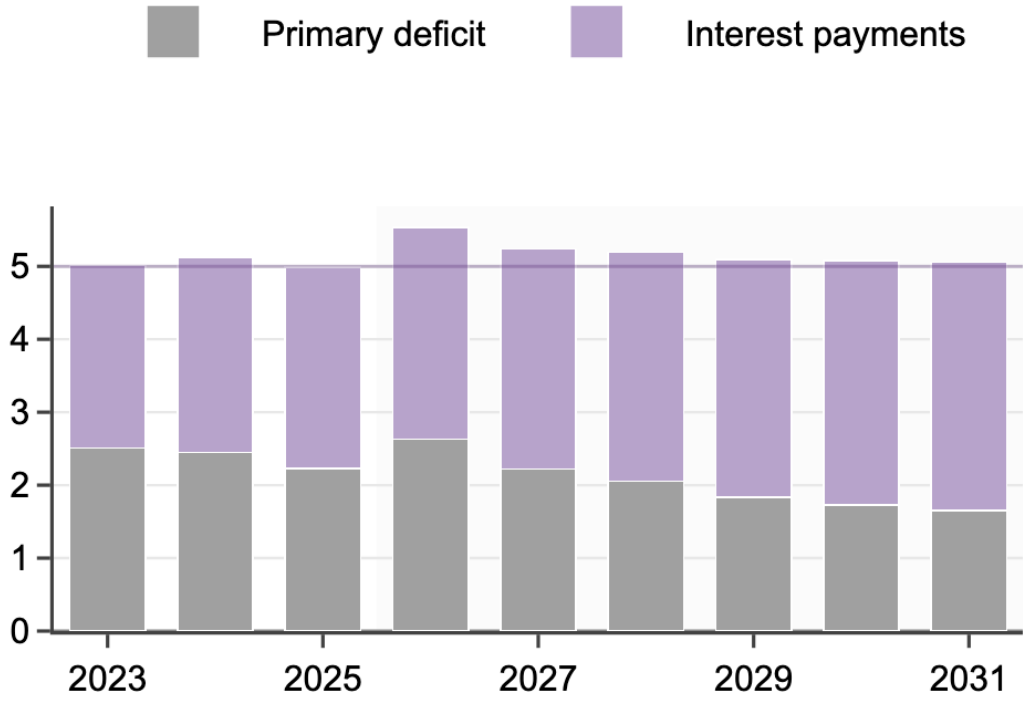
3. **Monetary-Fiscal Interactions.** Central banks are tightening while more debt falls due within a year. Higher debt and shorter maturity affect monetary transmission and impact on fiscal positions.

4. **Taxing Better to Boost Growth.** How revenue is raised matters: lower distortions to production, investment and work, stronger tax administration and simpler tax laws can lift growth and revenue without higher rates.

Global Fiscal Outlook

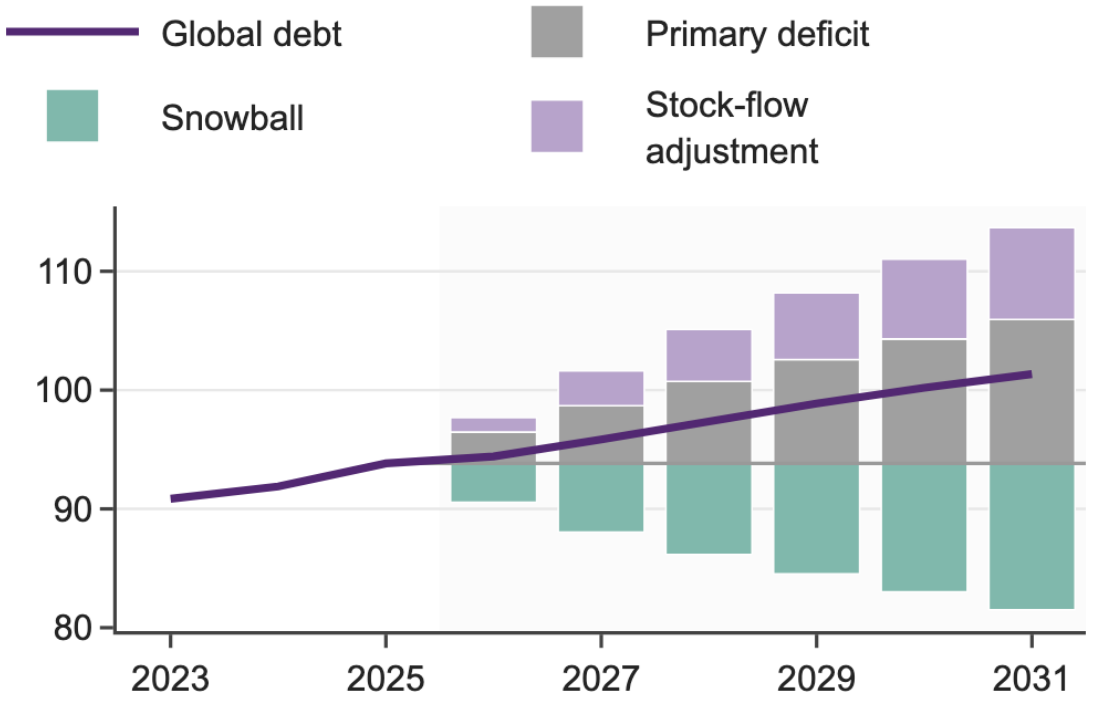
Global deficits stay near 5% of GDP while debt is on track to exceed 100%

Global overall deficit
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Stacked bars show the primary deficit and interest payments in the October 2026 WEO. Their sum is the overall deficit. Shading marks the forecast horizon.

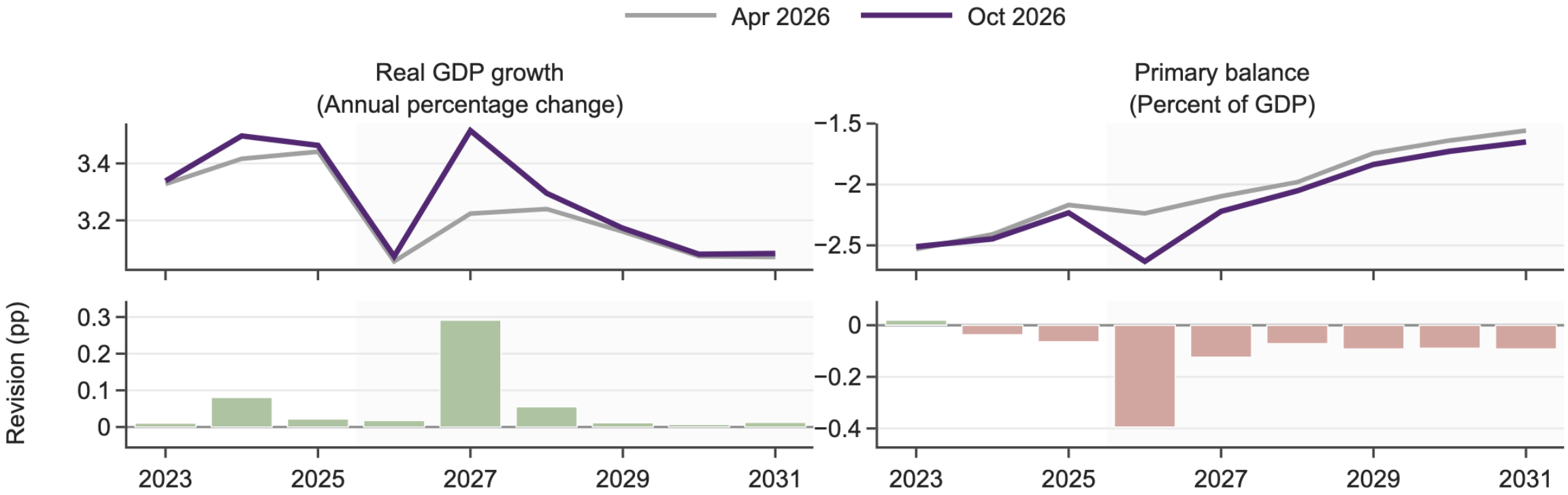
Global debt and its drivers
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Line: gross general government debt, October 2026 WEO global aggregate, 2023–31. Bars: cumulative primary deficits, snowball effects, and stock-flow adjustments from 2026 onward, anchored at the 2025 debt ratio (gray line). Positive contributions raise debt; negative contributions lower it. Shading marks the forecast horizon.

While global growth has been resilient primary deficits are expected to widen

Global forecasts in April and current October 2026: levels and revisions
(As indicated)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Lines compare April 2026 and October 2026 WEO projections. The lower row shows October minus April revisions; green and red denote upward and downward revisions, respectively. Shading marks the forecast horizon.

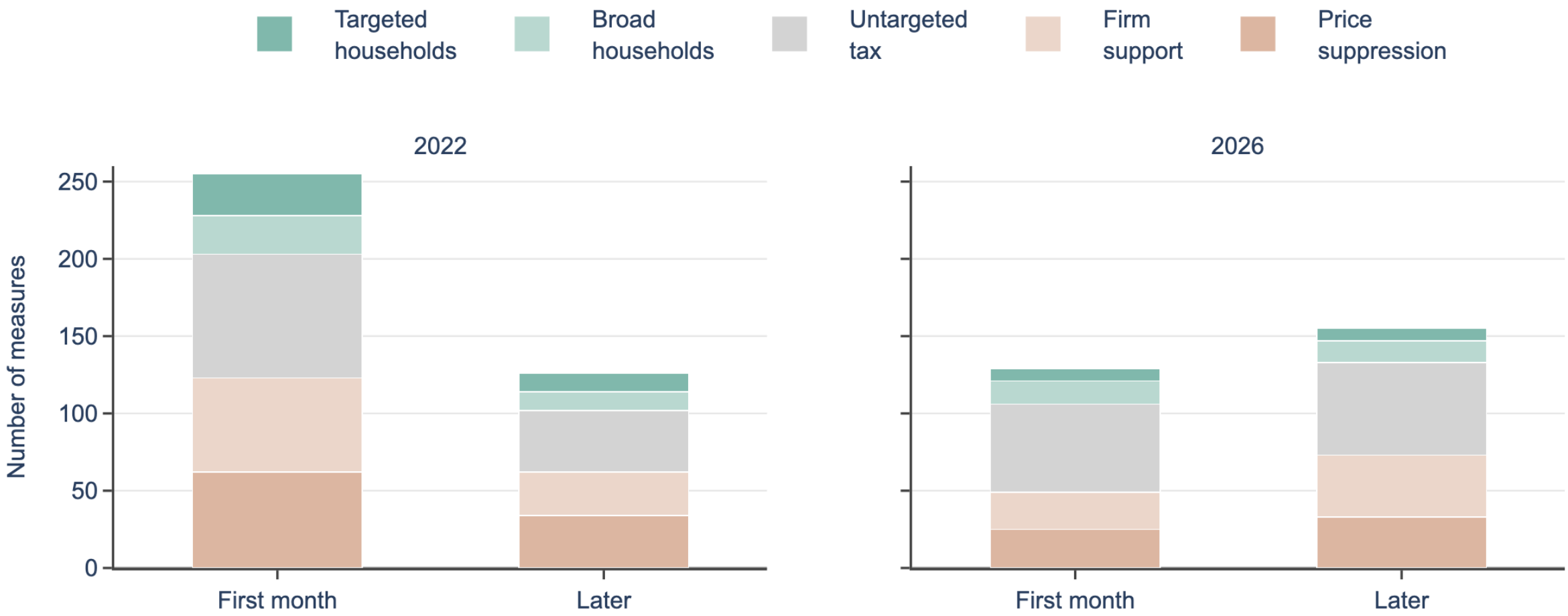
New spending commitments and energy pressures are adding to fiscal strains

Economy	Key fiscal developments
United States	Tariffs rolled back. Debt buyback delivered only short-lived relief. Supplemental budget for defense and military programs.
Euro area	National escape clause includes energy security. Defense and infrastructure spending up in Germany. Tests ahead of 2027 elections in France and Italy.
United Kingdom	Fiscal pressure building ahead of the October budget. Debate growing over flexibility within existing rules.
Japan	Food consumption-tax cut. Authorities pledge no deficit-bond financing.
China	Record government bond issuance. Further fiscal support expected in the second half of 2026. Local government risk remains high.
Emerging markets	Divergence: some benefit from the AI boom or higher commodity prices. Many weaken as energy prices rise.
Low-income countries	Better fiscal conditions in commodity exporters. Higher interest bills, little fiscal buffer for another shock, and rising food-security risks.

Source: IMF staff assessments.

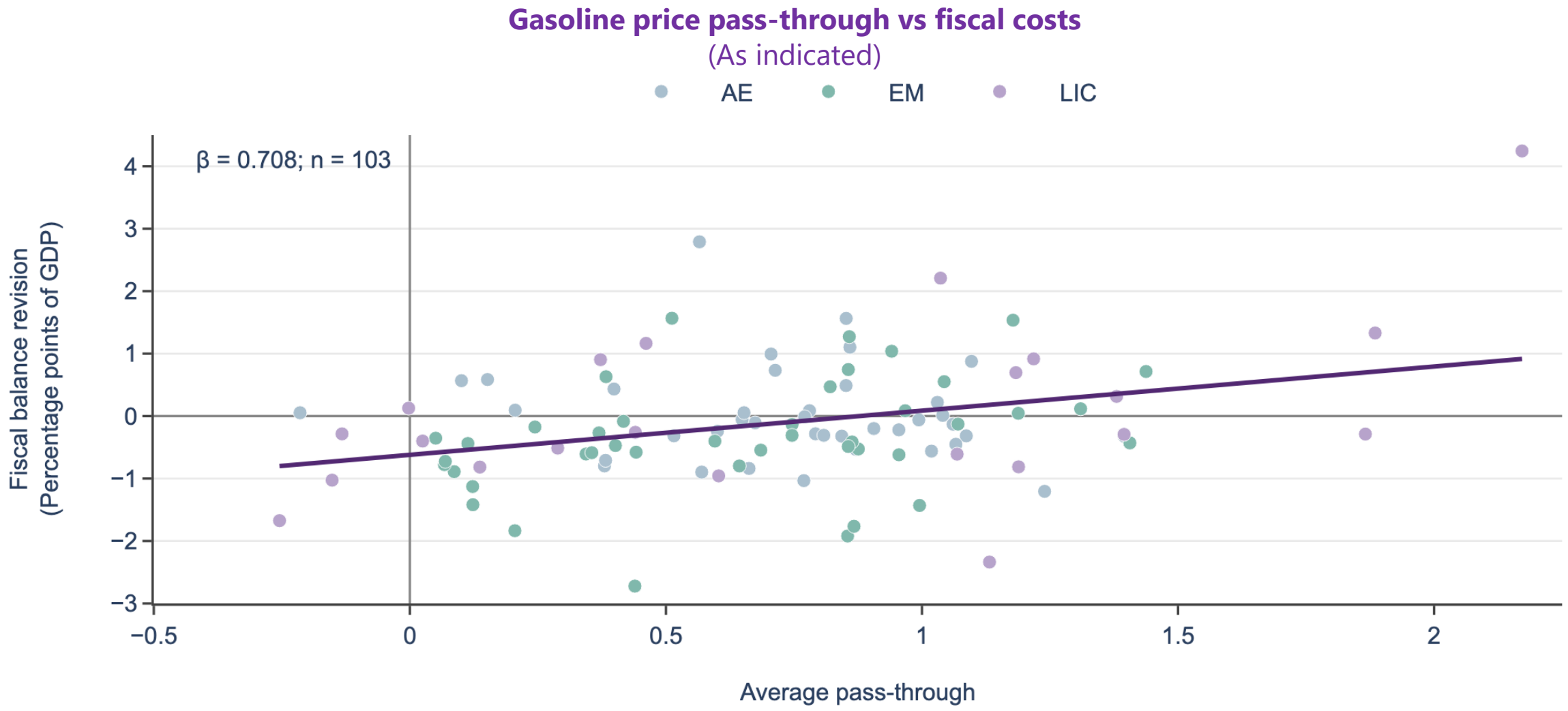
Energy support falls short of sound policy design…

Policy measures after the 2022 and 2026 energy shocks, by type
(Number of measures)



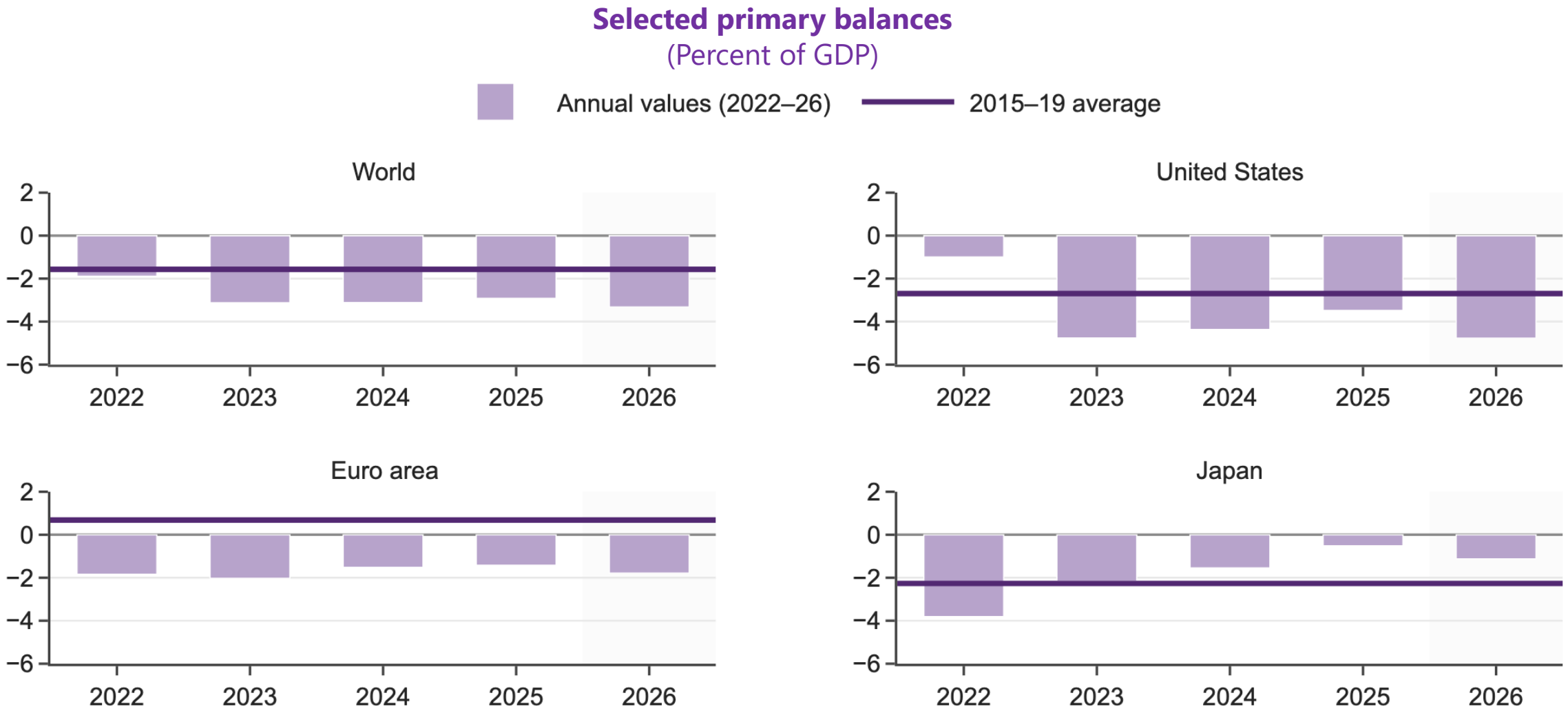
Sources: IMF Global Policy Tracker; and IMF staff calculations.
Notes: Measures announced in the first three months after each shock, as recorded in the 2022 and 2026 policy trackers. First month: measures announced in the first month after the shock; later: the following two months.

...and is associated with fiscal costs



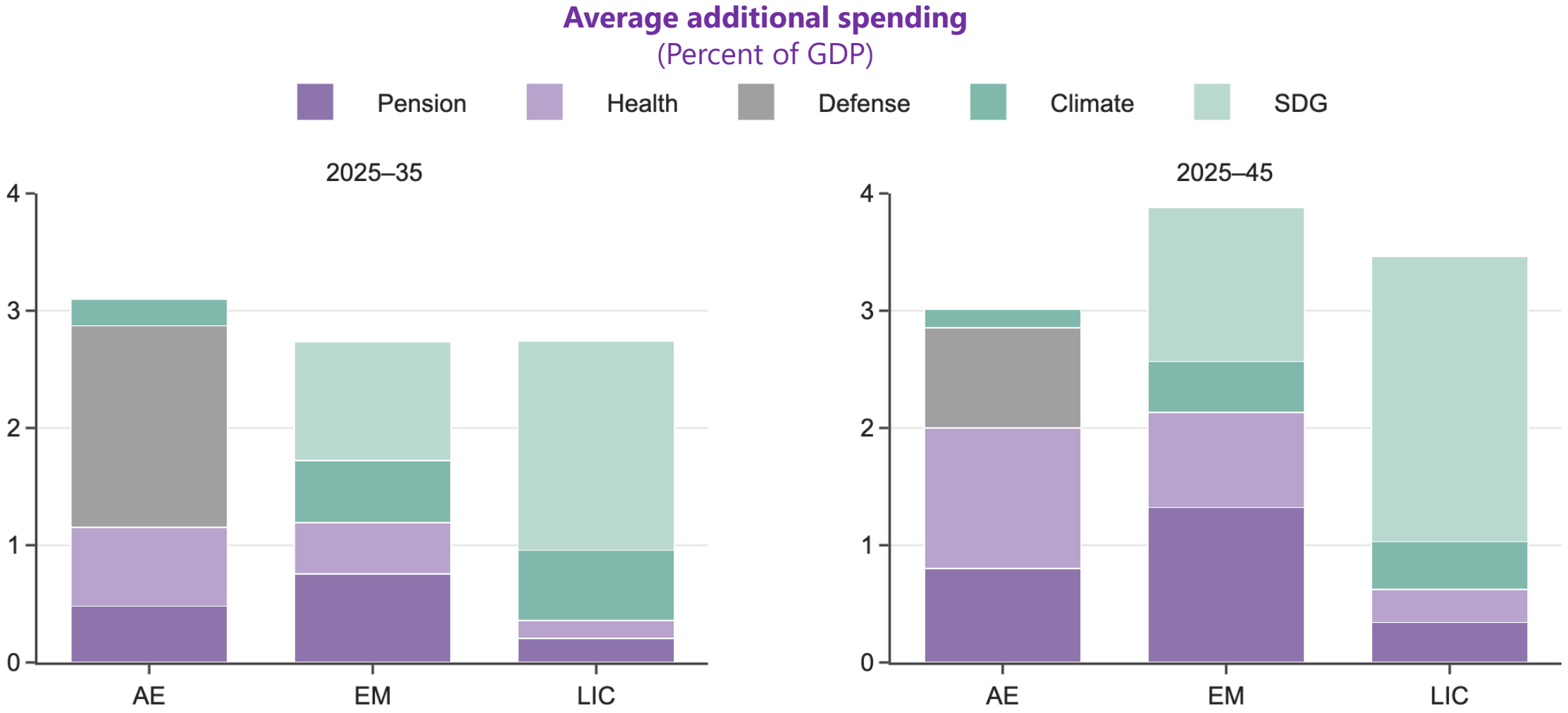
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Oil importers only; 103 economies. Fiscal revision: 2026 overall balance, October 2026 minus October 2025 WEO. Pass-through averages weekly cumulative transmission from early March to mid-August 2026, relative to the week of 26 January. Line: linear fit across all observations. AE = advanced economies; EM = emerging markets; LIC = low-income countries.

Primary deficits remain larger than their pre-pandemic averages over 2015–19



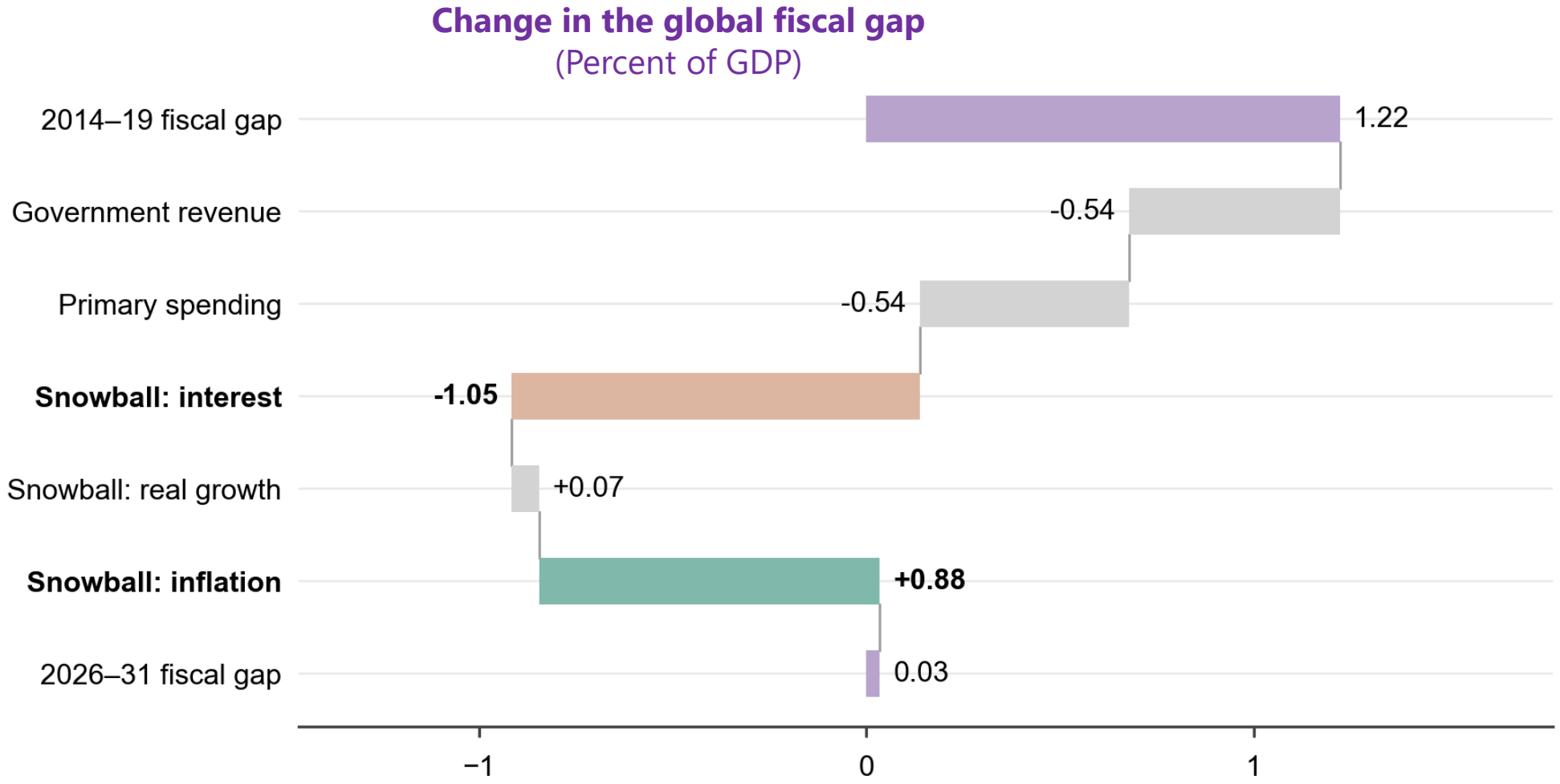
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Primary balances from the October 2026 WEO. Bars show 2022–26; horizontal lines show each economy's 2015–19 average. Shading marks 2026 projections. Euro area: fiscal-year US-dollar GDP-weighted average with fixed 2026 membership, including Bulgaria.

Aging, defense and development needs will add to spending pressures



Source: IMF Departmental Paper, Resilience Amid Structural Transformations: Are Macro Policy Frameworks Fit for Purpose?
Notes: Average annual spending increases relative to 2024, across years and economies in each group; source estimates cover 194 economies. Climate: adaptation investment. SDG: infrastructure gaps relative to sustainable development goals, adjusted for absorption constraints. Defense: COFOG 2022 and gaps to NATO targets; assumed zero outside AEs. AE = advanced economies; EM = emerging markets; LIC = low-income countries.

The global fiscal gap, positive a decade ago, is projected to be near zero



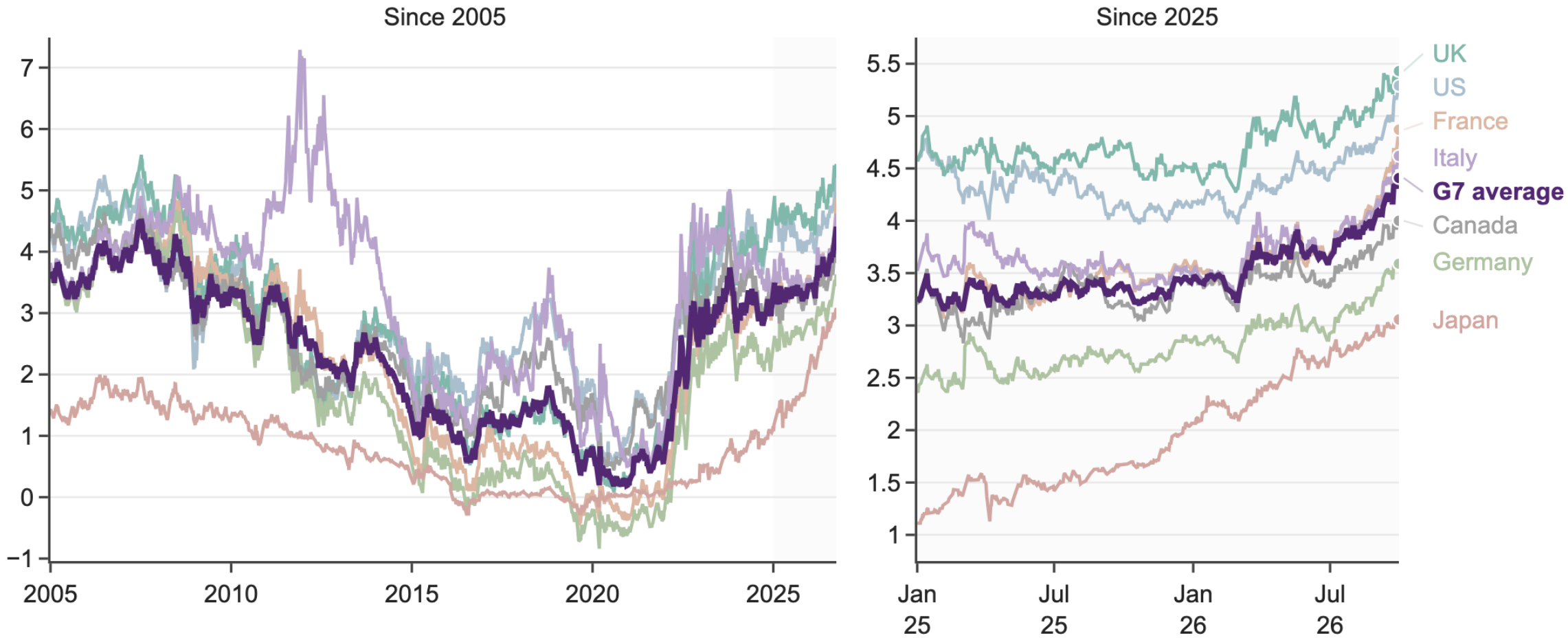
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Notes: Current October 2026 WEO, global aggregate. Fiscal gap = primary balance minus the debt-stabilizing primary balance, excluding stock-flow adjustments. Bars compare annual averages for 2014–19 and 2026–31. Negative contributions worsen the gap. The snowball contributions reflect interest rates, real growth, inflation, and debt levels.

Higher Long-Term Rates

G7 average 10-year yield at highest level in nearly two decades

10-year government bond yields since 2005: G7 economies and average

(Percent)



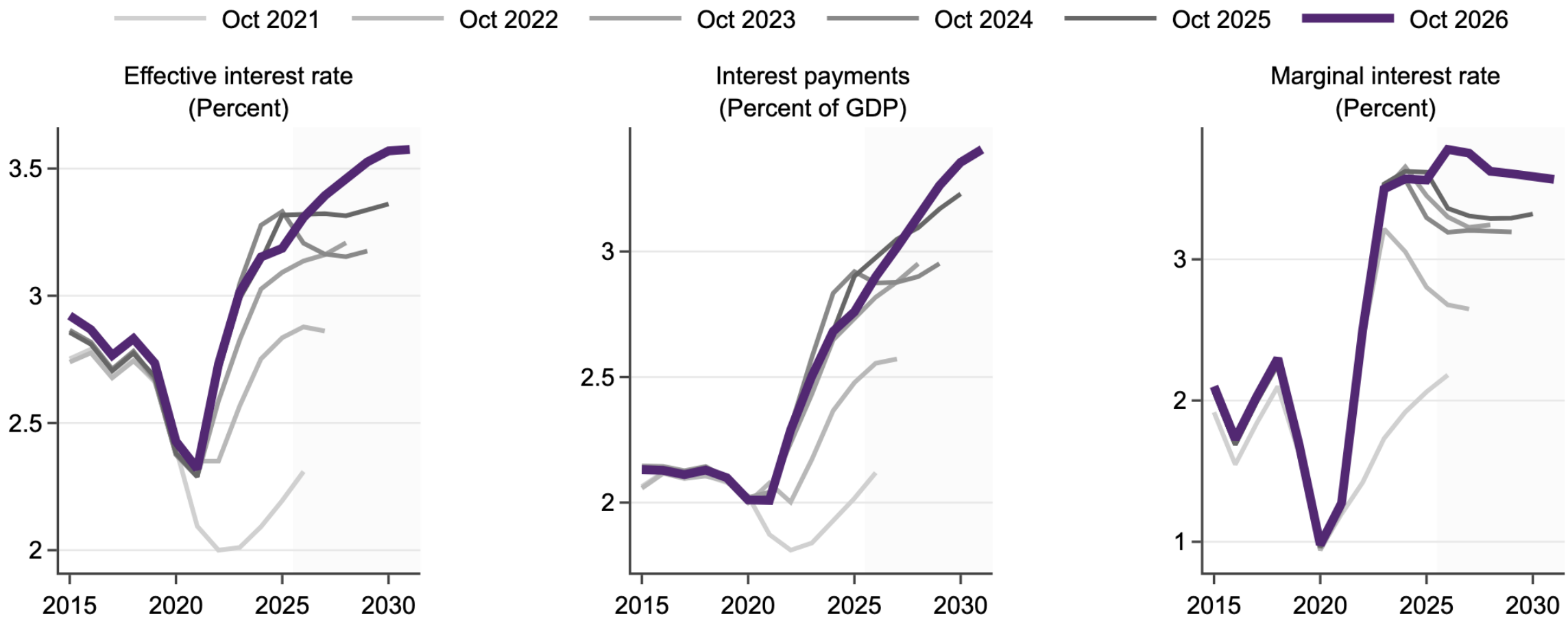
Source: Haver Analytics.

Notes: Daily 10-year government bond yields from January 2005 for all G7 economies. The purple line shows their equal-weight average. The right panel magnifies the period from January 2025, shaded in gray, with an independent vertical scale. Latest observation: 30 September 2026.

Global interest payments toward 3.5% of GDP by 2031

Global financing costs across October WEO vintages

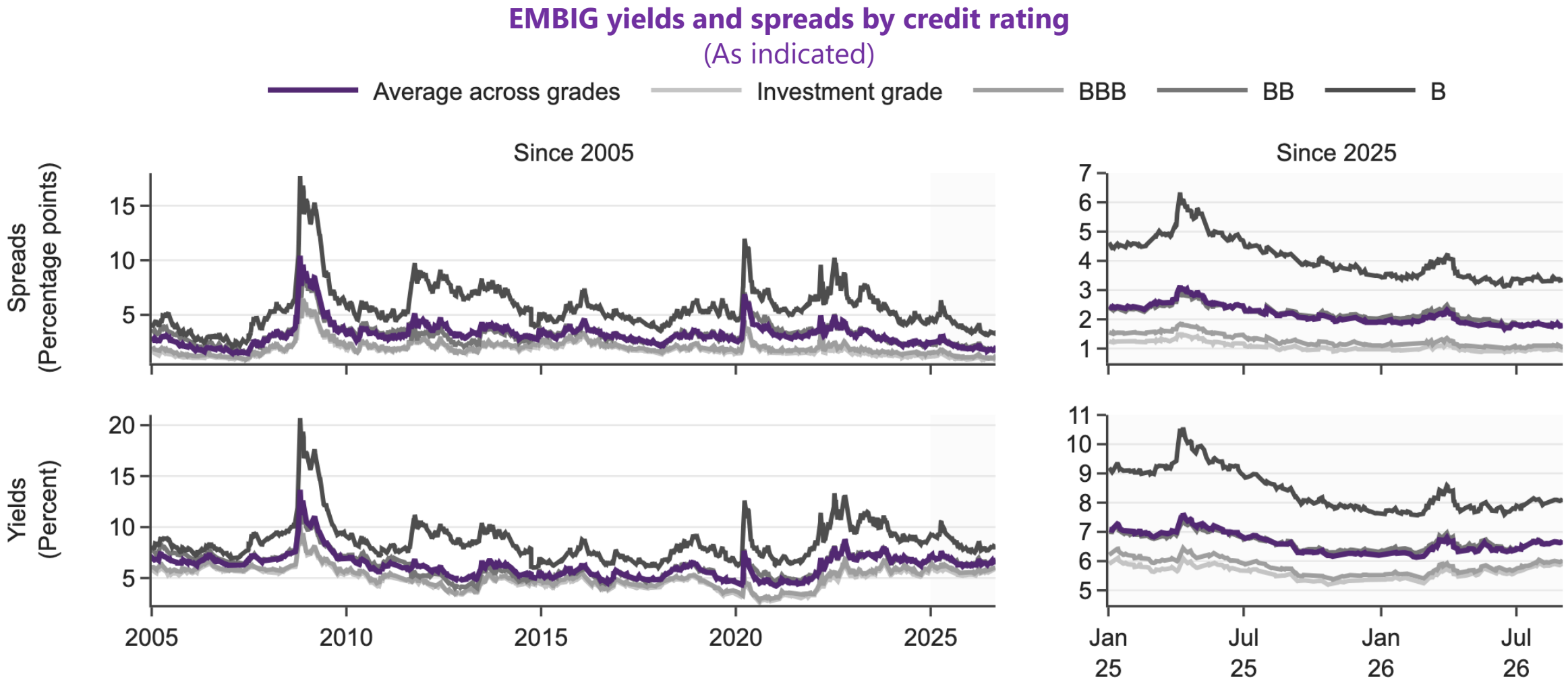
(As indicated)



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

Notes: Effective rate: nominal interest payments relative to the previous year's nominal debt stock. Marginal rate: proxy combining short- and long-term rates with short-term shares of 20% in AEs, 25% in EMs and 30% in LICs, aggregated using gross-debt weights and excluding Argentina. It measures new borrowing costs, rather than the effective rate on the debt stock. Shading marks the forecast horizon. AE = advanced economies; EM = emerging markets; LIC = low-income countries.

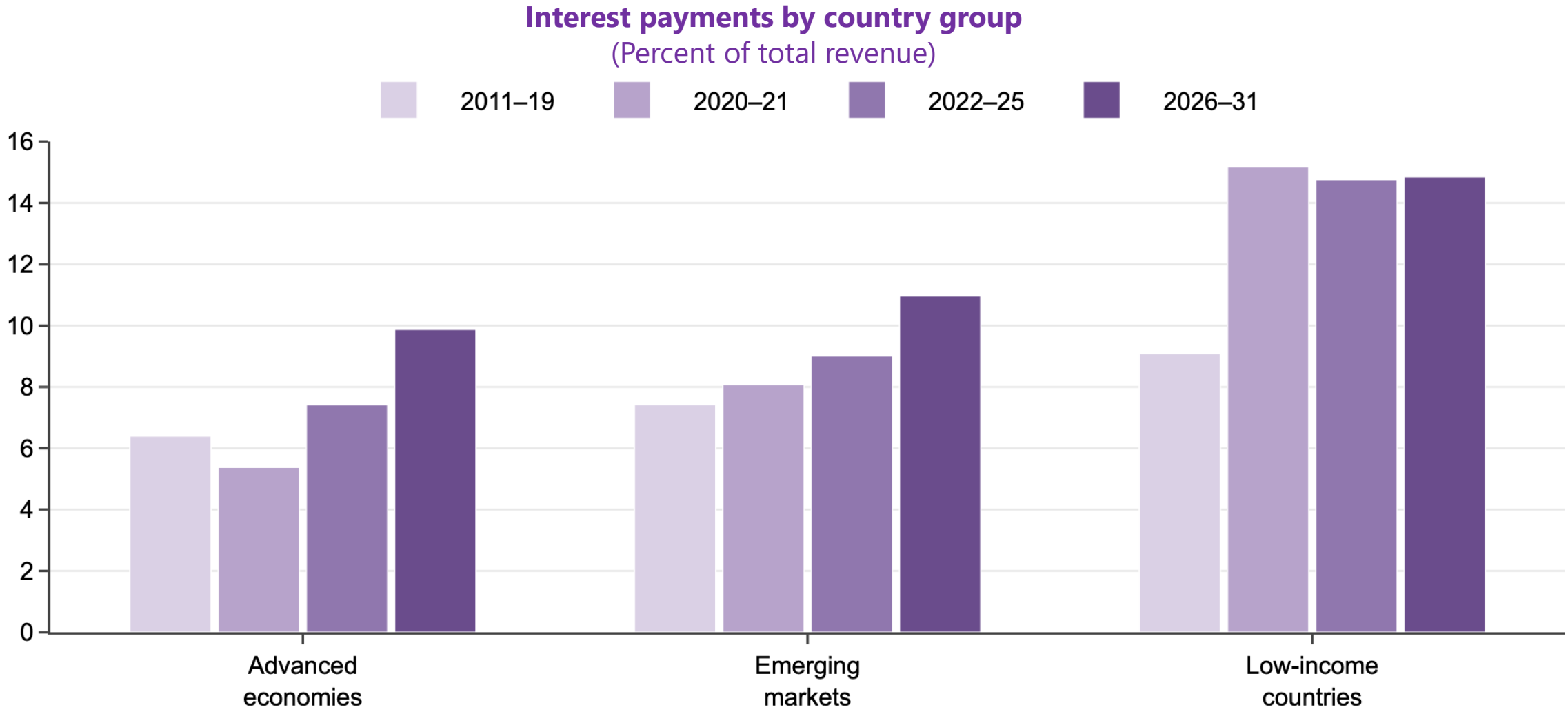
Tighter spreads in many emerging market economies



Sources: J.P. Morgan; and IMF staff calculations.

Notes: Daily J.P. Morgan EMBIG strip spreads (top, percentage points) and yields to maturity (bottom, percent), by credit rating, from 1 January 2005. Latest observation: 1 September 2026. Purple line: equal-weight average of the four displayed grade series, rather than a market-weighted EMBIG aggregate; investment grade includes BBB, so the groups overlap. Left panels show the full historical range. Right panels magnify the period from January 2025, shaded in gray, with independent vertical scales.

Rising interest bills are an increasingly inflexible burden on public resources

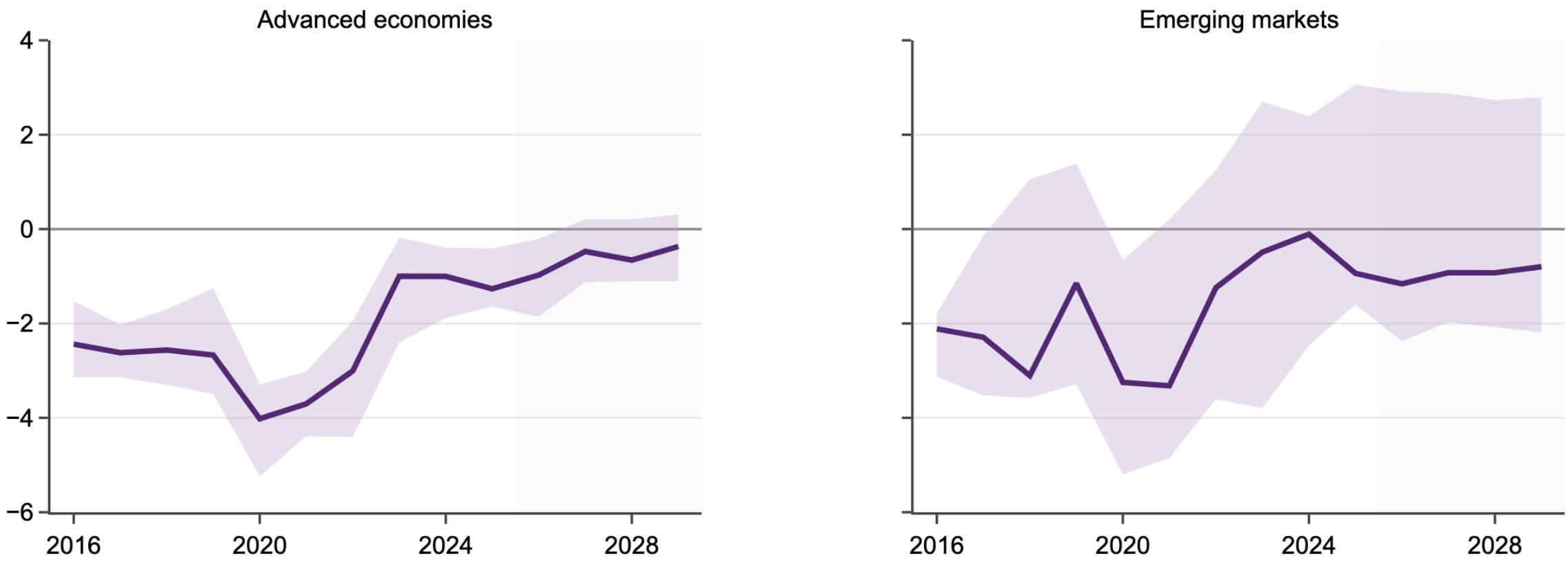


Sources: IMF, October 2026 World Economic Outlook database; and IMF staff calculations.
Notes: Bars show period averages of annual interest payments divided by total general government revenue. Ratios use WEO group aggregates, including the United States in advanced economies and China in emerging markets. 2026–31 are projections.

r–g is much less favorable than in recent years and set to rise

Marginal interest rate minus nominal GDP growth two years ahead: real-time forecasts

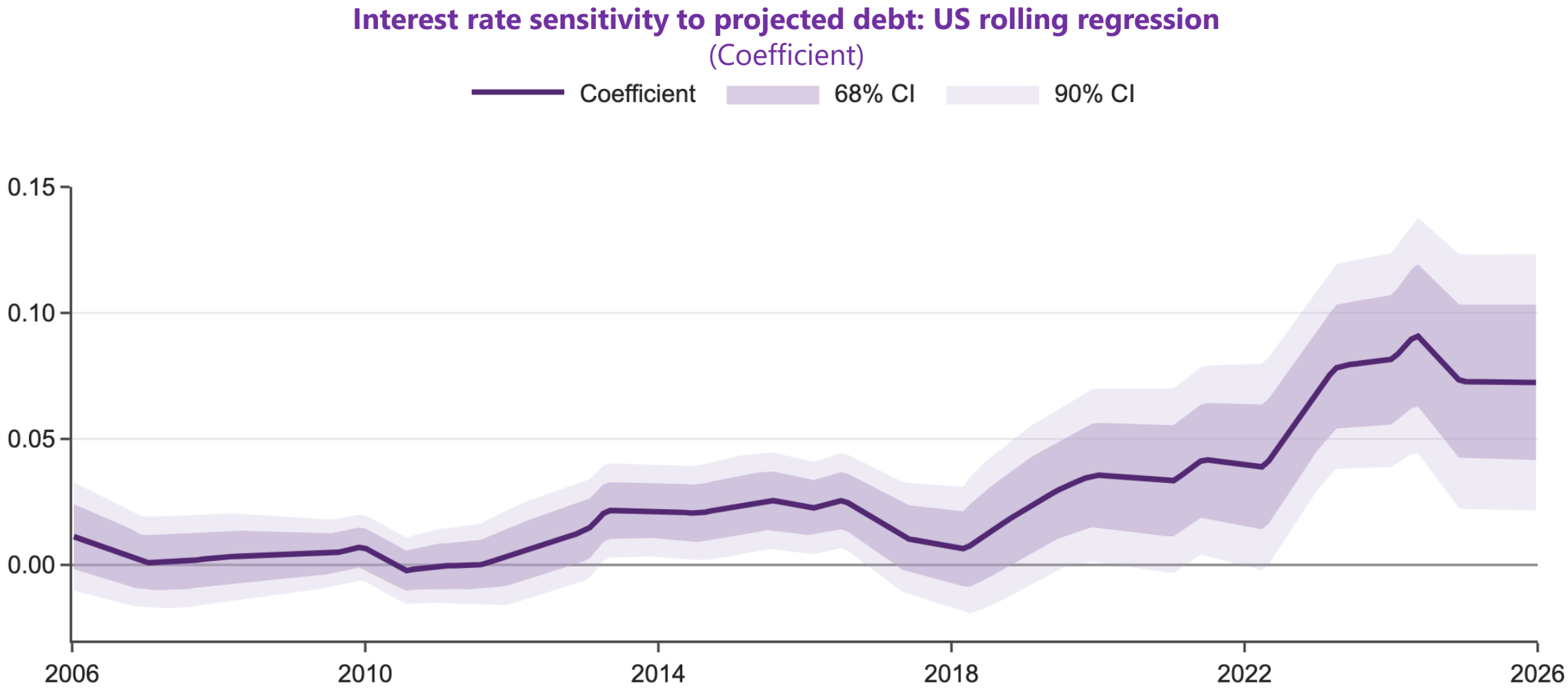
(Percentage points)



Sources: IMF, World Economic Outlook database, October 2016–26 vintages; and IMF staff calculations.

Notes: Each year through 2025 uses that year's October vintage; 2026–29 use the October 2026 vintage. Spread: blended marginal-rate proxy in a given year minus nominal GDP growth two years later, both forecast in that vintage. Short-/long-term rate weights: 20/80% for AEs, 25/75% for EMs. Lines: unweighted cross-country medians; bands: interquartile ranges. Shading marks 2026–29. Current country groups; coverage: 35 AEs and 17–18 EMs. AE = advanced economies; EM = emerging markets.

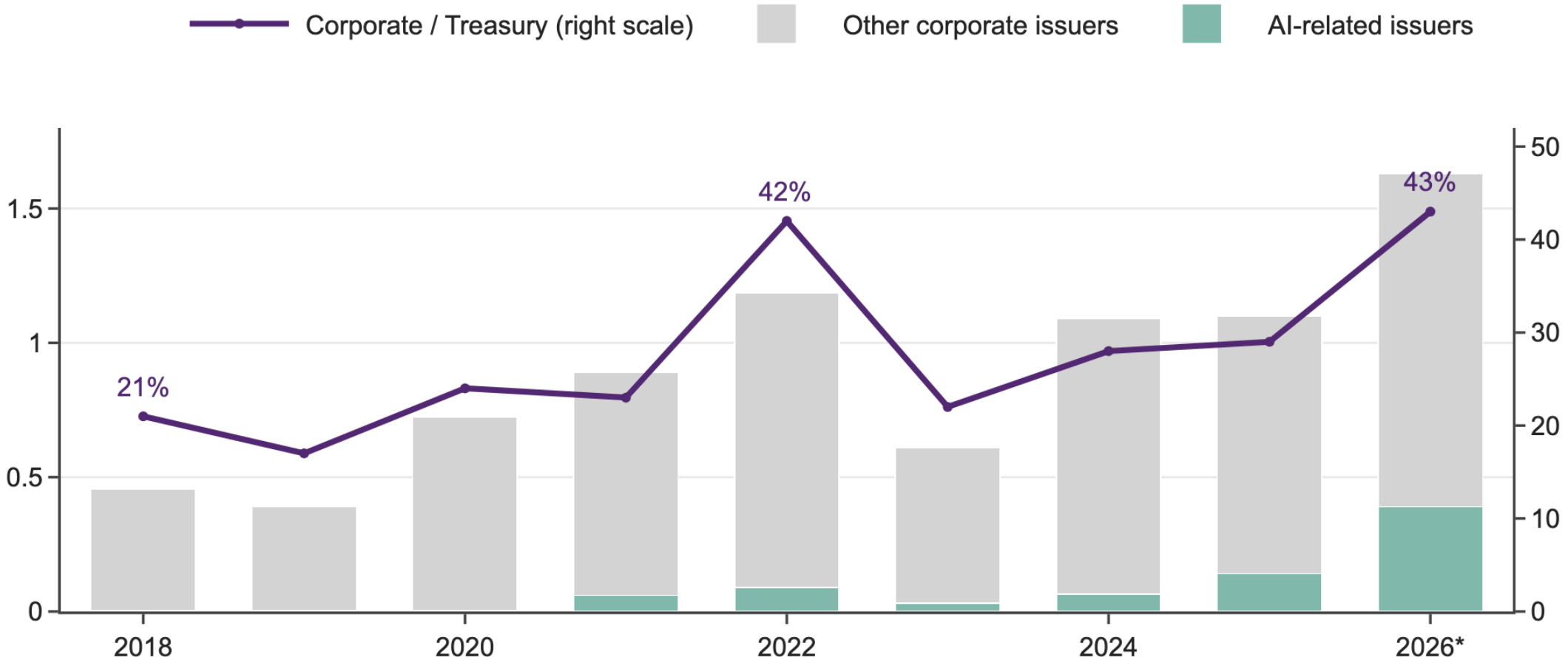
US long-term forward rates have become more sensitive to projected debt



Sources: Furceri, Gonçalves, and Li (2026); and IMF staff calculations.
Notes: US data, rolling windows of 40 observations. Coefficient of 10–15-year forward rates on projected debt. Darker and lighter bands show 68% and 90% confidence intervals (CI).

Sharply rising corporate issuance adds to competition for long-term funding

US corporate bond issuance and ratio to Treasury issuance
(USD trillions, left scale; percent, right scale)

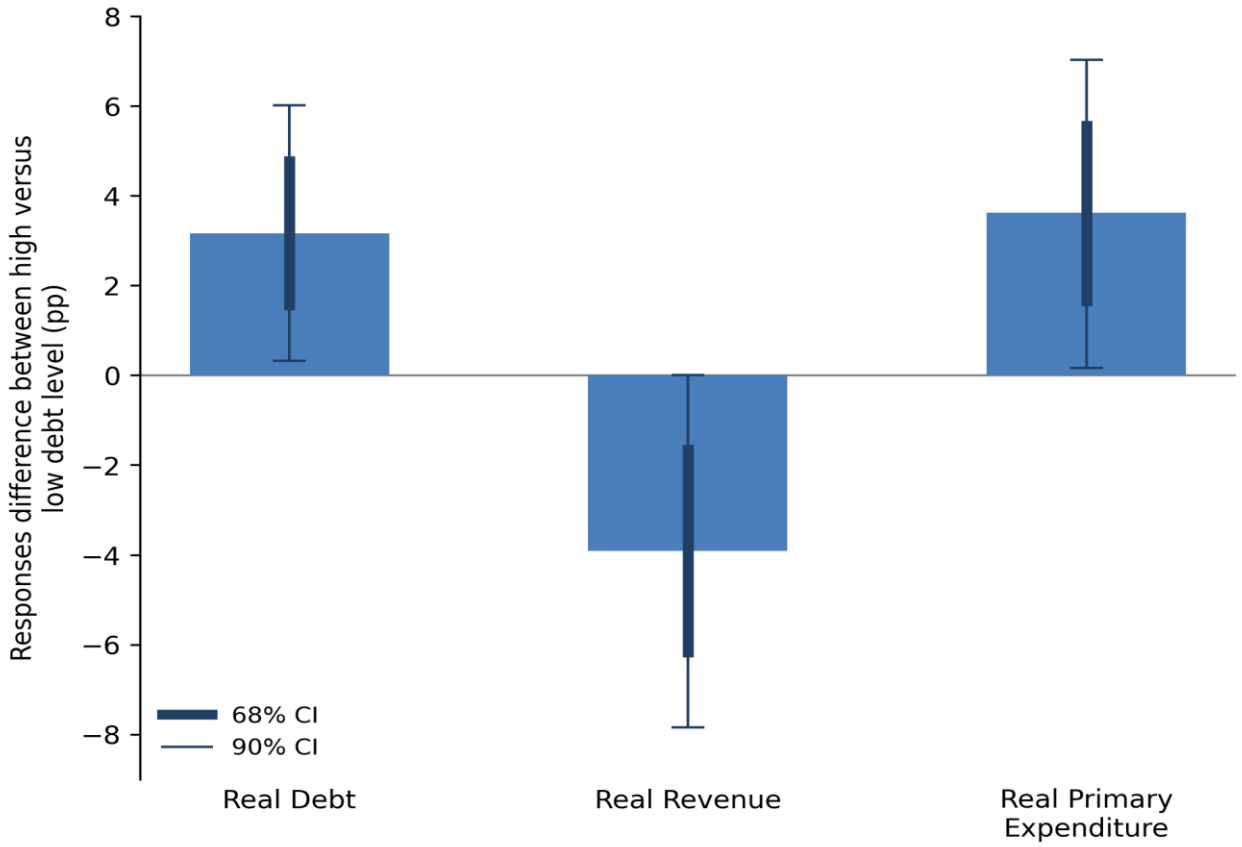


Sources: LSEG; and IMF staff calculations.
Notes: Fixed-rate US-dollar corporate issuance. AI-related issuers are firms held by AIQ, ARTY or BAI ETFs in August 2026, applied to all years. Ratio denominator: gross fixed-rate Treasury issuance with maturities of at least two years. *2026 annualizes January–June issuance.

Monetary-Fiscal Interactions

Higher debt amplifies monetary policy transmission

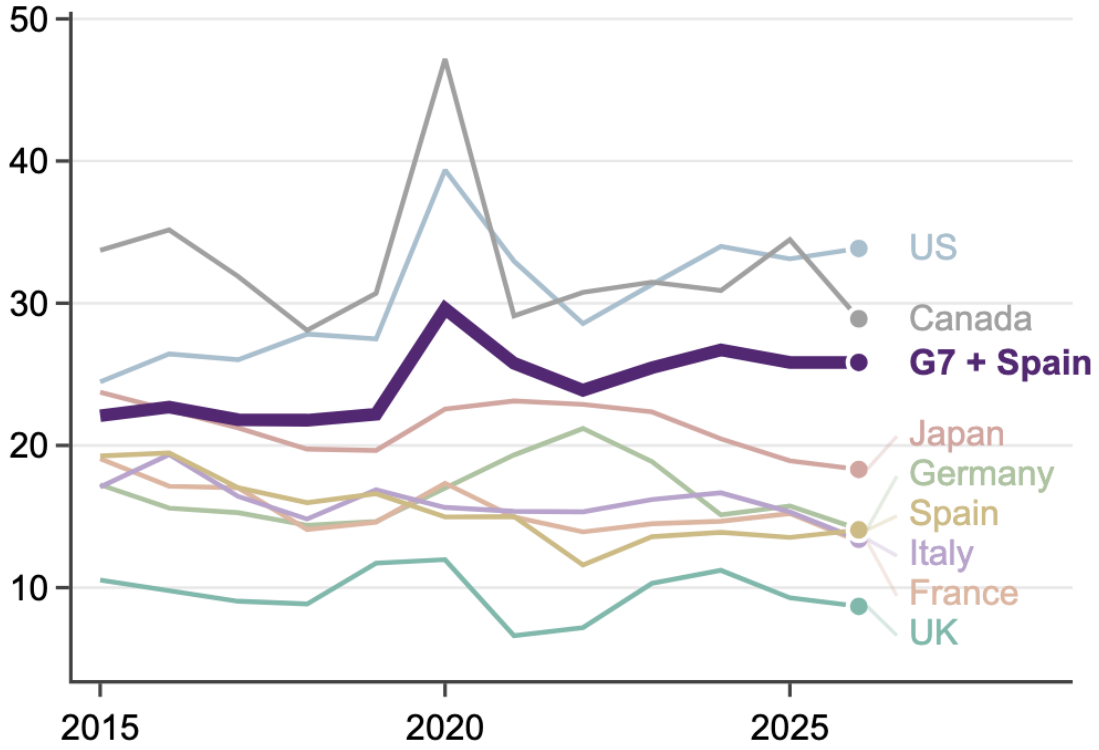
Effects of monetary policy shocks on fiscal position
(Percentage points of GDP)



Source: Furceri et al. (2026).
Note: Bars show the difference in the response of fiscal and macro variables to a 100-basis-point monetary tightening shock between a high-debt state (initial debt at 100 percent of GDP) and a low-debt state (60 percent of GDP), one year after the shock. The effect of the initial debt level on the macro-fiscal response to monetary policy shocks is obtained from Furceri and others (forthcoming), estimated via local projections using U.S. data over 1969Q1–2019Q4.

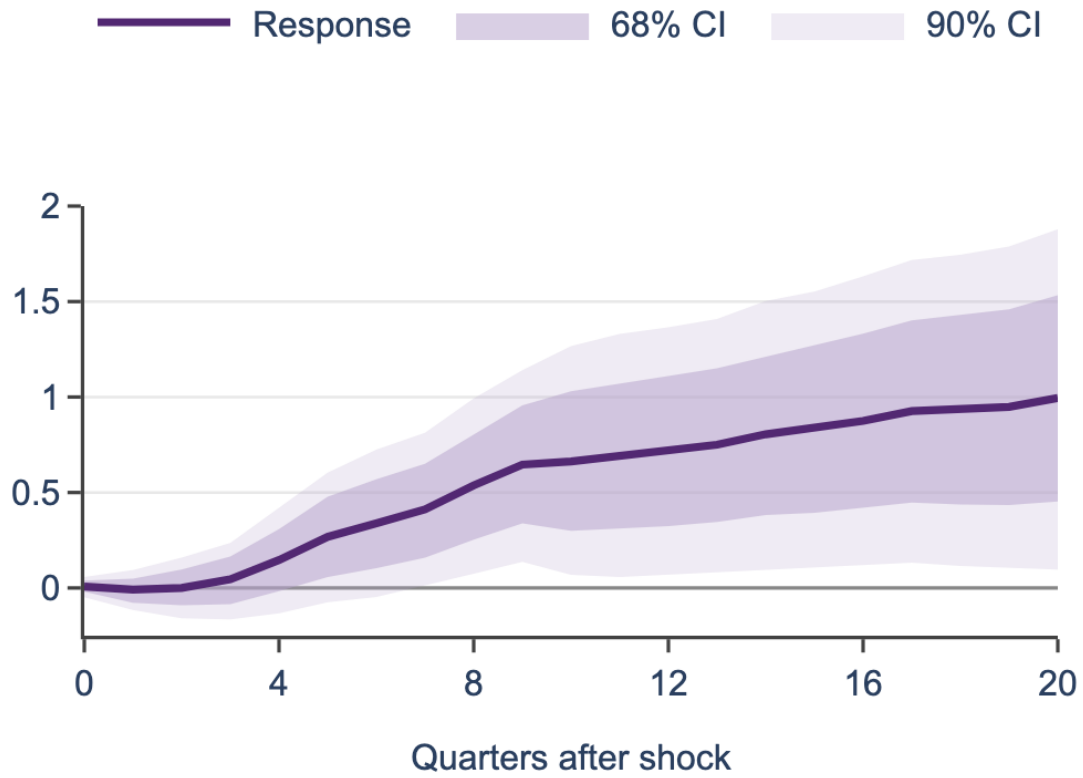
Shorter debt maturity makes fiscal positions more exposed to monetary tightening

Share of debt maturing within one year
(Percent)



Sources: Bloomberg Finance L.P.; IMF, World Economic Outlook database; and IMF staff calculations.
Notes: End-June snapshots, 2015–26, of domestic-currency marketable central government debt. Residual maturity of one year or less includes bills and bonds of any original maturity. Excludes strips, when-issued and foreign-currency instruments. G7 + Spain: aggregate maturing debt divided by aggregate outstanding debt, converted to US dollars at annual-average exchange rates; 2026 exchange rates are projections.

Effects of monetary policy shocks on debt
(Percentage points of GDP)



Source: Furceri and others (2026).
Notes: Additional debt response to a 100 basis point monetary tightening per 10 percentage points higher T-bill share. US local projections, 1969Q1–2019Q4; Newey–West standard errors. CI = confidence interval.

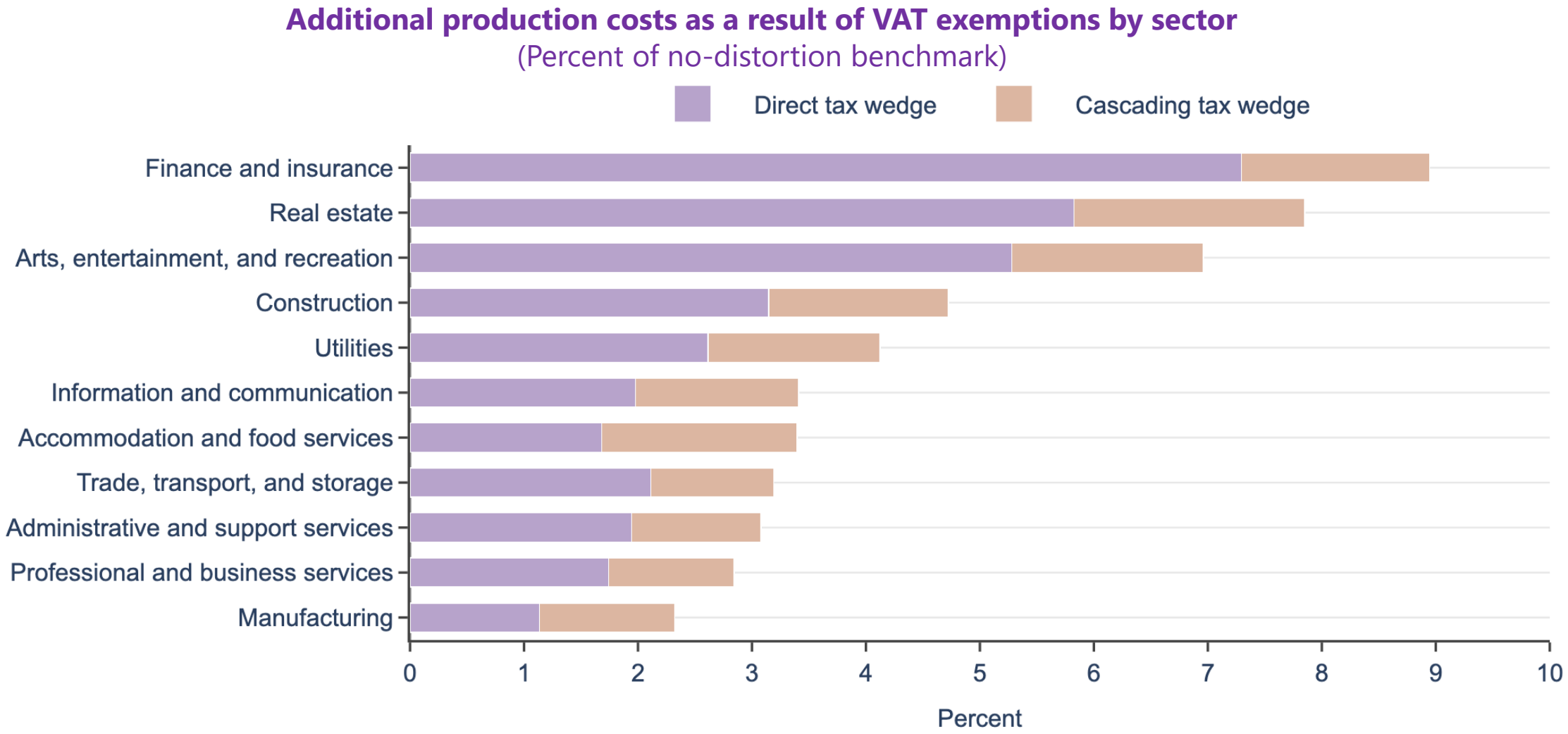
Policy Recommendations

Policy recommendations

1. **Act now** to put debt on a sustainable path where debt and risks are elevated, with concrete measures anchored in credible medium-term plans.
2. **Spend smarter and let prices reflect energy scarcity**, providing support only if needed, and keeping it limited, targeted and temporary for the vulnerable.
3. **Tax better to boost growth**: keep taxes off business inputs, tax rents rather than marginal investment, strengthen work incentives, and build tax administration and clear tax laws—without sacrificing revenue—while improving spending efficiency.
4. **Strengthen fiscal frameworks** through better institutions, rules and transparency, with realistic assumptions.

Taxing Better to Boost Growth

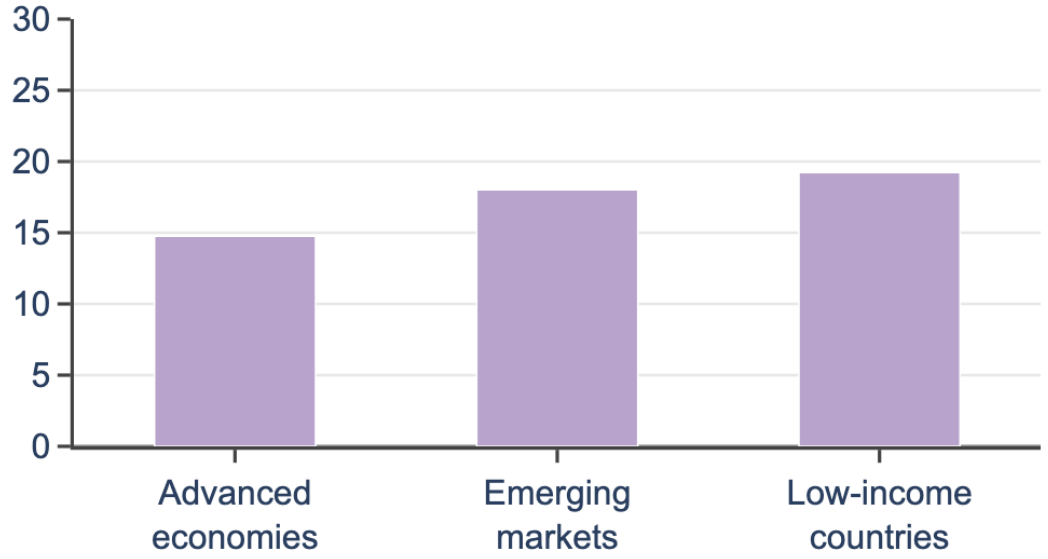
VAT exemptions raise production costs by blocking input-tax recovery and cascading through supply chains



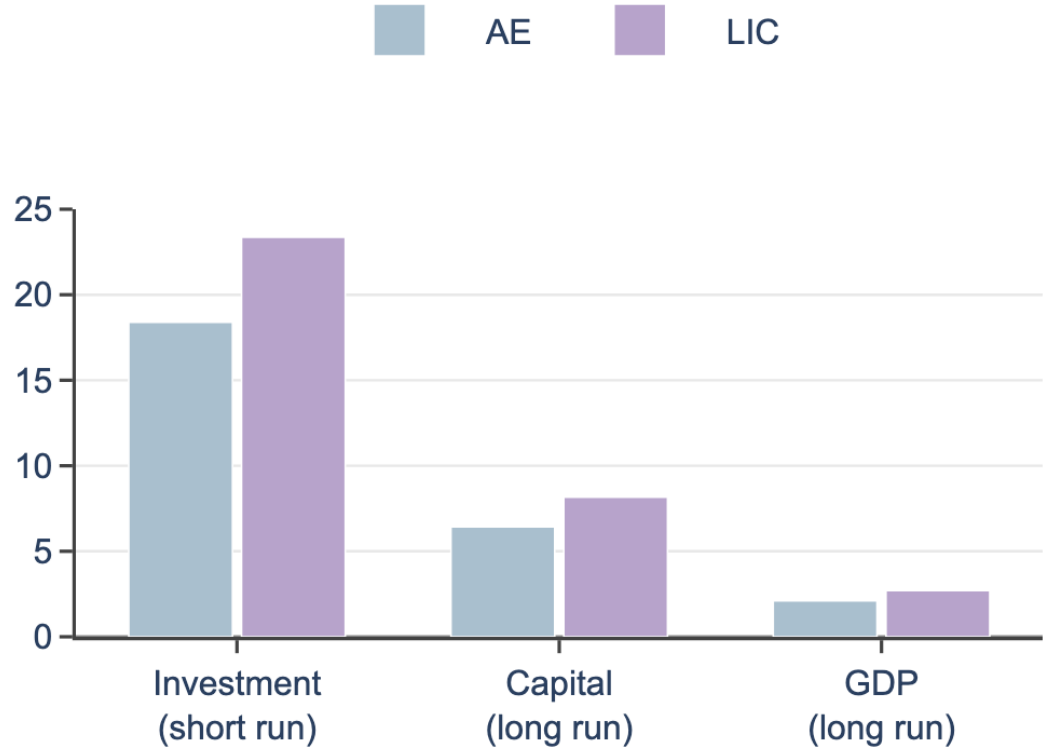
Source: IMF staff calculations.
Note: The figure shows direct costs—borne by producers that are unable to recover input value-added tax (VAT) imposed on production inputs—and indirect (upstream) costs caused by cascading VAT exemptions (Beer and Hebous, forthcoming).

Removing tax distortions to investment could raise capital and GDP

Marginal effective tax rate on investment, 2020–25
(Percent)



Responses of investment, capital, and GDP to eliminating tax-induced distortions in investment
(Percent)

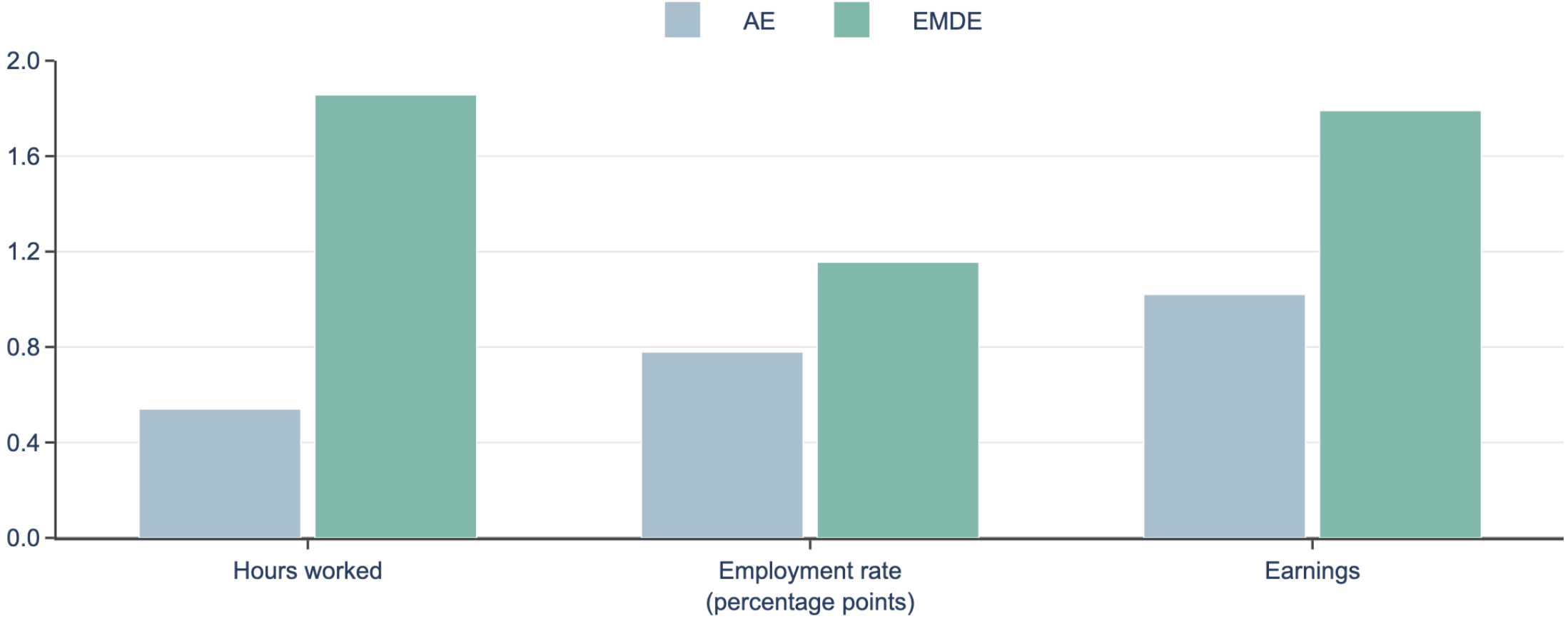


Source: IMF staff calculations.
Note: The left panel shows the simple average forward-looking marginal effective tax rate on investment for 186 countries, by income group for 2020–25. This rate is defined as the cost of capital minus the post-tax rate of return required for an investment to break even, divided by that rate of return. It therefore measures the percentage increase in the cost of capital required for a marginal investment to take place because of tax-induced distortions (Hebous and Mengistu 2026). The right panel estimates the short-term increase in firm investment and the estimated long-term increase in the aggregate capital stock that would result from eliminating tax-induced increases in firms' cost of capital (left panel). The short-term estimates are based on evidence regarding firms' responses to financing costs, whereas the long-term estimates incorporate general equilibrium effects. AE = advanced economies; EM = emerging markets; LIC = low-income countries.

Revenue-neutral labor tax reforms can raise employment and earnings

Response of hours worked, employment rate, and earnings to expanding in-work tax credits and recalibrating marginal rates

(Percent, unless otherwise noted)



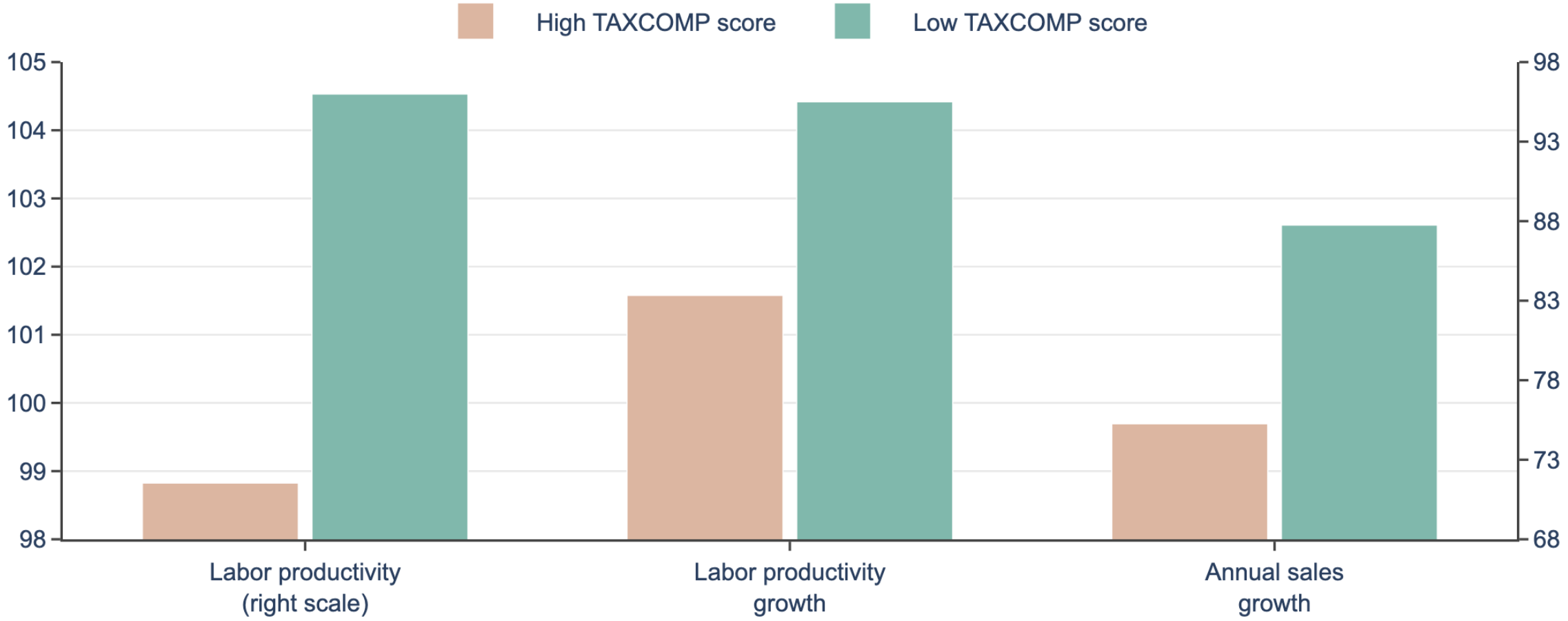
Sources: International Labour Organization statistics; Organisation for Economic Co-operation and Development (OECD); and IMF staff calculations.

Note: Estimates are averages of 13 country-specific microsimulations of reforms based on optimal tax theory (Piketty and Saez 2013), aggregated by country income groups. The reforms are revenue-neutral in all cases and seek to maximize country-specific measures of social welfare. AE = advanced economies; EMDE = emerging market and developing economies.

Simpler tax laws associated with higher productivity and growth among small firms

Impact of reduced legal complexity

(Percentage point difference, left scale; percent difference, right scale; 100 = no difference between small and larger firms)



Source: IMF staff calculations.

Note: Small firms are defined as those that have 20 or fewer employees. The tax complexity index (TAXCOMP) is from Euler and others (2024).