EXECUTIVE SUMMARY

Chapter 1: Fiscal Policy in the Great Election Year

Even as the economic and financial outlook for the global economy is stabilizing (April 2024 *World Economic Outlook*), efforts to normalize fiscal policy continue to struggle with the legacies of high debt and deficits while facing new challenges. After a brisk reduction in fiscal deficits and public debt levels in 2021–22, fiscal aggregates turned in 2023, halting progress toward policy normalization. Durable fiscal consolidation efforts are needed to safeguard sustainable public finances and rebuild buffers in a context of slowing medium-term growth prospects and high real interest rates. Fiscal tightening would also support the "last mile" of disinflation, especially in overheated economies.

Four years after the COVID-19 pandemic outbreak, fiscal deficits and debts are higher than prepandemic projections. Higher interest rates pushed up interest expenses, while spending on social benefits, subsidies, and transfers was buoyed by the extension of support measures enacted in response to the pandemic and energy price shocks. Many economies introduced new fiscal initiatives to cut taxes and social security contributions and increase spending through higher wage bills, social benefits, and industrial policy measures. These initiatives were only partially offset by revenue gains from past inflation as inflation surprises waned and tax brackets caught up with wage growth. Financing for most low-income developing economies remained scarce, determining the evolution of fiscal balances.

In 2024, overall primary deficits are expected to narrow to 4.9 percent of GDP. However, substantial risks to public finances remain, and resuming fiscal policy normalization will require significant efforts against several headwinds. The risks of fiscal slippages are particularly acute given that 2024 is what is being called the "Great Election Year": 88 economies or economic areas representing more than half of the world's population and GDP have already held or will hold elections during the year. Support for increased government spending has grown across the political spectrum over the past several decades, making this year especially challenging, as empirical evidence shows that fiscal policy tends to be looser, and slippages larger, during election years.

While inflation has been easing, the pace of the last mile of its descent to target remains uncertain. Financing conditions are sensitive to the inflation outlook, as well as to interest rates and fiscal policy developments in major economies. Loose fiscal policy and rising debt levels, in addition to monetary policy tightening, have contributed to the increase in long-term government yields and their heightened volatility in the *United States*, raising risks elsewhere through interest rate spillovers. Slowing growth and financial turbulence in *China* could weigh on global growth and trade, posing fiscal challenges for countries with strong trade and investment linkages. Governments may also feel pressure to further extend fiscal support in the event of renewed supply disruptions and price shocks. Finally, debt refinancing risks remain high for many countries.

Improvements in fiscal aggregates are expected to be modest under current policies. Deficits and debts are projected to remain higher over the medium term than was expected before the pandemic. Without decisive fiscal efforts, postpandemic fiscal policy normalization may remain incomplete in the years to come. Global public debt is projected to approach 99 percent of GDP by 2029, driven by *China* and the *United States* where, under current policies, public debt is projected to continue rising beyond historical peaks. Spending pressures to address structural challenges, including demographic and green transitions, are becoming more pressing. At the same time, slowing growth prospects and still-high interest rates are likely to further constrain fiscal space in most economies.

Fiscal consolidation is needed in most countries to strengthen debt sustainability and financial stability. While the pace of fiscal consolidation should be calibrated to strike a balance between fiscal risks and the strength of private demand, up-front actions are needed in many cases, especially where sovereign risks are elevated and a credible medium-term framework is lacking. Crisis-era support measures should be immediately terminated, and the political budget cycle and the drive to further increase spending should be resisted. Reforms are needed to contain rising spending pressures—for instance, through entitlement reforms in advanced economies with aging populations and improving the targeting and efficiency of social safety nets to support the most vulnerable populations. A well-designed fiscal policy mix that supports innovation in the sectors with the largest spillovers and emphasizes public funding for fundamental research could substantially boost long-term growth for economies at the technology frontier (Chapter 2). Tax revenues should keep up with spending over time. Emerging market and developing economies have a significant scope to increase tax revenues by upgrading tax systems, expanding tax bases, and enhancing institutional capacity. This could also help pay for strategic public investments needed to facilitate the diffusion of green and digital technologies. A risk-based credible fiscal framework could help guide the process to rebuild fiscal space and reduce debt vulnerabilities.

Stronger international cooperation is needed to address multiple challenges that lie ahead. More rapid improvements in the global debt restructuring architecture, including through the Group of Twenty's Common Framework and enhancement of the global financial safety net, could help the most vulnerable economies in debt distress restore debt sustainability. Continued engagement on technical issues, including through the Global Sovereign Debt Roundtable, is essential. Efforts to improve fiscal and debt transparency would facilitate the debt restructuring process. International cooperation on corporate taxation and carbon pricing will encourage necessary investments by mobilizing resources to address common concerns.