FOREWORD

After COVID-19, the most vigorous fiscal and monetary response ever seen, regional wars, turbulence in energy and food markets, and the largest surge of inflation in decades, the world economy seems on its way to a soft landing (October 2024 *World Economic Outlook*). Inflation is approaching its target in major economies and is close to prepandemic levels. Monetary policy has already moved past its pivot, and policy easing is projected to continue. Financing conditions are generally easy (October 2024 *Global Financial Stability Report*). The time is ripe to take a medium- to long-term view on public finances.

The October 2024 *Fiscal Monitor* offers important insights on public debt and deficits in the world economy. It focuses on medium-term prospects and risks. The bottom line: now is the time for a strategic pivot in fiscal policy.[1]

Deficits are high, and global public debt is very high and rising, projected to go above $100 trillion at the end of 2024. If it continues at the current pace, the global debt-to-GDP ratio will approach 100 percent by the end of the decade, rising above the pandemic peak. Indeed, public debt is higher and projected to grow faster in about one-third of the countries covered by *World Economic Outlook* projections, but they represent more than 70 percent of world GDP. Countries where debt is expected to rise faster than in the prepandemic period include not only China and the United States but also other large countries such as Brazil, France, Italy, South Africa, and the United Kingdom. In contrast, for most countries, that is not the case.

But the message of high and rising debt masks considerable diversity. We live in a world of contrasts. If we simply take out China and the United States, the global public debt-to-GDP ratio would be about 20 percentage points lower.

The *Fiscal Monitor* identifies three reasons why public debt may be worse than it looks: (1) spending pressures from underlying trends—technological change and economic transformation, climate, and demographics—and challenging politics at national, continental, and global levels; (2) optimism bias in debt projections; and (3) intrinsic uncertainty associated with economic, financial, and political developments.

The *Fiscal Monitor* presents a novel framework—debt-at-risk—that provides a summary of risks around the most likely debt projection over one to five years ahead. The quantification of risks allows policymakers to grasp the likelihood of relevant alternatives, particularly in a severely adverse scenario. Such quantification makes it possible for policymakers to take precautions to evade undesirable outcomes. According to our estimates, the difference between the baseline and a severe adverse scenario corresponding to the projection for the 95th percentile in the public debt-to-GDP ratio, at a three-year horizon, opens a gap of 20 percentage points.

In most countries, fiscal adjustments currently in the pipeline are insufficient to deliver, with confidence, stable or declining public debt ratios. Additional efforts are necessary. Delays are costly and risky, and it matters how it is done. The IMF's Managing Director urges an approach focused ultimately on people and growth.[2] Countries that are sufficiently away from debt distress should adjust in a sustained and gradual way to ensure debt declines without unnecessary adverse effects on growth and employment. The *Fiscal Monitor* quantifies the relative effects of different fiscal instruments. It finds, for example, that cuts in public investment have severe effects on growth. However, it is unfortunately often the most politically expedient way to axe spending. Earlier work in the Fiscal Affairs Department shows that countries with strong fiscal institutions are able to protect public investment even in crises.[3]

[1]Gita Gopinath, "A Strategic Pivot in Global Fiscal Policy," speech at the Central Bank of Ireland's Whitaker Lecture, Dublin, September 18, 2024.

[2]Kristalina Georgieva, "A Low-Growth World Is an Unequal, Unstable World," IMF Blog, July 23, 2024.

[3]Gerd Schwartz, Manal Fouad, Torben S. Hansen, and Genevieve Verdier, *Well Spent: How Strong Infrastructure Governance Can End Waste in Public Investment* (Washington, DC: International Monetary Fund, 2020).

Many of the aspects relevant for policymakers can be summarized in a fiscal policy trilemma.[4] In an environment of high deficits and high and rising debt, governments everywhere face a seemingly impossible choice involving three incompatible imperatives: (1) irresistible pressures to spend more in a variety of areas, such as defense, climate change, competitiveness, growth, education, health, and infrastructure; (2) an absolute political resistance to taxation; and (3) the objective of macroeconomic stability encompassing public debt sustainability, monetary stability, and financial stability. The trilemma puts countries in a bind: if a country caves to spending pressures without raising taxes, deficits and debt will continue to rise, which will eventually prove unsustainable and cause instability.

Nowhere is the trilemma more dramatic than in the poor countries in sub-Saharan Africa.[5] Tax capacity is weaker, debt-carrying capacity is lower, and financing is tighter. To give an illustration, IMF staff estimate spending pressures in these countries amount to 17.5 percent of GDP between 2023 and 2030. Spending is necessary to eliminate extreme poverty and hunger and to invest in people and infrastructure.

Fiscal and other structural policies (Chapter 3 of the October 2024 *World Economic Outlook*) can help deliver sustainable and inclusive growth thereby alleviating the trilemma. In this foreword, we have already mentioned the importance of public investment and public investment institutions and practices. But there is much more. The *Fiscal Monitor* in the past has looked at policies to favor innovation and research (Chapter 2 of the April 2024 *Fiscal Monitor*). Other recommendations here include promoting good governance and eliminating vulnerabilities to corruption, improving the tax system, and prioritizing education and health.

The trilemma is a test. It does not need to be a trap.

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[4]Vitor Gaspar, "Solving the Global Fiscal Policy Trilemma," *Foreign Policy*, September 23, 2024.

[5]Abebe Aemro Selassie, "A Moment of Peril," keynote speech at the Oxford Africa Conference, University of Oxford, May 28, 2021.