



FISCAL AFFAIRS

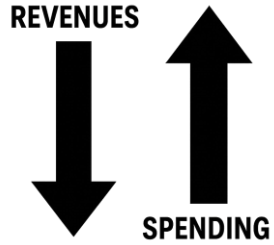
The Fiscal Landscape in Emerging Markets: Challenges and Urgencies

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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)

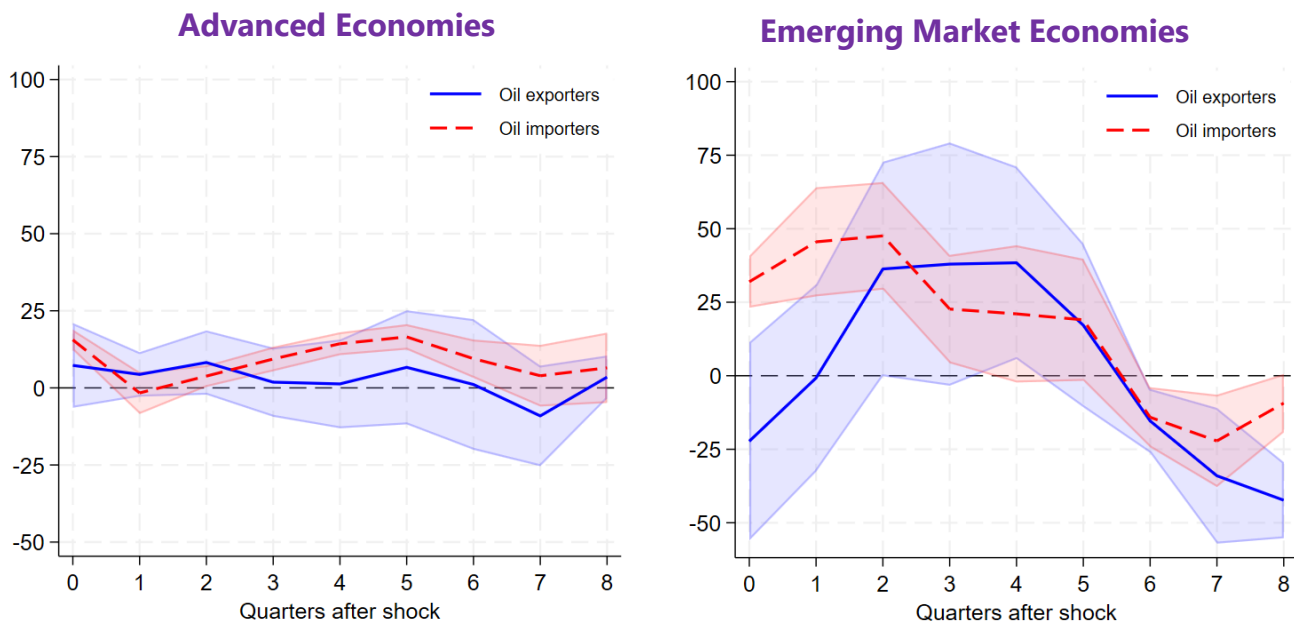


Oil Exporters: Canada, Colombia, Indonesia, Mexico, Norway, Russia
Oil Importers: China, Germany, Greece, Italy, Japan, Korea, Philippines, Spain, Thailand

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)

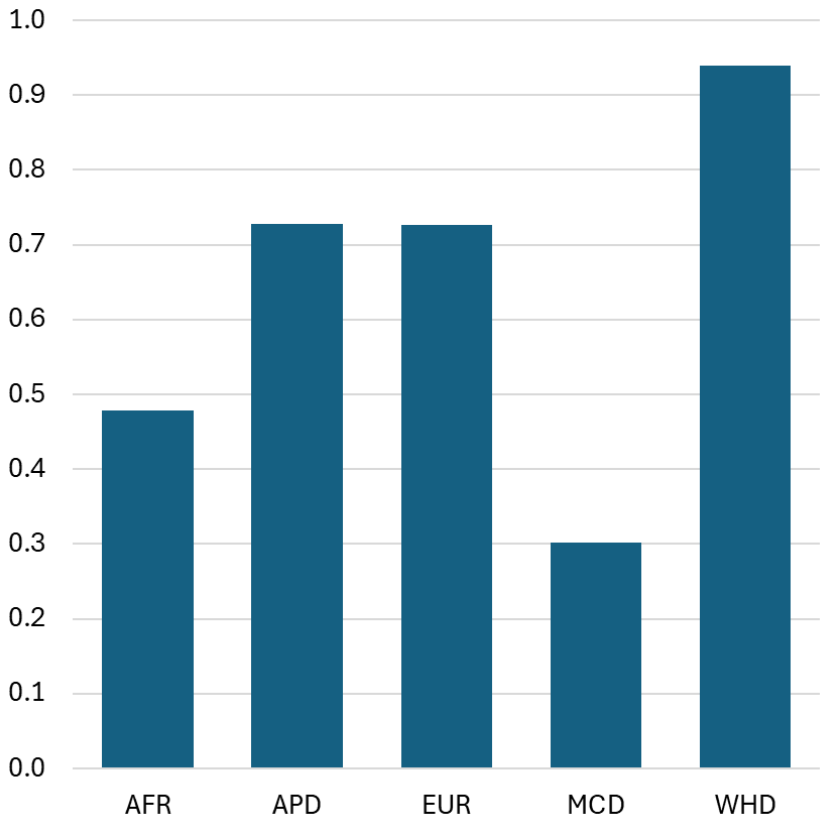


Sources: IMF staff calculations.

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



Source: IMF staff calculation.
Note: The current energy supply shock covers the period between January 30th to April 17th. 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.

Fiscal Support Response to Energy and Food Shocks in the Region

Gasoline Price Pass-through during the Current Energy Supply Shock



Full

Chile, Guatemala, Honduras, Panama, Peru



Mid-High

Brazil, Dominican Republic, El Salvador, Suriname



Mid-Low

Costa Rica, Ecuador, Mexico



Zero

Bolivia, Columbia, Nicaragua, Uruguay

Source: IMF staff calculation.

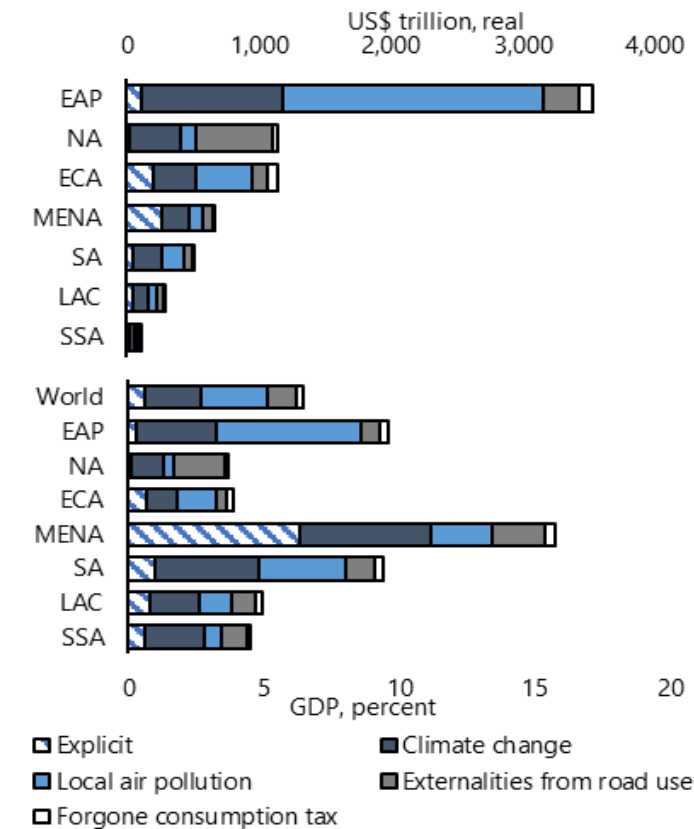
Note: The current energy supply shock covers the period between January 30th to April 17th.

Granular advice

		Large Shock + Strong Social Safety Net	Large Shock + Weak Social Safety Net	Very large shock + Strong Social Safety Net	Extraordinary and Disruptive Shock + Weak Social Safety Net
Shock		Within historical range, even if large	Within historical range, even if large	Very large by historical standards but likely temporary	Sudden, extraordinary, largely temporary but likely disruptive
Fiscal response		Automatic stabilizers	Automatic stabilizers plus discretionary response subject to fiscal space	Automatic stabilizers plus discretionary response subject to fiscal space	Automatic stabilizers plus discretionary response subject to fiscal space
Prices		Allow full pass-through	Allow full pass-through	Consider smoothing price increases but allow large upfront increase in energy prices, followed by a gradual convergence toward long-term levels.	Consider smoothing price increases but allow large upfront increase in energy prices, followed by a gradual convergence toward long-term levels.
Support measures	Households	Targeted and temporary cash transfers to vulnerable households	Expand existing programs (targeted transfers, child benefits)	Targeted and temporary cash transfers to vulnerable households.	Expand existing programs (targeted transfers, child benefits)
			Use digital tools to identify beneficiaries and deliver support	If coverage is insufficient, expand existing programs and consider one-off cash transfers to affected middle-income households	Use digital tools to identify beneficiaries and deliver support
			Consider temporary reductions in regulated tariffs (education, health, transport)		Consider temporary, lump sum, cushion in regulated tariffs (education, health, transport)
				Consider smoothing energy bills or temporary bill discounts (if no price smoothing is already in place) but allow large initial adjustment	Consider smoothing energy bills or temporary bill discounts (if no price smoothing is already in place) but allow large initial adjustment
	Firms	No specific support	No specific support, except for temporary reductions in regulated tariffs, if implemented, which should be fully compensated		As a last resort, if food security is at risk, temporarily reduce taxes or provide price subsidies for basic food items, with clear sunset clauses
				Provide support only if the shock creates liquidity—not solvency—problems	Provide support only if the shock creates liquidity—not solvency—problems
				Target otherwise (pre-shock) viable or strategic energy firms disproportionately affected, to prevent unnecessary bankruptcies and loss of productive capacity	Target otherwise (pre-shock) viable or strategic energy firms disproportionately affected, to prevent unnecessary bankruptcies and loss of productive capacity
				Consider providing temporary government-guaranteed bank loans (with risk sharing).	Consider providing temporary government-guaranteed bank loans (with risk sharing).
					Consider providing temporary credit lines or working-capital facilities
					Consider introducing deferrals of tax and social security
					Avoid direct grants and equity injections given their fiscal cost and difficulty to unwind
Generalized energy price subsidies	Not in place	Do not introduce	Do not introduce	Do not introduce	Consider only as a last resort , and solely to cushion extreme price spikes if no other instrument is available
					Consider energy subsidies to help smooth inflation if all of the following conditions are likely to materialize: shock is temporary; with limited economic overheating but strong pass-through to core inflation; weak international policy synchronization; and where fiscal space is available
	Already in place	Gradually increase energy prices and elaborate an exit strategy when international prices moderate	Gradually increase energy prices and elaborate an exit strategy when international prices moderate	Gradually increase energy prices and elaborate an exit strategy when international prices moderate	Any use should be transparent, temporary, and designed to minimize distortions Price caps are easier to phase out but risk shortages while tax reductions reduce supply risks but are harder to reverse and may lead to persistent revenue losses Fuel: Vary adjustments by fuel type, reflecting consumption patterns across income groups Utilities: Gradually adjust tariffs, complemented by uniform lump-sum bill discounts Food: Increase rationed food prices gradually; improve targeting and reduce leakages

Fuel Subsidies: Local and Global Externalities and Global Spillovers

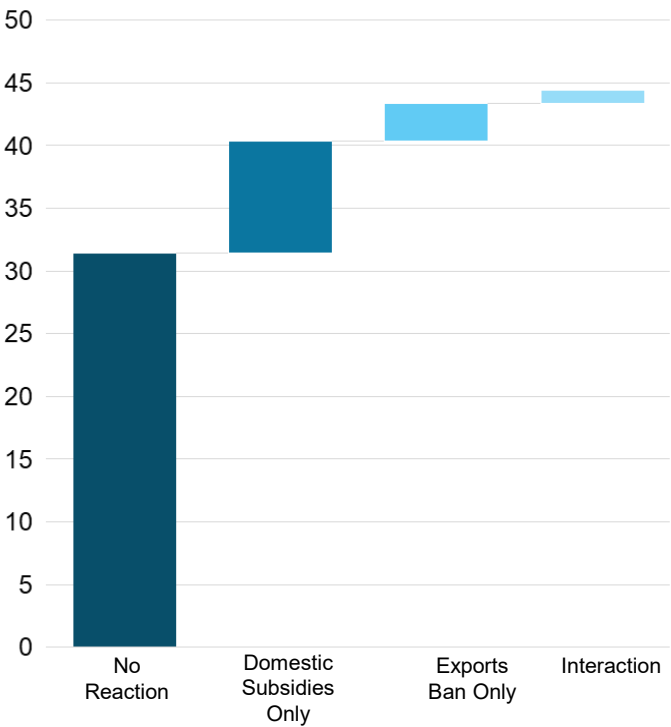
Decomposition of total global fossil fuel subsidies by region in 2024



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 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)



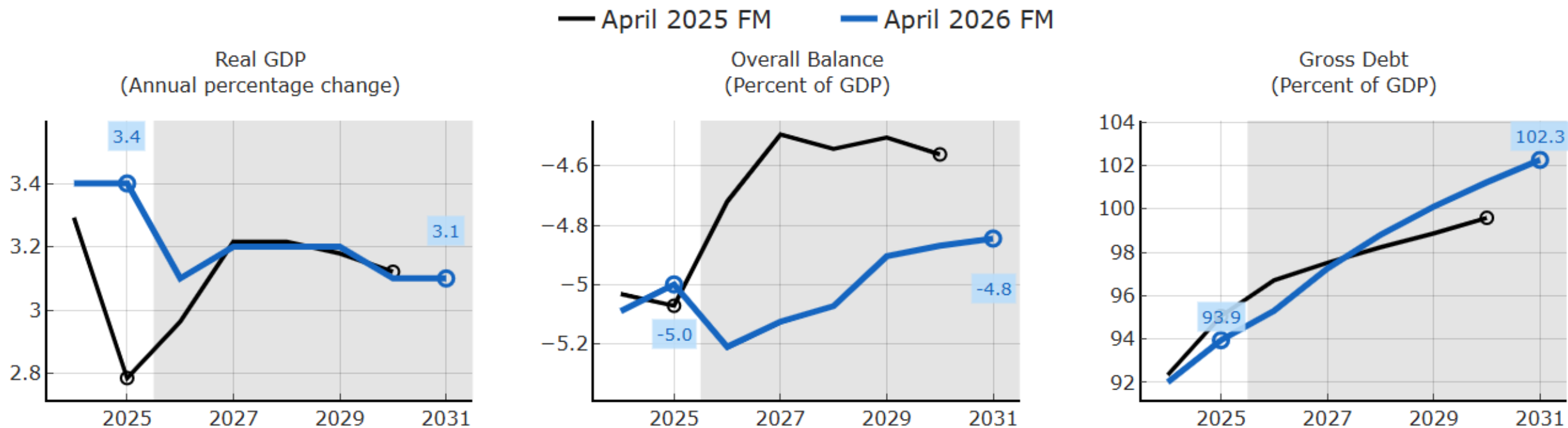
Source: IMF staff calculations.

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

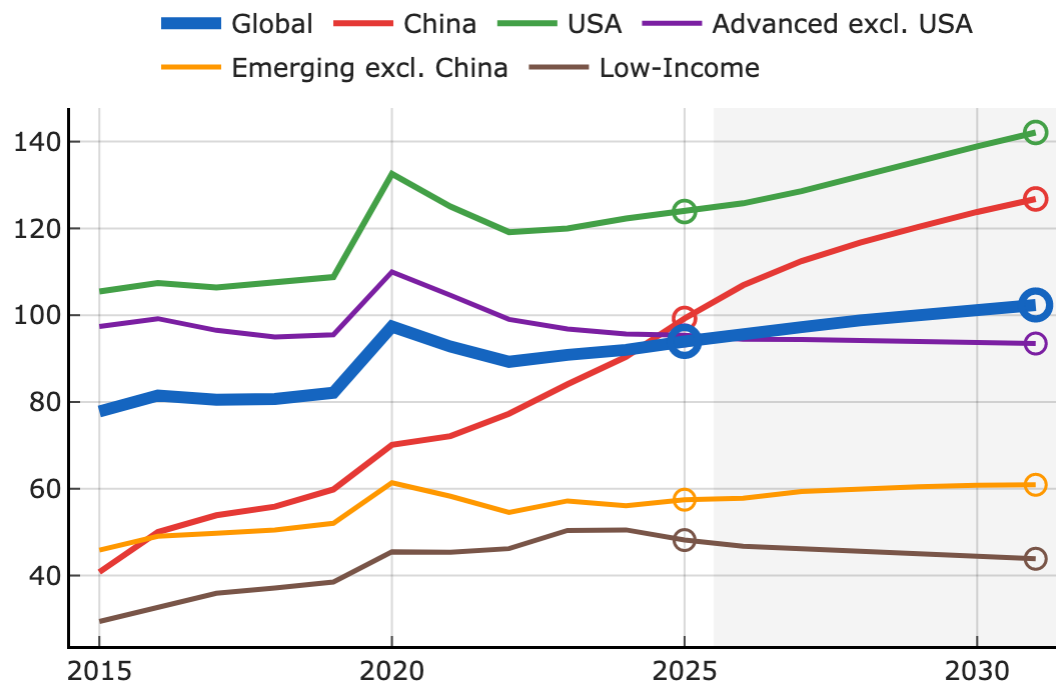


Sources: WEO (April 2026 and April 2025); and IMF staff calculations.

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

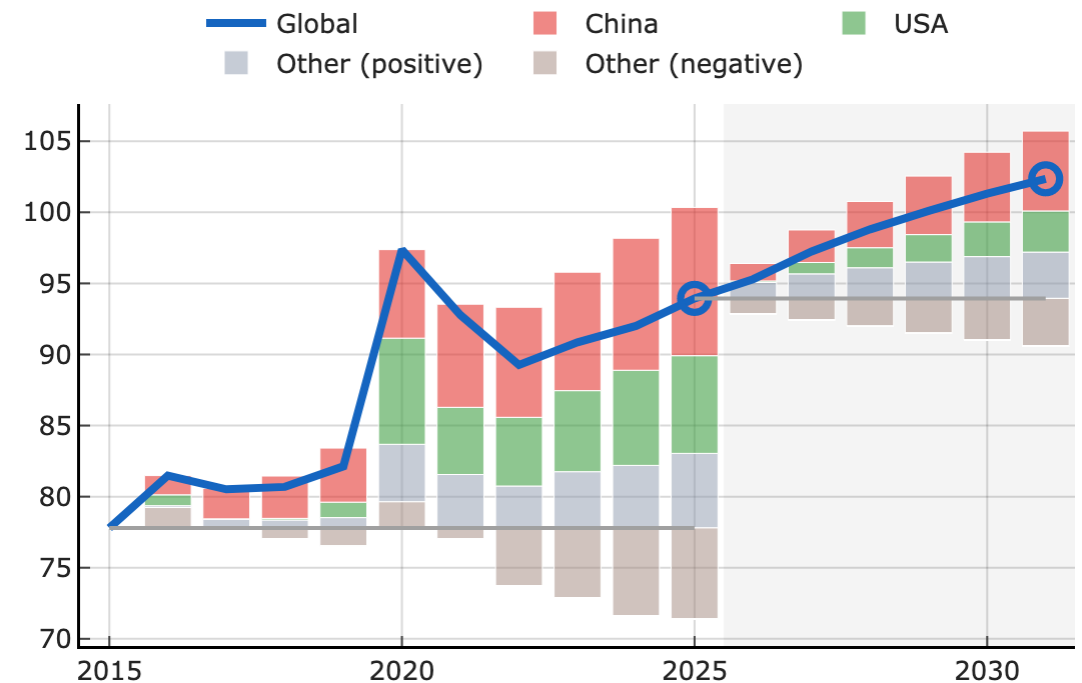
Government Debt Across FM Groups
(Percent of GDP)



Sources: WEO (April 2026).

Note: The shaded values indicate projection horizons. The circle markers indicate last historical observations and end-horizon forecasts.

Global Government Debt Evolution
(Percent of Global GDP)

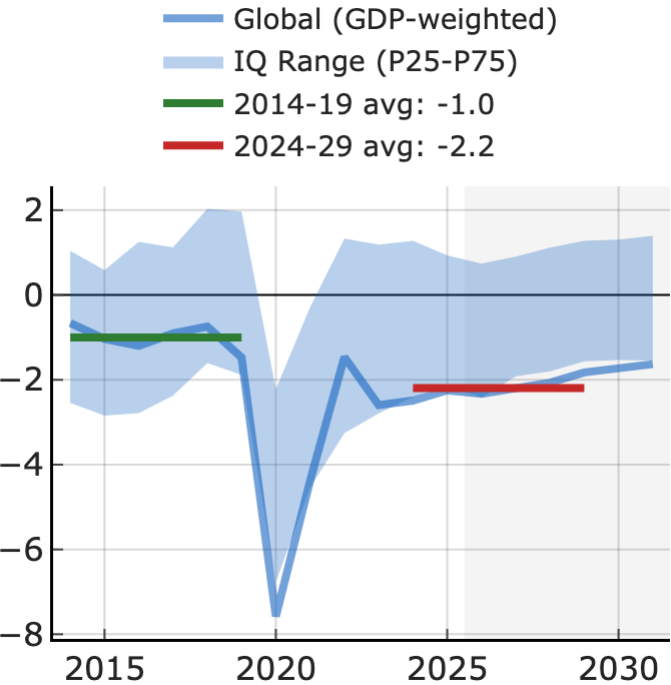


Sources: WEO (April 2026); and IMF staff calculations.

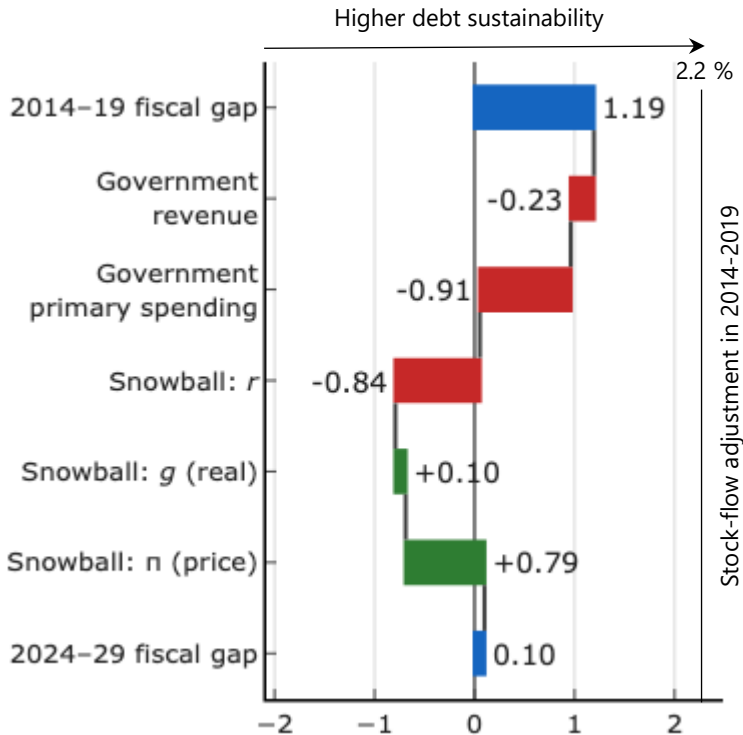
Note: Each bar shows the contribution to the global debt-to-GDP ratio, expressed as the change from its 2015 or 2025 level. "Other Positive (Negative)" includes countries which contribute to an increase (decrease) in the global Debt-to-GDP ratio between 2015 and 2025 and between 2025 and 2030. Therefore, 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

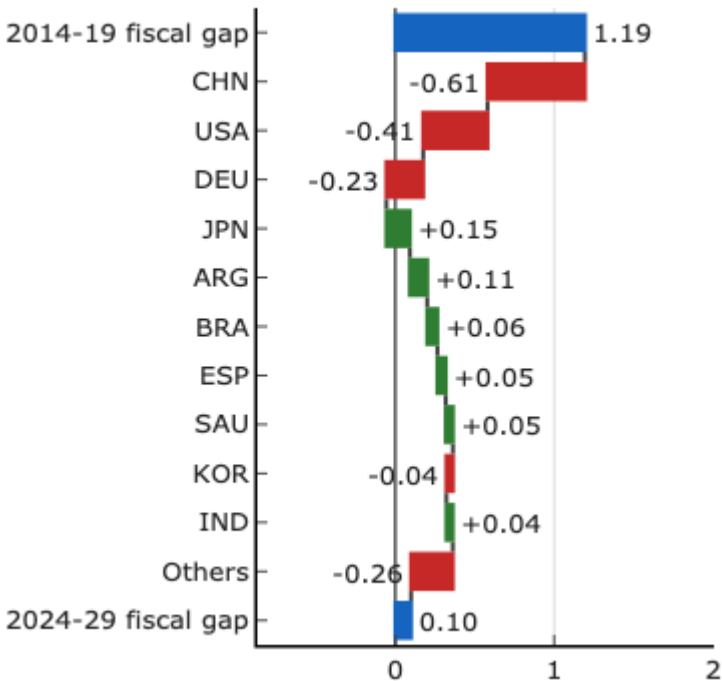
Primary Balance
(Percent of GDP)



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



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

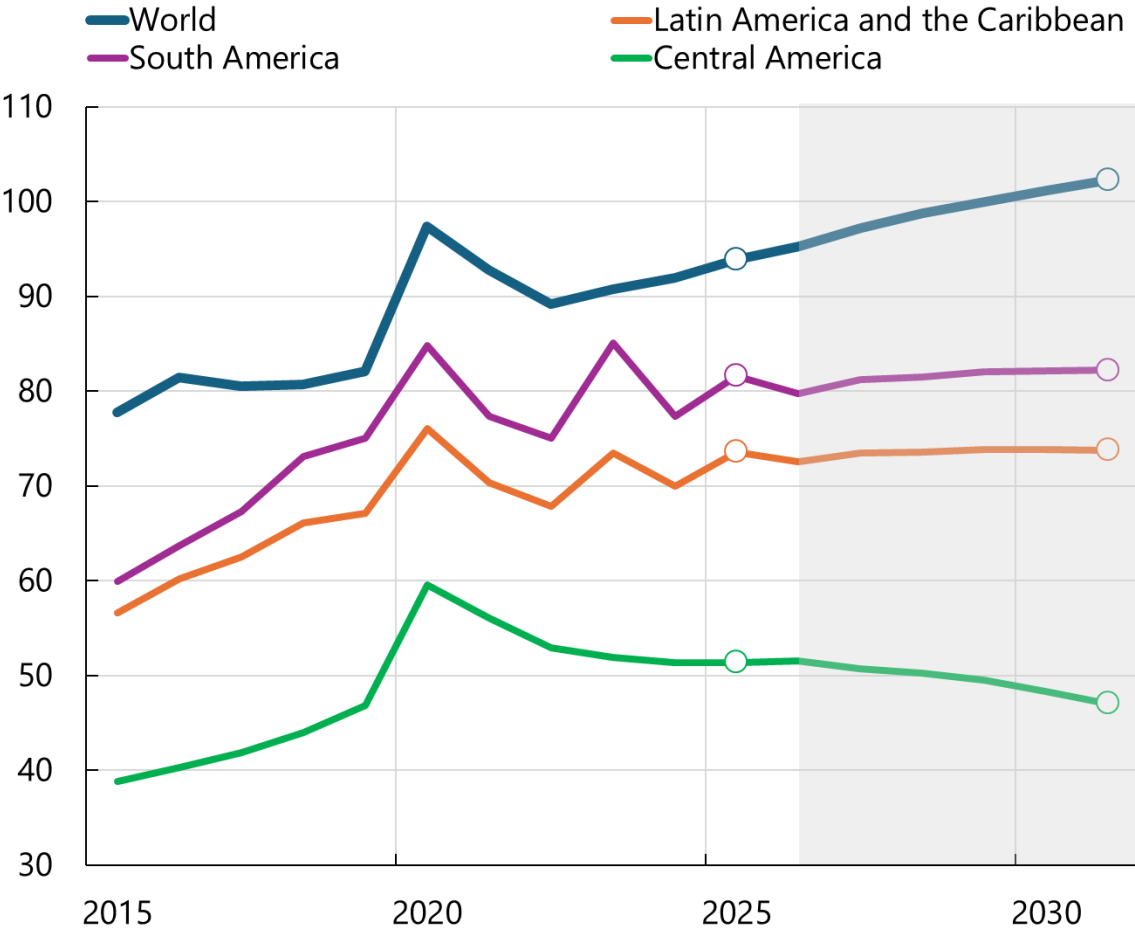


Sources: WEO (April 2026) ; and IMF staff calculations.
Note: The shaded values indicate projection horizons. The circle markers indicate last historical observations and end-horizon forecasts.

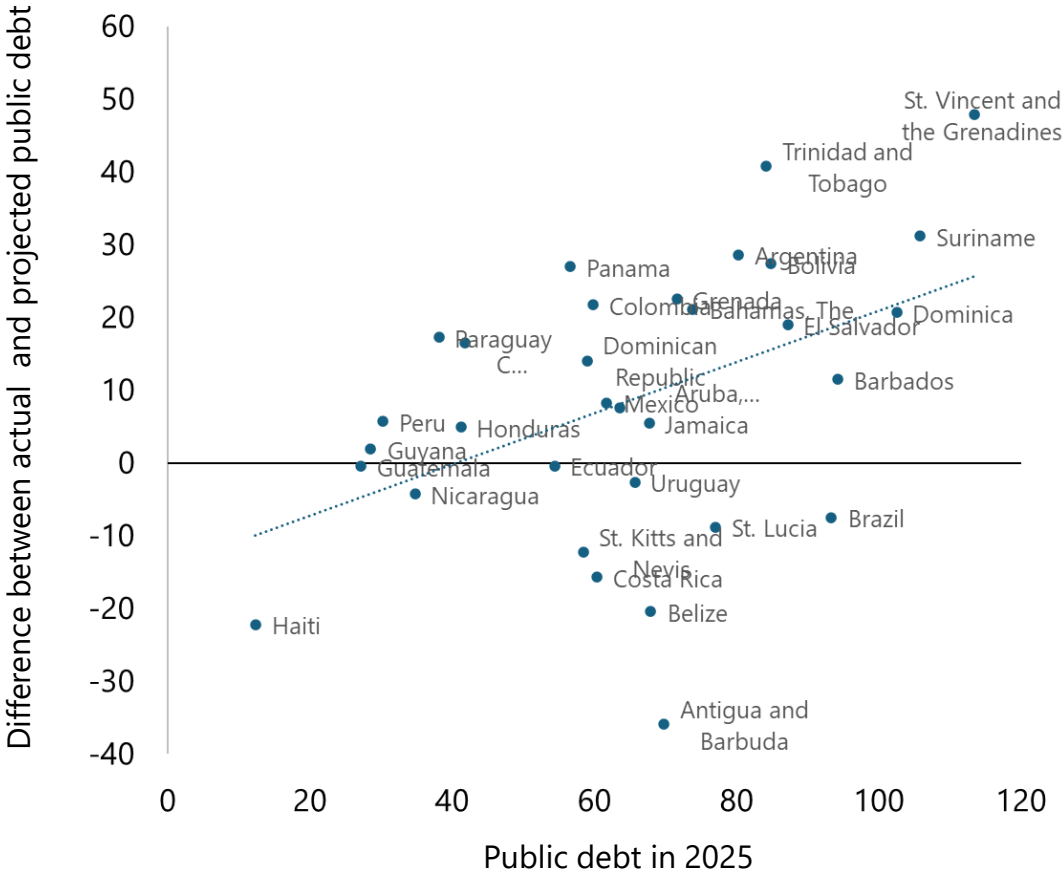
Sources: WEO (April 2026); and IMF staff calculations.
Note: The fiscal gap is defined as the primary balance minus the debt-stabilizing primary balance (with a positive gap indicating that the primary balance is above the level needed to stabilize debt). Positive bars indicate factors that increase 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.

An Heterogenous Picture in Latin America and the Caribbean

Public Debt Across the Region
(Percent of GDP)



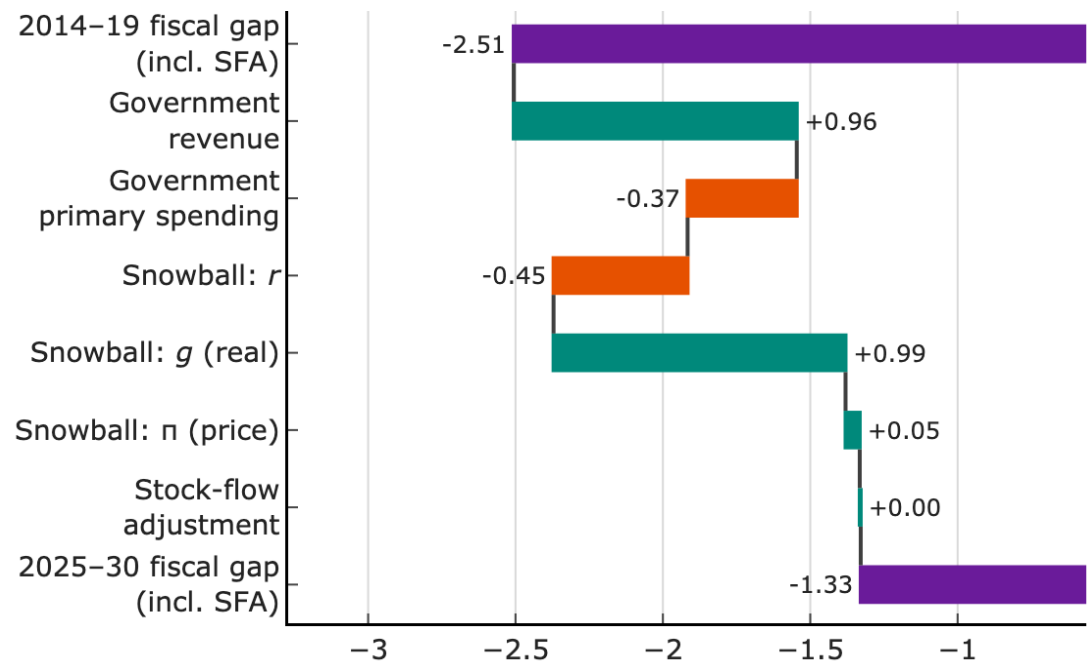
Actual and Projected Public Debt for 2025
(WEO April 2026 minus WEO October 2018, Percent of GDP)



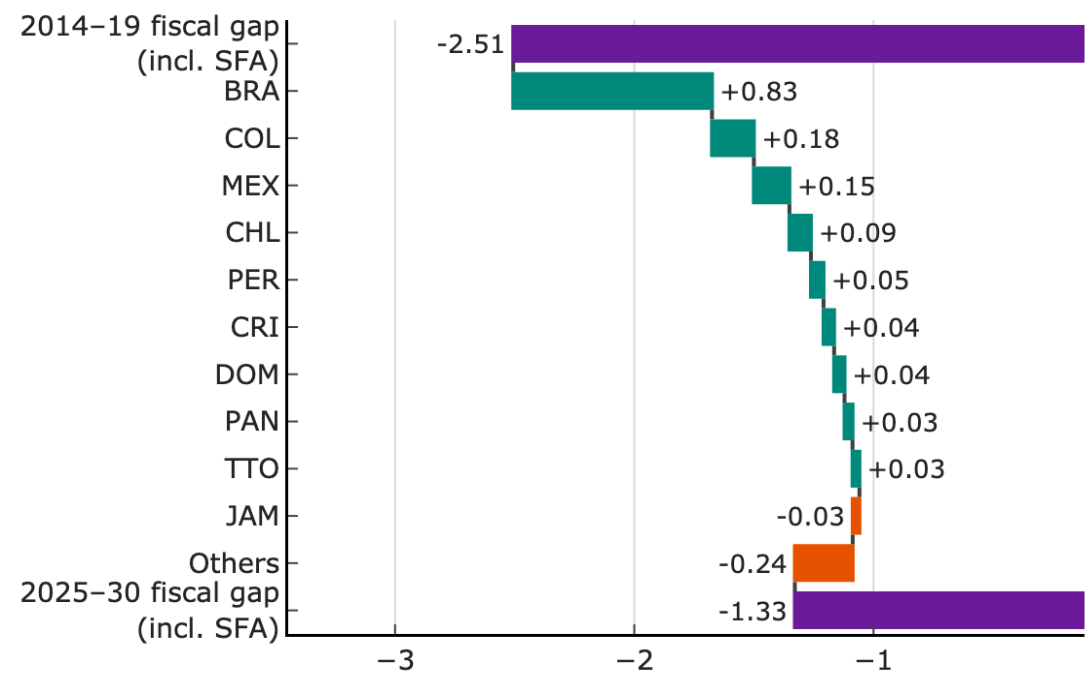
Sources: WEO and IMF staff calculations.
Note: (LHS) WEO April 2026 and the shaded area indicates a projection horizon. The circle markers indicate last historical observations and end-horizon forecasts. (RHS) Projected public debt is from WEO October 2018 and actual public debt is from WEO April 2026.

The Region (ex Argentina) still has an Increasing Debt Ratio

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



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

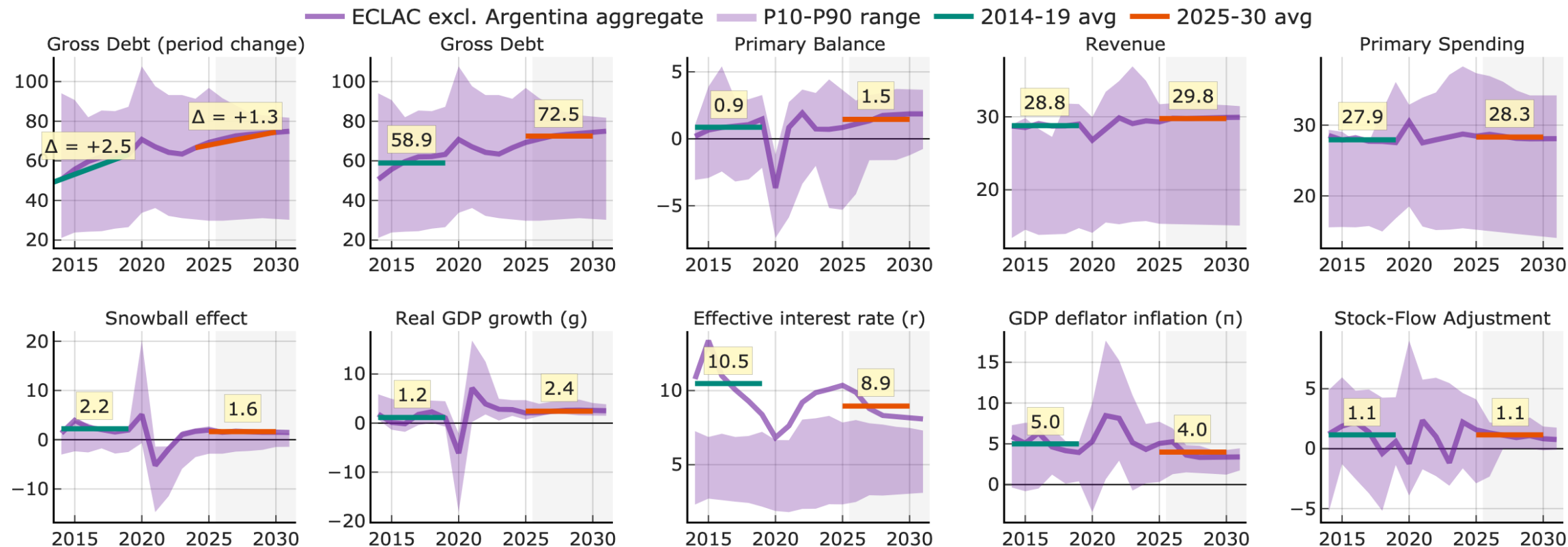


Sources: WEO (April 2026); and IMF staff calculations.

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.

In the Region (ex Argentina) the Debt Ratio Continues to Increase

Change in Fiscal Dynamics: Driving Forces (Percent of Global GDP and Rates)



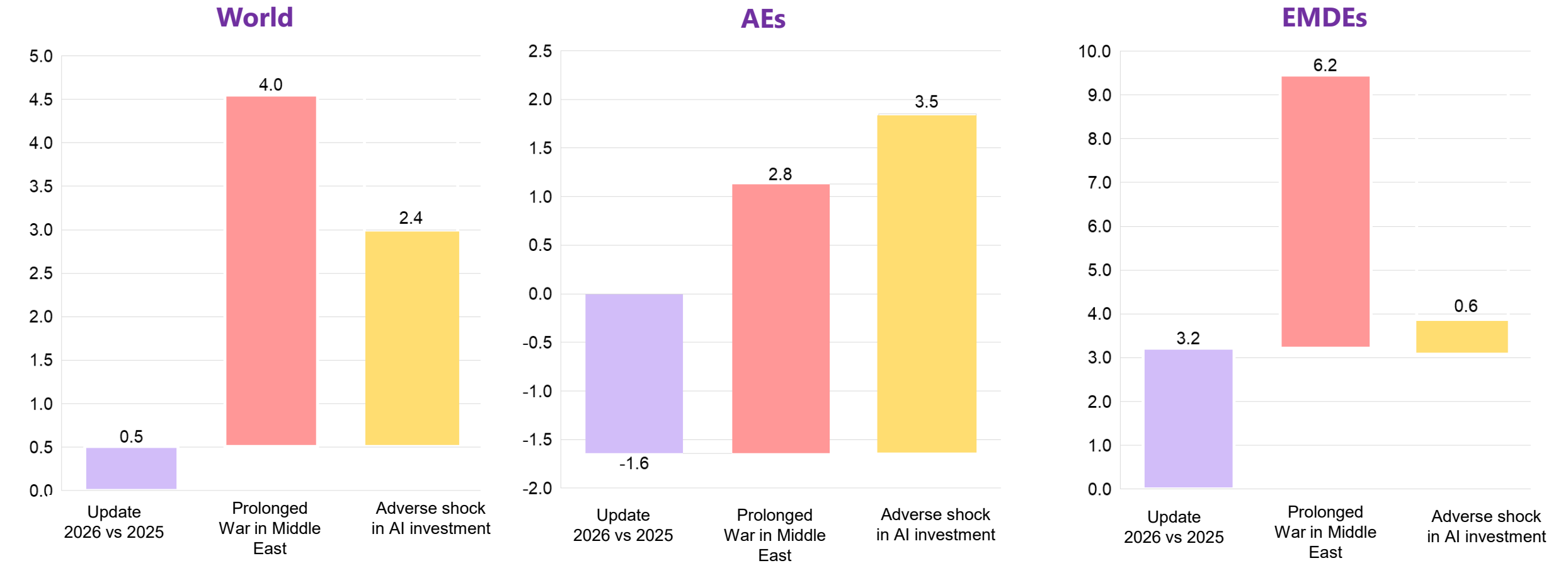
Sources: WEO (April 2026); and IMF staff calculations.

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.

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)

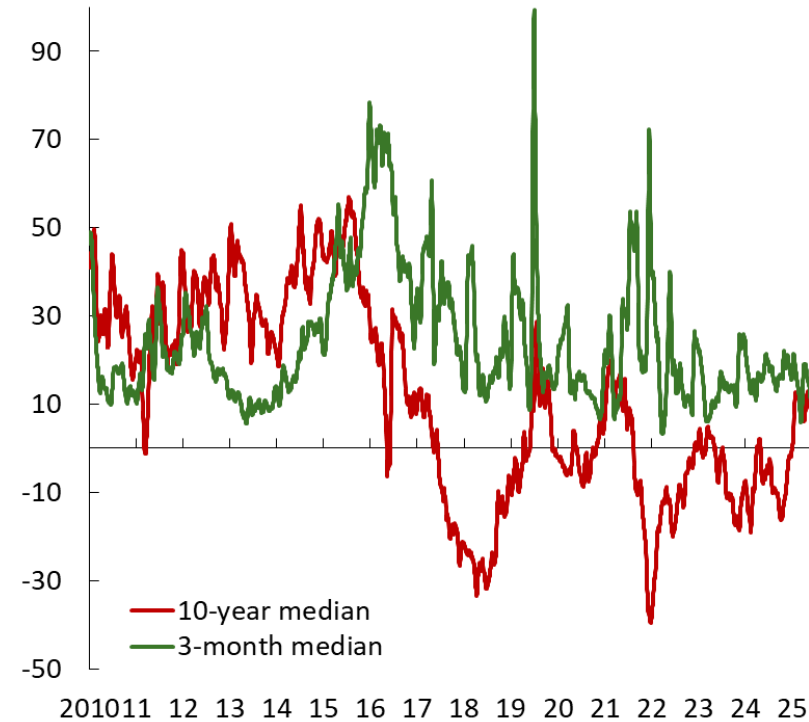


Source: IMF staff calculation.

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

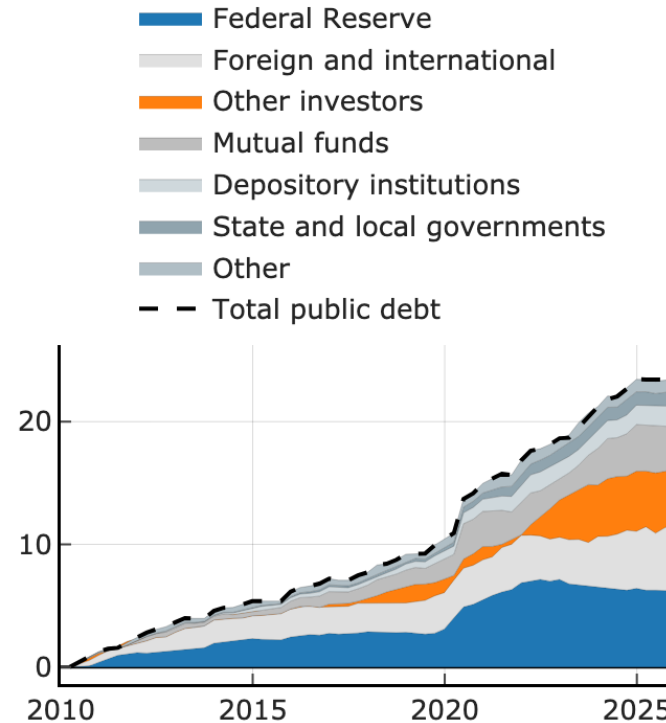
Convenience Yield of US Treasuries against G10 Sovereign Bonds (Basis points)



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.

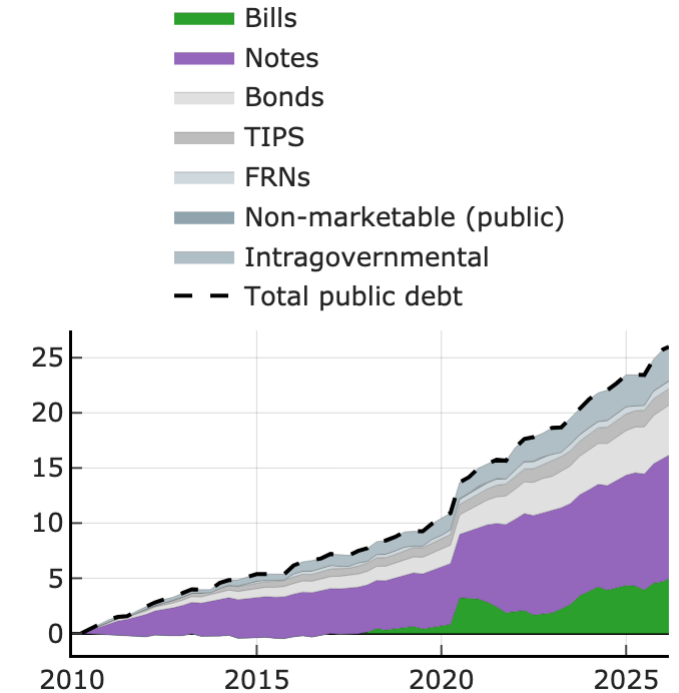
Cumulative Change in Holders of US Public Debt (Trillions of US dollars)



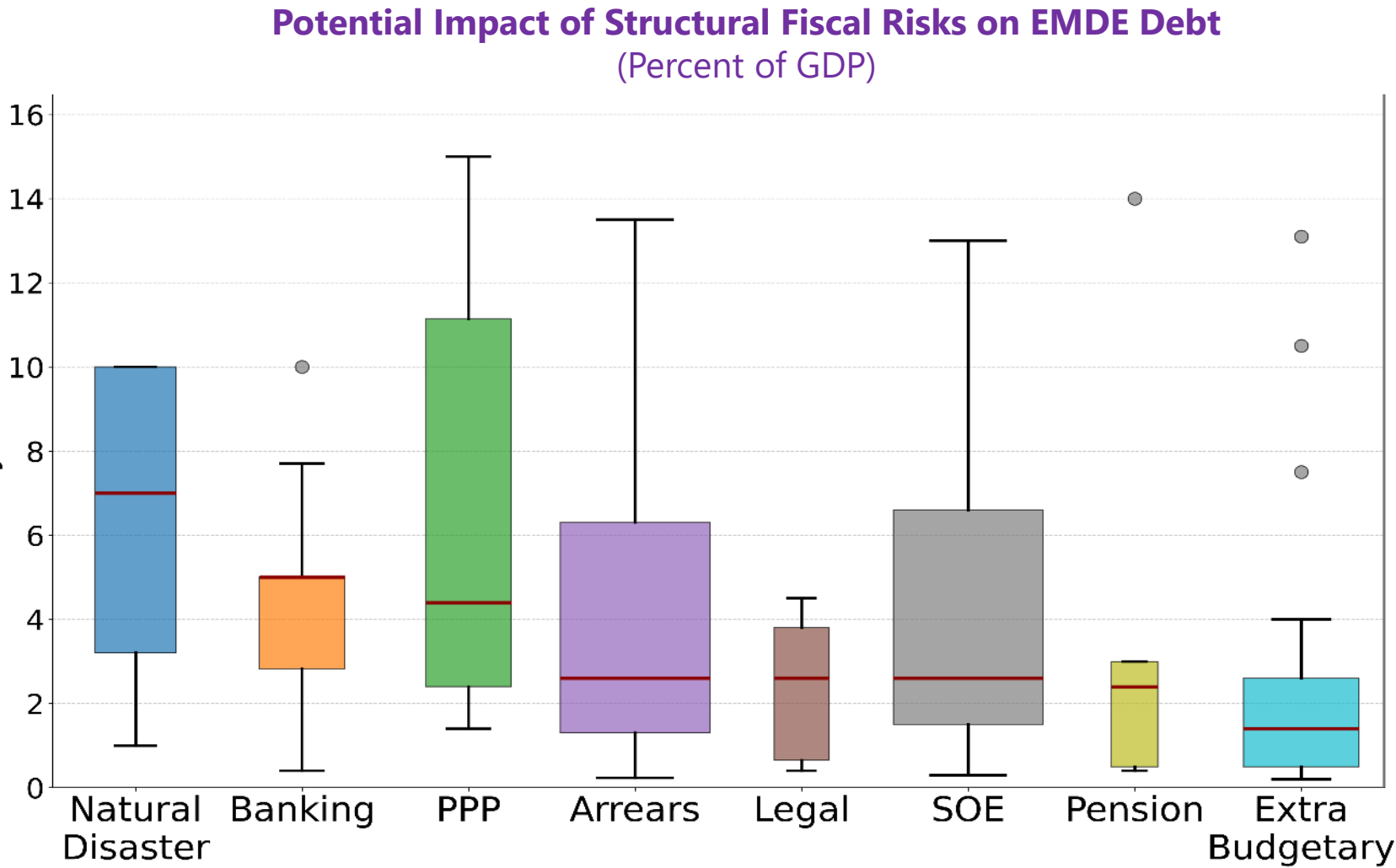
Sources: US Department of the Treasury, Monthly Statement of the Public Debt, and Treasury Bulletin, Table OFS-2.

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.

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



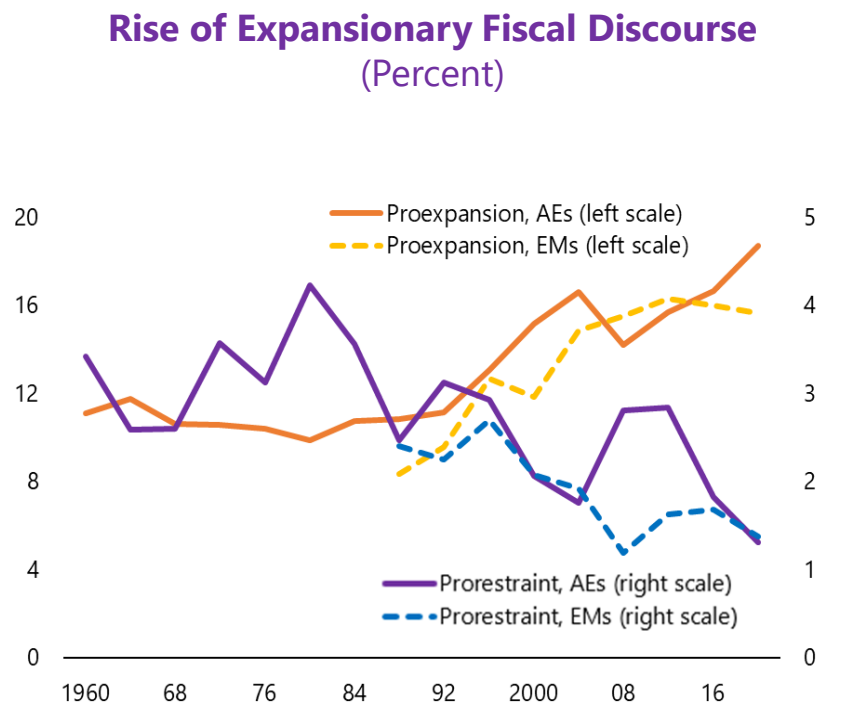
Potential Risk for EMDEs



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.

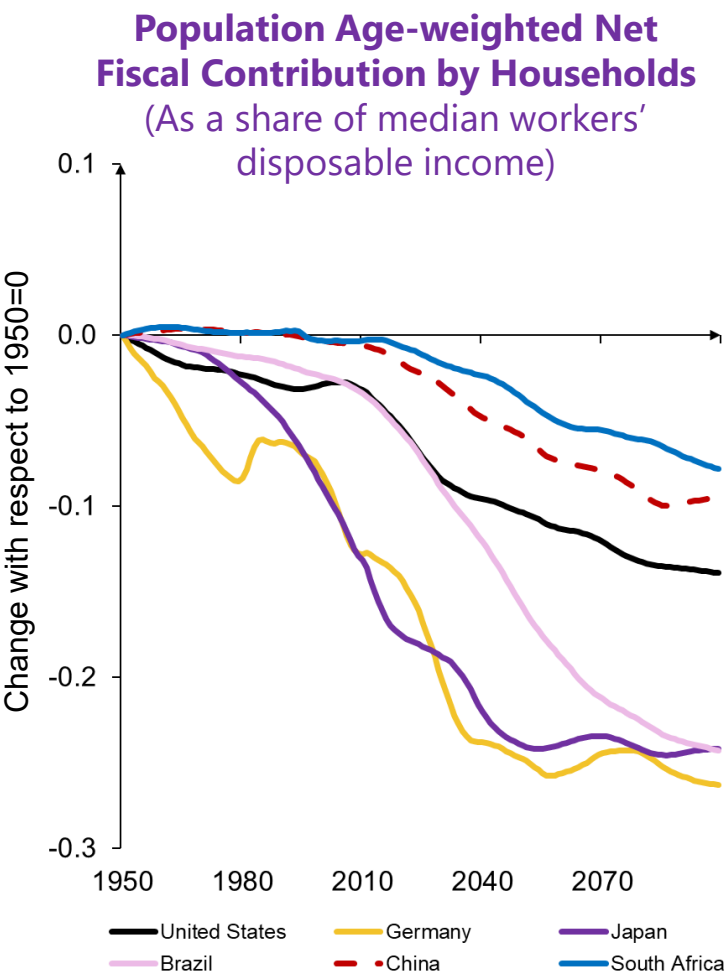
Note: Categories are sorted by median value, box widths are proportional to the number of available estimates, and outliers exceeding 17.5 percent of GDP are excluded for readability. The gray dots show observations beyond 1.5 interquartile range. PPP = purchasing power parity; SOEs = state-owned enterprises.

Expansionary Fiscal Discourse and Greying Population



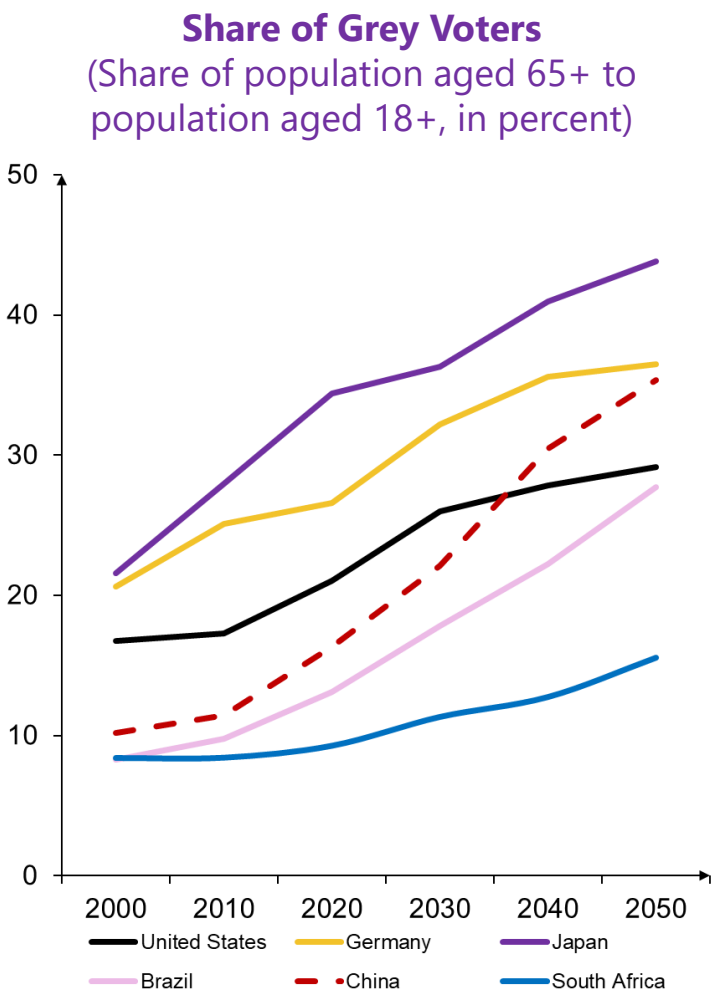
Sources: Cao, Dabla-Norris, and Di Gregorio (2024); Manifesto Project Database; and IMF staff calculations.

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.



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.



Sources: UN Population Prospects and IMF staff calculation.

Note: Population excluding net immigration.

POLICY RECOMMENDATIONS

Policies with near-term impact

- 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.

Policies with medium-term impact

- 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.
- Invest and cooperate in building resilience and energy security, including through investing in renewable energy sources.