



FOREWORD

In the *Fiscal Monitor*, global public debt is projected to rise above 100 percent of GDP by 2029. In such a scenario, public debt would be at its highest level since 1948. This reflects a higher and steeper path than projected before the pandemic. In addition, the distribution of risks is wide and tilted toward debt accumulating even faster. With a 5 percent risk, debt would reach 124 percent in 2029.

The public debt landscape is very diverse. Countries differ widely in their deficit and debt levels. Many major economies have public debt greater than (or projected to go over) 100 percent of GDP. Although the number of countries with debt above 100 percent will be steadily declining in the next five years, their share in world GDP is projected to rise. Among the Group of Twenty, these are Canada, China, France, Italy, Japan, the United Kingdom, and the United States. These countries typically have deep and liquid sovereign bond markets and often broad policy choices, resulting in their fiscal risk considered moderate. In contrast, many emerging markets and low-income countries face tougher fiscal challenges, despite their relatively low debt. The number of countries with public debt below 60 percent of GDP increased to more than 100 in 2021 and is projected to continue to increase, although their GDP share in the world represents less than 30 percent. Their policy options and funding access are limited. Fifty-five countries are experiencing debt distress or are at high risk of distress despite their debt ratios often below 60 percent of GDP. When countries falter on debt, timely debt restructuring is critical to containing the damage. The IMF is working on strengthening the debt architecture, including through the Common Framework and the Global Sovereign Debt Roundtable. An even better strategy, *ex ante*, is to maintain safer debt ratios.

Beyond the present, fiscal risks loom large. Public debt dynamics have drastically changed in recent years. It is not only the size of debt but also the cost. The years between the global financial crisis and the pandemic were marked by unusually easy conditions

for sustaining debt. Rising debt was accompanied by falling interest rates, leading to an overall stable interest bill on budget. But the situation is now starkly different. Interest rates have increased considerably in global markets, and their path forward is highly uncertain (October 2025 *World Economic Outlook*). Increasing debt-servicing costs are already pressuring budgets. Financial asset valuations are stretched, financial stability risks loom large, and the possibility of propagation through fiscal-financial adverse feedback loops is particularly concerning (October 2025 *Global Financial Stability Report*).

Moreover, looming expenditures on defense, natural disasters, disruptive technologies, demographics, and development add to public spending demands. All these pressures and demands come together with sharp political red lines against tax increases and diminished public awareness of fiscal limits. The conclusion is inescapable: starting from too high deficits and debts, the persistence of spending above tax revenues will push debt to ever higher heights threatening sustainability and financial stability.

Prioritizing fiscal policy is essential to support debt sustainability and prepare fiscal buffers to use in case of severe adverse shocks including financial crises. But while we do recognize that the fiscal equation is very hard to square politically, the time to prepare is now. Improving growth prospects and enhancing public trust in government help balance the fiscal equation. Fiscal policy is structural policy. Deploying fiscal structural policy improves growth prospects and reinforces complementarities and synergies with the private sector.

The government can also change the composition of public spending while keeping the overall envelope fixed. For example, tilting the composition of public spending toward growth-friendly areas such as education and infrastructure. The *Fiscal Monitor* estimates that reallocating 1 percentage point of GDP from current spending to human capital investment leads to an increase of more than 3 percent in GDP by 2050 in advanced economies and almost twice as

much in emerging market and developing economies. Enhancing spending efficiency can further amplify these benefits. On the revenue side, countries with insufficient tax capacity should aim at gradually surpassing tax revenues above 15 percent of GDP for a growth takeoff. Growth dividends from such an approach are estimated to be in double digits over the long term. Unfortunately, more than 70 developing countries still have tax-to-GDP ratios below this level, concentrated in fragile and low-income countries. Strengthening governance and institutions, and fiscal

transparency, can support these efforts, not least by earning public trust.

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