FOREWORD

Global economic prospects have deteriorated, and risks are elevated. Uncertainty is unprecedented, and confidence has been weakening. Looking at financial markets, exuberance has partially corrected, and financial conditions have tightened. Policymakers should invest their political capital in building confidence and trust. That starts with keeping their own houses in order. That is especially important in a situation that is likely to test the resilience of individual economies—not to mention the entire system (April 2025 *World Economic Outlook*).

In a fast-changing and perilous world, and with limited policy space, ministers of finance face stark trade-offs and painful choices.

First, fiscal policy should be part of overall stability-oriented macroeconomic policies. Policies should be conducted within sound frameworks and institutions that anchor confidence and expectations. It is also vital to build political support and gain people's trust for advancing fiscal and structural reforms. Otherwise, the risk is that fiscal policy becomes a force operating against monetary stability and financial stability. Stability-oriented fiscal policy is an essential building block for keeping one's own house in order.

Second, fiscal policy should, in most countries, aim at reducing public debt and building buffers to create space to respond to spending pressures and other economic shocks. If policy space allows, fiscal consolidation should be measured and gradual. The consolidation should be designed carefully to allow countries to protect workers, communities, and businesses—in case, for example, they are disproportionately affected by surging tariffs and other protectionist measures. In emerging market and developing economies, where tax revenues are low, improving the tax system is key. However, when under market pressure, governments may be forced into abrupt and front-loaded adjustments that, in extreme cases, may require timely and orderly debt restructuring. But it is important to stress that country-specific factors and circumstances are crucial everywhere.

And last, fiscal policy should, together with other structural policies, aim at improving potential growth, thereby easing policy trade-offs. Otherwise, trade-offs become even starker and push governments into painful choices. That can be seen by considering a policy trilemma that has been introduced in earlier *Fiscal Monitors*. The trilemma is created by the difficulty in reconciling three elements: first, financial stability and public debt sustainability; second, spending pressures (as mentioned above); and third, political red lines on taxation. Importantly, the trilemma becomes less binding when growth improves. That is why taking a long view is so important.

In these times of high uncertainty, fiscal policy must be an anchor for confidence and stability that contributes to a competitive economy delivering growth and prosperity for all. Ministers of finance must build trust, tax fairly, spend wisely, and take the long view.

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