FOREWORD

The global economy is being buffeted by a sequence of disturbances. After unprecedented expansion in 2020, monetary and fiscal policy have pivoted together from expansion to tightening. Debt and deficits fell in 2021 and 2022 but remain above prepandemic levels and projections. These developments reflect mainly the unwinding of pandemic-related measures and surprise inflation. In the context of high inflation, high debt, rising interest rates, and elevated uncertainty, consistency between monetary and fiscal policy is paramount. In most countries, this means keeping the budget on its tightening course.

Inflation surprises are contributing to the reduction of debt and deficits. But we also must recognize that inflation surprises cannot endure. If inflation becomes broad-based and persistent, it will eventually be reflected in inflation expectations. In such a situation, assets that promise nominal returns become less attractive. High and volatile inflation makes credit more expensive and unreliable. There is thus a trade-off between short-run expediency and macroeconomic stability. With inflation elevated and financing conditions tightening, policymakers should prioritize macroeconomic and financial stability above all else. This is especially relevant as recent developments in bond markets show increased market sensitivity to deteriorating (or bad) fundamentals. That raises the prospect of more frequent and more disruptive fiscal crises across the world.

Very high inflation, together with surging food and energy prices, translates into a politically salient cost-of-living crisis. Governments are adopting hundreds of policy actions this year in response to surging food and energy prices. Food spending is proportionately much greater in poorer countries (and poorer households). Hence, in these economies, food is the dominant driver of policy action. In advanced economies energy dominates.

Our report includes the results of a survey of 174 countries covering about 750 measures enacted in the first half of 2022 to counter the food and energy crisis. The most common measures aim at dulling price pass-through and include reductions in consumption taxes, customs duties, and energy price subsidies. Most measures have not been targeted at those most in need.

The rise of extreme poverty and food insecurity that began even before the pandemic is very concerning. Emergency support is necessary. The food crisis should be addressed, at the global level, by a broad set of initiatives including the lifting of restrictions on exports of food and fertilizers. Some emergency financing will be available through the new Food Shock Window under the IMF emergency financing toolkit. But more is needed, including through the voluntary rechanneling of wealthier countries' allocations of the IMF's special drawing right (SDR) to poorer countries.

At the national level, countries must prioritize food security. In many cases, binding financing constraints make the trade-offs very painful for countries. Coordinated global action is thus urgent.

Compounding the food plight, the energy crisis—especially in Europe—is proving to be profound, protracted, and is likely to persist. Given the size of the shock, many households and firms require support that facilitates adjustment. It is critical to design the policy response in a way that navigates difficult, but pressing, trade-offs. The price mechanism must play a key role in the allocation of scarce energy resources and targeted measures help to reconcile the imperative of support for the vulnerable with maintaining the budget deficit on a downward path. Facing a shifting landscape, policymakers must stay agile to be able to respond appropriately to the unexpected. Long commitments are not more than a pretense of certainty and can quickly become unaffordable.

This *Fiscal Monitor* takes a deep dive into how fiscal policy can build a resilient society that helps people bounce back from significant adversity. The pandemic has shown that fiscal measures can be swift and impactful in protecting people and firms in difficult times. Governments have used novel and innovative tools, often leveraging digital technology.

These measures can be more efficient if building on a sound pre-existing social protection system when crises strike. The *Fiscal Monitor* thus stresses the importance of preparing a strategy, making social support readily scalable and better targeted and building fiscal buffers in normal times. These actions would allow governments to respond promptly and flexibly to deliver support to those who really need it. Information, transparency, the institutional capacity will be key—as will managing risks and exiting support measures. This is particularly challenging when facing shocks that are both as far-reaching and persistent as we are witnessing today.

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