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Crisis resilience: An assessment using the revised Policy Space Index

La résilience aux crises : une évaluation par l'indice d'espace politique revisité

Alexei Kireyev[1]

This paper revisits and updates the Policy Space Index (PSI), originally developed by Ferrer and Kireyev (2023), to assess countries' short-term macroeconomic capacity to respond to economic shocks. The PSI integrates fiscal space, monetary space, and reserve adequacy into a unified metric expressed as a percentage of GDP, adjusted for institutional characteristics including exchange rate regimes, capital market access, debt distress risk, and reserve currency status. Drawing on publicly available databases, this update provides a comprehensive cross-country assessment of effective policy space in 2024 and tracks its recent evolution. The analysis reveals a stark global divide: While 90 countries representing 70% of global GDP retain sufficient space for immediate crisis response, 91 countries – home to half the world's population – have limited or no policy space and would likely require external support during a crisis. The update documents a concerning global decline of 15% of GDP in nominal policy space over 2020-2024, driven primarily by rising public debt.

Keywords: Policy Space Index, fiscal space, fiscal policy, monetary policy, reserve adequacy, exchange rate regimes, sovereign debt, macroeconomic resilience.

Cet article réexamine et actualise l'indice d'espace politique (PSI), initialement développé par Ferrer et Kireyev (2023), afin d'évaluer la capacité macroéconomique à court terme des pays à répondre aux chocs économiques. Le PSI intègre l'espace budgétaire, l'espace monétaire et l'adéquation des réserves dans un indicateur unifié exprimé en pourcentage du PIB, ajusté en fonction des caractéristiques institutionnelles, notamment les régimes de taux de change, l'accès aux marchés des capitaux, le risque de surendettement et le statut de monnaie de réserve. S'appuyant sur des bases de données accessibles au public, cette mise à jour fournit une évaluation complète, pays par pays, de

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l'espace politique effectif en 2024 et suit son évolution récente. L'analyse révèle un fossé mondial profond : alors que 90 pays représentant 70% du PIB mondial disposent d'une marge de manœuvre suffisante pour réagir immédiatement à une crise, 91 pays, qui abritent la moitié de la population mondiale, ont une marge de manœuvre politique limitée ou inexistante et auraient probablement besoin d'un soutien extérieur en cas de crise. La mise à jour fait état d'une baisse mondiale préoccupante de 15% du PIB en termes de marge de manœuvre politique nominale entre 2020 et 2024, principalement due à l'augmentation de la dette publique.

Mots-clés : indice de marge de manœuvre politique, marge de manœuvre budgétaire, politique budgétaire, politique monétaire, adéquation des réserves, régimes de taux de change, dette souveraine, résilience macroéconomique.

JEL Classification Codes: E02, E52, E61, E63, F01, F42, F63, H12

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1. INTRODUCTION

This paper revisits and updates the Policy Space Index (PSI), originally developed by Ferrer and Kireyev (2023). The PSI integrates three quantitative components – fiscal space, monetary space, and reserve adequacy – into a single metric expressed as a percentage of GDP. It adjusts these components for institutional characteristics such as exchange rate regime, access to capital markets, debt distress risk, and reserve currency status, thereby producing an effective measure of policy space that reflects governments' short-term deployment capacity in a crisis. Unlike the IMF's fiscal space framework, which focuses on discretionary fiscal policy and debt sustainability, the PSI offers a broader, multidimensional view of macroeconomic manoeuvrability.

This updated version of the PSI draws on the latest vintage of publicly accessible databases. Chief among them are the IMF's World Economic Outlook (WEO) database, the Annual Report of Exchange Arrangements and Exchange Restrictions (AREAER), published debt sustainability analyses (DSAs), sovereign ratings, etc. The PSI takes stock of the policy space as of 2024 and also tracks its evolution since 2020, revealing a global decline of 15 per cent of GDP in nominal policy space, driven primarily by rising public debt. Effective space declined more modestly, with notable losses in the Middle East and central Asia. These findings underscore the importance of institutional resilience and the need for coordinated policy frameworks that preserve and expand policy space.

The remainder of the paper is structured as follows. Section II reviews the literature and conceptual foundations of policy space. Section III details the quantitative components of the PSI. Section IV discusses institutional factors and their interaction with nominal policy space. Section V presents estimates of nominal and effective policy by country groups and for individual countries. Section VI concludes with policy implications for policy and future research. The country-level assessment is presented in the annex.

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2. POLICY SPACE – SOME RECENT DEVELOPMENTS

Recent literature

The concept of policy space initially emerged in the context of trade and later expanded into macroeconomics. In WTO-centred discussions of the early 2000s, policy space referred to the latitude national governments retained to pursue development strategies despite their commitments under global trade and investment agreements. For instance, Page (2007) argued that tariff bindings, TRIPS, and investment rules constrained the ability of states to adopt policies tailored to their development needs. UNCTAD (2004) emphasized sovereignty, the right to development, and special treatment for developing countries as legal foundations for preserving such autonomy. Similarly, Muchhala (2007) stressed that global trade rules could diminish developing countries' capacity to shape industrial policy. Chang (2006) linked policy space to long-term development trajectories, noting that advanced economies historically relied on unilateral protectionist tools now restricted by multilateral WTO agreements.

In macroeconomic literature, policy space was initially viewed primarily as a post-crisis stabilization tool. Ocampo and Vos (2008) later reinterpreted the concept, showing that deeper integration into global finance had reduced developing countries' ability to implement countercyclical policies. Following the global financial crisis, the IMF (2010) emphasized that governments retained room to support recovery through coordinated fiscal and monetary policies; however, critics argued that Fund conditionality left little genuine autonomy. Grabel (2011) described the IMF's approach as "productive incoherence", where contradictory strategies undermined real policy space. Kentikelenis, Stubbs, and King (2016) found limited evidence that IMF programmes allowed meaningful flexibility, while Romer and Romer (2017) demonstrated empirically that countries with greater pre-crisis monetary and fiscal space experienced milder recessions, reinforcing the practical importance of preserving buffers. The IMF (2016a) later acknowledged that zero lower-bound constraints and elevated debt burdens restricted policy choices.

Recent research on fiscal space has framed it as a complex multidimensional concept. Jackson (2021) argues that policy space – countries' freedom to design their own economic policies – is shaped

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by interstate power imbalances rather than formal rules. This leaves both developing and developed countries with insufficient flexibility, and a more flexible system of economic development is needed. Kose *et al*. (2022) provided a harmonized database of fiscal indicators – capturing debt sustainability, interest burdens, and financing conditions across countries – offering policymakers a practical benchmarking tool. Building on this, the World Bank (2025) systematized 29 indicators across debt sustainability, balance sheet structure, external and private sector risks, and market access for over 200 economies, enabling panel-style monitoring of fiscal space over time. Hong, Zhang, and Nguyen (2024) linked fiscal space erosion to mounting pressures from climate finance, defence spending, and aging populations, arguing that traditional debt metrics fail to capture these forward-looking liabilities. The IMF's Fiscal Monitor mapped how elevated post-pandemic debt, rising interest bills, and climate policy needs compress fiscal space, and proposed medium-term anchors and consolidation strategies to rebuild buffers without derailing growth (IMF 2023, 2024a). The IMF's Independent Evaluation Office (2024) further noted that IMF advice often oscillated between urging preservation and encouraging the use of fiscal space, illustrating the political-economy dilemmas inherent in fiscal planning.

As a corollary to fiscal space, research emphasized the need to preserve debt space. The UNCTAD (2025) report framed public debt as a structural development constraint that erodes fiscal space – referred to as "manoeuvrability" – and diverts resources from development priorities. Mitchener and Trebesch (2023) argued that historical analogies, such as interwar debt spirals, offer cautionary lessons about the limits of fiscal expansion under fragile institutional settings. Meanwhile, Brunnermeier and Reis (2023) explored how debt space is increasingly shaped by financial architecture, noting that sovereign liquidity crises often stem from opaque off-balance-sheet exposures rather than headline debt ratios. Farhi and Tirole (2025) emphasized the role of contingent liabilities and fiscal guarantees in compressing usable debt space, especially in economies with weak budget transparency.

Monetary space has also been reconceptualized as a composite rather than a simple gap measure. Borio *et al*. (2021) argued that monetary space should be defined not only by nominal policy rates

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but also by credibility, financial conditions, and inflation expectations. Lake, Campbell, and Crews (2023) added a dynamic perspective, showing how central banks learn strategies at the effective lower bound, with credibility shaping how much real space exists even when nominal rates are constrained. The leadership of the Bank for International Settlements (BIS) emphasizes that credible frameworks and restored buffers are essential for preserving monetary space before the next shock arrives (Carstens 2025).

Reserve space has similarly evolved from a unidimensional, static concept into a multidimensional, dynamic metric. The IMF updated its Reserve Adequacy Framework (IMF 2025a), and its Assessing Reserve Adequacy (ARA) portal now consolidates metrics that scale reserve needs to country-specific characteristics – such as exchange rate regime, capital controls, and liability structure – operationalizing how much external space can be used without destabilizing expectations. This strand dovetails with the IMF Integrated Policy Framework, which emphasizes the need to use combinations of policy tools – interest rates, foreign exchange interventions, macroprudential measures, and capital flow management (IMF 2023).

Overall, recent research reframes policy space as a multidimensional and dynamic concept. To quantify this space, Ferrer and Kireyev (2023) proposed a PSI, which combines fiscal space indicators with measures of nominal monetary space and reserve adequacy, allowing for direct cross-country comparisons expressed as a percentage of GDP. The IMF's WEO has repeatedly described the narrowing room for fiscal and monetary manoeuvre since the pandemic, urging tighter coordination and structural reforms (IMF 2023). WTO staff extend the concept of policy space beyond macroeconomic stabilization to include industrial, trade, and climate policies, arguing that preserving national policy space must be balanced against the efficiency and predictability offered by rules-based cooperation (WTO 2025). Gnangnon (2025) retested the assertion that WTO membership restricts developing countries' trade policy space. Collectively, these sources conceptualize policy space as a composite of fiscal headroom, monetary credibility, external buffers, institutional latitude, and international commitments – elements that lend themselves well to its representation as an index.

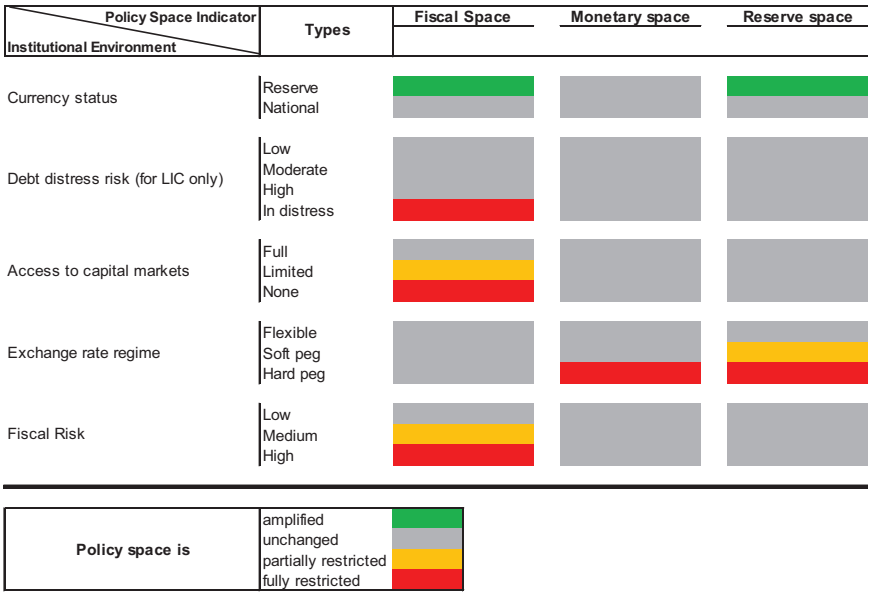
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Policy space matrix

Policy space is defined as the financial capacity of a country to respond immediately to a shock. This concept encompasses financing from all sources, whether domestic or borrowed, and through all instruments, both existing and newly introduced, and without compromising macroeconomic stability. Unlike broader definitions in literature, this framing focuses exclusively on the immediate horizon (current or next year) and integrates all available financing channels, not just fiscal ones. It also allows for quantification in both national currency and as a percentage of GDP, offering a practical metric for assessing short-term policy flexibility. Obviously, policy space is part of a macroeconomic framework. In this broader context, available policy space depends on, and reflects, fiscal, monetary, exchange rate, structural, and other macroeconomic policies conducted by the government. It should be defined relative to the current level of state variables, such as real growth, inflation, fiscal deficit, current account deficit, and debt, and then assessed in a dynamic forward-looking model.

Policy space concept can be presented in a matrix form. This is a 5x3 matrix, which reflects quantitative and qualitative components of policy space (Figure 1). Quantitatively, policy space should reflect at a minimum the country's fiscal, monetary, and reserve stance. This is usually done using limits on the amount of debt and other fiscal indicators, floors on the amount of reserves, or lower bounds to the central bank's policy rate. This is what we do for the calculations of the PSI and we refer to them in general as "thresholds". Qualitatively, the assessment of policy space under each of these components depends on the country's national currency status (reserve currency or national currency), its income group (advanced economies (AEs), emerging markets (EMs) or low-income countries (LICs)), its access to capital markets (full, limited, or none), its debt distress risk (low, moderate, high, in distress), and its exchange rate regime (flexible, soft peg, or hard peg). There are two different fiscal components in the policy space concept: fiscal space as measured quantitatively in per cent of GDP and "fiscal risks" as measured by investors' sentiments and willingness to lend (access to capital markets and risk of debt distress). Assessing both usually involves substantial expert judgment.

Figure 1: *Effective policy space matrix*



Source: Author's presentation.

Policy space can be assessed in both nominal and effective terms. *Nominal policy space* refers to the gap between a predefined threshold and the actual value of a policy indicator such as debt-to-GDP ratio or reserves measured in months of imports. This space is positive when the indicator is below the threshold and negative when it exceeds it. *Effective policy space* is derived from nominal space by adjusting it based on a country's institutional environment – the part of nominal policy space that a country can really use given its institutional constraints. While nominal space might suggest a certain capacity based on indicators, effective space reflects what is genuinely available for use – what can be acted upon, not just in principle.

The colour scheme reflects the degree of rigidity imposed by institutional constraints on policy space. In Figure 1, green indicates that the institutional environment amplifies existing nominal space – for example, in reserve currency countries with substantial fiscal flexibility. Grey denotes a neutral institutional setting, where the full extent of nominal space can be utilized. Yellow and red signal partial or severe restrictions, respectively, imposed by institutional features. For instance, under a flexible exchange rate regime, monetary space is

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fully accessible. In contrast, a fixed exchange rate regime significantly constrains monetary space, potentially rendering monetary policy infeasible unless reinforced by strong capital controls. Thus, even if nominal monetary space exists in theory, it may be effectively unusable. Importantly, effective policy space is always non-negative, as it is not possible to adjust space that does not exist.

The updated index is based on publicly available data. These include the IMF's WEO database (April 2025 edition, updated in July 2025), which supersedes the 2020 data used in the original version. The WEO database provides macroeconomic data for over 190 countries, covering approximately 98 per cent of global GDP and 97 per cent of the world's population as of 2024. However, around 20 countries and territories are excluded from this analysis due to the absence of recent data on key indicators. Additional sources include databases from the World Bank, Haver Analytics, and Bloomberg. The update also incorporates significant institutional changes observed across many countries since 2020, such as the reclassification of their de facto exchange rate regimes, assessments of debt sustainability, and shifts in access to international capital markets.

3. POLICY SPACE COMPONENTS

Quantitatively, policy space is defined as a compound of fiscal space, monetary space, and reserve space. Each component, institutionally anchored, represents a distinct domain of macroeconomic management, while together they delineate a government's short-term ability to respond to economic shocks. Fiscal space is managed by the Ministry of Finance and shaped by fiscal policy, which determines public debt levels and gross financing needs. Monetary space falls under the purview of the central bank, with monetary policy influencing inflation dynamics and the accumulation of international reserves. Effective coordination between fiscal and monetary authorities enables the integrated management of these policy levers, allowing for the strategic deployment of available instruments and the exploitation of their complementarities. This interaction enhances the overall efficiency of the policy response and operationalizes the concept of policy space as a unified framework.

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Fiscal space

Fiscal space represents a country's ability to respond to shocks without jeopardizing macroeconomic stability. Fiscal space is the main quantitative component of policy space and comprises two key components: borrowing space and financing space.[1] *Borrowing space* refers to a country's capacity to take on additional debt without undermining debt sustainability. It is considered adequate when the primary balance required to stabilize public debt is feasible, rollover risks are low, and potential growth is preserved. *Financing space*, on the other hand, reflects the ability to meet gross financing needs without compromising liquidity. Gross financing needs (GFNs) are defined as the government's debt amortization payment obligations that are not covered by the overall fiscal balance (IMF 2025b). GFNs are the sum of fiscal deficit and public debt amortization in a given year. A relatively low budget deficit and smaller upcoming debt repayments contribute to creating room and allowing governments to raise spending or lower taxes if need be, without compromising debt sustainability and market access.

Fiscal space calculated for the purposes of the PSI is broader than just borrowing space. While borrowing space reflects a country's ability to take on debt without compromising solvency – typically constrained by debt sustainability and vulnerability indicators – fiscal space encompasses all financing options available to the government. Even in the absence of borrowing space, countries may retain fiscal space by financing themselves through non-debt financing mechanisms, such as the sale of financial assets (e.g. currency and deposits, special drawing rights (SDRs), non-monetary gold, equity holdings, and investment fund shares), or privatization of public corporations. Governments may also mobilize resources by selling non-financial assets, including fixed assets (e.g. buildings, machinery, intellectual property), inventories, valuables, and non-produced assets (e.g. land, mineral rights, and spectrum licenses). In extreme cases, under fiscal dominance, a government may choose to resort to monetary financing.

[1] This definition is broader than the one used by the IMF, which narrowly defines fiscal space as the room for undertaking discretionary fiscal policy by raising expenditure or reducing taxes relative to an existing baseline without compromising market access and debt sustainability (IMF 2018). The IMF classifies countries by availability of fiscal space.

Figure 2: *Borrowing space and financing space thresholds (in per cent of GDP)*

Access to capital markets	Public Debt			Gross Financing Needs		
	AEs	EMs	LICs*	AEs	EMs	LICs
None	70	55	35	15	10	7
Limited	70	60	55	15	15	10
Full	85	70	70	20	15	15

** In present value*

Source: IMF, 2020a; author's calculations.

Also, even countries with a high public debt may retain some borrowing space if their gross financing needs remain low. Therefore, fiscal space should not be equated with borrowing space, as it includes a wider array of instruments beyond debt issuance. If both the borrowing space and gross financing needs remain below their respective thresholds in the year prior to projections and throughout the projection period, their contribution to fiscal space is considered positive. Conversely, if either benchmark is breached at any point, the contribution is deemed negative.

Fiscal space is calculated as a composite of borrowing space and financing space. For borrowing space, the sustainability threshold is a public debt-to-GDP ratio. Borrowing space is then calculated as the difference between a country's public debt and its sustainability threshold. Similarly, for financing space, the sustainability threshold is the gross financing need-to-GDP ratio. Accordingly, financing space is calculated as the difference between a country's gross financing needs as per cent of GDP and the corresponding sustainability threshold. The thresholds for both variables are defined as a function of the country's income group – AEs, EMs, or LICs and their access to capital markets (none, limited, full). The following matrix summarizes these thresholds (Figure 2). The sustainability thresholds for LICs are calculated in *present value*[2] of their debt at a 5% discount rate, while for AEs and EMs the thresholds are based on the nominal level of their debt stock. GFN thresholds are all defined in levels.

2 In line with DSF practices, a 5% discount rate is used for all countries.

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Monetary space

For the purposes of the PSI, monetary space is defined as the ability of central banks to stimulate the economy without compromising price stability. Monetary space is considered to exist if headline inflation can remain below target. In this case, central banks have substantial discretion to reduce policy rates or implement quantitative easing, at least in the short run before inflation expectations change and inflation approaches the target. In countries where inflation is already at the target, monetary space can still exist if central banks intend to raise the target temporarily to stimulate the economy. If the inflation target is defined as a corridor, its lower and upper bounds could affect the use of policy space. For countries with inflation above the target but still below the upper bound, a more nuanced assessment of monetary space is warranted than just by comparing inflation to the target. The same is true for countries with inflation slightly above the upper bound, if the central bank is viewed as strong and credible, if the upper bound is considered too ambitious, or the inflationary spike is considered transitory. For countries without an inflation-targeting framework, an average 2024 inflation target for their respective income group is used as an implicit inflation target.

The existence of monetary space has been called into question by the zero bound on policy rates. For example, Romer and Romer (2017) measure monetary policy space as a dummy variable for whether the policy rate is above the zero lower bound. They suggest that the simplest measure of monetary policy space in advanced economies is a dummy variable that is equal to 1 if the policy interest rate is greater than 1.25 per cent at the end of the previous half-year, and 0 otherwise, to illustrate that if the policy interest rate is below a certain level, central banks are severely limited in their conventional monetary policy. Other variants of this measure are also possible, such as different cut-off levels and a range of means and standard deviations of the cumulative normal distribution in the policy rate. It should also be acknowledged that monetary policy space or space to change policy rates is also affected by the difference between actual and potential output or between real and neutral real interest rates. Lilley and Rogoff (2020) take the view that the effective zero bound on policy interest rates is not an impediment for monetary policy, as on technical grounds there is no reason why interest rates cannot be set deeply

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negative "if backed up by measures to prevent cash hoarding by financial firms".

Monetary space is measured here as an intersection of growth and inflation. On the one hand, central banks' monetary policy can be constrained by the zero lower bound, although historically in some AEs interest rates dropped below zero. To better capture this reality, the PSI applies an effective lower bound of -1 per cent. On the other hand, monetary policy is also constrained by the need to ensure controlled inflation as defined by their inflation target. Therefore, the PSI measure of monetary space is a central bank's room to support growth through both conventional and unconventional monetary policy if inflation remains reasonably close to the target. It is assumed that central banks exhaust their conventional monetary policy tools before using unconventional policies such as quantitative easing. This assumption makes it possible to account for a central bank's decision-making process in setting policy rates.

Reserve space

The PSI's reserve adequacy indicator is derived from the reserve adequacy metric. The traditional metrics, which remain broadly relevant and are routinely used for policymaking, include the import cover ratio, the ratio of reserves to short-term debt, and the ratio of reserves to broad money (IMF 2011). The import cover ratio is usually seen as relevant for countries with relatively closed capital accounts, as it points to how long imports can be sustained in the event of a shock. Its traditional metrics have been based on months of prospective imports, with three months of import coverage and 100 per cent cover of short-term debt with reserves as the most widely used standards of adequacy (IMF 2013). Finally, for countries with a large banking sector and very open capital accounts, the ratio of reserves to broad money has been used to capture capital flight risks, with the upper end of a prudent range for reserve holdings typically set at 20 percent (IMF 2016b). This framework and its thresholds are described in the IMF's Assessing Reserve Adequacy – Policy Papers (IMF 2011, 2016b, 2017).

The latest ARA metric is constructed as a weighted sum of potential sources of balance-of-payments pressures. The ARA metric includes short-term external debt (capturing risks of sudden capital

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outflows), other portfolio liabilities such as non-resident equity and debt holdings (capturing risks of portfolio withdrawal), broad money (capturing risks of resident capital flight), and exports (capturing risks from a sudden loss of trade receipts). The relative weights applied to these components vary by country type, reflecting structural differences in external vulnerabilities. For example, the ARA formula for emerging markets estimates reserve needs by summing weighted exposures of 30 per cent of short-term external debt, 15 per cent of other portfolio liabilities, 5 per cent of broad money, and 10 per cent of annual exports, all measured in U.S. dollars. Reserve adequacy is then assessed by comparing actual reserves against this metric, where 100-150 per cent of the ARA metric is considered adequate, coverage below 100 per cent signals insufficient reserves and heightened vulnerability, and levels above 150 per cent imply more than adequate coverage (IMF 2025a).

For the PSI, the reserve space is defined as the level of reserves exceeding two ARAs. Assuming that countries hold reserves for precautionary and liquidity purposes, the adequacy level would depend on a country's income group and access to capital markets. Since due to data constraints the IMF's ARA includes only 78 countries, to increase the country coverage the PSI uses a simplified version of the metric. It contains adequacy thresholds for reserves in months of next year's imports and in per cent of short-term debt but for all countries' income group and conditional on their access to capital markets (Figure 3). For instance, EM and LIC reserves are considered adequate if the country maintains three or more months of the prospective value of imports of goods and services. Additionally, EM and LIC reserves need to accrue to 100 per cent of short-term debt if they have at least some constraints to international capital markets. If not, only 50 per

Figure 3: *Reserve adequacy thresholds*

		Months of Imports*			**% of Short-term Debt**		
Access to capital markets		AEs	EMs	LICs	AEs	EMs	LICs
	None	1	3	3	0	100	100
	Limited	1	3	3	0	100	100
	Full	1	3	3	0	50	50

** Next year's imports*

Source: IMF 2015; author's calculations.

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cent of short-term debt cover is assumed to be adequate. On the other hand, AE reserves are considered adequate above one month of imports and no short-term debt cover is required.

4. INSTITUTIONAL ENVIRONMENT

Qualitatively, policy space is critically shaped by the institutional environment. A government's ability to maintain and expand its policy space reflects the institutional, structural, and policy constraints within which it operates. For the purposes of this paper, five components of the institutional environment are considered: the international status of the local currency (reserve or non-reserve), the country's income classification, access to international capital markets, risk of debt distress, and the exchange rate regime. Between 2020 and 2025, the institutional environment deteriorated across most of these dimensions, adversely affecting the PSI.

International status of national currency

The reserve currency status of the national currency amplifies policy space. Reserve currency is conventionally defined as a foreign currency held in significant quantities by central banks as part of their foreign exchange reserves. IMF Articles of Agreement do not define reserve currency directly, but they do mention reserve assets.[3] Reserve currencies constitute a specific category of official reserve assets, referring to currencies that provide the public sector with both a reliable store of value and assured access to international liquidity. This liquidity dimension aligns with the IMF's definition of "freely usable currencies", which, under the Articles of Agreement, are those widely used for international payments and actively traded in principal exchange markets. According to the IMF's Currency Composition of Official Foreign Exchange Reserves (COFER) or Q1 2025 (IMF 2025c), the

[3] Article VIII, Section 7 sets out the obligation of each IMF member to collaborate with the Fund and with other members in order to ensure that the policies of the member with respect to reserve assets are consistent with the objectives of promoting better international surveillance of international liquidity (IMF 2025c Article of Agreement).

currencies individually identified as components of global reserves include the U.S. dollar, euro, Chinese renminbi, Japanese yen, pound sterling, Australian dollar, Canadian dollar, and Swiss franc. All other currencies are grouped under a residual "other currencies" category. These eight currencies collectively account for approximately 97 per cent of the total allocated reserves (IMF 2025c). Also, the SDR basket – comprising the U.S. dollar, euro, Chinese renminbi, Japanese yen, and U.K. pound sterling – serves as an institutional benchmark for reserve currency status, reflecting both liquidity and global acceptance (IMF 2025c).

For the PSI, reserve currency countries (RCCs) are defined as the United States and countries in the euro area. Their central banks issue reserve currencies (U.S. dollar and euro, respectively), their government repay their debts mainly in national currencies and can readily swap those currencies for others, and their currencies are widely accepted for international transactions.[4] The U.S. dollar dominates international settlements as it is used on one side of nearly 90 per cent of all foreign exchange transactions and accounts for about 50 per cent of global cross-border payments. The euro is the second most widely used currency, involved in roughly 30 per cent of foreign exchange (FX) transactions and representing about 20 per cent of international settlements, largely reflecting its role in intra-European trade and finance. Other COFER currencies are excluded from RCCs for the purposes of the PSI as they play a much smaller role in international settlements: the Japanese yen accounts for around 17 per cent of FX turnover, the British pound about 13 per cent, and the Chinese renminbi about 7 per cent (BIS 2023). Furthermore, IMF ARA metrics do not apply to any COFER country other than China (IMF 2025c). The only update over the past five years reflects the fact that Croatia joined the eurozone and thus became an RCC.

In RCCs, money cannot "run out". A growing body of literature continues to affirm that governments in RCCs can always borrow from their own central banks – effectively financing debt through the

[4] An important distinction from the U.S. dollar is that, although eurozone countries benefit from having a reserve currency (the euro), none of them controls it and therefore their own monetary space. The euro is managed by the European Central Bank (ECB), which targets a weighted aggregate of inflation for the eurozone as a whole and implements a unified monetary policy on behalf of all member states in the eurozone.

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creation of money. Landau (2020) treats inflation and default as policy-dependent risks rather than automatic constraints. Blanchard and Pisani-Ferry (2020) similarly argued that when interest rates are at the zero lower bound, central bank purchases of government bonds merely swap one zero-interest liability (debt) for another (money), leaving public debt dynamics unchanged. Mkhatrishvili (2025) deepened this view by modelling endogenous money creation within macro-banking systems, showing how liquidity and solvency constraints – not technical feasibility – govern the limits of monetary finance. Turner (2015) had already noted that the feasibility and desirability of monetary finance in advanced economies were not in doubt. What remains, as the literature suggests, is a political exclusion of monetary financing from the policy toolkit. Once its feasibility is acknowledged, the government budget constraint in RCCs becomes a self-imposed policy choice, not an economic constraint.

Therefore, the need for reserve buffers varies significantly between RCCs and other economies. Reserve currency issuers and countries with standing central bank swap lines are unlikely to require substantial reserves for precautionary purposes, since they can issue domestic assets that are readily exchangeable for foreign currency at any time. By contrast, non-reserve issuers without assured access to reserve currencies must rely on external buffers, including foreign exchange reserves, to insure against market dysfunction and liquidity shortfalls. While RCCs may choose to hold reserves in foreign currencies – such as U.S. dollars – to meet obligations or conduct transactions denominated in those currencies, they do not face the same imperative to accumulate large precautionary reserves.

Non-RCCs have strong institutional disadvantages in policy space. Non-RCCs' policy space is severely limited by the fact that other countries do not demand their currencies with a view to replenishing their reserves or paying for international transactions. Therefore, the scope for non-RCCs' central banks to expand their balance sheets is limited. In these countries, money can actually "run out", as confidence in local currency can be undermined if the central bank's credibility is put at risk by concerns that its balance sheet is abused by government. If economic agents feel that the central bank will not be able to maintain monetary policy independence when the government purchases assets, inflationary pressures may build, and inflation expectations may become de-anchored. In non-RCCs, such market doubts could

lead to currency substitution, and thus exchange rate depreciation and imported inflation.

Income group

The classification of countries used for the PSI includes three groups. These are AEs as defined by IMF WEO classification (IMF 2025g), low-income economies, defined as "all countries eligible to obtain concessional financing from the Fund" (IMF 2023b), and all other countries are considered emerging market economies. This classification is not based on strict criteria, economic or otherwise, and has evolved over time. The objective is to facilitate analysis by providing a reasonably meaningful method of organizing data.

Countries' income level affects policy space. AEs are generally characterized by high incomes and stronger institutional stability, rule of law, business practices, and resilience to shocks than lower-income economies. Therefore, AEs have advantages in all three quantitative components of policy space. For example, their fiscal space is amplified by their internationally recognized public debt and more stable public finances reflected in higher sustainability thresholds with respect to EMs and LICs. AEs' monetary space is also amplified by their capacity to set negative policy rates, attributable to higher central bank credibility and their higher overall stability and maturity of financial markets. Finally, AEs' reserve space is amplified by the lower probability of balance-of-payments shortfalls and their greater access to international markets in the case of external shocks. This translates into lower reserve adequacy thresholds for AEs than for EMs and LICs. The combination of higher debt/GFN thresholds, the ability to set negative policy rates, and lower reserve coverage thresholds in itself creates additional policy space in AEs relative to all other countries.

In the period 2020-25, several countries were reclassified in a different income group. Specifically, four countries (Bangladesh, Uzbekistan, Moldova, and Vietnam) were previously classified as LICs and were reclassified as EMs due to sustained income growth, market development, or graduation from Poverty Reduction and Growth Trust (PRGT) eligibility. Croatia joined the eurozone and became an AE. Three countries (Sri Lanka, Ghana, and Ukraine) were downgraded from EMs to LICs mainly because of debt and war-related issues

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(IMF 2025d, Classification of Economies in the WEO; IMF 2021 PRGT Eligibility Updates). Such reclassifications have had an institutional impact on the assessment of their policy space.

Access to capital markets

Access to capital markets directly influences a country's policy space. In principle, the ability to borrow from international markets expands fiscal space – provided financing is available at a reasonable risk premium. Conversely, when a country's debt is rated as highly speculative, it is effectively considered to have no fiscal space, reflecting investor reluctance to purchase its sovereign bonds and limiting its ability to raise funds through debt issuance. Market access is typically assessed via sovereign bond spreads, with higher spreads implying greater risk premiums and reduced access. In addition, indicators associated with fiscal distress – such as the share of public debt held by non-residents, foreign currency-denominated debt, short-term maturities, and external financing needs – can indirectly signal constraints on market access.

The PSI measures access to capital markets by Moody's global ratings. The reasons for the selection of Moody's over other ratings agencies are that Moody's country coverage is more comprehensive and the ratings are more granular. These ratings on long-term obligation in foreign currency reflect opinions on the relative credit risk of fixed-income obligations with an original maturity of one year or more (Moody's 2025). The ratings assess the possibility that a financial obligation will not be honoured as promised and reflect both the likelihood of default and any financial losses suffered in the event of default. Over 140 countries have Moody's ratings and are labelled according to Moody's credit risk scale from Aaa to D. The PSI defines an indicator that takes three values based on these classifications: full access (investment grade ratings) with a value of 2, limited access (non-investment grade ratings with speculative elements) taking a value of 1, and no access (non-investment grade ratings with obligations in or near default) with a value of 0. If no classification is available, the PSI assumes a value of 0 (no access).

Some Moody's sovereign ratings changed in 2020-25. Only four countries (Greece, Croatia, Bulgaria, and Georgia) improved their ratings during this period. At the same time, Moody's downgraded

12 countries, including several large economies, suggesting that on average, across all countries in the PSI, market access worsened. Ratings for other countries remained unchanged (Moody's 2025, Sovereign Rating Portal).

Risk of debt distress

The risk of debt distress severely limits policy space. Under the Debt Sustainability Framework (DSF), for low-income countries (LICs) (IMF 2020a), risk signals for debt sustainability are derived by comparing debt burden indicators with the indicative thresholds over a projection period. There are four ratings for the risk of external public debt distress: *low risk*, if none of the debt burden indicators breach their respective thresholds under the baseline and stress tests; *moderate risk*, if none of these indicators breach their thresholds under the baseline scenario, but at least one indicator breaches its threshold under the stress tests; *high risk*, if any of the external debt burden indicators breaches its threshold under the baseline scenario, but the country does not currently face any repayment difficulties; and *in debt distress*, when the country is already experiencing difficulties in servicing its debt, as evidenced, for example, by the existence of arrears, ongoing or impending debt restructuring, or indications of a high probability of a future debt distress event (e.g. debt and debt service indicators show large near-term breaches, or a significant or sustained breach of thresholds). The 2025 DSF update kept core categories unchanged but incorporated broader macro-financial vulnerabilities, including exchange rate pressures and commodity price volatility, in the interpretation of distress signals (IMF 2025e, The 4th Financing for Development Conference).

There are no IMF debt distress ratings or methodology for countries other than LICs. The reform of the policy on public debt limits (IMF 2020c) encouraged adequate debt disclosure to the IMF; allowed for greater tailoring of debt conditionality for LICs; encouraged the broader use of debt conditionality in present value terms to accommodate non-concessional borrowing (subject to safeguards); and clarified the definition of concessional debt. For all countries other than LICs, debt sustainability is assessed relative to country-specific circumstances. IMF DSAs, published usually as part of surveillance or programme staff reports, include bottom-line assessment of debt distress

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risks. Such assessments vary from country to country, there is no common terminology related to risks of debt distress, and multiple qualifications reflecting each country's specificity may be used. In 2021, the IMF adopted the Sovereign Risk and Debt Sustainability Framework for Market Access Countries (MAC SRDSF), which expanded the sovereign risk assessment framework to include market access countries. But it still does not assign standardized "debt distress ratings" to them in the same way it does for LICs. Therefore, due to the low degree of comparability of these classifications, debt distress risk considerations were only incorporated into the PSI for LICs, i.e. countries for which harmonized ratings are already being produced and published by the Fund. This is also meant to reflect an additional adjustment for the extra risk that lending to LICs can have.

The classification of LICs by risk of external debt distress has changed significantly. In 2025 relative to 2020, only three countries improved their debt risk ratings from moderate to low (Bangladesh, Moldova, and Uzbekistan). Meanwhile, nine countries were downgraded, mainly from high risk to the debt distress category. Such reclassification has also negatively impacted the PSI assessment of their policy space. The ratings for all other LICs remained unchanged and in most cases were moderate (IMF 2020a, IMF DSF Overview and Archive; IMF 2025f, LIC DSA Classification List).

Exchange rate regime

The exchange rate regime has an ambiguous impact on policy space. A fixed exchange rate regime severely limits policy space, whereas a floating one amplifies it. In members of currency unions, from their individual point of view, the flexible exchange rate is not restrictive, as the exchange rate with other members of the union is fixed. Policy space would depend on the need to defend a certain level of exchange rate. Countries with floating exchange rate regimes, where there is no explicit or implicit commitment to a specific level of exchange rate, have more policy space than those with any form of managed exchange rate. The AREAER (IMF 2024b) provides information on the de jure exchange rate arrangements as described by the countries, and the de facto arrangements, which are classified into 10 categories. This PSI uses a simplified classification of exchange rate arrangements in three

groups: hard pegs (currency board arrangement, no separate legal tender, conventional peg, other managed arrangements), soft pegs (pegged with horizontal bands, stabilized arrangement, crawling peg,- and craw-like arrangement), and floating (floating and free floating) regimes.

Between 2020 and 2024, there was no clear trend in the evolution of exchange rate arrangements. Reclassification outcomes have to be assessed on a net basis, as some countries entered a given regime group while others exited it. The outcome is that the net number of countries with hard pegs declined slightly, likely reflecting a shift toward more flexible arrangements to better absorb global shocks. Conversely, the net increase in soft pegs suggests a preference for intermediate regimes that offer limited flexibility while preserving nominal anchors. The modest expansion in floating regimes points to a broader move toward inflation-targeting frameworks.

5. POLICY SPACE ASSESSMENT

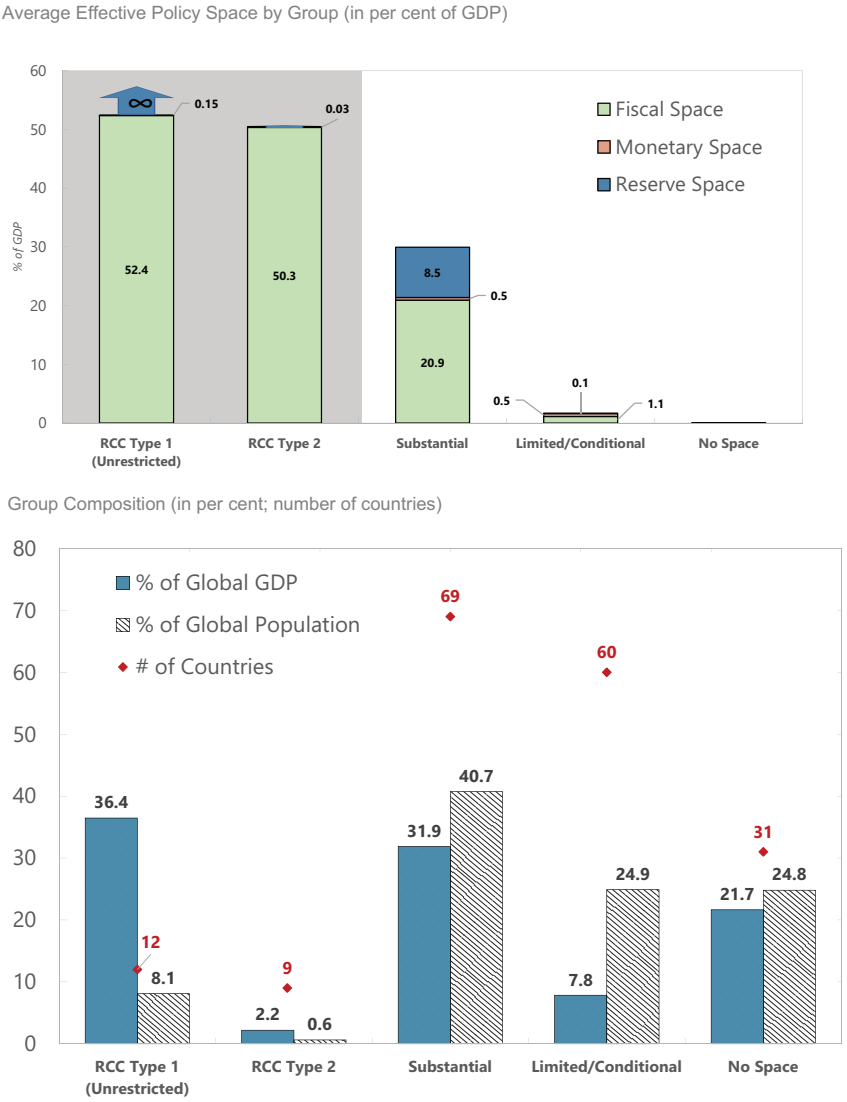
Several groups of countries can be distinguished by the degree of effective policy space. The 181 countries included in the PSI sample from the WEO database as of mid-2025 (IMF 2025d) can be classified into five groups, ordered by decreasing levels of available policy space (Figure 4).

Group 1: RCCs with unrestricted policy space (RCC Type 1). This group includes RCCs with full access to capital markets and low fiscal risks. In the short run, these countries have virtually unrestricted resources to respond to crises. For example, the United States and major eurozone member countries (e.g. France, Germany, Italy, and Spain) can be classified as having unlimited effective policy space due to large fiscal buffers, debt levels below sustainability thresholds, and flexible exchange rate regimes. As members of the euro area, they face no binding reserve requirements, and their institutional environment amplifies policy space through reserve currency issuance and market access. This group includes 12 countries, all of which are AEs, representing 36 per cent of global GDP and 8 per cent of the world's population.

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Figure 4: *Effective policy space, 2024*



Source: Author's calculations.

Group 2: RCCs with somewhat restricted policy space (RCC Type 2). These RCCs face mounting fiscal risks and more constrained access to capital markets. While they retain substantial resources for managing crises, their vulnerabilities are more pronounced. For example,

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some smaller euro area members (Austria, Belgium, Croatia, Cyprus, Estonia, Greece, Ireland, Malta, and the Slovak Republic) fall into this category due to elevated debt levels and institutional constraints that limit rapid policy responses. Although the ECB provides reserve currency support, inflation risks and country-specific liabilities can restrict the effective use of this space. This group includes nine countries, again all AEs, accounting for about 2 per cent of global GDP and less than 1 per cent of the global population.

Group 3: Non-RCCs with substantial policy space. These countries do not have a reserve currency but possess enough effective policy space to absorb the full short-term cost of a major crisis. A country qualifies as having substantial space if its total effective policy space exceeds 5 per cent of GDP, the median for 2024. For instance, some EMs (e.g. Brazil, China, India, Russia, Saudi Arabia, and most other oil-producing countries) with flexible exchange rates and low inflation may have significant reserve and monetary space, even if fiscal space is absent or severely limited. Conversely, some AEs outside the euro area (e.g. Australia, Canada, Japan, New Zealand, Switzerland, and the UK) may rely primarily on fiscal space. This group includes 69 countries, representing 32 per cent of global GDP and 41 per cent of the population.

Group 4: Non-RCCs with limited and/or conditional policy space. Countries in this group either have insufficient effective policy space or rely on conditional external financing. Those with limited space may cover only part of their crisis-related needs, while those with conditional space have nominal fiscal capacity that could be unlocked through concessional or non-concessional lending. For example, a Middle Eastern EM with modest fiscal space and no reserves may qualify for conditional support based on debt sustainability. Similarly, a South-East Asian LIC with a fixed exchange rate and limited monetary space may access donor financing. This group includes 60 countries, accounting for 8 per cent of global GDP and 25 per cent of the population.

Group 5: Non-RCCs with no policy space. This residual group includes countries with zero effective policy space and no access to conditional financing. Institutional constraints, such as fixed exchange rates, debt distress, a lack of market access, or a combination of these, deprive them of policy space. These countries must rely on grants or

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highly concessional aid. For example, a country with some reserves but no usable space due to institutional limitations, and one with fiscal space but in debt distress, would fall into this group. It includes 31 countries (e.g. Ghana, Sudan, and Tunisia) and represents 22 per cent of global GDP and 25 per cent of the population.

Effective policy space for some countries is worth highlighting (see annex). In 2024, the countries with the largest overall policy space – measured as a per cent of GDP – were Switzerland (155%), Taiwan (145%), and Luxembourg (116%), followed closely by Ireland, Hong Kong, and the Netherlands. These exceptionally high levels of policy space were primarily driven by expansive fiscal space because of moderate public debt and low or non-existent GFNs, which in many cases exceeded 70-90% of GDP. For instance, Switzerland combined a strong fiscal space (58%) with a massive reserve space (96%), while Taiwan recorded similarly high figures across both dimensions. Monetary policy contributed modestly across the board to policy space.

In 2024, other AEs showed considerable variation in their effective policy space. Across these economies, fiscal space was the dominant driver, while monetary contributions were negligible, probably reflecting the limited room for further easing in already accommodative environments. Germany led the group with an overall policy space of 79 per cent (everywhere in per cent of GDP), powered by a massive fiscal space of 73 per cent. Italy posted 40 per cent, with fiscal space contributing 30 per cent. France followed with 38 per cent of space, driven also by fiscal space. The United States logged 32 per cent overall space, of which fiscal space stood at 28 per cent. Japan had 36 per cent in policy space, with a more balanced mix of 20 per cent in reserve space and 16 per cent in fiscal space. The United Kingdom showed a more constrained profile at 15 per cent of policy space, with fiscal space at 14 per cent and minimal reserve space. Canada had 20 per cent, with fiscal policy contributing 19 per cent and small additions from reserves and monetary policy.

In 2024, major EMs exhibited a wide range of effective policy space levels. This reflected substantial institutional heterogeneity and differences in fiscal capacity, reserve accumulation, and monetary flexibility. Russia stood out with a robust overall policy space of 72 per cent of GDP, driven by 45 per cent in fiscal capacity and 27 per cent in

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reserves. India had a modest overall policy space of 10 per cent of GDP, shaped primarily by its reserve holdings, while the contributions of fiscal space and monetary spaces were marginal. Saudi Arabia maintained 31 per cent in policy space, entirely from fiscal space. Brazil had 8 per cent, mostly from reserves, while Mexico had 4 per cent, with fiscal space at 4 per cent and negligible monetary input. South Africa showed a constrained profile of policy space with less than 1 per cent overall, entirely from monetary space. Nigeria had less than 1 per cent in effective policy space, with minimal contributions from reserves and fiscal policy. Notably, China's effective policy space amounted to zero across all categories. This outcome reflects the high level of public debt and GFNs, which deprives the country of fiscal space, and the de facto tightly managed exchange rate arrangement, which effectively deprives it of both monetary and reserve space.

Finally, in 2024, several countries had either zero or critically low effective policy space. This unfortunate situation left them with little to no room to respond to economic shocks through conventional macroeconomic tools. The calculated effective policy space for countries such as Cameroon, Burundi, the Central African Republic, Chad, and The Gambia was zero, with no measurable reserves, fiscal space, or monetary flexibility. These economies are likely constrained by structural vulnerabilities, limited access to external financing, and weak institutional frameworks. Others, including Bangladesh, Belize, Gabon, Ecuador, and Mozambique, had less than 3 per cent policy space, with small contributions from one or two components of policy space, albeit still insufficient to provide meaningful policy support in the case of a shock. These countries face heightened risks and need external assistance and deep institutional reforms to rebuild their policy space.

Policy space evolution in 2020-24

In the period 2020-24, nominal policy space continued to shrink, compounding the already negative trend in earlier years. The world lost about 15 per cent of GDP in nominal policy space in this period, mainly because of mounting public debt leading to a considerable loss of fiscal space, which was only partly offset by reduced gross financing needs. The changes in the monetary space and reserve space during this period were marginal (Figure 5). This protracted loss of the

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Figure 5: *Change in nominal policy space, 2020-24*

By income group (in per cent of GDP)

Group	Overall	Fiscal		Monetary	Reserves
		Debt	GFN		
AEs	0.9	-2.7	5.8	0.0	-2.2
EMs	-7.9	-14.1	5.5	0.1	0.5
LICs	-35.3	-36.7	2.0	0.0	-0.6
All	**-14.9**	**-19.0**	**4.5**	**0.1**	**-0.4**

b. Factors affecting the change in policy space (in per cent of total)

Group	Overall	Fiscal		Monetary	Reserves
		Debt	GFN		
AEs	100	-302	644	4	-246
EMs	100	178	-70	-2	-6
LICs	100	104	-6	0	2
All	**100**	**128**	**-30**	**-1**	**3**

c. By policy space group (in per cent of total)

Group	Overall	Fiscal		Monetary	Reserves
		Debt	GFN		
1	5.2	-0.3	4.7	0.1	0.7
2	18.1	11.7	10.0	0.0	-3.5
3	0.7	-0.9	3.4	0.1	-2.0
4	-2.6	-8.5	5.1	0.1	0.7
5	-87.3	-92.6	3.9	0.0	1.4
All	**-14.9**	**-19.0**	**4.5**	**0.1**	**-0.4**

Source: Author's calculations.
Note: AEs = advanced economies; EMs = emerging markets; LICs = low-income countries.

average policy space masks important details. First, LICs have been losing policy space substantially faster, on average at about 7 per cent of GDP per year, than EMs (slightly above 1 per cent of GDP per year in losses) and AEs, where policy space remains broadly unchanged. Second, the loss of nominal policy space in all cases is almost entirely driven by the loss in fiscal space (19 per cent of GDP), again mainly in LICs, suggesting that the authorities' response to shocks during this period was predominantly fiscal, as in the past. Third, the composition of the responses also varied across income groups. AEs rebalanced their policy space by way of a substantial reduction of their GFN to offset, at least in part, the growing public debt and some loss of reserves. The same is true for EMs, although the impact of growing debt and diminishing GFNs was less pronounced. In LICs, all loss of policy space was due to the loss of fiscal spaces. Fourth, the largest loss of nominal policy space is accrued in countries where there is no

Figure 6: *Change in effective policy space, 2020-24 (in per cent of GDP)*[1]

	Reserve	Fiscal	Monetary	Overall
World	0.7	-1.2	0.1	-0.3
By Income group				
AEs	2.1	-2.6	0.6	0.0
EMs	0.8	-1.6	0.1	-0.6
LICs	-0.2	0.4	-0.3	0.0
By region				
Sub-Saharan Africa	0.1	0.4	-0.1	0.5
Asia and Pacific	1.5	-1.1	0.1	0.5
Europe	0.7	-2.1	0.5	-0.9
Middle East and Central Asia	0.3	-2.6	-0.4	-2.7
Western Hemisphere	1.3	-0.9	0.2	0.6

[1] GDP-weighted averages

Source: Author's calculations.

effective policy space because of institutional constraints, again because of the piling up of public debt. Finally, the changes in nominal space policy suggest that fiscal space continues to dominate policy responses in all groups of countries financed by debt, possibly reflecting constraints on monetary policy imposed by the low interest rates during this period and a conservative approach to using reserve space, which countries see as a last-resort instrument.

The 2020-24 changes in effective policy space are less pronounced than shifts in nominal space (Figure 6). This indicates that structural features and institutional choices continue to impose significant constraints on governments' short-term ability to respond to shocks. The evolution of effective policy space varied across income groups. AEs remained broadly neutral, with gains from reserve accumulation being offset by tighter fiscal conditions and only limited monetary support. EMs experienced a moderate contraction, driven mainly by shrinking fiscal room despite modest reserve gains. LICs, by contrast, held a neutral stance overall, as small fiscal expansions were counterbalanced by pressures on reserves and monetary policy. In sum, AEs and LICs preserved their effective space, while EMs showed a net loss.

Regional developments were more uneven. Sub-Saharan Africa, Asia and Pacific, and the Western Hemisphere all achieved slight overall increases in effective policy space, with reserve build-up and

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increases in monetary space outweighing degrading fiscal space. In contrast, Europe and the Middle East and central Asia recorded notable contractions in overall effective policy space, largely reflecting significant fiscal retrenchment, with the latter also seeing declines across all components other than reserves. The loss of policy space was pronounced in the Middle East and central Asia regions, which on average were losing over 0.5 per cent of GDP in effective policy space annually.

6. CONCLUSIONS

The updated-to-2024 PSI offers a multidimensional and institutionally adjusted measure of a country's short-term readiness to respond to a shock. The PSI integrates fiscal, monetary, and reserve space into a unified framework, adjusted for institutional constraints. It enables policymakers to gauge the magnitude and composition of available policy space and to identify areas requiring strengthening. The PSI facilitates cross-country comparisons, can be incorporated into analytical models to evaluate policy options in response to unforeseen shocks, and helps guide policy decisions.

Policy space remains significant but is unevenly distributed and degraded somewhat during the period 2020-24. By 2024, around 90 countries, accounting for about 70 per cent of global GDP and half of the world's population, retained sufficient policy space or the ability to mobilize additional resources for an immediate crisis response. In contrast, 31 countries, representing about 22 per cent of global GDP and roughly 25 per cent of the global population, had no policy space and may require emergency assistance. Another 60 countries had only limited or conditional space, leaving them equally vulnerable even in the short term. In total, 91 countries, producing 30 per cent of global GDP and home to 50 per cent of the world's population, are likely to require substantial support in the event of a shock. On average, global nominal policy space fell by about 15 per cent of GDP between 2020 and 2024, largely due to rising public debt and shrinking fiscal space. Effective policy space also contracted, by about 0.3 per cent of GDP, driven mainly by the sharp erosion of fiscal space in EMs, particularly in the Middle East and central Asia.

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The PSI methodology requires deeper scrutiny before being integrated into policy frameworks. Irrespective of continuous refinement, this methodology's limitations remain substantial. Quantitative thresholds for reserve adequacy and debt sustainability are inherently uncertain during crises, and institutional assessments may involve judgment, potentially distorting results. The index's short-term focus may overlook medium-term risks, such as inflationary consequences of monetary expansion. Policymakers may choose to float exchange rates, modify capital controls, or negotiate debt relief, making country-specific knowledge essential for interpreting PSI results. Moreover, institutional features – such as exchange rate regimes, capital controls, and market access – can themselves be adjusted in response to shocks, thereby altering effective policy space.

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ANNEX

Effective Policy Space by Country, 2024 (in per cent of GDP)

	Effective space (% of GDP)					Effective space (% of GDP)					Effective space (% of GDP)			
	Reserves	Fiscal	Monetary	Overall		Reserves	Fiscal	Monetary	Overall		Reserves	Fiscal	Monetary	Overall
Afghanistan	24	0	0	24	Gambia, The	0	0	0	0	Pakistan	0	0	3	3
Albania	8	2	1	10	Georgia	0	5	1	6	Panama	0	0	0	0
Algeria	0	0	0	0	Germany	7	73	0	79	Papua New Guinea	0	0	3	3
Angola	0	7	0	7	Ghana	0	0	0	0	Paraguay	1	9	1	11
Antigua and Barbuda	0	1	0	1	Greece	0	0	0	0	Peru	23	33	0	56
Argentina	0	0	0	0	Grenada	0	0	0	0	Philippines	10	6	0	16
Armenia	0	5	2	8	Guatemala	2	30	1	33	Poland	1	0	0	1
Aruba	0	6	0	6	Guinea	0	2	0	2	Portugal	15	3	0	18
Australia	1	26	0	27	Guinea-Bissau	0	0	0	0	Qatar	0	10	0	10
Austria	1	46	0	47	Guyana	0	4	1	5	North Macedonia	0	0	1	1
Azerbaijan	0	31	2	33	Haiti	0	0	0	0	Romania	0	0	0	0
Bahamas	0	6	0	6	Honduras	0	5	0	5	Russia	27	45	0	72
Bahrain	0	0	0	0	Hong Kong	0	95	0	95	Rwanda	0	5	1	6
Bangladesh	0	2	0	2	Hungary	0	1	0	1	St. Lucia	0	0	0	0
Barbados	0	7	0	7	Iceland	22	14	0	36	Samoa	0	0	0	0
Belarus	0	0	0	0	India	9	0	0	10	São Tomé and Príncipe	0	0	0	0
Belgium	0	27	0	27	Indonesia	0	28	1	28	Saudi Arabia	0	31	0	31
Belize	0	0	0	0	Iran	0	0	0	0	Senegal	0	1	0	1
Benin	0	4	0	4	Iraq	0	1	0	1	Serbia	0	3	0	3
Bhutan	0	1	0	1	Ireland	0	96	0	97	Seychelles	0	0	2	2
Bolivia	0	0	0	0	Israel	43	13	0	56	Sierra Leone	0	0	0	0
Bosnia and Herzegovina	0	10	0	10	Italy	10	30	0	40	Singapore	10	22	0	33
Botswana	0	43	2	45	Côte d'Ivoire	0	1	0	1	Slovak Republic	1	46	0	47
Brazil	8	0	0	9	Jamaica	0	8	0	8	Slovenia	0	55	0	55
Brunei	0	52	0	52	Japan	20	16	0	36	Solomon Islands	0	1	0	1
Bulgaria	0	37	0	37	Jordan	0	2	0	2	South Africa	0	0	1	1
Burkina Faso	0	3	0	3	Kazakhstan	5	41	0	46	South Korea	18	29	0	47
Burundi	0	0	0	0	Kenya	0	0	1	1	South Sudan	0	0	0	0
Cambodia	0	19	3	22	Kosovo	0	29	0	29	Spain	4	28	0	32
Cameroon	0	0	0	0	Kuwait	0	66	0	66	Sri Lanka	0	1	2	3
Canada	2	19	0	20	Kyrgyz Republic	0	0	1	1	St. Kitts and Nevis	0	7	0	7
Cabo Verde	0	6	0	6	Lao P.D.R.	0	0	0	0	St. Vincent & the Grenadines	0	0	0	0
Central African Republic	0	0	0	0	Latvia	7	62	0	69	Sudan	0	0	0	0
Chad	0	0	0	0	Lebanon	0	55	0	55	Suriname	0	0	0	0
Chile	0	9	0	9	Lesotho	0	5	0	5	Eswatini	0	2	1	4
China	0	0	0	0	Liberia	0	2	1	3	Sweden	4	66	0	71
Colombia	8	0	0	8	Lithuania	2	63	1	66	Switzerland	96	58	0	155
Comoros	0	0	0	0	Luxembourg	0	116	0	116	Taiwan	72	73	0	145
Congo, Republic of	0	0	0	0	Madagascar	7	0	0	7	Tajikistan	2	0	3	4
Costa Rica	0	0	2	2	Malawi	0	0	0	0	Tanzania	0	4	1	4
Croatia	0	81	0	81	Malaysia	0	0	2	2	Thailand	14	1	1	16
Cyprus	0	30	0	30	Maldives	0	0	2	2	Timor-Leste	0	5	0	5
Czech Republic	45	42	0	87	Mali	0	2	0	2	Togo	0	2	0	2
Denmark	0	70	0	70	Malta	0	43	0	43	Tonga	25	0	0	25
Djibouti	0	0	0	0	Mauritania	0	2	2	4	Trinidad and Tobago	3	2	2	7
Dominica	0	0	0	0	Mauritius	2	7	1	9	Tunisia	0	0	0	0
Dominican Republic	0	5	0	5	Mexico	0	4	0	4	Turkey	0	0	0	0
DRC	0	5	0	5	Moldova	21	2	1	23	Tuvalu	0	0	0	0
Ecuador	0	0	0	0	Mongolia	0	2	0	2	Uganda	0	1	2	2
Egypt	0	2	0	2	Montenegro	4	0	1	5	Ukraine	0	0	0	0
El Salvador	0	0	0	0	Morocco	0	2	0	2	United Arab Emirates	0	39	0	39
Equatorial Guinea	0	7	0	7	Mozambique	4	0	1	5	United Kingdom	1	14	0	15
Eritrea	0	0	0	0	Myanmar	0	0	0	0	United States	3	28	0	32
Estonia	0	85	0	85	Namibia	0	0	0	0	Uruguay	13	0	1	14
Ethiopia	0	0	0	0	Nepal	0	1	0	1	Uzbekistan	17	0	0	17
Micronesia	0	42	0	42	Netherlands	0	91	0	91	Vanuatu	0	0	0	0
Fiji	0	9	0	9	New Zealand	6	29	0	34	Vietnam	0	33	0	33
Finland	2	50	0	52	Nicaragua	0	0	1	1	Yemen	0	0	0	0
France	9	29	0	38	Niger	0	1	0	1	Zambia	0	0	0	0
Gabon	0	0	0	0	Nigeria	1	0	0	1	Zimbabwe	0	0	0	0
					Norway	15	48	0	62					
					Oman	0	5	0	5					

Legend:
Unrestricted 1 (RCC)
Unrestricted 2 (RCC)
Substantial
Limited/Conditional
None

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