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Macroeconomic Challenges of Fragility and Policies for Stability and Growth

Prepared by a team led by Alexei Miksjuk and Paul M. Bisca, comprising Jocelyn Boussard, John-Paul Fanning, Romina Kazandjian, Yipei Zhang, Lavinia (Xinyuan) Zhao, and Thomas Augsten, under the guidance of Gaëlle Pierre, Björn Rother, and Guillaume Chabert

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Executive Summary

Fragility poses significant economic and policy challenges and has costly global spillovers. Given its complex political, social, economic, and security roots and ramifications, there is no universally agreed upon definition of fragility. However, it typically involves a mix of low state capacity to deliver public services, weak governance and corruption, social tensions, widespread poverty and inequality, significant exposure to shocks, and, overall, a broken social contract between the state and its citizens. These factors constrain how economies operate, creating higher uncertainty, entrenching distortions, impeding development, and often intensifying the trade-offs between policy objectives. The World Bank and the IMF currently classify 38 economies as fragile and conflict–affected states (FCS), most of which are low-income countries (LICs).[1] That said, fragility and conflicts are not confined to these economies. Indeed, the impact of fragility and conflicts on macroeconomic outcomes can be observed in many countries around the world. Propagation channels include insecurity, refugee flows, and disruptions in trade. Fragility thus deserves continued attention from policymakers, as peace and stability are a global public good.

This paper provides a comprehensive discussion of macroeconomic challenges and policies under fragility, expanding on the existing literature with new analysis. Its main findings include:

- **Fragility is most intense and macroeconomically significant in FCS.** The paper provides a detailed analysis of the severity and persistence of fragility in FCS economies. It also shows how recent shocks—such as the COVID-19 pandemic, Russia's war in Ukraine, and the global food crisis—have aggravated pressures linked to fragility not only for FCS, but also for other countries. Lower growth and higher inflation coupled with poverty, social unrest, and polarization have tested institutions and social cohesion in many emerging markets (EMs) and even in some advanced economies (AEs).

- **Fragility is associated with slower long-term growth amid impaired government functions.** The paper presents empirical evidence on the link between fragility, macroeconomic outcomes, and public finance, differentiating across fragility dimensions and country characteristics (and controlling for the level of income). Weak macroeconomic and fiscal outcomes are particularly pronounced in FCS, especially when institutional fragility is aggravated by conflict or fuel-export dependence. More broadly, in many LICs and EMs, institutional fragility is associated with slower long-term economic growth at statistically significant levels, underpinned by weak economic and financial sector policies. Institutional fragility and poor governance go hand in hand with less adequate levels of public service provision amid smaller tax revenues and underdeveloped financial sectors, which impede efficient resource allocation. Other dimensions of fragility—such as insecurity, violence, or, in some cases, fragility related to human capital—are also macroeconomically relevant.

- **Fragility increases the vulnerability of economies to macroeconomic shocks, which in turn perpetuates fragility.** The paper provides new empirical estimates of impulse responses to shocks under fragility, treating fragility as a continuous rather than a binary variable, and controlling for country characteristics. The impact of global shocks is most pronounced in FCS, particularly when institutional fragility is aggravated by conflict, fuel-export dependence, or small country size—many countries with these characteristics saw strong growth scarring over the past five years. More broadly, LICs and EMs with weaker governance face stronger and longer-lasting impacts of external shocks (such as changes in the terms of

[1] Low-income countries are defined in this paper as the countries eligible to the IMF's Poverty Reduction and Growth Trust (PRGT) (https://www.imf.org/en/Topics/PRGT) facilities. Emerging markets are defined as those that are neither LICs nor advanced economies.

trade), putting at risk any development and poverty reduction gains previously achieved and likely further entrenching fragility. A key underlying reason is that low fiscal and foreign exchange (FX) reserve buffers in these countries impede countercyclical policy responses that enable governments to absorb shocks and effectively stabilize the economy during downturns.

The analysis points to the importance of sound policies to strengthen core government functions, with careful consideration given to institutional and sociopolitical constraints. Although each case is different, an effective set of macroeconomic policies and structural reforms in FCS generally focuses on three objectives: supporting macroeconomic stabilization, public service delivery, and market-based resource allocation. For successful implementation, policy measures—such as raising tax revenues, supporting efficient public expenditures on goods and services that help reduce fragility, rebuilding fiscal and foreign exchange buffers, strengthening fiscal and monetary policy frameworks, and developing the financial sector—must be tailored, prioritized, and sequenced to account for low institutional capacity, weak governance, political economy dynamics, and social tensions in FCS. In the short term, it is critical for these policies to deliver tangible benefits for people and economies by addressing crises, helping with macroeconomic stabilization, and delivering public goods and services. In the long term, these policies can play an essential role in supporting countries to exit fragility when bolstered by political commitment to structural reforms that also create favorable conditions for private sector-led growth. Thus, policies that strengthen core government functions could give rise to or reinforce a virtuous cycle that sustains a social contract appealing to economic agents and the broader population: delivering public goods increases trust in the state and support for institutional transformation, which in turn enable better macroeconomic policies and support growth. Along this long uncertain path, where shocks and setbacks are frequent, flexibility for rapid learning and course correction is crucial for policy implementation. These policy considerations are also relevant beyond FCS: countries at risk of tipping into intense fragility may find many of them relevant, whereas other countries may use them selectively to address "pockets of fragility" that are geographically concentrated.

International financial institutions (IFIs) play a critical role in supporting countries' efforts to mitigate and overcome fragility. FCS warrant continued attention because of their unique characteristics, policy trade-offs, and challenges—especially amid competing global priorities and shifts in the development landscape. With tightening resources, policy advice, capacity building, and financing need to be well tailored and well targeted, with a focus on strengthening core government functions and institutions in FCS.

Given the macrocriticality of fragility, the IMF is guided by its FCS Strategy in its engagement with these countries, as well as in countries where fragility risks are on the rise. The Strategy lays out an operating framework for such engagement, emphasizing the need for a deeper understanding of country-specific manifestations of fragility and its macroeconomic implications, scaling up capacity building, and strengthening partnerships. As such, the IMF policy recommendations are tailored to FCS specific circumstances, in line with the earlier discussion. In cases where fragility is less intense but still macroeconomically relevant, policy measures could be scaled and targeted to address specific underlying drivers and help prevent the materialization of fragility and conflict risks. Collaboration with humanitarian, development, and peace organizations remains important to ensure that economic and noneconomic interventions are mutually reinforcing and leverage contextual knowledge to inform and tailor macroeconomic support in FCS.

Acronyms and Abbreviations

ACLED	Armed Conflict Location and Event Data
CD	Capacity development
CPIA	Country Policy and Institutional Assessment
CAR	Central African Republic
CES	Country Engagement Strategy
DRC	Democratic Republic of the Congo
ODA	Official Development Assistance
EMDE	Emerging market and developing economy
FCS	Fragile and conflict-affected states
FD	Financial development
FDI	Foreign direct investment
GDP	Gross domestic product
GNI	Gross national income
IDA	International Development Association
IFI	International financial institution
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
LIC	Low-income country
MIC	Middle-income country
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PER	Public expenditure review
PFM	Public financial management
PRGT	Poverty Reduction and Growth Trust
SDG	Sustainable Development Goal
SDS	Small developing states
UCDP	Uppsala Conflict Data Project
UCT	Upper Credit Tranche
UN	United Nations
UNHCR	United Nations High Commission for Refugees
USD	United States dollar
WB	World Bank
WDI	World Development Indicators
WEO	World Economic Outlook
WFP	World Food Programme
WGI	Worldwide Governance Indicators

Glossary

Advanced economies (AEs)	Countries with higher level of income, classified as advanced economies based on the IMF WEO methodology.
Emerging markets (EMs)	All countries that are not classified as AEs or LICs.
Emerging market and developing economies (EMDEs)	All countries that are not classified as AEs.
Fuel exporters	Countries with fuel as the main source of exports, classified as fuel exporters based on the IMF WEO methodology.
Low-income countries (LICs)	Countries eligible for IMF's Poverty Reduction and Growth Trust (PRGT) facilities.
Small developing states (SDS)	Countries classified as SDS based on the IMF WEO methodology, with populations under 1.5 million and excluding AEs and high-income fuel-exporting countries.

1. Introduction

Fragility can lead to significant macroeconomic and development challenges. Fragility is a multifaceted phenomenon and is typically identified through its drivers, such as weak institutions and policy frameworks, social tensions, deep grievances against the state that may escalate into conflict, and vulnerability to shocks like food insecurity or natural disasters. These drivers can alter the way economies operate, sharpening the trade-offs between policy objectives and shortening time horizons for policymakers (IMF 2022). Presently, the World Bank and the IMF classify 38 economies, home to 1 billion people, as fragile and conflict–affected states (FCS) which are often considered the most vulnerable members of the international community and where fragility is a formidable impediment to economic progress:

- **FCS economies have become the epicenter of global poverty and food insecurity.** According to the World Bank, an estimated 421 million people in FCS are living in extreme poverty—more than in the rest of the world combined—even though these economies account for less than 15 percent of the global population. Progress on poverty reduction has stalled since the mid-2010s and the outlook remains daunting, as 60 percent of the global poor are projected to live in FCS by 2030 (World Bank 2025a). Today, all the identified early warning hunger hotspots are FCS economies (WFP and FAO 2025).
- **Empirical research has shown that FCS tend to experience lower growth and per capita incomes, higher inflation, and less policy space to cope with shocks compared with non-FCS peers** (Chami, Espinoza, and Montiel 2021; Boussard and others 2024). In Sub-Saharan Africa, projections indicate that potential gross domestic product (GDP) per capita in the median FCS is set to grow by just 1.8 percent a year—compared with 2.5 percent in the rest of the region (IMF 2025e). For some economies directly affected by conflict such as Syria, Sudan, or Yemen, GDP has contracted by nearly 30–60 percent in some cases (IMF 2025d).

Several large shocks over the past five years have exacerbated drivers of fragility across the world. The COVID-19 pandemic brought about a major economic downturn: global real GDP declined by 2.7 percent in 2020 and output contracted in four out of five countries around the world (IMF 2024e), whereas an estimated 100 million people were pushed into poverty (Mahler and others 2021). Russia's war in Ukraine drove up costs of food, energy, and fertilizer, leading to double-digit inflation and a global food shock (Azour, Bousquet, and Selassie 2022; IMF 2022; Rother and others 2022). In FCS, these shocks resulted in a persistent GDP slowdown, with the average GDP level gap relative to precrisis trends reaching almost 10 percent in 2024 (IMF 2025c). And even many non-FCS suffered significantly, notwithstanding faster recovery from the shocks: the number of social unrest episodes rose in AEs and EMs (Barret 2022b), testing institutions, social cohesion, and the ability of policymakers to respond to ever-growing challenges.

Fragility and conflict have also led to increasing and costly spillovers amid rising geopolitical tensions. In 2024, attacks on vessels in the Red Sea caused global disruptions in trade, with a 50 percent reduction in traffic through the Suez Canal (Kamali and others 2024). The number of people forcibly displaced by conflict has soared to a record 123.2 million (UNHCR 2025), including 42.7 million refugees hosted primarily in EMDEs, where weaker growth prospects and constrained fiscal space heighten pressures on macroeconomic stability, medium-term development outcomes, and social cohesion. Even in countries not directly affected by conflict, social tensions and instability have fueled distress migration and refugee flows, with polarizing effects in destination countries (World Bank 2023b). More broadly, fragility and geopolitics are increasingly interconnected, with fragile contexts often becoming arenas for global competition (OECD 2025b).

The international community's engagement plays a vital role in supporting countries to address fragility. Policy advice, capacity development (CD), and financing are critical for FCS economies to weather global shocks, improve growth and development prospects, and prevent costly spillovers of conflict to neighbors (Rother and others 2016; Bousquet 2022). Since 2020, the World Bank, the IMF, and other international financial institutions (IFIs) have adopted tailored FCS strategies in line with their mandates and comparative advantage. These strategies broadly emphasize the need for effective policies and interventions based on a deeper understanding of drivers of fragility, its economic impact, and the main propagation channels. At a time of declining aid flows and tight global financial conditions (Chabert and Powell 2025; IMF 2025a), these strategies can be essential to orient support to FCS amid greater resource constraints.[2] Lessons learned from FCS could also support engagement with countries that are more stable but face elevated risks of fragility or conflict.

This paper provides a comprehensive discussion of macroeconomic challenges and policies under fragility. Building on recent analytical and policy work—including the IMF's 2022 FCS Strategy—it develops a synthesis of insights and evidence on fragility interactions with macroeconomic outcomes and policies that are usually covered dispersedly in the literature. The primary focus is on the government's capacity to carry out its functions and conduct policies, but the paper also explores other manifestations of fragility. The paper contributes to the existing literature and policy agenda in four ways:

- *First, although focusing primarily on FCS, it broadens the macroeconomic discussion of fragility.* Reflecting recent trends, it treats fragility as a global phenomenon that can best be seen as a spectrum across all countries, with FCS suffering from its most intense manifestations that warrant continuous attention by IFIs. This approach can help shed light on "borderline cases" where fragility risks may be lingering or on the rise and can inform both risk analyses and policy implementation.
- *Second, it examines aggravating structural factors—commodity dependence and small-economy status.* It shows how the interaction of these structural characteristics with fragility and conflict amplifies long-term macroeconomic and developmental challenges and vulnerability to shocks.
- *Third, the paper illustrates a framework for economic policy design under fragility.* It emphasizes the need to strengthen the key functions of government—macroeconomic stabilization, the provision of public goods and services, and efficient market-based resource allocation—while taking into account institutional and sociopolitical constraints and the long-term goal of exiting fragility.
- *Fourth, the paper identifies some of the key issues and challenges that are relevant for international cooperation efforts.* These efforts are aimed at helping overcome fragile situations.

The rest of the paper is organized as follows. Section 2 discusses the concept and measures of fragility and lays out its different manifestations across countries. Section 3 examines the relationship between fragility and long-term macroeconomic outcomes, including the government's capacity to provide public goods and services and perform other functions.[3] Section 4 analyzes short-term macroeconomic challenges associated with fragility, including the lack of space for macroeconomic stabilization policy and high vulnerability to shocks. Section 5 maps macroeconomic challenges of fragility to the performance of key government functions, thereby providing a framework for the discussion of domestic policy priorities. Section 6 concludes with a discussion of how IFIs can support FCS to address economic challenges related to fragility and conflict, drawing primarily from the implementation of the IMF's 2022 FCS Strategy.

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[2] OECD (2025a) projects a 9–17 percent drop in ODA in 2025, on top of a 9 percent decline in 2024.

[3] We do not study causality, which may work in both directions within the fragility trap. For example, Acemoglu, Johnson, and Robinson (2001) show that institutions affect macroeconomic outcomes. Similarly, "drivers" and "manifestations" of fragility are used interchangeably: lack of public services can lead to social tensions and conflict, but conflict in turn can perpetuate fragility through its devastating effects.

2. The Global Fragility Landscape

Fragility arises from the interplay of political, security, social, economic, and other forces, often resulting in weak institutional capacity. This dynamic is most acute in fragile and conflict-affected states (FCS), where low capacity, limited public service delivery, extreme poverty, deep social divides, and sometimes active conflict overlap. Yet symptoms of fragility—such as crime, social unrest, inequality—as well as conflicts and geopolitical tensions can be observed in many other economies. Fragility is therefore best viewed as a continuous phenomenon: present to some extent in every economy but most severe and damaging in FCS, especially when the interplay of weak institutions and conflict is compounded by dependence on natural resources or small country size.

A. Defining Fragility

Fragility is a complex, multidimensional concept with no universally agreed-upon definition. As such, the literature has focused on understanding its characteristics—the factors that trap some countries in a cycle of low economic growth and poverty, deep grievances against the state, and, in some cases, social unrest or armed conflict (World Bank 2011; Acemoglu and Robinson 2012; OECD 2015; Collier, Besley, and Khan 2018; Collier 2021). In the most intense cases, countries may find themselves in a "fragility trap," a stable yet dysfunctional equilibrium where weak government effectiveness results in poor public service delivery and stifles private sector development and growth, thereby fueling public dissatisfaction and social unrest (Collier, Besley, and Khan 2018; Chami, Espinoza, and Montiel 2021). These conditions reshape the economy, sharpening tensions among policy objectives, narrowing policy horizons, and creating an environment of greater uncertainty. Research generally points to fragility arising from the intersection of politics, institutions, socioeconomic exclusion, and economic policies (Akanbi and others 2021; Atashbar 2023). Pathways into and out of fragility vary by country, depending on the interaction between leaders and social groups (key actors), institutions (rules, norms, and governance), and the structural foundations of society (geography, resource distribution) (United Nations and World Bank 2018).

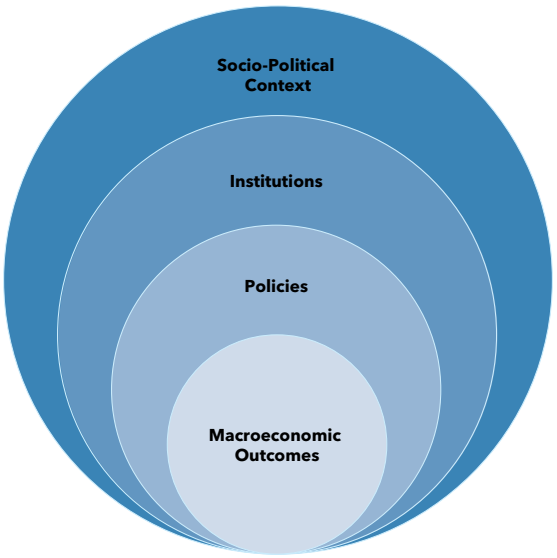
Perspectives on fragility in the existing literature can be summarized in two broad interrelated views:

- **The first view sees fragility through a historical lens as the result of a dysfunctional state-society relationship, often linked to weak governance and poor policymaking.** Fragility arises when (i) the state is unwilling or unable to provide public goods, raise sufficient resources, or govern effectively; and (ii) society is fragmented and unable to engage in collective action or establish common goals (Acemoglu and Robinson 2021). In more intense cases, these dynamics are reinforced by extractive political and economic institutions that concentrate power in the hands of a narrow elite (i.e., fragility may reflect a tool for elites to maintain the status quo), reducing citizens' trust in the state and diminishing its effectiveness (Acemoglu and Robinson 2012; Besley and Mueller 2021). The same dynamics can occur in countries that appear to be more stable, reflecting deeper grievances against the state that may escalate. For example, Devarajan and Ianchovichina (2018) show that despite falling inequality and improvements in poverty reduction, public dissatisfaction with living standards, the quality of public services, and corruption, as well as the shortage of formal sector jobs, were key drivers of social upheaval and conflicts in the Middle East during the 2010s. A broken social contract is therefore a core feature of fragility.
- **The second approach views fragility as a combination of risks and limited coping capacity.** It emphasizes countries' ability to manage political, security, economic, and other shocks through effective institutions and mechanisms such as the rule of law, government accountability, political stability, a strong civil society, or a diversified economy (OECD 2016). When these coping capacities are insufficient, countries can become susceptible to fragility, which can surface at national levels or in certain subregions

("pockets of fragility"). These fragility risks can be rooted in weak institutions and an impaired state–society relationship, including grievances over exclusion or unequal access to power, natural resources, public services, or security and justice (United Nations and World Bank 2018).[4] Current approaches adopted by IFIs and multilateral organizations capture elements of both views, institutional capacity and social fragility, and capacity to manage shocks (Annex 1).

A growing body of IMF research explores economic dimensions of both perspectives. Cebotari and others (2025) conceptualize fragility as the responsiveness of economic or political systems to shocks over time, distinguishing between "stress-induced fragility"—caused by negative shocks overwhelming a country's systems—and "chronic fragility" resulting from a persistent inability to sustain growth after positive shocks. Cebotari and others (2024) study the drivers of coups d'état as reflective of political fragility and derive implied coup probabilities based on structural and conjunctural drivers and their complex interactions. For example, destabilizing factors such as low growth, high inflation, political instability, and conflict increase the likelihood of coups, whereas structural weaknesses amplify their effects and hence the probability of breakdowns in political systems. Abdel-Latif and El-Gamal (2024) highlight how discontent with state institutions among marginalized groups drives conflict in Sub-Saharan Africa. In addition, research by Abdel-Latif and others (2024) shows that conflict spillovers in the region hinder economic growth and exacerbate inflation. Examining the nexus between climate-related risks and fragility, Jaramillo and others (2023) find that fragile states face significantly higher cumulative losses from extreme weather events than non-fragile states, primarily because of their reliance on rainfed agriculture and inadequate infrastructure.

Figure 1. Fragility and Macroeconomic Policies



Source: Authors' illustration.

This paper explores how broader characteristics of countries experiencing fragility interact with policies and macroeconomic outcomes. Consistent with the World Bank and the IMF practice, we treat institutional fragility as a central feature of FCS but also use governance indicators that reflect the quality of the social contract and other metrics highlighting risk and resilience in the multiple facets of fragility (including security and environmental risks) across a wider group of economies. This approach is aligned with the IMF's FCS Strategy and enables a broader treatment that helps policymakers understand fragility risks more generally. Ultimately, what distinguishes FCS from other economies—and what is fundamental for policy design under fragility—is the extent to which macroeconomic outcomes are influenced or constrained by sociopolitical factors (e.g., elite bargains, political economy, conflict) and weak institutional capacity (Figure 1). Successful policy advice and macroeconomic support therefore depend on a granular understanding of these factors, a key message of the 2022 FCS Strategy (see Section 5).

B. Measuring Fragility

This paper uses several sets of quantitative indicators to capture various dimensions of fragility across countries and at various income levels. For the analytical work of Sections 3 and 4, the paper uses the *Country Policy and Institutional Assessment (CPIA)* score and the *Worldwide Governance Indicators*

[4] Coping capacities can be influenced by historical factors. Collier and others (2003) calculated that the typical country reaching the end of a civil war faces about a 44 percent risk of returning to conflict within five years. Factors that caused the war may remain unresolved.

(WGI) to measure the quality of institutions—our primary focus—alongside the *Organization for Economic Cooperation and Development (OECD) fragility indicators* that measure risks and coping capacities across multiple domains (Box 1). These measures of fragility have some common patterns: indicators of policy capacity and governance are correlated across countries (the correlation between CPIA and WGI is 0.64), whereas CPIA and OECD scores point to similar sets of countries with the highest vulnerabilities (see Annex 2 for details). The paper uses additional indicators to proxy dimensions of fragility, such as conflict-related deaths (for conflict settings) and homicide rates (for violence).

Box 1. Selected Indicators of Fragility Dimensions

- **The Country Policy and Institutional Assessment (CPIA) score is used by the IMF and World Bank as a key criterion to identify FCS.** It is published annually[1] by the World Bank for all IDA-eligible countries (mainly LICs). The CPIA rates the quality of institutions and policies against 16 criteria grouped in four clusters: (i) economic management, (ii) structural policies, (iii) policies for social inclusion and equity, and (iv) public sector management and institutions. "Quality" refers to how conducive these institutions are to fostering sustainable growth and poverty reduction. For each of the 16 criteria, the Bank has prepared guidance to help staff assess the country's performance and assign a rating on a scale of 1 (low) to 6 (high), which are then averaged into the cluster and the composite CPIA scores.

- **The Worldwide Governance Indicators (WGI), produced with support from the World Bank, provide governance scores for over 200 countries and territories across six dimensions.** The dimensions[2] are (i) voice and accountability, (ii) political stability and absence of violence or terrorism, (iii) government effectiveness, (iv) regulatory quality, (v) rule of law, and (vi) control of corruption. Governance is understood in a broad sense as the set of traditions and institutions by which authority in a country is exercised, including the process through which governments are selected, monitored, and replaced; the capacity of the state to effectively formulate and implement policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. For each dimension, the WGI score is constructed as a weighted average of the underlying data (from multiple data sources that capture perceptions and views by experts and other survey respondents, including households and firms) based on an unobserved component model, and measured in units of a standard normal distribution, with mean zero, standard deviation of one, and running from approximately −2.5 to 2.5. The composite WGI measure used in this paper is a standardized average of the WGI scores, with mean of 0 and standard deviation of 1.

- **The OECD compiles fragility scores[3] across six fragility dimensions (political, security, economic, environmental, human, and societal) for 177 countries and territories.** Indicators are mapped according to risks and coping capacities. For instance, in the security dimension, risk factors are measured with indicators of violence, presence of organized crime, and battle-related deaths, whereas coping capacities include the size of the police and army, the government's ability to control territory, and the rule of law (OECD, 2022, 2025b). Aggregate and dimensional fragility scores are calculated using principal component analysis, with the actual values of aggregate fragility ranging from −4.6 to 4.7. In this paper, the aggregate and dimensional fragility values are used as continuous variables.

Source: World Bank, WGI, and OECD.

Note: For WGI scores, we do not consider the "political stability and absence of violence/terrorism" dimension, as we use separate controls for conflict and violence. For OECD scores, we do not consider the economic dimension, which is partially captured in CPIA and WGI scores.

[1] https://ida.worldbank.org/en/financing/resource-management/ida-resource-allocation-index

[2] https://www.worldbank.org/en/publication/worldwide-governance-indicators

[3] https://www3.compareyourcountry.org/states-of-fragility/about/0/

Besides these continuous measures, this paper also uses country groupings, splitting all EMDEs along two dimensions of fragility. These dimensions are consistent with the FCS classification methodology (Section 2.C) employed by the World Bank and the IMF but allow for more granularity and a broader set of countries than the FCS list to explore the nexus between fragility and its economic repercussions (see Table 1, in which economies classified as FCS by the World Bank and the IMF are marked with red background):

- **Degree of institutional fragility:** EMDEs can be grouped into three levels of fragility: (1) intense, or high, fragility—cases with a "high level of institutional and social fragility" under the World Bank–IMF FCS classification (mostly below the CPIA threshold of 3.0); (2) marginal, or borderline, fragility—cases close to but not in intense fragility (with CPIA below 3.2); and (3) low fragility—all other cases. Most EMs do not have publicly available CPIA scores and are shown under "no public CPIA" in Table 1. Low institutional fragility as measured by the CPIA does not exclude other forms of social or political fragility; hence, qualitative assessments are essential to complement quantitative measures.
- **Conflict:** Conflict-affected countries are considered fragile, irrespective of their income and institutional capacity.[5] Conflict undermines state capacity, erodes human capital, and weakens social cohesion. It can have devastating effects on the economy, with sharp and persistent declines in GDP (Collier 1999; Rother and others 2016; IMF 2019b; Mueller and others 2024).

Table 1. CPIA-Based Institutional Fragility Intensity, Conflict, and Aggravating Structural Factors in EMDEs

	Intense fragility*		Marginal fragility	Low fragility	No public CPIA
Conflict	Afghanistan Burkina Faso Central African Rep. Haiti Lebanon	Myanmar Somalia South Sudan Sudan Yemen	DR Congo Ethiopia Mali Mozambique Niger	Cameroon Nigeria	Iraq Syria Ukraine West Bank and Gaza+
No conflict	Burundi Chad Comoros Congo, Rep. Eritrea Guinea-Bissau Kiribati Libya	Marshall Islands Micronesia Papua New Guinea São Tomé and Príncipe Solomon Islands Timor-Leste** Tuvalu Venezuela Zimbabwe	Bangladesh Belize Djibouti Eswatini Lao PDR Liberia Malawi Maldives Nicaragua Sierra Leone Suriname Tajikistan	*All other countries and territories*	

Source: Authors' calculations based on the IMF WEO, IMF-WB FY2026 FCS list, and WB 2024 CPIA data. Fuel exporter and SDS classifications are based on the WEO definitions, whereas conflict-affected states are based on the FCS list classification.

+ For purposes of Fund relations, the WBG fall under Israeli jurisdiction in accordance with Article XXXI, Section 2(g) of the Articles of Agreement.

Note: Fuel exporters are marked with red font and SDS are marked with blue font. Economies classified as FCS by the IMF and the World Bank in FY26 are marked with red background, whereas countries with least vulnerabilities are marked with green background.

*Classified as "high levels of institutional and social fragility" in the FCS methodology (Section 2.C), predominantly with CPIA <3.

**Timor-Leste is classified as both a fuel exporter and an SDS.

CPIA = Country Policy and Institutional Assessment; FCS = fragile and conflict-affected states; SDS = small developing states; WB = World Bank; WBG = West Bank and Gaza; WEO = World Economic Outlook.

[5] In practice, interstate wars can happen between countries that are not fragile.

In addition to these measures, structural characteristics may aggravate fragility. This paper considers two such characteristics (Annex 2): (1) ***fuel-exporter*** status (countries in red font in Table 1), which may create incentives for rent seeking and extractive institutions (Acemoglu, Johnson, and Robinson 2001) and make countries prone to "Dutch disease," undermining economic competitiveness (Corden and Neary 1982); and (2) ***small developing states (SDS)*** status (countries in blue font in Table 1), which often constrains institutional capacity, involves a narrow production base, and implies large vulnerability to shocks (IMF 2024d; Cebotari and others, 2025).

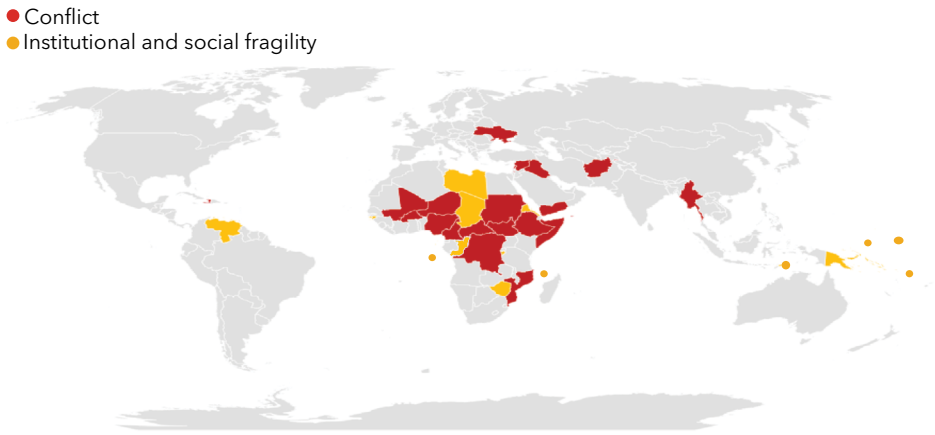
C. The Most Fragile Countries: FCS

To prioritize support for the most vulnerable countries, the World Bank and the IMF have developed an approach to identify cases where fragility is most acute. Both institutions have maintained a list of FCS during the past 20 years, and, since 2022, the two institutions share a common FCS list, which is updated every year. The classification methodology consists of two subcategories:

- ***Countries suffering from high levels of institutional and social fragility*** are identified based on: (i) a CPIA score below 3.0 out of a maximum of 6,[6] or (ii) the flight across borders of 2,000 or more refugees per 100,000 people,[7] or (iii) the deployment of a United Nations peace operation.
- ***Countries in conflict*** are identified based on the number of conflict deaths in absolute terms and relative to their population.[8]

As of July 2025, the FCS list included 38 economies, home to about 1 billion people. These are mostly located in Sub-Saharan Africa and the Middle East (Figure 2). Latin America and the Caribbean (LAC) hosts one fragile and one conflict-affected state; Europe hosts one conflict-affected state. FCS in the Asia-Pacific region are primarily SDS.

Figure 2. Fragile and Conflict-Affected States in 2025



Source: IMF FY26 List of Fragile and Conflict-Affected States (FCS) ; World Bank FY26 List of Fragile and Conflict-affected Situations

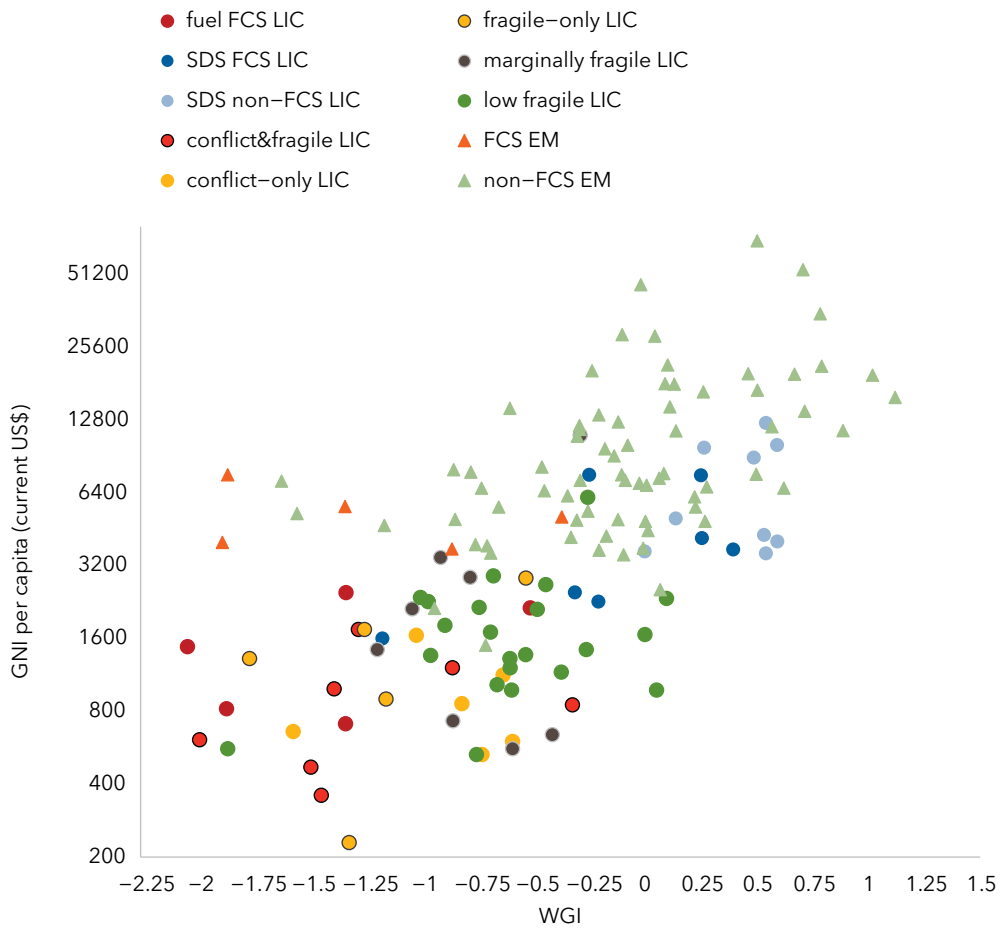
[6] The World Bank, African Development Bank, and Asian Development Bank prepare their own CPIA country scores. The FCS classification methodology chooses the lowest score for the most recent year in which data are available.

[7] This criterion refers to flight across borders of people who are internationally regarded as refugees in need of international protection according to the United Nations High Commissioner for Refugees (UNHCR).

[8] The two sources of data are the Armed Conflict Location and Event Data Project (ACLED) and the Uppsala Conflict Data Project (UCDP). The countries in conflict are (i) those with (a) an absolute number of conflict deaths above 250 according to ACLED and 150 according to UCDP; and (b) above 2 per 100,000 population according to ACLED and above 1 according to UCDP; or (ii) countries with a rapid deterioration of the security situation, as measured by (a) an absolute number of conflict deaths above 250 according to ACLED and 150 according to UCDP, (b) a lower number of conflict deaths relative to the population between 1 and 2 (ACLED) and 0.5 and 1 (UCDP), and (c) more than a doubling of the number of casualties in the past year.

FCS are a heterogeneous group with differences in governance, institutional quality, and economic structure. Countries suffering from high institutional fragility often have distinct governance characteristics and economic structures compared with conflict-affected states with stronger institutions ("conflict-only" cases). Moreover, structural characteristics can aggravate vulnerabilities. For analytical purposes, it is therefore useful to disaggregate FCS into smaller but more homogeneous groups, as discussed in Annex 2. For example, countries where intense institutional fragility overlaps with conflict (***fragile-and-conflict*** cases) and cases of intense institutional fragility with a large oil sector (***fuel-exporting FCS***) have particularly low WGI and CPIA scores (red shades in Figure 3). Countries where intense institutional fragility does not overlap with conflict (***fragile-only*** cases) have somewhat higher scores, whereas governance and CPIA in ***conflict-only*** cases is comparable to some non-FCS. Finally, ***SDS FCS*** have a distinct governance structure, with relatively good WGI but low CPIA scores. Also, countries with intense institutional fragility are mostly commodity exporters, whereas conflict-affected states with relatively stronger institutions are mostly diversified or manufacturing exporters (Annex 2).

Figure 3. Fragility Intensity and Aggravating Factors



Source: Authors' calculations based on WB WDI and WGI.

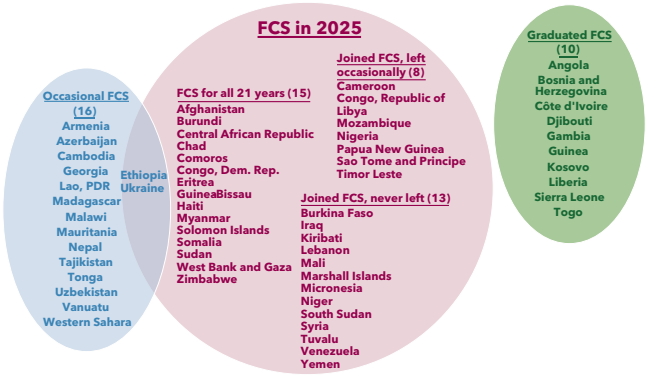
Note: Countries where intense institutional fragility overlaps with conflict and with a large oil sector represent a particularly vulnerable category—represented with red dots. Non-FCS are marked green. EM = emerging market; FCS = fragile and conflict-affected states; GNI = gross national income; LIC = low-income country; SDS = small developing states; WB = World Bank; WDI = World Development Indicators; WGI = Worldwide Governance Indicators.

The FCS list has been relatively stable over the past 21 years, highlighting the "fragility trap." In the current FCS list, 15 countries have been classified as FCS for all 21 years, 13 countries joined the list and never left[9], and most of the remaining 10 cases have been in and out of the list multiple times, largely because of conflict (Figure 4, panel 1). Notwithstanding this broad picture, there are several examples of "graduation" from the FCS list: since 2005, 10 countries that were classified as FCS for long periods (at least seven years) exited the list. Nine of them have remained off the list for a significant amount of time—between 4 and 12 years—whereas one country (Kosovo) was removed from the list in 2025.[10] Another 14 economies were included in the list only occasionally (five years or less) and are currently not classified as FCS.

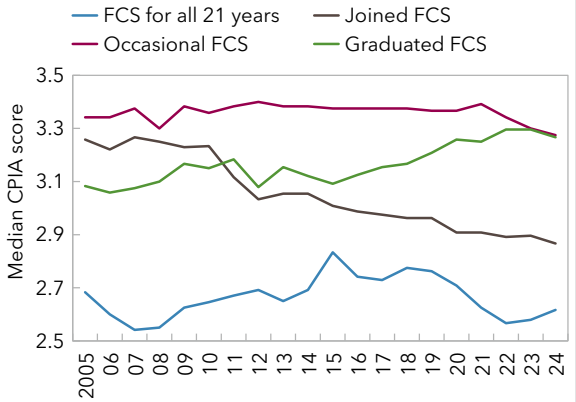
Countries trapped in fragility exhibit persistently low CPIA scores. Most countries that exited the list saw only limited improvements in institutional capacity, with a median CPIA below 3.3 in 2024. However, exceptions exist: for example, Côte d'Ivoire's score increased from 2.5 to 3.9 between 2006 and 2024. Countries that occasionally entered the list—mostly because of conflict—were able to maintain CPIA scores above other FCS (with a median score hovering at about 3.3–3.4). However, in some cases institutional capacity can drop dramatically: in Yemen, the score declined from 3.3 to 1.8 between 2005 and 2024. Meanwhile, countries trapped on the list have a significantly lower median CPIA score than other FCS (Figure 4, panel 2). In these cases, even the basic compilation of economic data is highly challenging, exacerbating the link between poor data, weak capacity, and complicating policy making (Medina Cas, Alem, and Shirakawa 2022). These persistent institutional weaknesses reflect the "fragility trap" (discussed in Section 2.A), often with negative feedback loops to the "poverty trap": political instability exacerbates economic weaknesses—such as low investment, weak financial systems, and commodity dependence—which intensify state-capacity issues (Chami, Espinoza, and Montiel 2021).

Figure 4. Dynamics of the List of Fragile and Conflict-Affected States

1. Evolution of the FCS Classification: 2005–2025



2. CPIA Scores for FCS 2005–2024



Source: The World Bank FCS classification data, CPIA index.

Note: FCS in 2025 refers to the current FY26 FCS list used by the IMF and World Bank, and represented in the red circle. Occasional FCS (blue circle) comprise economies that were classified as FCS for less than 5 years. CPIA = Country Policy and Institutional Assessment; FCS = fragile and conflict-affected states; WBG = West Bank and Gaza.

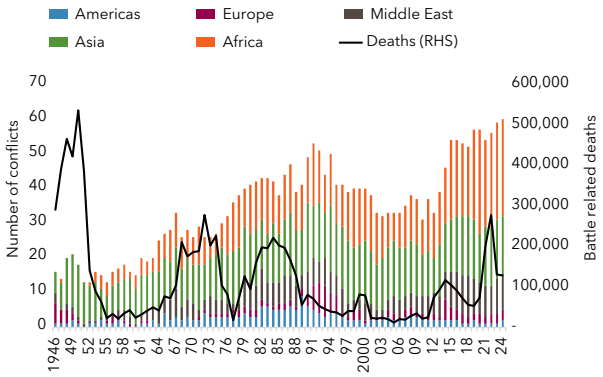
[9] Ten of these 13 countries remained on the list for 10 years or more.

[10] FCS classification methodology of the World Bank has evolved since 2004: (1) in 2009, the CPIA threshold was decreased from 3.2 to 3.0 for core FCS and MICs were altogether excluded; (2) in 2011, harmonized CPIA with the Asian Development Bank and African Development Bank with a threshold of 3.2 was introduced, as well as inclusion because of the presence of a UN or regional peace-keeping or political/peacebuilding mission in the past three years; (3) with the approval of the Bank's FCV Strategy in 2020, the conflict category was introduced as measured by conflict-induced deaths; the CPIA threshold was decreased again from 3.2 to 3.0; outgoing refugees over 2 percent of the population was introduced as another identification category for fragility; and only UN peacekeeping missions were considered; and only high-income countries were excluded.

Conflict recurrence and a deteriorating conflict landscape can also worsen the fragility trap. The years 2021–2023 have been the most violent in terms of battle deaths since the end of the Cold War, with an estimated 600,000 fatalities (Rustad 2024) (Figure 5, panel 1). Another 129,000 battle-related deaths were recorded in 2024 (Rustad 2025). This trend was driven by the ongoing war in Ukraine, conflicts in the Middle East, and escalating violence in the Sahel, Sudan, Yemen, Myanmar, and Haiti. A record 123.2 million people—the highest since World War II—have been forcibly displaced (UNHCR 2025), including 42.7 million refugees hosted primarily in EMDEs, where weaker growth prospects and constrained fiscal space heighten pressures on macroeconomic stability, social cohesion, and medium-term development outcomes (Figure 5, panel 2).

Figure 5. Dynamics of Conflicts and Refugee Flows

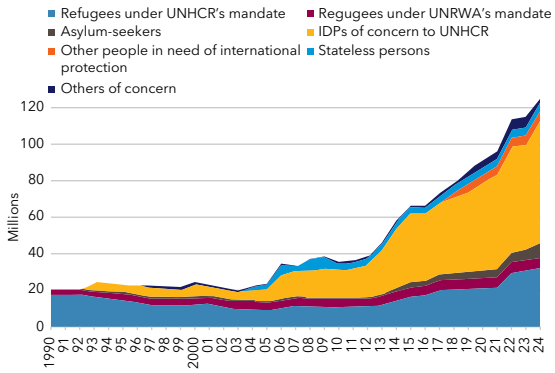
1. Conflicts and Battle-Related Deaths



Sources: UCDP and PRIO, IMF staff calculations.

Note: UCDP = Uppsala Conflict Data Project. PRIO = Peace Research Institute Oslo.

2. Forced Displacement



Source: UNHCR.

Note: UNHCR = United Nations High Commission for Refugees. UNRWA = United Nations Relief and Works Agency for Palestine Refugees in the Near East. IDP = Internally Displaced Person

D. Fragility and Conflict Beyond FCS

Non-FCS countries are exposed to fragility to varying degrees. Every country may experience some degree of fragility depending on the strength or quality of its policies and institutions, the state's capacity to fulfill its core functions, and broader sociopolitical dynamics. Recently, several more stable EMs and some AEs have been facing pressures that are less intense but similar to those observed in FCS, whereas conflict risks have become more widespread beyond FCS:

- **For example, some countries have been experiencing pockets of fragility that create a significant economic impact.** Surges in crime and violence have been particularly strong in LAC. Although just two economies in LAC are classified as FCS (Haiti and Venezuela), the region suffers from widespread insecurity and organized crime. The average murder rate in the past decade is almost 12 times that of AEs and 8 times larger than in EMs, and about 3 times the world average (Figure 6, panel 1; Bisca and others 2024). Insecurity tends to be spatially concentrated in "pockets of fragility," namely cities or regions where socioeconomic conditions (inequality, poverty, weak service delivery, informality) overlap, creating fertile ground for organized crime to take root (IDB 2024). The effects are macrorelevant: IMF research has

shown that crime undermines GDP growth by hampering capital accumulation and total factor productivity (IMF 2023a); fostering macroeconomic stability could have a protective role because homicides are associated with GDP downturns and inflationary spikes (Bisca and others 2024).

- **Moreover, an increasing number of countries have become exposed to episodes of social unrest.** In the context of the global shocks of the past several years, protests and mass demonstrations have become more common in AEs and EMs. The September 2024 update of the Reported Social Unrest Index picked up a rise in social discontent, such as riots and protests in Europe (Barret 2024). Prior to the pandemic, social unrest peaked in 2019 to the highest levels in three decades as a wave of protest swept through LAC (Barret 2022b) and parts of Asia and the Middle East (Redl and Hlatshwayo 2021). At various points during the pandemic and thereafter, short-lived protest movements erupted in many AEs (Figure 6, panel 2). A decade earlier, large protests leading to the Arab Spring took place in EMs that were not classified as FCS at that time.

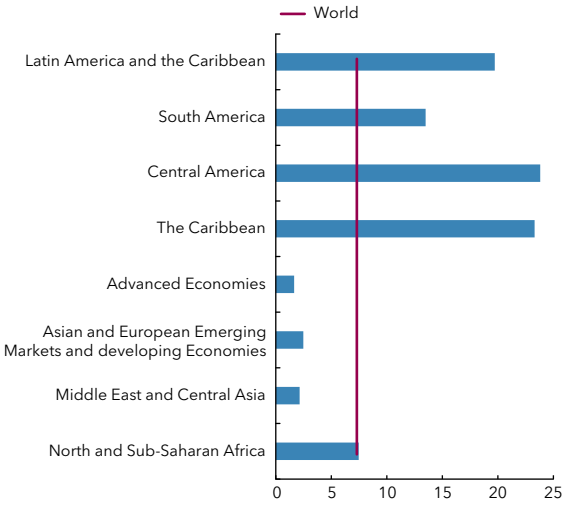
- **Rising inequality has also contributed to increasing fragility as it is leading to weakened social cohesion, including in AEs.** Global inequality, as measured by the Gini coefficient, has continuously declined since the mid-1990s thanks to rising average incomes in EMDEs. However, average within-country inequality has increased and stabilized after the global financial crisis (Figure 6, panel 3; IMF 2024b).[11] Moreover, economic growth has become uneven, causing the long-term decline in between-country inequality to stall since the mid-2010s. Explanations for these trends are complex, with factors such as technological progress and globalization playing important roles (IMF 2024b). Rising economic inequality in AEs in Europe and North America has been associated with a decline in both interpersonal and institutional trust (Gould and Hijzen 2017), as well as growing political instability (IMF 2021).

- **Finally, geopolitical risks that can disrupt international relations and affect economic stability have increased.** After decades of deepening economic integration, national-security concerns in countries beyond FCS have gained prominence in economic policy discussions. Conflict risks have become more globalized and military spending is on the rise (Figure 6, panel 4; IMF 2025b). A series of shocks—ranging from the protracted nature of the post–2008 recovery and Brexit to trade tensions between major economies—has stalled global flows and contributed to a wave of trade restrictions. The COVID-19 pandemic and the war in Ukraine further exposed the fragility of global supply chains. In response, countries have increasingly invoked national-security justifications to erect barriers to trade, investment, and technology transfers in the context of high uncertainty and intensifying conflict (Aiyar and others 2023). As such, news-based measures of geopolitical risk events, such as conflicts, wars, terrorist attacks, and military buildups, along with countries' actual military spending (relative to GDP) and restrictions on crossborder trade and financial transactions, have recently worsened compared with levels observed in earlier years (IMF 2025b).

[11] Global inequality can be decomposed into a between-country component (which captures the variation in average incomes across countries) and a within-country component (which measures income dispersion within a country).

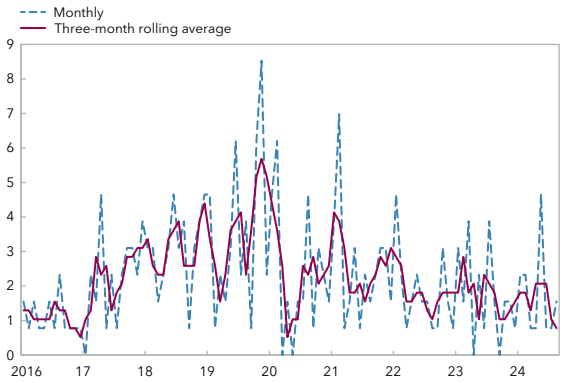
Figure 6. Factors Associated with Fragility in Non-FCS

1. Homicide Rates per 100,000 People
(2015–2021 average)



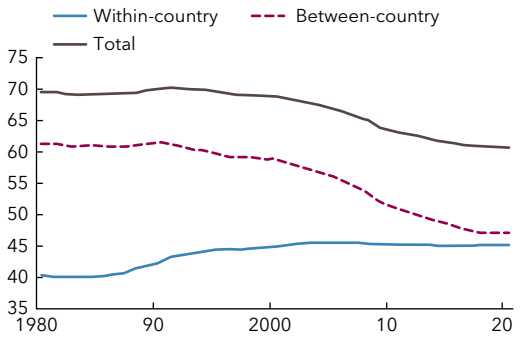
Source: Bisca and others (2024).

2. Waves of Social Unrest—Percent of Countries with Social Unrest Events, 2016–2022



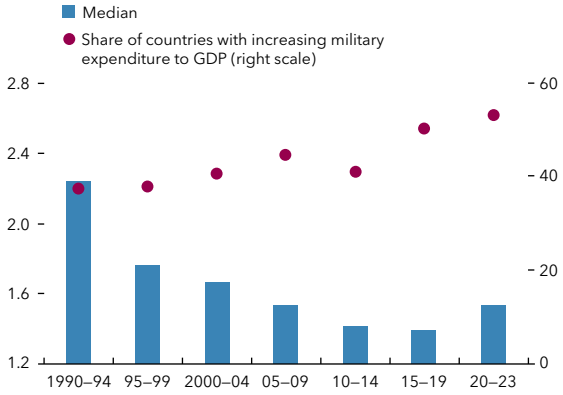
Source: Barret 2024.

3. Global Gini Coefficient



Sources: IMF 2024b.
Note: higher Gini = more equal.

4. Military Expenditure to GDP, 1990–2023
(percent)



Source: IMF 2025b. GDP = gross domestic product.

3. Long-Term Macroeconomic Challenges of Fragility

Fragility is associated with slower long-term economic growth underpinned by inadequate provision of public goods and services (partly because of smaller tax revenues) and by underdeveloped financial sectors impeding efficient resource allocation to the private sector. Across country groups, weak macroeconomic and public finance outcomes are especially pronounced for FCS, and are particularly severe in cases where institutional fragility overlaps with conflict or dependence on fuel exports. More broadly, the long-term economic costs of fragility are more pervasive in EMDEs with weaker governance and institutions but can also be seen in the context of other dimensions of fragility such as insecurity, violence, or fragility related to human capital.

A. Long-Term Challenges in FCS

Long-term economic growth has been lower in FCS than in non-FCS economies, controlling for the level of income. This is particularly noticeable for LIC FCS, which grew on average more slowly than other LICs. Since the World Bank's first FCS list was published in 2005, median growth in FCS LICs underperformed that of their non-FCS peers in 17 out of 20 years (Figure 7, panel 1), with average growth of 3.5 percent compared with an average growth of 4.6 percent for non-FCS LICs.[12] Slow growth in FCS LICs has been underpinned by weak and declining growth in total factor productivity (TFP), which has been falling faster than across non-FCS LICs and made a negative contribution to growth on average over 2013–2024 (Figure 7, panel 2). The contribution of capital has been stagnant, confirming earlier findings that LICs often struggle to build private and efficient public capital stocks (Devadas and Pennings 2018). Limited investment in FCS LICs also reflects less developed financial sectors, particularly low numbers of bank branches and limited bank credit to the private sector, and lower FDI inflows (averaging 1.8 percent of GDP in FCS LICs compared with 3.2 percent of GDP in non-FCS LICs over the past 10 years). For foreign investors, risks in FCS economies can be prohibitive (World Bank 2020b), but empirical estimates show that strong governance and fiscal discipline, captured through control of corruption and fiscal balance, are significant pull factors for FDI inflows (IMF 2025c). Transfers, particularly remittances, are important sources of income in FCS LICs, with secondary income averaging 8.5 percent of GDP compared with 6.3 percent of GDP in non-FCS LICs since 2005.

Growth outcomes have been uneven across FCS LICs, reflecting the intensity of institutional fragility and its aggravating factors. The lowest median growth has been observed in countries with both institutional fragility and conflict and in fragile fuel exporters, averaging 2.7 percent and 1.9 percent respectively over the past two decades, with many cases of negative or near-zero growth (Figure 7, panel 3).[13,14]

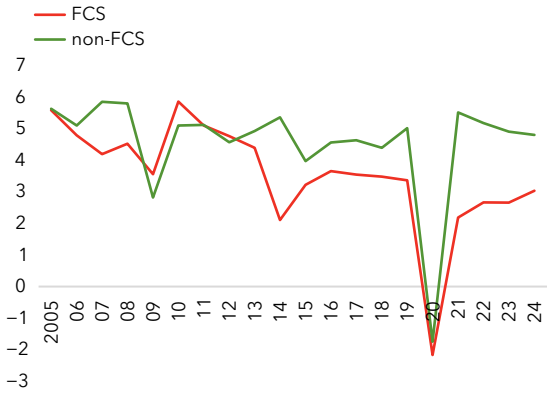
[12] Countries are classified as FCS if they are on the World Bank FCS list in the year under consideration, meaning that some countries are not on the list for the whole sample period.

[13] This granular typology is static, that is, based on the FY25 FCS list.

[14] Similarly, World Bank (2025a) found that FCS economies with stronger governance, better human development outcomes, deeper financial markets, and greater readiness for climate-related disasters tend to experience lower economic losses from conflict.

Figure 7. GDP Growth and Public Finance Outcomes in LICs

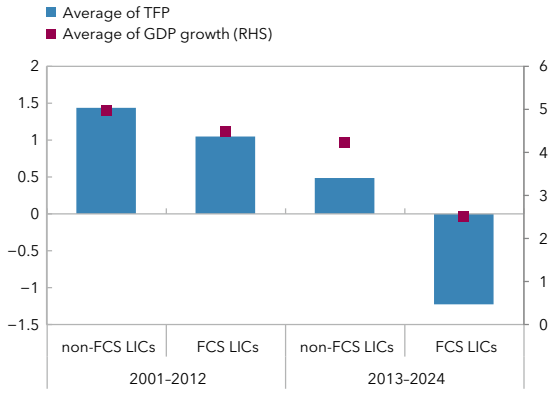
1. Median GDP Growth *(Percent)*



Source: IMF WEO and IMF staff analysis.

Note: FCS = fragile and conflict-affected states; GDP = gross domestic product; WEO = World Economic Outlook.

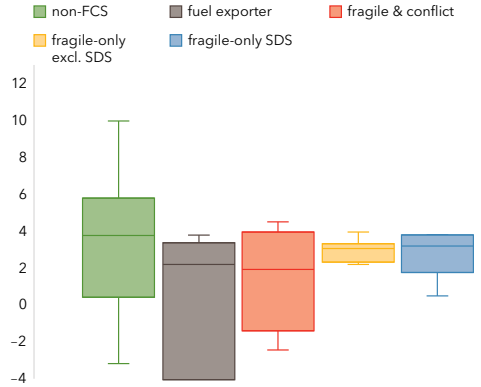
2. TFP Contribution to GDP Growth



Source: Authors' calculations based on IMF (2025c) data and static FY25 FCS list.

Note: FCS = fragile and conflict-affected states; GDP = gross domestic product; LICs = low-income countries; TFP = total factor productivity.

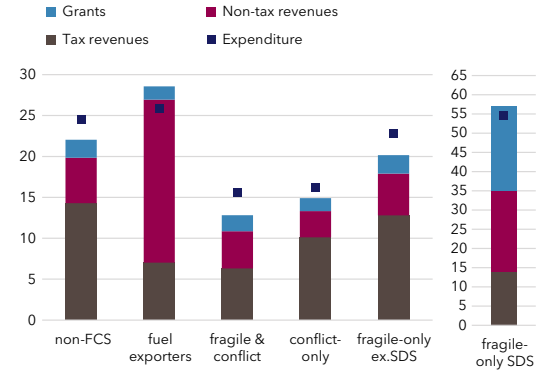
3. Distribution of average GDP growth, 2005–2024 *(percent)*



Source: IMF WEO and IMF staff analysis.

Note: FCS = fragile and conflict-affected states; GDP = gross domestic product; SDS = small developing states.

4. Median Spending and Revenue in 2005–2024



Source: IMF WEO and IMF staff analysis.

Note: FCS = fragile and conflict-affected states; SDS = small developing states; WEO = World Economic Outlook.

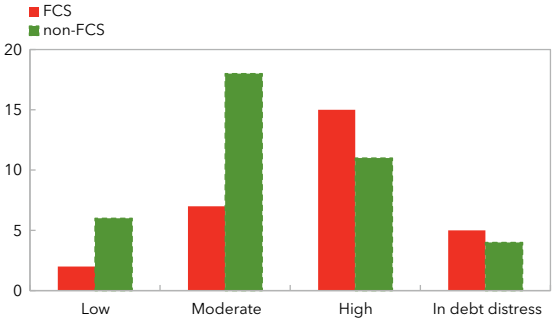
5. Gap in Median Public Expenditures between FCS and Non-FCS *(percent to GDP)*

Source: IMF WEO, IMF GFS data, and IMF staff analysis.

Note: FCS = fragile and conflict-affected states; GFS = Government Finance Statistics; WEO = World Economic Outlook.

6. Risk of Debt Distress

(number of countries)



Source: IMF staff analysis based on IMF-WB LIC DSF as of end-March 2025.

Note: FCS = fragile and conflict-affected states; WB = World Bank; LIC = low-income country; DSF = Debt Sustainability Framework.

Weaker public finance outcomes that result in weak provision of public services and higher debt vulnerabilities could explain some of the poor growth performance. FCS LICs typically need to fill wide infrastructure gaps, boost public services, and provide social benefits amid limited fiscal space. Yet the median tax-to-GDP ratio in FCS LICs has been stagnant over the past two decades at about 10.4 percent of GDP, compared with 14.3 percent of GDP for non-FCS LICs (Figure 7, panel 4).[15] Although grants play an important role in supporting FCS, they are insufficient to bridge the expenditure gap with non-FCS levels, a challenge compounded by limited access to financing. As a result, FCS LICs' median spending has been 4.1 percentage points of GDP lower than in non-FCS LICs on average over the past 20 years, including persistently lower spending on health (0.9 percentage points), education (0.8 percentage points), and social benefits (1.1 percentage points). By contrast, FCS LICs have been catching up with non-FCS LICs on public sector compensation, where the median spending gap has narrowed from 1.5 percentage points of GDP in 2006 to 0.5 percentage points in 2022–2024 (Figure 7, panel 5). Moreover, the combined effect of weak economic growth, difficulties in raising taxes, and low debt carrying capacity has resulted in almost three-quarters of FCS LICs being at high risk of, or in, debt distress, whereas most non-FCS LICs are at moderate or low risk (Figure 7, panel 6), in spite of comparatively lower external debt levels—median external debt of FCS LICs stood at 30 percent of GDP at the end of 2024, compared with 48 percent of GDP in non-FCS peers.

Public finance outcomes have varied across FCS, reflecting varying scope for taxation, grants, and borrowing (Figure 7, panel 4):

- **Countries with fragility aggravated by conflict and fuel-export dependence have seen the weakest tax revenues, constraining their fiscal spending.** These countries have had by far the lowest median tax-to-GDP ratios (averaging 6.3 percent and 7.0 percent, respectively) and lower access to grants. This resulted in large fiscal pressure: fragile and conflict–affected LICs had the lowest level of public spending across FCS (15.6 percent of GDP), whereas fragile fuel exporters had to cope with high revenue volatility even if strong non-tax revenues allowed them to keep expenditures on average higher than most non-FCS LICs (25.9 percent of GDP). In addition, 67 percent of countries in these two categories were at high risk of, or in, debt distress.

- **Conflict has also hampered the ability to achieve broad-based taxation in conflict-only LICs (Besley and Persson 2011).** These countries have had low median tax-to-GDP ratios averaging 10.1 percent. Together with limited access to grants and borrowing, this has resulted in low fiscal spending (16.2 percent of GDP) and smaller deficits than in most other FCS, with only half of these countries being at high risk of, or in, debt distress.

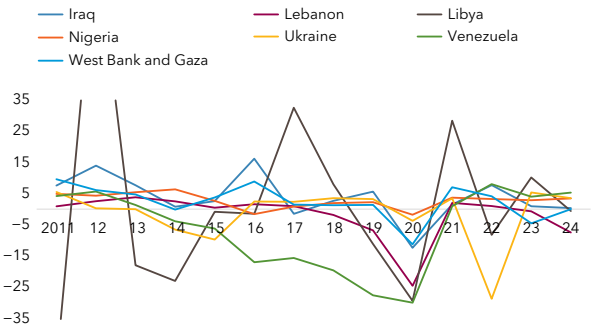
- **Fragile SDS have relied heavily on external grants.** Strong grant financing (21.9 percent of GDP) allowed these countries to sustain fiscal surpluses in spite of high spending (54.5 percent of GDP). Yet most of these countries remained at high risk of, or in, debt distress. The pronounced debt vulnerabilities were mostly driven by the small size of their economies, which made them especially vulnerable to exogenous shocks such as a steep decline in tourist revenues during the COVID-19 pandemic and climate events.

- **Fragile-only LICs (excluding SDS) have been running larger fiscal deficits to support spending needs, but all of these countries are at high risk of, or in, debt distress.** These countries have been running the largest median fiscal deficits across FCS LICs (averaging 3.2 percent of GDP), similar to those in non-FCS LICs. This has supported public spending (22.8 percent of GDP) that was close to non-FCS LICs (24.5 percent of GDP) but resulted in significant debt vulnerabilities.

[15] This supports the finding by Akitoby and others (2020) that, although many FCS demonstrated some recovery of tax revenues after the peak of fragility, their reform efforts generally only lasted for 2–3 years, failing to catch up with non-fragile countries.

Emerging market FCS have experienced high macroeconomic volatility, particularly around conflict periods. Seven of the 38 current FCS are EMs, five of which are affected by crossborder (Lebanon, Ukraine, West Bank and Gaza[16]) or domestic (Nigeria, Iraq) conflict. Most of these countries have experienced periods of strong economic volatility, with double-digit drops in real GDP (Lebanon, Libya, Ukraine, Venezuela, West Bank and Gaza), sometimes followed by sharp rebounds (Figure 8). Similarly, revenue and expenditure levels vary widely across countries and, in some cases, over time. In Libya, a fuel exporter, revenue increased from 13 percent of GDP in 2016 to 86 percent of GDP in 2022 before declining to 80 percent in 2024.

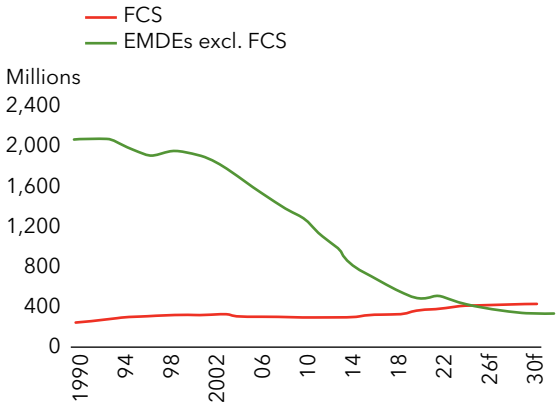
Figure 8. GDP Growth in FCS EMs, Percent



Source: IMF staff calculations based on IMF WEO data.
Note: Libya's line is truncated in 2011 (−50%) and 2012 (87%).
EM = emerging market; FCS = fragile and conflict-affected states; GDP = gross domestic product; WEO = World Economic Outlook.

The macroeconomic challenges of weak economic growth and constrained fiscal space often weigh on development outcomes in FCS (Annex 4). These challenges result in slow progress toward, and weaker prospects of achieving, the UN Sustainable Development Goals (IMF 2025a). Extreme poverty[17] is projected to be increasingly concentrated in FCS. Having been reduced in the rest of the world, it continues to grow in FCS, and the share of extremely poor people worldwide living in FCS is projected to rise to nearly 60 percent by 2030 (World Bank 2025a) (Figure 9). Poor health and education outcomes and gender inequality are particularly acute in FCS across various metrics, including the human capital index, life expectancy, child mortality, and primary school completion.[18] For example, human capital deficits in FCS are severe: under-five mortality rates average nearly three times higher than in non-FCS, and school completion rates are markedly lower (World Bank 2024b). FCS, especially conflict-affected states, are also most likely to suffer from food insecurity (World Bank, 2025a; WFP and FAO, 2025). Recent IMF research has also shown that climate vulnerability and underlying fragilities—conflict, heavy dependence on rainfed agriculture, and weak capacity—exacerbate each other, amplifying the negative impact on people and economies (Jaramillo and others 2023).

Figure 9. Extreme Poverty, Number of People



Source: World Bank (2025a).
Note: EMDE = emerging market and developing economy; FCS = fragile and conflict-affected states.

[16] For purposes of Fund relations, the West Bank and Gaza (WBG) fall under Israeli jurisdiction in accordance with Article XXXI, Section 2(g) of the Articles of Agreement.

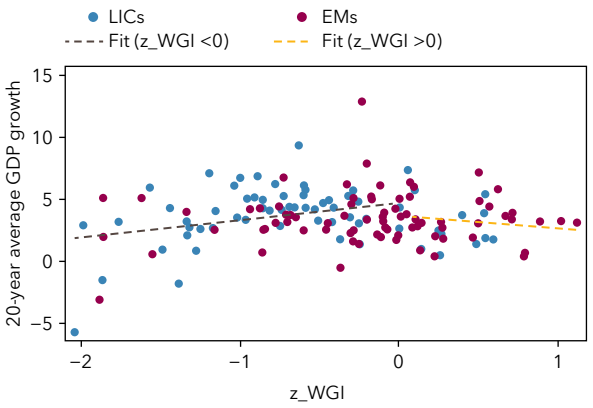
[17] Extreme poverty is defined as living on less than US$3.00 per day in 2021 purchasing power parity.

[18] See World Bank (2025a) for a summary of poor human development outcomes in FCS.

B. Estimates of Long-Term Economic Challenges of Weak Institutions and Conflict

Among EMDEs with below-average governance, improvements in governance are associated with faster long-term economic growth. Among countries with below-average governance score (i.e., with standardized WGI score—z_WGI—below zero), those with a higher governance score recorded significantly higher growth (Figure 10).[19] For these countries, cross-sectional regression analysis confirms a statistically significant positive correlation between stronger governance (z_WGI) or institutional capacity (as measured by CPIA) and economic growth over the past 20 years. A one-standard-deviation increase in the WGI score—which corresponds, for example, to the difference between South Sudan and Uzbekistan, or between Benin and Zimbabwe—is associated with a 1.4 percentage-point increase in long-term economic growth (Table 2 and Annex 3).[20] By contrast, the link between governance and growth becomes insignificant for countries with above-average governance score (z_WGI > 0) (Figure 10 and Annex 3). For these countries, differences in other factors, such as market efficiency or innovation, are likely to be more strongly associated with differences in growth rates. Although this analysis does not disentangle the direction of causality, it is consistent with earlier findings using instrumental variables techniques that showed the negative impact of weak institutions on countries' income and, by implication, on their long-term growth (Acemoglu, Johnson, and Robinson 2001).

Figure 10. Growth and WGI Scores in EMDEs



Source: Authors' calculations based on IMF WEO and WGI.
Note: A higher WGI score indicates better governance.
EM = emerging market; EMDE = emerging market and developing economy; LIC = low-income country; WEO = World Economic Outlook; WGI = Worldwide Governance Indicators.

Weaker economic growth under institutional fragility could in part be explained by lower provision of critical public services. Lower and inefficient public spending hampers human capital accumulation and public investments, undermining potential growth. Also, the lack of functional institutions (such as property rights or rule of law) and public services such as basic infrastructure (roads or electricity) has been shown to impede private investments (Chami, Espinoza, and Montiel 2021). Weak institutions also constrain both the state's ability to tax and to support markets, limiting the resources available for public spending (Besley and Persson 2009). Looking at the relationship between governance or institutional strength and public spending, evidence indicates a positive correlation between lower fragility and higher expenditures in countries with below-average governance score:[21] a one-standard-deviation decline in the WGI score is associated with a decline of expenditure to GDP of 4.8 percentage points (Figure 11 and Table 2); for countries with above-average governance scores, the relationship is not statistically significant (Annex 3). In the expenditure structure, countries with lower quality policy and institutional frameworks (lower CPIA score) spend significantly less

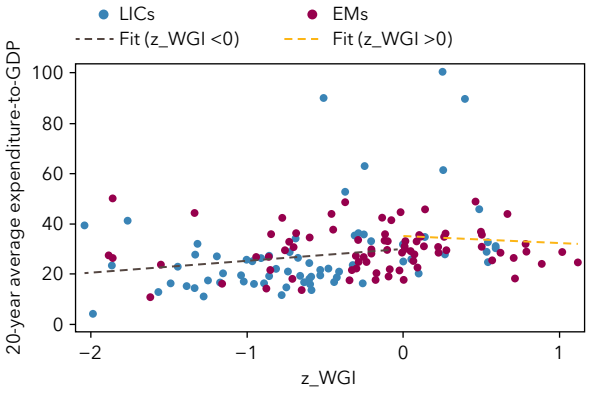
[19] The analysis relies on five dimensions—Voice and Accountability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption—excluding the Political Stability and Absence of Violence/Terrorism dimension to construct a measure of institutional fragility that excludes conflict. The measure used throughout the analysis is an average of standardized WGI scores, with mean of 0 and standard deviation of 1.

[20] The estimate is sensitive to outliers. After excluding the countries with the highest and the lowest GDP growth, the coefficient declines from 1.4 to 0.9 but remains statistically significant at the 10 percent level.

[21] This relation may be sensitive to outliers: it is statistically significant at 5 percent after excluding four potential outliers (see Annex 3) but has a *p* value of the t statistic equal to 0.111 when all countries are included. The relation is also sensitive to the choice of the fragility measure (not significant for CPIA). In addition, public spending efficiency may be lower under more intense institutional fragility.

in percent of GDP on social protection (Annex 3). When looking at spending on health and education, the results are less clear because of small sample size: although the estimates show that fragile countries spend a smaller share of GDP on health and on education, they are not statistically significant. Others (Akanbi and others 2021) have found that higher levels of spending on education and health are associated with sustainable exits from fragility.

Figure 11. Fiscal Expenditure and WGI in EMDEs



Source: Authors' calculations based on IMF WEO and WGI.

Note: EM = emerging market; EMDE = emerging market and developing economy; LIC = low-income country; WEO = World Economic Outlook; WGI = Worldwide Governance Indicators.

Lower public spending is in turn partly because of lower tax collection associated with fragile institutions. Low tax revenues not only hinder the ability of the state to provide for its citizens and protect against shocks (Besley and Mueller 2021) but may also lead to fiscal dominance and inflation (Adam and Wilson 2021), all of which reinforce fragility. Most countries with below-average governance score have a tax-to-GDP ratio below 15 percent (Figure 12), which is considered a tipping point for fiscal spending, growth, and development.[22] As Besley and Persson (2009) show, investments in fiscal capacity and legal capacity are typically complements, and countries with weak or unstable political institutions often fail to build either. This helps explain why fragile states struggle to raise revenues: without credible capacity to tax, they also lack incentives to expand property-rights enforcement and broader state capacity. Better fragility scores are clearly associated with higher tax revenues in these countries: a one-standard-deviation increase in the WGI score is associated with a tax-to-GDP increase of 3.8 percentage points (Figure 12 and Table 2). Similar results can be found for alternative measures of institutional fragility (Annex 3). Some fragile countries may, however, rely on other sources of revenue; for example, fragile SDS rely heavily on grants, whereas fuel-exporting FCS receive high non-tax revenues.

Weaker economic growth under institutional fragility also reflects lower access to financing. The domestic financial sector facilitates credit to the economy, which is important for investment, consumption-smoothing, and resilience to shocks. Among external flows, foreign direct investment (FDI)—the largest source of external financing for LICs prior to the COVID-19 pandemic (IMF 2025c)—can play a critical role in supporting investment and capital accumulation when well-managed, as well as supporting knowledge transfer and market access (Saurav and Kuo 2020). However, countries with lower governance or institutional strength, including most FCS, tend to have lower financial development to support private investment. In particular, their financial institutions have lower depth (i.e., bank credit to the private sector is lower) and their financial markets (e.g., bond markets) are less developed (Table 2). Other studies have found that FDI inflows in FCS tend to be concentrated in natural resources and other capital-intensive activities, which are more susceptible to extractive institutions (Acemoglu, Johnson, and Robinson 2001; World Bank 2018).

Intense conflicts have a strong negative impact on growth. The relation between conflict and macroeconomic outcomes has been extensively discussed in earlier studies. The literature has generally emphasized that intense conflicts lead to significant and persistent GDP losses and worsening fiscal positions (e.g., Collier 1999; Rother and others 2016; IMF 2019b; Novta and Pugacheva 2020; Mueller and others 2024).

[22] Gaspar, Jaramillo, and Wingender (2016) estimate that a tax-to-GDP ratio of about 12.75 percent is associated with a significant acceleration in growth. It is generally recommended that countries with low tax revenues aim for a tax ratio of at least 15 percent of GDP.

Table 2. Relation between Governance and Long-Term Macroeconomic, Fiscal Indicators in EMDEs with Weak Governance (z_WGI < 0)

Variables	(1) Real GDP growth, %	(2) Primary balance % of GDP	(3) Revenue % of GDP	(4) Tax Revenue % of GDP	(5) Expenditure % of GDP	(6) Health expense% GDP^	(7) Education expense % of GDP^	(8) Social protection expense % of GDP^	(9) FDI inflow % of GDP	(10) Financial devel-opment: institutions depth	(11) Financial devel-opment: markets
z_WGI	1.424**	−0.698	3.802	3.834**	4.766	0.617	1.314	2.100	1.226	0.0455**	0.0638*
	(0.586)	(0.916)	(2.897)	(1.904)	(2.966)	(0.831)	(1.084)	(3.011)	(1.223)	(0.0223)	(0.0375)
SDS	0.207	−2.565**	7.588**	0.118	9.818***	1.557	2.941**	0.122	1.379	−0.0601**	−0.144***
	(0.696)	(1.065)	(3.437)	(2.152)	(3.519)	(1.002)	(1.306)	(3.629)	(1.334)	(0.0250)	(0.0420)
Fuel	0.122	−0.501	6.897**	−2.737	6.151*	−0.847	0.372	0.00638	−0.560	−0.0523**	−0.0120
	(0.654)	(1.003)	(3.233)	(2.020)	(3.310)	(0.675)	(0.880)	(2.445)	(1.334)	(0.0241)	(0.0404)
log_GNIPC	−0.433	1.028**	3.258**	1.041	2.067	0.295	−0.610	1.142	−0.622	0.0405***	0.0742***
	(0.275)	(0.426)	(1.359)	(0.867)	(1.391)	(0.390)	(0.509)	(1.414)	(0.549)	(0.0100)	(0.0168)
Constant	8.206***	−9.126**	−1.216	9.192	10.99	0.753	10.04**	−1.174	9.482*	−0.168*	−0.429***
	(2.393)	(3.717)	(11.82)	(7.594)	(12.11)	(3.653)	(4.763)	(13.23)	(4.792)	(0.0872)	(0.146)
Observations	99	98	99	95	99	29	29	29	93	95	95
R-squared	0.078	0.109	0.282	0.168	0.241	0.300	0.264	0.197	0.044	0.368	0.375

Source: Authors' estimates based on IMF WEO, IMF GFS, IMF FD, IMF BOP, WB WDI, and WGI data.

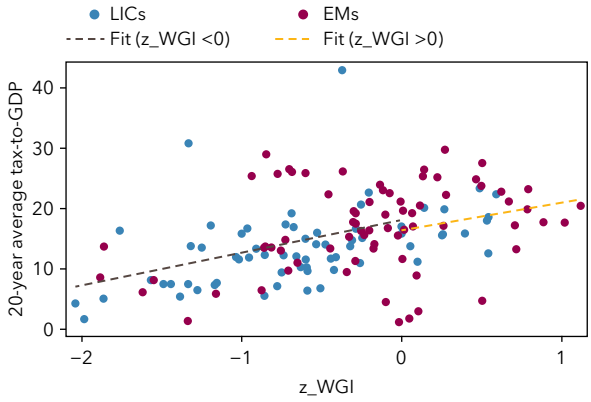
Note: Standard errors are reported in parentheses, with *** for $p < .01$, ** for $p < .05$, and * for $p < .1$. z_WGI reflects the country's average WB WGI score (normalized to have mean 0 and standard deviation 1 across countries). SDS and fuel are dummy variables for SDS and fuel-exporting countries, respectively; log_GNIPC reflects log of the gross national income per capita. All dependent variables are measured as 20-year averages spanning 2005–2024. Estimates are based on the ordinary least squares (OLS) estimator for cross-sectional regressions. See Annex 3 for details.

^ Small sample size because of data limitations may affect coefficient estimates and reduce statistical power of applied tests.

BOP = balance-of-payments; EMDE = emerging market and developing economy; FD = financial development; GDP = gross domestic product; GFS = global financial safety; GNI = gross national income; SDS = small developing states; WB = World Bank; WDI = World Development Indicators; WEO = World Economic Outlook; WGI = Worldwide Governance Indicators.

For instance, civil wars typically cut output by about 6 percent immediately, and whereas countries recover roughly half of this loss within four years, they still remain about 3 percent below their prewar trend even a decade later (Cerra and Saxena 2008). Mueller (2012) finds that the average civil war leads to a permanent loss in output of 18 percent, making civil wars more devastating than economic crises. According to Collier (2008), the average 7-year war lowers GDP by about 15 percent. Margalef and Mueller (2023) show that "conflict trap" dynamics can explain a relative GDP per capita decline of about 50 percent over 30 years for the countries most affected by conflict. Evidence also suggests that the anticipation of violence distorts the economy and lowers asset prices, amplifying the human and economic cost of violence (Besley and Mueller 2012, 2018; Elster, Zussman, and Zussman 2017; Tapsoba 2023).

Figure 12. Tax Revenues and WGI Scores in EMDEs



Source: Authors' calculations based on IMF WEO and WGI.

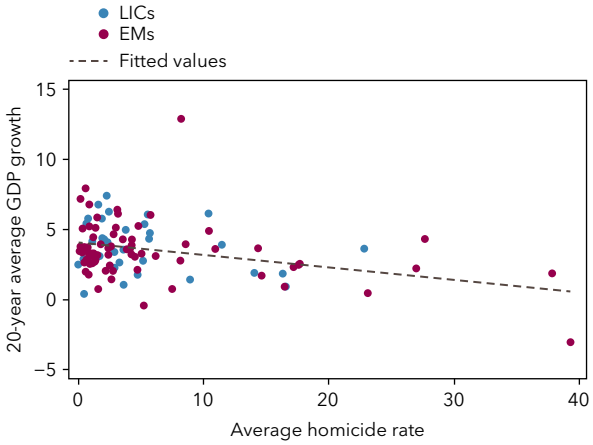
Note: EM = emerging market; EMDE = emerging market and developing economy; LIC = low-income country; WEO = World Economic Outlook; WGI = Worldwide Governance Indicators.

C. Estimates of Long-Term Economic Challenges of Other Drivers of Fragility

Beyond weak governance, institutions, and conflicts, other drivers of fragility can be linked with macroeconomic performance. Countries that have better-governed institutions can experience other manifestations of fragility, such as violence and organized crime, political instability, low access to health services, and education. These can be captured through additional measures or through OECD indicators that span multiple dimensions of fragility.

For EMDEs, violence and, in some cases, fragility related to human capital is associated with weaker economic growth. Countries with higher levels of violence tend to have lower long-term growth (Figure 13). Cross-sectional regression analysis confirms a statistically significant negative correlation between homicide rates and economic growth over the past 20 years (Table A3.4 in Annex 3). Relatedly, for EMs, the OECD score capturing fragility in security (risks of conflict, violence, organized crime, or terrorist activity) is correlated with lower real annual GDP growth (Figure 14, panel 1, Tables A3.7–A3.8 in Annex 3). These estimates confirm earlier findings by Bisca and others (2024) on the negative effect of violence on economic

Figure 13. GDP Growth and Violence in EMDEs

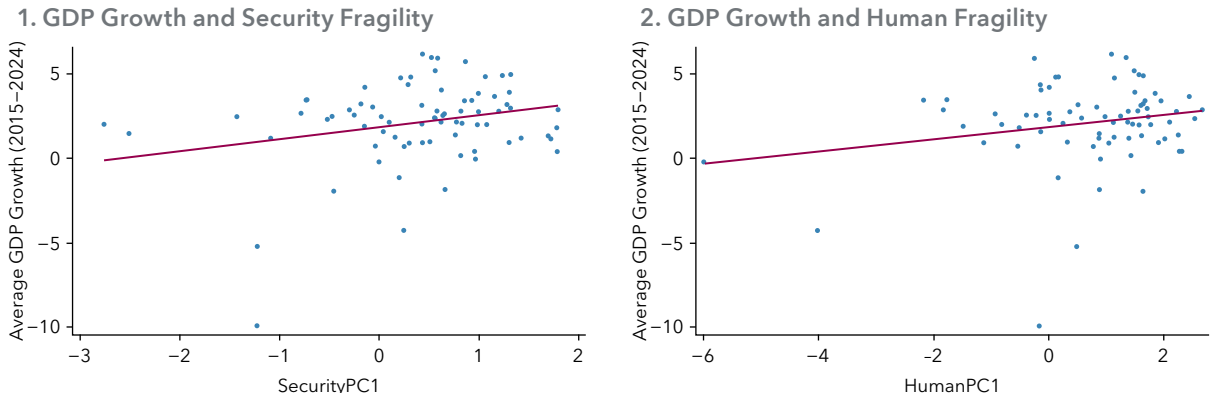


Source: Authors' calculations based on IMF WEO and UNODC data.

Note: EM = emerging market; EMDE = emerging market and developing economy; GDP = gross domestic product; LIC = low-income country; WEO = World Economic Outlook; UNODC = United Nations Office on Drugs and Crime.

activity in LAC. For some model specifications, the OECD score capturing human fragility (access to health and sanitation, the prevalence of infectious disease, education, and social protection) is also significantly related to lower GDP growth (Figure 14, panel 2, Table A3.7 in Annex 3).

Figure 14. GDP Growth and Security and Human Fragility in EMs



Source: Authors' calculations based on IMF WEO and OECD data.

Note: The sample of EMs excludes Guyana and Libya as potential outliers.

EM = emerging market; GDP = gross domestic product; WEO = World Economic Outlook; OECD = Organization for Economic Cooperation and Development; PC1 = first Principal Component.

4. Short-Term Macroeconomic Challenges of Fragility: Vulnerability to Economic Shocks

Greater fragility is associated with higher macroeconomic vulnerability to shocks (such as changes in the terms of trade), weighing on output for longer periods and often more heavily, which in turn perpetuates fragility. Across country groups, the impact of shocks is most pronounced in FCS, particularly when institutional fragility is compounded by conflict, fuel-export dependence, or small country size. Limited government capacity to maintain a stable macroeconomic environment—often because of low fiscal and external buffers—constrains the scope for countercyclical fiscal responses. This vulnerability is further exacerbated by weak policy frameworks and the lack of clarity and consistency between monetary and exchange rate policy objectives.

A. Recent Developments in FCS amid Global Shocks

FCS suffered more from the recent global shocks than other countries, facing longer and sometimes more pronounced impact on output growth. Whereas many countries were deeply affected by the COVID-19 pandemic and the global inflation and monetary policy tightening in 2022, FCS LICs have experienced a particularly strong medium-term impact on GDP. This group of countries saw substantial growth scarring: whereas their median GDP decline in 2020 was similar to non-FCS LICs, their growth recovery in 2021–2024 was slow and incomplete (Figure 15, panel 1; also see World Bank 2025a). FCS LICs where institutional fragility is aggravated by conflict or unfavorable structural characteristics (small country size or fuel-export dependence) were particularly affected: conflict-and-fragile countries saw median GDP growth hover near zero during 2021–2024 (Figure 15, panel 2), whereas FCS SDS posted slow median growth near 1.1 percent on average in 2021–2022 before returning to historic growth numbers in 2023–2024 (Figure 15, panel 3). Fuel-exporting LICs continued to suffer from low growth, with median about 1.7 percent in 2021–2024 (Figure 15, panel 4). FCS EMs saw larger declines in GDP in 2020 compared with FCS LICs but stronger recovery in 2021–2022, with GDP growth fluctuations reflecting country-specific events.

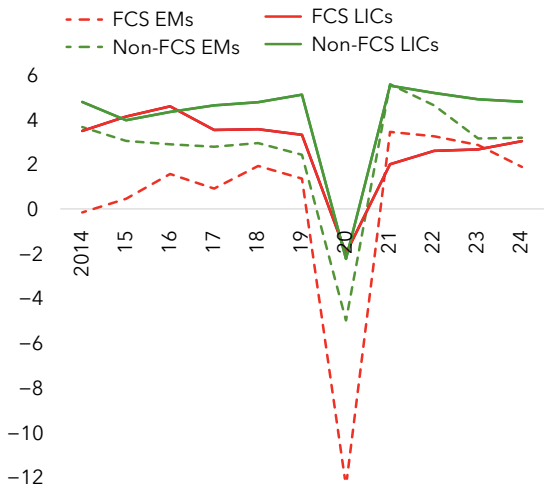
FCS LICs had the least scope for countercyclical fiscal responses to COVID-19 across EMDEs. With small fiscal buffers and limited access to financing, FCS LICs saw smaller fiscal impulses in response to the pandemic compared with other country groups. This was especially the case for LICs with institutional fragility aggravated by structural characteristics (fuel-export dependence, small size): most of these countries tightened their primary fiscal balance in 2020 (Figure 15, panel 5).

Many FCS and countries with marginal institutional fragility ("borderline cases") struggled to rein in inflation after the 2022 price shock. Whereas almost all countries with low institutional fragility managed to stabilize prices by 2023 (Figure 15, panel 6), many FCS and countries with marginal fragility continued to have persistently high double-digit inflation in 2023 and in 2024 (Figure 16). This was primarily driven by these countries' inability to maintain a stable exchange rate amid low levels of FX reserves or to provide an alternative credible nominal anchor to the economy.

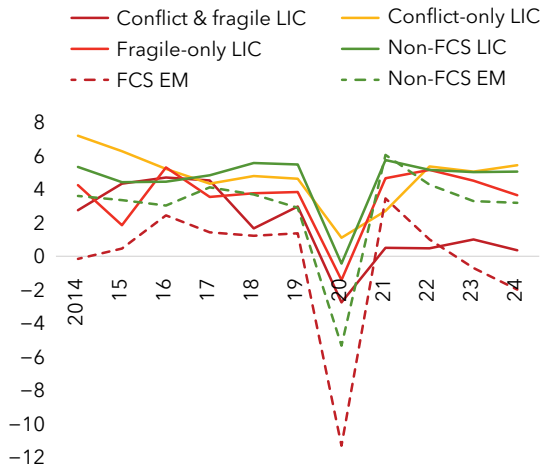
Lack of consistency and weak monetary and exchange rate policy frameworks presented the biggest challenge for price stability in FCS. Three-quarters of FCS and marginally fragile cases with stabilized, crawl-like, and other managed arrangements—often characterized by a lack of clarity on exchange rate

Figure 15. GDP Growth, Inflation, and Public Finance Outcomes, Medians across EMDE Subgroups

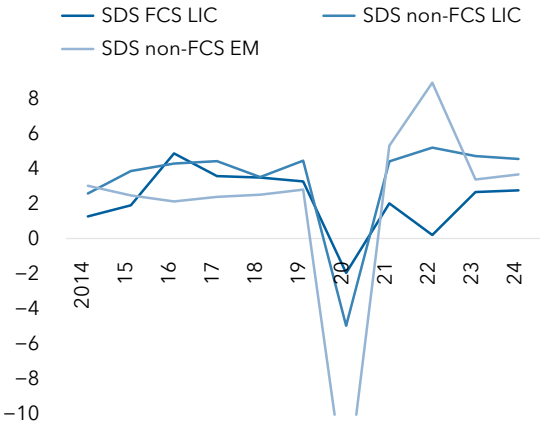
1. GDP Growth in all EMDEs, %



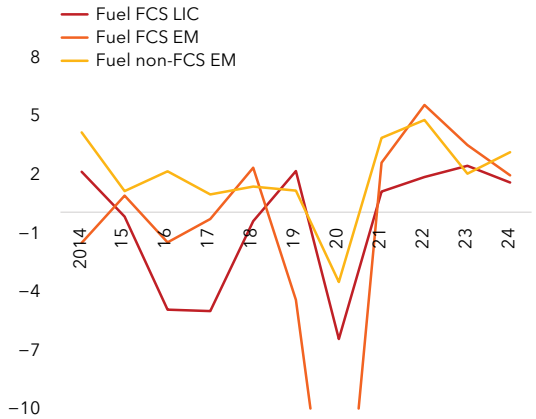
2. GDP Growth in EMDEs Excl. Fuel Exporters and SDS, %



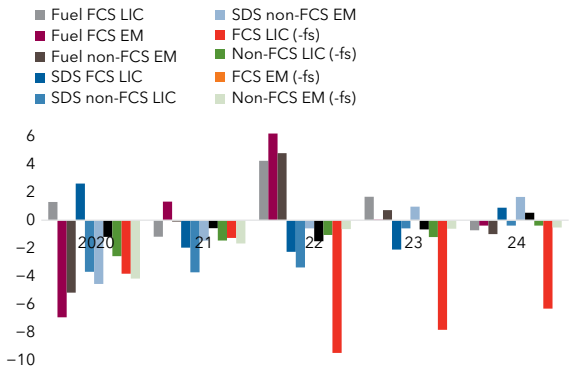
3. GDP Growth in SDS, %



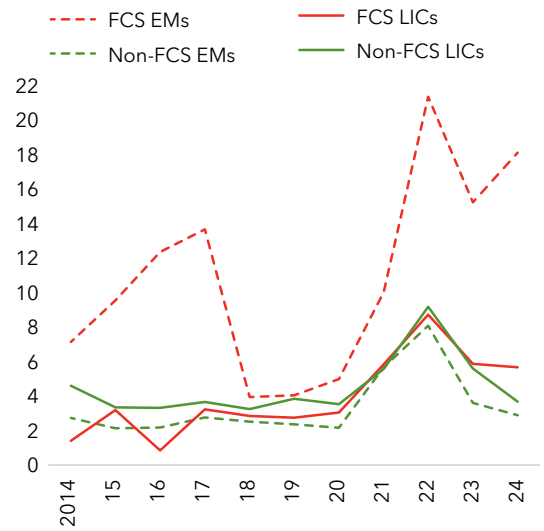
4. GDP Growth in Fuel Exporters, %



5. Primary Balance Change to 2019, % GDP



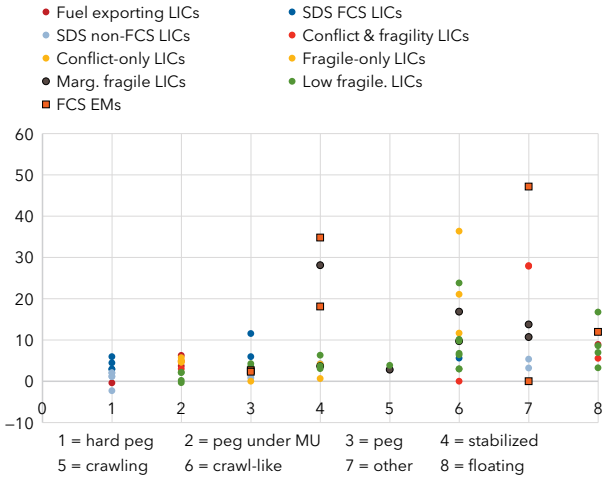
6. Inflation across EMDE Subgroups



Source: Authors' calculations based on IMF WEO data. Subgroup classification corresponds to the 14 subgroups in Annex 2.
Note: Some of the graphs are truncated in 2020. "-fs" = excl. fuel exporters and SDS (based on classification in Annex 2).
EM = emerging market; EMDE = emerging market and developing economy; FCS = fragile and conflict-affected states; GDP = gross domestic product; LIC = low-income country; SDS = small developing states; WEO = World Economic Outlook.

objectives and inconsistency between de jure and de facto arrangements—saw double-digit inflation in 2024 (Figure 16).[23] This reflected institutional weaknesses and inability to establish a strong monetary policy framework. By contrast, almost all non-FCS with such arrangements saw single-digit inflation. This confirms earlier findings by Adam and Wilson (2021) that, because state structures come under stress and the broader economic policy regime becomes increasingly distorted, monetary policy regimes become dysfunctional, with central banks pursuing multiple objectives, failing on the core monetary objective of price stability, and getting drawn into administering heavily managed exchange rates, often in situations of severe rationing so that parallel foreign exchange markets emerge.

Figure 16. Inflation in 2024 across ER Regimes



Source: Authors' calculations based on IMF WEO.

Note: Using IMF 2022 Annual Report on Exchange Arrangements and Exchange Restrictions. Graph is truncated at 60 percent (does not show inflation for South Sudan and for West Bank and Gaza).

EM = emerging market; ER = exchange rate; FCS = fragile and conflict-affected states; LIC = low-income country; SDS = small developing states; WEO = World Economic Outlook.

B. Estimates of Short-Term Economic Challenges of Weak Institutions and Conflict

Looking beyond FCS, institutional fragility increases EMDEs' vulnerability to economic shocks. Using standardized WGI (z_WGI) as a continuous measure of institutional fragility, estimates suggest that terms-of-trade shocks[24] have a stronger and longer-lasting impact on countries with lower governance scores, especially for countries with below-average governance (z_WGI < 0).[25] The interaction between WGI and shock variables captures the marginal impact of fragility on economies' response to shock: during a negative terms-of-trade shock equivalent to 1 percent of GDP, a lower governance score (by one standard deviation) is associated with an additional 0.4 percentage-point decline in per capita GDP during the first year of the shock (see Figure 17, panel 1, and Annex 5 for more details). Moreover, this effect is highly persistent and still significant after three years, with the gap remaining above 0.2 percentage points.[26] These estimates generalize earlier findings by Boussard and others (2024), showing that FCS have larger and more persistent GDP per capita responses to external shocks compared with non-FCS.

Vulnerability to shocks reflects challenges in implementing countercyclical fiscal policies in response to terms-of-trade shocks. As most countries with high institutional fragility rely on fixed exchange rates or suffer from weak monetary policy frameworks, fiscal policy plays a central role in macroeconomic stabilization. However, real public consumption and real public investment responses to terms-of-trade shocks are more procyclical (or less countercyclical) in countries with lower governance, although this effect is statistically significant only for public consumption. This may also reflect that public consumption has a smaller

[23] The growing use of such arrangements has been discussed in IMF (2025c). See IMF (2024a) for the definition of exchange rate arrangements.

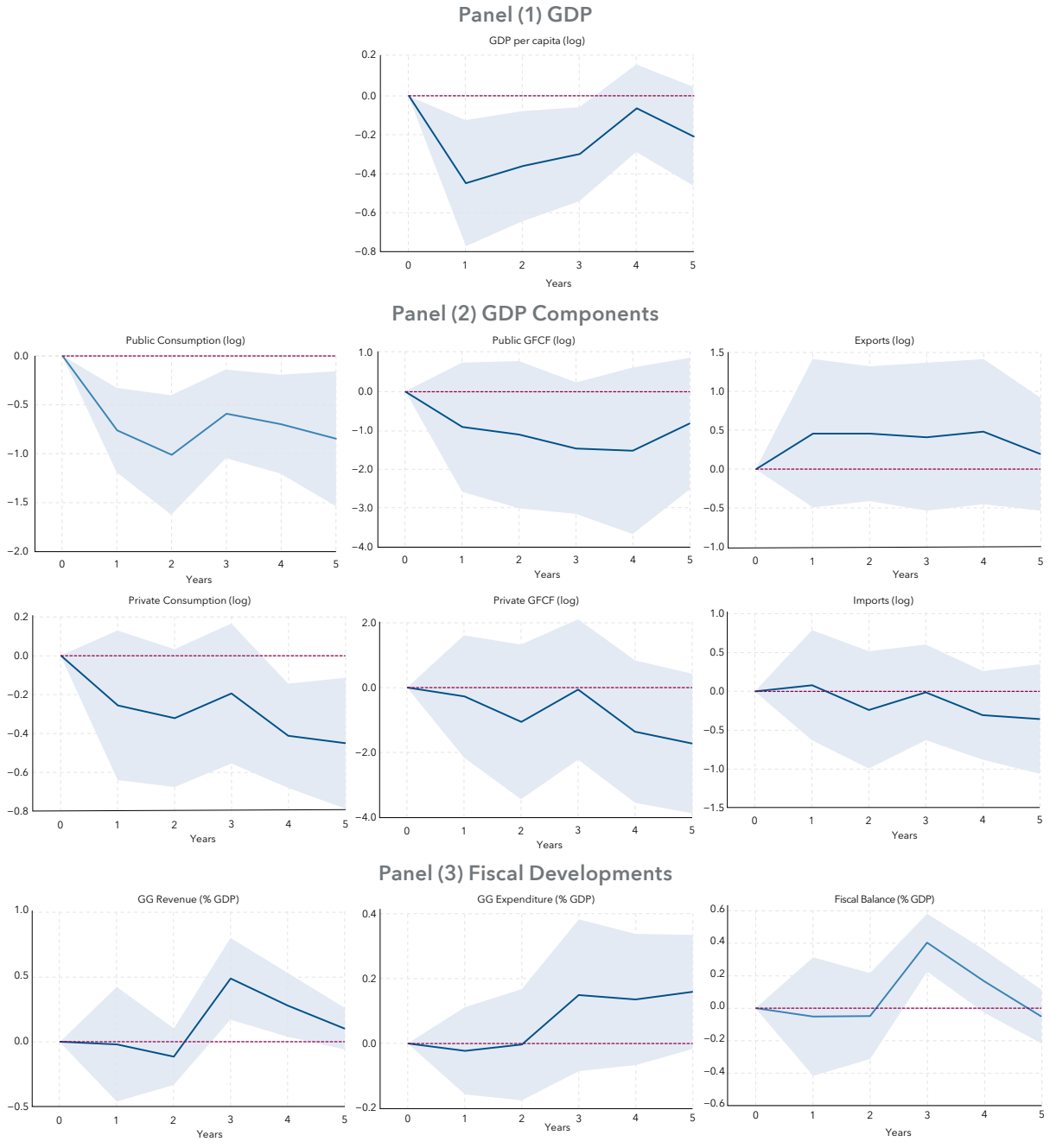
[24] Terms-of-trade shocks represent major shocks for FCS. Responses to other shocks are discussed in Boussard and others (2024).

[25] The analysis relies on five dimensions, excluding the Political Stability and Absence of Violence/Terrorism, dimension to construct a measure of institutional fragility that excludes conflict. The measure used throughout the analysis is an average of standardized WGI scores, with mean of 0 and standard deviation of 1, and then restricted to negative scores. A one-standard-deviation difference in average WGI scores corresponds to the difference between South Sudan (–2.0) and Uzbekistan (–1.0).

[26] These results are obtained with local projection analysis on the sample of FCS and non-FCS LICs and lower-income EMs from 2006 to 2021. See Boussard and others (2024) for more details on the data and additional analysis, including comparisons between FCS and non-FCS states and the effect of shocks to external demand and financing conditions.

share in aggregate demand in poorer countries (IMF 2025c). In response to a negative terms-of-trade shock equivalent to 1 percent of GDP, a lower governance score by one standard deviation decreases public consumption by an additional 0.5–1 percentage points for the first five years (Figure 17, panel 2), and public investment by an additional 1–1.5 percentage points. Responses of other GDP components are smaller and not significant. The effect on fiscal ratios (Figure 17, panel 3) is less clear in the first two years because of the stronger GDP decline (lower denominator), but in the third year a lower governance score leads to more positive fiscal balance-to-GDP ratios (implying less countercyclical response) of 0.4 percentage points.

Figure 17. Effect of Governance on the Response to External Shocks



Source: Authors' estimates.

Note: The sample is FCS and all LICs and poorer EMs (more details in Annex 5). Percent responses to a negative commodity terms-of-trade (ToT) shock equivalent to 1 percent of GDP interacted with negative values of a standardized governance score (see footnote 27). Thus, a negative response to the negative shock reflects stronger sensitivity associated with more intense fragility (lower WGI score). Shaded areas indicate the 90th percentiles. Variables in panels (1) and (2) are in real terms. Those in panel (3) are in percent of GDP.

GDP = gross domestic product; GFCF = gross fixed capital formation; GG = general government

The challenge of implementing countercyclical policy stems from limited fiscal space. Governments with weaker institutional frameworks tend to be less likely to build fiscal and external buffers amid revenue or financing windfalls and instead focus on addressing near-term spending pressures. This results in lower fiscal space and limited scope for borrowing without undermining debt sustainability: for example, almost three-quarters of FCS LICs are already at high risk or in debt distress (see Section 3). Similarly, most FCS have low levels of FX reserves (below three months of prospective imports) to address temporary FX liquidity pressures. In turn, the absence of adequate policy buffers impairs countries' ability to smooth aggregate demand during downturns. Conversely, procyclical spending during upturns, combined with low spending efficiency, erodes buffers and heightens medium-term fiscal risks. Recent studies have shown that the lack of effective spending controls and low capacity to issue debt to tap financial sources may further constrain the scope for countercyclical fiscal policy (Boussard and others 2024).

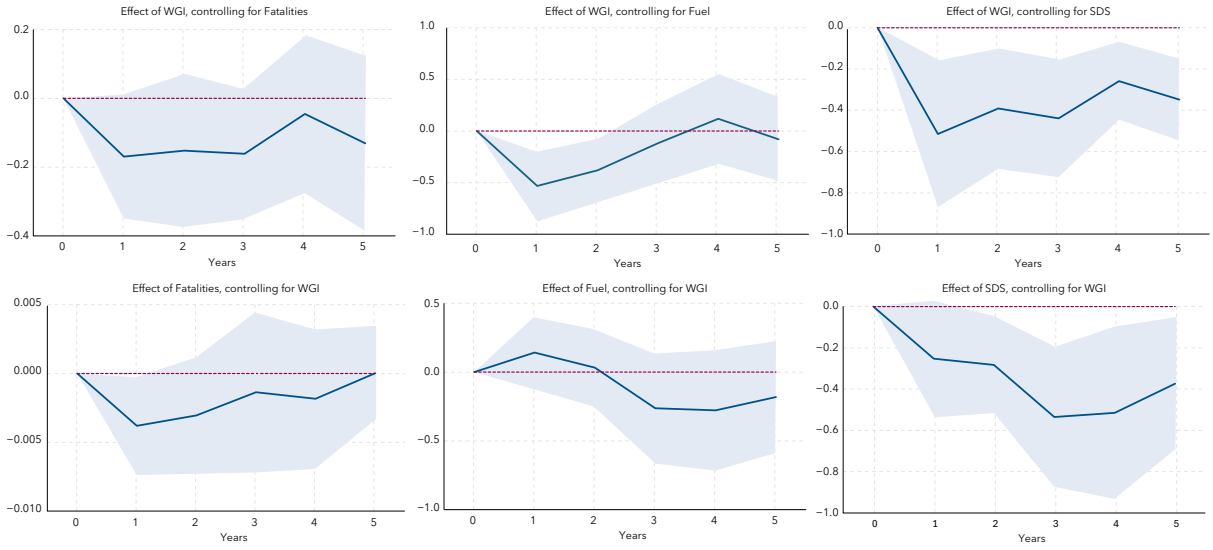
Consistent with the empirical results presented on the long-term effects of fragility, the impact of institutional fragility is aggravated by conflict, small country size, and fuel-export dependence. The effects of each of these aggravating factors compound weak governance, although governance remains important even when controlling for these factors. Specifically, conflict amplifies economies' responses mostly in the first year after the shock, because increases in conflict intensity and fatalities lead to stronger GDP decline in response to a negative terms-of-trade shock (Figure 18).[27] Conversely, fuel-dependent economies and small states (SDS) do not exhibit different responses compared with other countries with similar governance scores in the short term, but are vulnerable to significant longer-term scarring effects, with GDP per capita lower by about 0.3–0.5 percentage points after two years in SDS and 0.2–0.3 percentage points lower after three years in fuel-dependent economies.[28] Studies have also shown that other factors aggravate the effect of external shocks, such as trade openness, indebtedness, and volatility of aid inflows (Berg and others 2007; Raddatz 2007; Drummond and Ramirez 2009).

This lack of an adequate policy response to shocks contributes to perpetuating fragility. External shocks have a strong and long-lasting economic impact on countries with higher fragility, often undoing prior progress in development and poverty reduction. A dramatic example is the scarring that FCS experienced after the COVID-19 pandemic. This may further entrench fragility or trigger social unrest—macroeconomic shocks significantly increase the latter risk (Bellemare 2015; Redl and Hlatshwayo 2021), with food prices playing a particularly strong role. More generally, because economic management deteriorates in the face of external shocks, so does trust in basic economic institutions, aggravating fragility and generating conflict, leading to persistence in the impact of shocks and lower capacity to face future shocks. This negative feedback loop is further reinforced in countries with poor institutions and governance, contributing to the fragility trap and hindering long-term growth prospects in FCS (Leepipatpiboon, Castrovillari, and Mineyama 2023).

[27] World Bank (2025a) estimates significant medium-term impact of conflict (a 1 percent increase in conflict-related fatalities reduces per capita GDP by about 3.7 percent after five years, with particularly strong impact on the industrial sector) and the potential mitigation role of institutional and structural features (such as stronger governance).

[28] Whereas individual coefficients are not significant for fuel dependence for each year, the average coefficient across years is negative and statistically significant. In addition, for fuel-exporting and conflict-affected economies, the fragility effect is indirectly captured through low WGI.

Figure 18. Combining Effects of Governance, Conflict, and Structural Characteristics on the Shock Response



Source: Authors' estimates.

Note: The sample includes FCS and all LICs and poorer EMs (Annex 5). Percent responses of real GDP per capita to a negative commodity ToT shock equivalent to 1 percent of GDP interacted with negative values of a standardized governance score (see footnote 27) and conflict fatalities per million (column 1), an indicator of fuel dependence (column 2), and an indicator for SDS (column 3). Shaded areas indicate the 90th percentiles. A negative number represents a more negative outcome for countries with lower governance (top row), higher conflict fatalities (bottom left chart), fuel dependence (bottom middle chart), or SDS status (bottom right chart).

SDS = small developing states; WGI = Worldwide Governance Indicators.

5. Domestic Policy Priorities under Fragility

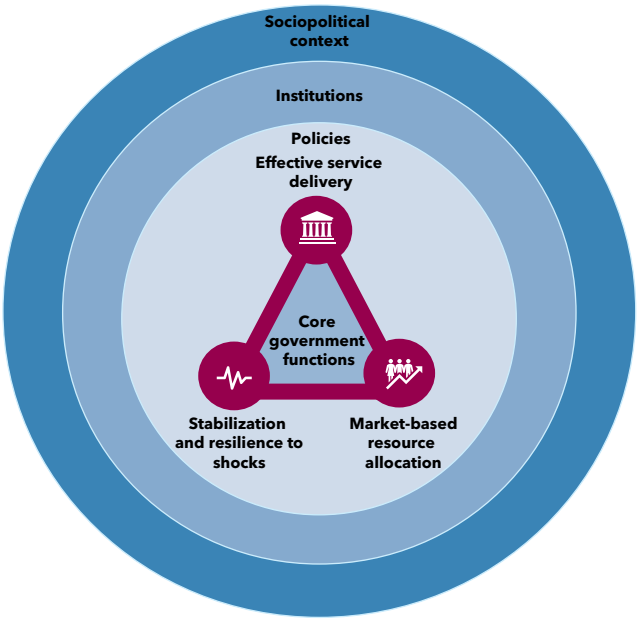
Sustained policy efforts to strengthen government functions in fragile countries can unlock better outcomes. In line with the FCS Strategy, IMF country teams have actively advised authorities on such measures, tailoring recommendations to country-specific circumstances. To succeed in FCS, these policy measures need to be sequenced to account for institutional and sociopolitical constraints: they can support macroeconomic stabilization and public service delivery in the short term and—if bolstered by political commitment to reforms and efforts to strengthen social cohesion—help to exit fragility in the long term. In marginally fragile or more stable contexts, these measures can be scaled and targeted to the dimensions of fragility that are more salient.

A. Tailoring Economic Policy Design

The top priority for economic policy under fragility is to reinforce core government functions. Analysis in this paper has shown that fragility—often reflected in weak institutions and an unstable sociopolitical context—hampers core government functions and undermines macroeconomic performance, with the most dramatic consequences in FCS. In turn, policies that strengthen core government functions—macroeconomic stabilization, effective public service delivery, and supporting market-based resource allocation—can be adapted to country circumstances to reverse these dynamics (triangle on Figure 19).[29]

For successful implementation, these policy measures must be designed, prioritized, and sequenced while accounting for institutional and sociopolitical constraints. Policy measures—such as raising tax revenues, prioritizing public expenditures on goods and services that help reduce fragility, rebuilding fiscal and foreign exchange buffers, strengthening fiscal and monetary policy frameworks, and developing the financial sector—need to factor in low institutional capacity and weak governance, political economy, vested interests, or social tensions that shape the local fragility context (concentric circles on Figure 19). In the short term, these policies can focus on addressing crises and macrostabilization, supporting basic government services and delivering public goods, with an aim to achieve tangible improvements in the population's quality of life. In practice, this means prioritizing measures that enable FCS to emerge from crises and build an effective government apparatus that can, for instance, collect taxes, direct spending to humanitarian and development needs, or control inflation. Gradually, the focus could shift to modernizing economic institutions, centering on planning and executing policies within a longer time horizon (IMF 2023c).

Figure 19. Framework for Policy Design



Source: Authors' illustration.

[29] This section is not meant to cover all functions of the government.

In the long term, economic policies that strengthen government functions and build inclusive institutions are essential for countries to exit fragility. Though only one component of a wider set of reforms, such policies can reinforce a functional social contract through a virtuous cycle: building inclusive institutions provides an enabling environment for policies, helping to gain citizens' trust and reinforce the sociopolitical environment needed to embark on deeper institutional reforms (Chami, Espinoza, and Montiel 2021; Akanbi and others 2021; UN and World Bank 2018). Measures to improve governance, including strengthening the rule of law and control of corruption, and supporting market-based resource allocation and private sector development, play an important role in this process (IMF 2024e; Acemoglu and Robinson 2019). Empirically, Acemoglu and others (2025) show that economic growth, public goods provision, and effective institutions (control of corruption, peace and political stability) increase individuals' support for institutions in democratic systems. However, given the uncertainty amid complex institutional transformations, resilience to shocks and setbacks and flexibility for rapid learning are needed (Collier 2024). Ultimately, addressing fragility could help unleash growth opportunities in FCS in the form of demographic tailwinds, natural resource endowments, renewable energy, and tourism potential (World Bank 2025a), as well as increase TFP, together with measures to increase human capital and promote innovation (IMF 2025c).

In this context, and in line with the 2022 FCS Strategy, IMF country teams have been tailoring policy recommendations based on Country Engagement Strategies (CES). CES identify drivers of fragility and conflict, constraints to reform implementation, and the longer-term macroeconomic policies and reforms required to exit fragility. To date, over 25 CES have been finalized (see examples in Box 2). Across these diverse contexts, CES policy recommendations generally link macroeconomic stabilization with strengthened governance and increased resilience to shocks. A recurring theme is the need to restore fiscal and monetary discipline—through better revenue mobilization, reduced reliance on monetary financing, prudent debt management, and improved public financial management (PFM) systems—while safeguarding (or expanding) social spending in health, education, and basic services. Rebuilding state legitimacy is another crosscutting policy imperative through enhanced transparency, accountability, and anticorruption measures, often supported by stronger auditing, civil society engagement, and institutional checks and balances. In FCS where conflict and political instability are central, restoring security is a prerequisite for sustainable reforms. Finally, CES underscore the importance of structural transformation—whether through diversifying revenue beyond natural resources, modernizing infrastructure, boosting agricultural productivity, or improving access to services—to reduce vulnerability to shocks and foster inclusive, long-term growth.

B. Bolstering State Functions in FCS—A Policy Agenda

Macroeconomic Stabilization and Resilience

Reinforcing macroeconomic resilience and stabilization capability is an important objective in itself, and in the long term, it may help to exit fragility. Macroeconomic stability is an important public good and a precondition for fostering economic growth, employment opportunities, and development. In addition, macroeconomic stability improves countries' resilience to shocks that might trigger social unrest and reverse progress with broader reform agendas (Bellemare 2015; Redl and Hlatshwayo 2021; Collier 2024).

Sustainable and countercyclical fiscal policies should be pursued even in countries with intense institutional fragility. Analysis in the previous section finds that countries with weak institutions and governance issues often face significant challenges in implementing countercyclical fiscal policies, resulting in strong, long-lasting economic impact from external shocks. In this context, it is important for such countries to maintain (or regain) a sustainable fiscal position that does not become the source of macroeconomic instability (Besley and Mueller 2021). For many countries, this means addressing their debt vulnerabilities

Box 2. Policies to Exit Fragility: Recommendations from IMF Country Engagement Strategies

Guinea-Bissau: The CES emphasizes achieving macroeconomic stability through fiscal consolidation, enhanced tax collection, and improved debt management. Strengthening PFM systems—particularly controlling the wage bill and ensuring transparency in state-owned enterprises—is also a priority, and enhancing social spending in health, education, and rural development could crowd in donor support. Governance reforms focus on accountability through budget audits, civil society participation, and anti-corruption measures. Furthermore, political and institutional arrangements need to provide checks and balances between the three branches of government.

Haiti: Deep fragility stems from widespread crime and gang violence, political instability, weak governance and corruption, which are compounded by external shocks—natural disasters, food insecurity, and pandemics. As a result, the CES assessed that fiscal and monetary frameworks remain pro-cyclical and unable to absorb shocks, and criminal activity undermines tax collection. Poor governance, corruption, and weak institutions undermine foreign investment, and social spending is poorly targeted. To break this cycle, restoring security is an essential first step, coupled with rebuilding fiscal buffers, modernizing revenue collection, phasing out monetary financing of deficits, enhancing spending transparency, and protecting social outlays for the most vulnerable.

Iraq: The CES prioritizes fiscal sustainability and resilience to oil price fluctuations. Diversifying revenue sources, reforming the pension system, modernizing the civil service, and restructuring state-owned banks are critical steps to exit fragility. Investments in electricity-sector sustainability and governance improvements are also key to enhancing public service delivery and enabling private sector growth.

Somalia: The CES notes that improving security is critical for inclusive growth, and that reforms in macroeconomic stability, revenue mobilization, governance, and effective PFM systems will foster resilience. Investments in infrastructure, promoting financial inclusion, and curbing corruption are seen as pivotal for long-term stability and economic development. Implementing a durable federal fiscal framework—including harmonizing customs operations and fiscal policies across federal states and resolving constitutional ambiguities—will also be essential to support Somalia's political stability, security, and development goals.

Solomon Islands: The CES for the Solomon Islands focuses on addressing fragility through a combination of fiscal, governance, and structural reforms. Key priorities include improving PFM systems to enhance budget planning, spending transparency, and accountability. Expanding access to education, healthcare, electricity, and digital services—especially in rural areas—is critical for human capital development and fostering social cohesion. Addressing land registration issues and strengthening dispute resolution mechanisms may attract private investment and encourage new growth drivers. Governance improvements, including anti-corruption measures and strengthened auditing frameworks, are essential to build transparency and accountability.

South Sudan: The CES highlights the need for macroeconomic stability by avoiding ad hoc borrowing and spending and refraining from monetary financing, thereby creating space to build resilience to shocks and strengthen donor confidence. Key priorities to exit fragility include improving agricultural productivity through irrigation and agroforestry, enhancing social spending in health and education, fostering private sector development, and diversifying the economy beyond oil. Institutional

reforms—including power-sharing, decentralization, restoring the state's monopoly on the means of violence, and increasing transparency in oil revenue management—are needed to strengthen accountability and resilience.

Yemen: The CES recommends a two-step approach for economic policies to reduce fragility. In the near term, the priority is to increase fiscal space, improve governance and transparency, and build state capacity to help address the severe humanitarian crisis. As the situation stabilizes and a durable peace process emerges, policy priorities would include strengthening social safety nets, improving debt sustainability, and building PFM capacity, as well as investing in data collection and climate adaptation to tackle challenges such as food insecurity.

Source: IMF staff analysis (2025).

Guinea Bissau (Annex I): https://www.imf.org/en/publications/cr/issues/2023/02/14/guinea-bissau-request-for-a-three-year-arrangement-under-the-extended-credit-facility-press-529817

Haiti (Annex IV): https://www.imf.org/en/publications/cr/issues/2024/12/10/haiti-2024-article-iv-consultation-press-release-staff-report-and-statement-by-the-559329

Iraq (Annex VI): https://www.imf.org/en/publications/cr/issues/2023/02/03/iraq-2022-article-iv-consultation-press-release-and-staff-report-529146

Somalia (Annex III): https://www.imf.org/en/publications/cr/issues/2022/12/16/somalia-2022-article-iv-consultation-and-fourth-review-under-the-extended-credit-facility-527022

Solomon Islands (Annex IV): https://www.imf.org/en/publications/cr/issues/2023/05/11/solomon-islands-2023-article-iv-consultation-press-release-and-staff-report-533278

South Sudan (Annex I): https://www.imf.org/en/publications/cr/issues/2022/08/03/republic-of-south-sudan-2022-article-iv-consultation-and-second-review-under-the-staff-521692

and increasing fiscal space.[30] At the same time, the composition of fiscal adjustment should account for FCS' institutional and sociopolitical limitations, for example, through realistic and carefully planned tax effort or through protecting expenditures that help reduce fragility amid spending cuts (as discussed in the next subsection). This may include reining in the growth of the public sector wage bill (Section 3.C), without undermining state-capacity building efforts. For example, Guinea-Bissau reduced its wage bill substantially by freezing new hirings, maintaining a cap on salaries, and completing a new census of public workers.

Improving consistency between monetary and exchange rate policy frameworks is another priority under fragility. This paper shows that fragility is associated with a lack of clarity on exchange rate objectives and weaker monetary policy frameworks. In many FCS, monetary policy becomes dysfunctional under intermediate exchange rate arrangements, pursuing multiple objectives and eventually failing to maintain low inflation or a stable exchange rate, with sizable parallel foreign exchange markets and critically low reserves (recent examples showcasing such issues include Burundi, South Sudan, and Zimbabwe). These countries face particularly acute need to strengthen monetary and exchange rate policy frameworks and ensure their coherence, taking into account institutional capacity. Initial steps can include establishing core macroeconomic institutions (South Sudan) or even a new currency (Zimbabwe). As institutions are strengthened, states can rebuild FX buffers and clarify and ensure consistency between monetary and exchange rate

[30] For example, using the joint IMF-World Bank three-pillar approach: domestic resource mobilization, securing external support, and reducing debt-service burdens where relevant. See https://www.imf.org/-/media/Files/About/FAQ/gsdr/imfworld-bank-nonpaper-on-actions-to-support-countries-faced-with-liquidity-challenges-october-2024 and https://www.imf.org/en/blogs/articles/2024/08/01/now-is-the-time-to-help-countries-faced-with-liquidity-challenges.

policy objectives. Ultimately, countries might move to forward-looking monetary policy frameworks, which entail well-defined nominal anchors, monetary policy strategies, operational frameworks, and adequate levels of central bank independence (IMF 2015).

Public Service Delivery and Its Financing

Prioritizing budget spending toward the adequate and transparent provision of public services is important to deliver public goods but can also help to address key drivers of fragility. Analysis in the previous sections shows that public expenditure is often low in countries with fragile institutions (and is likely to be inefficient), impeding public services provision and requiring prioritization. Although such prioritization is highly context specific, closing health and education gaps is often indicated as a priority in CES (Guinea-Bissau, Solomon Islands, South Sudan, etc.). Some cases also emphasize the role of rural development (Guinea-Bissau, Solomon Islands), electricity services (Iraq, Solomon Islands), and investments in infrastructure (Somalia), which also support private sector development. Social safety nets are essential to help households cope with risks—thereby reducing poverty—and are highlighted in some contexts (Yemen), and improving security is key in conflict situations (Somalia, South Sudan).

Well sequenced and equitable raising of tax revenues is needed to finance public services. This paper shows that countries with higher levels of fragility tend to have lower tax revenues, reflecting the challenges of taxation in such contexts. Domestic revenue mobilization is a policy priority because it provides a stable source of financing for public service delivery, reduces aid dependence,[31] and strengthens state legitimacy.[32,33] In fact, domestic resource mobilization through tax policy and revenue administration measures is an important element in all current IMF programs with LICs, often underpinned by medium-term strategies. In FCS, such effort needs to be well sequenced to account for institutional and sociopolitical constraints, and a two-step approach can be applied (IMF 2023c). A strong early focus on tax administration, particularly compliance, auditing, large taxpayers, and collecting tax arrears, can provide an initial revenue boost. Given the high prevalence of informality, simplified regimes for small businesses, presumptive taxation, and the use of digital tools for registration and compliance can all help bring enterprises into the tax net, which could broaden the base for more proportional and sustainable revenue mobilization. Former FCS that have maintained higher tax-to-GDP ratios (such as Nepal, Rwanda, or Togo) have typically succeeded with broader-based policy measures that deepen the notion of fairness, such as the introduction of personal income and small-business taxes, indirect taxes on goods and services, and reductions in exemptions (IMF 2023d; Akitoby, Honda, and Primus 2020).

In postconflict countries, reconstruction supports recovery and sustained peace. Postconflict countries contend with interlinked objectives of fostering economic stabilization and inclusive growth, prioritizing spending and financing reconstruction sustainably, and gradually rebuilding institutions—all in addition to the need to maintain peace and humanitarian support (IMF 2023c; OECD 2022a). After a peace accord, public expenditures should focus on basic government services such as maintaining safety nets, providing security, and maintaining basic infrastructure such as electricity, water, and transportation. As the postconflict stage consolidates, fiscal policy often switches focus toward the need to accommodate the higher spending necessary for reconstruction. These costs can be substantial. For example, the cost of Ukraine's

[31] Although grant financing provides additional support to LICs, there is no clear distinction by the level of fragility and, on average, governments in FCS LICs (except SDS) receive similar amounts compared with non-FCS LICs. That said, Caselli and Presbitero (2021) highlight that some FCS are highly aid-dependent, that a range of factors can impact aid effectiveness, and that state building can also improve aid effectiveness.

[32] Of course, the need to increase tax revenues goes beyond fragility considerations. Estimates show that US$3.5 trillion would be needed over 2025–2029 for EMDEs to progress significantly toward meeting the SDGs, with median additional annual financing needs of 4.0 percent of GDP for LICs and 2.6 percent of GDP for EMs (IMF 2025a). Given the enormous needs for development, efforts to mobilize financing should be widespread, including domestic revenues, private financing, and international support.

[33] Domestic revenue mobilization is also essential to improve fiscal balances without sharp expenditure cuts, which can worsen the incidence and severity of conflict (Besley and Persson 2011; Mueller and others 2024).

reconstruction is estimated at US$524 billion over the next decade (Himmelfarb 2024), for West Bank and Gaza at US$53 billion (World Bank, European Union, and United Nations 2025), and for Lebanon at US$11 billion (World Bank 2025b). In this context, strengthening governance and capacity, particularly in public investment management, is critical to preserving value for money (Collier 1999; IMF 2023c).

Market-Based Resource Allocation to Support Private Sector

Removing distortions on key prices is essential for efficient market-based resource allocation. In FCS, credit and FX are sometimes restricted and allocated to specific sectors or firms, which opens opportunities for rent seeking and perceptions of unfairness. This can lead to FX shortages and parallel markets (e.g., Burundi, Ethiopia) and high costs of enterprise financing, with interest rates sometimes 2–3 times higher than in non-FCS (Assaf and others 2021). Unwinding administrative allocation mechanisms, credit caps, exchange rate restrictions, and interest rate controls would allow more efficient and broad-based access to finance. In FCS, this can imply reallocation of rents in an economy and be destabilizing, so, it should be mapped out carefully. More broadly, reducing government involvement in the banking system can also improve financial development (Barajas, Chami, and Yousefi 2013).

Developing the financial sector and increasing access to finance can support the private sector. Analysis in the previous sections shows that strengthening credit intermediation and expanding financial inclusion are important priorities for FCS. In more stable economies, improving regulations to increase market accessibility or developing new segments of the financial and capital markets is often needed. When fiscal and debt management institutions are strong enough and conditions are conducive, access to international markets is another way to broaden sources of public financing (e.g., Angola, Côte d'Ivoire, Nigeria, Uzbekistan have accessed the market), which can anchor foreign private financing. In FCS, de-risking and participation of local investors, in addition to concessional financing, would also help bring private external financing. Compliance with anti–money laundering and terrorism financing rules has been an important element to enable financial flows, including with support from IMF CD (Griffiths and others 2021).

Strengthening the private sector and broadening growth opportunities can, in turn, help lay the foundation to exit fragility. Private sector development can strengthen civil society—an important political element of reducing fragility (e.g., Acemoglu and Robinson 2019)—and increases job opportunities and income, reducing societal tensions and vulnerability to shocks (Collier, Besley, and Khan 2018). Removing domestic bottlenecks, including streamlining licensing procedures, reducing customs delays, and improving the reliability of utilities (e.g., electricity) can support job creation and help shift economic activity away from the informal or conflict economy. Greater formalization of employment could also expand revenue and reduce volatility.

C. Institutional and Sociopolitical Constraints

In fragile settings, macroeconomic policy measures and structural reforms can be more successful when they factor in sociopolitical dynamics and institutional arrangements that shape state-society relations. Political commitment is fundamental to the successful implementation of macroeconomic policies and reforms in all countries, but especially in FCS, which are more prone to instability and setbacks. Effective, efficient, and transparent fiscal institutions not only help conduct fiscal policy but can also increase public trust in the state, thereby strengthening its legitimacy. CD is an essential element of the institution-building process (see Section 6). Inclusive institutions that ensure equitable distribution of economic gains and provide backstops to those falling behind can help further reinforce a functional social contract, supporting social cohesion, and complementing peace efforts in the case of conflict-affected countries.

Political Support to Implement Economic Policies

Decisive country leadership and commitment to growth and development are key conditions for progress on economic policies and reforms. Economic policies that build inclusive institutions and address fragility are often constrained by political economy dynamics (Acemoglu, Johnson, and Robinson 2001). This might be particularly problematic in resource-rich countries, such as oil exporters, where large and profitable extractive sectors create incentives for rent seeking. Reforms can succeed only if elites make a decisive choice in favor of long-term, broad-based economic growth and development rather than preserving the status quo. Although difficult to form, such "development bargains" also require state capacity to learn from mistakes and course-correct (Dercon 2022; Collier 2024)—for instance, countries such as Uganda and Rwanda in the 1990s prioritized growth and development after conflict.

In practice, it is therefore critical to develop and maintain an understanding of how influential local actors support (or undermine) policy and reform implementation. Efforts to escape fragility can capitalize on "pivotal moments," such as a change of country leadership or major events (including economic crises), and small visible wins to garner support for further reforms (Collier, Besley, and Khan 2018). However, sustaining political bargains in the long term can be challenging: some FCS implement sound economic policies as they exit fragility only to return to fragility because of noneconomic drivers, which can lead to reform reversals. This underscores the strong macrocomplementarity between pursuing economic development objectives and efforts to achieve political stability and reduce social tensions (Rohner and Thoenig 2021). For a sustained escape from the fragility trap, broad engagement between the government and the population is needed, including the identification of common public purpose, as well as strengthening institutions—such as checks and balances, rule of law, protection of minorities, and the provision of security—that work toward this purpose and reinforce state legitimacy (Collier, Besley, and Khan 2018; Acemoglu and Robinson 2019).

Fiscal Institutions' Efficiency and Transparency to Build Trust in the State

Strong fiscal governance can increase fiscal space and also support broader efforts to exit fragility and enhance growth. Past studies have highlighted the importance of a comprehensive approach, calling for enhancing the integrity of core fiscal operations and accountability in the public sector, supported by political commitment and CD (IMF 2019a). Research has also underscored that low revenue reacts not only to the tax system or a weak economy but also to the lack of cohesiveness in the operation of the state and perceptions of corruption, meaning fostering tax compliance in FCS is both a technical and a sociopolitical issue (Besley and Mueller 2021).

Core PFM reforms are essential for the efficient use of resources and to build the integrity of core fiscal operations. Considering country circumstances and capacity, a two-step approach can be applied: building basic institutions in the short term and gradually shifting toward modernization over the medium term (IMF 2023c). Early PFM reforms in FCS typically focus on budget preparation and basic payment systems to speed up public service delivery, with consolidation of cash resources to meet government obligations. When capacity is constrained, measures to improve fiscal governance can prioritize sensitive areas such as public investment management, public procurement, SOE management, or off-budget spending (IMF 2019a). In some FCS, these efforts have involved accounting for all government resources, eliminating extrabudgetary funds, and expanding the comprehensiveness of the budget (Afghanistan, Haiti, Kosovo, and Myanmar) (IMF 2017; Baer, Mansour, and Pattanayak 2021). Strengthening systems and controls to avoid ad hoc borrowing and spending is a priority in many cases (e.g., DRC, South Sudan). At more advanced stages, countries can develop medium-term expenditure frameworks, improve accounting standards and financial

statements, and enhance cash and debt management capacity, increasing transparency and accountability to deepen the state–citizen contract (e.g., Sierra Leone in the early 2010s). Digitization is often part of the reform agenda.

Reinforced by fiscal transparency and independent external oversight, strong fiscal governance can expand fiscal revenues by changing the tax compliance culture. Although tax administration measures can provide an initial boost to fiscal revenues, there is broader scope for revenue increases through strengthening institutions that ensure transparent and efficient public expenditures and public service delivery. This requires a positive feedback loop between institutions and taxation: tax revenues would finance public services, which would reinforce a functional social contract and facilitate further revenue mobilization. Notable examples are Georgia and Rwanda, which sustained broader reform momentum after the initial measure to fight corruption and strengthen fiscal institutions (IMF 2019a). The former saw an increase of tax revenues by 13 percentage points of GDP over five years, whereas the latter realized 5 percentage points over 10 years. In DRC, research has also pointed out that when citizens observe taxes being collected in a systematic, non-arbitrary manner, they are likely to view positively the procedural performance of the government, increasing their intrinsic motivation to comply (Weigel and Ngindu 2023).

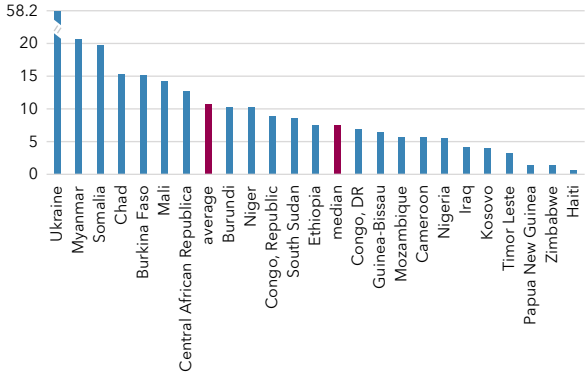
Medium-term fiscal frameworks and fiscal rules can support fiscal discipline, helping to rebuild fiscal buffers and reduce economic vulnerability to shocks. Despite the urgency of dealing with fragility and development needs, it is important to balance immediate spending pressures with efforts to tackle long-term issues, including rebuilding fiscal buffers and addressing debt vulnerabilities. As countries progress toward stability, governments can improve fiscal discipline and reduce the risk of fiscal dominance, including through medium-term frameworks or through legislation that promotes fiscal responsibility and establishes fiscal rules. Weak institutions and low capacity may call for simple rules, such as a debt-to-GDP anchor with a budget balance limit; the risk of contingent liabilities calls for a broader definition of debt in such rules. In resource-rich countries, revenue management frameworks that require saving commodity revenue windfalls can be prioritized. In this context, IMF programs often include non-resource primary balance or non-resource tax revenues indicators to guide fiscal policy adequately (e.g., Congo Republic, Mauritania, Papua New Guinea, South Sudan).

Last, across FCS it is essential to ensure that security spending is effectively integrated in the budget cycle. Especially in conflict-affected countries, a surge in spending on the military may be necessary to tackle insurgencies and reestablish territorial control. However, high security sector expenditures can undermine fiscal sustainability, crowd out development spending, and weaken budget transparency if large portions are off-budget. Half of the 23 FCS for which data are available allocate more than 7.5 percent of their expenditures to armed forces (Figure 20, panel 1), with five countries spending more than 15 percent.[34] In the Sahel and the Central African Republic, rising security spending was absorbing on average 25 percent of fiscal revenues before grants in 2022, crowding-out priority spending on public services (IMF 2023b). Whereas FCS consistently spend more on defense than other countries (Figure 20, panel 2), increasing regional conflicts and instability may also result in rising security spending in non-FCS. A better integration of security spending into budget cycles would therefore contribute to fiscal sustainability, allocative efficiency, and transparency of public finances.

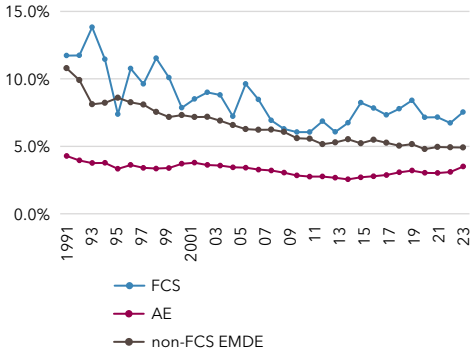
[34] This figure does not consider additional costs of peacekeeping missions and bilateral security provision—the collective budget for nine active UN peacekeeping missions approved for the period July 2024–June 2025 is US$5.6 billion. See United Nations data (https://digitallibrary.un.org/record/4053274?ln=en&v=pdf).

Figure 20. Military Spending in FCS

1. Military Expenditure by FCS
(% of government spending, 2023)



2. Military Spending across Country Groups
(% of government spending, median)



Source: Authors calculations based on the Stockholm International Peace Research Institute (SIPRI)'s Military Expenditure Database.

Note: AE = advanced economy; EMDE = emerging market and developing economy; FCS = fragile and conflict–affected states.

Equitable Distribution of Gains and Safety Nets to Support Social Cohesion

Distributional implications of macroeconomic policies and structural reforms are particularly sensitive under fragility. Economic development and policy reforms typically create winners and losers. Effective communication strategies and mitigation measures, together with broader steps to build trust and control corruption, are important to increase social acceptance of reforms in all countries (IMF 2024e). In the context of institutional fragility, disruptions from reform redistributions could be more pronounced because of preexisting tensions and, therefore, need to be analyzed in more detail (IMF 2022). For instance, while FDI supports private sector development, facilitates technological transfer and economic diversification (IMF 2025c), it can displace local economic actors and exacerbate local conflicts (Brazys, de Sousa, and Vadlamannati 2025). In Sub-Saharan Africa, FDI involving land-intensive activity can increase local grievances and violence in countries where livelihoods depend on agriculture (Sonno 2025), whereas mining activity is associated with a higher risk of conflict (Berman and others 2017). Similarly, the distributional impacts of reforms in areas such as taxation, monetary and exchange rate policies, and capital controls should be carefully assessed to identify fragility risks and mitigation measures.

More effective and expanded social safety nets can help mitigate the impact of reforms on vulnerable populations. This paper finds that FCS tend to spend less than non-FCS on social spending (in extreme cases, public employment often acts as a safety net).[35] There is often a need to expand the coverage and benefits of social safety nets tailored to country circumstances, reflecting existing mechanisms, capacity constraints, political support, and perceptions of fairness (IMF 2024c). At the same time, many countries have space for savings from better targeting of benefits to the poorest segments. To progressively expand and target social safety nets, practical steps can be taken to take stock of existing programs and rationalize these into basic safety nets that can then be scaled up. This often requires investments in the authorities' capacity to design and implement such programs—for example, in Afghanistan—and coordination between development and humanitarian agencies—for example, in Yemen (Ghorpade and Ammar 2021).

[35] In FCS, social safety nets and social protection programs are often donor-funded and implemented by UN agencies and NGOs. They typically include cash and in-kind transfers and school feeding and public works programs (Cooper 2018).

Alternative mitigation mechanisms that are less dependent on the state could also be an option. For example, increasing financial inclusion can serve as a safety net by providing stable access to finance and an enabling environment for remittance inflows, in the context of limited, if any, formal public social programs (IFAD and World Bank 2015). Examples include mobile banking to help overcome safety and infrastructure challenges in Sudan and community-based finance being preferred because of low trust in the formal financial sector in Lebanon (Cook and others 2024).[36] More broadly, lowering transaction costs and fostering formal transfer channels could facilitate remittances inflow.

Furthermore, economic policies can play an important role in preventing the escalation of fragility risks into potential conflict. Research has shown that the risk of conflict is reduced when governments improve their fiscal position and capacity, using additional tax revenue to deliver better services and inclusive economic development (World Bank 2025a). In addition, when unemployment is high, the likelihood and intensity of violence increase (when people have jobs, they are less likely to pick up arms). Hence, expanding job opportunities and a resilient labor market is key to prevention. Although the outcome is not always certain, such measures can be cost-efficient if implemented successfully, especially in preconflict situations: returns from US$1 spent on conflict prevention—for instance, by investing in community development—can range from US$26 to US$75 for countries without recent violence and could be as high as US$103 for countries with recent violence (Mueller and others 2024). Conversely, development or aid programs can sometimes worsen conflict if they do not jointly address both poverty and political instability (Rohner and Thoenig 2021).

D. Policy Considerations beyond FCS

The policy agenda to bolster government functions and reinforce institutions is also relevant for countries with marginal institutional fragility. As discussed in the IMF's Staff Guidance Note on the Implementation of the FCS Strategy (IMF 2023c), it is important to address fragility considerations beyond FCS to build resilience and prevent the materialization of fragility and conflict risks, in particular in cases where these risks are rising and may entail macrocritical implications. This is, for example, relevant for countries such as Liberia, Malawi, or Sierra Leone, which are not currently classified as FCS but have institutional fragility scores (such as CPIA) that are close to the relevant threshold and may be considered "borderline cases." Capacity and political constraints, limitations to implementing fiscal adjustment, mounting spending pressures, and social tensions are still highly relevant in shaping macroeconomic policy and structural reforms in such contexts.

Countries with higher institutional capacity can face policy choices influenced by some fragility dimensions. The paper has shown that issues such as insecurity and organized crime, social unrest, poor access to health and education, or weak social protection can negatively impact macroeconomic outcomes in countries that have relatively strong institutions and policies, good governance, and a developed financial sector. For example, a 10 percent increase in homicides in Latin America was found to lower economic activity by about 4 percent at the municipal level, implying that halving homicide rates could boost economic activity at the local level by an average of 30 percent (Bisca and others 2024). In such settings, policymakers can play an important role in reducing the direct costs of fragility while generating indirect economic benefits through stronger long-term growth and higher tax revenues. More specifically, macroeconomic stability, low inflation, robust social safety nets, reducing inequality, and expanding access to education and employment were found to be critical to break the cycle of violence and stagnation in Latin America (Bisca and others 2024). That said, the political economy of such reforms might be affected by their upfront costs, often interfering with vested interests, whereas the growth benefits can be dispersed and accumulate only over time.

[36] Such schemes promote financial inclusion on a limited scale and come with limited oversight, governance, and consumer-protection mechanisms, which can exacerbate fragility challenges in case of negative developments.

6. International Support to Address Fragility

Tackling fragility remains a key global priority. FCS, which have weaker institutions and coping capacities, require continued engagement and assistance. Amid limited resources, it is critical for the international community to offer well-tailored policy advice, capacity building, and financing to strengthen core economic functions. Across other countries, it is important to account for and address fragility risks, especially when these risks are on the rise and become macrocritical.

A. Multilateral Assistance to FCS

Amid intensifying conflict and fragility trends, which generate protracted development challenges and costly spillovers, IFIs have stepped up their support for FCS in recent years. Since 2020, the World Bank, African Development Bank, Asian Development Bank, and European Investment Bank have adopted strategies to strengthen their engagement with these countries. The Inter-American Development Bank adopted a territorial approach to address subnational "pockets of fragility" in MICs suffering from high levels of organized crime. These strategies converge on a broadly similar playbook to tackle fragility: addressing root causes, emerging risks, and drivers of instability through a mix of analytics and preventive action, operational responses, and financing (ADB 2021; World Bank 2020c; AfDB 2022; EIB 2022; IDB 2024).

Recognizing that the implications of fragility and conflict are macrocritical and directly relevant to the Fund's mandate, the IMF adopted its FCS Strategy in 2022. Through longer-term engagement and cooperation with partners, the Fund aims to support FCS in achieving macroeconomic stability, strengthening resilience, and promoting inclusive growth to help them eventually exit fragility. The FCS Strategy is complementary to other IFI approaches. Key measures are structured around four pillars: (i) rolling out CES to diagnose key drivers of fragility and conflict to inform IMF engagement (Box 2); (ii) scaling up CD to strengthen economic institutions in FCS and adapting delivery to local capacity constraints; (iii) expanding the IMF's field footprint to enhance support for authorities; and (iv) building stronger partnerships with humanitarian, development, and peace actors, consistent with the IMF's mandate and comparative advantage. The CES have led to greater awareness of fragility and conflict risks, a more nuanced understanding of reform constraints, tailored technical assistance, and deeper engagement with authorities and partners on policy discussions. CD support has grown significantly, including through regional advisers in IMF training centers, and the Fund's field footprint has expanded. Meanwhile, the Fund's analytical work on fragility, conflict, and macroeconomic outcomes has continued to grow (Annex 6).

Looking ahead, FCS warrant continued engagement and amid systemic changes in the development landscape. In the context of multiple competing global challenges and policy priorities, total ODA in 2024 fell by about 9 percent in real terms compared with 2023, and ODA flows may decline further by 9–17 percent in 2025 (OECD 2025a). It is thus especially important to direct resources to policies, reforms, and programs that can be most impactful in helping FCS to exit fragility, building on practical lessons from the implementation of FCS strategies and further analytical work on the nexus between fragility, development and macroeconomic outcomes.

IFIs and the international community can support FCS-led efforts to build or enhance core economic functions. There is no substitute for strong political will and national commitment to implement domestic policies to exit the fragility trap. However, drawing on the policy agenda developed in Section 5, the following areas can be seen as important to shape engagement and guide reforms:

- **Tailored policy advice to strengthen macroeconomic stabilization, public service delivery, and market-based resource allocation.** For these measures to succeed, they must be complemented by nationally driven efforts to create more inclusive political systems and restore state legitimacy, such as good governance and more effective security provision. Thus, policy calibration to the country-specific fragility context is critical for effective multilateral assistance. For example, fiscal adjustments in FCS must be carefully sequenced, combining efforts to strengthen revenue and reduce debt vulnerabilities with the protection of social and infrastructure spending. Prioritizing public service delivery is important to make an immediate, visible impact on people's lives, but also to address long-standing drivers and reinforce trust in the state. In FCS where security sector expenditures are rising, analysis of spending patterns can inform a dialogue between economic and security policymakers and shed light on fiscal implications (Harborne, Dorotinsky, and Bisca 2017).

- **Capacity development that is integrated with tailored policy advice remains critical to engagement across the fragility spectrum.** Technical assistance and training can help improve economic decision-making abilities and policy functions, such as macrofiscal management, revenue mobilization and expenditure prioritization, the ability to collect accurate economic statistics, or financial sector development and regulation. For instance, capacity building to increase fiscal revenues and efficiently calibrate spending to avoid additional imbalances such as inflation or a wider current account deficit is essential to ensure progress toward development (IMF 2025a).[37] Strengthening economic management functions and preserving state capacity is especially important during periods of instability and high uncertainty, when adapting to shocks and rapid learning become crucial to effective policy responses and resilience. At this juncture, about 10 FCS economies are experiencing political and security crises that significantly affect their access to international support because of factors such as government recognition issues, active conflict, lack of territorial control, or geopolitical tensions.[38] Even during conflict, the capacity to raise revenues and manage expenditures is critical to preserve state functions, and payment systems are important to maintain economic activity and facilitate relief provided by social safety net mechanisms or aid agencies (IMF 2023b). The Fund has scaled up CD support to FCS in these core areas (Box 3), helping countries raise tax revenues, spend resources more effectively and prioritize public funding toward urgent development needs, keep debt at reasonable levels, enhance central bank operations and price stability, develop the financial sector, and improve data availability and quality for policy decisions.

- **Financial support is critical to complement FCS' own revenue mobilization efforts, expanding the resource envelope for economic development and macroeconomic stabilization.** As discussed in Section 5.A, FCS face multiple obstacles to raise tax revenues such as large informal sectors, the loss of effective control over some parts of their territory, or significant tax evasion. In this context, international financial support can alleviate some of the financing constraints faced by FCS amid high development, humanitarian, and security needs.

- **Engagement with humanitarian, development, and peace actors can help enhance the efficacy of macroeconomic policy reforms in FCS.** With their complementary mandates and extensive field presence, these organizations—whether local or international—provide critical contextual knowledge that helps identify the drivers of fragility, map stakeholder incentives, understand risks, and adapt policies to political, social, and institutional constraints (IMF 2022). At the same time, analyses such as the macrofiscal implications of security spending or refugee inflows can help inform regional cooperation initiatives in noneconomic domains. Cooperation with regional economic institutions could provide further support to countries' financing and reforms.

[37] Chami, Darkey, and Williams (2021) find that technical assistance had a significant and positive direct impact on tax revenues, after accounting for controls suggested by the literature.

[38] These include cases with generally unrecognized governments (Afghanistan, Myanmar, Venezuela); recent military coups (Burkina Faso, Mali, Niger); lack of territorial control and fragmented institutions (Libya, Yemen); or economies in active conflict (Sudan, West Bank and Gaza). In some economies more than one of these conditions apply.

Box 3. Scaling Up Capacity Development to Fragile and Conflict-Affected States (FCS)

The IMF has stepped up capacity development (CD) after the IMF's 2022 FCS Strategy. Recognizing that the path from fragility to stability can take decades, the IMF has included plans to scale up CD to strengthen economic institutions as a core pillar of its strategy in 2022. Since then, over 40 additional long-term experts have been placed in countries and in regional CD centers (RCDCs) to help build authorities' capacity for economic policymaking. These include core areas of fiscal, monetary, and financial sector policy such as boosting tax revenues; controlling and prioritizing government spending; managing public debt; developing well-functioning central banks; establishing or improving financial regulation and supervision; promoting good governance; publishing timely and accurate economic statistics; and building macroeconomic frameworks and basic tools to inform policy decisions. Country examples include:

- Supporting authorities to design and implement a PFM strategy in **Chad**, strengthening tax forecasting capacity in **Mali**, and applying blockchain technology to strengthen wage bill control in **Guinea-Bissau.**
- Modernizing central bank operations and financial sector supervision in **Mozambique, Papua New Guinea,** and **Somalia**, as well as technical assistance on the consumer price index compilation system in Iraq and supporting **Haiti**'s Institute of Statistics and Information Technology on quarterly estimates of GDP.
- Technical assistance to develop macroeconomic frameworks and improve forecasting capacity in **Papua New Guinea** and **Timor-Leste.**
- Assistance to **Chad** on updating statistics for national accounts and to **Yemen** on public sector debt and government finance statistics.

As a result, the IMF's capacity to deliver CD to these countries—with field-based long-term experts working closely with authorities—has increased significantly. This has been especially critical for conflict-affected countries, where remaining engaged through CD is essential to preserve the viability of institutions responsible for economic policymaking in highly constrained environments.

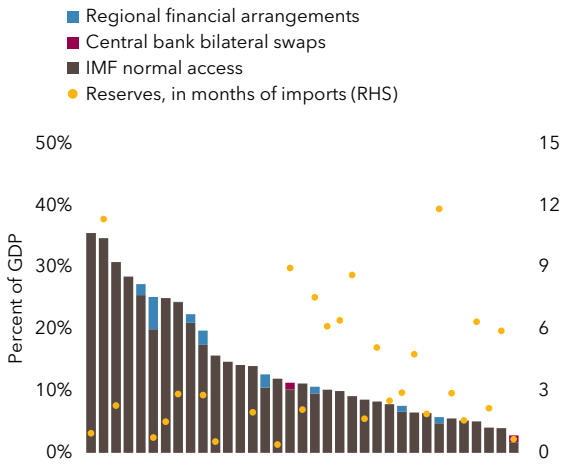
Source: IMF, 2025a.

The IMF plays a unique role in supporting FCS in maintaining macroeconomic stability and addressing balance-of-payments (BOP) needs. Through its mandate, in addition to CD and support to design strong macroeconomic policies, the IMF helps countries by providing short-term financing and catalyzing additional donor financing to smooth the path to address BOP gaps. The goal is to restore macroeconomic stability and rebuild policy buffers to enable countercyclical policies and reduce the dependence on IMF resources. Given FCS' low international reserves and limited access to regional financial arrangements (RFAs) or central bank bilateral swap arrangements (BSAs), the IMF is often a critical part of the Global Financial Safety Net (GFSN) for most of these countries (Iancu, Kim, and Miksjuk 2021; Koosakul and Miksjuk 2024; and Figure 21).[39] Since the start of the pandemic, 23 FCS received emergency financing worth US$9.7 billion and 20 FCS received US$34.6 billion in UCT-quality commitments to resolve underlying BOP challenges and implement deeper reforms. Furthermore, five FCS are supported by the Resilience and Sustainability Trust (RST)

[39] GFSN usually include countries' own international reserves and external resources from the IMF, BSAs, RFAs, and market instruments for insurance against crises. We ignore the latter, given their limited use to date.

(Annex 6). Recent PRGT reforms have aimed to increase the volume of financing available for LICs compared with prepandemic levels to address their BOP needs, while maintaining zero interest rates for the poorest LICs, including 19 FCS. The ongoing Review of Program Design and Conditionality will look specifically at the tailoring of programs to FCS circumstances, while maintaining UCT quality, and how programs with FCS have performed in the period 2018–2024.

Figure 21. GFSN Resources for FCS (End-2024)



Source: Authors' calculations based on Perks and others (2021), IMF data, and RFA annual reports, using the methodology of Iancu, Kim, and Miksjuk (2021).

Note: Each bar represents an FCS ranked by access to external GFSN resources. Eritrea, Syria, and West Bank and Gaza are excluded because of data unavailability. Swaps are based on end-2020 data from Perks and others (2021).

GFSN = Global Financial Safety Net; FCS = fragile and conflict-affected states; GDP = gross domestic product.

B. Addressing Fragility Risks Beyond FCS

Having recognized that fragility manifests as a continuum, it is important to account for fragility risks across (non-FCS) economies. Operational guidance developed to implement the Fund's FCS Strategy highlights the importance of addressing and possibly preventing fragility in non-FCS settings, where risks are rising or intensifying, with serious economic repercussions (IMF 2023c).[40] Fragility risks in non-FCS are often associated with adverse economic outcomes, such as income inequality across groups, the distributional effects of structural reforms, the inability of the state to provide adequate and inclusive social spending, or a large share of natural resource rents to GDP. The empirical evidence presented in this paper confirms that manifestations of fragility in non-FCS can have a negative impact on macroeconomic performance and public finances. Therefore, identifying countries' susceptibility to such risks and research on policy effectiveness to tackle these risks remains an important element of economic surveillance, which could be further informed by alternative measures of fragility. The FCS Strategy underscores that collaboration with partners on early warning analytics and coordination forecasting exercises could be important contributions to prevention efforts (IMF 2022; Mueller and others 2024). Where fragility risks are high and become macrocritical, including "borderline cases" and "pockets of fragility," policy discussions on strengthening functional social contract could be important. For instance, in EMs that are subject to the prevalence of organized crime, IFIs can support national authorities by collecting data and evidence, monitoring crime trends, and facilitating dialogue between policymakers (Goldfajn and Valdés 2024). This approach could be tailored to other dimensions of fragility.

[40] This approach is similar to OECD (2025b).

Annex 1: Definitions of Fragility in Selected Multilateral Organizations

The **Organization for Economic Cooperation and Development (OECD)** characterizes fragility as the combination of exposure to risk and insufficient coping capacities of the state, system, and communities to manage, absorb, or mitigate those risks. With the States of Fragility 2016 report, the OECD introduced a multidimensional framework that captures the diversity of fragile contexts on a spectrum of intensity across six dimensions: economic, environmental, human, political, security, and societal. The human dimension of fragility was introduced in the States of Fragility 2022 report. The States of Fragility 2025 report retained these six dimensions of fragility, noting that fragility is considered universal, with countries experiencing fragility on a spectrum of extreme, high, and medium to low fragility. As such, the traditional label of "fragile context" was dropped.

According to the **g7+ organization of fragile countries**, fragility can be understood as a period when sustainable socioeconomic development requires greater emphasis on complementary peacebuilding and state-building activities, such as building inclusive political settlements, security, justice, jobs, good management of resources, and accountable and fair service delivery. Fragility is categorized in five dimensions: Inclusive Politics, Security, Justice, Economic Foundations, and Revenue and Services (Note on the Fragility Spectrum, 2013).

The **World Bank's** Strategy for Fragility, Conflict, and Violence (2020–2025) defines fragility, conflict, and violence as interrelated phenomena that are often the result of tensions that have evolved over time. Fragile situations tend also to be characterized by the inability or unwillingness of the state to manage or mitigate risks. Violent conflicts occur when organized groups or institutions, sometimes including the state, use violence to settle grievances or assert power. Fragility manifests as a spectrum, including (i) emerging risks; (ii) active conflict; (iii) postcrisis recovery and reconstruction; and (iv) vulnerability stemming from external shocks, such as forced displacement.

The **African Development Bank (AfDB)** definition of fragility has evolved over time. In 2014, it defined fragility as a condition characterized by elevated risk of institutional breakdown, societal collapse, or violent conflict. With the adoption of the Strategy for Addressing Fragility and Building Resilience in Africa (2022–2026), this definition was changed to "a condition where the exposure to internal or external pressures exceeds existing capacities to prevent, respond to, and recover from them, creating risks of instability." The Strategy identifies four stages: (i) increasing risks of conflict or collapse of state functions; (ii) active conflict and prolonged crisis; (iii) signs of turnaround to rebuild and reform; and (iv) decreasing risks and emerging pathways to resilience.

According to the **European Investment Bank's** Strategic Approach to Fragility and Conflict (2022), fragility occurs when a state is either unable or unwilling to manage or mitigate risks, including those linked to social, economic, political, security, or environmental and climatic factors. Conflict occurs when distinct groups have, or believe they have, incompatible goals. This may manifest in a range of ways beyond immediate physical violence, including human rights abuses, exclusion, and inequalities, including around economic resources, political voice, and representation.

The **Asian Development Bank (ADB)** adopted the OECD's definition but in 2023 categorized drivers of fragility across four dimensions that are most relevant for the Asia-Pacific: (i) structural and environmental, including endogenous or fixed factors that cannot be altered or are slow to change such as geography or exposure to natural disasters, as well as exogenous features such as climate events; (ii) the economic dimension, referring to

the state's capacity to deliver sustainable economic growth with shared distribution of benefits across society; (iii) institutional—state capacity and effectiveness at different administrative levels; and (iv) political and societal, accounting for the capacity of existing sociopolitical systems to broker greater alignment between society and the state.

The **Inter-American Development Bank's** Framework to Support Populations in Situations of Fragility, Conflict and Criminal Violence (2024) defines fragility as the insufficient capacity of the state, or the subsystems within it, to deliver basic public services and create the needed resilience to mitigate, manage, or recover from shocks. Conflicts are defined as situations where organized groups, sometimes including the state, use violence to settle grievances or assert power, generally linked to political agendas; and criminal violence as scenarios marked by high levels of interpersonal and organized violence, including the use of force, or the threat of the use of force, linked to criminal activities.

Annex 2: Heterogeneity in FCS

A. CPIA and Conflict as the Basis for FCS Classification

FCS are a heterogeneous group and include countries with different intensity of fragility, conflict, and aggravating structural factors. To capture these differences, this paper splits all EMDEs (FCS and non-FCS as their comparator group) along two dimensions: the degree of institutional fragility and the intensity of conflict (Section 2, Table 1).

By degree of institutional fragility, the paper distinguishes three levels by applying Country Policy and Institutional Assessment (CPIA) scores:

- ***Intense, or high, fragility:*** FCS with high level of institutional and social fragility as defined in the current FCS classification methodology used by the IMF and the World Bank (predominantly LICs with CPIA score below 3.0).
- ***Marginal, or borderline, fragility:*** countries with a CPIA score below 3.2 (the benchmark used by the World Bank before 2020) that are not classified under intense fragility (predominantly LICs with CPIA scores between 3.0 and 3.2).
- ***Low fragility:*** all other countries.

Conflict reflects a stand-alone dimension of fragility, representing a realization of fragility risks—often across multiple dimensions. In line with the Fund's current FCS classification methodology, conflict-affected states are identified based on the number of conflict deaths in absolute terms and relative to their population.[41] Conflict undermines state capacity, legitimacy, and broader social cohesion. It also has devastating economic effects through channels including loss of life and forced displacement, destruction of human capital and infrastructure, economic disruptions and uncertainty, diversion of public expenditures toward military spending, dissaving, and capital outflows (Collier 1999; Rother and others 2016; IMF 2019b; Novta and Pugacheva 2020; Mueller and others 2024). Unsurprisingly, conflict is an important element of the FCS classification.

For the purpose of economic analysis, it is also important to recognize structural characteristics that can reinforce the impact of fragility on institutions, policies, and economic performance. Some of these aggravating structural factors include:

- ***Fuel-export dependence:*** Resource-rich countries have a large share of national wealth concentrated in a few industries, which often leads to rent seeking, the establishment of extractive institutions (Acemoglu, Johnson, and Robinson 2001), and sometimes to conflict. Such countries often experience the so-called natural resource curse, with poor economic performance attributed to weak institutions as well as to the resource-induced real exchange rate appreciation trend known as Dutch disease (Corden and Neary 1982). Fuel-exporting economies tend to have some of the largest resource sectors.

[41] The two sources for data are the Armed Conflict Location and Event Data Project (ACLED) and the Uppsala Conflict Data Project (UCDP). The countries in conflict are (i) those with (a) an absolute number of conflict deaths above 250 according to ACLED and 150 according to UCDP; and (b) above 2 per 100,000 population according to ACLED and above 1 according to UCDP; or (ii) countries with a rapid deterioration of the security situation, as measured by (a) an absolute number of conflict deaths above 250 according to ACLED and 150 according to UCDP; (b) a lower number of conflict deaths relative to the population between 1 and 2 (ACLED) and 0.5 and 1 (UCDP); and (c) more than a doubling of the number of casualties in the past year.

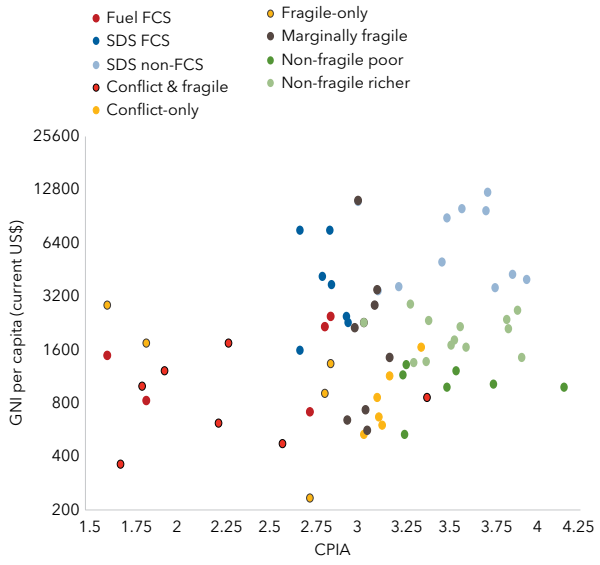
- ***Small developing states (SDS):*** Small population size and lack of economies of scale in SDS often constrain their institutional capacity, including through institutional under-staffing, high turnover, and emigration of qualified staff. In addition, SDS often have narrow production bases, further constraining growth and amplifying vulnerability to macroeconomic shocks and natural disasters (IMF 2024d). Thus, small size can amplify the challenges of fragility associated with weak institutional capacity and ability to mitigate shocks.

B. FCS Subgroups

A typology of relatively homogeneous FCS subgroups can be derived based on the two dimensions of fragility discussed earlier and the aggravating structural factors.[42] For analytical purposes, EMDEs have been split into non-overlapping subgroups—nine subgroups of LICs and five subgroups of EMs—by sequentially applying this classification (Figure A2.1 and Table A2.1). First, LICs and EMs can be separated into *fuel exporters* and *non-fuel-exporters*, with the latter further split into *SDS* and *"other" countries*. For fuel exporters, SDS, and "other" EMs, a breakdown into FCS and non-FCS subgroups is provided (with empty subgroups removed). For "other" LICs, a more nuanced disaggregation according to fragility intensity and conflict has been conducted, differentiating between cases where intense fragility (*fragile-only*), conflict (*conflict-only*), or both (*fragile-and-conflict*) are present, as well as cases of *marginal fragility* and *low fragility*.

Figure A2.1. Policy, Institutions, Governance, and Income across LICs and EMs

1. CPIA in LICs

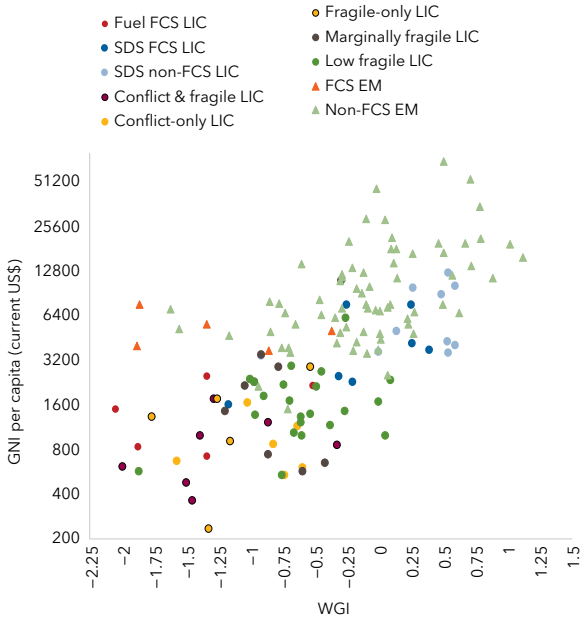


Source: Authors' calculations based on WB WDI and WB CPIA data.

Note: Subgroup classification corresponds to the 9 LIC subgroups in Box 2 and Table A2.1.

Note: CPIA = Country Policy and Institutional Assessment; FCS = fragile and conflict-affected states; GNI = gross national income; LIC = low-income country; SDS = small developing states; WB = World Bank; WDI = World Development Indicators.

2. WGI in LICs and EMs



Source: Authors' calculations based on WB WDI and WGI data.

Note: Subgroup classification corresponds to the 9 LIC and 5 EM subgroups in Box 2 and Table A2.1.

Note: EM = emerging market; FCS = fragile and conflict-affected states; GNI = gross national income; LIC = low-income country; SDS = small developing states; WB = World Bank; WDI = World Development Indicators; WGI = Worldwide Governance Indicators.

[42] This would allow better identification of the impact of different elements of fragility on macroeconomic outcomes. The natural limitation of such detailed breakdown is the small size of groups, varying from 4 to 17.

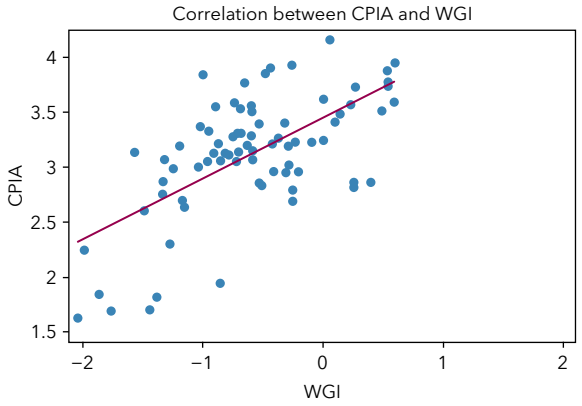
Countries within these groups share similar levels of fragility and economic characteristics. In particular, conflict-and-fragile LICs and fragile fuel-exporting LICs are the two groups with the lowest CPIA and governance scores, whereas LICs and EMs with low fragility naturally perform the best. The groups are also homogeneous in their economic structure: most fragile and half of marginally fragile cases are primary commodity exporters; non-FCS SDS are predominantly exporters of services such as tourism; and most of the remaining cases with low fragility are either diversified or manufacturing exporters.

The concept of FCS captures economies with the most intense fragility and goes beyond the group of poorest LICs in terms of income. For example, the correlation between the CPIA score and income (GNI per capita) is relatively low at 0.32, indicating that countries can have relatively strong institutions but still be poor, or be relatively rich yet have weaker institutions. Indeed, the poorest LICs represent almost half of all FCS, with income below the IDA threshold (18 out of 38 FCS cases), but there are also 11 non-FCS within this group of poorest countries.

C. Alternative Measures of Fragility: WGI and OECD Scores

Alternative measures of fragility share common patterns but also show notable differences. Measures of policies and governance are correlated: for countries with publicly available CPIA scores, the correlation between CPIA and the WGI score is 0.64 (Figure A2.2). The OECD and CPIA scores also identify similar sets of the most vulnerable cases: two-thirds of OECD cases of extreme fragility coincide with the most vulnerable FCS subgroups—fuel-exporting FCS and conflict-and-fragile FCS (Table A2.1 and Figure A2.1). However, differences remain across these alternative measures. One example is SDS: FCS SDS have low CPIA scores, but many of them have relatively high WGI scores and relatively benign OECD scores.

Figure A2.2. CPIA and WGI across EMDEs



Source: Authors' calculations based on WB CPIA and WGI.
Note: Correlation equals 0.64.
CPIA = Country Policy and Institutional Assessment; EMDE = emerging market and developing economy; WGI = Worldwide Governance Indicators.

Table A2.1. Income and Export Structure across Non-overlapping EMDE Subgroups

	Total	Poorest (<IDA thr.)	Richer (>IDA thr.)	Fuel	Nonfuel Commodities		Diversified	Manufacturing	Tourism	Other serv. & Transfers	OECD Extr. frag.
					Extractives	Agricultural					
EMDEs	**155**	**29**	**126**	**26**	**20**	**15**	**37**	**17**	**9**	**29**	**15**
o/w FCS	38	18	20	9	4	12	7	1	1	2	14
o/w non-FCS	117	11	106	17	16	3	30	16	8	27	1
LICs	**70**	**29**	**41**	**5**	**10**	**15**	**18**	**5**	**9**	**7**	**13**
Fuel exporters FCS	5	3	2	5	0	0	0	0	0	0	4
SDS FCS (ex. fuel)	7	0	7	0	0	4	1	0	1	1	0
SDS non-FCS	11	0	11	0	0	0	1	0	8	2	0
Conflict & fragility	7	6	1	0	1	4	1	1	0	0	5
Conflict (no fragility)	7	6	1	0	2	0	4	0	0	0	2
Fragility (noconflict)	5	3	2	0	1	4	0	0	0	0	2
Marginal fragility	7	3	4	0	2	2	2	1	0	0	0
Poor non-fragile	8	8	0	0	1	0	4	1	0	2	0
Richer non-fragile	13	0	13	0	3	1	5	2	0	2	0
EMs	**85**	**0**	**85**	**21**	**10**	**0**	**19**	**12**	**0**	**22**	**2**
Fuel exporters FCS	4	0	4	4	0	0	0	0	0	0	1
Fuel exporters non-FCS	17	0	17	17	0	0	0	0	0	0	1
SDS non-FCS	14	0	14	0	1	0	1	0	0	12	0
Other FCS	3	0	3	0	0	0	1	0	0	1	0
Other non-FCS	47	0	47	0	9	0	17	12	0	9	0

Source: Authors' calculations based on the IMF WEO data, IMF-WB 2025 FCS list, IMF list of PRGT-eligible countries, OECD (2022), WB CPIA, and UN COMTRADE data.

Note: The column "Total" shows the number of countries in each group. The columns "Poorest" and "Richer" show the number of countries in each group with income below and above the IDA threshold. The columns "Fuel," "Nonfuel commodities," "Diversified," "Manufacturing," and "Tourism and services" indicate the number of countries with the respective WEO classification of export structure (with COMTRADE data used to disaggregate nonfuel commodities into extractive and agricultural). The column with OECD classification "extr.frag." is provided for comparison purposes and indicates the OECD (2022) classification of contexts facing extreme fragility.

CPIA = Country Policy and Institutional Assessment; EMDE = emerging market and developing economy; FCS = fragile and conflict-affected states; IDA = International Development Association; LIC = low-income country; MIC = middle-income country; OECD = Organization for Economic Cooperation and Development; PGRT = Poverty Reduction and Growth Trust; SDS = small developing states; UN = United Nations; WB = World Bank; WDI = World Development Indicators; WEO = World Economic Outlook; WGI = Worldwide Governance Indicators.

Annex 3: Assessing the Relationship between Fragility and Long-Term Economic Outcomes

A. Methodology and Estimates Using CPIA and WGI Scores

The examination of long-term economic outcomes in the context of institutional fragility (Section 3.B) uses cross-sectional analysis. Estimates of the relationship between institutional fragility and long-term macroeconomic and public finance developments (Tables A3.1–A3.3) are obtained through cross-sectional regressions using ordinary least squares (OLS). Two measures of institutional fragility are considered: the CPIA and WGI scores. For the CPIA score, the sample includes all countries for which the score is publicly available, most of which are LICs. For the WGI score, the sample includes all EMDEs with standardized scores z_WGI < 0 (Table A3.5); estimates are not significant for countries with better governance (i.e., z_WGI > 0). Three control variables are included to account for differences in economic structure, public finance, and potential economic convergence: dummy variables for small developing states (SDS) and fuel exporters (Fuel), and logged GNI per capita in current USD (log_GNIPC). Cross-sectional regressions are estimated for a range of macroeconomic, public finance, and financial development indicators as shown in Tables A3.1–A3.3. All dependent variables are measured as 20-year averages for 2005–2024, whereas explanatory variables are taken at their most recent values, given their persistence. Data sources include the IMF WEO database (real GDP growth, BOP indicators, SDS, and fuel-exporting status), IMF GFS database (public finance indicators), IMF Financial Development Indicators, and the World Bank and affiliated data (GNIPC, CPIA, WGI).

The analysis is augmented to estimate the impact of violence (Section 3.C). Homicide rates are included in the model specifications for long-term growth (Table A3.4). The data on homicide rates is from United Nations Office on Drugs and Crime (UNODC), taken as a 20-year average. It is important to note that homicide data is unavailable for many LICs, including countries with low governance scores (z_WGI < 0). Because of these data limitations, results in Tables A3.1–A3.3 and Table A3.4 are not directly comparable.

Table A3.1. Regression Results for Countries with CPIA Scores

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) bxgs_gdp_bp6
CPIA	1.682***	−0.581	−4.045	3.547**	−3.728**	−3.059	−4.082	2.249
	(0.541)	(0.957)	(3.752)	(1.513)	(1.580)	(3.074)	(6.572)	(5.124)
SDS	−1.581*	−1.320	22.56***	0.734	13.26***	5.440	−4.825	4.546
	(0.807)	(1.428)	(5.594)	(2.325)	(2.372)	(4.583)	(9.777)	(7.640)
Fuel	0.829	−3.494**	0.0590	−0.640	−3.125	18.14***	−23.32**	3.532
	(0.919)	(1.595)	(6.373)	(2.508)	(2.685)	(5.221)	(11.07)	(8.705)
log_GNIPC	0.246	0.784	0.0718	2.032*	−2.429*	−2.216	5.770	7.049*
	(0.431)	(0.753)	(2.987)	(1.216)	(1.258)	(2.447)	(5.213)	(4.080)
Constant	−2.795	−4.623	30.23	−13.12	31.85***	18.52	17.20	−33.14
	(2.908)	(5.046)	(20.16)	(8.063)	(8.492)	(16.52)	(34.92)	(27.54)
Observations	71	70	71	67	70	71	69	71
R-squared	0.200	0.077	0.358	0.255	0.428	0.215	0.075	0.169

Note: (1) Real GDP growth, annual (ngdp_rpch); (2) General government, primary balance, share of GDP (ggxonlb_gdp); (3) General government, revenue, share of GDP (ggr_gdp); (4) General government, tax revenue, share of GDP (ggrt_gdp); (5) General government, grants revenue, share of GDP (ggrg_gdp); (6) Current account balance, share of GDP (bca_gdp_bp6); (7) Total external debt, share of GDP (d_gdp); (8) Exports of goods and services, percent of GDP in US dollars (bxgs_gdp_bp6).
CPIA = Country Policy and Institutional Assessment; GNIPC = gross national income per capita; SDS = small developing states.

Table A3.1. Regression Results for Countries with CPIA Scores (continued)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Variables	**ggxgdp**	**reserves**	**FD**	**fdi_in**	**GF01**	**GF02**	**GF03**	**GF04**	**GF05**	**GF06**	**GF07**	**GF08**	**GF09**	**GF10**
CPIA	−3.122	0.208	0.0426***	1.007	2.786	−2.323	−0.467	8.433	−0.0103	−0.706	1.132	−0.162	2.314	5.091**
	(3.802)	(0.675)	(0.0142)	(1.282)	(2.362)	(3.528)	(1.898)	(4.464)	(0.238)	(0.754)	(1.082)	(0.304)	(1.393)	(2.034)
SDS	22.75***	1.399	−0.0272	1.360	15.11**	5.234	8.395*	34.97***	0.664	−1.458	5.953**	−0.322	5.846*	6.725
	(5.668)	(0.972)	(0.0194)	(1.869)	(4.772)	(7.129)	(3.835)	(9.020)	(0.480)	(1.523)	(2.186)	(0.615)	(2.815)	(4.110)
Fuel	3.739	0.195	−0.0185	−0.629	1.112	−4.155	−3.272	13.40*	−0.156	0.888	−1.135	0.235	1.761	4.877
	(6.458)	(1.106)	(0.0223)	(2.326)	(3.379)	(5.048)	(2.716)	(6.388)	(0.340)	(1.078)	(1.548)	(0.436)	(1.994)	(2.911)
log_GNIPC	−0.313	−0.257	0.0459***	0.132	−3.913	−5.142	−4.406	−14.70**	−0.115	1.708	−1.308	0.492	−1.602	−3.843
	(3.027)	(0.519)	(0.0105)	(1.018)	(2.941)	(4.394)	(2.364)	(5.560)	(0.296)	(0.939)	(1.347)	(0.379)	(1.736)	(2.534)
Constant	32.31	5.271	−0.321***	−0.0879	24.04	48.14*	35.12**	84.95**	1.030	−8.987	7.973	−2.585	8.830	15.28
	(20.43)	(3.530)	(0.0747)	(7.065)	(16.67)	(24.90)	(13.40)	(31.50)	(1.678)	(5.319)	(7.633)	(2.148)	(9.833)	(14.36)
Observations	71	68	67	68	12	12	12	12	12	12	12	12	12	12
R-squared	0.349	0.043	0.460	0.041	0.728	0.497	0.580	0.818	0.353	0.422	0.664	0.324	0.624	0.602

Note: (1) Government expenditure; (2) FX reserves; (3) IMF Financial Development aggregate index; (4) FDI inflow; (5) GF01: Expenditure on general public services; (6) GF02: Expenditure on defense; (7) GF03: Expenditure on public order and safety; (8) GF04: Expenditure on economic affairs; (9) GF05: Expenditure on environment protection; (10) GF06: Expenditure on housing and community amenities; (11) GF07: Expenditure on health; (12) GF08: Expenditure on recreation, culture, and religion; (13) GF09: Expenditure on education; and (14) GF10: Expenditure on social protection. All dependent variables are in percent of GDP, except for FX reserves (months of imports) and the FD index.

Standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.,

CPIA = Country Policy and Institutional Assessment; FD = financial development; GNIPC = gross national income per capita; SDS = small developing states.

Table A3.2. Regression Results for Countries with z_WGI < 0

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) bxgs_gdp_bp6
z_WGI	1.424**	−0.698	3.802	3.834**	1.583	2.297	−8.746	−5.423
	(0.586)	(0.916)	(2.897)	(1.904)	(1.149)	(2.819)	(10.04)	(5.100)
SDS	0.207	−2.565**	7.588**	0.118	8.312***	6.534*	−8.180	17.24***
	(0.696)	(1.065)	(3.437)	(2.152)	(1.355)	(3.345)	(11.45)	(5.820)
Fuel	0.122	−0.501	6.897**	−2.737	0.976	13.70***	−25.38**	−0.808
	(0.654)	(1.003)	(3.233)	(2.020)	(1.297)	(3.146)	(10.77)	(5.474)
log_GNIPC	−0.433	1.028**	3.258**	1.041	−2.019***	0.221	6.249	7.720***
	(0.275)	(0.426)	(1.359)	(0.867)	(0.557)	(1.322)	(4.628)	(2.352)
Constant	8.206***	−9.126**	−1.216	9.192	18.36***	−5.569	−4.083	−34.38*
	(2.393)	(3.717)	(11.82)	(7.594)	(4.789)	(11.51)	(40.45)	(20.56)
Observations	99	98	99	95	94	99	98	98
R-squared	0.078	0.109	0.282	0.168	0.351	0.253	0.062	0.226

Note: (1) Real GDP growth, annual (ngdp_rpch); (2) General government, primary balance, share of GDP (ggxonlb_gdp); (3) General government, revenue, share of GDP (ggr_gdp); (4) General government, tax revenue, share of GDP (ggrt_gdp); (5) General government, grants revenue, share of GDP (ggrg_gdp); (6) Current account balance, share of GDP (bca_gdp_bp6); (7) Total external debt, share of GDP (d_gdp); and (8) Exports of goods and services, percent of GDP in US dollars (bxgs_gdp_bp6).
GNIPC = gross national income per capita; SDS = small developing states; WGI = World Governance Indicators.

Table A3.2. Regression Results for Countries with z_WGI < 0 (continued)

	(1)	(2)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Variables	ggxgdp	ggxgdp^	reserves	FD	fdi_in	GF01	GF02	GF03	GF04	GF05	GF06	GF07	GF08	GF09	GF10
z_WGI	4.766	7.364**	0.0658	0.0435	1.226	2.125	0.161	0.454	7.657**	−0.0254	−0.439	0.617	−0.391*	1.314	2.100
	(2.966)	(3.000)	(1.338)	(0.0288)	(1.223)	(1.417)	(2.517)	(1.560)	(3.667)	(0.110)	(0.519)	(0.831)	(0.201)	(1.084)	(3.011)
SDS	9.818***	10.13***	−2.547*	−0.123***	1.379	6.187***	0.692	1.278	17.17***	0.0565	1.999***	1.557	0.714***	2.941**	0.122
	(3.519)	(3.400)	(1.483)	(0.0323)	(1.334)	(1.816)	(3.068)	(1.880)	(4.420)	(0.133)	(0.626)	(1.002)	(0.243)	(1.306)	(3.629)
Fuel	6.151*	5.409*	1.879	−0.0545*	−0.560	0.427	0.371	0.342	10.18***	−0.0215	−0.142	−0.847	−0.175	0.372	0.00638
	(3.310)	(3.217)	(1.362)	(0.0311)	(1.334)	(1.228)	(2.172)	(1.266)	(2.978)	(0.0894)	(0.421)	(0.675)	(0.163)	(0.880)	(2.445)
log_GNIPC	2.067	1.164	1.560***	0.0818***	−0.622	−0.889	−2.443*	−0.817	−5.233***	0.0170	0.474*	0.295	0.286***	−0.610	1.142
	(1.391)	(1.379)	(0.589)	(0.0129)	(0.549)	(0.682)	(1.228)	(0.733)	(1.722)	(0.0517)	(0.244)	(0.390)	(0.0945)	(0.509)	(1.414)
Constant	10.99	19.63	−6.567	−0.387***	9.482*	13.58**	22.86*	9.154	52.13***	0.0610	−2.941	0.753	−1.986**	10.04**	−1.174
	(12.11)	(12.06)	(5.175)	(0.112)	(4.792)	(6.316)	(11.39)	(6.854)	(16.12)	(0.484)	(2.281)	(3.653)	(0.884)	(4.763)	(13.23)
Observations	99	97	95	95	93	30	28	29	29	29	29	29	29	29	29
R-squared	0.241	0.261	0.185	0.496	0.044	0.406	0.295	0.107	0.635	0.011	0.398	0.300	0.413	0.264	0.197

Note: (1) Government expenditure; (2) FX reserves; (3) IMF Financial Development aggregate index; (4) FDI inflow; (5) GF01: Expenditure on general public services; (6) GF02: Expenditure on defense; (7) GF03: Expenditure on public order and safety; (8) GF04: Expenditure on economic affairs; (9) GF05: Expenditure on environment protection; (10) GF06: Expenditure on housing and community amenities; (11) GF07: Expenditure on health; (12) GF08: Expenditure on recreation, culture, and religion; (13) GF09: Expenditure on education; and (14) GF10: Expenditure on social protection. All dependent variables are in percent of GDP, except for FX reserves (months of imports) and the FD index.

^ Excluding Eritrea, Iraq, Libya, South Sudan.

Standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

FD = financial development; GNIPC = gross national income per capita; SDS = small developing states; WGI = World Governance Indicators.

Table A3.3. Regression Results for Countries with z_WGI > 0

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) bxgs_gdp_bp6
z_WGI	0.263	1.013	−6.350	3.152	−1.973	3.622	−35.29	−8.728
	(0.982)	(1.595)	(9.475)	(3.165)	(4.401)	(3.786)	(24.74)	(9.282)
SDS	−1.362**	1.089	14.22***	0.225	8.500***	−6.840***	18.26	0.180
	(0.535)	(0.863)	(5.164)	(1.749)	(2.367)	(2.063)	(13.50)	(5.058)
Fuel	1.049	2.520	3.970	−13.11***	3.765	12.45***	−8.767	8.077
	(1.008)	(1.619)	(9.726)	(3.194)	(4.697)	(3.886)	(26.51)	(9.527)
log_GNIPC	−0.769*	0.528	1.748	1.855	−2.622	0.557	27.12***	15.79***
	(0.405)	(0.661)	(3.910)	(1.294)	(1.742)	(1.562)	(9.862)	(3.830)
Constant	10.61***	−6.215	12.55	1.448	24.99	−9.204	−173.2**	−98.64***
	(3.487)	(5.679)	(33.66)	(11.09)	(14.93)	(13.45)	(84.65)	(32.97)
Observations	46	45	46	42	40	46	43	46
R-squared	0.207	0.201	0.156	0.385	0.355	0.508	0.217	0.489

Note: (1) Real GDP growth, annual (ngdp_rpch); (2) General government, primary balance, share of GDP (ggxonlb_gdp); (3) General government, revenue, share of GDP (ggr_gdp); (4) General government, tax revenue, share of GDP (ggrt_gdp); (5) General government, grants revenue, share of GDP (ggrg_gdp); (6) Current account balance, share of GDP (bca_gdp_bp6); (7) Total external debt, share of GDP (d_gdp); and (8) Exports of goods and services, percent of GDP in US dollars (bxgs_gdp_bp6).
GNIPC = gross national income per capita; SDS = small developing states; WGI = World Governance Indicators.

Table A3.3. Regression Results for Countries with z_WGI > 0 (continued)

Variables	(1) ggx_gdp	(2) reserves	(3) FD	(4) fdi_in	(5) GF01	(6) GF02	(7) GF03	(8) GF04	(9) GF05	(10) GF06	(11) GF07	(12) GF08	(13) GF09	(14) GF10
z_WGI	−7.657	0.943	0.0328	9.017	−5.786	−0.166	0.884	−1.243	−0.311	0.382	−0.767	−0.477	1.093	4.068
	(8.893)	(1.765)	(0.0663)	(7.542)	(6.092)	(2.138)	(1.632)	(8.933)	(0.379)	(0.941)	(3.697)	(1.390)	(3.608)	(4.223)
SDS	12.47**	−1.060	−0.109***	5.868	8.831**	−1.436	0.518	4.771	0.711**	−0.574	1.794	0.674	1.379	−4.984*
	(4.846)	(0.973)	(0.0368)	(4.072)	(3.423)	(1.201)	(0.917)	(5.018)	(0.213)	(0.529)	(2.077)	(0.781)	(2.027)	(2.372)
Fuel	−0.505	−0.298	−0.0626	−5.828										
	(9.128)	(1.815)	(0.0660)	(8.137)										
log_GNIPC	1.504	−0.0772	0.0797***	2.064	−1.681	−0.139	−0.818	−3.328	0.168	−0.0123	0.0642	1.244*	−1.534	5.697**
	(3.670)	(0.736)	(0.0270)	(3.082)	(2.486)	(0.872)	(0.666)	(3.646)	(0.155)	(0.384)	(1.509)	(0.567)	(1.472)	(1.723)
Constant	18.67	6.570	−0.355	−16.48	23.35	3.256	9.634	36.01	−0.942	1.191	3.195	−10.35*	18.09	−44.62**
	(31.59)	(6.332)	(0.232)	(26.53)	(22.31)	(7.827)	(5.975)	(32.71)	(1.387)	(3.445)	(13.54)	(5.092)	(13.21)	(15.46)
Observations	46	45	44	45	11	11	11	11	11	11	11	11	11	11
R-squared	0.146	0.032	0.434	0.152	0.573	0.243	0.295	0.273	0.648	0.159	0.112	0.443	0.260	0.775

Note: (1) Government expenditure; (2) FX reserves; (3) IMF Financial Development aggregate index; (4) FDI inflow; (5) GF01: Expenditure on general public services; (6) GF02: Expenditure on defense; (7) GF03: Expenditure on public order and safety; (8) GF04: Expenditure on economic affairs; (9) GF05: Expenditure on environment protection; (10) GF06: Expenditure on housing and community amenities; (11) GF07: Expenditure on health; (12) GF08: Expenditure on recreation, culture, and religion; (13) GF09: Expenditure on education; and (14) GF10: Expenditure on social protection. All dependent variables are in percent of GDP, except for FX reserves (months of imports) and the FD index.

Standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

FD = financial development; GNIPC = gross national income per capita; SDS = small developing states; WGI = World Governance Indicators.

Table A3.4. Regression Results Including Homicide Rates

Variables	z_WGI < 0	z_WGI > 0	
	ngdp_rpch	ngdp_rpch	ngdp_rpch
z_WGI	0.891	0.814	
	(0.844)	(0.920)	
CPIA			0.824
			(0.585)
homicide_rate	−0.0933**	−0.0770**	−0.125**
	(0.0357)	(0.0315)	(0.0487)
SDS	1.148	−1.557***	−3.475***
	(0.903)	(0.497)	(0.901)
Fuel	0.807	1.522	4.104***
	(0.747)	(1.038)	(1.142)
log_GNIPC	−0.414	−0.854**	0.807*
	(0.355)	(0.394)	(0.464)
Constant	8.003**	11.70***	−3.270
	(3.205)	(3.403)	(3.326)
Observations	64	43	40
R-squared	0.164	0.372	0.441

Standard errors in parentheses
* $p < .1$; ** $p < .05$; *** $p < .01$.
Note: CPIA = Country Policy and Institutional Assessment; GNIPC = gross national income per capita; SDS = small developing states; WGI = World Governance Indicators.

Table A3.5. List of Countries and Territories with z_WGI < 0

Afghanistan	Ecuador	Madagascar	Solomon Islands
Albania	Egypt	Malawi	Somalia
Algeria	ElSalvador	Maldives	SouthSudan
Angola	Equatorial Guinea	Mali	SriLanka
Argentina	Eritrea	Marshall Islands	Sudan
Azerbaijan	Eswatini	Mauritania	Suriname
Bangladesh	Ethiopia	Mexico	Syria
Belarus	Gabon	Moldova	Tajikistan
Belize	Gambia, The	Mongolia	Tanzania
Benin	Guatemala	Morocco	Thailand

(*continued*)

Table A3.5. List of Countries and Territories with z_WGI < 0 (continued)

Bolivia	Guinea	Mozambique	Timor-Leste, Dem. Rep. of
Bosnia and Herzegovina	Guinea-Bissau	Myanmar	Togo
Brazil	Guyana	Nepal	Tunisia
BurkinaFaso	Haiti	Nicaragua	Turkey
Burundi	Honduras	Niger	Turkmenistan
Cambodia	Iran	Nigeria	Uganda
Cameroon	Iraq	Pakistan	Ukraine
Central African Republic	Kazakhstan	Papua New Guinea	Uzbekistan
Chad	Kenya	Paraguay	Venezuela
China	Kuwait	Peru	Vietnam
Comoros	Kyrgyz Republic	Philippines	Yemen
Congo, Republic of	Lao P.D.R.	Russia	Zambia
Coted'Ivoire	Lebanon	Sao Tome	Zimbabwe
Dem. Rep. of the Congo	Lesotho	Saudi Arabia	
Djibouti	Liberia	Serbia	
Dominican Republic	Libya	SierraLeone	

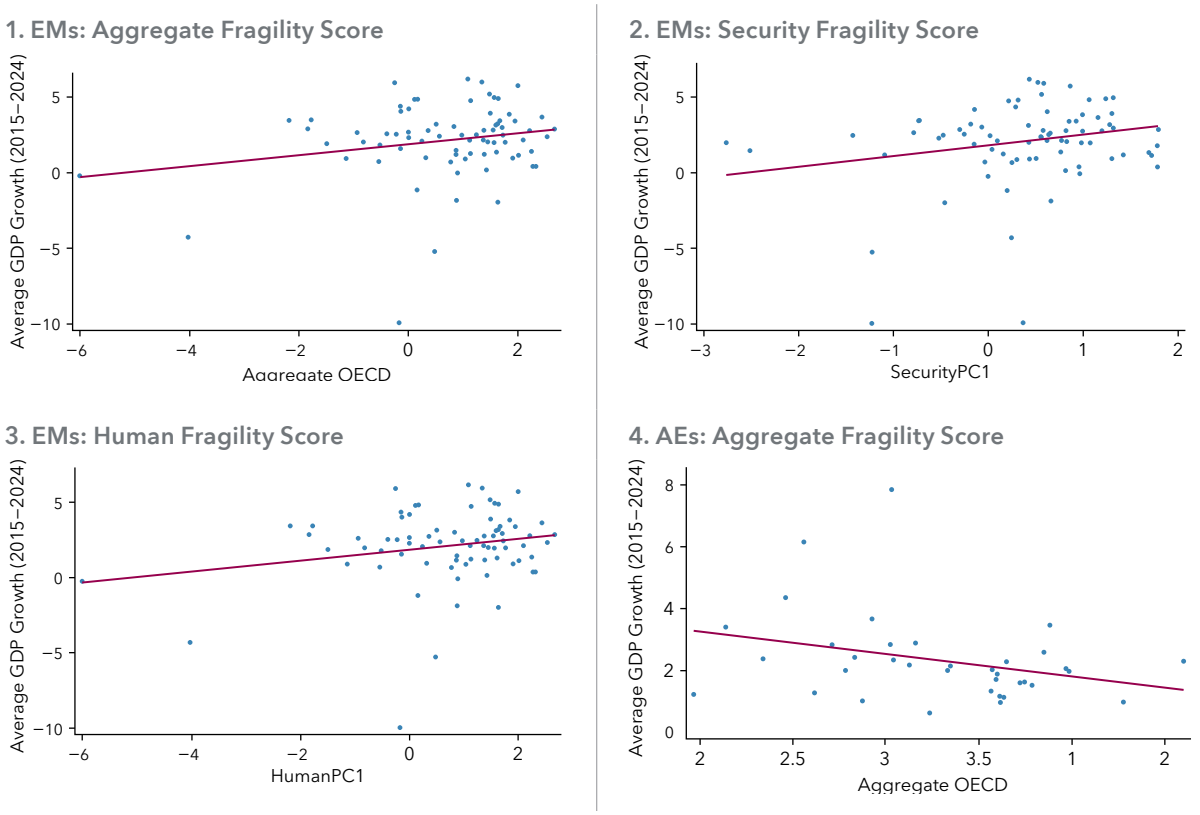
Source: Authors' calculations based on WB WGI data.

Note: WGI = World Governance Indicators. This list reflects countries included into the empirical analysis based on WGI point estimates, which are not compiled by the IMF and do not represent the IMF's assessment of the governance quality. Uncertainty around point estimates, as well as perception nature of the underlying survey-based indicators, may affect countries' scores and ranking.

B. Methodology and Estimates Using OECD Scores

For the analysis of long-term economic outcomes of non-institutional fragility proxied by OECD scores (Section 3.C), the paper finds that GDP growth is correlated with several OECD fragility dimensions, as well as with the composite fragility score in EMs (Figure A3.1). For each dimension, OECD uses principal component analysis (effectively weighted averages of the underlying data; see Section 2, Box 1). Our analysis uses the first principal components that capture most of the variation in the data. In addition, the analysis considers the aggregate fragility score calculated as the weighted average across fragility dimensions (Box 1). We estimate the effect of these five dimensions separately for all LICs, EMs, and AEs allowing for potentially different effects of various fragility dimensions at different development stages. For EMs, there is a positive correlation between GDP growth and aggregate fragility (Figure A3.1.A) and with security fragility (Figure A3.1, panel 2). For the human fragility dimension, the correlation is sensitive to the inclusion of a few countries with low fragility scores and low GDP growth (Figure A3.1, panel 3). For AEs, the correlation between GDP growth and aggregate fragility has the opposite sign and is not statistically significant (as shown in the panel estimates).

Figure A3.1. Correlation between GDP Growth and OECD Fragility Dimensions



Source: Authors' calculations based on IMF WEO and OECD data.

Note: Guyana and Libya are excluded from EMs. Actual OECD scores across dimensions range from −9.7 to 4.6, with higher scores representing lower fragility, whereas aggregate OECD scores lie in the range from −4.6 to 4.6.

AE = advanced economy; EM = emerging market; EMDE = emerging market and developing economy; GDP = gross domestic product; OECD = Organization for Economic Cooperation and Development; WEO = World Economic Outlook.

We use panel regressions to estimate the relationship—rather than causality—between annual macroeconomic and public finance indicators and OECD dimensions of fragility (Tables A3.6–A3.9). For the estimates, we apply pooled OLS to unbalanced panel data spanning 2015–2024. We use cluster-robust standard errors to correct for potential serial correlation and heteroskedasticity of residuals. Four control variables are used: three are the same as for CPIA/WGI estimates (SDS, Fuel, log_GNIPC), whereas the Environmental Performance Index (EPI) controls for the part of environmental fragility associated with manufacturing development. The dependent variables are taken in annual values, whereas fragility and other explanatory variables are time-invariant (except log_GNIPC), but the specification allows for time fixed effects and residual terms to capture time variation for each country. The regression takes the form:

$$y_{i,t} = \sum_{l=1}^{N} \alpha_l \, oecd_i^l + \beta_1 \, sds_i + \beta_2 \, fuel_i + \beta_3 \, epi_i + \beta_4 log\_GNIPC_{i,t} + \lambda_t + \varepsilon_{i,t}, \quad \text{(A 3.1)}$$

where $y_{i,t}$ is the indicator of interest in country i at year t, sds_i and $fuel_i$ are dummy variables for SDS and fuel exporters, epi_i is the EPI for country i, $\log\_GNIPC_{i,t}$ is log of the GNI per capita for country i at year t, λ_t are year fixed effects, and $\varepsilon_{i,t}$ is the residual that captures the part of the variation in $y_{i,t}$ that is not correlated with the explanatory variables.

We consider two model specifications with OECD measures of fragility. One specification uses the aggregate OECD score (N = 1 and $oecd_i^1$ reflects the aggregate score). The other uses disaggregated OECD scores, namely, the first principal components for each of the five noneconomic dimensions of fragility (N = 5 and $oecd_i^I$ reflects the OECD score for each dimension). The relationship between the variable of interest, $y_{i,t}$, and fragility is captured through coefficients α_I, which are reported in Tables A3.3–A3.7 together with standard errors.

We estimate panel regressions for a range of macroeconomic and public finance indicators. Based on the countries' heterogeneity in income level, we estimate the models separately for LICs (Table A3.6), EMs (Tables A3.7–A3.8), and AEs (Table A3.9). For EMs, we consider two samples. In the first (Table A3.7), we exclude two outliers: Guyana (which had exceptionally high double-digit GDP growth in the past five years) and Libya (with a particularly low security score below −5). The second specification (Table A3.8) excludes three additional countries (Angola, Equatorial Guinea, and Venezuela)—potential outliers for GDP growth and human fragility—to test sensitivity. Data sources include the IMF WEO database (real GDP growth, BOP indicators, SDS, and fuel-exporting status), IMF GFS database (public finance indicators), the OECD State of Fragility Report (for OECD measures), and the Yale Center for Environmental Law and Policy (EPI; Block and others 2024).

Our panel regression estimates suggest a significant positive relationship between some OECD fragility scores and real GDP growth for EMs. In the specification with two outliers (Table A3.7), a better aggregate fragility score is associated with higher economic growth (statistically significant at 10 percent, $p < .1$), underpinned by higher fiscal expenditure ($p < .1$). This is because of stronger tax revenues ($p < .01$). At the disaggregated level, security and human fragility dimensions are associated with higher economic growth (Table A3.7), but only security fragility remains significant in the specification excluding five outliers (Table A3.8). For AEs (Table A3.9), the coefficient between aggregate fragility and economic growth has the opposite sign and is significant only at the 10 percent level. For LICs (Table A3.6), the relationship between aggregate fragility and economic growth is not significant.

Table A3.6. Regression Results for LICs

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
EnvironmentalPC1	0.795*	0.435	−0.695	0.0682	−0.768	−4.559***	10.72*	−0.765
	(0.459)	(0.667)	(1.889)	(1.486)	(0.549)	(1.232)	(6.291)	(1.933)
HumanPC1	−0.289	−0.770	2.276***	0.606	0.121	−0.154	−1.452	2.906***
	(0.197)	(0.513)	(0.530)	(0.436)	(0.204)	(0.606)	(2.332)	(0.776)
PoliticalPC1	−0.137	−1.314*	1.505	0.847	0.123	−1.070	4.196	3.434***
	(0.271)	(0.689)	(0.939)	(0.720)	(0.320)	(1.024)	(4.764)	(1.170)
SecurityPC1	0.200	0.574*	−0.625	0.423	−0.185	0.245	2.710	−1.012
	(0.218)	(0.331)	(0.578)	(0.383)	(0.338)	(0.618)	(2.082)	(0.648)
SocietalPC1	0.185	1.072	−0.906	−0.756	0.468	0.635	−12.48	−2.593*
	(0.454)	(0.791)	(1.148)	(0.767)	(0.499)	(1.536)	(7.466)	(1.441)
Constant	2.786	−7.797	25.35**	2.187	19.21***	−46.62***	−33.91	33.75**
	(4.489)	(6.576)	(11.69)	(8.665)	(4.281)	(15.38)	(59.17)	(14.66)
Observations	546	546	546	536	546	546	546	546
R-squared	0.230	0.294	0.392	0.203	0.454	0.184	0.149	0.500

Note: (1) Real GDP growth, annual (ngdp_rpch); (2) General government, primary balance, share of GDP (ggxonlb_gdp); (3) General government, revenue, share of GDP (ggr_gdp); (4) General government, tax revenue, share of GDP (ggrt_gdp); (5) General government, grants revenue, share of GDP (ggrg_gdp); (6) Current account balance, share of GDP (bca_gdp_bp6); (7) Total external debt, share of GDP (d_gdp); and (8) General government expenditure, share of GDP (ggx_gdp).

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

LIC = low-income country.

Table A3.6. Regression Results for LICs (continued)

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
Aggregate	0.692	−0.283	2.816**	1.932***	−0.112	−3.200***	3.159	3.524***
	(0.417)	(0.377)	(1.065)	(0.690)	(0.441)	(0.938)	(5.792)	(1.065)
Constant	7.270	−5.812	24.12*	6.057	18.70***	−51.28***	−15.11	32.99**
	(4.522)	(6.906)	(12.65)	(9.822)	(4.628)	(15.99)	(66.73)	(15.34)
Observations	546	546	546	536	546	546	546	546
R-squared	0.226	0.222	0.324	0.195	0.414	0.133	0.076	0.387

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

Note: LIC = low-income country.

Table A3.7. Regression Results for EMs (Excluding Two Countries)

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
EnvironmentalPC1	−0.407	0.325	1.091	1.708*	−0.000728	0.675	21.07*	0.597
	(0.259)	(0.446)	(1.216)	(0.918)	(0.197)	(0.914)	(10.69)	(1.137)
HumanPC1	0.539**	−0.760***	1.092	0.0779	0.239**	−0.698	2.871	1.707**
	(0.262)	(0.282)	(0.848)	(0.524)	(0.118)	(0.715)	(6.610)	(0.774)
PoliticalPC1	0.318	−0.594*	0.119	−0.550	0.413	−0.369	−1.818	0.612
	(0.309)	(0.341)	(1.164)	(0.822)	(0.270)	(1.040)	(11.22)	(1.083)
SecurityPC1	0.515*	−0.270	−0.786	0.762	0.625	0.324	−5.525	−0.675
	(0.267)	(0.371)	(1.391)	(0.628)	(0.501)	(0.905)	(11.04)	(1.291)
SocietalPC1	−0.539	0.816	0.00172	1.000	−0.725	0.381	9.564	−0.818
	(0.458)	(0.595)	(1.987)	(1.201)	(0.441)	(1.455)	(16.18)	(1.730)
Constant	6.208	−3.578	7.638	45.51***	6.279*	−16.67	104.3	19.83
	(3.815)	(7.046)	(16.91)	(11.94)	(3.285)	(11.33)	(130.9)	(15.04)
Observations	741	736	741	691	629	741	731	741
R-squared	0.427	0.187	0.202	0.553	0.264	0.211	0.173	0.212

Note: (1) Real GDP growth, annual (ngdp_rpch); (2) General government, primary balance, share of GDP (ggxonlb_gdp); (3) General government, revenue, share of GDP (ggr_gdp); (4) General government, tax revenue, share of GDP (ggrt_gdp); (5) General government, grants revenue, share of GDP (ggrg_gdp); (6) Current account balance, share of GDP (bca_gdp_bp6); (7) Total external debt, share of GDP (d_gdp); and (8) General government expenditure, share of GDP (ggx_gdp).

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

Note: EM = emerging market.

Table A3.7. Regression Results for EMs (Excluding Two Countries) (continued)

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
Aggregate	0.565*	−0.235	1.933*	2.787***	0.221*	−0.0837	17.54*	1.959*
	(0.338)	(0.384)	(1.068)	(0.691)	(0.131)	(0.893)	(9.737)	(1.007)
Constant	8.001**	−0.633	6.154	48.21***	4.341*	−17.67*	28.37	17.81
	(3.611)	(5.938)	(17.29)	(9.079)	(2.406)	(9.834)	(101.5)	(14.14)
Observations	741	736	741	691	629	741	731	741
R-squared	0.415	0.155	0.199	0.580	0.171	0.198	0.139	0.195

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

Table A3.8. Regression Results for EMs (Excluding Five Countries)

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
EnvironmentalPC1	−0.398	0.240	1.095	1.617*	0.0327	0.726	20.05*	0.656
	(0.248)	(0.435)	(1.239)	(0.907)	(0.180)	(0.925)	(10.55)	(1.151)
HumanPC1	0.253	−0.597	1.063	0.543	0.130	−1.702**	7.518	1.646
	(0.245)	(0.375)	(1.274)	(0.701)	(0.159)	(0.673)	(7.873)	(1.178)
PoliticalPC1	0.142	−0.681*	0.0559	−0.689	0.423	−0.858	−2.603	0.602
	(0.289)	(0.359)	(1.233)	(0.866)	(0.268)	(1.031)	(11.73)	(1.135)
SecurityPC1	0.624**	−0.397	−0.778	0.511	0.700	0.731	−8.129	−0.618
	(0.274)	(0.399)	(1.442)	(0.682)	(0.581)	(0.951)	(11.28)	(1.344)
SocietalPC1	−0.386	0.943	0.0558	1.178	−0.739*	0.792	10.76	−0.841
	(0.445)	(0.604)	(2.048)	(1.230)	(0.437)	(1.478)	(16.53)	(1.771)
Constant	4.766	−5.198	7.160	44.40***	6.617*	−20.55*	92.30	20.48
	(3.521)	(6.980)	(17.36)	(11.82)	(3.449)	(11.32)	(134.8)	(15.31)
Observations	721	716	721	671	609	721	711	721
R-squared	0.429	0.184	0.187	0.562	0.271	0.248	0.179	0.184

Note: (1) Real GDP growth, annual (ngdp_rpch); (2) General government, primary balance, share of GDP (ggxonlb_gdp); (3) General government, revenue, share of GDP (ggr_gdp); (4) General government, tax revenue, share of GDP (ggrt_gdp); (5) General government, grants revenue, share of GDP (ggrg_gdp); (6) Current account balance, share of GDP (bca_gdp_bp6); (7) Total external debt, share of GDP (d_gdp); and (8) General government expenditure, share of GDP (ggx_gdp).

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

EM = emerging market.

Table A3.8. Regression Results for EMs (Excluding Five Countries) (continued)

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
Aggregate	0.326	−0.0985	1.731	3.025***	0.210	−0.447	18.17*	1.657
	(0.294)	(0.384)	(1.164)	(0.743)	(0.146)	(0.876)	(10.58)	(1.085)
Constant	7.088*	−2.603	6.762	46.44***	4.566*	−20.83**	13.79	19.60
	(3.565)	(5.824)	(17.93)	(9.332)	(2.546)	(9.786)	(103.0)	(14.58)
Observations	721	716	721	671	609	721	711	721
R-squared	0.420	0.160	0.187	0.587	0.171	0.211	0.135	0.177

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

EM = emerging market.

Table A3.9. Regression Results for AEs

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
EnvironmentalPC1	0.918**	0.0625	2.515	4.999***	−0.0703	−1.341	169.2	2.955
	(0.361)	(0.560)	(1.772)	(1.628)	(0.184)	(0.874)	(107.9)	(1.778)
HumanPC1	0.151	1.545	−7.132*	−8.359***	−0.821**	7.016**	144.8	−11.69***
	(0.550)	(1.114)	(3.993)	(2.923)	(0.392)	(2.765)	(124.3)	(4.281)
PoliticalPC1	−1.877*	0.769	3.990	−2.819	−0.403	−2.543	−187.4	3.941
	(0.981)	(1.106)	(3.880)	(3.316)	(0.522)	(2.405)	(129.1)	(3.749)
SecurityPC1	−0.559	−1.171	−3.358	2.519	0.373	1.927	−353.1*	−3.622
	(0.420)	(0.788)	(2.533)	(2.586)	(0.297)	(2.082)	(175.5)	(2.363)
SocietalPC1	0.877	0.562	2.769	7.894*	−0.0723	−0.683	116.7	1.983
	(0.862)	(1.157)	(4.298)	(4.199)	(0.562)	(2.291)	(133.0)	(4.286)
Constant	12.30**	−5.158	53.66	77.91***	11.88***	−66.23***	787.4	73.87**
	(5.001)	(11.88)	(31.87)	(21.67)	(2.949)	(17.08)	(1,406)	(29.25)
Observations	350	340	350	318	310	350	239	350
R-squared	0.592	0.380	0.474	0.541	0.563	0.332	0.460	0.514

Note: (1) Real GDP growth, annual (ngdp_rpch); (2) General government, primary balance, share of GDP (ggxonlb_gdp); (3) General government, revenue, share of GDP (ggr_gdp); (4) General government, tax revenue, share of GDP (ggrt_gdp); (5) General government, grants revenue, share of GDP (ggrg_gdp); (6) Current account balance, share of GDP (bca_gdp_bp6); (7) Total external debt, share of GDP (d_gdp); and (8) General government expenditure, share of GDP (ggx_gdp).

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

AE = advanced economy.

Table A3.9. Regression Results for AEs (continued)

Variables	(1) ngdp_rpch	(2) ggxonlb_gdp	(3) ggr_gdp	(4) ggrt_gdp	(5) ggrg_gdp	(6) bca_gdp_bp6	(7) d_gdp	(8) ggx_gdp
Aggregate	−1.521*	−0.570	6.034*	9.998***	−0.631	−1.840	−226.7*	6.180**
	(0.865)	(0.923)	(3.070)	(2.519)	(0.373)	(2.189)	(118.5)	(2.990)
Constant	−0.653	−11.79	46.05	47.71**	9.051***	−56.75***	−1,503	68.58*
	(6.639)	(12.42)	(38.26)	(21.52)	(3.043)	(17.42)	(1,058)	(35.32)
Observations	350	340	350	318	310	350	239	350
R-squared	0.566	0.349	0.348	0.429	0.520	0.165	0.127	0.348

Robust standard errors in parentheses

* $p < .1$; ** $p < .05$; *** $p < .01$.

Note: AE = advanced economy.

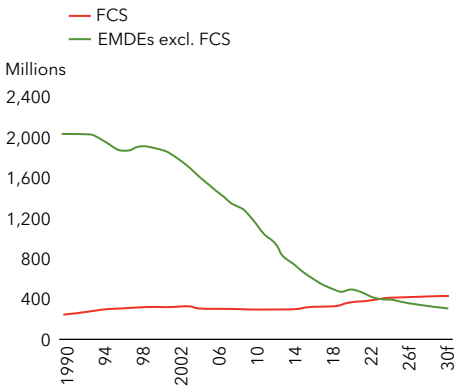
Annex 4: Development Challenges in FCS

Weak economic growth and constrained fiscal space in FCS underpin persistent and significant development challenges. This is reflected not only in slow progress toward achieving the SDGs (IMF 2025a) but also in weaker economic prospects. Conflicts have a particularly destabilizing impact, destroying both physical and human capital and often resulting in reversals of growth and development outcomes.

Global poverty is projected to be increasingly concentrated in FCS. On average, poverty is significantly higher in FCS LICs than in non-FCS LICs, with median extreme poverty rates (measured at an income of US$3 per day) at 40 percent and 18 percent of the population, respectively.[43] In addition, low economic growth in FCS makes poverty levels not only high but also persistent. As a result, whereas extreme poverty has been significantly reduced in the rest of the world, it continues to grow in FCS. The share of extremely poor people worldwide that live in FCS is projected to rise from about half at present to nearly 60 percent by 2030 (World Bank 2025a) (Figure A4.1).

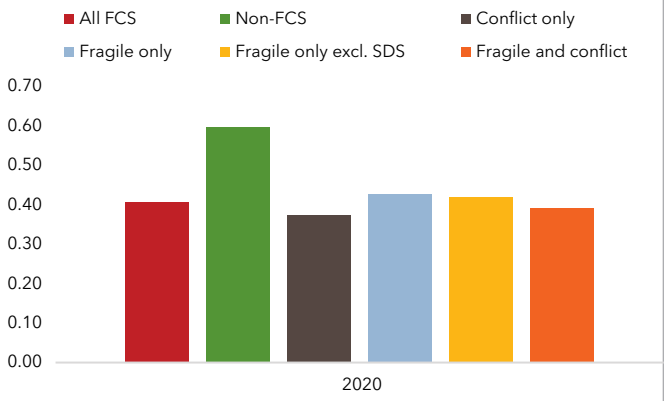
Figure A4.1. Poverty and Development in FCS

1. Millions of Extreme Poor in FCS and Non-FCS



Source: World Bank (2025a).
Note: EMDE = emerging market and developing economy; FCS = fragile and conflict-affected states.

2. Median Human Capital Index (2020)



Source: World Bank data and IMF staff analysis.
Note: Sample includes all LICs and EMs. The index takes values between 0 and 1: 0 = low human capital, 1 = high human capital. FCS = fragile and conflict-affected states.

Health, education, and gender inequality challenges are particularly acute in FCS. Reflecting lower government spending, FCS—especially conflict-affected states—have lower levels of human capital (Figure 4.1, panel 2). Human Capital Complementary Indicators (HCCI) show that the under-five mortality rate related to child health conditions is higher in FCS than in non-FCS: on average, 55 children per 1,000 live births die before the age of five in FCS, compared with 19 in non-FCS. Similarly, the primary school completion rate—the gross intake ratio to the last grade of primary education—is higher in non-FCS (98 percent) than in FCS, where more than a quarter of students fail to complete primary school. Furthermore, a considerable share of youth in FCS—more than half of whom are women—is not in employment, education, or training.

[43] Aggregate data should be treated with caution because many FCS, particularly conflict-affected EMs, have significant data gaps that often predate the outbreak of conflict. The case of Syria illustrates the point, where the past two data points show a sharp rise in the poverty rate, from 0.5 percent in 2003 to 16.5 percent in 2022.

Across the world, the largest gender gaps are found in FCS, where girls are 2.5 times more likely to be out of school than in more stable economies, and 90 percent more likely to be out of secondary school than in non-FCS (World Bank 2024b). Women are also more vulnerable to gender-based violence and often face much greater economic hardship than men compared with the situation in more stable societies (IMF 2022).

FCS are also more likely to experience food insecurity. All 13 global hunger hotspots as of June 2025 are in FCS: Sudan, Syria, Yemen, Nigeria, DR Congo, Somalia, Burkina Faso, Mali, Haiti, South Sudan, West Bank and Gaza, Myanmar, and Chad (WFP and FAO 2025). About half of the countries most exposed to the 2023 global food shock were FCS (Rother and others 2023).

Without investment in adaptation, fragile states are highly vulnerable to climate risks. Recent IMF research shows that climate vulnerability and underlying fragilities—namely conflict, heavy dependence on rainfed agriculture, and weak capacity—exacerbate each other, amplifying the negative impact on people and economies. FCS experience more severe and persistent GDP losses than other countries because their underlying fragilities amplify the impacts: three years after an extreme weather event, cumulative GDP losses may reach about 4 percent in FCS compared with 1 percent in other economies (Jaramillo and others 2023). FCS also face more severe humanitarian impacts than non-FCS, including increasingly undernourished populations, higher internal displacement, and refugee outflows that generate or intensify existing conflicts. In FCS SDS, these effects compound heightened vulnerabilities because of the large tail risk of the economic impact of natural disasters, with damage sometimes exceeding 100 percent of GDP (IMF 2019b). As the frequency of natural disasters increases with climate change, direct losses from property damage and the economic costs of destroyed productive capital and foregone future income can be expected to grow without adaptation.

Annex 5: Assessing the Impact of Fragility on Vulnerabilities to External Shocks

This Annex provides the methodological background for Section 4.A. To explore the implications of fragility for macroeconomic vulnerability to shocks, the analysis relies on the local projection (LP) method (Jorda 2005) to estimate the impact of commodity terms-of-trade (ToT) shocks on various macroeconomic variables. This method produces the impulse response of variables such as real GDP per capita, GDP components, and fiscal-to-GDP ratios to economic shocks such as ToT shocks. The sample consists of FCS, PRGT-eligible countries (LICs), and emerging market and developing economies with GNI per capita below the World Bank threshold for lower-middle-income countries. This sample includes countries facing similar challenges but with sufficient heterogeneity, which can be leveraged in the empirical analysis (Boussard and others 2024).

The first model analyses how lower governance affects the response to commodity shocks in cases where governance is generally low already. This is implemented through the following regression:

$$\begin{aligned} y_{i,t+s} - y_{i,t-1} = {} & \beta_s \Delta shock_{i,t} \max(-WGI_{i,t-1}, 0) + \gamma_s \Delta shock_{i,t} + \nu_s \max(-WGI_{i,t-1}, 0) \\ & + \sum_{l=1}^{L} [\alpha_{l,s} \Delta y_{i,t-l} + \chi_{1,l,s} \max(-WGI_{i,t-1-l}, 0) + \omega_{l,s} \Delta y_{i,t-l} \max(-WGI_{i,t-l-1}, 0)] \\ & + \sum_{l=1}^{L} \delta_{l,s} \Delta shock_{i,t-l} \max(-WGI_{i,t-l-1}, 0) + \mu_{i,s} + \lambda_{t,s} + \varepsilon_{i,t,s}, \qquad for\ s = 0, 1, 2, \ldots, \end{aligned} \tag{A5.1}$$

- where $y_{i,t}$ is an outcome variable in country i at year t, $\Delta shock_{i,t}$ is the commodity ToT shock. We take the difference of the outcome variable s periods after the shock (at time $t + s$) from the preshock level (at time $t - 1$). $WGI_{i,t-1}$ is the average of standardized WGI scores along the five dimensions excluding conflict, in country i in year $t - 1$. $\mu_{i,s}$ and $\lambda_{t,s}$ are country and year fixed effects, which capture time-invariant country characteristics and time-series of global common components, respectively. Standard errors are clustered by country to accommodate persistent country-specific shocks. The model follows Olea and Plagborg-Møller (2021) by including lagged outcome and explanatory variables, $\Delta y_{i,t-l}$ and $\Delta shock_{i,t-k}$, to address serial correlation. The length of lag is set at two, that is, $L = 2$.
- **The coefficient of interest (β) is reported in Figure 17 and captures how the shock impacts the outcome variable when governance (WGI) deteriorates for countries with already negative scores.** The sequence of estimated coefficients, $\{\beta_s\}$ for , represents the effect of an increase by one-standard deviation in the governance score on the impulse response function (IRF) of the outcome variable to the shock.

The second model is used to analyze how the interaction of governance with three potential aggravating factors affects the results. The presence of conflict, fuel dependence, and SDS status. Together with a low income, these aggravating factors tend to exacerbate and therefore manifest at the same time as institutional fragility. As a result, disentangling the effects of each of these in addition to fragility on the vulnerability to shocks is empirically challenging. However, relying on continuous measures of governance as a proxy for the intensity of fragility, this can be implemented through the following regressions:

$$
\begin{aligned}
y_{i,t+s} - y_{i,t-1} = {} & \beta_{1,s}\Delta shock_{i,t}\max(-WGI_{i,t-1},0)X_{i,t-1} + \beta_{2,s}\Delta shock_{i,t}\max(-WGI_{i,t-1},0) \\
& + \beta_{3,s}\Delta shock_{i,t}X_{i,t-1} + \gamma_{1,s}\Delta shock_{i,t} + \gamma_{2,s}X_{i,t-1} + \nu_{s}\max(-WGI_{i,t-1},0) \\
& + \sum_{l=1}^{L}[\alpha_{l,s}\Delta y_{i,t-l} + \chi_{1,l,s}\max(-WGI_{i,t-1-l},0)X_{i,t-l-1} + \chi_{2,l,s}\max(-WGI_{i,t-1-l},0) \\
& + \chi_{3,l,s}X_{i,t-l-1} + \omega_{1,l,s}\Delta y_{i,t-l}\max(-WGI_{i,t-l-1},0)X_{i,t-l-1} \\
& + \omega_{2,l,s}\Delta y_{i,t-l}\max(-WGI_{i,t-l-1},0) + \omega_{3,l,s}\Delta y_{i,t-l}X_{i,t-l-1} \\
& + \delta_{1,l,s}\Delta shock_{i,t-l}\max(-WGI_{i,t-l},0)X_{i,t-l-1} + \delta_{2,l,s}\Delta shock_{i,t-l}\max(-WGI_{i,t-l},0) \\
& + \delta_{3,l,s}\Delta shock_{i,t-l}X_{i,t-l}] + \mu_{i,s} + \lambda_{t,s} + \varepsilon_{i,t,s}, \qquad for\ s = 0, 1, 2, \ldots,
\end{aligned}
\tag{A5.2}
$$

- where $X_{i,t-1}$ is either the number of fatalities per capita or an indicator of fuel dependence or an indicator of SDS status in country i in year $t-1$. In practice, triple interaction coefficients $\{\beta_{1,s}\}$ are found non-significant and a simplified model is run, without the terms associated with $\{\beta_{1,s}\}$, $\{\chi_{1,s}\}$, $\{\omega_{1,s}\}$ and $\{\delta_{1,l,s}\}$.
- **The coefficients of interest are reported in Figure 18 and capture how the shock impacts the outcome variable when governance (WGI) deteriorates (β_2) for countries with already negative scores and when the aggravating factor increases (β_3).** The sequence of estimated coefficients, $\{\beta_{2,s}\}$ and $\{\beta_{3,s}\}$ for s = 0,1,2,3 ..., represent respectively the effect of an increase by one-standard deviation in the governance score (controlling for other aggravating factors) or an increase by 1 fatality per million or fuel dependence or SDS status (controlling for governance) on the IRF of the outcome variable to the shock.

Annex 6: The IMF Strategy for Fragile and Conflict–Affected States (FCS)

The IMF has significantly stepped up its engagement with FCS. The IMF has had a long-standing engagement with its FCS members, supporting them through policy advice, CD and lending in line with its mandate.[44] The engagement was revamped after the adoption of the 2022 FCS Strategy, which established a new framework for strengthening and scaling up support for FCS. Key elements of the Strategy include:

- **Greater tailoring of Fund engagement to country-specific drivers of fragility and conflict.** Since the approval of the FCS Strategy, the IMF has rolled out CES to help ensure that policy advice, CD support, and program design and conditionality are better integrated and informed by (i) an assessment of fragility and conflict drivers; (ii) the identification of institutional constraints to reform implementation and other political economy considerations; and (iii) a longer-term view on the macroeconomic policies required to exit fragility. About 25 CES have informed Article IV consultations or program reviews in countries as diverse as Burkina Faso, Haiti, iraq, Mozambique, Solomon Islands, South Sudan, and Somalia. For example, in Somalia, the CES underscored that insecurity, poor infrastructure, and the lack of a skilled labor force impeded economic growth. As a durable fiscal framework was seen as essential to overcome these challenges, CD assistance focused on tax policy, revenue administration, and PFM. Technical assistance to improve macroeconomic statistics was closely integrated with Somalia's Fund-supported program under the Extended Credit Facility arrangement.[45]
- **Addressing the macrocritical dimensions of fragility and conflict in surveillance and analytics.** Where relevant, the IMF has increasingly focused its policy advice and research on links between fragility, conflict, and macroeconomic outcomes. Policy reports, regional economic outlooks, staff working papers, and technical notes have examined: (i) the impact of shocks on growth, inflation, and public debt in 30 low-income FCS and the policies needed to strengthen resilience; (ii) the relationship between terms-of-trade shocks and conflicts, and factors that increase the sensitivity of FCS to economic shocks; (iii) the nexus between political instability, exclusion, conflict, and macroeconomic conditions in Sub-Saharan Africa; (iv) the impact of conflict on growth in the Middle East; (v) the economic effects of migration flows from the Venezuelan crisis for Latin America and the Caribbean (LAC); (vi) the relationship between climate vulnerability and fragility; (vii) building cash management and statistical capacity in FCS; and (viii)

[44] See The IMF Strategy for Fragile and Conflict-Affected States (https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/03/14/The-IMF-Strategy-for-Fragile-and-Conflict-Affected-States-515129). Between January 2010 and December 2021, the IMF supported 28 FCS with 88 programs and financing totaling US$20 billion. During the pandemic, 28 FCS members received emergency IMF financial support worth US$7.5 billion while Fund staff conducted over 1,000 remote CD engagements with FCS.

[45] Fragile States Need Customized Support to Strengthen Institutions (https://www.imf.org/en/Blogs/Articles/2023/09/21/fragile-states-need-customized-support-to-strengthen-institutions).

the nexus between macroeconomic policies and conflict prevention.[46] The IMF has also examined the nexus between crime, insecurity, and macroeconomic performance in middle-income LAC economies not formally classified as FCS but affected by organized crime and high homicide rates.[47] In 2024, the Fund conducted its first Article IV consultation with Libya in 10 years[48] and the first consultation in Haiti in five. Selected Issues Papers have covered topics such as forced displacement and food insecurity in Burkina Faso; drivers of food insecurity in the Central African Republic; macrocritical gender gaps in Chad; fragility, demographics, and gender inequality in Mali; social spending and food insecurity in Niger; a model for costing the SDGs in Comoros; exchange rate pressures in Libya; and fiscal data governance in Solomon Islands.[49]

- **Scaling up CD to support institution building in FCS.** Strong and accountable institutions that can effectively implement macrofiscal and monetary policies are critical to exiting fragility. In Fiscal Year 2025, about one-quarter of Fund CD assistance (about US$38 million) was allocated to FCS to support PFM, domestic revenue mobilization, strengthening central banks, improving economic statistics, governance, and anticorruption efforts (see Box 3). Since the adoption of the FCS Strategy, institution-building efforts have intensified through the deployment of over 40 Long-Term Experts (LTX) in key Regional Capacity Development Centers (RCDCs) and in recipient countries.

- **Ensuring CD is better tailored to FCS conditions.** The FCS Strategy highlights the need to tailor CD to the absorptive capacity of FCS, from design to implementation. This includes designing implementable CD projects, ensuring adequate consultation with relevant stakeholders and realistic results-based management (RBM) milestones and indicators. Proper sequencing of interventions is also emphasized, for example, targeting basic needs first before cautiously moving to more demanding but achievable medium-term projects. In addition, the Strategy underscores the need to maintain a higher level of flexibility during project implementation in FCS compared with other economies as circumstances in FCS can rapidly change or evolve.

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[46] See Macroeconomic Shocks and Conflict (https://www.imf.org/-/media/Files/Publications/WP/2023/English/wpiea2023068-print-pdf.ashx); Global Shocks Unfolding: Lessons from Fragile and Conflict-Affected States (https://www.imf.org/en/Publications/WP/Issues/2024/10/04/Global-Shocks-Unfolding-Lessons-from-Fragile-and-Conflict-affected-States-555906); State Fragility: Towards a Conceptual Framework (https://www.imf.org/en/publications/wp/issues/2025/10/03/state-fragility-towards-a-conceptual-framework-570948); Political Fragility: Coups d'État and Their Drivers (https://www.imf.org/en/Publications/WP/Issues/2024/02/16/Political-Fragility-Coups-dtat-and-Their-Drivers-544943); Fraying Threads: Exclusion and Conflict in Sub-Saharan Africa (https://www.imf.org/en/Publications/WP/Issues/2024/01/12/Fraying-Threads-Exclusion-and-Conflict-in-Sub-Saharan-Africa-543721); Regional Economic Outlook for the Middle East and Central Asia, April 2024: An Uneven Recovery amid High Uncertainty (https://www.imf.org/en/Publications/REO/MECA/Issues/2024/04/18/regional-economic-outlook-middle-east-central-asia-april-2024); Regional Spillovers from the Venezuelan Crisis: Migration Flows and Their Impact on Latin America and the Caribbean (https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2022/12/01/Regional-Spillovers-from-the-Venezuelan-Crisis-Migration-Flows-and-Their-Impact-on-Latin-525729); Climate Challenges in Fragile and Conflict-Affected States (https://www.imf.org/en/Publications/staff-climate-notes/Issues/2023/08/24/Climate-Challenges-in-Fragile-and-Conflict-Affected-States-537797?cid=bl-com-CLNEA2023001); How to Build Cash Management Capacity in Fragile States and Low-Income Developing Countries (https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2022/03/01/How-to-Build-Cash-Management-Capacity-in-Fragile-States-and-Low-Income-Developing-Countries-498003); Building Statistical Capacity in Fragile and Conflict-Affected States (https://www.imf.org/en/Publications/WP/Issues/2022/02/25/Building-Statistical-Capacity-in-Fragile-and-Conflict-Affected-States-512794).

[47] Violent Crime and Insecurity in Latin America and the Caribbean: A Macroeconomic Perspective (https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2024/11/11/Violent-Crime-and-Insecurity-in-Latin-America-and-the-Caribbean-A-Macroeconomic-Perspective-555570).

[48] For Libya see (https://www.imf.org/en/News/Articles/2023/06/12/cf-after-a-decade-long-hiatus-imf-surveillance-resumes-in-libya); for Haiti see (https://www.imf.org/en/Publications/CR/Issues/2024/12/10/Haiti-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-559329).

[49] Burkina Faso: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2024/07/29/Burkina-Faso-Selected-Issues-552755); Chad: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2024/12/12/Chad-Selected-Issues-559441); Libya: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2024/07/11/Libya-Selected-Issues-551684); Central African Republic: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2023/05/02/Central-African-Republic-Selected-Issues-533022); Union of the Comoros: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2024/01/08/Union-of-the-Comoros-Selected-Issues-543402); Libya: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2024/07/11/Libya-Selected-Issues-551684); Mali: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2023/06/14/Mali-Selected-Issues-534768); Niger: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2023/01/18/Niger-Selected-Issues-528305); Solomon Islands: Selected Issues (https://www.imf.org/en/Publications/CR/Issues/2025/02/25/Solomon-Islands-Selected-Issues-562657).

- **An enhanced engagement model and increased in-country presence.** The FCS Strategy is grounded in the view that intensifying dialogue with authorities and stakeholders on the implementation of policies and reforms is necessary to (i) sustain inclusive growth; (ii) progressively build strong and well-governed institutions; and (iii) sequence reforms in line with the capacity to implement change. As such, since the Strategy was approved, the Fund has expanded its field presence by hiring 19 additional local economists in FCS such as Guinea-Bissau, Niger, Iraq, South Sudan, Somalia, and Yemen, and opening six new Resident Representative offices in Burundi, Comoros, Lebanon, Papua New Guinea, São Tomé and Príncipe, and South Sudan.
- **Strengthened partnerships with humanitarian, development, and peace actors.** The Fund's FCS Strategy is highly complementary with the World Bank's Strategy for Fragility, Conflict, and Violence (2020–2025), sharing similar engagement principles as well as a focus on institution building and inclusive growth. Collaboration between the IMF and the World Bank country teams on fragility assessments has strengthened and the two institutions are now aligned in their FCS classification methodology. Because food insecurity is among the top challenges in FCS, the IMF and World Food Programme (WFP) regularly exchange information and analysis in countries such as Haiti, Guinea-Bissau, South Sudan, and Somalia, where WFP's extensive field presence enables more accurate monitoring of food price inflation. In FCS where forced displacement spillovers entail significant fiscal impacts, the IMF and UN High Commissioner for Refugees (UNHCR) are in regular contact on macrorelevant developments caused by humanitarian crises in cases such as Burkina Faso and Jordan, or migration stemming from Venezuela. In the DR Congo, the International Organization for Migration (IOM) has supported the monitoring of social-spending indicative targets in the Fund's program, and exchanges with MONUSCO, the UN peacekeeping mission, facilitate an understanding of security-related risks in eastern provinces and wider impacts.

Finally, the Fund has been providing significant financial resources to FCS in support of these countries' efforts to address temporary BOP problems. Since March 2020, 23 FCS received emergency financing worth US$9.7 billion and 20 FCS received US$34.6 billion as commitments under UCT-quality arrangements—a total commitment of US$44.3 billion to FCS over the past five years.[50] As of September 2025, 12 FCS are implementing UCT-quality programs worth US$26.6 billion: Burkina Faso, Chad, Central African Republic, Comoros, DR Congo, Ethiopia, Guinea-Bissau, Niger, Papua New Guinea, São Tomé and Príncipe, Somalia, and Ukraine. DR Congo, Niger, and Papua New Guinea are also supported through the Resilience and Sustainability Facility (RSF). Mali and Haiti are implementing Staff-Monitored Programs (SMPs).

[50] Since March 2020, total commitments to Ukraine have reached roughly 50 percent of the total commitments to FCS.

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