Abstract
Conventional fiscal analysis fails to address contingent fiscal risk. The government budget process and documentation generally fail to scrutinize the substantial claims on public resources that are associated with government contingent liabilities, realized and potential. This report fills gaps on our understanding of fiscal risks and develops suitable frameworks for managing them. It offers new analytical concepts, presents country case studies, and based on country case studies, provides a menu of practical ideas for policymakers and scholars to bring fiscal risk within the ambit of public finance. The book is divided into two parts: Part I of this book gives an overview of different approaches to dealing with government fiscal risks. The country examples in this part offer additional conceptual approaches and illustrate some of the discussion in the earlier chapters. Part II presents analytical and institutional approaches that governments might consider when facing risks in specific government programs or sectors. The book indicates that countries differ greatly in their treatment of contingent liabilities and other fiscal risks. In this respect, the book illustrates that contemporary practices have yet to be standardized.

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Sources of fiscal risk may be direct or contingent (a liability only if a particular event occurs). Whether direct or contingent, they are either explicit (recognized as a government liability by law or by contract) or implicit (a moral obligation reflecting public expectations and pressure from interest groups). The recent Asian crisis revealed that major moral hazards exist in markets and that sizable hidden fiscal risks may arise from contingent forms of government support. Governments must understand and know how to handle contingent liabilities if they are to avoid the danger of sudden fiscal events. Unreported contingent liabilities and the fiscal risks they pose played a major role in the economic crises that disrupted growth in a number of developing countries in the second half of the 1990s. These crises demonstrated that government analysis needs to cover a complete portfolio of assets and revenue base as well as direct and indirect contingent liabilities. Markets expect government support far beyond its legal obligation if financial stability is at risk. These include the government's quasi-fiscal activities including mainly the bail-outs of strategically important State Owned Enterprises and the non-performing loans of the banking sector.