ACCOUNTING AND BUDGETING OF GOVERNMENT FISCAL RISKS

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ABSTRACT

Government fiscal risk can be defined as a source of financial stress that could face a government in the future. The traditional cash-based accounting and reporting systems used by many governments provide inadequate information within the executive for the management of fiscal risks. They also do not produce enough information for the legislature and the public to hold governments accountable for the management of fiscal risks. The traditional focus on cash has been consistently associated with fiscal management practices that are short term and reactive. Poor information has interacted with poor incentives to discourage decision makers from taking a longer-term view of fiscal risks and their management.

In same time, conventional budgeting processes are deficient on two ways. First of all, they have a short time frame—one year in countries that have only annual budgets, three to five years in countries that budget within medium-term fiscal frameworks. These time horizons are too short to account for the downstream risks taken by governments when they establish pension systems and other entitlements, issue or guarantee loans, or promise to make good on shortfalls in financial performance. Second, conventional budgets record only cash flows; they do not account for the build up of liabilities, contingent obligations, or the future cost of past commitments.

In this paper, we will analyze how can solve traditional accounting and budgeting systems shortages to cover all kind of fiscal liabilities either direct and indirect or implicit and explicit.