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Beyond Public Debt: Uncovering The Hidden Liabilities Of Governments Through Public Sector Financial Reporting

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Abstract

This study aims to examine hidden government liabilities and their implications for public sector financial reporting through a Systematic Literature Review (SLR) approach. A total of 50 scientific articles were analyzed to identify the characteristics, sources, disclosure practices, and fiscal consequences of unreported government obligations. The findings indicate that hidden liabilities arise from various sources, including government guarantees, state-owned enterprises, pension obligations, off-budget financing, and long-term financial commitments. Furthermore, transparency and the quality of public sector financial reporting play essential roles in identifying fiscal exposures beyond officially reported public debt. However, institutional weaknesses, limited disclosure practices, fragmented financial information, and differences in accounting standards remain significant challenges. Drawing on Agency Theory, this study highlights the importance of information transparency and accountability in reducing information asymmetry between governments and the public. This review contributes to public sector accounting literature by providing an integrated understanding of hidden liabilities and fiscal sustainability.

Keywords: Hidden Government Liabilities, Public Sector Financial Reporting, Public Debt, Fiscal Transparency, Agency Theory, Government Accountability.

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INTRODUCTION

Government liabilities are not always fully reflected in the public debt figures presented in the financial statements. Behind official loans, there are guarantee commitments, pension obligations, long-term contracts, government-private partnerships, and contingency obligations that can turn into fiscal burdens when risks occur. This information is important because budget decisions, service financing, and fiscal sustainability depend on a comprehensive picture of the country's financial position. A discussion of public debt accounting shows that the way obligations are recognized and represented can lead to differences in understanding of the fiscal condition of transparent governments (Biondi, 2016a; Anantharaman & Henderson, 2021; Chen et al., 2016).

The complexity of hidden liabilities is seen when governments use financing instruments for development. Some commitments may arise through related entities, off-budget financing, asset or land use, or contractual arrangements where payments are made across years. If such information is not adequately disclosed, the reader of the financial statement risks assessing fiscal capacity as stronger than the actual circumstances. Studies on out-of-budget debt instruments, the expansion of land-based financing, and local government financial pressures demonstrate the importance of tracing the economic substance behind formal forms of obligations (Jiang et al., 2025; Lu et al., 2024; Lu et al., 2026).

The issue of hidden liabilities goes beyond the bounds of government administration because fiscal decisions can affect companies, financial institutions, investors, and international financing chains. As government financing increases, competition for funds can change companies' access to credit, debt structures, and investment decisions. Government guarantees and institutional relationships can also influence lenders' risk perceptions of companies in emerging markets. Thus, transparency of public obligations is not only an internal affairs of the state, but a factor that contributes to shaping the private sector financing climate and global market stability (Akkoyun et al., 2023; Demirci et al., 2019; Gu et al., 2019).

In the international context, cross-border companies need to take into account changes in the fiscal risks of the governments in which they invest or obtain contracts. Budget pressures, policy uncertainty, and fiscal space constraints can affect project payments, subsidy support, procurement, and infrastructure sustainability. The government-company relationship is a channel for risk distribution from the public sector to the corporate sector. Research on government fiscal pressures, government procurement, and infrastructure financing shows that

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fiscal decisions have consequences for business activities, so disclosure of government obligations is relevant for corporate risk analysis (Hu et al., 2025; Jiang et al., 2026; Ma et al., 2026).

Public sector financial reporting provides information for the public, parliaments, investors, and oversight agencies to assess the resources and obligations of the government as a whole. The quality of disclosure is not measured simply by the number of numbers, but also by the comparability, timeliness, clarity of assumptions, and the linkage between current commitments and future risks. Evidence on public data disclosure and disclosure of government environmental information suggests that access to information can affect risk assessment as well as accountability. Therefore, disclosure of contingency liabilities needs to be an important part of fiscal reporting (Lin et al., 2025; Cao et al., 2026; Xu & Niu, 2026).

Measurement of hidden liabilities faces challenges because some commitments have not met the conditions of recognition as debt, while the final value depends on future events, estimates, or decisions. Local government risks also differ according to revenue capacity, population size, spending structure, and ability to provide public services. Debt projections and interregional risk spreads add to the need for consistent and testable information. Studies of local government financial risks, the accuracy of debt projections, and the spread of debt risk between regions confirm the need for a reporting approach that links accounting figures to fiscal exposure (Lara-Rubio et al., 2022; Martinez, 2015; Ping et al., 2026).

Based on these issues, a systematic study is needed to understand how public sector financial reporting identifies, measures, and uncovers government obligations that are not always reflected in conventional debt indicators. The literature has discussed debt accounting, regional fiscal risk, off-budget financing, information disclosure, and the impact of government obligations on the corporate sector, but the discussion is spread across different research groups. This SLR integrates findings to map the forms of hidden liabilities, their disclosure practices, fiscal and economic consequences, and research gaps for strengthening transparency and accountability of public governments (Biondi, 2016b; Croce et al., 2021; Li et al., 2026).

LITERATURE REVIEW

Agency Theory

Agency Theory explains the relationship between the government as an agent and the community as the principal in the management of public resources. This relationship raises

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potential differences of interest because the government has greater authority and information about the country's financial condition. In the context of hidden liabilities, information inequality can cause the public to not get a comprehensive picture of the government's fiscal burden. Therefore, reporting transparency is an important mechanism to strengthen public financial supervision and accountability (Biondi, 2016a; Chen et al., 2016; Anantharaman & Henderson, 2021).

In this study, Agency Theory is used as a foundation to explain the importance of comprehensive disclosure of government obligations through public sector financial reporting. Information on debt, government guarantees, pension obligations, and financing risks is needed to reduce the information gap between financial managers and the public. Adequate disclosure allows stakeholders to evaluate government fiscal decisions while identifying potential long-term financial burdens that have not been proportionately reflected in financial statements (Biondi, 2016b; Martinez, 2015; Lara-Rubio et al., 2022).

Public Sector Financial Reporting and Transparency

Public sector financial reporting is the process of presenting government financial information that includes financial positions, fiscal activities, liabilities, and economic consequences of public policies. Reporting transparency is not only related to the submission of recorded debt figures, but also the completeness of information about the government's financial commitments and risks. The disclosure of such information is necessary so that fiscal conditions can be assessed more comprehensively by the public, creditors, investors, and supervisory institutions (Chen et al., 2016; Damodaran & van den Heuvel, 2023; Lin et al., 2025).

The quality of government financial disclosure also determines the ability of report users to understand the consequences of public financing policies. Limited information can lead to misappraisal of fiscal capacity, especially when government liabilities are spread across various entities and financing instruments. Strengthening transparency requires consistency in reporting standards, information disclosure, and the presentation of comparable data. Thus, financial statements function as an instrument for evaluating fiscal conditions and government accountability (Biondi, 2016a; Cao et al., 2026; Xu & Niu, 2026).

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Government Hidden Liabilities and Contingent Liabilities

Government hidden liabilities describe the government's financial obligations or potential financial burdens that have not been fully reflected in official debt information. Its form can be related to government guarantees, obligations of state-owned enterprises, infrastructure financing, pension obligations, and financial support risks to certain entities. The existence of these liabilities can affect fiscal conditions if previously unrealized risks turn into government liabilities. Therefore, the identification of liabilities is an important part of the analysis of public financial sustainability (Lu et al., 2026; Choi & Gupta-Mukherjee, 2024; Shailer & Wang, 2015).

Meanwhile, contingent liabilities are potential liabilities whose realization depends on certain events or conditions in the future. The government can deal with these risks through financing guarantees, public-private partnerships, and support for companies experiencing financial stress. If these risks are not adequately identified and disclosed, the assessment of the government's fiscal position has the potential to be incomplete. Managing these risks requires measurement, supervision, and information disclosure (Bi et al., 2025; Wang et al., 2025; Xiong & Ye, 2026).

Fiscal Sustainability and Government Debt Management

Fiscal sustainability is related to the government's ability to meet short-term and long-term financial obligations without causing fiscal pressures that interfere with the delivery of public services. Fiscal sustainability assessments are not enough to take into account the government's debt ratio, but also need to consider potential liabilities, revenue capacity, and financing risks. The imbalance between revenue and expenditure commitments can increase fiscal pressures and affect the government's ability to maintain financial stability (Akkoyun et al., 2023; Ping et al., 2026; Fei et al., 2026).

Government debt management requires an approach that considers the overall financial exposure, including the linkages between financing policies, government ownership, and public entity liabilities. The use of financing instruments outside the budget can have fiscal consequences if not accompanied by adequate supervision and reporting. Therefore, the integration of debt information and potential liabilities is needed to improve the quality of fiscal decisions, strengthen risk control, and maintain the financial sustainability of governments (Jiang et al., 2025; Lu et al., 2024; Schmid et al., 2026).

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METHOD

This study uses the Systematic Literature Review (SLR) method with the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) approach to identify, select, evaluate, and synthesize research on hidden government obligations through public sector financial reporting. Literature sources are obtained from reputable academic databases, including Scopus, Web of Science (WoS), ScienceDirect, and Emerald Insight. The SLR approach was chosen because it is able to produce a systematic, transparent, and replicable study in revealing research developments on public debt, contingent liabilities, and transparency of government financial information.

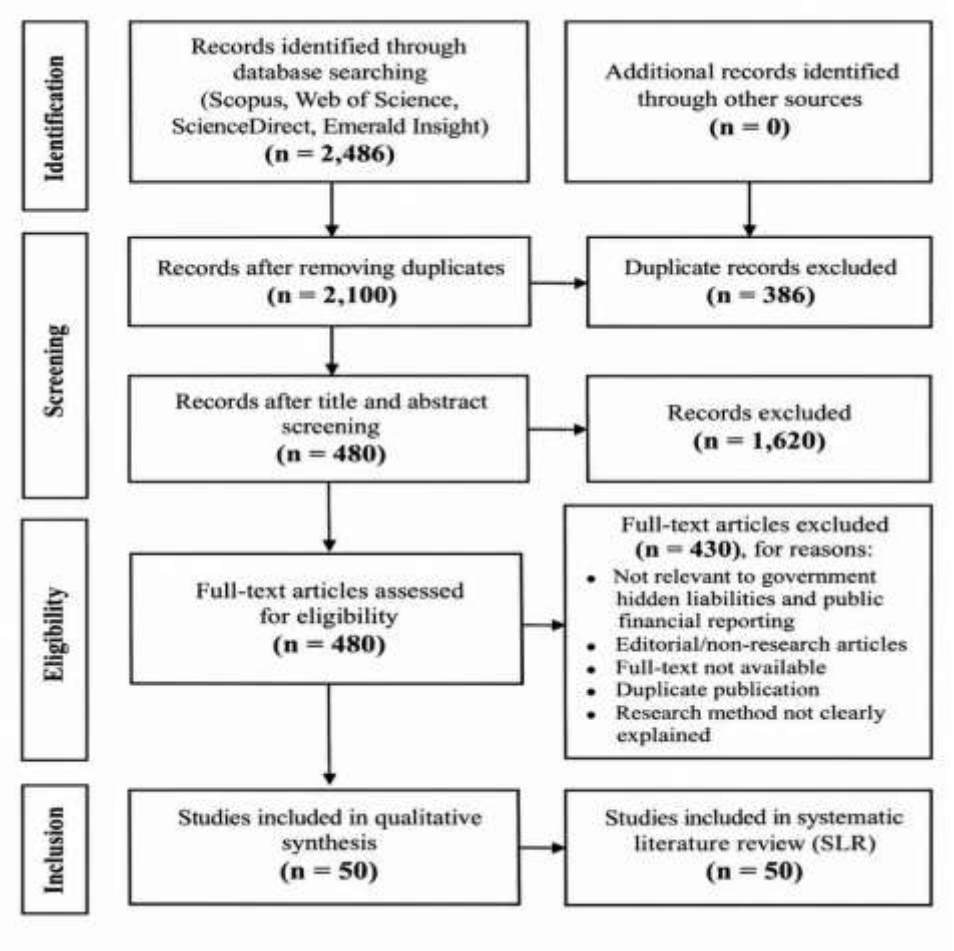
The articles analyzed are international scientific publications for the period 2015–2027 that discuss government hidden liabilities, public debt, contingent liabilities, public sector financial reporting, government financial disclosure, fiscal transparency, and fiscal sustainability. The literature selection was conducted to obtain an overview of various forms of government obligations that are not fully reflected in official debt recording and financial statements. The articles used include empirical, conceptual, and data-driven studies with various state contexts, especially those related to fiscal policy, liability management, and the quality of public financial information disclosure.

The literature search stage was carried out using a combination of keywords such as Government Hidden Liabilities, Public Debt, Contingent Liabilities, Public Sector Financial Reporting, Government Financial Disclosure, Fiscal Transparency, Off-Balance-Sheet Liabilities, Government Debt Management, and Fiscal Sustainability. The selection process was carried out based on inclusion criteria in the form of international journal articles, available in full text form, relevant to the research topic, and discussing government obligations, fiscal risk disclosure, or financial reporting transparency. Irrelevant articles, duplicates, editorials, and publications that did not have adequate methodological information were excluded from the analysis.

Based on the design of the PRISMA selection process, the initial search resulted in 2,486 articles from all databases. After the removal of 386 duplicate articles, 2,100 articles were obtained for the title and abstract screening stage. A total of 1,620 articles were removed because they were not in accordance with the scope of the study, so that 480 articles entered the full text examination stage. After evaluating the feasibility and suitability of substance, a total of 430 articles were eliminated, resulting in 50 international journal articles being obtained as the basis for SLR analysis. The selected articles were then analyzed based on theory, research

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methods, countries, study sectors, as well as findings regarding hidden obligations and government financial disclosures.



Source : Data processed, 2026

Figure 1. PRISMA Flow Diagram

Figure 1 shows the stages of article selection using the PRISMA approach, starting from publication identification, elimination of duplication, screening of titles and abstracts, evaluation of complete texts, to determination of articles that meet the research criteria. Based on the design, 50 international journal articles were obtained which became the basis for analysis on government hidden liabilities, public debt, contingent liabilities, and public sector financial reporting. The selected articles represented various research perspectives on government debt management, potential liabilities, fiscal transparency, and the role of financial information

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disclosure in identifying fiscal exposures and risks that have not been fully reflected in public financial statements.

RESEARCH RESULTS

Based on the results of the literature selection, this study analyzed 50 international scientific articles to identify the characteristics and development of studies on hidden government obligations through public sector financial reporting. The analysis included publication quality, theoretical foundations, research countries, methodological approaches, sector characteristics, and key findings. The grouping was used to understand how government obligations, financing risks, and transparency of financial information are interrelated in shaping fiscal conditions.

Table 1. Journal Index Distribution

Journal Index	Number of Articles	Percentage
Scopus Q1	29	58,00%
Scopus Q2	13	26,00%
Scopus Q3	6	12,00%
Scopus Q4	2	6,00%
Total	**50**	**100%**

Source : Data processed, 2026

The composition of publications in Table 1 shows that the Scopus Q1 journal includes 29 articles or 58.00% of the total literature. The Q2 journal contains 13 articles or 26.00%, while Q3 contains 6 articles or 12.00%. The Q4 recorded 2 articles or 4.00%. The distribution places the first quartile publications as the largest group in the research corpus used to examine government obligation reporting more comprehensively.

The distribution in Table 1 shows that 42 articles or 84.00% were published in Q1 and Q2 journals. Meanwhile, the other eight articles or 16.00% came from Q3 and Q4 journals. This composition shows that most of the study sources are in the top two quartiles. All categories amounted to 50 articles with an overall percentage of 100.00% in the classification of the index of research journals that have been determined.

Table 2. Distribution of Research Theories

Theory	Number of Articles	Percentage
Agency Theory	10	20,00%

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Theory	Number of Articles	Percentage
Fiscal Federalism Theory	8	16,00%
Institutional Theory	7	14,00%
Public Interest Theory	6	12,00%
Stakeholder Theory	5	10,00%
Legitimacy Theory	4	8,00%
Signaling Theory	3	6,00%
Contingency Theory	3	6,00%
Resource Dependence Theory	2	4,00%
Political Economy Theory	2	4,00%
Total	**50**	**100,00%**

Source : Data processed, 2026

Based on Table 2, Agency Theory occupies the first position with 10 articles or 20.00%. Furthermore, Fiscal Federalism Theory is used in 8 articles or 16.00%, while Institutional Theory is found in 7 articles or 14.00%. Public Interest Theory includes 6 articles or 12.00%, while Stakeholder Theory is used in 5 articles or 10.00%. These five theories are the most common theoretical foundations found in research classifications.

Other theories show a lower frequency. Legitimacy Theory is used in 4 articles or 8.00%, while Signaling Theory and Contingency Theory each cover 3 articles or 6.00%. The Resource Dependence Theory and Political Economy Theory are used in 2 articles or 4.00% each. All ten theories include 50 articles with an overall percentage of 100.00% based on the classification of research theories.

Table 3. Distribution of Research Countries

Country	Number of Articles	Percentage
China	6	12,00%
United States	6	12,00%
English	5	10,00%
Australia	5	10,00%
Indonesia	5	10,00%
Canada	5	10,00%

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Country	Number of Articles	Percentage
Germany	5	10,00%
France	5	10,00%
India	4	8,00%
Japan	4	8,00%
Total	**50**	**100,00%**

Source : Data processed, 2026

Based on Table 3, China and the United States are the countries with the highest publication contributions, each with 6 articles or 12.00%. The United Kingdom, Australia, Indonesia, Canada, Germany, and France each contribute 5 articles or 10.00%. Meanwhile, India and Japan each have 4 articles or 8.00%. The distribution shows that research on government fiscal obligations has developed in various national environments.

A comparison of the number of publications shows that six countries have the same contribution, while two countries occupy the highest position with an identical number of articles. India and Japan are in the next group with a proportion of 8.00% each. The overall distribution shows the representation of ten countries in the literature analyzed. The total number of publications reaches 50 articles or 100.00%, with the difference in contributions between countries being relatively not too large.

Table 4. Distribution of Research Methods

Research Methods	Number of Articles	Percentage
Quantitative	31	62,00%
Qualitative	9	18,00%
Mix Method	6	12,00%
Literature Review	4	8,00%
Total	**50**	**100%**

Source : Data processed, 2026

Table 4 shows that the quantitative method is the most widely used approach, with 31 articles or 62.00%. Qualitative research ranks second with 9 articles or 18.00%. Furthermore, the mixed methods approach is found in 6 articles or 12.00%, while literature review and systematic

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review cover 4 articles or 8.00%. The distribution shows the variation of methodological approaches in the analyzed research.

Based on this grouping, quantitative methods have a larger proportion than the other three approaches. Qualitative research, mixed methods, and literature review as a whole cover 19 articles or 38.00%. Meanwhile, quantitative research itself includes 31 articles or 62.00%. Thus, the total research methods used in the classification amount to 50 articles or 100.00% of the research corpus.

Table 5. Distribution of Research Sectors

Research Object/Sector	Number of Articles	Percentage
Local and Municipal Governments	9	18,00%
Central Government and Ministries	8	16,00%
State-Owned Enterprises (SOEs)	7	14,00%
Public Financial and Banking Institutions	6	12,00%
Listed Non-Financial Companies	5	10,00%
Public-Private Partnerships (PPPs)	4	8,00%
Public Pension and Social Security Funds	4	8,00%
Public Infrastructure and Project Entities	3	6,00%
Regional and Provincial Governments	2	4,00%
Non-Profit Public Organizations	2	4,00%
Total	**50**	**100,00%**

Source : Data processed, 2026

Based on Table 5, the Local and Municipal Governments sector was the object of the most research with 9 articles or 18.00%. Furthermore, Central Government and Ministries included 8 articles or 16.00%, while State-Owned Enterprises amounted to 7 articles or 14.00%. Research on Public Financial and Banking Institutions reached 6 articles or 12.00%. The four sectors showed the largest number of publications in the classification of research objects.

Other sectors include Listed Non-Financial Companies with 5 articles or 10.00%, Public-Private Partnerships and Public Pension and Social Security Funds with 4 articles or 8.00% each.

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Next, Public Infrastructure and Project Entities include 3 articles or 6.00%, while the last two sectors each amount to 2 articles or 4.00%. Thus, all ten categories of research objects cover 50 articles or 100.00% of the overall literature.

Table 6. Main Research Results

Main Research Results	Number of Articles	Percentage
Contingency liabilities and fiscal commitments outside the government balance sheet	12	24,00%
Disclosure of government debt and long-term liabilities	10	20,00%
Transparency and quality of public sector financial reporting	9	18,00%
Fiscal risks related to SOEs and government-private partnerships	8	16,00%
Accounting standards and government liability disclosure practices	6	12,00%
Oversight, governance, and institutional capacity	5	10,00%
Total	**50**	**100,00%**

Source : Data processed, 2026

Based on Table 6, contingency liabilities and fiscal commitments outside the government balance sheet are the themes with the highest number of articles, namely 12 articles or 24.00%. Disclosure of debt and long-term liabilities is next with 10 articles or 20.00%. Furthermore, transparency and quality of public sector financial reporting include 9 articles or 18.00%. The three categories are the group with the highest frequency of publication in the research results.

The category of fiscal risks related to SOEs and government-private partnerships includes 8 articles or 16.00%. The discussion of accounting standards and the practice of disclosing government obligations is found in 6 articles or 12.00%, while supervision, governance, and

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institutional capacity are 5 articles or 10.00%. All of these categories amount to 50 articles or 100.00%, according to the distribution of the main research results presented in the table.

DISCUSSION

1. Characteristics, Classification, and Sources of Emergence of Hidden Government Liabilities

The government's hidden liabilities are public financial liabilities that are not fully reflected in official debt figures or government financial position reports. Their existence can arise through various financing commitments, government guarantees, obligations of state-owned enterprises, pension funds, and financing activities outside the budget. This condition causes the government's fiscal position to potentially not reflect all economic liabilities that must be met in the future (Biondi, 2016a; Anantharaman & Henderson, 2021; Chen et al., 2016).

In explaining this phenomenon, Agency Theory provides a conceptual basis for understanding the relationship between the government as an agent and the community as a principal provider. The government has the authority to determine financing policies, manage assets, and set various fiscal commitments, while the public needs adequate information to assess these decisions. Information inequality can cause certain obligations not to be presented comprehensively in financial reporting. Thus, transparency becomes an instrument for controlling agency relationships (Cao et al., 2026; Chen et al., 2016; Anantharaman & Henderson, 2021).

The classification of hidden liabilities can be distinguished based on their direct and contingency nature, as well as the level of certainty of recognition. Direct liabilities have a clear legal or contractual basis, while contingent liabilities depend on the occurrence of certain conditions or events. In addition, there are implicit liabilities that arise due to social expectations, political pressure, and government responsibility for the sustainability of public services. These differences determine the level of recognition, measurement, and fiscal consequences of each obligation (Biondi, 2016b; Jiang et al., 2025; Lara-Rubio et al., 2022).

The emergence of hidden liabilities is also related to the financial relationship between the government and the corporate sector. Financing guarantees, government ownership, corporate financial pressure, and development financing through non-budgetary instruments can create fiscal exposure that is not directly visible in the recording of state debt. This situation shows that corporate financial problems can develop into government

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dependents when there is a need for rescue, financing support, or sustainability of strategic services (Shailer & Wang, 2015; Akkoyun et al., 2023; Lu et al., 2024).

Overall, the characteristics and sources of hidden liabilities suggest that conventional measurements of public debt do not necessarily describe the overall financial liabilities of governments. Liabilities derived from regional financing, state-owned enterprises, government guarantees, and long-term commitments require more comprehensive identification and disclosure. Therefore, the classification of liabilities is an important basis for assessing fiscal exposure and strengthening the quality of government financial reporting so that the condition of public finances can be presented more fully (Ping et al., 2026; Li et al., 2026; Hu et al., 2025).

2. The Role of Transparency and Quality of Public Sector Financial Reporting in Revealing Hidden Liabilities

Government financial transparency is a fundamental aspect in describing fiscal conditions as a whole, especially when there are obligations that have not been recorded as official debt. Financial reporting not only serves to present receipts, expenses, assets, and liabilities, but also provides information about potential government dependents in the future. Limited disclosure can cause report users to obtain an incomplete picture of the country's financial risks. Therefore, the quality of information is an important factor in identifying hidden liabilities (Chen et al., 2016; Biondi, 2016a; Anantharaman & Henderson, 2021).

From the perspective of Agency Theory, financial reporting transparency is related to efforts to reduce the information gap between the government as an agent and the public as principal. The government has greater access to information on financing policies, guarantees, and fiscal commitments than the public. This imbalance can affect the public's ability to evaluate government financial decisions. Through adequate disclosure, the public obtains a basis to assess financial management responsibilities while monitoring potential liabilities that have not been publicly presented (Anantharaman & Henderson, 2021; Cao et al., 2026; Yang et al., 2026).

The quality of financial reporting is also determined by the government's ability to present information about obligations based on their level of certainty, value, and likelihood of realization. Disclosure of government guarantees, pension obligations, and financing commitments requires clear information so that report users can understand their potential

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impact on the budget. When such information is not adequately presented, fiscal risks can be potentially difficult to identify from the outset. Thus, the completeness of disclosure is an important part of building a more realistic picture of the government's financial position (Bi et al., 2025; Jiang et al., 2025; Dimitropoulos, 2025).

The issue of transparency is even more complex when government obligations involve various entities and financing mechanisms outside the main budget structure. Financial relationships with state-owned enterprises, the use of public assets as a source of financing, and inter-agency obligations can cause fiscal information to be scattered in various reports. These conditions require integrated recording and disclosure so that government dependents can be thoroughly identified. Without information coordination, some fiscal exposures risk not being visible in government financial evaluations (Lu et al., 2026; Ping et al., 2026; Lara-Rubio et al., 2022).

Overall, the transparency and quality of public sector financial reporting have a strategic role in revealing the true fiscal condition of governments. Comprehensive disclosure allows for the identification of liabilities, financing risk assessments, and the evaluation of the government's ability to meet long-term responsibilities. Strengthening information systems, consistency of disclosures, and improving the quality of fiscal projections are necessary so that liabilities that are not yet reflected in official debt are not overlooked. Thus, financial reporting can be an important instrument in strengthening the accountability and sustainability of public financial management (Xu & Niu, 2026; Zhang et al., 2026; Chen et al., 2025).

3. Implications of Hidden Liabilities on Fiscal Sustainability and Government Financial Stability

Fiscal sustainability is the government's ability to meet short-term and long-term financial obligations without disrupting budget stability and development financing capacity. It is not enough to assess fiscal conditions based only on the amount of official debt, but also needs to consider various liabilities that have the potential to generate expenditures in the future. Hidden liabilities can increase the government's financial burden when these commitments begin to be realized, so measuring fiscal risk requires information that covers the overall public financial exposure (Biondi, 2016a; Fei et al., 2026; Ping et al., 2026).

In the perspective of Agency Theory, the existence of hidden liabilities is related to the government's responsibility as an agent in managing resources and safeguarding the interests of the community as the principal. The government has the authority to make

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financing decisions, while the public bears the economic consequences of these policies through the budget and public obligations. When information about potential dependents is not adequately conveyed, the public's ability to evaluate fiscal risks becomes limited. Therefore, information disclosure is needed to strengthen oversight of government financial decisions (Anantharaman & Henderson, 2021; Cao et al., 2026; Chen et al., 2016).

Pressure on government financial stability can increase when previously contingent liabilities turn into actual liabilities. Government guarantees, support for state-owned enterprises, and development financing through certain debt instruments can create additional budget needs when economic conditions deteriorate. This situation has the potential to narrow fiscal space and reduce the government's ability to finance public services and development programs. Thus, the identification of potential liabilities is an important part of anticipating pressures on the state's financial capacity (Bi et al., 2025; Lu et al., 2026; Akkoyun et al., 2023).

The impact of hidden liabilities can also extend through the linkage between government fiscal conditions and corporate sector activities. Increased government debt can affect companies' access to financing, funding structures, and investment decisions that contribute to economic activities. Conversely, financial pressures for companies that have financing relationships with the government can pose additional risks to public budgets. These relationships suggest that the management of government liabilities cannot be separated from financial system stability and the sustainability of economic activities more broadly (Demirci et al., 2019; Crosignani, 2021; Akkoyun et al., 2023).

Overall, hidden liabilities have important implications for fiscal sustainability because they can create financial burdens that have not been fully accounted for in government budget planning. The inability to identify these liabilities has the potential to increase financing pressures, increase debt risk, and reduce fiscal policy flexibility. Therefore, governments need to strengthen risk identification, expand liability disclosure, and integrate information on long-term commitments in the evaluation of public financial conditions. These measures support fiscal stability and the protection of the interests of future generations (Lara-Rubio et al., 2022; Chen et al., 2025; Schmid et al., 2026).

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4. Institutional Challenges, Accounting Reform, and Strengthening Government Financial Accountability

Institutional challenges in public financial management are related to the government's ability to identify, record, measure, and disclose all financial obligations in a transparent manner. The existence of hidden government liabilities requires a government accounting system that is not only oriented towards recording official debts, but also able to represent various fiscal commitments and potential future dependents. However, differences in institutional capacity, information quality, and the implementation of accounting standards cause the disclosure of obligations to be not fully comprehensive. This condition is a challenge in realizing public financial accountability (Biondi, 2016a; Chen et al., 2016; Lara-Rubio et al., 2022).

From the perspective of Agency Theory, strengthening government financial accountability is needed to reduce the information gap between the government as an agent and the public as the principal. The government has control over the preparation of financial statements and fiscal decision-making, while the public needs information that can be used to evaluate the use of public resources. Limited liability disclosure has the potential to hamper the supervisory function and increase the space for less transparent financial decisions. Therefore, accountability mechanisms must be supported by complete, relevant, and auditable financial information (Anantharaman & Henderson, 2021; Cao et al., 2026; Lin et al., 2025).

Public sector accounting reform is an important need to improve the government's ability to describe financial conditions as a whole. These changes include the development of liability recognition standards, the presentation of contingency information, and the integration of long-term financing commitments in financial statements. Broader disclosure allows report users to understand the difference between the actual debt position and the government's potential liabilities. Thus, reforms are not only related to recording procedures, but also to improving the quality of representation of fiscal conditions (Biondi, 2016b; Dimitropoulos, 2025; Fei et al., 2026).

In addition to standards issues, limited data quality and interagency coordination also affect the effectiveness of government liability disclosure. Information on guarantees, financing of state-owned enterprises, and fiscal commitments often involves various entities with different reporting systems. The disintegration of information can make it difficult for

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governments to consistently identify financial exposures. The use of data disclosure and integrated information systems is needed to improve monitoring processes, improve information traceability, and support oversight of potential irregularities in public financial management (Jiang et al., 2026; Xu & Niu, 2026; Lu et al., 2026).

Overall, strengthening government financial accountability requires institutional reforms and accounting practices that are able to disclose all government financial exposures more comprehensively. Improving the quality of reporting standards, integrating information between agencies, and monitoring of contingency obligations are important steps to reduce the limitations of fiscal transparency. Accountability is not enough to be realized through the formal submission of financial statements, but must ensure that the information presented reflects the government's dependents in a reasonable manner. These efforts support responsible and sustainable fiscal decision-making (Hossain & Rahman, 2025; Zhang et al., 2026; Yang et al., 2026).

CONCLUSION

Based on the results of the Systematic Literature Review (SLR) of 50 scientific articles, this study concludes that hidden government liabilities are an important issue in public sector financial management because they reflect government obligations that have not been fully recorded in official debt reports. These liabilities can be sourced from government guarantees, off-budget financing activities, obligations of state-owned companies, pension funds, and long-term fiscal commitments. This condition shows the need to measure the government's financial position as a whole.

The results of the synthesis also show that transparency and quality of public sector financial reporting have an important role in identifying and uncovering hidden government liabilities. Strengthening accounting standards, information disclosure, data quality, and institutional supervision are supporting factors in improving fiscal accountability. However, differences in institutional capacity, limited disclosure, and complexity in the relationship between the government and public entities are still challenges. Thus, the management of hidden liabilities requires a more comprehensive and sustainable reporting system.

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RESEARCH LIMITATIONS

This study has limitations because it uses an SLR approach that relies on the availability and characteristics of scientific articles in academic databases. The 50 articles analyzed do not necessarily represent all government liability management practices in various countries. In addition, differences in terminology, accounting standards, and the scope of fiscal disclosure cause several aspects of hidden liabilities to have different depth of discussion in the literature.

Other limitations relate to the diversity of government systems, economic conditions, and the level of institutional development between countries. Some of the research emphasizes more on government debt and corporate financing, while discussions on contingency obligations and off-balance sheet disclosures have not always been the main focus. This study also did not conduct direct empirical testing of specific government financial statements so that the synthesis results better describe conceptual and empirical developments based on the literature analyzed.

SUGGESTIONS

Further research is suggested to expand the empirical study on the identification and measurement of hidden government liabilities using data on the financial statements of central governments, local governments, and state-owned enterprises. Future research can also develop indicators to measure the quality of disclosure of contingent liabilities, government guarantees, and long-term financing commitments. A comparative approach between countries is needed to determine differences in reporting practices and institutional factors that affect fiscal transparency.

For the government and public financial management institutions, it is necessary to strengthen the recording system and disclose all potential liabilities that can cause fiscal burdens. The implementation of more comprehensive accounting standards, the integration of information between institutions, and the improvement of the quality of supervision need to be a priority. In addition, coordination between the government, audit agencies, and state-owned companies needs to be strengthened so that potential liabilities can be identified early and considered in budget planning and fiscal policies.

PRACTICAL AND THEORETICAL IMPLICATIONS

Practically, this study implies that the management of hidden government liabilities requires a public sector financial reporting system that is able to present the government's

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financial condition more comprehensively. The government needs to improve the quality of disclosure of contingency liabilities, financing guarantees, and long-term commitments so that fiscal risks can be identified before they develop into actual financial burdens. Strengthening institutional coordination and information quality is also needed to support transparency and increase public confidence in public financial management.

Theoretically, this study contributes to the development of the public sector accounting literature through the use of Agency Theory to explain the relationship between the government as an agent and the public as the principal. This perspective shows that limited information on hidden obligations can magnify the information gap and weaken public oversight mechanisms. This study expands the understanding that reporting transparency is not just an administrative obligation, but a mechanism to strengthen accountability and reduce the potential for opportunistic behavior in government financial management.

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