Fiscal sustainability—an issue that has become prominent in developing countries—refers to a government’s ability to maintain a set of fiscal policies that result in financial solvency over the long term. Fiscal sustainability analysis is the use of a simple set of tools to assess a government’s budget and debt position. Such analysis leads to conclusions about the appropriateness of that government’s fiscal policy and is therefore an increasingly sought-after component of development work.

Fiscal Sustainability in Theory and Practice: A Handbook represents the only comprehensive source of information on fiscal sustainability analysis. It is organized around three themes. First, the book provides both the basic economic theory and the tools for everyday use—that is, a combination of the theoretical literature and examples of particular methods of analysis. Second, the volume describes the effects of business cycles on public finance and the role of fiscal rules. Third, the authors examine crises and their impacts on fiscal sustainability. Case studies from developing countries are used to highlight these themes.

This handbook is a highly organized and easily accessible reference for both seasoned practitioners and those previously unfamiliar with fiscal sustainability analysis. Whether working in economic development or studying at the undergraduate or graduate level in economics or public policy, the reader will find this volume an invaluable tool.

Fiscal Sustainability in Theory and Practice provides a broad, deep, and policy-relevant review of fiscal sustainability, covering theory, analytical tools, measurement issues, and empirical applications related to sustainability and solvency of government finances at normal times and at times of currency crises. Representing a well-accomplished blend of theory and practice, this book stands out as a primer on the topic.

—Dr. Klaus Schmidt-Hebbel, Central Bank of Chile