

Contingent Liabilities

Introduction

Contingent liabilities are possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the government. Contingent liabilities should be examined in the same manner as a proposal for a loan, taking into account, inter alia, the credit-worthiness of the borrower, the amount and risks sought to be covered by a sovereign guarantee, the terms of the borrowing, justification and public purpose to be served, probabilities that various commitments will become due and possible costs of such liabilities. Hence, such off balance sheet transactions cannot be overlooked in order to gain a holistic view of a country's fiscal position and unveil the hidden risks associated with the obligations made by the government outside the budget. Similarly, reported debt levels of a sovereign may be understated owing to the non-inclusion of contingent liabilities, explicit or implicit, which may materialize in future.

Table 1 Guarantees Outstanding as of March 31, 2012 (Rs. Billion)

Outstanding Guarantees extended to PSEs	487
-Domestic Currency	256
-Foreign Currency	231
Memo:	
Foreign Currency (US\$ Million)	2,544

Source: Debt Policy Coordination Office

In the case of Pakistan, these include, for instance, explicit and implicit guarantees issued to Public

Sector Enterprises (PSEs) and unfunded losses of State Owned Entities. Total outstanding stock of government guarantees as of March 2012 stood at Rs. 487 billion.

The Fiscal Responsibility and Debt Limitation (FRDL) Act 2005 stipulates that the issuance of guarantees, including those for Rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed from time to time as well as renewal of existing guarantees, should not exceed 2.0 percent of the estimated gross domestic product in any financial year. As of March 2011, Government of Pakistan issued new guarantees aggregating to Rs. 146.6 billion or 0.7 percent of GDP [as shown in Table 2].

Table 2: Guarantees Issued Details

Fiscal Year	Issuance (Rs. Billion)	As % of GDP
2007	140.7	1.6
2008	138.8	1.4
2009	276.3	2.2
2010	224.0	1.5
2011	62.4	0.3
2012*	146.6	0.7

Source: Budget Wing & Debt Policy Coordination Office
* : July - March 2012

The outstanding contingent liabilities as of March 31, 2011 stood at Rs.487 billion against the end-June 2011 position of Rs. 559 billion (Table 3).

Table 3: Guarantees Stock

Guarantees	2010	2011	2012*
Outstanding Guarantees (1+2)	603	559	487
1- Domestic Currency (Rs. Billion)	329	301	256
2- Foreign Currency (Rs. Billion)	274	258	231
Foreign Currency (US\$ Million)	3,246	2,999	2,544

Source: Debt Policy Coordination Office

* July-March 2012

Guarantees issued against commodity operations are not included in the stipulated limit of 2 percent of GDP as the loans are secured against the underlying commodity and are essentially self liquidating and thus should not create a long term liability for the government. The quantum of these guarantees depends on the supply-demand gap of various commodities, their price stabilization

objectives, volume procured, and domestic and international prices. The guarantees were issued against the commodity financing operations undertaken by TCP, PASSCO, and provincial governments. As of April 2012, the outstanding stock of Rs. 303.9 billion against the end-June 2011 position of Rs. 397.5 billion indicates a retirement of Rs. 93.6 billion on behalf of commodity financing operations.