

CONTINGENT LIABILITIES

Contingent liabilities are possible obligation that arises from past events and their 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.

Contingent liabilities of Pakistan are primarily guarantees issued on behalf of Public Sector Enterprises (PSEs). The sovereign guarantee is normally extended to improve financial viability of projects or activities undertaken by the government entities with significant social and economic benefits. It allows public sector companies to borrow money at lower costs or on more favourable terms and in some cases allows to fulfil the requirement where sovereign guarantee is a precondition for concessional loans from bilateral/multilateral agencies to sub-sovereign borrowers.

The volume of new government guarantees issued during a financial year is limited under Fiscal Responsibility and Debt Limitation Act which stipulates that the government shall not give guarantees aggregating to an amount exceeding 2 percent of the GDP in any financial year including those for rupee lending, rate of return, outright purchase agreements and other claims and commitments provided the renewal of existing guarantees shall be considered as issuing a new guarantee. The limit of 2 percent of the GDP is applicable on guarantees issued both in local and foreign currencies. During first nine months of current fiscal year, Federal Government issued fresh/rollover guarantees aggregating to Rs 115 billion or 0.3 percent of GDP while outstanding stock of government guarantees was Rs 1,890 billion at end March 2020.

Table-1: Outstanding Guaranteed Debt Portfolio of the Federal Government at end March 2020

	(Rs in billion)
Domestic	1,412
External	478
Total	1,890
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External (US\$ in Million)	2,868

Source: Debt Policy Coordination Office, Staff Calculation, Ministry of Finance

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. These guarantees were issued against commodity financing operations undertaken by TCP, PASSCO, and provincial governments. The outstanding stock of commodity operations was Rs 649 billion at end March 2020.
