Annex 1

Contingent Liabilities

Contingent liabilities are possible obligations 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. The public debt may be understated without reporting contingent liabilities. Contingent liabilities are not added to the overall debt of the country however, 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. Therefore, it is imperative to examine the contingent liabilities 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 etc.

Contingent liabilities in Pakistan include, explicit and implicit guarantees issued to Public Sector Enterprises (PSEs) and unfunded losses of state owned entities. Public disclosure of information about guarantees is an essential component of fiscal transparency but it is more important to reflect the impact of financial risk associated with guarantees in the fiscal account. Total outstanding stock of government guarantees as on March 31, 2013 stood at Rs.609 billion. It includes guarantees issued in both domestic and foreign currencies that appear in the accounting books of PSEs. The Rupee guarantees accounted for 54 percent of the total stock as on March 31, 2013.

Table-1.1: Guarantees Outstanding as on March 31, 2013	(Rs. in billion)
Outstanding Guarantees extended to Public Sector Enterprises (PSEs)	609
- Domestic Currency	328
- Foreign Currency	281
Memo:	
Foreign Currency (US$ in million)	2,855

Source: Debt Policy Coordination Office Staff calculations, Finance Division

The volume of sovereign guarantees undertaken during a financial year is limited under Fiscal Responsibility and Debt Limitation Act 2005 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, output 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 July-March, 2012-13, the Government of Pakistan issued fresh/rollover guarantees aggregating to Rs.111 billion or 0.5 percent of GDP as shown in Table 1.2.

Table-1.2: Guarantees Issued Details (Rs. in billion)

	2006	2007	2008	2009	2010	2011	2012	2013 (Jul-Mar)
New guarantees issued	14.0	140.7	138.8	276.3	224.0	62.4	203.2	111.0
(as percent of GDP)	0.2	1.5	1.3	2.1	1.5	0.3	1.0	0.5

Source: Debt Policy Coordination Office Staff calculations, Finance Division

The outstanding contingent liabilities as on March 31, 2013 stood at Rs.609 billion against the end-June 2012 position of Rs.516 billion (See Table 1.3).

Table-1.3: Guarantees Stock

	2010	2011	2012	2013 (Jul-Mar)
Outstanding Guarantees (1+2)	603	559	516	609
1- Domestic Currency (Rs. in billion)	329	301	262	328
2- Foreign Currency (Rs. in billion)	274	258	254	281
Foreign Currency (US$ in million)	3,246	2,999	2,689	2,855

Source: Debt Policy Coordination Office Staff calculations, Finance Division

Guarantees issued against commodity operations are not included in the stipulated limit of two 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 on March31, 2013, the outstanding stock issued against commodity operations was Rs.426.3 billion against the end-June 2012 position of Rs.480.1 billion.