Annex I

Contingent Liabilities

Contingent liabilities are possible obligations that arise 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. In addition to that in some cases permits 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 accord guarantees aggregating to an amount exceeding two 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.

During July 2020 to March 2021, the government issued fresh/rollover guarantees/Letter of Comforts (LoCs) aggregating to Rs 83 billion or 0.2 percent of GDP. The outstanding stock of guarantees was Rs 2,410 billion at end March 2021.

Table 1: Summary of Outstanding Government Guarantees

	(All figures are Rs in billion unless otherwise stated)
Domestic	1,613
External	796
Total Outstanding Government Guarantees	**2,410**
Memo:	
External (US$ in million)	**5,213**
Exchange Rate (Pak Rupee/US Dollar)	153

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. These guarantees are issued against the commodity financing operations undertaken by TCP, PASSCO and provincial governments. The outstanding stock of commodity operations was Rs 701 billion at end March 2021.