

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). A sovereign guarantee is normally extended to improve financial viability of projects or activities undertaken by 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 to fulfil the requirement where sovereign guarantee is a precondition for concessional loans from bilateral/multilateral agencies to sub-sovereign borrowers.

The Fiscal Responsibility and Debt Limitation (Amendment) Act, 2005 under sub-section 3, clause (d) imposes following two ceilings

related to Government guarantees:

- i. Flow ceiling: 2 percent of GDP on the issuance of Government guarantees, with renewal of existing guarantees being considered as issuing new guarantees.
- ii. Stock ceiling: 10 percent of GDP on the total stock of outstanding Government guarantees.

During Jul-Mar FY23, the Government issued fresh/rollover guarantees aggregating to Rs. 171 billion or 0.2 percent of GDP. The outstanding stock of guarantees was Rs 3,460 billion at end-March 2023.

Summary of Outstanding Government Guarantees (Rs bn; unless otherwise stated)	
Domestic Guarantees (A)	1,579
External Guarantees (B)	1,881
Total Guarantees (A+B)	3,460
Memo:	
External (US\$ in million)	6,628
Exchange Rate (Pak Rupee/US Dollar)	284

Source: Debt Management Office,
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 commodity financing operations undertaken by Trading Corporation of Pakistan (TCP), Pakistan Agriculture Storage & Services Corporation (PASSCO), and Provincial Governments. The outstanding stock of commodity operations was Rs 1,112 billion at end-March 2023.