Annexure I

Contingent Liabilities

Introduction

Contingent liabilities are conditional obligations that arise from events that may require an outflow of resources dependent on occurrence of events not wholly within the control of the government. Contingent liabilities can be distinguished from the liabilities as these are conditional in nature and do not represent the present obligations of the government. Accordingly, contingent liabilities are not recognized as liabilities regardless of the likelihood of the occurrence (or non-occurrence) of the uncertain future event.

Contingent liabilities of Pakistan are 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 favorable terms and in some cases allows to fulfill the requirement where sovereign guarantee is a precondition for concessional loans from bilateral/multilateral agencies to sub-sovereign borrowers.

During first half of current fiscal year, the government issued fresh/rollover guarantees aggregating to Rs 66 billion, while, outstanding stock of government guarantees as at end December, 2017 amounted to Rs 1,004 billion. The share of rupee guarantees increased during past few years and accounted for 92 percent of the total guarantees stock as at end December 2017.

Table-1.1: Guarantees Outstanding as on December 31, 2017	**(Rs in billion)**
Outstanding Guarantees extended to Public Sector Enterprises (PSEs)	**1,004.5**
- Domestic Currency	925.4
- Foreign Currency	79.1
Memo:	
Foreign Currency (US$ in million)	716.5
Source: Debt Policy Coordination Office Staff Calculations, Ministry of Finance	

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 July-December 2017-18, Government of Pakistan issued fresh/rollover guarantees aggregating to Rs 66 billion or 0.2 percent of GDP [as shown in Table 1.2].

Table-1.2: New Guarantees Issued

(Rs in billion)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018***
New guarantees issued	136	106	156	191	599	66
(as percent of GDP)	0.6	0.4	0.6	0.7	1.9	0.2
*July – December 2017						

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

The year wise outstanding stock of government guarantees from 2012-13 till December 31, 2017 is presented through Table 1.3:

Table-1.3: Guarantees Stock **(Rs in billion)**

	2013	2014	2015	2016	2017	2018*
Outstanding guarantees extended to PSEs	**626**	**555**	**644**	**721**	**937**	**1,004**
-Domestic Currency	355	426	533	627	851	925
-Foreign Currency	271	129	111	95	86	79
*end December, 2017						

Source: Debt Policy Coordination Office Staff Calculations, 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. The guarantees were issued against the commodity financing operations undertaken by TCP, PASSCO, and provincial governments. As on December 31, 2017, the outstanding stock issued against commodity operations was Rs 692 billion.