ANNEXURE-I

Contingent Liabilities

Introduction

Contingent liabilities are possible obligation that arises from past events and their existence will be confirmed only by the occurrence or nonoccurrence 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. Similarly, reported debt levels of a sovereign may be understated owing to the non-inclusion of contingent liabilities, explicit or implicit, which may materialize in future.

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 nine months of current fiscal year, the government issued fresh/rollover guarantees aggregating to Rs 168 billion, while, outstanding stock of government guarantees as at end March, 2019 amounted to Rs 1,265 billion. The share of rupee guarantees accounted for 91 percent of the total guarantees stock as at end March 2019.

Table-1.1: Guarantees Outstanding as on March 31, 2019 (Rs in billion)	
Outstanding Guarantees extended to Public Sector Enterprises (PSEs)	**1,265.1**
-Domestic Currency	1,151.4
-Foreign Currency	113.7
Memo:	
Foreign Currency (US$ in million)	807.8
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-March 2018-19, Government of Pakistan issued fresh/rollover guarantees aggregating to Rs 168 billion or 0.4 percent of GDP [as shown in Table 1.2].

Table-1.2: New Guarantees Issued

(Rs in billion)	2013	2014	2015	2016	2017	2018	2019*
New guarantees issued	136	106	156	191	368	324	168
(as percent of GDP)	0.6	0.4	0.6	0.7	1.2	0.9	0.4

*July – March 2019
Source: Debt Policy Coordination Office Staff Calculations, Ministry of Finance

The year wise outstanding stock of government guarantees from 2012-13 till March 31, 2019 is presented through Table 1.3:

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

	2013	2014	2015	2016	2017	2018	2019*
Outstanding guarantees extended to PSEs	**626**	**555**	**644**	**721**	**838**	**1,236**	**1,265**
-Domestic Currency	355	426	533	627	742	1,161	1,151
-Foreign Currency	271	129	111	95	95	76	113.7

*end March, 2019
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.