Statement of Contingent Liabilities

This statement is prepared to comply with section 4, sub-section 3 (a) of Public Finance Management Act, 2019, which states that Annual Budget Statement shall also contain statement of contingent liabilities of the Federal Government. As per section 2(h) of the Act, 'contingent liability' is defined as 'a financial liability that may arise or come into being if one or more events occur'.

2. Contingent liabilities are generally off-budget transactions. Quantification and disclosure of such liabilities is important to present a holistic view of government's fiscal position. Such liabilities unveil the hidden risks associated with obligations that the government has made outside the budget.

3. Federal Government's contingent liabilities are primarily guarantees issued on behalf of loss-making Public Sector Enterprises (PSEs). The sovereign guarantees are normally extended to improve financial viability of new projects or activities undertaken by PSEs for social and economic benefits. Through government sovereign guarantees, PSEs are able to borrow finances at lower costs or on more favourable terms. In some cases, issuance of sovereign guarantees is a precondition for concessional loans from bilateral and multi-lateral.

4. 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 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.

5. During July-March 2019-20, the government issued fresh/rollover guarantees aggregating to Rs 115 billion or 0.3 percent of GDP. Outstanding stock of guarantees as at end of March 2020 amounted to Rs 1,890 billion, details of which are as follows:

Table 1: Sovereign Guarantees extended by Federal Government by end March '20

	Drawn (Rs billion)
Domestic	1,412
External	478
Total	**1,890**

Memo: External (US$ in Million): 2,868 and Exchange Rate on 31st March: 167

6. Sector-wise share of the above guarantees is as follows:

Table 2: Sector-wise share of guarantees – Rs billion

Sector	Drawn (Rs billion)	% Share
Power Sector	1,113	59%
Aviation	199	11%
Financial	66	3%
Manufacturing	50	3%
Oil and Gas	40	2%
Other	421	22%
Total	**1,890**	100%

7. 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. Thus, these 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 stabilisation objectives, volume procured, and domestic and international prices.

8. The guarantees were issued against the commodity financing operations undertaken by Trading Corporation of Pakistan (TCP), Pakistan Agricultural Storage and Services Corporation (PASSCO), and provincial governments. The outstanding stock of commodity operations amounted to Rs 649.3 billion as at end March 2020.