CONTINGENT LIABILITIES

In analyzing a country's pubic debt profile, it is essential to consider contingent liabilities alongside direct debt obligations. Contingent liabilities are possible obligations that can arise from specific future events. They can only become an actual liability based on the occurrence of one or more future events, not wholly within the control of the Government.

Contingent liabilities of the Government are primarily composed of guarantees issued on behalf of Public Sector Enterprises (PSEs) to secure financing from local or external lenders. 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.

Contingent liabilities should be examined in the same manner as a proposal for a loan, considering, 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 are important to monitor 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.

The Fiscal Responsibility and Debt Limitation Act, 2005 (as amended from time to time) under section 3, 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 estimated GDP on the total stock of outstanding Government guarantees.

During July-March FY 2025, the Government issued fresh/rollover guarantees aggregating to Rs 405 billion or 0.35 percent of GDP. The outstanding stock of guarantees was Rs 3,448 billion at end March 2025. This amount excludes the self-liquidating guarantees issued for commodity operations which stood at Rs 1,075 billion as at end March 2025. Such guarantees are issued against commodity financing operations undertaken by Trading Corporation of Pakistan (TCP), Pakistan Agriculture Storage & Services Corporation (PASSCO), and Provincial Governments.

Summary of Outstanding Government Guarantees (Rs billion; unless otherwise stated)

Domestic Guarantees (A)	1,463
External Guarantees (B)	1,985
Total Guarantees (A+B)	3,448
Memo:	
External (US$ in million)	7,086
Exchange Rate (Pak Rupee/US Dollar)	280

Source: Debt Management Office, Ministry of Finance