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PART I

Acts, Ordinances, President's Orders and Regulations

SENATE SECRETARIAT

*Islamabad, the 18th June, 2005*

The following Act of Majlis-e-Shoora (Parliament) received the assent of the President on 13th June, 2005, is hereby published for general information:—

ACT No. VI of 2005

*An Act to provide for elimination of revenue deficit and reduction of public debt to a prudent level by effective public debt management*

WHEREAS it is expedient to provide for elimination of revenue deficit and reduction of public debt to a prudent level by effective debt management and for matters connected therewith and incidental thereto;

It is hereby enacted as follows:—

**CHAPTER I**

**PRELIMINARY**

1. **Short title, extent and commencement.**—(1) This Act may be called the Fiscal Responsibility and Debt Limitation Act, 2005.

(115)

*Price : Rs. 10.50*

[2966(05)/Ex. Gaz.]

(2) It extends to the whole of Pakistan.

(3) It shall come into force at once.

2. **Definitions.**—In the Act, unless there is anything repugnant in the subject or context,—

- (a) “annual budget statement” means the annual statement of the estimated receipts and expenditures of the Federal Government laid before the National Assembly under Article 80 of the Constitution;
- (b) “Constitution” means the Constitution of the Islamic Republic of Pakistan;
- (c) “debt reduction path” means the debt reduction path prepared by Debt Policy Co-ordination Office established under clause (b) of sub-section (2) of section 13;
- (d) “economic policy statements” means the economic, fiscal and debt policy statements specified in sub-section (1) of section 4;
- (e) “fiscal indicators” means the measures such as numerical ratios and proportions to gross domestic product or revenues for evaluation of the fiscal position of the Government as may be prescribed;
- (f) “guarantee” includes any obligation undertaken to make payments in the event of the profit of an undertaking falling short of a specified amount;
- (g) “Minister” means the Minister for Finance, Government of Pakistan;
- (h) “Office” means the Debt Policy Co-ordination Office established under sub-section (1) of section 12;
- (i) “prescribed” means, except where otherwise provided, prescribed by rules made under this Act;
- (j) “principles of sound fiscal and debt management” means the principles of sound fiscal and debt management specified in section 3;
- (k) “revenue deficit” means the difference between total current expenditure and total revenue of the Government which indicates increase in liabilities of the Government without corresponding increase in assets of the Government;

- (1) "social and poverty related expenditure" means Government expenditure under the heads of—
- (i) Highways, roads and bridges;
  - (ii) water supply and sanitation;
  - (iii) education;
  - (iv) health;
  - (v) population planning;
  - (vi) social security and other welfare;
  - (vii) natural calamities;
  - (viii) Irrigation;
  - (ix) land reclamation;
  - (x) rural development;
  - (xi) food subsidies;
  - (xii) sub-ordinate judiciary;
  - (xiii) law and order (only the development aspect);
  - (xiv) village electrification; and
  - (xv) food support programme;

and includes such other expenditures as may be specified in the National Poverty Reduction Strategy Paper from time to time;

- (m) "total expenditure" means a sum of total recurrent and development expenditure of the Government;
- (n) "total current expenditure" means a sum of total recurrent expenditure of the Government;
- (o) "total public debt" means a sum of the total outstanding borrowings of the Government; and
- (p) "total revenue" means a sum of tax revenues, non-tax revenues and surcharges of the Government

## CHAPTER II

### PRINCIPLES OF SOUND FISCAL AND DEBT MANAGEMENT

3. **Principles of sound fiscal and debt management.**—(1) Subject to sub-section (4), the Federal Government shall pursue its policy objectives in

accordance with the principles of sound fiscal and debt management specified in sub-section (3).

(2) The Federal Government shall take all appropriate measures to eliminate the revenue deficit, reduce total public debt and maintain it within prudent limits thereof.

(3) In particular and without prejudice to the generality of the foregoing provisions, the following shall be the principles of sound fiscal and debt management, namely:—

- (a) reducing the revenue deficit to nil not later than the thirtieth June, 2008, and thereafter maintaining a revenue surplus;
- (b) ensuring that within a period of ten financial years, beginning from the first July, 2003 and ending on the thirtieth June, 2013, the total public debt at the end of the tenth financial year does not exceed sixty per cent of the estimated gross domestic product for that year and thereafter maintaining the total public debt below sixty per cent of gross domestic product for any given year;
- (c) ensuring that in every financial year, beginning from the first July, 2003, and ending on the thirtieth June, 2013, the total public debt is reduced by not less than two and a half per cent of the estimated gross domestic product for any given year:

Provided that the social and poverty alleviation related expenditures are not reduced below 4.5% of the estimated gross domestic product for any given year and budgetary allocation to education and health, will be doubled from the existing level in terms of percentage of gross domestic product during the next ten years; and

- (d) not issuing new guarantees, including those for rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed, from time to time, for any amount exceeding two per cent of the estimated gross domestic product in any financial year:

Provided that the renewal of existing guarantees shall be considered as issuing a new guarantee.

(4) The Federal Government may depart from the principles of sound fiscal and debt management on the ground or grounds of unforeseen demands on

the finances of the Government due to national security or natural calamity as determined by the National Assembly, but when the Federal Government does so—

- (a) any such departure shall be temporary; and
- (b) the Minister shall, in accordance with the provisions of this Act, specify—
  - (i) the reasons for the Federal Government's departure from those principles;
  - (ii) the approach or measures the Federal Government intends to take to return to those principles; and
  - (iii) the period of time that the Federal Government expects to take to return to those principles.

### CHAPTER III

#### ECONOMIC POLICY STATEMENTS

**4. Economic policy statements to be laid before the National Assembly.**—(1) The Federal Government shall, in each year, cause to be laid before the National Assembly, the following statements of economic, fiscal and debt policy, namely:—

- (a) the medium term budgetary statement;
- (b) the fiscal policy statement; and
- (c) the debt policy statement:

Provided that if the National Assembly is not in session, the statements may not be laid until it next sits or as soon as practicable after that even if that is after the end of the period specified in sub-section (2).

(2) The economic policy statements specified on sub-section (1) shall cause to be laid before the National Assembly by the end of the period specified in sections 5, 6 and 7.

(3) The economic policy statements shall be in such form as may be prescribed from time to time by the Federal Government.

**5. The medium term budgetary statement.**—(1) The Federal Government shall include a medium term budgetary statement, consistent with the principles of sound fiscal and debt management, in the annual budget

statement to be laid before the National Assembly each year not later than the thirtieth day of June of each financial year.

(2) The medium term budgetary statement shall set forth a three year rolling target for economic indicators.

(3) In particular and without prejudice to the provisions contained in sub-section (2), the medium term budgetary statement shall, for the financial year commencing on the first day of July and the two financial years following that financial year,—

- (a) indicate explicitly, by the use of ratios or other means the Federal Government's intentions regarding economic indicators including those specified in sub-section (2) of section 6; and
- (b) specify clearly key fiscal measures and risks that the Federal Government considers important and against which fiscal policy will be set and assessed.

6. **The fiscal policy statement.**—(1) The Federal Government shall cause to be laid before the National Assembly the fiscal policy statement by the end of January each year.

(2) The fiscal policy statement shall, *inter alia*, analyze the following key macroeconomic indicators, namely:—

- (a) total expenditures;
- (b) total revenues;
- (c) total fiscal deficit;
- (d) revenue deficit; and
- (e) total public debt.

(3) The Federal Government shall explain how fiscal indicators accord with the principles of sound fiscal and debt management.

(4) The fiscal policy statement shall also contain—

- (a) the key fiscal measures and rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administered pricing and borrowing;
- (b) an update on key information regarding macroeconomic indicators;

- (c) the strategic priorities of the Federal Government for the financial year in the fiscal area;
- (d) the analysis to the fullest extent possible of all policy decisions made by the Federal Government and all other circumstances that may have a material effect on meeting the targets for economic indicators for that fiscal year as specified in the medium term budgetary statement; and
- (e) an evaluation as to how the current policies of the Federal Government are in conformity with the principle of sound fiscal and debt management and the targets set forth in the medium term budgetary statement in section 5.

7. **The debt policy statement.**—(1) The Federal Government shall cause to be laid before the National Assembly, the debt policy statement by the end of January each year.

(2) The purpose of the debt policy statement is to allow the assessment of the Federal Government's debt policies against the principles, of sound fiscal and debt management and the debt reduction path.

(3) In particular and without prejudice to the provisions of sub-section (2) the debt policy statement shall, *inter alia*, contain—

- (a) assessment of the Federal Government's success or failure in meeting the targets of total public debt to estimated gross domestic product for any given year as specified in the debt reduction path;
- (b) evaluations of external and domestic borrowing strategies and provide policy advice on these strategies;
- (c) evaluations of the nominal and real costs of external and domestic borrowing and suggest ways to contain these costs;
- (d) analysis of the foreign currency exposure of Pakistan's external debt;
- (e) consistent and authenticated information on public and external debt and guarantees issued by the Government with *ex post facto* budgetary out-turns of all guarantees and those of other such claims and commitments;

- (f) information of all loan agreements contracted, disbursements made thereof and repayments made thereon, if any, by the Government during the fiscal year; and
- (g) analysis of trends in public debt and external debt and steps taken to conform to the debt reduction path as well as suggestions for adjustments, if any, in the Federal Government's overall debt strategy.

8. **Disclosure of policy decisions and other matters.**—(1) Subject to sub-section (3), every economic policy statement prepared under this Act shall incorporate to the fullest extent possible all Federal Government decisions and all other circumstances that may have a material effect on the fiscal and economic situation of the country.

(2) Where the fiscal implications of Federal Government decisions and other circumstances referred to in sub-section (1) can be quantified for particular years with reasonable certainty by the day on which the statements are finalized, the quantified fiscal implications of those Government decisions and other circumstances shall be incorporated in the statements.

(3) Nothing in sub-sections (1) and (2) shall apply to a decision or circumstance where the Minister determines that to incorporate that decision or circumstance in an economic policy statement is likely to—

- (a) prejudice the substantial economic interests of Pakistan;
- (b) prejudice the security or defence of Pakistan or its international relations;
- (c) compromise the Federal Government in a material way in negotiation, litigation or commercial activity; or
- (d) result in material loss of value to the Federal Government.

and there is no reasonable or prudent way the Federal Government can avoid this prejudice, compromise or material loss.

9. **Measures to enforce compliance.**—Notwithstanding anything in sub-section (4) of section 3, if the Federal Government continuously fails to meet the target of debt to gross domestic product ratio specified in the debt reduction path for any given year over the period of two financial years starting from the first statement which indicates the failure of the Federal Government in meeting the prescribed target, the Federal Government shall take all necessary measures including the curtailment of the sums authorised to be paid and applied from, and



out of, the Federal Consolidated Fund to return to the debt reduction path latest by the end of the next two financial years:

Provided that nothing in this section shall apply to—

- (a) the expenditure charge upon the Federal Consolidated Fund under Article 51 of the Constitution; and
- (b) the social and poverty alleviation related expenditures specified in the proviso to clause (c) of sub-section (3) of section 3.

10. **Statement of responsibility.**—(1) Every statement prepared under sections 5, 6 and 7 shall be accompanied by a statement of responsibility signed by the Minister and the Secretary of Finance and comprising—

- (a) a statement by the Minister that all policy decisions with material economic or fiscal implications that the Federal Government has made before the day on which the contents of the economic policy statements were finalized and all other circumstances with material economic or fiscal implications of which the Minister was aware before that day have been communicated to the Secretary of Finance; and
- (b) a statement by the Secretary of Finance that the Ministry has supplied to the Minister, using its best professional judgment on the basis of economic and fiscal information available to it before the day on which the contents of the economic policy statements were finalised, an economic and fiscal statement incorporating the fiscal and economic implications of those decisions and circumstances, but any decisions or circumstances that the Minister has determined under sub-section (3) of section 8 shall not be incorporated in that economic policy statement.

(2) A statement of the Minister's responsibility shall, *inter alia*, provide for—

- (a) the integrity of the disclosures contained in the economic policy statements;
- (b) the consistency with the requirements of this Act of the information contained in the economic policy statements; and
- (c) the omission from the economic policy statement of any decision or circumstance specified in sub-section (3) of section 8.

11. **Measures for fiscal transparency.**—(1) The Federal Government shall take appropriate measures to ensure greater transparency in its fiscal operations in public interest and minimize, as far as practicable, secrecy in the preparation of the annual budget.

(2) In particular and without prejudice to the generality of the provisions of sub-section (1), the Federal Government shall, at the time of presentation of annual budget, disclose in a statement as may be prescribed,—

- (a) the significant changes in the accounting standards, definitions, policies and practices affecting, or likely to affect, the computation of prescribed fiscal indicators; and
- (b) as far as practicable and consistent with protection of public interest, all guarantees including those for rupee lending, bonds, rates of return, output purchase agreement, exchange risk, claims, and commitments made by the Federal Government having potential budgetary implications, including revenue demands raised but not realized and liability in respect of major works and contracts.

#### CHAPTER IV

##### DEBT POLICY CO-ORDINATION OFFICE

12. **Establishment of the Debt Policy Co-ordination Office.**—(1) Within sixty days of the commencement of this Act, the Federal Government shall, by notification in the official Gazette, establish an office to be known as Debt Policy Co-ordination Office. The Office shall—

- (a) work under the direct supervision of the Minister;
- (b) consist of three directors of whom two directors shall be from the private sector and one of the directors shall be designated as Director-General.

(2) The directors of the Office shall be appointed for a term of three years and shall be eligible for reappointment for a similar term. A director shall not be appointed for more than two terms.

(3) A director of the Office, may be removed by the Federal Government from his office, if on an inquiry by the Federal Public Service Commission, he is found incapable of performing the functions of his office by reason of mental or physical incapacity or has been found guilty of misconduct.

(4) The terms and conditions of service of the director of the Office shall be such as maybe prescribed.

13. **Functions of the Office.**—(1) The Office shall perform such functions as are specified in sub-section (2) or as may be prescribed from time to time.

(2) Without prejudice to the generality of the foregoing provision, the Office shall—

- (a) prepare a debt reduction path in consultation with the Federal Government to achieve the principles of sound fiscal and debt management;
- (b) monitor and evaluate external and domestic borrowing strategies and provide policy advice on an appropriate mix of external borrowing from all sources;
- (c) monitor the nominal and real costs of external and domestic borrowing and suggest ways to contain these costs;
- (d) analyze the foreign currency exposure of Pakistan's external debt, including foreign exchange obligations to residents and providing a framework for foreign exchange risk management;
- (e) provide consistent and authenticated information on public and external debt and Government guarantees including total guarantees outstanding;
- (f) prepare a debt policy statement on an annual basis on trends in public and external debt and implementing adopted debt reduction goals as well as suggesting adjustments in the Federal Government's overall debt strategy;
- (g) provide leadership on debt data questions and ensure compliance with agreed reporting requirements; and
- (h) maintain a centralized and updated electronic record, without prejudice to the specific responsibilities of the State Bank of Pakistan, Economic Affairs Division, Budget and External Finance Wings and Central Directorate of National Savings, of the public and external debts including updated balances and limits for the total public debt and guarantees.

(3) The Federal Government shall cause to be laid before the National Assembly the debt reduction path as soon as may be after its preparation under sub-section (2).

**CHAPTER V****MISCELLANEOUS PROVISIONS**

14. **Publication and access of statements.**—(1) The Minister shall, in respect of every economic policy statement referred to in section 4, arrange for publication in the Official Gazette a notice—

- (a) indicating, where the statement is published in advance of being laid before the National Assembly, that the statement has been published; and
- (b) specifying a place at which copies of the statement are available for public free of charge.

(2) The Secretary of Finance shall, in respect of every statement published under sub-section (1) within fifteen days of the publication of the statement arrange for its publication on the website of the Ministry of Finance.

15. **Indemnity.**—No suit, prosecution or other legal proceedings shall lie against the Federal Government or any officer of the Government for anything which is in good faith done or intended to be done under this Act or the Rules made thereunder.

16. **Application of other laws not barred.**—The provisions of this Act shall be in addition to, and not in derogation of, any other law for the time being in force.

17. **Power to make rules.**—(1) The Federal Government may, by notification in the Official Gazette, make rules for carrying out the purposes of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, such rules may provide for all, or any of, the following matters, namely:—

- (a) the forms of all the economic policy statements specified in section 4;
- (b) the smooth functioning of the Office; and
- (c) any other matter which is required to be, or may be, prescribed.

18. **Removal of difficulties.**—If any difficulty arises in giving effect to the provisions of the Act, the Federal Government may, by an Order published in

the Official Gazette, make such provisions not inconsistent with the provisions of the Act, as may appear to be necessary for removing the difficulty:

Provided that no Order shall be made under this section after the expiry of two years from the commencement of this Act.

(2) Every Order made under sub-section (1) shall, as soon as may be, cause to be laid before the National Assembly.

RAJA MUHAMMAD AMIN,  
*Acting Secretary.*