The Constitution of Pakistan

166. Borrowing by Federal Government. *The executive authority of the Federation extends to borrowing upon the security of the Federal Consolidated Fund within such limits, if any, as may from time to time be fixed by the Act of [Majlis-e-Shoora (Parliament)] and to the giving of guarantees within such limits, if any, as may be so fixed.*

BACKGROUND:

The Finance Minister, Mr. Shaukat Aziz, in his budget speech 2001-2002 made a policy commitment by stating that:

> … government is considering promulgation of a fiscal responsibility law that would limit the Government's access to borrowing for financing its expenditure. Such laws are now becoming very common as they tend to promote more responsible fiscal management.
>
> Indeed, the framers of our constitution had envisaged that such a law will be enacted by the Parliament. Article 166 of the Constitution, which empowers the federal government to borrow on the security of the federal consolidated fund, provides that this authority of the federation will be subject to such limits that the Parliament may fix from time to time. However, no such law has so far been provided, with the result there is no legislative bar on the federal government borrowing.
>
> We plan to fill this gap by suitably limiting this power. Such a law would promote fiscal discipline in the country and would be an instrument of continuity of fiscal reforms being carried out by the Government, which will thus survive in future also.

Pursuant to this policy commitment, a committee comprising Dr. Tariq Hassan, Dr. Ashfaq Hassan Khan, Mr. Rashid Naseem, and Mr. Aurangzeb Mehmood, was formed to draft the proposed legislation.

The committee after preparing and deliberating over several working drafts has submitted a draft Fiscal Responsibility and Debt Limitation Law to the Minister of Finance. The Minister has directed that the draft law be posted on the Ministry of Finance website and comments solicited from the public before its finalization. Those interested may send their comments to Dr. Tariq Hassan by 15 July 2002.

SUMMARY:

Draft Fiscal Responsibility and Debt Limitation Law

1. The draft Fiscal Responsibility and Debt Limitation Ordinance, 2002 provides measures to eliminate revenue deficit and minimize public debt to a prudent level by effective debt management. It also seeks to ensure medium-term and long term macro-economic stability in the country.

2. The foundation of the draft law is based upon the principles of sound fiscal and debt management. These principles will provide continuous and consistent guidelines to the Government to achieve the objectives of this law. The principles are:

    i. To eliminate revenue deficit to nil not later than 30th June 2007 and thereafter maintaining a surplus.
    ii. To minimize the public debt to sixty percent of the estimated Gross Domestic Product (GDP) by 30th June 2012.
    iii. To reduce the total public debt by not less than two and a half percent of the GDP in every financial year, provided that the social and poverty related expenditures are not reduced below four percent of GDP.
    iv. To not issue new guarantees, including those on 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 2 percent of the GDP.

3. The Government can depart from these principles on grounds of unforeseen demand on the finances of the Government due to national security or natural calamity which are required to be determined by the National Assembly.
4. The Federal Government shall, to maintain transparency in its performance, cause to be laid before the National Assembly in each financial year the following three economic policy statements:
   a. the Medium-term Budgetary Statement included in the Annual Budget Statement;
   b. the Fiscal Policy Statement by the end of December; and
   c. the Debt Policy Statement by the end of December.

5. The Economic Policy Statements shall incorporate to the fullest extent possible all Government decisions which have a material effect on the

economic situation of the country, except those that have been excluded for specified reasons by the Finance Minister.

6. A Debt Policy Coordination Office (DPCO) is proposed to be established to serve as a Secretariat to achieve the objectives of this law. The Office shall prepare a ten year debt reduction path which will be followed by the Government and against which the performance of the Government will be monitored and analyzed by the DPCO. The DPCO shall submit its annual reports to the Cabinet after the approval of the Finance Minister.

7. Where the Government fails to meet the target of debt to GDP over a period of two years, it would be required to take all necessary measures including proportionately curtail the sums authorised to be paid and applied from and out of the Federal Consolidated Fund under any law to provide for the appropriation of such sums to return to the debt reduction path latest by the end of next two years. However, this shall not apply to the expenditures charged upon the Federal Consolidated Fund under Article 81 of the Constitution. Furthermore, the social and poverty related expenditures shall not be reduced from four percent of the GDP for that year.

8. All the Economic Policy Statements shall be laid before the National Assembly under the proposed law and shall be accompanied by a statement of the Finance Minister and Secretary Finance comprising the integrity of the disclosures contained therein and consistency with the requirements of the law.