

oe TERED No.

Se EXTRAORDINARY | ae  
ee "PUBLISHED BY AUTHORITY ees .

oe ISLAMABAD, MoNbAy, Eta  
PART, T.  
'Acts, Ordinances, President's Orders 'and Regulations

\_ SENATE "SECRETARIAT am  
+ Islamabad, the 18th 'June, 2005. |

The following Act of Majlis-e- -Shoora (Parliament) received the assent of the Le

President on 13th Jime, 2008, is hereby published for general i information: —  
vores "Act No. Vor 2005" ,

An. Act-to " provide fer elimination of revenue: deficit and reduction of public  
'debt toa 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; .

"Ttis'hereby enacted as fotlows:—  
mS CHAPTER I of  
'PRELIMINARY, :

le Short title, extent and. somimencement.—( 1), This Act inay be:  
called the Fiscal Responsibility. and Debt Limitation Act, 2005. © ‘ ‘

[2966(05/Bx.Gaz.) ”

subject ç or bane

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THE GAZETTE 'OF PAKISTAN, 3X1 'A., JUNE 20,2005 \*- [Parrl

Tt extends to the whole of Pakistan.

It shall come into force at once,

- Definitions. —tn, the. Act, unless there.

nything epugnant ini the

a

"annual budget statement" tmieans: the annual statement of the

, estimated receipts aiid expenditures of the. Federal Government laid

' before the National: Assembly under Article 80 of. the Constitution;

"Constitution" means the. Constitution of the Islamic Republic of  
Pakistan; :

"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;

"economic policy statements" means the economic, fiscal and debt  
policy Statements 'specified i in Sub-séction (ne of section 4,

- "fiscal indicators" means the. measures such a as \$ humeral ratids and

proportions to gross domestic product or revenues for evaluation

.of the fiscal position of the-Government as may be prescribed:

“guarantee” includes any obligation undertaken to make payments in the event of the profit of an undertaking failing short of a specified . amount;

“Minister” imeans the Minister for Finance, Government of Pakistan;

“Office” means the Debt Policy & Co-ordination Office established under sub-section ® of section 12;

“ prescribed” means, except where re otherwise Provided, prescribed - by rules. made under: this Act,

»

“principles of sdund' fiscal and: debt management” means the

principles of sound fiscal and debt management specified in section 3:

“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;

F

(1) "social: and poverty related. expenditure" means Government expenditure under the 'heads of—"

Om Highways, roads and bridges:

(i) ~. water: supply and sanitation;

- (iii). education;

\* {iv}. health; -'

. (¥) population planning; \_

(vi): - social security and other welfare;

(vii) natural calamities;

(viii) . irrigation;

(ix)" Jand reclamation;

«wy rural development;

." (xi) food subsidies;

(xii) sub-ordinate judiciary;

(xiii) law and-order (only the development aspect); ,

(xiv) © village electrification; and es

(xv) food support programme, a

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

"total expenditure" means a sum of total recurrent and development - expenditure of the Government;

>

(m

(n) "total current expenditure" means asum of total recurrent expenditure of the Government; : . . :

(0) "total public debt" means a sum of the total outstandi ng borrowings of the Government; and "

(p) : "total revenue" means a sum of'tax revenues, non-tax revenues.  
> and surcharges of the Government

- CHAPTER 1

'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 i in



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

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The Federal Government shall take all appropriate measures to

eliminate the Tevenue deficit, rethice total public 'debt and maintain it within  
prudent | limits thereof. : .

6)

In: 'particular and without prejudice to. the generality of the foregoing

provisions, the following, shall be the Principles of sound fiscal and debt t management,

'namely: —

(a)

\_(b)°

(c)

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reducing the revenile deficit-to nil not. later than. the. thirtieth June,  
2008, and thereafter maintaining a révenue surplus;

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 years

ensuring that in every financial yeat, beginning from the first July,  
2003, 'and ending on the thirtieth June, 2013, the total public debt is  
reduced by not-fess:than two and a half pef cerit' of the estimated |

gross domestic product for any given year: :

Provided that the 'social and poveity 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;

-(d)

a).

- and

notissuing 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 percent of the estimated Gross domestic product

. in any financial year:

Provided that the renewal of. existing guarantees shall be considered as issuing anew guarantee."

The Federal Government may depart from the principles. of, sound

fiscal and-debt management-on the ground or grounds of unforeseen demands on

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the finances of the Government due to national security or natufal calamity as

determined by the National Assembly, but when the Federal Government does so— :

(a) any such departure shail be temporary; and .

-@) the Minister shall, in accordance with the Provisions of this Act, . specify— :

"(@) -: the reasons for the Federal Government' s departure from those principles; . .

Gi). the approach. or measures the Federal Government intends to take t0, return. to those principles; and : : r .

(iii) the period of time that the Federal Government expects to-take . . toréturn to those principles. ©

## \_ CHAPTER TH ECONOMIC POLICY STATEMENTS

/ 4, Economic policy statements to be laid before the. National Assembly. —( 1) The Federal Governemt shall, in éach year, cause to be laid before the National Assembly, the following statements of economic, fiscal « and debt policy, namely :— - :

- (a) the médium term dg stateinént;
- “(b) -the fiscal policy statement; and -
- (c) the debt. policy statement:

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

(2) Theeconomic policy statements specified on sub-section (69) shall cause to be laid before the National Assembly by the. end of the period specified in sections : 5,6 and 7.

@) The economic policy s statements shall be i in ‘such form as may ‘be . prescribed from time to time by the Federal Government.

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



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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)

(b)

6.

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

specify clearly key fiscal, measures and risks that the Federal  
Government 'considers important and against which fiscal policy

will be'set and assessed.

The fiscal policy statemeit. —( 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)°

(b)

(c)

(d)°

-(e)

3)

total expenditures;  
total revenues;

total fiscal deficit; . -  
revenue deficit; and  
total public debt.

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—. 3

(a) © the key fiscal thesures arid rationale for any major deviation in  
fiscal measures pertaining to taxation, subsidy, expenditure,  
administered pricing and borrowing; .

(b) an update on key information 'regdttding. macroeconomic  
indicators; - ‘

7.

(c) the strategic priorities of the Federal Government for the financial  
. year i in the fiscal area;

\_(d)\_ the atalysis 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 .

(é). 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 statementin-section 5. °- — -

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. The debt policy statement—(1) The Federal Government shall

cause to be 'aid before the National Assembly. the debt policy st statement bythe  
end of January each year. : :

(2)

io

The purpose of the debt policy s statement. is to allow the assessment

cof the Federal Government's debt policies against the principles, of sound fiscal  
and debt management and\* the, -debt reduction path. .

(3)

In particular sd without prejudice to the provisions of sub- section

+ (2) the debt policy statement shall, inter alia, contain—

(a)

(b)

(c)

(d)

(e)

“assessment of the Federal Government's success or failure in meeting

the targets of total public debt to estimated 'gross domestic product'

for any Biven year.as Specified i in the debt reduction path;

evaluatidns of external and domestic borrowing strategies and

: Provide policy advice on these\* strategies;

evaluations of the' nominal and real costs \* of "external 'and domestic ' borrowing and suggest ways to contain these costs;

analysis of the foreign currency exposure .of Pakistan's external

' debt;

éonsistent. 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; : .

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 \_ (fy information of all Joan agreements contracted, disbursements made  
 thereof and repayments made theréon, if any, by the Government

during the fiscal year; and.

(g) 'analysis of trends in public debt and external debt and steps taken to  
 éonform to the debt reduction: path as well.as suggéstions for  
 adjustments, if any, in the Federal Government's overall debt strategy.

. 8. Disclosure of poticy decisions and other matters.—(1) Subject  
 to sub-séction (3), every economic. policy statémnt 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.

4

(2). Where. the fiscal implications of Federal Government decisions.  
 and other circumstances referred: to in sub- section (1) canbe quantified" for  
 particular years with reasonable certainty by the day on which the statenients 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 economnic 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 ii material loss of value to the Federal Government,

and there is no reasonable or: prudent way the Federal Government can avoid this  
 \_ prej judice, compromise or material loss:

9. Measitres 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 yeats starting from the  
 first statement which indicates thé 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: 7

Provided that nothing in this section shall apply: to—

(a)

(b)

~ 10.

the expenditure charge upon the Federal Consolidated Fund. under Article 51 of the Constitution; and

the social and poverty alleviation related expenditures specified in

‘the proviso to clause (c) of sub-section (3) of section 3.

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—

for—

(a)

(b)

Q)

(a)

(b)

(c)

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

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.

,

A statement of the Minister's Responsibility shall, inter alia, provide

the integrity of the disclosures contained | in the economic policy statements; : : .

the consistency with the requirements of this 'Act of the information

contained in the economic Policy statements; and

the omission from the economic policy statement of any decision or

circumstance specified in sub-section (3) of section 8.

-Measures for fiseal transparency —(1) The Federal Government shall take cobain Measures to ensure greater transparency in its fiscal operations in public interest and. minimize, 'as far as practicable, sectecy 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 likély 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 ae

#### " DEBT. POLICY co- ORDINATION OFFICE

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#### 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 thé.official Gazette, establish an office to be known, as Debt Policy Co- ordination Office. The Office shail— \_\_,

(a) " work under the direct Supervision of the Minister a

(b) consist of three directors of whom two directors shall be from the '- -private sector and. one of the: directors shall be designated a as Director-General. .

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

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

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



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13.

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Functions of the Office——(1) The Office shall perform such functions.

as are specified i in sub-section (2) or as may be prescribed from time to time.

(2),

shall—

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Without prejudice to the generality of the foregoing provision, the Office

prepare a debt. reduction. path in consultation with 'the Federal  
Government to achieve the Principles of sound fiscal and debt  
management; - : .

monitor and evaluate external and domestic boirowing strategies

“and provide 'policy advice on am appropriate mix of external

borrowing from all sources; ...

monitor the noinal and real costs of external and domestic borrowing

" and suggest ways to contain these costs;

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;

provide consistent and: authenticated information on' public. and  
external debt and Government 'guarantees including total i guarantees

/ outstanding; »

(g)

“(h)

- (3)

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;

provide leadership on debt data questions and ensure compliance, with agreed reporting requirements; and ~ :

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. :

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).

## 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 staterient 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. - :

— @) 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 provisiortis 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 imade 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. tobe laid before the National Assembly. ;

"\_RAJA MUHAMMAD. AMIN,  
Acting Secretary.

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