

[AS PASSED BY THE NATIONAL ASSEMBLY]

A

Bill

further to amend the Fiscal Responsibility and Debt Limitation Act, 2005

WHEREAS it is expedient further to amend the Fiscal Responsibility and Debt Limitation Act, 2005 (VI of 2005), for the purposes hereinafter appearing;

It is hereby enacted as follows: -

1. Short title and commencement. - (1) This Act may be called the Fiscal Responsibility and Debt Limitation (Amendment) Act, 2022.

(2) It shall come into force at once.

2. Amendment of section 2, Act VI of 2005. - In the Fiscal Responsibility and Debt Limitation Act, 2005 (VI of 2005), hereinafter referred to as the said Act, in section 2, -

(a) for clause (c), the following shall be substituted, namely: -

“(c) “debt reduction path” means the report on debt reduction path prepared with approval of the Federal Government;”;

(b) after clause (c), substituted as aforesaid, the following new clause shall be inserted, namely: -

“(ca) “debt-to-GDP ratio” means total public debt at the end of a financial year divided by gross domestic product during the same financial year;”;

(c) for clause (f), the following shall be substituted, namely: -

“(f) “guarantee” means a contingent financial liability undertaken by the Government to pay the financial liability of a third party in the event when the third-party defaults on that financial liability;”;

(d) for clause (g), the following shall be substituted, namely: -

“(g) “Minister” means the Federal Minister for Finance or any Minister entrusted with the responsibility for federal public finances by the Prime Minister of Pakistan;” and

(e) for clause (h), the following shall be substituted, namely: -

“(h) “office” means the debt management office established under section 12;”.

3. Amendment of section 3, Act VI of 2005. - In the said Act, in section 3, -

(a) in sub-section (3), in clause (d), in the proviso, for full stop at the end, a colon shall be substituted and thereafter the following new proviso and explanation shall be added, namely: -

“Provided further that the total stock of outstanding guarantees shall not exceed ten percent of estimated GDP.

Explanation. - For the purpose of this clause, each guarantee shall be valued at its risk-weighted value in accordance with a valuation methodology to be prescribed.”; and

(b) in sub-section (4), the words “due to national security or natural calamity” shall be omitted.

4. Addition of section 7A, Act VI of 2005. - In the said Act, after section 7, the following shall be added, namely:-

“7 A. Medium-term national macro fiscal framework - (1) The Finance Division shall prepare medium-term national macro fiscal framework, covering aggregate fiscal projections specially revenues, expenditures and primary balances of the upcoming fiscal year and the two outer years in respect of Federal Government,

Provincial Governments and other areas of Pakistan; which shall be presented not later than the 15th day of March of the ongoing fiscal year to the National Finance Commission (NFC) Monitoring Committee.

(2) The approved medium-term national macro fiscal framework shall be published in the budget strategy papers and annual budget statements of the Federal, Provincial and other governments as part of their budget documents.”

5. **Amendment of Chapter IV, Act VI of 2005.**- In the said Act, in Chapter IV, for the heading, the following shall be substituted, namely: -

**“CHAPTER IV
DEBT MANAGEMENT OFFICE.”**

6. **Substitution of section 12, Act VI of 2005.**- In the said Act, for section 12, the following shall be substituted, namely: -

“12. Establishment of the debt management office. - (1) Within sixty days of the commencement of the Fiscal Responsibility and Debt Limitation (Amendment) Act, 2021, the Federal Government shall, by notification in the official Gazette, establish an office to be known as debt management office, consisting of four executives including a director general and three directors. Directors shall report to the director general and the director general shall report to the Secretary, Finance Division.

(2) The director general and the directors shall be appointed on contract basis for a term of three years in such manner on the basis of such eligibility criteria including academic and professional qualifications and experience as may be prescribed. The contract may be extended subject to performance evaluation, for a similar term of three years:

Provided that an individual shall not hold office of director general or director for more than three consecutive terms.

(3) The director general or a director may be removed from office by the Federal Government, if -

(a) on an inquiry, made in the prescribed manner, 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; or

(b) on the basis of performance evaluation carried out by a committee consisting of Finance Minister and Finance Secretary, it is concluded that his services are no longer required and his contract needs to be terminated.

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

(5) The size, organizational and governance structure, terms and conditions of service of the staff including senior management, performance evaluation, framework budget and all other matters incidental to the functioning of the office shall be as may be prescribed. The committee consisting of the Finance Minister and the Finance Secretary shall have the powers to make policies for effective functioning of the office.”.

7. **Amendment of section 13, Act VI of 2005.** - In the said Act, in section 13, (a) in sub-section (2),-

(a) for clause (a), the following shall be substituted, namely: -

“(a) prepare medium-term debt management strategy, in consultation with the relevant stakeholders and finalize with prior approval of Minister of Finance, in-line with the medium-term budgetary framework;”, and

(a) in clause (g), the word “and”, occurring at the end, shall be omitted;

(b) for clause (h), the following shall be substituted, namely: -

“(h) maintain consistent and authenticated record of public debt and

Government guarantees. office may, outsource the record keeping function of any segment of public debt to other Government agencies such as State Bank of Pakistan, Central Directorate of National Savings, Economic Affairs Division etc. for reasons of efficiency and practicality. Such outsourcing arrangements, if any, shall be made through service level agreements between the office and the corresponding agency clearly identifying the roles and responsibilities of the parties;" and

(c) after clause (h), the following new clauses shall be added, namely: -

"(i) prepare annual debt review containing analysis of the debt management operations during the last completed financial year and assessment of the progress against the medium-term debt management strategy in-line with the long-term priorities of the Federal Government. The review shall be prepared in consultation with the relevant stakeholders and finalized with prior approval of Finance Secretary and published within three months of the close of the financial year;

(j) prepare annual borrowing plan, in consultation with the relevant stakeholders and finalize with prior approval of the Federal Government, in line with the medium-term debt strategy. The plan shall be published along with the budget documents;

(k) raise domestic debt through domestic government securities, bank loans or any other domestic borrowing instruments other than those issued by the Central Directorate of National Savings (CDNS);

(l) formulate and implement a process for raising domestic debt through public auctions of domestic government securities. The process shall

include the setting of auction targets, conducting the auctions and making and executing the borrowing decisions such as the borrowing rates, amount of borrowing through various instruments and other incidental matters. The process shall be finalized and modified from time to time, if necessary, with prior approval of Finance Secretary;

- (m) formulate guidelines, in consultation with the relevant stakeholders and issue with the prior approval of Finance Secretary, for CDNS or any other government agency engaged in domestic borrowings;
- (n) raise external debt through commercial sources including debt securities such as bonds, sukuk, bank loans or any other commercial borrowing instruments;
- (o) coordinate with the external finance wing of the Finance Division to record and analyze any debt raised for balance of payments;
- (p) coordinate with Economic Affairs Division in raising external debt through multilateral and bilateral sources and provide advice to Economic Affairs Division on financial terms and conditions, debt recording or any other matter pertaining to external debt;
- (q) propose policy guidelines to Finance Division and Economic Affairs Division regarding raising of external debt through multilateral and bilateral sources;
- (r) prepare a comprehensive debt bulletin containing information regarding debt stock, debt operations during the period under consideration and the sources of change in debt stock on semi-annual basis. The debt bulletin shall be finalized with prior approval of Finance Secretary and published within three months of the close of each quarter;

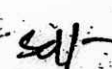
- (s) preparation and implementation of process, prepared in consultation with relevant stakeholders and finalized with prior approval of the Federal Government, for issuance, management, valuation, budgeting, funding, allocation, monitoring of government guarantees including the guarantees relating to public private partnerships;
- (t) advise the Finance Division in evaluation of requests for government guarantees made by state owned entities;
- (u) act as custodian of all guarantees issued by the Federal Government in terms of recording and analysis; and
- (v) act as the investor relations office of Finance Division in matters pertaining to public debt including communication of debt management strategy to financial market participants; obtaining the feedback of the participants regarding the debt management strategy, modification of existing debt instruments, introduction of new debt instruments etc.; and responding to queries of the participants without disclosing confidential information.”

STATEMENT OF OBJECTS AND REASONS

Fiscal Responsibility and Debt Limitation (FRDL) Act provide for reduction of federal fiscal deficit and ratio of public debt to gross domestic product to a prudent level by effective public debt management. The Debt Policy Coordination Office was also established under this Act. This Amendment Bill [Fiscal Responsibility and Debt Limitation Act (Amendment) Bill, 2021], proposes following main amendments in the prevailing version of the Act (amended in 2017):

- I. Limit the stock of government guarantees at 10 percent of GDP;
- II. Publication of Medium-Term National Macro-Fiscal Framework;
- III. Institutionalize debt management functions in a single office reporting to the Finance Secretary;
- IV. Assignment of additional functions to Debt Office; and
- V. Create two (2) additional senior management positions within Debt Office.

Proposed amendments will strengthen the Debt Office with the mandate and resources for effective planning and execution of debt management functions of the Government.


(Shaukat Fayaz Ahmed Tarin)
Minister for Finance and Revenue