Fiscal Responsibility: A Critical Analysis of FRDL (2005) Pakistan

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Introduction

The term fiscal responsibility in financial dictionary is defined as “A balanced budget”. That is a budget wherein expenditures during a given period of time equal to revenues. The fiscal responsibility also includes a budget in which revenue is greater than the expenditures. Fiscal responsibility is achievable and most of the individuals in their private life practice fiscal responsibility. At individual level everybody knows that they have to live within the budget and usually they do not overspend. Usually overspending by individual results in bad crediting rating which one receives from their creditors due to non-payments or late payments of installments and thus denies future benefits to the person concern.

Fiscal responsibility at national level implies that a government has a balanced budget and has sufficient revenue to pay for its all expenditures. There would be no overspending if government had a true balanced budget in each period. The economic future of a nation largely depends on the way fiscal responsibility is practiced. There is a direct link between budget deficit today and what nation can enjoy in future. Fiscal responsibility is crucial for a nation to remain prosperous and stronger in future. Fiscal responsibility will also determine what kind of future we are leaving to our children and grandchildren for the next 20 years and beyond. If the fiscal responsibility is not practiced the government would spend more money than its income and it borrows for the difference. If the money borrowed come from domestic savings or from domestic lenders the economy will have less money available for capital investment and future productivity growth rates & levels would be lower. If on the other hand deficit is financed by foreign organization/country the country will be indebted with growing debt to the rest of the world, with growing interest costs which must be served every year. If we rely more on foreign sources to finance the resource gap the foreign ownership of our resources would grow and so has our dependences on the actions of foreign governments and investors.

At least for the last two decades poor/ weak fiscal responsibility is being practiced in Pakistan as the fiscal deficit for these two decades remained more than five percent of GDP. The persistent fiscal deficit resulted in the increased debt burden both in terms of internal as well as external debt and interest payments. Our growing dependence on the action of foreign organizations/countries is manifested from one of the conditions laid by IMF on the loan given to Pakistan in 2008; the condition was that the government would raise electricity charges during the loan period. Perceiving the poor fiscal responsibility practiced by the federal government the then 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". The policy commitment, made by the finance minister, was materialized in the form of "Fiscal Responsibility and Debt Management Act-2005. The objective of the paper is to critically evaluate the FRDL Act -2005 and also see the extent of implementation of various conditions laid down in the act. The paper is organized as follows: Section – I would deal with the History of FRDL type law enacted in other countries like India etc. Section – II would deal with the Constitutional provision for framing of FRDL. Section – III would deal with the critical evaluation of FRDL and the status of various sub-heads of the act implementation. Finally the conclusion is drawn on the preceding discussion.

I– Fiscal Responsibility in Historical Perspective

Fiscal Responsibility Laws (FRLs) are becoming increasingly popular. FRLs have been enacted in many countries as permanent institutional devices to enhance the credibility, predictability, and transparency of fiscal policy. FRLs generally combine procedural rules to strengthen fiscal transparency and budget management, with numerical fiscal rules such as ceilings on fiscal deficits and public debt to impose fiscal discipline. In contrast to stand-alone fiscal rules, FRLs aim to provide a comprehensive framework to govern fiscal policy in a single piece of legislation. New Zealand was at the forefront of these reforms, adopting an FRL in 1994 with a strong emphasis on transparency requirements. Since then, FRLs have been implemented in several countries in Latin America, Europe, and Asia.

FRLs are different than stand-alone numerical fiscal rules, which are defined as a permanent constraint on fiscal policy through simple numerical limits on budgetary aggregates (Kopits and

Symansky, 1998). FRLs can be classified according to several characteristics, including the emphasis placed on procedural versus numerical fiscal rules, the jurisdictional coverage (e.g. central versus federal government), sanctions, escape clauses, and cyclical considerations.

Since the 1990s many governments have intensified the search for mechanisms to escape from fiscal populism that had been used as a strategy for winning elections and retaining public office. National governments have tried various ways to avert these problems. One way has been to pass a fiscal responsibility law (FRL) that prescribes proper fiscal behavior for Subnational Governments (SNGs), provides guidelines for parameters of SNG fiscal legislation, or sets incentives rewards for success or sanctions for failure in following the rules. Argentina, Brazil, Colombia, India, and Peru have done so. Some SNGs, as in Argentina, Australia, Canada, and India have imposed legal constraints on their own fiscal behavior, to reduce the temptation of state administrations to leave fiscal messes and to improve their creditworthiness in the markets. Although having not formally adopted subnational fiscal responsibility legislation, other countries such as Mexico, Poland, and Turkey have established fiscal rules or debt limitations for SNGs. At this stage it would be appropriate to briefly discuss FRLs for the countries who have recently adopted these laws. The prominent countries are Brazil, India, Argentine and Australia.

In Brazil's political opening through mid-1990s, there were two major subnational debt crises. Each initial agreement that tried to resolve a crisis actually made the next crisis more likely, because they reinforced the perception that the federal government would provide debt relief, they provided such relief in the form of rescheduling (allowing the stock of debt to keep growing), set ceilings on debt service and thus on the effective political cost, bought out (without penalty) the foreign and private creditors to the SNGs and left the federal government holding the debt. Thus the state politicians suffered minimal consequences for their imprudence and their creditors suffered almost none, and so until 1997 the ex-ante constraints written in the rescheduling agreements were usually quickly evaded (Dillinger 1997; Rodden 2003). Then in the late 1990s, this vicious cycle of failure in discipline and cooperation came to a halt, as the deeper political and economic incentives had changed after a national macroeconomic adjustment program ended hyperinflation and stabilized the economy. In 1997-98 the federal government made debt restructuring agreements with 25 states, which was finally effective in making them, cease unsustainable borrowing. Three of the four largest debtor states supported the reforms and formed the core of a critical mass of states ready to cooperate in fiscal restraint, making it worthwhile for additional states join at the margin of cooperation. Also, the large scale of the states' non-performing debt to the federal government strengthened the resolve of the federal Congress to enact the FRL. The federal government negotiated agreements with 25 states in 1997 and 1998. These agreements were sanctioned by Law 9496 of September 1997 to reschedule the states' debt conditioned on states undertaking fiscal reforms and compliance with fiscal targets. The FRL in 2000 codified fiscal adjustment programs sanctioned by various resolutions (Alfonso 2002; Dillinger 2002). At the time, many observers doubted whether the federal government would successfully enforce the debt restructuring agreement and sustain the stabilization, and this is why the extraordinary measure of the FRL may have been necessary, to reinforce the expectations of stability.

Argentine provinces in the 1980s had no hard budget constraint, borrowed a lot, and effectively could monetize this debt, contributing to hyperinflation. The subsequent stabilization in 1991 centered on the Convertibility Plan, which fixed the Argentine exchange rate to the U.S. dollar. Through the 1990s the national government mainly followed a market-based strategy for coordinating fiscal discipline between levels of government: the central government would enforce hard budget constraints ex post and force the provinces to pay their debts (Dillinger and Webb 1999). By the end of the 1990s, the absence of the ex-ante fiscal controls had allowed a number of Argentine provinces to over-borrow, party fragmentation had narrowed the scope for fiscal compromises, and the national government had overcommitted itself by setting floors on transfers, even if national revenues fell (Gonzalez, Rosenblatt and Webb 2004).

At the national level, faced with a deteriorating budget balance and growing debt payments, in 1999 the Congress approved a Fiscal Solvency Law—its first try at an FRL. It aimed to and did inspire a third of the provinces to pass their own FRLs. In 2001, however, the FRLs stopped working because of the extreme mismatch between the national government's fiscal and monetary policies and because the provincial FRLs lacked enforcement power and most of the economically important provinces had not passed them. Only 5 out of 11 provinces that imposed a hard budget constraint actually fulfilled their commitment (Braun and Tomassi 2004). In 2004, Argentina tried anew with a national FRL that applied to the provinces as well as the national government and capital federal district. It passed Congress hastily (Braun and Gadano 2006;

Laudonia 2009), and it did not come out of a consensus building process with the provinces nor reflect a solid technical consideration of how the provinces might adjust their finances to meet the legal requirements. Although many provinces complied with some of the law's procedural requirements, almost none were meeting the quantitative targets even before the onset of the global crisis in 2009. After that the quantitative targets were put on hold, which further undermined the credibility of the FRL process in Argentina.

The Indian Constitution forbids states from borrowing abroad and requires them to obtain central permission for domestic borrowing. The central government places limits on states' borrowing through the annual discussions with states on financing state development plans. While limiting explosive growth of state debt, the system has not prevented deterioration of fiscal trends as indicated by high levels of debt over GSDP in many states in the late 1990s. Factors contributing to the deteriorating fiscal accounts across Indian states in the 1990s include: rapid increase in expenditures on salaries, retirement benefits, and pensions and subsidies, increased borrowing to support the growing revenue deficit, and growth in contingent liabilities associated with fiscal support to the public sector units, cooperatives, and the statutory boards.

Since the early 2000s, the fiscal reform has focused on moving towards a more flexible, market-linked borrowing regime within sustainable overall borrowing caps imposed by the central government and self-imposed state-level deficit caps. The federal government enacted Fiscal Responsibility and Budget Management Act in 2003 which applies to the national government only, but some states had also adopted their own FRLs before the enactment of the federal FRL (e.g., Karnataka and Punjab in 2002) and many states have since 2003 adopted FRLs in line with the national law. FRL has become mandatory after the Twelfth Finance Commission (2005) and the federal government has offered a sizeable incentive to states for passing FRL.

The idea of legislating for fiscal responsibility gained considerable attention in the 1990s **in Australia**. At the federal level, the Business Council of Australia called for legislation requiring a surplus budget on average over the business cycle. It reiterated this theme during the 1996 federal election campaign. The adoption of the Charter of Budget Honesty Act in 1998 at the federal level followed years of improvement in fiscal outcomes. In fact, in the mid-1980s, Australia adopted its first set of explicit fiscal rules limiting the growth of expenditure, taxation and budget deficit. Although the recession in the 1990s saw the net debt of the country increased, never went beyond 20 percent of GDP. The combined state and Commonwealth general government net debt had not exceeded 30 percent of GDP in the 1990s (Simes, 2003). Some states had adopted fiscal responsibility legislation prior to the federal government's adoption. New South Wales passed legislation in 1995 to commit itself and future governments to medium- and long-term fiscal responsible targets including the elimination of the net debt. Victoria passed the Financial Management Act in 1994, which was amended in 2000 through the Financial Management (Financial Responsibility) Act, which outlines principles of sound financial management, reporting standards and pre-election budget update. Minister must produce a pre-election budget update 10 days after the issue of a writ for an election. The Act broadly states what the update must contain and the principles upon which it must be based.

II – Fiscal Responsibility law In Pakistan

The approval and implementation of Fiscal Responsibility and Debt Limitation Act.2005 was meant to provide for elimination of revenue deficit and reduction of public debt to a prudent level by effective public debt management. The Federal government has completed seven fiscal years since the implementation of FRDL in June 2005. In the following paragraphs we will analyze major conditions laid down for sound fiscal and debt management.

III - An Evaluation of FRDL Act – 2005

The implementation of Fiscal Responsibility and Debt Limitation Act, 2005 was the serious effort by the government to create strong institutional mechanism to restore fiscal discipline at the level of central government. The other objective was to introduce greater transparency in fiscal operations of the central government. In the following paragraphs we will evaluate FRDL act-2005.

According to Act No. VI of 2005 the Federal government shall take all appropriate measures to achieve following policy objectives:

- To eliminate the revenue deficit.
- To reduce total public debt and maintain it within prudent limits thereof.

Short title, extent commencement of the Act.

The Act may be called Fiscal responsibility and debt limitation Act.2005.

- It extends to the whole of Pakistan.
- It shall come into force at once.

The coverage of the act is whole of the Pakistan which means that the four provincial governments, AJK and Northern Areas are required to follow the two policy objectives of the FRDL. Here the question is that in the wake of more provincial autonomy, more transfer of financial resources to provinces, through NFC award and, furthermore, transfer of public related sectors, like health, education and social welfare, to provinces, how the federal government can administered its control over provincial expenditures and revenues?. The fact is that the act imposes restrictions only on the federal government but the provincial governments are not, practically, in the scope/preview of the act. It is therefore imperative that FRDL may also be framed for the provincial governments. The federal government has no control over the provincial expenditures. It worth to note that the first policy objective is related to revenue deficit which is the interplay of revenue and expenditure.

- The FRDL is silent about the absolute fiscal deficit which otherwise is the source of concern for fiscal policy makers. The fiscal deficit is one of the important indicators of fiscal imbalances. The government has given top priority to contain fiscal deficit in it expenditure management strategy. It worth to note that how and why the FDRL act does not consider fiscal deficit as a source of concern, therefore, no targets has been set for reduction in fiscal deficit.

- The fiscal deficit is the excess of total expenditure (Current & Development) over revenue receipts and grants. If we do not consider fiscal deficit as a source of concern but consider revenue deficit as a source of concern this clearly implies that we neglect the development needs of the country. The capital expenditure/development expenditure contributes to the development process in the country. The share of development expenditure in total expenditure is less than 20% which is the manifestation of neglect of development need in FRDL-2005.

IV - Analysis of the principles of sound fiscal & debt management.

In the following paragraphs we will analyze principle of sound fiscal and debt management in seriatim and also the current implementation status of each principle.

A. *Reducing the revenue deficit to nil not later than the thirtieth June 2008 and thereafter maintaining a revenue surplus.*

- No specific targets have been set to bring revenue deficit to zero up to 30-6-2008 and thereafter maintaining a revenue surplus. The act is devoid of any strategy/implementation plan to bring revenue deficit to zero. Such as what amount of revenue deficit should be reduced each year i.e. say 0.5% of GDP at the end of each financial year.

- While formulating the act the possibility that reducing the expenditure and/or raising the revenue might have adverse affects on the growth of the country keeping in view the prevalent and emerging economic conditions. I.e. the possible impact of expenditure reducing/revenue raising strategy on growth of the economy has not been fully estimated.

- As the revenue deficit is the result of expenditure and revenue. The revenue side includes both tax and non tax and surcharges of the government. In crease in revenue by increasing non-tax revenue requires that public services be appropriately priced which may be difficult in the presence of high inflation and increasing cost of fuel and electricity.

	2007-08	**2008-09**	**2009-10**	**2010-11**
Revenue Balance as % of GDP	**-3.2**	**-1.2**	**-2.4**	**-3.3**

Source: Debt Policy Statement 2011-12

- The above table indicates that the revenue deficit is not zero as on 30-06-2008 and thereafter it is not in surplus. Thus the first condition of FRDL is not met till the fiscal year 2010-11. The objective was to fund for consumption from government's own resources and not borrowing. "The existence of a high and persistent revenue deficit indicates government's inability in maintaining fiscal discipline and instilling austerity measures in order to curtail increasing current expenditures". The revenue deficit is mostly due to two reasons firstly revenue receipts are short off the target revenue and secondly the current expenditure is over and above the planned expenditure. The increased current expenditure is primarily due to increased expenditure on security related affairs, interest payments and subsidies.

B. Ensure "that within a period of ten financial year, beginning from the first July, 2003 and ending on thirtieth June, 2013, the total public debt at the end of the tenth financial year does not exceed sixty percent of the estimated gross domestic product for that year and thereafter maintaining the total public debt below sixty percent of gross domestic product for any given year."

	FY03	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**
Domestic Currency Debt	*1852*	*1995*	*2152*	*2322*	*2601*	*3266*	*3852*	*4651*	*6015*
Foreign Currency Debt	*1771*	*1816*	*1913*	*2038*	*2201*	*2778*	*3776*	*4270*	*4694*
Total Public debt	*3623*	*3810*	*4065*	*4359*	*4802*	*6044*	*7629*	*8921*	*10709*
GDP	*4876*	*5641*	*6500*	*7623*	*8673*	*10243*	*12724*	*14837*	*18063*
Total Public Debt As % of GDP	74.3	67.6	62.5	57.2	55.4	59	60	60.1	59.3

Source: Pakistan Debt Policy Statement 2011-12

As it is stated in the debt policy statement that "future levels of debt hinge around the primary balance of the government". Mathematically, the primary balance is the fiscal deficit before the interest payments. Empirically there exists a long run relationship between fiscal deficit and debt relative to GDP. It is argued that large structural primary deficits and interest payments relative to GDP have had an adverse effect on growth in recent years. The FRDL -2005 does not consider the fiscal deficit as its objective; therefore, the targets of debt to GDP ratios for coming years are not seemed to be realistic. In other words the act should have to define targets for fiscal deficit along with the target for debt to GDP ratio.

The FRDL -2005 is not effective on the provincial governments, therefore, federal government cannot control borrowing by the provincial governments. For effective debt management policy it is therefore felt that there is a need for provincial fiscal responsibility legislations. The necessity of legislation is supported by the fact that the debt-GDP ratio is combined federal and provincial debt.

As per above table the government seems to full fill the FRDL condition and it is expected that total public debt to GDP ratio will be maintained from the fiscal year 2012-13 and own wards.

There is a need for through investigation that how the target for 60% debt to GDP ratio has been determined.

C. ***Ensure "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 no less than two and a half percent of the estimated gross domestic product for any given year, provided that social and poverty alleviation related expenditures are not reduced below 4.5 percent 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."***

The above condition has following three objectives:

- *The reduction in total public debt beginning from 01-07-2003 and ending on 30-06-2013, the total public debt is reduced by no less than two and a half percent of the estimated GDP for any given year.*
- *The above condition of FRDL-2005 protects the federal government expenditure on social and poverty related sectors. The act restricts that while reducing debt the social and poverty related expenditure should not be reduced below 4.5% of estimated GDP for any given year. The social and poverty related expenditure includes Infrastructure (highways, roads and bridges), water supply and sanitation, food subsidies, food support programmes, village electrification, rural development etc.*

- *The 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. The investment in health and education is vital for economic development of any country.*

Billion of Rupees

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Domestic Currency Debt	*1852*	*1995*	*2152*	*2322*	*2601*	*3266*	*3852*	*4651*	*6015*
Foreign Currency Debt	*1771*	*1816*	*1913*	*2038*	*2201*	*2778*	*3776*	*4270*	*4694*
Total Public debt (existing)	*3623*	*3810*	*4065*	*4359*	*4802*	*6044*	*7629*	*8921*	*10709*
GDP	*4876*	*5641*	*6500*	*7623*	*8673*	*10243*	*12724*	*14837*	*18063*
Debt as per debt reduction strategy		3481.98	3319.48	3128.90	2912.08	2656	2337.9	1966.98	1515.4
4.5% of GDP	*219.42*	*253.84*	*292.5*	*343.04*	*390.28*	*460.94*	*572.58*	*667.66*	*812.84*
Social & poverty Related expenditure	*175.54*	*219.99*	*273*	*373.53*	*424.98*	*952.60*	*877.96*	*994.08*	*1246.35*
Budgetary allocation to Education as % of GDP	*1.6*	*1.7*	*1.8*	*1.9*	*1.9*	*1.8*	*1.9*	*1.8*	*1.8*
Budgetary allocation to Health as % of GDP	*0.5*	*0.5*	*0.5*	*0.5*	*0.6*	*0.6*	*0.7*	*0.8*	*0.6*

Source: Pakistan Debt Policy Statement 2011-12

The three sub-conditions of clause-c are analyzed in the above table.

- The debt reduction strategy ensures continues reduction in total public debt from July 2003 till June 2013 and the and for each year the extent of reduction in debt is not less that 2.5% of estimated GDP for any given year. The row “debt as debt reduction strategy” contains the amount of debt if the strategy is fully followed. The total public debt for fiscal year is Rs.10709 billion whereas the debt should have been Rs.1515.4 Billion in case the debt strategy is fully implemented. There is a gap of Rs.9193.6 Billion between the existing and planned total public debt for 2010-11. In fact the total public debt has increased from Rs.3623 billion in 2002-03 to Rs.10709 billion in 2010-11. The increase in total public debt over the FRDL period is mainly due to persistent high level of fiscal deficit which for Y11 is 6.6% of GDP. In net shall the debt reduction strategy failed due to unrealistic targets/non inclusion of important fiscal variable (fiscal deficit) in the FRDL-2005.

- The only positive recommendation of FRDL is that in the act expenditure on social and poverty alleviation has been protected up to 4.5 of GDP for any given year. By comparing rows 4.5% of GDP and social & poverty related expenditure it will be clear that for first three years of FRDL social & poverty related expenditure remained below the 4.5% of GDP but since Fy06 the expenditure has increased rather than any reduction in it and are more than the minimum limit set in the FRDL but these increased expenditure are at the cost of higher debt. In other words we have increased expenditures on social & poverty sector but at the same time we have also increased public debt.

- The FRDL is silent about the expenditures incurred by the provincial governments on social & poverty related issues.

- The budgetary allocation to education & health as % of GDP was required to be doubled from FY03 to FY13. The budgetary allocation to education & Health during FY03 as % of GDP was 1.6% and 0.5% respectively. The FRDL is silent over the rate by which the expenditure on education and health would be double. In the absence of any indicated growth rate for increased expenditure on education and health it is difficult to check the compliance of FRDL on yearly basis from 2003 to 2010-11. However the above table indicates that expenditures on education and health has not witnessed any significant increase since 2002-03.

D. ***Not issue "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 a new guarantee."***

- This clause put restriction only on issue of new guarantees and does not speak about the stock of contingent liabilities which are associated with major hidden fiscal risk.
- The act in fact put restriction on contractually binding guarantees i.e. explicit contingent liabilities and does not put restriction on implicit contingent liabilities. (Economic survey 2002-03 page-241).
- Keeping in view the past trends of contingent liabilities one can ask the question that what is economic rational of including guarantees in the FRDL. The following table contains description of contingent liabilities:

Years	**Contingent Liabilities**			**Total as % of GDP**	**Share in total liabilities**	
	Explicit	Implicit	Total		Explicit	Implicit
2002-03	16.18	84.47	100.65	2.47	16.08	83.92
2003-04	13.18	62.69	75.87	1.35	17.38	82.62
2004-05	15.02	79.55	94.57	1.44	15.88	84.12
2005-06	16.17	67.86	84.03	1.10	19.24	80.76
2006-07	35.56	88.62	124.18	1.42	28.64	71.36
2007-08	63.05	154.17	217.21	2.07	29.02	70.98

Source: Economic Survey various issues.

The above table indicates that neither prior to the formulation of FDRL nor after the imposition of FRDL the contingent liabilities pose any threat to the fiscal policy formulation. In fact the FRDL target only new and renewal of explicit guarantees whose share in total liabilities is less than 30% for the period 2002-03 to 2007-08. This small share in no way is a source of concern for the fiscal policy formulation of the country.

Interestingly the FRDL overlooked the one of the important action of the government i.e. FRDL did not put any restriction on the federal government borrowing from the SBP. The government borrowing from SBP for budgetary support is steadily increasing over the last two decades.

V. Conclusion

The FRDL was implemented to improve overall fiscal discipline in the country so as to put the country on the desire path of economic growth. The FRDL was not frame on the basis of overall economic situation of the country rather it was frame on the basis of constitutional provision. The jurisdiction of FRDL is only the federal government and provincial governments are not in its jurisdiction. The FRDL put constrain only on the revenue deficit and ignores the fiscal deficit which is source of concern for the fiscal policy makers. The FRDL put numerical restriction on total public debt but these restrictions (targets of debt to GDP ratios) do not seems to be realistic because empirically there exists a long run relationship between fiscal deficit and debt relative to GDP. As already stated above fiscal deficit is not considered as source of concern and that is why no restriction/limitation is set for the growth of fiscal deficit. The only positive recommendation of FRDL is that in the act the expenditure on social and poverty alleviation has been protected up to 4.5 of GDP for any given year. Since Fy06 the expenditure on social & poverty alleviation has increased rather than any reduction in it and is more than the minimum limit set in the FRDL but these increased expenditures are at the cost of higher debt. In other words we have increased expenditures on social & poverty sector but at the same time we have also increased public debt. The FRDL is silent about the expenditures incurred by the provincial governments on social & poverty related issues.

The budgetary allocation to education & health as % of GDP was required to be doubled from FY03 to FY13. The budgetary allocation to education & Health during FY03 as % of GDP was 1.6% and 0.5% respectively. The FRDL is silent over the rate by which the expenditure on education and health would be double. In the absence of any indicated growth rate for increased expenditure on education and health it is difficult to check the compliance of FRDL on yearly basis from 2003 to 2010-11. However the above table indicates that expenditures on education and health have not witnessed any significant increase since 2002-03.

Interestingly the FRDL overlooked the one of the important action of the government i.e. FRDL did not put any restriction on the federal government borrowing from the SBP. The government borrowing from SBP for budgetary support is steadily increasing over the last two decades.

Recommendations:

Following recommendations are suggested to improve the quality of FRDL and to make it more effective.

- The basis of FRDL should be more on economic reality of the country rather than on the basis of constitutional provision.
- There is a need to put restrictions on fiscal deficit besides revenue deficit.
- The jurisdiction of FRDL should be enhanced from federal government to all provincial governments.
- The increased expenditures on social & poverty sector should not be at the cost of increased public debt.
- In order to double expenditure on education and health as percentage of GDP from 2003 to 2013 there must be specific rates by virtue of which the expenditure on these two sectors would be doubled.
- There is a need to put restrictions on federal government borrowing from SBP.

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