Pakistan Journal of Applied Economics, Vol.35 No.2, (103-110), Winter 2025

RESEARCH NOTES

Assessing the Design and Enforcement of Fiscal Rules: A Critical Review of Pakistan in Light of OECD Experiences

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Abstract

This study critically evaluates 'Pakistan's Fiscal Responsibility and Debt Limitation Act (FRDLA)' by benchmarking its legal and institutional architecture against international best practices, particularly those adopted by OECD member countries. The FRDLA intended to impose fiscal discipline through a 60 per cent public debt limit, but debt exceeding 74 per cent of GDP by 2023 reveals profound execution flaws. Employing a mixed mode of qualitative and quantitative methodology through a comparative descriptive approach, this research uncovers key gaps, including weak enforcement mechanisms, limited subnational integration, inadequate fiscal transparency, and the absence of independent oversight bodies. Drawing on OECD practices such as medium-term fiscal frameworks, debt brakes, and the role of 'autonomous fiscal institutions', the study underscores the need for Pakistan to overhaul its fiscal governance model. It proposes a series of legal and institutional reforms, including the establishment of an 'autonomous fiscal council', binding fiscal targets, enhanced transparency measures, and intergovernmental fiscal coordination. This research note analyses the broader discourse on fiscal federalism and public debt sustainability in emerging economies, offering a practical roadmap to align Pakistan's fiscal framework with international norms and enhance macroeconomic stability.

Keywords: Pakistan's FRDLA; OECD best practices; fiscal transparency; fiscal governance; autonomous fiscal councils.
JEL Classification: H63, H62, H68, H11, O23.

I. Introduction

Fiscal rules are institutional restraints that limit policymakers' choices in managing public finances. These rules may be implemented by higher levels of government on 'subnational governments', or adopted by subnational governments themselves if constitutional provisions allow. The main purposes of fiscal rules typically address four interconnected goals: (1) ensuring 'long-term fiscal sustainability', (2) maintaining 'short-term economic stability', (3) enhancing 'efficiency' by balancing the marginal benefits of 'public spending' against the marginal excess burden of 'taxation', and (4) safeguarding allocative effectiveness in 'public spending' to align 'public services' with local preferences. Distributional concerns, such as 'income inequality' or 'regional disparities', may also be influenced by well-designed 'fiscal rules'.

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There is no single ideal fiscal rule because the optimal design depends on a country's institutional and constitutional context, as well as its economic priorities. The specific configuration of fiscal rules is determined by how governments rank objectives such as fiscal health (e.g., debt sustainability), short-term economic stabilisation, revenue-sharing arrangements, the 'tax autonomy of subnational governments', and the scale of public services. Conflicting objectives can make it challenging to create fiscal rules that are both clear and effective. Early literature, for instance, Ratchford (1958), documents that governments enforce fiscal rules at the subnational level to manage debt and spending, promoting macroeconomic stability while preserving local autonomy.

The theoretical rationale behind fiscal rules is rooted in addressing 'deficit bias', the tendency of governments to overspend due to political or institutional incentives. However, their effectiveness depends on how well rules are designed, implemented, and enforced within country-specific institutional contexts. Empirical studies by Dafflon (1977) and Blöchliger & Vammalle (2020) show that countries with clearly defined fiscal anchors, independent monitoring institutions, and enforceable consequences tend to perform better in terms of fiscal discipline and debt containment. Similarly, Eyraud et al. (2020) argue that mismanaging finances at the provincial or local level can have serious economic and social consequences not just for that region, but for the entire country. In fact, history is full of examples where national governments were forced to bail out struggling subnational governments, often at great cost (Crivelli & Staal, 2013; von Hagen et al., 2000).

In Organisation for Economic Co-operation and Development (OECD) countries, 'fiscal rules' on 'sub-national debt management' are common, with most concentrating on total debt levels, new borrowing, and debt servicing. These rules are typically stated as a percentage of sub-national revenues, sometimes as a share of 'Gross Domestic Product (GDP)', and in rare cases, an absolute debt ceiling is set. In federal systems, regional or state governments frequently enforce debt limitations on local governments, while in countries like New Zealand, local governments willingly enact their own limits.

One noteworthy illustration of 'fiscal rules at the state level' is the constitutionally-mandated limitations on municipal debt issuance in the United States; only five states lack such provisions (Kiewiet & Szakaly, 1996). Most of these constitutional debt limits were established in the mid-to-late 19th century in response to a surge in poorly planned debt-financed infrastructure projects before the 1837 economic depression.[1] After several states defaulted on their debts during this period, a movement for constitutional 'fiscal responsibility' spread across the country.

[1] 'The Panic of 1837 was a severe economic depression in the United States, characterized by bank failures, high unemployment, and a sharp decline in the value of land and other assets. It was triggered by a combination of factors, including speculative investment in land, a contraction of credit by the Bank of England, and a decline in the price of cotton. The depression lasted for several years, causing widespread hardship and contributing to political instability'. '(https://www.google.com/search?q=1837+economic+depression&rlz=1C1CHBD_enPK1123PK1123&oq=1837+economic+depression&gs_lcrp:'.

In Pakistan, the Fiscal Responsibility and Debt Limitation Act (FRDLA) of 2005 was an important step toward rules-based fiscal governance; however, despite several rounds of progressive amendments (in 2016 and 2022), it suffered from a lack of precise enforcement mechanisms, weak procedural rules, insufficient transparency in fiscal reporting, and underdeveloped institutional oversight. This raises questions about the Act's structural design, its legal enforceability, and its practical relevance in a politically dynamic environment. Pakistan's fiscal structure confronts deeper challenges than just legal or institutional gaps. Although the FRDLA nominally applies to the 'whole of Pakistan,' its operational scope has remained focused on federal fiscal aggregates, despite the fact that total public debt comprises both federal and provincial liabilities. In this background, Qasim and Khalid (2012) note that the FRDLA was enacted to promote fiscal discipline and support sustainable economic growth. However, it lacks constitutional backing and applies only to the federal government, excluding provinces. The Act limits the revenue deficit but neglects the broader fiscal deficit, a significant policy concern. While it sets 'debt-to-GDP' targets, these are often seen as unrealistic.

A key issue is the country's chronically low 'tax-to-GDP ratio', which hovers around 9–10 per cent far below the OECD average of over 30 per cent. This narrow revenue base tempts the government to rely intensely on both domestic and foreign borrowing, lessening its capacity to manoeuvre fiscally. Fiscal targets have been repeatedly missed, enforcement remains weak, and institutional capacities are inadequate, factors that continue to erode the credibility of the framework. As of the end of June 2023, Pakistan's 'debt-to-GDP ratio' stood at 74.8 per cent, slightly higher than the 73.9 per cent recorded a year earlier,[2] and significantly above the legally prescribed threshold. Meanwhile, recurring fiscal deficits have further deepened macroeconomic vulnerabilities.

Another serious apprehension is the politicisation of fiscal targets, primarily due to the non-existence of an independent body to oversee fiscal matters. Contrasting the 'Congressional Budget Office (CBO)' in the U.S. or the 'Office for Budget Responsibility (OBR)' in the U.K., Pakistan has no institution that autonomously validates fiscal estimates or monitors compliance with fiscal rules. Furthermore, the government frequently ignores off-budget liabilities such as guarantees extended to state-owned enterprises from official debt statistics, hiding the actual level of fiscal revelation. In contrast, OECD countries trail in the adoption of more transparent accounting practices that contain such contingent liabilities in their fiscal forecasting. An assessment of 'Pakistan's Fiscal Responsibility and Debt Limitation Act (FRDLA)' with 'OECD best practices' divulges considerable gaps, as shown in Table 1 below.

In light of these institutional and procedural shortcomings, this research note seeks to evaluate the adequacy of Pakistan's 'Fiscal Responsibility and Debt Limitation Act (FRDLA)' framework by benchmarking it against OECD best practices. The analysis

[2] 'Debt Policy Statement, 2024. Debt Management Office, Ministry of Finance, Government of Pakistan'.

TABLE 1

Pakistan's Fiscal Responsibility and Debt Limitation Act, with OECD best practices

Criteria	Pakistan	OECD Best Practices (Germany, UK, USA)
Debt Ceiling	60 per cent of GDP (not enforced)	Germany: 60 per cent of GDP legally binding
Deficit Limit	4 per cent–3.5 per cent of GDP (post-2016)	EU: 3 per cent of GDP USA: balanced budget at the state level
Enforcement Mechanism	None legally binding	Automatic corrections, penalties (e.g., EU fines)
Medium-Term Framework	MTFF adopted in 2022 (non-binding)	Legally binding 3–5-year plans
Independent Fiscal Council	Absent	UK OBR, USA CBO: statutory, independent
Transparency Requirements	Annual Debt Policy Statement (often delayed)	Quarterly/annual audited reports public access
Subnational Integration	Not covered	Integrated subnational debt into the framework

Source: Authors' estimation based on data from FRDLA-Pakistan, IMF and OECD Reports.

will highlight key deficiencies, identify reform opportunities, and present an actionable roadmap aimed at improving Pakistan's fiscal governance. By integrating theoretical perspectives, empirical data, and international comparative insights, the study aims to support policymakers, practitioners, and scholars in designing a more robust and transparent fiscal responsibility regime.

The structured as follows: Section 1 introduces the conceptual foundations of fiscal responsibility; Section 2 reviews relevant literature on fiscal discipline and debt management, emphasizing both theoretical underpinnings and global experiences; Section 3 outlines the adopted research methodology; Section 4 offers a comparative analysis of Pakistan's framework with OECD models, focusing on legal design, enforcement mechanisms, institutional independence, and transparency; and Section 5 concludes with policy recommendations and strategic proposals to strengthen fiscal discipline in Pakistan.

II. Literature Review

Throughout history, countries have taken decades to shift from being borrowers to becoming lenders. For instance, the UK borrowed heavily from Holland in the 18th century to fund its development, but by the 19th century, it was lending to nations like Argentina and the US. Similarly, the US remained a borrower until after 'World

War I'. These transitions required not just strong growth and exports but also disciplined fiscal policies. South Korea, for example, managed to reduce its debt from $47.1 billion in 1985 to $34 billion by 1990 (Cole, 1960; Kuznets, 1965; Wijnbergen, 1989). These evolutions needed not only sturdy growth and exports but also well-organised fiscal policies. Blöchliger and Vammalle (2020) opine that fiscal obligation incorporates administration of public finances in a way that safeguards autonomous borrowing and debt within sustainable limitations, avoiding the antagonistic effects of erratic indebtedness such as inflation, economic unpredictability, and loss of investor confidence. Similarly, the IMF report published in 2009 stresses that theoretical fundamentals accentuate that fiscal rules must be clear, enforceable, and supple enough to respond to economic tremors. Empirical studies by Ahrend et al. (2006) and Schaechter et al. (2012) recommend that rule-based frameworks are most effective when supplemented by robust institutional provisions, such as autonomous oversight bodies and translucent reporting practices.

Among OECD countries, programs such as the EU's 'Stability and Growth Pact'[3] and Germany's constitutional 'debt brake' (Schuldenbremse)[4] demonstrate the worth of merging lawful decrees with planned rectification instruments. These frameworks enforce obligatory parameters on debt and deficits while permitting restricted, rule-based deviations under extraordinary situations (OECD, 2020). In contrast, the United States depend on devolved state-level financial rules, many of which are protected in state constitutions and accentuate balanced budgets and voter-approved bond issuance (Kiewiet & Szakaly, 1996).

Scholars have cautioned, however, that rigid fiscal rules may incentivise creative accounting or underinvestment in infrastructure (Irwin, 2012). He further elaborates that, under pressure to reduce deficits, governments may resort to cosmetic measures such as creative accounting that simulate fiscal adjustments without substantive change. Nevertheless, the extent of such behaviour depends on the reputational damage incurred and the economic burden of complying with the rule (von Hagen & Wolff, 2006). Therefore, the global consensus increasingly supports hybrid frameworks that integrate fiscal rules into multi-year budgeting and ensure transparency, political commitment, and periodic review. A comparative literature base shows that countries with independent fiscal councils, transparent reporting of off-budget liabilities, and enforceable fiscal ceilings tend to achieve more credible outcomes (Blöchliger & Vammalle, 2020; Beetsma et al., 2018). In this context, Germany's

[3] 'The Stability and Growth Pact (SGP) was introduced as part of the third stage of economic and monetary union. It was designed to ensure that EU Member States maintained sound public finances after the single currency was introduced. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM:stability_growth_pact'.

[4] 'Germany enforces a strict 'debt brake' rule, embedded in Article 109(3) of its Basic Law, requiring both the federal government and its 16 states (Länder) to maintain balanced budgets without relying on new borrowing. Introduced in 2009 during the global financial crisis under Chancellor Angela Merkel and Finance Minister Peer Steinbrück, this constitutional rule mandates that public spending must be covered by actual revenue, mainly taxes, making Germany unique among G7 nations in its fiscal discipline. https://www.dw.com/en/what-is-germanys-debt-brake/a-67587332'.

'Schuldenbremse' or 'debt brake' is recurrently cited as a model of effective fiscal lawmaking. The 'Schuldenbremse' protected in 'Germany's Basic Law' in 2009 confines the federal structural deficit to '0.35 per cent of GDP' and requires the Länder (states) to uphold balanced budgets (OECD, 2020). The success of this model is attributed to its clear legal framework, automatic corrective measures, and high levels of political and public support.

A significant debate in the literature centres on whether 'fiscal rules' genuinely improve fiscal outcomes. A prevailing concern is that such rules may constrain the flexibility of 'fiscal policy', potentially encouraging governments to manipulate fiscal accounts to meet set targets. Scholars like Milesi-Ferretti (2000), von Hagen and Wolff (2006), Larch and Turini (2011), and Balasundharam et. al. (2023), examine the surge in 'public debt' and finally conclude that fiscal consolidation is complex, involving difficult decisions about timing, pace, and the mix of revenue generation and expenditure cuts, all while considering political and social factors. Correspondingly, Bernanke (2010), focusing on the U.S. context, suggests that rules must be ambitious, target controllable fiscal variables, and enjoy broad political and public backing. Likewise, Marneffe et al. (2011) contend that in the European Union, integrating fiscal rules into a wider medium-term policy framework can reinforce their influence. When it comes to expenditure rules, Ljungman (2008) endorses numerous strategy landscapes: they should be wide-ranging, fine-tuned for inflation, include instruments to accommodate expenditure instability, have a vibrant timeframe, be statistically defined, and be legislatively grounded. While Wyplosz (2012) stresses that fiscal rules are more robust and effective when supported by political determination or legal decrees. Reflecting on these boundaries, there is mounting consideration among scholars and policymakers on the status of watchful rule design and implementation instruments.

Consistent transformations are also vital. Effective fiscal administration entails not only rules but also dynamic fiscal establishments, autonomous fiscal councils, and enforceable financial obligation laws. Governments should identify and manage contingent liabilities, especially those linked to state-owned enterprises, and disclose timely, comprehensive debt data, including risks from interest and exchange rate fluctuations. Legal frameworks supporting transparency can strengthen accountability and limit reliance on risky debt instruments. Additionally, tighter expenditure control and active cash management can curb overspending. Structural and fiscal reforms are vital to boost medium-term growth and balance debt sustainability, promoting employment and investment.[5] In recent studies, Narayan et al. (2025) and Adeyemi-Tijani (2025) reaffirm that effective public financial management depends on strong fiscal discipline and sound debt management, thereby ensuring long-term economic sustainability.

[5] https://www.imf.org/en/Publications/FM/Issues/2025/04/23/fiscal-monitor-April-2025.

In Pakistan, Khan (2024, 2025) states that since the 1970s, Pakistan has pursued an active yet expansionary fiscal policy characterised by externally sponsored development expenditures, particularly investments in public enterprises. However, this approach failed to yield sustained economic growth, instead leading to structural issues such as low productivity, weak investment, and rising unemployment. Persistent fiscal deficits, driven by high public spending without matching revenue growth, have led to mounting public debt. This situation has been worsened by ongoing external account deficits and currency depreciation, which have significantly increased debt-servicing costs. Today, Pakistan faces a cycle of stagflation and limited growth potential, compounded by the financial burdens of SOEs, guarantees to IPPs, unsustainable debt, surging inflation, repeated IMF bailouts, deteriorating creditworthiness, and minimal investment activity.

Wahid (2023) emphasises that extensive research spanning five decades and 44 countries indicates a strong link between 'debt-to-GDP ratios' above 60 per cent and heightened default risk, as well as threats to sustained economic growth. In Pakistan's case, the 'debt-to-GDP ratio' was around 75 per cent in 2022, with external debt reaching $125.7 billion by March 2023. This level surpasses the 58 per cent ceiling set by the FRDLA, a target the government has failed to meet for two consecutive years. Without decisive corrective measures, the country's debt burden is projected to escalate further.

Similarly, Qasim and Khalid (2012) emphasise that the FRDLA was introduced to strengthen fiscal discipline and guide Pakistan toward sustainable economic growth. However, the Act was formulated more in response to constitutional requirements than as a reflection of the country's broader economic realities. Its scope is limited solely to the 'federal government', excluding 'provincial governments' from its jurisdiction. Notably, the FRDLA focuses on curbing the revenue deficit while largely ignoring the overall fiscal deficit, an omission that poses challenges for effective fiscal policymaking. Although the Act imposes numerical limits on public debt through 'debt-to-GDP' targets, these thresholds often appear unrealistic. Empirical evidence shows a strong long-term relationship between 'fiscal deficits' and 'public debt' accumulation. Yet, the Act fails to adequately address this linkage by not treating fiscal deficits as a core concern.

Moreover, Khalid (2023) documents that, given the current economic challenges, budget formulation in Pakistan, already a persistent difficulty, has become critically important. It must chart a clear path toward macroeconomic stability and long-term fiscal sustainability. Although a comprehensive framework for public financial management was introduced through the PFM Act of 2019 and endorsed by both federal and provincial legislatures, effective fiscal governance remains elusive. In practice, fiscal management largely functions as a routine accounting process, burdened by intricate and overlapping statutory requirements. These layers of procedural complexity hinder the transition to performance-based budgeting, which is essential for unlocking the full potential of sound fiscal management.

Rana (2024) discusses that Pakistan's Ministry of Finance, notwithstanding its legal commitment to issue an all-inclusive annual debt policy statement under the FRDLA, has omitted vital statistics in the latest report. Missing details include assessments of public debt, external debt flows, currency revaluation effects, gross financing needs, and recent developments. He further highlights that a clarification has been provided as to whether these omissions were directed by senior officials or made by the 'Debt Policy Coordination Office'. Rana (2024) finally argues that withholding such critical data from Parliament and the federal cabinet undermines the law's purpose and weakens public confidence in fiscal governance.

In recent studies, Khan (2024, 2025) observes that Pakistan's expansionary fiscal policies, driven by careless public spending and pathetic revenue growth, have led to tenacious deficits, mounting public debt, and chronic stagflation. Dependence on external funding, currency depreciation, and increasing debt-servicing costs have deepened fiscal vulnerabilities, resulting in frequent IMF bailouts and deteriorating investor confidence. Even though the Uraan Pakistan program recognises fiscal sustainability, its impact remains inadequate due to flimsy fiscal rules and ineffective implementation.

The reviewed literature affirms that fiscal responsibility, underpinned by sound legal and institutional frameworks, is essential for macroeconomic stability and long-term debt sustainability. Fiscal rules, whether targeting budget balances, debt levels, expenditures, or revenues, serve as critical tools for constraining fiscal profligacy and mitigating the inherent 'deficit bias' in public finance. However, their effectiveness is contingent not merely upon design but also upon robust enforcement mechanisms, political commitment, and institutional credibility.

In conclusion, while the FRDLA marks a significant milestone in formalising fiscal discipline in Pakistan, its effectiveness, however, has been hampered by repeated policy deviations, implementation delays, and the exclusion of provincial fiscal obligations. The 2022 reforms seek to address these shortcomings through the imposition of more credible fiscal targets, tighter statutory limits, and stronger institutional arrangements. Nonetheless, enduring fiscal stability will depend on broader structural reforms, including enhanced revenue mobilisation, depoliticised fiscal governance, and the full integration of provincial finances into the national fiscal framework.

III. Methodology

This study employs a qualitative, comparative research design grounded in a systematic literature review. The methodology integrates thematic content analysis, legal-institutional analysis, and comparative benchmarking to ensure a comprehensive assessment. Hence, it adopts a primarily qualitative-descriptive approach, enriched with interpretive elements to explore the design and execution of Pakistan's 'Fiscal Responsibility and Debt Limitation Act (FRDLA)'. To support and contextualise these qualitative intuitions, appropriate quantitative evidence, mainly fiscal data from Pakistan's public finance experience, is incorporated. This mixed-methods strategy permits a more comprehensive understanding of the legal and institutional reinforcements of fiscal obligation.

The research method integrates three key components: 'thematic content analysis', 'legal-institutional review', and 'comparative benchmarking'. Thematic content analysis was applied to identify recurring patterns, hypothetical themes, and structural feebleness within Pakistan's fiscal framework. This comprised a cautious investigation of 'government reports', 'debt policy statements', 'budgetary documents', and 'legislative amendments to the FRDLA (2005, 2016, and 2022)'. In analogy, a legal-institutional evaluation was commenced to appraise the constitutional, statutory, and procedural dimensions of fiscal governance.

For comparative benchmarking, best practices from selected OECD countries, especially Germany, the United Kingdom, and the United States, were analysed. These countries were preferred due to their well-documented and diverse fiscal responsibility frameworks, offering a useful divergence to Pakistan's centralised and comparatively weak execution system. Comparative criteria comprised debt ceilings, deficit limits, execution mechanisms, transparency canons, and the role of independent fiscal institutions.

To support the qualitative analysis, quantitative data were combined selectively to contextualise conclusions. This encompassed historical proclivities in Pakistan's tax-to-GDP ratio, debt-to-GDP ratio, and government expenditures on health and education. Sources for this data comprised the World Bank (WDI), Asian Development Bank (ADB), State Bank of Pakistan (SBP), and other international datasets. Nevertheless, the primary attention was interpretive rather than statistical, as the goal was to comprehend institutional design rather than to forecast economic outcomes.

By merging qualitative analysis with supportive quantitative evidence, this study offers an all-inclusive appraisal of the FRDLA's design and its alignment or misalignment with international best practices. This method not only highlights Pakistan's structural gaps but also serves as a basis for recommending actionable restructurings designed to nurture fiscal transparency, accountability, and long-term sustainability.

IV. Analysis

Several countries, like the U.S. and OECD members, exercise fiscal rules to keep budgets balanced, borrowing in check, and financial transactions transparent. Research discloses that the best rules are vibrant, supple, and easy to execute. Strong institutions make these measures work in an effective and efficient manner, certifying that rules don't just exist on paper but truly guide all-inclusive economic choices. Ultimately, such rules are intended to halt the natural proclivity of governments to extravagant or wasteful overspend, leading to running tenacious deficits. This bias often results from misaligned incentives and political pressures to increase spending, particularly during periods of economic growth. By mitigating these tendencies, fiscal rules promote responsible budgeting and long-term debt sustainability (Schaechter et al., 2012; IMF, 2009). Beyond this central aim, fiscal rules serve several other functions, as identified by Kopits and Symansky (1998) and Kennedy and Robbins (2003). These include: (1) fostering macroeconomic stability; (2) complementing other financial and economic policies; (3) reducing harmful spillover effects; and (4) strengthening the credibility of fiscal policy.

Enlightening on this consideration of the strength and design of operative fiscal rules, researchers have also branded them into different types grounded on their operational focus and policy objectives. Commonly, fiscal rules fall into several main groups (Okwuokei, 2014), as delineated in Box 1 below.

Box 1

Fiscal Rules

- **'Budget Balance Rules:** These are designed to keep government budgets in check by ensuring that overall, structural, or cycle-adjusted budget deficits stay within a certain percentage of GDP. Some versions focus on maintaining a balanced primary budget or follow the 'golden rule,' which permits borrowing only for investment, not day-to-day spending.

- **Debt Rules:** These rules set clear limits on how much public debt a government can take on, typically by capping the 'debt-to-GDP ratio' to promote long-term financial stability.

- **Reserve Rules:** These necessitate governments to either plug their liabilities or uphold a certain level of reserves such as in social security funds to safeguard they can meet upcoming commitments like pension or benefit payments.

- **Expenditure Rules:** These place restrictions on how much the government can spend whether it's total spending, current spending, or primary spending. These restrictions may be established in secure expanses, as a rate of growth, or in share to GDP. When combined with debt or budget balance rules, they support figure a robust and well-organized fiscal policy agenda.

- **Revenue Rules:** These create lower or upper restrictions on the amount of revenue the government should gather, with the objective of guaranteeing sufficient funds for public services without placing an unwarranted tax burden on citizens.'

Prudent debt management is the backbone of responsible public finance. It ensures governments meet today's obligations without sacrificing the well-being of future generations. To sustain stability, clear debt limits should be set across federal, provincial, and local levels, shaped by past experiences and lessons from financial crises. Around the world, effective systems often rely on legally binding fiscal rules to curb excess borrowing and encourage sound practices. Still, such rules must strike a balance: firm enough to prevent reckless spending, yet flexible enough to allow essential investments. Good debt stratagems should facilitate both fiscal discipline and long-term growth, with exigency plans, adjustments for changing borrowing requirements, and impartial access to funding. The goal is simple: to secure the present economy while laying the fundamentals for future prosperity.

The OECD, bringing together 38 advanced and emerging economies[6], promotes this balance through its 'Spending Better Framework'. This approach strengthens fiscal responsibility by combining medium-term planning with top-down budgeting. It accentuates correct 'expenditure ceilings', 'fiscal rules', and 'performance targets'. Medium-term frameworks (three to five years) allow governments to forestall the perpetual effects of today's choices, while 'top-down budgeting' pledges spending restrictions echo impressive economic conditions. Together, these practices help countries shield long-term fiscal sustainability while keeping space for suppleness and accountability in short-term decisions. This approach reinforces budgetary chastisement and safeguards configuration with planned priorities. While separate in strategy, these two approaches are symbiotic.

Expenditure ceilings should be grounded in realistic assumptions and baseline projections rather than imposed arbitrarily. Fiscal rules and fiscal objectives serve as guiding tools in this context. Fiscal rules are legally binding numerical limits, such as those on debt, budget balance, or expenditures, whereas fiscal objectives are politically endorsed targets without legal enforceability. However, the success of either framework largely depends on effective implementation rather than its legal status. Both are instrumental in maintaining long-term fiscal stability and in guiding short-term budgeting decisions. As a key element of top-down budgeting, multi-annual ceilings (typically spanning 3–5 years) enhance predictability and fiscal discipline. Critical considerations include whether these ceilings are binding or indicative, fixed or rolling, and whether they are applied at an aggregate or sectoral level. Binding ceilings often include contingency margins to absorb unforeseen changes in macroeconomic conditions. Aggregate ceilings align spending with national fiscal objectives, while sectoral ceilings assign spending limits to individual ministries or departments, thereby reinforcing ac-

6 'The members of the OECD are: Australia, Austria, Belgium, Canada, Chile, Colombia, Costa Rica, Czechia, Denmark, Estonia, Germany, Finland, France, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Latvia, Lithuania, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovenia, Slovakia, Spain, Sweden, Switzerland, Turkey, the UK and the USA. https://www.cbs.nl/en-gb/news/2024/42/netherlands-lags-behind-other-oecd-countries-on-labour-productivity-gains/oecd-countries:'.

countability. Collectively, these measures contribute to improved fiscal responsibility, planning certainty, and budgetary stability (OECD, 2023).

The 2008 global financial crisis severely impacted sub-central finances, reducing tax revenues while increasing social service demands. Consequently, Sub-Central Government (SCG) debt rose significantly. To stabilise sovereign debt, OECD countries introduced stricter fiscal rules at all levels of government. However, these rules vary widely in design, including differences in targeted fiscal variables (deficit, debt, or expenditure), threshold values, time frames, and whether public investment is excluded. Some rules apply to SCGs collectively, while others target individual jurisdictions. Effective fiscal rules promote economic stability and prudent financial management while allowing flexibility to address unexpected circumstances. Transparent accounting frameworks, consolidation of off-budget funds, and integration of public enterprises into SCG budgets improve financial oversight. Additionally, strictly enforced no-bailout provisions and clear sanctions enhance credibility. A well-defined insolvency framework, whether judicial or administrative, ensures a structured response to SCG's financial distress. Some global and OECD examples (OECD, 2006; Vammalle & Bambalaite, 2021; OECD, 2023) are briefly highlighted in Box 2 below:

1. Cross-Jurisdictional Comparison of Fiscal Frameworks

Fiscal responsibility frameworks in advanced economies tend to rely on simple, hard fiscal anchors embedded in law. For example, the EU's 'Stability and Growth Pact' enshrines a 3 per cent of 'GDP deficit' ceiling and a 60 per cent 'debt-to-GDP' cap (European Commission, 2020). Economic research similarly emphasises that effective rules include one clear medium-term target (a 'debt anchor') plus a small number of operational limits. The IMF notes that financial agendas should contain a 'debt anchor' creating a medium-term goal, shared with a trivial number of effective rules (IMF, 2018). In practice, the best-performing countries typically specify a primary anchor (often a debt or long-run balance goal). At most one supplemental rule (such as a deficit or expenditure limit), and they avoid frequent arbitrary changes to targets.

By contrast, Pakistan's FRDL regime has been relatively complex and fluid. The original 2005 Act set multiple targets (eliminate revenue deficits, cut debt to 60 per cent by 2013, limit new guarantees to 2 per cent of GDP), and even the revised 2022 law toggled between debt ceilings (60 per cent by 2019, then 50 per cent). Pakistan's fiscal framework suffers from too many shifting targets and vague timelines, which reduces clarity. In line with OECD and IMF best practices, the country should simplify its fiscal anchors, perhaps limiting them to one or two key indicators, such as debt-to-GDP and a deficit ceiling and embed them firmly in law to ensure predictability (OECD, 2014).

A deeper look at Pakistan's governance compared with OECD standards reveals serious weaknesses. Most notably, its Fiscal Responsibility and Debt Limitation Act

Box 2

Managing Sub-Central Fiscal Crises: Global Approaches:

South Korea's Four-Step Early Warning System (2011): Sub-central debt is monitored using seven key indicators, including fiscal balance, debt service ratio, and public enterprise liabilities. *In some countries,* when an SCG is identified as financially distressed, central government intervention follows the guidelines of the Local Finance Act. Affected SCGs must succumb a deficit management plan for sanction by the Ministry of Public Administration and Security and local councils. Additionally, their borrowing capacity becomes restricted. For instance:

- Czech Republic: Considering a proposal requiring balanced budgets if total public debt exceeds 48% of GDP.
- Denmark: Introduced a rule in 2012 limiting structural deficits to 0.5% of GDP annually.
- Estonia: Implemented a 2014 law mandating a balanced budget for general government, with targets at different levels.
- Japan: Introduced the Fiscal Management Strategy in 2010, setting short-, medium-, and long-term deficit reduction targets.

Expenditure Limits and Growth Ceilings:

Few OECD countries enforce sub-central expenditure limits, but their use has increased since fiscal consolidation efforts began in 2010. Some examples include:

- Canada and Turkey: Cap revenue growth.
- Slovenia and Spain: Tie spending ceilings to objective needs such as population growth.
- Denmark, Estonia, Italian local governments, and Korea: Cap only operating expenditure.
- Spain: Limits local public spending growth to the nine-year average nominal GDP growth.
- Italy and Turkey: Impose budgetary caps on specific expenditure lines, such as staff costs.
- Switzerland: Some cantons limit public spending during deficit periods.

Debt and Debt Service Restrictions:

OECD countries widely impose rules on sub-central debt, including limits on total debt, new borrowing, and debt servicing. Restrictions vary:

- Total debt limits: Range from 60% to 150% of total revenues, or linked to GDP.
- Debt service caps: Typically, 12% to 25% of current revenues.
- Debt maturity restrictions: Mexico mandates debt must not fund current expenditures and must be repaid within the contracting administration.

Selected country regulations include:

- 'Austria, Czech Republic, Estonia, Greece, Poland, Slovak Republic, Spain, Turkey': Various limits on total SCG debt, often relative to revenues or GDP.
- Italy, Poland, Slovak Republic: Caps on debt servicing costs.
- Mexico: Constitutional reforms to tighten sub-central borrowing rules.

Enforcement and Challenges in Monitoring Sub-Central Debt

To strengthen compliance, many countries have improved transparency and reporting requirements introduced financial penalties for non-compliance and implemented restructuring plans for offenders.

- Poland: Imposed sanctions on elected officials e.g., removal from office.
- Italy and Turkey: penal sanctions

Examples of enforcement mechanisms:

- Czech Republic: Reduced transfers for exceeding debt limits.
- Austria: Deficit exceeding two consecutive years triggers penalties.
- Turkey: Non-compliance subject to criminal prosecution.

(FRDLA) sets rules, like capping public debt at 60 per cent of GDP, but provides no real consequences when those rules are broken. By contrast, countries such as Germany impose fiscal restrictions through obligatory legal and institutional instruments, guaranteeing tougher acquiescence. Their 'debt brake' rule contains built-in corrective instruments that automatically kick in when fiscal targets are missed. Similarly, in the 'European Union', the 'Stability and Growth Pact' fundamentally imposes financial penalties on member countries that surpass debt or deficit limits.

Another vibrant insufficiency in Pakistan's system is the disproportionately centralised control of debt management, wherein provinces must seek federal authorisation through the 'National Economic Council' before taking on any debt. Although intended to avoid fiscal carelessness at the provincial level, in practice, it usually causes deferments and prevents provinces from capitalising on vibrant development projects. Countries such as the United States offer a valuable point of divergence here. U.S. states demonstrate how fiscal sovereignty can coexist with chastisement. California, for example, needs voter endorsement for certain bonds. In contrast, Pakistan's FRDLA struggles with feeble execution. Annual debt reports are often overdue or unreachable, while OECD countries guarantee candidness through frequent, clear, and audited publications.

Institutional strength is another divide. Pakistan's Debt Policy Coordination Office lacks resources and independence, while bodies like the U.S. Congressional Budget Office and Germany's fiscal council provide rigorous, nonpartisan oversight. Political cycles further erode discipline in Pakistan, as short-term electoral priorities outweigh long-term planning. The outcome is evident: public debt has grown from 59 per cent of GDP in 2005 to over 74 per cent in 2023, reflecting persistent gaps in transparency, institutional capacity, and fiscal discipline. As Alam (2007) records in his study of 14 'Asia-Pacific' countries, many governments tend to make debt decisions based on short-term political ploys rather than long-term economic strength. These approaches may support governments to stay in power transiently, but they exacerbate fiscal anomalies in the long run and force countries deeper into unmanageable debt. The efficacy of Pakistan's FRDL framework has also been undermined by these political delicacies.

As an upshot, debt servicing now takes up a gigantic portion of the federal budget, leaving less money for vital areas like health, education, and infrastructure. Scholars are almost totally agreed that a nation's capacity to service its debt is the most critical determinant in effective 'public debt management'. There must be a rational and sustainable relationship between the level of public debt and the government's ability to meet its debt obligations. Fiscal stress emerges when the capacity to service debt fails to keep pace with the accumulation of debt itself. Therefore, it is essential that both the absolute level and the growth rate of public debt remain sustainable and manageable under a broad range of economic conditions. Prudent public debt management, accordingly, seeks to preserve a stable ratio between the debt stock and the country's repayment capacity, ensuring that economic objectives are not compromised in the process. However, this ideal has remained largely unfulfilled in Pakistan, where persistent fiscal deficits averaging over 6 per cent of GDP in recent years have eroded financial flexibility and undermined macroeconomic stability. While external shocks such as global financial crises, natural disasters, and the 'COVID-19' pandemic have exacerbated fiscal pressures, the underlying challenge stems from deep-rooted structural weaknesses in fiscal governance that hinder effective debt sustainability.

If Pakistan is to truthfully align its fiscal framework with global best practices, it needs to build on four key pillars that are common in efficacious systems around the world, specifically in OECD and IMF-advised countries. 'These include:

1. Multi-year budget planning, to avoid short-termism.
2. Independent fiscal oversight, to keep politics in check.
3. Transparent and comprehensive fiscal reporting, so the public knows what is happening.
4. Smart flexibility, using clearly defined escape clauses that allow exceptions in genuine emergencies but prevent abuse'.

In the forthcoming sections, each of these fundamentals will be explored in more detail, using international examples to outline specific and effective restructuring options for Pakistan.

2. Multi-Year Budget Planning

Top specialists at the OECD and IMF emphasise that healthy fiscal policy relies on forecasting in advance. They endorse that governments recognise pulsating spending strategies for the next 3 to 5 years, which is called a 'medium-term fiscal framework'. These stratagems should include strong limitations on how much can be spent, ensuring that budgets stay on track and follow consistent, rule-based goals. Such agendas give policymakers an extended prospect to appraise trade-offs and to guarantee that annual budgets are consistent with medium-term goals. An IMF guidance note highlights that an MTFF should cover revenues, expenditures, balances, and debt over a three-to-five-year period and include top-down spending ceilings guiding the annual budgets (IMF, 2018).

Pakistan has taken measures in this background; the 2022 amendments entail the federal government to publish a three-year national macro-fiscal framework before each budget. To strengthen it, Pakistan should ensure these plans are truly binding (not merely informational) and that subordinate budgets stick to the declared envelopes. In short, enshrining a multi-year strategy and enforcing its spending limits would align Pakistan's practice with OECD norms (OECD, 2014).

3. Independent Fiscal Oversight

OECD experience shows that independent fiscal institutions (IFIs) dramatically improve transparency and rule compliance. Many OECD countries have created statutory bodies such as the UK's 'Office for Budget Responsibility' or Canada's 'Parliamentary Budget Officer' to produce nonpartisan forecasts, cost legislation, and monitor adherence to fiscal rules. Empirical evidence finds that credible IFIs yield more realistic revenue/deficit projections and stronger fiscal discipline. For instance, Beetsma et al. (2018) report that jurisdictions with independent fiscal councils enjoy higher forecasting accuracy and less optimism, and better compliance with fiscal rules.

In Pakistan's case, there is no equivalent of a nonpartisan fiscal watchdog. Introducing an independent fiscal council would significantly bolster Pakistan's framework. Such a body could validate macro-fiscal assumptions, alert the legislature and public to rule breaches, and reinforce accountability. In OECD best practice, the active involvement of IFIs and parliamentary committees is seen as a key pillar of credible fiscal regimes (OECD, 2014).

4. Transparency and Comprehensive Coverage

Robust fiscal frameworks demand full disclosure of all public finances. OECD principles require budgets to report not only on central government operations but on the entire general government (including subnational layers), as well as on off-budget entities, contingent liabilities, and quasi-fiscal obligations (OECD, 2015a). The rationale is clear: omitting these items creates hidden risks and obscures the true fiscal stance. In Pakistan, however, the legal definition of 'public debt' under the 60 per cent limit is narrower. It does not explicitly include state-owned enterprises' debts, unfunded pension obligations, or implicit government guarantees. Improving transparency would require amending the law to either include these exposures in the ceiling or mandate parallel reporting of general government debt.

Equally important, fiscal reports (Debt Policy Statements, Fiscal Risk Statements) should be published on schedule, made accessible, and subject to legislative audit. This follows OECD practice, where audit institutions and budget offices routinely review fiscal documents to reinforce public confidence (OECD, 2015a).

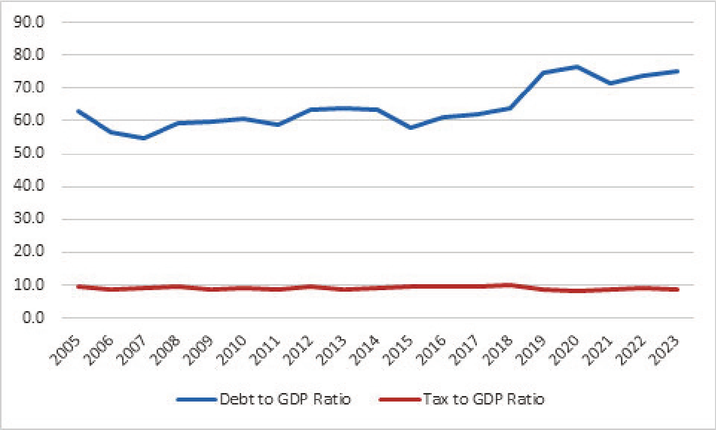
5. Accountable Flexibility (Escape Clauses)

Even rigid rules must allow for narrow escape provisions under true emergencies. The IMF advises that these clauses be tightly defined (e.g., for major shocks like severe recessions, natural disasters, or wars) and conditioned on clear quantitative triggers. Any temporary suspension should require an explicit plan to return to the rule (IMF, 2020). A well-designed escape clause specifies the events that trigger it, time limits on the deviation, and a requirement to offset extra borrowing in the future.

Germany's constitutional debt brake permits overshooting the cap during recessions, but lawmakers must outline a credible adjustment path once growth recovers. By contrast, Pakistan's federal FRDLA allows deviations for vaguely defined 'exigencies' as proclaimed by Parliament, with no automatic rollback or remedial plan required. Aligning with international best practices would entail narrowing Pakistan's escape language and adding a legal obligation to present a corrective budget path (OECD, 2021).

6. The Widening Gap Between Revenue Mobilisation and Public Debt Accumulation

The trajectory of Pakistan's 'Debt-to-GDP ratio' from 2005 to 2023, as shown in Figure 1, presents a compelling case of persistent fiscal stress and signals notable deficiencies in the country's public debt management framework. During this period, the 'debt-to-GDP ratio' rose steadily from 62 per cent in 2005 to 75 per cent in 2023, an increase of 16 percentage points. This upward trend occurred despite intermittent improvements in tax revenue, as the 'tax-to-GDP ratio' increased only marginally from 9 per cent in 2005 to a peak of 11 per cent in 2016 and 2018, before declining again to 8.6 per cent by 2023. The flaring gap between tax revenue and debt accrual is symbolic of structural feebleness and policy-level inadequacies in handling public finances, hence transmitting a signal of public debt mismanagement. There is an immediate authorisation of uninterrupted fiscal chastisement, revenue improvement, and sincere rule-based programs.



Sources: Authors' estimation based on data from the Economic Survey of Pakistan.

FIGURE 1

Gap between tax and debt of Pakistan (% of GDP):
Period 2005-2023

7. *Government Expenditure on Health*

From 2005 to 2022, Pakistan's government health expenditure remained exceptionally low, starting at 0.52 per cent of GDP in 2005 and gradually rising to just 1.11 per cent by 2022. Although there was a modest upward trend, the share never exceeded 1.1 per cent, reflecting chronic underinvestment in public healthcare. In contrast, OECD members consistently spent between 6.3 per cent and 7.8 per cent of GDP on health before the pandemic, with a sharp rise to 9.18 per cent in 2020 due to COVID-19 emergency measures, followed by a slight reduction to 8.27 per cent in 2022. The disparity is stark: Pakistan's spending was roughly one-sixth to one-ninth of the OECD average, indicating severe resource constraints in its public health system and a likely gap in service quality, coverage, and resilience compared to developed economies.

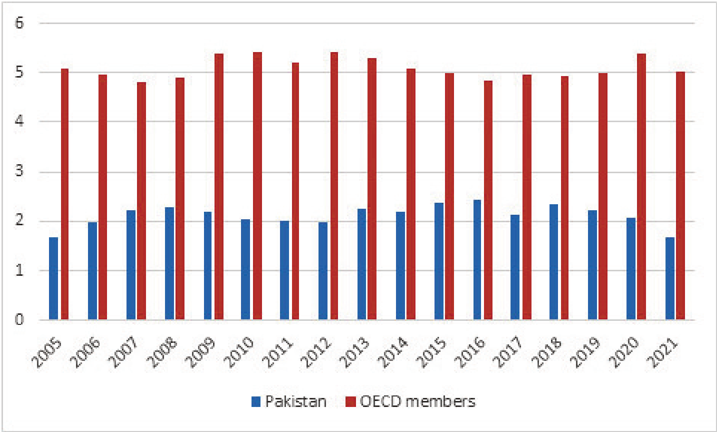
Sources:Authors' estimation based on data from WDI.

FIGURE 2

Government expenditure on health in Pakistan and OECD (% of GDP): Period 2005-2023

8. *Government Expenditure on Education*

Between 2005 and 2021, Pakistan's government expenditure on education as a percentage of GDP remained persistently low, fluctuating between 1.67 per cent and 2.42 per cent, with a gradual decline after 2016, reaching just 1.69 per cent in 2021. In contrast, OECD members consistently allocated a much higher share, around 4.8 per cent to 5.4 per cent of GDP, showing stability and sustained commitment to education funding. The data highlights a significant and persistent gap: Pakistan's investment was roughly one-third to one-fourth of the OECD average, suggesting limited fiscal prioritisation of education compared to developed economies, which likely impacts human capital development and long-term growth potential.



Sources:Authors' estimation based on data from WDI.

FIGURE 3

Government expenditure on education in Pakistan and OECD (% of GDP)
Period 2005-2021

V. Conclusion and Policy Recommendations

Pakistan's journey under the 'Fiscal Responsibility and Debt Limitation Act (FRDLA)' from 2005 to 2023 reveals a persistent gap between the aspirations of fiscal discipline and the outcomes in practice. While the law was intended to anchor debt and deficit limits, its spirit has not translated into credible results. Tax revenues have remained obstinately low, while public debt has repeatedly broken the authorised ceilings. These deficiencies highlight deeper structural weakness: the rules are poorly imposed, provincial subject persists largely outside the national fiscal framework, contingent liabilities such as guarantees for state-owned enterprises are concealed from view, and no independent institution exists to grip governments answerable. Supplementary to this, short-term political considerations regularly supersede long-term farsightedness, corroding both reliability and trustworthiness in the system.

In contrast, many OECD countries have turned fiscal responsibility into a lawfully obligatory and institutionalised practice. They depend on multi-year budget frameworks, reinforce execution through independent oversight bodies, and regularly publish clear, timely information on fiscal risks. These actions support aligning day-to-day budgeting with longer-term sustainability. For Pakistan to escape frequent cycles of pathetic discipline, mounting debt, and underfunded development, audacious restructurings are vital. The country requires fiscal rules that are not just written in law but actively imposed. It must implement medium-term budget planning, create an independent fiscal council to augment trustworthiness, integrate provincial finances into the broader fiscal framework, and unveil risks from state-owned enterprises and other off-budget liabilities. Only through such reforms can Pakistan build a reliable, transparent, and responsible fiscal system, one that safeguards economic stability, reinstates public confidence, and guarantees that scarce resources are used for sustainable growth.

This study, while offering valuable insights into Pakistan's 'Fiscal Responsibility and Debt Limitation Act (FRDLA)', has certain limitations. It generally depends on secondary data sources, such as 'government reports', 'IMF and OECD publications', and 'academic literature'. The qualitative-comparative method used is interpretive in nature and may encompass some subjectivity. Furthermore, substantial data constraints inhibited the presentation of a comprehensive interpretation. Additionally, the focus remains on the design and implementation mechanisms of fiscal rules rather than empirically measuring their economic impact. Hence, it finally concludes that the strength of fiscal rules in the case of OECD largely pivots on their well-made design with strong support of their institutions. In contrast, while Pakistan's law was planned to anchor debt and deficit limits, its execution has fallen short, and the projected essence of the legislation has not been interpreted into credible or maintainable outcomes.

Moreover, it did not employ empirical methods, instead relying on thematic, narrative, and descriptive approaches. Due to limitations in scope and boundaries, it was not conceivable to explore the subject in depth at the sub-national level. Hence, it is suggested that future research expand on this work by including empirical models to evaluate the real-world effects of fiscal reforms. Furthermore, a separate, dedicated study focusing specifically on sub-national dynamics is recommended to provide a more extensive understanding of the topic. Nevertheless, despite these limitations, the study offers a strong foundation for comprehending Pakistan's fiscal governance challenges and offers a roadmap for policy improvement.

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