



**THE  
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**PART III**

**Laws, Regulations and Rules passed thereunder.**

**GOVERNMENT OF JAMMU AND KASHMIR,  
CIVIL SECRETARIAT—LAW DEPARTMENT.**

**Srinagar, 14th August, 2006.**

The following Act as passed by the Jammu and Kashmir State Legislature received the assent of the Governor on 9th August, 2006 and is hereby published for general information :—

**THE JAMMU AND KASHMIR FISCAL RESPONSIBILITY  
AND BUDGET MANAGEMENT ACT, 2006**

(Act No. XII of 2006)

[9th August, 2006.]

An Act to provide for the responsibility of the Government to ensure prudence in fiscal management and fiscal stability by progressive strengthening of revenue surplus, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework and for matters connected therewith or incidental thereto.

Be it enacted by the Jammu and Kashmir State Legislature in the Fifty-seventh Year of the Republic of India as follows :—

1. *Short title and commencement.*—(1) This Act may be called the Jammu and Kashmir Fiscal Responsibility and Budget Management Act, 2006.

(2) It shall come into force on such date as the Government may, by notification in the Government Gazette, appoint in this behalf.

2. *Definitions.*—In this Act, unless the context otherwise requires,—

- (a) 'Act' means the Jammu and Kashmir Fiscal Responsibility and Budget Management Act, 2006 ;
- (b) 'budget' means the "Annual Financial Statement" laid before the State Legislature under section 79 of the Constitution of Jammu and Kashmir ;
- (c) 'current year' means the financial year preceding the ensuing year ;
- (d) 'ensuing year' means the financial year for which the budget is presented ;
- (e) 'financial year' means the year beginning on the 1st day of April of a year and ending on 31st March of the year next following ;
- (f) 'fiscal deficit' is the excess of aggregate disbursements (net of debt repayments) over revenue receipts, recovery of loans and non-debt capital receipts ;
- (g) 'fiscal indicators' are such indicators as may be prescribed for evaluation of the fiscal position of the Government ;
- (h) 'fiscal targets' are the numerical ceilings and proportions to total revenue receipt (TRR) or GSDP for the fiscal indicators ;
- (i) 'GSDP' means Gross State Domestic Product at current market prices ;
- (j) 'Government' means the Government of Jammu and Kashmir ;
- (k) 'prescribed' means prescribed by the rules made under this Act ;
- (l) 'previous year' means the year preceding the current year ;

- (m) 'revenue deficit' is the excess of the revenue expenditure over total revenue receipts (TRP);

*Explanation* :— 'Total Revenue Receipts' (TRR) includes State's own receipts (both tax and non-tax) and current transfers from the Centre (comprising grants and State's share of Central taxes).

- (n) 'revenue surplus' is the excess of the total revenue receipts over revenue expenditure ;
- (o) 'total liabilities' means the liabilities under the Consolidated Fund of the State and the Public Account of the State and includes borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and/or interest are to be serviced out of the budget.

3. *Fiscal management objectives*.—The Government shall—

- (a) take appropriate measures to strengthen the revenue surplus and thereafter build up adequate revenue surplus at a sustainable level, and utilize such surplus for discharging the liabilities in excess of the assets or for funding capital expenditure ;
- (b) pursue policies to raise non-tax revenue with due regard to cost recovery and equity ;
- (c) lay down norms for prioritization of capital expenditure ; and
- (d) expenditure policies that would provide impetus for economic growth, poverty reduction and improvement in human welfare/standard of life.

4. *Fiscal management principles*.—The Government shall be guided by the following fiscal management principles, namely :—

- (a) transparency in settling the fiscal policy objectives, the implementation of public policy and the publication of fiscal information so as to enable the public to scrutinize the conduct of fiscal policy and the state of public finances ;
- (b) stability and predictability in fiscal policy making process and in the manner in which fiscal policy impacts the economy ;
- (c) responsibility in the management of public finances, including integrity in budget formulation ;
- (d) fairness to ensure that policy decisions of the Government are taken having due regard to their financial implications on future generations ; and
- (e) efficiency in the design an implementation of the fiscal policy and in managing the assets and liabilities of the public sector balance sheet.

5. *Fiscal Policy Statements to be laid before the Legislature.*—The Government shall in each financial year lay before each House of the State Legislature, the following statements of fiscal policy along with the budget, namely :—

- (a) the Macroeconomic Framework Statement ;
- (b) the Medium Term Fiscal Policy Statement ; and
- (c) the Fiscal Policy Strategy Statement.

6. *Macroeconomic Framework Statement.*—The Macroeconomic Framework Statement, in such form as may be prescribed, shall contain an overview of the State economy, an analysis of growth and sectoral composition of GSDP, an assessment related to State Government finances and future prospects.

7. *Medium Term Fiscal Policy Statement.*—(1) The Medium Term Fiscal Policy Statement shall set forth in such form as may be prescribed the fiscal management objectives of the Government and three year rolling targets for the prescribed fiscal indicators with clear enunciation of the underlying assumptions.

(2) In particular and without prejudice to the provisions contained in sub-section (1), the Medium Term Fiscal Policy Statement shall include the various assumptions behind the fiscal indicators an assessment of sustainability relating to —

- (i) the balance between revenue receipts and revenue expenditure ;
- (ii) the use of capital receipts including borrowings for generating productive assets ;
- (iii) the estimated yearly pension liabilities worked out on actuarial basis for the next ten years :

Provided that in case it is not possible to calculate the pension liabilities on actuarial basis during the period of first three years after the enforcement of the Act, the Government may, during that period, estimate the pension liabilities by making forecasts on the basis of trend growth rates.

8. *Fiscal Policy Strategy Statement.*—The Fiscal Policy Strategy Statement shall be in such form as may be prescribed and shall contain, *inter alia*—

- (i) the fiscal policies of the Government for the ensuing year relating to taxation, expenditure, borrowings and other liabilities (including borrowings by Public Sector Undertakings and Special Purpose Vehicle and other equivalent instruments where liability for repayment is on the Government), lending, investments, other contingent liabilities, user charges on public goods/utilities and description of other activities, such as guarantees and activities of Public Sector Undertakings which have potential budgetary implications ;

- (ii) the strategic priorities of the Government in the fiscal area for the ensuing year ;
- (iii) the key fiscal measures and the rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, borrowings and user charges on public goods/utilities ; and
- (iv) an evaluation of the current policies of the Government viz-a-viz the fiscal management principles set out in section 4, the fiscal objectives set out in the Medium Term Fiscal Policy Statement in sub-section (1) of section 7 and fiscal targets set out in section 9.

9. *Fiscal targets.*—(1) The Government may prescribe such targets as may be deemed necessary for giving effect to the fiscal management objectives.

(2) In particular, and without prejudice to the generality of the foregoing provisions, the Government shall—

- (a) maintain revenue surplus and initiate steps for progressive strengthening of the surplus ;
- (b) reduce pre-devolution non-plan revenue deficit by an amount of equivalent to one percentage point as compared to the previous financial year beginning from 1st April, 2006 so as to bring it down by 20% of GSDP by 31st March, 2010 and to maintain the level thereafter ;
- (c) reduce fiscal deficit by an amount equivalent to atleast half percentage point of GSDP in each financial year beginning from the 1st day of April, 2006, so as to bring it down to not more than 3 per cent by the year ending March, 2010 ;
- (d) beginning from the initial financial year on the 1st day of April, 2006, and ending on the 31st day of March, 2010, the outstanding total liabilities do not exceed 55 per cent of the estimated GSDP for that year by an annual reduction of 500 basis points every year ;
- (e) limit the amount of annual incremental risk weighted guarantees to 75 per cent of the TRR in the year preceding the current year or at 7.5 per cent of GSDP of the year preceding the current year, whichever is lower :

Provided that revenue deficit and fiscal deficit may exceed the limits specified under this section due to ground or grounds of unforeseen demands on the finances

of the Government arising out of internal disturbance or natural calamity or such other exceptional grounds as the Government may specify :

Provided however that a statement in respect of the ground or grounds specified in the first proviso shall be placed before each House of the State Legislature, as soon as may be, after such deficit amount exceeds the aforesaid targets.

10. *Measures for Fiscal Transparency.*— (1) The Government shall take suitable measures to ensure greater transparency in its fiscal operations in the public interest and minimize as far as practicable, secrecy in the preparation of the budget.

(2) In particular and without prejudice to the generality of the foregoing provisions, the Government shall, at the time of presentation of the budget, make disclosures on the following, along with detailed information in such forms as may be prescribed :—

(a) the significant changes in the accounting standards, policies and practices affecting or likely to affect the computation of fiscal indicators ;

(b) details of borrowings by way of Ways and Means Advances/ Overdraft availed of from the Reserve Bank of India.

(3) Whenever the Government undertakes to unconditionally and substantially repay the principal amount and/or pay the interest of any separate legal entity, it has to reflect such liability as the borrowings of the State.

11. *Measures of enforce compliance.*—(1) The Minister-in-Charge of the department of Finance (hereinafter referred to as 'Minister of Finance'), shall review every quarter, the trends in receipts and expenditure in relation to the budget estimates and place before each House of the State Legislature, the outcome of such reviews.

(2) Whenever there is either shortfall in revenue or excess of expenditure over the intra-year targets mentioned in the Fiscal Policy Strategy Statement or the rules made under the Act, the Government shall take appropriate measures for increasing revenue and/or for reducing the expenditure, including curtailment of the sums authorized to be paid and applied from out of the Consolidated Fund of the State :

Provided that nothing in this sub-section shall apply to the expenditure charged on the Consolidated Fund of the State under sub-section (3) of section 79 of the Constitution of Jammu and Kashmir or any other expenditure, which is required to be incurred under any agreement or contract, which cannot be postponed or curtailed.

(3) (a) Except as provided under the Act, no deviation in meeting the obligations cast on the Government under the Act, shall be permissible without approval of Legislature.

(b) Where owing to unforeseen circumstances, any deviation is made in meeting the obligations cast on the Government under the Act, the Minister of Finance shall make a statement in each House of the State Legislature explaining—

- (i) any deviation in meeting the obligations cast on the Government under the Act ;
- (ii) whether such deviation is substantial and relates to actual or the potential budgetary outcomes ; and
- (iii) the remedial measures the Government proposes to take.

(4) Any measures proposed in the course of the financial year, which may lead to an increase in revenue deficit, either through increased expenditure or loss of revenue, shall be accompanied by a statement of remedial measures, proposed to neutralize such increase or loss and such statement shall be placed before each House of the State Legislature.

(5) The Government may set up an agency independent of the Government to review periodically the compliance of the provisions of the Act, and table such reviews in each House of the State Legislature.

12. *Power to make rules.*—(1) The Government may, by notification in the Government Gazette, make rules for carrying out the provisions of the Act.

(2) In particular, and without prejudice to the generality of the foregoing power, such rules may provide for all or any of the following matters, namely :—

- (a) the form of the Macroeconomic Framework Statement under section 6 ;
- (b) the form of Medium Term Fiscal Policy Statement, including the targets for the fiscal indicators, under section 7 ;
- (c) the form of Fiscal Policy Strategy Statement under section 8 ;
- (d) the forms for disclosure under sub-section (2) of section 10 ;
- (e) measures to enforce compliance ;
- (f) the manner of review of compliance of the provisions of the Act by the independent agency under section 11 ; and
- (g) any other matter which is required to be, or may be, prescribed.

13. *Rules to be laid before Legislature.*—Every rule made under the Act shall be laid, as soon as may be after it is made, before each House of the State Legislature, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, the Houses agree in making any modification in the rule or the Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be, so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

14. *Protection of action taken in good faith.*—No suit, prosecution or other legal proceedings shall lie against the Government or any Officer of the Government for anything which is in good faith done or intended to be done under this Act, or the rules made thereunder.

15. *Application of other laws not barred.*—The provisions of this Act shall be in addition to, and not in derogation of, the provisions of any other law for the time being in force.

16. *Power to remove difficulties.*—(1) If any difficulty arises in giving effect to the provisions of the Act, the Government may, by order published in the Government Gazette, make such provisions, not inconsistent with the provisions of the Act, as may appear to be necessary for removing the difficulty :

Provided that no order shall be made under this section after the expiry of two years from the commencement of the Act.

(2) Every order made under this section shall be laid, as soon as may be after it is made, before each House of the State Legislature.

(Sd.) G. H. TANTRAY,

Special Secretary to Government,  
Law Department.