



# PARLIAMENT OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

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## FISCAL MANAGEMENT (RESPONSIBILITY) ACT, No. 3 OF 2003

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[Certified on 09th January, 2003]

*Printed on the Order of Government*

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*Fiscal Management (Responsibility)  
Act, No. 3 of 2003*

[Certified on 09th January, 2003]

L.D.—O. 61/2002.

AN ACT TO ENSURE THAT THE FINANCIAL STRATEGY OF THE GOVERNMENT IS BASED ON PRINCIPLES OF RESPONSIBLE FISCAL MANAGEMENT ; TO FACILITATE PUBLIC SCRUTINY OF FISCAL POLICY AND PERFORMANCE ; AND TO PROVIDE FOR MATTERS CONNECTED THEREWITH OR INCIDENTAL THERETO.

BE it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka as follows :—

1. This Act may be cited as the Fiscal Management (Responsibility) Act, No. 3 of 2003, and shall come into operation on such date as the Minister may appoint, by Order published in the Gazette (hereinafter referred to as the “appointed date”).

Short title and  
date of operation.

2. The fiscal strategy of the Government shall be based on the principles of responsible fiscal management hereinafter referred to.

Government  
strategy to be  
based on  
responsible fiscal  
management.

3. The objectives underlying responsible fiscal management which need to be adhered to, by the Government in outlining the fiscal strategy of the government are as follows :—

Objectives  
underlying  
responsible fiscal  
management.

- (a) reduction of government debt to prudent levels, by ensuring that the budget deficit at the end of the year 2006, shall not exceed five *per centum* of the estimated gross domestic product and to ensure that such levels be maintained thereafter ;
- (b) prudent management of the financial risks faced by the government, having regard to the changing economic circumstances ;
- (c) adoption of policies relating to spending which do not increase government debt to excessive levels ;

- (d) adoption of policies relating to spending and taxing, as are consistent with a reasonable degree of stability and predictability in the level of tax rates in the future ;
- (e) ensuring that the sum which is calculated as the guarantee and given as a percentage of the gross domestic product for the current financial year along with the two preceding financial years, does not in the aggregate exceed 4.5 *percentum* ;
- (f) ensuring that at the end of the financial year commencing on January 1, 2006, the total liabilities of the Government (including external debt at the current exchange rates) do not exceed eighty-five *per centum* of the estimated gross domestic product for that financial year ; and that at the end of the financial year commencing on January 1, 2013, the total liabilities of the Government (including external debt at the current exchange rates) do not exceed sixty *per centum* of the estimated gross domestic products for that financial year ; and
- (g) ensuring that the policy decisions of the Government have regard to the financial impact of such decision on future generations.

Fiscal Strategy  
Statement.

4. (1) The fiscal strategy of the Government shall be set out in a Fiscal Strategy Statement (hereinafter referred to as “the Statement”).

(2) The Minister in charge of the subject of Finance, shall in every year on the day fixed for the second reading of the Appropriation Bill in Parliament, cause the Statement of the Government to be released to the public and to also be laid before Parliament.

(3) The Government may, at any time for reasons to be stated by the Minister, revise its Statement.

(4) Where the Government revise its Statement, the Minister shall cause the revised Statement to be released to the public and tabled in Parliament, and the revised Statement shall be effective from the date of its release.

(5) The Minister shall—

- (a) if Parliament is sitting on the date of the release of the revised Statement, cause a copy of such Statement to be tabled in Parliament within two weeks of the date of such release ; or
- (b) if Parliament is not sitting on the date of the release of the revised Statement, cause a copy of such Statement to be tabled in Parliament within two weeks of the next sitting of Parliament.

**5.** The objectives of a Statement is to increase public awareness of the Government's fiscal policy and to establish standards for evaluating the Government's conduct of its Fiscal strategy.

Objectives of  
Statement.

**6.** A Statement shall —

Contents of  
Statement.

- (a) specify the Government's medium term fiscal policy, within which the Government's short term fiscal objectives will be formulated ;
- (b) explain the broad strategic priorities on which the budget is, or will be based ;
- (c) specify the key fiscal measures which the Government considers important in view of the strategy and the overall fiscal policy to be implemented ;
- (d) specify in respect of the next financial year and the three succeeding financial years in conformity with the fiscal policy—

- (i) the Government's fiscal objectives and targets, in relation to expenditure, revenue, debt and other fiscal indicators, with special reference being made to the Government's debt, if any, to the Employees Provident Fund and the Employees Trust Fund ;
- (ii) the expected outcome of the key measures specified in paragraph (c) ;
- (e) explain how the fiscal objectives and strategic priorities specified in paragraphs (a), (b) and (d) are consistent with the principles of responsible fiscal management ;
- (f) explain, if such objectives and priorities depart substantially from the principles of responsible fiscal management—
  - (i) the reasons for the departure ;
  - (ii) the steps that the Government is taking to return to those principles ;
  - (iii) the period of time within which the Government intends to return to these principles ; and
- (g) give reasons justifying the departure, where the Statement departs from the immediately preceding Statement.

Budget Economic  
and Fiscal  
Position Report.

**7.** The Minister shall on the day fixed for the second reading of the Appropriation Bill in Parliament, in each year, cause to be tabled in Parliament, a Budget Economic and Fiscal Position Report.

Objectives of the  
Budget Economic  
and Fiscal  
Position Report.

**8.** The objectives in making the Budget Economic and Fiscal Position Report available is to provide information which will provide a basis for the evaluation of the Government's fiscal performance as against its fiscal strategy as set out in its Statement.

**9.** (1) The Budget Economic and Fiscal Position Report shall contain, in relation to the next financial year and the two succeeding financial years, the following information :—

Contents of  
Budget Economic  
Fiscal Position  
Report.

- (a) estimates relating to the gross domestic product ;
- (b) estimates relating to consumer prices ;
- (c) estimates relating to employment and unemployment ;
- (d) estimates relating to the current account position of the balance payments ;
- (e) estimates relating to revenue expenditure ;
- (f) estimates relating to government borrowing ;
- (g) the basis, economic or otherwise which has been used in the preparation of the estimates specified in paragraphs (a) to (f) ;
- (h) a statement relating to the sensitivity of the estimates specified above, to the changes which may occur in connection with the economic or other basis used in the preparation of such estimates ;
- (i) a statement, quantified as far as practicable, of the risks that may have a material effect on the fiscal position, such as—
  - (i) contingent liabilities including guarantees and indemnities, granted by the Government under any written law ;
  - (ii) public announcements relating to proposals of the Government in connection with Government spending not included in the estimates referred to in paragraph (e) ;

(iii) on going negotiations of the Government which have not been finalized ; and

(j) such other information which may be necessary to reflect fairly, the financial position of the Government, in respect of each such financial year.

(2) Subject to the provisions of subsection (3) the information contained in the Budget Economic and Fiscal Position Report shall take into account, as far as possible, all government decisions and all other circumstances that may have a material effect on the fiscal and economic position of the Government.

(3) Nothing contained in this section shall be read and construed as requiring the inclusion in the Budget Economic and Fiscal Position Report, a disclosure of any information which, in the written opinion of the Minister, will—

- (a) be prejudicial to national security ;
- (b) compromise Sri Lanka in a material way, in negotiation, litigation or commercial activity.

Mid-Year Fiscal  
Position Report.

**10.** (1) The Minister shall cause to be released to the public, in respect of every year, a Mid-Year Fiscal Position Report, by the last day of the month of June of the relevant year or the lapse of six months from the date of the passing of the Appropriation Act, whichever is later.

(2) The Minister shall—

- (a) if Parliament is sitting on the date of the release of the Mid-Year Fiscal Position Report, cause a copy of such Report to be tabled in Parliament within two weeks of the date of such release ; or
- (b) if Parliament is not sitting on the date of the release of the Mid-Year Fiscal Position Report, cause a copy of such Report to be tabled in Parliament within two weeks of the next sitting of Parliament.

**11.** The objectives of the Mid-Year Fiscal Position Report is to provide updated information of the Government's fiscal performance and to thereby enable the public to evaluate the Government's fiscal performance as against the fiscal strategy as set out in it's current Statement.

Objectives of the  
Mid-Year Fiscal  
Position Report.

**12.** The Mid-Year Fiscal Position Report in respect of a financial year shall contain—

Contents of the  
Mid-Year Fiscal  
Position Report.

- (a) a statement of the estimated and actual expenditure for the first four months of that year ;
- (b) a statement of the estimated and actual revenue for the first four months of that year ;
- (c) a statement of the estimated and actual cash flows for the first four months of that year ;
- (d) a statement of the estimated and actual borrowings for the first four months of that year ;  
and
- (e) such other statements which may be necessary to reflect fairly, the financial position of the Government, in respect of the first four months of such financial year.

(2) Where there is a shortfall in the estimated revenue or cash flow, or an excess in the estimated expenditure or borrowings, the mid year fiscal position Report shall state the reasons for such shortfall.

(3) Subject to the provisions of subsection (4), the information contained in the Mid-Year Fiscal Position Report shall take into account, as far as possible, all government decisions and all other circumstances that may have a material effect on the fiscal position (including decisions taken and circumstance that exist, after the passing of the Appropriation Act for that year).



(4) Nothing contained in this section shall be read and construed as requiring the inclusion in the Mid-Year Fiscal Position Report, the disclosure of any information, which in the written opinion of the Minister, will—

- (a) be prejudicial to national security ;
- (b) compromise Sri Lanka in a material way, in negotiation, litigation or commercial activity.

(5) Where any information on any matter required to be included in a Mid-Year Fiscal Position Report remains unchanged from the information in relation to such matter as is included in the last Budget Economic and Fiscal Position Report, the Mid-Year Fiscal Position Report shall state that such information remains so unchanged.

Final Budget  
Position Report.

**13.** (1) The Minister shall cause to be released to the public, in respect of each financial year, a Final Budget Position Report, not later than five months from the end of the financial year.

(2) The Minister shall—

- (a) if Parliament is sitting on the date of the release of the Final Budget Position Report, cause a copy of such Report to be tabled in Parliament within two weeks of the date of such release ; or
- (b) if Parliament is not sitting on the date of the release of the Final Budget Position Report, cause a copy of such Report to be tabled in Parliament within two weeks of the next sitting of Parliament.

(3) The Final Budget Position Report for a financial year may be incorporated with the Budget Economic and Fiscal Position Report in respect of a financial year, which is introduced after the commencement of that financial year.

**14.** The objectives of the Final Budget Position Report is to provide updated information of the Government's fiscal performance and to thereby enable the public to evaluate the Government's fiscal performance as against its fiscal strategy as set out in its current Statement.

Objectives of the  
Final Budget  
Position Report.

**15.** The Final Budget Position Report in respect of a financial year shall contain—

Contents of the  
Final Budget  
Position Report.

- (a) a statement of the estimated and actual expenditure for that year ;
- (b) a statement of the estimated and actual revenue for that year ;
- (c) a statement of the estimated and actual cash flows for that year ; and
- (d) a statement of the estimated and actual borrowings for that year ; and
- (e) such other statements which may be necessary to reflect fairly, the financial position of the Government, at the end of such financial year.

(2) Where there is a shortfall in the estimated revenue or cash flow or an excess in the estimated expenditure or borrowing, the Final Budget Position Report shall state the reasons for such shortfall or excess.

**16.** (1) The Secretary to the Ministry of the Minister, shall within three weeks of the publication of the Proclamation or Order requiring the holding of a general election for the election of members of Parliament, cause to be released to the public a Pre-election Budgetary Position Report containing information on the fiscal position of the country.

Pre-election  
Budgetary  
Position Report.

(2) The Minister shall, within two weeks of the first sitting of the new Parliament, cause a copy of the Report specified in subsection (1) to be placed before Parliament.

Contents of Pre-  
election  
Budgetary  
Position Report.

**17.** (1) Every Pre-election Budgetary Position Report shall contain the following information for the current financial year :—

- (a) estimates of revenue and expenditure ;
- (b) estimates of the Government borrowings ;
- (c) the economic and other assumptions that have been used in preparing such estimates ;
- (d) a statement of the risks, quantified where practicable, that may have material effect on the fiscal position, such as—
  - (i) contingent liabilities including guarantees and indemnities given by the Government under any Act ;
  - (ii) publicly announced proposals for spending by the Government that have not been included in the estimates referred to in paragraph (a) ; and
  - (iii) Government negotiations in progress and not finalized ; and
- (e) such other information as may be necessary to reflect fairly the financial position of the Government as at the date of the said Report.

(2) The information in the Pre-election Budgetary Position Report, shall, subject to the provisions of subsection (3) take into account to the fullest possible extent any decision of the Government having a material effect on the fiscal position.

(3) Nothing in this section shall be read or construed as requiring the inclusion in a Pre-election Budgetary Position Report, of any information, the disclosure of which would, in the opinion of the Minister given in writing—

- (a) be prejudicial to national security ;
- (b) compromise Sri Lanka in a material way in negotiation, litigation or commercial activity.

(4) Where information on any matter required to be included in a Pre-election Budgetary Position Report remains unchanged from the information on that matter included in a previous Budget Economic and Fiscal Position Report or a Mid-Year Budget Fiscal Position Report, the Pre-election Budgetary Position Report shall state that such information remains unchanged from the information included in either or both of these previous reports.

**18.** For the purpose of enabling the Secretary to prepare a Pre-Election Budgetary Position Report under section 16, the Minister shall, within one week of the publication of the Proclamation or Order requiring the holding of a General Election for the election of Members of Parliament, disclose to the Secretary, details of all Government decisions and other circumstances—

Minister to provide information for preparation of Pre-Election Budgetary Position Report.

- (a) within the knowledge of the Minister ; and
- (b) which have, or could have, material fiscal or economic implications.

**19.** Every Pre-election Budgetary Position Report shall be accompanied by—

Statements of Responsibility.

- (a) statement signed by the Minister to the effect that the Minister has complied with the requirements of section 18 ;
- (b) a statement by the Secretary to the effect that the information in the report, to the fullest extent possible—
  - (i) reflects the best professional judgement of the officer's of the Ministry of the Minister ;

- (ii) takes into account all economic and fiscal information available to the Ministry ;
- (iii) incorporates the fiscal implications of the Government decisions and circumstances disclosed to him or her by the Minister under section 18.

Restrictions on  
Borrowing from  
Central Bank.

**20.** (1) Subject to the provisions of subsections (2) and (3), the Government shall not borrow from the Central bank.

(2) The Government may borrow from the Central Bank, by way of advances, to meet a temporary excess of cash disbursements over cash receipts in a financial year :

Provided that every such advance shall be repaid within six months of the date of such advance and the total of such advances, outstanding at any time in a financial year, shall not exceed ten *per centum* of the estimated revenues of the Government for that financial year.

(3) Nothing contained in this section shall be deemed to prohibit the Central Bank from subscribing to primary issues of Government Treasury Bills.

Reports and  
Statements to  
conform to  
accounting  
standards.

**21.** All Statements and Reports referred to in this Act shall be prepared in accordance with the best practice accounting methods relating to public sector accounts.

Power of  
Secretary to  
obtain  
information.

**22.** (1) The Secretary to the Ministry of the Minister in charge of the subject of Finance, may in writing, request any Ministry, Department, Public Corporation or Company in which the Government owns shares, to furnish to him or her, such information as is necessary for the preparation of the Statement referred to in section 4 and the Reports referred to in sections 7, 10, 13 and 16.

(2) A Ministry, Department, Public Corporation or Company to which a request is made in terms of subsection (1) shall forthwith comply with such request so as to enable

the Secretary to take the information requested into account in the preparation of the Statement or Report, as the case may be.

**23.** Upon the Statement referred to in section 4 and the Reports referred to in sections 7, 10, 13 and 16 being placed before Parliament, such Statement or Report shall stand referred to the relevant Standing Committee of Parliament.

Reference to Reports of Standing Committees of Parliament.

**24.** The Secretary to the Ministry of the Minister in charge of the subject of Finance, may by Notification published in the *Gazette*—

Publication and sale of reports.

- (a) specify the place at which copies of the Statement referred to in section 4 and the Reports referred to in sections 7, 10, 13 and 16 are made available for inspection, free of charge ; and
- (b) specify the place at which copies of the Statement and the Reports are available for sale.

**25.** No civil or criminal proceeding shall be instituted against a public officer for anything done in good faith or omitted to be done by such public officer under this Act.

Protection of action.

**26.** (1) The Government may in exceptional circumstances, with the approval of Parliament granted by way of a Resolution of Parliament and for such period as may be specified in such Resolution, depart from the requirements of this Act.

Departure from the provisions of this Act.

(2) The Minister shall in every instance where a departure from the requirements of this Act is made, inform Parliament of—

- (a) the reasons for such departure ;
- (b) the steps that the Government will be taking to overcome the causes necessitating such departure ;

- (c) the period of time within which the Government expects such departure from the requirements, to come to an end.

(3) The Minister shall in every instance where a departure is made—

- (a) if Parliament is sitting on the date when such departure is necessitated, inform Parliament within two weeks of the date of the departure of the matters specified in subsection (2) relating to such departure ; or
- (b) if Parliament is not sitting on the date of such departure, take steps to ensure that Parliament is informed within two weeks of the next sitting of Parliament of the matters specified in subsection (2) in relation to such departure.

Sinhala text to prevail in case of inconsistency.

**27.** In the event of any inconsistency between the Sinhala and Tamil texts of the Act the Sinhala text shall prevail.

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