

AS LAID IN THE ASSEMBLY
ON 23.03.2013



GOVERNMENT OF ODISHA

**Review of Compliance to Odisha Fiscal
Responsibility & Budget Management Act, 2005**

2011-12

By

National Institute of Public Finance and policy

New Delhi

March, 2013

**FINANCE DEPARTMENT
CONTENTS**

Paragraph	Subject	Page
1	Introduction	1
2	Overview of State Finances	2
3	Compliance to FRBM targets	4
4	Concluding Remarks	11

List of Tables

Table No	Subject	Page
1	Fiscal Profile of Orissa: An Overview	3
2	Budget Estimates and Outturns for the year 2011-12	5
3	Borrowings and Repayments: 2011-12	6
4	FRBM Act Targets and Fiscal Achievements during 2011-12	7
5	Revenue Realization: 2011-12	8
6	Expenditure Profile	9
7	Cash Balance Position and Investments	10

Preface

It is provided in sub-section (2-a) of section 8 of Odisha Fiscal Responsibility & Budget Management Act, 2005 (Odisha FRBM Act, 2005) that, “*For the purpose of ensuring compliance of the provisions of this Act, the State Government shall entrust an agency independent of the State Government interference, who shall periodically make review of such compliance and submit a report to that effect to that Government who shall cause every such report to be laid, as soon as may be after it is received, before the State Legislature*”

In compliance with the said provisions of Odisha FRBM Act, 2005, the State Government assigned the task of independent review of its finances for the year 2011-12 to the National Institute of Public Finance & Policy (NIPFP), a national level institute engaged in the study & research in public finance and public policy. It is independent of the State Government.

Two experts Dr. Tapas Sen and Dr. Pratap Ranjan Jena working for the institute conducted the review. During their review, the two experts visited Bhubaneswar and had interaction with senior officials of the State Government including Finance Department. The National Institute of Public Finance & Policy submitted the review report on 27th February, 2013. I deem it to be a privilege to lay the report in this august house.

Bhubaneswar

March, 2013

(Sri Prasanna Acharya)
Minister, Finance

Introduction

In accordance with the recommendations of the Thirteenth Finance Commission (TFC), the Government of Odisha amended its Fiscal Responsibility and Budget Management Act (FRBM), 2005 and incorporated in that the provision for independent review/monitoring of compliance of the implementation of the FRBM Act. The National Institute of Public Finance and Policy (NIPFP), New Delhi, was assigned the task of reviewing the compliance of the Act for the year 2011-12. The amendment to the Act institutionalizes the process of assessment of the fiscal stance of the State Government while implementing the provisions of FRBM Act. This review report for the year 2011-12 contains detailed evaluation of the State finances as projected in the budget for the year 2011-12 and the budget outturns as reported in the Finance Accounts for the year, keeping the fiscal targets of the FRBM Act in view. Senior officials of the Department of Finance provided overall perspective on the State fiscal management including revenue mobilization efforts and the rationale behind resource allocations to different sectors. The Secretaries of several large spending departments also shared their views on expenditure trends and priorities.

The post FRBM experience since 2005-06 shows that the State has adhered to the fiscal targets and limitations entailed by the Act. Although the high growth experienced during 2006-07 to 2007-08 has decelerated since then, the fiscal management in the State continued to remain within the fiscal rule restrictions. The global economic crisis affected the Indian economy adversely and the national growth rate slowed down to 6.7 per cent in 2008-09 compared to 9.0 per cent during the previous year. With the slowdown in the national economy, the growth prospects for the State also suffered. The growth rate of the State economy declined from close to 11 per cent in 2007-08 to 7.75 per cent in 2008-09 and further plummeted to a low of 4.55 per cent in 2009-10. Although the State registered a reasonably good performance during 2010-11 at 7.50 per cent, the quick estimates for the year 2011-12 shows a decline in growth rate to 4.92 per cent. Given this macro-fiscal experience since the enactment of the FRBM Act in the State, the review report evaluates achievement of fiscal targets as required in the amended Odisha FRBM Act, 2011.

The remaining part of the report is organized as follows. Section 2 provides an overall assessment of State finances in recent years. Compliance of the State Government to the fiscal targets under the Odisha FRBM Act, 2011 and issues related to revenue mobilization and expenditure pattern for the year 2011-12 has been examined in Section 3. Concluding observations are contained in Section 4.

2. Overview of State Finances

There has been a significant improvement in the finances of the Government of Odisha in recent years as is evident from the fiscal data shown in Table 1. The turnaround in the fiscal situation is seen from the achievement of continuous revenue surpluses since 2005-06 and containment of fiscal deficit relative to GSDP below 2 percent (even surpluses in some years). The impact of Fiscal Responsibility and Budget Management (FRBM) Act adopted by the State Government to reduce deficit and stabilize debt burden along with improved own revenue performance and growing central transfers were significant factors that facilitated the fiscal consolidation in the State. The fiscal consolidation has provided the Government with considerable space to prioritize expenditures and design a development oriented fiscal policy in the State. The fiscal discipline also paved the way for budgetary reforms and expenditure management to improve the quality of public spending.

The analysis of the fiscal trend from 2004-05 to 2011-12, last year for the present purpose, reveals that the State achieved revenue surplus consistently buoyed by higher revenue receipts, with central transfers playing a key role, and by resorting to compression of expenditure. Total revenue receipt relative to GSDP increased from 15.25 per cent in 2004-05 to 18.65 per cent in 2011-12 relative to GSDP. While central transfers increased from 8.14 per cent to 9.44 per cent, the own revenue of the State, both tax and non-tax taken together has grown from 7.10 per cent to 9.21 per cent to GSDP during this period. The own non-tax receipt has emerged as a significant own-source of revenue for the State due to rise in income from mining royalties.

Table 1
Fiscal Profile of Odisha: An Overview

(Percentage of GSDP)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenues	15.25	16.55	17.71	16.99	16.57	16.22	17.11	18.65
Own Tax Revenues	5.37	5.88	5.96	5.30	5.38	5.51	5.76	6.23
Sales Tax	3.18	3.54	3.70	3.19	3.23	3.32	3.50	3.80
State Excise Duties	0.39	0.46	0.42	0.41	0.44	0.52	0.56	0.64
Motor Vehicle Tax	0.43	0.48	0.42	0.36	0.35	0.38	0.37	0.36
Goods and Passenger Tax	0.50	0.54	0.56	0.48	0.43	0.50	0.57	0.61
Electricity Duties	0.34	0.41	0.28	0.25	0.25	0.28	0.24	0.26
Other Taxes	0.53	0.45	0.58	0.62	0.68	0.51	0.51	0.56
Own Non-Tax Revenues	1.73	1.80	2.54	2.05	2.14	1.97	2.46	2.98
Mining Royalties	0.86	0.95	0.92	0.87	0.93	1.24	1.71	2.12
Central Transfers	8.14	8.87	9.21	9.64	9.05	8.74	8.90	9.44
Tax Devolution	5.12	5.73	6.11	6.07	5.58	5.23	5.40	5.66
Grants	3.02	3.14	3.10	3.57	3.47	3.51	3.50	3.78
Revenue Expenditure	15.92	15.99	15.49	13.71	14.27	15.52	15.10	16.05
General Services	8.34	8.02	7.37	5.59	4.69	5.70	5.11	5.06
Social Services	5.12	5.50	5.13	4.96	5.58	6.04	6.13	6.64
Education	2.51	2.66	2.36	2.45	2.95	3.32	3.23	3.08
Medical and Pub.Health	0.69	0.44	0.47	0.48	0.54	0.61	0.53	0.52
Social Welfare & Nutrition	0.95	1.21	1.23	0.86	1.10	0.94	1.20	1.92
Economic Services	2.26	2.30	2.73	2.88	3.74	3.54	3.64	4.04
Assignment to LBs	0.20	0.17	0.27	0.27	0.26	0.25	0.22	0.31
Capital Expenditure	1.09	0.89	1.41	2.26	2.53	2.09	2.35	2.31
Capital Outlay	1.36	1.22	1.43	2.20	2.55	2.24	2.20	2.08
Net Lending	-0.27	-0.33	-0.01	0.06	-0.02	-0.15	0.14	0.23
Revenue Deficit	0.67	-0.57	-2.22	-3.28	-2.30	-0.70	-2.01	-2.60
Fiscal Deficit	1.76	0.32	-0.81	-1.02	0.22	1.39	0.34	-0.29
Primary Deficit	-2.53	-4.02	-3.94	-3.48	-1.72	-0.48	-1.24	-1.48
Outstanding Debt	43.81	42.84	36.58	28.09	24.53	23.15	20.13	17.87

Source: Basic data – Finance Accounts of relevant years, GoO

GSDP data used are of 2004-05 series (latest available estimates)

Note: Negative sign for deficit figures indicate surplus

The fiscal situation in the State during the post FRBM period compares favorably to the earlier period, particularly the end of the Nineties when the sharp deterioration in State finances and steady accumulation of debt invited urgency for reforms (White Paper, GoO, 2001). In addition to rising revenue receipts, the State Government also managed to compress the revenue expenditure from 15.92 per cent relative to GSDP in 2004-05 to 14.27 per cent in 2008-09, which increased to 16.05 per cent in 2011-12. Reduction in interest payment caused by lower average cost of debt as well as shrinking debt stocks, and the decline in other non-development general service contributed to revenue expenditure compression. The

improvement in revenue receipts and expenditure compression measures resulted in turning a revenue deficit of 0.67 per cent of GSDP in 2004-05 to a surplus of 2.60 per cent in 2011-12 and a reduction of fiscal deficit on a matching scale. The fiscal deficit was reduced from 1.76 per cent of GSDP in 2004-05 to 0.34 per cent in 2010-11 and a fiscal surplus to the extent of 0.29 per cent emerged in 2011-12. The reduction of fiscal deficit seems to be rather large given the FRBM Act requirement of a maximum 3 per cent of GSDP. The outcome of this fiscal management was the reduction of the outstanding debt burden by more than half from 43.81 per cent of GSDP to only 17.87 per cent during this period. The debt sustainability assessment carried out by the Comptroller and Auditor General of India (2011-12) in terms of debt stabilization, sufficiency of non-debt receipts, net availability of borrowed funds, interest payment burden, and maturity profile of State government securities indicate that the State debt burden is becoming stable.

Given the scale of fiscal consolidation and availability of fiscal space to the Government, the capital outlay has increased rather sluggishly by 0.72 percentage points relative to GSDP during the period from 2004-05 to 2011-12. Similarly, the priority sector spending in aggregate social services has increased slowly relative to GSDP and in fact, health sector spending from budgetary sources (not including NRHM, which is off budget) has declined during this period. The resource allocation in the State should be oriented towards attaining socio-economic development through infrastructure building and human development, which needs stepping up expenditure in key areas.

3. Compliance to the FRBM Act Targets

3.1 Fiscal Achievements and Compliance to the FRBM Act Targets: 2011-12

The fiscal targets prescribed for the year 2011-12 in the amended Odisha FRBM Act were attaining zero revenue deficit, containing the fiscal deficit to 3 per cent of GSDP, limiting the debt-GSDP ratio to 30.6 per cent, and keeping the interest payment as percentage to revenue receipt to 15 per cent. The Act prescribes that the deficit targets to be maintained 2011-12 onwards and specifies year wise debt-GSDP ratio up to 2014-15 following the recommendations of the TFC. The medium term fiscal plan statement as part of the Medium term Fiscal Policy (MTFP) for the year 2011-12 presented three year rolling targets for revenue deficit, fiscal deficit, primary deficit and the debt-GSDP ratio. The MTFP was presented in the assembly along with the budget documents. The first year of the

MTFP projections is the budget estimates for the year 2011-12. The review report evaluates the fiscal outturns for the year 2011-12 as compared to the budget estimates. Table 2 shows the fiscal variables as projected in the budget for the year 2011-12 and the achievements for the year.

The fiscal indicators for both the budget estimates and budget outturns in Table 2 are shown as percentages of the GSDP at current prices, which is of 2004-05 series. It needs to be indicated here that the State GSDP figures for the past few years are regularly revised. The GSDP figures used in the last two MTFPs, presented along with budget estimates for 2012-13 and 2013-14, were different from those used by us here starting with 2009-10 due to the recent revisions. The Ministry of Finance when assessing eligibility for DCRF etc. uses GSDP as projected by the 12th Finance Commission, but the State FRBM Act does not specify this. The rules framed under the FRBM Act of the State mentions that the GSDP has to be in the current prices. By default, the GSDP figures used in this Review Report are from the latest series (2004-05 base) as revised by the State Government in 2013.

Table 2
Budget Estimates and Outturns for the year 2011-12

(Percentage of GSDP)	2011-12 (BE)	2011-12 Actual	Changes
Revenues	16.85	18.65	1.80
Own Tax Revenues	5.70	6.23	0.53
Own Non-Tax Revenues	1.76	2.98	1.22
Non-ferrous Mining and Metallurgical Industries	1.41	2.12	0.70
Central Transfers	9.39	9.44	0.05
Tax Devolution	5.29	5.66	0.37
Grants	4.10	3.78	-0.32
Revenue Expenditure	16.82	16.05	-0.77
General Services	6.20	5.06	-1.14
Social Services	6.40	6.64	0.24
Economic Services	3.95	4.04	0.09
Compensation and Assignment to Local Bodies	0.27	0.31	0.04
Capital Expenditure	2.80	2.31	-0.49
Capital Outlay	2.62	2.08	-0.54
Net Lending	0.18	0.23	0.05
Revenue Surplus	0.03	2.60	2.57
Fiscal Deficit	2.77	-0.29	-3.06
Primary Deficit	0.90	-1.48	-2.38
Outstanding Debt	21.27	17.87	-3.40

Source: Basic data – Finance Accounts and Budget Document for the year 2011-12, GoO
GSDP data used are of 2004-05 series

Note: Negative sign for deficit figures indicate surplus

The fiscal achievements as compared to the budget projections for the year 2011-12 seem very comforting as the State government could achieve all the projected fiscal targets. The actual revenue receipt has exceeded the budget estimates by 1.80 percentage points relative to GSDP. This was from higher realization of both own revenues and the central transfers during the year. The rise in contribution from non-tax sources, particularly from mining activities riding high on revision of mining royalties to an *ad valorem* system, has contributed significantly to the own revenue efforts of the State Government. On the expenditure front, the State Government compressed the revenue expenditure from a budgeted level of 16.82 per cent of GSDP to 16.05 per cent, a reduction of 0.77 percentage points, mainly by reducing the expenditures under general services. The higher realization of revenue receipts and compression of revenue expenditure resulted in revenue surplus of 2.60 per cent of GSDP, an improvement of 2.57 percentage points over the budget projections. Higher revenue surplus of this order helped the State government to reach a fiscal surplus situation. In 2011-12, as compared to a budgeted fiscal deficit of 2.77 per cent of GSDP, the Government achieved a fiscal surplus of 0.29 per cent. Decline in actual capital outlay as compared to the budgeted provision also facilitated a fiscal surplus during the year.

Table 3
Borrowings and Repayments: 2011-12

(Rs. Lakh)

	Budget Estimates	Actual	Difference
Public Debt Receipts			
Internal Debt	587102	112099	-475003
Loans Advances from Central Government	49546	23276	-26270
Public Debt	636647	135375	-501272
Small Savings and Provident Fund	275085	249212	-25873
Total	911733	384587	-527146
Debt Repayments			
Internal Debt	178183	178107	-76
Loans Advances from Central Government	48484	54669	6185
Public Debt	226667	232776	6109
Small Savings and Provident Fund	195085	206573	11488
Total	421753	439349	17596

Source: Finance Accounts and Budget Document for the year 2011-12, GoO

Outstanding debt of the State Government has declined to 17.87 per cent of GSDP from the budgeted level of 21.27 per cent. The two-pronged approach of raising lower borrowing from both the market and the central Government as compared to the budget estimates and discharging more than the budget estimates,

especially for central loans, helped reduce the debt burden relative to the GSDP. Table 3 shows the debt receipts and repayments from various sources during 2011-12.

The fiscal management principle enunciated in the FRBM Act calls upon the State to respond appropriately to eliminate the revenue deficit and contain the fiscal deficit at a sustainable level. The improvement in fiscal situation in recent years has enabled the State Government to achieve the targets stipulated in the Act. The fiscal targets specified in the amended FRBM Act and the outcomes for the year 2011-12 are shown in Table 4. Against the Act requirement of reducing the revenue deficit to nil and limiting the fiscal deficit to 3 per cent of the GSDP, the State Government achieved a revenue surplus of 2.60 and fiscal surplus of 0.29 per cent. Outstanding debt burden, an outcome of the fiscal management the State, at 17.87 per cent relative to GSDP remains much lower than the target of 30.6 per cent. The other fiscal target to be monitored is the interest payment as percentage of revenue receipts, which is only 6.4 per cent as compared the required level of 15 per cent. Thus, the fiscal outcomes for the year 2011-12 unequivocally show that the State Government was able to achieve the fiscal targets stipulated in the FRBM Act.

Table 4
FRBM Act Targets and Fiscal Achievements during 2011-12

	Targets	Achievements
Revenue Deficit % of GSDP	0	-2.60
Fiscal Deficit % of GSDP	3	-0.29
Total Debt Stock % of GSDP	30.6	17.87
Interest Payments % of Revenue Receipts	15	6.40

Note: Negative sign for deficit figures indicate surplus

3.2 Disaggregated Analysis of Resources and Spending Pattern

Data on detailed sources of revenue provided in Table 5 show that actual realizations exceeded the budget estimates in 2011-12. In the case of own taxes, barring a marginal slide for few, collection from most taxes surpassed the budget estimates. Actual receipts from own non-tax revenue increased by 1.22 percentage points relative to GSDP as compared to the budget estimates. The revision of mining royalties to an ad-valorem system helped the State Government realize increased revenue from this source. The interest receipts also increased substantially as interest on large cash balances contributed to this source. Other

sources of non-tax revenue such as dividends and profits from State enterprises, forestry and wildlife, and irrigation, also contributed higher revenues as compared to the budget estimates. In the case of central transfers, the actual realization was marginally higher than the budget projection.

Table 5
Revenue Realization: 2011-12

(Percentage of GSDP)

	2011-12 (BE)	2011-12 Actual	Changes
Revenues	16.85	18.65	1.80
Own Tax Revenues	5.70	6.23	0.53
Sales Tax	3.50	3.80	0.29
State Excise Duties	0.56	0.64	0.08
Motor Vehicle Tax	0.39	0.36	-0.03
Taxes on Goods and Passengers	0.46	0.61	0.14
Taxes and Duties on Electricity	0.23	0.26	0.02
Land revenue	0.22	0.24	0.03
Stamp Duty and Registration Fees	0.24	0.23	-0.01
Taxes on Profession, Trades, Callings and Employment	0.08	0.06	-0.02
Other Taxes	0.03	0.03	0.00
Own Non-Tax Revenues	1.76	2.98	1.22
Interest Receipts	0.05	0.27	0.22
Dividends and Profits	0.02	0.13	0.11
General Services	0.07	0.10	0.03
Social Services	0.05	0.07	0.02
Economic Services	1.57	2.42	0.85
Forestry and Wildlife	0.04	0.09	0.05
Major Irrigation	0.03	0.06	0.03
Medium Irrigation	0.04	0.09	0.05
Non-ferrous Mining and Metallurgical Industries	1.41	2.12	0.70
Roads and Bridges	0.03	0.03	0.01
Central Transfers	9.39	9.44	0.05
Tax Devolution	5.29	5.66	0.37
Grants	4.10	3.78	-0.32

The decomposed expenditure pattern for the year 2011-12 given in Table 6 indicate that the expenditure compression in revenue account as compared to the budget estimates was primarily driven by decline in general services. There was minimal increase in social and economic services. In the general services, the decline was attributable to lower interest payment as compared to the budget estimates. Although the difference between budget estimates and actual interest payments should not be large, excess provision under this head during budgeting stage could be the probable reason for savings to the extent of 0.68 percentage points relative to the GSDP.

Table 6
Expenditure Profile

(Percentage of GSDP)

	2011-12 (BE)	2011-12 Actual	Changes
Revenue Expenditure	16.82	16.05	-0.77
General Services	6.20	5.06	-1.14
Interest Payment	1.87	1.19	-0.68
Pension	2.11	2.20	0.09
Other General Services Excluding Salary	2.22	1.67	-0.55
Social Services	6.40	6.64	0.24
Education	3.14	3.08	-0.06
Medical and Public Health	0.56	0.52	-0.04
Water Supply, Sanitation, Housing & Urban	0.51	0.41	-0.09
Welfare of SC, ST, & BC	0.44	0.46	0.01
Social Welfare & Nutrition (65 to 67)	1.44	1.92	0.48
Other Social Services	0.31	0.25	-0.06
Economic Services	3.95	4.04	0.09
Agriculture & Allied Services	1.39	1.47	0.08
Rural Development	0.86	0.85	-0.01
Irrigation & Flood Control	0.46	0.40	-0.06
Energy	0.01	0.01	0.00
Industry and Minerals	0.14	0.12	-0.03
Transport	0.56	0.55	-0.02
General Economic Services	0.49	0.63	0.14
Other Economic Services	0.03	0.02	0.00
Compensation and Assignment to LBs	0.27	0.31	0.04
Capital Expenditure	2.80	2.31	-0.49
Capital Outlay	2.62	2.08	-0.54
Net Lending	0.18	0.23	0.05

In the case of social services excepting the major head ‘social welfare and nutrition’, and ‘welfare of SC, ST, & BC’ where actual expenditure surpassed the budget provisions, all other components indicate lower expenditure as compared to the budgetary provisions. The priority sector spending like education, health, and water supply and sanitation show this trend during the year. In the economic services, similar spending pattern was also witnessed for rural development, irrigation and flood control, and industry and minerals. An important development in the spending pattern in 2011-12 was that the actual capital outlay fell well short of the budgeted provisions. Given the need for expanding infrastructural facilities in the State, proper utilization of budgeted provisions for capital expenditure should be given emphasis.

An excess cash balance position of the State Government, shown in Table 7, makes it appropriate to restructure the expenditure pattern by focusing on expansion of capital assets. The surplus cash balance invested in 14 days and 91

days intermediate treasury bills of Reserve Bank of India (RBI) poses a carrying cost due to interest rate differential between raising this fund and the interest receipts. However, large cash balances helped the State Government in reducing its dependence on open market borrowing and discharging some high-cost loans. There were earlier suggestions by the 12th Finance Commission and RBI also to this effect (to utilize the existing cash balances efficiently).

Table 7
Cash Balance Position and Investments

(Rs. Lakh)

	As on 1st April 2011	As on 31st March 2012
General Cash Balance		
Deposits with the Reserve Bank	-45291.50	-46537.81
Investments held in the Cash Balance - Investment account	559457.27	688374.35
Total	514165.77	641836.54
Other Cash Balances and Investments		
Cash with Departmental Officers	4794.59	4519.57
Permanent Advances for Contingent Expenditure with Departmental Officers	31.40	31.52
Investments of Earmarked Funds	481300.00	502300.00
Total	486125.99	506851.09
Grand Total	1000291.76	1148687.63

Source: Finance Accounts - 2011-12

Odisha FRBM Act limits the number of supplementary statement of expenditure to be presented in a financial year to one. The Act also stipulates presenting accompanying statement indicating availability of resources for this supplementary demand through curtailment of expenditure to offset any fiscal impact on fiscal targets to be achieved as envisaged in the Act. This is aimed at preserving the sanctity of the budget voted in the State legislature and removing any adverse impact on achievement of the fiscal targets. The State government has complied with this requirement by presenting a single supplementary statement of expenditure during the year and managed to meet the fiscal targets as specified in the Act.

The FRBM Act also specifies recouping the expenditure incurred from the Odisha Contingency Fund, established under Odisha Contingency Fund Act, 1967, by obtaining supplementary grants for expenditure during the year. Advances from the Fund are to be made only for meeting expenditure of an unforeseen and emergent character. The corpus of the Fund was enhanced from Rs.150 crore to

Rs.400 crore in 2008. The data from the Finance Account for the year 2011-12 reveals that an amount of Rs.375 crore was recouped during the year. However, a small amount of Rs.15.89 crore, that includes old advances and advances taken during 2011-12, has not been recouped during the year.

4. Concluding Remarks

Strong fiscal position in 2011-12 reinforced the fiscal management of the State Government in post-FRBM years during which the State was able to achieve revenue surplus and low fiscal deficit consistently, and managed to reduce the debt burden substantially. In 2011-12, the revenue surplus was substantial at 2.60 per cent relative to GSDP and the State reached a fiscal surplus situation. The outstanding debt burden was only 17.87 per cent of the GSDP, well below the 25 per cent level recommended as prudent by the 12th Finance Commission. Compared to the fiscal targets specified for the year in the amended FRBM Act, 2011, a zero revenue deficit, fiscal deficit limit of 3 per cent of GSDP, and debt burden of 30.6 per cent to the GSDP, the fiscal achievement of the State Government has met and surpassed all the targets. As against a target of interest payment as percentage of revenue receipts at 15 per cent, the achievement has been only 6.40 per cent. The higher revenue realization and compression of both revenue and capital expenditure as compared to the budget estimates resulted in large revenue surplus and elimination of fiscal deficit during 2011-12. The debt management in the state indicates that the Government reduced its dependence on market borrowing and even discharged some high cost loans to bring down overall debt stock. The cash management in the State seems to be in an excess situation with a large cash balance, which is invested in the government of India Treasury bills with Reserve bank of India. This review report, after examining the fiscal position in 2011-12, concludes that the State Government complied with the provisions made in the amended Odisha FRBM Act, 2011.

While the State finances are on a strong footing, it is appropriate here to make some observations regarding the expenditure pattern. While examining the budget estimates and actual expenditure during 2011-12, it was found that under many heads the budgetary provisions were not fully utilized. Actual expenditure for some of the important services like education, health, water supply and sanitation, and irrigation and flood control were less than that of the budget estimates. Aggregate capital expenditure also fell short of the budgeted provision. While the

capital expenditure as percentage of GSDP has remained subdued in recent years, under-spending under this head in 2011-12 seems unwarranted. One of the guiding fiscal management principles prescribed in the FRBM Act was to build up a revenue surplus for use in capital formation and productive expenditure. The comfortable cash balance position and emergence of substantial surplus in revenue account should enable the Government to restructure the expenditure pattern focusing on priority sectors and infrastructure building. Under-spending in several of the high-priority sectors and particularly for capital expenditures may not be entirely by design to compress the overall expenditure level. Factors like difficulties in land acquisition to complete the projects, inability to settle rehabilitation issues for displaced population in large projects, inadequate co-ordination among departments at policy and implementation level, inability to manage seasonal constraints, issues related to environment clearance from central agencies, and law and order problems have been affecting utilization of the approved budget. The emergence of fiscal discipline in the State economy and comfortable resource position should be effectively used to take actions to remove these impediments for better utilization of budgeted provisions and larger allocations to priority sectors. The Government should also focus on strengthening capacity to improve project conceptualization and implementation in infrastructure projects.