



Government Of Odisha

# Fiscal Strategy Report



February 2021

Finance Department



# FISCAL STRATEGY REPORT

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FINANCE DEPARTMENT  
GOVERNMENT OF ODISHA  
FEBRUARY 2021

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## ABBREVIATIONS

BE	Budget Estimates
FRBM Act	Fiscal Responsibility and Budget Management Act
FY	Fiscal Year
GSDP	Gross State Domestic Product
GDP	Gross domestic product
GST	Goods and Services Tax
IMF	International Monetary Fund
IPRR	Interest Payments to Revenue Receipts
LIBOR	London Interbank Offered Rate
MSME	Micro Small Medium Enterprise
MTFF	Medium-Term Fiscal Framework
PPP	Public-Private Partnership
RE	Revised Estimates
SARTTAC	South Asia Regional Training and Technical Assistance Center

## PREFACE

Odisha has made great progress in building a foundation for improved fiscal discipline. Over the last seven years, gross state domestic product (GSDP) growth has averaged more than 7 percent. The State government has met the requirements of Odisha's Fiscal Responsibility and Budget Management (FRBM) Act, 2005, by keeping its fiscal deficit below the 3.5 percent of GSDP ceiling, and its debt-to-GSDP ratio below the 25 percent ceiling. The ratio of interest payments to revenue receipts (IPRR) has remained consistently below the stipulated limit of 15 percent, ensuring that debt-service costs are manageable.

Several elements contribute to a robust public financial management in Odisha. The State's Finance Department works within the limits set out in the FRBM Act to maintain fiscal space, enabling the government to provide resources for its priorities without jeopardizing the fiscal position or the stability of the economy. The integrated financial management system (IFMS) provides the digital platform for government's receipts and expenditures enabling the State Government to centrally monitor the State finances in an efficient and effective way.

To strengthen Odisha's public finances and the credibility of the budget process, the Finance Department, in consultation with the IMF's South Asia Regional Training and Technical Assistance Center, has developed a medium-term fiscal framework (MTFF) to support annual budget formulation and medium-term fiscal planning.

The MTFF is a set of forecasting and analytical processes that enable the State to prepare macroeconomic and fiscal projections for a three-year period. These projections are based on assumptions concerning global, national and local conditions. The framework takes into account variables such as global economic growth, inflation, volatility in the mining industry and specific fiscal risks. The objective of developing the MTFF is to use it as a reference for the preparation of the annual budget and fiscal planning over the subsequent two years. It gives a clear and comprehensive sense of the fiscal strategy within the broad objectives of the FRBM Act.

This Fiscal Strategy Report is an outcome of the MTFF process. We intend to publish it annually as a pre-budget disclosure document to provide stakeholders with an early indication of how the State government is planning to approach the coming budget and the medium-term outlook. This report has three sections, preceded by an executive summary. The first section outlines the broad objectives of Odisha's public financial management reforms. The second section presents the macroeconomic outlook on which the fiscal strategy is based. The third section provides the medium-term fiscal outlook, with revenue and expenditure projections, and an assessment of available fiscal space for new programmes.

The MTFF and the Fiscal Strategy Report form part of Odisha's public financial management reforms, which aim to secure fiscal sustainability in the interests of development.

## ACKNOWLEDGEMENTS

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We express our sincere gratitude to Mr. John Grinyer, IMF consultant for providing valuable inputs for developing the MTFP framework and making credible medium-term projections. We also express our sincere thanks to Mr. Gregory Rosenberg, Consultant, IMF-SARTTAC for reviewing the document and providing valuable inputs to enhance the overall readability and quality of the document.

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Finally, we extend our sincere thanks to Dr. S.P. Rath, Joint Secretary, Finance Department and the entire team of Strategic Macro-Fiscal Planning Unit, who have painstakingly designed and drafted the FSR.

**(Ashok K. K. Meena)**  
**Principal Secretary**

## EXECUTIVE SUMMARY

1. The Fiscal Strategy Report flows from the medium-term fiscal framework developed by the Odisha Finance Department. The MTFE process is intended to strengthen the preparation of the annual budget and medium-term fiscal planning based on credible projections that set out the macroeconomic context in which the budget is prepared. By providing a clear indication to all stakeholders about Odisha's economic outlook and the State's fiscal space over the next three years, the framework will enhance the credibility of the budgeting process.
2. The Fiscal Strategy Report has been drafted in the context of the COVID-19 pandemic, which has led to the most severe global economic contraction since the 1930s. At the level of national governments, the pandemic has prompted unprecedented fiscal and monetary policy measures to support public health and economic recovery. Monetary policy is not within the purview of state governments, and Odisha's policy focus is therefore on fiscal measures to promote economic recovery and development over the medium term.
3. Global economic growth is projected to contract by 4.9 percent in 2020, before returning to 5.4 percent growth in 2021. India's real GDP is expected to contract by around 7.7 percent in FY 2020-21 as a result of the pandemic and the associated lockdown, returning to 10.5 percent growth in FY 2021-22. Odisha's GSDP is expected to contract by 4.9 percent in the current year, recovering to around 10 to 11 percent growth in FY 2021-22. At the state level, all economic sectors apart from agriculture and healthcare are expected to contract in the current year.
4. There is significant uncertainty associated with the global, domestic and local economic forecasts, largely due to the threat of new waves of infections and potential lockdowns. Accordingly, the Odisha Finance Department has considered three economic growth scenarios. The upward, central and downward scenarios shown in the table below enable the government to assess changes in fiscal indicators and responses associated with shifts in the outlook.

### Economic growth scenarios

In Percent	2020-21	2021-22	2022-23	2023-24
<b>Real GSDP growth rate (Odisha)</b>				
Upside	-2	12	11	9
Central	-4.9	10.5	8	8
Downside	-8	9	6.5	7
<b>Real GDP growth rate (India)</b>				
Upside	-5	12	8.5	8
Central	-7.7	10.5	6.5	7
Downside	-10	8.5	5.5	6

5. Over the past five years, Odisha's revenue growth has averaged about 12.37 percent. This year revenue is expected to grow modestly by 5.5 percent. The slower growth is the combined result of the falloff in economic activity as a result of the COVID-19 lockdown and a decline in State's share of central taxes. Lower share in Central taxes is anticipated as a result of updated demographic data being used in the calculation of states' share, and uncertainty in GST compensation. Mining revenue is also subject to fluctuations in global demand. As the economy expands over the medium term, revenue is expected to recover to pre-pandemic levels, reaching 21 percent of GSDP in FY 2021-22. The total resource envelope (the sum of total revenue receipts, non-debt capital receipts and maximum net annual borrowing) available for government to incur expenditure has also been reduced.
6. In the current year, the short-term expenditure priority has been to design and implement immediate responses to the COVID-19 crisis. Amid the shortfall in tax revenue against the budget estimate, the State Government has undertaken some expenditure rationalization measures to cut down spending in short-term, but is budgeting for increased expenditure over the medium term. Total spending is projected to increase meagrely from 24.01 percent of GSDP in FY 2019-20 to 26.50 percent in the current year, and further increasing to 29.01 percent in the FY 2021-22. Working with limited resources, and guided by the need to ensure sustainable public finances, the State is placing a greater focus on strategic sectors such as health, education, social security, livelihood security, employment generation and support for economic recovery. Infrastructure investment remains a central priority.
7. Over the next three years, Odisha will continue to budget toward the upper limit of the sustainability requirements established by the FRBM Act and Fourteenth Finance Commission. Expenditure growth will be consistent with achieving a fiscal deficit of 3.5 percent of GSDP and maintaining the debt-to-GSDP below the 25 percent limit. The central government's decision increase state deficit limits to 5 percent of GSDP provides additional flexibility. Observing these limits, Odisha will ensure that programmes remain affordable for future generations and will maintain fiscal space to respond to economic downturns or emergencies.
- | Rs. in Crore             | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
|--------------------------|---------|---------|---------|---------|
| Fiscal Deficit           | 17765   | 20465   | 19823   | 22322   |
| Fiscal Deficit % of GSDP | 3.49%   | 3.49%   | 3.00%   | 3.00%   |
| Total Debt Stock         | 106540  | 125005  | 144828  | 167150  |
| Debt Stock % of GSDP     | 20.91%  | 21.33%  | 21.92%  | 22.46%  |
8. A planned surplus in the revenue balance (revenue receipts minus revenue expenditure) means that the State is not borrowing for ongoing operational expenses like wages. Instead, all borrowing is to finance capital investment. This is consistent with good financial management and fiscal sustainability, because investment is of long-term benefit to service delivery and can increase potential economic growth.

## 1. FISCAL PRUDENCE AND PFM REFORMS

*Prudent fiscal management and disciplined adherence to fiscal sustainability objectives have placed the State finances on a sound and secure footing. Low debt levels and fiscal restraint over the past 15 years provide a firm foundation for modernizing the public finances. Reform initiatives under way aim to strengthen the State's ability to allocate limited resources through the budget to where they will have the greatest developmental impact. The introduction of medium-term fiscal planning and expenditure ceilings enhances fiscal sustainability and strengthens the quality of budget planning and allocations by ensuring the State does not spend beyond certain limits. Improved reporting and discussion of the budget will contribute to public accountability and provide better opportunities for the government, Legislative Assembly and civil society to contribute to the developmental impact of the State budget.*

### 1.1 A SOLID FOUNDATION FOR FISCAL REFORM

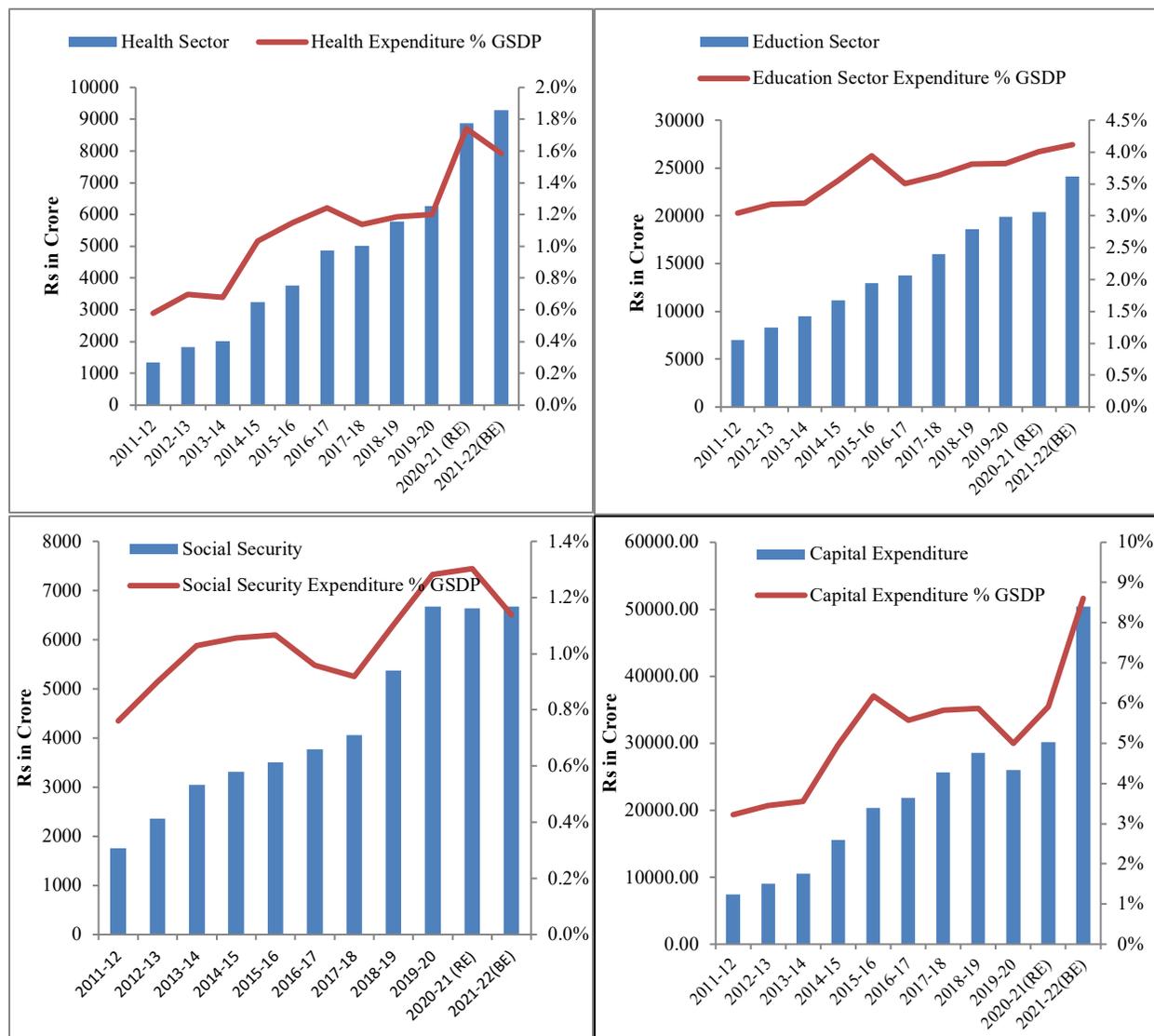
Over the past two decades, the State government has made a concerted effort to stabilize Odisha's public finances to establish fiscal sustainability. Progress in this areas allowed the State to prioritize investment spending, while ensuring that social and economic services budgets continued to grow. Table 1.1 below shows how the State's approach to fiscal policy has reversed previously unsustainable budget deficit and debt stock positions. Strict control of expenditure and efforts to raise own revenue have reduced the fiscal deficit from 6.9 percent of GSDP in 2000-01 to an estimated 3.5 percent in 2021-22. As a result of lower deficits, debt stock and interest costs have also declined significantly, providing additional resources for expenditure priorities, including capital investment.

**Table-1.1: Basic fiscal indicators (as percent of GSDP)**

Fiscal Indicator (% of GSDP)	2000-01	2004-05	2009-10	2014-15	2019-20	2020-21(RE)	2021-22(BE)
Revenue Deficit (-)/ Surplus (+)	-4.0	-0.7	0.7	1.9	0.5	0.5	1.0
Fiscal Deficit	-6.9	-1.8	-1.4	-1.9	-3.5	-3.5	-3.5
Primary Deficit	-2.1	2.5	0.5	-1.0	-1.9	-2.1	-2.1
Debt Stock	43.4	43.8	23.2	13.8	17.8	20.9	21.3
Capital Outlay	1.7	1.4	2.2	3.5	3.9	3.8	4.4

The creation of fiscal space has enabled the government of Odisha to invest more resources in socioeconomic priorities as the graphs below show:

**Chart-1.1: Higher Investment in Priority Sectors (Sector Wise Expenditure)**



## 1.2 COVID-19 AND BUDGET SCENARIOS

The global economy has undergone a severe contraction during 2020 as a result of the coronavirus pandemic. During much of 2020, many countries were under forced lockdown to limit the spread of the virus. India and Odisha were no exception, instituting a lockdown for nearly two quarters of FY2020-21 to protect public health. During this period there was minimal economic activity. Along with the emergent health crisis, a humanitarian crisis arose. Informal

sector workers were most severely affected as their earnings came to a halt, resulting in a large-scale reverse migration of labourers from urban to rural areas.

In this context, the immediate challenge for the State government was to scale up healthcare infrastructure and livelihood security for informal workers who had lost their jobs due to the economic shutdown.

The pandemic has posed unique challenges for the State finances. As revenues have declined, spending on healthcare, social security, livelihood security and employment generation has increased. Although economic growth has accelerated in recent months, the pace and extent of the recovery is uncertain, complicated by the potential for a second wave of infections.

To take this uncertainty into account in fiscal planning, the Finance Department has modelled three scenarios: an upward (best case) scenario, a central (most likely) scenario and a downward (pessimistic) scenario. The economic growth outcomes associated with these scenarios are shown in Table-1.2.

**Table-1.2: Growth projections (real GSDP & GDP) in three scenarios**

Rs. In Crore	2019-20	2020-21	2021-22	2022-23	2023-24
<b>Real GSDP Odisha</b>					
<b>Upward</b>	396499	388569	435198	483070	526546
<b>Growth Rate (%)</b>	5.21	-2	12	11	9
<b>Central</b>	396499	376998	416589	450124	486138
<b>Growth Rate (%)</b>	5.21	-4.9	10.5	8	8
<b>Downward</b>	396499	364779	397610	423454	453096
<b>Growth Rate (%)</b>	5.21	-8	9	6.5	7
<b>Real GDP India</b>					
<b>Upward</b>	14565951	13837653	15498171	16815516	18160757
<b>Growth Rate (%)</b>	2.2	-5	12	8.5	8
<b>Central</b>	*14565951	13439662	14850827	15816130	16923259
<b>Growth Rate (%)</b>	2.2	-7.7	10.5	6.5	7
<b>Downward</b>	14565951	13109356	14223651	15005952	15906309
<b>Growth Rate (%)</b>	2.2	-10	8.5	5.5	6

\* Source: CSO, Government of India

These scenarios enable the State government to improve the budget preparation process, and to maximise flexibility in the FY 2021-22 budget. This approach also supports the formulation of fiscal policies over the medium term, enabling the Finance Department to maintain a clear view of fiscal indicators over the next three years, as shown in Table-1.3.

**Table-1.3: Projected fiscal indicators in three scenarios**

<b>Fiscal Indicators (Percent of GSDP)</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
<b>Revenue Deficit (-)/ Surplus (+)</b>				
<b>Upward</b>	0.6%	1.2%	1.7%	1.4%
<b>Central</b>	0.5%	1.0%	1.5%	1.3%
<b>Downward</b>	0.4%	0.9%	1.2%	1.0%
<b>Fiscal Deficit</b>				
<b>Upward</b>	3.4%	3.3%	2.8%	2.9%
<b>Central</b>	3.5%	3.5%	3.0%	3.0%
<b>Downward</b>	4.0%	3.6%	3.3%	3.3%
<b>Primary Deficit</b>				
<b>Upward</b>	2.0%	2.0%	1.6%	1.6%
<b>Central</b>	2.1%	2.1%	1.8%	1.7%
<b>Downward</b>	2.6%	2.2%	2.1%	2.1%
<b>Debt Stock</b>				
<b>Upward</b>	20.8%	21.0%	21.4%	21.9%
<b>Central</b>	20.9%	21.3%	21.9%	22.5%
<b>Downward</b>	21.4%	21.8%	22.7%	23.8%
<b>Capital Outlay</b>				
<b>Upward</b>	3.8%	4.1%	4.3%	4.1%
<b>Central</b>	3.8%	4.4%	4.4%	4.1%
<b>Downward</b>	3.8%	4.5%	4.4%	4.2%

### 1.3 MODERNIZING PUBLIC FINANCIAL MANAGEMENT

Based on a solid fiscal foundation, the State is embarking on a series of reforms to improve public financial management. These reforms are based on global best practices. They are intended to enhance fiscal sustainability and improve budget performance by strengthening medium-term planning and improving budget transparency. Odisha will also focus on managing fiscal risks from public sector units, public private partnerships, and the State's debt portfolio. Other areas of reform include improving cash management and introducing commitment control.

#### 1.3.1 ENHANCING FISCAL SUSTAINABILITY AND CREDIBILITY

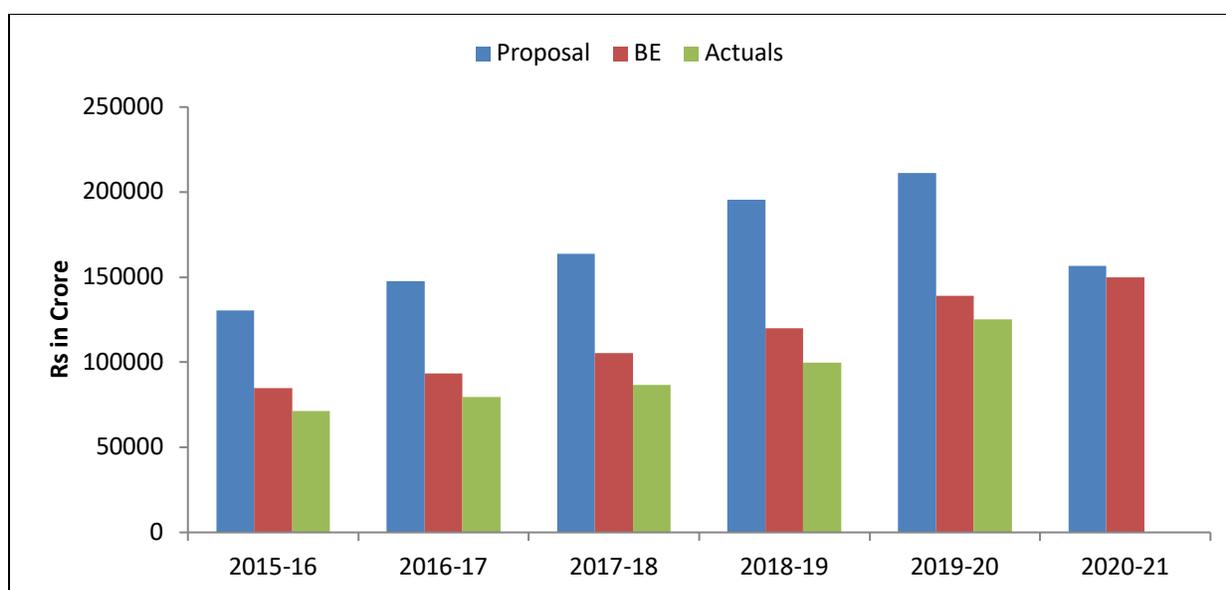
Having taken the difficult choices required to structurally lower the deficit and debt stock, the State will continue to operate a progressive and development-orientated budget that is firmly anchored to a stable and sustainable fiscal deficit. In delivering on this priority, a medium-term fiscal framework is being introduced that will be based on the sustainability limits set out by the FRBM Act and Finance Commissions. The MTFE will provide a three-year outlook for the fiscal deficit, revenue, and a spending ceiling consistent with the deficit. This framework will

significantly enhance the credibility of fiscal policy, allow for improved planning, and give a better signal to stakeholders (including government departments, businesses, investor, public) on what to expect from future budgets.

### 1.3.2 INTRODUCING BUDGET CEILINGS

Odisha's previous budget practices have created a large gap between departments' stated needs, the resources available through the budget, and government's implementation capacity. What departments ask for is larger than what government can afford – and what departments are able to spend. This dynamic is illustrated in Chart 1.1. On an average, budget requests are about 160 percent of the assigned budget allocation, while actual spending is about 85 percent of the budget allocation. Underspending of this size relative to the large developmental needs of the State does not support growth and is a poor budget practice. It also results in an inefficient allocation of limited public resources.

**Chart-1.2: Gap between budget proposal, budget estimates and actual expenditure**



*Source: Finance Department, Odisha*

Consistent with global best practice, the budget process for FY 2020-21 started with a realistic budget ceiling aligned with the fiscal deficit objective. This ceiling was communicated to departments early in the budget process, allowing them to plan their budgets based on realistic resource allocations and deadlines. This approach also introduces a budget discussion focused on how available funds will be spent, rather than one based on unrealistic wishes.

### 1.3.3 OVERVIEW OF FISCAL STRATEGY FOR THE 2021-22 BUDGET

Over the next three years, Odisha plans to maintain a budget deficit of between 3 and 3.5 percent of GSDP. This level is consistent with the requirements of the FRBM legislation and will produce a sustainable medium-term debt stock trajectory. However, if there is need for additional fiscal stimulus in FY 2021-22 to support the economy, the State can use the fiscal space generated in FY 2020-21, which is allowed to be carried forward to the next year. The debt stock is expected to reach 22.5 percent of GSDP by FY 2023-24. Odisha's overall fiscal outlook remains stable over the medium term.

After a contraction in the current year, robust economic growth is expected to support improved revenue growth in the coming year. Odisha's two largest revenue sources are its share of central government revenue and own revenue. In 2019-20 they amounted to 70 percent of total revenue. Revised population data used in the calculation of the State's share of central government taxes is however likely to provide a one-off negative revenue shock in 2020-21. In addition, there is still uncertainty around goods and services tax (GST) compensation given the recent economic slowdown. The Covid-19 effect on GST collection is treated as an "Act of God"; as a result, GST compensation will be provided in a staggered manner. This changes the way in which states were compensated on account of revenue loss due to implementation of GST. Despite these negative revenue shocks, State revenue is expected to grow by about 10 percent over the medium term.

Odisha's developmental needs require a sustained increase in expenditure in priority sectors in the years to come. Based on its commitment to strengthen physical and human capital, the State government projects an increase in allocations to social and economic services. The Covid-19 pandemic has already led to increased spending on healthcare. Simultaneously there is a pressing need to increase spending to support social and livelihood security to vulnerable sections of population who have lost incomes on account of the shutdown.

Capital expenditure declined during current year as a result of the COVID induced shutdown, which affected a major portion of the 2020-21 working season. The State's total capital outlay will be reduced from 4.4 percent of GSDP in 2020-21(BE) to 3.8 percent of GSDP in 2020-21 (RE). The capital outlay is projected to rebound to 4.4 percent of GSDP in FY 2021-22.

Government intends to prioritize social welfare and infrastructure development to support inclusive growth over the medium term, with the health, education and agriculture sectors expected to receive a large share of resources.

Over the MTFF period, the State is projected to generate a revenue surplus, and contain annual net borrowing within the prescribed fiscal deficit limit of 3.5 percent of GSDP. The central government has raised the borrowing limits of state governments from 3 percent to 5 percent of GSDP for FY 2020-21 to enable them to fight the pandemic.

Out of the additional fiscal deficit of 2 percent of GSDP, half will be linked to clearly specified, measurable and feasible reform actions in four areas and 0.25 percent is linked to each reform. The four areas of reform are universalization of “one nation one ration card”, ease of doing business, power distribution and urban local body revenues. The terms of the new GST compensation mechanism allows the State government to carry forward the unutilized portion of the 2020-21 fiscal deficit to FY 2021-22.

Odisha’s overall fiscal deficit is projected to remain within the 3.5 percent of FRBM limit over the MTFF period. However, if the need arises for a fiscal stimulus during FY 2021-22, it can be financed by the fiscal deficit carried over from 2020-21. Over the medium term, the debt stock is expected to grow from 20.91 percent of GSDP in 2020-21 to 22.46 percent of GSDP by FY 2023-24, which is well within sustainability limits. In summary, the MTFF supports a stable fiscal outlook.

**Table 1.4: Responses of State Government to Covid-19 Pandemic**

SI No	Initiative	Description	Supporting Circular/Notification
1	Enhancement of the Corpus of the Odisha Contingency Fund	The corpus of the Contingency Fund has been enhanced from Rs. 400 (Rupees Four Hundred) crore to Rs. 2,000 (Rupees Two Thousand) crore temporarily.	Odisha Gazette Notification No-3726-I-Legis-16/2020/L
2	Open Market Borrowing with shorter tenure bonds	Availing State Development Loans of shorter tenure from the Open Market. Such bonds of shorter tenure (usually less than 5 years) are cheaper than the longer tenure (usually 10 years or more) bonds. This would be useful in meeting the immediate requirement of fund in combating the pandemic COVID-19.	The State availed Rs.1000 crore on 7 <sup>th</sup> April and Rs. 2000 crore on 13 <sup>th</sup> April, 2020 with maturity less than 5 years.

Sl No	Initiative	Description	Supporting Circular/Notification
3	Borrowing from dedicated funds - CAMPA and OMBADC	Innovative way to avail cheaper sources of financing from dedicated funds to maintain required liquidity during the crisis period.	Forest & Environment Department No-10 F (cons)- 09/2020- 737/F&E dated 31/3/2020
4	Global Allotment System	Introduction of Global Allotment System for drawal of personal entitlements and advances from the FY 2020-21.	Finance Department No-9755/F dtd.18/3/2020
5	Facility of e-processing of Bills	Considering the difficulty in preparation of physical Bills and to ensure social distancing, the facility of e-processing of bills during lockdown period of COVID-19 has been developed.	Finance Department No-10494/F dtd. 26/3/2020
6	Payment of pending dues of MSMEs, Industries, Municipalities and Utilities	In view of the sharp drop in revenue earning of MSMEs, Industries, Municipalities and Utilities which supply goods and services to the State Government, directives were issued for clearance of pending dues to these organizations early.	FD No- 15352/F dtd. 16/5/2020
7	Revenue Augmentation Measures	Mopping up of government money parked in bank accounts through continuous monitoring.  Introduction of One Time Settlement (OTS) schemes for realization of arrear revenue.	FD No -15343/F dtd. 16/5/2020

## 2. MACROECONOMIC OUTLOOK

*The 2021-22 Budget will be tabled in an environment of global uncertainty and slowing domestic economic growth. Since March 2020, the COVID-19 pandemic has disrupted supply and demand across India. For FY 2020-21, Odisha's GSDP growth rate has been revised down from 7.5 percent (Budget estimate) to -4.9 percent (revised estimate). It is expected that Odisha's economic growth will recover to 10.5 percent in 2021-22, levelling off at 8 percent of GSDP in the two outer years of the forecast.*

### 2.1 GLOBAL ECONOMIC OVERVIEW

The global economy is experiencing a sharp contraction as a result of the pandemic, with significant scarring expected to persist in many countries. According to IMF's World Economic Outlook (2020)<sup>1</sup>, global GDP is expected to decline by 4.9 percent in 2020, with a slow recovery in 2021 as economic activity normalizes. The economic contraction due to the Covid-19 has acute adverse impacts on women, youth, the poor, the informally employed, and contractual workers. In the case of India, the economy could shrink by about 7.7 percent and a 4.9 percent contraction for Odisha during 2020-21.

The State of Odisha is particularly susceptible to changes in two commodity prices: oil (the major import) and iron ore (the major export). The oil price is expected to decline further in coming years due to subdued global demand and robust supply. At the same time the price of iron ore, which has increased in response to global supply disruptions, is expected to decrease in next financial year in view of moderating international demand.

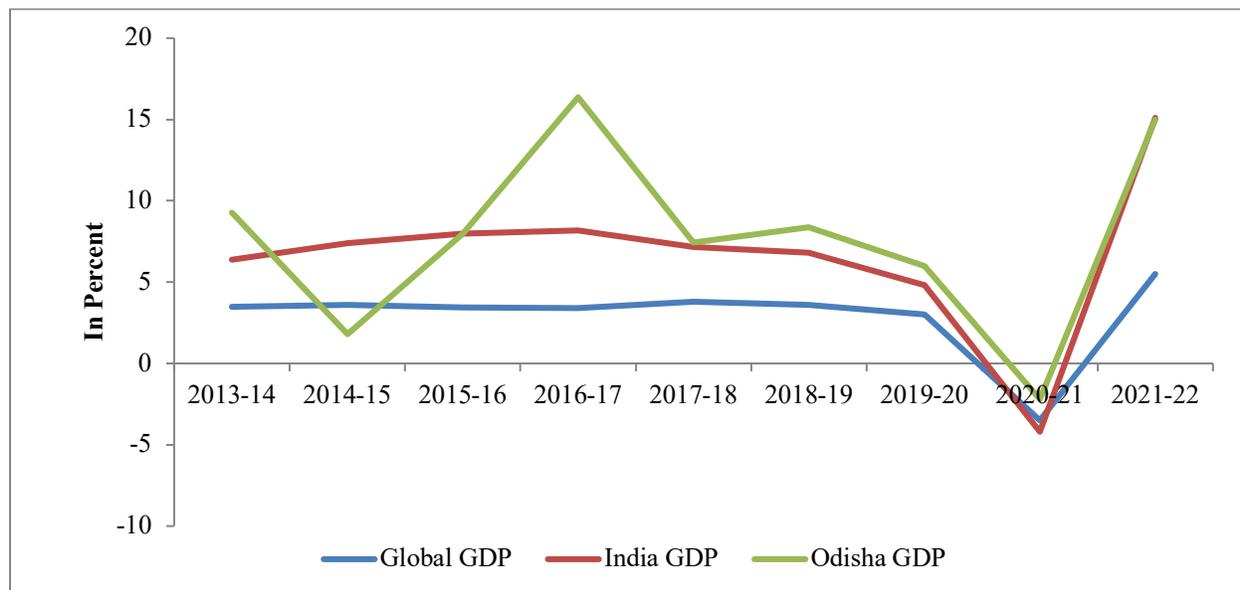
### 2.2 INDIA'S ECONOMIC OUTLOOK

India's real GDP has grown at an average rate of 7.5 percent since FY 2014-15. However, the growth rate moderated to 2.2 percent in FY 2019-20 as activity slowed in most sectors. Industrial growth slowed to 1.3 percent in the first six months of FY 2020 from 3.8 percent in FY 2019, weighed down by poor performances in manufacturing and mining.

India's GDP is expected to contract by about 7.7 percent<sup>2</sup> in the current financial year, before recovering to 10.5 percent growth in 2021-22 due to the base effect.

<sup>1</sup> IMF (2020), WEO, the Great Lockdown

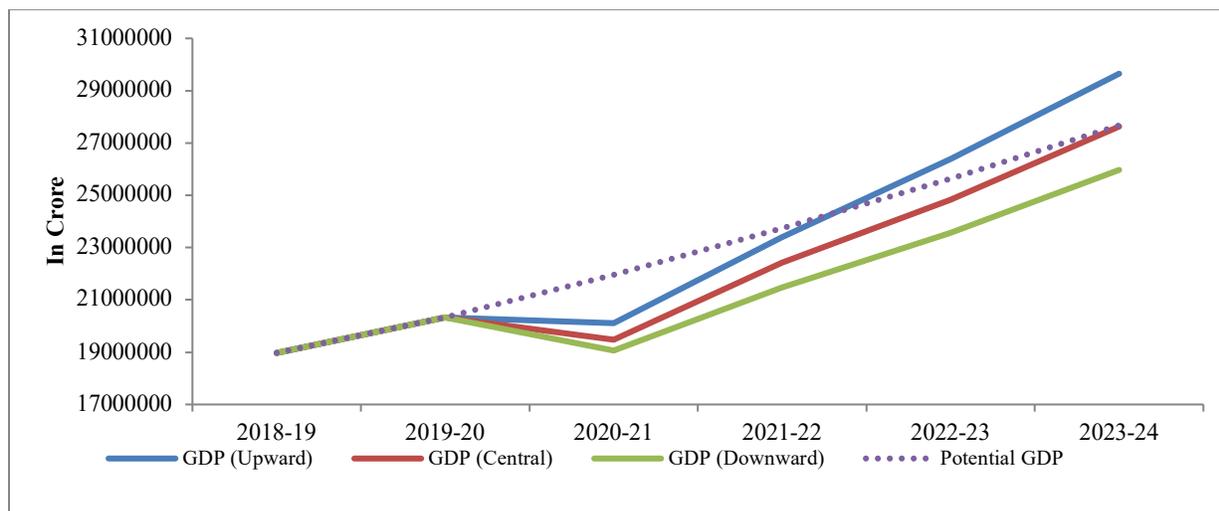
<sup>2</sup> As per Union Budget 2021-22

**Chart-2.1: Global, India, and Odisha Economic Growth**

Source: World Economic Outlook, Central Statistics Office, Medium Term Fiscal Framework

## 2.2.1 GROWTH SCENARIOS

In preparing the macroeconomic forecast in the context of increased uncertainty associated with the pandemic, the Finance Department has considered three scenarios (upward, central and downward) to project medium-term economic growth in Odisha (Chart 2.2). These scenarios also provide estimates for the national economy. In the best-case (upward) scenario, national economic growth will be close to India's potential growth rate of 8 percent. Odisha's GSDP growth is highly sensitive to changes in the Indian economy.

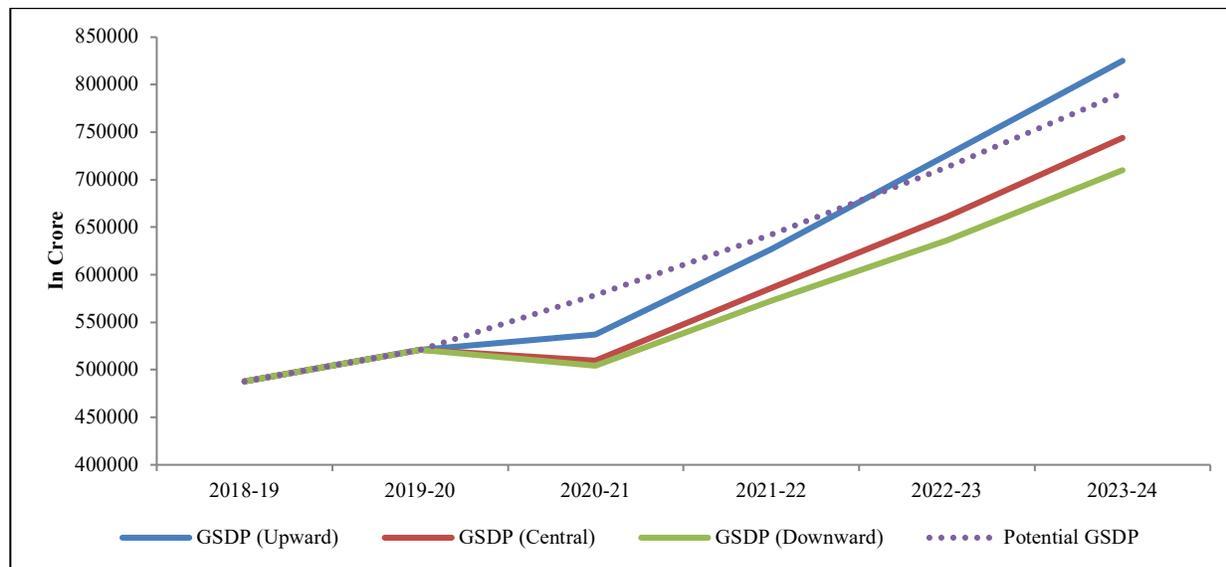
**Chart 2.2: India GDP Growth Scenarios**

Source: Medium Term Fiscal Framework

## 2.3 ECONOMIC OUTLOOK FOR ODISHA

Over the past eight years, Odisha's economy has grown at an average rate of 8.1 percent. This has been faster than national GDP growth, and among the fastest-growing state economies in India. As a result, the State's share of the national economy has grown to 2.5 percent of GDP, and is expected to increase in the coming years.

**Chart 2.3: Odisha GSDP Growth Scenarios**



### 2.3.1 GSDP GROWTH

Chart 2.3 depicts the three scenarios considered for medium-term GSDP growth. For FY 2020-21, the central scenario projects a GSDP contraction of 4.9 percent. The upside and downside scenarios project GSDP to contract by 2 percent and 8 percent respectively. The expected rise in the growth of GSDP during 2021-22 is due to the low base and opening up of the economy from the lockdown.

Over the next three years, economic growth is expected to recover rapidly, reaching 10.5 percent in 2021-22 and levelling off at 8 percent in the two outer years of the forecast. The recovery will be driven by higher investment in infrastructure, industries promotion through Make-in-Odisha and increased agricultural output. On a sectoral level, manufacturing, trade, hotel and restaurant, transport, storage and communication & services related to broadcasting are projected to return to growth from FY 2021-22. Inflation (GSDP deflator) is projected at 4.2 percent in 2021-22, increasing marginally to 4.3 percent by the outer year of the forecast (Table-2.1)

**Table-2.1: Outlook for economic growth and inflation (percent growth)**

Year	2018-19	Revised Estimate	Estimates	Forecast		
		2019-20	2020-21	2021-22	2022-23	2023-24
Real GSDP Growth	4.2	5.2	-4.9	10.5	8.0	8.0
Inflation (GSDP Deflator)	6.1	1.6	5.1	4.2	4.4	4.3

Source: Medium Term Fiscal Framework

Agriculture and allied activities have registered strong growth rate of around 5 percent in the recent years. Crop diversification, increased investment in irrigation, use of hybrid seeds, and greater farm mechanisation will continue to boost agricultural output. Fisheries and aquaculture have also grown strongly.

Manufacturing is expected to contribute significantly to growth in the coming years. The government has remained committed to creating an enabling environment for industrial development through initiatives like “Make in Odisha” and schemes under Ease of Doing Business. This is expected to support the sector’s growth in the coming years.

There are strong inter-linkages between manufacturing and mining sectors and the rest of the economy. The mining sector is expected to sustain higher growth over the medium term.

**Table – 2.2: Sectoral outlook for economic growth (percent growth)**

	2018-19	Revised Estimates		Forecast		
		2019-20	2020-21	2021-22	2022-23	2023-24
Manufacturing	7.5	1.2	-10.1	19.3	15.4	15.3
Mining and quarrying	19.0	2.0	-4.9	17.2	13.1	14.0
Trade, repair, hotels and restaurants	12.0	6.1	-12.2	17.2	14.3	14.3
Agriculture, forestry and fishing	14.6	16.3	-5.0	13.8	8.5	8.5
Transport, storage, communication & services related to broadcasting	-1.9	6.9	-5.5	21.8	14.9	14.5
Others	13.6	17.2	6.3	11.5	11.9	12.3
<b>Overall Growth</b>	<b>10.6</b>	<b>6.9</b>	<b>-2.2</b>	<b>15.0</b>	<b>12.8</b>	<b>12.6</b>

Source: Directorate of Economics and Statistics, Odisha and forecast

As manufacturing and mining expand, demand for related support services such as transport, finance, communications and logistics will increase. The government's efforts to showcase Odisha as a tourist hub have supported robust activity in the hotels and restaurants sector. Accordingly, these sub-sectors are expected to grow strongly over the medium term.

### 2.3.2 RISKS TO THE GROWTH OUTLOOK

Although Odisha has registered impressive growth in recent years, the economy is vulnerable as a result of its geographical location, its dependence on natural resources and the external environment. Downside risks to the growth projections stem from uncertainty in the global and national economic outlook. Slower growth in India's economy would reduce GSDP growth to the State through a moderation of exports and a weakening of private final consumption expenditure.

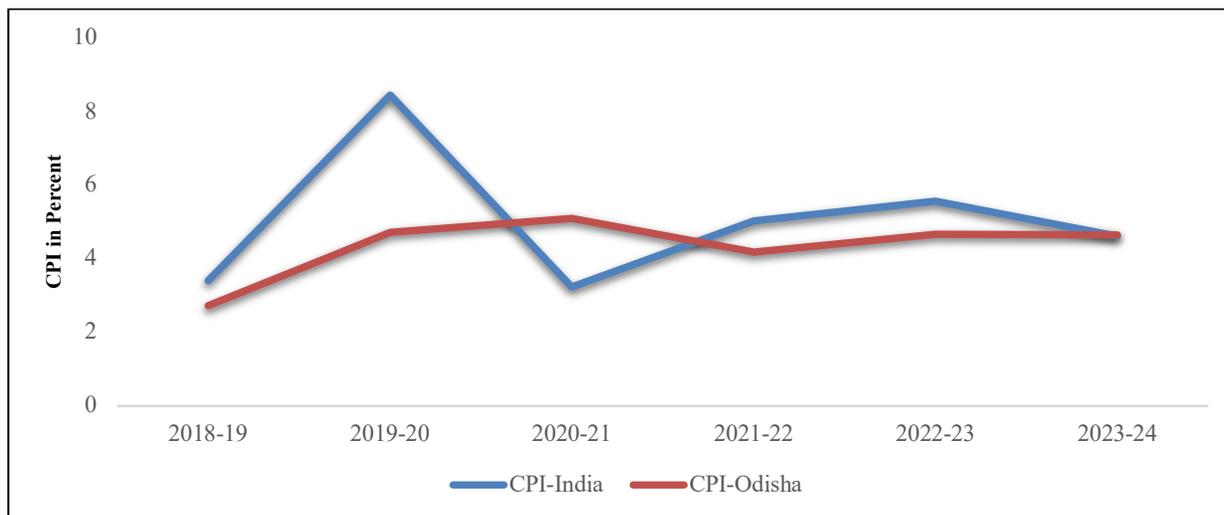
- Covid-19 has posed biggest risk to the growth outlook. Many sectors of the economy like transport, hospitality, tourism, manufacturing, retail services are negatively impacted by the shutdown in the economy. Export has been hit badly due to the pandemic.
- Agriculture remain vulnerable to unpredictable natural cycles and events. Monsoons and extreme weather can result in wide variations in agricultural output.
- Extreme weather events affect the broader economy. Storms and typhoons periodically damage infrastructure and prevent public and private institutions from operating. The cost of dealing with weather damage can be significant for the private and public sector.
- The mining sector accounts for 13 percent of GSDP. Historically, this sector has driven economic growth of the State. Its performance is heavily dependent on global prices and demand.

### 2.3.3 INFLATION<sup>3</sup>

Inflation has generally declined in recent years in line with national trends. It is expected to increase marginally but remain broadly stable over the next three years. The initial increase is anticipated as a result of an uptick in food prices. Inflation for the current year may witness a spike due to disruption in supply chain because of the Covid-19 pandemic.

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<sup>3</sup> Inflation projection has been made based upon three year moving average. However, the current year being an abnormal year, the inflation rate may show volatility.

**Chart – 2.4: Historical and projected inflation (percent)**

Source: Medium Term Fiscal Framework

### 2.3.4 PUBLIC INVESTMENT

Odisha's public investment levels have increased alongside its growing developmental needs. Investment growth is expected to decline in 2020-21 as a result of the lockdown, and return to growth averaging 12.61 percent over the medium term.

Almost 60 percent of population of the State are dependant on agriculture for their livelihood. The State has invested considerable resources in the development of a sustainable irrigation network. Significant investments have also been made in other agricultural infrastructure. Investment to support agricultural productivity remains a priority and will support growth over the next three years.

The State will also continue to invest in urban infrastructure to support dignity and sustainability in villages, towns and cities. Transport, water supply and sanitation are focal points, alongside education, medical welfare and housing.

## 2.4 MEASURES TO SUPPORT ECONOMIC GROWTH

- The State government has taken a number of initiatives to combat COVID-19. Although these initiatives to save lives and livelihoods of vulnerable sections of the population focused on immediate support, they have been undertaken in a manner that supports long-term development. The State government augmented healthcare facilities by setting up dedicated COVID-19 hospitals and quarantine centres in each district. To protect migrant labourers, additional employment generation capacity is being developed in rural areas

through schemes like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

- The Odisha government is focused on making agriculture more remunerative and reducing the vulnerability of small and marginal farmers. Policy initiatives focus on diversifying crop production, expanding horticulture, and encouraging livestock breeding and aquaculture. Schemes such as the Krushak Assistance for Livelihood and Income Augmentation have been envisaged to further support small and marginal farmers.
- The State has made substantial investments in physical infrastructure to attract manufacturing and service industries, especially in MSME sector. Make in Odisha, start-up policy and reforms under Ease of Doing Business are expected to attract private investment and boost the industrial sector's growth.
- Under the Make in Odisha programme, food processing, aerospace, electronics, Information Technology enabled services, manufacturing and tourism have been identified for targeted support. Increased policy support and incentives are expected to contribute to growth and employment creation.
- Nearly 83 percent of Odisha's industrial output is high-tech and medium-tech based (as per UN Industrial Development Organization classification). These industries generate more value-add and contribute to higher economic growth. With this in mind, the State will promote six sectors, including electronics manufacturing, which will lead to enhanced income generation.
- Odisha has introduced innovative disaster management initiatives such as Community Based Disaster Risk Reductions, preparedness at the community level etc that have helped reduce the negative impact of natural disasters and thus volatility in GSDP growth.
- The government is committed to increase investments that improve healthcare, education and skills; support the youth; and provide safe drinking water, sanitation, better livelihood opportunities, social security, electricity and rural connectivity.
- The State is committed to taking its economy to the next level by using the **5Ts: Technology, Teamwork, Transparency and Time leading to Transformation in Governance** to create new infrastructure and develop new methods of service delivery.

### 3. FISCAL OUTLOOK

*Fiscal discipline anchors sustainable public finances. The Government of Odisha has adopted a rule-based fiscal policy. Over the next three years, the government will continue to budget within the FRBM Act sustainability parameters. The State proposes budgeting for a fiscal deficit of about 3.5 percent of GSDP over the next two years and 3 percent of GSDP over the subsequent two years. The widening of the deficit, an average of 1.05 percent from the average fiscal deficit of past three years, is primarily due to the COVID-19 pandemic and the associated lockdown. The economic contraction in the current year has led to decline in revenue receipts, alongside higher spending on healthcare and economic recovery. Changes in the manner that central government tax revenue is shared with the states is also a risk to the revenue outlook. Despite these challenges, the State government will ensure that basic social and economic services remain funded, and will prioritize infrastructure spending to support development.*

#### 3.1 FISCAL FRAMEWORK OVERVIEW

Government spending plays a vital role in economic growth by building physical and human capital. The Odisha government remains committed to increasing investment in priority areas within the available resource envelope. Our twin policy priorities are prudent fiscal management and higher investment in targeted sectors.

The COVID-19 pandemic posed a unique challenge for Odisha's public finances. The crisis has compelled the State to take stock of its fiscal position, evaluating fiscal space for continued crisis spending and recovery measures, and government's financing needs.

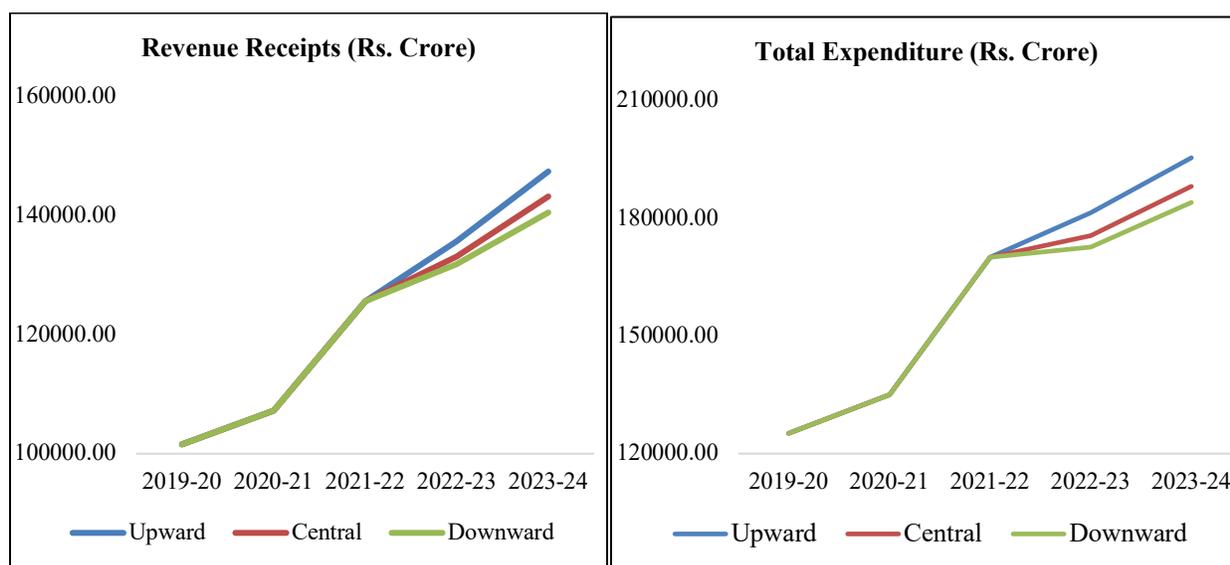
Over the next three years, Odisha will continue to budget near the upper limits of the sustainability requirements established by the FRBM Act and Finance Commissions. Expenditure growth will be consistent with achieving a budget deficit of 3.5 percent of GSDP and maintaining the debt-to-GSDP ratio well below the 25 percent limit. The central government's decision to increase state deficit limits to 5 percent of GSDP for FY2020-21 and facility to carry forward the unused fiscal deficit to FY2021-22 provides additional fiscal flexibility. The State will avail this additional fiscal space in case of higher investment need for COVID management and revival of economy. Observing these limits, Odisha will ensure that fiscal programmes remain affordable for future generations and that there will be fiscal space to respond to economic downturns or emergencies.

A planned surplus in the revenue balance means that the State is not borrowing for ongoing operational expenses like wages. Instead, all borrowing is to finance capital investment. This is

consistent with good financial management and fiscal sustainability, because investment is of long-term benefit to service delivery and can increase potential economic growth.

Observing fiscal sustainability principles does not penalize short-term developmental needs. GSDP growth is expected to accelerate from -4.9 percent this year to 10.5 percent in FY 2021-22, aided by large favourable base effects, and stabilising at 8 percent in the two outer years of the forecast.

**Chart-3.1: Trend in revenue receipt and total expenditure (Rs. Crore)**



**Table 3.1 summary of the proposed fiscal framework**

(Rupees in Crores)	2017-18	2018-19	2019-20	RE	Forecast		
				2020-21	2021-22	2022-23	2023-24
<b>Total Receipt (Revenue &amp; Capital)</b>	97776	112294	122345	135000	170000	175000	187500
<b>As % of GSDP</b>	22.2%	23.0%	23.5%	26.5%	29.0%	26.5%	25.2%
<b>Total Expenditure (Revenue &amp; Capital)</b>	97511	113949	125168	135000	170000	175000	187500
<b>As % of GSDP</b>	22.1%	23.4%	24.0%	26.5%	29.0%	26.5%	25.2%
<b>Total Revenue Receipts</b>	85204	99546	101568	107200	125600	133127	143239
<b>As % of GSDP</b>	19.3%	20.4%	19.5%	21.0%	21.4%	20.1%	19.2%
<b>Total Revenue Expenditure</b>	71837	85356	99137	104864	119567	123095	133735
<b>As % of GSDP</b>	16.3%	17.5%	19.0%	20.6%	20.4%	18.6%	17.8%
<b>Net Revenue (Deficit/Surplus)</b>	13367	14190	2430	2336	6033	10032	9504
<b>As % of GSDP</b>	3.0%	2.9%	0.5%	0.5%	1.0%	1.5%	1.3%
<b>Net Fiscal deficit</b>	9624	8658	15996	17765	20465	19823	22322
<b>As % of GSDP</b>	2.2%	1.8%	3.1%	3.5%	3.5%	3.0%	3.0%

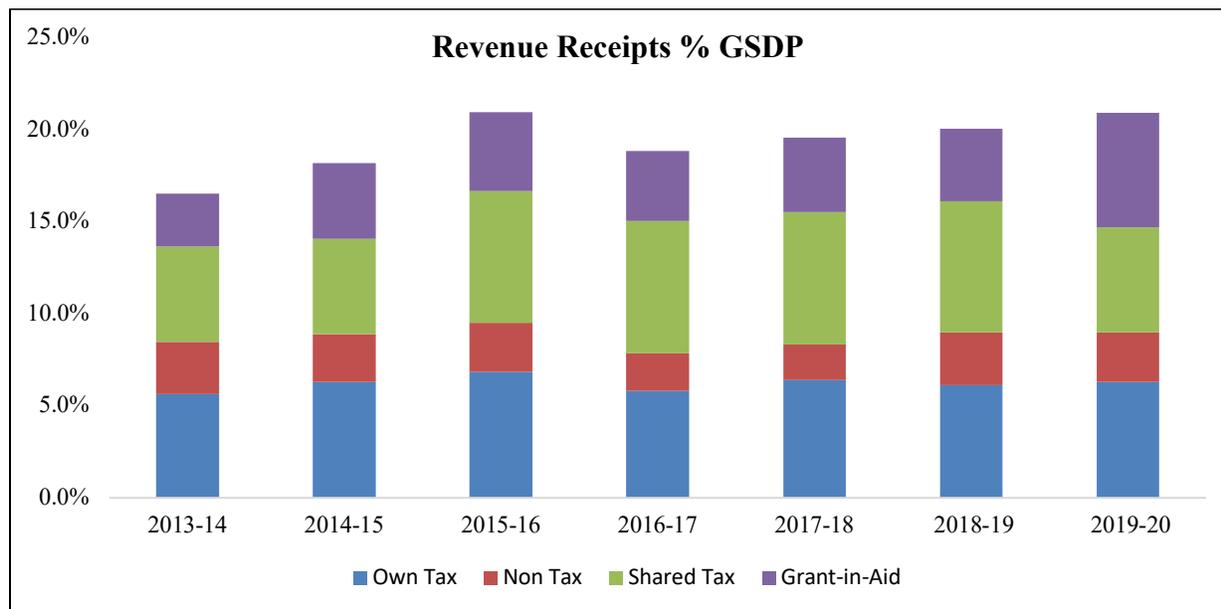
## 3.2 REVENUE OUTLOOK

Over the past five years, revenue growth has averaged about 14.4 percent. During the period, Odisha's primary revenue sources are share in central government tax (34.4 percent), own tax revenue (31.3 percent), grants in aid (22.2 percent) and non-tax revenue (12.1 percent). This year revenue is expected to grow by 5.5 percent. The modest growth is combined result of the falloff in economic activity as a result of the COVID-19 lockdown and a decline in central government revenue. As the economy expands over the medium term, revenue is expected recover to pre-COVID-19 levels, reaching 21.4 percent of GSDP in FY 2021-22. Revenue projections in the three scenarios are shown in Chart-3.1.

There continues to be significant uncertainty in the forecast associated with COVID-19. Given this exceptional circumstance, government recognizes that it is difficult and risky to make policy decisions solely on the basis of the central (most likely) scenario. Therefore, both the upside and downside scenarios are prepared to enable the Finance Department to plan with sufficient flexibility. The scenario analysis indicates that revenue outlook for the current year is highly uncertain; it may decline from the current baseline projection by 0.16 percent (about Rs. 800 crore) if the impact of the pandemic remains severe. In contrast, the revenue position may improve by 0.2 percent, equivalent to about Rs.1000 crore, if there is a faster-than-expected economic recovery.

Over the next three years, Odisha is likely to receive less revenue from central government due to reduction in corporate tax rate, introduction of demographic indicator in finance commission's devolution formula, lower realization in GST, etc . Odisha's share of central taxes is driven by Finance Commission recommendations. In recent years, the actual collection of central taxes has been lower than what the central government has forecasted due to slowdown prior to lockdown and several months' lockdown has aggravated the situation further. Over the medium term, the reduction in the rate of Corporate Tax will likely result in lower central government tax revenue, which will be passed on proportionately to the states.

Medium-term revenue receipts are also likely to be affected by changes recommended by Fifteenth Finance Commission. This involves the use of updated population data to determine the share of central taxes that each state receives. Odisha's share of the total population has declined, and as a result it is likely that its share of central taxes will reduce proportionately.

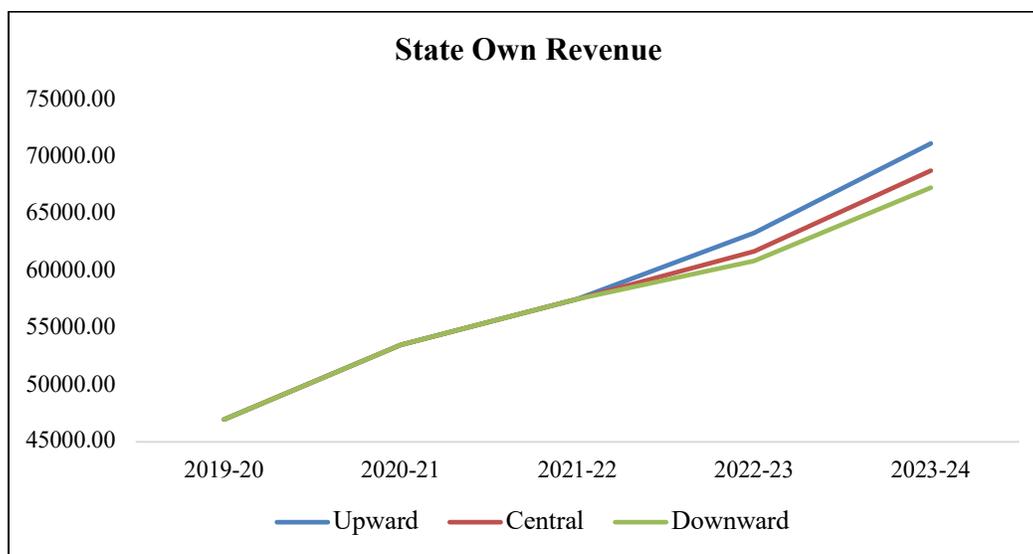
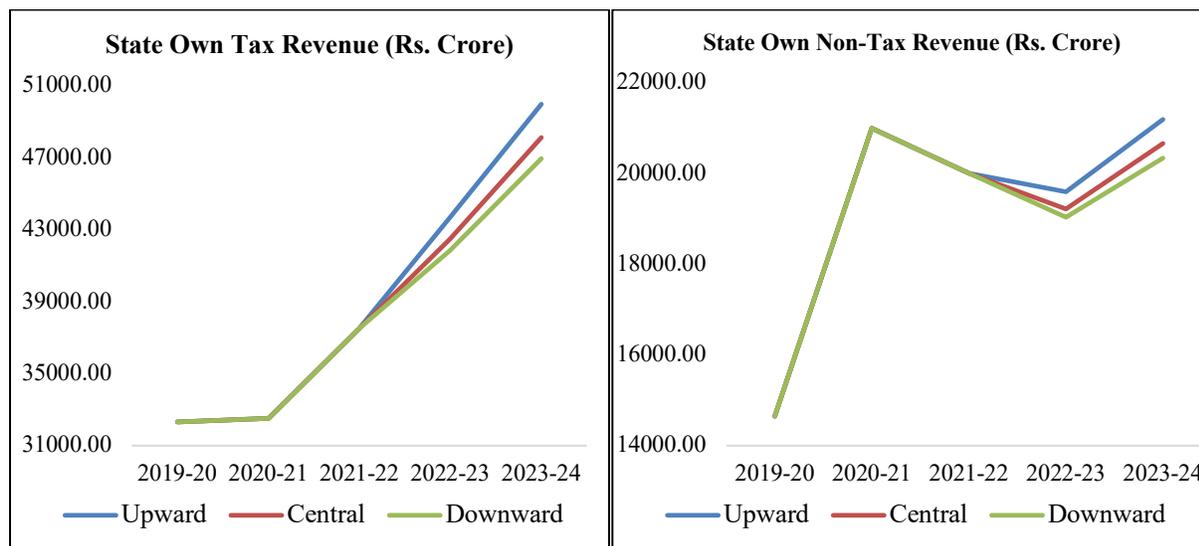
**Chart -3.2: Composition of revenue receipts of the state (% of GSDP)**

The own tax revenue is expected to register positive growth in the FY 2020-21 inspite of slowdown in economic activity due to Covid-19. In subsequent years, own tax revenue is expected to be around 6 percent of GSDP, which is close to the historical average. An improved performance by the mining sector, and the renewal of mining leases, are expected to generate additional royalties, boosting own non-tax revenue from 2.8 percent in FY 2019-20 to 4.1 percent in 2020-21. This activity will also generate one-time stamp duty and registration fees, partially offsetting the shortfall in own taxes.

**Table -3.2 – Revenue outlook (percent of GSDP)**

Year	2017-18	2018-19	2019-20 (RE)	Forecast			
				2020-21	2021-22	2022-23	2023-24
1. State Own Tax	6.3%	6.2%	6.2%	6.4%	6.4%	6.4%	6.5%
2. State Own Non-Tax	1.9%	2.9%	2.8%	4.1%	3.4%	2.9%	2.8%
3. State Own Revenue(1+2)	8.2%	9.1%	9.0%	10.5%	9.8%	9.3%	9.3%
4. Central Transfer	11.1%	11.3%	10.5%	10.5%	11.6%	10.8%	9.6%
<b>5. Total Revenue (3+4)</b>	<b>19.3%</b>	<b>20.4%</b>	<b>19.5%</b>	<b>21.0%</b>	<b>21.4%</b>	<b>20.2%</b>	<b>19.3%</b>

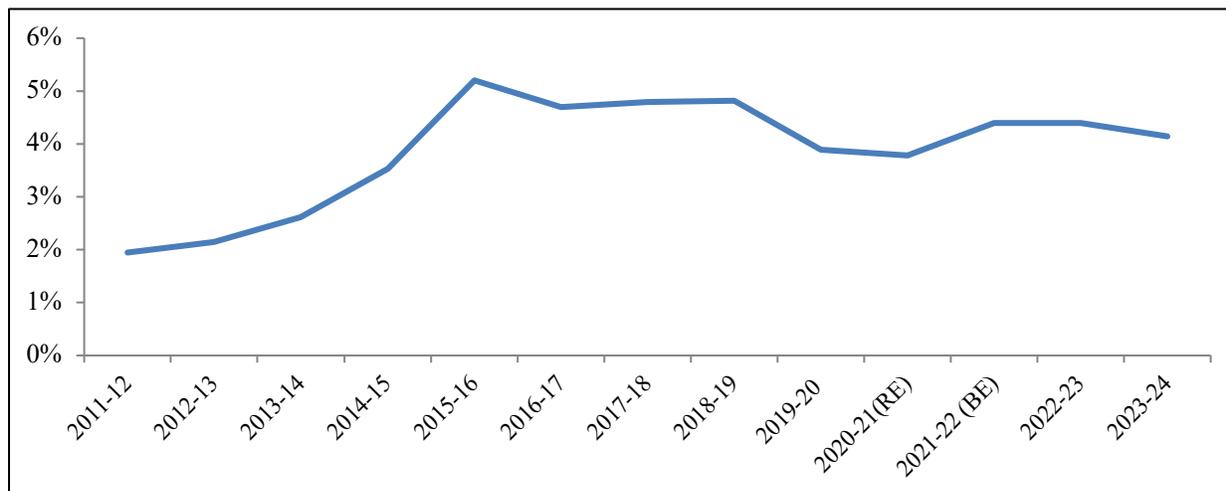
Strengthening the public finances and creating fiscal space to meet developmental needs require Odisha to significantly enhance its own revenue collection capacity. With declining central government transfers, the State must consider additional tax policy and collection measures to increase the tax base and finance development-orientated expenditure.

**Chart 3.3 Scenario analysis of Odisha revenue receipts**

### 3.3 EXPENDITURE OUTLOOK

State expenditure has registered double-digit growth in every year since FY 2011-12. Revenue expenditure accounts for nearly 75 percent of total expenditure and 17.6 percent of GSDP. However, revenue expenditure as a share of total spending has been declining, providing the fiscal space for increasing capital spending.

Infrastructure creation is at the centre of the State's developmental plans. Capital outlay has increased from 1.95 percent of GSDP in FY 2011-12 to 4.8 percent of GSDP in FY 2018-19.

**Chart -3.4: Capital Outlay (as percent of GSDP)**

During 2020-21, the short-term expenditure priority has been to design and implement immediate responses to the COVID-19 crisis. Amid the shortfall in tax revenue, government has re-prioritised its spending plans for the current year with some downward adjustments, but is budgeting for increased expenditure in the medium term. Working with more limited resources, and guided by the need to ensure sustainable public finances, the State has placed a greater focus on strategic sectors such as health, education, social security, livelihood security, employment generation schemes and support for economic recovery.

Total spending is projected to increase modestly from 24 percent of GSDP in FY 2019-20 to 26.5 percent in FY 2020-21. Given the emergency response to the pandemic, in the upward scenario, total spending may increase by an additional 0.4 percent of GSDP. In the downward scenario, spending would decline by 0.3 percent of GSDP as spread of virus is contained. The outlook for total spending is positive in medium term, reaching 29 percent in FY 2021-22 and averaging 26.9 percent of GSDP for over the next three years. This year capital outlay is projected to decline to 3.8 percent of GSDP due to the lockdown, increasing to 4.4 percent of GSDP in FY 2021-22 and in FY 2022-23.

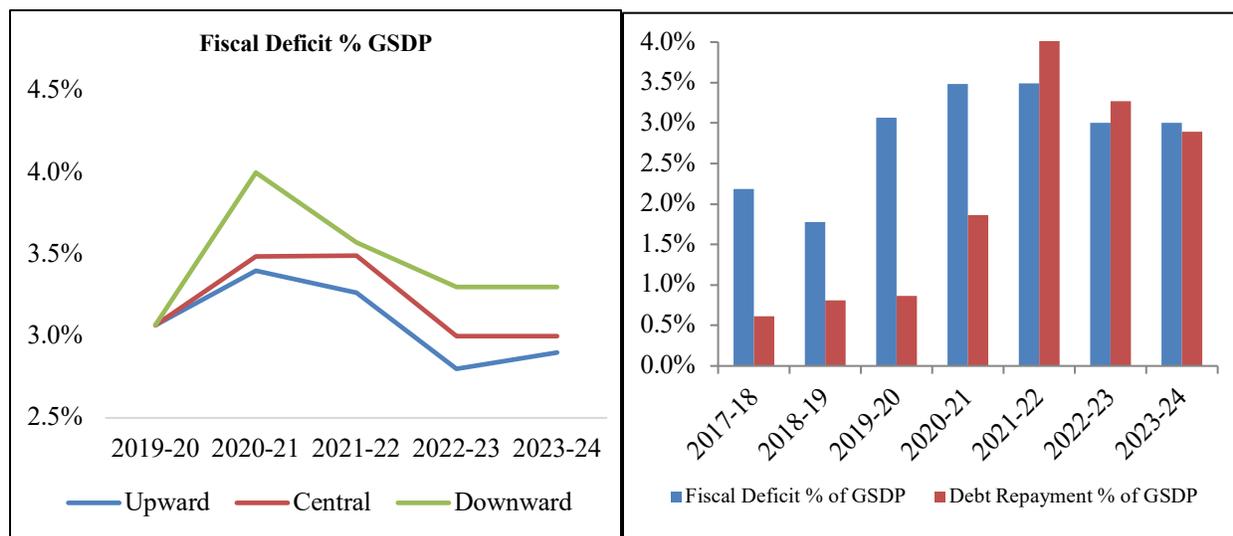
Developmental expenditure, which is the combination of social and economic sector spending, is projected to decline. Spending on social services, however mainly health expenditure to contain the pandemic remains largely unaffected. This shows the prioritisation of social welfare and infrastructure development, especially within the health, education and agriculture sectors. The outlook improves over the medium term. Expenditure in economic services in medium term is set to vary from 6.4% of GSDP in FY 2020-21 to 6.3% in FY 2021-22, to 6.5% in FY 2022-23 and to 6.2% of GSDP in FY 2023-24. Expenditure on social services and general services show similar trends.

**Table 3.3 Broad Sectoral Programme Expenditure Outlook**

(Rupees in Crores)	2017-18	2018-19	2019-20 (RE)	Forecast			
				2020-21	2021-22	2022-23	2023-24
<b>General Services</b>	717	1030	1090	1496	1515	1538	1818
<b>Social Services</b>	20389	25622	29631	26923	36355	34879	38553
<b>Economic Services</b>	29638	34084	31425	33581	37129	43499	46644
<b>Total</b>	<b>50744</b>	<b>60736</b>	<b>62146</b>	<b>62000</b>	<b>75000</b>	<b>79917</b>	<b>87014</b>

### 3.4 DEFICIT OUTLOOK

Over the medium term, the fiscal deficit is expected to remain at 3.0 percent of GSDP, well within the extended limit of the FRBM Act. The large decline in revenue receipts during 2020-21 requires the State to peg borrowing at the higher end for the next two years.

**Chart -3.5: Odisha Deficit path (percent of GSDP)**

Borrowing will be financed by raising funds from the internal debt market, negotiated loans, multilateral agencies and public account balances. During the forecast period, the debt-to-GSDP ratio and IPRR ratio are expected to remain within FRBM Act limits.

The downward scenario reveals that fiscal deficit may rise an additional 0.12 percent of GSDP as revenue position worsens and expenditure demand rises on account of severity of virus spread. But anticipating that COVID-19 impact is temporary and likely to be wound down in future years, the fiscal deficit is expected to come down to 3% of GSDP by FY 2023-24.

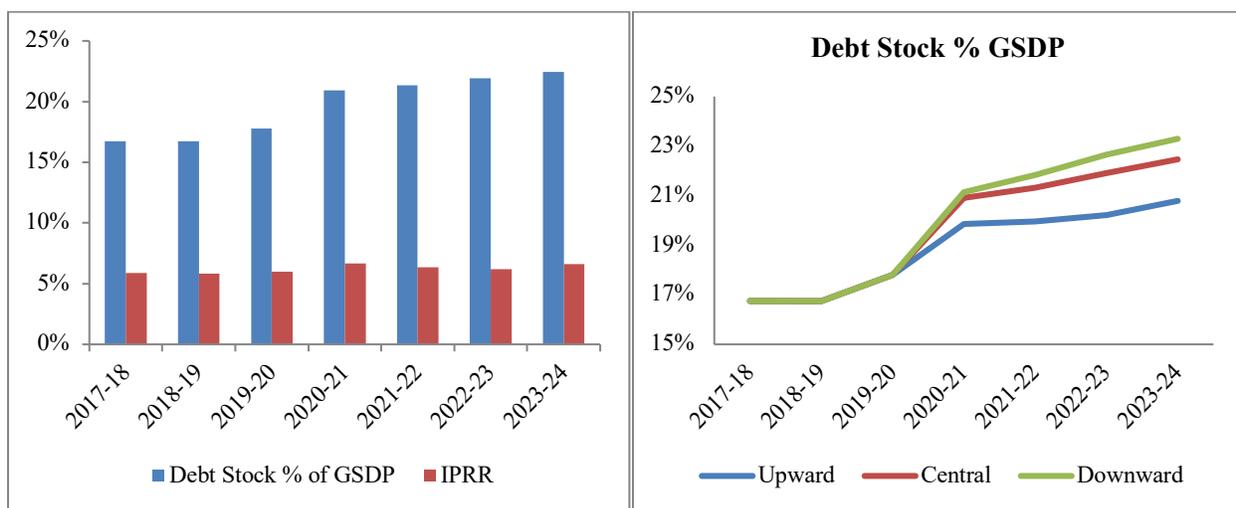
**Table 3.4 – Summary of Fiscal Deficit in the three scenarios**

Percentage of GSDP	2020-21	2021-22	2022-23	2023-24
<b>Upward</b>	3.4%	3.3%	2.8%	2.9%
<b>Central</b>	3.5%	3.5%	3.0%	3.0%
<b>Downward</b>	4.0%	3.6%	3.3%	3.3%

### 3.5 PUBLIC DEBT OUTLOOK

Odisha's public debt is sustainable, which means that the government can pay interest and principal repayments on loans out of its future income without any difficulty. Prudent debt management enables the State to maintain its focus on development.

During FY 2002-03, Odisha had unsustainable debt levels exceeding 50 percent of GSDP, with interest on the debt absorbing nearly 42 percent of revenue receipts. However, as a result of a policy commitment to sustainable public finances and a strong fiscal correction, debt stock has stabilised below 20 percent of GSDP. This is well within the limits stipulated by the FRBM Act. With reduced debt, interest payments has declined to about 5.8 percent of GSDP.

**Chart -3.6: Odisha's medium-term debt outlook (Percent of GSDP)**

Debt stock is expected to increase from 17.8 percent of GSDP in FY 2019-20 to 20.9 percent of GSDP in FY 2020-21 and finally reaching 22.5 percent in FY 2023-24. This increase will be driven by the higher fiscal deficit to bridge the revenue shortfall during the COVID-19 crisis. The surplus on the revenue balance, however, shows that all borrowing is for capital spending.

Debt-service costs are expected to increase from 6.0 percent of Revenue Receipts in FY 2019-20 to 6.7 percent in FY 2020-21, moderating to 6.6 percent in FY 2023-24.

**Table -3.5 –Odisha public debt outlook till 2023-24**

Year	2017-18	2018-19	2019-20	Forecasts			
				2020-21	2021-22	2022-23	2023-24
<b>Total Debt (% of GSDP)</b>	16.8%	16.7%	17.8%	20.9%	21.3%	21.9%	22.5%
<b>External Borrowing (% of GSDP)</b>	0.2%	0.2%	0.2%	0.9%	0.3%	0.2%	0.2%
<b>Gross Market borrowing (% of GSDP)</b>	1.9%	1.1%	1.4%	0.6%	3.1%	3.6%	3.4%
<b>Debt Servicing (% of Revenue Receipts)</b>	5.9%	5.8%	6.0%	6.7%	6.4%	6.2%	6.6%

Additional information is available in the “**Status Paper on Public Debt**” published by Finance Department, Government of Odisha.

### 3.6 FISCAL RISKS TO THE OUTLOOK

Fiscal risks are factors that can cause fiscal indicators to deviate from forecasts. Such risks include unforeseen spending pressures, revenue shortfalls, natural disasters and contingent liabilities. Working with SARTTAC, the government of Odisha has identified managing fiscal risks as a priority reform.

In order to enhance the credibility of its fiscal policy and forecasts, the government of Odisha is moving to publish more information in the public domain on fiscal risks. Publishing summary information on fiscal risks enables decision-makers, the public and the legislature to have a better grasp of risks and their potential impact on the budget. It also reinforces the credibility of the government’s macro-fiscal forecasts among creditors and across markets.

The fiscal outlook for next three years is expected to be vulnerable due to following risks.

#### 3.6.1 COVID19 LOCKDOWN

The lockdown due to Covid19 has resulted in disruption in economic activities leading to huge revenue shortfall of both central government and state government. Almost two quarters of the FY 2020-21 were under lockdown. The revenue position of state government was badly hit whereas there was expenditure demand for the healthcare, social security, livelihood security and employment generation schemes. This has created a big risk to state fiscal position owing to uncertain revenue flow and expenditure commitments. Despite the shock, government’s fiscal position has been shown to be resilient in the face of the pandemic. But a significant amount of risk is associated with the unpredictable path the virus is taking in anticipation of a second wave of spread of virus.

### **3.6.2 CHANGE IN THE FIFTEENTH FINANCE COMMISSION DEVOLUTION CRITERIA**

The Fifteenth Finance Commission has been given a mandate to use updated population data (2011 in place of 1971) to determine the devolution of central taxes to the states. Odisha's share of India's population declined from 4.04 percent in 1971 to 3.53 percent in 2011. Therefore, Odisha is likely to receive a proportionately lower share of central taxes. This risk is largely factored in the projections. However, this estimation is based on the assumption that the Commission will use criteria similar to that of its predecessor. The actual share will only be known after the Commission's report becomes available.

### **3.6.3 MINING REVENUE**

Mining royalties account for almost 20 percent of Odisha's own revenue. In addition, stamp duties and registration fees associated with lease renewals make up about 4 percent of own revenue. However, volatility in global metals prices and demand for minerals means that mining revenues are unpredictable. If the global economic outlook deteriorates, it will put pressure on revenue collections from this sector.

### **3.6.4 SHORTFALL IN GST COMPENSATION**

The State was assured of compensation for losses incurred on account of GST implementation till June 2022. But due to pandemic the cess collection in the GST Compensation Fund has reduced. Odisha is heavily dependent on compensation as GST performance has been below the revenue foregone as a result of this reform. This has led to uncertainty in the flow of revenue.

### **3.6.5 NATURAL DISASTERS**

Odisha is exposed to considerable risk as a result of natural disasters such as most frequently are cyclone and flood. Natural disasters vary in terms of severity and the year-to-year impacts are impossible to foresee. The State government has introduced innovative measures such as Community Based Disaster Risk Reductions, preparedness at the community level etc. that have helped reduce the negative impact of natural disasters and the volatility in GSDP growth. The State Disaster Response Fund has been created to assist with immediate relief and rehabilitation efforts. The cyclone and flood cause large economic loss in Odisha in the last twenty years which is around 5.7 percent of GSDP.

### 3.6.6 CURRENCY AND INTEREST RATE FLUCTUATIONS

Odisha's external debt (externally aided projects) constitutes more than 7 percent of total debt. Some of this debt is linked to the London Interbank Offered Rate, and interest costs vary according to changes in this rate. The loans are borrowed mostly in US dollars and Japanese yen, against which the Indian rupee fluctuates. Debt-service costs are subject to exchange rate volatility and interest rate movements.

### 3.6.7 GOVERNMENT GUARANTEES TO PUBLIC SECTOR UNDERTAKINGS

State government guarantees are not a significant risk. The extent of guarantees is limited and the risk of them being claimed from the State is assessed to be low. By the end of December-2017, Rs.480.00 Crore has been transferred to Guarantee Redemption Fund Account of Govt. of Odisha. Further, in the unlikely event that a guarantee is triggered, funds are available to assist with payment of the guarantee from the State Guarantee Redemption Fund.

### 3.6.8 PUBLIC-PRIVATE PARTNERSHIPS

The failure of a public private partnership (PPP) project could potentially pose a risk. As an investment partner, the State anticipates future cash flows from such projects; the absence of such revenue could strain the public finances. As of now, 90 projects worth Rs. 18146 crore are in the PPP portfolio. Out of that, 57 PPP projects are completed worth Rs. 8365 crore, 17 projects worth Rs. 4861 crore are under implementation and 16 projects worth Rs.5190 crore are in pipeline. Thus, far the State's exposure is not significant. In addition, the government conducts due diligence and assesses risks before signing any PPP contract. Over the medium term, risks from PPP projects are not judged to be significant.

## 3.7 CONCLUSION

The COVID-19 pandemic has led to a large economic contraction, reducing Odisha's revenue receipts. Lower central government transfers are expected in the coming three years, which will have an impact on the State's resource envelope, but this is partially offset by an expected economic recovery and the performance of own revenue. Over the next three years, Odisha will continue to increase investment in social and economic development. The State will follow the rule-based policy enacted in FRBM Act, and all deficit and debt parameters will remain within prudent levels. In spite of adverse impact of the pandemic, the State economy will witness good growth in medium term. The available resource envelope would meet the State's investment priorities as well as the debt servicing cost. Overall, in medium term, Odisha's fiscal outlook will remain stable and progressive.