



Government Of Odisha
Fiscal Strategy Report



July 2022

Finance Department



FISCAL STRATEGY PAPER

**FINANCE DEPARTMENT
GOVERNMENT OF ODISHA
JULY 2022**

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ABBREVIATIONS

BE	Budget Estimates
CAMPA	Compensatory Afforestation Fund Management and Planning Authority
CEFT	Centre of Excellence in Fiscal Policy and Taxation (CEFT)
CSF	Consolidated Sinking Fund
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
GVA	Gross Value Added
IMF	International Monetary Fund
IFMS	Integrated Financial Management System
IPRR	Interest Payments to Revenue Receipts
LIBOR	London Interbank Offered Rate
MSME	Micro Small Medium Enterprise
MTFF	Medium-Term Fiscal Framework
OMBADC	Odisha Mineral Bearing Areas Development Corporation
ONTR	Own Non-Tax Revenue
OTR	Own Tax Revenue
PFM	Public Finance Management
PPP	Public-Private Partnership
PSU	Public Sector Undertakings / Public Sector Enterprises
RBI	Reserve Bnk of India
RE	Revised Estimates
SARTTAC	South Asia Regional Training and Technical Assistance Center
ST	Share Tax
VAT	Value Added Tax

PREFACE

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 to strengthen Odisha's public finances and the credibility of the budget process,.

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. It is intended to publish 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.

In chapter-III, under Revenue Outlook section, there is a sub-section which analyse importance of mining sector and royalty collection from the mining sector. It also projects the estimated revenue collection from mining sector in the medium term. The mining sector being the most important source of own non-tax revenue for the State Government, it is critical to understand financial risks associated with the mining revenue. Accordingly, State Government may devise risk mitigation measure to minimise the impact on State finances.

(Vishal K Dev)
Principal Secretary

EXECUTIVE SUMMARY

1. Fiscal Strategy Paper has been drafted based on the Medium-Term Fiscal Framework (MTFF) developed by Finance Department. The MTFF 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 budget making process.

2. Budget for the FY 2022-23 will be presented in a time when the State Economy is striving to bounce back to its pre-pandemic growth trajectory after the pandemic-hit turbulence periods during 2020-21 and 2021-22. The war between Russia and Ukraine has created uncertainty in global economy. As per the IMF's World Economic Outlook (April 2022), the war will have a dampening effect on world economic growth in 2022. There is disruption in global supply chain. It is expected that inflation will be at higher side in the coming months.

3. With recovery in the economy in the post-pandemic period, the revenue position of the State Government has also started improving. The revenue receipt in FY 2021-22 as per the revised estimate has a growth of 32 percent over FY 2020-21. In the budget estimate FY 2021-22, it was projected that the total revenue receipt would be Rs. 1.25 lakh crore but as per the latest estimate for FY 2021-22, the total revenue receipt would be Rs. 1.41 lakh crore. The higher revenue receipts is mainly on account of higher revenue from mining sources. Due to the renewal of mining leases through a transparent auction process, there has been substantial growth in mining revenue. It is projected that the mining growth would be around 252 percent in FY 2021-22 over last year.

4. The budget size for FY 2022-23 is estimated to be about Rs. 2 lakh crore which is 17.6 percent more than the previous year budget estimate. The budget size is projected to reach Rs. 2.25 lakh crore, Rs. 2.45 lakh crore and Rs. 2.65 lakh crore in FY 2023-24, FY 2024-25 and FY 2025-26 respectively.

5. Administrative expenditure which includes expenditure on establishment, operation and maintenance is estimated to have a growth rate of 11 percent in FY 2022-23 over FY 2021-22. In the medium term, the growth rate in administrative expenditure is projected to be around 6 percent. Programme expenditure which mainly constitutes expenditure on various schemes and programmes of the State Government is projected to have a growth rate of 18 percent in the medium term. It is estimated that the programme expenditure is set to increase from the budget estimate of Rs. 1 lakh crore in FY 2022-23 to 1.45 lakh crore in FY 2025-26.

6. The State Government is focusing on spending in key sectors of the economy so that the ground lost due to the pandemic can be covered as quickly as possible and the State Government

resumes its economic growth to the pre-pandemic level. As per the budget estimate of FY 2022-23, programme expenditure is estimated to be higher than administrative expenditure. This trend is likely to continue in the medium term also. The objective is to make more resources available for capital spending which will have positive effect in the economy in the long run. The total capital outlay has increased from 3.6 percent of GSDP in FY 2021-22 to 5.4 percent in FY 2022-23.

7. Higher revenue collection from the mining sector has enabled the State Government to spend more on the socio-economic sector and the creation of infrastructure which will have multiplier effects on Odisha's economy. The State Government have planned for a substantial higher capital spending in FY 2022-23. As per the medium term fiscal framework, it is estimated that all the fiscal parameters of the State Government will remain within the limits set by the FRBM act. Overall the fiscal outlook of the State Government appears to remain stable in the medium term.

Table: Summary Medium Term Fiscal Framework (as percent of GSDP)

Fiscal Indicator (% of GSDP)	2019-20	2020-21	2021-22 (RE)	Forecast Period			
				2022-23 (BE)	2023-24	2024-25	2025-26
Revenue Receipts	18.6	19.7	22.2	22.8	21.5	20.8	20.1
Administrative Expenditure	9.7	12.2	12.6	12.5	12.2	11.4	10.3
Programme Expenditure	11.4	10.4	11.7	13.9	14.1	14.2	14.2
Revenue Deficit (-)/ Surplus (+)	0.4	0.6	3.3	2.5	3.4	3.5	3.6
Fiscal Deficit	-2.9	-1.3	-0.4	-3.0	-3.0	-3.0	-3.0
Primary Deficit (-)/ Surplus (+)	1.8	0.1	-0.6	1.8	1.8	1.8	1.9
Interest Payment to Revenue Receipts Ratio	6.0	6.2	4.3	5.2	5.5	5.4	5.2
Debt Stock	16.9	19.2	15.8	15.6	16.6	17.4	18.1
Capital Outlay	3.7	3.3	3.6	5.4	6.2	6.4	6.5

Chapter-I

1. FISCAL PRUDENCE AND PFM REFORMS

Government of Odisha has been strictly adhering to the rule based fiscal discipline for more than 15 years. This disciplined fiscal management practices have placed the finances of the State on a sound and secure footing. The sound financial condition of the State Government has not only enabled the State to incur expenditure to tide over the crisis of the Covid-19 pandemic but also did not allow the economy to shirk as much due to loss of production and productivity. The national economy and the State economy have registered negative growth of 3 percent and 0.6 percent respectively due to reduced economic activity during FY 2020-21. The Covid-19 pandemic posed a unique challenge before the government, i.e. contraction in revenue realisation and demand for higher governmental spending to secure lives and livelihoods of citizens. In addition to ensuring food and livelihood security, managing reverse-migration was a major challenge for the State Government also. Through proactive decision making and administrative measures, the State Government has successfully navigated through the turbulent period of the pandemic. Odisha is one of the few states in the country which did not resort to distress borrowing to manage the finances during the pandemic. The fiscal deficit has been within the limit of 3.5 percent and also the debt to GSDP ratio within the 25 percent limit.

A SOLID FOUNDATION FOR FISCAL REFORM

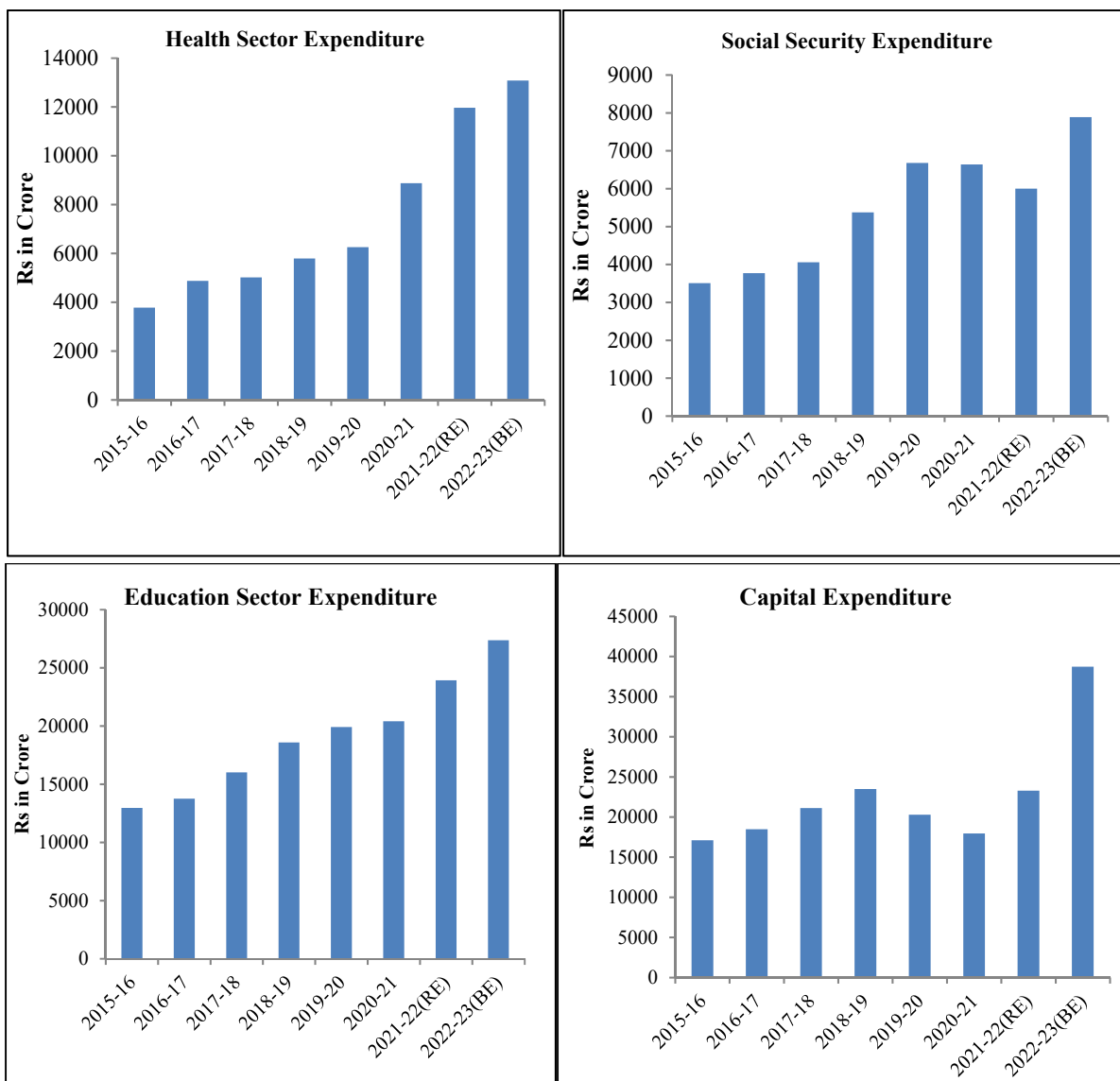
Ensuring fiscal sustainability and stabilizing public finances along with maintaining the pace of developmental expenditure has been the core objective of the State Government. Over the past two decades, consistent efforts have been made in this direction. Stable governance backed by solid public financial management (PFM) reforms allowed the State to prioritize its spending, while ensuring that social and economic services 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 on expenditure and efforts to mobilise own revenue have reduced the fiscal deficit from 6.9 percent of GSDP in 2000-01 to an estimated 3.0 percent in FY 2022-23 and the debt stock from 44 percent of GSDP to an estimated 15 percent in FY 2022-23.

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	2021-22 (RE)	2022-23 (BE)
Revenue Deficit (-)/ Surplus (+)	-4.0	-0.7	0.7	1.9	0.4	0.6	3.3	2.5
Fiscal Deficit	-6.9	-1.8	-1.4	-1.9	-2.9	-1.3	-0.4	-3.0
Debt Stock	43.4	43.8	23.2	13.8	16.9	19.2	15.8	15.6
Capital Outlay	1.7	1.4	2.2	3.5	3.7	3.3	3.6	5.4

The creation of fiscal space has enabled the Government of Odisha to invest more resources in socio-economic sectors as the charts below show. There has been consistent increase in investment in key social sectors such as health care, education and social security. The total capital expenditure is estimated to be around 7.6 percent of GSDP in FY 2022-23.

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



1.1. THE IMPACT OF COVID-19 AND CONFLICT BETWEEN RUSSIA AND UKRAINE-

The global as well as national economy has undergone a severe economic contraction during FY 2020-21 because of the Covid-19 pandemic. During most of the 2020, many countries were under

forced lockdown to limit the spread of the Covid-19 virus. India and Odisha were no exception, instituting a lockdown for nearly three quarters of FY 2020-21 and during initial months of FY 2021-22 to protect public health. Along with the emergent health crisis, there was an urgent need to address the livelihood security of people, especially the informal sector workers. The Informal sector workers were worst affected as their earnings came to a halt, resulting in a large-scale reverse migration of labourers from urban to rural areas.

The State had to step up spending on healthcare, social security, livelihood security and employment generation on one hand, whereas there was declining revenues on the other hand. However, a degree of normalcy has returned starting from second quarter of FY 2021-22 owing to less stiffer lockdown measures during the second wave of pandemic and universal vaccination of adult population. The effect of the third wave has been largely mild and contained due to large scale vaccination and the development of herd immunity in the public. Economic activities have resumed its pace as soon as the pandemic was under control. It is projected that Odisha will register double digit growth (in nominal term) during the FY 2021-22 due to the low base effect of 2020-21.

The war between Russia and Ukraine has largely impacted the supply of energy, staples and edibles round the globe. This has put an inflationary pressure on the economy resulting in lesser savings and thus less capital investment. This will have an impact in medium term on the overall purchasing power of people, hence affecting the growth and inflation. The energy prices such as petrol, cooking gas, CNG etc are likely to be higher due to global supply chain disruption. Higher energy prices will further push up the inflation which may have negative impact on the economic growth.

However, the fundamentals of economy of Odisha are strong and sound. Although the State Economy is not immune to such global events, but the State Economy is resilient enough to withstand shocks like the pandemic and any geopolitical war. Different sectors of the economy such as formal and informal sectors are recovering at different rates after the pandemic. Even different areas of organized sectors are recovering at different rates.

Taking such uncertainties into account in financial planning, three scenarios has been modelled i.e. an upward (best case) scenario, a central (most likely) scenario and a downward (pessimistic) scenario. These scenarios are explained in detail in Chapters II and III. The charts below depict the three scenarios in terms of GDP and GSDP growth rates.

Chart-1.2: Economic Growth Projections in three scenarios

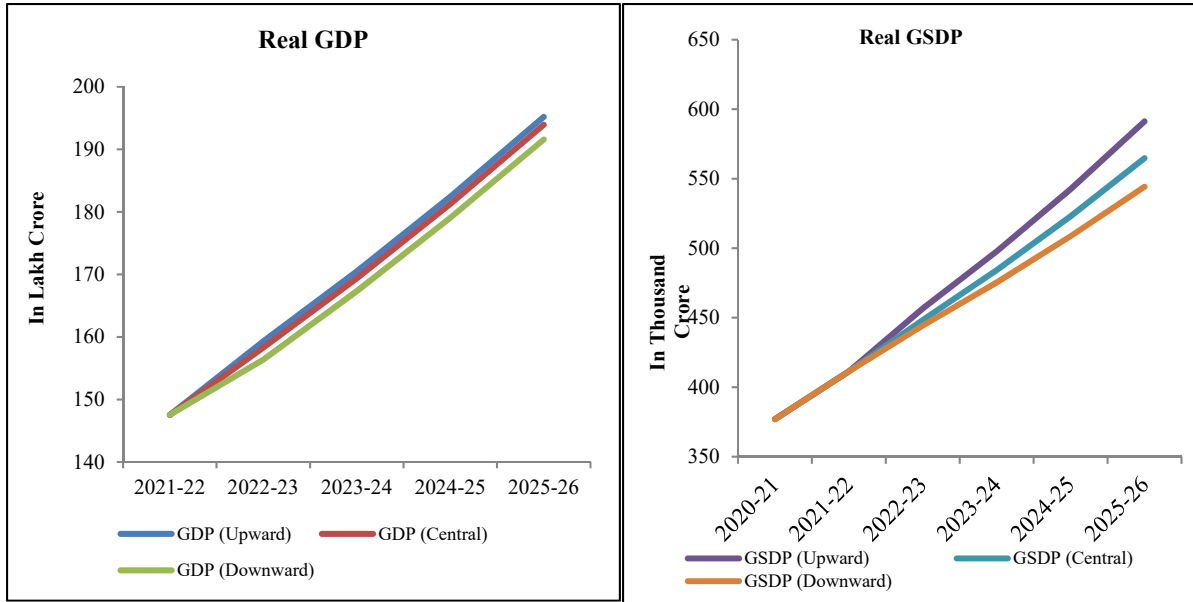


Table-1.2: Growth projections (real GSDP & GDP) in three scenarios

	Actual	RE	Projection Period			
Rs. In Crore	2020-21	2021-22	2022-23 (BE)	2023-24	2024-25	2025-26
Real GSDP Odisha						
Upward	388328	427592	466075	508022	553744	603581
Growth Rate (%)	-5.3%	10.11%	9.0%	9.0%	9.0%	9.0%
Central	388328	427592	461612	498666	538438	581345
Growth Rate (%)	-5.3%	10.11%	8.0%	8.0%	8.0%	8.0%
Downward	388328	427592	457524	489550	523819	560486
Growth Rate (%)	-5.3%	10.11%	7.0%	7.0%	7.0%	7.0%
Real GDP India						
Upward	13439662	14649232	15933818	17049185	18242628	19519612
Growth Rate (%)	-7.3%	9.2%	8.0%	8.0%	8.0%	8.0%
Central	13512740	14753535	15830543	16938681	18124389	19393096
Growth Rate (%)	-7.3%	9.2%	7.3%	7.0%	7.0%	7.0%
Downward	13439662	14649232	15638747	16733459	17904802	19158138
Growth Rate (%)	-7.3%	9.2%	6.0%	6.0%	6.0%	6.0%

These scenarios help the State government to improve the budget preparation process and enhance flexibility in budget preparation. This approach also supports the formulation of fiscal policies over the medium term, enabling the State Government to maintain a clear roadmap of fiscal indicators over the next three years, as shown in Table-1.3.

Table-1.3: Projected fiscal indicators in three scenarios

Fiscal Indicators (Percent of GSDP)	2021-22(RE)	2022-23 (BE)	2023-24	2024-25	2025-26
Revenue Deficit (-)/ Surplus (+)					
Upward	3.3	2.9	3.5	3.7	3.8
Central	3.3	2.5	3.3	3.5	3.6
Downward	3.3	2.7	3.3	3.4	3.4
Fiscal Deficit					
Upward	-0.4	-3.5	-3.5	-3.5	-3.5
Central	-0.4	-3.0	-3.0	-3.0	-3.0
Downward	-0.4	-2.5	-2.8	-2.8	-2.8
Debt Stock					
Upward	15.8	16.5	17.5	18.0	19.4
Central	15.8	15.6	16.6	17.4	18.1
Downward	15.8	15.1	15.5	16.3	17.0
Capital Outlay					
Upward	3.6	5.6	6.5	6.5	6.8
Central	3.6	5.4	6.2	6.4	6.5
Downward	3.6	5.0	6.0	6.3	6.4

1.2. MODERNIZING PUBLIC FINANCIAL MANAGEMENT

State Government is implementing a series of reforms in the Public Finance Management domain to enhance the fiscal sustainability, credibility and transparency in budget making . These reforms are based on global best practices. Odisha is also managing fiscal risks emanating from various sources such as volatility of the mining sector, shocks arising out of macrofiscal parameters, State Owned Enterprises, public private partnership projects, Natural calamities etc. Other areas of reform include improving cash management and introducing commitment control system. State Government is also aiming to introduce the evidence based budgeting in the major infrastructure building departments with the value for money approach.

1.2.1. ENHANCING FISCAL SUSTAINABILITY AND CREDIBILITY

With the choiced fiscal path of structurally lower deficit and debt stock, the State will continue to operate a citizen centric and development-orientated budget that is firmly anchored to a stable and sustainable fiscal deficit. In delivering to this priority, a medium-term fiscal framework (MTFF) has been introduced that will be based on the sustainability limits set out by the Fiscal Responsibility and Budget Management Act,2005 and 15th Finance Commission. The MTFF will provide a three-year outlook for revenue and a spending ceiling for each department consistent with the FRBM parameters. 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, investors and the public) on what to expect from future budgets of the State Government.

1.2.2. BUDGET CEILINGS

State Government has introduced top-down budgeting through advance communication of budget ceilings to the line departments from FY 2020-21. In the FY 2022-23, the budget ceilings was communicated to the spending departments early in the budget making process, allowing them to plan their budgets based on realistic resource allocations and deadlines. This approach also encourages budget discussions to focus on how available funds will be spent, rather than debating the size of budget allocations to different departments. Further, having knowledge about the available fiscal space (total revenue receipts plus borrowing limit), expenditure can be prioritized and resources can be used optimally.

1.3.OVERVIEW OF THE FISCAL STRATEGY FOR THE MEDIUM TERM

The priorities of the State Government in the medium-term still remains to achieve the Sustainable Development Goals through faster reduction of poverty, making available quality affordable health care facilities, enabling quality education & skill development, providing quality physical infrastructure for improving economic activities, increasing farmers’ incomes by crop diversification and direct benefit transfer, providing piped drinking water & other basic amenities to all. State Government is in mission mode to empower women in every sphere through the Department of Mission Shakti. Modernisation of health care facilities at Primary Health Centre (PHC) level and building world class tertiary healthcare facilities are the major goals of the State Government. To provide IT enabled platforms in primary educational institutes at the village level, so to help promote better educational outcomes, is objective of the State Government in education sector.

The Odisha FRBM Act, 2005 mandates to maintain revenue balance and contain the fiscal deficit within 3% of GSDP. Additional annual borrowing space of 0.5% of GSDP would be available during the four-year period from 2021-22 to 2024-25 subject to fulfillment of sectoral reforms prescribed by Government of India from time to time. Provision for carry forward of unused borrowing space to successive financial years would also be available till FY2024-25 as per recommendations of 15th Finance Commission. Keeping in view the higher borrowing requirements of the States for mitigating the impact of the pandemic, the 15th Finance Commission in its report has worked out the debt path for the states for the period 2021-22 to 2025-26 which is as below:

Table-1.4: Indicative Deficit and Debt Path for State Governments by 15th Finance Commission (% of GSDP)

Sl. No.	Item	2021-22	2022-23	2023-24	2024-25	2025-26
1.	Revenue Surplus	0.5	0.8	1.2	1.7	2.5
2.	Fiscal Deficit	-4.0	-3.5	-3.0	-3.0	-3.0

However, the fiscal policy of the State Government will be guided by the principle of long-term fiscal sustainability keeping in view the need for higher capital spending to stimulate economic growth.

Over the next three years, Odisha plans to maintain a budget deficit of within 3 percent of GSDP. This level is consistent with the requirements of the FRBM legislation and will produce a sustainable medium-term debt stock trajectory. The additional resource requirement to meet higher spending in the coming financial years is met by higher revenue realisation from mining sector. During FY 2021-22, as per the revised estimate, mining revenue has registered more than 250 percent growth. The higher mining revenue is due to renewal of mining leases, increase in metal prices in international markets and change in the principle for calculating the revenue from newly leased mines.

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 budgetary allocation 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.

The State Government aims for higher capital expenditure in FY 2022-23 especially in infrastructure development. In the budget estimate for FY 2022-23, the total capital outlay is Rs. 38732 crore which is about 5.4 percent of GSDP and 19.4 percent of total budget size. The available fiscal space due to substantially higher revenue collection from the mining sector will help the State Government to spend more in infrastructure projects. There may not be any requirement to go for borrowing from sources where the rate of interest is relatively higher because off-budget sources such as OMBADC and CAMPA are available.

Chapter-II

2. MACROECONOMIC OUTLOOK

State Government has presented a Vote on Account Budget for the year 2022-23 during the last week of March, 2022 as there was a constraint of time for completing the legislative process required for a full fledged budget for the FY- 2022-23 due to imposition of Model code of conduct for the general election of Local Bodies and Urban Local Bodies during the last quarter of 2021-22. The 2022-23 Budget will be tabled during the first week of July, 2022. The optimism in the economy world across which was due to largescale vaccination, economy-stimulating packages and low base of 2020-21 has been marred by the ongoing political conflict in eastern Europe and Russia. High energy prices accompanied with high rate of inflation and rate of interest will slow down the economies during 2022-23 than 2021-22. For FY 2021-22, Odisha's GSDP is estimated to grow at 10.11 percent. It is expected that Odisha's economic growth will remain more than at its potential growth of 8 per cent in FY 2022-23, and continue for another two years. The uncertainty surrounding rate of economic growth will be largely influenced by fluctuating metal prices, supply disruption in crude petroleum oil and edible oil and other staples.

2.1. GLOBAL ECONOMIC OVERVIEW

As the Covid-19 pandemic regresses, the war in Ukraine has again pushed the world economic situation into uncertainty. As per the IMF's World Economic Outlook (April 2022), the war will have a dampening effect on world economic growth in 2022. The increase in prices of fuel and food will push the inflation up. This will hit the poor and vulnerable population of low and middle-income countries hardest. The global economic growth is projected to slowdown from estimated 6.1 percent in 2021 to 3.6 percent in 2022 and 2023.

Table 2.1: Latest World Economic Outlook Growth Projections

Real GDP (annual percentage change)	2021	2022	2023
Advanced Economies	5.2	3.3	2.4
United States	5.7	3.7	2.3
Euro Area	5.3	2.8	2.3
United Kingdom	7.4	3.7	1.2
Japan	1.6	2.4	2.3
Emerging Market and Developing Economies	6.8	3.8	4.4
China	8.1	4.4	5.1
India	8.9	8.2	6.9
ASEAN-5	3.4	5.3	5.9
Russia	4.7	-8.5	-2.3
Brazil	4.6	0.8	1.4

The Indian economy is projected to grow at 8.2 percent in 2022 and 6.9 percent in 2023 as per the IMF’s World Economic Outlook. The table below shows the projected economic growth of major economies of the world.

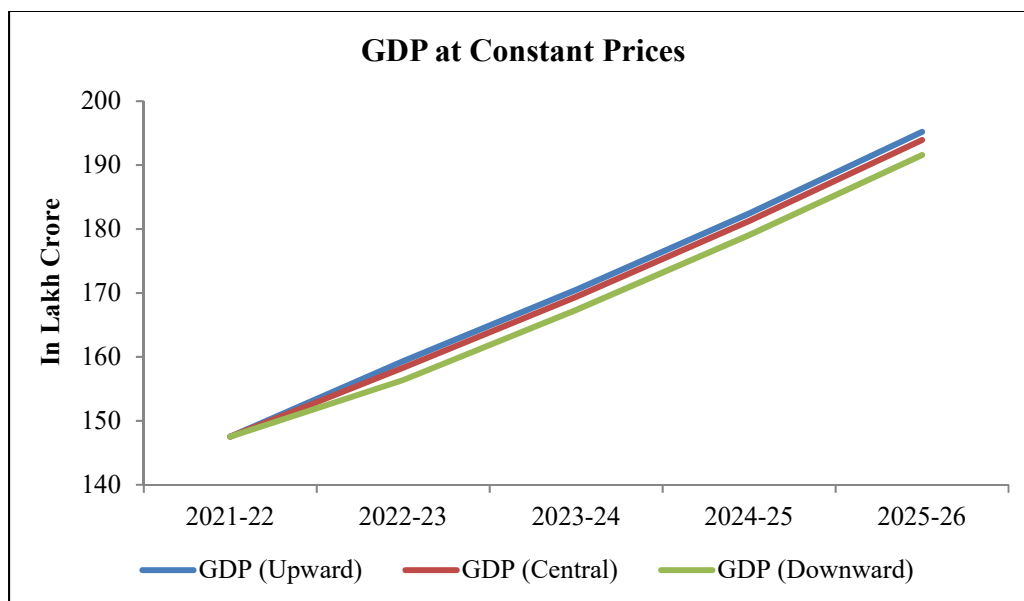
2.2. INDIA’S ECONOMIC OUTLOOK

As per the IMF’s projection, Indian Economy will have a growth rate of 8.2 percent in FY 2022-23. The Reserve Bank of India (RBI) has projected India's gross domestic product (GDP) growth at 7.2 percent for FY 2022-23 from earlier projection of 7.8 percent. The downward revision is mainly on account of volatility in commodity and financial markets across the world in the wake of war between Russia and Ukrain. The global supply chain disruption has also affected the national economy. As per the RBI’s latest monetary policy statement, the expected positive benefits of the ebbing Covid-19 wave have been offset by the sharp escalation in geopolitical tension amid the ongoing Russia-Ukraine war. Private consumption and investment may remain subdued due to higher inflation and uncertainty in the economy. However, the Indian Economy is steadily reviving after the pandemic hit previous financial year.

The real GDP has contracted by 7.3 percent in FY 2020-21 due to the pandemic. Indian economy has revived since then and registered a growth rate of 9.2 percent during FY 2021-22. In our medium term fiscal framework, we have taken a conservative estimate of 7.3 percent growth of real GDP. In the medium term, the growth rate has been taken at 7 percent. The Government of India in its annual budget for FY 2022-23, the GDP growth rate at current prices is estimated at 11.1 percent.

The chart below shows the three scenarios: best case, mostly likely case and worst case.

Chart 2.1-Indian Economic Growth Rate in Medium Term



2.3 ODISHA'S ECONOMIC OUTLOOK

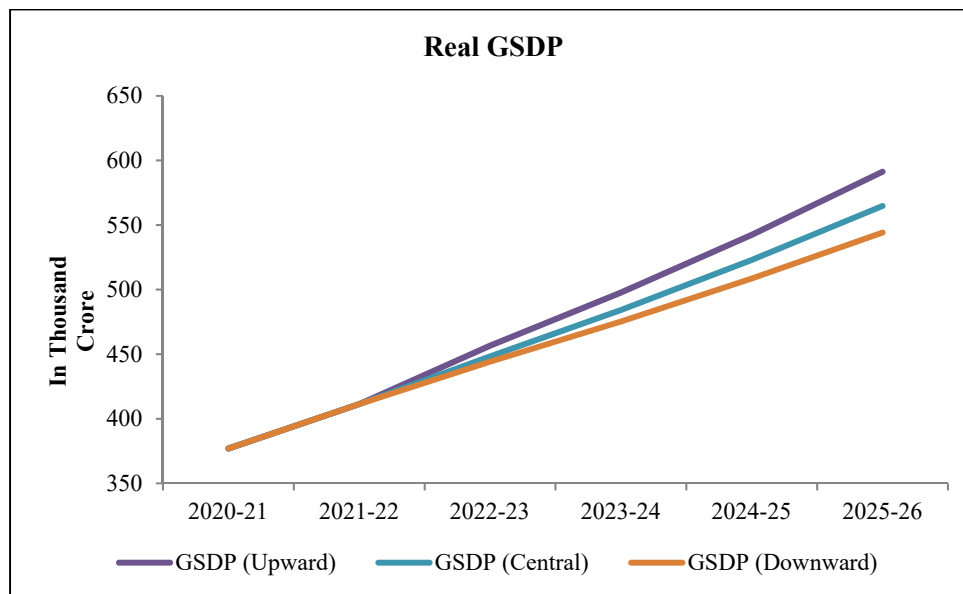
2.3.1 MONTHLY ECONOMIC ACTIVITY INDEX: ODISHA

Centre for Excellence on Fiscal Policy and taxation(CEFT) has modelled a composite index to sense the pulse of the State Economy. The composite State Economic Activity Index has been constructed by taking seven state-specific high frequency (monthly) indicators. These indicators are State Goods and Services Tax (SGST), Excise Duty, Mining Royalty, Stamps and Registration Fees, Motor Vehicle Tax, Taxes and Duties on Electricity, and VAT on Non-GST Goods. In September 2021 the Odisha Economic Activity Index reached 159.0 as against the pre-COVID (August 2017 to March 2020) level Index of 100. On a year-on-year basis to September 2021, the economic activity index has improved by 58 per cent. The Odisha Economic Activity Index is benchmarked to the Composite Purchasing Managers Index (PMI) of India-IHS Markit. In September 2021 the PMI was at 55.2 against 54.6 in September 2020. An index reading above 50 denotes the expansion and below 50 denotes contraction. The Odisha Economic Activity Index broadly aligns with the Composite PMI. The rise in Economic Activity Index is on account of increased collection in SGST, Mining Revenue, Stamps & Registration fees, taxes from Motor Vehicles and revenue from non-GST goods.

2.3.2 GROWTH SCENARIOS IN ODISHA:

Over the past eight years, Odisha's economy has grown at an average rate of 8.1 per cent. 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 per cent of GDP. The growth trajectory of Odisha's economy is given in Chart 2.5.

Chart-2.3: Odisha Economic Growth Projections in three Scenarios



These scenarios enable the State government to improve the budget preparation process, and to maximise flexibility in the FY2022-23 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.

For the period FY 2021-22, GSDP growth is projected at 9.1 per cent. The expected higher growth of GSDP during FY 2021-22 is due to the opening up of the economy from the lockdown, and low base effect of 2020-21. For the period FY 2022-23 to 2024-25, the upward (best-case) scenario growth in GSDP is projected at 11, 9 and 9 percent respectively. The most likely scenario is projected at 8 percent each year. In the downward (worst-case) scenario, Odisha's economy will grow at 7% in the medium-term during the period for the period from FY 2022-23 to 2024-25. Inflation (and growth in GSDP deflator) is projected at around 5 per cent during FY 2022-23 to FY 2024-25.

2.3.3 RISK TO THE GROWTH OUTLOOK

Although Odisha has registered impressive growth in recent years, the economy is vulnerable to natural calamities owing to its geographical location, 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 in Odisha due to weaker demand for Odisha's mining output and goods and services. Higher energy costs may have a cascading effect on supply chains and hence consumption, amid economic recovery.

- The mining sector accounts for 13 per cent of GSDP. Historically, this sector has driven the economic growth of the State. Its performance is heavily dependent on global metal prices and demand. It is also expected that the recovery “remains uneven across sectors”.
- High Inflation mostly due to higher energy prices and food articles will impact the private capital formation . If the trend continues , it will affect the GSDP in medium term.
- Although the ebbing of the second wave of COVID, alongside the massive vaccination drive, have improved near term prospects, the threat of subsequent waves necessitating lockdowns remains significant. This will impact the supply chain resulting in slower recovery.
- Agriculture remains vulnerable to unpredictable natural cycles and events. The rainfall calendar has become increasingly chaotic and unpredictable. Cyclones have become more frequent. 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 sectors.

2.4. OUTLOOK ON INFLATION

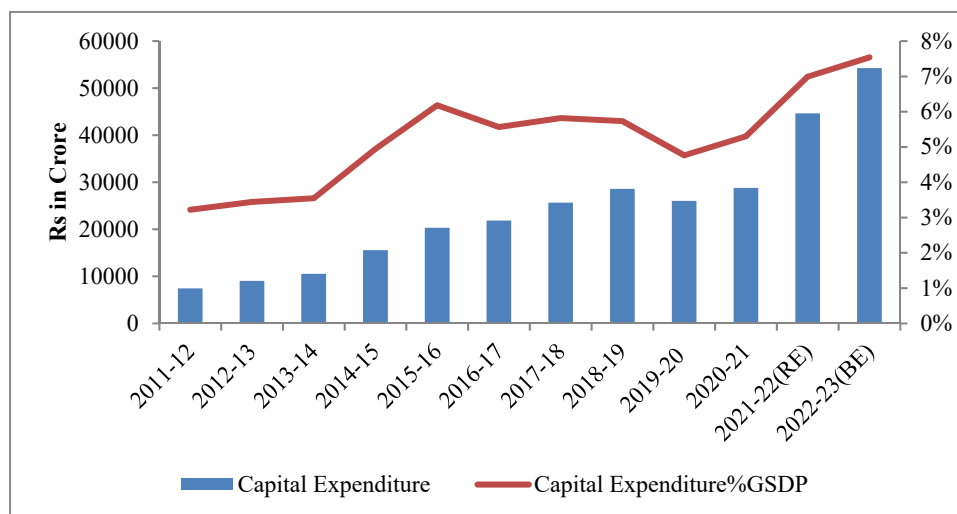
Inflation in Odisha mostly follows national trends. The Reserve Bank of India (RBI) has projected that the inflation to be at 5.7 percent in FY 2022-23 for India. The Consumer Price Index (CPI) surged to 7.79 percent in April 2022 as per the recent data released by the National Statistical Office (NSO), Ministry of Statistics and Programme Implementation, Government of India. The CPI for Odisha in April 2022 is 8.8 percent as per the NSO. The rural inflation is surprising higher than the urban inflation at all India level. The rural inflation is at 8.38 percent whereas it is 7.09 percent in case of rural India. The relatively higher inflation in rural areas is mainly due to higher fuel and food prices.

The high inflation over a long period of time may impact consumption demand in the economy which in turn could hurt economic growth due to subdued demand in the economy. The supply chain disruption due to the on-going geopolitical tension between Russia and Ukraine could further push the prices up.

2.5. PUBLIC INVESTMENT

Odisha's public investment levels have increased alongside its growing developmental needs. The unforeseen and unprecedented impact of the pandemic on the economy called for a greater focus on public investment. Capital Outlay has improved by 63 per cent in April - September 2021, as compared to negative growth witnessed during the same period of last year. This rise in capital expenditure has been mainly due to capital outlay in the developmental sector. Public spending in the developmental sectors has improved to 30.7 per cent during April – September 2021 as compared to negative growth during this period of last year. Odisha holds the top position (42.96%) in Social Sector spending in July 2021 over July 2020. It has improved to 43% in September 2021 over September 2020. Odisha has been the leading state in social sector spending in India.

Chart 2.4- Higher Capital Spending in recent years to spur economic growth



Close to 60 per cent of the State’s population is 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 infrastructures. Investment to support agricultural productivity remains a priority and will support growth over the next three years.

2.6. INVESTMENT SCENARIO IN INDUSTRY SECTOR.

Odisha is fast emerging as the “Manufacturing Hub of the Eastern India” .The key focus of the Government is to promote industrial growth in diversified sectors in all the districts of the State. Government have organised “Make in Odisha” conclave during 2016 and 2018 to attract investments. Proposals involving investment of around 6 lakhs crore and employment potential of 4 lakhs have been approved and recommended by DLSWCA/SLSWCA. With consistent coordination for land allotment, 240 companies have started projects amounting to investment of about ₹133,534.54 crore and employment potential of about 1,66,261 numbers.

Micro, Small and Medium Enterprise Sector has been contributing significantly to the economy of the state. Government has given thrust for promotion of food processing industries. Odisha Start-up Ploicy, 2016 envisages creation of enabling environment and supporting eco-system that facilitates at least 1,000 Start-ups in next five years in the State. It also encourages the incubators including sector specific ones aligning with the State’s strengths and requirements.

2.7. MEASURES TO SUPPORT ECONOMIC GROWTH

The focus of State Government on MSME sector, social sector, employment generation, and higher investment in infrastructure will help the state economy to grow faster. The pandemic provided an opportunity to ramp up healthcare infrastructure across the State. The budget provision in FY 2022-23 for overall healthcare spending has been increased to 6.1 percent of the total budget size. Ten new Medical Colleges have been set up in the last 5 years.

State Government is establishing one Odisha Adarsha Vidyalaya (OAV) in every block of Odisha and upscaling the infrastructures in Universities and Technical colleges to provide world class education in the State. Quality of education and infrastructure development in in the Schools and colleges has been taken up in a massive way through “Mo School and Mo College Abhiyan”. Infrastructure development in Irrigation, Energy, Drinking water, and Road sectors will provide impetus to the State economy. Massive transformation is being undertaken in Tourism and Sports sector to boost the livelihood and earnings of the people.

MSME Sector has been contributing significantly to the economy of the State. So far about 5 lakh MSMEs have been established with an investment of nearly Rs.24,000 crore, generating more than 18 lakh employment. Odisha Start-up Policy, 2016 envisages creation of enabling environment and supporting eco-system that facilitates at least 1,000 Start-ups in next five years in the State.

Odisha Government has emphasizing on mechanization, crop diversification and improvised post harvest technologies and building marketing infrastructures in Agriculture Sector to enhance the income of the farmers. The effort of the State Government is to improve the irrigation infrastructure across the State so that agri-productivity can be increased in the long term. To mitigate the impact of climate change on agricultural production, conservation of surface water through augmentation of storage capacities is crucial. State Government has taken up 8 in-stream storage structure. State Government has planned for completion of all on-going major, medium and minor irrigation projections in the next two to three years. Besides, State Government has taken a number of steps to improve income of farmers and make agriculture remunerative as well as sustainable.

Chapter-III

3. FISCAL OUTLOOK

With recovery in economic growth of the State during FY 2021-22 after the year of economic contraction during FY 2020-21, the financial condition of the State Government looks more stable now. The fiscal deficit and debt to GSDP ratio during the FY 2021-22 was 0.38 percent and 15.64 percent respectively. Substantial higher revenue collection from the mining sector has enabled the State to go for higher capital spending. The capital outlay during FY 2022-23 is estimated to be around 5.4 percent of GSDP which is substantially higher than 3.6 percent of capital outlay during the previous financial year. Due to availability of low cost borrowing sources such as OMBADC and CAMPA funds , the State Government did not go for high cost borrowing such as market borrowing in FY 2021-22. Further, the loan extended by Govt. of India for GST shortfall and the capex is interest free. This has resulted in lower interest payment. The interest payment to revenue receipts has come down from 6.2 percent in FY 2020-21 to 4.3 percent in FY 2021-22. Further, the revenue surplus has swelled up to 3.3 percent of GSDP during FY 2021-22 because expenditure could not happen completely due to imposition of model code of conduct for election to local bodies during the last quarter of the previous financial year. Overall, the fiscal outlook of the State in medium term looks stable amidst likely risks emanating from natural disasters, higher inflation, global economic uncertainty due to war and supply chain disruption.

3.1. FISCAL FRAMEWORK OVERVIEW

In spite of slowdown in the economy due to the pandemic in FY 2022-21, the financial condition of the State has been managed very well. Many State Governments have breached the FRBM targets while managing their finances during the pandemic. Odisha, on the other hand, has managed to keep its fiscal parameters within the limit set by the FRBM Act while maintaining the baseline expenditure. Although, some austerity measures were imposed to cut down wasteful spending during the initial period of the pandemic, they were waived off after the resumption of the economic activities in full scale.

Odisha has been able to tide over the fiscal shock of the pandemic through prudent fiscal measures. State Government did not resort to go for market borrowing at higher rate of interest due to higher revenue collection along with availability of low cost borrowings OMBADC and CAMPA. Apart from that the interest free loans extended by Government of India to enhance capital expenditure and shortfall of revenue due to less GST collection have resulted in lower interest payment during 2021-22. The interest rate to revenue receipts (IPRR) has been reduced to 4.3 percent in FY 2021-22 from 6.2 percent in FY 2020-21.

The State has registered a growth rate (at constant prices) of 10.1 percent during FY 2021-22 and is estimated that the economic growth will be around 8 to 8.5 percent during FY 2022-23. The overall fiscal objective is to keep the fiscal parameters within the limits set by the FRBM act, while

maintaining baseline revenue expenditure in all sectors and higher capital outlay in all sectors. With the larger fiscal space, the policy of the State Government is to go for higher capital spending for infrastructure development.

Similar to last year, revenue and expenditure projections have been done in three scenarios such as best case, most likely case and worst case scenarios. The scenario analysis helps in framing policy to face worst case situation in terms of revenue collection and meeting expenditure needs of the State Government. The charts below indicate the total revenue and total expenditure position in three cases.

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

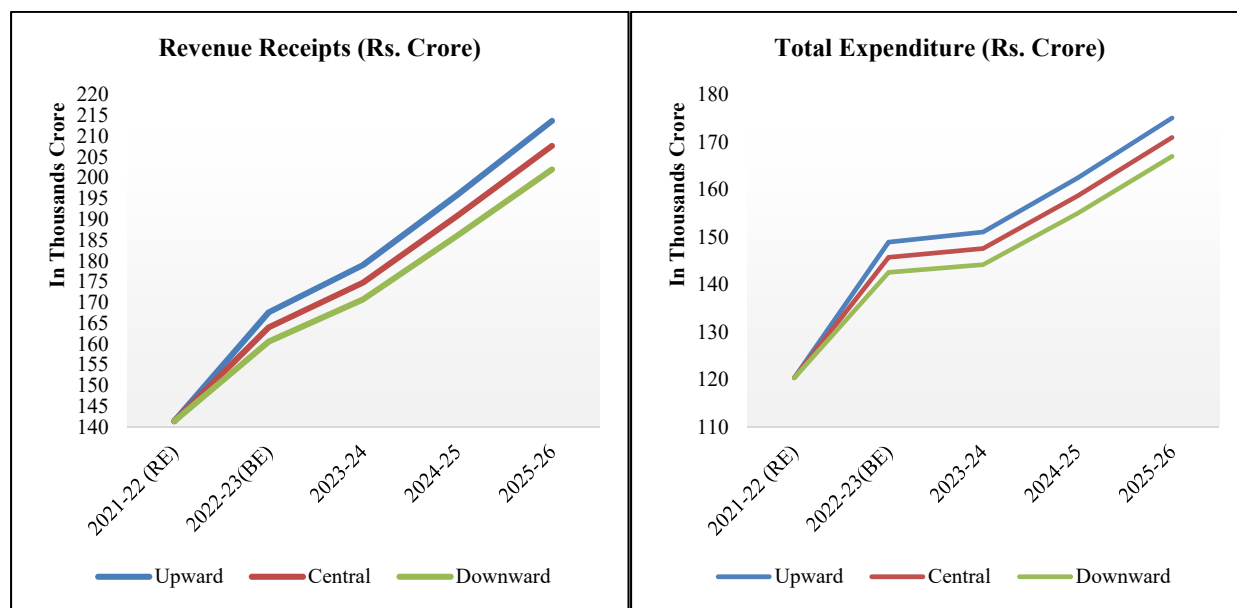


Table 3.1 summary of the proposed fiscal framework

(Rupees in Crores)	2020-21	RE	Forecast			
		2021-22	2022-23	2023-24	2024-25	2025-26
Total Receipt (Revenue & Capital)	124065	165000	200000	225000	245000	265000
As % of GSDP	22.9%	25.8%	27.8%	27.7%	26.8%	25.6%
Total Revenue Receipts	106891	141396	163966	174747	190899	207669
As % of GSDP	19.7%	22.2%	22.8%	21.5%	20.8%	20.1%
Total Revenue Expenditure	103441	120366	145728	147581	158676	170975
As % of GSDP	19.1%	18.9%	20.3%	18.2%	17.3%	16.5%
Net Revenue (Deficit/Surplus)	3450	21030	18238	27166	32223	36694
As % of GSDP	0.7%	3.3%	2.5%	3.4%	3.5%	3.6%
Net Fiscal Deficit	-7238	-2455	-21588	-24357	-27473	-31006
As % of GSDP	-1.3%	-3.2%	-0.4%	-3.0%	-3.0%	-3.0%

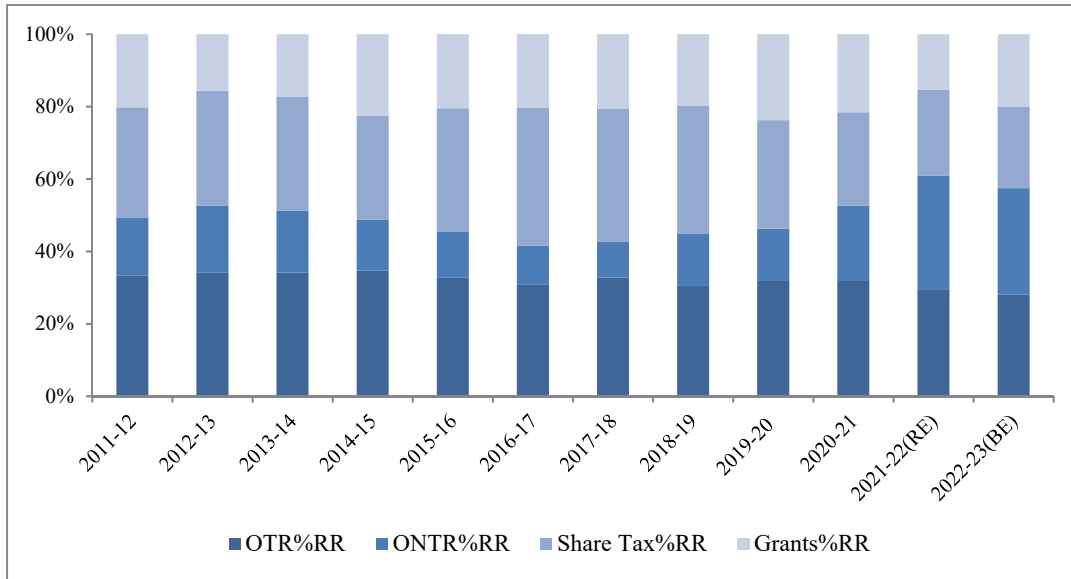
3.2. REVENUE OUTLOOK

Based on the trend of the collection upto January,2022,the total revenue receipt has been revised upward in the revised estimate for FY 2021-22 from Rs. 125600 crore in 2021-22 (BE) to Rs. 141396 crore in 2021-22(RE). This is mainly on account higher revenue from mining sector, VAT on petroleum products and liquors , GST and other own tax sources. The renewal of mining leases and online auctioning of mines have resulted in windfall collection of mining revenue. The mining revenue growth has been more than 250 percent in FY 2021-22. Similarly, higher revenue from GST is due to the recovery of the economy and lower collection during 2020-21. Higher petroleum product prices and normalisation of demand during FY 2021-22 compared to FY 2020-21, resulted in higher collection of VAT on the six taxable items governed by the State under OVAT Act. The own tax revenue is estimated to be around Rs. 46000 crore whereas own non-tax revenue is projected to be around Rs 48200 crore during the current financial year i.e., FY 2022-23. It is for the first time that own non-tax revenue in absolute term is estimated to surpass own tax revenue.

The own tax revenue which consists of revenues from state Goods and Services Tax, Value Added Tax, State Excise Duty, Electricity Duty etc. is expected to have double digit growth i.e. average growth rate of around 13 percent in the medium term. It is estimated that the own tax revenue will have a growth of more than 10 percent during FY 2022-23. Within the own tax revenue, revenue from Motor Vehicle tax and Stamp & Registration fees are estimated to have higher growth because with the economy opening up after the pandemic, there will be increase in registration of properties and other such related transactions. The transport sector is expected to bounce back to the pre-pandemic level. It is estimated that the motor vehicle tax will have a growth of around 12 percent in the medium term. Similarly, the stamp and registration fees is expected to grow at around 7 percent in the medium term.

The revenues from mining sector, dividend payment by state PSUs, interest receipts from loans extended by State Government etc. constitute the own non-tax revenue (ONTR). Looking at the available data up to March 2022, it is estimated that own non-tax revenue has registered a growth rate of 102 percent during FY 2021-22. However in the medium term, the growth will be around 5 percent in conformity with the historical growth rate. Overall state own revenue which consists of both own tax revenue (OTR) and own non-tax revenue is expected to grow at 9 percent during FY 2021-22 to FY 2025-26.

Chart -3.2: Share of each components as % of Revenue Receipts (RR)



The total transfer from the Union Government comes in the form of (i) share in central taxes, and (ii) grants from the Central Government. The share in central taxes is likely to have a growth rate of 11.6 percent in medium term. There was substantial reduction in grants from centre during FY 2021-22 compared to FY 2020-21. A contraction of 6 percent was observed in FY 2021-22. However looking at the Union Budget 2022-23, it is estimated that the grants from the centre will be around Rs 32788 crore in FY 2022-23 which is a growth of around 51 percent over FY 2021-22. This is mainly due expected higher level of GST Compensation during 2022-23 compared to 2021-22. The share in central taxes during FY 2022-23 is estimated to be around Rs. 36978 crore which is about 9.7 percent higher than the previous year. The total central transfer is estimated to be Rs. 69766 crore during FY 2022-23 which is 26 percent more than the previous year transfer from the Union Government.

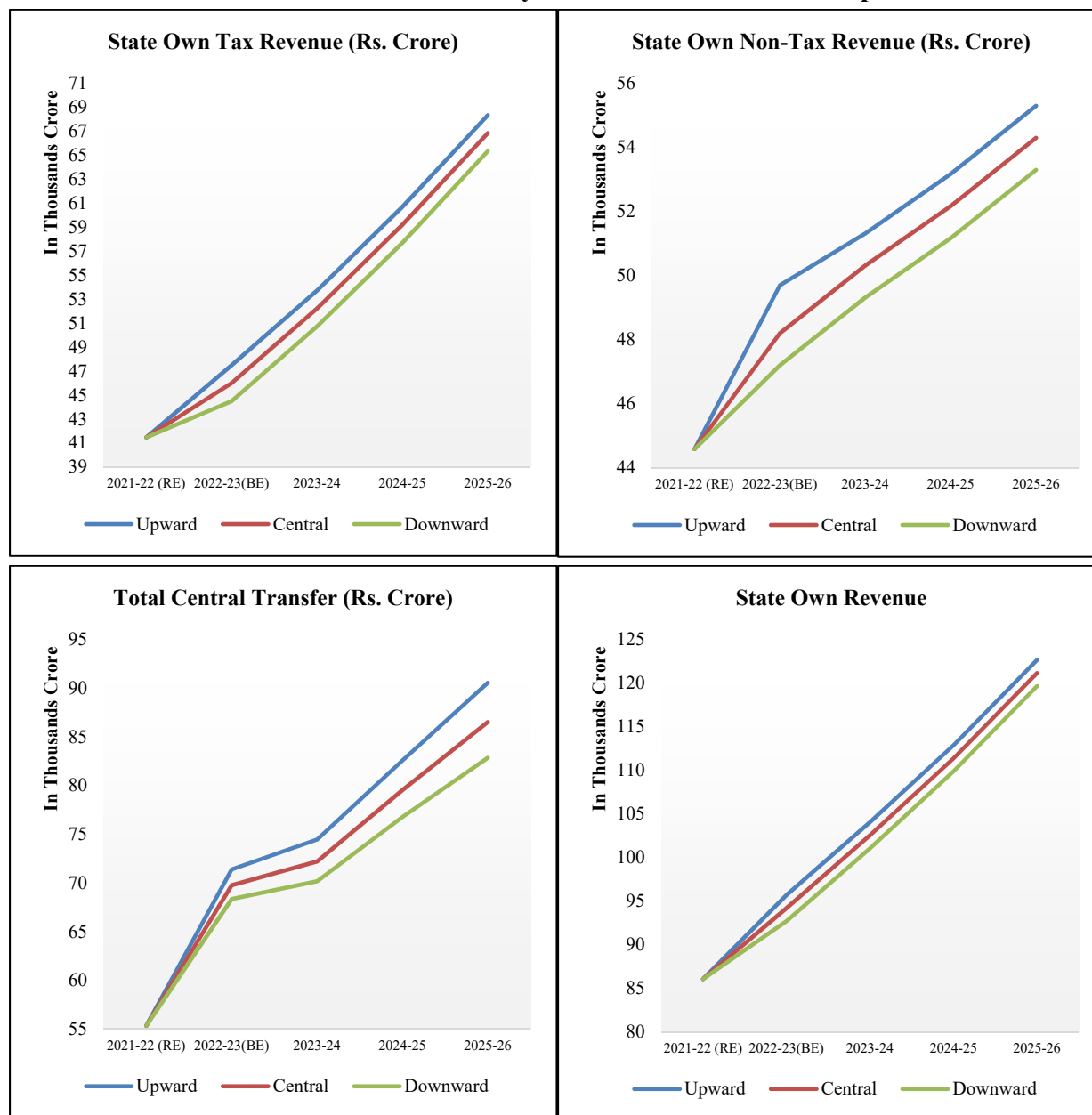
Table -3.2 – Revenue outlook (percent of GSDP)

	2020-21	RE	Forecast			
		2021-22	2022-23	2023-24	2024-25	2025-26
1. State Own Tax	6.3%	6.5%	6.4%	6.4%	6.5%	6.5%
2. State Own Non-Tax	4.1%	6.9%	6.7%	6.2%	5.7%	5.3%
3. State Own Revenue(1+2)	10.4%	13.5%	13.1%	12.6%	12.2%	11.7%
4. Share in Central Taxes	5.1%	5.3%	5.1%	5.1%	5.1%	5.1%
5. Grants from Centre	4.2%	3.4%	4.6%	3.8%	3.6%	3.3%
6. Central Transfer	9.3%	8.7%	9.7%	8.9%	8.7%	8.4%
5. Total Revenue (3+6)	19.7%	22.2%	22.8%	21.5%	20.8%	20.1%

The GST compensation is a provision to compensate the sub-national governments for loss of revenue arising out of implementation of the GST in the country. As per the GST Act, 2016

revenue shortfalls arising from the transition to the new GST regime would be made from a pooled GST Compensation Fund (to be collected in the form of a cess) for a period of five years that is set to end in July, 2022. During the pandemic, the compensation cess collected is very less to compensate all the states for the revenue shortfall on account of GST. As per the revised GST compensation structure devised by the Central Government, the shortfall in GST compensation amount will be transferred to the State Government in the form of a loan, not in the form of grants as it used to be earlier. The repayment of the principal and interest on this loan will be from the GST Compensation Fund by the central government by extending the period of cess collections beyond 2022. So, beyond July, 2022, there will be reduction in central grants.

Chart 3.3 Scenario analysis of Odisha revenue receipts



MINING SECTOR:

Odisha is a mineral rich state in India. Odisha has rich reserves of iron ores, coal, bauxite, limestone, manganese, Chromite and other minerals. Being a mineral rich state, the mining sector forms an important primary economic activity. Mining constitutes approximately 6 percent of State GDP and about 26 percent of total revenue receipts of the State Government. Revenue from mining sector consists of royalty and premium paid by the mines. About 90 percent of State Own Non-Tax Revenue, 46 percent of State Own Revenue and 30 percent of total revenue receipts come from the mining sector. Therefore, it would not be exaggerated to say that the mining sector drives the State Economy.

However the mining royalty and premium paid by the mines are dependent upon the total value of production. Total value of production is in turn dependant upon the unit price of the mineral (per metric tonne) and quantity of minerals sold (in metric tonne). The price of minerals such as iron ore and bauxite etc. has a direct relation with demand of metals in national and international markets. The Indian Bureau of Mines set the price of the minerals depending upon demand for metals in the economy. Since mining revenue is sensitive to demand and price of metal in national and international market, there is risk associated with the mining revenue. It is important for the State Government to recognize the fiscal risk stemming from the mining sector and put in place suitable risk mitigation measures to ensure fiscal stability.

Mining Revenue during 2021-22:

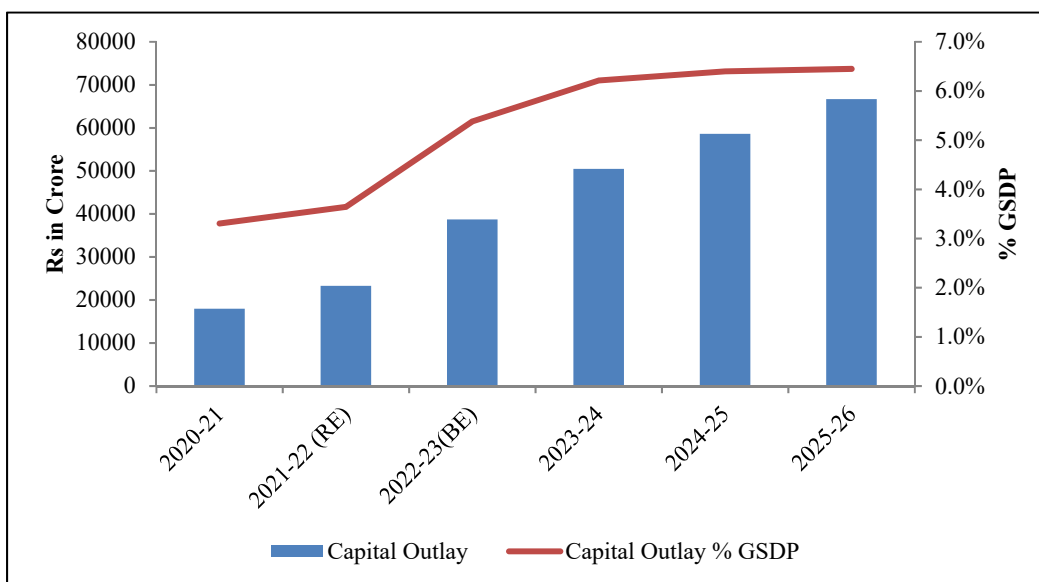
It was estimated in the budget for FY 2021-22 that royalty collection from mining sector would be around Rs. 13700 crore. However, mining royalty for the FY 2021-22 has been estimated to be more than Rs. 48000 crore. This is due to renewal of existing mining leases and online auctioning of mines. Some of the mines, especially iron ore mines have been auctioned with premium payment of 150%. The premium is paid on the total value of production. In addition to payment of premium, mine owners pay royalty to the State Government. The rate of royalty is different for different minerals. Royalty for iron ore is 15% whereas it is 14% for coal. The royalty rate determines the royalty collection for each mineral.

3.3 EXPENDITURE OUTLOOK

Total expenditure consists of both administrative and programme expenditures. Expenditure on salary and pension contribute bulk of the administrative expenditure. During FY 2021-22, Government has off-loaded the arrear salary dues of the employees arising out of implementation of 7th CPC and also announced some employee benefit measures such as State Government contribution towards NPS has been increased from 10 percent to 14 percent for employees covered under contributory New Pension Scheme(NPS). So, it is expected that the administrative expenditure will have a growth rate of around 7 percent in the medium term.

In the medium term, programme expenditure is likely to grow at about 12% on average basis to fulfil the developmental aspiration of the Government. The priority of the Government is to provide quality education, better health care facilities, social security and provision of basic amenities like housing, drinking water and connectivity to all. The State Government plans for higher capital spending in infrastructure development in key sectors of the economy such as transport, irrigation, power generation, industrial cluster development etc in the coming years. Programme expenditure is about 46 percent of the total Government spending during 2021-22. This is likely to increase in coming years and set to go above 50 percent mark in the medium term. As per budget estimate for FY 2022-23, the programme expenditure is budgeted to be around 50 percent of total expenditure. The total capital outlay is estimated to be about Rs.38720 crore which is 5.4 percent of GSDP.

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



Developmental expenditure, which is the combination of social and economic sector spending, is estimated to be higher than previous year. Social sector spending which is mainly spending in healthcare services, social security programmes, water, sanitation, education etc. is estimated to grow at more than 30 percent during FY 2021-22. However in the medium term, social sector spending is likely to remain around 9 percent. Out of the total programme expenditure, social sector spending is almost 45 percent and this level likely to remain same in the medium term.

Expenditure in the economic sector is crucial for the economic development of the State. Economic sector spending is set to reach the pre-pandemic level in the coming year. Total spending in the economic sector is about 7 percent of GSDP and more than 50 percent of total programme expenditure. This is likely remain at this level in the medium term also. Major projects and programmes of the State Government could not be executed during the last couple of years mainly due to the pandemic. With the subsiding in the pandemic, there is likely to be higher spending in

government schemes and projects. Therefore, economic sector spending is likely to be higher in the coming FYs. Out of the total programme expenditure, the share of State Sector Schemes is about 60 percent and also have higher growth of about 10 percent in comparison to spending in central sector and centrally sponsored schemes.

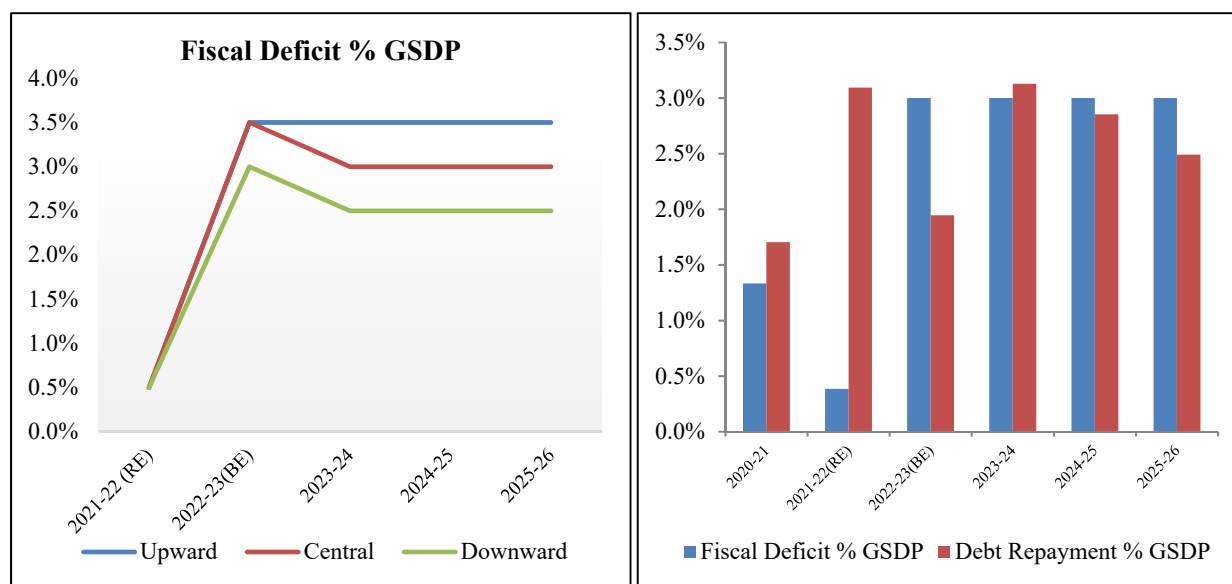
Table 3.4 Broad Sectoral Programme Expenditure Outlook (Rs. in Crore)

(Rupees in Crores)	2020-21	RE	Forecast			
		2021-22	2022-23	2023-24	2024-25	2025-26
General Services	1256	1534	1552	2162	2305	2556
% of GSDP	0.2%	0.2%	0.2%	0.3%	0.3%	0.2%
Social Services	25773	36837	45765	53939	59536	66663
% of GSDP	5.1%	5.8%	6.5%	6.6%	6.5%	6.5%
Economic Services	29376	36379	52684	58899	68159	75781
% of GSDP	5.8%	5.7%	7.2%	7.2%	7.4%	7.3%
Total	56405	74750	100000	115000	130000	145000

3.4 DEFICIT OUTLOOK

During FY 2021-22, the fiscal deficit is estimated to be 0.38 percent of GSDP. It is projected that the fiscal deficit will be 3.0 percent of GSDP during FY 2022-23. During 2021-22 State Government has not resorted to market borrowing, rather availed low cost financing from NABARD, SIDBI, OMBADC (Odisha Mineral Bearing Areas Development Corporation) and CAMPA (Compensatory Afforestation Fund Management and Planning Authority) to finance the deficit. The deficit level is projected to remain at the level of 3 percent of GSDP in the medium term.

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



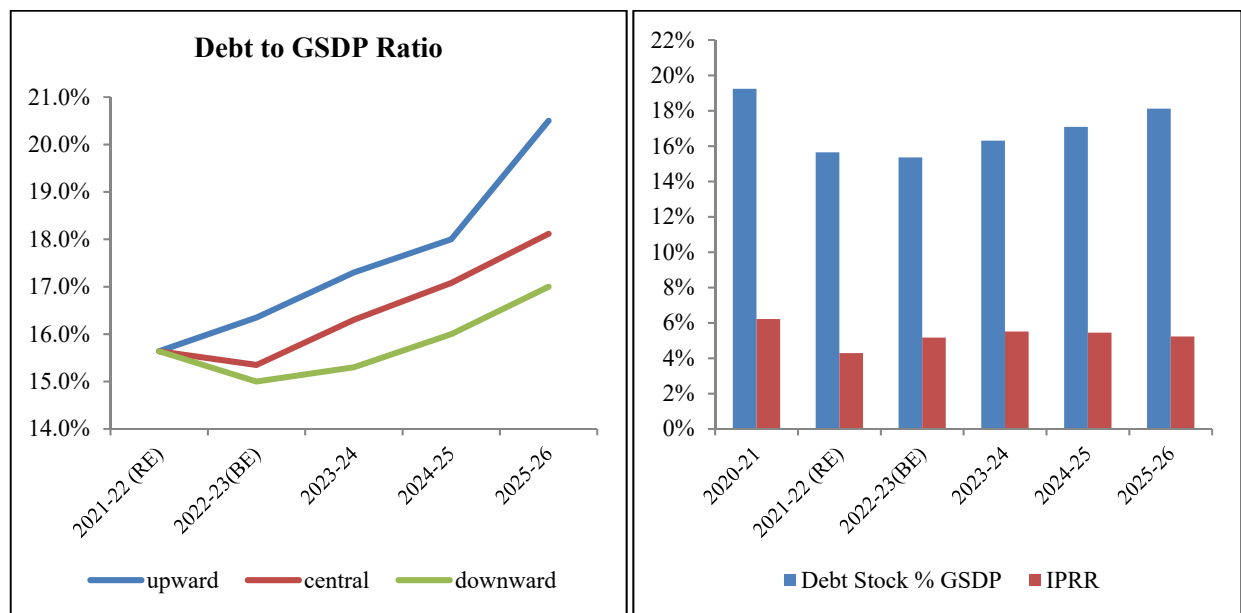
Debt repayment which is repayment of the principal amount of the total debt is estimated to increase in the medium term due to increase in borrowing in the coming years for higher capital spending. Loan repayment as percentage of GSDP has increased from 1.7 percent of GSDP in FY 2020-21 to 3.1 percent in FY 2021-22. It is estimated to decrease to 1.9 percent in FY 2022-23 due to very low borrowing during the previous financial year. The total borrowing during FY 2021-22, as per the revised estimate, is about Rs. 15114 crore. Most of the borrowing is for Capital expenditure. Therefore, the borrowed money is being spent for asset creation.

3.5. PUBLIC DEBT OUTLOOK

Total public debt was at a higher level i.e., at 19.2 percent of GSDP during 2020-21 due to the contraction of the economy and low revenue collection but it has come down to 15.8 percent in FY 2021-22 due to recovery of the economy as well as less borrowing during 2021-22. The total debt stock has reduced from Rs. 104452 crore in FY 2020-21 to Rs. 100813 crore in FY 2021-22. This debt stock also includes interest free long term capex loan of Rs 517 crore provided by Government of India and loan on account of GST compensation shortfall amounting to Rs. 6430 crore which is not required to be paid by the State Government from its own fund. However the debt level is forecast to increase in medium term so to maximise the level of public spending. The debt stock is forecast to reach 18 percent by FY 2025-26.

The FRBM Act mandates to keep the Interest Payment to Revenue Receipts ratio (IPRR) within 15 percent. Due to low cost and relatively less borrowing during FY 2021-22, the IPRR ratio is estimated to decrease from 6.2 percent during FY 2020-21 to 4.3 percent during FY 2021-22. Keeping in view the upward revision of the key interest rates by RBI, IPRR will rise and in the medium term it is forecast to remain within 6 percent.

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



3.6 FISCAL RISKS TO THE OUTLOOK

Fiscal risks are factors that can cause fiscal outturns to deviate from forecasts. Such risks include unforeseen spending pressures, revenue shortfalls, natural disasters and contingent liabilities. In order to ensure fiscal sustainability, risk identification, analysis and putting in place appropriate mitigation measures are critical. The Government of Odisha has undertaken Fiscal Risk Management practice to identify different sources of fiscal risks. A disclosure document in the form of Fiscal Risk Statement is also published along with the annual budget for general information of all concerned. From the perspective of sound fiscal management, the following risks have been identified for Odisha.

PANDEMIC LIKE COVID19:

Although the worst phase of the pandemic is over, there is still a possibility of facing another wave of the Covid-19 in near future. State Government has ensured that maximum percentage of population is vaccinated so that economic activity do not get impeded as observed during 2020-21 and 2021-22. Wide scale vaccination has limited the spread of the virus further. However the possibility another round of lockdown or shutdown due to another wave of the pandemic cannot be completely ruled out. It is important to factor in risks from pandemic while framing fiscal policy for the medium term.

FINANCE COMMISSION DEVOLUTION:

Odisha's share of the Central Taxes was reduced from 4.642 percent of the shareable pool to 4.629 percent in the Report for the year 2020-21, which has been further reduced to 4.528 percent in the final report of the Commission for the period from 2021-22 to 2025-26. This has resulted in reduced flow of untied resources to Odisha, and there remains uncertainty for future flows of central funds from the Central Government. Since total central transfers constitute about 40 percent of the total revenue receipts of the State Government and is about 8.7 percent of GSDP, any uncertainty surrounding flow of central funds to the State is a fiscal risk to the State Government.

MINING REVENUE

The contribution of non-tax revenue from mining sector has substantially gone up from 39 percent of own revenue in FY 2020-21 to 52 percent in FY 2021-22. Higher contribution from this sector poses a higher risk. Revenue from this sector is sensitive to price fluctuation and demand for metals in national and international markets. Also it is subjected to variation in exchange rate between Indian Rupee and benchmarked currencies of the world. Considering the financial risks associated with mining revenue, the State Government has decided to put in place a "Budget Stabilisation Fund" which will act as a buffer fund to ensure financial stability during the period of negative shocks from the mining sector.

It is anticipated that there may be annual variation of up to a maximum 20 percent in revenue realisation from the mining sector. Total mining revenue could be either 20 percent more or less than the budget estimate. Therefore, about 20 percent of the total mining revenue i.e., around Rs. Rs. 9000 crore should be kept as strategic reserve to offset any decline in mining revenue in a financial year and maintain the budget size.

Further, the FRBM Act allows the State to borrow up to 3.5 percent of GSDP to finance any fiscal deficit and to carry forward the unused borrowing space to successive financial years would also be available till FY2024-25 as per recommendations of 15th Finance Commission. Given the fact that the mining revenue in the current fiscal year (and also in medium term) is higher than the anticipated amount, the State Government can limit the total borrowing up to 3 percent of GSDP. So in the years where the revenue collection from Mining Sector is less compared the estimated amount, Government would use the fiscal space brought forward from previous years to contain the fiscal risk emanating from the mining sector.

CEASATION OF GST COMPENSATION

It was agreed by the central government and sub-national governments that any revenue shortfall arising out of transitioning into GST, would be compensated through a pooled GST Compensation Fund for a period of five years that is set to end in July, 2022. During the 2020-21 FY, the collection of compensation cess was less compared to the total deficits of the States taken together . So, Government of India assisted the states by providing interest free loans instead of compensating in full .The repayment of the principal will be from the GST Compensation Cess. Since, the revenue shortfall in Odisha due to implementation of GST is quite high, cessation of GST compensation will affect the State to the extent of 1 percent of GSDP during FY 2022-23 and afterwards.

NATURAL DISASTERS

Odisha is exposed to considerable risk as a result of natural disasters such as cyclones and floods. Natural disasters vary in terms of severity and the year-to-year impacts are impossible to foresee. The State Disaster Response Fund has been created to assist with immediate relief and rehabilitation efforts.

3.7 CONCLUSION

The State Economy is on the path of recovery after the worst year of the pandemic.State government took several measures to revive the economy and spending level of the people. This resulted in bouncing back of the economy to the pre-pandemic level. Higher mining revenue has also enabled the State Government to go for higher spending in socio-economic sectors to spur economic growth. Further, all the fiscal parameters of Odisha are projected to remain within the sustainable level in medium term. Overall the fiscal outlook of the State Government appears to remain stable in the medium term.