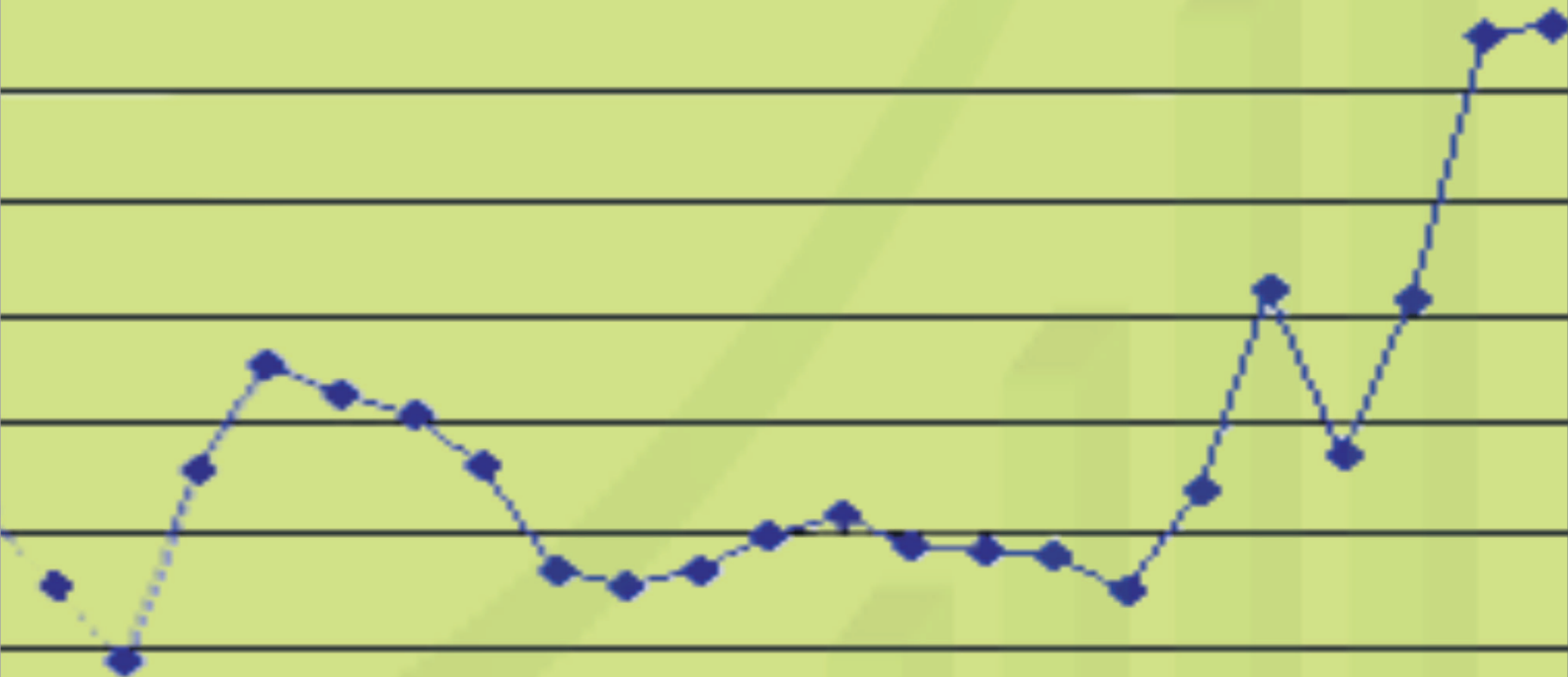




# Fiscal Strategy Report



**FINANCE DEPARTMENT  
GOVERNMENT OF ODISHA  
2023-24**



## FISCAL STRATEGY PAPER

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**FINANCE DEPARTMENT  
GOVERNMENT OF ODISHA  
FEBRUARY 2023**

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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 Bank of India
RE	Revised Estimates
SARTTAC	South Asia Regional Training and Technical Assistance Centre
ST	Share Tax
VAT	Value Added Tax

## PREFACE

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.

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. The 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. The budget for the FY 2023-24 will be presented with focus on economic growth of the State. The focus of the Government spending will be in education, healthcare services, women empowerment, infrastructure development and livelihood generation for people of the State. There will be higher capital spending in education, health, drinking water facilities, irrigation, rural connectivity, sanitation and urban civic amenities.
3. With robust performance of own revenue, especially own non-tax revenue during the FY 2021-22 mainly driven by revenue from mining sector, the overall revenue position of the State Government has improved considerably. In the budget estimate for FY 2021-22, it was projected that the total revenue receipt would be Rs. 1.25 lakh crore. The actual revenue receipt in FY 2021-22 was Rs 1.53 lakh crore. Higher than budget estimate is mainly due to increase in mining revenue from estimated Rs 13000 crore to Rs 48642 crore. The total revenue receipt as per the budget estimate for FY 2022-23, is Rs 1.64 lakh crore. Looking at the revenue receipt till end of January 2023, it seems that the total revenue receipt will be about Rs 1.62 lakh crore. The slight shortfall from the budget estimate is mainly due to contraction in Grants from the Central Government.
4. The budget size for FY 2022-23 was estimated at Rs. 2 lakh crore which was 17.6 percent more than the previous year budget estimate. Looking at the revised estimated for FY 2022-23, it is projected that the budget size for FY 2023-24 will be Rs 2.30 lakh crore which is 12.5 percent more than the previous year budget. In the medium term, the budget size is projected to reach Rs. 2.55 lakh crore, Rs. 2.85 lakh crore and Rs. 3.15 lakh crore in FY 2024-25, FY 2025-26 and FY 2026-27 respectively.
5. Administrative expenditure which includes expenditure on establishment, operation and maintenance is estimated to have a growth rate of 12 percent in FY 2023-24 over the revised estimate for FY 2022-23. In the medium term, the growth rate in administrative expenditure is projected to be around 9 percent. Programme expenditure which mainly constitutes expenditure on various schemes and programmes of the State Government is projected to have a growth rate of 16 percent in the medium term. It is estimated that the programme expenditure is set to increase

from the revised estimate of Rs. 1 lakh crore in FY 2022-23 to 1.25 lakh crore in FY 2023-24 which is a growth of about 25 percent.

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 revised 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 3.5 percent of GSDP in FY 2021-22 to 4.8 percent in the revised estimate of FY 2022-23. It is projected that the capital outlay will be more than 6 percent of GSDP in the medium term.

7. Higher revenue collection from the mining sector has enabled the State Government to spend more on the socio-economic sector and creation of infrastructure which will have multiplier effects on the economy of the State. 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. The key focus of the State Government is quality spending on capital expenditure for asset creation. 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)	2021-22	2022-23 (RE)	Forecast Period			
			2023-24 (BE)	2024-25	2025-26	2026-27
Revenue Receipts	23.1	21.1	21.1	21.0	20.8	20.1
Administrative Expenditure	11.6	11.7	10.9	11.2	10.6	9.5
Programme Expenditure	10.4	13.1	14.5	13.9	14.1	14.0
Revenue Deficit (-)/ Surplus (+)	6.6	2.0	2.8	3.2	3.6	3.5
Fiscal Deficit	-3.2	2.8	-3.0	-3.0	-3.0	-3.0
Primary Deficit (-)/ Surplus (+)	-4.1	1.9	2.1	1.9	2.0	1.9
Interest Payment to Revenue Receipts Ratio	4.1	4.3	4.0	5.1	5.1	5.4
Debt Stock	14.7	12.7	13.2	14.6	15.8	16.8
Capital Outlay	3.5	4.8	6.0	6.2	6.5	6.5

## Chapter-I

### 1. FISCAL PRUDENCE AND PFM REFORMS

*Odisha is one of the few States in India who have been consistent in compliance with the FRBM parameters since 2005. The State Government has adopted a prudent rule based financial policy since the beginning of the current century. The financial position of the State was very precarious. Through prudent fiscal management over the period of the time, the State Government has improved its the fiscal condition considerably. The focus of Government spending in recent years has been quality capital expenditure. The total capital outlay has improved from mere 1.2 percent of GSDP in 2005-06 to 4.8% in 2022-23(RE). The journey from a revenue deficit to revenue surplus State is quite remarkable. Odisha is the only State in the county which has managed to have revenue surplus of 1.7 percent of GSDP during the COVID-19 pandemic in FY 2020-21. On account of higher revenue realisation from the mining sector during FY 2021-22, the revenue surplus was 6.5 percent in FY 2021-22. The higher fiscal space has enabled the State to incur quality expenditure in critical sectors of the economy such as infrastructure development, incentivising MSMEs and companies for industrial cluster development across the State. The sound fiscal and economic policy of the State Government has resulted in economic growth of 11.5 percent and 7.8 percent in 2021-22 and 2022-23(RE) respectively. It is estimated that the economic growth is likely to be 8 percent in the coming financial year.*

#### 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. Adherence to austerity measures and efforts to mobilise own revenue have reduced the fiscal deficit from 6.9 percent of GSDP in 2000-01 to an estimated 2.8 percent in FY 2022-23 (RE) and the debt stock from 44 percent of GSDP to an estimated 12.7 percent in FY 2022-23(RE). The State Government has transitioned from a high revenue deficit to a revenue surplus Government. The revenue surplus during FY 2021-22 was 6.6 percent of GSDP.

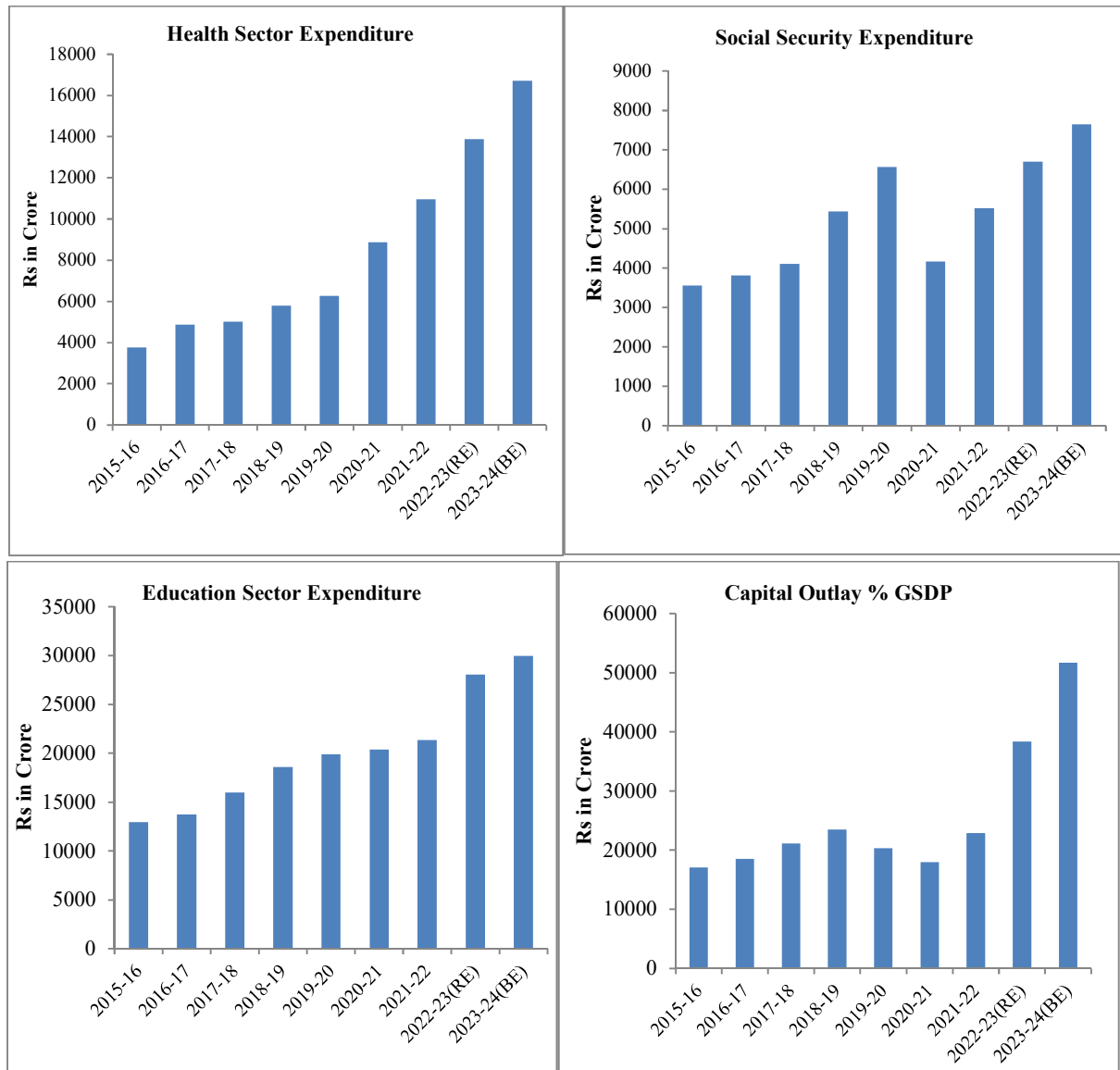
**Table-1.1: Basic fiscal indicators (as percent of GSDP)**

Fiscal Indicator (% of GSDP)	2000-01	2004-05	2009-10	2014-15	2020-21	2021-22	2022-23 (RE)	2023-24 (BE)
Revenue Deficit (-)/ Surplus (+)	-4.0	-0.7	0.7	1.9	1.7	6.6	2.0	2.8
Fiscal Deficit	-6.9	-1.8	-1.4	-1.9	-1.8	3.2	-2.8	-3.0
Debt Stock	43.4	43.8	23.2	13.8	19.5	14.7	12.7	13.2
Capital Outlay	1.7	1.4	2.2	3.5	3.4	3.5	4.8	6.0



Consistent financial discipline over the last decade has resulted in financial stimulus in the form of less borrowing and thus less interest payment. Therefore, more resources are available for public spending in socio-economic sectors. There has been steady increase in investment in key social sectors such as health care, education and social security. The total capital expenditure is estimated to be around 8.4 percent of GSDP in FY 2023-24.

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

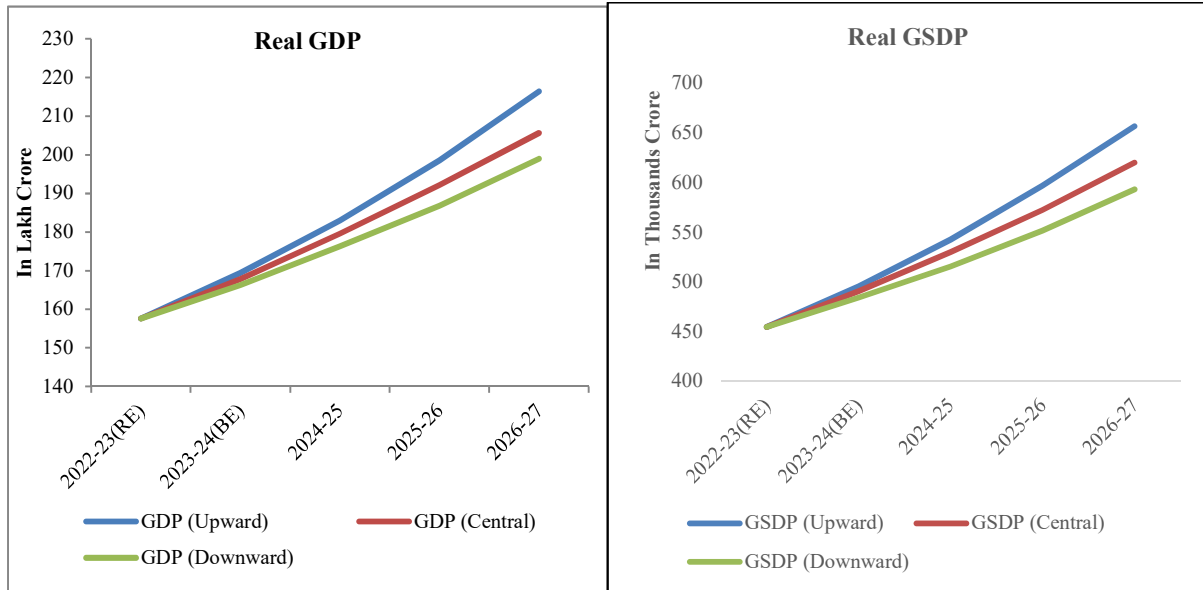


### 1.1. ECONOMIC RECOVERY POST PANDEMIC:

The economic growth rate of 11.5 percent during the last financial year i.e., FY 2021-22 was oddly very high because of base effect and contraction in the economy during FY 2020-21. The growth rate of the economy during FY 2020-21 was -5 percent due to the pandemic. The following year, the economy started to recover despite the sporadic appearances of the Omicron wave. However, due to universal vaccination and proactive health care policies of the State Government, even multiple rounds of the Omicron waves did not have negative impact on the economic activities. After registering double digit growth in FY 2021-22, the economy is most likely to have a growth rate of 7.8 percent in FY 2022-23. The Russia-Ukraine conflict led to a worldwide surge in inflation mainly driven by high oil and commodity prices. The retail inflation level through the current financial has been higher than the threshold value of 6 percent. The economic growth is mainly driven by public investment and private consumption. The universal vaccination drive by the State Government has enabled migrant workers to return to their place of work.

The State Government has stepped up spending on healthcare, social security, livelihood security and employment generation during the last two financial years. Increase in capital spending has been one of the key objectives of the State Government. Crowding-in private investment through the flagship **Make-in-Odisha** conclave has given a fillip to infrastructure and industrial growth in the State. Odisha has emerged amongst top 3 “Startup Hubs” in India through conducive investment and startup policy. Odisha has emerged as a top investment destination in the country in recent times. Through the Make in Odisha Conclave-2022, State Government has received investment opportunity of more than Rs 10 lakh crore which can create more than 10 lakh jobs. The fundamentals of economy of Odisha are strong and sound. Although the State Economy is not immune to various fiscal shocks emanating from global and national events, the State Economy is resilient enough to withstand such shocks like high fuel prices, appreciation of Dollar compare to Rupee, disruption in global supply chain due to geopolitical war etc. Odisha being a mineral rich state, its economy is mainly driven by high value addition from the mining and quarry sector. However through effective economic policy, the State Economy is migrating very fast from primary sector to secondary and tertiary sectors.

Taking into account many uncertainties in the national and global economy, Finance Department, Government of Odisha has modelled three scenarios: 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**

	RE	Projection Period			
Rs. In Crore	2022-23	2023-24 (BE)	2024-25	2025-26	2026-27
<b>GSDP at Constant Prices</b>					
<b>Upward</b>	454682	495603	542686	596954	656650
Growth Rate (%)	7.8%	9.0%	9.5%	10.0%	10.0%
<b>Central</b>	454682	490892	529995	572512	620103
Growth Rate (%)	7.8%	8.0%	8.0%	8.0%	8.3%
<b>Downward</b>	454682	484236	515712	551811	593197
Growth Rate (%)	7.8%	6.5%	6.5%	7.0%	7.5%
<b>GDP at Constant Prices</b>					
<b>Upward</b>	15760363	16942390	18297781	19853093	21639871
Growth Rate (%)	7.0%	7.5%	8.0%	8.5%	9.0%
<b>Central</b>	15760363	16784787	17959722	19216902	20562085
Growth Rate (%)	7.0%	6.5%	7.0%	7.0%	7.0%
<b>Downward</b>	15760363	16627183	17624814	18682303	19896652
Growth Rate (%)	7.0%	5.5%	6.0%	6.0%	6.5%

These scenarios enable 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**

<b>Fiscal Indicators (Percent of GSDP)</b>	<b>2022-23(RE)</b>	<b>2023-24 (BE)</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
<b>Revenue Deficit (-)/ Surplus (+)</b>					
<b>Upward</b>	2.2	3.2	3.5	3.8	3.8
<b>Central</b>	2.2	3.1	3.3	3.7	3.6
<b>Downward</b>	2.2	2.7	3.3	3.4	3.4
<b>Fiscal Deficit</b>					
<b>Upward</b>	-2.8	-2.5	-2.5	-2.5	-2.5
<b>Central</b>	-2.8	-3.0	-3.0	-3.0	-3.0
<b>Downward</b>	-2.8	-3.5	-3.5	-3.5	-3.5
<b>Debt Stock</b>					
<b>Upward</b>	12.7	13.0	14.3	15.4	16.3
<b>Central</b>	12.7	13.1	14.6	15.8	16.7
<b>Downward</b>	12.7	13.2	14.8	16.2	17.3
<b>Capital Outlay</b>					
<b>Upward</b>	4.8	6.5	6.5	6.8	7.0
<b>Central</b>	4.8	6.0	6.2	6.6	6.5
<b>Downward</b>	4.8	5.0	6.0	6.0	6.0

## 1.2. NEW INITIATIVES IN PUBLIC FINANCE MANAGEMENT

State Government has implemented 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. State Government has adopted strategic budget making process with medium term fiscal framework. Further, State Government has undertaken fiscal risk analysis to analyse fiscal risks emanating from various sources such as volatility of the mining sector, shocks arising out of macro fiscal parameters, State Owned Enterprises, public private partnerships etc. In addition to this, Cash Management is being done through short-term and long-term liquidity management. A commitment management module is being developed in the Integrated Financial Management System (IFMS) to record all commitments for future expenditure.

In addition to the above reforms introduced in the public finance management domain, State Government has taken a number of initiatives under the 5T and “Mo SARKAR” principles (Team work, Technology, Transparency, Transformation and Time limit). These initiatives have further strengthened the State finances and credibility of the budget making process.

### 1.2.1. BUDGET STABILIZATION FUND:

Collection of Mining Revenue has been unprecedented during the last two years. The contribution of non-tax revenue from mining sector has substantially gone up from 25 percent of own revenue in 2020-21 to 51 percent in 2021-22. It has come down to 43 percent of total own revenue in FY 2022-23(RE). Revenue from the mining sector is sensitive to price fluctuation in international market and demand for metals in national and international markets. Considering the financial risks associated with the mining revenue, the State Government has taken a policy decision 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. A strategic reserve would be maintained in the fund to offset any decline in the mining revenue. requiring risk mitigation measures to make good the shortfall, if any, in the coming years. The relevant accounting procedure for withdrawal from the fund has already been prepared.

### 1.2.2. COMMUNICATION OF MULTI-YEAR BUDGET CEILINGS

The State Government has introduced top-down budgeting through advance communication of budget ceilings to the line departments from FY 2020-21. To have predictability of budgetary outlay and aid in multi-year project planning, line departments have been indicated the broad expenditure ceilings in advance for the Budget Year i.e., Y along with Y+1 and Y+2. In this regard, the Annual Budget Circular has already been issued for preparation of Revised Estimates for 2022-23 and Budget Estimates for 2023-24. The multi-year ceilings in respect of Programme Expenditure have also been communicated to the line departments through the Budget application (BETA).

### 1.3.OVERVIEW OF THE FISCAL STRATEGY FOR THE MEDIUM TERM

The fiscal strategy for the medium term is to increase programme expenditure with emphasis on quality capital spending and asset creation which will induce long term economic growth in the State. Recently Odisha has emerged as a leading investment destination in the Country. Odisha has conducive business environment and skilled workforce which enabled it to become a leading investment destination recently. Odisha has been accorded the achievers status in the recently released ease of doing business ratings by Government of India. The State Government has adopted the **Industrial Policy Resolution (IPR) - 2022** for next 5 years which aims to transform the State into an "Industrial Hub of Eastern India" by promoting industries in the thrust and priority sectors of the State. Through the third edition of the flagship investors' summit **Make-In-Odisha Conclave, 2022**, Odisha has received investment opportunity of more than Rs 10 lakh crore which can create more than 10 lakh jobs.

The Odisha FRBM Act, 2005 mandates the State to generate 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 fulfilment of conditions linked to power sector reforms in Distribution Companies (DISCOMS) prescribed by Government of India. Provision for carry forward of unused borrowing space to successive financial years would also be available. 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 as per 15<sup>th</sup> FC recommendation (% 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 will be met by higher revenue realisation from mining sector and sustainable public borrowing from low cost sources such as OMBADC and CAMPA.

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 aims to increase public spending on social and economic services. The State Government aims for higher capital expenditure in FY 2022-23 especially in infrastructure development. In the revised estimate for FY 2022-23, the total capital outlay is about Rs. 37000 crore which is about 5 percent of GSDP and 18 percent of total budget size. Major State Sector Schemes for infrastructure development are Biju Expressway, Capital Road Development Programme, Augmentation of Basic Amenities and Development of Heritage and Architecture (ABADHA) at Puri, Ekamra Khetra Amenities and Monuments Revival Action Plan (EKAMRA), Samaleswari Temple Area Management & Local Economic Initiative (SAMALEI), Integrated Development of Heritage, Monuments & Tourist Destinations, Biju Setu Yojana (BSY), Pradhan Mantri Sadak Yojana (PMGSY), Mukhya Mantri Sadak Yojana (MMSY), Connecting Unconnected Villages in Difficult Areas (CUVDA), Connection of Missing Road Links (CMRL) and Transferred Road Improvement Programme (TRIP).

'Every life is precious' continues to be the guiding principle of Odisha's healthcare sector transformation. To provide quality healthcare services in the farthest and remotest region of Odisha is one of the key objectives of the State Government. Provision of potable drinking water through piped water supply has been another important aim of the State Government. So far, 3350 numbers of Piped Water Supply (PWS) Schemes and 31,761 numbers of Tube wells have been installed in last 5 years. In the education sector, State Government has invested heavily on improving quality of public education through **School Transformation Programme**. As per the Annual Status of Education Report (ASER)-2022, the percentage of kids enrolled in Government schools rose from 88 percent in 2018 to 92.1 percent in 2022. The gap between private schools and Government schools have narrowed down substantially in terms of quality of education.

In terms of fiscal policy, the objectives of the State Government are to maintain the high level of capital spending while adhering to the sustainable fiscal parameters recommended by the 15<sup>th</sup> Finance Commission as well as the FRBM mandates.

## Chapter-II

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### 2. MACROECONOMIC OUTLOOK

*State Government will table the 2023-24 Budget during the last week of February 2023. The budget for FY 2023-24 will be presented in a time when there remain uncertainties in global economy. While the pandemic has receded, but rising inflation has caused severe economic stress in few South Asian economies. The optimism in various economies worldwide due to large-scale vaccination, economy-stimulating packages, and low base of 2020-21 has been marred by the unending political conflict in eastern Europe and Russia. High energy prices, accompanied by the high rate of inflation and interest rate, will slow down the economies during 2023-24 than 2022-23. For FY 2022-23, Odisha's GSDP is estimated to grow at 8 percent. Odisha's economic growth is expected to remain more than its potential growth of 8 percent in the medium term. Fluctuating metal prices and supply disruption in crude petroleum oil, edible oil, and other staples will largely influence the uncertainty surrounding the rate of economic growth and retail inflation. The recent repo rate hike by the Reserve Bank of India (RBI) to 6.5 percent shows the risk to economic growth from the persistent high inflation rate.*

#### 2.1. GLOBAL ECONOMIC OVERVIEW

The post-COVID-19 pandemic stress and the lingering war between Russia and Ukraine have infused uncertainty in the world economic situation. Global economic activity is on the downswing, which is as broad-based and sharper-than-expected shrink. As per the IMF's World Economic Outlook (October 2022), the war will dampen world economic growth in 2023. The increase in prices of fuel and food, which are higher than in many decades, will push inflation up. The increasing prices will hit hardest the poor and vulnerable in low-and middle-income countries. The economic stories of Sri Lanka and Pakistan in recent times have highlighted the risks that emerging economies face from the uncertain global economic situation. The global economic growth will slow down from an estimated 6.0 percent in 2021 to 3.2 percent and 2.7 percent in 2022 and 2023, respectively.

The Indian economy is projected to grow at 6.8 percent in 2022 and 6.1 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.

**Table 2.1: Latest World Economic Outlook Growth Projections**

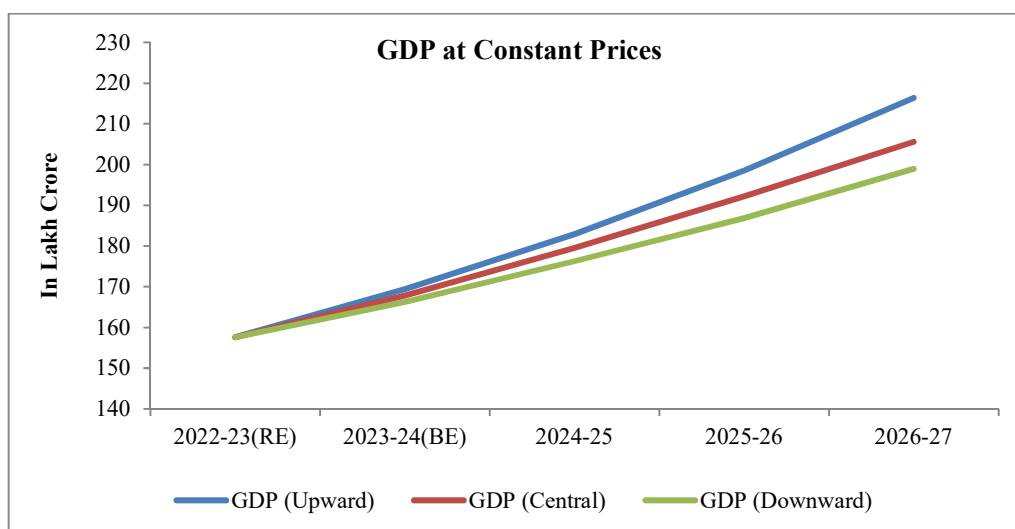
Real GDP (annual percentage change)	2021	2022	2023
<b>Advanced Economies</b>	5.2	3.2	2.7
<b>United States</b>	5.7	1.6	1.0
<b>Euro Area</b>	5.2	3.1	0.5
<b>United Kingdom</b>	7.4	3.6	0.3
<b>Japan</b>	1.7	1.6	1.6
<b>Emerging Market and Developing Economies</b>	6.6	3.7	3.7
<b>China</b>	8.1	3.1	4.4
<b>India</b>	8.7	6.8	6.1
<b>ASEAN-5</b>	3.4	5.3	4.9
<b>Russia</b>	4.7	-3.4	-2.3
<b>Brazil</b>	4.6	2.8	1.0

## 2.2. INDIA'S ECONOMIC OUTLOOK

As per the IMF's projection, the Indian economy will have a growth rate of 6.8 percent in 2022. Revising India's Gross Domestic Product (GDP) growth downward, the Reserve Bank of India (RBI) has pegged growth at 6.8 percent compared to an earlier projection of 7 percent for FY 2022-23. The downward revision is mainly because of volatility in commodity and financial markets worldwide in the wake of the war between Russia and Ukraine. The global supply chain disruption has also affected the national economy. The RBI's monetary policy statement claims that the sharp escalation in geopolitical tension has offset the expected positive benefits of the ebbing COVID-19 wave amid the ongoing Russia-Ukraine war. Private consumption and investment may remain subdued due to higher inflation and economic uncertainty. However, the Indian economy has been steadily reviving after the pandemic hit the previous two financial years.

The real GDP has contracted by 7.3 percent in FY 2020-21 due to the pandemic. The Indian economy has revived since then and registered a growth rate of 9.2 percent during FY 2021-22. We have taken a conservative estimate of 7.3 percent real GDP growth in our medium-term fiscal framework. The growth rate has been taken at 7 percent in the medium term. In its annual budget for FY 2023-24, the Government of India estimates the GDP growth rate at current prices at 10.5 percent. The chart below shows the three scenarios: best, most likely, and worst.



**Chart 2.1-Indian Economic Growth Rate in Medium Term**

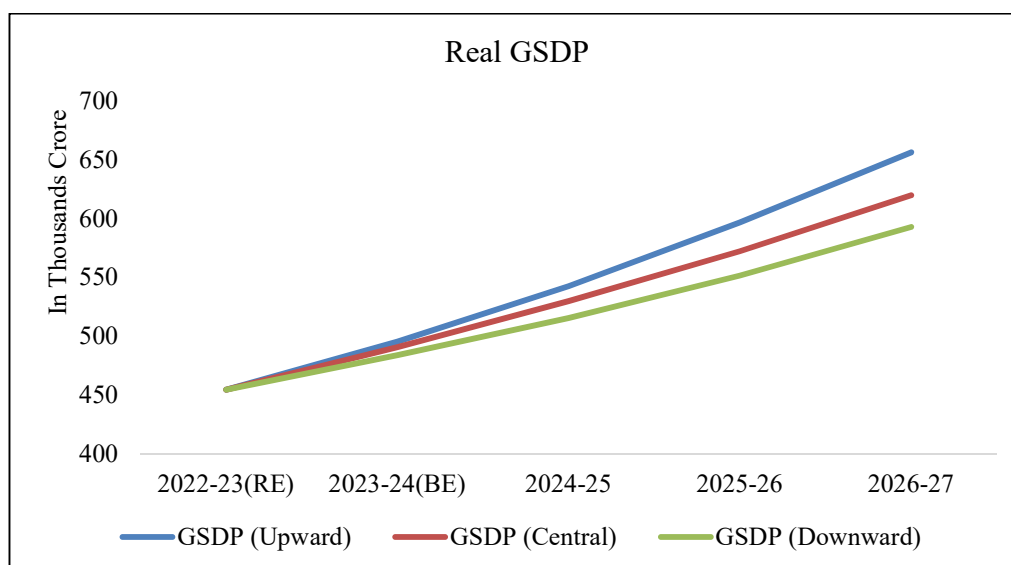
## 2.3 ODISHA'S ECONOMIC OUTLOOK

### 2.3.1 MONTHLY ECONOMIC ACTIVITY INDEX: ODISHA

The composite State Economic Activity Index measures the pulse of Odisha's economy. It is 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 due to 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 shown in Chart 2.5.

**Chart-2.3: Odisha Economic Growth Projections in three Scenarios**

For the medium term, GSDP growth is projected at 8.0 percent. The economy grew at 11.5 percent during FY 2021-22 due to higher capital investment both by Government and private sector. As per the Advance Estimate for FY 2022-23, the economy is projected to grow at 7.8 percent. In the upward scenario, the economy is projected to grow at 9 percent in the medium term whereas in the downward scenario, the economy will grow at less than the potential economic growth of the State. However, these scenarios enable the State government to improve the budget preparation process and to maximize flexibility in the budget formulation. 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.

### 2.3.3 RISK TO THE GROWTH OUTLOOK

Although Odisha has registered impressive growth in recent years, the economy is vulnerable to natural calamities and its highly dependence on mining activities 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.
- High Inflation mostly due to higher energy and fuel prices will impact the private capital formation. If the trend continues, it will affect economic growth rate in medium term.

- Reduction in receipt of Central Assistance in case of some Centrally Sponsored Schemes has forced the State Government to meet the expenditure requirements out of its own limited resources. Continuance of such trend would adversely affect the implementation of the schemes as well as overall fiscal health of the State.
- 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

Based on Consumer Price Index (CPI), Inflation in Odisha remains closer to the national level in recent times. The rate of inflation in India remained at 5.88 percent in November 2022 as per the recent data (dated December 12, 2022) released by the National Statistical Office (NSO), Ministry of Statistics and Programme Implementation (MOSPI), Government of India. For the same timeline, the inflation rate in Odisha stands at 4.72 percent. The rural inflation rate in India stands at 6.09 percent, which is higher than the urban inflation rate of 5.68 percent. The relatively higher inflation in rural areas is mainly due to higher fuel and food prices. For the forthcoming years, the Reserve Bank of India (RBI) has projected the Indian inflation rate at 5.8 and 5.2 percent, respectively, in FY 2022-23 and 2023-24.

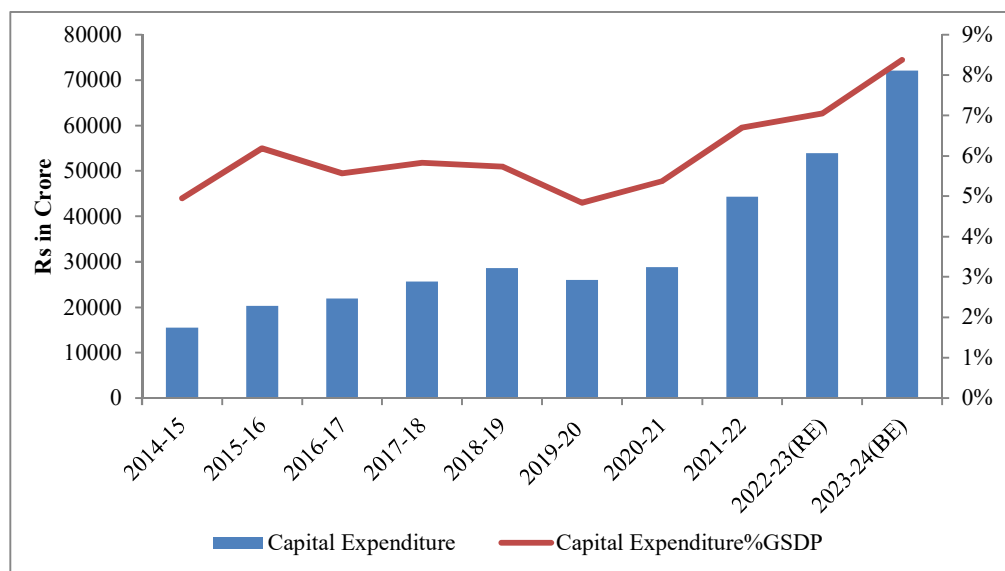
The increase in global commodity prices, coupled with the conflict in Ukraine, boosted the inflation rate by affecting the imported inflation component during March-June 2022. Subsequently, the decline in international commodity prices in July-August 2022 caused a reduction in inflation. Additionally, the slash in central excise duties on petrol and diesel in May 2022 reduced domestically generated inflation. Therefore, there has been an overall decline in inflation recently compared to the first quarter of FY 2022-23. However, the current all-India inflation rate of 5.8 and Odisha's 4.7 are considered high. The high inflation over a long period 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 ongoing geopolitical tension between Russia and Ukraine could further increase prices.

## 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 from 3.5 percent of GSDP in FY 2021-22 to 4.8 percent in FY 2022-23(RE). It is projected to reach about 6 percent of GSDP in the coming financial year. This rise in capital expenditure has been mainly due to capital outlay in the developmental sector. Public Spending in the developmental sectors has reached almost 50 percent

of the total budget outlay. The total programme expenditure in FY 2022-23 is Rs 1.0 lakh crore which is 50 percent of the total budget size. In the coming financial years, it is projected to increase further and thus will create positive economic cycle in the near future.

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



Close to 60 per cent of the State's population is dependent 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.

The focus of the State Government in recent years has been to attract mega industries in diverse sectors and to create a business conducive ecosystem for investors especially startups. State Government has taken a number of initiatives to improve ease of doing business in the State. In order to improve ease of doing business, the State Government has successfully implemented the State Reform Action Plan (SRAP) 2020 as recommended by the Ministry Commerce and Industry, Government of India.

State Government has recently hosted the third edition of the **Make in Odisha Conclave**. It has attracted over Rs. 10.48 Lakh Crore of investments across 22 diversified sectors with an employment potential of over 10.37 Lakhs. Around 122 industrial areas in strategic locations across the State have been built up. These industrial regions facilitate setting up of MSMEs which are extremely critical for economic growth and job creation.

A Seafood Park at Deras has been established over an area of 152.78 acres of land. For promotion of investment in downstream & ancillary units in the aluminum sector, Angul Aluminum Park is being developed jointly by IDCO & NALCO over 223 acres of land at Angul district. State Government is developing a **Petroleum, Chemical and Petrochemical Investment Region (PCPIR)** at Paradeep. The **Kalinganagar National Investment Manufacturing Zone** has been established for production of steel. Three industrial clusters are being developed at Dhamnagar (Bhadrak District), Begunia (Khordha District) and Golamunda (Kalahandi District).

## 2.7. MEASURES TO SUPPORT ECONOMIC GROWTH:

1. With abundant natural resources, skilled workforce, progressive policies, strong result-oriented governance and conducive business ecosystem, Odisha is emerging as a leading investment destination. Government has notified Industrial Policy Resolution (IPR) 2022 for next 5 years. This policy aims to transform Odisha into "Industrial Hub of Eastern India" by promoting industries in the thrust and priority sectors of the state.

The 3rd edition of flagship investors' summit Make-In-Odisha Conclave, 2022 showcased huge investment potential and industrial prowess. It received investment intent of more than ₹10 lakh crore with employment potential of more than 10 lakh jobs. Odisha has set up more than 5 lakh MSMEs with more than Rs.24,341 crore investment. Newly formulated MSME Development Policy, 2022 looks to give further impetus to industrial growth with special incentives for MSMEs in industrial backward districts to create jobs and boost economic growth. 'O-Hub' has been promoting start-up ecosystem in the State. Wholly-owned and operated by State Government, the centralised incubator facilitates innovators, mentors and corporate partners work under one roof.

2. The Odisha Logistics Policy, 2022 of notified by the State Government aims to create integrated logistics system to enhance competitiveness, operational efficiency & sustainability. The policy will also facilitate private sector investment which will lead to employment generation in Odisha. It will strengthen State's position as preferred destination for trade and commerce. Similarly, the Odisha Apparel & Technical Textiles Policy, 2022 aims to boost employment and enhance economic growth. The policy includes incentives like Capital Investment Subsidy, Employment Cost Subsidy and Market Development Initiative.

3. Recently formulated Export Promotion Policy, 2022 aims to achieve an export target of Rs.3.5 lakh crore by 2026-27, thereby taking Odisha to the league of top 5 exporting States. It advocates diversification of export basket by facilitating value addition. A new Food Processing Policy, 2022 has been formulated to tap immense potential of the sunrise sector. Such progressive policies are going to yield immense economic dividend at the same time creating conducive environment for the entrepreneurship.

4. Government has notified the Odisha Motor Vehicles (Registration and Functions of Vehicle Scrapping Facility) Policy, 2022 with the objective to reduce air pollution by scrapping old and unfit vehicles, to revive the un-organized vehicle recycling industry and to encourage setting up of Registered Vehicle Scrapping Facility in Odisha.
5. The new Odisha Port Policy, 2022 aims to facilitate integrated development of non-major ports and inland waterways as well as facilitate private investment and generate employment. Similarly, Odisha Civil Aviation Policy, 2022 has been formulated to further improve air connectivity and create more suitable environment for businesses. The policy applicable for 5 years which will unlock untapped potential in the aviation sector and create jobs
6. To position Odisha as a leading MICE (Meetings, Incentives, Conferences and Exhibitions), eco-tourism and sports tourism destination, State has formulated Odisha Tourism Policy 2022. The policy promotes sustainable and responsible tourism, and focuses on accelerated development of tourism sector.
7. Agriculture and allied sector is the largest employment provider State and holds the key to socioeconomic development of its people. Therefore, special emphasis on development of this sector through various interventions has been supported by a comprehensive and inclusive State Agriculture Policy. Separate Agriculture Budget, dedicated Agriculture Cabinet, inclusion of services under the Sector under the Umbrella of 5T and Mo Sarkar are some of the remarkable initiatives which have ensured allocative priority for this sector, faster decision making for sectoral growth and welfare of farmers in the State. In this sector major investments include creation of additional irrigation facilities through construction of Dams, Mega Lift Irrigations and installation of shallow borewell .The investment in this sector is about 1.5% of GSDP.
8. The State Government has made huge investments in Energy Sector the last few years to improve access to electricity and improve the quality and reliability of power supply. Odisha Renewable Energy Policy, 2022 has been notified to promote generation of RE power. Odisha is the first State to start privatisation of the distribution of Electricity. As a policy , no subsidy is provided to any class consumer, but making capital investment in generation and transmission sector which will act precursor for economic growth. In this sector ,Government and PSEs are investing around 1% of GSDP which will have a multiplier effect on economy.

### 3. FISCAL OUTLOOK

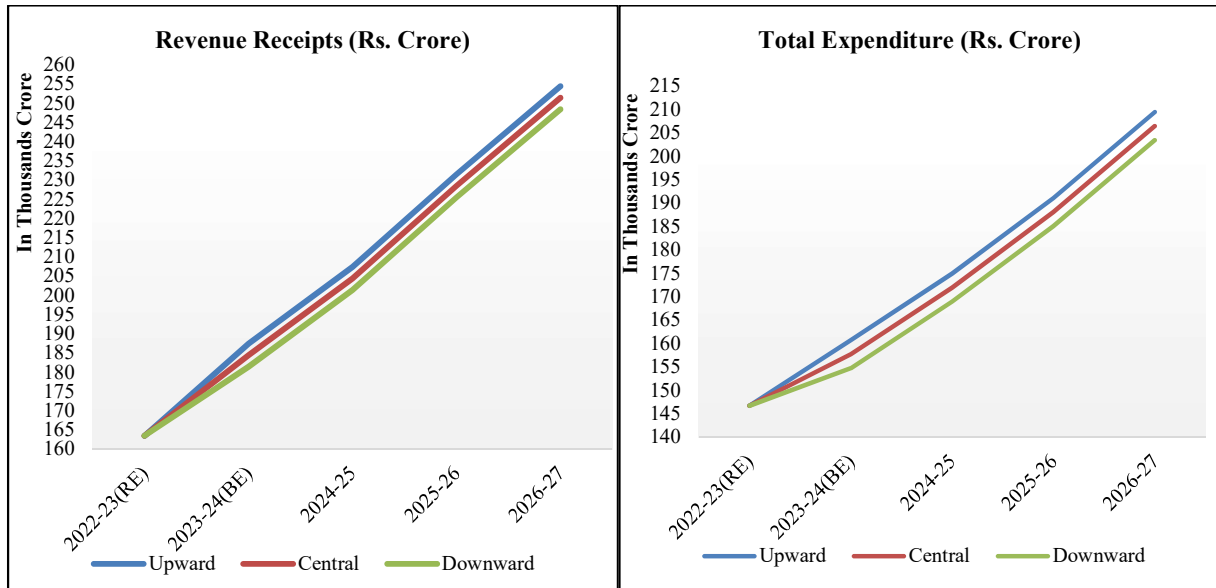
*The economy of Odisha has recovered to its pre-pandemic level after contraction during FY 2020-21. With subsidence in the pandemic and the multiple waves of the Omicron variant not being so fatal, a sense of normalcy prevailed during FY 2021-22. The State Economy registered a growth rate of 11.5 percent during FY 2021-22 and would grow at 7.8 percent in FY 2022-23 respectively. The fiscal deficit and debt to GSDP ratio during the FY 2022-23 are estimated to be 2.8 percent and 12.7 percent respectively. Substantial higher revenue collection from the mining sector in the last couple of years has enabled the State to go for higher capital spending. The capital outlay during FY 2022-23 is estimated to be around 4.8 percent of GSDP and this is set to reach 6 percent of GSDP during FY 2023-24. Due to availability of own resources and other cheaper sources of borrowing such as OMBADC and CAMPA, the State Government did not go for high cost market borrowing. Further, the interest free loans extended by Government of India for GST shortfall and the special assistance for CAPEX have 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 2022-23. In addition to the fiscal deficit limit of 3 percent of GSDP, additional annual borrowing space of 0.5 percent of GSDP would be available till FY 2024-25 subject to fulfilment of power sector reforms prescribed by Government of India. Also, the unused borrowing space from previous financial year can be carried forward to successive financial years till FY 2025-26.*

#### 3.1. FISCAL FRAMEWORK OVERVIEW

The financial policy for the State Government in the medium term is to increase capital expenditure on important socio-economic sectors while keeping the fiscal parameters within the sustainable level. There was an exceptionally high growth in own revenue on account of windfall gain in the mining revenue. The growth rate of own revenue during FY 2021-22 was 76 percent over previous year. The contribution of Central government grants to the State's Revenue Receipt has reduced from 48% in 2020-21 to 38 % in 2021-22.

Higher revenue collection along with availability of low cost borrowing sources such as OMBADC and CAMPA have helped the State Government to not go for market borrowing at higher rate of interest. Besides, the Central Government have provided interest free loans in the form of Special Assistance for CAPEX and GST revenue shortfall. The outstanding public debt has come down from 19.5 percent in FY 2020-21 to 12.7 in FY 2022-23. Since there are very few high cost loans in the debt portfolio of the State, the interest payment has come down also. The interest payment to revenue receipts (IPRR) would come down to 4.2 percent in FY 2022-23 from 6.2 percent in FY 2020-21.

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)	2021-22	RE	Forecast			
		2022-23	2023-24	2024-25	2025-26	2026-27
Total Receipt (Revenue & Capital)	153414	200000	230000	255000	285000	315000
As % of GSDP	23.2%	26.1%	26.7%	26.3%	26.0%	25.2%
Total Revenue Receipts	153059	163500	184500	204451	228514	251454
As % of GSDP	23.1%	21.3%	21.4%	21.1%	20.9%	20.1%
Total Revenue Expenditure	109588	146744	157770	172027	188090	206466
As % of GSDP	16.6%	19.2%	18.3%	17.8%	17.2%	16.5%
Net Revenue (Deficit/Surplus)	43472	16756	26730	32424	40424	44988
As % of GSDP	6.6%	2.2%	3.1%	3.3%	3.7%	3.6%
Net Fiscal Deficit	21010	-21588	-25845	-29056	-32867	-37494
As % of GSDP	3.2%	-2.8%	-3.0%	-3.0%	-3.0%	-3.0%

### 3.2. REVENUE OUTLOOK

Based on the trend of revenue collection up to January, 2023, total revenue receipt has been estimated to be Rs 163500 crore which has a growth rate of 6.8 percent over the last year's total revenue receipts. It is estimated to be at Rs 1,84,500 crore in the budget estimate for FY 2023-24. The growth in total revenue is mainly on account of good performances in own tax and non-tax revenue sources. In the Own Tax Revenue (OTR), GST and VAT are expected to have very good growth. In the Own Non-Tax Revenue (ONTR) front, mining revenue has contracted during FY 2022-23 when compared to FY 2021-22, nevertheless it still has 190 percent growth over FY 2020-

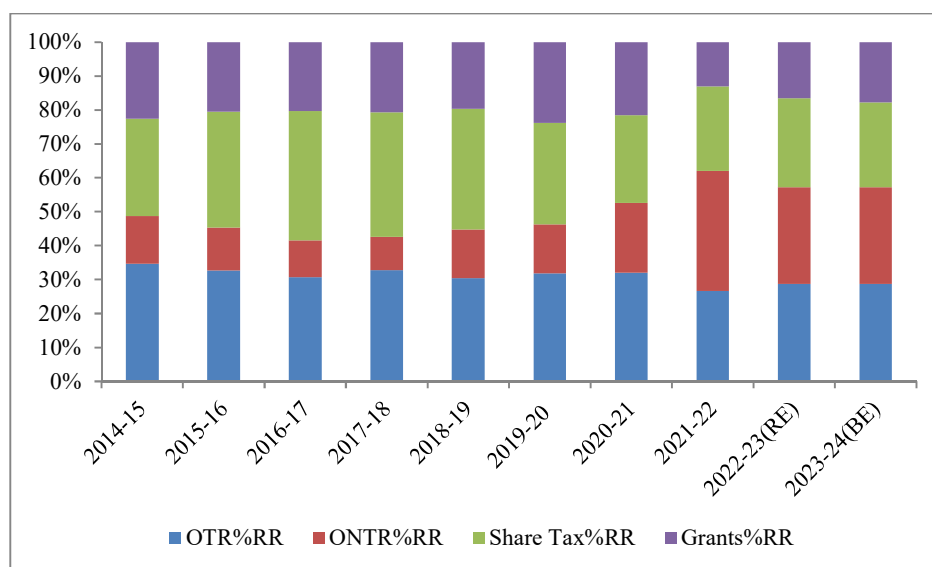


21. The Own Tax Revenue is estimated to be Rs. 53000 crore whereas Own Non-Tax Revenue is projected to be Rs 52500 crore during FY 2023-24.

The OTR which consists of revenues from State Goods and Services Tax, Value Added Tax, State Excise Duty, Electricity Duty etc. is estimated to have double digit growth i.e. an average growth rate of around 13 percent in the medium term. It is estimated that the OTR will have a growth rate of 12.7 percent during FY 2023-24. Within the OTR, based on the last ten months of revenue trend, Excise Duty, GST, VAT and Vehicle Tax are likely to have more than 10 percent growth over the previous year.

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 January 2023, it is estimated that own non-tax revenue will register a negative growth rate of around 15% which is mostly due to less revenue from mining. The imposition of Excise duty on the fines and enhancement of Excise duty on finished products has resulted in less demand of iron ore and price decline in domestic market. However, it would grow at 12 percent during FY 2023-24 over 2022-23. However in the medium term, the growth will be around 10 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 11 percent during FY 2023-24 to FY 2026-27.

**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 percent in medium term. There was substantial reduction in grants from centre during FY 2021-22 as compared to FY 2020-21. A contraction of 6 percent was observed in FY 2021-22. However as per the revised estimate for FY 2022-23, the grants from the centre would be around

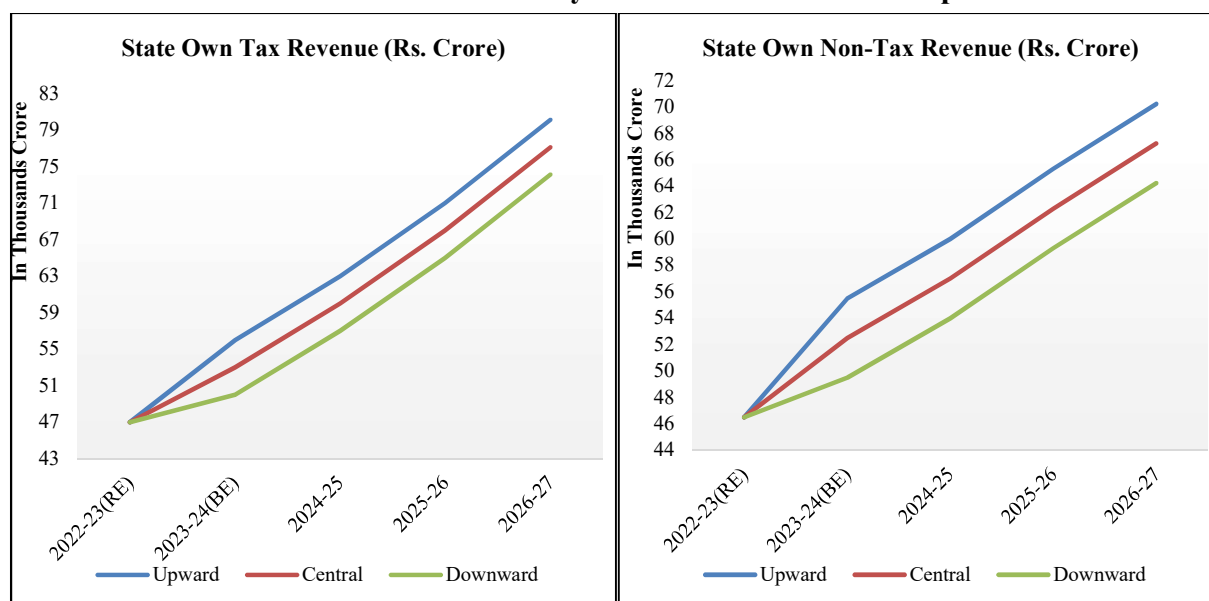
Rs 27010 crore which has a growth of around 36 percent over FY 2021-22. Looking at the recent Union Government budget, it is estimated that the State's share in central taxes during FY 2022-23 will be around Rs. 42989 crore which is about 12.7 percent more than the previous year. The total central transfer is estimated to be Rs. 70,000 crores during FY 2022-23 which is 21 percent more than the FY 2021-22.

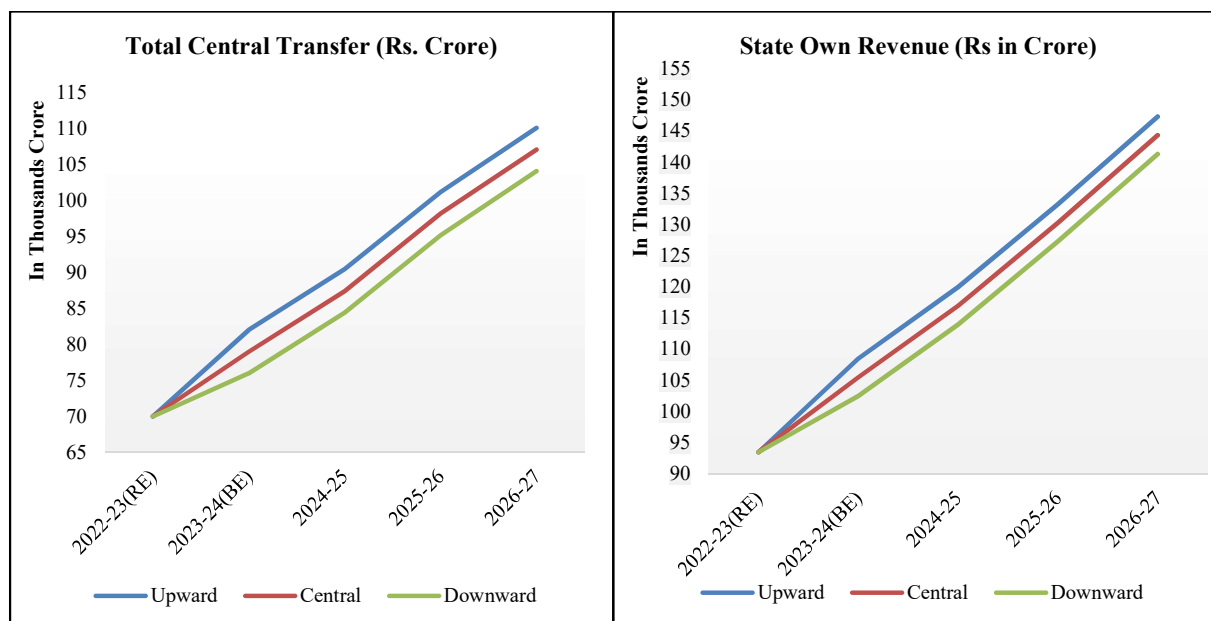
**Table -3.2 – Revenue outlook (percent of GSDP)**

	2021-22	RE	Forecast			
		2022-23	2023-24	2024-25	2025-26	2026-27
1. State Own Tax	6.16%	6.14%	6.15%	6.19%	6.2%	6.2%
2. State Own Non-Tax	8.2%	6.1%	6.1%	5.9%	5.7%	5.4%
3. State Own Revenue(1+2)	14.4%	12.2%	12.2%	12.1%	11.9%	11.5%
4. Share in Central Taxes	5.8%	5.6%	5.4%	5.4%	5.5%	5.2%
5. Grants from Centre	3.0%	3.5%	3.8%	3.6%	3.5%	3.4%
6. Central Transfer	8.8%	9.1%	9.2%	9.0%	9.0%	8.6%
5. Total Revenue (3+6)	23.1%	21.3%	21.4%	21.1%	20.9%	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 (Compensation to States) 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. As per the decision taken by the GST Council which is the apex body to take policy decisions, the GST compensation will not end in July 2022. Rather it will continue for the next few years and it will be released by the Central Government to State Government in the form of 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. Odisha accounts for accounts India's 96 percent of Chromite, 92 percent of Nickel, 51 percent of Bauxite, 24 percent of Coal and 33 percent of Iron Ore and 43 percent of Manganese. Being a mineral rich state, the mining sector constitutes 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.

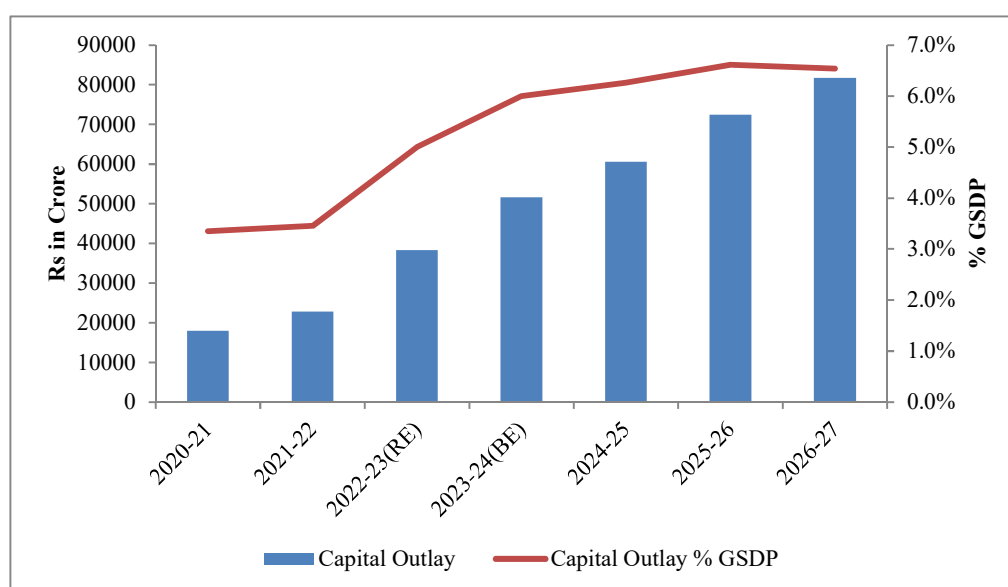
However the mining royalty and premium paid by the mines are dependent upon the total value of production. Total value of production is in turn dependent upon the unit price of the mineral (per metric tonne) and quantity of minerals sold (in metric tonne). The price of minerals such as iron ore and bauxite 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. To hedge the fiscal risk from the mining sector, State Government has put in place a "Budget Stabilisation Fund" which will act as a buffer fund to ensure financial stability and to maintain baseline expenditure.

### 3.3 EXPENDITURE OUTLOOK

Total expenditure consists of both administrative and programme expenditures. Expenditure on salary and pension contributes to bulk of the administrative expenditure. During FY 2022-23, it is estimated that the administrative expenditure would be Rs 89500 crore which is 17 percent higher than that of FY 2021-22. It is proposed to be Rs 94000 crore for FY 2023-24. The administrative expenditure will have a growth rate of about 9 to 10 percent in the medium term. This will be mainly driven by expenditure on salary and pension. Both salary and pension constitute about 56 of the total administrative expenditure. With increase in life expectancy and looking at the average number of employee retiring every year, pension is likely to grow at 10 percent every year in the medium term. Similarly, salary is also likely to have a growth rate of 10 percent in the medium term.

In the medium term, programme expenditure is likely to grow in double digits 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 such as transport, irrigation, power generation, industrial cluster development etc. in the coming years. During FY 2022-23 and FY 2023-24, it is proposed that programme expenditure will be more than 50 percent of the total Government budget. In FY 2023-24, it is going to be around 54 percent of the total budget size. This is likely to increase in coming years and set to go above 55 percent mark in the medium term. The total capital outlay is estimated to be about 6.0 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 2022-23. This trend is likely to continue in FY 2023-24 too. However in the medium term, growth in social sector spending is likely to remain around 15 percent. Out of the total programme expenditure, social sector spending is almost 47 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 has reached the pre-pandemic level in the last couple of years. Total spending in the economic sector is about 8 percent of GSDP and more than 50 percent of total programme expenditure. This is likely remain at this level in the medium term also. Since the upcoming budget is going to be the last budget for the current Government before the next assembly election, the economic sector expenditure will be thrust of Government spending. Out of the total programme expenditure, the share of State Sector Schemes is about 60 percent and also have a growth of about 10 percent in comparison to spending in centrally sponsored schemes.

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

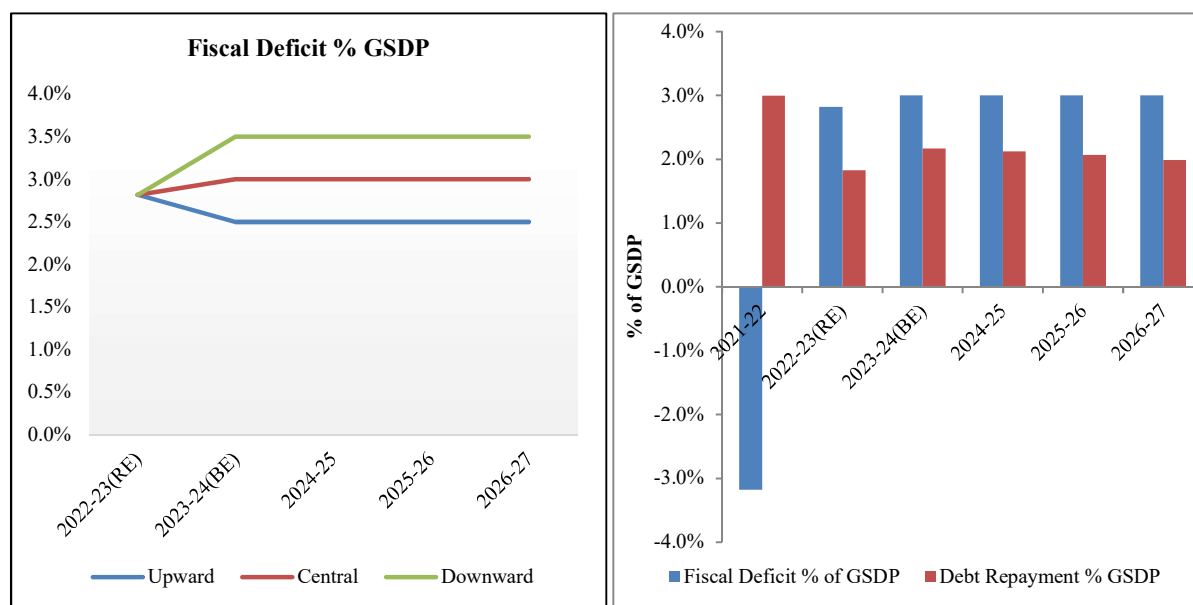
(Rupees in Crores)	2021-22	RE	Forecast			
		2022-23	2023-24	2024-25	2022-23	2023-24
<b>General Services</b>	1515	1649	2062	2208	2466	2778
<b>% of GSDP</b>	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
<b>Social Services</b>	33942	46783	57575	61344	73107	80794
<b>% of GSDP</b>	5.1%	6.1%	6.7%	6.3%	6.7%	6.5%
<b>Economic Services</b>	32362	51568	65363	71449	79427	91429
<b>% of GSDP</b>	4.9%	6.7%	7.6%	7.4%	7.2%	7.3%
<b>Total</b>	<b>67820</b>	<b>100000</b>	<b>125000</b>	<b>135000</b>	<b>155000</b>	<b>175000</b>

### 3.4 DEFICIT OUTLOOK

During FY 2022-23 as per the revised estimate, fiscal deficit is estimated to be 2.8 percent of GSDP. It is projected that the fiscal deficit will remain at 3.0 percent of GSDP during FY 2023-24 and in the medium term also. During FY 2022-23, the total State Government borrowing is Rs 35,834 crore which is just 4.7 percent of GSDP. It is estimated that the total borrowing in FY 2023-24 will be around Rs 44,000 crore which is just 5 percent of GSDP. This Government borrowing includes the mandated public account borrowing such as net GPF. The public account borrowing constitutes around 60 percent to the total government borrowing in FY 2022-23. With the availability of low cost financing from OMBADC (Odisha Mineral Bearing Areas Development Corporation) and CAMPA (Compensatory Afforestation Fund Management and Planning Authority), State Government did not go for any high cost borrowing such as Market borrowing. The good thing about the borrowing undertaken by State Government is that it is used for capital spending only.

Debt repayment which is repayment of the principal amount of the total debt is estimated to decrease in FY 2022-23 and FY 2023-24 compared to FY 2021-22 because the total debt stock has decreased over the years. The debt repayment has contracted by 29 percent during FY 2022-23. It is set to increase in the medium on account of higher borrowing in the coming financial years. However, the debt repayment as a percentage of GSDP is likely to remain at 2 percent level in the medium term.

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

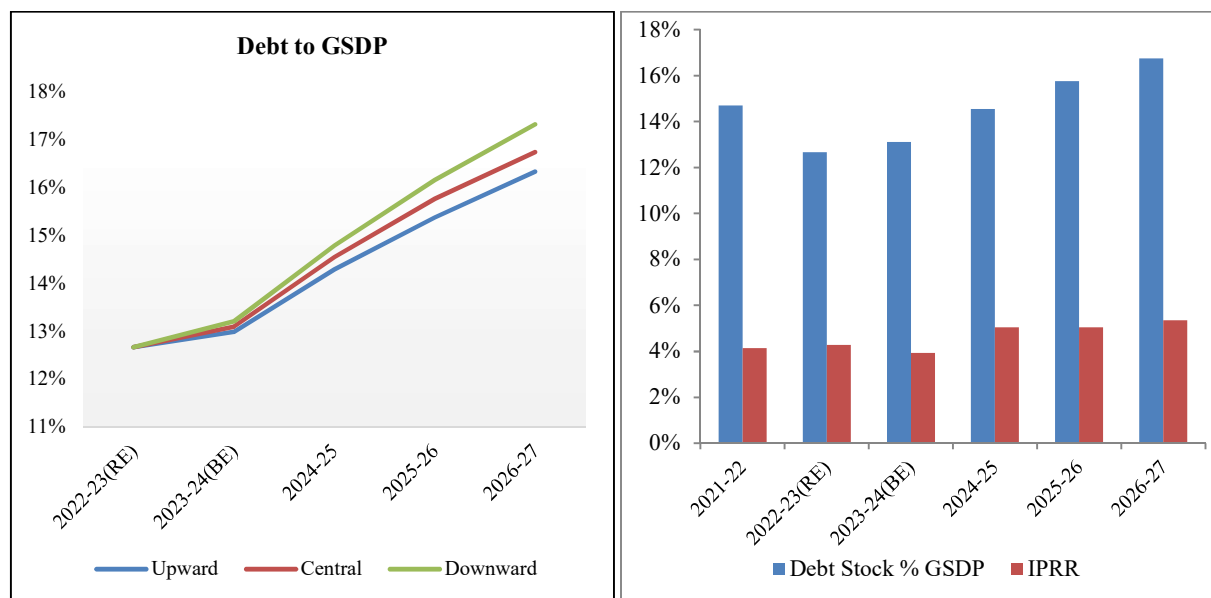


### 3.5. PUBLIC DEBT OUTLOOK

As per the revised estimate for FY 2022-23, the total debt stock of the State Government is estimated to be Rs 97037 crore which is 12.6 percent of GSDP. It is set to increase in the coming financial year and projected to reach 13.1 percent of GSDP. By FY 2026-27, it is projected that the debt stock will be around 17 percent of GSDP which is well within the FRBM limit of 25 percent. The debt stock also includes interest free long term CAPEX loan of Rs 3740 crore provided by Government of India. Majority of our borrowing sources are very low cost. Due to low cost borrowing in the recent years, interest payment has gone down substantially. It has contracted by 4.5 percent in FY 2021-22.

The FRBM Act mandates to keep the Interest Payment to Revenue Receipts ratio (IPRR) within 15 percent. Due to low cost borrowing and relatively less borrowing during FY 2021-22 and FY 2022-23, the IPRR ratio is estimated to decrease from 6.2 percent during FY 2020-21 to 4.1 percent during FY 2021-22 and to 4.3 in FY 2022-23. It is projected that the IPRR will further decrease in FY 2023-22 to 3.9 percent. However, in the medium term it is projected to reach 5 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 outcome to deviate from forecasts. Such risks include unforeseen public spending due to political obligation, revenue shortfalls, natural disasters and any other contingent liabilities. In order to ensure fiscal sustainability, fiscal risk identification, analysis and putting in place appropriate mitigation measures are critical. 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, a few of the possible fiscal risks have been explained in the below section.

#### **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. This trend is likely to continue in the medium term also. 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. In order to maintain the level of expenditure in future years, the Budget Stabilization Fund has been created in the 2022-23 budget and a provision of Rs. 13000 crore has been made for this.

### ***DELAY IN RECEIPT OF CENTRAL ASSISTANCE:***

Delay in receipt or non-receipt of Central Assistance in case of some Centrally Sponsored Schemes has forced the State Government to meet the expenditure requirements for such schemes out of its own limited resources. Continuance of such trend would adversely affect the implementation of schemes as well as fiscal health of the State. In addition to this, the central transfer in the form of Grants has decreased. There is substantial decrease in grants from the Centre during FY 2020-21 and FY 2021-22. Due to cessation of compensation on account of GST shortfall w.e.f July, 2022, there will be less Grant in Aid.

### ***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**

Focus of the State Government in the upcoming budget and in the medium term is to mobilize additional resources for increasing capital expenditure. With sound financial condition of the State, the nature of expenditure is mostly capital in nature. There remains continued thrust of the Government for creation of quality infrastructure. Through effective policy decisions, Odisha is now ranked first State in the country with lowest unemployment rate as per the report of the Centre for Monitoring Indian Economy (CMIE). MSMEs have been given special incentives to create job opportunities and boost industrial growth. Government is prioritising spending in key social sectors to improve quality of life of people of the State. Sound fiscal planning and quality of expenditure over the years have resulted in sustainable financial condition of the State.