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Fiscal Landscape of Odisha: An analysis of Deficits and Expenditures

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ABSTRACT

This paper examines the paradigm shift of the fiscal landscape of Odisha during the period spanning from 1980-81 to 2014-15. To analyse the structural changes, the entire period is further split into four sub-periods i.e., 1980-81 to 1989-90, 1990-91 to 1999-2000, 2000-01 to 2004-05 and 2005-06 to 2014-15. The fiscal deterioration of the first sub period was mainly because of a worsening revenue account. During sub period two, further deterioration in the revenue account was coupled with deterioration in capital account. This led to a higher fiscal deficit and high debt burden ratio. As a result, the capital outlay was compressed. In sub period three, the State decided for a comprehensive reform in state finance by signing an MOU with central Government and in accordance with the 11th Finance Commission recommendation. The immediate policy measure of the State had been to reduce the burden of interest payment through prepayment of high cost market borrowing and also through debt swap. In sub period four, the introduction of Odisha Fiscal Responsibility and Budget Management (FRBM) Act, 2005 provided a rule based framework for the administration of the Fiscal Consolidation process in Odisha. The FRBM Act, 2005 and the recommendation from the successive finance commissions, collectively guided state finance in Odisha to a turnaround through efficient expenditure management policy that led to creation of more fiscal space and flexibility by 2014-15.

Key Words: Revenue Deficit, Fiscal Deficit, Debt burden, Expenditure Management, Fiscal Space
JEL Codes: H60, H61, H62, H63

1. Introduction:

The Indian economy is presently poised on the edge of a fiscal cliff. High deficits, at national as well as sub-national level in India, have become common place. The issue has found great attention among the academicians and policy makers in the recent times. High deficits tend to heighten inflation, reduce room for monetary policy stimulus, increase the risk of external sector imbalances and dampen private investment, growth and employment[1]. At present, (FY 2015-16), gross fiscal deficit is estimated at 3.94 percent (RE) of GDP for Centre, whereas 2.46 percent (BE) of GDP for all States in India. However, the revenue deficit as a proportion of the GDP is calculated at 2.52 percent (RE) for Centre, while surplus of 0.40 percent (BE) for States in same financial year.

The deficits problem in India gained prominence in the early 1980s. The Centre registered revenue surplus before FY 1979-80. The States in India witnessed a revenue surplus till FY 1986-87. Thereafter, there was a sharp escalation of the deficits in the late 1980s at national as well as sub-national level, which culminated in the BOP crisis of 1991. The gross fiscal deficit of the Centre peaked in FY 1986-87 (8.13 percent to GDP), thereafter it started to decline. On the contrary, the gross fiscal deficit of the states, which was stagnant at 2 to 3 percent of GDP until 1997-98, registered a sharp rise thereafter (see Chart 1.1 & Chart 1.2).

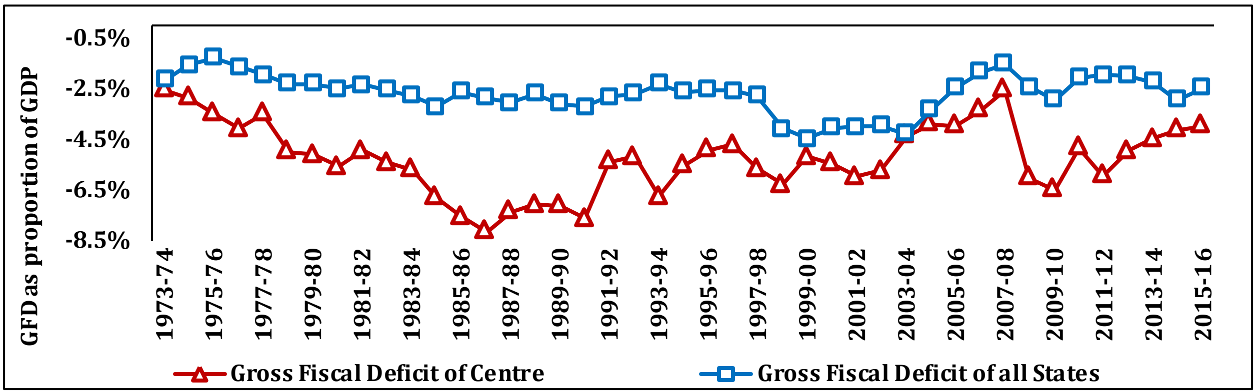


Chart 1.1: Trends in Gross Fiscal Deficit of Centre and all states

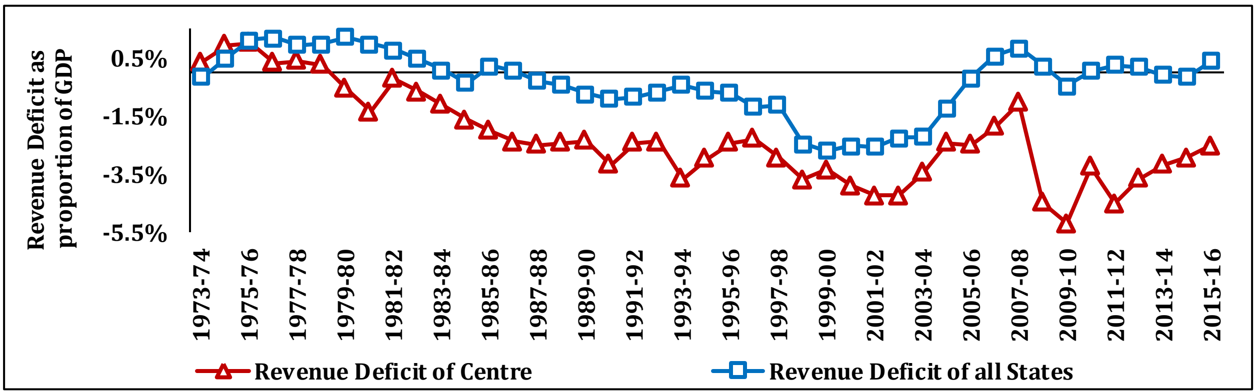
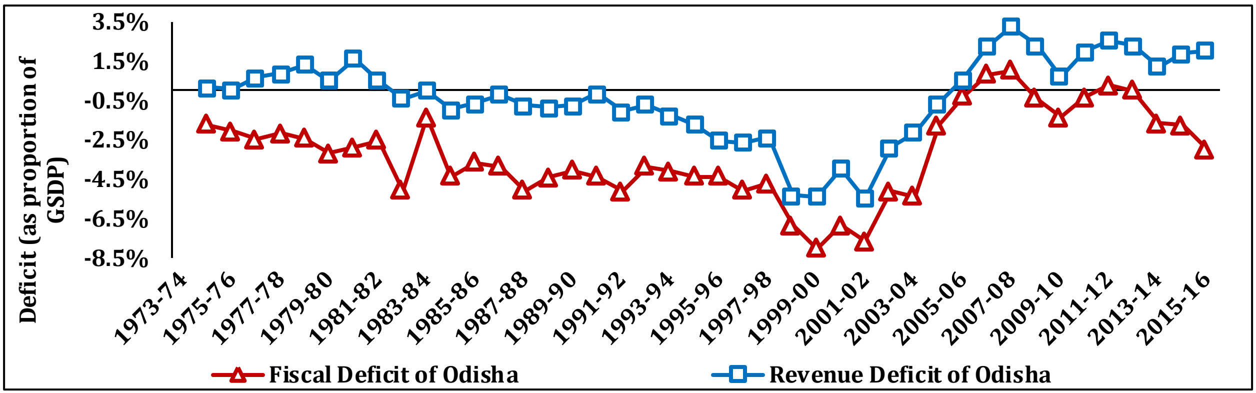


Chart 1.2: Trends in Revenue Deficit of Centre and all states

[1]Kelkar (2012)

Likewise, the fiscal situation of Odisha deteriorated from being in revenue surplus in the early 1980s to persistent deficits by mid-1980s. Furthermore, the revenue deficit and fiscal deficit were at their highest at 5.37 percent and 8.01 percent of GSDP, respectively, at the end of the 90s (see Chart 1.3).

Chart 1.3: Trends in Fiscal & Revenue Deficits of Odisha



Worsening of the fiscal situation affects the quality of expenditures of the governments critically. The government revenue often fell short of meeting the committed expenditure on account of Salary, Pension and Interest Payment. As a result, the imbalance between the state's own revenue receipts and expenditure widened, forcing diversion of other resources such as central transfer (both share tax and grants) and borrowings to meet the unproductive expenditure. These fiscal imbalances have impeded the government from investing enough in capital formation and infrastructure for providing the foundation for growth of economy. To address the concern, the Fiscal Consolidation and Budget Management (FRBM) Act, 2003 has been enacted in both Centre and States in mid of 2000s.

1.1. Fiscal Responsibility and Budget Management (FRBM) Act, 2003

Under the purview of the FRBM legislation the government (Union as well as State government) have to ensure long-term macro-economic stability, sufficient revenue surplus, coordination between fiscal and monetary policy, prudential debt-deficits management consistent with fiscal sustainability, greater transparency in fiscal operations of the government.

The FRBM rules notified in July 2004 by the Central Government mandated that appropriate measures were to be put in place for reducing fiscal deficit and revenue deficit. Revenue deficit was to be eliminated by 31st March, 2008 and thereafter adequate revenue surplus was to be maintained. The FRBM rule specified that fiscal deficit be reduced to 3% of the GDP by 2008-09 with an annual reduction target of 0.3% of GDP by the Central government. Similarly, revenue deficit was to be reduced by 0.5% of the GDP per year with complete elimination to be achieved by 2008-09.

FRBM Act provides a legal institutional framework for fiscal consolidation. It binds the present and the future governments to adhere to fiscal consolidation and maintain fiscal prudence at all times, except in case of any natural calamity, national security and other exceptional grounds which the Central Government may specify.

Further, the Act prohibits borrowing by the government from the Reserve Bank of India, thereby, making monetary policy independent of fiscal policy. The Act bans the purchase of primary issues of the Central Government securities by the RBI after 2006, preventing monetization of the government deficit.

The Act also requires the government to lay before the parliament three policy statements in each financial year namely Medium Term Fiscal Policy Statement; Fiscal Policy Strategy Statement, and the Macroeconomic Framework Policy Statement.

The implementation of FRBM Act improved the fiscal performance of both the Centre and states. However, during the global financial crisis the mandates of fiscal consolidation of FRBM Act were suspended in 2007-08. The FRBM Act was amended in 2012 through Finance Act 2012. It was decided that in addition to the existing three documents, Central Government shall lay another document, namely the Medium Term Expenditure Framework Statement (MTEF).

In 2012, an amendment made to the legislation mandated that the Central Government take appropriate measures to reduce the fiscal deficit, revenue deficit and effective revenue deficit and to eliminate the effective revenue deficit by the 31st March, 2015. Thereafter, it stipulated that adequate effective revenue surplus was to be maintained, ensuring that revenue deficit did not exceed beyond 2 % of Gross Domestic Product. The target dates for achieving the prescribed rates of effective revenue deficit and fiscal deficit were further extended through an amendment of the Finance Act, 2015. The revenue deficit now needs to be eliminated by March 2018. Similarly, the due date for achieving the 3% target of fiscal deficit has been extended by an additional year to the end of 2017-18.

The FRBM Act in India is a set of fiscal rules which is akin to the fiscal framework of the United Kingdom Government. The fiscal rules in UK are driven by 1) the **golden rule** wherein, the Government can borrow only to invest and not to fund current spending, 2) **sustainable investment rule** that maintain the public sector net debt as a proportion of GDP at a stable and prudent level.

This set of fiscal rules gives fiscal space to any sovereign to pursue outlay on developmental activities to induce inclusive growth.

2. Objective of the study

In this backdrop, an attempt has been made to analyze the paradigm shift of the fiscal landscape of Odisha across the periods spanning from 1980-81 to 2014-15. In the present study, we analyse the behavior of fiscal deficit, revenue deficit, and government expenditures of Odisha. Besides, the study examines the trends in expenditures on economic services, social services and general services, and subsequently debt management. This entails an analysis of the descriptive statistics of fiscal landscape, major policy changes and the devolution of various Finance Commissions to the State.

We have divided the period of study in four sub-periods, 1980-81 to 1989-90; 1990-91 to 1999-2000; 2000-01 to 2004-05; and 2005-06 to 2014-15. The motive behind the division of the period of study into four specific sub-periods is that the structural changes that have occurred during their span. The first period (i.e., 1980-81 to 1989-90) unfolds the beginning of the fiscal deterioration in State finance of Odisha. The second period (i.e., 1990-91 to 1999-2000) represents the further deterioration in State finance of Odisha. The third period (i.e., 2000-01 to 2004-05) corresponds to the pre-FRBM fiscal consolidation period. Finally, the fourth period (i.e., 2005-06 to 2014-15) captures the effect of the FRBM Act on State finance.

The present study is based on the secondary data, which were extracted mainly from (i) White Papers on Orissa State Finances (March, 29th, 2001, and 1999) published by Finance Department, Government of Odisha; (ii) various issues of Odisha Budget published by Finance Department, Government of Odisha; (iii) various issues of Annual Financial Analysis of State Finance: published by Finance Department, Government of Odisha; (iv) various issues of Odisha Economic Survey, published by Planning and Coordination Department, Government of Odisha (v) various issues of State Finances: A Study of Budgets published by Reserve Bank of India (RBI) and (vi) Handbook of Statistics on Indian Economy both published by RBI.

2.1. Design of the study

Rest of the paper is organized as follows: Section three describes the fiscal landscape of the State for the 1980s. The fiscal scenario of the State for 1990s is outlined in Section four. Section five and six elaborates the fiscal landscape during pre-fiscal consolidated FRBM period and FRBM fiscal consolidation period, respectively. Section seven concludes with summary of the study.

3. Fiscal Landscape of Odisha in 1980s (1980-81 to 1989-90):

The revenue account of Odisha was roughly balanced until 1980-81. In fact, 1980-81 registered a revenue surplus of 1.62 percent of GSDP. But soon after, 1982-83 onwards the revenue account ran into repeated deficits. This was on account of steep increase in revenue expenditure compared to revenue receipts, (see Chart 3.1).

Besides, the fiscal deficit of the State also witnessed a secular deterioration in 1980s. It peaked to 5.08 percent of GSDP in 1982-83. The average fiscal deficit for the decade of 1980s was 3.73 percent of GSDP, (see Chart 3.2).

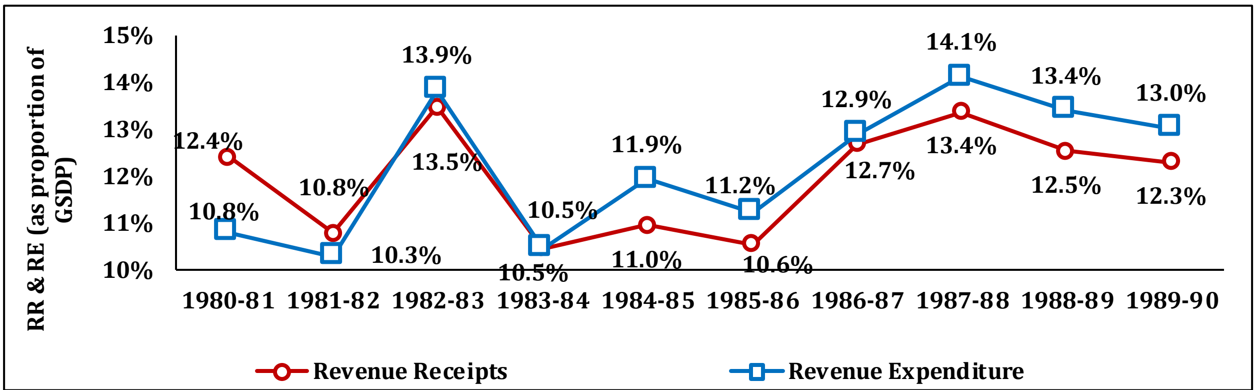


Chart 3.1: Trends in Revenue Receipts and Expenditure (as proportion of GSDP)

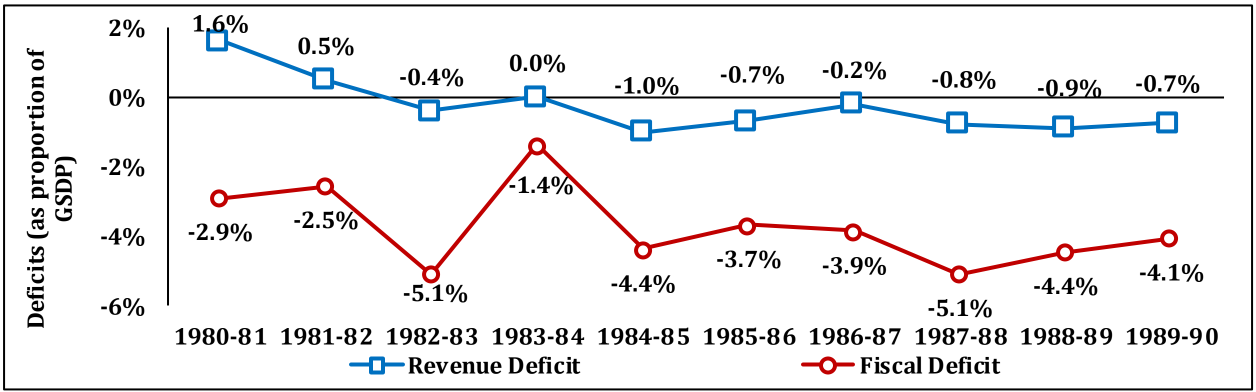


Chart 3.2: Trends in Revenue and Fiscal Deficit (as proportion of GSDP)

The deficit in revenue account, in 1980s, revealed that the gap between government receipts and expenditure was widening across the years. The government revenue receipts had been more or less stagnant and therefore it failed to match the expanding committed expenditures. In 1980s, the annual average of revenue receipts was 11.96 percent of GSDP against the revenue expenditure at 12.21 percent of GSDP. The composition of the government receipts shows that the contribution of central transfer was greater (at 7.04 percent to GSDP) than the state's own revenue (at 4.92 percent to GSDP), in 1980s. The deterioration in efficiency of both tax and non-tax revenue of the State has mostly contributed to the deficit scenario (see Chart 3.3).

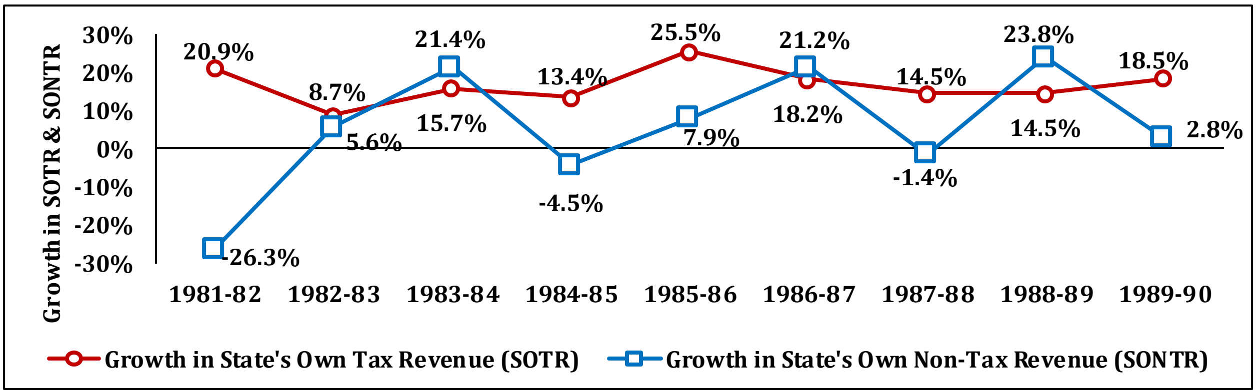


Chart 3.3: Trends in Growth in State's own Tax and non-Tax Revenue

Ideally the revenue receipts should cover the whole of revenue expenditure and the surplus should finance a part of the capital expenditure. However, owing to the inadequacy of the revenue receipts in meeting the revenue expenditure, the government resorted to market borrowings to finance the excess revenue expenditure and, the residuals were used to finance capital formation in the State. In the 1980s, the capital outlay was almost stagnant at 3-4 percent of GSDP, whereas, the total expenditure was 15.40 percent (annual average) of GSDP (see Chart 3.4).

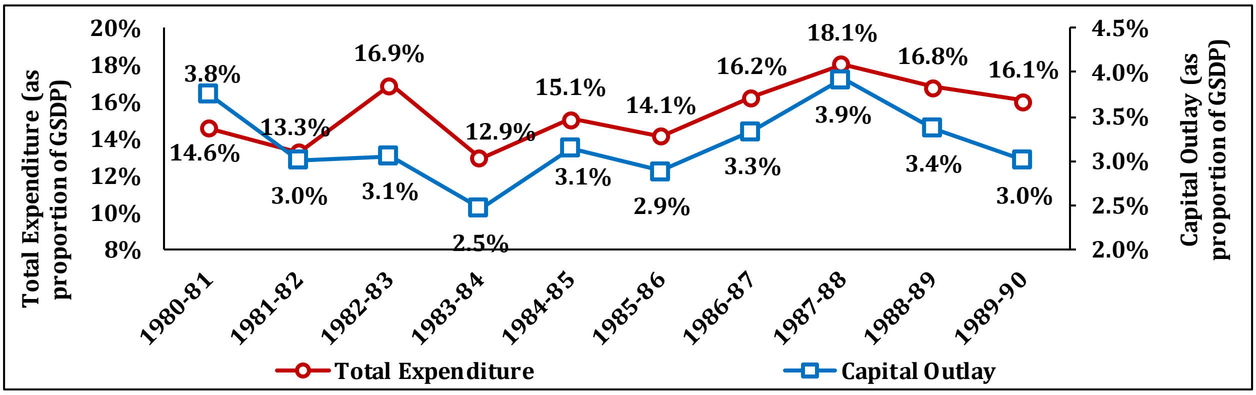


Chart 3.4: Trends in Total Expenditure and Capital Outlay (as proportion of GSDP)

Out of total expenditure, the expenditure on social services and economic services were stable at 5 to 6 percent of GSDP (except 1982-83 when social services expenditure was 7.85 percent of GSDP) and 6.07 percent (annual average) respectively. On the contrary, the general services expenditure was expanding consistently. It escalated to 4.61 percent of GSDP in 1989-90 from 2.85 percent of GSDP in 1980-81 (see Chart 3.5).

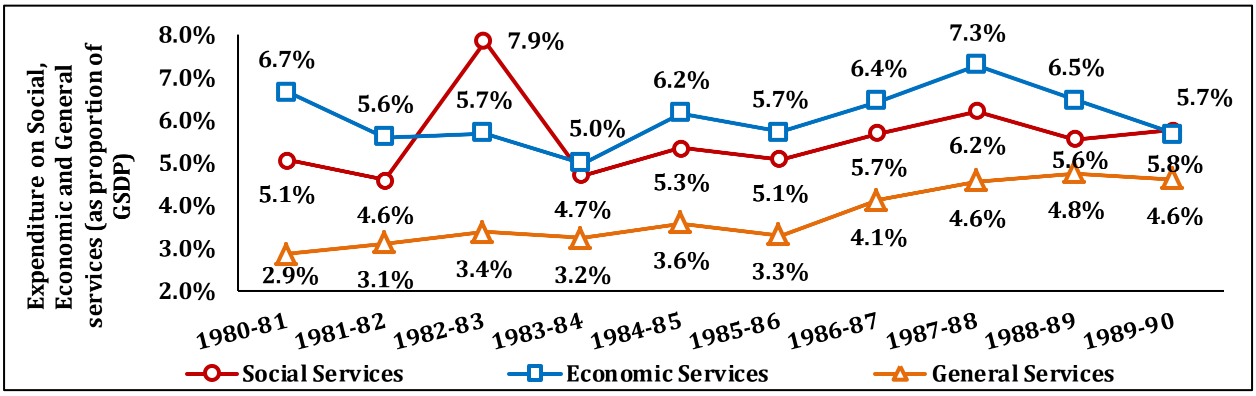


Chart 3.5: Trends in Expenditure on Social, Economic and General Services (as proportion of GSDP)

The higher revenue deficit was attributed to the higher committed expenditure. The State Government employed large number of staff in various Departments. Initially the State Government had its own pay structure for its employees but in due course of time the pay structure had to be revised in line with the pay scale of the Central Govt. employees. Salaries and the retirement benefits including Pensions were paid to the employees. This triggered a heavy burden on the State exchequer (see Chart 3.6). The annual increase in the salary bills of the Govt. employees and the compensatory Dearness Allowances resulted in an annual growth of the Govt. wage bill which was substantially higher than the growth rate of its revenue receipts.

As a result of this, the employees' wage bill spread out to capture an increasingly large portion of the total revenue expenditure of the State. In 1980s, the annual average of the committed expenditure was 7.08 percent of GSDP, against, the total revenue receipts at 11.96 percent of GSDP.

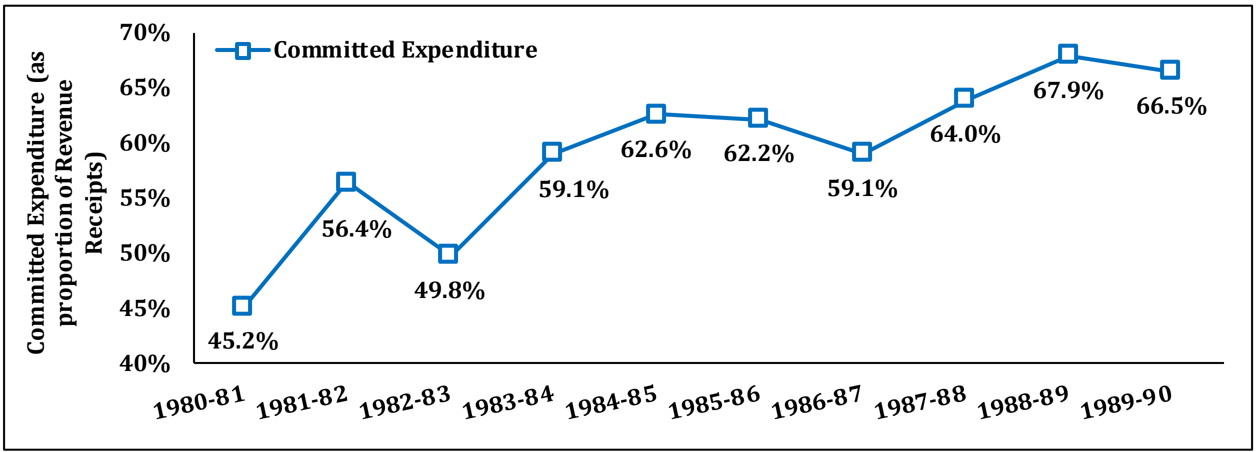


Chart 3.6: Trends in Committed Expenditure (as proportion of Revenue Receipts)

The gap in the revenue account was met by higher borrowing. The higher borrowing led to higher interest payment burden. To meet the higher interest payment burden, the State resorted to more borrowing. This led to a vicious circle of mounting revenue deficit and debt trap situation.

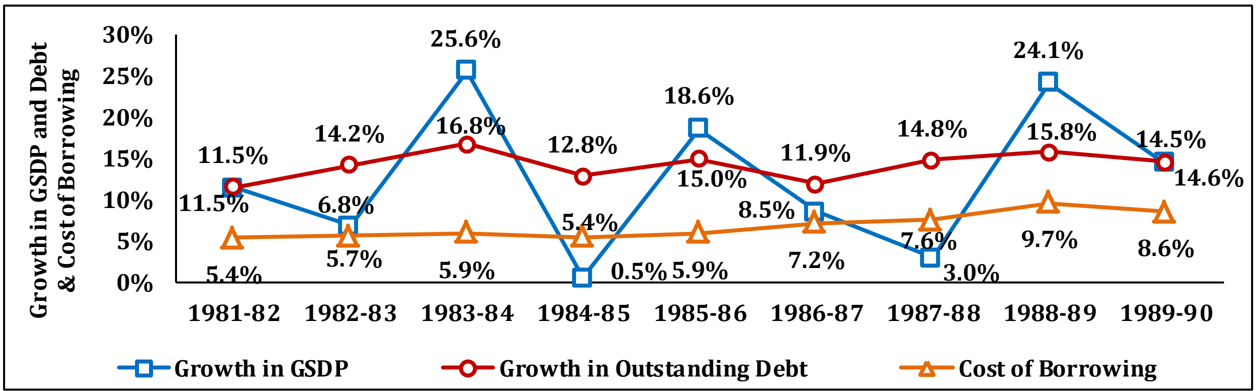


Chart 3.7: Trend in Cost of Borrowing and Growth in GSDP & outstanding Debt

This resulted in widening imbalance between the revenue receipts and expenditure along with diversion of borrowed funds to meet the unproductive revenue expenditures. In 1980s, the annual average of the interest payment recorded at 13.41 percent of revenue receipts, while the outstanding debt was 25.76 percent of GSDP (see Chart 3.7).

4. Fiscal Landscape of Odisha in 1990s (1990-91 to 1999-2000):

The decade of 1990s is also known as the economic reforms decade in India. With the new policies of economic reforms, the role of Government underwent a sea change. In a market determined resource allocation set-up, the Government's role evolved to become facilitatory in nature rather than being a direct participant in production and distribution. The private investment is the prime mover of economic activity. However, private investment seeks favourable investment environment to maximize profits. It is here that the State Govt. faces fierce competition from other States in attracting investment. For a destination to be a favourable for investments, it is necessary for it to not only follow investment friendly policies but also create high quality infrastructure.

Deterioration in fiscal parameters continued into the 1990s. The gap between revenue receipts and revenue expenditure continued to widen rapidly. As a result, the revenue deficit was also mounting at a galloping rate in 1990s. Another severe financial crunch surfaced in 1990s. The revenue expenditure as a percent of the GSDP increased across the years, while the revenue receipts as percent of GSDP was declining over the decade. Consequently, the decade closed with a revenue deficit of 5.37 percent of GSDP (see Chart 4.1).

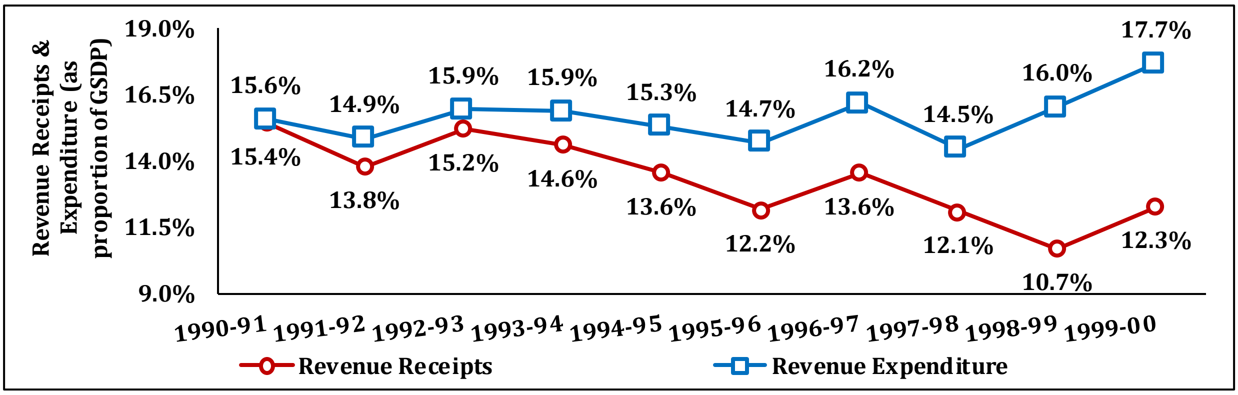


Chart 4.1: Trend in Revenue Receipts & Expenditure (as proportion of GSDP)

A higher revenue deficit forces the State Government to resort to higher borrowing, culminating into higher debt servicing liabilities. Subsequently, higher revenue expenditure, gives rise to higher revenue deficits. This acts like a vicious circle, inevitably leading to a situation of debt trap.

Consequently, the fiscal deficit had escalated. In the early 1990s, fiscal deficit was 4.38 percent of GSDP. By the end of the decade, revenue deficit had mounted to 5.37 percent of GSDP and the fiscal deficit was at its peak at 8.01 percent of GSDP. Greater revenue deficit had led to more borrowing and higher fiscal deficit (see Chart 4.2 & Chart 4.3).

In 1990s, the revenue expenditure witnessed a consistent increase, while the capital outlay stayed more or less same. For instance, by the end of the decade the revenue expenditure had reached at 17.66 percent of GSDP from 15.57 percent of GSDP in 1990-91. However, at the same time, the capital outlay had declined to 1.67 percent of GSDP from 3.92 percent of GSDP characteristic of the early 1990s (see Chart 4.4).

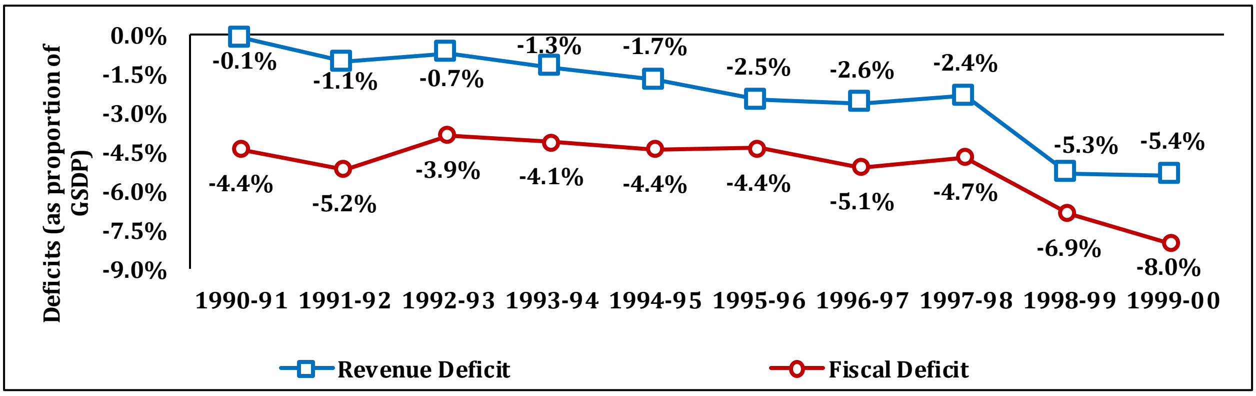


Chart 4.2: Trend in Revenue Deficit and Fiscal Deficit (as proportion of GSDP)

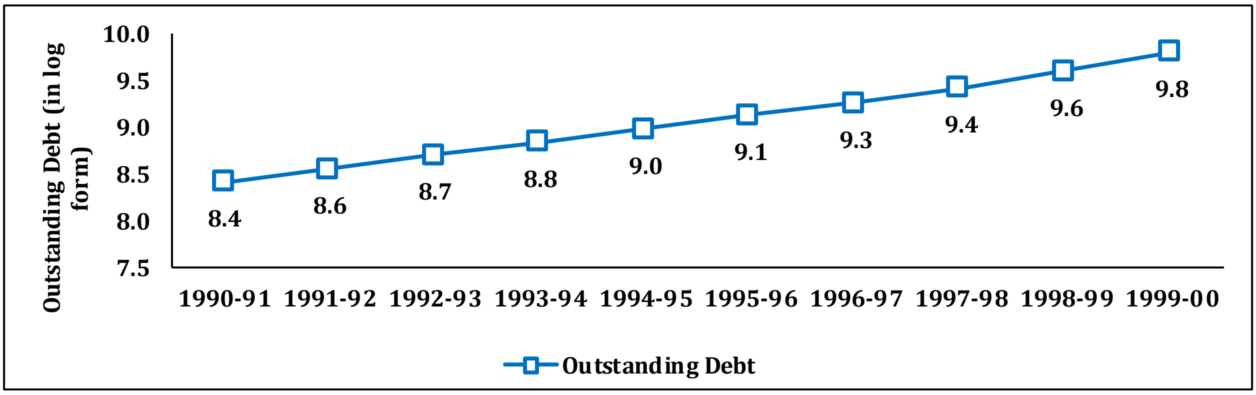


Chart 4.3: Trend in Outstanding Debt (in log form)

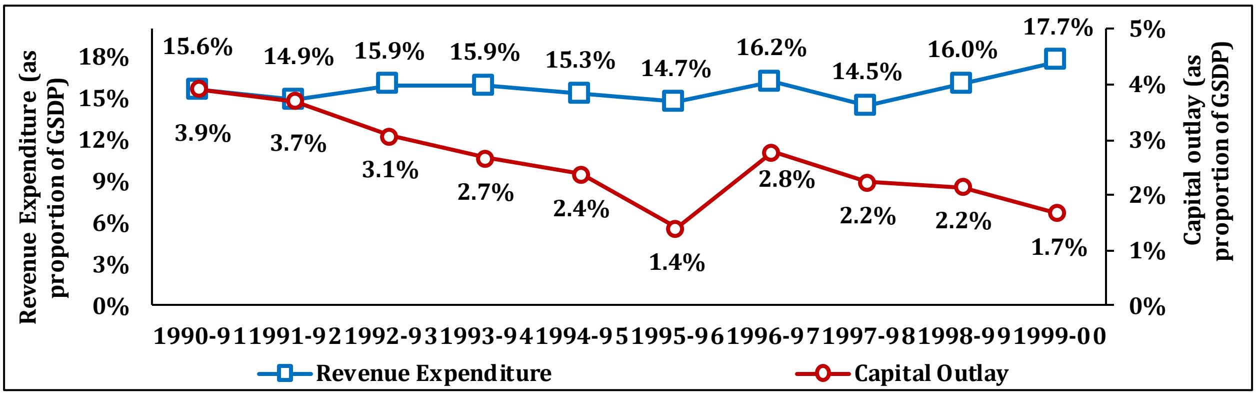


Chart 4.4: Trend in Revenue Expenditure and Capital Outlay (as proportion of GSDP)

The expenditure under social, economic and general services in 1990s captures diverse trends. Over the decade, the social and general services expenditures have increased, while the expenditure on economic services has declined. In the beginning of the decade, in 1990-91, the expenditures on social, economic and general services were 6.29, 8.16 and 5.04 percent of GSDP, respectively. Whereas, at the end of the decade, in 1999-2000, the social and general services expenditures increased to 8.46 and 6.11 percent of GSDP, while the economic services expenditure reduced to 4.77 percent of GSDP (see Chart 4.5).

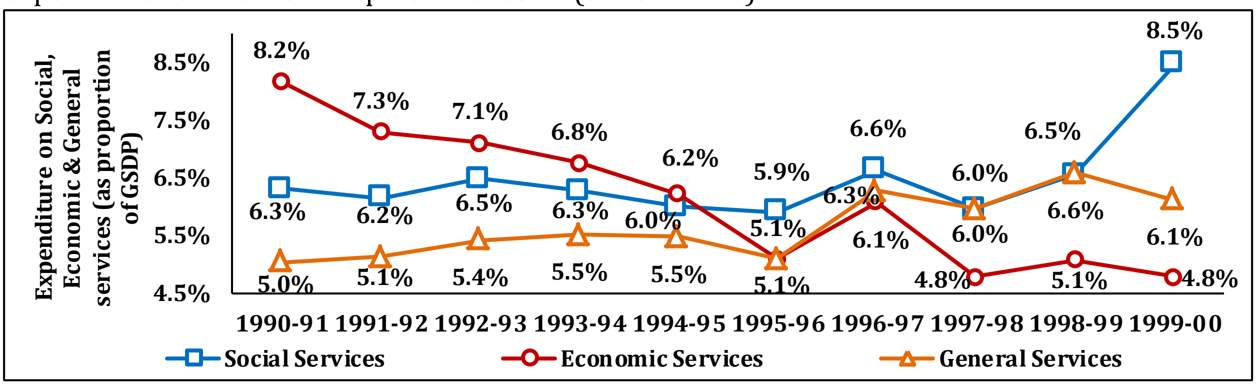


Chart 4.5: Trend in Expenditure on Social, Economic & General Services (as proportion of GSDP)

Committed expenditure that fueled the revenue deficit, threatened the expenditure patterns of the State. At the end of the 1990s it outnumbered the revenue receipts level. In 1998-99, the committed expenditure was at 12.59 percent of GSDP, while the revenue receipts was at 10.70 percent of GSDP (see Chart 4.6).

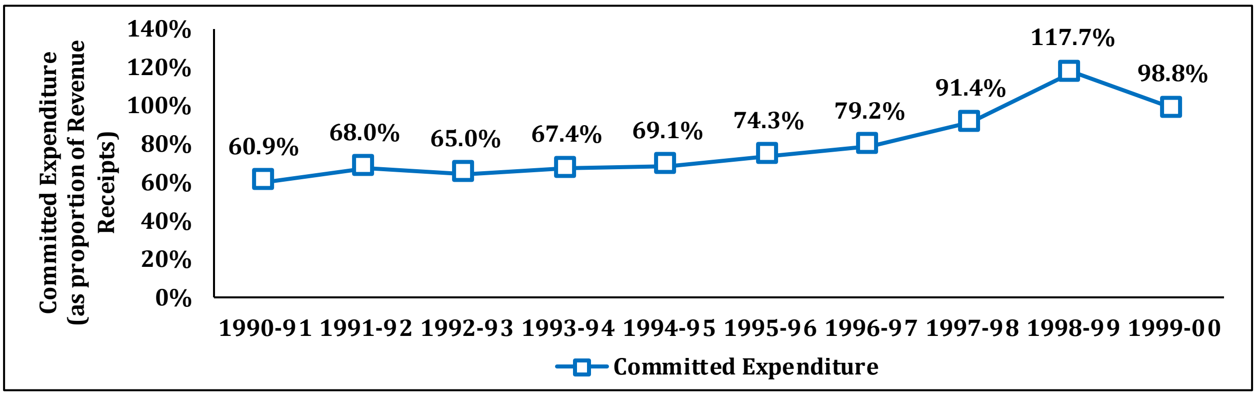


Chart 4.6: Trend in Committed Expenditure (as proportion of Revenue Receipts)

The annual average of committed expenditure in 1990s was 10.34 percent of GSDP which was higher than the previous decade average. The interest payments and outstanding debt surged on account of high revenue deficits and fiscal deficits. The Interest payment as a proportion of the revenue receipts was 22.89 percent (annual average), whereas, the outstanding debt was 32.17 percent of GSDP (annual average) in the 1990s (see Chart 4.7).

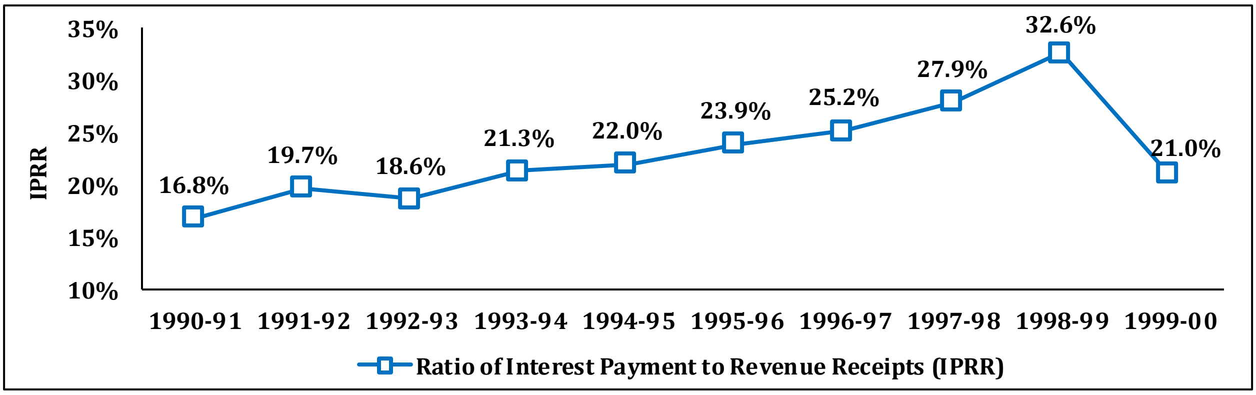


Chart 4.7: Trend in Interest Payment (as proportion of Revenue Receipts)

In the backdrop of severe fiscal imbalances in State, the State Government decided to initiate broad based fiscal reform measures through public consultations. To inform the public about the fiscal problems of the State, the White Paper document was published in July, 1999. Additionally, the state government signed the Memorandum of Understanding (MoU) on April 24, 1999 with Ministry of Finance, Government of India to accomplish all the fiscal reforms measures and strengthen the State finances.

5. Fiscal Landscape of Odisha in pre-FRBM fiscal consolidation period of 2000-01 to 2004-05:

The MoU of July 1999 marked the beginning of fiscal reforms in the state. The State decided for a comprehensive reform in state finance. State Government published another White Paper in March, 2001 to notify the public about the fiscal situation and to build consensus on the corrective measures aimed at putting the economy in the path of sustained high growth.

Additionally, State government signed another MoU with central government in March, 2001 to implement an agreed set of reform measures in the State.

This period (i.e., 2000-01 to 2004-05) was the operational duration of Eleventh Finance Commission (EFC). Under the EFC recommendations and MoUs with central government, the State government committed itself to implement the specific fiscal measures, e.g., 'Fiscal and Governance Reforms Programme' aimed at strengthening the financial situation of the State. The central theme for the fiscal reforms programme was the preparation of a Medium Term Fiscal Framework (MTFF) indicating the outcomes of the reforms measures in terms of the monitorable fiscal indicators e.g., fiscal deficit/primary deficit/revenue deficit. Annual targets sought, were to be set in terms of these indicators for each year of the medium term period.

Fiscal reform at the State level is now an urgent component of overall economic reforms. Restructuring of Indian Public Finance requires the collective action of both layers of the Government, namely the Central and State Governments.

In purview of the above rules and legislation, the State has taken corrective measures primarily to reduce revenue expenditure. The immediate policy measure of the State has been to reduce the burden of interest payment through prepayment of high cost Market borrowing and also through debt swap. From 2002-03 to 2004-05, high cost debt amounting to Rs.2543.62 crores had been swapped against low cost debt which resulted in interest relief of Rs.144.47 crores.[2]

Consequently the revenue deficit was reduced to 0.67 percent of GSDP in 2004-05 from 3.98 percent of GSDP in 2000-01. The fiscal deficit also declined to 1.76 percent of GSDP from 6.87 percent of GSDP in same period.

Revenue receipts have shown some improvement as compared to the preceding periods in the present study. On the contrary, the revenue expenditure and capital outlay have declined over the period. In 2000-01, the revenue expenditure and capital outlay were 18.24 percent and 1.73 percent of GSDP, respectively, whereas, in 2004-05 both reduced to 15.92 percent and 1.36 percent of GSDP respectively. It appears that the State resorted to contain expenditures immediately to improve the fiscal situation. This is because revenue enhancement through tax and non-tax sources is a long term measure (see Chart 5.1).

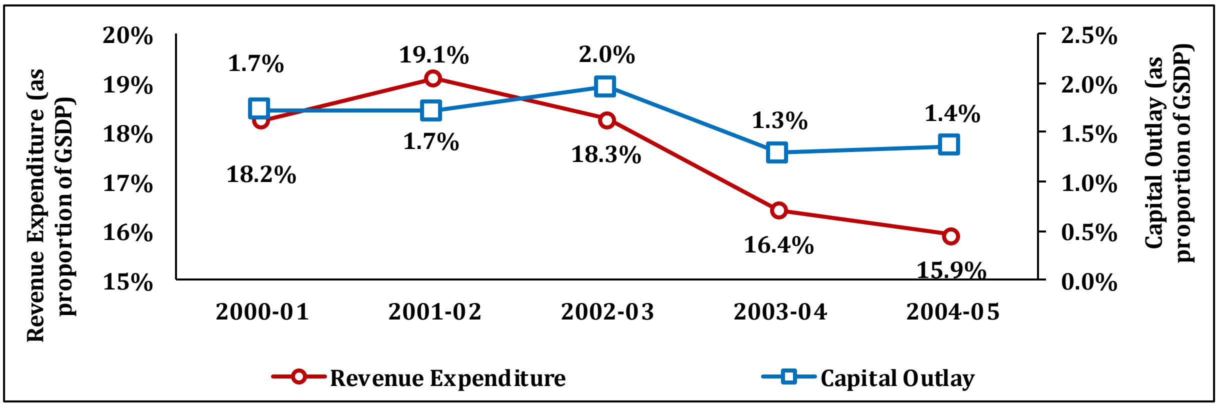


Chart 5.1: Trend in Revenue Expenditure and Capital Outlay (as proportion of GSDP)

[2] Finance Department, Govt. of Odisha

Expenditure on social and economic services has declined over the period. However, the general services expenditure, although higher than the social and economic services, has remained stagnant invariably. The annual average of social and economic services expenditures were 6.18 percent and 4.12 percent of GSDP respectively, while the annual average of the expenditure on general services was 8.90 percent of GSDP in pre-fiscal consolidation period.

Committed expenditure also declined to 11.02 percent of GSDP in 2004-05 from 14.30 percent of GSDP in 2000-01 (see Chart 5.2).

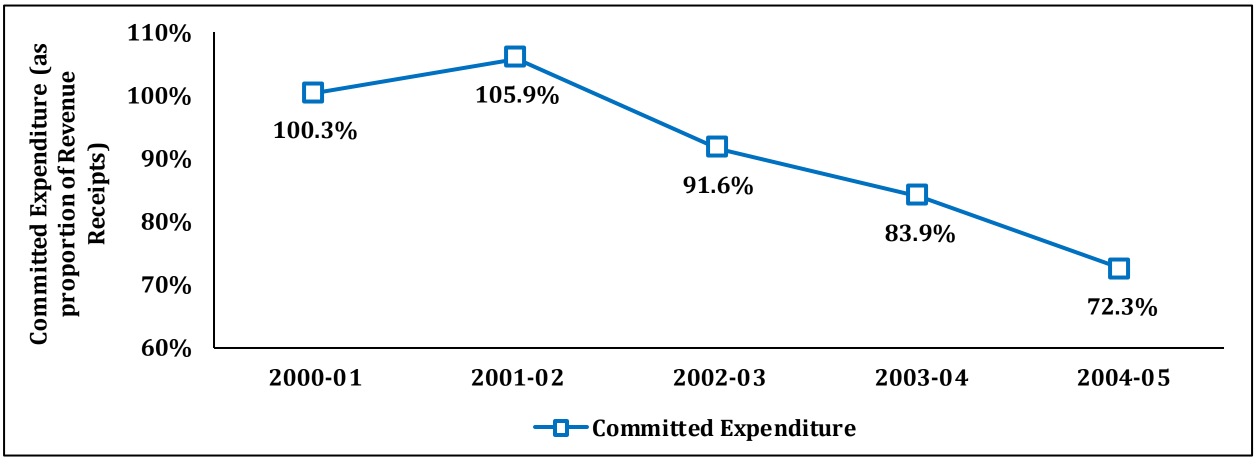


Chart 5.2: Trend in Committed Expenditure (as proportion of Revenue Receipts)

The annual average of the interest payment accounted for one-third of the revenue receipts, whereas the outstanding debt stock accounted for almost half of the GSDP during this period. The annual average of the interest payment was calculated at 33.19 percent of revenue receipts and the debt stock added up to 46.45 percent of GSDP during the period spanning 2000-01 to 2004-05.

6. Fiscal Landscape of Odisha in FRBM Fiscal Consolidation period of 2005-06 to 2014-15:

The enactment of the Odisha Fiscal Responsibility and Budget Management (FRBM) legislation, 2005 provided a rule based framework for the administration of the Fiscal Consolidation process in Odisha. The FRBM Act, 2005 and the recommendation from the finance commissions, collectively guide the management of state finance in Odisha. After enactment of FRBM Act, the State finances of Odisha have evinced a comfortable trend with revenue surplus, low fiscal deficit and a reduced debt burden relative to the GSDP. In the period after the enactment of the FRBM legislation, the fiscal deficit has remained less than one percent of the GSDP (annual average), while it showed a surplus in the years - 2006-07, 2007-08, 2011-12 & 2012-13.

During the year 2006-07, prepayment of high cost market borrowing amounting to Rs.394.61 crores was made followed by next tranche of pre-payment of high cost loan in the year 2007-08 of amount Rs.356.16 crores (NSSF loan of Rs.199.72crore and Market loan of Rs.156.44 crores). In the third tranche, in the year 2012-13, prepayment of high cost loan of Rs.575.28 (HUDCO loan of Rs.251.04 crores and REC loan of Rs.324.24 crores) had been effected which resulted in relief of interest payment to the tune of Rs.55.24 crores.

Because of debt restructuring, the dependence of financing of State Plan outlay on borrowing has come down very significantly. In 2002-02, the State Plan Outlay constituted 0.65 times the net borrowing. It went up to 4.41 times in 2014-15 implying more non-debt receipts are financing State Plan.

During these years, the State had not resorted to any borrowing to finance its expenditure. It was only in 2013-14, the fiscal deficit spiked to 1.7 percent of the GSDP consequent to an increase in the capital outlay. This trend intensified in 2014-15, when the fiscal deficit increased to 1.77 percent of GSDP owing to a rise in the capital outlay. The key feature of this fiscal trend has been to augment capital outlay through the generation of revenue surplus and borrowings.

The broad fiscal trends show that the State Government has managed to keep firm control over the revenue expenditure, which continued to remain below 16 percent of GSDP until 2012-13. The revenue expenditure increased to 16.71 percent in 2013-14 before declining marginally to 16.51 percent in 2014-15. It is important to notice that the capital outlay, which remained unchanged at about 2 percent of GSDP until 2012-13, increased to 3.57 percent of GSDP in 2014-15. Capital outlay contributes to growth more directly and it is a positive development that the share of capital outlay has registered an increase in recent years (see Chart 6.1).

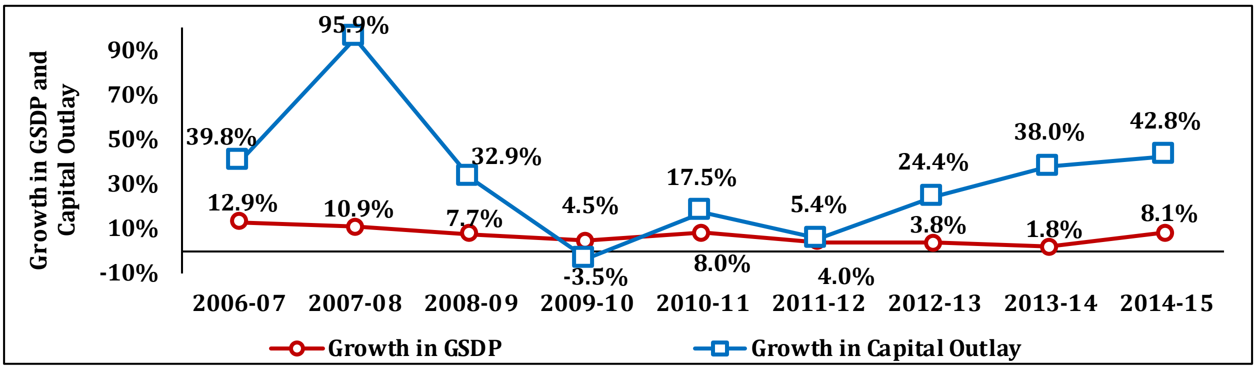


Chart 6.1: Trend in Growth in real GSDP and Capital Outlay

The rise of aggregate revenue receipts in 2014-15 and a corresponding decline in revenue expenditure has resulted in a revenue surplus of 1.89% of GSDP, which has aided the increase in the capital outlay. The rising capital outlay is the outcome of the deliberate strategy employed by the State Government in exploiting the fiscal space created by fiscal prudence during fiscal consolidation period.

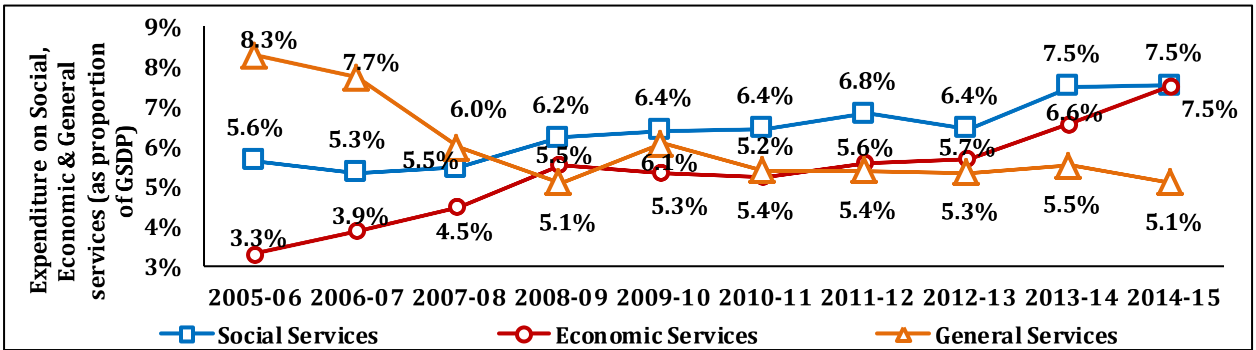


Chart 6.2: Trend in Expenditure on Social, Economic & General Services (as proportion of GSDP)

Total revenue expenditure has invariably remained within a band of 14-16 percent of GSDP during this period. However, in 2013-14, it reached to a level of 16.71 percent of GSDP. This declined marginally to 16.51 percent in 2014-15. The composition of revenue expenditures has improved in recent years, in the sense that, the share of general services which are non-developmental in nature, has decreased and the share of social and economic services which are development expenditures have increased. The general services expenditure declined to 5.08 percent to GSDP in 2014-15 from 8.26 percent in 2005-06, whereas the expenditure on social services and economic services hiked to 7.51 percent and 7.50 percent of GSDP from 5.64 percent and 3.31 percent of GSDP respectively over the same period. The quality of public expenditure has improved during fiscal consolidation period (see Chart 6.2).

The rising share of committed expenditure was the major cause of concern for the State before the enactment of FRBM Act because it reduced the flexibility available to the Government in for efficient allocation of resources. However, after enactment of FRBM Act, the share of committed expenditure has declined to 7.96 percent of GSDP in 2014-15 from 10.93 percent of GSDP in 2005-06.

Outstanding debt has come down sharply to 13.97 percent of GSDP in 2014-15 from 42.84 percent of GSDP in 2005-06. Additionally, the interest payment has also drastically reduced to 4.93 percent of revenue receipts in 2014-15 from 26.25 percent of revenue receipts in 2005-06 (see Chart 6.3).

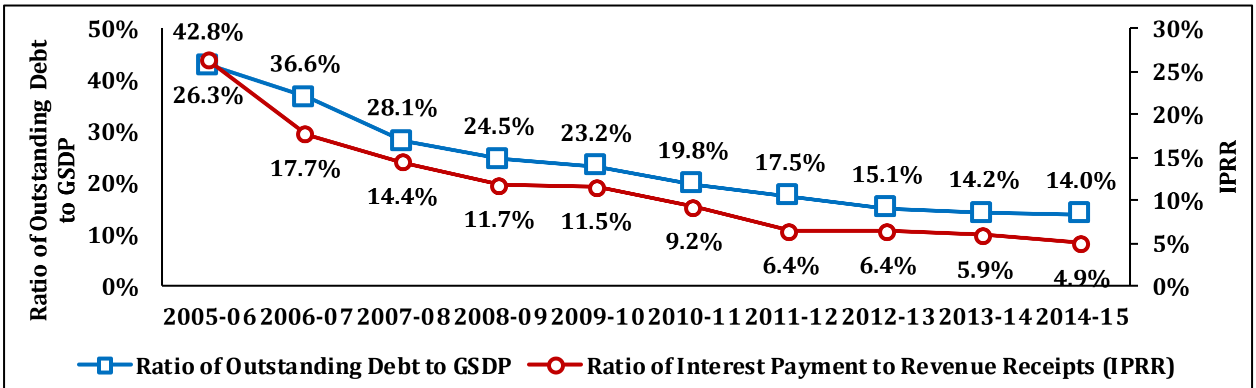


Chart 6.3: Trend in Debt to GSDP Ratio and IPRR

On the basis of recommendations of the 13th Finance Commission, the State has amended the FRBM Act, 2005 in 2011. The FRBM (Amendment) Act, 2011 has made it mandatory for the State not to have revenue deficit; rather to generate revenue surplus, and to contain the fiscal deficit within 3% of GSDP. In addition, it has put a cap on outstanding debt ratio at 25% of GSDP and, it has also put in place a monitoring mechanism on implementation of FRBM Act. Thus, the fiscal policy of the State Government is oriented towards fiscal consolidation and stability through rationalization of revenue expenditure, containment of deficit and prudent debt management.

The policy intervention of the State has been also to reduce the contingent liability arising out of State Government guarantees. The result of these measures reveals that the Government has maintained the ratios above the prudent level. The guarantee outstanding as a percentage of GSDP has been reduced from11.36% in 2001-02 to 0.54% in 2014-15.

In accordance with the recommendation of the 11th Finance Commission and Reserve Bank guidelines framed Consolidated Sinking Fund has been created as an amortization Fund for redemption of liability arising out of Open Market Borrowing and other borrowings. The purpose of this fund is to cover all repayment liabilities in future including market borrowing as per the recommendation of the Twelfth Finance Commission. Therefore, this has enhanced the creditworthiness of the State. At the end of 2014-15, total transfer to Sinking Fund has been Rs.5043.00 crores.

Government has also established a guarantee redemption fund with the objective of meeting the payment obligations arising out of the default in discharging the debt servicing for the loans guaranteed by Government. At the end of 2014-15, it amounts to Rs. 480.00 crores. This adds further to the creditworthiness of the State and, will help in open market borrowing.

7. Summary and conclusion:

The ever-expanding revenue expenditure and inadequate generation of revenue receipts had worsened the financial position of the State in the 80s. As a result of this, the surplus in the revenue account during 1980-81 turned into a revenue deficit in the subsequent years.

Considering the four structural periods in the present study (see Table-A & Table-B in Annexure), the first period (i.e., 1980s) shows that the annual average of revenue deficit was 0.25 percent of GSDP, while it surged sharply to about five times of 1980s in next period (i.e., 1990s). However, since fiscal consolidation was initiated in the late 1990s, revenue deficit has gone up only marginally in the third period (i.e., 2000-01 to 2004-05). The annual average of revenue deficit in third period was 3.03 percent of GSDP. After the enactment of FRBM Act 2005 in the State, the revenue deficit improved, turning into a surplus later. The annual average of revenue surplus was 1.90 percent of GSDP in post-FRBM fiscal consolidation period. Similarly, the fiscal deficit showed an increasing trend in the first three period *viz.*, 1980s, 1990s & 2000-05. However, due to FRBM fiscal consolidation measures it declined to 0.38 percent of GSDP (annual average) in fourth period.

The dormancy in the revenue receipts of the State has become an issue of serious concern for long. For the first the periods the revenue receipts have remained almost stagnant. The annual average of the revenue receipts was 11.96 percent of GSDP in 1980s that slightly improved to 11.34 percent of GSDP in 1990s and to 14.56 percent of GSDP in 2000-05. Therefore, it has gone up by only 2.60 percent over the 25 years of financial journey. However, due to introduction of new tax regime of Value Added Tax (VAT), broad basing entry tax, entertainment tax and professional tax, introduction of e-auctioning of competitive bidding in state excise policy, along with higher central transfer, it reached to 17.30 percent of GSDP (annual average) in FRBM period.

The higher revenue expenditure that surpassed the revenue receipts in first three periods, eventually declined, and became less than revenue receipts in last period. The annual average of revenue expenditure in first period was 12.21 percent of GSDP that increased to 15.65 percent and 17.59 percent of GSDP in second and third period correspondingly. However, after enactment of the FRBM Act that led to the adoption of rationalization in expenditure and other corrective measures, the revenue expenditure declined to 15.40 percent of GSDP. Capital outlay in the both social and physical infrastructure development shows a declining trend for the first three periods. It weakened to 1.61 percent of GSDP (annual average) in third period from 3.20

percent of GSDP in first period. While because of FRBM fiscal consolidation, it improved to2.25 percent of GSDP in last period.

Out of total expenditure, social, economic and general services expenditures have grown in the first two periods. However, the expenditure on social and economic services reduced in third period but general services expenditure surged significantly. Thereafter, owing to the compliance with the FRBM Act in the fourth period, social and economic services expenditures have risen only marginally but general services has declined considerably.

Committed expenditure, which was a major cause of concern contributing to increasing revenue expenditure, has increased sharply in the first three periods. But on account of rationalization of expenditure after FRBM Act, committed expenditure reduced drastically in the last period. There was a discernible rise in the annual average of interest payments in the first three periods which declined sharply in the fourth period. Similarly, outstanding debt that had risen in the first three periods, declined considerably in the last.

The turnaround in the fiscal situation which has created fiscal space for the State is because the Fiscal Policy of the State Government has been guided by the FRBM Act, 2005 and recommendations of successive Finance Commissions. Adoption of rule based fiscal framework with medium term fiscal targets through enactment of the Fiscal Responsibility and Budget Management Legislation has helped the state for effective and efficient expenditure management which is turn controlled both the continuing deficit scenario and higher debt burden. The objective of Expenditure management policy during post FRBM period has been to link expenditure to monitorable, quantifiable physical output & outcomes with greater emphasis on increasing the Capital Outlay. The structural reforms in expenditure management policy have led to a revenue surplus situation along with fiscal deficit, debt burden and debt servicing ratio at a prudent level creating more fiscal space and flexibility for the state.

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Annexure

Table-A: Summary of the fiscal landscape of Odisha

Year	Revenue Deficit	Fiscal Deficit	Revenue Receipts	Revenue Expenditure	Capital Outlay	Total Expenditure
1980-81	1.62%	-2.89%	12.42%	10.81%	3.75%	14.56%
1981-82	0.50%	-2.54%	10.79%	10.29%	3.01%	13.30%
1982-83	-0.39%	-5.08%	13.47%	13.85%	3.06%	16.92%
1983-84	0.00%	-1.36%	10.48%	10.47%	2.47%	12.94%
1984-85	-0.99%	-4.37%	10.95%	11.94%	3.14%	15.08%
1985-86	-0.67%	-3.67%	10.56%	11.23%	2.89%	14.12%
1986-87	-0.20%	-3.85%	12.70%	12.90%	3.34%	16.24%
1987-88	-0.75%	-5.07%	13.38%	14.13%	3.92%	18.05%
1988-89	-0.87%	-4.44%	12.54%	13.41%	3.37%	16.78%
1989-90	-0.74%	-4.05%	12.30%	13.04%	3.01%	16.05%
Average	**-0.25%**	**-3.73%**	**11.96%**	**12.21%**	**3.20%**	**15.40%**
1990-91	-0.14%	-4.38%	15.44%	15.57%	3.92%	19.49%
1991-92	-1.06%	-5.15%	13.79%	14.85%	3.70%	18.54%
1992-93	-0.71%	-3.86%	15.21%	15.92%	3.07%	18.99%
1993-94	-1.25%	-4.10%	14.61%	15.86%	2.67%	18.52%
1994-95	-1.74%	-4.39%	13.56%	15.30%	2.37%	17.67%
1995-96	-2.52%	-4.36%	12.16%	14.68%	1.40%	16.08%
1996-97	-2.63%	-5.07%	13.55%	16.18%	2.78%	18.96%
1997-98	-2.36%	-4.71%	12.09%	14.46%	2.24%	16.69%
1998-99	-5.32%	-6.85%	10.70%	16.03%	2.15%	18.17%
1999-00	-5.37%	-8.01%	12.29%	17.66%	1.67%	19.33%
Average	**-2.31%**	**-5.09%**	**13.34%**	**15.65%**	**2.59%**	**18.25%**
2000-01	-3.98%	-6.87%	14.26%	18.24%	1.73%	19.97%
2001-02	-5.47%	-7.67%	13.63%	19.10%	1.72%	20.82%
2002-03	-2.88%	-5.14%	15.40%	18.27%	1.96%	20.23%
2003-04	-2.15%	-5.41%	14.28%	16.43%	1.29%	17.72%

2004-05	-0.67%	-1.76%	15.25%	15.92%	1.36%	17.28%
Average	**-3.03%**	**-5.37%**	**14.56%**	**17.59%**	**1.61%**	**19.20%**
2005-06	0.57%	-0.32%	16.55%	15.99%	1.22%	17.21%
2006-07	2.22%	0.81%	17.71%	15.49%	1.43%	16.91%
2007-08	3.28%	1.02%	16.99%	13.71%	2.20%	15.91%
2008-09	2.30%	-0.39%	16.57%	14.27%	2.55%	16.82%
2009-10	0.70%	-1.39%	16.22%	15.52%	2.24%	17.76%
2010-11	1.98%	-0.33%	16.85%	14.87%	2.17%	17.04%
2011-12	2.54%	0.27%	18.25%	15.71%	2.05%	17.76%
2012-13	2.27%	0.00%	17.49%	15.22%	2.24%	17.46%
2013-14	1.22%	-1.70%	17.93%	16.71%	2.84%	19.55%
2014-15	1.89%	-1.77%	18.40%	16.51%	3.57%	20.08%
Average	**1.90%**	**-0.38%**	**17.30%**	**15.40%**	**2.25%**	**17.65%**

Table-B: Summary of the fiscal landscape of Odisha

Year	Social Services	Economic Services	General Services	Committed Expenditure	IPRR	Debt-GSDP Ratio
1980-81	5.05%	6.66%	2.85%	5.62%	8.11%	23.54%
1981-82	4.58%	5.61%	3.12%	6.09%	11.13%	23.55%
1982-83	7.85%	5.70%	3.37%	6.71%	9.94%	25.18%
1983-84	4.71%	5.00%	3.23%	6.20%	12.31%	23.42%
1984-85	5.34%	6.17%	3.57%	6.85%	12.31%	26.28%
1985-86	5.08%	5.72%	3.31%	6.57%	13.39%	25.48%
1986-87	5.69%	6.44%	4.11%	7.50%	14.01%	26.27%
1987-88	6.21%	7.28%	4.56%	8.56%	15.53%	29.28%
1988-89	5.56%	6.47%	4.75%	8.52%	19.59%	27.31%
1989-90	5.77%	5.68%	4.61%	8.18%	17.83%	27.34%
Average	**5.58%**	**6.07%**	**3.75%**	**7.08%**	**13.41%**	**25.76%**
1990-91	6.29%	8.16%	5.04%	9.40%	16.80%	32.27%
1991-92	6.15%	7.28%	5.12%	9.38%	19.66%	29.38%
1992-93	6.47%	7.10%	5.41%	9.89%	18.61%	31.59%
1993-94	6.27%	6.75%	5.50%	9.85%	21.28%	31.50%
1994-95	5.99%	6.22%	5.46%	9.37%	22.00%	30.17%
1995-96	5.90%	5.08%	5.09%	9.03%	23.89%	28.81%
1996-97	6.62%	6.08%	6.26%	10.74%	25.18%	33.18%
1997-98	5.96%	4.78%	5.95%	11.05%	27.89%	32.34%
1998-99	6.54%	5.06%	6.57%	12.59%	32.60%	34.67%
1999-00	8.46%	4.77%	6.11%	12.14%	21.03%	37.80%
Average	**6.47%**	**6.13%**	**5.65%**	**10.34%**	**22.89%**	**32.17%**
2000-01	6.69%	4.58%	8.70%	14.30%	33.13%	43.38%
2001-02	6.59%	4.26%	9.98%	14.44%	40.22%	46.48%
2002-03	6.61%	4.55%	9.07%	14.10%	34.19%	50.73%
2003-04	5.80%	3.72%	8.20%	11.98%	30.30%	47.86%

2004-05	5.22%	3.48%	8.58%	11.02%	28.12%	43.81%
Average	**6.18%**	**4.12%**	**8.90%**	**13.17%**	**33.19%**	**46.45%**
2005-06	5.64%	3.31%	8.26%	10.93%	26.25%	42.84%
2006-07	5.34%	3.87%	7.70%	9.06%	17.68%	36.58%
2007-08	5.46%	4.48%	5.96%	7.90%	14.43%	28.09%
2008-09	6.20%	5.54%	5.08%	8.31%	11.74%	24.53%
2009-10	6.38%	5.32%	6.06%	9.58%	11.52%	23.15%
2010-11	6.43%	5.24%	5.37%	8.94%	9.20%	19.81%
2011-12	6.80%	5.58%	5.38%	8.13%	6.40%	17.49%
2012-13	6.44%	5.68%	5.34%	7.84%	6.39%	15.12%
2013-14	7.49%	6.55%	5.51%	7.92%	5.90%	14.16%
2014-15	7.51%	7.50%	5.08%	7.96%	4.93%	13.97%
Average	**6.37%**	**5.31%**	**5.97%**	**8.66%**	**11.44%**	**23.58%**