



FISCAL SCENARIO OF ODISHA IN POST FISCAL REFORMS ERA

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ABSTRACT

Odisha is one of the poor state of India and was facing chronic fiscal deficit to finance its budget allocation but unlike other state of India Odisha also implemented fiscal reforms especially FRBM act and able to achieve many prescribe fiscal indicators and also getting extra incentive from central government for the same. Due to more fiscal prudence govt of Odisha is generating extra fund for other sector of the economy. The social sector expenditure as well as economic sector expenditure is also increasing. In this article an attempt has been made to study the current fiscal position and changing expenditure pattern of Odisha by using the budget data and economic surveys of Odisha which are secondary in nature.

KEY WORDS-*Fiscal Deficit, Social Expenditure, Debt Trap*

INTRODUCTION

Odisha which is situated at eastern part of India is having rich natural resources like vast minerals, fertile land, and long coastline as well as endowed with rich human resources but the irony is Odisha is the poorest state in India after Bihar. Nearly 33 percent of people of Odisha live in below poverty line. The outstanding debt of Odisha is growing rapidly. The consolidated debt of Odisha is around 300 percent of its revenue receipt, and considers it as a highly stressed state in terms of debt and debt servicing. The gap between its revenue receipts and revenue expenditure is growing which lead the state to debt trap, fiscal bankruptcy and stagnation of the economy therefore appropriate solution became necessary to come out of this vicious circle.

India has introduced fiscal responsibility and budget management bill and tries to eliminate its fiscal and revenue deficits and to generate adequate revenue surplus to maintain fiscal prudence (Government of India 2000; Lahiri & Fardoust 2000; Macroscan 2002). The overall economic reforms of India set in motion in 1991 as a part of memorandum of understanding with World Bank and IMF. Odisha also followed the foot print of India and adopted fiscal reforms. In 2001-02 Odisha's fiscal deficit was around 9.92 percent of GSDP (Odisha budget) which was unsustainable and adversely affect the physical and human capital of state and retired growth. (The World Bank 1996; Government of India 2000e). An MOU was sign between government of India and government of Odisha to achieve fiscal sustainability in accordance with Odisha's Medium Term Fiscal Reforms Programme (MTFRP) for 2001-05 (Government of Odisha 2001b; DFID - World Bank 2002). Between 15-24 January

2002 and 23 April to 2 may 2002 a joint DFID world bank technical mission visited Odisha to assist government of Odisha in operational its fiscal reforms to enable faster economic growth and poverty reduction over medium term. Government of Odisha tries to achieve MTFR by expenditure compression, Tax reform, and Disinvestment (Government of Odisha 2001b; DFID - World Bank 2002) policy. The MTFRPs require time bound reforms in fiscal administration power and also target to reduce consolidated fiscal deficit to sustainable level by 2005 as well as DEBT/GDP and interest payment. By FRBM Odisha worked to achieve many fiscal indicators like Fiscal Deficit, Revenue Deficit and Primary Deficit etc to its sustainable level.

OBJECTIVE

Given this backdrop the objective of this study is to examine the performance of fiscal reforms programme in Odisha over the year and trace out the present fiscal scenario of Odisha.

SECTION-II: MATERIAL AND METHODOLOGY

For the study Secondary data has been used. The data is collected from various sources such as Economic survey of Odisha (2008-09, 2009-10, 2012-2013), RBI annual and half yearly publications, Odisha Budget at a Glance (2004-05, 08-09, 10-11, 13-2014, 2014-2015) published by government of Odisha Finance dept etc. The data are both on plan and non-plan Revenue and Capital expenditure, Revenue receipts, Revenue deficits, Public debt, GSDP of state, Debt position and Interest payment etc. The period of reference is 2000-01 to 2014-15. Correlation coefficient of Social sector expenditure to total expenditure, General sector expenditure to total

expenditure and Economic sector expenditure to total expenditure has been calculated to show the relationship between these expenditure with total expenditure. The coefficient of variation has been used to show the variability and fluctuation of social Sector expenditure, General sector expenditure and Economic sector expenditure to total expenditure.

SECTION-III: LITERATURE REVIEW

A number of works have been carried out by different researchers in this area. Let us cite a few of these.

Das, S. (2007), argued that the policy to cut down various expenditure of government to bring down fiscal deficits fundamentally flawed and it's the duty of central government to step up government expenditure cutting down capital expenditure except for interest payment. Development expenditure and total government expenditure except interest payment would cause the FD/GSDP ratio actually increase. Therefore reduction only in the interest payment components of government expenditure would help and cuts in another component of government expenditure would increase the FD-GDP ratio.

Kurian, N.J. (1999), in his research found the cause of downward trends of state finance in current era found that State are unable to curtail the wasteful expenditures, simultaneously reluctant to raise additional resources are the main problems of state finances. Tax war among state government to attract private investment and competitive populism with pay revision of employee leads states to fiscal crunch. Immediate measure should be taken unless state finance will collapse.

Rangarajan, C. (2005) conference paper stated the problem of "moral hazard" by the states with respect to fiscal responsibility and management in the context of state finances. Along with problem of vertical and horizontal problem relating to transfer of resources, he gave curative measures of debt restructuring for indebted states.

Rath, S.S. (2005), in his article "Fiscal Development in Odisha problem and prospects" described that there is a wide gap between Revenue receipts and revenue expenditure of Odisha which force the state govt to resort to more burden. The high borrowing led the state fiscal bankruptcy and debt trap which ultimately leads to stagnation of the economy. The necessary action must be taken to overcome the vicious circle of growing revenue deficit, higher borrowing and higher interest liabilities which consequently lead to again revenue deficit and greater borrowing. Investment must be made in socio-economic infrastructure to generate employment opportunities.

Reddy, K.C. Moorthy, U.N. and Sarojini, M. (2006), in their paper on "Fiscal Consolidation and Human Development said that the Indian Experience across States" have an opinion on re-prioritization of expenditure focusing on development expenditure particularly for human development during fiscal consolidation. To improve the overall efficiency of fiscal management, Indian states have emphasized performance in areas of human development.

SECTION-IV: ODISHA ECONOMY AT A GLANCE IN FISCAL REFORMS ERA

After implementing fiscal reforms programme especially FRBM act Odisha manage to be one of the fastest growing state in India. Odisha economy is heavily based on agriculture but the industrial and service sector also growing side by side of it. Odisha GSDP is nearly 148200 crore (2013-14). FDI inflow of Odisha has increased over the year. Despite of many natural calamities Odisha has able to manage its economy. The rural unemployment rate of Odisha is 8.7% for Urban it is 5.8% (68th NSS). The PCI of the state is also growing though it is very less as compare to other state in India. The public debt of Odisha is 153740 (2013-14). Nearly 51% of Odisha's GSDP comes from service sector. Whereas 33.45% comes from industry and agriculture contributes 16.3% of its GSDP.

Table-01: Fiscal indicators of Odisha

YEAR	GSDP (Crore)	REVENUE DEFICIT (Crore)	FISCAL DEFICIT (Crore)	PRIMERY DEFICIT (Crore)	AS PERCENTAGE OF GSDP		
					RD	FD	PD
2000-01	38779	-1931.96	-9228.53	-6941.72	-4.98	-23.79	-17.90
2001-02	43293	-2833.75	-11405.68	-8570.72	-6.54	-26.34	-19.79
2002-03	47622	-1575.91	-12167.81	-9282.23	-3.30	-25.55	-19.49
2003-04	52384	-1420.92	-13312.98	-10452.70	-2.71	-25.41	-19.95
2004-05	69037	-2201.43	-9129.87	5751.34	-3.18	-13.22	8.33
2005-06	75706	-1090.72	-5606.08	1890.00	-1.44	-7.40	2.49
2006-07	83016	2260.60	-1027.55	2160.88	2.72	-1.23	2.60
2007-08	93808	4243.92	-521.84	2647.64	4.52	-00.55	2.82
2008-09	106003	3419.89	-2076.64	813.17	3.22	-1.95	00.76
2009-10	118201	1138.62	-3754.07	-709.90	0.96	-03.17	-00.60
2010-11	128367	3908.21	-657.76	2403.77	3.04	-00.51	1.87
2011-12	137585	5606.78	621.76	3198.19	4.07	0.04	2.32
2012-13	142606	2957.96	362	2810.85	2.07	00.25	1.97
2013-14	148200	2152.28	-5923.04	-915.27	1.45	-03.99	00.61

Source-Odisha Budget and Computed

By taking the average of GSDP (in Crore) of 3 time period that is 11th finance commission (2000-05), 12th finance commission (2005-10), and 13th finance commission period hear it is found that GSDP has increased in 12th FC and 13th FC period as compare to 11th FC period. The average GSDP was 50223 Crore in 11th Finance Commission period. In 12th FC period it was became 95346 and in 13th FC it became

139189 Crore due to fiscal reforms and introduction of FRBM act. The high and continuous revenue deficit of Odisha has been turned into revenue surplus in the year 2006-07. In 12th FC period the negative fiscal deficit also reduced in consequent years and become positive in the year 2011-12 that is 621.76 Crore. Likewise the primary deficit also changes to primary surplus in Odisha. It is again change to negative in 2013-14

but there is the definite sign of its improvement in future. From the above analysis it is cleared that debt sustainability is achieved in 12th and 13th finance commission period. There is reduction of Revenue Deficit/GSDP to 1.45% and Fiscal Deficit/GSDP to 00.25% then -03.99 in 2012-13 and 2013-

14 and also the Primary Deficit/GSDP reduced to 00.61% in 2013-14 as compare to -17.90 in 2000-01. From the above analysis it is clear that there is reduction in deficit due to introduction of FRBM act and fiscal reforms programs.

Table-02: Interest payment on outstanding debt in Odisha (In Crore)

YEAR	r _t	D _{t-1}	r = r _t /D _{t-1} *100
2000-01	2286.81	18100	12.63
2001-02	2834.96	21001	13.49
2002-03	2780.99	240033	11.57
2003-04	2860.28	28001	10.21
2004-05	3378.53	32512	10.39
2005-06	3715.08	36093	10.29
2006-07	3188.43	38468	08.28
2007-08	3169.48	39531	08.01
2008-09	2889.81	40483	07.13
2009-10	3044.17	43330	07.02
2010-11	3061.53	50187	06.10
2011-12	2576.43	55703	04.62
2012-13	4511.59	51715	08.72
2013-14	5007.86	74646	06.70

Source-Odisha Budget

In Odisha the average rate of interest was **8.95**, in 2000-01 to 2013-14. During this period (2000-01/20013-14) the average annual growth of GSDP was **13.47** the growth rate of public debt (k) was **7.68**. This implies $g > r > k$. it fulfils the debt sustainability condition. The famous domar model concludes that for solvency and sustainability of public debt the condition $g > r > k$ should be met.

Where k=growth rate of public debt
 r=rate of interest
 g=growth rate of GSDP
 r_t= rate of interest on time period t
 D_{t-1}= Debt in time period t-1

It conforms to the solvency condition and fulfils the sustainability of public debt. Solvency is the necessary condition for sustainability and it is a long term concept. In simple term sustainability is defined as the ability to maintain a constant DEBT- GSDP ratio at lowest level over a period of time.

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Table-03: Debt Position of Odisha (In Crore)

YEAR	TOTAL DEBT	DEBT/REVENUE RECIEPTS	DEBT REPAYMENT	DEBT REPAYMENT/ REVENUE RECIEPT
2000-01	21001	304.28	743.50	10.77
2001-02	24033	341.00	920.85	13.06
2002-03	28001	331.82	1834.61	21.74
2003-04	32512	335.86	2278.87	23.54
2004-05	36093	314.86	2927.57	25.53
2005-06	38468	303.06	2259.35	17.79
2006-07	39531	219.21	1850.74	10.26
2007-08	40483	184.28	1844.97	08.39
2008-09	43330	176.06	1492.61	06.06
2009-10	50187	181.32	1488.69	05.37
2010-11	55703	167.39	2083.59	06.26
2011-12	51715	128.43	2327.76	05.78
2012-13	74646	163.66	3195.74	07.00
2013-14	153740	299.69	2818.69	05.49

Source-Computed

From the above table it is concluded that the debt to revenue receipts of Odisha has been reducing over the years. The average annual debt to revenue receipts in the 11th finance commission's tenure was 325 where as it became 249 in 12th finance commission period and again it is 189 in 13th finance commission period till 2013-14. It is less than 300% which is

the necessary condition for debt sustainability of any general category state like Odisha and Odisha is fulfilling this condition. The debt repayment of Odisha to revenue receipts has been declining. In 2013-14, the debt repayment to revenue receipts of Odisha was almost half of 2000-01. Debt to revenue receipt was 10.77 in 2000-01 it got reduce to 5.49 in 2013-14.

Table-04 Ratio of Interest Payment to Revenue Receipt (%)

YEAR	INTREST PAYMENT (Crore)	INT PAY/REV RECIPT
2000-01	2286.81	33.13
2001-02	2834.96	40.22
2002-03	2885.58	34.19
2003-04	2860.28	29.54
2004-05	3378.53	29.47
2005-06	3715.08	29.26
2006-07	3188.43	17.68
2007-08	3169.48	14.42
2008-09	2889.81	11.74
2009-10	3044.17	10.99
2010-11	3061.53	09.20
2011-12	2576.43	06.39
2012-13	4511.59	09.89
2013-14	5007.86	09.76

Source-Odisha budget

Interest payment to revenue receipts was 33.31% in 2001-2002. It decreased to 16.81% in 12th finance commission and to 8.53% in 13th finance commission period due to

implementation of FRBM act and also interest relief scheme in 12th finance commission.

Table-05: Calculation of the ratio of expenditure on Social service, Economics service and General Service to total expenditure) (In percentage)

Year	Social service/total expenditure	Economic service/total expenditure	General service/total expenditure
2000-01	29.32	20.07	36.72
2001-02	28.23	18.23	41.50
2002-03	27.28	18.81	36.51
2003-04	24.64	15.79	33.38
2004-05	25.53	17.01	40.97
2005-06	30.46	17.90	43.68
2006-07	28.12	20.38	39.11
2007-08	30.90	25.37	32.21
2008-09	40.96	30.82	35.60
2009-10	36.32	26.52	35.13
2010-11	31.50	16.90	26.26
2011-12	32.82	19.90	25.95
2012-13	29.80	18.70	30.55

Source- Computed.

The correlation coefficient between social sector expenditure to total expenditure and Economic services expenditure to total expenditure is 0.851, means that there is linkage between social sector and economic sector expenditure in greater extent. The correlation coefficient between Social sector expenditure to total expenditure and General sector

expenditure to total expenditure is 0.601 means a high degree of positive correlation between these two variables. There is again a high degree of positive correlation exist between Economic service expenditure to total expenditure and General sector expenditure to total expenditure (0.546).

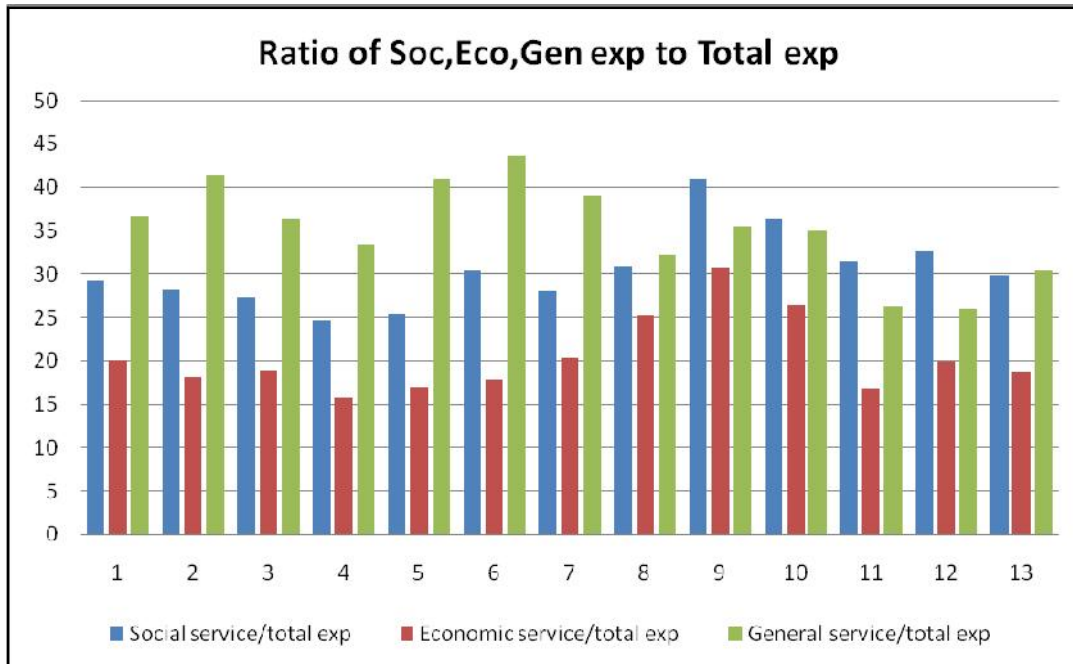


Table-06

SERVICES	MEAN	SD	(CV)	N
Social services	6946.53	4517	65.02	13
Economic services	3686.42	3085.84	83.70	13
General services	9701.3	4508.83	46.47	13

Source-Computed from Table 05

It is realized from the above table that higher variability exists in economic service as compared to social services and general services because the CV of Economic services is 83.70 where as it is 65.02 in social services and 46.47 in general services. It menace the expenditure of economic services is more unstable.

SECTION-V: CONCLUSION

By analysing the recent financial indicators of Odisha it is concluded that the state government is gradually regaining control of its fiscal management. The state government is able to manage its fiscal requirement without resort to overdraft. The state has also performed on managing the revenue deficit it has been able to receive the union fiscal incentives for bringing down the revenue deficit substantially. The performance of Odisha economy is in line with the objective of fiscal reforms programs. It is noted that Odisha's performance was better in 12th finance commission in comparison to that of 11th finance commission it may be due to the implementation of FRBM act. Odisha in order to perform better in future has to achieve prescribe fiscal targets in accordance with the objective of the 13th finance commission.

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