

Novel Fiscal Risk and Fiscal Strategy papers in Odisha Budget 2021-22

**STATESMAN NEWS SERVICE
BHUBANESWAR, 27 FEBRUARY**

The Odisha Budget 2021-22 has for the first time a Fiscal Risk Statement aimed at fiscal transparency and in continuance with the reforms in public finance management.

The unique Fiscal Risks Statement and a fiscal risk register have been designed by the state finance department led by Principal Secretary Finance, Mr Ashok Meena, IAS, in consultation with technical experts of IMF-SARTTAC.

The importance of such a statement is amplified in the backdrop of the pandemic which devastated the economy world over.

A State Budget rarely gets noticed but Odisha's fiscal management and novelty over the years has been remarkable. Conceding critics of the economy adding that the new aspects like the 2021-22 Budget issuing a Fiscal Risk Statement goes to the credit of Meena.

In the previous years—a separate Agriculture Budget, Nutri-

tion Budget, SDG statement and budget were formulated and introduced.

The practice has been continued and this year's budget introduced the fiscal strategy paper and fiscal risk and debt management endeavors; each of which could be emulated by other states and carried forward.

The Fiscal Risk Statement identifies risks under the macro economic, public debt and specific PSU, natural disasters categories.

It deals with the challenges and the precautionary measures.

Historically natural disasters, volatile revenues from mining, GST, Odisha's share of centrally collected taxes, and electricity sector are the sources of the largest fiscal risks. The latest and greatest risk given the pandemic is the future health emergencies.

The growing portfolio of Public Private Partnership projects (PPPs) which have fiscal commitments and the government guarantees, majority of which are in power sec-

Fiscal strategy for three years

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Over the last seven years, gross state domestic product (GSDP) growth has averaged more than 7 percent and projections are a growth of over 10 percent in 2021-22 noted the fiscal strategy paper.

The paper is a set of forecasting and analytical processes that enable the State to prepare macroeconomic and fiscal projections for a three-year period. The framework takes into account variables such as global economic growth, inflation, volatility in the mining industry and specific fiscal risks.

It has a macroeconomic

outlook and a medium term fiscal outlook with revenue and expenditure projections. At the state level, all economic sectors apart from agriculture and healthcare are expected to contract in the current year. It considers three economic growth scenarios – upward, central and downward for 2020-21, 21-22, 22-23 and 2023-24 with real GSDP growth rate ranging from -2, 12, 11 and 9 percent on the upside, -4.9, 10.5 and 8.8 percent as the central and on the downside -8, 9, 6.5 and 7 percent on the downside respective. Over the past five years, Odisha's revenue growth has averaged about 12.37 percent. This year revenue is expect-

ed to grow modestly by 5.5 percent. Lower share in Central taxes is anticipated. Total spending is projected to increase meagerly from 24.01 percent of GSDP in FY 2019-20 to 26.50 percent in the current year, and further increasing to 29.01 percent in the FY 2021-22. Over the next three years, Odisha will continue to budget toward the upper limit of the sustainability requirements established by the FRBM Act and maintaining the debt-to-GSDP below the 25 percent limit, it stated. The recovery will be driven by higher investment in infrastructure, industries promotion through Make-in-Odisha and increased agricultural output. On a sectoral level, manufacturing, trade, hotel and restaurant, transport, storage and communication & services related to broadcasting are projected to return to growth from FY 2021-22.

uncertainty in share in central taxes are worked out. The real GSDP of Odisha is estimated to contract by 4.92 percent. Mining constitutes 72

percent of own non-tax revenue of the state and 11 percent of total revenue receipts and it is governed by the volatile international metal prices. Lower central transfers to the State are taken into account as the 15th Finance Commission has recommended reduction in State Share (all states) from earlier 42 percent to 41 percent. The share of Odisha has been reduced from 4.64 percent to 4.52 percent for the 15th FC award period. Cess collection in the GST Compensation Fund has been very low. The total outstanding public debt of the State as on 31st March 2020 stands at Rs.92,775 crore which is 17.8 percent of the State's gross domestic product (GSDP). But the paper notes that Odisha has availed short-term loans from dedicated funds like OMBADC and CAMPA at much cheaper rates (about 150-200 basis points less than market rates). This is reducing the average cost of borrowing for the State. Through these short-term loans, the State is exposed to rollover risk. The total debt stock of the State is 20.91 percent of GSDP in FY 2020-21 and is to increase over the next three years. But the interest payment is to drop from 1.41 percent to 1.27 percent of GSDP as the borrowing is from cheaper sources. It takes note of the state's exposure to PSUs of Rs18,297 crore and the vulnerability to risks from power sector PSUs especially GridCo. The power sector PSUs especially Grid Corporation of Odisha (GridCo) and Odisha Power Grid Corporation (OPGC) are currently operating at relatively higher risk level vis-à-vis other power sector PSUs. The financial sector PSUs such as Odisha State Financial Corporation (OSFC) and Utkal Grameen Bank (UGB) are operating at moderate to high risk levels. The fiscal risk analysis shows that the financial risk to the State due to various natural disasters is very high.

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