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FISCAL HEALTH OF ODISHA: A JOURNEY FROM CRISIS TO COMFORT

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Towards the end of 1990s Odisha had a fiscal crisis, consequently the State Government adopted steps to bring back the derailed state finances in to the track. Attempt has been made in this article to examine the fiscal health of the state over the study period and to map the trend of different fiscal indicators in Odisha. Data for analytical purpose is culled from "State Finance: A study of Budgets" various issues. The period of reference ranges from 1990-91 to 2018-19. To measure the Fiscal Health of the state a Composite Fiscal Performance Index has been prepared by taking into account four sub-indices, namely, Deficit Indicator Index, Revenue Effort Index and Expenditure Pruning Index and Debt Servicing Index. The empirical evidence shows that Odisha has come out successfully from the perils of fiscal dislocations. Fiscal deficit could be contained within 3 percent of GSDP. Debt-GSDP ratio came down significantly from 56.08 to 21.87 percent in 2017-18. Tax-GSDP ratio has increased to 6.44 in 2017-18. The overall fiscal scenario looks favourable for the economy and should be maintained in the years to come to have a better fiscal position for the state.

Keywords: Fiscal Deficit, Fiscal Crisis, GSDP, Odisha.

INTRODUCTION

In the late 1990s, Odisha like other States of Indian Union was passing through an unprecedented fiscal crisis. There was a sharp debasement of the state level performance: deficit rose, the state level debt started rising and off-budget liabilities grew quickly. There was liquidity crisis at state level. The states faced a lot of trouble to honour the pay bills of the employees under the domain of the state. In response to the above situation several steps have been taken by the State Government to bring back the derailed state finances in to the track and adopted the FRBM Act as recommended by 10th Finance Commission to ensure inter-generational equity in fiscal management and the fiscal sustainability necessary for long-term macro-economic stability.

On the expenditure front states have reduced spending by restricting recruitment, increasing wage at less than the rate of inflation, hiring new employees on contractual basis at a low wage rate, curbing growth of administrative expenditure by introducing voluntary retirement scheme, and by controlling extravagant and unnecessary expenses of the government machinery. Conversion of Pension scheme to contributory pension scheme, curtailment of subsidies, power sector reforms, privatization of loss making public sector enterprises were the other reforms that the governments were following.

A look at the fiscal situation of Odisha reveals that it has consolidated its position during last one and half decade. Since 2001, the Government of Odisha is making an attempt to eliminate revenue deficit altogether and control fiscal deficit. After implementing the FRBM Act in 2005, the state became a revenue surplus state in 2005-06 and continued to be so till date. The prudential policy of maintaining revenue account surpluses to finance the capital outlays has been consistently followed, thereby reducing the need for incurring fresh debt as also providing fiscal space to enhance capital expenditure for development of the state.

Against this backdrop an attempt has been made in this article:

1. To map the trend of various fiscal indicators in Odisha.
2. To examine the fiscal health of the state over the study period.

REVIEW OF LITERATURE

A good number of studies have been attempted in past to examine the fiscal performance of Government, both Centre and State. To name a few: Sarma (2003), Chelliah Committee (1994), World Bank Study (1996-97), Rao (2004), Zaidi (2002), Sivram (2003), Chaitanya (2006) RBI Study (2004) and Dholakia (2005) are some of the prominent studies. Many of these studies are extensive and theoretical in nature focusing on providing a macro picture of fiscal position of all the states / major states of India and used time series data. However, there are few popular works that are restricted to particular states. For example, the study by Zaidi (2002) focuses on the finances of Uttar Pradesh from 1991 to 1999-2000. Similarly the study of Chaitanya (2006) is based on Andhra Pradesh.

In the literature, the north eastern states as a whole, which are special category states, have drawn attention. Regular studies done by RBI are notable here. Particularly in the context of Tripura the study, 'Restructuring Public Finance of Tripura' by Rajaraman, et al (2004) is notable. This study is on how fiscal restructuring in Tripura is an imperative for, if the growth potential of the state is to be realized. The report is extensive and in-depth in nature examining the debt swap scheme of the Centre, in which Tripura has been a Participant, own revenue performance, and suggests ways by which the impressive gains recorded in recent years can be sustained into the future. However the study is not focusing on its year wise performance measurement. So far as the measurement of fiscal performance is concern there are prominent studies like Dholakia and Solanki (2001) which have studied the fiscal performance proposing composite index of fiscal performance consisting of six different fiscal indicators for general category states. Bhide and Panda (2002) came up with another composite fiscal index, made up of five components, for judging the quality of central government budgets and states were ranked on the basis of the value of the index for different years for judging the quality of central government budgets consisting of six different fiscal indicators and the states were ranked on the basis of the value of the index. Similarly, Venkatraman (2003) did not construct a composite index but did rank the states according to their fiscal achievements by using six indicators. Further, Dholakia (2005) proposed an alternative approach to fiscal performance measurement constructing a composite fiscal performance index using eight indicators. A.K. Dash (2011) following the methodology developed by Morris and McAlpin in 1982 had prepared an Index named TFPI (Tripura Fiscal Performance Index) to find out the fiscal performance of special category state Tripura in terms of deficit management, Revenue generation, Expenditure regulation and debt management and concluded that fiscal discipline can only be maintained when there will be effort for both revenue augmentation and expenditure management and better debt servicing steps both at the centre and state level. Prof. B. Patra in his paper has opined Odisha has the reputation of being a fiscally disciplined by much national finance commission. Since 2001, the Govt. of Odisha is making an attempt to eliminate revenue deficit altogether and control fiscal deficit. The state became a revenue surplus state in 2995096 and continued to be so till now. Aravind Gayam and Vatsal Khullar (2016) apprehends that implementation of Pay slab of 7th Pay commission may impact deficit of states. B.R. Mishra and A.R. Mohanty using Relative Distance method has constructed an Index taking in to account five major sub-indices to know the fiscal performances of seventeen major non-special category Indian states including Odisha. They observed that there are large inter-state variations in FPI. During 2012-13 to 2014-15, Chhatisgarh, Odisha and Bihar took the top three positions in ascending order. Though Odisha is ranked 2 in its fiscal performance, it has to strive for better outcomes in raising revenue and spending it in developmental activity.

Commenting on the measurement of Fiscal Performances, Shashanka Bride and Manoj Panda (2002) highlighted that focusing on a single criterion such as fiscal or the revenue deficit is unsatisfactory, as it does not tell us the manner in which the fiscal imbalance is dough to be corrected. They proposed a composite index of quality of the budget that takes in to account composition of revenue and of revenue and capital expenditure and degree of fiscal prudence. Similarly Archana Dholkia (2005) argued that although the Eleventh and Twelfth Finance commissions fully recognized the importance of different fiscal parameters, like the composition of government expenditure, sources and pattern of government finances, the magnitude of debt, subsidies and interest burden, the measure of fiscal discipline, adopted by them is based on only one indicator. The Fiscal Self Reliance and Improvement Index constructed by TFC that considers the change in a single indicator is narrowly based, unstable and biased against the better fiscal performers. Therefore she suggested FPI, which was on the other hand multi-dimensional, more stable, just towards better performers and also useful for state level policy making.

METHODOLOGY

To measure the Fiscal Health of the State a Composite Fiscal Performance Index (CFPI) has been prepared by taking in to account four dimensions, namely Revenue Indicator Index (RII), Expenditure Efficiency Index (EEI), Deficit Indicator Index (DII) and Debt Management Index (DMI). Further each dimension is quantified by taking into account the average of two indicator values. First dimension 'Revenue' is calculated by State's Own Revenue and Total Revenue Receipt as percentage of Gross State Domestic Product (GSDP). The Ratio of Revenue Expenditure and Capital Outlay with respect to GSDP formulates Expenditure dimension. The Deficit / Surplus dimension is calculated by Revenue Deficit (Surplus) and Fiscal Deficit (Surplus) as per cent of GSDP. Debt-GSDP and Interest Payment-Revenue Receipt percentages are employed to calculate the Debt dimension. The detail is given below in a tabular format.

Index	Dimension	Indicator
Fiscal Performance Index	Revenue	State's Own Revenue - GSDP Ratio
		Total Revenue Receipt - GSDP Ratio
	Expenditure	Revenue Expenditure - GSDP Ratio
		Capital Outlay - GSDP Ratio
	Deficit / Surplus	Revenue Deficit - GSDP Ratio
		Fiscal Deficit - GSDP Ratio
	Debt	Debt - GSDP Ratio
		Interest Payment - Revenue Receipt Ratio

The respective ratios of each sub-indicator are calculated from the various issues Reserve Bank of India publication "State Finances: A study of Budgets". After getting these ratios, the values of each sub-index are calculated by using the formulae formulated by UNDP to measure the human development index i.e. (Actual Value- Minimum Value) / (Maximum Value- Minimum Value).

However, for variables having negative associations with the fiscal prudence such as Revenue Expenditure/GSDP, Debt/GSDP and Interest Payment/Revenue Receipt, the formulae is changed to, Achievement Level= (Maximum Value- Actual Value) / (Maximum Value- Minimum Value). After obtaining the values of individual sub-indices, an average is taken to find out the values of each individual indicator for every year. Then a simple average is taken to assess the Composite Fiscal Performance Index (CFPI) for the state of Odisha in each year from 1990-91 to 2018-19. The method is very simple and free from any ambiguity and bias as the calculations are made with 0 values for the worst performing year and 1 for the best performing year during the study period.

To examine the objectives stated above we shall use the data collected from secondary sources, viz., Hand Book of Statistics on State Government Finances, "Odisha budget at a glance" "Odisha Economic Surveys" since 2001. The study concentrates on the State of Odisha. The period of references ranges from 1990-91 to 2018-19.

EMPIRICALANALYSIS

The revenue surplus of Rs 27.98 crore of Odisha government accrued in 1981-82 disappeared in the following two decades due to rise in revenue expenditure without simultaneous rise in revenue receipt. Revenue expenditure of the state as a percentage of GSDP rose almost two fold from 10.29 percent in 1981-82 to 19.11 percent in 2001-02. Revenue receipt during this period saw only a moderate rise from 10.79 percent of GSDP in 1981-82 to 13.63 percent in 2001-02. This imbalance between the expenditure trend and revenue collection capacity of the state government led to continuous borrowing and cumulative debt burden. The fiscal scenario of the state became so unfavourable that the state had to depend on ways and means advance/overdraft from Reserve Bank of India for over 300 days in a year from 2000-01 to 2002-03 to meet the daily expenditure. The debt stock as percentage of Total Revenue receipt, which was 206% in 1980-81 increased to 308% in 1999-2000 and 335% in 2003-04. At the beginning of the financial year 2003-04, the debt burden of the state was as high as 329% of the state's total revenue and more than 63% of the State GSDP. On account of unsustainable debt burden, 34% of the state's total revenue was being used towards expenditure on payment of interest. Hence under these circumstances, the state government sought assistance from government of India, The World bank and Department for International Development (DFID) for socio-economic development. Since nearly 50% of this assistance would come in the shape of grant, this would help in reduction of expenditure on payment of interest.

The increased diversion of borrowed funds to meet the revenue expenditure, reduction in capital component of the expenditure and mounting debt burden were the prominent symptoms of serious illness of the fiscal system of the state. The fiscal health of the state detoriated so much in 1998-99 and 1999-2000 that the then government was compelled to sign an Memorandum of understanding (MOU) with Government of India on 15th April 1999 in order to overcome the overdraft situation, because without signing an agreement, government of India was not prepared to assist the state government to clear the overdraft which had reached Rs.232.45 crore. As per the terms and conditions of MOU, the state government was required to reduce revenue expenditure and increase the revenue receipt within a specified time schedule.

As a result a number of reform measures have been adopted by Government of Odisha, including the Fiscal responsibility and budget Management (FRBM) Act-2005. The revenue expenditure of the state as a percentage of GSDP declined to 13.71 percent in 2007-08 and in the subsequent years, it has increased to 16% in 2012-13, which was still lower as compared to the level of 2001-02. On the other hand, revenue receipt of the state as a percentage of GSDP has gone up to 18.65% in 2011-12 and has a shown a moderate slow-down in 2012-13 i.e. 16.94% . Such rising trend of revenue receipt and reduction in the revenue expenditure led the state government to record a revenue surplus of 481.2 crore in 2005-06. In the subsequent years the state has been consistently achieving revenue surplus. Fiscal deficit could also be maintained within 3% of GSDP. Debt-GSDP ratio came down significantly from 56.08 percent in 2002-03 to 19.67% in 2011-12. Tax-GSDP ratio remained at 5 to 6 percent during 2002-03 to 2010-11 and increased to 6.23% in 2011-12. The improved fiscal performance enabled the state government to avail debt write-off to the tune of Rs1527 crore under Debt Consolidation and Relief facility recommended by the Twelfth Finance Commission.

As per the recommendations of Twelfth Finance Commission, the state government brought amendment to FRBM Act-2005 in February-2012 with the objective to maintain revenue deficit at zero level from 2011-12 onwards, Fiscal deficit within 3 per cent of GSDP and limit interest payment to 15 per cent of revenue receipt.

It is observed that the debt liabilities as a percentage of GSDP of Odisha have ups and downs. In between 1990-2000, the year 1995-96 has been associated with less liability in terms percentage of GSDP i.e. 37.96 percent. This percentage has an all time record of 61.46% in 2002-03. After 2002-03, the percentage of debt burden to GSDP has been falling continuously, which stands on 17.52% in 2014-15 and a small rise to 19.21% in 2015-16. This is much below the target set by Twelfth Finance Commission at 28% of GSDP and 25% target set by the 13th Finance Commission for all the states in aggregate. However, in state specific, the road map drawn by the 13th Finance commission, the targets set for Odisha for the years 2010-11, 2011-12, 2012-13, 2013-14 and 2014-15 are at 31%, 30.6%, 30.2%, 29.8% and 29.5% respectively. Therefore, Odisha has been able to reduce its debt burden appreciably in all respects and maintained the level well below the targets set by the 12th and 13th Finance Commission.

The interest payment, which is major plan item of Revenue expenditure, goes on falling as a ratio to the total revenue receipt from 2001-02. After 2005-06, this ratio to revenue receipt has fallen considerably as the revenue receipts have moved to a satisfactory level and declaration of the state as revenue surplus. Besides, as the state government at present is relying more upon the small scale savings and Provident funds for the functioning of the government, the interest payment liabilities of the state to outside agencies are becoming less and less gradually. This is the alternative to the disintermediation of state government borrowings by the central government following the recommendations of 12th Finance Commission from 2005-06 onwards, which resulted a sharp fall in the inflows of loans from the center in the subsequent years.

During the last five years, the share of internal debt in the total public debt of Odisha has gone up and that of loans and advances from Central government declined steadily. The reduction in the outstanding debt of Odisha has been achieved through its own consistent effort to control revenue deficit, the Debt Swamp Scheme (DSS) and Debt Consolidation and Relief Facility (DCRF) of the Central Government. The liabilities of the state have been kept under control due to its own endeavour as well successful implementation of the DCRF scheme by accepting all required conditions. Against this back drop, the present experiment is an attempt to analyse the performance of the economy of Odisha from 1990-91 to 2018-19 as to whether real fiscal growth has taken place or not.

Here, an attempt has been made to measure the fiscal performance of Odisha by evaluating its achievement over the period 1990-91 to 2018-19 and to examine its impact on Fiscal health of the State. To measure the fiscal performance a composite fiscal performance index (FPI) for Odisha has been developed following the UNDP's Human Development Index construction methodology. FPI consists of Four Dimensions and eight indicators as detailed above.

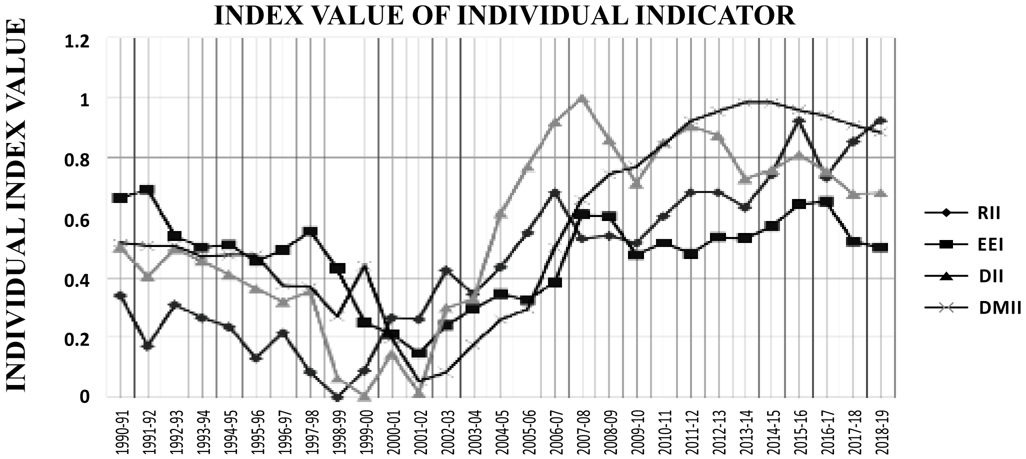
The four dimension of Odisha for the years under study along with the Composite Fiscal Performance Index and rank are presented in Table I. The year with highest Index value is ranked as 1 and the lowest value is ranked as 29.

Table I; Composite Fiscal Performance Index of Odisha

Year	Revenue Dimension	Expenditure Dimension	Deficit Dimension	Debt Dimension	Fiscal Index	Rank
1990-91	34.76	67.17	50.58	51.76	51.07	14
1991-92	17.92	70.09	41.12	51.04	45.04	17
1992-93	31.88	54.69	50.18	50.80	46.89	16
1993-94	27.28	50.52	45.78	47.62	42.80	18
1994-95	23.81	51.42	41.35	48.22	41.20	20
1995-96	13.40	44.74	37.06	47.72	35.73	21
1996-97	22.34	49.43	32.60	38.26	35.66	22
1997-98	9.29	56.16	36.10	37.51	34.76	23
1998-99	0.00	43.29	7.32	27.32	19.48	28
1999-00	9.33	25.40	0.60	44.29	19.90	27
2000-01	27.01	21.63	14.82	19.78	20.81	26
2001-02	26.35	15.02	1.85	5.64	12.22	**29 (Worst)**
2002-03	43.32	24.16	30.76	8.52	26.69	25
2003-04	34.92	30.30	33.43	17.84	29.12	24
2004-05	43.86	34.96	62.05	26.29	41.79	19
2005-06	55.54	32.84	77.04	30.22	48.91	15
2006-07	69.22	38.98	92.76	50.64	62.90	12
2007-08	53.92	61.34	100.02	66.50	70.44	10
2008-09	53.96	61.11	86.58	75.01	69.17	11
2009-10	52.05	48.14	71.91	77.16	62.31	13
2010-11	61.17	52.26	85.06	84.87	70.84	9
2011-12	69.27	48.65	90.96	92.95	75.46	5
2012-13	68.96	53.95	88.05	95.87	76.71	4
2013-14	64.47	53.52	73.37	98.51	72.47	8
2014-15	75.12	57.36	76.61	98.92	77.00	3
2015-16	92.61	65.04	81.28	96.45	83.85	**1 (Best)**
2016-17	74.29	65.93	75.87	94.63	77.68	2
2017-18 (RE)	85.88	52.75	68.64	91.89	74.79	7
2018-19 (BE)	92.61	50.00	69.09	88.89	75.15	6

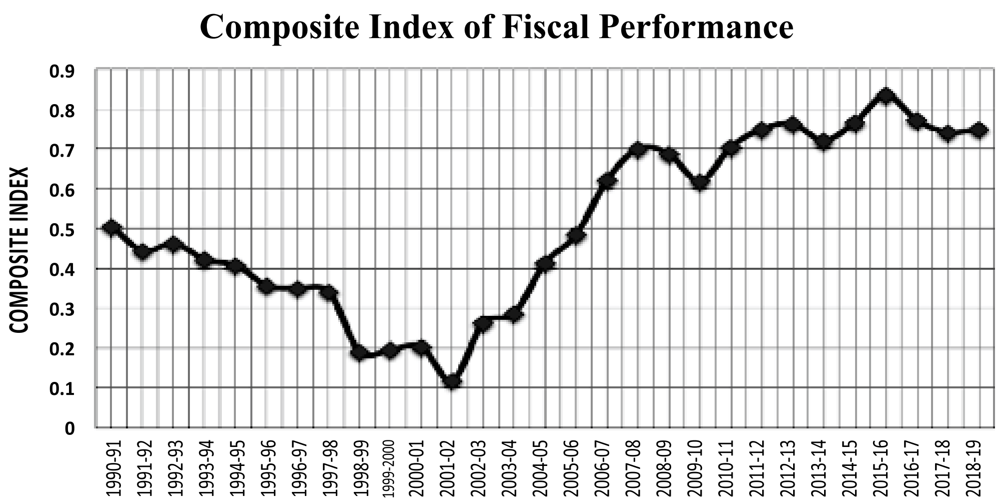
Source: Computed

The individual indexes of each indicator are represented in a time series graph, the line graph of each dimension takes a kinked shape, indicating an upward movement after 2001-02. The Deficit Indicator Index (DII) lies below the Revenue Indicator Index (RII) after 2014-15, signifying the State Govt. has extreme control over the deficits.



The Composite Fiscal Performance Index can be calculated by taking a simple average of all four Individual Indicators. CFPI= (RII+EEI+DII+DMI) / 4

The result shows that Fiscal performance of Odisha was excellent in the year 2015-16 and worst in 2001-02 in comparison to other years during the study period from 1990-91 to 2018-19 as per the Composite Fiscal Performance Index (CFPI)



A time series graph is plotted taking the time period on x axis and CPFI of Odisha on y axis. The drawn graph line shows that the Fiscal performance of Odisha has ups and downs. The fiscal prudence has fallen steadily from 1990-91 to 2001-02, then started rising till 2007-08. Again the state economy confronted a marginal decline in 2008-09 and 2009-10. From 2010-11, it started rising again though with temporary breaks in 2013-14, 2016-17 to 2018-19. But, it has never come down to the situation like 2001-02. The diagram also shows that Odisha state is moving on the process of sound fiscal health after 2001-02 and more particularly after 2004-05 due to adoption of restrictive measures and FRBM Act-2005. It is also observed that 2015-16 is the best and 2001-02 is the worst performing year during the study period.

CONCLUSION

The summary of the study construes that odisha has come out successfully from the perils of fiscal dislocations as confronted during 1995 to 1999. Of course, the fiscal discipline at present is the outcome of rigid fiscal reforms undertaken by the State Government after 2000, still the political stability that Odisha is having till today bears a significant reason for maintaining the fiscal steadiness. After implementation of FRBM Act, the fiscal imbalance has been corrected through elimination of revenue deficit in 2005-06. The surplus in revenue account has been maintained from 2005-06 till today. Fiscal deficit could also be contained within 3 percent of GSDP though there is marginal increase in 2017-18 and 2018-19. Debt-GSDP ratio came down significantly from 56.08 percent to 20.73 in 2018-19. Tax-GSDP ratio has remained 5 to 6 percent during 2002-03 to 2010-11 and increased to 8.76 in 2018-19. The overall fiscal scenario at the present context looking favourable for the economy and should be maintained in the years to come to have a better fiscal position for the state by augmenting the state's revenue sources and curtailing the unnecessary and unhealthy expenditure. However after 2002-03, no such alarming debasement in debt management is observed. Following the recommendations of Twelfth Finance commission, the Central Government disintermediated state government borrowings from 2005-06 onwards, resulting a sharp decline in the inflows of loans from the Center in the subsequent years. It is also ascertained that although government had a greater percentage of capital expenditure in early 2000s, a large amount used for debt repayment leaving barely a very small amount for capital outlay. Of course, this tendency has disappeared in recent years due to declining burden of debt repayments, still capital outlay is not satisfactory. Due to record level of revenue surplus from 2005-06 onwards, the state government has been maintaining a huge cash reserves, where a large portion parking in RBI for investment in Government Treasury bills.

From the foregoing discussion it is observed that the fiscal performance of Odisha has been improved after the implementation of FRBM Act. The state has been maintaining revenue surplus and have reduced the fiscal deficits. The debt stock is well within the prescribed limit. Further, it is observed that the fiscal performance of the state has been improved over the years and State finance becomes a robust one.

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