

Odisha Budget Analysis 2017-18

The Finance Minister of Odisha, Mr. Pradip Kumar Amat, presented the Budget for Odisha for the financial year 2017-18 on February 27, 2017.

Budget Highlights

- The **Gross State Domestic Product** of Odisha for 2017-18 at current prices is estimated to be Rs 4,12,481 crore. This is 8.8% higher than the revised estimate for 2016-17.
- **Total expenditure** for 2017-18 is estimated to be Rs 1,06,911 crore, a 14.3% increase over the revised estimate of 2016-17. In 2016-17, there was a decrease of Rs 538 crore (0.5%) in the revised estimate over the budget estimate.
- **Total receipts (excluding borrowings)** for 2017-18 are estimated to be Rs 89,062 crore, an increase of 11.1% over the revised estimates of 2016-17. In 2016-17, total receipts exceeded the budgeted target by Rs 1,857 crore (2.37%).
- **Revenue surplus** for the next financial year is targeted at Rs 6,694 crore, or 1.6% of the state Gross Domestic Product (GDP). **Fiscal deficit** is targeted at Rs 14,435 crore (3.5% of state GDP).
- Departments of Housing and Urban Development, School Education and Water Resources saw most increase in allocations for the year 2017-18. On the other hand, the Panchayati Raj Department saw a marginal decrease in allocation in 2017-18.

Policy Highlights

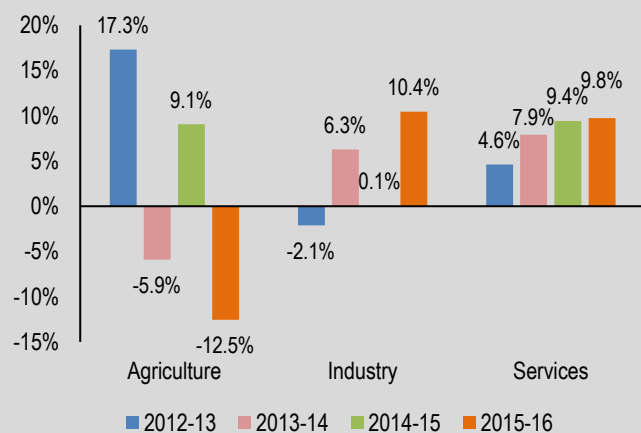
- **Irrigation:** 2.95 lakh hectares of agricultural land to be provided irrigation in 2017-18. Rs 1,546 crore has been allocated for Parbati Giri Mega Lift Irrigation Scheme.
- **UNNATI:** A new scheme, Urban Transformation Initiative (UNNATI) is proposed to be implemented to improve urban roads and provision of civic amenities. Rs 294 crore has been allocated for the scheme.
- **Medical education:** Rs 400 crore will be spent on establishment of new medical colleges to increase the availability of doctors.
- **Buxi Jagabandhu Assured Water Supply to Habitations (BASUDHA):** An outlay of Rs 315 crore and Rs 750 crore respectively is budgeted to be spent for urban water supply and rural water supply under the program.
- **Integrated Financial Management System (IFMS):** Odisha's public expenditure management system, IFMS which provides for electronic receipts and disbursements will be further upgraded to ensure entire chain of financial transactions becomes digital and paperless.
- **NREGA corpus:** To provide timely payment of wages under NREGA, a corpus fund of Rs 300 crore is proposed to be established.

Odisha's Economic indicators

Economic growth: In 2014-15 and 2015-16, the economy of Odisha grew at 6.2%. This is higher than the growth of 3.5% in 2012-13. Service sector saw a steady improvement in annual growth, from 4.6% in 2012-13 to 9.8% in 2015-16. On the other hand, agriculture saw a volatile growth pattern, with annual growth rates fluctuating between 17.3% to -12.5%.

Per-capita income: Odisha has a per-capita income of Rs 52,516. This is the sixth lowest in the country.

Unemployment: Unemployment rate in the state has been declining since 2012-13. In 2012-13, the unemployment rate was 5.1%, which declined to 3.8% in 2015-16.



Sources: Central Statistics Office; PRS.

Budget Estimates for 2017-18

- The total expenditure in 2017-18 is targeted at Rs 1,06,911 crore. The revised estimate for the total expenditure in 2016-17 was Rs 93,515 crore, which is 0.5% (Rs 538 crore) less than the budgeted target of 2016-17.
- The expenditure in 2017-18 is proposed to be met through receipts (other than borrowings) of Rs 89,062 crore and borrowings of Rs 17,003 crore. Total receipts for 2017-18 (other than borrowings) are expected to be 11.1% higher than the revised estimate of 2016-17.

Table 1: Budget 2017-18 - Key figures (in Rs crore)

| Items | 2015-16 Actuals | 2016-17 Budgeted | 2016-17 Revised | % change from BE 2016-17 to RE of 2016-17 | 2017-18 Budgeted | % change from RE 2016-17 to BE 2017-18 |
|---------------------------------|--------------------|---------------------|--------------------|---|---------------------|--|
| Total Expenditure | 79,114 | 94,053 | 93,515 | -0.6% | 1,06,911 | 14.3% |
| A. Borrowings | 9,790 | 14,669 | 12,346 | -15.8% | 17,003 | 37.7% |
| B. Receipts (except borrowings) | 69,170 | 78,312 | 80,169 | 2.4% | 89,062 | 11.1% |
| Total Receipts (A+B) | 78,960 | 92,981 | 92,515 | -0.5% | 1,06,065 | 14.6% |
| Revenue Deficit | | | | | | |
| (-)/Surplus(+) | 10,136 | 3,683 | 7,243 | | 6,694 | |
| As % of state GDP | 3.0% | 1.0% | 1.9% | | 1.6% | |
| Fiscal Deficit | | | | | | |
| (-)/Surplus(+) | -7,063 | -14,532 | -12,138 | | -14,435 | |
| As % of state GDP | -2.1% | -3.8% | -3.2% | | -3.5% | |
| Primary Deficit | | | | | | |
| (-)/Surplus(+) | -3,720 | -9,882 | -7,488 | | -9,435 | |
| As % of state GDP | -1.1% | -2.6% | -2.0% | | -2.3% | |

Notes: BE is Budget Estimate; RE is Revised Estimate. GSDP for 2017-18 is considered to be Rs 4,12,481 crore.

Sources: Odisha State Budget Documents 2017-18; PRS.

Expenditure in 2017-18

- Government expenditures can be divided into (a) capital expenditure, which affects the assets and liabilities of the state, and (b) revenue expenditure, which includes the rest of the expenses.
- Total capital expenditure is proposed to be Rs 24,673 crore, which is an increase of 18.8% over the revised estimates of 2016-17. This includes expenditure, which leads to creation of assets (Rs 21,259 crore), and repayment of loans (Rs 3,415 crore), among others.
- Total revenue expenditure for 2017-18 is proposed to be Rs 82,273 crore, which is an increase of 13.1% over revised estimates of 2016-17. This expenditure includes payment of salaries, administration of government programs, etc.

In 2017-18, capital expenditure of the state is estimated to be Rs 24,673 crore. This is 18.8% (Rs 3,898 crore) higher than the revised estimates of 2016-17. Note that this is driven by increase in the debt repayment requirement of the state. In 2017-18, the state estimates to pay Rs 2,207 crore higher than the revised estimates of 2016-17.

Table 2: Expenditure budget 2017-18 (in Rs crore)

| Item | 2015-16 Actuals | 2016-17 Budgeted | 2016-17 Revised | % change from BE 2016- 17 to RE 2016-17 | 2017-18 Budgeted | % change from RE 2016- 17 to BE 2017-18 |
|-----------------------------|--------------------|---------------------|--------------------|--|---------------------|--|
| Capital Expenditure | 20,308 | 19,609 | 20,775 | 5.9% | 24,673 | 18.8% |
| Revenue Expenditure | 58,806 | 74,443 | 72,740 | -2.3% | 82,237 | 13.1% |
| Total Expenditure | 79,114 | 94,053 | 93,515 | -0.6% | 1,06,911 | 14.3% |
| A. Debt Repayment | 2,881 | 1,208 | 1,208 | 0.0% | 3,415 | 182.6% |
| B. Interest Payments | 3,343 | 4,650 | 4,650 | 0.0% | 5,000 | 7.5% |
| Debt Servicing (A+B) | 6,225 | 5,858 | 5,858 | 0.0% | 8,415 | 43.6% |

Sources: Odisha State Budget Documents 2017-18; PRS. Note: Capital expenditure includes: i) spending that creates assets, ii) repayments on the loans taken by the government, and iii) loans provided by the government.

Department expenditure in 2017-18

The departments listed below account for **55%** of the total budgeted expenditure of Odisha in 2017-18.

Table 3: Department-wise expenditure for Odisha Budget 2017-18 (in Rs crore)

| Department | 2015-16 Actuals | 2016-17 Budgeted | 2016-17 Revised | 2017-18 Budgeted | % change from RE 2016-17 to BE 2017-18 | Budget provisions for 2017-18 |
|-------------------------------|-----------------|------------------|-----------------|------------------|--|---|
| School and Mass Education | 9,018 | 11,203 | 10,707 | 13,857 | 29.4% | <ul style="list-style-type: none"> Rs 2,000 crore is budgeted to be spent on Sarba Sikhya Abhiyan, followed by Rs 860 crore on Mid-day Meal Scheme and Rs 706 crore on Rashtriya Madhyamika Siksha Abhiyan. <i>Gangadhar Meher Sikhya Manakbrudhi Yojna</i>: Free school bags and educational kits to children of classes – 1 to 5, free school uniform to children of classes - 1 to 8, and free bicycles to students studying class 9 of government and government aided schools will be provided. Rs.185 crore to be allocated for this purpose. |
| Water Resources | 6,044 | 7,242 | 7,583 | 9,200 | 21.3% | <ul style="list-style-type: none"> 76% of the allocation to be spent on capital expenses. Rs 2,991 crore is budgeted to be spent on major irrigation projects, followed by Rs 3,014 crore on minor irrigation, and Rs 1,760 on medium irrigation projects. |
| Panchayati Raj | 7,637 | 8,459 | 8,610 | 8,474 | -1.6% | <ul style="list-style-type: none"> Rs 1,725 crore on the basis of the recommendations of 14th Finance Commission, and Rs 1,629 crore on the basis of Fourth State Finance Commission to be transferred to Panchayati Raj institutions. |
| Rural Development | 6,608 | 6,490 | 6,969 | 7,371 | 5.8% | <ul style="list-style-type: none"> To provide timely payment of wages under NREGA, a corpus fund of Rs 300 crore is proposed to be established. |
| Health and Family Welfare | 3,701 | 4,772 | 4,903 | 5,690 | 16.1% | <ul style="list-style-type: none"> <i>Mukhya Mantri Swasthya Seva Mission</i>: Rs 345 crore allocated under the mission to promote public health response, investment in health sector, medical colleges and financial assistance to poor patients. |
| Works | 5,305 | 4,524 | 4,600 | 4,964 | 7.9% | <ul style="list-style-type: none"> Rs 3,278 crore to be spent for improvement of 1,310 kilo metres of roads, and construction of 37 bridges. These include completion of major bridges at Gurupriya, Ib, Nelson Mandela Chitei and Kushabhadra. |
| Housing and Urban Development | 2,711 | 3,357 | 3,335 | 4,478 | 34.3% | <ul style="list-style-type: none"> Based on the recommendations of 14th Finance Commission and the Fourth State Finance Commission, Rs 351 crore and Rs 1,117 crore respectively will be transferred to the urban local bodies of the state. |
| Home | 3,320 | 3,705 | 3,830 | 4,346 | 13.5% | <ul style="list-style-type: none"> Rs 264 crore (6%) is budgeted to be spent on capital expenses. |
| % of total | 56.0% | 52.9% | 54.0% | 54.6% | | |
| Others | 34,771 | 44,301 | 42,978 | 48,530 | | |
| Total | 79,114 | 94,053 | 93,515 | 1,06,911 | 14.3% | |

Note: All amounts are net numbers. Source: Odisha Budget Speech 2017-18; PRS.

Other announcements:

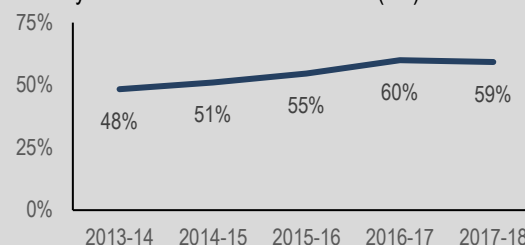
- **Digital payments:** All government offices will be enabled to receive digital payments of all kinds including net banking, debit and credit cards and Aadhaar-based payments.
- A sum of Rs five crore is allocated to support start-ups under Odisha Start-up Policy.

Receipts in 2017-18

- The total revenue receipts for 2017-18 are estimated to be Rs 88,932 crore, an increase of 11.2% over the revised estimates of 2016-17. Transfer from the centre in the form of share in union taxes is the largest component of revenue of the state. In 2017-18, it is estimated to increase by 10.9%, to Rs 31,422 crore.
- State's own tax revenue is estimated to be Rs 26,800 crore in 2017-18. The composition of the state's tax revenue is shown in Figure 1. The tax revenue is expected to increase by 15.5% (Rs 3,600 crore) in 2017-18 over the revised estimates of 2016-17.
- The tax to GSDP ratio is targeted at 6.5% in 2017-18, which is an increase over the revised estimate of 6.12% in 2016-17.

Increasingly dependent on centre's transfers

In the last five years, the state's revenue has been increasingly dependent on centre's transfers. In 2013-14, centre's transfers contributed to 48% of revenue, which steadily increased to 59% in 2017-18 (BE).



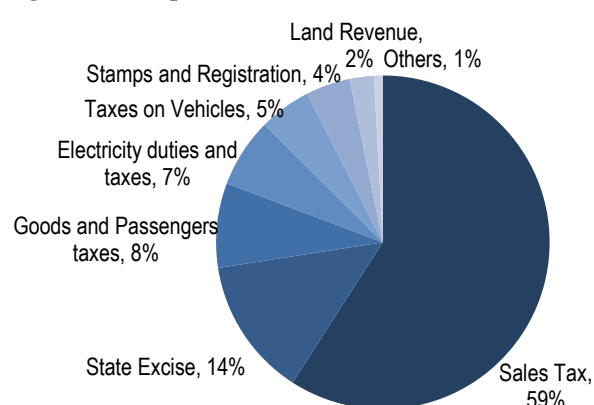
Transfers from centre to the state between 2013-14 and 2016-17 (BE) grew annually at 24% on an average, as compared to growth of own tax revenue of 9.3%. This is also higher than the growth of centre's transfers to all Indian states (21.5%) over the same period.

Table 4: Break up of total receipts (in Rs crore)

| Item | 2015-2016 Actuals | 2016-2017 Budgeted | 2016-2017 Revised | % change from BE 2016-17 to RE 2016-17 | 2017-2018 Budgeted | % change from RE 2016-17 to BE 2017-18 |
|--------------------------------|-------------------|--------------------|-------------------|--|--------------------|--|
| State's Own Tax | 22,527 | 23,200 | 23,200 | 0.0% | 26,800 | 15.5% |
| State's Own Non Tax | 8,711 | 9,823 | 8,823 | -10.2% | 9,500 | 7.7% |
| State's share in Central Taxes | 23,574 | 26,658 | 28,321 | 6.2% | 31,422 | 10.9% |
| Grants-in-aid from Centre | 14,129 | 18,536 | 19,639 | 5.9% | 21,210 | 8.0% |
| Total Revenue Receipts | 68,941 | 78,217 | 79,983 | 2.3% | 88,932 | 11.2% |
| Borrowings | 9,790 | 14,669 | 12,346 | -15.8% | 17,003 | 37.7% |
| Other receipts | 228 | 185 | 185 | 0.0% | 130 | -29.8% |
| Total Capital Receipts | 10,018 | 14,855 | 12,531 | -15.6% | 17,133 | 36.7% |
| Total Receipts | 78,960 | 93,071 | 92,515 | -0.6% | 1,06,065 | 14.6% |

Sources: Odisha State Budget Documents 2017-18; PRS.

Figure 1: Composition of Tax Revenue in 2017-18 (BE)



Sources: Odisha State Budget Documents 2017-18; PRS.

- **Tax Revenue:** Sales tax is the largest component of the tax revenue of the state. Sales tax, levied on the sale of goods in the state is expected to generate Rs 15,840 crore in 2017-18. This is an increase of 16.3% from 2016-17.
- Rs 3,600 crore is expected to be generated through state excise duties. This is an increase of 20% over the estimates of 2016-17.
- In addition, revenue will be generated through taxes on goods and passengers, levy of duty on electricity, stamp duties, taxes on vehicles, etc.
- Upon the implementation of the Goods and Service Tax, the sales tax, along with other state taxes will be subsumed into State Goods and Services Tax (SGST).
- **Non-Tax Revenue:** Odisha has estimated to generate Rs 9,500 crore through non-tax sources in 2017-18. This is a 7.7% growth from revised estimates of 2016-17.
- The government is estimated to generate Rs 6,630 crore from non-ferrous mining and metallurgical industries, which is an increase of 7.4% over 2016-17 (RE). Further, the government has estimated to generate Rs 489 crore through major irrigation, Rs 229 crore from minor irrigation, and Rs 119 crore through coal and lignite in 2017-18.

Deficits, Debts and FRBM Targets for 2017-18

The Fiscal Responsibility and Budget Management (FRBM) Act, 2005 of the state provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

Revenue deficit: It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow in order to finance its expenses, which do not create capital assets. However, the budget estimates a revenue surplus of Rs 6,694 crore (or 1.62% of state GDP) in 2017-18. This implies that revenue receipts are expected to be higher than the revenue expenditure, resulting in a surplus. The estimate indicates that the state is within the target of eliminating revenue deficit, prescribed by the 14th Finance Commission.

Fiscal deficit: It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government, and leads to an increase in total liabilities of the government. In 2017-18, fiscal deficit is estimated to be Rs 14,435 crore, which is 3.5% of the state GDP. The estimate reaches the 3.5% limit prescribed by the 14th Finance Commission.

Debt Stock: It is the accumulation of borrowings over the years. As of 2017-18, the debt stock is expected to be 18.6% of the state GDP (Rs 76,744 crore), which is an increase from 16.4% in 2016-17. The debt stock is estimated to be 19.7% of state GDP in 2017-18 and further increase to 20.7% in 2019-20. Increase in debt stock over time indicates increasing interest payment and principal repayment burden in the future. In addition to these liabilities, the state has provided guarantees to loans of other entities worth Rs 2,256 crore.

Table 5: Budget targets for deficits for the state of Odisha in 2017-18 (% of GSDP)

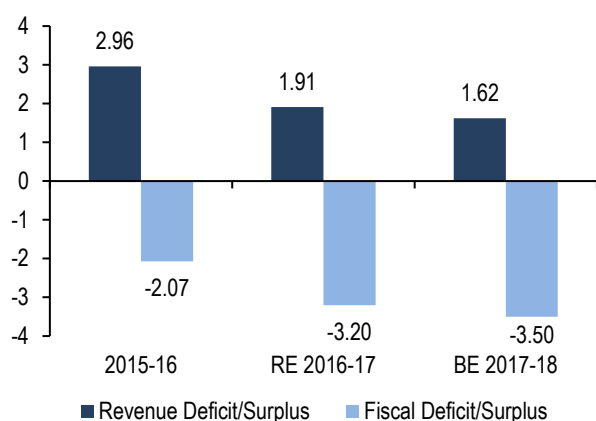
| Year | Revenue Deficit (-)/Surplus (+) | Fiscal Deficit (-)/Surplus (+) | Debt Stock |
|------------|---------------------------------|--------------------------------|------------|
| 2015-16 | 2.96 | -2.07 | 15.21 |
| RE 2016-17 | 1.91 | -3.20 | 16.45 |
| BE 2017-18 | 1.62 | -3.50 | 18.61 |
| 2018-19 | 1.74 | -3.50 | 19.68 |
| 2019-20 | 1.87 | -3.50 | 20.69 |

Note: 2018-19 and 2019-20 numbers are projections.

Sources: Odisha State Budget Documents 2017-18; PRS.

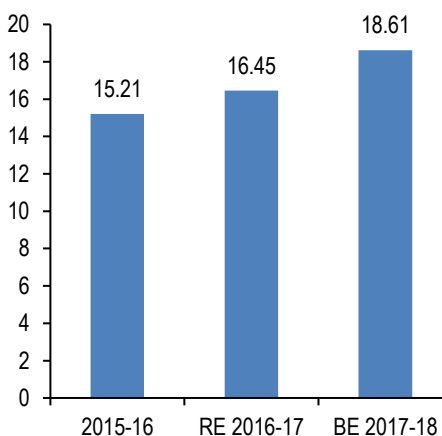
Figures 2 and 3 show the trend in deficits and outstanding liabilities from 2015-16 to 2017-18:

Figure 2: Revenue and Fiscal Deficit (as % of state GDP)



Sources: Odisha State Budget Documents; PRS.

Figure 3: Debt Stock (as % of state GDP)



Sources: Odisha State Budget Documents; PRS.

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