GOVERNMENT OF ODISHA

Status Paper on Public Debt in Odisha

- An Overview

February, 2021

FINANCE DEPARTMENT

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An overview

Finance Department
Government of Odisha

Contents

ABBREVIATIONS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
EAP	Externally Aided Project
FRBM	Fiscal Responsibility and Budget Management Act
GIC	General Insurance Corporation
GPF	General Provident Fund
GDP	Gross Domestic Product
GSDP	Gross State Domestic Product
HPC	High Power Committee
IFAD	International Fund for Agricultural Development
IPRR	Interest Payment to Revenue Receipts
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LIC	Life Insurance Corporation
LTIF	Long Term Irrigation Fund
NABARD	National Bank for Agriculture and Rural Development
NCDC	National Cooperatives Development Corporation
NDDB	National Dairy Development Board
NSSF	National Small Savings Fund
NWS	National Warehousing Scheme
OPEC	Organization of the Petroleum Exporting Countries
OSFDC	Orissa State Finance Development Corporation
OSCM	Orissa State Cooperative Manufacturing Federation ltd.
PSU	Public Sector Undertakings
REC	Rural Electrification Corporation
RIDF	Rural Infrastructure Development Fund
ULB	Urban Local Bodies
WB	World Bank

EXECUTIVE SUMMARY

1. All the borrowing undertaken by the Government of Odisha is used to finance capital investment. Whilst the total stock of debts is increasing over time, the public debt of Odisha is sustainable, meaning that the Government of Odisha can service its debts without difficulty. Strong revenue growth is helping to keep interest payments manageable, and within the limits of the Fiscal Responsibility and Budget Management (FRBM) Act. The long maturity profile of Odisha's debts reduces the risk from an economic shock and the low percentage of foreign currency debts has lowered Odisha's vulnerability to any exchange rate. It is worth noting that Odisha's debt to GSDP ratio of 20 percent is considerably lower than that for India as a whole (68 percent of GDP).
2. The total outstanding public debt of the State as on 31st March 2020 stands at Rs.92,775.18 crore which is 17.8 percent of the State's gross domestic product (GSDP). The Fourteenth Finance Commission and Odisha FRBM Act, 2005 prescribe for limiting the debt to GSDP ratio within 25 percent. The current debt level of Odisha is within the stipulated debt limit.
3. The future debt outlook of the State also looks to be within the sustainable level, even with the challenges presented by Covid-19. In the medium term, the total debt to GSDP ratio of the State is projected to reach to a level of 22.46 per cent in the financial year 2023-24, which will be within the stipulated limit of 25%. The total interest payment to total revenue receipts (IPRR) stands at 6% for the financial year 2019-20, well within the FRBM Act limit of 15%.
4. The composition of debt stock in the State has also witnessed a transition from some of the high cost borrowing sources such as National Small Saving Fund (NSSF) to low cost borrowing sources.
5. Recently, Government of Odisha has taken an innovative step to avail loans from Odisha Mineral Bearing Area Development Corporation (OMBADC) Fund and Compensatory Afforestation (CAMPA) Fund through amendment of the accounting procedure at interest rates 1.5 to 2 per cent lower than Open Market Borrowing (OMB). The State Government can borrow up to 60 percent of the surplus fund available in these dedicated funds as per the new accounting procedure.
6. The critical aspect of borrowing is that the borrowed funds should be invested in socially beneficial capital projects that increase economic activity, create jobs and improves lives of people of the State. Projects should increase economic activity which in turn increase tax revenues and raise the ability to service the loans. Therefore, it is extremely important that good projects are identified and selected for investment of the borrowed funds, including considering the maintenance cost (revenue

expenditure) post completion of the project. Any borrowing should be for developmental activities (capital investment) rather than to cover the day-to-day spending of government (revenue expenditure).

7. In Odisha, the High Power Committee (HPC) selects and approves any project taking into account the strategic importance, cost-benefit ratio, parity among the districts of the State and socio-economic backwardness of different districts.

8. Around 8 percent of borrowing is from external (foreign) lenders. The Rengali Irrigation Project (Phase-II), Odisha State Road Project and Odisha Urban Infrastructure Development Fund project are some of the externally aided on-going projects in the State funded by JICA (Japan International Cooperation Agency), World Bank and KfW Germany respectively. There are thirteen EAP on-going projects in the State funded by different donor agencies. In addition to this there are some infrastructure projects in pipeline. Agro Food processing and value addition programme, strengthening of secondary education in Odisha, Development of sewerage systems in four urban local bodies such as Bhubaneswar, Puri, Cuttack and Berhampur are some of the projects in the pipeline.

9. Government of Odisha also guarantees the debts of some public sector undertakings (PSUs). The total loan guarantees (guarantee to State Public Sector Undertakings, Urban Local Bodies, Co-operative institutions) as on 31st March 2020 is Rs.3532.47 crore which is 0.7 percent of GSDP. The guarantees do not constitute a part of the State government's loan, but in case of default by the State owned entities (PSUs), the State government is liable to repay the loan. The guaranteed loan as a percentage of revenue receipts (total Revenue Receipts of the second preceding year) has shown significant reduction from 123.37 percent in 2001-2002 to 5.23 percent during 2019-20 against the administrative ceiling of 80 percent.

10. The lower level of debt stock, reduced cost of borrowing, lower level of fiscal risks exposure and low level of outstanding government guarantees have made the fiscal policy of the State sustainable. The current and medium term debt level of the State looks stable, with forecasts for the interest payment to revenue receipts ratio and debt: GSDP ratio to stay within the FRBM Act limits over the medium term.

Chapter 1

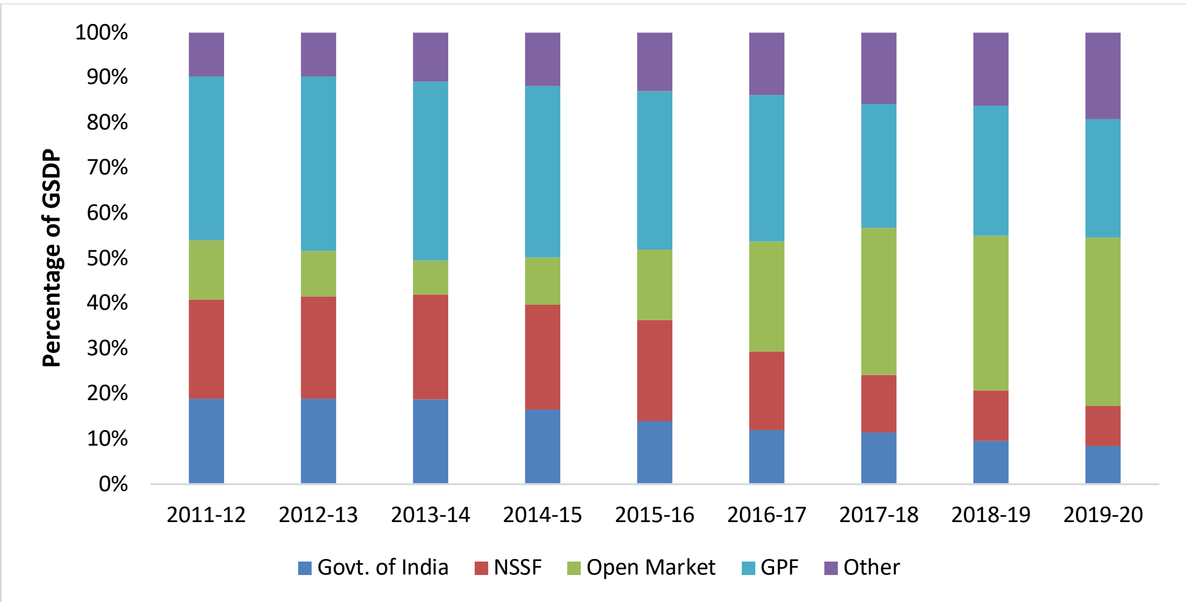
1. Current Debt Portfolio of the State

1.1 Sources of Borrowing: Domestic and External

The majority of the State government's public debt is in national currency i.e. in Indian Rupees. Around 92% of the total borrowing is done in Indian Rupee and the balance of 8% is from external agencies in foreign currency. Therefore, the State's debt portfolio is less exposed to the risks from exchange rate fluctuations and the rupee depreciation vis-à-vis the US Dollar and other foreign currencies.

Following the recommendation of the 12th Finance Commission, external assistance from external bilateral and multilateral donor agencies is available to State governments with the funds being on-lent by the government of India. External development assistance from bilateral sources such as JICA, KfW and multilateral sources such as WB, ADB, IFAD etc. is received largely by the Government of India. Odisha government negotiate loans for state sector projects.

Chart 1: Sources of Debt of State Government (percentage of GSDP)



1.2 Domestic Sources of Borrowing

The major domestic sources of borrowing are open market borrowing, loans from NABARD (National Bank for Agriculture and Rural Development), Government of India loans, NSSF (National Small Savings Fund), GPF (General Provident Fund), and loans from financial institutions such as LIC/GIC, NCDC, and REC etc. The loans raised from the Government of India, NABARD are mostly tied in nature i.e. the funds cannot be made available to any project other than the project for which the loan has been taken. The Government of India loan is available in the form of Block Loans or Back to Back Loans. The back to back loan is the loan taken from External Donor Agencies in form of Externally Aided Projects (EAP) which is then on-lent to State governments on the same terms. Of all the domestic sources, NABARD loans, especially RIDF loans are cheapest followed by NWS and LTIF. Recently, the State Government has taken an innovative step to avail loans from Odisha Mineral Bearing Area Development Corporation (OMBADC) Fund and Compensatory Afforestation (CAMPA) Fund through amendment of the accounting procedure to further reduce the cost of borrowing.

1.2.1 Open Market Borrowing

Open market borrowing is one of the cheapest domestic sources of borrowing. The largest domestic source of borrowing at present is open market borrowing. Since the loan is untied in nature, it gives the flexibility to the State to invest the loan amount in any developmental projects as per the need and priority of the State. As on 31st March 2020, the share of Open market borrowing in total debt of the State is around 37%. The share of the open market borrowing has been increasing consistently over the period of time as shown in the above chart. The interest rate on open market borrowing is around 7%.

1.2.2 National Small Savings Fund

NSSF borrowing is one of the high cost borrowing sources. The total outstanding loan from NSSF as on 31st March 2020 is Rs 8290.45 crore which is 8.9 percent of the total outstanding public debt. The State government has opted out of the NSSF since 2016-17 after the recommendation of the 14th Finance Commission. The outstanding NSSF loan amount is being serviced at 9.5%. The State government has already repaid the NSSF loan that was carrying more than 10% of interest. Basically NSSF loan is now a legacy loan.

1.2.3 General Provident Fund

General provident fund is another high cost borrowing. It is a statutory obligation on the part of the State government to provide a kind of social security to its employees. In 2011-12, GPF contributed 36.2% to the total debt stock of the State. Now the share has been reduced to 26.23 percent. The total outstanding debt from GPF as on 31st March 2020 is Rs.24337.32 crore. There is no fixed schedule of repayments of this loan because it depends upon the number of government employees retiring every year.

1.2.4 NABARD: RIDF & LTIF

RIDF (Rural Infrastructure Development Fund) and LTIF (Long Term Irrigation Fund) from NABARD are some of the cheapest sources of financing rural infrastructure projects. The present cost of loan from RIDF is 2.75% rate of interest with 7-year repayment period and moratorium in repayment for 2 years. Around 85% of NABARD loan is in the form of RIDF loan. LTIF, NWS (NABARD Warehousing Scheme) constitute the rest of the NABARD loans.

Project based borrowing from external sources through the Government of India has the risk of exchange rate variations whereas borrowing from RIDF does not carry such risk. But the constraint is that the NABARD loan for each State has a limit. The nature of the NABARD loans is tied which is utilized for designated projects related to rural infrastructure sector, warehousing and irrigation projects. The projects taken up under RIDF and LTIF have transformational effect on rural economy.

1.2.5 OMBADC and CAMPA Fund

Recently, State Government has taken an innovative step to avail loan from Odisha Mineral Bearing Area Development Corporation (OMBADC) Fund and Compensatory Afforestation (CAMPA) Fund through amendment of the accounting procedure at a rate equivalent to 364-day Treasury Bill, which is about 150-200 basis points lower than OMB. The State Government can borrow up to 60 percent of the surplus fund available in these dedicated funds. During the year 2019-20, the State has raised Rs.2895 crore from CAMPA and OMBADC funds and it is expected that substantially higher level of borrowing from these two sources as a substitute to OMB to reduce cost of borrowing.

Table 1: Domestic Debt Position as on 31st March 2020

Borrowing source	Loan outstanding		Average interest rate	Average maturity (years)
	Rs. in crore	% of GSDP		
Open Market Borrowing	34,530.90	6.8	7.0%	8.4
General Provident Fund	24,337.32	4.8	7.1%	-
National Bank for Agriculture and Rural Development	14,579.70	2.9	4.5%	5.4
National Small Savings Fund	8,290.45	1.6	10.0%	6.7
Others (including CAMPA)	3,194.25	0.6	4.0%	2.7
Total	**84,932.62**	**16.7**	**7.0%**	**7.1**

1.3 External Borrowing: EAP

The State Government has been borrowing from the external donor agencies such as the World Bank, ADB (Asian Development Bank), IFAD (International Fund for Agricultural Development), JICA and KfW. The Government of India acts a financial intermediary between the State Government and the external donor agencies as per the constitutional mandate. Post the recommendation of the 12th Finance Commission, the government of India is transferring the loan to the State governments on the same terms and condition as has been negotiated between the State government and the external donor agencies. This is a significant departure from the earlier practice where the cost of the loan was a bit higher for the State Government due to additional terms and conditions imposed by the central government on top of the negotiated terms and conditions.

Although the loans from external agencies such as JICA and WB are available at low interest rates, the loan repayment is subjected to exchange rate fluctuations and rupee depreciation against foreign currencies. Considering the devaluation of Indian rupee over last ten years, the effective lending cost of external borrowing has been between 6 to 8 percent, which is comparable to Open Market Borrowing. The majority of the on-going externally aided projects are funded by either WB or JICA. Only a handful of projects are funded by KfW (Germany) and ADB. Around Rs 1000 to Rs 1500 crore is being borrowed from external agencies every year. The total outstanding debt from the external donor agencies is around Rs 7842.55 crore which is 1.47 percent of GSDP.

Table 2: External Debt Position as on 31st March 2020

Borrowing source	Currency	Loan outstanding		*Average interest rate	Average maturity (years)
		Rs. in crore	% of GSDP		
Japan (International Development Programme)	JPY	1461.8	0.28%	0.4%	9.7
World Bank / IBRD	USD	2543.7	0.49%	2.2%	11.3
World Bank / IDA	XDR	1908.6	0.37%	1.3%	7.8
Germany / KfW	EUR	812.6	0.16%	0.1%	8.0
Asian Development Bank	USD	582.0	0.11%	3.0%	9.5
International Fund for Agricultural Development	XDR	421.2	0.08%	1.4%	13.2
OPEC fund for development	USD	112.6	0.02%	2.6%	6.4
Total		**7842.5**	**1.50%**	**2.1%**	**10.3**

* The interest rate is on foreign currency and includes variable component like LIBOR. The average interest rate has been worked out taking into account current LIBOR rates.

1.4 State Government Guarantees:

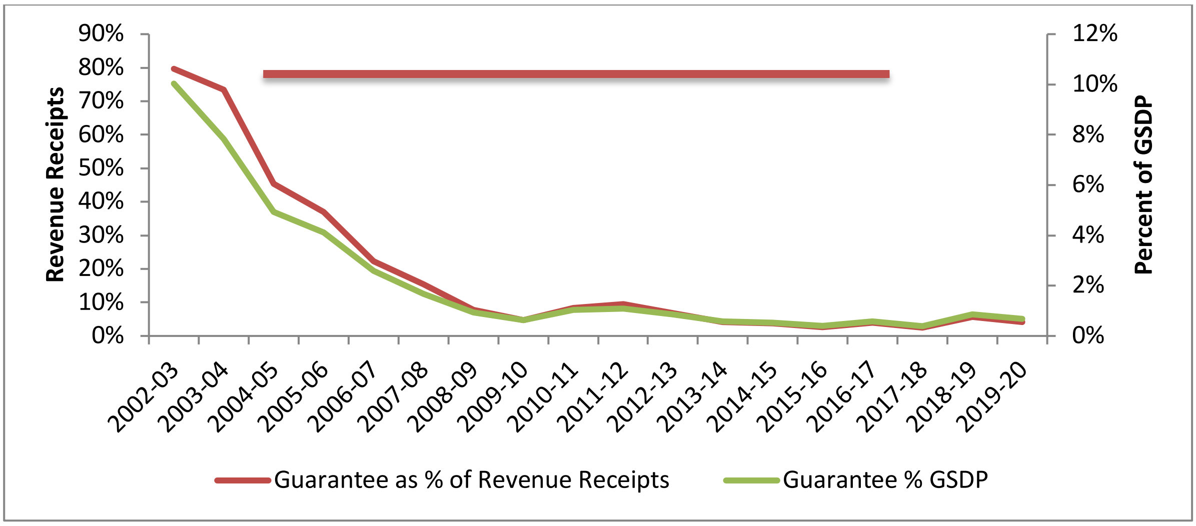
Government of Odisha has fixed the ceilings on guarantees since 2002-03 with the total outstanding government guarantees as on 1st April of every year shall not exceed 100% of the State revenue receipts of the second preceding year. Attempts should be made to bring this gradually to the level of 80% over the next five years.

The total outstanding government guaranteed loan (guarantee to State PSUs, ULBs, Co-operative institutions) as on 31st December 2020 is Rs. 7068.38 crore which is 1.39 percent of GSDP. The guarantees do not form a part of the State government's loans, but in case of default by the State owned entities, the State government is liable to repay the loan. The guaranteed loan as a percentage of revenue receipts (Total Revenue Receipts of the second preceding year) has been reduced drastically from 123.37% in 2001-2002 to 8.84% during 2020-21 (till December, 2020). The reason for the State Government to offer guarantees is to allow the public sector enterprises to borrow at lower interest rates from market and hence allow them to invest more or offer lower prices to customers.

Table 3: Some of the largest Loan Guarantees

Guarantee given to	Purpose of loan	Size of loan (in Crore)	Maximum amount guaranteed (Rs in Crore)	Interest rate	Period of loan (years)
GRIDCO	Term Loan to meet the growing power purchase cost	200	200	11.5%	8
OSFC, Cuttack	Bond Issue	32.9	40	12.5%	10
OSCM Federation Ltd	To meet the working capital requirement for procurement of ground nut and sun flowers seeds under price support scheme	30	30	10.5%	1
Odisha co-operative housing corporation	For financing EWS credit cooperative scheme in rural area	20	20	8.5%	15
Aska cooperative sugar industries	Repayment to farmers for sugarcane	15	15	12.0%	0.8
Odisha Khadi and Village Industries Board	Bank Credit	9.98	46.33	13.5%	8
Mahila Vikas Nigam	For Implementation of Scheme for Economic rehabilitation of persons with disabilities	9.11	10	10.0%	10
Odisha State cooperatives oil-seed growers federation ltd	Long-term loan from N.D.D.B for vegetable oil project	6.28	6.28	10.5%	25
Bargarh co-operative sugar mills	Working Capital	6	6	12.0%	1
OBC Finance and Development Corporation	For economic development of weaker minority people for giving loan at concession rate of interest	2.79	5	3.5%	5
OSFDC(SC)	Term loan from MSFDC, New Delhi	2.13	4	3.0%	5
Rourkela Municipality	Basic Sanitation Scheme	0.13	0.13	7.5%	10

Chart 2: Outstanding guaranteed loan as a percentage of revenue receipts of the second preceding financial year



1.5 Maturity profile of outstanding debt of the State

For most of the EAPs (Externally Aided Projects), the maturity profile of the loans taken from external agencies is at least 5 years, and currently the average maturity for these loans is 10.4 years (Table 2). Domestic debt and loan guarantees tend to have shorter maturities. As highlighted in Table 3 above, for most of the government guarantees, the period of loan is either 5 years or 10 years. The standard bond year is generally 10 years. Maturity of the government loans ranges from a minimum 2 years to a maximum 40 years. The interest rate for government bond varies with the tenor of the bond. Higher the tenor of the bond, higher is the interest rate. Generally, the interest rate varies by 20 to 30 basis points between a 10-years-bond and a 40-years-bond. Nearly 60% of total loan outstanding is expected to be repaid in the next five years (as per the status ending FY 2019-20).

1.6 Projects funded by borrowing: A few case studies

1.6.1 ADB: Odisha Skill Development Project

The Asian Development Bank is helping Odisha to provide work skills training to about 200,000 young people, including women and members of disadvantaged groups. The project will help trainees learn skills in priority sectors, including manufacturing, construction and services. About 80% of the State's workforce is employed in the informal sector because of low skills. The expected impact of the project will be on improved employability of the working age population of Odisha. This can be measured by increase in per capita income, decrease in unemployment rates, and increased share of formal employment in the organized sector.

Sample Photo: Odisha Skill Development Project funded by Asian Development Bank

1.6.2 IFAD: Odisha Tribal Empowerment and Livelihoods Programme

The purpose of the Programme is to ensure that the livelihoods and food security of poor tribal households are sustainably improved through promoting more efficient, equitable, self-managed and sustainable exploitation of the natural resources at their disposal and through non-farm enterprise development.

Sample Photo: Odisha Tribal Empowerment and Livelihoods Programme – IFAD assisted EAP.

1.6.3 World Bank: Odisha State road projects

Odisha State Road Project (O.S.R.P) is a World Bank Funded Project implemented by the Works Department (OWD) of Odisha. The Project Development Objective (PDO) is to remove transport bottlenecks in targeted transport corridors for greater investment and economic and social development activities in the State of Odisha. This PDO will be achieved by (a) improving the performance, safety and carrying capacity of priority roads in the State in an environmentally and socially sustainable way, (b) increasing the role of the private sector in road infrastructure financing and management, (c) assisting Government of Odisha (GOA) to establish conducive policy, institutional and governance framework to improve road sector management, financing and safety.

Sample Photo: Chandbali-Bhadrak_Anandpur Road – World Bank Assisted Externally Aided Project

1.6.4 RIDF: Construction of H L Bridge over river Vansadhara

The high level bridge constructed over the river Vansadhara of Gumuda under RIDF-XV is an important communication link between Southern Odisha and the State capital Bhubaneswar. After successful completion of the high level bridge, the direct missing link on Vijayawada Ranchi Corridor (NH 326) has been restored and the distance of communication has been reduced by 35 kms. The socio economic growth of the people of the four backward districts of Rayagada, Koraput, Kalahandi, Kandhamal is enhanced due to smooth transport of agricultural produce such as paddy, cotton, pulses, cashew, vegetables, sugar cane and forest resources.

Sample Photo: High level bridge constructed over river Vansadhara of Gumuda – RIDF Project

1.6.5 RIDF: Kodakan Gherry Flood Protection Work

The river Paika is widely known as a flood prone river of coastal Odisha. The Kodakan gherry was constructed to protect the people of Khurusia and Patalipanka Grampanchayat residing near left embankment of the river Mahanadi. After construction of spurs and launching apron and raising the gherry embankment, six villages with population of 5000 around the embankment are now safe from impact of regular flood.

Sample Photo: Kodakan Gherry Flood Protection Work – RIDF Project

Chapter 2

2. Debt Sustainability of Odisha

Debt sustainability means when the borrower can pay the interest on the loan as well as principal repayments out of its future income without any difficulty. Borrowing by the State government is an important tool for financing investment. This is critical to achieving sustainable development and for covering short-term imbalances between revenues and expenditures. The government borrowing can also allow fiscal policy to play a countercyclical role over economic cycles. However, high debt burdens can impede growth and sustainable development. In Odisha the public debt has to be well managed so that the State government continues to focus on developmental activities to pull so many people out of abject poverty.

2.1 Measuring Sustainability of Public Debt of Odisha

Debt sustainability is generally measured in terms of two parameters such as **debt-to-GSDP ratio** and **interest payments to revenue receipts.** In addition to these two parameters, Odisha's public debt sustainability analysis is based on many macroeconomic assumptions such as:

a. GSDP growth assumptions: Odisha's real GSDP growth rate in the medium term is assumed to remain at 8% after recovery from COVID related shock. This is higher than the growth rate estimated for the national economy. Higher growth rate gives more room to the State government to go for higher borrowing and better debt servicing.

b. Fiscal Deficit: The government of Odisha has been consistent in keeping the fiscal deficit within the FRBM stipulated limit. Since the fiscal indicators of Odisha have been kept at the prudent level as per the FRBM rules, the State is allowed to go for a higher borrowing limit 0.5% in addition to the 3% of the GSDP limit.

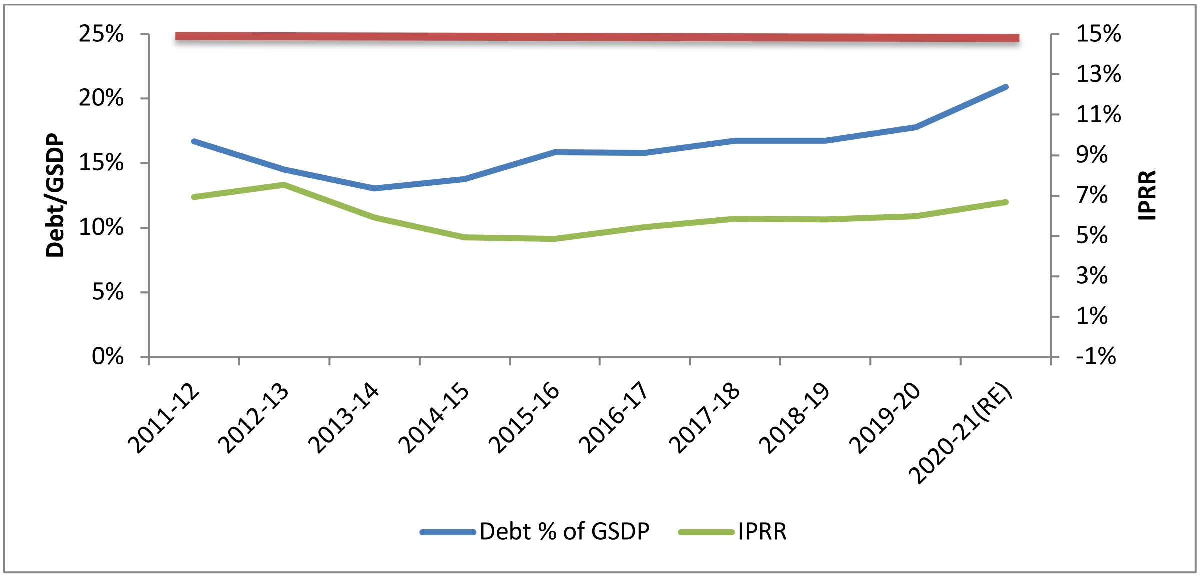
c. Odisha's debt profile is conducive to debt stability. Nearly 90% of debt has a long and medium-term maturity, and debt is largely domestic in nature. Foreign-currency denominated debt is small. The composition of the debt is going to remain same in the medium term as well.

d. Odisha's exposure to fiscal risks arising out of natural disasters, non-repayment of loans extended by the State government to State PSUs, materialization of government guarantees to the State organisations, shortfall in mining royalty etc. have a negative impact on debt sustainability. However, the total fiscal risk exposure due to above factors is estimated to be meagre.

2.2 Odisha's Performance in Debt Sustainability

The debt limit has been prescribed in the FRBM act. The **debt to GSDP** ratio should be within 25%. The **interest payment to revenue receipt ratio (IPRR)** should be within 15%. These two indicators have shown continuous decline from 2005-2006. The debt to GSDP ratio was 42.84% in 2005-2006. It has declined to 17.8% in 2018-19. The revised estimate 2020-21 figure is 20.9%. On the other hand, the IPRR has declined steadily from 26.25% in 2005-06 to 5.97% in 2019-20. Therefore, it can be concluded that the debt sustainability has improved over the period of time. Both the indicators have been kept within the stipulated limit.

Chart 3: Debt to GSDP and Debt servicing as a percentage of Total Revenue Receipts

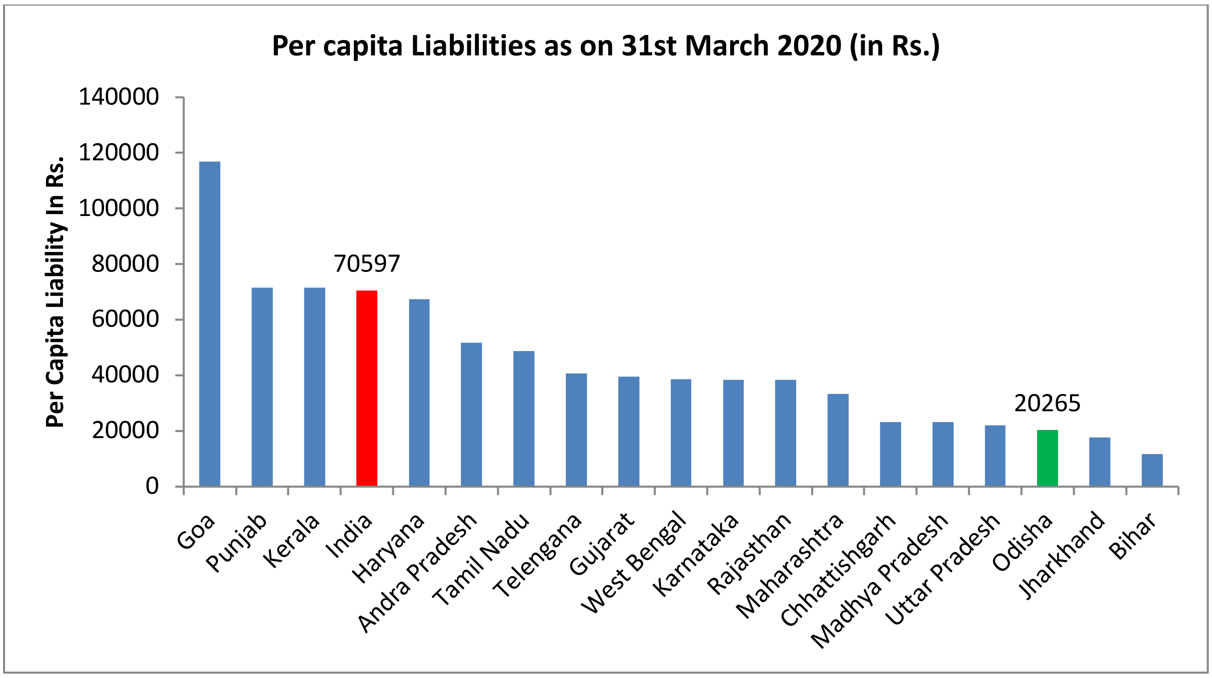


The efforts of the State have allowed the debt position of the State to be relatively stable. As highlighted in the above sections, the current debt position of the State looks sustainable. Also the medium term projections show that the debt position of the State will remain within the sustainable limit.

2.3 Per Capita Liability of Odisha

The per capita liabilities of Odisha vis-à-vis other State Governments and Government of India show that Odisha is among the bottom most States in the country. Odisha stands at 23rd position among all the 29 States in India in terms of per capita debt position. The projected total population of India by end of FY 2019-20 is approximately 134 Crore and that of Odisha is approximately 4.5 Crore. The total outstanding liabilities of Government of India as on 31st March 2020 is around Rs. 94,60,000 Crore. The per capita liability of Government of India as on 31st March 2020 is Rs.70,597, whereas it is Rs.20,265 for Odisha. The chart below depicts a comparative position of per capita debt of Odisha vis-à-vis other States.

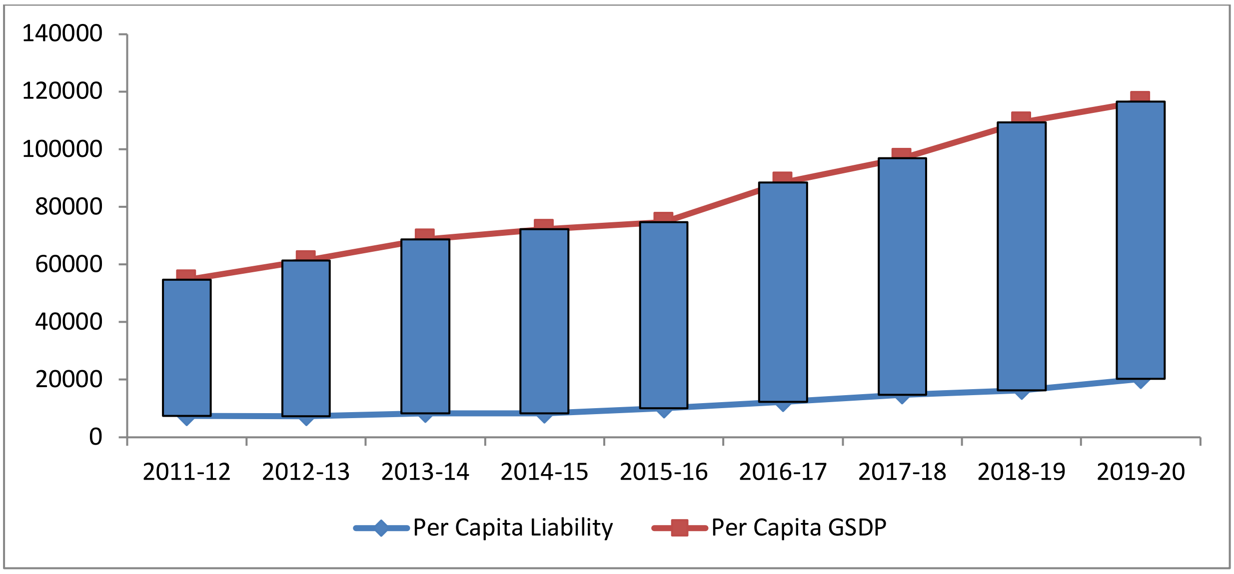
Chart 4: Per Capita Liability of Odisha vis-à-vis other states and India



Source: State Finances 2019-20, RBI.

As shown in chart-5, the per capita liability of Odisha is consistently increasing over the years. But this increase in per capita liability is proportional to increase in GSDP of the State over the years. The per capita income of the State is also consistently growing over the years. With the increase in per capita GSDP, there is corresponding increase in per capital liability of the State also. Chart-5 below shows the change in per capita liability vis-à-vis change in per capita GSDP over the years. This shows that although the liability is increasing in absolute terms, it is estimated to remain sustainable.

Chart 5: Per Capita Liability vis-à-vis Per Capita GSDP of Odisha over the years



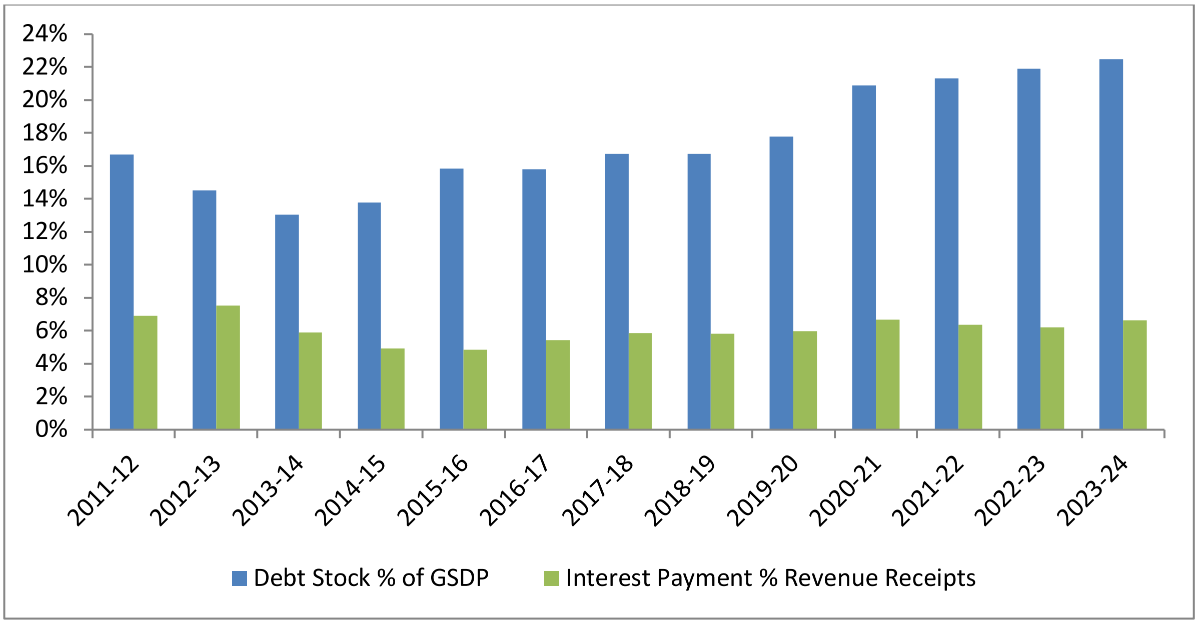
Source: State Finances 2019-20, RBI

Chapter 3

3. Debt Outlook of Odisha

In the past, Odisha has seen unsustainable debt levels at 50 percent of GSDP, servicing of which was at 34 percent of revenue receipts. However, with the implementation of FRBM Act 2005, debt has been restrained and debt servicing has been curtailed. In the last three years, debt was less than 18 percent of GSDP and within the FRBM defined limits. Interest payments have significantly declined from over 4 percent of GSDP in FY 2005-06 to less than 1.2 percent of GSDP (last three-year average).

Chart 6: Debt Stock (Percentage of GSDP) and IPRR



Over the next three years, gross debt is expected to increase from 20.91 percent of GSDP in FY 2020-21 to approximately 22.46 percent of GSDP in FY2023-24. This will be driven by fiscal deficit arising on account of capital outlay spending in various programmes. The debt is growing but is not expected to breach the sustainability limits. The Interest payment cost in the medium term is expected to fall to 1.27 percent of GSDP in FY 2023-24 from 1.41 percent of GSDP in FY 2019-20, which has been achieved largely by a) rising debt is availed at lower cost from the market; and b) retiring high cost old loans.

Chart 7: Debt stock as a percentage of GSDP in the medium term

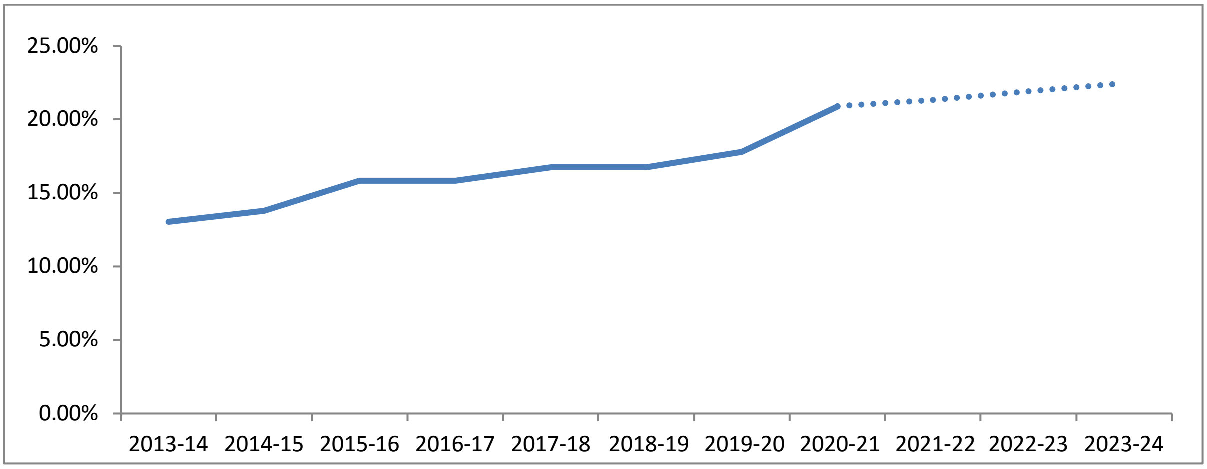


Table 4: Debt Status in the medium term

Year	2017-18	2018-19	2019-20	2020-21(RE)	2021-22	2022-23	2023-24
Debt stock (in crore)	73865	81675	92775	106540	125005	144828	167150
Debt Stock (% of GSDP)	**16.75%**	**16.74%**	**17.80%**	**20.91%**	**21.33%**	**21.92%**	**22.46%**
Debt Servicing (% of Revenue Receipts)	5.85%	5.83%	5.97%	6.68%	6.37%	6.21%	6.62%
External Borrowing (% of GSDP)	**0.20%**	**0.20%**	**0.27%**	**0.78%**	**0.70%**	**0.64%**	**0.70%**
Gross Market borrowing (% of GSDP)	1.91%	1.13%	1.44%	0.59%	3.07%	3.55%	3.41%
Debt Repayment % of GSDP	**0.61%**	**0.81%**	**0.86%**	**1.86%**	**4.01%**	**3.27%**	**2.89%**

** 2019-20 data is pre-actuals (as per supplementary accounts received from Accountant General)*

The year 2020 is an exceptional year on account of the outbreak of the pandemic, Covid-19. Because of this emergent health crisis, the Governments at national and sub-national level were forced to impose shutdown and lockdown. Therefore, economic activity has seen steep decline in every sectors of the economy except primary sector. As a consequence of this, on one hand the revenue collection has gone down, whereas on another hand revenue expenditure has gone up especially expenditure related to health care services and ensuring livelihood security to marginalised populations. The current crisis has posed a unique set of challenges for the State Government to manage the finances of the State. In spite of this, the current public debt position of the State Government is within the stipulated parameters and within the sustainable level. The State Government has taken some innovative steps to avail low cost loan from surplus funds of Odisha Mineral Bearing Area Development Corporation (OMBADC) and Compensatory Afforestation (CAMPA) to meet short term liquidity. During the year 2019-20, the State has raised Rs.2895 crore from CAMPA fund.

At present the future debt outlook of the State looks stable and sustainable. However, it also depends on the policy decisions taken by the Government in the wake of the pandemic.

ANNEXES

Annexure I: Debt status of Odisha – A historical Analysis

The pre-2005 era of the State finances was characterised by high and persistent revenue and fiscal deficits. The main reason for such consistently high level of deficits was non-adoption of a rule-based fiscal policy. Prudent fiscal management warrants that the revenues generated by the government should not only finance the revenue expenditures but also generate some balances for capital asset formations. Further the borrowing should be within a limit so that debt servicing and repayment obligations can be met sustainably. The borrowing should not put undue burden on future generations.

But due to various reasons the above mentioned prudent fiscal policies could not be followed. The structure of government spending was less productive and mainly non-capital in nature. In fact, during the financial year 1999-2000, the total revenue deficit as a percentage of GSDP was a whopping 6.53%. The nature of public expenditure had shifted from capital investment to revenue expenditures. Capital expenditure which was around 28.22% of the total budgetary expenditure during 1980-81 had come down to 11.1% in 1999-2000. As a result of this the State lost the capacity to grow sustainably over the period of time. This in turn created a vicious cycle which led to low revenue realisation and further increase in debt level.

The State economy in the pre-2005 era was characterised by **low-income and high-spending.** During the period 1991-92 to 1996-97, the total public expenditure was 23.5% of the GSDP in comparison to the figure of 18.2% for the 14 major States of India then. The State's public expenditure was one of the highest in India while its own revenue generation was one of the lowest in the country.

In addition to this, the State had high levels of borrowing. In fact, during 1999-2000, the total debt stock as a percentage of total revenue was 308%. The revenue deficit was consistently high. To fill the gap in the revenue account, the borrowed money was used for revenue expenditure instead of capital formation. This resulted in huge debt stock over the period of time. The debt level and therefore the interest liabilities kept mounting up. The debt to GSDP ratio kept increasing from 28.5% in 1985-86 to 46% in the year 1999-2000. As per the Eleventh Finance Commission, the State's GSDP was 2.23% of the national GDP and its share of population was 3.76% while its debt share was 4.11% of all the States constitute.

The growing debt stock had resulted in increasing interest liabilities for debt servicing. The total interest payment was nearly 6.3% of the GSDP in 2001-02. During 2005-06, the interest payment as percentage of GSDP was 4.34% whereas the interest payment as percentage of revenue receipt was 26.25%. In addition to above, following reasons caused increase in revenue expenditure. 1) Unsustainable salary and pension bills – without corresponding increase in revenue generation, there was disproportionately increase in new employees and new pensioners. 2) Unaffordable civil service establishment. 3) Substantial diversion of the maintenance expenditure towards to salary and wages. 4) Negative contribution by PSUs. 5) Unsustainable subsidies given. 6) Poor recovery of loans and advances given to employees.

Clearly the financial status of the State was in a mess in the pre-2005 period. The post-2005 period witnessed a sea-change in the financial management of the State. This was marked by the enactment of the FRBM act in 2005. This coupled with the award of the twelfth finance commission enabled the State finance to get back on track. The State introduced a slew of measures to reform the public financial management. The State introduced strict and very prudent fiscal rules through the FRBM act. The target was fixed to limit the fiscal deficit to 3.5% of the State GDP and the total revenue deficit to be zero or negative (i.e. revenue surplus). To the credit of the State government, the State has never breached the FRBM limit since its enactment.

Post-2005 Financial status of the State:

The financial year 2005-2006 witnessed for the first time in 22 years a revenue surplus of Rs.481 crore. As mentioned before, this was due to the prudent fiscal policies adopted through the enactment of FRBM act and the twelfth finance commission award. The improved fiscal scenario continued thereafter. In fact, the State in the post-2005 period never resorted to RBI overdraft. The improved fiscal scenario resulted in increase in plan expenditure especially in capital account. The capital outlay which was Rs.1038 crore in 2005-06 has increased to Rs. 21108.55 crore in 2017-18. In terms of GSDP percentage, it has increased to 4.9% in 2017-18 from 1.1% in 2005-06. Therefore, the increase in capital outlay has created a virtuous cycle of economic growth and higher revenue realisations. In fact, the State is one of the few States in the country which has higher economic growth rate than the national growth rate.

The State has consistently been revenue surplus post 2005 and all the borrowed fund has been utilised for capital outlay and asset creation. This is an indication of the prudent fiscal management policies adopted by the State. In earlier years, it was not possible to provide the State share in the centrally sponsored schemes (CSS). But now the required State share is being provided and this has resulted in accessing central assistance for CSS at a much higher scale.

During 2015-16 and 2016-17, many States in India faced fiscal constraint due to the States taking over of DISCOM debt under the UDAY scheme. Odisha was not considered eligible under UDAY scheme as none of the DISCOMs in Odisha are State owned. However, the debt stock of the State as a percentage of GSDP increased compared to 2014-15 level mainly because of higher capital investment. But the State has managed to stay within the limit prescribed by the FRBM act and the recommendations of the successive finance commissions.

Annexure II: Some on-going EAPs and details of loan agreements

Project Name	Donor	Loan Sign. Date/Loan Amount	Grace Period	Maturity Date	Interest Rate	Currency for Repayment
Orissa Community Tanks Management Project	World Bank	17.03.2008 $ 56,000,000	10 Years	15.07.2014 to 15.08.2043	LIBOR + Variable Spread	Dollar
Dam Rehabilitation Improvement Project (DRIP)	World Bank	$ 175,000,000	5 Years	15.06.2017 to 15.06.2040	LIBOR + Variable Spread	Dollar
Odisha State Road Project	Wold Bank	27.01.2009 $ 250,000,000	5 Years	15.06.2014 to 15.12.2038	LIBOR + Variable Spread	Dollar
Rengali Irrigation Project Phase-I,	JICA, Japan	31.03.2010 ¥ 3,067,753,471	10 years	20.03.2020 to 20.03.2040	1.40% per annum on Loan Category "A" & reallocated from "C", 0.01% per annum on Loan Category "B" & reallocated from "C"	Yen
Rengali Irrigation Project LBC-II,Phase-II	JICA, Japan	30.03.2015 ¥ 33,959,000,000	5 Years	20.03.2020 to 20.03.2030	0.7% per annum on Loan Category "A" & reallocated from "C", 0.01% per annum on Loan Category "B" & reallocated from "C"	Yen
Orissa Integrated Sanitation Improvement Project-I (OISIP-I) IDP-187	JICA, Japan	30.03.2007 ¥ 19,061,000,000	10 Years	20.03.2017 to 20.03.2047	0.75%	Yen

Annexure III: Year-wise Guarantee Position of Odisha

Year	Guaranteed Loan Outstanding as on 31st March (Rs.in Crore)	GSDP (At Current Prices) (Rs. in Crore)	Revenue receipt of the second preceding year(Without grants-in-aid)	Guaranteed Loan Outstanding as percentage (%) of	
				GSDP	Outstanding Guarantee in the current year w.r.t revenue receipt of the second preceding financial year
2011-12	2510.43	230987	20713.19	1.09	12.12
2012-13	2251.23	261700	26469.90	0.86	8.50
2013-14	1705.27	296475	32114.82	0.58	5.31
2014-15	1671.77	314250	37077.17	0.53	4.51
2015-16	1290.26	328550	40517.43	0.39	3.18
2016-17	2256.15	392804	44080.38	0.57	5.12
2017-18	1710.48	440879	54811.98	0.39	3.12
2018-19	5498.53	487806	59216.50	1.13	9.29
2019-20	3532.46	521275	67584.30	0.68	5.23
2020-21 (upto Dec, 2020)	7068.38	509574	79948.59	1.39	8.84

Annexure IV: Government Guarantee provided during last ten years

Year	Name of the Department	Name of the Organisation	Name of the sector	Amount of guarantee provided	Total (Rs in crore)
2011-12	Energy	GRIDCO	PSU	1000.00	1000.00
2012-13	No guarantee has been provided.			0.00	0.00
2013-14	Co- operation	Baragarh Sugar Mill	Co-operative	25.00	46.00
		Aska Co-op Sugar Mill		21.00	
2014-15	Co- operation	O.S.C.M.Fed.Ltd.	Co-operative	30.00	50.00
		Aska Co-op Sugar Mill		20.00	
2015-16	Co-operation	Aska Co-op Sugar Mill	Co-operative	25.00	25.00
2016-17	Co-operation	Aska Co-op Sugar Mill	Co-operative	15.00	1115.00
	Energy	GRIDCO	PSUs	1100.00	
2017-18	Co-operation	Aska Co-op Sugar Mill	Co-operative	15.00	15.00
2018-19	Energy	GRIDCO	PSUs	3000.00	3000.00
2019-20	Co-operation	Aska Co-op Sugar Mill	Co-operative	15.00	4115.00
	Energy	GRIDCO	PSUs	4100.00	
GRAND TOTAL				**9336.00**	**9336.00**

Annexure V: Debt sustainability Parameters

Year	GSDP (at Current Prices)	Outstanding debt at the end of the year	Interest Payment	Outstanding debt as % of GSDP	Interest payment as % of GSDP	Total Revenue Receipt	Interest Payment as % of RR
2005-06	85096	36456.45	3697.1	42.84	4.34	14084.72	26.25
2006-07	101839	37249.51	3188.43	36.58	3.13	18032.62	17.68
2007-08	129274	36311.61	3169.48	28.09	2.45	21967.19	14.43
2008-09	148491	36430.54	2889.81	24.53	1.95	24610.01	11.74
2009-10	162946	37730.04	3043.81	23.15	1.87	26430.21	11.52
2010-11	197530	39136.91	3061.46	19.81	1.55	33276.16	9.20
2011-12	230987	38589.37	2576.43	16.71	1.12	40267.02	6.40
2012-13	261700	37980.14	2807.23	14.51	1.07	43936.91	6.39
2013-14	296475	38666.24	2888.22	13.04	0.97	48946.85	5.90
2014-15	314250	43273.38	2810.27	13.77	0.89	56997.88	4.93
2015-16	328550	52017.33	3343.30	15.83	1.02	68941.44	4.85
2016-17	392804	62135.46	4035.43	15.82	1.03	74299.39	5.43
2017-18	440879	76483.68	4988.34	17.35	1.13	85204.29	5.85
2018-19	487806	87649.87	5850.00	17.10	1.20	101882.80	5.74
2019-20	521275	92775.18	6500.00	17.80	1.25	101567.75	5.97
2020-21 (RE)	509574	106540.14	7160.00	20.91	1.41	107200.00	6.68
2021-22 (BE)	586009	125005.13	8000.00	21.33	1.37	125600.00	6.37