

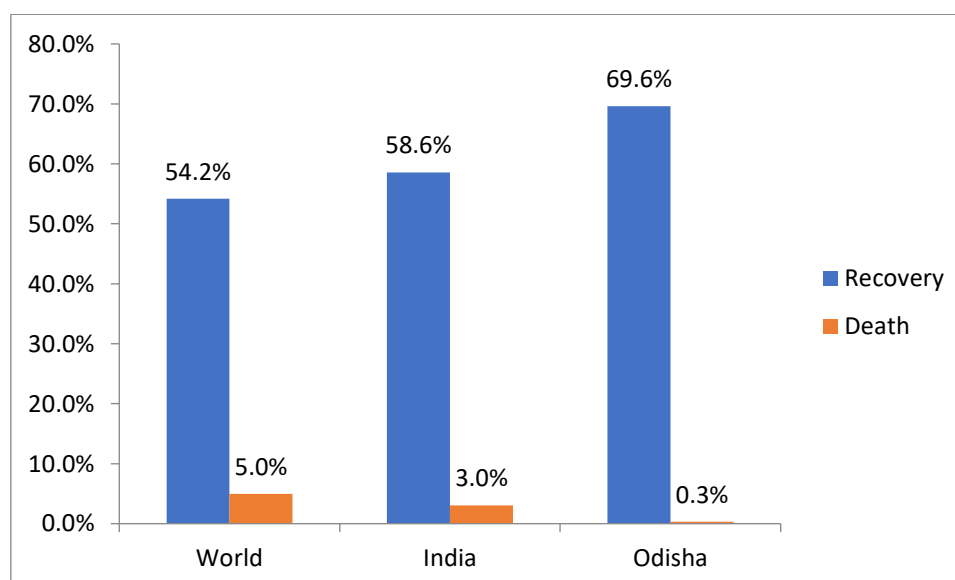
ODISHA: FISCAL REPRIORTISATION IN VIEW OF PRESENT COVID SITUATION

1. Background

1.1 Over the years Odisha has developed its capabilities in disaster management. With zero causality in successive calamities, the State has successfully demonstrated its highest level of preparedness. The State has pioneered in the field and a role model for other states in the country. The month of March brought in a challenge of unprecedented nature. The COVID pandemic struck India and in the second week of March, Odisha along with the entire nation went into an abrupt lockdown. The lockdown imposed several stringent restrictions throwing off the entire economy, national as well as sub-national, into disarray. Demand fell, supply chains were severed, production halted, agriculture production and harvest were left comatose. In the absence of any breakthrough in the vaccine, the lockdown continued to be imposed in varying degrees across the nation. Economic activities were left impaired. Lives and livelihoods suffered.

1.2 The lockdown gave the State a breather to put its bearings together. As citizens remained at homes, the State ramped up its health infra – setting up COVID-specific hospitals in every district, establishing quarantine centres, strengthening testing capacities while alerting the citizens of the dire consequences of the virus. Owing to its prompt disaster management skills, the number of people infected has been significantly lower than other states and the recovery rate is also reassuring. However, the economy and spending priorities needs serious reworking.

Figure-1: Comparison of Covid related death and recovery rate



1.3 As we return to a 'new normal', we shall come to terms with a citizenry that is wary of physical contact, crowded places and leisure travel. Personal health and hygiene will assume paramountcy. People will be apprehensive of going out to places where congestion makes social distancing unworkable. Movie theatres, restaurants, malls, salons, gyms, etc. may see a decline in

footfalls; while demand for online platforms for entertainment, household delivery of food and goods may spiral. Consumption of essentials will see a rise, while purchase of non-essentials might be deferred. New business models using omni-channels, integrating offline with online, will become popular.

2. Context

2.1 The Odisha Budget 2020-21 was presented in the Assembly on 18th February 2020 prior to onset of the pandemic. The budget size was estimated at Rs.1,50,000 crore, with a capital outlay of Rs.26,513 crore. Assuming the existing trend of GSDP growth rate surpassing National GDP would continue, the transformational budget had laid down the plan of building a “New Odisha”. The focus of the budget was on reviving the health care – through upgradation of existing facilities and building new state-of-art medical infrastructure, skill development, tourism boost, transforming rural and urban Odisha. The fiscal maths was aligned prioritizing these agendas.

2.2 The pandemic has now completely changed the scenario. Owing to the prompt real-time decision making and responsiveness of the planners and leaders, COVID situation in the State has remained well within control. However, the COVID related lockdown has severely affected the resource realization. The spending priorities have changed, new priorities have come. This requires a revisit of the entire budgetary allocation and re-prioritise commensurate to the current needs.

3. Present scenario

a. State of Economy

3.1 The nationwide COVID-19 related lockdown started from 22nd March, 2020. The economic activities across the country including Odisha almost came to a standstill. In subsequent phases of lockdown, gradual opening of some of the activities were allowed. However, it will take some more time for the normalcy in the economy. The lockdown has partially affected the State Economy for 2019-20 and to a larger extent for 2020-21. Some study conducted by researchers and agencies have estimated dip in economic growth of the State as is shown in the following table.

Table 1 : Growth Projections for Odisha for FY 2020-21 by different agencies

Sources	Date of Study	Assumptions		
		1 Month Lockdown	2 Month Lockdown	3 Month Lockdown
CEFT-UNICEF	30th March 2020	4.16%		
XIMB	5th April 2020	4.20%	2.60%	0.90%
Odisha Economic Association	18th June 2020		(-) 13.00%	(-) 16.60%

3.2 The lockdown imposed in different phases were associated with various conditionality. Different sectors of economy were in different stages of operation in those stages. Instead of adopting a single modelling approach, a graduated approach is adopted for making the revised estimate of the economy of the State. As per the estimation, the GSDP growth for 2019-20 is estimated to come down from 8% to 6.2% in nominal terms and from 6.2% to 4.6% in real terms. The GSDP growth for 2020-21 is estimated to decline from 11.7% to 1.6% (3.0% over RE) in nominal terms and from 7.5% to -1.3% (0.1% over RE) in real terms as can be seen from the following table.

Table 2 : Growth Projections for Odisha for FY 2019-20 and 2020-21

(Rs. in crore)

Year	2019-20 (AE)	2020-21 (BE)	2019-20 (Revised)	2020-21 (Revised)
Nominal GSDP Estimates	533822	596280	526519	542280
Growth	8.0%	11.7%	6.2%	1.6% (over AE) 3.0% (over RE)
Real GSDP Estimates	411265	442109	405290	405757
Growth	6.2%	7.5%	4.6%	-1.3% (over AE) 0.1% (over RE)

b. Resource Position

3.3 The abrupt lockdowns have severely impaired the major sources of state's own revenues. Taxes on vehicles, fuels, excise products, real estate transactions, and electricity account for a bulk of state governments' own tax revenues. A considerable contraction of national revenues is anticipated on account of the growth slowdown. Lesser national revenues would result in a smaller divisible pool for the states. As a result of this, transfer to the state is expected to decline significantly. Furthermore, additional expenditure on account of COVID-19 will have to continue to be incurred, stifling the already strained revenues of the State. However, Government of India has front loaded some of the central transfers and allowed additional fiscal deficit of 2 per cent of GSDP in order to facilitate availability of liquidity at the sub-national level. This may result in lower level of central transfers towards later part of the financial year.

Table-3: Estimation of resources for FY 2020-21

Parameters	April-June, 2019-20	*April-June, 2020-21	2020-21 (BE)	Re- Assessment (2020-21)
Own Tax	7139	3931	38350	29000
Own Non-Tax	3506	3142	17650	16000
Total Own Revenue	10646	7073	56000	45000
Share Tax	6899	6205	36300	28000
Grants from Centre	5564	8431	32000	27000
Total Central Transfer	12463	12636	68300	55000
Total Revenue Receipts	23109	21709	124300	100000
Debt & Other Capital Receipts	2350	5260	25700	24200
Total Resources	25459	26969	150000	124200

*Tentative based on treasury figures.

3.4 The estimation shows that there would be a shortfall in revenue to the extent of about Rs.24,300 crore compared to the Budget Estimates. The borrowing entitlement may go down by about Rs.1500 crore (at 3% of GSDP) due to contraction of economy. This estimation is based on the actual realization of resources till the end of first quarter of the financial year with assumption that there will be gradual unlocking of the economic activities including one-time collections on account of renewal of mining leases. As the COVID outlook is still uncertain, the estimation of resources may undergo changes with change in situation.

3.5 Therefore, there is an inescapable need to review the Budget 2020-21 in the light of the changed circumstances. In order to facilitate availability of resource for timely response to the challenges posed by COVID-19, the Finance Department has taken some measures such as:

- Enhancement of the corpus of the contingency fund from Rs.400 crore to Rs.2000 crore through promulgation of Ordinance.
- Frontloading of open market borrowing with short tenure bonds to address liquidity issues.
- Availing cheaper financing from CAMPA and OMBADC funds through amendment of the respective accounting procedures.
- As a part of revenue augmentation measures, steps have been taken to consolidate all cash balances lying idle in various bank accounts which are either inoperative since two years or have been closed.

4. Proposal (sector wise)

4.1 In the current situation, the priority of the State Government is shifted towards Covid management, generating employment, creating livelihood opportunities, promoting agriculture, reviving MSME as well as Industries sector. Expenditure policy has now to be shifted in favour of revenue spending. Capital Spending may be done on selective basis. We might have to suspend certain existing schemes and divert funds towards other pressing needs of the hour. Fiscal consolidation might have to take a back seat, as government expenditure needs to be ramped up now. Special provisioning has to be arranged, while austerity measures like reducing expenses on non-priority sectors might become customary. FRBM limits might have to be breached. A serious overhaul might be in the offing. A crisis of this magnitude and immensity is unprecedented. Therefore, the response to the pandemic will also be unique.

4.2 Odisha was the first state to separate COVID care from regular health care facilities. Designated COVID hospitals were set up in several districts much before the cases began to rise. Mandatory registration and quarantine for the citizens returning to the state restricted the maximum number of COVID cases to quarantine centres. Swift containment procedures have kept community transmission at bay. Social Security, including food security, has been extended to the most vulnerable sections of society. Payment of all pending dues of MSMEs, Industries, Municipalities and Utilities has been expedited. The fight against the virus will be a long drawn one. It is therefore important to re-calibrate our approach and review our existing plans and priorities in the wake of the situation. In order to make available resources for the new and changed priorities, following expenditure rationalization measures would be taken

- Rationalisation of expenditure on travel and vehicle.
- Rationalisation of Establishment Expenditure.
- Restriction on new recruitment and Man power engagement.
- Austerity in implementation of less priority Schemes.

5. Implications (scheme wise)

5.1 The impact of the on-going pandemic situation is likely to continue for another 1½ to 2 years. The proposed reprioritization of expenditure would set the tone for coming two years. During the current financial year 2020-21 and the next financial year 2021-22 the FRBM parameters like limit of Fiscal Deficit as well as generating Revenue Surplus would be breached to accommodate the expenditure identified under changed priorities.

5.2 Rationalization of expenditure on travel and vehicle would include complete ban on purchase of new vehicles, travel outside the country, air travel in business class, journey by train in 1st class AC, withdrawal of all delegation regarding fresh hiring of vehicles, restriction on stay in star hotels during tour. Video Conferencing to become preferred mode for meeting.

5.3 Establishment expenditure to be rationalized through imposition of ban on purchase of new equipments except medical equipments and equipments for internal security, ban on expenditure on renovation, remodelling, furnishing of Government Offices. Conducting meetings, seminars, workshops and hosting of Official lunch and dinner in hotels through Government funds shall be prohibited. Ban shall also be imposed on sanction and drawal of new Long term Advances as well as LTC for next two years. Most economic scheme with unlimited call facility to be opted to minimize the telephone expenses and entitlements for telephone bill re-imburement to Officers of various grades to be revisited.

5.4 Ban shall be imposed on creation of new posts as well as creation of new PMUs except for Health & Family Welfare Department with provision of automatic abolition of redundant posts which have remained vacant for more than 5 years. New engagement of consultants, outsourcing and engagement retired Government employees shall also be restricted.

5.5 Austerity in implementation of less priority Schemes would include deferment of some schemes and continuance of some other schemes with reduced scope. No new State Schemes/ Projects to be taken up by any Administrative Department except Health & Family Welfare Department. Any new scheme required to be taken would require approval at the apex level. No Operation and Maintenance expenditure without approved Annual Maintenance Plan (AMP). No expenditure shall be allowed for renovating and furnishing of Offices, guest houses and Government buildings. Restriction shall be imposed on repair and renovation of Government quarter and Government Office building. No expenditure shall be incurred for construction of new statues or beatification of parks and public places. New tender of execution of works, procurement of goods and services shall be avoided unless necessary to meet any emergent public service.

5.6 Schemes like Biju Yuva Bahini, Gopabandhu Grameen Yojana, Construction of Check Dams, Rooftop rain water harvesting and ground water recharge, Distribution of laptops to meritorious students, Subsidy for Farm mechanization and construction of building as well as Training expenses in some Departments shall be kept under suspension for two years. However, construction of building and Training & capacity building in other Departments shall continue with reduced scope.

5.7 Schemes like State Highway Development project, Road Development Programme, ABHADA, Ekamra Plan, Fair Price Shop Automation, Construction of Hostels for S.T Girls & Urban Hostel Complexes, OTELP Plus, activities under Special Development Council, BASUDHA, UNNATI, Urban Sewerage, Urban Sanitation Programme, Urban Road Transport, Storm Water Drainage &

Development of Water Bodies, Promotion of Sports Education, MLA LAD fund, Special Problem Fund, SETU, Water Sector Development Programme, Instream Storage System (ISS), BKVY, Development of Railway Projects, Civil Aviation, Increasing Green Cover in the State, Wildlife Protection & Conservation Measures, Green Mahanadi Mission, Development and Promotion of Eco Tourism, Nature Conservation, Deep Bore well Scheme, Crop Production Management, State incentive for Micro Irrigation, Support to Farmers' Producers' Organisation, Strengthening of Excise Administration, Non-conventional source of Energy scheme, Connecting Un-connected areas, 33/11 KV Sub-Station, SCRIPS, Radial to Ring Conversion projects, Integrated Power Development Scheme, Promotion of Handloom & Handicrafts industries, Intensive Aquaculture & Inland Fisheries Development, Conservation and improvement of threatened indigenous breeds, Poultry Development, Warehousing Infrastructure Fund, Infrastructure Development of Universities & Colleges, Infrastructure Development of Technological Universities / Engineering Schools/ Colleges/Polytechnics, ODRP and some smaller schemes to continue with reduced scope and reduced allocation. RIDF, EAP and other resource tied up projects and schemes shall be implemented in time bound manner. Incomplete and on-going capital works shall be continued.

6. Methodology

The proposal for re-prioritization of expenditure would involve breaching of FRBM limit for annual borrowing as well as breaching the requirement for generating revenue surplus for coming two years to fight the pandemic situation. This would also involve deferment of some schemes approved for implementation and operation of some other schemes with reduced scope. Expenditure for some new priorities are also to be taken up through advance from Odisha Contingency Fund. All these are very high level policy priorities of the Government and shall remain as guiding principles for budget making and expenditure management. Hence, approval of the State Cabinet shall be taken for the re-prioritization of the expenditure. Necessary adjustment in the budget shall be made at the time of presentation of Supplementary Statement of Expenditure, 2020-21 and approval of the Legislature shall be taken at that stage.

7. Conclusion

The outlook of the COVID-19 pandemic is still unclear. Hence, there has to be a gradual approach in opening up the economy within the social distancing norms, which has now become the new normal. This estimation of economy and the resources has been made based on the situation till end of the first quarter. The policy for re-prioritization of expenditure is worked out based on current situation with an assumption of gradual unlocking of the economic activities in coming months. The estimation of economic growth and State resources may undergo changes with change in situation.