

FORM – II
MEDIUM TERM FISCAL PLAN

{See rule 4 (2)}

A. Fiscal Indicators – Rolling Targets assumed in the Medium Term Fiscal Plan

Description	Actual	Actual	Last Year Revised Estimates	Current Year Target Budget Estimates	Targets for Next two years	
				Y	Y + 1	Y + 2
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Revenue Deficit as percentage of GSDP (%)	(+) 0.61	(+) 2.48	(+) 1.63	(+) 0.48	(+) 0.44	(+) 0.40
Fiscal Deficit as percentage of GSDP (%)	0.35	(+) 0.90	1.08	2.17	2.19	2.21
Primary Deficit as percentage of GSDP (%)	(+) 4.36	(+) 4.40	(+) 2.84	(+) 1.52	(+) 1.29	(+) 1.07
Total Debt Stock as percentage of GSDP (%)	46.42	40.87	37.14	35.19	33.33	31.71

B. Assumptions underlying the Fiscal Indicators –

Assumption on Gross State Domestic Product:

The variation in the real growth rate of GSDP from 2000-01 to 2007-08 (Advance Estimates) in the range of (-)1.14% to 14.71%. Similarly, the nominal growth rate of GSDP varies from 1.36% to 22.30%. The average growth rate of GSDP in constant prices from 2000-01 to 2007-08 (AE) is 7.09% and the annual average growth rate of GSDP at Current Prices is 11.78% during the same period. The following Table shows the GSDP figures and growth rate over the previous year.

(Rs. in Crore)

Description	2003-04	2004-05	2005-06	2006-07(Q.E.)	2007-08(A.E.)
GSDP at Current Prices	61423	71428	78536	91151	103304
<i>Rate of Growth</i>	22.30%	16.29%	9.95%	16.06%	13.33%
GSDP at Constant Prices	51675	58192	61887	67676	73542
<i>Rate of Growth</i>	14.71%	12.61%	6.35%	9.35%	8.67%

It is important to mention here that Twelfth Finance Commission have assumed a nominal growth rate of 11% in GSDP for Orissa (page 383 of the Report). The average annual growth of GSDP at constant prices (1993-94 prices) during 8th Plan (1992-93 to 1996-97) was 2.3% during 9th Plan (1997-98 to 2001-02) 5.2% and during 10th Plan (2002-03 to 2006-07) is estimated to be around 7.3%. The corresponding average annual growth rate of GSDP at current prices was 12.6% during 8th Plan, 9.9% during 9th Plan and is estimated to be around 11% during 10th Plan.

Planning Commission indicated that growth of GSDP at constant prices per annum on the average may be 8.5% and inflation rate of 5% for the 11th Plan. The per capita income of Orissa in 2004-05 at current prices is Rs.13601.00 against the All India average of Rs.23241.00, the gap being Rs.9640.00 (41%). At constant prices the per capital income of Orissa in 2004-05 is Rs.7176.00 against All India average of Rs.12416.00, the gap being Rs.5240.00 (42%). Since Orissa is lagging behind the national average of various indicators of development, particularly per capita income, Orissa has to catch up, hence, GSDP growth in constant prices has been assumed at 8% and 13% at current prices, inflation rate assumed being 5% per annum.

1. Revenue receipts

(a) Tax Revenue – The collection of State's Own Tax Revenue was Rs. 5002.28 crore in the year 2005-06 against assessment by Finance Commission of Rs. 4358.20 crore. Similarly, in 2006-07, the collection was Rs.6065.06 crore as compared to estimation by the Commission at Rs. 4933.48 crore. For the year 2007-08 (RE), State's Own Tax Revenue is estimated at Rs.6792.87crore compared to Rs.5584.70crore assessed by the Commission. Taking into account the above trend, reducing VAT collection due to higher base & Input Tax Credit, reducing rates of CST and pending litigation relating to the vires of the Entry Tax Legislation, the State's Own Tax Revenue Receipt is assumed to grow at 10% in nominal terms during the period of projection in the MTFP. State's Own Tax-GSDP ratio is 6.37% in 2005-06 to 6.65% in 2006-07and has been assumed at 6.6% in 2007-08 (RE), 6.2% in 2008-09 (BE) and 6.1% & 5.9% respectively in MTFP for the year 2009-10 & 2010-11. The projection for the period up to 2010-11 is based on the existing taxing power of the State Government. The projection for the year 2010-11 may have to be revised in the context of introduction of Goods & Services Tax (GST) from April, 2010 at the State and National level.

(b) Non -Tax Revenue – During the year 2005-06, the collection on this account was Rs.1531.90 crore including unusual one-time items such as advance dividend received from OPGC to the tune of Rs. 30.00 crore and interest receipt of Rs. 187.48 crore from GRIDCO on account of overdue power sector bonds / loans passed on to GRIDCO. During the year 2006-07, the collection on this account was Rs.2588.12 crore including unusual one-time item of Rs.763.80crore towards debt write-off. Taking out the impact of these one-time receipts, total State's Non Tax revenue has been projected at Rs.1915.54 Crore for the year 2007-08(RE) & at Rs.2135.32 crore in 2008-09 (BE) and accordingly the Non tax revenue has been projected by taking a growth rate of 7 to 8 percent per annum for the period of projection in the MTFP.

- State's Own revenue-GSDP ratio which is 8.32% in 2005-06 & 8.70% in 2006-07 is projected at 8.43% in 2007-08 (RE), 8.06% in 2008-09 (BE) and 7.8% & 7.5% respectively in MTFP for the year 2009-10 & 2010-11.

(c) Devolution to States –

Share Taxes – The actual release of share tax during the year 2005-06 and 2006-07 were Rs.4876.75crore and Rs.6220.42 crore respectively. For the year 2007-08(RE) & 2008-09(BE), the share tax is assumed at Rs.7361.55 crore & Rs.8244.94 crore respectively in view of rising trend of Central Taxes and for the period of projection in the MTFP it is assumed to grow at 10%. The devolution of Central Taxes may undergo changes on the recommendations of the 13th Finance Commission and introduction of Goods & Services Tax (GST) at the State and National level from 1st April, 2010.

Grants from Centre (Non-Plan) - The major items covered under Non Plan Grant are the grants recommended by the Twelfth Finance Commission. The details of Grants (Non Plan and Plan) covered under Finance Commission are given below.

(Rs. in Crore)

Description	2005-06 (Actuals)	2006-07 (Actuals)	2007-08 (RE)	2008-09 (BE)	2009-10	Remarks
i) NPR Deficit Grant	488.04	0.00	0.00	0.00	0.00	
ii) Calamity Relief	226.16	291.34	180.87	246.73	254.27	
iii) Health	31.22	34.81	38.81	43.28	48.25	
iv) Education	53.46	58.57	64.13	70.22	76.89	
v) Maintenance (3054)	0.00	368.77	368.77	368.77	368.77	
vi) Maintenance (2059)	0.00	97.28	97.28	97.29	97.29	
vii) Forests	15.00	15.00	15.00	15.00	15.00	Plan Grant
viii) Local Bodies – Rural	160.60	160.60	160.60	160.60	160.60	
ix) Local Bodies – Urban	20.80	10.40	31.20	20.80	20.80	
ix) Others - Non FC	2.25	2.25	2.25	2.25	2.25	

Description	2005-06 (Actuals)	2006-07 (Actuals)	2007-08 (RE)	2008-09 (BE)	2009-10	Remarks
State Specific FC – Chilka	0.00	7.50	7.50	7.50	7.50	Plan Grant
State Specific FC – BBSR	0.00	33.00	35.00	35.00	35.00	
Heritage	0.00	12.50	12.50	12.50	12.50	
Total Non Plan	997.53	1092.02	1013.91	1079.94	1099.12	

Apart from these Non Plan grants under Twelfth Finance Commission, no other non-plan grants have been assumed during the period of projection in the MTFP.

Grants from Centre (State Plan) - The State Plan Grants from the Centre for the year 2008-09 have been taken as per the decisions taken in the Official level discussions with the Planning Commission for estimating the resources for the Annual Plan 2008-09 for Orissa. The loan and grant component have been taken separately and the loan component of the respective State Plan Schemes have been assumed to be raised from the Open Market Borrowing in each of the years, as recommended by the Twelfth Finance Commission. For the years 2009-10 & 2010-11, a moderate 10% growth in the said grants from the centre have been assumed. However, in case of ACA for externally aided projects, the same level has been assumed for the subsequent years of projection. Apart from the grants from the Centre, Rs. 850.00 crore of SAL from World Bank has been assumed for the year 2008-09. However, out of these World Bank SAL, Rs. 450 crore would be utilised towards debt swap each year to pre-pay high-cost loans from different sources. As it has been decided that such SAL loan/credit would be passed on to the States on back-to-back basis, the entire amount has been assumed as 100% loan in each of the years and not as 70% loan and 30% grant as was done earlier.

Grants from Central Government (CP & CSP) - C.P. and C.S.P. grants have been assumed by taking a 10% growth over the budget estimates for the year 2007-08 for the subsequent years. However, the expenditure on account of the C.P. and C.S.P. grant have also been assumed at the same level, thereby making the net effect on the revenue account nil.

2. Capital receipts –

(a) Recovery of Loans & Advances – The recovery of loans and advances given by the State Government was Rs. 347.60 crore in 2005-06 and Rs.285.82crore in 2006-07. Taking out the unusual onetime receipts, the recovery, the loans and advances has been taken at Rs. 246.80 crore for year 2008-09(BE), Rs. 246.80 crore for year 2009-10 and Rs. 246.80crore for year 2010-11 in the MTFP.

(b) Other Receipts – No receipt has been assumed on this account by the State Government in the MTFP.

(c) Borrowings – The Plan borrowings are necessarily linked to the plan grants received from Government of India. However, the details of Gross Borrowings assumed from 2006-07 to 2010-11 in the MTFP is given below.

(Rs. in Crore)

Loan Receipts – Source	2006-07	2007-08(RE)	2008-09(BE)	2009-10	2010-11
Government of India					
Non Plan	0.75	-	-	-	-
Small Savings – NSSF	1085.28	200.00	150.00	150.00	150.00
CP / CSP Loans	7.10	24.33	7.15	25.00	25.00
Loans on Account of EAP	59.01	861.46	1043.65	1150.00	1200.00
World Bank	673.91	300.00	850.00	850.00	850.00
<i>Of which for Debt Swap</i>	<i>394.61</i>		<i>450.00</i>	<i>450.00</i>	<i>450.00</i>
Total Loans from Gol	1826.05	1385.79	2050.80	2175.00	2225.00
Open Market Loans	-	1199.88	1510.73	1767.64	2173.02
Loans from Financial Institutions	219.84	403.55	540.02	600.00	650.00
GPF (Net)	597.91	300.00	500.00	500.00	500.00
Total Borrowings – GROSS	2643.80	3289.22	4601.55	5042.64	5548.02

3. Total Expenditure – Policy Stance

(a) Revenue Account –

- (i) Salary & Pension – The State Government have taken several measures to contain the ever-increasing salary and pension liabilities. Recruitment in all sectors, excluding only essential sectors like police, doctors, nurses etc. has been banned and any recruitment, if required, are being done only on contractual basis in certain categories. Government have so far abolished 44704 numbers of base level vacant posts in all categories i.e. Group-A, B, C and D, which includes abolition of 3878 numbers of base level vacant posts in aided educational institutions, Universities, and other grant-in-aid institutions by the end of 2006. To carry on essential functions of Government, wherever there is necessity, engagements are being made on short-term contract and consolidated remuneration basis, in order to reduce salary expenditure. Self-financing courses have been introduced in educational and technical institutions. However, Government have decided to fill up 35,808 number of existing vacancies relating to various Departments of Government to discharge essential functions like Health, Education, Infrastructure Development and Maintenance of Law and Order etc. so that implementation of plans and programmes does not suffer for want of man-power.

Similarly, in case of pension Government have introduced the Defined Contribution Pension Scheme for all the employees joining on or after 01.01.2005 vide Finance Department Notification No. 44451/F dated 17th September 2005. Employees joining on or after 1.1.2005 will have no GPF Account.

- (ii) Subsidies – Subsidies have been substantially reduced over the years and in the projection for the future years, it has been assumed that general subsidy would be reduced. However, as per the recommendation of the 12th Finance Commission Food Subsidy amounting to Rs. 36.71 crore per annum has been provided for in the MTFP.
- (iii) Maintenance Expenditure – The Twelfth Finance Commission have prescribed the minimum level of expenditure for maintenance of roads and bridges and buildings and Equalisation Grants for Education and Health Sectors. The Commission have recommended that grants on account of maintenance expenditure and Equalisation Grants for Education and Health Sectors would be released only if the State provides for the minimum prescribed level of expenditure in maintenance heads like MH 3054 for roads & bridges, MH 2059 & 2216 for buildings, MH 2202 for Education and MH 2210 & 2211 for Health. Steps have been taken to keep the levels of expenditure for these sectors above the recommended level wherever necessary in keeping with the actual need as well while projecting the expenditure in MTFP. Substantial provision has been made for maintenance expenditure for the year 2007-08 as given below:

Item		<i>(Rs. in Crore)</i>	
		2007-08 (RE)	2008-09 (BE)
Buildings	Non-Residential	281.61	290.84
	Residential	131.19	143.23
	Total	412.80	434.07
Water Supply & Sanitation	H & UD	108.11	110.00
	RD	19.10	20.00
	Total	127.21	130.00
Maintenance of Road		726.28	781.90
Grand Total		1266.29	1345.97

- (iv) Calamity Relief – The Twelfth Finance Commission have also suggested that the scheme of CRF be continued in its present form with contributions from Centre and the States in the ratio of 75:25. Accordingly provisions have been made towards State's share of contribution to CRF in the MTFP in accordance with the recommendations of the 12th Finance Commission.

(Rs. in Crore)

	2007-08(RE)	2008-09(BE)
Calamity Relief Fund	391.17	487.97
(i) Central Share	180.87	246.73
(ii) Matching State Share	79.84	82.24
(iii) NCCF	150.00	150.00

- (v) Others – Also in line with the recommendations of the Twelfth Finance Commission, the State Government have set up the Sinking Fund for amortisation of huge Market Borrowings and other borrowings. A Guarantee Redemption Fund has also been established to meet the contingent liability arising out of the total outstanding guarantees. The projection in the MTFP also takes into account the provision for investment in the sinking funds at a rate of 2% of the total outstanding debt at the end of each year.

(b) Capital Account –

- (i) Loans & Advances – Loans and advances given by the State Government to government employees, cooperatives and likes was Rs. 67.20 crore in the year 2005-06 and Rs. 271.77crore in the year 2006-07. This has been assumed to be gradually reduced over the years during the period of projection in the MTFP.

(Rs. in Crore)

2006-07 (Actuals)	2007-08 (RE)	2008-09 (BE)
271.77*	393.72**	328.04***

*Includes Rs125.00 crore under OTS for payment of guaranteed loan.

** Includes Rs220.00 crore under OTS for payment of guaranteed loan.

*** Includes Rs220.00 crore under OTS for payment of guaranteed loan.

- (ii) Capital Outlay – The total capital outlay was Rs. 1038.06 crore in the year 2005-06 and Rs.1451.47 crore in the year 2006-07. This constitutes 1.32% of GSDP in the year 2005-06 and 1.59% of GSDP in 2006-07. Twelfth Finance Commission have recommended that the capital expenditure needs to be increased to 3% of GSDP by the year ending 2009-10. Accordingly the capital outlay as % of GSDP has been projected to reach 2.65% in 2007-08(RE), 2.59% in 2008-09(BE), 2.63% in 2009-10 and 2.68% in 2010-11. However, the Capital expenditure as a whole (Capital Outlay + Loans & Advances) has been projected to reach from 1.89% in 2006-07 to 3.03%in 2007-08(RE), 2.87%in 2008-09(BE), 2.81%in 2009-10 and 2.84%in 2010-11.

(Rs. in Crore)

Capital Account	2006-07 (Actuals)	2007-08 (RE)	2008-09 (BE)
Capital Outlay	1451.47	2740.38	3019.63
Loans and Advances	271.77	393.72	328.04
Total	1723.24	3134.10	3347.66

C. Assessment of sustainability relating to –

(i) Revenue Deficit - Revenue deficit for the year 2001-02 was (-) Rs. 2833.74 crore, which was reduced to (-) Rs. 1575.91 crore in 2002-03, (-) Rs. 1420.92 in the year 2003-04 and (-) Rs. 522.30 crore in 2004-05. In the year 2005-06, after a gap of 22 years, the state has been able to achieve Revenue Surplus of Rs.481.20 crore. Subsequently in 2006-07 also Revenue Surplus of Rs.2260.60crore was generated. According to the recommendations of the Twelfth Finance Commission, the revenue deficit was to be eliminated by the year ending 2008-09. Since the State has been able to eliminate the Revenue deficit much before the stipulated time frame, it is necessary for the State to maintain it and accordingly, it has been projected in the MTFP.

2005-06 (Actuals)	2006-07 (Actuals)	2007-08 (RE)	2008-09(BE)
(+)481.20	(+)2260.60	(+)1682.23	(+)563.87

(ii) Fiscal Deficit – Fiscal Deficit for the year 2003-04 was (-)Rs.3572.81 crore which was reduced to (-) Rs.1365.99 crore in 2004-05 and (-)Rs.276.47 crore in 2005-06. For the first time the State has been able to generate Fiscal Surplus to the tune of Rs.823.18crore in 2006-07. The high level of Revenue Surplus in 2006-07 was because of receipt of two doses of debt write off and higher growth of Revenue Receipts in comparison to Revenue Expenditure. This Revenue Surplus was so high that could not be absorbed by the Capital Outlay & Net Lending as result of which there was Fiscal Surplus. The net borrowing incurred was only because of the existing arrangement for compulsory borrowing. As percentage of GSDP the Fiscal Deficit has reduced from 5.85% in 2003-04 to 1.91% in 2004-05 & 0.35% in 2005-06 and the Surplus in 2006-07 is (+)0.90%. As per recommendations of the Twelfth Finance Commission, the Fiscal deficit was to be reduced to 3% of GSDP. Since the State has been able to achieve it, it is necessary for the State to maintain it and accordingly, it has been projected in the MTFP.

(iii) Use of Capital Receipts for generating productive assets -

Ideally the capital receipts including the borrowings should be utilised to generate assets to ensure income for the State Government. However, the perpetual deficit in the revenue account of the State had compelled the State Government to divert the funds from capital accounts to meet the revenue deficit in the past years. In the early eighties, this diversion was negligible or there was no such diversion of capital receipts to meet the revenue deficit. However, this diversion reached an alarming level of 71.69% in the year 2001-02. This can be seen from the table given below.

(Rs. in Crore)

Year	Total revenue receipt	Total revenue expenditure	Revenue surplus (+) / revenue deficit(-)	Total loan incurred (Gross Loans + Net GPF)	Net loan (Gross Loans + Net GPF - Repayment)	% of the loan diverted to meet the revenue deficit	% of net loan diverted to meet the revenue deficit
1980-81	621.35	546.85	74.50	194.81	99.14	No Diversion	No Diversion
1986-87	1228.22	1247.96	-19.74	373.24	270.55	-5.29%	-7.30%
1990-91	2170.94	2190.53	-19.59	898.80	667.74	-2.18%	-2.93%
1991-92	2447.26	2635.02	-187.76	908.04	674.75	-20.68%	-27.83%
1992-93	2913.16	3048.88	-135.72	1023.11	836.73	-13.27%	-16.22%
1993-94	3208.23	3479.37	-271.14	1164.23	873.66	-23.29%	-31.03%
1994-95	3575.88	4035.52	-459.64	1243.94	1034.29	-36.95%	-44.44%
1995-96	3890.71	4697.81	-807.10	1486.98	1261.90	-54.28%	-63.96%
1996-97	4286.76	5117.25	-830.49	1474.52	1273.84	-56.32%	-65.20%
1997-98	4632.03	5535.17	-903.14	2189.37	1893.75	-41.25%	-47.69%
1998-99	4554.40	6816.90	-2262.50	2926.36	2365.04	-77.31%	-95.66%
1999-00	5884.64	8458.83	-2574.19	3735.75	3349.66	-68.91%	-76.85%
2000-01	6902.02	8833.99	-1931.97	3689.99	2901.10	-52.36%	-66.59%

Year	Total revenue receipt	Total revenue expenditure	Revenue surplus (+) / revenue deficit(-)	Total loan incurred (Gross Loans + Net GPF)	Net loan (Gross Loans + Net GPF - Repayment)	% of the loan diverted to meet the revenue deficit	% of net loan diverted to meet the revenue deficit
2001-02	7047.99	9881.73	-2833.74	4939.88	3031.72	-57.36%	-93.47%
2002-03	8438.77	10014.68	-1575.91	*5127.64	3767.59	-30.73%	-41.83%
2003-04	9440.24	10861.16	-1420.92	*5247.86	3832.77	-27.08%	-37.07%
2004-05	11850.19	12372.49	-522.30	*3464.62	2417.22	-15.08%	-21.61%
2005-06	14084.71	13603.52	481.20	3442.86	2405.27	No Diversion	No Diversion
2006-07	18032.62	15772.02	2260.60	2643.80	793.06	No Diversion	No Diversion
2007-08(RE)	21381.32	19699.09	1682.23	3289.22	1116.54	No Diversion	No Diversion
2008-09(BE)	23270.42	22706.55	563.87	4601.55	2707.27	No Diversion	No Diversion

* Loan receipt for swapping not included (2002-03 Rs.474.56 cr, 2003-04 Rs.863.79 cr, 2004-05 Rs.1205.27 cr)

There has been sincere efforts to reduce the revenue deficit of the State Government. From the level of as high as (-) Rs. 2833.74 crore in 2001-02, the Revenue Deficit has been eliminated in the year 2005-06 and there has been no diversion since 2005-06. The reduction in the level of diversion of funds from capital account to meet the revenue deficit creates a fiscal space for the State Government to invest in the developmental activities of the State Government.

BUDGET ESTIMATE 2008-09

- The projection made in the Medium Term Fiscal Plan (MTFP) are indicative only basing on which the Budget estimates are to be prepared on year to year basis. The MTFP envisages rolling targets, which is dynamic in nature and is to be updated periodically keeping in view the changing circumstances and the latest available actuals. One of the stipulations of the 12th FC for enabling the State Government to claim debt write off is that the fiscal deficit should be contained to the level of 2004-05 and this calls for reduction in borrowing in the year 2005-06 onwards. Since, the state plan outlay for 2008-09 has been approved at Rs. 7100.00 crore, with 39.08% hike over 2007-08, there is need for higher collection from State's Own Tax and Non Tax Revenue in order to reduce the requirement of borrowing to finance the higher State Plan outlay.
- Accordingly the State's own tax for 2008-09 has been estimated at Rs. 7271.94 crore against Rs. 6321.88 crore as projected by the TFC. Similarly the estimate of State's Own Non Tax revenue for 2008-09 has been projected at Rs. 2135.32 crore in place of Rs. 1747.13 crore projected by the TFC.
- Further taking into account the latest trends in collection of central taxes, the share in central taxes for 2008-09 has been assumed at Rs. 8244.94 crore in place of Rs. 7129.82 crore projected by the TFC.
- On the same ground, the estimate of recovery of loans and advances has been kept at Rs. 246.80 crore for the year 2008-09.
