

# Fiscal Stance and Growth In Odisha: Some Empirical Observations

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# Motivation

- Recent trend in growth of GSDP
- FRBM Implementation
- Trends in Key Fiscal Indicators

# Some Past Studies

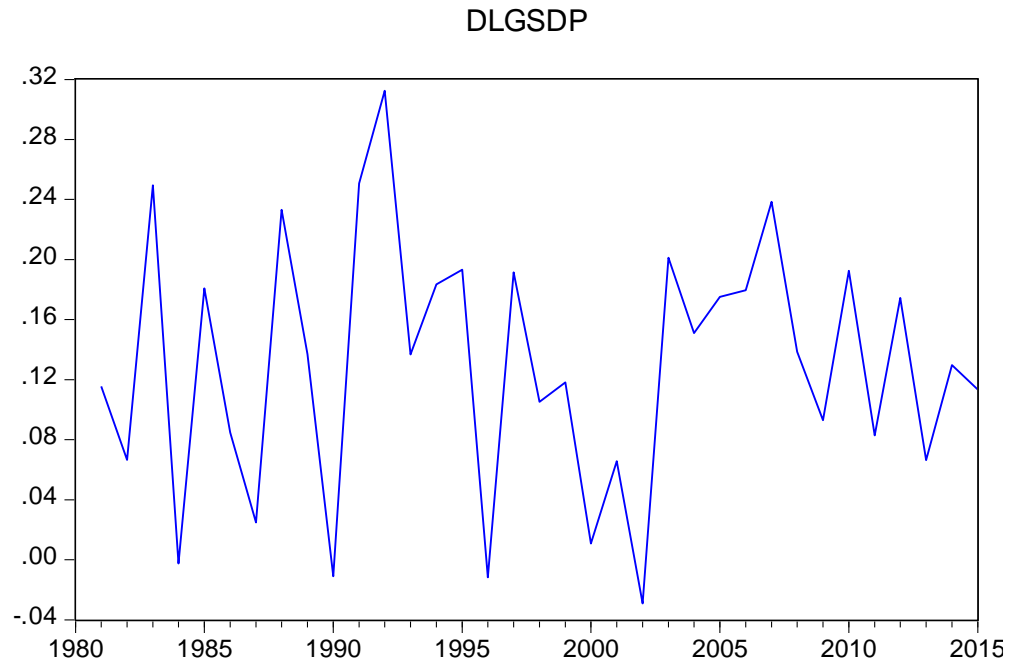
- Mahanty, Ahuja and Mishra(2015)
  - revenue deficit, primary deficit and fiscal deficit relative to GSDP have declined since 2002-03 because of the reforms in the state expenditure policy.
  - There is a significant structural break in these deficit ratios since 2002-03
  - compression of total revenue expenditure relative to GSDP which is mainly driven by significant decline in both salary and interest expenses.

- Sen Tapas and P K Jena (2012): “The Government of Odisha consistently maintained strong fiscal position during the post FRBM period”
- The compression of both revenue and capital expenditure as compared to the budget estimates was the major instrument to achieve large revenue surplus and elimination of fiscal deficit in the fiscal year 2012-13.

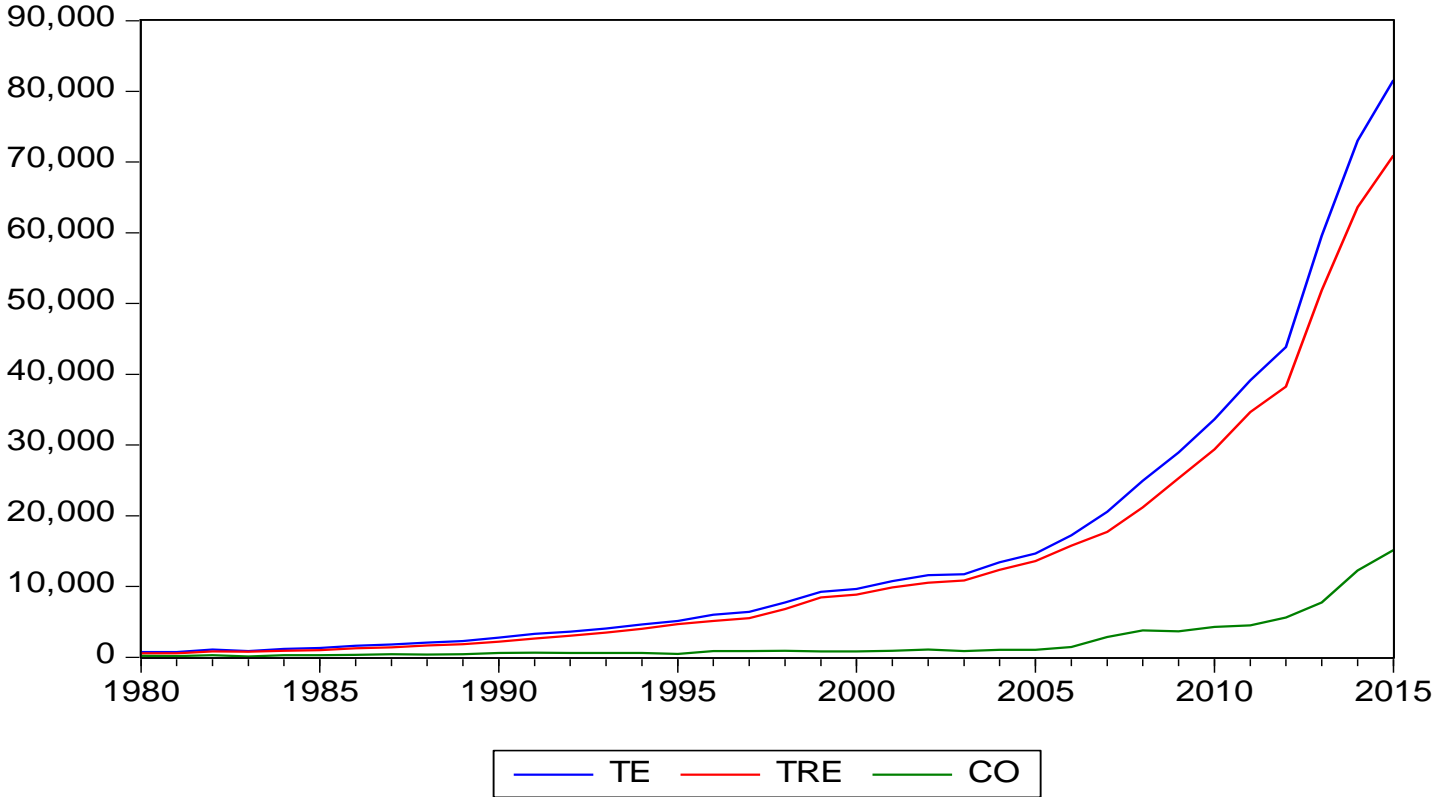
- The decline in own tax revenue as compared to the budget estimates in 2012-13 despite a higher GSDP growth.
- Although the State Government managed to generate a large revenue surplus, substantially more than that of the budget estimates, the capital expenditure fell short of the budgeted provision by a large amount.

- Rajaraman et al (2001) examines the univariate properties of aggregate revenue expenditure at the level of State governments in India over the period 1974-98 for three states: Punjab, Haryana and Maharashtra.
  - trend stationarity in Punjab and Haryana
  - fiscal smoothing in the presence of periodic upward shocks of Pay Commission or other origin
- Maharashtra carries a unit root, sharp and concurrent smoothing at the time of the Pay Commission shocks, such that aggregate expenditure does not show a spike.

# GSDP Growth

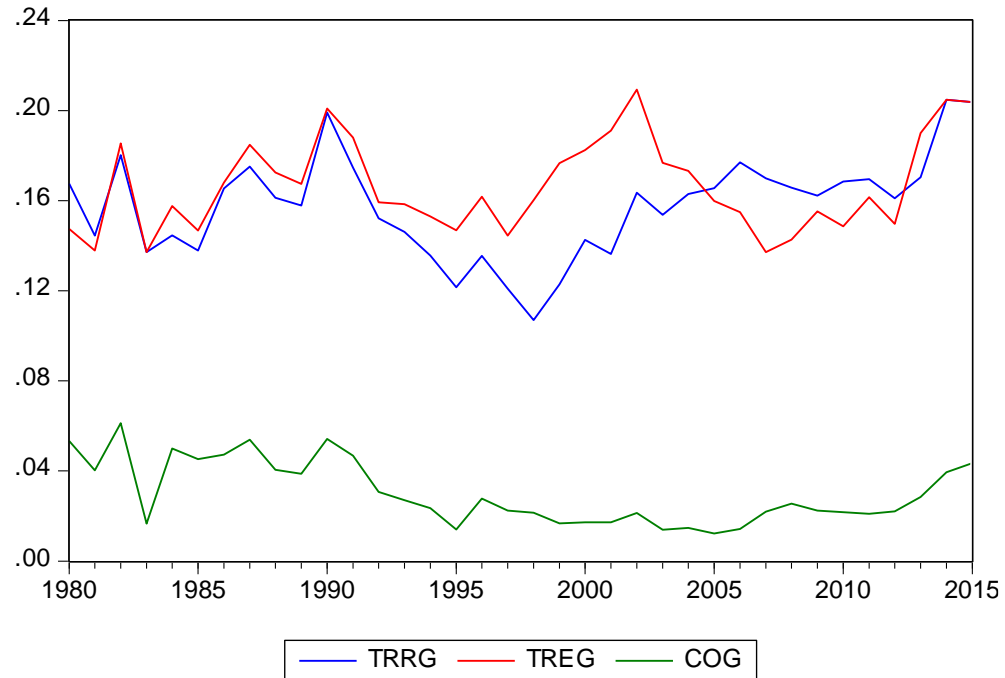


# Expenditures(Total, Revenue, and Capital)

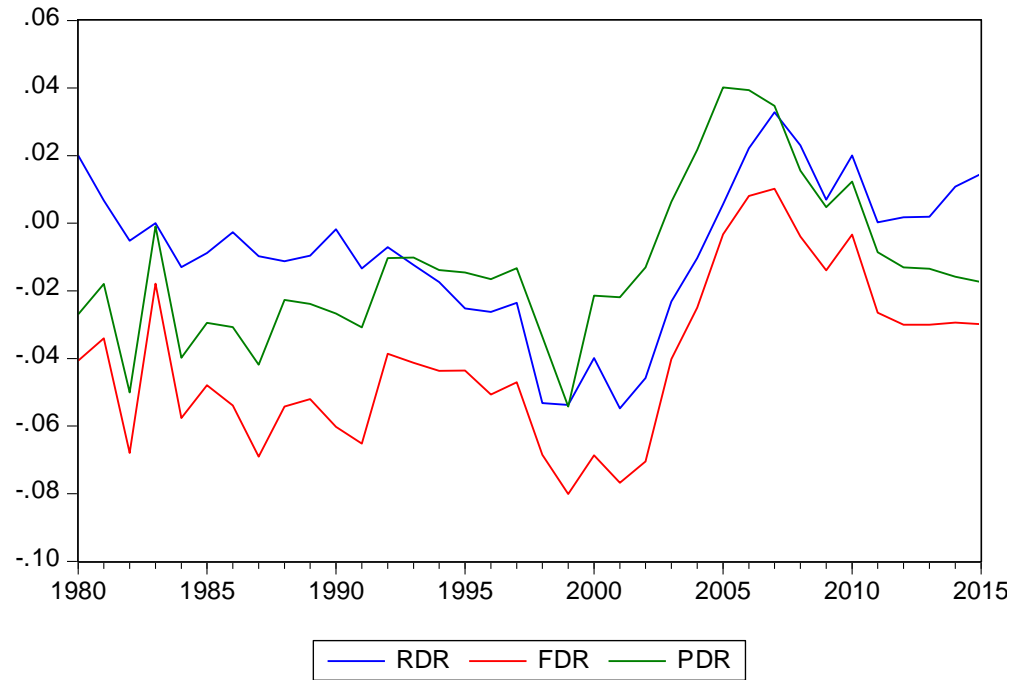




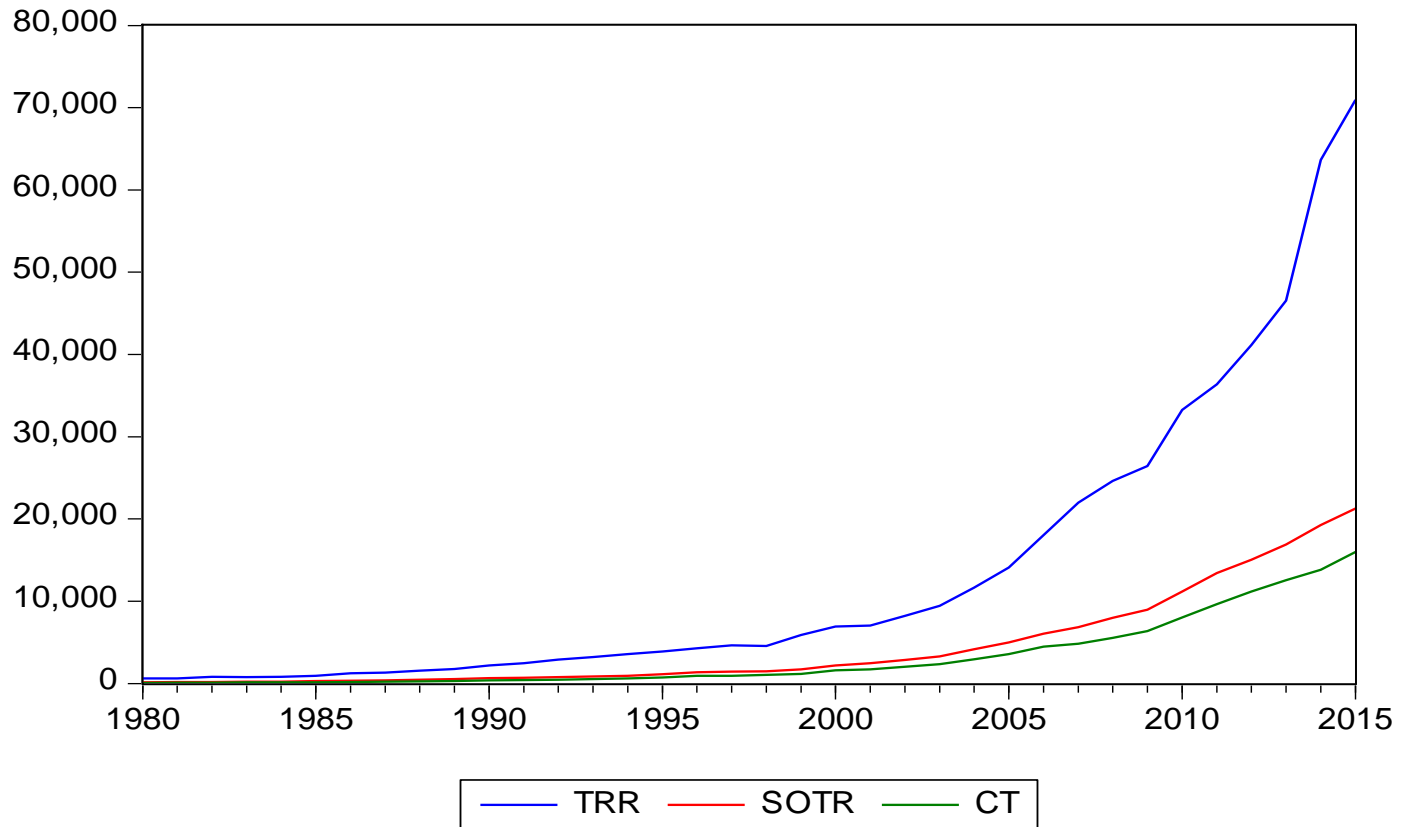
# Growth Rates (Expenditures)



# The three Deficits

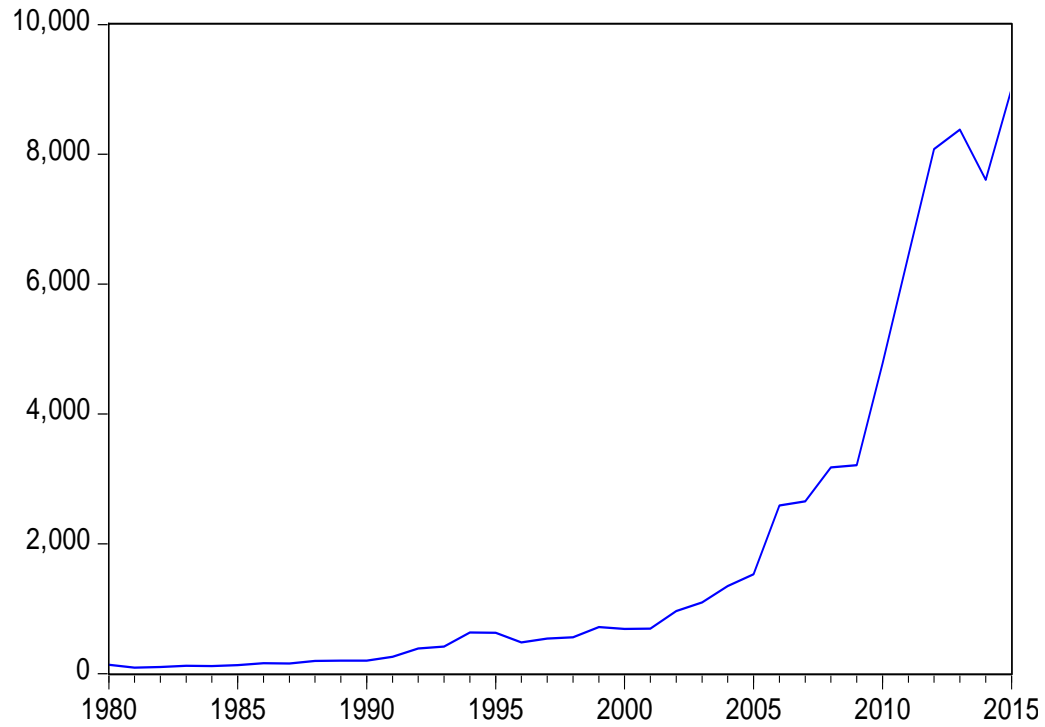


# Revenues

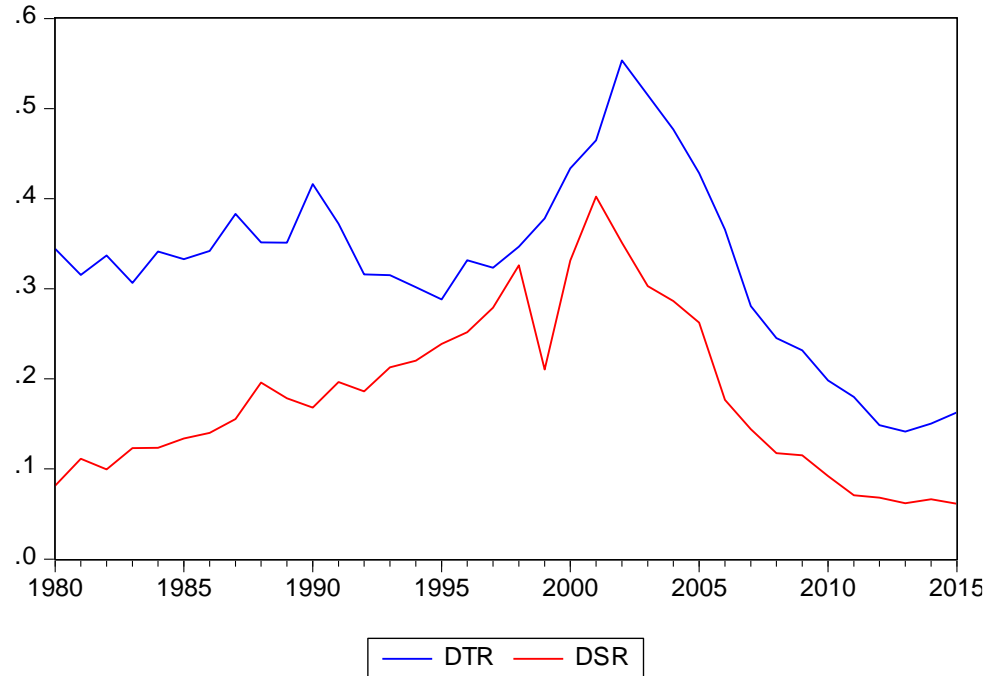


# Non Tax Revenue

NTAX



# Debt ratio and debt servicing ratio



# ADF and KPSS Unit root test results

Variable	ADF	ADF With Trend	KPSS	KPSS With Trend	Inference
LTE	0.5566	-2.5430	0.7172**	0.0993	Trend Stationary
DLTE	-10.67***	-10.7019***	0.1881	0.1096	
LTRE	0.3510	-2.0636	0.7177**	0.095	Trend Stationary
DLTRE	-7.7594***	-7.6422***	0.1268	0.1103	
LCO	0.2575	-2.2859	0.6852**	0.1611	Trend Stationary
DLCO	-9.1316***	-9.3779***	0.3122	0.1317	
LINT	-2.7362*	-1.0683	0.6697**	0.1797**	Non Stationary
DLINT	-5.646***	-6.5173***	0.5491**	0.0738	
LPEN	-1.6086	1.8403	0.7116**	0.1747**	Non Stationary
DLPEN	-4.4593***	-4.6991***	0.2419	0.0578	
LDEBT	-1.0256	-2.9817	0.6909**	0.1623**	Non Stationary
DLDEBT	-2.103	-2.4310	0.3009	0.1224	
LSOTR	0.0846	-1.9828	0.7135**	0.1440*	Non Stationary
D LSOTR	-6.0584***	-5.9945***	0.1062	0.1054	
LCT	0.9206	2.7551	0.7132**	0.1768**	Non Stationary
D LCT	-5.7285***	-5.7833***	0.2405	0.2339	
LNTAX	0.8172	-3.1776	0.6935**	0.1557**	Non Stationary
D LNTAX	-6.207***	-6.5794***	0.2477	0.0802	
RDR	-1.6927	-1.9299	0.1758**	0.1504**	Non Stationary
DRDR	-5.5500***	-4.4045***	0.1895	0.0570	
FDR	-2.1746	-3.9668**	0.3330	0.0957	Stationary
DFDR	-8.2342***	-8.1341***	0.0714	0.0637	
PDR	-2.3577	-2.6285	0.3852*	0.0694	Trend Stationary
DPDR	-8.5673***	-8.4521***	0.0882	0.0746	
DTR	-1.1706	-1.5727	0.2331	0.1387	Stationary
DDTR	-4.2027***	-4.3350***	0.1445	0.0707	
DSR	-1.2384	-1.2345	0.1674	0.1675	Stationary
DDSR	6.0639***	-6.4250***	0.3785	0.0655	

# Unit root with structural breaks

- Results of Zivot Andrews Unit root test allowing for a structural breaks shows only two variables i.e., CT and DSR to have a break in 1997 and 2000 respectively
- Break in CT in 1997 may be due to the mining boom in the state.
- Break in DSR in 2000 may be due to the debt swap done by the Govt. of Odisha.

- Because of debt swapping scheme and prepayment of high cost outstanding market borrowing, both debt and debt service ratio have declined phenomenally. Odisha being one of the top states in terms of both debt ratio and debt servicing ratio in 2002-03 has become one of the lowest states in terms of debt and debt servicing ratio as on year ending 2012-13---Mahanty(2014)



# What explains GSDP

- CO or TRE
  - Capital outlay elasticity 1.08
  - TRE elasticity 0.97
- Non Nested Results
  - Capital outlay model rejects the TRE model

Thank you