



# Good & Evolving PFM Practices in Odisha

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Finance Department  
Government of Odisha  
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# Good PFM practices in Odisha

**Fiscal Risk Management**

**Budget Stabilisation Fund**

## Fiscal Risk Management (FRM) :

Fiscal risks refer to factors that may cause deviations in government revenues, expenditures, and the value of assets and liabilities from expected forecasts

Fiscal risks could arise from macroeconomic fluctuations, PPP projects, contingent liabilities in the form of guaranteed and non-guaranteed loans extended to State PSUs, and natural disasters such as cyclone, draught etc.

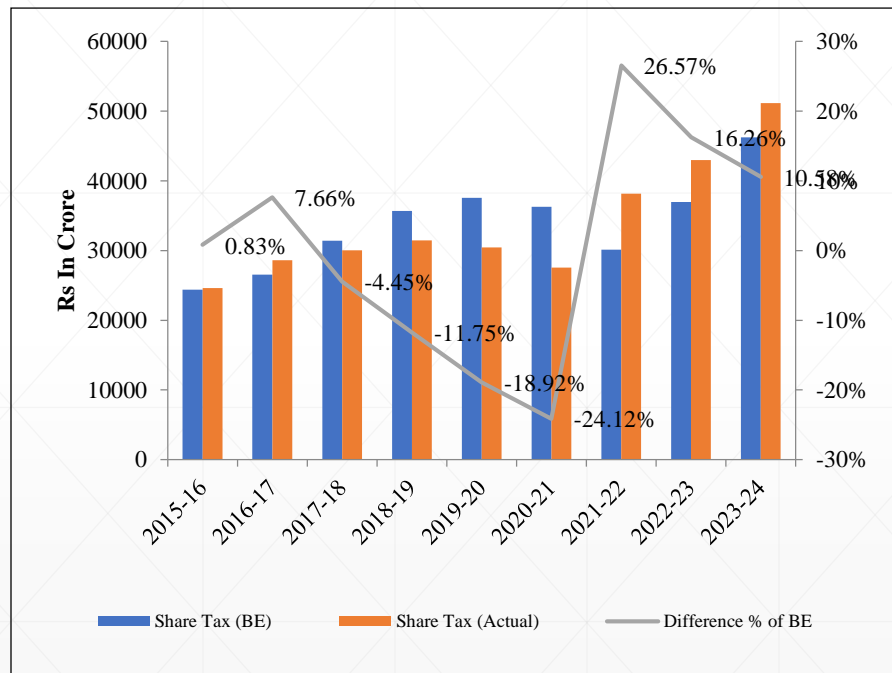
Odisha in collaboration with the IMF has developed a comprehensive fiscal risk analysis framework.

Fiscal Risk Management includes identifying and quantifying risks, classifying them based on their potential impact, reporting them and putting in place appropriate risk mitigation measures.

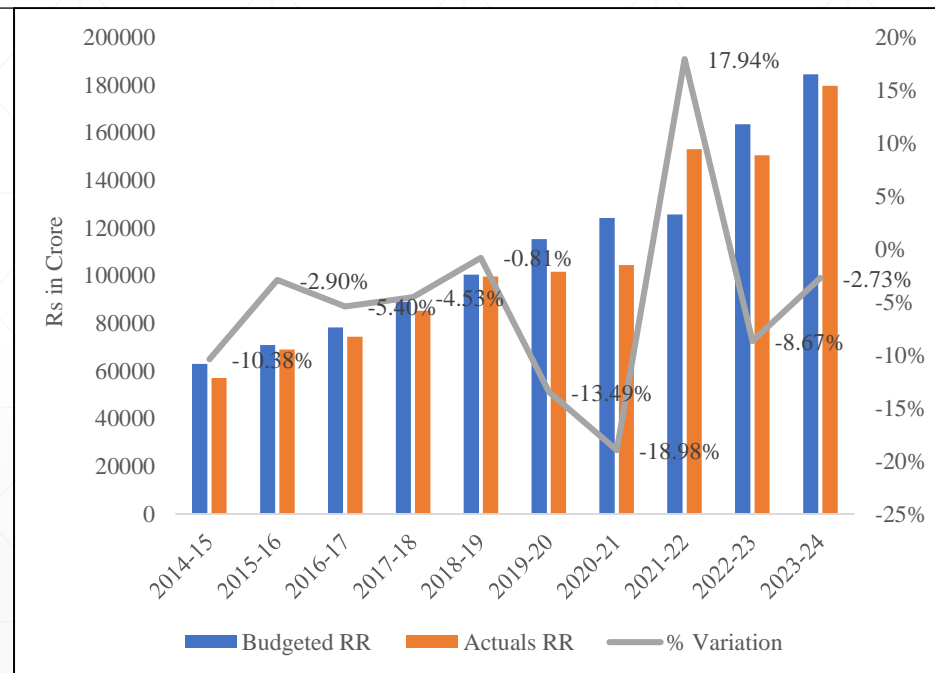
Taking effective risk mitigation measures is the primary objective of the fiscal risk analysis.

# Macroeconomic Risks

Charts below shows the difference between Share Tax (BE) and Actual Share Tax

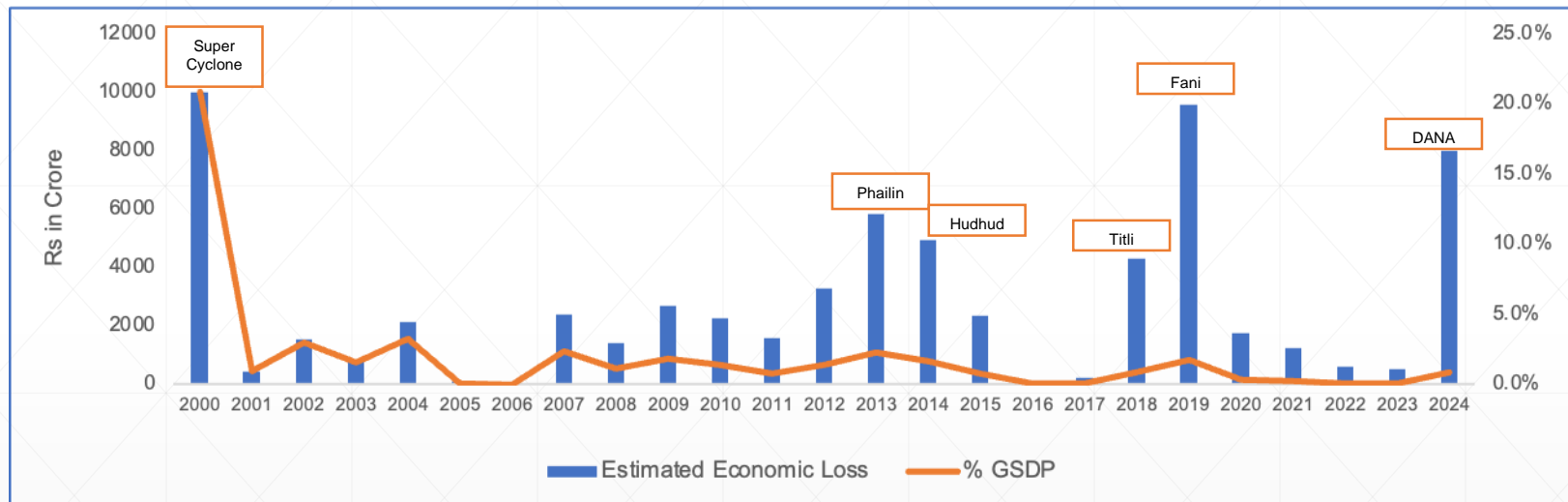


Charts below shows the variation between revenue receipt (RR) in budget estimate and actual



## Economic Loss Due to Natural Disasters:

- Odisha has been a victim of various natural calamities caused by Climate Change.
- Almost every Year, Odisha endures at least a tropical cyclone
- In addition to tropical cyclone, flood and draught are other frequent natural calamities.
- Odisha accords highest priority to climate change.



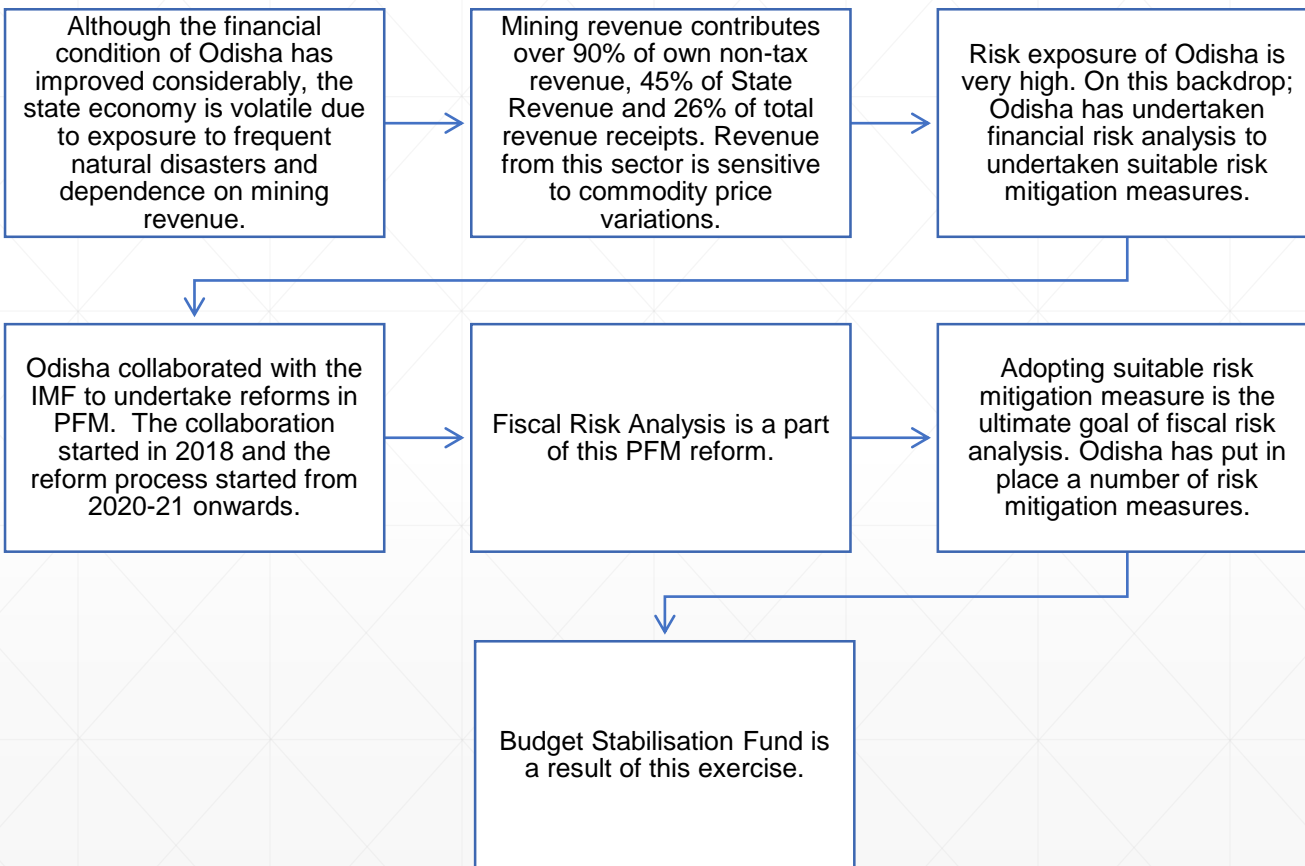
Geographical position of Odisha makes it prone to natural disasters.

Since 2014, Odisha has faced nine tropical cyclones.

Estimated economic loss from 1999 to 2022 is about 46% of GSDP

A lot of resources go in management and mitigation of such disasters.

## Fiscal Risk Management (FRM) :



### Activities under FRM

Identification of different fiscal risks

Classification of Risks

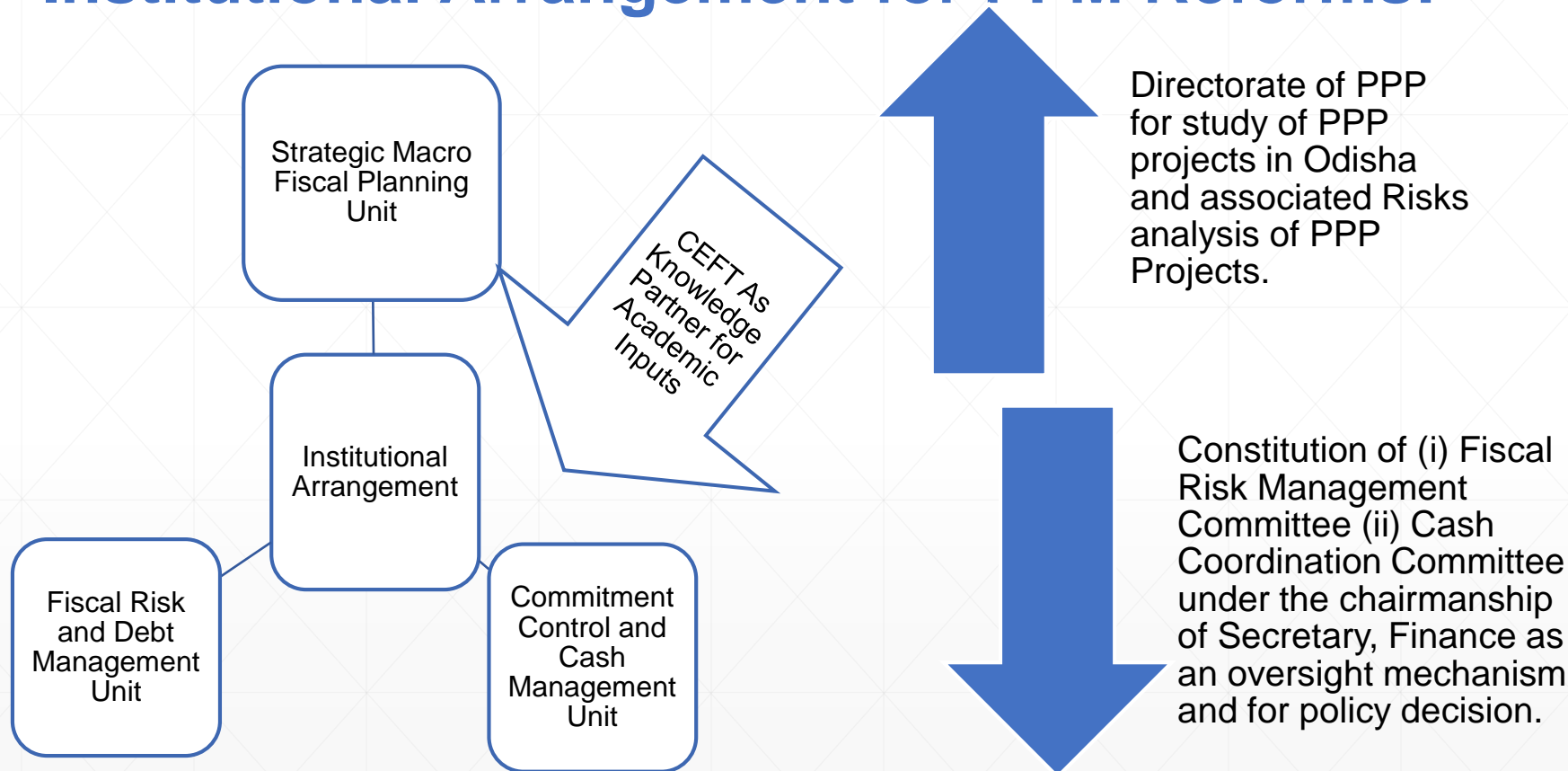
Risk Analysis – Quantification

Taking Risk Mitigation Measures

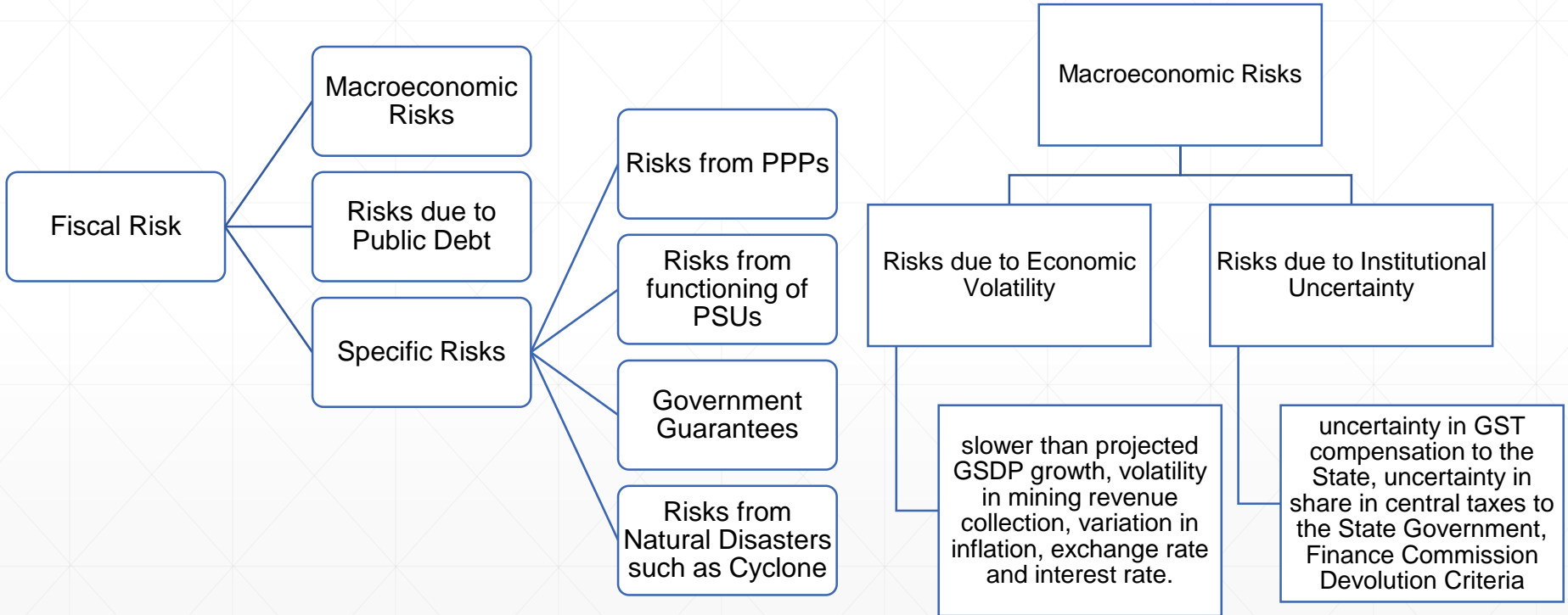
Reporting through Fiscal Risk Statement

Recording through Fiscal Risk Register and Fiscal Risk Matrix

# Institutional Arrangement for PFM Reforms:



# Various sources of Fiscal Risks & Classification :





## Snapshot of Fiscal Risk Register:

CATEGORY	TYPE/NAME OF THE RISK	FISCAL IMPACT	COMMENTS ON FISCAL IMPACT	LIKELIHOOD	COMMENTS ON LIKELIHOOD
Macro-economic Risk	Growth Slowdown	High	Revenues of the State are significantly linked to GSDP growth. A decline in the latter will adversely affect the deficit.	High	The COVID-19 crisis.
Macro-economic Risk	Central Transfers	High	Central Transfers account for a significant share of the State's Revenues.	High	The Covid-19 crisis is going to impact the share transfer from Central Government.
SPECIFIC RISKS	PSUs	Medium	The bailout package to restore the financial health condition of the loss-making PSUs, if Govt. considers may have a sizable impact on economy of the state.	Medium	The balance sheets of most of the PSUs show incurring losses.
SPECIFIC RISKS	Natural Disaster	High	Odisha is highly prone to various natural disasters like Cyclone	High	
Institutional Risk	Food Supply Department	Medium	Subsidiaries of this department have high obligation to banking authorities	Medium	Because of the liquidity problem of subsidiaries
Institutional Risk	Energy sector	High	Energy Department owes the obligation of its subsidiaries	High	High AT&C Loss as well as Collection Inefficiencies at DISCOM level

## Fiscal Risk Matrix:

Fiscal impact	High (>0.5% of GSDP)	<ul style="list-style-type: none"> <li>Growth slowdown</li> </ul>	<ul style="list-style-type: none"> <li>GST revenues</li> <li>Central Transfer</li> </ul>	<ul style="list-style-type: none"> <li>Natural disasters</li> <li>Mining-related revenues</li> <li>Electricity sector – Energy Sector PSUs</li> </ul>
	Medium (0.1% - 0.5% of GSDP)	<ul style="list-style-type: none"> <li>Risks from Public sector undertakings</li> </ul>	<ul style="list-style-type: none"> <li>Social security programs</li> <li>Food Supply Department</li> <li>Government Institutions</li> <li>Investment scams of small-scale investors</li> </ul>	<ul style="list-style-type: none"> <li>Inflation</li> <li>Non-performing assets of public financial institutions</li> </ul>
	Low (<0.1% of GSDP)	<ul style="list-style-type: none"> <li>PPPs</li> <li>Tax refunds under litigation</li> <li>Pension schemes</li> <li>Foreign-currency debt</li> </ul>	<ul style="list-style-type: none"> <li>Line departments</li> </ul>	
		Low (<10%)	Medium (10%-50%)	High (>50%)
Likelihood of realization				

## Impact of FRM :

During the Covid-19 pandemic, we adopted scenarios analysis like best case, most likely case and worst case to estimate resources, which helped in critical decision-making regarding borrowing and prioritizing our spending. The way Odisha managed its finances during the Covid-19 pandemic is a testimony to its sound fiscal practices

Fiscal Measures  
undertaken by Odisha  
for Covid management

- Enhancement of the Corpus of the Odisha Contingency Fund
- Frontloading of Open Market Borrowing with shorter tenure bonds
- Innovative way to avail cheaper sources of financing from dedicated funds (OMBADC and CAMPA) to maintain required liquidity during the crisis period
- OTS Scheme for realization of arrear revenue
- Mopping up of Government money parked in Bank accounts
- Expenditure re-prioritization
- No distress borrowing. Fully FRBM compliant in FY 2020-21 and FY 2021-22 : the covid affected years.

# Fiscal Risk Management and Mitigation

Fiscal Risk	Risk Management/ Mitigation Strategy
1. Natural Disasters	<ul style="list-style-type: none"> <li>State Disaster Response &amp; Mitigation Fund</li> <li>State Contingency Fund</li> </ul>
2. Government guarantees	<ul style="list-style-type: none"> <li>Administrative Ceiling on Govt Guarantees</li> <li>Guarantee Redemption Fund (GRF)</li> </ul>
3. Amortization and Foreign currency fluctuation	<ul style="list-style-type: none"> <li>Consolidated Sinking Fund (CSF)</li> </ul>
<b>4. Mining sector risk</b>	<b>Budget Stabilization Fund</b>
5. Public Private Partnerships (PPPs)	<ul style="list-style-type: none"> <li>Medium Term Fiscal Projections</li> <li>Status Paper on Public Debt</li> <li>Multi-years budgeting</li> <li>Top Down Budgeting with advance communication of budget ceilings</li> <li>Commitment Recording and Control Module being developed in IFMS</li> <li>Cash Forecasting and Management</li> </ul>
6. PSUs	
7. Loans provided by the government	
8. Court cases	
Other Fiscal Risks	

## Recognition of Odisha's FRM Practice:

RBI in its '**State Finances: A Study of Budgets of 2020-21**' report (**page-34**) has recognized Fiscal Risk Management in Odisha as a **best practice** in financial management.

The FRM practice of Odisha has been showcased as a case study in the Capacity Development Event of the IMF in its **Spring Meetings 2022** at Washington DC

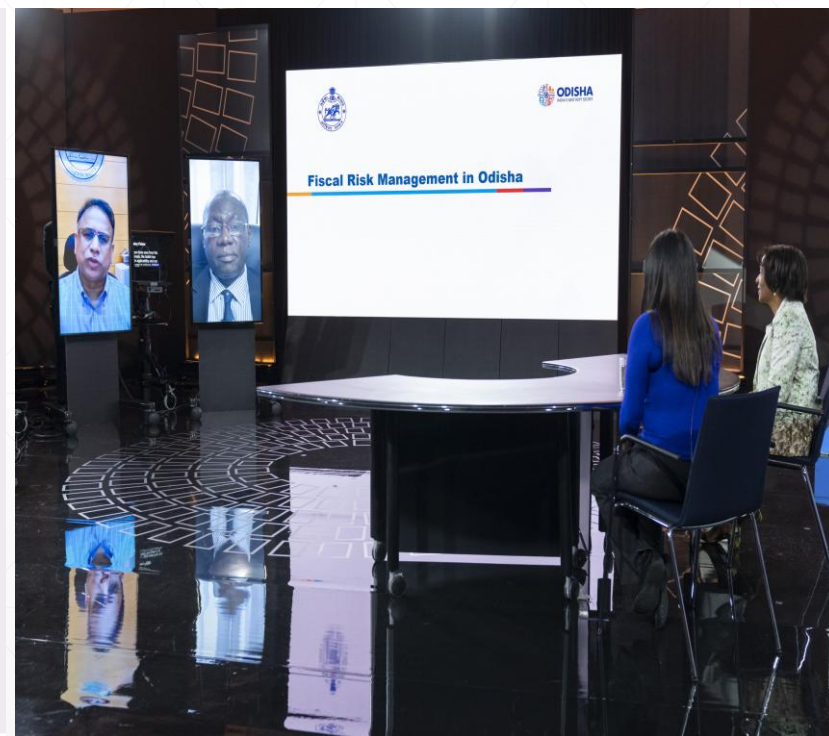
### Box II.4: Assessing Fiscal Risks – Odisha's Experience

The Government of Odisha identified "Fiscal Risk Management" as one of the key reforms priority under technical assistance from the IMF's South Asia Regional Training and Technical Assistance Center (SARTTAC) in 2019. A dedicated Fiscal Risk and Debt Management Cell in the Finance Department and a high-level Fiscal Risk Committee has been put in place. The state has adopted a three-stage approach to fiscal risk management: (1) identification and measurement of fiscal risks; (2) fiscal risk reporting; and (3) mitigation and management of fiscal risk.

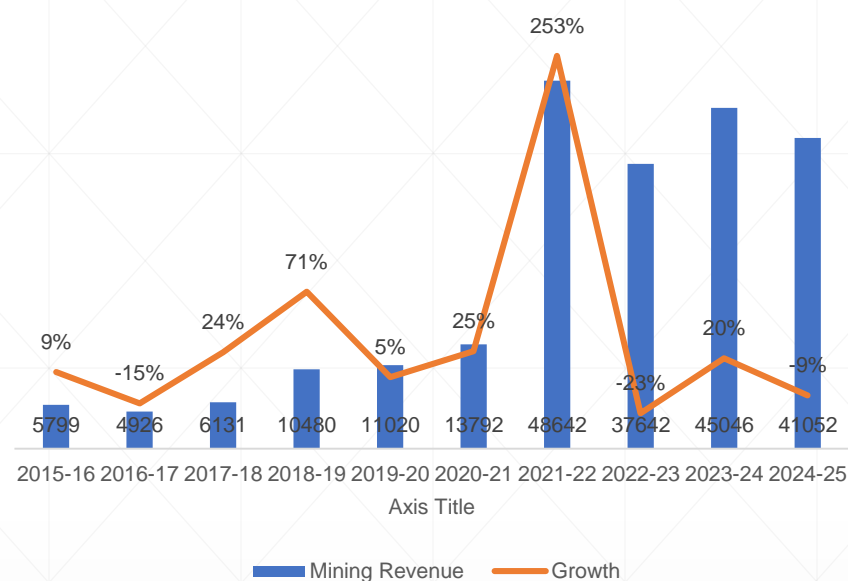
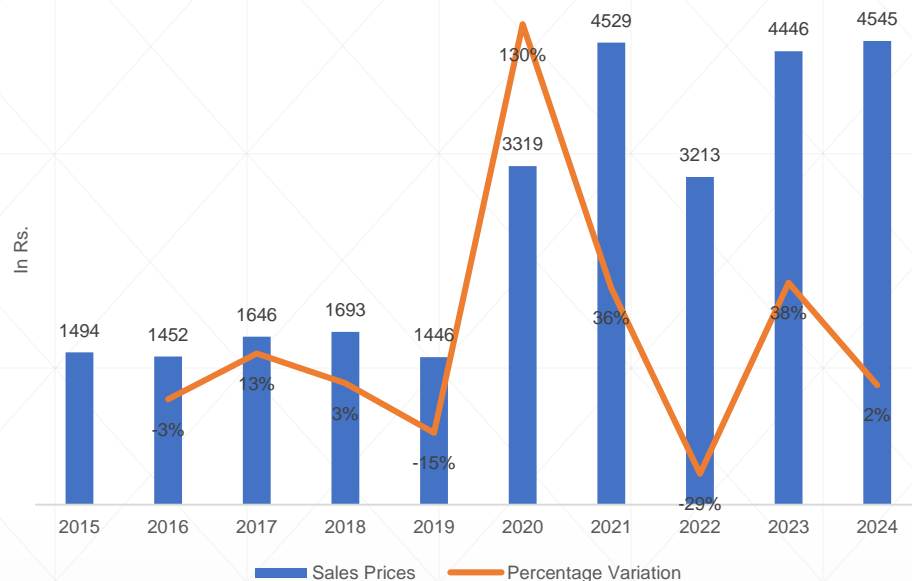
Under (1), all possible sources of fiscal risk were identified and the impact of each fiscal risk worked out as ratio of GSDP and classified as high, medium and low on the basis of the level and possibility of occurrence (Chart 1a)<sup>18</sup>. Some of the identified sources of fiscal risk include (a) macroeconomic

performance, international commodities prices, and exchange rate risk, particularly for foreign currency loans; (b) natural disaster to which Odisha is prone; (c) composite debt risk measured through a debt index consisting of debt to GSDP ratio, per capita debt and cost of debt using the relative distance methodology; (d) overall fiscal risk measured through a fiscal performance index employing a multiple indicator approach; and (e) contingent liabilities risk from Guarantees, Public Private Partnerships (PPPs)<sup>19</sup>, and public sector undertakings (PSUs). The state government also uses the IMF's State-Owned Enterprise Health Check Tool to assess the financial health of the State PSUs. Such assessment of GRIDCO, a state-owned enterprise in power sector shows it a high risk company (Chart 1b).

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# Budget Stabilisation Fund



❖ Variation in Sale Price of Iron Ore (60% To Below 62% Fe, Fines grade) year-on-year (December to December)

❖ Variation in Mining Revenue – growth is highly volatile.

Average price variation in iron ore over a period of 10 year is 20%

20% variation in iron ore price will have revenue implication of around Rs.8000 crore, which is about 8% of total own revenue of the state.

Mining revenue constitutes about 6% of GSDP and about 90% of State Own Non-Tax Revenue. It rose sharply from contributing 25% of own revenue in FY 2020-21 to 51% in FY 2021-22

## Budget Stabilisation Fund:

Mining revenue is directly dependent on demand and prices of metals .

To hedge against volatility in mining revenue, "Budget Stabilisation Fund" was established.

BSF was set up in consultation with RBI and AG, Odisha.

BSF was constituted in FY 2022-23 with corpus of Rs.13,700 crore. It acts as a sovereign wealth fund.

SDF is provided against the investment in the fund, similar to CSF and GRF.

The accretion to the fund is invested in G-SEC, ATB and State Government Securities.

Outstanding Balance in the BSF as on 31.03.2025 is Rs.20,890 crore.

### Impact

- ❖ Size : Rs. 20,890 Cr, 2.2% of GSDP
- ❖ Target : Rs. 50,000 Cr, about 5% of GSDP
- ❖ Present potential coverage : around 20% of mining revenue volatility, which is about Rs.10,000 Crore
- ❖ Target coverage : about 50% of mining revenue volatility, which is about Rs. 25,000 Cr

**THANK YOU**