TAMIL NADU STATE GOVERNMENT FINANCES

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Executive Summary

- **Fiscal Management:** Tamil Nadu's government finances were effectively managed from 2011-12 to 2014-15. However, starting from 2015-16, the revenue deficit-GSDP ratio continued to exceed 1 percent, peaking at 3.49 percent in 2020-21. This was driven by factors such as the introduction of GST and the economic disruption caused by COVID-19 pandemic.
  In 2016-17, the fiscal deficit exceeded 3 percent limit, primarily due to the UDAY program's debt takeover for TANGEDCO. While the fiscal deficit-GSDP ratio remained under 3 percent threshold until 2018-19, it surged to 4.91 percent in 2020-21, owing to relaxed fiscal limits during the pandemic. Since 2021-22, the state has actively pursued fiscal consolidation in line with the 15th Finance Commission's recommendations. However, it continues to exceed the 3 percent target.
- **Concerns Over Borrowing:** In 2020-21, the outstanding liabilities as a percent of GSDP reached approximately 27 percent and remined around the same level. A significant portion of the state's net borrowed funds has been used to meet revenue expenses, raising concerns about the long-term sustainability of its fiscal position.
- **Tax Revenue:** Tamil Nadu has traditionally been the leader among major Indian states in per capita own tax revenue. However, it now ranks seventh in per capita revenue receipts and sixth in per capita own tax revenue. The state ranks 18th in terms of revenue receipts-to-GSDP ratio and 10th in own tax-to-GSDP ratio. Between 2011-12 to 2021-22, the own tax-to-GSDP ratio declined from 7.92 percent to 5.93 percent due to factors like the introduction of GST and the global economic slowdown.
- **Sales Tax and GST:** Sales tax and GST remain the largest sources of Tamil Nadu's own tax revenue. In 2022-23, Tamil Nadu ranked second in sales tax-to-GSDP ratio, but much lower (19th) in GST-to-GSDP ratio. Tamil Nadu also ranked 7th in stamps and registration, 18th in state excise-to-GSDP ratio, and 16th in tax on vehicles.
- **Tax Buoyancy**: From 2011-12 to 2023-24, the own tax buoyancy remained near 1 in only four out of twelve years, with most years showing a buoyancy below 1 or even negative. This indicates that Tamil Nadu's revenue performance has not been optimal.
- **Non-tax Revenue:** Non-tax revenues grew at an annual rate of 15.52 percent from 2012-13 to 2023-24, outpacing the nominal GSDP growth of 11.38 percent resulting in a buoyancy of 1.36. Still Tamil Nadu has potential to further increase its non-tax revenues, particularly from tourism, fishing, forestry etc.
- **Central Transfers: S**hare of central transfers to Tamil Nadu has declined over time, with successive finance commissions recommending a reduced share for the state. From 2011-12 to 2024-25BE, central transfers as a percentage of GSDP have remained between 2.5 percent and 3.5 percent. The declining central transfers pose a major concern for the state, especially given growing need to finance infrastructure projects amid increasing urbanization.
- **Expenditure Trends:** Between 2011-12 to 2019-20, capital expenditure as a percentage of GSDP declined from 2.17 percent to 1.47 percent. Meanwhile revenue expenditure grew at an average rate of 11.56 percent from 2012-13 to 2023-24, exceeding the revenue growth of 10.1 percent. This rise in revenue expenditure is largely attributable to state's continued

implementation of various new and existing welfare programs, even in wake of financial challenges from the pandemic. These include the Chief Minister's Breakfast Scheme, the Kalaignar Magalir Urimai Thittam (Women's Income Support Scheme), Pudhumai Pen Thittam, and the Vidiyal Payanam Thittam for women, free power for irrigation, additional MSP incentive for paddy and sugarcane, increased rice entitlements, and subsidized commodities through is universal public distribution system.

- **Interstate Comparison:** Tamil Nadu ranks seventh in per capita revenue expenditure, but is the fourth lowest in revenue expenditure as percentage of GSDP. Although it indicates a relatively low fiscal burden compared to other states, Tamil Nadu meets a portion of revenue expenditures with net borrowed amounts. Therefore, the state has to increase its own revenues. Otherwise, it needs reduce to its revenue expenditures.
- **Social Vs Economic Services:** The proportion of outlay on social services declined by 6.98 percentage points (from 39.67 percent to 32.69 percent) from 2011-12 to 2023-24, while the share for economic services increased by 6.24 percentage points (from 16.9 percent to 23.1 percent).
- **Expenditure on Salaries and Pensions:** In 2011-12, salaries and pension payments (including education grants) accounted for 32 percent of total revenue expenditure. By 2023-24, this share had declined to 24 percent. However, 8^{th} pay revision may soon cause this share to rise again. Government employees also demand for old pension scheme.
- **Debt and Interest Payments:** In 2023-24, Tamil Nadu's public debt reached ₹7,24,789 crore or 26.6 percent of GSDP. Debt servicing exceeded 20 percent of revenue receipts, well above the 10 percent threshold recommended by the 14th Finance Commission. Evidence suggests that the state's current level of debt is unsustainable.
- **Public Sector Undertakings (PSUs):** Tamil Nadu has 68 operational and 2 non-operational PSUs. While these PSUs employ around 3 lakh people and attracted ₹2.45 lakh crore in investment (in 2021-22), they have had a minimal impact on the state's economy The net loss of the PSUs increased from ₹8,435 crore in 2016-17 to ₹20, 545 crore in 2021-22, largely due to TANGEDCO (₹11,955 crore) and TANTRANSCO (₹ 3402 crore). Operational efficiency and profitability indicators for these PSUs have been underperforming.
- **Local Bodies:** Tamil Nadu faces significant challenges in managing its growing urban population, with 651 urban local bodies (ULBs) and 12,525 rural bodies (PRIs). While PRIs have maintained a revenue surplus since 2011-12, ULBS have faced deficits in 7 out of 13 years. Furthermore, Tamil Nadu's share of local body grants has declined from 1.16 percent under the 14^{th} FC to 1.03 percent during the 15^{th} FC period.
- **Economic Growth:** India is the fastest growing major economy globally, yet its actual growth rate from 2012-13 to 2023-24 was only 6.11 percent, below its potential. According to forecasts from VAR based macro model, the average growth rate of Indian economy is projected to be 6.1 percent from 2024-25 to 2029-30. However, the ARIMA model predicts a higher average growth rate of 6.4 percent.
- **Tamil Nadu Economy:** Tamil Nadu, the second largest state economy, grew at 6.37 percent from 2012-13 to 2023-24. The ARMA model's projections indicate an average growth rate of 7.2 percent for Tamil Nadu economy from 2025-26 to 2030-31.
- **Sectoral Growth:** While Tamil Nadu's services sector has the potential for double-digit

growth, it has grown at an average rate of 6.25 percent from 2012-13 to 2023-24. However, in the last three years, this rate increased to 8 percent.

The agriculture sector, although vulnerable to climate change, has gained national recognition, with Tamil Nadu winning the prestigious Krishi Karman Award five times since 2011-12 for its outstanding performance in crop production and productivity. In 2022-23, Tamil Nadu also ranked first in the productivity of oil seeds, groundnuts and sugarcane, second in maize productivity and third in rice productivity.

The industry sector grew at 6.31 percent from 2012-13 to 2023-24. But in the past three years, it grew at a faster pace of 8.65 percent per annum, indicating an uptick in economic activity within the state. Robust growth in industry and services is crucial for the state to meet its trillion-dollar economy target.

- **Role in National Growth:** As Tamil Nadu is the second largest economy in India, Tamil Nadu's faster growth is vital for the overall growth of the Indian economy.
- **Central Transfers:** While the share of transfers to all states (tax devolution plus grants) has increased from 35 percent during the Tenth Finance Commission period to over 55 percent during the Fifteenth Finance Commission period, this trend may not continue due to decrease in central tax buoyancy (0.76 in the last four years).
- **Sixteenth Finance Commission:** The Finance Commissions have provided strong support to poorer states. However, their status has remained the same. At the same time, efficient states like Tamil Nadu, which contribute significantly to central taxes, have been given a decreased share of transfers. Further, contribution of cesses and surcharges to central government revenues (which are not shared with states) increased significantly over the years. Given the fact that the efficient states also require more resources to meet their growing infrastructure demand, it is essential for the Sixteenth Finance Commission to adopt a balanced approach in recommending vertical and horizontal transfers, ensuring that efficient states like Tamil Nadu continue to contribute to India's growth and development, in line with the national goal of becoming a developed country by 2047.

Acknowledgement

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Chapter 1

Introduction

1.1. Fiscal Position of Indian States

The consolidated fiscal position of States Governments in India has deteriorated significantly from 2014-15 to 2023-24. Until 2014-15, the gross fiscal deficit (GFD) as a percentage of GDP for all States remained below the Fiscal Responsibility and Budget Management (FRBM) threshold level of 3 percent. However, from 2015-16 to 2016-17, the GFD-GDP ratio for all States surpassed this threshold level, primarily due to the implementation of Ujwal Discom Assurance Yojana (UDAY) scheme, farm loan waivers, and the recommendations of the Pay Commission regarding the salaries and pensions of State Government employees.

Subsequently, from 2017-18 to 2019-20, the GFD-GDP ratio was brought back below 3 percent, owing to an improvement in the state revenues as the Goods and Services tax (GST) stabilized. Despite some shortfalls, the provision of compensation from the Centre helped to stabilize state finances (RBI, 2018). However, in 2020-21, the GFD-GDP ratio of all States increased sharply to 4.1 percent due to the economic impact of the COVID-19 pandemic. The GFD-GDP ratio has remained above 3 percent till 2022-23. In 2023-24, States contained their GFD-GDP at 2.9 percent (RBI, 2024).

Outstanding liabilities of State governments (at the consolidated level) relative to GDP have consistently increased, from 21.69 percent in 2014-15 to 31 percent in 2020-21, raising concerns about the sustainability of public debt, particularly with the growing reliance on market borrowings. The new FRBM Committee, headed by Shri N.K. Singh, recommended a debt-GDP ratio of 20 percent for all States collectively, highlighting that the current public debt levels are not sustainable. In response to the Fourteenth Finance Commission's recommendations, State Governments reduced their dependence on the National Small Savings Fund (NSSF). As a result, there has been a steady increase in market borrowings to fund the gross fiscal deficit. [1]

The States' revenue deficit relative to GDP remained relatively low, around 0.5 percent, since 2014-15, with the exception of 2020-21 when it rose to 1.9 percent due to the COVID-19 pandemic. Some studies have expressed concerns about the vertical fiscal imbalance (VFI)-the

[1] According to RBI (2024), outstanding liabilities of States as percentage of GDP slightly come down to 28.8 percent in 2024-25BE.

fiscal gap arising from the disparity between the revenue generation capacities and expenditure responsibilities of the Centre and States. This imbalance was expected to worsen with the implementation of GST, potentially affecting State's public debt and deficits.[2]

However, the calculations in the Reserve Bank of India (RBI)'s "State Finances: As Study of Budget of 2023-24" suggest that the VFI did not see a significant increase post-GST implementation. In 2017-18, the VFI was 0.48, and it marginally increased to 0.51 in 2019-20. While there was a spike in VFI during the COVID year 2020-21 (0.57), it has steadily declined to 0.48 by 2022-23, due to a sharp increase in State GST revenue collections since 2021-22. This suggests that the introduction of GST has not led to a significant increase in VFI.

Moreover, the 50-year interest free capital expenditure loan scheme introduced by the Centre since 2020-21 has helped States in reducing their interest burden and increasing fiscal space for undertaking higher capex. There is also significant scope for generating more own non tax revenues of States, which account for just 1 percent of GDP in the last 10 years, because of lower charges and rates by the States for various services. Revising them and revitalizing and corporatizing State PSUs can improve non-tax revenue performance of States (Pradhan, 2023).[3]

Against this backdrop, this study reviews the finances of Tamil Nadu State Government as indicated in the ToR by the Sixteenth Finance Commission:

1. Estimation of revenue capacities of Tamil Nadu State and measures to improve the tax-GSDP ratio during last five years. Suggestions for enhancing the revenue productivity of the tax system

2. Analysis of the State's own non-tax revenues and suggestions to enhance revenues from user charges and profits from department enterprises and dividends from non-department commercial enterprises

3. Expenditure pattern and trends separately for revenue and capital and major components of expenditure thereunder. Measures to enhance allocative and technical efficiency in public spending.

4. Analysis of fiscal and revenue deficits.

5. Level of debt to GSDP ratio and use of debt. Composition of State's debt, liabilities in public account and borrowings from agencies such as NABARD, and LIC.

6. Implementation of FRBM Act and commitment towards targets. Analysis of MTFP of various departments and aggregate.

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[2] $VFI = 1 - \frac{States' Own\ Revenue}{States' own\ expenditure}$

[3] Pradhan, S. (2023). "The Risk of Small States' Heavy Reliance on the Union Government". The Hindu, July 19, 2023

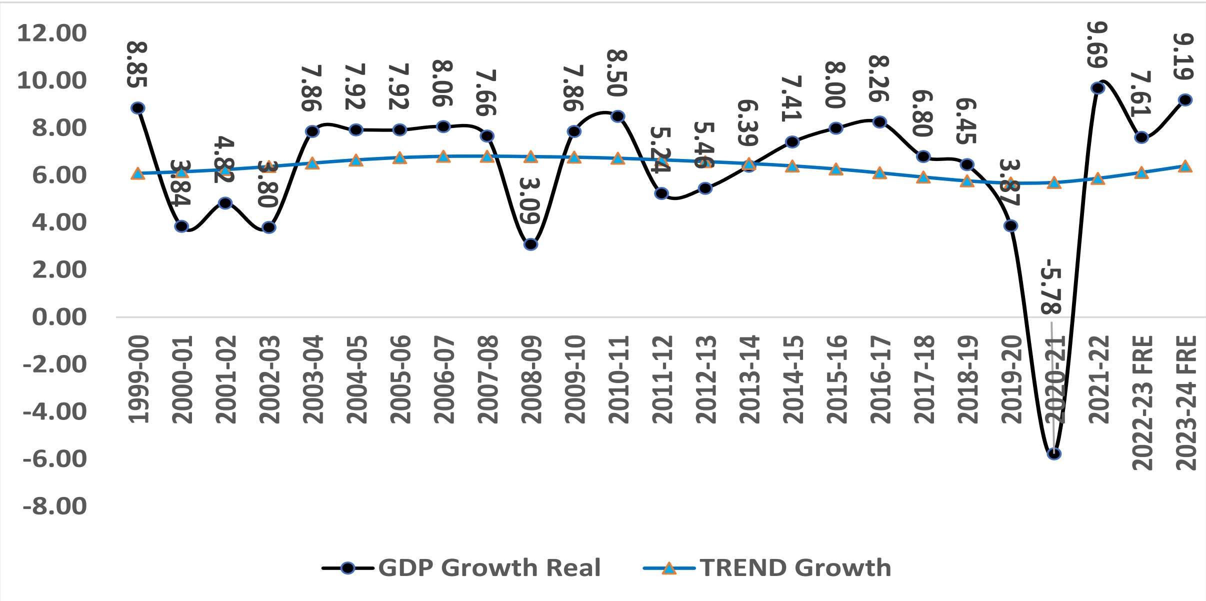
7. Analysis of the State's transfers to local body Governments and major decentralization initiatives
8. Impact of State public enterprises on financial health of State and measures taken to improve their performance and/or alternatives of closure and disinvestment.
9. Impact of power sectors
10. Analysis of contingent liabilities
11. Subsidies given by the state
12. Evaluation of State Finances in the context of recommendations of 14th and 15th FC.
13. Determination of a sustainable debt road map for 2026-31.

Thus, the broad objective of the study is to analyse the trends in revenues and its components, expenditures and its compositions and fiscal balances, the level of debt, and its sustainability, and the impact of public enterprises on the health of state finances from 2012-13 to 2023-24.

1.2 Macro-economic Environment at National Level

From 1999-00 to 2010-11, the Indian economy's average real (2011-12 constant prices) growth rate stood at 6.68 percent. It increased marginally to 6.79 percent between 2011-12 to 2016-17. However, from 2017-18 to 2020-21, there was a significant decline, with the average growth dropping to just 2.84 percent. The past three years have witnessed a strong recovery, with the average rate increasing to 8.83percent. Consequently, the average growth rate from 2012-13 to 2023-24 stands at 6.11 percent (Chart 1.1).

Chart 1.1: Trend and Actual Growth Rates of GDP (2011-12 prices)

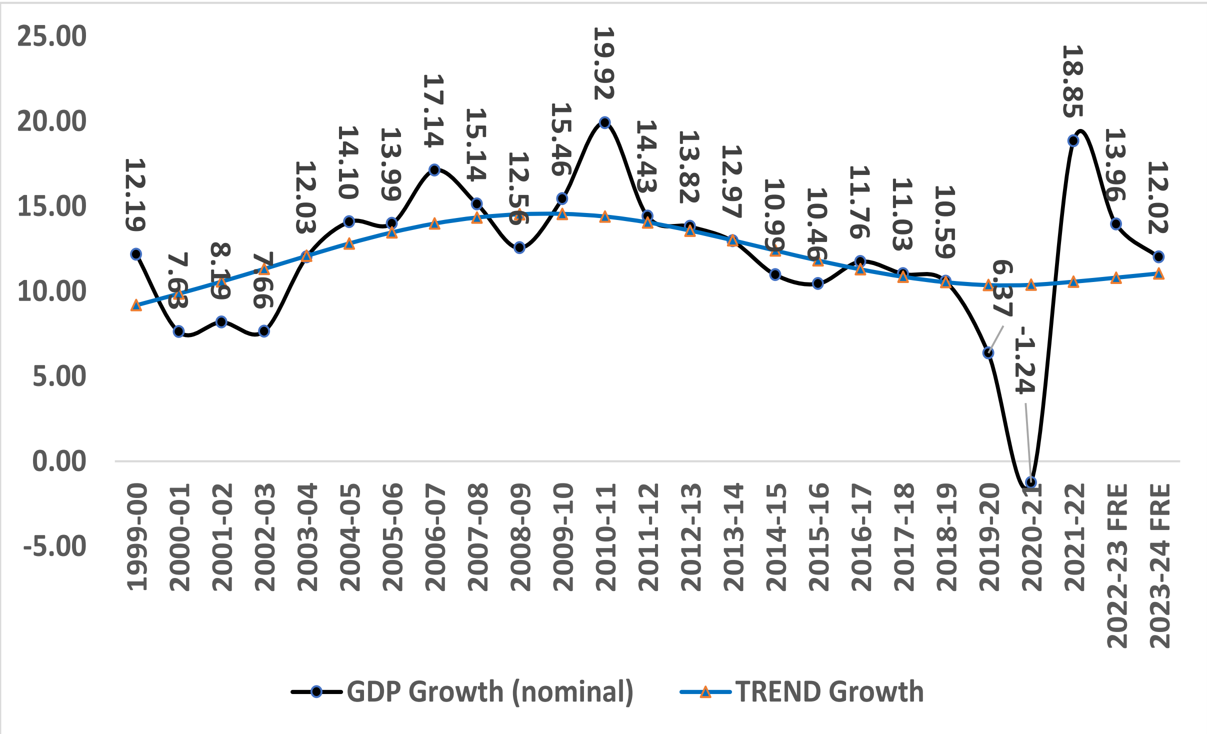


Source (Basic Data): MoSPI, Government of India.

The trend (or potential) growth rate, as estimated using the Hodrick-Prescott (HP) filter, consistently increased from 6.09 percent in 1999-00 to 6.80 percent in 2008-09. Following this peak, the potential growth rate began to decline, reaching 5.47 percent in 2020-21. However, it again started increasing from 2020-21 and it was 6.40 percent in 2023-24. Despite this improvement, the potential growth rate remains about 0.4 percentage point lower than it was in 2008-09. Notably, in 9 out of the 25 years during this period, the actual real growth fell short of the potential rate.

The estimated trend growth of nominal GDP, as shown in Chart 1.2, reveals a steady increase from 9.20 percent in 1999-00 to 14.56 percent in 2009-10. After that, the growth rate began to decline continuously, reaching 10.39 percent in 2020-21. However, there was a slight recovery, with the growth rate rising to 11.06 percent in 2023-24. Over this period from 2012-13 to 2023-24, the average nominal growth rate was 10.97 percent.

Chart 1.2: Trend and Actual Growth Rates of Nominal GDP (2011-12 base series)



Source (Basic Data): MoSPI, Government of India.

It is observed that the down turn in the overall economic condition of the nation since 2017-18 was mainly because of rising oil prices and inflation, rupee depreciation, fall in investment rate, etc. However, still India is one amongst the fastest growing major economies in the world and has emerged as the third largest economy in PPP $. It is a favorable destination for larger FDI. Its market capitalization has crossed US $ 5 trillion recently. India aspires to become a developed nation by 2047.

1.3 Forecast of GDP Growth

To forecast the future growth of Indian economy (GDP), a simple Vector Autoregression (VAR) macroeconomic model with k=3, is estimated using the annual data from 2004-05 to 2023-24. The model incorporates three variables: GDP real growth (2011-12 series), WPI Inflation, and the first difference of exchange rate. Additionally, an Autoregressive Moving Average (ARMA) model of order (1,1) is estimated using the real GDP growth rate data for the same period.

Table 1.1 presents the predictions from both models, which suggest a modest improvement in future growth trajectory. According to the VAR model, the average growth rate from 2024-25 to 2029-30 is projected to increase to 6.02percent, while the ARIMA model forecasts a slightly higher rate of 6.43 percent. This contrasts with the average growth rate of 5.41 percent observed over the past seven years (2017-18 to 2023-24).

It is important to note that the model-based forecasts are conditional, as they rely on historical data to predict future growth. Furthermore, the International Monetary Fund (IMF) projects a growth rate of 7 percent for the Indian economy in 2024-25, followed by a steady growth rate of approximately 6.5 percent till 2030-31. Our ARMA model also projects 7 percent for 2024-25, consistent with the Reserve Bank of India's initial forecasts of 7.2 percent, but revised it to 6.5 percent due to a dip in GDP growth to 5.4 percent in the July-September quarter, making a seven-quarter low.

Table 1.1: VAR and ARMA Models Based Prediction of GDP Growth

Year	VAR	ARMA
2024-25	5.55	7.00
2025-26	6.01	6.60
2026-27	5.65	6.38
2027-28	6.29	6.26
2028-29	6.34	6.20
2029-30	6.31	6.16
2030-31	6.11	6.14

Source: Estimated by the author.

The Sixteenth Finance Commission must consider the ongoing economic downturn and the expected moderate recovery when making projections for the upcoming award period. This expected slowdown, coupled with the possibility of a future growth rebound, presents an opportunity for the Finance Commission to revise its methodology. Such a revision would allow for more accurate fiscal projections, which are crucial for ensuring a fair and equitable distribution of tax revenues between the Union and the States, determining how these revenues are allocated among the States, and making recommendations on grants to the States.

The revised methodology should strike a careful balance between the principles of fiscal autonomy, efficiency and equity. Specifically, it should address the vertical and horizontal imbalances in resources, in line with the Constitutional responsibilities of both levels of government. Additionally, it should promote efficiency, rectify fiscal deficiencies in individual States, and avoid creating disincentives for States to make adequate revenue efforts.

1.4 A Note on Vertical Transfers

Table 1.2 shows the trends in vertical transfers, referring to the allocation of resources between the Centre and the States (collectively). During the Ninth Finance Commission period, the average total transfers (comprising tax devolution and grants) to the States accounted for 40.25 percent of the Centre's gross revenue receipts. This share decreased to 35.62 percent in the Tenth Finance Commission period. However, in the Twelfth Finance Commission period, the share increased to 37.32 percent. The upward trend continued in the Thirteenth Finance Commission period, where the share increased to 42.3 percent, and further reached 50.29 percent during the Fourteenth Finance Commission period. For the Fifteenth Finance Commission period (including the budget estimates for 2024-25), the share is projected to increase to 55.16 percent. Despite this consistent increase in vertical transfers, there is a possibility that this trend may not continue in the future, as the Central tax buoyancy has shown signs of decline in recent years.

1.5 A Note on Central Tax Buoyancy

Table 1.3 shows the Central and States' tax buoyancy over different periods. The Central taxes buoyancy remained steady at around 1 during two periods: 2005-06 to 2009-10 and 2010-11 to 2014-15. However, it declined to 0.84 between 2015-16 and 2023-24. Similarly, the Centre's net tax buoyancy dropped to 0.38 during 2015-16 to 2023-24, down from 1 between 2005-06 and 2014-15.

For the States, the buoyancy of their own taxes was 1 from 2005-06 to 2009-10 and 1.09 from 2010-11 to 2014-15. It then decreased to 0.87 during 2015-16 to 2019-20. However, due to the stabilization of GST, it increased to 1.97 during 2020-21 to 2023-24. Furthermore, the States' gross tax buoyancy increased to 1.52 between 2015-16 and 2023-24. If this trend continues, it is possible that the share of Central taxes allocated to the States may decrease, while the States' own tax revenues could see an increase in the coming years.

Table 1.2: Transfers Relative to Centre's Gross Revenue Receipts and GDP

(₹ Crore)

Finance Commissions	Years	Share in Central Taxes	Total Grants	Total Transfers	Centre's Gross Revenue Receipts (CGRR)	Transfers as % of	
						CGRR	GDP
Ninth	1989-90	13232	8573	21805	65329	33.38	4.42
	1990-91	14535	12384	26920	69531	38.72	4.67
	1991-92	17197	15327	32524	83227	39.08	4.91
	1992-93	20522	17636	38158	94639	40.32	5.01
	1993-94	22240	21223	43463	98024	44.34	4.96
	1994-95	24843	20194	45037	116160	38.77	4.38
Tenth	1995-96	29285	20744	50029	139269	35.92	4.15
	1996-97	36061	23336	59397	162218	36.62	4.26
	1997-98	43548	25164	68711	177095	38.80	4.45
	1998-99	39145	24214	63359	188586	33.60	3.57
	1999-00	43481	31022	74503	224754	33.15	3.75
Eleventh	2000-01	51944	37431	89375	244686	36.53	4.18
	2001-02	53398	42936	96335	255011	37.78	4.16
	2002-03	56480	42560	99041	288694	34.31	3.97
	2003-04	67366	49977	117344	332149	35.33	4.20
	2004-05	80159	57168	137326	384851	35.68	4.31
Twelfth	2005-06	95887	77480	173367	443890	39.06	4.77
	2006-07	122331	95793	218124	556423	39.20	5.13
	2007-08	153600	10724	164324	694690	23.65	3.35
	2008-09	161979	126944	288923	699033	41.33	5.24
	2009-10	167992	150382	318374	734467	43.35	5.00
Thirteenth	2010-11	223203	169398	392601	1007013	38.99	5.14
	2011-12	259412	189408	448820	1010740	44.41	5.14
	2012-13	294357	191295	485652	1167831	41.59	4.88
	2013-14	322879	208565	531444	1331997	39.90	4.73
	2014-15	341269	329049	670318	1433632	46.76	5.38
Fourteenth	2015-16	511883	328290	840173	1706908	49.22	6.10
	2016-17	614450	377675	992125	1988653	49.89	6.45
	2017-18	676521	412124	1088645	2111754	51.55	6.37
	2018-19	763254	433941	1197195	2316170	51.69	6.33
	2019-20	653158	494810	1147968	2337217	49.12	5.71
Fifteenth	2020-21	600817	614848	1215665	2234734	54.40	6.12
	2021-22	904522	807218	1711740	3077427	55.62	7.25
	2022-23	956407	916209	1872616	3339612	56.07	6.96
	2023-24RE	1138268	994472	2132740	3813006	55.93	7.08
	2024-25BE	1256671	1101769	2358440	4385871	53.77	7.12
Commission Period Averages					Ninth	40.25	4.79
					Tenth	35.62	4.04
					Eleventh	35.92	4.16
					Twelfth	37.32	4.70
					Thirteenth	42.33	5.05
					Fourteenth	50.29	6.19
					Fifteen	55.16	6.91

Source (Basic Data): Indian Public Finance Statistics (Various years) and Receipts Budget of Centre; RE-Revised Estimates; BE-Budget Estimates. GDP 2011-12 series is used.

Table 1.3: Buoyancy: Central and State Taxes

Period	Central Taxes (Gross)	Central Taxes (Net)	States Own Taxes	States Gross Taxes
2005-06 to 2023-24	0.95	0.72	1.21	1.28
2005-06 to 2009-10	1.04	1.02	1.00	1.01
2010-11 to 2014-15	1.00	1.00	1.09	1.06
2015-16 to 2019-20	0.90	0.81	0.87	0.95
2020-21 to 2023-24	0.76	-0.16	1.97	2.22
2015-16 to 2023-24	0.84	0.38	1.36	1.52

Source (Basic Data): Indian Public Finance Statistics (Various years) and RBI Handbook of Statistics on Indian Economy and Budget Document (Centre).

It is important to note that in 2019-20 and 2020-21, the Central government's gross tax revenue-to-GDP ratio decreased to 9.99 percent and 10.2 percent respectively, due to the economic slowdown and the impact of the COVID-19 pandemic. However, the ratio has since recovered, reaching approximately 11.4 percent in 2023-24, which is comparable to the pre-2019-20 levels. As a result, the Central government's gross tax revenue has remained largely stable.

A major concern for the States, however, is the growing share of cesses and surcharges in the Centre's gross revenue receipts over the years. A cess is a special tax levied by the Centre to fund a specific purpose, while a surcharge is an additional tax imposed on an existing tax, without any designated purpose. While the Centre has introduced various cesses and surcharges on both direct and indirect taxes, these are excluded from the revenue-sharing arrangements with the States under the recommendations of the Finance Commission, as provided in the 80th Amendment.

Table 1.4 shows that the contribution of cesses and surcharges to Centre's gross revenue receipts increased from 8.87 percent in 2012-13 to 19.94 percent in 2020-21. Although this share decreased to 16.04 percent in 2022-23, it remains a significant factor in the Centre's revenue.

Between 2017-18 and 2024-25, the central government's revenue from cesses and surcharges has grown at an annual rate of 15 percent, while its gross tax revenue has increased at a slower pace of 11 percent per year. This growth in cesses and surcharges has led to a reduction in the devolution to states, as the Centre only shares its gross tax revenue, excluding the revenues from the cess and surcharges. As a result, the Finance Commission's formula, which allocates 41 percent of the divisible pool, has effectively translated into only 32 percent of the gross tax revenue in 2024-25, according to the budget estimates.

Table 1.4: Cesses and Surcharges

(₹ Crore)

Year	Cesses*		Surcharges		Cesses plus Surcharges	
	₹ Crore	As % of Gross Tax Revenues	₹ Crore	As % of Gross Tax Revenues	₹ Crore	As % of Gross Tax Revenues
2011-12	61,015	6.86	27,190	3.06	88,204	9.92
2012-13	72,387	6.99	19,531	1.88	91,918	8.87
2013-14	76,562	6.72	27,963	2.46	1,04,526	9.18
2014-15	84,188	6.76	31,879	2.56	1,16,067	9.32
2015-16	1,32,901	9.13	39,053	2.68	1,71,954	11.81
2016-17	1,73,453	10.11	44,537	2.6	2,17,990	12.7
2017-18	1,49,338	7.78	54,151	2.82	2,03,490	10.6
2018-19	1,22,815	5.9	1,93,796	9.32	3,16,611	15.22
2019-20	1,14,691	5.71	1,38,100	6.87	2,52,791	12.58
2020-21	1,68,205	8.3	2,36,019	11.64	4,04,224	19.94
2021-22	2,38,972	8.82	2,38,905	8.82	4,77,877	17.64
2022-23	1,58,325	5.18	3,31,593	10.86	4,89,918	16.04
2023-24 (RE)	1,73,000	5.03	3,28,500	9.56	5,01,500	14.59
2024-25 (BE)	1,88,290	4.9	3,54,600	9.23	5,42,890	14.14

Source: Union Budget documents (various years); * Excluding GST Compensation cess

In 2019, the RBI noted that the imposition of cesses and surcharges effectively neutralises the increase in tax devolution recommended by successive Finance Commissions. The Sixteenth Finance Commission will need to consider this issue while making its recommendations.

1.6 Plan of the Report

Chapter 2 provides an overview of Tamil Nadu economy. Chapter 3 outlines the fiscal trends in Tamil Nadu. Chapter 4 analyzes the state's tax performances, while Chapter 5 reviews the growth and composition expenditures. Chapter 6 focuses on public debt management in Tamil Nadu. Chapter 7 examines the performance public sector utilities in the state. Chapter 8 provides an overview on the finances of local body governments in Tamil Nadu. Chapter 9 presents projection of revenues and expenditures, along with a sustainable debt road map for the period 2026-31. Finally, Chapter 10 provides the concluding remarks.

Chapter 2

Tamil Nadu Economy: An Overview

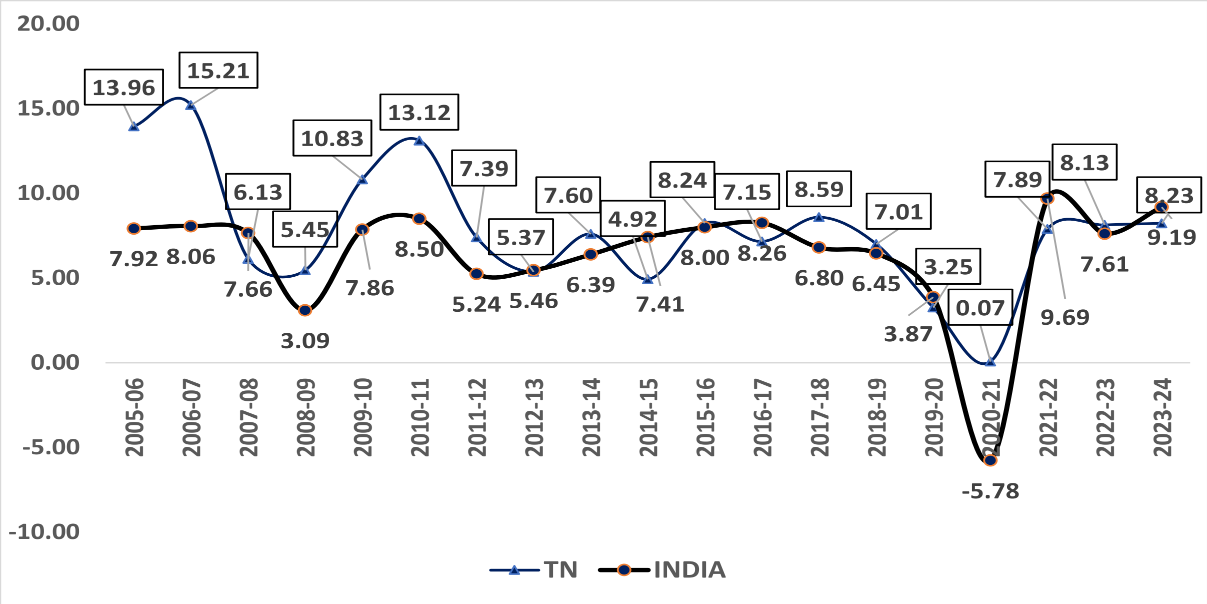
This Chapter reviews the growth performance of Tamil Nadu, examining its sectoral growth patterns, and comparing the state's performance with that of other major Indian States. Tamil Nadu ranks as the second largest economy in India, following Maharashtra, with an ambitious goal of achieving a trillion-dollar economy by 2030. The state is highly industrialized, leading the nation in the number of factories. Additionally, Tamil Nadu ranks second in urbanization (with 53.68 percent of population residing in urban areas), and in the low proportion of its population classified as multidimensionally poor (only 1.43% in 2022-23). The state is third in credit-deposit ratio and fourth in per capita income. The continued rapid growth of Tamil Nadu's economy is essential not only for the state's development but also for the overall economic progress of the nation (including achieving developed nation status by 2047).

2.1. Growth Performance

From 2005-06 to 2011-12, the Tamil Nadu economy (at 2011-12 prices) grew at an average rate of 10.3 percent, which was about 3.4 percentage points above the all-India growth of 6.9 percent. However, from 2012-13 to 2023-24, Tamil Nadu's growth rate slowed to 6.37 percent, compared to the all-India average of 6.11 percent. This marks a decline of 3.93 percentage points from its earlier growth performance. This slowdown has also observed in many other states. One possible reason for this shift could be the change in the methodology to compute GDP and GSDP from 2011-12 onward. While the GDP data is available with the revised 2011-12 base year, such data for state-level is not available, making comparisons across the two periods challenging.

Since 2002, the global economy has experienced at least three external shocks: (i) COVID-19 pandemic, (ii) Russian-Ukraine conflict and (iii) interest rate hikes by advanced nations to curb inflation. These events have impacted economies worldwide, including those of Indian and Tamil Nadu. During the COVID-19 pandemic year 2020-21, Tamil Nadu's economy demonstrated remarkable resilience, registering a modest growth of 0.07 percent, while India's economy contracted by -5.78 percent. Both economies are now in the process of recovering. In 2020-21, Tamil Nadu's economy rebounded with a growth rate of 7.89 percent, compared to India's growth of 9.6 percent, driven largely by a high negative base effect. Over the past two years, Tamil Nadu's economy has grown at an average rate of 8.18 percent, compared to the all-India growth rate of 8.4%. However, advance estimates indicate that Tamil Nadu's economy grew at 9.69 percent in 2024-25, compared to the all-India growth of 6.48 percent.

Chart 2.1: Growth Rate of Tamil Nadu GSDP and the Overall GDP Growth



Source (Basic Data): MoSPI.

Chart 2.1 compares the GSDP growth of Tamil Nadu since 2005-06 with the overall GDP growth. It is evident that Tamil Nadu's growth rate has exceeded the national GDP growth in some years, while in others, it has been lower. The growth of Tamil Nadu is more volatile and susceptible to external shocks compared to the national growth trend, due to increased globalization and structural changes in the economy. Additionally, there is a noticeable structural decline in the growth trajectory of both Tamil Nadu and the Indian economy post 2011-12. As a result, the cyclical nature of Tamil Nadu's growth presents a significant concern.

2.2 Sectoral Growth Pattern

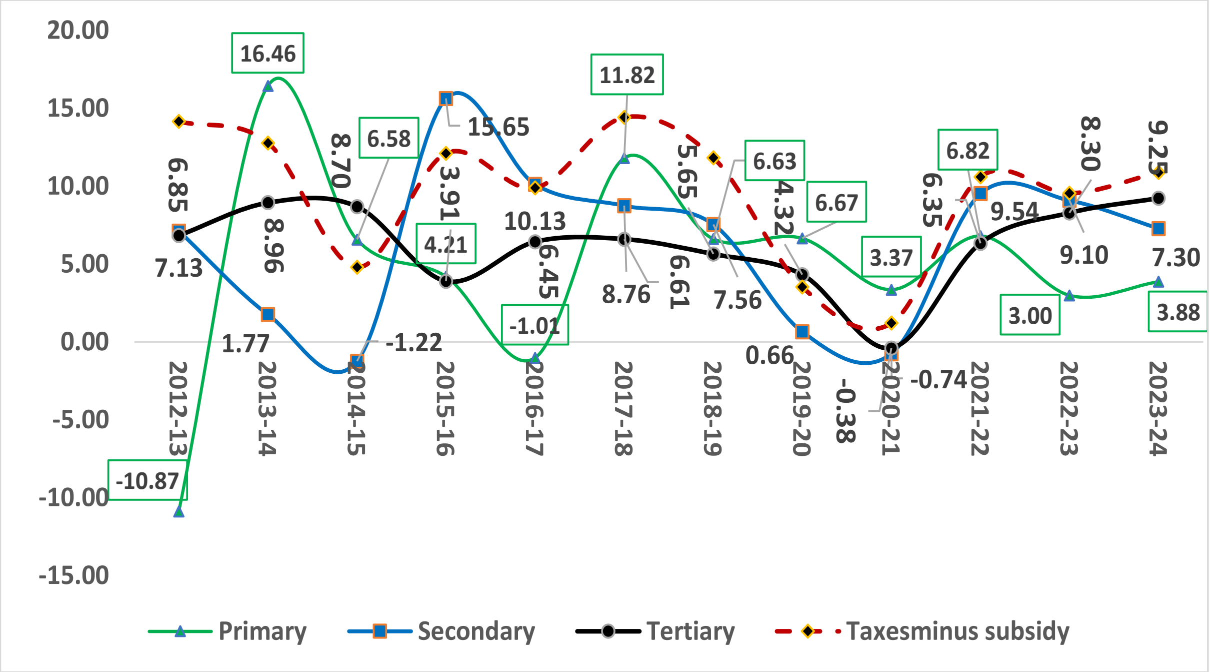
Table 2.1 (and Chart 2.2) presents the sectoral growth rates along with the overall real GSDP growth rate for Tamil Nadu since 2011-12. During 2005-06 to 2010-11, the State's services (tertiary) sector experienced a robust double-digit growth rate of 11.3 percent (not shown). However, this growth declined to an average of 6.25 percent from 2012-13 to 2023-24. In last three years, the sector has shown signs of recovery, growing at about 8 percent. Similarly, the secondary sector (comprising manufacturing, electricity, gas, water supply etc. and construction) recorded a double-digit growth of 10.09 percent from 2005-06 to 2011-12 (not shown). From 2012-13 to 2023-24, its average growth rate decreased to 6.31 percent, despite strong performances in 2015-16 and 2016-17, when growth rates reached 15.65 percent and 10.1 percent, respectively. In the past three years, however, the sector's average growth improved to about 8.7 percent, signaling an unstick in economic activity in the State.

Table 2.1: Annual Growth Rates (%): Sector-wise Performances (2011-12 Prices)

Sectors/Sub Sectors	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Avg. 2012-13 to 2023-24	Avg. 2019-20 to 2023-24
Agriculture and Allied	-10.88	17.17	7.37	2.59	-1.61	12.07	6.49	7.60	4.49	5.63	2.50	3.91	4.78	4.82
Crops	-21.53	19.68	3.97	-4.65	-29.99	28.26	2.88	9.26	4.36	9.46	3.30	4.20	2.43	6.12
Livestock	7.91	18.16	13.77	12.08	27.41	5.32	8.54	5.41	5.63	3.91	2.61	3.95	9.56	4.30
Mining and quarrying	-10.77	-2.62	-18.83	73.29	14.32	6.42	9.86	-13.96	-27.54	54.31	16.72	3.21	8.70	6.55
Primary	-10.87	16.46	6.58	4.21	-1.01	11.82	6.63	6.67	3.37	6.82	3.00	3.88	4.80	4.75
Manufacturing	11.65	-1.84	-2.55	23.20	12.42	10.90	8.31	-0.63	-1.25	9.35	9.29	6.37	7.10	4.62
Electricity, gas, etc	1.14	3.70	-0.43	-6.39	4.06	17.56	11.22	-0.85	-11.39	10.71	18.36	7.70	4.62	4.91
Construction	0.23	8.22	0.92	5.37	6.29	3.91	5.69	3.58	1.20	9.86	8.04	9.18	5.21	6.37
Secondary	7.13	1.77	-1.22	15.65	10.13	8.76	7.56	0.66	-0.74	9.54	9.10	7.30	6.31	5.17
Trade, hotels and restaurants	12.36	10.30	4.06	-0.92	6.69	9.16	9.85	4.28	-5.47	5.92	9.92	8.09	6.19	4.55
Transport, storage, communication	6.76	5.13	5.07	6.61	-0.47	-0.64	-1.93	-0.13	-7.43	6.71	7.56	8.76	3.00	3.09
Financial services	9.66	11.64	10.23	2.68	2.62	11.75	3.92	3.14	6.92	0.24	4.55	9.29	6.39	4.83
Real estate, ownership of dwelling	7.16	10.05	13.18	7.52	8.43	5.00	1.92	4.82	2.40	8.61	9.55	10.08	7.39	7.09
Public administration	-9.32	6.68	10.36	-5.66	8.17	3.96	10.04	3.68	-7.10	2.24	7.37	7.60	3.17	2.76
Other services	3.59	7.23	9.01	6.68	11.49	10.18	13.66	7.86	3.56	8.35	7.24	9.96	8.24	7.40
Tertiary	6.85	8.96	8.70	3.91	6.45	6.61	5.65	4.32	-0.38	6.35	8.30	9.25	6.25	5.57
Taxes minus subsidies	14.17	12.80	4.81	12.14	9.91	14.44	11.85	3.54	1.22	10.62	9.56	10.90	9.66	7.17
GSDP	5.37	7.60	4.92	8.24	7.15	8.59	7.01	3.25	0.07	7.89	8.13	8.23	6.37	5.51
Per Capita GSDP	4.65	6.87	4.22	7.51	6.56	8.08	6.51	2.77	-0.40	7.49	7.80	7.91	5.83	5.11

Source (Basic Data): MoSPI, Government of India.

Chart 2.2: Sectoral Growth in Tamil Nadu



Source (Basic Data): MoSPI.

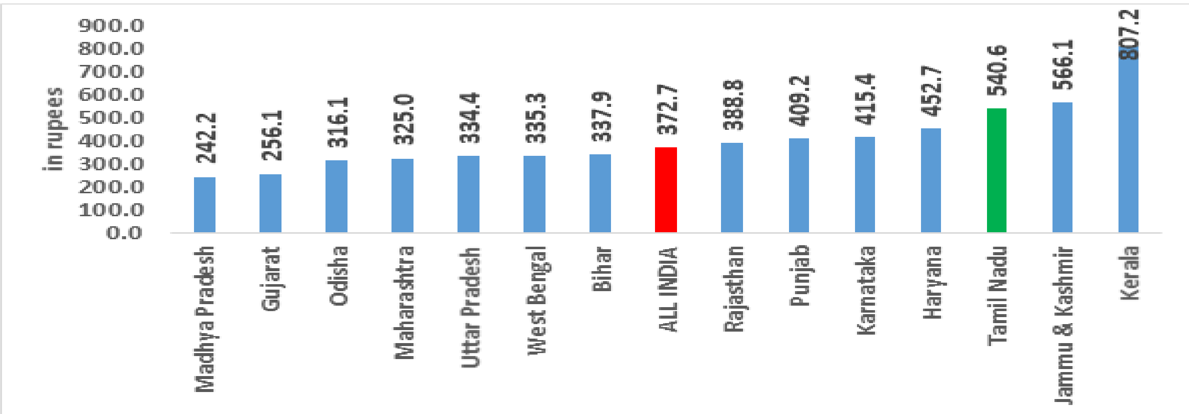
Tamil Nadu's Primary sector, which includes agricultural crops, livestock, forestry and logging, fishing and aquaculture, and mining and quarrying, grew at an average rate of 4.80 percent from 2012-13 to 2023-24. This growth rate is relatively low compared to 6.05 percent of growth observed between 2005-06 and 2011-12. In 2012-13 and 2016-17, the agriculture sector experienced negative growth due to poor monsoons, highlighting the cyclical nature of the sector's performance. Additionally, the growth in this sector is highly volatile, leading to low risk- adjusted returns, making it challenging to attract private investment. Consequently, the sector requires government support, especially during the monsoon failures, which occur in about two out of every five years. Within the primary sector, the crop production exhibited slower growth, while livestock and mining and quarrying showed stronger performance.

Despite these issues, Tamil Nadu's agricultural performance has earned recognition at the national level. The state has won the prestigious Krishi Karman Award five times since 2011-12, in recognition of its outstanding performance in crop production and productivity. the Agriculture Statistics at a Glance (2023) highlights that Tamil Nadu ranked first in the productivity of oil seeds, groundnut and sugarcane, second in maize productivity and third in rice productivity.

Government of Tamil Nadu also provides its support for this sector. Tamil Nadu is one of the few states in the country to have a dedicated agricultural budget, alongside Karnataka and

Andhra Pradesh. The current state government's first vision is to increase the net cropped area and second vision is to doubling the double crop areas. It supports farmers by providing uninterrupted power for irrigation. In addition to the Government of India's MSP, the Tamil Government provides additional incentive: ₹ 105 per quintal for paddy and ₹215 per tonne for sugarcane. The average daily wage rate in rural Tamil Nadu of ₹540.6 is also higher than All India rate of ₹372.7. Tamil Nadu ranks third in daily wage rate in rural area (in 2023-24), next only Kerala and Jammu & Kashmir (Chart 2.3). Similarly, Tamil Nadu ranks second in minimum wages, next only to Kerala. These provide the evidence that in Tamil Nadu the labour costs are relatively high. As a result, the consumer price inflation in Tamil Nadu has been higher than all India Inflation.

Chart 2.3: Average Daily Wage Rate in Rural India (2023-24)



Source: Handbook of Statistics on Indian States, RBI

To protect people from high inflation, the Tamil Nadu Government implements various schemes such as subsidized electricity, 100 units of free electricity to domestic households, universal PDS (which supplies 2.25 crore families with essential commodities including free rice over and above NFSA entitlements and dal and oil at subsidized rates), income support of ₹1000 per month to the female head of 1.15 eligible families (Kalaignar Mahalir Urimai Thittam) and free Bus travel for Women.

The secondary sector also faces volatility in its growth. With a significant presence of MSMEs in Tamil Nadu, nearly 44 percent of the state's workforce is engaged in the agriculture and manufacturing. Ensuring stable growth in both the primary and secondary sector is essential for sustaining the state's economic progress. Furthermore, accelerating the growth of services sector is crucial to achieving Tamil Nadu's ambitious goal of becoming a trillion-dollar economy.

2.3 Structure of GSDP

Like many other Indian States, the structure and composition of Tamil Nadu's GSDP has been shifting towards non-primary sectors, driven by strong performance on human development and livelihood indicators. In 1999-00, the primary sector accounted for approximately 17 percent of Tamil Nadu's total GSDP (in 1999-00 prices). This share declined to 12.11 percent in 2011-12 and further to 9.93 percent in 2023-24 (Table 2.2). Meanwhile, the secondary sector's share in State's GSDP increased from 29.6 percent in 1999-00 to 33 percent in 2023-24. Over the same period, the tertiary sector stabilized at around 46 percent, and this trend is likely to continue in the coming years. The share of industrial sector may increase further due to the ongoing government initiatives. Notably, the share of a new component-taxes-minus-subsidies increased from 7.78 percent in 2011-12 to 11.16 percent in 2023-24, growing at a faster rate than other sectors.

Table 2.2: Sectoral Share of GSDP (%) in Tamil Nadu at 2011-12 prices

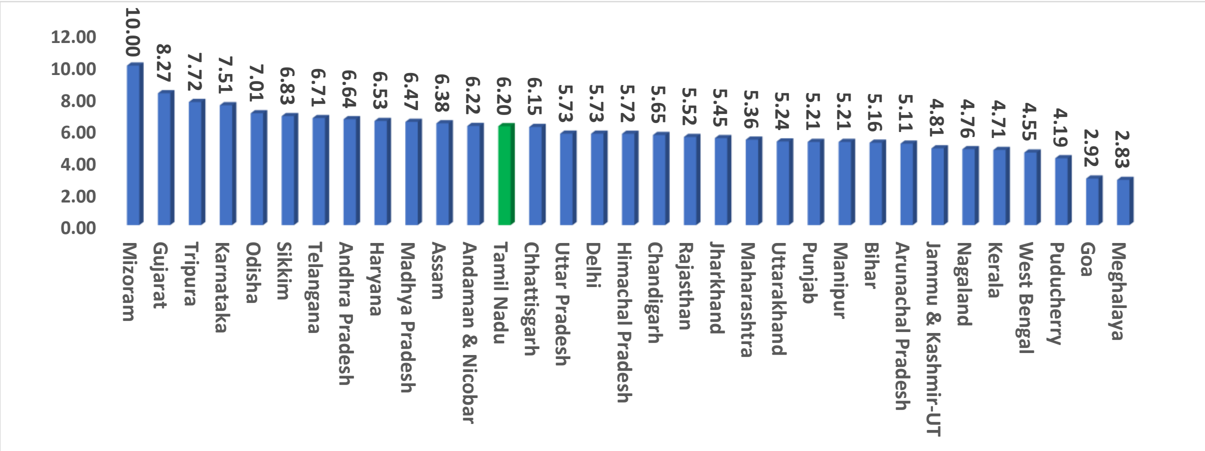
Sectors	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Primary	12.11	10.24	11.09	11.26	10.84	10.02	10.32	10.28	10.62	10.97	10.86	10.35	9.93
Secondary	33.56	34.12	32.27	30.39	32.47	33.37	33.43	33.60	32.76	32.49	32.99	33.29	33.00
Tertiary	46.55	47.21	47.80	49.52	47.54	47.23	46.37	45.79	46.26	46.05	45.40	45.47	45.90
Taxes - Subsides	7.78	8.43	8.84	8.83	9.15	9.38	9.89	10.33	10.36	10.48	10.75	10.89	11.16
GSDP	100	100	100	100	100	100	100	100	100	100	100	100	100

Source (Basic Data): MOSPI

2.4 Interstate Comparison

An interstate comparison reveals that Tamil Nadu ranks thirteenth in GSDP (in 2011-2 prices) growth during 2012-13 to 2022-23 (with an average growth of 6.2 percent) among the Indian States and Union Territories (Chart 2.4). However, it ranks nine among the major Indian States. At the same time, Gujarat recorded the highest growth of 8.27 percent; Karnataka recorded 7.51 percent, Telangana recorded 6.71 percent and Andhra Pradesh recorded 6.64 percent.

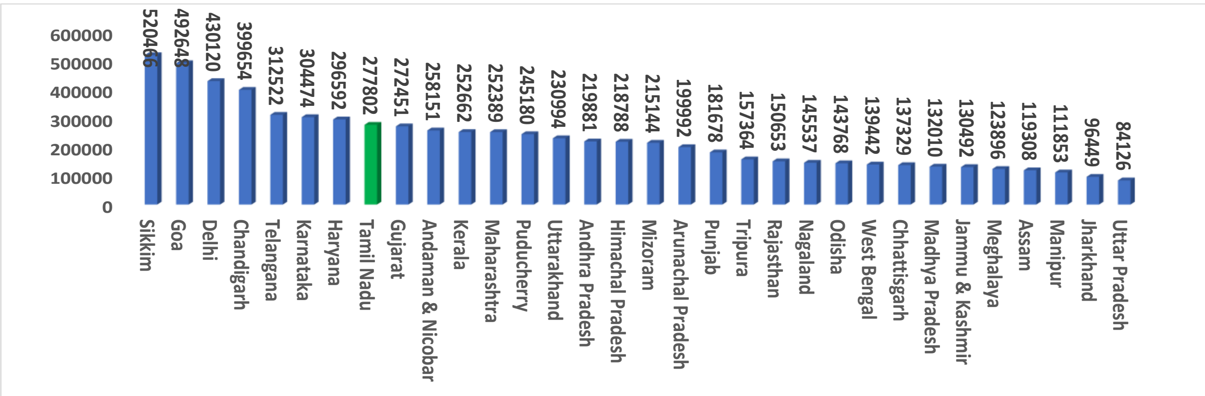
Chart 2.4: Average Annual Growth of GSDP (%) of Indian States (2012-13 to 2022-23)



Source (Basic Data): MOSPI

Tamil Nadu ranks eight among the States and Union Territories (2022-23) in per capita income (NSDP) at current prices (Chart 2.5). Among major States, it ranks only fourth, next only to Telangana, Karnataka and Haryana. As Tamil Nadu ranks second in size of GSDP, it needs to move to second rank in per capita income also.

Chart 2.5: Per Capita Income (NSDP) of Indian States (2022-23) in ₹

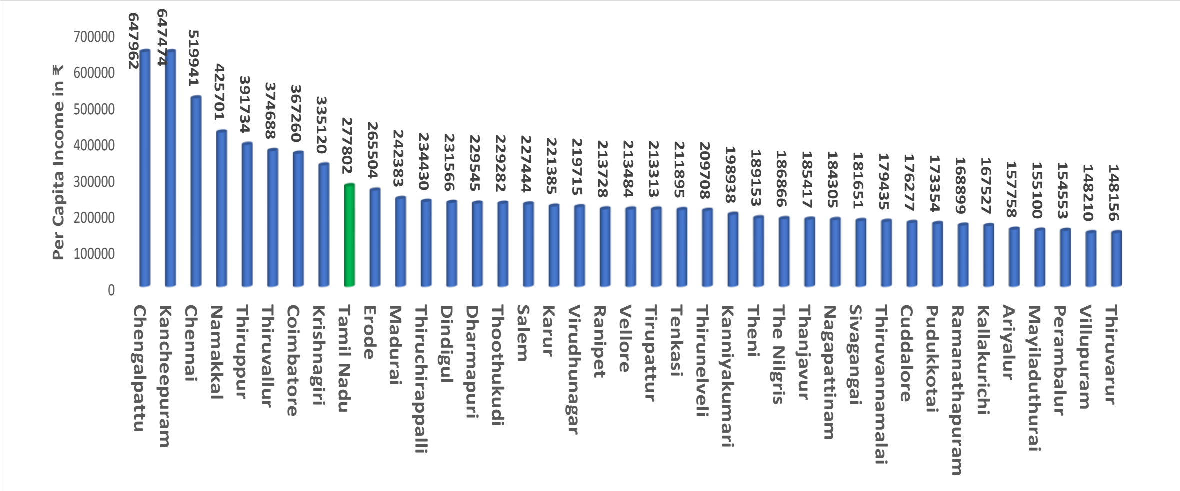


Source (Basic Data): MOSPI

2.5 Regional Economy

There are significant variations in the district-wise per capita income within the state in 2022-23, based on the latest data available. Chengalpattu has the highest per capita income at ₹ 6.49 lakh, followed by Kancheepuram and Chennai (Chart 2.6). In 8 out of the 38 districts, the per capita income is higher than state average per capita income. Interestingly, in these top 8 districts, the per capita income exceeds that of several major Indian states in the same year, including Telangana, Haryana, and Karnataka.

Chart 2.6: District wise Per Capita Income (₹.in current price) in Tamil Nadu (2022-23)



Source: District Income Estimates by Department of Economics and Statistics, GoTN.

In remaining 30 districts, the per capita income falls below the average per capita income of Tamil Nadu. Thiruvarur has the lowest per capita income at ₹1.48 lakh, followed by Villupuram and Perambalur. However, even in these districts, the per capita income is higher than that of several states such as Bihar, Chhattisgarh, Madhya Pradesh, Odisha and West Bengal in the same year. Interestingly, only in seven districts-Thiruvarur, Villupuram, Perambalur, Mayiladuthurai, Ariyalur, Kallkurichiand Ramanathapuram, the per capita figures are lower than the national average of ₹.1.69 lakh in that year. Notably, Chengalpattu's per capita income is 4.37 times higher than Thiruvarur's per capita income.

2.6 Demographic Issues

At present, Tamil Nadu has a demographic advantage, with its working-age population at its highest point. However, as per the population projections by National Commission on Population under Ministry of Health and Family Welfare, the working-age population will decline from 66.4% in 2021 to 63.6% in 2036. This shift may pave the way for a more skilled, technology-driven workforce, positioning the state for sustainable and high-value economic progress. At the same time, the state is experiencing a transformative demographic shift with an increasing share of elderly people in its population. The proportion of elderly people is projected to grow by 71.7% from 2011 to 2031. The old-age dependency ratio is expected to increase from 20.6 in 2021 to 32.7 by 2036. This suggests the need for robust healthcare, financial planning, and senior-friendly infrastructure. At the same time, the state has to invest more in education, job creation, and workforce upskilling in order to ensure sustained economic prosperity, fiscal resilience, and a smooth transition into an aging yet dynamic economy.

2.7 Forecast of GSDP Growth

A simple ARMA (1.2) model is estimated to predict the future values of GSDP growth of Tamil Nadu, using the real GSDP growth rate data from 2005-06 to 2023-24. The estimated results of ARMA (1.2) model are as follows:

GSDP Real Growth$_t$ =7.2028 + 0.3932 AR(1) - 0.2812 MA(2); R^2 =0.2528;

(t) (7.759) (1.852) (-6020.62213) ; DW:2.1

Table 2.3 presents the model-based prediction of the real GSDP growth rate from 2024-25 to 2030-31. According to the ARMA (1, 2) model, the average growth for this period is projected to rise to 7.3 percent, compared to the average growth of 6.16 percent observed in the last 7 years (2017-18 to 2023-24).

Table 2.3: ARMA Model Based Prediction of GSDP Growth

Year	ARMA (1,2)
2024-25	7.88
2025-26	7.08
2026-27	7.16
2027-28	7.18
2028-29	7.19
2029-30	7.20
2030-31	7.20

Source: Estimated by the author.

2.8 Concluding Remarks

Tamil Nadu has the potential to achieve double–digit growth, having registered a growth rate of 10.3 percent from 2005-06 to 2011-12 and it maintained a positive GSDP growth even during the pandemic. However, its average growth declined to 6.37 percent from 2012-13 to 2023-24. After the pandemic, the state recorded an average growth of 8 percent from 2021-22 to 2023-24. It is essential to sustain this growth momentum in the coming years to achieve double digit growth and reach the goal of a trillion-dollar economy by 2030.

Given Tamil Nadu's high level of globalization, its growth is more vulnerable to external shocks compared to the national growth pattern. Therefore, the government must implement counter cyclical measures to safeguard the economy. Our forecast suggests that the average growth rate of Tamil Nadu's economy from 2025-26 to 2030-31 will be around 7.2 percent.

As agriculture growth remains highly volatile (sensitive to climate change), the risk adjusted returns from this sector may be low, making it challenging to attract private investment. Already the government provides its support to the farming. Nevertheless, given the sector's importance for food security and livelihoods in the state, it essential for the government to make necessary and substantial investments to support its growth.

Compared to the period from 2005-06 to 2010-11, growth in both industry and services sectors has slowed. From an employment generation perspective, the growth of industry, particularly MSMEs, is more important. With the recent revival of this sector and increased government efforts to enhance industrial growth, the share of industry is expected to rise in the coming years. Additionally, there is an urgent need to accelerate the growth of the services sector to help the state achieve its ambitious goal of becoming a trillion-dollar economy.

Chapter 3

Fiscal Trends: An Overview

This Chapter provides an overview of the fiscal trends in Tamil Nadu, with a focus on key fiscal indicators such as expenditure, revenues, fiscal deficit, revenue deficit, and composition of revenue receipts. It also compares Tamil Nadu's revenue performance with that of other major Indian States.

3.1 Key Fiscal Indicators

Historically, Tamil Nadu has managed its finances in a fiscally prudent manner. However, like many other state governments in the country, Tamil Nadu experienced a significant deterioration in fiscal balance indicators towards the end of the 1990s and the early 2000s. This period saw large revenue and fiscal deficits relative to GSDP.

To address these fiscal imbalances, Tamil Nadu implemented the Fiscal Responsibility and Budget Management Act (FRBMA) in 2003-making it one of the first States to enact such legislation even before the recommendations of the Twelfth Finance Commission. This legislative framework successfully brought fiscal deficits under control and by 2005-06, the state's revenue account was brought into surplus.

The total budget expenditure of the Tamil Nadu Government, which includes both revenue and capital expenditure, increased from ₹ 3,710 crore in 2005-06 to ₹ 1,02,477 crore in 2011-12 and further to ₹3,55,039 crore in 2023-24 (Table 3.1). As percentage of GSDP, total expenditure remained between 13.1 and 15.35 percent from 2011-12 to 2024-25BE (Table 3.2).

Capital expenditure as a percentage of GSDP declined from 2.17 percent in 2011-12 to 1.70 percent in 2012-13, and thereafter fluctuated between 1.38 and 1.85 percent until 2024-25BE. The revenue expenditure-GSDP ratio stood at 11.16 percent in 2011-12 and it increased to 12.01 percent in 2014-15. However, it declined steadily over the next three years, reaching 11.46 percent in 2017-18. In 2018-18, it increased to 12.1 percent, and further to 13.22 percent in 2020-21 due to the impact of the COVID 19 pandemic. Following this peak, the ratio fell to 12.26 percent in 2021-22 and to 11.38 percent in 2023-24. Overall, the revenue expenditure as a percentage of GSDP increased from 11.16 percent in 2011-12 to 11.38 percent in 2023-24, indicating 0.22 percentage point rise over this period.

Table 3.1: Tamil Nadu State Finances: Selected Fiscal Aggregates

(₹ Crore)

Fiscal Indicators	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 BE
Own Tax Revenues	59517	71254	73718	78657	80476	85941	93737	105534	107462	106153	122866	150223	167278	195173
Own Non-Tax Revenues	5684	6554	9343	8351	8918	9914	10764	14200	12888	10421	12117	17061	25904	30728
State's Own Revenue	65201	77809	83061	87008	89394	95855	104501	119734	120350	116574	134983	167284	193182	225901
Total Central Transfers	20001	21019	24975	35413	39614	44376	41779	54007	54175	57502	72510	76465	71415	73109
Share in Central Taxes	12715	14520	15853	16824	20354	24538	27100	30639	26392	24925	37459	38731	46072	49755
Grants	7286	6499	9122	18589	19260	19838	14679	23368	27783	32577	35051	37734	25343	23354
Total Revenue Receipts	85202	98828	108036	122420	129008	140231	146280	173741	174526	174076	207492	243749	264597	299010
Total Revenue Expenditure	83838	97067	109825	128828	140993	153195	167874	197200	210435	236402	254030	279964	309718	348289
Capital Expenditure	16336	14568	17173	17803	18995	20709	20,203	24,311	25632	33067	37011	39530	40500	47681
Loans & Advances (net)	2303	3712	1622	2968	1547	22498	-1956	-435	-1362	-1410	-1714	6183	4821	11733
Total Expenditures	102477	115347	128620	149599	161535	196402	186121	221076	234705	268059	289327	325677	355039	407703
Interest Payments	8871	10205	12405	14550	17391	21449	26627	29358	32940	37147	42213	47689	54803	63722
Primary Expenditures	93606	105142	116215	135049	144144	174953	159494	191719	201765	230912	247114	277988	300236	343981
Revenue Deficit@	-1364	-1761	1788	6408	11985	12964	21594	23459	35909	62326	46538	36215	45121	49279
Fiscal Deficit*	17274	16519	20584	27,162	32,628	56,171	39,840	47,335	60,179	87742	73740	81886	90430	108690
Primary Deficit	8404	6314	8178	12613	15236	34,722	13,212	17,977	27,239	50,595	31,527	34,197	35,627	44,968
Outstanding liabilities**	127128	147416	166681	191847	223030	271364	310429	345752	397025	480300	559632	635441	724789	830734
GSDP at Current Prices	751486	854825	968530	1072678	1176500	1302639	1465051	1630209	1743144	1788074	2072496	2393364	2721571	3170444

@ minus sign means surplus; * Fiscal Deficit for 2020-21 and 2021-22 does not include back-to-back loan in lieu of GST compensation at ₹ 6,241 crore and ₹ 8,095 crore respectively; **Outstanding borrowings does not include ₹ 6,241 crore and ₹.8,095 crore of back-to-back loan in lieu of GST compensation received in 2020-21 and 2021-22. Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years); RE-Revised Estimates; BE-Budget Estimates. For GSDP, MoSPI website.

Table 3.2: Tamil Nadu State Finances: Selected Fiscal Aggregates (as % of GSDP)

Fiscal Indicators	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 BE
Own Tax Revenues	7.92	8.34	7.61	7.33	6.84	6.60	6.40	6.47	6.16	5.94	5.93	6.28	6.15	6.16
Own Non-Tax Revenues	0.76	0.77	0.96	0.78	0.76	0.76	0.73	0.87	0.74	0.58	0.58	0.71	0.95	0.97
State's Own Revenue	8.68	9.10	8.58	8.11	7.60	7.36	7.13	7.34	6.90	6.52	6.51	6.99	7.10	7.13
Total Central Transfers	2.66	2.46	2.58	3.30	3.37	3.41	2.85	3.31	3.11	3.22	3.50	3.19	2.62	2.31
Share in Central Taxes	1.69	1.70	1.64	1.57	1.73	1.88	1.85	1.88	1.51	1.39	1.81	1.62	1.69	1.57
Grants	0.97	0.76	0.94	1.73	1.64	1.52	1.00	1.43	1.59	1.82	1.69	1.58	0.93	0.74
Total Revenue Receipts	11.34	11.56	11.15	11.41	10.97	10.77	9.98	10.66	10.01	9.74	10.01	10.18	9.72	9.43
Total Revenue Expenditure	11.16	11.36	11.34	12.01	11.98	11.76	11.46	12.10	12.07	13.22	12.26	11.70	11.38	10.99
Capital Expenditure	2.17	1.70	1.77	1.66	1.61	1.59	1.38	1.49	1.47	1.85	1.79	1.65	1.49	1.50
Loans & Advances (net)	0.31	0.43	0.17	0.28	0.13	1.73	-0.13	-0.03	-0.08	-0.08	-0.08	0.26	0.18	0.37
Total Expenditures	13.64	13.49	13.28	13.95	13.73	15.08	12.70	13.56	13.46	14.99	13.96	13.61	13.05	12.86
Interest Payments	1.18	1.19	1.28	1.36	1.48	1.65	1.82	1.80	1.89	2.08	2.04	1.99	2.01	2.01
Primary Expenditures	12.46	12.30	12.00	12.59	12.25	13.43	10.89	11.76	11.57	12.91	11.92	11.61	11.03	10.85
Revenue Deficit@	-0.18	-0.21	0.18	0.60	1.02	1.00	1.47	1.44	2.06	3.49	2.25	1.51	1.66	1.55
Fiscal Deficit*	2.30	1.93	2.13	2.53	2.77	4.31	2.72	2.90	3.45	4.91	3.56	3.42	3.32	3.43
Primary Deficit	1.12	0.74	0.84	1.18	1.30	2.67	0.90	1.10	1.56	2.83	1.52	1.43	1.31	1.42
Outstanding liabilities**	16.92	17.25	17.21	17.88	18.96	20.83	21.19	21.21	22.78	26.86	27.00	26.55	26.63	26.20
GSDP at Current Prices	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Computed using Table 3.1.

The revenue receipts, in contrast, declined from 11.34 percent of GSDP in 2011-12 to 10.18 percent in 2022-23, registering 1.16 percentage points decline. In the COVID-19 year (2020-21), this ratio further fell to 9.74 percent. During the period from 2012-13 to 2023-24, the GSDP at current prices grew at the annual rate of 11.38 percent. One might expect similar growth in government revenue, but revenue receipts in current prices grew only at about 10.1 percent. and the state's own revenue grew only at 9.78 percent. As a result, the own revenue buoyancy was less than one at 0.857. In contrast, revenue expenditure grew at 11.54 percent, slightly outpacing revenue growth, which led to a revenue deficit beginning in 2013-14.

Between 2011-12 to 2023-24, the revenue-to-GSDP ratio declined by 1.62 percentage points. This drop was primarily driven by a 1.77 percentage point fall in the own-tax-to-GSDP ratio. The key factor behind the declining own-tax ratio was low buoyancy. The own tax buoyancy was below 1 in 8 out of the 12 years, as discussed in detail in Chapter 4. While revenue expenditure relative to GSDP remained largely stagnant, capital expenditure relative to GSDP declined by about 0.7 percentage point. The stagnation in revenue expenditure can be attributed to factors such as large number of vacant government positions, and suspension of cost-of-living adjustments (like CL surrender) and salary increments for government employees from pandemic period.

Since 2011-12, Tamil Nadu's revenue account has shown either a surplus or a modest deficit. However, from 2015-16 onward, the revenue deficit-to-GSDP ratio exceeded 1 percent. In 2019-20, this ratio increased to 2.06 percent and 3.49 percent in 2020-21, the pandemic year. Several factors contributed to this deterioration including: (i) a reduction in Tamil Nadu's share recommended by the 14th Finance Commission and (ii) sudden spurt in interest payments in 2017-18 on account of take-over-debt of TANGEDO to an extend of ₹ 22,815 crore under the UDAY scheme. Additionally, the implementation of the 7th Pay Commission further exacerbated the fiscal situation.

However, the revenue deficit-to-GSDP ratio came down to 2.25 percent in 2021-22 and further to 1.51 percent in 2022-23. In 2023-24, it again increased to 1.66 percent due to the termination of GST compensation regime. For 2024-25 BE, the revenue deficit-to-GSDP is shown at 1.55 percent, although it should be noted that this includes ₹ 14,442 crore allotted to cover losses in TANGEDCO.

The fiscal deficit (=net borrowing) relative to GSDP remained below 3 percent norm from 2011-12 to 2018-19, except in 2016-17, when adjustments related to the power sector were made. However, in 2019-20, the ratio increased to 3.45 percent from 2.9 percent in 2018-19, reflecting 0.55 percentage point increase, primarily driven by a 0.65 percentage point increase in the revenue deficit. The fiscal deficit surged further in the COVID year, reaching 4.91

percent.

Since 2021-22, the state has followed the path of fiscal consolidation, as recommended by the 15th Finance Commission. Despite this, the fiscal deficit is projected to remain elevated at 3.44% in 2024-25, largely due to the significant financial burden of implementing Asia's largest single phase metro project-Chennai Metro Rail Project Phase 2.

Since 2011-12, the capital expenditure as a percentage of GSDP has consistently been lower than the fiscal deficit-GSDP ratio, indicating that a portion of borrowed funds has been used to cover the gap between revenue expenditure and revenue receipts. Therefore, the quality of public spending is the matter of concern.

The outstanding liabilities (stock of public debt) as a percentage of GSDP was 24.17 percent in 2005-06 (not shown). After this year, this ratio began to decrease, reaching 16.92 percent in 2011-12. However, this ratio began to rise again thereafter, reaching 27 percent in 2021-22. In recent years, this ratio has started to decline, with projections indicating it will fall to 26.2% by 2024-25BE. This is considered to be within acceptable limit, as it remains well below the thresholds set by the 15th Finance Commission. It is important to note, however, that the ratio exceeds the 20 percent sustainable debt limit recommended for states by the new FRBM Committee, chaired by Shri N.K. Singh. As Government of Tamil Nadu has implemented various welfare schemes after the pandemic to support poor, women and children including the Chief Minister's Breakfast Scheme, the Kalaignar Magalir Urimai Thittam (Women's Income Support Scheme), Pudhumai Pen Thittam, and the Vidiyal Payanam Thittam for women, it is difficult to bring down fiscal deficit and debt to sustainable level immediately.

3.2 Fiscal Policy and Growth

There are contrary views on the impact of public spending on economic growth in the literature. The Keynesian hypothesis posits that increased government expenditures leads to higher economic growth, suggesting a positive relationship between government spending and growth.[4] However, financing this increased government spending through borrowing can raise interest rates, which may crowd out private investment, and as a result, reduce output growth. In contrast, the neo-classical growth model argues that government expenditure does not have a long-term effect on economic growth. On the other hand, the Wagner law suggests that economic growth itself drives an increase in government spending.

Regarding the impact of taxation on growth, the positive effects of tax cuts on economy activity are based on the premise that lower tax rates enhance after-tax rewards for working, saving and

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[4] See Loizides, J., and Vamvoukas, G. (2005). Government Expenditure and Economic Growth: Evidence from Trivariate Causality Testing. Journal of Applied Economics, 8, 125-152. https://doi.org/10.1080/15140326.2005.12040621
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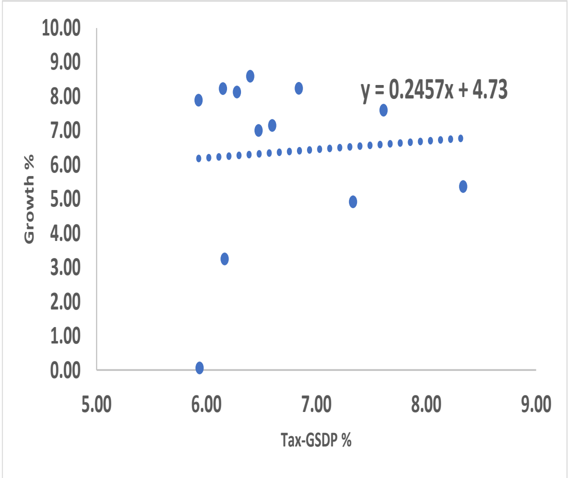
investing. This, in turn, stimulates higher work effort, saving and investment through substitution effects.

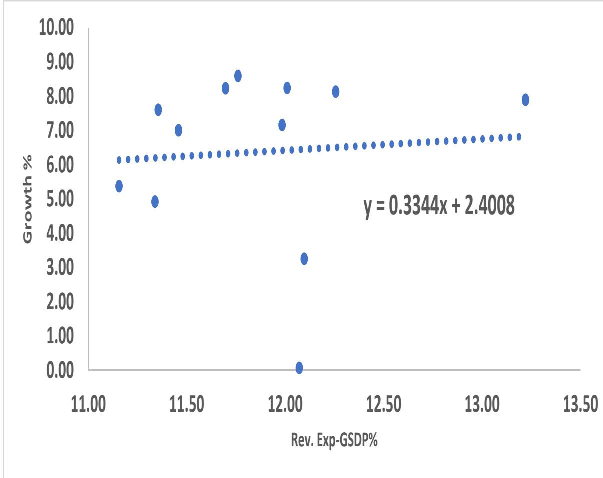
In Tamil Nadu, from 2012-13 to 2023-24, the own tax-GSDP ratio closely aligned with real economic growth as anticipated (Chart 3.1A). The regression line, with economic growth as dependent variable and own tax-GSDP ratio as independent variable, shows a slope of 0.25. This indicates that, on an average, a 1 percent increase in tax-GSDP ratio would lead to a 0.25 percent increase in real economic growth (Chart 3.1. A). One year lagged revenue expenditure-GSDP ratio had a positive effect on the real economic growth, indicating that a 1 percent increase in previous year's revenue expenditure-GSDP ratio would on an average increase the real economic growth by 0.33 percent (Chart 3.1 B).

Chart 3.1: Impact of Fiscal Indicators on Economic Growth

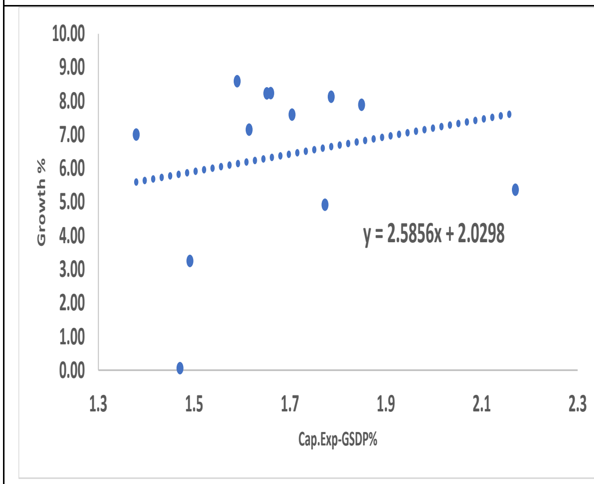
A. Growth$_t$ (real) Vs. Tax-GSDP Ratio$_t$



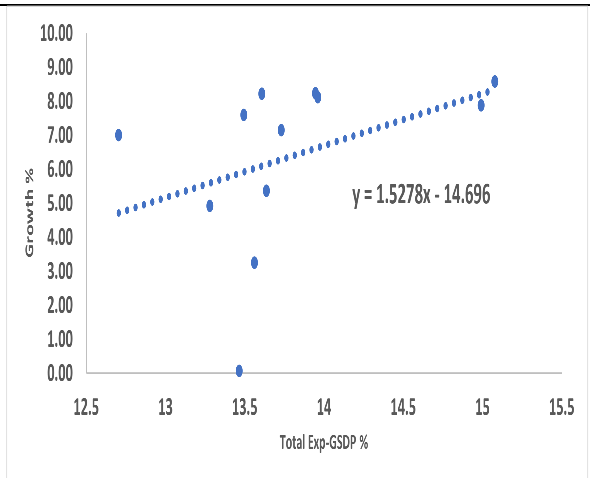
B. Growth$_t$ (real) Vs. Revenue Expenditure$_{t-1}$



C. Growth$_t$ (real) Vs. Capital Expenditure$_{t-1}$



D. Growth$_t$ (real) Vs. Total Expenditure$_{t-1}$



Source: Estimated by the author using data in Table 3.2 and real growth from Mospi website.

The Capital Expenditure-GSDP ratio from the previous year also had a positive impact on the real economic growth of the State (Chart 3.1.C). Additionally, the total expenditure-GSDP ratio with one year lag, showed a positive relationship with real economic growth, indicating that a 1 percent increase in the previous year's total expenditure would result in a 1.53 percent increase in real economic growth in the current year (Chart 3.1.D). However, when expenditure indicators were examined without any lag, they showed a negative impact. Thus, above results imply that state's policies on expenditure and tax appear to be conducive to economic growth.

3.3 Trends and Composition of Revenue Receipts

Own tax revenue is the largest single revenue source for the Tamil Nadu Government. According to the 2024-25 Budget Estimate, own taxes account for approximately 65.27 percent of the state's total revenue receipts. Own non-tax revenues contribute 10.3 percent, tax devolution (shared tax) makes up 16.6 percent and grants comprise 7.8 percent (Table 3.3). From 2011-12 to 2023-24, own revenue (own tax + own non-tax) consistently accounted for 65-80 percent of the state's total revenues. In contrast, fiscal transfers to Tamil Nadu which comes from Finance Commission tax devolution and grants, Plan grants, and grants under various centrally sponsored schemes, have contributed 20-35 percent (Chart 3.2).

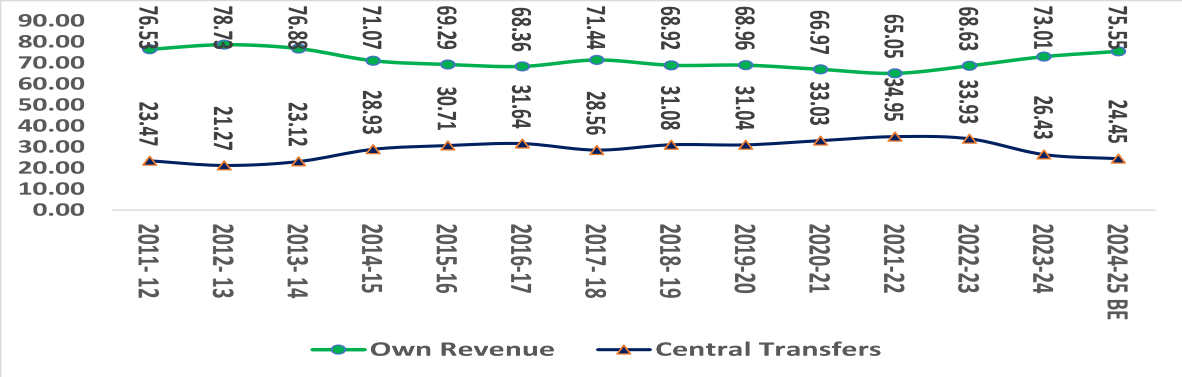
Table 3.3: Composition of Revenue Receipts (%)

Years	Own Tax	Own Non-Tax	Own Revenue	Central Transfers	Share in Central Taxes	Grants	Revenue Receipts
2011- 12	69.85	6.67	76.53	23.47	14.92	8.55	100
2012- 13	72.10	6.63	78.73	21.27	14.69	6.58	100
2013- 14	68.23	8.65	76.88	23.12	14.67	8.44	100
2014-15	64.25	6.82	71.07	28.93	13.74	15.18	100
2015-16	62.38	6.91	69.29	30.71	15.78	14.93	100
2016-17	61.29	7.07	68.36	31.64	17.50	14.15	100
2017- 18	64.08	7.36	71.44	28.56	18.53	10.03	100
2018- 19	60.74	8.17	68.92	31.08	17.63	13.45	100
2019-20	61.57	7.38	68.96	31.04	15.12	15.92	100
2020-21	60.98	5.99	66.97	33.03	14.32	18.71	100
2021-22	59.21	5.84	65.05	34.95	18.05	16.89	100
2022-23	61.63	7.00	68.63	33.93	15.89	15.48	100
2023-24	63.22	9.79	73.01	26.43	17.41	9.58	100
2024-25 BE	65.27	10.28	75.55	24.45	16.64	7.81	100

Source: Computed using Table 3.1.

Relative to GSDP, own revenues declined from 8.68 percent in 2011-12 to 7.13 percent in 2017-18, registering about 1.5 percentage points fall due to a similar decline in own tax revenues. The own tax-GSDP ratio further declined by about 0.5 percentage point in the COVID year 2020-21, leading to a drop in own revenue to 6.52 percent in that year. Following this, the own revenue relative to GSDP began to increase, reaching 7.1 percent in 2023-24.

Chart 3.2: Share of Own Revenues and Central Transfers (%)



Source: computed by the author

The own non-tax revenue relative to GSDP has remained below 1 percent in most years. A key reason for this low figure is the state's limited endowment of major minerals. Another reason is that certain user charges (such as those for drinking water and transportation) are collected by the state-owned enterprises rather than directly by the state treasury. However, there is potential for the state to increase non-tax revenues by revisiting these areas.

Table 3.4 shows the changing structure of non-tax revenues over time. The share of revenues from economic services was 27.6 percent in 2006-07 (not shown). Since then, it has declined steadily, reaching 24.6 percent in 2011-12 and further dropping to 12 percent in 2023-24.

Table 3.4: Structure of Own Not-Tax Revenues in Tamil Nadu (%)

Sources	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25BE
Interest Receipts	**35.6**	**30.7**	**35.8**	**29.8**	**33.1**	**43.6**	**48.3**	**48.4**	**33.8**	**33.8**	**32.3**	**27.8**	**38.5**	**31.5**
Dividends and Profits	**0.62**	**0.66**	**0.81**	**1.19**	**1.58**	**1.86**	**1.47**	**1.10**	**1.49**	**1.97**	**2.24**	**1.76**	**2.7**	**1.98**
General Services	**11.4**	**9.4**	**7.3**	**9.9**	**16.0**	**11.4**	**9.0**	**8.9**	**13.2**	**11.8**	**18.3**	**21.8**	**19.1**	**27.0**
Public Serv.Com.	0.06	0.37	0.23	0.19	0.18	0.14	0.32	0.10	0.20	0.06	0.17	0.25	0.10	0.15
Police	2.38	2.48	1.68	1.95	2.26	2.25	2.62	1.94	2.68	3.08	1.56	1.99	1.24	1.30
Jails	0.03	0.04	0.03	0.05	0.05	0.04	0.05	0.08	0.10	0.08	0.06	0.03	0.02	0.02
Stationery & Printing	0.15	0.23	0.16	0.22	0.22	0.19	0.22	0.25	0.36	0.20	0.18	0.24	0.00	0.11
Public Works	0.25	0.23	0.19	0.22	0.24	0.19	0.14	0.13	0.13	0.17	0.15	0.17	0.12	0.10
Other Adm. Services	5.08	2.63	1.93	2.22	7.85	4.40	1.78	1.32	2.47	1.45	6.97	7.18	6.79	20.7
Pension & Retir. Benefit	0.42	0.33	0.27	0.32	0.31	0.27	0.23	0.27	0.31	0.38	0.87	0.24	0.18	0.14
Other services	3.01	3.13	2.82	4.72	4.92	3.92	3.65	4.79	6.95	6.41	8.33	11.7	10.51	4.44
Social Services	**27.8**	**36.5**	**36.8**	**40.4**	**31.8**	**28.3**	**25.7**	**29.0**	**38.8**	**38.3**	**33.5**	**35.7**	**27.7**	**24.0**
Education, Sports, Art	8.50	11.5	18.1	23.1	15.2	12.1	10.7	11.2	13.9	15.8	8.79	12.9	5.67	7.37
Medical & Pub. Health	5.36	6.65	5.39	6.03	4.65	4.26	4.80	5.19	12.8	7.86	12.8	9.42	10.17	6.57
Family Welfare	1.00	1.07	0.80	1.20	2.09	1.64	0.97	1.10	1.15	1.70	1.55	1.59	1.03	0.82

Water Sup. & San.	0.00	0.08	0.00	0.03	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.35	0.00
Housing	0.99	2.44	0.65	1.11	1.21	0.68	1.49	1.47	1.62	1.97	1.29	1.04	1.42	0.70
Urban Development	10.3	12.7	10.4	7.28	6.99	6.53	4.77	7.15	6.06	7.96	6.13	6.40	5.67	6.36
Information and Publicity	0.10	0.12	0.10	0.10	0.11	0.08	0.09	0.07	0.07	0.03	0.03	0.06	0.03	0.05
Labour & Employment	0.76	1.26	0.74	0.90	0.95	0.85	0.85	1.09	1.18	1.51	1.37	1.07	1.07	0.57
Social Sec. Welfare	0.66	0.65	0.53	0.54	0.51	0.92	0.65	0.73	0.60	0.88	0.82	0.85	1.15	0.37
Other Social Services	0.11	0.08	0.05	0.04	0.03	1.29	1.38	1.01	1.34	0.57	0.74	2.29	1.14	1.19
Economic Services	**24.6**	**22.7**	**19.3**	**18.8**	**17.5**	**14.9**	**15.5**	**12.6**	**12.7**	**14.1**	**13.6**	**12.9**	**12.0**	**15.5**
Crop Husbandry	2.20	1.92	2.29	1.80	0.50	0.57	0.71	1.30	0.41	0.72	0.77	0.62	0.70	0.59
Animal Husbandry	0.13	0.13	0.11	0.12	0.12	0.16	0.13	0.08	0.13	0.13	0.11	0.07	0.06	0.05
Dairy Development	0.03	0.06	0.02	0.03	0.03	0.03	0.03	0.03	0.03	0.08	0.09	0.06	0.04	0.04
Fisheries	0.14	0.16	0.10	0.10	0.09	0.12	0.18	0.07	0.08	0.12	0.15	1.02	0.09	0.06
Forestry and Wild Life	1.86	1.43	2.08	1.69	0.96	0.35	0.53	1.02	0.65	0.91	0.69	0.66	0.39	0.33
Cooperation	0.34	0.31	0.24	0.31	0.29	0.26	0.23	0.20	0.19	0.31	0.25	0.24	0.12	0.81
Other Agri. Programs	0.56	0.44	0.38	0.46	0.42	0.37	0.37	0.30	0.37	0.24	0.53	0.36	0.36	0.29
Other rural dev.programs	0.02	0.64	0.05	0.26	0.60	0.32	0.22	0.01	0.00	0.73	0.03	0.01	0.87	0.04
Major and Medium irri.	0.44	0.39	0.42	0.60	0.45	0.34	0.29	0.31	0.37	0.58	0.55	0.41	0.49	0.46
Minor Irrigation	0.03	0.02	0.02	0.02	0.02	0.03	0.02	0.02	0.03	0.03	0.02	0.02	0.01	0.01
Energy	0.00	0.00	0.21	0.00	0.06	0.06	0.13	0.03	0.00	0.07	0.00	0.00	0.02	0.00
Village & Small ind.	0.33	0.47	0.44	0.21	0.45	0.17	0.28	0.21	0.24	0.11	0.20	0.14	0.27	0.15
Industries	0.01	0.51	0.31	0.13	0.13	0.11	0.00	0.01	0.00	0.00	0.06	0.15	0.36	0.00
Metallurgical Industries	16.6	14.1	10.0	11.7	11.0	10.1	10.6	7.45	8.92	7.34	8.29	7.04	5.98	10.9
Ports and Light Houses	0.08	0.08	0.03	0.03	0.02	0.03	0.03	0.02	0.03	0.03	0.00	0.02	0.02	0.00
Roads & Bridges	1.09	1.26	0.70	0.75	1.82	1.34	1.16	1.01	0.64	1.80	0.98	1.36	1.54	1.01
Inland Water Transport	0.04	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tourism	0.01	0.02	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00
Civil Supplies	0.09	0.07	0.05	0.05	0.04	0.03	0.03	0.02	0.02	0.10	0.06	0.09	0.06	0.05
Others	0.58	0.63	1.80	0.49	0.51	0.47	0.51	0.49	0.63	0.80	0.76	0.64	0.57	0.67
Non-Tax Revenues	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source (Basic Data): Annual Financial Statement, State Budget Documents of Tamil Nadu (Various Years)

From 2011-12 to 2023-24, the combined share of sectors such as metallurgical industries, crop husbandry, forestry, and village and small industries declined by about 13 percent. Similarly, the fisheries sector's share also declined by 0.05 percent. Despite the state's long coastline, the contribution from the fisheries sector remains relatively low. Likewise, the forestry, and tourism sectors generate minimum revenues to the state exchequer.[5] These areas present opportunities for increasing fees and service charges, potentially aligned with inflation, to boost revenue. The proportion of revenues for general services increased from 11.4 percent in 2011-12 to 19.1 percent in 2023-24. At the same time, the share of revenues from social services decreased marginally, from 27.8 percent to 27.7 percent. Interest receipts accounted for 38.5 percent of total own non-tax revenues in 2023-24.

Notably, non-tax revenues grew at an annual rate of 15.52 percent from 2012-13 to 2023-24, while the nominal GSDP grew at 11.38 percent, resulting in a buoyancy of 1.36. In sectors like health and education, there is a general belief that private players dominate over the public institutions due to their higher quality services provided. This trend is seen not only in Tamil Nadu but across many Indian states. Since governments provide many of education and health services at little or no cost, many public institutions are either poorly maintained or offer low quality services. This issue needs to be addressed properly.

As shown in Table 3.2, central transfers relative to GSDP have remained steady at around 2.5-3.5 percent from 2011-12 to 2024-25BE. However, shared tax is the second largest single source of revenue for the state (Table 3.3). Its share has ranged between 13.5 percent and 18.5 percent, while grants have fluctuated between 6.5 percent and 18.5 percent. The combined share of shared tax and grants was about 23.5 percent in 2011.12, increased to about 35 percent in 2021-22, but is expected to decrease to 24.45 percent in 2024-25BE.

Table 3.5 shows Tamil Nadu's share in Central gross taxes as well as grants recommended by various Finance Commissions. Successive commissions have recommended a declining share of transfers to Tamil Nadu. The Thirteenth Finance Commission recommended Tamil Nadu's share of the total divisible pool of central taxes at 4.969 percent (5.047 percent in the case of service tax), a decrease from 5.305 percent recommended by the Twelfth Finance Commission.

[5] For instance, Despite the fact that the state is the most visited and has received the largest number of tourists amongst all states in the country,Tamil Nadu government's revenues from tourism was ₹26.3 lakh only in 2022-23 as against Goa's ₹2156.7 lakh, Uttar Pradesh's ₹878.4 lakh, Kerala's ₹705.8 lakh, Telangana's ₹394.3 lakh and Bihar's ₹289.5 lakh.

Table 3.5: Share of Tamil Nadu in Central Taxes and Finance Commission Grants

(percent)

Finance Commissions	Share in Central Taxes	Share in FC Grants
Third	7.48	4.92
Fourth	7.9	4.86
Fifth	7.56	3.21
Sixth	7.59	0
Seventh	7.68	1.69
Eighth	6.85	0.58
Ninth (1)	7.12	1.74
Ninth (2)	6.84	1.05
Tenth	6.12	3.64
Eleventh	5.39	2.28
Twelfth	5.31	2.9
Thirteenth	4.98	4.396
Fourteenth	4.023	-
Fifteenth	4.079	-

Source (Basic Data): Vithal and Sastry (2001) for data up to Tenth Finance Commission and Reports of the Eleventh, Twelfth, Thirteenth and Fourteenth Finance Commissions thereafter.

Additionally, the Thirteenth Finance Commission allocated ₹ 11,366.9 crore for the five-years for various purposes, including road and bridge maintenance, justice delivery, UIDS, forests, water sector improvements, and elementary education. The Fourteenth Finance Commission, following the abolition of Union Planning Commission, reduced Tamil Nadu's share to 4.023 percent. The Fifteenth Finance Commission slightly increased the share to 4.079 along with a one-time deficit grant of about ₹2,200 crore. Thus, the fall in both own revenue efforts and transfers relative to GDSP has contributed to a fall in state's revenue receipts relative to GSDP, posing a significant concern for the state's fiscal health.

The decline in the share of tax devolution is a significant concern not only for Tamil Nadu but also for many high-performing States, particularly in the South. During the period of the Fifth Finance Commission period, the combined share of the four Southern states was 24.07 percent (see Table 3.6).

Table 3.6: Share of Southern and Top 4 Sharing States in Tax Devolution

States	15th	14th	13th	12th	11th	10th	9th	8th	7th	6th	5th
Andhra Pradesh	4.047	4.305	6.937	7.356	7.701	7.91	7.48	7.72	7.81	8.03	7.55
Karnataka	3.647	4.713	4.328	4.459	4.93	4.86	4.51	4.80	5.23	5.40	4.98
Kerala	1.925	2.5	2.341	2.665	3.057	3.50	3.32	3.53	3.98	3.82	3.98
Tamil Nadu	4.079	4.023	4.969	5.305	5.385	6.12	6.84	6.85	7.68	7.59	7.56
Telangana	2.102	2.437	-	-	-	-	-	-	-	-	-
All 4 Southern States	**15.80**	**17.98**	**18.58**	**19.79**	**21.07**	**22.39**	**22.15**	**22.90**	**24.70**	**24.84**	**24.07**
Southern States Excl. Telangana	**13.70**	**15.54**	**18.58**	**19.79**	**21.07**	**22.39**	**22.15**	**22.90**	**24.70**	**24.84**	**24.07**
Bihar	10.058	9.665	10.917	11.028	14.597	11.29	11.00	11.23	11.18	10.40	11.05
Jharkhand	3.307	3.139	2.802	3.361	-	-	-	-	-	-	-
Madhya Pradesh	7.850	7.548	7.12	6.711	8.838	7.40	7.44	7.81	7.98	7.66	7.45
Chhattisgarh	3.407	3.08	2.47	2.654	-	-	-	-	-	-	-
Uttar Pradesh	17.939	17.959	19.677	19.264	19.798	16.25	15.79	16.58	16.65	16.20	16.77
Uttarakhand	1.118	1.052	1.12	0.939	-	-	-	-	-	-	-
West Bengal	7.523	7.324	7.264	7.057	8.116	6.84	7.12	7.90	8.18	8.28	8.17
All 4 Top Share States	**51.02**	**49.77**	**51.37**	**51.01**	**51.35**	**41.78**	**41.35**	**43.52**	**43.99**	**42.54**	**43.44**
Top Share States Exc. Jharkhand, Chhattisgarh and Uttarakhand	**43.37**	**42.50**	**44.98**	**44.06**	**51.35**	**41.78**	**41.35**	**43.52**	**43.99**	**42.54**	**43.44**

Source: various Finance Commission Reports.

However, by the time of the 15th Finance Commission, this share had dropped to 13.7 percent. If Telangana is included. The combined share was 15.8 percent. One of the factors driving this change is the alteration of devolution criteria adopted by the various Commissions, which is influenced by their Terms of References (see Table 3.7).

At the same time, the combined share of states such as Bihar, Madhya Pradesh, Uttar Pradesh and West Bengal (referred to as the larger share States), increased from 43.44 percent to 51.02 percent-more than tripled the combined share of the Southern states). These states have received considerable support from successive Finance Commissions over the years, prompting the question: How long should this support continue? Prolonged assistance may create an incentive for these states to maintain low levels of revenue generation efforts. The Sixteenth Finance commission should explore ways to address this issue effectively.

Table 3.7: Tax Devolution Criteria of Various Finance Commissions

Criteria	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th	15th
Population	80+16.67*	75	25	25	25	20	10	25	25	17.5	15
Income Distance	-	25	-	50	50	60	62.5	50	-	50	45
Inverse Income	-	-	25	25	12.5	-	-	-	-	-	
Poverty Ratio	-	-	25	-	12.5	-	-	-	-	-	
Revenue Equalization	-	-	25	-	-	-	-	-	-	-	
Area	-	-	-	-	-	5	7.5	10	10	15	15
Index of Backwardness	20– 6.67*	-	-	-	-	-	-	-	-	-	
Index of Infrastructure	-	-	-	-	-	5	7.5	-	--	-	
Tax (and Fiscal) Effort	-	-	-	-	-	10	5	7.5	-	-	2.5
Fiscal Discipline	-	-	-	-	-	-	7.5	7.5	17.5	-	
Fiscal Capacity Transfers	-	-	-	-	-	-	-	-	47.5	-	
Demographic Change/performance	-	-	-	-	-	-	-	-	-	10	12.5
Forest and Ecology	-	-	-	-	-	-	-	-	-	7.5	10
Total	100	100	100	100	100	100	100	100	100	100	100

* Among the States with per capita income below the all-State average; Source: Reports of Various Finance Commissions

Table 3.8 shows the composition of central grants to Tamil Nadu from 2011-12 to 2024-25BE. Plan grants increased from ₹ 4,701 crore in 2011.12 to ₹ 13,428 crore in 2015-16, while the non-plan grants increased from ₹ 2,585 crore to ₹ 5,832 crore. Within the plan grants, the state plan grant increased from ₹ 2,562 crore to ₹12,017 crore, while the amount allocated to centrally sponsored schemes declined from ₹ 1,916 crore to ₹ 717 crore.

From 2017-18 onwards, the composition of grants shifted due to the abolition of the Planning Commission and the discontinuation of plan grants. As a result, total grants declined from ₹19,838 crore in 2016-17 to ₹ 14,679 crore in 2017-18. However, total grants increased steadily in absolute terms, reaching ₹37,735 crore in 2022-23, before declining to ₹ 25,343 crore in 2023-24 due to a reduction in other transfers and grants.

3.4 Interstate Comparison

In 2022-23, Tamil Nadu ranked 7th among 21 major states in per capita revenue receipts (Table 3.9). However, the state ranked 18th in revenue receipts as percent of GSDP, with Gujarat ranking 21st. Tamil Nadu's per capita own tax revenue stood at ₹ 19,569, making it the sixth highest among major Indian states. The top five states in per capita own tax revenue were:

- Telangana-₹ 28,145
- Maharashtra-₹ 22,026
- Karnataka-₹ 21,284
- Haryana-₹ 21,099
- Kerala-₹20,150

Table 3.8: Composition of Central Grants to Tamil Nadu

Type of Grants	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25BE
₹ Crore														
Non Plan/other Grants	2585	1311	3194	6078	5832	-	-	-	-	-	-	-	-	-
Plan Grants of which	4701	5188	5928	12511	13428	12751	-	-	-	-	-	-	-	-
State Plan Schemes	2562	2765	3349	11255	12017	10220	-	-	-	-	-	-	-	-
Central Plan Schemes.	223	224	264	282	694	495	-	-	-	-	-	-	-	-
Centrally Sponsored Schemes	1916	2199	2315	974	717	2035	10983	14820	12464	12484	17251	15270	13972	16543
Other Grants/Transfers	-	-	-	-	-	6757	1745	4844	9413	11450	8250	16673	5120	261
Finance Commission Grants	-	-	-	-	-	-	1951	3706	5906	8643	9550	5792	6251	6550
Grants from Centre	7286	6499	9122	18589	19260	19838	14679	23368	27783	32577	35051	37735	25343	23354
As % of Total Grants from the Centre														
Non Plan/other Grants	35.5	20.2	35	32.7	30.3	-	-	-	-	-	-	-	-	-
Plan Grants of which	64.5	79.8	65	67.3	69.7	64.3	-	-	-	-	-	-	-	-
State Plan Schemes	35.2	42.5	36.7	60.5	62.4	51.5	-	-	-	-	-	-	-	-
Central Plan Schemes.	3.1	3.4	2.9	1.5	3.6	2.5	-	-	-	-	-	-	-	-
Centrally Sponsored Schemes	26.3	33.8	25.4	5.2	3.7	10.3	74.82	63.42	44.86	38.32	49.22	42.89	55.13	70.83
Other Grants/Transfers	-	-	-	-	-	34.1	11.89	20.73	33.88	35.15	23.54	40.48	20.20	1.12
Finance Commission Grants	-	-	-	-	-	-	13.29	15.85	21.26	26.53	27.25	16.64	24.67	28.05
Grants from Centre	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

In terms of own tax revenue as a percent of GSDP, Tamil Nadu ranked 10th with 6.28 percent. In per capita own non tax revenues, Tamil Nadu performed relatively poorly. The state ranked 12th in per capita own non tax and 10th in terms of its own non-tax revenue as a percentage of GSDP. Notably, Tamil Nadu's per capita own non-tax revenue of ₹ 2,222 was only a quarter of the Odisha's top ranking per capita own non-tax revenue of ₹ 9,255. This highlights the potential for Tamil Nadu to explores opportunities for increasing its own non-tax revenues.

Regarding transfers from the Centre, Tamil Nadu ranked 15th both in per capita transfers and in transfers as a percentage of GSDP. While the per capita transfers from Tamil Nadu were slightly higher than those to Uttar Pradesh and Bihar, they accounted for only 46 percent of Tamil

Nadu's per capita own revenues. In comparison, transfers represented 122 percent of Uttar Pradesh's own revenues and 259 percent of Bihar 's, reflecting a substantial disparity in federal support (not shown).

Table 3.9: Revenue Receipts in Selected States in 2022-23

States	Per Capita (₹)				As Percent of GSDP			
	Revenue Receipts	Own Tax	Own non-tax	Central Transfers	Revenue Receipts	Own Tax	Own non-tax	Central Transfers
Andhra Pradesh	29723	14700	1021	14003	12.10	5.99	0.42	5.70
Arunachal Pradesh	152978	14388	6546	132045	67.76	6.37	2.90	58.49
Assam	25228	6888	1620	16720	18.74	5.12	1.20	12.42
Bihar	13706	3494	328	9884	23.14	5.90	0.55	16.68
Chhattisgarh	31254	11027	5076	15150	20.21	7.13	3.28	9.80
Gujarat	28027	17542	2591	7894	9.05	5.66	0.84	2.55
Haryana	29891	21099	2930	5862	9.06	6.40	0.89	1.78
Himachal Pradesh	51106	14216	3859	33031	19.87	5.53	1.50	12.84
Jharkhand	20440	6398	3268	10774	19.23	6.02	3.07	10.13
Karnataka	33930	21284	2061	10585	10.09	6.33	0.61	3.15
Kerala	37161	20150	4233	12778	12.97	7.03	1.48	4.46
Madhya Pradesh	23678	8428	2307	12942	16.37	5.83	1.59	8.95
Maharashtra	32202	22026	1332	8844	11.13	7.61	0.46	3.06
Odisha	32599	10086	9255	13257	19.81	6.13	5.62	8.06
Punjab	27163	13096	1932	12134	12.86	6.20	0.91	5.75
Rajasthan	24173	10829	2549	10795	14.36	6.43	1.51	6.41
Tamil Nadu	31753	19569	2222	9961	10.18	6.28	0.71	3.19
Telangana	41935	28145	5146	8644	12.15	8.15	1.49	2.50
Uttar Pradesh	17778	7418	575	9786	18.27	7.62	0.59	10.05
Uttarakhand	42360	14760	3768	23832	16.16	5.63	1.44	9.09
West Bengal	19775	8455	222	11098	12.77	5.46	0.14	7.16

Source (Basic Data): CAG Website (state Accounts); MoSPI for GSDP and Population Data.

As shown in Table 3.10, own tax revenues in Tamil Nadu account for 68.63 percent of the total revenues, which is the fifth highest among the major Indian States. The states with higher shares are Haryana (80.39 percent), Telangana (79.39 percent), Maharashtra (72.54 percent) and Karnataka (68.80 percent). Tamil Nadu ranked 13th in terms of percentage share of non-tax revenues.

3.5 Fiscal Capacity

Fiscal capacity refers to the ability of a sub-national government to generate revenues from its own sources, which include both tax and non-tax bases. There are several methods to measure fiscal capacity, each with its strengths and limitations.

Table 3.10: Composition of Revenue Receipts in Selected States in India (2022-23)

(Percent)

States	Own Tax	Own non-tax	Shared Tax	Grants
Andhra Pradesh	49.46	3.43	24.20	22.91
Arunachal Pradesh	9.41	4.28	70.16	16.16
Assam	27.30	6.42	33.09	33.19
Bihar	25.49	2.39	55.31	16.81
Chhattisgarh	35.28	16.24	34.47	14.01
Gujarat	62.59	9.24	16.57	11.60
Haryana	70.59	9.80	11.64	7.97
Himachal Pradesh	27.82	7.55	20.70	43.93
Jharkhand	31.30	15.99	39.14	13.58
Karnataka	62.73	6.07	15.10	16.09
Kerala	54.22	11.39	13.76	20.63
Madhya Pradesh	35.60	9.74	36.54	18.12
Maharashtra	68.40	4.14	14.79	12.67
Odisha	30.94	28.39	28.57	12.10
Punjab	48.21	7.11	19.59	25.08
Rajasthan	44.80	10.55	29.35	15.31
Tamil Nadu	61.63	7.00	15.89	15.48
Telangana	67.12	12.27	12.34	8.27
Uttar Pradesh	41.72	3.23	40.68	14.36
Uttarakhand	34.84	8.90	21.63	34.63
West Bengal	42.76	1.12	36.53	19.59

Source (Basic Data): CAG Website (state Accounts);

One of the simplest methods to use a government's own revenue collection from the current or previous year. However, this approach has a major limitation: while the potential to raise revenue is not directly impacted by tax rates, actual revenues are influenced by fiscal effort and tax payer compliance.

Another method involves using a macroeconomic indicator such as regional GDP. While this method can provide as estimate of the maximum possible revenue that could be raised, it is often not a reliable measure of actual fiscal capacity, as governments typically collect significantly lower than their GDP.

A third approach is the Representative Tax System (RTS), which measures the potential revenue a regional government could raise by applying standard tax bases and rates. This method requires data on these standard tax bases and tax rates.

A fourth one utilizes regression models (or stochastic frontier method) to estimate fiscal capacity based on bench mark revenues derived from the sample data. Alternatively, some studies determine fiscal capacity by using a bench mark per capita own revenue. This benchmark could be the average of all states or average of top three states. The fiscal capacity of then calculated by multiplying this benchmark by the state's population. The difference between a state's fiscal capacity and its actual own revenue represents the state's "excess fiscal capacity", which is considered unrealized potential revenue. In this approach, states that are raising above the bench mark get a negative excess fiscal capacity and this negative value can be treated as zero value.

In this study, we use benchmark per capita revenue approach to assess the fiscal capacity of major India states for the year 2022-23. Table 3.11 presents the fiscal capacity and excess fiscal capacity for each state, based on two bench marks: the all-states' average and the top three states' average.

Table 3.11: Excess Fiscal Capacity of Major States in 2022-23

(₹ Crore)

States	Pe Capita Own Revenue (₹)	Fiscal Capacity		Excess Fiscal Capacity	
		Based on All States Average	Based on Top 3 States Average	Based on All States Average	Based on Top 3 States Average
Andhra Pradesh	15720	90195	144558	6752	61115
Arunachal Pradesh	20934	2642	4235	-613	980
Assam	8507	60447	96881	30184	66618
Bihar	3822	214090	343130	165938	294977
Chhattisgarh	16104	51040	81804	2670	33434
Gujarat	20133	120900	193770	-22343	50527
Haryana	24029	50706	81268	-20998	9564
Himachal Pradesh	18075	12665	20298	-807	6826
Jharkhand	9666	66711	106920	28763	68972
Karnataka	23345	114725	183873	-42891	26257
Kerala	24383	60690	97271	-26396	10184
Madhya Pradesh	10736	146389	234622	53900	142133
Maharashtra	23358	214070	343097	-80193	48834
Odisha	19342	78431	125703	-10843	36430
Punjab	15028	54810	87846	6335	39371
Rajasthan	13378	137065	219679	29154	111768
Tamil Nadu	21792	130443	209065	-36841	41782
Telangana	33291	64570	103488	-61933	-23015
Uttar Pradesh	7992	398800	639171	211224	451594
Uttarakhand	18529	19689	31557	-1780	10087
West Bengal	8677	168029	269305	82223	183500

Source: computed by the author using data in Table 3.9.

According to both bench marks, Uttar Pradesh, Bihar, West Bengal and Madhya Pradesh exhibit the largest excess fiscal capacity. As shown in Table 3.6, these states, also receive higher shares in tax revolution. This suggests that larger share of tax devolution recommended by successive Finance Commission serve as an incentive for these state to untap their potential revenue. Therefore, the Sixteenth Finance Commission should consider these states' excess fiscal capacities when finalizing the tax devolution formula

Tamil Nadu's fiscal capacity was estimated at ₹ 1,30, 443 crore based on the all-states average bench mark, and ₹ 2,09,065 crore based on top-three states average in 2022-23. Under the first benchmark, Tamil Nadu had zero excess fiscal capacity, while under the second benchmark, it had an excess fiscal capacity of ₹ 41,782 crore, which was about 9.25 percent of Uttar Pradesh's excess fiscal capacity and 14.16 percent of Bihar's capacity.

3.6 A Brief Evaluation of State Finances in the Context of Recommendations of 14th and 15th Finance Commissions

The 14th Finance Commission recommended incentivizing states that adhered to fiscal discipline. It also recommended revenue deficit grants to ensure fiscal stability of states facing revenue shortfalls. During the period from 2015-16 to 2019-20, Tamil Nadu largely maintained its fiscal deficit at 3 percent level, with the exception of 2016-17, when adjustments related to power sector were made. It exceeded 3 percent level in 2019-20 due to the pandemic effect. The Commission also emphasized granting states greater autonomy and flexibility in designing and implementing their own schemes and programs. Tamil Nadu took advantage of this opportunity and introduced several initiatives. However, the state struggled to control its revenue deficit, which remained above 1 percent from 2015-16 onwards. Following the implementation of the GST in 2017, Tamil Nadu's own tax revenue as percentage of GSDP began to decline steadily.

The 15th Finance Commission recommended a phased reduction of fiscal deficit for states, setting targets of 4 percent of GSDP in 2021-22, 3.5 percent in 2022-23, and 3 percent from 2023-24 onwards. However, it allowed an additional borrowing allowance of 0.5 percent of GSDP for states undertaking power sector reforms. Tamil Nadu qualified for this additional borrowing by implementing such reforms. Despite launching several welfare schemes including Chief Minister's Breakfast Scheme, Income support for Women Household, and Free bus travel for female, it managed to maintain its fiscal deficit withing limits: 3.56 percent in 2021-22, 3.42 percent in 2022-23 and 3.32 percent in 2023-24.

3.7 Concluding Remarks

This chapter has briefly reviewed the overall fiscal trends in Tamil Nadu. From 2011-12 to 2014-15, the state's revenue account maintained a surplus or a modest deficit. However, starting from 2015-16, the revenue deficit-GSDP ratio exceeded 1 percent. In the pandemic year of 2020-21, this ratio peaked at 3.49 percent. Subsequently, it decreased to 2.25 per cent in 2021-22 and further to 1.51 percent in 2022-23.

The fiscal deficit as a percentage of GSDP remained below 3 percent threshold from 2011-12 to 2018-19, with the exception of a brief rise in 2016-17. After that, the fiscal deficit steadily increased and reached 4.91 percent in 2020-21. While there has been a decline in the fiscal deficit in subsequent years, it still remains above the 3 percent target.

Tamil Nadu's outstanding liabilities as a proportion of GSDP reached 27 percent in 2020-21. While the projected outstanding liabilities for 2024-25 are expected to be 26.2 percent in the budget estimates, this remains within the acceptable limits set by the 15th Finance Commission. However, it exceeds the 20 percent sustainable debt ceiling recommended by the new FRBM Committee, headed by Shri N.K. Singh. As the state has implemented various welfare programs to support women, children and poor after the pandemic, it is harder to bring down fiscal deficit and debt to sustainable level immediately.

The own revenues-GSDP of Tamil Nadu declined from 8.68 percent in 2011-12 to 6.52 percent in 2020-21. Since then, there has been a slight recovery, reaching 7.1 percent in 2023-24. The states' own non-tax revenue has consistently remained below 1 percent of GSDP in most yea₹ Despite being endowed with extensive coastal area, the contribution from the fisheries sector remains relatively low. Similarly, sectors like the forestry, and tourism also contribute also modestly to the state's not tax revenues. Therefore, there is a significant potential for Tamil Nadu to enhance its non-tax revenue generation.

Tamil Nadu's share in tax devolution has also declined from 7.9 percent in Fourth Commission period to 4.079 percent in Fifteenth Finance Commission period. This reduction in tax devolution is a major concern for the state. Interestingly, despite these fiscal challenges, the state's fiscal policies concerning tax and expenditure do not appear to be negatively impacting its economic growth.

An interstate comparison reveals that Tamil Nadu ranks seventh in per capita revenue receipts and sixth in per capita own tax revenue. However, it ranks 18th in terms of revenue receipts-GSDP ratio and tenth in own tax-GSDP ratio. This indicates a need for Tamil Nadu government to focus on improving its own revenue performances. Notably, the state's excess fiscal capacity is only about 9.25 percent of Uttar Pradesh's excess fiscal capacity.

Chapter 4

Tax Performance

This chapter evaluates the overall tax performance of Tamil Nadu, focusing on the annual growth and buoyancy of various taxes, as well as the composition of the state's own tax revenues. Additionally, we compare Tamil Nadu's tax performance with that of other major states in the country.

4.1. Composition of Own Tax Revenue

As discussed in Chapter 3, own tax revenue remains the largest single source of income for the Tamil Nadu government. During 2012-13 to 2021-22, the own tax-GSDP ratio declined steadily from 8.34 percent to 5.93 percent, representing a decrease of 2.41 percentage points. Despite this decline, Tamil Nadu still ranks seventh in per capita own tax revenue among 21 major states in India. From 2012-13 to 2023-24, Tamil Nadu's nominal own tax revenues grew at an average rate of 9.22 percent annually. However, this growth rate was lower than the GSDP growth rate of 11.38 percent during the same period, resulting in an average own tax buoyancy of 0.81.

Among the state taxes, sales tax-predominantly the State VAT and more recently the GST-remains the most significant source of own tax revenue for the state (Table 4.1). The sales tax (GST) as a percentage of GSDP was 4.83 percent in 2011-12 and increased to 5.53 percent in 2013-14. However, it then, experienced a continuous decline, reaching 4.53 percent in 2021-22, with a slight recovery to 4.72 percent in 2022-23. It is noted that sales tax is levied on petroleum products and Indian made foreign liquors (IMFL). Revenues from petroleum products fluctuate over the years as they depend on changing international crude oil prices and falling demand. The diesel consumption declined from 69,64,000 metric tonnes in 2012-13 to 61,91,000 metric tonnes in 2019-20. It went down to 50,07,000 metric tonnes in the pandemic year 2020-21 and thereafter it was slowly increasing to 62,87,000 metric tonnes. The Government has closed about 1500 shops in the last 10 years. This is an indication of falling consumption of liquor.

Next comes state excise, although its relative importance declined steadily. In 2012-13, state excise accounted for 17 percent of Tamil Nadu's own tax revenues, but by 2023-24, this share had decreased to 6.44 percent. This reduction is primarily due to the abolition of vend fees and additional vend fees for malt liquors, foreign liquors and sprits. The relative contribution of state excise to GSDP declined from 1.4 percent in 2012-13 to just 0.4 percent in 2023-24.

Table 4.1: Composition of Tax Revenue

Taxes	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
(₹ Crore)													
Sales Tax+GST	36289	44041	53532	57191	57522	63234	70945	81234	82892	81431	93957	112967	122160
State Excise	9975	12126	5035	5731	5836	6248	5815	6863	7206	7822	8237	10423	10774
Stamps Duties	6581	7645	8251	8362	8721	7237	9195	11066	10856	11675	14331	17560	19013
Motor Vehicle tax	3101	3928	3684	3829	4233	4854	5363	5573	5675	4561	5627	7513	9375
Goods & Pass. Tax	2123	2252	1843	1909	2153	2551	900	3	11	2.07	12.25	4.72	7
Others	1448	1262	1373	1635	2010	1817	1519	795	823	662	702	1755.6	5949
Own Tax Revenue	59517	71254	73718	78657	80476	85941	93737	105534	107462	106153	122866	150223	167278
As % of Own Tax Revenues													
Sales Tax+GST	60.97	61.81	72.62	72.71	71.48	73.58	75.69	76.97	77.14	76.71	76.47	75.20	73.03
State Excise	16.76	17.02	6.83	7.29	7.25	7.27	6.20	6.50	6.71	7.37	6.70	6.94	6.44
Stamps Duties	11.06	10.73	11.19	10.63	10.84	8.42	9.81	10.49	10.10	11.00	11.66	11.69	11.37
Motor Vehicle tax	5.21	5.51	5.00	4.87	5.26	5.65	5.72	5.28	5.28	4.30	4.58	5.00	5.60
Goods & Pass. Tax	3.57	3.16	2.50	2.43	2.68	2.97	0.96	0.00	0.01	0.00	0.01	0.00	0.00
Others	2.43	1.77	1.86	2.08	2.50	2.11	1.62	0.75	0.77	0.62	0.57	1.17	3.56
Own Tax Revenue	100.00	100.00	100.00	100.00	100.00	100.00	100	100	100.00	100.00	100.00	100.00	100
As % of GSDP													
Sales Tax+GST	4.83	5.15	5.53	5.33	4.89	4.85	4.84	4.98	4.76	4.55	4.53	4.72	4.49
State Excise	1.33	1.42	0.52	0.53	0.50	0.48	0.40	0.42	0.41	0.44	0.40	0.44	0.40
Stamps Duties	0.88	0.89	0.85	0.78	0.74	0.56	0.63	0.68	0.62	0.65	0.69	0.73	0.70
Motor Vehicle tax	0.41	0.46	0.38	0.36	0.36	0.37	0.37	0.34	0.33	0.26	0.27	0.31	0.34
Goods & Pass. Tax	0.28	0.26	0.19	0.18	0.18	0.20	0.06	0.00	0.00	0.00	0.00	0.00	0.00
Others	0.19	0.15	0.14	0.15	0.17	0.14	0.10	0.05	0.05	0.04	0.03	0.07	0.22
Own Tax Revenue	7.92	8.34	7.61	7.33	6.84	6.60	6.40	6.47	6.16	5.94	5.93	6.28	6.15
Tax Buoyancy													
Sales Tax+GST		1.55	1.62	0.64	0.06	0.93	0.98	1.29	0.29	-0.68	0.97	1.31	0.59
State Excise		1.57	-4.40	1.29	0.19	0.66	-0.56	1.60	0.72	3.32	0.33	1.71	0.25
Stamps Duties		1.18	0.60	0.13	0.44	-1.59	2.17	1.80	-0.27	2.93	1.43	1.46	0.60
Motor Vehicle tax		1.94	-0.47	0.37	1.09	1.37	0.84	0.35	0.26	-7.62	1.47	2.16	1.81
Goods & Pass. Tax		0.44	-1.37	0.33	1.32	1.72	-5.19	-8.84	38.49	-31.50	30.92	-3.97	3.52
Others		-0.93	0.66	1.77	2.37	-0.90	-1.32	-4.23	0.51	-7.59	0.38	9.69	17.42
Own Tax Revenue		1.43	0.26	0.62	0.24	0.63	0.73	1.12	0.26	-0.47	0.99	1.44	0.83

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years).

Stamp duty and registration fees have consistently contributed around 10-11.7 percent to the state's own tax revenues, with the exception of two years-2016-17 and 2017-18. The stamp duty and registration fees as a percentage of GSDP declined from 0.89 percent in 2012-13 to

0.56 percent in 2016-17, but then gradually increased each year, reaching 0.73 percent in 2023-24. Government has increased the guideline values in March 2023.

The motor vehicle tax contributed between 4.3 percent and 5.72 percent of the state's own tax revenues from 2011-12 to 2023-24. Relative to GSDP it declined from 0.41 percent in 2011-12 to 0.34 percent in 2023-24. One of the reasons could be that the number of vehicles registered declined from 21.5 lakh in 2018-19 to 14.5 lakh in 2021-22. But it increased to 18.9 lakh in 2023-24. Particularly, the registration of two-wheelers declined from 17.76 lakh in 2018-19 to 14.53 lakh in 2023-24. Vehicle population growth, which was in the double digits until 2014-15, has since slowed significantly, with the growth rate declining to just 0.82% in 2024-25. However, the state has revised its motor vehicle tax rates in November 2023. We expect an increase in motor tax revenues in the coming years.

Taxes on Goods and Passengers is a tax on services provided by commercial vehicles for carrying goods and passengers on roads or inland waterways. It is noted that the revenue from this tax was ₹ 2551 crore in 2016-17 and it declined to ₹ 7 crore in 2023-24, leading to about ₹ 2540 crore decline. It happened due to various factors including increased thresholds for GST registration, and concessional schemes, and potential tax evasion.

As with other states, Tamil Nadu has also received GST compensation from the Centre. This compensation is calculated based on a projected 14 percent growth rate for GST revenues. The difference between the actual growth and the 14 percent growth rate determines the compensation provided to the state. With the GST system now stabilizing, it is expected that Tamil Nadu's own tax revenue will begin to increase in the near future.

4.2 Own Tax Buoyancy

Table 4.1 also presents the annual buoyancy of major taxes. During 2012-13 to 2023-24, the own tax buoyancy of Tamil Nadu ranged from 0.24 (in 2015-16) and 1.44 (in 2022-23), excluding the pandemic year. In 4 out of 12 years, the own tax buoyancy was closer to 1, while in the remaining years, it was below 1. Notably, the buoyancy of nearly all taxes fluctuated over the years, with the half of the periods showing buoyancies either less than 1 or negative.

4.3 Interstate Comparison

In 2022-23, Tamil Nadu ranked second in sales tax revenue relative to GSDP, second only to Kerala (Table 4.2). However, the state ranked 19th in GST-GSDP ratio. Tamil Nadu also ranked 7th in stamps and registration, 18th in state excise-GSDP ratio, and 16th in tax on vehicles.

4.4. Concluding Remarks

Sales tax, including GST, remains by far the most significant source of own tax revenue for Tamil Nadu, accounting for 4.72 percent of GSDP in 2022-23. While the state ranked second in sales tax-GSDP ratio in 2022-23 among major Indian states, it ranked much lower (19^{th}) in the GST-GSDP ratio.

The share of state excise in Tamil Nadu's total own tax revenue has steadily declined, from 17 percent in 2012-13 to 6.44 percent in 2023-24, primarily due to the abolition of vend fees and additional vend fees for malt liquor, foreign liquor and spirits. Meanwhile, the share of stamps duty and registration fees remained steady contributing 10-11.7 percent of own tax revenues between 2011-12 to 2023-24. The motor vehicle tax contributed between 4.3 and 5.72 percent of own tax revenues during the same period.

Between 2012-13 and 2023-24, Tamil Nadu's own tax buoyancy ranged from 0.24 to 1.44. In 4 out of 12 years, the own tax buoyancy was close to 1, but in the remaining years, it was less than 1. This is the major concern. Furthermore, the fluctuating buoyancy of almost all taxes, with several years showing negative or suboptimal buoyance, highlights the need for greater stability and improvements in revenue performance.

The own tax as percent of GSDP has been almost stagnant around 5.9 to 6.5 percent since 2017-18 due to various factors, including introduction of GST (due to adjustment to new system), fluctuations in the sales tax based on changing international crude oil prices (central govt also cut its petrol and diesel taxes) and falling demand for diesel, closure of 1500 liquor shops, reduction in excise revenue growth due to abolition of vend fees and additional vend fees for malt liquors, foreign liquors and sprits, no revision of guideline value till 2023 (which affected revenue growth from registration), and falling demand for vehicles.

Table 4.2: Composition of Own Tax Revenues as % of GSDP in Major Indian States (2022-23)

States	State GST	Sales Tax	Stamps & Registration	State Excise	Tax on Vehicles	Others
Andhra Pradesh	2.15	1.38	0.62	1.15	0.33	0.36
Arunachal Pradesh	4.58	0.63	0.05	0.80	0.18	0.14
Assam	2.62	1.41	0.18	0.53	0.28	0.10
Bihar	3.11	1.32	0.86	0.00	0.39	0.20
Chhattisgarh	2.43	1.39	0.48	1.46	0.38	0.99
Gujarat	2.37	1.68	0.64	0.01	0.23	0.74
Haryana	2.90	1.14	0.87	0.98	0.43	0.06
Himachal Pradesh	2.74	0.71	0.21	1.16	0.35	0.35
Jharkhand	2.73	1.50	0.27	0.49	0.38	0.66
Karnataka	2.70	0.84	0.78	1.32	0.47	0.22
Kerala	2.88	2.63	0.61	0.28	0.53	0.11
Madhya Pradesh	1.88	1.42	0.71	1.04	0.32	0.46
Maharashtra	3.33	1.50	1.24	0.59	0.32	0.63
Odisha	2.45	1.58	0.26	0.85	0.28	0.70
Punjab	2.66	0.83	0.62	1.24	0.39	0.46
Rajasthan	2.49	1.67	0.60	0.98	0.45	0.23
Tamil Nadu	2.25	2.47	0.73	0.44	0.31	0.07
Telangana	2.76	2.26	1.08	1.41	0.51	0.13
Uttar Pradesh	2.81	1.40	1.09	1.81	0.40	0.12
Uttarakhand	2.42	0.84	0.65	1.16	0.40	0.16
West Bengal	2.48	0.77	0.45	1.06	0.22	0.47

Source (Basic Data): CAG Website (State Accounts) and MoSPI for GSDP.

Chapter 5

Growth and Composition of Expenditure

This chapter analyzes the trends and composition of government expenditures in Tamil Nadu, with a focus on the composition of revenue expenditures. It also compares the state's expenditure levels with those of other major Indian states.

5.1 Composition of Budget Expenditure

The total expenditure of Government of Tamil Nadu has ranged between 13.05 percent and 15.08 percent of GSDP from 2011-12 to 2023-24, as shown in Table 5.1. Revenue expenditure has consistently accounted for about 85 percent of the total expenditure, except in three years (2011-12, 2012-13 and 2016-17).

Table 5.1: Composition of Budget Expenditure

Expen-diture	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
₹ Crore													
Revenue	83838	97067	109825	128828	140993	153195	167874	197200	210435	236402	254030	279964	309718
Capital	16336	14568	17173	17803	18995	20709	20,203	24,311	25632	33067	37011	39530	40500
Loans & Advances (net)	2303	3712	1622	2968	1547	22498	-1956	-435	-1362	-1410	-1714	6183	4821
Total	102477	115347	128620	149599	161535	196402	186121	221076	234705	268059	289327	325677	355039
As Percent of Toral Expenditure													
Revenue	81.81	84.15	85.39	86.12	87.28	78.00	90.20	89.20	89.66	88.19	87.80	85.96	87.23
Capital	15.94	12.63	13.35	11.90	11.76	10.54	10.85	11.00	10.92	12.34	12.79	12.14	11.41
Loans & Advances (net)	2.25	3.22	1.26	1.98	0.96	11.46	-1.05	-0.20	-0.58	-0.53	-0.59	1.90	1.36
Total	100	100	100	100	100	100	100	100	100	100	100	100	100
As Percent of GSDP													
Revenue	11.16	11.36	11.34	12.01	11.98	11.76	11.46	12.10	12.07	13.22	12.26	11.70	11.38
Capital	2.17	1.70	1.77	1.66	1.61	1.59	1.38	1.49	1.47	1.85	1.79	1.65	1.49
Loans & Advances (net)	0.31	0.43	0.17	0.28	0.13	1.73	-0.13	-0.03	-0.08	-0.08	-0.08	0.26	0.18
Total	13.64	13.49	13.28	13.95	13.73	15.08	12.70	13.56	13.46	14.99	13.96	13.61	13.05
Annual Growth (Percent)													
Revenue		15.78	13.14	17.30	9.44	8.65	9.58	17.47	6.71	12.34	7.46	10.21	10.63
Capital		-10.82	17.88	3.67	6.70	9.02	-2.44	20.33	5.43	29.01	11.93	6.81	2.45
Loans & Advances (net)		61.18	-56.30	82.98	-47.88	1354	-108.69	-77.76	213.10	3.52	21.56	-460.74	-22.03
Total		12.56	11.51	16.31	7.98	21.58	-5.23	18.78	6.16	14.21	7.93	12.56	9.02

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

In terms of GSDP, capital expenditure declined from 2.17 percent in 2011-12 to 1.38 percent in 2017-18. It then gradually increased, reaching 1.85 percent in 2020-21, but has since declined again to 1.49 percent in 2023-24. Between 2012-13 to 2023-24, revenue expenditure grew at an average rate of 11.56 percent, while revenue receipts increased at a slower pace of 10.1 percent, resulting in a revenue deficit. During the same period, capital expenditure grew at an average rate of 8.33 percent, while total expenditure increased by 11.11 percent.

5.2 Trends and Composition of Revenue Expenditures

Table 5.2 shows that revenue spending on development services accounted for 56.5 percent of Tamil Nadu's total revenue expenditure in 2011-12. This share increased to 60.1 percent in 2015-16, before declining to 55.4 percent in 2019-20. However, in 2020-21, during the pandemic, it suddenly increased to about 60 percent. From 2011-12 to 2023-24, the proportion of outlay on social services declined by 6.98 percentage point, from 39.67 percent to 32.69 percent. In contrast, the share allocated to economic services increased by 6.24 percentage points from 16.9 percent to 23.1 percent.

Table 5.2: Revenue Expenditures: Development Vs Non-Development Expenditures

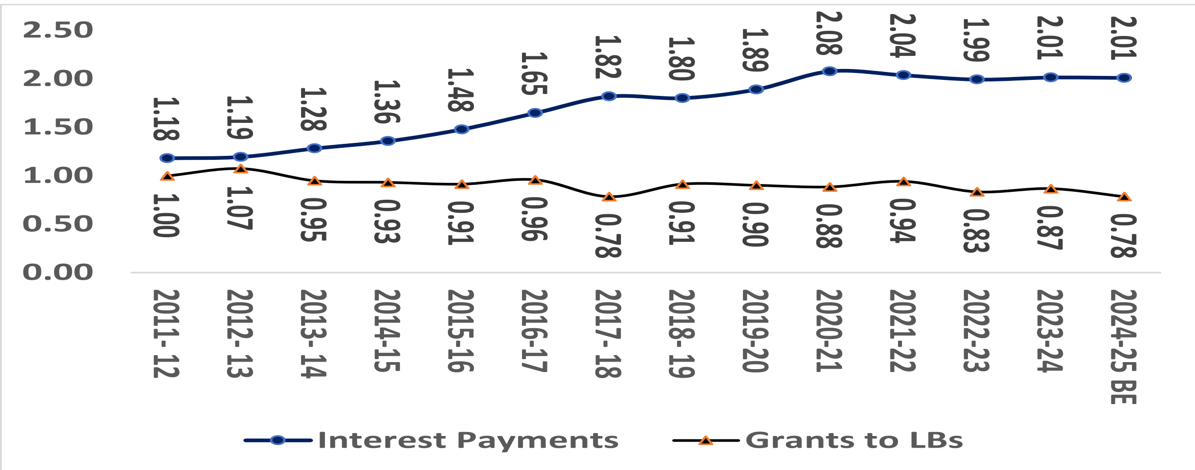
Year	General Services	Grants to LBs	Non-Development	Social Services	Economic Services	Develop-ment	Revenue Exp.
₹ Crore							
2011-12	28941	7493	36434	33262	14142	47404	83838
2012-13	31652	9164	40816	38623	17628	56251	97067
2013-14	35729	9175	44904	45276	19644	64920	109825
2014-15	41655	9980	51635	50349	26843	77192	128828
2015-16	45512	10732	56244	54807	29943	84750	140993
2016-17	51453	12466	63919	55297	33980	89277	153195
2017- 18	60451	11470	71921	59790	36162	95952	167874
2018- 19	72450	14880	87330	70202	39669	109871	197201
2019-20	78137	15688	93825	73999	42610	116609	210435
2020-21	78993	15796	94789	89805	51809	141614	236402
2021-22	84894	19489	104383	88749	60898	149647	254030
2022-23	99097	19926	119023	88968	71975	160943	279964
2023-24	113336	23564	136900	101246	71573	172819	309718
As % of Revenue Expenditures							
2011-12	34.52	8.94	43.46	39.67	16.87	56.54	100
2012-13	32.61	9.44	42.05	39.79	18.16	57.95	100
2013-14	32.53	8.35	40.89	41.23	17.89	59.11	100
2014-15	32.33	7.75	40.08	39.08	20.84	59.92	100
2015-16	32.28	7.61	39.89	38.87	21.24	60.11	100
2016-17	33.59	8.14	41.72	36.1	22.18	58.28	100

2017- 18	36.01	6.83	42.84	35.62	21.54	57.16	100
2018- 19	36.74	7.55	44.28	35.6	20.12	55.72	100
2019-20	37.13	7.46	44.59	35.16	20.25	55.41	100
2020-21	33.41	6.68	40.10	37.99	21.92	59.90	100
2021-22	33.42	7.67	41.09	34.94	23.97	58.91	100
2022-23	35.4	7.12	42.51	31.78	25.71	57.49	100
2023-24	36.59	7.61	44.20	32.69	23.11	55.80	100

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

The proportion of expenditure on non-development services ranged from 40 percent and 44.6 percent between 2011-12 and 2023-24 (Table 5.2). Within this category, the share of its major component, general services, increased slightly from 34.52 percent to 36.6 percent. Meanwhile, the share of grants to local governments declined from 8.94 percent to 7.61 percent. The marginal hike in the share of general service can be attributed to the steady increase in interest payments and debt servicing (Chart 5.1). It is noticed that the share of compensation and assignments to local body governments in Tamil Nadu declined from 1 percent of GSDP in 2011-12 to 0.78 percent in 2024-25BE.

Chart 5.1: Interest Payment and Grants to Local Bodies as Percent of GSDP



Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

Composition of Revenue Expenditures: Table 5.3 presents the composition of revenue expenditure. The share of following components increased from 2011-12 to 2023-24: interest payments and debt servicing (6.87 percentage points), energy (5.64 percentage points), agriculture and allied (2.13 percentage points), rural employment (0.67 percentage point), and medical and public health (0.16 percentage point). At the same period, the share of following components declined: education, sports, arts etc (3.29 percentage points), pensions and miscellaneous general services (2.53 percentage points), civil supplies (2.37 percentage points), administrative services (1.48 percentage points), social security and welfare (1.09 percentage point), nutrition (0.99 percentage point), welfare of SC/STs/OBC (0.87 percentage point), relief for natural calamities (0.72 percentage point), and urban development (0.64 percentage point).

Table 5.3: Composition of Revenue Expenditure (%)

Services	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2023-24	2023-24
Total Revenue Expenditure	100	100	100	100	100	100	100	100	100	100	100	100	100
General Services	**34.52**	**32.61**	**32.53**	**32.33**	**32.28**	**33.59**	**36.01**	**36.74**	**37.13**	**33.41**	**33.42**	**35.40**	**36.59**
Organs of State	1.20	0.73	0.74	0.84	0.72	0.90	0.75	0.75	1.03	0.71	0.92	0.71	0.80
Fiscal Services	0.97	0.91	0.78	0.72	0.66	0.63	0.66	0.63	0.69	0.60	0.61	0.61	0.58
Interest Payment & Debt ser.	10.84	11.32	11.56	11.56	12.58	13.65	15.92	14.83	15.44	15.67	16.59	16.98	17.71
Administrative Services	6.40	5.85	5.69	5.46	5.12	5.10	5.20	5.17	5.37	4.80	4.67	5.12	4.92
Pensions & Misc. Gen.Ser.	15.11	13.80	13.76	13.76	13.19	13.30	13.49	15.36	14.61	11.63	10.63	11.98	12.58
Grants to Local bodies	**8.94**	**9.44**	**8.35**	**7.75**	**7.61**	**8.14**	**6.83**	**7.55**	**7.46**	**6.68**	**7.67**	**7.12**	**7.61**
Social Services	**39.67**	**39.79**	**41.23**	**39.08**	**38.87**	**36.10**	**35.62**	**35.60**	**35.16**	**37.99**	**34.94**	**31.78**	**32.69**
Education, Sports, Art etc	18.21	18.20	19.26	18.82	17.74	16.99	17.10	16.73	18.17	16.07	15.03	15.92	14.92
Medical & Public Health	4.22	4.26	4.09	4.12	4.19	4.02	4.76	4.45	4.22	4.73	4.96	4.65	4.38
Family Welfare	0.81	0.88	0.86	1.24	1.32	1.17	1.21	1.51	1.25	1.56	1.53	1.15	0.96
Water Supply & Sanitation	0.23	0.25	0.58	0.40	0.39	0.87	0.93	0.54	0.31	0.33	0.22	0.17	0.16
Housing	0.74	0.75	0.27	1.28	1.26	0.77	1.48	1.99	1.50	2.22	1.62	0.90	0.84
Urban Development	1.07	1.42	1.79	1.25	0.50	0.75	0.56	0.55	0.78	0.53	0.54	0.77	0.43
Information and Publicity	0.02	0.07	0.09	0.08	0.06	0.05	0.08	0.05	0.05	0.04	0.04	0.05	0.05
Welfare of SCs/STs/OBCs	2.24	2.06	2.58	2.03	2.20	2.34	2.14	2.20	2.09	1.79	1.18	1.30	1.38
Labour & Labor Welfare	0.29	0.31	0.34	0.32	0.27	0.30	0.34	0.32	0.35	0.28	0.24	0.26	0.33
Social Security & Welfare	7.84	8.58	8.15	6.76	6.68	5.24	4.48	4.08	3.94	3.85	4.19	4.22	6.75
Nutrition	2.57	2.37	2.36	2.39	2.09	1.98	1.98	1.90	1.95	1.41	1.42	1.57	1.57
Relief (natural calamities)	1.42	0.55	0.72	0.29	2.12	1.54	0.32	1.14	0.41	5.09	3.82	0.64	0.70
Other Social services	0.01	0.10	0.13	0.10	0.06	0.06	0.22	0.14	0.14	0.09	0.14	0.18	0.20
Economic Services	**16.87**	**18.16**	**17.89**	**20.84**	**21.24**	**22.18**	**21.54**	**20.12**	**20.25**	**21.92**	**23.97**	**25.71**	**23.11**
Agri and Allied	4.21	6.00	6.19	5.55	5.55	6.45	6.88	6.27	6.66	6.18	8.12	7.95	6.35
Spl. Rural Dev Programs	0.06	0.05	0.12	0.05	0.10	0.21	0.35	0.28	0.28	0.27	0.29	0.33	0.25
Rural Employ ment	0.63	0.22	0.13	3.53	4.36	3.12	0.86	1.44	0.94	0.95	1.94	2.12	1.31
Other Rural Devel.Programs	0.70	0.61	0.64	0.87	0.76	0.54	0.52	0.43	0.44	0.39	0.56	0.59	0.63
Special Area Programs	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01
Irrigation, Flood and Drainage	0.99	0.74	1.16	1.07	0.99	0.92	0.95	0.81	0.88	0.80	0.86	0.89	0.92
Energy	2.12	1.93	1.70	2.73	2.78	4.11	5.02	3.89	4.15	7.01	5.96	6.28	7.76

Village & Small Industries	0.64	0.80	0.86	0.69	0.71	0.71	0.68	0.73	0.61	0.66	0.64	0.61	0.78
Industries	0.07	0.90	0.55	0.57	0.88	1.10	1.00	1.14	1.31	0.67	0.74	0.63	0.28
Mining & Mettallurgical industry	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Transport &Communication	1.14	1.56	1.77	1.61	0.87	0.99	1.27	0.71	0.67	0.65	0.90	1.17	1.07
Science, Tech. & Environment	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.01
Civil Supplies	5.99	5.12	4.53	3.96	3.85	3.72	3.71	4.14	4.05	4.14	3.75	4.92	3.62
Tourism	0.03	0.05	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.01	0.01	0.01	0.01
Others	0.26	0.16	0.21	0.18	0.36	0.28	0.26	0.24	0.22	0.17	0.20	0.16	0.11

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years).

Table 5.4 provides the details of grants and assistance allocated to various types of local governments in the state. In 2011-12, the combined share of rural bodies (zilla panchayat, block panchayat and gram panchayat) was 49.19 percent of total grants to local governments. However, this share declined to 41.75 percent in 2023-24, registering a decline of 7.43 percentage points. In contrast, the share to municipal corporations, municipalities and nagar panchayats increased slightly from 36.09 percent to 39.11 percent. However, the share of other miscellaneous compensation increased from 14.73 percent to 19.14 percent.

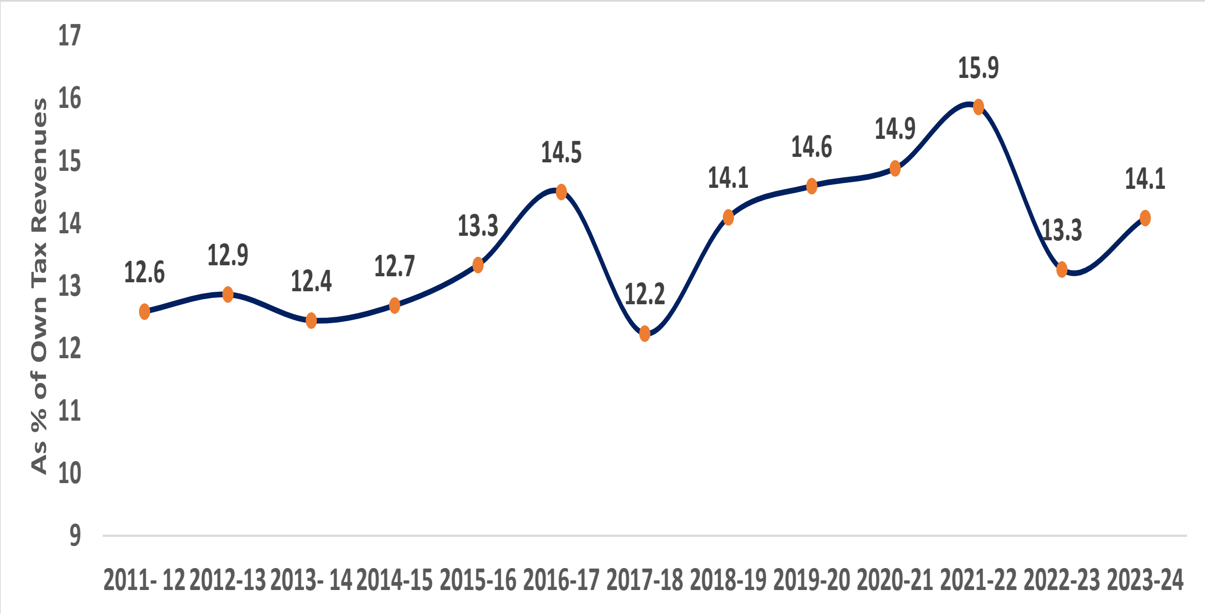
Table 5.4: Grants and Assistance to Local Governments in Tamil Nadu (₹ Crore)

Details	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
Municipal Corporations	808	1014	1339	1376	1511	1912	1770	2384	2525	2354	2908	2972	3906
Municipalities / Councils	1115	1346	936	1078	1199	1471	1298	1720	1820	1831	1727	2250	2886
Town/Nagar Panchayats	781	947	930	1034	1056	1403	1361	1857	1931	1960	1899	1894	2423
District/Zilla Panchayats	267	340	329	342	347	394	285	337	323	388	568	432	554
Block Panchayats	1066	1302	1307	1368	1387	1508	1320	1554	1489	1649	2263	2471	2968
Village/Gram Panchayats	2352	2875	2742	3148	3700	4311	2721	3954	4011	4412	5943	4622	6315
Others	1104	1341	1592	1634	1533	1467	2716	3074	3589	3201	4182	5284	4511
Total	7493	9164	9175	9980	10732	12466	11470	14880	15688	15796	19489	19926	23564
As % of Total contributions to Local bodies													
Municipal Corporations	10.78	11.06	14.60	13.79	14.08	15.34	15.43	16.02	16.10	14.90	14.92	14.92	16.58
Municipalities / Councils	14.88	14.69	10.20	10.80	11.17	11.80	11.32	11.56	11.60	11.59	8.86	11.29	12.25
Town/Nagar Panchayats	10.43	10.33	10.14	10.36	9.84	11.25	11.87	12.48	12.31	12.41	9.74	9.51	10.28
District/Zilla Panchayats	3.56	3.72	3.59	3.43	3.23	3.16	2.48	2.26	2.06	2.46	2.91	2.17	2.35
Block Panchayats	14.23	14.21	14.24	13.70	12.92	12.10	11.51	10.44	9.49	10.44	11.61	12.40	12.60
Village/Gram Panchayats	31.39	31.37	29.88	31.55	34.48	34.58	23.72	26.57	25.57	27.93	30.49	23.20	26.80
Others	14.73	14.63	17.36	16.37	14.28	11.77	23.68	20.66	22.88	20.26	21.46	26.52	19.14
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years).

It is observed from Chart 5.2 that the grants to local bodies as percentage of own tax revenue of the state from 2011-12 to 2023-24 was above 10 percent, which was recommended by successive state finance commissions.

Chart 5.2: Grants to LBs as Percent of Own Tax Revenues



Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years).

Table 5.5 shows the economic classification of revenue expenditures from 2011-12 to 2023-24. In 2011-12, salaries (including salary grant in aid for govt aided education institutions, contract payments and wages) and pension& retirement payments collectively amounted for 32 percent of total revenue expenditure. However, their combined share steadily declined to 24 percent by 2023-24. In contrast, the share of interest payments increased from 11.23 percent to 17.7 percent over the same period. Additionally, the share of subsidies & transfers increased from 34.56 percent to 43 percent.

Table 5.5: Economic Classification of Revenue Expenditures

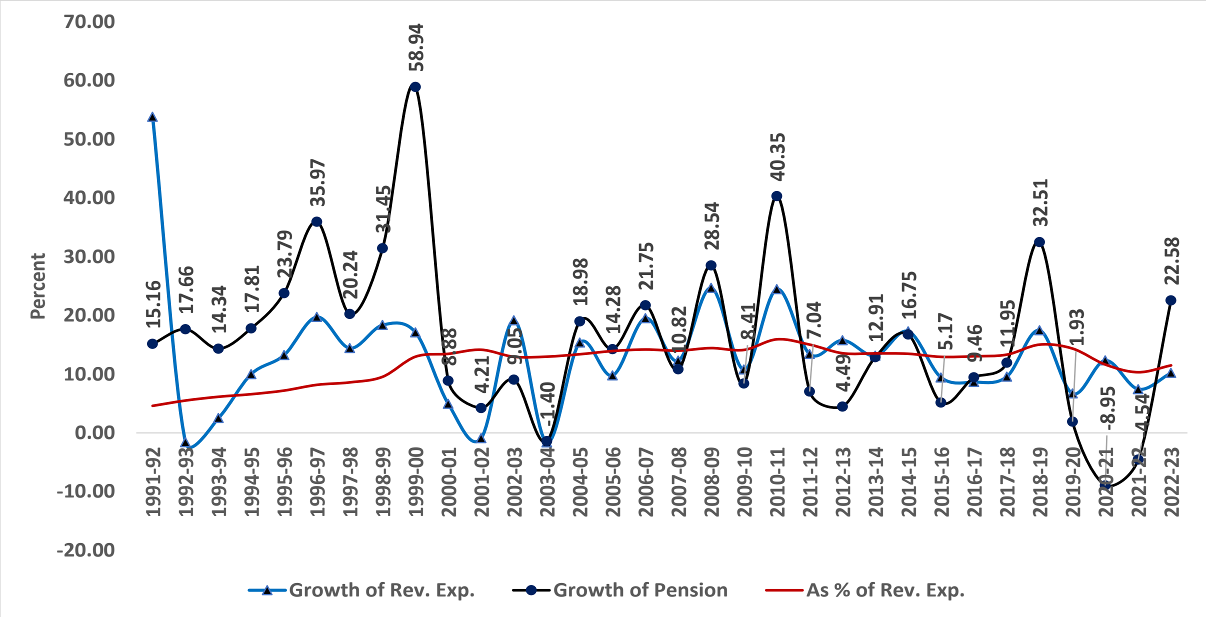
Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
₹ Crore													
Salaries+GiA for education)	26797	27597	31863	37070	37133	40124	44981	52535	57829	57373	60625	68588	75030
Pension & Retirement	12277	12494	14159	15824	16892	18432	20421	27206	27403	24212	23185	28467	33550
Non-Wage O & M	6365	8494	8999	9488	9732	8748	9344	10183	10996	10645	12006	14715	13073
Subsidies & Transfers	28974	37626	41644	50713	59062	64364	66479	77895	81241	107005	115982	120475	133236
Interest Payments	9418	10836	13130	15679	18163	21448	26627	29358	32940	37147	42213	47689	54803
Other Revenue Expenditures	7	17	30	44	12	79	22	24	26	20	19	29	26
Revenue Expen..	83838	97067	109825	128828	140993	153195	167874	197201	210435	236402	254030	279963	309718
As % of Revenue Expenditures													
Salaries+GiA for education)	31.96	28.43	29.01	28.77	26.34	26.19	26.79	26.64	27.48	24.27	23.87	24.50	24.23
Pension & Retirement	14.64	12.87	12.89	12.28	11.98	12.03	12.16	13.80	13.02	10.24	9.13	10.17	10.83
Non-Wage O & M	7.59	8.75	8.19	7.36	6.90	5.71	5.57	5.16	5.23	4.50	4.73	5.26	4.22
Subsidies & Transfers	34.56	38.76	37.92	39.36	41.89	42.01	39.60	39.50	38.61	45.26	45.66	43.03	43.02
Interest Payments	11.23	11.16	11.96	12.17	12.88	14.00	15.86	14.89	15.65	15.71	16.62	17.03	17.69
Other Revenue Expenditures	0.01	0.02	0.03	0.03	0.01	0.05	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Revenue Expen.	100	100	100	100	100	100	100	100	100	100	100	100	100

Source (Basic Data): State Budget Documents of Tamil Nadu (Various Years)

It is observed that the Government of Tamil Nadu has historically incurred a high salary expenditure relative to its total revenue expenditure. However, the existence of over 75,000 vacant government positions could partially explain the recent fall in the share of salary expenditure. In terms of pension liabilities, the Tamil Nadu government introduced the contributory pension scheme (CPS) for employees appointed on or after April 1, 2003. Nevertheless, the old pension scheme (including family pensions) continues to apply to employees recruited before that date. The implementation of the 7th pay commission recommendations, along with the increase in the retirement age from 58 to 60 years during the pandemic, has further added to the government's pension obligations.

Chart 5.3 shows the trends in the annual growth of pension expenditure and its share in total revenue expenditure since 1991-92. Before the implementation of CPS, the average annual growth rate of pension expenditure stood at 13 percent (1991-92 to 2003-24). In the post-CPS period (2004-05 to 2022-23), this growth rate increased slightly to 13.61 percent. However, the average share of pension in total revenue expenditure declined from 19.7 percent to 13.39 percent during the same periods. In the light of increasing demands from government employees to revert to the old pension scheme, the Tamil Nadu government has constituted a pension committee to evaluate the financial implications of such a shift.

Chart 5.3: Annual Growth of Pension and Pension as % of Total Revenue Expenditure



Source (Basic data): RBI's State Finances : A Study of Budgets (various years).

Table 5.6 shows trends in major subsidies from 2011-12 to 2024-25BE. The power subsidy as a percentage of GSDP increased from 0.25 percent in 2011-12 to 048 percent in 2024-25BE, while the food subsidy relative to GSDP declined from 0.65 percent to 0.33 percent. Meanwhile, the transport subsidy grew from 0.05 percent of GSDP to 0.14 percent, due to implementation of free bus scheme for women (Vidiyal Payanam Thittam). In 2023-24, the government launched Mahilir Urimai Thogai Thittam, under which ₹ 7,937 was allocated. The total subsidy expenditure increased from ₹ 8,698 crore in 2011-2 to ₹ 51,513 crore in 2024-25BE. As a percentage of GSDP, total subsidies increased from 1.16 percent to 1.62 percent during this period.

It is observed that Tamil Nadu government indicates subsidies to state PSUs like power, transport and PDS. Based on the claims made by these PSUs after spending, the government releases the fund mostly in every quarter. At the end of financial year, the total subsidies are mostly within the budgeted figures. In a few cases/occasions the actual subsidy paid exceeds the budgeted figures. For instance, in some occasion government distributes cash subsidy to household through PDS for flooding or COVID-19 pandemic. In such cases, the actual subsidy exceeds the budgeted figures. These extra amount in some time was released in the subsequent year.

Table 5.6: Trends in Food, Power and Transport Subsidies in Tamil Nadu

(₹ Crore)

Year	Food Subsidy	as % of GSDP	Power subsidy	as % of GSDP	Transport subsidy	as % of GSDP	Magalir Urimai Thogai	as % of GSDP	Total Subsidy	as % of GSDP
2011-12	4900	0.65	1846	0.25	390	0.05	0	0	8698	1.16
2012-13	4900	0.57	2042	0.24	336	0.04	0	0	9592	1.12
2013-14	4900	0.51	2097	0.22	623	0.06	0	0	9646	1.00
2014-15	5000	0.47	2769	0.26	448	0.04	0	0	10373	0.97
2015-16	5300	0.45	3217	0.27	480	0.04	0	0	12315	1.05
2016-17	5500	0.42	4680	0.36	505	0.04	0	0	16092	1.24
2017-18	6000	0.41	4030	0.28	541	0.04	0	0	15230	1.04
2018-19	7989	0.49	3443	0.21	765	0.05	0	0	18922	1.16
2019-20	8363	0.48	3725	0.21	1275	0.07	0	0	20144	1.16
2020-21	9604	0.54	3924	0.22	3430	0.19	0	0	25110	1.40
2021-22	9324	0.45	3840	0.19	2506	0.12	0	0	21689	1.05
2022-23	13277	0.55	5642	0.24	4096	0.17	0	0	29559	1.24
2023-24	10501	0.39	7687	0.28	4500	0.17	7936.5	0.29	37749	1.39
2024-25BE	10500	0.33	15225	0.48	4571	0.14	13720	0.43	51513	1.62

Source: Budget documents (various issues)

5.3 Interstate Comparison

Tamil Nadu compares well with other major states in per capita revenue expenditure. In 2022-23, it ranked seventh for the highest per capita revenue expenditure (Table 5.7). However, it ranked sixth lowest in revenue expenditure as percentage of GSDP, next only to Gujarat, Karnataka, Haryana, Maharashtra and Telangana.

A comparison of subcomponents shares of revenue expenditure reveals that Tamil Nadu ranked 5th in terms of the share of interest payments, next only to Punjab, Haryana, West Bengal and Kerala. The state ranked second in the share of compensations to local government, next only to Maharashtra. Tamil Nadu ranked 7th in the share of economic services spending, but ranked 17th and 20th in terms of spending of general services and social services respectively.

5.4 Concluding Remarks

The capital expenditure relative to GSDP declined from 2.17 percent in 2011-12 to 1.38 percent in 2017-18. While it increased to 1.85 percent in 2020-21, it once again declined to 1.49 percent in 2023-24. Throughout this period, the fiscal deficit-GSDP ratio exceeded the capital expenditure-GSDP ratio, meaning the government relied on borrowed to cover the revenue deficit. The fiscal deficit exceeded 3 percent norm from 2019-20 and the outstanding liabilities relative to GSDP exceeded 20 percent mark from 2016-17.

Table 5.7: Composition of Revenue Expenditure in Major States (2022-23)

States	Revenue Expenditure		Composition of Revenue Expenditure (%)				
	Per Capita (₹)	As % of GSDP	General Services (other than Interest)	Social Services	Economic Services	Interest payment	Grant-in Aid
Andhra Pradesh	37916	15.44	20.68	44.05	24.25	11.01	0.01
Assam	28621	21.27	25.15	50.98	14.65	8.72	0.51
Bihar	14602	24.65	22.94	48.02	21.52	7.51	0.00
Chhattisgarh	28393	18.36	18.81	37.31	34.59	7.95	1.34
Gujarat	25235	8.15	20.00	41.84	23.77	14.12	0.27
Haryana	35659	10.81	20.37	41.05	19.41	19.17	0.00
Himachal Pradesh	59607	23.17	29.12	39.19	20.81	10.87	0.01
Jharkhand	16985	15.98	24.78	41.45	23.67	10.10	0.00
Karnataka	31931	9.50	19.56	37.58	26.48	13.75	2.63
Kerala	39744	13.87	31.46	35.42	8.65	17.74	6.74
Madhya Pradesh	23203	16.04	17.69	41.06	27.58	9.73	3.94
Maharashtra	32356	11.18	21.44	40.07	19.83	10.60	8.07
Odisha	28383	17.25	31.92	40.07	22.60	4.20	1.21
Punjab	35237	16.68	27.36	25.38	23.75	20.15	3.35
Rajasthan	28078	16.68	18.22	39.81	28.45	13.51	0.00
Tamil Nadu	36470	11.70	18.41	31.78	25.71	16.98	7.12
Telangana	40371	11.69	18.38	37.52	29.87	14.22	0.00
Uttar Pradesh	16190	16.64	26.10	36.56	20.62	11.98	4.74
Uttarakhand	37777	14.41	26.67	41.48	15.28	11.91	4.66
West Bengal	22535	14.55	17.52	51.86	12.39	18.05	0.18

Source (Basic Data): CAG website (State Account).

Between 2012-13 and 2023-24, revenue expenditure grew at an average rate of 11.56 percent, while revenue receipts grew at a slower pace of 10.1 percent, resulting in a revenue deficit. While the share of salaries, wages and pensions declined from 32 percent of total revenue expenditure in 2011-12 to 24 percent in 2023-24, the share of interest payment increased from 11.23 percent to 17.6 percent. Tamil Nadu ranked 5th for the share of interest payments, following Punjab, Haryana, West Bengal and Kerala. These trends indicate a deterioration in the government's finances in Tamil Nadu, particularly since 2019-20. However, the Government of Tamil Nadu has been implementing various welfare schemes to support women, children and poor.

According to a study done at Madras School of Economics, Tamil Nadu government spent more than ₹45, 000 crore on about 650 state schemes (2021-22). It argues that the government spent about ₹2,200 crore on about 320 low priority schemes which may be discontinued as they are not improving the welfare of the people. Despite, the government recently introduced the following schemes:

(i) Chief Minister Breakfast Scheme (at a total cost of ₹.33.56 crore in 2022): this scheme is designed to improve nutrition and also attendance and academic performance;

(ii) Free bus travel scheme for women (₹3600 crore allotted in 2025-26BE): About 50 lakh women ride free daily under this scheme. A study indicates that women save ₹800 per month on average due to this scheme, and they are reinvesting this money into their families' health, education, and nutrition. This has long-term benefits for society and the nation.

(iii) ₹1000 Monthly Financial Assistance to Women (Magalir Urimai Thogai): while the purpose is to improve women's ability to live well and raise their standard of living, the actual impact is known after a few years.

However, it is observed that despite implementing these new schemes, the government manages to pursue fiscal consolidation in line with the 15th Finance Commission's recommendations.

Chapter 6

Outstanding Liabilities in Tamil Nadu

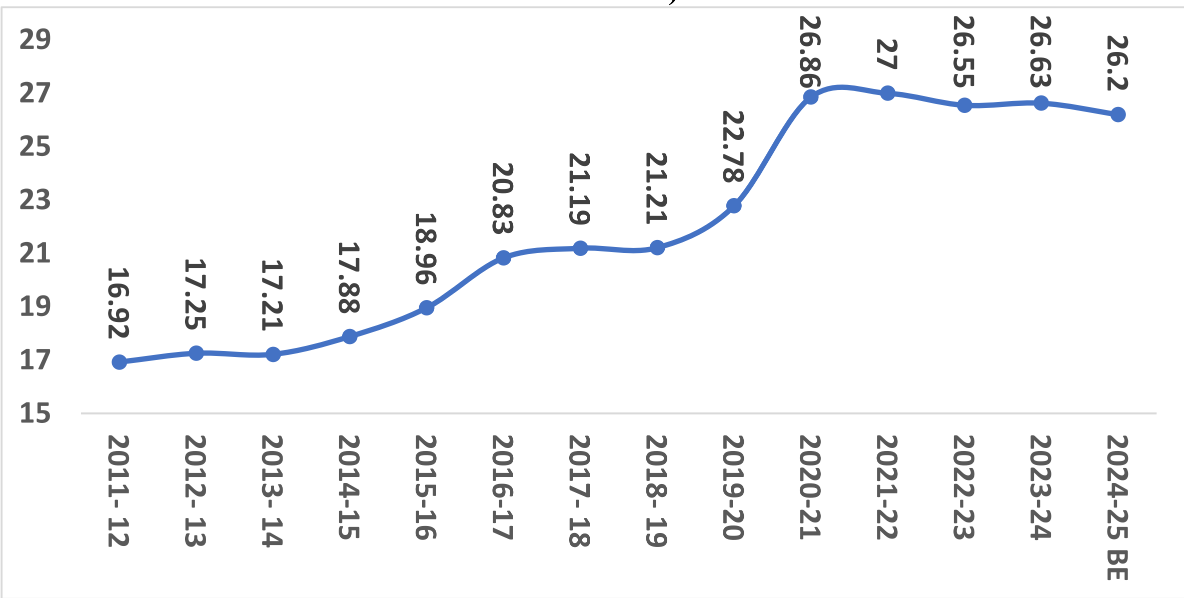
In recent years, public debt has become a significant concern for both state and central governments. Many state governments, particularly post COVID-19, have been facing severe fiscal stress. Unlike the central government, the borrowing power of the state governments is more constrained. According to Article 293 of the Indian Constitution, states are permitted to borrow from the market through the issuance of public loans (clause (1) or they can borrow from the central government. However, states are authorized to raise loans from foreign markets, except in cases of externally aided projects intermediated by the central government (clause (2). Additionally, a state government cannot borrow independently if it is indebted to the central government. While borrowing options are limited, states have the flexibility to decided how they utilize the finds they borrow. This chapter examines the trends and composition of Tamil Nadu's public debt, with a focus on its debt sustainability.

6.1 Public Debt of Tamil Nadu: Trends and Composition

As on 2023-24, the outstanding liabilities of Tamil Nadu's government was ₹7,24,789 crore, with an estimated increase to ₹8,30,734 crore in the 2024-25 BE. The state's debt-to-GSDP ratio was 22.36 percent in 2004-05 (not shown) and it decreased to 16.92 percent in 2011-12, largely due to the enactment of the FRBM legislation (Chart 6.1). Since then, this ratio has been gradually increasing, although it remained below 20 percent till 2015-17. In 2016-17 it crossed 20 percent threshold suggested by the New FRBM Committee for all states, reaching 26.86 percent in the pandemic year 2020-21.

Since then, the debt-to-GSDP ratio has marginally declined, reaching 26.2 percent in 2024-25BE. Despite the increase, this level remains within the limits set by the Fifteenth Finance Commission's roadmap. Notably, the Finance Commission has refrained from specifying a debt sustainability threshold for states, given the sharp rise in debt-to-GSDP ratios following the pandemic. It is also worth noting that the central government had introduced several schemes to help states managing their debt burdens in the past. These included a debt swap scheme (2003-05), which allowed states to convert high-cost loans into low-cost loans, a debt consolidation program (2005-100 and a debt write-off scheme) based on the recommendations of the Twelfth Finance Commission to help states out of their debt traps.

Chart 6.1: Outstanding Liabilities as Percentage of GSDP in Tamil Nadu (2004-05 to 2024-25 BE)



Source (Basic Data): Budget documents (Various years) and for GSDP in 2011-12 base series.

Tamil Nadu has strategically diversified its debt portfolio to mitigate risk and reduce borrowing costs. The state government's debt comprises three main sources: internal debt, loans and advances from the central government, and public account liabilities. The internal debt includes market loans, loans from Financial Institutions (FIs), Ways and Means Advances (WMA) from the Reserve Bank of India (RBI), and special securities issued to NSSF of the central government. The loans and advances from the central government consist of non-plan loans, loans for state/union territory plans, loans for central plans, loans for centrally sponsored schemes, loans for special schemes and other types of loans. The public account liabilities cover a wide range of items including small savings, provident funds, reserve funds (both interest-bearing and non-interest bearing), as well as deposits (interest-bearing and non-interest bearing).[6]

Table 6.1 furnishes a detailed breakdown of Tamil Nadu's public debt composition. Internal debt represented 76.74 percent of the state's debt in 2013-14 and it increased to about 83 percent in 2023-24. During this period, the share of public account liabilities declined from 15.98 percent to 8.8 percent. But the share of loans and advances from the central government increased marginally from 7.28 percent to 7.95 percent.

[6] The public debt stated in the state budget includes only the internal debt and the debt owed to the central government. However, the total debt outstanding as given in the Finance Accounts includes public account liabilities as well.

Table 6.1: Composition of Outstanding Liabilities in Tamil Nadu

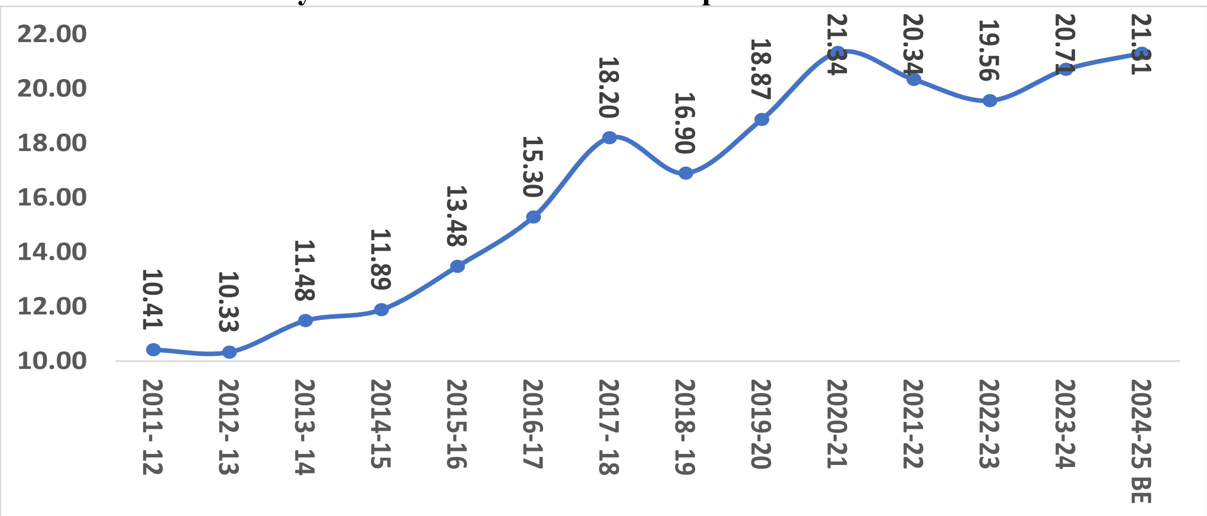
Year	Internal Debt		Public Account Liabilities		Loans and Advances from Centre	
	₹ Crore	% of Total Liabilities	₹ Crore	% of Total Liabilities	₹ Crore	% of Total Liabilities
2013-14	127906	76.74	26639	15.98	12136	7.28
2014-15	151736	79.09	27213	14.18	12898	6.72
2015-16	180693	81.02	28934	12.97	13403	6.01
2016-17	237701	83.88	31355	11.06	14338	5.06
2017-18	272634	83.50	37749	11.56	16135	4.94
2018-19	304350	82.54	47094	12.77	17292	4.69
2019-20	352625	83.22	53193	12.55	17925	4.23
2020-21	429748	82.84	61608	11.88	27440	5.29
2021-22	502205	82.24	68731	11.26	39731	6.51
2022-23	567635	82.08	75698	10.95	48258	6.98
2023-24	642594	83.31	68497	8.88	61332	7.95

Source (Basic Data): CAG website (State accounts)

6.2 Debt Servicing Burden

One of the significant consequences of a high debt ratio is the increased outflow for interest payments. The 14th Finance Commission recommended that interest payments should not exceed 10 per cent of the revenue receipts to qualify for an enhanced borrowing limit. As shown in Chat 6.2, the debt servicing burden was reduced to 10 percent level in 2012-13. Since then, it has steadily increased, reaching about 22 percent in the 2024-25 Budget Estimate. This growing burden is a major concern.

Chart 6.2: Interest Payment as % of Revenue Receipts



Source (Basic Data): Budget documents (Various years).

6.3 An Interstate Comparison of Public Debt

Table 6.2 indicates that, as of March 2023, Tamil Nadu held the largest debt among states in absolute terms. However, it ranked 11th in terms of the debt-to-GSDP ratio. The state's per capita debt was ₹ 90,092, ranking it 7th in terms of high per capita public debt. Despite being the second largest economy in the country with a relatively high borrowing capacity compared to other state, Tamil Nadu's debt-GSDP ratio significantly exceeded the 20 percent threshold set by the new FRBM committee. This raises concerns about the sustainability of the state's debt. Notably, only Gujarat, Maharashtra and Odisha adhered to debt sustainability limit, while in all other states, the debt levels are considered unsustainable.

Table 6.2: Total Liabilities of Indian States (as on March 2023)

States	Total Liabilities		
	₹ Crore	as % of GSDP	Per Capita (₹)
Andhra Pradesh	425103	32.61	80089
Arunachal Pradesh	15647	44.57	100622
Assam	124891	26.09	35108
Bihar	293307	39.30	23280
Chhattisgarh	101696	21.90	33857
Gujarat	412378	18.72	57960
Haryana	304868	30.98	102168
Himachal Pradesh	86589	45.16	116181
Jharkhand	118448	28.38	30171
Karnataka	536057	23.61	79398
Kerala	385030	37.62	107803
Madhya Pradesh	363952	29.20	42247
Maharashtra	660754	18.12	52450
Odisha	111952	14.74	24255
Punjab	314221	46.12	97416
Rajasthan	505574	37.23	62678
Tamil Nadu*	691591	28.90	90092
Telangana	356486	27.17	93815
Uttar Pradesh	653547	28.61	27847
Uttarakhand	78509	25.84	67756
West Bengal	574313	37.49	58079

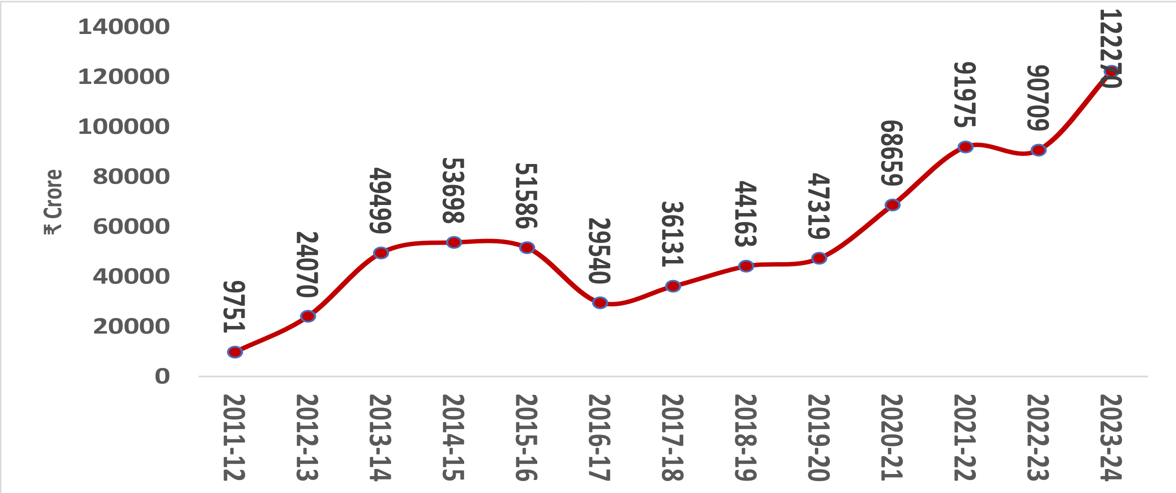
Source (Basic Data): CAG website (state accounts). * CAG's figure for TN' debt slightly differs from GOTN budget document.

6.4 Government Guarantees

The government also provides guarantees, which are contingent liabilities on the Consolidated Fund of the state if the borrower defaulted on repayment. According to Article 293 of the Indian

Constitution, the limits for state government guarantees must be determined by the state legislature. To regulate these guarantees, the Tamil Nadu Fiscal Responsibility Act 2003, set a ceiling of 10 percent of GSDP or 100 percent of total revenue receipts of the preceding year, whichever is lower. While the government guarantees in Tamil Nadu have been steadily increasing since 2016-17, they reached ₹1,22,270 crore in 2023-24, which accounted for approximately 50.16 percent of the state's revenue receipts in 2022-23 (and 4.49 percent of GSDP in 2023-24). [7] Thus, the guarantees remain within the prescribed limit.

Chart 6.3: Government Guarantees (₹ Crore)



Source (Basic Data): Budget documents (Various years).

6.5 Impact of Debt-GSDP Ratio on Economic Growth

Studies examining the relationship between public debt and economic growth have yielded mixed results, indicating no effect, a positive effect, a negative effect or a non-linear effect (positive when the debt levels are low, and negative once they surpass a sustainability threshold).

To assess the impact of debt-to-GSDP ratio on economic growth, the growth rate is regressed on both the debt-GSDP and its squared term. This non-linear model helps identify a debt threshold-beyond which the debt-to-GSDP ratio becomes growth reducing instead of growth inducing.

Chart 6.4 depicts the non-linear relationship between economic growth (y_t) and the debt-to-GSDP (x_t) for Tamil Nadu, spanning the period from 2012-13 to 2023-24. The regression results show that the coefficient of the debt-to-GSDP ratio is positive, while the coefficient for its squared term is negative.

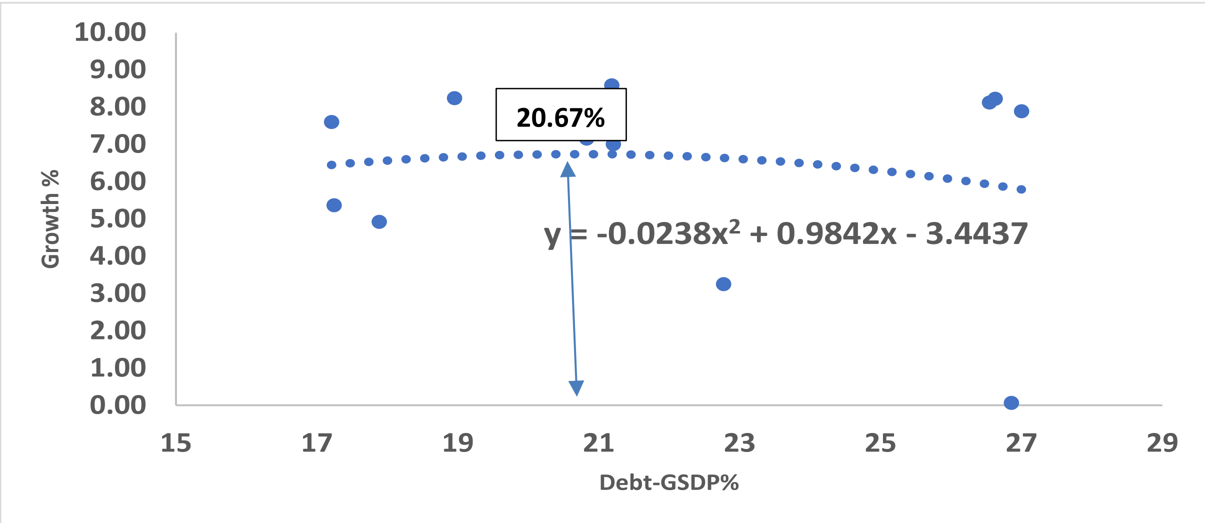
[7] However, the budget document shows that 80% of the net present value of government guarantees in 2023-24 was ₹44,429.7 crore, which is only 18.23% of revenue receipts.

The threshold level is computed using the formula:

$$Threshol = \frac{Coefficient\ of\ Debt - GSDP}{2\ x\ Coefficient\ of\ Debt - GSDP^2} = \frac{0.9842}{2\ x\ 0.0238} = 20.676\%$$

This threshold is close to the 20 percent ceiling suggested by the New FRBM Review Committee for all states together. The result highlights that the current level of debt in Tamil Nadu is not conducive to growth. Therefore, it is essential for the state to reduce its debt to a sustainable level. Additionally, the state should consider approaching the 16th Finance Commission for support with debt consolidation, relief schemes or debt write offs, similar to the recommendations made by the Twelfth Finance Commission.

Chart 6.4: Debt Threshold for Tamil Nadu



Source: Computed by the author

6.6 Debt Sustainability Analysis

This section aims to estimate the sustainable level of debt for Tamil Nadu. A comprehensive way to assess the government debt sustainability is through solvency analysis.[8] A solvent government must be able to finance its deficit in the long run without relying a Ponzi scheme, where the new debt issuance is used for servicing existing debt. For a government to be considered solvent, its initial debt stock should be equal to the present value of future primary surpluses. Technically, the present discounted value of government debt should approach zero (or fall to acceptable minimum level) as time progresses. Additionally, the evolution of the debt burden depends on changes in the real interest rate and the real growth rate of the economy.

Various empirical approaches exist in the literature to test debt sustainability. However,

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[8] Conceptually debt sustainability is given as long as debt not accumulate at a rate considerably exceeding the government's capacity to service it (without large policy adjustment, negotiating or defaulting). In simple term, "Sustainability is basically about good housekeeping" Blanchard et al., 1990.

traditional methods-such as the indicator approach, unit root approach, and cointegration approach-have faced criticism on various grounds. Bohn (1998) introduced a model-based solvency test, commonly known as the fiscal policy response function approach. According to this approach, if the primary balance-to-GDP ratio (*pb*) is positive and at least a linearly increasing function of the initial debt to GDP ratio (d^*), the debt is considered sustainable.
The model specification of this approach is given by:

$$pb_t = \alpha + \beta d_t^* + \gamma Z_t + \varepsilon_t \text{......................................(6.1)}$$

where

- β is the fiscal reaction parameter,
- Z_t is a set of other determinants of primary balance
- ε_t is an error term.

Equation (6.1) models how primary balance responds to changes in the debt stock. If β is positive and statistically significant, the debt is sustainable. Since the relationship may not be a linear, the model can be modified to account for non-linearity, which is approximated by a liner model with a time varying parameter associated with debt:

$$pd_t = \alpha + \beta(t)\, d_{t-1} + \gamma yvar_t + \delta gvar_t + \varepsilon_t \text{.................................(6.2)}$$

where

- pd_t is the primary surplus-to-GSDP ratio for the tth time period,
- d_{t-1} is the debt-to-GSDP ratio from the previous period (to avoid the endogeneity issue),
- $yvar_{it}$ and $gvar_{it}$ are business cycle variables that account for fluctuations in GSDP and primary public spending, respectively. These variables are calculated by subtracting the long-term trend of real GSDP and real primary spending from their realized values. The long-term trends are computed using the Hodrick-Prescott (HP) filter.

The parameter $\beta\ (t)$ is time varying, and empirical estimation involves the use of splines (a smoothing technique that provides more flexibility in data analysis). This procedure is known as Penalized Spline method. The same model (6.2) can also be estimated using threshold regression to identify the debt sustainability threshold.
The data period used for this analysis spans from 1999-00 to 2023-24.
Table 6.3 presents the estimation results for Equation 6.2. The business cycle variable, $yvar$, has a positive coefficient, as expected, and is statistically significant at the 1 percent level. This result indicates that the periods of growth above potential have contributed to increase in the primary surplus ratio. On the other hand, the primary expenditure gap variable, $gvar$, has a

negative coefficient and is also statistically significant at the 1 percent level, implying that primary spending above its normal level has led to a reduction in the primary surplus ratio.

Table 6.3: Penalised Spline Estimation of Bohn Model
Dependent Variable = Primary Deficit Primary Deficit to GSDP ratio (as percentage)

Variable	Coefficient (t-Statistic)
Constant	-0.9744 (-0.682)
Lagged Debt (%)	0.0170 (0.358)
yvar	0.00001 (2.631)
gvar	-0.0001 (-5.165)
edf	4.194
F [P-value]	3.487 [0.023]
Adjusted R-squared	0.827
GCV	0.2407
Durbin-Watson stat [P-value]	2.7981 [0.52]

Source: Estimated by the author.

The coefficient of d_{it-1} is positive, but it is not statistically significant even at the 10 percent level, clearly indicating that the current debt level is not sustainable. Table 6.4 presents the results of the threshold regression estimation, which employs a single threshold. The threshold value is set at 22.29 percent, indicating that debt is considered sustainable when it is below this limit. As shown in Table 6.4, the debt coefficient is positive and statistically significant in regime 1, where debt is below 22.29 percent. However, when debt exceeds this threshold in regime 2, the debt coefficient becomes negative and significant, suggesting that debt becomes unsustainable beyond this point.

Table 6.4: Threshold Regression Estimation Results of Debt Sustainability Model

(Dependent Variable = Primary Deficit to GSDP ratio (as percentage)
Region varying variable = Lagged Debt to GSDP ratio (as percentage)
Threshold Variable = Debt to GSDP ratio (as percentage)
gvar and yvar as actual values)

Variable	Coefficient (t-Statistic)
DEBT < 22.2871 (Regime 1)	
Lagged Debt(%)	0.1348 (2.686)
Constant	-3.1662 (-3.191)
22.2871 <= DEBT (Regime 2)	
Lagged Debt (%)	-0.0740 (-2.801)
Constant	0.3417 (0.490)
YVAR	0.00001 (3.110)
GVAR	-0.0001 (-8.731)
Adjusted R-squared	0.7493
F-statistic	15.3474
Durbin-Watson stat	2.0492

Source: Estimated by the author.

6.7 Concluding Remarks

Tamil Nadu's public debt was ₹ 7,24,789 crore in 2023-24, making it state with the largest absolute debt among major Indian states. However, its debt-to-GSDP ratio was 26.63 percent, which is well below the threshold set by the Fifteenth Finance Commission. In terms of this ratio, Tamil Nadu ranked 11^{th} among the states. A major concern, however, is the debt servicing (interest) burden, which exceeds 20 percent of its revenue receipts, significantly higher than the 10 percent norm recommended by the 14th Finance Commission.

Debt sustainability analysis using the Bohn model suggests that Tamil Nadu's debt is unsustainable. The threshold for debt sustainability in the state is 22.29 percent, but its current level of debt is about 27 percent, well above this threshold. To ensure long-term fiscal health, the state needs to bring its debt down to a sustainable level, thereby reducing the interest burden and supporting economic growth.

Debt levels are a common concern for many Indian states, with all but Maharashtra, Gujarat and Odisha exceeding the 20 percent debt-to-GSDP threshold. In light of this, the Sixteenth Finance Commission could consider recommending a debt relief scheme, similar to the one proposed by the Twelfth Finance Commission, to help states to navigate out of the debt trap which emerged mainly because of the pandemic.

Chapter 7

State Public Sector Enterprises in Tamil Nadu

A Public Sector Undertaking (PSU), also referred to as a Public Sector Enterprise (PSE), is a company or enterprise in which the government holds the majority of the ownership (more than 50 percent). In India, as in many federal countries, state-owned enterprises are managed either by the union government, state governments, or combination of both.

India has a rich history of Public Sector Undertakings. The country initially adopted a state-led growth model, creating opportunities for PSUs to flourish at both national and state levels. Due to limited private sector investment at the time, the state ownership of enterprises emerged as a solution to address market failures and to achieve broader social objectives (Maurya et al. 2015). Today, India boasts around 230 Central PSUs and over 1,000 state-level PSUs. Despite their significant presence, however, the overall financial performance of these enterprises has often been suboptimal, resulting in a strain on state resources.

State Level Public Sector Undertakings are particularly vital to the state's economy. These entities include state government companies and statutory corporations established to carryout commercial activities while prioritizing public welfare. The state government exercises control over these PSUs through various administrative departments. This chapter provides a brief review of the performance of public sector enterprises in Tamil Nadu.

7.1 Growth and Development of State PSUs in Tamil Nadu

Table 7.1 presents details of the State PSUs in Tamil Nadu as of 31 March 2022. The state has 68 operational PSUs (67 companies and 1 statutory corporation), along with 2 non-operational PSUs .[9] Collectively, these companies employ around 3 lakh people and generate a total turnover of ₹1.24 lakh crore, which accounts for 5.96 percent of the state's GSDP. The total investment in these 68 PSUs, including both capital and long-term loans, amounts to ₹2.45 lakh crore, with the state contributing ₹ 48,447 crore towards equity and long-term loans.

Out of the 68 operational PSUs, 34 reported profits totaling ₹ 1,648.06 crore, while 30 incurred losses amounting to ₹22,192.44 crore (CAG Report, 2022). Consequently, the overall accumulated losses of these PSUs stood at ₹ 20,544 crore. Despite the significant investment of ₹2.45 lakh crore, the overall impact of these PSUs on Tamil Nadu's economy has been less

[9] Non-working PSUs are those which have ceased to carry on their operations

than anticipated.

Table 7.1: Details of the State PSUs in Tamil Nadu (as on 31 March 2022)

Particulars	No.	Particulars	Amount (₹ crore)
Number of SPSUs	70	Total Turnover of SPSUs	123547
Number of Working SPSUs	68	Total Investment in SPSUs	244998
Number of Non-working SPSUs	2	State Contribution to SPSUSs	48447
Number of Government Companies	67	Net loss (-) of all SPSUs	-20544
No of Statutory Corporations	1	Earned Profit of 34 SPSUs	1648
Profit Earned Working SPSUs	34	Incurred Loss of 30 SPSUs	22192
Loss Incurred Working SPSUs	30	Capital employed	67903
Number of Employees	3 lakh	Return on Capital employed (%)	-5.39

Source: Report of the CAG Audit on Public Sector Undertakings of Tamil Nadu for the year ended 31 March 2022; Note: Capital employed represents shareholders' funds plus long-term borrowings; Return on capital employed has been worked out by adding profit and interest charged to profit and loss account.

Table 7.2 presents the trends in the number of State PSUs in Tamil Nadu from 2011-12 to 2021-22. Over this period, the total number of PSUs declined from 77 to 70. However, the number of operational PSUs increased from 64 to 68, while the number of non-operational PSUs declined significantly from 13 to just 2. Of the 68 working entities, 67 are government companies, and only one is a statutory corporation-Tamil Nadu Warehousing Corporation (TANWARE).

Table 7.2: Number of State PSUs in Tamil Nadu from 2011-12 to 2021-22

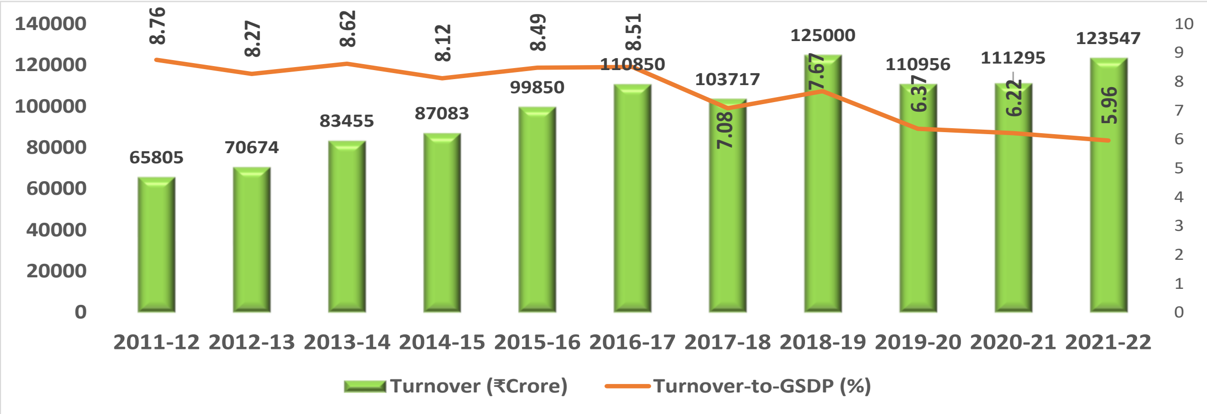
Year	Number of PSUs	Number of Working PSUs	Number of Non-working PSUs	Number of Government Companies	Number of Statutory Corporations
2011-12	77	64	13	76	1
2012-13	77	64	13	76	1
2013-14	77	64	13	76	1
2014-15	72	65	7	71	1
2015-16	74	68	6	73	1
2016-17	74	68	6	73	1
2017-18	75	68	6	74	1
2018-19	75	68	6	74	1
2019-20	77	66	5	67	1
2020-21	70	68	2	67	1
2021-22	70	68	2	67	1

Source: CAG Audit Report of Tamil Nadu, various years

The turnover of working PSUs was ₹ 65,805 crore in 2011-12 and steadily increased to ₹ 1.25 lakh crore in 2018-19, with the exception of 2017-18. However, in the following two years, the turnover declined due to the impact of COVID-19. It then rose to ₹1.24 lakh crore in 2021-22.

Despite this increase in turnover, the turnover declined from 8.76 percent of GSDP in 2011-12 to 5.96 percent in 2021-22 (Chart 7.1).

Chart 7.1: Turnover of the Working PSUs of the State (2011-12 to 2021-22)



Source: CAG Audit Report of Tamil Nadu, various years and CSO.

Investment is a crucial pre-requisite for the growth of any undertaking. The total investment in PSUs includes both capital and long-term loans. The investment pattern of PSUs in Tamil Nadu is presented in Table 7.3. Total investment grew steadily from ₹ 61,439 crore in 2011-12 to ₹2,44,998 crore in 2021-22, reflecting a 3.99-fold increase, with an annual rate of growth of 15.39 percent. During the same period, loans increased from ₹43,158 to ₹1,79,836 crore, recording a 4.17-fold increase. As a result, the share of loans in total investment increased from 70.2 percent to 73.4 percent, mainly due to the loans availed by the state's transport and power undertakings from various sources. Meanwhile, capital increased from ₹ 18,281 crore to ₹65,162 crore, registering 3.56-fold rise.

Table 7.3: Investment Patterns of State PSUs in Tamil Nadu (2011-12 to 2021-22)

Year	Capital (in ₹ crore)	Loans (in ₹ crore)	Total Investment (in ₹ crore)
2011-12	18281	43158	61439
2012-13	21191	62044	83236
2013-14	28423	74904	103327
2014-15	35016	86727	121743
2015-16	41814	98864	140677
2016-17	49720	104151	143019
2017-18	45038	124981	173963
2018-19	48982	136147	194999
2019-20	62721	175533	238253
2020-21	63846	159899	223746
2021-22	65162	179836	244998

Source: CAG Audit Report of Tamil Nadu, various years; Loans represent long-term loans only.

In the total investment in PSUs in Tamil Nadu for 2021-22, the state government's share was 19.8 percent, the PSUs share was 35.5 percent and financial institution and other sources accounted for 44.7 percent. Notably, the major portion of this investment came from long-term loans provided by financial institutions (Table 7.4)

Table 7.4: Equity and Loans in PSUs (₹ Crore)

As on March 2022	Equity	Long-term Loans	Total	Share %
State Government	39233	9214	48447	19.8
Central Government	56	2	58	0.0
PSUs	25740	61316	87057	35.5
Financial Institutions etc	133	109304	109436	44.7
Total Investment	65162	179836	244998	100

Source: General Purpose Financial Report of CAG on PSUs in Tamil Nadu for 2022.

7.2 Budgetary Support to PSUs by the State Government

The State Government provides financial support to PSUs in various forms: equity, loans, grants/subsidies. Table 7.5 shows the overall trend in budgetary outflows in the form of equity, loans, grants/subsidies to PSUs in Tamil Nadu. The total budgetary support from the State to PSUs increased from ₹ 5,560 crore in 2011-12 to ₹46,132 crore in 2016- 17, marking a 7.75-fold rise. However, it subsequently declined to ₹18,679 crore in 2021-22. Throughout this period, the grants/subsidies were the dominant component, with their share ranging from 42 percent to 91.5 percent in different years. Loans constituted the second major component, with their share in the total contributions also fluctuating over the years.

Table 7.5: State Government's Contribution to State PSUs (2011-12 to 2021-22)

Year	Equity		Loans		Grants/Subsidy		Total (₹ crore)
	(₹ crore)	%	(₹ crore)	%	(₹ crore)	%	(₹crore)
2011-12	1557	28.00	1647	29.62	2356	42.37	5560
2012-13	886	6.37	3261	23.43	9771	70.20	13918
2013-14	2670	19.13	44	0.32	11245	80.55	13960
2014-15	4663	19.95	6480	27.73	12225	52.31	23368
2015-16	3514	19.08	858	4.66	14043	76.25	18416
2016-17	4027	9.34	23836	22.26	18269	42.36	46132
2017-18	1972	7.45	3034	11.46	21473	81.10	26479
2018-19	2908	10.38	2167	7.74	22934	81.88	28009
2019-20	3070	n.a	10457	n.a	n.a	n.a.	n.a
2020-21	437	2.80	889	5.70	14278	91.50	15604
2021-22	842	4.51	2180	11.67	15656	83.82	18679

Source: Same as in Table 7.4

7.3 Profit and Losses of PSUs in Tamil Nadu

The CAG report provides details on the profits and losses of reporting companies, though information for non-reporting companies is not available. Table 7.6 shows the trends in profits and losses of reporting PSUs from 2011-12 to 2021-22. In 2011-12, 37 PSUs collectively made a profit of ₹493 crore, while 25 incurred a total loss of ₹14,504 crore, resulting in a net loss of ₹14,011 crore for the PSUs in Tamil Nadu. The net loss of these PSUs increased over the years, reaching ₹24,213 crore in 2020-21. However, in 2021-22, the net loss declined to ₹20,545 crore. It is noteworthy that the profits of profit-making PSUs were insufficient to offset the losses incurred by loss-making institutions, which led to the overall increase in net losses over the years.

Table 7.6: Profits and Losses of PSUs in Tamil Nadu (2011-12 to 2021-22)

(₹ crore)

Year	No. of Working SPSUs Reporting profit	Amount of Profit	No. of Working SPSUs Reporting Losses	Amount of Loss	Overall Net Profit (+)/loss(-)
2011-12	37	493	25	-14504	-14011
2012-13	43	615	19	-14232	-13617
2013-14	41	835	21	-13742	-12907
2014-15	41	1980	20	-16833	-14853
2015-16	41	811	21	-15685	-14873
2016-17	39	931	25	-9366	-8435
2018-19	32	690	24	-17799	-17109
2019-20	27	1206	31	-18630	-17424
2020-21	31	1264	32	-25476	-24213
2021-22	34	1648	30	-22193	-20545

Source: Same as in Table 7.4; Note: The rest of the working PSUs are neither earned profit nor incurred any loss or not revealed its account.

In 2021-22, only four companies reported a profit of more than ₹100 crore. These are:

1. Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹762 crore)
2. Tamil Nadu Industrial Development Corporation of Tamil Nadu Limited (₹ 252 crore)
3. State Industries Promotion Corporation of Tamil Nadu Limited (₹204 crore)
4. Tamil Nadu Cements Corporations Limited (₹118 crore)

The details of top 9 loss making companies are provided in Table 7.7.

Table 7.7 Top Ten Loss Making PSUs as on March 2022

Sl. No	Name of the enterprise	Sector	Amount of Loss Incurred (in ₹ crore)
1	Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO)	Power	11954.64
2	Tamil Nadu Transmission Corporation Limited (TANTRANSCO)	Power	3402.27
3	Tamil Nadu State Transport Corporation (Kumbakonam) Limited	Service (Transport)	1026.75
4	Tamil Nadu State Transport Corporation (Coimbatore) Limited	Service (Transport)	997.23
5	Tamil Nadu State Transport Corporation (Villupuram)	Service (Transport)	960.26
6	Metropolitan Transport Corporation Limited	Service (Transport)	928.33
7	Tamil Nadu State Transport Corporation (Tirunelveli) Limited	Service (Transport)	853.47
8	Tamil Nadu State Transport Corporation (Madurai) Limited	Service (Transport)	777.82
9	Tamil Nadu State Transport Corporation (Salem) Limited	Service (Transport)	589.29
10	State Express Transport Corporation Limited	Service (Transport)	489.04

Source: Report of the CAG Audit on Public Sector Undertakings of Tamil Nadu for the year ended 31 March 2022

Recent data indicates that in 2022-23, the top three PSUs contributing maximum profit are: 1. Tamil Nadu Power Finance and Infrastructure Development Corporation Limited (₹1.17.17 crore net profit), Tamil Nadu Newsprint and Papers Limited (₹387.87 crore) and Tamil Nadu Industrial Development Corporation Limited (₹228.79 crore).

7.4 Operation Efficiency and Profitability of PSUs

Table 7.8 presents key operational efficiency indicators of PSUs in Tamil Nadu from 2017-18 to 2021-22. The value of PSUs production increased to ₹1.163 lakh crore in 2018-19, up from ₹1.035 lakh crore in 2017-18. At the same time, the value of assets increased to ₹ 2.798 lakh crore from ₹ 2.567 lakh crore. However, capital employed (defined as paid up share capital + free reserves and surpluses + long-term loans-accumulated losses-deferred revenue expenditure) decreased to ₹73,546 crore from ₹92,156 crore. As a result, earnings before interest and taxes (EBIT) declined from ₹-4546 crore in 2017-18 to ₹-2760 crore in 2018-19, and return on capital employed (ROCE) slightly improved from -4.9 percent to -3.75 percent. During the COVID-19 pandemic in 2020-21, production declined causing ROCE to significantly drop to -7.68 percent. However, in 2021-22, with the recovery in production, assets and capital employed, ROCE slightly improved to -5.39 percent .

Table 7.8: Details of Production, Assets and Capital Employed in PSUs

Year	No. of PSUs	Value of Production	Assets	Capital Employed	EBIT	Return on Capital Employed (%)
2017-18	61	103549	256720	92156	-4546	-4.9
2018-19	62	116314	279813	73546	-2760	-3.75
2019-20	63	99646	289918	69801	-878	-1.26
2020-21	67	94213	335190	64122	-4924	-7.68
2021-22	68	106984	351001	67903	-3659	-5.39

The CAG report provides details on the Rate of Real Return on Government Investment (RORR), a measure of profitability and efficiency with which equity and similar non-interest-bearing capital are employed, after adjusting for the time value of money. Table 7.9 shows the RORR of PSUs in Tamil Nadu from 2011-12 to 2021-22.

Table 7.9: Rate of Real Return on State Government Investments

Year	PV of State Govt's Investment at Year end*	Avg. Interest Rate of Govt Borrowing	Minimum Expected Return	Earn-ings	RORR (%)
	(1)	(2)	(3)=(1)*(2)/100	(4)	(5)=(4)/(1)*100
2011-12	8418	7.43	625	-14050	-166.9
2012-13	12264	7.43	911	-13658	-111.4
2013-14	16764	7.9	1324	-12411	-74.0
2014-15	24054	8.12	1953	-15067	-62.6
2015-16	29239	8.38	2450	-8075	-27.6
2016-17	61330	8.11	4974	-7031	-11.5
2017-18	71992	8.53	6141	-17449	-24.2
2018-19	82622	8.27	6833	-16966	-20.5
2019-20	103755	8.07	8373	-17424	-16.8
2020-21	112740	7.74	8726	-24138	-21.4
2021-22	122275	7.5	9171	-20511	-16.8

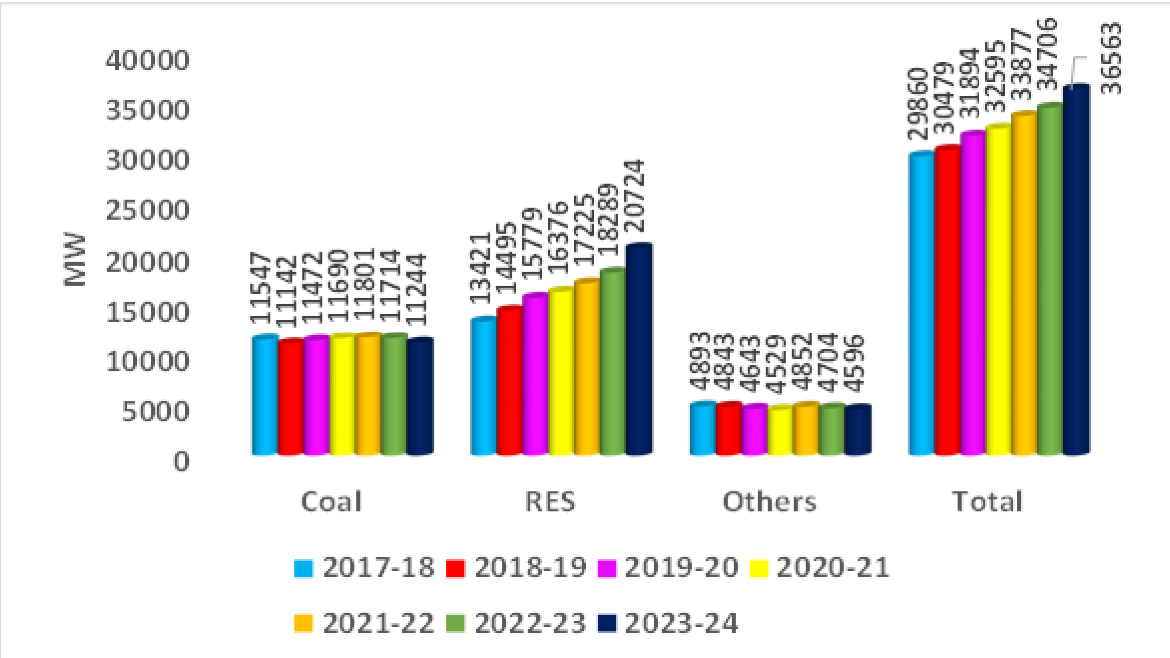
* this is equal to present value of investment in the beginning of the year plus total investment made by the state government in the year in the form of equity and loans and its interest value.

From 2011-12 to 2021-22, the total earnings of PSUs in Tamil Nadu were negative in all years, resulting in a negative RORR throughout this period. It is observed that not only were the actual earnings of PSUs negative, but they were also well below the expected return needed to cover the cost of funds infused into them. In 2021-22, the total loss incurred by these PSUs was ₹20,511 crore, compared to a minimum expected return of ₹ 9,177 crore. The bulk of this loss was contributed by TANGEDCO (₹ 11,955 crore) and TANTRANSCO (₹ 3402 crore).

7.6 A Note on the Power Sector of the State

Tamil Nadu is one of the pioneer States in implementing 24×7 power supply to all sectors. The total installed electricity capacity from all sources increased from 29,860 MW in 2017-18 to 36,563 MW in 2023-24 (Chart 7.2). During this period, the installed capacity from goal-based power generation (from state, central and captive projects) decreased slightly from 11,547 MW to 11,244 MW, while the capacity from renewable energy sources (solar, wind, bio-mass, hydro and co-generation) saw a significant increase from 13,421 MW to 20,724 MW. The installed capacity from other sources including gas, nuclear, power purchases from open access and independent projects declined from 4,893 MW to 4,596 MW during the same period.

Chart 7.2: Installed Electricity Capacity in Tamil Nadu



Source: Policy Note, Energy Department (Various Years), GoTN.

According to the RBI's Handbook of Statistics on Indian States, per capita power availability in Tamil Nadu increased from 1,467 Kwh in 2017-18 to 1,507 Kwh in 2019-20. However, during the COVID-19 year (2020-21), it declined to 1,401 Kwh. Since then, it has steadily increased, reaching 1,749 Kwh in 2023-24, which is significantly higher than the pre-COVID levels. In 2023-24, Tamil Nadu ranked 7th among the major Indian states in per capita power availability, compared to the highest figure of 2510 kwh in Haryana.

There are five Power Sector PSUs in the state: Tamil Nadu Generation and Distribution Corporation Limited (TANGEDGO), and Tamil Nadu Transmission Corporation Limited (TANTRANSCO), which are subsidiaries of TNEB Limited (holding company), Udangudi

Power Corporation Limited and Tamil Nadu Power Finance and Infrastructure Development Corporation Limited. Details of budgetary outgo towards equity, loans and grants/subsidies (including a tariff subsidy of ₹ 13,783.68 crore and other revenue grants of ₹ 12,688.46 crore to TANGEDGO) for the past three years are shown in Table 7.10.

Table 7.10: Budgetary Support to Power Sector PSUs by State Government

Details	2020-21		2021-22		2022-23	
	No. of PSUs	Amount (₹ Crore)	No. of PSUs	Amount (₹ Crore)	No. of PSUs	Amount (₹ Crore)
Equity Capital	1	437.00	3	842.39	0	0.00
Loans	2	889.37	2	2180.44	1	394.55
Grants/Subsidy	2	14277.55	2	15656.29	1	26472.14
Total		**15603.92**		**18679.29**		**26866.69**
Waiver of Loans and Interest	0	0	0	0	0	0
Guarantees Issued	0	36414.31	1	1500.00	1	6000.00
Guarantee Commitment	2	122949.36	2	139521.76	2	150313.19

Evidences indicate that the TANGEDCO incurred a total financial loss of ₹18,954 crore in 2011-12, which increased to ₹94,312 crore over the next ten years (up to 2021-22). The loan taken by TANGEDCO and Power Network Corporation from financial institutions and banks also increased from ₹ 43,493 crore in 2011-12 to ₹1,59,823 crore in 2021-22. Additionally, the net interest on these loans increased from ₹4,588 crore to ₹16,511 crore in 2020-21. From 2020-21 onward, the Tamil Nadu Government committed to absorbing 100 % of these losses.

It is noteworthy that the Union Ministry of Power announced that annual electricity tariff revision is a pre-condition for accessing Union Government funds under the Strengthening of Distribution program. As a result, the Tamil Nadu Electricity Regulatory Commission approved a tariff increase from 1st July 2023, based on the basis of consumer price index, with an increase of 2.18 percent for all electricity connections, compared to the 4.7 percent hike applied national wide.

7.6 Concluding Remarks

Currently, Tamil Nadu has 68 operational PSUs and 2 non-operational PSUs. However, evidence indicates that these PSUs in Tamil Nadu have not made a significant impact on the state’s economy, apart from providing direct employment of 3 lakh persons and attracting an investment of ₹2.45 lakh crore (in 2021-22). The state government’s share in the total investment is around 20 percent. The budgetary support from the state to PSUs has declined from ₹ 46,132 crore in 2016-17 to ₹18,679 crore in 2021-22.

The net loss of the PSUs in Tamil Nadu increased over the years, rising from ₹8,435 crore in 2016-17 to ₹20, 545 crore in 2021-22. The majority of the loss was attributed to TANGEDCO (₹11,955 crore) and TANTRANSCO (₹ 3402 crore). Consequently, operational efficiency and profitability indicators for these PSUs have been underperforming. The return on capital employed (ROCE) worsened from -4.9 percent in 2017-18 to -7.678 percent in 2020-21, and improved slightly to -5.39 percent in 2021-22. Since the total earnings of PSUs were negative throughout these years, the real rate of return on state government's investments remained negative in all these years. The total financial loss incurred by TANGEDCO in the past decade has escalated to ₹94,312 crore. The Tamil Nadu Government has committed to absorbing 100 percent of these losses starting from 2025. Giver this situation, the following strategies are urgently needed to improve the performance of Tamil Nadu's PSUs:

a) Enhancing operational efficiency,
b) Promoting innovation and technology upgrades,
c) Increasing transparency and accountability and
d) Granting greater autonomy to PSUs.

Chapter 8

Local Body Governments in Tamil Nadu

The 73rd and 74th Amendments to the Constitution, passed in 1992 and coming into effect in June 1993, granted statutory recognition to both urban local bodies (ULBs) and rural local governments, known as Panchayati Raj Institutions (PRIs). In response, Tamil Nadu State legislature enacted the Tamil Nadu Panchayats Act 1994. Establishing a three-tier system of PRIs: District Panchayats (DPs) at the district level, Panchayat Unions or Block Panchayats (BPs) at the intermediary level and Village Panchayats (VPs) at the village level. The Tamil Nadu District Municipalities Act, 1920, was also amended to transfer the powers and responsibilities to ULBs.

Currently, Tamil Nadu has a total of 13,176 local bodies, comprising 651 urban and 12,525 rural entities. These include:

- 37 District Panchayats,
- 388 Panchayat union,
- 12525 Village Panchayats,
- 25 Corporations,
- 134 Municipalities, and
- 490 Town Panchayats, (and 2 cantonment boards).

With about 54.5 percent of its population residing in urban areas, Tamil Nadu is among the most urbanized states in India. The National Population commission projects this proportion to rise to 57.3 percent by 2031, presenting a significant challenge for urban local bodies in providing adequate services to the growing urban population.

The state has 6 major cities with populations between 1-5 million and 8 cities with 3 populations ranging from 3 lakh to 1 million. Elections for rural local bodies were held in December 2019 for 27 districts and in October 2021 for 9 newly created districts. The urban local body elections were conducted in February 2022.

This chapter offers an overview of the receipts and expenditures of PRIs and ULBs in Tamil Nadu since 2011-12, the auditing mechanisms for their accounts, a summary of the various State Finance Commissions and their recommendations, the number functions devolved to the local governments and the structure and rates of property taxes in the state.

8.1. Receipts and Expenditures of PRIs and ULBs in Tamil Nadu

Among the PRIs, only village panchayats have the authority to levy taxes. For other PRIs, such village panchayats and block panchayats, their revenue sources are primarily non-tax revenue, assigned revenues from the state government, and grants from both the state and central

Finance Commissions. The combination of own tax and non-tax revenues constitutes the total own revenues of these panchayats.

Table 8 presents a detailed overview of the receipts and expenditures of PRIs from 2011-12 to 2021-22. Over this period, own revenue grew from ₹ 528 crore to ₹ 1627 crore, reflecting an average annual growth rate of 34.2 percent. However, its share in total revenue fluctuated between 4.37 percent and 14.52 percent. Meanwhile, assigned revenue increased from ₹ 564 crore to ₹ 850 crore, registering an average annual growth rate of 16.88 percent. Its share in total revenue varied from 4.63 percent to 15.94 percent. In contrast, grants increased steadily from ₹ 3685 crore to ₹ 8815 crore, with a modest average growth rate of 9.63 percent. Grants consistently accounted for a dominant share of total revenue, ranging from 71 percent to 90 percent. As a result, total revenue increased from ₹ 4777 crore to ₹ 11293 crore, reflecting an average growth rate of 9.3 percent. Despite these revenue increases, revenue expenditure also increased from ₹ 623 crore to ₹ 4,276 crore, with an average growth rate of 36.29 percent. Nevertheless, the overall revenue account showed a surplus each year.

Table 8.1: Receipts and Expenditures of PRIs & ULBs in Tamil Nadu

(₹ Crore)

Receipts and Expenditures of PRIs											
Revenue/Expenditures	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Own Revenue	528	631	766	422	929	797	497	732	470	436	1627
Assigned Revenue	564	705	975	866	713	333	511	408	1053	618	850
Grants	3685	4,484	4,375	4,358	4,758	5,711	6632	7656	7212	8930	8815
Total Revenue	4777	5,820	6,116	5,646	6,400	6,841	7940	8795	8736	9985	11293
Revenue Expenditure	623	1,294	1,025	3,154	1,711	1,941	3362	3585	3854	4293	4376
Capital Expenditure	940	1,308	1,813	2,385	1,985	3,019	4223	4943	3645	5504	6450
Total Expenditure	1563	2602	2838	5539	3696	4960	7586	8528	7499	9797	10866
Total Expenditure as % Revenues	32.7	44.7	46.4	98.1	57.8	72.5	95.5	97.0	85.8	98.1	96.2
Receipts and Expenditures of ULBs											
Own Revenue	2148	2,467	2,957	2,875	3,364	3,776	4412	5793	5640	3782	4027
Assigned Revenue	780	1,084	1,211	1,047	1,717	1,469	438	487	569	1141	1046
Grants	3220	4,020	4,391	4,073	5,033	5,468	6562	7805	8266	6146	4332
Loans	225	323	903	772	724	1,964	1501	464	283	1388	3213
Total Revenue	6373	7,894	9,462	8,767	10,838	12,677	12914	14548	14758	12457	12619
Revenue Expenditure	2559	3,461	4,985	5,331	6,704	6,895	7132	8167	8290	8948	7542
Capital Expenditure	2221	3,117	5,107	4,954	6,750	6,406	3516	4027	4712	6706	6194
Total Expenditure	4780	6578	10092	10285	13454	13301	10648	12193	13002	15654	13736
Total Expenditure as % Revenues	75.0	83.0	107.0	117.0	124.0	105.0	82.5	83.8	88.1	125.7	108.8

Source: CAG *Audit Report (Local Bodies) for Tamil Nadu, various years*

PRIs incurred capital expenditures, which grew at an average rate of 24.35 percent from 2011-

12 to 2021-22 . During the same period, total expenditure increased by 26.25 percent. Interestingly, despite these capital expenditures, the overall accounts of PRIs showed a revenue surplus in all years. In 2011-12, total expenditure accounted for only 33 percent of total receipts, However, this ratio increased significantly over time, reaching 97 percent in 2018-19 and 98 percent in 2020-21.

Table 8.1 provides a detailed picture of the receipts and expenditures of ULBs from 2011-12 to 2021-22. Over this period, total revenue grew from ₹6,373 crore to ₹12,619 crore, registering an average annual growth rate of 7.86 percent. In contrast, revenue expenditure increased from ₹ 2,559 crore to ₹7,542 crore, registering an average growth rate of 12.65 percent. Capital expenditure grew at 15.35 percent, while total expenditure rose by 13.19 percent.

Interestingly, in five out of eleven years (2011-12, 2012-13, 2017-18, 2018-19, and 2019-20), total revenue exceeded total expenditure. In these years, the total expenditure-to-revenue ratio was less than 1, indicating a surplus. Even when loans were deducted from total revenue, this ratio remained below 1 in these five years, further confirming higher revenue than expenditures and the revenue surplus.

Grants were a major sources of revenue for ULBs, but their share declined from 50 percent in 2011-12 to 34.3 percent in 2021-22. Similarly, the share of assigned revenue decreased from 12.2 percent to 8.29 percent. However, the share of loans increased from 3.53 percent to 25.46 percent.

While the aggregate budget for ULBs showed surpluses in certain years, disaggregated data revealed that many local bodies experienced deficit. For instance, as shown in Table 8.2 , in 2015-16, 290 out of 528 Town Panchayats (TPs) recorded a deficit, while the remaining 238 had a surplus. Similarly, in 2020-21, 302 TPs had a deficit, while 226 had a surplus.

Table 8.2: Number of Town Panchayats Showing Surplus/Deficit in Tamil Nadu

Grades	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
TPs showing Deficit	290	179	154	142	241	302
TPs showing Surplus	238	349	374	386	287	226
Overall Total	528	528	528	528	528	528

Table 8.2 presents the income and expenditure details of ULBs in Tamil Nadu for the years 2022-23 and 2023-24. In 2022-23, the total income of ULBs was ₹13,906 crore, and it increased to ₹17,541 crore in 2023-24. Meanwhile, total expenditure increased from ₹15,280 crore to ₹15,883 crore.

Table 8.3: Receipts and Expenditures of ULBs in Tamil Nadu (2022-23 and 2023-24)

(₹ Crore)

Details	TPs		MPs		MCs		All ULBs	
	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24	2022-23	2023-24
Own Revenue	608	675	927	1042	1682	2828	3217	4545
Assigned Revenue	211	211	185	106	323	204	719	521
SFC/CFC Grants	1806	2169	1932	1493	2238	2031	5976	5694
Capital Receipts	432	784	1123	2178	2440	3819	3995	6781
Total Revenue	3057	3839	4167	4820	6682	8882	13906	17541
Revenue Expenditure	1153	1361	2859	2222	3968	4504	7980	8087
Capital Expenditure	2203	859	1848	2084	3248	4853	7300	7796
Total Expenditure	3356	2220	4707	4306	7216	9357	15280	15883
Total Expenditure as % of Total Revenue	109.80	57.81	112.96	89.35	107.99	105.35	109.88	90.55

Source: CAG *Audit Report (Local Bodies) for Tamil Nadu*

8.2 Central Finance Commission Grants to Local Bodies

Both the Central and State FCs have been tasked with ensuring adequate overall resources for local bodies. These resources may be provided through the following means: (a) assigned resources, tax and non-tax, to the local governments under the relevant state legislation, (b) sharing of state resources through state tax revenue and grants, and (c) grants from the central government based on the recommendations of the Central FCs. The Tenth FC was the first to recommend central grants for local bodies. Subsequently, Central FCs have been instructed in their ToR to make recommendations on the measures needed to augment the Consolidated Fund of a state, thereby supplementing the resources of the Panchayats and Municipalities based on the State FC's recommendations.

In terms of local body grants, the 15th FC has made several significant changes compared to the approach of 14th FC. These are as follows:

(i) The 15th FC has recommended grants for all tiers of local bodies whereas the 14th FC recommended grants only for gram panchayats, leaving district and block level panchayats out.

(ii) 15th FC has recommended grants for fixed scheduled areas and cantonment areas. Other innovations introduced by the 15th FC include tied grants for sanitation and drinking water. In response to the growing urbanization, and the need for municipal services, the 15th FC also recommended earmarked grants for million plus cities. Tamil Nadu, for instance, has four million plus cities.

Over time, different FCs have progressively increased the volume of grants earmarked for local bodies. The 15th FC, in particular, has recommended ₹ 4,27,911 crore for duly constituted local bodies for the 2021-26 period (Table 8.4). Local body grants relative to all-state GSDP increased from 0.93% in 13th FC period to 1.74 percent in the 14th FC period, remaining close to that level during the 15th FC period. These ratios are derived by using the mid-year nominal GSDP for each of the Commission-periods. For 13th FC, then nominal GSDP of 2012-13 is used, for the 14th FC, 2017-18 nominal GSDP is used, and for 15th FC, the projected nominal GSDP for 2023-24 is used. The distribution of local body grants among states is determined by each state's share in population and area, with 90 percent weight assigned to population and 10 percent to area.

Table 8.4: Recommended Local Body Grants Relative to GSDP

States	₹ Crore			% to GSDP		
	FY 13	FC 14	FC 15	FY 13	FC 14	FC 15 (2)
Andhra Pradesh	7195	12290	18063	0.89%	1.52%	1.35%
Assam	1893	6387	10934	1.21%	2.21%	2.69%
Bihar	5682	23694	35577	2.01%	4.89%	5.33%
Chhattisgarh	2267	6832	10368	1.28%	2.40%	2.44%
Gujarat	3758	15042	22163	0.52%	1.14%	1.25%
Haryana	1521	5963	9066	0.44%	0.95%	0.83%
Jharkhand	2240	7961	12322	1.28%	2.88%	3.28%
Karnataka	6497	15146	21877	0.93%	1.12%	1.04%
Kerala	2676	7682	12554	0.65%	1.10%	1.02%
Madhya Pradesh	5834	18733	28367	1.53%	2.57%	2.67%
Maharashtra	8744	27449	41391	0.60%	1.14%	1.25%
Orissa	3271	10623	15752	1.25%	2.43%	2.43%
Punjab	1754	6544	10305	0.59%	1.37%	1.45%
Rajasthan	5164	18147	27172	1.05%	2.17%	2.17%
Tamil Nadu	***5456***	***17010***	***25526***	***0.64%***	***1.16%***	***1.03%***
Telangana	--	8764	13111	--	1.16%	1.02%
Uttar Pradesh	12741	46026	67160	1.55%	3.34%	3.25%
West Bengal	5773	20832	30393	0.98%	2.08%	2.10%
Major States	**82464**	**275124**	**412101**	**0.92%**	**1.76%**	**1.74%**
Arunachal Pradesh	306	1064	1618	2.44%	4.83%	4.28%
Goa	172	354	609	0.45%	0.50%	0.53%
Himachal Pradesh	642	2012	3049	0.77%	1.43%	1.27%
Manipur	316	379	1277	2.30%	1.58%	3.22%
Meghalaya	432	32	1385	1.98%	0.10%	3.24%
Mizoram	311	120	713	3.72%	0.62%	2.01%
Nagaland	416	127	1038	2.94%	0.53%	2.35%
Sikkim	187	198	360	1.52%	0.84%	0.79%
Tripura	370	559	1580	1.71%	1.21%	2.16%
Uttarakhand	781	2699	4181	0.59%	1.21%	1.37%
Small & Hilly States	**3932**	**7543**	**15810**	**1.10%**	**1.21%**	**1.62%**
All States	**86396**	**282667**	**427911**	**0.93%**	**1.74%**	**1.73%**

Source (Basic data): Reports of FC 12 to 15, MoSPI.
Note: For deriving grants as proportion of GSDP we have used the mid-year GSDP under respective commission. Therefore, in the case of FC 13, we have used nominal GSDP pertaining to 2012-13, for FC 14 we have used nominal GSDP pertaining to 2017-18 and for FC 15 we have used the nominal GSDP of 2023-24 as projected by the FC 15.

As a result, states like Bihar, Jharkhand and Uttar Pradesh have received significantly higher local body grants across Commissions. During the 15th FC period, their local body grants relative to GSDP range from 3.25 percent to 5.33 percent. In contrast, Tamil Nadu's local body grants relative to GSDP stand at 1.03 percent (compared to 1.16 percent under the 14th FC), which is broadly in line with similar states like Karnataka, Kerala and Andhra Pradesh.

8.3. Recommendations of State Finance Commissions

Tamil Nadu was one of the first states to establish a State Finance Commission (SFC) in 1994. To date, the state has constituted six SFCs, as required by law. The government has either adopted or deviated from the SFC's recommendations. A summary of the recommendations made by the six SFCs is outlined below:

First State Finance Commission

- The 1st SFC proposed dividing the overall devolution into two pools: Pool A and Pool B. Pool A comprised taxes like surcharge on stamp duty, local cess, and local cess surcharge and entertainment tax-taxes collected by the state government but meant for local bodies. These were to be shared with local bodies. Pool B consisted of the state's own tax revenue, which was to be distributed to local bodies, with the share gradually increasing from 8 percent to 12 percent over a five-year period.
- The commission recommended a distribution ratio of 60:40 between PRIs and ULBs.
- For horizontal distribution, the commission considered several criteria, including total population, SC / ST population, financial viability, per capita house tax collection, infrastructure maintenance deficiencies, per capita receipts from own resources, and existing per capita expenses on core services.
- Further recommendations included the introduction of equalization and incentive funds, property tax reforms (with quinquennial revisions), the establishment of water supply norms, the creation of a capital fund (by allocating 10-15 percent of ULBs revenue), and the transition from house tax to property tax in Town Panchayats.

The Government of Tamil Nadu accepted 115 out of the 413 recommendations made by the First SFC.

Second State Finance Commission

- The Second SFC recommended increasing the annual devolution percentage from 8 percent to 10 percent.

- Recognizing the urban growth trends, the commission suggested raising the share for ULBs to 42 percent, up from 40 percent, with the remaining 58 percent allocated to PRIs.
- For horizontal distribution, the Commission retained the population parameters and per capita own income used by the First SFC, while introducing five new criteria: area, % of agricultural labourers, the asset maintenance resource gap, inverse of per capita land revenue, and salary and pension expenses.
- Additionally, the Commission recommended reclassification of Local Bodies based on 1991 census, incentivization of taxation efforts, equalization funds for self-financing projects such as sewerage, drainage and over bridges, strengthening of Gram Sabhas, a debt relief package for ULBs, and set a time frame for audits and presentation of Local Body accounts before the Legislative Assembly.

The Government accepted 283 out of the 386 recommendations made by the Second SFC

Third State Finance Commission

- The Third SFC recommended a uniform 10 percent share of tax revenue for the entire award period, while retaining the concept of Pool A and Pool B, and introducing a third category, Pool C.
- Pool C would consist of specific purpose grants for local bodies, representing 0.5 percent to 1.0 percent of the state's own tax revenue share.
- The Commission retained the PRIs and ULBs ratio at 58:42.
- For horizontal distribution, the Commission retained criteria such as total population, SC/ST population, and area, while adding two new parameters: the women population and the debt burden of local bodies.
- Additionally, the Commission recommended incentivizing Solid Waste Management activities, conducting tax mapping via GIS, offering incentives for timely debt repayment and re-classifying local bodies based on revenue.

The Government accepted 91 out of the 308 recommendations made by the Third SFC.

Fourth State Finance Commission

- The Fourth SFC again recommended a uniform 10 percent share of state's own tax revenues for devolution.
- The devolution to ULBs was recommended to increase from 42 percent to 44 percent.

- For horizontal distribution, the Commission retained the criteria used by the Third SFC, with the exception of the women population parameter.
- Among other major recommendations, the Commission earmarked a special grant of ₹200 crore for Local Bodies for Solid Waste Management activities. It also proposed the continuation of the Infrastructure Gap Filling Fund and the Operations and Maintenance Fund with, some increases, and recommended incentives for adopting best practices.

The Government accepted 112 out of the 130 recommendations made by the Fourth SFC.

Fifth State Finance Commission

- The 5th SFC recommended retaining the 10 percent share of the net state's own tax revenue for devolution.
- The Commission proposed a 56:44 sharing ratio between PRIs and ULBs
- In case of a loss in state tax collection due to the introduction of GST, the Commission recommended that, if compensation is received from the central government, the state government should share 10 percent of this compensation with the Local Bodies.
- The Commission also proposed the establishment of a permanent SFC cell in the finance department, similar to the Kerala model, to handle issues relating to State Finance Commissions.
- Major recommendations include the bifurcation of large panchayats based on population, a ceiling on Profession Tax, quinquennial revision of House Tax, revision of fees, computerization of the Property Tax, the reiteration of unit measurement, and the introduction of GPS/GIS techniques for tax assessment. Other recommendations focused on identifying and renting out vacant or unused land, creating a separate head for stamps and registration fees, and establishing internal audits in urban local bodies.
- For horizontal distribution, the Commission proposed that the devolution to rural local bodies should be based on the 2011 census population (60 percent), area (15 percent), SC/ST population (15 percent), and per capita consumption expenditure distance (10 percent). For urban local bodies, the distribution should be based on the 2011 census population (65 percent), area (15 percent), per capita consumption expenditure distance (10 percent), proportion of slum population (10 percent).

The Commission made 125 new recommendations for acceptance, in addition to reiterating some recommendations from previous Commissions.

Sixth State Finance Commission

- The 6th SFC recommended retaining the 10 percent share of the net state's own tax revenue for devolution.
- The Commission recommended a 49:51 sharing ratio between PRIs and ULBs
- The devolution was structured into fixed components (through special grants) and variable components (additional targeted grants to address specific needs of LBs across different levels)
- The Commission recommended 15 special grants for rural local bodies
- The recommended sharing ratio for rural local bodies is as follows: 7 percent for district panchayats, 37 percent for bloc panchayats, and 56 percent for village panchayats
- For ULBS, the sharing ratio was suggested as: 31 percent for municipal corporations, 36 percent for municipalities and 56 percent for town panchayats
- The Commission proposed the creation of a new tier of ULBs: Metropolitan cities
- A sharing ratio of 16:84 was recommended between the Greater Chennai Corporation and the remaining Non-Metro ULBs
- The Commission proposed 12 special grants for Non-Metro urban local bodies
- Key recommendations included the establishment of a periodic review mechanism and a robust incentive structure to encourage performance
- IT also suggested Inflation linked quinquennial property tax revisions and statutory provisions to ensure fiscal discipline.
- A deprivation index was proposed to assess infrastructure shortfalls among ULBs
- Templates were recommended to measure the cost to serve in different local bodies
- The Commission suggested direct fund release from state treasury to ensure uninterrupted fund flows
- It also recommended transparent provisions for applying multipliers to each local body
- The sharing devolution would be based factors such as population, area, SC/ST population, or slum population

8.4 Functions Devolved to ULBs and PRIs

The Eleventh Schedule of the Constitution empowers State Legislatures to devolve 29 functions to PRIs. A key limitation of this provision is that, unlike the Union, State, and Concurrent Lists in the Seventh Schedule, which clearly delineate powers between the centre and the states, many of the functions in the Eleventh Schedule overlap with List II (state subjects) in the Seventh Schedule. As a result, overlap is inevitable, and the actual delegation of functions from the state level to the local bodies can vary from state to state. Similarly, 18 functions are listed in the Twelfth Schedule for the Urban Local bodies.

Devolution of Functions to Panchayat Raj Institutions

1. Agriculture, including agricultural extension.
2. Land improvement, implementation of land reforms, land consolidation and soil
3. conservation.
4. Minor irrigation, water management, and watershed development.
5. Animal husbandry, dairying, and poultry.
6. Fisheries.
7. Social forestry and farm forestry.
8. Minor forest produce.
9. Small scale industries, including food processing industries.
10. Khadi, village and cottage industries.
11. Rural Housing.
12. Drinking water.
13. Fuel and fodder.
14. Roads, culverts, bridges, ferries, waterways, and other means of communication.
15. Rural electrification, including the distribution of electricity.
16. Non-conventional energy sources.
17. Poverty alleviation programs.
18. Education, including primary and secondary schools.
19. Technical training and vocational education.
20. Adult and non-formal education.
21. Libraries.
22. Cultural activities.
23. Market and fairs.
24. Health and sanitation, including hospitals, primary health centers and dispensaries.
25. Family welfare.
26. Women and child development.
27. Social welfare, including welfare of the handicapped and mentally retarded.
28. Welfare of the weaker sections, particularly Scheduled Castes and Schedule Tribes.
29. Public Distribution System.
30. Maintenance of community assets.

Devolution of Functions to Urban Local Bodies

1. Urban planning including town planning.
2. Regulation of land-use and construction of buildings.
3. Roads and bridges.
4. Water supply for domestic, industrial and commercial purposes.
5. Public health, sanitation conservancy and solid waste management.
6. Slum improvement and upgradation.
7. Urban poverty alleviation.
8. Provision of urban amenities and facilities such as parks, gardens, playgrounds.
9. Burials and burial grounds; cremations, cremation grounds; and electric crematoriums.
10. Vital statistics including registration of births and deaths.
11. Public amenities including street lighting, parking lots, bus stops and public conveniences.
12. Regulation of slaughter houses and tanneries.
13. Planning for economic and social development.
14. Fire services.
15. Urban forestry, protection of the environment and promotion of ecological aspects.
16. Safeguarding the interests of weaker sections of society, including the handicapped and mentally retarded.
17. Promotion of cultural, educational and aesthetic aspects.
18. Cattle pounds; prevention of cruelty to animals.

8.5. Mechanisms of Auditing of Accounts of PRIs and ULBs

The auditing mechanism for both PRIs and ULBs is largely similar, with some differences in the specifics of each system. For PRIs, the Director of Local Fund Audit (DLFA) serve as the statutory auditor for block panchayats and district panchayats. However, for village panchayats, the DLFA conducts only a test audit of their accounts. The deputy block development officer is responsible for auditing the accounts of the village panchayats and certifying them. Furthermore, the panchayats are required to submit a consolidated report of the audited accounts of local bodies to the state government on an annual basis, for presentation before the legislative assembly (as per Section 20 of the Tamil Nadu Local Fund Audit Act, 2014).

Regarding ULBs, the state government entrusted the audit responsibilities to the DLFA in August 1992. The DLFA is responsible for certifying the correctness of accounts, assessing internal control systems, and reporting any cases of loss, theft or fraud to both the audited entities and the state government.

ULBs transitioned from a cash-based accounting system to an accrual-based system in two phases: MCs and MPs in 1999-00 and 2000-01. Since 2016-17, a 7-digit web-based accounting system has been implemented, aligned with the National Municipal Accounting Manual. Additionally, the Comptroller and Auditor General (CAG) of India submits the Consolidated Audit Report for local bodies to the State Government.

8.6 Property Tax System in Tamil Nadu

As the property tax is classified under Entry 49 in the State List of Seventh Schedule of the Constitution, the responsibility of designing the property tax system in India lies with the State Governments. State Governments define the Tax base, valuation procedures, exemption, and rebate policies, rate structures and measures to handle delays and prevent tax evasion in the statutes that govern the Constitution and functioning of municipal governments. Consequently, the autonomy of Municipal Governments in formulating property tax policy is somewhat limited. Despite these restrictions, property tax remains a major source of revenue for ULBs.

The Constitution designates property tax as "Taxes on lands and buildings" (Seventh Schedule), which represents an ideal tax base for local bodies. This tax base is non-mobile and can be objectively verified, and is subject to tax in a fair and equitable manner. Property tax serve as the primary source of funds for municipal finance in the state. Similar to other tax impositions, there are three key stages involved in the property tax process:

(i) levy or declaration of liability (Legislative function)

(ii) Assessment (Quasi-judicial function), and

(iii) Collection (Executive function).

In 2013, the Tamil Nadu State Property Tax Board Act was enacted, followed by the Tamil Nadu State Property Tax Board Rules in October 2014, which provided a framework for the assessment and collection of property tax in the state.

Before 1993, property tax in Tamil Nadu was assessed using the annual rental value and capital value methods. However, from October 1, 1998, the Government of Tamil Nadu introduced a uniform method of calculating property tax for ULBs. This method considers the following details to determine the basic value of a property:

- Area of the building
- Age of the building
- Type of the building (i.e., RCC Roof, Tiled Roof and Thatched and AC Sheet)

- Usage of the building (Residential, Commercial or Industrial)
- Zonal value of the ULB concerned.

Determination of Annual Value for Property Tax: The process of determining the annual value of a property involves several steps. The basic value is the rental yield per square foot of residential properties, which is applicable across all municipalities and township committees within different zones. This forms the foundation for taxing the annual rental value of the buildings and land.

To determine the basic value of newly constructed residential buildings (specifically reinforced cement concrete (RCC)), which measure 1000 square feet, the rental value per square foot is calculated based on set guidelines.

In addition to this, depreciation is applied based on the age of the building. Three types of depreciation are applicable:

(i) no depreciation for buildings up to 5 years old,

(ii) 15 percent depreciation for buildings between 5 and 15 years old, and

(iii) 20 percent depreciation buildings older than 20 years.

For taxation purposes, buildings are classified as follows:

(a) thatched roof buildings: 50 percent discount,

(b) tiled and AC/ GA sheet building: 25 percent discount, and

(c) RCC buildings: No discounts.

Additionally, an occupancy discount of 30% is granted to buildings occupied by the owne₹

According to Rule 8(1) of Schedule IV of the Tamil Nadu District Municipalities Act 1920, the assessment books must be updated by the executive authority every five years. This practice forms the basis for quinquennial tax revisions, which are crucial for the fiscal health of ULBs.

The quinquennial revision process includes inspection of every house, building, and vacant land within the jurisdiction of the town by special revision officers. This ensures that all properties are properly assessed and prevents issues like escaped assessments, and under-assessments.

In terms of property tax assessment methods, states like Andhra Pradesh, Assam, Bihar, Chhattisgarh, Goa, Haryana, Jharkhand, Madhya Pradesh, Meghalaya, Tamil Nadu, Uttar Pradesh Uttarakhand use Annual rental value method. In contrast, Punjab uses a flat rate method. Other states such as Maharashtra (capital value or ARV), Rajasthan (unit area or other method), Telangana (CV or ARV), West Bengal (ARV or CV) use multiple methods for property tax assessment.

Central Finance Commissions' Recommendations to Augment Property Tax Collection: To enhance the effectiveness of property tax collection and improve local body finances, the Union Finance Commissions have put forward several recommendations over the years:

(i) The 13th Finance Commission advocated for the establishment of "Property Tax Boards" at the state level to help streamline property tax collection. However, despite this recommendation, only a few states have implemented such boards.

(ii) The 14th Finance Commission emphasized that the property tac collection potential remains largely untapped. It suggested several reforms, including: empowering panchayats and municipalities to levy property tax on a plinth area basis, with provisions for periodic revision and limiting exemptions, because taxing based on annual rental value leads to lower buoyancy in tax collection.

(iii) The 15th Finance Commission set mandatory conditions for ULBs to be eligible for grants: Fixation and operationalization of minimum floor rate for property tax by 2021-22 to qualify for grants starting in 2022-23, and Ensuring the timely placement of audited accounts in the public domain to ensure transparency and accountability.

Property Tax Assessments in Tamil Nadu: In line with these guidelines, Tamil Nadu revised property tax rates in 2022 to align with the recommendations of the 15th FC. The number of property tax assessments in municipal corporations, and town panchayats in Tamil Nadu increased steadily over the years, as shown in Table 8.5. The total assessments increased from 79.8 lakh in 2015-16 to 87.82 lakh in 2019-20, reflecting the growing emphasis on property tax reforms and improvements in revenue collection.

Table 8.5: Number of Property Tax Assessments

Year	Chennai Corporation	Other corporations	Municipalities	Town Panchayats	Total
2015-16	1168143	2088566	2181128	2545001	7982838
2016-17	1195723	2145569	2255925	2602074	8199291
2017-08	1204247	2188516	2362999	2656228	8411990
2018-19	1232882	2224818	2385311	2713615	8556626
2019-20	1278035	2269806	2491968	2742716	8782525

Source: Sixth State Finance Commission Report

Table 8.6 presents the property tax collection efficiency in Tamil Nadu. Town Panchayats have a higher efficiency of 92 percent, followed by municipalities (90 percent), and Village Panchayats (89 percent).

Table 8.6: Property Tax Collection Efficiency (2023-24)

Local Body	Efficiency %
Chennai Corporation	77
Other Municipal Corporations	86
Municipalities	90
Town Panchayats	92
Village Panchayats	89

8.7 Challenges due to increased Urbanization

Tamil Nadu's rapid urbanization is a concern. In 2001, the degree of urbanization was about 44 per cent and it estimated to be at 53 percent in 2024-25. As a result, the number of municipal corporations increased from 6 to 25, and number of municipalities increased from 104 to 134. At the same time, number of village panchayats declined from 12619 to 12525 and town panchayats declined from 611 to 490. Compared to many states with a few concentrated big urban centres, Tamil Nadu has distributed and multiple urban agglomerations. This poses the challenge of absorbing the population migrating from rural to urban towns and engage them in productive activities. This inward intra migration along with inter state migration raise it own set of challenges for the state. Recently, the government also notifies a proposal for creating 13 new municipalities, extending borders of 16 municipal corporations, merging many village panchayats with town panchayats, upgrading 25 village panchayats as town panchayats and extending the borders of 41 municipalities.

In this conte, a major challenge is unabated growth of slums and urban poverty. Another challenge is huge urban infrastructure and housing demands. Further there is a need to enhance the institutional framework of local bodies.

8.8 Concluding Remarks

Tamil Nadu, with 651 ULBS and 12525 PRIs, faces significant challenges in managing its growing urban population. The state's urbanization ratio is expected to reach 57.3 percent in 2031, which will only increase demand for services and infrastructure in urban areas. Meeting these needs requires substantial financial support, with grants from the SFC and CFC, serving as the primary sources of revenue for both ULBs and PRIs.

From 2011-12 to 2021-22, the revenue expenditure of PRIs grew by 36.29 percent, while total revenue grew by 9.3 percent, with the overall revenue account of PRIs showing a surplus in every year during this period.

For ULBs, however, while total revenues outpaced revenue expenditures between 2011-12 and 2023-24, the total expenditure exceeded total revenue in 7 out of 13 years, resulting in deficits during these years. Notably, Tamil Nadu's share of local body grants declined from 1.16 percent under 14th FC to 1.03 percent during 15th FC period.

The 6th SFC recommended a 10 percent share of the state's own tax revenue for devolution, with a 49:51 ratio between PRIs and ULBs. The allocation breakdown for different levels of PRIs includes 7:37:56 for district, bloc, and village panchayats, and 31:36:33 for corporations, municipalities and town panchayats.

As the property tax is the major own tax source for ULBs, Tamil Nadu has approximately 90 lakh property tax assessments. However, the responsibility of designing property tax policy lies with state government. Following 15th FC's guidelines, the state revised its property tax rates in 2022. Additionally, in 2024, it mandated a 6 percent annual revision of land, building and storage structure values across all ULBs to ensure revenue sustainability.

The Director of Local fund Audit serve as the statutory auditor for local bodies in Tamil Nadu. The CAG submits the Consolidated Audit Report of local Bodies to state government. Tamil Nadu is one among the states in the country constituted six State Finance Commissions (SFCs) to guide and regulate the financial health of local bodies. Furthermore, elections for rural local bodies were held in 2019 and for ULBs in 2022.

In conclusion, while Tamil Nadu has made notable strides in improving the financial sustainability of its local bodies, addressing deficits, optimizing property tax collection, and implementing necessary reforms, continued focus on enhancing revenue generation, ensuring fiscal discipline, and expanding urban infrastructure will be essential to meet the challenges posed by the state's rapid urbanization

Chapter 9

Projections of Revenues and Expenditures: 2026-27 to 2030-31

This chapter aims to provide projections for revenue components and revenue expenditure components, and capital expenditure in Tamil Nadu for the award period of 16th Finance Commission, covering the period from 2026-27 to 2030-31. It also includes projected estimates for revenue deficit, fiscal deficit, and total liabilities of the state.

9.1 Methodology Used for Projections

The methodology used for these projections is as follows:

(i) **Base Year:** The projections use 2024-25BE as the base year;

(ii) **Tax Buoyancy:** For major own tax revenue items, tax buoyancy is derived from the growth rates observed over the last four years (2021-22 to 2024-25).

(iii) **Other Components:** For all other revenue components (own non-tax, shared tax and grants) and expenditures components (salary & wages, pension, non-wage O&M, interest payment and subsidies), the average growth rates for the last four years (2021-22 to 2024-25) are used;

(iv) **Revenue Receipts and Expenditures:** Revenue receipts are calculated by summing the projected revenue components while the revenue expenditure is computed by adding all projected revenue expenditure components.

(v) **Revenue deficit:** It is determined by subtracting the projected revenue receipts from projected revenue expenditure;

(vi) **Fiscal deficit:** The fiscal deficit is targeted to be 3 percent of projected GSDP;

(vii) **Total liabilities:** They are calculated by adding liabilities of the previous year to the current year fiscal deficit (net borrowing), which is assumed to be 3% of GSDP; and

(viii) **The nominal GSDP Growth:** The nominal GSDP is assumed to grow at a rate of 12.2 percent. This rate is determined by adding the predicted average real growth of 7.2 percent shown in Table 2.3 from 2025-26 to 2030-31and 5 percent assumed inflation.

Table 9.1 presents projections of likely values of the relevant revenue components, revenue expenditure components, capital expenditure and other major deficit indicators for Tamil Nadu from 2025-26 to 2030-31.

Table 9.1: Projections of Major Fiscal Indicators during 2025-26 to 2030-31

(₹ Crore)

sl.	Fiscal Indicators	Buoyancy	Growth %	2024-25BE	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
1	Sales Tax + GST	0.98	11.96	143376	160524	179722	201217	225283	252227	282393
2	State Excise	0.78	9.52	12247	13413	14690	16089	17621	19298	21135
3	Stamps Duties	1.22	14.88	23370	26847	30842	35432	40704	46760	53718
4	Motor Vehicle tax	1.71	20.86	11560	13971	16886	20408	24665	29810	36029
5	Others	6.49	6.49	4620	4920	5239	5579	5941	6327	6737
6	Own Tax Revenue	Sum of (1-5)		195173	219675	247380	278725	314213	354422	400012
7	Own Non-tax Revenues		31.88	30728	40524	53443	70481	92950	122583	161662
8	State's Own Revenue	(6)+(7)		225901	260199	300823	349205	407163	477004	561674
9	Total Central Transfers	(10)+(11)		73109	81649	92304	105475	121645	141396	165430
10	Share in Central Taxes		20.15	49755	59781	71826	86299	103689	124582	149685
11	Grants		-6.36	23354	21869	20478	19175	17956	16814	15745
12	Total Revenue Receipts	(8)+(9)		299010	341849	393127	454680	528808	618400	727104
13	Salary, Wages		10.34	84932	93714	103404	114096	125893	138911	153274
14	Pension		12.16	37664	42244	47381	53142	59604	66852	74982
15	Interest Payment		14.45	63722	72930	83468	95529	109333	125132	143214
16	Non-Wage O&M		9.75	15013	16477	18083	19846	21781	23905	26236
17	Subsidies and Transfers		8.28	146908	159072	172243	186505	201947	218669	236775
18	Others		32.09	50	66	87	115	152	201	266
19	Revenue Expenditure	sum of (13-17)		348289	384503	424667	469234	518712	573670	634745
20	Capital Expenditure		9.73	47681	52320	57411	62997	69127	75853	83233
21	Revenue Deficit/Surplus(-)	(18)-(12)		49279	42654	31540	14554	-10096	-44730	-92359
22	Fiscal deficit (FD)	3% GSDP		108690	106717	119737	134345	150735	169124	189757
22	Total Liabilities (D)	Last year D+FD		830734	937451	1057188	1191532	1342267	1511391	1701148
23	GSDP at Current Prices		12.2	3170444	3557238	3991221	4478150	5024485	5637472	6325243

The projected values indicate that:

(i) In 2024-25BE, the interest payments are projected to account for 21.3 percent of the revenue receipts, which is notably higher than the 10 percent norm suggested by the 14th Finance Commission. The interest payment ratio is anticipated to reach 19.7 percent by 2030-31. Given this projection, there is a clear need for Tamil Nadu to bring the interest payment ratio closer to the 10 percent level to ensure fiscal discipline and improve the state's financial health.

(ii) The 2024-25 budget estimates indicate that the state government's total liability as percentage of GSDP stands at 26 percent, which exceeds the 20 percent threshold recommended by the New FRBM Committee. The debt sustainability analysis in Chapter 6 highlights that the current debt level is unsustainable and is likely to hinder the economic growth. Given the FRBM norm allowing only 3 percent fiscal deficit, our projection presented in Table 9.1 suggest that the debt-GSDP ratio will remain at 26 percent until 2030-31. Therefore, it is crucial for the state government to reduce this ratio to around 20 percent.

(iii) According to FRBM norms, revenue deficit should be zero. Our projections for the coming years show a steady decline in the revenue deficit, from 1.55 percent of GSDP in 2024-25BE to 0.32 percent in 2027-28. Beyond this period, the revenue account is expected to shift into surplus. This positive trend is driven by the anticipated growth of own revenue, which outpace revenue expenditures.

(iv) Historical trends suggest a gradual reduction in the capital expenditure-GSDP ratio, from 1.5 percent in 2024-25BE to 1.31 percent in 2030-31.

9.2 Roadmap to Achieve the Fiscal Discipline

To ensure the government finances remain prudent, it is essential to address the concerns highlighted above. To achieve this, a road map has been developed, involving adjustments to some of the assumptions used in the projections. These adjustments in the assumptions are as follows:

(i) As GST stabilizes, the growth rate of sales tax + GST revenues will be increased from approximately 12 percent to 14 percent.

(ii) While the interest payment must be maintained at 10 percent of revenue receipts, the state is projected to achieve this target by 2030-31. To achieve this, the interest payment will need to be gradually reduced as follows: 19 percent of revenue receipts in 2025-26, 17 percent in 2026-27, 15 percent in 2027-28, 13 percent in 2028-29, 11 percent in 2029-30 and finally 10 percent in 2030-31.

(iiii) To bring the Debt-GSDP ratio down to around 20 percent by 2030-31, it will be necessary to reduce the fiscal deficit. The FRBM norm of a 3 percent fiscal deficit will not suffice to achieve this target. Therefore, the state's fiscal deficit should be capped at 1.5 percent from 2026-27 onwards to ensure debt sustainability.[10]

With this revised strategy, the revenue deficit is expected to turn into a surplus starting in 2027-28. Notably, the revenue surplus is projected to reach 3 percent of GSDP by 2030-31. These increased revenues could be partially directed toward covering capital expenses, allowing for a reduction in the fiscal deficit. Reduced fiscal deficit will obviously reduce interest burden, This approach is only achievable if (i) the interest payments remain at a manageable level and (ii) the fiscal deficit is kept 1.5 percent. Any comprise will only delay in attaining the targets. Further, the state should anticipate higher expenses due to pay revisions in this award period and higher pension payouts if it moves from contributory pension scheme to other scheme. Table 9.2 presents the detailed road map to achieve fiscal discipline.

[10] A study titled, Sustainability and Threshold Value of Public Debt in Tamil Nady (Economic & Political Weekly, Vol. LVIII, No.2, pp38-45) also demonstrate that if the state economy grows at 14 percent and fiscal deficit is kept at 2 percent. Tamil Nadu will attain debt sustainability target in 2035-36.

Table 9.2: Road Map to Maintain the Fiscal Discipline in Tamil Nadu

(₹ Crore)

sl.	Fiscal Indicators	Buoyancy	Growth %	2024-25BE	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
1	Sales Tax+GST	0.98	14.00	143376	163449	186331	212418	242156	276058	314706
2	State Excise	0.78	9.52	12247	13413	14690	16089	17621	19298	21135
3	Stamps Duties	1.22	14.88	23370	26847	30842	35432	40704	46760	53718
4	Motor Vehicle tax	1.71	20.86	11560	13971	16886	20408	24665	29810	36029
5	Others	-	6.49	4620	4920	5239	5579	5941	6327	6737
6	Own Tax Revenue	1.07	13.05	195173	222600	253989	289925	331087	378253	432326
7	Own Non-Tax Revenues		31.88	30728	40524	53443	70481	92950	122583	161662
8	State's Own Revenue		18.03	225901	263124	307432	360406	424037	500836	593988
9	Total Central Transfers		6.83	73109	81649	92304	105475	121645	141396	165430
10	Share in Central Taxes		20.15	49755	59781	71826	86299	103689	124582	149685
11	Grants		-6.36	23354	21869	20478	19175	17956	16814	15745
12	Total Revenue Receipts		14.55	299010	344774	399736	465881	545682	642232	759418
13	Salary, Wages		10.34	84932	93714	103404	114096	125893	138911	153274
14	Pension		12.16	37664	42244	47381	53142	59604	66852	74982
15	Interest Payment		-	63722	65507	67955	69882	70939	70646	75942
16	Non-Wage O&M		9.75	15013	16477	18083	19846	21781	23905	26236
17	Subsidies and Transfers		8.28	146908	159072	172243	186505	201947	218669	236775
18	Others		32.09	50	66	87	115	152	201	266
19	Revenue Expenditure		10.18	348289	377080	409154	443587	480318	519184	567473
20	Revenue Deficit			49279	32306	9418	-22294	-65364	-123048	-191944
21	Capital Expenditure		9.73	47681	52320	57411	62997	69127	75853	83233
22	Fiscal deficit (FD)		1.5% of GSDP	108690	106717	59868	67172	75367	84562	94879
23	Total Liabilities (D)		14.69	830734	937451	997319	1064492	1139859	1224421	1319300
24	GSDP (Nominal)		12.20	3170444	3557238	3991221	4478150	5024485	5637472	6325243
25	Interest as % of Revenue			21.31	19.00	17.00	15.00	13.00	11.00	10.00
26	Fiscal Deficit as % of GSDP			3.43	3.00	1.50	1.50	1.50	1.50	1.50
27	Debt as % of GSDP			26.20	26.35	24.99	23.77	22.69	21.72	20.86

Chapter 10

Summary and Conclusion

This study has reviewed the finances of Tamil Nadu Government of Tamil Nadu from 2011-12 to 2024-25BE. Specifically, it has analyzed the overall trends in revenues, expenditures, fiscal balances, and outstanding liabilities, and their compositions over the years. It also compares the financial performance, tax structure and expenditure pattern of Tamil Nadu with those of the other major state governments in India. It has also briefly reviewed the sectoral growth of Tamil Nadu economy, macroeconomic environment in the country, central tax buoyancy, trends in vertical transfers since the ninth Finance Commission period and status of public sector undertakings and local government finances in Tamil Nadu. It has projected revenue and expenditure components and deficit parameters in Tamil Nadu for the award period of Sixteenth Finance Commission and provided the road map to achieve fiscal prudent. This Chapter presents the summary of major findings of the study along with suggestions for improving the financial performance of Tamil Nadu State Government on the basis of the results of our analysis.

10.1 Summary of Major Findings and Policy Suggestions

(i) Macro-economic Environment in India

- India's economy is the fastest-growing major economy globally but has underperformed relative to its potential growth rate. Forecasts predict a moderate 6 percent growth rate from 2024-25 to 2029-30, with a slightly higher growth rate predicted for Tamil Nadu.
- The Sixteenth Finance Commission must adjust its fiscal projections based on this growth potential, particularly given the central government's increasing reliance on cesses and surcharges.

(ii) Tamil Nadu Economy

- Tamil Nadu's economy grew at a rate of 6.37 percent from 2012-13 to 2023-24, slightly outperforming national growth. The state ranks 13th among Indian states in GSDP growth.
- Despite strong potential in the services sector, growth has been sluggish (6.25 percent), though it recently increased to 8 percent in the past three years. The state's agricultural sector remains vulnerable to climate change, although Tamil Nadu is a notional leader in productivity of many crops.

- Faster industrial and services growth is vital for achieving Tamil Nadu's target of becoming a trillion-dollar economy.
- To support farmers, poor, women and children, Tamil Nadu Government has been implementing various welfare schemes, even after deterioration of its finance due to the pandemic like the Chief Minister’s Breakfast Scheme, the Kalaignar Magalir Urimai Thittam (Women’s Income Support Scheme), Pudhumai Pen Thittam, and the Vidiyal Payanam Thittam for women, free power for irrigation., additional MSP incentives for paddy and sugarcane, higher rice entitlements and distribution of subsidized commodities through is universal public distribution system.

(iii) Fiscal Position of All States together

- All states, including Tamil Nadu, have seen a deterioration in their fiscal positions since 2014-15, largely due to the impact of COVID-19, farm loan waivers, and other populist schemes. States' fiscal deficits and outstanding liabilities have increased significantly, raising concerns about debt sustainability.
- Further, there has been a steady increase in market borrowings to fund the gross fiscal deficit. These also raise the debt sustainability concerns. However, the GST stabilizes, which will improve states’ tax buoyancy. Further, GST has not increased the vertical fiscal imbalance as feared by many.

(iv) Vertical Transfers

- Total transfer (tax devolution plus grants) to the States was about 37 percent during the Twelfth Finance Commission period. It increased to 42.3 percent during the 13th Finance Commission period and 50 percent during the 14th Finance Commission period.
- There is also indication that the transfers to the States in the first five years of the award period of Fifteenth Finance Commission has increased further to above 55 percent. This trend may not continue, as the Central tax buoyancy has decreased to 0.83 in the last three years.

(v) Horizontal Transfers

- Vertical transfers (central to state fiscal transfers) have steadily increased, though they may not continue given the slowdown in central tax buoyancy.
- Horizontal transfers (among states) have been skewed toward poorer states, yet they have not effectively improved their economic standing. At the same time, efficient states’ share has been continuously declining despite their higher contributions to central taxes. They also need more resources to meet growing infrastructure demand. The higher growth of these states are crucial to achieve India’s goal to become a

developed nation by 2024. The Sixteenth Finance Commission should adopt a balanced approach, ensuring that better-performing states, like Tamil Nadu, are not penalized for their efficient fiscal management.

(vi) Tamil Nadu Government Finance

- Tamil Nadu's fiscal health has deteriorated since 2013-14, with revenue deficits emerging. Own tax revenue relative to GSDP has steadily declined due to GST implementation and other factors. While the state's sales tax plus GST efforts improved, its overall performance remained low in comparison to many other states.
- Non-tax revenues showed stronger growth, yet they remain underutilized. Transfers from the central government have stagnated, and capital expenditure has significantly decreased, while revenue expenditures have grown at a faster pace than revenues.
- In 2016-17, the UDAY programme's debt takeover for TANGEDCO pushed the fiscal deficit above 3 percent, with authorization from the Government of India. Higher deficits also occurred in 2019-20 and 2020-21 due to relaxed fiscal limits during the COVID-19 pandemic. Since 2021-22, the state has pursued fiscal consolidation as per the 15th Finance Commission's recommendations.
- However, debt levels are high, and the state's public debt burden is unsustainable. To ensure fiscal stability, Tamil Nadu must reduce its debt level and interest burden.

(vi) Public Sector Undertakings (PSUs)

- Tamil Nadu's 68 operational PSUs have made minimal contributions to the state's economy, despite providing significant employment and attracting investments.
- Losses from key PSUs like TANGEDCO and TANTRANSCO have been escalating, and their performance needs urgent improvement to reduce financial strain.

(vii) Local Government Finances

- Tamil Nadu faces challenges in managing its growing urban population, with deficits in many urban local bodies (ULBs) and declining local body grants by the Finance Commissions.
- Property tax revisions are being implemented, but substantial investments are required to meet infrastructure and service demands in urban areas.

(ix) Road Map to Maintain Fiscal Discipline

- Projections of components of revenues and expenditures (based own tax buoyancy and recent years' growth) and derivations of deficit and debt parameters till 2030-31 highlighted that (i) the interest payment ratio will reach 19.7 percent by 2030-31; (ii) the debt-GSDP ratio will remain at 26 percent until 2030-31; (iii) the revenue deficit will continue until 2027-28; and (iv) There will a gradual reduction in capital expenditure-GSDP ratio to 1.3 percent in 2030-31.

- The road map to achieve fiscal discipline suggests that Tamil Nadu must continue improving its fiscal performance through strategic measures. The state should aim for a 14 percent growth in sales tax and GST, gradually reduce interest payments to 10 percent by 2030-31, and cap the fiscal deficit at 1.5 percent from 2026-27 onwards.
- Following the road map, the state's revenue deficit is expected to turn into a surplus by 2027-28, and a 3 percent revenue surplus relative to GSDP is projected by 2030-31. This would allow the state to reinvest in capital expenditures and reduce its fiscal deficit. Reduction in net borrowings will also help in reducing interest obligations.
- However, state should anticipate higher expenses if (i) pay revisions will be implemented around 2028 and (ii) it move from contributory pension scheme to another pension scheme.

To sum up, Tamil Nadu’s financial performance faces multiple challenges, including rising debt, loss-making public-sector enterprises, and an increasing fiscal deficit. While the state's economy has grown at a commendable pace, the overall fiscal position has weakened, particularly in the face of global economic slowdowns, the COVID-19 pandemic, and an increasing reliance on debt to finance revenue expenditures.

The state must prioritize fiscal discipline through improved revenue generation, enhanced non-tax revenues, and stringent control over debt and interest payments. Public sector enterprises should undergo reforms to reduce losses, and local governments need more financial support to meet urbanization challenges. By adhering to the roadmap laid out in this report, Tamil Nadu can improve its fiscal health and set itself on a path toward sustainable, long-term economic growth, ultimately helping the nation to achieve its ambitious goal of becoming developed nation by 2047.