

16. STATE FINANCE

The experience of the economic growth of the past few years has clearly indicated the benefits of fiscal prudence along with the lines of Fiscal Reform and Budget Management Act (FRBMA). Fostering the momentum of growth continues to be a top priority. The national level targets such as faster growth, poverty reduction, employment generation, school enrolment and reduction in drop out rates, reduction in gender gaps in schooling and literacy, reduction in infant mortality rate and maternal mortality rate etc. set to achieve an average growth of 8 percent in the base year to 10 percent in the final year during the 11th Plan Period reflect the basic challenges of the Nation. These multi dimensional objectives are to be disaggregated into State- specific targets to enable effective performance of each State in each dimension. It is the fiscal policy that provides stability and predictability to the policy regime and ensures that the national resources are allocated in terms of its defined priorities.

Salient Features of Budget 2006-07:

Budget 2006-07 was considered as a budget for pro-working class and distressed farming community. It aimed at provision of enough resources towards revival of the primary sector and giving lifeline support to the farming community. Budget 2006-07 provided funds to a number of welfare schemes, especially for the primary sector and the working class. An allocation of Rs.780 crores was made towards the scheme for the distribution of free colour television set, Rs.1435 crores towards reimbursement of waiver of farmers' loan, Rs.1950 crores for implementing PDS rice at Rs.2 per kg., sales tax exemption for Tamil software, pulses, oils and hank yarn, slashing of interest rate on crop loans and free power supply to 2.4 lakh self financing agricultural connections.

The Budget was also considered as a tax-free budget with a revenue deficit of Rs.1129 crores. The total revenue receipt was estimated at Rs.38731 crore and the revenue expenditure was projected at Rs.39860 crores. Revenue deficit was at 2.9 per cent of the total revenue receipts and the fiscal deficit was projected to be within 3 per cent of Gross State Domestic Product which was in line with the targets set as per the Tamil Nadu Fiscal Responsibility Act, 2003. With this, the overall deficit was estimated at Rs.4 crores.

The Government has taken over the entire debt liability of Rs.1668 crores owned by the Cooperative Banks to NABARD. Farmers were ensured to get the crop loans at the reduced interest rate of 7 per cent. 'Uzhavar Sandhai Thittam' which had a setback in the interregnum has been revived. Three terminal markets having facilities such as World Class Collection Centres, pre-cooling equipments, sorting and treatment facilities and electronic auction had to be established at Chennai, Coimbatore and Madurai to eliminate post harvest loss and to ensure remunerative prices to the farmers. The Government had proposed to develop the poramboke wastelands into cultivable lands and to distribute the lands to poor landless farmers 2 acres each. It was decided to re-establish the Agricultural Labourer's Welfare Board and to implement the Tamil Nadu Agricultural Labourers Social Safety and Welfare Schemes.

A Special Act has been enacted to make Tamil a compulsory learning language by all the school going children. A time scale of pay was fixed for filling up the future vacancies of teaching posts in Government and Government Aided Schools. It was

decided to extend the transparent counseling system to all the departments of the Government. In order to develop the educationally backward areas and to create employment opportunities in the rural areas, it was proposed to establish new Arts and Science Colleges, Dental Colleges, Nursing Colleges, Colleges of Physiotherapy and Technical Universities at Trichy and Coimbatore.

For further growth of the industries in the State to compete in international markets and to create employment opportunities on a large scale, a new industrial policy would be framed. A special task force has to be constituted to resolve the problems of industries. Companies manufacturing computers in the Special Economic Zones (SEZs) in Tamil Nadu would be exempted from Central and General Sales tax. A proposal has been made to establish a second tidal park at Taramani and Rajiv Gandhi Institute of Aeronautical Science and Training of Pilots Academy at Sriperumpudur.

As the availability of per capita water per day is less than 40 litres in 55149 rural habitations, the drinking water supply scheme at a cost of Rs.411 crores under Minimum Needs Programme has to be implemented. The allowances given for various welfare measures like training for Self Help Groups, Pension for the old aged, destitute and disabled persons had been enhanced with the plan of bringing up 25000 new SHGs. As an addition to the Nutritious Meal Programme, provision was made for the supply of two eggs a week to the students. Nine Welfare Boards that were abolished were revived.

It was decided to establish a permanent committee of sociologists to advise the Government for the implementation of Social Reform Policies. Payment of tax arrears and revision of arrears for Government employees was considered. It was reconsidered to grant all the benefits to the Government employees and teachers which were not provided from 2001-02. The Annual Plan outlays for the State was fixed at Rs.12500 crores and additional allocations were made for Western Ghats Development and Hill Area Development Programme.

Salient features of Budget 2007-08:

With the successful achievement of all the targets fixed under the Medium Term Fiscal Plan (MTFP) for the financial year 2006-07 by the State, the Centre had fixed an annual outlay of Rs.14,000 crores for Tamil Nadu for the fiscal year 2007-08. This included an additional central assistance of Rs.200 crores for projects of special assistance to Tamil Nadu.

The total revenue receipts and revenue expenditures were budgeted at Rs.44,532.28 crores and Rs.44,633.66 crores with the resultant revenue deficit of Rs.101.38 crores during 2007-08 (BE). The budget estimate of the capital account showed a deficit of Rs.441.61 crores, thereby the overall deficit was budgeted at Rs.43.40 crores. But the revised estimate for the fiscal year 2007-08 showed a revenue surplus of Rs.915.65 crores and the capital account deficit of Rs.3683.99 crores with the resultant overall surplus of Rs.41.13 crores. This indicates the achievement of the major objective of MTFP of eliminating the revenue deficit. This target has been achieved prior to the prescribed time limit of 2008-09.

The outstanding risk weighted guarantee as on 31.03.07 stood at 4.3 percent of Total Revenue Receipts and 0.7 percent of Gross State Domestic Product. It has been

proposed to restrict the issue of new guarantees other than those of productive and viable projects. The State would swap the high cost loans to bring down the interest commitment. The ratio of interest rate to total revenue receipts would be kept below 15 percent as recommended by the Twelfth finance commission.

All co-operative farm loans to the tune of Rs.7000 crores were waived by the government as on 31.03.2006. It has been decided to reduce the interest on crop loans from 7 percent to 5 percent during this financial year 2007-08. Major decisions such as re-establishment of Agricultural labour welfare board and introduction of precision farming in all the districts were taken on the agricultural ground.

As an initiative to overcome the inter-State river water disputes, the government would endeavor to interlink the peninsular rivers with the assistance of World Bank. The irrigated Agriculture modernization and water bodies restoration and Management Project, a first of its kind in India, would be implemented in 63 sub-basins of the State in the next six years at an estimated cost of Rs.2,547 crores. This project would integrate the activities of the water usage departments such as Agriculture, Horticulture, Fisheries and Animal Husbandry apart from Irrigation.

Activity based learning would be introduced at primary level in all the primary and middle schools. A modern State library of international standard would be established at Chennai for easy accessibility to the public.

By entering into a Memorandum of Understanding with the leading automobile industries, the State had regained its top position. As a means of providing employment opportunities to the youth, the government had proposed new projects such as establishment of shipyards, graphite industrial units and additional SEZs. The foundation stone for an additional technology park at coimbatore had been laid in February 2007.

Sanction had been accorded for 39 Railway over bridges at a cost of Rs.500 crores in 2007-08. The union government had proposed to invest Rs.26,000 crores for the establishment of 4 crore nuclear reactors in Tamil Nadu. To overcome the problem of traffic congestion in the city, project reports have been prepared for the construction of metro rails and the extension of Mass Rapid Transit System. 5,451 buses had been purchased and put to use during 2006-07 and 2007-08.

Several schemes worth Rs.2,470 crores have been sanctioned under Jawaharlal Nehru National Urban Renewal Mission (JNNURM) for improving the basic amenities in the urban areas. The local bodies have been empowered with the financial increase of 9 percent of the states own tax revenue to discharge their function. Infrastructure for rural population had been planned to be provided at a cost of Rs.20 lakhs per village panchayat under the new Scheme of 'Anaithu Grama Anna Marumalarchi Thittam'. Permanent houses numbering 22,420 had been constructed under Tsunami rehabilitation works as on 19.03.07 and 25,000 new SHGs would be formed to benefit 5 lakh women from various districts.

On the social ground, the State has decided to establish Archaka training institutions to abolish the caste systems followed in religious places along with the regular schemes of providing Free Colour Television, Free Gas connections with stove, provision of land for the landless labour, tricycles for the handicapped etc.

Supplementary estimates for 2007-08 had been fixed by the government in March 2008 at Rs.2,198.45 crores to cater to the expansion of existing schemes. This includes repairs and restoration of roads and bridges at the cost of Rs.128.95 crores, Rs.40 crores for Anaithu Grama Anna Marumalarchi Thittam, a loan component of Rs.340.8 crores for Tamil Nadu Civil Supplies Corporation and upgradation of infrastructure in Adi-Draavidar and Tribal Welfare Schools.

Medium Term Fiscal Plan : Revised:

The mounting expenditure on social security net and salaries and pension to Government employees, enormous increase in food subsidy, additional expenditure on free colour television scheme and the waiving of co-operative loans of the farmers had significantly affected the compliance of the Tamil Nadu Government with the fiscal responsibility norms. This had resulted in the revision of 'Medium Term Fiscal Plan' formulated under the Tamil Nadu Fiscal Responsibility Act. The revised Act would strive to bring down the revenue deficit below 5 per cent in 2007-08 and would eliminate it in 2008-09. Similarly, the fiscal deficit estimated at 3 per cent in 2006-07 would be brought down to 2.68 per cent in 2007-08 and to 2.3 per cent in 2008-09. This is expected to result in the generation of sufficient resources for the State to meet its current expenditure.

In accordance with the above targets, the revenue surplus accounted for Rs.2648.26 crores in 2006-07, while it was Rs.915.65 crores only as per revised estimate during 2007-08. The fiscal deficit over GSDP was 1.56 percent during 2006-07 while the revised estimate of 2007-08 showed it at 2.56 per cent. The budget estimate for 2008-09 projected it as 2.98 percent. It is expected to reduce the fiscal deficit by Rs.2.96 percent in 2009-10 and 2.93 percent in 2010-11.

Medium Term Fiscal Plan – Trend in Gross Fiscal Deficit and Revenue Deficit:

The table below projects the trends in Gross Fiscal Deficit over the period from 2005-06 to 2010-11. As this consolidated statement includes the performance of Tamil Nadu Electricity Board along with the State Budget, it indicates a fluctuating trend of increase and decrease in Gross Fiscal Deficit over GSDP. While the budgeted ratio of GFD over GSDP during 2008-09 is expected to rise by 3.85 per cent, it is expected to decline during the following years. This declining trend is a favourable phenomenon, which is an indicator of improved loan recovery situation.

Table –1: Medium Term Fiscal Plan (Rs. in crores)

Sl. No.	Year	Revenue deficit	% of RD over GSDP	Fiscal deficit	% of GFD over GSDP
1.	2005-06 (Projections)	(-)2273.92	(-)1.17	(-)7090.95	(-)3.64
2.	2005-06 (Actuals)	622.34	0.29	(-)3971.65	(-)1.88
3.	2006-07 (Projections)	(-)2223.30	(-)0.96	(-)8202.84	(-)3.52
4.	2006-07 (Actuals)	1319.27	0.52	(-)5174.94	(-)2.04
5.	2007-08 (Projections)	(-)1378.27	(-)0.51	(-)9634.91	(-)3.57
6.	2007-08 (RE)	(-)1.82.44	(-)0.37	(-)10108.45	(-)3.50
7.	2008-09 (Projections)	(-)2079.12	(-)0.67	(-)10445.98	(-)3.36
8.	2008-09 (BE)	(-)1392.96	(-)0.42	(-)12624.24	(-)3.85
9.	2009-10 (Projections)	(-)2112.88	(-)0.57	(-)13959.87	(-)3.76
10.	2010-11 (Projections)	(-)2313.57	(-)0.55	(-)15414.38	(-)3.68

Note: These estimates and actuals will not tally with the finance accounts and the Annual Financial Statement as these are adjusted numbers. Services GSDP in Current Prices as per 1999-2000 Series.
Source: Budget Speech 2007-08.

With the elimination of revenue deficit the entire fiscal deficit would be utilised for financing of capital expenditure and the State would be able to generate enough revenues on its own to meet the current expenditure.

**Analysis of the Performance of Budget 2006-07 and 2007-08:
Overall Budget:**

The total transactions of the budget is shown by three funds viz. consolidated fund, contingency fund and public account. Revenue receipts and disbursements and the capital receipts and disbursements shown by way of loans raised by the Government from the public, financial institutions and the Government of India and the repayments made by the Government form part of the consolidated fund. Contingency fund is the fund incurred in case of emergency requirements. Advances are given from this fund to meet unforeseen expenditure. Public Account is the account which acts as a banker for the deposits from local bodies, public sector corporations, funds created by Government (or) deposits from private persons such as Contractors etc.

The revised estimate of the budget 2007-08 showed a revenue surplus as Rs.91564 lakhs as against the revenue surplus of Rs.264826 lakhs during 2006-07 (Actual). While the revenue surplus of 2006-07 (Accounts) had increased by 35.72 per cent compared to that of 2005-06 (Rs.195133 lakhs), the revised estimate of the revenue surplus during 2007-08 had declined by 65.4 per cent. While the revenue receipts had increased by 13.7 per cent during 2007-08 (RE) as compared to 2006-07 (Accounts), the corresponding increase in revenue disbursements by 19.17 per cent in 2007-08 (RE) had resulted in the decline in revenue surplus to Rs.91564 lakhs during 2007-08 (RE).

Table - 2: Overall Budget

(Rs. lakhs)

Sl.No.	Details	2005-06(Accts)	2006-07(Accts)	2007-08 (RE)
I	Consolidated fund			
	A. Revenue account			
1	Receipts	3395999	4091323	4651676
2	Disbursement	3200866	3826497	4560112
3	Surplus or Deficit	195133	264826	91564
	B.Capital Account			
1	Receipts	964118	714716	868912
2	Disbursement	692364	1129451	1237311
3	Surplus or Deficit	271754	(-)414735	(-)368399
I	Consolidated fund (net)	466887	(-)149909	(-)276834
II	Contingency Fund (net)	(-)1637	1637	0
II	Public Account (net)	(-)488610	151104	280947
IV	Total transactions (net)	(-)23360	2832	4113

Source: Annual Financial Statement.

Over the period of past ten years, for the first time, capital account showed a deficit of Rs.414735 lakhs during 2006-07 (Accounts). The increase in capital receipts to Rs.868912 lakhs during 2007-08 (RE) as compared to 2006-07 (Accounts) of Rs.714716 lakhs, had reduced the capital account deficit by 11.17 per cent during 2007-08 (RE). While, the overall transaction had shown a fluctuating trend of deficit and surplus in the past 10 years, it had shown a surplus budget of Rs.2832 lakhs and Rs.4113 lakhs during 2006-07 (Accounts) and 2007-08 (RE) respectively. The higher share of public account in the budget during 2007-08 (RE) had resulted in the rise in total transaction of the budget to Rs.4113 lakhs.

Revenue Receipts:

The revised estimate (2007-08) of the total revenue receipts (Rs.4651676 lakhs) had increased by 13.72 per cent from the actual figure of Rs.4091323 lakhs during 2006-07. Besides the regular concept of increase in all the four components of revenue receipts, while the share of Central taxes and State own tax revenue had raised by 24.8 per cent and 6.04 per cent respectively the State's own non-tax revenue declined by 12.2 per cent during 2007-08 (R.E.). Grants-in-Aid from the Centre showed an unusual increase of 86.39 per cent due to the inclusion of compensation from Government of India for the loss to the State Government due to Value Added Tax. Due to the compensation for the adoption of VAT, non-tax revenue had increased by 36.57 per cent during 2007-08 (RE) as compared to 2006-07 (Accounts) and the tax revenue increased by a minimum of 9.22 percent.

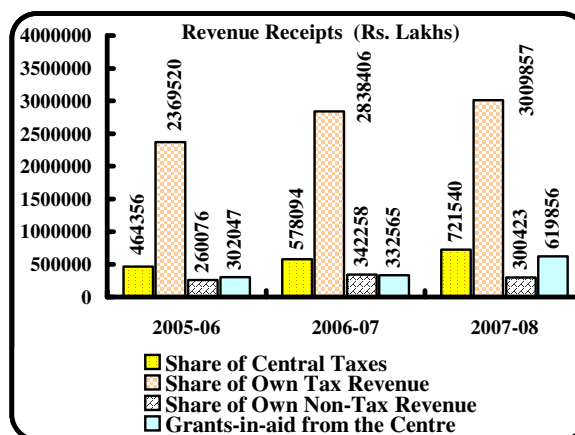


Table - 3: Receipts on Revenue Account by Principal Heads

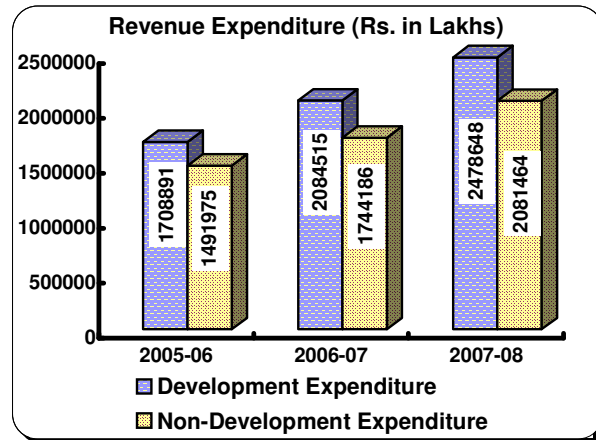
Sl. No	Details	2005-06 (Accts)	2006-07 (Accts)	2007-08 (RE)
I	Tax revenue (A+B)	2833876	3416500	3731397
A	Share of Central Taxes	464356	578094	721540
1	Income Tax	97565	121182	154543
2	Union excise and additional excise duties	366791	456912	566997
B	States Own Tax Revenue	2369520	2838406	3009857
1	Agricultural Income Tax	13	7	0
2	Land Revenue	17948	12068	13923
3	Urban Land Tax	1186	1444	1600
4	Stamps and Registration Fee	208486	299746	393864
5	State Excise Duties	317665	398642	463444
6	General Sales Tax	1369686	1546525	1577456
7	Central Sales Tax	186084	226191	165791
8	Taxes on Vehicles	112493	126088	150191
9	Electricity Duties	9522	26640	22735
10	Entertainment Tax	1258	4037	1084
11	Betting Tax	620	579	656
12	Luxury Tax	8792	8973	17258
13	Sugarcane Cess	655	1824	1700
14	Taxes on Goods & Passengers	98494	124350	115106
15	Share of Net Proceeds Assigned to States	-41	-40	-103
16	Service Tax	36959	61332	85152
17	Deduct – Refunds	0	0	0
II	Non tax revenue (A+B)	562123	674823	920279
A	State's Own Non Tax Revenue	260076	342258	300423
1	Interest Receipts & Dividend and Profits	81991	113400	104734
2	General Services	22499	82539	54008
3	Social Services	44622	52041	48811
4	Economic Services	110964	94278	92870
B	Grants-in-Aid from the Centre	302047	332565	619856
	Total Revenue Receipts (I&II)	3395999	4091323	4651676

Source: Budget Memorandum of GoTN.

Of the total tax revenue of Rs.3731397 lakhs (2007-08 RE), the share of Central taxes accounted for 19.34 per cent and State taxes for 80.66 per cent. While there is a growth in all the components of State's own tax revenue, sales tax, the important revenue component largely declined (approximately by 27%) due to the introduction of VAT. Of the total non-tax revenue of Rs.920279 lakhs during 2007-08 (RE), the proportion of State's own non-tax revenue was 32.64 per cent and that of Grants-in-Aid from the Centre was 67.36 per cent. In general, the non-tax revenue during 2007-08 (RE) had increased by 36.57 per cent, which was effected by the increase in interest receipts, education, sports, arts and other miscellaneous general services and crop husbandry.

Revenue Expenditure:

The total revenue expenditure had increased by 19.1 per cent during 2007-08 (RE) an approximately equal percentage increase of 19.6 registered during 2006-07 (Accounts) compared with 2005-06 figure. This significant increase had been effected by the contribution of development expenditure by 18.91 per cent and the non-development expenditure by 16.61 per cent during 2007-08 (RE).



The proportionate allocation of revenue expenditure for General Services, Social Services, Economic Services and Compensation and Assignments to Local Bodies and Panchayat Raj Institutions as per the revised estimate of 2007-08 was in the ratio of 38:37:17:8 respectively. In the Revised Estimate of 2007-08, the revenue expenditure of almost all the services had increased due to the additional provisions for interest payments, pension expenditure and higher provision for devolution to local bodies. Unusually, Economic services registered a growth of meager 0.9 per cent due to the savings in salary related expenditure and transfer of the pending maintenance expenditure of Roads, Bridges and Dams to the next financial year.

Table - 4: Expenditure on Revenue Account by Principal Heads
(Rs. in lakhs)

SI. No.	Details	2005-06 Accts.	2006-07 Accts.	2007-08 RE
I	Development expenditure (A+B)	1708891	2084515	2478648
A	Social Services	1131641	1304840	1691894
1	Education, Art & Culture , Sports	501256	606110	740509
2	Medical and Public Health	110790	130972	160868
3	Family Welfare	28497	24225	30614
4	Water Supply and Sanitation	6464	8422	4869
5	Housing	14410	46978	58581
6	Urban Development	19529	63121	73039
7	Labour and Employment	12868	14430	15929
8	Welfare of SC, ST and OBC	76436	87433	105841
9	Social Security and Welfare	119989	159479	247812
10	Nutrition	78199	87664	125066
11	Relief on Account of Natural Calamities	157455	(-)2206	42509
12	Other social services, Information & Publicity	5748	76006	86257
B	Economic Services	577250	779675	786754
1	General Economic Services	141968	216878	212411
2	Agriculture and Allied Services	125173	179930	192925
3	Rural Development	59813	67817	77310
4	Special Area Programme	927	1265	1297
5	Irrigation and Flood Control	53233	60514	55544
6	Energy	102707	118207	115165
7	Industry and Minerals	30437	48224	42653
8	Transport	61883	85939	88338
9	Science, Technology and Environment	1109	901	1111
II	Non-development Expenditure (General Services)	1289090	1499485	1748608
1	Organs of State	24511	36541	34725
2	Fiscal Services	67625	66993	54657
3	Debt Services	500880	595599	660961
4	Administrative Services	212927	251522	320329
5	Pension and Miscellaneous General Services	483147	548830	677936
III	Compensation & Assignments to			
	Local Bodies and Panchayat Raj	202885	244701	332856
	Total Revenue Expenditure (I+II)	3200866	3828701	4560112

Source: Annual financial statementGoTN..

Capital Account – Receipts and Disbursements:

The gross capital receipts of the State Government include the public account and consolidated fund which were in the ratio of 95:5 during 2006-07 (Accounts) and 93:7 during 2007-08 (RE). It registered a growth of 71 per cent during 2006-07 (Accounts)

compared to 2005-06 and declined by 29 per cent during 2007-08 (RE). An average reduction of revenue fund and suspense accounts by 45.6 per cent during 2007-08 (RE) had been the cause behind the reduced capital receipts.

Similarly, gross capital disbursements had increased by 40.8 per cent during 2006-07 (Accounts) and decreased by 29.6 per cent during 2007-08 (RE). The increase in consolidated fund by a meager 5.16 per cent and the decrease in public account by 32.07 per cent during 2007-08 RE) had resulted in the overall decline in gross capital disbursements.

Table 5: Capital Budget – Receipts and Disbursements

(Rs. in lakhs)

SI. No.	Details	2005-06 Accts.	2006-07 Accts.	2007-08 RE
A	RECEIPTS			
I	Consolidated fund	1053332	874962	987872
1	Public debt	964119	714717	868911
	i. Internal debt	919951	682031	760069
	ii. Loans and advances from GOI	44168	32686	108842
2	Loans and advances repaid to State Government	89213	160245	118961
II	Contingency fund	0	1637	0
III	Public account	12304472	17978309	12390351
1	Small savings, Provident fund etc.	294316	321416	385444
2	Reserve fund	630985	238773	103560
3	Deposits and advances	891414	1160054	1226142
4	Suspense and miscellaneous	10275015	16055030	10462554
5	Remittances	212742	203036	212651
IV	Gross capital receipts (I+II+III)	13357804	18854908	13378223
B	DISBURSEMENTS			
I	Consolidated fund (1+2+3)	781577	1289696	1356273
1	Capital expenditure outside the revenue account	405455	595237	781213
2	Public debt	272170	469026	404609
	i. Internal debt	241959	415000	373575
	ii. Repayment of loans and advances to GOI	30211	54026	31034
3	Loans and advances of the State Government	103952	225433	170451
4	Appropriation to Contingency fund	0	0	0
II	Contingency fund	1637	0	0
III	Public account	12793081	17827205	12109404
1	Small savings, Provident fund etc.	261557	295823	291656
2	Reserve fund	638386	221992	88101
3	Deposits and advances	892113	1047065	1095633
4	Suspense and miscellaneous	10802097	16064489	10423695
5	Remittances	198928	197836	210319
IV	Gross capital disbursements (I+II+III)	13576295	19116901	13465677

Source: Annual financial statemen GoTN.

Capital Expenditure:

While the total capital outlay of the Government increased by 46.8 per cent during 2006-07 (Accounts), this percentage increase had declined to 31.24 per cent during 2007-08 (RE). The proportionate allocation of development and non-development expenditure were met in the ratio of 96:4 in the revised estimate of 2007-08. It was the economic services which accounted for a higher proportion of (76.3%) total capital outlay followed by social services (19.6%) and general services (4.08%) during 2007-08 (RE). Due to the Metro Rail Project Scheme and the various road improvement works under Roads and Bridges the share of capital outlay on transport sector was higher at 33 per cent followed by agriculture and allied services at 20.47 percent of the total capital expenditure during 2007-08 (RE). In the revised estimate for 2007-08, funds allocated for Tamil Nadu Urban Development Projects was reduced considerably and resulted in lesser percentage increase of capital expenditure.

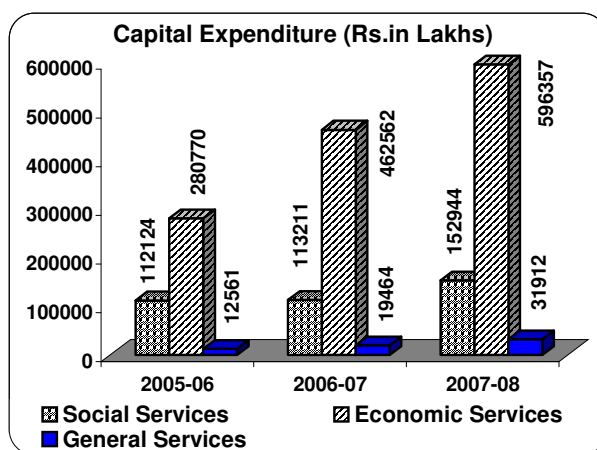


Table -6: Capital expenditure

(Rs. in lakhs)

SI. No.	Details	2005-06 Accts.	2006-07 Accts.	2007-08 RE
I	Development expenditure (A+B)	392894	575774	749301
A	Social services	112124	113211	152944
1	Education, sports, art & culture	26052	17894	19969
2	Medical, public health & Family welfare	24624	11854	18713
3	Water supply, sanitation, Housing & Urban Development	49615	73715	100139
4	Welfare of SC, ST & OBC	10860	8580	12754
5	Social welfare & nutrition	227	378	250
6	Other Social services	746	791	1119
B	Economic services	280770	462562	596357
1	Agriculture & Allied services	17850	148957	159876
2	Rural development	60996	90316	102640
3	Special area programme	2254	2930	3276
4	Irrigation & Flood control	26505	32689	46945
5	Industry & minerals	213	173	429
6	Energy	2500	17500	24000
7	Transport	163537	168108	257881
8	General economic services	6915	1889	1310
II	Non-development expenditure	12561	19464	31912
	Total capital expenditure (I+II)	405455	595238	781213

Source: Annual Financial Statement GoTN.

Overall Financial Performance of the State Budget during the 10th Plan Period:

During the 10th plan period, the revenue account of the overall budget showed revenue deficit during the initial three years and revenue surplus during 4th and 5th year. The total performance of the revenue account during the five year period showed a deficit of Rs.251995 lakhs. In contrast to the revenue account, capital account showed surplus during the initial four years and deficit in the last year. The capital account had shown a deficit of Rs.414735 lakhs for the first time during 2006-07 which was due to increased disbursements than the receipts during that year. But the overall performance of capital account showed a surplus of Rs.518194 lakhs during the 10th Plan period thereby resulting in a surplus net consolidated fund of Rs.266199 lakhs.

Table – 7: Overall Budget

(Rs. lakhs)

Sl. No.	Details	2002-03 Accts.	2003-04 Accts.	2004-05 Accts.	2005-06 Accts.	2006-07 Accts.	Total
I	Consolidated fund						
	A. Revenue account						
1	Receipts	2083674	2370571	2845153	3395999	4091323	14786720
2	Disbursement	2568770	2527095	2915487	3200866	3826497	15038715
3	Surplus or Deficit	(-)485096	(-)156524	(-) 70334	195133	264826	(-)251995
	B.Capital Account						
1	Receipts	1880264	1143345	1347348	964118	714716	6049791
2	Disbursement	1344223	1026401	1339158	692364	1129451	5531597
3	Surplus or Deficit	536041	116944	8190	271754	(-)414735	518194
I	Consolidated fund (net)	50945	(-)39580	(-) 62144	466887	(-)149909	266199
II	Contingency Fund (net)	0	0	0	(-)1637	1637	0
II	Public Account (net)	(-)42210	31675	83485	(-)488610	151104	(-)264556
IV	Total transactions (net)	8735	(-)7905	21341	(-)23360	2832	1643

Source: Annual Financial Statement GoTN.

Public account had shown a fluctuating trend of deficit during 2002-03 and 2005-06 and surplus during 2003-04, 2004-05 and 2006-07. In total it has shown a negative value of Rs.264556 lakhs. The overall performance of the budget transactions during the five year period had shown a surplus budget with the resultant transactions of Rs.1643 lakhs.

Centrally sponsored schemes:

Apart from the funds provided by the State for the implementation of various schemes under different sectors, the Central Government also sanctions funds for the major sectors. During the 10th five year plan period, the funds sponsored by the Central Government had gradually increased from year to year, except during 2004-05. Of the total funds of Rs.270290 lakhs sponsored by the Centre during the five year period around 92 percent of the funds were utilised for social and community services such as education, health, welfare of SC, ST and OBC, Nutrition etc.

Table- 8: Centrally Sponsored Schemes

(Rs. in lakhs)

SI. No.	Details	2002-03 Accts.	2003-04 Accts.	2004-05 Accts.	2005-06 Accts.	2006-07 Accts.	Total
1	Agriculture & Allied services	873	710	1205	1511	2210	6509
2	Co-operation	58	-1	0	0	0	57
3	Rural development	186	572	506	698	962	2924
4	Irrigation & Flood control and power	0	0	1	148	248	397
5	Industry & minerals	1085	840	1471	936	1253	5585
6	Transport & communication	0	0	127	871	187	1185
7	Social and community services	44547	51901	46492	51051	54593	248584
8	General economic services	178	167	214	1534	2956	5049
	Total	46927	54189	50016	56749	62409	270290

Source : Annual plan - Budget link GoTN.

Schemes shared between State and Centre:

The requirement of funds for some of the major sectors is shared by both State and the Central Government. The funds shared by both the Governments, had been slowly raised during the 10th Five Year Plan period except for 2006-07. Of the total funds of Rs.223029 lakhs raised during the five year period, the social and community services sector was provided with a higher share of 36.8 per cent (Rs.82020 lakhs) followed by Agriculture and Allied services sector 23.57 per cent (Rs.52561 lakhs) and Industry and minerals sector 20.54 percent (Rs.45802 lakhs).

Table- 9: Schemes Shared Between State and Center

(Rs. in lakhs)

SI. No	Details	2002-03 Accts.	2003-04 Accts.	2004-05 Accts.	2005-06 Accts.	2006-07 Accts.	Total
1	Agriculture & Allied services	6482	9603	9250	12669	14557	52561
2	Co-operation	548	0	0	0	0	548
3	Rural development	1482	1943	19	4042	0	9367
4	Irrigation & Flood control	4597	4713	4305	300	5996	19911
5	Energy	0	510	82	495	372	1459
6	Industry & minerals	5685	6671	7286	12286	13874	45802
7	General economic services	362	911	1039	373	923	3608
8	Social and community services	16174	23158	20419	14297	7972	82020
9	General services (stationary & printing. public works)	871	1610	2295	2182	795	7753
	Total	36201	49119	46576	46644	44489	223029

Source : Annual plan - Budget link.

Schemes Financed by Autonomous Bodies:

Financial support is given to the State, even by some of the autonomous bodies for selective sectors. It is the agricultural and allied services sector which has received the maximum financial support from the autonomous bodies. Out of the total allocation of Rs.3883 lakhs financed by autonomous bodies during the 10th five year plan period, around 78 per cent of the funds were sponsored for Co-operative sector and the rest of 22 percent for Agriculture and allied activities. The funds provided by the autonomous bodies during the Plan period had gradually declined till 2004-05 and sharply declined during 2005-06 and 2006-07.

Table- 10: Schemes Financed by Autonomous Bodies

(Rs. Lakhs)

SI. No.	Details	2002-03 Accts.	2003-04 Accts.	2004-05 Accts.	2005-06 Accts.	2006-07 Accts.	Total
1	Agriculture & Allied services	506	434	1	8	(-)108	841
2	Co-operation	1134	654	990	130	121	3029
3	Industry & minerals	5	0	0	0	0	5
4	General economic services	8	0	0	0	0	8
	Total	1653	1088	991	138	13	3883

Source : Annual plan - Budget link.

Select Fiscal Indicators:

An analysis of the vital fiscal indicators of the State reveals that Gross fiscal deficit which indicates the total financial requirements of the State had increased gradually from 2005-06 to 2007-08 (RE). Gross revenue deficit which is an excess of total revenue expenditure over total revenue receipts had shown a positive trend in 2006-07 (A) and 2007-08 (RE).

Table - 11: Select Fiscal Indicators

(Percentage)

Sl. No.	Fiscal Indicators	2005-06 (A)	2006-07 (A)	2007-08 (RE)
1.	Gross Fiscal Deficit as % of GSDP	1.06	1.56	2.56
2.	Revenue deficit as % of GSDP	(-)0.92	1.04	0.32
3.	Revenue deficit as % of Gross fiscal deficit	(-)86.67	66.94	12.35
4.	Total liabilities over GSDP	27.15	23.72	22.73
5.	Total liabilities over Total Revenue Receipts	170.74	147.07	141.35

Source: Budget Memorandum Part I of various issues.

Indicators such as Total liabilities over GSDP and total liabilities over total Revenue Receipts also had gradually declined in 2006-07 (A) and 2007-08 (RE), thereby indicating a decrease in total liabilities of the State such as market borrowings, loans from

Centre, loans from externally aided projects, borrowings from Financial Institutions / Banks, Small Savings, Provident Fund etc. The ratio of revenue deficit to gross fiscal deficit had been reduced sharply from a higher proportion of 86.67 percent in 2005-06 to 12.35 percent in 2007-08 (RE).

11th Five Year Plan (2007-08 to 2011-12) – Approach Paper of Tamil Nadu:

The major objective of the 11th five year plan of the Government of Tamil Nadu is to attain a growth rate of 8.5 per cent as envisaged by the Centre. With the approved plan outlay of Rs.85,344 crores, the approach paper to this Five Year Plan of the State has addressed the following major items of concern in the areas of Agrarian revival, Industrial advancement, Urban management and Human development.

- Revitalisation of the agrarian sector, especially the agricultural sector to attain an annual growth of 4 percent. This could be achieved through proper planning of agricultural production strategy, conversion of fallow lands into cultivable lands, improving access to cheap and timely credit facilities for the farmers, enhancing direct market linkages by minimising the role of intermediaries and by improving infrastructure and storage facilities for the agricultural produce.
- Development of Animal husbandry and Fisheries sector which provides a buffer to the rural population.
- To set up a Water Resources Management Authority to carry on appropriate water management and river basin management and examine the techno-economic feasibility of inter-linking of rivers within the State.
- Alleviation of rural poverty through wage and self-employment programmes and through the implementation of NREGP (National Rural Employment Guarantee Programme).
- Upgradation of infrastructure and simplification of procedure to boost industrial investment in the State. Priority be given for industrial growth in southern districts viz. Madurai, Coimbatore, Tirunelveli and Salem to make them attractive destinations.
- Expansion of cluster approach which has been tried in textile sector to food processing also.
- Small scale sick units need urgent focus and advisory services in the areas of capital upgradation, product diversification and quality and cost control management.
- To develop infrastructure and services in the urban areas, apart from the funds provided by JNNURM, other schemes of the Union Government such as involvement of Urban Local Bodies in the generation of their own resources of investment, empowerment of urban poor through the adoption of SHG models in the urban areas.

- To create a credible system of primary health care, reduction of IMR and to make Tamil Nadu a malnutrition free state, which could be achieved by providing a lifecycle nutritious security programme for the BPL families.
- On the educational front, it aims at achievement of cent per cent education at the secondary school level, avoidance of inter-district disparity and gender disparity in the enrolment, imparting vocational skills to school drop-outs as a means of employment opportunity.
- Under the social security front clubbing of all the social security schemes under a single administrative set up was of prime importance.
- Reduction of BPL families from the current 22 per cent to 10 per cent at the end of the plan period.
- The State should explore possibilities of expanding its tax base with the approval of the Central Government. States should be allowed to levy taxes on the services sector which is the highest contributor to the GSDP. The financial transfer should be based on both equity and efficiency considerations.
- To conclude, economic development cannot be achieved in isolation. With the Co-operation of Union Government, the social, cultural and linguistic operations should be addressed.

Reform Measures:

The fiscal deficit constraints of the Centre have been passed on to the States. The ban on Government borrowings from the RBI from April 2006, has posed a new constraint on resources. Therefore, there is a need to rethink Governments fiscal reform strategy. As per the recommendations of the 12th Finance Commission, the State borrowings have to be considered on the plan loans from the Central budget to the market. Financial experts are of the opinion that apart from reforms on the fiscal front, reforms on the administrative front would enable the Government to achieve fiscal discipline.

As far as Tamil Nadu is concerned, the fiscal management of the State was on the right track. The State's present fiscal debt stood at 2.87 percent which was very well within the limits of 3 percent at the end of the annual plan 2006-07.

The successful introduction of VAT by the State from January 2007, has enabled the State to move towards fiscal sustainability. Within a period of six months of its implementation, Tamil Nadu is placed second in the collection of tax revenue through VAT to an extent of Rs.9,784 crores, which is nearly 1.56 percent higher than that in the second half of the previous year (Rs.9,583 crores).

Investment as a tool of Economic Growth:

Economic growth and investment are two interlinked parameters. State as well as the country is moving from a moderate growth to high growth trajectory, which requires careful consideration of sustainability of high growth. Several reform measures and high growth have brought about a surge in investment. The present phase of lightened investment is an opportunity to build production capacity that can create large employment.

As India is going through the phase of investment, it would require investment worth \$384 billion during the 11th Plan period for infrastructure upgradation from the previously estimated \$350 billion. The required funds would be raised through the following infrastructure funding sources in the proportion mentioned below.

1. From private capital (Domestic and Foreign Direct Investment)	-	22%
2. From World Bank, ADB and other multilateral / bilateral agencies	-	11%
3. From public expenditure (large scale projects like Rail, freight corridor, NHDP and Bharat Nirman)	-	67%
Total	-	100%

Previous investment regime had witnessed a tremendous growth across all the sectors of the nation. Transactions sector witnessed a growth of 11.3 percent as compared to 9.1 percent in the previous year. Financing, Insurance, Real Estate and business services posted a growth of 11.1 percent as compared to 10.9 percent in 2005-06. Mining and quarrying sector showed a slight improvement of 4.5 percent from the previous 3.6 percent while construction sector slipped to 9.4 percent as against 14.2 percent earlier. The estimated growth in trade, hotels, transport and communication is placed at 13 percent.

Service Sector Reforms:

Services sector continues to project a stellar performance of a growth rate of over 8 per cent in the past decade (1995-2005) which is ahead of manufacturing (7%) and agriculture (3%). This blooming global economy would not last for many years unless a crucial policy decision is made in this sector. A strategic decision has to be brought out in the line of (i) services sector reforms and (ii) inclusion of services in the measure of inflation.

Need for Services Sector Reforms:

Nation-wide, the services sector contributes a higher proportion of 54 per cent to the GDP which is ahead of the share of manufacturing sector at 27 per cent and agriculture sector at 19 per cent. State-wide, this sector had registered a substantial share of 57.61 per cent in the GSDP during 2005-06 ahead of manufacturing and other secondary sectors at 28.48 per cent and agriculture and allied services at 13.91 per cent during 2005-06. Moreover, export of services sector was growing at an annual rate of 30

per cent in the past five years against 25 per cent in the goods sector. In Foreign Direct Investments (FDI), this sector has emerged as the most attractive segment. In addition, the export to sales ratio of service companies has reported a surge in revenues from export sales at 18 per cent in 1998-99 to 24 per cent in 2004-05.

Though service companies are more efficient in the use of resources as compared to manufacturing, the adverse consequences faced by the services sector like shortage of computer software skills, slow down and backlash in outsourcing, inadequacy of infrastructure in some of the service areas etc. would affect the sustainability of the services sector in the near future. Therefore, there is a necessity to adopt suitable reforms in the services sector.

The State has been successfully implementing the public-private partnership model in various sectors. It has become a hub of industrial development in IT servicing and automobile parts. As it was said by Dr. Montek Singh Ahluwalia, the Deputy Chairman of the Planning Commission, 'It is very important to create non-agricultural employment in the small scale sector, particularly, manufacturing by better and cheaper infrastructure especially in the rural sector to overcome the agrarian crisis'. As the Employment Guarantee Programmes such as Bharat Nirman, Sarva Shiksha Abhiyan, National Employment Guarantee Act etc. are carrying for much larger government expenditure, the causative factors of fiscal deterioration in the past such as interest payment, pension liabilities, losses of State PSUs, lack of proper user charges, lack of buoyancy in taxes etc. will have to be monitored in the future.