

18. STATE FINANCE

Fiscal policy is a critical component of the policy framework for achieving the goal of sustained annual growth of 8-10 percent with macro economic stability. High deficits, unproductive expenditure and tax distribution have constrained the economy from realising its full growth potential. The State known for its prudent fiscal management, pioneering development programme and welfare schemes had to grapple between the pulls unleashed by the imperatives of finding the requisite fiscal space for welfare schemes and conforming to fiscal discipline incumbent upon States in a federal set up.

To incentivise the States to undertake fiscal reforms, Government of India implemented a scheme called the "State's Fiscal Reforms Facility (2000-01 to 2004-05)", which came to an end in March 2005. Under this scheme, all the 27 States except Goa had submitted their medium-term fiscal reforms programme and entered into memorandum of understanding with Government of India.

Budget 2005-06: Salient Features:

Budget 2005-06 was considered as a tax-free budget. Though the overall deficit at the end of 2005-06 was estimated at Rs.260.41 crores, as per the revised estimate it has increased to Rs.360 crores. This deficit was expected to be covered by the control of expenditure and improved compliance in tax collection without changing the tax rates. The process of fiscal consolidation was kept in track in 2005-06, which led to further improvement to the fiscal position.

The 2005-06 budgets of many State Governments have envisaged carrying forward the process of fiscal correction and consolidation through the enactment of Fiscal Responsibility Legislation (FRL). Five States viz., Karnataka, Kerala, Tamil Nadu, Punjab and Uttar Pradesh have already enacted FRLS prior to 2005-06. The details in respect of Tamil Nadu is given in the Box.

As per the 12th Finance Commission, the total share of all the states in the divisible pool of central taxes had increased from 29.5 per cent to 30.5 per cent. While the Government had sought an increase from 29.5 per cent to 50.0 per cent, the 12th Finance Commission made salutary recommendation by way of enhancing the grant to meet the cost of relief and rehabilitation, increasing the grants to local bodies, providing grants for the maintenance of roads and buildings within the stipulated increase of 30.5 per cent.

It was proposed to distribute free house-site pattas to two lakhs poor families in 2005-06. A fresh survey by TWAD Board indicated that out of 81,787 habitations, in the State, safe drinking water supply had been provided to 74,546 habitations.

Box
Fiscal Responsibility Legislation - Tamil Nadu

Year of Enactment	:	2003 (Amended in 2005)
Gross Fiscal Deficit (GFD)	:	Not more than 3% of GSDP by March 2008 and adhere to it thereafter.
Revenue Deficit (RD)	:	Ratio of RD to Revenue Receipt below 5% by March 2008. Eliminate RD by 2008-09 and adhere to it thereafter.
Guarantees	:	Cap the total outstanding guarantees to 100% of the total revenue receipts in the preceding year or at 10% of GSDP, whichever is lower.
Medium-Term Fiscal Plan (MTFP)	:	MTFP would include - i. multi-year rolling target for the prescribed fiscal indicators; ii. assessment of the sustainability; iii. medium-term fiscal objectives; iv. evaluation of the performance of the prescribed fiscal indicators; v. economic trends and future prospects for growth and development. vi. strategic priorities in the fiscal matters for the ensuing financial year. vii. evaluation of the current policies vis-a-vis the fiscal management principles and viii. policies pertaining to various fiscal parameters.
Compliance	:	Independent external body to carry out periodic review for the compliance of the provisions of the Act. GFD and RD may exceed the limits on grounds of unforeseen demands due to national security or natural calamity. The excess beyond limits arising due to natural calamities does not exceed the actual fiscal cost that can be attributed to the calamities.
Fiscal Transparency	:	Measures to ensure greater transparency in the fiscal operations.
Others	:	May assign an independent external agency to carry out the periodical review for the compliance of the provisions of this Act.

A number of other comprehensive programmes were implemented and continued during 2005-06 viz. Comprehensive Road Infrastructure Development Programme at a cost of Rs.1050 crores, the New Veeranam Extension Project at a cost of Rs.300 crores, Joint Ventures with National Thermal Power Corporation (Chennai), Neyveli Lignite Corporation (Tuticorin), and Nuclear Power Plant (Koodangulam) to add 4000 MW of generating capacity, Development of metro rail in Chennai with a seed money assistance of Rs.200 crores, establishment of textile park at Karur for the welfare of weavers, with the assistance from UNIDO, a 'cluster based loom up-gradation scheme' for the purpose of modernizing the looms.

With the assistance and approval from World Bank, the State had involved in number of projects such as Water Resources Consolidation Project-I under which 17 major basins have been formed for the integrated management of the available water resources, civic projects under TNUDP-III with assistance of Rs.1650 crores covering Chennai Metropolitan area and other urban local bodies of the State, launching of Technical Education Quality Improvement Programme and Tamil Nadu Empowerment and Poverty Reduction Project (in 15 districts). It is proposed to implement Tamil Nadu Afforestation Project - phase-II with financial assistance to the tune of Rs.567.42 crores from Japanese Bank of International Co-operation.

Efforts were taken by the State to lead in the IT sector and become "India's Eastern Gateway to the World" by establishing knowledge Industry Township at Sholinganallur to facilitate the growth of ITSME's (Small and Medium Enterprises), IT majors, Establishment of Techno parks by SIDCO for small and tiny enterprises in the semi urban areas and establishment of Women Industrial parks at Madurai and Coimbatore.

It was proposed to computerise IT billing and collection procedures for easy payment of electricity bills at a cost of Rs.120 crores in Chennai and all Municipal Corporations and Municipalities.

A new scheme called 'Chennai Forever Initiative' was announced to focus on all aspects of caring for the city, such as parks and playgrounds, side walks, central medium, sanitation, cleanliness and garbage disposal waterways and traffic management, etc. Through Public Private Partnership the Tamil Nadu Maritime Board has proposed to develop Cuddalore Port at a cost of Rs.250 crores.

With a view to achieve the goal of eradication of child labour, State action plan has been evolved to rehabilitate child labour in the State.

Provision of food subsidy had been increased to Rs.1000 crores due to increased number of cards and higher monthly off take.

From the budget estimate of Rs.1000 crores during 2005-06 for relief and rehabilitation works, the government had sanctioned Rs.895.18 crores for both temporary relief works and permanent rehabilitation works in the tsunami affected areas consisting of new pucca houses, livelihood rehabilitation for fishermen and reconstruction of damaged infrastructure.

Analysis of Budget 2005-06 - At a Glance:

The revised estimate of the budget 2005-06 given in Table-1 showed an overall revenue deficit of Rs.36,000 lakhs. While comparing with the overall revenue deficit of 2004-05 (Actual), the revenue deficit during 2005-06 had been reduced by 49 per cent. This is due to a 15.65 per cent increase in revenue receipts as against a 14.1 per cent increase in revenue expenditure.

Capital account showed a surplus of Rs.79,038 lakhs as per the revised estimate of the budget 2005-06, which was nearly 9.65 times more than the capital surplus of the year 2004-05. Though the capital account showed a higher surplus capital during the year 2005-06 (RE), the capital receipts (-33.11%) and capital disbursements (-38.6%) of the year 2005-06 showed a decline compared to the actual of 2004-05.

Table -1: Overall Budget -2005-06

(Rs. lakhs)

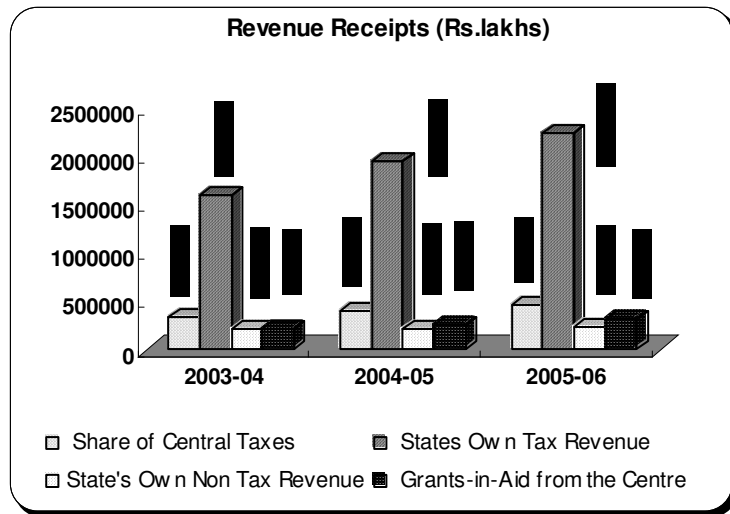
Sl. No.	Details	2004-05 Accounts	2005-06 RE
I	Consolidated Fund		
	A. Revenue Account		
	1. Receipts	2845153	3290414
	2. Disbursement	2915487	3326414
	3. Surplus or Deficit	-70334	-36000
	B. Capital Account		
	1. Receipts	1347348	901230
	2. Disbursement	1339158	822192
	3. Surplus or Deficit	8190	79038
I	Consolidated fund (Net)	-62144	430.38
II	Contingency Fund (Net)	-	-
III	Public Account (Net)	83485	-73717
IV	Total Transactions (Net)	21341	-30679

RE - Revised Estimate. Source: Budget Memorandum.

Revenue Account:

Revenue Receipts of 2005-06:

Revenue receipts are the funds mobilised through States own tax revenue, State own non-tax revenue share in central taxes and the grants-in-aid from the Centre. It may be observed from the Table -2 presented below, that it is the States own tax revenue, which contributed more to the revenue receipts (68.36%) for 2005-06 out of the total receipts of Rs.3290413



lakhs. Of the total tax revenue of Rs.2720514 lakhs, State's own tax revenue accounted for 82.69 per cent and the share of Central taxes was 17.31 per cent. It was the general sales tax which contributed a major share of 58.3 per cent to the State's own tax revenue. Other items of revenue receipts which contributed more to the tax revenue are State Excise duties (13.39%), Stamps and registration fee (7.98%), Central sales tax (7.96%), taxes on vehicles (5.03%), etc. The revised estimate 2005-06 (Rs.471023 lakhs) of the Central taxes indicated an increase of 17.35 per cent over the actual 2004-05 (Rs.401362 lakhs).

Of the total non-tax revenue of Rs.569899 lakhs grants-in-aid from the centre accounted for 57.1 per cent and State's own non-tax revenue for 42.9 per cent. The revised estimate (2005-06) of grants-in-aid from the centre showed an increase of 22.84 per cent over the actual 2004-05. This increase was due to receipt of funds for Tsunami related relief expenditure from National calamity contingency fund.

Table-2: Revenue Receipts by Principal Heads

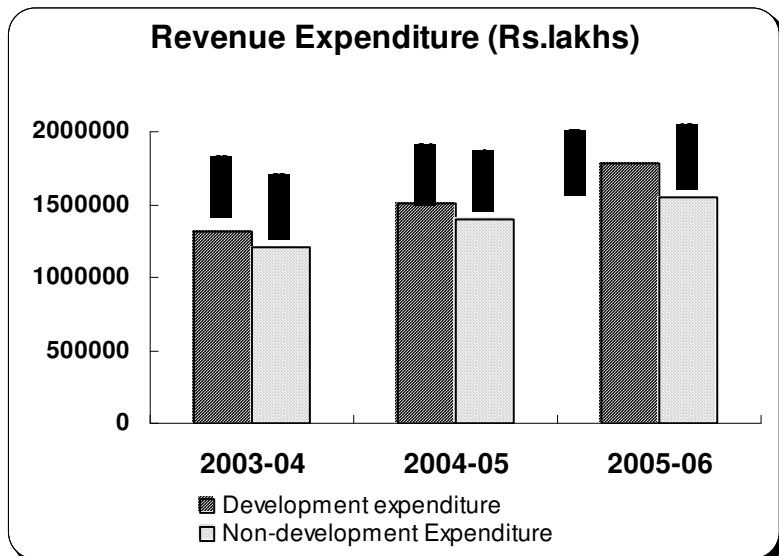
(Rs. lakhs)

Sl. No.	Details	2004-05 Accounts	2005-06 RE
I	Tax Revenue (A+B)	2359344	2720514
A	Share of Central Taxes	401362	471027
1.	Income Tax	77623	98416
2.	Union excise and additional excise duties	323739	372611
B	States Own Tax Revenue	1957982	2249487
1.	Agricultural Income Tax	59	-
2.	Land Revenue	7195	5524
3.	Urban Land Tax	1181	1550
4.	Stamps and Registration Fee	160436	179723
5.	State Excise Duties	254900	301213
6.	General Sales Tax	1150255	1311290
7.	Central Sales Tax	149364	179241
8.	Taxes on Vehicles	101475	113255
9.	Electricity Duties	24305	24500
10.	Entertainment Tax	6106	4022
11.	Betting Tax	559	480
12.	Luxury Tax	7583	8342
13.	Sugarcane Cess	316	800
14.	Taxes on Goods & Passengers	76387	90073
15.	Share of Net Proceeds Assigned to States	-228	-52
16.	Service Tax	22505	33146
17.	Deduct-Refunds	-4416	-3620
II	Non Tax Revenue (A+B)	485810	569899
A	State's Own Non Tax Revenue	220835	244414
1.	Interest Receipts, Dividend and Profits	59005	60752
2.	General Services	32882	50996
3.	Social Services	46998	34585
4.	Economic Services	81950	98081
B	Grants-in-Aid from the Centre	264975	325485
	Total Revenue Receipts (I & II)	2845154	3290413

RE - Revised Estimate. Source: Budget Memorandum.

Revenue Expenditure - 2005-06:

Revenue expenditure is classified into two types as development expenditure and non-development expenditure. It may be observed from Table-3, that in the total revenue expenditure of Rs.3326415 lakhs, for 2005-06 (RE) development expenditure accounted for 53.4 per cent and non-development expenditure 46.6 per cent.



Among development expenditure, social services and economic services were in the ratio of 67:33. Of the non-development expenditure of Rs.1550036 lakhs, general services constituted 86.8 per cent and compensation and assignments to local bodies and Panchayat Raj accounted for the remaining 13.2 per cent. Expenditures on relief on account of natural calamities (74.46%), general economic services (38.25%), Pension and miscellaneous general services (26.4%) had indicated a higher percentage increase in 2005-06 (RE) compared to 2004-05 (accounts).

Table-3: Revenue Expenditure by Principal Heads

(Rs. lakhs)

Sl. No.	Details	2004-05 Accounts	2005-06 RE
I	Development Expenditure (A+B)	1513682	1776379
A	Social Services	968275	1194249
1.	Education, Art & Culture, Sports	459728	521262
2.	Medical and Public Health	111130	118996
3.	Family Welfare	19286	28014
4.	Water Supply and Sanitation	18316	7097
5.	Housing	8962	13981
6.	Urban Development	13010	25370
7.	Labour and Employment	10251	13394
8.	Welfare of SC, ST and OBC	61138	79319
9.	Social Security and Welfare	92780	122375
10.	Nutrition	68772	82873
11.	Relief on Account of Natural Calamities	100680	175643
12.	Other social services, Information & Publicity	4222	5925
B	Economic Services	545407	582130
1.	General Economic Services	106734	147559
2.	Agriculture and Allied Services	129116	128991
3.	Rural Development	55603	58292
4.	Special Area Programme	1633	930
5.	Irrigation and Flood Control	56970	49156
6.	Energy	106441	95370
7.	Industry and Minerals	24438	36097
8.	Transport	63815	64439
9.	Science, Technology & Environment	657	1296
II	Non-development Expenditure (A+B)	1401804	1550036
A	General Services	205827	1345561
1.	Organs of State	23136	28304
2.	Fiscal Services	63965	72053
3.	Debt Services	520549	510130
4.	Administrative Services	200996	232988
5.	Pension & miscellaneous general services	397181	502086
B	Compensation & Assignments to Local Bodies and Panchayat Raj	195977	204475
	Total Revenue Expenditure (I + II)	2915486	3326415

RE - Revised Estimate. Source: Budget Memorandum.

Capital Account: Receipts and disbursements:

The composition of consolidated fund, contingency fund and public account displays the gross capital receipts and gross capital disbursements. A major portion of 98.61 per cent of the gross capital receipts of Rs.10392616 lakhs for 2005-06 as shown in

Table-4 was from public account and the rest of 9.39 per cent was from the consolidated fund. Public debt and loans and advances repaid to State Government together constituted the consolidated fund which were of the ratio of 89:11.

Table-4: Capital Budget – Receipts

(Rs. lakhs)

Sl. No.	Details	2004-05 Accounts	2005-06 RE
I	Consolidated Fund	1425686	975429
1.	Public debt	1347348	901230
	i. Internal debt	1221488	846480
	ii. Loans and advances from GOI	125860	54750
2.	Loans and advances repaid to State Govt.	78338	74199
II	Contingency Fund	-	-
III	Public Account	7263274	9417187
1.	Small savings, Provident fund, etc.	198245	257461
2.	Reserve fund	205728	645527
3.	Deposits and advances	1007593	871280
4.	Suspense and miscellaneous	5622934	7453187
5.	Remittances	228774	189732
IV	Gross capital receipts (I+II+III)	8688960	10392616

RE - Revised Estimate. Source: Annual Financial Statement.

The capital budget-disbursements presented in Table-5 on indicates that a major portion of 91.37 per cent of the gross capital disbursements of 2005-06 (RE) was spent on public account and the balance of 8.63 per cent from the consolidated fund. The capital disbursement of the consolidated fund had declined by 36.8 per cent from Rs.14,17,497 lakhs in 2004-05 to Rs.896390 lakhs in 2005-06 (RE). In general, the debt components of all nature had declined during 2005-06 from 2004-05 in view of the policy of the Government to reduce onward lending while the State itself is running a deficit budget.

Table-5: Capital Budget - Disbursements

(Rs. lakhs)

Sl. No.	Details	2004-05 Accounts	2005-06 RE
I	Consolidated Fund (1+2+3)	1417497	896390
1.	Capital expenditure outside the revenue account	456396	484318
2.	Public debt	852517	314121
	i. Internal debt	437981	283900
	ii. Repayment of loans and advances to GOI	414536	30221
3.	Loans and advances repaid to State Government	108584	97951
4.	Appropriation to Contingency fund	-	-
II	Contingency Fund	-	-
III	Public Account	7179788	9490904
1.	Small savings, Provident fund, etc.	240999	256170
2.	Reserve fund	226179	649345
3.	Deposits and advances	869260	872873
4.	Suspense and miscellaneous	5609795	7521949
5.	Remittances	233555	190567
IV	Gross capital disbursements (I+II+III)	8597285	10387294

RE - Revised Estimate.

Source: Annual Financial Statement.

Capital Expenditure:

Capital expenditure deals with the cost of constructions or acquiring an asset of a lasting nature, yielding revenue or avoiding recurring commitment. Items like buildings, roads, irrigation projects, machinery and equipments, share capital investments, etc. leading to direct capital formation comes under capital expenditure.

Table-6: Capital Expenditure

(Rs. lakhs)

Sl. No.	Details	2004-05 Accounts	2005-06 RE
I	Development Expenditure (A+B)	418825	471985
A	Social Services	244947	123598
1.	Education, Sports, Art & Culture	9938	16453
2.	Medical, Public Health & Family Welfare	4779	25556
3.	Water supply, Sanitation, Housing & Urban Development	220375	63173
4.	Welfare of SC,ST & OBC	9049	17284
5.	Social Welfare & Nutrition	204	251
6.	Other social services	602	881
B	Economic Services	173878	348387
1.	Agriculture & Allied Services	9987	22444
2.	Rural Development	40446	65153
3.	Special area programme	1336	2363
4.	Irrigation and flood control	27760	35967
5.	Industry and Minerals	125	835
6.	Energy	8500	2500
7.	Transport	84238	211982
8.	General Economic Services	1486	7143
II	Non-development Expenditure	37572	12333
	Total Capital Expenditure (I&II)	456396	484318

RE - Revised Estimate.

Source: Annual Financial Statement.

An increase of 6.11 per cent on capital expenditure in 2005-06 (RE) over 2004-05 was due to the escalation of development expenditure on Social services and Economic services. The development and non-development expenditure were of the ratio of 97:3 in 2005-06 compared to 92:8 in 2004-05. A major portion of the development expenditure was spent on economic services covering Comprehensive Road Development Programme and MLA's Constituency Development Scheme.

State Annual Plan - 2005-06:

The Annual Plan for 2005-06 (RE) shows an allocation of Rs.9675.85 crores which is 16.78 per cent higher than the allocation made during 2000-05. The percentage of plan expenditure for Social and Community Services was 32.78 followed by Transport and Communication (18.7%), Rural Development (12.11%) and Power Sector (9.21%). A comparison between 2004-05 (Actual) and 2005-06 (RE) shows that higher allocation was made in the Revised Estimate for Rural development, Transport and Communication and Health sectors.

Table-7: State Annual Plan - 2005-06

(Rs. lakhs)

Sl. No.	Details	2004-05 Accounts	2005-06 RE
1.	Agriculture and Allied Services	32743	48469
2.	Co-operation	14747	7869
3.	Rural Development	75091	117258
4.	Irrigation and Flood Control	33167	36380
5.	Power	114375	89087
6.	Industry and Minerals	49106	57482
7.	Transport and Communication	83286	180927
8.	Science, Technology & Environment	392	582
9.	General Economic Services	11043	12735
10.	Education	33808	47578
11.	Health	17404	46218
12.	Social and Community Services*	357423	317207
13.	General Services (Stationery & Printing and Public Works)	5999	5793
	Total	828584	967585

RE - Revised Estimate.

*- Water supply, Housing & Urban Development, Information and Publicity, Welfare of SCs, STs. and other Backward Classes, Labour & Labour welfare, Social Welfare and Nutrition, Other Social & Community Services.

*Source: Budget and Memorandum.***Implementation of Value Added Tax (VAT):**

The calibrated introduction of VAT is a major landmark in the fiscal landscape of the country. The introduction of VAT is underpinned on sound theoretical reasoning as also its potential to flourish within the broad contours of political economy.

Benefits of VAT:

- Exports can be freed from domestic trade taxes.
- It provides an instrument of taxing consumption of goods and services.
- Interference in market forces is minimum.
- Aids tax enforcement by providing audit trail through different stages of production and trade and hence acts as a self-policing mechanism.

The VAT has been introduced in all the States of India with the exception of Tamil Nadu and Uttar Pradesh. The major concern of Tamil Nadu was the potential loss of revenue from a switch over to VAT. Therefore, the State has taken up with the Union Government, the issue of to compensation of the revenue loss that would arise as a result of switching over to VAT. The compensation was calculated based on the average revenue of the 3 best years from among the past 5 years. The revenue buoyancy would make up for the remaining loss. According to the present practice, only States that joined during the 1st year of the introduction of VAT are eligible for full compensation in the first year. Since Tamil Nadu is joining in the 2nd year, it is entitled only for 75 per cent compensation. By this way, the State is expected to lose about Rs.2,400 crores per annum. The State would request the Centre to compensate fully for the revenue loss.

Accordingly, the spadework for the introduction of VAT was completed and the VAT was introduced with effect from 1.1.2007. The rates are briefly discussed below.

Under the present system of tax, the tax rates are 1%, 4%, 10%, 12%, 12.5%, 16% and 20 per cent; surcharge at 5 per cent on tax, Additional sales tax and resale tax at 1 per cent. Under VAT the rates are 1 per cent, 4 per cent and 12.5 per cent. Gold and silver bullion and jewelry will be taxed at 1 per cent. Goods and commodities of basic necessities such as medicine and drugs, all agricultural and industrial inputs, capital goods and declared goods will be taxed at 4 per cent and all other items will be taxed at 12.5 per cent.

Tamil Nadu has been steadfast in its quest for sustainable growth with Equity. The primacy for welfare oriented development strategy informs and guides planning. Sustainable development strategy involves maintaining the leadership in I.T. related development of industry, sustaining the momentum in manufacturing and services and above all reviving agriculture.

State-wise Analysis of Fiscal Performance:

The inter-state comparison of fiscal situation attempted by RBI based on select fiscal indicators for 2004-05 (RE) and for the period 2001-02 to 2003-04 (Actuals) is presented in the following Table.

Table - 8: State-wise Fiscal Indicators

(Per cent)

States	2001-04 (Average)				2004-05 (RE)			
	GFD/ GSDP	RD / GSDP	RD / GFD	RD / RR	GFD/ GSDP	RD / GSDP	RD / GFD	RD / RR
Andhra Pradesh	4.4	1.8	40.9	12.5	3.4	0.7	21.8	4.6
Bihar	8.3	3.8	45.1	17.4	5.6	0.5	9.6	2.0
Chattisgarh	4.1	1.3	30.5	8.4	5.6	1.1	19.3	5.5
Goa	4.7	2.1	43.7	10.0	3.9	0.6	14.0	3.9
Gujarat	5.1	3.4	67.5	27.5	6.3	2.4	38.8	19.1
Haryana	3.6	1.0	31.5	8.2	1.3	0.3	22.0	2.0
Jharkhand	5.0	0.1	0.2	0.3	8.1	2.5	30.5	15.2
Karnataka	4.4	1.9	39.2	13.4	2.7	-0.3	-12.1	-2.0
Kerala	5.6	4.3	76.2	32.9	5.3	4.5	86.2	31.9
Madhya Pradesh	5.5	3.2	58.9	22.8	6.3	-1.4	-21.9	-7.3
Maharashtra	3.8	2.9	62.4	27.2	5.2	2.6	49.8	21.5
NLCT Delhi	2.9	-2.4	-82.9	-27.0	2.5	-2.1	-83.0	-24.3
Orissa	7.5	4.3	55.7	24.6	5.6	3.8	68.7	19.2
Punjab	6.5	5.1	78.2	35.2	5.2	3.2	60.4	19.1
Rajasthan	6.9	4.1	58.9	27.8	6.5	2.4	37.6	15.1
Tamil Nadu	3.7	2.0	52.6	14.8	2.9	0.9	30.9	6.2
Uttar Pradesh	6.0	4.9	76.0	33.8	5.6	2.9	52.4	18.7
West Bengal	6.9	5.3	75.9	58.5	5.4	4.0	75.4	44.0

Note: Minus (-) sign indicates surplus in deficit indicators.

GSDP - Gross State Domestic Product; RD - Revenue Deficit;

GFD - Gross Fiscal Deficit; PD - Primary Deficit; RR - Revenue Receipts.

Source: State Finances - A Study of Budgets of 2005-06, RBI, December 2005.

It is observed that there has been a clear improvement in fiscal performance, in terms of deficit indicators, across the States. The ratio of GFD to GSDP which ranged between 2.9 in Delhi to 8.3 in Bihar during 2001-04, has come down to 1.3 in Haryana to 8.1 in Jharkand in 2004-05. The ratio was below 3 per cent in Haryana, Delhi, Karnataka and Tamil Nadu in 2004-05.

In Tamil Nadu, the ratio of RD to GFD, which indicates the extent of pre-emption of borrowings for current expenditure, has come down from 52.6 during 2001-04 to 30.9 in 2004-05. The position of nine States were better placed in this respect than Tamil Nadu in 2004-05.

Revenue Performance:

In order to assess the revenue performance of the different State, the indicators considered were own tax revenue, own-non-tax revenue and current transfers as a percentage of GSDP.

There was an improvement in the States own tax revenue performance in 2004-05 as compared to 2001-04. In Tamil Nadu the ratio was highest at 9.3 in 2001-04 and further improved to 9.8 in 2004-05.

Table - 9: Revenue Performance

(Per cent)

State	2001-04			2004-05		
	OTR / GSDP	ONTR / GSDP	CT / GSDP	OTR / GSDP	ONTR / GSDP	CT / GSDP
Andhra Pradesh	7.9	2.0	4.6	8.7	2.1	5.2
Bihar	5.4	0.7	16.2	5.5	0.5	20.7
Chhattisgarh	7.0	2.8	6.1	8.0	3.1	8.6
Goa	7.2	11.2	2.1	6.1	5.8	2.2
Gujarat	7.0	2.6	2.6	7.9	1.8	3.1
Haryana	8.3	2.8	1.7	9.2	3.1	1.9
Jharkhand	6.0	2.8	10.1	5.3	2.7	8.2
Karnataka	9.1	1.4	3.9	10.1	2.4	3.7
Kerala	8.7	0.8	3.4	9.3	0.8	4.0
Madhya Pradesh	6.6	1.8	6.2	7.3	4.1	7.5
Maharashtra	7.7	1.4	1.5	8.6	1.2	2.2
NCT Delhi	7.1	1.2	0.7	7.0	1.0	0.6
Orissa	6.2	1.9	9.7	6.2	1.8	11.9
Punjab	7.6	5.3	1.7	7.5	6.7	2.5
Rajasthan	6.9	1.8	5.9	7.7	1.9	6.5
Tamil Nadu	9.3	1.2	3.1	9.8	1.1	3.4
Uttar Pradesh	6.2	1.0	7.1	6.4	0.9	8.4
West Bengal	4.4	0.4	4.2	4.4	0.7	4.1

Note: OTR - Own Tax Revenue; ONTR - Own Non-Tax Revenue;

CT - Current Transfer; GSDP - Gross State Domestic Product.

Source: State Finances - A Study of Budgets of 2005-06, RBI, December 2005.

Karnataka (10.1%) was the only State ahead of Tamil Nadu in this respect.

With regard to own non-tax revenue as a percentage to GSDP, there has been a slight deceleration from 1.2 in 2001-04 to 1.1 in 2004-05 in Tamil Nadu and this was the case with seven other States. This ratio was highest in Punjab (6.7) followed by Goa (5.8).

In Tamil Nadu, current transfer (sum of share in central tax revenues and grants) as a percentage of GSDP was at 3.4 in 2004-05 as against 3.1 in 2001-04. The ratio was the highest for Bihar (20.7) followed by Orissa (11.9) and lowest in Delhi (0.6) and Haryana (1.9).

Pattern of Expenditure:

Development expenditure as a percentage of GSDP has not shown any significant change in Tamil Nadu. It went down from 10.3 in 2001-04 to 10.0 in 2004-05. The ratio

was lower than Tamil Nadu in Maharashtra, Delhi and Punjab States. The ratio of Social Sector expenditure to GSDP remained unchanged at 6.5 in both the period under reference in Tamil Nadu. This ratio was the highest in Bihar (12.8) followed by Chatisgarh (11.5) and Jharkand (11.4).

Table -10: Pattern of Expenditure

(Per cent)

States	2001-04 (Average)				2004-05 (RE)			
	Dev / GSDP	Non-dev / GSDP	SSE / GSDP	CO / GSDP	Dev / GSDP	Non-dev / GSDP	SSE / GSDP	CO / GSDP
Andhra Pradesh	12.7	6.6	7.2	2.2	13.3	6.7	7.5	2.9
Bihar	17.3	13.4	12.2	2.9	18.7	13.7	12.8	3.1
Chattisgarh	13.7	5.8	8.6	2.3	17.7	7.0	11.5	4.2
Goa	15.0	10.2	7.1	2.6	12.8	5.4	6.1	3.3
Gujarat	12.1	5.9	6.2	1.7	12.8	6.3	6.8	3.3
Haryana	10.6	6.0	4.7	1.2	9.3	6.2	4.5	0.8
Jharkhand	16.4	7.4	11.7	4.0	17.7	6.7	11.4	4.5
Karnataka	12.3	6.3	6.5	2.2	11.7	6.8	6.3	2.6
Kerala	10.4	8.1	7.1	0.8	11.1	8.4	8.5	0.6
Madhya Pradesh	13.8	6.4	7.5	2.5	17.6	7.3	7.4	5.1
Maharashtra	9.3	6.0	5.6	1.6	11.0	6.4	6.0	2.1
NLCT Delhi	8.6	3.3	4.4	1.0	7.8	3.4	4.7	1.6
Orissa	14.4	10.9	9.1	2.0	12.6	13.0	8.9	1.3
Punjab	9.5	11.8	4.5	0.9	11.0	10.8	5.4	2.0
Rajasthan	13.2	8.4	9.0	2.5	14.6	8.1	9.3	3.6
Tamil Nadu	10.3	6.4	6.5	1.5	10.0	6.7	6.5	1.9
Uttar Pradesh	13.0	8.7	6.5	2.1	11.7	9.2	7.4	2.6
West Bengal	8.4	7.5	5.4	0.6	7.5	7.3	4.8	0.9

Note: Minus (-) sign indicates surplus in deficit indicators.

Dev - Development Expenditure; Non-dev. - Non-development Expenditure

SSE - Social Sector Expenditure; CO - Capital Outlay.

GSDP - Gross State Domestic Product.

Source: State Finances - A Study of Budgets of 2005-06, RBI, December 2005.

Debt Position:

Tamil Nadu was placed comfortable in debt position when compared to other States. Between 2001-04 and 2004-05, though the debt GSDP ratio went up marginally from 27.9 to 28.4, it was the second lowest next to Delhi. The highest DEPT / GSDP ratio of 77.3 was observed in Bihar in 2004-05 followed by Orissa (62.5). Interest payments as a proportion of revenue receipts in Tamil Nadu was 18.4 in 2004-05, which is one percentage point lower than in 2001-04. This ratio was lower than Tamil Nadu in Chatisgarh, Goa, Jharkhand, Karnataka and Madhya Pradesh and was the highest in West Bengal (48.3).

Table - 11: Debt Position

(Per cent)

States	2001-04		2004-05 (RE)	
	Debt / GSDP	IP / RR	Debt / GSDP	IP / RR
Andhra Pradesh	34.3	24.4	36.4	22.6
Bihar	73.3	26.4	77.3	21.8
Chhattisgarh	30.3	16.2	35.2	14.9
Goa	41.2	16.5	32.3	17.7
Gujarat	38.6	28.6	46.6	30.1
Haryana	29.3	21.8	31.0	19.0
Jharkhand	32.0	13.0	36.6	10.6
Karnataka	29.8	18.6	29.2	14.9
Kerala	41.3	27.8	43.9	25.5
Madhya Pradesh	35.0	20.4	41.1	17.1
Maharashtra	30.7	22.8	35.0	20.7
NCT Delhi	16.5	16.6	17.7	19.5
Orissa	64.2	34.9	62.5	29.4
Punjab	54.9	32.4	54.4	25.3
Rajasthan	51.0	31.9	56.8	29.6
Tamil Nadu	27.9	19.4	28.4	18.4
Uttar Pradesh	54.1	29.8	54.7	28.3
West Bengal	45.0	50.7	46.0	48.3

Note: DEBT - Debt; IP - Interest Payments.

Source: State Finances - A Study of Budgets of 2005-06, RBI, December, 2005.

Outstanding Liabilities:

In order to bring the coverage of debt consistent with GFD, the RBI has expanded the coverage of debt to include reserve funds, deposits and advances and contingency funds and prepared a new series of debt for all the States since 1990-91. An analysis of outstanding liabilities assumes significance in the context that the Twelfth Finance Commission (TFC) has recommended for States finances a target of 30.8 per cent of Debt - GSDP ratio and 15.0 per cent for interest payments to revenue receipts ratio to be achieved by 2009-10.

In Tamil Nadu, the Debt-GSDP ratio at 28.4 in 2005-06 which is lower than the TFC's recommendations. The outstanding liabilities has increased from Rs.7043.62 crores in 1990-91 to Rs.58715.68 crores in 2005-06 (BE). The annual average growth rate of outstanding liabilities in every five years is shown below.

Outstanding Liabilities : Annual Average Growth Rates:

<u>Year</u> <u>(as at the end of March)</u>	<u>AAGR</u> %	<u>Liabilities as a %</u> <u>of GSDP (Average)</u>
1991-1995	17.79	20.4
1996-2000	16.33	20.0
2001-2005	13.35	27.3
2005-06	9.36	28.4

The annual average rate of growth in outstanding liabilities in Tamil Nadu has been decelerated in recent years. However, the ratio has gone up from 20.4 in 1991-1995 to 27.3 in 2001-2005 and further to 28.4 in 2005-06, indicates the rise in debt service burden.

Composition of Outstanding Debt:

Outstanding debt broadly comprises of internal debt, loans and advances from the Centre, Public account liabilities and contingency fund. The break-up details in respect of Tamil Nadu is presented below.

Table -12: Composition of Outstanding Liabilities in Tamil Nadu

(Rs. crores)

Year	Internal Debt	Loans & Advances from Centre	Public Account Liabilities	Contingency Fund	Total Outstanding Liabilities
1990-91	1580.88 (22.43)	3293.46 (46.76)	2101.91 (29.84)	68.17 (0.97)	7043.62 (100.00)
1995-96	3014.94 (19.92)	7539.72 (49.82)	4429.63 (29.27)	149.68 (0.99)	15133.97 (100.00)
2000-01	10382.70 (30.49)	12942.93 (38.00)	10581.84 (31.07)	149.39 (0.44)	34056.86 (100.00)
2005-06	36344.08 (61.90)	10434.86 (17.77)	11786.74 (20.07)	150.00 (0.26)	58715.68 (100.00)

The manifold increase in outstanding liabilities between 1990-91 and 2005-06 was mainly due to the upsurge in internal debt. One of the important component of internal debt is market loans, the share of which in outstanding liabilities has gone up from 16.8 per cent in 1990-91 to 25.6 per cent in 2005-06. The other reason being the formation of National Small Savings Fund (NSSF) in 1999-2000, which earlier formed part of loans from the Centre, has been treated separately and classified as part of internal debt of the State Governments. This component of internal debt is exogenously determined over which the Centre has no control. From 3.5 per cent in 1999-2000, NSSF's share in outstanding liabilities has gone up to 28.4 per cent in 2005-06 in Tamil Nadu.

Loans and advances from the Centre is a source of borrowings which accounted for nearly 47 per cent in 1990-91. With the institution of NSSF effective from April 1, 1999, introduction of Debt Swap Scheme (DSS) for the period 2002-03 to 2004-05 (pre-paying high cost liabilities to the Centre) and discontinuation of Plan Loans since April 1, 2005 in accordance with the TFC, the share of this source has come down to 17.8 per cent in 2005-06 in Tamil Nadu. Under DSS, Tamil Nadu has adjusted Rs.6721 crores of outstanding loans from Centre between 2002-03 and 2004-05, which constituted 6.6 per cent of the total debt swapped by all States till March 31, 2005.

From the foregoing analysis it could be concluded that the fiscal position of Tamil Nadu is better placed than many other States. It is one of the five States which first enacted the FRL which would provide the statutory framework for augmenting fiscal discipline and to carry out fiscal correction in a realistic time-bound manner. In terms of the ratio of GFD to GSDP and the ratio of own-tax revenue to GSDP and Debt-GSDP Tamil Nadu is well placed. The only area of concern is the challenge to increase the ratio of development expenditure to GSDP.