



WHITE PAPER
ON
THE FISCAL MANAGEMENT OF
TAMIL NADU

AN EXAMINATION OF PUBLIC FINANCES, 2021-22 TO 2025-26

JUNE 2026

FINANCE DEPARTMENT
GOVERNMENT OF TAMIL NADU

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ABBREVIATIONS AND ACRONYMS

Abbreviation	Full Form
AC	Actuals
ACS	Average Cost of Supply
ARR	Average Revenue Realised
BAU	Business-as-Usual
BE	Budget Estimates
CAG	Comptroller and Auditor General of India
CAGR	Compound Annual Growth Rate
CapEx	Capital Expenditure
CE	Committed Expenditure
CMWSSB	Chennai Metropolitan Water Supply and Sewerage Board
CNG	Compressed Natural Gas
CPI	Consumer Price Index
CPS	Contributory Pension Scheme
CSS	Centrally Sponsored Schemes
DA	Dearness Allowance
EL	Earned Leave
FD	Fiscal Deficit
FRBM	Fiscal Responsibility and Budget Management
FY	Financial Year
GDP	Gross Domestic Product
GoI	Government of India
GoTN	Government of Tamil Nadu
GSDP	Gross State Domestic Product
GST	Goods and Services Tax
GSTN	Goods and Services Tax Network
IBE	Interim Budget Estimates
IMFS	Indian Made Foreign Spirits
MoHFW	Ministry of Health and Family Welfare
MoSPI	Ministry of Statistics and Programme Implementation
MoU	Memorandum of Understanding
MT	Metric Tonnes
MTC	Metropolitan Transport Corporation
MU	Million Units
MYT	Multi-Year Tariff

Abbreviation	Full Form
NITI Aayog	National Institution for Transforming India
NPS	National Pension System
PP / pp	Percentage Points
Pre-AC	Pre-Actuals
PSU / SPSU	(State) Public Sector Undertaking
RBI	Reserve Bank of India
RD	Revenue Deficit
RE	Revised Estimates
SASCI	Special Assistance to States for Capital Investment
SDL	State Development Loans
SETC	State Express Transport Corporation
SONTR	State's Own Non-Tax Revenue
SoTR	State's Own Tax Revenue
STU	State Transport Undertaking
TANGEDCO	Tamil Nadu Generation and Distribution Corporation
TANTRANSCO	Tamil Nadu Transmission Corporation
TAPS	Tamil Nadu Assured Pension Scheme
TNTDFC / TDFC	Tamil Nadu Transport Development Finance Corporation
TNCSC	Tamil Nadu Civil Supplies Corporation
TNEB	Tamil Nadu Electricity Board
TNFR Act / TNFRA	Tamil Nadu Fiscal Responsibility Act, 2003
TNGECL	Tamil Nadu Green Energy Corporation Limited
TNPDCL	Tamil Nadu Power Distribution Corporation Limited
TNPGCL	Tamil Nadu Power Generation Corporation Limited
TNSTC	Tamil Nadu State Transport Corporation
TRR	Total Revenue Receipts
TWAD Board	Tamil Nadu Water Supply and Drainage Board
UDAY	Ujwal DISCOM Assurance Yojana
UPS	Unified Pension Scheme
VAT	Value Added Tax

PREFACE

Public finance is, at its heart, a statement of priorities. Every rupee that a Government raises and spends reflects a choice about the kind of State its citizens will inherit — the quality of their schools and hospitals, the roads and water systems that sustain their economy, and the burden of debt that future generations will be asked to bear. It is in this spirit that the Government of Tamil Nadu places this White Paper on the Fiscal Management of Tamil Nadu before the people of the State.

The purpose of this document is singular and straightforward: to present an honest, transparent and evidence-based account of the State's public finances as they stand today. It is neither an exercise in retrospective blame nor a political statement. It is an analytical record of fiscal fact — of the present position, the path by which it was reached, and the risks that lie ahead. Every figure presented here is drawn from publicly available and verifiable sources, including the Budget documents of Tamil Nadu and its peer States, the reports of the Comptroller and Auditor General of India, the Reserve Bank of India, and the Union Finance Commissions.

The White Paper examines the five-year post-COVID window from 2021-22 to 2025-26 — the period during which the conditions for fiscal consolidation existed, during which the State's peers used the recovery to restore their fiscal positions, and during which Tamil Nadu's own choices, and deferred choices, shaped the position it now occupies. It also looks ahead to the immediate challenges of the financial year 2026-27. The findings are sobering. They point to a structural deterioration in the State's finances that, if left unaddressed, will compound with each passing year and will fall hardest on the generation least able to bear it.

Yet this is not a counsel of despair. Tamil Nadu possesses the economic strength, the institutional depth, and the human resources to restore its fiscal health. What is required is an accurate understanding of the problem and the resolve to address it through disciplined revenue mobilisation, prudent expenditure management, and clean, corruption-free governance. The first step in correcting any problem is to measure it honestly and to set it out in full before those to whom the Government is ultimately accountable — the people of Tamil Nadu.

This white paper was possible with guidance provided by Hon'ble Minister for Finance, Planning and Development, Thiru. N. Marie Wilson. I place on record my sincere appreciation to Thiru. M.A. Siddique, IAS, Additional Chief Secretary to Government, Finance Department for his leadership in bringing out this pivotal white paper in such a short span of time. I also acknowledge the contributions made by Thiru. Pratik Tayal, IAS, District Collector, Tiruchirappalli, Thiru. C.A. Rishab, IAS, Deputy Secretary (Budget) to Government, Thiru. R. Narasimha Ragavan, Joint Secretary to Government, Thiru. V. Srinivasan, Deputy Secretary to Government, Selvi. R. Boomadevi, Under Secretary to Government and the entire budget division of the Finance Department in bringing out this white paper.

This White Paper is offered in that conviction, and in the enduring belief, expressed in the Thirukkural, that the rise of a State reflects the resolve of its people.


C. Joseph Vijay
Chief Minister
Government of Tamil Nadu

EXECUTIVE SUMMARY

1. This White Paper presents a transparent, evidence-based account of Tamil Nadu's public finances. It is neither an exercise in retrospective blame nor a political manifesto, but an analytical statement of fiscal fact. Its central focus is the five-year post-COVID window from 2021-22 to 2025-26 — the period during which the post-pandemic recovery created the conditions for fiscal consolidation, during which Tamil Nadu's traditional peers (Karnataka, Maharashtra and Gujarat) used those conditions to restore their fiscal positions, and during which the State's own indicators moved in the opposite direction. The COVID-affected year of 2020-21 serves as the baseline, and the document also looks ahead to the immediate challenge of the financial year 2026-27.
2. The headline finding is that fiscal deterioration has been continuous across the post-COVID period and is structural rather than cyclical in character. It is defined by three reinforcing trends: a near-doubling of outstanding liabilities to approximately Rs.10 lakh crore; a persistent and now structural revenue deficit that has reached its highest level ever recorded; and a collapse in the State's own-tax effort, such that Tamil Nadu — once among India's strongest revenue-mobilisers — now collects less revenue relative to GSDP than the median large State. The pandemic was a legitimate one-time shock; the deterioration that followed in the recovery years was the product of policy choices that lay within the State's own authority.

The Five-Year Window at a Glance

3. The trajectory across the window can be summarised in six headline indicators, comparing the start of the window with its close:

Indicator	Window Start (2021-22)	Closing (2025-26 Pre-AC)
Revenue Deficit (Rs. in crore)	46,538	78,324
Revenue Deficit as % of GSDP	2.25%	2.22%
SoTR / GSDP (own-tax effort)	5.93%	5.45%
Outstanding Liabilities / GSDP	28.7%	28.3%
Capital Expenditure / GSDP	1.79%	1.44%
Committed Expenditure / TRR	60.4%	64.4%

Source: Tamil Nadu Budget documents.

4. The Six Principal Findings

4.1. Outstanding debt has almost doubled in five years. The stock of outstanding liabilities rose from Rs.5.13 lakh crore on 1 April 2021 to approximately Rs.10 lakh crore by 31 March 2026, growing at a CAGR of 14.3 per cent — faster than nominal GSDP in most years of the window. The debt-to-GSDP ratio has stayed elevated throughout, at 28.3 per cent in 2025-26 Pre-AC, with no material consolidation from the COVID peak. Per-capita liability has risen to Rs.1,28,934 — far higher than the peer-group States. While peer States used the recovery to reduce their Debt-to-GSDP ratio, Tamil Nadu did not.

4.2. Interest payments now crowd out investment. The annual interest bill grew from Rs.41,564 crore in 2021-22 to Rs.67,050 crore in 2025-26 Pre-AC, a 61 per cent increase. Interest now consumes approximately 22.8 per cent of total revenue receipts and over 34.8 per cent of the State's own-tax revenue — nearly one rupee in every four of revenue, committed before any allocation decision is made. While the peer States maintain a Interest Payments / Total Revenue Receipts at a lower level, Tamil Nadu's interest burden is highest among the peers, close to two times that of Gujarat and Maharashtra. The Interest Payments to Capital Expenditure ratio in 2025-26 now stood at about 1.32 to 1. The State now spends more servicing past borrowings than building assets for the future.

4.3. The revenue deficit has become structural. The 2025-26 Pre-AC revenue deficit of Rs.78,324 crore (2.22 per cent of GSDP) is the highest the State has ever recorded, exceeding even the COVID-affected year of 2020-21 in absolute terms. Present in every year since 2013-14, the deficit means the State is borrowing to fund current consumption rather than to create assets. In 2025-26 Tamil Nadu's revenue deficit was roughly 2.5 times that of Karnataka or Maharashtra, while Gujarat ran a surplus, leaving Tamil Nadu with a very high Revenue Deficit.

4.4. The State's own-tax effort has collapsed. Total Revenue Receipts fell from about 10 per cent of GSDP in 2021-22 to 8.32 per cent in 2025-26, and the SoTR-to-GSDP ratio declined from 5.93 per cent to 5.45 per cent — the lowest in the State's history and the steepest decline among the benchmarked States. While the peer States have improved upon their tax effort, Tamil Nadu did not. Measured against the 2022-23 peak of 6.33 per cent, this represents roughly Rs.51,000 crore of revenue foregone in the last three years. The decline is spread across all major tax heads — GST, petroleum VAT, state excise, stamp duty and motor vehicle tax — and is policy- and administration-driven, with the White Paper attributing a significant part to leakages and systemic corruption in revenue-collecting departments rather than to structural economic disadvantage.

4.5. Committed expenditure has squeezed out development. Committed expenditure — salaries, pensions and interest — rose from Rs.1.25 lakh crore to Rs.1.89 lakh crore, lifting its share of revenue receipts from about 60 per cent to 64 per cent, well above the under-50 per cent maintained by the peer group. Once statutory and other inflexible obligations are added, roughly 87 per cent of revenue receipts is pre-committed before the annual Budget exercise begins. Capital expenditure has been the casualty: at 11.8 per cent of total expenditure it is the lowest among the three benchmarked States, foreclosing fiscal space for new schemes, counter-cyclical response and the investment needed to attract private capital.

4.6. Contingent liabilities take the true debt position far higher.

Outstanding Government guarantees rose nearly three-fold, from Rs.65,659 crore at the beginning of April 2021 to Rs.1,79,782 crore by March 2026 (about 5.1 per cent of GSDP, up from 3.7 per cent in 2021). The combined debt of the major power, transport and civil-supplies undertakings stands at approximately Rs.3.18 lakh crore — the Power Sector Entities alone carrying Rs.2.47 lakh crore of debt. Further, the power sector entities accumulated loss is Rs.1.82 lakh crore. Taken together with direct State debt, the aggregate fiscal exposure approaches Rs.13.18 lakh crore, posing a substantial and underappreciated risk that does not appear in the headline debt figure.

5. Erosion of Rule-Based Discipline

The fiscal deficit has remained above the 3 per cent Fiscal Responsibility ceiling in every year of the window, reaching 3.77 per cent (Rs.1,33,208 crore) in 2025-26 Pre AC — the highest absolute deficit on record. The Tamil Nadu Fiscal Responsibility Act, 2003 has been amended repeatedly, with the revenue-deficit elimination target reset successively from 2007-08 to, most recently, 2026-27. The pattern reveals targets being revised in response to their imminent breach rather than any principled reassessment — transforming a binding constraint into an instrument for retrospective legitimation. A parallel concern is the persistent gap between Budget Estimates, Revised Estimates and audited Actuals, which has been flagged by the CAG as a matter of transparency.

6. The Year Ahead: The 2026-27 Challenge

Extending its analysis forward, the White Paper examines the Interim Budget Estimates for 2026-27. Even on a business-as-usual basis, the estimates appear optimistic. State's Own Tax Revenue is projected to grow 19 per cent to Rs.2,29,579 crore, whereas a realistic business-as-usual growth of about 8 per cent —implies roughly Rs.2,08,000 crore. Taking an optimistic growth rate of 12%, there's an over-projection of about Rs.14,000 crore. On the expenditure side, the estimates omit major recurring items, notably around Rs.16,000 crore of annual loss-funding to the power distribution utility (TNPDC) and Rs.11,800 crore a year toward the regulatory assets ordered by the Supreme Court, leaving revenue expenditure under-provided by about Rs.27,800 crore.

Together these imply that the 2026-27 revenue deficit could reach roughly Rs.90,500 crore — against about Rs.48,696 crore shown in the Interim Budget — and the fiscal deficit could approach Rs.1.64 lakh crore against the Rs.1.22 lakh crore budgeted. Financing is tightly constrained: under the Centre’s net borrowing ceiling and the power sector reforms, implementation of TAPS, SASCI allowances available, the maximum borrowing the State can realistically expect is about Rs.1.52 lakh crore — already insufficient to cover committed obligations, leaving minimal space for new programmes and a residual funding gap. The way forward identified by the White Paper is challenging but not hopeless: plugging revenue loss and corruption in revenue-collecting departments, reducing the cost of goods and works, and mobilising additional resources without imposing fresh burdens on citizens.

Why the Window Is Closing

What makes this trajectory especially urgent is demography. Tamil Nadu is ageing faster than any other large State: its elderly share is projected to rise from 10.6 per cent in 2011 to 18.2 per cent by 2031, and the old-age dependency ratio from 20.6 in 2021 to 32.7 by 2036. A shrinking working-age population narrows the tax base precisely as an expanding elderly population raises social-security and healthcare obligations — the “scissors effect” that drives a debt trap. The State’s demographic dividend is the shortest among major States and is already closing, which means the period available for fiscal correction from a position of demographic strength is narrowing with each passing year — the danger of the State growing old before becoming rich.

Conclusion

These six findings are not independent observations; they are mutually reinforcing dimensions of a single deterioration, and the inter-generational burden they represent is now largely locked in. Karnataka, Maharashtra and Gujarat improved or stabilised their fiscal positions over the same five years; Tamil Nadu worsened on every major indicator, and the year ahead offers little immediate relief. Correcting this will require sustained, disciplined effort across revenue mobilisation, expenditure management, PSU reform and debt management — together with clean, corruption-free governance — extending well beyond any

single Budget cycle. The first step in correcting a problem is to measure it accurately and present it honestly. That is the purpose of this White Paper.

*"மிகினும் குறையினும் நோய்செய்யும் நூலோர்
வளிமுதலா எண்ணிய முன்று."*

– திருக்குறள் 941

"In excess or in deficit, imbalance breeds affliction."

— Thirukkural 941

CHAPTER 1

INTRODUCTION AND CONTEXT

Chapter 1: Introduction and Context

1.1 Purpose and Scope

1.1. The philosophy of governance in Tamil Nadu has always drawn inspiration from the eternal wisdom of Saint Thiruvalluvar, whose universal scripture — the Thirukkural — is celebrated as a guiding light for rulers, administrators, and citizens alike. Among its many immortal verses, one couplet captures the very essence of a Government's duty to ensure stability in public finances:

ஆகாறு அளவிட்டி தாயினுங் கேடில்லை
போகாறு அகலாக் கடை — திருக்குறள் 478

"No harm if income is narrow, if outgoings are not broad."

1.2. As the immortal words of Ayyan Thiruvalluvar State: Stability lies not in the absolute size of revenue but in the discipline of aligning expenditure within it. This lesson is of particular significance to Tamil Nadu today, which now has one of the highest stock of debt in the country and a rising committed expenditure — salaries, pensions and interest on past borrowings — that claims approximately two-thirds of every rupee of revenue, leaving progressively less for the education, healthcare, infrastructure and welfare programmes that benefit the wider population.

1.3. This White Paper is placed before the people of Tamil Nadu with a single objective: **to present a transparent, evidence-based account of the State's public finances as they stand today**. The document is neither an exercise in retrospective blame nor a political manifesto. It is an analytical statement of fiscal fact that attempts to provide an accurate and detailed statement of the present fiscal position, the evolution of State finances, the challenges posed, and the fiscal risks we face going forward.

1.4. After a thorough examination of the State of finances in Tamil Nadu, the headline finding is strikingly worrisome. Fiscal deterioration in Tamil Nadu has been continuous over the post-COVID period from 2021-22 to 2025-26, with three reinforcing trends defining this deterioration:

- i. A rising and now close to unsustainably high levels of the stock of outstanding liabilities, which has close to doubled in the five years since

2020-21 and now stands at approximately Rs.10 lakh crore (28.3 per cent of GSDP) for 2025-26;

- ii. A persistent and now structural revenue deficit which indicates that the State has been borrowing not to build assets for future generations, but to meet the running costs of today's government. This in 2025-26 (Pre AC) has reached its highest level ever recorded, at Rs.78,324 crore, exceeding even the COVID affected year of 2020-21; and
- iii. A collapse in the State's own-tax effort relative to its economic output and relative to peer States—a decline so pronounced that Tamil Nadu, once among the highest revenue-mobilising States in India, now collects less revenue relative to GSDP than the median State.

1.5. These are not temporary anomalies caused by an external shock. The COVID pandemic of 2020-21 is acknowledged as a one-time event that legitimately disrupted revenues and necessitated emergency expenditure. But, the recovery years since 2021-22 in the post-pandemic period show poor or worsening fiscal performance relative to its peer States. The deterioration is structural in character, embedded in the outcome of the policy choices that have accumulated over the period under review.

1.6. A democracy functions best when its citizens are informed. Fiscal decisions are among the most consequential choices a Government makes and reflects its policy priorities. They determine the quality of roads, hospitals, and schools that a generation inherits, the burden of debt service that falls on taxpayers yet to be born, and the capacity of the State to respond when the next crisis arrives. This White Paper is, at its core, an attempt to encourage the public to engage with these choices with full knowledge of their consequences.

1.2 The Period Under Review

1.7. The White Paper examines public finances across the five-year post-COVID window from 2021-22 to 2025-26. This span covers the period during which the conditions for fiscal consolidation existed following the COVID pandemic, and during which Tamil Nadu's peer States used the post-pandemic recovery to restore their fiscal positions. The year 2020-21 — the COVID-affected year — serves as the baseline against which the State's recovery and subsequent trajectory are

measured. The window spans the Union Fifteenth Finance Commission's cycle and encompasses the cessation of GST compensation in June 2022 — the single most consequential structural event in State finance architecture during the period.

The 2020-21 COVID Baseline

1.8. The choice of 2020-21 as the baseline year is deliberate. It was the year of the pandemic shock — the one exogenous disruption that legitimately justified a sharp deterioration across all fiscal indicators. What followed in 2021-22 through 2025-26 is the post-COVID record: the period during which the State had the opportunity to consolidate but did not. At the start of the post-COVID window in 2021-22,

Tamil Nadu carried three characteristics inherited from the decade before:

- **Elevated Debt Stock:** Outstanding liabilities stood at Rs.5.13 lakh crore, representing 28.7 per cent of GSDP by the end of 2020-21 — the highest in the recent fiscal history.
- **Declining Own-Tax Effort:** Tamil Nadu's State's Own Tax Revenue (SoTR) as a percentage of GSDP was among the highest of any large State—a reflection of a diversified industrial economy, a broad consumption base, and an effective revenue administration. From a peak of 8.94 per cent in 2006-07, this ratio had declined steadily to 5.93 per cent by 2021-22, the start of the post-COVID window.
- **Structural Revenue Deficit:** The State, which was running a revenue surplus in the past decade, had fallen into a widening revenue deficit phase. This was exacerbated during excessive borrowing during the Covid phase. It is to be seen that the absolute levels of revenue deficit in the FY 2025-26 were higher than the Covid years, without any plausible cause for a high revenue deficit and during a year when other major States were treading on a path of fiscal consolidation.

1.9. These three characteristics — elevated debt, declining own-tax effort, and structural revenue deficit — defined the fiscal starting position of the post-COVID window. What the five years from 2021-22 to 2025-26 demonstrate is not a recovery from these conditions but a further deterioration in all three. This trajectory is documented in detail across the chapters that follow.

1.3 Methodology and Data Sources

1.10. The figures used in the White Paper are taken from the publicly available and verifiable sources. This includes the State Budget Documents of Tamil Nadu and respective States, reports of Comptroller and Auditor General of India (CAG), Reserve Bank of India and the Union Finance Commission. For the year 2025-26, the Government has the data of Pre AC, and the accounts are yet to be finalized by the Accountant General. The Adjusted Pre AC including the pending Book Adjustments have been estimated by the Government for the purposes of the review. This means that the data for the year 2025-26 is a close approximation to the Actuals, and not the Accounts themselves. For other States 2025-26 Revised Estimates data has been used. For uniformity in comparison among States, the latest GSDP data published by the Ministry of Statistics and Programme Implementation (MoSPI) has been used in this document.

1.11. As far as practicable, every Inter-State and Inter-year comparison is expressed in the White Paper as a ratio or percentage of Gross State Domestic Product (GSDP), percentage of Total Revenue Receipts (TRR), or per capita so that the underlying argument is not distorted by the mere arithmetic of inflation or nominal growth.

1.4 Peer Comparison Framework

1.12. A State's fiscal performance cannot be assessed in isolation. Throughout this White Paper, Tamil Nadu's fiscal indicators are benchmarked against three large States: Karnataka, Maharashtra, and Gujarat.

1.13. **Karnataka, Maharashtra, and Gujarat** are Tamil Nadu's traditional peers. They share broadly comparable per capita income levels, diversified industrial structures, significant urban populations, and historically similar fiscal starting positions. Deviations from this peer group are therefore attributable to State-specific policy and administrative choices, not to structural economic disadvantage.

1.5 Structure of the White Paper

1.14. The White Paper is organised across ten chapters, each examining a distinct dimension of the State's fiscal position.

1.15. The analysis begins in Chapter 2 with an examination of the size, composition, and growth trajectory of the State's outstanding debt across the post-COVID window, together with the rising interest obligation that this accumulated stock generates.

1.16. Chapter 3 documents the trajectory and structural character of the revenue deficit. Chapter 4 examines the underlying revenue picture: the trajectory of the State's own tax and non-tax revenues alongside trends in central transfers.

1.17. Chapter 5 evaluates the expenditure side. It assesses how the combined pressure of debt service and revenue weakness has eroded both the volume and the developmental quality of public spending.

1.18. Chapter 6 assesses the State's compliance with its statutory fiscal responsibility obligations under the Fiscal Responsibility framework, documenting the pattern of repeated breaches, the progressive erosion of rule-based fiscal discipline, and the widening gap between Budget Estimates and actuals across the period.

1.19. Chapter 7 then expands the debt picture to capture contingent liabilities, and guarantees, and examines the financial health of State Public Sector Undertakings—whose growing dependence on budgetary support and contribution to guarantee exposure together represent material but often underappreciated fiscal risks.

1.20. Chapter 8 synthesises the five-year window from 2021-22 to 2025-26 as a whole — identifying the four fundamental causes of the deterioration from 2023-24 and the consequences for fiscal space going forward.

1.21. Chapter 9 speaks about the challenges in the current financial year and Chapter 10 concludes the white paper with a synthesis of these findings.

CHAPTER 2

Unsustainable Debt Levels

Chapter 2: Unsustainable Debt Levels

2.1 The Concept

2.1. The most consequential number in Tamil Nadu's public finances is the stock of outstanding liabilities. Debt is a necessary and acceptable component of public financial management, but it is bounded by two fundamental conditions — purpose and quantum. On the question of purpose, borrowing is justified only when it finances capital formation, creating physical and human capital whose returns accrue to present and future generations alike. On the question of quantum, the stock of debt must remain commensurate with the size of the economy so that it can be serviced from the revenues the economy generates without crowding out essential expenditure. On both counts, Tamil Nadu's debt record over the review period gives serious cause for concern.

2.2. This chapter examines the size and growth trajectory of the State's outstanding liabilities, assessing them against the scale of the economy and benchmarking Tamil Nadu's position relative to its peer States. As the evidence presented in the following sections demonstrates, the State's borrowing has grown well beyond levels consistent with fiscal prudence and has increasingly departed from the productive rationale with significant consequences for long-term fiscal sustainability.

A Note on Classification

2.3. Before examining the trajectory in detail, a classification issue must be addressed. There are two measures of State debt commonly cited in fiscal discourse:

(i) Budgetary Borrowings – this refers to the public debt (principally State Development Loans, Loans from financial institutions and external agencies) and total stock of balances of small savings, General Provident Fund, Teachers' Provident Fund which essentially are the funds of the Public and Government employees to be repaid by State Government in the future.

(ii) Total outstanding liabilities – this refers to the total stock of outstanding liabilities, including Budgetary Borrowings and all other obligations recorded in the

accounts in the Public Account of the State, including balances of State PSUs, for whom the State Government also acts as the banker to park their funds.

2.4. While Tamil Nadu has traditionally followed the concept of budgetary borrowings, the national discourse including the Union Finance Ministry, the CAG and the RBI have started using the broader measure of total outstanding liabilities. This White Paper uses the broader measure in line with the national standards, which also reflects the true extent of outstanding liabilities/debt of the Government.

2.2 The Headline Picture

2.5. The headline finding demonstrates an alarming trend. At the close of 2025-26 Pre AC, the State's outstanding liabilities stand at approximately Rs.10 lakh crore—representing 28.3 per cent of Gross State Domestic Product. This is one of the highest debt-to-GSDP ratio the State has recorded in its recent fiscal history, and among the highest of any large, industrialised State in India. In 2020-21—the COVID baseline year—outstanding liabilities stood at Rs.5.13 lakh crore, or 28.7 per cent of GSDP. This debt stock has close to doubled since the COVID year of 2020-21 to Rs.10 lakh crore in 2025-26 Pre AC. Peer States — Gujarat, Maharashtra, and Karnataka — used the post-COVID nominal GSDP recovery to reduce their ratios; Tamil Nadu did not.

2.3 The Debt Trajectory: 2021-22 to 2025-26

2.6. The debt trajectory across the five-year post-COVID window from 2021-22 to 2025-26 is characterised by a failure to consolidate from an already elevated baseline. The COVID year of 2020-21 left the State with a debt-to-GSDP ratio of 28.7 per cent — defensible as the consequence of an exogenous shock. The years that followed did not reduce this ratio to a sustainable level; instead, the ratio has remained in the range of 27 to 29 per cent throughout the window and has stood at 28.3 per cent in 2025-26.

The Post-COVID Trajectory (2021-22 to 2025-26)

2.7. Outstanding liabilities have grown at a CAGR of 14.3 per cent over the five post-COVID years — still faster than nominal GSDP growth in most years of the window. The absolute stock has grown from Rs.5.13 lakh crore by the end of

March 2021 to Rs.10.00 lakh crore in 2025-26 — a Rs.4.87 lakh crore addition in five years. The debt added in these five years alone represents a larger absolute quantum than the entire debt stock the State had accumulated in its first six decades of existence.

The Critical Finding: Peer States Consolidated; Tamil Nadu Did Not

2.8. The debt-to-GSDP ratio settled at approximately 27.4 to 28.8 per cent through 2021-22 to 2024-25 and stood at 28.3 per cent in the 2025-26 Pre AC. The absolute stock of debt has continued to grow at a CAGR of 14.3 per cent over this five-year period faster than nominal GSDP growth in most years.

2.9. **However, the critical point is this:** Peer States—Gujarat, Maharashtra, and Karnataka —used the post-COVID recovery to consolidate their fiscal positions. Their debt-to-GSDP ratios either stabilised or declined from the 2020-21 peak, but Tamil Nadu’s did not. The State’s failure to consolidate in a period of robust nominal GSDP recovery is the single most concerning finding in the debt analysis.

**Table 2.1: Outstanding Debt and Liabilities
2020-21 to 2025-26 Pre AC**

Year	Outstanding Liabilities (Rs. in Crore)	As % of GSDP	Annual Growth (%)
2020-21	5,12,555	28.7%	21.0%
2021-22	5,96,331	28.8%	16.3%
2022-23	6,77,255	28.5%	13.6%
2023-24	7,58,086	28.2%	11.9%
2024-25	8,53,766	27.4%	12.6%
2025-26 (Pre AC)	9,99,832	28.3%	17.1%

Source: Tamil Nadu Budget documents and MoSPI GSDP Statement

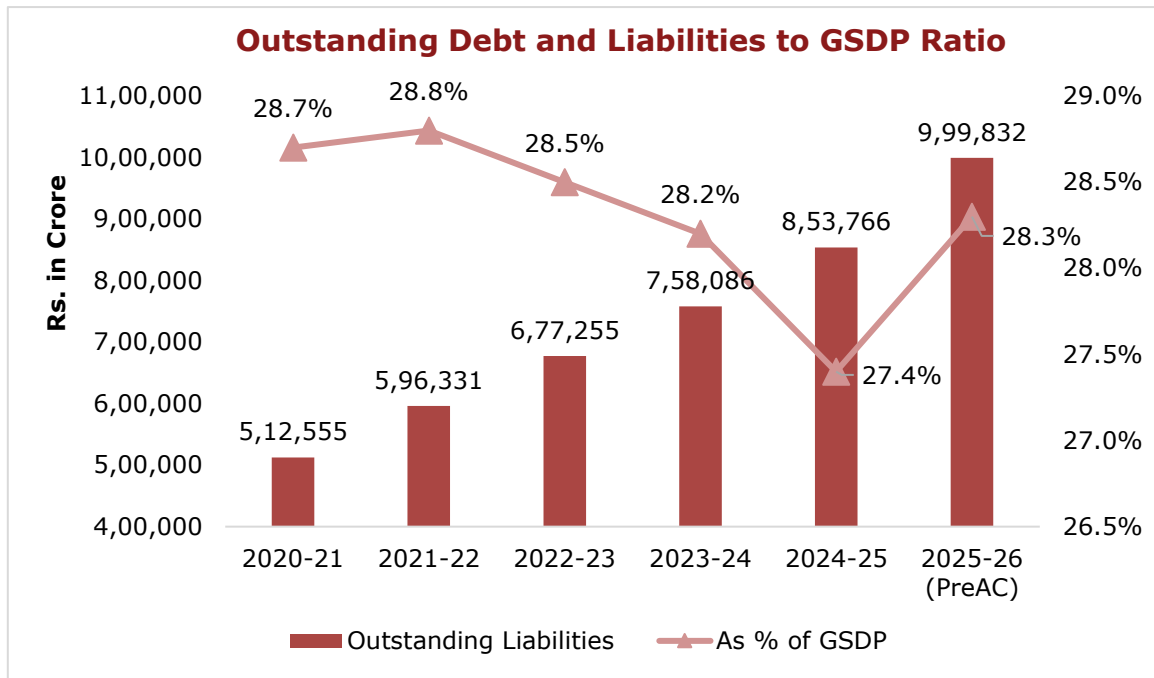


Figure 2.1: Outstanding Debt and Liabilities to GSDP Ratio - 2020-21 to 2025-26 (Rs. in Crore)

2.4 Towering Absolute Debt Among Large States

2.10. Tamil Nadu now carries one of the highest outstanding debt in absolute terms in India. This position has been entrenched since the COVID year and has not reversed during the post-COVID recovery. Gujarat, with a broadly comparable GSDP and industrial structure, carries outstanding debt of approximately Rs.5.25 lakh crore—barely half of Tamil Nadu’s. Maharashtra, with a significantly larger economy, carries a debt level similar to that of Tamil Nadu. Karnataka, Tamil Nadu’s closest structural peer, has debt levels 23% lower than that of Tamil Nadu in absolute terms.

Table 2.2: Outstanding Debt & Liabilities Peer State Comparison 2025-26 RE (Rs. in crore)

State	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26 RE
Maharashtra	5,48,176	6,06,295	6,60,754	7,50,279	8,76,874	10,03,027
Tamil Nadu (Pre AC)	5,12,555	5,96,331	6,77,255	7,58,086	8,53,766	9,99,832
Karnataka	3,97,506	4,73,573	5,36,057	6,20,052	6,77,960	7,68,062
Gujarat	3,57,893	3,80,802	4,12,378	4,20,180	4,59,460	5,24,514

Source: CAG’s State Finances, State Finance Accounts and State Budget documents

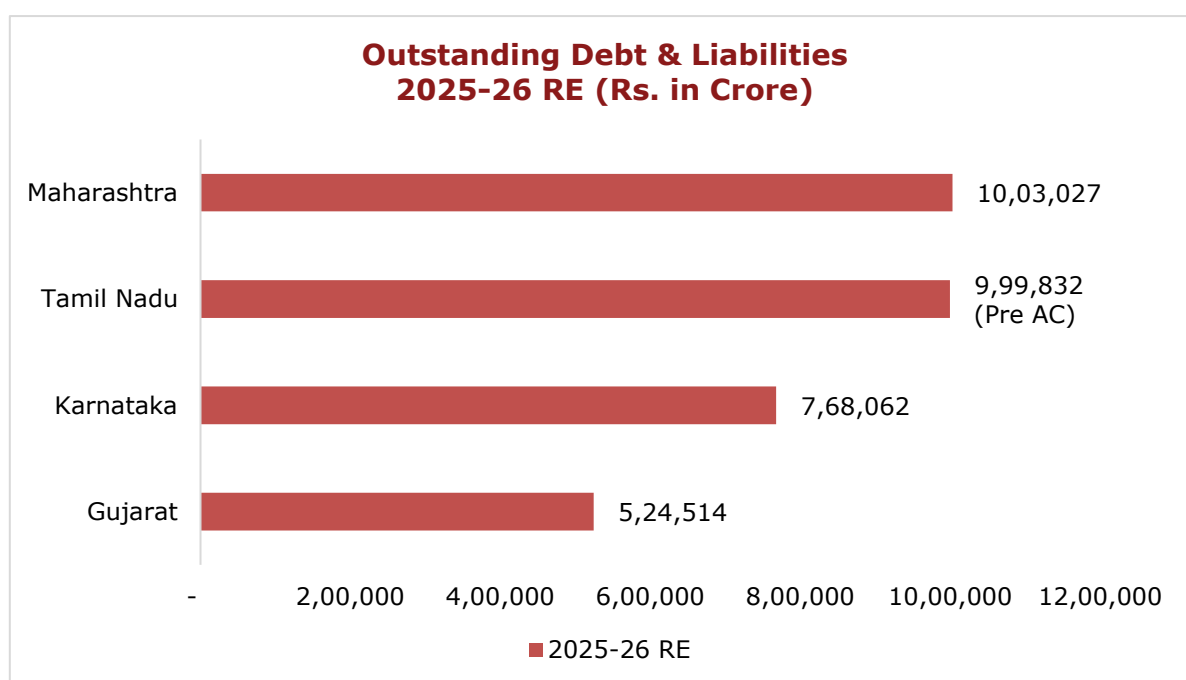


Figure 2.2: Outstanding Debt & Liabilities - Peer State Comparison - 2025-26 RE (Rs. in Crore)

The Widening Gap between TN and Peer States:

2.11. In 2021-22 — the start of the post-COVID window — Tamil Nadu's debt-to-GSDP ratio stood at 28.8 per cent, already the highest in the peer group. By 2025-26, Gujarat had consolidated to 17.6 per cent, Maharashtra to 19.7 per cent, and Karnataka to 23.4 per cent, while Tamil Nadu had moved to 28.3 per cent — the highest among the four.

**Table 2.3: Outstanding Debt and Liabilities to GSDP %
Peer State Comparison 2025-26 RE**

State	Debt & Liabilities to GSDP (%)
Tamil Nadu (Pre AC)	28.3%
Karnataka	23.4%
Maharashtra	19.7%
Gujarat	17.6%

Source: State Finance Accounts, State Budget documents and MoSPI GSDP Statement

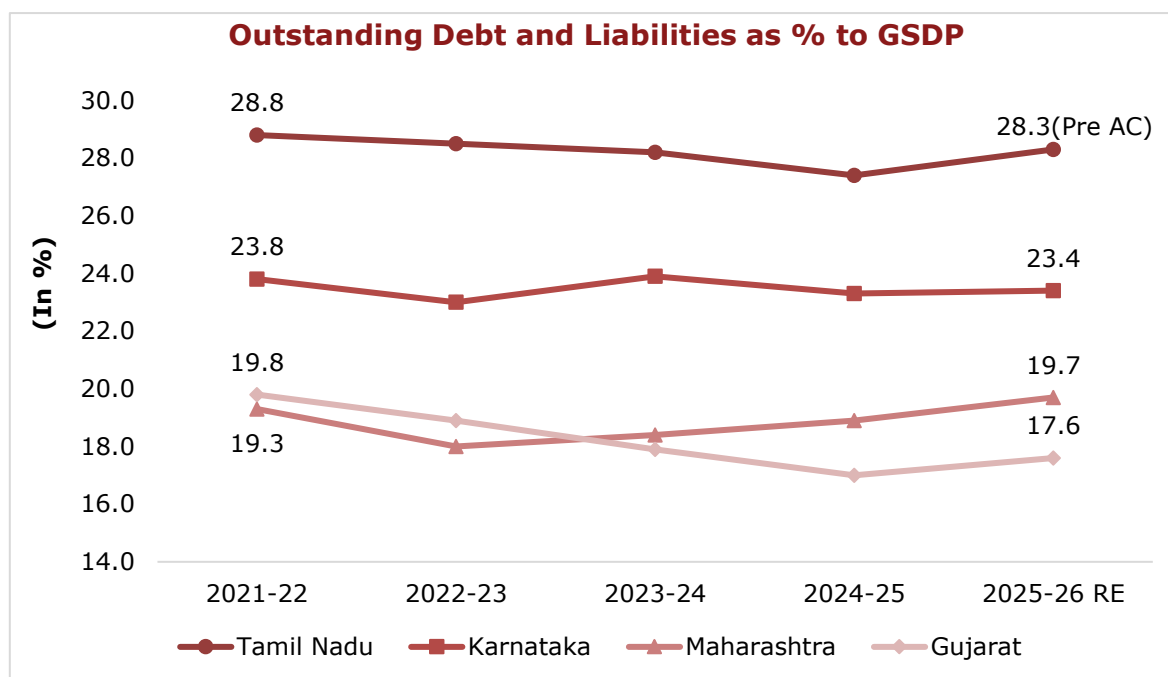


Figure 2.3: Outstanding Debt & Liabilities as % to GDP-Peer State Comparison 2021-22 to 2025-26 RE

Per capita Liability

2.12. Tamil Nadu now carries among the highest per capita liability figures of the large States. In 2021-22, Tamil Nadu's per capita liability stood at Rs.77,819 — already the highest among the peer group — and has risen to Rs.1,28,934 in 2025-26, a Rs.51,115 increase per resident in five years. A child born in Tamil Nadu in 2025-26 carries a per capita debt burden which is far higher than in peer group States.

Table 2.4: Per-Capita Liability – Peer State Comparison 2021-22 to 2025-26 RE (in Rs.)

Year	2021-22	2022-23	2023-24	2024-25	2025-26 RE
Gujarat	53,901	57,670	58,062	62,745	70,798
Maharashtra	48,345	52,281	58,910	68,327	77,569
Karnataka	70,401	79,191	91,030	98,917	1,11,375
Tamil Nadu (Pre AC)	77,819	88,115	98,339	1,10,424	1,28,934

Source: CAG's State Finances, State Budget documents and Population Projections for India and States, 2011-2036

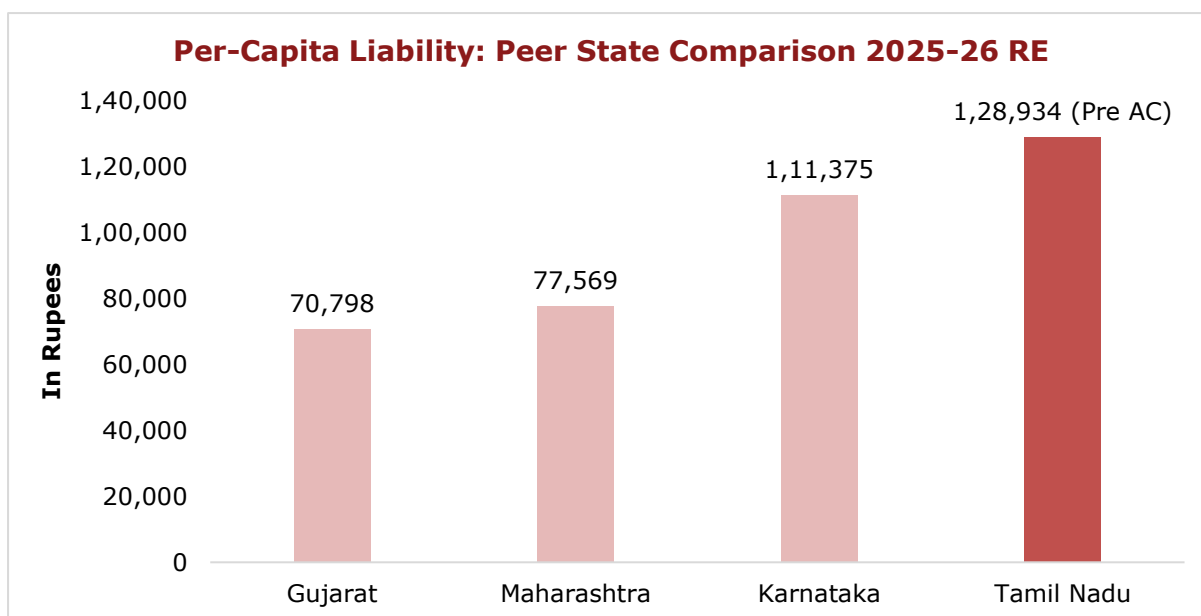


Figure 2.4: Per-Capita Liability: Peer State Comparison 2025-26 RE (in Rupees)

2.5 The Interest Problem

2.13. If the stock of outstanding debt examined in this chapter is the disease, interest payments are its most visible symptom and its most dangerous transmission mechanism. Interest is a non-discretionary, permanent commitment. Unlike a scheme outlay that can be deferred, or a capital project that can be phased, or a salary increment that can be moderated, interest on outstanding debt must be paid in full and on time.

2.14. The compounding dynamic that makes interest so dangerous is to be understood fully. The stock of debt converts into an annual interest commitment. Each year's fresh borrowing adds to the stock. The rising interest bill becomes itself a reason to borrow further because the State must finance the interest payment from somewhere, and if revenue receipts are insufficient, additional borrowing fills the gap. This is the debt-interest spiral, and Tamil Nadu is now entering its early stages.

2.15. **Tamil Nadu has reached the point where Interest payments consume 22.8 per cent of total revenue receipts and 34.8 per cent of the State's own tax revenue (Pre AC).** Interest payments now exceed annual capital expenditure by a significant margin. The State spends more on servicing past borrowings than on building new assets for future generations. The annual interest bill has grown from Rs.41,564 crore in 2021-22 to Rs.67,050 crore in

2025-26 (Pre AC) — a 61 per cent increase in five years, adding approximately Rs.25,500 crore of additional annual interest burden during post-COVID window.

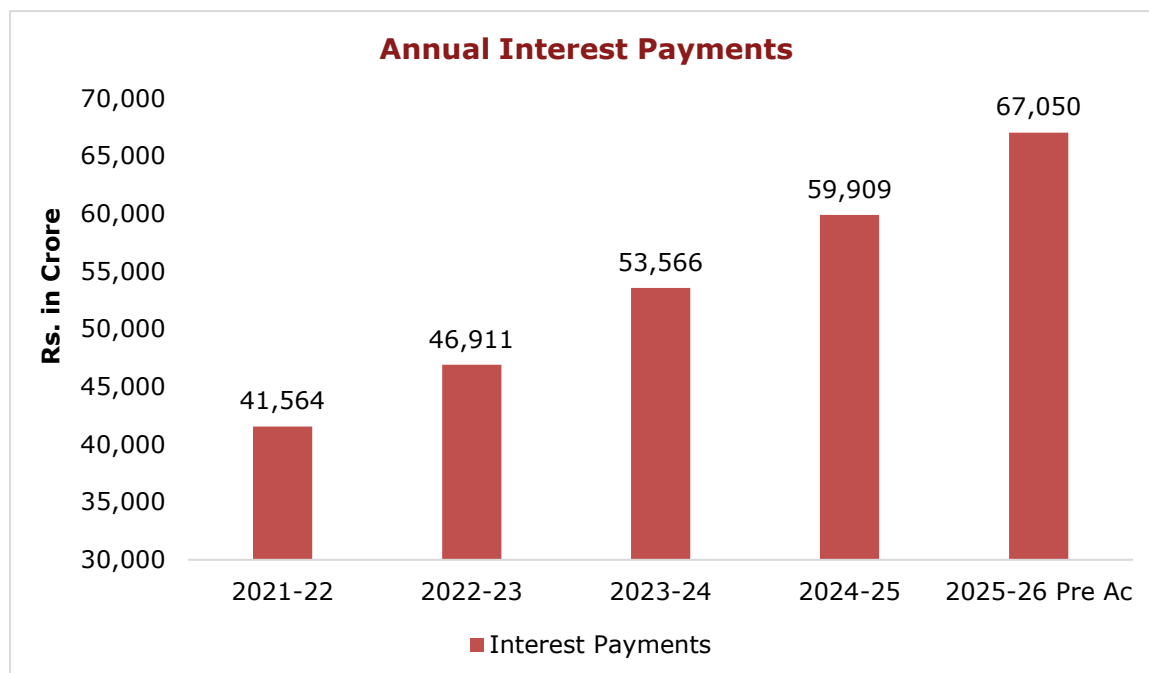


Figure 2.5: Annual Interest Payments 2021-22 to 2025-26 Pre AC

2.16. The growth has not been linear. The year-on-year increase in interest payments in 2025-26 alone — approximately Rs.7,141 crore over 2024-25 — exceeds the total interest bill of most medium-sized States. Interest payments have grown at a CAGR of 13 per cent across the post-COVID window, compounding relentlessly as the debt stock grows.

**Table 2.5: Annual Interest Payments — Key Ratios
2021-22 to 2025-26 Pre AC**

Year	Interest (Rs. in Crore)	Growth Rate	Int/TRR (%)	Int/SoTR (%)
2021-22	41,564	13.88%	20.03%	33.83%
2022-23	46,911	12.86%	19.25%	31.23%
2023-24	53,566	14.19%	20.24%	32.02%
2024-25	59,909	11.84%	21.18%	33.24%
2025-26 (Pre AC)	67,050	11.92%	22.82%	34.83%

Source: Tamil Nadu Budget documents

2.6 Interest as a Share of Receipts

2.17. Interest Payments as a percentage of Total Revenue Receipts (TRR) is one of the most illustrative measure for understanding the health of State Finance. This ratio measures the share of the State’s total income that is pre-empted by debt service before a single rupee can be allocated to any other purpose including healthcare, education, infrastructure, or welfare.

(i) Interest as a share of Total Revenue Receipts: In 2021-22, approximately 20.03 per cent of total revenue receipts went to interest payments. In 2021-22 this was already one of the highest in the peer group. As per 2025-26 Pre AC, 22.82 per cent of total revenue receipts are consumed by interest alone. This means that nearly one rupee in every four of the State’s revenue is committed to debt service before any allocation decision is made.

(ii) Interest as a share of State’s Own-Tax Revenue: The ratio has risen from 33.83 per cent in 2021-22 to 34.83 per cent in 2025-26 Pre AC. More than one-third of every rupee the State raises through its own taxation effort goes directly to servicing past debt.

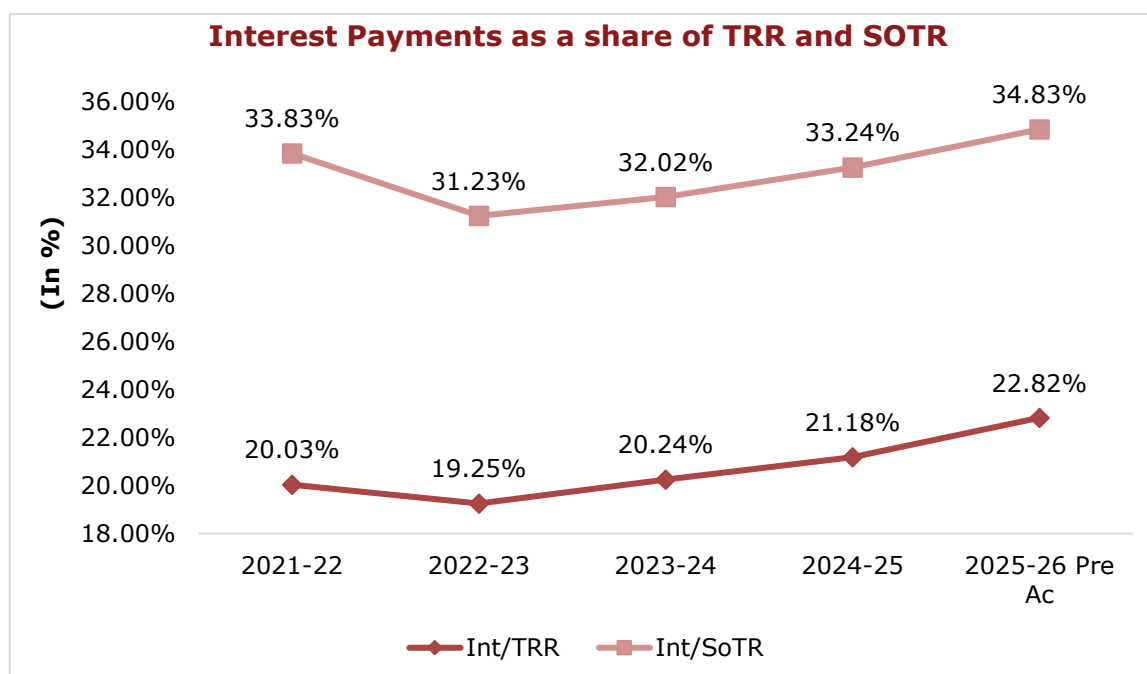


Figure 2.6: Interest Payments as a share of Total Revenue Receipts and State's Own-Tax Revenue 2021-22 to 2025-26 Pre AC (In %)

2.18. With the State’s Own Tax Revenue’s growth rate has been muted, the growth in Total Revenue Receipts has also been slower. The growth rate of TRR is now less than the growth rate seen in the interest payments.

2.19. Among the three peer States benchmarked in this White Paper, Tamil Nadu’s Interest Payments to Total Revenue Receipts ratio is the highest by a significant margin.

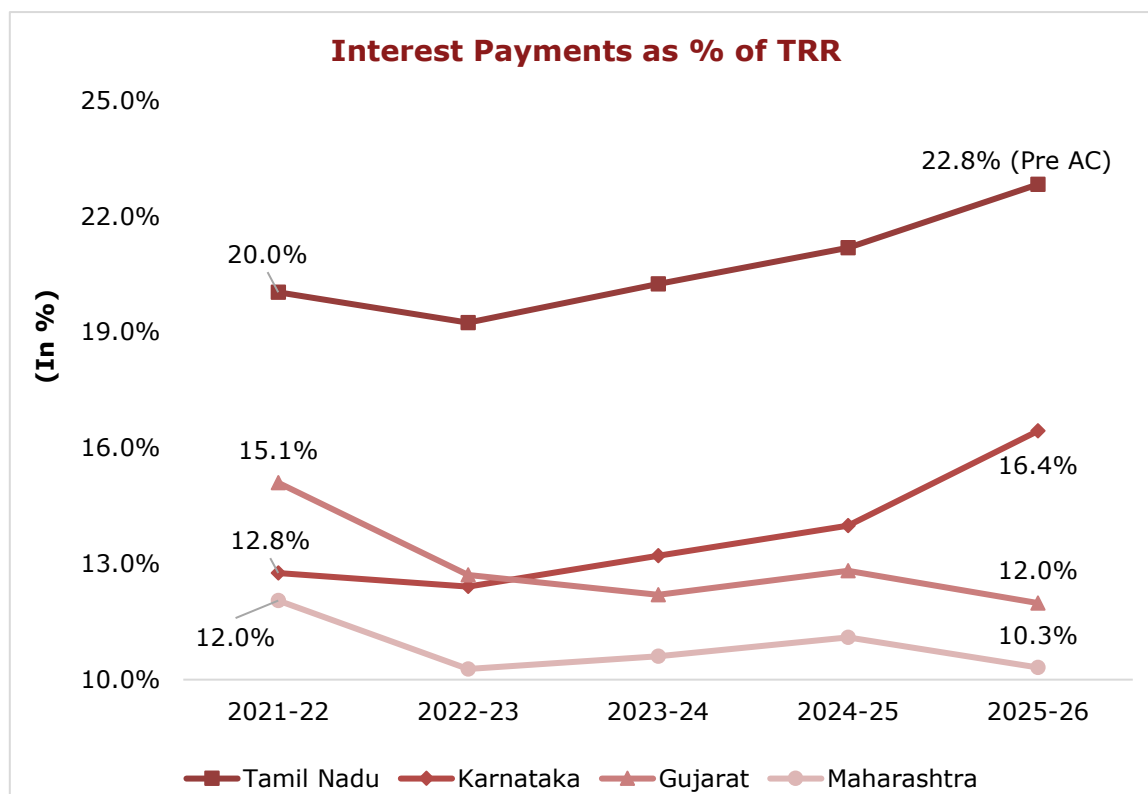


Figure 2.7: Interest Payments as % of Total Revenue Receipts – Peer State Comparison 2021-22 to 2025-26 RE (In %)

Table 2.6: Interest / TRR – Peer State Comparison (2025-26 RE)

State	Interest/TRR (%)	Gap Vs. TN (PP)
Tamil Nadu (Pre AC)	22.8%	
Karnataka	16.4%	-6.4%
Gujarat	12.0%	-10.8%
Maharashtra	10.3%	-12.5%

Source: State Budget documents

2.20. Tamil Nadu’s interest burden relative to revenue receipts is now more than double that of Maharashtra.

2.7 The Crossover: Interest Now Exceeds Capital Expenditure

2.21. A defining structural feature of Tamil Nadu’s finances is the crossover between interest payments and capital expenditure. Interest payments first exceeded capital expenditure in 2017-18 and have remained higher in every year since — a now-entrenched structural imbalance. The post-COVID window has not reversed this; it has widened the gap.

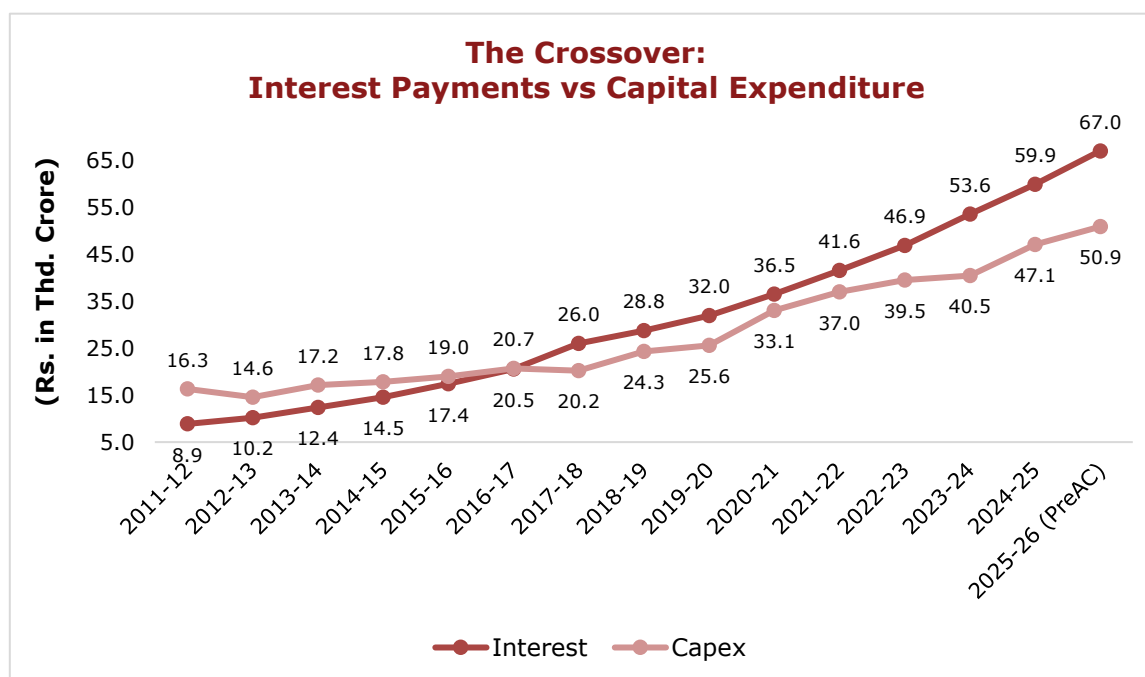


Figure 2.8: The Crossover: Interest Payments vs Capital Expenditure 2011-12 to 2025-26 (Pre AC) (Rs. in Thd. Crore)

2.22. In 2021-22, Interest payments (Rs.41,564 crore) already exceeded capital expenditure (Rs.37,011 crore) by Rs.4,553 crore — a gap that has since remained standard. **In 2025-26 (Pre AC), the State spent Rs.67,050 crore on Interest Payments and Rs.50,911 crore on Capital Expenditure, a ratio of approximately 1.32 to 1.** The State now allocates more resources to servicing the debts of the past than to building the assets of the future.

2.23. This crossover is not a one-year anomaly, but the structural reality of the current State’s finances. Its significance cannot be overstated. Capital expenditure—on roads, bridges, hospitals, water systems, industrial parks, and power infrastructure—is the principal mechanism through which government spending creates durable productive capacity. It is the only reason for which the Government has good justification to borrow. However, when interest payments

exceed capital expenditure, the State is, in effect, running its balance sheet in reverse: borrowing to pay for past consumption rather than investing in future capacity.

2.8 The Divergence: Debt Growing, Investment Stagnating

2.24. Outstanding liabilities have risen from Rs.5.13 lakh crore in 2020-21 to Rs.10.00 lakh crore in 2025-26 — a 94 per cent increase. Annual Capital Expenditure has risen from Rs.37,011 crore to Rs.50,911 crore – a 37.55 per cent increase. Debt has grown close to twice the pace of Capital formation over the post- COVID window. The cardinal principle of Public Finance is that a Government should borrow to create physical and human capital and not to finance current consumption. Measured against this standard, the quality of the State’s borrowing has deteriorated steadily across the window.

2.25. The implications of this divergence are far-reaching. A State that borrows heavily but invests little is consuming its future fiscal space without building the productive capacity that could generate the revenue to service the debt. This is the inter-generational transfer at its starkest: today’s generation benefits from the current consumption financed by borrowing, while the next generation inherits the debt without the offsetting infrastructure, industrial capacity, or public services that productive capital expenditure would have provided.

2.9 The Demographic Dimension: Ageing Population and the Approaching Debt Trap

2.26. The debt trajectory examined above would be concerning for any State. For Tamil Nadu, it is existentially dangerous, because Tamil Nadu is aging faster than any other large State in India. The interaction between a rapidly rising debt stock and a rapidly shrinking working-age population creates the conditions for a fiscal debt trap from which recovery becomes progressively more difficult.

Tamil Nadu’s Demographic Profile

2.27. Tamil Nadu has the second oldest population among major Indian States, with a median age of approximately 34.25 years—nearly 9.5 years older than Uttar Pradesh. The State’s demographic transition occurred earlier and faster than

in most Indian States, a direct consequence of Tamil Nadu’s relatively early success in education, healthcare, and family planning. This transition, while a development achievement, has a fiscal corollary: the dependency ratio is rising, the working-age share of the population is declining, and the window during which a favourable demographic structure can support economic growth and revenue mobilisation is closing.

Table 2.7: Elderly Population Projections

State	Elderly % (2011)	Elderly % (2031)	Growth Rate (%)	Elderly % (2100)	Old-Age Dep. 2036
Tamil Nadu	10.60%	18.20%	71.70%	~48%	32.7
Kerala	12.70%	20.90%	64.60%	—	—
Karnataka	9.60%	15.00%	56.30%	—	—
India	8.40%	13.10%	56.00%	~27%	—
Maharashtra	10.00%	15.00%	50.00%	—	—

Source: Census of India 2011; NITI Aayog population projections; National Commission on Population

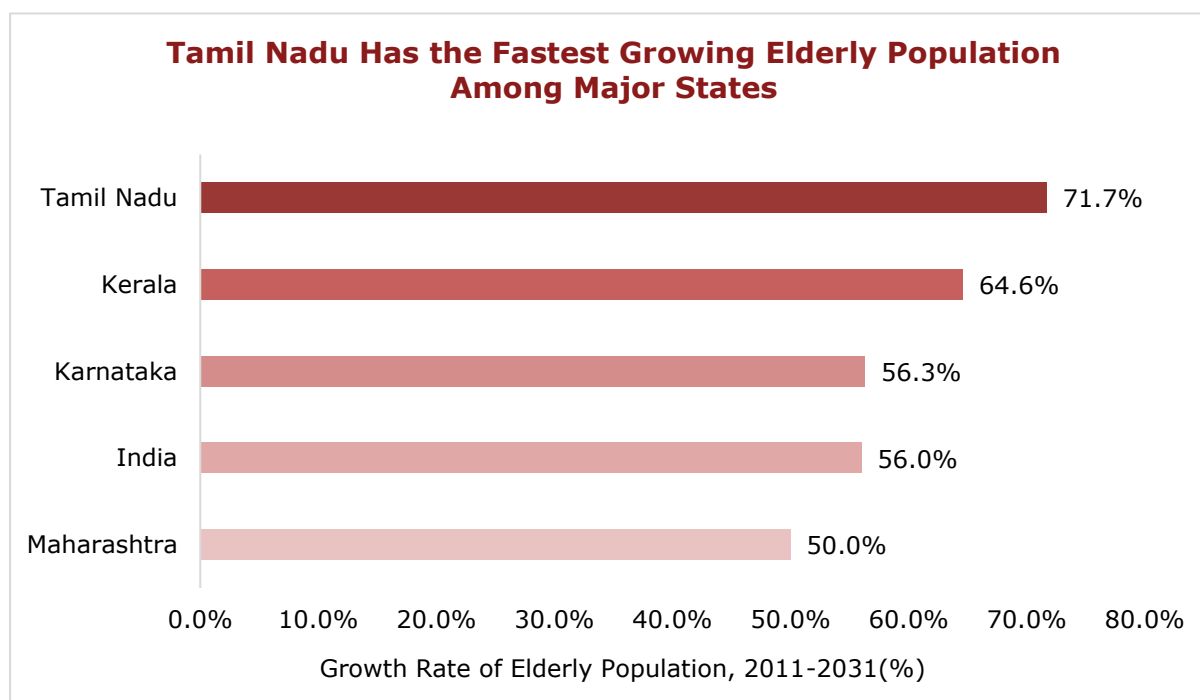


Figure 2.9: Growth Rate of Elderly Population (2011–2031) — Peer State Comparison (In %)

2.28. The key demographic facts are as follows:

- **Fastest Ageing:** Tamil Nadu’s elderly population is projected to grow from 10.6 per cent in 2011 to 18.2 per cent by 2031—a growth rate of

71.7 per cent, the highest among comparable States. By 2031, Tamil Nadu will have the highest elderly population among the major States in India, as per Union MoHFW Population Projections.

- **Declining Working-Age Population:** The working-age population (15-59 years) peaked at approximately 66.4 per cent around 2021 and is projected to decline to 63.6 per cent by 2036. This decline represents a structural shift in the ratio of taxpayers to dependents, as per GoI MoHFW Population Projections.
- **Rising Dependency Ratio:** Tamil Nadu’s old-age dependency ratio is projected to increase from 20.6 in 2021 to 32.7 by 2036—among the steepest increases projected for any Indian State.
- **Long-Term Outlook:** By 2100, projections indicate that approximately half of Tamil Nadu’s population will be classified as elderly, compared to approximately 27 per cent for India as a whole.

2.29. The fiscal implications are direct and unavoidable:

- (1) **Shrinking Tax Base:** A shrinking working-age population means a shrinking base for income tax, consumption tax, and economic activity-linked tax revenue. Tamil Nadu’s dividend window is the shortest among major States and is already closing.

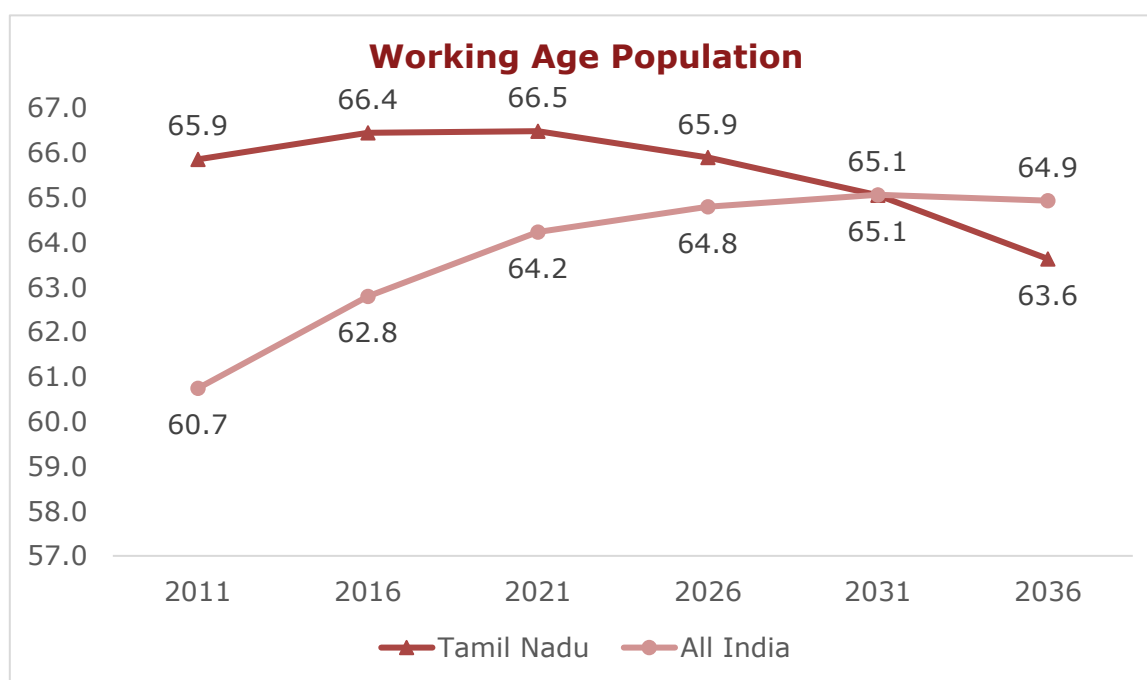


Figure 2.10: Working Age Population (%) — Tamil Nadu vs India, 2011 to 2036

The State’s capacity to grow its way out of debt becomes more constrained with each passing year.

- (2) **Rising Social Security Obligations:** An expanding elderly population means rising demand for healthcare, pensions, social security, and elderly related welfare expenditure. International experience – particularly from Japan and Canada – demonstrates that per capita medical and social security costs rise sharply after the age of 60.

Per Capita Medical Costs Rise Sharply After Age 60

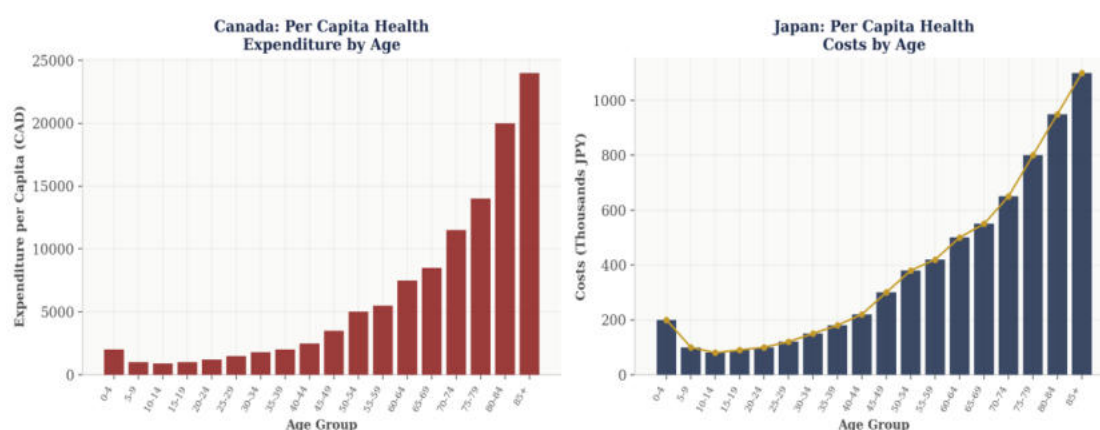


Figure 2.11: Per Capita Health Expenditure by Age Group — Canada and Japan

Tamil Nadu’s health and social security expenditure does not yet show this pattern at full scale, because the State’s elderly share is still below 15 per cent. But as the elderly share rises toward 18 per cent by 2031 and continues to climb thereafter, the State Budget will need to increase expenditure on geriatric care, chronic disease management, long-term care facilities, and age-related disability support. Furthermore, the State will have to provide social security transfers to a larger elderly population. The number of beneficiaries will rise even if eligibility criteria remain unchanged.

- (3) **The Scissors Effect:** The combination of a shrinking revenue base and an expanding expenditure floor creates what demographers, and fiscal economists call the ‘scissors effect’—the gap between revenue capacity and expenditure obligations widens structurally over time. Debt fills this gap, and interest on that debt further widens it. This is the mechanism of a debt trap. Tamil Nadu is not yet in a debt trap. But the confluence of a 28.3 per cent debt-to-GSDP ratio, a structural revenue deficit, declining

own-tax effort, and the fastest-closing demographic dividend of any large State means that the margin between the current position and an irreversible trap is narrower than it has ever been.

2.30. **The inescapable conclusion is that the current fiscal trajectory is unsustainable.** This demographic reality means that there is a present and imminent danger of the '**State growing old before becoming rich**'. Delay compounds the problem: each year of structural revenue deficit adds to the debt stock, which adds to the interest bill, which further narrows the fiscal space available for the very investments—in health, education, skilling, and infrastructure—that an aging society will need.

2.31. The immortal Thiruvalluvar's counsel is directly applicable: *அன்றறிவாம் என்னாது அறஞ்செய்க* — *do what is right today; do not say 'we shall know tomorrow'* (Kural 36). The fiscal analysis in this White Paper is therefore not an academic exercise. It is a description of a problem whose correction becomes more difficult with every passing year, and whose deferral is itself a policy choice with compounding consequences.

CHAPTER 3

The Soaring Revenue Deficit

Chapter 3: The Soaring Revenue Deficit

3.1 The Concept

3.1. The fiscal debate in most Indian States is dominated by the metric of debt. But, the real question that matters most for inter-generational equity: **what is the borrowed money being used for?** The distinction between borrowing to invest and borrowing to consume is the most consequential line in public finance.

3.2. Borrowing is legitimate, rather desirable, when its proceeds create durable productive assets: roads, hospitals, industrial parks, water systems, transmission lines and school buildings. It is also justifiable in investing in human capital including spending in revenue account for teachers, professors, doctors, scholarships and similar welfare schemes that enhance capacity of citizens to become productive assets for the State's economy. These assets constituting physical and human capital generate economic returns over decades, and it is appropriate that their cost be spread across the generations that benefit from them. Debt-financed capital formation is the standard mechanism by which Governments invest in the future.

3.3. Where the proceeds of borrowing finance current consumption—salaries, pensions, subsidies, interest on past debt, or the operating losses of public sector undertakings, etc., that do not create capital but only are of nature of current consumption—the economic logic inverts. The benefits of current consumption accrue entirely to the present period, but the debt service obligation extends for twenty to thirty years. The next generation inherits the obligation without inheriting the benefit.

3.4. It is for this reason that the Tamil Nadu Fiscal Responsibility Act, 2003 (TNFR Act), initially mandated the progressive elimination of the revenue deficit, targeting revenue balance (zero revenue deficit) by 2008-09. However, this deadline has been extended repeatedly through eight successive amendments to the Act—in 2010 (2 amendments), 2015, 2016, 2020, 2021, 2023 and 2025. The latest amendment, in 2025, set 2026-27 as the deadline for revenue deficit elimination. But the year 2025-26 records a revenue deficit of Rs.78,324 crore — 2.22 per cent of GSDP — the highest ever recorded by the State, exceeding even the COVID-affected year of 2020-21 in absolute terms.

3.2 Trajectory: 2020-21 to 2025-26

3.5. The trajectory from 2020-21 through 2025-26 is given below. The year 2020-21 is the COVID baseline: a defensible disruption. What the post-COVID years reveal is not recovery but continued deterioration.

COVID Shock (2020-21)

3.6. The pandemic year of 2020-21 produced a revenue deficit of Rs.62,326 crore (3.49 per cent of GSDP) — defensible as a consequence of the exogenous shock and the Union Government's expanded borrowing dispensation. Every State in India recorded similar deterioration.

The Post-COVID Trajectory (2021-22 to 2025-26)

3.7. The improvement in finances was short-lived. In the post-COVID years, peer States used the nominal GSDP recovery to bring their revenue accounts back to surplus or near-balance. Tamil Nadu did not. The deficit narrowed from Rs.46,538 crore in 2021-22 to Rs.36,215 crore in 2022-23 — but this reflected transitional factors: expenditure restraint carried over from pandemic austerity, and a recovery in transaction-linked revenues. From 2023-24, the deficit widened again.

3.8. The year-by-year trajectory reflects these drivers. The deficit narrowed from Rs.46,538 crore in 2021-22 (2.25 per cent of GSDP) to Rs.36,215 crore in 2022-23 (1.53 per cent of GSDP), then widened to Rs.45,121 crore in 2023-24 (1.68 per cent of GSDP). It remained flat in 2024-25 at Rs.45,840 crore (1.47 per cent of GSDP). By 2025-26 Pre AC, it has reached Rs.78,324 crore (2.22 per cent of GSDP)—the highest revenue deficit ever recorded by the State, exceeding the COVID-year level of 2020-21, in absolute terms.

Table 3.1: Revenue Deficit — 2020-21 to 2025-26 Pre AC

Year	Revenue Surplus(+) / Deficit(-) (Rs. in Crore)	As % of GSDP	Status
2020-21	-62,326	-3.49%	COVID Baseline
2021-22	-46,538	-2.25%	Deficit
2022-23	-36,215	-1.53%	Deficit
2023-24	-45,121	-1.68%	Deficit
2024-25	-45,840	-1.47%	Deficit
2025-26 (Pre AC)	-78,324	-2.22%	Deficit

Source: Tamil Nadu Budget documents and MoSPI GSDP Statement

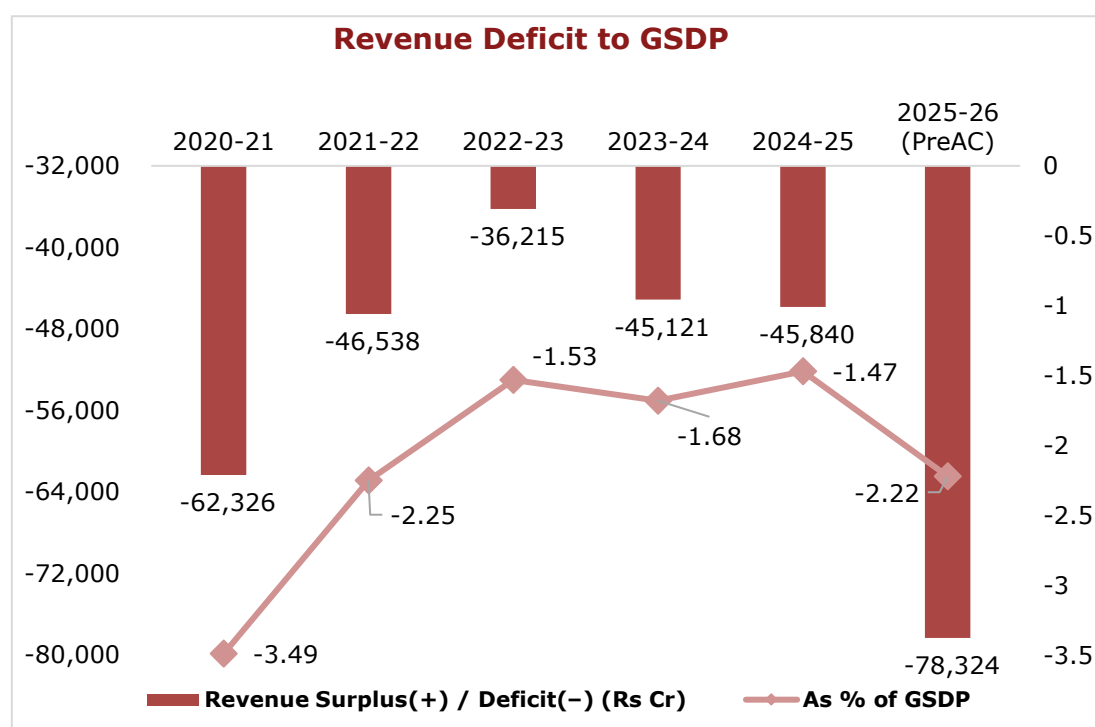


Figure 3.1 Revenue Deficit to GSDP - 2020-21 to 2025-26 Pre AC (In Rs. and %)

3.3 Inter-State Comparison

3.9. The Inter-State comparison places Tamil Nadu's revenue deficit in its national context and reveals the extent of the State's separation from the peer group with which it has historically been compared.

3.10. In 2025-26 RE, Gujarat estimated a revenue surplus of 0.8 per cent of GSDP; Karnataka, a near-balance revenue deficit of 0.8 per cent of GSDP; and Maharashtra, a near-balance revenue deficit of 0.7 per cent of GSDP. Whereas,

Tamil Nadu, in the same year (Pre AC), recorded a revenue deficit of 2.2 per cent of GSDP— almost 2.5 times the Revenue deficit relative to Karnataka and Maharashtra.

Table 3.2: Revenue Account Position — Peer State Comparison (2025-26 RE)

State	Revenue Surplus/ Deficit (% GSDP)
Gujarat	+0.8%
Maharashtra	-0.7%
Karnataka	-0.8%
Tamil Nadu (Pre AC)	-2.2%

Source: State Budget documents

3.4 The Structural Character of the Revenue Deficit

3.11. A critical distinction in fiscal analysis is between a cyclical deficit and a structural deficit. A cyclical deficit arises from temporary economic conditions— a recession that suppresses tax revenue, an emergency that elevates expenditure—and is expected to self-correct as conditions normalise. A structural deficit persists regardless of the economic cycle because it is embedded in the permanent revenue and expenditure framework of the State.

3.12. Tamil Nadu's revenue deficit is structural. It has been present in every year since 2013-14 and has remained through recoveries, expansions, and the post-COVID nominal GSDP rebound. The structural character arises from the simultaneous movement of the two sides of the revenue account—a hardening expenditure side and a weakening revenue side—each of which is examined in detail in the chapters that follow.

(i) Collapse of Revenue Receipts

3.13. Total Revenue Receipts as a share of GSDP have fallen from approximately 10.0 per cent in 2021-22 to 8.32 per cent in 2025-26 Pre AC. The State's own-tax effort has weakened more sharply still: SoTR as a share of GSDP has fallen from 5.93 per cent in 2021-22 to 5.45 per cent in 2025-26 Pre AC. The SoTR as a share of GSDP had accelerated to 6.33% in 2022-23 due to rebound of economic activity post-Covid. If the gain attained during 2022-23 had been continued over in the

next 3 years, there'd be an increase of Rs 51,000 crore in the SoTR over the years. The drivers of the SoTR collapse across GST, Stamp Duty, State Excise and Motor Vehicle Tax, the stagnation in non-tax revenue, and the comparative trajectories of peer States are examined in Chapter 4.

(ii) Rising Committed Expenditure that has crowded out space for Development

3.14. Committed expenditure—salaries, pensions, and interest payments—has risen from approximately Rs.1,25,375 crore in 2021-22 to Rs.1,89,115 crore in 2025-26 Pre AC, lifting its share of revenue receipts from approximately 60 per cent to 64 per cent over the five-year window. The composition of total expenditure and the deterioration in expenditure quality across capital and developmental heads are examined in Chapter 5; the rigidity that committed expenditure imposes on the Budget is examined in Chapter 5.

3.15. The simultaneous increase in expenditure without corresponding increase in revenue is the mechanism through which a deficit that became significant during Covid years could not be curtailed and has become a regular phenomenon during 2021-22 to 2025-26.

CHAPTER 4

The Collapse in Revenue Receipts

Chapter 4: The Collapse in Revenue Receipts

4.1 The Aggregate Picture

4.1. While expenditure decisions are policy choices, revenue performance determines the fiscal space within which those choices can be exercised. A State that collects revenue efficiently has the headroom to invest, to absorb shocks, and to fund commitments without recourse to unsustainable borrowing. A State whose revenue effort is declining loses that headroom progressively—and eventually finds itself borrowing not to invest, but merely to meet current obligations. Tamil Nadu’s revenue story over the post-COVID period is of such a decline.

4.2. Total Revenue Receipts (TRR) comprise four components: the State’s Own Tax Revenue (SoTR), the State’s Own Non-Tax Revenue (SoNTR), the State’s Share of Central Tax devolution, and Grants-in-Aid from the Union Government. Of these, SoTR—the revenue the State raises through its own legislative and administrative effort—is the biggest component which is most directly within the State’s control and the most reliable indicator of fiscal effort.

4.3. The headline finding is stark. TRR as a share of GSDP has fallen from approximately 10 per cent in 2021-22 to 8.3 per cent in 2025-26 Pre AC — a decline of approximately 1.7 percentage points across the five-year post-COVID window. This means that for every rupee of economic output the State generates, it now collects substantially less in revenue than it did at the start of 2021-22. Tamil Nadu now collects less revenue relative to GSDP than the median large State. This is an extraordinary finding for a State that was historically among the top revenue-mobilisers in India.

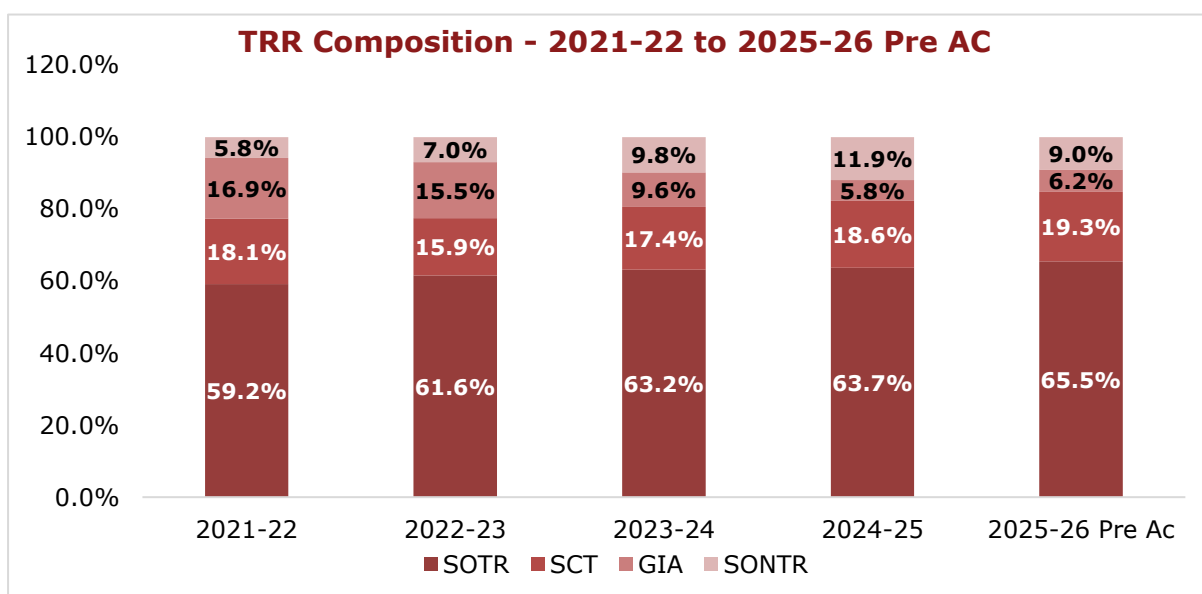


Figure 4.1: TRR Composition - 2021-22 to 2025-26 Pre AC (In %)

4.4. The composition of TRR has also shifted significantly over the window. In 2021-22, the State's own tax revenue accounted for approximately 59 per cent of total revenue receipts. By 2025-26 PreAC, that share had increased to 66 per cent. The share of central transfers—both tax devolution and grants—has fallen from approximately 35 per cent to approximately 26 per cent.

**Table 4.1: TRR as a % to GSDP – Peer State Comparison
2021-22 to 2025-26 RE**

State	2021-22	2022-23	2023-24	2024-25	2025-26 RE
Maharashtra	10.60%	11.07%	10.46%	10.43%	11.79%
Gujarat	8.68%	9.11%	9.08%	8.08%	8.47%
Karnataka	9.83%	9.85%	9.00%	8.88%	8.45%
Tamil Nadu (Pre AC)	10.01%	10.27%	9.84%	9.07%	8.32%

Source: CAG's State Finances, State Budget documents and MoSPI GSDP Statement

4.5. During this period, the TRR to GSDP ratio Tamil Nadu slide down by 1.69% while Maharashtra had seen an increase more than 1% as seen in Table 4.1. Karnataka and Gujarat had posted a fall of 1.38% and 0.21% respectively.

4.2 State's Own Tax Revenue (SoTR) Performance

4.6. Tamil Nadu's SoTR performance has been in decline throughout the post-COVID window. The SoTR-to-GSDP ratio stood at 5.93 per cent in 2021-22 and has declined in successive years to 5.45 per cent in 2025-26 Pre AC — the lowest in the State's recent fiscal history. The cumulative decline from the historical peak of 8.94 per cent (2006-07) represents approximately Rs.1.23 lakh crore of annual revenue foregone — around 90 per cent of the fiscal deficit in 2025-26 (Pre AC).

Transient Recovery and Renewed Decline

4.7. The SoTR-to-GSDP ratio showed a transient improvement from 5.93 per cent in 2021-22 to 6.33 per cent in 2022-23, driven by the recovery of deferred transactions (stamp duty, motor vehicle tax) from the pandemic period.

This improvement was short-lived and did not reflect structural strengthening of the revenue base.

4.8. The 2025-26 Pre AC figure is the lowest SoTR-to-GSDP ratio recorded by the State in its recent fiscal history. The post-COVID recovery in revenue that other States achieved has not materialised in Tamil Nadu.

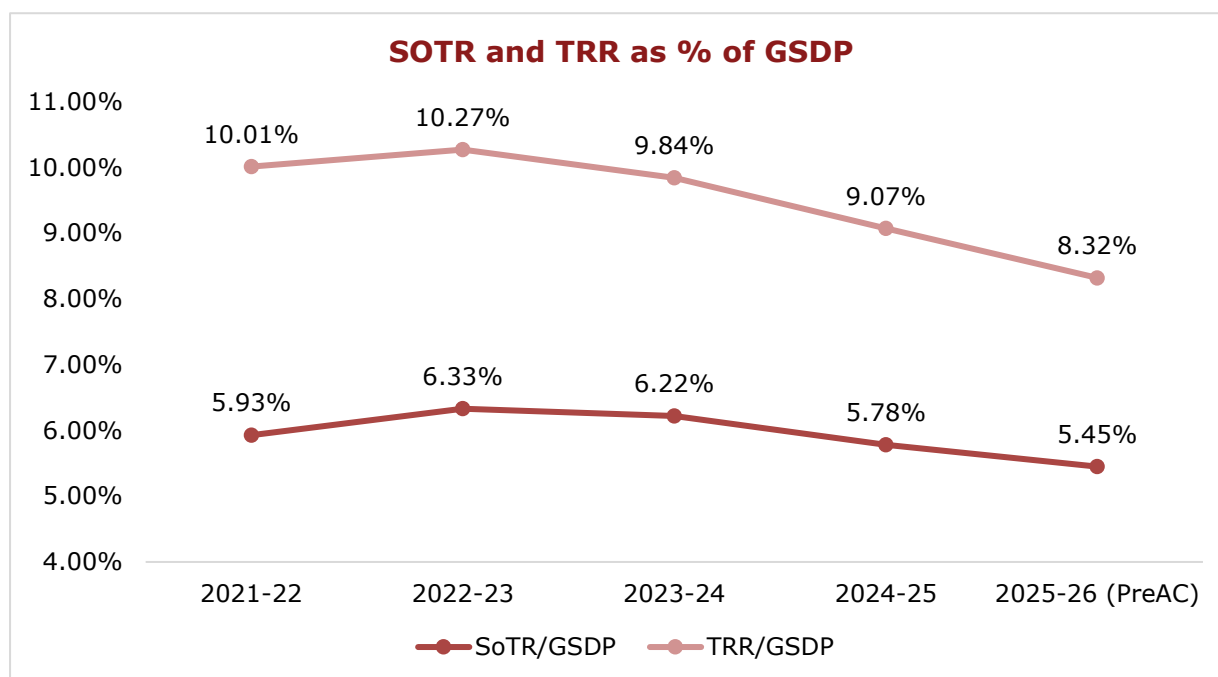


Figure 4.2: SOTR and TRR as % of GSDP 2021-22 to 2025-26 (Pre AC)

Table 4.2: SoTR and TRR as % of GSDP – 2021-22 to 2025-26 Pre AC

Year	SOTR (Rs. in Crore)	SOTR / GSDP (%)	TRR (Rs. in Crore)	TRR / GSDP (%)
2021-22	1,22,866	5.93%	2,07,492	10.01%
2022-23	1,50,223	6.33%	2,43,749	10.27%
2023-24	1,67,278	6.22%	2,64,597	9.84%
2024-25	1,80,225	5.78%	2,82,829	9.07%
2025-26 (Pre AC)	1,92,493	5.45%	2,93,763	8.32%

Source: Tamil Nadu Budget documents and MoSPI GSDP Statement

4.3 Peer Comparison

4.9. The peer comparison on SoTR-to-GSDP presents a concerning analysis. It raises the question of whether Tamil Nadu’s revenue decline is the result of external structural forces or internal policy and administrative failure.

4.10. Over the post-COVID window from 2021-22 to 2025-26, Maharashtra's SoTR-to-GSDP ratio increased by 1 percentage point while Karnataka and Gujarat more or less maintained their ratios. Tamil Nadu alone has recorded a decline in the ratio — from 5.93 per cent in 2021-22 to 5.45 per cent in 2025-26 — the steepest in the peer group, by 0.48 percentage points which is evident from the comparative data in table 4.3.

Table 4.3: SOTR / GSDP — Peer State Comparison 2025-26 RE

State	SoTR/GSDP 2021-22	SoTR/GSDP 2025-26	Change (pp)
Maharashtra	7.03%	8.03%	+ 1.00
Gujarat	5.08%	5.19%	+ 0.11
Karnataka	6.06%	5.89%	- 0.17
Tamil Nadu (Pre AC)	5.93%	5.45%	- 0.48

Source: CAG's State Finances, State Budget documents and MoSPI GSDP Statement

4.4 Tax-Wise Breakdown

4.11. Understanding the aggregate SoTR decline requires disaggregation by tax components. Tamil Nadu's own-tax revenue is drawn from five principal sources. The data reveals that the decline is not concentrated in any single tax heads. It is distributed across all major sources, reflecting a combination of structural shifts in the indirect tax architecture, changes in consumption patterns, and the pace of administrative reform.

Table 4.4: Components of SOTR as % of GSDP – Tax-head-wise Revenue Then vs Now

Year	2021-22	2025-26 Pre AC
Commercial Tax (GST)	2.22%	2.08%
VAT on Petroleum	0.96%	0.71%
State Excise and VAT on Liquor	1.75%	1.44%
Stamps & Registration	0.69%	0.72%
Motor Vehicle Tax	0.27%	0.35%
Other Taxes	0.03%	0.16%
TOTAL SOTR	5.93%	5.45%

Source : Tamil Nadu Budget document and MoSPI GSDP Statement

Commercial Taxes

4.12. Within the broader commercial taxes head, GST accounts for approximately 53 per cent, VAT on liquor approximately 28 per cent, and VAT on petroleum products approximately 19 per cent. Commercial taxes as a proportion of GSDP have declined from approximately 4.53 per cent in 2021-22 to approximately 3.89 per cent in 2025-26—a decline that was not seen in the case of Peer States.

Goods and Services Tax

4.13. An important measure of GST performance is the ratio of GST collections to GSDP—what proportion of the State's economic activity is captured as GST revenue. On this measure, Tamil Nadu records the lowest ratio among the four peer States. In 2025-26, GST collections as a share of GSDP stood at 3.83 per cent for Maharashtra, 2.71 per cent for Gujarat, 2.66 per cent for Karnataka, and 2.04 per cent for Tamil Nadu. The composition of the gap is what makes it consequential. Tamil Nadu's GSDP of approximately Rs.35.29 lakh crore in 2025-26 is the second-largest in this peer group—materially larger than Karnataka, and Gujarat, and second only to Maharashtra. Yet, Tamil Nadu's GST collections of Rs.72,008 crore are smaller in absolute terms than those of Karnataka (Rs.87,256 crore), and Gujarat (Rs.80,823 crore). Two peer States with smaller economies collect more GST in absolute terms than Tamil Nadu does. The growth of GST is lesser than peer States, reflects administrative inefficiencies in the Commercial Taxes Department of the State, that has been hindered by systemic corruption in the Department.

Table 4.5: Economy and GST Collection Peer State Comparison 2025-26 RE

State	GSDP (Rs. in Crore)	GST Collection (Rs. in Crore)	GST/ GSDP Ratio
Tamil Nadu (Pre AC)	35,29,052	72,008	2.04%
Karnataka	32,81,065	87,256	2.66%
Gujarat	29,84,449	80,823	2.71%
Maharashtra	51,00,597	1,95,500	3.83%

Source: GSTN Portal

Note: GST collection on Net actuals for Tamil Nadu

Service sector composition

4.14. A particular feature of Tamil Nadu's GST profile warrants attention. The services sector contributes approximately 53.6 per cent of the State's GSDP but accounts for only 37.8 per cent of GST collection (2025-26) — a divergence of nearly 16 percentage points between the sector's share of economic output and its share of the State's largest tax head. The largest segment of the economy is, in effect, contributing tax at well below its proportionate weight.

4.15. A part of this gap is structural: financial services with restricted input credit chains, exempt categories such as education and healthcare, residential rentals, and the long tail of providers operating below the registration threshold. The residual, however, is policy and administration-driven. Shallower registration depth in services segments, classification ambiguity at the goods-services interface, and uneven compliance coverage of small and mid-sized service providers. Closing even a portion of this gap through wider registration, sharper classification protocols, and strengthened sector-specific enforcement represents a measurable revenue opportunity within the existing GST framework.

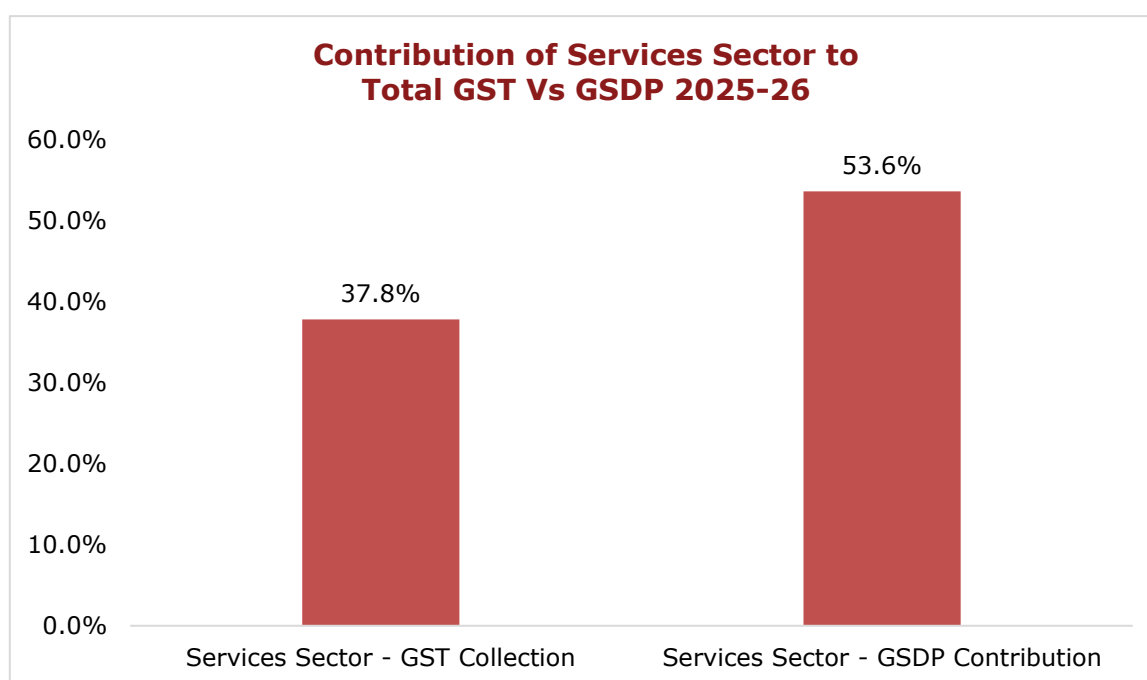


Figure 4.3: Contribution of Services Sector to Total GST vs GSDP 2025-26 (In %)

VAT on Petroleum Products

4.16. Petroleum products remain outside the GST framework, and VAT on petroleum continues to be a significant revenue source for all States. Taxes on petroleum comprise primarily of taxes on petrol and diesel, and collections under

this head have historically shown a fluctuating trend driven in large part by movements in international crude prices. As a share of GSDP, however, the trajectory has been one of decline. VAT on Petroleum has fallen from 0.96 per cent of GSDP in 2021-22 to 0.71 per cent in 2025-26 (Pre AC).

4.17. The underlying consumption pattern explains this revenue trajectory. Diesel consumption in the State stood at 750 crore litres in 2016-17, collapsed to 564 crore litres at the COVID trough of 2020-21, and has since recovered gradually to 770 crore litres in 2025-26—essentially flat in absolute terms. Petrol consumption has grown more steadily, from 312 crore litres in 2016-17 to 532 crore litres in 2025-26—a CAGR of approximately 6 per cent. Both trajectories sit well below the real GSDP growth rate of approximately 7 per cent per annum over the same period. The drivers of this volume stagnation appear to be structural: improving fuel efficiency, the growing adoption of CNG and electric vehicles, and the shift of freight traffic patterns. With the ongoing energy transition, the trajectory of this revenue head is likely to deteriorate further.

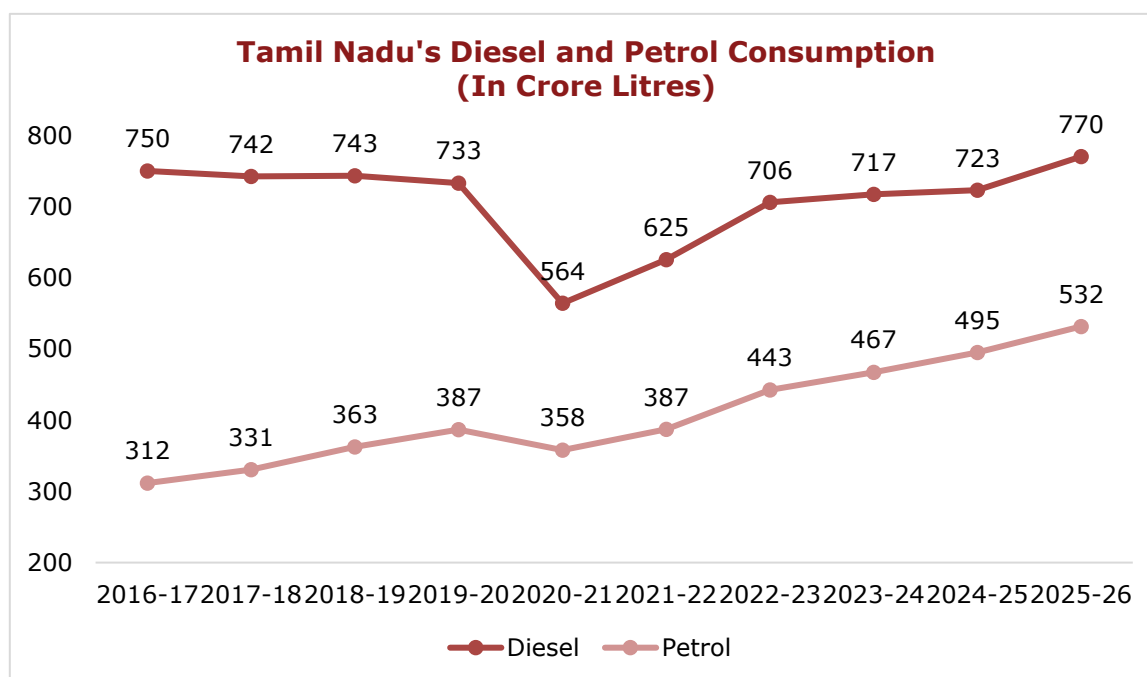


Figure 4.4: Tamil Nadu's Diesel and Petrol Consumption (In Crore Litres)

Taxes on Liquor

4.18. State Excise duties and VAT on liquor together constitute approximately 26 per cent of SoTR—a significant share that makes the performance of this head consequential for the State's overall revenue position.

4.19. The Inter-State comparison reveals the following. In 2025-26 RE, State Excise collections stood at Rs.41,000 crore in Karnataka, Rs.34,170 crore in Maharashtra, and Rs.11,836 crore in Tamil Nadu—the lowest absolute collection among the two peer States. The trajectory has not narrowed the differential. Between 2021-22 and 2025-26 RE, State Excise collections grew at a CAGR of 11.66 per cent in Karnataka, 18.69 per cent in Maharashtra, and 9.49 per cent in Tamil Nadu—the lowest pace of growth among the three. Tamil Nadu carries both the smallest excise base and the slowest pace of growth on this head among the peer States, and the revenue differential is among the largest identifiable components of the State's overall SoTR gap.

Table 4.6: State Excise – Peer State Comparison 2021-22 to 2025-26 RE (Rs. in Crore)

State	Collection during 2025-26 RE	Collection during 2021-22	CAGR from 2021-22 to 2025-26	As a % of GSDP in 2025-26 RE
Karnataka	41,000	26,378	11.66%	1.25%
Maharashtra	34,170	17,221	18.69%	0.67%
Tamil Nadu (Pre AC)	11,836	8,237	9.49%	0.34%

Source: CAG's State Finances and State Budget documents. Gujarat not compared as the state has a Prohibition policy in place.

Stamp Duty and Registration Fees

4.20. As a share of GSDP, this head stood at around 0.69 per cent at the start of the post-COVID period (2021-22) and has remained stagnant at 0.74 - 0.72 per cent of GSDP during 2022-23 to 2025-26 Pre AC. Maharashtra, Karnataka and Gujarat has seen a much higher recovery from the Covid years while Tamil Nadu's recovery has been muted. Having a very high value property market in the state, with many Urban clusters in comparison with Karnataka or Gujarat, the revenue receipts doesn't correspond to the transaction values.

4.21. The primary concern here is undervaluing the property at registration, delay in registration, excessive leakages and corruption during the registration process and appeal mechanism to fix the value of the property, all of which contributes to muted growth.

4.22. The revenue potential of this head is linked to the alignment between guideline values and market values, the efficiency of registration processes, and the depth of the formal real-estate market. Periodic revisions to guideline values have not been undertaken and the gap between guideline and market values remains significant in several property categories and geographies.

**Table 4.7: Stamp Duty & Registration Fees
Peer State Comparison 2021-22 to 2025-26 RE (% of GSDP)**

State	2021-22	2022-23	2023-24	2024-25	2025-26 RE	PP improvement (2021-22 Vs 2025-26 RE)
Maharashtra	1.13%	1.24%	1.23%	1.28%	1.33%	+0.20
Gujarat	0.54%	0.65%	0.63%	0.65%	0.66%	+0.12
Karnataka	0.70%	0.76%	0.78%	0.77%	0.76%	+0.06
Tamil Nadu (Pre AC)	0.69%	0.74%	0.71%	0.70%	0.72%	+0.03

Source: CAG's State Finances, State Budget documents and MoSPI GSDP Statement

Motor Vehicle Tax

4.23. Motor vehicle tax collections have grown from approximately Rs.5,627 crore in 2021-22 to Rs.12,488 crore in 2025-26 Pre AC. As a share of GSDP, motor vehicle tax stood at 0.35 per cent in 2025-26 Pre AC.

4.24. The State undertook a major revision in motor vehicle tax rates in November 2023, following a prolonged gap without revision. Tamil Nadu's vehicle registration base is among the largest in India; the gap between the potential and actual yield on this head is accordingly significant.

4.4 State's Own Non-Tax Revenue

4.25. Non-tax revenue encompasses a wide range of receipts — fees and user charges for government services, fines and penalties, dividends and interest from State PSUs and other entities, receipts from mines and minerals, and miscellaneous receipts. As a share of total revenue receipts, this category has been volatile with fluctuations driven largely by one-time or lumpy receipts rather than sustained improvement in underlying collections.

Mining Revenue

4.26. Mining revenue is among the most striking examples of stagnation in non-tax income. Receipts from mining — principally royalties, rents, and seigniorage fee on minor minerals — have been broadly flat across the post-COVID window, standing at approximately Rs.4,433 crore in 2025-26 (Pre AC), after the imposition of Mineral Bearing Land Tax. As a share of total revenue receipts, this represents barely 1.5 per cent.

4.27. This is not a reflection of resource scarcity. Tamil Nadu has substantial deposits of granite, limestone, sand, quartz, vermiculite, and a range of other minor minerals. The revenue potential of this head is materially larger than current collections suggest. The contributing factors have been: lack of revision in fees, leakage in the assessment of minor mineral extraction, intentional holding up of applications for extraneous reasons, inadequate enforcement against unauthorised mining, and the slow modernisation of departmental systems. The result is that the State is, in effect, foregoing significant own-source revenue from assets it owns, year after year.

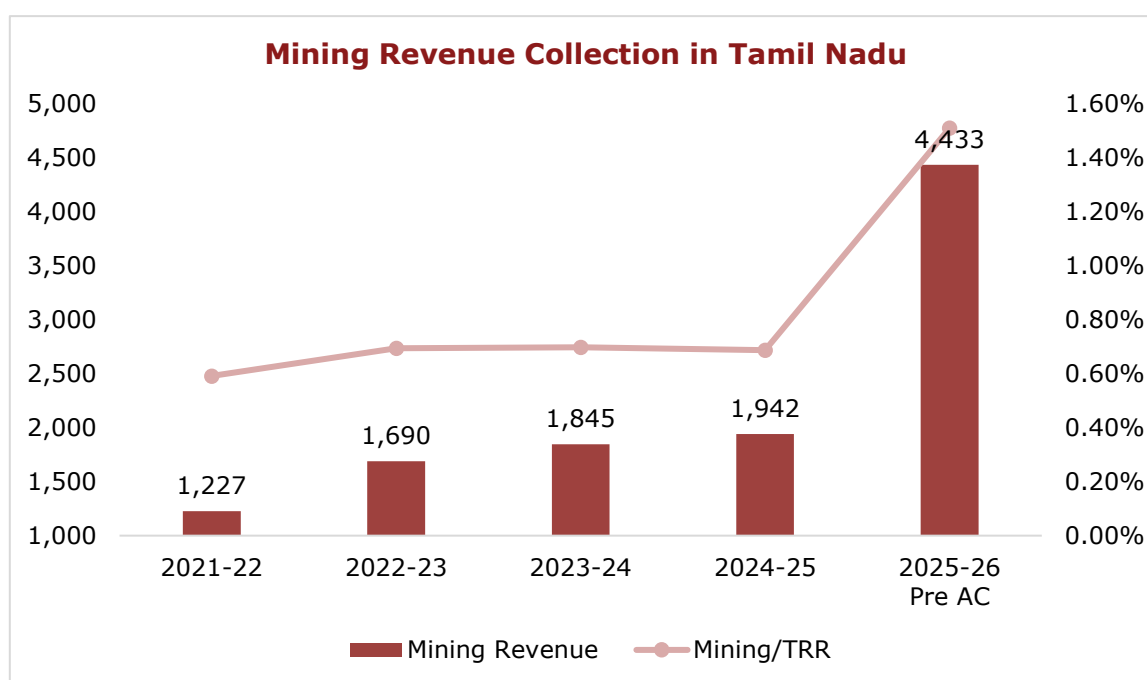


Figure 4.5: Mining Revenue Collection in Tamil Nadu, 2021-22 to 2025-26 (In Rs. & %)

4.6 Central Transfers

4.28. Central transfer trends have not favoured Tamil Nadu from the 14th Finance Commission's period. Central transfers are divided into two: Share in Central Taxes and Grants-in-Aid received from the Union Government for Centrally Sponsored Schemes. With regards to the Share in Central Taxes, Tamil Nadu's share has declined across successive Union Finance Commission awards, from approximately 6.64 per cent under the Tenth Finance Commission to 4.097 per cent under the Sixteenth—a cumulative reduction of approximately 38 per cent.

4.29. For a State that contributes more than 9 per cent of the national economy and has a population of more than 6 per cent of the country, a meagre 4 per cent share in tax devolution is found to be wanting. In the last two Finance Commissions, the share has remained almost stagnant but has yet not compensated the calamitous reduction received in the 14th Finance Commission, when the share fell from 4.969 to 4.023 per cent. This is further compounded by the fact that the cess and surcharges are increasingly becoming a greater share of the Gross Tax Revenues of the Union Government resulting in a denial of the shareable tax resources with the State Governments.

4.30. When compared to the peer States, the CAGR in Share in Central Taxes from 2021-22 to 2025-26 has been the lowest for Tamil Nadu.

Table 4.8: CAGR of Share in Central Taxes

State	Devolution in 2021-22 (Rs. in Crore)	Devolution in 2025-26 (RE) (Rs. in Crore)	CAGR
Maharashtra	54,318	87,994	12.82%
Gujarat	31,106	48,448	11.71%
Karnataka	33,284	50,802	11.15%
Tamil Nadu (Pre AC)	37,459	56,819	10.98%

Source: CAG's State Finances and Union Budget documents

4.31. With regards to Grants-in-Aid, the reduction was primarily due to cessation of the GST compensation cess in 2022. The CAGR of grants-in-aid from 2021-22 to 2025-26 PreAC has been approximately -15.26 per cent, the lowest among the peer group. This reflects the lack of revision of Union unit costs, which has increasingly put the burden of implementation of Centrally Sponsored Schemes on to the State Governments.

Table 4.9: CAGR of Grants-in-Aid

State	Grants-in-Aid in 2021-22 (Rs. in Crore)	Grants-in-Aid in 2025-26 (RE) (Rs. in Crore)	CAGR
Maharashtra	38,760	68,000	+15.09%
Gujarat	24,028	22,036	-2.14%
Karnataka	29,962	16,000	-14.52%
Tamil Nadu (Pre AC)	35,051	18,078	-15.26%

Source: CAG's State Finances and State Budget documents

4.32. Central tax devolution and grants-in-aid together constituted approximately 34.95 per cent of Total Revenue Receipts in 2021-22 and 25.5 per cent in 2025-26 Pre AC. When compared to the peer States, the growth in central transfers has been among the lowest for the State, which continues to be a cause of concern.

4.7 What the Revenue Collapse Means for Tamil Nadu's Citizens

4.33. The technical language of SoTR-to-GSDP ratios and tax buoyancy can obscure the practical consequences of the revenue collapse. In concrete terms, the decline documented in this chapter means the following:

4.34. **Every new programme requires new borrowing.** Because the State's revenue effort has declined, there is no natural growth in fiscal space from economic expansion. A State whose tax-to-GSDP ratio is rising can fund new programmes from the revenue dividend of growth. A State whose ratio is falling must borrow for every new commitment, compounding the debt dynamics examined in Chapter 2.

4.35. **The State's fiscal autonomy is diminishing.** While the State is fighting for fiscal autonomy and greater share in the devolution of Union taxes, its efforts in augmenting the Own Tax Revenues, under all the major components, i.e., GST, taxes on Liquor and Fuel, Registration and Motor Vehicles on which it has effective control, has been dismal. This weakens the State's negotiating position and undermines the credibility of its claims for greater fiscal space.

4.36. **The burden falls on the next generation.** Revenue that is not collected today becomes debt that must be serviced tomorrow. The Rs.1.23 lakh crore annual revenue gap (at the 2006-07 SoTR-to-GSDP ratio) is not a one-time loss; it is a recurring annual shortfall that accumulates into a permanent debt burden. The inter-generational transfer—from today’s beneficiaries of government services to tomorrow’s taxpayers who will service the resulting debt—is the defining fiscal inequity of the period under review.

4.37. **The correction is achievable through hard reforms.** The revenue gap is not the result of structural economic limitation. Tamil Nadu has the second largest GSDP in India after Maharashtra, a diversified industrial and services economy, and a large formal-sector tax base. Closing the gap requires administrative reform particularly in controlling systemic corruption in revenue earning departments, compliance enforcement, guideline value rationalisation, and—critically—the will to balance welfare schemes and Capital Expenditure with Additional Resources Mobilization through cutting down on leakages and corruption which shall not put additional burden on the people. The expenditure side of this equation is examined in the chapters that follow.

CHAPTER 5

Committed Expenditure and Crowding out of Development

Chapter 5: Committed Expenditure and Crowding out of Development

5.1 The Concept

5.1. Committed expenditure is the sum of three components that the State Government must pay regardless of its policy priorities or fiscal circumstances: salaries to serving employees, pensions to retired employees, and interest on outstanding debt. These three items cannot be deferred, reduced through administrative efficiency, or redirected to other purposes in the short run. They represent the irreducible minimum that the Government must meet before a single rupee can be allocated to new schemes, capital projects, social programmes, or emergency response.

5.2. Tamil Nadu's committed expenditure ratio has moved in an adverse direction over the post-COVID window. In 2021-22, committed expenditure absorbed approximately 60 per cent of total revenue receipts. By 2025-26 Pre AC, the ratio has risen to approximately 64 per cent. The trajectory is clear, the direction is adverse, and the drivers are structural rather than cyclical.

5.2 Trajectory of Committed Expenditure

5.3. The aggregate trajectory of committed expenditure tells a story of relentless upward pressure on fiscal space. In absolute terms, committed expenditure has risen from Rs.1,25,375 crore in 2021-22 to Rs.1,89,115 crore in 2025-26 PreAC—a 51 per cent increase over five years. As a share of total revenue receipts, the ratio has moved from approximately 60 per cent to 64 per cent.

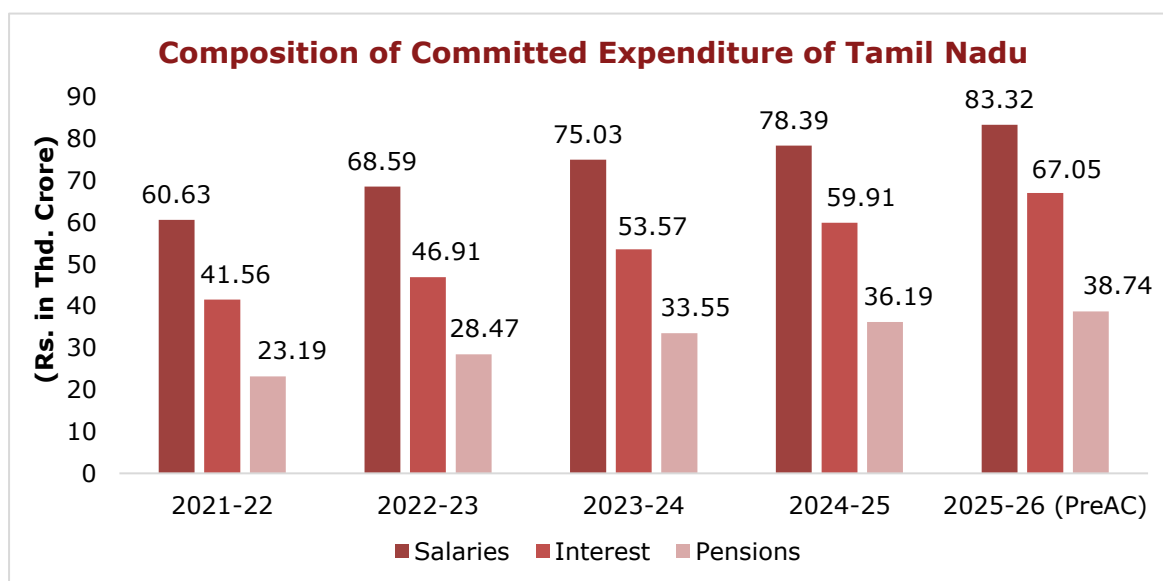


Figure 5.1: Composition of Committed Expenditure of Tamil Nadu 2021-22 to 2025-26 Pre AC (Rs. in Thd. Crore)

Table 5.1: Composition of Committed Expenditure (CE) of Tamil Nadu 2021-22 to 2025-26 Pre AC (Rs. in Thousand Crore)

Year	Salaries	Pensions	Interest	Total CE	TRR	CE/TRR (%)
2021-22	60.63	23.19	41.56	125.37	207.49	60.4%
2022-23	68.59	28.47	46.91	143.97	243.75	59.1%
2023-24	75.03	33.55	53.57	162.15	264.60	61.3%
2024-25	78.39	36.19	59.91	174.49	282.83	61.7%
2025-26 (PreAC)	83.32	38.74	67.05	189.11	293.76	64.4%

Source: Tamil Nadu Budget documents

5.3 Component-Wise Analysis

5.4. The three components of committed expenditure have followed distinct trajectories, and understanding each is essential to any strategy for restoring fiscal flexibility.

Salaries

5.5. The salary bill of the State reflects its large public sector workforce, particularly in education, healthcare, and policing. Historically, Tamil Nadu has absorbed employees from aided institutions into the State sector, further increasing the salary burden. Periodic pay commission awards have resulted in sudden spikes in expenditure, placing additional strain on the budget. Salary expenditure has risen from Rs.60,630 crore in 2021-22 to Rs.83,320 crore in 2025-26 Pre AC — a 37 per cent increase over five years. As a share of total revenue receipts, salaries have remained in the range of 28 to 29 per cent across the post-COVID window.

5.6. Tamil Nadu's salary expenditure per capita (Rs.10,141 in 2024-25) is the second highest among large States after Maharashtra (Rs.10,893). This reflects the State's deliberate policy of provincialisation—the absorption of employees in schools, hospitals, and other social sector institutions into the Government payroll to ensure consistent service quality. The policy has delivered tangible human development outcomes, but it carries a fiscal cost that is embedded in the committed expenditure structure and grows with each pay commission cycle.

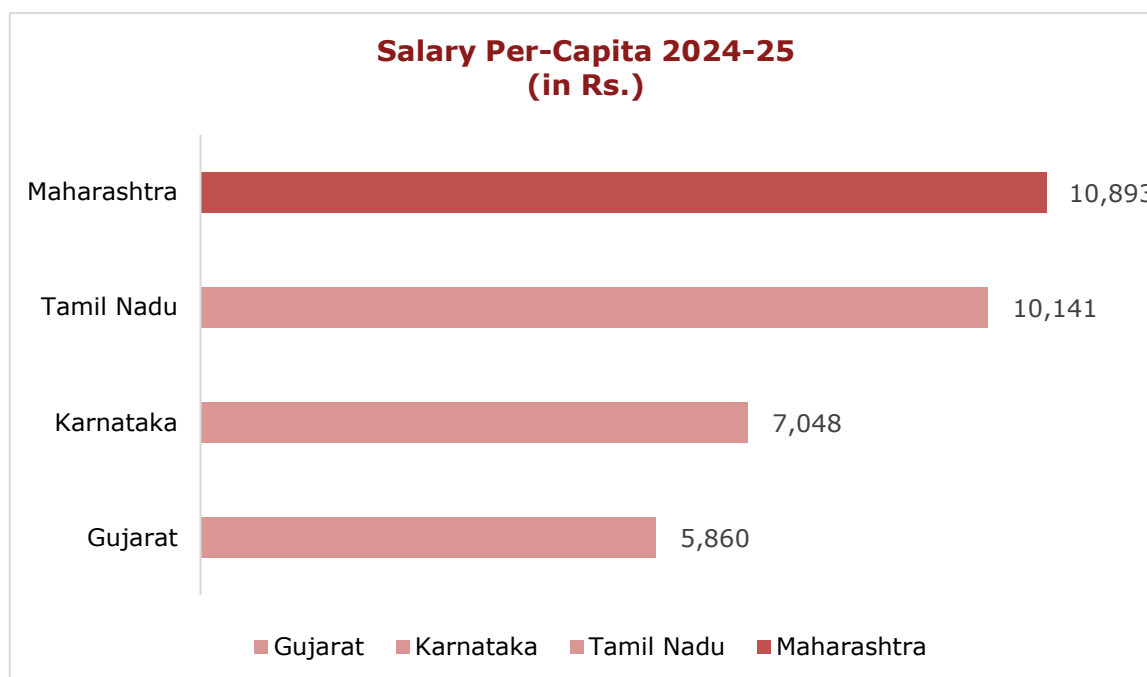


Figure 5.2 : Salary per-capita – Peer State comparison (in Rs.)

Pensions

5.7. Pension expenditure has risen from Rs.23,185 crore in 2021-22 to Rs.38,745 crore in 2025-26 Pre AC — a 67 per cent increase in five years. Tamil Nadu has the highest pension expenditure per capita (Rs.4,682 in 2024-25) among large States, reflecting a large retired Government workforce and historically generous pension terms under the Old Pension Scheme.

5.8. The pension trajectory has been altered by the introduction of the Tamil Nadu Assured Pension Scheme (TAPS) from January 2026, which replaced the Contributory Pension Scheme (CPS) that had been in place since 2003. TAPS provides an assured pension of 50 per cent of last drawn basic pay plus DA to eligible Government employees, with the Government bearing the full shortfall between accumulated contributions and assured liabilities. The transition entails a one-time bridge financing requirement estimated at approximately Rs.13,000 crore and recurring additional contributions estimated at Rs.5,000 crore per annum, growing at approximately 10 per cent thereafter. While TAPS addresses a legitimate demand from Government employees, its fiscal impact adds a new structural layer to the already-rising pension trajectory.

Interest Payments

5.9. As discussed in Chapter 2, interest payments are the fastest-growing and, from a policy perspective, the most intractable component of committed expenditure. Unlike salaries and pensions, which can be influenced (over time) through recruitment policy, retirement age, and pension framework design, interest payments are a function of two variables that are largely locked in: the stock of outstanding debt and the weighted average interest rate on that stock. Given that approximately 90 per cent of Tamil Nadu’s borrowing is through market loans at prevailing SDL yields, the interest bill is essentially determined by past borrowing decisions and cannot be significantly reduced without reducing the debt stock itself.

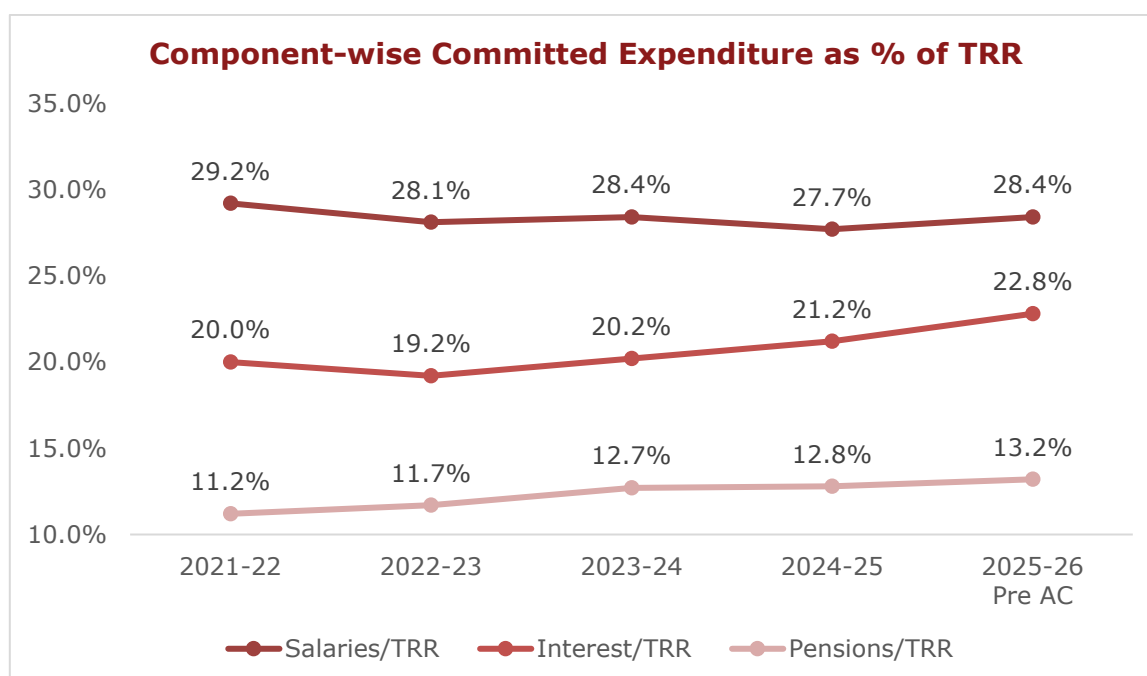


Figure 5.3: Component-wise Committed Expenditure as a % of Total Revenue Receipts

5.4 Peer State Comparison

5.10. The Inter-State comparison on committed expenditure places Tamil Nadu in uncomfortable company. Among the other States, the comparison for 2024-25 is as follows:

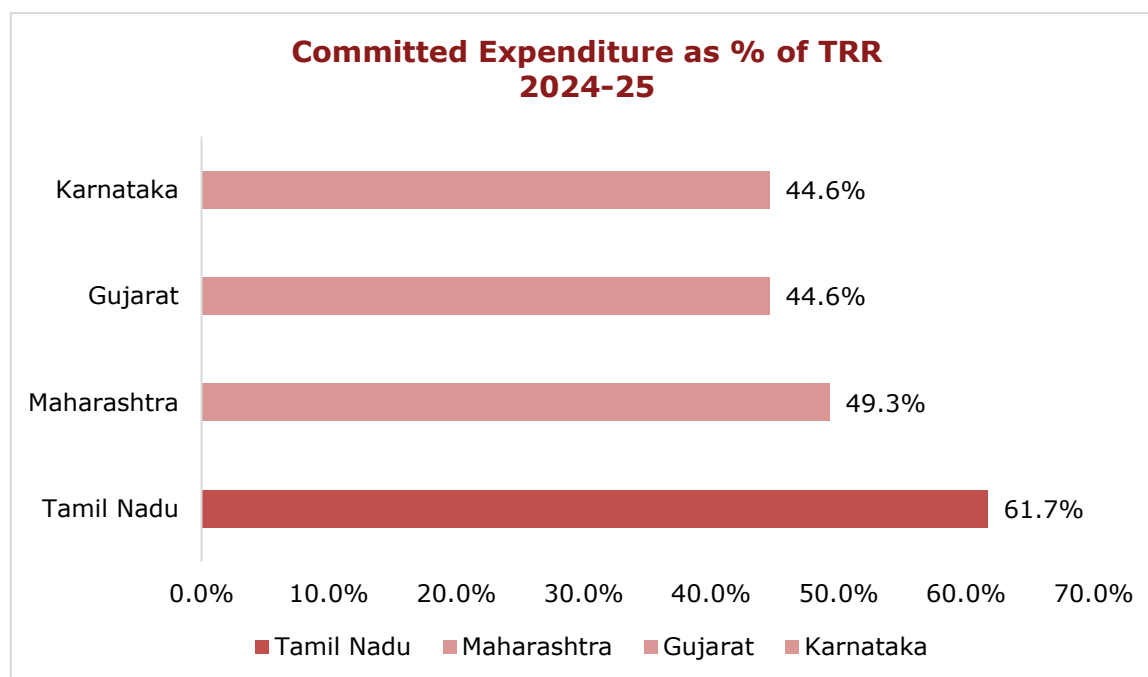


Figure 5.4: Committed Expenditure as % of TRR — Peer State Comparison 2024-25

Table 5.2: Committed Expenditure - Peer State Comparison 2024-25

State	Committed Exp. (Rs. in Crore)	Committed Exp. as % of TRR	Discretionary Residual (%)
Karnataka	1,15,048	44.6%	55.4%
Gujarat	97,447	44.6%	55.4%
Maharashtra	2,37,615	49.3%	50.7%
Tamil Nadu	1,74,488	61.7%	38.3%

Source: State Budget documents and State Finance Accounts

5.11. Karnataka Gujarat, and Maharashtra maintain committed expenditure below 50 per cent of revenue receipts, retaining approximately half their revenue for discretionary allocation. **Tamil Nadu's committed expenditure ratio of 64.4 per cent (Pre AC 2025-26) places it at a position higher than to its traditional peer group.** This is a structural shift in Tamil Nadu's comparative fiscal position. The States it economically resembles—the industrialised, high-per-capita-income States—maintain materially lower committed expenditure ratios, and the gap has widened over the analytical window.

5.5 Beyond Committed Expenditure: Inflexible Obligations

5.12. The committed expenditure ratio documented above—64 per cent of total revenue receipts in 2025-26 PreAC—does not, by itself, reveal the full extent of budgetary rigidity. Beyond salaries, pensions and interest, the State Budget carries a second layer of obligations that are, for all practical purposes, equally inflexible. These may be termed *non-discretionary expenditure*: items that the Government is bound to incur by statute, by constitutional mandate, by Union Government conditionality, or by the structural logic of programmes already in operation. They cannot be deferred, reduced or redirected without legal consequence, institutional disruption, or default on inter-governmental obligations.

5.13. Six categories of expenditure fall within this non-discretionary layer. **First**, grants to local bodies on the recommendations of State Finance Commissions and the Union Finance Commission are statutory transfers; the quantum is determined by independent constitutional bodies and the State Government is obligated to release them. **Second**, statutory disbursements—including assignment of revenues and sharing of seigniorage fees with local bodies—flow from legislative provisions that the Government cannot unilaterally alter. **Third**, the State's matching share in Centrally Sponsored Schemes is a condition of receiving the Union share; failure to release it results in the forfeiture of central funds, making the expenditure effectively compulsory. **Fourth**, certain expenditures mandated by Union Government guidelines including regulatory compliance, judicial orders, election-related costs must be incurred regardless of the State's fiscal position. **Fifth**, disaster management expenditure under the State Disaster Response Fund is governed by Union norms and cannot be withheld. **Sixth**, the Government's contribution to the pension scheme—initially the Defined Contributory Pension Scheme, and from January 2026 the Tamil Nadu Assured Pension Scheme—is a contractual obligation to serving employees that represents a growing and irreversible claim on the revenue account.

5.14. **Together, these non-discretionary obligations constitute what may properly be called the inflexible expenditure of the State.** When added to committed expenditure, they define the true pre-committed share of the Budget—the portion that is, in substance, spent before the annual Budget exercise begins.

The discretionary fiscal space available to the Government is, accordingly, significantly smaller than the approximately 36 per cent of revenue receipts that remains after committed expenditure alone. Once statutory grants, scheme-matching obligations, disaster provisions and pension contributions are accounted for, the residual available for genuinely discretionary allocation—new programmes, additional capital works, emergency response, maintenance of public assets—contracts sharply.

5.15. This is the cascading squeeze that defines Tamil Nadu's current fiscal reality, and its dimensions are now measurable. The first layer—committed expenditure—takes approximately 64 per cent of every rupee of revenue receipts in 2025-26 Pre AC. The second layer—the inflexible non-discretionary obligations described above takes another 23 per cent in 2025-26. The two layers combined now account for approximately 87 per cent of revenue receipts. What remains is the narrow residual within which the Government must accommodate every competing priority: subsidies for food, social welfare transfers, scheme outlays across health, education and housing, grants for creation of capital assets, and the maintenance of an enormous stock of public infrastructure. Each of these claims is, individually, defensible. Collectively, they exceed the residual.

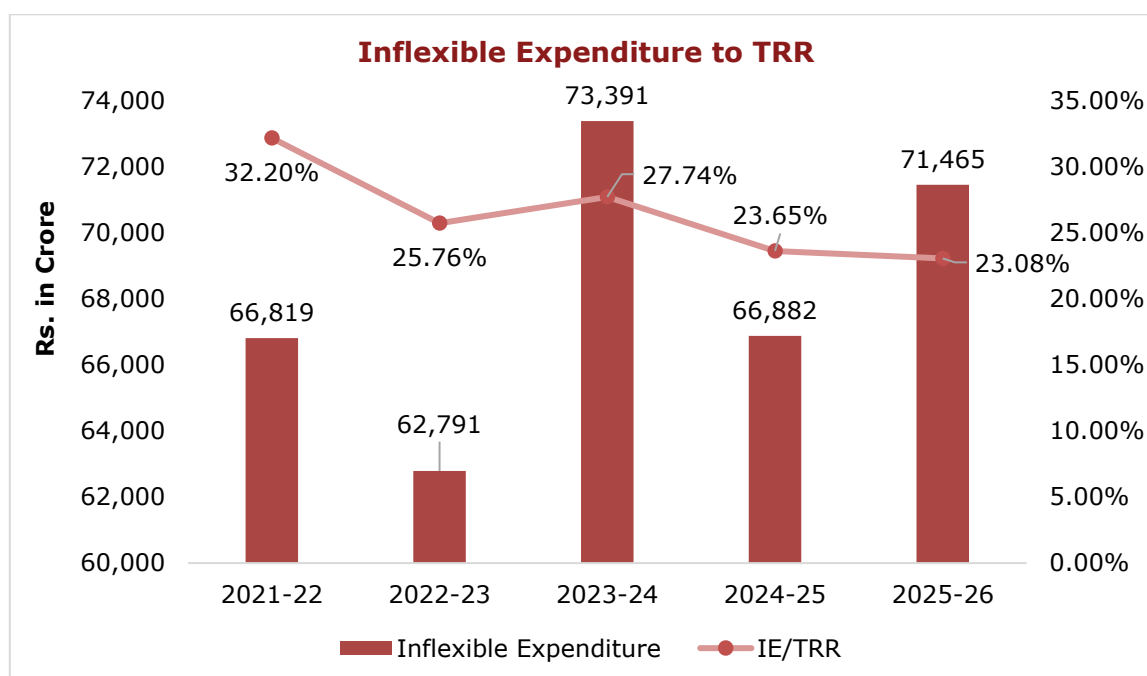


Figure 5.5: Inflexible Expenditure to TRR 2021-22 to 2025-26 Pre AC (Rs. in Crore and %)

5.16. The effective discretionary space was wider both in ratio terms and in the range of policy choices it could accommodate. A Government with genuine fiscal headroom can respond to drought, absorb a revenue shortfall, launch a new industrial incentive, or front-load infrastructure investment. A Government operating within the margin that Tamil Nadu now occupies cannot do any of these without expanding its borrowing—which, in turn, feeds back into the interest component of committed expenditure and further narrows the residual in the following year.

5.17. The distinction between committed and non-discretionary expenditure is, ultimately, a distinction without a practical difference from the standpoint of budgetary flexibility. Both are, in substance, pre-committed. Together, they define the degree of freedom—or the absence of it—that the Government carries into each fiscal year.

5.6 Crowding Out in Practice

5.18. The concept of ‘crowding out’ describes a situation in which debt service and other non-discretionary commitments absorb such a large share of available resources that productive developmental expenditure is squeezed. Tamil Nadu’s experience over the fifteen-year window provides a textbook illustration of this phenomenon.

Capital Expenditure as a Share of GSDP

5.19. The aggregate trajectory of capital expenditure as a share of GSDP tells a story of sustained under-investment relative to the State’s economic growth and, critically, relative to the growth in its debt stock.

5.20. In 2021-22, capital expenditure stood at Rs.37,011 crore, equivalent to 1.79 per cent of GSDP. By 2025-26 Pre AC, it has risen to Rs.50,911 crore — but the GSDP ratio has fallen further to 1.44 per cent. Over the same five-year period, outstanding liabilities have risen from Rs.5.13 lakh crore to Rs.10 lakh crore. Debt has grown at approximately 14.3 per cent CAGR across the window; capital expenditure has grown at approximately 8.3 per cent CAGR — well below nominal GSDP growth.

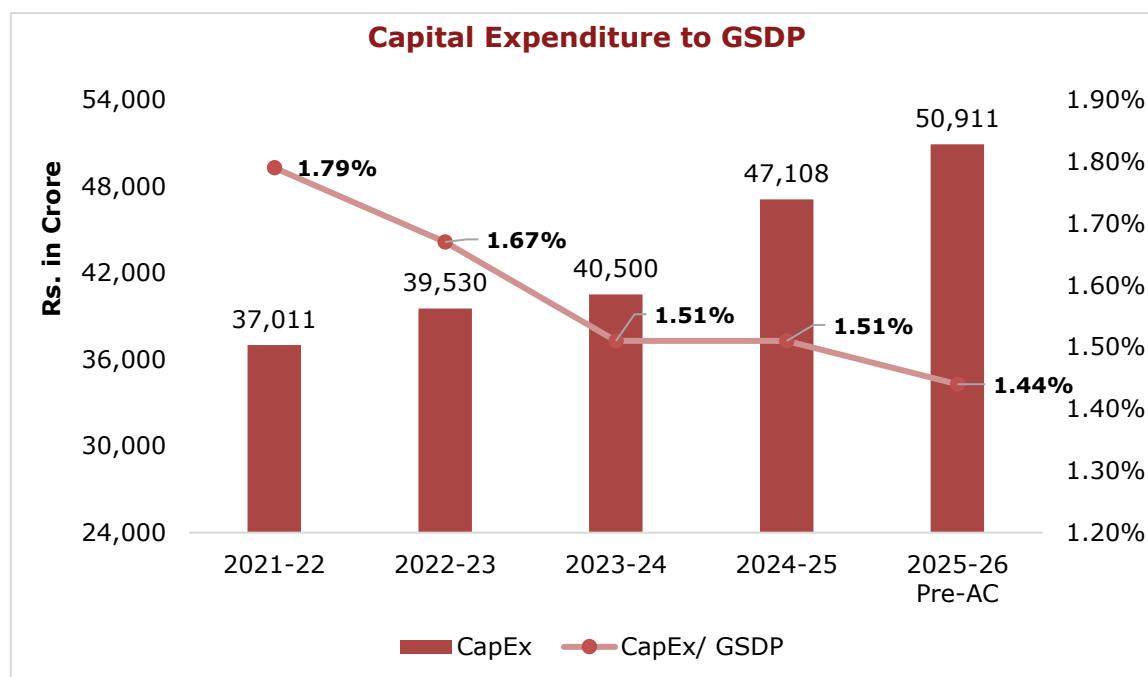


Figure 5.6: Capital Expenditure to GSDP 2021-22 to 2025-26 Pre AC (Rs. in Crore and %)

Table 5.3: Capital Expenditure – 2021-22 to 2025-26 Pre AC

Year	CapEx (Rs. in Crore)	CapEx/ GSDP (%)	Debt Stock (Rs. in Lakh Crore)	Debt/ GSDP (%)
2021-22	37,011	1.79%	5.96	28.8%
2022-23	39,530	1.67%	6.77	28.5%
2023-24	40,500	1.51%	7.58	28.2%
2024-25	47,108	1.51%	8.54	27.4%
2025-26 Pre AC	50,911	1.44%	10.00	28.3%

Source: Tamil Nadu Budget documents, MoSPI GSDP Statement

5.7 Peer State Comparison

5.21. The peer comparison on capital expenditure is among the most unfavourable for Tamil Nadu. The metric used is capital expenditure as a share of total expenditure—a measure that captures the priority assigned to investment within the State’s overall spending envelope.

5.22. In 2025-26 RE, the comparison reads as follows: Gujarat allocates 26.8 per cent of total expenditure to capital formation; Karnataka allocates 17 per cent; Maharashtra allocates 13 per cent; and Tamil Nadu allocates

11.8 per cent (Pre AC). **Tamil Nadu ranks last among the four benchmarked States on this metric.** This is a reversal from the start of the window, when Tamil Nadu’s capital expenditure share was comparable to Karnataka’s and above Maharashtra’s.

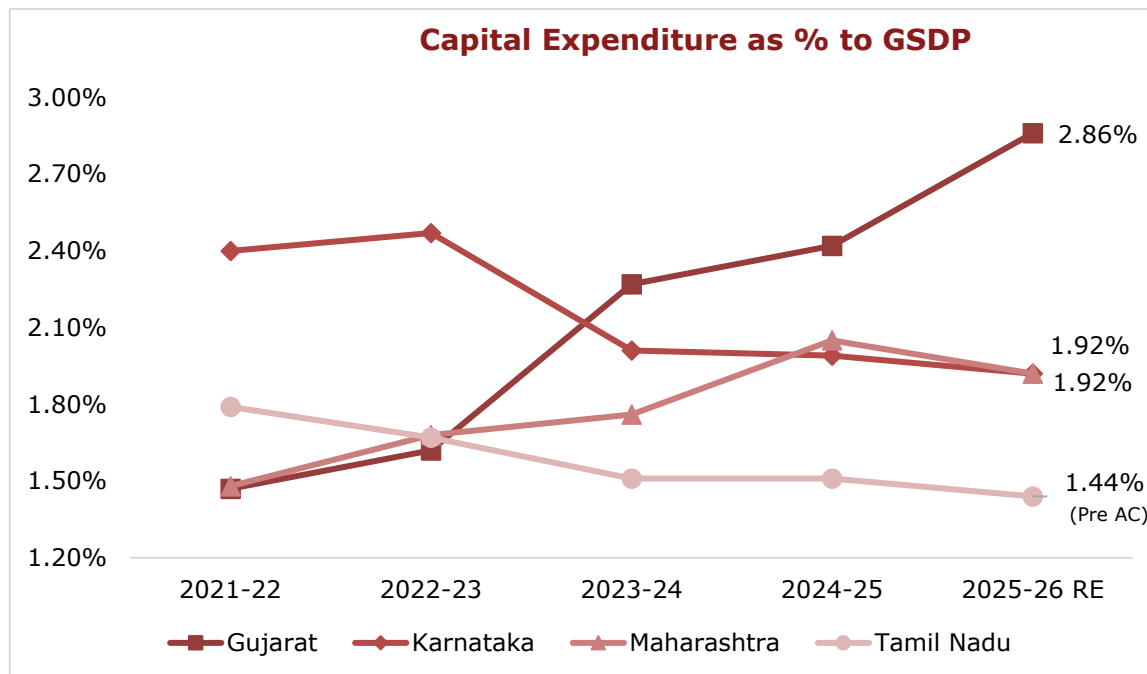


Figure 5.7: Capital Expenditure as a % GSDP — Peer State Comparison

Table 5.4: Capital Expenditure — Peer State Comparison 2025-26 RE

State	CapEx as % of Total Expenditure	CapEx / GSDP (%)
Gujarat	26.8%	2.86%
Karnataka	17.0%	1.92%
Maharashtra	13.0%	1.92%
Tamil Nadu (Pre AC)	11.8%	1.44%

Source: RBI - Handbook of Statistics on Indian Economy and State Budget documents

Development Expenditure: Tamil Nadu vs Peer States – A Comparison

5.23. Development expenditure—which includes both capital and revenue spending on developmental heads such as education, health, agriculture, and infrastructure—as a share of total revenue receipts has also been declining relative to the peer States.

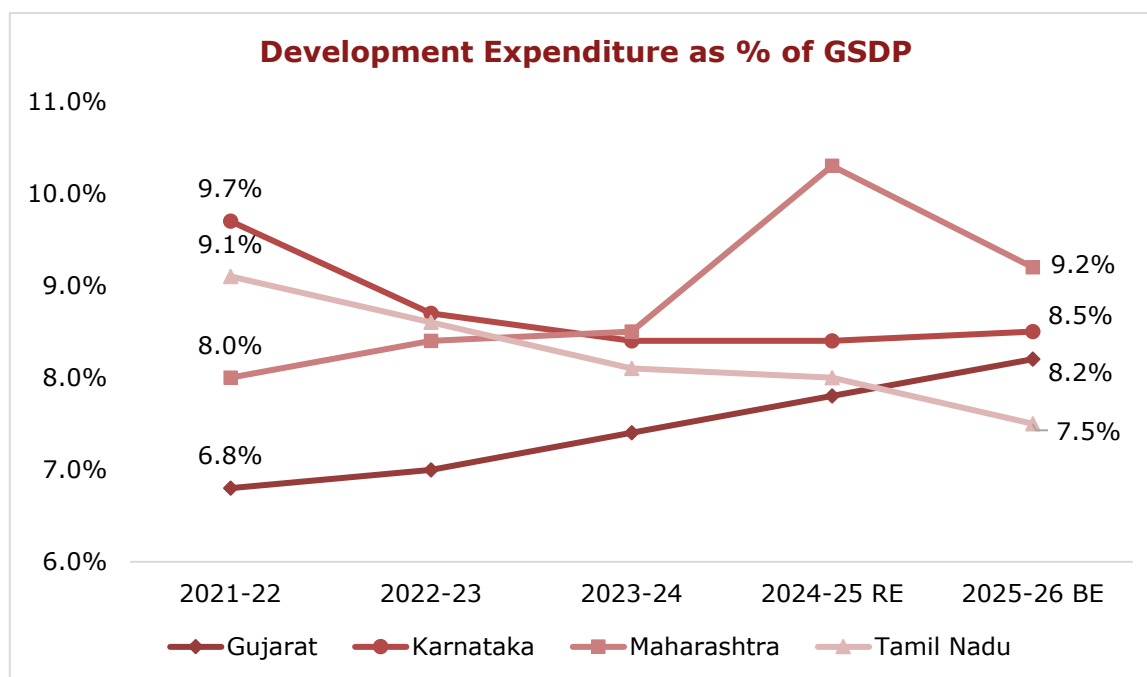


Figure 5.8: Development Expenditure as % of GSDP - Peer State Comparison 2021-22 to 2025-26 BE
(Source : State Finances : A Study of Budgets)

5.24. In 2025-26, Tamil Nadu’s development expenditure as a percentage of GSDP stands at 7.5 per cent, compared to the above 8 per cent expenditure by the Peer States. While this gap may appear modest in percentage terms, in absolute terms it represents thousands of crores of developmental spending that is being foregone relative to the national norm—spending on roads, hospitals, schools, water supply, and agricultural infrastructure that the State’s citizens are not receiving.

5.8 What Budget Rigidity Forecloses

5.25. The practical consequences of a committed expenditure ratio approaching two-thirds of revenue receipts are not abstract. They manifest in the day-to-day functioning of Government and in the State’s capacity to respond to evolving circumstances.

5.26. **No fiscal space for new schemes without borrowing.** Every new programme—whether a social welfare scheme, an infrastructure project, or an industrial incentive package—requires either a reduction in existing expenditure or an expansion of fiscal deficit. On a committed expenditure ratio of 64 per cent in 2025-26, with existing welfare schemes, subsidies and transfers consuming a further significant share, the residual available for new initiatives is insufficient to fund any programme of consequence without additional borrowing.

5.27. Capital expenditure is permanently squeezed. As documented in Chapter 6, the State's capital expenditure has declined to 1.44 per cent of GSDP. This decline is a direct consequence of budget rigidity: after committed expenditure and subsidies are funded, the residual is too small to support meaningful capital formation without borrowing—and the borrowing itself feeds back into the interest component of committed expenditure, creating a self-reinforcing cycle.

5.28. Infrastructure deficit. Tamil Nadu's capital expenditure of 1.44 per cent of GSDP in 2025-26 Pre AC is well below the level required to maintain and expand the State's infrastructure base. The State aspires to become a \$1.5 trillion economy by 2036; achieving that target requires sustained public investment in urban infrastructure, industrial corridors, water security, climate resilience, and connectivity. The current trajectory of capital expenditure does not support that aspiration.

5.29. Declining competitiveness for private investment. Private investment follows public infrastructure. States that invest more in roads, power, water, and industrial parks attract more private capital. Tamil Nadu's declining capex-to-GSDP ratio, if sustained, will erode its competitive position in the Inter-State contest for investment.

5.30. Counter-cyclical fiscal policy is unavailable. In the event of an economic downturn—whether from a global recession, a regional drought, a pandemic, or an industrial disruption—the standard fiscal response is to increase public expenditure to support demand. A State with 50 per cent committed expenditure has the headroom to mount such a response. A State with 64 per cent does not. Tamil Nadu's capacity to respond to the next economic shock is constrained by the fiscal rigidity documented in this chapter.

5.31. The quality of expenditure is not an abstract fiscal concept. It determines whether borrowed money creates value for citizens or merely shifts the bill to their children. On the evidence examined in this chapter, Tamil Nadu's expenditure quality has deteriorated significantly over the post-COVID window, with the steepest decline occurring from 2023-24 onward. The restoration of expenditure quality—through revenue mobilisation, committed expenditure management, PSU reform, and a deliberate reallocation toward genuine capital formation both physical and human capital—is among the most urgent fiscal priorities facing this Government.

CHAPTER 6

Fiscal Deficit and Fiscal Responsibility Compliance

Chapter 6: Fiscal Deficit and Fiscal Responsibility Compliance

6.1 The Tamil Nadu Fiscal Responsibility Act, 2003

6.1. The Tamil Nadu Fiscal Responsibility Act, 2003 (TNFR Act) as amended from time to time, established binding targets for three fiscal parameters: fiscal deficit as a percentage of GSDP, revenue deficit, and outstanding debt as a percentage of GSDP. Its purpose was to impose institutional discipline on the State's borrowing and spending decisions—to ensure that the political incentive to borrow for current consumption was checked by a statutory obligation to maintain fiscal sustainability.

6.2. The principal targets, as established through the 2004 amendment and subsequently modified, are as follows. **Fiscal deficit** is capped at 3 per cent of GSDP—the threshold beyond which the State is considered to be borrowing at a rate that risks long-term sustainability. **Revenue deficit** is to be progressively eliminated, with the target date for zero revenue deficit having been extended multiple times—most recently to 2026-27. **Outstanding debt** is capped at 25.2 per cent of GSDP from 2014-15 and thereafter maintain such per cent as may be prescribed.

6.3. The TNFR Act was, at the time of enactment, a credible commitment device. Tamil Nadu was among the early adopters of fiscal responsibility legislation, and the State's fiscal performance in the first decade after enactment was broadly consistent with the Act's targets. The story of the subsequent decade, however, is one of progressive divergence between statutory commitments and fiscal outcomes—a divergence managed not by corrective action but by repeated amendment of the targets themselves.

6.2 Fiscal Deficit Trajectory

6.4. The trajectory of Tamil Nadu's fiscal deficit across the five-year post-COVID window is characterised by a persistent failure to consolidate below the 3 per cent TNFR Act ceiling.

6.5. The Post-COVID Record (2021-22 to 2025-26): The fiscal deficit has remained above the 3 per cent Fiscal Responsibility ceiling in every year of the post-COVID window. Beginning at 3.56 per cent in 2021-22, the deficit narrowed to 3.45 per cent in 2022-23 and 3.36 per cent in 2023-24 — improvements that were modest and driven by transitional factors. The deficit was 3.25 per cent in 2024-25, and has widened to 3.77 per cent in 2025-26 Pre AC — the highest absolute fiscal deficit ever recorded by the State, at Rs.1,33,208 crore.

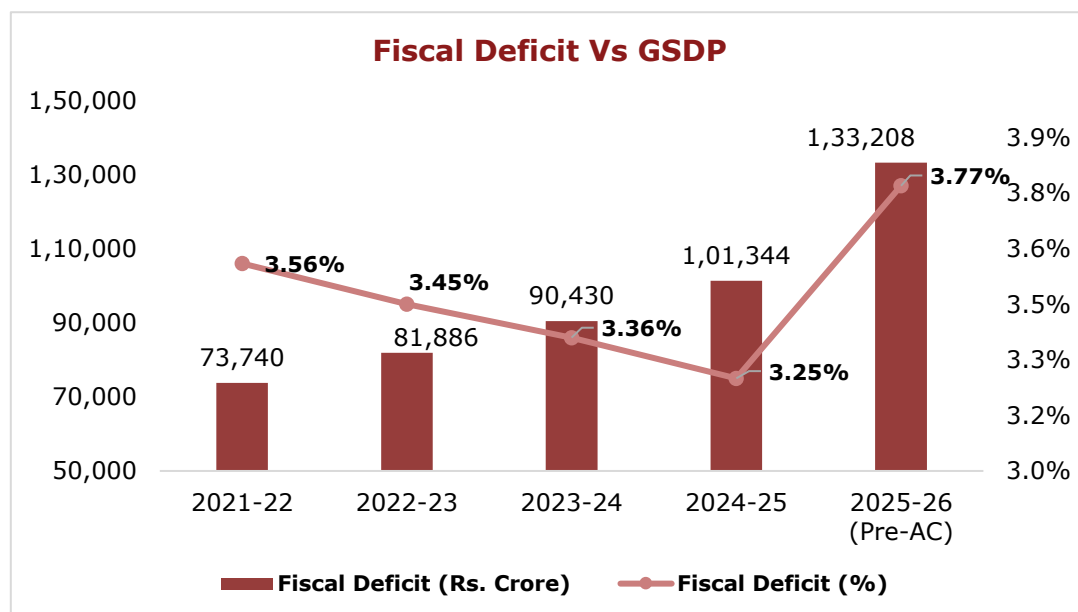


Figure 6.1: Fiscal Deficit over GSDP - 2021-22 to 2025-26 Pre AC (Rs. crore & %)

Table 6.1: Fiscal Deficit — 2021-22 to 2025-26 Pre AC

Year	Fiscal Deficit (Rs. in Crore)	GSDP (Rs. in Crore)	FD as % of GSDP	TNFRA (3% cap)
2021-22	73,740	20,72,496	3.56	Breached
2022-23	81,886	23,72,469	3.45	Breached
2023-24	90,430	26,88,963	3.36	Breached
2024-25	1,01,344	31,18,590	3.25	Breached
2025-26 (Pre AC)	1,33,208	35,29,052	3.77	Breached

Source: Tamil Nadu Budget documents and MoSPI GSDP Statement

6.3 Inter-State Comparison

6.6. The Inter-State comparison places Tamil Nadu’s fiscal deficit performance in context. Among the three benchmarked States, the position as of 2025-26 RE

is: Gujarat at 1.9 per cent of GSDP, Maharashtra at 3.0 per cent, Karnataka at 2.8 per cent, and Tamil Nadu at 3.8 per cent. Tamil Nadu is the only State in this peer group that has recorded a fiscal deficit above the 3 per cent Fiscal Responsibility ceiling in every year of the post-COVID window. Peer States that breached the ceiling during 2020-21 consolidated in the years that followed; Tamil Nadu did not.

6.7. Since COVID the peer States have recovered and maintained the fiscal deficit within the 3 per cent limit, with the exception of Karnataka, which intermittently slip to 3.3 per cent in the year 2021-22 before reverting back to the fiscal path. **Tamil Nadu’s company on the fiscal deficit metric is no longer its traditional peer group; it now sits alongside Punjab (4.2 per cent) and Kerala (3.8 per cent)—States whose fiscal stress is well documented.**

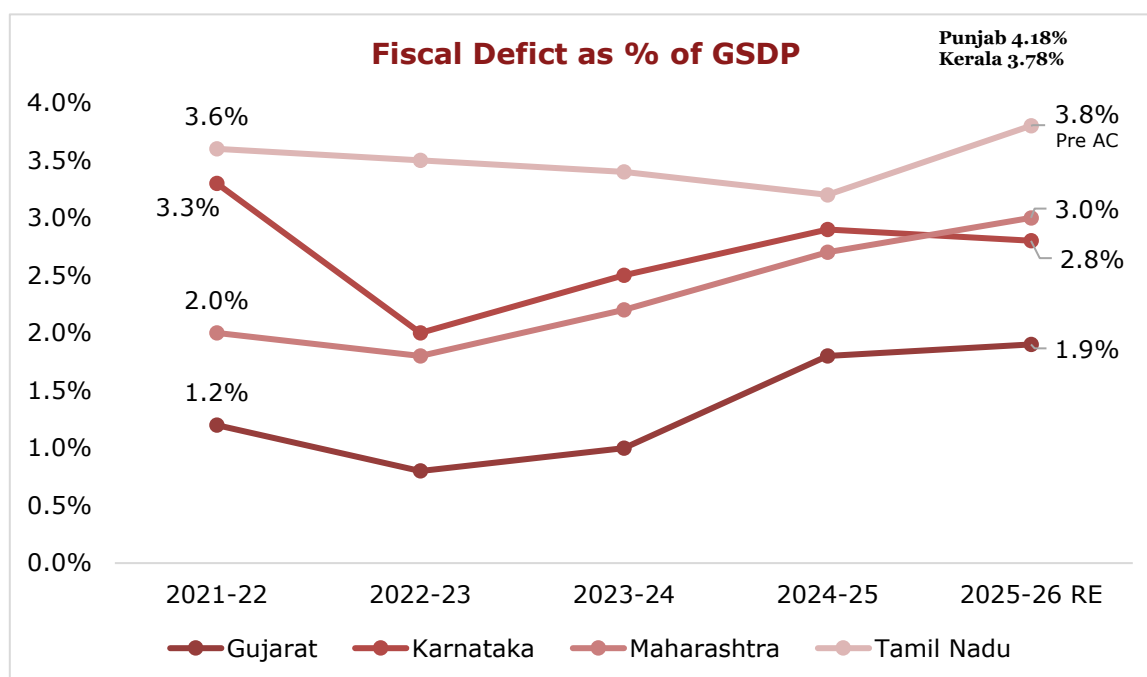


Figure 6.2: Fiscal Deficit as a % of GSDP — Peer State Comparison 2021-22 to 2025-26 RE

6.4 The Repeated Amendment Pattern

6.8. The TNFR Act has been amended thirteen times since its original enactment in 2003: in 2004, 2005, 2010, 2011, 2015, 2016, 2017, 2020, 2021, 2023, and 2025. The most consequential feature of these amendments is not the technical changes they introduced but the pattern they reveal: a systematic revision of fiscal targets in response to their imminent breach, rather than in response to any principled reassessment of the fiscal framework.

6.9. All fiscal responsibility legislation contemplates the possibility of amendment. Economic shocks, structural shifts in revenue, and exogenous pressures can legitimately necessitate a recalibration of targets. The question is not whether amendment is permissible but whether the pattern of amendment reflects genuine adaptation to changed circumstances or a repeated accommodation of violation of fiscal targets. In Tamil Nadu's case, the evidence strongly supports the latter.

6.10. The 2005 amendment targeted elimination of the revenue deficit by 2008-09. The 2010 amendment reset the target to 2011-12. The 2015 amendment pushed it further to 2016-17. The 2020 and 2021 amendments, invoking the COVID escape clause, deferred the target to 2023-24. The 2025 amendment — the most recent — extended the deadline once more, to 2026-27. The revenue deficit in 2025-26 Pre AC stands at Rs.78,324 crore, or 2.2 per cent of GSDP. That deadline, too, will be missed.

6.11. The cumulative effect of this pattern is to transform the TNFR Act from a binding fiscal constraint into an instrument for retrospective legitimation of outcomes that the Act was designed to prevent.

Table 6.2: TNFR Act Amendments — Fiscal Target History

Amendment Year	Principal Change	RD Target	FD Target	Outstanding Debt Target
2003 (Original)	RD Target & FD Cap	Reduce RD to TRR every year below 5% by 31st March 2007	2.5% of GSDP by 31st March 2007	
2004	RD Target & FD Cap reset	Reduce RD to TRR every year by 3% to 5% and below 5% by 31st March 2008	3% of GSDP 31st March 2008	
2005	RD Target & FD Target reset	Below 5% by 31st March 2008 Elimination by 2008-2009	Reduce FD to GSDP every year by 0.25% to 0.30% and not more than 3% of GSDP	

Amendment Year	Principal Change	RD Target	FD Target	Outstanding Debt Target
			by 31st March 2008	
2010 - February	RD & FD Target reset	Elimination by 2010-11	3% of GSDP by 31st March 2011	
2010 - December	RD & FD Target reset	Not exceeding 5% by 31st March 2011 Elimination by 2011-12	3% of GSDP by 31st March 2012	
2011	Introduction of Outstanding Debt Target			Total Outstanding Debt to GSDP not being more than: 24.5% during 2011-12; 24.8% during 2012-13; 25.0% during 2013-14; 25.2% during 2014-15 & thereafter maintain at such percent as may be prescribed
2015	RD Target reset	Not exceeding 5% by 31st March 2016 Elimination by 2016-2017		
2016	RD Target reset	Not exceeding 5% by 31st March 2019 Elimination by 2019-2020		
2017	FD Target reset		3% of GSDP by 31st March 2018	
2020-July	RD Target reset	Reduce RD to TRR every year by 3% to 5%		

Amendment Year	Principal Change	RD Target	FD Target	Outstanding Debt Target
		Elimination by 2021-2022		
2020 - September	FD Target reset		3% of GSDP by 31st March 2022	
2021	RD & FD Target reset	Elimination by 2023-2024	3% of GSDP by 31st March 2024	
2023	RD & FD Target reset	Elimination by 2025-2026	3% of GSDP by 31st March 2025	
2025	RD & FD Target reset	Elimination by 2026-2027	3% of GSDP by 31st March 2026	

Source: Tamil Nadu Fiscal Responsibility Act, 2003 and amendments thereto

6.5 The Debt-to-GSDP Ceiling

6.12. Sustainable public debt management requires that a government's debt stock be anchored to the size of its economy. The FRBM Review Committee (2017), chaired by N.K. Singh, recommended a debt-to-GSDP ceiling of 20 per cent for State Governments — a level reflecting long-run fiscal sustainability. Against this benchmark, Tamil Nadu's outstanding liabilities at 28.3 per cent of GSDP in 2025-26 (PreAC) represent a significant and widening departure.

6.13. Tamil Nadu's own statutory framework embodies a more liberal yet binding ceiling. The Tamil Nadu Fiscal Responsibility Act prescribes a debt-to-GSDP limit of 25.2 per cent but the outstanding liabilities stood at 28.7 per cent in that year and remained above 27 per cent in every subsequent year, reaching 28.3 per cent in 2025-26 (PreAC).

6.14. Taken together, Tamil Nadu finds itself in non-compliance with the relevant parameters: the NK Singh Committee's long-run sustainability norm of 20 per cent. Given the direction of the trajectory, it is also dangerously close to breaching the 15th Finance Commission's State-specific indicative glide path of 28.70 per cent. This matters not merely as an accounting concern but points to a structural issue of repeated non-compliance with foundational fiscal rules.

6.6 The Budget Credibility Gap

6.15. A structural concern that runs parallel to Tamil Nadu's fiscal trajectory is the systematic divergence between Budget Estimates, Revised Estimates, and Actuals across key fiscal parameters. This divergence — in revenues, expenditures, and deficit indicators — has been a recurring feature of the State's budget cycle and has been flagged by the Comptroller and Auditor General as a matter of transparency and accountability.

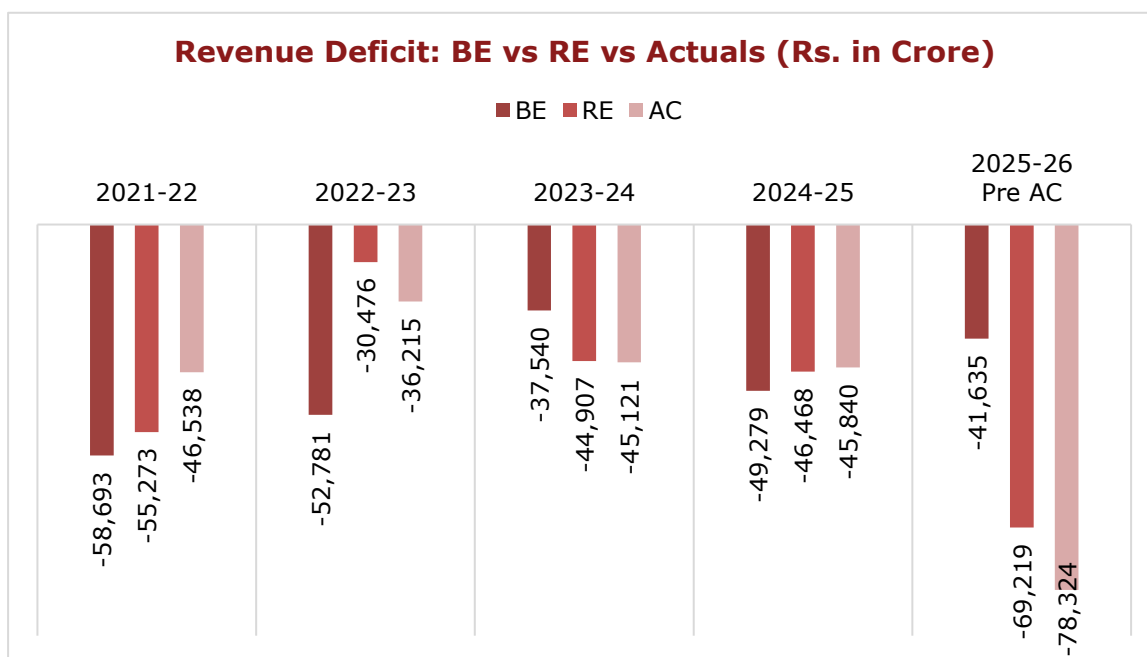


Figure 6.3: Revenue Deficit—Budget Estimate vs Revised Estimate vs Actuals (Rs. in Crore)

6.16. The pattern follows a consistent sequence. The Budget Estimate, presented to the Legislature at the commencement of the financial year, projects a fiscal position that appears broadly on track with stated consolidation objectives. As the year progresses, expenditure overshoots or revenue receipts fall short of projections, and the Revised Estimate — presented mid-year — reveals a materially different picture. When the final accounts are compiled and audited, the outcomes diverge further still from the original Budget Estimate. The cumulative effect is that the Legislature, and through it the public, is systematically presented with a more optimistic assessment of the State's fiscal position than subsequent outcomes justify. When this pattern repeats across multiple years and across multiple fiscal aggregates, it ceases to be attributable to forecasting uncertainty alone and raises more fundamental questions about the reliability of budget projections as an instrument of legislative oversight and fiscal accountability.

6.17. The revenue deficit serves as an illustration of how significant this gap can be. Since 2021-22, the revenue deficit as finally recorded in the audited accounts has exceeded the Budget Estimate by a considerable margin on two occasions with the latest one being far in excess of the initially approved amount. What is presented to the Legislature as a manageable and declining deficit has, on each occasion, resolved into outcomes substantially at variance with those projections.

CHAPTER 7

Contingent Liabilities and Worsening Health of PSUs

Chapter 7: Contingent Liabilities and Worsening health of PSU's

7.1 The Hidden Half of the Balance Sheet

7.1. The headline debt figure—Rs.10 lakh crore in 2025-26 Pre AC—captures the direct borrowings of the State Government through market loans, institutional debt, and public account liabilities. It does not capture the borrowings of State public sector undertakings, statutory boards, and special purpose vehicles that the State guarantees or implicitly supports. These liabilities are contingent liabilities attributable to the State: if the borrowing entity defaults, the State's guarantee is invoked and the liability crystallises on the State's books.

7.2. The Reserve Bank of India has flagged the growth of contingent liabilities across all State Governments. At the consolidated all-State level, contingent liabilities rose from approximately 2 per cent of GDP in 2016-17 to 3.9 per cent by March 2024. Tamil Nadu's position is among the more exposed: the State's outstanding guarantees stood at 3.7 per cent of GSDP at end-March 2021 and have since grown to reach 5.1 per cent in 2026.

7.2 Outstanding Government Guarantees

7.3. The stock of outstanding Government guarantees has grown significantly across the post-COVID window, driven by the financing needs of loss-making State PSUs and the expansion of subsidy-linked working capital requirements. The outstanding stock has risen from Rs.65,659 crore as in April 2021 to Rs.1,79,782 crore in 31st March 2026— a near three-fold increase in five years, and the highest absolute exposure ever recorded by the State. The guarantee to GSDP ratio has risen from 3.7 per cent in March 2021 to 5.1 per cent in 2025-26. Tamil Nadu is now among the States with the highest guarantee exposure relative to economic output.

7.4. The Tamil Nadu Fiscal Responsibility Act, 2003 mandates to cap the outstanding guarantees to hundred percent of the total revenue receipts in the preceding year or at ten percent of GSDP, whichever is lower. As we will see in

the next two paras, the outstanding guarantees are rising in closing down on the fiscal cap placed through the FR Act.

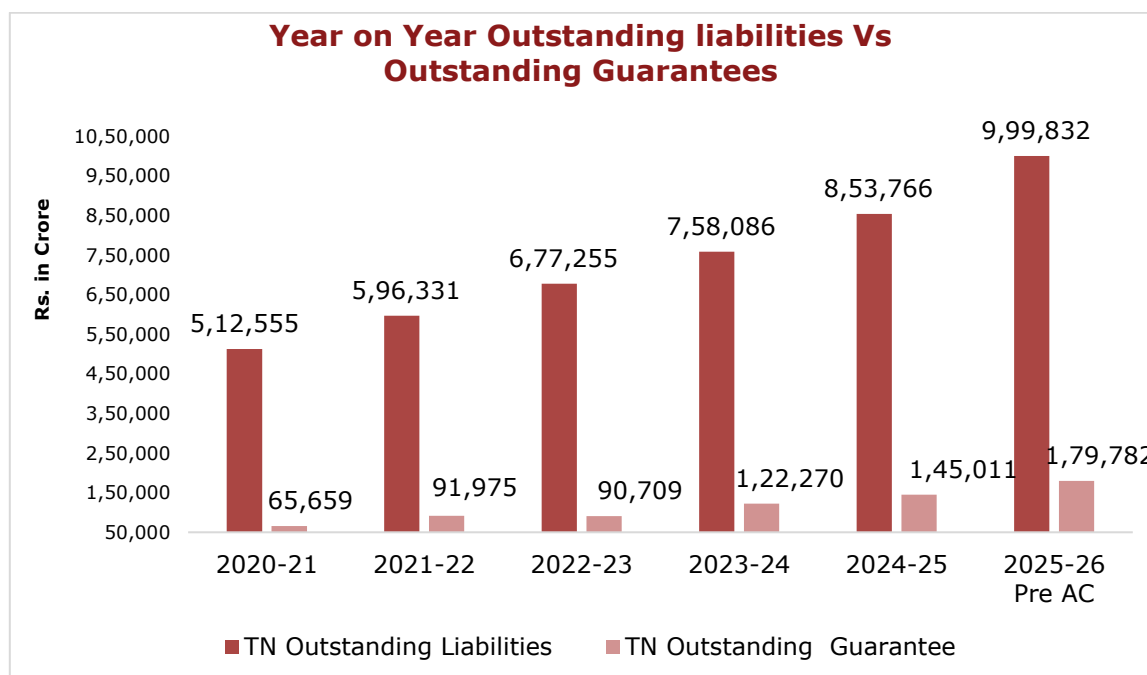


Figure 7.1: Year on Year Outstanding Liabilities Vs Outstanding Guarantees (Rs. in Crore)

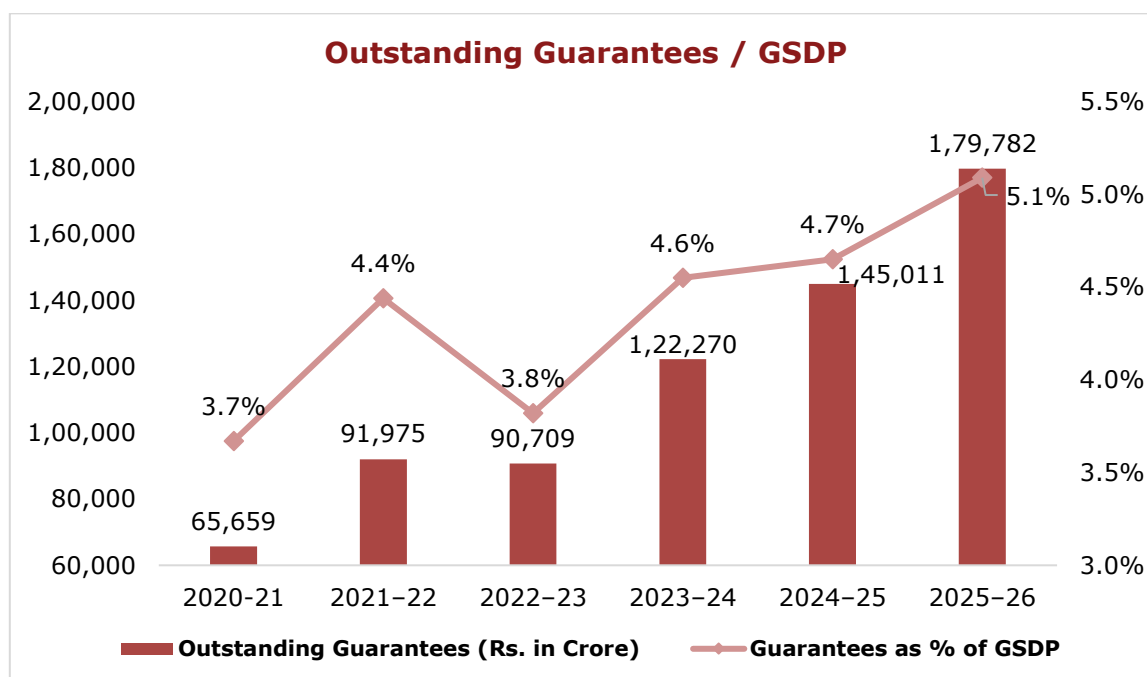


Figure 7.2: Outstanding Government Guarantees in absolute terms & as % of GSDP

7.5. A second perspective on the scale of the guarantee exposure is its size relative to the State's direct outstanding liabilities. The ratio has grown from 12.8 per cent in 2020-21 to 18.0 per cent in 2025-26 Pre AC a 40.4 per cent increase in five years. The significance of this measure is in what it signals about the composition of the State's overall fiscal exposure: for every five rupees of

direct debt that the State has agreed to repay, an additional rupee of contingent obligation sits on the guarantee account—a commitment that does not appear in the headline debt-to-GSDP ratio examined in Chapter 2, but which the State would be required to honour in the event of default by the underlying entities.

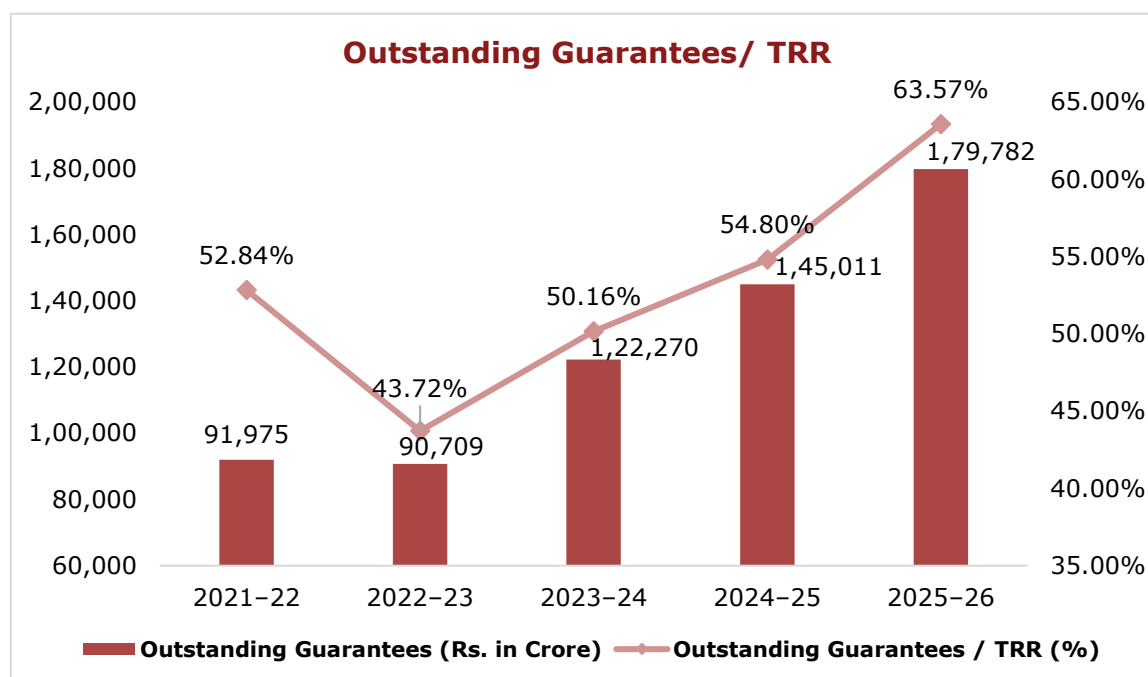


Figure 7.3: Outstanding Government Guarantees Vs Total Revenue Receipts 2021-22 to 2025-26 (Rs. in Crore & %)

7.6. The deteriorating financial situation of the PSUs has resulted in a scenario where they cannot borrow without a guarantee from the Government. As the operating losses of Power sector entities, the transport corporations, and the civil supplies corporation have deepened, their borrowing requirements have grown, and each additional borrowing tranche has required a fresh State guarantee. The guarantee stock is, in this sense, a lagging indicator of PSU financial distress and it records the cumulative cost of deferred reform.

7.3 Entity-Wise Exposure

7.7. **State Power Utilities** - The power sector remains the single largest source of contingent liabilities. State Government guarantees outstanding on the four successor entities of the erstwhile TANGEDCO—Tamil Nadu Power Distribution Corporation (TNPDC), Tamil Nadu Power Generation Corporation (TNPGL), Tamil Nadu Transmission Corporation (TANTRANSO), and Tamil Nadu Green Energy Corporation (TNGECL)—stood at Rs.1,41,898 crore as on 31 March 2026,

equivalent to approximately 4 per cent of GSDP and nearly 14 per cent of the State Government's outstanding debt. TNPDCCL alone accounts for Rs.99,810 crore of this exposure, and TNPGL accounts for a further Rs.40,224 crore.

7.8. Tamil Nadu Civil Supplies Corporation (TNCSC) - TNCSC finances its working capital, principally for the procurement and distribution of rice under the universal public distribution system, through cash credit borrowings from a consortium of banks, secured by State Government guarantees. The outstanding guarantee on TNCSC stood at Rs.27,181 crore as on 31 March 2026, the second-largest individual exposure after the power sector. The State reimburses the food subsidy periodically, but reimbursement delays inflate TNCSC's borrowing requirement and interest cost.

7.9. State Transport Undertakings - The eight State Transport Undertakings (SETC, MTC, and six regional TNSTC corporations) carry accumulated losses that are financed primarily through borrowings mobilised on their behalf by the Tamil Nadu Transport Development Finance Corporation (TNTDFC), against State Government guarantees. Furthermore, fleet age has risen, capital investment shortfalls have compounded operational inefficiency leading to a high recurring loss for the STUs indicating the depth of cash-flow stress.

7.10. Other PSUs - Other entities with material guarantee exposure as on 31 March 2026 include the Tamil Nadu Water Resources Conservation and Rivers Restoration Corporation (Rs.3,049 crore), the Water and Sanitation Pooled Fund (Rs.421 crore), the Tamil Nadu Cement Corporation (Rs.271 crore), the Co-operative Sugar Mills (Rs.200 crore), the Tamil Nadu Rural Housing and Infrastructure Development Corporation (Rs.154 crore), and the three socio-economic development corporations for Backward Classes, Minorities, and Adi Dravidars (combined Rs.547 crore). The aggregate of all guaranteed entities yields a total outstanding State Government guarantee stock of Rs.1,79,782 crore as on 31 March 2026—the highest absolute exposure ever recorded by the State.

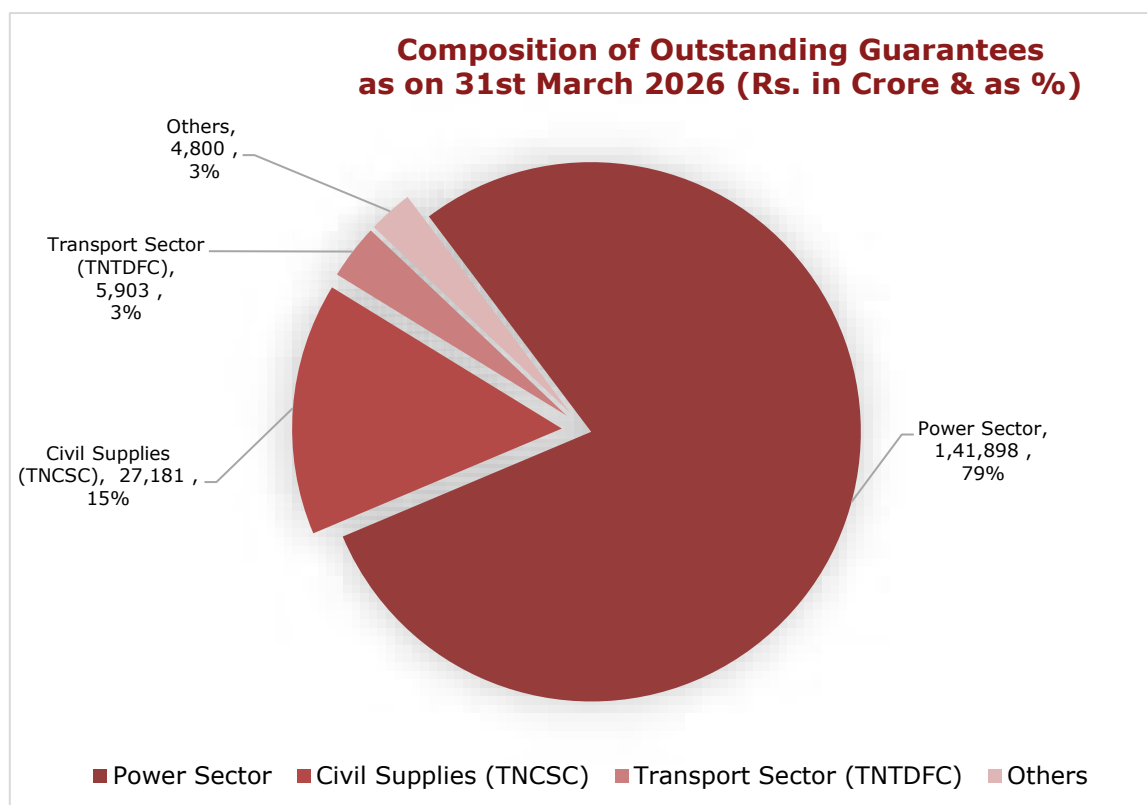


Figure 7.4: Composition of Outstanding Government Guarantees– As on 31 March 2026 (In Rs. Cr. & %)

7.11. When the contingent stock grows faster than the direct debt of the State, the headline debt-to-GSDP ratio progressively understates the State’s true fiscal risk. The risk tends to be shifted from the State’s balance sheet to that of the underlying entities. The State’s room to absorb such an event has narrowed in step with the broader fiscal deterioration documented in the preceding chapters. In this light, a detailed quantitative and analytical risk assessment of PSUs, based on indicators such as profitability, liquidity, solvency and overall financial performance, needs to be undertaken to assess the likelihood of materialisation of contingent liability risks.

7.4 Worsening Health of State PSUs

7.12. Tamil Nadu has 78 operational public sector undertakings, employing approximately 2.54 lakh persons. The PSU sector spans power generation and distribution, public transport, civil supplies, housing, industrial promotion, finance, and a range of smaller commercial and promotional activities.

7.13. The aggregate financial trajectory of the PSU sector has been one of deepening losses. The accumulated debt of the Power Sector, Transport Sector, Civil Supplies PSUs is Rs.3.18 lakh crore as on 31 March 2026, as detailed below.

Table 7.1: Outstanding Debt of Power, Transport Sector and TN Civil Supplies Corporation PSUs as on 31.3.2026 (Tentative)

SPSUs	Outstanding Debt (Rs. in Crore)
TNPDCL (erstwhile TANGEDCO/TNEB)	1,07,365
TNPGCL	1,03,128
TNGECL	5,672
TANTRANSCO	30,965
STUs	43,865
TNCSC	27,181
Total	3,18,176

Source: Documents of the SPSUs

7.14. The accumulated losses of the two Water Sector Boards amount to Rs.7,776 crore as on 31.3.2026 as detailed below:

Table 7.2: Accumulated Losses of Water Sector Boards

Name of the Entity	Accumulated Losses (Rs. in Crore)
CMWSSB	4,961
TWAD Board	2,815
Total	7,776

Source: Documents of the respective Boards/ Corporations

7.15. The primary reason for the precarious financial position of these agencies is the under recovery of operational costs, which leaves little or no surplus for investment in new capital assets or for the proper maintenance of existing assets. This, in turn, leads to reduced operational efficiency and higher costs, thereby creating a vicious cycle of unsustainable borrowings, mounting debt servicing obligations, and continuing financial losses.

7.16. The losses are concentrated in a handful of entities: Power Sector entities account for the bulk, with the transport corporations and the civil supplies corporation contributing further.

7.5 Power Sector Entities

7.17. The Tamil Nadu Electricity Board (TNEB) group — comprising TNPDC, TNPGL, TNGEL, and TANTRANSCO — constitutes by far the largest single source of fiscal risk in the State’s public sector portfolio. As of 31 March 2026, the consolidated outstanding debt of the TNEB group stood at **Rs.2,47,130 crore**, with accumulated losses of **Rs.1,82,361 crore**. These are not contingent liabilities but are in a sense obligations that have already materialised and that the State Government is actively financing through tariff subsidies, loss-funding grants, and equity infusions year after year.

Table 7.3: TNEB Group — Consolidated Debt and Accumulated Losses (as on 31 March 2026)

Entity	Outstanding Debt (Rs. in crore)	Accumulated Losses (Rs. in crore)
TNPDC (Distribution)	1,07,365	1,18,674
TNPGL (Generation)	1,03,128	50,661
TNGEL (Green Energy)	5,672	3,466
TANTRANSCO (Transmission)	30,965	9,560
TNEB Group Total	2,47,130	1,82,361

Source: Documents of the SPSUs

7.18. The debt accumulation of the TNEB group is the product of a decade of operating losses financed through borrowing. TNEB group’s debt stood at Rs.1,67,861 crore in March 2021 and had grown to Rs.2,47,130 crore by March 2026. Following the 2024 trifurcation, the successor entities carry this legacy forward: TNPDC alone carries Rs.1,07,365 crore in outstanding loans, while TNPGL carries Rs.1,03,128 crore. TANTRANSCO, the transmission entity, adds a further Rs.30,965 crore. TNGEL, the youngest entity, has accumulated Rs.5,672 crore.

7.19. The gap between the Average Cost of Supply (ACS) and the Average Revenue Realised (ARR) is the fundamental operating driver of TANGEDCO’s losses. For seven consecutive years up to 2021-22, tariffs were not revised, and the ACS-ARR gap widened to Rs.1.58 per unit in 2021-22. The introduction of

Multi-Year Tariff (MYT) in 2022-23, linked annually to the Consumer Price Index (CPI), provided partial correction.

**Table 7.4: TNPDC – ACS-ARR Gap Trajectory
2021-22 to 2025-26 (Rs. per Unit)**

Year	Power Sold (MU)	ARR	ACS	Revenue Gap	Revenue Gap (excluding Loss Funding)
2021-22	82,076	7.65	9.23	-1.58	-2.40
2022-23	87,916	9.37	10.61	-1.24	-2.68
2023-24	92,735	10.66	11.14	-0.48	-2.32
2024-25	96,803	10.37	10.42	-0.05	-1.70
2025-26 (RE/Prov.)	99,885	10.41	10.37	+0.04	-1.60

Source: Documents of the SPSU

7.20. The gap has since narrowed sharply, reaching Rs.-0.05 per unit in 2024-25 and turning marginally positive (Rs.+0.04/unit) on a provisional basis in 2025-26. However, the gap's narrowing is not owing to the operational efficiency or full recovery of the cost of supply from consumers. On the contrary, despite tariff hikes, there has been little structural improvement in the finances. Instead, the declining ACS-ARR gap is on account of huge loss funding support given by the Government pursuant to the conditions imposed by Government of India under the Additional Power Sector Borrowing Guidelines. The scale of this support over the five years from 2021-22 to 2025-26 is presented in Table 7.5.

**Table 7.5: Government of Tamil Nadu – Assistance to TNEB Group
2021-22 to 2025-26 (Rs. in crore)**

Nature of Assistance	2021-22	2022-23	2023-24	2024-25	2025-26
Tariff Subsidy	8,932	13,784	15,066	15,772	16,951
Funding of Losses	7,123	12,315	17,117	16,077	10,102
Equity Share Capital	378	58	172	350	6,425
UDAY – Loan Takeover	4,563	—	—	—	—
Annual Total	20,996	26,157	32,355	32,199	33,478

Source: Documents of the SPSUs

7.21. Over this five-year period, total Government support to the TNEB group amounted to approximately **Rs.1,45,185 crore**. Annual support has been rising consistently: from Rs.20,996 crore in 2021-22 to Rs.33,478 crore in 2025-26 — a 59.45% increase in five years.

7.22. This is going to be further compounded on account of the Hon'ble Supreme Court's order on Regulatory Assets in the case of BSES Rajdhani Power LTD & ANR vs Union of India & ORS, which has created a fresh large-scale financial obligation. Past expenses of Rs.59,000 crore that were not recovered along with the carrying cost at the rate specified in the late payment surcharge rules, 2022, through tariff or by grant have been directed by the Honourable Supreme Court to be recovered within seven years from 1 April 2024, i.e., to be completed by 31.3.2031 either as charges from electricity consumers or as subsidies from the State Government. While an appeal has been filed, as the order stands, it represents an additional structured obligation of approximately Rs.11,800 crore per year from 2026-27 to 2030-31.

7.23. Notwithstanding the tariff subsidy and loss-funding grant transfers, TNPDCCL faces a persistent monthly structural cash shortfall that is independent of the ACS-ARR position. The shortfall arises because payment obligations — for power purchase, debt service, and operations — fall due monthly. Table 7.6 presents the approximate monthly cash position.

Table 7.6: TNPDCCL – Illustrative Monthly Cash Flow Position (FY 2025-26)

(Rs.Crore per Month)

Receipts	Rs. in crore	Payments	Rs. in crore
Revenue collections	6,000	Power purchase (TNPGL, TNGECL, TANTRANSCO)	6,450
Tariff subsidy from GoTN	1,250	Employee cost	1,000
Loss funding grant from GoTN	1,250	Operational expenses	500
		Interest due	1,200
		Loan repayments	1,500
		Others	350
Total Receipts	8,500	Total Payments	11,000
Monthly structural shortfall		Rs.2,500 crore per Month	

Source: Documents of the SPSUs

7.24. A monthly shortfall of Rs.2,500 crore translates to an annual liquidity gap of approximately Rs.30,000 crore, financed through a combination of short-term borrowings, delayed payments to power purchase counterparties, and deferred capital expenditure. The outstanding receivable from local bodies and Government departments as on 31 March 2026 stands at Rs.7,710 crore — of which TWAD Board alone accounts for Rs.4,270 crore — indicating that a significant portion of TNPDC's revenue shortfall is a circular inter-governmental liability, with one public entity unable to pay another.

7.25. In the absence of a comprehensive resolution framework — covering tariff path, subsidy rationalisation, debt restructuring, and operational reform — the TNEB group will continue to absorb a rising share of the State's fiscal resources, crowding out productive expenditure and deepening the structural imbalance.

Table 7.7: Statement showing Outstanding Debt and Accumulated losses of Power Sector entities from 2020-21 to 2025-26 (Rs. in Crore)

Year	Outstanding Debt	Accumulated Loss
2020-21	1,67,860.50	1,45,439.50
2021-22	1,83,360.06	1,59,738.00
2022-23	1,95,549.22	1,71,413.74
2023-24	2,11,990.87	1,75,984.31
2024-25	2,27,536.80	1,79,393.68
2025-26 (Prov.)	2,47,129.99	1,82,361.02

Source: Documents of the SPSU

7.6 State Transport Undertakings

7.26. The eight State Transport Undertakings—SETC, MTC, and six regional TNSTC corporations (Kumbakonam, Madurai, Coimbatore, Salem, Villupuram, Tirunelveli)—carry accumulated losses that are financed through a combination of Government support and bank borrowings. Cash flow from operations has been consistently insufficient to cover operating costs. Fleet age has risen as capital investment has been deferred, compounding operational inefficiency and increasing maintenance costs.

7.27. The accumulated losses of all STUs have risen from Rs.41,826 crore in 2020-21 to Rs.72,667 crore in 2025-26 — an increase of 73.74 per cent over five years. Total outstanding liabilities have risen from Rs.33,190 crore to Rs.61,642 crore over the same period — a 85.72 per cent increase.

Table 7.8: Outstanding Liabilities, Accumulated Loss and Net Annual Loss of all STUs (Rs. in Crore)

Details	2020-21	2025-26	Change
Net Annual Loss	8,318	4,725	-43.19%
Accumulated Loss	41,826	72,667	73.74%
Total Outstanding Liabilities	33,190	61,642	85.72%

Source: Documents of the STUs

7.28. The financial distress of the STUs is not primarily a consequence of non-pass through of the variable costs into the revenue generation. It is a structural issue, rooted in a cost base that has grown substantially faster than revenue, driven by categories of expenditure that are largely non-discretionary.

Table 7.9: Major Costs Incurred by STUs (Rs. in Crore)

Details	2020-21	2025-26	Change
Employee Cost	8,767	12,559	+43%
Diesel Cost	1,962	5,598	+185%
Pension Cost	1,280	2,380	+86%
Interest Cost	1,581	3,122	+97%
Total	13,590	23,659	+74%

Source: Documents of the STUs

7.29. Total major costs have risen from Rs.13,590 crore in 2020-21 to Rs.23,660 crore in 2025-26, doubling over the period of 5 years. Employee costs, already the largest single item, have grown by 43 per cent — reflecting successive pay revisions and a heavy organisational structure. Pension costs have grown by 86 per cent, as the legacy of past employment commitments continues to compound. Interest costs have grown by 97 per cent, a direct consequence of the accumulated borrowing required to fund operating deficits year after year. Diesel costs have more than doubled, reflecting both higher fuel prices and expanded

service levels, and represent a cost largely outside the control of the STUs themselves.

7.30. Against this rapidly rising cost base, operating revenue has been effectively stagnant. Total operating revenue in 2025-26 stands at Rs.7,852 crore — comparing with the 2019-20 figure of Rs.9,028 crore, over a period in which nominal GSDP doubled and total STU costs has also doubled. In real terms, revenue has declined sharply. The primary reason is that passenger fares have not been revised to keep pace with cost inflation.

Table 7.10: Operating Revenue of all STUs (Rs. in Crore)

Details	2019-20	2025-26	Change 2019-20 to 2025-26
Operating Income	8,827.39	7,646.61	-13.38%
Other Income (excl. Subsidy)	200.40	205.06	+2.33%
Total	9,027.79	7,851.67	-13.03%

Source: Documents of the STUs

7.31. The comparison with 2019-20 — the last full pre-pandemic year — is particularly telling. Total operating revenue in 2025-26 is Rs.7,852 crore, against Rs.9,028 crore in 2019-20: a decline of 13 per cent in nominal terms over six years, despite inflation and expanded route coverage. This is not a post-pandemic recovery story but rather a deep seeded revenue failure driven by the prolonged absence of fare revision.

7.32. The financial position of the STUs can be reduced to a single operational ratio that captures the structural problem with precision. The cost per kilometre operated across all STUs stands at Rs.78.81, while revenue recovery per kilometre is Rs.25.97 — leaving an operational loss of Rs.52.84 per kilometre. A portion of this gap is compensated through government subsidies on diesel, student concessions and free travel to women. However, the underlying economics remains to be addressed sufficiently.

7.33. What is absent from this picture is any mechanism that breaks the cycle. Operational rationalisation — of routes, fleet deployment, and staffing norms — has not kept pace with the changing economics of public transport. Occasional

fare revisions have given some relief to STUs but losses have continued. The conversion of government loans to equity in 2017-18, while reducing reported liabilities at the time, addressed the symptom rather than the cause. And the continued extension of borrowing support from TDFC and the Government, while necessary to maintain service continuity, deepens the liability stock that future budgets must service.

7.34. The STUs are not a peripheral fiscal concern. With outstanding liabilities of Rs.61,642 crore and accumulated losses of Rs.72,667 crore, they represent one of the largest concentrations of quasi-fiscal stress on the State's extended balance sheet.

7.7 Tamil Nadu Civil Supplies Corporation

7.35. The Tamil Nadu Civil Supplies Corporation is the operational backbone of the State's Public Distribution System. It procures paddy and other commodities from farmers, processes and stores them, and distributes food grains, sugar, pulses, and edible oil through approximately 38,404 fair price shops to eligible ration cardholders across the State. TNCSC also serves as the nodal agency for Government of India paddy and ragi procurement in Tamil Nadu, and implements special welfare schemes including free rice distribution, Pongal gift kits, and disaster relief.

7.36. TNCSC's finances are best understood through its receipts and payments account, which captures the gap between subsidy inflows from the Government of India and the Government of Tamil Nadu on one side, and the corporation's procurement, distribution, and debt servicing obligations on the other.

Table 7.11: Key Financial Metrics of TNCSC (Rs. in Crore)

Year	Receipts	Payments	Surplus/ Deficit	Working Capital Debt Outstanding
2021-22	18,534	24,739	-6,205	17,500
2022-23	23,188	22,021	1,167	20,000
2023-24	18,539	20,206	-1,667	19,600
2024-25	22,293	23,459	-1,166	20,410
2025-26*	25,533	30,778	-5,245	27,181

Source: Documents of the entity. *2025-26: unaudited.

7.37. Three features of this account warrant careful attention:

- First, in only one of the five years shown — 2022-23 — did TNCSC record a cash surplus. That surplus was not a signal of underlying improvement: it reflected the timing of subsidy receipts that had been delayed from the prior year, when Pongal kit and COVID relief distributions had inflated payments. In structural terms, TNCSC runs a persistent cash deficit. Receipts chronically fall short of payments, and the gap is bridged each year through fresh working capital borrowing.
- Second, the deficit trajectory is worsening sharply. After narrowing to Rs.1,166 crore in 2024-25, the deficit surged to Rs.5,245 crore in 2025-26 — nearly reverting to the levels seen in the pandemic-affected years of 2020-21 and 2021-22. TNCSC procured 63.51 lakh metric tonnes of paddy in 2025-26, against 41.15 lakh MT in 2024-25, an increase of 22.36 lakh MT (54.34%) in a single year. Total procurement costs rose by Rs.6,015 crore, from Rs.9,854 crore to Rs.15,869 crore. This was not matched by a corresponding increase in subsidy receipts from the government, producing an immediate and large cash shortfall.
- Third, the outstanding working capital debt has grown from Rs.17,500 crore in 2021-22 to Rs.27,181 crore in 2025-26 — an increase of 55.32%. All of this borrowing is short-term, with one-year maturities, rolled over annually, and secured against Government of Tamil Nadu guarantees. The interest burden has grown from Rs.736 crore in 2021-22 to Rs.1,795 crore in 2025-26. Interest now consumes a significant and rising share of TNCSC's annual payments — a cost that is entirely unproductive, in the sense that it funds neither procurement nor distribution but simply the servicing of previously accumulated deficit financing.

7.38. TNCSC has no material source of its own income. Its receipts consist almost entirely of subsidies from the Government of India and the Government of Tamil Nadu. When those subsidies are delayed or fall short of the corporation's actual expenditure — whether on account of the State's own fiscal constraints, GoI reimbursement lags, or sudden cost increases such as the procurement surge in 2025-26 — TNCSC bridges the gap through its working capital borrowings. The

subsidy receivable, representing amounts owed to TNCSC by Government but not yet transferred, has grown from Rs.6,582 crore in 2020-21 to Rs.17,990 crore in 2024-25, and is projected to reach approximately Rs.24,000 crore by March 2026.

7.39. This receivable does not appear anywhere in the State's headline fiscal deficit or debt figures. It sits on TNCSC's balance sheet as a sundry debtor. In practice, however, it represents a deferred State liability — a Government obligation that is being financed not through the budget but through TNCSC's bank borrowings, which carry GoTN guarantees and generate interest costs that are ultimately borne by the public exchequer. The accounting treatment obscures the true fiscal cost; the economic reality is that the State is financing its own subsidy arrears through guaranteed commercial borrowings at market interest rates.

7.40. The direct food subsidy released by the Government of Tamil Nadu to TNCSC, combined with Pongal festival cash transfers, has grown from Rs.17,583 crore in 2021-22 to Rs.20,957 crore in 2025-26 — an increase of 19%.

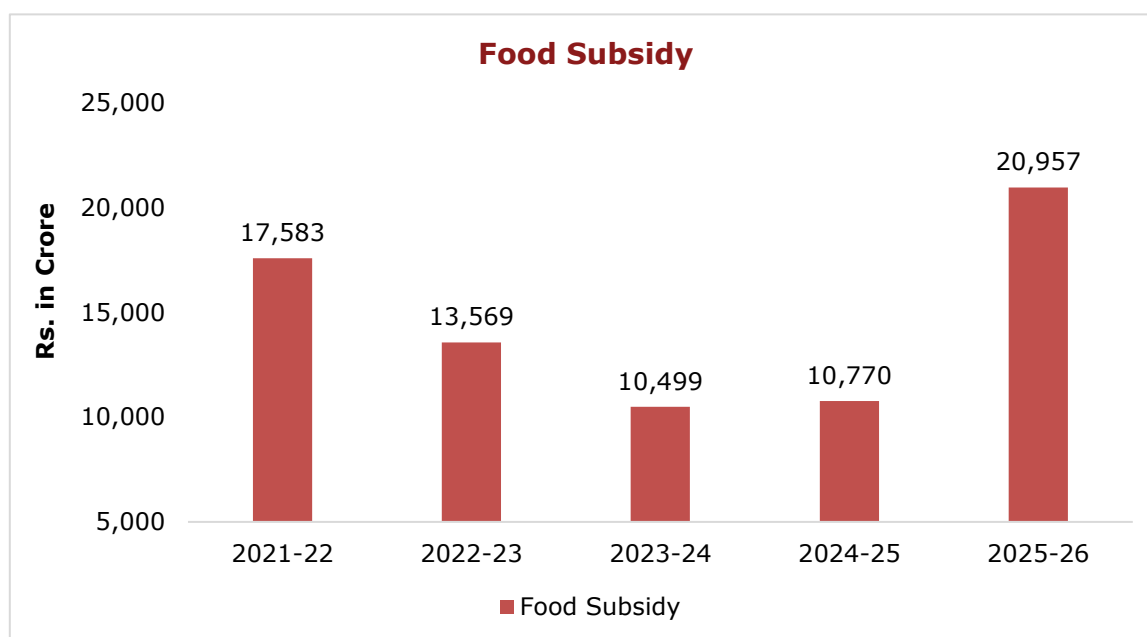


Figure 7.5: Food Subsidy released to TNCSC - 2021-22 to 2025-26 (Rs. in Crore)

7.41. Pongal festival gift hampers and cash support have been a particularly variable component of this obligation. Over the eleven years from 2016 to 2026, the Government of Tamil Nadu sanctioned a cumulative Rs.24,023 crore under these schemes — an average of approximately Rs.2,184 crore per year. The annual quantum has ranged from Rs.200 crore in 2017 to Rs.5,605 crore in 2021,

with the 2026 Pongal cash support alone amounting to Rs.6,688 crore. The escalating scale and variability of these transfers makes forward fiscal planning difficult and adds a lumpy, politically-driven component to an already structurally large subsidy obligation.

7.42. TNCSC is not a loss-making enterprise in the conventional sense. It is a welfare delivery mechanism whose costs are intended to be fully reimbursed by the Government. The fiscal risk it poses is therefore of a different character from that of the STUs or the power utilities: it is not a risk of commercial failure but of subsidy inadequacy, reimbursement delay, and the compounding costs of deferred obligation.

7.8 Aggregate Fiscal Risk

7.43. The total fiscal risk of the State cannot be only seen from the lens of the Outstanding Liabilities of the State but must be seen along with the borrowings of the Public Sector Undertakings which had primarily borrowed to fulfil the needs for the welfare schemes and the guarantee extended by the government to the public sector undertakings which, if defaulted by the public sector undertakings, shall have to be paid by the Government.

7.44. While the Outstanding Debt of the State stands at Rs.10 lakh crore, the debt of major Public Sector Undertakings, as discussed, earlier stands at Rs.3.18 lakh crore. This amount was borrowed largely based on Government guarantee which stands at Rs.1.80 lakh crore.

7.45. This amount, which the previous Governments should have ideally paid to the Public Sector Undertakings to make good the loss accumulated over time towards implementing welfare measures or identifying additional resource mobilization measures without affecting the public were not then and now is a great fiscal risk dawn upon the State's finances.

7.46. While the debt statistics of Public Sector Undertakings are independently available, when we see it collectively with the debt burden of the State is when we can see the full picture of the aggregate fiscal risk and the debt burden upon the State.

CHAPTER 8

The Post-COVID Consolidation Failure

Chapter 8: The Post-COVID Consolidation Failure (2021-22 to 2025-26)

8.1 The Five-Year Window: Setting and Outcome

8.1. The five-year period from 2021-22 to 2025-26 is the central analytical focus of this White Paper. It is the period during which the post-COVID economic recovery created the conditions for fiscal consolidation, during which Tamil Nadu's peer States used those conditions to restore their fiscal positions, and during which the State's own indicators moved the opposite direction.

8.2. The pandemic year of 2020-21 was an exogenous shock that every State absorbed and that the Union Government legitimately allowed States to finance through expanded borrowing. The years that followed presented a different proposition. They were a recovery period: nominal Gross State Domestic Product (GSDP) across the major industrialised States grew at a Compound Annual Growth Rate (CAGR) of approximately thirteen to fourteen per cent; Goods and Services Tax (GST) compensation continued in full through June 2022, providing a transitional cushion; aggregate tax buoyancy across India was robust. In any reasonable accounting of fiscal opportunity, the period offered the headroom for States to retire excess COVID-era borrowing, restore revenue deficits to balance or near-balance, and rebuild fiscal space for the next economic cycle.

8.3. Tamil Nadu, however, did not use this window. Rather than retiring excess borrowing and moving onto a consolidation path, the State allowed its principal fiscal indicators to drift; by the close of the period they stood at or near their weakest levels on record.

**Table 8.1: Tamil Nadu's Fiscal Indicators
2021-22 to 2025-26 Pre AC**

Indicator	Window Start (2021-22)	Closing (2025-26)
Revenue Deficit (Rs. in Crore)	46,538	78,324
SoTR / GSDP	5.93%	5.45%
Debt and Liabilities to GSDP	28.7%	28.3%
Capital Expenditure / GSDP	1.79%	1.44%
Committed Expenditure / TRR	60.4%	64.4%

Source: State Budget documents and MoSPI GSDP Statement

8.4. The trajectory across these five years has a consistent shape. The recovery of 2021-22 broadly matched what comparable peer States were recording at the same stage of the post-pandemic cycle; the narrower revenue deficit of 2022-23 rested on transitional factors that did not hold; and from 2023-24 the State's position weakened on every front, closing the window at or near record levels on each major indicator. That weakening did not follow from any external shock. It followed from a set of decisions, and deferred decisions, that lay within the State's own authority.

8.2 Revenue Deficit: Trajectory and the Breached Commitment

8.5. The revenue deficit trajectory is a good representation of what happened during the period. The deficit narrowed in absolute numbers between 2021-22 and 2022-23 while it may appear seemingly noteworthy, on a deeper analysis it emerges that the improvement was a necessary outcome of the worsening that happened during the COVID years. Two influences, both transitional, lay behind the improvement. The first was the carry-over of the expenditure restraint or austerity measures adopted through the pandemic years. These include a restraint on Dearness Allowance to employees, suspension of EL Surrender, limitations on several categories of expenditures such as purchase, travel, etc. The second was a recovery in the revenue heads such as stamp duty and registration, and motor vehicle tax which are linked to transactions that were deferred during the pandemic period on account of several factors including lockdowns. This also explains why there was a sudden spike in tax buoyancy without any significant revenue augmentation measures adopted by the Government during this period. In other words, the consumption or transaction linked revenue collection that was deferred during the COVID years added to the usual revenue growth in 2021-22 and 2022-23 to lead to an otherwise inexplicable kink in the tax growth relative to the growth of the economy – which then goes back to a declining trend in the following years.

8.6. Therefore, the improved outcomes in revenue deficit were in essence an outcome of deferred revenue and suppressed expenditure of the COVID years, making the improvements transitional and not any structural strengthening of the revenue or expenditure base. That the improvement rested on transient factors

rather than on structural gains, is also visible from the experience of other peer States that reached surplus or balance in the same period. As can be seen in the graphs below, all the peer States have demonstrated a reduced revenue deficit, both in absolute terms and as a percentage of GSDP, in 2021-22 and 2022-23. All the States have also had a worse Revenue Deficit in 2023-24 as compared to the immediate preceding year, reflecting that the trend in the first two years post COVID was transitional and not structural.

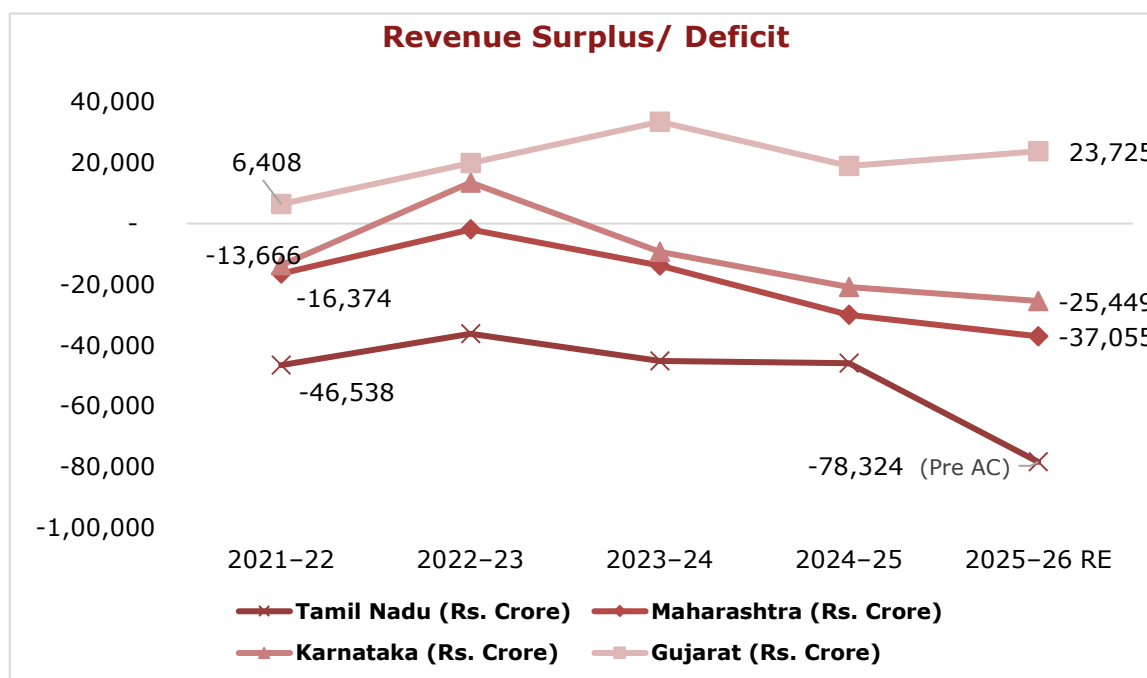


Figure 8.1: Revenue Surplus/ Deficit - Peer States Comparison 2021-22 to 2025-26 RE (Rs. in Crore)

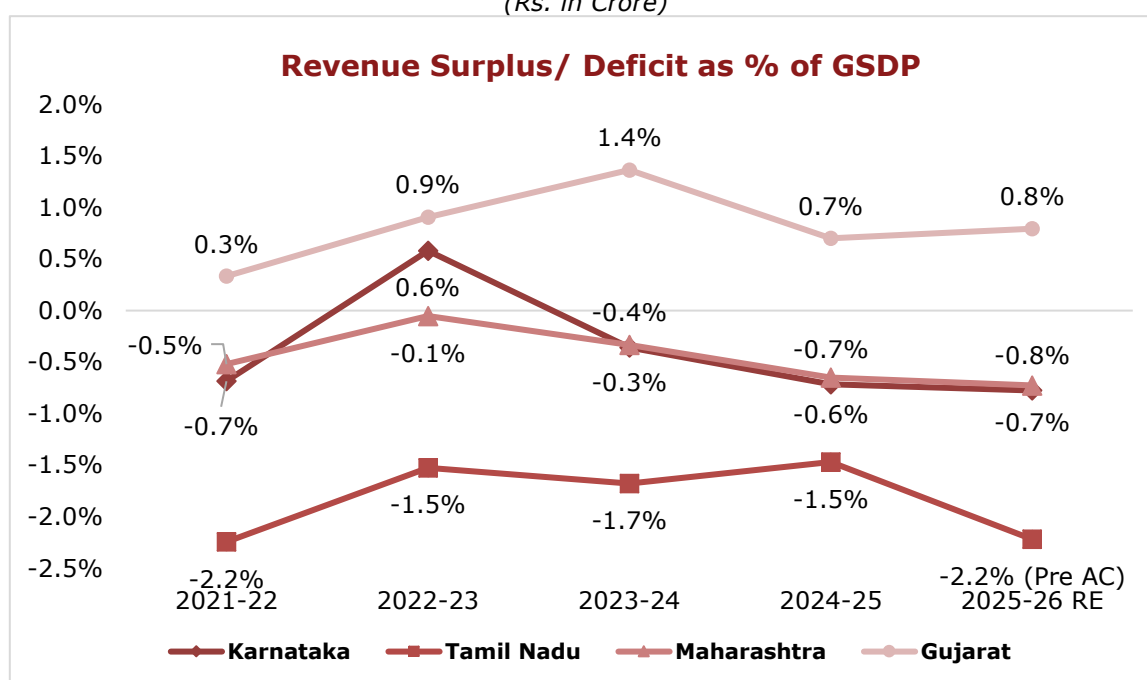


Figure 8.2: Revenue Surplus/ Deficit as % of GSDP - Peer States Comparison 2021-22 to 2025-26 RE

8.7. For Tamil Nadu, from 2023-24 the revenue deficit widened, held broadly unchanged in 2024-25 in absolute terms and then rose sharply in 2025-26 to the highest level the State has recorded. During this period, the collapse in the State’s fiscal parameters were the worst when seen in comparison to its peer States. The 2025-26 outcome of Rs.78,324 crore (2.22 per cent of GSDP) is the highest revenue deficit ever recorded by the State, exceeding even the COVID-affected 2020-21.

Table 8.2: Revenue Deficit Trajectory, 2021-22 to 2025-26 Pre AC

Year	Revenue Deficit (Rs. in Crore)	As % of GSDP	Notes
2021-22	46,538	2.25%	Recovery year; GST compensation in effect
2022-23	36,215	1.53%	Narrowest in absolute terms; transient factors
2023-24	45,121	1.68%	Deterioration begins
2024-25	45,840	1.47%	Effectively unchanged
2025-26 (Pre AC)	78,324	2.22%	Highest ever

Source: Tamil Nadu Budget documents and MoSPI GSDP Statement

8.3 Four Fundamental Causes of Decline

8.8. The revenue-deficit trajectory just traced — a brief narrowing, then a sustained widening from 2023-24 — was repeated across the State’s other indicators, as the sections that follow show. The question is what produced the turn. Four developments converged in the transition from 2022-23 to 2023-24. Their common feature is that the levers of each sat with the State Government: either as a direct State policy choice, or as a State response to a long-anticipated event for which preparation was a State responsibility. None of the four traces to exogenous economic shock.

8.9. **First, the introduction of major new recurring commitments without parallel revenue mobilisation.** These years saw the introduction or expansion of several major recurring commitments. Tamil Nadu's social welfare provision is, and has long been, a defining element of the State's identity and social compact. Successive State Governments across political dispensations have sustained and built on this tradition over decades. This section is therefore not a critique of welfare provision in Tamil Nadu, nor of the individual schemes operationalised

during this period. The fiscal issue addressed, however, is not the merit of these commitments but the asymmetry of the State Government's response to them.

8.10. The most consequential fiscal pattern of these years was the introduction of large new recurring commitments against a revenue base that was simultaneously contracting. The largest of them was the introduction of Kalaignar Magalir Urimai Thittam - a new direct income-transfer programme, which added to the Government's liability alongside provisioning for loan waivers, free bus travel for women, direct benefit transfer to male and female college students, enhancements to social-security transfers, among others.

8.11. In aggregate, the new and expanded commitments reached above Rs.20,000 crore in recurring annual cost by 2024-25 — roughly half of the revenue deficit recorded in that year. Though these schemes have significant direct benefits and positive externalities, they were not introduced along-side efforts for revenue mobilization.

8.12. **Second, specific own-tax reforms were deferred or implemented at limited scale.** Each was within the State's direct authority to undertake during the window, and each was either deferred further or implemented at a scale insufficient to offset the simultaneous cessation of GST compensation.

a) **Goods and Services Tax:** The GST transition window was not used to broaden the State's own-revenue base. The GST (Compensation to States) Act, 2017 established a five-year transition cushion that ran from July 2017 to June 2022. Tamil Nadu received Rs.66,185 crore in compensation over this period. The cessation date was known to every State from 2017 onward. The States were mandated to broaden their own-source revenue in preparation for the cut-off. However, with each passing year, the difference between the guaranteed revenue by the Government of India and the collected revenue by Government of Tamil Nadu kept on increasing. The compensation eligibility ended with June 2022 and the State's revenue mobilization hasn't been up the speed. There were also significant unassessment and revenue loss in GST tax collection due to systemic corruption in the Commercial Taxes Department.

b) **Stamp duty guideline values:** These form the base for property registration revenue and are entirely within State authority to revise. They remained substantially below market values across most property categories and

geographies through this period. The consequence has been a stamp duty trajectory significantly below the level that the State's real estate market activity could have supported.

c) **State Excise:** Of the peer States, Tamil Nadu's revenue from excise duties are the lowest in absolute terms. Revenue grew at 9.5 per cent CAGR during the window against Karnataka's 11.7 per cent — the slowest pace in the peer group. There existed a parallel system of revenue collection that did not accrue into State's treasury.

8.13. The own-tax revenue trajectory mirrors the revenue deficit closely. The SoTR-to-GSDP ratio rose from 5.93 per cent in 2021-22 to 6.33 per cent in 2022-23, supported by the same transitional influences as mentioned earlier. From 2023-24 the ratio declined in every successive year — 6.22, 5.78, and 5.45 per cent — the last being the lowest SoTR-to-GSDP ratio the State has recorded.

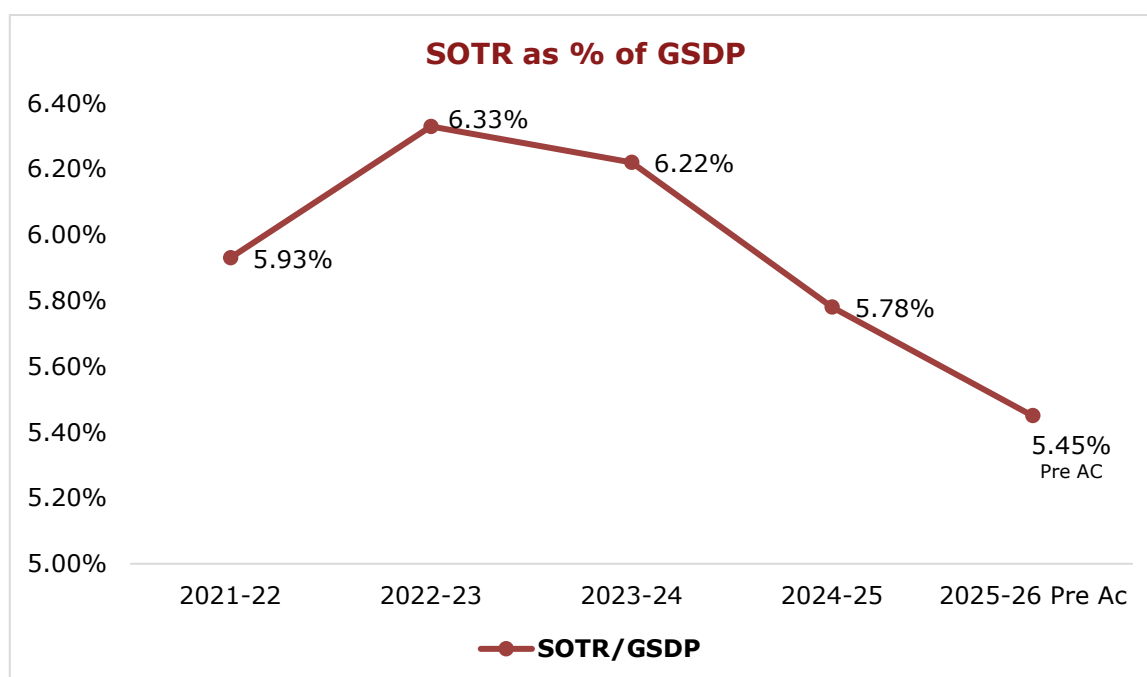


Figure 8.3: State's Own Tax Revenue as a % of GSDP-2021-22 to 2025-26 Pre AC

8.14. The drivers of the decline from 2023-24, set out in detail in Chapter 4, lie in administrative and policy decisions taken during the period rather than in any deterioration of the underlying economic base. Stamp duty guideline values remained substantially below market levels, state excise grew at the slowest pace among the four peer States, mining revenue remained stagnant and the growth of GST revenues showed a dismal performance relative to both the economic

growth in the State and that of the peer States. There existing a parallel system of rent seeking, corruption and leakages at various levels which completely upset any meaningful revenue mobilization.

8.15. The cost can be quantified. Had the State sustained its 2022-23 SoTR-to-GSDP ratio of 6.33 per cent across the remainder of the window — a level that, as noted, was transiently elevated — the own-tax revenue foregone across the three years from 2023-24 amounts to approximately Rs.51,000 crore — Rs.2,984 crore in 2023-24, Rs.17,242 crore in 2024-25, and Rs.30,964 crore in 2025-26. This is the within-period revenue cost of the decline. The longer-run gap against the State’s historical peak of 8.94 per cent in 2006-07, examined in Chapter 4, is substantially larger; but the post-2022-23 shortfall is the portion most directly attributable to policy choices made during this five-year window.

8.16. **Third, limited or negligible focus on capital formation.** This has pushed the State towards a situation where the expenditure is being done to fund current expenditure rather than providing a fillip to the economy through a multiplier impact. In other words, Capital expenditure has borne the principal cost of the rising revenue-side commitments. The capex ratio declined across the whole window, with the steepest fall from 2023-24 onward — from 1.79 per cent of GSDP in 2021-22 and 1.67 per cent in 2022-23 to 1.51 per cent in 2023-24, holding at 1.51 per cent in 2024-25, and reaching 1.44 per cent in 2025-26 Pre AC: among the lowest figures in the State’s post-FRBM history.

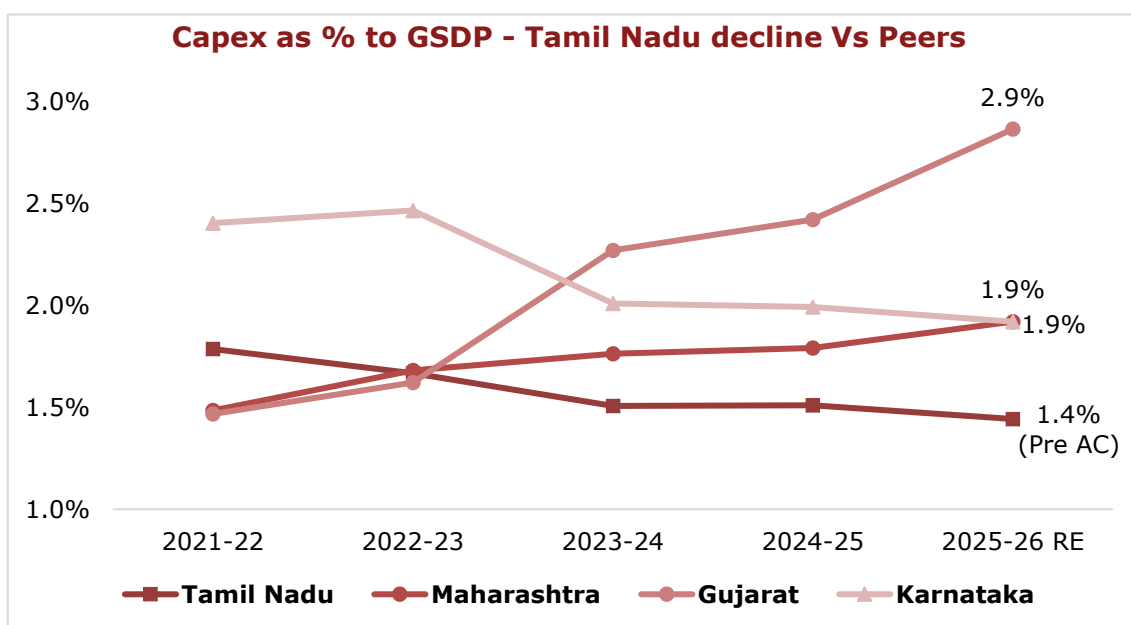


Figure 8.4: Capital Expenditure as % of GSDP — Tamil Nadu Decline vs Peers 2021-22 to 2025-26 RE

8.17. Gujarat allocates 2.9 per cent of GSDP to capital formation; Karnataka and Maharashtra 1.9 per cent. Tamil Nadu's 1.44 per cent is the lowest in the peer group, at less than half of Gujarat's level. Had the State sustained its 2021-22 capex ratio of 1.79 per cent across the years from 2023-24, the capital formation foregone in those three years amounts to **approximately Rs.28,217 crore** — Rs.7,520 crore in 2023-24, Rs.8,585 crore in 2024-25, and Rs.12,112 crore in 2025-26. To place this in operational context, Rs.28,217 crore approximates the order of magnitude of one thousand kilometres of four-lane expressway, thirty large multi-specialty hospitals, or two thousand secondary school buildings.

8.18. The competitive consequence will be felt over a longer horizon than the window itself. Private investment follows public infrastructure: the peer States sustaining capex of 1.5 to 2.9 per cent of GSDP through this period are also the States attracting the largest shares of new manufacturing investment in the country. Tamil Nadu's declining capex ratio sustained through these years will compound through subsequent years even after the underlying trajectory is corrected.

8.19. **Fourth, structural weakness in the functioning of the public sector entities.** Each of the three principal loss-making State PSUs entered this period where their structural weakness exacerbated further without providing any solution. New welfare schemes aimed as larger public benefit required additional resources mobilization which was not focused upon. This led to mounting debt and losses upon the public sector undertakings.

8.20. The period saw a substantial expansion of obligations that do not appear in the on-budget fiscal indicators but represent State Government exposures that will, in time, fall back on the on-budget account. Outstanding State Government guarantees grew from approximately Rs.91,975 crore in 2021-22 to Rs.1,79,782 crore in 2025-26 — an increase of roughly Rs.88,000 crore.

8.21. The pattern was complemented by the expansion of working capital borrowings by State PSUs against deferred Government payments — most prominently by the Tamil Nadu Civil Supplies Corporation, whose working capital debt grew from Rs.17,500 crore in 2021-22 to Rs.27,181 crore in 2025-26 against a rising stock of subsidy receivables. The substantive effect is to shift expenditure

off the on-budget revenue account while creating contingent and quasi-fiscal exposures whose servicing cost ultimately falls on the State exchequer.

8.22. Each of these would have been consequential on its own; together, they account for the trajectory traced in the sections that follow. What distinguishes the period is not that the trajectory turned — fiscal positions turn for many reasons — but that the levers of the turn lay, in each case, within the State Government’s own policy authority or proximate responsibility. The sections below trace their effect, indicator by indicator.

8.4 Debt and Peer Position: Stalled Consolidation

8.23. The debt-to-GSDP ratio shows the period’s turn less sharply than the revenue indicators, but the peer comparison reveals more. The ratio declined from 28.8 per cent in 2021-22 to 28.5 per cent in 2022-23, continued to decline modestly to 27.4 per cent by 2024-25, and has reversed direction in 2025-26 to 28.3 per cent. The decline was real but the most modest among the State’s peers, and began from the highest starting point.

Table 8.3: Debt to GSDP Trajectory — Peer State Comparison

State	2020-21	2025-26
Tamil Nadu	28.7%	28.3%
Karnataka	24.2%	23.4%
Maharashtra	21.0%	19.7%
Gujarat	22.1%	17.6%

Source: CAG’s State Finances, State Budget documents and MoSPI GSDP Statement

8.24. All the three peer group States consolidated their debt significantly. Tamil Nadu’s 0.4 percentage points is the most modest — leaving debt to GSDP ratio still substantially above the desirable level of 25.2 per cent.

8.25. The peer position is sharper still on the revenue account. On debt, Tamil Nadu sits at the high end of a peer group moving in the same direction. On the revenue account, the State sits alone.

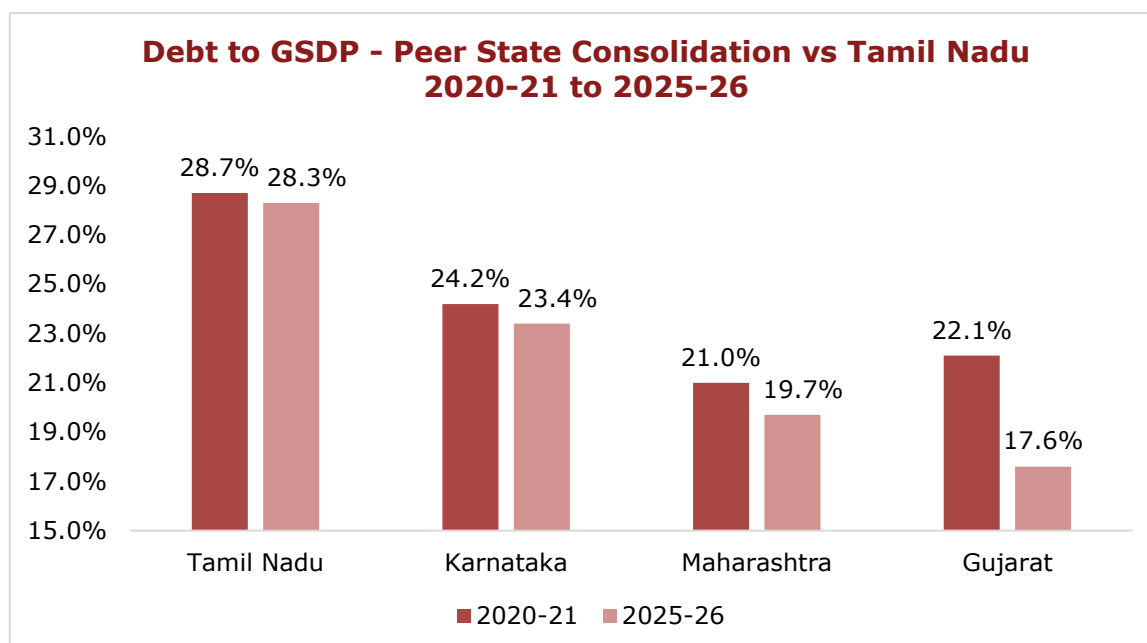


Figure 8.5: Debt to GSDP—Peer State Consolidation Vs Tamil Nadu 2020-21 to 2025-26 (in %)

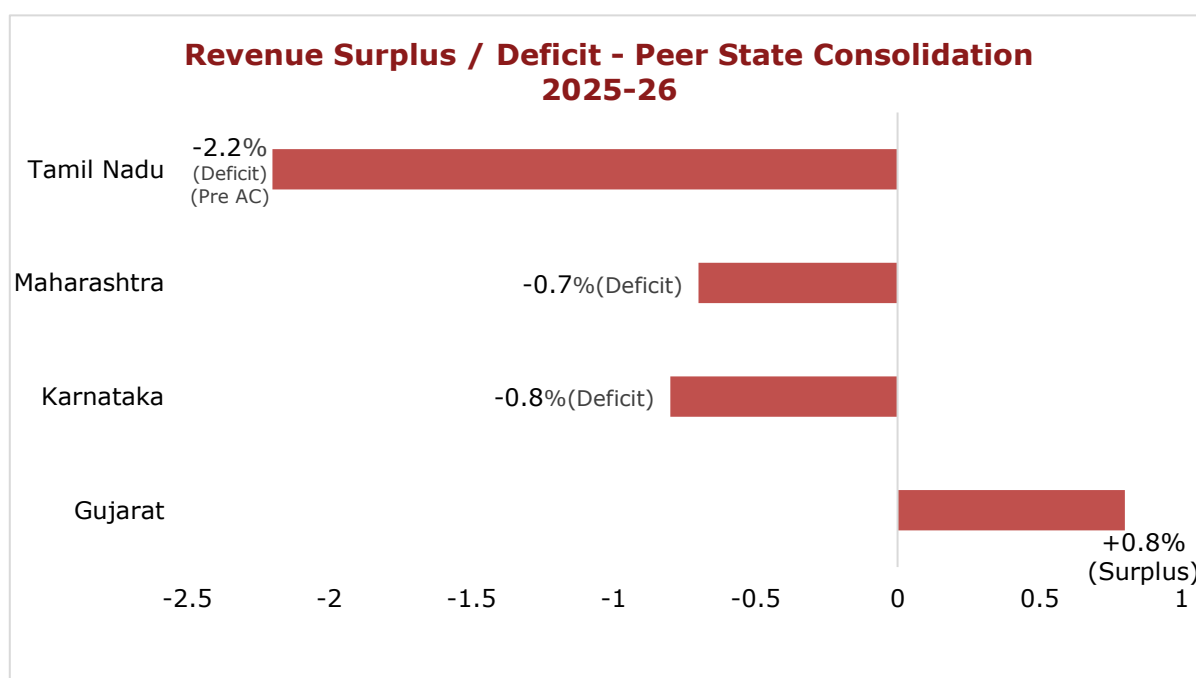


Figure 8.6: Revenue Surplus/ Deficit — Peer State Comparison 2025-26 (in %)

8.26. In 2025-26, Gujarat estimated a surplus of 0.8 per cent; Karnataka and Maharashtra, near-balance deficits of 0.8 per cent and 0.7 per cent each. Tamil Nadu's revenue deficit of 2.2 per cent of GSDP is more than twice the deficit of Karnataka or Maharashtra and opposite in direction to Gujarat. On the headline indicator of revenue account health, the State is a category of one within its traditional peer group.

8.5 What These Five Years Demonstrate

8.27. The five years from 2021-22 to 2025-26 are a discrete segment of the long-term arc — the segment during which a common post-COVID recovery gave way, through the State's own policy decisions, to renewed deterioration. Two findings summarise the period.

8.28. **First, the early improvement was in line with peers and did not last.** Tamil Nadu's recovery in 2021-22 broadly matched that of its comparable peer States, and the narrower revenue deficit and firmer own-tax receipts of 2022-23 owed mainly to transitional influences — expenditure restraint carried over from the pandemic years and a recovery in transaction-linked receipts from stamp duty and motor vehicle tax. Neither reflected a lasting strengthening of the revenue or expenditure base, and the position was not sustained.

8.29. **Second, the deterioration from 2023-24 was the consequence of policy decisions.** The deterioration was not the consequence of exogenous shock, structural disadvantage, or forecasting error. It was the operating consequence of the convergence of four policy developments from 2023-24 discussed earlier in this chapter.

8.30. The implication for the years ahead is direct. The window that was available for consolidation has closed. The demographic dimension examined in Chapter 2 — the closing of Tamil Nadu's working-age dividend window — means that the period during which fiscal correction can be undertaken from a position of demographic strength is progressively narrowing. The cumulative cost of the deterioration — quantified above, and visible in the closing-year position on every major indicator — is the inheritance that this Government now seeks to set out before the people of Tamil Nadu in full and honest measure, even as it remains committed to sustaining the State's enduring tradition of welfare provision and to undertaking the revenue mobilisation, expenditure efficiency, and clean and corruption free governance that responsible stewardship of that tradition now requires.

CHAPTER 9

The Challenges for the Financial Year 2026-27

Chapter 9 – The Challenges for the financial year 2026-27

9.1. Interim Budget Estimates is a financial statement of estimated revenues and expenditure presented by a government during an election year to secure legislative approval for essential expenditures until a newly elected government takes office and can present a revised budget. The key characteristic of Interim Budget Estimates is that it avoids major changes in policies or significant new tax changes or additional revenue mobilization. It essentially represents an annual financial statement for a business-as-usual scenario (BAU).

9.1 AN ANALYSIS OF THE INTERIM BUDGET OF 2026-27 REVENUE RECEIPTS

9.2. State Own Tax Receipts have been projected at Rs.2,29,579 crore. The Pre AC for 2025-26 are Rs.1,92,493 crore. A growth of 19% has been projected under BAU scenario, which is clearly unrealistic. The growth rate of SOTR in the previous two years was 6.8% and 7.7% respectively.

9.3. This white paper has already pointed out in earlier chapters that the State has failed in its tax revenue efforts through leakages in tax administration, and much more could have been achieved even without changing the existing tax rates. A reasonable growth rate in the IBE under BAU scenario, given leaky tax administration, would have been about 8%, and the SOTR would be about Rs.2,08,000 crore. By this measure, the SOTR in BAU scenario has been over-projected by close to Rs.21,000 crore. Even if a more optimistic 12% growth is presumed in SOTR, the over-projection is about Rs.14,000 crore.

9.4. Estimates for State's Own Non-tax Revenues (SONTR) are Rs.27,704 crore, against the Pre AC of Rs.26,373 crore, which is fairly correct on BAU scenario.

9.5. Share of Central Taxes has been projected at Rs.62,531 crore against Pre AC of Rs.56,819 crore, giving a growth of 10.1%. This is a mere reflection of what the Union Government decides, and the state has no power to modify. This item is also subject to change, as per the tax accruals in the devolution bucket of the Union Government.

9.6. The estimate for Grants-in-Aid from Union Government is projected at Rs.24,762 crore against Pre AC of Rs.18,078 crore. It assumes grants under Samagra Siksha Abhyan at Rs.5,000 crore, which seems unlikely given the stance of the Union Government on imposing the three-language formula as a pre-condition for release of the grants.

9.7. Even if the expected reduction in the Grant-in-Aid from Union Government is ignored and 12% optimistic growth in the SOTR is assumed, the consequential Revenue Receipts are over projected under BAU scenario by close to Rs.14,000 crore.

REVENUE EXPENDITURE

9.8. Salaries and Pensions have been estimated at Rs.1,39,701 crore, against the Pre AC of 2025-26 Rs.1,22,065 crore which is fairly well estimated in the BAU scenario, after taking into account additional recruitment made last year and higher levels of dearness allowance expected this year.

9.9. The expenditure under the head Subsidies and Transfers has been estimated at Rs.1,56,108 crore against the Pre AC of Rs.1,62,536 crore. This estimate has some very serious omissions. Loss funding to TNPDCCL has been of the order of Rs.16,000 crore every year for the last 3 years and has been completely omitted in the IBE in revenue account. There will be an outgo of Rs.11,800 crore per annum on account of payment to TNPDCCL for settling the regulatory assets (accumulated losses of TNPDCCL on account of fixation of lower tariffs) as per Hon'ble Supreme Court directions.

9.10. Taking this into account, the Subsidies and Transfers are under provided by an amount of Rs.27,800 crore.

REVENUE DEFICIT

9.11. While the Revenue Deficit was projected at Rs.69,219 crore in RE for 2025-26, the Pre AC show a completely different picture. Revenue Deficit for 2025-26 is expected to be Rs.78,324 crore. The Revenue Deficit projected in IBE 2026-27 is Rs.48,696 crore.

9.12. Taking the over projection of Rs.14,000 crore in Revenue Receipts (the optimistic scenario) and under projection of Rs.27,800 crore in Revenue Expenditure, the Revenue Deficit has been underestimated by about Rs.41,800 crore. Under the BAU scenario, the Revenue deficit is expected to be about Rs.90,500 crore in the current FY.

FISCAL DEFICIT

9.13. It needs to be pointed out that the Fiscal Deficit was projected at Rs.1,24,007 crore in RE for 2025-26, while the Pre AC are about Rs.1,33,208 crore. This year, in 2026-27, under the BAU scenario, given the omissions in the revenue expenditure and over projections of revenue receipts, and absence of major item of expenditure that is unique to the year 2026-27, the fiscal deficit, that has been estimated at Rs.1,21,949 crore is likely to overshoot in BAU scenario, by Rs.41,800 crore, and is expected to be about Rs.1,63,750 crore.

FUNDING OF FISCAL DEFICIT

9.14. Fiscal deficits are funded by net additional borrowings in the year (after taking into account repayments), by drawing down of cash reserves, additional resource mobilization and tightening the belt on expenditure.

9.15. The problem is that State Government does not have freedom to borrow as it wishes. Under Article 293(3) of the Constitution of India, it can borrow only with the permission of the Government of India, and Government of India has capped the Net Borrowing Ceiling of all State Governments at 3 percent of GSDP.

9.16. Government of India has fixed the Net Borrowing Ceiling for the year 2026-27 at Rs.1,14,981 crore, by projecting the GSDP of the State for the year 2026-27 at Rs.38,32,705 crore. It also permits the State Government to additional borrowing limit under Special Assistance to States for Capital Investment (SASCI) for the year 2026-27 to the tune of Rs.7,000 crore, which the State Government can reasonably expected to avail based on the reforms to be undertaken in the current FY.

9.17. Government of India allows contributions made by State Government to UPS or NPS to avail additional borrowings. It may be possible to avail additional

borrowing limit of Rs.11,000 crore that has been provided in the IBE. However, this is contingent on Government of India agreeing to equate TAPS with its UPS scheme for this purpose. Government of India has been hitherto permitting additional borrowings of upto 0.5 percent of GSDP for power sector reforms, as recommended by the 15th Finance Commission. The 16th Finance Commission is silent in its report about continuation of this facility from 2026-27, and it is not yet clear if Government of India is going to continue this additional borrowing facility of about Rs.19,163 crore.

9.18. Maximum borrowings that can be expected to fund the fiscal deficit, even after **including borrowing limits contingent on Government of India's decision** on TAPS and additional borrowing limit of 0.5% for power sector, is Rs.1,52,144 crore. As such there is a gap of nearly Rs.11,600 crore for funding the estimated fiscal deficit, which can be met only by additional resource mobilization and rationalizing expenditure. It must be borne in mind that these calculations are based on achieving the optimistic SoTR growth of 12%. If the SoTR growth is 8%, the gap will further widen by Rs.7,700 crore. It is possible to squeeze expenditure on capital side by Rs.5,000 crore, which is not desirable.

9.19. It is to be noted that the above estimation takes into account only BAU situation in revenues and essential and committed development expenditure. It is bad enough that such a high level of borrowing have to be made just for financing committed expenditure created by the previous government and there is absolutely no room in the fiscal space unless revenues are mobilized and belts are tightened in the expenditure side. What is worse is that this does not take into account the new schemes and programmes that the new Government plans to roll out for the people of Tamil Nadu.

9.2 WAY FORWARD

9.20. The situation is therefore very bleak, in the short run this year, and also in the medium run in the next five year. However, it is not hopeless. Much can be achieved in increasing the revenues of the State by plugging the leakages and corruption in revenue collecting departments that have resulted in subduing the growth of revenue receipts in the last few years. A lot can be done in improving

the delivery of services and works by reducing the costs of procuring goods and works by reducing leakage. It is going to take a long gruelling effort to do so.

9.21. The fiscal situation is put the State Government in a very tight spot and poses a severely challenging situation. The State Government is committed to deliver on its promises, despite these challenges, as early as possible as the financial position permits. The Government will have to do so by working diligently on increasing revenues and delivering on its promises as the additional revenues flow in.

CHAPTER 10

Conclusion

Chapter 10: Conclusion

“மிகினும் குறையினும் நோய்செய்யும் நாலோர்

வளிமுதலா எண்ணிய முன்று”

– திருக்குறள் 941

“In excess or in deficit, imbalance breeds affliction”

10.1. Ayyan Thiruvalluvar's observation, meant to describe the body's humours, carries a truth that transcends its original context. What he diagnosed for the human body, holds true for the State finances. A progressive, structural imbalance left unaddressed in the State finances will ultimately compound into affliction.

10.1 The Six Findings

10.2. The preceding chapters one to eight have examined Tamil Nadu's fiscal position across the five-year post-COVID window from 2021-22 to 2025-26, and six principal findings emerge from this examination.

10.3. **First**, the stock of outstanding debt has almost doubled in the five years since 1st April 2021 from Rs.5.13 lakh crore to 31st March 2026 Rs.10 lakh crore. The debt-to-GSDP ratio has remained elevated throughout the post-COVID window, and stood at 28.3 per cent in 2025-26 PreAC with no material consolidation from the COVID peak, that other peer group States have achieved. This becomes even more problematic given the closing demographic dividend being witnessed by the State.

10.4. **Second**, interest payments now consume approximately 23 per cent of total revenue receipts and approximately 35 per cent of the State's own tax revenue. At Rs.67,050 crore in 2025-26 PreAC, the annual interest bill exceeds annual capital expenditure by approximately one-third. The State now spends more on servicing past borrowings than on creating new assets.

10.5. **Third**, the revenue deficit has become structural. The 2025-26 Pre AC project a revenue deficit of Rs.78,324 crore—2.2 per cent of GSDP—the highest ever recorded in absolute terms, exceeding even the COVID-year level. The State is borrowing to fund current consumption, not investment.

10.6. **Fourth**, the State's own-tax effort has collapsed. SoTR-to-GSDP has declined from 5.93 per cent in 2021-22 to 5.45 per cent in 2025-26 Pre AC — the lowest in the past two decades and the steepest decline among the benchmarked States during the post-COVID period.

10.7. **Fifth**, committed expenditure as a percentage of revenue receipts is one of the highest in comparison to its peer States. This has eroded the space for capital expenditure and investment. The capital expenditure-to-total expenditure ratio, at 11.8 per cent, is the lowest among the four benchmarked States.

10.8. **Sixth**, contingent liabilities take the true debt position to approximately Rs.13.18 lakh crore and pose a huge fiscal risk to the State.

The Findings – Tamil Nadu Vs Best Peer 2025-26 RE

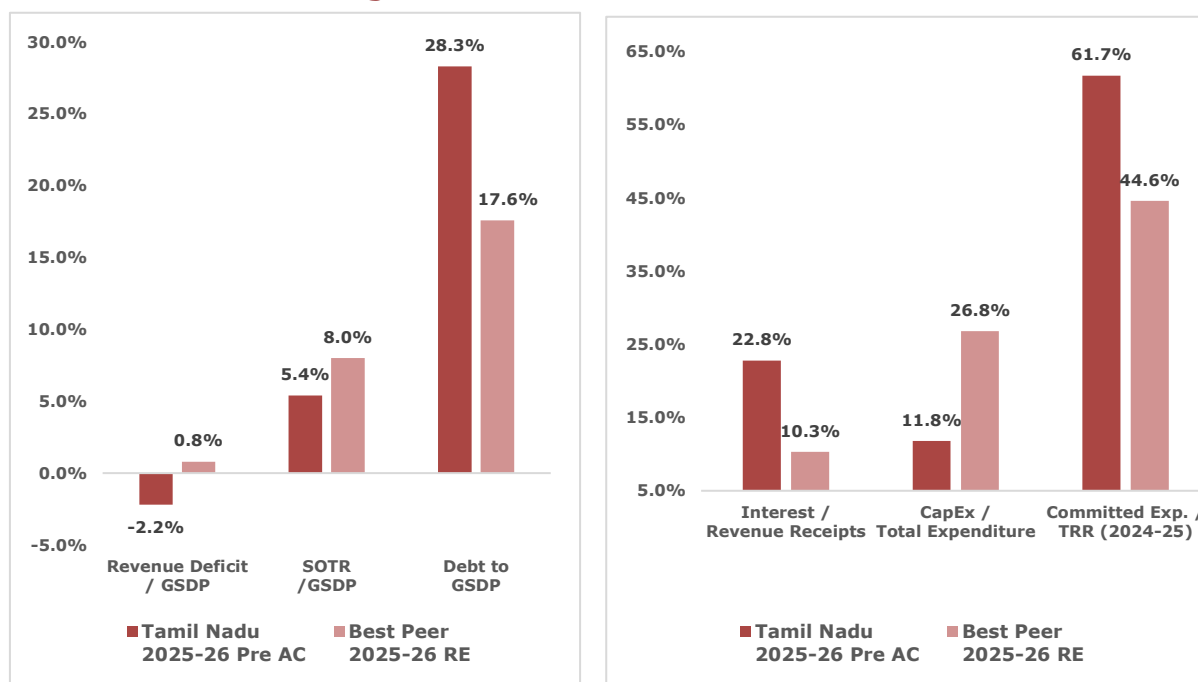


Figure 10.1: The Findings – Tamil Nadu vs Best Peer in 2025-26 RE (In %)

10.2 The Cumulative Damage

10.9. These six findings are not independent observations; they are mutually reinforcing dimensions of a single fiscal deterioration. **The Inter-generational burden is now locked in.** Debt service commitments extend over at least two decades, regardless of which Government is in office. The demographic dividend available to Tamil Nadu is the shortest among major States and is closing fast. The fiscal correction that is needed must be achieved during this narrowing window, or the burden will fall on a shrinking working-age population supporting an expanding elderly cohort. This has also effectively foreclosed the space for Counter-cyclical fiscal policy in the event of future fiscal shocks. The loss of competitive position is stark. Karnataka, Maharashtra, and Gujarat have improved or stabilised their fiscal indicators over the five-year post-COVID window while Tamil Nadu has worsened them.

10.10. In the Interim Budget Estimates 2026-27 Revenue Expenditure has been underestimated by around Rs.27,800 crore while the Revenue Receipts have been overstated by Rs.14,000 crore. As a result of these budgetary changes, the Revenue Deficit will go upto Rs.90,500 crore than Rs.48,696 crore mentioned in the Interim Budget Estimates. The Fiscal Deficit which is estimated at Rs.1.22 lakh crore in the Interim Budget Estimates is also likely to touch about Rs.1.64 lakh crore.

10.11. Financing of such increased deficit will be very difficult to meet since the maximum expected borrowing window is approximately Rs.1.52 lakh crore only including the additional borrowings of 0.5 per cent for power sector and the Government contribution to the TAPS leading to a shortfall of Rs 11,600 crore.

10.12. This White Paper has been prepared with a single objective: to inform the public about the State of Finances. The fiscal deterioration documented here is the cumulative result of policy choices, administrative outcomes, and structural trends that have unfolded over the past years. Correcting it will require a sustained and disciplined effort across revenue mobilisation, expenditure management, PSU reform, and debt management—an effort that extends well beyond any single Budget cycle. So, the fiscal space available for taking up new programmes during the year can only be very minimal and cutting down on leakages, restoring best practices to weed out corruption and finding avenues for additional resource mobilization without burdening the citizens is the only way forward for a sustainable fiscal management.

10.3 The Purpose of This White Paper

10.13. **The first step in correcting a problem is to measure it accurately and present it honestly. That is the purpose of this document.**

“வெள்ளத் தனைய மலர்நீட்டம் மாந்தர்தம்

உள்ளத் தனையது உயர்வு”

— திருக்குறள் 595

“As the depth of the water, so the height of the lotus. As the resolve of the people, so the rise of their State”

10.14. The immortal Thiruvalluvar's words remind us that the capacity of a State rises to the level of the ambition and integrity of its stewardship. Tamil Nadu — the land that gave the world the Thirukkural, that built the first legislative tradition in South Asia, that has consistently ranked among India's most progressive States on every human development measure — possesses the intellectual and institutional resources to restore its fiscal health. This White Paper is placed before the people of the State in that conviction.