

# Tamil Nadu's finances are precariously balanced

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## Populism has hit it where it hurts — the fisc. TN must balance development and capital spends, and rationalise work force

The finances of Tamil Nadu, courtesy the populist schemes pursued by successive governments, are in a precarious position. The gross fiscal deficit has trebled during the last decade to 3 per cent in 2016-17 (Budget Estimate, BE) from 1.1 per cent in 2007-08. Interest payments have climbed to 13.8 per cent in 2016-17 (BE) from 12.8 per cent in 2007-08, and have almost doubled from 7.1 per cent in 1980-81, the earliest year for which state finances are available in the public domain.

The share of TN's outstanding liabilities to that of all States' (including Delhi and Puducherry) has risen to 7.02 per cent in 2016-17 (BE) from 5.66 per cent in 1999-00. The higher liabilities incurred have not been utilised to build the State's infrastructure. Capital expenditure has declined to 2.5 per cent of gross state domestic product (GSDP) in 2016-17 (BE) from 3.6 per cent in 2007-08 and from 6.6 per cent in 1980-81.

The 14th Finance Commission (FC-XIV) recommended that the fiscal deficit of all States will be anchored to an annual limit of 3 per cent of GSDP for the award period (2015-16 to 2019-20). States with a zero revenue deficit and debt to GSDP of less than 25 per cent and interest payments to RR of less than 10 per cent may clock a fiscal deficit of up to 3.5 per cent.

That the FC-XIV sanctions states with a modicum of fiscal responsibility to adopt lax practices is a separate issue. Figure 1 indicates that TN's finances are not compliant with even FC-XIV's benign standards. Fiscal deficit is at the ceiling of 3 per cent of GSDP, interest payments are well above FC-XIV's ceiling of 10 per cent of revenue receipts, and the State's ratio of outstanding liabilities to GSDP was 20 per cent.

That Tamil Nadu has outperformed the nation on the social development front is no justification for its precarious fiscal position. Karnataka has achieved comparable social development while maintaining a stronger fiscal position (Figure 2).

## Deficit woes

Tamil Nadu's fiscal profile cuts a sorry picture, when benchmarked with States of comparable size and economic development, namely Andhra Pradesh, Telangana, Karnataka, Maharashtra and Gujarat. Revenue and fiscal deficits, as percentages of GSDP, are the highest among peer states and interest payments, as a proportion of revenue receipts, is second only to Gujarat.

**Table 1**

<b>Fiscal snapshot</b>						
	(In %)					
	<b>Own tax revenues/ RR</b>	<b>Revenue (Surplus) deficit / GSDP</b>	<b>Gross fiscal deficit /GSDP</b>	<b>Interest payments /RR</b>	<b>Outstanding liabilities /GSDP</b>	<b>Capital expenditure /GSDP</b>
<b>2007-08</b>	<b>62.3</b>	<b>-1.3</b>	<b>1.1</b>	<b>12.8</b>	<b>21.1</b>	<b>3.6</b>
<b>2008-09</b>	<b>61.2</b>	<b>-0.4</b>	<b>2.1</b>	<b>10.8</b>	<b>21.5</b>	<b>3.5</b>
<b>2009-10</b>	<b>65.5</b>	<b>0.7</b>	<b>2.5</b>	<b>11.9</b>	<b>21.2</b>	<b>2.8</b>
<b>2010-11</b>	<b>68.1</b>	<b>0.5</b>	<b>2.8</b>	<b>11.3</b>	<b>19.6</b>	<b>3.1</b>
<b>2011-12</b>	<b>69.9</b>	<b>-0.2</b>	<b>2.3</b>	<b>10.4</b>	<b>17.4</b>	<b>3.4</b>
<b>2012-13</b>	<b>72.1</b>	<b>-0.2</b>	<b>1.9</b>	<b>10.3</b>	<b>17.9</b>	<b>2.8</b>
<b>2013-14</b>	<b>68.2</b>	<b>0.2</b>	<b>2.1</b>	<b>11.5</b>	<b>18.5</b>	<b>2.5</b>
<b>2014-15</b>	<b>64.3</b>	<b>0.6</b>	<b>2.5</b>	<b>11.9</b>	<b>17.0</b>	<b>2.6</b>
<b>2015-16 (RE)</b>	<b>62.6</b>	<b>0.8</b>	<b>2.7</b>	<b>12.7</b>	<b>17.9</b>	<b>2.5</b>
<b>2016-17 (BE)</b>	<b>61.2</b>	<b>1.2</b>	<b>3.0</b>	<b>13.8</b>	<b>19.1</b>	<b>2.5</b>

**Source: RBI State Finances: A Study of Budgets, <http://niti.gov.in/state-statistics> & author's calculations**

**Revenue deficit = Revenue Receipts Less Revenue expenditure**

**Gross fiscal deficit = Aggregate disbursements (net of debt repayments) Less Revenue Receipts**

**Non-debt Capital Receipts and Recovery of Loans & Advances**

The State's 2016-17 development expenditure at 81 per cent of revenue receipts is comparable to its peers except Telangana. While Tamil Nadu's historically large development expenditure outlays have underpinned its superior social development vis-à-vis other States, leakages from development expenditure outlays do occur. Moreover, development expenditure has crowded out capital expenditure. The State's capital expenditure is the second lowest among its peers, at 2.5 per cent of 2016-17 GSDP.

It is imperative for Tamil Nadu to explore the politically sensitive but critical measure of rationalising the State government work force. The State's wages and salaries, as a proportion of revenue expenditure, was 27.76 per cent in 2016-17 — 430 basis points higher than the ratio of wages and salaries to revenue expenditure for all States (excluding Tamil Nadu and including Delhi and Puducherry) of 23.47 per cent.

In 2014-15 and 2015-16, Tamil Nadu's pensions as a percentage of revenue expenditure was the highest among its peer States, at 13.5 per cent and 12.8 per cent, respectively. In 2016-17, Andhra Pradesh's pensions as a proportion of revenue expenditure sky rocketed to 14.1 per cent from 10.3 per cent in 2015-16, followed by Tamil Nadu (12.7), Gujarat (9.5), Karnataka (9.3), Telangana (8.9) and Maharashtra (8.5).

Table 2

Peer comparison							2016-17 (BE)
	Revenue receipts (RR) (₹ billion)	Revenue Deficit / GSDP (%)	Fiscal deficit (%)	Development spend/RR (%)	Capex / GSDP (%)	Liabilities/ GSDP (%)	Interest Payments/ RR (%)
AP	1,093	0.7	2.9	83	2.9	23.0	11.2
Telengana	1,009	-0.6	3.6	101	5.1	17.2	7.6
Karnataka	1,308	-0.1	2.5	88	3.2	16.9	9.7
M'shtra*	2,208	0.2	2.0	77	1.8	17.6	12.8
Gujarat*	1,164	-0.3	2.5	85	3.3	22.5	15.0
TN	1,482	1.2	3.0	81	2.5	19.1	13.8

\*2016-17 GSDP not reported for Maharashtra and Gujarat  
Ratios computed using author's estimates of state GSDP

Source: RBI State Finances: A Study of Budgets

Tamil Nadu's salary and pension payouts do not include the gratuity, provident fund, pension and leave salary payments the government has withheld from 65,000 pensioners of the State Transport Corporation (TNSTC), which was a contributory factor to TNSTC employees calling for a strike and bringing the State to a standstill in January this year.

## Apathetic governance

Populist and insular policies and the low focus on building human and physical infrastructure have resulted in the State's diminished attractiveness as an investment destination. In the World Bank's ease of doing business ranking of 17 Indian cities, Chennai stands at 15. Ludhiana, Hyderabad and Bhubaneshwar are the top three.

In 2016, the Centre's Department of Industrial Policy & Promotion assessed the implementation of business reforms in States. Though Tamil Nadu's implementation score improved to 62.80 per cent in 2016 from 44.58 per cent in 2015, its ranking slipped to 18 in 2016 from 12 in 2015.

Tamil Nadu was ranked low on reform areas such as access to information, single-window system, land and property registrations, construction permit enablers, ease of obtaining electricity connection, carrying out inspections and enforcing contracts. To be fair, the score on environment and labour registrations was 100 per cent and 92.98 per cent, respectively.

Table 3

## Social development indicators

	Andhra Pradesh	Telangana	Karnataka	Maharashtra	Gujarat	Tamil Nadu	All India
<b>Infant Mortality rate*</b>	34	31	24	19	30	17	34
<b>Birth rate*</b>	16.4	17.5	17.6	15.9	20.1	15.0	20.4
<b>Death rate *</b>	6.8	6.1	6.7	5.9	6.1	6.4	6.4
<b>Institutional deliveries (%)</b>	91.6	91.5	94.3	90.3	88.7	99	78.9
<b>Immunisation rate (%)</b>	65.3	68.1	62.6	56.3	50.4	69.7	62.0
<b>Life expectancy at birth (Years)</b>	68.5	NA	68.8	71.6	68.7	70.6	67.9
<b>Sex ratio (Females per 1000 Males)</b>	918	NA	939	878	854	911	900
<b>Fertility rate</b>	1.7	1.7	1.8	1.8	2.2	1.6	2.3
<b>Labour force participation</b>							
<b>Rural*</b>	528	NA	454	490	448	495	406
<b>Urban*</b>	380	NA	388	374	387	403	367
<b>Net school enrollment ratios*</b>							
<b>Primary</b>	72.1	80.6	96.4	85.8	82.5	90.9	87.3
<b>Upper primary</b>	63.4	68.5	79.4	78.5	73.4	77.1	74.7
<b>Secondary</b>	52.3	52.4	62.1	59.9	47.5	65.9	51.3
<b>Higher secondary</b>	24.8	21.0	27.0	41.9	27.7	52.0	32.3
<b>Tertiary gross enrollment ratio</b>	30.8	36.3	26.1	29.9	20.7	44.3	24.5

\*Per 1000 NA: Not available Source: <http://nid.gov.in/state-statistics>

Tamil Nadu's finances are clearly unsustainable and inadequate to meet the twin challenges of an agrarian crisis driven by water scarcity and the State's abysmal ranking as an investment destination. The infighting in the ruling party seems to be diverting focus from governance; indecision and leakages from government expenditures have to stop. The optimal allocation of funds between development and capital expenditures, ensuring the maximum impact for expenditures incurred and rationalising the State work force are key to achieving fiscal sustainability.

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