

State Update: Government of Tamil Nadu

The state of Tamil Nadu has registered a growth of more than 8% between FY07 to FY12, establishing itself as a strong growth driver for the country. Tamil Nadu is the eleventh-largest state in terms of geographical area (130,058 sq. km.) and the seventh-most populous state in India. The state has a population of 7.2 crore (Census 2011) which is around 6% of the total population of India.

Tamil Nadu is among the most industrialised states in the country (share of 8.6% in India's industry output- FY12) with greater level of urbanisation (48.4%). It has attracted several service sectors that are a part of India's new economy sectors like Information Technology (IT) & ITES, telecommunications and finance. At constant prices, the Gross State Domestic Product (GSDP) of Tamil Nadu is estimated at Rs.435,734 crore which is higher than that of the general category states' average for FY13. Presently, its industrial and services sector both together contribute about 88.1% of the State's income. The agriculture & allied activities contribute 11.9% to the state's income. At the micro-level, the state registered a per capita GSDP (at current prices) of Rs. 106,172 in FY13.

This update broadly covers the current economic scenario in the state of Tamil Nadu along with the government's performance in terms of fiscal management; the state having announced its budget for 2013-14.

Demographics

- **Population:** Tamil Nadu's population stands at 7.2 crore as of March 2011, with a decadal growth of 15.6% (2001-2011) which is lower than the national level decadal growth rate of 17.7%. As per the census 2011, it has a population density of 555 persons per sq.km, which is much above national average of 382 persons per sq.km.
- **Gender Ratio:** The state's gender ratio stands at 996 females per thousand males (census 2011).
- **Literacy:** The state's literacy rate at 80.1% is well above the national average of 74% as per the census 2011.
- **Urbanisation:** 48.4% of population stays in urban areas

State's Economy

Taking into consideration the progressive Indian economic slowdown, Tamil Nadu, the third largest state economy appears to be among the worst hit so far. As per the Advance Estimates

released by the Directorate of Economics and Statistics, the GSDP (constant prices) growth rate for FY13 is estimated at 4.6%, which is below the national average.

The share of agriculture witnessed a slight decline in FY13. Agriculture's contribution to the GSDP (at constant prices) fell from 7.2% to 7%, while the share of services remained stable at 61.1%. However, in terms of sectoral growth it is important to note that the growth rates in agriculture and service sectors have been very low. The agricultural sector registered a growth of 1% in FY13 compared with 8% in FY12. Similarly, the services sector growth has fallen drastically from 8.1% to 4.8% in FY13. Besides, the growth in manufacturing sector has turned negative from 3.7% to -1.8%.

State Finance: Budget 2013-14

Budget 2013-14, presents actual accounts (A) for the year 2011-12 and revised estimates (RE) for accounts in 2012-13 along with budgeted estimates (BE) for the year 2013-14. We examine Budget 2013-14 for the state with respect to its revenue and capital accounts and performance thereof –

Revenue Account Profile

Barring the years FY10 and FY11, the state of Tamil Nadu has maintained its revenue surplus position over the years as required by the Thirteenth Finance Commission (ThFC) roadmap for fiscal consolidation. Nevertheless, there has been a progressive decline in the revenue surplus in the past two years. It has declined from Rs.1,364 crore in FY12 to Rs.451 (RE) in FY13. In FY14, the revenue surplus is projected to increase to Rs.663 crore.

Table 1: Revenue Account FY12 – FY14 (Rs. crore)

Revenue A/c Heads	FY12 (A)	FY13 (RE)	FY14(BE)
Revenue Receipts	85,202	101,777	118,580
<i>Tax Revenue</i>	72,232	88,080	103,351
<i>Non- Tax Revenue</i>	5,684	6,688	6,765
Revenue Expenditure	83,838	101,326	117,917
<i>Development Expenditure</i>	47,404	60,099	67,175
<i>Non- Development Expenditure</i>	28,941	31,994	39,859
Of which, interest expenses	9,418	10,754	13,585
Revenue Deficit/Surplus	1,364	451	663

Source: Budget 2013-14, Government of Tamil Nadu

- In terms of revenue, there has been a 19.5% increase in revenue receipts in 2012-13(RE) and it has been growing at an average 22% in the 3- year period FY11-13.
- The state's tax collections have been on the rise. Its tax collections recorded a 22% increase to Rs.88,080 crs in 2012-13(RE). The total tax revenue accounts for 86.5% of its revenue receipts and its non-tax revenue brings in 6.5% of the revenue in FY13 (RE).

- Tax allocations from the centre have continued to increase in FY12 (16.5%) and FY13 (14.2%) despite a constrained economic environment.
- Non-tax revenue receipts (royalties, fees, user charges, central government compensations to state, etc.), is one component that is heavily influenced by extraneous factors. Given that its share in the revenue receipts is just about 6.0% - 8.0%, it does not critically impact budget performance, particularly when in the case of Tamil Nadu its tax revenue funds account for around 86.5% of revenue flows.
- Revenue expenditure grew by 20.9% in FY13 (RE) and the same is expected to grow at a slower pace of 16.4% in FY14 (BE). The average growth rate under this head has been 19.5% since FY10.
- Development expenditure accounts for the major share of revenue expenditure i.e. 59% in FY13 (56% since FY11). Development expenditure, comprising education, sports, arts, health & family welfare, water supply, rural development, agriculture, irrigation, power, etc. grew from 15% in FY12 to 27% in FY13 (RE). However, the same is projected to grow at slower pace of 12% in 2013-14(BE).
- In the non-development expenditure (32% share in revenue expenditure in FY13), interest expenses make up around 34% of the expenditure. The increasing debt burden of the state has resulted in the interest expenditure being high. Interest payments in FY13 (RE) were to the tune of Rs. 10,754 crs.

Capital Account Profile

The capital account of the state continues to be in deficit in FY12 and FY13 (RE). This is primarily because of the social and economic expenditure of the state, which remains very high. This may however, be viewed as constructive; with the state government increasing capital expenditure directed towards the creation of urban and rural development, housing, irrigation, agriculture, power as well as welfare programmes such as healthcare, education, etc.

Table 2: Capital Account FY12 – FY14 (Rs. crore)

Capital A/c Heads	FY12 (A)	FY13 (RE)	FY14(BE)
Capital Receipts	19,961	25,616	29,439
<i>Internal Debt</i>	15,600	20,322	27,570
<i>Loans from Gol</i>	1,179	1,407	1,530
Capital Expenditure	25,649	30,281	31,899
<i>Capital Outlay</i>	16,336	19,165	22,505
<i>Repayment of Public Debt</i>	3,830	6,053	7,957
Capital Deficit	-5,688	-4,665	-2,460

Source: Budget 2013-14, Government of Tamil Nadu

- Tamil Nadu has been self-sufficient in its capital fund base, with increasing internal debt accounting for majority share (nearly 79% of total capital receipts in FY13). This is further budgeted to increase significantly to 93.7% in FY14. As a result, the share of loans from the

central government in capital receipts of the state remain low (5.5% in FY13 and 5.2% in FY14 (BE)).

- The State of Tamil Nadu has endeavoured to maintain its Gross Public Debt at prudent levels as required under the fiscal management principles.

Budget Management & Fiscal Prudence

In compliance with Tamil Nadu Fiscal Responsibility Act, 2003 (TNFRA) and recommendation of the Thirteenth Finance Commission (TFC), the state has successfully adhered to its targets towards budget management and fiscal prudence. The effort of the government to ensure long-term financial stability by achieving revenue surplus, containing fiscal debt and prudential debt management is evident from the Table(3) given below which provides a snapshot of timeframe and targets for fiscal consolidation and achievement of the same by the state.

Table 3: Key Fiscal and Debt Norms

	ThFC Target		Achievement	
	Year	Level	Year	Level
Revenue Deficit	2011-12	0	2011-12	Rs.1,364*
Fiscal Deficit /GSDP	2011-12	3.0%	2011-12	3.0%
Debt/GSDP	2014-15	25.2%	2011-12	19.8%

Source: Budget 2013-14, Government of Tamil Nadu

*: Surplus

- Tamil Nadu registered a revenue surplus of Rs.1,364 crore in FY12; further, the state in its FY13 revised estimates achieved a revenue surplus of Rs.451 crore that is expected to further increase to Rs.663 crore in FY14. It was also able to contain the fiscal deficit as a percentage of GSDP to 3.0% during FY12, which was at par with the 3.0% envisaged in Medium Term Fiscal Plan (MTFP). The same is estimated at a marginally lower level of 2.9% and 2.8% for FY13 (RE) and FY14 (BE).
- The outstanding liabilities as a percentage of GSDP were 19.8%, which was well within the norm of 24.5% prescribed for the year FY12 in the Tamil Nadu Fiscal Responsibility Act. However, continued burden of interest payment at about 11% of revenue receipts every year and the resource gap suggest that the state's sustainability of debt continued to be strained.
- Tamil Nadu government had constituted (March 2003) a "Guarantee Redemption Fund" (GRF) for discharge of invoked guarantees. An amount of Rs.402.46 crore was credited to and Rs.391.77 crore was disbursed from the fund during FY12 .The balance in the fund as of March 2012 stood at Rs.29.93 crore. In addition, the state also has a consolidated sinking fund (CSF) to back contingencies.

- The state has well-managed short-term liabilities, as is evident from the fact that it has not availed of the ways and means advances (WMA) or overdraft facility of the RBI to tide over temporary liquidity constraints.

Power Sector scenario

The power sector in Tamil Nadu did not witness any tariff hike in almost seven years. Consequently, this led to accumulated financial losses, lack of investment, power deficit and delayed payments to suppliers. Finally in FY13, tariff was hiked by 37%. However, the Tamil Nadu Generation and distribution (TANGEDCO) arm of Tamil Nadu electricity board had reported an accumulated loss of Rs.54,500 crore at the beginning of FY13. Hence, as a part of the bailout programme, the state government, in its budget proposal for this year, approved a financial restructuring plan, where 50% of Rs.12,211 crore of short-term and medium term liabilities of the power utility was to be absorbed by the government and also the cash loss to be partly financed from FY13 onwards. In the past two years, the power sector utilities in the state have received aid to the tune of Rs.19,155 crore, the highest financial assistance given by any government. In September 2013, TANGEDCO completed its financial restructuring with support from Tamil Nadu government agreeing to take over 50% of the restructured bank loans. Besides, new power projects are likely to be commissioned soon. Tamil Nadu is thus confident about wiping out its current power deficit.

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