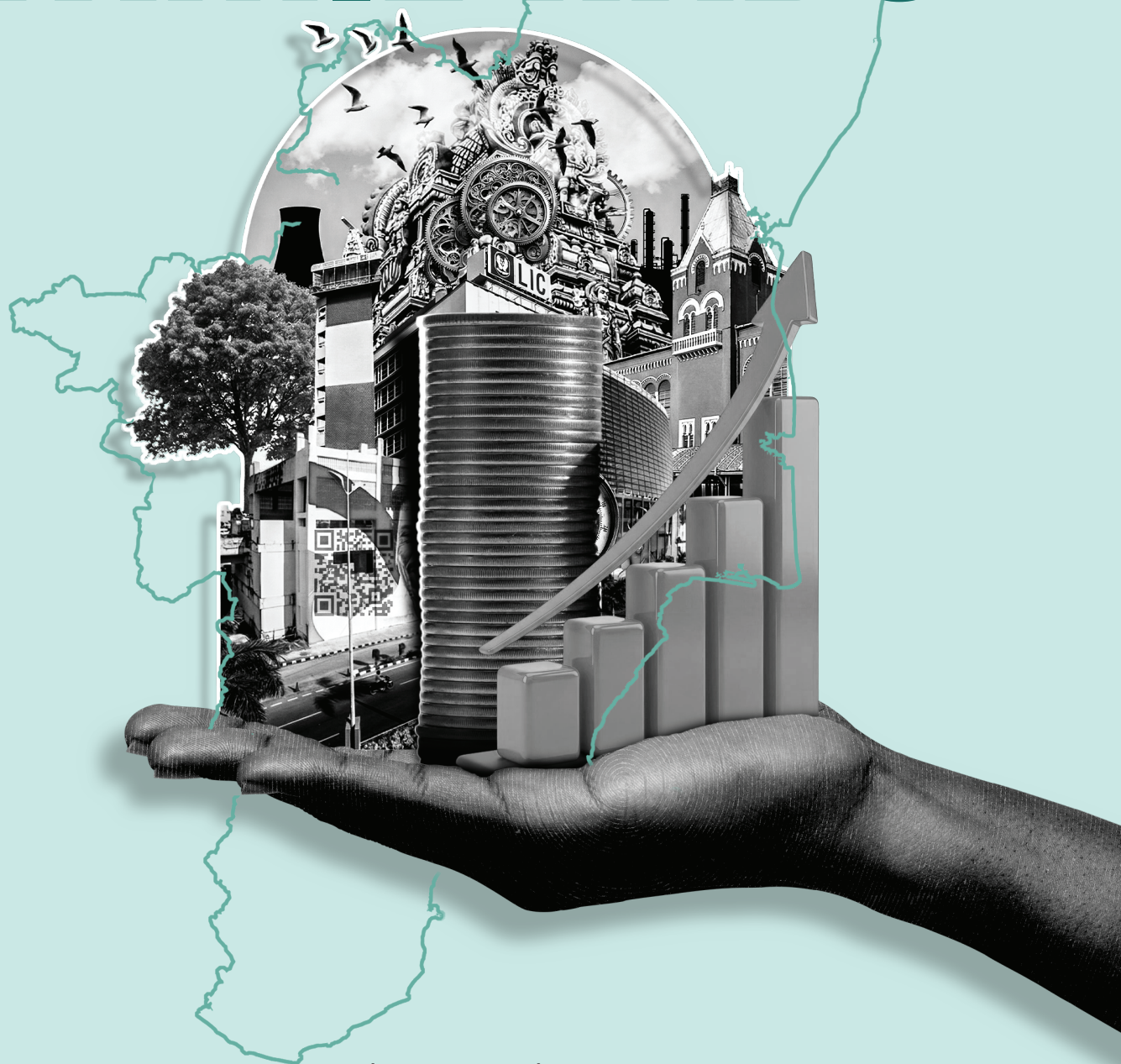


State Fiscal and Economic Health Assessment

TAMIL NADU



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Abbreviations

BE	Budget Estimates
CAG	Comptroller and Auditor General of India
CAGR	Compound Annual Growth Rate
CPI	Consumer Price Index
FC	Finance Commission
FDI	Foreign Direct Investment
FRBM	Fiscal Responsibility and Budget Management
FRI	Fiscal Resilience Index
GFD	Gross Fiscal Deficit
GSDP	Gross State Domestic Product
GSVA	Gross State Value Added
GVA	Gross Value Added
GST	Goods and Services Tax
LFPR	Labour Force Participation Rate
MoSPI	Ministry of Statistics and Programme Implementation
MSME	Micro, Small and Medium Enterprises
PLFS	Periodic Labour Force Survey
PPP	Public-Private Partnership
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
RD	Revenue Deficit
RE	Revised Estimates
TANGEDCO	Tamil Nadu Generation and Distribution Corporation
TNFRA	Tamil Nadu Fiscal Responsibility Act
UDAY	Ujwal DISCOM Assurance Yojana
ULB	Urban Local Body

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Executive Summary

Tamil Nadu presents a paradox of sustained economic expansion alongside persistent fiscal stress, where growth has not translated into proportional fiscal capacity. This reflects a structural mismatch, economic growth has been concentrated in relatively low-buoyancy segments, while committed expenditure has expanded faster than revenue mobilisation. As a result, the State’s fiscal position continues to exhibit underlying structural constraints despite strong economic performance.

Revenue mobilisation has remained broadly flat at around 7.2–7.3% of GSDP, with limited structural improvement, while expenditure remains structurally rigid, with revenue expenditure accounting for nearly 80% of total spending. This has resulted in a persistent revenue deficit of ₹ 49,279 crore in 2024–25. Rising borrowing requirements have increased outstanding liabilities to ₹ 9,55,690 crore, while interest payments of ₹ 62,456 crore continue to absorb a significant share of revenues, limiting fiscal flexibility and reducing the space for developmental spending.

These fiscal outcomes are linked to underlying economic dynamics, where growth remains uneven in its transmission to income, employment, and revenue generation. Investment growth has increasingly relied on public capital formation, while private investment momentum remains uneven. At the same time, employment expansion is concentrated in lower-productivity segments, limiting the translation of output growth into taxable income and sustained revenue expansion.

The interaction of these fiscal and economic conditions creates a “Buoyancy–Rigidity Trap,” where revenue growth lags economic expansion due to weak tax responsiveness, while expenditure remains fixed due to committed obligations. Fiscal balances therefore improve during high-growth periods but deteriorate when growth moderates. This pattern is reinforced by a set of underlying structural drivers that shape how growth translates into fiscal outcomes:

Structural Driver	Core Issue	Fiscal Impact
Spatial and employment imbalances	Concentrated income growth and low-productivity employment	Narrow tax base, weak revenue buoyancy, and persistent revenue deficits requiring borrowing
Public-led investment pattern	Limited depth of private investment cycle	Growth dependent on public spending, increasing borrowing needs without proportional revenue expansion
Manufacturing scale–value gap	High employment but lower value capture	Limited tax productivity, revenue/GSDP remaining flat, and weak translation of growth into fiscal capacity
Infrastructure and power constraints	Delays and financial pressures in key sectors	Lower returns on capital expenditure, continued fiscal support (e.g., power sector), and rising debt and interest burdens

Table 1: Structural Drivers of the Growth-Capacity Mismatch

Addressing this disconnect requires targeted and time-bound policy action. First, revenue capacity needs to be strengthened by raising non-tax revenue toward 1% of GSDP and restoring tax buoyancy above unity through improved compliance and sectoral targeting. Second, expenditure rebalancing should focus on sustaining capital outlay at no less than 2% of GSDP, while simultaneously reducing interest payments to below 18% of revenue receipts over the medium term to create fiscal space for productive spending. Finally, addressing contingent fiscal risks requires a structured turnaround of TANGEDCO, given its large and partially off-budget liabilities, to prevent further spillovers into the State’s balance sheet.¹

Tamil Nadu Fiscal Health Snapshot

This section here gives an overall fiscal and economic health analysis for the State with its vulnerabilities and strengths.

Category	Indicator	Evidence	Implication / Risk
Overall Health Status	Fiscal Health Rating: Vulnerable ²	Fiscal Resilience Index score: 25.30 (2024-25)	Strong economic scale but fiscal capacity remains structurally constrained, reflecting underperformance relative to peer States
Major Vulnerability	Structural Revenue-Expenditure Imbalance	Revenue expenditure >80% of total spending and committed expenditure >50% of revenue receipts, revenue deficit ₹ 49,279 crore (2024-25)	High Risk: Persistent imbalance limits fiscal flexibility
	Rising Debt & Interest Commitments	Liabilities ₹ 9,55,690 crore, interest payments ₹ 62,456 crore, Debt Index ~23.4	High Risk: Interest burden reduces fiscal space for development spending
	Weak Fiscal Transmission of Growth	Tax buoyancy 1.44 → 0.83, State Own Revenue ~7.3% of GSDP	Medium-High Risk: Economic growth not fully translating into fiscal capacity
Trajectory Assessment	Overall Direction	Structurally constrained fiscal trajectory	Fiscal stability dependent on growth cycles
Forward Outlook (2-3 years)	Fiscal Outlook	Rising interest commitments and rigid expenditure structure	Fiscal pressures likely to persist unless revenue elasticity and investment depth improve

Table 2: Fiscal Health and Risk Assessment Summary

1. Introduction

Tamil Nadu is India's second largest economy, contributing around 9.2% of national GDP in 2023-24, driven by a broad manufacturing base, export orientation, and established industrial clusters across automobiles, electronics, textiles, and engineering goods (Invest India, 2026). However, a significant gap exists between this economic potential and the State's current fiscal reality. For the year 2024-25, Tamil Nadu's economy is projected to reach approximately ₹ 31,18,590.3 crore in nominal terms. To manage this, the Government has planned an expenditure of about ₹ 4,53,676 crore. A critical challenge lies in the composition of this spending. In this context, expenditure quality refers to the balance between consumption-oriented revenue expenditure and capital expenditure that supports long-term asset creation and productivity. Nearly 80% of the budget is consumed by revenue expenditure, leaving relatively limited space for capital investment in infrastructure and long-term growth.

These fiscal constraints make sub-national fiscal health assessment important for understanding Tamil Nadu's development trajectory. Fiscal health affects development outcomes through four key channels. First, it determines the State's capacity for productive capital formation, including infrastructure and human capital investment. Second, it influences macroeconomic stability. Third, it shapes the State's counter-cyclical capacity, or its ability to respond to economic shocks without destabilising public finances. Fourth, it affects the political economy of policymaking by shaping the Government's room to undertake reforms, its credibility with financial markets and credit rating agencies, and its bargaining position in inter-Governmental fiscal arrangements. Among these, the most binding constraint in Tamil Nadu is the limited fiscal space for productive capital formation, as high committed expenditure and rising debt servicing reduce the resources available for growth-enhancing investment. As a result,

weaknesses in fiscal health can limit growth even when economic fundamentals are relatively strong.

State fiscal assessment in India operates at multiple and distinct levels. For monitoring and compliance, the Reserve Bank of India's State Finances reports provide time-series evidence on deficits, debt ratios, and revenue-expenditure patterns, while the Finance Commission sets normative benchmarks through fiscal deficit and debt ceilings to guide fiscal discipline. For comparative evaluation, the NITI Aayog Fiscal Health Index aggregates selected indicators to rank States on revenue mobilisation, expenditure quality, fiscal prudence, and debt-related outcomes. In addition, annual budget analyses by research institutions offer short-term assessments of fiscal developments in individual States. While these frameworks are valuable for oversight, benchmarking, and rule-based monitoring, they rely on aggregate indicators and cross-State comparisons. As a result, they provide limited insight into how different fiscal dimensions interact within a State, which indicators act as binding constraints on fiscal performance, or whether observed improvements reflect durable structural change or temporary, growth-led effects.

In Tamil Nadu, this limitation is particularly relevant. Despite being one of India's largest and most industrialised economies, the State continues to exhibit persistent fiscal stress characterised by high revenue deficits, elevated debt servicing, and limited fiscal flexibility. Existing frameworks capture these outcomes but do not explain why fiscal pressures persist despite strong economic scale and diversification, nor do they distinguish whether observed improvements reflect durable structural change or temporary, growth-led effects. This disconnect between economic strength and fiscal outcomes is the central analytical question of this study. The analysis therefore also focuses on identifying

the underlying structural drivers, including expenditure composition, revenue responsiveness, and debt dynamics, that shape fiscal outcomes over time.

Against this background, this study assesses Tamil Nadu's fiscal health using a multi-dimensional, State-specific framework that links fiscal outcomes with economic conditions. The analysis covers five pillars, Fiscal Prudence, Debt Index, Revenue Mobilisation, Quality of Expenditure, and Debt Sustainability, across three phases: pre-COVID (2016-2020), COVID shock (2020-2022), and post-COVID recovery (2022-2025). Instead of using only aggregate indicators, the study connects fiscal trends with policy measures, sectoral spending, investment structure, labour transmission, and spatial income distribution to identify factors influencing fiscal performance. This approach examines how economic structure relates to revenue capacity, expenditure rigidity, and debt levels, and how these interactions affect fiscal space and long-term growth. A composite Fiscal Resilience Index is calculated to summarise overall performance and provide an integrated view of fiscal resilience and sustainability. Where relevant, the study also benchmarks Tamil Nadu against comparable States such as Maharashtra, Gujarat, and Karnataka to contextualise performance within leading State economies.

Following this framework, the report is structured as follows. Section II presents the State Profile and Context, outlining key demographic and economic characteristics. Section III describes the methodology, including the construction of the Fiscal Resilience Index and analytical approach. Section IV assesses Fiscal Health across the five pillars, Fiscal Prudence, Debt Index, Revenue Mobilisation, Quality of Expenditure, and Debt Sustainability. Section V examines Economic Dynamism, analysing growth patterns, investment trends, and labour market outcomes. Section VI brings these together to diagnose the structural fiscal paradox, linking economic structure with fiscal outcomes. Section VII concludes with key findings and policy implications for strengthening fiscal resilience.



2. State Profile and Context

2.1 Demographic and Geographic Overview

Tamil Nadu is located at the southern end of the Indian peninsula and covers an area of about 130,060 sq. km. The State has a long coastline along the Bay of Bengal, supporting maritime trade and industrial activity through major ports such as Chennai, Kamarajar (Ennore), and V.O. Chidambaranar (Tuticorin). The State's climate is largely dependent on the northeast monsoon and is divided into seven agro-climatic zones (TNAU, Agro-Climatic Zones), including the Cauvery Delta, which is the main irrigated agricultural region. Variations in rainfall, water availability, and terrain influence agricultural practices and regional economic conditions in the State.

This geographic context is accompanied by a demographic profile indicating an advanced stage of demographic transition. With a projected population of 7.74 crore in 2025 and a low growth rate of 0.42% (2015-2025), population-led expansion is limited. At the same time, a dependency ratio of 41.8 (below the national average of 47.5) reflects a relatively high working-age population. This demographic window is transitional. Life expectancy has increased to ~73 years, while fertility has declined to ~1.3 births per woman. (Economic Survey, 2026). As a result, ageing pressures are expected to rise from the early-to-mid 2030s, increasing demand for pensions, healthcare, and social provisioning (PIB, October 2025). From a fiscal perspective, this implies a gradual but significant increase in expenditure pressures. Ageing-related commitments, particularly pensions, healthcare, and social security, could increase by 1–2 percentage points of GSDP over the next two decades, based on current expenditure patterns and demographic trends. This transition will narrow fiscal space unless offset by stronger revenue growth or expenditure reprioritisation, underscoring the

urgency of strengthening fiscal capacity during the remaining demographic window.

Although literacy levels are relatively high, these demographic features have not translated proportionately into labour market outcomes. Labour force participation remains only marginally above the national average at 64.6%, indicating limited conversion of human capital into productive employment. Gender and sectoral patterns reinforce this interpretation. Urban female labour force participation is around 24.4% compared with male participation above 59%, reflecting a persistent gap in labour absorption. A significant share of women's work remains informal or self-employed, with only about 7.8% engaged in regular wage employment, reflecting broader labour market patterns. Sectorally, services and manufacturing account for roughly 64% of urban female employment in the State (ICRIER, 2024). This indicates strong industrial absorption, but employment conditions remain shaped by segmentation and limited mobility pathways, suggesting that participation gains do not automatically translate into income deepening or capability expansion.

2.1.1 Key Implications for Economic Policy

- a. The combination of low population growth and a low dependency ratio implies that future growth must be productivity-led, with policy emphasis on skills, technology adoption, and capital deepening rather than labour expansion. Given declining fertility and rising life expectancy, this window is time-bound, requiring productivity gains before ageing pressures increase fiscal commitments toward pensions and healthcare.
- b. Despite high literacy levels, only about two-thirds of the working-age population participates in the labour force. This gap

may reflect a combination of factors, including limited employment absorption, discouraged worker effects, continued participation in education, and gender-specific barriers to labour market entry. Addressing these constraints, particularly through job quality improvement, skill alignment, and female workforce integration, will be important for translating demographic advantages into sustained economic growth.

- c. The favourable demographic structure provides a time-bound opportunity to strengthen employment-intensive manufacturing and modern services before ageing pressures increase in the medium term. Expansion of higher value-added industrial activity and technology-enabled services can improve income deepening and reduce vulnerability associated with concentration in low-wage segments.
- d. Stable population size and strong social indicators also allow policy to shift from extensive coverage expansion toward quality enhancement in education, health, and urban services. Improved service quality and infrastructure productivity can strengthen human capital utilisation and reduce future fiscal stress associated with demographic ageing, supporting long-term economic efficiency.

Indicator	State Value	Year	National Average	Ranking Among States
Total Population (StatisticTimes, 2026)	7.74 Crore	2025 (Projected)	141.75 Crore	7 th of 28 ³
Average Annual Population Growth Rate (2015-2025)	0.42%	2015-2025	1.12%	28 th of 28 ⁴
Literacy Rate (%) 7 years & above (Ministry of Education, 2025)	85.5%	2024	80.9%	11 th of 28 ⁵
Sex Ratio (per 1,000 males)	1088	2021	1020	3 rd of 28 ⁶
Labour Force Participation Rate (15-59 years) (%) (MoSPI, 2023)	64.6%	2024	64.3%	17 th of 28 ⁷
Dependency Ratio	41.8	2024	47.5	8 th of 28 ⁸

Table 3: Key Demographic Indicators

2.2 Economic and Sectoral Structure

2.2.1 Sector-wise GVA

Sector	GSVA (₹ Lakhs) (Current Prices)	% of GSVA	5-Yr CAGR (%) ⁹
Primary Sector	38,623,854.45	13.35%	10.8%
Secondary Sector	95,604,886.81	33.05%	12.3%
Tertiary Sector	155,040,417.86	53.60%	11.8%
Total GSVA	289,269,159.10	100.0%	-

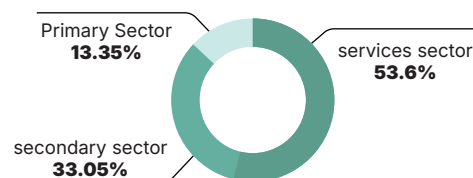
Table 4: Economic and Sectoral GSVA (Refer to Annexure I, Table I for Detailed Analysis)

Tamil Nadu's economy exhibits a broad sectoral composition, with agriculture, industry, and services all contributing to Gross State Domestic Product (GSDP). In terms of value addition, the services sector forms the largest component, accounting for 53.6% of Gross State Value Added (GSVA). This reflects the prominence of activities such as trade, transport, financial services, information technology, and other services within the State's economic structure. The secondary sector contributes around 33% of GSVA, indicating a substantial industrial and construction base within the State economy. The primary sector accounts for around 13% of GSVA. While its contribution to total value addition is lower relative to the other sectors, it continues to retain relevance within the overall economic structure, particularly in regions where agriculture and allied activities remain important.

Within the services sector, real estate alone accounts for about 18.46% of GSVA, nearly equal to the contribution of manufacturing at 18.23%. This highlights a significant concentration of value addition in a largely

non-tradeable sector with potentially lower tax elasticity compared with manufacturing and export-oriented activities. It is important to note, however, that real estate GVA includes imputed rent on owner-occupied housing, which does not generate corresponding cash flows, employment, or tax revenues, making it structurally different from manufacturing output. While real estate expansion reflects urbanisation and rising asset values, this composition may moderate the pace at which economic growth translates into stronger revenue mobilisation.

Taken together, the sectoral composition points to a services-dominated economic structure, supported by a sizable industrial base and a comparatively smaller primary sector. This composition provides the structural context within which sector-specific growth dynamics, drivers, and vulnerabilities are examined in subsequent sections.



2.2.2 Key Economic Drivers

a. Primary Driver: Market-based Services and Urban Economies

Tamil Nadu's growth is primarily driven by market-oriented services linked to its moderate and expanding urban system. Activities such as trade, real estate, transport, financial services, and business services have recorded sustained growth, pre-pandemic CAGRs (2016-17 to 2019-20) ranged between 5.9% and 15.5%, and the five-year post-pandemic CAGRs (2020-25) fall in a broadly similar 8%–14% range, indicating that the sector's underlying growth trajectory was not materially distorted by the post-COVID rebound. Major urban centres such as Chennai, Coimbatore, and Madurai act as commercial and service hubs, reinforcing the role of cities as engines of growth. However, fiscal evidence shows that own-tax buoyancy has remained below unity in most years, indicating that expansion in transaction-intensive service sectors has not translated proportionately into revenue growth, an issue examined in detail in the fiscal pillars.

b. Secondary Driver: Manufacturing Clusters and Industrial Ecosystems

Manufacturing remains a critical driver. Pre-pandemic, the sector expanded at a CAGR of 8.3% (2016-17 to 2019-20); the five-year post-pandemic CAGR of 10.7% (2020-25) is therefore only partially explained by base effects from the COVID contraction, suggesting a degree of genuine acceleration, though the gap warrants caution in interpretation. Tamil Nadu's strength lies in its cluster-based industrial structure, particularly in automobiles and auto components in the Chennai region, textiles in the Coimbatore-Tiruppur belt, electronics, and engineering goods. These clusters support indirect economic activity through demand for inputs such as steel, intermediate components, power, transport, and logistics. Further, empirical evidence (Research Gate, 2008) from Indian manufacturing shows that firms generate backward and forward spillover effects on

productivity and related activities, reflecting how manufacturing linkages influence broader economic performance. These linkages reinforce demand in construction, logistics, and business services, anchoring Tamil Nadu's industrial competitiveness beyond direct value addition. Yet sectoral output expansion has coincided with a decline in own-tax-to-GSDP ratios, signalling weak fiscal elasticity from industrial growth despite scale, a divergence analysed later under revenue mobilisation dynamics.

c. Emerging Driver: Infrastructure and Capacity Expansion

Construction and utilities have recorded notably higher growth, but the pre-pandemic baseline is essential context here. Construction grew at a pre-pandemic CAGR of 8.9% (2016-17 to 2019-20), while its five-year CAGR of 13.37% (2020-25) reflects a material acceleration, likely driven by the State's post-COVID infrastructure push through programmes such as Singara Chennai 2.0, Chennai Metro Phase II, and road and urban investments. Similarly, electricity and utilities recorded a pre-pandemic CAGR of 8.7% (2016-17 to 2019-20), against a five-year CAGR of 20.12% (2020-25), a divergence large enough to indicate that the post-pandemic figure is substantially shaped by both low-base recovery and stepped-up capital investment rather than an organic acceleration of underlying demand. Although these sectors account for a smaller share of GSVA, they primarily serve an enabling role in supporting industrial activity and urban expansion.

2.2.3 Vulnerability Assessment

a. Concentration risk

Concentration risk: Value addition is concentrated in a limited set of urban and investment-linked sectors, notably real estate, manufacturing, construction, and trade, which together account for close to 60% of GSVA. This concentration is not inherently risky, but vulnerability arises because these sectors exhibit strong

co-movement, responding to common drivers such as urban demand, credit conditions, and investment cycles. Slowdowns in construction or real estate therefore spill over quickly into manufacturing, trade, and transport, amplifying downturns rather than being offset by other sectors. Limited short-run reallocation of factors of production further increases exposure to synchronised shocks.

b. Growth variability

Sectors such as construction, utilities, and mining show higher variability in growth rates, reflecting sensitivity to investment cycles and regulatory conditions.

c. Demand sensitivity

The prominence of services and real estate links overall economic performance closely to trends in urban demand, credit conditions, and public investment.

Period	Real GSDP Growth (%)	National Growth (%)	Relative Performance
FY 2016-17 to 2017-18	8.59%	6.80%	Outperformed by 1.79 pp
FY 2017-18 to 2018-19	7.01%	6.45%	Outperformed by 0.56 pp
FY 2018-19 to 2019-20	3.25%	3.87%	Underperformed by 0.62 pp
FY 2019-20 to 2020-21	0.07%	-5.78%	Outperformed by 5.85 pp
FY 2020-21 to 2021-22	7.89%	9.69%	Underperformed by 1.80 pp
FY 2021-22 to 2022-23	6.17%	7.61%	Underperformed by 1.44 pp
FY 2022-23 to 2023-24	9.26%	9.19%	Outperformed by 0.07 pp
FY 2023-24 to 2024-25	11.19%	6.49%	Outperformed by 4.70 pp

Table 5: Growth Trajectory from 2016-17 to 2024-25

2.3.1 Growth Trends

Tamil Nadu's real GSDP growth exhibits moderate inter-temporal volatility, reflected in a standard deviation of 3.54 percentage points and a coefficient of variation of 0.50 based on annual growth rates over the study period. This volatility refers to year-to-year variation in outcomes rather than stability. The observed variation can be linked to the composition of the State economy. Manufacturing and construction account for a large share of value addition and are inherently cyclical,

responding strongly to investment cycles, credit conditions, and external demand. Tamil Nadu's integration into export-oriented sectors such as automobiles, textiles, and engineering goods also increases sensitivity to global demand fluctuations and supply-chain disruptions. Agriculture, though smaller in share, remains influenced by rainfall variability and reservoir conditions, introducing additional fluctuations through output and rural demand channels.

At the same time, Tamil Nadu's growth is closely correlated with national economic cycles. During national downturns the State tends to contract less sharply than the all-India average, but it also does not consistently outperform during recovery phases. This co-movement reflects dependence on national industrial demand, inter-State trade linkages, and centrally driven investment flows rather than autonomous stabilising drivers. The combined effect of sectoral cyclicity, export exposure, and climatic variability produces moderate volatility alongside strong co-movement with national trends.

This pattern indicates cyclical sensitivity rather than structural instability. Growth outcomes are shaped by macroeconomic and sector-specific shocks, with limited evidence of counter-cyclical momentum arising from diversification or internal demand insulation.

2.3.2 Major Economic Shocks

● 2015 Chennai Floods

The 2015 Chennai floods represented a significant external shock to Tamil Nadu's urban economy, disrupting activity in one of the State's main production centres. Extreme rainfall during November-December caused widespread inundation across the metropolitan region, leading to estimated economic losses of about \$ 2.2 billion and insured losses of around \$ 755 million, making it the second costliest insurance event in India on sigma records (Business Standard, 2016). Transport shutdowns, airport closure, and interruptions to industrial and IT operations temporarily halted production and logistics, while damage to infrastructure and inventories reduced output. The impact was amplified by urban expansion into wetlands and floodplains and inadequate drainage capacity, which prolonged disruption and recovery. The episode illustrates how climate-related shocks translate into growth volatility and fiscal pressure through output loss, emergency public spending, and infrastructure repair needs, particularly when economic activity is concentrated in exposed urban regions.

● COVID-19 Pandemic

The COVID-19 pandemic in 2020-21 was the most severe economic shock during the period. Lockdowns and movement restrictions caused a sharp fall in economic activity in industry, trade, transport, and services. As a result, Tamil Nadu faced large revenue losses. Government estimates show a total revenue shortfall of up to ₹ 85,000 crore during the crisis, with monthly losses of about ₹ 13,000-₹ 14,000 crore at the peak of the lockdowns (Economic Times, 2020). At the same time, Government spending increased because of higher health costs, relief measures, and welfare support. This created a large gap between falling revenues and rising expenditure. As a result, budget deficits widened sharply, and the State had to borrow more under the relaxed FRBM limits. The COVID shock therefore became the point of maximum fiscal stress for Tamil Nadu, with long-lasting effects on debt, fiscal discipline, and sustainability, even after the economy started to recover.



2.4 Major State Policies and Reform Outcomes

The selection of major State policies and analytical reforms mentioned in this section is guided by a framework designed to evaluate their multi-dimensional impact on the State's fiscal architecture and macroeconomic dynamism. Rather than a comprehensive census of all governmental interventions, this study purposely selects flagship initiatives based on a three-fold criteria (Refer to Annexure I, Table II for Detailed Policies Analysis).

a. Fiscal Magnitude and Expenditure Rigidity

Policies are selected based on the scale of allocation and their tendency to create committed expenditure. The focus is on interventions that introduce recurring obligations into the revenue account, thereby reducing fiscal flexibility and limiting discretionary spending.

b. Productivity and Growth Multipliers

Policies are evaluated for their contribution to long-term growth and fiscal capacity. The framework distinguishes between income support measures, which stabilise demand in the short term, and capital-intensive investments, which generate higher long-term multipliers and strengthen future revenue potential.

c. Risk Profile and Contingent Liabilities

The assessment prioritises reforms that alter the State's risk exposure, including off-budget financing and externally supported projects. These are evaluated in terms of their implications for fiscal sustainability and the expansion of liabilities beyond headline debt.

d. Policy Coverage in the Assessment

Using this framework, the study examines a range of major policy initiatives. These include long-standing social programmes such as the MGR Nutritious Meal Programme and Dr. Muthulakshmi Reddy Maternity Benefit Scheme, which support nutrition and maternal welfare, structural administrative reforms such as salary and

pension revisions under the Seventh Pay Commission, infrastructure initiatives such as the Comprehensive Road Infrastructure Development Programme, urban infrastructure investments, and major transport projects including Chennai Metro expansion, and sectoral development programmes such as industrial parks, MSME cluster initiatives, and startup ecosystem support. Recent measures have also expanded income support and mobility access, alongside initiatives to improve public health delivery.

It is important to note that welfare and social support schemes play a critical role in stabilising household consumption and improving social outcomes, particularly during periods of economic stress. The concern is not with their presence, but with their composition and balance. When a large share of expenditure is directed toward consumption without corresponding investment in productivity-enhancing assets, it can constrain fiscal space for capital expenditure. Over time, this may increase inflationary pressures and create persistent fiscal burdens. A balanced allocation between welfare and capital investment is therefore essential to ensure that public spending supports both immediate stability and long-term growth.

2.4.1 Policy Expansion and Fiscal Structuring in Tamil Nadu

a. Structural Expansion of State Commitments

Over the past decade, Tamil Nadu has expanded public provisioning, infrastructure investment, and industrial support. While these measures improved service delivery and economic stability, they also increased recurring fiscal obligations. Interventions such as pay revisions, utility sector support, infrastructure expansion, and income support programmes have collectively strengthened expenditure commitments and shaped the State's fiscal structure.

b. Expansion of Public Provision and Revenue Expenditure Rigidity

Tamil Nadu maintained and expanded broad-based public provisions. These interventions have supported consumption stability and social outcomes. However, they have also increased the share of committed revenue expenditure, which now absorbs a dominant portion of receipts (more than 50%). Given the nature of these commitments, expenditure adjustment during periods of fiscal stress remains limited. This structural rigidity reduces fiscal flexibility and contributes to persistent revenue deficits.

c. Infrastructure Push and Borrowing Dependence

Infrastructure-led growth has been pursued through investments in urban systems, irrigation, and transport. While these investments support long-term productivity, their fiscal returns are gradual, whereas borrowing costs are immediate. This creates pressure on fiscal balances in the medium term.

d. Pandemic Response and Structural Lock-In Effects

The COVID shock accelerated public provisions and health expenditure expanded. Emergency support stabilised households and local demand but converted temporary spending into recurring commitments. Financing this expansion through borrowing increased debt levels and interest burdens, embedding pandemic-era fiscal pressures into subsequent years.

e. Financing Strategies and Risk Transmission

To sustain development and welfare priorities, Tamil Nadu relied on borrowing and credit-linked investment. Utility support and infrastructure financing transferred operational and execution risks to the State balance sheet. These strategies enabled policy continuity but expanded fiscal vulnerabilities through rising liabilities and contingent exposures.

2.4.2 Fiscal Structural Implications

Taken together, policy choices reshaped Tamil Nadu's fiscal structure in three key ways:

a. Rising Expenditure Rigidity

Committed expenditure increased the fixed cost component of the budget.

b. Debt-Linked Capital Formation

Infrastructure expansion raised borrowing requirements before generating fiscal returns.

c. Expanded Liability Transmission

Utility support and financing strategies increased implicit and explicit fiscal risks.

These developments explain why fiscal pressures persisted despite sustained economic growth. The State's fiscal position reflects accumulated policy commitments rather than isolated budgetary decisions, demonstrating how development priorities and financing choices jointly shape fiscal outcomes.



3. Methodology

This study evaluates Tamil Nadu's fiscal health using a multi-dimensional framework adapted from the NITI Aayog Fiscal Health Index, constructing a composite Fiscal Resilience Index (FRI) for the period 2016-17 to 2024-25 (BE). The framework assesses fiscal performance across five core pillars, which together capture revenue capacity, expenditure efficiency, fiscal discipline, and the sustainability of public debt. These dimensions are aligned with India's fiscal policy architecture, particularly the Fiscal Responsibility and Budget Management (FRBM) framework and Finance Commission priorities. Further, Tamil Nadu's performance is benchmarked against Maharashtra, Gujarat, and Karnataka, which are selected due to their similar economic scale, level of industrialisation, revenue capacity, and fiscal complexity. These states represent appropriate peers within India's federal system, as they face comparable fiscal trade-offs between growth, welfare commitments, and fiscal consolidation. This ensures that differences in outcomes reflect fiscal management and policy choices, rather than structural differences in size or development stage (Refer to Annexure II for Detailed Analysis).

a. Fiscal Prudence

Evaluates the sustainability of fiscal management through deficit indicators and the balance between routine income and expenditure.

b. Debt Index

Captures the burden of accumulated liabilities and the extent to which debt servicing constrains fiscal flexibility.

c. Revenue Mobilisation

Measures the State's ability to generate its own revenues relative to the size of its economy and expenditure requirements.

d. Quality of Expenditure

Assesses how effectively public spending

is directed toward development and capital formation that support long-term economic growth.

e. Debt Sustainability

Examines whether economic growth is sufficient to sustain debt obligations over time.

The index is constructed by normalising key fiscal ratios and aggregating them into pillar scores and a composite index, referred to as Fiscal Resilience Index. Each pillar is assigned equal weight in the composite index, consistent with the approach adopted by the NITI Aayog Fiscal Health Index. The methodology broadly follows the NITI Aayog Fiscal Health Index framework, with adaptations to construct a consistent time series for the period 2016-17 to 2024-25. The normalisation is based on a continuously expanding reference window, anchored at 2014-15, where benchmarks for each year are derived using all available historical data up to the previous year, excluding the current year to avoid look-ahead bias. This benchmarking approach allows performance to be assessed relative to evolving fiscal conditions over time, while ensuring that score movements reflect underlying trends rather than contemporaneous shocks. It is important to note that index movements reflect both changes in underlying fiscal ratios and shifts in benchmark distributions over time. Therefore, interpretation of performance relies on a combined assessment of index trends and actual fiscal indicators.

Beyond index construction, the study adopts a diagnostic analytical approach that examines fiscal behaviour over time through phase-wise analysis, identifies the dominant fiscal ratios shaping each pillar, and evaluates whether observed improvements reflect structural changes or cyclical effects. This approach enables the identification of key constraints and policy priorities affecting the State's long-term fiscal stability.

4. Dimension I: Fiscal Resilience Assessment

Tamil Nadu's fiscal health reveals a structural paradox: a substantial and expanding economy alongside persistent fiscal pressures. Despite revenue recovery and moderate capital recovery post-COVID, high committed expenditure, rising interest burdens, and limited reallocation flexibility continue to constrain long-term sustainability. The section provides a pillar-wise snapshot of consolidated view of fiscal trends, followed by detailed analysis across pre-COVID (2016-2020), pandemic shock (2020-2022), and post-COVID recovery (2022-2025), highlighting how cyclical gains have been offset by structural constraints (Refer to Annexure III for detailed phase-wise analysis for each pillar)¹⁰.

Pillar	2024-25 Score	Trend Direction (2016-17 → 2024-25)	Comparison with National Average (Post-COVID Comparison)	Key Insight
Fiscal Prudence	12.3	↓ Persistent deterioration due to revenue deficits	Revenue Deficit/GSDP: TN 1.59% vs India 0.31% Gross Fiscal Deficit/GSDP: TN 3.48% vs India 3.09%	Structural imbalance between revenue growth and committed expenditure
Debt Index	23.4	↓ Persistent deterioration	Interest Payments/Revenue Receipts: TN 20.07% vs India 12.31% Outstanding Liabilities/GSDP: TN 31.38% vs India 28.20%	Rising debt and interest obligations reduce fiscal flexibility
Revenue Mobilisation	37.7	↑ Post-COVID recovery but plateauing	State Own Revenue/GSDP: TN 7.25% vs India 7.90% State Own Revenue/Total Expenditure: TN 48.5% vs India 42.4%	Revenue strength reflects economic scale rather than strong tax buoyancy
Quality of Expenditure	19.2	↑ Post-COVID improvement but moderating	Development Expenditure/Total Expenditure: TN 55.53% vs India 69.74% Capital Outlay/GSDP: TN 1.59% vs India 2.63%	Development spending rising but capital investment remains low
Debt Sustainability	34	↓ Pandemic shock, partial recovery	Nominal GSDP Growth: TN 14.6% vs India 11.9% Interest Payment Growth: TN 14.55% vs India 9.68%	Sustainability depends on growth exceeding interest cost growth

Table 6: Pillar-wise Fiscal Performance, Trends, & National Average Comparison (2024-25)

4.1 Fiscal Prudence

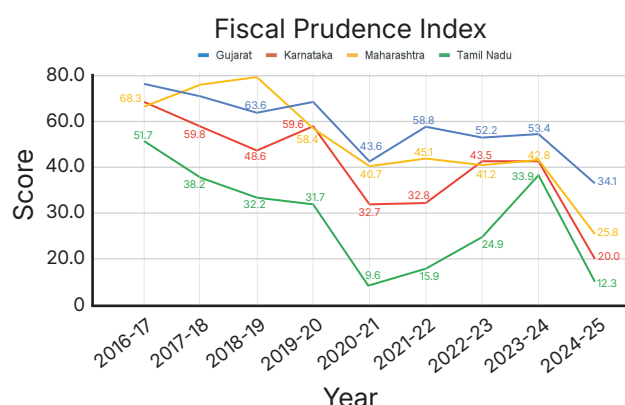


Figure 1: Fiscal Prudence Index: Gujarat, Karnataka, Maharashtra & Tamil Nadu (2016-17 to 2024-25)

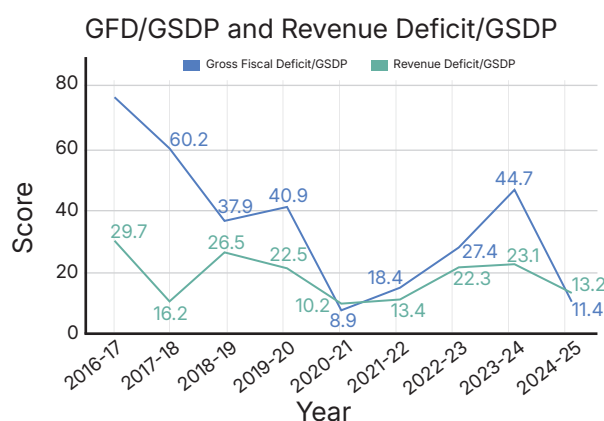


Figure 2: Normalised Score of GFD/GSDP & Revenue Deficit/GSDP, Tamil Nadu, 2016-17 to 2024-25

Across all three phases, Tamil Nadu consistently records higher fiscal deficit and revenue deficit ratios than its key peer states, as well as the national average, indicating a structurally weaker fiscal position. This persistent divergence is observed not only during the pandemic shock but also in the pre-COVID expansion phase and the post-COVID recovery period, suggesting that fiscal imbalances are embedded in the State's fiscal structure rather than driven by temporary economic conditions.

4.1.1 Key Findings

a. Pre-COVID Phase (2016-17 to 2019-20): Structural weakening despite favourable growth conditions

Fiscal prudence declined from 51.7 in 2016-17 to 31.7 in 2019-20, indicating deterioration even during a period of stable economic growth. In contrast, peer states maintained significantly stronger fiscal positions, with Gujarat at 69.7, Karnataka at 59.6, and Maharashtra at 58.4 in 2019-20. This gap suggests that Tamil Nadu entered the pandemic with already weaker fiscal fundamentals. Deficit indicators reinforce this trend. The persistence of this gap under normal growth conditions indicates that fiscal pressures were structural in nature rather than driven by temporary shocks, reflecting weaker underlying fiscal capacity relative to peer states. GFD/GSDP remained elevated at around 2.9-3.45%, while Revenue Deficit/GSDP stayed persistently positive at 1.0-2.0%, indicating that routine expenditure was already exceeding revenue. This implies that even in a normal growth environment, fiscal expansion was not being supported by corresponding revenue strength, limiting the State's ability to build buffers.

b. Pandemic Phase (2020-21 to 2021-22): Disproportionate deterioration and weak fiscal buffers

Tamil Nadu experienced a significantly steeper decline in fiscal prudence than its comparator states, as reflected in both the index scores and the underlying deficit ratios. The Fiscal Prudence Index fell sharply to 9.6 in 2020-21 and remained low at 15.9 in 2021-22, indicating a substantial weakening of fiscal balance during the pandemic period. In comparison, peer states maintained considerably higher levels, pointing to stronger fiscal resilience: The divergence is clearly supported by the underlying ratios. Tamil Nadu records the highest fiscal deficit and revenue deficit among peer states in 2020-21, indicating a sharper expansion of fiscal imbalances. Relative to the pre-COVID phase, this

State	2020-21 Score	GFD/GSDP (%)	Revenue Deficit/GSDP (%)
Tamil Nadu	9.6	5.26	3.49
Gujarat	43.6	2.50	1.40
Maharashtra	40.7	2.74	1.58
Karnataka	32.7	4.09	1.18

Table 7: Fiscal Prudence Score and Deficit Indicators: Inter-State Comparison (2020-21)

represents a clear intensification of existing pressures rather than a statistical artefact. The scale of deterioration suggests that Tamil Nadu relied more heavily on deficit financing compared to peers, reflecting limited fiscal flexibility and a greater dependence on borrowing during the shock.

c. Post-COVID Phase (2022-23 to 2024-25): Recovery without consolidation

Fiscal prudence improved temporarily to 33.9 in 2023-24, but declined sharply to 12.3 in 2024-25, indicating that gains were not sustained. In contrast, peer states maintained more stable trajectories, with Gujarat at 34.1, Maharashtra at 25.8, and Karnataka at 20.0 in 2024-25, reflecting more durable consolidation. While part of the decline reflects changes in the benchmark distribution, particularly as the maximum values in 2024-25 moved closer to Tamil Nadu's ratios, the underlying fiscal position shows little improvement. GFD/GSDP remained elevated at around 3.48% and Revenue Deficit/GSDP at around 1.58%, indicating that fiscal imbalances persisted even during a high-growth recovery phase. This suggests that the observed movements in the index are influenced not only by Tamil Nadu's performance but also by shifts in relative positioning within the peer group. However, the absence of any meaningful reduction in deficit ratios, combined with continued underperformance relative to peers, indicates that the State's fiscal position remains structurally weak, with no evidence of sustained consolidation.

d. Structural Drivers: Persistent revenue deficit, rigid expenditure, and rising debt dependence

Tamil Nadu's revenue deficit increased from ₹ 35,909 crore in 2019-20 to ₹ 49,279 crore in 2024-25 (BE), remaining structurally elevated as a share of GSDP even during high-growth years. In contrast, Gujarat recorded a revenue surplus of ₹ 9,821 crore, while Maharashtra's deficit was ₹ 20,051 crore, significantly lower despite a larger economy. While part of this gap reflects structural differences in expenditure commitments and revenue composition across states, the persistence of Tamil Nadu's deficit even during high-growth years indicates that the imbalance cannot be fully explained by these factors alone and points to deeper fiscal pressures. This imbalance is reinforced by high expenditure rigidity, with revenue expenditure exceeding 80% of total spending and committed expenditure over 50% of revenue receipts, leaving limited scope for adjustment. At the same time, borrowing has been used to bridge the gap between revenue and expenditure, leading to rising debt servicing commitments. Interest payments increased from 16.6% to 17.7% of revenue expenditure (Finance Commission, Table 5.3) and remained above 20% of revenue receipts in the post-COVID period, indicating that a growing share of fiscal resources is pre-empted by past obligations, reducing flexibility for future spending.

e. Comparison with National Average

Tamil Nadu consistently operates above national deficit numbers. Revenue Deficit/GSDP at about 1.59% is significantly higher than the all-India average of 0.31%, while GFD/GSDP at around 3.48% exceeds the national benchmark of 3.09%. Unlike several large states where fiscal indicators converge toward national norms during recovery phases, Tamil Nadu's divergence persists. This indicates that fiscal pressures are structural and remain elevated even under favourable growth conditions.

4.1.2 Durability and Fiscal Impact Assessment

The persistence of fiscal imbalances across phases indicates that Tamil Nadu's fiscal prudence weakness is structural rather than cyclical. Elevated revenue and fiscal deficits are observed in the pre-COVID expansion phase, during the pandemic, and in the post-COVID recovery, suggesting that these pressures are embedded within the State's fiscal structure rather than driven by temporary economic conditions. National benchmarking further shows that Tamil Nadu operates at higher deficit levels than the average Indian State. Despite its relatively large economic base, both revenue and fiscal deficits remain elevated, indicating weaker fiscal positioning in comparative terms. Revenue expenditure absorbs over 80% of total spending, limiting fiscal flexibility and making deficit reduction dependent on sustained high growth.

Institutionally, while the FRBM framework (TNFRA, 2003) envisages elimination of the revenue deficit and the 15th Finance Commission (15th FC, October 2020) recommends maintaining fiscal deficits around 3% of GSDP, Tamil Nadu continues to exceed these thresholds. Even after the withdrawal of pandemic-related relaxations, the Gross Fiscal Deficit averaged about 3.48% of GSDP, while Revenue Deficit/GSDP remained around 1.59%, well above the national average. These imbalances have direct fiscal consequences. A growing share of resources is pre-empted by past commitments, reducing space for productive expenditure. This is reflected in Capital Outlay/GSDP at about 1.59%, significantly below the national benchmark of 2.63%, and interest payments absorbing nearly 20% of revenue receipts. As a result, fiscal capacity to support long-term growth and respond to economic shocks remains constrained.



4.2 Debt Index

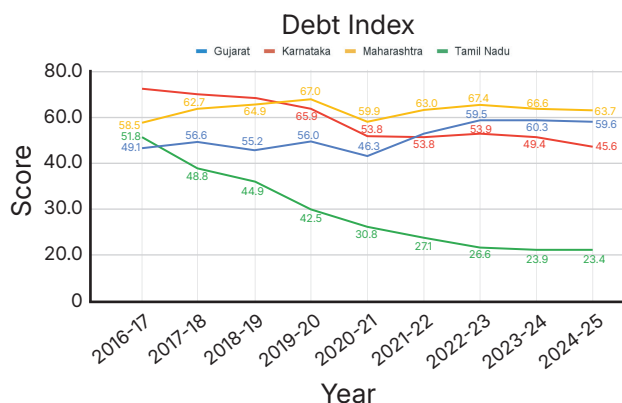


Figure 3: Debt Index: Gujarat, Karnataka, Maharashtra & Tamil Nadu (2016-17 to 2024-25)

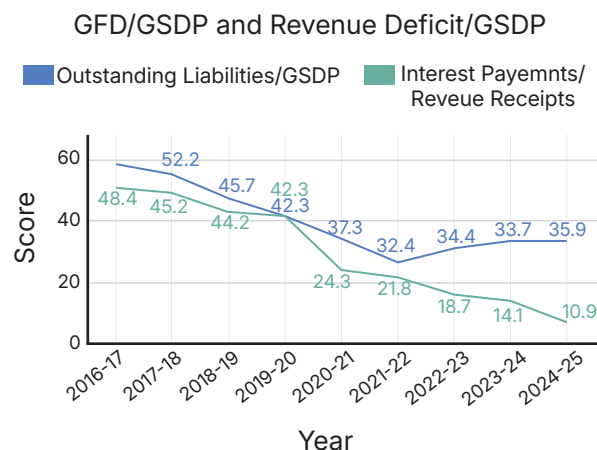


Figure 4: Normalised Score of Outstanding Liabilities/GSDP & Interest Payments/Revenue Receipts, Tamil Nadu, 2016-17 to 2024-25

Tamil Nadu's debt trajectory reflects an initial improvement in the pre-COVID period, a sharp deterioration during the pandemic, and limited post-COVID stabilisation, unfolding across three distinct phases. Interpreted using the index, the movements in the Debt Index point to persistent structural pressures rather than short-term volatility.

4.2.1 Key Findings

- Pre-COVID Phase (2016-17 to 2019-20): Early signs of debt stress despite stable growth**
Tamil Nadu's Debt Index declined from 51.8 in 2016-17 to 42.5 in 2019-20, indicating a steady weakening even during a period of stable economic growth. In contrast, peer states maintained stronger positions, with Maharashtra at 67.0, Karnataka at 65.9, and Gujarat at 56.0 in 2019-20. This divergence reflects early signs of structural debt stress. The underlying ratios reinforce this. Outstanding Liabilities/GSDP increased from 21.8% to 26.5%, while Interest Payments/Revenue Receipts rose from 14.6% to 18.3%, indicating a simultaneous rise in both debt stock and servicing burden. This dual deterioration implies that borrowing was not only increasing but was also becoming progressively more expensive to sustain, pointing to a structurally weakening debt position even before the pandemic.
- Pandemic Phase (2020-21 to 2021-22): Sharp deterioration and structural break**
The pandemic marked a clear structural break in Tamil Nadu's debt trajectory. The Debt Index fell sharply to 30.8 in 2020-21 and further to 27.1 in 2021-22. This decline was steeper than in peer states such as Gujarat and Maharashtra, which remained at significantly higher levels.

The sharper decline is consistent with a more pronounced deterioration in underlying indicators, as shown below:

State	2020-21 Score	Liabilities/GSDP (%)	Interest / Revenue Receipts (%)
Tamil Nadu	30.8	31.8	20.97
Gujarat	46.3	22.5	19.89
Maharashtra	59.9	21.0	13.72
Karnataka	53.8	25.7	13.99

Table 8: Debt Score and Key Debt Ratios: Inter-State comparison (2020-21)

Tamil Nadu records the highest values across both leverage and servicing indicators among peer states. Liabilities/GSDP rose sharply to 31.8%, significantly above Gujarat and Maharashtra, while the interest burden approached 21% of revenue receipts, well above peers. This confirms that the steeper decline in the Debt Index reflects a genuine worsening of fiscal conditions rather than a baseline or methodological effect. The simultaneous increase in both leverage and servicing burden indicates that pandemic borrowing translated directly into sustained fiscal stress, with limited absorption capacity relative to peer states.

c. Post-COVID Phase (2022-23 to 2024-25): Stabilisation at elevated stress levels

Tamil Nadu's debt indicators show no meaningful post-COVID correction, with the Debt Index declining further from 26.6 in 2022-23 to 23.4 in 2024-25. In contrast, peer states stabilised at significantly higher levels, with Gujarat at 59.6, Maharashtra at 63.7, and Karnataka at 45.6. Despite strong nominal growth, Liabilities/GSDP remains elevated at around 30-31%, and Interest/Revenue Receipts stay high at ~20-21%. This indicates that growth has prevented further deterioration but has not reduced the underlying debt burden. The absence of deleveraging indicates that incremental borrowing continues to outpace fiscal correction, pointing to a structurally weak debt trajectory. Even with this stabilisation, Tamil Nadu continues to rank lowest among its peer states, underscoring the persistence of relative underperformance.

d. Structural Drivers: Rising liabilities and persistent servicing pressure

Tamil Nadu's debt burden has expanded sharply, with outstanding liabilities rising from ₹ 4,62,202 crore in 2019-20 to ₹ 9,55,690 crore in 2024-25 (BE), higher than Gujarat at ₹ 4,94,436 crore and Karnataka at ₹ 7,25,456 crore. In ratio terms, Liabilities/GSDP remains elevated at around 30.6%, compared to 25.2% in Karnataka and 17-18% in Gujarat and Maharashtra, indicating structurally higher leverage relative to economic capacity. At the same time, debt servicing pressures have intensified, with interest payments doubling from ₹ 31,980 crore to ₹ 62,456 crore, and the Interest/Revenue ratio rising from 18.3% to 20.9%, significantly above Gujarat (~13%) and Maharashtra (~11%). This combination suggests a reinforcing cycle where higher debt leads to higher interest commitments, which in turn limits the State's ability to reduce borrowing, locking the fiscal system into a high-debt, high-servicing equilibrium.

e. Sectoral Pressure: Power sector as a persistent fiscal risk

Debt pressures are further reinforced by sector-specific commitments. Between 2019-20 and 2024-25, the State extended support of about ₹ 73,821 crore (PRS, 2024) to TANGEDCO. The utility carries a loan liability of ₹ 1.35 lakh crore as per the CAG report (The Hindu, 2024), even as its outstanding loans stand at ₹ 89,098 crore. These obligations create recurring fiscal pressure and increase reliance on borrowing. While a portion of TANGEDCO's liabilities has been absorbed into the State balance sheet through past restructuring and guarantees, a significant share remains off the consolidated debt figures. These exposures therefore represent contingent fiscal liabilities that are not included in the State's reported outstanding liabilities (₹ 9,55,690 crore) but can materialise as future borrowing, guarantee invocations, or additional subsidy commitments, thereby embedding further stress within the State's overall debt structure.

f. Comparison with National Average

Tamil Nadu's debt position has moved from near alignment with national levels to a clear divergence in the post-COVID period. Outstanding Liabilities to GSDP now exceeds the national average of around 28%, while the interest burden at about 20% remains significantly higher than the all-India level of around 12 to 13%. Unlike peer states that have stabilised debt dynamics, Tamil Nadu continues to operate with elevated servicing pressure.

4.2.2 Durability and Fiscal Impact Assessment

Tamil Nadu's debt profile exhibits structural weakness, as elevated debt and interest burdens persist across all three phases, pre-COVID, pandemic, and post-COVID, regardless of changes in economic growth conditions. While nominal GSDP growth has helped stabilise debt ratios in the recovery phase, this has not translated into a reduction in underlying debt pressures, indicating that improvements are cyclical rather than structurally anchored. Separately, in relative terms, Tamil Nadu continues to carry a higher debt burden and interest servicing pressure than both its peer states and the national average. In the post-COVID phase, Outstanding Liabilities remain elevated at around 31% of GSDP, while interest payments absorb about 20% of revenue receipts, significantly higher than comparator states. This places Tamil Nadu in a weaker fiscal position despite a comparable economic scale.

A key driver of this dynamic is the interaction with fiscal prudence. As highlighted in the Fiscal Prudence pillar, persistent revenue deficits have required continued borrowing to finance routine expenditure, contributing to the accumulation of debt and reinforcing the structural nature of the imbalance. Over the long run, this creates a growth-dependent debt profile. Improvements in debt indicators occur primarily when economic growth remains strong, while interest obligations adjust more slowly. As a result, any slowdown in growth, increase in borrowing costs, or new fiscal shock could quickly worsen debt indicators. In fiscal terms, the rising interest burden reduces budget flexibility and constrains capital expenditure, reinforcing reliance on borrowing. If this trajectory persists, an increasing share of public resources will be diverted toward debt servicing rather than investment in infrastructure and productivity, heightening the State's vulnerability to future economic and fiscal shocks.

4.3 Revenue Mobilisation

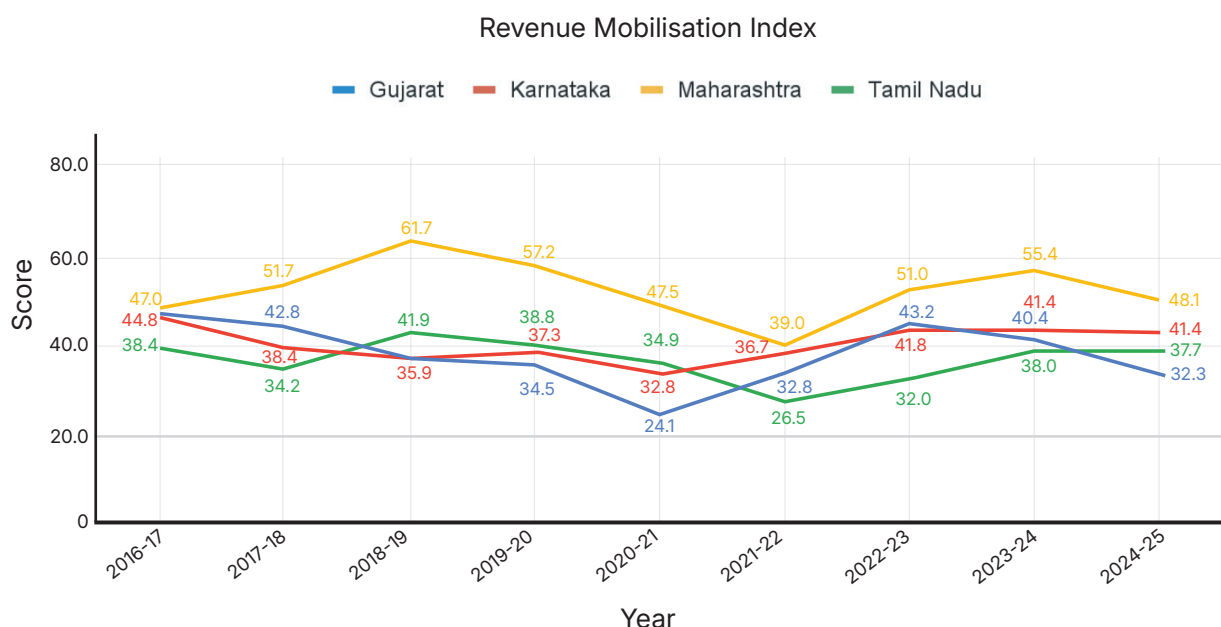


Figure 5: Revenue Mobilisation: Gujarat, Karnataka, Maharashtra & Tamil Nadu (2016-17 to 2024-25)

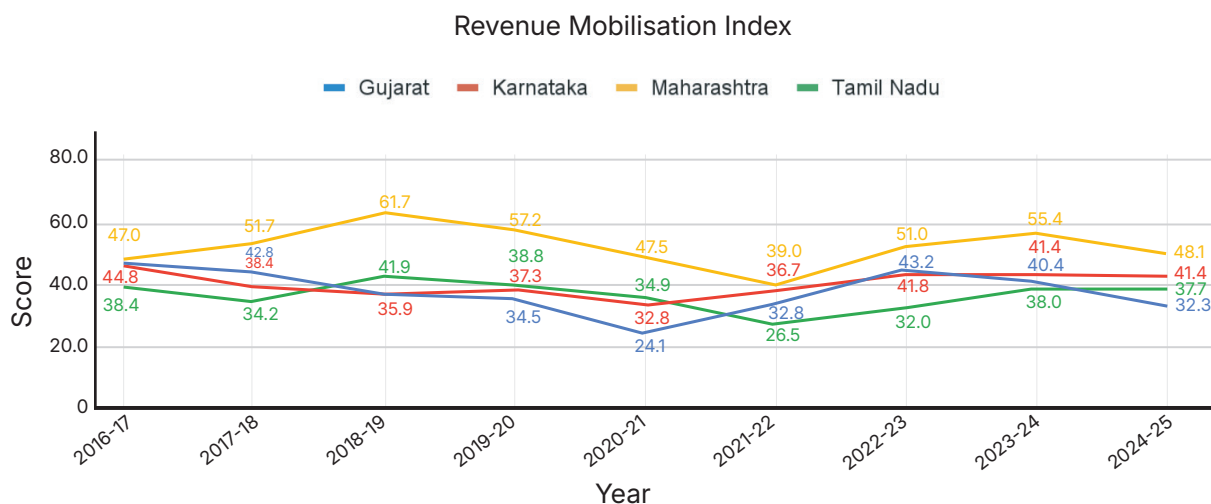


Figure 6: Normalised Score of State Own revenue/Total Exp & State Own Revenue/ GSDP, Tamil Nadu, 2016-17 to 2024-25

Tamil Nadu's revenue mobilisation reflects a structural ceiling rather than a cyclical dip, with own revenue remaining broadly unchanged at around 7.2-7.4% of GSDP across phases despite strong nominal growth. This stagnation predates COVID and continues into the recovery period, indicating a persistent disconnect between economic expansion and fiscal capacity, and placing the State below more responsive peer performers such as Maharashtra and Karnataka.

4.3.1 Key Findings

a. Pre-COVID Phase (2016-17 to 2019-20): Moderate capacity without structural strengthening

Revenue mobilisation improved modestly from 38.4 in 2016-17 to 38.8 in 2019-20, but without a sustained upward trajectory. The improvement in 2018-19 to 41.9 was not maintained, indicating limited structural strengthening. This pattern is consistent with underlying ratios, where State Revenue/GSDP remained broadly flat at ~7.3-7.4%, while revenue coverage of expenditure declined from 53% to 47%. In contrast, peer states showed stronger and more consistent performance. Maharashtra maintained significantly higher scores, rising from 47.0 to 57.2, while Gujarat and Karnataka remained broadly stable in the mid-30s range. This indicates that Tamil Nadu's revenue system, even during stable growth conditions, did not strengthen proportionately, remained broadly flat relative to GSDP and lagged stronger comparators, limiting its ability to build fiscal buffers.

b. Pandemic Phase (2020-21 to 2021-22): Weak recovery and relative stagnation

The pandemic led to a decline in Tamil Nadu's score from 38.8 in 2019-20 to 34.9 in 2020-21 and further to 26.5 in 2021-22, indicating a sustained deterioration rather than a one-time shock. The decline is consistent with underlying ratios, as shown below:

State	2020-21 Score	2021-22 Score	Revenue/GSDP (2020-21 → 2021-22)	Revenue/Expenditure (2020-21 → 2021-22)
Gujarat	24.1	32.8	5.0% → 5.8%	41.1% → 52.2%
Karnataka	32.8	36.7	6.4% → 6.6%	44.6% → 48.1%
Maharashtra	47.5	39.0	6.9% → 7.6%	45.0% → 55.2%
Tamil Nadu	34.9	26.5	6.5% → 6.5%	40.2% → 43%

Table 9: Revenue Mobilisation Score and Key Ratios: Inter-State Comparison (2020-21 to 2021-22)

The table shows that while comparator states experienced clear improvements in both ratios and scores, Tamil Nadu's ratios remained largely flat and its score declined further. This confirms that the weak performance is not driven by benchmark effects but reflects limited responsiveness of the revenue system to economic recovery, indicating weaker structural resilience.

c. Post-COVID Phase (2022-23 to 2024-25): Recovery without durability

Revenue mobilisation improved to 38.0 in 2023-24 but eased to 37.7 in 2024-25, indicating that gains were not sustained and remained below earlier peaks. Peer trends show a clear divergence. Maharashtra remained significantly stronger at 55.4 in 2023-24 and 48.1 in 2024-25, while Karnataka stabilised around 41.4. Gujarat also recovered to 40.4 before moderating. In contrast, Tamil Nadu remained confined to the mid-30s range, indicating a lower and less durable performance ceiling. This pattern is consistent with ratios. State Revenue/GSDP improved modestly but declined again to 7.24% in 2024-25 (BE), while revenue coverage of expenditure remained below peers at 49% compared to around 55% for comparator states. Absolute revenues increased significantly from ₹ 1,67,284 in 2022-23 to ₹ 2,25,901 crore in 2024-25 (BE), but this did not translate into proportional gains in ratios, indicating that revenue gains were primarily growth-driven rather than arising from structural improvements in tax capacity or compliance.

d. Weak Revenue Responsiveness and Buoyancy Constraints

Revenue growth has not consistently tracked economic expansion, reflecting weak tax buoyancy and limited responsiveness of the revenue system. Despite periods of strong collections, buoyancy has remained volatile, rising to 1.44 in 2022-23 but falling to 0.83 in 2023-24, with earlier sharp fluctuations including negative buoyancy in 2019-20 (Finance Commission, Table 4.1). A

buoyancy coefficient below 1.0 has important structural implications. In 2023-24, a buoyancy of 0.83 implies that for every 1% increase in nominal GSDP, tax revenues grew by only 0.83%, indicating that the tax base is effectively shrinking relative to the size of the economy. Sustained sub-unity buoyancy, particularly during a high-growth recovery phase, suggests that the revenue system is not merely lagging but is structurally unable to capture proportionate gains from economic expansion. This weak linkage reduces fiscal predictability, limits automatic revenue gains during growth periods, and increases reliance on borrowing to finance expenditure.

e. Concentrated Revenue Base and Limited Non-Tax Depth

The revenue structure remains concentrated in a narrow set of sources such as petroleum products, liquor, stamp duties, and gold, making collections sensitive to consumption cycles rather than broad-based economic activity (Srinivasan R., 2022). This is reflected in own tax revenue at 6.28% of GSDP (10th among major states, 2022-23), indicating moderate revenue productivity relative to economic size. The weakness is more pronounced in non-tax revenue, where the State ranks 12th in per capita terms and 10th as a share of GSDP (0.71%, 2022-23). Its per capita non-tax revenue (₹ 2,222) is only about one-fourth of Odisha's ₹ 9,255, highlighting a significant gap (Finance Commission, Page 48). Non-tax revenue has consistently remained below 1% of GSDP, reflecting limited depth. This underperformance is linked to underpriced public assets, weak PSU returns, and limited user-charge frameworks, along with underutilisation of sectors such as fisheries, tourism, and forestry, despite strong natural and economic potential (Finance Commission, Page 53). Together, these factors constrain revenue productivity and leave substantial fiscal space unrealised.

f. Comparison with National Average

Compared with the national average, Tamil Nadu performs relatively well in financing its own expenditure but only converges with the national average in revenue mobilisation relative to economic size. In the post-COVID phase, State Own Revenue financed about 48.5% of total expenditure, higher than the national average of 42.4%, indicating stable fiscal autonomy. However, the State Own Revenue/GSDP ratio remained around 7.25%, slightly below the national average of 7.9%, suggesting that revenue productivity relative to economic scale remains close to the national norm rather than exceeding it.

4.3.2 Durability and Fiscal Impact Assessment

The persistence of moderate revenue ratios across phases indicates that Tamil Nadu's revenue mobilisation remains structurally constrained rather than cyclically weak. Even during periods of strong economic growth, improvements in revenue have not translated into sustained gains in revenue productivity. While the State finances a relatively higher share of its expenditure from its own revenues compared to the national average, this has not reduced its reliance on borrowing, as total expenditure continues to exceed revenue. Revenue mobilisation relative to economic size remains broadly stable at around 7.2-7.4% of GSDP, slightly below the national benchmark, indicating that economic expansion has not translated into stronger tax buoyancy or deeper revenue bases. This suggests that the post-COVID improvement reflects cyclical recovery rather than structural strengthening of the revenue system.

From a fiscal perspective, this creates a persistent imbalance. Revenue growth remains dependent on economic cycles and exhibits weak buoyancy, while expenditure commitments continue to expand steadily. As a result, improvements in revenue mobilisation do not translate into durable fiscal consolidation, reinforcing dependence on borrowing and limiting the State's ability to

strengthen fiscal prudence or moderate debt levels. This is reflected in broader fiscal outcomes. Despite rising revenues, fiscal deficits remain elevated and debt indicators continue to show pressure, indicating that revenue gains are insufficient to offset structural expenditure demands. Tamil Nadu's revenue system therefore supports short-term fiscal stability but lacks the depth required to sustain long-term fiscal adjustment or build resilience against future shocks.

4.4 Quality Of Expenditure

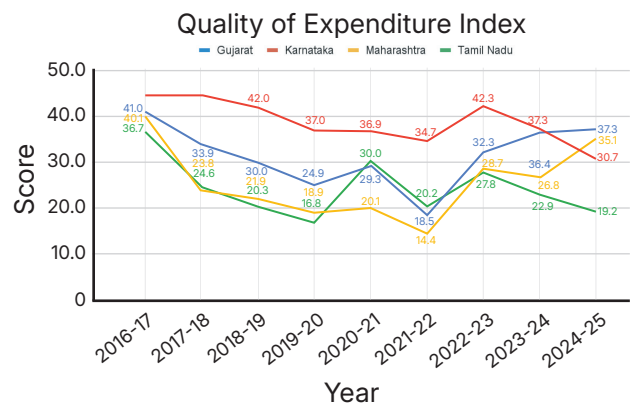


Figure 7: Quality Of Expenditure, Gujarat, Karnataka, Maharashtra & Tamil Nadu (2016-17 to 2024-25)

Development Expenditure/Total Expenditure and Total Capital Outlay/GSDP

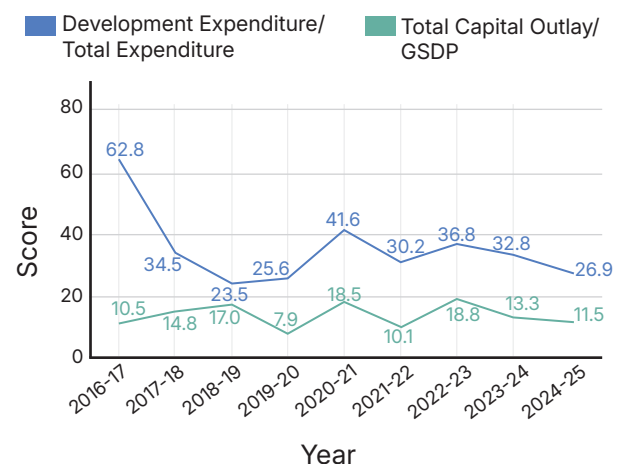


Figure 8: Development Exp/Total Exp & Total Capital Outlay, Tamil Nadu, 2016-17 to 2024-25

Tamil Nadu's expenditure quality reflects a structural shift away from capital-led spending toward revenue-intensive development expenditure, with only a temporary deviation during the pandemic. The trajectory indicates that improvements are episodic and not anchored in sustained reprioritisation of spending toward productivity-enhancing investment.

4.4.1 Key Findings

a. Pre-COVID Phase (2016-17 to 2019-20):

Structural dilution despite stable growth

The Quality of Expenditure Index declined sharply from 36.7 to 16.8, indicating a sustained weakening in spending composition even during a period of stable economic growth. In comparison, peer states maintained stronger positions, with Karnataka at 37.0, Gujarat at 24.9, and Maharashtra at 18.9 in 2019-20, highlighting a clear relative deterioration. This decline is explained by underlying ratios. Development Expenditure/Total Expenditure fell from 68% to 56%, while Capital Outlay/GSDP remained low at 1.4-1.5%, showing that incremental spending was increasingly directed toward revenue expenditure rather than investment. The consistency between score and ratios indicates that this was a genuine structural weakening, not a methodological artefact.

b. Pandemic Phase (2020-21 to 2021-22):

Temporary compositional correction

The index improved to 30 in 2020-21, before declining again to 20.2 in 2021-22. While this suggests a recovery, peer states exhibited greater stability, with Karnataka remaining above 34 and Gujarat around 18-29, indicating relatively stronger expenditure resilience. The improvement is supported by ratios. Development expenditure share increased to around 66%, and Capital Outlay/GSDP rose to around 1.85%, reflecting a temporary reallocation toward development and capital spending during the crisis. However, the reversal in 2021-22 confirms that this was not a structural shift, but a

short-term adjustment driven by pandemic-related expenditure priorities.

c. Post-COVID Phase (2022-23 to 2024-25): Recovery without structural reorientation

The index recovered to 27.8 in 2022-23, but declined again to 22.9 in 2023-24 and 19.2 in 2024-25, indicating that improvements were not sustained. In contrast, peer states show stronger and more durable trajectories, with Gujarat rising to 37.3, Maharashtra to 35.1, and Karnataka remaining at 30.7 in 2024-25. This divergence is reflected in ratios. Development Expenditure/Total Expenditure declined again to 55%, while Capital Outlay/GSDP fell to 1.53% in 2024-25 (BE). In absolute terms, capital outlay increased from ₹ 39,530 crore in 2022-23 to ₹ 47,681 crore in 2024-25 (BE), but this did not translate into higher capital intensity. This confirms that the recovery was driven by overall expenditure growth rather than a shift toward investment-led spending, making it inherently fragile.

d. Structural Drivers: Revenue-intensive spending with weak capital deepening

Tamil Nadu's expenditure pattern reflects a structural bias toward revenue-intensive development spending combined with persistently low capital intensity. While development expenditure remains significant, its share has declined from 68% to 55% over the period, and is increasingly dominated by recurring expenditure components rather than asset creation. At the same time, capital outlay has remained constrained at around 1.5-1.8% of GSDP, well below peer states such as Gujarat (~2.7%) and Karnataka (~2.0-2.4%). This creates a structural imbalance, where spending supports current service delivery and welfare but does not sufficiently expand productive capacity. As a result, expenditure does not generate commensurate future revenue gains, weakening its role in supporting long-term fiscal sustainability.

e. Comparison with National Average

Tamil Nadu's Capital Outlay/GSDP averaged about 1.48% in the pre-COVID period and around 1.59% in the post-COVID phase, remaining below the national averages of roughly 2.32% and 2.63% respectively. In absolute terms, this gap is substantial. For example, in 2024-25, Tamil Nadu's capital outlay is budgeted at ₹ 47,681 crore, whereas matching the national benchmark of about 2.44% of GSDP would require capital spending of roughly ₹ 76,000 crore, implying a capital investment gap of nearly ₹ 28,000 crore. In contrast, Development Expenditure/Total Expenditure declined from about 60.48% in the pre-COVID period to 55.53% in the post-COVID phase, compared with national averages of 65.62%, 68.79%, and 69.74% across the three phases. This persistent gap suggests that while Tamil Nadu maintains a moderate level of development spending, its capital investment intensity remains structurally lower than the national average, limiting the creation of productivity-enhancing assets.

4.4.2 Durability and Fiscal Impact Assessment

The current expenditure structure creates a non-self-reinforcing fiscal dynamic. Revenue-intensive development spending leads to rising committed expenditure, while low capital formation limits the expansion of the economic base needed to sustain these commitments. This imbalance is already visible. Capital Outlay/GSDP remains at ~1.53% compared to a national benchmark of ~2.6%, indicating a persistent investment gap. At the same time, rising committed expenditure and interest burdens continue to absorb fiscal space. As a result, improvements in expenditure quality do not translate into stronger fiscal outcomes. Instead, they reinforce the pressures observed in the Fiscal Prudence and Debt pillars, where limited capital formation constrains growth, while recurring expenditure commitments continue to expand. Over time, this reduces the State's ability to build fiscal buffers and respond to economic shocks, indicating that expenditure quality improvements are not durable in their current form

4.5 Debt Sustainability

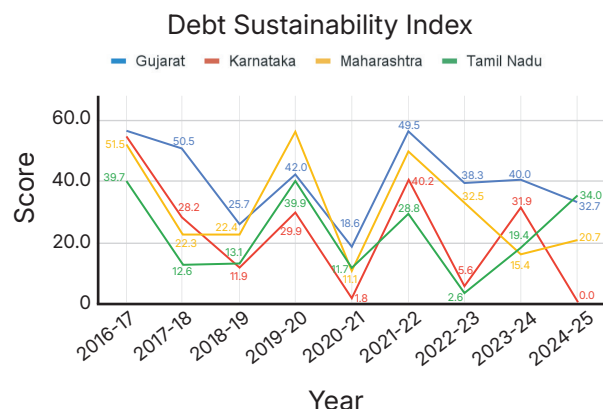


Figure 9: Debt Sustainability, Gujarat, Karnataka, Maharashtra & Tamil Nadu (2016-17 to 2024-25)

Growth Rate of GSDP and Growth Rate in Interest Payments

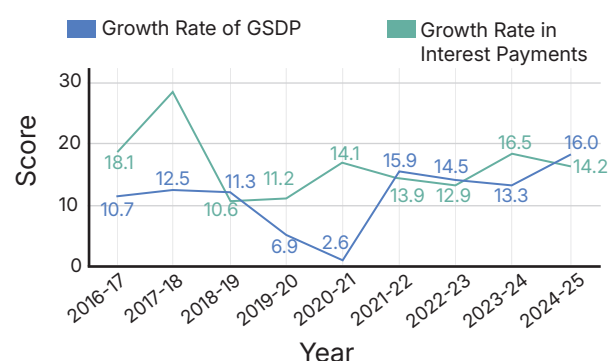


Figure 10: Growth Rate of GSDP & Interest Payments, Tamil Nadu, 2016-17 to 2024-25

Tamil Nadu's debt sustainability trajectory reflects persistent volatility driven by an unstable growth-interest differential. While the State has experienced periods of recovery, these improvements are not structurally anchored and remain sensitive to fluctuations in growth and interest costs.



4.5.1 Key Findings

a. Pre-COVID Phase (2016-17 to 2019-20): Weak and unstable sustainability dynamics

Debt sustainability remained inconsistent in the pre-COVID period, with the score declining from 39.7 in 2016-17 to 12.6 in 2017-18, before marginally recovering to 39.9 in 2019-20. This volatility reflects weak underlying fundamentals rather than cyclical variation. In contrast, peer states maintained stronger positions. Gujarat remained above 50 in 2016-17 and 2017-18, while Maharashtra peaked at 56.0 in 2019-20, indicating more stable and positive growth-interest differentials. This pattern is consistent with actual dynamics. Tamil Nadu recorded negative differentials in multiple years (-7.3 in 2016-17 and -14.2 in 2017-18), indicating that interest payment growth exceeded GSDP growth. The sharp deterioration in 2017-18 was driven by interest growth of around 26.7%, far exceeding GSDP growth of 12.5%, highlighting structural sensitivity to interest cost pressures even during a normal growth phase.

b. Pandemic Phase (2020-21 to 2021-22): Broad-based deterioration, weaker recovery

The pandemic led to a sharp deterioration across all states, with Tamil Nadu's index falling to 11.7 in 2020-21. However, the recovery phase reveals a clear divergence.

State	2020-21 Score	2021-22 Score	Debt Sustainability (%) (2020-21 → 2021-22)
Gujarat	18.6	55.9	-7.88 → 14.79
Karnataka	1.8	40.2	-16.82 → 7.43
Maharashtra	11.1	49.5	-11.89 → 11.80
Tamil Nadu	11.7	28.8	-11.55 → 2.02

Table 10: Debt Sustainability Score: Inter-State Comparison (2020-21 to 2021-22)

While all states experienced negative sustainability in 2020-21, Gujarat and Maharashtra recovered sharply to strong positive differentials in 2021-22, whereas Tamil Nadu improved only marginally to 2.02%. Importantly, the direction of actual values and index scores is consistent across states, confirming that the divergence is driven by underlying fiscal dynamics rather than any baseline effect. Tamil Nadu's weaker recovery reflects the fact that interest payment growth remained close to GSDP growth, limiting improvement in the growth-interest differential.

c. Post-COVID Phase (2022-23 to 2024-25): Improvement remains growth-dependent and uneven

Debt sustainability weakened further to 2.6 in 2022-23, before rising to 19.4 in 2023-24 and 34.0 in 2024-25. This improvement is driven primarily by favourable nominal GSDP growth rather than any structural reduction in debt or interest burdens. The positive differential of 1.73% in 2024-25 (BE) reflects growth outpacing interest payments, not a decline in underlying debt servicing pressures. In contrast, peer states such as Gujarat (32.7 in 2024-25) and Maharashtra (20.7) exhibit more stable and consistently positive sustainability trajectories. For Tamil Nadu, the apparent improvement remains growth driven and inherently fragile, with elevated interest burdens and debt levels continuing to constrain sustainability.

d. Structural Driver: Persistent sensitivity to growth-interest differential

Across the entire period, movements in Tamil Nadu's debt sustainability are almost entirely explained by the gap between GSDP growth and interest payment growth. The State has experienced multiple years where interest growth exceeded economic growth, leading to sharp deteriorations. Even in recovery phases, sustainability improves only when growth temporarily outpaces interest costs, indicating that, there is no structural reduction in debt

servicing pressure and sustainability remains highly sensitive to macroeconomic conditions. This contrasts with peers such as Gujarat, where the growth-interest differential turns strongly positive during recovery periods, enabling more durable improvements.

- e. Benchmarking with National Average**
Despite relatively sustained economic growth, Tamil Nadu's debt sustainability remains structurally weaker than the national average because interest payment growth consistently exceeds the all-India trend. As a result, the State's growth advantage does not translate into proportionately stronger debt sustainability compared with the national benchmark.

4.5.2 Durability and Fiscal Impact Assessment

The national comparison confirms that Tamil Nadu's debt sustainability is not structurally durable. Although the State often outperforms the national economy in GDP growth, this advantage is systematically eroded by much faster growth in interest payments. In contrast, at the all-India level, interest payment growth remains consistently lower than in Tamil Nadu, allowing the national economy to maintain a relatively more stable sustainability position.

From a durability perspective, Tamil Nadu's sustainability remains growth-dependent rather than institutionally anchored. Improvements occur only when growth accelerates sharply, but these gains are immediately neutralised by rising interest obligations. This indicates that debt sustainability in Tamil Nadu is driven by mechanical growth effects rather than by a structural reduction in debt costs or borrowing dependence.

The fiscal implication is that Tamil Nadu remains highly vulnerable to future shocks. Any slowdown in growth or rise in interest rates would quickly worsen sustainability, as the State lacks the interest-growth cushion observed at the national level. Unlike the all-India pattern, where sustainability benefits from relatively moderate interest growth, Tamil

Nadu's debt sustainability is constrained by a persistently high and rigid interest burden.

4.6 Fiscal Resilience Index

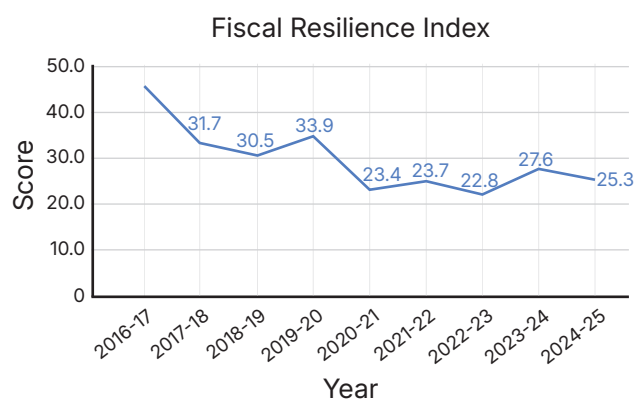


Figure 11: Fiscal Resilience Index, Tamil Nadu, 2016-17 to 2024-25

The Fiscal Resilience Index provides a system-level view of how Tamil Nadu's fiscal pillars interact over time. The index shows that fiscal performance is not constrained by a single weakness but by a structural imbalance between rising committed expenditure, limited fiscal flexibility, and debt dynamics that remain sensitive to growth cycles. Gains in one pillar have repeatedly been neutralised by deterioration in others, preventing the State from achieving durable fiscal stability.

4.6.1 Phase 1: FY 2016-17 to 2019-20

In the pre-COVID period between 2016-17 and 2019-20, Tamil Nadu's Fiscal Resilience Index declined from 43.7 to 33.9, indicating a steady weakening even during a phase of stable economic growth. In contrast, peer states maintained stronger fiscal positions, with Maharashtra (~51.5), Karnataka (~46.0), and Gujarat (~45.4) in 2019-20, highlighting Tamil Nadu's relative underperformance under normal conditions.

- a. Apparent Stability masked Imbalances**
The modest increase was not the result of balanced fiscal strength but of offsetting movements across pillars.
- b. Supporting Pillars**
Revenue Mobilisation remained relatively stable (38.4 → 38.8), while Debt Sustainability improved toward the end of

the period (13.1 → 39.9), supported by a favourable growth-interest differential in 2018-19. These factors partially cushioned the overall decline.

c. Offsetting Deterioration

These gains were outweighed by a sustained decline in Fiscal Prudence (51.7 → 31.7) and Quality of Expenditure (36.7 → 16.8), indicating rising revenue deficits and weakening expenditure composition. The Debt Index also declined (51.8 → 42.5), reflecting increasing debt pressures.

d. Structural Revenue Dominance

High revenue expenditure absorbed the majority of budgetary resources, limiting fiscal flexibility and weakening fiscal discipline even during years of normal economic growth.

e. Limited Consolidation

As a result, Tamil Nadu's fiscal trajectory diverged from peer states, which maintained stronger and more stable fiscal resilience. The index in this phase reflects underlying structural stress rather than durable consolidation.

4.6.2 Phase 2: FY 2020-21 to 2021-22

The onset of the COVID-19 shock between 2020-21 and 2021-22 marked a sharp structural break. Tamil Nadu's Fiscal Resilience Index fell to 23.4 in 2020-21 and remained depressed at 23.7 in 2021-22, showing limited recovery. In contrast, peer states recovered more effectively, with Gujarat (44.03), Maharashtra (42.19), and Karnataka (39.63) in 2021-22.

a. Broad-Based Deterioration

Fiscal Prudence weakened sharply as revenue contracted and deficits widened. The Debt Index and Debt Sustainability deteriorated as borrowing increased and interest payments grew despite weak economic growth. Revenue Mobilisation also declined as own tax revenues contracted.

b. Temporary Expenditure Offset

Quality of Expenditure temporarily

improved due to emergency health and infrastructure spending, but it was insufficient to counterbalance the stress building across other pillars.

c. Exposed Fragility

The pandemic exposed the lack of fiscal buffers and the high rigidity of Tamil Nadu's expenditure structure, driving the sharp aggregate decline.

4.6.3 Phase 3: FY 2022-23 onwards

The post-COVID period from 2022-23 onwards reflects a partial and uneven recovery. Tamil Nadu's Fiscal Resilience Index improved from 22.8 in 2022-23 to 27.6 in 2023-24, before declining again to 25.30 in 2024-25 (BE). In contrast, peer states maintained stronger trajectories, with Gujarat (~46.1 → 39.2), Maharashtra (~41.4 → 38.7), and Karnataka (~40.6 → 27.5) consistently above Tamil Nadu.

a. Partial Aggregate Recovery

The recovery was driven mainly by Revenue Mobilisation and a temporary rise in the Quality of Expenditure, particularly due to higher development expenditure and increased capital outlay.

b. Persistent Debt and Prudence Stress

These gains were not matched by falling Fiscal Prudence or debt-related pillars. High committed revenue expenditure continued to constrain consolidation, while the debt stock and interest payment burden limited improvements in debt indicators.

c. Growth-Sensitive Recovery

As a result, the recovery in the FRI lacks persistence and remains sensitive to growth fluctuations, with no clear structural correction across all pillars.

d. Continued Divergence from Peer States

While peer states demonstrated relatively more stable consolidation, Tamil Nadu remained in a lower performance band, indicating a lower ceiling of fiscal resilience.

Overall, the Fiscal Resilience Index shows that Tamil Nadu's fiscal position improves when economic growth is stable and when expenditure is reoriented toward development and capital formation. However, the absence of structural correction in revenue expenditure rigidity and debt dynamics prevents these gains from translating into durable fiscal strength. Without sustained improvement in fiscal prudence and debt management, the State's fiscal health is likely to remain cyclical, improving during periods of high growth and weakening sharply when economic conditions deteriorate.

4.6.4 Identification of the Binding Constraint

A review of dominant ratios across sub-indices shows that:

- Revenue Mobilisation improves post-COVID, but does not translate into sustained fiscal space due to high committed expenditure.
- Improvements in Quality of Expenditure are episodic and do not persist.
- Debt Sustainability improves only when growth exceeds interest costs.

After eliminating ratios whose improvement does not consistently lift the FRI, the Revenue Deficit/GSDP emerges as the binding constraint. This ratio worsens persistently before COVID, collapses during the pandemic, and remains weak thereafter. Even in years where revenue mobilisation improves (2022-23 onwards), high revenue expenditure prevents translation into fiscal consolidation. Other ratios, such as capital spending or revenue recovery, improve intermittently but do not cap system performance. The binding constraint is therefore structural expenditure rigidity, not revenue effort.



4.6.5 Trade-off Assessment

a. Revenue recovery vs expenditure rigidity

After COVID, Tamil Nadu's own revenue recovered with the normalisation of economic activity and GST collections. However, this recovery did not ease fiscal pressure because the State simultaneously expanded and protected revenue expenditure commitments. Large public provision improved social outcomes but locked in expenditure obligations, preventing revenue recovery from translating into fiscal consolidation.

b. Capex acceleration vs debt sustainability

Tamil Nadu pursued an explicit infrastructure-led recovery strategy after COVID. Budgets from 2021-22 onwards emphasised capital outlay on urban infrastructure, roads, metro rail expansion, industrial corridors, and housing through programmes such as Singara Chennai 2.0 (The Hindu, 2024) and transport investments. While this improved expenditure quality, the scale of investment required borrowing, as internal revenue surplus was limited. As a result, capital expansion coincided with rising outstanding liabilities and interest payments, explaining why improvements in expenditure quality did not translate into parallel gains in debt indicators.

c. Public Provisioning vs fiscal flexibility

Tamil Nadu's development model places great emphasis on broad-based provisioning. During the COVID shock, the continuation and expansion of this spending protected household consumption but sharply reduced fiscal flexibility, forcing higher borrowing. Even in the post-COVID period, the persistence of these commitments limited the State's ability to reallocate spending or build fiscal buffers, amplifying stress in the Fiscal Prudence and Debt pillars.



4.6.6 Assessment of Current Fiscal Position

For 2024-25, Tamil Nadu's fiscal position is best classified as vulnerable as compared to its peer states. In 2024-25, the Debt Sustainability Index rose to 34, reflecting favourable nominal GSDP growth relative to the growth in interest payments. This indicates a short-term easing in the interest-growth differential and represents the only pillar showing a clear improvement in this year. However, this improvement does not translate into overall fiscal strengthening. Fiscal Prudence deteriorates sharply to 12.3, reflecting renewed pressure from revenue deficits. The Debt Index continues to weaken, declining to around 23.4, indicating a high and slowly adjusting debt stock. Quality of Expenditure moderates, falling from its post-COVID peak, while Revenue Mobilisation stabilises but does not improve further.

As a result, the improvement in Debt Sustainability is isolated and growth-driven, rather than supported by expenditure consolidation or debt reduction. The Fiscal Resilience Index declines to 25.30, confirming that the State remains vulnerable, with gains in one pillar offset by weaknesses in others.

Within this context, Revenue Deficit to GSDP emerges as the primary binding constraint, reflecting a persistent mismatch between committed expenditure and revenue capacity. Alternative explanations were assessed. While the interest burden (Interest Payments/Revenue Receipts) remains elevated, it largely reflects past borrowing rather than the core imbalance. Similarly, low capital outlay signals constraints on future capacity but is a medium-term issue. Overall, persistent revenue deficits remain the central driver of this vulnerability, with debt servicing and capital constraints acting as secondary pressures.

4.6.7 Priority Levers for Improving Fiscal Health

Given the fragile fiscal position in 2024-25, policy must focus on consolidating fiscal health without undermining the recent

improvement observed in debt sustainability, which is the only pillar showing a clear recovery.

a. Primary Lever

The primary priority is to contain the revenue deficit by addressing structurally high revenue expenditure, particularly spending on salaries, pensions, and interest payments. Without moderating these components, the State risks reversing the current growth-interest differential that has supported debt sustainability.

b. Secondary Lever

At the same time, fiscal adjustment must avoid compressing capital and development expenditure, as sustained public investment is essential for maintaining growth momentum and preventing debt sustainability from becoming vulnerable to future slowdowns. Finally, incremental improvements in revenue mobilisation, through better compliance and administrative efficiency rather than aggressive tax hikes, are necessary to reduce reliance on borrowing. Together, these measures can help stabilise fiscal health while protecting the limited gains achieved in debt sustainability.



5. Dimension II: Economic Dynamism

Economic performance constitutes the foundational layer upon which fiscal outcomes are ultimately realised. While fiscal health reflects the management of revenues, expenditures, and debt within a given period, the sustainability of these fiscal outcomes depends critically on the underlying capacity of the real economy to generate stable, broad-based, and expanding income streams over time. In this context, Economic Dynamism is examined as the second analytical dimension, focusing on whether the structure and trajectory of economic growth are sufficient to support long-term fiscal consolidation and development objectives.

This dimension builds on the Fiscal Health Assessment by examining the underlying economic mechanisms that shape fiscal outcomes. The central question is not whether Tamil Nadu is growing, but whether the structure of growth is capable of supporting durable fiscal capacity. The analysis focuses on four transmission channels, growth composition, inflation dynamics, labour market outcomes, and investment structure, to assess how economic expansion translates into income, productivity, and ultimately, revenue generation. (Refer to Annexure IV For Detailed Analysis)

5.1 Growth and Output: Scale vs. Quality of Expansion

This section analyses whether Tamil Nadu's economic expansion represents a structural increase in productivity or a scale-driven increase diluted by population growth. The objective is to determine if current growth generates enough tax buoyancy to sustain the State's fiscal requirements.

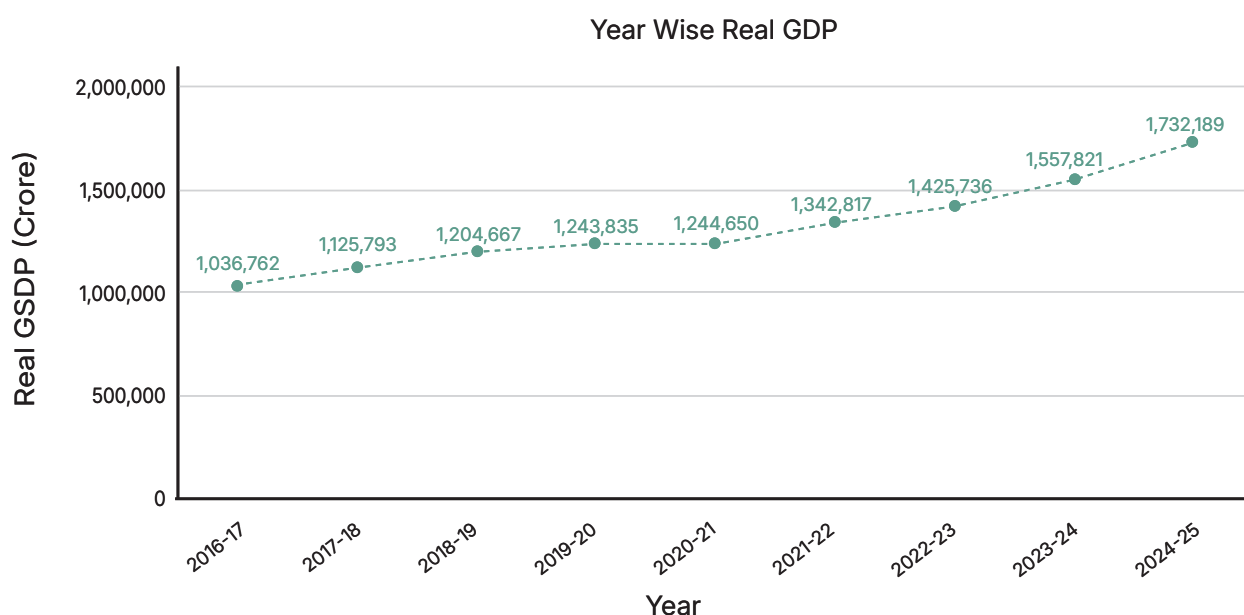


Figure 12: Real GDP, Tamil Nadu, 2016-17 to 2024-25

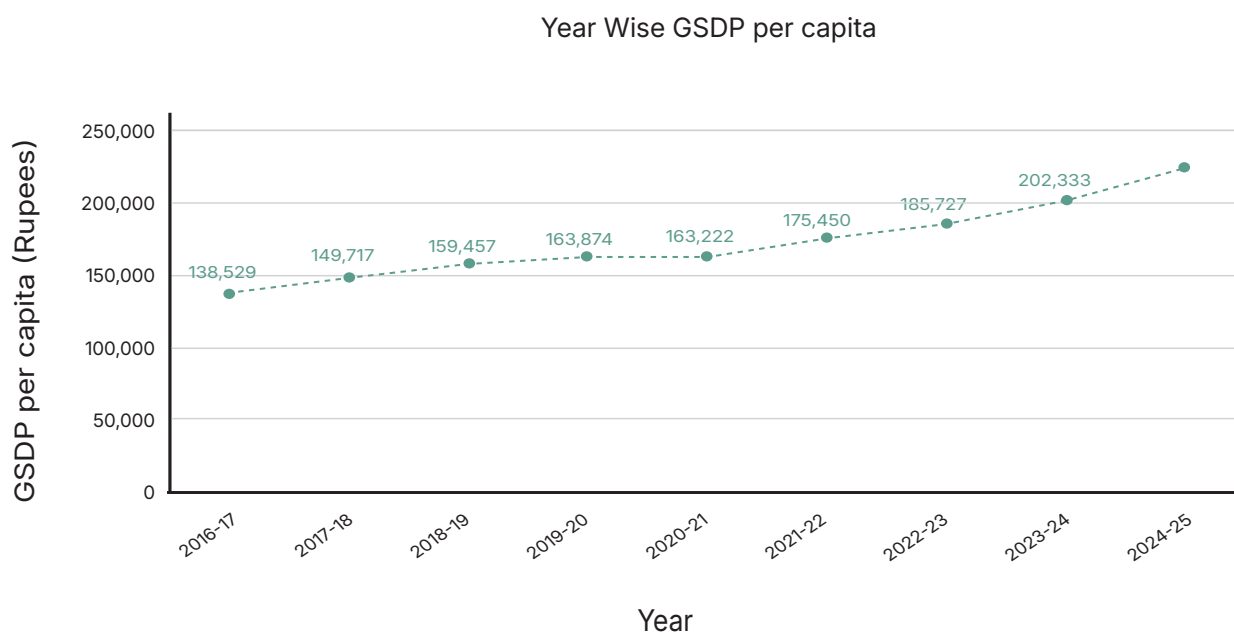


Figure 13: Real GSDP per capita, Tamil Nadu, 2016-17 to 2024-25

5.1.1 Scale Expansion and Demographic Dilution

Between 2016-17 and 2024-25, Tamil Nadu's Real GSDP grew from ₹ 10,36,762.12 crore to ₹ 17,32,188.58 crore. The nominal GSDP increasing from ₹ 13,02,638.58 crore to ₹ 31,18,590.3 crore, driven mainly by manufacturing and services. However, this scale-driven growth has not fully translated into individual prosperity due to uneven distribution.

a. Uneven Regional Distribution

In 2022-23, Chengalpattu recorded the highest per capita income of ₹ 6.48 lakh, followed by Kancheepuram and Chennai. Only 8 out of the State's 38 districts exceeded the State average of ₹ 2.78 lakh, while 30 districts fell below it, with Thiruvavarur recording the lowest at ₹ 1.48 lakh (State Planning Commission, Page 30), highlighting a clear concentration of prosperity in urban-industrial hubs like Chennai, Coimbatore, and Tiruppur versus lagging rural/agricultural areas.

b. Per Capita Moderation

Real GSDP per capita rose from ₹ 1,38,529 in 2016-17 to ₹ 2,24,313 in 2024-25, a cumulative increase of about 62%. Although this is positive, the annual growth in per capita output has remained

moderate around 5-6% and was sharply interrupted during the pandemic (falling in 2020-21). In 2023-24, services and manufacturing together accounted for nearly 87% of GSVA, while the primary sector's share fell to about 13% (State Planning Commission, Page 5), even though agriculture still employs around one-fifth of the workforce. This mismatch means that productivity gains are concentrated in capital and skill-intensive sectors, while large segments of the labour force remain in low-productivity activities. As a result, aggregate growth does not translate proportionately into broad income gains or a wider tax base.

c. Capital-Led Expansion with Limited Productivity Diffusion

Real GSDP growth has averaged 6–7% over the longer period, rising to above 8% in the post-COVID phase and reaching 11.19% in 2024–25. However, the composition of this growth suggests a greater reliance on capital deepening, particularly through public investment and infrastructure expansion, rather than broad-based productivity gains. This is reflected in persistently high revenue expenditure (~80% of total spending), limited improvement in labour absorption, and concentration of value addition in services

such as real estate (~18.5% of GSVA), which includes imputed rent and has lower fiscal responsiveness. Together, these patterns indicate that growth has not translated proportionately into fiscal capacity (South First, 2026).

5.1.2 Consumption Stabilisation vs. Investment Gaps

Tamil Nadu has pursued a dual strategy: stabilising consumption through public provisioning while investing in infrastructure, education, and health. However, the productivity gains from these investments remains uneven.

a. Consumption Floor

Public provisioning has supported demand, especially during shocks. However, these act as macroeconomic consumption stabilisers rather than productivity-enhancing investments. The persistence of high revenue expenditure has kept the revenue deficit elevated and Fiscal Prudence weak, limiting fiscal space for capital investment. As a result, a growing share of resources is absorbed by current consumption commitments rather than asset creation, constraining the State's ability to strengthen long-term growth capacity.

b. Investment Lag

Spending on roads, ports, schools, medical colleges, and industrial parks involves long gestation periods, meaning that productivity and revenue gains materialise gradually over time. While such investments are essential for long-term growth, they generate immediate financing requirements, including higher borrowing and interest costs in the short term. This temporal mismatch links to pressures in the Debt Index and Debt Sustainability pillars. For example, interest payments have risen to ₹ 62,456 crore in 2024-25, with the Debt Index remaining low at about 23, indicating that the fiscal benefits of these investments have not yet fully materialised.

c. Sectoral Imbalance

Export-driven growth in automobiles/electronics has boosted aggregate GSDP, but manufacturing and services dominate GSVA by contributing 33.37% and 53.63% respectively in 2023-24 (State Planning Commission, Page 4), while the primary sector share has declined to 13%. This concentration in high-productivity urban sectors, while agriculture, which employs around one-fifth of the workforce, lags, limits broad-based employment, income, and tax revenue generation, sustaining fiscal vulnerabilities as growth fails to offset rising committed costs.

5.1.3 Fiscal Implications: The Buoyancy and Rigidity Trap

a. Low Tax Buoyancy

Growth driven by capital-intensive sectors and uneven income distribution narrows the effective base for GST and income-linked taxes. Tamil Nadu's own tax buoyancy has shown structural weakness over the years. The pre-COVID average buoyancy (2016-17 to 2019-20) stood at approximately 0.62, with high volatility including a sharp drop to -0.47 during the pandemic year. Although it recovered to 1.52 in 2022-23 and 1.41 in 2023-24, it remains inconsistent and has historically stayed below 1.0 in most years. This indicates that tax collections have generally grown slower than the economic base, limiting the translation of GSDP growth into fiscal capacity. As a result, revenue mobilisation improves in absolute terms but remains modest relative to economic size, with the own tax-to-GSDP ratio stabilising around 6.2% in recent years (often referenced in the 37 index range in some normalised presentations) (CDS, 2025).

b. Expenditure Rigidity

Committed costs create permanent revenue commitments. With per capita incomes not rising fast enough to reduce subsidy needs, the State remains locked into high revenue spending, constraining capital outlay. This is reflected in

consistently modest Quality of Expenditure outcomes, with the index remaining relatively low and declining from 27.8 in 2022-23 to 19.2 in 2024-25, indicating that improvements in spending composition have not been sustained.

c. Cyclical Vulnerability

Without structurally anchored per capita growth, revenue and fiscal space remain sensitive to cycles. Slowdowns, such as COVID-19, immediately impact debt sustainability (index falling to 34) and prudence (index low of 12.3), forcing more borrowing and perpetuating the debt trap highlighted in debt-related pillars.

Tamil Nadu's growth profile is notable in aggregate but underwhelming at the per capita level. Aggregate expansion has not produced proportional income deepening or revenue buoyancy, leaving the State dependent on growth cycles and borrowing to sustain its fiscal commitments. Without shifting towards broad-based productivity growth, the economy will continue to expand along with deepening fiscal stress, making growth itself a source of vulnerability rather than a resilience. For durable fiscal consolidation, Tamil Nadu needs to transition from consumption stabilisation and cluster-led growth to inclusive, productivity-linked development that expands tax base, reduces expenditure rigidity, and allows growth to pay for its own fiscal cost.



5.2 Inflation and Price Dynamics: Implications for Fiscal Pressure

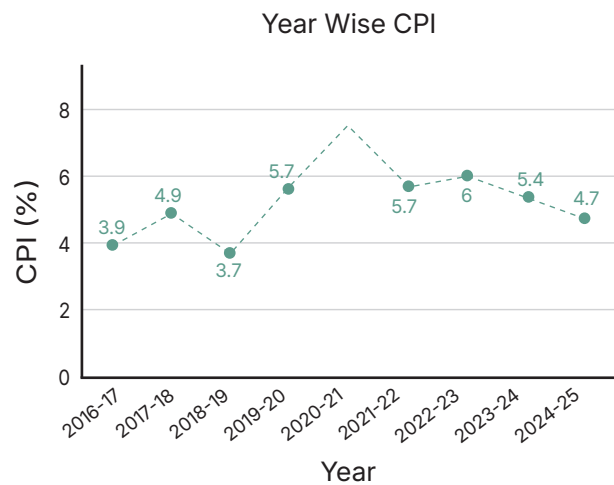


Figure 14: Year-Wise CPI (%), Tamil Nadu, 2016-17 to 2024-25

5.2.1 Inflation Trends and Volatility

Tamil Nadu has faced sustained and volatile price pressures over the last decade, with inflation remaining elevated across both crises and non-crises years.

a. Persistent Inflation

CPI inflation mostly remained between 2% and 6%, the range considered acceptable by RBI. It rose from 3.9% in 2016-17 to 5.7% in 2019-20, and peaked at 7.5% in 2020-21. This pattern broadly tracked national inflation movements, all-India CPI averaged around 3.6%-4.8% during 2016-19 and similarly crossed 7% during the pandemic, indicating that Tamil Nadu's price dynamics are shaped primarily by national supply and commodity cycles rather than State-specific divergence.

b. Crises-related Spikes

Inflation spikes in Tamil Nadu were closely linked to major external and domestic shocks. It rose sharply to 7.5% in 2020-21 due to pandemic-related disruptions and mobility restrictions. This was followed by another surge to 6% in 2022-23, driven by global commodity and fuel price spikes after the Russia-Ukraine conflict. In 2023-24, inflation remained elevated at

5.4% as food and transport costs stayed high. Only in 2024-25, inflation eased to 4.7% due to improved agricultural output, fall in global energy prices, and eased logistics bottlenecks, allowing supply chains to normalise.

c. Component Drivers

Price movements in Tamil Nadu largely mirror the national CPI structure. In the current series (base 2012=100), food and beverages carry the largest weight at approximately 45.86% in the all-India CPI (Combined) basket, followed by housing (~10.07%), fuel and light (~6.84%), and miscellaneous services (~28.32%). Tamil Nadu's CPI weights follow a similar pattern, with a slightly lower food share in its urban component due to higher urbanisation (Tamil Nadu has a 58.99% urban share in the combined index). Inflation dynamics in India show that food inflation, especially in cereals, vegetables, and pulses, remains the dominant contributor, with fuel costs transmitting into transport and services prices (The Hindu, 2025). Supply-side shocks to food output, global energy price movements, and pass-through into logistics therefore explain much of the variation in the State's headline CPI. These channels were particularly visible during pandemic disruptions and global energy shocks (MoSPI, 2015).

d. High Volatility

The CPI range from 3.9% to 7.5% reflects repeated price shocks in food, fuel, and transport. Although most values fall within the RBI's tolerance band, they remain economically damaging in Tamil Nadu because of uneven income growth, a large informal workforce, and dependence of many households on fixed or subsidised incomes. This vulnerability is particularly significant given the State's gender-disaggregated labour force participation: female LFPR stands at 47.0% while male LFPR is 64.6% (urban and rural combined, PLFS / Tamil Nadu Economic Survey 2025-26). The relatively lower female participation, combined with a

substantial share of informal employment, means that inflation swings disproportionately affect household consumption smoothing and planning, even in years when headline inflation stays formally within the target range (MoSPI).

5.2.2 Impact on Real Income and Purchasing Power

Although Tamil Nadu's per capita income has increased steadily, inflation has diluted a large part of these gains.

a. Real Income Dilution

Between 2016-17 and 2024-25, nominal per capita GSDP nearly doubled from ₹ 1,74,054 to ₹ 4,03,847. However, in real terms, per capita GSDP increased only from ₹ 1,38,529 to ₹ 2,24,313. This shows that a large share of income growth was absorbed by rising prices, rather than translating into real purchasing power. This is evident in 2020-21, when CPI reached 7.5%, nominal per capita GSDP rose, but real capita income fell from ₹ 1,63,874 to ₹ 1,63,222. Thus, inflation fully neutralised income gains, leaving households with no real improvement in living standards.

b. Consumption Pressure

In such high-inflation years, rising costs of food, rent, fuel, and transport compress household budgets, particularly for informal and fixed-income workers, forcing cutbacks even when headline income appears to rise.

c. Increased Reliance on Public Provisioning

As purchasing power weakens, households rely more on public support to meet basic needs. This leads to dependence on schemes, directly linking inflation to the State's revenue expenditure rigidity, where committed spending continues to absorb over 50% of revenue receipts.

Inflation therefore prevents income deepening and slows the transition toward a self-sustaining middle class.

5.2.3 Fiscal Outcomes: The Expenditure–Revenue Asymmetry

Inflation creates a double fiscal burden for Tamil Nadu by pushing up spending while weakening the real value of revenues.

a. Expenditure Pressure

Rising prices increase the cost of welfare delivery, food procurement, healthcare inputs, and indexed compensation obligations. In addition to Dearness Allowance adjustments, such as the increase from 55% to 58% effective July 2025 implying about ₹ 1,829 crore annually (The Hindu, 2025), pension payouts and inflation-linked benefits move similarly. A data-based estimate suggests that each 1 percentage point rise in CPI could increase Tamil Nadu's committed expenditure by approximately ₹ 650-800 crore annually,¹¹ reflecting adjustments in pensions and subsidy-linked costs. Because these expenditures are formula-linked or operationally unavoidable, inflation tends to translate into structurally higher committed spending rather than temporary budget pressure.

b. Revenue Constraint

While inflation raises nominal tax collections, it weakens real tax buoyancy. When prices rise faster than household incomes, the effective tax base does not deepen. This explains why the Revenue Mobilisation Index remains weak at 37.7 in 2024-25, despite strong GSDP growth.

c. Planning Risk

Volatile inflation complicates fiscal forecasting. Expenditure rises automatically with prices but revenue responds slowly and unevenly. This asymmetry contributes to persistent deficits, rising interest payments, and continued stress in the Fiscal Prudence and Debt Sustainability pillars.

In Tamil Nadu, inflation functions as a hidden tax on growth. It erodes real income gains, reinforces welfare dependence, and increases the cost of Government operations. This weakens both sides of the fiscal balance, by

expanding committed expenditure and by limiting real revenue growth. As a result, even strong GSDP expansion doesn't translate into durable fiscal improvement. Without price stability, headline growth cannot generate the broad-based income deepening, productivity gains, and tax buoyancy required to strengthen fiscal resilience and reduce structural deficits.

5.3 Labour Market Transmission: Employment and Participation

This section evaluates how effectively Tamil Nadu's labour market converts economic growth into stable household income. From a fiscal perspective, understanding this channel is essential for expanding the tax base and reducing dependence on long-term public provisioning programmes. The central finding of this section is that Tamil Nadu's labour market generates employment but not proportionate taxable income. A significant share of employment growth occurs in informal, low-wage, or small-enterprise segments that contribute limited direct tax revenues and weak consumption-based tax expansion. As a result, even periods of stable GSDP growth translate only partially into higher fiscal capacity. Despite stable GSDP growth, employment outcomes in Tamil Nadu remain cyclical and informal, reinforcing the structural weaknesses observed in the Revenue Mobilisation, Fiscal Prudence, and Debt pillars. This disconnect between job creation and taxable income limits the ability of economic growth to broaden the State's revenue base and contributes to persistent fiscal pressures.



5.3.1 Unemployment Trends: Cyclical rather than Structural Stability

a. Pre-Pandemic Stress

Unemployment in Tamil Nadu remained elevated even during years of steady growth, rising to around 7.5% in 2017-18 and staying high at 6.6% in 2019-20 (PLFS, Table 3). This occurred even as manufacturing (36%) and services (52%) (PRS, 2022) together accounted for nearly 88% of GSVA in 2018-19, indicating that output expansion in these sectors didn't translate into proportional employment creation. This points to a structural disconnect between growth and job absorption, where sectoral growth has been capital and skill-intensive rather than labour absorbing.

b. Post-Pandemic Rebound

Unemployment gradually fell to 4.8% in 2021-22 and 4.3% in 2022-23. This improvement coincided with reopening effects, revival in construction and public works, and recovery in informal economic activity, alongside gradual expansion in employment opportunities.

c. Shock Sensitivity

Tamil Nadu's labour market is highly sensitive to economic shocks. During the COVID year, unemployment remained high at 5.2% in 2020-21, only marginally lower than 5.3% in 2019-20, reflecting severe job losses in industry, construction, and services despite temporary relief measures. With reopening, unemployment fell to 4.3% in 2022-23, showing a cyclical recovery. This pattern indicates that employment responds to short-term shocks and rebounds, rather than being anchored in stable, long-term job creation.



5.3.2 Female Labour Force Participation: High Numbers, Low Quality

a. High Participation, Low-Quality Employment

Tamil Nadu records one of the highest levels of female workforce participation among Indian States, accounting for around 42% of all female factory workers in India, reflecting its dominance in labour-intensive manufacturing such as textiles, garments, leather, and electronics. However, this high level of participation is largely concentrated in low-skill and low-wage segments of the economy. Women's employment is primarily concentrated in manufacturing and services, which together account for about 64% of female workers (Eurasia Review, 2025), yet about 12% of working women are in white-collar (Eurasia Review, 2025). As a result, the employment model generates scale but limited job quality, with many women concentrated in shop-floor and contract-based roles offering low wages, weak job security, and limited upward mobility. This creates a structural constraint where high participation does not translate into income deepening.

b. Formalisation Structure and Fiscal Linkages

Tamil Nadu has a relatively substantial formal sector presence than many States, but informal employment remains substantial. A large share of workers are engaged in low-wage and small-scale activities, limiting direct tax contributions and consumption-driven tax expansion. As a result, revenue mobilisation continues to be driven more by economic scale than by strong tax responsiveness (India Data Map, 2025).

c. Education-Productivity Mismatch

Tamil Nadu's higher education participation is well above the national average (GER 47% vs 28.4%), reflecting expanded access. Many graduates face a mismatch between their qualifications and available job opportunities, with a significant share entering low-paid manufacturing or

low-skilled service roles due to limited availability of quality employment (TOI, 2025). As a result, educational gains have improved access but led to limited income deepening and weak fiscal transmission.

d. Fiscal and Growth Implications

The prevalence of low-paid and informal employment dampens revenue mobilisation. These jobs generate limited taxable income and weak consumption-linked tax growth, preventing the tax base from deepening with economic expansion. At the same time, income insecurity reinforces reliance on public provisioning, adding to expenditure rigidity and linking labour market structure to persistent fiscal pressures.

5.3.3 Fiscal Implications: The Employment-Revenue Bottleneck

a. Cyclical Employment and Economic Stability

Employment in Tamil Nadu is heavily concentrated in cyclical sectors such as construction, trade, transport, hospitality, and labour-intensive manufacturing. These sectors expand during growth phases and contract sharply during shocks, as seen during COVID and the post-lockdown slowdown. This cyclical employment pattern directly feeds into the Fiscal Prudence pillar, where revenue deficits widen during downturns because household incomes and consumption fall quickly, while revenue expenditure rises automatically. As a result, fiscal discipline improves only when growth is high and deteriorates immediately when growth slows.

b. Informality and Limited Income Deepening

A large share of employment remains informal and low-wage, particularly among women and youth. This weakens the tax base because such jobs generate limited direct tax and low GST-yielding consumption. This explains why the Revenue Mobilisation Index remains weak

relative to GSDP growth. Even when employment increases, it does not translate into proportional growth in State own revenues. The labour market therefore acts as a structural ceiling on revenue buoyancy.

c. Public Spending as the Demand Anchor

Because private income growth is uneven and fragile, the State increasingly relies on public spending to stabilise demand. This links the labour market to the Debt Index and Debt Sustainability pillars, where when employment-driven revenues weaken, borrowing rises to sustain spending, increasing outstanding liabilities and interest payments. Over time, this converts cyclical employment stress into structural debt pressure.

Tamil Nadu's labour market shows that growth is not translating into stable, high-quality jobs. Employment remains cyclical and largely informal, while high female participation is concentrated in low-wage, insecure work. This limits income deepening and tax base expansion, keeping revenue growth weak despite rising GSDP. As a result, the State relies on welfare and borrowing to sustain demand, turning labour market fragility into persistent fiscal stress.

5.4 Investment and Trade: Sustainability of Growth Drivers

This section evaluates whether Tamil Nadu's growth is supported by self-reinforcing private investment and export engines or remains dependent on public spending, borrowing, and credit expansion. From a fiscal perspective, the composition of investment matters: growth driven by State-led capital outlay raises output but also expands debt and interest burdens, while private investment and exports create recurring revenue and employment without proportionate fiscal stress.

5.4.1 Investment Composition: Public-Led Scale, Incomplete Private Deepening

- a. Post-Pandemic Surge Driven by the State**
Gross Fixed Capital Formation (GFCF) rose sharply from ₹ 33,9782 crore in 2020-21 to ₹ 6,98,604 crore in 2023-24. This coincided with the State's infrastructure push through Singara Chennai 2.0, Chennai Metro Phase II, industrial corridor investments, road and urban projects. However, this expansion occurred alongside deterioration in fiscal pillars, the Fiscal Prudence score fell to 15.9 in 2021-22, reflecting that capital expansion increased output capacity but was financed under high revenue deficits, indicating growth support alongside rising fiscal exposure rather than self-financing investment deepening.
- b. Pre-Covid Stagnation Despite Growth**
Before COVID, GFCF fluctuated between ₹ 3,70,278 crore in 2016-17 and ₹ 4,59,366 crore in 2019-20, even as real GSDP grew steadily. This mirrors the weakening of Quality of Expenditure (16.8 in 2019-20), when capital creation was crowded out by committed revenue spending.
- c. Credit-Led Recovery with Debt Linkages**
Bank credit expanded from ₹ 9,81,665 crore in 2019-20 to ₹ 17,62,746 crore in 2024-25. This aligns with the Debt Index falling from 51.8 in 2016-17 to 23.4 in 2024-25, showing that growth has been increasingly supported by leverage rather than internally financed investment.
- d. Spatial and Sectoral Concentration**
Investment is concentrated in automobiles, electronics, textiles, and industrial corridors around Chennai, Hosur, Coimbatore, and Tiruppur. This reinforces the concentration risk identified in the growth section and limits diffusion into lagging districts, constraining revenue buoyancy.

5.4.2 Trade Performance: High Scale, Weak Fiscal Transmission

- a. Export Composition and Sector Concentration**
Tamil Nadu's export base is broad in composition but remains concentrated in a few sectors and industrial clusters. Key exports such as textiles, automobiles, electronics, and engineering goods are anchored in specific regions like Chennai, Tirupur, and Coimbatore, indicating cluster-based industrial capability. However, this concentration creates dependence on a limited set of sectors and geographies, increasing vulnerability to sector-specific global demand shocks and constraining the diversification of fiscal spillovers across the State (Eximity, 2025).
- b. Export Expansion and Cyclicalities**
Exports doubled from \$ 26.2 billion in 2020-21 to \$ 52.1 billion in 2024-25, driven by automobiles, engineering goods, textiles, electronics, and leather. Exports remained resilient during COVID at \$ 26.2 billion and rebounded to \$ 35 billion after 2021, supporting GSDP recovery. However, their volatility reflects the cyclical pattern seen in the Debt Sustainability pillar, which improves only when growth exceeds interest costs, with a score of 34 in 2024-25. Sector concentration in manufacturing and external demand makes export performance sensitive to global cycles rather than stable domestic fiscal transmission.
- c. Limited Revenue Conversion**
Despite high export growth, gains do not translate proportionately into State revenues due to indirect fiscal channels. GST accrues at the destination, corporate taxes are centrally collected, and input-credit offsets reduce net indirect tax retention. Sector composition further limits gains, as textiles, leather, and assembly manufacturing generate lower taxable income, while IT exports largely bypass State taxes. As a result, exports support output and employment but contribute less to fiscal capacity, reflected in the modest Revenue Mobilisation Index at 37.7 in 2024-25 even during export booms.

5.4.3 Fiscal Implications: Growth without Self-Reinforcement

a. Public Capex with Weak Prudence

Capital expansion has occurred alongside weak fiscal discipline. While there was a temporary improvement in Quality of Expenditure score to 27.8 in 2022-23, this was not sustained and declined to 19.2 in 2024-25. At the same time, Fiscal Prudence weakened sharply to 12.3, indicating that expenditure expansion has been supported by higher deficits rather than structural fiscal consolidation.

b. Debt and Interest Transmission

Infrastructure projects, such as Metro Phase II, Singara Chennai, industrial corridors, have raised outstanding liabilities and interest payments, explaining the persistent weakness of the Debt Index to 23.4 in 2024-25.

c. Revenue Mismatch

Even with higher exports, FDI, and GSDP, revenue deficits remain high because revenue expenditure absorbs over 80% of total spending. This structural rigidity prevents investment-led growth from translating into fiscal space.

Tamil Nadu's investment and trade engines have expanded rapidly, but they are not yet strengthening the State's finances in a sustainable way. The post-COVID surge in GFCF and exports has been supported primarily by State-led capital spending, borrowing, and credit, not by a strong and stable private investment cycle. This explains why Debt, Fiscal Prudence, and Revenue Mobilisation pillars remain weak despite high growth.

Growth therefore remains growth-dependent instead of being structurally strong. It increases output in the short run but also creates future fiscal risk. Unless private investment deepens, FDI becomes more stable, and export growth translates better into State revenues, Tamil Nadu's growth will keep adding fiscal pressure faster than the State's ability to pay for it.



6. Diagnosing Tamil Nadu's Growth-Fiscal Paradox

The preceding analysis establishes two linked findings. The Fiscal Health Assessment shows a State under structural pressure, with weak revenue buoyancy, high expenditure rigidity, and rising debt commitments that limit fiscal space despite a substantial economic scale. The Economic Dynamism assessment shows an economy expanding in aggregate output but facing imbalances in investment depth, employment transmission, productivity distribution, and spatial diffusion of growth. Together, these outcomes raise a structural question: how can sustained economic expansion coexist with limited improvement in fiscal capacity?

Tamil Nadu's real GSDP increased by more than 65% between 2016-17 and 2024-25, and nominal output exceeded ₹ 31,18,590.30 crore. However, fiscal indicators did not improve proportionately. State Own Revenue relative to GSDP remained near 7.2%-7.3%, tax buoyancy stayed below unity for extended periods, revenue expenditure absorbed more than 80% of total spending, and interest payments accounted for nearly one-fifth of revenues after COVID. These outcomes indicate that economic expansion has not translated into proportional tax-base deepening or fiscal consolidation.

Industrial signals reinforce this divergence. A historical ORF (2018) comparison, cited here as a structural benchmark rather than a current reading, reported manufacturing growth of 1.65% in Tamil Nadu compared with 10.3% in Andhra Pradesh and 7.1% in Telangana (ORF, 2018), indicating early signs of relative deceleration in marginal industrial momentum. More recent ASI 2023-24 data show that while Tamil Nadu accounts for 15.43% of India's factories and 15.24% of industrial employment, its share in manufacturing output (10.11%) and gross value added (10.26%) remains lower than Gujarat (14.20%) and Maharashtra (15.05%) (PIB, 2025). This gap

between industrial presence and value capture suggests that manufacturing scale has been maintained, but higher-value upgrading and productivity intensity have grown faster in peer States, limiting fiscal multipliers from industrial expansion.

This section examines structural mechanisms behind this growth-fiscal disconnect. Fiscal outcomes are treated as consequences of underlying economic organisation, including investment patterns, industrial positioning, infrastructure execution, and regional distribution of productive activity. Persistent fiscal stress alongside output expansion indicates that growth structure, rather than growth level, is the key explanatory factor.

To examine this systematically, the analysis proceeds through four diagnostic pillars:

a. Investment and Industrial Momentum Losing Relative Ground

This pillar evaluates why Tamil Nadu's high economic base has not translated into leadership in new private investment, examining RERA project scale, FDI patterns, GST momentum, and the shift of marginal capital formation to competitor States, such as Maharashtra, Gujarat, Karnataka, and Andhra Pradesh.

b. Automotive Core and the Erosion of the "Detroit" Advantage

This pillar investigates the stagnation of Tamil Nadu's original industrial engine, showing how new greenfield automotive and EV investments are increasingly located outside the State, while Tamil Nadu remains locked into legacy capacity without technological upgrading.

c. Central Infrastructure Underutilisation and Governance Bottlenecks

This pillar analyses execution failures in highways, railways, power sector reform

(UDAY/TANGEDCO), and centrally sponsored infrastructure, highlighting how administrative and clearance constraints prevent public investment from translating into productive assets.

d. Spatial Income Inequality and Weak Growth Diffusion

This pillar examines the extreme concentration of income and output in a small set of urban-industrial districts, with 30 out of 38 districts below the State average, limiting tax base deepening and reinforcing welfare dependence.

These pillars are interconnected. Investment composition affects industrial upgrading, governance influences infrastructure productivity, spatial concentration shapes fiscal obligations, and together these mechanisms determine how output expansion translates into employment, income, and revenue generation. The objective is not to question Tamil Nadu's economic scale, but to assess whether its current growth configuration supports durable fiscal sustainability.

6.1 Investment and Industrial Momentum: Losing Relative Ground

This pillar explains why Tamil Nadu's high economic base has not translated into leadership in new private investment. It focuses on project scale, foreign investment, GST momentum, and the shift of marginal capital formation to competitor States.

6.1.1 Project Scale and Real Estate as a Forward Investment Signal

a. High Project Volume, Limited Scale Transformation

Tamil Nadu ranks second nationally in RERA registrations with approximately 19,987 projects, but this volume warrants critical disaggregation (PropEquity / Business Standard, 2025). However, this high registration volume largely represents

dense, incremental development, mostly smaller apartment buildings and plotted layouts, within established urban and peri-urban markets rather than the creation of new large-format integrated townships or industrial corridors capable of significantly reshaping the State's spatial and industrial geography. This pattern is evident in the prevalence of modest-scale projects in key growth corridors (such as OMR, GST Road, and Sriperumbudur), where development remains fragmented compared to the potential for self-contained townships that combine residential, commercial, and amenity spaces. (Business Standard, 2025).

This structural limitation becomes quantitatively apparent when project scale is examined: Tamil Nadu's implied average of ~82 units per registered project mirrors the national top-10 average but falls well below Uttar Pradesh (184 units/project) and Rajasthan (156 units/project), both of which reflect a higher prevalence of township-scale developments (PropEquity, 2025). While this indicates sustained investment sentiment and a mature real estate ecosystem, it limits larger construction multipliers in employment generation and fixed asset creation, thereby constraining broader forward economic linkages (Business Standard, 2025).

This gap is further compounded at the labour end: despite a construction workforce of ~19.30 lakh, approximately 20 lakh workers remain unregistered with the Tamil Nadu Construction Workers Welfare Board, operating outside formal safety nets while a CAG audit (2024) found systematic under-collection of labour cess and misappropriation of funds in at least one district. Tamil Nadu's high RERA rank, in this light, reflects development fragmentation as much as market maturity and risks optimising for registration count while under-investing in the institutional frameworks needed for employment-dense, spatially transformative growth.

b. High Number of Parks but Moderate Land Scale

Tamil Nadu hosts 372 industrial parks covering approximately 30,772 hectares, placing the State among the leaders nationally in terms of park count and demonstrating a historically strong institutional base for industrial clustering (PIB, 2025). However, the total land footprint remains significantly smaller than that of larger states such as Gujarat (193,975 hectares) and Maharashtra (81,308 hectares).

This difference must be viewed in context: Tamil Nadu is a geographically smaller state ($\approx 1,30,060$ sq km) compared to Gujarat ($\approx 1,96,024$ sq km) and Maharashtra ($\approx 3,07,713$ sq km). When normalised for state size, Tamil Nadu maintains a relatively high industrial land density, reflecting its already compact and mature industrial ecosystem. Even so, the absolute scale of available contiguous land for large-format manufacturing investments and mega projects remains more constrained relative to states that have pursued extensive land aggregation. This limits the State's ability to accommodate very large integrated industrial zones or greenfield expansions without further aggressive land banking efforts (PIB, 2025).

c. Weak Signal for Future Industrial Capacity

Taken together, these indicators point to limits in future industrial expansion. Smaller project scale reflects incremental urban growth, while moderate industrial land availability constrains large manufacturing ecosystems. This aligns with earlier findings that investment growth in Tamil Nadu has been largely public-led, with limited large private commitments. As a result, capacity expansion, employment multipliers, and income deepening remain constrained, reinforcing weaker revenue buoyancy and sustained fiscal pressures.

6.1.2 FDI Patterns and the Absence of a Self-Sustaining Private Investment Cycle

a. Stable but Stagnant FDI Inflows

Foreign investment into Tamil Nadu has remained within a relatively narrow range over recent years, indicating stability without structural acceleration. Based on the latest data, inflows stood at approximately ₹ 2,323 crore in 2020-21, ₹ 3,003 crore in 2021-22, ₹ 2,169 crore in 2022-23, ₹ 2,436 crore in 2023-24, and ₹ 3,681 crore in 2024-25 (Ministry of Commerce, 2025). While this reflects sustained investor presence, the absence of a clear upward trend suggests limited gains in attracting incremental global capital. Given Tamil Nadu's industrial maturity, stronger growth in marginal inflows would typically be expected to support long-term fiscal capacity.

b. High historical FDI stock but weakening marginal inflows

Tamil Nadu has a substantial accumulated FDI stock, supported by long-standing investors such as Hyundai, Nissan, Renault, and Nokia, concentrated in the Chennai-Sriperumbudur-Oragadam corridor. This legacy base sustains industrial output despite slower inflows. However, new FDI has not kept pace with competitors, raising concerns about whether the State is facing structural constraints rather than simply maturing.

c. FDI saturation or loss of competitiveness

The State's ability to attract fresh, large-scale greenfield FDI appears constrained by several factors:

i. Land acquisition delays

Persistent bottlenecks in land procurement for new projects, e.g., only 24% (TOI, 2026) land acquired for ongoing railway-linked industrial corridors, deter large investors seeking integrated sites.

ii. Infrastructure saturation

Mature clusters like Sriperumbudur face power, water, and logistics constraints, limiting scalability for new mega-projects.

iii. Relative loss to competitors

Comparative FDI inflows normalised by GSDP highlight a widening gap. In 2023-24, Tamil Nadu attracted only ₹ 2,436 crore in FDI equity inflows, equivalent to 0.091 % of its GSDP. In contrast, Maharashtra received ₹ 15,115 crore (0.374 % of GSDP), Gujarat ₹ 7,300 crore (0.28 % of GSDP), and Karnataka ₹ 6,571 crore (0.263 % of GSDP). Even after normalising for economic size, Tamil Nadu's FDI intensity remains the lowest among the four peer developed states, accounting for roughly 5–6 % of total national FDI inflows (Ministry of Commerce, 2025).

While existing firms continue incremental expansion, Tamil Nadu is not keeping pace in attracting marginal global capital. This reflects a relative loss of competitiveness in a federal landscape where other States have improved land access, infrastructure readiness, and investment facilitation.

d. Institutional Policy Context for Investment Allocation

Industrial policy comparison provides institutional context for these investment patterns. Tamil Nadu's architecture emphasises capital subsidies, employment-linked incentives, and administrative coordination through a single-window clearance system. Earlier comparative analyses (Frost & Sullivan, 2018)) indicated that Andhra Pradesh prioritised land accessibility via GIS-based industrial land banks, Telangana incorporated land rebates and infrastructure cost-sharing incentives, and Karnataka deployed transaction-cost reductions such as stamp duty exemptions and land conversion reimbursements linked to zoning. It should be noted, however, that all four states have since introduced updated or new industrial policies (Tamil Nadu Industrial Policy framework 2021 with sector-specific updates in 2024–25 (Government of Tamil Nadu. (2021)); Andhra Pradesh Industrial Development Policy 4.0 2024–29 (Government of Andhra Pradesh. (2024)); Karnataka Industrial Policy 2025–30; and

Telangana's ongoing industrial framework with MSME Policy 2024). While not strictly causal, these institutional designs continue to influence the distribution of investment across states and act as a key moderating factor in capital allocation.

6.1.3 GST Momentum and Market Deepening

a. Absolute size without relative acceleration

Tamil Nadu GST collections rose from ₹ 69,121 crore in 2020–21 to ₹ 1,21,329 crore in 2023–24. While low base effects partly influence growth rates, they do not fully explain relative outcomes. Compared to key competitors, the pace of expansion is relatively slower, suggesting that the underlying growth in taxable transactions may be less pronounced.

b. Competitor States Growing Faster

Over the same period, Gujarat grew from ₹ 74,346 crore to ₹ 1,25,168 crore, maintaining both higher scale and expansion. Uttar Pradesh increased from ₹ 59,721 crore to ₹ 1,01,693 crore (Gol, GST), nearly converging despite a weaker initial industrial structure. These outcomes indicate relative acceleration elsewhere that cannot be explained solely by base differences, reflecting faster market expansion and compliance deepening compared with Tamil Nadu.

c. Tax Responsiveness and Fiscal Transmission Signals

Tax buoyancy patterns reinforce this divergence. Tamil Nadu's own tax buoyancy rose to 1.44 in 2022-23 but fell to 0.83 in 2023-24 (Finance Commission, Table 4.1), indicating unstable translation of growth into revenue. A coefficient below unity implies tax collections growing slower than the economic base. This volatility suggests that high GST scale has not translated into consistent fiscal responsiveness, aligning with broader evidence of uneven revenue capacity expansion.

6.1.4 Manufacturing Output Performance and Structural Signals

a. Slower Manufacturing Growth Relative to Peers

Recent indicators point to moderation in manufacturing momentum despite Tamil Nadu's substantial industrial base. A useful reference is the ORF (2018) assessment, which reported manufacturing growth of about 1.65% in Tamil Nadu compared with 10.3% in Andhra Pradesh and 7.1% in Telangana. (ORF, 2018). While dated, this highlights the early emergence of relative deceleration in incremental output expansion. This does not indicate contraction, but suggests that marginal industrial acceleration has shifted toward competing regions, raising concerns about value capture and productivity intensity.

b. Scale-Value Divergence in Industrial Structure

ASI results for 2023-24 shows that Tamil Nadu accounts for about 15.43% of India's factories and 15.24% of industrial employment, yet its share in manufacturing output is about 10.11% and gross value added about 10.26%, while Gujarat and Maharashtra record higher value shares of 14.20% and 15.05% respectively (PIB, 2025). This indicates a high industrial scale but lower value capture per unit of capital and labour. As a result, manufacturing contributes to output but generates weaker productivity and fiscal multipliers relative to peer States.

c. Labour Absorption without Proportional Productivity Gains

The manufacturing structure reflects labour patterns identified earlier. Tamil Nadu employs about 42% of India's female factory workers, largely in labour-intensive sectors. However, concentration in lower-skill roles limits income deepening and productivity gains, so employment scale does not translate proportionately into output or fiscal returns. Since manufacturing drives construction demand, income formation, and indirect taxation, weaker value capture reduces its transmission into revenue generation.

6.1.5 Linkage to Fiscal and Economic Findings

a. State-Led Capital Formation

These investment patterns reinforce earlier findings that capital formation is increasingly State-led rather than private-driven. Limited private investment constrains high-productivity employment, weakening income deepening and tax base expansion. This increases fiscal sensitivity to growth cycles and interest rate movements.

b. Fiscal Outcomes

This dynamic explains key fiscal trends: State Own Revenue/GSDP remains around 7.3%, the Revenue Mobilisation Index stays near 37 despite growth, and Fiscal Prudence declines to 12.3 in 2024-25. As public investment substitutes for private capital, borrowing rises, pushing liabilities to ₹ 9,55,690 crore and interest payments to ₹ 62,456 crore. Fiscal pressure therefore reflects structural investment composition rather than only expenditure management.

6.2 Automotive Core and The Erosion of The “Detroit” Advantage

This pillar evaluates whether Tamil Nadu's historical manufacturing strength continues to generate marginal investment leadership or has transitioned into legacy capacity without technological upgrading. The analysis focuses on relative positioning in new capital formation rather than absolute contraction of the automotive base, which remains substantial in scale and output.

6.2.1 Established Legacy Base, Weak Marginal Capital Formation

a. High Historical Capacity

Tamil Nadu has an established automotive ecosystem in the Chennai-Sriperumbudur corridor, supported by OEM investments over time. Ford's facility at Maraimalai Nagar, for instance, had a capacity of about 200,000 vehicles and 340,000 engines

a. High Historical Capacity

Tamil Nadu has an established automotive ecosystem in the Chennai–Sriperumbudur corridor, supported by OEM investments over time. Ford’s facility at Maraimalai Nagar, for instance, had a capacity of about 200,000 vehicles and 340,000 engines annually before manufacturing ceased in 2021 (Forbes India, 2024), indicating the scale of earlier industrial activity.

b. New Investments Bypass Tamil Nadu

Recent investment geography indicates divergence. Large new projects such as Kia’s \$ 2 billion plant in Andhra Pradesh with capacity of 300,000 vehicles (SAE International, 2017), Maruti Suzuki’s expansion in Gujarat (Maruti Suzuki, 2024), and Toyota’s localisation investments in Karnataka (Toyota, 2025) demonstrate that major marginal capital flows increasingly locate outside Tamil Nadu. While the State has secured projects such as Tata Motors–JLR, most recent additions are incremental rather than large greenfield investments. This suggests a relative slowdown in marginal upgrading rather than decline in scale. Manufacturing output continues to grow, but the State’s positioning in new high-value segments appears weaker, with implications for future productivity, employment quality, and fiscal multipliers.

c. Restructuring of Existing OEM Footprints

Following the cessation of passenger vehicle assembly operations, Ford’s subsequent ₹ 3,250 crore investment was redirected toward export-oriented engine manufacturing with a planned capacity of 235,000 engines annually by 2029 (Autocar India, 2024). This shift represents a transition from integrated vehicle production to a narrower, component focused role. While the investment sustains some manufacturing activity, it results in

as Tata’s ₹ 13,000 crore battery facility in Gujarat (Govt. of Gujarat, 2023), Suzuki-Toshiba battery manufacturing (Autocar India, 2017), Mahindra’s ₹ 10,000 crore EV plant in Maharashtra (ET, 2023), and infrastructure expansion in Andhra Pradesh (Manufacturing Today, 2024) indicate that upstream technological capacity is being concentrated elsewhere. The State remains more active in assembly and component production rather than platform leadership. Since upstream segments generate higher productivity employment and stronger fiscal multipliers, this geographic shift limits future tax base deepening.

6.2.3 Linkage to Fiscal and Economic Findings

a. Economic Link

As highlighted in the Economic Dynamism assessment, capital-intensive growth has not translated into broad employment gains. The EV transition reinforces this by shifting high-value industrial activity and GST-generating transactions outside the State. This constrains tax buoyancy and aligns with labour market patterns where employment remains concentrated in lower-productivity segments.

b. Fiscal Outcome

From a fiscal perspective, weaker high-wage employment sustains dependence on public provisioning and contributes to expenditure rigidity, with committed expenditure already exceeding 50% of receipts. This weakens fiscal prudence and increases reliance on borrowing. Industrial transition therefore becomes a structural driver of fiscal vulnerability, with implications for long-term debt sustainability.

The relocation of marginal industrial investment and technological upgrading interacts with infrastructure execution capacity, since the productivity of new capital formation depends on transport connectivity, energy reliability, and administrative throughput. This linkage motivates examination of infrastructure utilisation and governance constraints in the following pillar.

6.2.2 EV Transition and Technological Bypass

Upstream Value Capture Outside the State

Investments in high-value EV segments such

6.3 Central Infrastructure Underutilisation and Governance Bottlenecks

This pillar evaluates whether public and centrally sponsored infrastructure spending is translating into completed, productive assets. The focus is on execution efficiency rather than allocation levels, recognising that capital availability alone does not ensure productivity gains.

6.3.1 When Allocations Do Not Become Assets

a. Highway delays

NH-48 (Chennai-Vellore) has received over ₹ 1,500 crore (TOI, 2024), but remains incomplete even after 13 years due to land acquisition and contractor problems. This reduces the economic return of the investment and raises logistics costs.

b. Railway Execution Gaps

Rail infrastructure projects underscore a similar dynamic. According to recent reports, Tamil Nadu has acquired only about 24% of the land required for ongoing railway projects (TOI, 2026), even as the Ministry of Railways emphasised the need for faster land procurement to accelerate work. Delays in land acquisition have directly slowed down the execution of several sanctioned rail lines and capacity enhancement projects, reiterating that the constraint lies less in funding and more in clearance and coordination capacity at the local and district level.

c. Implications of Weak Capital Formation for Future Capacity

When capital spending does not translate into completed assets, it weakens future productive capacity by limiting improvements in logistics, connectivity, and private investment attraction. Borrowing costs are incurred immediately, while productivity gains are delayed, reinforcing rising liabilities without commensurate revenue expansion.

6.3.2 Power Sector Reform Failure (Express News Service, 2022)

a. Operational Losses and State Implementation Gaps

The UDAY framework did not improve TANGEDCO's financial position, with debt rising from ₹ 81,312 crore (2015) to ₹ 1.23 lakh crore by 2020 and ₹ 1.35 lakh crore by 2024. Incomplete restructuring, including failure to convert ₹ 7,605 crore into lower-cost bonds, further increased interest burdens. This outcome shows fiscal risk transmission from operational sector governance into State balance sheet exposure.

b. Tariff and Subsidy Management Weaknesses

Losses persisted due to limited tariff revision, inadequate subsidy compensation, procurement of relatively expensive power, and inefficient thermal generation. Consequently, the cost-revenue gap remained unresolved and the utility recorded losses of ₹ 12,623 crore in 2018-19. Such structural pricing imbalances create recurring fiscal commitments rather than one-time financial adjustments.

c. Governance and Reporting Issues

The audit also highlighted deviations from Central Electricity Authority norms and incorrect reporting of technical and commercial losses, signalling weaknesses in monitoring and oversight. Such institutional gaps reinforce the interpretation that power-sector stress reflects structural governance constraints that ultimately translate into higher fiscal liabilities and subsidy commitments for the State. While a portion of TANGEDCO's liabilities has been absorbed into the State balance sheet through past restructuring and guarantees, a significant share remains outside consolidated debt figures. These exposures therefore represent contingent fiscal liabilities that are not fully captured in the debt indicators but can materialise as future borrowing or subsidy commitments.

6.3.3 Linkage to Fiscal and Economic Findings

a. Economic Link

These inefficiencies reinforce findings that growth relies on public capital expansion, but with uneven transmission. The power sector emerges as the most binding constraint due to continuous cost pressures and recurring fiscal support. Highway delays reduce logistics efficiency and investment multipliers, while railway gaps affect long-term connectivity with slower economic impact.

b. Fiscal Outcome

The fiscal impact follows a similar hierarchy. Power-sector stress has the highest impact due to recurring support and liability absorption. Highway delays have moderate impact as borrowing-financed capital remains tied to incomplete assets, while railway gaps impose lower direct fiscal costs but reduce growth potential. As a result, borrowing-financed capital spending without productivity returns contributes to liabilities reaching ₹ 9,55,690 crore and weakens the Quality of Expenditure pillar. Consequently, debt burdens rise without proportional revenue expansion, reinforcing structural fiscal vulnerability identified earlier. This confirms that infrastructure inefficiency operates as a fiscal transmission channel rather than a sector-specific issue.

6.4 Spatial Income Inequality and Weak Growth Diffusion

This pillar explains how growth remains concentrated and does not spread across the State.



6.4.1 Concentrated Growth Structure

a. District-level income gaps

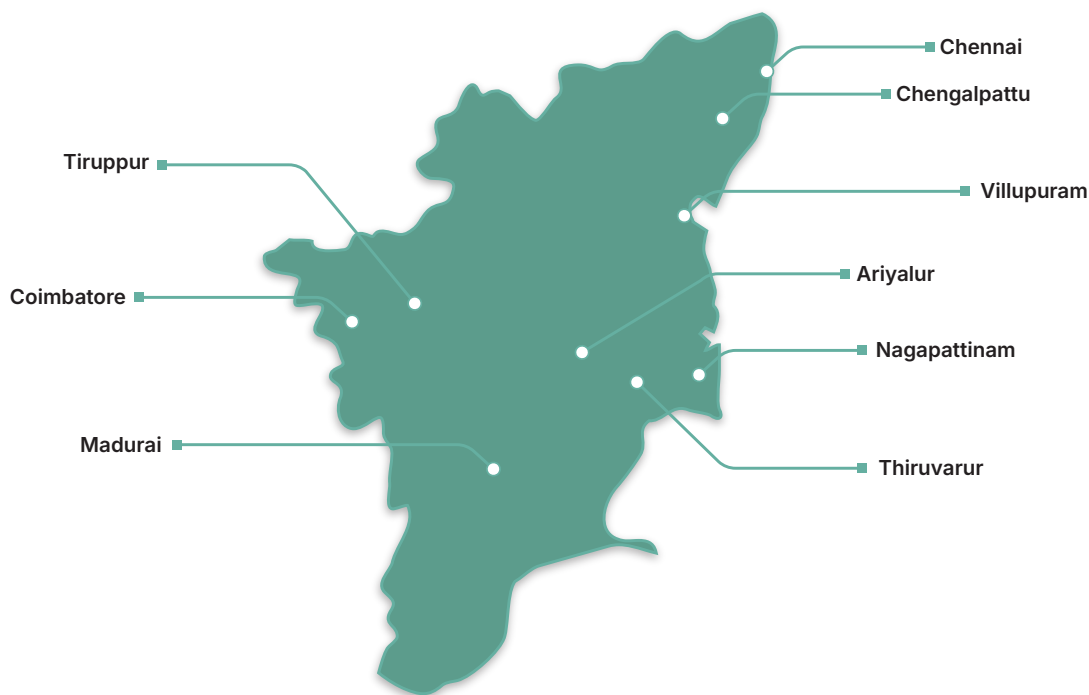
District-level data shows high concentration of economic activity in a few high-productivity regions. In 2022-23, Chengalpattu's per capita income (₹ 6.48 lakh) was about 4.4 times that of Thiruvavur (₹ 1.48 lakh). Only 8 of 38 districts exceed the State average of ₹ 2.78 lakh, indicating that most regions remain below the overall benchmark. This reflects clustering of manufacturing and high-value services in corridors such as Chennai- Chengalpattu- Sriperumbudur and parts of western Tamil Nadu, rather than broad spatial diffusion (State Planning Commission, Page 30).

b. Structural causes of regional divergence

These disparities reflect structural differences in productive capacity rather than temporary market variation. Lagging districts such as Thiruvavur, Nagapattinam, Ariyalur, and Villupuram exhibit lower industrialisation, weaker agricultural productivity, and poorer human development outcomes compared to leading districts like Chennai, Coimbatore, and Tiruppur. Limited infrastructure, weaker industrial bases, and lower skill absorption capacity constrain convergence, keeping growth concentrated within established corridors (Madras School of Economics, Page 11).

c. Emerging secondary centres remain below average

Several secondary urban centres remain below the State average despite ongoing development initiatives. For example, Madurai's per capita income stands at around ₹ 2.42 lakh, below the State average, despite ongoing efforts to attract investment and build industrial infrastructure. Although initiatives such as startup promotion and industrial estate development are expanding local economic activity, infrastructure gaps and skill mismatches continue to constrain convergence toward higher-income districts (TOI, 2025).



6.4.2 Linkage to Fiscal and Economic Findings

a. Economic Link

As highlighted in the Economic Dynamism assessment, growth and productivity gains are unevenly distributed. Spatial concentration reinforces this pattern, with capital-intensive sectors generating income within a limited geographic footprint. As a result, aggregate GSDP growth does not translate into broad-based income deepening.

b. Link to fiscal pillars

Spatial concentration narrows the tax base by concentrating revenue generation in a few regions, increasing vulnerability to regional or sectoral shocks. At the same time, lagging districts require higher development support, increasing revenue expenditure. This dual structure, concentrated revenues and dispersed expenditure, reinforces weak revenue elasticity and expenditure rigidity.

c. Structural fiscal consequence

Over time, this leads to persistent revenue deficits and constrained fiscal consolidation. A narrow tax base limits buoyancy, while spatial inequality sustains expenditure pressures. As a result, spatial inequality operates as a structural channel linking economic concentration to fiscal stress.

Together, these four mechanisms, investment composition, industrial transition, infrastructure execution constraints, and spatial concentration of income, explain why Tamil Nadu's economic expansion has not translated proportionately into fiscal capacity. Growth has remained high in aggregate output terms, but its transmission into high-productivity employment, broad-based income expansion, and tax base deepening has been uneven. As a result, fiscal stability depends increasingly on continued economic growth rather than structural strengthening of the revenue base.

7. Conclusion

This report set out to examine whether Tamil Nadu's fiscal position reflects temporary cyclical pressures or a deeper structural condition. The evidence across the five pillars of fiscal resilience and the economic structure assessment points consistently to the latter. The fiscal stress observed across phases is not incidental to economic performance; it is produced by the specific structure of growth and the interaction between revenue capacity and expenditure commitments.

The fiscal resilience assessment reveals a persistent mismatch between revenue generation and expenditure obligations. Own revenues have remained broadly stable at around 7.2-7.3% of GSDP, while tax buoyancy has fallen below unity (0.83 in 2023-24), indicating that growth is not translating proportionately into fiscal capacity. This reflects the composition of growth-driven by services and consumption-linked sectors, where value capture and tax responsiveness are limited relative to economic scale. On the expenditure side, high committed spending has created a structural fiscal floor. Revenue expenditure accounts for nearly 80% of total spending, and persistent revenue deficits, estimated at ₹ 49,279 crore in 2024-25 (BE), indicate that routine expenditure continues to exceed available revenues. Fiscal consolidation therefore remains dependent on favourable growth conditions rather than structural adjustment. Debt dynamics reinforce this imbalance. Borrowing has increasingly bridged the gap between revenue capacity and expenditure commitments, raising outstanding liabilities to ₹ 9,55,690 crore, while interest payments of ₹ 62,456 crore absorb a significant share of revenues. While debt sustainability improves during periods of strong growth, the overall debt burden remains elevated, making fiscal stability growth-dependent.

These outcomes are rooted in deeper structural features of the economy. Growth is

spatially concentrated, limiting the diffusion of the tax base while requiring broad expenditure commitments. Despite a strong industrial base, value capture remains constrained, and private investment depth is uneven. As a result, aggregate growth does not translate into proportionate fiscal strengthening. The interaction of these dynamics creates a structural fiscal condition: weak revenue responsiveness, rigid expenditure commitments, and rising debt obligations reinforce each other over time. This is not a cyclical imbalance that corrects with growth, but a structural constraint embedded in the State's growth model. The comparison with peer states such as Maharashtra, Gujarat, and Karnataka demonstrates that these outcomes are not inevitable. These states exhibit stronger revenue responsiveness and more durable fiscal consolidation, indicating that Tamil Nadu's fiscal outcomes reflect both structural features and policy choices.

The policy implications are therefore structural rather than incremental. Strengthening fiscal resilience requires improving revenue buoyancy through diversification and formalisation, expanding non-tax revenue capacity, rationalising expenditure commitments, and aligning borrowing with productive investment. Without these adjustments, fiscal performance will remain growth-dependent, improving during expansions but remaining vulnerable to future shocks.



Period	Revenue-side	Expenditure-side
Short-term	Improve tax compliance and buoyancy; strengthen non-tax revenue (user charges, PSU returns)	Rationalise non-essential expenditure; improve efficiency in revenue spending
Medium-term	Broaden revenue base through sectoral diversification and formalisation	Rebalance expenditure toward capital formation; rationalise committed expenditure
Long-term	Enhance revenue elasticity through higher value-added growth and urban tax base expansion	Contain committed expenditure growth; align borrowing with productivity-enhancing investments

The stakes of these choices are not abstract. A fiscal system where an increasing share of resources is pre-empted by committed expenditure, like interest payments, limits the State's ability to invest in infrastructure, support productive sectors, and respond to economic shocks. Over time, this can weaken growth itself, creating a feedback loop between fiscal stress and economic performance. Tamil Nadu's development model has delivered strong economic outcomes and social progress, but sustaining these gains requires a fiscal framework that is equally robust. This is achievable, but it requires a clear recognition that current fiscal pressures are structural in nature and a sustained policy commitment to strengthening revenue capacity, improving expenditure flexibility, and ensuring that growth translates into durable fiscal resilience.



Annexure I:

State Profile and Context

This annexure provides supporting tables that complement the analytical sections of the report. The first table presents the sector-wise distribution of Gross Value Added (GVA) in Tamil Nadu, including each sector's share in Gross State Value Added (GSVA) and its growth performance over the period 2020-2025. The second table summarises major State policies and reform initiatives that have influenced the State's economic structure and fiscal outcomes over time. Together, these tables provide contextual evidence for the sectoral and policy dynamics discussed in the main analysis.

Sector	GVA (₹ Lakhs) (Current Prices)	% of GSVA	CAGR (%) 2016-2020	5-Yr CAGR (%) (2020-2025)
Primary Sector				
Agriculture, Forestry & Fisheries	3,77,28,363.67	13.04%	12.91%	10.76%
Mining & Quarrying	8,95,490.7783	0.31%	0.37%	16.03%
Secondary Sector				
Manufacturing	5,27,29,275.84	18.23%	8.34%	10.66%
Electricity & Utilities	80,12,736.079	2.77%	8.70%	20.12%
Construction	3,48,62,874.89	12.05%	8.94%	13.37%
Tertiary Sector				
Trade, Hotels & Restaurants	3,32,20,550.51	11.48%	13.28%	13.54%
Transport & Storage	1,41,10,135	4.88%	5.92%	8.56%
Financial Services	1,50,84,148	5.21%	13.24%	9.37%
Real Estate	5,33,89,650.36	18.46%	9.43%	11.91%
Public Administration	75,39,475	2.61%	10.59%	8.51%
Other Services	3,16,96,458.99	10.96%	15.51%	13.55%
Total GSVA	28,92,69,159.1	100.0%	-	-

Table I: Detailed Sector-wise GSVA Composition and Growth Trends (2016-2025)

Year	Policy/ Reform	Objective	Outcome Assessment
1980s (ongoing)	MGR Nutritious Meal Programme	Improve child nutrition and school attendance	Achieved scale: ₹ 1,863 crore annual allocation (2020-21), improved human capital outcomes but added recurring revenue expenditure commitment
1980s (ongoing)	Dr. Muthulakshmi Reddy Maternity Benefit Scheme	Maternal health and income support	Achieved coverage: ₹ 959 crore allocation (2019-20), improved welfare outcomes but increased structural fiscal obligations
2017	Seventh Pay Commission Implementation	Salary and pension revision	Structural fiscal expansion: Added ₹ 14,719 crore burden by 2019-20, permanently increased committed expenditure and reduced fiscal flexibility
2017 onward	UDAY / TANGEDCO Financial Support	Stabilise power sector finances	Partially achieved: Debt rose to ₹ 1.23 lakh crore, ₹ 73,821 crore transfers (2019-25), persistent subsidies and losses increased liabilities and interest burden
2018 onward	Comprehensive Road Infrastructure Development Programme	Improve transport connectivity	Achieved physical expansion, borrowing-linked capex contributed to liabilities growth before productivity returns materialised
2019 onward	Tamil Nadu Urban Flagship Investment Programme	Urban infrastructure development	Ongoing capital commitments improved urban capacity, increased debt exposure and fiscal risk
2020	COVID Health and Relief Response	Pandemic management and welfare protection	Achieved stabilisation, ₹ 713 crore emergency spending plus welfare expansion widened deficits and borrowing dependence

Table II: Major Reforms and Programmes: Objectives and Fiscal Impacts

Year	Policy/ Reform	Objective	Outcome Assessment
2020 onward	Social Security Pension Expansion	Protect vulnerable households	Achieved coverage, increased revenue expenditure rigidity during and after pandemic
2020 onward	Mid-day Meal Expansion	Nutrition support during disruption	Stabilised consumption, reinforced structural expenditure commitments
2021	Makkalai Thedi Maruthuvam	Doorstep healthcare delivery	Achieved rollout across 711 factories covering 8.35 lakh workers, improved access but increased recurring operational costs
2021 onward	Industrial Park Expansion	Promote manufacturing investment	Achieved ecosystem depth (372 parks), fiscal costs moderate, productivity gains gradual
2022	MSME Cluster Development Programme	Support micro enterprises	Partially achieved, employment support but limited fiscal revenue transmission
2022	Footwear and Leather Industry Policy	Enhance industrial competitiveness	Investment incentives attracted firms, fiscal cost contingent on uptake
2022 onward	Startup Hubs and Procurement Support	Promote innovation ecosystem	Limited fiscal scale, signalling impact greater than revenue effect
2022 onward	Free Bus Travel for Women	Improve mobility and inclusion	High social coverage, contributed to subsidies reaching 12.19% of revenue expenditure by 2024
2023	Kalaigiar Magalir Urimai Thogai	Direct income support to women heads	Major recurring commitment, improved consumption stabilisation but increased expenditure rigidity

Table II: Major Reforms and Programmes: Objectives and Fiscal Impacts

Year	Policy/ Reform	Objective	Outcome Assessment
2023 onward	CMDA Infrastructure Allocation	Urban infrastructure investment	₹ 2,050 crore allocation, productivity benefits delayed
2023 onward	Irrigation & Flood Control Capital Outlay	Agricultural resilience	₹ 5,071 crore capex, asset creation with borrowing implications
2023 onward	Singara Chennai 2.0	Urban transformation	Substantial capex commitments improved urban productivity potential but increased debt exposure
2024 onward	Chennai Metro Phase II	Expand mass transit	High capital cost project, raises borrowing and interest obligations before returns

Table II: Major Reforms and Programmes: Objectives and Fiscal Impacts

Annexure II: Methodology

This annexure provides detailed methodological notes supporting the construction and interpretation of the Fiscal Health Assessment presented in the report. It outlines the data sources used, definitions of key fiscal indicators, and the framework used to construct the composite indices across the five analytical pillars: Revenue Mobilisation, Fiscal Prudence, Debt Index, Debt Sustainability, and Quality of Expenditure. The annexure also explains the normalisation approach and benchmarking method used to compare fiscal performance across States and over time. These methodological details support the analytical results discussed in the main sections of the report.

1. Data Sources

Data for the analysis have been sourced from the Reserve Bank of India's annual publications and other Government-authorised sources, including Sansad, PFLS, and individual state budget documents. A consistent time series of budgetary transactions for all states, spanning a period of thirteen years, has been compiled and used for index construction and subsequent analysis.

2. Variables and Their Description

2.1 Quality of Expenditure

This variable indicates how effectively and efficiently Government funds are utilised to achieve long-term economic growth and social development. Spending on physical and social infrastructure not only enhances welfare but also paves the way for a higher multiplier effect that facilitates both capital and labour productivity. This variable is constructed using two ratios:

$$\begin{aligned} A. & \quad \frac{\text{Total Development Expenditure}}{\text{Total Expenditure}} \\ B. & \quad \frac{\text{Total Capital Outlay}}{\text{GSDP}} \end{aligned}$$

2.2 Revenue Mobilisation

Revenue mobilisation captures the state's capacity to generate its own revenues on a sustained basis relative to its economic base and expenditure requirements. Strong revenue mobilisation enables a state to reduce its dependence on borrowing and transfers and also improves the state's ability to absorb fiscal shocks. This variable is constructed using two ratios:

$$\begin{aligned} A. & \quad \frac{\text{State's Own Revenue}}{\text{GSDP}} \\ B. & \quad \frac{\text{State's Own Revenue}}{\text{Total Expenditure}} \end{aligned}$$

2.3 Fiscal Prudence

It captures the extent to which a state manages its deficits and expenditure growth while ensuring that Fiscal expansion is financed sustainably and does not compromise medium-term fiscal stability. This variable is constructed using these two ratios:

$$\begin{aligned} A. & \quad \frac{\text{Gross Fiscal Deficit}}{\text{GSDP}} \\ B. & \quad \frac{\text{Revenue Deficit}}{\text{GSDP}} \end{aligned}$$

2.4 Debt Index

The debt index reflects the burden of existing debt stock, capturing the extent to which accumulated borrowing constrains the fiscal flexibility of a Government. It is constructed using these two ratios:

$$\begin{aligned} A. & \quad \frac{\text{Interest Payments}}{\text{Revenue Receipts}} \\ B. & \quad \frac{\text{Outstanding Liabilities}}{\text{Revenue Receipts}} \end{aligned}$$

2.5 Debt Sustainability

It is one of the key determinants of medium-term Fiscal growth. It captures a state's ability to service its existing liabilities from its revenue flows without constraining any essential expenditure. It is calculated by subtracting the growth rate of interest payments from the growth rate of GSDP.

2.6 Weighting Structure

The Fiscal Resilience Index is constructed using a fully equal weighting scheme at every level of aggregation. Each of the five pillars, Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, and Debt Sustainability, contributes equally to the composite index, each carrying a weight of 20%. Within each pillar that contains two

sub-indicators, both sub-indicators are weighted equally at 50% each.

The equal weighting approach is adopted for two reasons. First, it is consistent with the methodology used by the NITI Aayog Fiscal Health Index, ensuring comparability with the national framework this study adapts. Second, in the absence of empirical evidence supporting differential weights across pillars, and consistent with the broader guidance in the composite indicator literature, equal weighting is the most transparent and replicable choices. This is consistent with the guidance of the OECD Handbook on Constructing Composite Indicators, which recommends that differential weighting should be avoided unless theoretically or empirically grounded, as arbitrary weight assignment introduces subjectivity without necessarily improving analytical validity (OECD/European Union/EC-JRC, 2008).

This structure ensures that no single dimension of fiscal performance dominates the overall index and that the composite score reflects a balanced assessment across all pillars.

3. Normalisation

All sub-indicators are normalised using a directional, target-based normalisation approach. Indicators are classified as either improvement indices, where higher values represent better Fiscal outcomes, or deprivation indices, where lower values are preferred.

3.1 Improvement Index

$$\frac{X_i - \text{Min}(X)}{\text{Target}(X) - \text{Min}(X)}$$

X_i - Value for the particular minor sub-index under Quality of Expenditure, Revenue Mobilisation and Debt Sustainability.

Max (X) / Min (X)- Maximum/Minimum value for a particular minor sub-index across all states in the specified year.

Target(X)- Highest value of all the maximums of all states each year observed over the reference window.

3.2 Deprivation Index

$$\frac{Max(X) - X_i}{Max(X) - Target(X)}$$

X_i - Value for the particular minor sub-index under Debt Index and Fiscal Prudence.

Max (X) / Min (X)- Maximum/Minimum value for a particular minor sub-index across all states in the specified year.

Target(X) - Lowest value of all the minimums of all states each year observed over the reference window.

Reference Window Construction

The target values used in normalisation are derived through a continuously expanding window, anchored at 2014-15 as a fixed starting point. For each index year, the reference window covers all state observations from 2014-15 up to and including the year immediately preceding the index year. The current index year's own observations are never included in the reference window, ensuring that no look-ahead bias is introduced into the normalisation anchor.

This construction applies uniformly across the entire study period, including the post-pandemic years, with no structural freeze imposed at any point. This is a deliberate methodological choice. An alternative approach freezing the reference window at 2019-20 and excluding Covid-era observations entirely was considered but rejected on substantive grounds. Freezing the window at 2019-20 would suppress the base effect of the fiscal crisis induced by the pandemic: post-Covid recovery scores would be evaluated against a benchmark drawn exclusively from normal conditions, making even a modest fiscal recovery appear as a strong performance. This would produce artificially inflated post-Covid scores and misrepresent the true pace and extent of fiscal normalisation.

By allowing the window to expand through the Covid years, the reference anchor absorbs the actual fiscal experience of states, ensuring that post-Covid scores reflect genuine recovery relative to the full range of observed conditions, including the crisis itself. It is acknowledged, however, that this creates a symmetric consideration in the opposite direction: the extreme fiscal deterioration of 2020-21 enters the reference window as a boundary value for deprivation indices from 2021-22 onwards, meaning that post-Covid improvements on Fiscal Prudence and Debt indicators could partly reflect mechanical improvement against a crisis-era floor rather than genuine fiscal correction. Accordingly, post-Covid scores on these indices are interpreted alongside underlying ratio values to confirm that observed improvements are directionally consistent with actual fiscal changes. As data availability extends to 2023-24, the reference windows expand accordingly for each successive index year.

The table below illustrates the reference window for selected index years:

Index Year	Reference Window
2016-17	2014-15 to 2015-16
2017-18	2014-15 to 2016-17
2018-19	2014-15 to 2017-18
2019-20	2014-15 to 2018-19
2020-21	2014-15 to 2019-20
2021-22	2014-15 to 2020-21
2022-23	2014-15 to 2021-22
2023-24	2014-15 to 2022-23
2024-25	2014-15 to 2023-24

Uniformity of method does not imply uniformity of interpretability. The expanding window construction is applied identically across all years, but the interpretive reliability of scores varies across the study period, and this variation arises from the nature of the underlying data, not from any difference in methodology.

The pre-Covid phase (2014-15 to 2019-20) benefits from a reference window drawn entirely from normal fiscal conditions. Scores from this period are evaluated against a stable, undistorted benchmark, making them the most directly interpretable in this analysis. The post-Covid phase, by contrast, is evaluated against a reference window that progressively incorporates pandemic-era observations, introducing greater volatility into the normalisation anchor. As a result, precise score-level interpretation is less reliable in this period.

3.4 This does not, however, render post-Covid scores analytically uninformative. Within the post-Covid phase, cross-state directional comparisons, identifying which states are improving or deteriorating relative to their peers, remain valid and meaningful. What changes is the degree of precision with which individual scores should be read. Accordingly, all post-Covid index analysis in this study is read alongside the underlying ratio values to confirm that score movements are directionally consistent with actual fiscal changes, and not an artefact of the shifting normalisation anchor. Where score movements and ratio movements diverge, the ratio values take interpretive precedence.

3.5 Note on Value Interpretation

The nature of the value presented indicates what is being measured. Where values are expressed as percentages (e.g., 12.4% or 3.6%), the figure represents the actual underlying Fiscal ratio, a real, observed data point. Where values are expressed as absolute decimal numbers (e.g., 20.5 or 3.45), the figure represents a normalised index score.

This distinction is important: ratio values reflect a state's true fiscal position and are directly comparable across time, while index scores reflect relative performance within a given year's reference framework and should be interpreted accordingly. A divergence is identified when a score improves materially across one or more years within a phase while the corresponding underlying ratio moves in the opposite direction or remains broadly flat; in such cases the score movement is classified as a benchmark-driven artefact rather than a genuine fiscal change, and the ratio value is used as the primary basis for interpretation.

4. Comparability of Index Scores

The index uses an expanding reference window, anchored at 2014-15 and updated each year, so that scores always reflect the best fiscal performance observed up to that point. This is a deliberate design choice. How this shapes score comparability across years is important to understand before drawing inferences from the index.

For this analysis, a fiscal phase is a period of broadly stable macroeconomic conditions within which states face a comparable external environment. Three phases are identified: pre-Covid (2014-15 to 2019-20), Covid shock (2020-21 to 2021-22), and post-Covid recovery (2022-23 onwards). Within eaWest Bengal's GSDP had contracted by 3.17% in 2019-20, sharper than the national contraction of 1.2%ch phase, directional reading of scores, whether a state is improving or deteriorating relative to its peers, is the intended use. Cross-phase comparison of normalised scores should be avoided; raw ratio values are the appropriate basis for any such inference.

4.1 Design Intent of the Index

The Fiscal Resilience Index is explicitly not designed for precise point-to-point year-on-year comparison of scores in isolation. The index is designed to serve two primary analytical purposes: first, to reveal the directional trajectory of a state's Fiscal Resilience within a defined Fiscal phase, that is, whether a state is broadly improving, stagnating, or deteriorating relative to its peers over a period; and second, to establish the relative position of states within each phase, enabling cross-state ranking and clustering within comparable time windows.

This distinction is important. A state's score in 2022-23 and its score in 2023-24 should not be read as precise cardinal values to be subtracted from one another to measure fiscal change. Rather, they should be read together as part of a directional pattern, alongside other states in the same phase, to understand where a state stands and which way it is moving relative to its peers

Directional assessment in this index is not derived from computing differences between any two individual year scores. Instead, direction is assessed by observing whether a state's scores are consistently rising, falling, or plateauing across multiple years within a phase, a pattern-based reading rather than a point-to-point arithmetic one. A single year's movement is not treated as evidence of a trend; it is the sustained direction across several years within the same phase that carries analytical weight.

The index is therefore a diagnostic instrument for relative positioning and pattern-based directional analysis, not a precise measurement scale for point-to-point comparison. It is worth noting that Fiscal comparisons within the pre-Covid phase, spanning 2014-15 to 2019-20, are the most directly interpretable in this analysis, as the reference window for this period reflects only normal Fiscal conditions, undistorted by the structural shock of the pandemic or its aftermath.

Note: Index scores are not designed for direct year-to-year comparison in isolation. The index is designed to show directional trajectory and relative position within each Fiscal phase, rather than precise point-to-point comparison across years.

4.2 Within-Year Cross-State Comparison

Within any given index year, all states are evaluated against an identical reference window and therefore against the same set of target values. Cross-state comparisons and rankings within a single year are fully valid and are the primary use case for this index.

4.3 Cross-Year Comparison

Since each index year has a different reference window, the goalposts against which scores are evaluated are not identical across years. As a result, a state's normalised score in one year cannot be directly compared with its

normalised score in another year to draw precise point-to-point conclusions about the magnitude of improvement or deterioration. This limitation applies across all years in the study period, and is particularly important for cross phase comparisons such as pre-Covid versus during Covid versus post-Covid periods. The Covid-19 shock introduced significant Fiscal distortions in 2020-21 and the years that followed; comparing normalised scores across this structural break without accounting for the shift in goalposts would produce misleading inferences.

4.4 Valid Cross-Phase Comparison Using Raw Ratios

For any analysis that requires precise comparison across different time periods or Fiscal phases, including pre-Covid versus post-Covid comparisons, the underlying un-normalised ratio values should be used. These raw ratios are phase-agnostic and fully comparable across the entire time series, as they reflect actual Fiscal positions without any dependence on the evolving reference window.

5. State Grouping: GSDP-Based Quartile Classification

For the purpose of cross-state comparison, states are grouped into quartiles based on their Gross State Domestic Product (GSDP). The rationale for using GSDP as the basis for grouping is two-fold.

First, Fiscal capacity is fundamentally determined by economic size. Revenue mobilisation potential, debt servicing ability, and the scale of capital outlay that a state can sustain are all closely linked to its economic base. Comparing a small state with a large economy directly would therefore produce misleading inferences about relative Fiscal performance.

Second, this grouping aligns with the criteria adopted by the Fifteenth Finance Commission, which incorporated GSDP-based

considerations into its grant allocation framework. Using the same dimensional basis as the Finance Commission ensures that the comparisons made in this study are grounded in the institutional structure within which states actually operate and compete for resources.

Quartile classification is based on states' GSDP as of 2023-24, the most recent year in the study period, and is held fixed across the entire thirteen-year analysis. This means that a state's quartile group does not change from year to year within the study. This approach is taken deliberately: it ensures that comparisons within a quartile are stable and consistent over time, and it reflects the current relative economic standing of states, which is most relevant for contemporary policy inference.

It is acknowledged that fixing the quartile classification at 2023-24 introduces a prospective element into peer group assignment for earlier years, states are compared against peers defined by their current economic standing rather than their standing at the time. For states whose relative size ranking changed materially over the study period, this could be a consequential limitation. However, an empirical check of state GSDP rankings confirms that the relative economic size ordering of Indian states has remained broadly stable between 2014-15 and 2023-24, with states falling into nearly identical quartile groupings at both ends of the study period. The fixed 2023-24 classification is therefore not merely a simplification for analytical convenience, it is empirically supported by the stability of relative state economic size over the thirteen-year horizon

Note: Quartile classification is fixed using 2023-24 GSDP and applied uniformly across all years in the study period. This assumes broad stability in the relative economic size ordering of states over the thirteen-year horizon, which holds for the large majority of Indian states. A small number of fast-growing states may have occupied a lower quartile in earlier years; this limitation is noted, and cross-quartile movements, where material, are discussed in the analysis.

6. Within-Quartile Performance Classification

To enhance interpretability of cross-state comparisons, states are further classified within each GSDP-based quartile according to their Fiscal Resilience Index scores. This classification translates ordinal rankings into qualitative categories that reflect relative fiscal strength within comparable peer groups.

Within each quartile, states are ranked based on their composite Fiscal Resilience Index score for a given year. Based on this ranking, states are categorised into four performance groups:

a. Strong

The top-performing state(s) within the quartile, reflecting the highest level of fiscal resilience relative to peers.

b. Stable

States performing above the quartile median but below the top rank, indicating relatively sound and consistent fiscal performance.

c. Fragile

States performing below the quartile median but not at the bottom, suggesting emerging fiscal vulnerabilities or uneven performance across indicators.

d. Vulnerable

The lowest-performing state(s) within the quartile, reflecting comparatively weak fiscal resilience and potential structural constraints.

This classification is applied separately for the final year index and is relative to the distribution of scores within the quartile for that year. As such, a state's classification may change over time depending on its relative performance within its peer group. In the top quartile, Uttar Pradesh (43.40), Gujarat (39.19), Maharashtra (38.70), and Karnataka (27.53) all record higher Fiscal Resilience Index scores than Tamil Nadu (25.30). As Tamil Nadu has the lowest score within this peer group, it is classified as "vulnerable."

Importantly, this framework preserves the integrity of the quartile-based comparison by ensuring that states are only evaluated against economically comparable peers, while also providing a more intuitive interpretation of relative fiscal positioning.

6. National Benchmarking

National benchmarking provides a comparative perspective by using actual ratio values from all states and union territories, as published by the Reserve Bank of India. These benchmarks are descriptive in nature; they reflect what states actually recorded in each fiscal year and represent observed national fiscal behaviour, not normative standards. They are explicitly distinct from targets prescribed under the Fiscal Responsibility and Budget Management Act or recommendations of successive Finance Commissions. The benchmarks in this study do not evaluate whether a state has met any prescribed fiscal rule; they establish where a state stands relative to the actual fiscal performance of all Indian states in each year, providing a distributional reference across the full national landscape rather than a prescriptive standard.

These benchmarks reflect the real performance of Indian states in each Fiscal year. For deprivation indices (Fiscal Prudence and Debt Index), higher ratio values indicate worse performance, while for improvement indices (Quality of Expenditure, Revenue Mobilisation, and Debt Sustainability), higher values indicate better performance. This approach ensures that comparisons are grounded in observed national realities rather than constructed reference points.

7. Phase-wise Analysis

In the phase-wise analysis, the study uses normalised ratio values to evaluate Fiscal performance over time. Normalised scores are constructed so that a higher score always indicates better performance across all pillars. This differs from the national benchmarking, which uses un-normalised actual ratio values to reflect raw relative standing. The distinction

is deliberate: national benchmarking shows how a state performs against other states in absolute terms, while phase-wise analysis tracks internal progress and durability using normalised scores that make improvement or deterioration clear, and assess directional trends within a defined fiscal phase.

8. Approach To Fiscal Resilience Analysis

While the Fiscal Resilience Index provides a structured and comparable measure of state-level fiscal performance, the analysis in this study goes beyond index construction and ranking. The index is used as an analytical tool to examine Fiscal dynamics over time, rather than as an end in itself.

Building on the index scores, the study undertakes a phase-wise analysis of fiscal behaviour, identifies the dominant fiscal ratios driving movements in each sub-index, and assesses the durability of observed changes. Each observed change is classified into one of three categories:

a. Real Shift

Improvement or deterioration is sustained across multiple indicators and fiscal years within a phase, reflecting a genuine change in fiscal capacity or policy stance.

b. Cyclical Shift

Movement is temporary, driven by external economic conditions or one-off fiscal changes, and reverses as conditions normalise. It does not reflect a durable change in the state's underlying fiscal position.

c. Fragile Shift

Identified under two conditions, first, where score level improvement is not corroborated by the corresponding underlying ratio values, indicating a benchmark driven artefact rather than genuine fiscal change; and second, where improvement is confined to a single sub-indicator within a pillar without support from the companion indicator, suggesting the change is compositionally narrow and not broadly grounded in fiscal improvement.

At the system level, the analysis focuses on identifying binding constraints that limit overall fiscal resilience, examining key trade-offs between revenue, expenditure, and debt, and assessing the current fiscal position of states. This diagnostic approach enables the identification of priority areas for improving fiscal resilience, grounded in observed fiscal mechanisms rather than index outcomes alone.

Note: All underlying data referenced in this assessment, including the normalised index values and sub-index scores across the five pillars of fiscal resilience for Tamil Nadu, Gujarat, Maharashtra, and Karnataka for the period 2016-17 to 2024-25, are compiled in a consolidated data sheet accessible at the following link: [Source](#). The data sheet provides a complete record of the Quality of Expenditure, Revenue Mobilisation, Fiscal Prudence, Debt Index, and Debt Sustainability indices for all three states across the full assessment period, and may be referred to for verification of the figures cited throughout this section.

Annexure III: Fiscal Resilience Assessment

This annexure presents the detailed data tables underlying the Fiscal Health Assessment of Tamil Nadu. It includes the fiscal indicators used to construct the five analytical pillars, Revenue Mobilisation, Fiscal Prudence, Debt Index, Debt Sustainability, and Quality of Expenditure, along with the corresponding ratio values and normalised scores across the study period. These tables provide the quantitative basis for the fiscal index results discussed in the main analysis.

1. Fiscal Prudence

1.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Transition and Early Adjustment (2016-17 to 2019-20)	2016-17: 51.70 2017-18: 38.2 2018-19: 32.2 2019-20: 31.7	Revenue expenditure absorbed >80% of total spending and committed expenditure >50% of revenue receipts. Implementation of the Seventh Pay Commission added about ₹ 14,719 crore (The Hindu, 2018) to salary and pension liabilities. Expansion of schemes such as the MGR Nutritious Meal Programme (₹ 1,772 crore) and Dr. Muthulakshmi Reddy Maternity Benefit Scheme (₹ 959 crore) increased recurring commitments (PRS, 2019).	Fiscal pressures accumulated gradually during normal growth conditions. High committed expenditure limited fiscal flexibility and widened revenue deficits even before the pandemic.
Pandemic Stress 2020-21 to 2021-22	2020-21: 9.6 2021-22: 15.9	GST revenue declined from ₹ 40,142 crore in 2019-20 to ₹ 35,032 crore in 2020-21 (Gulati Institute, Table 2). Revenue deficit widened from ₹ 35,909 crore to ₹ 62,326 crore. Gross Fiscal Deficit increased from ₹ 60,179 crore to ₹ 93,983 crore. Emergency health and spending on public provisioning expanded, including ₹ 713 crore COVID response allocation and higher social security transfers.	Pandemic exposed the structural rigidity of Tamil Nadu's fiscal system. Revenue collapse combined with welfare protection policies forced a sharp increase in borrowing and fiscal deficits.

Phase	Index Movement	Key Drivers	Inference
Administrative Modernisation and Partial Recovery 2022-23 to 2024-25	2022-23: 24.9 2023-24: 33.9 2024-25: 12.3	Revenue expenditure rose from ₹ 2.54 lakh crore in 2021-22 to ₹ 3.17 lakh crore in 2023-24. Interest payments increased from 16.6% to 17.7% of revenue expenditure. Revenue deficit widened again from ₹ 36,215 crore in 2022-23 to ₹ 49,279 crore in 2024-25 despite sustained nominal GSDP growth.	Fiscal improvement remained growth-driven rather than structural. High committed expenditure continued to constrain consolidation and made fiscal prudence sensitive to economic cycles pressures.
Comparison with National Average	All Phases	Revenue Deficit/GSDP averaged 1.49% vs 0.26% (India) in the pre-COVID period and 1.59% vs 0.31% (India) in the post-COVID phase. Gross Fiscal Deficit/GSDP averaged 3.48% vs 3.09% (India) in the recovery phase.	Indicates structurally weaker fiscal discipline relative to the typical Indian State, despite Tamil Nadu's substantial economic base and revenue capacity.

Table III: Fiscal Prudence Performance: Trends, Evidence, and Inference

Year	GSDP at current prices (in Crore)	Revenue Deficit (in Crore)	Gross Fiscal Deficit (in Crore)	Revenue Deficit/GSDP (%)	Gross Fiscal Deficit/GSDP (%)
2016-17	1302638.58	12964	56171	0.995	4.312
2017-18	1465050.91	21594	39840	1.473	2.719
2018-19	1630209.15	23459	47335	1.439	2.903
2019-20	1743143.96	35909	60179	2.060	3.452
2020-21	1788074.37	62326	93983	3.485	5.256
2021-22	2072495.79	46538	81835	2.245	3.948
2022-23	2372469.27	36215	81886	1.526	3.451
2023-24 (RE)	2688963.32	44907	94060	1.670	3.498
2024-25 (BE)	3118590.30	49279	108690	1.580	3.485

Table IV: Fiscal Prudence Indicators: Levels and Ratios (2016-2025)

Year	Revenue Deficit/GSDP	Gross Fiscal Deficit/GSDP	Fiscal Prudence Index
2016-17	29.65	73.75	51.7
2017-18	16.25	60.20	38.2
2018-19	26.49	37.94	32.2
2019-20	22.52	40.93	31.7
2020-21	10.22	8.92	9.6
2021-22	13.44	18.38	15.9
2022-23	22.32	27.40	24.9
2023-24	23.11	44.67	33.9
2024-25	13.15	11.40	12.3

Table V: Normalised Fiscal Prudence Indicators and Index (2016–2025)

Indicator	Phase 1	Phase 2	Phase 3
Revenue Deficit/GSDP			
India	0.26%	1.15%	0.31%
Tamil Nadu	1.49%	2.87%	1.59%
Gross Fiscal Deficit/GSDP			
India	2.74%	3.41%	3.09%
Tamil Nadu	3.35%	4.60%	3.48%

Table VI: Comparison of Deficit Indicators with National Averages (Phase-wise)

2. Debt Index

2.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Transition and Early Adjustment (2016-17 to 2019-20)	2016-17: 51.8 2017-18: 48.8 2018-19: 44.9 2019-20: 42.5	Outstanding liabilities increased from ₹ 2.84 lakh crore to ₹ 4.62 lakh crore, while GSDP growth moderated the liabilities ratio. Interest payments rose from ₹ 20,533 crore to ₹ 31,980 crore, increasing the Interest Payments/Revenue Receipts ratio from 14.64% to 18.32%.	Debt pressures were present but remained manageable as economic growth and revenue expansion helped absorb rising liabilities.
Pandemic Stress 2020-21 to 2021-22	2020-21: 30.8 2021-22: 27.1	Outstanding liabilities increased to ₹ 6.68 lakh crore. Relaxation of FRBM limits enabled higher borrowing. Interest payments rose to ₹ 41,564 crore, pushing the Interest Payments/Revenue Receipts ratio to around 20%.	Debt pressures were present but remained manageable as economic growth and revenue expansion helped absorb rising liabilities.
Administrative Modernisation and Partial Recovery 2022-23 to 2024-25	2022-23: 26.6 2023-24: 23.9 2024-25: 23.4	Outstanding liabilities increased further to ₹ 9.56 lakh crore. Interest payments rose to ₹ 62,456 crore, keeping the Interest Payments/Revenue Receipts ratio above 20%. Fiscal transfers to TANGEDCO (around ₹ 73,821 crore between 2019-20 and 2024-25) also added fiscal pressure.	Debt stabilisation has been growth-driven rather than debt-reduction driven, with interest burden emerging as the dominant constraint on the index.
Comparison with National Average	All Phases	Pre-COVID: Outstanding Liabilities/GSDP 23.8% vs 25.5% (India). Post-COVID: 31.38% vs 28.20% (India). Interest Payments/Revenue Receipts remained around 20.07% vs 12.53% (India) in Phase 3.	Indicates a structurally higher debt servicing burden relative to most Indian States, even after economic recovery.

Table VII: Debt Performance: Trends, Evidence, and Inference

Year	Interest Payments (In Crore)	Revenue Receipts (In Crore)	Outstanding Liabilities (In Crore)	GSDP at current prices (in Crore)	Interest Payment/ Revenue Receipts (%)	Outstanding Liabilities/ GSDP (%)
2016-17	20533	140231	283620	1302638.58	14.64	21.77
2017-18	26012	146280	326636	1465050.91	17.78	22.30
2018-19	28757	173742	401504	1630209.15	16.55	24.63
2019-20	31980	174526	462202	1743143.96	18.32	26.52
2020-21	36497	174076	568893	1788074.37	20.96	31.82
2021-22	41564	207492	667975	2072495.79	20.03	32.23
2022-23	46911	243749	758931.5	2372469.27	19.24	31.99
2023-24 (RE)	54669	272577	847022.7	2688963.32	20.05	31.50
2024-25 (BE)	62456	299010	955690.5	3118590.30	20.88	30.64

Table VIII: Debt Indicators: Levels and Ratios (2016-2025)

Year	Interest Payment /Revenue Receipts	Outstanding Liabilities/GSDP	Debt Index
2016-17	48.40	55.2	51.8
2017-18	45.41	52.2	48.8
2018-19	44.20	45.7	44.9
2019-20	42.27	42.7	42.5
2020-21	24.31	37.3	30.8
2021-22	21.78	32.4	27.1
2022-23	18.70	34.4	26.6
2023-24	14.07	33.7	23.9
2024-25	10.88	35.9	23.4

Table IX: Normalised Debt Indicators and Index (2016-2025)

Indicator	Phase 1	Phase 2	Phase 3
Interest Payment/Revenue Receipts			
India	12.60%	14.11%	12.31%
Tamil Nadu	16.83%	20.50%	20.07%
Outstanding Liabilities/GSDP (%)			
India	25.53%	30.07%	28.20%
Tamil Nadu	23.80%	32.02%	31.38%

Table X: Comparison of Debt Indicators with National Averages (Phase-wise)

3. Revenue Mobilisation

3.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Transition and Early Adjustment (2016-17 to 2019-20)	2016-17: 38.4 2017-18: 34.2 2018-19: 41.9 2019-20: 38.8	High economic growth supported revenue expansion, but tax buoyancy remained unstable. The revenue base remained concentrated in petroleum products, liquor, stamp duties, and vehicle taxes. Urban growth translated only partially into fiscal gains, with stamp duty rising 4% and motor vehicle tax 9% in 2016-17. Non-tax revenue remained modest.	Improvement reflected economic scale effects rather than structural strengthening of revenue elasticity.
Pandemic Stress 2020-21 to 2021-22	2020-21: 34.9 2021-22: 26.5	GST collections declined from ₹ 40,142 crore in 2019-20 to ₹ 35,032 crore in 2020-21. State Own Revenue to Total Expenditure ratio fell from 0.54 to 0.41 as expenditure increased during the crisis.	Revenue contraction combined with higher expenditure needs increased dependence on borrowing and central transfers.
Administrative Modernisation and Partial Recovery 2022-23 to 2024-25	2022-23: 32.0 2023-24: 38 2024-25: 37.7	State Own Tax Revenue increased from ₹ 1,22,866 crore to ₹ 1,95,173 crore between 2021-22 and 2024-25. Own tax revenue rose sharply as economic activity normalised. However, tax buoyancy weakened again to 0.83 in 2023-24, indicating continued sensitivity to growth cycles.	Recovery driven primarily by economic normalisation and nominal growth rather than structural strengthening of revenue elasticity.

Phase	Index Movement	Key Drivers	Inference
Comparison with National Average	All Phases	Post-COVID: Own Revenue/Total Expenditure 48.5% vs India 42.4%, but Own Revenue/GSDP 7.25% vs India 7.9%.	Indicates high fiscal autonomy but limited revenue productivity relative to economic scale.

Table XI: Revenue Mobilisation Performance: Trends, Evidence, and Inference

Year	State Own Revenue (In Crore)	Total Expenditure (In Crore)	GSDP at current prices (in Crore)	State Own Revenue/ Total Expenditure (%)	State Own Revenue/ GSDP (%)
2016-17	95855	208119	1302638.58	46.06	7.36
2017-18	107236	203551	1465050.91	52.68	7.32
2018-19	120338	243017	1630209.15	49.52	7.39
2019-20	120350	257941	1743143.96	46.66	6.90
2020-21	116575	289533	1788074.37	40.26	6.52
2021-22	134983	314419	2072495.79	42.93	6.51
2022-23	167284	353859	2372469.27	47.27	7.05
2023-24 (RE)	200528	412977	2688963.32	48.56	7.46
2024-25 (BE)	225901	453676	3118590.30	49.80	7.24

Table XII: Revenue Mobilisation Indicators: Levels and Ratios (2016-2025)

Year	Interest Payment /Revenue Receipts	Outstanding Liabilities/GSDP	Debt Index
2016-17	52.47	24.24	38.4
2017-18	63.42	15.94	34.2
2018-19	57.96	20.36	41.9
2019-20	50.80	19.57	38.8
2020-21	38.77	18.99	34.9
2021-22	46.65	14.28	26.5
2022-23	54.93	17.37	32.0
2023-24	59.81	21.02	38
2024-25	59.01	15.53	37.7

Table XIII: Normalised Revenue Mobilisation Indicators and Index (2016-2025)

Indicator	Phase 1	Phase 2	Phase 3
State Own Revenue/Total Expenditure			
India	42.84%	38.55%	42.36%
Tamil Nadu	48.73%	41.60%	48.54%
State Own Revenue/GSDP			
India	7.47%	7.04%	7.90%
Tamil Nadu	7.24%	6.52%	7.25%

Table XIV: Comparison of Revenue Mobilisation Indicators with National Averages (Phase-wise)

4. Quality of Expenditure

4.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Transition and Early Adjustment (2016-17 to 2019-20)	2016-17: 36.7 2017-18: 24.6 2018-19: 20.3 2019-20: 16.8	Rising structurally rigid revenue commitments crowded out developmental and capital spending. Interest payments, pensions, and other committed expenditure absorbed a large share of revenue spending, with commitments already exceeding 50% of revenue receipts. Infrastructure initiatives such as CRIDP, Tamil Nadu Urban Flagship Investment Programme, and Smart Cities projects continued but were insufficient to offset the shift toward revenue-intensive expenditure.	Expenditure quality weakened gradually even during a period of economic growth, as rising committed expenditure reduced fiscal space for asset creation and development spending.
Pandemic Stress 2020-21 to 2021-22	2020-21: 30.0 2021-22: 20.2	Pandemic spending temporarily increased development and capital allocations. Budget provisions included ₹ 1,959 crore for Government medical colleges, ₹ 1,577 crore under National Health Mission, ₹ 713 crore for COVID response, and ₹ 14,015 crore for roads and bridges (PRS, 2021). However, as relief and committed expenditure expanded, revenue expenditure rose sharply and the development ratio declined again in 2021-22.	Crisis conditions temporarily increased development and capital spending, but underlying expenditure rigidities quickly reasserted themselves, reversing the improvement in expenditure quality.

Phase	Index Movement	Key Drivers	Inference
Administrative Modernisation and Partial Recovery 2022-23 to 2024-25	2022-23: 27.8 2023-24: 22.9 2024-25: 19.2	Post-pandemic budgets increased development spending, lifting the index in 2022-23. However, fiscal pressures persisted. Interest payments rose from 15.67% of revenue expenditure in 2020 to 17.7% in 2024, while subsidies and transfers accounted for ~43% of revenue expenditure. Although capital outlay increased from ₹ 39,530 crore to ₹ 47,681 crore, its share of GSDP declined from 1.67% to 1.53%.	The improvement in expenditure quality after COVID was largely development-led rather than capital-led. High committed expenditure constrained sustained capital formation, leading to moderation in the index after the initial recovery.
Comparison with National Average	All Phases	The improvement in expenditure quality after COVID was largely development-led rather than capital-led. High committed expenditure constrained sustained capital formation, leading to moderation in the index after the initial recovery.	Indicates a structural gap in capital investment intensity relative to the national benchmark, despite improvements in development spending.

Table XV: Quality of Expenditure Performance: Trends, Evidence, and Inference

Year	Total Capital Outlay (In Crore)	GSDP at current prices (in Crore)	Total Expenditure (In Crore)	Development Expenditure/ Total Expenditure (%)	Total Capital Outlay/GSDP (%)
2016-17	20709	1302638.58	208,119	68.42	1.59
2017-18	20,203	1465050.91	203,551	59.78	1.38
2018-19	24,311	1630209.15	243,017	57.48	1.49
2019-20	25,632	1743143.96	257,941	56.26	1.47
2020-21	33,068	1788074.37	289,533	65.70	1.85
2021-22	37,011	2072495.79	314,419	60.26	1.78
2022-23	39,530	2372469.27	353,859	58.40	1.67
2023-24 (RE)	42,532	2688963.32	412,977	53.55	1.58
2024-25 (BE)	47,681	3118590.30	453676	54.66	1.53

Table XVI: Quality of Expenditure: Levels and Ratios (2016-2025)

Year	Development Expenditure/Total Expenditure	Total Capital Outlay/GSDP	Quality of Expenditure x
2016-17	62.82	10.53	36.7
2017-18	34.54	14.75	24.6
2018-19	23.54	17.04	20.3
2019-20	25.59	7.94	16.8
2020-21	41.59	18.48	30.0
2021-22	30.25	10.12	20.2
2022-23	36.78	18.84	27.8
2023-24	32.55	13.35	22.9
2024-25	26.87	11.50	19.2

Table XVII: Normalised Quality of Expenditure Indicators and Index (2016-2025)

Indicator	Phase 1	Phase 2	Phase 3
Development Expenditure/Total Expenditure			
India	65.62%	68.79%	69.74%
Tamil Nadu	60.48%	62.98%	55.53%
Total Capital Outlay/GSDP			
India	2.32%	2.17%	2.63%
Tamil Nadu	1.48%	1.82%	1.59%

5. Debt Sustainability

5.1 Phase Wise Analysis

Phase	Index Movement	Key Drivers	Inference
Transition and Early Adjustment (2016-17 to 2019-20)	2016-17: 39.7 2017-18: 12.6 2018-19: 13.1 2019-20: 39.9	Nominal GSDP growth remained high at 6.9-12.5%, supporting debt servicing capacity. However, interest payments grew rapidly, including a 26.7% increase in 2017-18, which temporarily pushed the index down. Rising interest costs reflected accumulated liabilities, including power-sector restructuring and higher salary and pension commitments following the Seventh Pay Commission.	Debt sustainability during this period depended largely on sustained economic growth offsetting rising debt servicing costs rather than structural fiscal correction.
Pandemic Stress 2020-21 to 2021-22	2020-21: 11.7 2021-22: 28.8	In 2020-21, nominal GSDP growth fell sharply to 2.6%, while interest payments continued to grow at 14.1%, widening the negative growth-interest differential. Interest payments increased from ₹ 31,980 crore in 2019-20 to ₹ 41,564 crore in 2021-22, reflecting emergency borrowing for health, welfare, and economic support measures during the pandemic.	The pandemic weakened debt sustainability primarily through the collapse in economic growth rather than an immediate surge in debt stock, highlighting the sensitivity of sustainability to growth conditions.
Administrative Modernisation and Partial Recovery 2022-23 to 2024-25	2022-23: 2.6 2023-24: 19.4 2024-25: 34	In 2022-23, the index dropped sharply as interest payments continued to rise following pandemic-era borrowing. Although nominal GSDP growth remained high at 14.5%, interest payment growth also remained elevated. Subsequently, sustainability improved as GSDP grew by 13.3% in 2023-24 and 16.0% in 2024-25, with the normalised score increasing from 19.4 in 2023-24 to 34 in 2024-25. Interest payments nevertheless continued rising from ₹ 46,911 crore in 2022-23 to ₹ 62,456 crore in 2024-25.	The recovery in debt sustainability is largely growth-driven. Persistently rising interest obligations indicate that the improvement remains cyclical rather than structural.
Comparison with National Average	All Phases	Tamil Nadu's interest payment growth consistently exceeds the national average across all phases, while its GSDP growth advantage over the national economy remains relatively modest.	Even when Tamil Nadu grows faster than the national economy, higher interest payment growth offsets this advantage, resulting in structurally weaker debt sustainability relative to the national benchmark.

Table XIX: Debt Sustainability Performance: Trends, Evidence, and Inference

Year	Interest Payments (In Crore)	GSDP at current prices (in Crore)	Growth Rate of GSDP (%)	Growth Rate of Interest Payments (%)	Debt Sustainability (%)
2016-17	20533	1302638.58	10.72	18.07	-7.35
2017-18	26012	1465050.91	12.47	26.68	- 14.21
2018-19	28757	1630209.15	11.28	10.55	0.73
2019-20	31980	1743143.96	6.93	11.21	-4.28
2020-21	36497	1788074.37	2.58	14.12	-11.54
2021-22	41564	2072495.79	15.91	13.88	2.03
2022-23	46911	2372469.27	14.47	12.86	1.61
2023-24 (RE)	54669	2688963.32	13.34	16.54	-3.2
2024-25 (BE)	62456	3118590.30	15.98	14.24	1.74

Table XX: Debt Sustainability: Levels and Ratios (2016-2025)

Year	Debt Sustainability Index
2016-17	39.7
2017-18	12.6
2018-19	13.1
2019-20	39.9
2020-21	11.7
2021-22	28.8
2022-23	2.6
2023-24	19.4
2024-25	34

Table XXI: Normalised Debt Sustainability Index

Indicator	Phase 1	Phase 2	Phase 3
GSDP Growth Rate			
India	9.94%	8.81%	11.92%
Tamil Nadu	10.35%	9.24%	14.60%
Interest Payment Growth Rate			
India	12.78%	10.29%	9.68%
Tamil Nadu	16.63%	14.00%	14.55%

Table XXII: Comparison of Debt Sustainability Indicators with National Averages

Annexure IV: Economic Dynamism

This annexure provides the economic indicators used to assess the broader structural context of Tamil Nadu's fiscal performance. It includes key macroeconomic variables such as GSDP, sectoral composition, investment trends, employment indicators, financial flows, and external trade data. These indicators support the Economic Dynamism assessment and help explain how underlying economic structure influences fiscal outcomes.

Year	GSDP (₹ lakh)
2016-17	103,676,212
2017-18	112,579,344
2018-19	120,466,736
2019-20	124,383,550
2020-21	124,465,002
2021-22	134,281,685
2022-23	142,573,553
2023-24	155,782,101
2024-25	173,218,858

Table XXIII: GSDP at current prices (₹ lakhs) from 2016--25

Year	Per Capita GSDP (₹)
2016-17	138,529
2017-18	149,717
2018-19	159,457
2019-20	163,874
2020-21	163,222
2021-22	175,450
2022-23	185,727
2023-24	202,333
2024-25	224,313

Table XXIV: GSDP per Capita (₹) from 2016-25

Year	CPI Inflation (%)
2016-17	3.9
2017-18	4.9
2018-19	3.7
2019-20	5.7
2020-21	7.5
2021-22	5.7
2022-23	6.0
2023-24	5.4
2024-25	4.7

Table XXV: CPI-General (%) from 2016-25

Year	Unemployment Rate (%)
2017-18	7.5
2018-19	6.6
2019-20	5.3
2020-21	5.2
2021-22	4.8
2022-23	4.3

Table XXVI: Age 15+ Unemployment Rate (%) from 2017-2025

Year	GFCF (₹ Crore)
2016-17	3,70,278
2017-18	3,17,754
2018-19	3,31,617
2019-20	4,59,366
2020-21	3,39,782
2021-22	3,78,518
2022-23	6,06,372
2023-24	6,98,604

Table XXVII: GFCF (₹ Crore) from 2016-24

Year	FDI Equity Inflows (₹ crore)
2019-20	1,006.07
2020-21	2,323.46
2021-22	3,003.16
2022-23	2,168.96
2023-24	2,436.33
2024-25	3,681.36

Table XXVIII: FDI Equity Inflows (₹ crore) from 2019-25

Year	Credit (₹ crore)
2016-17	707,383
2017-18	813,600
2018-19	891,030
2019-20	981,665
2020-21	1,046,952
2021-22	1,158,606
2022-23	1,325,333
2023-24	1,582,851
2024-25	1,762,746

Table XXIX: Credit by Scheduled Commercial Banks (RBI Handbook)

Year	Exports (USD million)
2017-18	29,757
2018-19	30,526
2019-20	30,014
2020-21	26,152
2021-22	35,050
2022-23	40,674
2023-24	43,556
2024-25	52,074

Table XXX: Exports (USD Million) from 2017-25

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Notes

1. These targets are calibrated to Tamil Nadu's current fiscal position, where capital outlay remains below national benchmarks (~1.5–1.6% vs ~2.6%), non-tax revenue is under 1% of GSDP, tax buoyancy has fallen below unity (~0.83), and interest payments are elevated at ~20–21% of revenue receipts. Peer states maintain significantly lower interest burdens, ~13% in Gujarat, ~11–12% in Maharashtra, and ~14–15% in Karnataka in 2024-25, indicating scope for reduction through debt management and fiscal consolidation. A phased adjustment over 2–3 years allows strengthening of fiscal capacity without constraining growth-supporting expenditure while addressing structural weaknesses in revenue responsiveness and debt pressures.
2. **Note on Fiscal Health Rating (Methodology)**
The rating uses GSDP-based quartile benchmarking to compare states of similar economic scale. Tamil Nadu, in the top quartile, ranks lowest among peers with an FRI score of 25.30 and is classified as "vulnerable". (Refer to Methodology section for details)
3. A relatively high population size indicates significant scale in both expenditure requirements and revenue potential, with greater pressure on public service delivery and infrastructure provisioning.
4. One of the lowest population growth rates among Indian states, reflecting demographic transition and ageing trends that may moderate future labour supply while increasing age-related fiscal pressures.
5. A high literacy rate relative to other states, indicating strong human capital outcomes, though not fully translating into proportionate employment generation or labour market participation.
6. A significantly higher sex ratio than the national average, suggesting favourable demographic balance and social outcomes, with potential to support more inclusive labour force participation over time.
7. A labour force participation rate close to the national average but weaker in relative ranking terms, indicating underutilisation of the available workforce despite strong human capital indicators.
8. A relatively low dependency ratio compared to the national average, indicating a favourable working-age population share, though this advantage may narrow over time due to low population growth and ageing trends.
9. CAGR calculated FY 2020-21 to FY 2024-25. The low pandemic base year significantly inflates CAGR for consumption-sensitive sectors and should not be read as a trend growth rate.
10. **Note:** In this section, index refers to a composite indicator constructed from multiple fiscal variables and normalised on a 0-100 scale, where higher values indicate stronger performance. Score refers to the numerical value of a given index for a specific year. Ratio refers to actual fiscal metrics expressed relative to an economic base (e.g., GSDP or revenue receipts), such as Revenue Deficit/GSDP or Interest Payments/Revenue Receipts.

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11. The estimate is based on 2023-24 (expenditure data on pensions (₹ 33,550 crore) and subsidies & transfers (₹ 1,33,236 crore) (Finance Commission, Table 5.5). Inflation sensitivity is applied conservatively, assuming 70-80% indexation for pensions and 30-40% pass-through for subsidies. Accordingly, the estimated impact of a 1 percentage point increase in CPI is calculated as: $(33,550 \times 0.7-0.8\%) \approx ₹ 235-270$ crore and $(1,33,236 \times 0.3-0.4\%) \approx ₹ 400-530$ crore, yielding a combined impact of approximately ₹ 650-800 crore annually. The estimate excludes second-round effects through salaries and other operational expenditures.

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