EXECUTIVE SUMMARY

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This State Finances Audit Report presents an independent, descriptive overview of the fiscal position of the State of Tamil Nadu for the year 2024-25. It examines trends in economic growth, receipts and expenditure, debt sustainability, budgetary management, and financial reporting practices, with a view to presenting a comprehensive picture of public finances and their management during the year.

During 2024-25, the State's economy exhibited robust growth, with GSDP expanding by 15.98 *per cent* as against 13.34 *per cent* in the previous year, driven by both Tertiary and Secondary sectors. The State consistently outperformed the national average in per capita income, which indicates that the State has a strong and more resilient economy. Despite this favourable macroeconomic environment, the State's fiscal position remained under stress. Revenue receipts increased to ₹2,82,829 crore, but their growth (6.89 *per cent*) lagged significantly behind GSDP growth, resulting in subdued revenue buoyancy. The State recorded a revenue deficit of ₹45,840 crore (1.47 *per cent* of GSDP) and a fiscal deficit of ₹1,01,344 crore (3.25 *per cent* of GSDP), both largely within budgeted levels but indicative of persistent structural imbalances. Although the fiscal deficit marginally exceeded the three *per cent* threshold prescribed under the Tamil Nadu Fiscal Responsibility Act, it declined from 3.36 *per cent* in 2023-24 and has shown a moderating trend over the past five years, indicating gradual fiscal consolidation. Outstanding liabilities increased to ₹8,53,765 crore, however, the debt-GSDP ratio at 27.38 *per cent* remained within the limit prescribed by the Fifteenth Finance Commission.

Non-tax revenue increased by 29.72 *per cent*, primarily due to accounting of interest receipts on deposits under the Defined Contributory Pension Scheme (DCPS) with the Life Insurance Corporation of India for the years 2022-23 to 2024-25. Despite a decline in grants-in-aid from the Government of India by 34.86 *per cent*, the impact on revenue receipts was partly cushioned by an increase in the State's share of Union taxes (13.93 *per cent*) and growth in Own Tax Revenue (7.74 *per cent*). This helped moderate the overall effect of reduced central transfers. In addition, the Government released the entire funds recommended by the Sixth State Finance Commission to Local Bodies during the first three years of the award period, underscoring its commitment to decentralised governance.

Despite these positive developments, several areas warrant closer attention. Revenue mobilisation remained weak, as reflected in own-tax buoyancy ratio remaining below unity, indicating that revenues did not keep pace with economic growth. Arrears of revenue amounted to 27.18 *per cent* of the State's Own Revenue (₹2,13,828 crore). Own Tax Revenue, at 5.78 *per cent* of GSDP, was lower than the all-States average, and actual collections fell short of both Budget Estimates and Revised Estimates. The persistence of revenue and fiscal deficits over the years highlights the need for sustained measures to improve revenue realisation and address the accumulation of arrears.

During the year, Loans and Advances disbursed by the State increased by ₹3,060 crore (34.60 *per cent*), while recoveries declined by ₹208 crore (5.17 *per cent*). This divergence adversely affected the quality of capital receipts and weakened fiscal space. In addition, a significant portion of borrowings was utilised for debt servicing rather than for creating capital assets, thereby constraining resources available for long-term development. Returns on Government investments remained low at 0.83 *per cent* compared to the average cost of borrowings exceeding seven *per cent*, indicating inefficiencies in the deployment of public funds.

Committed expenditure accounted for 53.75 *per cent* of revenue expenditure, driven mainly by increases in salaries, interest payments and subsidies, thereby limiting fiscal flexibility. The combined burden of interest and subsidies remained high at around 34.23 *per cent* of revenue expenditure, well above the all-States average. In addition, ₹14,592.76 crore stood committed to the State's share in GoI's Centrally Sponsored Schemes. Total expenditure during the year amounted to ₹3,88,032 crore, of which 84.70 *per cent* was revenue expenditure, reflecting a predominantly consumption-oriented spending pattern. Although capital expenditure increased in absolute terms, it constituted only 12.14 *per cent* of total expenditure (11.28 *per cent* in the previous year) and 1.51 *per cent* of GSDP, which is lower than the all-States average. Only about 33 *per cent* of public debt receipts translated into capital expenditure, indicating limited asset creation out of borrowed funds.

The State relied predominantly on own tax and non-tax revenues, which together constituted about 76 *per cent* of revenue receipts, demonstrating a reasonable degree of fiscal autonomy. However, the sustainability of revenue growth was affected by reliance on accounting-driven non-tax receipts. Capital receipts continued to be dominated by public debt, reflecting increased dependence on borrowings amid declining central grants. Capital receipts were increasingly dominated by public debt, highlighting growing reliance on borrowings. Recovery of loans and advances remained weak, and declining central grants further accentuated fiscal pressures. Overall, while the structure of receipts shows resilience, their quality and buoyancy need strengthening for long-term fiscal sustainability.

Budgetary management continued to exhibit gaps between estimates and actuals. During the year, savings exceeding ₹3 crore were observed in 12 cases across 11 grants, excluding surrenders. The remittance of ₹4,445.90 crore relating to unspent balances of previous years under Minor Head "911" reflects corrective action taken pursuant to the constitution of a Special Task Force by the Government to identify, reconcile and bring back funds kept outside the Government account. However, unspent balances of ₹565.39 crore continued to remain in the bank accounts of Drawing and Disbursing Officers as on 31 March 2025.

We noted that the State did not resort to Ways and Means Advances or overdrafts during the year and maintained adequate cash balances. Debt sustainability indicators showed marginal improvement, with the debt-GSDP ratio declining from 2023-24 onwards, broadly aligning with the indicative debt trajectory recommended by the Finance Commission. We observed that all disbursements during the year were incurred within the authorisations granted by the State Legislature and no expenditure exceeded the sanctioned grants during 2024-25, reflecting adherence to legislative control over expenditure. Regularisation of excess expenditure relating to grants of previous years has been completed, except for the excess pertaining to the year 2023-24, which remains pending.

The State's finances during 2024-25 reflect a paradox of strong economic growth alongside persistent fiscal stress. While deficit levels and debt ratios remain within prescribed limits, the underlying fiscal structure is characterised by weak revenue buoyancy, high committed expenditure, increasing subsidy dependence, and sub-optimal utilisation of borrowings.

We recommend that the State strengthen own-revenue mobilisation, contain committed expenditure, improve the quality of capital spending, enhance returns from public investments, and expedite the recovery of loans and advances. The Government may also take sustained measures to strengthen revenue realisation and address the accumulation of arrears in view of the continued revenue and fiscal deficits. Sustained fiscal consolidation, coupled with a reorientation towards growth-enhancing and revenue-generating expenditure, will be critical for ensuring the State's long-term fiscal sustainability and economic resilience.