

'Tamil Nadu must improve its own tax collections'

Mamtha Asokan / TNN / Aug 30, 2021, 19:43 IST

CHENNAI: **Brickwork Ratings' analysis** of Tamil Nadu State Budget 2021-22 says it is going to be a major challenge for the newly elected Dravida Munnetra Kazhagam (DMK) government. The report says the new government has announced several welfare and development measures promised in its election manifesto. This requires additional expenditures, which is possible only by improving the state's own tax collections.

It also stressed the central transfers have declined as the share of the state in tax devolution has shown steady decline in successive finance commission recommendations (from 5.305% in the Twelfth FC to 4.079% during the FFC). Thus, an improvement in the state finances, in the wake of rising expenditures would require countering decline in the state's own revenues, as well as transfers from the Centre. The state needs to revert to its pre-2014 revenue deficit to fiscal deficit ratio by improving its tax to GSDP ratio, so that it invests the borrowings fully into capital expenditure.

The commitment of the new government to attain inclusive growth by making it a role model state is laudable. The state has already constituted an economic advisory panel with eminent economists to provide economic and social guidance. The finance minister has also assured to undertake deeper reforms to correct the debt overhang, immediately after overcoming the impact of the Covid-19 pandemic.

Critical reforms are in the power sector as the subsidy to the farmers and other consumer groups needs to be phased out to restore sustainability to state finances. "We expect the state to achieve its budget targets set for the current fiscal, so that it would help the state to lay the strongest foundation for the full budget for the next fiscal," it said.

The second wave of the Covid-19 pandemic, which started in March 2021, has again disrupted economic activities across the country. Tamil Nadu, like most other states, had to impose restrictions on economic activities to contain the pandemic spread, and this has substantially reversed the progress witnessed in economic recovery. While presenting the revised budget estimates for FY22, on 13 August, state finance minister Dr Palanivel Thiaga Rajan, emphasised the sheer magnitude of the impact of the second wave of Covid-19 on the health and economy, and its consequences on the government's fiscal situation.

The steady deterioration in finances, combined with a slowdown in economic growth, is a serious cause for concern. Covid-19 has further exacerbated the situation.