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An Economic Analysis of Tamil Nadu's Revised Budget – 2026–27

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Abstract

This study examines Tamil Nadu's Revised Budget 2026–27, focusing on the State's revenue generation, expenditure pattern and debt position. The study uses figures from the Revised Budget Estimates 2026–27 to assess the State's fiscal position and its implications for economic growth. The budget highlights the difficulty of maintaining development expenditure while also preserving fiscal stability. The analysis finds that the State needs to strengthen its own-source revenue, particularly tax revenue, while directing expenditure towards education, health and infrastructure. At the same time, continued expenditure above available revenue and reliance on borrowing create fiscal pressures, making improved revenue collection, expenditure efficiency and debt management important. The paper therefore argues that budget performance should not be judged only by the amount spent, but also by the effectiveness of that expenditure and the outcomes generated from public spending.

Keywords: Tamil Nadu Budget, Public Finance, Fiscal Deficit, Revenue Deficit, Public Debt, Capital Expenditure, Fiscal Sustainability, State Own Tax Revenue

JEL Classification: H71, H72, H62, H63, E62

INTRODUCTION

State budgets are important because they determine how public resources are allocated. In a diverse State such as Tamil Nadu, the budget affects public services, investment, employment and long-term fiscal stability. The State Government aims to make Tamil Nadu a US\$1.5 trillion economy by 2036. Attaining this objective requires effective public expenditure, improved governance, and investment. The budget attempts to balance development priorities with fiscal management. This study examines selected figures from the Revised Budget 2026–27 to understand the State's priorities, including revenue generation, expenditure and debt. It goes beyond the numerical values to consider what these

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indicators imply for the State's finances and economy. A sound budget can support economic growth, whereas persistent expenditure above available revenue can create fiscal difficulties.

Public finance concerns how governments raise revenue and spend resources. It addresses resource allocation, income redistribution and economic stabilisation. Research on public budgeting suggests that a government budget should be assessed by its ability to address social needs and improve economic efficiency. Fiscal sustainability is also important because excessive borrowing can increase debt-servicing obligations and weaken the government's ability to meet future commitments.

Studies of public expenditure further indicate that some forms of government spending generate stronger long-term benefits than others. Expenditure on roads, education and health can support economic development, while spending that does not generate durable benefits may create fiscal pressures. Public finance also considers fiscal relations among different levels of government. The central government provides resources to States, while State governments must use those resources effectively. Documents discussing Tamil Nadu's fiscal position emphasise the need to improve tax collection, reduce deficits and create fiscal space for capital expenditure. This study builds on these themes by examining the Revised Budget 2026–27 and its implications for the State's finances and economy.

THEORETICAL BACKGROUND

Public finance theory examines government revenue and expenditure through the functions of allocation, distribution and stabilisation. Fiscal sustainability concerns whether a government can meet its financial obligations without accumulating excessive debt. A persistent revenue deficit can create fiscal pressure because current revenues are insufficient to cover recurring expenditure. The Keynesian approach suggests that government expenditure can stimulate economic activity. However, public spending needs to be efficient and should not rely excessively on borrowing. Human capital and endogenous growth theories emphasise that expenditure on education and health can strengthen productive capacity and support long-term economic growth.

RESEARCH METHODOLOGY

This study adopts an analytical approach based on figures from the Revised Budget Estimates 2026–27 and other official documents. The study does not employ statistical models. Instead, it examines the budgetary figures and interprets their implications for the State's finances and economy.

The study's limitation is that it focuses on planned figures rather than actual outcomes. Therefore, the conclusions relate to the State's budgetary plans and do not measure the realised impact of expenditure.

INTERPRETATION AND DISCUSSION

Key Fiscal Indicators

The Revised Budget 2026–27 contains several key fiscal indicators. These figures provide a broad picture of the State's revenue position, deficits, debt, borrowing requirements and capital expenditure.

Fiscal Indicator	Amount / Rate
Total Revenue	₹3,50,027 crore
Revenue Deficit	₹55,775 crore
Fiscal Deficit	₹1,21,819 crore
Outstanding Debt	₹10,98,768 crore
Planned Borrowing	₹1,73,445 crore
Capital Expenditure	₹56,985 crore

The fiscal indicators show that the State is expected to generate ₹3,50,027 crore in revenue, but its revenue deficit of ₹55,775 crore indicates that its regular income is insufficient to meet expenditure. The fiscal deficit is higher, at ₹1,21,819 crore, reflecting the wider gap between the government's total expenditure and its available receipts. The State must finance this gap through borrowing and other sources. The State's borrowings are ₹1,73,445 crore, while its outstanding debt is ₹10,98,768 crore. These figures underline the need to balance development borrowing with long-term fiscal sustainability. Capital expenditure of ₹56,985 crore is particularly significant. This is because spending on infrastructure and other public assets can strengthen the State's productive capacity and support future economic growth.

These indicators help to assess fiscal management. A strong revenue base can reduce the need for borrowing. A revenue deficit indicates that revenue is insufficient to cover recurring expenditure, while a fiscal deficit can support development when borrowing finances productive expenditure. Excessive borrowing, however, can increase repayment and debt-servicing pressures. Capital expenditure can support economic growth when resources are allocated and implemented effectively.

Revenue Indicators

The State's revenue position is an important component of fiscal management. The Revised Budget 2026–27 reports total revenue of ₹3,50,027 crore, State Own Tax Revenue of ₹2,26,740 crore, expected tax-revenue growth of 14 percent, and Central Tax Devolution of ₹62,531 crore.

Revenue Indicator	Amount / Rate
Total Revenue	₹3,50,027 crore
State Own Tax Revenue	₹2,26,740 crore
Expected Growth in Tax Revenue	14%
Central Tax Devolution	₹62,531 crore

These figures indicate the importance of the State's own revenue sources. Strengthening tax collection can reduce dependence on borrowing and improve fiscal flexibility. The information is drawn from the Revised Budget Estimates 2026–27 presented by the Government of Tamil Nadu.

State Own Tax Revenue of ₹2,26,740 crore constitutes a major component of the State's revenue. A strong own-tax base matters because it gives the State greater control over public finances and helps it provide public services without excessive reliance on transfers or borrowing. The State expects tax revenue to grow by 14 percent. Achieving this growth will depend on economic performance, taxpayer compliance and the efficiency of tax collection.

Digital tax administration can improve compliance and reduce unnecessary collection costs. Central Tax Devolution of ₹62,531 crore also indicates the continuing importance of intergovernmental transfers. From a federalism perspective, such transfers help the State finance responsibilities that its own resources may not fully support.

At the same time, strengthening own-source revenue can improve the State's capacity to make fiscal decisions and respond to emerging challenges. The State's revenue strategy therefore involves improving tax collection, broadening the tax base, strengthening compliance and making the tax system more efficient and transparent rather than relying primarily on higher tax burdens for existing taxpayers.

Sector-wise Budget Allocations

The State has allocated resources across several major sectors. The following table presents the sectoral allocations reported in the Revised Budget Estimates 2026–27.

Sector	Allocation
School Education	₹44,527 crore
Higher Education	₹8,393 crore
Agriculture and Farmers' Welfare	₹14,984 crore
Health and Family Welfare	₹23,357 crore
Energy and Power Infrastructure	₹15,828 crore
Roads, Highways and Transport	₹35,085 crore
Water Resources	₹9,264 crore
Municipal Administration and Water Supply	₹29,863 crore
Rural Development and Panchayat Raj	₹39,609 crore
Housing and Urban Development	₹8,852 crore
Highways and Minor Ports	₹21,524 crore
Social and Women's Empowerment	₹9,818 crore
Food and Consumer Protection	₹14,830 crore

Source: Revised Budget Estimates 2026–27, Government of Tamil Nadu.

The sectoral allocations indicate a development approach centered on education, infrastructure, rural development, urban services and social protection. The State allocates ₹44,527 crore to School Education and ₹8,393 crore to Higher Education, indicating an emphasis on human-capital development. Better education can improve productivity, employability and earning potential. Health and Family Welfare receives ₹23,357 crore. Such expenditure can reduce economic losses associated with illness and improve workforce quality. However, its effectiveness depends on service delivery, infrastructure quality and staff availability.

The State allocates ₹35,085 crore to roads, highways and transport and ₹21,524 crore to highways and minor ports. Infrastructure investment can reduce transport costs, improve market access and support investment. The economic benefits depend on project selection, timely completion and maintenance. Rural development and panchayat raj receive ₹39,609

crore, while agriculture and farmers' welfare receive ₹14,984 crore. These allocations indicate a focus on rural development and agricultural support. Municipal Administration and Water Supply receives ₹29,863 crore, which is important for urban services. The allocation of ₹15,828 crore to Energy and Power Infrastructure is also significant because reliable energy is essential for the State's economy. The allocations reflect an attempt to balance expenditure with investment in growth-supporting infrastructure. The principal challenge is ensuring these allocations translate into outcomes through timely implementation, monitoring, and transparency.

Economic Implications of the Budget

The economic implications of the budget can be considered in terms of aggregate demand, productive capacity and fiscal sustainability. Infrastructure investment can create demand for construction, materials, and labour, stimulating economic activity in the short term. Once completed, infrastructure can improve productivity by reducing business costs and strengthening connectivity. Investment in education and health can generate long-term benefits by improving workforce quality and raising productivity. Social-sector expenditure should therefore be viewed not only as consumption expenditure but also as investment in the State's future productive capacity. Revenue performance is equally important. Strong growth in State Own Tax Revenue can create fiscal space for development expenditure and reduce borrowing needs. However, revenue mobilisation must be balanced with the need to maintain an equitable tax environment. A major fiscal challenge is the trade-off between spending commitments and capital investment. Although welfare expenditure is important for social protection, persistent growth in recurring commitments can limit resources available for capital formation. A sustainable budget therefore requires attention to expenditure effectiveness and opportunity cost.

STRENGTHS AND FISCAL CHALLENGES

Strengths

The State's budget has several strengths, including its focus on education, health, infrastructure, rural development and urban services. The emphasis on State Own Tax Revenue provides a basis for strengthening fiscal autonomy. Continued capital expenditure can support long-term productivity when projects are efficiently implemented. Investment in capital and infrastructure aligns with the objective of sustaining long-term economic growth.

Fiscal Challenges

The persistent revenue deficit remains a challenge because it pressures recurring finances. Rising debt and borrowing requirements also create repayment and interest obligations. The State must manage the trade-off between welfare commitments and productive investment. External economic uncertainty, changes in transfer flows, interest costs and fluctuations in economic activity can further affect revenue performance. The budget's effectiveness therefore depends not only on the amount allocated but also on implementation. Delays in project execution, cost overruns, weak monitoring or inefficient service delivery can reduce the return from public expenditure.

POLICY RECOMMENDATIONS

- ❖ Strengthen own-source revenue through improved compliance, digital tax administration and a broader tax base.
- ❖ Gradually reduce the revenue deficit by improving the balance between recurring revenue and recurring expenditure.
- ❖ Protect capital expenditure and prioritise projects with high social and economic returns.
- ❖ Adopt debt-management practices by aligning borrowing with the State's repayment capacity and revenue growth.
- ❖ Improve outcome-based budgeting by linking allocations to measurable indicators.
- ❖ Improve coordination between State departments and local governments to reduce duplication and improve infrastructure investment.
- ❖ Expand investment in skills, innovation, technology and green infrastructure to strengthen the State's long-term competitiveness.

CONCLUSION

The Revised Budget 2026–27 reflects the challenge of maintaining development expenditure while managing fiscal pressures. The selected indicators show a revenue base alongside a significant revenue deficit, fiscal deficit, outstanding debt and borrowing requirement. The sectoral allocations demonstrate continued emphasis on education, health, infrastructure, rural development, urban services, agriculture and social welfare. From a public-finance perspective, the sustainability of this approach depends on the quality of revenue mobilisation and expenditure management. Borrowing can support development when it finances productive assets that raise future growth and revenue capacity. However, persistent revenue deficits and rising debt obligations reduce fiscal space if they are not accompanied by adequate revenue growth and expenditure efficiency.

The budget should therefore be judged by the outcomes produced by public spending. The important question is not only how much the government allocates, but whether expenditure improves human capital, infrastructure, productivity, employment and the quality of public services. Strengthening State own-source revenue, improving expenditure efficiency, maintaining sound debt management, and protecting productive investment support economic growth while preserving fiscal stability. In the long term, the State's ability to combine fiscal discipline with investment in human capital, infrastructure, innovation and sustainable development is significant for achieving its broader economic goals. The Revised Budget 2026–27 represents not only an annual financial statement but also an important policy instrument for shaping the State's growth and fiscal trajectory.

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