

**Speech of Thiru C. Ponnaiyan, Minister for Finance,  
Government of Tamil Nadu, presenting the Interim  
Budget for 2006-2007 to the Legislative Assembly on  
20<sup>th</sup> January, 2006**

**Honourable Speaker Sir,**

**வெள்ளத்து அனைய இடும்பை அறிவுடையான்  
உள்ளத்தின் உள்ளக் கெடும்.**

*(A flood of troubles will be overcome by courageous  
thought, which the minds of the wise will entertain, even in  
adversity.)*

Saluting our most dynamic and visionary leader, the Hon'ble Chief Minister Puratchi Thalaivi J Jayalalithaa, I rise to present the Revised Estimates for 2005-2006 and the Interim Budget Estimates for 2006-2007. I would like to begin by paying my tribute to the extraordinary resolve, courage and sagacity with which our Hon'ble Chief Minister has ably guided the public finances of Tamil Nadu during the past five years and translated the hopes and aspirations of the people into reality.

2. Hon'ble Members may recall the extremely precarious fiscal situation and development muddle bequeathed to this Government when it assumed office in May 2001. With public finances of the State in complete disarray and development pushed out of the governance agenda, this Government had to shoulder the onerous task of restoring fiscal balance and putting Tamil Nadu back on the highroad of development.

3. I present this Interim Budget with a sense of immense satisfaction. This Government, under the astute leadership of the Hon'ble Chief Minister, has more than fulfilled the mandate given

by the people of Tamil Nadu five years ago. Law and order, which is the bedrock for planned and inclusive development, has been perfectly maintained. The spectacular fiscal turnaround achieved by this Government in a short span of time without compromising the interests of the poor is without a parallel in the country. This Government has brought back development issues, people's welfare and the need to prudently manage public finances to the core of the governance agenda. The Hon'ble Chief Minister has matched promise with performance, reached out to the people by providing caring and effective governance and put the State on the path of sustainable growth and development. This is especially significant in the backdrop of three successive years of drought followed by a devastating Tsunami in 2004 and thereafter by the ravaging floods of 2005. Tamil Nadu's return to the path of growth with equity would not have been possible without the clear conviction, steadfast commitment and resolute action displayed by our Hon'ble Chief Minister Puratchi Thalaivi J Jayalalithaa. As Tamil Nadu strides ahead with unmistakable confidence to occupy the *numero uno* position among the Indian States, the overwhelming faith reposed by the people in this Government stands vindicated.

4. This Government is going to successfully complete its full term in office in May 2006. In keeping with the traditions of parliamentary democracy, an Interim Budget for 2006-2007 is being presented. A Vote-on-Account will be obtained based on the Interim Budget 2006-2007. The main Budget will be presented after the new Thirteenth Legislative Assembly has been constituted.

### **MEDIUM TERM FISCAL PLAN**

5. Hon'ble Members of this House may recall the hopeless fiscal situation that had engulfed the State when this Government

assumed office in May 2001. The Total Revenue Receipts during 1996-2001 had failed to keep pace with a phenomenal rise in the Total Revenue Expenditure of the Government leading to the ballooning of the Revenue Deficit year after year. This had led to heavy borrowings to cover the mounting Revenue Deficit which further led to an alarmingly high Fiscal Deficit. The rise in the interest burden had reached dangerous proportions.

6. The sectoral composition of expenditure during 1996-2001 revealed a perceptible decline in the share of developmental expenditure, namely, social and economic services as against general services comprising basically interest payments and administrative expenses. This skewed nature of resource allocation crowded out resources available for capital investment. The net result was a serious fiscal crisis that overwhelmed Tamil Nadu in 2001 causing the previous Government to fail in clearing payments even on works undertaken. As a result, development in Tamil Nadu had come to a grinding halt.

7. Hon'ble Members may recall that this Government had piloted a landmark legislation on Fiscal Responsibility in 2003 for enforcing transparency and the State's accountability in prudent management of public finances. The Tamil Nadu Fiscal Responsibility Act, 2003 (as amended subsequently) requires the Government to present to the Legislative Assembly a Medium Term Fiscal Plan and also ensure that the fiscal targets specified therein are achieved.

8. I am glad to inform this House that this Government has so far achieved all the targets set out in the Medium Term Fiscal Plans presented before the Legislative Assembly. The State is well on track to eliminate the Revenue Deficit and reduce the Fiscal Deficit to a level below 3% of the Gross State Domestic

Product (GSDP) by 2008-2009. An updated Medium Term Fiscal Reform Plan 2006-2007 is appended to my Interim Budget Speech.

9. Tamil Nadu's spectacular reform achievements will entitle the State to receive substantial debt waiver during the Twelfth Finance Commission award period 2005-2010. The Hon'ble Chief Minister's prescience in correcting the public finances at the right time has ensured enhancement of the revenues of the Government in the future. This is a refreshing contrast to the situation in the previous regime when in 2001 the future revenues of the State were drawn in advance by the then Government to finance its current expenditure.

10. Fiscal consolidation in Tamil Nadu has been concurrently accompanied by re-prioritization of resource allocation towards growth and development oriented sectors. The Annual Plan outlays have increased by a record 75% from Rs. 5200 crores in 2001-2002 to Rs. 9100 crores in 2005-2006. The State boasts of a truly comprehensive and impressive social safety net. The Capital Budget of the Government has almost trebled since 2001 to Rs. 4843.18 crores in the Revised Estimates 2005-2006. Tamil Nadu's externally-aided project portfolio has grown to become one of the largest in the country at Rs. 8550 crores (US \$ 1.90 billion).

11. In a short span of less than five years, Tamil Nadu has been pulled back from presenting a spectre of gloom and drift and restored to its erstwhile glory of being one of the best financially managed States in the country. The credit for this magnificent reversal of fortunes goes only to our inspired, benevolent and visionary leader, the Hon'ble Chief Minister.

## **THE TAMIL NADU ECONOMY**

12. The Hon'ble Chief Minister's 15-point strategy aimed at putting the State on a sustainable growth trajectory has laid the foundations for Tamil Nadu's economic revival and consolidation. After achieving a growth rate of 8.73% in 2004-2005 and notwithstanding the adverse impact of the recent floods, the State's economy is poised to register a growth rate in excess of 8% at constant prices during 2005-2006. With the economic growth momentum having been restored, the State can look forward to a new phase of sustained growth characterized by enhanced opportunities and improved real incomes for the people.

## **ANNUAL PLAN**

13. Hon'ble Members may recall that the Hon'ble Chief Minister had obtained the approval of the Union Planning Commission for implementing an ambitious Tenth Plan Outlay of Rs. 40,000 crores during the period 2002-2007. I am glad to inform this House that Tamil Nadu has exceeded the performance targets set out in each of the Annual Plan Outlays since 2002-2003. The record Annual Plan Outlay of Rs. 9100 crores for 2005-2006 will be surpassed as well. The Annual Plan outlay for 2006-2007 will be finalized with the Union Planning Commission after the general elections to the Tamil Nadu Legislative Assembly. However, the Interim Budget 2006-2007 has a provision of Rs.11,709 crores for ongoing plan schemes. This shows a record increase of more than 28% over the Plan Outlay for 2005-2006. I am confident that Tamil Nadu will outperform the Tenth Plan Outlay of Rs. 40,000 crores by the close of the Plan period.

## **NATURAL CALAMITY RELIEF MEASURES**

14. Hon'ble Members are aware of the unprecedented floods in 22 districts of the State following four major spells of torrential rainfall during October-December 2005. This Government took prompt action to provide relief and restore damaged infrastructure with an outlay of Rs. 1114 crores. It includes a very substantial Special Relief Package of Rs. 591 crores. I am glad to inform this House that this substantial and liberal relief package has provided immense succour to 34 lakh families in the State. In addition, a major programme to repair damaged public infrastructure such as roads, bridges, tanks etc., has been taken up with an outlay of Rs. 523 crores.

15. This Government submitted three detailed memoranda to the Government of India seeking a total assistance of Rs. 13,685 crores, 2.58 lakh tonnes of rice and 43,200 kilolitres of kerosene. The Hon'ble Chief Minister visited New Delhi to apprise the Hon'ble Prime Minister of the enormous magnitude of damage suffered and the assistance required by the State. The Union Government has so far sanctioned only Rs. 1000 crores and 21,000 kilolitres of kerosene. We urge the Government of India to sanction the required assistance as requested by this Government without further delay.

16. This Government's effective handling of the devastating Tsunami in December 2004 has received wide international acclaim. After ensuring prompt and proper completion of the two phases of the relief operations, namely, search and rescue operations and provision of immediate relief, the third phase of permanent reconstruction and rehabilitation is progressing rapidly.

17. A total of 45,892 fully damaged houses are being replaced with disaster resistant houses while another

7670 partially damaged houses are being repaired. The fisheries sector has been completely revived and the fishermen have been enabled to resume normal fishing activities. Works on repairing damaged fish landing centres, jetties etc., are progressing well and will be completed shortly. The entire extent of 9130.16 hectares of affected agricultural and horticultural land has been treated and reclaimed. A comprehensive livelihood restoration programme has been rolled out in the affected districts. 3241 Self Help Groups have already been formed with nearly 50,000 members and provided with assistance.

18. As against the release of Rs. 812 crores by the Union Government for Tsunami relief and rehabilitation to Tamil Nadu so far, this Government has sanctioned Rs. 1136 crores. In addition, this Government has secured financial assistance of Rs. 2618 crores from various multilateral institutions for the long term reconstruction and rehabilitation programme. The Interim Budget 2006-2007 has a provision of Rs. 478.65 crores for Tsunami reconstruction and livelihood support.

### **POLICE**

19. The Hon'ble Chief Minister deserves accolades for ensuring that the law and order situation in Tamil Nadu was the best in the country during the last five years and continues to be the best. The elimination of the notorious sandalwood smuggler and forest brigand Veerappan and his gang, stands as one of the most spectacular triumphs of this Government.

20. This Government's unprecedented accent on modernization of the Police Force since 2001 at an expenditure of Rs. 479 crores has improved the efficiency and operational preparedness of the Tamil Nadu Police. As against an expenditure of Rs. 1091.09 crores in 2001-2002, the provision for

the Police Department in the Interim Budget 2006-2007 has gone up to Rs. 1575.98 crores.

21. Our State has shown the way to the rest of the country by recruiting the largest number of Women Police Personnel. Tamil Nadu is India's first State to have an exclusive Women Police Battalion and Women Commando Force. Women Police personnel have been inducted as Traffic Marshals in the Chennai City Traffic Police who will now serve alongside men in ensuring orderly traffic management in the metropolis.

### **PRISONS**

22. This Government has accorded very high importance to upgrading the Prisons infrastructure in the State. The new Prison Complex at Puzhal near Chennai being constructed on an area of 212 acres with an outlay of Rs. 77 crores will solve a major problem of overcrowding in prisons. Tamil Nadu is the first State in India to have established Prisoner Adalats in all Central Prisons and Special Prisons for quick disposal of cases where the prisoners plead guilty of the offences charged with. The Interim Budget 2006-2007 has a total provision of Rs. 77.19 crores for the Prisons Department.

### **FIRE AND RESCUE SERVICES**

23. This Government renamed the Fire Services Department as 'Fire and Rescue Services Department' and has undertaken several measures to upgrade its infrastructure and improve the fire fighting capacity. Construction of 49 Fire Station buildings has also been sanctioned at a total cost of Rs. 10 crores. A major programme for the procurement of fire tenders, water lorries, fire entry suits, heat resistant gloves etc., has been taken up with an outlay of Rs. 14 crores. The Interim Budget

2006-2007 has a total provision of Rs. 98.08 crores for the Fire and Rescue Services Department.

### **JUDICIAL ADMINISTRATION**

24. There has been a major step up in the outlay for the Judiciary in Tamil Nadu during the tenure of this Government. The total provision for judicial administration has gone up to Rs. 205.37 crores in the Interim Budget 2006-2007 as against Rs. 141 crores spent in 2001-2002. The establishment of a New Bench of the Hon'ble High Court at Madurai in July 2004 is a feather in the cap of this Government. The modern court complex for the Bench at Madurai has been constructed at a cost of Rs. 65.45 crores.

### **THE PRIMARY SECTOR**

#### **Agriculture**

25. Revival of the farm economy has been accorded the highest priority by this Government. The total outlay for Agriculture in the Interim Budget for 2006-2007 has been fixed at Rs. 861.23 crores.

26. The Hon'ble Chief Minister deserves to be complimented for putting at the forefront the lifetime concerns engaging small and marginal farmers and agricultural labourers. A massive new scheme aimed at providing them with comprehensive social security has been launched. The Hon'ble Chief Minister's Farmers Security Programme has a provision of Rs. 201.56 crores in the Interim Budget 2006-2007.

27. The crop diversification movement launched by the Hon'ble Chief Minister has gained wide acceptance amongst farmers. This Government's alternative crop strategy to

encourage farmers to move away from water intensive cropping systems to those which require less water such as cultivation of Sweet Sorghum, Sugar Beet and Jatropha has been pursued vigorously. The Tamil Nadu Agriculture University is developing a hybrid variety of Jatropha which will yield 40% oil as against 20% oil extracted from the commonly used variety. A massive Agricultural Extension Programme has been launched in 2005-2006 in all the 385 Blocks with an outlay of Rs. 7.50 crores.

28. This Government's Comprehensive Wasteland Development Programme has been a resounding success. An estimated 3.83 lakh acres of wasteland has been reclaimed and put to agricultural use. A total of 8833 farm ponds for harvesting rainwater have been constructed at a total cost of Rs. 26 crores during 2001-2006. The pioneering Precision Farming Scheme has received an enthusiastic response from the farmers and has been extended to seven districts with an outlay of Rs. 10 crores.

29. Horticulture development on a mission mode has received close attention of the Government. A massive programme for development of horticulture is currently under implementation in 13 districts with an outlay of Rs. 75 crores. Under the Hon'ble Chief Minister's scheme for distribution of coconut seedlings to new born female infants, over 3 lakh seedlings have been distributed.

### **Co-operative Credit**

30. This Government has always made determined efforts to reduce the debt burden faced by farmers in Tamil Nadu. In 2001-2002, outstanding interest on crop loans to the extent of Rs. 311 crores was waived. This was followed by similar interest waiver amounting to Rs. 61 crores in 2002-2003 and Rs.62 crores

in 2003-2004. In 2004-2005, the Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa, ordered the rescheduling of short term crop loans to the extent of Rs. 2598 crores availed of by the farmers up to 31<sup>st</sup> March 2004 for a five year period along with a two year principal repayment moratorium.

31. With a view to providing further relief, the Hon'ble Chief Minister has announced another major relief package allowing complete waiver of interest on crop loans up to 30<sup>th</sup> June 2006 amounting to Rs. 645 crores. The one-time settlement scheme for long term loans extended by Primary Co-operative and Rural Development Banks and non-farm loans extended by Urban Co-operative Banks has been extended up to 30<sup>th</sup> June 2006. This Government has thus undertaken a major debt relief package for the benefit of farmers in Tamil Nadu and at the same time ensured the revival of the co-operative credit structure.

### **Irrigation**

32. Drought-proofing the farmer from the vagaries of the monsoons has always been a high priority item on the agenda of this Government. All out efforts have been made to ensure efficient management of water resources. After successfully completing the Water Resources Consolidation Project (WRCP) at a cost of Rs. 1083 crores, this Government has proposed a follow on project named 'Irrigated Agriculture Modernization and Water Resources Management Project' with an outlay of Rs. 3900 crores for funding to the World Bank. This project is now reaching the final stages of sanction. Under this project, integrated management of water resources will be taken up in all the 17 River Basins in the State. A pilot scheme for rehabilitation works in the Hanumanadhi Sub-Basin has been completed at a total cost of Rs. 53 crores. A total of 619 irrigation schemes have been taken up for implementation at a cost of Rs. 635.68 crores

during 2001-2006 with support from NABARD under the Rural Infrastructure Development Fund (RIDF).

33. Our Hon'ble Chief Minister firmly believes in the Inter Linking of Rivers. At every forum, the Hon'ble Chief Minister has insisted on the implementation of the Peninsular River Grid linking the Mahanadhi with the Gundar. It is unfortunate that despite repeated requests from the Hon'ble Chief Minister, the Union Government is yet to sanction the Peninsular River Grid. This House urges an early start to this project.

### **Animal Husbandry**

34. This Government has taken effective steps to upgrade the quality of livestock and expand the provision of veterinary services in Tamil Nadu. A massive programme to inoculate major livestock against diseases such as Anthrax, Foot and Mouth Disease, Black Quarter etc., has been taken up with an outlay of Rs. 17.35 crores during 2005-2006. This has prevented the outbreak of livestock related diseases in the State.

35. The Hon'ble Chief Minister's decision to enhance the procurement price of milk by Re. 1 per litre by milk co-operatives without a corresponding increase in the price paid by consumers has ensured remunerative prices to farmers supplying milk. The total outlay for Animal Husbandry and Dairy Development in the Interim Budget 2006-2007 is Rs.240.34 crores.

### **Fisheries Development and Welfare of the Fishing Community**

36. Hon'ble Members will acknowledge that it is only because of the untiring efforts of this Government that the fisheries sector in Tamil Nadu has been revived in so short a time

after the devastating Tsunami tragedy. The total outlay for Fisheries in the Interim Budget 2006-2007 is Rs. 91.92 crores.

37. This Government has taken action to upgrade and modernize fishing harbours at Pazhayar, Nagapattinam, Mallipattinam and Chinnamuttom with World Bank assistance with an outlay of Rs. 35.78 crores. Dredging operations are being undertaken at fishing harbours and fish landing centres in Mudasalodai, Pazhayar, Sethubhavachatram, Mallipattinam, Kottapattinam, Jegathapattinam, Punnakkayal, Thoothukudi and Chinnamuttom at a cost of Rs. 11.47 crores with assistance from the Asian Development Bank (ADB). In addition, modernization and upgradation of fishing harbours at Chennai and Tuticorin are underway with an outlay of Rs. 12.42 crores. This Government has approved the construction of a fishing harbour under public-private partnership at Rajakkamangalamthurai at a cost of Rs. 22 crores and at Muttom at a cost of Rs. 39 crores. While the State Government's share of Rs. 15.28 crores for construction of a fishing harbour at Thengapattinam has already been sanctioned, the Government of India is urged to accord an early approval for its share.

### **Environment and Forests**

38. The total outlay for Environment and Forests in the Interim Budget 2006-2007 is Rs. 270.03 crores. It includes a provision of Rs. 99.64 crores for the Tamil Nadu Afforestation Project – Phase II being implemented at a project cost of Rs. 567 crores with funding assistance from the Japanese Bank of International Co-operation. An estimated 1775 Sq Kms of degraded forests will be reclaimed under this project covering 800 villages during 2005-2013.

## **RURAL DEVELOPMENT**

39. Comprehensive infrastructure upgradation for improving the quality of life of the people has been accorded a very high priority by this Government. Despite the existence of numerous schemes for provision of basic amenities, there are still infrastructure gaps at the local level in rural and urban areas. A massive programme incorporating requisite flexibility for the District Collectors to take up and implement works for provision of basic amenities depending on the felt needs of the people has been launched with an outlay of Rs. 250 crores in all the districts.

40. The pioneering Namadhu Gramam programme of this Government which encourages and rewards Village Panchayats for achieving specified social objectives such as ensuring full enrolment of children in schools, reduction in infant mortality, elimination of female infanticide, poverty reduction and village sanitation has been extremely well received by the people. The Interim Budget 2006-2007 has a provision of Rs. 175 crores for this scheme.

41. The Village Self Sufficiency Programme being implemented by this Government focuses on need-based provision of basic amenities in the rural areas with people's participation. The provision for this scheme is being enhanced to Rs. 75 crores in the Revised Estimates 2005-2006 on account of the overwhelming response from the people.

## **HOUSING FOR THE POOR**

42. This Government has invested substantial resources to provide shelter security to the poor in the rural areas. During 2001-2005, 1.44 lakh new houses have been constructed and 75,000 kutcha houses have been upgraded at a cost of Rs. 560.88 crores. During 2005-2006, nearly 43,000 new houses

have been taken up for construction and 22,000 kutcha houses are being upgraded with an outlay of Rs. 173.30 crores.

43. Hon'ble Members will be pleased to know that the new scheme for upgrading thatched/ kutcha houses into pucca houses announced in the Budget Speech 2005-2006 has become hugely popular among the poor. Given the widespread demand, the annual target for conversion of one lakh kutcha houses is being increased to one and a half lakh houses with an additional subsidy of Rs. 12.50 crores. The Revised Estimates 2005-2006 has a provision of Rs. 37.50 crores for subsidy under this scheme. Another 2 lakh kutcha houses will be upgraded with an outlay of Rs. 200 crores in 2006-2007 and a provision of Rs. 50 crores has been made for subsidy under this scheme. In addition, an amount of Rs. 52.88 crores has been earmarked under the Basic Amenities Programme for taking up repairs to tiled houses constructed by the Government in rural areas and Special Village Panchayats prior to 1991. With this, repairs to all tiled houses built by the Government prior to 1991 which are in a dilapidated condition will be completed.

44. This Government has been alive to the problems of housing faced by the urban poor. Over 30,000 houses have been constructed during the last five years for the poor in urban areas at a cost of Rs. 250 crores. An action plan for urban slum housing development for the period 2005-2010 has been approved by this Government with an outlay of Rs. 250 crores.

### **WATER SUPPLY AND SANITATION**

45. This Government has laid great emphasis on the provision of protected drinking water supply. Protected water supply has been provided to 29,970 rural habitations in the State during 2001-2005. Another 4,233 rural habitations will be covered

by the end of 2005-2006. A provision of Rs. 411 crores has been made in the Interim Budget 2006-2007 for provision of rural water supply under the Minimum Needs Programme.

46. A massive programme for the revival of traditional drinking water sources has been taken up with an outlay of Rs. 60 crores during the last five years. A total of 2244 recharge structures including check dams, percolation ponds, sub-surface dykes etc., have been constructed to ensure sustainability of drinking water supply schemes.

47. Tamil Nadu has earned wide acclaim for its spectacular performance in improving sanitation coverage of the rural population from 15% in 2001 to 57% in 2005. A total of 13062 Integrated Sanitary Complexes for Women have been built in all Village Panchayats at a cost of Rs. 278 crores. The Hon'ble Chief Minister's Clean Village Campaign has become a forerunner in the country. Ecologically sustainable sanitation models are being popularized through the active participation of Women Self Help Groups and children throughout the State.

48. This Government has taken effective steps to provide safe drinking water, proper drainage and sewerage systems in the urban areas. During 2005-2006, water supply improvement schemes have been taken up in 21 municipalities with an outlay of Rs. 64 crores. Implementation of underground sewerage schemes will be taken up in 24 District headquarter towns and 13 other towns. These include District headquarter towns of Cuddalore, Dharmapuri, Dindigul, Erode, Krishnagiri, Nagercoil, Nagapattinam, Namakkal, Perambalur, Pudukkottai, Ramanathapuram, Salem, Sivaganga, Theni, Thiruvannamalai, Thiruvallur, Thiruvarur, Thoothukudi, Udhamandalam, Vellore, Villupuram, Virudhunagar, Coimbatore and Kancheepuram. The 13 other towns include Ambattur, Thiruvottriyur, Pallavaram,

Thambaram, Kathivakkam, Manali, Poonamallee, Pammal, Madhavaram, Avadi, Maduravoyal, Ullagaram-Puzhuthivakkam and Anakaputhur. Solid waste management systems are being upgraded in urban local bodies with an outlay of Rs. 22 crores. The Interim Budget 2006-2007 has a provision of Rs. 649.62 crores for Water Supply and Sanitation.

### **DEVELOPMENT OF ROADS AND HIGHWAYS**

49. Tamil Nadu has made rapid strides in improving rural connectivity and upgrading the quality of the road and highway networks across the State. The expenditure on roads and bridges, which was Rs. 562.52 crores in 2001-2002, has been stepped up and a provision of Rs. 3019.84 crores has been made in the Revised Estimates 2005-2006. The outlay on maintenance of road networks in the State has increased nearly seven times from Rs. 120.37 crores in 2001-2002 to Rs. 803.87 crores in the Interim Budget 2006-2007.

50. This Government has taken up works for renewal, widening and strengthening of 52,676 Kms of road network and construction of 993 new bridges at a cost of Rs.6398.56 crores during 2001-2006. The Interim Budget for 2006-2007 has a total provision of Rs. 3529.90 crores for the development of roads and highways.

### **TRANSPORT SECTOR**

51. In terms of percentage increase in air passenger traffic and movement of aircrafts, Chennai has registered the highest growth during 2004-2005 compared to other metros in the country. This Government has taken the initiative for upgrading airport infrastructure so that Chennai becomes India's gateway to South East Asia and the Far East. The Hon'ble Chief Minister has

agreed to provide 583 hectares of land free of cost to the Airports Authority of India for taking up the airport upgradation programme. The process of land acquisition has also commenced.

52. Despite repeated and sharp increases in Diesel prices by the Union Government, this Government continues to provide an efficient public bus transport system at the lowest rate of fare structure in the country. The provision of Rs. 237.31 crores in the Budget Estimates 2005-2006 for the Free Bus Pass Scheme for students has been increased to Rs. 345.31 crores in the Revised Estimates.

### **POWER SECTOR**

53. The Tamil Nadu Electricity Board has ensured that the State remained free from any power cut during the last five years and continues to do so. It has been our endeavour to ensure that this happy situation continues in the future as well. With the total installed generating capacity available to Tamil Nadu poised to reach 10,000 MW by the close of the current financial year, effective steps have been taken to further add additional generating capacity of 5000 MW during 2005-2010.

54. The capital outlay of the Tamil Nadu Electricity Board will be stepped up to Rs. 1798 crores in 2006-2007 from the present level of Rs. 1495 crores for improving distribution systems. The Tamil Nadu Electricity Board will also upgrade its rural distribution network by installing new sub-stations, erecting new transformers and enhancing existing transformer capacity with an outlay of Rs. 196 crores during 2006-2007. 45,000 farmers are being provided with new electricity connections for

farm pumpsets during 2005-2006. 50,000 farmers will be given farm pumpset connections in 2006-2007.

### **CHENNAI METROPOLITAN DEVELOPMENT PLAN**

55. The Hon'ble Chief Minister's vision of repositioning Chennai as a world class megapolis is fast turning into reality. The 'Chennai Metropolitan Development Plan', being implemented with a 10-year outlay of Rs. 18,000 crores, comprehensively addresses all infrastructure needs of this growing metropolis. Issues pertaining to urban aesthetics of Chennai such as parks, walkways etc. are being addressed through the 'Chennai Forever Initiative'.

56. Hon'ble Members will be happy to know that this Government has sanctioned Rs.1328 crores for improvement of the road network in Chennai City and adjoining areas. This will include improvements to 273 Kms of roads and construction of 11 bridges. With rapid growth in the economy and the resultant increase in traffic, the need for fast and efficient transportation in Chennai has become a priority. This Government has decided to implement a fast and efficient Monorail system covering a route length of 300 Kms in Chennai City on a public-private partnership mode.

57. The citizens of Chennai will always remember the contribution of this Government in tackling the chronic water supply shortage in the City. The Hon'ble Chief Minister's decision to go ahead with the implementation of the 180 million litres per day New Veeranam Project and complete it in record time has brought immense cheer to the residents of Chennai. This Government is committed to completing the 100 million litres per day Desalination Project which will further augment the water supply position of Chennai City. We urge the Government of India

to expeditiously accord environmental clearance to the project so that it is taken up for implementation without further delay.

## **HUMAN RESOURCE DEVELOPMENT**

### **School Education**

58. A record number of 1274 New Primary Schools have been opened and 2790 existing Primary Schools upgraded into Middle Schools during 2001-2006 to facilitate universal access to quality education across the State. In addition, 394 Middle Schools have been upgraded as High Schools and another 406 High Schools have been upgraded as Higher Secondary Schools. Infrastructure such as additional classrooms, laboratories, drinking water and toilet facilities have been provided in 1583 Government High and Higher Secondary Schools at a cost of Rs. 710 crores during 2001-2006. This huge investment will have a salutary impact on improving enrolment, retention and achievement rates in schools.

59. The scheme for supplying Free Text Books to all students from Classes I to XII in Government and Aided Schools announced by this Government has been extremely well received by the people. Provision of bicycles to all students studying in Classes XI and XII in Government and Aided Schools is another pioneering initiative of this Government for enhancing mobility and enabling students to conveniently access schools. The total provision for School Education has been fixed at Rs. 4811.81 crores in the Interim Budget 2006-2007.

### **Higher Education**

60. The establishment of the Tamil Nadu Open University by this Government has provided access to higher

education for large sections of the population, both in rural and urban areas, who are unable to pursue higher education in regular colleges and universities due to occupational or family constraints. Over 50,000 students have enrolled in various courses offered by the University. The prestigious University of Madras is celebrating its 150<sup>th</sup> year of inception. On this occasion, the Government is providing a grant of Rs. 5 crores to open a new Centre for Nano Sciences.

### **Youth Welfare and Sports Development**

61. The Interim Budget 2006-2007 has a provision of Rs. 30.42 crores for Youth Welfare and Sports Development as against an expenditure of Rs. 20.98 crores in 2001-2002.

62. The credit for opening an exclusive University for Sports Education goes to the Hon'ble Chief Minister Puratchi Thalaivi J Jayalithaa. It is the first affiliating type Sports University in the country. Under the Champions Development Scheme, over 80 sports persons have been assisted in improving their performance. Two Synthetic Hockey Turfs have been laid in Chennai and Palayamkottai. A Roller Skating Rink and a Roller Skating Hockey Rink have been added to the Indoor Stadium at Chennai. This Government has taken effective steps to make Chennai the sporting hub of India by providing assistance to prestigious international sporting events like Chennai Open Tennis, World Volleyball Qualifiers Tournament and Champions Trophy Hockey Tournament.

### **Health and Family Welfare**

63. The total provision for Health and Family Welfare in the Interim Budget 2006-2007 has increased to Rs. 1731.33 crores as against an expenditure of Rs. 1135.98 crores in

2001-2002. Since 2001-2002, 413 Health Sub-centres have been provided with new buildings and equipment at a cost of Rs.27.85 crores. 106 Primary Health Centres have been upgraded into 30-bed hospitals at a total cost of Rs. 60.16 crores. The provision of drugs and medicine has been streamlined. The provision for drugs and medicine in 2006-2007 is Rs. 170.36 crores. A massive programme for providing the latest equipment replacing the obsolete equipment in all hospitals and Primary Health Centres has been taken up. A Liver Transplant Centre at the Stanley Medical College, Chennai, is being established at a cost of Rs. 6 crores.

64. With a view to ensuring round-the-clock delivery care in the rural areas, this Government has sanctioned a scheme for posting three staff nurses in 180 Primary Health Centres. This has resulted in an increase in the number of institutional deliveries. Encouraged by the success of this programme, this Government has decided to extend this model to 600 more Primary Health Centres. The Acquired Immune Deficiency Syndrome (AIDS) surveillance and control programme in Tamil Nadu has shown good results. The AIDS prevalence rate has declined from 1.13% in 2001 to 0.65% in 2004.

## **THE MANUFACTURING SECTOR**

### **Investment Climate**

65. The proactive 'New Industrial Policy-2003' of this Government has helped Tamil Nadu to become the *numero uno* investment destination in the country. There is visible new activity with a flood of investments pouring into the State.

66. Hon'ble Members will be pleased to know that according to the preliminary estimates, the manufacturing sector

in Tamil Nadu will register a growth rate in excess of 9% at constant prices in 2005-2006. This shows that the growth momentum in the secondary sector has been restored. This has been possible only because of the proactive investor friendly policies of this Government, provision of quality power supply, adequate infrastructure, simplification of procedures and deregulation.

### **Development of Small and Medium Sector Industries**

67. This Government has always been conscious of the need to protect and strengthen Small and Medium enterprises given the fact that they provide the bulk of the employment opportunities in the formal and non-formal sectors of the economy.

68. The Hon'ble Chief Minister's pioneering New Anna Marumalarchi Thittam has revived the rural agro-based food processing industries leading to the creation of new employment opportunities in the State. Hon'ble Members will be happy to know that 336 units which have commenced production at a project cost of Rs. 216 crores in 212 Blocks have provided employment to nearly 12,000 people including 8096 women.

69. The survival of the Small Scale Industries (SSIs) in the liberalized international trading regime is contingent on their ability to improve competitiveness in terms of cost, quality and scale of production. This Government is ensuring that SSI units have access to easy credit. A scheme of providing back-ended interest subsidy on term loans obtained for Technology Upgradation and Modernization, ISO certification and research and development activities for registration of Patents is under implementation. The outlay for Small Industries in the Interim Budget for 2006-2007 is Rs. 44.77 crores.

### **Industrial Manpower Development**

70. This Government has taken effective steps to augment the strong and skilled human resource pool by upgrading the infrastructure and training standards in the Industrial Training Institutes (ITIs) in the State. The thrust has essentially been on introducing new trades in tune with the market demand and improving the curriculum content in the ITIs. This Government's decision to start exclusive Women ITIs for enhancing employment opportunities amongst women has been extremely well received.

### **Labour Welfare**

71. Industrial harmony and cordial labour relations have been at their best during 2001-2006. Wage settlements conferring substantial benefits to the employees of the Tamil Nadu Electricity Board, State Transport Undertakings and Co-operative and Public Sector Sugar Mills have been reached and widely welcomed.

## **SERVICES SECTOR**

### **Information Technology (IT) and IT-enabled Services**

72. This Government's proactive IT and ITES Policy has helped Tamil Nadu to emerge as a leading player in the Services Sector. The results of this policy are already visible – the IT exports from Tamil Nadu, which were Rs. 3,115 crores in 2000-2001, will increase by nearly five times to over Rs. 15,000 crores by the end of 2005-2006. Encouraged by the Hon'ble Chief Minister's emphasis on promoting the IT sector, more than 70 IT Parks with floor space exceeding 20 million square feet are coming up in the private sector in and around Chennai.

73. In order to complement the State's pre-eminence in software, this Government has aggressively encouraged global electronic manufacturing services to locate in Tamil Nadu. The decision by Nokia and Flextronics to establish manufacturing facilities near Chennai has made Chennai the most attractive electronic manufacturing zone.

74. The Hon'ble Chief Minister believes that the Information and Communications Technology Revolution has no meaning if it does not touch the lives of the poor. In order to take the fruits of this revolution to the common people, an ambitious programme to set up Village Resource and Services Centre in every Panchayat has been launched. Comprehensive 'e-Governance' initiatives launched by the Hon'ble Chief Minister in 10 critical departments with extensive public interface will show marked improvement in the quality of public service delivery. The Interim Budget for 2006-2007 has a total provision of Rs. 18.66 crores for Information Technology.

### **Tourism Development**

75. This Government rightly deserves the credit for tapping the rich tourism potential of the State for generating employment opportunities for the people. While expenditure on tourism development was just Rs. 5.22 crores in 2000-2001, the total provision in the Interim Budget 2006-2007 has gone up to Rs. 42.33 crores. 194 schemes have been implemented during the last five years for development of tourism infrastructure with an outlay of Rs. 133 crores.

76. Aggressive marketing of Tamil Nadu as a pre-eminent tourism destination in the South coupled with substantial investments for upgrading tourism infrastructure has increased annual tourist arrivals to the State. In accordance with

the 7-Point Action Plan outlined by the Hon'ble Chief Minister, this Government is making concerted efforts to develop heritage tourism in places like Chettinadu and Pulicat. Towns such as Kazhugumalai, Thirukurugudi, Devipattinam and Thiruppudaimarathur are being developed as rural tourism centres.

### **POVERTY REDUCTION**

77. Tamil Nadu has taken the lead in conceptualizing and putting into action two innovative programmes which will make a significant impact on the quality of life of the poor in Tamil Nadu.

78. The pioneering Pudhu Vazhvu Project launched by this Government with an outlay of Rs. 717 crores with funding assistance from the World Bank has been taken up in 15 districts. This scheme envisages provision of livelihood support to disadvantaged families to improve their economic condition. The Interim Budget for 2006-2007 has a provision of Rs. 162.10 crores for this programme.

79. Another comprehensive programme that reaches out to three lakh ultra poor in all Village Panchayats aims at providing support to the poorest of the poor households by addressing their core social security concerns such as food security, access to medical, health care facilities etc. The Interim Budget for 2006-2007 has a provision of Rs. 20 crores for this Scheme.

### **COMPREHENSIVE SOCIAL SECURITY NET**

80. The people of Tamil Nadu are witness to the determined efforts made by the Hon'ble Chief Minister in planning and implementing a comprehensive social safety net. As it

becomes clearer now, this laudable action of the Hon'ble Chief Minister has protected the poor and the deprived from the rigours of extreme droughts and floods. This safety net has been protected and upgraded despite the fiscal adjustment which had to be undertaken. The Interim Budget for 2006-2007 has a record provision of Rs. 8117.51 crores for the social safety net.

### **FOOD SECURITY**

81. Be it recurrent debilitating droughts, a devastating Tsunami or unprecedented torrential deluge, this Government has always stood by the people, extending a helping hand at all times. It is this sense of missionary zeal that has prevented any starvation death in Tamil Nadu during the entire term of this Government.

82. The Hon'ble Chief Minister merits all praise for ensuring that all households in the State receive ration cards. For the first time ever, this Government has ensured that every household receives a ration card. 1.88 crore families have now received ration cards after the difficult process of issue of new ration cards and renewal of old ration cards was completed. This Government has adopted a universal access system to the Public Distribution System (PDS). All those wanting to take rice from the PDS have been enabled to do so. Thus, out of 1.88 crore ration cards issued, 1.76 crore households have opted to take rice. This has resulted in a huge increase in the offtake of rice under the PDS. The provision of Rs. 1200 crores for food subsidy in the Revised Estimates 2005-2006 will go up to Rs. 1500 crores in 2006-2007. This is consequent to the decision of Government of India to increase the Central Issue Price of rice for the Above Poverty Line Category from Rs. 8.30 per Kg to Rs. 9.15 per Kg and reduce the per card allotment of rice for all categories. As the burden of the price increase has been entirely passed on

to the State Government, our Hon'ble Chief Minister has immediately urged the Union Government to withdraw this measure.

### **NUTRITION**

83. Tamil Nadu is the first State in the country to have adopted a 'Whole-Life Cycle approach to Supplementary Nutrition' by facilitating quality nutrition security for expectant mothers, infants, children and the aged. The Interim Budget 2006-2007 has a total provision of Rs. 559.76 crores for the Puratchi Thalaivar MGR Nutritious Noon Meal Programme. The overall outlay for nutrition in the Interim Budget 2006-2007 is Rs. 865.85 crores.

### **WELFARE OF WOMEN**

84. Women's empowerment in Tamil Nadu has scaled new heights under the inspiring leadership of the Hon'ble Chief Minister, Puratchi Thalaivi J Jayalalithaa. Hon'ble Members will agree that no other Chief Minister has done so much for empowerment and development of women as our beloved leader. The revolutionary Cradle Baby Scheme and Girl Child Protection Scheme have played an important role in turning the social conscience against female foeticide and infanticide for providing a life of dignity to the girl child. The Interim Budget for 2006-2007 has a provision of Rs.75 crores for the Girl Child Protection Scheme. The Hon'ble Chief Minister's emphasis on girl child education and economic empowerment through the pioneering Women Self Help Group Movement has helped create opportunities for women to better the quality of their lives.

**WELFARE OF ADI DRAVIDAR AND TRIBAL COMMUNITIES**

85. This Government has accorded the highest priority to the welfare of Adi Dravidar and Tribal Communities. While a multi-dimensional package of schemes has been implemented to facilitate socio-economic empowerment, the main thrust has been on improving educational access. The expenditure on Adi Dravidar and Tribal Welfare which was Rs. 350.20 crores in 2001-2002 has gone up to Rs. 499.54 crores in the Interim Budget 2006-2007.

86. This Government's massive programme to provide own buildings to 493 Hostels functioning from rented premises with an outlay of Rs. 155 crores has enhanced access to quality education for children belonging to Adi Dravidar and Tribal Communities. The Hon'ble Chief Minister has already fulfilled the promise of providing free education up to the post graduate level to girls belonging to Adi Dravidar and Tribal Communities. The decision to convert the loan scholarship scheme into a grant based programme has been widely welcomed. This has benefited over 32,000 students at a cost of Rs. 22 crores.

**WELFARE OF BACKWARD CLASSES, MOST BACKWARD CLASSES, DENOTIFIED COMMUNITIES AND MINORITIES**

87. As against an expenditure of Rs. 121.26 crores in 2001-2002, the Interim Budget 2006-2007 has a provision of Rs. 306.61 crores for the Welfare of Backward Classes, Most Backward Classes, Denotified Communities and the Minorities.

88. This Government's massive programme to provide Government buildings to 761 Hostels with an outlay of Rs. 235 crores is an important milestone in our endeavour to enhance access to quality education for students from these communities. The Rewards-Incentive Scheme for rural girl students from the

Most Backward Classes and Denotified communities studying in Classes I-VI has helped in reducing school drop out rates. A provision of Rs. 6 crores has been made in the Interim Budget 2006-2007 for this programme.

### **WELFARE OF WEAVERS**

89. A comprehensive scheme for encouraging handloom weavers to produce value-added export quality products is under implementation with an outlay of Rs. 25 crores. Thanks to the efforts of this Government, over 1200 new designs in handloom fabrics have been introduced which have spurred the sale of handloom products resulting in improved incomes for the weavers. Cooptex has been restructured and strengthened. The Interim Budget 2006-2007 has a provision of Rs. 4 crores for the New Medical Insurance Scheme for weavers.

90. A record number of 1.64 crore sarees and 1.64 crore dhotis are being distributed free of cost among the poor during Pongal this year. The Revised Estimates 2005-2006 includes a provision of Rs. 256 crores for this scheme. The total budgetary expenditure on Handloom, Handicrafts, Textiles and Khadi which was Rs. 230.70 crores in 2001-2002 has increased to Rs. 467.99 crores in the Revised Estimates 2005-2006.

### **TAMIL DEVELOPMENT, ART AND CULTURE**

91. Introduction of Scientific Tamil in all categories of schools from LKG to Class XII by the Hon'ble Chief Minister has ensured that no child in Tamil Nadu leaves school without learning Tamil. This Government has sanctioned Rs. 24.37 lakhs to convert the house of "Tamil Thatha" Dr. U. Ve. Swaminatha Iyer in Uthamathanapuram as a memorial.

92. This Government has erected several Memorials and Statues to honour and perpetuate the memory of Tamil Nadu's selfless and noble leaders. Manimandapams in the memory of Veeran Azhagu Muthukon at Kattarangulam in Thoothukudi District and Kappalottia Thamizhan V.O. Chidambaranar at Tirunelveli have been constructed at a cost of Rs.1.03 crores. A memorial pillar and Manimandapam for Perunthalaivar Kamarajar have been constructed at a cost of Rs. 14 lakhs in Virudhunagar. The Dr. MGR Museum has been set up at the Bharat Ratna Dr. MGR Memorial in Chennai at a cost of Rs. 38.50 lakhs.

93. Construction of Manimandapam for Omandur Ramasamy Reddiar in Omandur Village, Mootharignar Rajaji in Mornapalli, Theeran Chinnamalai in Odanilai and Adhiyaman Kottam at Adhiyaman Kottai in Dharmapuri District have been taken up. Construction of memorials/ manimandapams for Rettaimalai Seenivasan in Chennai, Pasumpon Muthuramalinga Thevar in Thirunagar at Madurai, Vellaiya Thevan in Vallanadu, Thiru Sundaralingam at Govarnagiri in Thoothukudi, Devaneyya Pavanar in Madurai, Umaru Pulavar in Ettayapuram and renovation of the ancestral house of C. Pa. Adhitanar as a memorial in Srivaikundam village in Thoothukudi district are in progress.

94. A bust size bronze statue of Thiruppur Kumaran has been installed at his memorial site in Thiruppur. Action has been taken to install a life size statue for Thyagi Shenbagaraman in the Gandhi Mandapam Campus, Chennai. Memorials for Desinguraja in Kadali Village and Ariyakudi Ramanuja Iyengar in Karaikudi are being taken up for construction by this Government.

### **WELFARE OF JOURNALISTS**

95. The Hon'ble Chief Minister has enhanced the pension paid under the Journalist Welfare Scheme from Rs. 2000 to Rs. 3000. The family pension has been increased from Rs. 500 to Rs. 1500 under this scheme. The assistance to families of journalists who die in harness after putting in 20 years of service has been enhanced four times from Rs. 50,000 to Rs. 2 lakhs.

### **WELFARE OF GOVERNMENT EMPLOYEES**

96. This Government has always believed that the welfare of the people, particularly the poorest of the poor, constitutes the core of the governance agenda. Our employees are the backbone of the State's public service delivery system, playing a vital role in achieving the development objectives of the Government. It is this compact between the State, the people and the Government employees that the Hon'ble Chief Minister has always assiduously nurtured. While our employees do deserve a better quality life, the development needs of the people are paramount. It shall be the continued endeavour of this Government to implement measures aimed at improving the quality of life and efficiency of its employees.

### **FISCAL PROJECTIONS**

97. The Revised Estimates for the year 2005-2006 have been placed before this House. The Revenue Deficit, which was projected at Rs. 1404 crores in the Budget Estimates for the current financial year has been brought down to a level of Rs. 360 crores in the Revised Estimates 2005-2006. The Overall Deficit has also been reduced from Rs. 260.41 crores in the Budget Estimates 2005-2006 to Rs. 10.18 crores in the Revised Estimates 2005-2006.

98. The Total Revenue Receipts of the Government have increased from Rs. 30,251.53 crores in the Budget Estimates 2005-2006 to Rs. 32,904.14 crores in the Revised Estimates of the current financial year. The Total Revenue Expenditure has gone up to Rs. 33,264.14 crores in the Revised Estimates 2005-2006 as against Rs. 31,655.53 crores projected in the Budget Estimates 2005-2006. This is mainly on account of expenditure related to disaster relief.

99. The trend towards progressively reducing the Revenue Deficit over the years has been maintained despite an increase in the Revenue Expenditure. This Government, under the astute and dynamic leadership of the Hon'ble Chief Minister Puratchi Thalaivi can legitimately take pride in having corrected the fiscal chaos of 2001 and restored order and balance in the management of public finances.

100. The Interim Budget Estimates for the year 2006-2007 are also before the House. The Total Revenue Expenditure is projected at Rs. 34,253.56 crores as against Total Revenue Receipts of Rs. 34,046.29 crores leaving a small uncovered gap of Rs. 207.27 crores as Revenue Deficit. The Overall Deficit at the end of the financial year 2006-2007 has been estimated at Rs. 5.57 crores. The Fiscal Deficit for 2006-2007 is projected at Rs. 5570.14 crores which constitutes 2.35% of the GSDP.

101. Hon'ble Members will appreciate that this is the third Tax-free Budget of this Government in succession. The fact that the fiscal turnaround in Tamil Nadu has been achieved without imposition of any new taxes for three consecutive years is the most remarkable achievement of this Government. The Hon'ble Chief Minister's commitment to ensuring full fiscal turnaround without imposing any burden on the common people stands

realized. The Overall Deficit projected in the Interim Budget Estimates will be handled through effective and prudent management of public finances.

102. I take this opportunity to convey my heartfelt gratitude to Hon'ble Chief Minister Puratchi Thalaivi J Jayalithaa for guiding me in the preparation of all the Budgets of this Government in the last five years.

103. I also convey my gratitude to Thiru K. Gnanadesikan, IAS, Secretary, Finance and his team for their assistance in the preparation of this Budget.

104. With these words, Hon'ble Speaker Sir, I commend the Interim Budget Estimates 2006-2007 for the approval of the House.

**Vanakkam**

**C. PONNAIYAN,**  
MINISTER FOR FINANCE

Chennai,  
20<sup>th</sup> January 2006  
Thai-7,  
Thiruvalluvar Aandu 2037

## **APPENDIX**

### **MEDIUM TERM FISCAL PLAN**

1. The mandate of a popular Government is to create opportunities for its people by providing social and physical infrastructure. When this Government assumed office in May 2001, the Government was forced to scale down the development outlay from Rs. 6040 crores to Rs. 5200 crores because of the unprecedented fiscal crisis, while liabilities of unpaid commitments of Rs.4000 crores were yet to be settled. Performing the outlays on the social safety net in full became an uphill task and the real threat was the possibility of even cutting down the existing allocations for the social safety net.
2. The fiscal crisis faced by the State was something never experienced before. The State's debt burden went up from 16% of GSDP to a danger level of more than 25%. This meant that there was no scope for borrowing more to tide over the liquidity crisis. The interest payment of the State which was around 12% of the Total Revenue Receipts went up to more than 19%, indicating that one fifth of the State's income was being used to honour the commitment on past borrowings.
3. This Government decided to frame a Medium Term Fiscal Plan with the objective of facilitating higher economic growth which, in turn, will create enough fiscal space to create opportunities for the disadvantaged and the needy to

participate in the growth process and thereby fulfilling the objective of growth with equity.

4. The Government enacted the Fiscal Responsibility Act 2003 with further amendments in 2004 and 2005 to align it with the requirement prescribed by the Twelfth Finance Commission. According to Section 3 (1) of this Act, the State Government is required to place before the Legislative Assembly a Medium Term Fiscal Plan (MTFP) along with the Budget. Section 3 (2) of this Act requires that the MTFP shall set forth a multi-year rolling target for the prescribed fiscal indicators while specifying the underlying assumptions. Accordingly, a Medium Term Fiscal Plan was presented in the Legislative Assembly with the Budget 2005-2006 with multi year rolling targets.
5. Based on the current fiscal trends an updated Medium Term Fiscal Plan has been prepared with revised projections for the period 2006-2009 and is placed before the Legislative Assembly. Table-III which is annexed sets out the MTFP for the period ending 2008-2009.

### **Objectives**

6. In 2003-2004 the State was able to reduce the Revenue Deficit as a percentage of the Total Revenue Receipts to 6.6%. This was a major correction when compared to the level of 23.28% in 2002-2003. The fiscal consolidation was sustained in 2004-2005 without imposing any new taxes. The ratio of Revenue Deficit to the Total Revenue Receipts was further brought down to 2.47% in 2004-2005. This shows that the State has achieved the requisite correction of bringing down the ratio of Revenue Deficit to Total Revenue Receipts

to a level below 5% well before the target year 2007-2008. The State will strive to further reduce the ratio of Revenue Deficit to Total Revenue Receipts and the MTFP envisages making the State revenue surplus by 2008-2009. This is also in line with the target prescribed by the Twelfth Finance Commission. This is to be achieved by controlling non-productive revenue expenditure, debt management and enhanced Revenue Receipts through tax reforms and ensuring better compliance.

7. The fiscal deficit as a percentage of GSDP was 3.28% in 2003-2004 which was brought down to 2.95% in 2004-2005. Thus the target fixed in the Fiscal Responsibility Act, 2003 has been achieved well before the target year of 2007-2008. The MTFP envisages maintaining it below 3% in the following years as well. The reduction in fiscal deficit has been mainly achieved by the correction in the Revenue account while at the same time enhancing the outlays on maintenance of assets and provisions for social safety net. Simultaneously the capital expenditure has been enhanced.
8. The Revenue Deficit as a percentage of Fiscal Deficit was alarmingly high at 81.75% in 1999-2000. This ratio has been reduced to a level below 13% in 2004-2005 and it will be further reduced so as to create fiscal space for spending on human development and infrastructure.
9. The outstanding guarantees for each year have to be capped at a level below 100% of the Total Revenue Receipts in the preceding year or below 10% of GSDP, whichever is lower. The outstanding risk weighted guarantees for each year will

be capped at a level below 75% of the Total Revenue Receipts in the preceding year or at 7.5% of GSDP, whichever is lower. During 2004-2005 the outstanding guarantees was 27.34% of Total Revenue Receipts and 4.12% of GSDP. The outstanding risk weighted guarantees was 9.37% of Total Revenue Receipts and 1.41% of GSDP in 2004-2005. The Government has decided to eliminate all existing off budget borrowings by bringing them into the consolidated fund and thereby the existing guarantees will further be brought down.

10. Fiscal correction envisaged in the Medium Term Fiscal Plan lays emphasis on fiscal consolidation with improving the quality of expenditure by increasing the Capital outlay, providing sufficient provision for maintenance of assets as per the Twelfth Finance Commission guidelines and increasing the social sector outlay. Capital expenditure as a percentage of Gross State Domestic Product (GSDP) was at 1.05 % in 2002-2003. It is proposed to increase this ratio to 2.3% in the Interim Budget Estimates 2006-2007. With the near elimination of Revenue Deficit, the entire Fiscal Deficit will be only on account of financing the capital expenditure.

### **Evaluation of performance**

11. Table I indicates the fiscal turnaround of the State and it clearly shows a better future complying with the targets set under the MTFP presented with the Budget 2005-2006.

**Table I- Recent fiscal situation**

| Accounting year  | 2001-02         | 2002-03            | 2003-04              | 2004-2005            | R.E.<br>2005-2006     | I.B.E.<br>2006-2007 |
|--|-----------------|--------------------|----------------------|----------------------|-----------------------|---------------------|
|  | (Rs. in crores) |                    |                      |                      |                       |                     |
| Revenue Deficit  | 2739 *          | 4851 <sup>#</sup>  | 1565                 | 703                  | 360                   | 207                 |
| Fiscal Deficit   | 4739            | 6742               | 5591 <sup>@</sup>    | 5570 <sup>@</sup>    | 5441 <sup>\$</sup>    | 5570                |
|  | (Percentage)    |                    |                      |                      |                       |                     |
| Revenue Deficit over Total Revenue Receipts                              | 14.56 *         | 23.28 <sup>#</sup> | 6.60                 | 2.47                 | 1.09                  | 0.6                 |
| Revenue Deficit over Fiscal Deficit                                      | 57.80 *         | 71.95 <sup>#</sup> | 27.99 <sup>@</sup>   | 12.62 <sup>@</sup>   | 6.62 <sup>\$</sup>    | 3.72                |
| Fiscal Deficit over Gross State Domestic Product                         | 3.30            | 4.36               | 3.28 <sup>@</sup>    | 2.95 <sup>@</sup>    | 2.57 <sup>\$</sup>    | 2.35                |
| Interest payments over Total Revenue Receipts                            | 18.67           | 19.84              | 19.82                | 16.71                | 14.27                 | 15.46               |
| Capital Expenditure (Rs. In crores)                                      | 1777.91         | 1627.54            | 3589.90 <sup>@</sup> | 4563.96 <sup>@</sup> | 4843.18 <sup>\$</sup> | 5334.54             |
| Source: Finance Accounts by CAG and Annual Financial Statement 2006-2007 |                 |                    |                      |                      |                       |                     |

(\* The Revenue Deficit in 2001-2002 was artificially compressed because the State Government was unable to clear all its expenditure commitments before the close of the financial year)

(# The Revenue Deficit in 2002-2003 is high due to the conversion of arrears owed by TNEB to Central utilities amounting to Rs.1962.14 crores as a subsidy to the TNEB. Correspondingly the debt of the Government goes up as the Government has to discharge these liabilities. Excluding this, the Revenue Deficit over Total Revenue Receipts in 2002-2003 is 13.86%.)

(@ The fiscal deficit in 2003-2004 and 2004-2005 includes adjustment of prior period capital expenditure amounting to Rs. 1423.38 crores and Rs.1364.65 crores respectively. Correspondingly the debt of the Government goes up as the Government has to discharge this liability. Excluding this, the fiscal deficit over GSDP in 2003-2004 and 2004-2005 is 2.44% and 1.93% is respectively whereas Revenue Deficit over fiscal deficit in 2003-2004 and 2004-2005 is 37.56% and 8.83% respectively.)

(\$ The fiscal deficit in R.E. 2005-2006 includes adjustment of prior period capital expenditure amounting to Rs. 224.90 crores met from off budget borrowings. Correspondingly the debt of the Government goes up as the Government has to discharge this liability. Excluding this, the fiscal deficit over GSDP in R.E.2005-2006 is 2.47 % and Revenue Deficit over fiscal deficit is 6.90 %.)

## **Future Prospects**

### **Revenue Receipts**

#### **Share in Central Taxes**

12. The State's share in the divisible pool of Central Taxes has been reduced from 5.385% to 5.305% for the Twelfth Finance Commission award period 2005-2010. However in view of the increase in size of the total divisible pool from 29.5% to 30.5% the effective share of the State will be marginally better at 1.618% when compared to 1.598% during 2000-2005. The assumptions made in the Medium Term Fiscal Plan are based on the corrected devolution formula. The Budget Estimates of 2005-2006 of Government of India for tax devolution has been retained in the Revised Estimates 2005-2006 and a nominal growth of 12% in the tax devolution to the State has been assumed during 2006-2007. For 2007-2008 and 2008-2009, 8% and 10% increase in the tax collection and subsequent devolution has been assumed respectively.

#### **State's Own Tax Revenues**

13. Tamil Nadu continues to have the distinction of highest Tax GSDP ratio in the country. This was even acknowledged by the Twelfth Finance Commission by giving the numero uno position for tax effort in the country to the State. The ratio of State's own tax revenues to the Gross State Domestic Product (GSDP) has further improved to 10.5% in the R.E. 2005-2006. This achievement is more praiseworthy in view of no increase in tax rates in the previous two financial years. This distinction has been achieved with focus on tax reform, simplification of procedure and transparency leading to better compliance.

14. The projections in the Medium Term Fiscal Plan in respect of Sales taxes are on the basis of existing rates and the existing structure. However, the receipts from Central Sales Tax have been projected with a reduced rate of 2% (down from 4%) for

the year 2006-2007 onwards. The growth in Sales tax collection for the current year has been assumed at around 15% over 2004-2005. The projection for 2006-2007 assumes a growth of 10% in the gross receipts but the net receipts have been shown as lower in view of the likely reduction in the rate of CST.

15. The receipt under Stamps and Registration fees is showing a growth of 12% during the current year. The projection for 2006-2007 assumes the same growth of 12%.
16. With the change in Excise policy, the growth in Excise receipts has been phenomenal at more than 18% during 2005-2006. As the base gets corrected the growth in future years has been assumed at about 8% in the MTFP.
17. The growth in receipt from Taxes on vehicles has been projected at 11% during the current year. Future year projections assume a growth of about 8%.

#### **Non-Tax Revenue**

18. User charges collection is outside the State Budget and the potential of raising non tax revenue is not much. Even receipts from royalty on minerals will stagnate if the Union Government does not revise the rates. As the debt financing of Public Sector Undertakings and Statutory Boards by the Government is on the decline, interest receipts will also show a declining trend during the MTFP period. Taking all these factors into account, the State's own Non-tax revenue has been projected to grow at about 2%.

#### **Grants in Aid from the Union Government**

19. The State Government does not have any say in the formula based grants as well as discretionary grants. The projections made under this category takes into account components recommended by the Twelfth Finance Commission and likely

grants on externally aided projects sanctioned before 2005-2006.

### **Revenue Expenditure**

20. Tamil Nadu has the highest percentage of State's Own Tax Revenue to GSDP in the country. In view of this, the correction required in the revenue account was mainly dependent on slowing down the growth of revenue expenditure. Tamil Nadu has been successful in controlling the pace of growth of revenue expenditure in spite of huge one time expenditure on account of Tsunami relief and the recent flood relief. The rate of growth of revenue expenditure has been brought down to about 14% in the Revised Estimates 2005-2006 from a high of 19.16% during 2002-2003.
21. This adjustment was possible through some restraint on overall salary and pension related expenditure. Expenditure on salaries and pensions, which reached a high of 102.85% of the State's Own Tax Revenues in 1999-2000, 93.18% in 2000-2001, 88.70% in 2001-2002, has now been stabilized at about 65%. Incidence of salaries and pensions expressed as a percentage of Total Revenue Receipts has also declined from a level of 68.78% in 1999-2000 to about 43% in R.E. 2005-2006.
22. The State has been very successful in bringing down the rate of growth of the interest commitment. Interest payments presented as a percentage of Total Revenue Receipts, after reaching the danger mark of about 20% has started coming down. This correction was achieved through swapping / foreclosing of high cost loans and also by good control and management of debt. It is the intention to continuously monitor the sustainability of debt. The MTFP envisages stabilising this ratio below 15% in view of the Twelfth Finance Commission's recommendation on debt relief to States.

## **Outcomes**

23. The State continues to outperform the targets fixed under the MTFP due to enhanced tax receipts, reduction in pace of growth of revenue expenditure and better management of debt. The fiscal space thus created has resulted in an unprecedented increase in the Capital outlay. The total capital expenditure is estimated at Rs. 5334.54 crores in the Interim B.E.2006-2007. This will be an increase of about 345% over the capital expenditure during 2000-2001.
24. Tamil Nadu has been able to provide for the maintenance of assets as per the Twelfth Finance Commission norms. With the correction in the overall fiscal situation, attention will be paid to providing adequate resources to priority sectors such as health and family welfare, education and nutrition.
25. The trends in the current year show that the rolling targets set out in the MTFP are well within reach and the State is well on its way to achieving fiscal consolidation.

## **REVIEW OF TRENDS IN RECEIPTS AND EXPENDITURES IN RELATION TO THE BUDGET 2005-2006**

26. According to Section 6 (2) of the Tamil Nadu Fiscal Responsibility Act, 2003 (Act No.16 of 2003), the Minister-in-charge of the Department of Finance shall review every half year, the trends in receipts and expenditure in relation to the Budget, remedial measures to be taken to achieve the Budget targets and place before the Legislative Assembly, the outcome of such reviews. Section 6 (3) of the Tamil Nadu Fiscal Responsibility Act, 2003, states that while placing before the Legislative Assembly the outcome of such review, the Minister shall make a statement explaining:
- a) Any deviation in meeting the obligations cast on the State Government under this Act,

- b) Whether such deviation is substantial and relates to the actual or the potential budgetary outcomes, and
- c) The remedial measures the State Government proposes to take.

27. The outcome of the review for the period ending September 2005 is placed below.

### REVENUE RECEIPTS

28. The Budget for 2005-2006 estimated Total Revenue Receipts at Rs.30,251.53 crores. According to the pre-actuals for the half year ending September, 2005, the Total Revenue Receipts of the State Government have been Rs. 14,915.64 crores. This is 49.30% of the Budget Estimates. For the corresponding period during 2004-2005, the receipts were 44% of the actuals for the full financial year. This shows that the revenue receipts projected in the Budget Estimates and further enhanced in the Revised estimates 2005-2006 will be achieved. The following table provides details of the components of the Total Revenue Receipts.

**Table II - TRENDS IN TOTAL REVENUE RECEIPTS OF GOVERNMENT OF TAMIL NADU UP TO 30.09.2005**

|   | Items                                  | B.E.<br>2005-2006      | PRE -<br>ACTUALS<br>TILL<br>30.09.2005 | % OF<br>BUDGET<br>ESTIMATES |
|---|--|------------------------|--|-----------------------------|
|   |  | <b>(Rs. in Crores)</b> |  |                             |
| 1 | Share in Central Taxes                 | 4,672.46               | 2,160.10                               | 46.23                       |
| 2 | State's Own Tax Revenues               | 20,650.83              | 11,205.87                              | 54.26                       |
| 3 | State's Non-Tax Revenues               | 2,101.41               | 997.50                                 | 47.47                       |
| 4 | Grants-in-Aid from Government of India | 2,826.83               | 552.17                                 | 19.53                       |
| 5 | <b>Total Revenue Receipts</b>          | <b>30,251.53</b>       | <b>14,915.64</b>                       | <b>49.30</b>                |

29. The above table clearly shows that except Grants in Aid from the Government of India, State's own revenue (tax and non-tax) is doing well and is keeping to the target. The bulk of the Grants in aid are expected in the second half of the financial year. State's own tax revenue in the first half of the financial year, according to pre-actuals, is showing a growth of 23.33%.

### **EXPENDITURE**

30. The Budget 2005-2006 provides Rs.31,655.53 crores towards Revenue Expenditure. Further, the First Supplementary Estimates 2005-2006 provides Rs.1374.62 crores towards Revenue Expenditure. The Revenue expenditure till the end of September 2005, according to pre-actuals, is estimated at Rs.13,813.63 crores. This is 43.64 percent of the Budget Estimates 2005-2006. The Revenue expenditure in the first half of the previous financial year was Rs.12056.75 crores. Thus, the growth of Revenue expenditure during the first half of the current financial year is 14.5%.

31. The Budget Estimates 2005-2006 provides Rs.4791.64 crores towards Capital expenditure and Rs.154.94 crores towards Loans and Advances (net). The First Supplementary Estimates 2005-2006 provides Rs.544.63 crores towards Capital and Loan expenditure. The Capital expenditure excluding Loans and Advances (Net) till the end of September 2005, according to the pre-actuals, is estimated at Rs. 1648 crores which is 36.11% of the Budget Estimates 2005-2006.

TABLE - III : MEDIUM TERM FISCAL PLAN

| January, 2006   | 2004-2005<br>Projection | 2004-2005<br>Accounts | 2005-2006<br>Projection | 2005-06<br>(R.E.) | 2006-07<br>Pr |
|---|-------------------------|-----------------------|-------------------------|-------------------|---------------|
| <b>Total Revenue Receipts (TRR)</b>                           | <b>24038.94</b>         | <b>28159.34</b>       | <b>26608.79</b>         | <b>32653.29</b>   | <b>3</b>      |
| <b>State's Own Revenues (SOR)</b>                             | <b>18585.27</b>         | <b>21273.20</b>       | <b>20283.29</b>         | <b>24357.23</b>   | <b>2</b>      |
| <b>Tax (SOTR)</b>   | 17159.12                | 19357.04              | 18788.36                | 22163.94          | 2             |
| <b>Non- Tax</b>   | 1426.15                 | 1916.16               | 1494.93                 | 2193.29           |               |
| <b>Central Transfer</b>                                       | <b>5453.67</b>          | <b>6886.14</b>        | <b>6325.50</b>          | <b>8296.06</b>    |               |
| <b>Shared Taxes</b>   | 3709.81                 | 4236.39               | 4407.26                 | 5041.21           |               |
| <b>Grants-in-aid</b>  | 1743.86                 | 2649.75               | 1918.24                 | 3254.85           |               |
| <b>Total Revenue Expenditure</b>                              | <b>27433.85</b>         | <b>28862.68</b>       | <b>29505.33</b>         | <b>33013.30</b>   | <b>3</b>      |
| <b>Non- Interest Expenditures</b>                             | <b>25532.17</b>         | <b>28980.17</b>       | <b>27252.21</b>         | <b>33406.21</b>   | <b>3</b>      |
| <b>Salaries (incl. GIA for education)</b>                     | 9145.03                 | 8429.51               | 9611.40                 | 9551.45           | 1             |
| <b>Pensions &amp; Retirement Benefits</b>                     | 4520.21                 | 3919.17               | 5213.42                 | 4680.79           |               |
| <b>Non- Wage Operation &amp; Maintenance</b>                  | 2741.54                 | 3608.34               | 2912.58                 | 4389.02           |               |
| <b>Subsidies and Transfers</b>                                | 5727.75                 | 8153.50               | 5940.76                 | 9656.19           |               |
| <b>Other Revenue Expenditures</b>                             | 28.10                   | 3.23                  | 29.51                   | 45.08             |               |
| <b>Capital Outlay</b>   | 2945.14                 | 4563.96               | 3275.14                 | 4846.38           |               |
| <b>Net Lending</b>  | 424.40                  | 302.46                | 269.40                  | 237.29            |               |
| <b>Fiscal indicators</b>                                      |                         |                       |                         |                   |               |
| <b>Primary Surplus (+)/ Deficit (-)</b>                       | <b>-1493.23</b>         | <b>-820.83</b>        | <b>-643.42</b>          | <b>-752.91</b>    |               |
| <b>Interest Payments</b>                                      | 5271.22                 | 4748.93               | 5797.66                 | 4690.76           |               |
| <b>Interest Payments over TRR</b>                             | <b>21.93%</b>           | <b>16.86%</b>         | <b>21.79%</b>           | <b>14.37%</b>     |               |
| <b>Revenue Surplus (+)/Deficit(-)</b>                         | <b>-3394.91</b>         | <b>-703.34</b>        | <b>-2896.54</b>         | <b>-360.00</b>    |               |
| <b>Revenue Surplus (+)/Deficit(-) over TRR</b>                | <b>-14.12%</b>          | <b>-2.50%</b>         | <b>-10.89%</b>          | <b>-1.10%</b>     |               |
| <b>Revenue Surplus (+)/Deficit(-) over Fiscal Deficit</b>     | <b>50.19%</b>           | <b>12.63%</b>         | <b>44.97%</b>           | <b>6.61%</b>      |               |
| <b>Fiscal Surplus (+)/Deficit(-) (Adjusted)</b>               | <b>-6764.45</b>         | <b>-5569.76</b>       | <b>-6441.08</b>         | <b>-5443.68</b>   |               |
| <b>Fiscal Surplus (+)/Deficit(-) (Adjusted) over GSDP</b>     | <b>-3.8%</b>            | <b>-2.9%</b>          | <b>-3.3%</b>            | <b>-2.6%</b>      |               |
| <b>Gross State Domestic Product (GSDP)</b>                    | <b>179309.17</b>        | <b>188921.00</b>      | <b>194550.45</b>        | <b>211591.52</b>  | <b>23</b>     |
| <b>Annual Growth -GSDP</b>                                    | <b>8.0%</b>             | <b>12.2%</b>          | <b>8.5%</b>             | <b>12.0%</b>      | <b>9</b>      |
| <b>CONSOLIDATED ACCOUNTS *</b>                                |                         |                       |                         |                   |               |
| <b>Consolidate Revenue Surplus (+) / Deficit (-)</b>          | -3879.82                | -1808.84              | -2273.92                | -1745.93          | -2            |
| <b>Consolidated Fiscal Surplus (+)/ Deficit (-)</b>           | -8245.80                | -8131.94              | -7090.95                | -8324.91          | -8            |
| <b>Consolidated Fiscal Surplus (+)/ Deficit (-) over GSDP</b> | <b>-4.60%</b>           | <b>-4.30%</b>         | <b>-3.64%</b>           | <b>-3.93%</b>     | <b>-3</b>     |

\* This includes financial performance of the Tamil Nadu Electricity Board along with the State Budget.

These estimates and actuals will not tally with the Finance Accounts and The Annual Financial Statement as these are adjusted nur