TN2035

THE BUDGET & VISION REPORT, 2026, EDITION I

Tamil Nadu Budget 2026-27: Does it build the vision?

Tracking the journey to TN2035.

Does the first budget of the new government lay a credible financial blueprint for the TN2035 vision, and the milestone of a US$1.5 trillion economy by 2036?

7.5/10 TN2035 ALIGNMENT INDEX
A strong first blueprint

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An independent analysis. Budget presented 5 August 2026. Every figure verified against the official budget speech.

WHY THIS REPORT EXISTS

Every budget tells two stories.

One story is about money. The other is about ambition. The numbers fill hundreds of pages, yet the vision can be read in a handful of priorities. The first budget of Tamil Nadu's new government is more than an accounting exercise. It is the first signal of where the state means to be a decade from now.

The question is not how much has been allocated. The real question is whether these allocations create a **credible pathway** towards the state's own stated aspiration: a US$1.5 trillion economy by 2036, built on inclusive growth. That is the lens this report applies. Not politics, not a line-by-line news summary, but a strategic assessment of whether the budget builds the *engine* that a trillion-dollar innovation economy requires.

A trillion-dollar economy is an outcome. The engine that produces it is the ecosystem: startups and deep-tech, infrastructure, environment, safety, clean governance, and human capital.

TN2035 tracks the engine. This report scores the budget against nine pillars of that engine, and asks one question of each: does the money move Tamil Nadu closer to the vision?

A note on method. Every figure in this report is drawn from the official budget speech of 5 August 2026 and verified against the document, page by page. Where a widely-quoted number is *not* in the budget, we say so. Where the budget is strong, we say so plainly. Where it is thin, we say that too, and offer a specific recommendation drawn from what other states and countries have actually done and succeeded at. That is the discipline of an honest scoreboard. This is the first of an annual series. *Atoms and bits.* One honest edition at a time.

> **A note from the author.** *I am not an economist. I am a citizen and an entrepreneur who has spent a lifetime in business industry. These points are offered in good faith, in the interest of Tamil Nadu's future, not as expert prescription.*

PART 1 The Vision

TN2035 is a simple proposition: that Tamil Nadu can become **Asia's next innovation capital by 2035**, a state that builds both the *atoms* (world-class manufacturing) and the *bits* (world-class technology), across the whole state, funded and sold from within.

The government's own long-term document, **"Vetrith Tamizhagam, Vision Plans"** [budget p.5 to 6], shares that horizon almost exactly. It is built on the Tamil framework of *aram, porul, inbam* (righteousness, wealth, wellbeing), organised into ten pillars with targets grouped into first, third and fifth-year milestones. Its headline economic goal, a **US$1.5 trillion economy by 2036**, is the state's official version of the same north star TN2035 has championed, one year apart.

> **An honest note on the "ten pillars":** the budget refers to ten pillars but does *not* enumerate them as a list. This report therefore assesses the budget against **nine pillars of the innovation-economy engine**, the dimensions that actually determine whether a $1.5 trillion outcome is reachable.

The nine pillars this report scores

PILLAR	WHY IT DECIDES THE VISION
1 · Economy & the $1.5T destination	The growth engine and the industrial base that must treble in a decade.
2 · Startup & innovation (atoms and bits)	Deep-tech, AI, semiconductors, startups, where new value is created.
3 · Human capital & skills	The talent that fills every job the vision creates.
4 · Infrastructure	The roads, power, metro and logistics that carry the economy.
5 · Environment & sustainability	Whether growth is durable: energy, water, climate, green industry.
6 · Safety & social security	The social floor that makes growth inclusive and stable.
7 · Governance & ease of doing business	Whether capital and enterprise find the state easy to trust.
8 · Beyond Chennai / regional balance	Whether the whole state grows, or only its capital.
9 · Fiscal credibility	Whether the state can actually afford the vision it professes.

PART 2 The Economic Destination

Why US$1.5 trillion by 2036, and is it real? Start with where Tamil Nadu is. The state's economy (GSDP) reached **₹31.19 lakh crore in 2024-25**, growing a decade-high near 16% in nominal terms and 11.19% in real terms, the fastest-growing large state in India, and contributing 9.4% of national GDP. It is projected at **₹36.57 lakh crore (2025-26)** and **₹41.03 lakh crore (2026-27)**, roughly **US$0.49 trillion** today.

~$0.49T	~3x	~12%/yr
TN economy today (2026-27, ₹41 lakh cr)	Expansion needed to reach $1.5T by 2036	Nominal growth required, sustained for a decade

So the destination is ambitious but not fantasy. Tamil Nadu already aims to cross **$1 trillion by 2030**, and $1.5 trillion by 2036 extends that same trajectory. Reaching it needs roughly a **threefold expansion in ten years, about 12% nominal growth every year**, sustained (more, in dollar terms, if the rupee weakens). The state grew near 16% nominally in 2024-25, so the pace is achievable, *if* the engine keeps firing.

> **The gap between ambition and arithmetic is not the target. It is the engine. A 12%-a-year decade is not won by welfare or announcements. It is won by investment, productivity, innovation and exports compounding together.**

Which sectors must carry it

A $1.5 trillion Tamil Nadu cannot be built on any single sector. It needs manufacturing to deepen (electronics, EV, aerospace, semiconductors), services and IT to scale (the state already exports **₹2.5 lakh crore of IT** a year and employs over 20 lakh in it), MSMEs to modernise (43.47 lakh of them, third-most in India), and a new layer, **deep-tech and AI**, to create the high-value jobs of the next decade. The budget, as Part 4 shows, reaches for all of these. The question is whether it reaches far enough.

PART 3 The First Budget: an honest reckoning

The most striking thing about this budget is not a scheme. It is a posture. The government opens not with celebration but with a **White Paper on Financial Management** (released 16 June 2026) [p.125], stating plainly that the state's debt **doubled in five years to reach ₹10 lakh crore**, and that Tamil Nadu lags peer states on own-tax-to-GSDP, revenue deficit and fiscal deficit [p.7].

That candour matters, because it is the same diagnosis TN2035's *first* Scoreboard reached from independent government data: Tamil Nadu's binding constraints are **funding and market access**, not ideas or engineers. The budget confirms it from the inside.

The fiscal position (2026-27 Revised Estimates)

INDICATOR	₹ CRORE	READ
Total revenue receipts	3,50,027	Own revenue 72.7%, a self-reliant base
Total revenue expenditure	4,05,802	Outstrips receipts, hence a revenue deficit
Revenue deficit	**55,775**	The state still borrows to run, not just to build
Capital expenditure	56,985	Modest against a $1.5T ambition
Fiscal deficit	1,21,819	3.00% of GSDP, within the FRBM limit
Outstanding debt	10,98,768	27.01% of GSDP

The reform response is serious: a **Revenue Augmentation Committee under Montek Singh Ahluwalia** [p.11, 128], a parallel Expenditure Reform Committee, faceless GST and registration expected to add **near ₹15,000 crore**, and a candid admission that fiscal consolidation will take at least two years. This is the budget's central tension: **real reform intent, but limited fiscal room.** A persistent revenue deficit and modest capital spending sit under every ambition that follows.

PART 4 Vision meets Budget: the Alignment Scorecard

Each pillar is scored on the **TN2035 Alignment Score** (out of 10): how far the budget's actual allocations and policy direction move the state toward the vision. The average is the **TN2035 Alignment Index.**

#	PILLAR	SCORE	ANCHOR SCHEMES IN THE BUDGET
1	Economy & $1.5T destination	7.5	New Industrial Policy; ₹35,062 cr MoUs, 14,790 jobs [p.55]
2	Startup & innovation (atoms and bits)	7.0	Arivagam AI & Deep-Tech city; TN AI Mission; AI for 5 lakh youth by 2031 [p.24, 59, 66]
3	Human capital & skills	8.5	Vetri Skill ₹150 cr; TN SPARK; curriculum reform ₹25 cr [p.15, 23, 25]
4	Infrastructure	7.5	Metro Ph-II ₹63,246 cr; roads ₹9,300 cr; 20,000 EV chargers [p.72, 82, 85]
5	Environment & sustainability	7.0	11,760 MW renewable corridor; BESS "India's hub" policy [p.68, 71]
6	Safety & social security	8.0	Singappen women's force; drug-free drive; SHG ₹38,000 cr loans [p.16, 98]
7	Governance & ease of doing business	8.5	Faceless GST and registration; Guidance 3.0 (AI); Single Window 3.0 [p.10, 56]
8	Beyond Chennai / regional balance	6.5	SIPCOT in backward districts ₹3,200 cr; TN-VETRI ₹6,000 cr/yr [p.58, 95]
9	Fiscal credibility	7.0	White Paper; Montek revenue committee; faceless to ₹15,000 cr [p.11, 125]

7.5/10

TN2035 Alignment Index: a strong first blueprint.

Strongest: human capital, governance, safety. Weakest: regional balance, and beneath every pillar, startup capital and fiscal room. The vision is embraced. The plumbing that funds it is not yet built.

PART 5 Sector by sector

Industry & Manufacturing, the atoms 7.5

A new innovation-led **Industrial Policy**, **₹35,062 cr in MoUs (14,790 jobs)** already signed [p.55], SIPCOT parks worth **₹3,200 cr in backward districts** [p.58], multi-modal logistics and dry ports, and a **Space Industry Investment Zone** in Thoothukudi and Tirunelveli anchored on the Kulasekarapattinam spaceport, with IN-SPACe [p.59]. Genuine industrial depth and decentralisation. *Business read:* real openings in EV, electronics, aerospace and logistics, especially in the south and backward districts where land and incentives are best.

AI & Digital Economy, the bits 7.0

"Arivagam", billed as India's first AI and Deep-Tech city, with an AI university, a **semiconductor and hardware testing lab**, a multi-domain incubator and quantum institutions [p.59]. A **TN AI Mission** [p.66], **AI skills to 5 lakh youth by 2031** with IIT-Madras [p.24], a Tamil LLM [p.121], and faceless, AI-assisted governance. This is the boldest, most future-facing part of the budget, atoms and bits in one arc. *Business read:* AI, chip-adjacent services and edtech have a policy tailwind. Early movers who partner with Arivagam and the AI Mission will have first advantage.

MSMEs & Retail, the base 7.5

43.47 lakh registered MSMEs (3rd in India), a Women Entrepreneurs scheme (₹225 cr), capital subsidies (₹352 cr), a new Design Institute (₹60 cr), and a **₹38,000 cr SHG bank-loan target** [p.85, 98]. Strong on credit and women-led enterprise. *Business read:* retail and consumer demand get a lift from rising rural incomes and SHG credit, but MSME **digitisation** is the missing multiplier (see Part 8).

Skills & Education 8.5

The strongest pillar. **Vetri Skill** (12 lakh students and 1 lakh youth, ₹150 cr), AI and ML trades in ITIs, TN SPARK (AI-robotics to 2,600 more schools), and a **curriculum reform** toward financial literacy, computer skills and global citizenship (₹25 cr). School Education ₹44,527 cr, Higher Education ₹8,393 cr. This is the talent pipeline the $1.5T economy runs on.

Infrastructure, Energy & Environment 7.5 / 7.0

Chennai Metro Phase-II (₹63,246 cr), integrated roads (₹9,300 cr), **20,000 EV charging points**, an 11,760 MW renewable corridor and a **BESS policy to make TN "India's storage hub."** Power is planned to the vision horizon (37,000 MW peak by 2035-36). *Business read:* EV, storage and renewables are clear multi-year plays. Real estate and logistics follow the metro and corridor lines.

PART 6 Earlier to Now: the shift in direction

Not a political comparison. A factual read of where the *emphasis* has moved, judged only by what this budget adds to the state's policy stance.

DIMENSION	THE EARLIER EMPHASIS	WHAT THIS BUDGET ADDS
Industry	Investment promotion, IT parks, single-window	Plus AI and deep-tech (Arivagam), semiconductors, spaceport, AI-powered Guidance 3.0
Welfare	Direct benefits and entitlements	Plus productivity: skilling at scale, curriculum reform, women's enterprise credit
Governance	Digital services, single-window	Plus faceless assessment and registration, delegation, AI-in-governance
Fiscal	Growth via expenditure	Plus an honest reckoning: White Paper, revenue and expenditure reform committees
Economy	$1 trillion by about 2030	Plus an extended, explicit $1.5 trillion-by-2036 target and a 15-year horizon

The through-line of the shift: from growth-by-spending to growth-by-productivity. Welfare plus skilling, industry plus AI, spending plus fiscal honesty. That is the right direction for a trillion-dollar ambition. The open question is whether the money follows the direction fast enough.

It is a directional budget more than a big-spending one. Capital expenditure (₹56,985 cr) is modest, and the largest new bets (Arivagam, the AI city, the semiconductor lab) begin as **feasibility studies and missions**, not yet as funded build-outs. Direction is set. Scale must follow in the budgets ahead. That is exactly what an annual report like this one exists to track.

PART 7 What this means for business

The section decision-makers actually need: what to *do* in the next 12 to 24 months.

YOU ARE A...	WHAT THE BUDGET OPENS	MOVE TO MAKE NOW
Manufacturer	New Industrial Policy, SIPCOT in backward districts, spaceport zone, EV and electronics push	Scout land and incentives in south TN and backward districts. Engage Guidance 3.0 early
Startup / founder	Arivagam incubator, TN AI Mission, AI-skilled talent pool	Position for deep-tech and AI, but raise capital nationally, since the state fund is not yet here
Retailer / consumer brand	Rising rural incomes, SHG ₹38,000 cr credit, digital-payments push	Expand into tier-2 and tier-3 towns. Build omni-channel now, ahead of the demand curve
MSME	Capital subsidies, Design Institute, clusters, market-access programs	Digitise operations and go export-ready. That is where the margin and support are moving
Technology / AI firm	AI Mission, 5-lakh AI talent by 2031, faceless-gov contracts	Partner on Arivagam and AI-in-governance. Hire from the new AI and ITI pipeline
Investor	A pro-reform, pro-transparency state with a clear 2036 target	Watch for the state fund-of-funds this report recommends. Back TN deep-tech early
Healthcare	Digital health, AI-in-health under the AI Mission	Pilot AI diagnostics and second-opinion models aligned to the mission's health focus
Real estate	Metro Ph-II, corridors, integrated urban dev, GCC-ready demand	Follow the metro and corridor lines and tier-2 office demand

> **The one-line takeaway for business:** this budget rewards those who move *toward* its direction early (deep-tech, AI, exports, tier-2 expansion, digitisation) rather than waiting for the schemes to mature. The tailwind is set. The first movers capture it.

PART 8 Gaps & Opportunities: the growth engine

Constructive, not critical. Four gaps stand between this budget and the trillion-dollar engine it reaches for, each with a precedent that worked, and data to prove it.

GAP 1 · STARTUP EARLY-CAPITAL

Create a Tamil Nadu Startup Fund-of-Funds.

The budget backs innovation (Arivagam, AI Mission) but has **no dedicated startup fund and no StartupTN or TANSEED line item**, the exact funding gap TN2035's Scoreboard flagged. **Precedent:** Israel's **Yozma** (1993), a US$100M government fund-of-funds, achieved a 56% exit rate and US$3.2B under management within a decade, taking Israel from **one** venture fund to the highest venture capital per capita on earth. Karnataka and Telangana run state funds today. **Move:** a TN state fund-of-funds, co-investing alongside the ₹10,000 cr **SIDBI Fund-of-Funds 2.0** (Union Budget 2025).

GAP 2 · TIER-2 INNOVATION

A Global Capability Centre (GCC) policy for Coimbatore, Madurai and Trichy.

The budget has **no GCC policy and no tier-2 IT-park scheme**, a striking omission. **Precedent: Karnataka** launched India's first dedicated GCC policy (November 2024), targeting **500 new GCCs and 350,000 jobs by 2029**. **Telangana's** GCC Policy 2025 to 2030 explicitly extends to tier-2 cities. India will add roughly 600 GCCs by 2030. Tamil Nadu, with the talent, is currently **un-legislated** for them. **Move:** a TN GCC policy with plug-and-play space and incentives for its tier-2 cities.

GAP 3 · SEMICONDUCTOR DEPTH

Anchor Arivagam's chip lab to an applied-research institute that spins out companies.

Precedent: Taiwan's **ITRI** (established 1973) did not just run a lab. It acquired technology, trained talent, ran pilot production, and **spun out UMC and TSMC**, seeding the world's leading chip industry. **Move:** structure Arivagam's semiconductor facility as an ITRI-style institute with a mandate to **spin out companies**, not merely test hardware.

GAP 4 · THE PATHWAY TO $1.5T

Publish a GSDP growth roadmap, and protect the fiscal room to fund it.

The target ($1.5T by 2036) is stated, but the **trajectory is not** (no GSDP baseline, no annual growth path). And capital expenditure (₹56,985 cr) is modest against the ambition. **Move:** a public year-by-year GSDP and capex roadmap, and ring-fenced capital spending, so the vision has arithmetic, not just aspiration.

PART 8 Gaps & Opportunities: what people expected

Beyond the growth engine, priorities citizens hoped this budget would carry further. Each is an opportunity for the budgets ahead.

PRIORITY 5 · EDUCATION

Global universities, publicly backed for Tamil students.

Higher education at the world frontier is left largely to private hands. India's UGC 2023 regulations now allow foreign universities to open Indian campuses, and Gujarat's GIFT City already hosts Deakin and Wollongong. **Move:** bring top global universities to Tamil Nadu as government-supported or public-aided institutions, with reserved, subsidised seats for Tamil students, so world-class education is a public right, not a private privilege.

PRIORITY 6 · HEALTHCARE

A government-led healthcare-infrastructure mission for every district.

The health focus is welfare and AI-in-health, but a decade-defining, government-owned build of hospitals, medical colleges and district tertiary care is not yet the centrepiece an inclusive $1.5T state needs. **Move:** a multi-year public healthcare-infrastructure mission that reaches every district, not only the metros.

PRIORITY 7 · AGRICULTURE

Natural farming with modern technology, not chemicals.

The budget does little to move farming away from chemical inputs. **Precedent:** Sikkim became the world's first fully organic state (2016) and won the UN FAO's Future Policy Gold Award; Andhra Pradesh's Community-managed Natural Farming now reaches over 1.7 million farmers with reported income gains of 38 to 66 percent. **Move:** a Tamil Nadu natural-farming mission that pairs organic methods with modern agri-technology, soil and water sensors, and guaranteed market linkage.

PRIORITY 8 · WATER & A CLEAN TAMIL NADU

Fund water security and cleanliness as core infrastructure.

Beyond a few river-link lines, there is no large programme to capture excess and flood water through new dams and reservoirs, or to restore rivers, in a state that swings between drought and flood. Israel recycles about 90 percent of its wastewater, the world's highest, proof that water security is a policy choice. Public hygiene needs a habits-and-sanitation mission (Indore, India's cleanest city, shows what sustained investment achieves). **Move:** a dedicated water-security and clean-Tamil-Nadu programme.

PART 8 Gaps & Opportunities: what people expected

PRIORITY 9 · WOMEN EMPOWERMENT

Lift women's economic power from schemes into a stated pillar.

The budget funds women well: a ₹38,000 crore SHG bank-loan target, a Women Entrepreneurs scheme and a women's safety force. The opportunity is to raise these from schemes into an explicit pillar, with public targets for women-led enterprises, asset and land ownership, and workforce participation. No $1.5 trillion economy is built with half its talent on the sidelines.

PRIORITY 10 · CULTURE

Bring Tamil culture back as a living, economic asset.

Language, heritage, crafts, temples, music and cuisine are among Tamil Nadu's greatest and least-monetised assets. **Move:** a culture-and-heritage economy programme that links artisans, heritage tourism and the Tamil creative industries to jobs and exports, so culture funds the future, not only remembers the past.

PRIORITY 11 · LIQUOR

Take the government out of running liquor shops, permanently.

The budget closes 717 outlets near schools and temples, a welcome start, but the state still owns liquor retail. Many citizens expected a permanent exit, toward a Karnataka-style privately-licensed, higher-priced model that reduces easy access while the state keeps revenue through taxation, not sales. **Move:** a phased plan to leave the liquor counter, protecting revenue through duties.

PRIORITY 12 · JOBS OVER FREEBIES

Reallocate, year by year, from consumption subsidies to employment.

Every rupee of recurring freebie is a rupee not invested in the jobs, skills and enterprise a 12-percent-a-year decade requires. **Move:** a stated, year-by-year shift from consumption subsidies toward employment, apprenticeships and MSME growth, giving people work and dignity, not only relief.

PART 9 Final Assessment

Does the Tamil Nadu Budget 2026-27 lay a credible first financial blueprint for the TN2035 vision and a US$1.5 trillion economy by 2036?

Yes, as a direction. This is a genuinely forward-looking budget: an AI and deep-tech city, a semiconductor lab, a spaceport zone, AI skilling for five lakh young people, faceless governance, and rarest of all, fiscal honesty. On ambition and posture, it is aligned with the vision. Alignment Index: 7.5/10.

But a blueprint is not a building. The two things still thin are precisely the two TN2035's very first Scoreboard identified from independent government data: **the capital that funds startups, and the market pathways and fiscal room to scale them.** The budget embraces the innovation *vision* in full. It has not yet built the *plumbing* (a state fund, a GCC policy, a semiconductor-to-company institute, a published growth path, and the education, healthcare, farming, water and cultural investments citizens expected) that turns vision into a trillion dollars.

If Tamil Nadu follows this budget's direction, and closes the funding, tier-2 and citizen-priority gaps in the budgets ahead, it is on a credible path to the vision. The destination is right. The next budgets must build the engine that reaches it.

TN2035 will score each one, year after year, until the numbers say what we already believe.

Atoms and bits. One honest edition at a time.

About the Convener, and an invitation

Rajalingam Rathinam

FOUNDER & CONVENER, TN2035

Rajalingam Rathinam is the Founder & Convener of TN2035, an independent movement tracking Tamil Nadu's journey to becoming Asia's next innovation capital. A retail and consumer-growth strategist with 35 years across India's largest retailers, he is the author of two books and a Charter Member of TiE Chennai. He founded NestOne Group and writes and speaks on retail, technology, and Tamil Nadu's economic future.

Walk with us.

TN2035 is a purely voluntary movement. We ask for no money, only your time, your voice and your ideas. Founders, students, teachers, investors, policymakers and citizens, join the cause.

Scan the code, or visit tn2035.org/join

Read the companion report

The TN2035 Scoreboard 2026
How TN ranks on the Government's own DPIIT startup-ecosystem data, where the funding and market-access gap was first proven.
scoreboard.tn2035.org

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References & Sources

Every external figure in this report is drawn from a published source. Links below are provided so readers can verify each claim.

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