

# Karnataka Budget Analysis 2018-19

The Chief Minister and Finance Minister, Mr. H. D. Kumaraswamy presented the Budget for Karnataka for financial year 2018-19 on July 5, 2018.

## Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Karnataka for 2018-19 at current prices is estimated to be Rs 14,08,112 crore, which is 7.4% higher than the revised estimates for 2017-18.
- **Total expenditure** for 2018-19 is estimated to be Rs 2,18,488 crore, a 15.2% increase over the revised estimates of 2017-18. In 2017-18, there was an increase of Rs 3,118 crore (1.7%) of expenditure in the revised estimates over the budget estimates.
- **Total receipts (excluding borrowings)** for 2018-19 are estimated to be Rs 1,66,600 crore, an increase of 14% as compared to the revised estimates of 2017-18. In 2017-18, total receipts fell short of the budgeted estimates by Rs 1,300 crore.
- **Revenue surplus** for the next financial year is targeted at Rs 106 crore, or 0.01% of the GSDP. **Fiscal deficit** is targeted at Rs 40,753 crore (2.9% of GSDP).
- Departments of Education (32%), Health and Family Welfare (26%), and Water Resources (15%) saw the highest increase in allocations.

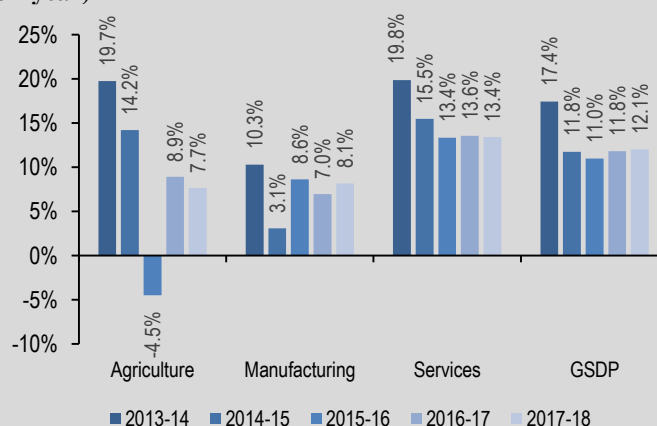
## Policy Highlights

- **Increase in taxes on petrol and diesel:** The tax rate on petrol has been increased from 30% to 32%, and diesel from 19% to 21%. This increase in tax rates will result in an increase in the price of petrol by Rs 1.14 per litre and that of diesel by Rs 1.12 per litre.
- **Farm loan waiver:** Farm loan waiver scheme of Rs 34,000 crore has been announced. This loan waiver will be applicable to farmers with borrowings of up to two lakh rupees. The government will waive off all loans defaulted by farmers till December 31, 2017. For those farmers who repaid their loan within time, their accounts will be credited with the repaid loan amount or Rs 25,000, whichever is less.
- **Infrastructure development:** Construction of six inter-connected elevated corridors in Bengaluru at a cost of Rs 15,285 crore over four years has been announced. The government has planned to purchase 4,236 new buses for public use.
- **Compete with China:** In order to compete with Chinese goods in the Indian market, a new scheme called 'Compete with China' has been announced. Facilities are being developed in the state to manufacture LED lights (Chitradurga district), sanitary goods (Hassan district), mechanized toys (Koppal district), and mobile phone components (Chikkaballapur district) to compete with Chinese counterparts.

### Karnataka's Economy

- **Economy:** The GSDP of Karnataka (at current prices) has grown at a rate of over 11% since 2013-14.
- Manufacturing, Services and Agriculture contribute to 59%, 19% and 10% of the GSDP. These sectors grew by 8%, 13% and 8% respectively.
- **Per capita income:** The per capita GSDP of Karnataka in 2018-19 (at current prices) is expected to be Rs 1,93,409. This is 11% higher than 2017-18, when the per capita GSDP was Rs 1,74,483.

**Figure 1: Growth in GSDP and sectors in Karnataka (year-on-year)**



Source: Medium Term Fiscal Policy Statement 2018-19, Karnataka Budget Documents; Central Statistics Office; PRS.

## Budget Estimates for 2018-19

- The total expenditure in 2018-19 is targeted at Rs 2,18,488 crore. This is 15% higher than the revised estimates of 2017-18. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,66,600 crore and borrowings of Rs 47,134 crore. Total receipts for 2018-19 (other than borrowings) are expected to be Rs 2,13,734 crore. This is 16.6% higher than the revised estimates of 2017-18.

**Table 1: Budget 2018-19: Key figures (in Rs crore)**

Items	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE of 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
<b>Total Expenditure</b>	<b>1,69,426</b>	<b>1,86,561</b>	<b>1,89,679</b>	<b>1.7%</b>	<b>2,18,488</b>	<b>15.2%</b>
A. Borrowings*	31,156	37,092	37,092	0.0%	47,134	27.1%
B. Receipts (except borrowings)	1,33,341	1,45,027	1,46,170	0.8%	1,66,600	14.0%
<b>Total Receipts (A+B)</b>	<b>1,64,497</b>	<b>1,82,119</b>	<b>1,83,263</b>	<b>0.6%</b>	<b>2,13,734</b>	<b>16.6%</b>
<b>Revenue Deficit</b>	<b>1,293</b>	<b>137</b>	<b>384</b>	<b>181.1%</b>	<b>106</b>	<b>-72.4%</b>
As % of GSDP	0.12%	0.01%	0.03%		0.01%	
<b>Fiscal Deficit</b>	<b>-28,665</b>	<b>-33,359</b>	<b>-35,333</b>	<b>5.9%</b>	<b>-40,753</b>	<b>15.3%</b>
As % of GSDP	-2.57%	-2.61%	-2.70%		-2.89%	
<b>Primary Deficit</b>	<b>-16,632</b>	<b>-19,200</b>	<b>-21,165</b>	<b>10.2%</b>	<b>-24,544</b>	<b>16.0%</b>
As % of GSDP	-1.49%	-1.50%	-1.61%		-1.74%	

Notes: BE is Budget Estimate; RE is Revised Estimate. GSDP calculated on the basis of Fiscal Deficit projections under the Medium Term Fiscal Policy Statement 2018-19.

Sources: Karnataka State Budget Documents 2018-19; PRS.

## Expenditure in 2018-19

- Capital expenditure** for 2018-19 is proposed to be Rs 52,199 crore, which is an increase of 18.6% over the revised estimates of 2017-18. This includes expenditure which affects the assets and liabilities of the state, and leads to creation of assets (such as bridges and hospitals), and repayment of loans, among others.
- Revenue expenditure** for 2018-19 is proposed to be Rs 1,66,290 crore, which is an increase of 14.2% over revised estimates of 2017-18. This expenditure includes payment of salaries, pensions, and maintenance, among others.
 

In 2018-19, the state aims to spend Rs 31,698 crore on salaries and Rs 17,801 crore on providing pensions. Expenditure on both these heads constitutes 30% of the revenue expenditure.
- In 2018-19, Karnataka is expected to spend Rs 27,694 crore on servicing its debt (i.e., Rs 11,486 crore on repaying loans, and Rs 16,209 crore on interest payments). This is 22% higher than the revised estimates of 2017-18.

**Table 2: Expenditure budget 2018-19 (in Rs crore)**

Item	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
Capital Expenditure	37,505	41,806	44,030	5.3%	52,199	18.6%
Revenue Expenditure	1,31,921	1,44,755	1,45,649	0.6%	1,66,290	14.2%
<b>Total Expenditure</b>	<b>1,69,426</b>	<b>1,86,561</b>	<b>1,89,679</b>	<b>1.7%</b>	<b>2,18,488</b>	<b>15.2%</b>
A. Debt Repayment	7,420	8,526	8,526	0.0%	11,486	34.7%
B. Interest Payments	12,033	14,159	14,168	0.1%	16,209	14.4%
<b>Debt Servicing (A+B)</b>	<b>19,453</b>	<b>22,685</b>	<b>22,693</b>	<b>0.0%</b>	<b>27,694</b>	<b>22.0%</b>

Notes: BE is Budget Estimate; RE is Revised Estimate. Capital expenditure includes: (i) spending that creates assets, (ii) repayments on the loans taken by the government, and (iii) loans provided by the government.

Sources: Karnataka Budget Documents 2018-19; PRS.

## Sector-wise expenditure in 2018-19

The departments listed below account for **45%** of the total budgeted expenditure of Karnataka in 2018-19.

**Table 3: Sector-wise expenditure for Karnataka Budget 2018-19 (Rs crore)**

Department	2016-17 Actuals	2017-18 Budgeted	2017-18 Revised	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19	Budget provisions for 2018-19
Education	20,818	20,008	19,773	26,001	31.5%	<ul style="list-style-type: none"> <li>Rs 14,656 crore budgeted for elementary education.</li> <li>To develop infrastructure of educational institutions, Rs 150 crore earmarked for schools and Rs 250 crore for college buildings.</li> </ul>
Water Resources	10,177	14,433	12,613	14,524	15.1%	<ul style="list-style-type: none"> <li>Rs 9,327 crore will be utilised for medium-sized irrigation projects.</li> <li>Rs 70 crore budgeted for a project to bring water from Hemavati river for drinking.</li> </ul>
Rural Development	12,910	13,618	13,466	13,934	3.5%	<ul style="list-style-type: none"> <li>Rural water supply and sanitation allocated Rs 3,221 crore.</li> <li>'Jaladhare' project announced to obtain and purify drinking water from rivers and reservoirs for rural areas, at a projected cost of Rs 53,000 crore for five years.</li> </ul>
Urban Development	12,011	13,732	13,086	12,904	-1.4%	<ul style="list-style-type: none"> <li>Construction of six interconnected elevated corridors in Bengaluru in the next four years at a cost of Rs 15,825 crore. Rs 1,000 crore budgeted in 2018-19 for the same.</li> </ul>
Social Welfare	9,048	11,481	11,640	11,607	-0.3%	<ul style="list-style-type: none"> <li>Rs 8,593 crore allocated for the welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and minorities.</li> </ul>
Energy	10,168	10,272	10,272	10,719	4.4%	<ul style="list-style-type: none"> <li>Rs 628 crore budgeted for capital expenditure on hydel power generation.</li> </ul>
Health and Family Welfare	6,569	6,728	7,369	9,299	26.2%	<ul style="list-style-type: none"> <li>Rs 2,708 crore budgeted for medical education.</li> <li>New super-specialty hospitals to be set up in Ramanagara, Belagavi, Kalaburagi and Mysuru.</li> </ul>
<b>% of total expenditure</b>	<b>48%</b>	<b>48%</b>	<b>47%</b>	<b>45%</b>		

Notes: BE is Budget Estimate; RE is Revised Estimate. All amounts are net numbers.

Source: Karnataka Budget Speech 2018-19; PRS.

### Subsidies:

The state government provides subsidies across various sectors. Some of these subsidies are shown in Table 4. Karnataka is expected to spend Rs 24,404 crore on subsidies in 2018-19. Of this, the highest allocation of Rs 9,250 crore is for power, followed by Rs 3,698 crore for food. In 2018-19, subsidy for agriculture saw the highest increase of 64% over the revised estimates of 2017-18. On the other hand, subsidy for housing decreased by 39%.

**Table 4: Expenditure on subsidies in 2018-19 (in Rs Crore)**

Subsidy	Actuals 2016-17	Budgeted 2017-18	Revised 2017-18	% change from BE 2017-18 to RE 2017-18	Budgeted 2018-19	% change from RE 2017-18 to BE 2018-19
Power	8,647	8,841	8,841	0.0%	9,250	4.6%
Food	1,854	3,478	3,278	-5.8%	3,698	12.8%
Agriculture	1,715	2,368	2,335	-1.4%	3,825	63.8%
Housing	2,326	3,654	3,115	-14.7%	1,902	-38.9%
Others	3,951	5,892	5,907	0.3%	5,728	-3.0%
<b>Total</b>	<b>18,492</b>	<b>24,232</b>	<b>23,476</b>	<b>-3.1%</b>	<b>24,404</b>	<b>4.0%</b>

Note: BE is Budget Estimate; RE is Revised Estimate.

Sources: Overview of Budget, Karnataka State Budget Documents 2018-19; PRS.

## Receipts in 2018-19

- The **total revenue receipts** for 2018-19 are estimated to be Rs 1,66,396 crore, an increase of 14% over the revised estimates of 2017-18. Of this, Rs 1,14,802 (69% of the revenue receipts) crore will be raised by the state through its **own resources**. Rs 51,594 crore (31% of the revenue receipts) will be **devolved from the centre** in the form of grants and the state's share in central taxes.
- **Non Tax Revenue:** Karnataka has estimated to generate Rs 8,181 crore through non-tax sources in 2018-19. This is an increase of 20% over the revised estimates of 2017-18. Non tax sources include interest receipts, dividends, and fees, among others.

**Table 5: Break up of state government receipts (Rs crore)**

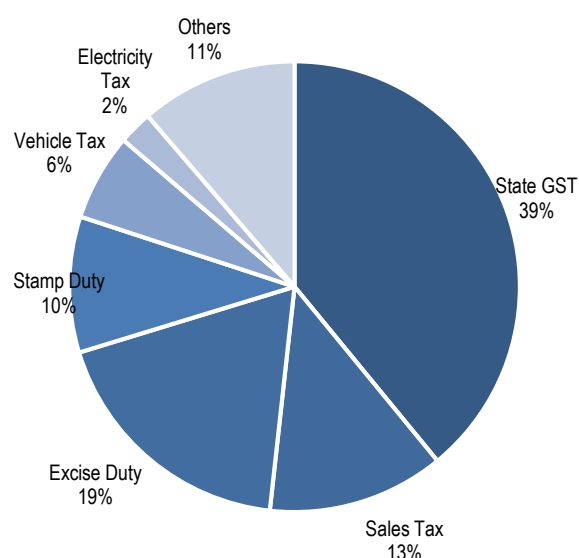
Item	2016-2017 Actuals	2017-2018 Budgeted	2017-18 Revised	% change from BE 2017-18 to RE 2017-18	2018-19 Budgeted	% change from RE 2017-18 to BE 2018-19
State's Own Tax	82,956	89,957	91,718	2.0%	1,06,621	16.2%
State's Own Non Tax	5,795	6,945	6,828	-1.7%	8,181	19.8%
State's share in Central Taxes	28,760	31,908	31,752	-0.5%	36,215	14.1%
Grants-in-aid from Centre	15,703	16,082	15,736	-2.2%	15,379	-2.3%
<b>Total Revenue Receipts</b>	<b>1,33,214</b>	<b>1,44,891</b>	<b>1,46,034</b>	<b>0.8%</b>	<b>1,66,396</b>	<b>13.9%</b>
Borrowings	31,156	37,092	37,092	0.0%	47,134	27.1%
Recovery of loans and other receipts	127	135	138	2.2%	204	47.8%
<b>Total Capital Receipts</b>	<b>31,283</b>	<b>37,227</b>	<b>37,230</b>	<b>0.0%</b>	<b>47,338</b>	<b>27.2%</b>
<b>Total Receipts</b>	<b>1,64,497</b>	<b>1,82,119</b>	<b>1,83,264</b>	<b>0.6%</b>	<b>2,13,734</b>	<b>16.6%</b>

Notes: BE is Budget Estimate; RE is Revised Estimate.

Sources: Karnataka Budget Documents 2018-19; PRS.

- **Tax Revenue:** Total own tax revenue of Karnataka is estimated to be Rs 1,06,621 crore in 2018-19. The composition of the state's tax revenue is shown in Figure 2. The tax to GSDP ratio is targeted at 7.6% in 2018-19, which is marginally lower than the revised estimates of 7% in 2017-18. This implies that growth in collection of taxes has been lower than the growth in the economy.

**Figure 2: Composition of Tax Revenue in 2018-19 (Budget Estimates)**



- State Goods and Services Tax (GST) is the largest component of tax revenue of the state. It is expected to generate Rs 41,650 crore in 2018-19. This is an increase of 73% from the revised estimates of 2017-18.
- State excise is the second largest component of tax revenue of the state. It is expected to generate Rs 19,750 crore in 2018-19. This is an increase of 12% from the revised estimates of 2017-18.
- Further, the government is expected to generate Rs 13,532 crore through sales tax. This is a decrease of 45% over the revised estimates of 2017-18. Note that, a major portion of sales tax has been subsumed under GST, and this tax is now levied only on certain items, such as alcohol for human consumption, and petroleum products.
- Stamp duty will contribute Rs 10,400 crore, which is an increase of 16% over the revised estimates of 2017-18. In addition, 6% of the tax revenue will be generated through levy of vehicle tax. Electricity tax will contribute to 2% of the total tax revenue.

## Deficits, Debts and FRBM Targets for 2018-19

The Karnataka Fiscal Responsibility and Budget Management (FRBM) Act, 2002 provides annual targets to progressively reduce the outstanding liabilities, revenue deficit and fiscal deficit of the state government.

**Revenue deficit:** It is the excess of revenue expenditure over revenue receipts. A revenue deficit implies that the government needs to borrow in order to finance its expenses which do not create capital assets.

Debt as a percentage of GSDP has increased in the last two years. It increased from 19.81% in 2016-17 to 20.75% in 2018-19

The budget estimates a revenue surplus of Rs 106 crore (or 0.01% of GSDP) in 2018-19. This implies that revenue receipts are expected to be higher than the revenue expenditure, resulting in a surplus. The estimate indicates that the state is within the target of eliminating revenue deficit, prescribed by the 14<sup>th</sup> Finance Commission.

**Fiscal deficit:** It is the excess of total expenditure over total receipts. This gap is filled by borrowings by the government, and leads to an increase in total liabilities. In 2018-19, fiscal deficit is estimated to be Rs 40,753 crore, which is 2.9% of the GSDP. The estimate is under the 3% limit prescribed by the 14<sup>th</sup> Finance Commission.

**Outstanding Liabilities:** It is the accumulation of borrowings over the years. In 2018-19, the outstanding liabilities are expected at 23% of the GSDP.

**Table 5: Budget targets for deficits for Karnataka in 2017-18 (% of GSDP)**

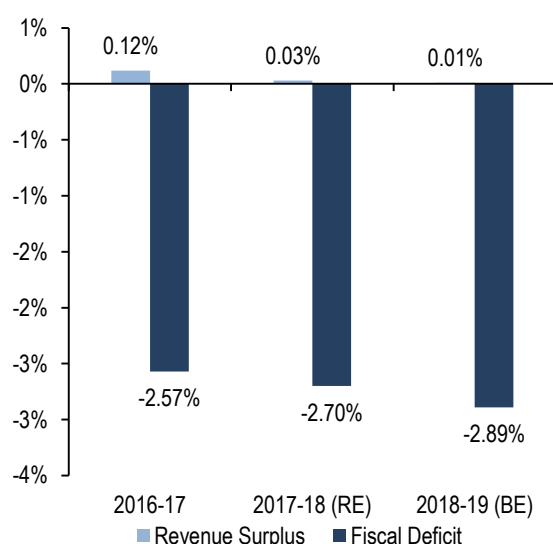
Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Total Liabilities
2016-17	0.12%	-2.57%	19.81%
2017-18 (RE)	0.03%	-2.70%	19.22%
2018-19 (BE)	0.01%	-2.89%	20.75%
2019-20	0.01%	-2.90%	21.51%
2020-21	0.05%	-2.90%	22.18%
2021-22	0.03%	-2.90%	23.04%

Notes: BE is Budget Estimate; RE is Revised Estimate.

Sources: Karnataka Budget Documents 2018-19; PRS.

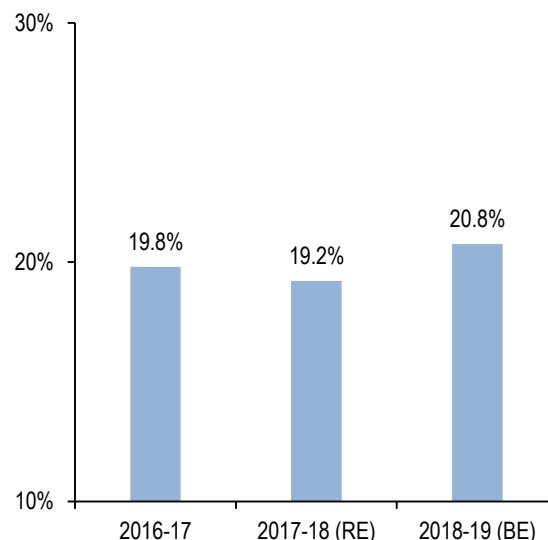
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2016-17 to 2018-19:

**Figure 3: Revenue and Fiscal Deficit (as % of GSDP)**



Sources: Karnataka Budget Documents; PRS.

**Figure 4: Outstanding liabilities targets (as % of GSDP)**

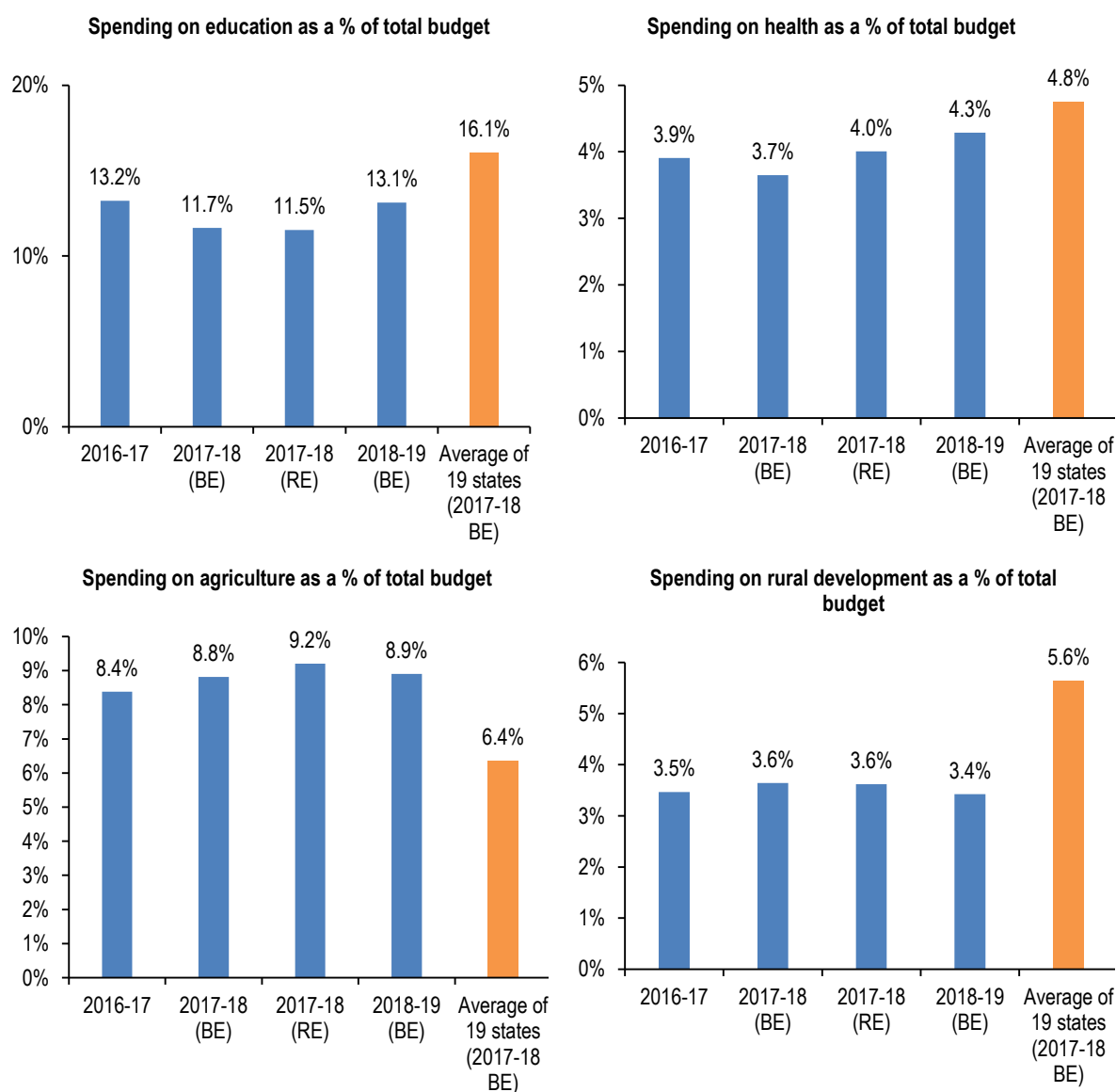


Sources: Karnataka Budget Documents; PRS.

## Annexure

The graphs below compare Karnataka's expenditure on four key sectors in 2018-19, as a proportion of its total budget, with 18 other states (using budget estimates of 2017-18).<sup>1</sup>

- **Education:** Karnataka has allocated 13.1% on education in 2018-19. This is lower than the average expenditure allocated to education (16.1%) by 18 other states.
- **Health:** Karnataka has allocated 4.3% of its total expenditure towards health, which is marginally lower than the average expenditure of 18 other states.
- **Agriculture and allied activities:** The state has allocated 8.9% of its total budget towards agriculture and allied activities. This is higher than the allocations of 18 other states (6.4%).
- **Rural development:** Karnataka has allocated 3.4% of its expenditure on rural development. This is lower than the average (5.6%) of the 18 other states.



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<sup>1</sup> The 18 states apart from Karnataka are: Andhra Pradesh, Assam, Bihar, Delhi, Gujarat, Haryana, Jammu and Kashmir, Himachal Pradesh, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and West Bengal.