

# Karnataka Budget Analysis 2019-2020

The Finance Minister, Mr. H.D. Kumaraswamy, presented the Budget for Karnataka for financial year 2019-20 on February 8, 2019.

## Budget Highlights

- The **Gross State Domestic Product (GSDP)** of Karnataka for 2019-20 (at current prices) is estimated to be Rs 15,88,303 crore. This is 13% higher than the revised estimate for 2018-19.
- **Total expenditure** for 2019-20 is estimated to be Rs 2,34,153 crore, a 7.7% increase over the revised estimate of 2018-19. In 2018-19, there is estimated to be a decrease of Rs 1,037 crore (0.5% of the budgeted estimate) of expenditure as per the revised estimate.
- **Total receipts (excluding borrowings)** for 2019-20 are estimated to be Rs 2,30,738 crore, an increase of 8.7% as compared to the revised estimate of 2018-19. In 2018-19, total receipts (excluding borrowings) are estimated to fall short of the budgeted estimate by Rs 1,506 crore (0.7%).
- **Revenue surplus** for the next financial year is targeted at Rs 258 crore, or 0.02% of the Gross State Domestic Product (GSDP). **Fiscal deficit** is targeted at Rs 42,051 crore (2.65% of GSDP).
- Sectors such as energy (23%), agriculture and allied activities (21%), water supply, sanitation, housing and urban development (15%), and social welfare and nutrition (11%) saw the highest increase in allocations.

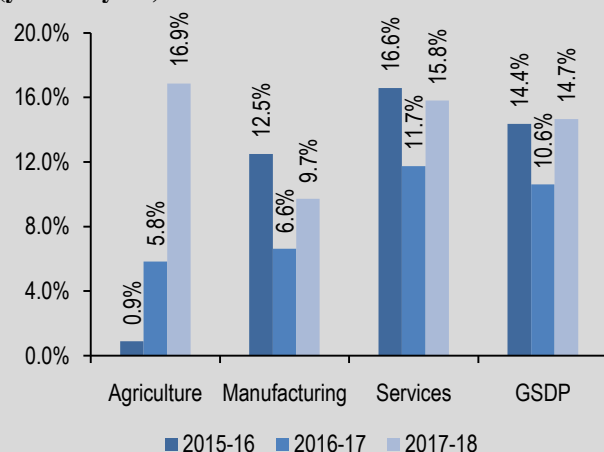
## Policy Highlights

- **Crop loan waiver:** An amount of Rs 12,650 crore has been announced for the provision of crop loan waivers. Of this, Rs 6,500 crore has been allocated to commercial banks for the waiver of loans given to farmers, and Rs 6,150 crore to the co-operative sector.
- **Agriculture and allied activities:** An amount of Rs 3,700 crore has been allocated to distribute food grains to more than 4.07 crore beneficiaries under the Annabhagya scheme. Further, Rs 1,563 crore and Rs 1,680 crore has been allocated to lift irrigation and tank filling projects respectively.
- **Infrastructure projects:** An amount of Rs 2,300 crore has been earmarked towards Nava Bengaluru Kriya Yojana for the development of infrastructure within the city of Bengaluru. Further, Rs 10,000 crore has been announced for the development of 7,940 km roads.

## Karnataka's Economy

- **GSDP:** The growth rate of Karnataka's GSDP (at current prices) has increased from 14.4% in 2015-16 to 14.7% in 2017-18.
- **Sectors:** In 2017-18, the sectors of agriculture, manufacturing, and services contributed to 12%, 22%, and 66% of the Gross State Value Added respectively. Between 2016-17 and 2017-18, these sectors grew by 17%, 10%, and 16%, respectively.
- **Per capita income:** The per capita GSDP of Karnataka in 2017-18 (at current prices) was Rs 1,78,121. This is 9% higher than that in 2016-17.
- **Unemployment:** According to the 5<sup>th</sup> Annual Employment-Unemployment Survey (2015-16), among the major states, Karnataka has the one of the lower unemployment rates in the country at 1.5% as compared to the all-India level of 5%.

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



Note: As per CSO, agriculture here includes mining and quarrying.  
Sources: Medium Term Fiscal Plan 2019-20, Karnataka Budget Documents; Central Statistics Office, MOSPI, data as of August 2018; PRS.

## Budget Estimates for 2019-20

- The total expenditure in 2019-20 is targeted at Rs 2,34,153 crore. This is 7.7% higher than the revised estimates of 2018-19. This expenditure is proposed to be met through receipts (other than borrowings) of Rs 1,82,138 crore and borrowings of Rs 48,601 crore. Receipts for 2019-20 (other than borrowings) are expected to be 9.7% higher than the revised estimate of 2018-19.

**Table 1: Budget 2019-20 - Key figures (in Rs crore)**

Items	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	% change from BE 2018-19 to RE of 2018-19	2019-20 Budgeted	% change from RE 2018-19 to BE 2019-20
<b>Total Expenditure</b>	<b>1,86,510</b>	<b>2,18,488</b>	<b>2,17,451</b>	<b>-0.5%</b>	<b>2,34,153</b>	<b>7.7%</b>
A. Receipts (except borrowings)	1,47,140	1,66,600	1,66,101	-0.3%	1,82,138	9.7%
B. Borrowings	25,122	47,134	46,126	-2.1%	48,601	5.4%
<b>Total Receipts (A+B)</b>	<b>1,72,262</b>	<b>2,13,734</b>	<b>2,12,228</b>	<b>-0.7%</b>	<b>2,30,738</b>	<b>8.7%</b>
<b>Revenue Surplus</b>	<b>4,517</b>	<b>106</b>	<b>194</b>	<b>83.0%</b>	<b>258</b>	<b>32.9%</b>
As % of GSDP	0.34%	0.01%	0.01%		0.02%	
<b>Fiscal Deficit</b>	<b>31,101</b>	<b>40,753</b>	<b>40,167</b>	<b>-1.4%</b>	<b>42,051</b>	<b>4.7%</b>
As % of GSDP	2.37%	2.89%	2.85%		2.65%	
<b>Primary Deficit</b>	<b>17,171</b>	<b>24,544</b>	<b>24,571</b>	<b>0.1%</b>	<b>22,991</b>	<b>-6.4%</b>
As % of GSDP	1.31%	1.74%	1.74%		1.45%	

Notes: BE is Budget Estimate; RE is Revised Estimate. GSDP for 2019-20 is Rs 15,88,303 crore. GSDP for 2018-19 BE and 2018-19 RE taken to be Rs 14,08,112 crore.

Sources: Annual Financial Statement, Karnataka Budget Documents 2019-20; PRS.

## Expenditure in 2019-20

- Capital expenditure** for 2019-20 is proposed to be Rs 52,548 crore, which is an increase of 1.5% over the revised estimates of 2018-19.
- Capital expenditure includes expenditure affecting the assets and liabilities of the state, such as: (i) capital outlay, i.e. expenditure which leads to creation of assets (such as bridges and hospitals), and (ii) repayment and grant of loans by the state government.
- Karnataka's capital outlay for 2019-20 is estimated to be Rs 40,080 crore, which is 11.6% higher than the revised estimate of 2018-19. The capital outlay towards water supply, sanitation, housing and urban development is estimated to increase by Rs 3,239 crore (an increase of 92%) from the revised estimates of 2018-19.
- Revenue expenditure** for 2019-20 is proposed to be Rs 1,81,605 crore, which is an increase of 9.6% over revised estimates of 2018-19. This expenditure includes payment of salaries, pensions, and interest, among others. Revenue expenditure accounts for 78% of the total expenditure of 2019-20.

### Committed Liabilities

Committed liabilities of a state typically includes expenditure on payment of salaries, pensions, and interest payments. A larger proportion of state budget allocated for committed expenditure crowds out other developmental expenditure.

Karnataka spends 31% of its budget on committed liabilities. Whereas, states, on an average, spend 39% of their budget on committed liabilities. In 2019-20, Karnataka has budgeted to spend Rs 71,284 crore on salaries, pensions, and interest. This is 11% higher than the revised estimates of 2018-19.

**Table 2: Expenditure budget 2019-20 (in Rs crore)**

Item	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	% change from BE 2018-19 to RE 2018-19	2019-20 Budgeted	% change from RE 2018-19 to BE 2019-20
Capital Expenditure	44,028	52,199	51,748	-0.9%	52,548	1.5%
of which Capital Outlay	30,667	35,246	35,921	1.9%	40,080	11.6%
Revenue Expenditure	1,42,482	1,66,290	1,65,703	-0.4%	1,81,605	9.6%
<b>Total Expenditure</b>	<b>1,86,510</b>	<b>2,18,488</b>	<b>2,17,451</b>	<b>-0.5%</b>	<b>2,34,153</b>	<b>7.7%</b>
A. Debt Repayment	8,269	11,136	11,183	0.4%	9,964	-10.9%
B. Interest Payments	13,930	16,209	15,596	-3.8%	19,060	22.2%
<b>Debt Servicing (A+B)</b>	<b>22,199</b>	<b>27,344</b>	<b>26,779</b>	<b>-2.1%</b>	<b>29,025</b>	<b>8.4%</b>

Note: Capital outlay denotes expenditure which leads to creation of assets.

Sources: Karnataka Budget Documents 2019-20; PRS.

## Sector expenditure in 2019-20

The sectors listed below account for **62%** of the total budgeted expenditure of Karnataka in 2019-20. A comparison of Karnataka's expenditure on key sectors with that by other states can be found in the Annexure.

**Table 3: Sector-wise expenditure for Karnataka Budget 2019-20 (Rs crore)**

Sector	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	2019-20 Budgeted	% change from RE 2018-19 to BE 2019-20	Budget provisions for 2019-20
Education	22,450	26,466	26,276	27,943	6%	<ul style="list-style-type: none"> <li>Rs 241 crore has been allocated towards Sarva Shiksha Abhiyan.</li> <li>An amount of Rs 10,936 crore has been allocated to panchayats for development of elementary education.</li> </ul>
Agriculture and allied activities	14,746	16,579	18,394	22,309	21%	<ul style="list-style-type: none"> <li>Rs 1,165 crore will be spent on subsidies for food grain crops.</li> <li>An amount of Rs 845 crore is allocated for crop insurance.</li> </ul>
Social Welfare and Nutrition	8,954	17,396	17,708	19,718	11%	<ul style="list-style-type: none"> <li>Rs 2,150 crore has been allocated for the distribution of nutritious food and beverages in the state.</li> </ul>
Irrigation and Flood Control	12,237	14,556	14,412	15,775	9%	<ul style="list-style-type: none"> <li>Rs. 9,767 crore has been allocated towards public sector investment in medium irrigation projects.</li> <li>Rs 120 crore has been allocated for the development of the Upper Krishna Project.</li> </ul>
Water Supply, Sanitation, Housing, and Urban Development	14,838	13,871	12,182	14,013	15%	<ul style="list-style-type: none"> <li>Rs 166 crore has been allocated towards the Pradhan Mantri Grameen Sadak Yojak.</li> <li>Rs 1,250 crore has been allocated towards the Namma Grama Namma Raste Scheme.</li> </ul>
Energy	10,230	10,704	10,699	13,128	23%	<ul style="list-style-type: none"> <li>Rs 12,254 will be spent for the provision of assistance to electricity boards.</li> </ul>
Transport	12,348	11,473	13,097	12,479	-5%	<ul style="list-style-type: none"> <li>Rs 206 crore will be spent for the development of the North-West Karnataka Regional Transport Corporation.</li> </ul>
Welfare of SC/ST/OBC and Minorities	11,539	11,599	11,541	11,114	-4%	<ul style="list-style-type: none"> <li>Rs 563 crore has been allocated for the education of scheduled caste minorities.</li> <li>Rs 376 crore has been allocated for assistance to the tribal sub-plan for welfare of scheduled tribes.</li> </ul>
Health and Family Welfare	8,117	9,644	9,856	9,693	-2%	<ul style="list-style-type: none"> <li>An amount of Rs 2,067 crore is allocated towards medical education and research.</li> </ul>
<b>% of total expenditure</b>	<b>62%</b>	<b>61%</b>	<b>62%</b>	<b>62%</b>		

Source: Karnataka Budget Speech 2019-20, Karnataka Annual Financial Statement 2019-20, Karnataka Demand for Grants 2019-20; PRS.

**Subsidies:** The state government provides subsidies across various sectors as shown in Table 4. Karnataka is expected to spend Rs 25,175 crore on subsidies in 2019-20. Of this, the highest allocation of Rs 11,250 crore is for power, followed by Rs 5,721 crore for food. In 2019-20, subsidy for power saw the highest increase of 22% over 2018-19 revised estimates. However, subsidy for housing decreased by 12%.

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

Subsidy	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
Power	8,647	8,841	9,250	4.6%	11,250	21.6%
Food	3,870	4,850	5,629	16.1%	5,721	1.6%
Agriculture	1,854	2,542	3,578	40.8%	3,770	5.4%
Housing	2,326	2,837	1,402	-50.6%	1,229	-12.4%
Others	2,338	3,119	3,130	0.4%	3,205	2.4%
<b>Total</b>	<b>19,034</b>	<b>22,189</b>	<b>22,990</b>	<b>3.6%</b>	<b>25,175</b>	<b>9.5%</b>

Note: BE is Budget Estimate; RE is Revised Estimate.; Sources: Overview of Budget, Karnataka Budget Documents 2019-20; PRS.

## Receipts in 2019-20

- The **total revenue receipts** for 2019-20 are estimated to be Rs 1,81,862 crore, an increase of 9.6% over the revised estimates of 2018-19. Of this, Rs 1,09,799 (60% of the revenue receipts) crore will be raised by the state through its **own resources**, and Rs 72,063 crore (40% of the revenue receipts) will be **devolved by the centre** in the form of grants and the state's share in taxes.
- **Non Tax Revenue:** Karnataka is estimated to generate Rs 8,055 crore through non-tax sources in 2019-20. Of this, Rs 1,237 crore will be the interest received by the state from various sources.

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

Items	2017-18 Actuals	2018-19 Budgeted	2018-19 Revised	% change from BE 2018-19 to RE of 2018-19	2019-20 Budgeted	% change from RE 2018-19 to BE 2019-20
State's Own Tax	87,130	95,821	95,512	-0.3%	1,01,744	6.5%
State's Own Non-Tax	6,477	8,181	7,287	-10.9%	8,055	10.5%
Share in Central Taxes	31,752	36,215	36,215	0.0%	39,806	9.9%
Grants-in-aid from Centre	21,641	26,179	26,882	2.7%	32,257	20%
<b>Total Revenue Receipts</b>	<b>1,47,000</b>	<b>1,66,471</b>	<b>1,65,896</b>	<b>-0.3%</b>	<b>1,81,862</b>	<b>9.6%</b>
Borrowings	25,122	47,134	46,126	-2.1%	48,601	5.4%
Other receipts	141	129	205	58.8%	276	34.4%
<b>Total Capital Receipts</b>	<b>25,262</b>	<b>47,264</b>	<b>46,332</b>	<b>-2.0%</b>	<b>48,876</b>	<b>5.5%</b>
<b>Total Receipts</b>	<b>1,72,262</b>	<b>2,13,734</b>	<b>2,12,228</b>	<b>-0.7%</b>	<b>2,30,738</b>	<b>8.7%</b>

Grants in aid from centre includes GST compensation received by the state.

Sources: Karnataka Budget Documents 2019-20; PRS.

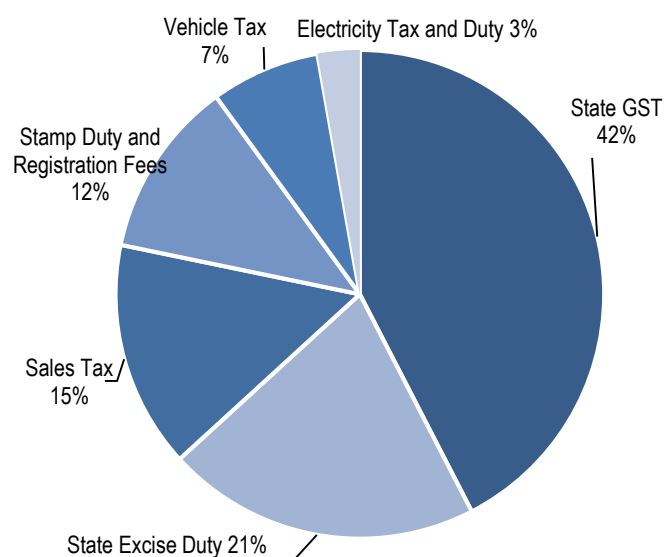
- **Tax Revenue:** Total own tax revenue of Karnataka is estimated to be Rs 1,01,744 crore in 2019-20. The composition of the state's tax revenue is shown in Figure 2.
- The own tax to GSDP ratio is targeted at 6.4% in 2019-20, which is marginally lower than the revised estimate of 6.8% in 2018-19. This implies that growth in collection of taxes has been marginally slower than the growth in the economy.

### GST Revenue

Karnataka's total GST revenue (including central transfers) is estimated to be Rs 72,044 crore in 2019-20, an increase of 10% over the revised estimate of 2018-19.

Karnataka has budgeted to receive Rs 17,249 crore in 2019-20 as compensation for loss of revenue arising due to the implementation of GST. This is an increase of 60% over the 2018-19 estimates.

**Figure 2: Composition of the state's tax revenue in 2019-20 (Budget Estimates)**



Sources: Karnataka Budget Documents 2019-20; PRS.

- State Goods and Services Tax (SGST) is the largest component of tax revenue of the state. It is expected to generate Rs 42,748 crore in 2019-20. This is an increase of 2.6% from the revised estimates of 2018-19.
- In 2019-20, Karnataka is expected to generate Rs 20,950 crore through the levy of state excise duty. This is an increase of 6.1% over the revised estimates of 2018-19.
- Further, in 2019-20 the state is expected to generate Rs 15,149 crore through the levy of sales tax (on items such as petroleum products), and VAT. This is an increase of 11.9% over the revised estimate of 2018-19.
- In addition, in 2019-20 the state is expected to generate Rs 11,828 crore from stamp duty and registration fees, and Rs 7,100 crore from vehicle taxes.

## Deficits, Debts and FRBM Targets for 2019-20

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:** This 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.

However, the budget estimates a revenue surplus of Rs 258 crore (or 0.02% of GSDP) in 2019-20. This implies that revenue receipts are expected to be higher than the revenue expenditure, resulting in a surplus. The 14<sup>th</sup> Finance Commission had recommended that states should eliminate revenue deficits. The 2019-20 estimates for Karnataka suggest that the state will meet this target of eliminating revenue deficit.

**Fiscal deficit:** This 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 2019-20, Karnataka's fiscal deficit is estimated to be Rs 42,051 crore, which is 2.6% of the GSDP. The estimate is below the 3% limit prescribed by the 14<sup>th</sup> Finance Commission. This limit may be relaxed to a maximum of 3.5%, if states are able to contain their debt and interest payments to certain specified levels.

**Outstanding Liabilities:** This is the accumulation of borrowings over the years. In 2019-20, Karnataka's outstanding liabilities are expected at 19.1% of the GSDP.

### Debt Servicing

In 2019-20, Karnataka is expected to spend Rs 29,025 crore on servicing its debt, which is 9.5% of its estimated expenditure. This expenditure includes Rs 19,060 crore towards repayment of loans, and Rs 9,964 crore towards interest payments. In 2019-20, interest payments are estimated to cost 22% more than the revised estimate of the previous year. However, the expenditure on repayment of loans is expected to decrease by 11% over the revised estimate of 2018-19.

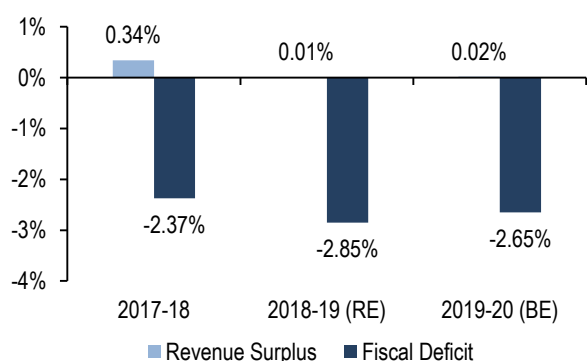
**Table 6: Budget targets for deficits for Karnataka in 2019-20 (% of GSDP)**

Year	Revenue Deficit (-)/Surplus (+)	Fiscal Deficit (-)/Surplus (+)	Outstanding Liabilities
2017-18	0.34%	-2.37%	17.78%
2018-19 (RE)	0.01%	-2.85%	19.16%
2019-20 (BE)	0.02%	-2.65%	19.44%
2020-21	0.06%	-2.90%	20.33%
2021-22	0.03%	-2.90%	21.15%

Sources: Karnataka Budget Documents 2019-20; PRS.

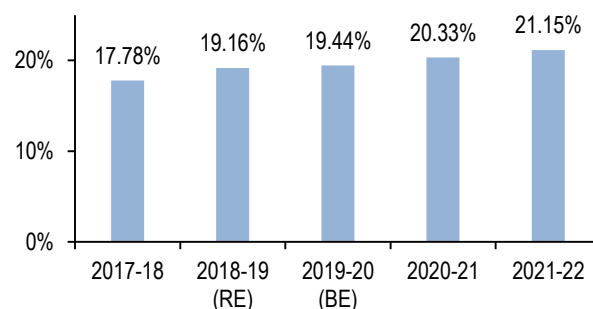
Figures 3 and 4 show the trend in deficits and outstanding liabilities targets from 2017-18 to 2021-22.

**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.

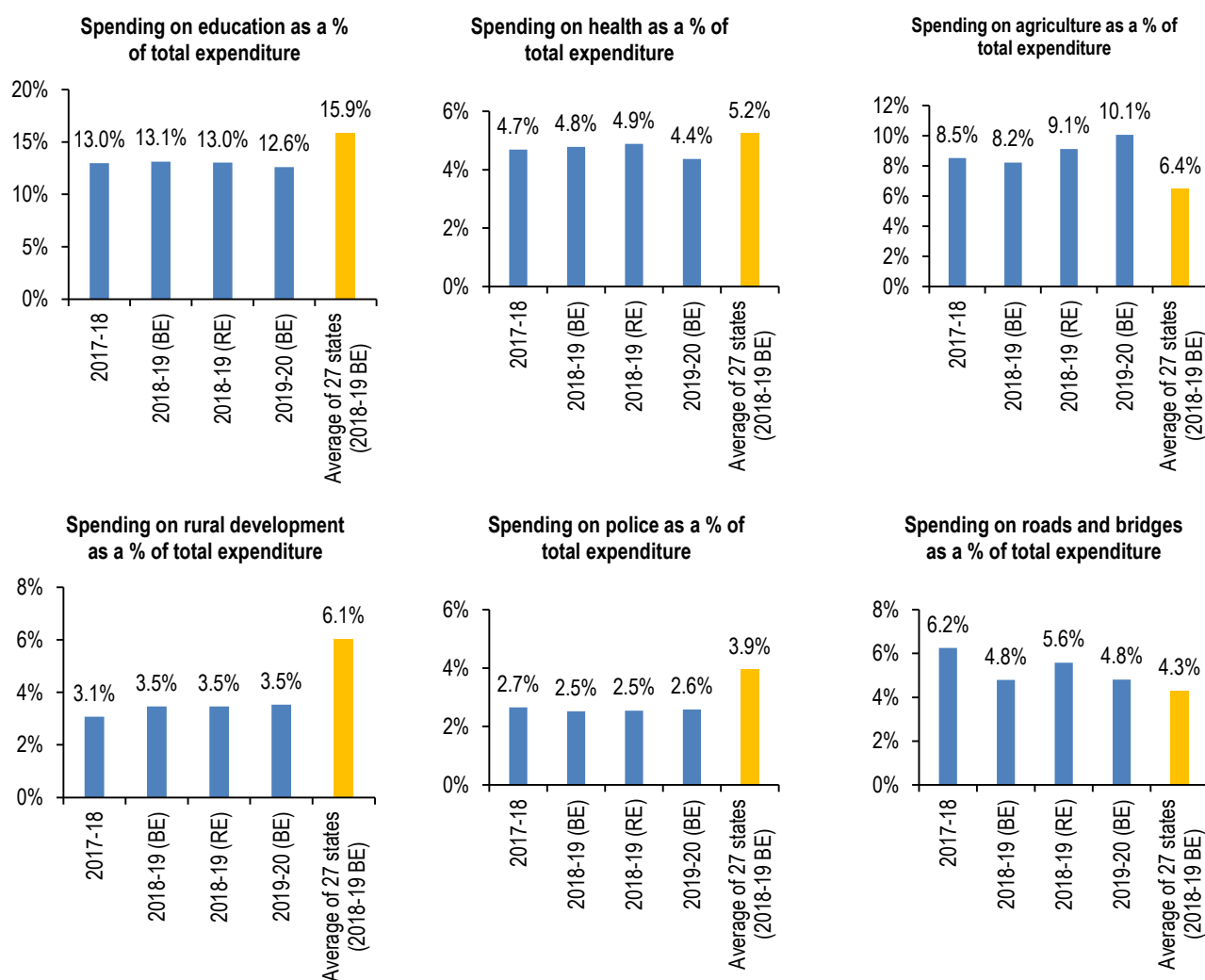
**DISCLAIMER:** This document is being furnished to you for your information. You may choose to reproduce or redistribute this report for non-commercial purposes in part or in full to any other person with due acknowledgement of PRS Legislative Research ("PRS"). The opinions expressed herein are entirely those of the author(s). PRS makes every effort to use reliable and comprehensive information, but PRS does not represent that the contents of the report are accurate or complete. PRS is an independent, not-for-profit group. This document has been prepared without regard to the objectives or opinions of those who may receive it.



## Annexure

The graphs below compare Karnataka's expenditure on six key sectors as a proportion of its total budget, with 26 other states.<sup>1</sup>

- **Education:** Karnataka has allocated 12.6% of its expenditure on education in 2019-20. This is lower than the average expenditure allocated to education by other states (using 2018-19 BE). (15.9%)
- **Health:** Karnataka has allocated 4.4% of its total expenditure on health, which is marginally lower than the average expenditure of other states.
- **Agriculture and allied activities:** The state has allocated 10.1% of its total budget towards agriculture and allied activities. This is significantly higher than the allocations of other states (6.5%).
- **Rural development:** Karnataka has allocated 3.5% of its expenditure on rural development. This is significantly lower than the average (6.1%) of the other states.
- **Police:** Karnataka has allocated 2.6% of its total expenditure on police, which is lower than the average expenditure of other states (3.9%).
- **Roads and bridges:** Karnataka has allocated 4.8% of its total expenditure on roads and bridges, which is higher than the average expenditure of other states (4.3%).



Note: 2017-18, 2018-19 (BE), 2018-19 (RE), and 2019-20 (BE) figures are for Karnataka.

Source: Annual Financial Statement (2018-19 and 2019-20), various state budgets; PRS.

<sup>1</sup> The 26 other states include all states except Arunachal Pradesh, Manipur, and Meghalaya. It also includes the Union Territory of Delhi.